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PAYstats Pay & Labour Market Statistics

April 2017
Quarterly Edition

The Quarterly Picture

We are finally emerging from the depths of winter. The clocks have jumped forward into what is optimistically called British Summer Time. The mercury is beginning to stagger up the thermometer. A pair of pigeons are busily building their nest in a laurel hedge outside our office window. The Chancellor of the Exchequer has delivered his first and coincidentally his last spring statement. Oh, and Article 50 has been triggered…

At times such as this, one may hope that with a new season comes a new sense of stability. That doesn't appear to be on the cards this year. Indeed, People Management recently tagged April 2017 #HRmegamonth, seeing as it does, the introduction of the apprenticeship levy, minimum wage increases, the formal start of gender pay reporting, increases in statutory family-related, redundancy and sick pay, the introduction (pre-Brexit) of an immigration skills charge, not to mention some changes in taxation.

The picture is even less certain when more macro-economic issues are considered. Not least of these is the protracted negotiations that are going to reconfigure our relationship with the European Union and the rest of the world.

We are already witnessing above target inflation. There are significant concerns about the supply of suitable people for the labour market and the long-term availability of EU nationals currently working in the UK. And as side issues go, the re-energising of the campaign for Scottish independence has potential.

In contrast, the recent tragic and deadly attacks on civilians at home and overseas have had a unifying impact which has ironically served to stiffen the resolve of the population rather than to weaken it.

Against such a turbulent background little out of the ordinary appears, superficially at least, to be happening on pay awards. Indeed, the considerably extended period of subdued pay movement continues. This is steadily starting to be overtaken by higher levels of inflation, eroding the real value of pay rises. All the while the productivity dilemma persists and market uncertainties are doing little to assuage an underlying sense that there may yet be darker times ahead.

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 (February 2017)

UK economic activity remained resilient in the second half of 2016. Growth is likely to slow over 2017 as households adjust their spending to lower real income growth resulting in large part from the 18% fall in sterling since late 2015. That fall in sterling will raise CPI [Consumer Prices Index] inflation, which is likely to return to around the 2% target by February and then rise above it over the following months.

Conditioned on a market path for Bank Rate that rises to just under 0.75% by early 2020, the MPC [Monetary Policy Committee] projects CPI inflation to fall back gradually from the middle of 2018. Continued pass-through of higher import prices means, however, that inflation is projected to remain somewhat above the 2% target at the end of the Committee's three-year forecast period.

Bank of England MPC Minutes (March 2017)

Since the time of the previous Report, a number of domestic utility providers had announced increases in gas and electricity prices that were somewhat in excess of the baseline assumptions factored into the February forecast. The net result of the news in the January CPI outturn, recent utility price announcements, and the decline in the sterling oil price was to leave the staff's expectation for CPI inflation broadly similar to the February projection. CPI inflation was expected to rise to around the 2% target over the next month or so, and, given the impact of sterling's depreciation, to exceed the target materially by the summer.

HM Treasury Policy Paper Spring Budget 2017 (March 2017)

The OBR [Office for Budget Responsibility] forecasts that CPI inflation will increase to 2.4% in 2017 before falling back to 2.3% in 2018 and 2.0% from 2019 to 2021. Sterling has appreciated 3.3% on a trade weighted basis since the beginning of November 2016, but remains 11.9% below its level of early June 2016, while global oil prices have increased 16.3% since the beginning of November. The two effects broadly counterbalance each other. Combined with the OBR's judgement on the effect of policy measures, this means that inflation is expected to be slightly higher in the near term and slightly lower in later years than forecast at Autumn Statement 2016.

Office for National Statistics (April 2017)

The Consumer Prices Index including owner occupiers' housing costs (CPIH, not a National Statistic) 12-month inflation rate was 2.3% in March 2017, unchanged from February. The rate has been steadily increasing following a period of relatively low inflation in 2015.

Rising prices for food, alcohol and tobacco, clothing and footwear, miscellaneous goods and services were the main upward contributors to change in the rate. These were largely offset by a downward contribution from transport, particularly air fares and, to a lesser extent, motor fuels.

The Consumer Prices Index (CPI) 12-month rate was also 2.3% in March 2017, unchanged from February.

Employment

CIPD Labour Market Outlook (Winter 2016-17)

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 first quarter of 2017 – has increased to +23 from +22 over the past three months.

Expectations have fallen slightly among services firms and in healthcare compared with three months ago. However, employment confidence has strengthened markedly in the manufacturing sector during the same period, which may reflect how the depreciation in sterling has supported foreign demand for UK exports in recent months.

