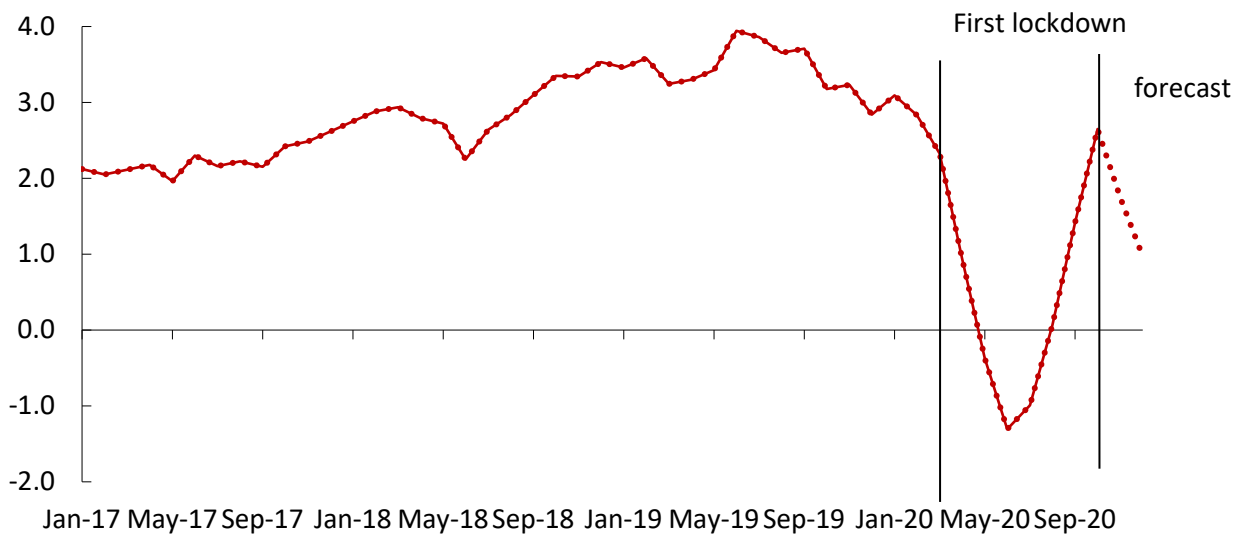


2020 shaping up to be the worst year for total pay growth since 2009

Figure 1 – Average weekly earnings including bonuses, annual growth (ONS)



Main points

- According to ONS statistics published this morning, average weekly earnings, including bonuses (AWE), were 2.7 per cent in the three months to October and 1.9 per cent in real terms in Great Britain.
- Average pay growth was largest in the finance and businesses sector at 4.6 per cent and lowest in the construction sector at -2.2 per cent.
- The recently announced pay freeze for half of public sector workers will reduce the growth rate of public sector pay that has been growing faster than private sector pay since the beginning of the pandemic.
- The November lockdown in England and continued uncertainty regarding the pandemic has put downward pressure on private sector pay as the number of furloughed workers probably increased for the first time since April.
- The National Living Wage will increase by 2.2 per cent to £8.91 an hour from April 2021 in line with the Low Pay Commission's recommendation.
- We forecast average weekly earnings including bonuses to increase by 1.0 per cent in the fourth quarter of 2020.

"2020 will probably end up being the worst year for total pay growth since 2009. Pay freeze for a large part of the labour force, in addition to lost income during the time spent in furlough have put more strain on the labour market than the modest rise in unemployment suggests. Even with rollout of an effective COVID-19 vaccine, the recovery in the labour market will take time."

