PAY BULLETIN: JANUARY 2022

KEY POINTS

TWO FIFTHS OF MANUFACTURERS HAVE FINALISED OR AGREED **PAY SETTLEMENTS**

ALMOST HALF (45%) STILL HAVE PAY SETTLEMENTS **UNDER REVIEW**

1 IN 10 HAVE CHANGED THEIR **PAY REVIEW MONTH**

JUST **4%** HAVE DEFERRED **THEIR PAY REVIEW THIS YEAR**

Our previous Pay Bulletins have shown unusually high deferral rates, with last year's figures showing a record breaking one in five (22%) manufacturers deferring pay as companies looking to hold onto liquid assets as the pandemic continued to take its toll on the industry. This year however just 4% of companies have deferred their pay review with two-fifths finalising or agreeing their pay settlement. However, an increasing number (45%) still have pay settlements under review, suggesting that negotiations are on-going, and employers are likely assessing the impacts of the planned increases to the National Living Wage and National Minimum Wage (see box out below) as well as the increases to National Insurance Contributions (NICs). This is in addition to keeping a watchful eye on inflation (see Table 3 below). For many employers, who will no doubt be struggling with cash flow challenges, will be considering whether increasing pay is an option that they can genuinely afford at this time.

MANUAL V NON-MANUAL:
MANUFACTURERS NO LONGER SPLITTING PAY SETTLEMENTS BASED ON EMPLOYEE TYPE

- Only 4 companies said their settlement figures represented only manual employees
- Only 2 companies provided separate details for non-manual employees
- The majority (56 companies) offered one settlement figure for both types
- The figures for manual employees collectively covered 290 employees
- The settlement figures for manual employees were 1.7%, 5%, 8% and 8.3%
- For non-manual employees the figures collectively represented 137 employees
- There were only two figures provided which were 2.5% and 3%

As with previous editions of our Pay Bulletin, we asked manufacturers to state whether their pay reviews were split between manual and non-manual employees or applied to all staff. This year we see that for the majority of companies they are offering pay increases across the board as opposed to employee type. For those few companies that are splitting pay, or who cited figures only for one employee type, for manual employees the settlement figures ranged between 1.7% to 8.3%. The range was far smaller for non-manual employees with settlements somewhere between 2.5-3%. The former is likely to reflect the range of job roles for manual employees, with some specialist roles attracting a premium.

PAY SETTLEMENT STATS:
SETTLEMENTS HIKE AS SKILLS SHORTAGES REMAIN AND INFLATION SOARS

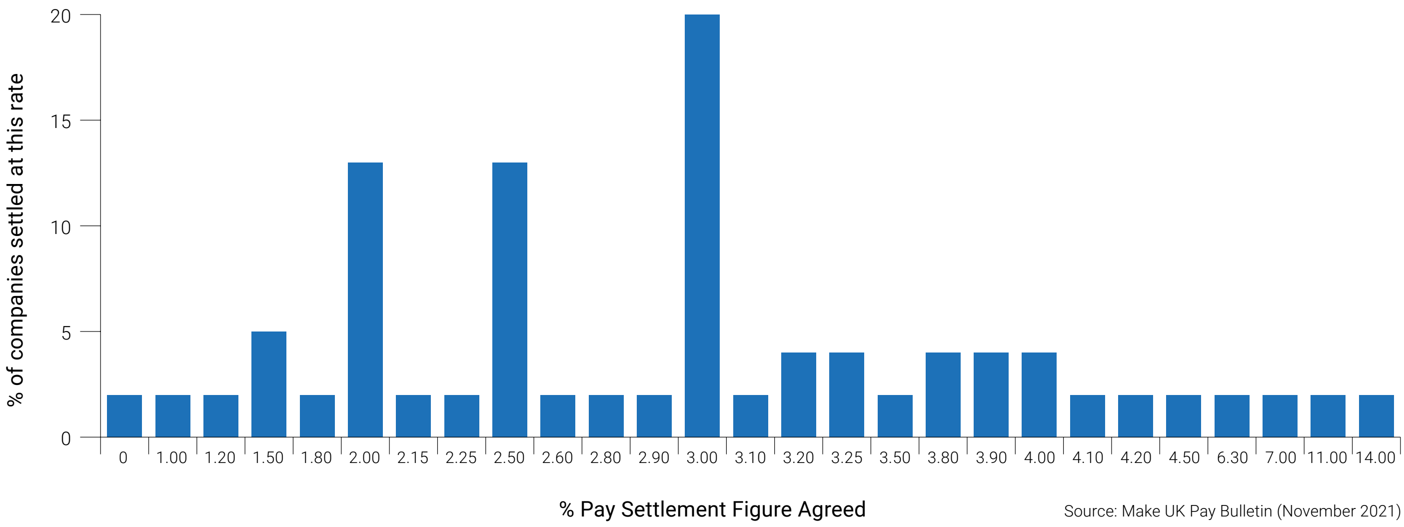
- **The overwhelming majority of companies are increasing pay for all employees (not splitting between employee types)**
- **Pay settlements ranged from 1% to 14%**
- **This year just 2% of companies have frozen pay**
- **One in five (20%) of manufacturers have settled at 3%**
- **13% of companies cited pay increases of 2.5%**
- **Another 13% of companies cited pay increases of 2%**

