

Comparable Quarterly Unit Labour Cost Indexes for OECD countries



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Developing comparable quarterly Unit Labour Cost Indexes for OECD countries

Why?

- Interest of key clients (OECD Economics Department, European Central Bank)
- Relationship with OECD productivity database
- Lack of transparency, comparability, coverage and timeliness of current quarterly ULCs
- Take leadership in developing such analytical series for the services sector
- Quarterly ULC indexes by industry / broad industry groups updated monthly

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Methodology?

Total labour costs / total output

- Looks simple, but
 - > Some like to break down the numerator and denominator (costs per unit of employee / labour productivity)
 - > Data availability by industry
- National accounts: compensation of employees / value added at basic prices
 - > Problems of self employed, taxes on employment & ownership of dwellings

Does simplicity enhance comparability?

Base everything on National Accounts and use other sources to fill gaps?

- Consistency in annual and quarterly measures should be assured
- Operationally simpler (data collection, systems)
- But
 - > Is there a relevance issue?
 - > Ability to explain movements?
 - > Depends largely on user group.

Simplicity aids coverage

- Target industries are a compromise between user demand, data availability and initiative ...
 - Whole Economy and 'Business Sector'
 - Industry; Manufacturing and; Construction
 - Market Services

Quarterly data availability

- Output
 - Target variable = QNA – constant price VA basic prices
 - Proxy variable = MEI – index of production
- Labour Costs
 - Target variable = QNA – Comp of employees
 - > 1. Eurostat, NSO - Gross wages and salaries by industry
 - > 2. Eurostat, NSO – LCI multiplied by index of hours worked
 - > 3. Eurostat, NSO – Hourly earnings multiplied by hours worked
 - > 4. Eurostat, NSO – Earnings multiplied by employment

Evaluation

- Paper describes a range of methods to compare quarterly sources with annual benchmarks
 - Will depend on the methodology chosen for the annual benchmark
- Proposes using statistical benchmarking techniques to reconcile annual and quarterly data sources for the long time series – and possibly to aid in nowcasting the quarterly indexes

Country feedback

- Responses from about half of the countries
- Not many NSOs producing ULCs
- Most central banks do their own calculations
 - ECB and Australian Reserve Bank choosing the method to breakdown numerator and denominator (i.e. costs per unit of employee / labour productivity)

Data availability

- Useful responses to data availability matrix
 - Some countries advising on data that shouldn't be used
 - Availability of more appropriate data we were not aware of
 - Concern at the lack of value added (or possible proxy) data for the United States in Construction and Services sector
 - Concern at the lack of labour cost data for Japan
- Countries supported the use of QNA data

Methodological & coverage issues

- Mixed responses on whether simple approach using national accounts data should be used
 - Or whether adjustments should be made
- Some concern over proposal to add chain volume measures for industry components
- General support for industries proposed and for services representation
- General support for the ranking of quarterly proxy variables where QNA data not available

Evaluation and benchmarking

- Broad support for proposed practices in the paper
 - U.S BLS uses a similar method to extrapolate gross output in manufacturing
 - Italy stressed the importance of quarterly consistency between industries and their aggregates
 - NZ believe OECD should ask for all required data from country sources

Future work

- Incorporate comments received, especially on methodological and data availability issues
 - Produce a revised proposal for discussion with key users
- Seek support from key users to produce a set of experimental indexes for evaluation
- Seek feedback on experimental indexes (STESEG 2006)
- Establish regular production process

Issues for discussion

- Does STESEG support this initiative
 - Level of interest in the production of these data
 - Any possible conflict with national economic institutes who produce their own ULC indexes
 - Is STESEG the right forum to consider this
- Methodological debate?
 - Best input series to use for numerator and denominator
 - To adjust or not to adjust
 - Will it make any difference when assessing short-term movements across countries?