The Resolution Foundation Earnings Outlook

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Since we last produced an Earnings Outlook (at the end of March) some things have become clearer. The scale of the impact of the current crisis is as big as was feared. This was already apparent then from the soaring claims for Universal Credit, but has since been confirmed by the 300-year-record fall in GDP, the nine million workers who have been furloughed at some point, and the falls in hours worked and vacancies. It's also now apparent that the crisis will be an enduring one, and that early confidence of a rapid 'V-shaped' recovery was misplaced (although of course the initial bounce-back will still be rapid). This can be seen in the latest monthly GDP data (growth in May was only 1.8 per cent, leaving economic activity still 25 per cent down on February). It's also evident in the Office for Budget Responsibility's new scenarios, where the new 'central' scenario has unemployment reaching a higher peak (12 per cent) and taking longer to fall than in the 'reference scenario' published in April.

But in other ways there are still as many questions as answers. A particularly big unknown is – what will happen when the Job Retention Scheme winds down from August, and shuts in November? The risk is that ongoing weakness, particularly in the worst-affected sectors, translates into mass redundancies. How many is hard to gauge, although surveys of workers and firms point to a number in the region of 15 per cent. To minimise redundancies, we suggested ongoing wage subsidies in the hard-hit sectors. The Chancellor has opted for a one-off £1,000 'bonus' for firms re-hiring furloughed workers. In keeping with our judgement of the Government's overall response in this new phase of the crisis, we don't think this matches the scale of the challenge, risking a worse downturn and protracted and high unemployment. Let's hope we are wrong and the Government is right.

Turning away from policy, in another report this week we try to demystify the confusion around current labour market statistics, with the claimant count (soaring) and the unemployment rate (unchanging) telling very different stories. In the Spotlight section of this Outlook we show that different timely data sources on pay are mercifully consistent by comparison, although present their own challenges below the surface.

Spotlight | What we know about how employee earnings have fared in the current crisis

Economic crises pose huge challenges to families and policy makers. They also pose challenges for those who publish and interpret economic statistics. As a new briefing note published today by the Resolution Foundation sets out, this is the case in this crisis, particularly when it comes to measures of unemployment.

In the Office for National Statistics' (ONS') June labour market statistics release, the unemployment rate for April hardly budged from that in the previous month, and yet the Claimant Count measure of unemployment increased by a record monthly change of one million. We argue that particular features of the crisis mean that both of these are flawed. The Claimant Count is affected by definitional changes stemming from the roll-out of Universal Credit, which has been sped up by this

crisis. And both the Claimant Count and the unemployment rate are struggling to accurately capture what's going on in the presence of severe restrictions on activity, a collapse in vacancies, and the Coronavirus Job Retention Scheme (JRS) and Self-Employment Income Support Scheme.

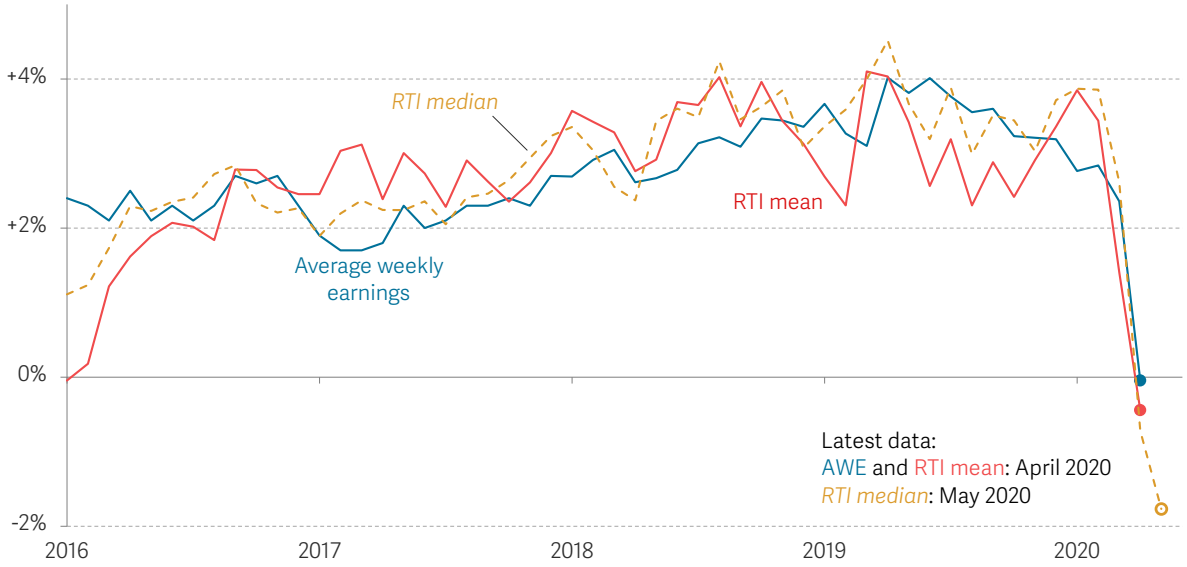
Statistics on employment and employees also face challenges from the enormous rise in the number of people who are in employment but not doing any work (not least furloughed workers). This means that measures of average and total hours worked, and of the proportion of people who are in employment and actually working, are particularly useful at present and should be given more prominence.

