Real wages regaining some of the lost ground

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Key findings

- **After a decline in the past two years, real wages are now growing on an annual basis in several countries but remain below 2019 levels in most**. In Q3 2023, yearly real wage growth was positive in 25 of the 35 countries with available data at 1.4%. However, real wages were still below their Q4 2019 level in 20 countries, even as, on average across all 35 countries, they had recovered.

- **Nominal wage growth is sustained but stable.** Data from selected countries for the end of 2023 generally show no sign of further acceleration in nominal wage growth, with indicators of wages posted in online vacancies even suggesting a deceleration. Recent improvements in annual real wage growth are generally driven by a decline in inflation.

- **Statutory minimum wages in real terms are above their 2019 level in virtually all countries.** In January 2024, the real minimum wage was 14% higher than at the end of 2019 on average across the 30 OECD countries that have a national statutory minimum wage in place. While this figure is affected by particularly large increases in some countries, the median increase in the real value of the statutory minimum wage is also considerable, standing at 9%.

- **Wages of low-pay workers have performed relatively better in many countries.** In 19 of the 33 countries with available data, real wages performed relatively better in low-pay industries than in both mid- and high-pay industries. Results by education and occupation from selected countries also point to better performance of wages for the lower-paid groups.

- **As wages recover, unit profits growth has slowed down and turned negative in some countries.** After growing considerably and making unusually large contributions to domestic price pressures in 2021 and 2022, unit profits decreased in 17 of the 29 countries with available data over the first three quarters of 2023 – an indication that they have started to absorb some of the inflationary impact of increasing unit labour costs. In most countries, there is further room for profits to provide some buffering, given their significant growth over the past three years.

Despite the adverse shocks of the past two years, OECD labour markets have been remarkably resilient as employment rates reached record highs and unemployment rates record lows
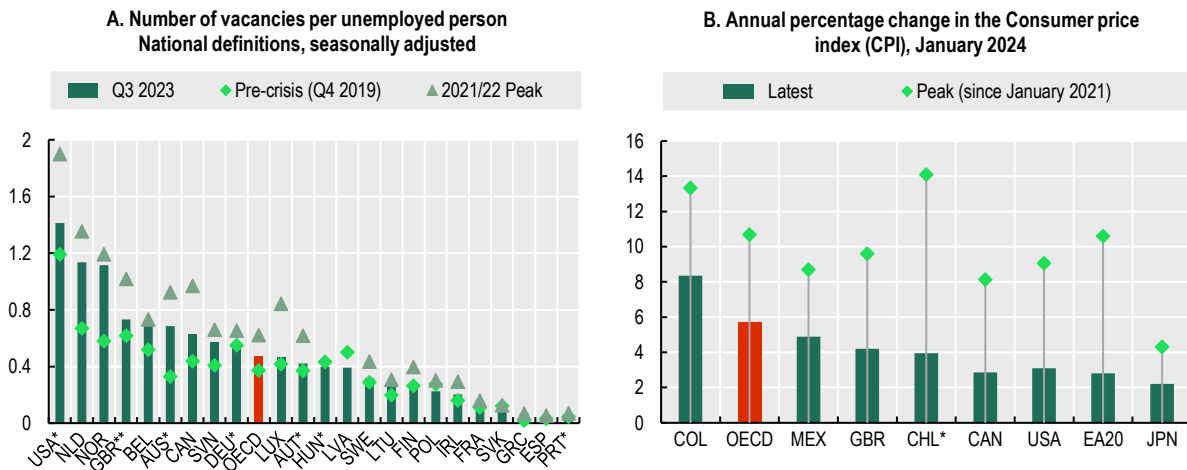
OECD labour markets have proven resilient despite the negative shocks from Russia's war of aggression against Ukraine and the sharp tightening of monetary policy to tackle high inflation. In December 2023, the OECD unemployment rate was stable at its record low of 4.8%.[1] OECD employment and labour force participation rates stabilised at 70.1% and 73.8% in the third quarter of 2023, the highest levels recorded since the start of the series in 2005 and 2008, respectively. Both indicators were at or near their record

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[1] https://www.oecd.org/sdd/labour-stats/unemployment-rates-oecd-updated-february-2024.htm.

highs in 9 of the 38 OECD countries, including France, Italy, and Japan.[2] Record highs in both the OECD employment and participation rates were achieved for women and men. While pressures have eased since the peak of the second half of 2022, labour markets remain tight in many countries (Panel A, Figure 1).

Inflation has also come down considerably from its peak of 10.5% in October 2022. In January 2024, OECD inflation (as measured by the Consumer Price Index) stood at 5.7% (Panel B, Figure 1) and remained above 8% only in Colombia and Türkiye a, and above 4% in 10 other OECD countries.

Figure 1. Both labour market tightness and inflation have passed their peaks but remain high

A. Number of vacancies per unemployed person National definitions, seasonally adjusted

Legend: Q3 2023 | Pre-crisis (Q4 2019) | 2021/22 Peak

B. Annual percentage change in the Consumer price index (CPI), January 2024

Legend: Latest | Peak (since January 2021)

Note: OECD is an unweighted average of the countries shown above. In Panel A, the definition of vacancies is not harmonised across countries. In Panel A, countries marked with * the latest data point is Q4 2023 and countries marked with ** the latest data point is Q2 2023. In Panel B, countries marked with * the latest data point is December 2023.
Source: OECD (2020), "Labour: Registered unemployed and job vacancies (Edition 2019)", Main Economic Indicators (database), https://doi.org/10.1787/190bb5bc-en (accessed on 20 February 2024) for Australia, Austria, Germany, Hungary, Portugal, the United Kingdom, Job vacancy statistics by NACE Rev.2 activity for Finland, Luxembourg, Latvia, Lithuania, the Netherlands, Norway, Poland, the Slovak Republic, Slovenia and Sweden (Eurostat), Job vacancies, payroll employees, and job vacancy rate (Statistics Canada), Les demandeurs d'emploi inscrits à Pôle emploi (Dares, France), Posti vacanti (Italian National Institute of Statistics), Job Openings and Labor Turnover Survey (U.S. Bureau of Labor Statistics, retrieved from FRED); Online job posting on Indeed. OECD (2024), "Prices: Consumer prices", Main Economic Indicators (database), https://doi.org/10.1787/0f2e8000-en (accessed on 6 March 2024).

