

REAL WAGES CONTINUE TO RECOVER

The OECD Wage Bulletin

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Real wages continue to recover

13 March 2025

Key findings

- **Real wages are now growing in virtually all OECD countries but remain below the levels seen in early 2021 – just before the post-pandemic inflation surge – in around two-thirds of them.** According to the latest data for Q3 2024, annual real wage growth was positive in 31 of the 34 OECD countries analysed, with an average across countries of 3.4%. However, real wages remained below their Q1 2021 level in 22 of these 34 countries.
- **The real statutory minimum wage was higher in January 2025 than in January 2021 in virtually all of the 30 OECD countries with a national minimum wage.** The increase in the average real minimum wage across these 30 countries was 8.8%, while that of the *median* real minimum wage, unaffected by particularly large increases in some countries, was 5.5%.
- **The wages of the lowest-paid workers have proved more resilient to the post-pandemic inflation surge.** Statutory minimum wages increased more than median wages in most countries. Although empirical evidence remains scarce, a compression of the wage distribution at the bottom could be observed in some countries during the COVID-19 crisis and subsequent recovery.
- **As real wages continue to recover, unit profits continue to lose the ground gained during the post-pandemic inflation surge.** Unit labour costs increased more than unit profits between Q3 2023 and Q3 2024 in virtually all countries analyzed, accentuating a trend that began around Q1 2023. This reflects the catching-up of purchasing power by wages after the disproportionate contribution of unit profits to the inflation surge in 2021-22; and should not be seen as a warning sign of price-wage spirals.

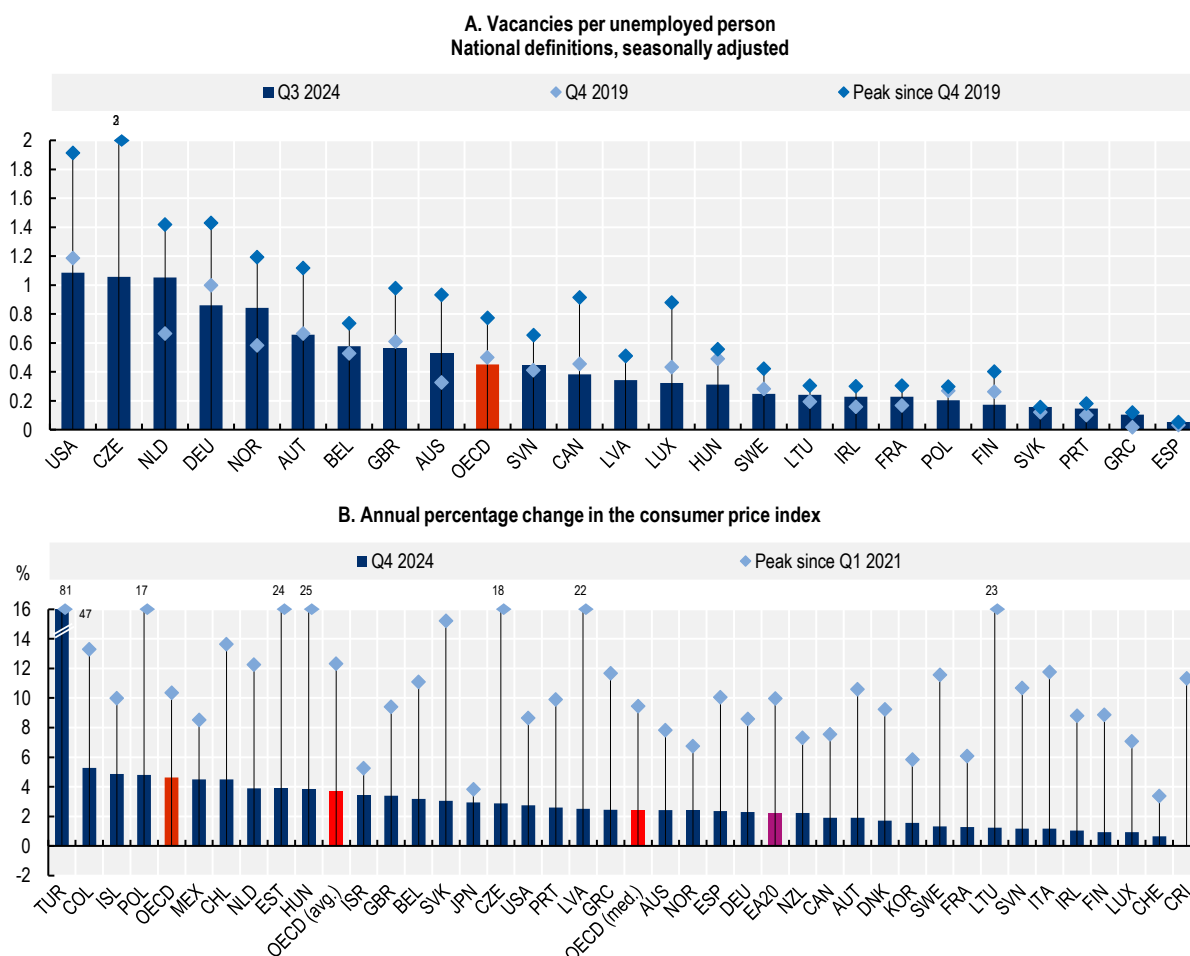
Labour markets have remained resilient with record high employment and historically low unemployment, but there are signs of a slowdown

OECD labour markets have continued to show resilience in the face of the negative shocks experienced since the COVID-19 crisis, including Russia's war of aggression against Ukraine, soaring inflation and the resulting tightening of monetary policies. Employment and labour force participation rates have reached

record highs – 72.1% and 76.5% respectively in Q3 2024 on average across OECD countries – and unemployment remains at historically low levels in many countries.

However, there might be signs of a slowdown, as employment growth continues to decelerate, and the OECD unemployment rate has risen slightly over the past year (from 4.8% in Q3 2023 to 4.9% at the end of 2024). In addition, labour markets have continued to ease, and labour market tightness has now returned to pre-COVID-19 levels in many countries (Figure 1 Panel A).

