Temporary rise in average wages, but underlying wage growth to stay around 2½ per cent

Figure 1 – Average weekly earnings (incl. bonuses)

Forecast

------ AWE (incl. bonuses) Public ------ AWE (incl. bonuses) Private
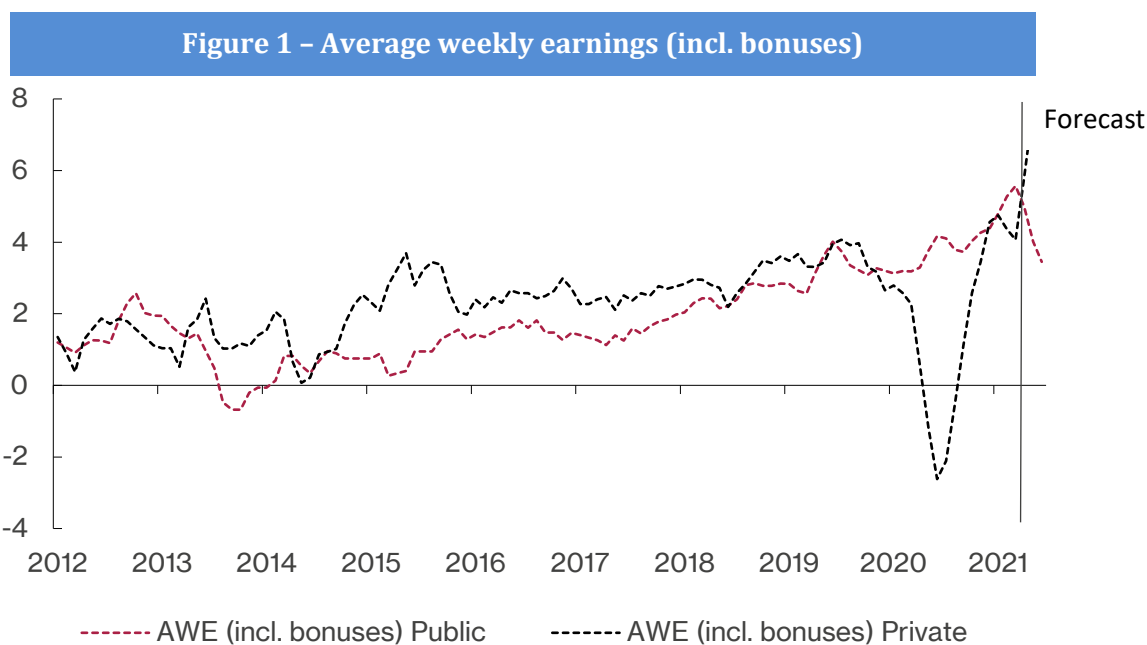
Main points

- The labour market is continuing to recover from the pandemic, with employment, vacancies and wages all increasing. The recovery driven by improved confidence and the reopening of sectors of the economy is broad-based across age groups, industries and regions.
- NIESR's wage tracker predicts that average weekly earnings (AWE) growth will accelerate from 4.2 per cent in the first quarter to 8.1 per cent in the second because of base and compositional effects. Removing those effects, underlying earnings growth is only 2½ per cent in the second quarter.
- Public sector employment rose throughout the pandemic, in particular because of hiring in the National Health Service (NHS).
- The possibility of a third wave represents a material risk to the labour market if it were to delay - or reverse - the lifting of restrictions.

"Delay to reopening arts and travel while phasing in employer contributions will be a new test of labour market resilience. Some of the improvements in employment and wages may stall if the UK can't reopen its economy fully soon."

Cyrille Lenoël
**Principal Economist, NIESR**

Employment

The latest data for April from the Labour Force Survey show that **the labour market is continuing to recover from the pandemic, with employment, vacancies and wages all increasing. The recovery driven by improved confidence and the reopening of sectors of the economy is broad-based across age groups, industries and regions.**

The UK employment rate increased to 75.2 in the three months to April, 0.2 percentage points higher than the previous quarter, but still 1.4 percentage points lower than before the pandemic (December 2019 to February 2020). Before the latest pick-up, the employment rate had steadily declined from 76.5 per cent in the last quarter of 2019 to 75.0 per cent in the last quarter of 2020. Early estimates from HMRC for May suggest that payrolled employment increased by 197 thousand compared to April.

