

PAY BULLETIN FEBRUARY 2019

KEY POINTS



Three-month average settlement slightly down at 2.5%



Share of pay freezes up to 3.1% in the three months to January



Deferrals down to 7.8% of settlements but higher than a year ago



CPI inflation down at 1.8% in January

Summary of pay settlements

		NO. OF SETTLEMENTS	SETTLEMENTS % INCREASE		DEFERRALS % OF SETTLEMENTS		FREEZES % OF SETTLEMENTS	
			MONTHLY AVERAGE %	3 MONTH AVERAGE %	MONTHLY AVERAGE %	3 MONTH AVERAGE %	MONTHLY AVERAGE %	3 MONTH AVERAGE %
2016	Oct	24	1.5	1.8	0.0	2.1	25.0	19.1
	Nov	5	1.9	1.9	0.0	0.0	0.0	15.2
	Dec	11	1.8	1.7	18.2	5.0	18.2	20.0
2017	Jan	119	1.7	1.8	3.4	4.4	13.4	13.3
	Feb	17	2.2	1.8	5.9	4.8	5.9	12.9
	Mar	18	1.8	1.8	0.0	3.2	16.7	13.0
	Apr	76	2.2	2.1	2.6	2.7	7.9	9.0
	May	20	2.3	2.2	15.0	4.4	0.0	7.9
	Jun	16	2.3	2.2	0.0	4.5	0.0	5.4
	Jul	18	1.8	2.1	11.1	9.3	22.2	7.4
	Aug	5	2.7	2.1	0.0	5.1	0.0	10.3
	Sep	10	2.4	2.1	10.0	9.1	0.0	12.1
	Oct	19	2.5	2.5	10.5	8.8	5.3	2.9
	Nov	8	1.8	2.3	25.0	13.5	25.0	8.1
	Dec	4	2.2	2.3	25.0	16.1	0.0	9.7
2018	Jan	111	2.4	2.3	0.9	3.3	5.4	6.5
	Feb	7	2.5	2.4	14.3	2.5	0.0	4.9
	Mar	11	2.5	2.4	27.3	3.9	18.2	6.2
	Apr	99	2.6	2.6	4.0	6.8	2.0	3.4
	May	15	2.2	2.6	6.7	6.4	0.0	3.2
	Jun	8	2.4	2.6	0.0	4.1	0.0	1.6
	Jul	19	2.4	2.3	26.3	14.3	5.3	2.4
	Aug	6	2.8	2.5	0.0	15.2	0.0	3.0
	Sep	9	2.6	2.5	11.1	17.6	0.0	2.9
	Oct	14	2.7	2.7	14.3	10.3	0.0	0.0
	Nov	2	2.5	2.6	0.0	12.0	0.0	0.0
	Dec	4	2.3	2.6	25.0	15.0	0.0	0.0
2019	Jan	58	2.5	2.5	6.9	7.8	3.4	3.1

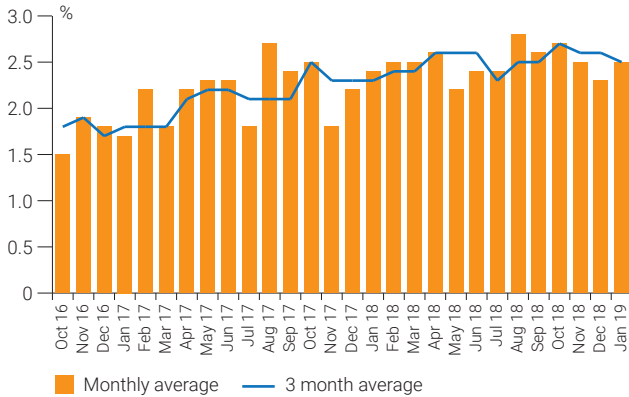
The pay survey includes 64 settlements covering 14,594 employees.

Source: MakeUK Pay Bulletin

For more information on the survey results please contact MakeUK's Information Line on 0808 168 5874. Email: research@makeuk.org.uk

Chart 1: Average settlements slightly up to 2.6% in the three months to October

Average % increase in pay settlements



Source: MakeUK Pay Bulletin

The average pay settlements was slightly decreased to 2.5% in the three-months to January confirming the slowdown in wage growth started in 2018. The first release of the year is clearly affected by January's data. The starting month is historically one of the two big appointments – together with April – when dealing with pay settlements.

