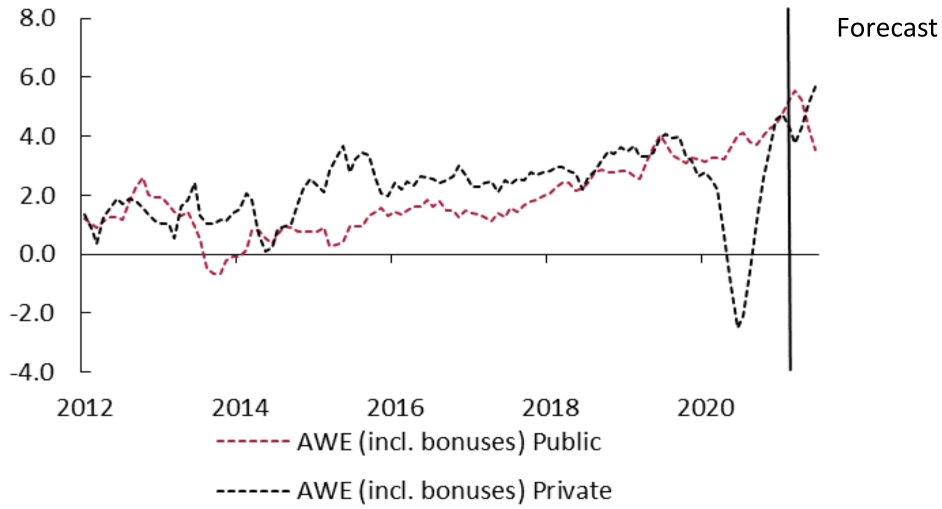
National Institute
Monthly Wage Tracker

Tuesday 18 May 2021

No sign of persistent wage inflation despite lower unemployment and higher vacancies

Figure 1 – Average weekly earnings (incl. bonuses)



Main points

- NIESR's wage tracker predicts that average weekly earnings growth will be 5.3 per cent in the second quarter of 2021, after 4.0 per cent in the first quarter. The increase is explained by both compositional and base effects.
- The number of employments on furlough is set to gradually decline with the lifting of restrictions from 4.2 million in March to 2.8 million and 1.4 million in the second and third quarters respectively.
- The number of jobs lost last year has reached 1.2 million, twice as many as the employment loss from the headline statistics. Half of the job losses were in the private non-traded services sector that includes hospitality and retail.
- The Indian variant represents a material risk to the labour market if it were to delay -or reverse - the lifting of restrictions.

"This morning's announcement that the unemployment rate declined to 4.8 per cent is proof of the success of the extended job support policies and that there is improved confidence that the worst of the pandemic may be over. But the number of jobs that disappeared last year – 1.2 million - is twice as much as what is shown by the headline employment numbers, which suggests that there is still significant slack in the labour market."

Cyrille Lenoël
Principal Economist, NIESR

Employment

The UK labour market continued its timid turnaround in March driven by improved confidence and the reopening of sectors of the economy that were forced to shut down in January and February. The employment rate increased to 75.2 per cent in the first quarter, 0.2 percentage points higher than the previous quarter. 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 April suggests that payrolled employment increased by 97 thousand compared to March.

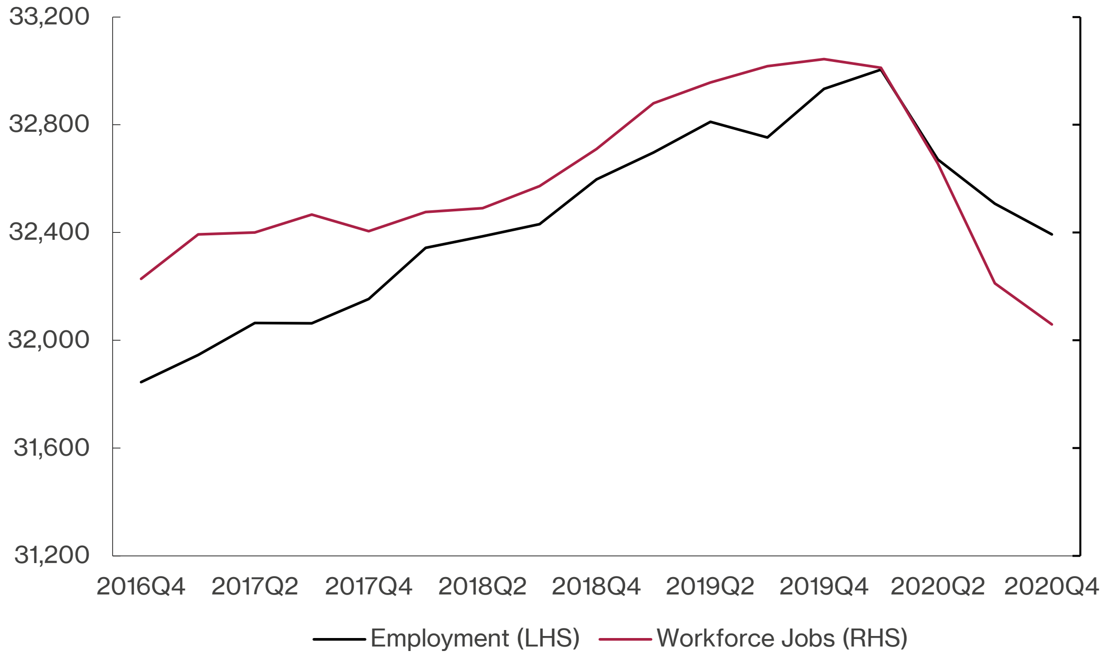
The number of unemployed people stood at 1.6 million in March, bringing the unemployment rate to 4.8 per cent in the first quarter down from 5.1 per cent in the previous quarter. Despite a very sharp reduction in GDP last year, the UK has one of the lowest unemployment rate of the G7 countries, behind only Japan (2.6 per cent) and Germany (4.5 per cent).

