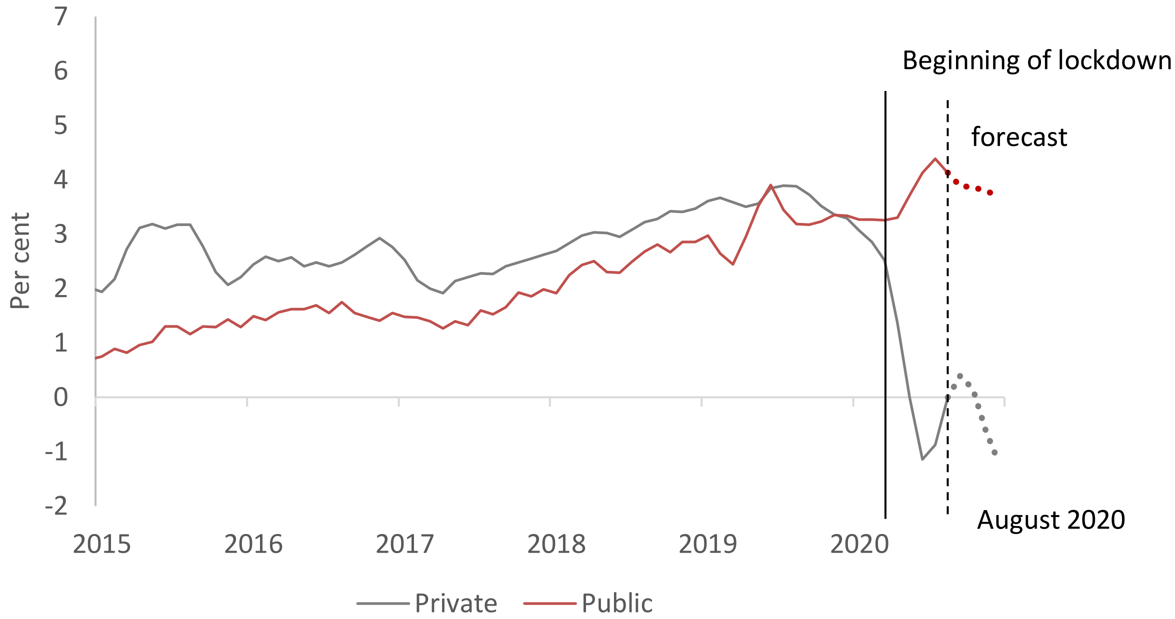
National Institute
Monthly Wage Tracker

Tuesday 12 October 2020

Covid-19 continues to suppress private sector pay

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



Main points

- According to ONS statistics published this morning, average weekly earnings, including bonuses, were unchanged in the three months to August and declined by 0.8 per cent in real terms.
- The construction sector was worst hit with pay growth declining by 5.3 per cent while public sector pay growth was up by 4.1 per cent.
- Since the beginning of the pandemic, public sector wages have risen twice as fast as private sector wages (1.8 per cent vs 0.9 per cent from February to August)
- We forecast average weekly earnings including bonuses (AWE) to increase by 0.5 per cent in the third quarter compared to a year ago, and to decrease by 0.8 per cent in the fourth quarter, resulting in little to no wage growth until the end of the year.

"The UK labour market is in a difficult transitory period with local lockdowns affecting nearly a third of the country and infection rates on the rise. Recent policy announcements such as the Job Support Scheme and the local furlough scheme are welcome steps to contain the fall in employment and provide some income support. But the multiplicity of job support schemes (CJRS, JSS, Job Retention Bonus and local furlough) and heightened risks related to Covid-19 limit the effectiveness of these policies."