Real wages are now growing in a number of countries on an annual basis but often remain below 2019 levels

In Q3 2023, yearly real wage growth was positive in 25 of the 35 countries with available data, with an average change across all countries of +1.4% (Figure 2).[3] Among the 10 countries where annual real wage

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[2] https://www.oecd.org/sdd/labour-stats/labour-market-situation-oecd-updated-january-2024.htm.

[3] Most of the data reported in Figure 1 and Figure 2 refer to the "wages and salaries" component of the Labour Cost Index (i.e. excluding employer's social security contributions) produced by Eurostat – or similar measure for non-European countries (see notes to the figures for the details on the countries for which different wage measures have been used – and (Araki et al., 2023[1]) for further details). In addition to separating wages from other labour cost components, these indicators have two main advantages relative to measures of compensation per hour worked derived from National Accounts. First, they are generally constructed to follow the evolution of hourly nominal wages for a constant industry structure, therefore minimising the potential impact of compositional changes on aggregate

growth was still negative in Q3 2023, only three appeared to be on a positive trend, with real wage growth improving over the previous two quarters (Czechia, Italy, and the Slovak Republic). Real wage growth deteriorated over the two most recent quarters in a total of five countries, including four where it was still negative in Q3 2023 (Japan, New Zealand, Norway and also France, where, however, the overall decline in real wages since 2019 has been much smaller than in most other countries – see Figure 3).

Figure 2. Year-on-year growth in real wages has turned positive in several countries

Percentage change in nominal and real hourly wages, year-on-year (Q3 2023)
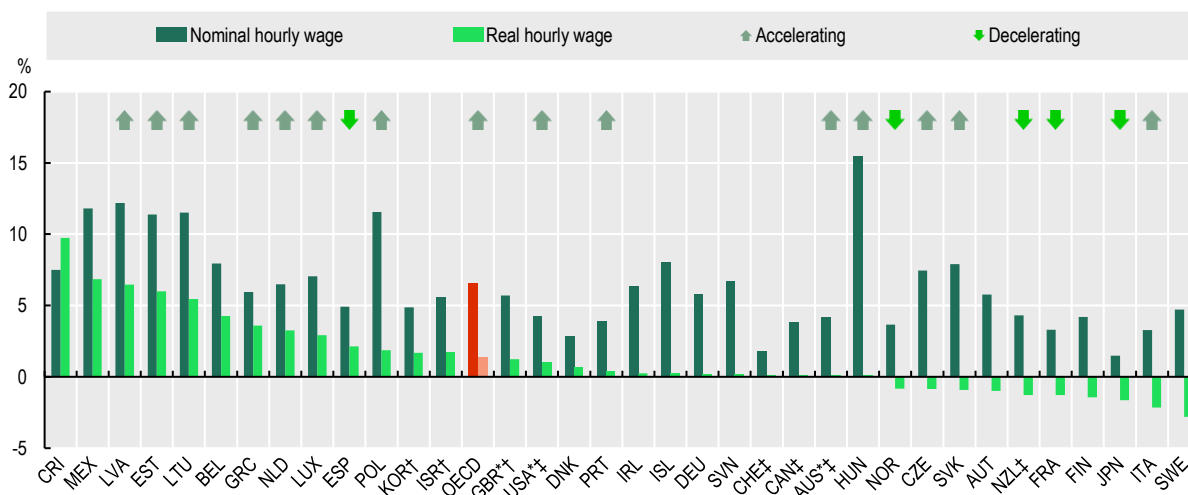
Note: OECD is an unweighted average of the countries shown above. Wage growth rates are accelerating (decelerating) if they increased (decreased) for the last two consecutive quarters. *The latest year-on-year change refers to Q4 2023. Where available, the figure uses the "wages and salaries" component of the Labour Cost Index from Eurostat – or a similar index for non-European countries – which measures the evolution of aggregate wages for a constant industry structure. †The composition of industries is not fixed for Israel, Korea, and the United Kingdom, and thus comparing these results with the others requires caution. ‡Additional sources of compositional shifts, such as regions (Australia, Canada, New Zealand), job characteristics and workers' characteristics (Australia, New Zealand), gender (Switzerland) and occupations (United States) are controlled for. For Israel, the average monthly wages per employee job are used. For the United Kingdom, average weekly earnings are used. Moreover, wages in the public sector are excluded for Costa Rica, Japan, Korea, Mexico, and the United States. Real wages are obtained by deflating nominal wages by consumer price inflation (all items).
Source: Wage measures from Eurostat and national sources – details available upon request. OECD (2024), "Prices: Consumer prices", Main Economic Indicators (database), https://doi.org/10.1787/0f2e8000-en (accessed on 21 February 2024).

Despite the recent pick up, real wages remain below their pre-COVID levels in most countries, even though the average change across all 35 countries with available data is zero (Figure 3).[4] By Q3 2023, real wages had recovered at least some of the lost ground in 24 of the 28 countries in which they fell in the aftermath of the

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wage dynamics. The second significant advantage of the wage measure adopted here is its availability at a more detailed sectoral breakdown than measures of compensation of employees from National Accounts, allowing the analysis on wage dynamics by industry of different pay levels that is presented later in this document.

[4] The comparison is made with Q4 2019 to avoid distortions in the wage measures generated by the use (and withdrawal) of job retention schemes during the pandemic. Seasonally adjusted series for nominal wages are available for all countries except for Canda, Switzerland, Costa Rica, Israel, Japan, Korea, Mexico, Norway, and New Zealand. CPI series are generally not available with seasonal adjustment and are adjusted for the purpose of this analysis using the X-13ARIMA-SEATS Seasonal Adjustment Method. The results on the cumulative changes in real wages obtained with these adjustments do not differ substantially from those obtained without any adjustments.

COVID-19 crisis – rising above pre-pandemic levels in eight of them. However, real wages remained well below their pre-pandemic levels in most of the countries where they fell the most.

In Q3 2023, real wages were still below their Q4 2019 level in 20 of the 35 countries with available data.

