

21 May 2020

## Labour Cost Index

1<sup>st</sup> quarter of 2020

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**In the 1<sup>st</sup> quarter of 2020, the Labour Cost Index increased by 6.5% when compared to the same quarter in 2019**

The Labour Cost Index (LCI) working days adjusted increased by 6.5% in the 1<sup>st</sup> quarter of 2020, compared to the same period in 2019. In the previous quarter this rate of change had been 0.8%.

That year-on-year change was explained by the increase of 3.1% in the average cost per employee combined with the decrease of 3.4% in the number of hours actually worked per employee. The increase of the first component and the decrease of the hours component took place in all the economic activities analysed. The decrease in the hours component contrasts with the increase observed in the previous quarter, explaining the LCI acceleration in the 1<sup>st</sup> quarter of 2020.

The two main labour cost components – wage costs and other costs (both per hour actually worked) – increased by 6.3% and by 7.6%, respectively, compared to the same period of the previous year.

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### 1. Labour Cost Index and components

With the publication of the results for the 1<sup>st</sup> quarter of 2020, Statistics Portugal started to include, in the LCI calculation, regarding the information related to the labour costs obtained from administrative sources, data corresponding to the universe of about 386 thousand entities, which declared earnings for a total of 4.2 million workers.

The information on hours actually worked continues to be obtained by direct inquiry for a sample and no changes were introduced at this level.

This change has impact only in the indices published as of the 1<sup>st</sup> quarter of 2019.

Back series for all the indices from the 1<sup>st</sup> quarter of 2008 are available on the Official Statistics website (see Technical note, pages 7 and 8).

### 2. Labour cost index and components

In the 1<sup>st</sup> quarter of 2020, the LCI increased by 6.5%. The wage costs increased by 6.3% and the other costs increased by 7.6% (Figure 1).<sup>1</sup>

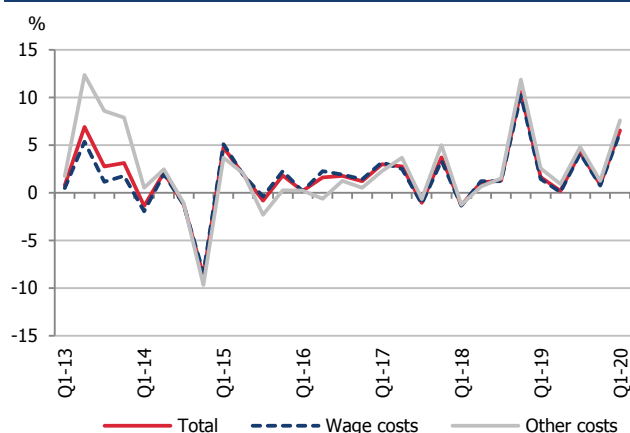
These rates of change were significantly higher than those observed in the previous quarter (0.8%, 0.7% and 1.2%, respectively). This acceleration was mostly due to the strong decrease in the number of hours actually worked in the 1<sup>st</sup> quarter of 2020, which is in contrast with the increase observed in the preceding quarter, and, to a lesser extent, to the higher increase in the average cost per employee when compared to the previous quarter (Figure 2).

The number of hours actually worked decreased by 3.2% (it had increased by 2.1% in the previous quarter) and the average cost per employee increased by 3.1% (2.9% in the previous quarter).

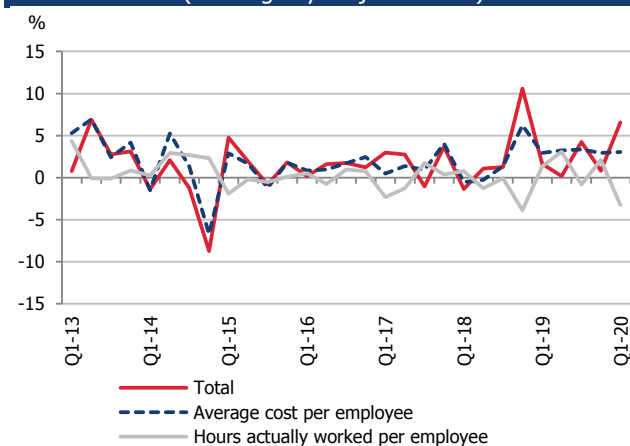
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<sup>1</sup> The data analysed in this Press Release are working days adjusted. The raw data are available in the annex tables and at the Official Statistics Portal.

