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International Unit Labour Cost Position Improved in 2006

With brisk productivity growth, unit labour costs of Austrian manufacturing decreased by 1.9 percent against the average of the trading partners in 2006. The improvement was preceded by a deterioration due to low productivity growth and the appreciation of the euro in the first half of the present decade. Overall, Austrian manufacturers today are better positioned in terms of unit labour costs (by about 15 percent) than they were in the mid 1990s. After improving significantly in the latter half of the 1990s, the relative unit labour cost position of the economy as a whole has remained largely unchanged since 2000.

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

In the first years of the Monetary Union, the price competitiveness of Austria's manufacturing sector improved simply due to the exchange rate stability in the euro zone and the weak euro. Since 2000, however, the euro has significantly appreciated. The effective, i.e., foreign trade share-weighted, exchange rate in Austrian manufacturing has risen by 4.4 percent since then. After the relatively sharp appreciation in 2003 (+2.4 percent) and 2004 (+0.8 percent), the exchange rate has increased only marginally in the past two years.

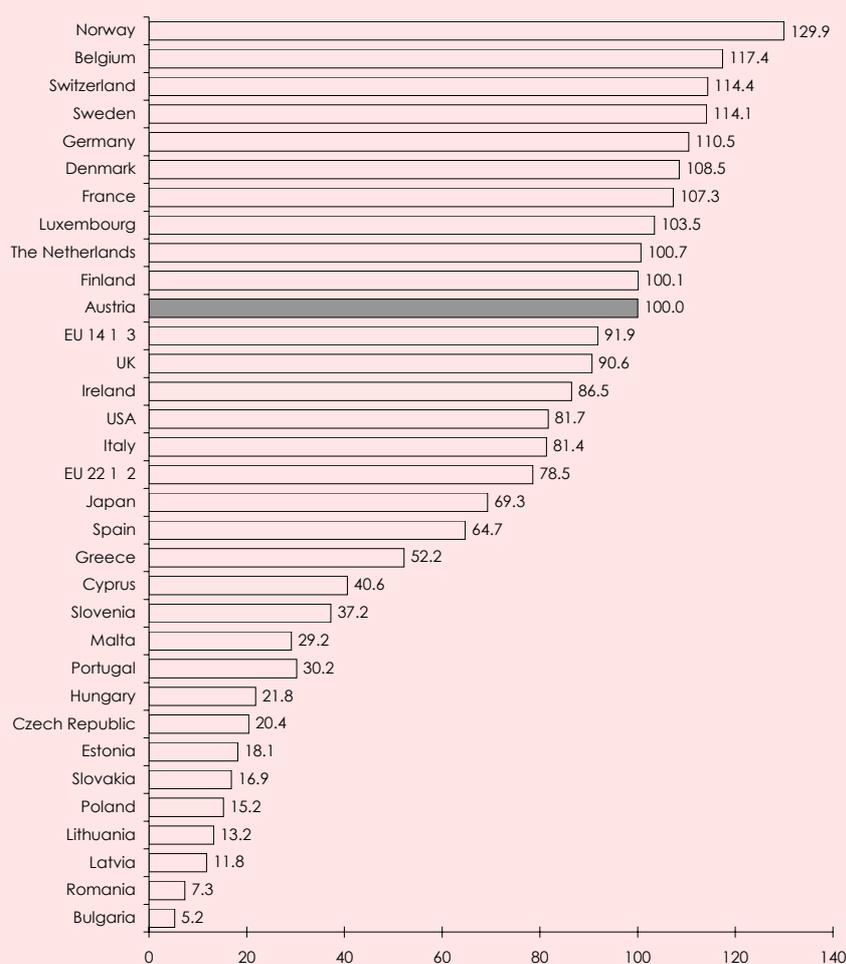
Introductory Note

In line with the publications by the Statistical Office of the European Union (Eurostat), WIFO has since 2004 related the development of relative wage and unit labour cost comparisons to all employees rather than just blue-collar workers in the manufacturing industry. The present comparison of hourly labour costs and non-wage labour costs for the first time considers all wage and salary earners (blue- and white-collar workers). The distinction between blue- and white-collar workers is becoming less and less important in modern production. As a consequence, differences as to industrial law have largely been reduced. Moreover, the percentage of white-collar workers in the manufacturing industry has increased to almost 40 percent, up from about a quarter, since the early 1970s.

