

# PAYstats Pay & Labour

# Market Statistics

October 2017  
Quarterly Edition

# The Quarterly Picture

Sixteen months on from the EU Referendum, and with no real progress in exit terms being agreed, we are still far from clear what the eventual impact of Brexit will be for businesses. The outlook for pay and reward remains subdued, with the lack of clarity available right now contributing to continued caution around pay decisions.

September has seen inflation hit a five year high of three per cent, outstripping pay awards, and ultimately eroding the real value of pay rises. Wage growth is projected to remain subdued in the year ahead, reflecting continued weak productivity growth in the UK and some employers' attempts to offset the impact of the increase in labour costs, including the introduction of the apprenticeship levy and the increase in the National Living Wage. Going forward, it will also be interesting to see what impact gender pay reporting has on pay awards, as employers look to close any gap identified.

Our quarterly round-up brings together trends and opinions on what is happening and what the future holds for:

- Inflation
- Employment
- Earnings
- Pay Settlements - Historic and Predictive
- PAYstats - pay statistics in detail

# Inflation

## Bank of England Inflation Report (August 2017)

CPI inflation has remained above the 2% target as rises in import prices following the steep fall in the sterling exchange rate last year continue to pass through to consumer prices. That has weighed on households' real incomes and consumption, contributing to the slowdown in GDP growth in the first half of 2017.

Over the forecast period, growth in real income and consumption is projected to remain subdued. The effect of that on overall GDP growth is offset to some extent by UK exports and investment, which are supported by strong growth in the rest of the world and the lower exchange rate.

Overall, given a market-implied path for Bank Rate that rises by around half a percentage point over the next three years, growth is projected to be modest and unemployment to stay close to its current rate. Import price pressures begin to fade in the second half of the forecast period, but are still keeping inflation above the 2% target at the end. On the market path for Bank Rate, the small degree of slack remaining in the economy is absorbed and domestic inflationary pressures are judged likely to increase over the forecast period.

## Bank of England MPC Minutes (September 2017)

Twelve-month CPI inflation had risen to 2.9% in August, 0.2 percentage points higher than had been expected in the Committee's latest Inflation Report projections. The twelve-month change in CPI excluding food, alcohol, tobacco and energy had increased to 2.7%, also 0.2 percentage points above expectations and the highest core rate in over five years. More generally since the Committee's last meeting, developments in the oil market suggested greater near-term upward pressure on inflation from petrol prices.

Twelve-month CPI inflation was now likely to rise to above 3% in October. The latest household indicators had, nevertheless, suggested that inflation expectations had remained well anchored.

## Office for National Statistics (September 2017)

The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rate was 2.8% in September 2017, up from 2.7% in August 2017; it was last higher in March 2012.

The main contributors to the increase in the rate were rising prices for food and recreational goods, along with transport costs, which fell by less than they did a year ago. These upward effects were partially offset by downward contributions from a range of goods and services, in particular clothing prices, which rose by less than they did a year ago.

The Consumer Prices Index (CPI) 12-month rate was 3.0% in September 2017, up from 2.9% in August 2017; it was last higher in March 2012.

# Employment

## CIPD Labour Market Outlook (Summer 2017)

This quarter's net employment balance – which measures the difference between the proportion of employers who expect to increase staff levels and those who expect to decrease staff levels in the third quarter of 2017 – has increased to +27 from +20 over the past three months.

[...] employment confidence is high across much of the private sector. The net employment score for the private sector is +35. Employment confidence in the manufacturing and production sector has fallen modestly from +38 to +33, while employment growth prospects have increased in the private sector services, up from +27 in the spring report to +37. In addition, the employment outlook for the public sector has improved since the previous report [increasing] to +5 from –6 since the previous report.

## Bank of England Inflation Report (August 2017)

Growth in companies' demand for labour appears to have remained resilient in recent months, with quarterly employment growth picking up in 2017 H1. Despite a further fall in unemployment, wage growth remains subdued, probably in part due to continued weak productivity growth. Wage growth is projected to remain modest in the near term, before recovering somewhat further ahead reflecting underlying tightness in the labour market.

