

Stable median conceals diversity of increases

The latest figures from the IDS Pay Databank represent the first detailed look at pay settlements effective in January 2009. The data shows that while the median increase is stable at 3.5 per cent, this is largely a result of the impact of long-term deals with links to earlier, higher inflation rates. When these settlements are excluded from the analysis, the median rise falls to 3.2 per cent. Also, for the first time in many years, we have recorded a number of pay freezes.

IDS has analysed 58 pay settlements effective in the three months to the end of January, of which 48 are effective from January. Together, the deals cover some 237,000 employees. The median rise is 3.5 per cent, the same as in our last analysis. The interquartile range – within which half of the deals fall – has widened considerably, with the upper quartile rising to 4.6 per cent. This is mainly under the impact of a number of long-term deals with January increases linked to the RPI, which was at high levels for most of 2008 and has only recently fallen sharply, from 3 per cent in November to 0.9 per cent in the year to December. For example, some of these long-term deals were linked to the RPI figure for the year to September 2008, which was announced in mid-October at 5 per cent.

Inflation is expected to go negative on 17 February, when the RPI for the 12 months to January is released. This is uncharted territory for pay negotiators. In particular, those organisations with long-term deals based on soon-to-be negative inflation will need to decide – unless they have a guaranteed minimum increase – how to respond.

We have recorded five pay freezes this time, four of which are in manufacturing. We are also seeing a number of deferrals and pay 'pauses' in manufacturing, especially in vehicle components, which has been badly hit by the downturn. However even in manufacturing, a range of pay outcomes are possible. Of the 39 deals monitored in the manufacturing and production sectors for the latest analysis period, just below half are at or above 4 per cent, indicating that some firms are feeling the turn of the economy more sharply than others.

Ken Mulkearn, Editor of IDS Pay Report, said: 'It's a little early to assess the full impacts on pay settlements from falling inflation, but already we can see some effects of the recession. The emerging picture is broadly as we predicted, ie a wider range of settlements as some firms award lower rises, or even freeze pay, while others continue to settle at the higher end. There are sectoral differences too.'

For further press information, please contact Ken Mulkearn on 020 7429 6892.

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