

Alois Guger

## International Unit Labour Cost Position Improved in 2004

**The international unit labour cost position of Austrian manufacturing improved by a good fifth in the last decade compared with Austria's trading partners (including the new EU countries in Central and Eastern Europe). After having risen as a result of the appreciation of the euro in 2003, relative unit labour costs decreased by 1.5 percent compared with the other EU countries and by nearly 1 percent compared with all trading partners in 2004.**

Alois Guger is an economist at WIFO. The author thanks Ewald Walterskirchen for helpful comments. The data were processed and analysed with the assistance of Eva Latschka • E-mail-addresses: [Alois.Guger@wifo.ac.at](mailto:Alois.Guger@wifo.ac.at), [Eva.Latschka@wifo.ac.at](mailto:Eva.Latschka@wifo.ac.at)

In the long run, the competitiveness of an economy depends on qualification of the workforce and business innovativeness; in the short run, however, macro-economic factors like exchange rate fluctuations and the development of relative unit labour costs are the most decisive factors for competitiveness.

In the first two years of the Monetary Union – 1999 and 2000 – the price competitiveness of Austria's manufacturing sector improved by 3.5 percent, simply due to the exchange rate stability in the euro zone and the weak euro. With the significant appreciation of the euro since 2000, the effective exchange rate in Austrian manufacturing has risen by 4.1 percent (2003 +2.4 percent, 2004 +0.8 percent). The yen was devalued by approximately 29 percent against the euro, the US dollar by almost 28 percent, the Canadian dollar by a good 16 percent and the British pound by a good 10 percent.

In Austria's manufacturing sector, one hour of blue-collar labour cost 20.80 € in 2004, hence the same as in France and 2.25 percent less than the average paid by the EU 15 excluding Austria. Of this amount, 11.40 € were paid in wages and 9.40 € in non-wage labour costs. The latter thus make up 82.6 percent of wages in manufacturing (per hour of blue-collar labour performed).

The level of non-wage labour costs is particularly high in Austria due to the high percentage contribution of tax-privileged bonus payments ("13th month" and "14th month" payments) to the income. If the 13th and 14th month payments are included as a component of the wage, the rate of non-wage labour costs in manufacturing amounted to 56.3 percent in 2004.

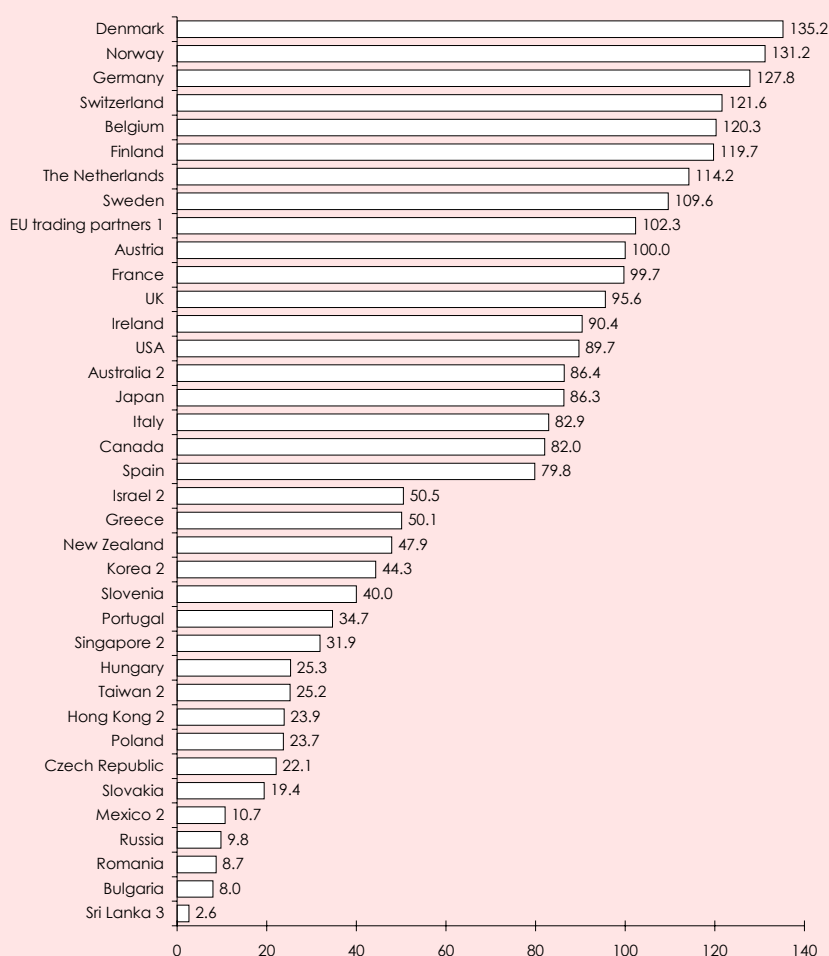
Non-wage labour costs basically include employers' statutory social security contributions, voluntary social benefits, paid sickness times and bonus payments (e.g., holiday pay and Christmas bonus, severance pay). In 2004 non-wage labour costs increased by 1.3 percent and thus at a significantly lower rate than wages (+1.8 percent), although severance pay increased (+4.8 percent) after a pronounced decline in the previous year. Moreover, the employer's health insurance contributions for blue-collar workers were reduced and sickness times decreased (–2.5 percent). Making up 82.6 percent of wages, non-wage labour costs declined by 1 percentage point against the previous year.

