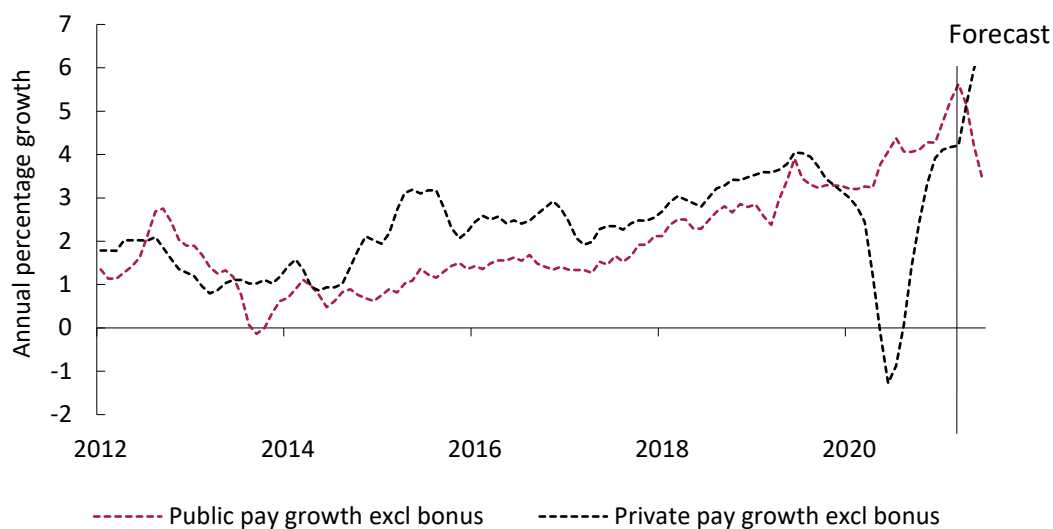


## The economy created more jobs than it lost during the third national lockdown

Figure 1 – Average weekly earnings (incl. bonuses)



### Main points

- NIESR's wage tracker predicts that average weekly earnings growth will grow at 5.2% in the second quarter of 2021, after increasing by 4.5% in the three months to February. Forecasts for private and public pay growth for the second quarter are 5.5% and 3.5% respectively.
- The number of furloughed workers is estimated to be around 5 million in February, similar to January. We forecast that number to steadily decline from the end of March until September when the furlough scheme is planned to end.
- For the first time since the beginning of the pandemic, the number of people in employment in the UK expanded in February, bringing the employment rate to 75.0%.
- Increased remote working during the pandemic has had heterogenous effects on the labour force, with consequences on hours worked, productivity, but also mental well-being and pay.
- During the pandemic, lower-paid employees were more likely to be made redundant, but the employees that kept their jobs enjoyed a pay rise.

*“The small rise in employment recorded in February during a period of national lockdown, is proof of the increased resilience of the UK economy to lockdowns. The improved optimism that the worst of the pandemic may be over should be tempered by the fact that employers generally wait until the end of a lockdown period to reassess their business plans and we may still see a rise in redundancies later on if business activity doesn’t recover quickly to pre-pandemic levels.”*

