

## LCI – total labour cost

### LCI – total labour cost: definition

The **Labour Cost Index** (LCI) describes the hourly labour cost (wages and contributions) in France across non-agricultural market sectors excluding services to households. Harmonised at European level (regulations no. 450/2003 and no. 1216/2003), **LCI** is sent to Eurostat 70 days after the end of the quarter. This is a chain-linked Laspeyres index, base 100 in 2020<sup>1</sup>, and is seasonally and working-day adjusted. The indicator published every quarter in *Informations Rapides* covers the non-agricultural market sectors excluding services to households (sections B to N of the French Classification of Activities - NAF 2008 rev. 2).

The **LCI** measures changes in:

- wages and salaries,
- social contributions (from workers and employers)
- taxes<sup>2</sup> net of subsidies.<sup>3</sup>

The **LCI** is calculated as the ratio of the number of hours worked to the sum of the wage bill, social contributions and other costs after allowance has been made for charge exemptions.

Social contributions include employers' social security contributions, the self-reliance solidarity contribution, unemployment insurance, contributions to supplementary pension schemes (AGIRC-ARRCO), death insurance, contribution to the wage guarantee scheme and contribution to the social dialogue. The rates for these charges are tracked quarterly. Reductions in charges are deducted.

The index also includes other costs such as the payroll tax, the contribution for not employing people with disabilities, and other contributions and taxes (net of subsidies) paid by employers. Some of these other costs are updated every year from information provided by the Urssaf-Caisse nationale (formerly the Agence Centrale des Organismes de Sécurité Sociale, ACOSS), and others every four years when the results from the Labour Cost Survey become available; any variation in rate between two surveys is distributed across the first quarters of the four years studied.

The subsidies taken into account are those related to the wage bill or workforce of certain specific categories of people. As a subsidy to the employer, the tax credit for encouraging competitiveness and jobs (CICE) reduces the labour cost up to a percentage of the salaries lower than 2.5 times the minimum wage. It has been included in the calculation of the index since the 1<sup>st</sup> January 2013, when the CICE came into force as an established entitlement (date of the operative event for the tax credit). The rate increased from 4% on 1<sup>st</sup> January 2013 to 6% on 1<sup>st</sup> January 2014. In the overseas departments (DOM) it increased to 7.5% on 1<sup>st</sup> January 2015 and then to 9% on 1<sup>st</sup> January 2016. In metropolitan France, the CICE rate increased to 7% on 1<sup>st</sup> January 2017 before decreasing to 6% on 1<sup>st</sup> January 2018. Finally, on 1<sup>st</sup> January 2019, the CICE was replaced by a uniform reduction in the rate of the health insurance employer contributions (6 points) for workers earning lower than 2.5 times the minimal wage, in metropolitan France as well in DOM (except Mayotte), but the DOM-specific exonerations (Lodeom) have been strengthened to compensate for this transformation. Overall, the CICE transformation is neutral on the **LCI**.

In addition, the index includes specific support measures introduced in the context of the health crisis in 2020 (the "1 young person 1 solution" plan to assist in the hiring of young employees, the plan to support the tourism sector via exemptions or aid for the payment of contributions).

<sup>1</sup> From the Q1 2023 publication onwards and in accordance with European regulations, the year of reference for these indices is now 2020 and not 2016 (the average of the 4 quarterly indices for 2020, weighted by the volume of work – total number of hours paid – is equal to 100). However, it should be noted that, as a result of the health-related restrictions, the volume of work varied significantly in 2020; in some sectors, the simple (unweighted) average of the quarterly indices for 2020 may differ significantly from the weighted average (by construction equal to 100).

<sup>2</sup> This is any duty or tax based on the wage bill or on workforce.

<sup>3</sup> Subsidies associated with the wage bill or the workforce of certain categories of people.

Three main sources are used to calculate the **LCI**:

- Short-term data from the Urssaf-Caisse nationale (formerly ACOSS) provide the wage bill, the number of employees, social contributions exemptions.
- Since the first quarter of 2020, the hourly volume of work has come from the Nominative Social Declarations (DSN), a new source. Previously, it was calculated from the quarterly surveys on labour activity and employment conditions (Acemo) conducted by Dares. The (paid) hours measured in the DSN better reflect variations in the volume of work than those previously obtained from the Acemo surveys, which only recorded collective working hours and excluded individual variations such as overtime or partial activity.
- Some costs are taken from INSEE's quadriennial Labour Cost Survey.

These data are provisional when they are taken into account in the index and might be revised by the producers. Thus the index might also be revised particularly for recent quarters.

## LCI – wages and salaries

As stipulated in the European regulations referred to above, in addition to the **LCI – total labour cost**, INSEE also calculates an hourly wage index, **LCI – wages and salaries**, based on the same sources. This wage index differs markedly from the basic monthly wage (*see table below*).

	<b>LCI – wages only</b>	<b>Basic monthly wage</b>
Wage	hourly	monthly
Scope	includes bonuses and additional salaries	excludes bonuses
Working hours and qualifications depends on actual working hours and qualification structure	calculated using a constant qualification structure	

As a result, the **LCI – wages and salaries** is an index of the *labour cost* (excluding employers' contributions) whereas the basic monthly wage is an index of *price of work* at a constant qualification structure. Therefore the basic monthly wage does not take into account the impact on wages of the trend of increase in employees' qualifications. Conversely, the **LCI – wages and salaries** is conceptually similar to the average wage per capita in the market sector of the Quarterly Accounts: both indicators cover the entire wage bill, with the **LCI – wages and salaries** relating this wage bill to a number of hours worked, whereas the average wage per capita relates it to a number of employees. This conceptual similarity is generally understood as long as fluctuations in the average hourly volume of work per employee are limited; it does not apply to the health crisis period of 2020-2021. Indeed, this period was marked by massive extent to short-time working scheme, which resulted in a very sharp drop in paid hours worked but made it possible to preserve many jobs. Thus the variations in the LCI – wages and salaries were very different during this period from those of the average wage per capita in the market sector.

All European Union member states produce the same type of index, published on the Eurostat website: <http://epp.eurostat.ec.europa.eu>.