---

**Hourly labour costs in manufacturing below EU-15 average**

Figure 1: Labour costs in manufacturing, 2004

In a single currency, Austria = 100



Source: Austrian Economic Chamber, US Labor Office, Institute of the German Economy, WIIW, WIFO. –  
 1 EU 15 excluding Austria. – 2 2003. – 3 2002.

### Introductory Note

The labour cost analysis provided by WIFO has so far exclusively covered OECD trading partners, while excluding Central and Eastern European countries for lack of data. Since the EU enlargement the Statistical Office of the European Communities (Eurostat) has published comparable data on labour costs and unit labour costs also for the new member states. WIFO is now adapting its comparison of the unit labour cost development to this EU statistics and can hence include the economies of the new member states that are so important for Austria. Contrary to the former data source (Table 1) this statistics is not based on labour costs per hour of blue-collar labour, but on monthly gross earnings (monthly pay plus employers' social security contributions) per employee. In order to make the present publication compatible with former papers in terms of non-wage labour costs, the first part still sets out hourly labour costs and non-wage labour cost shares for the countries available.

Austria (82.6 percent), just like Italy (95.1 percent), France (92.7 percent), Belgium (90.0 percent) and Spain (84.7 percent), figures among the countries with the highest non-wage labour costs, ranking just in front of the Netherlands (80.6 percent), Germany (77.3 percent), Finland (77.0 percent) and Portugal (76.0 percent).

Table 1: Hourly labour costs in manufacturing in 2004

	In €
Denmark	28.1
Norway	27.3
Germany	26.6
Switzerland	25.3
Belgium	25.0
Finland	24.9
The Netherlands	23.7
Sweden	22.8
Austria	20.8
France	20.7
UK	19.9
Ireland	18.8
USA	18.6
Japan	17.9
Italy	17.2
Canada	17.1
Spain	16.6
Greece	10.4
Portugal	7.2
Trading partners <sup>1</sup>	19.7
EU 15 excluding Austria <sup>1</sup>	21.3
Austria	
Trading partners = 100	105.4
EU trading partners = 100	97.8
Germany = 100	78.2

Source: Institute of the German Economy, US Labor Office, Austrian Economic Chamber, Statistics Austria, WIFO. – <sup>1</sup> Average of Austria's trading partners, weighted by the number of employees in industry.

In 2004 one hour of blue-collar labour in Austrian manufacturing cost 20.80 €. In the international hierarchy of labour costs Austria thus ranked ninth. Labour was most expensive in Denmark and Norway (+35 percent and +31 percent, respectively, compared with Austria). In Germany the cost of labour in manufacturing was higher than in Austria by approximately 28 percent, in Switzerland, Belgium and Finland by approximately 20 percent, in the Netherlands by about 14 percent and in Sweden by approximately 10 percent. The costs of one hour of blue collar labour are lower in UK (nearly -5 percent), Ireland and the USA (approximately -10 percent).

