

Earnings dynamics in a tightening labour market: evidence from ASHE

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Head of Economic Analysis, ONS

Outline

- Distribution of earnings levels
- Distribution of earnings growth

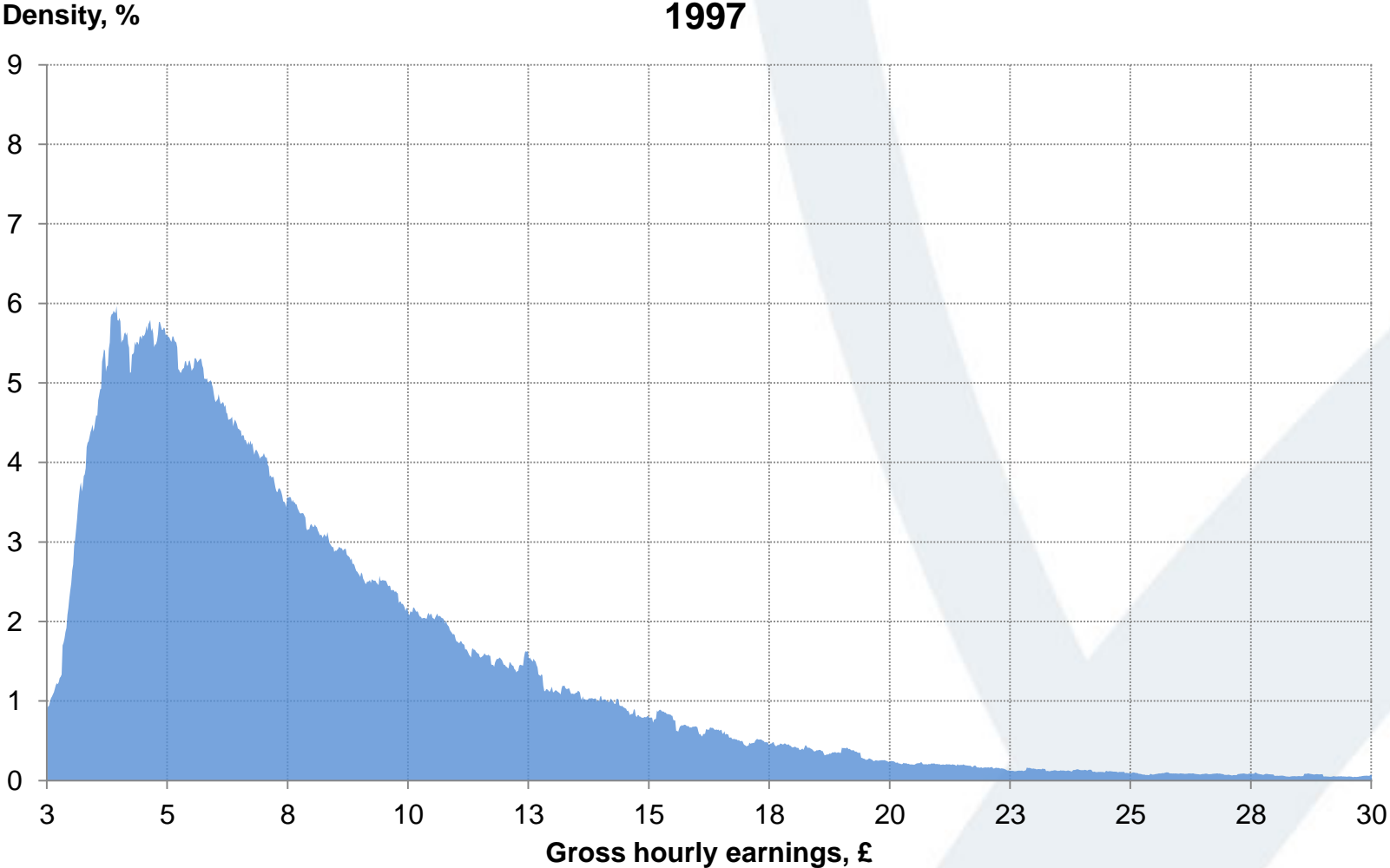
ASHE - levels

- Lots of focus on means and medians, but wide variation in levels of earnings...

ASHE - levels

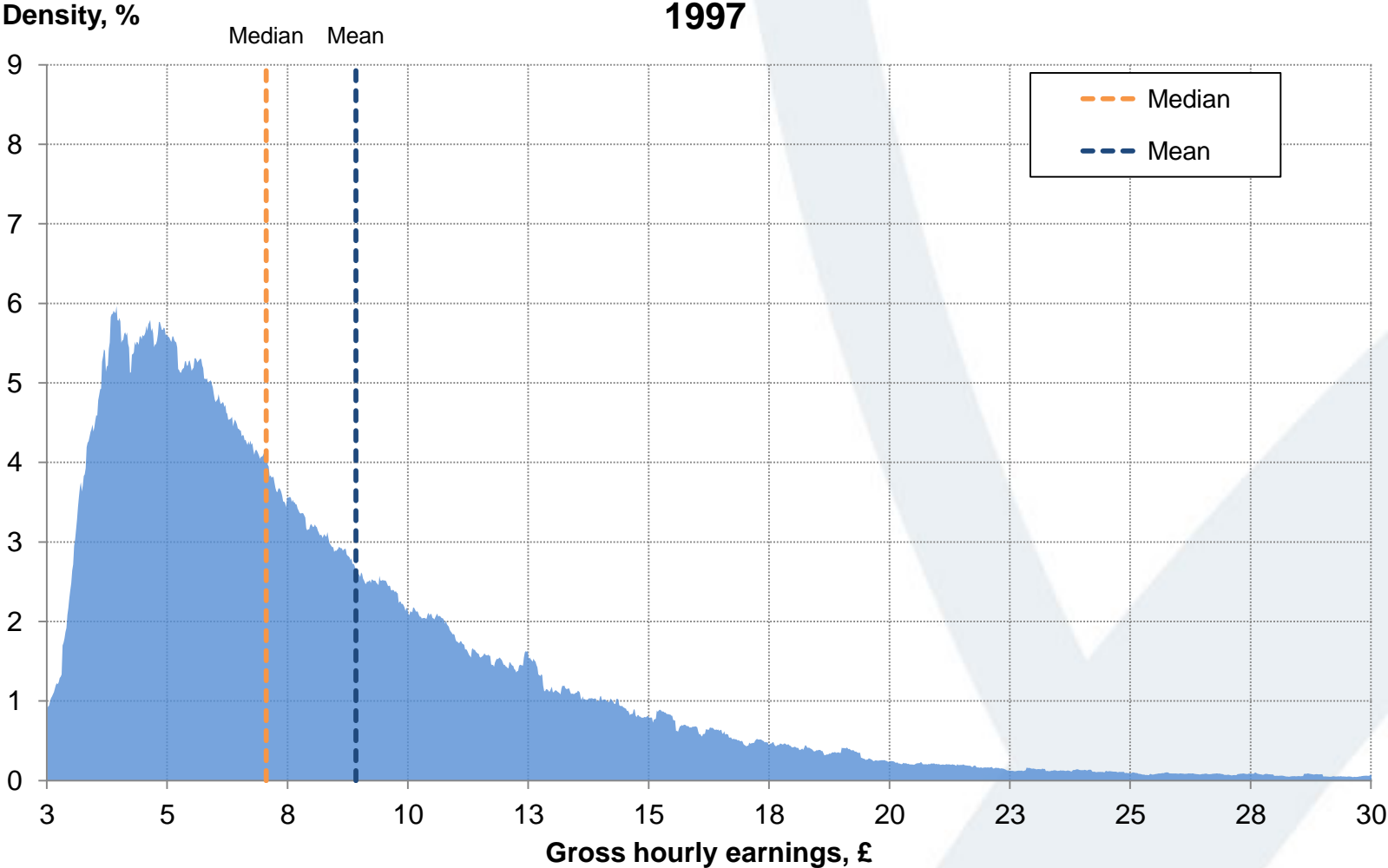
- Lots of focus on means and medians, but wide variation in levels of earnings...
- ...which has changed quite a lot through time...

ASHE – earnings distribution



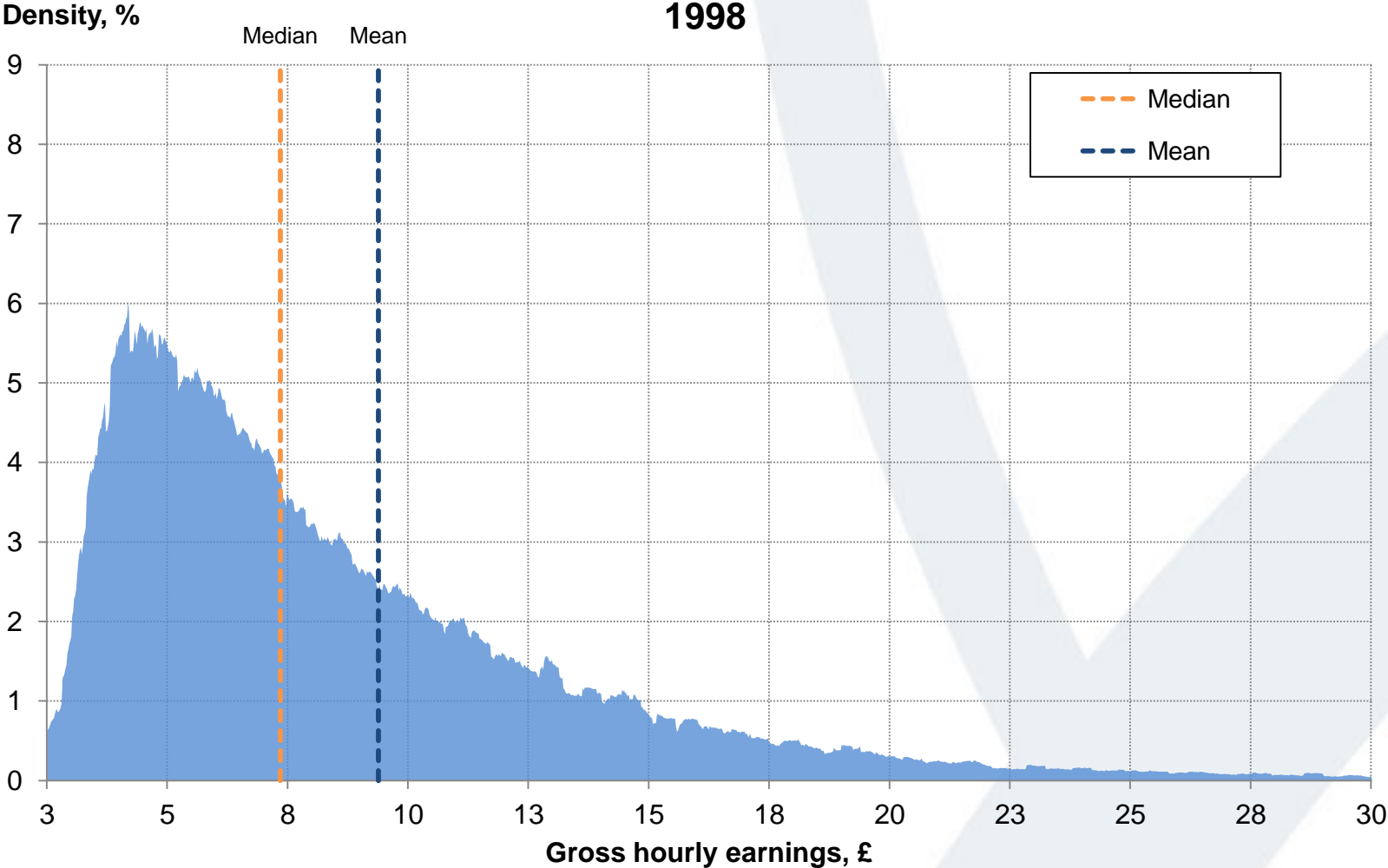
Source: Annual Survey of Hours and Earnings
Note: Density shows proportion of jobs within +/-20p of shown pay rate

ASHE - earnings distribution



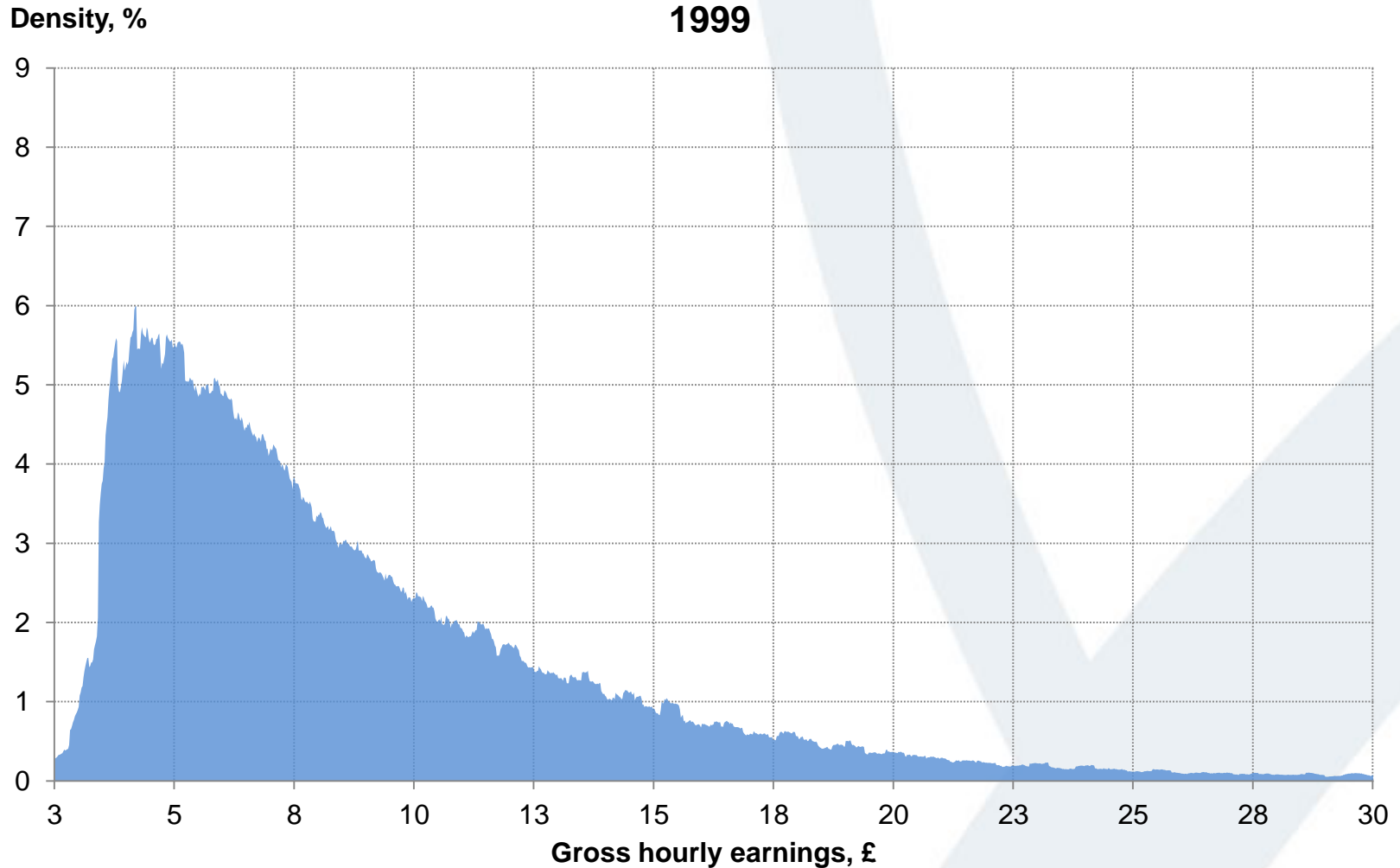
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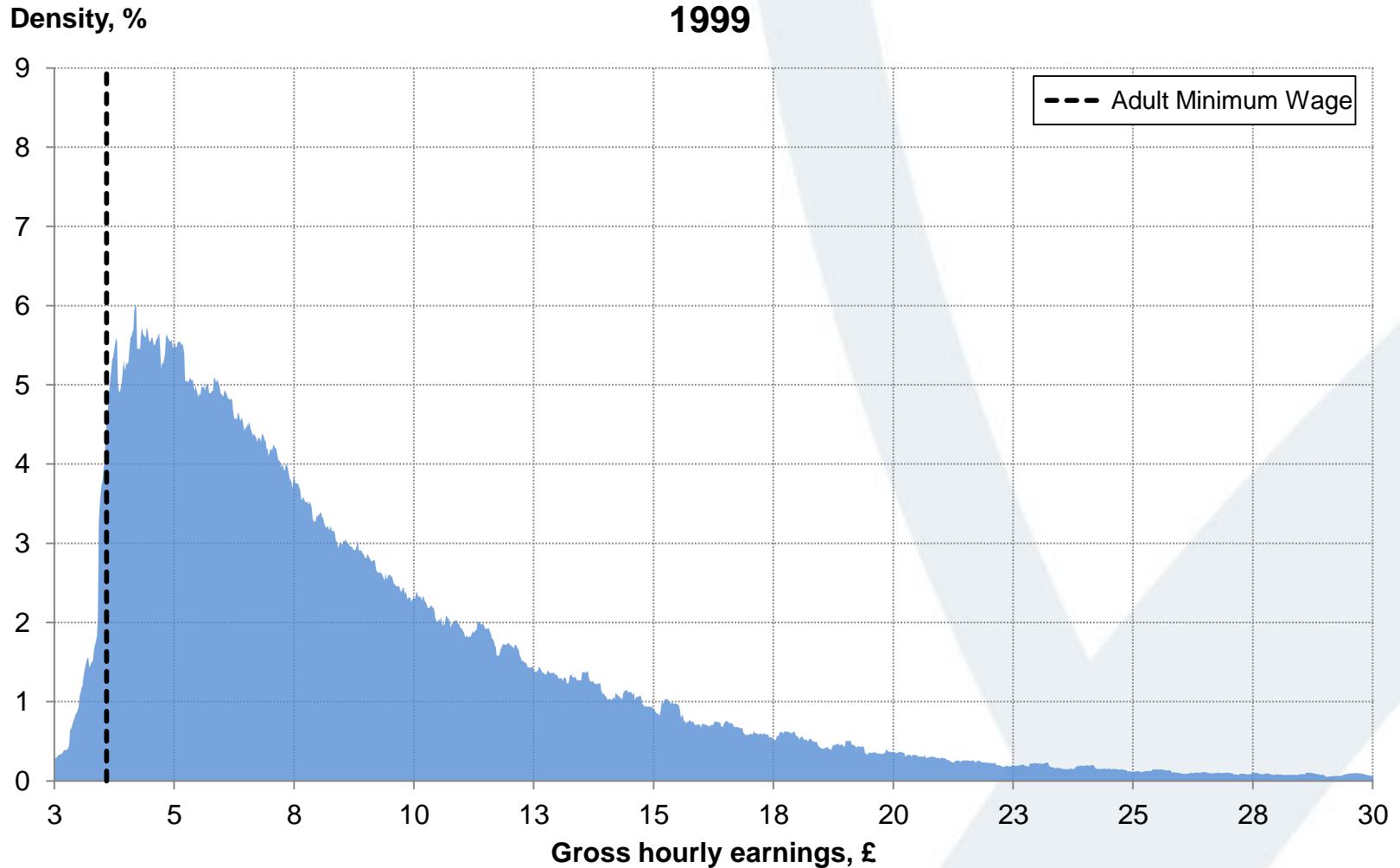
ASHE - earnings distribution