The data on labour costs per hour of work are based on the labour cost surveys conducted by all EU countries every four years. Based on the last survey (2004) WIFO calculated the values for the following years using the Eurostat annual labour cost index. For non-European countries, data from the Institute of the German Economy and national data were used (Huber – Pratscher, 2007, Schröder, 2007).

Figure 1: Hourly labour costs in manufacturing in 2006

In a single currency, Austria = 100



Source: Eurostat (survey of labour costs 2004 excluding apprentices and trainees; increases in the labour cost index for 2005 and 2006), Institute of the German Economy, Swedish Employers Association, WIFO. – ¹ Weighted by the number of employees in industry (Eurostat, Labour Force Survey, 2006). – ² Without Malta, Cyprus and Austria. – ³ Without Austria.

In 2006, an hour of work in the Austrian manufacturing sector (i.e., industry and small-scale craft production) cost 29.15 €, thus almost the same as in Finland and the Netherlands and 8.8 percent more than the average in the EU 15 without Austria ("EU 14"). The costs of an hour of work were made up of 15.45 € in pay and 13.70 € in non-wage labour costs. The latter thus contributed 88.7 percent to the total.

Non-wage labour costs basically consist of employers' statutory social security contributions, voluntary social benefits, paid leaves and special payments (e.g., holiday pay and Christmas bonus, severance pay). Wages refer to the hourly earnings per paid hour of work, bonus payments are not included.

Non-wage labour costs grew faster than wages in 2005 due to higher severance pay and paid leaves, a development that reversed in 2006: Severance pay fell by 4.2 percent and paid leaves declined slightly. Non-wage labour costs (+2.4 percent) therefore increased at a significantly lower rate than wages (+3.0 percent). Having risen by almost 1 percentage point in 2005, the rate of non-wage labour costs decreased once again by ½ percentage point in 2006.

In Austria the level of non-wage labour costs is particularly high due to the great weight of tax-privileged special payments ("13th month" and "14th month" pay-

**Manufacturing:
Hourly labour costs
8.8 percent above
EU average**

ments). If these special payments are included as a component of the wage, the rate of non-wage labour costs in manufacturing amounts to 66.2 percent.

Table 1: Hourly labour costs in manufacturing in 2006

	In €
Norway	37.9
Belgium	34.2
Switzerland	33.4
Sweden	33.3
Germany	32.2
Denmark	31.6
France	31.3
Luxembourg	30.2
The Netherlands	29.4
Finland	29.2
Austria	29.2
UK	26.4
Ireland	25.2
USA	23.8
Italy	23.7
Japan	20.2
Spain	18.9
Greece	15.2
Cyprus	11.8
Slovenia	10.8
Malta	9.2
Portugal	8.8
Hungary	6.4
Czech Republic	6.0
Estonia	5.3
Slovakia	4.9
Poland	4.4
Lithuania	3.9
Latvia	3.4
Romania	2.1
Bulgaria	1.5
EU 22 ^{1 2}	22.9
EU 14 ^{1 3}	26.8

Source: Eurostat (survey of labour costs 2004 excluding apprentices and trainees; increases in the labour cost index for 2005 and 2006), Institute of the German Economy, Swedish Employers Association, WIFO. –
¹ Weighted by the number of employees in industry (Eurostat, Labour Force Survey, 2006.) – ² Without Malta, Cyprus and Austria. – ³ Without Austria.

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. Countries where the social security system is mainly financed from employers' and employees' contributions have high levels of non-wage labour costs.

Assuming a rate of non-wage labour costs of 88.7 percent, Austria ranks third in the international hierarchy. Amounting to 102.8 percent, the share of non-wage labour costs is highest in France, followed by Belgium (90.9 percent) and Austria. Greece, Hungary and Spain (approximately 87 percent each), Italy (85.6 percent) and Japan (79.9 percent) are not far behind. Making up 78.5 percent in the Czech Republic, 74.4 percent in Slovenia, 73.9 percent in Slovakia and 74.1 percent in Germany, rates of non-wage labour costs in the neighbouring countries are lower than in Austria by 10 to 15 percentage points.

