

Statistical bulletin

# Index of labour costs per hour, UK: January to March 2018 (experimental statistics)

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 4.1% in Quarter 1 (Jan to Mar) 2018, compared with Quarter 1 2017.
- Wage costs per hour worked increased by 3.5% in Quarter 1 2018 compared with Quarter 1 2017; estimated non-wage costs per hour worked increased by 9.3%, although this non-wage cost annual growth will be affected by a change in estimating National Insurance contributions in Quarter 2 (Apr to June) 2017 (see Things you need to know about this release section).
- Compared with Quarter 4 (Oct to Dec) 2017, the whole economy ILCH increased by 0.4%; wage costs increased by 0.4% and non-wage costs increased by 1.6% per hour.
- The mining and quarrying industry saw the largest increase in Quarter 1 2018 compared with Quarter 4 2017, of 8.1%.
- The basic metals and metal products industry within the manufacturing sector had the largest decrease in Quarter 1 2018 compared with Quarter 4 2017, with a decline of 7.1%.

## 2 . Things you need to know about this release

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.

All estimates discussed in this statistical bulletin are seasonally adjusted except where otherwise stated.

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).

Wage costs include benefits in kind, wages and salaries.

Non-wage costs include sickness, maternity and paternity pay, National Insurance contributions and pension contributions. In Quarter 2 (Apr to June) 2017, the methodology used to estimate the National Insurance contributions changed as a result of the discontinuation of a variable in the input data source, causing a break in the series. As a result, all other costs per hour series (and therefore the labour costs per hour series) have been affected from Quarter 2 2017 onwards. The discontinued variable concerned the contracting out of State Pensions and so those industries predominantly in the public sector have been most affected. Due to this, more emphasis is placed on the quarterly growth – which is unaffected by this discontinuity – rather than annual growth in this bulletin.

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 that are in the testing phase, are not yet fully developed and have not been submitted for assessment to the UK Statistics Authority. [Further information on Experimental Statistics](#) is available.

## 3 . Whole economy labour costs increase by 4.1%

## **Year-on-year**

Whole economy labour costs per hour increased by 4.1% in Quarter 1 (Jan to Mar) 2018 compared with Quarter 1 2017, before inflation is considered. Total labour costs include wages and salaries (including bonuses and arrears), benefits in kind and employer social contributions (pension and National Insurance contributions, sickness, maternity and paternity pay). Note that this annual growth estimate will be impacted by a change in the method of estimating National Insurance contributions, in Quarter 2 (Apr to June) 2017 (see the Things you need to know about this release section).

Wage costs per hour worked – which are unaffected by the change noted previously – in Quarter 1 2018 were 3.5% higher than in the same quarter a year earlier.

## **Quarter-on-quarter**

Compared with the previous quarter, Quarter 4 (Oct to Dec) 2017, whole economy labour costs per hour increased by 0.4% in Quarter 1 2018. Private and public sector labour costs per hour increased by 0.2% and 0.6% respectively in Quarter 1 2018 compared with the previous quarter, as seen in Figure 1.

Total wage costs increased by 0.4% in Quarter 1 2018 compared with the previous quarter and total other costs increased by 1.6%.

