

13 November 2020

Labour Cost Index
3rd quarter of 2020

In the 3rd quarter of 2020, the Labour Cost Index increased by 6.0% as a result of increasing costs per employee and decreasing hours worked

The Labour Cost Index (LCI) working days adjusted increased by 6.0% in the 3rd quarter of 2020, compared to the same period in 2019. In the previous quarter the rate of change had been 14.6%.

This development was a result of the increase of 2.7% in the average cost per employee and the reduction of 2.9% in the number of hours actually worked per employee. As in the previous quarter, the decrease of the latter component took place in all the economic activities analysed. The increase of the average cost per employee was observed equally in all the economic activities.

The two main labour cost components per hour actually worked – wage costs and other costs – increased by 6.2% and by 4.9%, respectively, compared to the same period of the previous year.

Despite the circumstances caused by the COVID-19 pandemic, Statistics Portugal calls for the best cooperation from enterprises, households and public bodies in responding to Statistics Portugal’s requests. The quality of official statistics, particularly their ability to identify the impacts of the COVID-19 pandemic, crucially depends on this cooperation, for which Statistics Portugal thanks you in advance.

1. Labour Cost Index and components

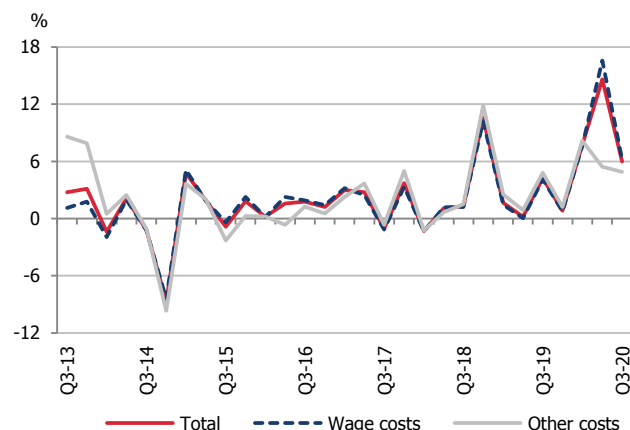
In the 3rd quarter of 2020, the LCI increased by 6.0%. The wage costs increased by 6.2% and the other costs increased by 4.9% (Figure 1).¹

These rates of change were significantly lower than those observed in the previous quarter (14.6%, 16.6% and 5.4%, respectively) due to the increase of 2.7% in the average cost per employee (it had decreased 0.7 in the preceding quarter) has been more than compensated by the much lesser decrease of 2.9% in the hours actually worked per employee (it had decreased 12.9% in the previous quarter).

In the 2nd quarter of 2020, the average cost per employee had recorded a decrease in all the economic

activities, with exception to the Public Administration, where an increase was observed. In the 3rd quarter of 2020 the average cost per employee increased in all the economic activities.

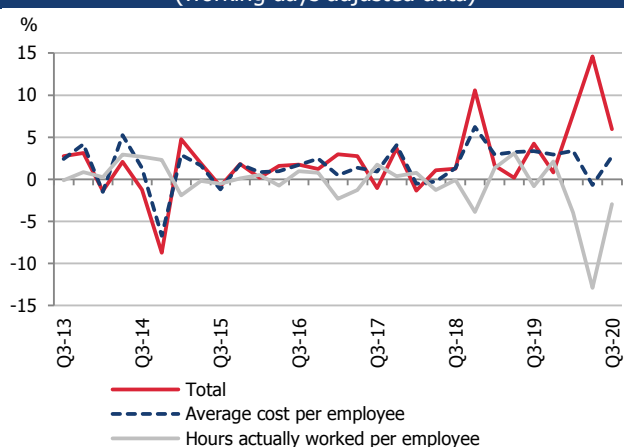
Figure 1: LCI year-on-year rate of change (working days adjusted data)



¹ 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.

The strong reduction of the number of hours actually worked per employee in the 2nd quarter of 2020 was significantly influenced by the implementation of the simplified layoff regime. In the 3rd quarter of 2020, the reduction in the hours worked was lower due to the pronounced decrease of the number of enterprises covered by that regime (Figure 2).

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



As a consequence, the total costs, the wage costs and the non-wage costs (per hour actually worked) were lower than the observed in the preceding quarter.

The wage costs increased essentially due to the rise in the base wage and in the holiday bonus.

The other costs increased mainly due to increases in the payment of the corresponding employers' social contributions.

