

Statistical bulletin:

# Index of Labour Costs per Hour (ILCH): Quarter 4 (Oct to Dec) 2015 (experimental)

Changes in the costs of employing labour, analysed by sector and industry.

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## Table of contents

1. Main points
2. Summary
3. Sector growth
4. Trends in whole economy labour costs
5. Industry growth
6. Background notes
7. Methodology

# 1. Main points

The whole economy Index of Labour Costs per Hour (ILCH), seasonally adjusted, increased by 2.4% in Quarter 4 Oct to Dec of 2015, compared with the same quarter of 2014 and decreased by 0.4% compared with the previous quarter, Quarter 3 July to Sep 2015.

Wage costs per hour worked increased by 2.3% in the fourth quarter of 2015 on the same quarter in the previous year and non-wage costs per hour worked increased by 4.4%.

Private sector labour costs per hour increased by 3.2% in the fourth quarter of 2015 on the same quarter in the previous year, while public sector labour costs per hour increased by 3.0%.

The textiles, leather and clothing industry had the largest increase in Quarter 4 2015 compared with Quarter 4 2014, with an increase of 10.5%.

The food products, beverages and tobacco industry had the largest decrease in Quarter 4 2015 compared with Quarter 4 2014, with a decline of 2.8%.

## 2. Summary

The Index of Labour Costs per Hour (ILCH) is a measure of the cost of having an employee for an hour of work. It represents the total cost of employing an individual, which is primarily the earnings of the employee, but also includes non-wage costs. It is also known as the Labour Cost Index (LCI)

([http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/Labour\\_cost\\_index\\_-\\_recent\\_trends%23Hourly\\_labour\\_cost\\_in\\_euros](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Labour_cost_index_-_recent_trends%23Hourly_labour_cost_in_euros)); the index is produced by all member countries of the EU and collated by Eurostat.

Four versions of ILCH are calculated for each aggregate, both seasonally adjusted and non-seasonally adjusted, measuring changes in:

1. total labour costs per hour worked
2. wage costs per hour worked
3. other labour costs, including benefits in kind and employer social contributions (pension and national insurance contributions, sickness, maternity and paternity pay) per hour worked
4. total labour costs, excluding bonuses and arrears, per hour worked

The labour cost component of ILCH is mainly drawn from the Monthly Wages and Salaries Survey (MWSS); the hours worked component of ILCH is drawn from the Labour Force Survey (LFS). Other costs are estimated using a range of other sources including the Annual Business Survey (ABS) and the Annual Survey of Hours and Earnings (ASHE). ILCH index figures are estimates in current prices, meaning that they are published not adjusted for inflation.

ILCH statistics are currently designated as experimental. Experimental Statistics (<http://www.ons.gov.uk/methodology/methodologytopicsandstatisticalconcepts/guide-to-experimental-statistics>) are those official statistics undergoing further development work before they are submitted for assessment as a National Statistic by the UK Statistics Authority (<https://www.statisticsauthority.gov.uk/>).

This bulletin provides information on the seasonally adjusted ILCH series. Seasonally adjusted results were first published in March 2015 in the Quarter 4 Oct to Dec 2014 bulletin, for the full series from Quarter 1 Jan to Mar 2000 and this will continue to be the case in all future ILCH bulletins. Non-seasonally adjusted data (<http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/indexoflabourcostsperhourilchnonseasonallyadjusted>) can be found on our website.

