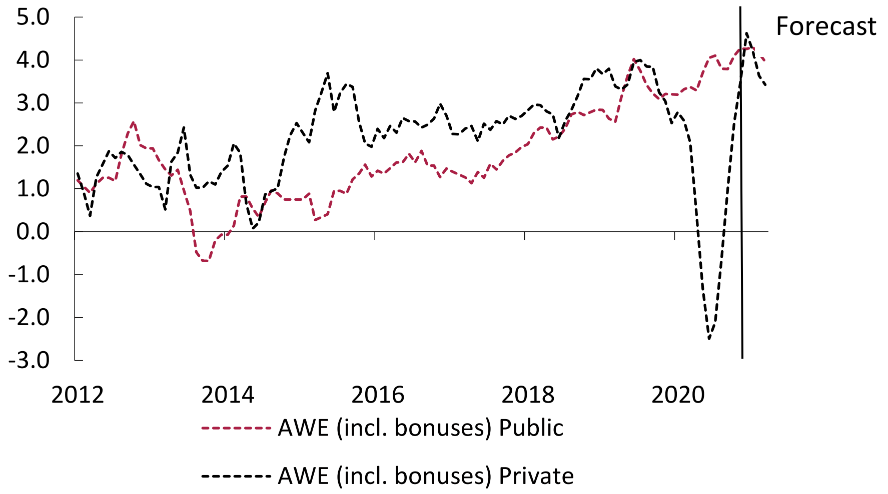
National Institute
Monthly Wage Tracker

Tuesday 23 February 2021

Average pay growth to ease after a strong rise in the last quarter of 2020

Figure 1 – Average weekly earnings including bonuses, annual growth



Main points

- Average weekly earnings (AWE) averaged 1.8 per cent in 2020, making it the lowest average earnings growth since 2014. The year was split between a sharp drop in the first half and a strong rebound in the second half.
- The strong rebound in the second half of 2020 was partly driven by the compositional effect of a fall in the number and proportion of lower-paid jobs in the private sector.
- Starting salaries and temporary wages both declined in January 2021 compared to December 2020, suggesting that pay growth is moderating in the first quarter.
- The number of furloughed workers looks set to climb to 5-6 million during the current lockdown, which will also have a downward effect on average pay growth.
- The Monthly Wage Trackers predicts that AWE growth will moderate from 4.7% in the fourth quarter of 2020 to 3.4% in the first quarter of 2021.
- At the sectoral level, employment trends will not only be impacted by scarring from the pandemic, but also by the effect of Brexit, particularly in manufacturing.

"2020 was a year of contrast with a record drop in average pay in the first half, and a record surge in the second half. There was a lot of heterogeneity across sectors and across the pay scale, with lower income workers particularly impacted by the restrictions related to Covid-19. To reduce the long-term scarring effects of the pandemic on the labour market, it is crucial that the vaccination programme continues to be rolled out at pace and fiscal support measures are not prematurely withdrawn."

