

LABOR COST IN THE PHILIPPINES *Trends and Structures* (First of a series)

The Labor Cost Survey (LCS) is one of the modules in the 2007/2008 BLES Integrated Survey (BITS) which also inquired on the employment of specific groups of workers; occupational shortages and surpluses; safety and health practices in the work place; and occupational injuries and diseases. The BITS is a national sample survey covering 6,460 non-agricultural establishments employing 20 or more workers.

The LCS was conducted primarily to address the gap in wage statistics in the country specifically, to provide data on the evolution of labor cost and its various components, or what the employers spend in engaging the services of its workers. According to the Resolution Concerning Statistics of Labour Cost adopted by the 11th Conference of Labour Statisticians in October 1966 labor cost consist of: direct wages and salaries; remuneration for time not worked; bonuses and gratuities; food, drink, fuel and other payments in kind; cost of worker's housing borne by employers; employer's social security expenditures; cost of vocational training; cost of welfare services; labor cost not elsewhere classified; and taxes regarded as labor cost.

The 2007 LCS is the 3rd survey of its kind, conducted less frequently, initially with 1998 as reference period and then 2002, as the composition of labor cost does not change drastically over a short period of time. It now covers 65 industry groups that include call center activities; medical transcription and related outsourcing activities; and animated films and cartoons production. These three are technology-based industries that have emerged recently in the Philippine economy.

This issue provides an overview of the results of the 2007 LCS compared with those of previous survey rounds. The metadata and the statistical tables of the survey are posted on the BLES website.

Total labor cost in the country went up to ₱615.6 billion in 2007 from ₱459.9 billion in 2002 and ₱314.8 billion in 1998. Direct wages and salaries at less than 80% remained to be the biggest component of labor cost.

Labor cost structure relatively unchanged

Total labor cost in 2007 at ₱615.6 billion, from ₱459.9 billion in 2002, grew at a slower pace (33.9%) than the 46.1% growth recorded in 2002 from 1998. On an annualized basis these were around 7% and 12%, respectively.

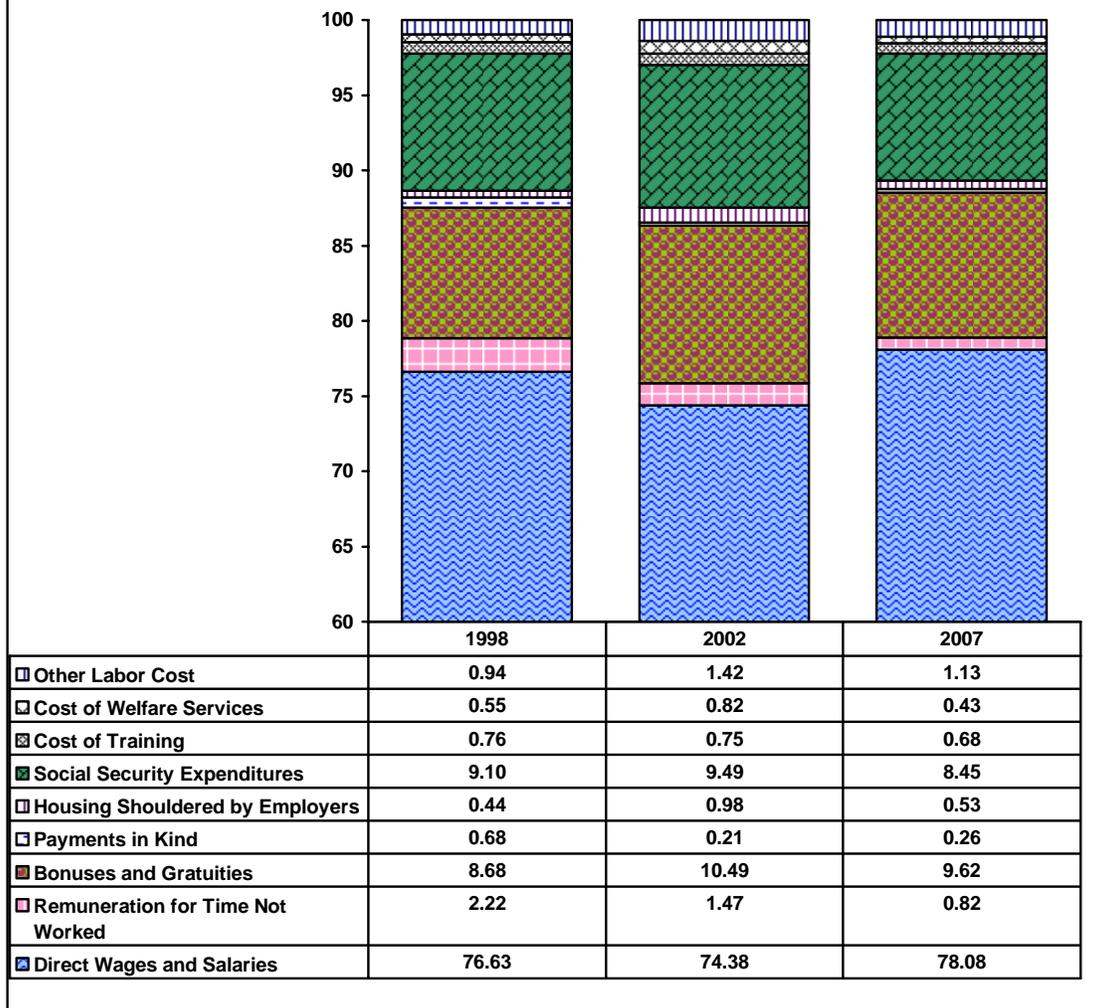
The cost structure during the 10-year period was relatively the same with direct wages and salaries accounting for the bulk at 78.1% in 2007, up from 74.4% in 2002 and 76.6% in 1998.