Figure 1. Both labour market tightness and inflation are a long way from their peak



Note: OECD is the unweighted average of the 23 OECD countries shown in Panel A of this chart (not including Chile, Colombia, Costa Rica, Czechia, Denmark, Estonia, Iceland, Israel, Italy, Japan, Korea, Mexico, New Zealand, Switzerland, and Türkiye). The peak (Panel A) refers to the maximum value of the number of vacancies per unemployed reached in Q4 2019-Q1 2024. For Latvia, the number of vacancies per unemployed remains always below its Q4 2019 level and consequently there is no peak during the period considered. In Panel A, statistics do not include vacancies in the public administration and compulsory social security.

In Panel A, statistics refer to the number of vacancies (see description below) divided by the number of unemployed (ILO definition). The definition of vacancies is not harmonised across countries. For European countries, a vacancy is defined as a paid post that is newly created, unoccupied, or about to become vacant for which the employer is taking active steps and is prepared to take further steps to find a suitable candidate from outside the enterprise concerned; and which the employer intends to fill either immediately or within a specific period. For Australia, a vacancy is defined as a job available for immediate filling and for which recruitment action has been taken by the employer. For Canada, a vacancy is defined as a job meeting the following conditions: it is vacant on the reference date (first day of the month) or will become vacant during the month; there are tasks to be carried out during the month for the job in question; and the employer is actively seeking a worker outside the organisation to fill the job. The jobs could be full-time, part-time, permanent, temporary, casual, or seasonal. Jobs reserved for subcontractors, external consultants, or other workers who are not considered employees, are excluded. For the United Kingdom, a vacancy is defined as a position for which employers are actively seeking recruits from outside their business or organisation (excluding agriculture, forestry, and fishing) based on the estimates from the Vacancy Survey. For the United States, a vacancy is defined as a job that is not filled on the last business day of the month and a job is considered open if a specific position exists and there is work available for it, the job can be started within 30 days, and there is active recruiting for the position.

In Panel B, “OECD (avg.)” and “OECD (med.)” are the unweighted average and the median across the 38 OECD countries, respectively.

Source: Job Vacancies (ABS) for Australia; Job vacancies, payroll employees, and job vacancy rate (Statistics Canada) for Canada; Eurostat, Job vacancy statistics by NACE Rev.2 activity (Table jvs_q_nace2) for the European countries; Vacancy Survey (ONS) for the United Kingdom; and Job Openings and Labor Turnover Survey (Bureau of Labor Statistics, retrieved from FRED) for the United States; OECD (2024), “Prices: Consumer prices”, Main Economic Indicators (database), <https://doi.org/10.1787/0f2e8000-en> (accessed on 12 December 2024).

In all countries analysed, headline inflation is now a long way from its 2022 peak (Figure 1 Panel B). In Q4 2024, inflation in the OECD area (as measured by the Consumer Price Index) was 4.6%, less than half of its Q3 2022 level (10.4%), but still above the 2% central bank target. Inflation remained above this target in 24 OECD countries – 47% in Türkiye and above 4% in five other OECD countries.

Real wages are now growing in virtually all OECD countries but remain below early 2021 levels in around two-thirds of them

According to the latest data for Q3 2024, annual real wage growth was positive in virtually all OECD countries, with an average of 3.4% across the 34 countries for which data are available (Figure 2 Panel A).¹ Only in Belgium, Iceland, and Luxembourg, did annual real wage growth remain negative in Q3 2024, but the reduction in real wages was generally modest (less than 1%).² Recent data on wages posted in online vacancies for selected countries show contrasting trends in real wage growth over recent months (Box 1).

In Q3 2024, despite their persistent annual growth, real wages remained below their Q1 2021 level (which pre-dates the post-pandemic inflation surge) in about two-thirds (22) of the 34 countries for which data are available (Figure 2, Panel B). Nonetheless, real wages regained at least some of the lost ground in all OECD countries.

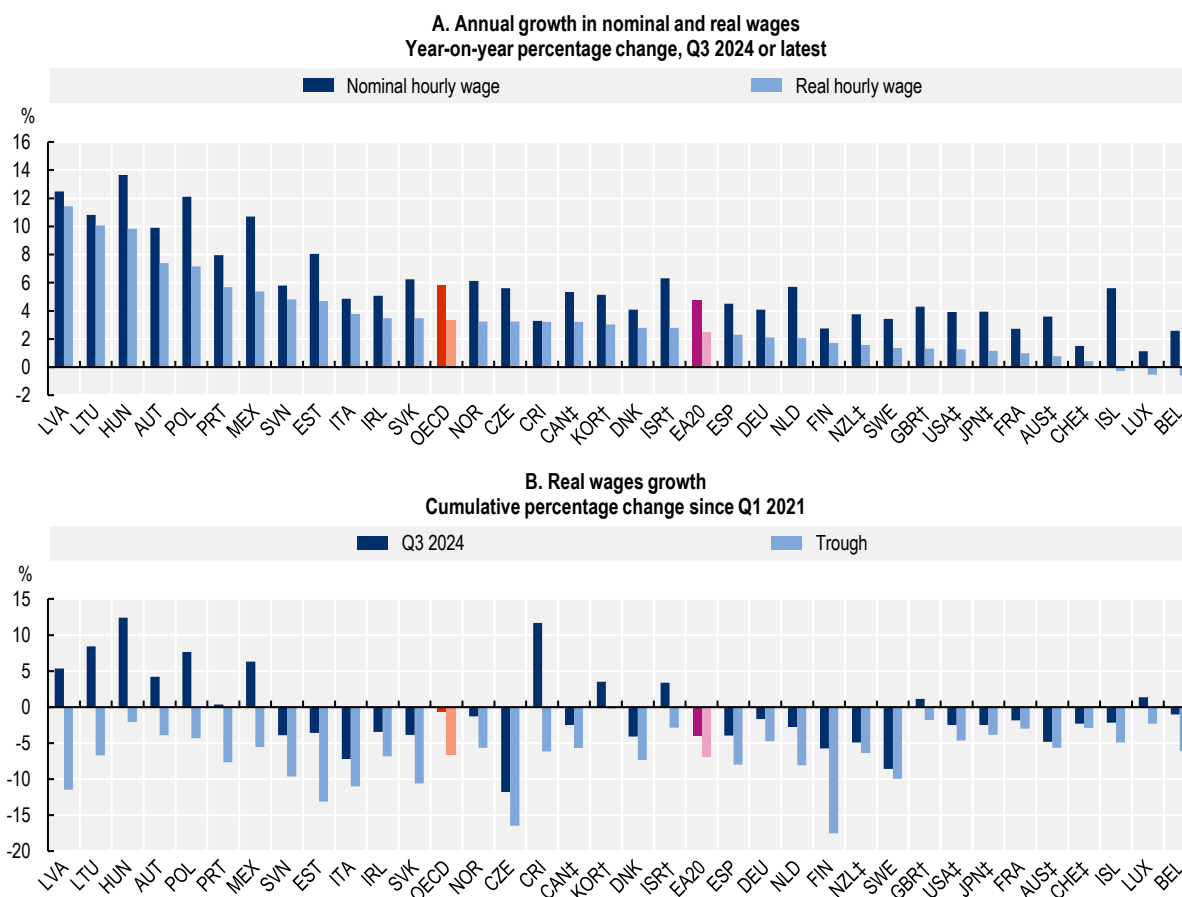
Several factors may have influenced wage growth over the last year. While the easing of labour market tightness described in the previous section may have been a moderating factor, the increase in statutory

