

# Production of a private sector services Average Earnings Index

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**The development of the new index of average earnings for private sector services is described in this article.**

## Key points

- In order to meet user demand, ONS has now constructed an Average Earnings Index (AEI) series covering private sector services.
- The new index is constructed in the same way as all other AEI indices and is of similar quality to the indices published for broad sectors.
- The new series shows that over the last five years earnings growth in private sector services is generally above that in all services.
- Private services earnings growth was 6.1 per cent in February 2000; earnings excluding bonuses grew by 5.0 per cent. The bonus effect in private services in February 2000 was 1.1 percentage points.
- The new index has been released alongside, but not in, the labour market statistics First Release issued on 19 April 2000. The data were also released electronically via the ONS Data-Bank<sup>®</sup> and Statbase<sup>®</sup> (within Time-zone) systems.
- ONS would welcome user feedback on the appropriate vehicle for release of these data.

## Introduction

IN RESPONSE to user demand, ONS has been developing an index of average earnings growth for the private services sector of the economy. The development of the index and associated quality assurance is now complete, and this article introduces the new index and sets out ONS' plans for future dissemination.

## Construction

The index has been constructed in the same way as any other derived from the Average Earnings Index (AEI). Uniquely among the outputs from ONS business surveys, the sample that underpins the AEI is stratified according to the legal status of the enterprise selected for inclusion. This layer of stratification is in addition to the 'usual' stratification variables of industrial sector and enterprise size.

The legal status marker for each enterprise is obtained from the ONS business register, from which the sample of firms is selected, along with the industry classification. Obtaining this information allows ONS to produce the familiar indices for key aggregates, including public and private sectors of the economy. However, users have asked ONS if it is possible to separate the privately owned part of the service sector from the public. The reasons are obvious: the private service sector is where bonus payments in the economy are most densely concentrated, but the exact opposite is true of public sector services. Hence, any growth in private service earnings may be disguised by the

damping effect of the public sector.

Using the information available for each enterprise in the sample it is possible to construct an index for private sector services.

In doing so, ONS was obliged to consider some of the recommendations made in the reviews of the AEI conducted in 1999. For example, recommendation 37 of the Turnbull-King review<sup>1</sup> constrains ONS from releasing growth rates that include the effects of bonuses for broad SIC components. If the new index were to be described in these terms, ONS would not be able to publish the key elements that show growth including bonuses, nor could it publish a long-time series, and thus a seasonally adjusted estimate.

Having considered these issues with key users of the AEI, ONS concluded that a private sector services index is of similar quality to the indices published for broad sectors that are currently being issued without constraint. Thus, it viewed a private sector services index in the same way as it does the index for manufacturing or the public sector, for example.

One consideration that allowed ONS to come to this conclusion was a comparison of the sample sizes that underpin the broad aggregates that it currently publishes with that for private services. Using data from the new sample of firms introduced in October 1999, the private sector services index is based on responses from approximately 3,450 firms. This is around 50 per cent of the total response and compares with a sample of 1,600 in manufacturing, for example.

A second issue that ONS considered was one of variability in the growth rates that are produced by the

new index. Again using the new sample, ONS calculated that the standard error of the month-on-month growth rate in the private sector services index, excluding bonuses, is smaller than that for all other broad aggregate indices currently being published – this again reflects the larger sample size in the private services sector.

## Private sector services average earnings index

The index, together with annual growth rates, is presented in *Table 1*. The path of the private sector services index is compared with all services in *Figure 1*.

While it tracks that of the all services index closely, it shows that, as expected, growth rates in private sector services are higher than in the all-services index – the difference being accounted for by the lower growth rates in public sector average earnings.

## The effects of bonuses

There will inevitably be interest in the effect that bonuses play on this index, since this is the sector where they are most densely concentrated. To address this, ONS has calculated an index excluding the effect of bonuses. However, recognising the impact of the discontinuity in the bonus series introduced when the survey questionnaire was changed in February 1999, it is only publishing the excluding bonus growth rate for February 2000 onwards. ONS does not believe users' interests would be adequately served by its calculating an effect known to be misleading.

The excluding bonus estimate of annual growth to February 2000 is 5.0 per cent, which compares with 6.1 per cent when bonuses are included. Thus, the bonus effect in private sector services is 1.1 percentage points, 1.6 points greater than in manufacturing and 1.1 points larger than the public sector effect.

## Dissemination

The new index has been released alongside, but not in, the labour market statistics First Release issued on 19 April 2000. The data were also released electronically via the ONS DataBank® and Statbase® (within Timezone) systems. These releases included data from January 1990 up to and including February 2000, with the new index having the same base period as other AEI series, of 1995=100.

The future dissemination arrangements entail ONS including the private sector services AEI in a supplementary table to the ONS labour market statistics First Release for the period May to July 2000 inclusive. In August 2000 the private sector services AEI will replace the production sector estimates in Tables 15 and 16 of the First Release. Since manufacturing accounts for more than 95 per cent of the production sector, the two series tend to track each other closely. The removal of the production sector data should not therefore limit the ability to interpret earnings growth in different sectors of the economy. The production sector data will continue to be available electronically and via ONS journals, including *Labour Market Trends*.

## Feedback

ONS would welcome your

feedback on these data. It would also be grateful to receive any views you may have on the proposal to replace the production sector AEI with that for private sector services from August 2000. Should you have any views or require further information, please contact the author.

*Review of the Revisions to the Average Earnings Index*, report submitted by Sir Andrew Turnbull and Mervyn King, The Stationery Office, March 1999.