2. Sectors of economic activity

For the subgroup of economic activities from sections B to N (which include, in general, the business economy or the private sector of the economy), the LCI increased by 5.6%.

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 6.5%.

Sections B to N

In the 3rd 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 4.3% (Figure 3);
- the average labour cost per employee increased by 2.5% (Figure 4);
- the number of hours actually worked per employee decreased by 3.0% (Figure 4).

Among the activities from sections B to N, the LCI increased by 3.8% in industry (sections B to E), by 3.2% in construction (section F), and by 6.9% in services (G to N).

In Industry (3.8%):

- the wage costs increased by 4.2% and the other labour costs increased by 2.1%;
- the average cost per employee increased by 2.1%;
- the number of hours actually worked per employee decreased by 1.7%.

In Construction (3.2%):

- the wage costs increased by 3.2% and the other labour costs increased by 3.3%;
- the average cost per employee increased by 3.1%;
- the number of hours actually worked per employee decreased by 0.1%.

Figure 3: LCI year-on-year rate of change by economic activity (NACE-Rev. 2) in the 3rd quarter of 2020 (working days adjusted data)

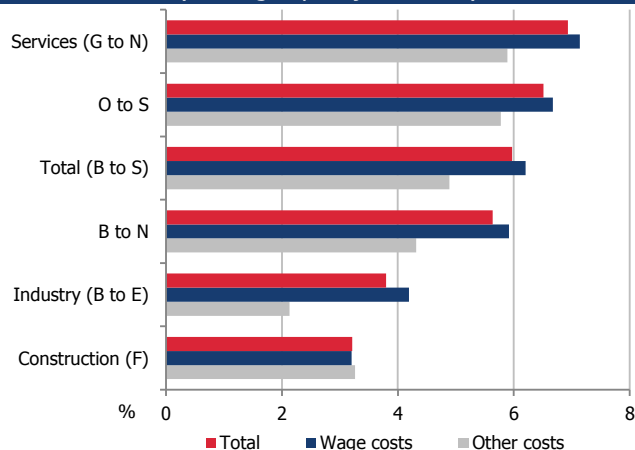
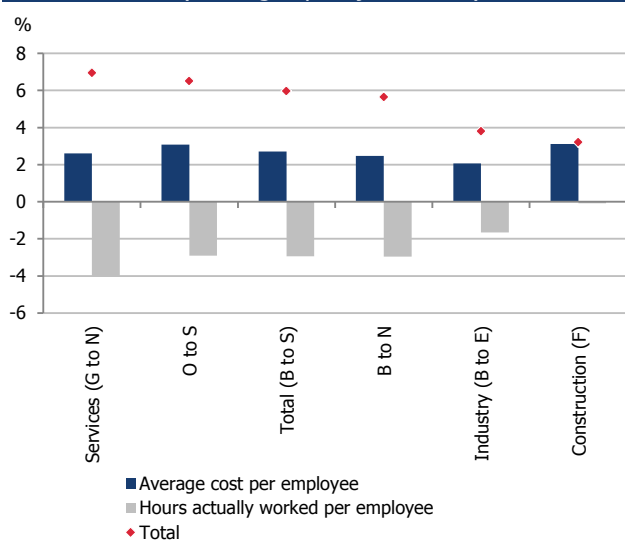


Figure 4: LCI year-on-year rate of change by economic activity (NACE-Rev. 2) in the 3rd quarter of 2020 (working days adjusted data)



In Services (6.9%):

- the wage costs increased by 7.1% and the other labour costs increased by 5.9%;
- the average cost per employee increased by 2.6%;
- the number of hours actually worked per employee decreased by 4.0%.

Sections O to S

In the activities from sections O to S, the LCI recorded an increase of 6.5%. In these activities:

- the wage costs increased by 6.7% and the other labour costs increased by 5.8%;
- the average cost per employee increased by 3.1%;
- the number of hours actually worked per employee decreased by 2.9%.

3. Comparison with the European Union

The latest available information by country on the LCI year-on-year change reports to the 2nd quarter of 2020 and was published by Eurostat in the 15th September of 2020 (Figure 5).

The LCI year-on-year rate of change for the European Union (27 countries) was 4.1%, in the 2nd quarter of 2020.

In eleven countries, the LCI rates of change were larger than the European Union average, with Romania recording the largest LCI increase (16.1%).