**Figure 1: LCI year-on-year rate of change**  
(working days adjusted data)



**Figure 2: LCI year-on-year rate of change**  
(working days adjusted data)



### 3. Sectors of economic activity

For the subgroup of economic activities from sections B to N<sup>2</sup> (which include, in general, the business economy or the private sector of the economy), the LCI increased by 6.2%.

In the remaining economic activities (sections O to S), which include mostly (but not exclusively) the non-business economy of the public sector of the economy, the LCI recorded an annual increase of 7.0%.

<sup>2</sup> The activities' designation is available in the annex tables.

The wage costs increase was essentially due to increases in the base wage, which were generally observed in all the economic activities. The regular bonuses and allowances also increased in the majority of the economic activities, with the exception of the sections O to S and F, where they decreased.

The other costs increased as a result of the growth of the related employers' contributions, equally observed in most of the economic activities.

### Sections B to N

In the 1<sup>st</sup> quarter of 2020, in the activities from sections B to N:

- the wage costs increased by 5,9% and the other labour costs increased by 7.7% (Figure 3);
- the average labour cost per employee increased by 3.4% (Figure 4);
- the number of hours actually worked per employee decreased by 2.7% (Figure 4).

Among the activities from sections B to N, the LCI increased by 7.5% in industry (sections B to E), by 5.5% in construction (section F), and by 5.6% in services (G to N).

In Industry (7.5%):

- the wage costs increased by 7.4% and the other labour costs increased by 8.2%;
- the average cost per employee increased by 3.7%;
- the number of hours actually worked per employee decreased by 3.6%

**In Construction (5.5%):**

- the wage costs increased by 5.3% and the other labour costs increased by 6.4%;
- the average cost per employee increased by 3.4%;
- the number of hours actually worked per employee decreased by 2.0%.

**In Services (5.6%):**

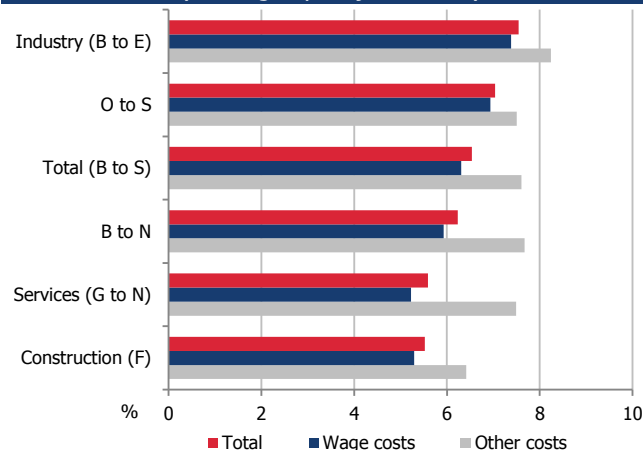
- the wage costs increased by 5.2% and the other labour costs increased by 7.5%;
- the average cost per employee increased by 3.2%;
- the number of hours actually worked per employee decreased by 2.3%.

**Sections O to S**

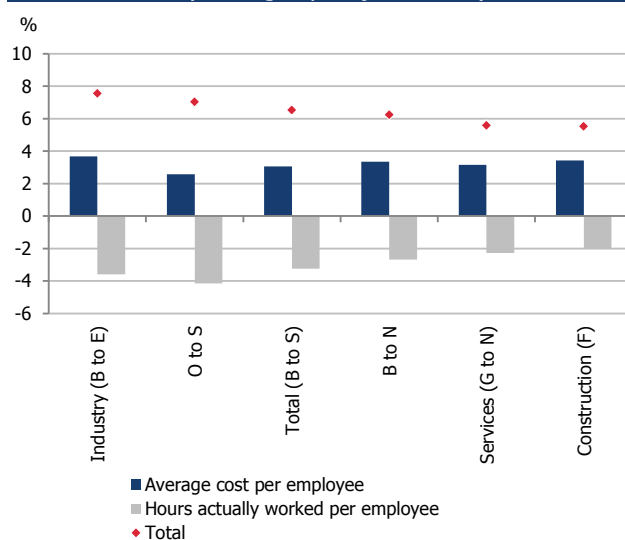
In the activities from sections O to S, the LCI recorded an increase of 7.0%. In these activities:

