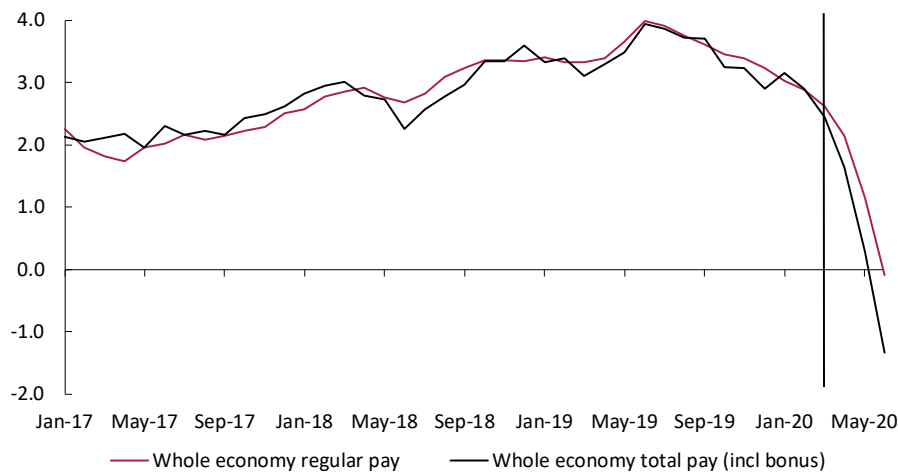


SHARP DROP IN PAY GROWTH AS A RESULT OF COVID-19

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



Main points

- The first signs of the COVID-19 impact on the labour market are fewer vacancies, more universal credit claims and lower pay growth.
- According to new ONS statistics published this morning, UK average weekly earnings expanded by 1.7 per cent excluding bonuses in the three months to April 2020 compared to the year before, and by 1.0 per cent if bonus payments are taken into account.
- We estimate that nominal earnings growth including bonuses will be negative at -1.1 per cent in the second quarter of 2020 as the downward trend on earnings growth persists in May and June 2020.

"As the UK economy progressively exits its lockdown, the effect of the pandemic shock on the labour market and wages is becoming every day more evident. Unemployment is set to increase to more than 10 per cent of the labour force and average weekly earnings are expected to decline."

Cyrille Lenoel
Senior Economist

Details

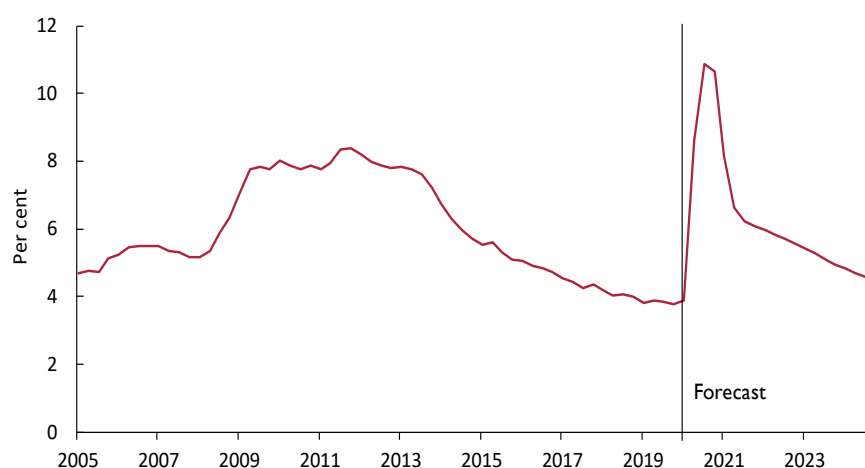
As the UK economy is progressively exiting its lockdown, the effect of the pandemic shock on the labour market and wages is becoming every day more evident. There is lower demand for workers and pay growth is declining.

Employment and vacancies

The latest labour market data show that while employment and unemployment rates have been stable until April 2020, the effect of the lockdown was captured in other labour market statistics, particularly from May onwards. According to the [Labour Force Survey](#) (LFS), the employment rate was at 76.4 per cent in the three months to April 2020, lower by 0.1 percentage points on the previous quarter and the unemployment rate for the three months to April 2020 was unchanged at 3.9 per cent. A more recent statistic from HM Revenue and Customs' Pay As You Earn Real Time Information (PAYE-RTI) indicates that the number of payroll employees may have fallen by 2.1 per cent (612,000) in May compared with March 2020. The ONS Claimant Count, which measures the number of people claiming either Jobseeker's Allowance or Universal Credit for the purpose of searching for work has increased by 1.6 million between March and May 2020 to 2.8 million. If all the claimants were to be counted as unemployed, then the unemployment rate would be around 8½ per cent in May.

