

In March of this year, Statistics Iceland published its first wage cost figures based on the national accounts for 2015 and revised figures for 2012-2014. In preparing its macroeconomic forecasts, the Central Bank uses wage cost figures from Statistics Iceland's production accounts (see also Box 4 in *Monetary Bulletin* 2015/4). Because these figures are published with a lag, forecasts are also based on Bank staff's assessments of recent wage developments, using various indicators such as the Statistics Iceland wage index. Experience has shown that there are two factors in particular that cause errors in the Bank's estimates of historical wage developments: on the one hand, revisions of Statistics Iceland's historical national accounts data, which have been revised both upwards and downwards, resulting in errors in both directions, and on the other hand, underestimation of wage drift.

Wages per hour rose almost 1 percentage point less in 2012-2014 than previously projected

As Chart 1 indicates, national accounts figures for wages and related expenses change somewhat with each revision, and revisions often extend back in time by many years. Whether the revision results in an increase or a decrease seems to follow no particular pattern. According to the current revision, wages were on average slightly lower in 2012-2014 than previous figures indicated.

Wages rose less than the wage index in 2015, according to Statistics Iceland estimates ...

According to figures from Statistics Iceland, wages and related expenses rose by a total of over 9% in 2015. Adjusting this figure to reflect developments in wage-related expenses (primarily payroll taxes and employers' pension fund contributions) and then deriving wages per hour using data on the number of employed persons and average hours (taken from the Statistics Iceland labour force survey) reveals that wages per hour rose by 5.5% between 2014 and 2015. This is somewhat less than the 7.2% increase suggested by the Statistics Iceland wage index. As is discussed in *Monetary Bulletin* 2015/4, it is likely that the wage index underestimates the contractual wage rises in 2015, as some of the wage settlements provided for retroactive increases that were often paid out as a lump sum, whereas the index does not include such irregular one-off items.

... and considerably less than has been assumed in the Central Bank's baseline forecast

Statistics Iceland's first figures for 2015 also show a smaller increase in wages than was assumed in the Bank's February baseline forecast, which was based on estimates of both the contractual pay increases negotiated in 2015 and wage drift. The Bank estimated that wages per hour increased by 10.4% in 2015, nearly twice the amount indicated by Statistics Iceland's first figures.

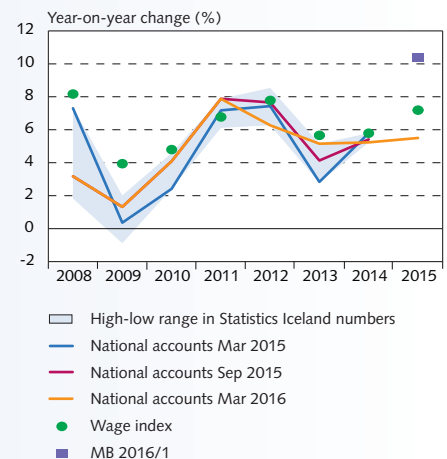
It is unlikely that wages per hour rose nearly 2 percentage points less than the wage index, given that the wage index probably represents an underestimation of wage increases. There are also indications that wage increases according to information on wages paid were somewhat larger once figures for the entire year were available than at the time the Statistics Iceland estimate was prepared, as a large share of public sector wage settlements took effect towards the end of the year.

Based on the pay rises negotiated in 2015 and the increase in total hours worked, it is also unlikely that the wage share rose marginally year-on-year, as Statistics Iceland's estimate shows (Chart 2). For reference, it is useful to examine the 2011 wage settlements,

Box 2

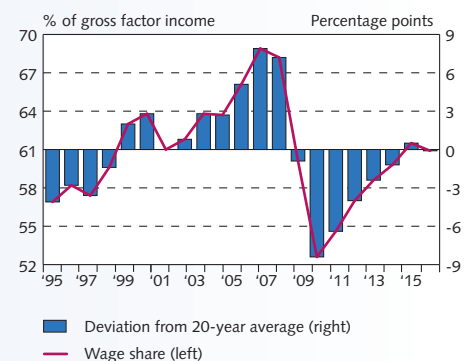
First Statistics Iceland figures on 2015 wage costs and revision of previous figures

Chart 1
Wages per hour¹



1. The chart shows various Statistics Iceland estimates of wage costs according to national accounts as compared with the wage index and the Central Bank's estimate for 2015.
Sources: Statistics Iceland, Central Bank of Iceland.

Chart 2
Wage share according to Statistics Iceland figures¹



1. Wages and related expenses as a share of gross factor income. The 20-year average is 61% (1996-2015, base 1997).
Sources: Statistics Iceland, Central Bank of Iceland.

which provided for a wage increase averaging 5%. Statistics Iceland figures now show, five years later, that wages per hour rose by 9.6% that year. Given that private sector wage agreements provided for an average wage increase of 7% in 2015 and public employees received pay rises of up to 10% following the arbitration panel ruling, it is unlikely that the rise in wages per hour was substantially less in 2015 than in 2011.

Revised Central Bank estimate of 2015 wage increases

In view of these indicators, the forecast in this *Monetary Bulletin* assumes that wages per hour rose by 9% in 2015 and not by 5.5%, as Statistics Iceland's first figures indicate. There is precedent for this. For example, in 2014, when the first figures for 2013 were available, it was decided not to use Statistics Iceland's first estimate of a 2.8% increase in wages per hour but to use 4.5%, which was the average of the Statistics Iceland estimate and the one in the previous Central Bank forecast, which was 6%. In March 2016, when Statistics Iceland published its most recent revision, it assumed that wages rose 5.2% in 2013, which is much closer to the Central Bank's estimate than to Statistics Iceland's own original estimate.