

NOTE FOR THE RECORD

EMPLOYMENT STATISTICS

The Secretary of State for Employment came to see the Prime Minister today to discuss a problem which had arisen over the calculation of the figures for the employed labour force. These figures are normally published quarterly with the next set due to appear in a press notice on Wednesday 16 January. Mr. King began by explaining the methodology for preparing the statistics. There are four separate exercises for gathering information:

i) Census of Employment. This is now carried out every third year and covers all establishments employing more than 25 people and 10% of establishments below this figure. It has been carried out in 1984 but the results will take about a year to process.

ii) Labour Force Survey carried out by OPCS. This is normally conducted annually though it was dropped in 1982. It is based on a survey of 60 - 70,000 households. The 1984 survey has been completed and the results are now being processed.

iii) A quarterly survey based on a sample of 3% of employers, though these cover 50% of employees.

iv) A monthly survey confined to manufacturing.

The most complete figures are derived from the Census of Employment and these are used, when available, to provide a bench mark. Between ~~cons~~ censuses, the procedure is to update the figures using the quarterly surveys and then, when the LFS becomes available each year, these figures are further adjusted. In recent years, the LFS has revealed a tendency by the quarterly surveys to under-record.

The problem arose from a mistake in the processing of the 1983 LFS. Households which refused to respond were wrongly recorded as being employed, rather than being allocated between the working and non-working labour force in the same proportions as responding households. There was thus a large gap between the amount of employment shown in the LFS and the quarterly surveys and the allowance added to the quarterly surveys for under-recording was thereby too big. The estimates for employment in the second half of 1983 and in 1984 included an allowance of 78,000 per quarter for under-recording but it was possible that the increase in employment of 250,000 which many Ministers had referred to could be revised downwards to between 50 - 100,000.

There was, however, a further complication. OPCS and departmental statisticians were currently processing the 1984 LFS. This would not be ready before mid-February at the earliest but early indications were that it would generate an upward adjustment in the figures. One option would be to correct the past error and then at a later date introduce the effects of the 1984 LFS but Mr. King said he was anxious to avoid knocking the figures down and then putting them up again. He preferred to wait until he could deal with the correction to the past figures at the same time as introducing the results of the 1984 LFS.

He suggested, therefore, publishing the September 1984 figures next Wednesday using the existing methodology (although he had reason to believe these figures were faulty he would not have to hand the precise results of the recalculation exercise). A footnote would be attached which would indicate that the figures were to be revised shortly in the light of the 1984 LFS.

The Prime Minister said it was important that Ministers should not continue to publicise the 250,000 figure. It was agreed that Mr. King would raise the matter at Cabinet. He would advise colleagues not to use the 250,000 figure which

was in any case becoming out of date (112,000 of this figure related to the increase in Q4 in 1983). He would explain that the figures were in any case likely to be revised substantially. Mr. King said he was seeking, as a matter of urgency, an assurance from his statisticians that it would still be possible to claim that employment was still increasing even though it was not possible to put a precise figure to this.

The Prime Minister remarked that this demonstrated that the figures were published to a spurious degree of accuracy. She also asked Mr. King about the timing of the change in payment of unemployment benefit which would take 40,000 off the unemployment register. Mr. King agreed to report back on this.

AS

Andrew Turnbull

9 January 1985

Mr. King spoke further to the Prime Minister about the employment statistics today. At their previous meeting it had been agreed that the figures to appear on Wednesday, 16 January should have an additional "health warning" that the figures would shortly be revised when the LFS was published in the following month. Mr. King said his statisticians now advised that when the results of the 1984 LFS were incorporated into the statistics - which he hoped would be by 20 February - the increase in employment shown would be close to that indicated by the existing figures.

He had concluded that there was no half-way house in publishing tomorrow between a full disclosure of the difficulties underlying

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the statistics (much of which might be contradicted in the following month) and publishing on the existing basis with no additional warning. Addition of a new "health warning" would provoke questions from journalists and analysts and the result would be the same as if there had been full disclosure of the difficulties. He therefore advised publication on the existing basis with the new figures to appear in February. He could justify this position as soon as the doubts had been cast on the existing figures, he had set in hand work to accelerate completion of the LFS.

AT

15 January, 1985