The number of unemployed people declined by 90,000 in the three months to April compared to a quarter ago, bringing total unemployment to 1.6 million and the unemployment rate to 4.7 per cent. **Thanks to supportive labour market policies – in particular the furlough scheme - , the unemployment rate has only moderately increased during the pandemic**, from 4.0 per cent at the onset of the pandemic to a peak of 5.1 per cent in the fourth quarter of 2020, and declining since then.

The number of workers on furlough is estimated to have decreased from 5.1 million in January to 3.5 million at the end of April thanks to the partial lifting of restrictions. As explained in NIESR's [UK Economic Outlook](#), **we forecast the number of furloughed workers to decrease from 4.8 million in the first quarter to 2.8 million in the second quarter, 1.4 million in the third quarter, dropping to zero in the fourth quarter** (Figure 2)**.** This forecast is compatible with an assumption that around 450,000 of those remaining on furlough at the end of the scheme will not be taken back. But the pace of the recovery will depend on the follow through from increased transmission due to the reopening, countered by the efficacy of the vaccination programme as the roll out continues at pace.

Figure 2: Furloughed employment
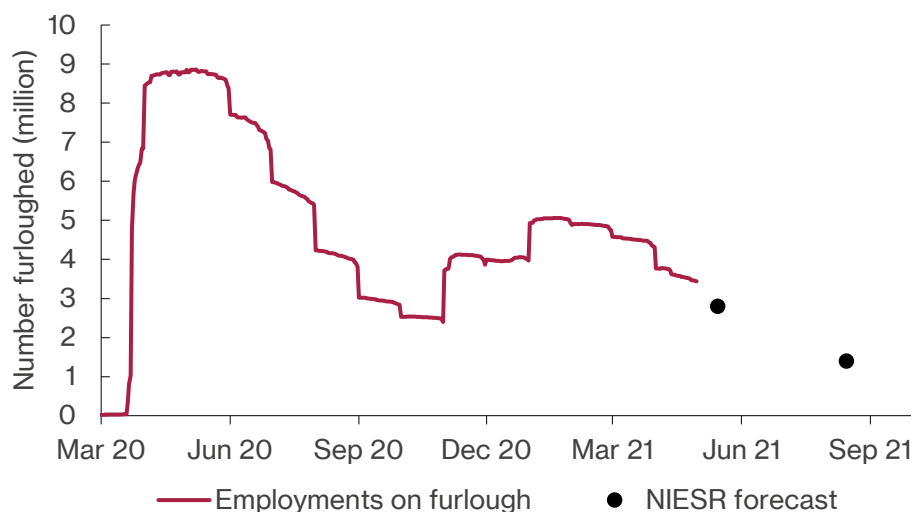
Source: HMRC, NIESR forecast

Employment in the public sector followed a different trajectory than in the private sector (Figure 3). **Public sector employment rose throughout the pandemic, in particular because of hiring in the National Health Service** (NHS). There were an estimated 5.67 million employees in the public sector for March 2021, an increase of 72,000 (1.3%) compared with December 2020 and an increase of 206,000 (3.8%) compared with March 2020. The NHS employed an estimated 1.84 million people in March 2021, an increase of 92,000 compared with March 2020. The public sector therefore acted in a countercyclical way to support the economy when private sector output was declining.

Figure 3: public and private sector employment since the beginning of the pandemic
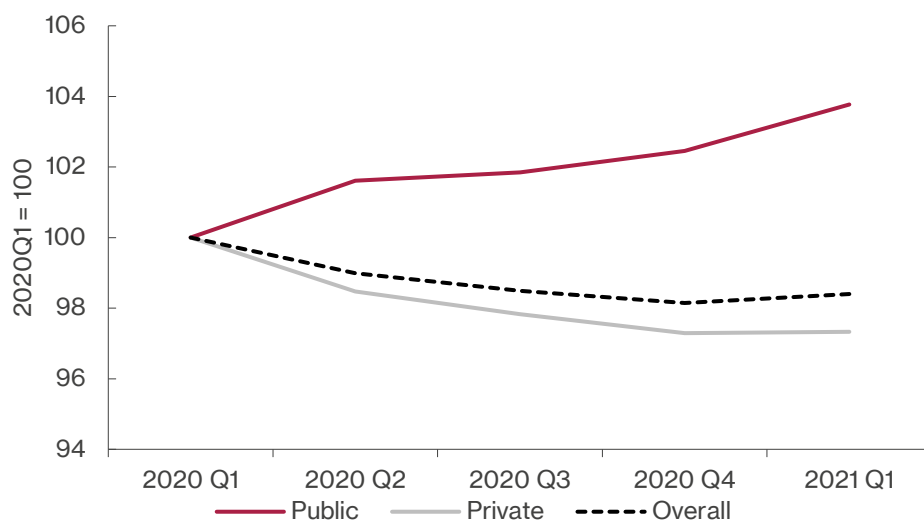
Source: ONS, NIESR calculations

