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Slow Compensation Growth Boosts Competitiveness of U.S. Manufacturing

Rising German labor costs lead mixed picture in Europe; India gaining advantages on China among developing economies

NEW YORK, December 17, 2015...Anemic growth in worker compensation since the start of the decade has substantially strengthened the cost advantages of U.S. manufacturing against other mature economies, according to data on 34 countries released today by the *International Labor Comparisons* (ILC) program of The Conference Board. In 2013 (the last year for which data is available), hourly compensation costs for American manufacturers averaged \$36.34, up just \$1.59 from 2010. This represents slower growth than even the crisis years of 2007–10, over which hourly costs grew \$2.71.

“Despite a rapidly shrinking unemployment rate, U.S. manufacturing saw exceptionally low worker costs growth in recent years, especially compared to European countries with often weaker recoveries but more rigid labor markets,” said Elizabeth Crofoot,, Senior Economist with the ILC program. “Our dollar-denominated data reveal a broad spectrum among advanced economies: At one end, countries where labor costs are relatively low and still declining—notably Japan and Greece. At the other end, countries—led by Switzerland, Sweden, Australia, Norway, and Germany—where already high pay and benefits continue to rise at relatively rapid rates.”

“Looking ahead, the dollar’s recent return to appreciation may somewhat shrink the cost advantage built by U.S. manufacturing in 2010–13 over other mature economies,” said Bart van Ark, Chief Economist at The Conference Board. “And while emerging markets in Asia, Latin America, and Eastern Europe will maintain large cost advantages over the U.S. for the foreseeable future, depreciation of their currencies could significantly narrow the gap and put more pressure on productivity gains to avoid further erosion of those countries’ competitiveness.”

In dollar terms, only Greece, Japan, and Ireland among countries compared saw slower manufacturing compensation growth than the U.S. between 2010 and 2013. Hourly labor costs in Japan (\$29.13) and the U.K. (\$31.00) were below American levels in 2013; compensation was higher in most other large mature economies. Taking a longer view, local costs in manufacturing as a percentage of U.S. costs rose between 1997 and 2013 in all economies compared except Japan, Brazil, and Taiwan.

Germany and the Rest: A Tale of Two Eurozones?

To isolate the effect of exchange-rate fluctuations, the ILC report includes data in local currency as well as in U.S. dollar terms. Among the most striking findings is the wide disparity of labor-cost trends within the Euro Area. **When denominated in euros:**

- Manufacturing labor costs averaged 2.8 percent annual growth in the Euro Area as a whole between 2010 and 2013. This was up from 2.1 percent in 2008–10, even as the currency union reached historic levels of unemployment by 2013.
- Yet hard-hit countries *are* adjusting, some drastically. Hourly labor costs in Greece have contracted by over 5 percent annually since 2010, while compensation growth has slowed substantially in Spain, Portugal, and (to a lesser degree) Italy.
- By contrast, labor compensation is surging in Germany—one of the few countries in the world seeing a truly tight labor market. Labor costs for German manufacturing grew at an average of 3.4 percent per year in 2010–13, doubling the 1.7 percent annual growth seen in 2008–10.
- With these gains, hourly compensation to German manufacturing workers stood at €36.89 in 2013, substantially higher than every other Euro Area member compared except Belgium (€41.34). When German compensation is expressed in dollar terms—\$48.98—only Belgium, Denmark, Norway, Sweden, and Switzerland among countries compared saw higher costs in 2013.

“Already high pay and benefits that consistently grow faster than competing countries are detrimental to the competitive position of German manufacturing, even if compensated by strong innovation and high productivity,” said Bert Colijn, Senior Economist, Europe at The Conference Board. “But in Europe’s current predicament, higher labor costs can also be advantageous inasmuch as they accelerate rebalancing across the regions of the Euro Area by strengthening consumer purchasing power in Germany.”

India Overtaking China as Manufacturing's Future Powerhouse?

Gaps and methodological discrepancies in official data prevent labor costs for China and India—the world's largest emerging markets and manufacturing hubs—from being compared directly with each other and mature economies. In approximating data for both countries, however, ILC has unearthed two vivid patterns reaching back to the start of the century. First, China's hourly compensation costs, expressed as a percent of costs in the U.S., have soared past those of India, after trailing it as late as 2005. Second, the proportion of total compensation spent on social insurance costs has fallen in India since 2002, while dramatically rising over the same period in China. The divergence on both trends suggests India is better placed to maintain and extend its manufacturing competitiveness.

For complete details visit: www.conference-board.org/ilcprogram/compensation.

