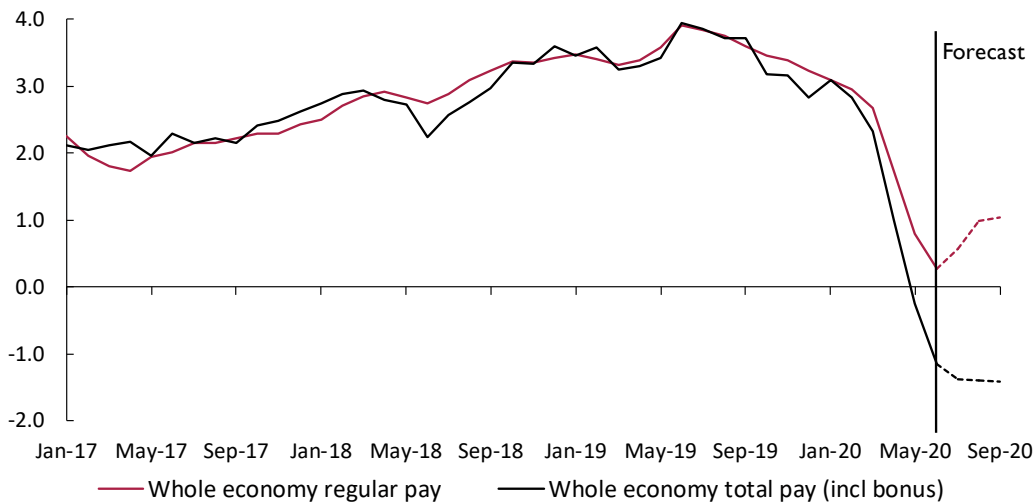


PRIVATE SECTOR PAY WEAKENING AS EMPLOYMENT FALLS

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 0.7 per cent in the three months to May, or around zero in real terms.
- More up to date information from HMRC's real time information indicates that median pay rose by £32 per month in June after falling in the previous two months, partly as a result of fewer lower paid employees joining the workforce. Employment fell by 760 thousand between February and June.
- There is a recent disparity between pay growth in the public and private sectors. Regular annual pay growth was zero in the private sector and 3.7 per cent in the public sector in the three months to May. The difference partly reflects greater use of furloughing in the private sector.
- Earnings are being affected by furloughing, with over half of furloughed employees receiving 80 per cent of their normal pay (up to £2,500 per month).
- Average weekly earnings, excluding bonuses, are set to rise by 0.3 per cent in the second quarter and pick up by 1.0 per cent in the third quarter as furloughed workers return to work and some lower paid workers become unemployed.

"Pay growth in the private sector has fallen, but may flatten off for a time as workers return from furlough before weakening further in the second half of the year when unemployment is set to rise sharply."