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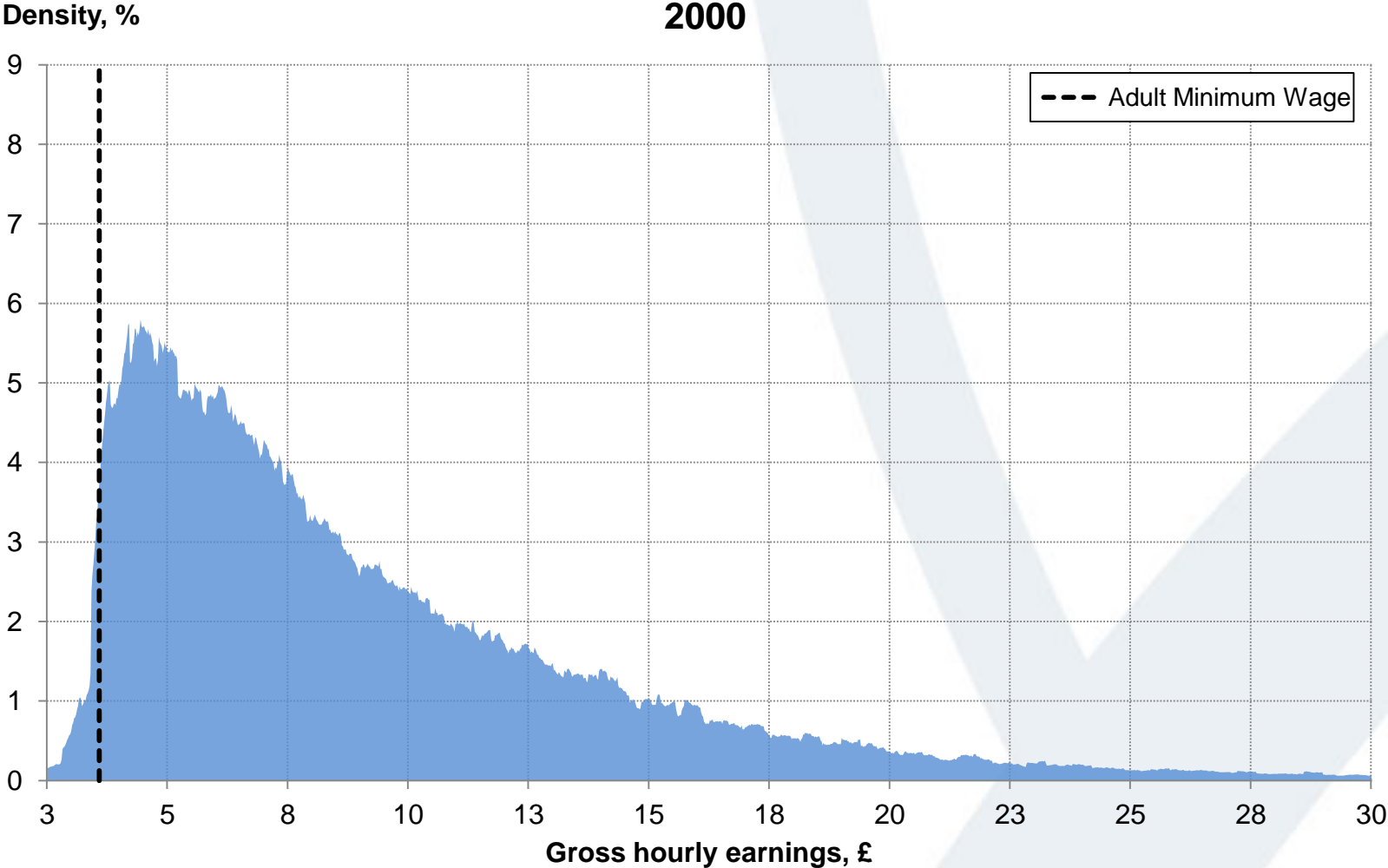
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Source: Annual Survey of Hours and Earnings

