COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 3.2.2009
COM(2009) 33 final

REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on the implementation of Regulation (EC) No 450/2003 of the European Parliament and of the Council of 27 February 2003 concerning the labour cost index (LCI)

1. INTRODUCTION

Labour costs are an important factor in the analysis of short- and medium-term economic development. The timely production of a labour cost index for the European Union as well as the Euro zone is thus considered by the Commission and the European Central Bank to be of the utmost importance for assessing the inflationary pressure that may arise from developments in the labour market. The labour cost index is also important for the social partners in wage negotiations and for the Commission itself in monitoring short-term developments in labour costs. The Labour Cost Index is one of the Principal European Economic Indicators (PEEI).[1]

Regulation (EC) No 450/2003 of the European Parliament and of the Council of 27 February 2003 concerning the labour cost index (LCI) establishes a common framework for the production and transmission of comparable labour cost indices in the Community (OJ L 69, 13.3.2003, p. 1). The Commission (Eurostat) publishes a quarterly news release on the labour cost index.[2]

In July 2003, the Commission adopted an implementing regulation (Regulation EC No 1216/2003, OJ L 169, 8.7.2003, p. 37), setting out in more detail the procedures for transmitting the index, the specific (seasonal) adjustments to be made and the content of the national quality reports. Since the last report to the European Parliament and the Council from 2006[3], a new Commission Regulation EC No 224/2007 of 1 March 2007 (OJ L 64, 2.3.2007, p. 23) has been adopted. It amends the implementing regulation of 2003 and extends the scope of the labour cost index to cover the economic activities defined by NACE Rev. 1, sections L, M, N and O. This extension means that non-market services, which account for the major share of these sections and which may have different dynamics from market services, will also be covered.

Article 13 of Regulation (EC) No 450/2003 requires the submission of biennial reports on the implementation of the Regulation. These reports must evaluate in particular the quality of the transmitted LCI series data and the quality of the transmitted back data. The provision of annual national quality reports is required under Article 8(2) of this Regulation. In Annex I of the implementing regulation (Regulation EC No 1216/2003), the quality of the labour cost index has been set out to cover the following dimensions: relevance, accuracy, timeliness and punctuality, accessibility and clarity, comparability, coherence and completeness.

Since considerable progress has been made with respect to comparability and completeness, the present report will focus on accuracy, timeliness and coherence. Small irregularities in transmission delays are not reported, as these by their nature are normally temporary.

The annex to this report indicates forthcoming national improvement actions for those Member States which have provided this information.

2. GENERAL PROGRESS SINCE THE LAST REPORT

Since the last report in 2006, substantial progress has been achieved, especially in the availability and the quality of the labour cost index (LCI). In general, revisions of past data have become smaller, and the volatility of the index has decreased. Back data, which in many

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1 Eurostat's website: http://epp.eurostat.ec.europa.eu/

2 The quarterly news release is published on the dates set in the release calendar; both can be found on Eurostat's website

3 COM(2006) 801 final of 14.12.2006

cases were still missing in 2006, have in the meantime been delivered by all Member States. Both new Member States (Bulgaria and Romania) have been able to supply the LCI according to the quality standards laid down in Regulation (EC) No 450/2003. By now, all EU Member States have implemented the LCI and the data are, with some exceptions, delivered regularly to the Commission (Eurostat) within the mandatory deadlines.

The availability of the LCI from all EU Member States makes it possible to compile the European Union aggregates and to compare with sufficient accuracy the development of hourly labour costs between the Member States. There are, however, a number of quality issues which still require further efforts from certain Member States in order to complete the harmonisation process. These issues are discussed below.

While the Member States have implemented the necessary facilities for the production of the LCI, the Commission (Eurostat) has maintained and enhanced its production system that allows reception, verification, manipulation, storage and dissemination of the Labour Cost Index data in a timely manner. These processes, which became fully operational in 2005, are continuously reviewed and updated.