Confirming the turnaround in the labour market, **redundancies decreased in the quarter and have returned to pre-pandemic levels.** After reaching a peak of 14.1 per thousand in the three months to November 2020, the redundancy rate declined to 4.0 per thousand in the three months to April 2021**.**

The increase in business activity following the partial lifting of restrictions led to a **sharp increase in vacancies that have now nearly reached their pre-pandemic levels**. Vacancies increased to 758 thousand in the three months to May, which is 24 per cent more than the previous quarter, and only 6½ per cent than the pre-pandemic level. Vacancies increased in nearly all industries, and the largest increase was in accommodation and food services. **The rise in vacancies suggests that the return of workers from furlough was not enough to accommodate the recovery in labour demand**. There is anecdotal evidence that some workers are not returning to their previous jobs as the economy reopened. **The stock of 3.5 million workers still on furlough suggests that there is room for employers to respond to further increases in business activity by taking back workers that were on furlough, but there may still be a mismatch between the sectors that are hiring and the skills of the people in furlough.** For example, it is very difficult to hire in construction someone who was previously working in hospitality.

Half of the jobs lost last year were in the private non-traded services sector, which includes retail and hospitality. New policies will need to be put in place to support the reallocation of labour from the sectors shedding jobs to sectors that are creating jobs. The Skills and Post-16 Education Bill announced during the Queen's Speech will probably help to reduce some of the current mismatch between students' skills and the need of employers but more should be done in terms of lifelong retraining and upskilling.

Pay

According to the ONS data published this morning, average weekly earnings including bonuses (AWE) in Great Britain increased to 5.6 per cent in the three months to April compared to a year ago after falling by 1.3 per cent in the second quarter of 2020 and recovering in the second half of 2020.

The current wage growth is artificially increased by compositional and base effects. If we ignore the fall in wages during the first lockdown last year (Figure 4) and assume that wages increased at a constant pace during the pandemic, then AWE was 1.6 percentage points lower in the three months to April than the headline number suggests. According to the ONS estimate, the fall in the number and proportion of lower-paid employee jobs explains 1.5 percentage point of AWE. Adding up those two effects, **we estimate that AWE was only 2.5 per cent in the three months to April, after removing base and compositional effects.**

Figure 4: public and private sector average weekly earnings (including bonuses)
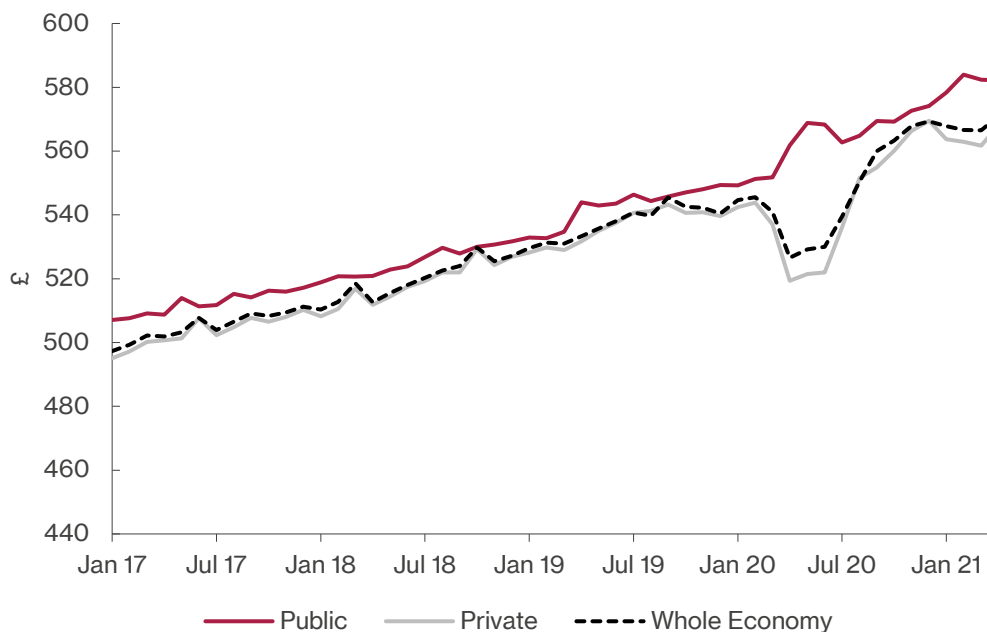
We forecast total AWE to be 8.1 per cent in the second quarter of 2021, up from 4.2 per cent in the three months to February. The nearly doubling comes from a base effect because AWE were at their lowest in the second quarter of 2020. Monthly data shows that AWE was already 8.3 per cent higher in April than a year ago. There is a risk that wage growth could be lower if wages returned to their pre-pandemic distribution with relatively more lower-paid workers. On the other hand, wage growth could be higher if employees that were paid only 80 per cent of their normal salary on furlough returned to their full salary as they exit furlough.