# 3. Sector growth

## Year on year

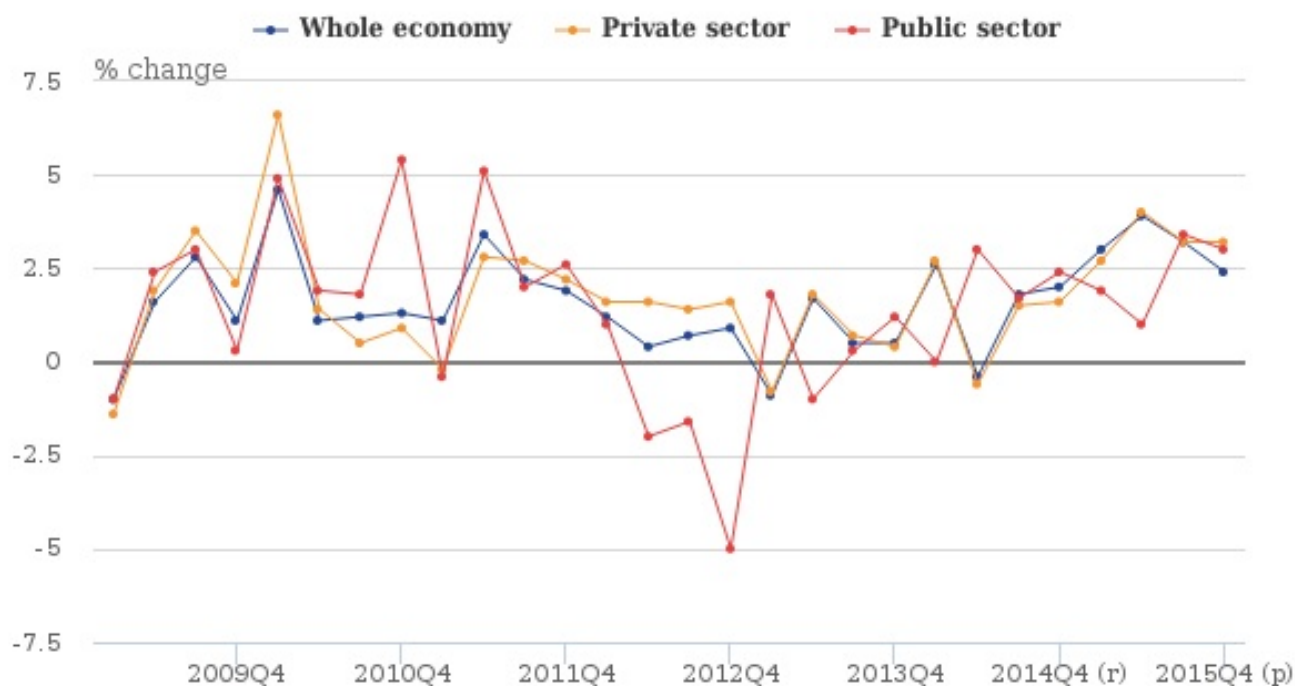
Whole economy labour costs per hour increased by 2.4% in Quarter 4 Oct to Dec 2015 compared with the same quarter a year earlier, before inflation is taken into account. Total labour costs include wages and salaries, benefits in kind and employer social contributions (pension and national insurance contributions, sickness, maternity and paternity pay).

The growth in wage costs per hour worked on the same quarter a year earlier was 2.3% and non-wage costs per hour worked increased by 4.4%. The increase in non-wage costs is partly a result of an increase in national insurance contributions, particularly in the services industry. Wage costs include benefits in kind, wages and salaries. Non-wage costs include sickness, maternity and paternity pay, national insurance contributions and pension contributions.

Private sector labour costs (per hour) increased by 3.2% in Quarter 4 Oct to Dec 2015 compared with the same quarter a year earlier and public sector labour costs (per hour) increased by 3.0%; this series can be volatile due to small numbers included in the sample. Figure 1 shows the annual change in labour costs (per hour) for the whole economy, private and public sector.

## Figure 1: Labour Costs per Hour year on year growth - whole economy, private sector and public sector

UK, Q1 2009 (Jan to Mar) to Q4 (Oct to Dec) 2015



Source: Office for National Statistics

### Notes:

1. Throughout this release Q1 refers to Quarter 1 (January to March), Q2 refers to Quarter 2 (April to June), Q3 refers to Quarter 3 (July to September) and Q4 refers to Quarter 4 (October to December).
2. p = provisional, r = revised.