- the wage costs increased by 6.9% and the other labour costs increased by 7.5%;
- the average cost per employee increased by 2.6%;
- the number of hours actually worked per employee decreased by 4.1%.

**Figure 3: LCI year-on-year rate of change by economic activity (NACE-Rev. 2) in the 1<sup>st</sup> quarter of 2020 (working days adjusted data)**



**Figure 4: LCI year-on-year rate of change by economic activity (NACE-Rev. 2) in the 1<sup>st</sup> quarter of 2020 (working days adjusted data)**



**4. Comparison with the European Union**

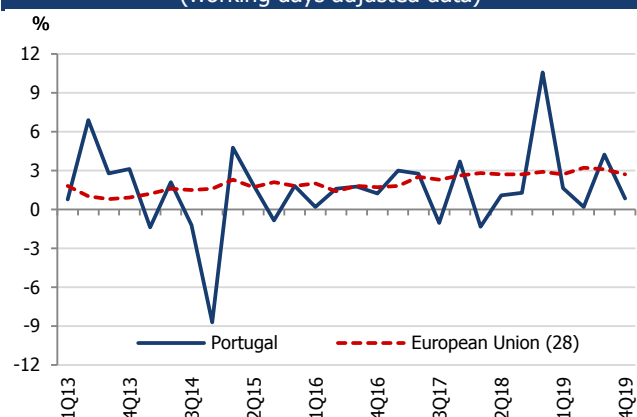
In Figure 5, the evolution of the LCI year-on-year rate of change in Portugal and in the European Union is compared (in this case, from the data published by Eurostat in the 17<sup>th</sup> of March of 2020), from the 1<sup>st</sup> quarter of 2013 to the 4<sup>th</sup> quarter of 2019.

The analysis allows concluding that the LCI in Portugal recorded year-on-year rates of change globally lower than those observed for the European Union (28 countries), even being characterised by decreases in six quarters (three of them in 2014).

The LCI year-on-year rate of change for the European Union (28 countries) was 2.7% in the 4<sup>th</sup> quarter of 2019. Taking into account 27 countries<sup>3</sup> the LCI rate of change was also 2.7%.

Portugal recorded a year-on-year increase in the LCI, of 0.8%.

**Figure 5: LCI year-on-year rate of change in Portugal and in the European Union (28)**  
(working days adjusted data)



<sup>3</sup> As of the 1<sup>st</sup> of February of 2020, the United Kingdom is no longer part of the European Union. In the next Press Release, for the 2<sup>nd</sup> quarter of 2020, the comparison will focus on the 27 countries.

**Table 1: Labour Cost Index (LCI) year-on-year rate of change by component and economic activity (NACE-Rev. 2)  
(working days adjusted data)**

Economic activity (sections from Nace-Rev. 2)	Q1-2019			Q2-2019			Q3-2019			Q4-2019			Q1-2020		
	Total	Wage costs	Other costs	Total	Wage costs	Other costs	Total	Wage costs	Other costs	Total	Wage costs	Other costs	Total	Wage costs	Other costs
<b>Total (B to S)</b>	<b>1.6</b>	<b>1.4</b>	<b>2.5</b>	<b>0.2</b>	<b>0.0</b>	<b>0.9</b>	<b>4.2</b>	<b>4.1</b>	<b>4.8</b>	<b>0.8</b>	<b>0.7</b>	<b>1.2</b>	<b>6.5</b>	<b>6.3</b>	<b>7.6</b>
B to N	1.0	0.8	2.2	-1.1	-1.4	0.1	4.2	4.1	5.0	0.6	0.6	1.1	6.2	5.9	7.7
Industry (B to E)	1.1	1.0	1.3	-0.9	-1.0	-0.5	3.3	3.1	4.0	1.2	1.3	1.1	7.5	7.4	8.2
Construction (F)	2.5	2.3	3.1	-0.3	-0.8	1.5	4.0	3.7	5.1	3.3	3.0	4.2	5.5	5.3	6.4
Services (G to N)	0.8	0.5	2.6	-1.3	-1.6	0.2	4.7	4.6	5.6	0.0	-0.1	0.6	5.6	5.2	7.5
O to S	2.7	2.6	3.1	2.4	2.5	2.2	4.3	4.2	4.5	1.1	1.1	1.4	7.0	6.9	7.5