2. 1 Extension to NACE Rev. 1 sections L to O and transition to NACE Rev. 2

Regulation (EC) No 224/2007 of 1 March 2007 (OJ L 64, 2.3.2007, p. 23) extended the coverage of the LCI to non-market services. Since the first quarter of 2007, non-seasonally adjusted LCI data for NACE sections L to O have to be transmitted to Eurostat each quarter. As soon as four years of data are available for a Member State, the series also have to be transmitted in working day adjusted and seasonally adjusted form. Currently, these data, including the working day adjusted and the seasonally adjusted data, are transmitted by all Member States who do not have a derogation. The derogations for Belgium, Denmark, Greece, Spain, France, Ireland, Italy, Cyprus, Luxembourg, Malta, Austria, Poland and Sweden will expire on the deadline set for the delivery of data of the first quarter of 2009. From then on, data series for all Member States will have to include NACE Rev 1. sections L to O.

At the same time, Regulation (EC) No 1893/2006 of 20 December 2006 (OJ L 393, 30.12.2006, p 1) concerning the change of nomenclature from NACE Rev 1 to NACE Rev. 2 will start to affect the LCI. Data delivered for the first quarter of 2009 will have to be already coded according to NACE Rev. 2. The necessary changes to the production environment following this change in the classification of economic activities have been implemented by the Commission (Eurostat) and the Commission is monitoring the progress of Member States with regard to the implementation of the change of classification which is under way. In order to prepare a smooth transition to the new nomenclature, a workshop was held in 2007 which was exclusively dedicated to the introduction of NACE Rev.2 in the Member States. A second workshop, which reviewed progress with implementation and provided a forum for discussion, was held in November 2008.

3. EVALUATION OF COMPLIANCE (UP TO SEPTEMBER 2008)

3.1 Overview

The following Member States have taken all necessary measures to comply fully with the Regulation: Belgium, Bulgaria, the Czech Republic, Denmark, Germany, Estonia, Spain, France, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Malta, Poland, Portugal, Romania, Slovenia, Slovakia and the United Kingdom. The Netherlands also delivered data of sufficient quality during the reporting period, although with an exceptionally long delay for almost all quarters; consequently, the Netherlands did not comply with the timeliness requirement laid down in the Regulation. Hungary, Finland and Sweden did regularly deliver data, but to differing degrees do not comply fully with the definitions of the LCI as described in detail below. Ireland, too, does not fully comply with the accuracy requirements of the LCI and, moreover, has not provided data in time for all quarters in 2008. Greece and Austria have delivered data on time for most of the reporting period, but are currently revising the LCI owing to quality concerns. Overall, this result is an improvement compared to the situation described in the report from 2006, where - in addition to more serious quality problems - a number of back data series, as well as working day and seasonally adjusted series, were still missing.

3.2 Details of quality shortcomings

3.2.1 Accuracy

Accuracy concerns can relate to a variety of aspects of the LCI. Generally, they are due to shortcomings of the source data and can lead to high volatility of the LCI series. Also, inaccurate data may not be fully comparable with those of other Member States, and can in addition lead to inconsistencies between the LCI and other data sources which measure similar aspects (e.g. development of hourly compensation of employees). Generally, known accuracy problems are discussed by the affected Member States in the yearly quality report, and the Commission (Eurostat) monitors the progress made or planned in the implementation of better sources.

At the moment, six Member States are affected by accuracy problems. Ireland, Hungary, Finland and Sweden currently have no appropriate source data at their disposal that would allow them to comply fully with the regulation.[4] *LCI data delivered by Greece show unexplainable growth rates which cannot be reconciled with the developments in the labour market. Austria has stopped delivering data for the same reasons and is currently investigating the sources of these quality problems.*

Ireland: Hours paid is the measure used instead of hours worked. Irregular payments are not included in the index. This should change as soon as the new data source (planned for 2009) can be used for all economic activities. Also, the series does not cover all employees but has a lower cut-off point for enterprises with 10 or more employees for Industry (NACE C, D and E) and Construction (NACE F) sectors. The Services sectors (NACE G, H, I, K) have a lower cut-off point for Services, namely enterprises with five or more employees, while NACE J (Financial Intermediation) only covers banking, insurance and building society enterprises.

