

Labour costs

- In September 2005, the rate of growth of average earnings over the past year (the Average Earnings Index) was 4.1 per cent.
- Public sector earnings showed a growth rate of 4.2 per cent in the year to September 2005 compared with figures for the private sector of 4.0 per cent.
- The median gross weekly pay for full-time employees in the UK grew to £431 in 2005. Median gross hourly earnings of full-time adults grew to £10.79 in 2005, up by 3.2 per cent on 2004.
- Differences still exist in the distribution of earnings by gender. In 2005 females earned on average 87 per cent as much as males, compared with 85.5 per cent in 2004, narrowing the gender pay gap to its lowest levels since comparable estimates began in 1998.
- The 'electricity gas and water supply' industry had the highest median pay in 2005 (£542.60), while the 'hotels and restaurants' industry had the lowest (£271.30).
- The number of jobs paid below the National Minimum Wage in the UK was estimated to be 327,000, representing 1.3 per cent of all jobs in the labour market.

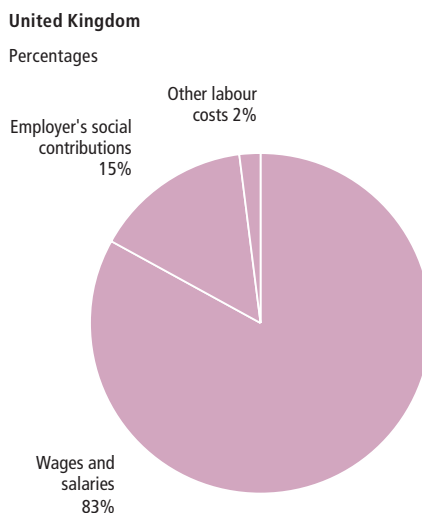
Labour costs and distribution straddle both labour demand and labour supply within the labour market framework (see Figure A in the Introduction). From the demand side, labour is a necessary factor of production: firms need people to make their output, which they will trade with consumers. From the supply side, people choose to trade their time in order to increase their real income. In other words people choose to work so that they are paid. If there is a shortage of people with the required skills to do the work then a firm will have to increase wages to attract workers. Conversely, if there is an increase in the size of the available labour force then wages can be decreased as workers become easier to attract. These are the dynamics of labour supply, labour demand and labour costs, represented at the most simplistic level.

Labour costs

Labour costs are the whole range of costs employers incur when employing workers. They include wages and salaries, national insurance and social contributions, redundancy payments, benefits in kind, overheads and other non-wage components. On the labour demand side, an employer has to consider all these costs in assessing the impact on the business of recruiting and employing staff. Figure 6.1 shows that by far the largest component of labour costs in 2000 was wages and salaries which made up over four-fifths of the total.

On the supply side, the disposable income of an individual is made up of wages and salaries, occupational pensions, investments, non-government sources and government sources (cash benefits), less any direct taxes, national insurance contributions and council tax. All of these sources of income influence an individual's decision to supply their labour.

Figure 6.1
Structure of labour costs, 2000



Source: Labour Cost Survey 2000

Analysis of labour costs and distribution is limited by the availability of relevant information. For this reason, ONS focuses on earnings (wages and salaries), the largest and most important component of labour cost and the most collected, in the majority of its analyses.

