Understanding reward: making sense of official data

The Office for National Statistics (ONS) produces a variety of data which is useful to pay practitioners, either by indicating earnings trends, or by providing background information on inflation and the labour market as a basis for pay decisions. Here, we provide a short guide to some of the main ONS statistics, what they show, how to use them and where to find them.

Official statistics are a vital tool for anyone trying to make sense of the employment and industrial relations landscape. They help to inform pay decisions and put pay trends in context. Statistics of any kind are open to misunderstanding and misinterpretation, however, so in this article we provide a short guide to understanding four key ONS releases: inflation, average weekly earnings, ASHE and labour market statistics.

Inflation

Inflation is the cornerstone statistic for pay negotiations. Notwithstanding questions over affordability at individual organisations, the basic purpose of an annual increase is for wages to keep pace with increases in the cost of living. Although inflation rates can vary unexpectedly amidst economic uncertainty – last year RPI dropped below zero for the first time since the 1960s – as a general rule the median pay increase tends to roughly track fluctuations in the cost of living.

The ONS' inflation statistics are published monthly, and measure the change in prices of a 'basket' of common goods and services. The headline figure gives the annual inflation rate – the change in the overall price of the basket, compared to 12 months before. So, for example, when we write that RPI inflation for March 2010 was 4.4 per cent, we mean that the total cost of the goods and services in the RPI basket was 4.4 per cent higher than it was in March 2009.

The ONS provides three main measures of inflation, all of which compare the prices of goods with the same month the previous year, but which include different goods with different weightings in their respective baskets. For pay-setting purposes, the most relevant inflation measure is the Retail Prices Index (RPI), as this covers all elements of expenditure, including the costs of housing, rent and mortgage payments. Another measure, the CPI, is the Government's preferred inflation indicator for economic management. It excludes housing costs and is based on a different weighting of goods and services, and tends to fluctuate slightly less than the RPI. The Bank of England's target inflation rate refers to the CPI. A third measure, the RPIX, is based on the RPI, but with the costs of mortgage interest payments removed. For more information see IDS Pay Reports 1011, p.13 and 1045 p.10.

WEB LINK http://www.statistics.gov.uk/StatBase Product.asp?vlnk=868

Average Weekly Earnings

Average Weekly Earnings (AWE) is the new measure for earnings growth in the economy, having replaced the previous Average Earnings Index series (AEI) from January 2010. It is based on a survey of around 9,000 businesses across the economy with more than 20 employees, and is released monthly. The AWE serves two main functions – showing the level of average earnings across the economy and in different sectors, and showing the rate of change in earnings compared to the previous year. The AWE is also broken down into bonus payments, on the one hand, and regular pay, which excludes bonuses and arrears of pay. This makes it possible to compare both regular pay and bonuses by sector, and also to compare bonus seasons year-on-year.

The AWE provides a good indication of overall earnings trends, which often show a different picture to trends in basic pay increases at named companies, as measured by IDSPay.co.uk. Earnings figures can be heavily affected by the amount of hours, shift pay and overtime work available, by bonus levels, and by workforce composition – employees leaving low-paid jobs for higher-paid work or vice versa. As a result, although the AWE can show interesting trends in the earnings picture, it can be easy to draw mistaken conclusions from a quick glance at the data. Under normal economic circumstances, these other factors often lead to earnings growth being around a percentage point higher than the median increase to basic pay as measured by IDS.

Press coverage of the most recent AWE releases has been dominated by misunderstandings, largely as a result of attempts to compare public and private sector pay. As with any statistic, the AWE becomes far less valid if users simply search the figures to support a preconceived opinion.

In addition to the headline AWE figures each month, the ONS also produces supplementary tables which break the data down into further sub-sectors. These highlight interesting contrasts in average earnings between sectors which are not evident from the average figures. For example, in February 2010, employees in the hotel and restaurant sector earned £225 a week on the average, non-seasonally-adjusted measure, of which just £10 a week was paid as a bonus.