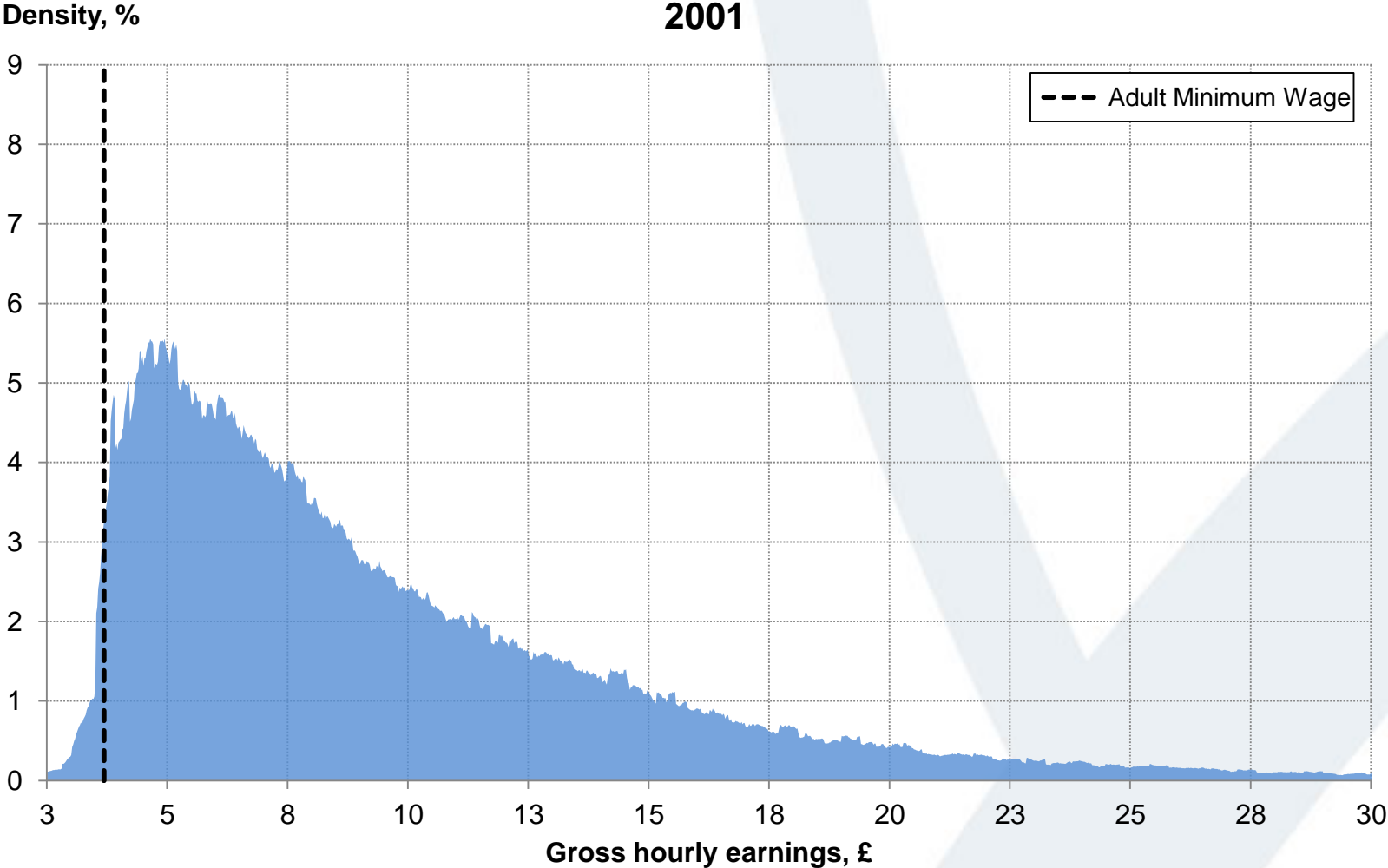
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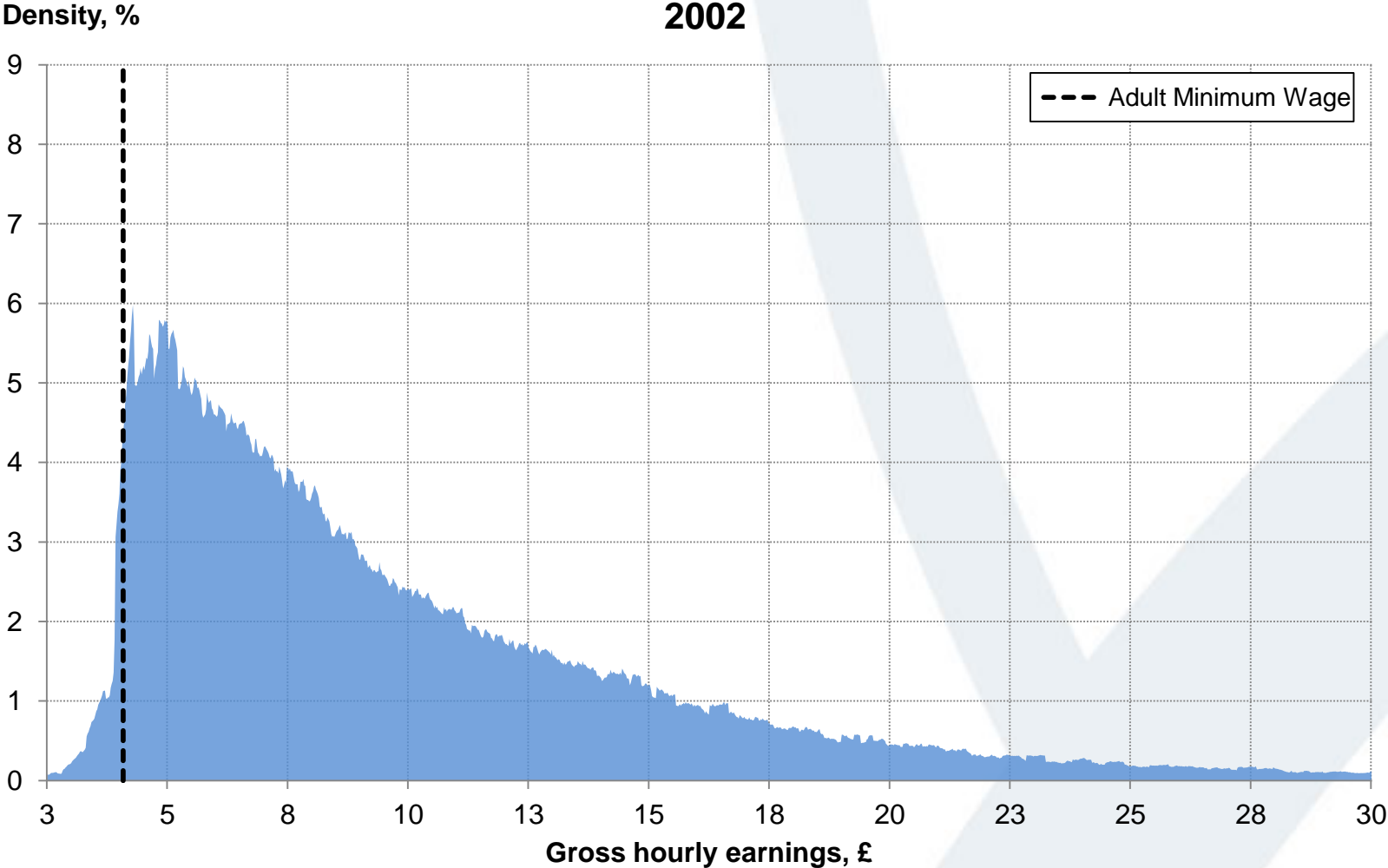
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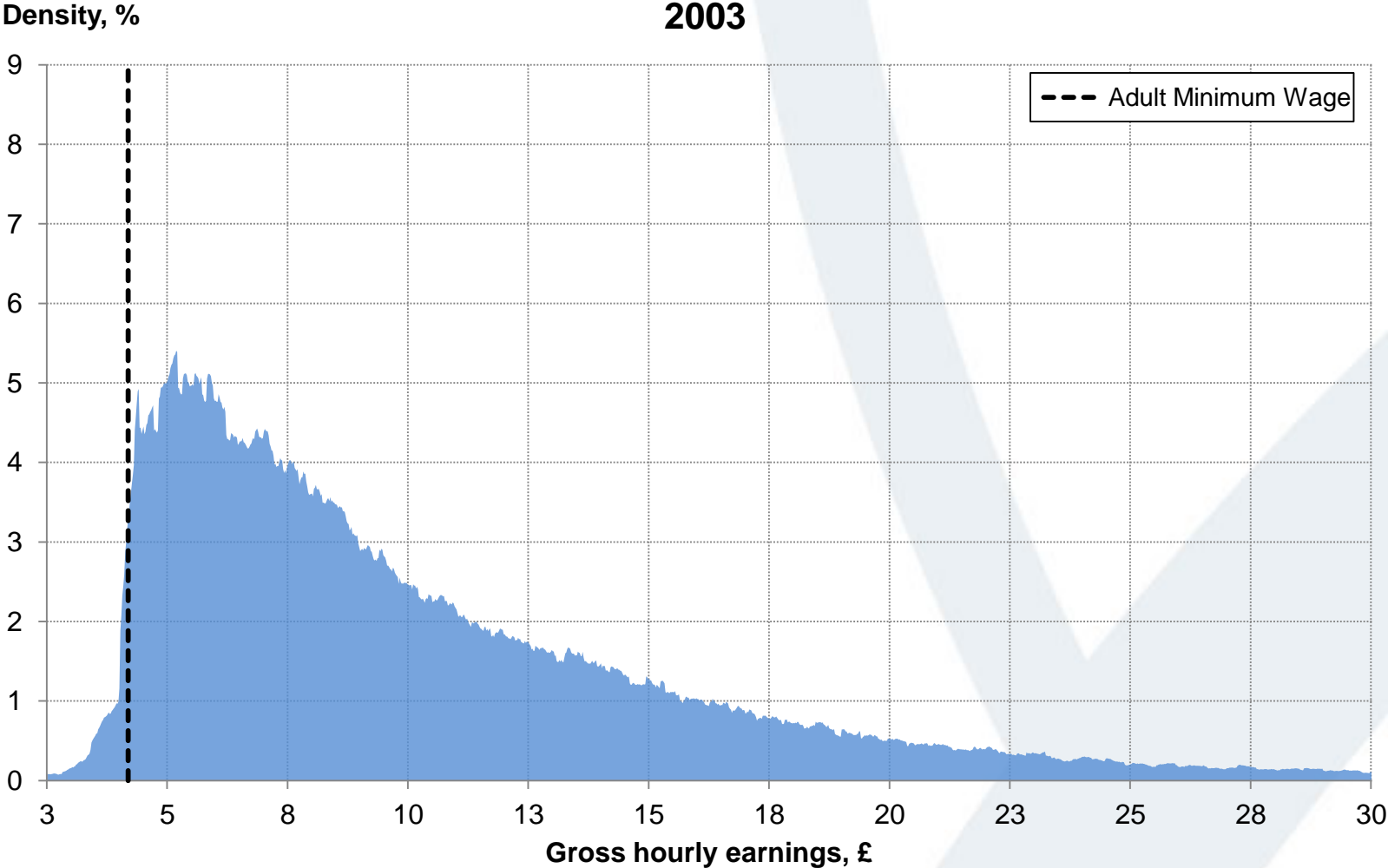
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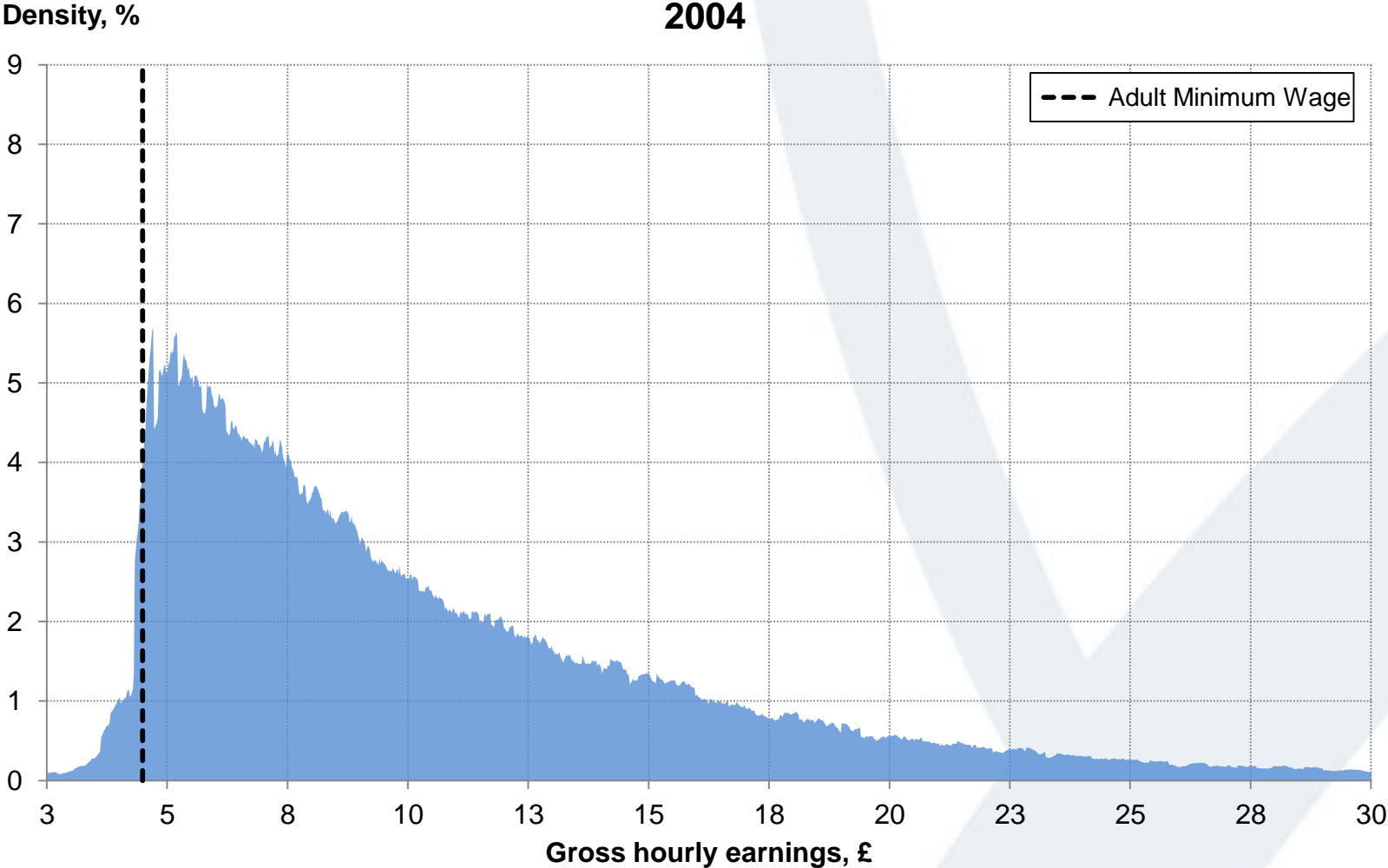
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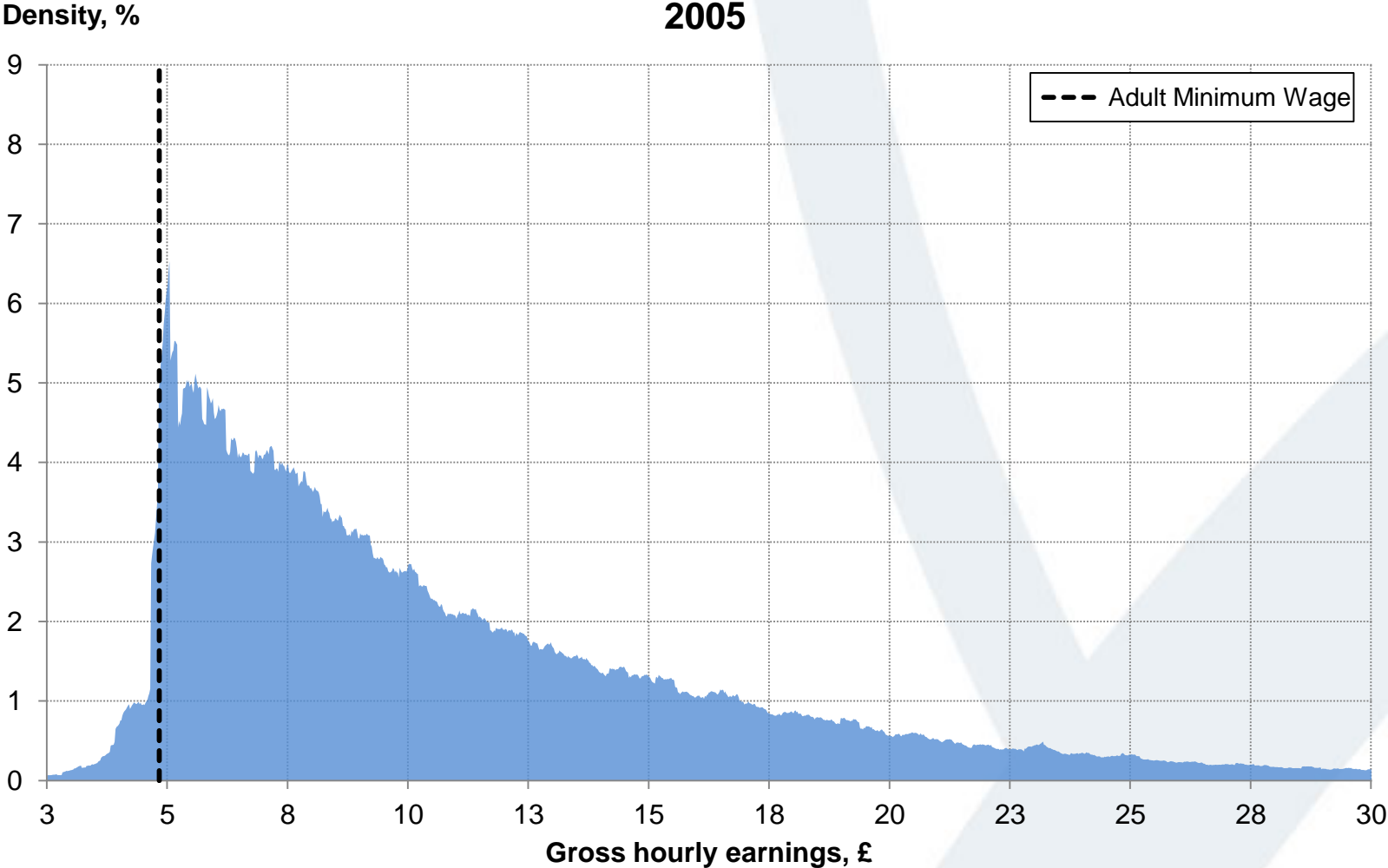
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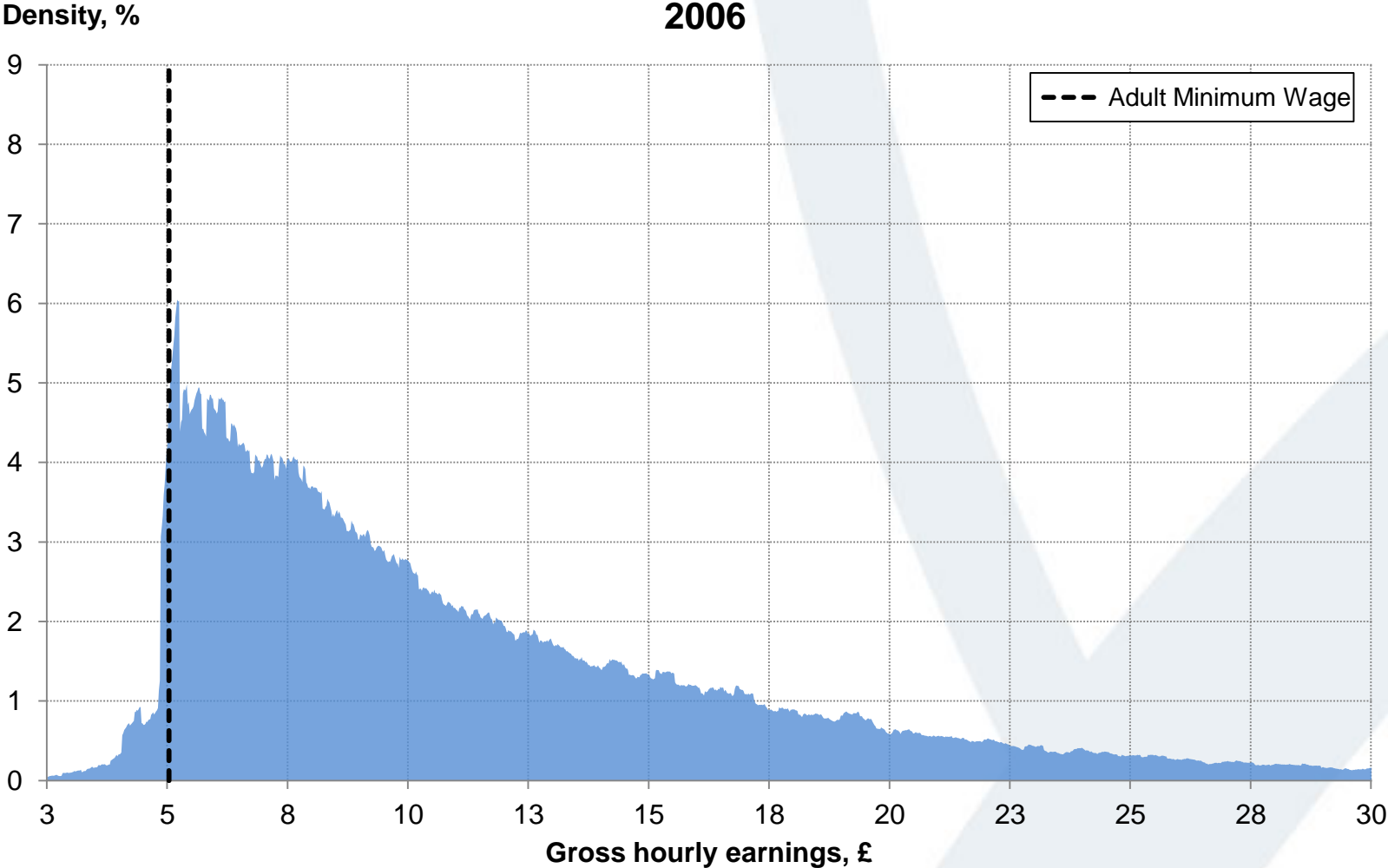
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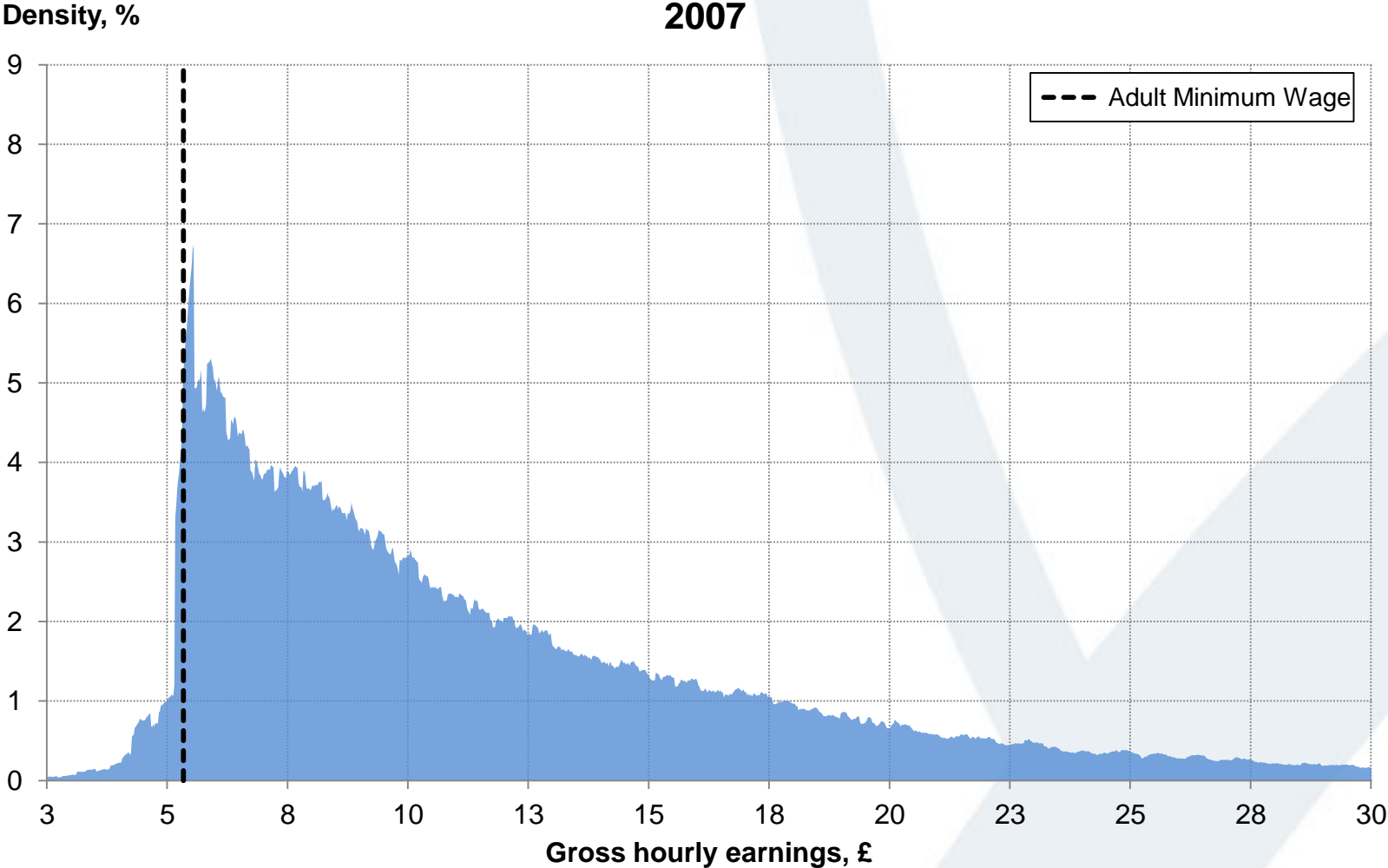
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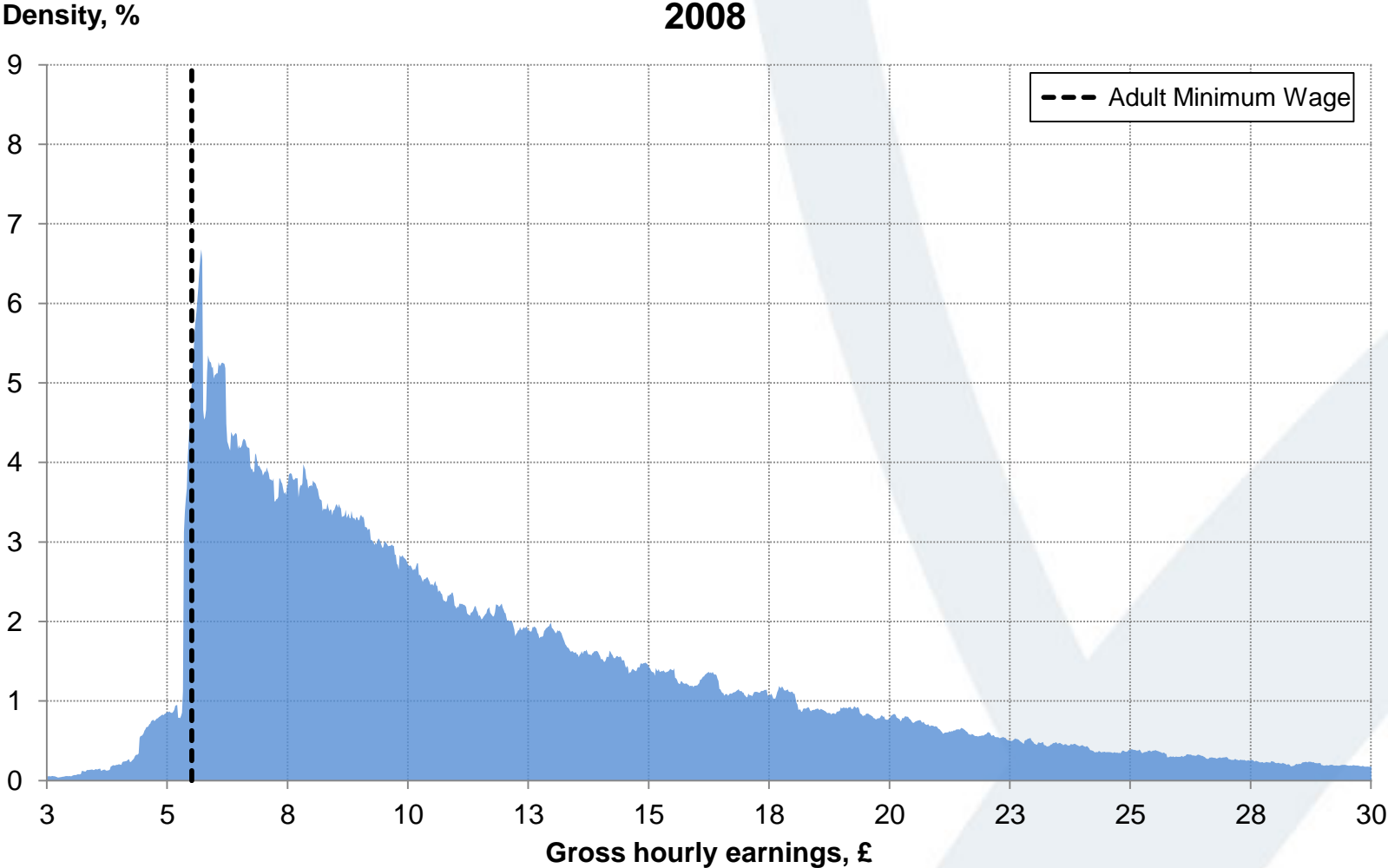
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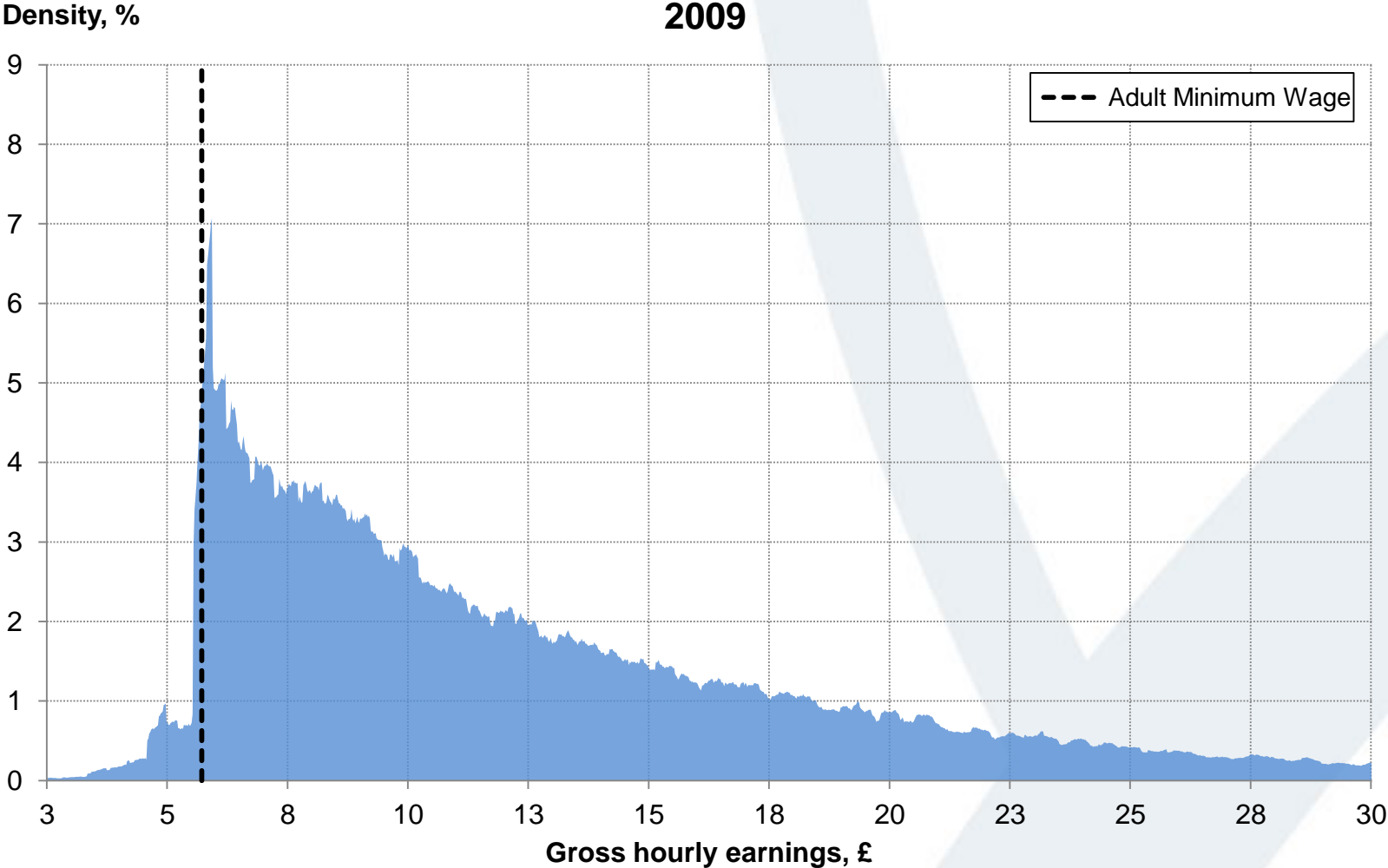
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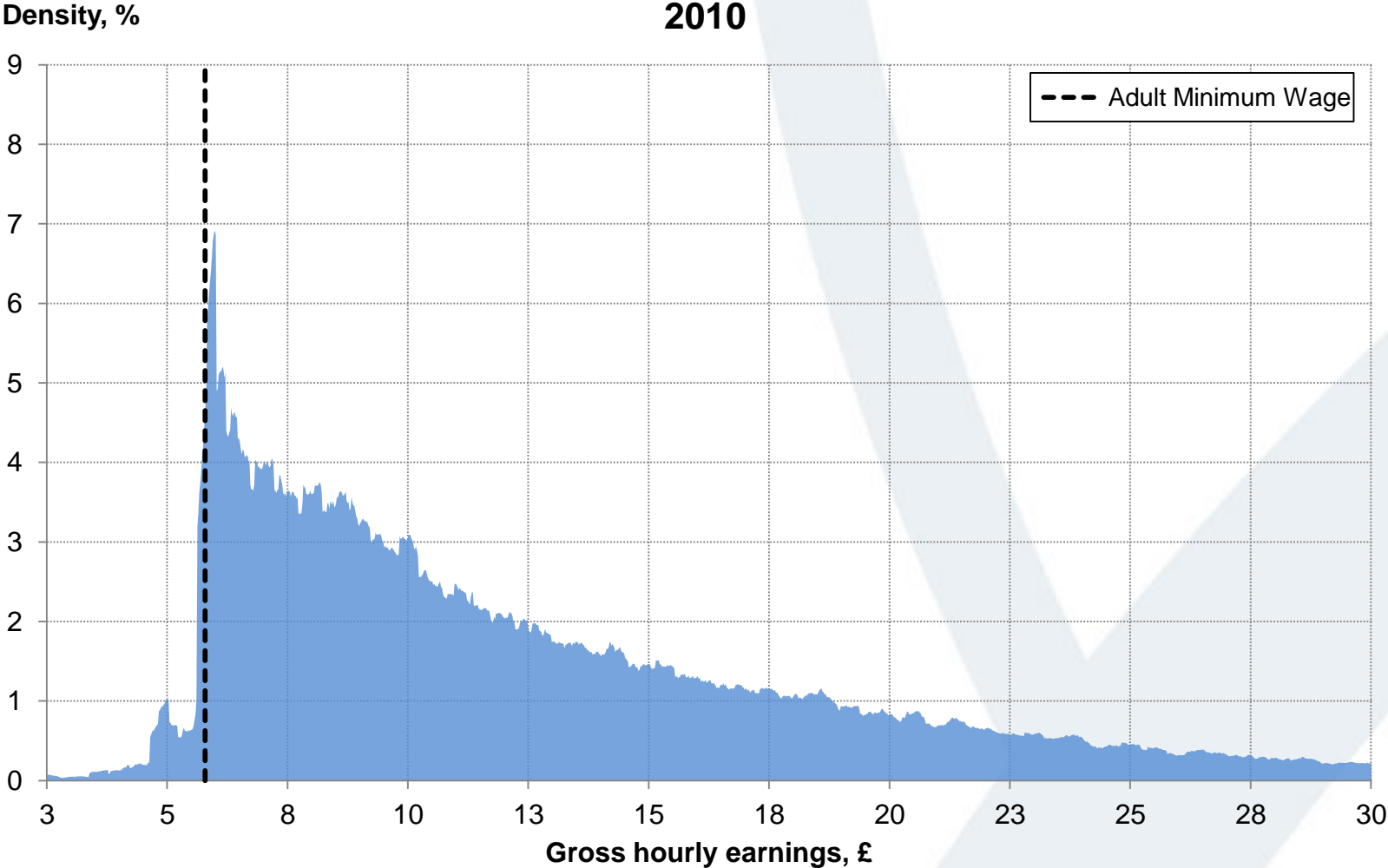
