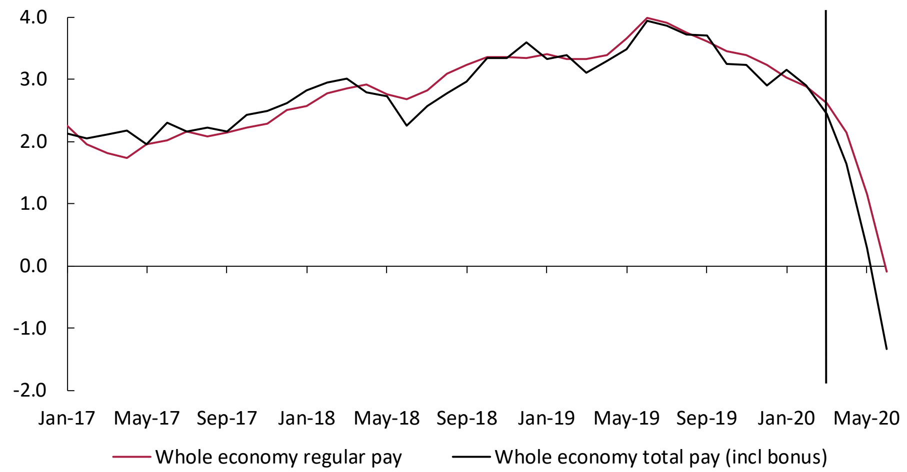
National Institute
Monthly Wage Tracker

Tuesday 19 May 2020

FIRST SIGNS OF SEVERE LABOUR MARKET IMPACT OF COVID-19

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



Main points

- Official labour market statistics are mainly lagging indicators and are only just beginning to show the impact of Covid-19 which started to affect the UK economy from around the middle of March.
- According to new ONS statistics published this morning, employment was at a record high in the first three months of the year and average weekly earnings, excluding bonuses, were growing at an annual rate of 2.7 per cent, or around 1 per cent in real terms.
- But in the final week of March, the total number of hours worked was around 25% smaller than in other weeks within the quarter. This reflects the large number of people being furloughed. Furloughing has helped to limit the rise in unemployment. The unemployment claimant count rose by 850,000 to 2.10 million in April. The number of vacancies fell to 351,000 in April, from 750,000 in March.
- By early May a quarter of paid employees had been furloughed, with 80 per cent of their pay (up to £2,500 per month) being met by the government. This will mean that measured average earnings will fall in the short term, reflecting the lower pay of those who have been furloughed. An early sign of this was that median monthly pay fell by £55 in April to £1789 per month.

"The extent of the economic fallout from Covid-19 is becoming clearer. Many businesses are under severe financial pressure and are only able to retain staff because of the government's furlough scheme which is currently supporting 7½ million jobs. Despite this, claimant unemployment rose above two million in April, the highest level since 1996, and it is very likely that we will see falls in pay in the months ahead."

Garry Young
Deputy Director, NIESR

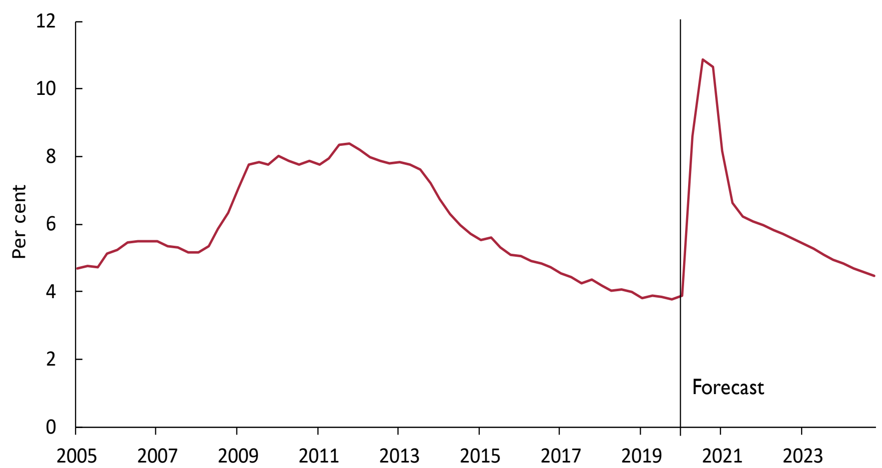
Details

The new ONS statistics published this morning mainly cover the period before the UK economy was locked down on 23 March. During this pre-lockdown period the labour market remained close to full employment. The employment rate in the three months to March 2020 was at a record high of 76.6 per cent and the unemployment rate was at 3.9 per cent. Average weekly earnings (AWE) grew at an annual rate of 2.7 per cent excluding bonuses in the three months to March 2020 compared to the year before (figure 1). This is down from the peak of nearly 4 per cent annual AWE growth in April to June 2019.