The cost allocation for bonuses and gratuities at 9.6% in 2007 was slightly above that of expenditures on social security at 8.4%. A decade earlier, their shares were approximately the same at around 9.0% each.

The rest of the components made up less than one percent each except for other labor costs which was noted at a little over one percent.

(Figure 1)

FIGURE 1 - Percent Distribution of Labor Cost in Non-Agricultural Establishments Employing 20 or More Workers by Major Cost Component, Philippines: 1998, 2002 and 2007



Labor cost of call center activities around one-tenth of total labor cost

Manufacturing accounted for the biggest slice of total labor cost among major industry groups at 28.1% in 2007 and 33.4% in 1998 as it also had the largest share in total establishment employment. (Table 2)

The labor cost allocation of real estate, renting and business activities more than doubled from around 8.1% in 1998 and 2002 to 20.8% in 2007. This is largely attributed to the emergence of call center activities which made up 52.0% of labor cost in this major industry group and 10.8% of total labor cost.

The contributions to total labor cost of wholesale and retail trade group and transport,

storage and communications were only 11.4% and 10.2%, respectively, in 2007, showing hardly any shift from their 1998 and 2002 shares.

Electricity, gas and water supply had a notable continuous drop in its cut to total cost from 7.3% in 1998 to 5.6% in 2002 to 3.7% in 2007.

Mining and quarrying had the smallest share to total labor cost at 0.9% in 2007. It likewise had the smallest workforce among industry groups.

**Labor cost per employee grew relatively slower
from 2002 to 2007 than in 1998 to 2002**

Annual labor cost per employee in 2007 stood at ₱213,395 or about ₱17,783 per month. This was 17.0% higher than the ₱182,541 in 2002. However, this growth was lower than the 30.4% rate between 1998 and 2002. Annualizing these growth rates resulted to an average growth in labor cost per employee of 3.4% between 2002 and 2007 and 7.6% between 1998 and 2002. (Table 1)

Direct wages and salaries at ₱107,233 in 1998 grew by 26.6% in 2002 and 22.7% in 2007 to reach ₱166,618. The 5-7% annualized growth in direct wages and salaries

approximates the 5-6% annual growth in minimum wages during the same period.

Levels of bonuses and gratuities and social security expenditures accruing to each employee showed very little change between 2002 and 2007 compared to 1998 and 2002 review period.

The minimal amounts on payments in kind maybe an understatement as employers may have encountered difficulties in valuating these into monetary terms.