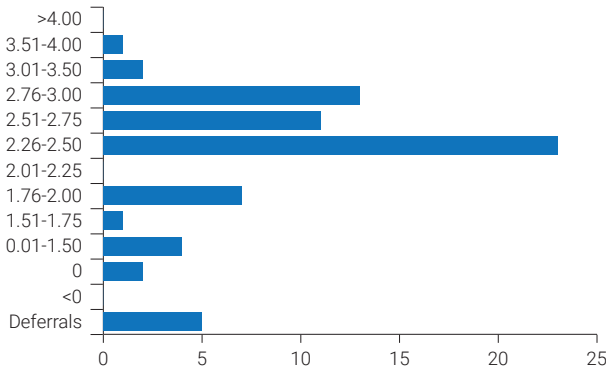
This *Pay Bulletin* is impacted by a higher number of companies with pay settlements still under review – around 25% - possibly related to the uncertain political landscape.

Official ONS data continue to show an important divergence between pay in manufacturing and the total economy. Manufacturing wages, which outperformed those in the whole economy in the second half of 2017, did not keep the pace in 2018 with the rest of the economy now running much faster. ONS reported a 3.4% increase in regular whole economy wages versus the 1.9% in manufacturing in the three months to December.

However, the difference between our Pay Bulletin and the data coming from ONS illustrates that manufacturing is not all the same and some sectors and companies are actually paying much more than the rest. Our sample tends to be skewed towards sub-sectors historically more keen on pay rises.

Chart 2: Almost three quarters of pay settlements are between 2% and 3%

Settlement level breakdown, three-month average



Source: MakeUK Pay Bulletin

In terms of distribution, the percentage of pay freezes was low at just 3.1% a value much lower than the one registered in the three months to January 2017 and 2018. However, as said above, several companies did not take a final decision regarding pay yet.

By contrast, deferrals were much higher than a year ago at 7.8% with companies deciding that this is not the right time to settle.

For those who did take the decision, the vast majority gave a pay rise between 2% and 3% in line with this year's 2018 CPI which saw an overall 2.5% growth.

Settlement data

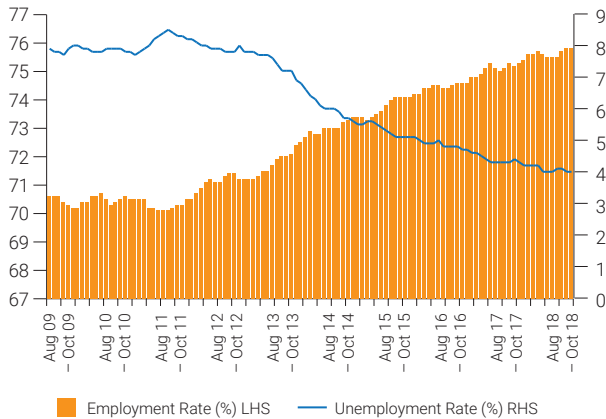
SETTLEMENT LEVEL	NUMBER OF SETTLEMENTS
Pay reduction	0
Zero (pay freeze)	2
1.00%	0
2.00%	7
3.00%	12
4.00%	1
> 4%	0

Latest information on pay trends

SURVEY	MEASURE	DATE	% CHANGE
MakeUK	3 month median	Jan	2.5
MakeUK	3 month average	Jan	2.5
XperTHR – private sector	3 month median	Jan	2.8
ONS – private sector	3 month median	Dec	3.5
ONS Average earnings – manufacturing	3 month average	Dec	1.9
ONS Average earnings – whole economy	3 month average	Dec	3.4

Chart 3: Labour market remaining solid

Employment (LHS) and Unemployment rate (RHS)



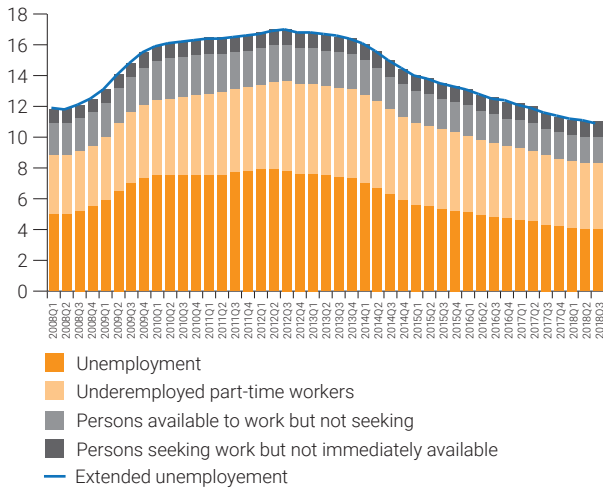
Source: National Statistics

In a period of not too cheerful economic news, the labour market remains a great source for positive stories. Unemployment continues to be at 4% - its historical low since record began – and employment is at its record high at 75.8%. There is also good news from inactivity touching 20.9%, the best performance since record began.