Table 2: Non-wage labour costs in relation to wages

## Blue collar workers

	1996	2004
	As a percentage of wages	
Italy	102.0	95.1
France	92.0	92.7
Belgium	95.0	90.0
Spain	82.5	84.7
Austria	90.9	82.6
The Netherlands	80.0	80.6
West Germany	82.0	78.6
Germany	80.2	77.3
Finland	75.2	77.0
Portugal	78.0	76.0
Sweden	70.3	70.9
Japan	71.2	69.0
Greece	68.0	67.8
East Germany	66.6	65.4
Switzerland	52.5	51.9
Norway	49.0	48.0
UK	41.4	46.1
USA	38.5	44.6
Ireland	39.7	39.7
Canada	38.4	38.7
Denmark	26.0	33.6

Source: Institute of the German Economy, Austrian Economic Chamber, Statistics Austria, WIFO.

The level of non-wage labour costs is primarily determined by the way the welfare state is financed and the scope of benefits it covers. In countries with high levels of non-wage labour costs, the social security system is chiefly financed from employers'

and employees' contributions, while in other countries general tax revenues account for a larger share of the funding. Non-wage labour costs thus make up 50 to 70 per cent of wages in Sweden, Japan, Greece and Switzerland, 44 to 50 percent in Norway, UK and the USA, and less than 40 percent in the remaining Anglo-Saxon countries. Denmark ranks first in terms of financing welfare spending out of general taxation. Non-wage labour costs hence make up only 33.6 percent of wages, a percentage that is set to increase, though.

Table 3: Development of labour costs per employee in manufacturing

In national currencies

	Ø 1995-2000	Ø 2000-2004	2002	2003	2004
	Year-to-year percentage change				
Austria	+ 2.4	+ 2.0	+ 2.8	+ 1.4	+ 1.8
Belgium	+ 2.6	+ 3.3	+ 3.7	+ 3.6	+ 2.3
Denmark	+ 4.0	+ 4.4	+ 4.5	+ 4.3	+ 3.3
Germany	+ 2.4	+ 1.9	+ 1.6	+ 1.9	+ 2.0
Greece	+ 5.7	+ 5.8	+ 7.4	+ 5.3	+ 5.3
Spain	+ 3.2	+ 4.0	+ 3.6	+ 4.1	+ 3.7
France	+ 2.3	+ 2.6	+ 3.1	+ 1.5	+ 3.4
Ireland	+ 7.2	+ 4.7	+ 4.5	+ 5.8	+ 4.5
Italy	+ 2.8	+ 3.0	+ 2.3	+ 3.0	+ 3.5
Luxemburg	+ 2.6	+ 3.6	+ 2.8	+ 5.8	+ 3.2
The Netherlands	+ 3.2	+ 3.8	+ 6.6	+ 3.7	+ 0.3
Portugal	+ 5.5	+ 3.6	+ 3.8	+ 2.4	+ 2.9
Finland	+ 3.2	+ 2.6	+ 2.8	+ 2.9	- 1.3
Sweden	+ 4.9	+ 3.1	+ 1.5	+ 2.6	+ 4.1
UK	+ 4.4	+ 5.3	+ 4.7	+ 8.3	+ 4.2
Czech Republic	+ 10.8	+ 5.9	+ 4.0	+ 9.1	+ 5.5
Estonia	+ 15.9	+ 12.1	+ 24.1	+ 6.8	+ 7.9
Cyprus	+ 3.1	+ 4.4	+ 3.1	+ 6.1	+ 3.8
Latvia	+ 11.9	+ 5.7	+ 4.4	+ 6.1	+ 10.4
Lithuania	+ 15.6	+ 2.5	- 6.1	+ 8.1	+ 4.3
Hungary	+ 14.4	+ 7.4	+ 1.9	+ 9.2	+ 9.8
Poland	+ 19.8	+ 3.0	- 4.0	+ 4.9	+ 5.3
Slovenia	+ 10.8	+ 9.0	+ 9.6	+ 8.6	+ 6.8
Slovakia	+ 10.9	+ 8.9	+ 9.3	+ 9.2	+ 10.3
Japan	+ 0.9	- 0.6	- 0.8	- 0.6	- 1.1
Canada	+ 2.0	+ 3.4	+ 2.4	+ 3.6	+ 2.4
Norway	+ 5.0	+ 3.8	+ 4.4	+ 2.9	+ 4.0
USA	+ 4.7	+ 4.8	+ 6.7	+ 8.5	+ 4.3
EU trading partners <sup>1</sup>	+ 3.6	+ 2.9	+ 2.5	+ 3.2	+ 2.9
Austria					
All trading partners <sup>1</sup> = 100	- 1.1	- 0.9	+ 0.1	- 2.0	- 1.0
EU trading partners <sup>1</sup> = 100	- 1.2	- 0.9	+ 0.3	- 1.7	- 1.1
Germany = 100	± 0.0	+ 0.2	+ 1.2	- 0.6	- 0.2