In Norway, Denmark and the Anglo-Saxon countries, the welfare state is funded by general tax revenues. Non-wage labour costs amount to 40 to 55 percent of wages there.

The consideration of all wage and salary earners (blue- and white-collar workers), except apprentices and other trainees, caused slight shifts in the labour cost hierarchy as compared with the previous approach, which was limited to the hourly costs of blue-collar labour. An hour of work in the Austrian manufacturing sector cost 29.2 € in 2006. Austria thus ranks 11th in the international hierarchy of labour costs. In 2006, labour was most expensive in Norway (a manufacturing worker's hour cost

30 percent more than in Austria), Belgium (+17 percent), Switzerland and Sweden (+14 percent each) and Germany (10.5 percent more). In Denmark (+8.5 percent), France (+7.3 percent) and Luxembourg (+3.5 percent), an hour of work was also more expensive than in Austria. In UK (-10 percent), Ireland (nearly -14 percent) and in the USA and Italy (almost -20 percent each) manufacturers pay less than in Austria.

With labour costs amounting to less than half of Austria's, the newly acceded EU member states followed by a wide margin (-63 percent in Slovenia and around -80 percent each in Hungary, the Czech Republic and Slovakia). In Poland, labour costs were 15 percent and in Romania and Bulgaria less than 10 percent of Austria's. 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.

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

Employees	2000	2004	2006
	As a percentage of wages		
France	93.6	102.0	102.8
Belgium	97.4	92.7	90.9
Austria	92.8	88.3	88.7
Hungary	96.2	89.0	87.2
Greece	86.9	86.3	87.2
Spain	79.7	85.2	87.0
Italy	91.3	86.7	85.6
Japan	75.6	76.8	79.9
Czech Republic	84.4	80.3	78.5
Sweden	76.4	80.3	76.9
West Germany	72.9	75.4	75.3
Slovenia	73.3	76.1	74.4
The Netherlands	71.4	75.5	74.2
Germany	71.8	74.2	74.1
Slovakia	76.6	68.7	73.9
Finland	65.1	71.9	71.1
Portugal	70.9	66.5	66.4
East Germany	57.6	60.0	59.8
Bulgaria	75.5	69.0	57.7
Lithuania	52.4	55.2	56.7
UK	53.7	55.8	55.9
Poland	64.8	54.1	55.3
Switzerland	53.5	53.6	55.2
Estonia	57.2	54.8	54.6
Romania	73.7	54.3	52.1
Norway	47.7	51.5	52.1
Luxembourg	49.0	51.3	51.0
USA	41.4	49.3	49.4
Latvia	45.7	44.3	43.7
Denmark	38.2	41.3	43.2
Cyprus	40.2	38.3	38.1
Ireland	39.9	36.8	36.8
Malta	27.6	27.1	26.5

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

The analysis of the international labour cost development is based on data from national accounts. It focuses on the development of compensation per employee, i.e., total per-capita wage and salary including employer's social security contributions, as well as on data on productivity and unit labour costs published by Eurostat for all member states and the major trading partners¹.

**Compensation per
employee grows
moderately**

¹ However, these international data are repeatedly subject to extensive revision, sometimes covering several years back. In particular the most recent values of the indicators of competitiveness relative to the trading partners thus have to be considered as preliminary.

Between 2001 and 2006, labour costs in Austria increased by 3.0 percent a year on average, thus slightly slower than on average of the trading partners (+3.2 percent in national currency). Wage inflation slightly accelerated of late: Compensation per employee in manufacturing rose by 3.2 percent in 2005 and by 3.5 percent in 2006. On average of the trading partners, their growth was smaller, amounting to +2.4 percent in 2005 and +3.1 percent in 2006 (in national currencies). This gap is chiefly due to the moderate cost increase in Germany, which makes up more than a third of the calculated average. With double-digit growth rates, the Baltic States achieved the highest increase in the EU. After having caught up with the EU 15 countries very fast in the past decade, Central and Eastern Europe, on the contrary, saw its catching-up process slightly slow down. In the USA, the ongoing healthy economic activity resulted in an increase in compensation last year (+4.5 percent in national currency), while in Japan costs in manufacturing continued rising moderately (+0.7 percent).