However, on the other side of the coin, productivity continues to suffer with hours worked and people employed running faster than total output. In the last quarter of the year, productivity was 0.2% down in hours terms compared to a year ago. This trend is a reflection of employers continuing to prefer to hire more people rather than investing to improve their efficiency.

Chart 4: Almost a million people could potentially join the UK labour force

% Extended unemployment and its components



Source: Eurostat

In the previous section we discussed how unemployment remained close to historic lows. Following a classic economic theory approach this should put a lot of pressure on wages. However, when analysing the labour market and its potential slack it is important not only to focus on pure unemployment.

The graph shows what in the US is commonly called extended unemployment and it takes into consideration not only those unemployed but also part-timers willing to work more and currently inactive people who could potentially join the labour force. According to Eurostat, in Q3 the last category included almost one million people. Moreover, almost 1.5 million part-timers - a number higher than total unemployed – would like to work more hours.

Economic Outlook

	ANNUAL % CHANGE				
	2015	2016	2017	2018	2019
Economic Environment					
GDP	2.3	1.8	1.8	1.4	1.3
CPI	0.0	0.7	2.7	2.5	1.9
Short-term interest rate (%)	0.6	0.5	0.4	0.7	0.8
Labour market					
Claimant count (% rate)	2.3	2.2	2.2	2.6	2.9
ILO (%)	5.4	4.9	4.4	4.1	4.2
Average Earnings	2.3	2.3	2.4	3.0	2.5
Manufacturing employment (000s)	2,624	2,634	2,708	2,721	2,684

Source: Oxford Economics and MakeUK

The latest GDP release showed that the UK economy has slowed down in Q4 and in particular in December which saw a 0.4% monthly contraction.

The quarterly growth was a meagre 0.2% versus the 0.6% registered in Q3.

In the last quarter, manufacturing suffered another contraction, the third in 2018. However, despite the three negative quarterly results, the sector was able to end up the year 1% higher than it was in 2017.

Manufacturing is paying for the weaknesses registered in two crucial GDP expenditure components, business investment and exports. Business investment was the big loser of 2018 with four consecutive quarters of contraction and an overall negative growth of 0.9% in the year. Exports grew only by 0.2% in 2018 with the sterling devaluation effect almost completely faded away.

The slowdown seen at the end of 2018 and in the first survey data of 2018 will be likely to push down our GDP forecast in the next *Manufacturing Outlook*.

Inflation trends and forecasts

		CPI	RPI	RPIX
2019	Q1	2.0	2.6	2.5
	Q2	2.1	2.5	2.6
	Q3	1.8	2.2	2.1
	Q4	1.7	2.3	2.0
2020	Q1	1.6	2.7	2.3
	Q2	1.7	2.9	2.4
	Q3	1.8	2.9	2.5
	Q4	1.9	2.7	2.7
2018		2.5	3.3	3.3
2019		1.9	2.4	2.3
2020		1.8	2.8	2.5

Source: National Statistics and MakeUK

Inflation outlook

For the first time in two years CPI was below the 2% Bank of England target. In January inflation rose just by 1.8% and it was pushed down more than expected by gas and electricity prices which contracted sharply in the month also thanks to the new Ofgem's energy price caps.

On the PPI side, the fall in oil price in Q4, after the spike in the first half of 2018, had a clear effect on producer prices, in particular on those for inputs. Input PPI moved from the double digit annual growth registered between June and October to a much more manageable 2.9% growth in January.

2019 should see CPI remain stable ending the year around 2% after the 2.7% in 2017 and 2.5% in 2018. However, the very uncertain situation and the potential consequences of a no-deal scenario - namely another sharp sterling devaluation and disruptions on supply of goods - may dramatically change prospects on 2019 and 2020 CPI.

Release Dates

	Mar	Apr
Inflation	11	17
Average earnings and unemployment	19	16
MakeUK Pay Bulletin	20	18