

Statistical bulletin

# Index of UK labour costs per hour, experimental: July to Sept 2016

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

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# 1 . Main points

The whole economy Index of Labour Costs per Hour (ILCH), seasonally adjusted, increased by 1.5% in Quarter 3 (July to Sept) of 2016, compared with the same quarter of 2015 and increased by 0.1% compared with the previous quarter, Quarter 2 (Apr to June) 2016.

Wage costs per hour worked increased by 1.7% in the third quarter of 2016 on the same quarter in the previous year and non-wage costs per hour worked increased by 0.1%.

Private sector labour costs per hour increased by 2.1% in the third quarter of 2016 on the same quarter in the previous year, while public sector labour costs per hour decreased by 0.3%.

The agriculture, forestry and fishing industry had the largest increase in Quarter 3 2016 compared with Quarter 3 2015, with an increase of 9.9%.

The textiles, leather and clothing industry in the manufacturing sector had the largest decrease in Quarter 3 2016 compared with Quarter 3 2015, with a decline of 4.9%.

## 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 \(LCI\)](#); the index is produced by all member countries of the EU and collated by Eurostat.

There are 4 versions of ILCH that are calculated for each aggregate, both seasonally adjusted and non-seasonally adjusted, measuring changes in:

- total labour costs per hour worked
- wage costs per hour worked
- other labour costs, including benefits in kind and employer social contributions (pension and National Insurance contributions, sickness, maternity and paternity pay) per hour worked
- 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 are those official statistics undergoing further development work before they are submitted for assessment as a National Statistic by the UK Statistics Authority.

This bulletin provides information on the seasonally adjusted ILCH series. All seasonally adjusted series have been revised this quarter as a result of the seasonal adjustment review. This means some previously published figures have changed in this publication. Seasonally adjusted results were first published in March 2015 in the Quarter 4 (Oct to Dec) 2014 bulletin, which includes the full series from Quarter 1 (Jan to Mar) 2000. This will continue to be the case in all future ILCH bulletins. Non-seasonally adjusted data can be found on our website.

## **3 . Sector growth**

### **Year-on-year**

Whole economy labour costs per hour increased by 1.5% in Quarter 3 (July to Sept) 2016 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).

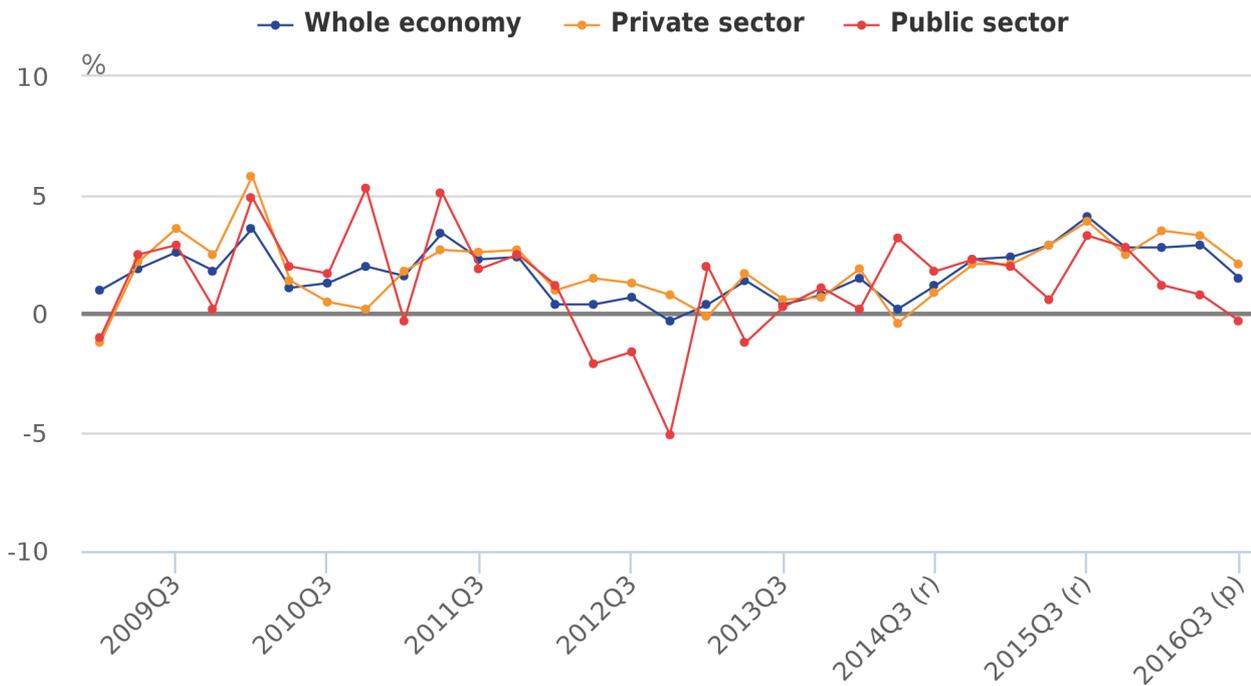
The growth in wage costs per hour worked on the same quarter a year earlier was 1.7% and non-wage costs per hour worked increased by 0.1%. The increase in non-wage costs is partly a result of an increase in pension and National Insurance contributions. Wage costs include benefits in kind, wages and salaries. Non-wage costs include sickness, maternity and paternity pay, National Insurance contributions and pension contributions.