**Table 2: Labour Cost Index (LCI) year-on-year rate of change by component and economic activity (NACE-Rev. 2)  
(non working days adjusted data)**

Economic activity (sections from Nace-Rev. 2)	Q1-2019			Q2-2019			Q3-2019			Q4-2019			Q1-2020		
	Total	Wage costs	Other costs	Total	Wage costs	Other costs	Total	Wage costs	Other costs	Total	Wage costs	Other costs	Total	Wage costs	Other costs
<b>Total (B to S)</b>	<b>1.6</b>	<b>1.4</b>	<b>2.5</b>	<b>3.5</b>	<b>3.4</b>	<b>4.3</b>	<b>2.6</b>	<b>2.5</b>	<b>3.2</b>	<b>-0.7</b>	<b>-0.8</b>	<b>-0.4</b>	<b>4.8</b>	<b>4.6</b>	<b>5.9</b>
B to N	1.0	0.8	2.2	2.2	1.9	3.4	2.6	2.5	3.4	-0.9	-1.0	-0.5	4.5	4.2	6.0
Industry (B to E)	1.1	1.0	1.3	2.4	2.3	2.9	1.7	1.5	2.4	-0.3	-0.3	-0.4	5.8	5.7	6.5
Construction (F)	2.5	2.3	3.1	3.0	2.5	4.9	2.4	2.1	3.5	1.7	1.4	2.6	3.8	3.6	4.7
Services (G to N)	0.8	0.5	2.6	1.9	1.6	3.6	3.1	3.0	3.9	-1.5	-1.7	-1.0	3.9	3.6	5.8
O to S	2.7	2.6	3.1	5.8	5.9	5.6	2.7	2.6	2.9	-0.4	-0.5	-0.1	5.3	5.2	5.8

Source: INE, Labour Cost Index - 1<sup>st</sup> quarter of 2020.

**Sections from Nace-Rev. 2**

- |   |  |
|---|--|
| B - Mining and quarrying  | K - Financial and insurance activities                             |
| C - Manufacturing   | L - Real estate activities   |
| D - Electricity, gas, steam and air conditions supply                     | M - Professional, scientific and technical activities              |
| E - Water supply, sewerage, waste management and remediation activities   | N - Administrative and support service activities                  |
| F - Construction  | O - Public administration, defence, and compulsory social security |
| G - Wholesale and retail trade; repair of motor vehicles and motor cycles | P - Education  |
| H - Transport and storage   | Q - Human health and social work activities                        |
| I - Accommodation and food service activities                             | R - Arts, entertainment and recreation                             |
| J - Information and communication   | S - Other service activities                                       |

**Table 3: Labour Cost Index (LCI) year-on-year rate of change by source of variation and economic activity (NACE-Rev. 2)  
(working days adjusted data)**