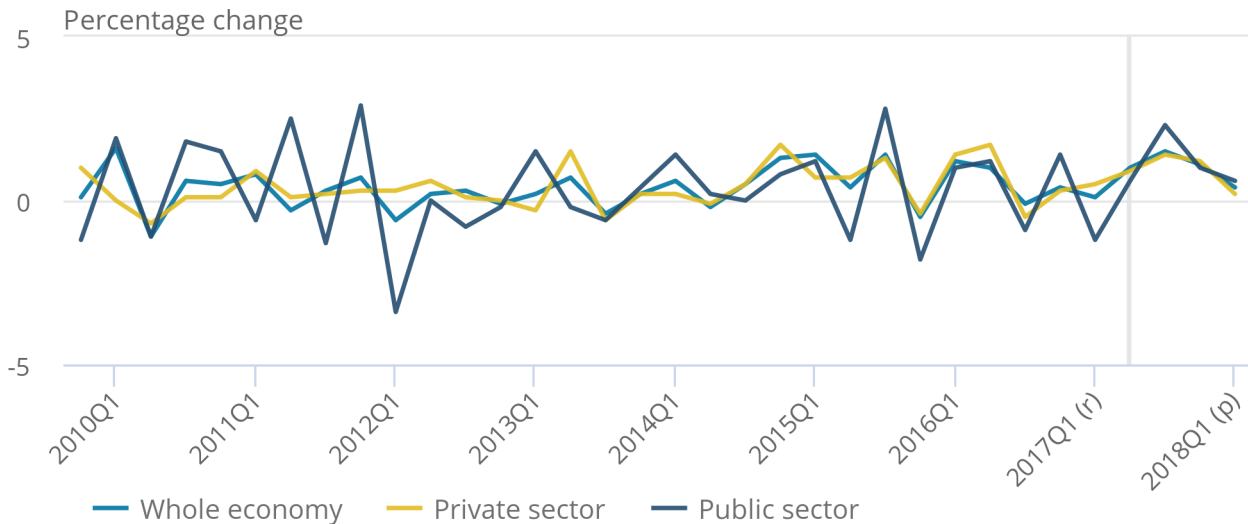
**Figure 1: Labour costs per hour quarter-on-quarter growth, seasonally adjusted, whole economy, private sector and public sector**

UK, Quarter 4 (Oct to Dec) 2009 to Quarter 1 (Jan to Mar) 2018

Figure 1: Labour costs per hour quarter-on-quarter growth, seasonally adjusted, whole economy, private sector and public sector

Method of estimating National Insurance contributions changed in Quarter 2 2016

UK, Quarter 4 (Oct to Dec) 2009 to Quarter 1 (Jan to Mar) 2018



Source: Office for National Statistics

Notes:

1. Q1 refers to Quarter 1 (Jan to Mar), Q2 refers to Quarter 2 (Apr to June), Q3 refers to Quarter 3 (July to Sept) and Q4 refers to Quarter 4 (Oct to Dec).

## 4 . What are the trends in whole economy labour costs?

Total labour costs per hour worked and wage costs per hour worked are quite similar, as shown in Figure 2. This reflects the structure of labour costs in the UK, which is largely driven by wages and salaries.

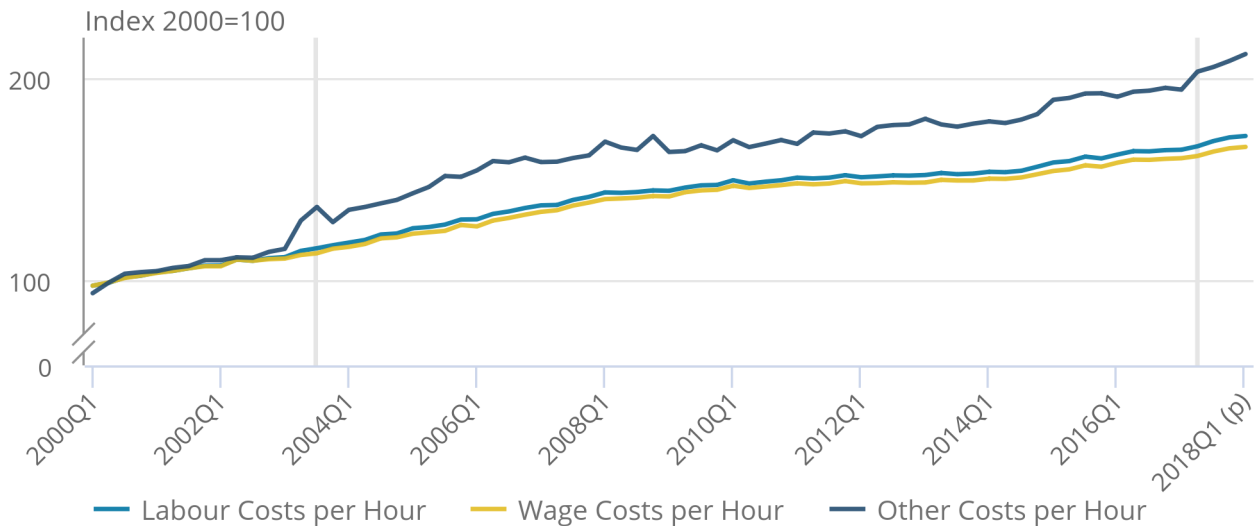
The path of other labour costs follows that of the total, as might be expected, but at points moves differently, as changes in non-wage costs affect the series. The largest move away from wage costs occurred in Quarter 2 (Apr to June) 2003, when new National Insurance contribution (NIC) rates were introduced.