Private sector labour costs (per hour) increased by 2.1% in Quarter 3 2016 compared with the same quarter a year earlier, and public sector labour costs (per hour) decreased by 0.3%; 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, Quarter 1 (Jan to Mar) 2009 to Quarter 3 (July to Sept) 2016**

UK



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
3. r = Revised

## Quarter-on-quarter

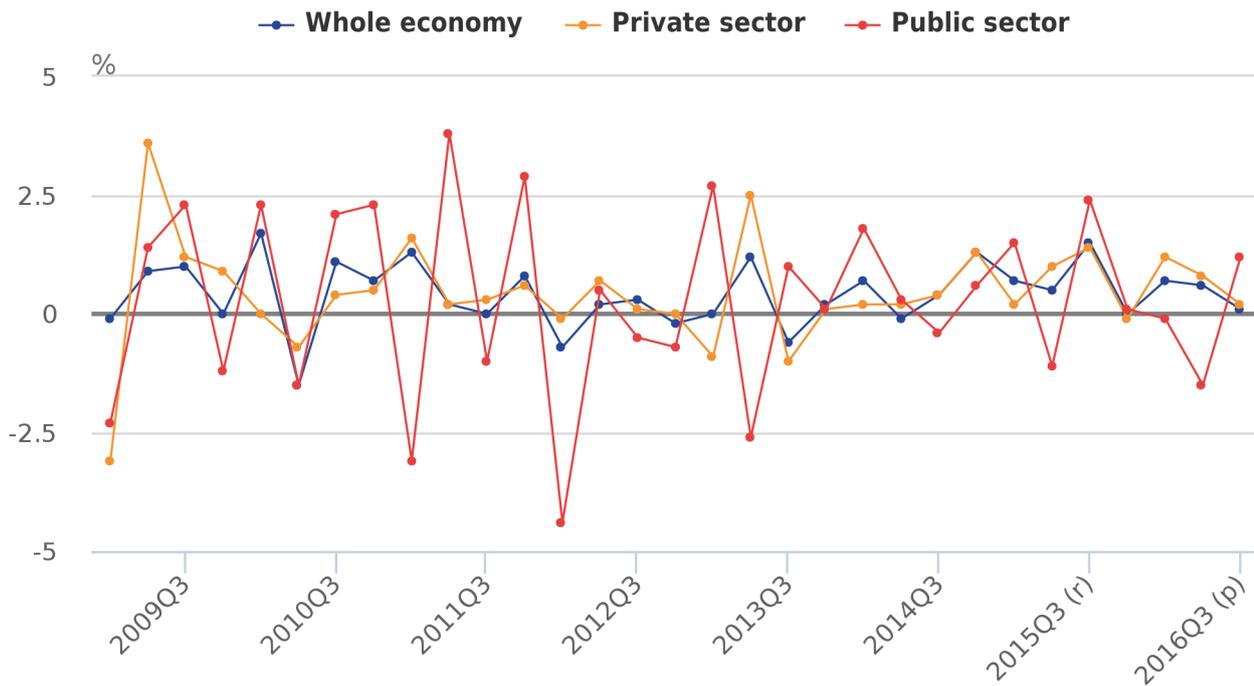
Compared with the previous quarter, Quarter 2 (Apr to June) 2016, whole economy labour costs per hour increased by 0.1% in Quarter 3 2016. Private sector labour costs increased by 0.2%, while public sector labour costs increased by 1.2%.

Total wage costs increased by 0.2% in Quarter 3 2016 compared with the previous quarter and total other costs increased by 0.3%.