## Bank of England MPC Minutes (September 2017)

LFS employment grew by 0.6% in the three months to July, slightly higher than expected at the time of the August Inflation Report. Indicators of employment from business surveys had continued to point to relatively strong job growth heading into the second half of the year.

The unemployment rate had fallen below the MPC's 4.5% equilibrium estimate, to 4.3%, slightly lower than assumed in the August Inflation Report. There had, to date, been little sign of the levelling out in the unemployment rate that had been expected in a succession of recent Inflation Report projections. Indicators of recruitment difficulties had suggested that the degree of slack in the labour market was continuing to diminish.

## Manpower Employment Outlook Survey (Q4 2017)

UK employers report moderate hiring intentions for the final quarter of 2017. With 7% of employers forecasting an increase in staffing levels, 2% anticipating a decrease and 89% expecting no change, the resulting Net Employment Outlook is +5%. [...] Hiring prospects remain relatively stable both quarter-over-quarter and year-over-year.

Employers in all 12 regions expect to increase staffing levels during Quarter 4 2017. The strongest labour markets are anticipated in the East and the South East [...]. Elsewhere, some hiring opportunities are forecast for Northern Ireland, [...] the North West, the South West, Yorkshire & the Humber and Scotland. Meanwhile, the weakest regional Outlook for the coming quarter is reported in Wales [...].

Employment levels are forecast to grow in eight of the nine industry sectors during the October-December period. Construction sector employers report the strongest hiring intentions, Finance & Business Services sector employers report a cautiously optimistic Outlook [...], while moderate payroll gains are expected in [...] the Utilities sector and the Manufacturing sector. However, Mining sector employers anticipate a decline in staffing levels [...].

### Markit / REC Report on Jobs (October 2017 press release)

Permanent staff placements rose at the softest pace since April at the end of the third quarter. That said, the rate of growth remained marked overall. Temp billings meanwhile rose sharply, despite also seeing pace of expansion moderate from the previous month.

A key factor weighing on growth in staff appointments was a further steep decline in candidate availability. For permanent candidates, the latest fall was the sharpest for four months, while the availability of temporary workers also fell at a historically marked pace.

The number of job vacancies across the UK continued to rise sharply during September, with growth of staff demand edging down only slightly from August's recent peak. REC [The Recruitment & Employment Confederation] Chief Executive Kevin Green says:

*"Recruiters are finding it even harder to find people to fill vacancies. Candidate availability has been falling for the past four years and the record high UK employment rate plus a slowdown in the number of EU nationals coming to work here is exacerbating the situation, potentially leaving roles unfilled."*

*"Across the UK permanent placements are slowing, but London is faring worse with placements declining for the first time in eleven months and the financial sector in particular struggling to recruit for roles such as audit, payroll and risk. Low-skill roles are also hard to fill in areas like food processing, warehouses and catering – sectors that employ a higher proportion of people from the EU than others across the economy."*

## Earnings

### Bank of England Inflation Report (August 2017)

Regular pay growth (excluding bonuses), is expected to have been only 2.2% in 2017 Q2, although that was a little higher than expected in May.

[...] much of the continued weakness in wage growth is likely to reflect subdued productivity growth. Over time, the pace of wage growth is determined largely by productivity growth and the price of domestic output, as that determines the revenue available to companies to pay wages. While wage growth can be volatile, it is also possible that other factors, such as uncertainty around the economic outlook and subdued wage expectations, may be weighing on wage growth at present.

The outlook for wages will depend, in part, on the role of these factors and how persistent they prove to be. Regular pay growth is projected to remain around its current rate over the rest of this year, before picking up further ahead as these factors wane and underlying tightness in the labour market pushes up wage demands.

