

# Briefing on ...

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## Bargaining Prospects 2008

This briefing aims to provide a range of UK and Scottish data (where available) to aid pay negotiations. In this briefing, you will find the latest information on the following topics:

1. Labour Market Changes
2. Average Earnings
3. The Gender Pay Gap
4. Inflation
5. Employers Agenda
6. Other Issues

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### 1. Labour Market Changes

#### **UK**

The figures for May 2008 show an increase in both the number of people in employment and the employment rate. The number of unemployed people and the claimant count have increased but the unemployment rate is unchanged.

The unemployment rate was 5.2% in the three months to March 2008, unchanged from the three months to December 2007 but down 0.3% points from a year earlier.

The unemployment level was 1.61 million in the three months to March 2008, up 14,000 from the three months to December 2007 but down 83,000 from a year earlier.

The claimant count in April 2008 was 806,300 up 7,200 on the previous month but down 82,300 on a year earlier. The claimant count rate in April 2008 was 2.5%, unchanged from the previous month but down 0.3% points from a year earlier.

#### **Scotland**

Labour Force Survey data for Scotland indicate that the trend in the employment rate is close to flat, and the rate in the latest period is not significantly different from a year ago. The trend in the unemployment rate is also close to flat, and the rate in the latest period is not significantly different from a year ago.

Data for the three months to March 2008 show the seasonally adjusted employment rate at 76.5%, down 0.2 percentage points on a year earlier. The seasonally adjusted unemployment rate was 4.7%, down 0.3 percentage points on a year earlier. The rates for men and women in January to March 2008 were 5.3% and 3.9% respectively.

The claimant count was down in the year to April 2008.

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**Fig 1. UK and Scotland ILO unemployment figures Jul'07 – Mar'08**

	ILO Unemployment UK (seasonally adjusted)		ILO Unemployment Scotland (seasonally adjusted)	
	000s	% of workforce	000s	% of workforce
Jan – Mar 08	1,612	5.2	124	4.7
Oct – Dec 07	1,599	5.2	131	4.9
Jul – Sept 07	1,656	5.4	130	4.9

Source: ONS

The seasonally adjusted claimant count rate in April 2008 was 2.5%, unchanged from March 2008, and down 0.3% since April 2007. The seasonally adjusted number of claimants in April 2008 was 70,100, up 900 on March 2008, and down 8,900 since April 2007.

**Fig 2. UK and Scotland Claimant unemployment figures Feb'08 – Apr'08**

	Claimant unemployment UK (seasonally adjusted)		Claimant unemployment Scotland (seasonally adjusted)	
	000s	% of workforce	000s	% of workforce
Apr 08	806.3	2.5	70.1	2.5
Mar 08	799.1	2.5	69.2	2.5
Feb 08	795.5	2.5	69	2.5

Source: ONS

**Local Area data**

The claimant count as a proportion of the resident working age population was lowest in Aberdeenshire, at 0.8%. It was highest in North Ayrshire, at 3.9%.

**Fig 3. Scottish Local Area Claimant Count (April 2008)**

1 Aberdeen City	1.2%	17 Highland	1.7%
2 Aberdeenshire	0.8%	18 Inverclyde	3.7%
3 Angus	1.9%	19 Midlothian	1.7%
4 Argyll & Bute	2.1%	20 Moray	1.8%
5 Clackmannanshire	2.6%	21 North Ayrshire	3.9%
6 Dumfries & Galloway	2.3%	22 North Lanarkshire	2.5%
7 Dundee City	3.7%	23 Orkney Islands	0.9%
8 East Ayrshire	3.3%	24 Perth & Kinross	1.1%
9 East Dunbartonshire	1.4%	25 Renfrewshire	2.5%
10 East Lothian	1.2%	26 Scottish Borders	1.4%
11 East Renfrewshire	1.1%	27 Shetland Islands	1.0%
12 Edinburgh, City	1.7%	28 South Ayrshire	2.4%
13 Eilean Siar	2.3%	29 South Lanarkshire	2.0%
14 Falkirk	2.1%	30 Stirling	1.6%
15 Fife	2.8%	31 West Dunbartonshire	3.6%
16 Glasgow City	3.7%	32 West Lothian	2.1%

Source: ONS

**2. Average Earnings**

The seasonally adjusted headline rate<sup>1</sup> of whole economy average earnings growth including bonuses (earnings in the three months to April 2008, compared with a year before) was 3.8%, down from the figure for March 2008. Headline

<sup>1</sup> The 'headline rate' is the average of the annual change in the seasonally adjusted series over the previous three months.

annual growth in average earnings (including bonuses) in the private sector was 3.8% in April 2008, down from the rate for March 2008.