Labour Costs and Pay

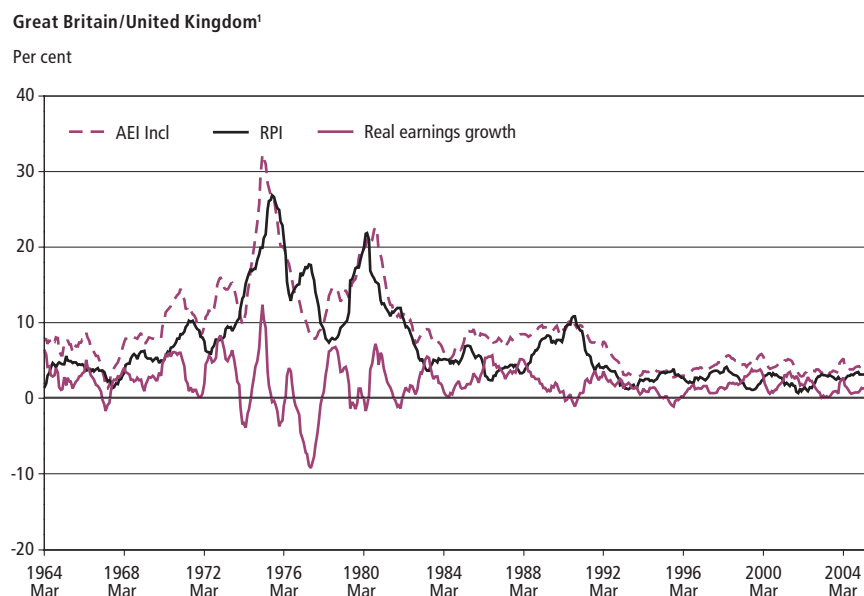
Earnings

The growth in whole economy earnings is measured by the Average Earnings Index (AEI), which uses a fixed distribution of employees to monitor change from one period to the next. The AEI shows an overall picture of steady earnings growth in 2005. The 'including bonus series' shows that earnings rose by 4.1 per cent in the year to September 2005. This was a faster rate of increase than in 2004, 2003 and 2002 when the increases were 3.8, 3.7 and 3.7 per cent respectively, but lower than the 4.6 per cent in September 2001. It was also much slower than the growth observed in the 1970s, 1980s and early 1990s.

AEI

It is worth noting that September falls outside the main bonus season – which runs from December to April. As such, though it is an 'including' bonus figure, the annual growth figure for September will be largely unaffected by growth in bonuses, which as one-off payments paid in a particular month, do not affect basic

Figure 6.2
AEI whole economy growth rate (including bonuses), year on year growth of the RPI (all items) and derived real earnings growth¹ March 1964–September 2005



¹ The AEI covers Great Britain and the RPI covers the United Kingdom.

Source: Average Earnings Index, Retail Price Index

pay for the rest of the year. Compared to September, earnings growth during the bonus season has tended to be higher in recent years, for example, in March 2005 it was 4.5 per cent, and in March 2004 it was 4.7 per cent. ONS also publishes an excluding bonus series which has edged down since the recent peak observed towards the end of 2004, suggesting that wage pressures in the economy are easing. The excluding bonus series increased by 3.7 per cent in the year to September 2005 compared with an increase of 4.2 per cent in the year to September 2004. On either measure the overall picture is of steady earnings growth, exceeding the rate of growth in retail prices.

Growth in average earnings can be compared with growth in the price of goods, to help understand real earnings growth. This is more indicative of the purchasing power of earnings. In other words, it indicates whether the growth in earnings allows people to purchase more or if the cost of goods has also gone up. Figure 6.2 displays the real earnings growth, calculated from AEI earnings growth (including bonuses) *minus* the all-items Retail Price Index (RPI), an indicator of domestic inflation. In September 2005, the annual rate of increase in the all-items RPI was 2.7 per cent which was below earnings growth, implying a real earnings growth of over 1 per cent during 2005. Real earnings growth has been generally positive over time, with the exception of periods in the mid 1970s.

RPI

Earnings and Pay

The Average Weekly Earnings (AWE) is an experimental monthly series that uses the same data source as the AEI, the Monthly Wages and Salaries Survey. It estimates the average weekly wage and can produce a number of analyses that were previously unavailable from other short-term earnings statistics. Figure 6.3

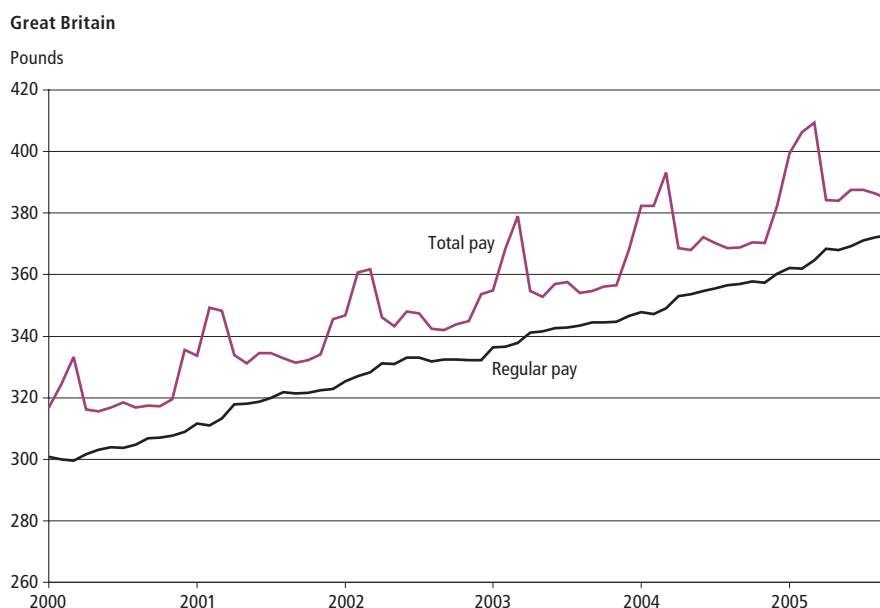
compares earning levels including bonuses and arrears (total pay) and earning levels excluding bonuses and arrears (regular pay). As the figure shows, there has been a steady increase in both total and regular pay since the beginning of 2000, with regular pay reaching its highest point in September 2005 at £373. The figure also highlights the seasonal effect of bonuses on the