**Figure 2: Whole economy Index of Labour Costs per Hour, by component, seasonally adjusted**

UK, Quarter 1 (Jan to Mar) 2000 to Quarter 1 (Jan to Mar) 2018

Figure 2: Whole economy Index of Labour Costs per Hour, by component, seasonally adjusted  
 National insurance contribution rates increase  
 Method of estimating National insurance contributions changed in Quarter 2 2017

UK, Quarter 1 (Jan to Mar) 2000 to Quarter 1 (Jan to Mar) 2018



Source: Office for National Statistics

Notes:

1. Q1 refers to Quarter 1 (Jan to Mar), Q2 refers to Quarter 2 (Apr to June), Q3 refers to Quarter 3 (July to Sept) and Q4 refers to Quarter 4 (Oct to Dec).

## 5. The mining and quarrying industry sees highest year-on-year growth

### Year-on-year

The industry with the highest percentage growth in labour costs was mining and quarrying, with labour costs per hour having increased by 16.6% in Quarter 1 (Jan to Mar) 2018 compared with a year earlier (Figure 3). This growth in labour costs is estimated to be primarily from non-wage costs within this industry, although wage costs also demonstrated a strong increase.

The chemicals and man-made fibres industry within the manufacturing sector experienced the second-largest percentage growth in labour costs per hour in Quarter 1 2018, with an increase of 11.5% compared with the previous year. The engineering and allied industries within the manufacturing sector experienced the third-largest percentage growth of 11.3% compared with the previous year.

The basic metals and metal products industry within the manufacturing sector experienced the largest decline in labour costs in Quarter 1 2018 compared with a year earlier; labour costs per hour in this industry decreased by 1.9%.