Bank of England Inflation Report (February 2017)

Employment growth has slowed although the unemployment rate has fallen a little further. Unemployment is projected to remain somewhat above its equilibrium rate, the estimate of which has been revised down since November as part of the MPC's [Monetary Policy Committee] regular assessment of aggregate supply-side conditions.

Bank of England MPC Minutes (March 2017)

The unemployment rate had continued its steady decline, falling to 4.7% in the three months to January, lower than had been expected in the February forecast. A sharp increase in the average number of hours worked per week meant that the total number of hours worked in the economy was estimated to have risen by 1.5% in the three months to January.

Manpower Employment Outlook Survey (Q2 2017)

UK employers report fair hiring prospects for the April-June time frame. With 8% of employers expecting to increase staffing levels, 3% anticipating a decrease and 87% forecasting no change, the resulting Net Employment Outlook is +5%. […] However, hiring intentions are two percentage points weaker both quarter-over-quarter and year-over-year.

Employers in 11 of the 12 regions expect to increase payrolls during Quarter 2 2017. The strongest hiring prospects are reported in the East […]. Elsewhere, East Midlands employers report a cautiously optimistic outlook [as do] Northern Ireland and the North West, [however] Scottish employers anticipate a decline in staffing levels […].

Staffing levels are expected to increase in seven of the nine industry sectors during the second quarter of 2017. Construction sector employers report respectable hiring plans with a Net Employment Outlook of +12%. [Gains are also expected in] the Utilities sector, [and also] the Finance & Business Services sector and the Manufacturing sector […]. However, employers in two sectors report uncertain hiring prospects, including the Agriculture sector […].

HM Treasury Policy Paper Spring Budget 2017 (March 2017)

The OBR [Office for Budget Responsibility] has revised down its forecast for the unemployment rate, based on a revised judgement on the equilibrium rate of unemployment in the economy, the lowest unemployment rate which can be sustained while maintaining stable inflation. While the number of people in employment is expected to continue to increase, reaching 32.5 million in 2021, the unemployment rate is forecast to rise slightly as the economy slows, reaching 4.9% in 2017, 5.1% in 2018 and 5.2% in 2019 and 2020, before falling back to 5.1% in 2021.

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

Latest data pointed to sustained growth in permanent placements during March. Although the pace of expansion eased from February's one-year record, it was solid overall. Meanwhile, growth in temp billings picked up slightly from February's four-month low and was sharper than seen on average in 2016.

The supply of permanent candidates fell sharply in March, although the rate of reduction weakened slightly since February's 13-month peak. The availability of short-term staff fell at a similarly sharp rate that was the quickest recorded since January 2016.

REC [The Recruitment & Employment Confederation] Chief Executive Kevin Green says:

"Finding people to do the jobs on offer is rapidly becoming employers' biggest headache and many are reporting an increasing number of white collar jobs as hard to fill, including in the IT and financial sectors. Shortages of appropriately skilled, willing and able candidates was a problem before the referendum. Our concern is that Brexit will make the problem worse, particularly if onerous restrictions are imposed on people coming from the EU to work.

Also, economic uncertainty about future prospects is having a detrimental effect on employees' willingness to risk a career move at this time, which seems to be driving down candidate availability. […] This shrinking talent pool of available candidates means that businesses are boosting the starting salaries and hourly rates they are prepared to offer to the right candidate."

Earnings

Bank of England Inflation Report (February 2017)

Although the unemployment rate has since fallen to below 5%, wage growth has remained subdued. Given the persistence and extent of weak wage growth over the past couple of years, the MPC [Monetary Policy Committee] now judges that the unemployment rate can probably fall a little further before wage pressures build sufficiently to keep inflation at the 2% target over the medium term. There are risks in both directions to that central judgement and a range of views among MPC members.

Wage growth is projected to pick up gradually as slack narrows and the drag from past low inflation diminishes. The outlook for wage growth will also depend on productivity growth, which is judged likely to continue to be weak.

Bank of England MPC Minutes (March 2017)

In contrast to the strength of the labour quantities, annual regular pay growth in the private sector had declined to 2.6% in the three months to January, compared with its recent peak of 3.0% near the end of 2016.

In the economy as a whole, annual regular pay growth had dropped back to 2.3% over the same period. Both of these figures were notably weaker than had been expected at the time of the February Inflation Report. Bonus payments had also been weaker than expected, and reports on the size of bonus payments in the financial sector indicated they were likely to make little contribution to overall pay growth over the first few months of 2017.