¹ Most of the data used in this section 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). 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 wage dynamics. Second, they are available 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 of the next Section.

² In Belgium, real wages had already returned to their pre-COVID-19 levels by Q3 2023 (OECD, 2024^[8]).

minimum wages (see next section) and further adjustments in wages negotiated in collective agreements (Box 2) continued to exert upward pressures.

Figure 2. Real wages continued to grow in 2024 but remain below Q1 2021 levels in about two-thirds of OECD countries



Note: Otherwise indicated, nominal hourly wages refer to a constant-industry-structure “wages and salaries” component of the labour cost index. For Costa Rica and Mexico, the adjustment for constant-industry-structure of the average hourly earnings has been estimated by the OECD. Statistics refer to the private sector only for Costa Rica, Japan, Korea, Mexico, and the United States. Nominal wage series are seasonally adjusted for all countries except for Canada, Costa Rica, Finland, Israel, Mexico, New Zealand, and Switzerland. Nominal hourly wage presents a significant amount of unreported income for Mexico.

†: Nominal hourly wage refers to the actual wage i.e. without any adjustment for sources of compositional shifts for Israel, Japan, Korea, and the United Kingdom, and thus comparing these results with the other countries requires caution. Moreover, nominal hourly wage refers to the average monthly wages per employee job for Israel, and to the average weekly earnings for the United Kingdom.

‡: Nominal hourly wage controls for additional sources of compositional shifts, such as regions for Australia, Canada and New Zealand, job characteristics and workers’ characteristics for Australia and New Zealand, gender for Switzerland, and occupations for the United States. Real hourly wage is estimated by deflating the nominal hourly wage by the consumer price index (CPI-all items).

Countries are ordered by descending order of the year-on-year changes in real hourly wages (Panel A). The trough (Panel B) refers to the quarter where real hourly wages were at their lowest value for the indicated country since Q1 2021. For Finland, Israel, and Switzerland, the trough (Panel B) refers to the quarter where real hourly wages were at their lowest value for the indicated country since Q3 2020. OECD is the unweighted average of the 34 OECD countries shown in this chart (not including Chile, Colombia, Greece, and Türkiye).

Source: OECD calculations based on the Wage Price Index (Australian Bureau of Statistics) for Australia; the Fixed weighted index of average hourly earnings for all employees (Statistics Canada) for Canada; the Encuesta Continua de Empleo (Instituto Nacional de Estadística y Censos) for Costa Rica; the Labour cost index by NACE Rev. 2 activity (Eurostat) for the European countries except the United Kingdom; the Wages and Employment Monthly Statistics (Central Bureau of Statistics) for Israel; the Labour Force Survey at Establishments (Ministry of Employment and Labour) for Korea; the Monthly Labour Survey (Ministry of Health, Labour and Welfare) for Japan; the Encuesta Nacional de Ocupación y Empleo y Encuesta Nacional de Ocupación y Empleo Nueva Edición (Instituto Nacional de Estadística y Geografía) for Mexico; the Labour Cost Index (Stats NZ) for New Zealand; the Swiss Wage Index (Federal Statistical Office) for Switzerland; the Monthly Wages and Salaries Survey (Office for National Statistics) for the United Kingdom; and Employment Cost Index (Bureau of Labor Statistics) for the United States. OECD (2025), "Prices: Consumer prices", Main Economic Indicators (database), <https://doi.org/10.1787/0f2e8000-en> (accessed on 21 February 2025).

Box 1. Wages posted in online vacancies show contrasting trends in real wage growth over recent months

Data from wages advertised in job postings on the online platform Indeed show contrasting trends in real wage growth between August 2024 and January 2025 in the countries for which data are available. Real wage growth is rising in three countries (France, Ireland, Spain), declining in four (Germany, Italy, the Netherlands and the United-Kingdom), and remaining stable in two (United states and Canada) (Figure 3). Spain is the only country where nominal wage growth is rising; the increase in real wage growth in France and Ireland is due solely to the reduction in inflation. By contrast, in most countries where real wage growth is decreasing (Germany, the Netherlands and the United-Kingdom), this is due to both rising inflation and declining nominal wage growth. In the euro area as a whole, declining nominal wage growth and stable inflation have led to a decline in real wage growth.

Figure 3. Posted wages show contrasting trends in real wage growth over recent months

Year-on-year percentage change, three-month moving averages, from August 2024 to January 2025



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 (2025), "Prices: Consumer prices", Main Economic Indicators (database), <https://doi.org/10.1787/0f2e8000-en> (accessed on 03 March 2025).

