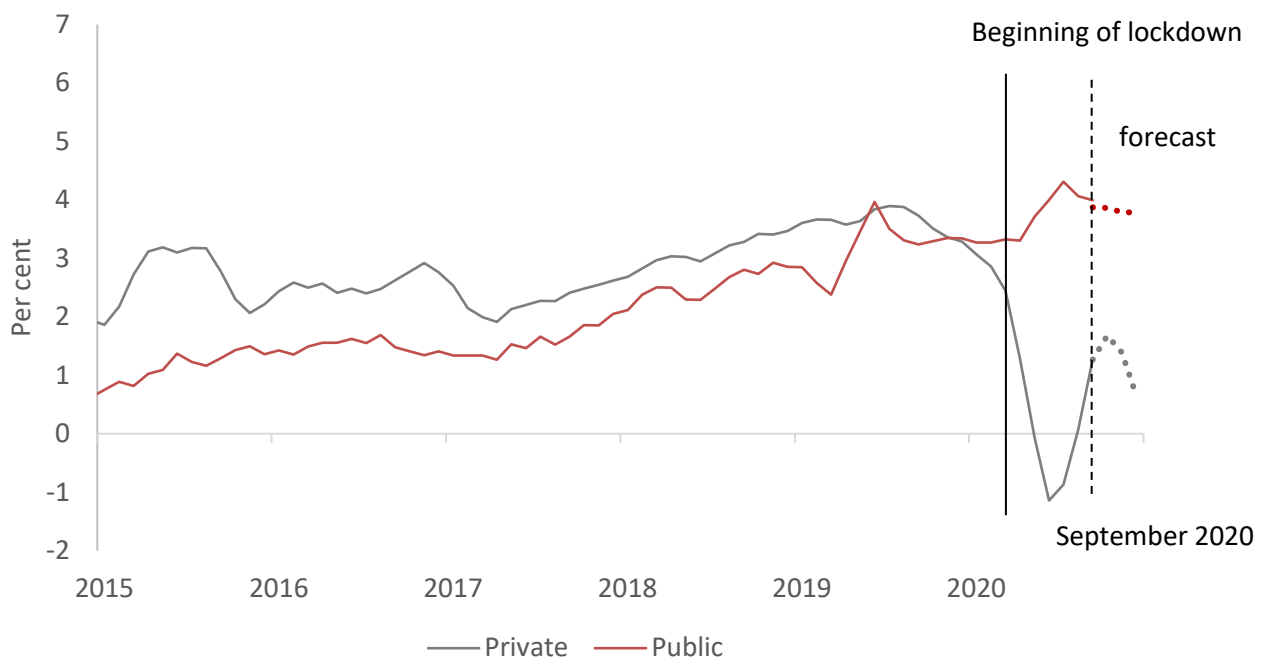


## The recovery in average weekly earnings to stall despite hopes for a new vaccine

**Figure 1 – Public and private pay growth (per cent per annum, excluding bonuses)**



### Main points

- Annual growth in average weekly earnings, including bonuses, turned positive from -1.2 per cent in the second quarter to 1.3 per cent in the third quarter as employees returned to work from furlough
- Unemployment is rising fast, reaching 4.8 per cent in the third quarter, with redundancies at record level
- Lockdowns in the fourth quarter could trigger a surge in the number of employees in furlough, making use of the extension of the Coronavirus Job Retention Scheme (CJRS)
- We forecast average weekly earnings including bonuses (AWE) to increase by 0.6 per cent in the fourth quarter compared to a year ago

*"The positive development related to a new vaccine raises hopes for a turnaround in the labour market, but not until next year. Until then, pay growth is likely to be subdued in the fourth quarter because of an expected increase in furloughed employees during the Autumn lockdown and ongoing high level of redundancies".*