### **Bank of England MPC Minutes (September 2017)**

Underlying pay growth had shown some signs of recovery, albeit remaining modest. Whole-economy total average weekly earnings in the three months to July had risen by 2.1% on a year earlier, stronger than the forecast consistent with the August Inflation Report projections, although some of that reflected upside news in bonuses.

Growth in whole-economy regular pay had come in weaker than expected in the August Inflation Report, but private-sector regular pay growth had been in line with expectations. Measures of regular pay growth had been around 3% on a three month on three month annualised basis, while the permanent staff salaries component of the REC Report on Jobs had risen to its highest level since the end of 2015.

### **Personnel Today article (August 2017)**

[...] pay award expectations remain low for the next 12 months at just 1%, according to the Labour Market Outlook. The CIPD/Adecco Group attribute this to a number of factors, including sharp growth in the number of non-UK nationals from the EU and an increase in older workers and ex-benefit claimants in the employment market.

Almost a quarter of companies in the private sector (23%) said that the requirement to pay the National Living Wage had slowed pay growth overall, while 21% said they were concerned about future access to labour via the EU single market. Around three-quarters of public sector employers (72%) said they continued to face pay restraint. Gerwyn Davies, labour market adviser at the CIPD, said:

*"Predictions of pay growth increasing alongside strong employment growth is the dog that hasn't barked for some time now, and we are still yet to see tangible signs of this situation changing in the near-term. The facts remain that productivity levels are stagnant, public sector pay increases remain modest while wage costs and uncertainty over access to the EU market have increased for some employers."*

### **Markit / REC Report on Jobs (October 2017 press release)**

Strong demand for staff and a further drop in candidate availability placed further upward pressure on pay during September. Permanent starting salaries rose at the second-steepest rate in 22 months (after August), while temp pay growth softened only slightly from August's 16-month record.

### **ONS Average Weekly Earnings (October 2017)**

Latest estimates show that average weekly earnings for employees in Great Britain in nominal terms (that is, not adjusted for price inflation) increased by 2.2% including bonuses, and by 2.1% excluding bonuses, compared with a year earlier.

Latest estimates show average weekly earnings for employees in Great Britain in real terms (that is, adjusted for price inflation) fell by 0.3% including bonuses, and fell by 0.4% excluding bonuses, compared with a year earlier.

# Pay Settlements Historic

## Croner Pay Awards & Forecasts (September 2017)

Figures collected by Croner Reward [...] for September 2017 [reveal that] including pay freezes, the average settlement for the year is 2.1%, which has remained the same as the previous three months. [Excluding pay freezes], the average settlement for the year is 2.2%, which has remained the same as the previous three months. The percentage of companies reporting a pay freeze in September has maintained a record figure, still standing at 0.3%

## XpertHR – reported in Personnel Today (September 2017)

For the three months to the end of August 2017, the median basic pay award remained at 2%. Retail prices index (RPI) inflation hit a high of 3.9% in August 2017, its highest level since January 2012, meaning prices are now rising nearly twice as fast as pay.

In its analysis of the three months to August, XpertHR found that:

- 2% is the most common pay award, given to more than a quarter (27.4%) of employee groups;
- half of all pay awards are worth between 1.5% and 2.5%;
- a 2% headline pay award was recorded in both the manufacturing and production services sectors; and
- two-thirds of pay awards (36.9%) are higher than employees received a year ago, and just under a quarter (23.1%) are lower.

## Labour Research Department (October 2017)

2.0% pay increase in the three months to September. The median increase in pay in the three months to August was 2.0%. The median increase in the lowest pay rate was also 2.0%

## Paydata's PAYaward pay settlement database (October 2017)

Our PAYaward database reports that the median pay settlement across all industries stands at 2.0% for the 12 months to October 2017 with an inter-quartile range from 2.0% to 2.85%. Two companies have reported a pay freeze in the 12 months to October 2017.

The highest recorded median pay awards were in the IT, Telecommunications and Technology sector at 2.75% and the Travel sector at 2.2%.