Box 2. Real negotiated wages have accentuated their upward trend but remain below the levels reached before the inflation surge

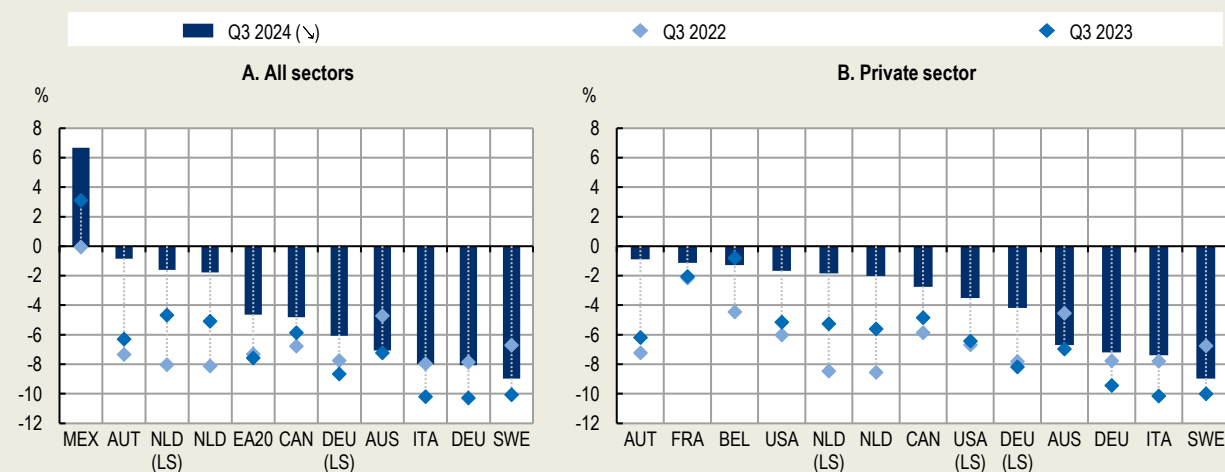
Real negotiated wages are now increasing in virtually all countries analysed, but remain below the levels seen just before the post-COVID-19 inflation surge in all countries except Mexico, where they did not fall with inflation (Figure 4). They were higher in Q3 2024 than a year earlier in the euro area and in all the countries analysed individually, with the exception of Belgium, where they had already stabilised around the levels seen in Q3 2020 in Q3 2023. Besides Belgium, real negotiated wages in Q3 2024 were close to (i.e. less than 2% below) Q3 2020 levels in Austria, the Netherlands, France and the United States. Real negotiated wages were already rising on an annual basis in Q3 2023 in Austria, Canada, Mexico, the Netherlands and the United States, and accelerated over 2024 in most of these countries (Austria, Canada, Mexico and the United State). By contrast, real negotiated wage growth turned positive only in late 2023 or 2024 in the euro area as a whole, as well as in Australia, France, Germany, Italy, and Sweden.

The dynamics of real negotiated wages reflect a combination of factors, including the staggered and infrequent nature of collective bargaining, the time lag between the completion of negotiations and actual wage revisions, the infrequent use of automatic inflation indexation, and workers' bargaining power (Araki et al., 2023^[1]). Since the start of the cost-of-living crisis, as bargaining rounds have multiplied and affected a growing number of workers, negotiated wages have regained more and more of the ground lost during the inflation surge.

Looking ahead, the European Central Bank's (ECB) indicator of future growth in negotiated wages points to a gradual reduction in nominal negotiated wage growth in Europe from 5.3% in Q4 2024 to 1.4% in Q4 2025.¹

Figure 4. Real negotiated wages in selected OECD countries

Cumulative percentage change in real negotiated wages (i.e. resulting from collective agreements) since Q3 2020



Note: 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 (20), France, Germany, Italy, the Netherlands, Sweden, and the United States. 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 Mexico statistics refer only to employees affected by an increase of the negotiated wage at date. Wage increases in Austria, Belgium, the Euro Area (20), Germany, Italy, the Netherlands, Sweden, and the United States 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 (20), 2015 for Germany and Italy, 2016 for Austria, and 2021 for the United States. For Australia, Canada, France, and Mexico 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 cumulative percentage changes since Q3 2020 for Australia, the Euro Area, France, Mexico and Sweden are OECD estimates based on the published year-on-year percentage changes. LS: wages including lump sums and/or special payments.

Source: OECD calculations based on national data on negotiated wages and OECD (2025), "Prices: Consumer prices", Main Economic Indicators (database), <https://doi.org/10.1787/0f2e8000-en> (accessed on 21 February 2025).

1. www.ecb.europa.eu/press/pr/date/2024/html/ecb.pr241218_1~1acca7fac8.en.html.

The wages of the lowest-paid workers have proved more resilient to the inflation surge

