

# Briefing on ...

## Bargaining Prospects 2010

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. Other Issues

### 1. Labour Market Changes

#### UK

The figures for November 2009 provides a mixed picture, the unemployment rate remains static while the overall number of people unemployed fell, yet those unemployed for more than 12 months increased.

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The unemployment rate for September to November 2009 was 7.8%, unchanged from the previous quarter.

The number of unemployed people fell by 7,000 over the quarter to reach 2.46 million. This is the first quarterly fall in the number of unemployed people since the three months to May 2008. However, the number of people unemployed for more than 12 months increased by 29,000 over the quarter to reach 631,000, the highest figure since the three months to November 1997.

The claimant count in December 2009 was 1.61 million, down 15,200 on the previous month but up 430,700 on a year earlier. The claimant count rate was 5.0%, unchanged on the previous month but up 1.3% from a year earlier.

#### Scotland

The latest data for Scotland highlights that unemployment has increased by 9,000 in the three months to November 2009.

The unemployment rate for September to November 2009 was 7.4%, up 0.3% from the previous quarter.

The number of people unemployed in this period stands at 202,000 - an increase of 61,000 over the year.

The claimant count in Scotland for December 2009 was 132,600 - 600 more than the previous month and 36,700 higher than the same time in the previous year. The claimant count rate was 4.9%.

**Fig 1. UK and Scotland ILO unemployment figures Mar'09 – Nov'09**

	ILO Unemployment UK (seasonally adjusted)		ILO Unemployment Scotland (seasonally adjusted)	
	000s	% of workforce	000s	% of workforce
Sept – Nov 09	2,458	7.8	202	7.4
June – Aug 09	2,469	7.8	192	7.1
Mar – May 09	2,381	7.6	179	6.7

Source: ONS

**Fig 2. UK and Scotland Claimant Count figures Oct'09 – Dec'09**

	Claimant unemployment UK (seasonally adjusted)		Claimant unemployment Scotland (seasonally adjusted)	
	000s	% of workforce	000s	% of workforce
Dec 09	1,606	5.0	136.2	4.9
Nov 09	1,626	5.0	136.0	4.9
Oct 09	1,639	5.1	134.8	4.8

Source: ONS

**Local Area data**

The claimant count as a proportion of the resident working age population was lowest in the Orkney Islands, at 1.0%. It was highest in North Ayrshire, at 6.1%.

**Fig 3. Scottish Local Area Claimant Count - October 2009**

1 Aberdeen City	2.1%	17 Highland	2.7%
2 Aberdeenshire	1.4%	18 Inverclyde	5.2%
3 Angus	3.1%	19 Midlothian	3.6%
4 Argyll & Bute	3.0%	20 Moray	2.2%
5 Clackmannanshire	4.9%	21 North Ayrshire	6.1%
6 Dumfries & Galloway	3.4%	22 North Lanarkshire	5.3%
7 Dundee City	5.3%	23 Orkney Islands	1.0%
8 East Ayrshire	5.6%	24 Perth & Kinross	2.2%
9 East Dunbartonshire	3.0%	25 Renfrewshire	4.4%
10 East Lothian	3.0%	26 Scottish Borders	2.7%
11 East Renfrewshire	2.7%	27 Shetland Islands	1.4%
12 Edinburgh, City	3.2%	28 South Ayrshire	4.2%
13 Eilean Siar	3.6%	29 South Lanarkshire	4.5%
14 Falkirk	4.3%	30 Stirling	3.2%
15 Fife	4.4%	31 West Dunbartonshire	5.7%
16 Glasgow City	5.9%	32 West Lothian	4.4%

Source: ONS

**2. Average Earnings**

Average earnings including bonuses rose by 0.1 percentage points to 0.7% in the year to November 2009, up from the October rate of 0.6%. Growth in average earnings excluding bonuses (regular pay) declined by 0.1 percentage points in the year to November 2009, from 1.2% to 1.1%.

In the year to November 2009 pay growth (including bonuses) in the private sector stood at -0.1 per cent compared with 3.8% for the public sector. Excluding bonus payments, growth in the private sector stood at 0.2% compared with 3.8% for the public sector.