Alongside these measures of labour market status, the ONS' labour market release now contains two sources of data on employee earnings. It's right to ask whether there are any issues with contradiction or consistency there, too.

The good news is, on the surface, all appears to be well. As Figure 1 shows, both the survey-based Average Weekly Earnings (AWE) data, and the administrative Pay As You Earn (PAYE) real-time data from HM Revenue and Customs, show nominal annual earnings growth falling from 3-4 per cent in the early months of this year, to around 0 per cent in April. (The timelier 'flash' estimate suggests that nominal earnings growth fell to around -2 per cent in May.) The bad news, of course, is that this is a terrible outcome for family living standards, and a picture that looks like it will worsen before getting better.

FIGURE 1: **Our timely sources of pay data are painting a consistent picture at present**

Nominal annual employee pay growth in Average Weekly Earnings and PAYE earnings data: GB/UK



NOTES: Average Weekly Earnings data covers GB; PAYE data covers the UK. Average Weekly Earnings data is regular pay in the single-month series. PAYE data is a single-month series of monthly pay, and data for May is a 'flash' estimate. Both series include all paid employees regardless of work undertaken, meaning they include furloughed workers.

SOURCE: ONS, Labour Market Statistics.

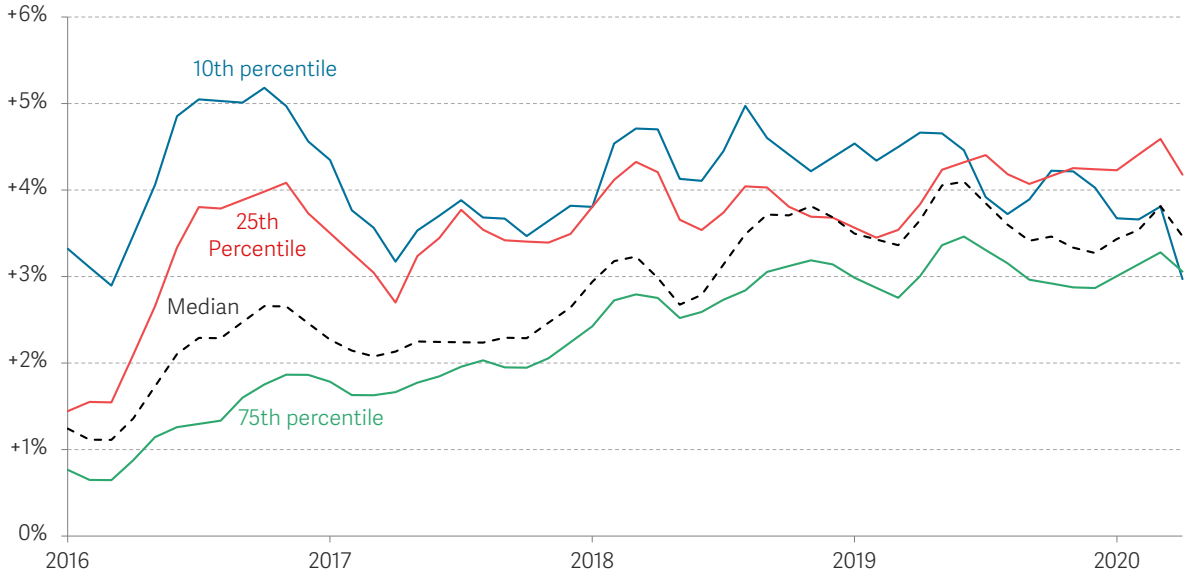
However, although these two sources of data are telling a consistent headline story, there are challenges beneath the surface. We highlight two.