HM Treasury Policy Paper Spring Budget 2017 (March 2017)

The OBR [Office for Budget Responsibility] forecast for earnings growth is little changed in the near term, but has been revised down slightly in later years, largely reflecting small revisions to expected inflation and productivity growth. The OBR anticipates average earnings growth of 2.6% in 2017 and 2.7% in 2018, followed by annual growth at or above 3.0% through to 2021. Earnings growth is an important determinant of the OBR's forecast for the public finances.

People Management article (March 2017)

Real pay [has fallen] for the first time in two years. The fall in wage growth is expected to contribute to mounting pressure on household finances through 2017, as the sharp drop in the value of the pound since the Brexit vote increasingly feeds through to higher prices for consumer goods. Household budgets are already under strain from a spike in supermarket prices, and inflation is expected to rise to about 3 per cent by the end of the year.

Ian Brinkley, acting chief economist at the CIPD [commented]:

"[…] average earnings growth on regular pay has slowed, suggesting that real wages are falling as inflation increases. This could be a sign that some employers are seeking to offset the impact of the introduction of the apprenticeship levy and increases to the national living wage next month through lower basic pay awards. With less chance of a pay rise and money not going as far when paying for the weekly shop and bills, UK workers will need to watch their spending carefully."

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

Permanent starting salaries continued to increase sharply in March, despite the rate of pay growth edging down slightly from an 11-month high in the previous month. However, temp pay growth weakened to a rate that, though solid, was the weakest since last November.

ONS Average Weekly Earnings (April 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 2.3% including bonuses, and by 2.2% 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) increased by 0.2% including bonuses, and by 0.1% excluding bonuses, compared with a year earlier.

Pay Settlements Historic

CIPD Labour Market Outlook (Winter 2016-17)

Almost seven in ten (67%) employers report that they made a pay award in the 12 months to December 2016. The median basic pay growth during this period was 1.8%, which is broadly consistent with the official labour market data. Consistent with previous reports, the median basic pay award was higher in the private sector (2%) than in the public sector (1%) and voluntary sector (1.2%).

Croner Pay Awards & Forecasts (February 2017)

Figures collected by Croner Reward […] for February 2017 [reveal that] including pay freeze, the average settlement for the year is now 2.3%, which has increased by 0.1% from last month. This is the highest entry since April 2016. While the average percentage of companies reporting a pay freeze has increased slightly from 4.7% to 4.9%, the figure still illustrates encouraging activity for pay and reward.

XpertHR – reported in Personnel Today (March 2017)

The […] current headline measure of pay awards [run] at 2% in the three months to the end of February 2017. Based on a sample of 219 pay awards effective between 1 December 2016 and 28 February 2017, 30% of deals were exactly 2%, while half of all awards fell between 1.5% and 2.2%. XpertHR also found that pay awards in manufacturing and production, at a median on 2%, were slightly higher than those in private-sector services, at 1.8%.

Labour Research Department (April 2017)

The median increase in pay in the three months to March was 2.0% as was the increase in the lowest pay rate. Pay deals are calculated from Payline database of over 2,000 pay and conditions settlements.

Paydata's PAYaward pay settlement database (April 2017)

Our PAYaward database reports that the median pay settlement across all industries stands at 2.0% for the 12 months up to March 2017 with an interquartile range from 2.0 to 2.5%. Five companies have reported a pay freeze between March 2016 and March 2017.

The highest recorded median pay awards were in the IT and Telecommunications sector at 2.75% and the Construction, Civil Engineering and Building sector at 2.0%.

Pay Settlements Predictive

CIPD Labour Market Outlook (Winter 2016-17)

[The] median basic pay expectations for the 12 months to December 2017 have increased to 1.5% from 1.1% in the previous report. The report suggests that inflation is the main factor behind basic pay expectations edging up. However, the survey data also highlights the limited ability of many employers to respond to rising price inflation with more generous pay awards. As a result, it seems likely that real wage growth will be very low or negative in 2017.

[The] National Living Wage (NLW) has provided a modest boost to earnings since its introduction, partly because many organisations have sought to maintain pay differentials between those directly affected by the new rate and their managers or supervisors.

In addition, the NLW has acted as a catalyst for productivity improvements in some organisations, but fewer than the proportion who said they would offset the increase in wage costs through productivity improvements prior to the introduction of the policy. As a result, the main response from employers during the first six months of the NLW was to absorb the cost.

Croner Pay Awards & Forecasts (February 2017)

The average forecast for the next quarter, excluding pay freeze, remains the same as the previous two months at 2.3%; maintaining a consistent trend.

XpertHR – reported in Personnel Today (March 2017)

[…] with forecasters predicting RPI [Retail Prices Index] could edge higher over the course of this year, pay awards could end up being comparably even lower, if employers do not revise their pay review plans.

