National Institute
Monthly Wage Tracker

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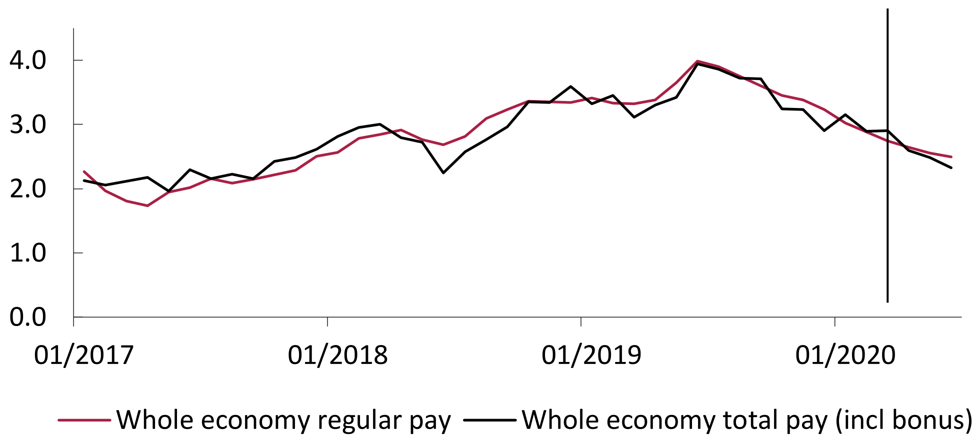
WAGE GROWTH TO SLOW FURTHER

Figure 1 – Average weekly earnings growth (per cent per annum)



Main points

- According to new ONS statistics published this morning, UK average weekly earnings expanded by 2.9 per cent excluding bonuses in the three months to February 2020 compared to the year before, and by 2.8 per cent if bonus payments are taken into account.
- The Wage Tracker indicates that nominal earnings growth including bonuses will be 2.9 per cent in the first quarter of 2020, decreasing to 2.3 per cent in the second quarter.

"UK earnings growth, which had already declined from 4 per cent in the middle of 2019 to below 3 per cent in the three months to February 2020, will most likely decelerate further in the next few months because of the rise in furloughing and the reduction in economic activity during the Covid19-related lockdown period."

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Details

With the lockdown being currently enforced in the United Kingdom, wage growth is showing signs of slowing further from its peak in the middle of last year.

The new ONS statistics published this morning show that average weekly earnings (AWE) expanded by 2.9 per cent excluding bonuses in the three months to February 2020 compared to the year before, and by 2.8 per cent if bonus payments are taken into account (figure 1). This is down from the peak of nearly 4 per cent AWE growth from April to June 2019. Growth in median pay for employees in the three months to February 2020 was highest in Scotland (4.1 per cent) and lowest in Northern Ireland (2.4 per cent). In real terms, AWE growth also declined from 2 per cent in the three months to June 2019 to 1.2 per cent in the three months to February 2020.

The UK labour market was until March in a situation of full employment and limited excess capacity. The employment rate in the three months to February 2020 was at record high of 76.6 per cent and the unemployment rate was at 4 per cent, close to its record low of 3.7 per cent of the last 30 years. There were an estimated 795,000 vacancies in the UK in the period from January to March 2020, which was 52,000 fewer than a year earlier.

This is not the case anymore. The KPMG and REC report of Jobs survey collected between 12 and 25 of March picked up the first impact of Coronavirus on the labour market. It noticed a sharp decline in both permanent and temporary placements in March and a slowdown in wage inflation. On the first day of the Coronavirus Job Retention Scheme, the Chancellor Rishi Sunak announced that more than 140,000 companies employing a total of about a million workers have applied to the government's job furlough scheme (Coronavirus Job Retention Scheme). As companies face disruptions in their supply chains as a result of the coronavirus health crisis, temporary or contract workers are the first hit by a reduction in their working hours and unemployment is expected to rise. We forecast wage pressure to weaken and average weekly earnings growth to decrease from the current 3 per cent because of the opening of significant slack in the labour market. We also expect a decline in bonuses in the private sector because of the financial stress in which a lot of companies are in.