Table 3: Development of labour costs per capita of employee in manufacturing

In national currencies

	Average 1996-2001	Average 2001-2006	2004	2005	2006
	Year-to-year percentage change				
Austria	+ 2.6	+ 3.0	+ 2.9	+ 3.2	+ 3.5
Belgium	+ 2.7	+ 2.8	+ 3.5	+ 1.9	+ 2.5
Denmark	+ 4.3	+ 3.3	+ 2.3	+ 3.2	+ 3.6
Germany	+ 2.9	+ 2.1	+ 2.6	+ 0.7	+ 2.5
Greece	+ 4.6	+ 7.0	+ 8.7	+ 7.7	+ 5.8
Spain	+ 1.6	+ 3.4	+ 3.3	+ 2.8	+ 3.0
France	+ 1.9	+ 3.1	+ 3.8	+ 2.4	+ 3.8
Ireland	+ 7.1	+ 4.7	+ 7.1	+ 4.4	+ 3.7
Italy	+ 2.2	+ 3.0	+ 4.2	+ 2.8	+ 2.7
Luxembourg	+ 29.2	+ 3.7	+ 3.8	+ 3.6	+ 2.7
The Netherlands	+ 3.7	+ 3.1	+ 4.5	+ 1.7	- 0.2
Portugal	+ 5.8	+ 4.5	+ 5.3	+ 2.9	+ 2.8
Finland	+ 4.1	+ 2.8	+ 4.7	+ 3.2	+ 2.0
Sweden	+ 4.4	+ 3.3	+ 4.2	+ 2.7	+ 2.0
UK	+ 4.9	+ 6.1	+ 5.6	+ 10.5	+ 4.3
Czech Republic	+ 8.0	+ 6.1	+ 6.9	+ 3.8	+ 5.8
Estonia	+ 13.0	+ 12.6	+ 6.8	+ 13.3	+ 20.8
Cyprus	+ 4.2	+ 3.2	+ 2.6	+ 1.6	+ 4.2
Latvia	+ 7.8	+ 14.1	+ 12.9	+ 24.2	+ 21.5
Lithuania	+ 10.9	+ 10.1	+ 19.7	+ 7.2	+ 13.8
Hungary	+ 12.8	+ 7.5	+ 11.9	+ 6.4	+ 6.7
Poland	+ 13.0	+ 1.6	+ 5.4	- 1.8	+ 4.0
Slovenia	+ 10.5	+ 7.3	+ 8.1	+ 6.3	+ 5.4
Slovakia	+ 10.4	+ 7.8	+ 7.0	+ 7.6	+ 5.9
Japan	+ 0.8	+ 0.4	+ 1.6	+ 0.2	+ 0.7
Canada	+ 2.3	+ 4.5	+ 6.3	+ 3.9	+ 3.5
Norway	+ 5.3	+ 4.6	+ 6.1	+ 4.4	+ 4.2
USA	+ 4.6	+ 5.1	+ 3.0	+ 3.9	+ 4.5
EU trading partners ¹	+ 3.6	+ 3.2	+ 3.8	+ 2.4	+ 3.1
Austria					
All trading partners ¹ = 100	- 1.2	- 0.2	- 0.9	+ 0.8	+ 0.4
EU trading partners ¹ = 100	- 1.2	- 0.1	- 1.0	+ 0.9	+ 0.4
Germany = 100	- 0.5	+ 1.0	+ 0.3	+ 2.5	+ 0.9

Source: AMECO, Statistics Austria, WIFO calculations. – ¹ Without Austria, Malta and Cyprus; weighted average of Austria's trading partners according to WIFO exchange rate indices.

The effective exchange rate and the relative cost position of Austrian manufacturing have deteriorated in recent years due to the strength of the euro. In a single currency, that is in consideration of exchange rate variations, compensation in Austria increased faster than the weighted average of its trading partners between 2001 and 2006 (+3.0 percent compared with +2.4 percent per year). In 2006, costs in a single currency increased by 2.9 percent on the average of trading partners and by 3.5 percent in the USA, but declined by 5.6 percent in Japan.