Statutory minimum wages in real terms are above their January 2021 level

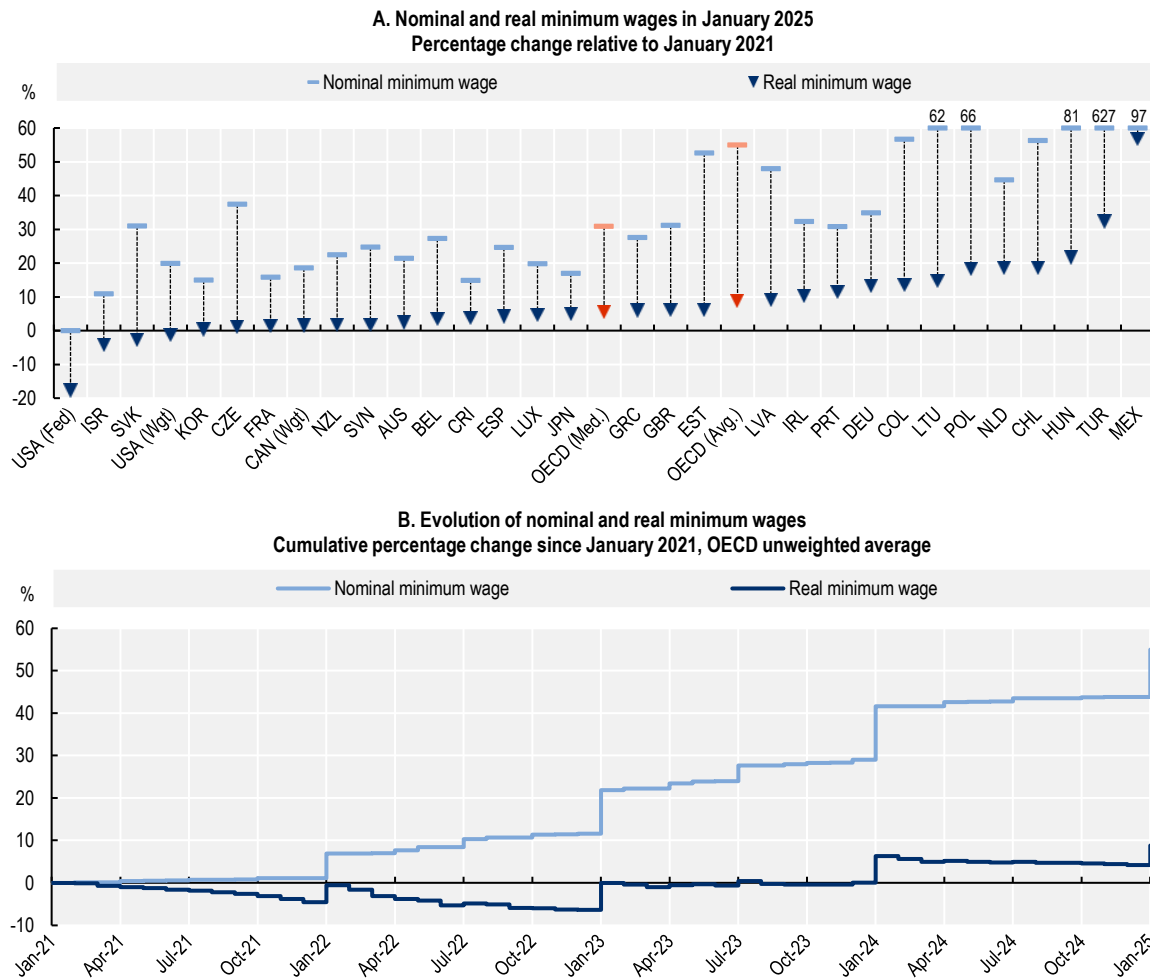
The real statutory minimum wage was higher in January 2025 than in January 2021 in virtually all of the 30 OECD countries that have a national statutory minimum wage in place (Figure 5 Panel A). The average real minimum wage across these 30 countries was 8.8% higher in January 2025 than in January 2021, and the increase in the median real minimum wage, unaffected by outliers (e.g. Mexico), was 5.5%. The real minimum wage was lower in January 2025 than in January 2021 in only three countries – Israel, the Slovak Republic and the United States. In the United States the nominal federal minimum wage has remained unchanged since 2009, but state-level minimum wages have risen frequently in recent times, so that the reduction in the employment-weighted average of state-level real minimum wages between January 2021 and January 2025 (-1.2%) is much smaller than that of the federal real minimum wage (-17.7%).

Minimum wages have been able to keep pace with inflation thanks to automatic or discretionary increases in the nominal minimum wage, introduced by countries to support the lowest earners during the cost-of-living crisis (Araki et al., 2023^[1]). During 2022, the real gains resulting from these adjustments rapidly faded away on average across countries, as inflation continued to rise (Figure 5 Panel B). In 2023 and 2024, however, larger minimum wage adjustments and moderating inflation enabled the real minimum wage to catch up (in 2023) and exceed (in 2024) its January 2021 level on average across countries.

Statutory minimum wages have increased more than median wages in most countries

In most OECD countries, statutory minimum wages have increased by more than median wages in recent years, favouring a compression of the wage distribution at the bottom. Figure 6 shows changes in the ratios of minimum wage to median wage (or Kaitz index) between 2021 and 2023. It shows an increase in 22 of the 30 countries analysed. On average across the countries analysed, the Kaitz index rose from 55.3% in 2021 to 56.7% in 2023. This trend can be explained in part by the fact that wages negotiated in collective agreements generally have more difficulty than the minimum wage in keeping pace with inflation (Araki et al., 2023^[1]).

Figure 5. Real minimum wages are above January 2021 levels in virtually all countries

