

Statistical bulletin

Index of Labour Costs per Hour, UK: July to September 2020

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

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Notice

10 March 2021

[Index of Labour Costs per Hour \(ILCH\)](#) bulletin and data will not be released on 18 March 2021. The temporary suspension of this bulletin will free up resource in both our Labour Market and Publishing teams.

10 November 2021

A similar statistic, average labour compensation per hour worked (ALCH), can be found in [Labour costs and labour income](#). This new statistic replaces the index of labour costs per hour (ILCH), which has been discontinued.

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1 . Main points

- Estimated annual growth in labour costs per hour for employees across the whole economy, seasonally adjusted, was 13.5%; this compares with an increase of over 20% in April to June 2020, driven by a substantial decrease in number of hours worked, as furloughed employees whose wages were paid through the Coronavirus Job Retention Scheme (CJRS) worked reduced or no hours.
- Wage costs per hour worked increased by a greater percentage, 14.0%, than estimated non-wage costs per hour worked at 10.6%, compared with Quarter 3 (July to Sept) 2019.
- The industry with the largest annual percentage increase in labour costs per hour was accommodation and food service activities, up 48.8%, followed by arts, entertainment and recreation, up 41%, and administrative and support service activities, up 28.2%; in comparison, labour costs per hour increased least in financial and insurance activities, up 3.2%, and information and communication, up 3.4%.
- The value of labour costs was estimated at £22.80 per hour at whole economy level, higher than the £21.30 estimated for January to March 2020, but lower than the £25.00 estimated for April to June; wage costs contributed £19.20, with non-wage costs, such as pensions and National Insurance contributions, making up the rest.
- The industry with the highest labour costs was financial and insurance activities, with labour costs of £45.70 per hour; the agriculture, forestry and fishing industry had the lowest labour costs, at £12.50 per hour.

Labour Costs per Hour 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.

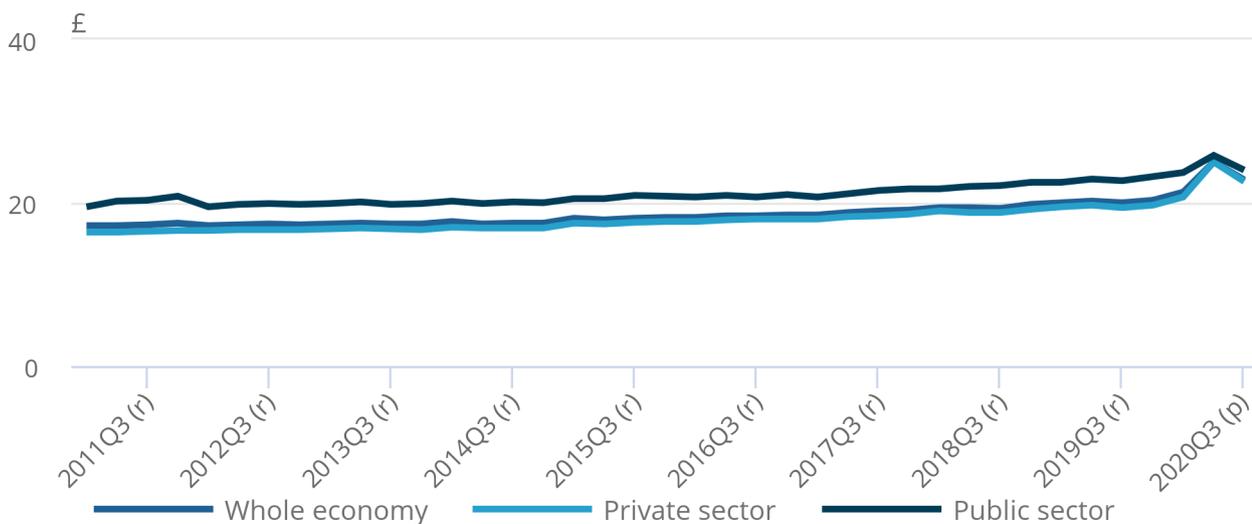
2 . The value of labour costs

Figure 1: Labour costs per hour began to fall back towards pre-coronavirus levels, at £22.80 for the whole economy in Quarter 3 2020

Labour costs per hour (£) - whole economy, private sector and public sector, seasonally adjusted, UK, Quarter 1 (Jan to Mar) 2011 to Quarter 3 (July to Sept) 2020

Figure 1: Labour costs per hour began to fall back towards pre-coronavirus levels, at £22.80 for the whole economy in Quarter 3 2020

Labour costs per hour (£) - whole economy, private sector and public sector, seasonally adjusted, UK, Quarter 1 (Jan to Mar) 2011 to Quarter 3 (July to Sept) 2020



Source: Office for National Statistics – Monthly Wages and Salaries Survey (MWSS); Labour Force Survey (LFS)

Notes:

1. 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).