Table 1 reports our estimates for earnings growth in the first two quarters of 2020. We forecast regular earnings growth to reach 2.8 per cent in the first quarter in the private sector and 3.3 per cent in the public sector. In the second quarter, we forecast regular earnings growth of 2.4 and 3.3 per cent respectively in the private and public sectors. If the current crisis were to have similar effects on wages as the Great Financial Crisis, then average weekly earnings could temporarily decrease by up to 2 per cent as they did between 2008 and 2009.

The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rate was 1.7 per cent in February 2020, decreasing from 1.8 per cent in January. The global demand shock from the reduction in activity related to the coronavirus is expected to put downward pressure on prices. The WTI price of crude oil fell by a factor of three from $60 per barrel in December 2019 to $20 on 20 April 2020 as internal divisions in OPEC+ led to higher production despite a fall in demand. Lower commodity prices are expected to feed into lower consumer prices. At a special meeting on 19 March 2020, the Bank of England reduced its Bank Rate by 15 basis points to 0.1 per cent, which can be considered the effective zero-lower bound.

Assuming that inflation is 1.3 per cent in the second quarter, our forecast of total AWE for the whole economy of 2.3 per cent translates into real earnings growth of 1 per cent in the second quarter.

Table 1 - Summary table of earnings growth

Average Weekly Earnings (% change 3 month average year on year)						
	Whole economy		***Private sector***		***Public sector***	
Latest weights	*100*		*82*		*18*	
	Regular	***Total***	***Regular***	***Total***	***Regular***	***Total***
Aug-19	3.8	3.7	4.0	3.8	3.2	3.4
Sep-19	3.6	3.7	3.7	3.8	3.2	3.3
Oct-19	3.5	3.2	3.5	3.1	3.4	3.2
Nov-19	3.4	3.2	3.4	3.1	3.4	3.3
Dec-19	3.2	2.9	3.3	2.7	3.4	3.2
Jan-20	3.1	3.1	3.1	3.1	3.3	3.1
Feb-20	2.9	2.8	2.9	2.7	3.2	3.3
Mar-20	2.7	2.9	2.8	2.9	3.3	3.3
Apr-20	2.6	2.6	2.7	2.5	3.0	3.0
May-20	2.6	2.5	2.6	2.4	3.1	2.9
Jun-20	2.5	2.3	2.4	2.0	3.3	3.0
% change month on same month of previous year						
Aug-19	3.5	3.4	3.7	3.5	3.2	2.8
Sep-19	3.7	3.8	3.5	3.8	3.4	3.4
Oct-19	3.2	2.5	3.3	2.1	3.4	3.2
Nov-19	3.2	3.4	3.3	3.4	3.4	3.2
Dec-19	3.2	2.8	3.3	2.7	3.4	3.2
Jan-20	2.6	3.2	2.6	3.2	3.0	3.0
Feb-20	2.8	2.6	2.6	2.3	3.2	3.6
Mar-20	2.8	2.9	3.1	3.2	3.6	3.4
Apr-20	2.3	2.3	2.4	2.1	2.2	2.2
May-20	2.5	2.3	2.4	2.0	3.5	3.1
Jun-20	2.6	2.4	2.4	2.0	4.1	3.7

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.

Table 2 – Root Mean Square Error for Average Weekly Earnings forecasts

	Public-sector	Private-sector	Whole economy
Excluding bonus	***0.26***	***0.24***	***0.22***
Including bonus	***0.31***	***0.48***	***0.38***

Notes: 3-month average year on year growth rates, percentage

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.

Notes for editors: For further information please contact the NIESR Press Office: press@niesr.ac.uk / 07930 544631 / l.pieri@niesr.ac.uk

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