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

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

Sharp rise in productivity in 2006

Table 4: Development of productivity in manufacturing

	Average 1996-2001	Average 2001-2006	2004	2005	2006
	Year-to-year percentage change				
Austria	+ 4.7	+ 3.9	+ 3.6	+ 3.3	+ 8.1
Belgium	+ 3.1	+ 2.9	+ 6.0	+ 0.4	+ 3.4
Denmark	+ 3.8	+ 3.2	+ 6.2	+ 3.1	+ 5.5
Germany	+ 3.8	+ 4.4	+ 5.6	+ 5.2	+ 6.8
Greece	+ 3.0	+ 4.1	- 0.3	+ 6.0	+ 2.8
Spain	+ 0.7	+ 1.2	+ 1.2	- 0.1	+ 3.3
France	+ 4.2	+ 4.0	+ 5.0	+ 3.9	+ 5.1
Ireland	+ 10.6	+ 7.0	+ 5.6	+ 4.8	+ 7.4
Italy	+ 0.7	- 0.6	- 0.4	- 0.3	+ 2.3
Luxembourg	+ 29.2	+ 2.1	+ 5.2	- 1.5	+ 2.2
The Netherlands	+ 2.7	+ 3.2	+ 6.0	+ 2.6	+ 2.5
Portugal	+ 3.1	+ 1.8	+ 1.7	+ 1.7	± 0.0
Finland	+ 6.7	+ 6.4	+ 7.8	+ 3.8	+ 9.8
Sweden	+ 5.9	+ 8.2	+ 13.2	+ 6.4	+ 6.4
UK	+ 3.3	+ 4.3	+ 6.0	+ 4.3	+ 3.9
Czech Republic	+ 4.3	+ 8.6	+ 8.2	+ 15.1	+ 12.6
Estonia	+ 11.4	+ 10.2	+ 6.6	+ 13.6	+ 15.5
Cyprus	+ 4.1	+ 0.2	- 1.6	- 0.9	+ 1.4
Latvia	+ 8.4	+ 7.3	+ 9.4	+ 9.9	+ 4.2
Lithuania	+ 10.9	+ 7.7	+ 16.2	+ 5.4	+ 7.1
Hungary	+ 6.5	+ 8.0	+ 8.1	+ 7.8	+ 9.0
Poland	+ 10.0	+ 7.6	+ 11.1	+ 3.0	+ 6.5
Slovenia	+ 6.5	+ 6.4	+ 5.0	+ 4.8	+ 9.3
Slovakia	+ 8.2	+ 10.5	+ 8.7	+ 22.7	+ 9.8
Japan	+ 1.7	+ 4.2	+ 6.9	+ 1.4	+ 1.8
Canada	+ 2.7	+ 2.3	+ 5.5	+ 1.3	+ 0.8
Norway	+ 1.1	+ 4.8	+ 8.7	+ 3.0	+ 3.0
USA	+ 4.6	+ 5.9	+ 6.2	+ 4.5	+ 1.4
EU trading partners ¹	+ 3.6	+ 4.1	+ 5.2	+ 4.5	+ 5.9
Austria					
All trading partners ¹ = 100	+ 1.1	- 0.3	- 1.7	- 1.0	+ 2.6
EU trading partners ¹ = 100	+ 1.1	- 0.2	- 1.6	- 1.2	+ 2.0
Germany = 100	+ 0.9	- 0.4	- 1.9	- 1.8	+ 1.1

Source: AMECO, Statistics Austria, WIFO calculations. – ¹ Without Austria, Malta and Cyprus; weighted average of Austria's trading partners according to WIFO exchange rate indices. Productivity: Gross value added per head of wage and salary earners.

After having clearly exceeded the average of the trading partners in the latter half of the 1990s, productivity growth in manufacturing slightly slowed down after 2000. Until 2005 Austria's average growth rate of gross value added per head of wage and salary earners was 2.7 percent p.a., thus falling behind the rate in Germany and the weighted average of the trading partners by ¼ percentage point. According to currently available data, the export-supported economic upturn brought about significantly accelerated productivity growth in Austrian manufacturing in 2006

(+8.1 percent). Between 2001 and 2006, the annual rate of output growth per capita was thus 3.9 percent on average, falling only slightly behind the average of the competing countries (+4.1 percent).