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 about 11 per cent of the working population in July-September 2020 (figure 2).

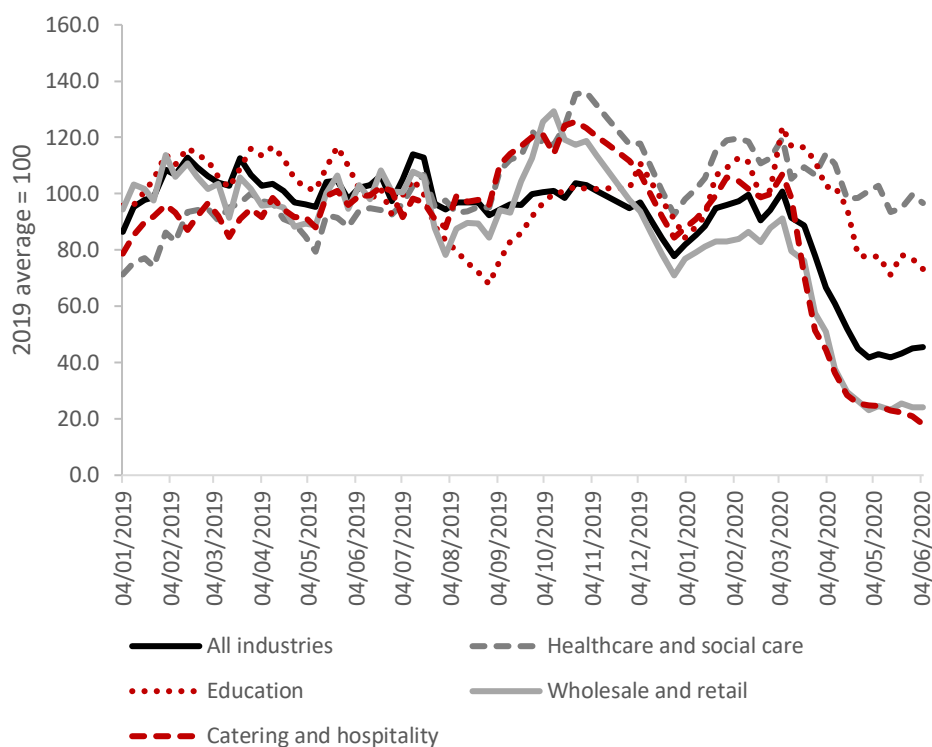
Figure 2 – UK ILO unemployment rate and forecast



As a lot of businesses had to temporarily stop or reduce their activities, the number of weekly hours worked in the three months to April 2020 was down 8.9 per cent on the previous year. There was also a large decrease in the number of vacancies from 796,000 in the three months to March to 476,000 in the three months to May, which is an 8-year low. The industries that contributed most to the decline in vacancies were “wholesale, retail trade and repair of motor vehicles” and “accommodation and food service activities”. These industries have suffered most from social distancing measures.

There are tentative signs that the rapid deterioration in the job market may be slowing down in some sectors of the job market. Figure 3 shows the [ONS and Adzuna total weekly online job adverts](#) for the UK. The number of online job adverts in all sectors is down about 55 per cent in the first week of June 2020 compared to the average of 2019 but is slightly up compared to the beginning of May. This may reflect the easing of the lockdown in June. Similarly, the Recruitment & Employment Confederation (REC) [Jobs Recovery Tracker](#) shows that the number of jobs on offer increased by 13,000 to 963,000 in the first week of June compared to the week starting 11 May. In the first week of June there were 112,000 *new* job adverts, up by 64 per cent from the last week of May. The biggest increases in job adverts were for customer service reps, parking attendants and speech therapists. Job adverts for chefs, waiters and waitresses, catering assistants and bar staff all fell significantly.

Figure 3 – Total weekly online job adverts in the UK (source: Adzuna and ONS)



Wages

ONS data published this morning shows that pay growth has significantly slowed down and bonus payments are being curtailed. Average weekly earnings (including bonuses) increased by 1.0 per cent in the three months to April 2020 compared to the same three months a year ago. This is down from 2.3 per cent in the three months to March 2020. Excluding bonuses, the growth rate was 1.7 per cent in the three months to April 2020, down from 2.7 per cent in the three months to March 2020. Bonus payments fell by 6.8 per cent in the three months from February to April 2020.

Public sector wage growth has so far held steady. Average weekly earnings (including bonuses) in the public sector increased by 3.2 per cent in the three months to April 2020 compared to the same three months a year ago.