average weekly earnings which causes the peaks in the winter months.

AWE

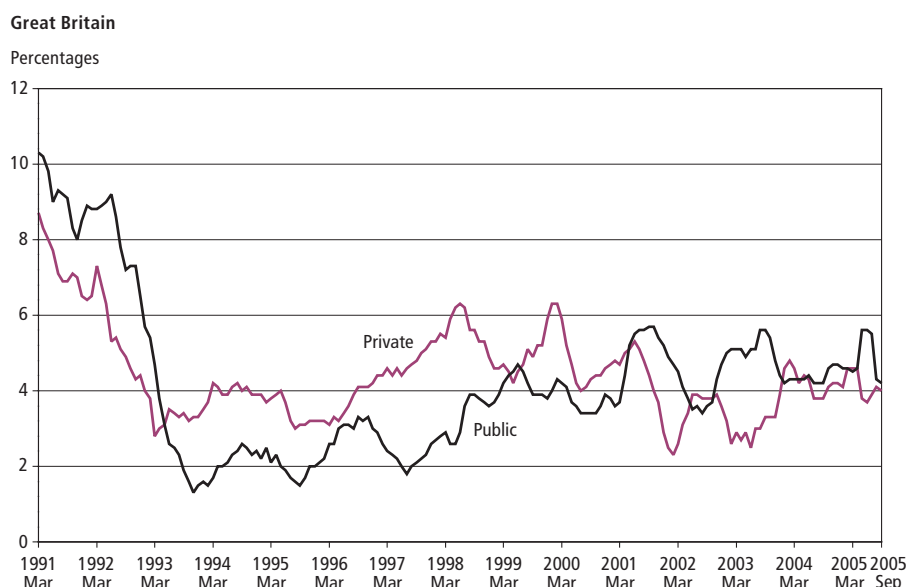
Using the AEI and looking at earnings growth by sector in the year to September 2005, the private sector earnings growth (including bonuses) was 4.0 per cent compared with public sector earnings growth of 4.2 per cent (Figure 6.4).

Figure 6.3 Average weekly earnings in the whole economy: 2000–2005



Source: Average Weekly Earnings

Figure 6.4 Year on year growth rates of public and private sector earnings (including bonuses): March 1991–September 2005



Source: Average Earnings Index

Earnings growth in the public sector has been higher for most of the period since mid 2001, when the previous trend of higher private sector earnings (since 1993) was reversed.

In the year to September 2005, earnings (including bonuses) in the manufacturing sector grew by 4.1 per cent, which represents an increase since a low of 2.6 per cent in June 2005 (Figure 6.5). In 2005, earnings in the services sector also increased by 4.1 per cent, a deceleration since the most recent peak earlier in the year of 5 per cent.

Non-wage costs

The Index of Labour Costs per Hour (ILCH) provides a timely indicator of changes in the cost of labour per hours worked. It reflects the changes in wages and salaries, non-wage costs and the quantity of hours worked over time period. This measure assists in the analysis of inflationary pressures originating from the labour market which result from changes in total labour costs per hour. It can be used alongside other earnings indicators (such as the AEI or the Average Weekly Earnings, both covered earlier) to see how the movement of non-wage costs affect the overall cost of labour. The non-wage costs included in the index are sickness, maternity and paternity costs, pension contributions, benefit in kind and national insurance contributions.

The ILCH is more sensitive to movements in employment patterns throughout the year than other measures of earnings (Figure 6.6). The main difference is in the third quarter of the year where the ILCH has higher growth. Fewer hours are worked in the summer months and wages stay broadly constant and so the relative cost of labour increases. This effect is removed when the index is seasonally adjusted.