In the new EU member states, except Cyprus, productivity continues to grow strongly. Acceleration was particularly robust in Slovakia and the Czech Republic, along with Estonia, in recent years. Ireland and the Scandinavian countries Sweden and Finland have recently posted the highest growth rates in the EU 15. In the USA, productivity is performing very well in the medium term (almost +6 percent per year in 2001-2006), despite a noticeable decline last year.

Among the key factors of price formation in industry and hence an important indicator of an economy's price competitiveness are the labour costs per production unit. They are defined as the ratio between labour costs per head of employee and productivity (output per person employed). The development of Austria's unit labour costs relative to its trading partners is a decisive factor for the competitiveness of Austria's export industry.

In the late 1990s, moderate labour cost growth, combined with relatively high productivity growth, had a positive impact on unit labour costs in the Austrian manufacturing sector. Between 1996 and 2001 unit labour costs fell by 2.7 percent per year on average. Despite a pronounced decline in 2006, this development slowed down slightly (−0.8 percent per year) in the years 2001-2006. In Germany, unit labour costs decreased on average by 2.2 percent per year in the same period. In Sweden (−4.6 percent p.a.) and Finland (−3.5 percent p.a.) unit labour costs in manufacturing also decreased markedly. Poland was the only new EU member state to experience a more significant decline (−6.7 p.a.).

With lower wage inflation and productivity growth exceeding the average of the trading partners, the international unit labour cost position of Austrian manufacturing has improved since the mid-1990s. Between 1995 and 2002, unit labour costs decreased by about a fifth relative to the weighted average of the competing countries. With slower productivity growth and the appreciation of the euro, Austria's unit labour cost position deteriorated slightly over the next years (overall by nearly 8 percent until 2005). In 2006 competitiveness improved by 1.9 percent relative to all trading partners; the position vis-à-vis Germany remained largely unchanged (−0.2 percent).

In Austria, unit labour cost fluctuations are smaller in the economy as a whole than in manufacturing. After a slight decline in the latter half of the 1990s, unit labour costs again increased moderately. As an average of 2001-2006, they rose by 0.5 percent per year, thus slightly faster than the weighted average of the trading partners (+0.3 percent in a single currency). With an average annual decline of 0.1 percent, unit labour costs developed more positively in Germany. This resulted mainly from the years 2005 and 2006, when unit labour costs in Germany fell by 1 percent and 1.2 percent, respectively (Austria: +1.2 and +0.4 percent, respectively).

In 2006, an hour of work in the Austrian manufacturing sector cost 29.15 €, or 8.8 percent more than the average in the other EU-15 countries ("EU 14"). This amount was made up of 15.45 € in pay and 13.70 € in non-wage labour costs. The latter thus contributed 88.7 percent to the total, or ½ percentage point less than in the previous year, due to a drop in severance payments and failure periods.

Currently, Austria ranks 11th in the international hierarchy of labour costs. In 2006, labour was most expensive in Norway (a manufacturing worker's hour cost 30 percent more than in Austria), Belgium (+17 percent), Switzerland and Sweden (+14 percent each) and Germany (a good 10.5 percent more). In the Netherlands and Finland, the worker's hour cost the same as in Austria. In UK (−10 percent), Ireland (−14 percent), the USA and Italy (−20 percent) manufacturers paid noticeably less than in Austria, while in the newly acceded EU member states labour

Unit labour costs in manufacturing decreased by 4.2 percent in 2006

Price competitiveness of Austrian manufacturing continuously improved between the mid-1990s and 2002. Over the following years, relatively weak productivity growth and the appreciation of the euro had a negative impact on Austria's international labour cost position. In 2006, relative unit labour costs (compared with the weighted average of all trading partners) decreased for the first time since 2002 (−1.9 percent).

Conclusions

costs were a fraction of Austria's (just over a third in Slovenia, more than a fifth in Hungary and the Czech Republic, 17 percent in Slovakia and 15 percent in Poland).

