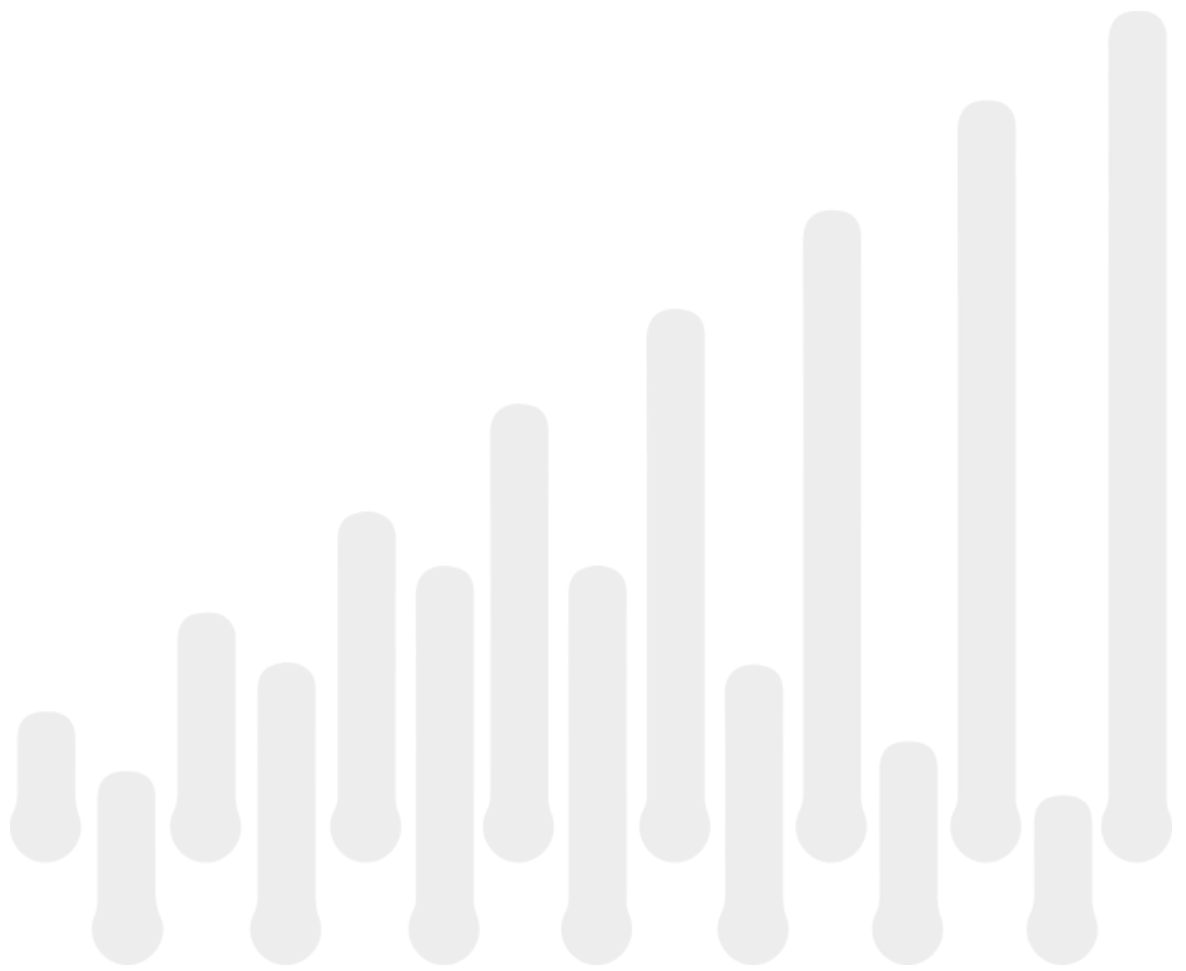


NIESR

Monthly Wage Tracker

Labour Market Recovery on Track as Furlough Ends

Cyrille Lenoël
September 2021



Main Points

- The labour market shows signs of a U-shaped recovery, with the number of payrolled employees returning in August to its pre-pandemic (February 2020) level of 29.1 million.
- Employment growth is fastest in London, which is catching up to the rest of the UK after being particularly hurt by the pandemic.
- The unemployment rate declined to 4.6 per cent and vacancies reached a record 1 million.
- Because of difficulties to fill in jobs, starting salaries are increasing fast, but the end of the furlough scheme should ease the pressure on salaries.
- The relaxation of self-isolation rules puts an end to the 'pingdemic'.
- The growth in average weekly earnings including bonuses (AWE) in Great Britain decreased slightly in the three months to July to 8.3 per cent compared to a year ago, down from 8.7 per cent in the three months to June. This is in line with what we had forecasted.
- Excluding base effects, the growth in average weekly earnings was unchanged at 4.1 per cent in the three months to July, compared to the three months to June.
- Annual growth for average weekly earnings should ease from 8.7 per cent in the second quarter to 5.6 per cent in the third quarter as the base effect dissipates.