## Quarter on quarter

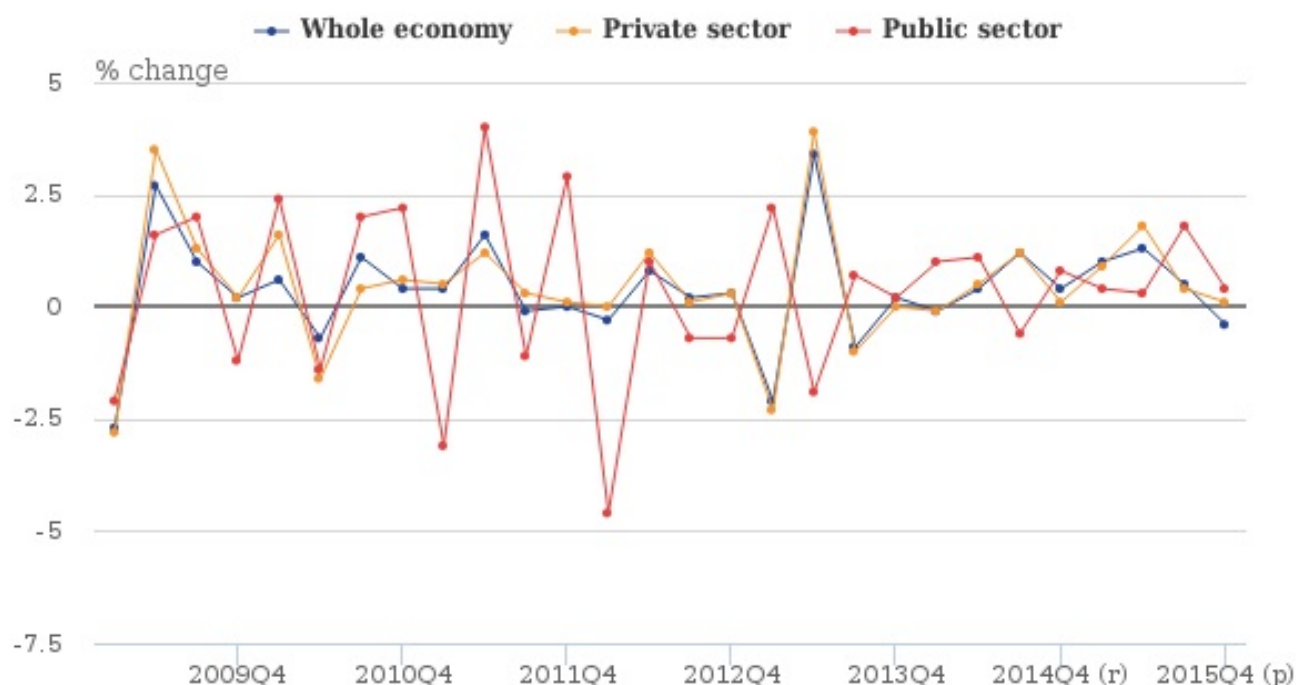
Compared with the previous quarter, Quarter 3 July to Sep 2015, whole economy labour costs per hour decreased by 0.4% in Quarter 4 Oct to Dec 2015. Private sector labour costs increased by 0.1% and public sector labour costs increased by 0.4%. This is the first time total labour costs for the whole economy have fallen since Quarter 1 Jan to Mar 2014.

Total wage costs fell by 0.3% in Quarter 4 Oct to Dec 2015 compared with the previous quarter and total other costs increased by 0.1%.

Figure 2 highlights the quarterly growth in labour costs per hour for the whole economy, private sector and public sector.

## Figure 2: Labour Costs per Hour quarter on quarter growth - whole economy, private sector and public sector

UK, Q1 2009 (Jan to Mar) to Q4 (Oct to Dec) 2015



Source: Office for National Statistics

### Notes:

1. Throughout this release Q1 refers to Quarter 1 (January to March), Q2 refers to Quarter 2 (April to June), Q3 refers to Quarter 3 (July to September) and Q4 refers to Quarter 4 (October to December).
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## 4. Trends in whole economy labour costs