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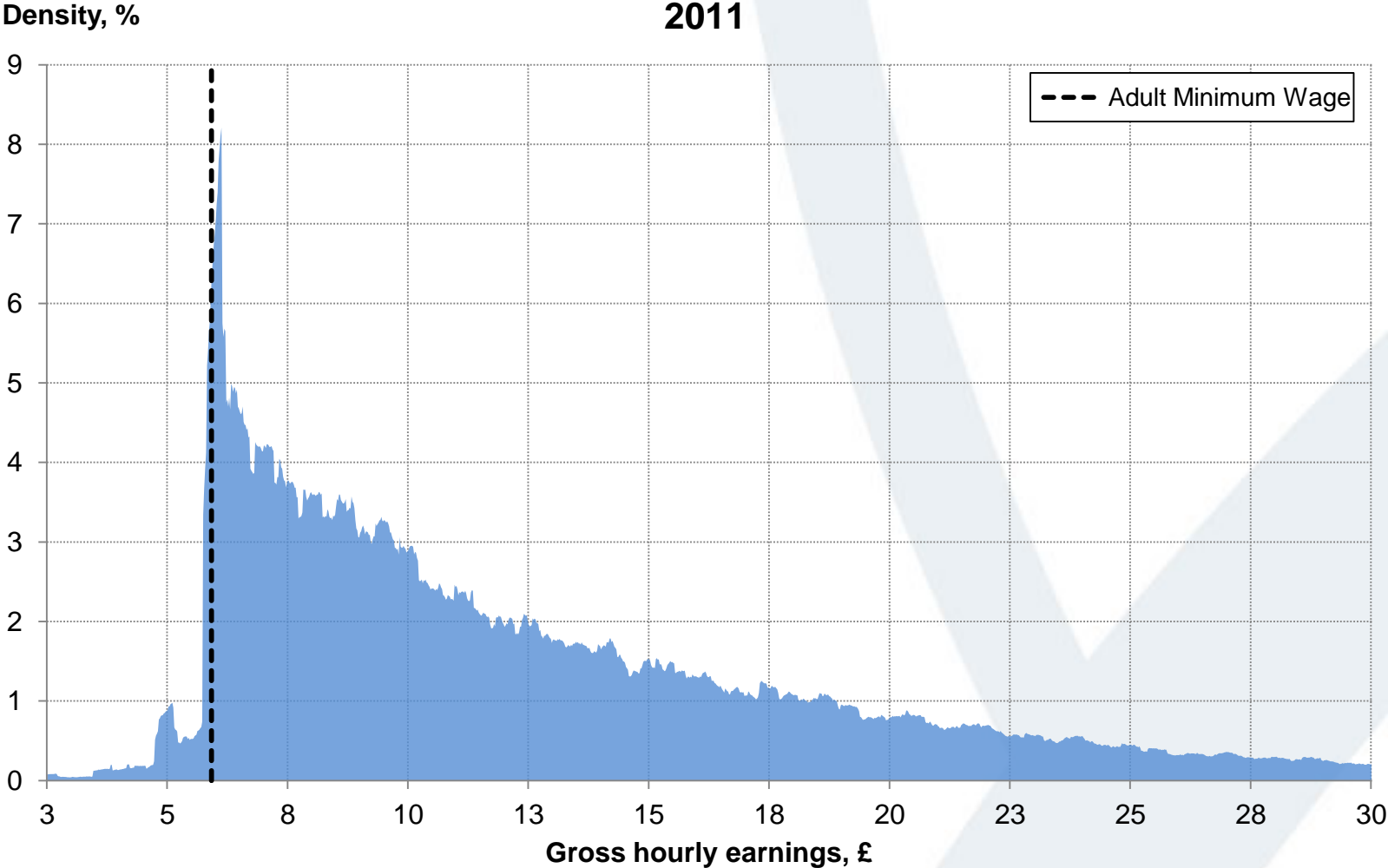
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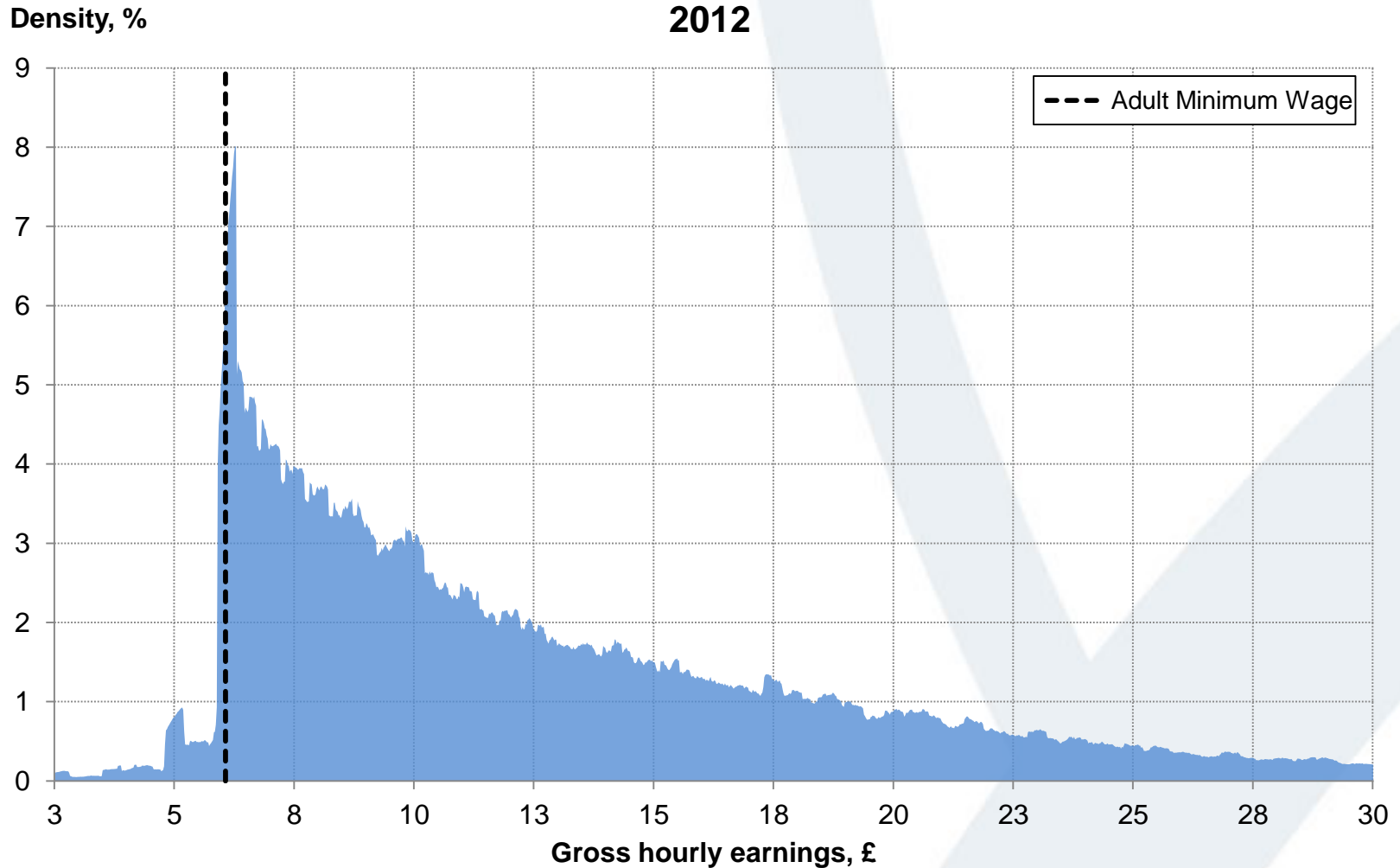
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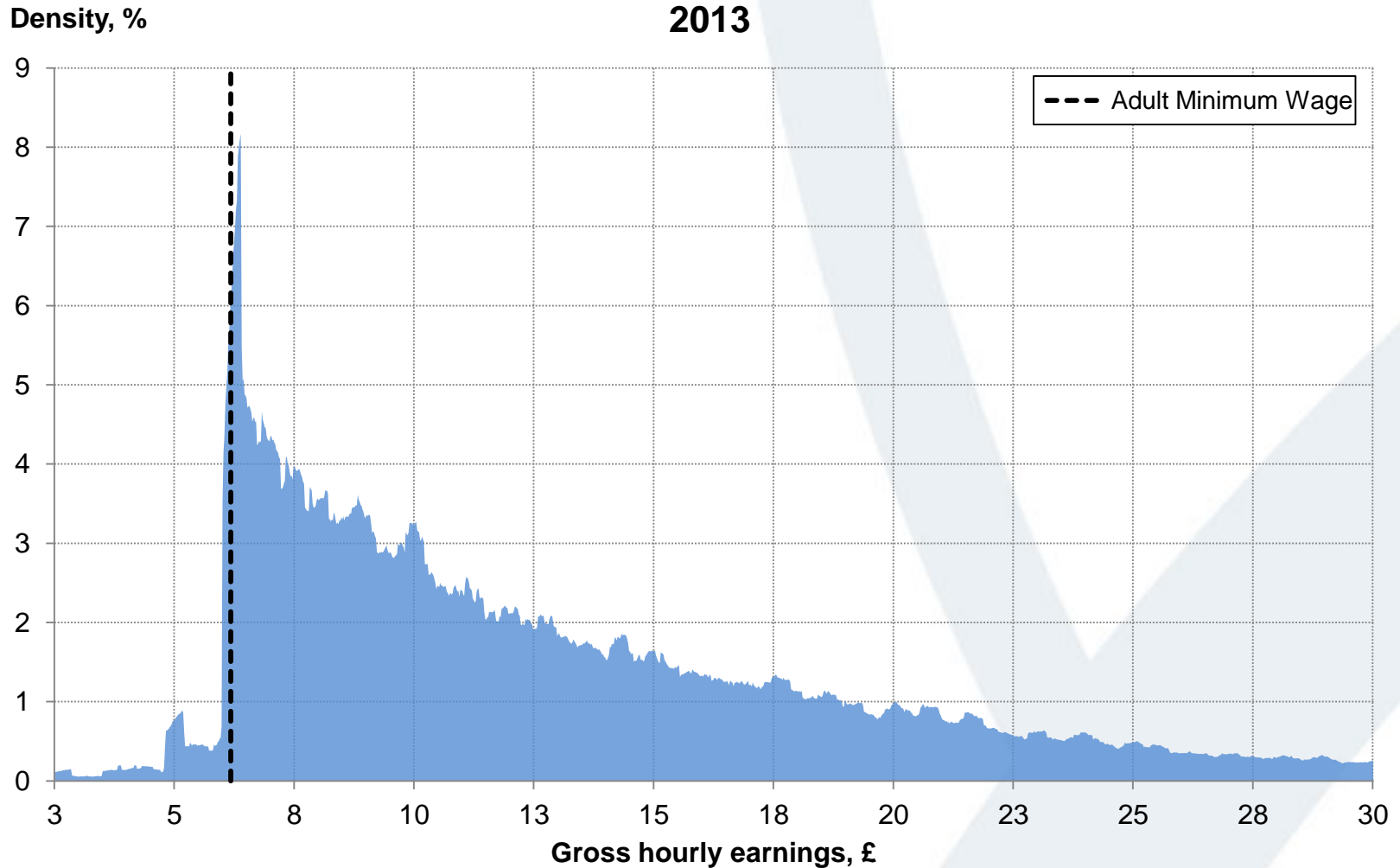
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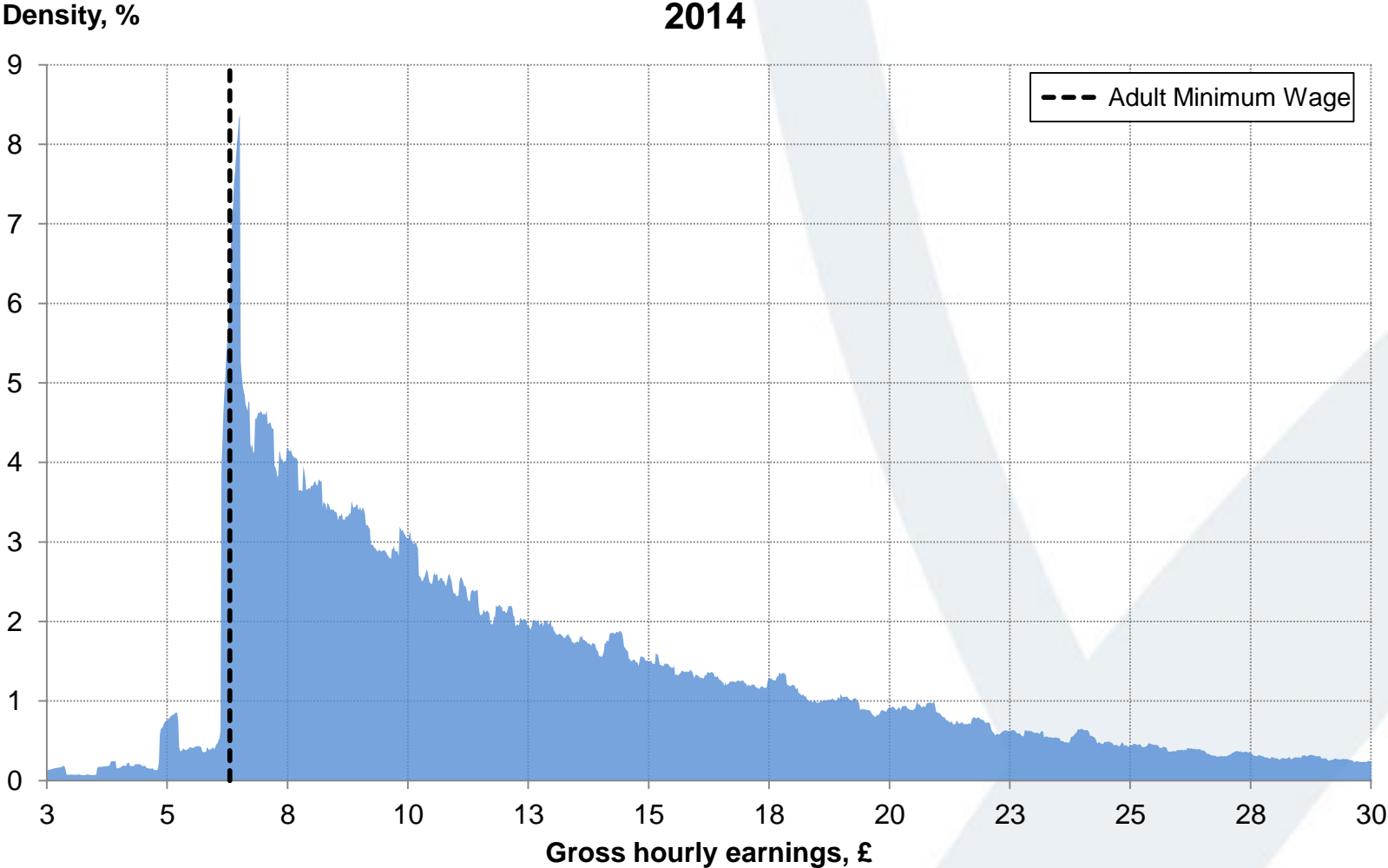
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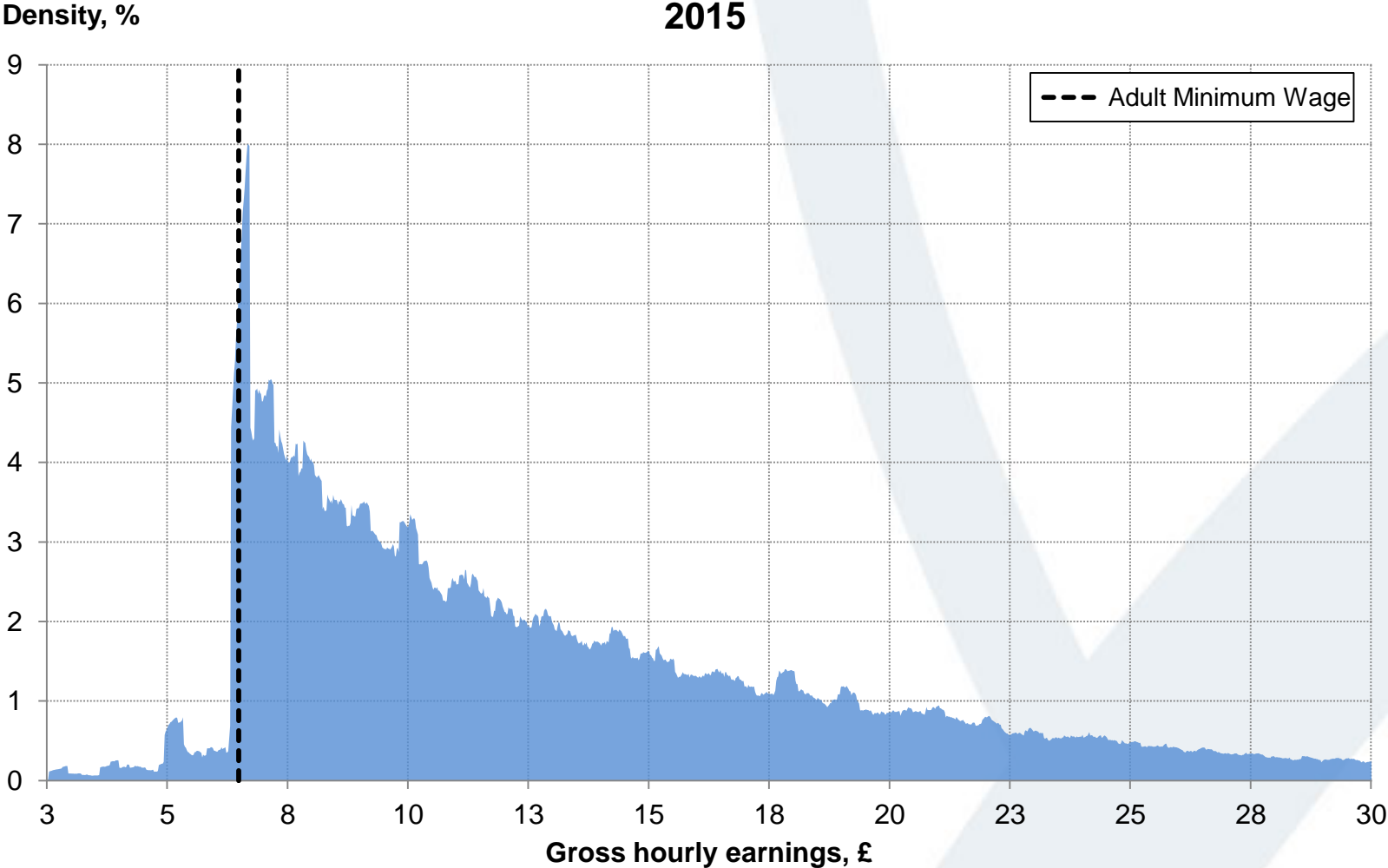
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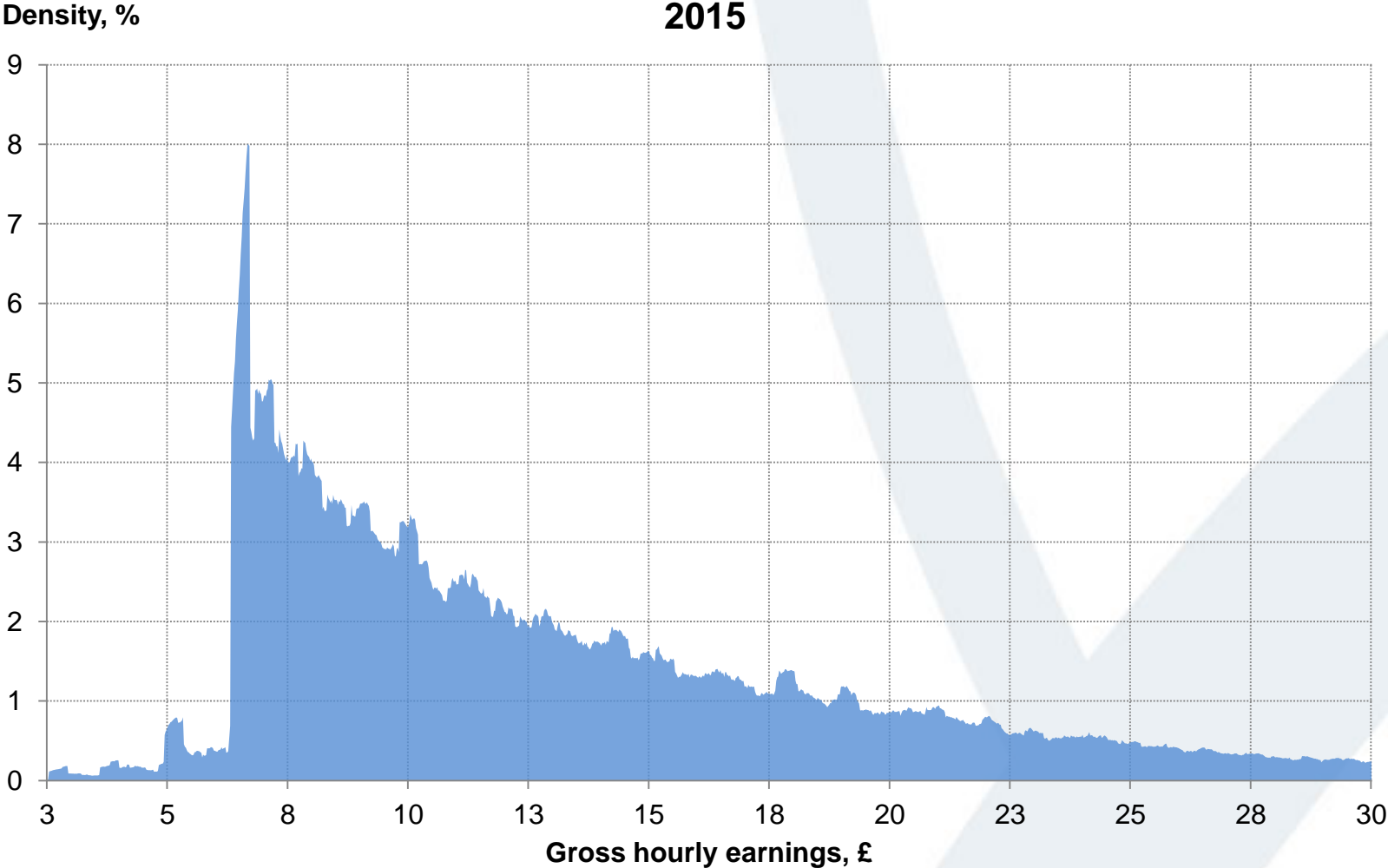
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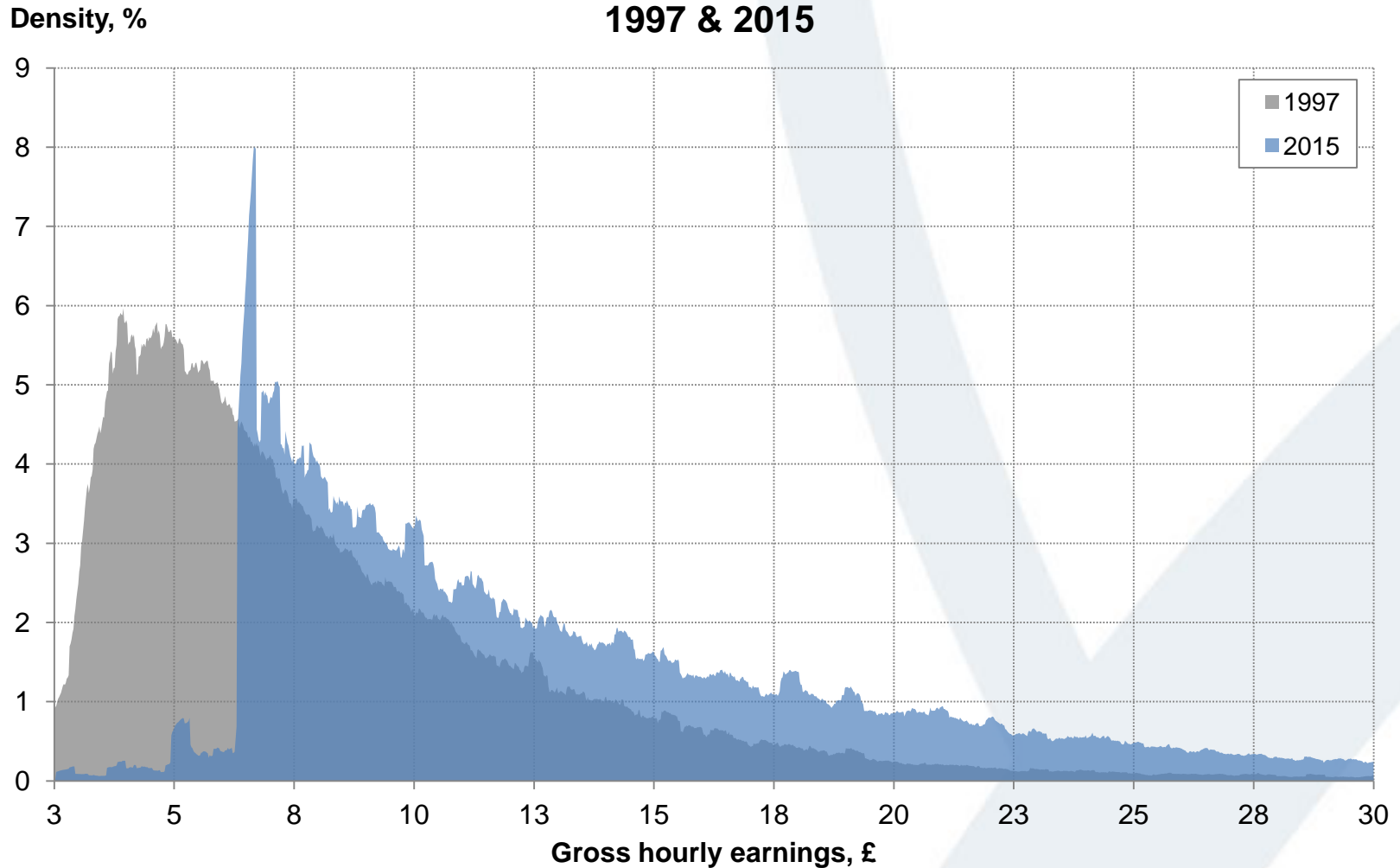
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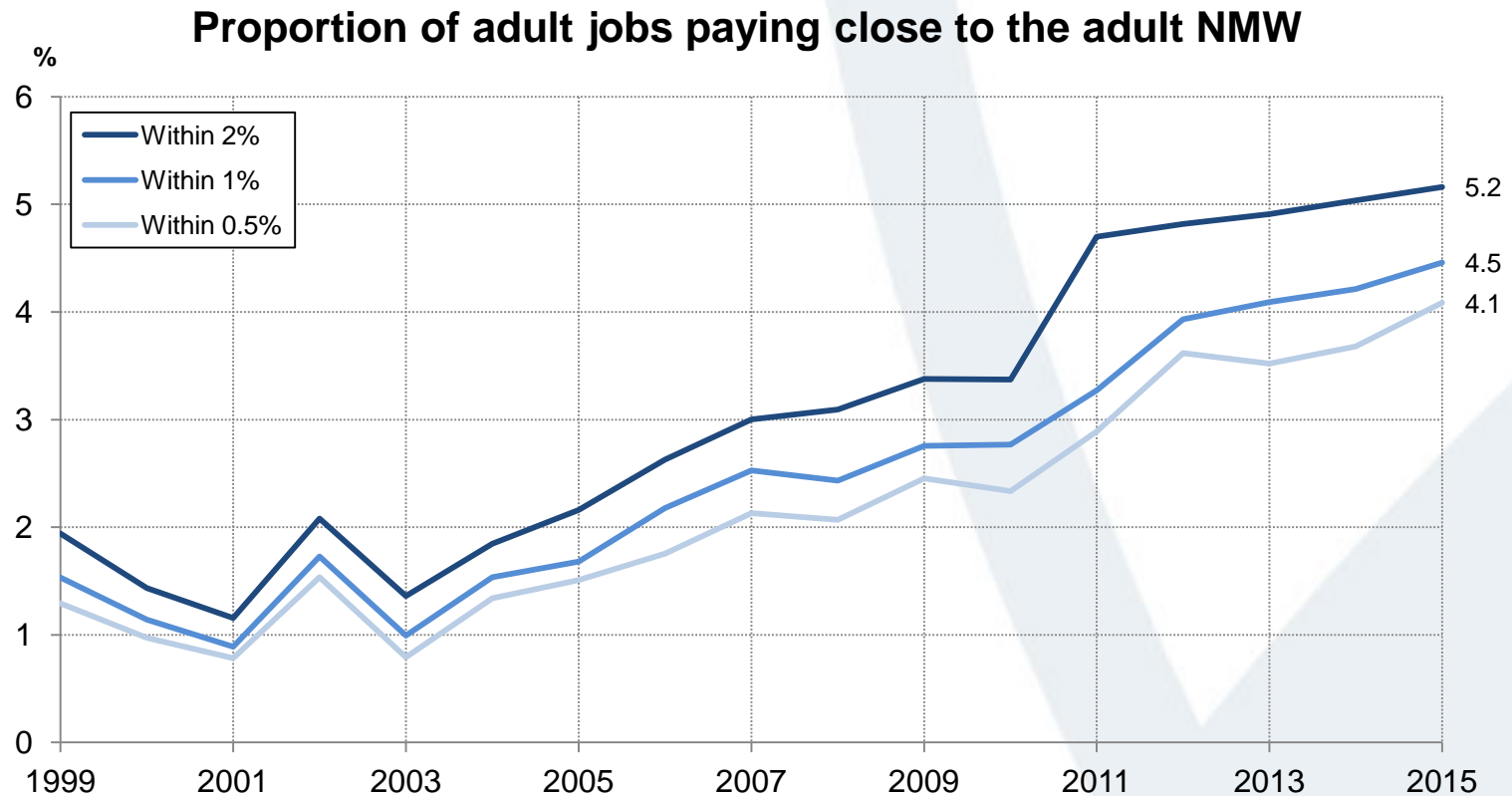
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ASHE - levels

