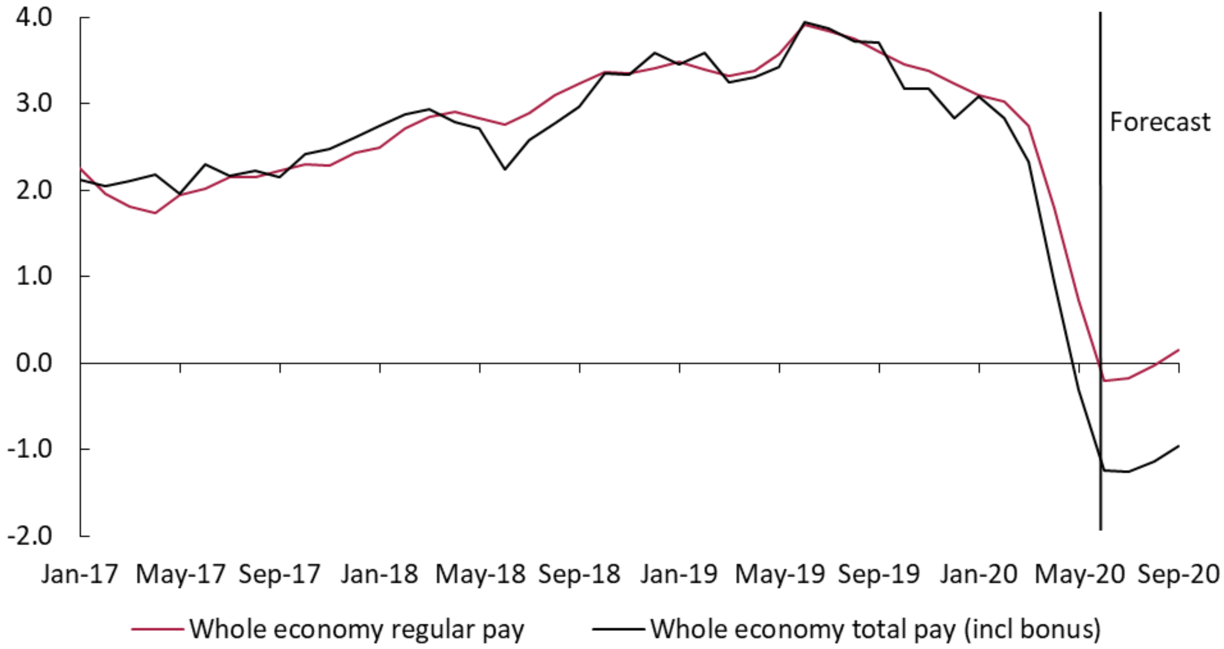
National Institute
Monthly Wage Tracker

Tuesday 11 August 2020

PAY GROWTH TURNS NEGATIVE

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



Main points

- According to new ONS statistics published this morning, average weekly earnings, excluding bonuses, grew at an annual rate of -0.2 per cent in the three months to June, a fall of 0.8 per cent in real terms. When bonuses are included, total pay fell at an annual rate of 1.2 per cent in the three months to June.
- More up to data information from HMRC's real time information indicates that median pay rose by £34 per month in July and was now £75 higher than the trough in April. Employment fell by 740 thousand between February and July.
- There continues to be a disparity between pay growth in the public and private sectors. Regular annual pay growth fell by 1.2 per cent in the private sector and rose by 4.1 per cent in the public sector in the three months to June. The difference partly reflects greater use of furloughing in the private sector.
- Average earnings are expected to recover slightly in the short term as employees return from furlough, with average earnings excluding bonuses forecast to grow at an annual rate of 0.2 per cent in the three months to September.

"Average pay in the private sector levelled off in May and June after falling sharply in March and April. It will pick up in the short term as workers return from furlough. But pay will weaken again in the second half of the year when unemployment is set to rise sharply".

Garry Young, Deputy Director, NIESR

Details

Widespread use of the government furlough scheme means that the headline labour market statistics released this morning show relatively little effect of the economy being locked down from 23 March and then being gradually reopened. The employment rate in the three months to June 2020 was 76.4 per cent, a fall of 0.2 percentage points on the previous quarter, and the unemployment rate remained at 3.9 per cent. There is little effect of the lockdown on these figures largely because furloughed workers continue to count as being employed. Evidence of the lockdown is apparent in total actual weekly hours worked which between April to June 2019 and April to June 2020 decreased by 203.3 million to 849.3 million hours, a fall of almost 20 per cent.

Average weekly earnings (AWE) grew at an annual rate of -0.2 per cent excluding bonuses in the three months to June 2020 (figure 1). This is down from the peak of nearly 4 per cent annual AWE growth in April to June 2019, and largely reflects a fall in private sector pay growth.