Cyrille Lenoël

Senior Economist, NIESR

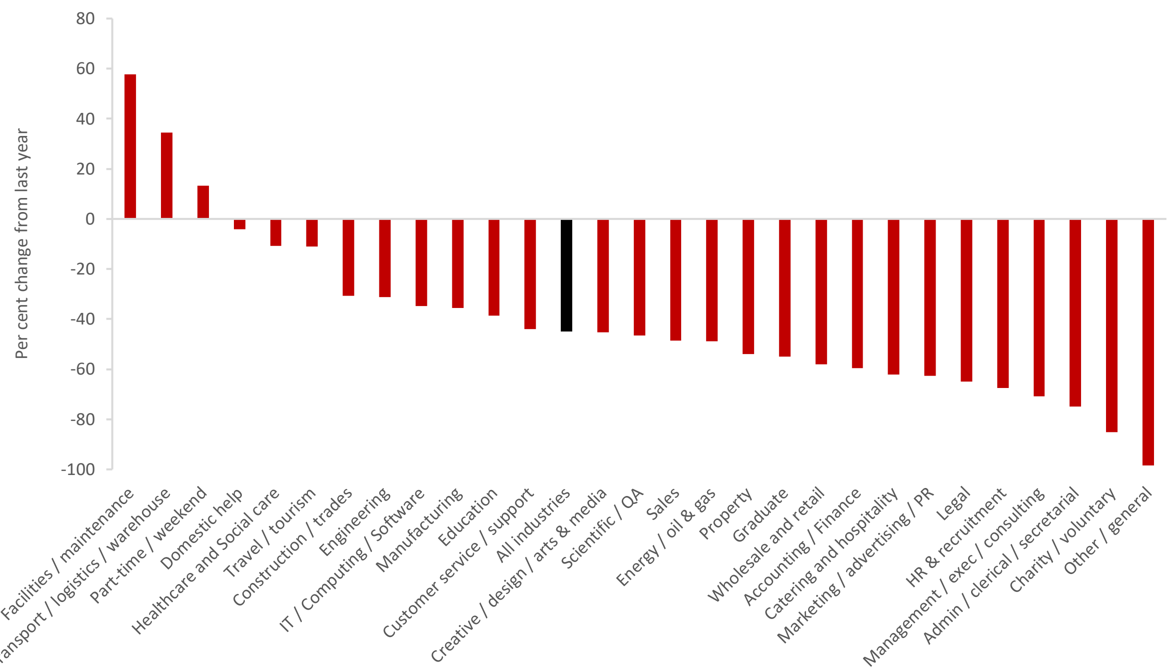
Details

According to the ONS data published this morning, average weekly earnings (including bonuses) in Great Britain were unchanged in the three months to August compared to a year ago after a decline of 1.0 per cent in the three months to July. With inflation averaging at 0.8 per cent in the three months to August, this represents a loss of earnings of 0.8 per cent in real terms for the average employee.

There was an unusual dispersion in average pay growth across sectors, ranging from a positive growth of 4.1 per cent in the public sector to a negative growth of 5.3 per cent in construction in the three months to August compared to a year ago. On 21 July, the Chancellor Rishi Sunak announced above inflation pay rises this year for a wide range of public sector workers, with school teachers and doctors & dentists receiving the largest pay rises of 3.1 and 2.8 per cent respectively.