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, Quarter 1 (Jan to Mar) 2009 to Quarter 3 (July to Sept) 2016**

UK



Source: Office for National Statistics

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## 4. Trends in whole economy labour costs

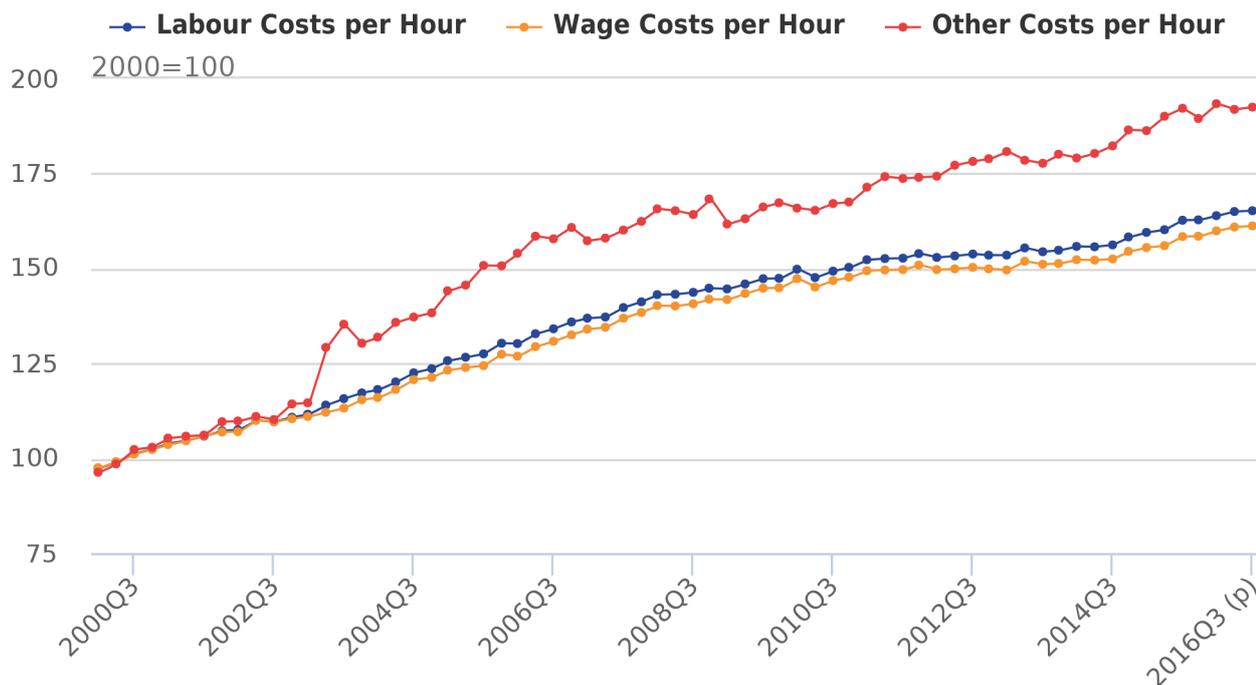
Figure 3 shows the 3 indices of whole economy labour costs (per hour) referenced to the year 2000: total labour costs, total wage costs and total other costs.

Total labour costs per hour worked and wage costs per hour worked are quite similar, with an increase of 65.2% and 61.2% 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 92.5% since 2000.

**Figure 3: Whole economy index of labour costs per hour, by component, Quarter 1 (Jan to Mar) 2000 to Quarter 3 (July to Sept) 2016**

