

Earnings and the labour market

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The labour market according to Mr Hammond

“Employment is at a record high”

- 74.6% of 16-64 year olds in work in 2016Q4

“Unemployment is at an 11 year low”

- 4.9% in 2016Q4; set to rise to 5.2% by 2019

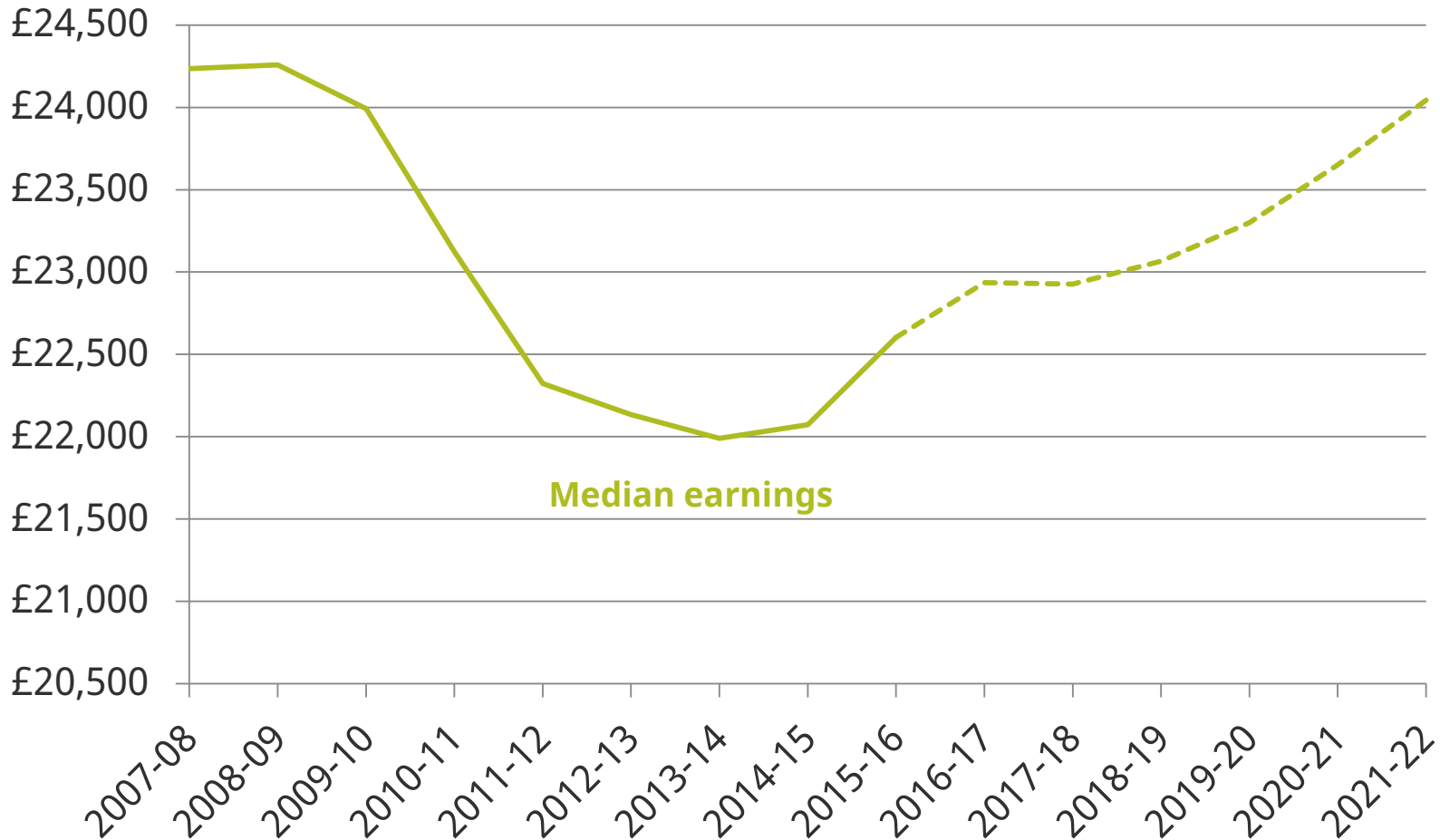
“Real wages have grown for 27 straight months”

- Real median earnings in 2015-16 still almost 7% below 2007-08 level

So what have we learned?

