

PAYstats Pay & Labour

Market Statistics

July 2017
Quarterly Edition

The Quarterly Picture

As we enjoy summer days under bright blue skies, the outlook for pay and reward, in light of current political and economic factors, isn't necessarily so clear. The recent election has resulted in a small majority government being formed, with a DUP-backed Conservative party. Brexit negotiations are now underway as the government begins the process of disentangling the United Kingdom (UK) from more than 40 years of deep integration with the European Union (EU) and it is yet to be seen as to how 'hard' or 'soft' a Brexit we may experience.

Whilst inflation has dropped over the last month, we continue to experience above target inflation. These high levels of inflation continue to erode the real value of any pay rises. Furthermore, despite Theresa May's proposal that EU nationals currently residing in Britain will be able to apply for 'settled' status, there also remains significant concerns about the supply of suitable people for the labour market in the future and the long-term availability of EU nationals currently working in the UK.

In terms of pay awards, 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 recent introduction of the apprenticeship levy and the increase in the National Living Wage.

We will continue to track how the reward landscape evolves, as economic issues develop and Brexit negotiations unfold.

Our quarterly round-up of views and opinions tries to identify the main trends and future expectations for inflation, employment, earnings and pay settlements.

Inflation

Bank of England Inflation Report (May 2017)

Inflation has risen above the 2% target as the falls in the sterling exchange rate since late 2015 have begun to feed through to consumer prices. Quarterly GDP growth has slowed, in part reflecting the impact of lower real income growth on household consumption.

Through its effects on costs, the fall in sterling is likely to keep inflation above the 2% target throughout the next three years. Where inflation settles once that upward pressure fades will depend on domestic price pressures.

Conditional on current market interest rates, which suggest only one 25 basis point rate rise over the next three years, those domestic cost pressures are judged likely to be building towards the end of the forecast period.

Bank of England MPC Minutes (June 2017)

Twelve-month CPI inflation had increased to 2.9% in May, higher than had been expected in the Committee's May Inflation Report projections. The twelve-month change in CPI excluding food, alcohol, tobacco and energy had risen to 2.6%, also higher than expected in May. Bank staff's summary core inflation indicator, based on a number of different measurement approaches, had increased to 2.4%.

The driving force behind the recent pickup in inflation had remained the depreciation of sterling associated with the UK's referendum on EU membership, although a number of indicators of domestically generated inflationary pressure had also increased over recent months.

Twelve-month CPI inflation could rise above 3% by the autumn, and it was expected to remain above the 2% target for an extended period as the depreciation of sterling continued to feed through into the prices of consumer goods and services.

Office for National Statistics (June 2017)

The Consumer Prices Index including owner occupiers' housing costs (CPIH, not a National Statistic) 12-month inflation rate was 2.6% in June 2017, down from 2.7% in May 2017. This is the first fall in the CPIH inflation rate since April 2016, although it remains higher than in recent years.

Falling prices for motor fuels and certain recreational and cultural goods and services were the main contributors to the fall in the rate. These downward contributions were partially offset by rising prices for furniture and furnishings.

The Consumer Prices Index (CPI) 12-month rate was 2.6% in June 2017, down from 2.9% in May 2017.

Employment

CIPD Labour Market Outlook (Spring 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 second quarter of 2017 – has decreased to +20 from +23 over the past three months.

[...] employment confidence is highest in the manufacturing and production sector; this is consistent with other survey indicators, which suggest that many manufacturers are benefiting from increased price competitiveness compared with overseas firms. On the downside, employment confidence in the public sector has entered negative territory.

Bank of England Inflation Report (May 2017)

Wage growth has remained modest in recent months, and employment growth has been subdued. While unemployment has continued to fall, a little slack is judged to remain in the economy. And although productivity growth picked up in 2016, it is expected to remain subdued over 2017.

Bank of England MPC Minutes (June 2017)

Employment had increased by 109,000, or 0.3%, in the three months to April – slightly in excess of the May Report assumption and concentrated in an expansion of full-time employment. The increase in employment had been associated with a decline in the unemployment rate and a rise in the participation rate.

The unemployment rate had fallen to 4.6% in the three months to April, its lowest level since 1975. Against that backdrop, the Committee focussed its discussion on the apparent degree of momentum in the labour market.

Manpower Employment Outlook Survey (Q3 2017)

UK employers report conservative hiring intentions for the third quarter of 2017. While 8% of employers expect to increase staffing levels, 2% forecast a decrease and 90% anticipate no change, resulting in a Net Employment Outlook of +6%. [...] Hiring intentions are unchanged when compared with the previous quarter and remain relatively stable year-over-year.

