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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND  
THE COUNCIL**

**on the implementation of Regulation (EC) No 450/2003 of the European Parliament and  
of the Council concerning the labour cost index (LCI)**

## 1. INTRODUCTION

When analysing short- and medium-term economic development, labour costs per hour worked are important. The Commission and the European Central Bank rely on an index of labour costs per hour worked to assess possible inflationary pressure due to developments in the labour market. The index needs to be calculated promptly, for each Member State, for the whole EU and for the Euro area. The labour cost index is also important for the social partners in wage negotiations and for the Commission itself in monitoring short-term developments in labour costs. The Labour Cost Index (LCI) is one of the Principal European Economic Indicators (PEEI).<sup>1</sup>

Regulation (EC) No 450/2003 of the European Parliament and of the Council of 27 February 2003 concerning the labour cost index<sup>2</sup> (referred to here as the ‘LCI Regulation’) creates a common framework for producing and transmitting comparable labour cost indices in the European Union. The Commission (Eurostat) publishes a quarterly news release on the hourly labour cost index.<sup>3</sup>

In July 2003, the Commission adopted Regulation (EC) No 1216/2003<sup>4</sup>, setting out in more detail the procedures for transmitting the index, the specific (seasonal) adjustments to be made and the content of the national quality reports. Then in March 2007, the Commission adopted Regulation (EC) No 224/2007<sup>5</sup>. It amends Regulation (EC) No 1216/2003 and extends the scope of the labour cost index to cover the economic activities defined by NACE Rev. 1, sections L, M, N and O. This extension means that non-market services, which account for the major share of these sections and which may have different dynamics from market services, will also be covered. In August 2007, the Commission adopted Regulation (EC) No 973/ 2007<sup>6</sup> which amended certain Regulations on specific statistical domains, among them the Labour Cost Index, in order to implement the statistical classification of economic activities NACE Revision 2.

Article 13 of Regulation (EC) No 450/2003 states that the Commission must submit a report to the European Parliament and the Council every two years. The report should look in particular at the quality of the data transmitted. Annual national quality reports are compulsory under Article 8(2) of the LCI Regulation. In Annex I of Regulation EC No 1216/2003, the quality of the labour cost index is defined in terms of the following dimensions: relevance, accuracy, timeliness and punctuality, accessibility and clarity, comparability, coherence and completeness.

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<sup>1</sup> COM (2002) 661, Communication of the Commission to the European Parliament and the Council on Eurozone Statistics.

<sup>2</sup> *OJ L 69*, 13.3.2003, p.1.

<sup>3</sup> The quarterly news release is published on the dates set in the release calendar; both can be found on Eurostat’s website (<http://ec.europa.eu/eurostat>).

<sup>4</sup> Commission Regulation (EC) No 1216/2003 of 7 July 2003 implementing Regulation (EC) No 450/2003 of the European Parliament and of the Council concerning the labour cost index (OJ L 169 , 8.7.2003, p.37).

<sup>5</sup> Commission Regulation (EC) No 224/2007 of 1 March 2007 amending Regulation (EC) No 1216/2003 as regards the economic activities covered by the labour cost index (OJ L 64, 2.3.2007, p. 23).

<sup>6</sup> Commission Regulation (EC) No 973/2007 of 20 August 2007 amending certain EC Regulations on specific statistical domains implementing the statistical classification of economic activities NACE Revision 2 (OJ L 216 , 21.8.2007, p. 10 ).

Comparability and completeness have improved considerably, so this report will focus on accuracy, timeliness and coherence. Small irregularities in transmission delays will not be mentioned, as they were temporary.

## 2. GENERAL PROGRESS SINCE THE LAST REPORT

Since the last report adopted in 2008<sup>7</sup>, substantial progress has been made. The new NACE Rev.2 classification was implemented as requested in the first transmission in June 2009. Introducing NACE Rev.2 required a lot of resources in Member States. In many cases, it also prompted an in-depth review of the data collection methods, leading to changes aimed at improving the quality of the LCI. At the same time, the derogation for non-market services expired and all Member States provided the figures in the course of 2009.