Table 5: Development of unit labour costs in manufacturing and the economy as a whole

In a single currency

	Average 1996-2001	Average 2001-2006	2004	2005	2006
	Year-to-year percentage change				
<i>Manufacturing</i>					
Austria	- 2.7	- 0.8	- 0.7	± 0.0	- 4.2
Belgium	- 0.9	- 0.1	- 2.4	+ 1.5	- 0.9
Denmark	+ 0.2	+ 0.1	- 3.8	- 0.1	- 1.8
Germany	- 1.3	- 2.2	- 2.8	- 4.3	- 4.0
Greece	- 0.6	+ 2.8	+ 9.0	+ 1.6	+ 2.9
Spain	+ 0.3	+ 2.1	+ 2.1	+ 2.8	- 0.3
France	- 2.4	- 0.9	- 1.1	- 1.4	- 1.2
Ireland	- 3.0	- 2.1	+ 1.5	- 0.4	- 3.5
Italy	+ 29.2	+ 3.6	+ 4.5	+ 3.2	+ 0.5
Luxembourg	- 1.2	+ 1.6	- 1.3	+ 5.2	+ 0.5
The Netherlands	+ 0.4	- 0.1	- 1.5	- 0.8	- 2.6
Portugal	+ 2.1	+ 2.6	+ 3.5	+ 1.1	+ 2.8
Finland	- 2.8	- 3.5	- 2.9	- 0.6	- 7.1
Sweden	- 3.0	- 4.6	- 7.9	- 5.1	- 3.8
UK	+ 7.2	- 0.2	+ 1.6	+ 5.2	+ 0.7
Czech Republic	+ 3.9	+ 1.4	- 1.4	- 3.4	- 1.3
Estonia	+ 0.9	+ 2.2	+ 0.2	- 0.3	+ 4.6
Cyprus	+ 0.7	+ 3.0	+ 4.8	+ 3.4	+ 3.0
Latvia	+ 4.0	+ 1.8	- 0.6	+ 8.0	+ 16.6
Lithuania	+ 7.3	+ 3.0	+ 3.0	+ 1.7	+ 6.2
Hungary	+ 0.1	- 1.1	+ 4.3	+ 0.1	- 8.1
Poland	+ 1.3	- 6.7	- 7.8	+ 7.3	+ 0.9
Slovenia	- 1.0	- 1.1	+ 0.7	+ 1.2	- 3.6
Slovakia	- 0.1	+ 0.6	+ 2.1	- 9.1	± 0.0
Japan	+ 4.0	- 9.2	- 7.4	- 3.0	- 7.3
Canada	+ 4.0	+ 1.7	- 1.5	+ 9.9	+ 8.9
Norway	+ 4.5	- 0.2	- 6.7	+ 6.0	+ 0.7
USA	+ 7.2	- 7.3	- 11.9	- 0.7	+ 2.1
EU trading partners ¹	- 0.2	- 1.0	- 1.1	- 1.6	- 2.7
<i>Austria</i>					
All trading partners ¹ = 100	- 3.1	+ 1.0	+ 1.7	+ 1.5	- 1.9
EU trading partners ¹ = 100	- 2.5	+ 0.1	+ 0.4	+ 1.6	- 1.6
Germany = 100	- 1.4	+ 1.4	+ 2.2	+ 4.4	- 0.2
<i>Whole economy</i>					
Austria	- 0.2	+ 0.5	- 0.6	+ 1.2	+ 0.4
EU trading partners ¹	+ 1.4	+ 1.2	+ 1.0	+ 1.1	+ 0.4
All trading partners ¹	+ 2.2	+ 0.3	- 0.1	+ 1.1	+ 0.4
<i>Austria</i>					
All trading partners ¹ = 100	- 2.4	+ 0.2	- 0.4	+ 0.1	± 0.0
EU trading partners ¹ = 100	- 1.6	- 0.7	- 1.5	+ 0.2	+ 0.1
Germany = 100	- 0.1	+ 0.6	- 0.4	+ 2.2	+ 1.7