Source: EU, Ameco database; Statistics Austria; WIFO calculations. – <sup>1</sup> Excluding Austria and Malta; weighted average of Austria's trading partners according to WIFO exchange rate indices

Since the early 1990s, Germany has paid the highest wages by far. Due to a higher rate of labour cost growth and an appreciation of national currencies against the euro, labour costs in Norway, Switzerland and Denmark have exceeded those of Germany in recent years. Amounting to 28.1 € per hour, labour costs were highest in Denmark in 2004, thus a good 35 percent higher than in Austria. Norway (27.3 €) and Germany (26.6 €) were not far behind. In Switzerland, Belgium and Finland, one hour of blue-collar labour in manufacturing cost approximately 25 €, in the Netherlands almost 24 € and in Sweden approximately 23 €. Amounting to just under 20 €, labour costs in UK were lower than in Austria by 4.5 percent, in Ireland and the USA (nearly 19 €) by approximately 10 percent, in Italy by 17 percent and in Spain by 20 percent.

Greece, Korea and Singapore as well as New Zealand follow by a wide margin (more than -50 percent compared with Austria). Slovenia pays 40 percent, Portugal 35 percent, Hungary and Poland around a quarter, the Czech Republic 22 percent and Slovakia a good 19 percent of the level of labour costs paid in Austria. This

enormous labour cost gap between Western and Eastern Europe has so far been largely offset by Eastern Europe's backlog of capital and infrastructure conditions<sup>1</sup>.

Labour costs per hour of blue-collar labour calculated according to ILO definition (wages plus non-wage labour costs)<sup>2</sup> as applied in the WIFO labour cost analysis in the past are not available for a number of new EU countries. The Statistical Office of the European Communities (Eurostat) applies the national accounts concept and has published data on the gross earnings per employee, i.e., total per-capita wage and salary including employer's social security contributions, as well as corresponding data on productivity and unit labour costs for all member states and the major trading partners since 1995. On the basis of these data, the new EU countries can be included in the international labour cost comparison.

The rise in wage and labour costs has slowed down with lower economic growth since the beginning of the decade: after an annual average growth of 2.4 percent in the second half of the 1990s, labour costs in Austria's manufacturing sector rose by 2.8 percent in 2002 and by only 1.4 percent in 2003; in 2004 growth again accelerated slightly (+1.8 percent).

Wage inflation in Austrian manufacturing was similar to that in Germany and has remained below the development in the other EU countries (EU 25 excluding Austria and Malta) and all trading partners, respectively, by approximately 1 percentage point per year since the mid-1990s in national currency. In a single currency – that is in consideration of exchange rate variations – relative labour costs markedly improved in the second half of the 1990s, decreasing by 2.4 percent per year relative to the average of all trading partners, and by 1.7 percent compared with the other EU countries. Since 2000, Austria's labour costs have slightly increased compared with both Germany and the average of all trading partners in a single currency, but further decreased compared with the EU trading partners (–0.7 percent per year).

One of the most decisive factors for the competitiveness of economies in the world market is, alongside with labour costs and exchange rate relations, output per employee (productivity). The latter is calculated from the real net output (gross value added) per head.

Productivity of Austria's industry has risen at above-average rates in recent decades. This development is assumed to have resulted from a combination of relatively high capacity utilisation rates, together with a comparably high rate of investments, and the greater opening-up of new markets and an increasing internationalisation of production owing to the European integration and the EU enlargement to the East. The increased pressure for rationalisation, however, has also resulted in substantial labour cutbacks, i.a., by way of outsourcing to the services sector and early retirement of older employees.