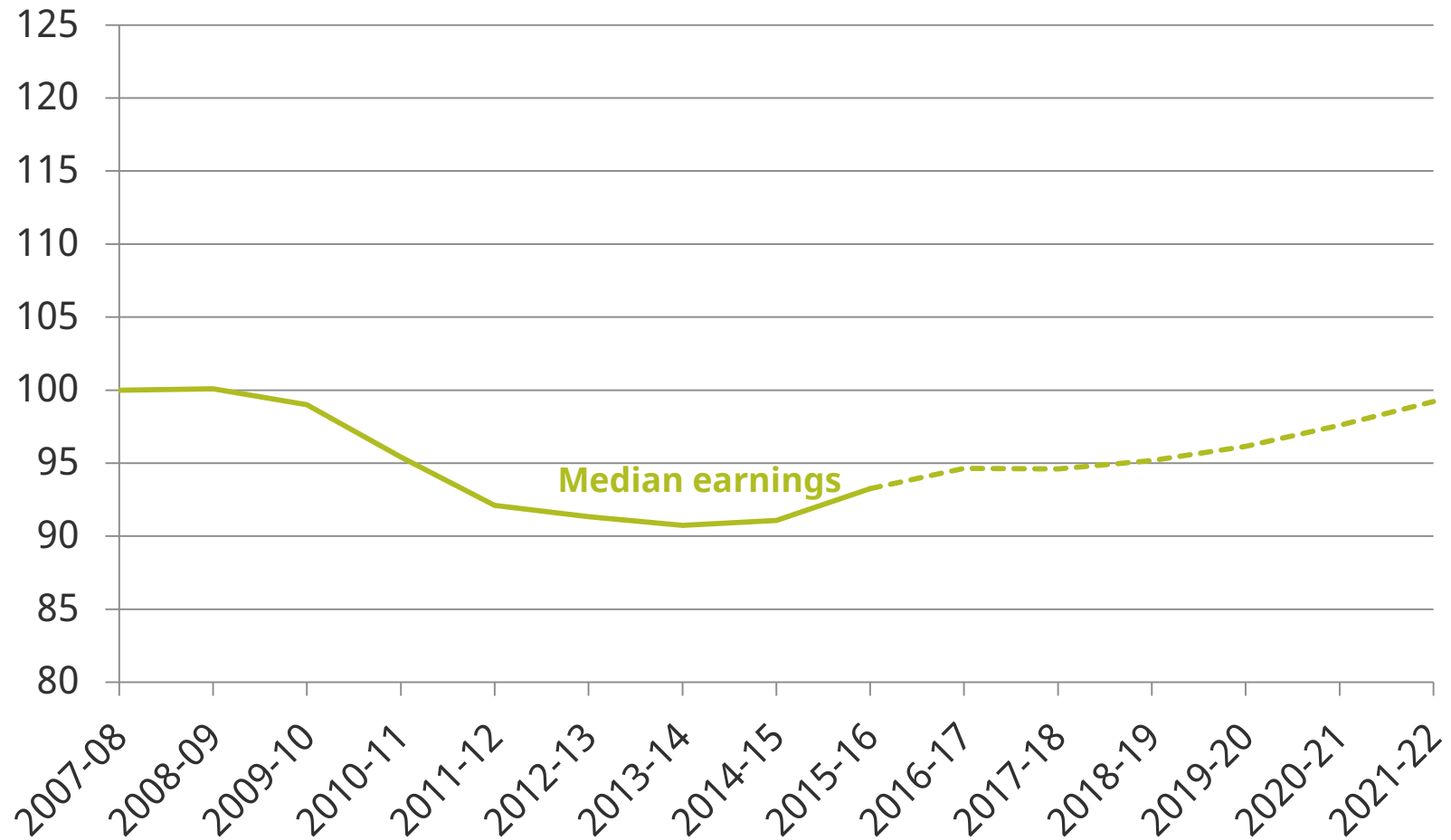
- No large changes to forecast employment or average earnings
- But interesting, and important, commentary by the OBR on earnings distribution