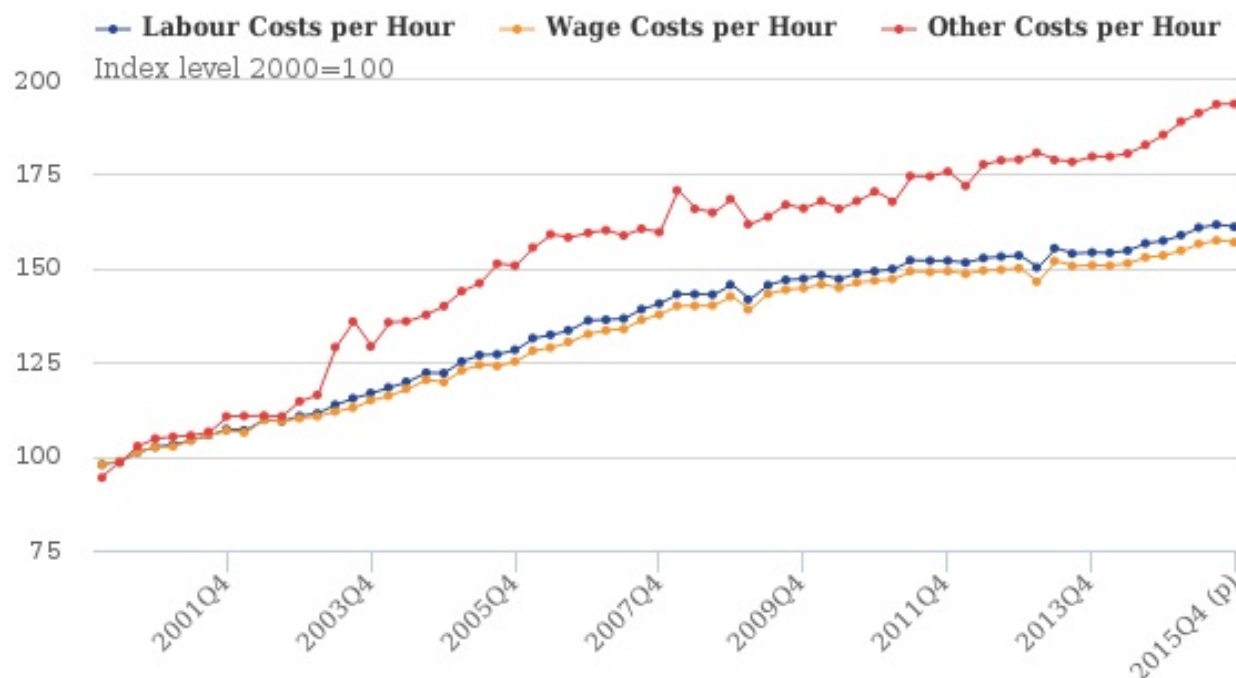
Figure 3 shows the 3 indices of whole economy labour costs (per hour) referenced to the year 2000: total labour costs, total wage costs and total other costs.

Total labour costs per hour worked and wage costs per hour worked are quite similar, with an increase of 61.0% and 56.9% since 2000 respectively. This reflects the structure of labour costs in the UK, which is largely driven by wages and salaries.

The path of other labour costs follows that of the total, as might be expected, but at points moves differently, as changes in non-wage costs affect the series. The largest move away from wage costs occurred in Quarter 2 Apr to June 2003, when new national insurance contribution (NIC) rates were introduced. Total other costs per hour have increased by 93.7% since 2000; the largest growth since 2000 in the series.

## Figure 3: Whole economy Index of Labour Costs per Hour, by component

UK, Q1 (Jan to Mar) 2000 to Q4 (Oct to Dec) 2015



Source: Office for National Statistics

### Notes:

1. Throughout this release Q1 refers to Quarter 1 (January to March), Q2 refers to Quarter 2 (April to June), Q3 refers to Quarter 3 (July to September) and Q4 refers to Quarter 4 (October to December).
2. p = provisional, r = revised.