Employers in 11 of the 12 regions forecast an increase in staffing levels during the next three months. Yorkshire & the Humber employers anticipate the strongest labour market [...]. Elsewhere, employers in both the South East and the West Midlands report cautiously optimistic hiring plans [as do] London [...]. Moderate payroll gains are also anticipated in the East and the North East [...]. However, Welsh employers expect a flat labour market [...].

Employers in eight of the nine industry sectors anticipate payroll gains during Quarter 3 2017. The strongest labour market is forecast in the Manufacturing sector, with a Net Employment Outlook of +7%. Elsewhere, [gains are expected in] the Agriculture sector, the Utilities sector and the Hotels & Retail sector [and also] the Finance & Business Services sector [...] and in the Construction sector [...]. However, Mining sector employers report uncertain hiring prospects [...].

Markit / REC Report on Jobs (July 2017 press release)

Permanent placements continued to rise sharply in June, despite the rate of expansion easing slightly since May's 25-month peak. Growth in temp billings also softened in June, but remained steep overall.

Demand for staff continued to rise in June, with the rate of growth staying close to May's recent peak. This was despite both permanent and temporary vacancies rising at slightly weaker rates than in the previous month.

The pool of available candidates for both permanent and temporary roles continued to shrink markedly in June. While the number of permanent candidates fell at a slightly softer pace than in May, the supply of temporary labour deteriorated at the quickest rate in 18 months. REC [The Recruitment & Employment Confederation] Director, Tom Hadley says:

"With fewer people currently looking for jobs, employers are having to increase starting salaries to secure the talent they need. This is creating great opportunities for people with in-demand skills who are prepared to change jobs, but it's also putting unsustainable pressure on many businesses.

"Existing skills shortages are being exacerbated by Brexit. For example, demand for accountants and other financial roles has increased recently as organisations try to protect themselves against economic uncertainty. London alone employs almost 200,000 EU nationals in these roles. Policies which make it more difficult to recruit and retain these people will put business growth at risk."

Earnings

Bank of England Inflation Report (May 2017)

Wage growth has remained modest despite the steady fall in the unemployment rate in recent years. In the February Report, the MPC [Monetary Policy Committee] set out its judgement that subdued wage growth was likely, in part, to reflect a lower equilibrium rate of unemployment than in the past. This means that unemployment may have to fall further before wage growth and labour cost pressures return to more normal levels.

Bank of England MPC Minutes (June 2017)

[...] pay growth had remained subdued. Annual economy-wide regular pay growth had been 1.7% in the three months to April, weaker than the assumption in the May Report. In the private sector, annual regular pay growth had been 2.0%, in line with the Committee's expectation.

Personnel Today article (May 2017)

The [Spring 2017 CIPD Labour Market Outlook] survey of employers suggests that the UK economy will see a fall in real wages as pay fails to keep up with inflation. Gerwyn Davies, labour market adviser at the CIPD, said:

"There is a real risk that a significant proportion of UK workers will see a fall in their living standards as the year progresses, due to a slowdown in basic pay and expectations of inflation increases over the next few months."

Pay Settlements Historic

Markit / REC Report on Jobs (July 2017 press release)

Permanent starting salaries rose at a sharp and accelerated rate that was the fastest in 19 months in June. Growth in hourly pay rates also quickened since May, and reached a six-month record.

ONS Average Weekly Earnings (July 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 1.8% including bonuses, and by 2.0% excluding bonuses, compared with a year earlier. Latest estimates show that average weekly earnings for employees in Great Britain in real terms (that is, adjusted for price inflation) fell by 0.7% including bonuses, and fell by 0.5% excluding bonuses, compared with a year earlier.

Croner Pay Awards & Forecasts (May 2017)

Figures collected by Croner Reward [...] for May 2017 [reveal that] including pay freeze, the average settlement for the year is now 2.0%, which has remained the same as last month. The percentage of companies reporting a pay freeze in May has once again hit a record all-time-low figure [at 2.5%]. This is a staggering 19.5% lower than the highest figure on record in March 2014, highlighting a very positive pay trend for 2017 so far.

XpertHR – reported in Personnel Today (June 2017)

Employers have given a median 2% pay award to their employees over the three months to the end of May 2017 [...]. This is the sixth consecutive rolling quarter that pay awards have stood at 2%, demonstrating the lack of movement in pay award levels since before the recession, and lagging behind the rate of inflation. [The] analysis, which covers awards between 1 March and 31 May 2017 and takes account of almost 3.3 million employees, also found that:

- Half of all pay awards are worth between 1.5% and 2.5%;
- 2% is the most common pay award, given to 28.5% of employee groups;
- A 2% pay award was recorded in the services, and manufacturing-and-production sectors;
- Four in 10 pay awards (42.2%) are higher than employees received a year ago, with one-third (33.2%) lower; and
- Number of pay reviews resulting in a pay freeze remains low, at just 4.8%.

