

# The Resolution Foundation Earnings Outlook

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Usually in the Earnings Outlook we summarise the latest developments in pay and employment and use these to look forwards, with the trends moving slowly enough that the lag in our data is not too much of a problem. But with so much having changed so quickly, our normal indicators now serve as a guide to where we were, not where we are or where we're headed.

The first data we do have of what's to come suggest difficult times ahead. In the UK and the US, unemployment-related benefit claims have soared, while industry data show a collapse in demand in several sectors, and the business Purchasing Managers' Index (PMI) for mid-March suggests a severe contraction. We won't have a clear picture of the effects on the labour market for some time yet; the Labour Force Survey has a two-month lag from data collection to publication, for example. Because there is still so much we don't know about the coming downturn, other than that it's likely to be big, we suggest in our Spotlight article that pressing ahead with a minimum wage uprating next week is risky, and that it would be advisable to delay this uprating until the autumn.

## **Spotlight** | How should minimum wage policy respond to the current economic crisis?

The Government's economic policy response to the virus outbreak is focused on reducing firms' short-term costs, to aid firm survival, and subsidising the pay of furloughed workers, to keep workers attached to firms and to limit the inevitable increase in unemployment. At the same time, the National Living Wage (NLW – the legal hourly wage floor for those aged 25 and above) is due to rise by 6 per cent next week, to £8.72. This will increase firms' costs, and risks undermining those policies. There is a good case for delaying the minimum wage increase until October, when we'll know more about the scale and shape of the downturn and the appropriate minimum wage response.

The central reason is that increasing the minimum wage in a downturn makes low-paid workers more vulnerable to unemployment, by making them relatively more expensive to employers looking to cut costs. And we should be in no doubt about the scale of the downturn that is coming. The [history of past pandemics](#) suggest we can expect a fall in GDP of the high single or double digits, and what data we have so far backs up this grim picture – there have been nearly half a million new Universal Credit claims in the past nine days, more than the number of Jobseeker's Allowance awards started in any single month during the financial crisis.

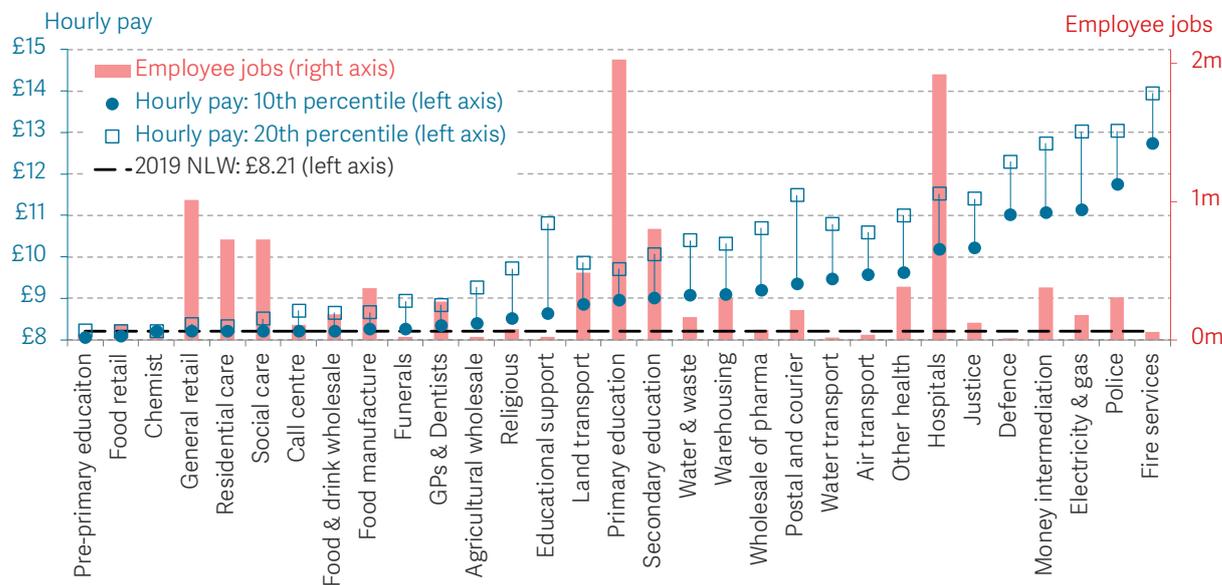
Moreover, some minimum-wage-paying sectors will be (and have already been) particularly affected by the current crisis. For example, hospitality, where most businesses have been forced to shut their doors, employs around a fifth of all minimum wage workers. An increase in the minimum wage now would increase costs for those businesses. The retention scheme will help, of course – firms should be able to 'furlough' their staff instead of letting them go. But in those sectors where it's possible, it's preferable that firms keep staff working rather than furloughed, and a higher NLW might tip some firms over that line.

