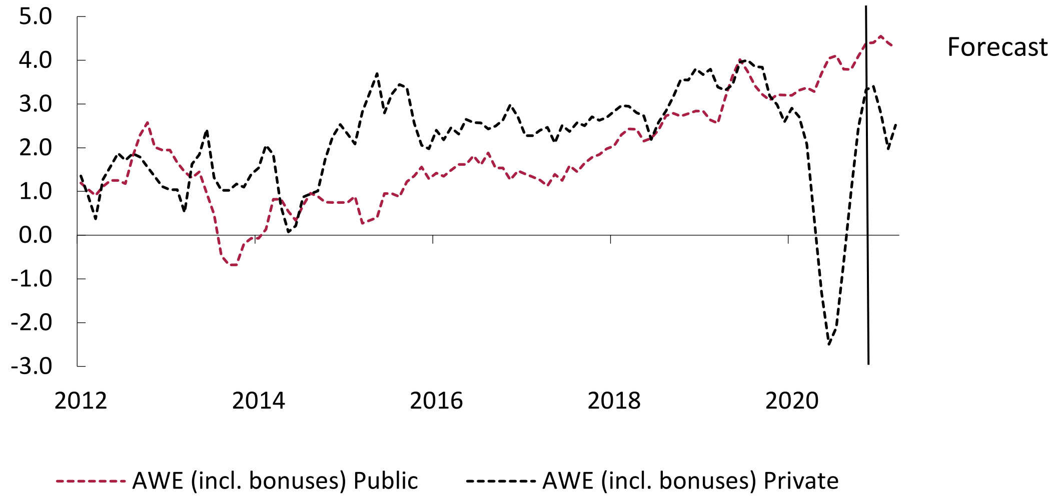
National Institute
Monthly Wage Tracker

Tuesday 26 January 2021

Compositional effects push up average weekly earnings at the end of 2020

Figure 1 – Average weekly earnings including bonuses, annual growth



Main points

- Pay growth ended 2020 better than it had started. Average weekly earnings including bonuses (AWE) among employees increased from 2.8% in October to 3.6% in November 2020.
- The increase was driven by the compositional effects from a fall in the number and proportion of lower-paid jobs.
- Excluding composition effects, underlying pay growth was probably much lower as evidenced by surveys indicating a decline in starting pay and a large fraction of pay freeze during pay settlements.
- We forecast AWE to moderate from 3.6% in the fourth quarter of 2020 to 2.7% in the first quarter of 2021. This forecast is highly uncertain because of the composition effects resulting from an expected rise in the number of furloughed employees during the current lockdown that may extend longer than expected.

"*Despite a late surge in average pay driven by composition effects, 2020 will probably end up being the worst year for total pay growth since 2014, with AWE growing at 1½ per cent on average. 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 latest pay numbers suggest. Given the current course of the pandemic and the pace of the recovery, unemployment could rise to more than 7 per cent even with a successful vaccination campaign*".

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 November 2020 down from 75.6 per cent in the previous quarter. The employment rate reached its peak of 76.6 per cent in the fourth quarter of 2019.

The ONS estimates that the number of employees on furlough doubled during the November lockdown from 8% of the workforce in October to 15.5% in November 2020, equivalent to around 5 million workers. The number of employees on furlough is likely to increase even higher in January 2021, but to stay below the 30% peak during the first lockdown.

The number of unemployed people increased to 1.72 million in the three months to November 2020, an increase of 202,000 compared on the previous quarter. As a result, the unemployment rate increased to 5.0 per cent in the three months to November, up from 4.4 per cent in the previous quarter.

The latest KPMG and REC surveys on jobs suggests that permanent placements were stable in December, but temporary placements expanded at a faster pace 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.