Two-fifths (40%) of manufacturers have agreed and finalised their pay settlements. The rate at which they have settled on ranged from 1% to 14%. With those at the lower end no doubt balancing the on-going cost of doing business now and in the near future (for example increases in NICs) and those at the higher end holding onto skilled staff which are in short supply. Overall, manufacturers were most likely to settle at around 2% or 3% which is a slight increase from settling at 2% last year. There were a number of settlements above 5% which is quite significant when comparing to last year when the highest settlement figure quoted was 5.8%.

However, last year's figures were a lot lower than we had seen in previous years, with a third of companies opting for a pay freeze last year. This year however the number of companies freezing pay has decreased dramatically to just 2%. After a tough couple of years which saw large scale redundancies, use of the Government's Job Retention Scheme to retain employees, it appears that 2022 will be the year that employers, wherever possible, are paying back staff for these challenging pandemic years.

Chart 1: Pay settlement figures for November 2021

% companies citing pay settlement figures that had been agreed



Source: Make UK Pay Bulletin (November 2021)

NATIONAL LIVING WAGE AND NATIONAL MINIMUM WAGE – CHANGES IN 2021 AND 2022

From 1st April 2022, all rates of the National Living Wage (NLW) and National Minimum Wage (NMW) will increase. The rates from 1st April 2022 (with increases on the rates for 2021) will be:

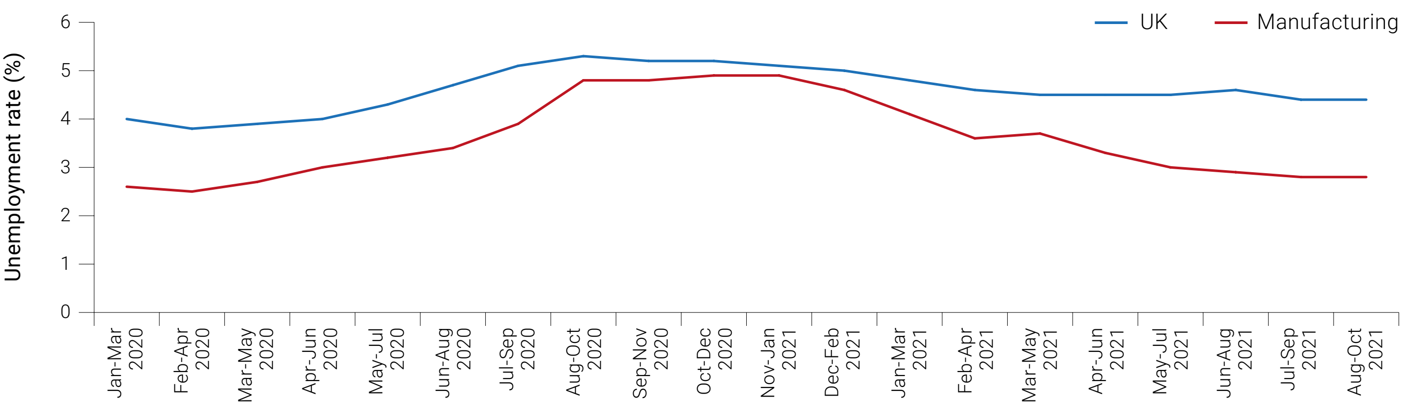
- National Living Wage (ages 23 and above) - £9.50 (+6.6%)
- National Minimum Wage:
  - 21-22 year olds - £9.18 (+9.8%)
  - 16-17 year olds - £4.81 (+4.1%)
  - 18-20 year olds - £6.83 (+4.1%)
  - Apprentice rate - £4.81 (+11.9%)

There are two longer-term policy aims which are reflected by these increases and will define how rates are set in the coming years.