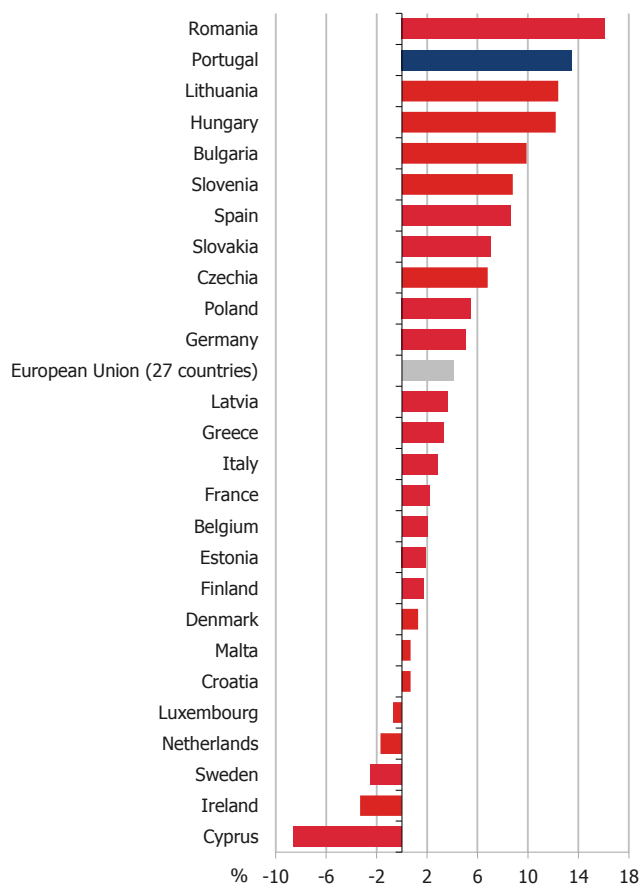
In ten countries, the LCI recorded increases, albeit lower than the European Union average, from 0.7%, in Croatia and Malta, to 3.6% in Latvia.

Portugal registered a year-on-year increase larger than the European Union average, of 13.5%.²

Five countries recorded year-on-year decreases of the LCI, between 0.7% in Luxembourg and 8.6% in Cyprus.

² This value has now been revised to 14.6% (as described in the Technical note, page 8).

Figure 5: LCI year-on-year rate of change by European Union Country (27) in the 2nd quarter of 2020 (working days adjusted data)



**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)	Q3-2019			Q4-2019			Q1-2020			Q2-2020			Q3-2020		
	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
Total (B to S)	4.2	4.1	4.8	0.8	0.7	1.2	7.7	7.6	8.1	14.6	16.6	5.4	6.0	6.2	4.9
B to N	4.2	4.1	5.0	0.6	0.6	1.1	6.6	6.5	7.1	12.0	14.9	-2.0	5.6	5.9	4.3
Industry (B to E)	3.3	3.1	4.0	1.2	1.3	1.1	7.7	7.7	7.9	15.1	18.3	1.5	3.8	4.2	2.1
Construction (F)	4.0	3.7	5.1	3.3	3.0	4.2	6.3	6.1	7.2	3.8	4.8	-0.1	3.2	3.2	3.3
Services (G to N)	4.7	4.6	5.6	0.0	-0.1	0.6	6.0	5.9	6.5	11.2	14.2	-4.5	6.9	7.1	5.9
O to S	4.3	4.2	4.5	1.1	1.1	1.4	9.5	9.4	9.8	18.9	19.3	17.0	6.5	6.7	5.8

**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)	Q3-2019			Q4-2019			Q1-2020			Q2-2020			Q3-2020		
	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
Total (B to S)	2.6	2.5	3.2	-0.7	-0.8	-0.4	6.0	5.9	6.4	12.7	14.7	3.7	4.4	4.6	3.3
B to N	2.6	2.5	3.4	-0.9	-1.0	-0.5	4.9	4.8	5.4	10.1	13.0	-3.6	4.0	4.3	2.7
Industry (B to E)	1.7	1.5	2.4	-0.3	-0.3	-0.4	6.0	6.0	6.2	13.2	16.4	-0.2	2.2	2.6	0.6
Construction (F)	2.4	2.1	3.5	1.7	1.4	2.6	4.7	4.5	5.5	2.1	3.1	-1.8	1.6	1.6	1.7
Services (G to N)	3.1	3.0	3.9	-1.5	-1.7	-1.0	4.3	4.2	4.8	9.4	12.4	-6.1	5.3	5.5	4.3
O to S	2.7	2.6	2.9	-0.4	-0.5	-0.1	7.7	7.7	8.1	16.9	17.3	15.1	4.9	5.1	4.2