Rising by 5.25 percent per year, productivity of Austria's manufacturing sector exceeded the average of the trading partners by 2.2 percentage points also in the second half of the 1990s. In the first years of the present decade, the rise in productivity in Austria clearly slowed down (2000-2004 +3.0 percent per year), but still exceeded the average of the competing countries by 0.5 percentage point. Despite the employment decline in manufacturing being markedly weaker (–0.8 percent) in 2004 after a marked decrease of over 4 percent (cumulated) over the two previous years, productivity recovered considerably, growing 5.6 percent, thus, however, hardly exceeding the growth rate in the partner countries and falling below that in Germany.

<sup>1</sup> For labour costs in Central and Eastern Europe see Schröder, C., "Industrielle Arbeitskosten in Mittel- und Osteuropa", IW-Trends, 1999, (1); WIIW, Annual Data Base on Eastern Europe; for the other new EU countries no comparable labour cost data are available.

<sup>2</sup> For a more detailed description see Advisory Council for Economic and Social Affairs, "Lohnnebenkosten", 1994, (69).

---

**Growth of gross earnings per capita below average**

---

**Sharp rise in productivity in 2004**

Productivity growth in the new EU countries and Greece, which are catching up fast, as well as in Ireland (+8.4 percent) and Sweden (+5.4 percent) has been clearly exceeding that of Austria since the beginning of the decade.

Table 4: Development of productivity in manufacturing

	Ø 1995-2000	Ø 2000-2004	2002	2003	2004
	Year-to-year percentage change				
Austria	+ 5.3	+ 3.0	+ 3.0	+ 1.5	+ 5.6
Belgium	+ 3.6	+ 2.9	+ 4.2	+ 4.0	+ 4.2
Denmark	+ 2.7	+ 2.9	+ 3.5	+ 3.4	+ 3.0
Germany	+ 2.1	+ 2.4	+ 1.5	+ 2.9	+ 6.0
Greece	+ 2.9	+ 4.5	+ 5.7	+ 5.2	+ 3.7
Spain	+ 0.7	+ 1.8	+ 0.6	+ 3.1	+ 3.1
France	+ 3.7	+ 3.0	+ 2.5	+ 1.8	+ 5.9
Ireland	+10.4	+ 8.4	+14.1	+ 9.3	+ 4.6
Italy	+ 1.0	- 0.7	- 1.8	- 1.2	+ 0.3
Luxemburg	+ 3.3	+ 2.8	+ 2.2	+ 4.8	+ 5.5
The Netherlands	+ 2.3	+ 1.0	+ 2.2	+ 0.3	+ 1.7
Portugal	+ 3.7	+ 2.3	+ 0.7	+ 3.7	+ 3.1
Finland	+ 5.3	+ 1.3	+ 4.1	+ 3.0	- 0.7
Sweden	+ 7.4	+ 5.4	+ 8.7	+ 5.5	+11.2
UK	+ 2.5	+ 3.0	+ 1.2	+ 3.6	+ 4.7
Czech Republic	+ 6.0	+ 5.5	+ 7.5	+10.2	+11.7
Estonia	+11.3	+ 8.0	+19.3	+ 2.7	+ 4.4
Cyprus	+ 4.2	+ 0.5	- 0.6	+ 4.3	+ 0.5
Latvia	+ 8.3	+ 8.2	+11.9	+ 3.3	+ 4.4
Lithuania	+10.1	+ 8.4	- 2.1	+12.4	+ 6.4
Hungary	+ 7.4	+ 4.8	+ 3.2	+ 9.4	+ 7.8
Poland	+11.1	+ 8.8	+ 6.4	+10.5	+13.6
Slovenia	+ 7.9	+ 6.1	+ 6.9	+ 6.3	+ 6.5
Slovakia	+ 3.9	+ 6.6	- 0.3	+ 5.0	+11.0
Japan	+ 4.0	+ 3.4	+ 2.3	+ 9.9	+ 2.5
Canada	+ 2.8	+ 0.8	+ 3.1	+ 2.3	+ 1.1
Norway	+ 0.9	+ 3.0	+ 1.8	+ 2.7	+ 2.8
USA	+ 5.2	+ 4.7	+10.2	+ 6.8	+ 3.3
EU trading partners <sup>1</sup>	+ 2.8	+ 2.4	+ 1.8	+ 2.9	+ 5.2
Austria					
All trading partners <sup>1</sup> = 100	+ 2.2	+ 0.4	+ 0.6	- 1.9	+ 0.6
EU trading partners <sup>1</sup> = 100	+ 2.4	+ 0.5	+ 1.2	- 1.4	+ 0.3
Germany = 100	+ 3.1	+ 0.6	+ 1.5	- 1.4	- 0.4

