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## **New OECD Statistics News Release on Quarterly Unit Labour Costs**

Commencing in October 2007, the OECD will publish a statistics news release on developments in quarterly unit labour costs (ULC) in OECD Member countries. This quarterly news release will be published in the first half of January, April, July and October containing data for the quarter prior to that just completed.

Unit labour costs measure the average cost of labour per unit of output. They are calculated as the ratio of total labour costs to real output, or equivalently, as the ratio of mean labour costs per hour to labour productivity (output per hour). As such, ULC represent a link between productivity and the cost of labour in producing output. An increase in unit labour costs indicates that growth in average employee compensation exceeds growth in labour productivity, which may create pressure on producer prices.

The *OECD System of Unit Labour Cost Indicators* compiles annual and quarterly ULC measures and related indicators according to a specific methodology to ensure data are comparable across countries. This system is principally based on national accounts concepts and data but also brings together a wide range of proxy sources for quarterly data. The compilation of the quarterly ULC indicators presented in the news release involves the following stepwise process:

- Identifying suitable quarterly indicator data. The target variable for total labour costs is compensation of employees and proxy variables in order of preference include: gross wages and salaries; labour cost index multiplied by hours worked; earnings or wage series multiplied by total employment. The target variable for real output is constant price value added with production indices being used as proxies if required and available.
- Benchmarking to more reliable annual data to form a consistent set of temporally disaggregated quarterly time series of total labour costs and real output.
- Taking the quotient of the above input series as the raw ULC series and deriving both seasonally adjusted and [trend-cycle series](#), the latter being a combination of a long term trend and business cycle series, produced using the TRAMO-SEATS software.

Given the inherent volatility in a derived indicator such as the unit labour cost, the OECD presents the trend-cycle series as the headline indicator in this news release, for the key economic sectors of Industry and Market Services.

### **Accessing the entire System of Unit Labour Cost and Related Indicators Database**

Each news release coincides with an update of both the quarterly and annual indicators available in the OECD System of Unit Labour Cost and Related Indicators Database, freely available at: <http://stats.oecd.org/mei/default.asp?rev=3>. Data are available for all OECD Member countries and the Euro area for Total Economy, Manufacturing, Industry, Construction, Trade transport & communication, Financial and business services, Market services (activity based proxy) and the Business sector excluding agriculture (activity based proxy), together with detailed methodological information and country data sources. Quarterly unit labour cost indices are available as raw, seasonally adjusted and trend-cycle series. Annual time series also include related series such as labour productivity, labour compensation per unit labour input, exchange rate adjusted ULC and labour income share ratios. The latter variables can differ from other data sources, such as the OECD Structural Analysis and Productivity Databases, due to statistical coverage (e.g. labour productivity

defined over hours worked vs. number of persons employed), frequency of updates or other comparability issues. Users are therefore encouraged to refer to the methodological information provided for more detailed explanations.

## **Development of the OECD System of Unit Labour Cost and Related Indicators**

The OECD decided to develop this System of Unit Labour Cost and Related Indicators in response to concerns from the international community of economic analysts on the limited availability of internationally comparable data concerning labour costs, particularly in activities outside of Manufacturing and on a sub-annual basis. The release of this new product culminates nearly three years of development work by the OECD which has benefited from contributions by academia and national consultants, and involved extensive consultation with the OECD Economics Department, several national central banks and national statistics offices. Feedback on initially proposed methodology and data sources was also received through the discussion of papers presented at the 2005 meetings of the OECD Short Term Economic Statistics Working Party (STESWP) and the OECD Statistical Working Party (SWIC). This new database also compliments the existing OECD Productivity Database.

Achieving comparability across countries and economic activities for unit labour costs is a major challenge, particularly for those compiled on a quarterly basis. This stems largely from a lack of uniformity in earnings and labour cost data available on a sub annual basis across different economic activities within and across countries. In addition, coherence with quarterly indicators of real output may often be poor leading to large volatility in a derived statistic such as the unit labour cost. The OECD has attempted to overcome these problems by developing the stepwise framework for producing the quarterly unit labour cost indexes as outlined on page 1. In particular, the process of benchmarking to more reliable annual data sources which have generally been compiled on the preferred methodological basis facilitates production of the wide range of related annual indicators which significantly enhances the analytical value of the database (i.e. labour productivity and labour compensation per unit labour input measures, labour income share ratios and exchange rate adjusted unit labour costs indicators).

## **Data sources and compilation of long time series**

The annual benchmark data is sourced from the OECD System of National Accounts Database (SNA). However, in order to enable the longest possible time series to be produced, currently published time series available in the SNA are often linked to historical time series provided to the OECD some time in the past. This has enabled in most cases the compilation of annual ULC and related indicators back to 1970 for all OECD Member countries for each of the eight economic activities available in the database. Similarly, quarterly time series are sourced from the OECD Quarterly National Accounts Database supplemented by a number of other national and international sources where proxy indicators are required. As with the annual data, currently available time series are often linked to historical series provided to the OECD sometime in the past to form the longest possible quarterly time series. The length of time series available for the quarterly ULC indicators differs by country, but a large number of countries have at least 15 years worth of data for each economic activity.

For further information data users are invited to contact the OECD's Media Relations Division on (33) 1 45 24 97 00 or email [news.contact@oecd.org](mailto:news.contact@oecd.org). For technical questions please contact [stat.contact@oecd.org](mailto:stat.contact@oecd.org)