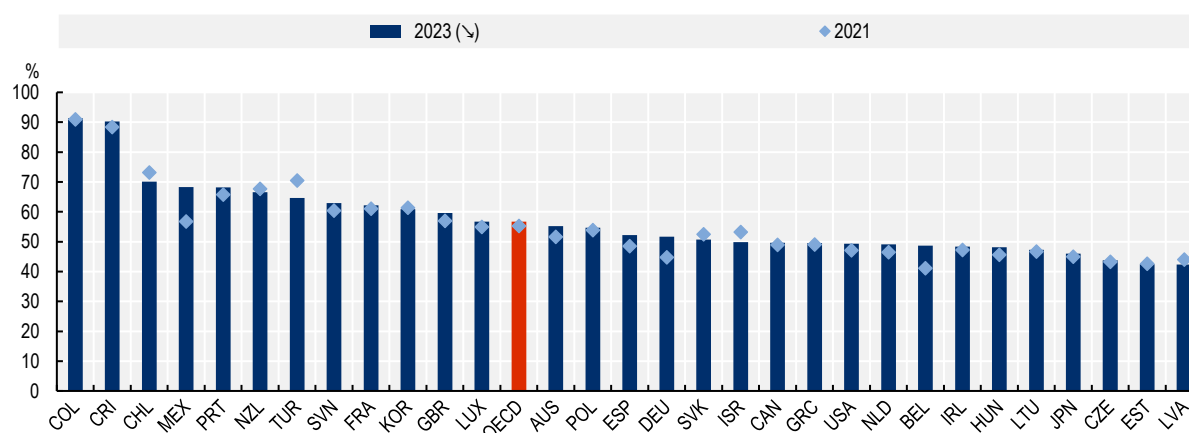


Note: Change in real minimum wage in January 2025 compared to January 2021 for New Zealand (Panel A) is estimated by assuming that the CPI in January 2025 is the same as in Q4 2024. "OECD (Avg.)" is the unweighted average of the 30 OECD countries shown except the United States (weighted) and "OECD (Med.)" is the median values across the same countries. 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, www.oecd.org/employment/emp/onlineoecdemploymentdatabase.htm, OECD (2025), "Prices: Consumer prices", Main Economic Indicators (database), <https://doi.org/10.1787/0f2e8000-en> (accessed on 05 March 2025), and Monthly CPI Indicator (Australian Bureau of Statistics).

Figure 6. Statutory minimum wages have increased more than median wages in most countries

Gross minimum wage as a percentage of gross median wage of full-time workers



Note: The minimum wage for the United States is estimated by the sum of state-level minimum wages weighted by the number of nonfarm private sector employees in the state in 2019 from the State and Metro Area Employment, Hours, & Earnings published by the BLS. For the five states without a minimum wage (Alabama, Louisiana, Mississippi, South Carolina, and Tennessee), the federal minimum wage is used. This estimate does not take into account any exemptions or derogations in force in the states. OECD is the unweighted average of the 30 OECD countries shown.

Source: OECD Employment database, www.oecd.org/employment/emp/onlineoecdemploymentdatabase.htm.

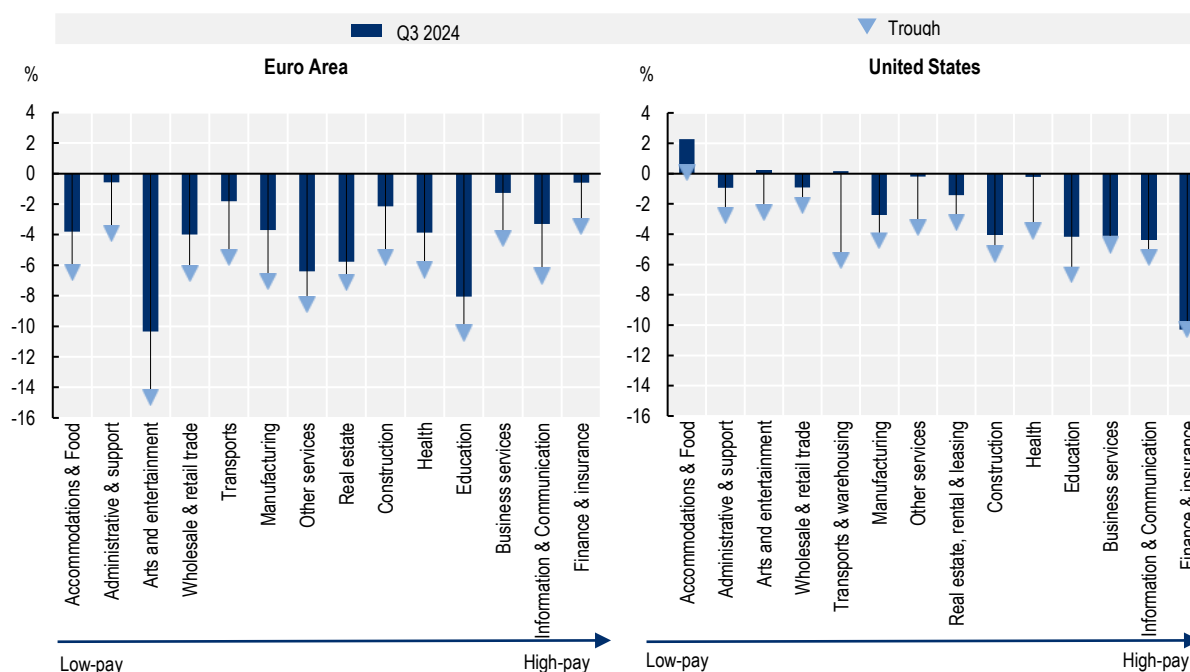
There are indications of a compression of the wage distribution at the bottom in some countries

In addition to the minimum wage, other factors may have influenced wage compression at the bottom of the distribution. For example, although labour markets are now easing, low-pay service sectors saw a particularly marked increase in labour demand and labour market tightness in the early recovery from the COVID-19 crisis (OECD, 2023^[2]), leading to significant labour shortages. Although empirical evidence is scarce for most countries, there are indications of a compression of the wage distribution at the bottom in recent years in some countries (OECD, 2024^[3]) (Box 3 provides an insight into wage compression in two of these countries: France and the United States).

In particular, there is a clear trend towards wage compression *between sectors* in the United States over the Q1 2021 - Q3 2024 period, which is not the case in the euro area. In the United States, accommodation and food service activities is by far the sector with the strongest wage growth (+2.3%) (Figure 7). This is also a sector where wages are relatively low. On the other hand, the five sectors with the biggest wage declines are finance (-10% wage growth), followed by information and communication, education, business services, and construction (all around -4%), all sectors where wages tend to be relatively high. The picture is more mixed in the euro area, where two high-wage sectors (finance and business services) are among the sectors with the smallest wage reductions, while arts and entertainment, where wages tend to be low, records the biggest wage decline.