Source: EU, Ameco database; Statistics Austria; WIFO calculations. - <sup>1</sup>) Excluding Austria and Malta; weighted average of Austria's trading partners according to WIFO exchange rate indices. Productivity: gross value added per employee.

Among the key factors of price formation in the industry and hence an important indicator of an economy's price competitiveness are the labour costs per production unit, defined as the ratio of labour costs per employee and productivity (output per employee).

With wage inflation running at a low rate, while productivity has grown relatively briskly, unit labour costs in manufacturing are on a downward trend, having decreased by -2.4 percent per year since the mid-1990s. As productivity was increased significantly, unit labour costs decreased by 3.5 percent per year in the second half of the 1990s. When productivity growth slowed down considerably from 2001 to 2003, they largely remained unchanged during this period. As production and productivity picked up in 2004, unit labour costs again decreased by 3.5 percent.

With the establishment of the European Monetary Union, exchange-rate relations stabilised; at the same time, wage inflation remained below the average of Austria's trading partners, while productivity growth accelerated. Against this background, the labour cost position of Austria's manufacturing has been improving since the mid-1990s, with the exception of the year 2003.

**Relative unit labour costs in manufacturing decreased in 2004**

**Table 5: Development of unit labour costs in manufacturing and the whole economy**
*In a single currency*

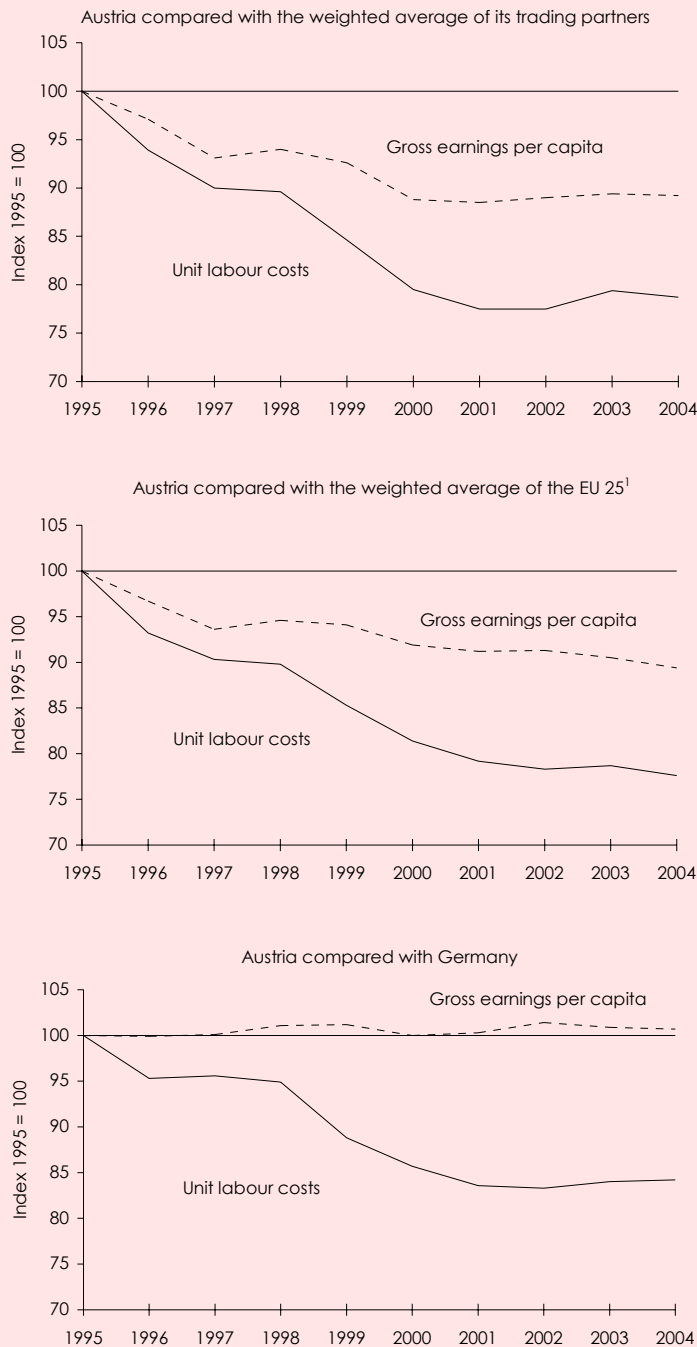
	Ø 1995-2000	Ø 2000-2004	2002	2003	2004
	Year-to-year percentage change				
<i>Manufacturing</i>					
Austria	- 3.5	- 0.9	- 0.3	- 0.1	- 3.5
Belgium	- 1.8	+ 0.4	- 0.5	- 0.4	- 1.8
Denmark	+ 0.9	+ 1.5	+ 1.2	+ 0.8	+ 0.2