- Lots of focus on means and medians, but wide variation in levels of earnings...
- ...which has changed quite a lot through time...
- ...driven by a range of developments.

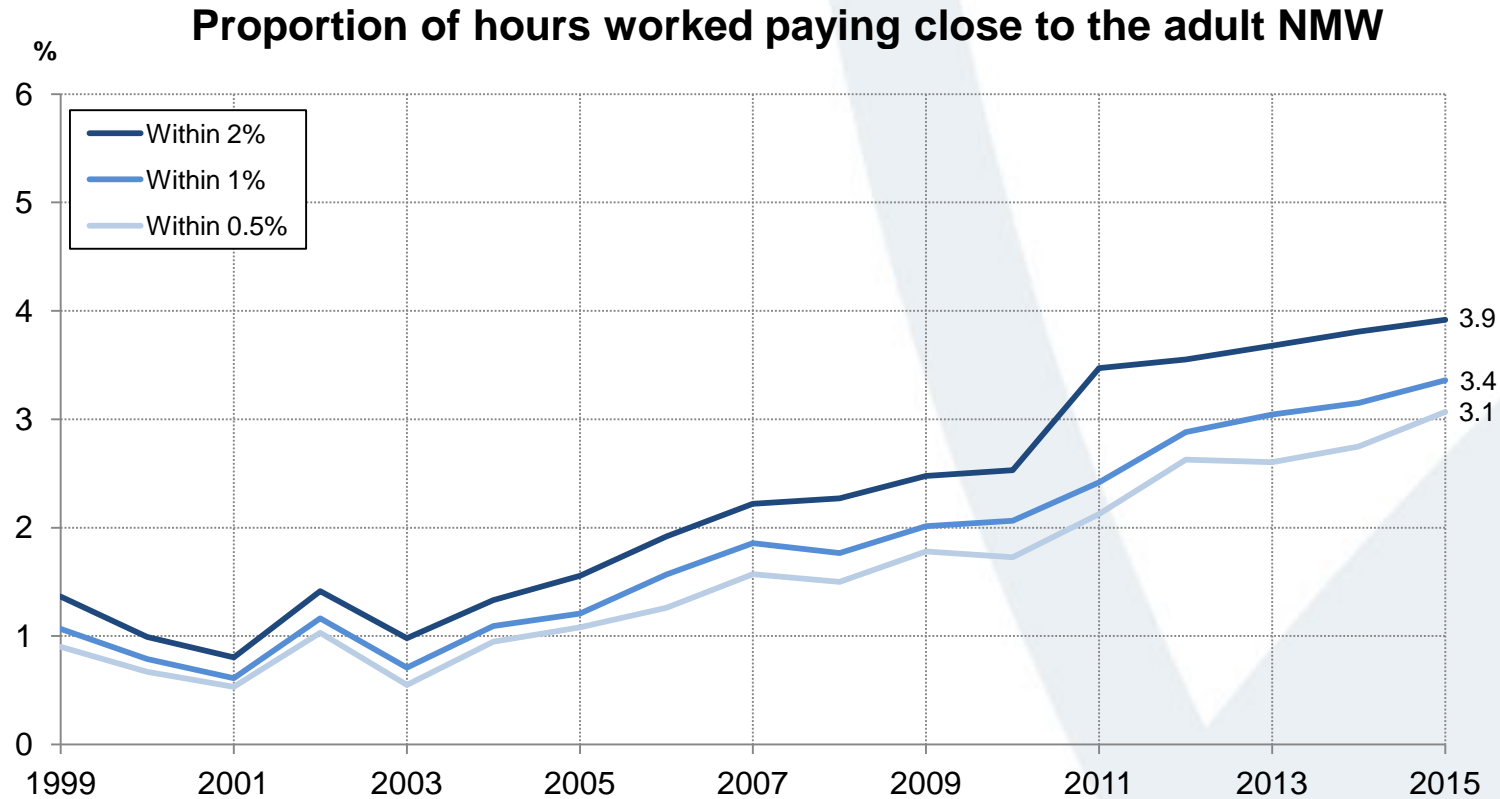
Proportion of jobs paying close to NMW



Adults are defined in accordance with the NMW adult rate, i.e. Between 1999 and 2008, adults are 22 and over. From 2009 onwards, adults are 21 and over. No account made for apprenticeships.