**TABLE 1 - Annual Labor Cost Per Employee by Major Cost Component, Philippines:
1998, 2002 and 2007**
(In Pesos)

Major Cost Component	1998	2002	2007
TOTAL	139,934	182,541	213,395
<i>Direct Cost</i>			
Direct Wages and Salaries	107,233	135,774	166,618
Remuneration for Time Not Worked	3,110	2,680	1,748
Bonuses and Gratuities	12,147	19,147	20,532
Payments in Kind	952	387	559
Housing Shouldered by Employers	619	1,788	1,123
<i>Indirect Cost</i>			
Social Security Expenditures	12,731	17,317	18,023
Cost of Training	1,060	1,368	1,456
Cost of Welfare Services	765	1,496	923
Other Labor Cost	1,317	2,585	2,413

*Sources of data: Bureau of Labor and Employment Statistics, 1998 Labor Cost Survey
BLES Integrated Survey (2002/2003 and 2007/2008).*

**Annual labor cost per employee in transport, storage and communications
highest in 2007**

Five major industry groups posted higher annual labor cost per employee than the all industry average of ₱213,395 in 2007. Most notable were transport, storage and communications (₱353,315) and financial intermediation (₱325,798). (Table 3)

Although labor cost per employee in electricity, gas and water supply (₱284,708) was above the national average, this was

lower compared to the 2002 level (-23.6%). Diminutions were also noted in hotels and restaurants (-35.6%); and financial intermediation (-6.1%). Conversely, a 41.5% increase in annual labor cost accruing to each worker was noted in real estate, renting and business activities (from ₱150,333 in 2002 to ₱212,759). This can be attributed to the above average labor cost per employee of call center activities observed at ₱270,939.

FOR INQUIRIES:

Regarding this report contact **LABOR STANDARDS STATISTICS DIVISION** at 527-3000 loc 311/527-9325

Regarding other statistics and technical services contact **BLES Databank** at 527-3000 loc 317

Or write to BLES c/o Databank, 3/F DOLE Bldg. Gen. Luna St., Intramuros, Manila 1002

FAX 527-9325

E-mail: bles_issd@yahoo.com

Website: <http://www.bles.dole.gov.ph>

Definition of Terms:

Direct Wages and Salaries - cash payments for normal/regular working time, commissions of employees and their share in service charges, overtime, night shift and premium pay, payments under bonus, productivity and other incentive schemes (regular payments on the basis of work performed or current output), cost of living allowances and other guaranteed and regularly paid allowances except housing allowances; these are payments before any deductions are made in respect of taxes, contributions of employees to social security and pension schemes, life insurance premiums, union dues and other obligations of employees; these exclude payments/overhead costs which are reimbursements to employees for travel, entertainment, meals and other expenses incurred in conducting the business of the employer.

Remuneration for Time Not Worked - payments for vacation, sick, maternity, paternity, service incentive leave, union/emergency/bereavement/burial leaves and other paid leaves.

Bonuses and Gratuities - year-end, seasonal and other one-time bonuses (mid-year/Christmas bonus, 13th/14th/15th month pay and the like), profit sharing bonuses and additional payments in respect of vacation supplementary to normal vacation pay.

Payments in Kind - refer to goods and services, valued at producer's or wholesale prices given to workers as part of their remuneration; these exclude general amenities provided by the employer such as imputed rental value of free/subsidized housing, medical services, canteen and other welfare services and facilities.

Cost of Workers' Housing Shouldered by Employer - cost for establishment-owned dwellings and cost for dwellings not owned by establishment and other housing costs (housing allowances, rents, subsidies, etc.).

Cost for establishment-owned dwellings - net cost, i.e. maintenance expenditures, fees, property taxes, insurance, interest, depreciation and other costs, less grants-in aid, tax rebates, subsidies, etc. received from government and other institutions in respect of establishment-owned building and equipment used for dwelling of employees; it excludes capital investment on building, equipment or land made during the year and labor cost of personnel employed in establishment-owned dwellings for employees.

Employer's Social Security Expenditures - compulsory social security expenditures (GSIS, SSS, PhilHealth, Pag-IBIG); collectively agreed and non-obligatory contributions to private social security schemes and insurance (pension, life, accident, medical and health, hospitalization); direct payments by employer to employees regarded as social security benefits (in respect of absence from work due to sickness, maternity or occupational injury); cost of medical care and health services; retirement and separation/termination pay.

Cost of medical care and health services - medical care and health expenses (except insurance), e.g. medicines, incurred by the employer on behalf of the employees; it includes net cost, i.e. maintenance expenditures, fees, property taxes, insurance, interest, depreciation and other costs, less grants-in aid, tax rebates, subsidies, etc. received from government and other institutions in respect of establishment-owned building and equipment used for medical care and health services of employees; it excludes capital investment on building, equipment or land made during the year and labor cost of personnel employed in establishment-owned medical care and health facilities for employees.