Figure 6.5
Year on year earnings growth rates in the manufacturing and services sectors (including bonuses), March 1983–September 2005

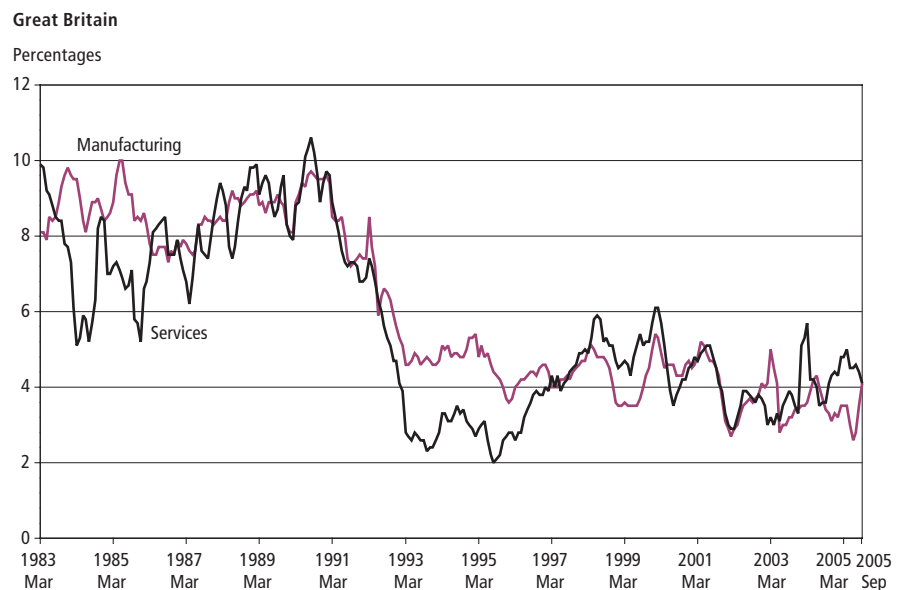
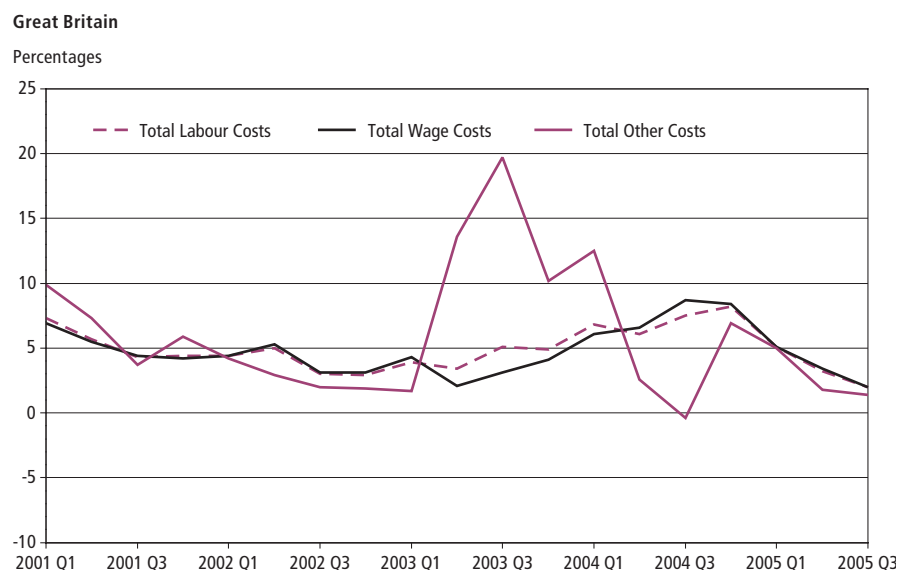


Figure 6.6
Growth rates of total labour costs, total wage costs and total other costs, 2000 Q1–2005 Q1



Total labour cost increases have generally been in the range 3 to 5 per cent compared with a year earlier. The high growth rate shown from the second quarter of 2003 can be explained by the significant increase in the National Insurance contributions in this quarter. These

growth rates decreased from the second quarter of 2004.