### **Earnings forecast**

The growth in average earnings has been muted in recent times - hardly surprising given the depth of the recession. The fact that unemployment has not risen as fast as originally forecast has been attributed to a greater degree of flexibility in the labour market, notably the willingness of workers to accept a wage freeze and, in some isolated cases, a pay cut, as an alternative to redundancy. A period of negative inflation has arguably made this more palatable. However, it is uncertain what affect the upward spike in the RPI, still the benchmark used by the vast majority of pay decision-makers, will have on the future course of earnings growth, particularly as the robustness of the anticipated recovery remains unclear.

The inclusion of the latest forecasts from both Deutsche Bank and HSBC mean that the IRS panel predicts that average earnings growth will hit 2.8% in the first quarter of this year, a marked increase on the 1.5% figure for the last quarter of 2009. A sharp decline to 1.8% is then predicted for the second quarter of 2010, followed by a period of stability for the remainder of this year.

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

The gender pay gap (as measured by the median hourly pay excluding overtime) narrowed between 2008 and 2009. For full-time employees, the pay gap is 12.2%, down from 12.6% in 2008. For part-time employees, the gap is -2.0%, compared with -3.7% in 2008. The gender pay gap for all employees has decreased to 22.0% from 22.5% in 2008. In April 2009 hourly rates for men were £12.97 for full-timers, £7.71 for part-timers and £12.42 for all employees. For women, hourly rates were £11.39 for full-timers, £7.86 for part-timers and £9.68 for all employees.

When calculated using the mean rather than the median, women's hourly pay was 16.4% less than men's pay for full-time employees, 13.2% less than men's pay for part-time employees and 20.2% less for all employees. The mean pay gaps for full-time, part-time and all employees in 2008 were 17.4%, 15.2% and 21.3% respectively.

Based on full-time hourly earnings excluding overtime, women's earnings increased more slowly across the bottom 10% of the distribution than men's, with a growth of 3.9% compared with 4.0% for their male counterparts. The hourly earnings of the top ten per cent grew by 2.9% and 4.7% for men and women respectively.

The scale and direction of the gender pay gap varies according to age. For instance, full-time 16-17 year-old females earned 12.6% more per hour than males, but part-time females earned 1.3% less than males. The largest pay gaps for full-time, part-time and all employees are in the 40-49 age-group at 18.4%, 23.7% and 29.5% respectively.

The gender pay gap in the public sector was 11.6% for full-timers, 18.3% for part-timers and 21.0% for all employees. In the private sector, the pay gap was 20.8% for full-timers, 0.4% for part-timers and 28.8% for all employees.

The widest pay gaps by occupation are seen in the Skilled Trades where the gap ranges from 22.7% to 31.2%. The narrowest pay gaps for full-time and all employees are in Professional occupations.

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, their length of time in jobs and whether they work full-time or part-time.

#### **4. Inflation**

**Consumer Prices Index<sup>1</sup>** (CPI) annual inflation – was 2.9% in December 2009, up from 1.9% in November 2009.

The increase in the CPI annual rate of 1.0 per cent between November and December 2009 is the largest ever increase in the annual rate between two months. This record increase is due to a number of exceptional events that took place in December 2008:

- the reduction in the standard rate of Value Added Tax (VAT) to 15 per cent from 17.5 per cent
- sharp falls in the price of oil
- pre-Christmas sales as a result of the economic downturn

These exceptional events led to the CPI falling by 0.4 per cent between November and December 2008 (a record fall between these two months). The CPI increase between November and December 2009 of 0.6 per cent is far more typical (the CPI increased by 0.6 per cent between November and December in both 2006 and 2007). These exceptional events also affected the change in the RPI annual rate.

The upward pressures to the change in the CPI annual rate in December 2009 are widespread with 10 of the 12 divisions having upward effects. The largest upward pressures are from:

- Transport - within this division the largest upward effect came from fuels and lubricants where prices rose by 0.2 per cent between November and December this year compared with a fall of 6.2 per cent a year ago. The 6.2 per cent decrease was the second largest monthly fall in fuels and lubricants on record and was due to sharp falls in petrol and diesel prices, reflecting the falling price of crude oil in the latter half of 2008. Within transport there was also large upward pressure from the purchase of new cars where prices rose slightly this year but fell a year ago. The 2.1 per cent decrease between November and December 2008 was the third largest monthly fall in the price of new cars on record and was largely due

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<sup>1</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).

to the reduction in the VAT rate in December 2008 to 15 per cent from 17.5 per cent.