Greece: High volatility of LCI series and large revisions. So far, no adequate explanation has been given for the extreme volatility. Moreover, the yearly quality report was not delivered in either 2007 or 2008; the report sent in 2006 is too concise to allow any conclusions to be drawn as to the causes of the accuracy problems.

Hungary: The data relate to private enterprises employing at least 5 persons and to government organizations of all size classes.

Austria: In September 2008, data delivery was stopped because of implausible and volatile results.

Finland: The data relate to full-time employees only. The quarterly change in labour costs since the first quarter of 2005 has been measured by the change in earnings for regular

[4] See the Annex for planned actions for Ireland, Finland and Sweden.

working time. In order to calculate the annual change in the labour cost index, the labour force survey, the structure of earnings statistics and national accounts data have been used. In general, there are significant delays – of up to 2 years – in several of the sources used for compiling the LCI. Consequently, the current application of the labour cost index in Finland does not fully take account of the short-term development of hourly labour costs with the desirable precision, and major revisions limit its usability.

Sweden: Irregular bonuses are not included in the measurement of labour costs. Data cover the private sector only.

3.2.2 Timeliness

Timeliness has continued to improve since the last report from 2006. Nevertheless, for a variety of reasons, several Member States have failed to deliver the LCI in time (70 days after the reference quarter) for some of the quarters. Timeliness is of the utmost relevance since delays in data delivery mean that estimations have to be used for EU and EA aggregates. This can result in unnecessary large revisions. Listed below are those Member States who delivered the data so late (> t+75) that it could not be included in the quarterly press release issued by the Commission, and extrapolations of the LCI values of the respective countries had to be used for the EU and EA aggregates published for that quarter.

Belgium: Failed to deliver the data in time on three occasions during the reporting period. After an improvement in the situation compared to the report from 2006, several incidental factors led to late delivery of the LCI in the first half of the 2008 reporting period. Data for the third reference quarter of 2008 are expected to be delivered in time.

Cyprus, Italy, Luxembourg: Did not deliver data in time on one occasion. This is not due to a structural production problem and therefore is expected to remain as incidental non-compliance.

Ireland: Did not deliver data in time on three occasions. Delivery is not expected to resume before 2009.

Greece: Did not deliver data in time on three occasions. This is not due to a structural production problem and is therefore expected to remain as incidental non-compliance.

The Netherlands: Major non-compliance in 2007. During the reporting period, data were extremely late for five quarters. However, on-time data delivery was resumed in the reference quarter 2008Q1.

Austria: Did not deliver data on time on three occasions during the reporting period due to quality shortcomings and unexplained volatility of the data. Punctual data delivery is expected to be resumed in the reference quarter 2008Q4.

3.2.3 Coherence

In the annual quality report, Member States are asked to compare the growth rates of the LCI with those of hourly compensation of employees of national accounts (ESA95 definition). Both data collections measure the same phenomenon with small divergences in the definitions, and a higher level of detail available for the LCI which usually involves the use of other or additional sources. Therefore, full coherence cannot be expected. Nevertheless, growth rates which are going in the same direction and are of comparable size indicate that the quality of the LCI data is comparable to the quality of national accounts data. The degree of coherence is thus a good indicator of the quality of the LCI data. Since not all Member States produce quarterly data for hourly compensation of employees (national accounts data), a complete *overview of coherence is not possible. The following overview is based on the quality reports from 2007.*

Germany, Malta: High degree of coherence, since national accounts are the source for the LCI.

Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, France, Lithuania, Luxembourg, Poland, Romania, Slovenia: Sufficient degree of coherence. The sign of growth rates are generally the same, and the growth rates are of similar size.

Finland: Low coherence; large discrepancies in the growth rates of both sources. These discrepancies can be explained by the accuracy problems of the LCI described in detail above.

Belgium, Spain, Greece, Italy, Latvia, the Netherlands, Portugal, Sweden, Slovenia, Slovakia, UK : No quarterly national accounts data available or not reported on in the quality report

4. CONCLUSIONS

Overall, the degree of compliance with the Regulation has increased since the previous report in 2006. All Member States have continued to channel resources into implementing actions to achieve more comparable and timely index series. This has clearly raised the overall quality and thus increased the usefulness of the data.