UK



Source: Office for National Statistics

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## 5 . Industry growth

### Year-on-year

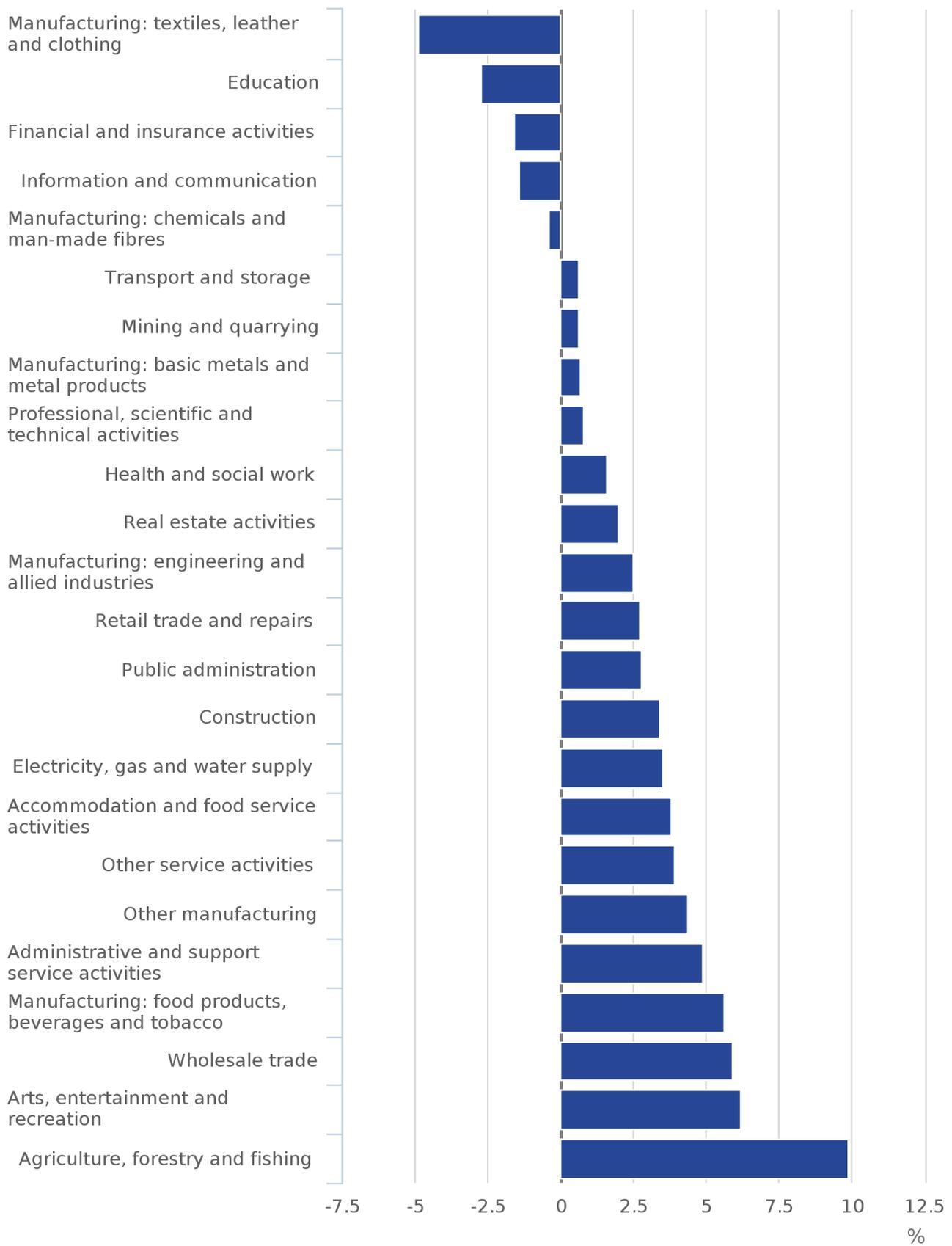
The industry with the highest growth in labour costs was the agriculture, forestry and fishing industry, with labour costs per hour having increased by 9.9% in Quarter 3 (July to Sept) 2016 compared with a year earlier (Figure 4). This growth in labour costs is largely due to increases in wage costs.

The arts, entertainment and recreation industry experienced the second-largest growth in labour costs per hour in Quarter 3 2016, with an increase of 6.2% compared with a year ago. Other industries that experienced large growth in Quarter 3 2016 include wholesale trade and food products, beverages and tobacco.

The textiles, leather and clothing industry experienced the largest decline in labour costs in Quarter 3 2016 compared with a year earlier; labour costs (per hour) in this industry decreased by 4.9%. The education industry experienced the next largest decrease in labour costs compared with Quarter 3 2015, followed by the finance and insurance activities industry.