The decline in vacancies combined with an increase in the pool of available job market candidates is putting downward pressure on wages and wages expectations. The [KPMG and REC report of Jobs](#) survey reported that permanent starter salaries fell for the second month running in May, and at an increasing speed. Temporary pay also declined in May. PAYE-IT early estimates indicate that median monthly pay fell in May to £1,778, a fall of 1.8 per cent when compared with the same period a year ago.

Table 1 reports our assessment of the earnings outlook in the first half of 2020. This is clearly subject to a lot of uncertainty. We forecast regular annual earnings growth to reach -0.1 per cent in the second quarter in the private sector and 2.4 per cent in the public sector. We forecast bonuses to stay at lower levels than last year because a lot of businesses' finances are under stress following the lockdown. Including bonuses, we forecast total annual earnings growth to reach -1.1 per cent in the second quarter. An important factor which will affect pay growth is the furlough scheme, whereby the government is subsidising 80 per cent of the pay of furloughed workers up to a maximum of £2500 per month. The furlough scheme has been extended until the end of October.

The recent fall in inflation to 0.9 per cent in April from 1.8 per cent in January will provide a support to the fall in real wages. We forecast real wages including bonuses to decline by 1.9 per cent in the second quarter after having increased by 0.7 per cent in the first quarter (figure 4).

Figure 4 – Real pay growth (per cent per annum)

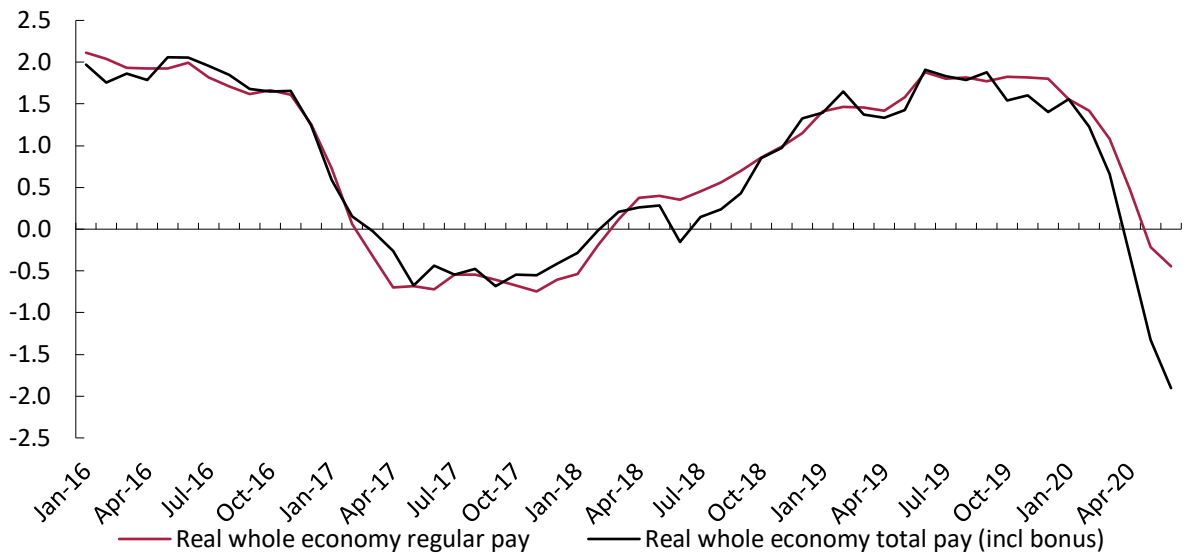


Table 1 - Summary table of earnings growth

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	512	545	504	543	549	551
Mar-20	510	538	502	533	550	552
Apr-20	503	529	491	524	557	559
May-20	506	531	496	526	554	556
Jun-20	509	530	500	525	550	552
% 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	2.7	3.3	3.3
Mar-20	2.7	2.3	2.4	2.1	3.4	3.3
Apr-20	1.8	1.0	1.4	0.4	3.2	3.2
May-20	0.9	-0.2	0.4	-0.9	3.0	2.9
Jun-20	0.4	-1.1	-0.1	-1.9	2.4	2.2
% 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	2.3	3.4	3.6
Mar-20	2.4	1.3	2.0	0.8	3.6	3.4
Apr-20	0.0	-0.9	-0.6	-1.7	2.8	2.8
May-20	0.4	-0.9	-0.1	-1.8	2.6	2.4
Jun-20	0.6	-1.5	0.5	-2.2	1.9	1.5

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:

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