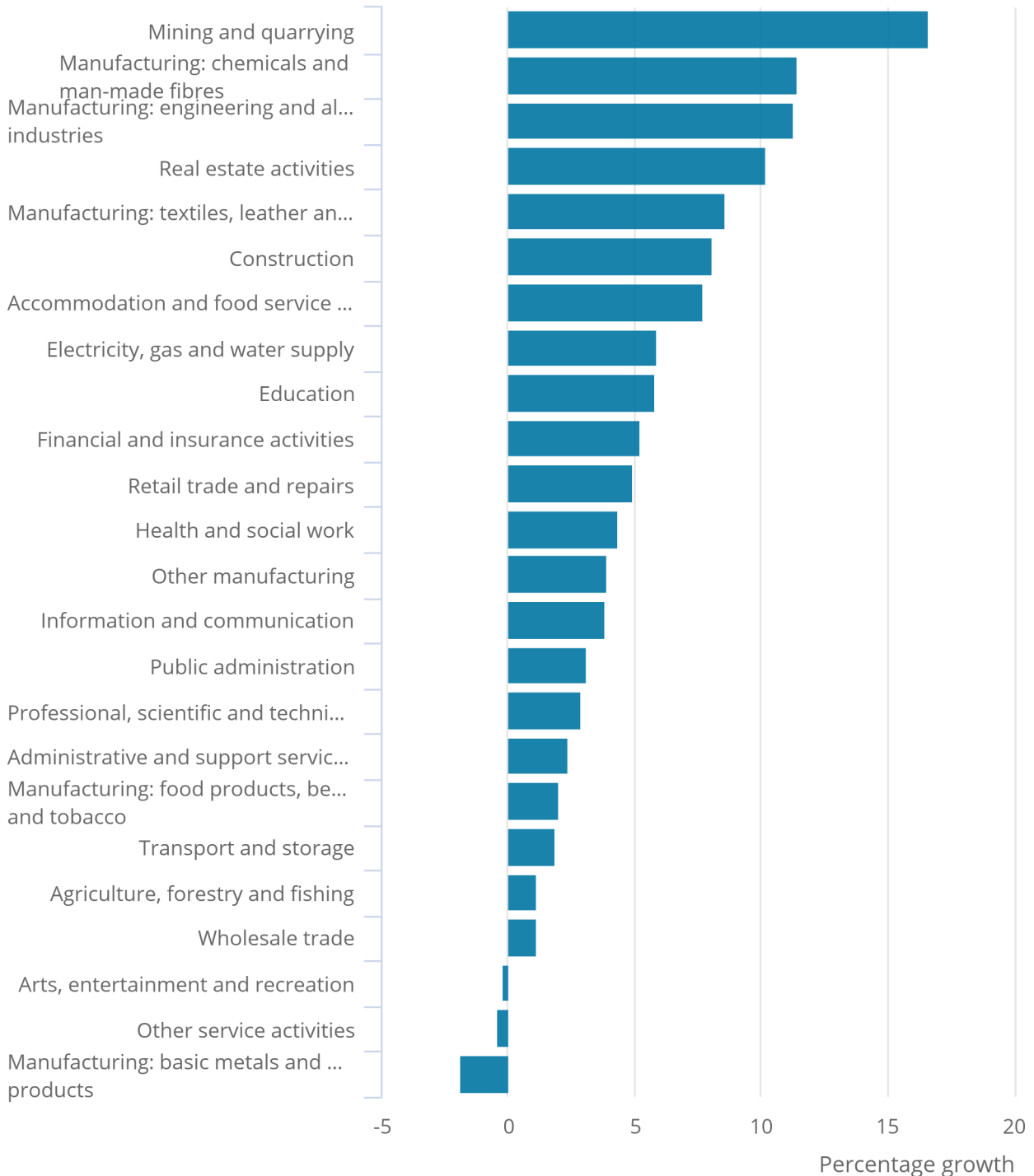
**Figure 3: Labour costs per hour year-on-year growth by industry, seasonally adjusted**

UK, Quarter 1 (Jan to Mar) 2018



# Figure 3: Labour costs per hour year-on-year growth by industry, seasonally adjusted

UK, Quarter 1 (Jan to Mar) 2018



## Quarter-on-quarter

The industry with the highest percentage quarterly growth in labour costs was the mining and quarrying industry, with labour costs per hour increasing by 8.1% in Quarter 1 2018 compared with Quarter 4 (Oct to Dec) 2017 (Figure 4).

Real estate activities experienced the second-largest percentage growth in labour costs per hour in Quarter 1 2018, with an increase of 7.1% compared with the previous quarter. The textiles, leather and clothing industry within the manufacturing sector (6.9%) and the electricity, gas and water supply industry (6%) experienced the third- and fourth-largest percentage growth respectively.

The basic metals and metal products industry within the manufacturing sector experienced the largest decline in labour costs in Quarter 1 2018 compared with Quarter 4 2017. Labour costs per hour in this industry decreased by 7.1% on the previous quarter.