Table 1 - Summary table of earnings growth

	Whole economy		Private sector		Public sector	
	Average Weekly Earnings					
Latest weights	100		82		18	
	Regular	Total	Regular	Total	Regular	Total
Jan-20	511	545	503	542	547	549
Feb-20	512	546	504	544	548	551
Mar-20	510	541	502	537	550	552
Apr-20	502	527	490	519	559	562
May-20	503	529	490	521	566	569
Jun-20	505	530	492	522	565	568
Jul-20	512	539	501	536	562	563
Aug-20	518	550	508	552	563	565
Sep-20	524	560	514	555	568	569
Oct-20	528	563	518	560	567	569
Nov-20	531	568	522	566	570	573
Dec-20	533	569	525	570	571	574
Jan-21	533	568	523	564	577	578
Feb-21	535	567	525	563	580	584
Mar-21	535	566	526	562	579	582
Apr-21	539	571	530	568	580	582
May-21	538	572	528	569	585	587
Jun-21	538	572	527	568	587	589
% change 3 month average year on year						
Jan-20	3.1	3.1	3.0	2.8	3.2	3.1
Feb-20	3.0	2.8	2.8	2.6	3.2	3.2
Mar-20	2.7	2.5	2.4	2.3	3.3	3.2
Apr-20	1.7	1.2	1.2	0.6	3.2	3.3
May-20	0.7	-0.2	-0.1	-1.2	3.8	3.8
Jun-20	-0.2	-1.3	-1.3	-2.6	4.1	4.2
Jul-20	0.2	-1.1	-0.9	-2.1	4.4	4.1
Aug-20	0.9	0.0	0.1	-0.6	4.1	3.8
Sep-20	2.0	1.4	1.4	1.1	4.1	3.7
Oct-20	2.9	2.8	2.5	2.6	4.1	4.0
Nov-20	3.6	3.7	3.3	3.4	4.3	4.3
Dec-20	4.1	4.6	3.9	4.6	4.3	4.4
Jan-21	4.2	4.8	4.1	4.7	4.8	4.8
Feb-21	4.4	4.5	4.2	4.4	5.2	5.3
Mar-21	4.6	4.2	4.3	4.1	5.5	5.6
Apr-21	5.6	5.6	5.7	5.8	4.9	5.0
May-21	6.4	7.0	6.9	7.7	4.1	4.0
Jun-21	7.0	8.1	7.7	9.2	3.6	3.4
% change month on same month of previous year						
Jan-20	2.8	2.8	2.7	2.7	3.0	3.0
Feb-20	3.0	2.8	2.6	2.6	3.2	3.4
Mar-20	2.4	1.9	2.0	1.5	3.6	3.2
Apr-20	-0.2	-1.1	-1.0	-2.4	2.9	3.3
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	-0.4	0.2	-0.9	3.9	3.1
Aug-20	2.0	1.9	1.4	2.0	3.9	3.9
Sep-20	2.9	2.8	2.6	2.2	4.4	4.2
Oct-20	3.7	3.7	3.4	3.5	4.0	4.0
Nov-20	4.1	4.8	4.0	4.6	4.4	4.6
Dec-20	4.3	5.4	4.4	5.6	4.4	4.6
Jan-21	4.3	4.2	4.0	4.1	5.5	5.3
Feb-21	4.5	3.8	4.2	3.5	5.8	6.0
Mar-21	4.9	4.6	4.8	4.7	5.3	5.4
Apr-21	7.4	8.3	8.2	9.4	3.8	3.6
May-21	7.0	8.2	7.8	9.3	3.3	3.1
Jun-21	6.5	7.9	7.1	8.8	3.9	3.7

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: press@niesr.ac.uk or Luca Pieri on 074 054 96121/ l.pieri@niesr.ac.uk

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