Germany	- 0.5	- 0.5	+ 0.1	- 1.0	- 3.7
Greece	+ 0.6	+ 0.9	+ 1.6	+ 0.2	+ 1.5
Spain	+ 2.0	+ 2.1	+ 3.0	+ 0.9	+ 0.6
France	- 1.5	- 0.4	+ 0.5	- 0.3	- 2.4
Ireland	- 2.3	- 3.5	- 8.4	- 3.3	± 0.0
Italy	+ 3.7	+ 3.7	+ 4.3	+ 4.2	+ 3.2
Luxemburg	- 1.5	+ 0.8	+ 0.5	+ 0.9	- 2.1
The Netherlands	- 0.2	+ 2.8	+ 4.3	+ 3.4	- 1.3
Portugal	+ 1.2	+ 1.3	+ 3.2	- 1.2	- 0.3
Finland	- 2.7	+ 1.2	- 1.3	- 0.1	- 0.5
Sweden	- 0.3	- 4.0	- 5.8	- 2.4	- 6.4
UK	+ 8.2	- 0.5	+ 2.4	- 5.0	+ 1.5
Czech Republic	+ 4.0	+ 3.1	+ 7.0	- 4.2	- 5.7
Estonia	+ 3.2	+ 3.7	+ 4.0	+ 4.0	+ 3.3
Cyprus	- 0.5	+ 3.5	+ 3.9	+ 0.2	+ 3.6
Latvia	+ 7.8	- 6.4	-10.1	- 6.8	+ 1.8
Lithuania	+12.6	- 3.8	- 0.7	- 3.6	- 2.0
Hungary	- 2.8	+ 3.3	+ 4.2	- 4.4	+ 2.7
Poland	+ 3.0	- 8.2	-14.2	-16.8	- 9.9
Slovenia	- 3.0	- 0.9	- 1.2	- 1.3	- 1.8
Slovakia	+ 4.8	+ 3.8	+11.2	+ 7.1	+ 3.0
Japan	+ 1.2	-10.9	-10.7	-18.5	- 5.9
Canada	+ 4.7	- 1.6	- 7.1	- 5.0	- 0.8
Norway	+ 4.4	± 0.0	+10.0	- 6.1	- 3.3
USA	+ 6.7	- 7.1	- 8.3	-15.1	- 8.2
EU trading partners <sup>1</sup>	+ 0.5	+ 0.3	+ 0.9	- 0.7	- 2.1
<i>Austria</i>					
All trading partners <sup>1</sup> = 100	- 4.5	- 0.2	- 0.1	+ 2.5	- 0.9
EU trading partners <sup>1</sup> = 100	- 4.0	- 1.2	- 1.2	+ 0.6	- 1.5
Germany = 100	- 3.0	- 0.4	- 0.4	+ 0.9	+ 0.2
<i>Whole economy</i>					
EU trading partners <sup>1</sup>	+1,4	+1,7	+2,5	+0,9	+0,5
<i>Austria</i>					
All trading partners <sup>1</sup> = 100	-3,1	-0,1	-0,5	+1,7	+0,2
EU trading partners <sup>1</sup> = 100	- 2.4	- 1.1	- 1.5	- 0.3	- 0.8
Germany = 100	- 0.4	+ 0.2	+ 0.1	± 0.0	+ 0.8

Source: EU, Ameco database; Statistics Austria; WIFO calculations. – <sup>1</sup> Excluding Austria and Malta; weighted average of Austria's trading partners according to WIFO exchange rate indices. Unit labour costs: quotient of gross earnings per directly employed person and real gross value added per employee, or real GDP per employee in the economy as a whole.