Whole economy labour costs decreased to £22.80 per hour in Quarter 3 (July to Sept) 2020. This represents a decrease of 5.9% in comparison with the previous period, yet there is an increase of 13.5% in comparison with the same period in 2019.

This reflects an increase in the [number of hours worked in Quarter 3](#) compared with Quarter 2 (Apr to June) 2020, following the government lockdown measures introduced in response to the coronavirus (COVID-19) pandemic, which started to lift in the summer. The number of hours worked in Quarter 3 is still fewer than before Quarter 2, therefore labour costs are higher than pre-coronavirus. Note that changes in labour costs do not necessarily translate to a change in cost to the employer as it is based on what was paid to the employee regardless of whether it was funded by the employer or by the Coronavirus Job Retention Scheme (CJRS).

In Quarter 2, up to 80% of furloughed employees' wages were paid through the government-funded CJRS, with some employers topping up their employees' wages. The private sector had a greater reduction in the number of hours worked and therefore saw a larger increase in labour costs per hour (25.1%) than the public sector (11%).

During Quarter 3, the CJRS changed such that all employers must contribute 10% on top of the government's 70% contribution and employers could bring back furloughed employees part-time. The private sector had an increase in the numbers of hours worked as fewer people were enrolled in the scheme and therefore saw figures begin to recover towards pre-coronavirus levels. However, year-on-year the labour costs per hour are still above average, with the private sector having a higher increase in labour costs per hour (16%) than the public sector (5.8%).

In response to user feedback, data and commentary associated with the value (£) of labour costs at whole economy or sectors and industry level were included in this bulletin for the first time in September 2019. These changes do not affect the methodology of the existing index-based estimates. For more information see: [Index of UK Labour Costs per Hour estimates Quality and Methodology Information](#).