## 5. Industry growth

Year on year



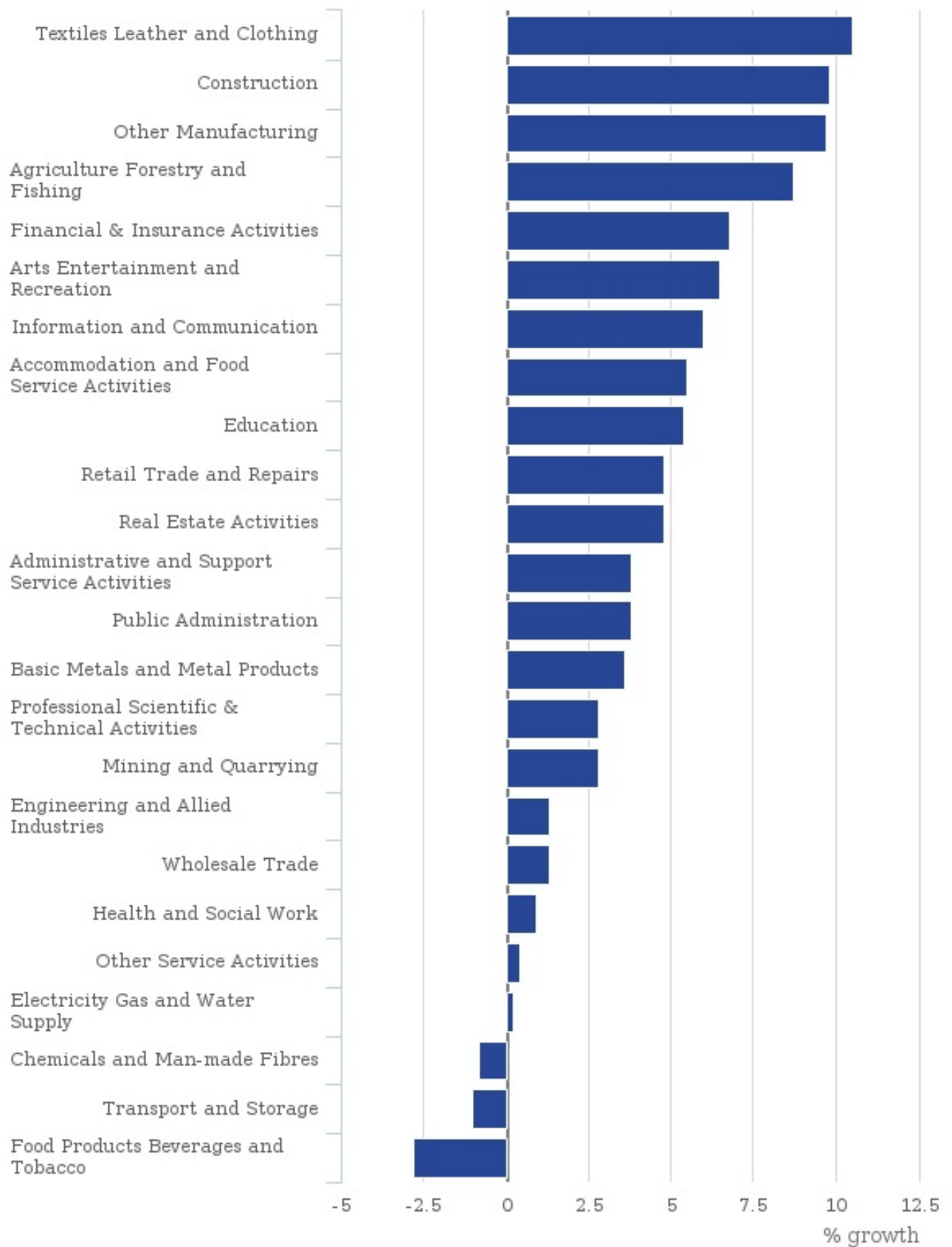
The industry with the highest growth in labour costs was the manufacture of textiles, leather and clothing, with labour costs per hour having increased by 10.5% in Quarter 4 Oct to Dec 2015 compared with a year earlier (Figure 4). This growth in labour costs is largely due to increases in sickness, maternity and paternity pay per hour; this growth has been affected by the fact that sickness, maternity and paternity pay in Quarter 4 Oct to Dec 2014 had the lowest non-zero value since Quarter 2 Apr to June 2010, resulting in a large year on year growth.