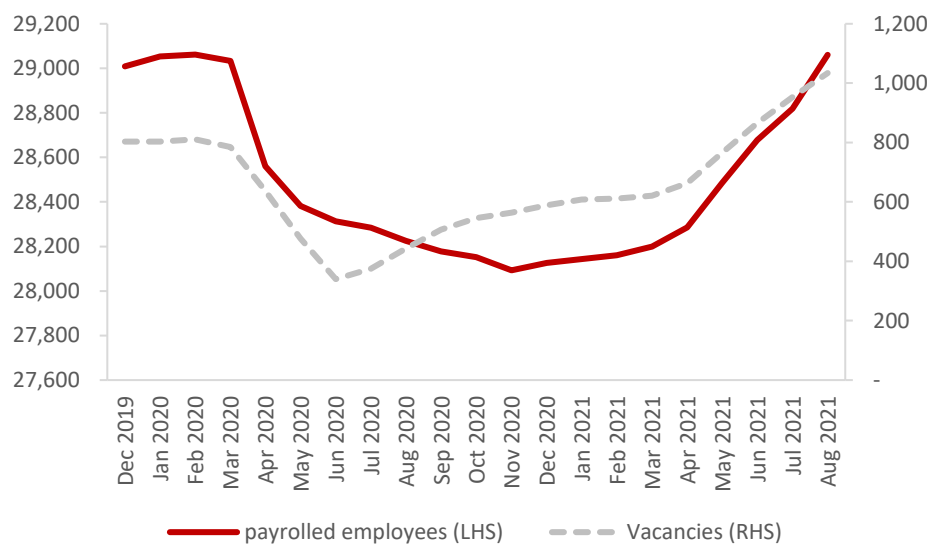
"The end of the furlough scheme in September comes at a fortunate time when the robust recovery of the labour market provides hope that nearly all of the furloughed workers will be able to return to active employment. Underlying wage growth excluding base effect is around 4 per cent. But the combination of a skills mismatch and the end of the furlough scheme is creating unusual uncertainty about the future path of wages. With consumer price inflation rising and expected to reach also 4 per cent at the beginning of next year, there is a risk that price inflation feeds into wage inflation."

Cyrille Lenoël
Principal Economist, NIESR

Employment

The latest data from the Labour Force Survey show that the labour market is continuing to recover from the pandemic, with employment, vacancies and wages all increasing. The recovery, driven by improved confidence and the reopening of sectors of the economy, is broad-based across age groups, industries and regions. **The labour market recovery now displays a U shape, with the number of payrolled employees returning in August to its pre-pandemic (February 2020) level of 29.1 million and the number of vacancies at a record high of 1 million (see Figure 1).**

Figure 1: The U-shaped recovery in the labour market



Source: ONS, HMRC

The number of unemployed people declined by 86,000 in the three months to July compared to the previous three-month period, bringing total unemployment to 1,550,000 and the unemployment rate to 4.6 per cent. Thanks to supportive labour market policies – in particular the furlough scheme – the unemployment rate has only moderately increased during the pandemic, from 4.0 per cent at its onset to a peak of 5.3 per cent in the fourth quarter of 2020, declining since then.

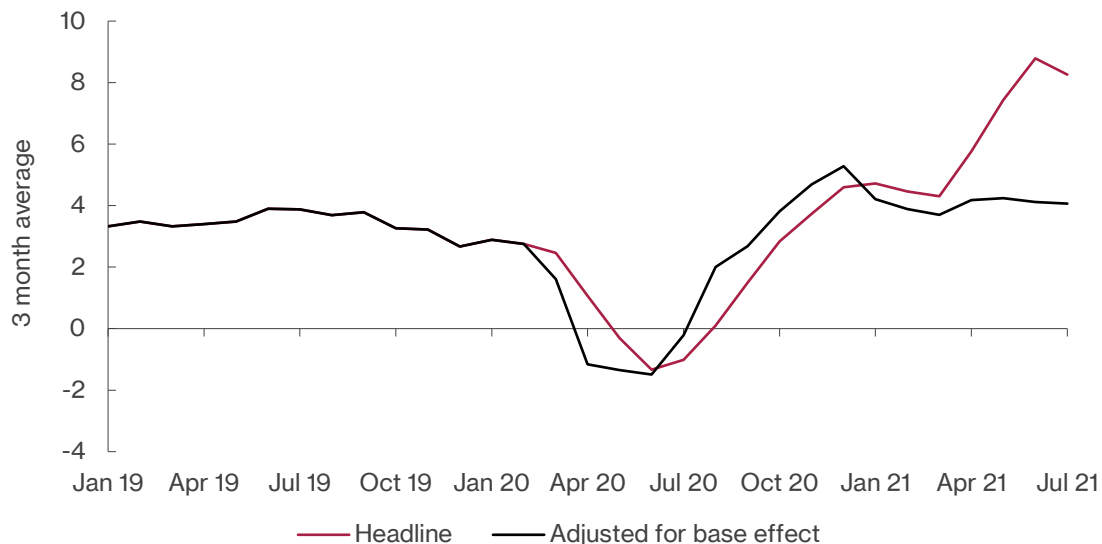
The planned end to the furlough scheme in September comes at a time when vacancies rose to a record level. It provides hope that nearly all of the furloughed workers will be able to return to active employment and that any rise in unemployment will be limited. But there may still be a mismatch between the sectors that are hiring and the skills of the people in furlough.