Figure 3. Real wages remain below 2019 levels in many countries

Percentage change in real hourly wages
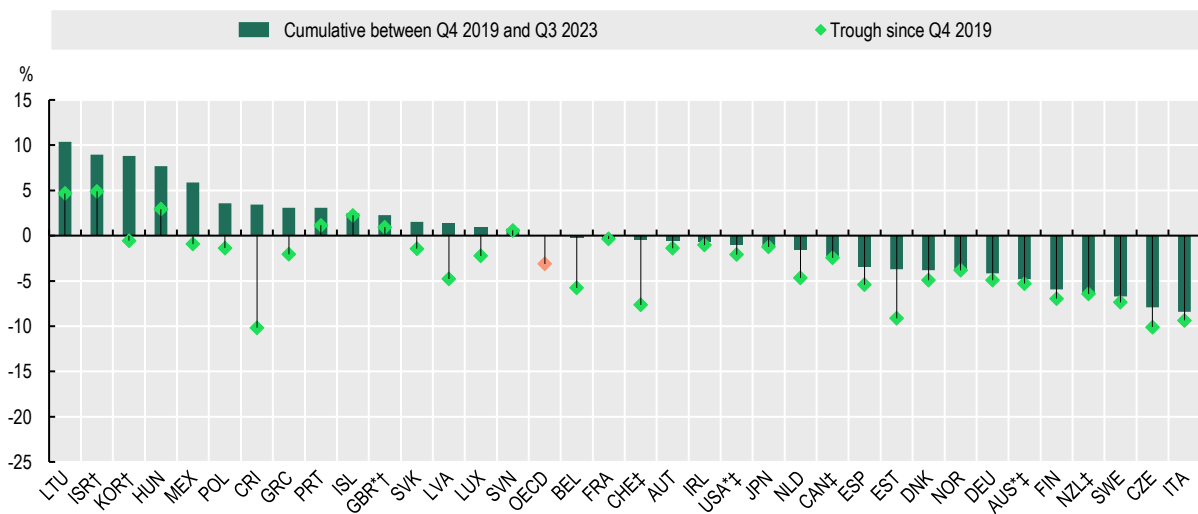
Note: The refence point is Q4 2019 to avoid distortions from the use of job retention schemes over the course of the COVID-19 pandemic. OECD is an unweighted average of the countries shown above. For countries marked with * percentage change in real hourly wages between Q4 2019 and Q4 2023. Where available, the figure uses the "wages and salaries" component of the Labour Cost Index from Eurostat – or a similar index for non-European countries - which measures the evolution of aggregate wages for a constant industry structure. †The composition of industries is not fixed for Israel, Korea, and the United Kingdom, and thus comparing these results with the others requires caution. ‡Additional sources of compositional shifts, such as regions (Australia, Canada, New Zealand), job characteristics and workers' characteristics (Australia, New Zealand), gender (Switzerland) and occupations (the United States) are controlled for. For Israel, the average monthly wages per employee job are used. For the United Kingdom, average weekly earnings are used. Wages in the public sector are excluded for Costa Rica, Japan, Korea, Mexico, and the United States. Real wages are obtained by deflating nominal wages by consumer price inflation (all items). The wage series are seasonally adjusted except for Canada, Switzerland, Costa Rica, Israel, Japan, Korea, Mexico, Norway, and New Zealand. The CPI series of each country are adjusted for seasonality using the X-13ARIMA-SEATS Seasonal Adjustment Method.
Source: Wage measures from Eurostat and national sources – details available upon request; OECD (2024), "Prices: Consumer prices", Main Economic Indicators (database), https://doi.org/10.1787/0f2e8000-en (accessed on 21 February 2024).

Box 1. Data for selected countries point to continued improvement in real wage growth in recent months generally driven by declining inflation

For a limited number of countries, monthly data allow to gain some insights on very recent wage developments with the caveat that the wage indicators differ between countries (and from those used in the main analysis in Figure 4) and are generally not seasonally adjusted.

These more recent data point to an improvement in annual real wage growth after Q3 2023 in 12 of the 15 countries with available data. This is generally driven by a deceleration in inflation rather than an acceleration in nominal wage growth. Similarly, quarterly data on private sector employees (not included in the figure) show real wage growth turning positive in France at the end of 2023 as a result of falling inflation.[1]

Among the countries included in Figure 4 where real wage growth decelerated in recent months, Japan and Slovenia saw a decline in both nominal wage growth and inflation, while Korea a slight increase in both.