This relatively low unemployment rate stems from the success of job support policies, and in particular the furlough scheme that was extended until September. The number of workers on furlough is estimated by HMRC to have decreased from 5.0 million in January to 4.2 million at the end of March 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 and zero in the fourth quarter. 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.

Redundancies continued declining from a peak of 14.1 per thousand in the three months to November 2020 to 5.5 per thousand in the three months to March 2021. We expect the rate of redundancies to continue to decline in the next few months given that the number of planned redundancies declined in February to a level lower than a year ago before the pandemic hit. Confirming the turnaround in the labour market, the number of vacancies increased to 657 thousand in the period from February 2021 to April 2021, which is 8 per cent more than the previous quarter.

Since the beginning of the pandemic, there has been a divergence between the number of workforce jobs and the number of people in employment (see Figure 2). The two series are different, including because one person can have several jobs, but they generally follow each other quite closely. Since the first quarter of 2020, employment declined by 612 thousand, but workforce jobs declined by 1.2 million, about double the drop in employment. This suggests that there is more slack in the labour market than the unemployment rate of 4.8 per cent would imply and supports our view that there is no risk of rapid wage inflation going forward.

Figure 2 – Employment and workforce jobs



Source: ONS

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 4.0 per cent in the first quarter 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.

Current wage growth is explained by compositional effects. Removing these, the ONS estimates that underlying wage growth is only around 2½ per cent. The latest KPMG and REC, UK Report on Jobs indicates that an increase in demand for labour led to improvements in pay trends for April. Both starting salaries and temporary pay increased. Another factor affecting wage growth is the rate at which people change jobs. There have been fewer inflows and outflows in jobs during the pandemic because employees were more cautious about leaving their jobs and employers were less willing to hire. That effect generally exerts a downward pressure on average wages.

We forecast total AWE to be 5.3 per cent in the second quarter of 2021, up from 4.0 per cent in the three months to February. The pick-up comes from a base effect because AWE were at their lowest in the second quarter of 2020. 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

	Average Weekly Earnings					
	Whole economy		Private sector		Public sector	
Latest weights	100		82		18	
	Regular	Total	Regular	Total	Regular	Total
Jan-20	511	545	503	542	547	549
Feb-20	511	545	504	543	548	552
Mar-20	510	540	502	537	550	552
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	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	534	565	524	561	580	584
Mar-21	535	562	525	558	579	583
Apr-21	534	557	524	551	582	584
May-21	534	557	523	551	583	586
Jun-21	533	557	522	551	584	587
% 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	2.5	3.2	3.3
Mar-20	2.7	2.4	2.4	2.2	3.3	3.2
Apr-20	1.7	1.1	1.2	0.6	3.2	3.2
May-20	0.7	-0.2	-0.1	-1.1	3.8	3.6
Jun-20	-0.1	-1.2	-1.3	-2.5	4.1	4.0
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	4.4	4.1	4.3	5.2	5.2
Mar-21	4.6	4.0	4.2	3.8	5.5	5.6
Apr-21	5.2	4.4	5.1	4.3	5.1	5.2
May-21	5.7	4.9	6.0	5.1	4.1	4.3
Jun-21	6.0	5.3	6.6	5.7	3.5	3.5
% change month on same month of previous year						
Jan-20	2.8	2.8	2.7	2.7	3.0	3.0
Feb-20	2.8	2.6	2.6	2.5	3.2	3.6
Mar-20	2.4	1.7	2.0	1.5	3.6	3.2
Apr-20	0.0	-0.9	-1.0	-2.1	2.9	2.9
May-20	-0.2	-1.3	-1.4	-2.6	4.8	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	3.7	4.0	3.3	5.8	5.8
Mar-21	4.9	4.1	4.6	3.9	5.3	5.6
Apr-21	6.2	5.4	6.9	5.7	4.1	4.3
May-21	6.1	5.3	6.7	5.7	3.0	3.0
Jun-21	5.6	5.2	6.1	5.5	3.4	3.3

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

National Institute of Economic and Social Research
2 Dean Trench Street
Smith Square
London, SW1P 3HE
United Kingdom

Switchboard Telephone Number: 020 7222 7665
Website: http://www.niesr.ac.uk