Pay

The growth in average weekly earnings including bonuses (AWE) in Great Britain decreased slightly in the three months to July to 8.3 per cent compared to a year ago, down from 8.7 per cent in the three months to June. This is in line with what we had forecasted in the [August Wage Tracker](#) and was driven by a 9.6 per cent growth in private sector AWE, compared to only 2.5 per cent growth in public sector AWE.

Our estimate of underlying wage growth which excludes base effects was unchanged at 4.1 per cent in the three months to July, compared to the three months to June. Figure 2 shows that underlying wage growth has been stable around 4 per cent since January. As explained in the [August Wage Tracker](#), the compositional effect from some lower-paid workers dropping out of the labour force on AWE has virtually disappeared, and we therefore only report the underlying wage growth adjusted to base effect, and ignoring the compositional effect.

Figure 2: Average weekly earnings (including bonuses)

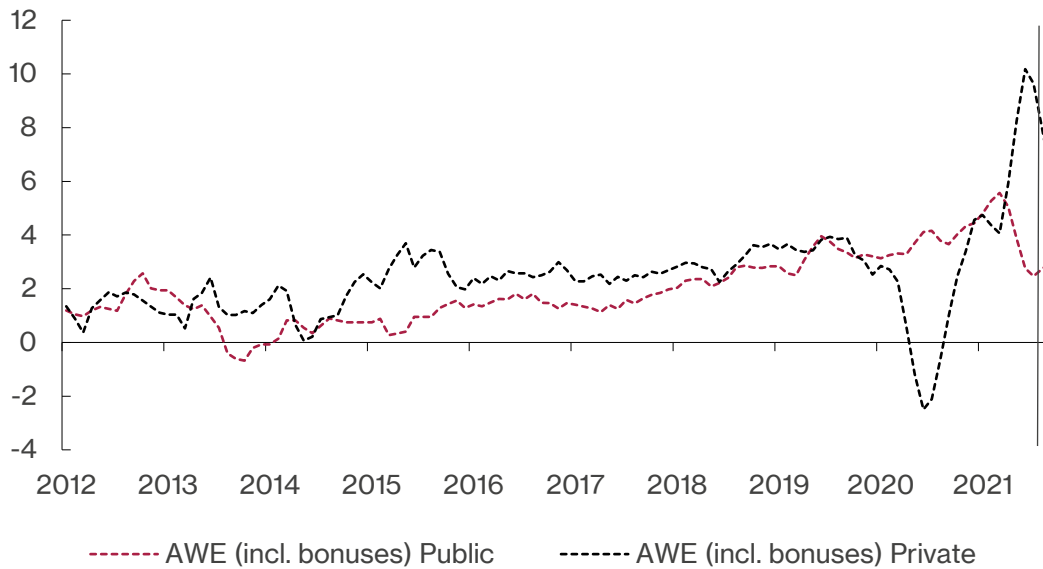


Source: ONS, NIESR calculations.

Note: The adjustment to base effect starts in March 2020.

Despite the stability in adjusted AWE, there is evidence of higher starting salaries for new recruits, in particular in sectors that have some labour shortages. The outlook for adjusted-AWE is particularly uncertain because of two competing effects. On the one hand, the end of the furlough scheme at the end of September will increase candidate availability and reduce pressure on wages. But on the other hand, stronger wage growth could appear if there is a persistent mismatch between the skills of the labour force and the demand of new jobs. There is also the risk that rising consumer price inflation, which we expect to reach 4 per cent at the beginning of next year, feeds into wage inflation.