Economists often suggest that inflation tends to put upwards pressure on salary rises, particularly if employees are aware they are receiving below-inflation awards. [Many] employers struggle to find the budget to offer higher pay rises. [Few] are planning to freeze pay, however. Just 4.4% of pay reviews are expected to result in no increase.

More than half (52.2%) of pay awards over the coming year will be at the same level as a year ago, and three in 10 are expected to be at a higher level than employees received last year. XpertHR pay and benefits editor Sheila Attwood said:

"With RPI inflation rising, most employees are facing the prospect of a below-inflation pay award this year. Despite upwards pressures from a number of areas, employers are so far remaining cautious about their pay increases."

Bank of England MPC Minutes (March 2017)

Pay growth was expected to pick up gradually during 2017, reflecting the past tightening of the labour market and the impact that increased headline inflation might have on pay claims. It remained to be seen how significant the impact on wages of the pickup in headline inflation would be for a given level of unemployment.

The Committee's central expectation was that pay growth would remain fairly restrained following the recent depreciation. Indeed, it was possible that firms might seek to limit pay awards to offset partially the impact of higher imported costs and some increases in non-wage labour costs – for example, those associated with increased pension contributions or the introduction of the Apprenticeship Levy. In assessing the outlook for inflation in the medium term, the Committee would be monitoring closely the development of regular pay, non-wage costs and other domestically focused measures of inflation.

Paydata UK Reward Management Survey (Spring 2017)

Although the spring edition of our survey remains open for responses, the initial returns suggest that pay review budget expectations for 2017 are in the range of 2.0% to 2.7% with a median of 2.0%. Approximately one in 15 responses so far show a budget of less than 1.0% and a similar number with budgets of more than 3.0%.

At this stage the sector data is limited but the early signs are that the construction sector as a whole also expects a median budget at 2.0% but a slightly smaller spread with an interquartile range from 2.0% to 2.6%. Meanwhile the charities, professional institutes and associations sector also has a median expectation for budgets of 2.0%, but about one in three organisations expect pay budgets in excess of 3.0%.

So far approximately one-third of all respondents report that they have or are expecting to experience retention problems for some roles. More pronounced, over 40% are experiencing difficulties recruiting with two-thirds of those paying up to 10% more for new starters and one in five paying up to 20% more.

It should be stressed that these results are tentative and are likely to change as more responses come in.

If you have not yet taken part in this free survey, you can do so by clicking here.

The whole survey only takes a few minutes to complete. All participants receive a complimentary report of the results. If there are enough responses in your sector you will also be sent a free supplementary sector report.
As well as covering the usual pay and bonus outlook, this edition also has sections on Gender Pay Reporting and the Apprenticeship Levy. We know these are areas of interest for many of our customers and therefore we are collecting information on what organisations are doing and what concerns, if any, they have.

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)

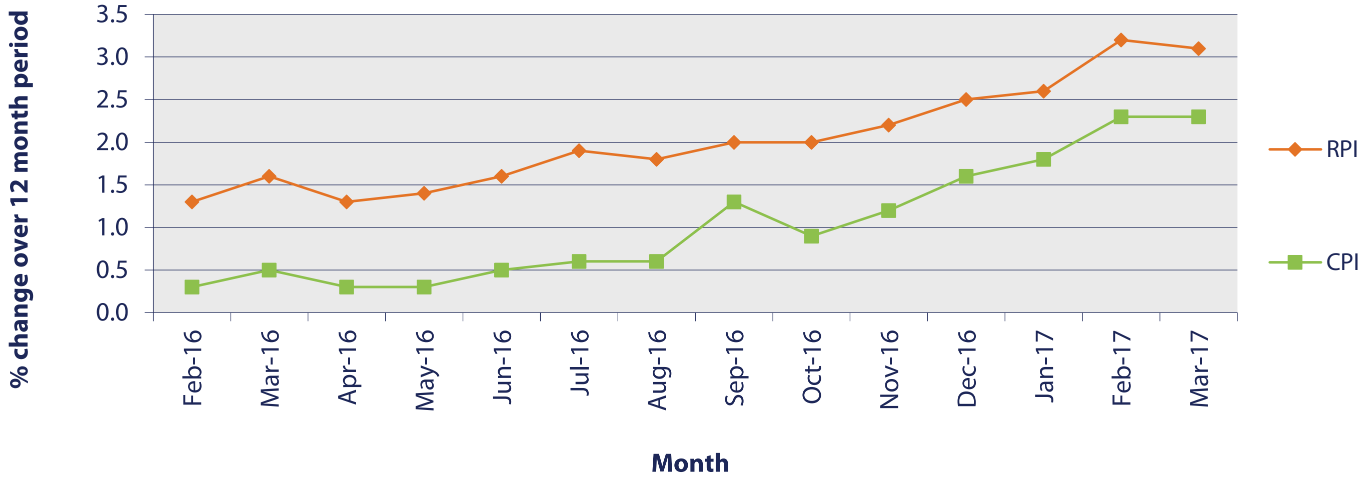
Consumer Price Index (CPI)	CPIH ^	Retail Price Index (RPI) ^^
March 2016	March 2016	March 2016
2.3%	2.3%	3.1%