The first is the Government's overarching goal of the main NLW rate reaching two-thirds of median earnings by 2024. The Low Pay Commission (LPC) – the body which advises the Government on changes to the rates – has indicated that in order to achieve this, it may recommend a similar year-on-year increase for April 2023, although this will be subject to future economic conditions and consultation. The LPC's current expectation is for the NLW to reach between £10.60 and £10.70 by 2024.

The second is the gradual incorporation of lower age bands into the main NLW rate. As of April 2021, workers aged 23 and over are now eligible for the main rate; the previous age threshold for this was 25. The Government intends to lower the threshold for the main rate again to 21 by 2024, explaining the larger year-on-year increase in the 21-22 year old NMW rate from April 2022. The significant increase to the apprentice rate is the fulfilment of a previous commitment by the Government to aligning this fully with the lowest age band.

Chart 2: Manufacturing unemployment rate improving faster than the economy average



Source: ONS

MANUFACTURING UNEMPLOYMENT RATE IS IMPROVING

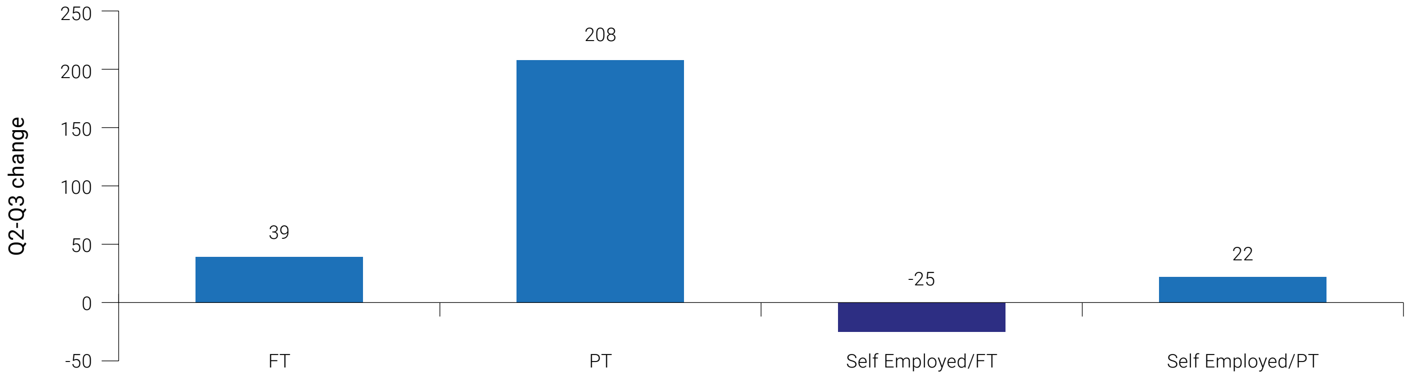
There are currently over 93,000 advertised vacancies in the manufacturing industry, the highest since records began in 2001. There is a similar scenario being faced by other industries too.

As a result, the unemployment rate has significantly improved across the economy since the start of the year. The manufacturing unemployment rate stands at 2.8% for the three months ending October 2021. In comparison the UK average unemployment rate is at 4.4%. It is not uncommon for the manufacturing unemployment rate to fare better than the economy wide average given the industry has faced a skills shortage for decades now (often meaning the few individuals that have the required skill sets tend to find employment in manufacturing more easily than in other sectors).

However, since the second quarter of 2021 the gap between the manufacturing unemployment rate and UK average unemployment rate has been widening, suggesting that manufacturing employment is improving at a faster rate than the economy average. This may be indicative of the desperate circumstances manufacturers are facing with labour shortages resulting in increased hiring wherever this may be possible.

Finally, breaking down the unemployment rates further to highlight gender differences shows that manufacturing unemployment for females stands at 3.6%, whilst manufacturing unemployment for males stands at 2.5%. A very wide margin in comparison to the economy average, which is more evenly spread, favouring male unemployment by a small 0.2% difference.

Chart 3: Change in full-time, part-time and self-employed work between Q2 2021 - Q3 2021 (000s)



Source: ONS

FULL-TIME EMPLOYMENT IS ON THE UP

Between the second and third quarters of 2021, latest data shows full-time employment increased by 39,000 across every industry. In comparison, there has been a significant increase in part-time work which expanded by 208,000 within the six-month period. This statistic is indicative of the challenges businesses have faced due to labour shortages, with the majority of part-time workers in the hospitality industry. This increase also reflects the expected rise in part-time work due to seasonal demand expected in the months leading up to the festive period that has just gone.