Figure 4. Monthly data point to continued improvement in real wage growth
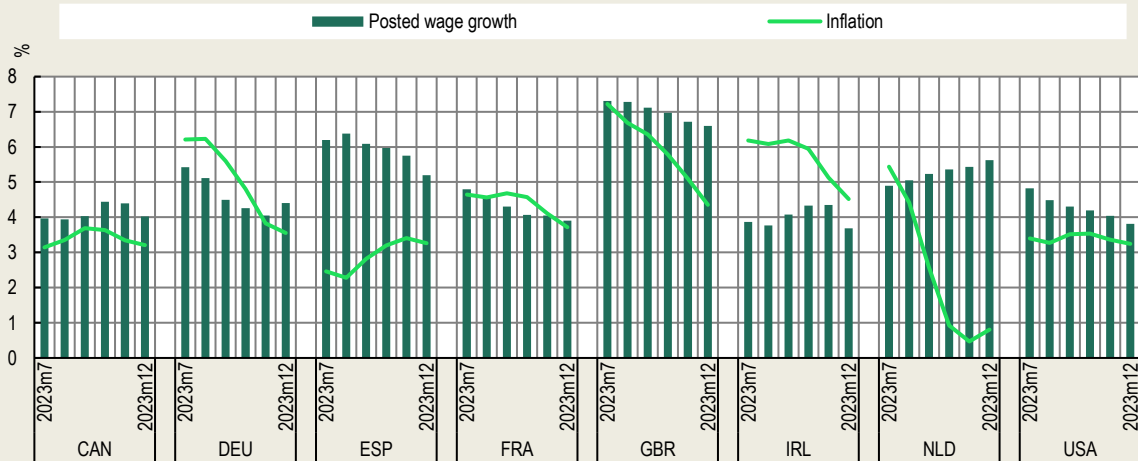
Year-on-year change
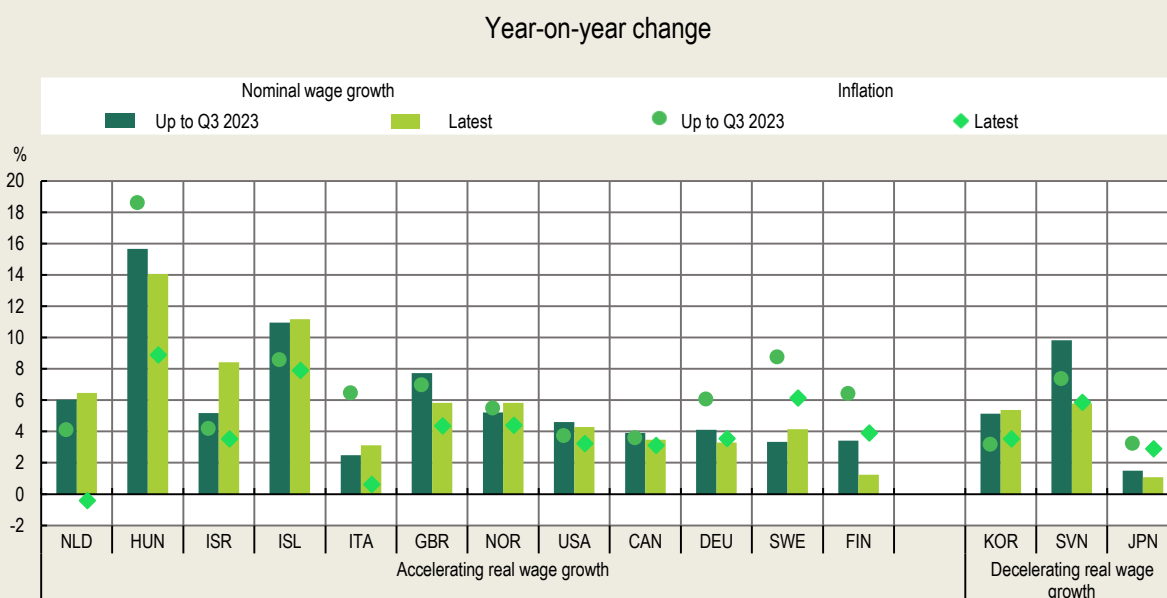
Note: Up to Q3 2023 refers to the average of the monthly observations of the six months ending to September 2023. Latest refer to the average of all monthly observations available after September 2023. The last available data point is October for the Netherlands and Iceland; November for Hungary, Israel, Korea, Norway, Canada, Sweden, and Slovenia; December for Finland, Germany, Japan, Italy, the United States, and the United Kingdom.
Source: Wage measures from national sources – details available upon request; OECD (2024), "Prices: Consumer prices", Main Economic Indicators (database), https://doi.org/10.1787/0f2e8000-en (accessed on 21 February 2024).

Data from job postings on the online platform Indeed show that real wage growth is improving or stable in six countries and declining in two (Spain and the United States) (Figure 5). Consistently with the result above, the acceleration in real growth in posted wages is driven by a fall in inflation rather than a significant up-tick in nominal wage growth. In fact, these data point to a deceleration in the nominal growth of posted wages in five of the eight countries with available data (France, Germany, Spain, the United Kingdom, and the United States).

Figure 5. Posted wages point to a recent slowdown in nominal wage growth

Year-on-year percentage change, 3-month moving averages, from July to December 2023

Note: The posted wages are the average year-on-year percentage changes in wages and salaries advertised by job postings on Indeed.
Source: Indeed Wage Tracker (https://github.com/hiring-lab/indeed-wage-tracker); OECD (2024), "Prices: Consumer prices", Main Economic Indicators (database), https://doi.org/10.1787/0f2e8000-en (accessed on 21 February 2024).

1. https://dares.travail-emploi.gouv.fr/publication/evolution-des-salaires-de-base-dans-le-secteur-prive-resultats-provisoires-du-4e


Growth in real negotiated wages has also improved, but remains negative in several countries

In Q3 2023, negotiated wages were increasing in real terms on an annual basis in Australia, Canada, the Netherlands, and the United States but continued to decline in Germany, Italy, Sweden and in the Euro Area more broadly (Figure 6). The sluggish performance of negotiated wages is due to a combination of factors, including the staggered and infrequent nature of collective bargaining, the low frequency of automatic indexation to inflation (which has historically contributed to lowering the risk of wage-price spirals), and the social partner's strength in bargaining (Araki et al., 2023[1]). Overall, however, as more rounds of negotiation take place affecting an increasing number of workers, real growth in negotiated wages is likely to turn positive in more countries for some time, recovering some of the lost ground.

For Europe, the ECB indicator of future wage growth embedded in agreements reached in the latest quarter point to stable or even moderating wage growth (Lane, 2024[2]). However, many agreements are expected to be renewed in Europe in early 2024 contributing to a further recovery in the real value of negotiated wages.

Figure 6. Real negotiated wages in selected OECD countries

Year-on-year percentage change in negotiated wages (i.e. resulting from collective agreements)
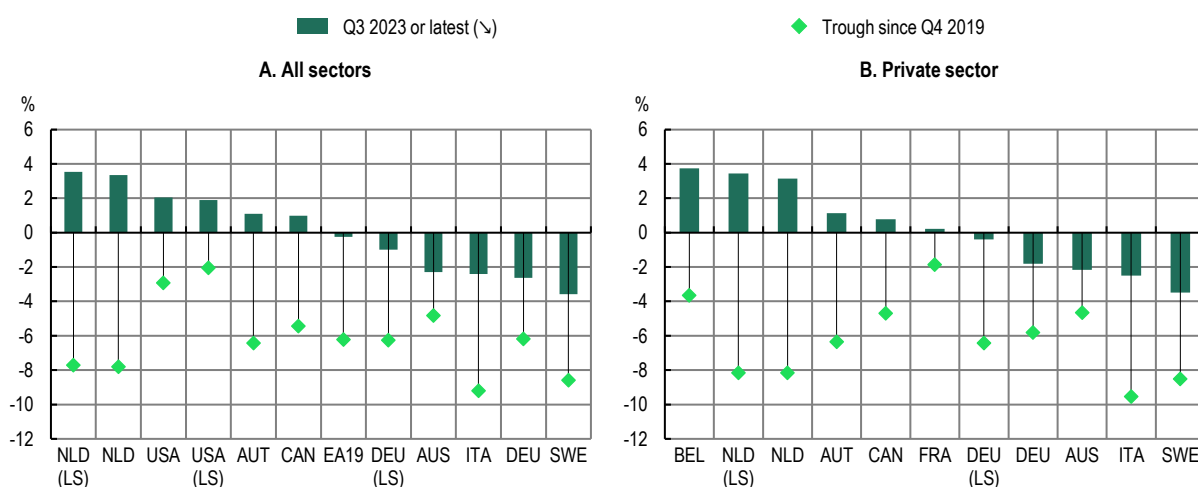
Note: LS: wages including lump sums and/or special payments.