Economic activity (sections from Nace-Rev. 2)	Q1-2019			Q2-2019			Q3-2019			Q4-2019			Q1-2020		
	Total	Average cost per employee	Hours actually worked per employee	Total	Average cost per employee	Hours actually worked per employee	Total	Average cost per employee	Hours actually worked per employee	Total	Average cost per employee	Hours actually worked per employee	Total	Average cost per employee	Hours actually worked per employee
<b>Total (B to S)</b>	<b>1.6</b>	<b>3.0</b>	<b>1.3</b>	<b>0.2</b>	<b>3.2</b>	<b>3.1</b>	<b>4.2</b>	<b>3.3</b>	<b>-0.8</b>	<b>0.8</b>	<b>2.9</b>	<b>2.1</b>	<b>6.5</b>	<b>3.1</b>	<b>-3.2</b>
B to N	1.0	3.3	2.3	-1.1	3.5	4.7	4.2	3.6	-0.5	0.6	3.0	2.4	6.2	3.4	-2.7
Industry (B to E)	1.1	3.0	2.0	-0.9	3.6	4.6	3.3	3.8	0.5	1.2	3.3	2.1	7.5	3.7	-3.6
Construction (F)	2.5	3.0	0.5	-0.3	2.9	3.2	4.0	3.3	-0.6	3.3	2.9	-0.4	5.5	3.4	-2.0
Services (G to N)	0.8	3.4	2.7	-1.3	3.5	5.0	4.7	3.6	-1.0	0.0	2.9	2.9	5.6	3.2	-2.3
O to S	2.7	2.4	-0.2	2.4	2.7	0.4	4.3	2.9	-1.3	1.1	2.8	1.6	7.0	2.6	-4.1

**Table 4: Labour Cost Index (LCI) year-on-year rate of change by source of variation and economic activity (NACE-Rev. 2)  
(non working days adjusted data)**

Economic activity (sections from Nace-Rev. 2)	Q1-2019			Q2-2019			Q3-2019			Q4-2019			Q1-2020		
	Total	Average cost per employee	Hours actually worked per employee	Total	Average cost per employee	Hours actually worked per employee	Total	Average cost per employee	Hours actually worked per employee	Total	Average cost per employee	Hours actually worked per employee	Total	Average cost per employee	Hours actually worked per employee
<b>Total (B to S)</b>	<b>1.6</b>	<b>3.0</b>	<b>1.3</b>	<b>3.5</b>	<b>3.2</b>	<b>-0.2</b>	<b>2.6</b>	<b>3.3</b>	<b>0.7</b>	<b>-0.7</b>	<b>2.9</b>	<b>3.7</b>	<b>4.8</b>	<b>3.1</b>	<b>-1.7</b>
B to N	1.0	3.3	2.3	2.2	3.5	1.3	2.6	3.6	1.0	-0.9	3.0	4.0	4.5	3.4	-1.1
Industry (B to E)	1.1	3.0	2.0	2.4	3.6	1.2	1.7	3.8	2.0	-0.3	3.3	3.7	5.8	3.7	-2.0
Construction (F)	2.5	3.0	0.5	3.0	2.9	-0.1	2.4	3.3	0.9	1.7	2.9	1.2	3.8	3.4	-0.4
Services (G to N)	0.8	3.4	2.7	1.9	3.5	1.6	3.1	3.6	0.5	-1.5	2.9	4.6	3.9	3.2	-0.7
O to S	2.7	2.4	-0.2	5.8	2.7	-2.9	2.7	2.9	0.2	-0.4	2.8	3.2	5.3	2.6	-2.6

Source: INE, Labour Cost Index - 1<sup>st</sup> quarter of 2020.

**Sections from Nace-Rev. 2**

- |   |  |
|---|--|
| B - Mining and quarrying  | K - Financial and insurance activities                             |
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| H - Transport and storage   | Q - Human health and social work activities                        |
| I - Accommodation and food service activities                             | R - Arts, entertainment and recreation                             |
| J - Information and communication   | S - Other service activities                                       |

## TECHNICAL NOTE

With the publication of the results for the 1<sup>st</sup> quarter of 2019, Statistics Portugal started the dissemination of a new series of the Labour Cost Index (LCI), with the base year in 2016, in line with Eurostat's procedure for the Labour Cost Index, whenever new data of the (quadrennial) Labour Cost Survey become available.

With the publication of the results for the 1<sup>st</sup> quarter of 2020, Statistics Portugal started to include, in the LCI calculation, regarding the information related to the labour costs obtained from administrative sources, data corresponding to the universe of about 386 thousand entities (instead of the actual sample of 3 800 entities), which declared earnings for a total of 4.2 million workers. The information on hours actually worked continues to be obtained by direct inquiry from the entities that belong to the above mentioned sample and no changes were introduced at this level.