The headline rate for the public sector was 3.8% in April 2008, unchanged from March 2008.

In manufacturing industries, earnings increased at a headline annual rate of 3.5% in April 2008, down from March.

In service industries, the headline increase was 4.2% in April 2008, down from March.

The single month (non-headline) figure for seasonally adjusted whole economy average earnings growth, including bonuses, in the year to April 2008 was 3.2%, down from March 2008.

#### **Earnings forecast**

IRS Pay Intelligence reported in June 2008 that average earnings growth is expected to show little change over the coming year, remaining at or around 4% for each quarter up to and including Q2 2009.

The rate of earnings growth for 2008 as a whole is expected to run at 4%, falling back slightly to 3.9% in 2009.

#### **Average hours worked (weekly)**

National Statistics reports that total actual hours worked per week were 948.4 million in the three months to March 2008.

Average weekly hours worked in the three months to March 2008 were 37.3 for all full-time workers.

Broken down by gender, the average weekly hours worked by men in full-time employment over this period ran at 39.2 hours, compared to 33.9 hours for women. The corresponding hours for part-time workers ran at 15.2 hours for men and 15.6 for women.

### **3. The gender pay gap**

The gender pay gap (as measured by the median<sup>2</sup> hourly pay<sup>3</sup> excluding overtime of full-time employees) narrowed between 2006 and 2007 to its lowest value since records began. The gap between women's median hourly pay and men's was 12.6%, compared with a gap of 12.8% recorded in April 2006. The median hourly rate for men went up 2.8% to £11.96, while the rate for women increased by 3.1% to £10.46.

In 2007, median weekly earnings of full-time employees for women of £394 were 21 per cent less than those for men (£498.3), unchanged from 2006.

	Male	Female	All
UK	498.3	394	456.7
Scotland	482.2	382	441.5

<sup>2</sup> The median is the value below which 50 per cent of employees fall.

<sup>3</sup> Pay refers to gross pay (before tax) of full-time employees on adult rates whose pay for the survey week was unaffected by absence.

Women's weekly earnings, including overtime, were lower than men's. This was partly because they worked fewer paid hours per week. Based on hourly earnings excluding overtime, women's earnings increased more slowly across the bottom 10% of the distribution than men's, with a growth of 3.0% compared with 3.7% for their male counterparts. The hourly earnings of the top 10% grew by 2.8% and 3.2% respectively.

Although median hourly pay provides a useful comparison between the earnings of men and women, it does not necessarily indicate differences in rates of pay for comparable jobs. Pay medians are affected by the different work patterns of men and women, such as the proportions in different occupations and their length of time in jobs.

Source: Annual Survey of Hours and Earnings (ASHE)<sup>4</sup>

#### 4. Inflation

**Consumer Prices Index<sup>5</sup> (CPI)** annual inflation – the Government's target measure of inflation<sup>6</sup> – was 3.3 per cent in May, up from 3.0 per cent in April.

The largest upward pressure came from food and non-alcoholic beverages, mainly meat and vegetable prices which rose this year but fell a year ago. This effect was partially offset by fruit prices rising, but by less than a year ago.

There were further large upward pressures from:

- housing and household services due to gas and electricity bills, which were unchanged this year but fell a year ago, and heating oil prices, which rose this year but fell a year ago in part reflecting the rise in the price of crude oil this year
- recreation and culture, from across a range of goods and services. The main upward pressures came from books, newspapers and stationery where prices rose by more than a year ago, and foreign holidays where prices rose this year but fell a year ago. The upward effects were partially offset by a downward contribution from recording media, in particular pre-recorded DVDs

Small upward effects came from:

- alcoholic beverages and tobacco, where prices of alcoholic drinks rose this year but fell a year ago, particularly the price of spirits
- miscellaneous goods and services where prices rose this year, but fell a year ago

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<sup>4</sup> The Annual Survey of Hours and Earnings is based on a sample of employee jobs taken from HM Revenue & Customs records. The 2007 ASHE is based on approximately 142,000 returns. In 2007 information was collected for the pay period that included 18 April.

<sup>5</sup> CPI is the Consumer Prices Index. It is the measure adopted by the Government for its UK inflation target. The Bank of England's Monetary Policy Committee is required to achieve a target of 2 per cent. Prior to 10 December 2003, the CPI was published in the UK as the harmonised index of consumer prices (HICP).