The construction industry experienced the second largest growth in labour costs per hour in Quarter 4 2015, with an increase of 9.8% compared with a year ago. Other industries that experienced large growth in Quarter 4 2015 include other manufacturing and agriculture, forestry and fishing.

The food products, beverages and tobacco industry, in the manufacturing sector, experienced the largest decline in labour costs in Quarter 4 2015 compared with a year earlier; labour costs (per hour) in this industry decreased by 2.8%. The transport and storage, and chemicals and manmade fibres industries also experienced decreases in labour costs compared with Quarter 4 Oct to Dec 2014.

## **Figure 4: Labour costs (per hour) year on year growth by industry**

**UK, Quarter 4 (Oct to Dec) 2015**



**Source: Office for National Statistics**

Quarter on quarter

The industry with the highest quarterly growth in labour costs was real estate activities, with labour costs per hour having increased by 3.9% in Quarter 4 Oct to Dec 2015 compared with Quarter 3 July to Sep 2015 (Figure 5).

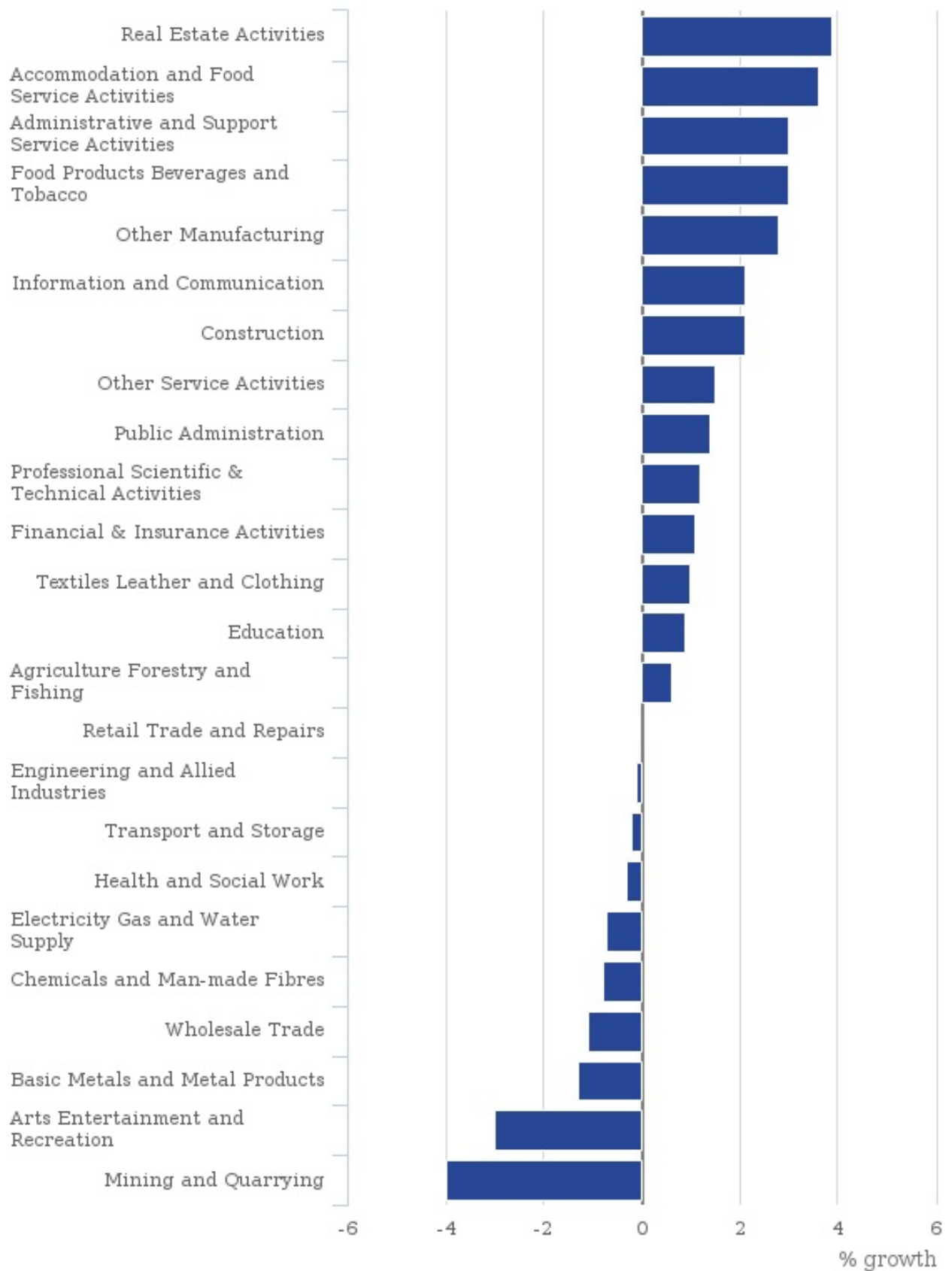
Accommodation and food service activities experienced the second largest growth in labour costs per hour in Quarter 4 2015, with an increase of 3.6% compared with the previous quarter. Other industries that experienced significant growth in Quarter 4 2015 include food products, beverage and tobacco, administrative and support service activities, and other manufacturing.