**Cyrille Lenoël**

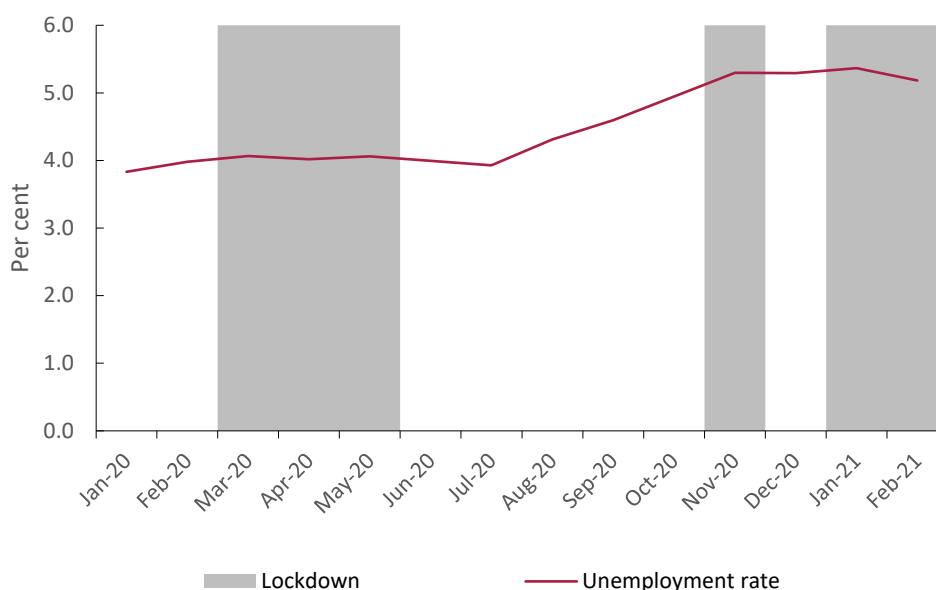
**Senior UK Economist, NIESR**

## Employment

For the first time since the beginning of the pandemic, the number of people in employment in the UK expanded in February. Monthly experimental data from the ONS shows that the number of people in employment increased in February by 34,000, bringing the employment rate to 75.0%. Before the latest pick-up, the employment rate had steadily declined from 76.7% in March 2020 to 74.9% in December 2020 and January 2021. The number of unemployed people stood at 1.7 million in February, bringing the single-month unemployment rate to 5.2% down from 5.4% in January (see figure 2). The small rise in employment recorded in February, a period of national lockdown, is proof of the increased resilience of the UK economy to lockdowns.

The number of workers on furlough is estimated by HMRC to have increased from 4.0 million in December to 5 million in January and February during the third national lockdown. The employment policies have proved once again effective at limiting the rise in unemployment that would have been expected from a contraction of GDP by 1.6% in the three months to February (GDP being 8% lower compared to February 2020).

Figure 2 – Monthly unemployment rate (Source: ONS experimental statistics)



We forecast the number of furloughed workers to start declining in March when restrictions started to be lifted and to gradually reach close to zero when the furlough scheme ends in September. As highlighted in NIESR's [Covid-19 tracker](#) and [NIESR's GDP Tracker](#), the path of Covid-19 and the pace of recovery will depend on the follow through from increased transmission due to the reopening, countered by the efficacy of the vaccination programme as the roll out continues at pace.

The latest [KPMG and REC surveys on jobs](#) shows that we should expect further improvements in the labour market in March when lockdown restrictions started to be lifted. The survey points to the sharpest rise in permanent placements for nearly six years, while temp billings growth accelerated sharply. But we should be cautious in projecting too much optimism from the latest survey data because history has taught us that unemployment tends to increase after lockdown periods rather than during the lockdown. During lockdown, employers that are forced to shut down activity make use of the furlough scheme, and it is only once their businesses reopen that they then decide whether to reduce their staff permanently or not (see figure 2 for the unemployment rate and lockdown periods).

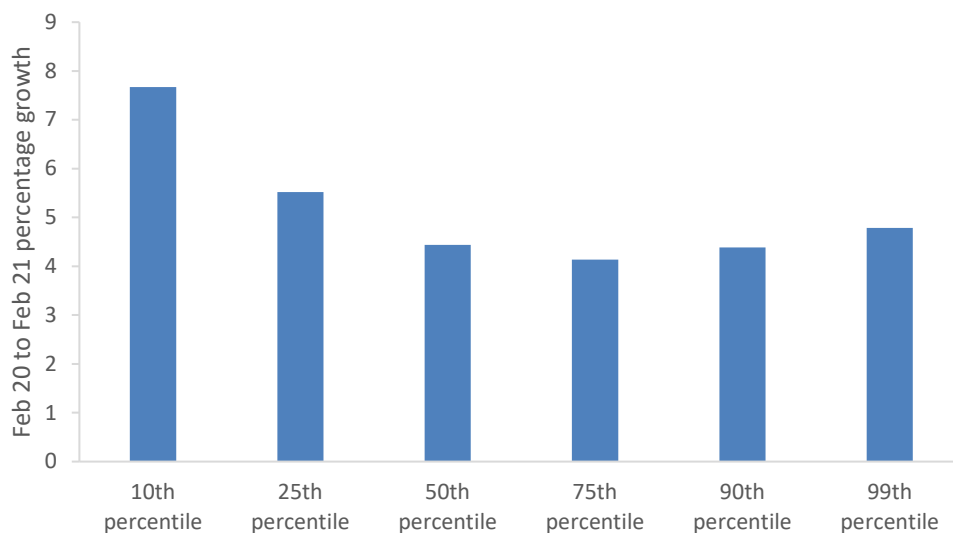
Redundancies continued declining from a peak of 14.6 per thousand in the three months to November 2020 to 7.3 per thousand in the three months to February 2021. We expect the rate of redundancies to continue to decline in the next few months given that the number of [planned redundancies](#) declined in February to a level lower than a year ago before the pandemic hit. Confirming the turnaround in the labour market, the number of vacancies increased by 16% in March 2021 compared to February.