International comparability of data on negotiated wages is affected by differences in definitions and measurement. Statistics are representative of all employees covered by a collective wage agreement for Austria, Belgium, the Euro Area (19), France, Germany, Italy, the Netherlands, and Sweden. In Canada, statistics refer to collective bargaining settlements of all bargaining units covering 500 or more employees (units of 100 or more employees for the Federal Jurisdiction). For Australia, Canada, and the United States, statistics refer only to employees affected by an increase of the negotiated wage at date. Wage increases in Austria, Belgium, the Euro Area (19), Germany, Italy, the Netherlands, and Sweden refers to the average increase in negotiated wages weighted by the employment composition for a reference year (Laspeyres index). The reference year of the employment composition used is 2009 for Sweden, 2010 for Belgium and the Netherlands, January 2015 for the Euro Area, 2015 for Germany and Italy, and 2016 for Austria. For Australia, Canada, France, and the United States, wage increases refer to the average increase in negotiated wages weighted by the number of employees affected of the period considered. Private sector in Germany refers to all industries excluding agriculture, public administration, education, health, and other personal services (Sections B to N of the NACE rev. 2). The latest date available refers to Q2 2023 (Q1 2023 for figure including lump sums and/or special payments) for the United States.

Source: OECD calculations based on national data on negotiated wages and OECD (2023), "Prices: Consumer prices", Main Economic Indicators (database), https://doi.org/10.1787/0f2e8000-en (accessed on 7 December 2023).

Wages of low pay workers have performed relatively better in many countries

The real value of statutory minimum wages is above its 2019 level in virtually all countries
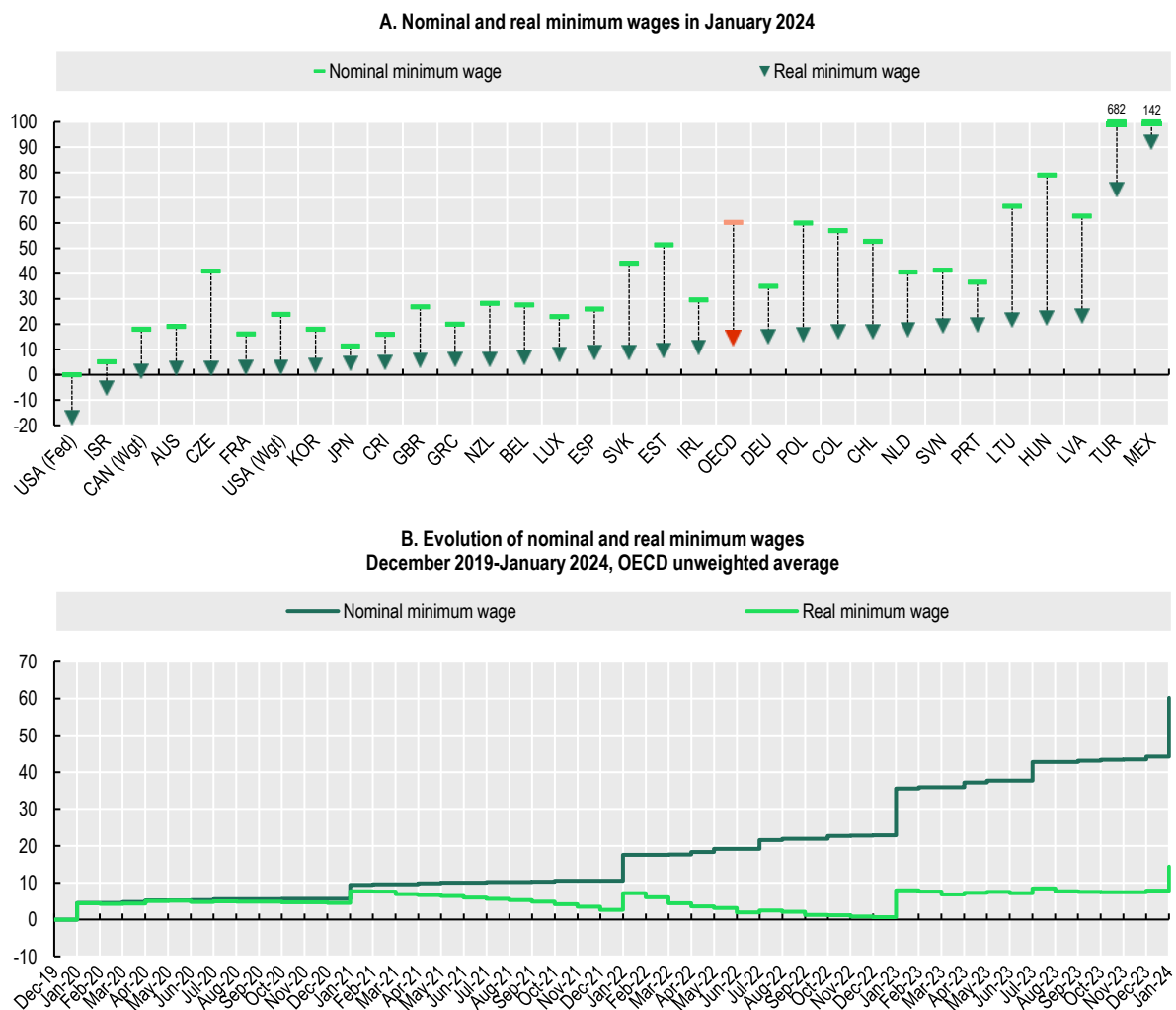
In January 2024, as the latest adjustments came into effect in several countries, real minimum wages were 14% higher than at the end of 2019 on average across the 30 OECD countries that have a national statutory minimum wage in place. This average figure is heavily influenced by the increases of more than 20% in Hungary, Mexico and Turkey.[5] The median increase across the 30 countries, however, is also considerable, standing at 9%. The real value of the statutory minimum wage was below its level of the end of 2019 only in two countries – Israel and the United States. In the United States the federal minimum wage has not changed since 2009, but state-level minimum wages have often increased in recent times raising the employment-weighted average real value of the minimum wage (Panel A, Figure 7).