What about the reasons to go ahead with the uprating? First, there are practical considerations. Delaying the uprating would require primary legislation, and Parliament has stopped sitting. And with the increase just days away, it would be difficult to expect employers to change their pay setting at short notice (although giving some the flexibility to row back in coming months would still provide welcome flexibility). In short, although we suggest a delay, we acknowledge the very real practical challenges around this for both Government and firms.

More importantly, of course, going ahead with the uprating would be good for workers whose jobs are not at threat, not least the ‘key workers’ on whom the country now depends. Figure 1 shows that there are substantial numbers of key workers that are paid at or near the NLW, and who would directly benefit from uprating. For example, more than a fifth of workers in general retail (which covers supermarkets) – 200,000 workers – were paid within 20p of the minimum wage last year, along with similarly big proportions of those working in social care, food production, pharmacies and doctor’s surgeries. It seems unfair to deny those workers a pay rise – demand for their services is going to increase in the crisis (several supermarkets have [already announced hiring sprees](#)) and their employers are unlikely to have cash flow problems. Therefore, even if delaying the NLW rise is the right thing to do, the message to supermarkets and other employers of key workers is that they should go ahead with the planned increase. This is particularly the case in the public sector, where there is no argument that any planned increases must go ahead.

**FIGURE 1: There are many ‘key workers’ paid at or near the NLW who would benefit from uprating**

Number of workers in sectors designated as containing ‘key workers’ during the coronavirus outbreak, and 10th and 20th percentile of regular hourly pay: UK, 2019



NOTES: Key workers are identified based on the Government’s description (on 19 March 2020) of the sectors in which workers’ children should remain in school. We conduct a granular exploration of sectors to match this guidance, e.g. including ‘General retail’ is three-digit SIC code 472, whereas ‘Food manufacture’ is two-digit SIC code 10.

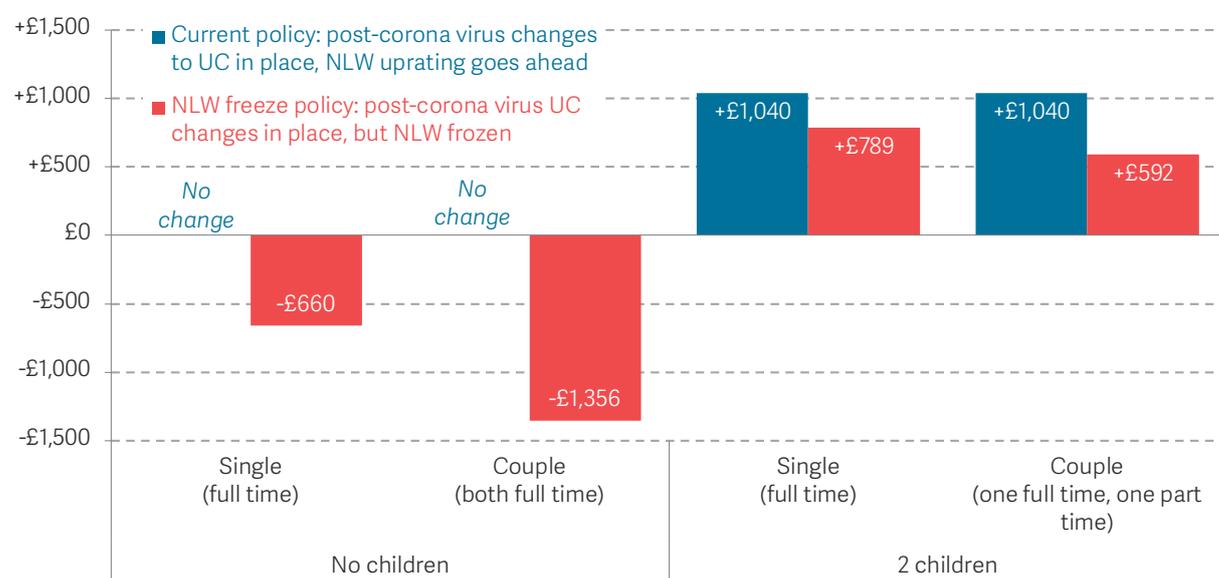
SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings.