<sup>6</sup> Inflation is the percentage change in the index compared with the same month one year previously.

- furniture and household goods, with the largest effect coming from goods and services for routine household maintenance which includes items such as household cleaning products and domestic services

**Retail Prices Index<sup>7</sup> (RPI)** inflation rose to 4.3 per cent in May, up from 4.2 per cent in April. The main factors affecting the CPI also affected the RPI. Additionally, there was a large downward contribution from housing. The effect came mainly from mortgage interest payments as lenders passed on April's quarter point decrease in the bank rate and, to a lesser extent, from house depreciation. Both mortgage interest payments and depreciation are excluded from the CPI.

**RPIX** inflation – the all items RPI excluding mortgage interest payments – was 4.4 per cent in May, up from 4.0 per cent in April.

### **Inflation Forecast**

IRS Pay Intelligence reported in May 2008 that the predicted fall in RPI inflation over the remainder of 2008 and the first half of 2009 will be softer than previously expected. The average forecast rates of RPI for three quarters over the coming year (the second and fourth quarters of 2008 and the second quarter of 2009) have each been revised upwards by 0.1%, as has the average rate for 2009 as a whole.

RPI is forecast to run at 3.7% during the second quarter of 2008. It will continue to fall throughout the remainder of the year, to 2.8% by the fourth quarter.

The average for 2008 as a whole is forecast to run at 3.4%.

## **5. Employers Agenda**

### **Latest Pay Settlement Trends**

The IRS measure of pay awards - the midpoint in the range of basic pay deals - fell back to 3.2% in the three months to 30 April 2008, according to the latest provisional analysis.

This is down from the steady 3.5% in each of the quarters since January this year, amid signs of economic slowdown. The fall in the median pay award recorded over the three months to April has coincided with increases in inflation on both the RPI and CPI measures.

IRS Pay Settlement Analysis reports "The gap between the median pay award and the rate of RPI inflation (4.2% in April) has increased to one percentage point. Indeed, pay settlements have now been below the rate of RPI since May 2006, when both figures stood at 3%."

### **Government Policy on Pay**

The UK Government have made clear that they want to keep a tight rein on inflation and stressed the importance of public sector pay in achieving this aim by limiting public sector pay to a target of 2%. The Scottish Government have followed this line although their public sector pay guidance allows some limited

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<sup>7</sup> RPI is the Retail Prices Index - the uses of the RPI and its derivatives include indexation of pensions, state benefits and index-linked gilts.

deviation to alleviate inequalities or recruitment and retention problems within public sector bodies.

The UK government's insistence on linking public sector pay with consumer prices index (CPI) inflation has been called into question by some economists. In the January 2008 the National Institute of Economic and Social Research said: "pay awards below the rate of inflation, as measured by the retail prices index, have little to do with combating inflation. The retail and consumer price indices are dominated by goods and services from the private sector. It is the case that pay awards can have second-round effects. However, the latest official estimates suggest that the private sector accounts for over 80% of employment. Clearly an incomes policy that ignores the private sector is significantly hindered in its ability to 'combat' inflation."

## 6. Other Issues

### Holiday Entitlement

The Working Time (Amendment) Regulations 2007 increased the minimum holiday entitlement for workers from four to 4.8 weeks (20 to 24 days for those on a five-day week) on 1 October 2007. There will be a further increase from 4.8 to 5.6 weeks (24 to 28 days for those on a five-day week) on 1 April 2009. The statutory entitlement for workers depends on when their leave year begins.

### Rising Food and Fuel Prices

Rising food and fuel costs have been increasing faster than the rate of inflation over the last few months. Some recent examples include:

Item	Increase
Bread	9%
Milk	17%
Petrol	22%
Fuel Bills	15%

A recent survey (by [mysupermarket.co.uk](http://mysupermarket.co.uk)) estimated that the food bill for the average family has gone up by £800 in the last 12 months.

### FURTHER INFORMATION:

#### UK Official National Statistics

<http://www.statistics.gov.uk>

#### Scottish Official Statistics

<http://www.scotland.gov.uk/stats/scotstats.asp>

#### Scottish Executive Statistics

<http://www.scotland.gov.uk/Topics/?pageID=62>

#### UNISON Internet

<http://www.unison.org.uk>

#### UNISON Scotland

<http://www.unison-scotland.org.uk/>