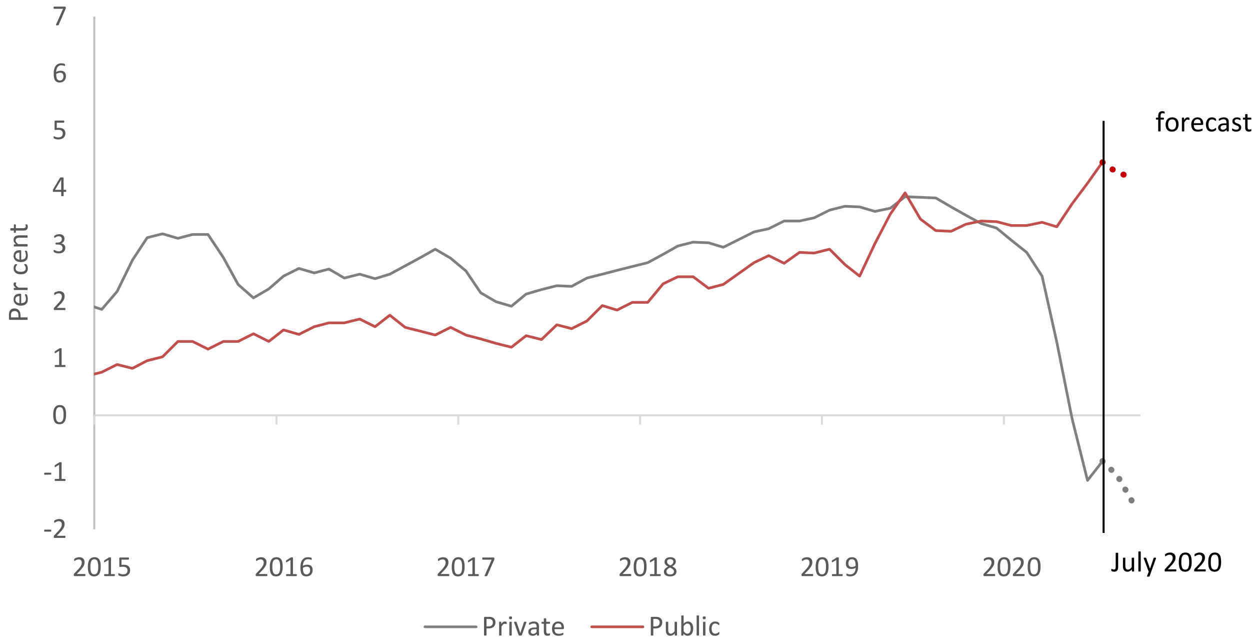
National Institute
Monthly Wage Tracker

Tuesday 15 September 2020

PRIVATE SECTOR PAY TO DECLINE FURTHER IN Q3 AS EMPLOYMENT FALLS

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



Main points

- According to new ONS statistics published this morning, average weekly earnings, including bonuses, declined at an annual rate of 1 per cent in the three months to July, or 1.8 per cent in real terms.
- The construction sector was worst hit with pay growth declining by 7.5 per cent while public sector pay growth is at the highest since 2006 at 4.5 per cent.
- We forecast August and September earnings to fall compared to July as demand for labour declines consistent with our unemployment forecast of 5.8 per cent for the third quarter. On average, weekly earnings including bonuses would decline by 0.8 per cent in the third quarter compared to a year ago and by 1.6 per cent in real terms.

"The UK labour market is entering a very difficult phase with unemployment going up and wages declining in the private sector. As the effect of the pandemic lingers on, more government support may be required to prevent the long-term scarring from a surge in unemployment".