First, both of these statistics are affected not just by changes to individuals' earnings, but also by 'compositional' movements in and out of (paid) work. Such compositional effects are always an issue for average earnings data – which is why we provide an earnings decomposition in every Earnings Outlook, and why the ONS produces an AWE series that accounts for changes in employment across sectors. These compositional effects can be particularly problematic when employment is changing very rapidly, as it is currently. Specifically, with evidence suggesting lower earners have been most likely to lose work, such compositional effects are likely to be pushing up average earnings growth at present, as they did in the early part of the financial crisis (something we will assess in future Earnings Outlooks).

Second, both these earnings series include furlough pay for those on the JRS, which will be lower than pre-crisis pay for some (many employers are topping up the government subsidy). We know that furloughing, like hours reductions, is concentrated among lower earners, and it is likely to be the combined impact of these outcomes that is leading to pay at the bottom of the distribution being worst hit so far (as shown in Figure 2 using slightly less timely three-month data).

FIGURE 2: **Pay growth is falling fastest at the bottom of the distribution**

Nominal annual employee pay growth at different points in distribution according to PAYE data: UK



NOTES: The data captures monthly pay for all paid employees, regardless of whether work was undertaken, which means furloughed workers are included. Data refers to growth on year, averaged over the past three months. The latest data point is for April 2020, meaning this refers to the annual growth rate across February-April, over half of which predated the lockdown period.
SOURCE: ONS, Labour Market Statistics.

Of course, it is reasonable that furlough pay is counted within these earnings series – furloughed workers are paid by their employers as normal – but the fact that we cannot separate out this group from the rest makes it challenging to determine the underlying health of the labour market. This matters for economic research, and it also matters for policy. For example, the presence of furlough pay in our earnings series will create challenges for the Low Pay Commission in determining what

the appropriate minimum wages levels are for next year. And, as we have set out before, the fall-then-rise in the AWE series that furloughing causes will turbo-charge the 'triple lock' ratchet on the State Pension in coming years.

In sum, although earnings data is not currently creating the kind of headaches that the unemployment data is, there are some tricky moving parts below the surface. In response to these, the ONS and other researchers should explore the extent to which earnings growth can be 'decomposed' to account for compositional shifts in and out of work, and whether furloughed employees can be separated. For the latter to be possible, we would need to be able to identify furloughed workers in these series (or perhaps in the Labour Force Survey, which captures earnings for a subset of the sample on a slightly less timely basis than the earnings sources discussed here), and that is something the ONS should explore. In the meantime, careful interpretation of the data we do have – and in particular the differences between higher and lower earners – will be required, particularly as the JRS is withdrawn in the autumn.