# Pay Settlements Predictive

## CIPD Labour Market Outlook (Summer 2017)

[...] wage growth will remain weak in the year ahead. Median basic pay expectations in the 12 months to June 2018 are 1%, which is unchanged since the previous report.

However, there are very tentative signs that wage growth will pick up modestly. The median for all basic pay decisions that have been undertaken in the first six months of 2017 is 1.5%. The other indication of modest upward pay pressure in the report is the average basic pay expectations indicator, which has risen to 1.7% from 1.5% over the past 3 months. In addition, one

high-skilled jobs that have been generated over the past year. If this trend continues, this could provide a very modest boost to productivity and wage growth in the future.

Additionally, the report also points to other factors that seem to be putting downward pressure on wage growth for some employers. These include various labour costs, such as the recent introduction of the apprenticeship levy and the continued phasing in of the Government's auto-enrolment scheme. The uncertainty around future trading arrangements with the European Union also seems to be dampening wage growth among a minority of employers.

### **Croner Pay Awards & Forecasts (September 2017)**

[Excluding pay freezes the] average forecast for the next quarter is 2.5%, which has increased by 0.4% from the previous month. [The] average forecast for the next 12 months is 2.4%, which has increased by 0.1% compared with last month.

### **XpertHR – reported in Personnel Today (September 2017)**

In the public sector, median pay awards have remained at 1% thanks to the cap in pay rises that has been in place since 2010. This should slowly move after the Government recently announced that police and prison officers will no longer be subject to this pay cap. XpertHR pay and benefits editor Sheila Attwood said:

*“Public sector workers may well be in line for pay awards in excess of 1% over the coming year, but overall restraint remains across the economy and workers face a continued period of below-inflation pay increases.”*

### **Paydata UK Reward Management Survey (Autumn 2017)**

Every year we capture participants' expectations for future pay review budgets. The survey is still open at the time of writing but preliminary analysis suggests that pay review levels for 2017 and 2018 are expected to be very similar.

Of those participating organisations that have stated their expectations for both years, the median pay review budget remains at two per cent. The range of reviews above and below that level is quite small with pay freezes and increases above three per cent remaining rare. In addition, a significant proportion of organisations have yet to decide what they will be paying in 2018's review.

A full analysis of the final results from the autumn 2017 edition of the survey will be sent to participants shortly.

If you would like to find out more about any of the information contained in PAYstats please call or email us:

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# PAYstats at a glance...

## Inflation (change calculated for last 12 months)

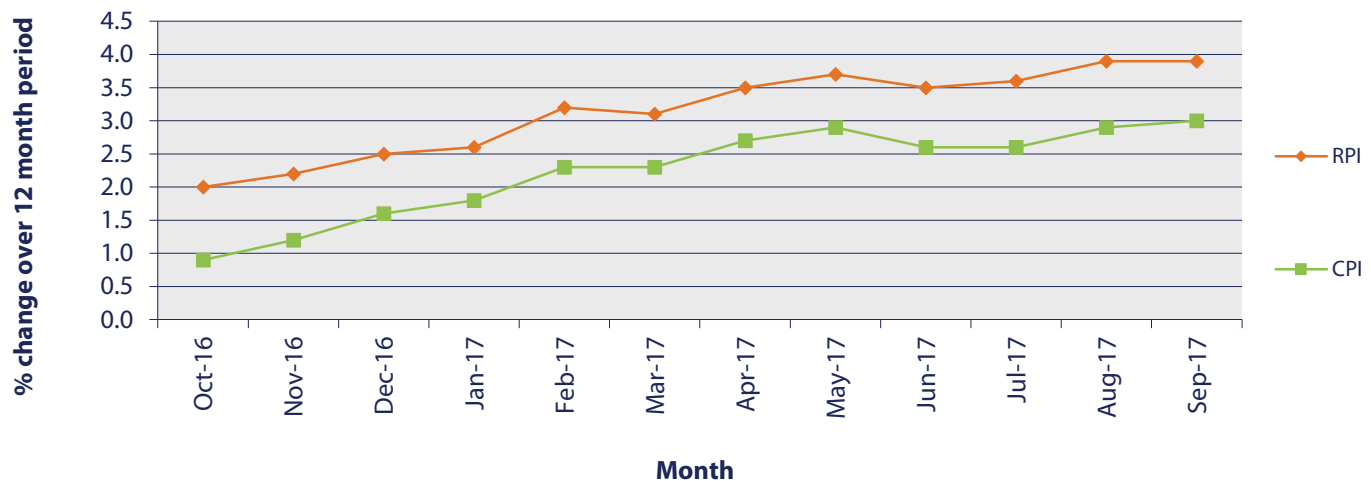
Consumer Price Index (CPI)	CPIH ^	Retail Price Index (RPI) ^^
September 2017	September 2017	September 2017
3.0	2.8	3.9

