

# Labour market statistics: labour cost index

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The Commission presents its report for 2006 on the implementation of Regulation (EC) No 450/2003 concerning the labour cost index (LCI), which establishes a common framework for the production, transmission and evaluation of comparable labour cost indices in the Community. Eurostat publishes a quarterly news release on the labour cost index. Article 13 of the Regulation 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.

Labour costs are generally regarded as an important factor in the analysis of short- and medium-term economic development. The timely production of a labour cost index in the euro area 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 short-term developments in the labour market. The labour cost index is also important for the social partners in wage negotiation and for the Commission itself in monitoring short-term developments in labour costs. This report focuses particularly on accuracy, timeliness, comparability, and completeness.

**General progress since last report:** since the implementation of reporting in 2004, substantial progress has been achieved, especially in the general availability of the labour cost index. By now, all EU Member States have implemented the LCI and the data are delivered regularly to the Commission although not necessarily within the mandatory deadlines. The availability of the LCI from all EU Member States allows the European Union aggregates to be compiled and makes it possible to compare with sufficient accuracy the development of the hourly labour costs between the Member States. There are, however, a number of quality issues which still require extra effort from certain Member States in order to complete the harmonisation process. Just as the Member States have implemented the necessary facilities for the production of the LCI, the Commission (Eurostat) has also implemented a production system that allows reception, verification, manipulation, storage and dissemination of the Labour Cost Index data in a timely manner. These processes became fully operational in 2005.

**Quality evaluation:** the following Member States have undertaken all necessary measures to comply fully with the Regulation: Czech Republic, Denmark, Germany, Estonia, Spain, Latvia, Lithuania Luxembourg, the Netherlands, Austria, Poland, Portugal, Slovenia, Slovak Republic and the United Kingdom. However, the Netherlands has not delivered the regulatory quality report. The quality evaluation for the Netherlands is therefore still uncertain and a full guarantee on quality cannot be given. Also, even if the quality is evaluated as sufficient for the current part of the LCI series, shortcomings with historical time series still remain in two Member States: Latvia and the UK.

**Member States with quality shortcomings:** after inspection, the Commission found that the quality of the LCI is not sufficient in all respects to fulfil the requirements of Regulation (EC) No 450/2003 for the following Member States: Belgium, Greece, France, Ireland, Italy, Cyprus, Hungary, Malta, Finland and Sweden. The report looks at deficiencies in reporting for each country in turn. These are mainly related to the accuracy element of quality. Definition and coverage of some of the aspects of the LCI do not fully correspond to the legal requirement. Insufficient timeliness, missing working-day and seasonally adjusted series and incomplete historical series also play their part in lowering the quality of the LCI series. Two Member States have not completed the regulatory quality reporting. The Commission (Eurostat) will be monitoring the remaining non-compliance and quality issues regularly through the data delivered and other national documentation. Where desired or planned improvements have not advanced appropriately, the corresponding national authorities will be contacted.

**Recent actions by the Commission and Member States:** in 2006, the Commission (Eurostat) together with the Member States completed the evaluation of the feasibility studies on extending the scope of the LCI to cover economic activities such as public administration, education and health care (NACE Rev.1 sections L to O) and to develop an index excluding irregular bonuses. The draft Commission Regulation for the extended data collection has been introduced in November 2006. A decision over an index excluding irregular bonuses has not yet been taken as investigations showed that more efforts are still needed in the definitions and especially searching the means making this sub-index operational with acceptable quality. Further issues concerning the relevance and accuracy of the LCI have been given preliminary consideration.

As the EU labour cost index series are being used frequently in monitoring labour cost developments for the EU and its Member States, it is of the utmost importance that the national authorities provide data of the highest quality. However, it should be underlined that the situation has improved substantially since the Regulation became fully applicable at the beginning of 2005. All Member States - not only those applying the Regulation fully - have directed 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.