It has been [suggested](#) that the newly generous Universal Credit (UC) system will make up for an NLW freeze, but we should note that this won’t be true for all workers. Working households without children won’t have benefited from the recent increase in generosity because they aren’t (typically) eligible, so for them a freeze translates into a straightforward loss of expected income (of £660 per year for

a single person, and £1,350 for a couple, if working full time). For working families with children, the recent UC reforms do compensate for a freeze. A single parent working full-time on the minimum wage would still be almost £800 per year better off from the combination of UC reforms and the NLW freeze than if there had been no changes to UC and if the NLW uprating went ahead. A working couple (one working full-time, one part-time) with two children would be £600 better off. This is set out in Figure 2.

**FIGURE 2: Many families with children would be better off in a scenario with changes to UC in place but no NLW uprating, compared to uprating the NLW without changes to UC**

Change in annual income for example families containing NLW earners as a result of NLW and UC uprating policies, compared to pre-coronavirus scenario in which the NLW is uprated but UC is unchanged: April 2020



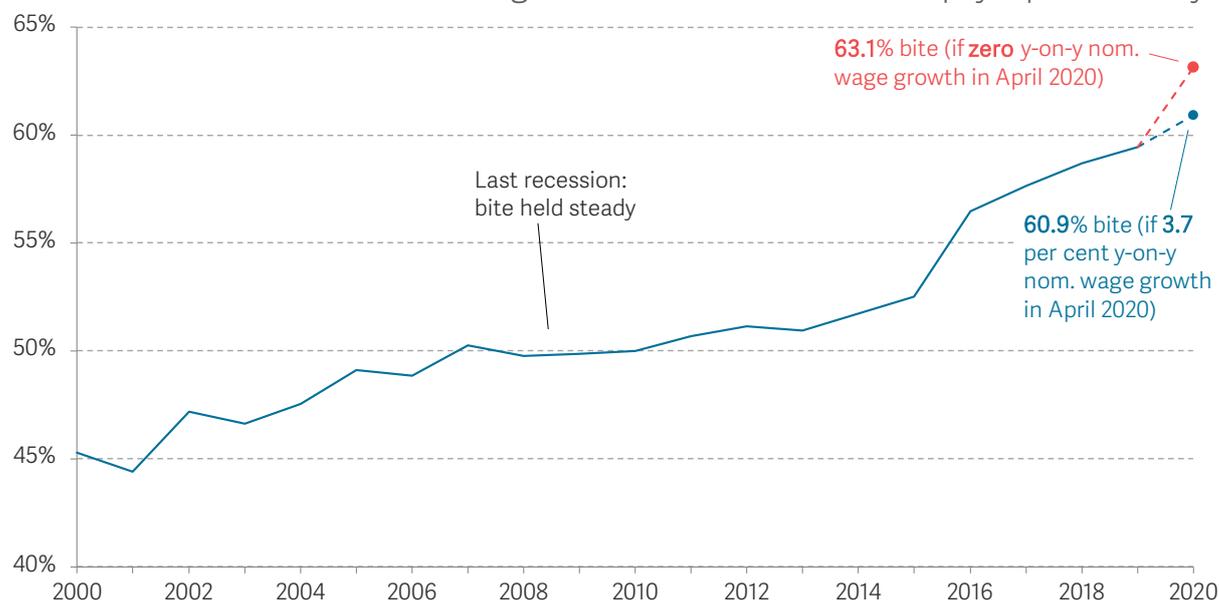
NOTES: All workers are assumed to earn the NLW (£8.21 under the no-uprating scenario, and £8.72 under the uprating scenario). Full-time hours are 37.5 hours per week, part-time are 20 hours per week.  
 SOURCE: RF analysis using the RF microsimulation model.

Another potential argument in favour of uprating is that the minimum wage doesn't appear to have caused additional problems for firms or workers in the previous recession. A study by the [Institute for Fiscal Studies](#) in 2013 found that firms affected by the minimum wage weren't any less likely to 'hoard' labour during the recession, while a [University of Essex study](#) found no evidence of employment effects on minimum wage workers worsening during the recession.

Unfortunately, we can't rely on the minimum wage being so benign this time round. First, we're talking about raising the minimum wage relative to average pay; in the last recession the 'bite' was held steady. The bite was already on course to rise next month to 60.9 per cent (from 59.5 per cent last year), but with wage growth likely to be lower than expected the bite could increase by more. For example, zero year-on-year wage growth next month (possible if firms cancel this year's pay increases) would see the bite jump to 63 per cent (see Figure 3).

**FIGURE 3: Uprating next month may sharply lift the ‘bite’ of the National Living Wage, at the wrong time**

Bite of the main adult minimum wage rate relative to 25+ median pay, April of each year



SOURCE: RF analysis of Low Pay Commission, 2019 Report Data; OBR, Economic and Fiscal Outlook, March 2020.