**Figure 4: Labour costs (per hour) year-on-year growth by industry, Quarter 3 (July to Sept) 2016**

UK



Source: Office for National Statistics

## Quarter-on-quarter

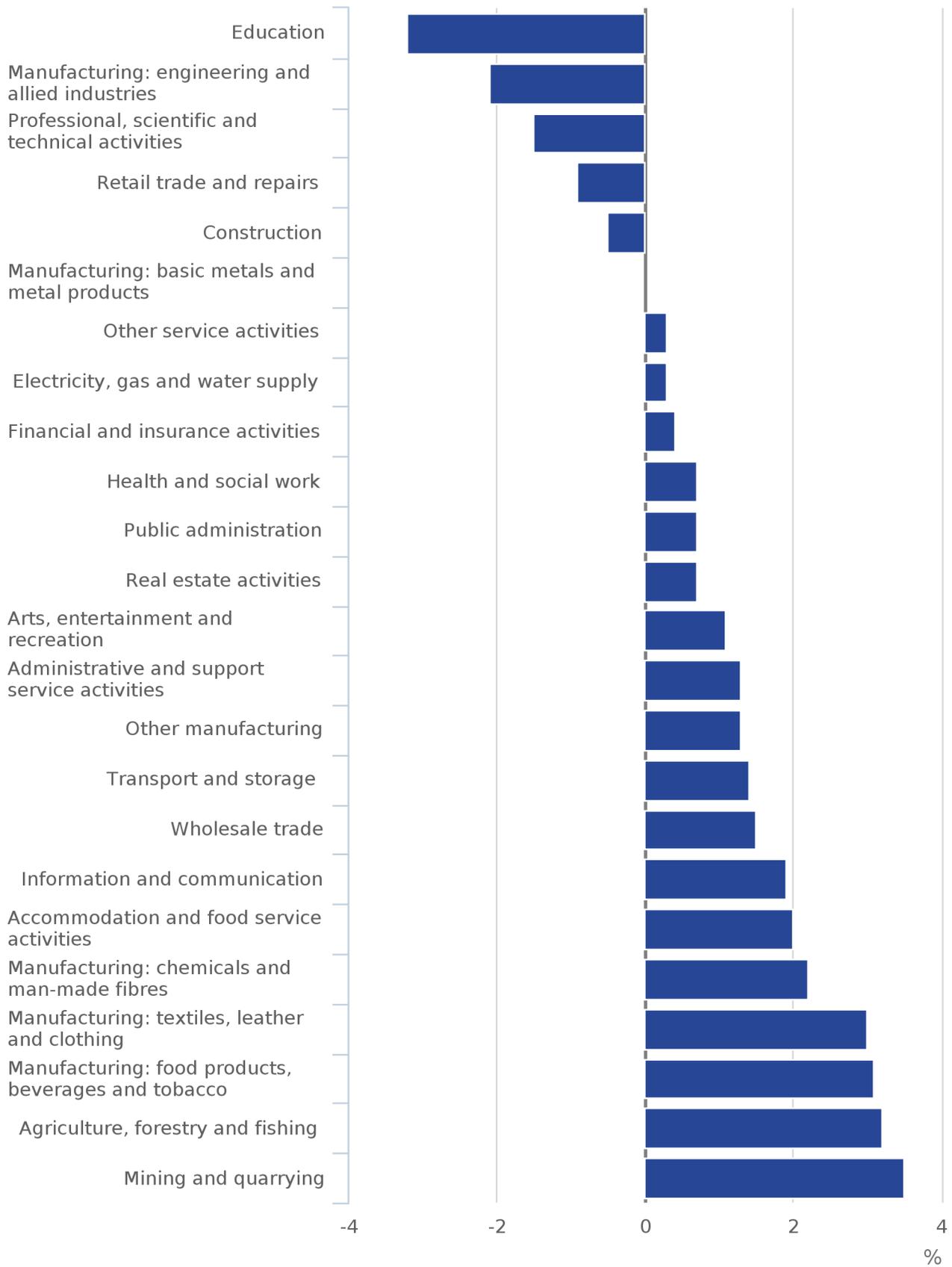
The industry with the highest quarterly growth in labour costs was mining and quarrying, with labour costs per hour having increased by 3.5% in Quarter 3 (July to Sept) 2016 compared with Quarter 2 (Apr to June) 2016 (Figure 5).

The agriculture, forestry and fishing industry experienced the second-largest growth in labour costs per hour in Quarter 3 2016, with an increase of 3.2% compared with the previous quarter. Other industries that experienced growth in Quarter 3 2016 include food products, beverages and tobacco, and textiles, leather and clothing.

The education industry experienced the greatest decline in labour costs in Quarter 3 2016 compared with Quarter 2 2016. Labour costs (per hour) in this industry decreased by 3.2% on the quarter. Labour costs per hour in engineering and allied industries declined by 2.1%. The professional, scientific and technical, and retail trade and repairs industries experienced the next largest decreases in labour costs compared with the previous quarter.

**Figure 5: Labour costs (per hour) quarter-on-quarter growth by industry, Quarter 3 (July to Sept) 2016**

UK



Source: Office for National Statistics

## 6 . Quality and methodology

The latest [Quality and Methodology report for Index of UK labour costs per hour estimates](#) can be found on our website.

These contain important information on:

- the strengths and limitations of the data and how it compares with related data
- users and uses of the data
- how the output was created
- the quality of the output including the accuracy of the data

## 7. Background notes

### 1. 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 detailing the main results in each quarter](#).

### 2. 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, for example, compared with the previous quarter, 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.

### 3. 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. ILCH is designated as Experimental Statistics. [Further information on experimental statistics](#) can be found on our website.

### 4. User engagement

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

Please contact us using the details accompanying this release.