Earnings since the recession

Jonathan Cribb
Mean weekly earnings (RPIJ-deflated), indexed to 100 in 2008Q1

Change since 2008Q1:
-3.0%
-5.9%
-7.4%

Source: Figure 2.3 of The IFS Green Budget: February 2015
Hourly wages have fallen less than weekly earnings

<table>
<thead>
<tr>
<th></th>
<th>Cumulative change</th>
<th>2008 to 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Weekly earnings (£)</strong></td>
<td></td>
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<td>Mean</td>
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<td>–7.4%</td>
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<td><strong>Hourly wages (£)</strong></td>
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</tr>
<tr>
<td>Mean</td>
<td></td>
<td>–5.5%</td>
</tr>
<tr>
<td>Median</td>
<td></td>
<td>–4.7%</td>
</tr>
</tbody>
</table>
Average hours of work have fallen

• Sharp rise in part-time work
  – 23.5% of workers in 2007, 27.4% in 2012 and 27.0% in 2014
• The proportion of part-time workers who work part-time because they cannot get more hours is almost double its pre-crisis level
  – 9.9% in 2007, 18.1% in 2014

• Although the (working-age) employment rate has returned to its pre-crisis level (73.0%)...
• ...the proportion of the population who are in-work and working at least as many hours as they want was
  – 67.7% in 2007, 63.8% in 2012 and 65.7% in 2014

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Changing characteristics of the workforce

- Increase in proportion of workers in “high skilled” occupations
  - From 42.5% of workers in 2007 to 44.0% in 2014
  - Some evidence this trend has stopped since 2013
- Rise in proportion of older workers
  - Proportion who are 60 and over rose from 7.5% to 9.1% from 2007 to 2014
- Large rise in fraction of workers who have a Higher Education qualification from 33.7% in 2007 to 42.6% in 2014
  - Fall of proportion without GCSEs from 20.0% to 12.9% over same period

Source: Table 2.1 of The IFS Green Budget: February 2015
Decomposition of growth in real mean hourly wages (LFS)

<table>
<thead>
<tr>
<th>Period</th>
<th>Average Annualised Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002–07</td>
<td>1.1%</td>
</tr>
<tr>
<td>2007–12</td>
<td>-0.4%</td>
</tr>
<tr>
<td>2012–14</td>
<td>-0.6%</td>
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</tbody>
</table>

Source: Figure 2.5 of The IFS Green Budget: February 2015
Decomposition of growth in real mean hourly wages (LFS)

Source: Figure 2.5 of The IFS Green Budget: February 2015
Decomposition of growth in real mean hourly wages (LFS)

Average annualised change

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual change</th>
<th>Compositional effect</th>
<th>Underlying change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002–07</td>
<td>1.1%</td>
<td>0.7%</td>
<td>0.5%</td>
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<tr>
<td>2007–12</td>
<td>-0.4%</td>
<td>0.6%</td>
<td>-1.0%</td>
</tr>
<tr>
<td>2012–14</td>
<td>0.6%</td>
<td>-0.6%</td>
<td>-1.2%</td>
</tr>
</tbody>
</table>

Source: Figure 2.5 of *The IFS Green Budget: February 2015*
Change in real median hourly wages by age group since 2008

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Source: Figure 2.11b of The IFS Green Budget: February 2015
Change in real median hourly wages by sex since 2008

Cumulative change in real median hourly wages from 2008 to 2014

Men: -7.3%
Women: -2.5%

Source: Figure 2.10 of The IFS Green Budget: February 2015
Changes to real hourly wages since 2008, by percentile point

Cumulative change in real median hourly wages from 2008 to 2014

10th percentile: -3.3%
25th percentile: -4.7%
50th percentile: -4.7%
75th percentile: -5.3%
90th percentile: -6.4%

Source: Figure 2.8b of The IFS Green Budget: February 2015
Earnings growth for employees in the same job as last year

- This measure compares the earnings of a fixed group of individuals in two consecutive years.

- Picks up the effect of pay progression as they age; therefore (by construction) builds in an important compositional change.

- Also a select group (i.e. more highly educated) who are more likely to see faster earnings growth as they age.

- This measure has always been higher than overall earnings growth.
  - Little evidence that the degree to which it is more favourable has changed.
Nominal growth in median weekly earnings for full-time employees in continuous employment in the same job (ONS)

Percentage change on previous year

Continuous employment
All employees

Note: RPIJ inflation is measured in April of each year using ONS series KVR8.
Source: Figure 2 of Office for National Statistics, ‘Annual Survey of Hours and Earnings, 2014 provisional results’, 2014
Prospects for future earnings growth

• Sept-Nov 2014: mean earnings growth of 1.7% compared to same three months a year before
  – 2.1% growth in the private sector
  – 1.6% RPIJ inflation and 1.2% CPI inflation

• Rapid fall in inflation (1.0% RPIJ inflation, 0.5% CPI in Dec 2014)

• OBR forecasts suggest continued real earnings growth in 2015-16 and beyond

• In the long run, a return to labour productivity growth will be crucial to seeing real rises in earnings