Source: INE, Labour Cost Index - 3rd 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)	Q3-2019			Q4-2019			Q1-2020			Q2-2020			Q3-2020		
	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
Total (B to S)	4.2	3.3	-0.8	0.8	2.9	2.1	7.7	3.4	-3.9	14.6	-0.7	-12.9	6.0	2.7	-2.9
B to N	4.2	3.6	-0.5	0.6	3.0	2.4	6.6	3.5	-2.9	12.0	-2.8	-12.6	5.6	2.5	-3.0
Industry (B to E)	3.3	3.8	0.5	1.2	3.3	2.1	7.7	3.7	-3.7	15.1	-3.3	-15.9	3.8	2.1	-1.7
Construction (F)	4.0	3.3	-0.6	3.3	2.9	-0.4	6.3	3.5	-2.6	3.8	-0.2	-3.8	3.2	3.1	-0.1
Services (G to N)	4.7	3.6	-1.0	0.0	2.9	2.9	6.0	3.3	-2.5	11.2	-2.7	-11.8	6.9	2.6	-4.0
O to S	4.3	2.9	-1.3	1.1	2.8	1.6	9.5	3.3	-5.6	18.9	2.7	-13.4	6.5	3.1	-2.9

**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)	Q3-2019			Q4-2019			Q1-2020			Q2-2020			Q3-2020		
	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
Total (B to S)	2.6	3.3	0.7	-0.7	2.9	3.7	6.0	3.4	-2.4	12.7	-0.7	-11.4	4.4	2.7	-1.5
B to N	2.6	3.6	1.0	-0.9	3.0	4.0	4.9	3.5	-1.4	10.1	-2.8	-11.1	4.0	2.5	-1.5
Industry (B to E)	1.7	3.8	2.0	-0.3	3.3	3.7	6.0	3.7	-2.2	13.2	-3.3	-14.5	2.2	2.1	-0.1
Construction (F)	2.4	3.3	0.9	1.7	2.9	1.2	4.7	3.5	-1.1	2.1	-0.2	-2.2	1.6	3.1	1.4
Services (G to N)	3.1	3.6	0.5	-1.5	2.9	4.6	4.3	3.3	-0.9	9.4	-2.7	-10.3	5.3	2.6	-2.5
O to S	2.7	2.9	0.2	-0.4	2.8	3.2	7.7	3.3	-4.1	16.9	2.7	-12.0	4.9	3.1	-1.4

Source: INE, Labour Cost Index - 3rd quarter of 2020.

Sections from Nace-Rev. 2

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

TECHNICAL NOTE

With the publication of the results for the 1st 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 1st 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 1st quarter of 2019.

The back series for all indices, from the 1st 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 correspond to that reported by the entities to the Social Security (*Declaração Mensal de Remunerações*) and to the *Caixa Geral de Aposentações (Relação Contributiva)* 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)

Quarterly data collection on the hours worked in the 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.

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.

(to be continued)

(continuation)

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 impact of those revisions, measured by the difference between the year-on-year rates of change published today and those published for the 2nd quarter of 2020 in the Press Release "Labour Cost Index – 2nd quarter of 2020", is available in the following table:

Revision of the LCI year-on-year rates of change published in the 2 nd quarter of 2020										
Economic activity (sections from Nace Rev. 2)	Total	Component of the index		Source of variation of the index		Total	Component of the index		Source of variation of the index	
		Wage costs	Other costs	Average cost per employee	Hours actually worked per employee		Wage costs	Other costs	Average cost per employee	Hours actually worked per employee
Total (B to S)	1.1	1.4	0.0	0.0	-0.7	1.1	1.4	0.0	0.0	-0.7
B to N	1.7	2.0	0.0	-0.1	-1.2	1.6	2.0	0.0	-0.1	-1.2
Industry (B to E)	1.9	2.1	0.6	0.0	-1.4	1.8	2.1	0.6	0.0	-1.4
Construction (F)	-0.9	-0.8	-1.2	-0.1	0.8	-0.8	-0.7	-1.3	-0.1	0.8
Services (G to N)	1.9	2.3	-0.2	0.0	-1.3	1.9	2.3	-0.2	0.0	-1.3
O to S	0.2	0.2	-0.1	0.1	0.0	0.1	0.2	-0.1	0.1	-0.1

Unit: p.p.

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 30th of October of 2020. The response rate of the LCI survey on hours worked was 91.5%.

Next Press Release: 12 February 2021.