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[5] Note that the January 2024 uprating of the minimum wage in Poland (+17.8%) is not included in the figure due to the lack of data on inflation at the time of writing to compute its real value.

Countries adjust nominal minimum wages either through automatic or discretionary increases (Araki et al., 2023[1]). Because these adjustments are often staggered and irregular, the real value of the minimum wage did fall for much of 2021 and 2022 on average across the OECD as inflation continued to increase. However, following the adjustments in early 2023, as inflation moderated, the real value of the minimum wage remained more stable over the course of the year and was further strengthened by the new wave of nominal adjustments in January 2024 (Panel B, Figure 7).

Figure 7. Real minimum wages are above their 2019 levels in virtually all countries

Cumulative percentage change since December 2019

A. Nominal and real minimum wages in January 2024

**B. Evolution of nominal and real minimum wages
December 2019-January 2024, OECD unweighted average**

Note: The reference point is December 2019 for consistency with the analysis on changes in average wages. Relative to December 2020, the average change in January 2024 in the real value of the minimum wage across all 30 countries is 9.3%. Statistics refer to the cumulative percentage change in December 2023 relative to December 2019 for New Zealand and Poland. At date, statistics in Panel A, do not include minimum wage uprating for Poland in January 2024 (+17.8%) due to lack of data on inflation at the time of writing. OECD is the unweighted average of all countries shown except the United States (weighted). Canada (weighted) is a Laspeyres index based on minimum wage of provinces and territories (excluding the Federal Jurisdiction) weighted by the share of employees of provinces and territories in 2019. United States (weighted) is a Laspeyres index based on minimum wage of states (not including territories like Puerto Rico or Guam) weighted by the share of nonfarm private employees by state in 2019.
Source: OECD Employment database, https://www.oecd.org/employment/emp/onlineoecdemploymentdatabase.htm, OECD (2024), "Prices: Consumer prices", Main Economic Indicators (database), https://doi.org/10.1787/0f2e8000-en (accessed on 6 March 2024), and Monthly CPI Indicator (Australian Bureau of Statistics).

There is evidence of increasing wage compression across industries, occupations and education levels

Across the OECD, between Q4 2019 and Q3 2023, there is a clear pattern of compression of wages across workers of different pay levels, as proxied by industry wages (Figure 8).[6] In 19 of the 33 countries with available data, real wages performed relatively better in low-pay industries than in both mid- and high-pay industries – either because they grew more or fell less. In ten other countries, real wages in low-pay industries outperformed either mid- or high-pay industries only. Low-pay industries had the worst wage performance only in four countries, losing more than 1 percentage point relative to both mid- and high-pay industries only in Estonia.

Figure 8. Real wages in low-pay industries have performed relatively better in most countries

Percentage change in real hourly wages between Q4 2019 and Q3 2023
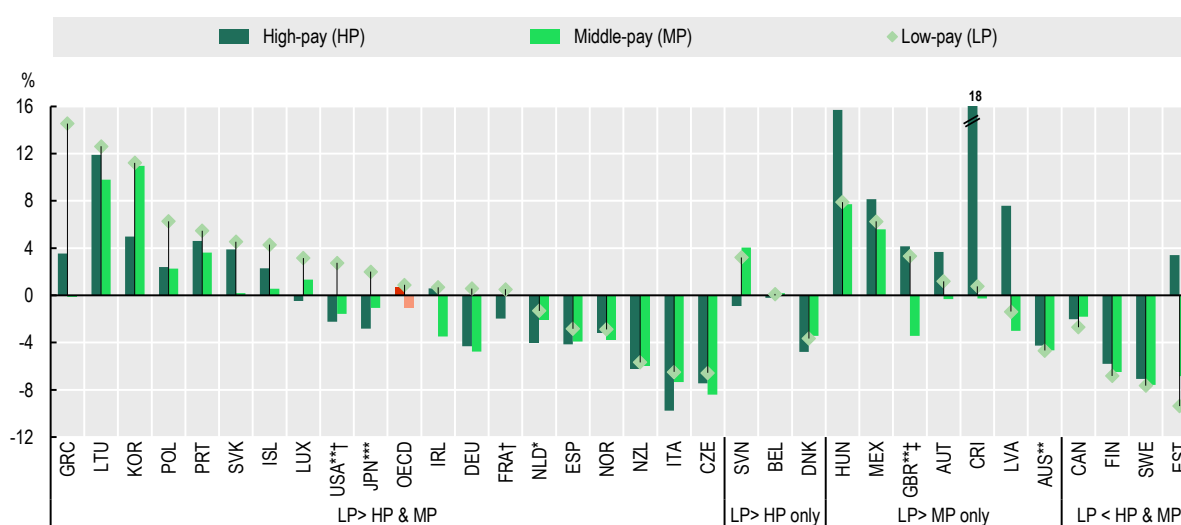
Note: Real wages are obtained by deflating nominal wages by consumer price inflation (all items). OECD is an unweighted average of the countries shown. Low-pay industries include Accommodation and food service, Administrative and support service, Arts, entertainment and recreation and Wholesale and retail trade. Middle pay industries include Transportation and storage, Manufacturing, Other service, Real estate activities and Construction. High-pay industries include Human health and social work, Education, Professional activities, Information and communication and Finance and insurance. Average employment shares by industry over the four quarters of 2019 are used for aggregation and thus small inconsistencies between changes in wages by industry and changes in average wages are possible. For countries marked with * percentage change in real hourly wages between Q4 2019 and Q2 2023. For countries marked with ** percentage change in real hourly wages between Q4 2019 and Q4 2023. For countries marked with *** percentage change in real hourly wages between Q3 2019 and Q3 2023. †There are missing industries: Arts, entertainment and recreation is not included for the United States; Human health and social work and Education are not included for France. ‡Average weekly earnings are used for the United Kingdom. Moreover, wages in the public sector are excluded for Japan, Korea, Mexico, Costa Rica, the United States, and the United Kingdom.