Cyrille Lenoël

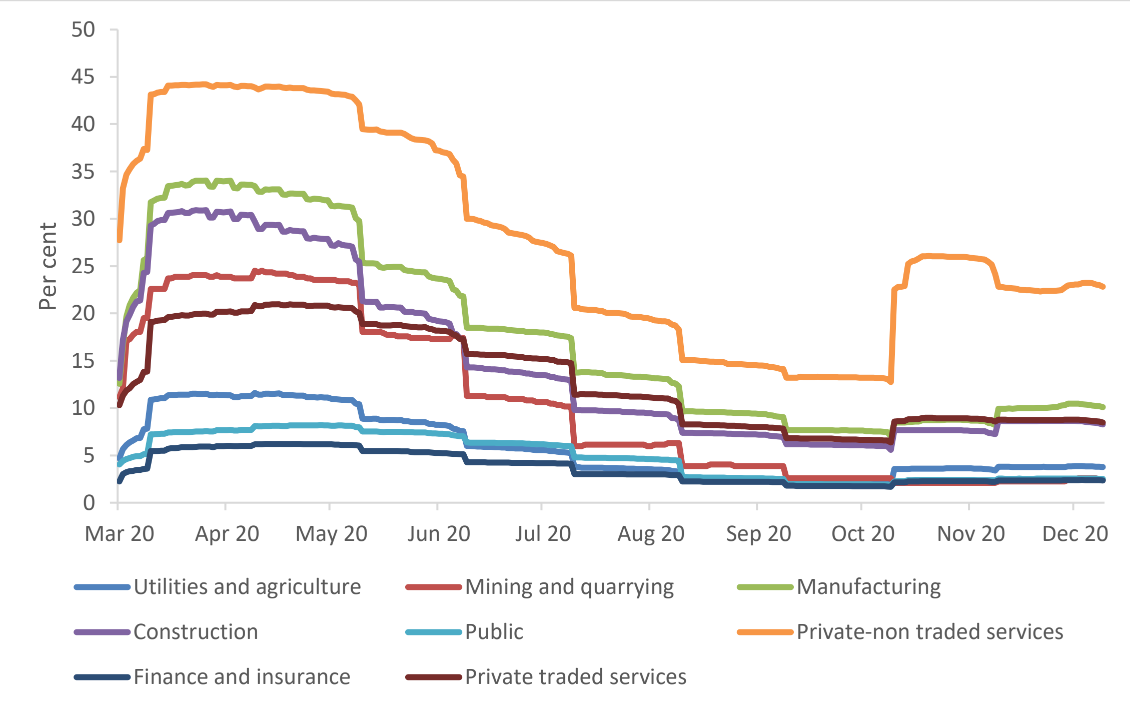
Senior Economist, NIESR

Employment

The Labour Force survey (LFS) shows that employment rate continues to trend down and unemployment rate to trend up. The estimated employment rate fell to 75.0 per cent in the three months to December 2020 down from 75.3 per cent in the previous quarter. The employment rate reached its peak of 76.6 per cent in the fourth quarter of 2019.

The number of workers on furlough was around 4 million in December, and we estimate that it has increased to 5 to 6 million in January, but is still significantly lower than 8.9 million peak in April last year. Looking at the sectoral decomposition, the increase in furlough at the end of last year was most prevalent in the private non-traded sector (composed of wholesale and retail trade, accommodation and food, arts and entertainment and other services), where around one quarter of the workforce was furloughed (see figure 2). We estimate that the current more stringent lockdown compared to November has expanded the use of furlough to more sectors.

Figure 2 – Percentage of furloughed workers by sector



Source: HMRC, NIESR calculations.

The number of unemployed people increased to 1.74 million in the three months to December 2020, an increase of 121,000 compared on the previous quarter. As a result, the unemployment rate increased to 5.1 per cent in the three months to December, up from 4.7 per cent in the previous quarter.

