

PRESS RELEASE

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Pay picture stable but early signs of weakening?

The latest figures on pay settlement levels from the IDS Pay Databank show that while the overall picture is broadly stable, there are early signs that the outlook for pay rises may be weakening in the face of falling inflation. At the same time however, recent higher levels of inflation continue to exert an influence on the first batch of January 2009 deals, most of which are under the subsequent stages of long-term deals.

The median pay settlement for the whole economy remains at 3.5 per cent in the three months to the end of November 2008. The lower quartile – the point at which a quarter of deals are below – fell slightly to 2.9 per cent, down from 3 per cent in the three months to October. A quarter of deals in the latest period are below 3 per cent, and this is reflected in the drop in the lower quartile. The lower awards are mainly in the not-for-profit, retail and public sectors. Examples include the 2.65 per cent award for police officers, effective from 1 September 2008 in the first year of a three-year deal. The latest figures are based on 70 settlements, mostly in the private sector, covering just below 2 million employees altogether.

The upper quartile is still at 4 per cent, indicating that a relatively large number of settlements continue to be reached at higher levels. Indeed, a third of all the deals in the latest period are at or above 4 per cent. Many of these are in manufacturing, where the median rose from 4 per cent in the three months to October, to 4.2 per cent for the three months to November. Importantly though, almost half of the higher-end increases are under the subsequent stages of long-term deals, with many set according to formulas linked to recent RPI inflation figures.

Although inflation has fallen, to 3 per cent in the year to November, recent RPI levels have been higher – peaking at 5 per cent in the year to September – and this is the main influence on pay rises under the first batch of January pay deals. Most of these are under the subsequent stages of long-term deals and the majority have produced increases in the 3 to 5 per cent bracket. For example, plumbers in England and Wales recently received a 5 per cent increase in the second year of a two-year deal, based on the September 2008 RPI figure.

IDS collects forecasts on inflation from a range of City and non-City institutions and the latest predictions, gathered just before Christmas, indicate that the RPI is set to go negative under the impact of falling oil prices and successive cuts in interest rates.

Ken Mulkearn, Editor of IDS Pay Report, said: 'If the economists' predictions are correct, negative inflation will represent uncharted territory for all those concerned with decisions on pay. We expect wider variations in pay outcomes during 2009, especially if inflation continues to fall. Previous experience indicates that when the cost-of-living drops, in the context of an economic slowdown, pay deals fall on average but tend not to go below a floor of around 2%.'

For further press information, please contact:

- Ken Mulkearn on 020 7429 6892
- or Lois Wiggins on 020 7429 6893

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