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

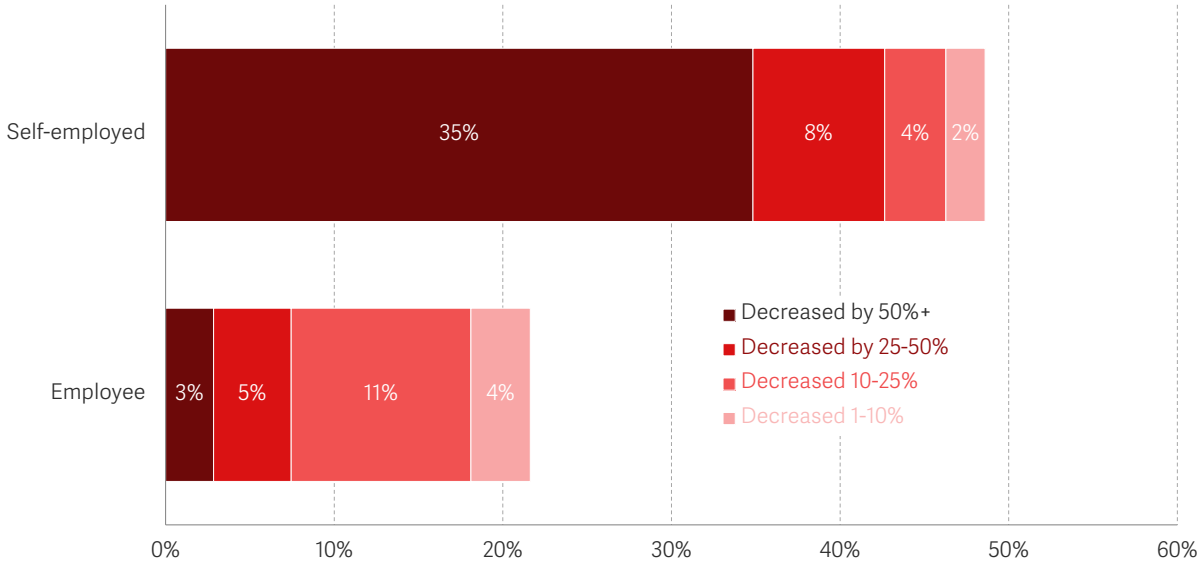
The self-employed have been severely affected

We now know a fair amount about the impact of the crisis to date, and how this varies across groups. The low paid and the young have been worst affected, driven in part (but not entirely) by the sectors they work in. But an underappreciated difference is the severity of the impact on the self-employed, compared to those with employee jobs.

According to data collected in May (Figure 3), almost half of the self-employed had seen their earnings fall by a quarter or more compared to February, compared to one-in-ten of those with employee jobs. Part of the difference is down to policy timing. The support scheme for the self-employed was only just beginning to distribute grants when this data was collected – so the situation of the self-employed should have improved since then.

FIGURE 3: **Self-employed earnings have been hit hard**

Change in weekly pay compared to before the pandemic, employees and self-employed: UK, February-May 2020



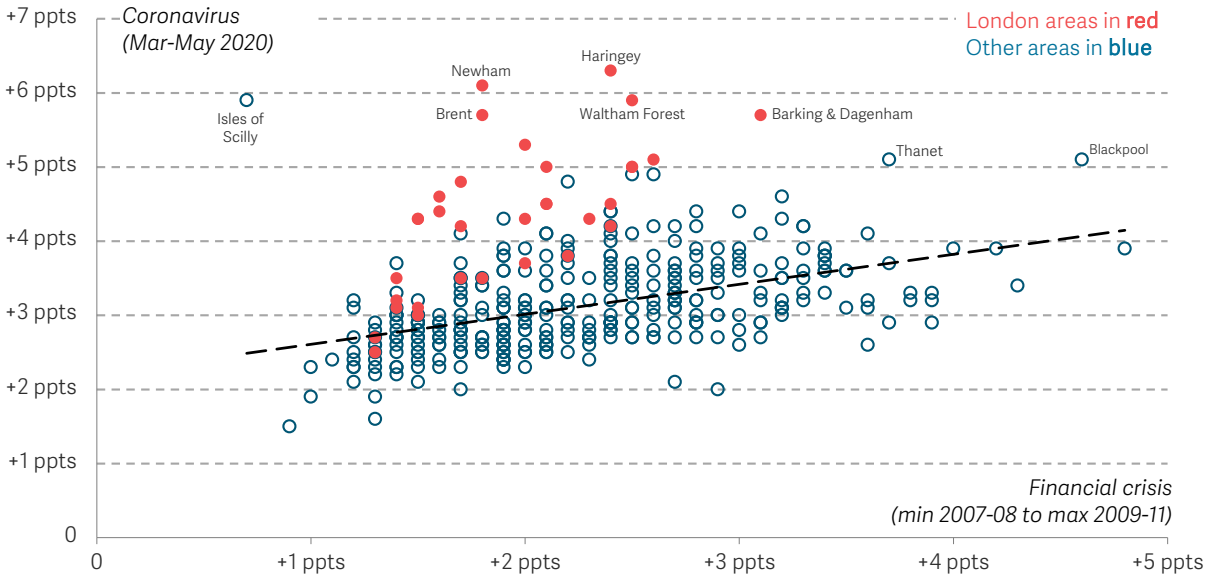
NOTES: Base = all UK adults aged 18-65 who were self-employed or in an employee job prior to the coronavirus outbreak and provided information on their usual earnings for both prior to the coronavirus outbreak and the recent period.
SOURCE: RF analysis of ISER, Understanding Society.