Garry Young

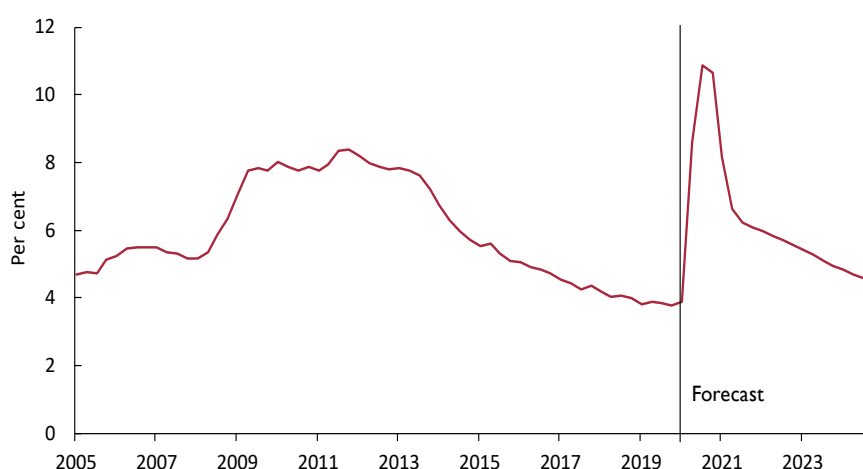
Deputy Director, NIESR

Details

The new ONS statistics published this morning mostly relate to the period after the UK economy was locked down on 23 March. The employment rate in the three months to May 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 March to May 2019 and March to May 2020 decreased by 175.3 million, or 16.7%, to 877.1 million hours. Average weekly earnings (AWE) grew at an annual rate of 0.7 per cent excluding bonuses in the three months to May 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 slowing in private sector pay growth.

A range of other information is available for June. Real time data indicated that there were 760 thousand fewer people in paid employment in June than February. For April to June 2020, there were an estimated 333,000 vacancies in the UK. This is 463,000 fewer than in the previous quarter (January to March 2020) and 497,000 fewer than a year earlier. The unemployed claimant count was 2.63 million in June, down slightly from 2.66 million in May but up from 1.24 million in March. Median monthly pay rose by £32 in June to £1827 per month, recovering some of the ground after recent falls from a peak of £1858 per month in February. Positive pay growth in June 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.

Figure 2 – UK ILO unemployment rate and forecast



Our latest assessment of [economic prospects for the UK economy](#), published on 28 April, set out a main-case forecast scenario where unemployment rises to 10.8 per cent of the working population in July-September 2020 (Figure 2) and average earnings stagnate over the next year.

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 21 per cent of the workforce of surveyed businesses being on furlough leave in 15 June to 28 June. Single-month Labour Force Survey data indicate that the number of workers temporarily away from their job, an indication of the extent of furloughing, fell from a peak of 8.8 million to 6.3 million by the end of May. A rough estimate of the 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 12 and 24 of June, reported downward pressure on pay from a fall in labour demand and increased available supply due to redundancies and workers who were on furlough and seeking new roles: 'starting pay for both permanent and short-term staff fell further in June as demand for workers remained weak and labour supply continued to increase. Though not as severe as in May, rates of reduction remained sharp for both starting salaries and temp wages'.

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 flat at 0.1 per cent in the third quarter in the private sector and 4.9 per cent in the public sector. We forecast total annual earnings growth to reach -1.4 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	
<i>Latest weights</i>	100		82		18	
	Regular	Total	Regular	Total	Regular	Total
Jan-20	512	546	504	545	548	549
Feb-20	511	545	504	544	549	551
Mar-20	510	538	502	534	550	552
Apr-20	503	529	490	523	558	560
May-20	504	530	490	522	565	569
Jun-20	510	530	498	522	565	569
Jul-20	512	531	500	522	565	568
Aug-20	514	534	502	525	570	573
Sep-20	514	534	501	525	572	575
% 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	1.7	1.0	1.3	0.5	3.3	3.3
May-20	0.8	-0.2	0.0	-1.1	3.7	3.7
Jun-20	0.3	-1.2	-0.7	-2.4	4.1	4.1
Jul-20	0.6	-1.4	-0.4	-2.8	4.6	4.5
Aug-20	1.0	-1.4	0.1	-2.8	4.7	4.7
Sep-20	1.0	-1.4	0.1	-2.9	4.9	4.9
% change month on same month of previous year						
Jan-20	2.8	3.0	2.6	3.2	3.2	3.0
Feb-20	2.8	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	-0.9	-0.8	-1.9	3.0	2.9
May-20	0.0	-1.1	-1.2	-2.4	4.6	4.8
Jun-20	0.8	-1.4	0.0	-2.8	4.6	4.5
Jul-20	0.9	-1.6	0.0	-3.1	4.4	4.1
Aug-20	1.2	-1.2	0.2	-2.6	5.2	5.4
Sep-20	0.9	-1.5	0.0	-3.0	5.1	5.1

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.

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 Luca Pieri on l.pieri@niesr.ac.uk / press@niesr.ac.uk / 079 3054 4631

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