Cost of Training - net cost of fees, salaries and other payments for services of outside instructors, payments made to outside training institutions on behalf of the workers of the establishment and the reimbursement of school fees to workers, it includes net cost, i.e. maintenance expenditures, fees, property taxes, insurance, interest, depreciation and other costs, less grants-in aid, tax rebates, subsidies, etc. received from government and other institutions in respect of establishment-owned building and equipment used for training of employees; it excludes capital investment on building, equipment or land made during the year and labor cost of personnel employed in establishment-owned training facilities.

Cost of Welfare Services - grants to credit unions and related services for employees, cost of services such as canteens and other food services, educational, cultural, recreational and related facilities and services; it includes net cost, i.e. maintenance expenditures, fees, property taxes, insurance, interest, depreciation and other costs, less grants-in aid, tax rebates, subsidies, etc. received from government and other institutions in respect of establishment-owned building and equipment used for welfare of employees; it excludes capital investment on building, equipment or land made during the year and labor cost of personnel employed in establishment-owned welfare facilities.

Other Labor Costs - cost of work clothes/protective gear, transport of workers to and from work undertaken by employers and recruitment cost.

**TABLE 2 - Annual Labor Cost in Non-Agricultural Establishments
Employing 20 or More Workers by Major Industry Group,
Philippines: 1998, 2002 and 2007**

Major Industry Group	1998	2002	2007	Percent Share		
				1998	2002	2007
TOTAL (P million)	314,844	459,934	615,646	100.00	100.00	100.00
Mining and Quarrying	2,227	5,110	5,330	0.71	1.11	0.87
Manufacturing	104,994	155,582	172,739	33.35	33.83	28.06
Electricity, Gas and Water Supply	22,994	25,850	22,914	7.30	5.62	3.72
Construction	11,357	10,416	13,898	3.61	2.26	2.26
Wholesale and Retail Trade; Repair of Motor Vehicles, Motorcycles; and Personal and Household Goods	35,978	56,325	70,127	11.43	12.25	11.39
Hotels and Restaurants	12,022	33,586	19,844	3.82	7.30	3.22
Transport, Storage and Communications	32,495	41,449	62,462	10.32	9.01	10.15
Financial Intermediation	32,263	46,492	45,286	10.25	10.11	7.36
Real Estate, Renting and Business Activities	24,879	37,264	127,896	7.90	8.10	20.77
-Call Center Activities	N.A	N.A	66,219	-	-	10.76
Private Education Services	23,728	29,145	46,662	7.54	6.34	7.58
Health and Social Work Except Public Medical, Dental and Health Activities	5,501	8,340	13,311	1.75	1.81	2.16
Other Community, Social and Personal Service Activities	6,406	10,374	15,177	2.03	2.26	2.47

N.A. Not available.

Sources of data: Bureau of Labor and Employment Statistics, 1998 Labor Cost Survey
and BLES Integrated Survey (2002/2003 and 2007/2008).

**TABLE 3 - Annual Labor Cost Per Employee In Non-Agricultural Establishments
Employing 20 Or More Workers by Major Industry Group,
Philippines: 1998, 2002 and 2007**

Major Industry Group	1998	2002	2007	Percent Change	
				1998 - 2002	2002 - 2007
TOTAL	139,934	182,541	213,395	30.45	16.90
Mining and Quarrying	195,880	248,183	268,323	26.70	8.11
Manufacturing	121,950	162,939	190,533	33.61	16.94
Electricity, Gas and Water Supply	301,464	372,725	284,708	23.64	-23.61
Construction	108,664	137,793	152,923	26.81	10.98
Wholesale and Retail Trade; Repair of Motor Vehicles, Motorcycles and Personal and Household Goods	122,371	153,310	197,778	25.28	29.01
Hotels and Restaurants	91,614	217,539	140,032	137.45	-35.63
Transport, Storage and Communications	198,038	213,373	353,315	7.74	65.59
Financial Intermediation	300,985	346,955	325,798	15.27	-6.10
Real Estate, Renting and Business Activities	111,310	150,333	212,759	35.06	41.53
- <i>Call Center Activities</i>	N.A.	N.A.	270,939	-	-
Private Education Services	132,358	156,337	211,328	18.12	35.17
Health and Social Work Except Public Medical, Dental and Health Activities	103,831	149,082	156,884	43.58	5.23
Other Community, Social and Personal Service Activities	143,782	176,002	222,152	22.41	26.22

N.A. Not available.

*Sources of data: Bureau of Labor and Employment Statistics, 1998 Labor Cost Survey
and BLES Integrated Survey (2002/2003 and 2007/2008).*