Early signs of the effect of Covid-19 are apparent in data releases covering the end of March and April. ONS reported that in the final week of March, the total number of hours worked was around 25 per cent smaller than in other weeks within the quarter. Real time data indicated that there were 457 thousand fewer people in paid employment in April than March. The estimated number of vacancies in April was 351,000, down from 750,000 in March. Median monthly pay fell by £55 in April to £1789 per month.

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 and average earnings stagnate over the next year (Figure 2).

Figure 2 – UK ILO unemployment rate and forecast



Recent information highlights the extent to which 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).

Figure 3 shows the cumulated number of universal credit claims since 1 March compared with a benchmark estimate of what might normally be expected. This points to 2.5 million excess claims up to 5 May. Some of these claims will not be allowed and others may not be associated with unemployment, but this points to a likely surge in unemployment in future data releases. Consistent with this, the unemployed claimant count rose to 2.10 million in April, from 1.24 million in March.

Figure 3 – Cumulated Universal Credit Claims since 1st March

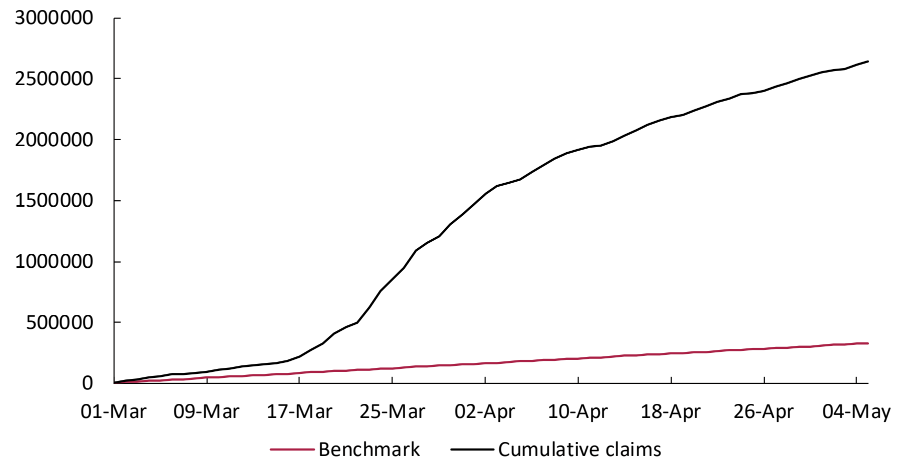
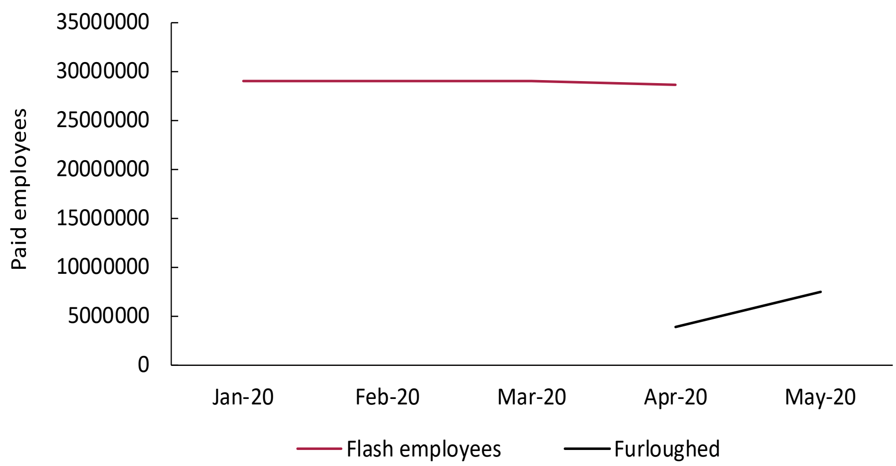


Figure 4 shows the extent to which employment is being supported by the government's Coronavirus Job Retention Scheme (CJRS). According to the latest ONS flash estimate, there were 28.56 million employees paid through PAYE in April, a fall on the month of 457,00. By 5 May, the number of furloughed workers had reached 7.5 million, around a third of private sectors employees.

