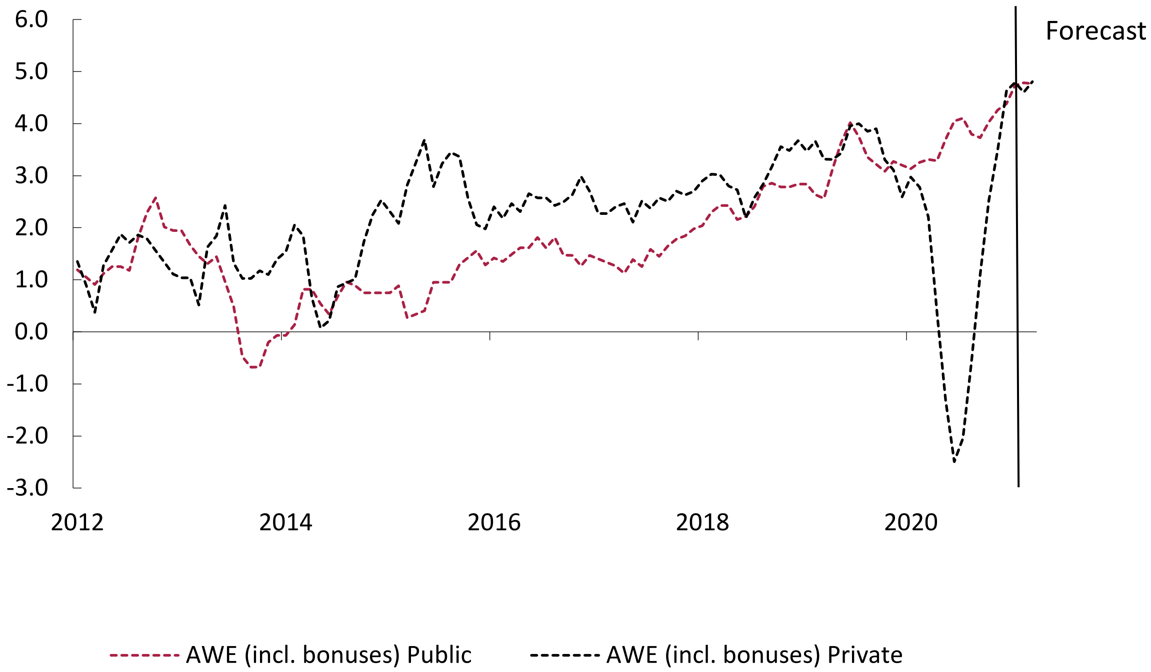
National Institute
Monthly Wage Tracker

Tuesday 23 March 2021

THE VACCINATION PROGRAMME GIVES THE FIRST SHOTS OF HOPE TO THE LABOUR MARKET, BUT UNEMPLOYMENT TO TREND UP

Figure 1 – Average weekly earnings in public and private sectors



Main points

- NIESR's wage tracker predicts that average weekly earnings growth will stay broadly unchanged at 4.8% in the first quarter of 2021, compared to 4.7% in the previous quarter.
- The gap between private and public sector pay growth that had opened up in 2020 has closed in January 2021, with both growing at 4.8% in the three months to January. Excluding compositional effects, underlying pay growth trend in the private sector is much lower, probably around 2-3%.
- The number of furloughed workers increased to 4.8 million in January. We forecast that that number will steadily decline from April to September when restrictions are progressively lifted, subject to the vaccination programme running according to plan and infection rates being kept under control.
- Redundancies have moderated since their peak in September but remained at the elevated rate of 11 per thousand workers in the three months to January.

"On this day one year ago, the UK entered its first ever national lockdown. One year and two more lockdowns later, we start to see the light at the end of the tunnel. The successful vaccination campaign is bringing hope that nearly all of the adult population will have received at least one jab of the vaccines by the end of the summer and restrictions will begin to be lifted in the months to come. Sectors like hospitality will finally be able to resume activity, but the effect of the pandemic on the labour market will probably be felt for years to come. Most furloughed workers will be able to return to their old job, but a significant number will find that their job has disappeared as businesses adjust to a new normal."

Cyrille Lenoël
UK Economist, NIESR

Employment

The Labour Force survey (LFS) shows that employment rate continues to trend down but the unemployment rate temporarily stopped increasing in January. The estimated employment rate fell to 75.0 per cent in the three months to January 2021 down from 75.3 per cent in the previous quarter. The employment rate reached its peak of 76.6 per cent in the fourth quarter of 2019.

The number of workers on furlough is estimated by HMRC to have increased from 4.0 million in December to 4.8 million in January during the current lockdown. The most severely hit sectors were wholesale and retail sectors, with over 900 thousand furloughed, the accommodation and food sector with 1.15 million furloughed and the arts and entertainment sector with over 300 thousand furloughed. In a post-Budget press note we welcomed the extension of the furlough scheme (along with the self-employed support schemes) until end of September. These policies have been effective at limiting the rise of unemployment and the extension should reduce the peak unemployment that we estimated at 7½ per cent in our February UK Economic Outlook before the extension was announced. We forecast the number of furloughed workers to start declining next month as restrictions are gradually lifted according to the Government's roadmap. As highlighted in our Covid-19 tracker, the path of Covid-19 and the pace of 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.

The number of unemployed people stood at 1.7 million in the three months to January 2021, a moderate increase of 11,000 compared to the previous quarter. As a result, the unemployment rate increased to 5.0 per cent in the three months to January, up from 4.9 per cent in the previous quarter.