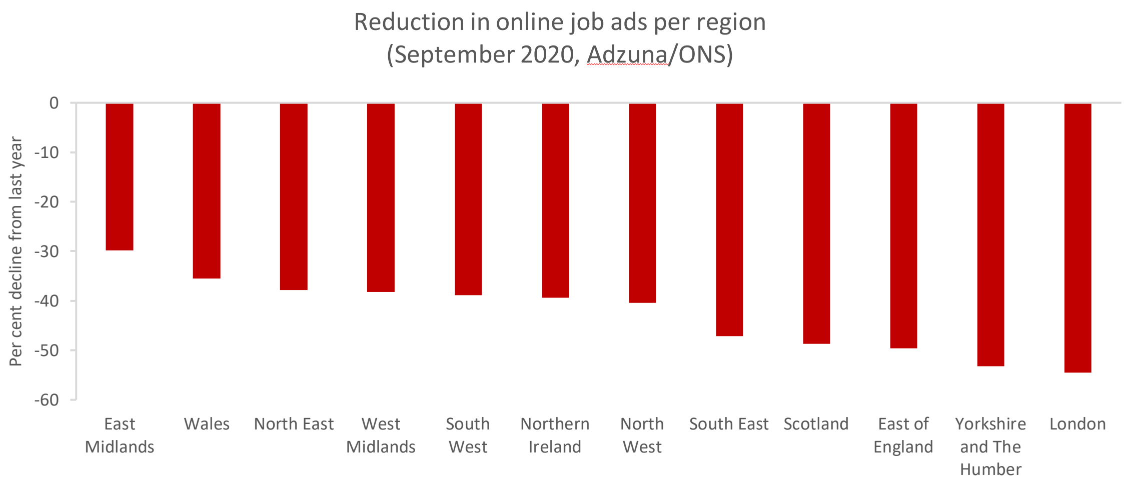
By contrast, nearly all private sectors have reduced average pay. Average pay growth declined by 1.8 per cent in the wholesaling, retailing, hotels and restaurants sector, and by 0.9 per cent in the manufacturing sector over the same period. The contrasting situation across industries can be illustrated by the change in online job ads in September compared to a year ago (figure 2). Facilities and maintenance and transport and logistics have seen a boom in job offers of 60% and 30% respectively whereas most other sectors are seeing sharp declines in job ads. While some of the trends may be driven by temporary factors, other trends like the increase in logistics related activity reflect some more permanent changes in consumption towards more online shopping.

Figure 2 – Change in online job ads by industry (September 2020, Adzuna/ONS)



Online job ads also provide interesting insights into the regional impacts of the pandemic. According to this data, the London labour market is expected to be most hit by the pandemic with job ads down by more than 50% compared to a year ago, and East Midlands is the region faring less bad with job ads down by 'only' 30% compared to a year ago.

Figure 2 – Online job ads by regions



On 24 September, the Chancellor announced a new [Job Support Scheme](#) (JSS) that will takeover from the Coronavirus Job Retention Scheme (CJRS) when the latter expires in November. The JSS will run from November 2020 to April 2021. For employees that qualify to the scheme, the Government will pay a third of hours not worked up to £698 per month, with the employer also contributing a third. This scheme is less generous than the CRJS which pays in October 60% of wages not worked up to £1,875. Employees qualifying for the JSS will therefore earn a minimum of 77% of their normal wages, where the Government contribution has not been capped. While we welcome the fact that Government is extending its support to the labour market as we have longed argued for, we estimate that the JSS may be less successful than the CJRS at limiting the rise in unemployment because it significantly increases the costs of retaining employees, and therefore provides less incentives for employers to use the scheme especially given the uncertainty caused by rising infection rates. With the current setup of the JSS, it is indeed cheaper to employ one worker full time than 2 workers working half-time for the same nominal wage.

On 9 October, the Chancellor announced a new furlough scheme for workers in businesses that are forced to close (mainly hospitality) because of local or national lockdowns in England. From November, the Government will cover 66% of wages for hours not worked up to £2,100 per month. As opposed to the JSS, employers will not be required to contribute towards wages and only asked to cover national insurance and pension contributions. The scheme, which is very similar to an extension of the CJRS for the hospitality sector will also last until April 2021. Similar schemes are expected to be announced in the devolved administrations of Scotland, Wales and Northern Ireland.

Despite the multiple support schemes, the labour market is suffering from the fallout of the pandemic which has reduced demand for labour. The number of unemployed people has increased to 1½ million in the three months to August, an increase of 209,000 compared to a year earlier and 138,000 more than the previous quarter. As a result, the unemployment rate has increased to 4.5 per cent in the three months to August, up from 4.1 per cent in the previous three months. Redundancies increased in June to August 2020 to 227,000, level last seen in 2009, during the Global Financial Crisis (GFC). We expect redundancies to continue to increase towards the GFC peak of 311,000 , as companies are announcing more redundancy plans and some employees that were on furlough become unemployed.