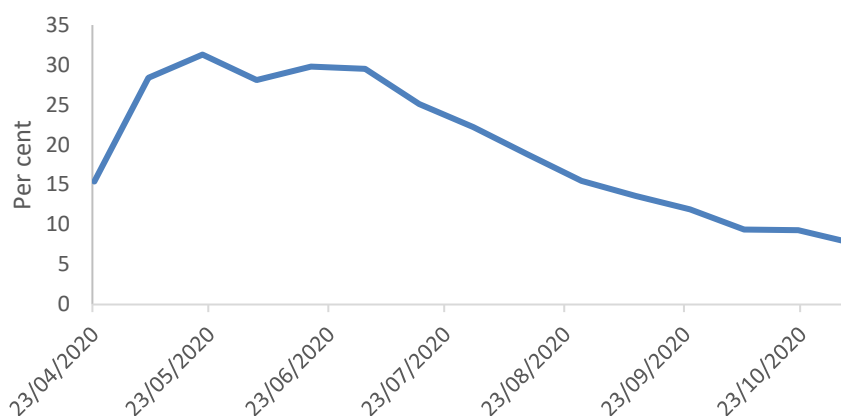
**Cyrille Lenoël**

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## Details

In England, a 1-month lockdown has been announced for the period 5 November to 2 December. A five-level system of restrictions is in place in Scotland from 2 November. A two-week firebreak lockdown in Wales ended on 9 November and a four-week period of additional restrictions in Northern Ireland ends on 13 November. On 31 October, the Chancellor Rishi Sunak announced an extension of the Coronavirus Job Retention Scheme (CJRS) until March 2021 to support the labour market. The extension of the CJRS replaces other less-generous furlough schemes like the Job Support Scheme and the local furlough that were supposed to take over from the CJRS. The new restrictions on mobility announced in October are likely to lead to a resurgence in the use of furlough as some businesses are forced to shut down. With the extension of the CJRS, employees on furlough will receive 80 per cent of their current salary for hours not worked, up to a maximum of £2,500.

**Figure 2 – Percentage of the workforce on furlough (ONS BICS)**



We expect employers to make widespread use of the CJRS in the coming months as we [estimate](#) a contraction in GDP by about 3 per cent in the fourth quarter due to the resurgence of the virus and the November lockdown. We estimate that the November lockdown could lead to about 6 million employees put on furlough in November, up from 1¾ million in October. This estimate is comparable to the [Bank of England](#) estimate of 5½ million employees on furlough in the month of November.

Before the announcement of the extension of the furlough scheme, [which we have long argued for](#), we projected unemployment to increase from 4.8 per cent in the third quarter to 7.1 per cent in the fourth quarter. The impact of the second lockdown on unemployment may be ambiguous given the simultaneous extension of the CJRS. On the one hand, the direct economic cost of the lockdown may lead to a reduction in labour demand and an increase in lay-offs. On the other hand, the combination of the extension of the furlough scheme and the prospect of a vaccine coming soon<sup>1</sup> may lead businesses to make widespread use of the

<sup>1</sup> Pfizer and BioNTech announced on 9 November that their vaccine trial has been successful at reducing COVID-19 infections by 90 per cent.

furlough scheme as a bridge to the period when business returns to normal. In the latter case, unemployment may increase somewhat less than in our forecast because employees who cannot work would be furloughed.

## Employment

Even before the second wave, the labour market was suffering from the fallout of the pandemic which has reduced demand for labour. The [Labour Force survey](#) shows that employment rate continues to trend down and unemployment rate to trend up. The estimated employment rate fell to 75.3 per cent in the third quarter down from 75.9 per cent in the second quarter. The number of unemployed people has increased to 1.62 million in the third quarter, an increase of 243,000 compared to the previous quarter. As a result, the unemployment rate has increased to 4.8 per cent in the third quarter, up from 4.1 per cent in the previous quarter. At the beginning of the pandemic, there was a significant increase in inactivity because some people who were active but not in employment decided to temporarily leave the labour market waiting for better times. Hence the inactivity rate increased from 20.4 per cent in the first quarter to 20.9 per cent in the second quarter. In the fourth quarter, the pick-up came to a halt, and inactivity rate was unchanged as a record 215,000 people went from inactivity to unemployment and slightly fewer people went from employment to inactivity. Redundancies increased in the third quarter to 314,000, higher than the Global Financial Crisis peak of 311,000 in 2009. Vacancies have continued to recover in August to October 2020, with an estimated quarterly increase of 146,000 vacancies to 525,000, but still remain below the pre-coronavirus (COVID-19) pandemic levels and are 278,000 less than a year ago.