Path of real earnings since 2007-08



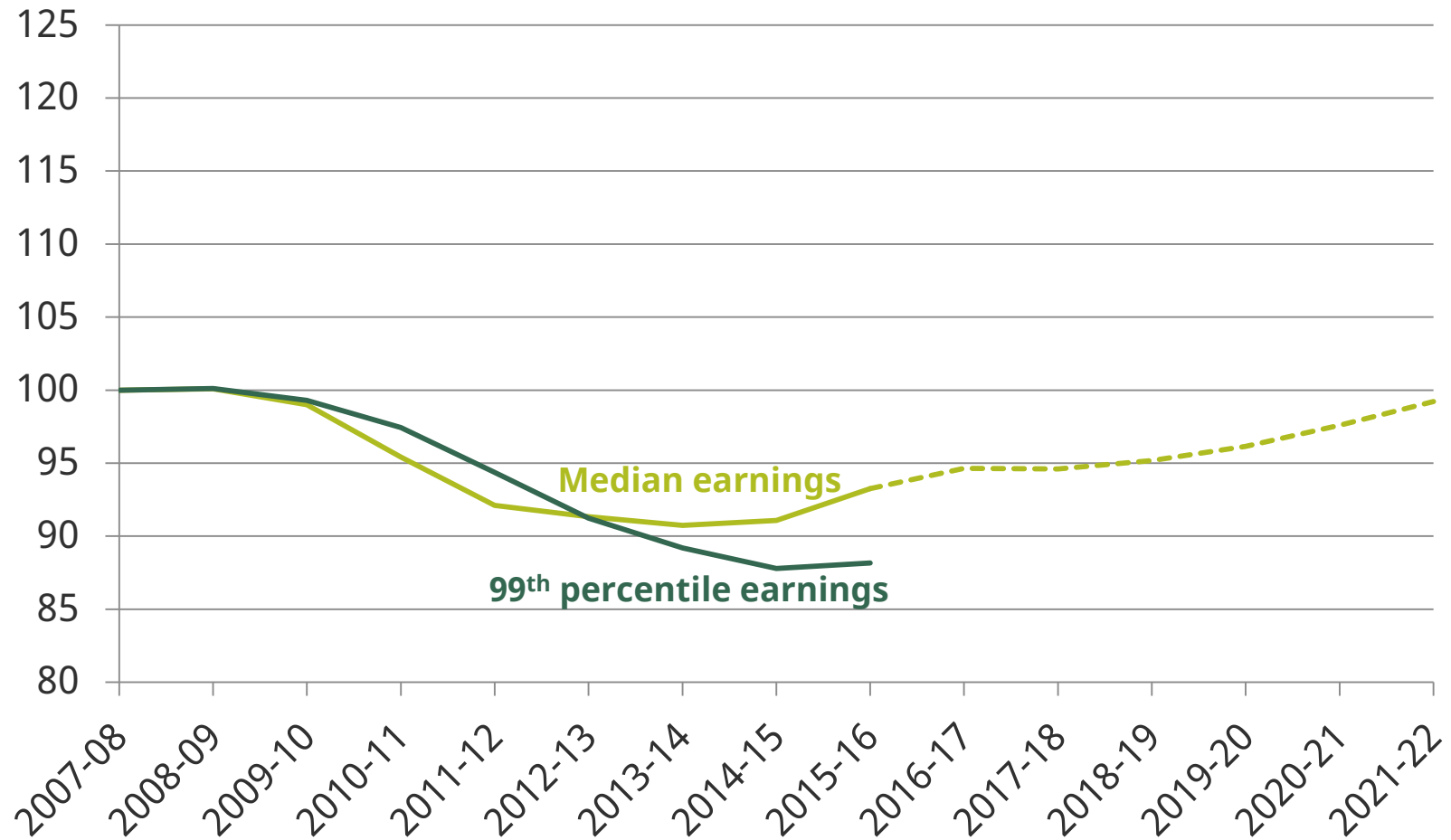
Sources: OBR Economic and Fiscal Outlook (various years) and IFS calculations using Annual Survey of Hours and Earnings