Source: Wage measures from national sources – details available upon request; OECD (2024), "Prices: Consumer prices", Main Economic Indicators (database), https://doi.org/10.1787/0f2e8000-en (accessed on 21 February 2024).

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[6] The figure reports changes in real wages by industries aggregated in three broad groups: low-pay industries (accommodation and food services, administrative and support services, arts, entertainment and recreation, wholesale and retail trade); mid-pay industries (transportation and storage, manufacturing, other services, real estate activities, and construction); and high-pay industries (human health and social work, education, professional activities, information and communication, and finance and insurance). Industries are weighted by employment shares within each group.

Results by education and occupation for the five countries with available data also confirm a general pattern of wage compression (Panel A and B, Figure 9). Between Q3 2023 to Q3 2019, real wage growth was stronger for the low and mid-pay groups by education and occupation in four of the five countries (Costa Rica, Mexico, the United Kingdom, and the United States). Canada was the only country among those with available data where real wages grew more for the highest-paid education and occupation groups.

Among the same five countries, there is some indication that overall wage inequality has decreased since 2019 in Costa Rica, the United Kingdom and the United States, but not in Mexico and Canada (Panel C, Figure 9). The largest reductions in inequality occurred in the two countries with the highest initial level of inequality – Costa Rica and the United States.

Figure 9. Changes in real wages by occupation, education and percentile of the wage distribution

Cumulative percentage change in real hourly wages since 2019
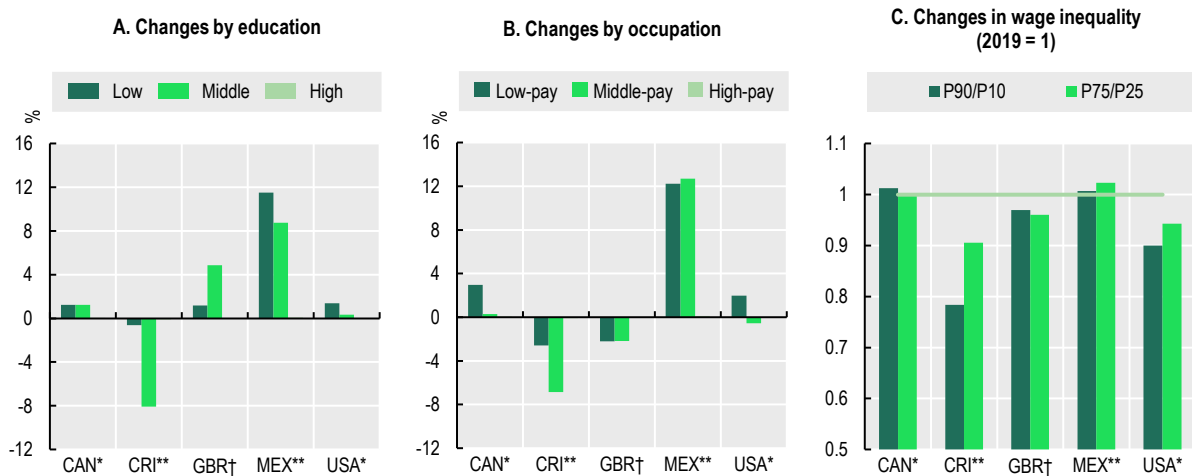
Note: The classification of pay levels by occupation is determined by identifying the top/middle/bottom tertial of employed population based on the ranking of average hourly wages according to a national classification of occupations in each country. The level of education is classified as follows: low (ISCED 0-2), middle (ISCED 3-4) and high (ISCED 5-8). For countries marked with * Cumulative percentage change in real hourly wages between Q2 2019 and the corresponding quarter of 2023. For countries marked with ** Cumulative percentage change in real hourly wages between Q4 2019 and the corresponding quarter of 2023. For countries marked with † the latest quarter available is Q2 2023.
Source: OECD calculations on the Labour Force Survey (Statistics Canada), Encuesta Continua de Empleo (Instituto Nacional de Estadística y Censos, Costa Rica), Labour Force Survey (UK Office for National Statistics), Encuesta Nacional de Ocupación y Empleo, Encuesta Telefónica de Ocupación y Empleo, Encuesta Nacional de Ocupación y Empleo Nueva Edición (Instituto Nacional de Estadística y Geografía, Mexico) and Current Population Survey (U.S. Bureau of Labor Statistics). OECD (2024), "Prices: Consumer prices", Main Economic Indicators (database), https://doi.org/10.1787/0f2e8000-en (accessed on 21 February 2024).

Cross-country analysis attempting to explain differences in wage dynamics across pay levels over the past two years has been inconclusive and is hindered by limited sample sizes and the presence of many confounding factors (Araki et al., 2023[1]). At the country-level, for the United States, Autor et al. (2023[3]) document a significant reduction in the college premium and a remarkable compression of the wage distribution which counteracted almost 40% of the four-decade increase in aggregate inequality between the 10th and 90th percentile. They find that the pandemic increased the elasticity of labour supply to firms in the low-wage labour market, reducing employer market power and spurring rapid wage growth at the bottom. Among the possible drivers discussed, a decrease in work-firm attachment spurred by the large

number of separations that occurred during the pandemic. By contrast, they find the fall in inequality is not explained by (state-level) changes in minimum wages.

As real wages recover, unit profits growth has slowed down and even turned negative in some countries

In the aftermath of the COVID-19 crisis, unit labour costs[7] increased in most OECD countries as growth in nominal wages exceeded productivity growth. Unit profits also generally increased, indicating that firms were able to increase prices beyond the increase in the cost of labour and other inputs. In fact, between 2019 and 2022, unit profits increased more than unit labour costs in many countries and sectors, making an unusually large contribution to domestic price pressures (Araki et al., 2023[1]).