Source: Annual Survey of Hours and Earnings, ONS calculations

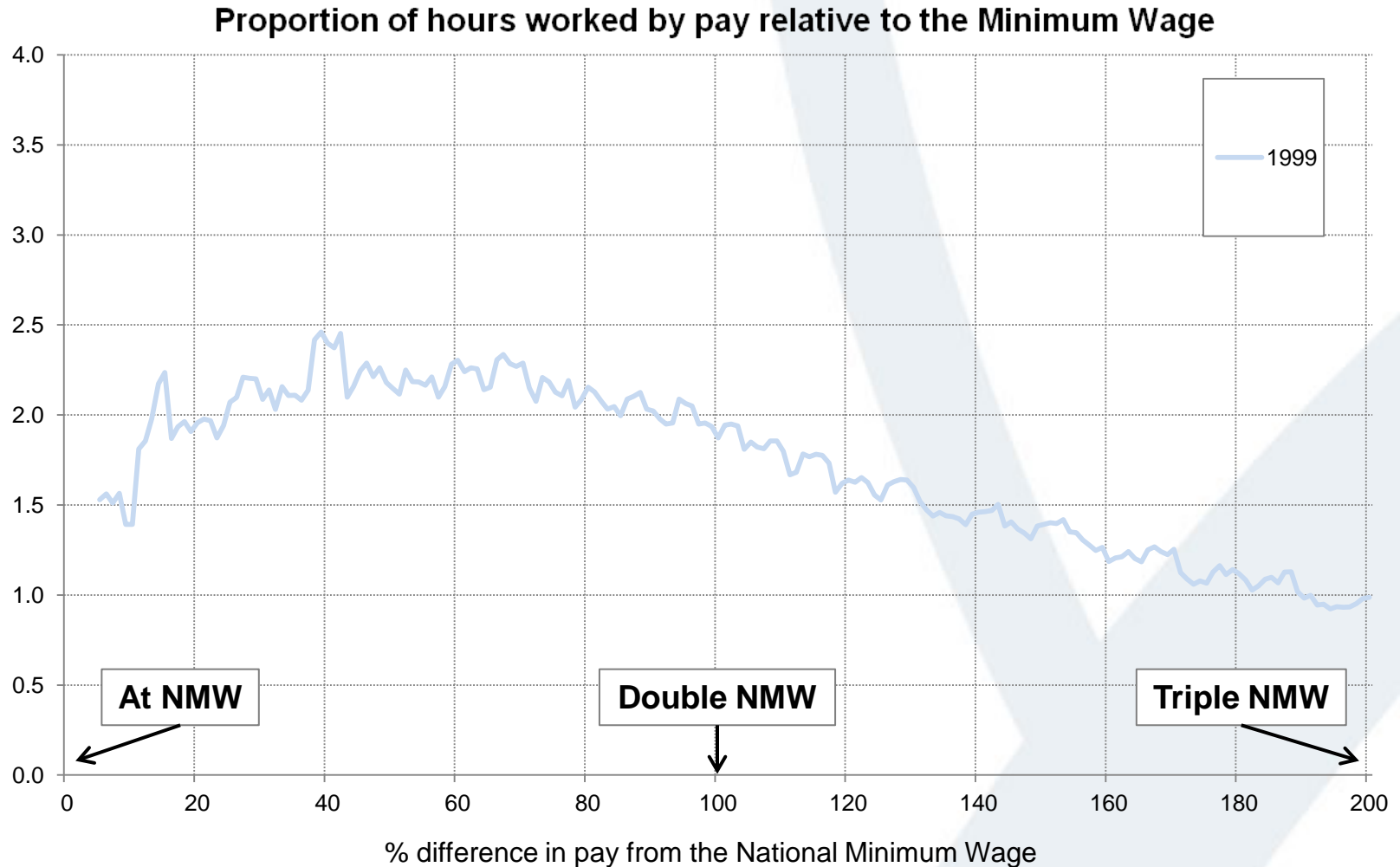
Proportion of hours paying close to NMW



Adults are defined in accordance with the NMW adult rate, i.e. Between 1999 and 2008, adults are 22 and over. From 2009 onwards, adults are 21 and over. No account made for apprenticeships.

Source: Annual Survey of Hours and Earnings, ONS calculations

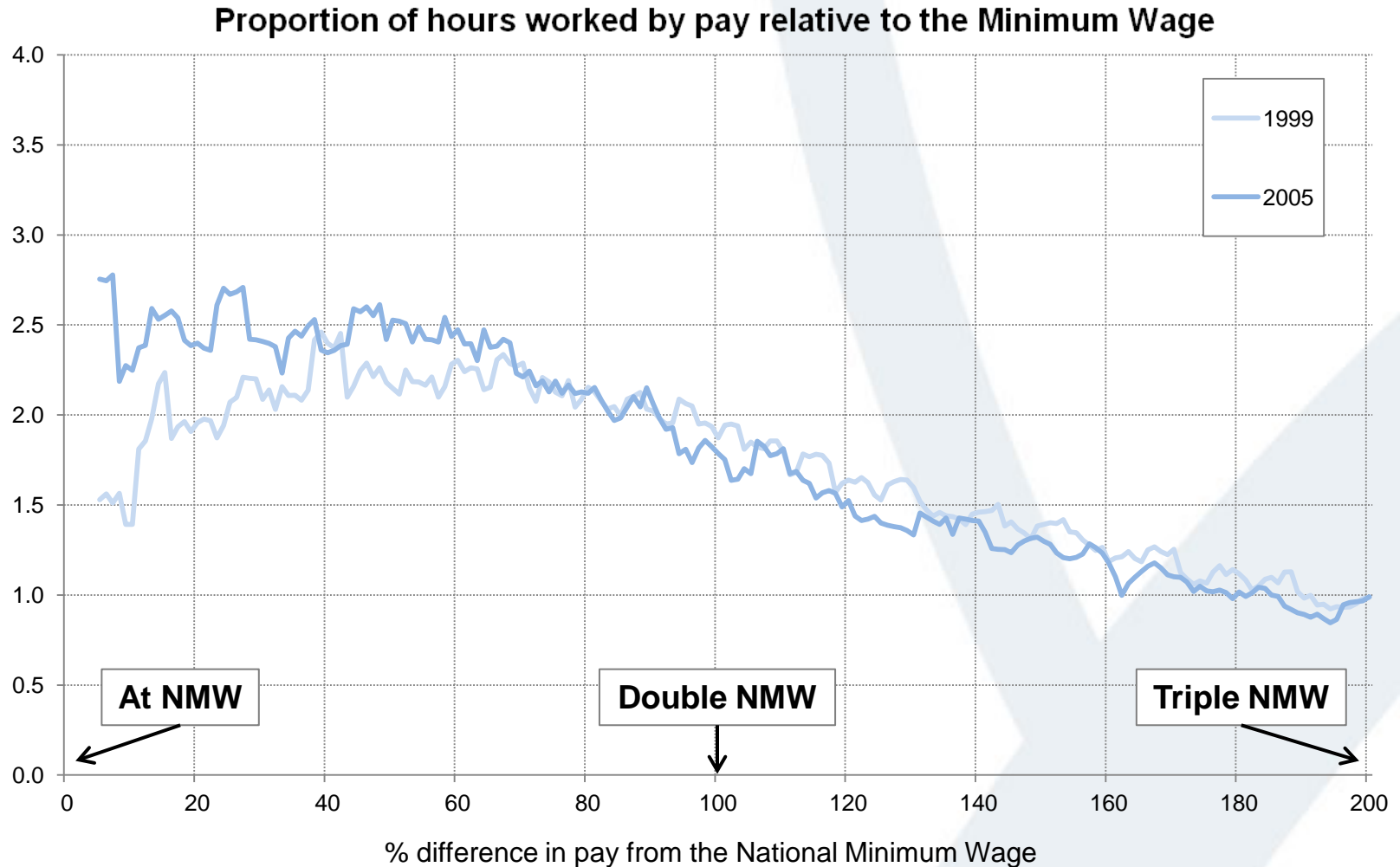
Compression above NMW?



Source: Annual Survey of Hours and Earnings, ONS calculations.

Note: Series shown are rolling sums over the five preceding percentage points.

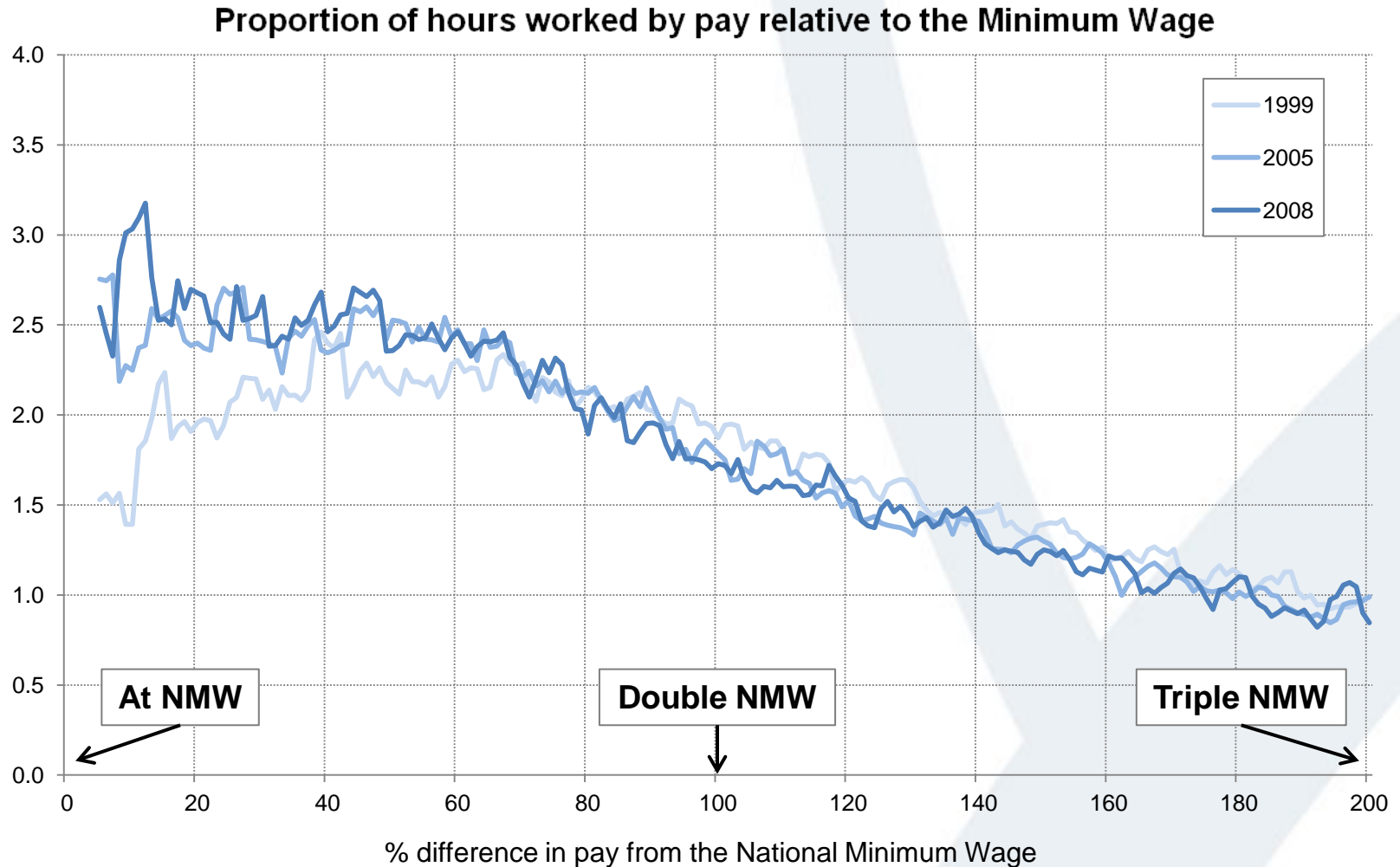
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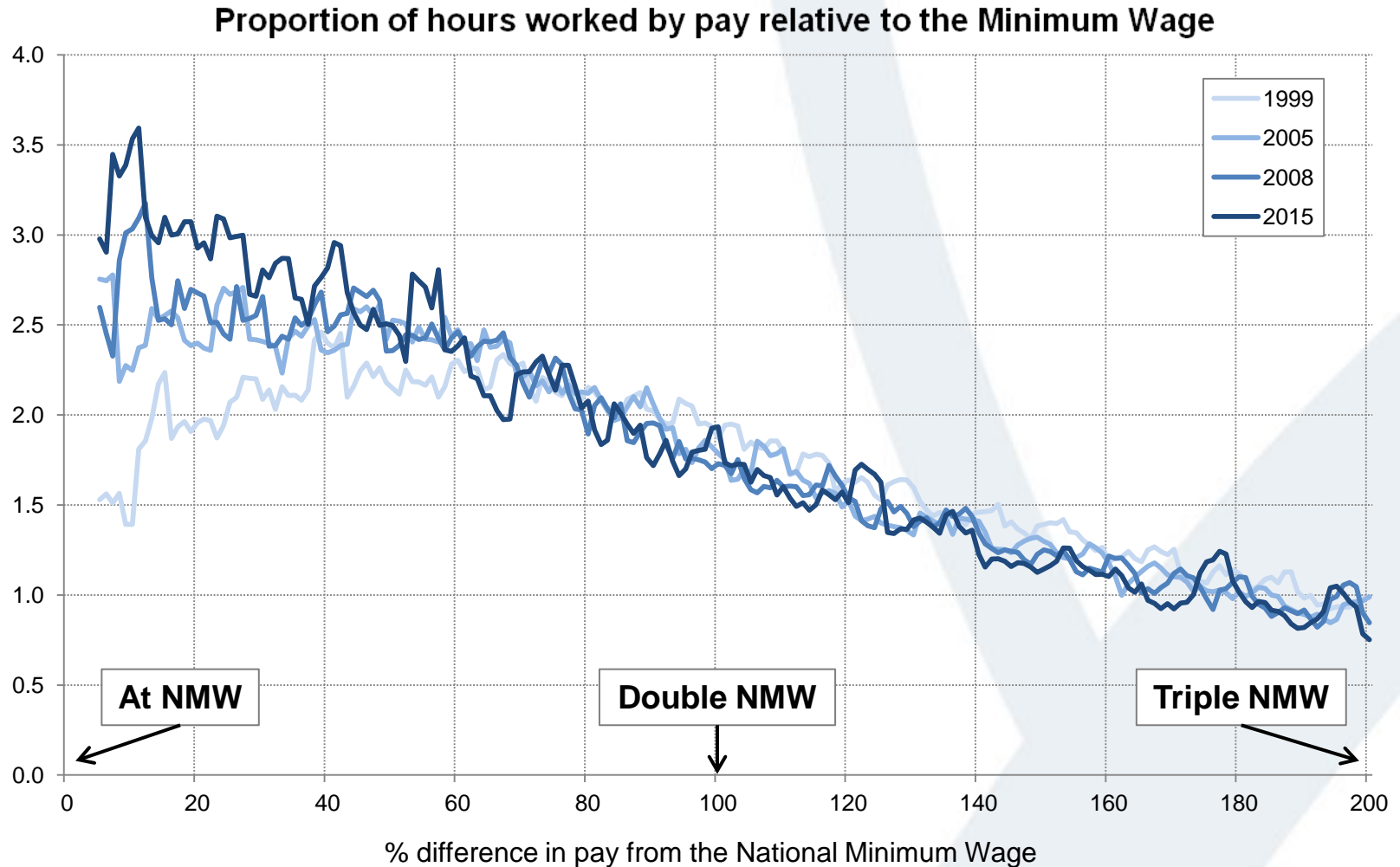
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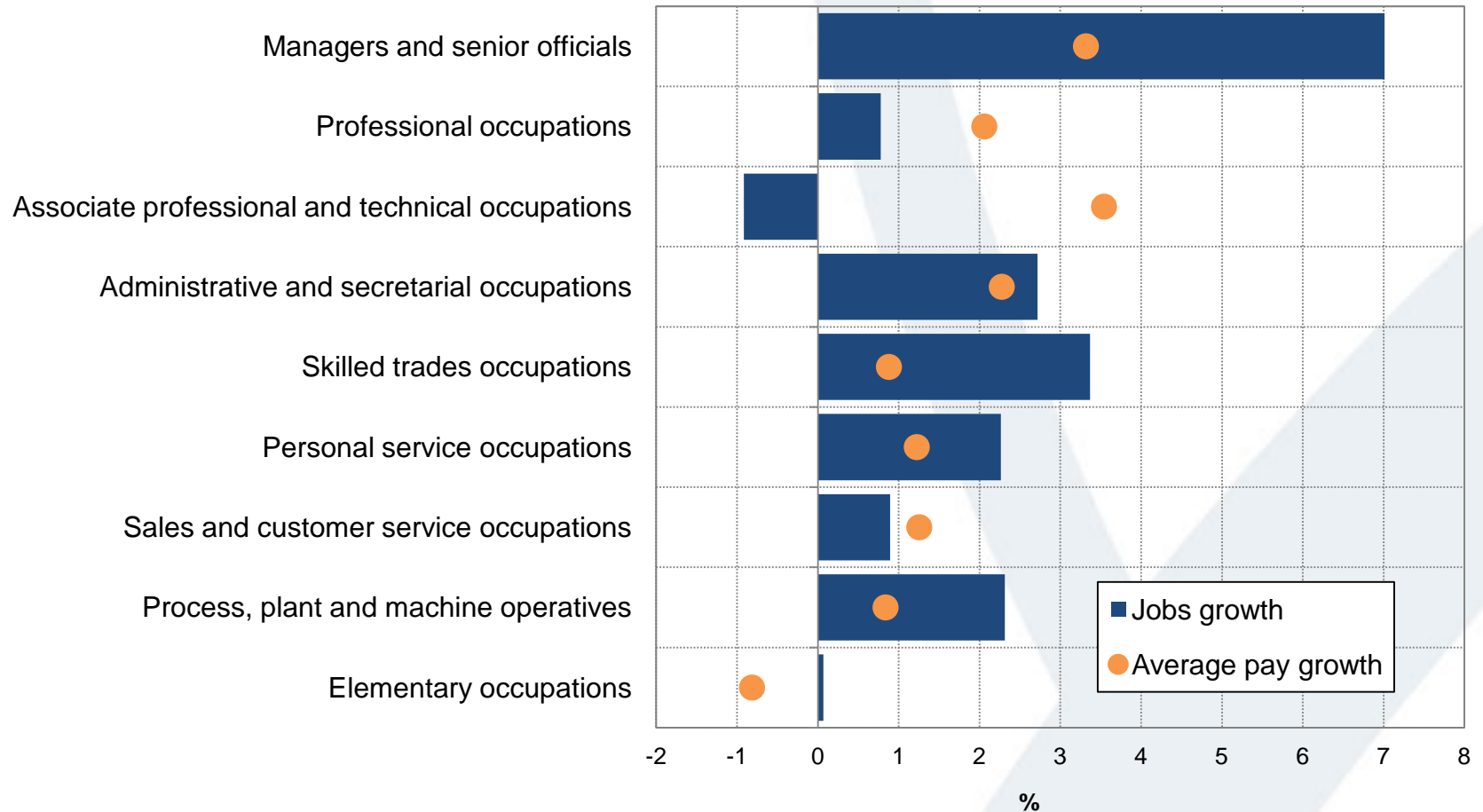


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Pay & Jobs growth by occupation