Path of real earnings since 2007-08



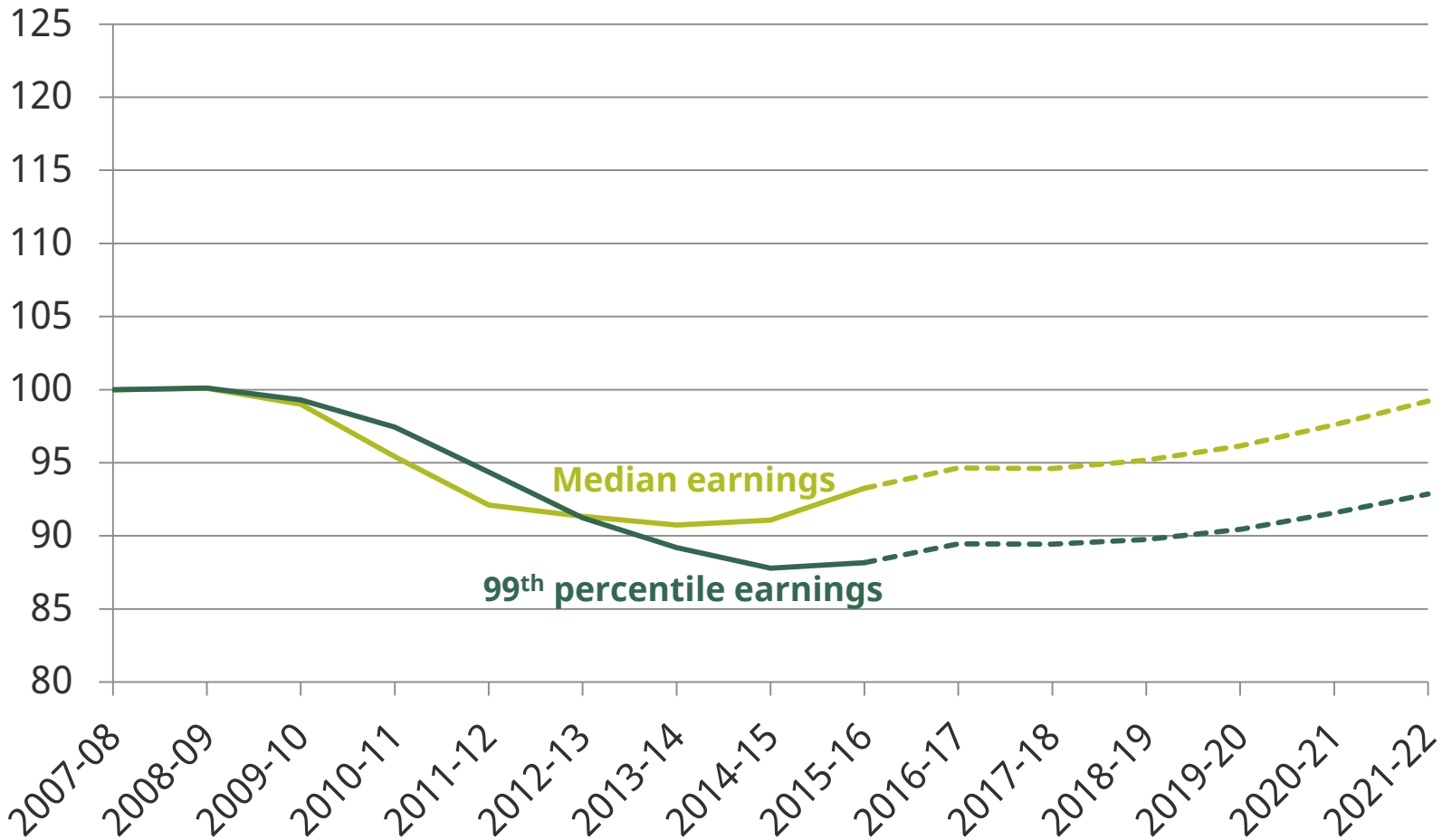
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