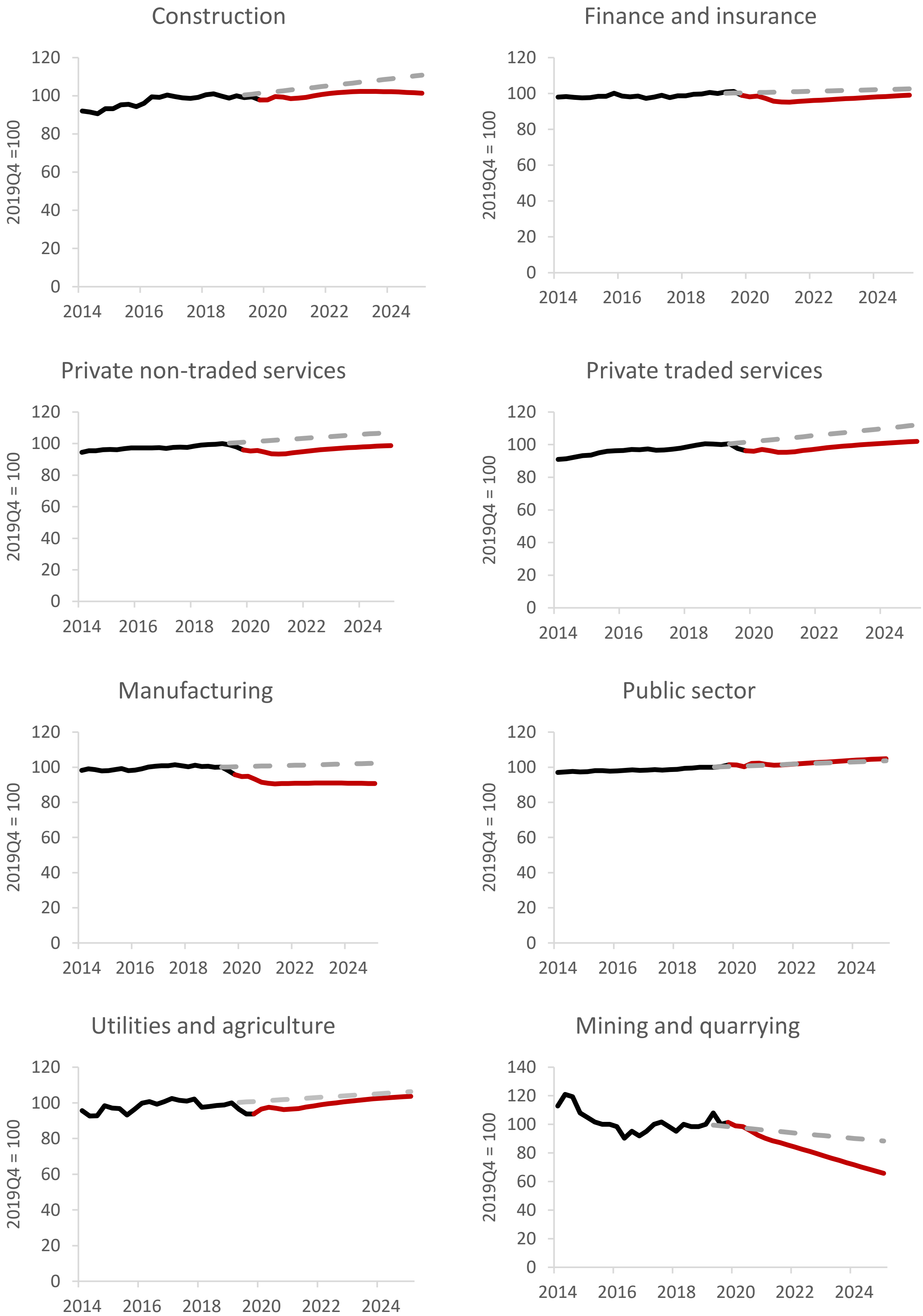
The latest KPMG and REC surveys on jobs suggests that permanent placements fell in January during lockdown, but temporary placements continued to increase because employers preferred to hire temporary staff during those uncertain times.

We forecast that, in 2021, weak demand as a result of the winter lockdown and continued uncertainty around the path of the pandemic will push up unemployment towards a peak of about 7½ per cent at the end of the year (see our UK Economic Outlook February 2021).

From our UK Sectoral Outlook February 2021, we can extract the employment forecasts and compare them the pre-Covid trend. Figure 3 shows that the sectors where employment is most likely to decline compared to the pre-Covid trend are manufacturing, private traded and non-traded services and mining and quarrying. Long-term scarring from the pandemic is expected to be more evident in the two largest sectors by employment: private traded and non-traded services sectors. Non-traded services jobs suffered most during the pandemic as evidenced by the high furlough rate in this sector and will struggle to recover as some activities that have been forced to shut down may never reopen. While initially less directly impacted by the pandemic, private traded services jobs - which include professional services, transportation, information and administrative services - are likely to be hit indirectly by the reduced activity in other sectors.

But other factors are at play in manufacturing and mining and quarrying. The relative decline projected for manufacturing is mainly the result of additional non-tariff barriers between the UK and the EU following Brexit. And the declining trend in mining and quarrying is the result of the progressive depletion of North Sea oil reserves. By contrast, employment in the public sector or utilities and agriculture is likely to be largely unaffected by the pandemic.

Figure 3 – Employment by sector (NIESR forecast (red) and pre-Covid trend (dashed grey)



Source: ONS and NIESR forecast.