Labour Research Department (July 2017)

The median increase in pay in the three months to June was 2.2%. The median increase in the lowest pay rate was higher at 2.4%. Pay deals are calculated from Payline database of over 2,000 pay settlements.

Pay Settlements Predictive

Paydata's PAYaward pay settlement database (June 2017)

Our PAYaward database reports that the median pay settlement across all industries stands at 2.0% for the 12 months up to June 2017 with an inter-quartile range from 2.0 to 2.78%. Four companies have reported a pay freeze between June 2016 and June 2017.

The highest recorded median pay awards were in the Hotels, Restaurants and Catering sector and the Construction, Civil Engineering and Building sector at 2.5%.

CIPD Labour Market Outlook (Spring 2017)

[...] wage growth is projected to remain very subdued in the year ahead according to the survey data. Median basic pay expectations have fallen to 1% compared with 1.5% three months ago, which represents a three-and-a-half-year low. The weak projections [...] point to a sharp slowing of wage growth during the last three months. [...]

It seems highly likely therefore that the official annual rate of wage growth will ease further in the coming months. This reflects continued weak productivity growth in the UK and some employers' attempts to offset the impact of the increase in labour costs, including – according to the report – the recent introduction of the apprenticeship levy and increase in the latest National Living Wage.

However, recent soundings from CIPD members suggest that many employers are determined to explore all channels, such as recruiting from hard-to-reach groups of the labour market, before raising pay, which may also partly explain why pay seems unresponsive to changes in unemployment, the level of unfilled vacancies, the rate of inflation, or skill shortages. This underlines the need for a productivity recovery to come through as soon as possible.

XpertHR – reported in Personnel Today (June 2017)

XpertHR pay and benefits editor Sheila Attwood said that the rate of inflation – currently at 3.7% on the retail prices index (RPI) measure – wiped out the value of many pay awards, meaning employees remain squeezed on pay.

“Although employers are making positive moves to address this – through not freezing pay, and giving higher awards than last year – there is still little sign that employees will start receiving more than 2% at their annual pay review,” she said.

[...] many commentators expect RPI inflation to keep on rising, so employees will feel little benefit from these awards.

Croner Pay Awards & Forecasts (May 2017)

[Excluding pay freezes] the average forecast for the next quarter is 2.7%, which has decreased by 0.2% from the previous month. Average forecast for the next 12 months is 2.5%, which has remained the same as last month.

Bank of England MPC Minutes (June 2017)

If recent employment gains had largely reflected increased labour demand, however, it was striking that wage growth had remained so weak relative to historical norms. Evidence from the Bank's Agents' survey indicated that the most common response of firms to recruitment difficulties had been to increase pay awards selectively – for example, for new recruits and key existing staff – rather than across the board. Other common responses had been: to increase training and apprenticeship programmes; to increase spending on recruitment; to improve non-pay employment terms; and to explore ways to substitute capital for labour through, for example, greater automation.

Paydata UK Reward Management Survey (Spring 2017)

Every year we capture participants' expectations for future pay review budgets. We have noticed very little movement in budgets over several years and whilst there have occasionally been signs that pay and reward was set to increase, this has yet to happen. In 2016 there were indications from our surveys and other commentators that pay review budgets were, if anything, getting smaller.

The median predicted level of pay reviews had decreased by 0.5% in 2016 from 2.5% - a consistent level it had stayed at for some time. It remained at two per cent throughout 2016 and has continued at this level so far for 2017 (as predicted in our autumn survey). The interquartile range is widening at little at between 2.0% and 2.8%. Meanwhile, about one in four organisations expect pay budgets in excess of 3.0%.

Looking at the picture since 2010, the latest figures for 2017 show a marked increase in organisations making an increase in their pay review budgets of up to three and four per cent.

The longer-term pattern is:

- The prevalence of pay freezes has declined;
- The most common budgetary increase for organisations over the years has been two to three per cent; and
- Budgets of over five per cent continue to be few and far between.