## Employment (seasonally adjusted, change calculated for last 12 months)

	Jobs *		Redundancies **		Vacancies		Unemployment	
Reference Period	Jun - Aug 2017		Apr - Jun 2017		Jul - Sep 2017		Jun - Aug 2017	
	000's	Change	000's	Change	000's	Change	000's	Change
All UK	41,154	0.3%	112	0.3%	783	4.3%	1,443	-13.0%

## Average Earnings (seasonally adjusted)

	Excluding bonuses		Including bonuses	
May 2017	Change from 12 months ago	% point change since last month	Change from 12 months ago	% point change since last month
Whole economy	2.3%	0.5%	1.8%	0.5%



Notes: ^ CPIH has been re-assessed to evaluate the extent to which it meets the professional standards as set out in the Code of Practice for Official Statistics. The assessment report includes a number of requirements that need to be implemented for CPIH to regain its status as a National Statistic. As of March 2017, to ensure that CPIH is of the best possible quality, the entire back series of CPIH from 2005 has been revised to incorporate Council Tax and revised weights for owner occupiers' housing costs. ^^ RPI has lost its designation as a National Statistic but is still used for some indexing purposes. ONS has ceased publication of RPIJ as of March 2017.

Data source: Adapted from data from the Office for National Statistics licensed under the Open Government Licence v.1.0. Please note the specific definitions for the measures above vary.

# PAYstats in detail...

## Employment (seasonally adjusted, change calculated for last 12 months)

	Jobs *		Redundancies **		Vacancies		Unemployment	
Reference Period	Jun - Aug 2017		Apr - Jun 2017		Jul - Sep 2017		Jun - Aug 2017	
	000's	Change	000's	Change	000's	Change	000's	Change
All UK	41,154	0.3%	112	0.3%	783	4.3%	1,443	-13.0%

Manufacturing	2,666	0.3%	17	-23.0%	50	-0.6%
Construction	2,286	2.0%	***	***	30	42.2%
Wholesale, retail & motor repair	5,112	0.0%	17	74.4%	145	4.3%
Transport & storage	1,748	4.6%	17	-1.7%	33	2.2%
Accommodation & food services	2,376	3.3%			91	18.6%
Info & communications	1,482	3.7%			41	2.8%
Financial & insurance	1,094	0.2%	13	***	36	20.6%
Real estate	550	-5.9%			10	-6.8%
Public admin, defence, social security	1,489	0.7%	24	-3.2%	17	24.1%
Education	2,980	-0.6%			51	4.3%
Health & social work	4,382	2.1%			119	-0.7%
Other services	940	1.5%	***	***	19	-17.5%

## Average Earnings (seasonally adjusted)

	Excluding bonuses		Including bonuses	
August 2017	Change from 12 months ago	% point change since last month	Change from 12 months ago	% point change since last month
Whole economy	2.2%	0.1%	2.2%	0.5%

