**Coherence with Labour Cost Index**

Differences in average annual growth rates of labour costs (D), from the Labour Cost Survey (LCS) and based on non-seasonally adjusted Labour Cost Index data, in 2016 in relation to 2012, can be explained by differences in methodology, i.e. definition of basic variables, sample methodology and coverage of the survey.

**Method, period and sources for data collection.**

o **LCS. –** The survey is based on reporting method by means of the questionnaire ITR, which is to be filled in by every enterprise (legal entities and entrepreneurs) in the sample. Reporting units are selected by random sampling. The survey is carried out every four years, and the accounting period is the previous financial year.

o **Labour Cost Index.** – Combination of the survey and the data from administrative sources. The survey uses reporting method of data collection through the questionnaire RAD-1, which is completed for every unit selected in the sample. The survey is conducted on a purposive sample of legal units. The data necessary for calculating the Labour Cost Index, in the questionnaire RAD-1 are derived from accounting records on paid earnings, employees' travel costs and the number of hours of work.

The estimation of the data on paid retiring allowances builds on the data on the number of retired persons derived from the records of the Pension and Disability Insurance Fund of the Republic of Serbia, as well as on average wages and salaries on the basis of which the allowance is paid in the related month.

The data on allocated subsidies are obtained from the National Employment Service.

Data are collected in monthly and quarterly dynamics, and they are published quarterly.

**Definition of employees.**

* + **Labour Cost Index.** – Persons who have an employment contract with an employer for a fixed or indefinite time, whether working full-time or part-time, are regarded as employees. Persons working under a service contract or contract on performing temporary and occasional jobs are not regarded as employees.
  + **LCS.** – Persons who work under a contract on performing temporary and occasional jobs are also regarded as employees.

**Definitions of the variables being compared.**

**Labour Cost Index.** – This survey does not cover all labour costs borne by employers for employing labour force which are included in four-yearly LCS.

* Labour costs which are not included:
* Vocational training costs;
* Employers’ costs related to the recruitment of new workers (for job advertisements, employment agencies, costs of interviews with candidates, etc.) and costs of occupational health services regarding the purchase of protective and work clothes;
* Other taxes which mean employers’ costs related to performance of obligation of employing persons with disabilities, i.e. penalty payments due to unemployment of legally prescribed number of persons with disabilities;
* Allowances for housing and cost of living, for field work, jubilee awards, severance pay to employees who have been made redundant, employee and family assistance, insurance costs (contractual and voluntary pension insurance, etc.), lump-sum payment to employees in accordance with the social program, membership fees – contributions to the chambers of commerce on earnings, membership fees to trade unions and other professional associations, cost-of-living allowance, stock options and share purchase schemes, employee benefits in kind, other payments to employees which are not regarded as earnings such as: gifts for children of employees (up to 15 years old age for Christmas and New Year) not exceeding non-taxable amount, which are excluded from earnings (gifts on March 8th and other holidays, gifts for children over 15 years old age, etc.) and all other cost allowances which are excluded from earnings.
* Subsidies received by the employer. – In LCS collected are all kinds of subsidies from the state or other enterprises, companies or organisations in the country or abroad for the purpose of subsidizing a part of total labour costs or total labour costs. For calculating Labour Cost Index total labour costs are reduced only for the amount of received subsidies which are obtained from the National Employment Service.

**Coverage of the survey and sample methodology.**

* LCS is a survey based on the random sample which includes enterprises (legal entities and entrepreneurs) with 10 or more employees.
  + Monthly survey on employees and their salaries and wages (RAD-1) is carried out on a purposive sample of legal entities. The criterion for the selection in the sample is the number of employees, on the basis of which reporting units are selected in the sample, from large to small ones. The sample covers approximately 8000 reporting units, being about 65% of the total number of employees in enterprises, institutions, cooperatives and other organisations. The survey does not include the employees of the Ministry of Defence and Ministry of the Interior of the Republic of Serbia.

**Table:** Average annual growth rate of total labour costs (D), 2016/2012

|  |  |  |
| --- | --- | --- |
|  | Average annual growth rate of total labour costs, 2016/2012 | |
| LCS | Labour Cost Index |
|  |  |  |
| **TOTAL** | **4.2** | **3.1** |
| **TOTAL – excluding section**  **Аgriculture, forestry and fishing** | **4.0** | **3.0** |
| Agriculture, forestry and fishing | 16.6 | 1.9 |
| Mining and quarrying | 14.5 | 6.6 |
| Manufacturing | 6.3 | 6.9 |
| Electricity, gas, steam and air conditioning supply | 9.1 | 1.6 |
| Water supply, sewerage, waste management and remediation activities | 14.3 | 0.3 |
| Construction | 1.3 | 3.4 |
| Wholesale and retail trade and repair of motor vehicles and motorcycles | 4.8 | 5.7 |
| Transportation and storage | -13.2 | 3.1 |
| Accommodation and food service activities | -4.8 | 12.2 |
| Information and communication | 38.6 | 30.4 |
| Financial and insurance activities | 7.7 | 7.4 |
| Real estate activities | -19.1 | 5.1 |
| Professional, scientific and technical activities | 7.4 | 9.9 |
| Administrative and support service activities | 29.1 | 1.3 |
| Public administration and defence; compulsory social security | 1.5 | -5.9 |
| Education | -3.0 | 0.2 |
| Human health and social work activities | 4.9 | 0.2 |
| Arts, entertainment and recreation | 3.8 | -6.7 |
| Other service activities | -8.6 | 46.7 |

On the total level, the difference between the average annual growth rates of total labour costs per hour actually worked, from these two surveys, is very small and amounts to 1.2 percentage points (pp.). However, this average covers up substantial differences between sections of activities. In different sections different combination of the above mentioned factors has dominant influence on differences in labour cost trend. The sample methodology is a relevant factor of the difference in section. Other service activities, where the difference in labour cost trend is the largest. Namely, according to the LCS data for 2016, more than 50% of employees in this section work in the so called small enterprises (from 10 to 49 employees), whose number in the sample, on the basis of which Labour Cost Index is calculated, is very small. On the other hand, as an example of impact of the sample methodology can be also mentioned section Financial and insurance activities, where the difference in average labour cost trend is the least. In this section of activity, according to the LCS data, about 5% of the total number of employees in the section work in small enterprises (from 10 to 49 employees), while over 60% of employees work in large companies (with 1000 or more employees).