Figure 7. There is a clear trend towards wage compression between sectors in the United States

Cumulative percentage change in real hourly wages since Q1 2021



Note: Nominal hourly wages refer to a constant-industry-structure “wages and salaries” component of the labour cost index for the Euro Area, and controls for additional occupational shifts for the United States. Real hourly wage is estimated by deflating the nominal hourly wage with the consumer price index (CPI-all items). The trough refers to the minimum value of the cumulative percentage change in real hourly wage between Q1 2021 and Q3 2024. Industries refer to the NACE Rev. 2 at the 1-digit level for the Euro Area and to the NAICS for the United States and are therefore not fully comparable between these two countries. Changes in real wages in the Wholesale and retail trade industry in the United States refer to the employment-weighted averages of the wholesale and retail trade industries based on non-farm payroll employment in these industries in Q4 2005. Similarly, changes in real wages in the Arts and entertainment industry in the United States is derived from statistics for the Leisure and Hospitality industry and Accommodations and Food Service industry using non-farm payroll employment in these industries in Q4 2005. Industries are ranked by the median wage in 2018 in the European Structure of Earnings Survey (SES). The ranking of industries is broadly consistent when 2018 data on median wages from the Current Population Survey of the United States are used.

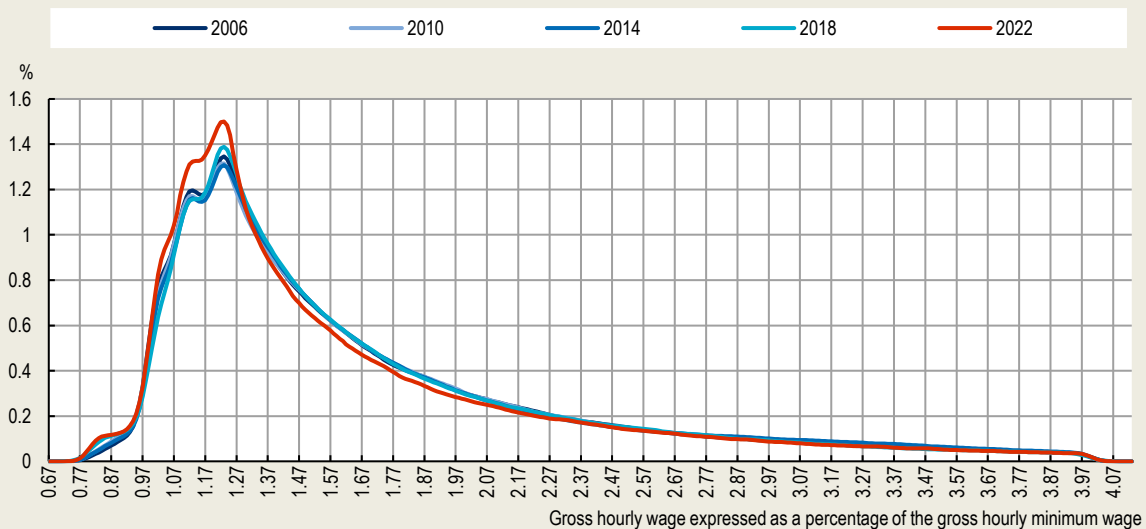
Source: OECD calculations based on the wages and salaries component of labour cost index by NACE Rev. 2 activity (Eurostat) for the Euro Area, the Employment Cost Index (U.S. Bureau of Labor Statistics) for the United States; and OECD (2024), “Prices: Consumer prices”, Main Economic Indicators (database), <https://doi.org/10.1787/0f2e8000-en> (accessed on 20 December 2024).

Box 3. The compression of the wage distribution in France and the United States may reflect different phenomena

The compression of the wage distribution in **France** since the COVID-19 crisis can be linked to the significant minimum wage increases over the period (Bozio and Wasmer, 2024^[4]). Looking at the period 2006-22, there is a remarkable compression of the wage distribution between 2018 and 2022 (Figure 8), when the French minimum wage – *Salaire Minimum Interprofessionnel de Croissance (SMIC)* – increased dramatically to keep pace with high inflation – the SMIC is indexed to inflation, unlike other wages.

Figure 8. Distribution of gross hourly earnings expressed as a share of the minimum wage in France

Percentage of private sector employees aged 18-64 (main job)



Reading: In 2022, 1.5% of private sector employees aged 18-64 earn a gross hourly wage equivalent to 1.22 times the minimum wage.

Note: Statistics refer to private sector employees (excluding salaried self-employed) aged 18-64 in their main job (i.e. highest paid in terms of gross wage) in metropolitan France who earn less than 4 times the gross hourly minimum wage.

Source: Bozio and Wasmer (2024^[4]).

In the **United States**, on the other hand, it was the tightening of the labour market rather than minimum wage increases that enabled some low-wage workers to benefit from substantial wage increases (Autor, Dube and McGrew, 2023^[5]). Although likely amplified by the surge in tensions after the pandemic, these developments predate the COVID-19 crisis (Aeppli and Wilmers, 2022^[6])¹ and might therefore still be at work despite the recent easing of tensions to pre-COVID-19 levels (Figure 1), leaving scope for further wage compression. For example, the latest compensation plan for employees of warehouse store company *Sam's club* (owned and operated by *Walmart*), implemented in November 2024, suggests that tensions might still be high for low-wage occupations in the retail sector. The new plan raised the hourly wages from USD 15 to USD 16 for entry-level workers, and increased wage growth by up to 6% depending on years of service.²

1. Aeppli and Wilmers (2022^[6]) document a link at the local labour market level between pay increases for low-wage workers and the tightening of the labour market since the recovery from the global financial crisis.