Pay

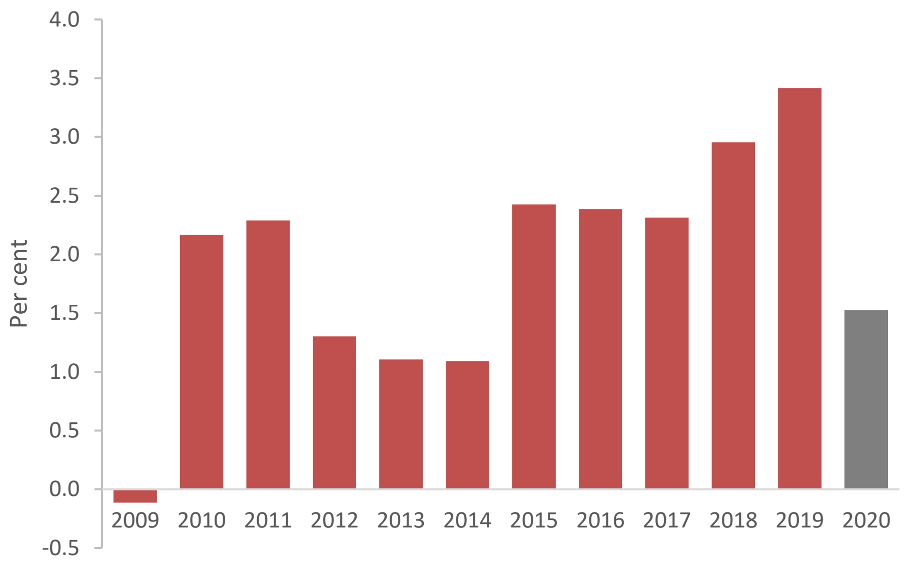
Pay growth ended 2020 better than it had started. According to the ONS data published this morning, average weekly earnings (including bonuses) in Great Britain increased to 3.6 per cent in the three months to November 2020 compared to a year ago after falling by 1.3% in the second quarter of 2020 and recovering by1 ½ per cent the third quarter. With inflation averaging 0.8 per cent, this represents a gain of earnings of 2.8 per cent in real terms for the average employee for the period between September and November 2020. HMRC's PAYE RTI data of payrolled employees suggests that median monthly pay increased by as much as 4.7% in November 2020, compared with the same period of the previous year. Early estimates for December 2020 indicate that median monthly pay increased by 4.9%, compared with the same period of the previous year. Annual growth in median pay for employees in December was highest in Northern Ireland (an increase of 7.2%) and lowest in North Eastern Scotland (an increase of 3.3%).

The significant rebound in average and median pay can be explained by the compositional effect of a fall in the number and proportion of lower-paid jobs in the private sector. This stands true across most sectors. For example, in construction, AWE annual growth increased from -10.2 per cent in the second quarter to -1.1 per cent in the three months to November 2020. And in finance and business services, AWE recovered from -1.0 per cent in the second quarter to 5.4 per cent in the three months to November 2020.

The high number of average earnings growth masks a large heterogeneity in pay awards in 2020 across sectors and income levels. The lower quartile saw a high proportion of pay freezes. In the third quarter, up to one third of pay settlements included a pay freeze. The private services sector had the largest number of pay freezes, but it also had the largest number of pay awards that are worth 4% or more. For example, air transport was badly hit by the pandemic but food retail has been holding up very well.

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.

Figure 2 – Average weekly earnings including bonuses, annual average growth



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 January lockdown that could extend all the way to March. We forecast AWE of 3.4 per cent in the fourth quarter in the private sector, followed by 2.5 per cent in the first quarter of 2021.

In the public sector, the strong momentum in pay growth has carried on into the fourth quarter. AWE grew by 4.4 per cent in the three months to November. We forecast AWE in the public sector to be 4.4 per cent in the fourth quarter of 2020 and 4.3 per cent in the first quarter of 2021 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 AWE to be 3.6 per cent in the fourth quarter, easing to 2.7 per cent in the first quarter of 2021. With inflation expected to be around ½ per cent, we forecast significant real AWE gains of 3.1 per cent in the last quarter of 2020 and 2.2 per cent in the first quarter. According to our forecast, AWE will average 1½ per cent in 2020, making it the lowest average earnings growth since 2014 (figure 2).

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	562	519	559	567	569
Nov-20	531	567	523	565	569	574
Dec-20	528	558	519	554	569	573
Jan-21	528	558	518	554	570	575
Feb-21	527	558	517	554	571	576
Mar-21	526	558	516	554	571	576
% change 3 month average year on year						
Jan-20	3.1	3.1	3.0	2.9	3.2	3.2
Feb-20	2.9	2.8	2.9	2.7	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	2.9	2.8	2.5	2.5	4.0	4.1
Nov-20	3.6	3.5	3.4	3.3	4.2	4.4
Dec-20	3.7	3.6	3.6	3.4	4.1	4.4
Jan-21	3.6	3.1	3.4	2.8	4.1	4.5
Feb-21	3.2	2.4	2.9	2.0	4.1	4.4
Mar-21	3.1	2.7	2.8	2.5	4.1	4.3
% 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	3.7	3.7	3.4	3.5	4.0	4.0
Nov-20	4.1	4.3	4.2	4.4	4.2	4.7
Dec-20	3.4	2.7	3.2	2.3	4.0	4.4
Jan-21	3.2	2.2	2.8	1.7	4.2	4.5
Feb-21	3.0	2.3	2.7	2.0	4.2	4.3
Mar-21	3.1	3.7	2.7	3.9	3.8	4.1

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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