- Clothing and Footwear - where prices fell between November and December this year but by less than a year ago with the largest upward effect coming from women's outerwear. The reduction in the VAT rate contributed to the larger than usual decrease between November and December 2008 in the price of clothing and footwear (the 4.2 per cent fall was the largest ever between these two months); additionally, retailers also reported very poor trading due to the challenging economic conditions and this led to greater discounting than usual.

There were no significant downward pressures to the change in the CPI annual rate.

In the year to December 2009, RPI annual inflation was 2.4%, up from 0.3% in November. The last time there was an increase in the 12-month rate greater than 2.1 per cent between two months was in June and July 1979 when the rate increased from 11.4 per cent to 15.6 per cent.

The exceptional events that took place in December 2008 that help explain the change in the CPI annual rate in December 2009 also apply to the change in the RPI annual rate. In addition to these exceptional events there was also significant upward pressure to the change in the RPI annual rate from housing. Within housing the main upward effect came from mortgage interest payments which rose this year but fell significantly a year ago when most lenders passed on the one and a half point decrease in the Bank rate. The next most significant upward effect within housing came from house depreciation, which rose this year but fell a year ago reflecting movements in the Department of Communities and Local Government's smoothed house price index that is used to calculate this component.

**RPIX** inflation – the all items RPI excluding mortgage interest payments – was 3.8% in December, up from 2.7% in November.

As an internationally comparable measure of inflation, the CPI shows that the UK inflation rate in November was above the provisional figure for the European Union. The UK rate was 1.9% whereas the EU's as a whole was 1.0%.

### **Inflation Forecast**

While many commentators expect the UK economy to return to growth in the coming months, the strength and duration of the recovery is still uncertain and a matter of intense debate. The future path of gross domestic product expansion will inevitably have an effect on the headline rate of inflation - spare capacity within the economy will exert a downward pressure on the RPI, although this is likely to be counterbalanced by the recent rise in both VAT and fuel costs, together with the effect of rising house prices and the large reduction in mortgage interest payments falling out of the annual comparisons. Recent forecasts by IRS were compiled before the release of the December 2009 RPI figure, which was 2.4% compared to 0.3% in November - the biggest monthly increase since 1979. Bearing this in mind the consensus of the IRS panel of 10

leading forecasters is that headline inflation will rise sharply during the first half of 2010 - a key period for pay settlements - averaging 2.8% in the first quarter and 3.1% in the second. A period of moderation will then follow, although the RPI is nevertheless projected to remain above 2.5% for the rest of this year.

## **5. Other Issues**

### **Latest Pay Settlement Trends**

#### **Annual figures**

- Industrial Relations Services (IRS) pay databank figures for the 12 months to December 2009 show that the median level of whole-economy settlements was 1%, with an upper quartile of 2.5% and a lower quartile of nil. Analysed by sector, the median settlement figures (unweighted) are set out below.
- Labour Research Department (LRD) reports that the 12-month median of settlements was 2% in December 2009, unchanged from November.

#### **Quarterly figures**

- IRS measure of whole-economy settlements (the unweighted median level of pay award) in the three months ending December 2009 is 1.2%, with an upper quartile of 2% and a lower quartile of nil.
- EEF, in its latest provisional figures, finds that settlements in the manufacturing sector averaged 0.5% in the three months to December 2009, up from the figure for the three months to November.
- LRD, in its survey of union-negotiated awards for the whole economy, reports a median level of pay settlement (unweighted) of 2% in the three months ending December 2009, unchanged from the three months to November.

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

Average weekly hours worked in the period from September to November 2009 were 36.9 for all full-time workers and 15.5 hours for part time workers.

Broken down by gender, the average weekly hours worked by men in full-time employment over this period ran at 38.7 hours, compared to 33.7 hours for women. The corresponding hours for part-time workers ran at 15.6 hours for men and 15.5 for women.

### **The Gap between Rich and Poor Widens**

According to a recent report by the National Equality Panel the gap between rich and poor in the UK is now wider than forty years ago. This report highlighted that 'deep-seated and systemic differences' remain between men and women and minority groups in pay and employment.

The panel - set up by the government in 2008 - found that despite women up to the age of 44 having better qualifications than men, men were still paid up to 21% more per hour. The report also pointed out that some of the greatest differences come within social groups. Among women, many work part-time, earning less than £7.20 an hour, much less than the median pay of £9.90 across the country.

The panel pointed out that half of those who have worked in the top professions have net assets worth more than £900,000, while a 10th of those who have had unskilled jobs have property, savings and possessions worth less than £8,000.

**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/>