Timeliness has improved considerably and only two Member States (Belgium and Ireland) are still facing some difficulties in complying with the legal transmission dates. There have been major revisions to past data, but this was unavoidable given the introduction of the new NACE Rev.2 classification and the changes introduced in the collection systems in certain Member States. To assist users and to be open about the extent of the revisions, Eurostat's website displays all the figures released for the European Union and the Euro area since June 2009.

The availability and the quality of the labour cost index (LCI) generally improved. A number of Member States introduced changes in their data collection systems to remove any remaining divergences from the quality standards and concepts laid down in Regulation (EC) No 450/2003. For example, Ireland and Sweden now include irregular payments and Finland now covers all types of employees and not only full-time employees. There has also been a marked improvement in the metadata reporting by Member States. More of them have provided national quality reports on time and almost all of them now report the metadata quarterly, explaining changes in the data. The volatility of the index has decreased, thanks mainly to the improvement in the hours worked series, which are more closely monitored than in the past.

Receiving the LCI from all Member States means Eurostat can compile the European Union aggregates and make sufficiently accurate comparisons of the development of hourly labour costs between the Member States. There are, however, a number of issues which still require further efforts from certain Member States in order to complete the harmonisation process. These issues are discussed below.

While the Member States have implemented the necessary infrastructure for the production of the LCI, the Commission (Eurostat) has maintained and enhanced its production system for reception, verification, processing, storage and dissemination of the Labour Cost Index data in a timely manner. These processes, which became fully operational in 2005, are continuously reviewed and updated.

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<sup>7</sup> COM(2009) 33.

### **3. EVALUATION OF COMPLIANCE (UP TO SEPTEMBER 2010)**

#### **3.1 Overview**

A number of Member States mentioned as not totally compliant in the 2008 report have taken the necessary measures to become compliant. The Netherlands has complied with the timeliness requirements laid down in the LCI Regulation. Sweden, Finland and Ireland made the necessary changes in their collection systems to comply with the definitions of the LCI. Austria reviewed its estimation method and improved the timeliness of data delivery. However, NACE Rev.2 sections G to S showed rather large revisions on their first estimates, needing further investigations. Greece improved on many aspects but the figures for the LCI are still very volatile.

Now that all Member States are reporting the core LCI variables laid down in the LCI Regulation, the compliance exercise can focus more on other requirements laid down in the LCI Regulation. For example, the quality of the seasonal adjustment procedures will be evaluated more in depth in the future, with the idea that the seasonally adjusted LCI will be the main reference in Eurostat's press releases, as happens with all other infra-annual macroeconomic statistics. Sweden and Finland are the only Member States not sending seasonally adjusted figures to Eurostat. In the case of Finland this is justified by the short time series available with their new collection system (from 2007). Regulation (EC) No 1216/2003 provided for a number of Member States to carry out feasibility studies to assess how to obtain an index estimating total labour costs excluding bonuses (TEB). In many cases the results of the feasibility studies were negative and no substantial progress has been made in recent years. Currently Austria, Bulgaria, Malta, Germany, Italy, France and Ireland do not estimate a TEB. Bulgaria, Germany and Ireland will be in a position to do so in the near future. Austria and Italy could estimate a TEB, but with a very partial coverage in terms of NACE sections or unit size. France and Malta do not consider it feasible to estimate a TEB.

#### **3.2 Details of quality shortcomings**

##### *3.2.1 Accuracy*

*There are accuracy concerns with various aspects of the LCI. Generally, they are due to shortcomings of the source data and can lead to high volatility of the LCI series. Also, inaccurate data may not be fully comparable with those of other Member States, and can in addition lead to inconsistencies between the LCI and other data sources which measure similar aspects (e.g. development of hourly compensation of employees as measured by national accounts). Generally, known accuracy problems are discussed by the affected Member States in the yearly quality report, and the Commission (Eurostat) monitors the progress made or planned in the implementation of better sources.*

*At the moment, three Member States are affected by accuracy problems. Germany and Hungary currently do not use source data that would allow them to comply fully with the regulation. LCI data delivered by Greece often show unexplainable growth rates which are difficult to reconcile with the developments in the labour market.*

Germany: in the first quarter of 2010 Germany started using the new Quarterly Earnings Survey as the main source for estimating the LCI. Before, national accounts data were used as a source. The change to a specific source should be considered as an improvement, but it also meant there was less coverage of small enterprises in certain economic sectors. Currently, methods are used that reduce the coverage problem. Employees of small enterprises are

covered in the weights used to compute the labour cost index for aggregating NACE Rev.2 sections B to S.