This change has impact in the indices released since the 1<sup>st</sup> quarter of 2019. In the following table, the LCI year-on-year rates of change by index components and source of variation for the previous series and the new series are exhibited.

LCI year-on-year rate of change by index components and source of variation - Previous and new series (working days adjusted data)										
	LCI previous series					LCI new series				
	Total	Wage costs	Other costs	Average cost per employee	Hours actually worked per employee	Total	Wage costs	Other costs	Average cost per employee	Hours actually worked per employee
	%									
1Q-2019	1.8	1.6	2.5	3.0	1.2	1.6	1.4	2.5	3.0	1.3
2Q-2019	0.8	0.7	1.1	3.5	2.7	0.2	0.0	0.9	3.2	3.1
3Q-2019	4.1	4.4	3.2	3.1	-1.0	4.2	4.1	4.8	3.3	-0.8
4Q-2019	3.3	3.3	3.6	5.5	2.1	0.8	0.7	1.2	2.9	2.1

The back series for all indices, from the 1<sup>st</sup> quarter of 2008, are available at the Official Statistics website.

The Labour Cost Index (LCI) is a short-term indicator that measures quarterly developments in labour costs per hour actually worked (hourly average cost) incurred by the employer. The index is calculated by dividing the average cost per employee by the number of hours actually worked per employee. For this reason, the evolution of these two variables (labour costs and hours worked) contribute to explaining their developments.

Labour costs incurred by the employer include the following:

### Wage costs:

- Base wage
- Regular bonuses and allowances
- Irregular bonuses and allowances (holiday bonus, Christmas bonus, end-of-year bonuses/distribution of profits, other irregular bonuses and allowances)
- Payment of overtime
- Payment in kind

### Other costs:

- Severance payment
- Employers' legal costs (social security contributions, insurance against accidents and occupational disease)
- Collectively agreed, contractual and voluntary costs (supplementary pension/invalidity benefit, health insurance, life/personal accident insurance, and social benefits paid directly to employees in case of absence on account of sickness)

The LCI is a statistical operation held on a quarterly basis through a sampling survey. Data collection with enterprises is carried out through an electronic questionnaire (Computer Assisted Web Interviewing - CAWI). By economic activity, the LCI covers Sections B to S of NACE-Rev. 2.

*(to be continued)*

(continuation)

Data on public administration [Sections O (Public administration and defence; compulsory social security) and the public part of Sections P (Education) and Q (Human health and social work activities)], previously obtained, among other sources, from the Directorate-General of Budget of the Ministry of Finance, are no longer obtained this way, since they are a part of the universe of administrative data on costs now used.

The LCI is a Laspeyres index.

In order to obtain more information about the LCI calculation, we recommend the consultation of the [methodological note](#) (only in Portuguese) for this statistical operation.

### Information selected for publication

This Press Release analyses changes in the total LCI and respective items: 1) wage costs versus other costs; and 2) average costs per employee versus number of hours actually worked per employee.

Given that the LCI is seasonal, data are presented as year-on-year rates of change, which compare index levels in the current quarter with those for the same quarter a year earlier. The series of index figures are available on the Official Statistics website.

With the purpose of eliminating the effects of a different number of working days in similar quarters of different years (Easter and other movable feasts), the series analysed are adjusted for working days. Raw series, not adjusted for working day effects, are available in the annex tables and at the Official Statistics website.

### Revisions

The data published in this release concerning the last quarters are subject to revisions. These revisions result from the inclusion of information for the last quarter sent lately by some enterprises of the sample survey on hours worked and from the update of information obtained through administrative sources, namely by data from the *Declaração Mensal de Remunerações* reported on a monthly basis by the enterprises to the Social Security.

The information released in this Press Release, for the 1<sup>st</sup> quarter of 2020, will be revised in the next quarter.

Due to rounding, the sum of the components may not equal to the corresponding totals.

This Press Release was prepared with the data received up to the 30<sup>th</sup> of April of 2020. The response rate of the LCI survey on hours worked was 81.8%.

**Next Press Release:** 13 August 2020.