 Other Labour Costs

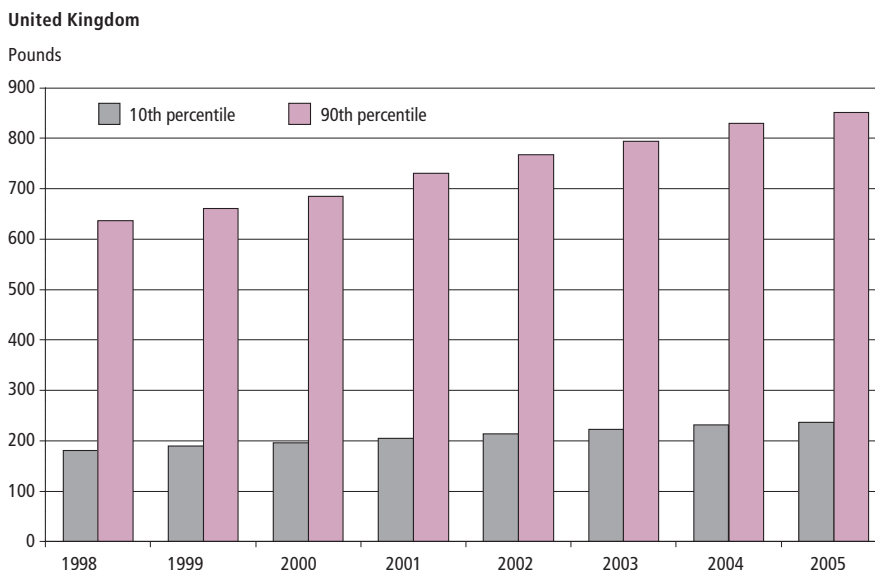
Earnings distribution

Information on earnings is available from the Annual Survey of Hours and Earnings (ASHE), along with a number of employee characteristics. The AEI is the preferred measure of growth in earnings but the ASHE provides more detail on the distribution, for example, by sex or industry. According to the ASHE the median gross weekly pay for full-time employees in the UK grew to £431 in 2005. The median is the middle point of a population with exactly the same number of data values above and below. It is a better way of comparing the levels of earnings than the mean as it is less influenced by extreme values at the top end of the pay distribution. The median gross hourly earnings of full-time adults grew to £10.79 in 2005, up by 3.2 per cent on 2004. This is based on adults who worked full time whose pay was unaffected by absence and excludes overtime.

The overall growth in earnings has led to noticeable changes in the rate of growth for the highest and lowest earners in 2005 compared with the previous year (Figure 6.7). Full-time adults in the bottom 10 per cent of earners received £236 a week (including overtime) in 2005, 1.6 percentage points higher than in 2004. Full-time adults in the top 10 per cent earned more than £850 a week (including overtime), 2.7 percentage points higher than in 2004.

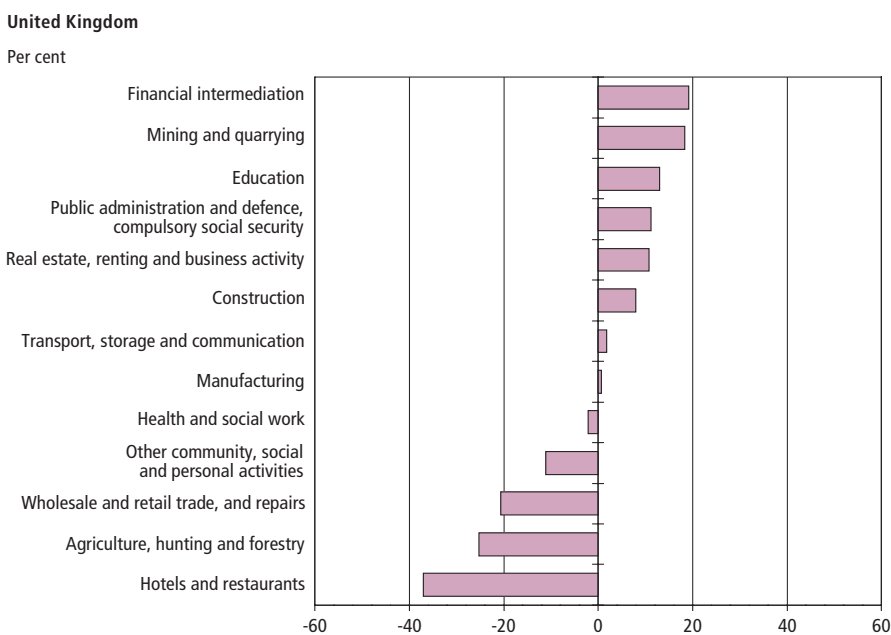
Figure 6.8 shows the levels of earnings in 2005 by industry, compared with the UK average. It presents comparisons of the median levels of gross weekly earnings for employees whose pay was not affected by absence. In 2005, the median gross weekly pay for the UK was £431.20. The ‘electricity gas and water supply’ industry had the highest median pay in 2005 (at £542.60), while the ‘hotels and

Figure 6.7
Gross median weekly earnings for the 10th and 90th percentiles of the earnings distribution, 1998–2005



Source: Annual Survey of Hours and Earnings

Figure 6.8
Percentage difference from United Kingdom average gross weekly pay, by industry,¹ 2005



¹ The sample size is too small to produce a reliable estimate for fishing.