The latest KPMG and REC surveys on jobs shows that permanent placements fell in February for the second month running during lockdown, but temporary placements increased at their slowest rate in seven-month, which suggests that companies may be adopting a wait-and-see approach in their hirings.

Redundancies have moderated since their peak in September but remained at the elevated rate of 11 per thousand workers in the three months to January.

Pay

Average weekly earnings averaged 1.8 per cent in 2020, making it the lowest average earnings growth since 2014, as we had explained in our February Wage Tracker. A recent report by Resolution Foundation highlighted that half of UK workers suffered a real-terms pay cut.

Early data from KPMG and REC surveys on jobs suggest that pay growth is moderating in the first quarter of 2021, after a strong fourth quarter of 2020. Both starting salaries and temporary wages are expected to have fallen in January 2021 compared to December 2020. In a market with little recruitment going on, the KPMG and REC surveys on jobs suggests that pay growth is moderating in the first quarter of 2021, with decline in starting pay in the first two months of the quarter.

According to the ONS data published this morning, average weekly earnings (including bonuses) in Great Britain increased to 4.8 per cent in the three months to January 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. With inflation averaging 0.9 per cent, this represents a gain of earnings of 3.9 per cent in real terms for the average employee. HMRC's PAYE RTI data of payrolled employees suggests that median monthly pay increased at the slower rate of 3.9 per cent in February.

Monthly data should be taken with a pinch of salt because they are strongly influenced by compositional effects. If one removes the effect of the reduction in low-paid jobs, average pay increased by only around 3 per cent in the three months to January. We forecast AWE in the private sector to be 4.8 per cent in the first quarter, after 4.6 per cent in the previous quarter.

In the public sector, the strong momentum in pay growth in 2020 will most likely carry on into the beginning of 2021 because the public sector is largely sheltered from the lockdown measures. We forecast AWE in the public sector to be 4.8 per cent in the first quarter of 2021, after 4.4 in the previous quarter. The public sector pay freeze announced during the Spending Review is expected to concern half of public sector employees, and NHS staff will get a 1 per cent pay increase. 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 broadly unchanged at 4.8 per cent in the first quarter of 2021, compared to 4.7% in the previous quarter. With inflation expected to be around to 1 per cent, we forecast significant real AWE gains of 3.8 per cent in the first quarter of 2021. However, this masks significant heterogeneity across different industries and different employee groups, which requires continuation of fiscal support measures targeted towards the most affected businesses and households to support the economic recovery and to limit the long-term economic damage. Total pay growth is likely to stay at similarly high levels in the second quarter compared to last year even if the underlying trend pay growth moderates because the second quarter of last year saw a sharp drop in total pay.

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	548	503	547	547	549
Feb-20	511	545	503	543	548	552
Mar-20	510	537	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	536	562	563
Aug-20	518	550	509	551	563	565
Sep-20	524	560	514	555	568	569
Oct-20	528	563	519	560	567	569
Nov-20	532	568	522	566	570	573
Dec-20	533	571	525	570	571	574
Jan-21	532	572	522	569	577	577
Feb-21	533	568	523	566	576	578
Mar-21	533	568	524	566	576	578
% change 3 month average year on year						
Jan-20	3.1	3.1	2.9	3.0	3.2	3.1
Feb-20	3.0	2.8	2.8	2.8	3.2	3.3
Mar-20	2.7	2.3	2.5	2.2	3.3	3.3
Apr-20	1.7	0.9	1.3	0.4	3.2	3.3
May-20	0.7	-0.4	-0.1	-1.3	3.7	3.7
Jun-20	-0.1	-1.2	-1.3	-2.5	4.0	4.0
Jul-20	0.2	-1.0	-0.9	-2.0	4.3	4.1
Aug-20	0.9	0.1	0.1	-0.6	4.1	3.8
Sep-20	2.0	1.5	1.4	1.1	4.1	3.7
Oct-20	2.8	2.8	2.5	2.5	4.1	4.0
Nov-20	3.6	3.8	3.3	3.5	4.3	4.3
Dec-20	4.0	4.7	3.9	4.6	4.3	4.4
Jan-21	4.2	4.8	4.0	4.8	4.8	4.7
Feb-21	4.2	4.7	4.0	4.6	5.0	4.8
Mar-21	4.3	4.8	4.0	4.8	5.1	4.8
% change month on same month of previous year						
Jan-20	2.8	3.2	2.7	3.4	3.0	3.0
Feb-20	2.8	2.6	2.7	2.5	3.2	3.6
Mar-20	2.4	1.1	2.2	0.8	3.6	3.4
Apr-20	0.0	-0.9	-1.0	-2.1	2.9	2.9
May-20	-0.2	-1.3	-1.4	-2.6	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	-0.7	3.9	3.1
Aug-20	2.0	1.9	1.6	1.8	3.9	3.9
Sep-20	2.9	2.8	2.4	2.2	4.4	4.2
Oct-20	3.5	3.9	3.4	3.5	4.0	4.0
Nov-20	4.3	4.8	4.0	4.8	4.4	4.6
Dec-20	4.3	5.4	4.4	5.6	4.4	4.6
Jan-21	4.1	4.4	3.8	4.0	5.5	5.1
Feb-21	4.2	4.2	4.0	4.2	5.1	4.7
Mar-21	4.6	5.8	4.4	6.2	4.7	4.5

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.

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 l.pieri@niesr.ac.uk / 07930 544 631

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