Second, we head into the downturn with the minimum wage at a higher level (covering twice as many workers), and on the back of fast increases (2009, by contrast, followed two cautious years of uprating). Employers might therefore have less capacity now to make non-labour-demand-reducing adjustments than they did a decade ago. A third difference is that in the late-2000s recession minimum wage increases were tempered by higher-than-expected inflation, driven by a falling pound. We can't rely on that again. Yes, the pound has been falling, but there's a lag from exchange rates to inflation, so this won't have much bearing on next week's uprating.

Overall, there appears to be a good case for delaying the planned uprating, perhaps until October when we'll have a clearer picture of the state of the labour market and can set policy accordingly (moving the regular uprating date from April would also have technical merits related to data collection, as the recent [Dube review of minimum wages](#) pointed out). But even if it's the right move, let's not ignore the fact that a delay would be bad news for many workers' pay packets, not least the key workers whose value to society has been thrown into such sharp relief. Employers of those workers – especially public sector organisations – should go ahead with the increase regardless.

## Lifting the lid | The picture across different groups and areas

Here we explore a few of the most interesting developments for different groups of workers and different parts of the country. A comprehensive breakdown of each indicator is available online: [resolutionfoundation.org/earningsoutlook](https://resolutionfoundation.org/earningsoutlook)

### Public sector catching up

Pay growth in the public sector has been a hotly contested policy area during the 2010s, with policies aiming at real-terms pay rises over the past two years starting to bear fruit in the data. 2019 was the first year since 2004 in which both the public and private sectors experienced real pay growth above 2 per cent.

Although the public sector has experienced slower pay growth since 2016, in the longer term there have been as many years when pay growth has been higher in the private sector as year when it has been lower. Noticeably, public sector pay tends to outperform at the start of an economic slowdown, as happened in 2009 and 2010. This is likely because nominal pay cuts are uncommon for public sector workers, job turnover lower, and public sector pay policy sometimes slower to adjust.

FIGURE 4: **Public sector pay growth has lagged behind the private sector for four years, but that might all change now**

Wage growth adjusted for inflation, public sector and private sector: UK



SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings.

## Youth (im)mobility

Our preferred measure of job mobility – which looks at the proportion of workers who choose to move jobs each quarter (rather than being made redundant and then finding a new job, for example) – shows that for those aged 18-29 and 30-49, mobility still has not returned to pre-2008 levels.

With unemployment once again rising, we expect job mobility to fall as new opportunities dry up. This might have significant long-term implications for pay given the important role mobility plays in driving pay growth for individuals, and reallocating capacity to productive firms quickly. In short, from the perspective of positive job dynamism, we did not enter the current crisis in the healthiest position.

FIGURE 5: Job to job moves have not fully recovered for younger workers

Proportion of workers voluntarily moving from one job to another each quarter: UK



NOTES: Annual rolling average, year to date shown.

SOURCE: RF analysis of ONS, Labour Force Survey.