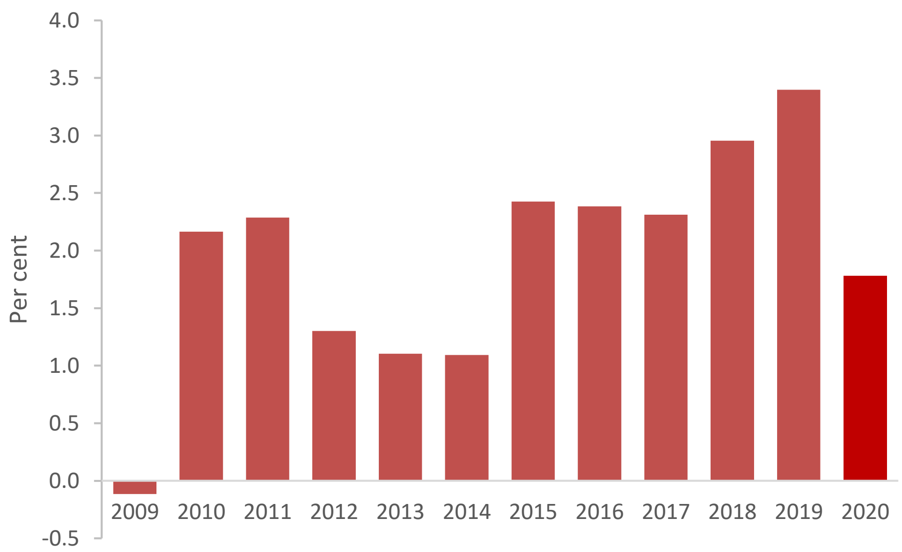
Pay

Early data from KPMG and REC surveys on jobs suggest that pay growth is moderating in the first quarter of 2021, after a strong fourth quarter of 2020. Both starting salaries and temporary wages are expected to have fallen in January 2021 compared to December 2020.

Pay growth ended 2020 better than it had started. According to the ONS data published this morning, average weekly earnings (including bonuses) in Great Britain increased to 4.7 per cent in the three months to December 2020 compared to a year ago after falling by 1.3 per cent in the second quarter of 2020 and recovering by 1½ per cent the third quarter. With inflation averaging 0.9 per cent, this represents a gain of earnings of 3.8 per cent in real terms for the average employee for the fourth quarter of 2020. HMRC's PAYE RTI data of payrolled employees suggests that median monthly pay increased by as much as 5.0 per cent in December 2020, compared with the same period of the previous year, but early estimates for January indicate that a marked slow down to 4.0 per cent.

Average weekly earnings averaged 1.8 per cent in 2020, making it the lowest average earnings growth since 2014 (figure 3).

Figure 3 – Average weekly earnings including bonuses, annual average growth



Source: ONS, NIESR calculations

Other measures of pay growth excluding composition effects suggest that underlying pay growth was actually much lower than the latest data from ONS and HMRC. The latest survey from Incomes Data Research of large firms suggests that there has been a moderate decrease in median pay growth during the pandemic: median pay growth decreased from 2.5% to 2.3% in 2020 and the outlook for 2021 is a further decrease.

We forecast AWE in the private sector to slow down in the first quarter of 2021 because of a large reduction in hours worked by employees in furlough during the current lockdown. We forecast AWE of 3.4 per cent in the first quarter in the private sector, after 4.6 per cent in the previous quarter.

In the public sector, the strong momentum in pay growth in 2020 will most likely carry on into the beginning of 2021 because the public sector is largely sheltered from the lockdown measures. We forecast AWE in the public sector to be 4.0 per cent in the first quarter of 2020, after 4.3 in the previous quarter. The public sector pay freeze announced during the Spending Review is expected to concern half of public sector employees, because NHS staff and lower paid employees will be excluded. This measure will naturally reduce public sector pay growth in 2021, and if it is extended, it may also put downward pressure on private sector pay growth given the spillover effects between public and private sector pay growth.

We forecast total AWE to ease down from 4.6 per cent in the fourth quarter to 3.4 per cent in the current quarter. With inflation expected to be around ½ per cent, we forecast significant real AWE gains of 2.9 per cent in the first quarter of 2021. However, this masks significant heterogeneity across different industries and different employee groups, which requires continuation of fiscal support measures targeted towards the most affected businesses and households to support the economic recovery and to limit the long-term economic and social damage.