A range of other information is available for July and presents a largely gloomy picture as the economy reopens. Real time data indicated that there were 740 thousand fewer people in paid employment in July than February, with a further fall of 114 thousand on the month. For May to July 2020, there were an estimated 370,000 vacancies in the UK, an increase of 43,000 on the month, but down sharply from the 838,000 vacancies recorded a year earlier. The unemployed claimant count was 2.68 million in July, up from 1.24 million in March. Median monthly pay rose by £34 in July to £1864 per month, recovering the ground lost in March and April and now higher than the previous peak of £1858 per month in February. Positive pay growth in July is partially explained by the decrease in inflows to paid employment. The mean pay of inflows tends to be around 40% lower than mean pay for those continually employed – meaning that average pay tends to be higher when there are fewer inflows into employment.

Our latest assessment of economic prospects for the UK economy, published on 29 July, set out a main-case forecast scenario where unemployment rises to 9.8 per cent of the working population in October- December 2020 (Figure 2) and average earnings stagnate over the next year. The forecast pick up in unemployment is primarily due to the closure of the furlough scheme from the end of October.

Figure 2 – UK ILO unemployment rate and forecast

Source: NiGEM database and NIESR forecast.

Government support is helping to limit the rise in unemployment, albeit that many of those furloughed are not usefully employed (see also '[US and UK labour markets before and during the Covid-19 crash](#)' by David Bell and Danny Blanchflower).

The government is subsidising 80 per cent of the pay of furloughed workers up to a maximum of £2500 per month, with just under half of employers known to be topping up the pay of furloughed workers. According to ONS, employees who are furloughed will be classified as employed, but temporarily away from work. This means that measured average weekly earnings will be affected by furloughing only when earnings are not topped by employers. HMRC statistics show that 31 per cent of all employments have been furloughed at some time, though ONS survey data suggests that this has fallen from its peak, with 14 per cent of the workforce of surveyed businesses being on furlough leave in 14 July to 26 July. A rough estimate of the peak effect of furloughing on measured average earnings is a reduction of 3 per cent. This is calculated by assuming that the pay of half of the 30 per cent of workers who have been furloughed is reduced by 20 per cent (implying that this mainly affects employees below the 75th percentile of the pay distribution). This effect will diminish over time as more furloughed workers return to work.

Longer term influences on pay are very negative given the financial distress being experienced by employers and the evident lack of labour demand outside of a few sectors. The KPMG and REC report of Jobs survey, collected between 13 and 27 of July, reported continued downward pressure on pay: 'rising labour supply and tepid demand for staff led to further marked falls in starting pay.'

The latest quarterly Labour Market Outlook from the Chartered Institute of Personnel and Development and the Adecco Group, published 10 August, shows a 50 per cent increase in the number of organisations expecting to cut jobs compared to the spring report. The survey also finds that employers across all sectors intend to keep a tight rein on pay increases over the next 12 months. Those who plan pay reviews expect basic pay to increase by 1per cent, down from the 2 per cent median increase expected at the same time last year.

Table 1 reports our assessment of the earnings outlook into the third quarter of 2020. This is clearly subject to a lot of uncertainty. We forecast regular annual earnings growth to be -0.8 per cent in the third quarter in the private sector and 4.0 per cent in the public sector. We forecast total annual earnings growth to reach -1.0 per cent in the third quarter, as bonuses come under pressure.

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	512	546	504	545	548	549
Feb-20	512	545	504	544	549	551
Mar-20	510	538	502	534	550	552
Apr-20	503	528	490	522	558	560
May-20	503	530	489	522	565	569
Jun-20	504	530	491	522	564	568
Jul-20	507	533	495	525	564	566
Aug-20	509	536	497	529	564	566
Sep-20	510	537	498	531	564	566
% change 3 month average year on year						
Jan-20	3.1	3.1	3.1	3.1	3.3	3.2
Feb-20	3.0	2.8	2.9	2.8	3.3	3.3
Mar-20	2.7	2.3	2.4	2.2	3.4	3.3
Apr-20	1.8	0.9	1.3	0.4	3.3	3.3
May-20	0.7	-0.3	-0.1	-1.2	3.7	3.7
Jun-20	-0.2	-1.2	-1.2	-2.4	4.0	4.0
Jul-20	-0.2	-1.3	-1.3	-2.6	4.4	4.3
Aug-20	0.0	-1.1	-1.1	-2.4	4.3	4.1
Sep-20	0.2	-1.0	-0.8	-2.1	4.0	3.8
% change month on same month of previous year						
Jan-20	2.8	3.0	2.6	3.2	3.2	3.0
Feb-20	3.0	2.6	2.6	2.4	3.4	3.6
Mar-20	2.4	1.3	2.0	0.9	3.6	3.4
Apr-20	0.0	-1.1	-0.8	-2.1	3.0	2.9
May-20	-0.2	-1.1	-1.4	-2.4	4.6	4.8
Jun-20	-0.4	-1.5	-1.4	-2.8	4.4	4.4
Jul-20	0.1	-1.2	-1.0	-2.5	4.3	3.7
Aug-20	0.2	-0.8	-0.8	-1.8	4.1	4.1
Sep-20	0.2	-0.9	-0.6	-1.9	3.7	3.5

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 or Chloe Ridyard on 07970984913 / press@niesr.ac.uk or c.ridyard@niesr.ac.uk

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