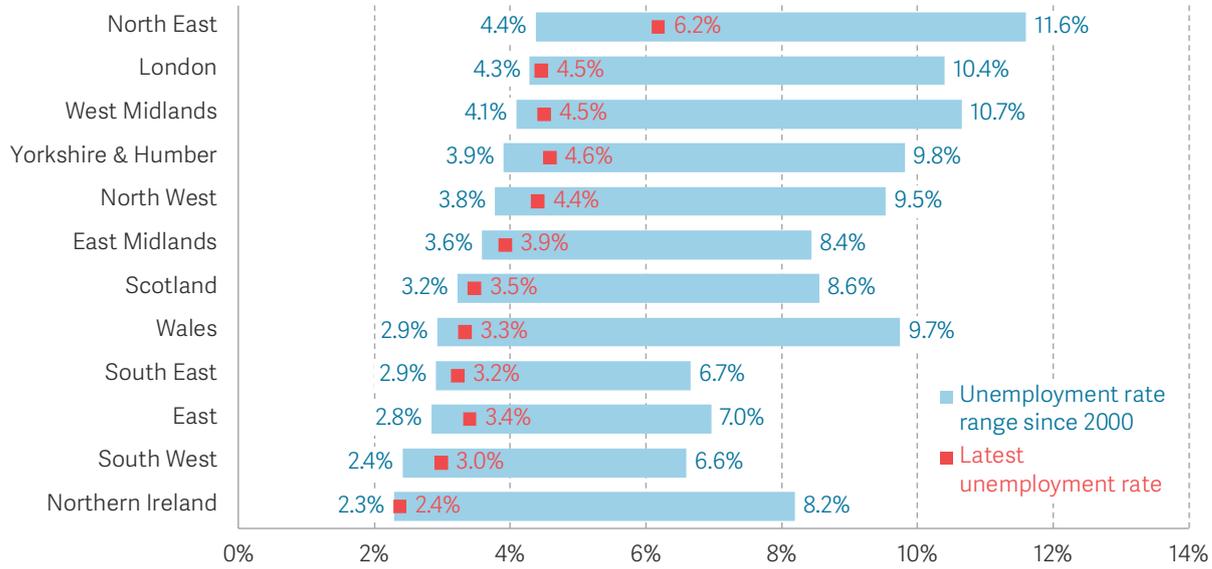
## Unemployment across the UK

Unemployment was until very recently at near-record lows across the UK, although as so often, the picture varies by region. The lowest unemployment rate of 2.3 per cent (Northern Ireland) is less than half that of the highest: 6.1 per cent (the North East). Looking at the data since 2000, some regions (again the North East is the worst performer) have experienced much higher levels of unemployment than others, and currently have unemployment rates noticeably above 21st century lows. This implies labour markets that are more vulnerable over the coming months.

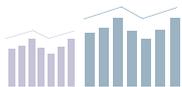
On the other hand, three regions (the South East, the East, and the South West) have not had unemployment rates above 7 per cent in the past 20 years. The current crisis is a very different beast particularly in terms of its sectoral and geographic effects, so it remains to be seen whether these patterns will hold this time round.

**FIGURE 6: The latest unemployment data shows near-record lows across the UK – the question now is how much unemployment will rise in the coming months**

Latest 16+ unemployment rate and unemployment rate range since 2000 across UK regions and nations



SOURCE: RF analysis of ONS, Labour Force Survey.



# The Scorecard | Quarter 4 2019

**Median employee earnings**  $\uparrow 1.8\%$  on yr (all)  
 $\uparrow 2.6\%$  on yr (private sector)

**All worker earnings** Employee/all worker earnings gap  $\uparrow$

**Earnings decomp.**  $\uparrow 0.6$ ppts on yr

**Pay rises**  $\uparrow 1.3$ ppts on yr

**Earnings Inequality** r75:25  $\downarrow 1.1\%$  on yr  
r90:10  $\downarrow 2.4\%$

In the most recent data, real median pay grew by 1.8%. This is a slight tailing off compared to the 2.0% over summer 2019. Employee earnings continue to outstrip self-employed earnings. The gap has increased slightly over the past year. Pay growth was 0.6ppts higher as a result of compositional effects (e.g. due to expanding jobs in high-paying occupations) than it would have been absent these effects. Median year-on-year real hourly pay growth for employees in work over a year (both job stayers and changers) stood at 2.0% in April 2019, 1.3ppts higher than the previous year. Both our headline measures of earnings inequality (r75:25 and r90:10) continue to fall. The 90:10 gap has closed by more than 10% over the past decade.

**Unemployment by duration**  $\downarrow 0.2$  ppts on yr (all)  
 $\downarrow 0.2$  ppts on yr (long-term)

**All worker earnings**  $\downarrow 7\%$  on yr

**Job-to-job moves**  $\uparrow 5\%$  on yr

**Migrant job entry**  $\uparrow 1\%$  on yr

The unemployment rate appears to have bottomed out, staying at 3.8% in 2019 Q4. As a result of the coronavirus crisis, unemployment is likely to now be rising. Under-employment was down on the year in 2019 Q4 and close to its historic low, suggesting a very tight labour market. The proportion of workers voluntarily moving job (an indicator of worker confidence) was up on the year, but still some way off pre-recession levels. The proportion of jobs going to new migrants has risen slightly over the past year but remains below the 2017 peak.

**Workforce participation**  $\uparrow 0.7\%$  on yr

**Labour productivity**  $\uparrow 0.1\%$  on yr

**Training intensity**  $\uparrow 4\%$  on yr

**Graduates in non-graduate occupations** No change on yr

The labour force participation rate of 18-69 year-olds reached 76.6% in 2019 Q4. The largest increases have been among older workers, partly in response to the rising state pension age. Labour productivity continues to disappoint and grew only 0.1% in the year to 2019 Q4. While the proportion of people receiving 'off-the-job' training was slightly up over the past year, the long-term trend still shows a big fall in training intensity over the past 20 years. The proportion of graduates in non-graduate roles is unchanged in the past year, at 36.2% of all graduates.