Figure 3: Public and private sector average weekly earnings (including bonuses)



Source: ONS and NIESR forecast

The base effect will continue to push up growth in headline AWE in the rest of the third quarter until it disappears in October-November. We forecast AWE growth to be 7.1 per cent in the three months to August, and 5.6 per cent in the three months to September. The split between public and private AWE is displayed in Figure 3 and in Table 1 with the growth in private AWE expected to remain above that of public AWE.

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	504	544	547	549
Feb-20	512	546	504	544	548	551
Mar-20	510	542	502	538	550	552
Apr-20	502	527	490	520	559	560
May-20	503	528	490	520	566	568
Jun-20	505	530	492	522	566	569
Jul-20	512	539	501	535	563	564
Aug-20	518	551	508	551	563	565
Sep-20	524	560	514	554	568	569
Oct-20	528	563	518	559	567	570
Nov-20	531	567	522	565	570	573
Dec-20	534	569	525	570	571	574
Jan-21	533	568	523	566	577	578
Feb-21	535	567	525	563	580	584
Mar-21	536	568	526	563	579	582
Apr-21	540	572	531	571	579	581
May-21	540	575	532	574	579	582
Jun-21	541	576	533	576	579	581
Jul-21	542	578	534	579	579	580
Aug-21	544	581	536	581	582	583
Sep-21	546	583	538	583	583	585
% change 3 month average year on year						
Jan-20	3.1	3.1	3.1	2.8	3.2	3.1
Feb-20	2.9	2.8	2.9	2.7	3.2	3.3
Mar-20	2.5	2.5	2.5	2.3	3.3	3.3
Apr-20	1.6	1.1	1.3	0.6	3.4	3.3
May-20	0.6	-0.2	0.0	-1.2	3.8	3.7
Jun-20	-0.2	-1.3	-1.1	-2.5	4.2	4.1
Jul-20	0.2	-1.1	-0.8	-2.1	4.5	4.2
Aug-20	0.9	0.1	0.1	-0.6	4.2	3.8
Sep-20	2.0	1.4	1.4	1.0	4.1	3.7
Oct-20	2.9	2.8	2.5	2.5	4.0	4.0
Nov-20	3.6	3.7	3.3	3.4	4.2	4.3
Dec-20	4.1	4.6	3.9	4.6	4.1	4.4
Jan-21	4.3	4.7	4.0	4.7	4.7	4.8
Feb-21	4.4	4.5	4.1	4.4	5.2	5.3
Mar-21	4.6	4.3	4.2	4.1	5.5	5.6
Apr-21	5.7	5.7	5.7	5.9	4.9	5.1
May-21	6.7	7.4	7.2	8.2	3.7	3.9
Jun-21	7.4	8.7	8.4	10.2	2.7	2.8
Jul-21	6.8	8.3	7.8	9.6	2.5	2.5
Aug-21	6.0	7.1	6.8	8.0	2.8	2.7
Sep-21	5.0	5.6	5.5	6.3	2.9	3.0
% change month on same month of previous year						
Jan-20	2.6	3.0	2.9	3.0	3.0	3.0
Feb-20	2.8	2.8	2.6	2.6	3.4	3.6
Mar-20	2.2	1.7	2.0	1.1	3.6	3.4
Apr-20	-0.2	-1.1	-0.8	-2.1	3.1	2.9
May-20	-0.2	-1.3	-1.2	-2.6	4.8	4.8
Jun-20	-0.2	-1.5	-1.4	-2.8	4.6	4.6
Jul-20	1.0	-0.4	0.2	-0.9	4.1	3.1
Aug-20	2.0	2.0	1.4	1.8	3.9	3.7
Sep-20	2.9	2.6	2.6	2.0	4.4	4.2
Oct-20	3.7	3.9	3.4	3.5	3.8	4.2
Nov-20	4.1	4.6	4.0	4.6	4.2	4.6
Dec-20	4.5	5.4	4.4	5.6	4.4	4.6
Jan-21	4.3	4.2	3.8	4.0	5.5	5.3
Feb-21	4.5	3.8	4.2	3.5	5.8	6.0
Mar-21	5.1	4.8	4.8	4.6	5.3	5.4
Apr-21	7.6	8.5	8.4	9.8	3.6	3.8
May-21	7.4	8.9	8.6	10.4	2.3	2.5
Jun-21	7.1	8.7	8.3	10.3	2.3	2.1
Jul-21	5.9	7.2	6.6	8.2	2.8	2.8
Aug-21	5.0	5.5	5.5	5.4	3.3	3.3
Sep-21	4.1	4.2	4.6	5.2	2.7	2.9

Caveat

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 020 7654 1954 / l.pieri@niesr.ac.uk

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