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

	Jobs *		Redundancies **		Vacancies		Unemployment	
Reference Period	Dec - Feb 2017		Oct - Dec 2016		Jan - March 2017		Dec - Feb 2017	
	000's	Change	000's	Change	000's	Change	000's	Change
All UK	41,097	0.3%	121	24.0%	767	1.8%	1,559	-8.3%

Average Earnings (seasonally adjusted)

	Excluding bonuses		Including bonuses	
February 2017	Change from 12 months ago	% point change since last month	Change from 12 months ago	% point change since last month
Whole economy	1.9%	-0.3%	2.9%	0.9%



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	Dec - Feb 2017		Oct - Dec 2016		Jan - March 2017		Dec - Feb 2017	
	000's	Change	000's	Change	000's	Change	000's	Change
All UK	41,097	0.3%	121	24.0%	767	1.8%	1,559	-8.3%
Manufacturing	2,623	0.3%	22	48.4%	52	10.6%		
Construction	2,242	2.7%	***	***	27	28.4%		
Wholesale, retail & motor repair	5,082	0.7%	19	16.9%	139	-2.4%		
Transport & storage	1,684	2.6%	14	-12.6%	31	-1.3%		
Accomodation & food services	2,317	2.2%			91	9.4%		
Info & communications	1,411	3.9%			39	-7.6%		
Financial & insurance	1,074	-2.4%	***	***	31	1.0%		
Real estate	566	0.1%			12	27.8%		
Public admin, defence, social security	3,024	2.2%	29	33.8%	15	33.3%		
Education	3,011	0.8%			53	3.1%		
Health & social work	4,312	2.1%			118	-5.3%		
Other services	922	1.4%	***	***	19	-11.9%		

Average Earnings (seasonally adjusted)

	Excluding bonuses		Including bonuses	
February 2017	Change from 12 months ago	% point change since last month	Change from 12 months ago	% point change since last month
Whole economy	1.9%	-0.3%	2.9%	0.9%
Private	2.1%	-0.4%	3.2%	1.0%
Public	1.4%	0.1%	1.3%	0.1%
Services	1.9%	-0.2%	3.0%	1.1%
Finance & business services	1.5%	-0.2%	3.7%	2.7%
Public sector exc. Financial services	1.3%	0.0%	1.3%	0.0%
Manufacturing	2.5%	0.1%	3.1%	0.7%
Construction	2.4%	-0.4%	2.9%	1.3%
Wholesale, retail, hotels & restaurants	2.0%	-1.3%	2.2%	-0.8%

Notes: * Sector breakdown as at Dec 2016; ** Not seasonally adjusted; *** Sample size too small to be shown

Current rates...

National Minimum Wage (NMW) For more information: www.gov.uk	Workers 21 years and over: Workers 18-20 years old: Workers 16-17 years old: Accommodation offset – maximum per day that can be offset against the NMW where employer provides accommodation Apprentice minimum wage rate for: - apprentices under 19 years old - apprentices aged 19 and over, but in the first year of their apprenticeship	£7.05 £5.60 £4.05 £6.00 £3.50
National Living Wage For more information: www.gov.uk	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.	£7.50
Living Wage For more information: www.livingwage.org.uk	The Living Wage is set independently and calculated according to the basic cost of living in the UK. - UK hourly rate: - London hourly rate:	 £8.45 £9.75
Statutory Maternity Pay For more information: www.gov.uk	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) Statutory Paternity Pay: - 1 or 2 weeks consecutive leave: £140.98 or 90 per cent of AWE if lower 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)	
Statutory Sick Pay For more information: www.gov.uk	Standard weekly rate Maximum period	£89.35 28 weeks in any 3 years
Statutory Redundancy Pay For more information: www.gov.uk	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 Calculation of age and service is counted back from the date of dismissal Maximum pay £489 per week, upto a rate of £14,670	
Working Time For more information: www.gov.uk	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 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	

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