In the financial intermediation sector, by contrast, employees earned an average of £1,698 a week, of which £982 was bonuses. Even this is lower than previous bonus seasons in the financial intermediation sub-sector, where the all-time high average earnings figure was £1,984 a week in February 2008, of which £1,338 was paid as a bonus. When we consider that this sub-sector employs 4 per cent of the UK workforce, it becomes clear the heavy impact these high-earners can have on the overall average earnings figures.

WEB LINK http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=14015

ASHE

Alongside the monthly AWE releases, the Annual Survey of Hours and Earnings (ASHE) is the major earnings dataset published by the ONS. The figures are based on a survey of employers conducted in April each year, and published in the second half of the year.

ASHE provides a far more detailed breakdown of earnings levels than the AWE. It can be broken down by industry and by occupation and into full-time and part-time work, as well as by gender, age and region. This means that, for example, users can find the median bonus for a male part-time worker between the ages of 40 and 49, or the average weekly wage for a female legal secretary, or the average annual salary for full-time, male employees in the North East of England. One of the main uses for ASHE data is the calculation of the gender pay gap.

As with many of the ONS' releases, it can take some time to become familiar with the ASHE data. One limitation of ASHE is that it provides only a snapshot of earnings in April each year, meaning that figures can fluctuate from year to year, particularly in occupations or groups without a large sample group. For this reason, it should not really be used for calculating earnings growth.

WEB LINK http://www.statistics.gov.uk/statBase/product.asp?vlnk=13101

Labour market figures

The labour market and unemployment statistics produced by the ONS may seem to have less direct relevance to pay negotiations than the other datasets in this article. However, when looking at pay, it is important to understand the situation in the labour market for context. The information is also important for economists, academics and those involved in pay policy in the public sector.

The ONS publishes series on two main definitions of unemployment – the claimant count and the LFS/ILO measure. The claimant count is the most up-to-date, with figures from the month before, and measures the number of people claiming Jobseekers' Allowance. However, this series omits a large number of people who are not in work but not claiming the allowance, and

includes some others who work less than 16 hours a week and are therefore eligible to claim Jobseekers' Allowance. The LFS/ILO measure of unemployment is based on the Labour Force Survey of households at private addresses in the UK. The unemployment measure counts anyone who is not working and has actively sought work in the past four weeks, or who is out of work but has found a job and will start within two weeks. The LFS tends to include a much larger group of unemployed people – around 2.5 million in the count from December 2009 to February 2010, as opposed to around 1.5 million in the claimant count for March 2010.

In addition to the two headline unemployment figures, the ONS labour market statistics include the number of people in employment and those who are economically inactive (this figure includes the unemployed as well as those neither in work nor looking for work, such as those in full-time education). The relationship between these series is not always as straightforward as you might expect, and we have often seen the seemingly paradoxical picture of rises in both employment *and* unemployment. These figures are available either as a total figure, or as a percentage rate. For example, over the period from December 2009 to February 2010, there were around 28.8 million people in employment, or 72.1 per cent of the total working age population.

The ONS also provides figures for redundancies, vacancies, and inflows and outflows to the claimant count in the headline figures. The supplementary tables allow further analysis by breaking down some of the series by gender, age, sector, type of occupation and other variables. The labour market release also includes the average number of hours worked, which can help explain trends elsewhere in the data. For instance, average hours for all workers fell from 31.9 a week in the three months to February 2008, before the recession, to 31.3 in the three months to August 2009, in the midst of short-time working schemes in manufacturing. This represents a fall in working hours of 1.9 per cent, which in turn helps to partially explain the low or negative earnings growth at times over the period. These details only become apparent when examining the ONS data as a whole.

WEB LINK http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=1944

Rounded picture

ONS statistics do not exist in isolation, and one of the most effective ways to use them is to examine an effect in one series and try to make sense of it by looking at others. For instance, a large rise in average earnings could be easily explained in the context of high RPI inflation, a particularly strong bonus season, or an increase in the average number of hours worked. The ONS websites are not always very user-friendly, but taking the time to understand official statistics can provide an invaluable set of tools to any pay and reward specialist.