Figure 4 – Paid employees on furlough



The government is subsidising 80 per cent of the pay of furloughed workers up to a maximum of £2500 per month. Some employers are 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 if earnings are not topped by employers. A plausible upper bound 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 all 7.5 million furloughed workers is reduced by 20 per cent (implying that this mainly affects employees below the 75th percentile of the pay distribution). This effect will become increasingly apparent in future data releases.

The ONS flash estimate, based on PAYE information, indicates that median pay fell by 3 per cent in April, but there is no published information yet on the whole distribution. This is consistent with a sharp slowdown in pay growth. The effect is likely to be larger in May and June, reflecting the greater number of furloughed workers (figure 4).

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. Figure 5 shows aggregate claimant count and vacancies data. The KPMG and REC report of Jobs survey, collected between 7 and 24 of April, reported that 'after rising at notably slower rates in March, starting salaries and temp wages both fell during April. Permanent starting salaries declined at the quickest rate since March 2009, while pay awarded to short-term staff dropped to the greatest extent since July 2009'.

Figure 5 – Vacancies and claimant unemployment

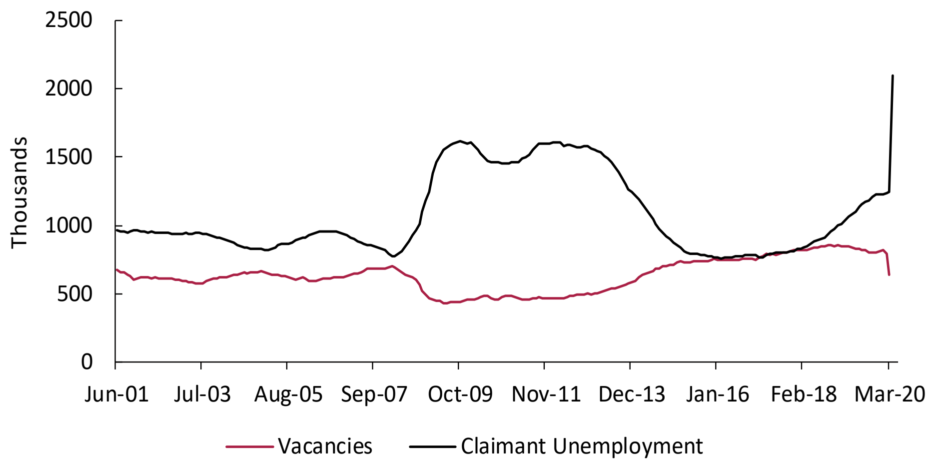


Table 1 reports our assessment of the earnings outlook in the first half of 2020. This is clearly subject to a lot of uncertainty. We forecast regular annual earnings growth to reach -0.5 per cent in the second quarter in the private sector and 1.9 per cent in the public sector. We forecast total annual earnings growth to reach -1.3 per cent in the second quarter, as bonuses come under pressure.

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	548	549
Feb-20	511	544	504	542	549	551
Mar-20	510	540	503	537	550	552
Apr-20	509	538	500	535	551	553
May-20	503	528	493	523	550	552
Jun-20	499	520	488	513	550	552
% change 3 month average year on year						
Jan-20	3.1	3.1	3.1	3.1	3.3	3.1
Feb-20	2.9	2.8	2.9	2.7	3.3	3.3
Mar-20	2.6	2.5	2.6	2.2	3.4	3.3
Apr-20	2.2	1.6	2.1	1.3	2.9	2.9
May-20	1.2	0.3	0.9	-0.3	2.4	2.2
Jun-20	-0.1	-1.3	-0.5	-2.1	1.9	1.6
% change month on same month of previous year						
Jan-20	2.6	3.2	2.6	3.2	3.2	3.0
Feb-20	2.8	2.6	2.9	2.3	3.4	3.6
Mar-20	2.4	1.5	2.2	1.1	3.6	3.4
Apr-20	1.2	0.8	1.2	0.4	1.7	1.7
May-20	-0.2	-1.5	-0.6	-2.2	2.0	1.6
Jun-20	-1.4	-3.3	-2.0	-4.5	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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