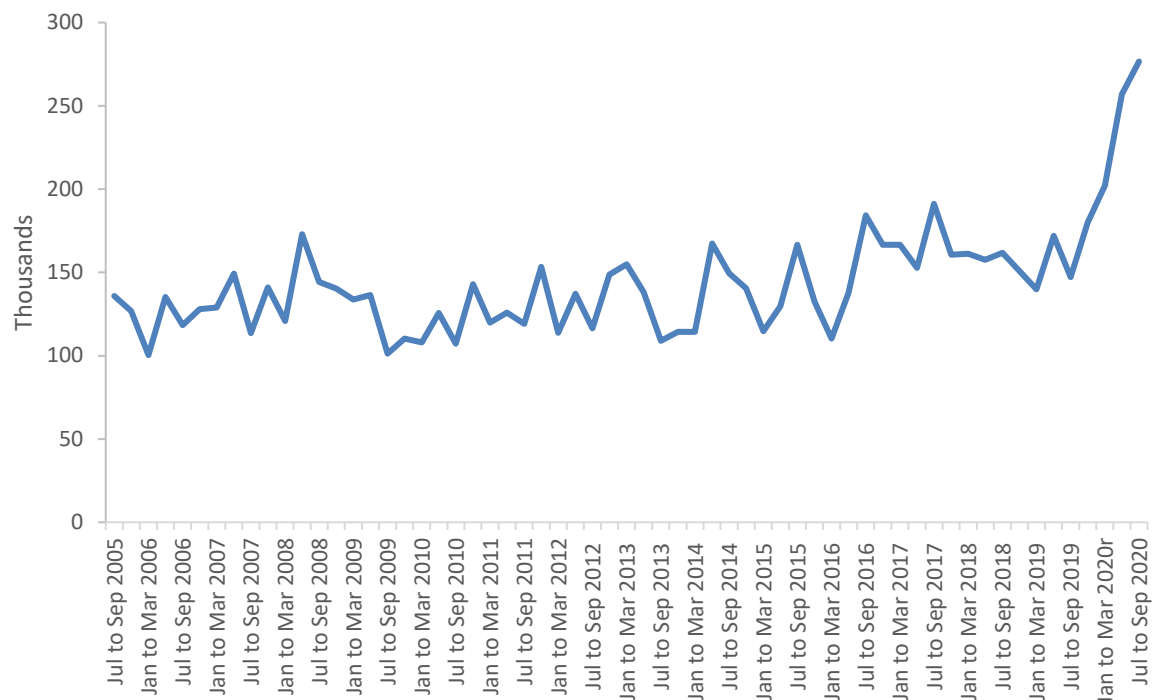
Cyrille Lenoël

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 75.2 per cent in the three months to October 2020 down from 75.7 per cent in the previous quarter. The employment rate reached its peak of 76.5 per cent in the fourth quarter of 2019.

The COVID-19 crisis has led to a change in the composition of employment. A record number of self-employed changed their status to employees as they were seeking the security of the employee status. Figures 2 shows that between July and September, 276,000 workers went from self-employed to employees. The categorization of employees or self-employed is self-reported in the Labour Force Survey, so it is possible that this surge may have been influenced by the respondents' perception that the Coronavirus Job Retention Scheme was more favourable than the Self-Employed Income Support Scheme. Some self-employed may also have anticipated the [change in legislation](#) designed to bring in alignment on and off payroll working due to enter into force in April 2021 to change their employment status.

Figure 2 – Flows from self-employed to employees (Source: ONS)

During the second wave of COVID-19, the [KPMG and REC Report on Jobs](#) (ROJ) survey indicates that permanent placements declined in October and November but temporary placement increased. This reflects the fact that faced with uncertainty, employers prefer to hire temporary staff. Vacancies also declined because of a reduction in demand for labour.

[HMRC estimates](#) that the number of people in furlough was between 2.4 and 2.7 million on 30 September, down from a peak of 8.8 million in May. The November national lockdown will likely lead to a new surge in furloughed workers as explained in the [November Wage Tracker](#).

The number of unemployed people increased to 1.69 million in the three months to October 2020, an increase of 241,000 compared on the previous quarter. As a result, the unemployment rate increased to 4.9 per cent in the three months to October, up from 4.2 per cent in the previous quarter.

Wages

According to the ONS data published this morning, average weekly earnings (including bonuses) (AWE) in Great Britain grew at 2.7 per cent in the three months August to October 2020 compared to a year ago after a fall of 1.3 per cent in the second quarter. With inflation

averaging 0.8 per cent, this represents a gain of earnings of 1.9 per cent in real terms for the average employee.

The improvement in earnings growth can be explained by the recovery in private sector AWE and in particular employees returning to work from furlough. For example, in construction, AWE annual growth increased from -10.2 per cent in the second quarter to -2.2 per cent in the three months to October 2020. And in finance and business services, AWE recovered from -1.0 per cent in the second quarter to 4.6 per cent in the three months to October 2020.