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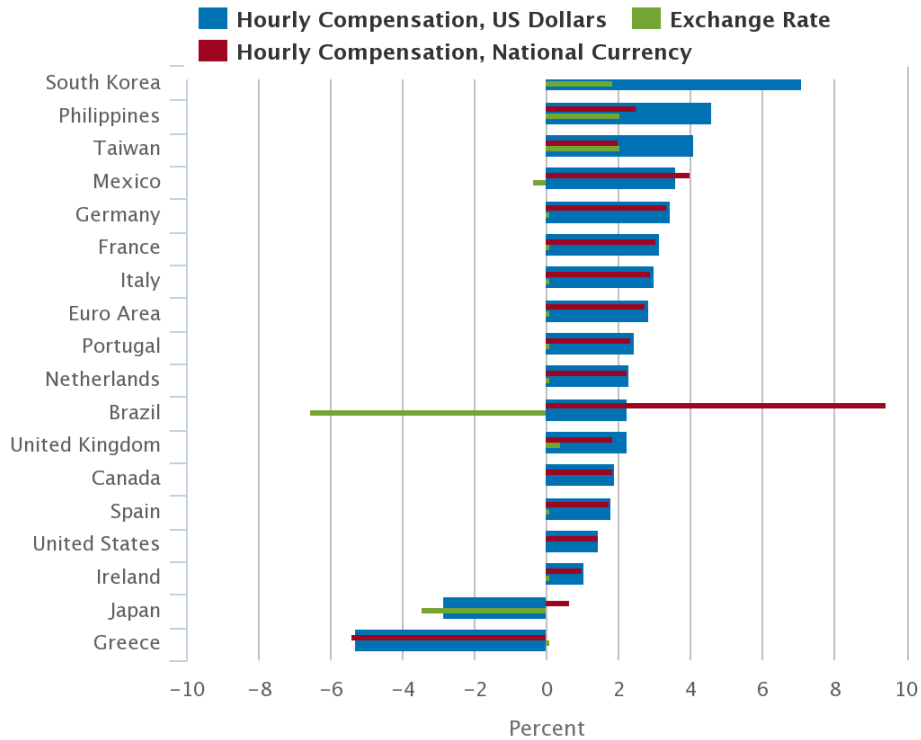
About International Labor Comparisons (ILC)

The data is published as part of The Conference Board *International Labor Comparisons* program. Formerly a division of the U.S. Bureau of Labor Statistics, ILC is dedicated to producing economic indicators that optimize research, comparison, and planning in a global context.

For more information about The Conference Board ILC program:

www.conference-board.org/ilcprogram

Annual percent change in hourly compensation costs in manufacturing and exchange rates, 2010–2013

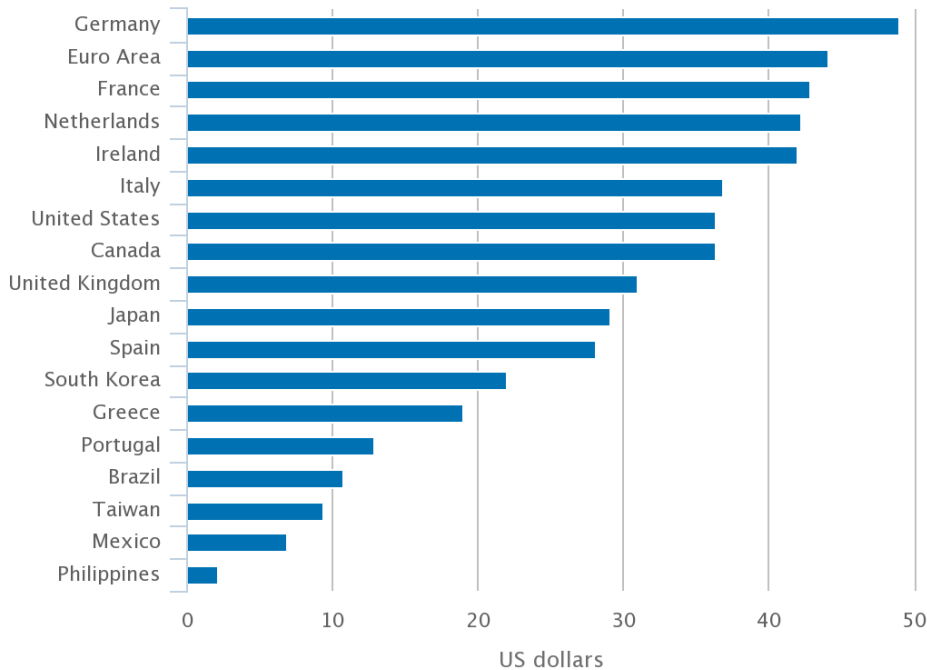


Compensation costs include direct pay, social insurance expenditures, and labor-related taxes.

For complete definitions and country information, see Technical Notes and Country Notes associated with this report.

Source: The Conference Board, International Labor Comparisons program

Hourly compensation costs in manufacturing, US Dollars, 2013



Compensation costs include direct pay, social insurance expenditures, and labor-related taxes.

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Source: The Conference Board, International Labor Comparisons program