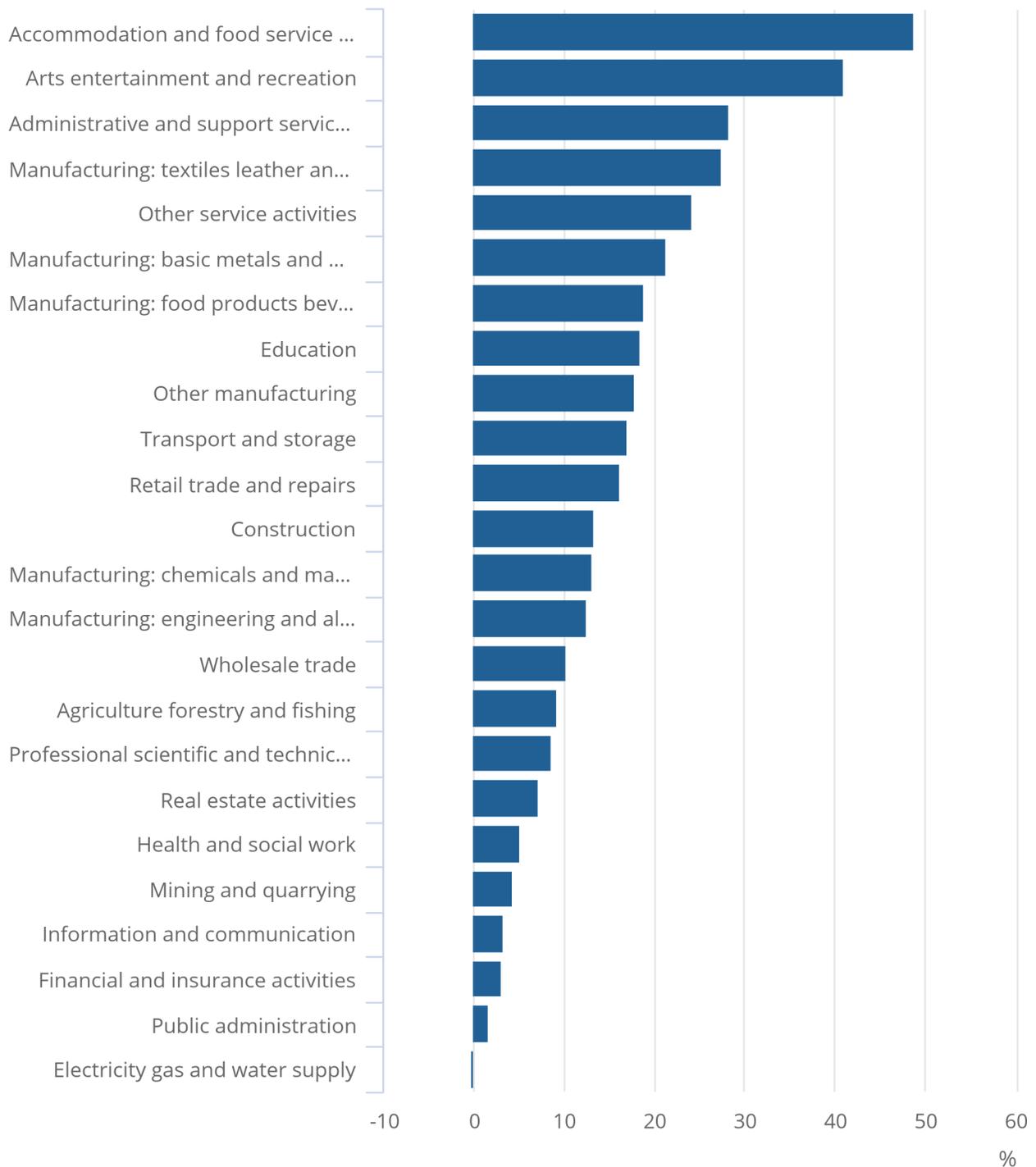
3 . Labour costs by industry

Figure 2: Industries with the highest levels of furlough continued to have the highest percentage increase in labour costs per hour in Quarter 3 2020

Total labour cost per hour year-on-year growth, seasonally adjusted, by industry, UK, Quarter 3 (July to Sept) 2019 to Quarter 3 (July to Sept) 2020

Figure 2: Industries with the highest levels of furlough continued to have the highest percentage increase in labour costs per hour in Quarter 3 2020

Total labour cost per hour year-on-year growth, seasonally adjusted, by industry, UK, Quarter 3 (July to Sept) 2019 to Quarter 3 (July to Sept) 2020



Source: Office for National Statistics – Monthly Wages and Salaries Survey (MWSS); Labour Force Survey (LFS)

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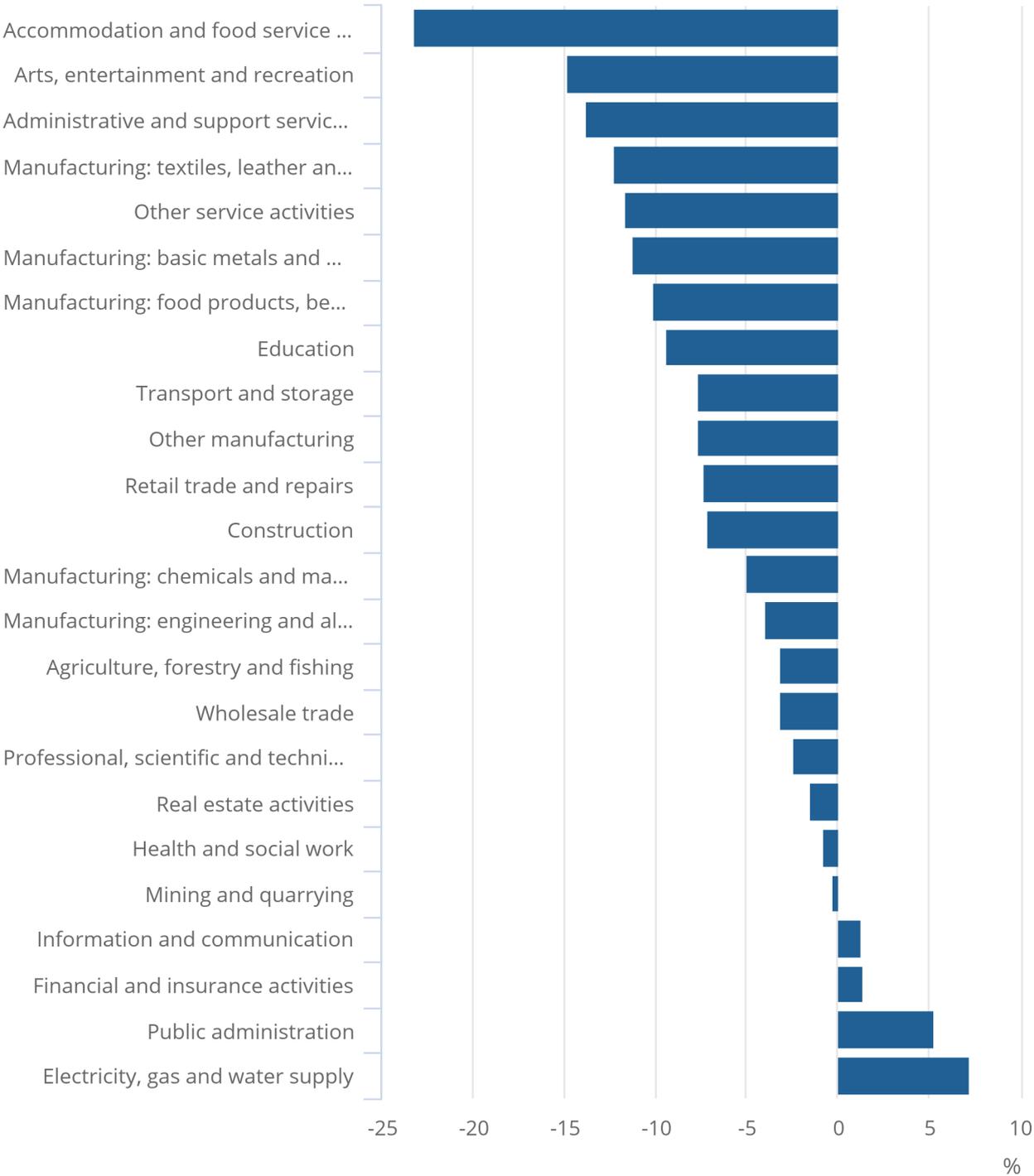
1. Q1 refers to Quarter 1 (January to March), Q2 refers to Quarter 2 (April to June), Q3 refers to Quarter 3 (July to September) and Q4 refers to Quarter 4 (October to December).