Source: Annual Survey of Hours and Earnings

restaurants’ industry had the lowest (£271.30).

National minimum wage

The ASHE estimates for spring 2005 show that there were 327,000 jobs held by people aged 16 and over who were

paid below the national minimum wage (NMW). This equates to 1.3 per cent of the number of UK jobs. It is estimated that 57,000 jobs (3.2 per cent of jobs held by these in this age group) are held by people aged 18 to 21 and 249,000 (1.1 per cent) by those aged 22 and over.

Gender pay gap

The gender pay gap (as measured by the median hourly pay of full-time employees, excluding overtime) narrowed between 2004 and 2005 to its lowest value since records began. The gap between women's median hourly pay and men's was 13.0 per cent, compared with the 14.5 per cent recorded in April 2004. The median hourly rate for men went up 3.1 per cent to £11.31, while the rate for women increased by 4.9 per cent to £9.84. This means that females earned on average 87 per cent as much as males compared with 85.5 per cent in 2004.



Gender Pay Gap

Figure 6.9

Ratio of female hourly pay to males, excluding overtime, 1998–2005

United Kingdom

Percentages



Source: *Annual Survey of Hours and Earnings*

On the internationally comparable measure based on mean earnings, women's average hourly pay (excluding overtime) was 17.1 per cent less than men's pay, a narrowing compared to the 2004 figure of 17.8 per cent.

Women's weekly earnings, including overtime, were lower than men's, partly because they worked fewer hours per week. However, women's earnings increased faster across the distribution compared with men's. The full-time hourly earnings excluding overtime of the bottom 10 per cent of women grew by 3.8 per cent compared with 3.0 per cent for their male counterparts. In comparison, the hourly earnings of the top 10 per cent grew by 5.5 per cent and 4.5 per cent 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.

Table 6.10
Percentage of jobs and level of jobs paid below the national minimum wage, 1998–2004^{1,2}

United Kingdom

	Percentage of jobs Percentages			Level of jobs Thousands		
	18–21	22 and over	All jobs	18–21	22 and over	All jobs
1998 ²	7.2	5.4	5.6	111	1,170	1,280
1999	2.4	2.1	2.1	40	460	490
2000	2.2	0.9	1.0	30	190	230
2001	2.1	0.9	1.0	40	210	240
2002	2.7	1.3	1.4	50	290	340
2003	2.9	0.9	1.0	50	200	250
2004	2.4	1.0	1.1	44	235	279
2005	3.2	1.1	1.3	57	249	327

¹ Spring each year. Estimates for 1998 to 2003 are based on a central estimate of the Labour Force Survey and the Annual Survey of Hours and Earnings.

² Figures for spring 1998, before the National Minimum Wage was introduced, are for the number of jobs paid at less than £3.00 per hour (aged 18 to 21) or £3.60 per hour (aged 22 and over).

Source: Labour Force Survey; Annual Survey of Hours and Earnings

The percentage of jobs below the NMW in 2005 (1.3 per cent) was slightly higher than in 2004 (1.1 per cent), and was driven mainly by an increase of 0.8 per cent among 18- to 21- year-olds. The percentage of those 22 and over paid below NMW was 1.1 per cent. This figure of 1.3 per cent is still lower than when the NMW was introduced in 1999.

A new methodology developed in 2004 using ASHE data improves the coverage of the low end of the pay distribution and estimates the number of jobs paid below the national minimum wage (NMW). This methodology is based on ASHE data only for 2004 and 2005, and a combination of ASHE and LFS data for 1998–2003.

In spring 2005, the NMW was £4.10 for those aged between 18 and 21 and £4.85 for those aged 22 and over. More detail of the pay rates for the NMW is given in Appendix A.

It should be noted that estimates of jobs paid below the NMW do not measure non-compliance with the NMW legislation. This is because the survey data used to provide the estimates do not indicate whether an individual is eligible for the minimum wage. For example, some people, such as apprentices or new trainees, are exempt from the minimum wage or are only entitled to lower rates. Also, if employees receive free accommodation, employers are entitled to offset hourly rates.



Low Pay Estimates