The latest [KPMG and REC, UK Report on Jobs](#) survey revealed that uncertainty related to a second wave of COVID-19 was weighing on recruitment: there was an increase in temporary staff that partially made up for a decrease in permanent staff in October. South of England and London saw the largest drop in permanent placements. Retail and Hotel & Catering saw the steepest falls in vacancies. Meanwhile, IT & Computing saw the strongest rise in permanent staff demand. With unemployment set to go up, new starters had to settle for lower pay in October. The sombre picture of the labour market is confirmed in the latest [Labour Market Outlook](#) survey by the CIPD and Adecco Group, that reports that 30 per cent of employers are planning to make redundancies in the fourth quarter, with an average reduction of the workforce of 16 per cent. The relatively strong labour demand in the public sector is only partly offsetting weaker demand in the private sector. Employment confidence is highest in healthcare and education and lowest in manufacturing, finance and insurance, and hospitality. According to this survey done before the announcement of a second lockdown, 51 per cent of private sector employers plan to freeze wages in the period until September 2021, resulting in average pay growth of 1 per cent in the 12 months to September 2021.

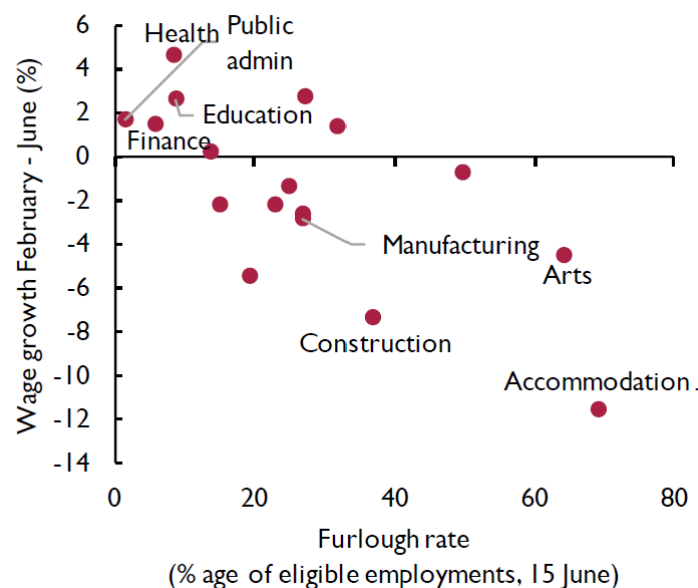
## Wages

According to the ONS data published this morning, average weekly earnings (including bonuses) (AWE) in Great Britain grew at 1.3 per cent in the third quarter compared to a year ago after a fall of 1.2 per cent in the second quarter. With inflation averaging 0.8 per cent, this represents a gain of earnings of 0.5 per cent in real terms for the average employee.

The improvement in earnings growth can be explained by the recovery in private sector AWE and in particular employees returning to work from furlough. For example, in construction, AWE annual growth increased from -10.2 per cent in the second quarter to -3.9 per cent in the third quarter. And in finance and business services, annual growth increased from -0.9 per cent in the second quarter to +2.4 per cent in the third quarter.

Figure 3 shows the strong correlation between wage growth and furlough rate in different sectors. If their employers do not top up their wages, wages decline for employees on furlough despite the government contribution and increase again once they go back to full-time employment. According to the latest [Business Impact of Coronavirus Survey \(BICS\)](#), 11 per cent of businesses were still temporarily closed or had paused trading in the period from 5 to 18 October 2020, with accommodation and food services and arts and recreation showing the highest level of inactivity. 8 per cent of employees have been reported to be on partial or furlough leave, down from 30 per cent during the first two weeks of June (figure 2).