The most recent data point to a change in the relative dynamics of unit profits and unit labour costs in several countries. Between the start of 2022 and Q3 2023, unit labour costs grew more than unit profits in just over half of the countries with data available (16 out of 29) (Figure 10). This pattern has become more pronounced in the first three quarters of 2023, when unit labour costs increased more than unit profits in 22 countries. In fact, in 17 countries I profit unit profits even declined in the first three quarters of 2023, an indication that they have started to buffer some of the inflationary impact of rising labour costs (European Central Bank, 2023[4]). Despite these recent changes, however, unit profits remained above their levels of early 2022 in all countries with available data except Canada, Denmark, and Switzerland (Figure 10).

As a result of the recent changes in the relative dynamics of unit labour costs and unit profits, the contribution of unit profits to domestic price pressures has decreased, turning negative in the United Stated, but remaining higher than prior to the pandemic in the Euro Area (see also (OECD, 2023[5]))

These developments were largely expected as they reflect the ongoing recovery of purchasing power by wages described above, rather than a warning sign of wage-price spirals (Araki et al., 2023[1]). Indeed, the contribution of unit labour costs to domestic price pressures is likely to remain sustained for some time as this catch-up process continues, unless labour productivity growth picks up. Reassuringly, however, there are currently no signs of further acceleration in nominal wage growth. Moreover, in many countries, the growth in unit profits over the last three years allows for more buffering against the inflationary pressures stemming from the recovery of real wages (Lane, 2024[2]).[8] In the medium term, however, labour productivity growth is essential to ensure sustainable increases in wages that do not generate increases in unit labour costs and further inflationary pressures.

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[7] To allow a comparison of dynamics between labour costs and a measure of profits, this section uses indicators from the National Accounts (see note to Figure 10). Using the income approach, nominal GDP can be decomposed as $PY = NCE + GOS + TAXN$ where P is the GDP deflator, Y is real GDP, NCE is nominal compensation of employees, GOS is gross operating surplus, and $TAXN$ is nominal taxes. This illustrates also the interpretation of GOS as profit margin, i.e. the difference between total revenue and total costs (labour costs, which are part of value added, and intermediate inputs, which are not part of total value added). This is a timely measure of profits that is commonly used in this type of analysis but does not fully correspond to the notion of corporate profits. Unit labour costs and profits are derived by dividing the two relevant GDP components by real GDP. Equivalently, unit labour costs can be expressed as compensation per hour worked divided by real GDP per hour worked (i.e. labour productivity). This latter formulation illustrates that unit labour costs will increase when growth in compensation per hour worked exceeds growth in labour productivity. This measure of unit labour costs differs in some important respects from the measure of hourly wages based on the "wages and salaries" component of the labour cost index used in the previous sections (see footnote 3). Most notably, unit labour costs include employer's social security contributions and do not control for changes in the sector composition of the economy.

[8] Overall, between Q4 2019 and Q3 2023, unit profits grew, often significantly, in all 29 countries with available data – growing more than unit labour costs in 15 countries. See Lane (2024[2]) for other indicators for the Euro area also pointing to further room for profits to buffer the inflationary pressure arising from the ongoing increases in labour costs.

Figure 10. Profits are beginning to buffer some of the increases in labour costs

Percentage changes, seasonally adjusted
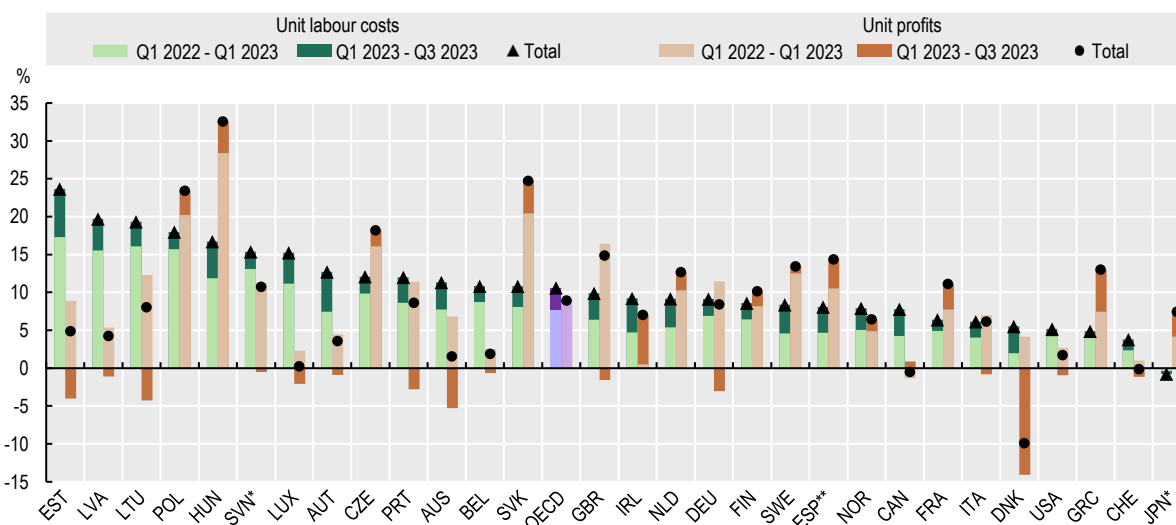
Note: OECD is an unweighted average of the countries shown above. For countries marked with * changes refer to the period from Q1 2022 to Q2 2023. For countries marked with ** changes refer to the period from Q1 2022 to Q4 2023. For Norway, the data are based on mainland Norway. Unit labour costs and unit profits are calculated by dividing compensation of employees and gross operating surplus respectively, by real GDP. For Japan and Norway, gross operating surplus is approximated by deducting compensation of employees from nominal GDP – and hence also include unit net taxes.
Source: OECD Quarterly National Accounts: Volume and price indices – GDP Expenditure Approach (http://dotstat.oecd.org//Index.aspx?QueryId=120521); Quarterly National Accounts – Income Approach (http://dotstat.oecd.org/Index.aspx?QueryId=120186).

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