Compositional effects: Growth of occupational jobs and mean pay: 2014-2015

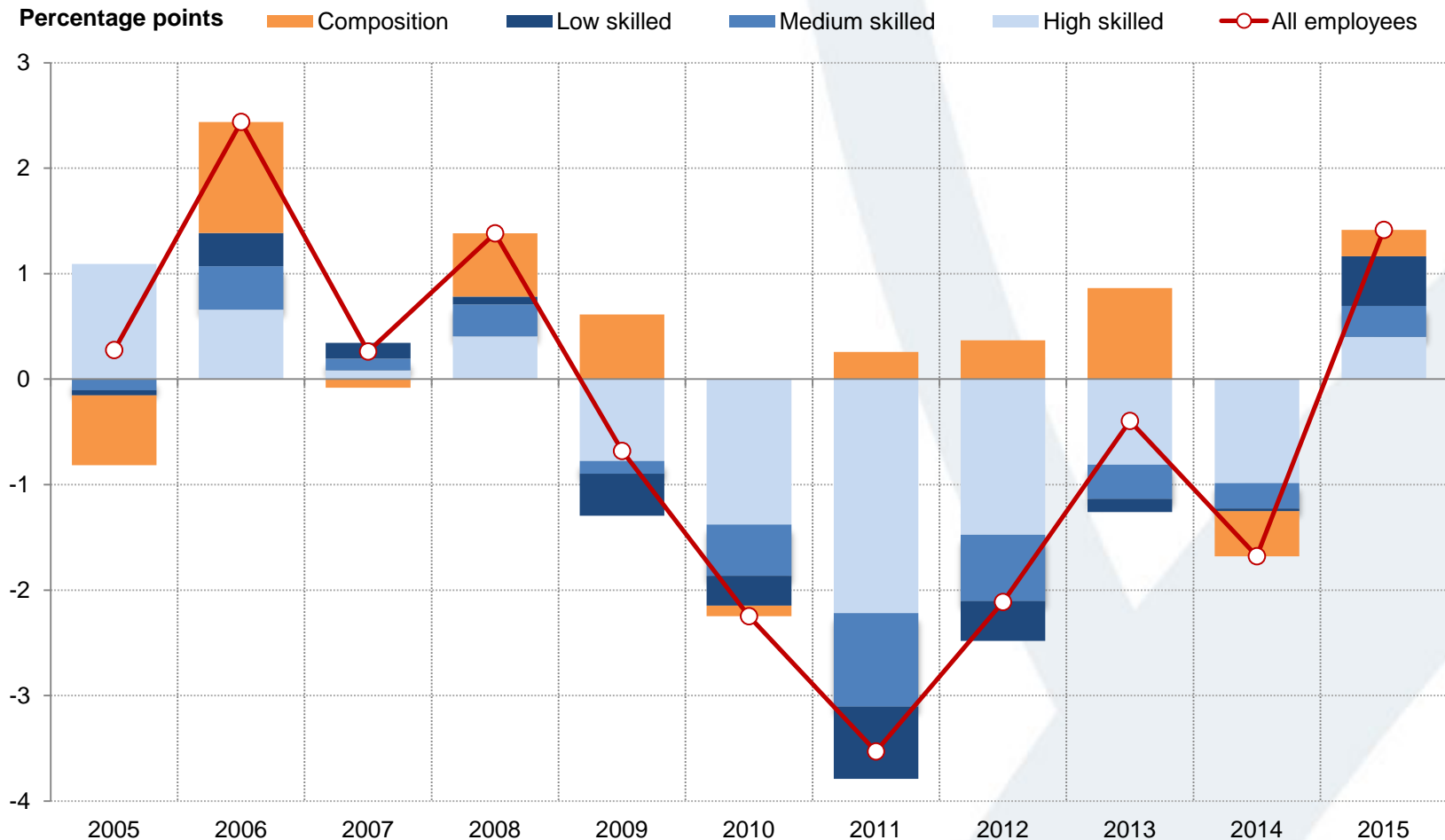


Source: Annual Survey of Hours and Earnings, ONS calculations

Note: Pay growth shown is the growth in average weekly earnings for each occupational group

Compositional effects positive in 2015

Contribution to mean weekly earnings growth: occupational groups and compositional mix



Source: Annual Survey of Hours and Earnings, ONS calculations

Note: Chart based on the highest-level of occupational grouping: results may differ if more detailed categories are used.

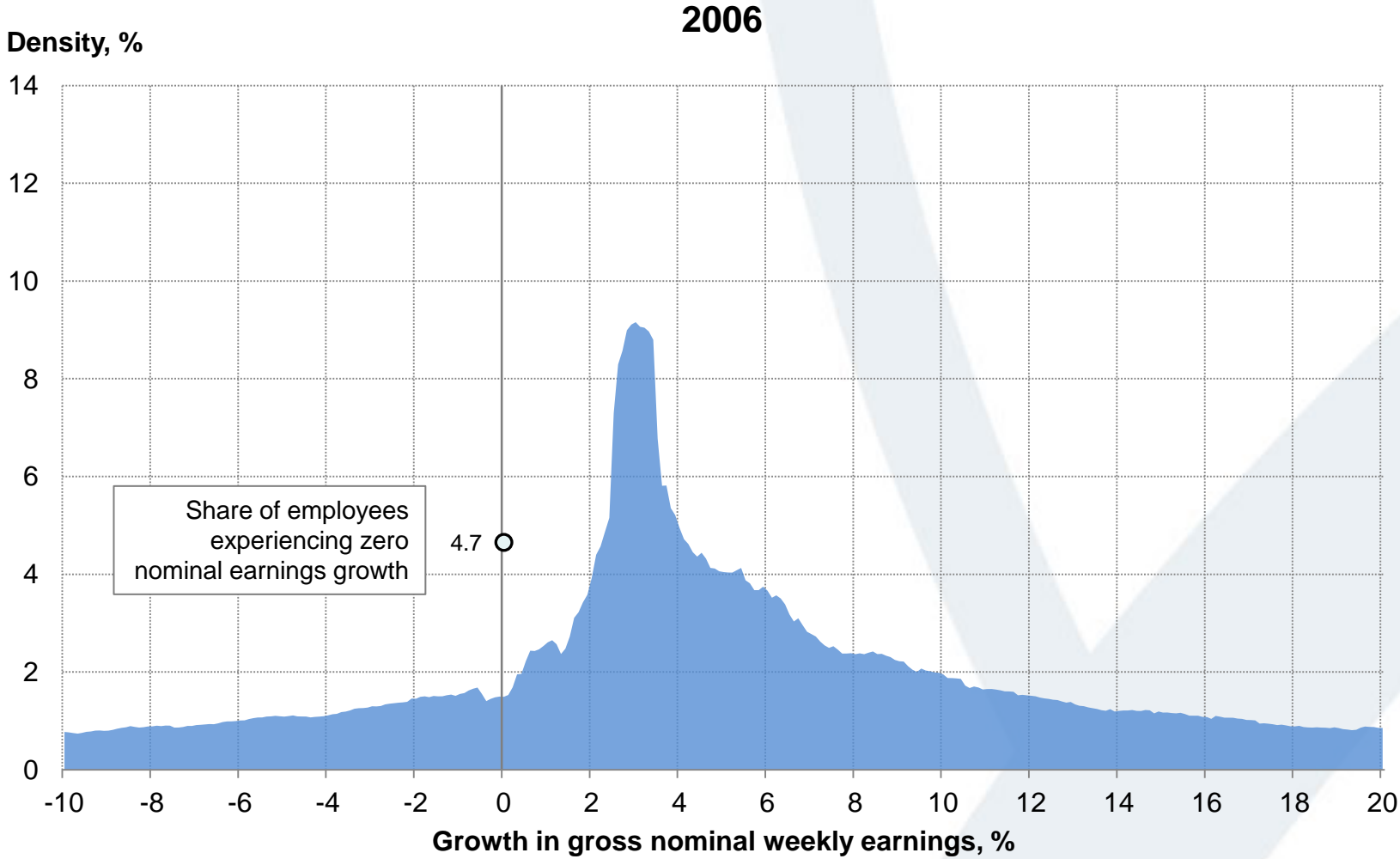
ASHE - levels

- Substantial variation in the rates of hourly pay for employees in the UK
- But evidence of an emerging 'mass' of the distribution at or close to the minimum wage
- Growing density of jobs just above the minimum wage
- Compositional effects – which are estimated to have held back the growth of average pay in 2014 – appear to have helped to raise average pay in 2015

ASHE - growth

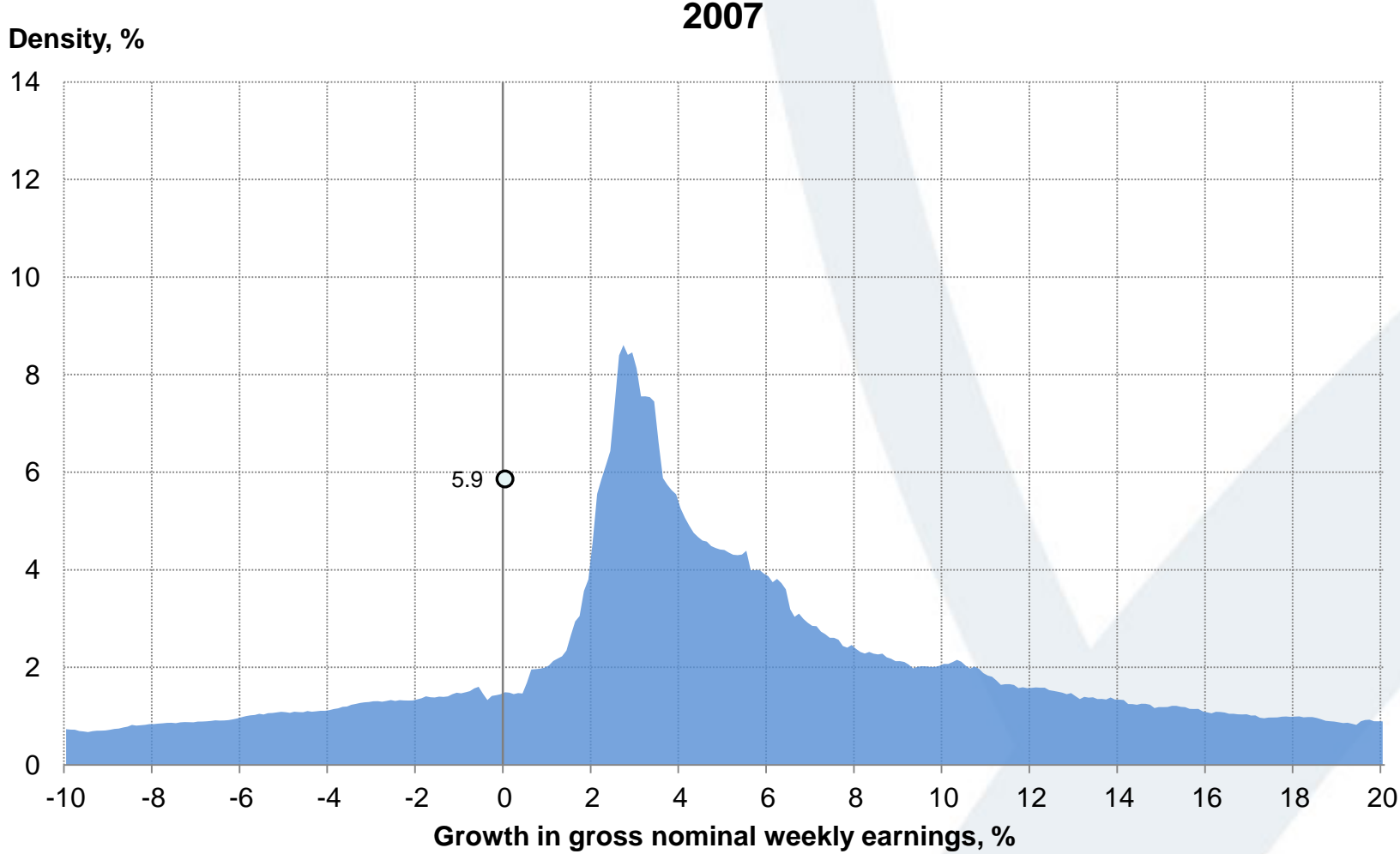
- While the levels are interesting from a distributional perspective, earnings growth is key from a 'spare capacity' perspective.
- Can examine the 'typical experience of earnings growth' using data on those who are employed in consecutive periods. This differs from the 'growth of the median'
- Distribution of earnings growth also varies considerably through time

ASHE – distribution of earnings growth



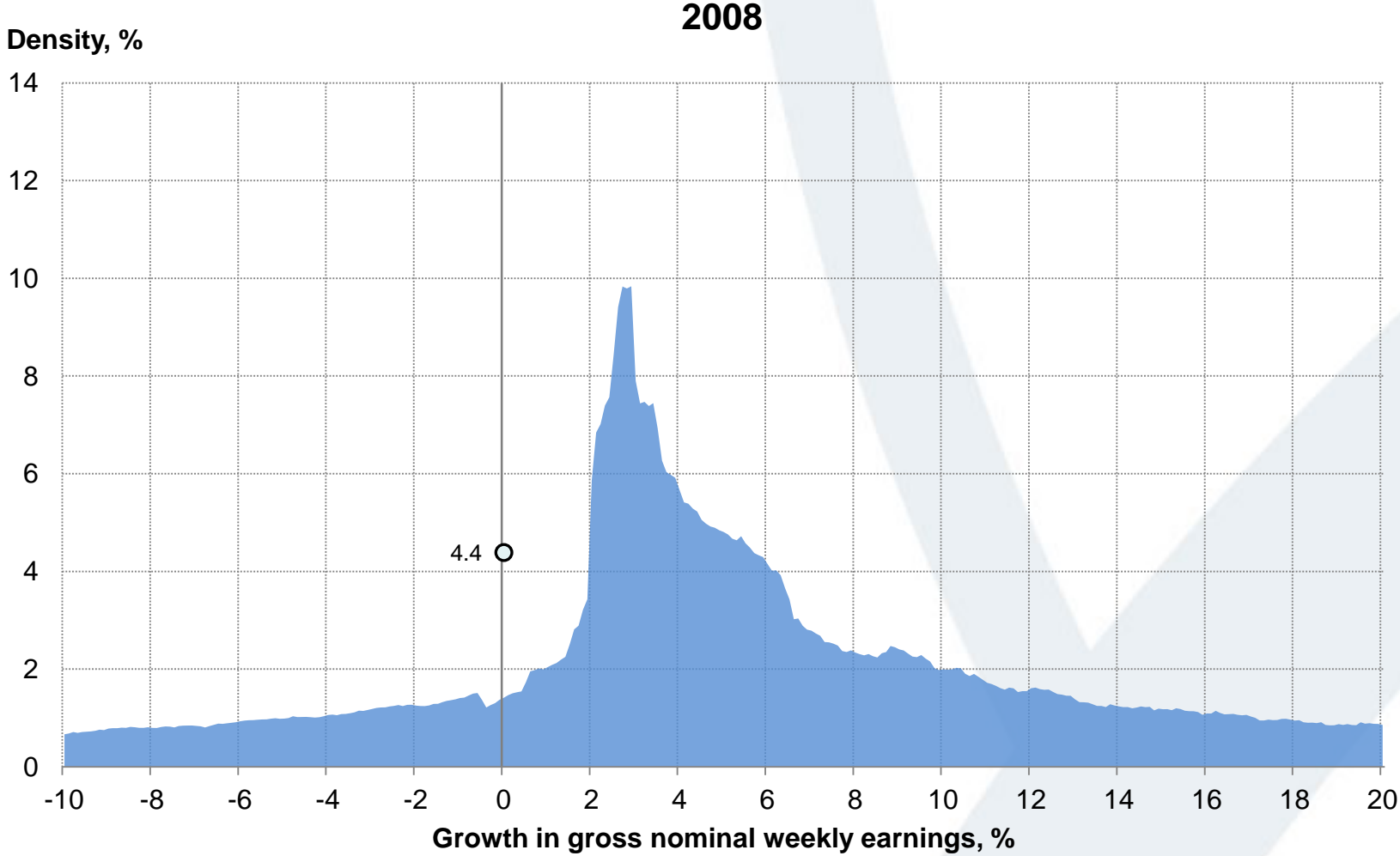
Source: Annual Survey of Hours and Earnings, ONS calculations