All missing back data series as well as missing working-day and seasonally adjusted series have been delivered in the meantime. The timeliness of data delivery has improved, and the number of Member States with accuracy problems has decreased. However, nine Member States still have shortcomings concerning one or more quality aspects of the LCI. For three Member States these shortcomings are due to the incidental late delivery of data only, and therefore of a transitory nature. Six Member States have more serious problems with the accuracy aspect of quality. This compares favourably to the situation in 2006, when 10 Member States reported accuracy problems.

The Commission (Eurostat) has urged Member States to step up their improvement efforts. The Commission will be monitoring the remaining non-compliance and quality issues regularly through the data delivered and other national documentation. Where the desired or planned improvements have not advanced appropriately, the corresponding national authorities will be contacted, and the Commission will take the necessary actions to enforce compliance.

ANNEX

Details of forthcoming National Improvement Activities

Ireland

Ireland is in the process of implementing a strategy to improve the coverage of information on earnings and labour costs.

One element is a new quarterly survey: the Earnings, Hours and Employment Costs Survey (EHECS). This survey will provide comparable and timely data on labour costs across all sectors of the economy and will measure earnings and employment in a more comprehensive and consistent manner across the different sectors. It will be aimed at enterprises employing three or more persons.

This survey will collect data on wages and salaries, employers' social contributions, other non-wage costs, and hours worked for the entire quarter. The expansion of coverage to include these non-wage costs, which are not traditionally included as earnings, will enable the survey to better reflect the cost of employment and the pressure on competitiveness.

The main output of the survey will be an index of labour costs per hour worked, and the survey is designed to monitor the short-term change in labour costs. Given the breakdown requested in the survey, it will be possible to routinely disseminate hourly earnings information with and without bonuses, and by broad occupational group.

The EHECS survey is designed to meet national needs and EU requirements and, once it is fully up and running, Ireland will be able to supply LCI data which will be fully compliant with Regulation (EC) No 450/2003. The new EHECS survey will also mean that, in the future, it will not be necessary to carry out a dedicated four-yearly Labour Costs Survey (LCS).

The EHECS survey will ultimately replace all existing short-term earnings surveys currently being carried out by the CSO. The EHECS was launched in 2005 for the industrial and financial sectors. Data for these sectors are now available and currently used in the LCI. Data collection has been extended to cover the public sector and the distribution sector, but the data are not currently being used. By 2009, the EHECS will cover most sectors of the economy from industry to personal services (NACE C to O).

Greece

The Commission has urged Greece to take immediate remedial action concerning the accuracy issues in the LCI. Greece is expected to present details of the actions it intends to take.

The Netherlands

The source for the compilation of the LCI in the Netherlands has changed in the reporting period. The quarterly flash estimate was previously based on a sample of early responses to the Quarterly Survey on Employment and Wages. In the meantime, the quarterly survey has been replaced by a monthly updated register on employment, wages and benefits. Although the initial use of this new register has led to long delays in the data delivery during 2007 and 2008, it is believed that, in the long term, the use of this register will lead to much faster convergence with the final estimates, i.e. significantly reducing the scale of revisions to the LCI figures for the Netherlands. From the second quarter of 2008 onwards data will be delivered within the deadline set in the Regulation.

Austria

A comprehensive quality improvement programme for the Austrian LCI was launched. Since several data sources of differing quality and statistical units are used in the compilation of the LCI, efforts to trace the source of the current irregularities are still ongoing. These measures include the evaluation of the computation methods and data sources used, as well as an evaluation of compliance with the Regulation. It is planned to re-launch the LCI for the 4th quarter of 2008 and for missing back data in March 2009.

Finland

The Finnish model of compiling the Labour Cost Index is based on data from several statistical sources. The accuracy of the index improves gradually with each revision, as several statistical sources become available only over the course of time.

In 2005, Statistics Finland started a project for implementing a new production model for the LCI based on direct quarterly collection of primary data from enterprises. By taking these measures, Finland should be able to comply fully with the LCI Regulations from 2009.

Sweden

Starting with the data covering the first quarter of 2009, the Swedish data delivered will include irregular bonuses, as well as the public sector. Sweden will then fully comply with the LCI Regulations.