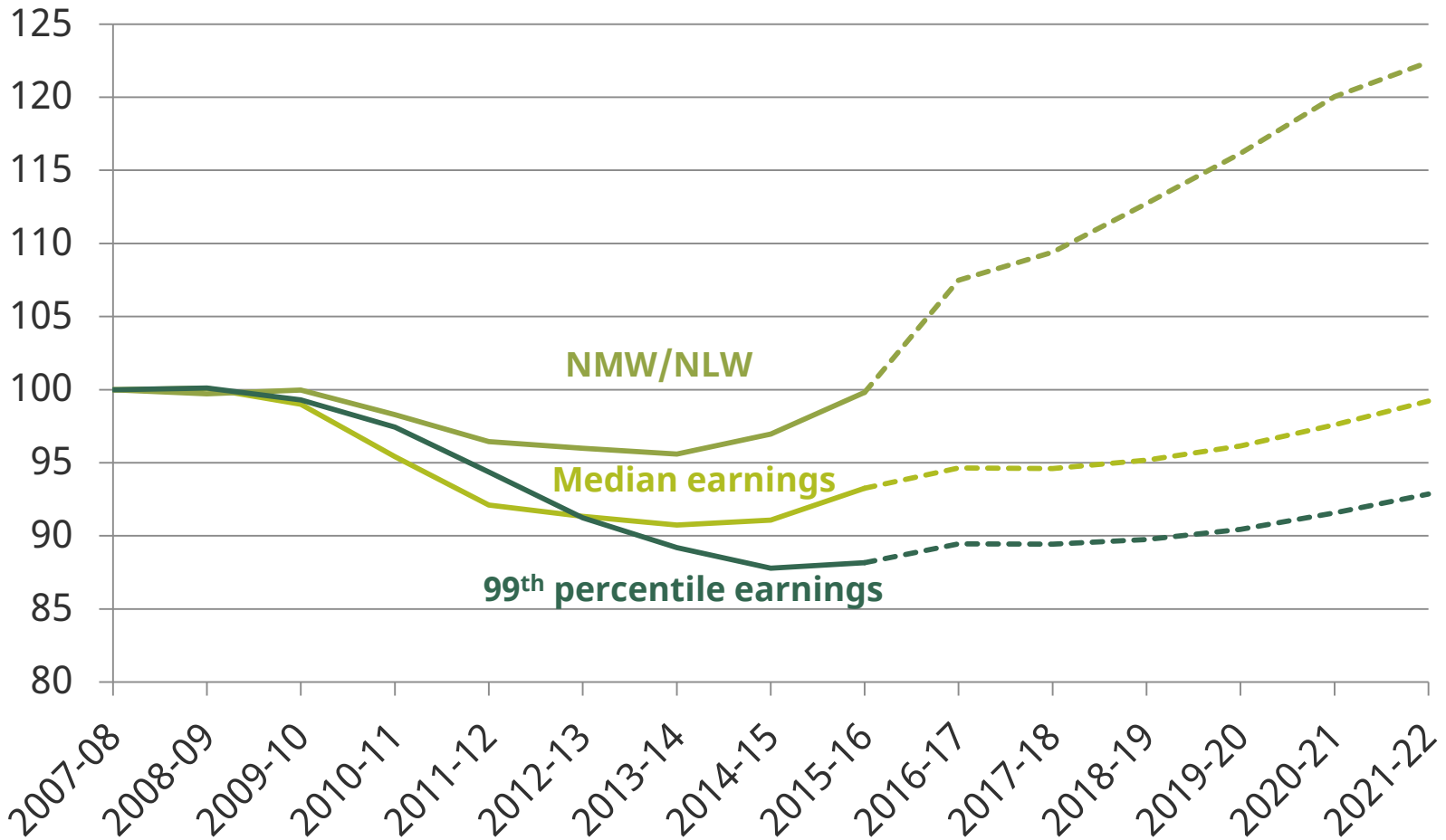
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