Cyrille Lenoël
Senior Economist, NIESR

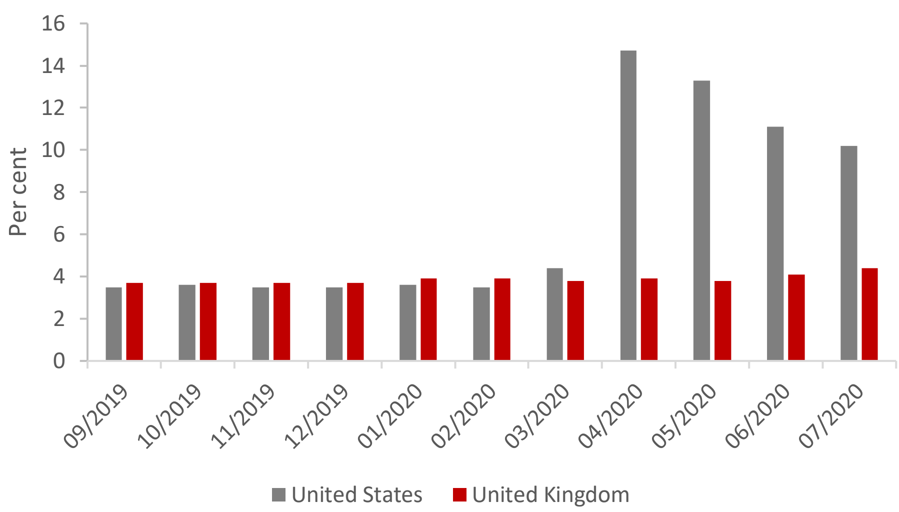
Details

According to the ONS data published this morning, average weekly earnings (including bonuses) in Great Britain is estimated to have declined at an annual rate of 1.0 per cent in the three months to July after a decline of 1.2 per cent in the three months to June. With inflation averaging at 0.8 per cent in the three months to July, this represents a loss of earnings of 1.8 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 4.5 per cent in the public sector to a negative growth of 7.5 per cent in construction in the three months to July compared to a year ago. Apart from the public sector, nearly all sectors had to reduce average pay. Average pay growth declined by 3.2 per cent in the wholesaling, retailing, hotels and restaurants sector, and by 1.7 per cent in the manufacturing sector over the same period.

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 1.4 million in the three months to July, an increase of 104,000 compared to a year earlier and 62,000 more than the previous quarter. As a result, the unemployment rate has increased to 4.1 per cent in the three months to July, up from 3.9 per cent in the previous three months. The Self-Employment Income Support Scheme and the Coronavirus Job Retention Scheme have so far been successful in shielding the labour market from the worst effects of the pandemic. The unemployment rate did not spike in the UK as it did in the US where it reached a peak of 14.7 per cent in April (figure 2). Thanks to the employment support schemes, earnings declined by only 1 per cent, which is quite small compared to the decline of GDP of -20.2 per cent in the second quarter alone. For comparison, GDP declined by 9 per cent in the second quarter in the US.

Figure 2 – US and UK unemployment rates



Source: Eurostat

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 £1,872, an increase of 2.7% when compared with the same period of the previous year. This is however partial information and we expect average weekly earnings to continue to decrease in the months to come driven by a rise in unemployment.

In our August Review, we forecast unemployment to increase to 5.8 per cent in the third quarter and 9.8 per cent in the fourth quarter when the employment support schemes are planned to be ended but business activity is still weak because of the fallout of the global pandemic.

Table 1 reports our assessment of the earnings outlook into the third quarter of 2020. We forecast average weekly earnings including bonuses (AWE) to decline by 0.8 per cent in the third quarter compared to a year ago. This would be decomposed into a decline of AWE in the private sector of 1.9 per cent and an increase in AWE in the public sector of 3.8 per cent over the same period (table 1). With inflation expected to be 0.8 per cent in the third quarter, we forecast that AWE to decrease by 1.6 per cent 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	512	546	504	545	548	549
Feb-20	512	545	504	543	549	551
Mar-20	510	538	502	534	550	552
Apr-20	503	529	490	523	558	560
May-20	503	530	489	522	565	569
Jun-20	505	529	492	521	565	569
Jul-20	512	539	500	534	563	563
Aug-20	503	535	490	528	564	566
Sep-20	502	535	488	527	568	570
% change 3 month average year on year						
Jan-20	3.1	3.1	3.1	3.1	3.3	3.2
Feb-20	3.0	2.8	2.9	2.7	3.3	3.3
Mar-20	2.7	2.3	2.4	2.1	3.4	3.3
Apr-20	1.8	1.0	1.3	0.4	3.3	3.3
May-20	0.7	-0.2	-0.1	-1.1	3.7	3.7
Jun-20	-0.1	-1.2	-1.1	-2.4	4.1	4.1
Jul-20	0.2	-0.9	-0.8	-2.1	4.4	4.2
Aug-20	0.0	-0.9	-1.1	-2.0	4.3	3.9
Sep-20	-0.4	-0.8	-1.5	-1.9	4.2	3.8
% change month on same month of previous year						
Jan-20	2.8	3.0	2.6	3.2	3.2	3.0
Feb-20	3.0	2.6	2.6	2.3	3.4	3.6
Mar-20	2.4	1.3	2.0	0.9	3.6	3.4
Apr-20	0.0	-0.9	-0.8	-1.9	3.0	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	4.6	4.6
Jul-20	1.0	0.0	0.2	-0.9	4.1	3.1
Aug-20	-0.9	-0.9	-2.2	-2.0	4.1	4.0
Sep-20	-1.3	-1.4	-2.6	-2.6	4.4	4.2

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: For further information please contact the NIESR Press Office the NIESR Press Office press@niesr.ac.uk or Luca Pieri on l.pieri@niesr.ac.uk / 07930 544 631

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