Box A: What are Income Data Telling us?

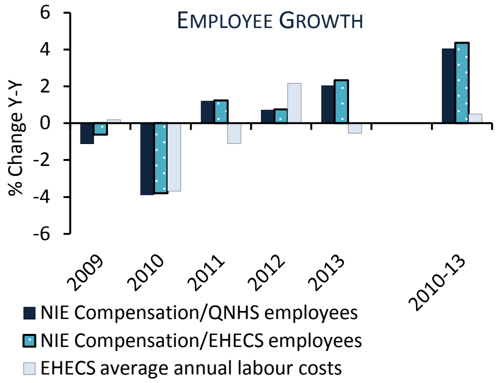
Personal consumption, equating to roughly half of GDP, has an important bearing on growth projections. Previous FARs highlighted a tendency for Department of Finance forecasts to over-estimate consumption growth (IFAC, 2013a). A key problem arises from understanding income developments which are crucial variables when forecasting consumer spending. In this Box, we highlight some of the issues with available income data.

Irish Income Data Sources Compared

The *National Income and Expenditure (NIE)* results published in the Summer following the most recent full year provide an official estimate of earnings growth. The latest release published in July 2014 covers 2013 and indicates that earnings rose by close to 2 per cent last year – better than the Department's 1.5 per cent forecast. The Council had assumed much weaker wage developments in line with high frequency quarterly data releases, known as the *Earnings, Hours and Employment Costs Survey (EHECS)*. These indicated an average decline of some 0.5 per cent for 2013.

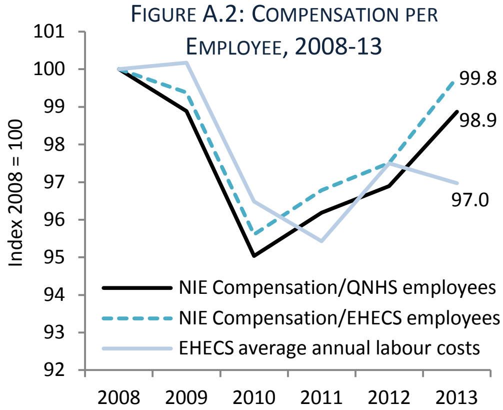
The divergence between the EHECS and the NIE is not a new issue, but it widened last year. Figure A.1 shows two NIE-based estimates alongside EHECS-based estimates.[14] Cumulatively, the EHECs data suggest that compensation per employee was relatively unchanged since 2010. The NIE data show that compensation per employee rose by roughly 4-4½ per cent depending on the estimates of employee numbers used.[15]

Figure A.1: Compensation per Employee Growth



Sources: CSO and internal calculations.

Figure A.2: Compensation per Employee, 2008-13



Sources: CSO and internal calculations.

The profile for earnings developments in the NIE also looks quite different to that portrayed by the EHECS dataset. NIE-based estimates show a more pronounced fall in earnings in 2010 with a steadily increasing pattern since then. Having bottomed out in 2010, they have recovered to close to their 2008 levels by 2013. The EHECS, however, would appear to suggest that compensation has recovered little since 2010. This suggests some problems for forecasters as the only hard data available in between annual NIE estimates are those provided by the EHECS. The differing narratives around earnings can also give rise to very different forecasts of consumption as well as for projections of income-related tax revenues. It would, therefore, be helpful if high-frequency earnings data could be improved.

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[14] The EHECS data here is the average hourly labour costs series which captures earnings data (regular earnings irregular earnings, bonuses, etc.) as well as non-labour costs (employers' PRSI, other social costs, benefit in kind etc.).

[15] Employee estimates can be taken from the EHECs dataset or from the *Quarterly National Household Survey (QNHS)* dataset. The former is a survey of employers and excludes certain sectors covered in the *QNHS* such as "activities of households as employers of domestic personnel"; "...undifferentiated goods- & services-producing activities of private households for own use..."; and "...activities of extraterritorial organisations and bodies...". It typically gives an estimate of employment that is ½-1½ per cent lower than the QNHS equivalent.