Figure 3: Industries with the highest levels of furlough also saw a decrease in quarter-on-quarter comparison

Total labour cost per hour quarterly growth, seasonally adjusted, by industry, UK, Quarter 2 (Apr to June) 2020 to Quarter 3 (July to Sept) 2020

Figure 3: Industries with the highest levels of furlough also saw a decrease in quarter-on-quarter comparison

Total labour cost per hour quarterly growth, seasonally adjusted, by industry, UK, Quarter 2 (Apr to June) 2020 to Quarter 3 (July to Sept) 2020



Notes:

1. 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).

Industry labour costs increased year-on-year in Quarter 3 (July to Sept) 2020 because of decreased worked hours. The accommodation and food service activities industry continued to have the largest year-on-year increase in total labour costs per hour (48.8%), followed by the arts, entertainment and recreation industry (41%). These were the industries most affected by furloughing and therefore had the largest drop in worked hours.

For quarterly growth, the biggest drop in labour costs was seen within the industries where the highest proportion of employees were furloughed under the Coronavirus Job Retention Scheme (CJRS). The accommodation and food service activities industry saw a reduction in labour costs per hour (negative 23.2%), followed by the arts, entertainment and recreation industry (negative 14.8%). This is because of employees returning to work, after being furloughed, and subsequently more worked hours during Quarter 3. The value of labour costs by industry are reported in the [datasets](#) and range from £45.70 in Financial and Insurance Activities to £12.50 in Agriculture, Forestry and Fishing.

Our publication [Business insights and impact on the UK economy](#) includes regular updates relating to reported number of furloughed employees, and the proportions of workforce returning to work. For example, it is estimated that at the end of July 2020, 12% of employees were furloughed, and that 41% (workforce) of businesses who had a proportion of their workforce furloughed were providing top-ups on top of the CJRS payments.

At the end of September 2020, 9% of employees were furloughed, and that 56% (workforce) of businesses who had a proportion of their workforce furloughed were providing top-ups on top of the CJRS payments. These estimates are provided at industry level.

Wage costs include wages and salaries (including bonuses and arrears) and benefits in kind. Non-wage costs include sickness, maternity and paternity pay, National Insurance contributions and pension contributions.

4 . Labour Costs per Hour data

[Labour costs per hour in the UK](#)

Datasets | Released 15 December 2020

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

5 . Measuring the data

Quality

More quality and methodology information on strengths, limitations, appropriate uses, and how the data were created is available in the [Index of UK Labour Costs per Hour QMI](#).