Table 1 - Summary table of earnings growth

Average Weekly Earnings						
	Whole economy		***Private sector***		***Public sector***	
Latest weights	*100*		*82*		*18*	
	Regular	***Total***	***Regular***	***Total***	***Regular***	***Total***
Jan-20	511	546	504	545	547	550
Feb-20	511	545	503	543	548	552
Mar-20	510	538	502	533	550	553
Apr-20	503	528	490	521	559	560
May-20	503	529	490	521	566	569
Jun-20	505	530	492	522	565	568
Jul-20	512	539	501	535	562	563
Aug-20	518	550	508	551	563	565
Sep-20	524	559	514	553	567	569
Oct-20	528	563	519	561	567	569
Nov-20	531	568	522	566	570	572
Dec-20	534	571	525	570	570	573
Jan-21	531	561	523	559	570	573
Feb-21	530	561	522	559	571	574
Mar-21	530	562	521	559	571	574
% change 3 month average year on year						
Jan-20	3.1	3.1	3.0	2.8	3.2	3.2
Feb-20	2.9	2.8	2.9	2.6	3.2	3.3
Mar-20	2.6	2.3	2.6	2.1	3.3	3.4
Apr-20	1.7	0.9	1.3	0.4	3.2	3.3
May-20	0.7	-0.4	-0.1	-1.3	3.8	3.7
Jun-20	-0.1	-1.3	-1.3	-2.5	4.1	4.0
Jul-20	0.2	-1.0	-0.9	-2.1	4.4	4.1
Aug-20	0.9	0.1	0.1	-0.6	4.1	3.8
Sep-20	2.0	1.5	1.4	1.0	4.0	3.8
Oct-20	2.8	2.8	2.5	2.5	4.0	4.1
Nov-20	3.5	3.7	3.3	3.4	4.2	4.3
Dec-20	4.0	4.6	3.9	4.6	4.2	4.3
Jan-21	4.2	4.3	4.0	4.2	4.3	4.3
Feb-21	4.1	3.7	3.9	3.6	4.2	4.2
Mar-21	3.9	3.4	3.7	3.4	4.1	4.0
% change month on same month of previous year						
Jan-20	2.6	3.0	2.9	3.0	3.0	3.2
Feb-20	2.8	2.6	2.7	2.5	3.2	3.6
Mar-20	2.4	1.3	2.2	0.8	3.6	3.4
Apr-20	0.0	-1.1	-1.0	-2.1	2.9	2.9
May-20	-0.2	-1.3	-1.4	-2.6	4.8	4.8
Jun-20	-0.2	-1.5	-1.4	-2.8	4.4	4.4
Jul-20	1.0	-0.2	0.2	-0.9	3.9	3.1
Aug-20	2.0	2.0	1.4	1.8	3.9	3.9
Sep-20	2.9	2.6	2.6	2.0	4.2	4.4
Oct-20	3.5	3.7	3.4	3.7	4.0	4.0
Nov-20	4.1	4.8	4.0	4.6	4.4	4.4
Dec-20	4.5	5.4	4.4	5.6	4.2	4.4
Jan-21	3.9	2.8	3.7	2.5	4.2	4.1
Feb-21	3.8	3.0	3.7	2.9	4.2	4.0
Mar-21	4.0	4.5	3.9	4.9	3.8	3.8

Health warning

NIESR's Wage Tracker includes predictions for regular pay and bonus payments for the whole economy, as well as forecasts for private and public sector wages. The Wage Tracker exploits information from key macroeconomic indicators, including labour market trends, building also on information from monthly GDP nowcasts produced by NIESR's GDP Tracker and survey evidence, such as labour costs in the manufacturing and service sectors from the Bank of England Agents Score. The wage models also capture the interaction between private and public pay, shown to be relevant in work done by NIESR.

To check how our methodology would work in real time we have produced judgement-free forecasts of earnings growth for the period between 2010M07 and 2018M10. For whole economy earnings, the root mean square error is 0.2 per cent points for the measure excluding bonuses and 0.4 per cent points for the measure including bonuses. So, on average, our projections are likely to have an error of 0.2/0.4 percentage points above or below the forecasts we publish. These numbers indicate the degree of uncertainty around the point forecasts produced by the models at each point in time. The errors are greater for the measure of earnings including bonuses because bonus payments, particularly in the private sector, are subject to short-term volatility. In practice, we add residuals reflecting our judgement so the error bands may be larger or smaller.

Forecast schedule

The NIESR Wage Tracker provides a rolling monthly forecast for earnings growth. The ONS produces an estimate of Average Weekly Earnings (AWE) for any particular quarter some 40 days after the end of the quarter. The NIESR Wage Tracker will publish AWE forecasts 5 months ahead of the ONS release for the reference quarter, updating that forecast four times before the official data is out, similar to the monthly GDP Tracker schedule.

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