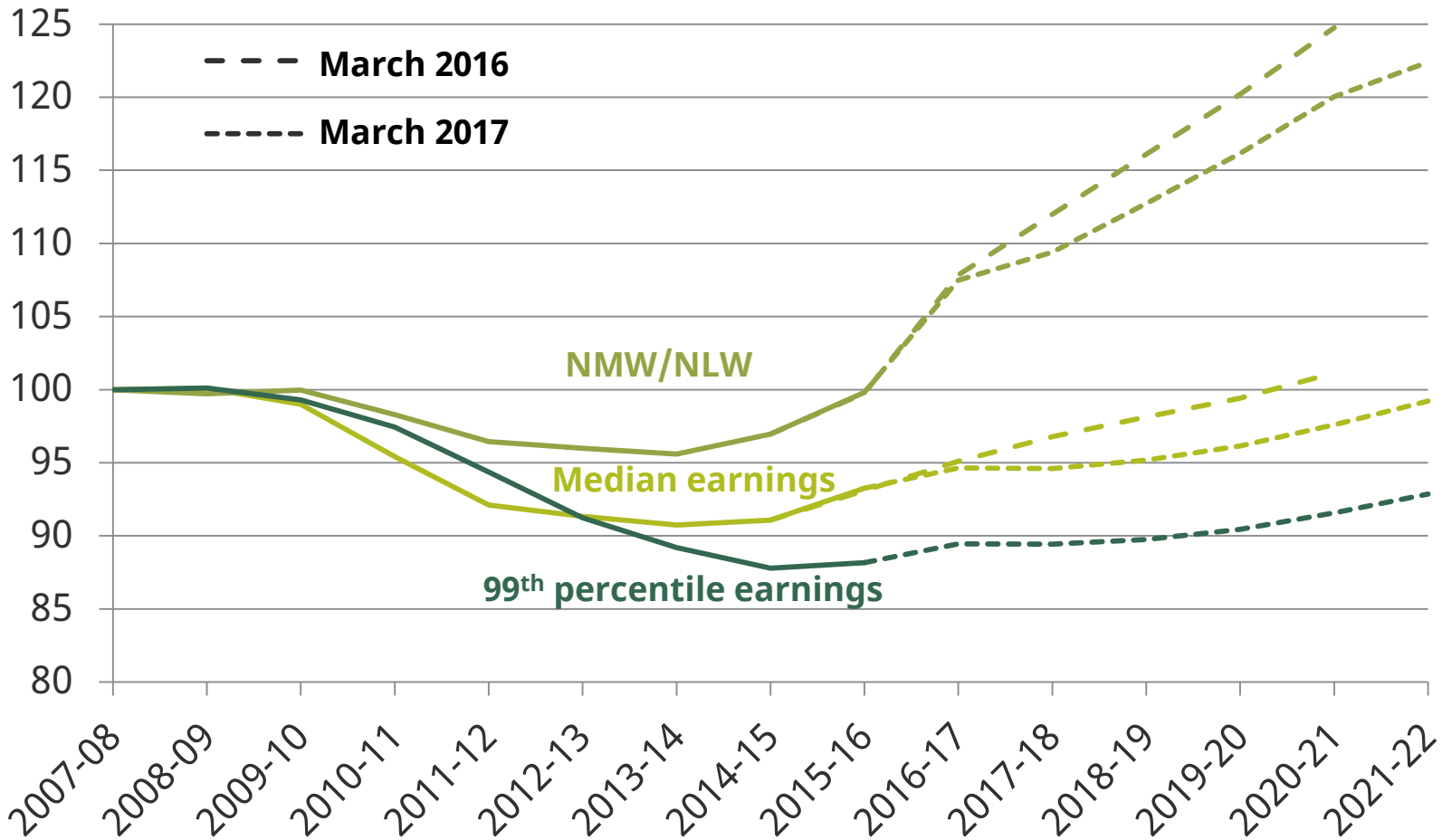
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Fall in earnings of the (nearly) highest earners