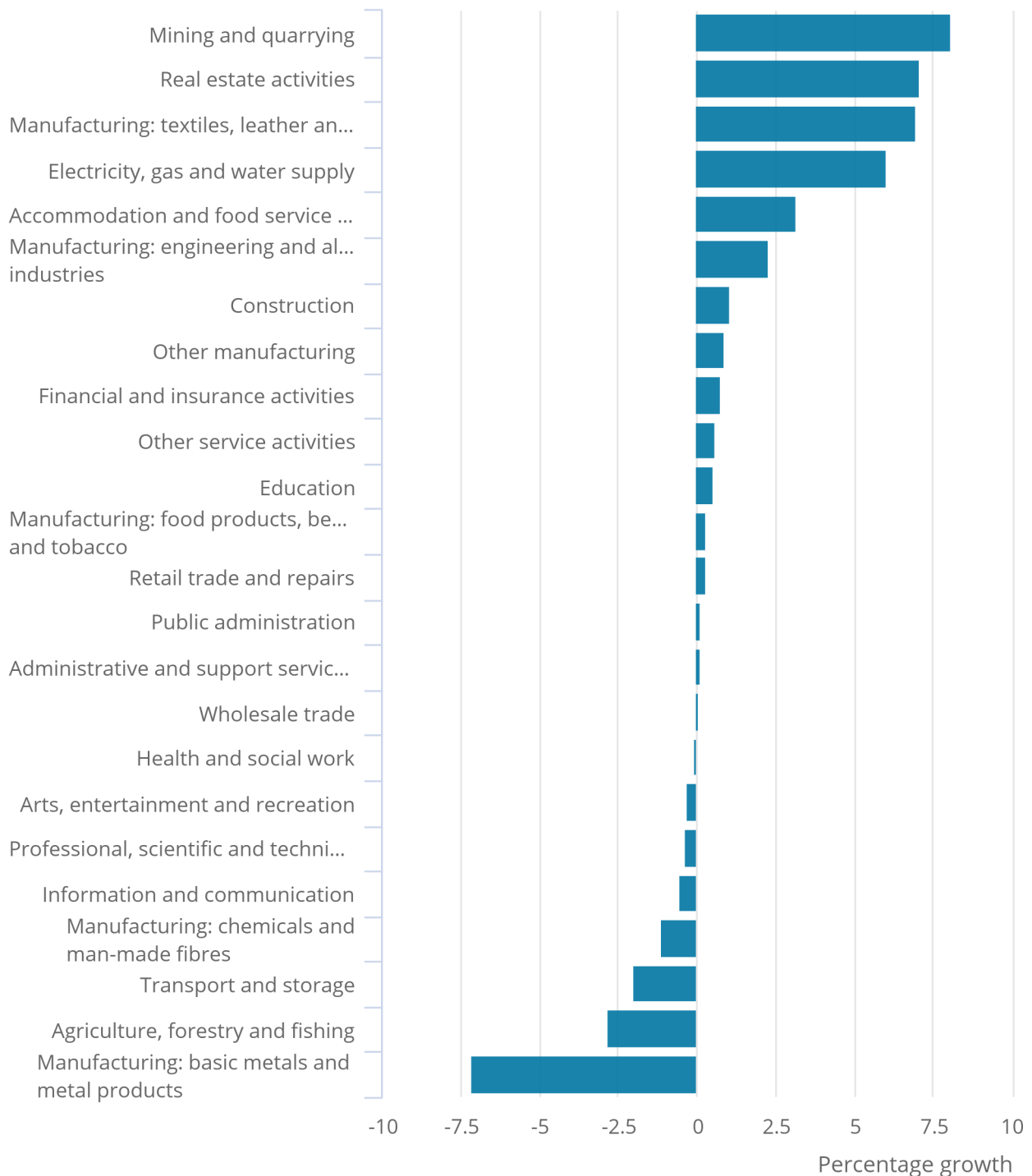


**Figure 4: Labour costs per hour quarter-on-quarter growth by industry, seasonally adjusted**

UK, Quarter 1 (Jan to Mar) 2018

# Figure 4: Labour costs per hour quarter-on-quarter growth by industry, seasonally adjusted

UK, Quarter 1 (Jan to Mar) 2018



Source: Monthly Wages and Salaries Survey (MWSS); Labour Force Survey (LFS)

## 6 . 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 at the beginning of this release.

## 7 . Quality and methodology

### Quality

The [Index of UK Labour Costs per Hour estimates Quality and Methodology Information](#) report contains important information on:

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

### 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](#).

### Changes to methodology

In Quarter 2 (Apr to June) 2017, the methodology used to estimate the National Insurance contributions changed as a result of the discontinuation of a variable in the input data source, causing a break in the series. As a result, all other costs per hour series (and therefore the labour costs per hour series) have been affected from Quarter 2 2017 onwards. The discontinued variable concerned the contracting out of State Pensions and so those industries predominantly in the public sector have been most affected.