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.

Coronavirus

The hours worked data used in ILCH are taken from the Labour Force Survey. Imputation used for the Labour Force Survey was not designed to deal with the changes experienced in the labour market in recent months. Experimental work with adjusted methodology suggests that during the early stages of lockdown we were understating the full extent of the reduction in hours. However, now that hours are increasing, this has reversed so that the experimental methodology now suggests the actual number of hours are approximately 3% higher than stated. [Experimental estimates of hours worked](#) have been published, based on an adjusted imputation methodology.

For more information on how labour market data sources are affected by the coronavirus (COVID-19) pandemic, see the article published on 6 May 2020, which details [some of the challenges that we have faced in producing estimates](#) at this time.

An article published 11 December 2020 [compares our labour market data sources and discusses some of the main differences](#).

Our latest data and analysis on the impact of the coronavirus on the UK economy and population are available on our dedicated [coronavirus web page](#). This is the hub for all special coronavirus-related publications, drawing on all available data. In response to the developing coronavirus pandemic, we are working to ensure that we continue to publish economic statistics. For more information, please see [COVID-19 and the production of statistics](#).

International comparisons

The Index of Labour Costs per Hour (ILCH) is also known as the [Labour Cost Index \(LCI\)](#); the index is produced by all member countries of the EU and [collated by Eurostat](#).

End of EU exit transition period

After the transition period ends on 31 December 2020, the UK statistical system will continue to collect and produce our wide range of economic and social statistics. We are committed to continued alignment with international statistical standards, enabling comparability both over time and internationally and we will work with users of statistics to make sure they have the data they need to support the decisions they have to make.

As the shape of the UK's future statistical relationship with the EU becomes clearer over the coming period, the ONS is making preparations to assume responsibilities that as part of our membership of the EU, and during the transition period, were delegated to the statistical office of the EU, Eurostat. This includes responsibilities relating to international comparability of economic statistics, deciding what international statistical guidance to apply in the UK context and to provide further scrutiny of our statistics and sector classification decisions.

In applying international statistical standards and best practice to UK economic statistics, we will draw on the technical advice of experts in the UK and internationally, and our work will be underpinned by the UK's well-established and robust framework for independent official statistics, set out in the Statistics and Registration Service Act 2007. Further information on our proposals will be made available in early 2021.

We will continue to produce our labour market statistics in line with the [UK Statistics Authority's Code of Practice for Statistics](#) and in accordance with International Labour Organization (ILO) definitions and agreed international statistical guidance.

Recent 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) were affected from Quarter 2 2017, as follows:

- the year-on-year comparisons for Quarters 2, 3 (July to Sept) and 4 (Oct to Dec) 2017 and Quarter 1 (Jan to Mar) 2018
- the quarter-on-quarter comparisons for Quarter 2 2017

The discontinued variable concerned the contracting out of state pensions and so those industries predominantly in the public sector were most affected.

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.

6 . Strengths and limitations

The figures in this bulletin come from both household and business surveys, which gather information from a sample rather than from the whole population. The sample is designed to be as accurate as possible given practical limitations such as time and cost constraints. Results from sample surveys are always estimates, not precise figures. This can have an impact on how changes in the estimates should be interpreted, especially for short-term comparisons.

As the number of people available in the sample gets smaller, the variability of the estimates that we can make from that sample size gets larger. Estimates for small groups (for example, industries within the manufacturing sector), which are based on quite small subsets of the sample, are less reliable and tend to be more volatile than for larger aggregated groups (for example, labour costs for the private sector).

In general, short-term changes in the growth rates reported in this bulletin are not usually greater than the level that can be explained by sampling variability. Short-term movements in reported rates should be considered alongside longer-term patterns in the series and corresponding movements in other sources to give a fuller picture.

7 . Related links

[Average weekly earnings in Great Britain: December 2020](#)

Bulletin | Released 15 December 2020

Estimates of growth in earnings for employees before tax and other deductions from pay.

[Employee earnings in the UK: 2020](#)

Bulletin | Released 3 November 2020

Estimates of employee earnings, using data from our Annual Survey of Hours and Earnings (ASHE). Figures are presented mainly for full-time employees, although some detail for part-time workers is also included.

[Labour market overview, UK: December 2020](#)

Bulletin | Released 15 December 2020

Estimates of employment, unemployment, economic inactivity and other employment-related statistics for the UK.