Compared to employees on average, top 1% earners are:

- Four times more likely to work in finance
- Twice as likely to work in London or the South East
- 85% are male (compared to 51% of employees)

High earners are important to the Exchequer because they account for a very large share of tax revenue

- Individual at 99th percentile earns 4.6 times the median...
- ... but pays over 8 times the amount of income tax + NICs
- Greater uncertainty in earnings at top of distribution leads to greater uncertainty in forecast tax revenues

Particularly large falls at the top of the earnings distribution has a large effect on measures of earnings inequality

Significant fall in inequality between top and middle earners



Sources: OBR Economic and Fiscal Outlook (March 2017) and IFS calculations using Annual Survey of Hours and Earnings

Conclusion

Little change to overall OBR labour market forecast

- Earnings growth still look weak; employment still looks strong

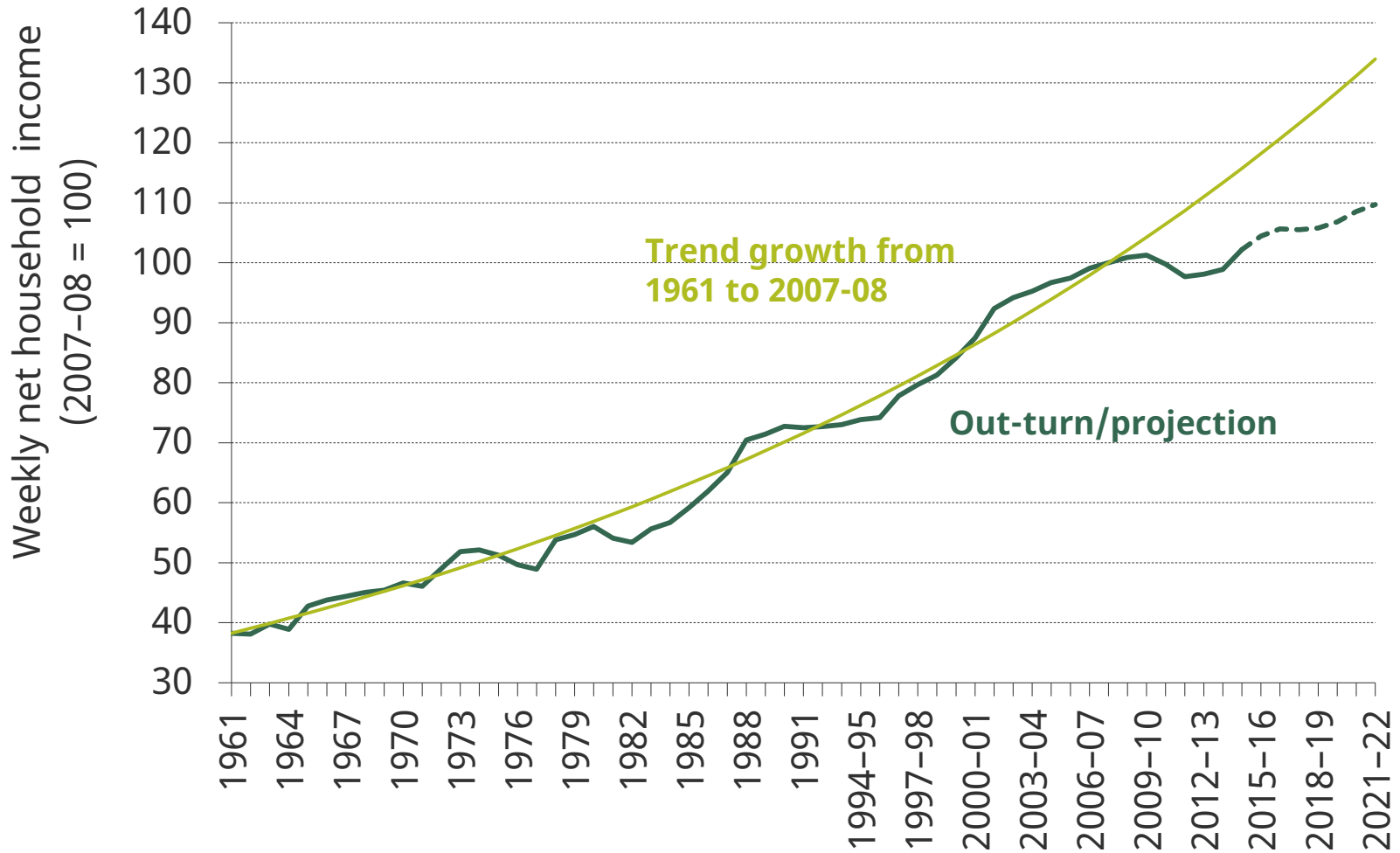
OBR recognised particularly poor growth for the highest earners

- Almost 12% fall in earnings at 99th percentile since recession
- “Disproportionately hit by UK exiting EU” (e.g. finance)
- Introduces even more uncertainty into tax revenue forecasts
- Brings earnings inequality (99/50) back to level seen in early 2000s

Low overall forecast earnings growth leads to continued slow growth in households’ average living standards

- Recent projections imply modest growth by historical standards, even if earnings perform better than expected

Median net household income 1961 to 2021-22



Sources: Figure 3.1b of Hood and Waters (2017) (<https://www.ifs.org.uk/publications/8957>)