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)

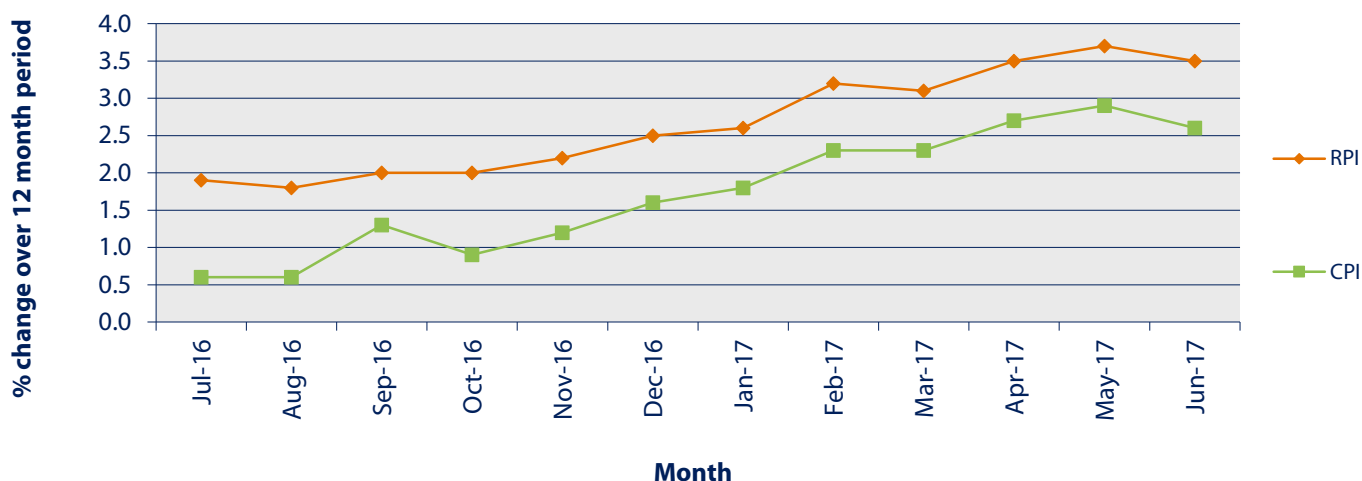
Consumer Price Index (CPI)	CPIH [^]	Retail Price Index (RPI) ^{^^}
June 2017	June 2017	June 2017
2.6%	2.6%	3.5%

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

	Jobs [*]		Redundancies ^{**}		Vacancies		Unemployment	
Reference Period	Mar - May 2017		Jan - March 2017		Apr - Jun 2017		Mar - May 2017	
	000's	Change	000's	Change	000's	Change	000's	Change
All UK	52,713	0.6%	95	-14.1%	774	3.9%	1,495	-9.2%

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	Mar - May 2017		Jan - March 2017		Apr - Jun 2017		Mar - May 2017	
	000's	Change	000's	Change	000's	Change	000's	Change
All UK	52,713	0.6%	95	-14.1%	774	3.9%	1,495	-9.2%

Manufacturing	2,627	-0.5%	18	-47.0%	52	11.9%
Construction	2,301	3.4%	***	***	27	27.0%
Wholesale, retail & motor repair	5,120	0.9%	16	10.8%	142	2.1%
Transport & storage	1,721	3.1%	17	34.4%	29	-17.9%
Accommodation & food services	2,334	3.2%			91	13.4%
Info & communications	1,434	3.5%			41	-6.6%
Financial & insurance	1,082	-1.7%	***	***	32	5.6%
Real estate	583	4.6%			10	1.0%
Public admin, defence, social security	1,463	-1.5%	13	-1.3%	16	23.8%
Education	2,979	-0.2%			49	1.3%
Health & social work	4,343	1.1%			120	2.2%
Other services	941	1.3%	***	***	19	-10.9%

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%

Private	2.4%	0.3%	1.8%	0.4%
Public	2.1%	1.3%	2.0%	1.1%
Services	2.5%	0.8%	2.1%	0.8%
Finance & business services	2.4%	1.5%	1.3%	1.7%
Public sector exc. Financial services	2.1%	0.1%	2.1%	1.3%
Manufacturing	0.9%	-0.4%	0.5%	-1.2%
Construction	1.5%	0.0%	-1.5%	-1.3%
Wholesale, retail, hotels & restaurants	2.3%	-0.1%	2.5%	0.2%

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

Current rates...

<p>National Minimum Wage (NMW)</p> <p>For more information: www.gov.uk</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>National Living Wage</p> <p>For more information: www.gov.uk</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>Living Wage</p> <p>For more information: www.livingwage.org.uk</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>Statutory Maternity Pay</p> <p>For more information: www.gov.uk</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>Statutory Sick Pay</p> <p>For more information: www.gov.uk</p>	<p>Standard weekly rate</p> <p>Maximum period</p>	<p>£89.35</p> <p>28 weeks in any 3 years</p>
<p>Statutory Redundancy Pay</p> <p>For more information: www.gov.uk</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>Working Time</p> <p>For more information: www.gov.uk</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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