**Figure 3 – Furlough rate and wage growth across sectors (ONS)**



If it wasn't for bonuses which fell by an average of 10.7% in the third quarter compared to a year ago, AWE would have bounced back even more, to 1.9 per cent in the third quarter excluding bonuses. Another factor that may change the average wage is the change in composition of wages. If more low-wage workers are being laid-off rather than higher paid workers as suggested by anecdotal evidence, then average wages may go up. The ONS estimates that this composition effect led to an increase in AWE by 0.1 percentage point in the third quarter.

### Forecast

Table 1 reports our assessment of the earnings outlook for the fourth quarter of 2020. We forecast average weekly earnings including bonuses (AWE) to increase by 0.6 per cent in the fourth quarter compared to a year ago. AWE would decrease in the private sector by 0.1 per cent in the fourth quarter while it would increase in the public sector by 3.8 per cent.

With inflation expected to average  $\frac{1}{2}$  per cent in the fourth quarter, we forecast AWE to be roughly flat in the fourth quarter in real terms compared to a year ago.

Table 1 - Summary table of earnings growth

<b>Average Weekly Earnings</b>						
	<b>Whole economy</b>		<b>Private sector</b>		<b>Public sector</b>	
<i>Latest weights</i>	100		82		18	
	<b>Regular</b>	<b>Total</b>	<b>Regular</b>	<b>Total</b>	<b>Regular</b>	<b>Total</b>
Jan-20	511	546	504	545	547	550
Feb-20	511	545	504	543	549	552
Mar-20	510	538	502	534	550	553
Apr-20	503	529	490	524	559	560
May-20	503	530	489	522	566	569
Jun-20	505	529	492	521	565	568
Jul-20	512	537	500	533	562	562
Aug-20	518	552	508	549	563	564
Sep-20	523	553	513	550	565	569
Oct-20	519	548	508	543	566	568
Nov-20	517	546	506	541	567	569
Dec-20	516	545	505	540	568	570
<b>% change 3 month average year on year</b>						
Jan-20	3.1	3.1	3.1	3.0	3.3	3.1
Feb-20	2.9	2.8	2.9	2.8	3.3	3.3
Mar-20	2.6	2.4	2.4	2.1	3.3	3.3
Apr-20	1.7	0.9	1.3	0.5	3.3	3.3
May-20	0.7	-0.3	-0.1	-1.1	3.7	3.7
Jun-20	-0.2	-1.3	-1.1	-2.4	4.0	4.1
Jul-20	0.2	-1.1	-0.9	-2.2	4.3	4.1
Aug-20	0.9	0.1	0.1	-0.8	4.1	3.7
Sep-20	1.9	1.3	1.3	0.7	3.9	3.6
Oct-20	2.2	1.8	1.7	1.2	3.9	3.9
Nov-20	2.0	1.1	1.4	0.6	3.8	3.9
Dec-20	1.4	0.6	0.7	-0.1	3.8	3.8
<b>% change month on same month of previous year</b>						
Jan-20	2.6	3.2	2.6	3.2	3.0	3.0
Feb-20	2.8	2.6	2.6	2.5	3.4	3.6
Mar-20	2.4	1.3	2.0	0.8	3.6	3.4
Apr-20	-0.2	-1.1	-0.8	-1.7	2.9	2.9
May-20	-0.2	-1.1	-1.4	-2.4	4.6	4.8
Jun-20	-0.2	-1.7	-1.2	-3.0	4.4	4.6
Jul-20	1.0	-0.4	0.0	-1.1	3.9	2.9
Aug-20	2.0	2.2	1.4	1.7	3.9	3.7
Sep-20	2.8	2.0	2.4	1.7	3.9	4.2
Oct-20	1.9	1.0	1.2	0.4	3.9	3.8
Nov-20	1.3	0.3	0.5	-0.2	3.7	3.8
Dec-20	1.0	0.4	0.2	-0.4	3.8	3.8

## 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 or Luca Pieri on [press@niesr.ac.uk](mailto:press@niesr.ac.uk) / [l.pieri@niesr.ac.uk](mailto:l.pieri@niesr.ac.uk) / 07930 544 631

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