## Further information

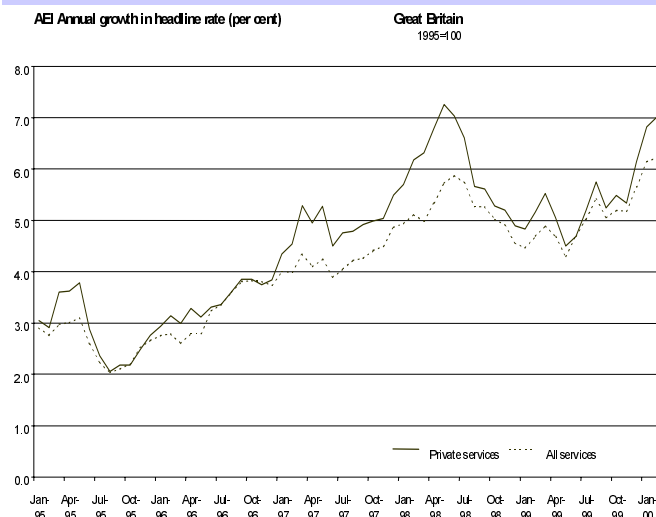
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**Figure 1** Annual growth in headline rate; Great Britain; January 1995-January 2000



**Table I** Average Earnings Index: private sector services; Great Britain; January 1995-February 2000

1995 = 100	Index		Annual change		Headline rate
	Not seasonally adjusted	Seasonally adjusted	Not seasonally adjusted	Seasonally adjusted	Seasonally adjusted
	JJGF	JJGH	JJGG	JJGI	JJGJ
January 1995	98.5	99.0	3.6	3.6	3.2
February 1995	99.2	99.1	2.2	2.2	2.9
March 1995	105.7	99.8	4.9	4.2	3.3
April 1995	99.6	99.5	3.6	3.4	3.2
May 1995	99.0	99.6	2.7	2.8	3.5
June 1995	99.4	99.6	2.3	2.2	2.8
July 1995	99.9	99.7	2.0	2.2	2.4
August 1995	98.6	100.0	1.7	2.1	2.2
September 1995	98.1	100.4	2.5	2.7	2.3
October 1995	98.6	100.9	2.1	2.5	2.4
November 1995	100.3	101.5	2.8	3.2	2.8
December 1995	103.1	101.5	3.4	3.3	3.0
January 1996	101.1	101.5	2.7	2.6	3.0
February 1996	102.6	102.3	3.4	3.3	3.0
March 1996	108.8	102.1	2.9	2.3	2.7
April 1996	103.2	102.8	3.6	3.3	3.0
May 1996	101.8	102.4	2.9	2.8	2.8
June 1996	102.8	103.1	3.4	3.5	3.2
July 1996	103.6	103.5	3.7	3.8	3.4
August 1996	102.1	104.0	3.5	3.9	3.8
September 1996	102.4	104.8	4.3	4.4	4.0
October 1996	102.3	105.0	3.7	4.0	4.1
November 1996	103.6	105.4	3.3	3.8	4.1
December 1996	107.8	105.9	4.6	4.3	4.1
January 1997	106.5	106.6	5.4	5.0	4.4
February 1997	106.8	106.3	4.1	3.9	4.4
March 1997	116.1	108.2	6.8	6.0	5.0
April 1997	107.5	107.1	4.2	4.1	4.7
May 1997	106.8	107.2	4.9	4.7	4.9
June 1997	107.3	107.7	4.4	4.4	4.4
July 1997	108.8	108.8	5.0	5.1	4.7
August 1997	107.3	109.5	5.1	5.3	4.9
September 1997	107.4	110.0	4.9	5.0	5.1
October 1997	107.5	110.7	5.1	5.5	5.2
November 1997	108.9	111.3	5.1	5.6	5.4
December 1997	114.4	112.2	6.1	5.9	5.7
January 1998	112.6	112.6	5.7	5.6	5.7
February 1998	113.6	113.2	6.4	6.5	6.0
March 1998	123.6	114.7	6.4	6.0	6.0
April 1998	115.5	115.0	7.4	7.4	6.6
May 1998	115.3	115.5	8.0	7.7	7.0
June 1998	113.5	113.8	5.9	5.7	6.9
July 1998	115.4	115.5	6.1	6.2	6.5
August 1998	112.8	115.4	5.1	5.4	5.8
September 1998	113.5	116.4	5.7	5.8	5.8
October 1998	113.0	116.6	5.0	5.3	5.5
November 1998	114.3	117.2	5.0	5.3	5.5
December 1998	119.8	117.3	4.8	4.5	5.0
January 1999	118.1	117.8	4.9	4.6	4.8
February 1999	120.4	119.7	6.0	5.8	5.0
March 1999	130.7	121.0	5.7	5.5	5.3
April 1999	119.3	119.1	3.3	3.6	4.9
May 1999	120.2	120.1	4.2	4.0	4.4
June 1999	120.9	121.1	6.5	6.4	4.7
July 1999	121.1	121.3	5.0	5.1	5.1
August 1999	119.4	122.2	5.9	5.9	5.8
September 1999	119.0	122.4	4.9	5.2	5.4
October 1999	119.4	123.3	5.7	5.8	5.6
November 1999	120.5	123.9	5.4	5.7	5.6
December 1999	128.6	125.6	7.3	7.1	6.2
January 2000	127.1	126.6	7.6	7.5	6.8
February 2000	127.7	126.9	6.1	5.9	6.9