We forecast AWE in the private sector to slow down in the fourth quarter because of a large reduction in hours worked by employees in furlough during the second lockdown and more stringent tier of restrictions in December. The CJRS only covers 80 per cent of wages of employees on furlough up to £2,500 a month, and not all employers top up the remaining 20 per cent, leading to wage losses for employees on furlough. The increase in people looking for work, combined with a low demand for labour led to permanent starters' salaries declining in October and November according to [ROJ](#). Temporary workers' pay also declined, albeit modestly. We forecast AWE of 0.4 per cent in the fourth quarter in the private sector, down from 0.9 per cent in the third quarter.

The Government announced on 25 November that the National Living Wage (NLW) and National Minimum Wage (NMW) rates will be increased from April 2021 following the recommendations made by the Low Pay Commission. The National Living Wage will increase by 2.2 per cent from £8.72 to £8.91, and will be extended to 23 and 24 year olds for the first time.

In the public sector, the strong momentum in pay growth has carried on into the fourth quarter. AWE grew by 4.1 per cent in the three months to October, the same rate as in the second quarter. We forecast AWE in the public sector to be 3.9 in the fourth quarter of 2020 as the public sector is largely sheltered from the lockdown measures. 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 public and private AWE to be 1.0 per cent in the fourth quarter, down from 1.4 per cent in the third quarter. With inflation expected to be 0.6 per cent, we forecast modest real AWE gains of 0.4 per cent in the last quarter of 2020. According to our forecast, AWE will average 0.9 per cent in 2020, making it the first year since 2009 that AWE is below 1 per cent.

Table 1 - Summary table of earnings growth

Average Weekly Earnings						
	Whole economy		Private sector		Public sector	
<i>Latest weights</i>	100		82		18	
	Regular	Total	Regular	Total	Regular	Total
Jan-20	511	546	504	546	547	550
Feb-20	511	545	504	544	549	552
Mar-20	510	538	502	534	550	553
Apr-20	503	528	490	522	559	560
May-20	503	529	490	522	566	569
Jun-20	505	530	492	522	565	568
Jul-20	512	539	501	535	562	563
Aug-20	518	549	508	550	563	564
Sep-20	524	558	514	552	567	569
Oct-20	527	560	518	555	568	569
Nov-20	510	539	498	533	567	569
Dec-20	516	545	505	540	568	570
% change 3 month average year on year						
Jan-20	3.1	3.1	2.9	3.1	3.3	3.1
Feb-20	2.9	2.8	2.8	2.8	3.3	3.3
Mar-20	2.6	2.3	2.5	2.3	3.3	3.3
Apr-20	1.7	0.9	1.3	0.6	3.3	3.3
May-20	0.7	-0.4	0.0	-1.1	3.7	3.7
Jun-20	-0.1	-1.3	-1.2	-2.4	4.0	4.0
Jul-20	0.2	-1.0	-0.8	-2.0	4.3	4.1
Aug-20	0.9	0.1	0.1	-0.6	4.1	3.7
Sep-20	2.0	1.4	1.4	0.9	4.0	3.7
Oct-20	2.8	2.6	2.5	2.3	4.1	4.1
Nov-20	2.2	1.7	1.7	1.1	4.0	4.1
Dec-20	1.6	1.0	1.0	0.4	3.9	3.9
% change month on same month of previous year						
Jan-20	2.6	3.0	2.6	3.2	3.0	3.0
Feb-20	2.8	2.6	2.6	2.6	3.4	3.6
Mar-20	2.4	1.3	2.2	0.9	3.6	3.4
Apr-20	0.0	-1.1	-1.0	-1.9	2.9	2.9
May-20	-0.2	-1.3	-1.2	-2.4	4.6	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	1.9	1.4	1.9	3.9	3.7
Sep-20	2.9	2.6	2.6	1.8	4.2	4.4
Oct-20	3.5	3.5	3.4	3.4	4.2	4.2
Nov-20	0.1	-0.8	-0.8	-1.8	3.7	3.8
Dec-20	1.0	0.3	0.4	-0.4	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.

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

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