Private	2.4%	0.2%	2.4%	0.7%
Public	1.7%	0.0%	1.6%	-0.2%
Services	2.3%	0.1%	2.3%	0.6%
Finance & business services	2.8%	0.2%	3.1%	2.1%
Public sector exc. Financial services	1.8%	0.0%	1.7%	-0.2%
Manufacturing	1.7%	0.9%	1.6%	-0.4%
Construction	1.7%	-0.5%	1.2%	0.9%
Wholesale, retail, hotels & restaurants	0.9%	-0.3%	1.1%	0.6%

Notes: \* Sector breakdown as at Jun 2017; \*\* Not seasonally adjusted; \*\*\* Sample size too small to be shown

# Current rates...

<p><b>National Minimum Wage (NMW)</b></p> <p>For more information: <a href="http://www.gov.uk">www.gov.uk</a></p>	<p>Workers 21 years and over: Workers 18-20 years old: Workers 16-17 years old:</p> <p>Accommodation offset – maximum per day that can be offset against the NMW where employer provides accommodation</p> <p>Apprentice minimum wage rate for: - apprentices under 19 years old - apprentices aged 19 and over, but in the first year of their apprenticeship</p>	<p>£7.05 £5.60 £4.05</p> <p>£6.00</p> <p>£3.50</p>
<p><b>National Living Wage</b></p> <p>For more information: <a href="http://www.gov.uk">www.gov.uk</a></p>	<p>The compulsory National Living Wage (NLW) was introduced in April 2016. The NLW effectively increases the National Minimum Wage for workers aged 25 and over.</p>	<p>£7.50</p>
<p><b>Living Wage</b></p> <p>For more information: <a href="http://www.livingwage.org.uk">www.livingwage.org.uk</a></p>	<p>The Living Wage is set independently and calculated according to the basic cost of living in the UK.</p> <p>- UK hourly rate: - London hourly rate:</p>	<p>£8.45 £9.75</p>
<p><b>Statutory Maternity Pay</b></p> <p>For more information: <a href="http://www.gov.uk">www.gov.uk</a></p>	<p>Statutory Maternity Pay is paid for up to 39 weeks: - the first 6 weeks: 90 per cent of average weekly earnings (AWE) before tax - the remaining 33 weeks: £140.98 or 90 per cent of AWE (if lower)</p> <p>Statutory Paternity Pay: - 1 or 2 weeks consecutive leave: £140.98 or 90 per cent of AWE if lower</p> <p>Statutory Adoption Pay is paid for up to 39 weeks: - the first 6 weeks: 90 per cent of AWE before tax - the remaining 33 weeks: £140.98 or 90 per cent of AWE (if lower)</p>	
<p><b>Statutory Sick Pay</b></p> <p>For more information: <a href="http://www.gov.uk">www.gov.uk</a></p>	<p>Standard weekly rate</p> <p>Maximum period</p>	<p>£89.35</p> <p>28 weeks in any 3 years</p>
<p><b>Statutory Redundancy Pay</b></p> <p>For more information: <a href="http://www.gov.uk">www.gov.uk</a></p>	<p>Statutory redundancy pay rates are based on age and length of employment: - 1.5 weeks' pay for each year of employment after their 41st birthday - 1 week's pay for each year of employment after their 22nd birthday - 0.5 week's pay for each year of employment up to their 22nd birthday</p> <p>Calculation of age and service is counted back from the date of dismissal</p> <p>Maximum pay £489 per week, upto a rate of £14,670</p>	
<p><b>Working Time</b></p> <p>For more information: <a href="http://www.gov.uk">www.gov.uk</a></p>	<p>Basic entitlement for workers aged 18 and over: - 5.6 weeks holiday a year - Work no more than 6 days out of every 7, or 12 days out of every 14 - A 20 minute break if more than 6 hours worked continuously - Work a maximum 48-hour average week</p> <p>Workers aged 16 and 17 are entitled to: - Take at least 30 minutes break if more than 4.5 hours worked continuously - Work no more than 8 hours a day and 40 hours a week - Have 12 hours rest between working days and 2 days off every week - 5.6 weeks holiday a year</p>	



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