There are early signs that the decline in earnings may be moderating. For example, the Pay As You Earn Real Time Information database indicate that median monthly pay probably increased to £1,905, an increase of 4.3% when compared with the same period of the previous year. This is however partial information and we expect average weekly earnings to continue to be under pressure in the months to come because of the rise in unemployment.

A key factor currently impacting wages is the take-up of the furlough schemes. If their employers don't top up their wages, wages should decline for employees on furlough despite the government contribution and increase again once they go back to full-time employment. On the other hand, the fact that some employees are on furlough rather than unemployed and actively looking for a job should support wages. 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 – which anecdotal evidence suggests -, then average wages may go up. On balance, we estimate that the net effect of those factors on wage growth is slightly negative.

Table 1 reports our assessment of the earnings outlook for the third quarter and fourth quarters of 2020. We forecast average weekly earnings including bonuses (AWE) to increase by 0.5 per cent in the third quarter compared to a year ago, and to decrease by 0.8 per cent in the fourth quarter. AWE would decrease in the private sector by 0.2 and 1.8 per cent in the third and fourth quarters respectively while it would increase in the public sector by 3.5 and 3.7 per cent in the third and fourth quarters respectively.

With inflation expected to average 0.5 and 0.8 per cent in the third and fourth quarters, we forecast AWE to be unchanged in the third quarter and to decline by 1.6 per cent in the fourth quarter in real terms.

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	550
Feb-20	511	545	504	543	549	552
Mar-20	510	538	502	534	550	553
Apr-20	503	529	490	523	559	561
May-20	503	530	489	522	565	569
Jun-20	505	529	492	521	565	568
Jul-20	512	538	500	533	562	562
Aug-20	517	550	507	548	562	562
Sep-20	512	542	501	536	565	567
Oct-20	510	539	498	533	566	568
Nov-20	510	539	498	533	567	569
Dec-20	509	538	495	530	568	570
% change 3 month average year on year						
Jan-20	3.1	3.1	3.1	3.0	3.3	3.3
Feb-20	2.9	2.8	2.9	2.8	3.3	3.3
Mar-20	2.6	2.4	2.5	2.2	3.3	3.3
Apr-20	1.7	0.9	1.4	0.5	3.3	3.3
May-20	0.7	-0.3	0.0	-1.1	3.7	3.8
Jun-20	-0.2	-1.3	-1.1	-2.4	4.1	4.1
Jul-20	0.2	-1.0	-0.9	-2.2	4.4	4.0
Aug-20	0.9	0.0	0.0	-0.9	4.1	3.7
Sep-20	1.1	0.5	0.4	-0.2	3.9	3.5
Oct-20	0.9	0.4	0.1	-0.3	3.9	3.8
Nov-20	0.3	-0.5	-0.6	-1.4	3.8	3.8
Dec-20	-0.1	-0.8	-1.2	-1.8	3.7	3.7
% change month on same month of previous year						
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	2.2	0.9	3.4	3.4
Apr-20	-0.2	-1.1	-0.8	-1.9	3.1	3.1
May-20	-0.2	-1.1	-1.4	-2.4	4.6	4.8
Jun-20	-0.2	-1.7	-1.2	-3.0	4.6	4.4
Jul-20	1.0	-0.2	0.0	-1.1	3.9	2.9
Aug-20	1.8	1.9	1.2	1.5	3.9	3.7
Sep-20	0.7	-0.1	0.0	-0.9	3.9	3.8
Oct-20	0.3	-0.5	-0.8	-1.4	3.9	3.8
Nov-20	0.0	-0.9	-1.1	-1.7	3.7	3.6
Dec-20	-0.5	-1.0	-1.7	-2.1	3.6	3.6

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.

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