Hit hard, and hit hard again

This crisis is very different to the previous one. The sectors affected are mainly lower-paying service-oriented ones, and are spread across the country. Despite this, the local areas worst affected now (as measures by the percentage point rise in the Claimant Count, which we acknowledge is a problematic measure at present in terms of determining national changes in unemployment, but is still useful for assessing relative differences between local areas) are for the most part also those that were worst affected in the previous crisis (Figure 4). This shows that economic fragility in an area is persistent. But the areas that buck this trend – those hit harder in this crisis than in the financial crisis – are those reliant on people traveling to them: inner city areas and tourist hotspots. London areas (highlighted in red) particularly stand out as feeling the impact of this crisis more than the last one. The data refers to where claimants live, which may explain why some of the London areas hit hardest are not the most central areas, but rather areas from which people may have been commuting into central London.

FIGURE 4: **Those areas with fast-rising claimant counts during the financial crisis are experiencing fast rises this time round, too**

Increase in Claimant Count rate in the coronavirus crisis and financial crisis, by local authority: GB



NOTES: Claimant Count rate refers to the Claimant Count as a proportion of the 16-64-year-old population. Data for Northern Ireland is only available from 2013 onwards, so is not included in this plot. Geography refers to area of residence.
SOURCE: RF analysis of ONS, Claimant Count (via Nomis).