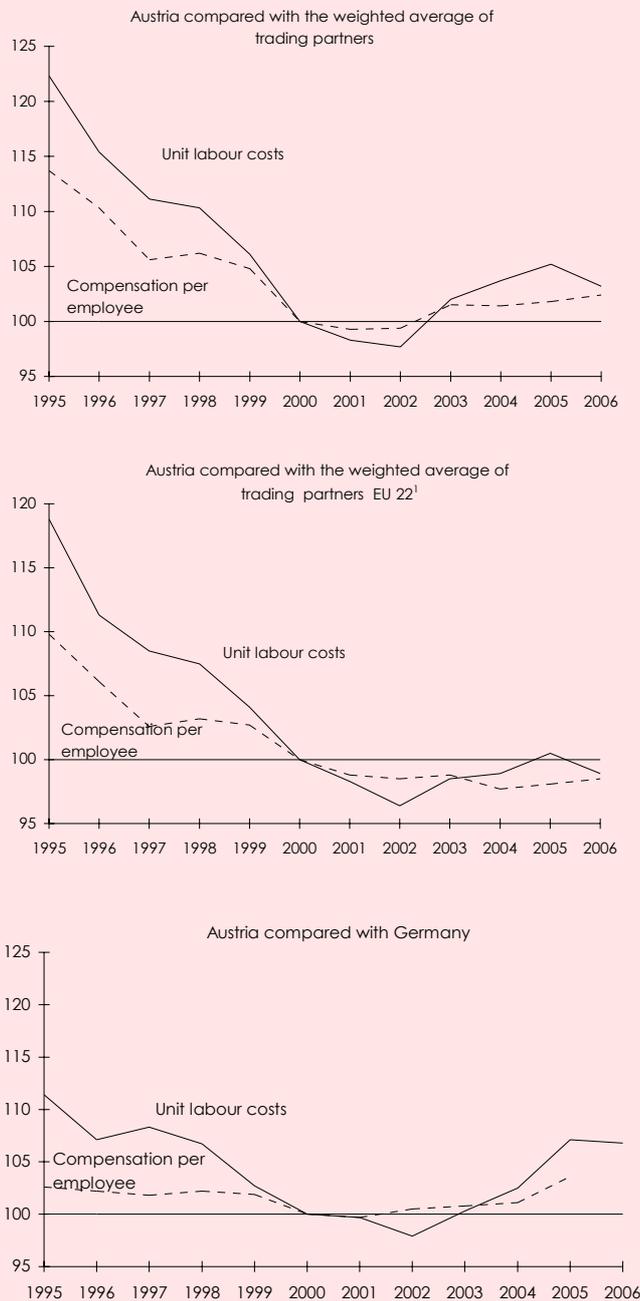
Source: AMECO, Statistics Austria, WIFO calculations. – ¹ Without Austria, Malta and Cyprus; weighted average of Austria's trading partners according to WIFO exchange rate indices. Unit labour costs: Compensation per employee of directly employed persons relative to real gross value added, or to real GDP per employee in the economy as a whole.

In the latter half of the 1990s, Austria's manufacturers achieved significant productivity growth rates (production output per head of wage and salary earners). With growth slowing down, the development fell off in the first half of the current decade, slipping behind the average of trading partners by $\frac{3}{4}$ percentage point. According to currently available data, a productivity growth of 8.1 percent in 2006 once again clearly exceeded the rate in competing countries.

Thanks to stabler currency relations, low labour cost inflation and high productivity gains, Austrian manufacturers' unit labour cost ranking improved by about a fifth

relative to the weighted average of trading partners between 1995 and 2002. After rising over the next years, unit labour costs once again declined in 2006. In spite of an overall increase by 1 percent p.a. (+1.4 percent vis-à-vis Germany) on average between 2001 and 2006, Austrian manufacturers today are better positioned in terms of unit labour cost (by about +15 percent) than they were in the mid-1990s.

Figure 2: Development of relative labour- and unit labour costs in manufacturing
In a single currency, 2000 = 100



Source: European Commission, DG ECFIN; WIFO calculations. - ¹ Without Austria, Malta and Cyprus.

A brisk rise in productivity reduced unit labour costs for Austrian manufacturers by 4.2 percent in 2006. In relative terms and based on the single currency, their ranking against the average of trading partners thereby improved by 1.9 percent.

In terms of total economy unit labour costs, there has been little impact on the competitive position of Austrian business over the past years. As an average of 2001-

2006, relative unit labour costs rose by 0.2 percent per year, but did not budg
much over the past two years.

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