## Pay

According to the ONS data published this morning, average weekly earnings (including bonuses) in Great Britain increased to 4.5% in the three months to February compared to a year ago after falling by 1.3% in the second quarter of 2020 and recovering in the second half of 2020.

Figure 3 shows the pay growth by percentile between February 2020 and February 2021. Wage growth is highest for the lower percentiles (lowest earners), with the exception of the top percentiles who also enjoy a strong wage growth. The strong wage growth, in particular for the lower percentiles, is rather counterintuitive during an economic recession. Yet, it can be explained by compositional effects. The number of payrolled employees declined by 2.7% between February 2020 and February 2021 at the same time when aggregate payrolled pay increased by 2.7%. This combination suggests that it is mainly lower-paid employees that were made redundant, but the employees that kept their jobs enjoyed a good pay rise.

**Figure 3 – Pay growth per pay distribution (Source: HMRC RTI)**



Removing compositional effect, the ONS estimates that underlying wage growth is around 2½%. The latest [KPMG and REC, UK Report on Jobs](#) indicates that an increase in demand for labour led to improvements in pay trends for March 2021. Starting salaries rose for the first time in 2021, as temporary wages increased for the first time in three months. HMRC's [PAYE RTI](#) data of payrolled employees suggests that median monthly pay increased at the faster rate of 5.4% in March.

## Homeworking during the pandemic

The pandemic has triggered a shift towards more people working from home. While some of that was forced upon by government rules to restrict mobility, it is becoming clear that some of the increase in homeworking will probably be made permanent. Recent [ONS data](#) shows that 35.9% of employed people worked from home in 2020, an increase of 9.4 percentage points compared with 2019. Homeworking was particularly widespread among the highest paid, the better qualified, the higher skilled and those living in London and the South East.

The effect of working from home on productivity during the pandemic in the UK has been found to be ambiguous so far. Using data from the [Understanding Society COVID-19](#) survey, Deole et al (2021) found that productivity per hour increased when more employees worked from home, but Etheridge et al (2020) and Felstead and Reuschke (2020) found no increase in productivity when controlling for other factors.

In theory, working from home (WFH) is a principal-agent problem as the worker has fewer incentives to maximize the firm's value than the manager or the owner (Aghion & Tirole, 1997). Because it is more difficult to monitor an employee working from home, an employee may have more opportunity to shirk, which would reduce productivity. In contrast, increased work authority may induce intrinsic motivation, a pertinent determinant of employees' productivity.

The effect of working from home on productivity appears to have been heterogenous across sectors and workers' characteristics. For example, women and low-paying jobs reported the worst declines in their productivity. Declines in productivity were also strongly associated with declines in mental well-being. However, the negative effect of the change in work location subsided as workers became more accustomed to working at home or moved back to traditional places of work as restrictions were gradually eased. On the other hand, employees that previously had long commute journeys or more work autonomy reported increases in their productivity.

Nine out of ten of employees who worked at home during the lockdown would now like to continue working at home in some capacity with around one in two employees wanting to work at home often or all of the time. The productivity effects of WFH and their reflections on the wage distribution will be important to monitor going forward as remote working arrangements are likely to stay to some degree after the pandemic.

The increased trend in homeworking may exert downward pressure on wages and bonuses. Recent analysis by the [ONS](#) suggests that prior to the pandemic, employees working mainly from home had a lower salary, lower bonuses and were less likely to be promoted, after controlling for relevant factors such as age, occupation and industry. The negative relationship is however not true for employees working occasionally from home. It could therefore be that working occasionally from home becomes the preferred solution for many employees because it preserves the advantages of regular face-to-face contacts while allowing for flexible working arrangements.