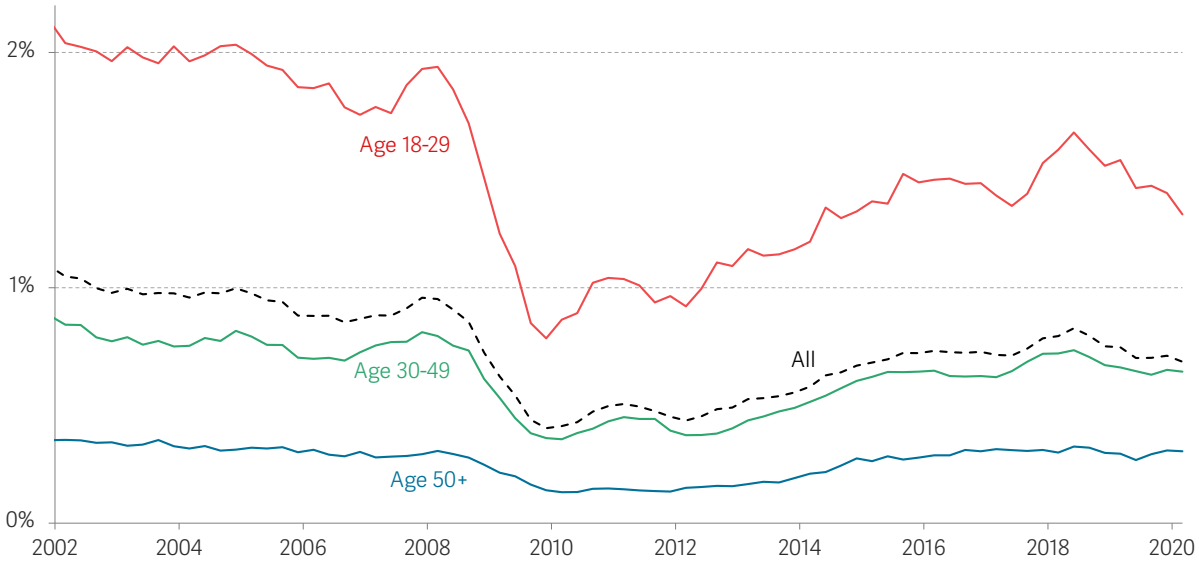
Not all was well before the crisis

We spent much of the past year looking for signs of a turning point in the labour market, with pay pressure easing despite a tight labour market. The speed and scale of the impact of this crisis makes those subtle changes look trivial by comparison. But it's still interesting to reflect that the labour market was indeed weakening before the crisis hit. Despite peak employment, pay growth was slowing.

Another sign of weakening was the rate of voluntary job moves, which had been falling steadily since 2018 (Figure 5). Fewer voluntary job moves reduces pay pressure as employers worry less about retaining workers, reduces the speed at which productive capacity is reallocated to growing firms, and limits individuals' pay progression. The fall was mainly driven by younger workers, who rely most on big

FIGURE 5: **Voluntary job-to-job moves have been falling since 2018**

Proportion of workers voluntarily moving job each quarter: UK

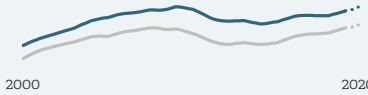


NOTES: Data is an annual rolling average; year to date shown.

SOURCE: RF analysis of ONS, Labour Force Survey.

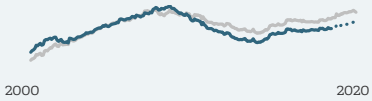
The Scorecard | Quarter 1 2020

Median employee earnings



↑ 2.1% on yr (all)
↑ 1.9% on yr (private sector)

All worker earnings



Employee earnings and all worker earnings gap ↑

Earnings decomp.

↓ 0.5ppts on yr

Pay rises

↑ 1.3ppts on yr

Earnings Inequality

r75:25 ↓ 1.5% on yr
r90:10 ↓ 2.4%

Real pay was still growing at a healthy rate in Q1 2020, but in the timely PAYE data for May, median employee pay fell by 2.4% in real terms (which includes the effects of furloughing).

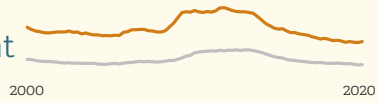
Before the crisis, the gap between employee pay and our all-worker measure was growing. The big hit that the self-employed have suffered in this crisis suggests it may grow further.

Pay growth was 0.8ppts 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.

Our headline measures of earnings inequality continue to fall, but these do not include the impact of the crisis, which we know has been larger for low-paid workers.

Unemployment by duration



↓ 0.1 ppts on yr (all)
↓ 0.2 ppts on yr (long-term)

Under-employment

↑ 2% on yr

Job-to-job moves

↓ 15% on yr

Migrant job entry

↓ 1% on yr

The headline unemployment rate does not yet reflect the coronavirus crisis, because many out-of-work people are being categorised as inactive with job-search activity suppressed.

Under-employment was up slightly on the year to Q1 2020, suggesting the labour market had moved past peak tightness before the crisis.

The proportion of workers voluntarily moving job (an indicator of worker confidence) was down 15% on the previous year in Q1 2020.

The proportion of jobs going to new migrants fell slightly over the past year, and remains below the 2017 peak.

Workforce participation

↑ 0.8% on yr

Labour productivity

↓ 0.6% on yr

Training intensity

↑ 6% 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 Q1 2020. The largest increases have been among older workers, partly in response to the rising State Pension age.

Productivity, weak for a decade, was down 0.6% on the year in Q1 2020 (which captures a tiny bit of the output fall from the current crisis).

The long-term trend in falling 'off-the-job' appears to have turned a corner, with this measure having risen for four straight quarters. But it remains low.

The proportion of graduates in non-graduate roles is unchanged in the past year, at 36.1% of all graduates.