Overall, latest figures for the three-month average to October 2021 shows there are currently over 32 million workers in employment, with 24 million of those being in full time and 8 million in part-time work. All these figures are an improvement on exactly this time last year, except in the case of full-time self-employed which saw a drop of 167,000.

Interestingly, between Q2 and Q3 of last year, whilst self-employment in part-time increased by 22,000, full-time self-employment declined by 25,000. This may be a sign of changing times with an increase in self-employment amongst the working population who are increasingly taking on part-time activities to supplement themselves with a second income.

THE ECONOMIC OUTLOOK

Since the reopening of the economy, many industries have experienced a dramatic turnaround following a challenging year for business – which saw GDP reduce by almost 10% in 2020. Both the UK and manufacturing industry's output are expected to recover the majority of what they lost that year, with some industries forecast to return to pre-covid levels by the end of 2022.

However, the faster than expected rebound in activity came with its own list of challenges that changed the nature of the risks faced by manufacturers for 2022. On top of this, businesses are wary of the impacts of the new Omicron variant, with the full effects unlikely to be realised as of yet due to extended Christmas shut-down periods. The list includes significant shortages in labour and increasing costs, particularly in the cost of raw materials, that is increasing the cost of doing business. To avoid inflation spiralling out of control, the Bank of England has raised the base interest rate from 0.1% to 0.25%, more than doubling the cost of borrowing.

There may be more rates increases to come soon, but the central bank will need to be cautious, particularly if social restrictions return to a high degree. If so, it is likely the economy will experience another fall in demand which will ease pressure on capacity and may artificially bring inflation down again before it inevitably rises again during a future reopening.

Table 1: Economic Outlook

Annual % change

	2019	2020	2021	2022
Economic Environment				
GDP	1.3	-9.9	7.2	5.7
CPI	1.8	0.9	2.5	3.8
Short-term interest rate (%)	0.8	0.3	0.1	0.4
Labour market				
Claimant count (% rate)	3.2	5.6	5.7	4.5
ILO (%)	3.8	4.5	4.6	4.3
Average Earnings	3.4	1.6	5.4	3.2
Manufacturing employment (000s)	2,710	2,618	2,539	2,562

Source: Oxford Economics

In the case of labour, manufacturing has been hit by a well-known problem that has been vastly exacerbated by the pandemic. The impact of labour shortages was brought home to consumers when the worldwide shortage of truck drivers hit the UK hard earlier last year when a combination of Brexit and Covid-19 saw thousands of EU citizens leave the country since January 31st, 2020. Vacancies appear to be at an all-time high, with over 93,000 jobs unfilled within the sector. Despite the end of the JRS, which still had just around 120,000 manufacturing workers on furlough by 30th September, it seems the labour shortages have persisted, and the problem is primarily a shortage of available skills.

INFLATION OUTLOOK

The Consumer Price Index (CPI) grew slowly throughout 2020 as pandemic-induced restrictions limited demand for goods and services. Average prices grew by less than 1% in that year. However, the majority of 2021 was dominated by rising cost pressures upstream, with input inflation exceeding double digit growth impacting manufacturers directly.

As a result, average consumer goods inflation was expected to be sharply higher by the end of 2021, with most recent figures indicating a growth of more than 5%, more than double the Bank of England's target of 2%. Average inflation is forecast to expand even further in 2022.

The central bank recently responded by raising interest rates marginally, a response that will likely have little impact on the outcome. However, the move signals that the bank is ready to act when necessary and highlights how concerned they are about rising inflation despite the increase in Omicron infections.

The largest contributions in cost pressures have risen mainly from goods in transport equipment, fuels, and energy according to official statistics.

Table 2: Inflation trends and forecasts

		CPI	RPI	RPIX
2020	Q1	0.0	0.2	0.3
	Q2	0.1	0.3	0.4
	Q3	0.4	0.5	0.6
	Q4	0.1	0.2	0.2
2021	Q1	0.6	0.5	0.5
	Q2	2.0	2.2	2.3
	Q3	2.8	1.6	1.6
	Q4	4.5	1.9	1.9
2020		0.9	1.5	1.7
2021		2.5	3.9	4.0
2022		3.8	5.4	5.2

Source: Oxford Economics

Survey methodology: The survey was undertaken between in November 2021.
152 manufacturing employers responded with their responses covering over 10,000 employees in total.

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