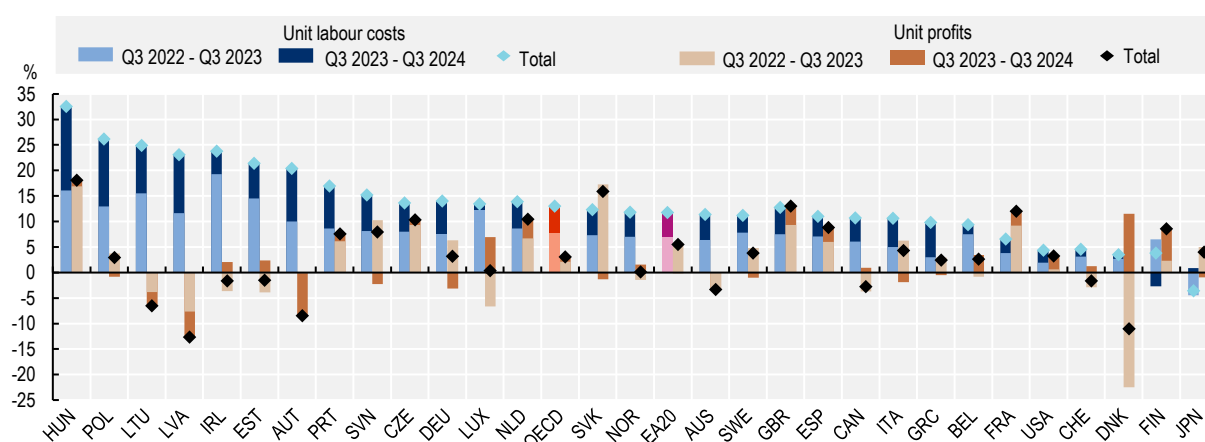
2. www.reuters.com/business/retail-consumer/walmarts-sams-club-raise-hourly-pay-100000-workers-november-2024-09-17/.

As real wages continue to recover, unit profits continue to lose the ground gained during the inflation surge

Unit labour costs³ grew more than unit profits in virtually all countries analyzed between Q3 2023 and Q3 2024 (Figure 9), accentuating a trend that began around Q1 2023 (OECD, 2024^[3]). In fact, unit profits even fell over the period in around a third of the countries analysed. Looking more specifically at the euro area, the contribution of unit profits to domestic price pressures declined over 2023-24, reaching historically low levels (zero or negative) in 2024 (Figure 10).

Figure 9. Profits continue to buffer the increase in labour costs

Cumulative percentage change since Q3 2022, seasonally adjusted data



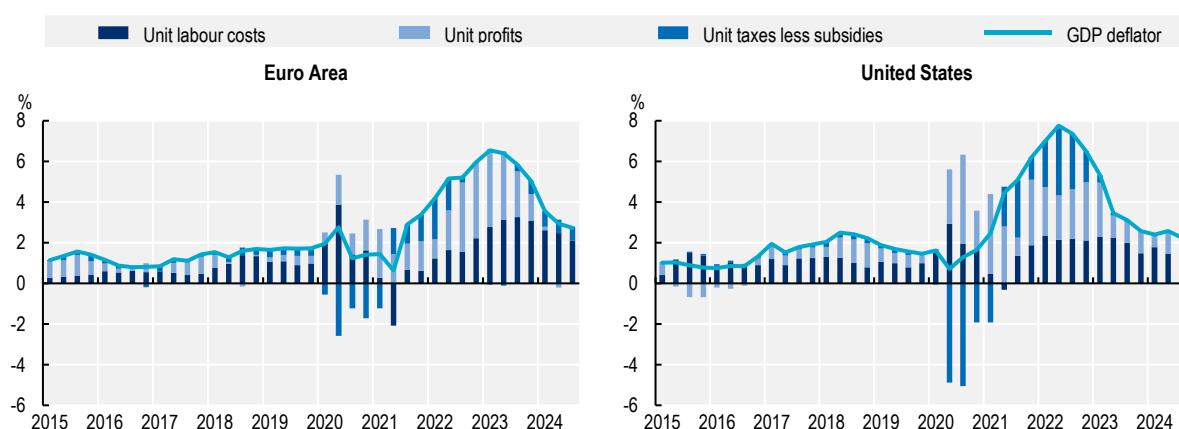
Note: OECD is the unweighted average of the 29 OECD countries shown in this Chart (not including Chile, Colombia, Costa Rica, Iceland, Israel, Korea, Mexico, New Zealand, and Türkiye). For Norway, the data are based on mainland Norway. Unit labour costs and unit profits are calculated by dividing compensation 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 (2024), “Quarterly National Accounts”, OECD National Accounts Statistics (database), <https://doi.org/10.1787/data-00017-en> (accessed on 12 December 2024), Cabinet Office, Government of Japan, Economic and Social Research Institute (ESRI) Quarterly Estimates of GDP for Japan, and Statistics Norway, Quarterly National Accounts for Norway.

³ To enable a comparison of the dynamics between labour costs and profits, this section uses indicators from the National Accounts (see note to Figure 9). 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. Unit labour costs and profits are derived by dividing the two relevant GDP components by real GDP. Unit labour costs increase when growth in compensation exceeds growth in real GDP or, dividing these two components by hours worked, 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 1). Most notably, unit labour costs include employer’s social security contributions and do not control for changes in the sectoral composition of the economy.

Figure 10. Unit profits continue to lose the ground gained during the inflation surge

Contribution to the GDP deflator, year-on-year percentage changes, seasonally adjusted data



Note: Euro Area refers to 20 Eurozone countries. Unit labour costs, unit profits and unit taxes less subsidies are calculated by dividing compensation of employees, gross operating surplus and taxes less subsidies on productions and imports, respectively, by real GDP. Compensation of employees, gross operating surplus, taxes less subsidies on productions and imports, gross domestic products and deflators are denominated in local currencies. For the United States, changes in the GDP deflator are reported net of statistical discrepancies. Source: OECD (2024), "Quarterly National Accounts", OECD National Accounts Statistics (database), <https://doi.org/10.1787/data-00017-en> (accessed on 12 December 2024).

These developments reflect the catching-up of purchasing power by wages, rather than a warning sign of price-wage spirals. On the one hand, unit profits continue to lose the ground gained during the inflation surge of 2021-22, when they were making an unusually large contribution to domestic price pressures (Araki et al., 2023^[1]). On the other hand, wage pressures are expected to ease in 2025, both through negotiated wages⁴ and additional compensations (Bates, Bodnár and Schlieker, 2024^[7]).

The United States stands out from the above trends, with unit profits and unit labour costs growing at roughly the same pace (albeit modestly) between Q3 2023 and Q3 2024 (Figure 9). Looking further back, the relative contribution of unit profits to domestic price pressures in the United States has stabilised in late 2023 around pre-pandemic levels, following a sharp fall in early 2023 (Figure 10).

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