### Pay forecast

We forecast total AWE to be 5.2% in the second quarter of 2021, up from 4.5% in the three months to February. The pick-up comes from a base effect because AWE were at their lowest in the second quarter of 2020. There is a risk that wage growth could be lower if wages returned to their pre-pandemic distribution with relatively more lower-paid workers. On the other hand, wage growth could be higher if employees that were paid only 80% of their normal salary on furlough returned to their full salary as they exit furlough.

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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	503	544	547	549
Feb-20	511	546	504	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	536	562	563
Aug-20	518	550	508	552	563	565
Sep-20	524	560	514	555	568	569
Oct-20	528	563	518	560	567	569
Nov-20	531	568	522	566	570	573
Dec-20	533	569	525	570	571	574
Jan-21	533	569	523	566	577	578
Feb-21	534	568	525	561	580	584
Mar-21	535	557	524	551	580	584
Apr-21	534	556	523	550	582	584
May-21	534	556	523	550	583	586
Jun-21	533	557	522	551	584	587
<b>% change 3 month average year on year</b>						
Jan-20	3.1	3.1	3.0	2.9	3.2	3.1
Feb-20	3.0	2.8	2.8	2.6	3.2	3.3
Mar-20	2.7	2.4	2.4	2.1	3.3	3.3
Apr-20	1.7	1.1	1.2	0.4	3.2	3.3
May-20	0.7	-0.3	-0.1	-1.3	3.8	3.7
Jun-20	-0.1	-1.2	-1.3	-2.5	4.1	4.0
Jul-20	0.2	-1.1	-0.9	-2.1	4.4	4.1
Aug-20	0.9	0.0	0.1	-0.6	4.1	3.8
Sep-20	2.0	1.4	1.4	1.1	4.1	3.7
Oct-20	2.9	2.8	2.5	2.6	4.1	4.0
Nov-20	3.6	3.7	3.3	3.4	4.3	4.3
Dec-20	4.1	4.6	3.9	4.6	4.3	4.4
Jan-21	4.2	4.8	4.1	4.7	4.8	4.8
Feb-21	4.4	4.5	4.2	4.3	5.2	5.2
Mar-21	4.5	3.9	4.2	3.6	5.6	5.6
Apr-21	5.1	4.3	5.1	4.1	5.2	5.3
May-21	5.7	4.7	6.0	4.8	4.2	4.3
Jun-21	5.9	5.2	6.5	5.5	3.5	3.5
<b>% change month on same month of previous year</b>						
Jan-20	2.8	3.0	2.7	3.0	3.0	3.0
Feb-20	2.8	2.8	2.6	2.5	3.2	3.6
Mar-20	2.4	1.3	2.0	0.8	3.6	3.4
Apr-20	0.0	-0.9	-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	-0.4	0.2	-0.9	3.9	3.1
Aug-20	2.0	1.9	1.4	2.0	3.9	3.9
Sep-20	2.9	2.8	2.6	2.2	4.4	4.2
Oct-20	3.7	3.7	3.4	3.5	4.0	4.0
Nov-20	4.1	4.8	4.0	4.6	4.4	4.6
Dec-20	4.3	5.4	4.4	5.6	4.4	4.6
Jan-21	4.3	4.2	4.0	4.0	5.5	5.3
Feb-21	4.5	4.0	4.2	3.3	5.8	5.8
Mar-21	4.8	3.6	4.5	3.4	5.5	5.7
Apr-21	6.1	5.4	6.8	5.6	4.1	4.3
May-21	6.1	5.2	6.7	5.5	3.0	3.0
Jun-21	5.6	5.1	6.1	5.5	3.4	3.3

## 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% points for the measure excluding bonuses and 0.4% 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.

**Notes for editors:** For further information please contact the NIESR Press Office: [press@niesr.ac.uk](mailto:press@niesr.ac.uk) or Luca Pieri on [l.pieri@niesr.ac.uk](mailto:l.pieri@niesr.ac.uk) / 07930 544 631

National Institute of Economic and Social Research  
2 Dean Trench Street  
Smith Square  
London, SW1P 3HE  
United Kingdom

Switchboard Telephone Number: 020 7222 7665

Website: <http://www.niesr.ac.uk>