Since the mid 1990s price competitiveness of Austrian manufacturing has substantially improved. During this period, relative unit labour costs have fallen by over 20 percent in a single currency. Their decrease was 3.5 percent in 2004, exceeding the average of the EU trading partners by 1.5 percentage points and the average of all trading partners by almost 1 percentage point.

In the second half of the 1990s relative unit labour costs decreased by 4 percent per year compared with the EU trading partners and by 4.5 percent per year compared with the average of all trading partners in a single currency. This fast improvement in the unit labour cost position has slowed down since 2000, on the one hand due to a decline in productivity growth rates and on the other hand due to the sharp appreciation of the euro in 2003. Relative unit labour costs have been falling by 1.2 percent on average since 2000 compared with the EU trading partners in a single currency and have remained largely unchanged compared with the average of all trading partners (-0.2 percent per year). Overall in 2004 Austria's position improved by 0.9 percent (-1.5 percent compared with the EU trading partners).

Figure 2: Development of relative labour- and unit labour costs in manufacturing  
In a single currency



Source: EU, AMECO database, WIFO calculations. – <sup>1</sup> Excluding Austria and Malta.

Competitiveness of the economy as a whole also performed well in the longer term: In a single currency, unit labour costs decreased sharply relative to Austria's trading partners in the second half of the 1990s. Although during the past two years unit labour costs increased relative to the average of Austria's trading partners, Austria's unit labour cost position hardly changed compared with 2000.



### *Austria's International Unit Labour Cost Position Improved in 2004 – Summary*

The unit labour cost position of Austrian businesses improved clearly in the second half of the 1990s and has remained largely stable since the year 2000.

In Austrian manufacturing, one hour of blue-collar labour cost 20.80 € in 2004, hence approximately 2.25 percent less than the average paid by the country's trading partners in the EU 15. Of this amount, 11.40 € were paid in wages and 9.40 € in non-wage labour costs. The latter thus made up 82.6 percent of wages, a decline of 1 percentage point against 2003, due essentially to a reduction of health insurance contributions for workers and a decrease in sickness times.

Austria currently ranks ninth in the international hierarchy of labour costs. Viewed in the short term, this position changes chiefly with exchange-rate variations. Labour is most expensive in Denmark, Norway and Germany: in Denmark, the cost of one hour of work in manufacturing is 35 percent higher than in Austria, in Norway 31 percent, and in Germany a good 28 percent, followed by Switzerland, Belgium and Finland (approximately +20 percent). While in France the costs are similar to those in Austria, they are lower in UK (-4.50 percent), Ireland and the USA (approximately -10 percent), Italy (-17 percent) and Spain (-20 percent). For Slovenia the difference vis-à-vis Austria is -60 percent, followed by Hungary (-75 percent), the Czech Republic and the Slovakia (about -80 percent).

In the second half of the 1990s, productivity of Austria's manufacturing sector rose considerably (+5.3 percent per year), exceeding the average of the trading partners by 2.2 percentage points. The rise in productivity slowed down simultaneously with lower economic growth after 2000, but again reached 5.6 percent in 2004. The annual rate of output growth per employee since 2000 has been 3.0 percent on average, exceeding the average of the competing countries by 0.5 percentage point.

With exchange-rate relations stabilised, and wage inflation running at a low rate while productivity continued to grow briskly, the unit labour cost position of Austrian manufacturing improved considerably in the second half of the 1990s and has remained largely unchanged on average since 2000. Relative unit labour costs have been falling by a good 20 percent since the mid 1990s compared with both EU trading partners and the average of all trading partners in a single currency. As in 2004 labour costs grew only slightly and productivity was increased significantly (+5.6 percent), unit labour costs in Austria decreased by 3.5 percent. As the slowdown in costs of the trading partners in a single currency was smaller on average, Austria's unit labour cost position improved by 1.5 percent compared with the EU, and by 0.9 percentage point compared with all trading partners.