Greece: High volatility of LCI series and large revisions. The quality report sent in 2009 is too concise to allow any conclusions to be drawn as to the causes of the accuracy problems.

Hungary: The source data do not cover very small enterprises, those with less than 5 employees, and no imputation is made for them.

### 3.2.2 Timeliness

*Timeliness has continued to improve since the last report in 2008. Nevertheless, for a variety of reasons, some Member States have failed to deliver the LCI in time (70 days after the reference quarter) for some of the quarters. Timeliness is of the utmost importance, since delays in data delivery mean that estimates have to be used for European Union and Euro Area aggregates. This can result in unnecessarily large revisions. Listed below are the Member States that delivered the data so late ( $> t+75$ ) that it could not be included in the quarterly press release issued by the Commission. Eurostat had to use extrapolations of the LCI values of these countries for the EU and EA aggregates published for that quarter.*

Belgium failed to deliver the data on time on three occasions in the last four quarters. Transmission delays have been considerably reduced compared to those in previous years. Belgium is making further efforts regarding the work with administrative registers and the streamlining of procedures. Belgium has committed to reaching full compliance from 2011 onwards.

Ireland failed to deliver data on time in the last two quarters of 2009 and has not delivered any data for the two quarters of 2010. The reasons are problems with the implementation of the new NACE Rev.2 classification and to the introduction of a new data collection system. The situation is expected to improve in 2011.

The Commission asked the countries to take the appropriate measures to ensure that the deadlines for the submission of the data are respected in the future.

### 3.2.3 Coherence

*In the annual quality report, Member States are asked to compare the growth rates of the LCI with those of hourly compensation of employees in national accounts (ESA95 definition). Both data collections measure the same phenomenon with divergences in the definitions, exhaustiveness of the sources and methodology for calculating the growth rates. Full coherence cannot be expected, but the degree of coherence between the two can be used as an indicator for the quality of the LCI. Since not all Member States produce quarterly data for hourly compensation of employees (national accounts data), a complete overview of coherence is not possible. The following overview is based on the quality reports from 2008. Furthermore, as national accounts still use the NACE rev.1 classification while the LCI uses NACE rev.2, the comparison is restricted to a very small number of aggregated NACE sections.*

Cyprus and Malta: Since national accounts are the source for the LCI (Malta), or the LCI is the source for national accounts (Cyprus), coherence is inevitable.

Czech Republic, Germany, Greece, Spain, Italy, the Netherlands, Austria, Slovenia: Sufficient degree of coherence. The directions of growth rates are generally the same, and the growth rates are of similar size.

Denmark, France, Estonia, Lithuania, Romania and Slovakia: Low coherence; large discrepancies in the growth rates from the two sources.

Belgium, Bulgaria, Ireland, Latvia, Luxembourg, Hungary, Poland, Portugal, Finland, Sweden and the United Kingdom: No quarterly national accounts data available or not mentioned in the quality report.

Eurostat analyses in detail the coherence of the LCI with National Accounts data and the Labour Cost Survey and will continue to do so. The results of the analysis are frequently discussed with Member States with a view to improving coherence across the different statistical domains.

#### **4. CONCLUSIONS**

Overall, the degree of compliance with the LCI Regulation has continued to increase since the previous report in 2008. Most Member States are now compliant. Member States have continued to channel 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.

The timeliness of data delivery has improved, and the number of Member States with accuracy problems has decreased.

In recent years, the Commission (Eurostat) has regularly urged Member States to step up their improvement efforts. The Commission will be monitoring the remaining non-compliance and quality issues regularly through the data delivered and other national documentation. Where the desired or planned improvements are not advancing appropriately, the relevant national authorities will be approached, and the Commission will take the necessary action to enforce compliance.