Mining and quarrying experienced the greatest decline in labour costs in Quarter 4 2015 compared with Quarter 3 2015. Labour costs (per hour) in this industry decreased by 4.0% on the quarter. Labour costs per hour in arts, entertainment and recreation declined by 3.0%. Basic metals and wholesale trade also experienced decreases in labour costs compared with the previous quarter.



## **Figure 5: Labour costs (per hour) quarter on quarter growth by industry**

### **UK, Quarter 4 (Oct to Dec) 2015**



**Source: Office for National Statistics**

# 6. Background notes

## 1. Quality

A [Quality and Methodology Information Report for ILCH](http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/qmis/indexoflabourcostsperhourqmi) is available (<http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/qmis/indexoflabourcostsperhourqmi>). This report describes, in detail the intended uses of the statistics presented in this publication, their general quality and the methods used to produce them.

## 2. International comparisons

The UK Labour Costs Index (LCI) is comparable with other Labour Cost Index numbers produced by other EU member states. Eurostat regularly publishes a [news release](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Labour_cost_index_-_recent_trends%23Hourly_labour_cost_in_euros) detailing the main results in each quarter.

([http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/Labour\\_cost\\_index\\_-\\_recent\\_trends%23Hourly\\_labour\\_cost\\_in\\_euros](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Labour_cost_index_-_recent_trends%23Hourly_labour_cost_in_euros))

## 3. Seasonal adjustment

Like many economic indicators, the labour market is affected by factors that tend to occur at around the same time every year; for example, school leavers entering the labour market in July and whether Easter falls in March or April. In order to compare movements other than annual changes in labour market statistics, such as since the previous quarter or since the previous month, the data are seasonally adjusted to remove the effects of seasonal factors and the arrangement of the calendar. All estimates discussed in this statistical bulletin are seasonally adjusted except where otherwise stated.

## 4. Experimental Statistics

Experimental Statistics are those which are in the testing phase, are not yet fully developed and have not been submitted for assessment to the [UK Statistics Authority](https://www.statisticsauthority.gov.uk/) (<https://www.statisticsauthority.gov.uk/>). ILCH is designated as an Experimental Statistic. [Further information on Experimental Statistics](http://www.ons.gov.uk/methodology/methodologytopicsandstatisticalconcepts/guide-to-experimental-statistics) (<http://www.ons.gov.uk/methodology/methodologytopicsandstatisticalconcepts/guide-to-experimental-statistics>) can be found on our website.

## 5. User engagement

We are constantly aiming to improve this release and its associated commentary. We would welcome any feedback you might have and would be particularly interested in knowing how you make use of these data to inform our work.

Please contact us via email: [ster@ons.gsi.gov.uk](mailto:ster@ons.gsi.gov.uk) or telephone Catherine Healey on +44 (0)1633 456786.

## 7 . Methodology

Index of labour costs per hour QMI

(<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/qmis/indexoflabourcostsperhourqmi>)

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