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Men and younger workers see biggest falls in pay; low-paid see smaller falls than those on higher earnings

The employment rate has returned to its pre-crisis level, but wages remain well below their 2008 peak. Median hourly wages, adjusted for (RPIJ) inflation, were still 4.7% lower in 2014 than in 2008 (according to the Annual Survey of Hours and Earnings).

New analysis by IFS researchers shows that these changes have affected different groups in quite different ways. Women, older workers and the low-paid have seen smaller real wage falls than men, younger workers and those on higher pay.

Key findings from this work, which forms part of the forthcoming **IFS Green Budget 2015**, which is produced in association with **ICAEW** and funded by the **Nuffield Foundation**, include:

- **Earnings inequality has narrowed.** The 10th percentile of the hourly wage distribution (10% of employees earn less than this wage level) was 3.3% lower in real terms in 2014 than in 2008, while the 90th percentile was 6.4% lower. This is entirely driven by the pattern since 2011, when pay has fallen by more at higher points in the distribution.
- **Men have seen larger falls in pay than women.** Real median hourly wages fell by 2.5% for women and by 7.3% for men between 2008 and 2014. Part of the explanation for this is that female employees are significantly more likely than men to work in the public sector and, so far, mean earnings falls have been smaller in the public sector.
- **Older workers have done much better than younger workers.** For employees aged 60 and older, median real hourly pay in 2014 was back to its 2008 level, but for those aged 22-29 it was still 9% lower than in 2008.
- **Real median weekly earnings have fallen even more than hourly wages.** By 2014, they were 5.9% below 2008 levels. This reflects sharp rises in the relative prevalence of part-time work, rises which are now just beginning to be unwound.
- **The proportion of part-time workers who say they work part-time because they cannot get more hours is almost double its pre-crisis level.** In addition, the proportion of 16- to 64-year-olds in work *and* working at least as many hours as they want was 65.7% in the first three quarters of 2014: up significantly from 63.8% in 2012, but still 2.0 percentage points below its pre-crisis level.
- **Wages have fallen despite a continued trend towards a more highly educated and older workforce working in more skilled occupations.** Trends in average earnings since the crisis, including over the past two years, would have looked even worse if the characteristics of the workforce had stayed the same.
- **It is true that individuals continuously in the same full-time job have seen their average real pay rise from year to year since 2011.** There are at least two likely reasons: pay tends to increase with experience, and

those in continuous employment are a select group (e.g. more highly educated) who may be likely to see steeper rises in pay as they age. Hence this measure of earnings growth is always likely to look relatively favourable, and there is little evidence that the *degree* to which it looks more favourable has changed since the crisis.

- **Real earnings growth appears to be returning.** The most recent data (for September-November 2014) from the Average Weekly Earnings series show mean weekly earnings rising by 1.7% in nominal terms compared with the same months a year earlier (2.1% in the private sector). Together with rapid falls in inflation (RPI inflation fell to 1.0% in December 2014), this suggests the return of real earnings growth, and official forecasts suggest continued real earnings growth in 2015–16.

Jonathan Cribb, an author of the report and a Research Economist at IFS, said, “Almost all groups have seen real wages fall since the recession. The pay of young adults remains well below its pre-crisis level after particularly large falls between 2008 and 2011, while the average pay of those aged 60 and over has already recovered. Women have seen much smaller falls than men. Falls for the low-paid have been somewhat smaller than for those on higher pay, driven by trends since 2011.”

ENDS

We are delighted to have produced this year’s Green Budget in association with ICAEW and with funding from ICAEW and the Nuffield Foundation. We are also grateful to the Economic and Social Research Council for funding much of the day-to-day research at IFS that underpins the analysis in this report.

Notes to Editors:

1. ‘Earnings since the recession’ by Jonathan Cribb and Robert Joyce is a pre-released chapter from the IFS Green Budget 2015, edited by Carl Emmerson, Paul Johnson and Robert Joyce. For an embargoed copy of this chapter, please contact Bonnie Brimstone or Jonathan Wood at bonnie_b@ifs.org.uk / 07730 667 013 / 020 7291 4818.
2. The full Green Budget 2015 publication, with analysis from IFS and additional analysis from ICAEW and Oxford Economics, will be launched at 10:00 on Wednesday 4 February 2015 at Church House conference centre, Westminster (<http://www.ifs.org.uk/events/1110>). Please email events@ifs.org.uk if you wish to attend.
3. ICAEW is a world leading professional membership organisation that promotes, develops and supports over 144,000 chartered accountants worldwide. They provide qualifications and professional development and share their knowledge, insight and technical expertise, and protect the quality and integrity of the accountancy and finance profession. As leaders in accountancy, finance and business ICAEW members have the knowledge, skills and commitment to maintain the highest professional standards and integrity. Together they contribute to the success of individuals, organisations, communities and economies around the world. Because of this, people can do business with confidence. ICAEW is a founder member of Chartered Accountants Worldwide and the Global Accounting Alliance.
4. The Nuffield Foundation is an endowed charitable trust that aims to improve social well-being in the widest sense. It funds research and innovation in education and social policy and also works to build capacity in education, science and social science research. The Nuffield Foundation has funded this project, but the views expressed are those of the authors and not necessarily those of the Foundation. More information is available at www.nuffieldfoundation.org.