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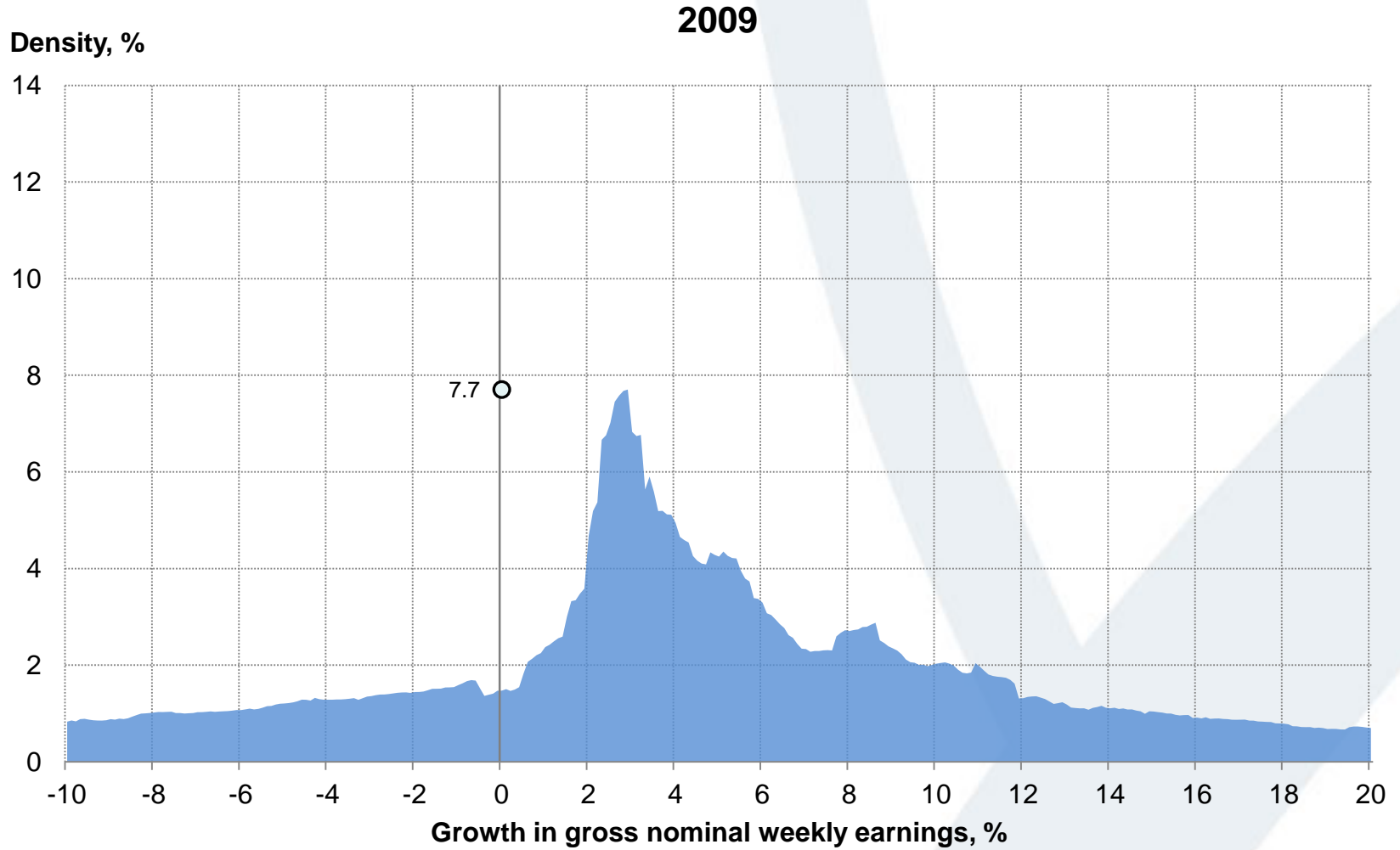
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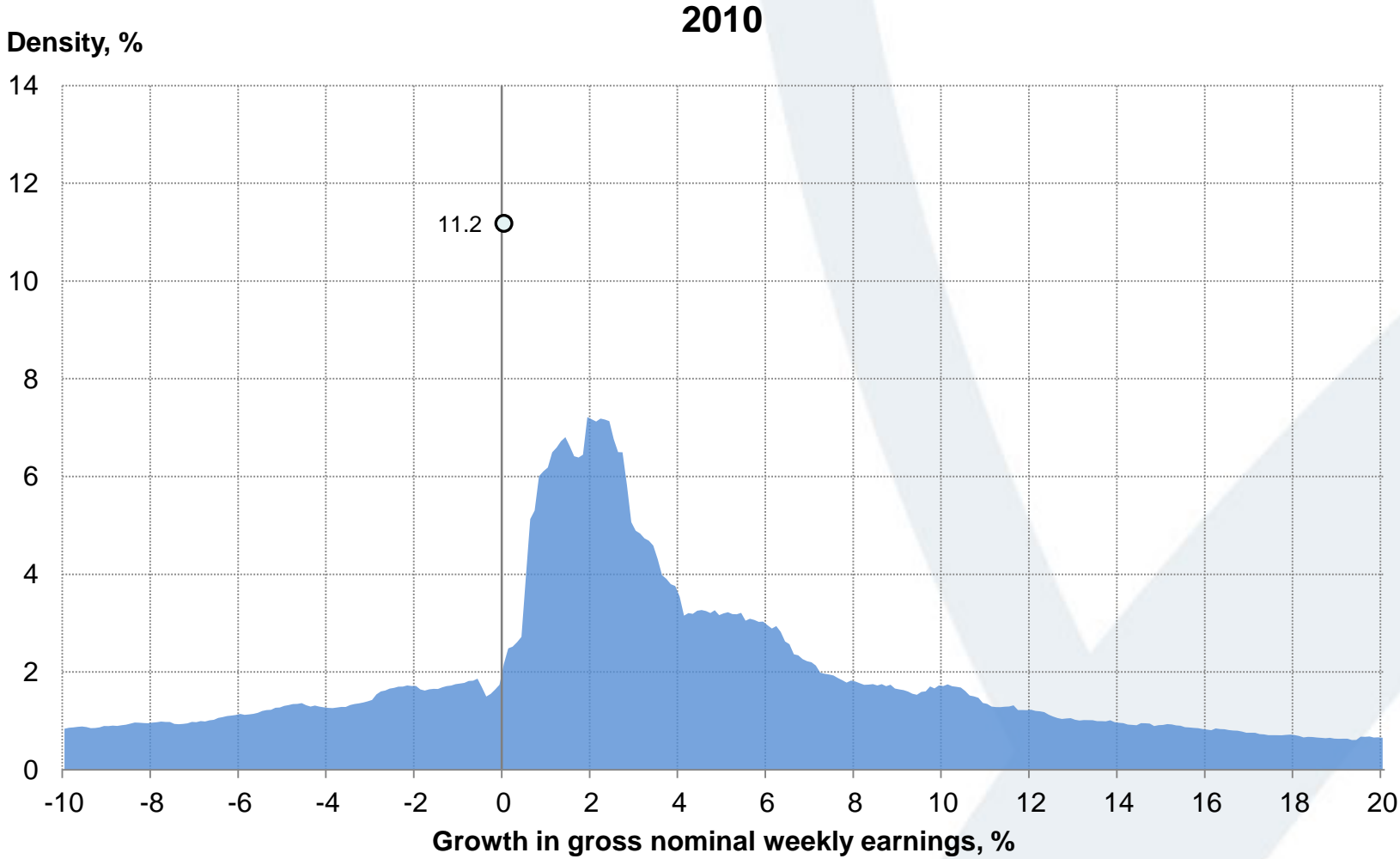
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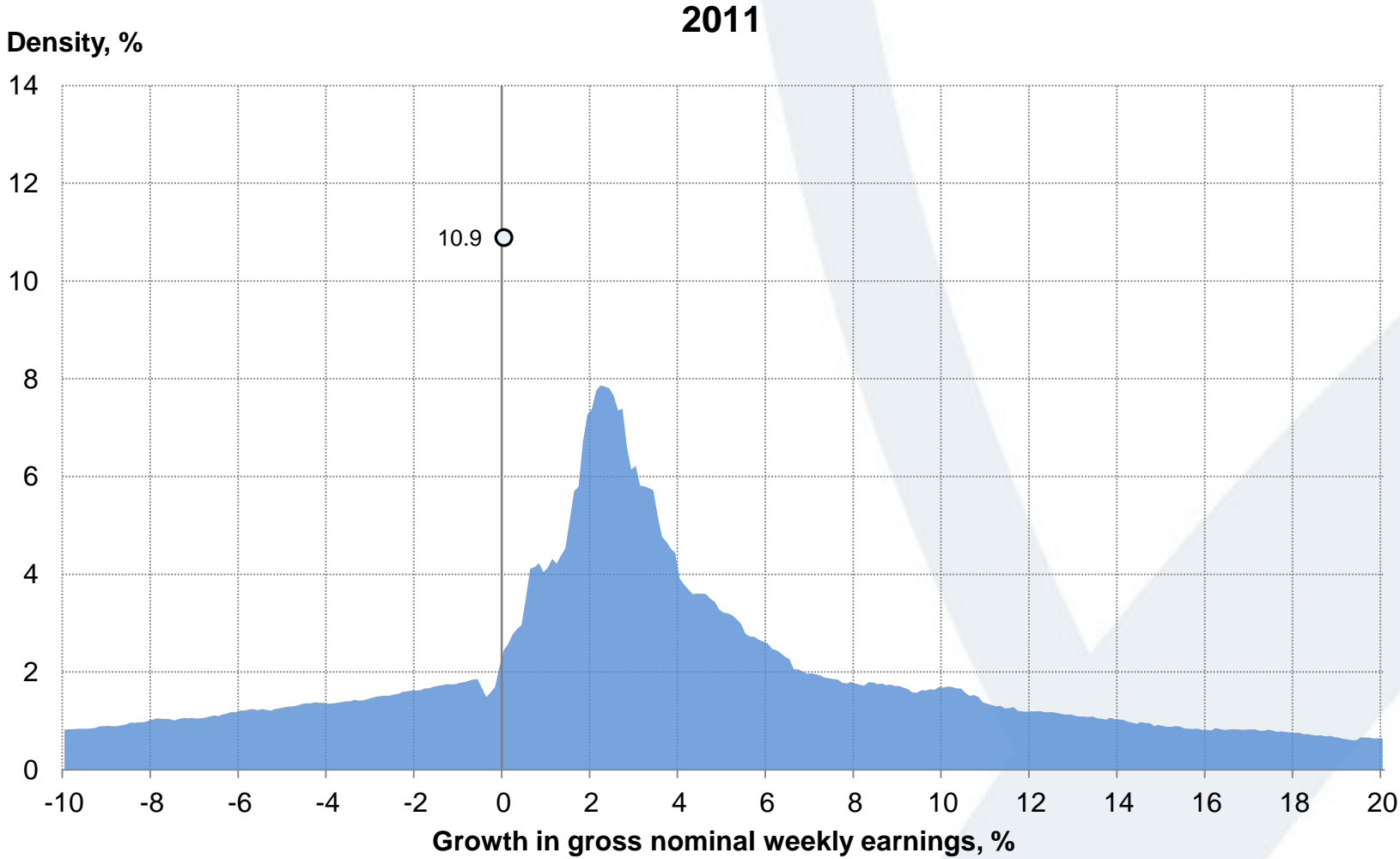
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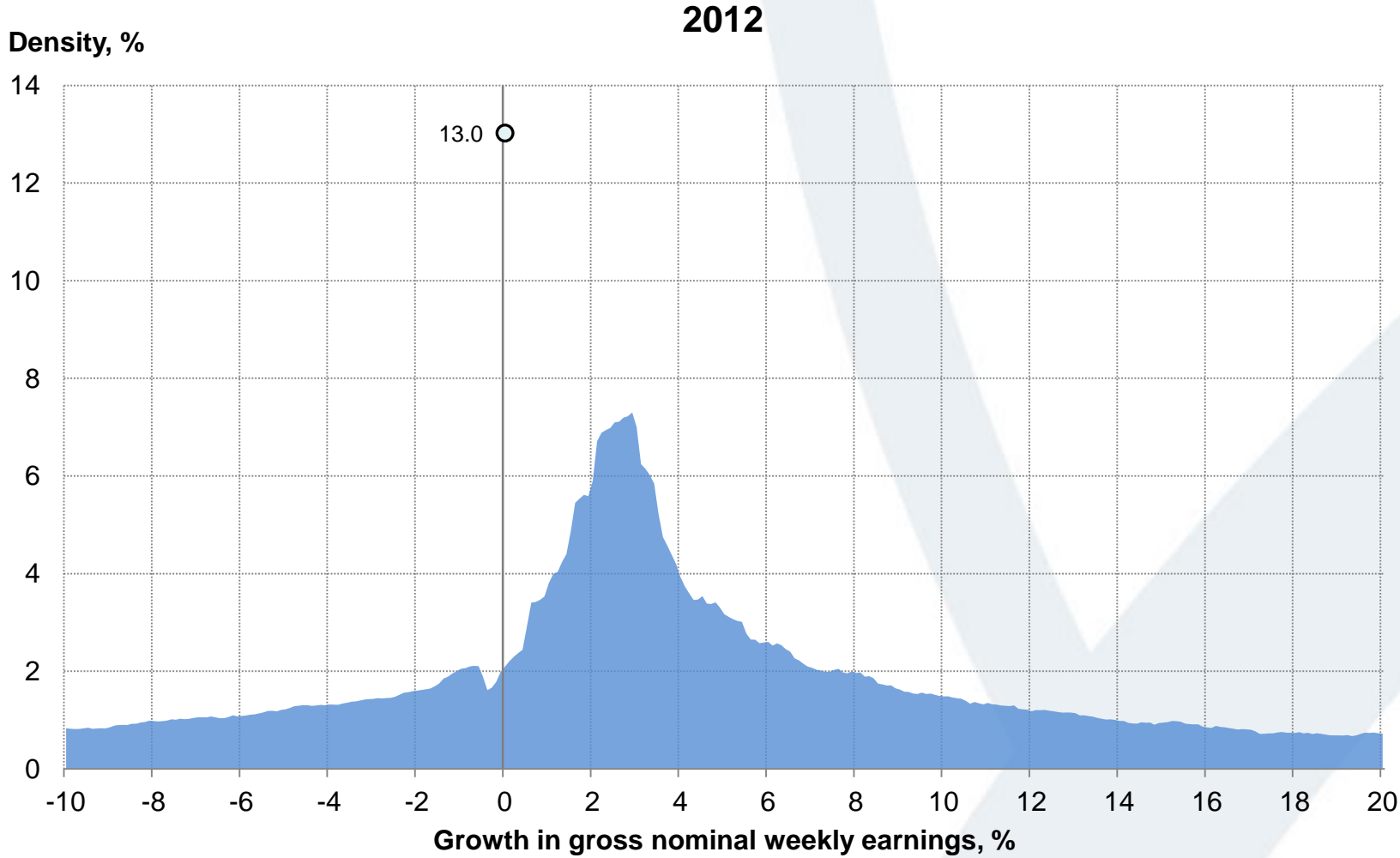
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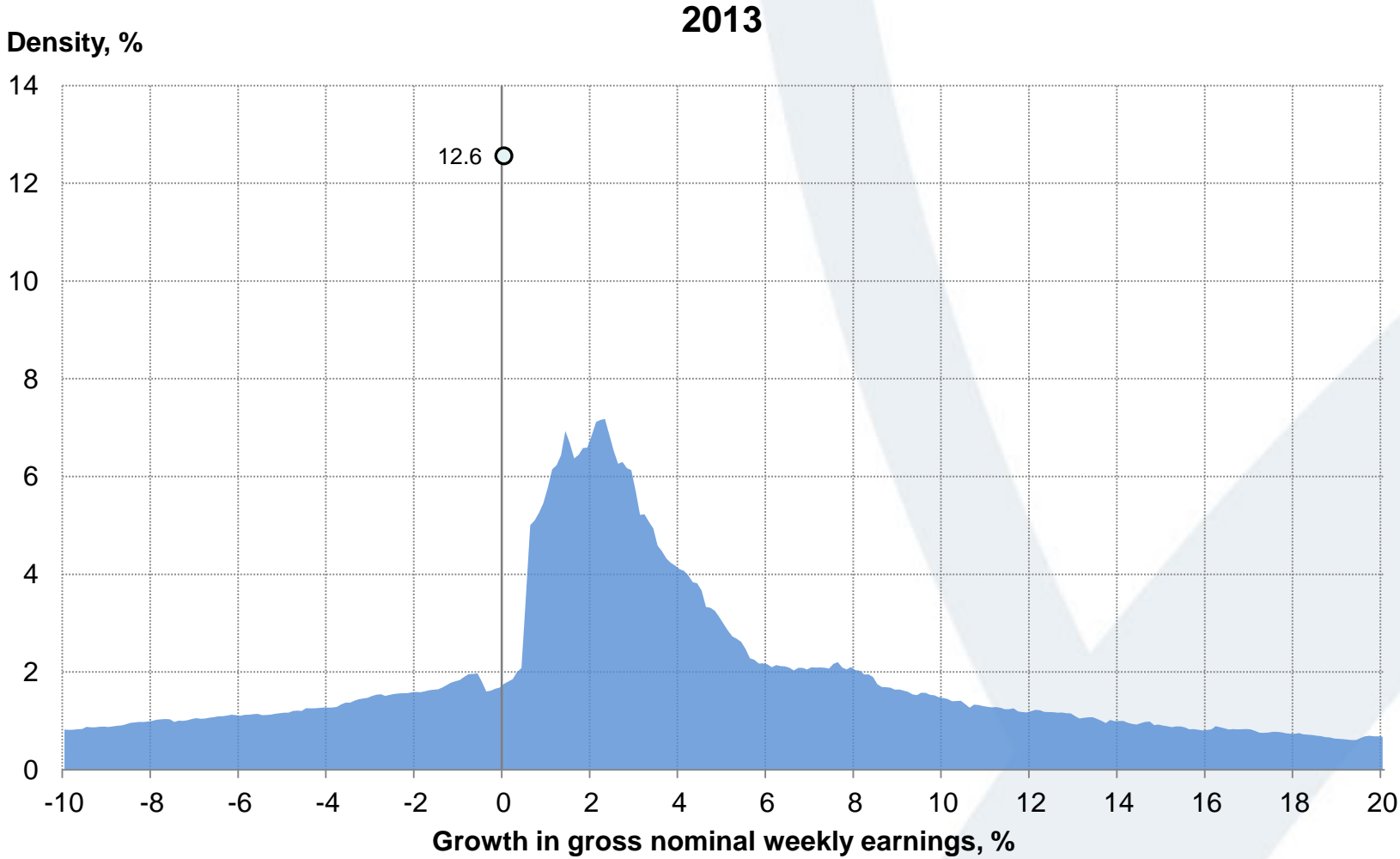
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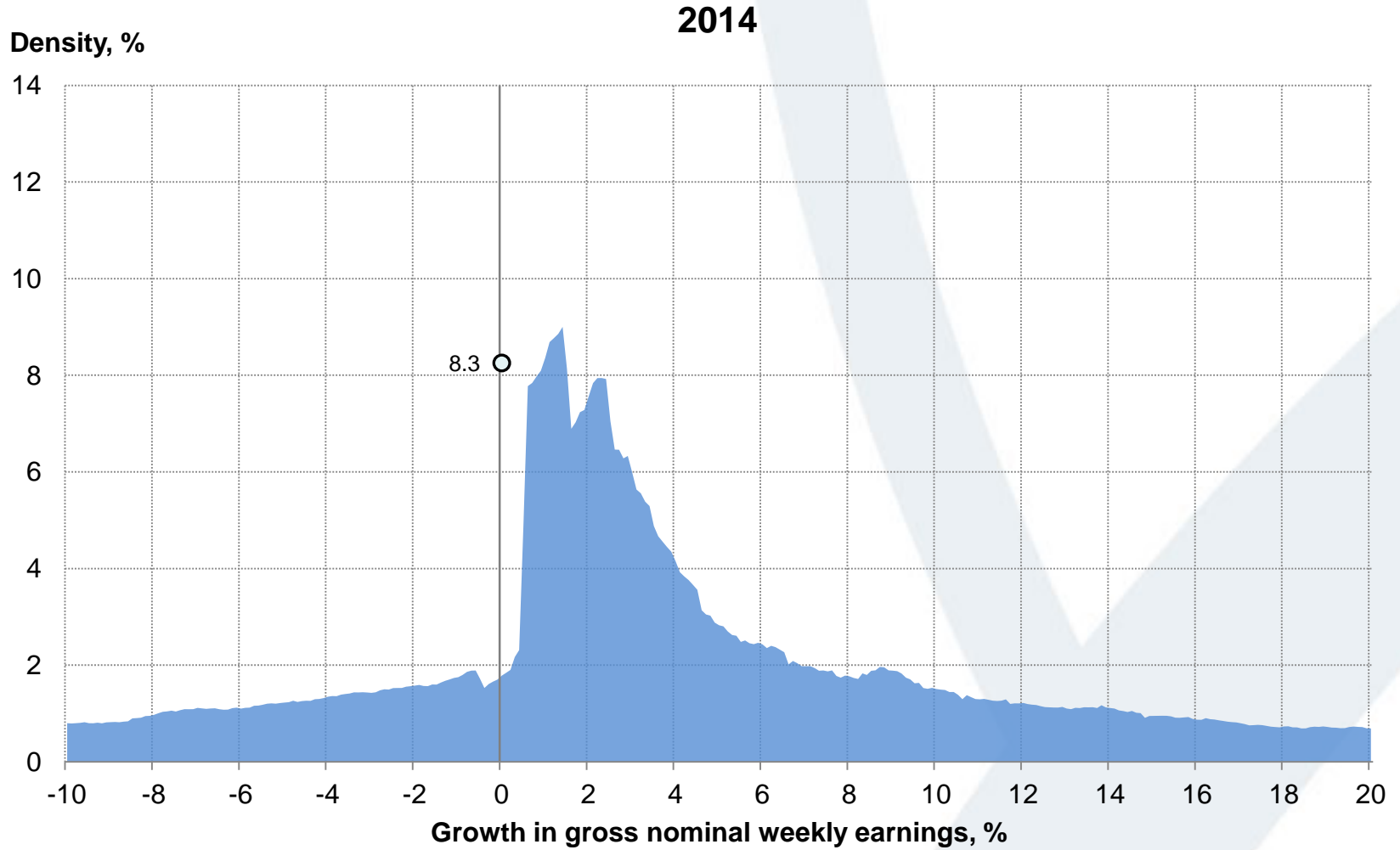
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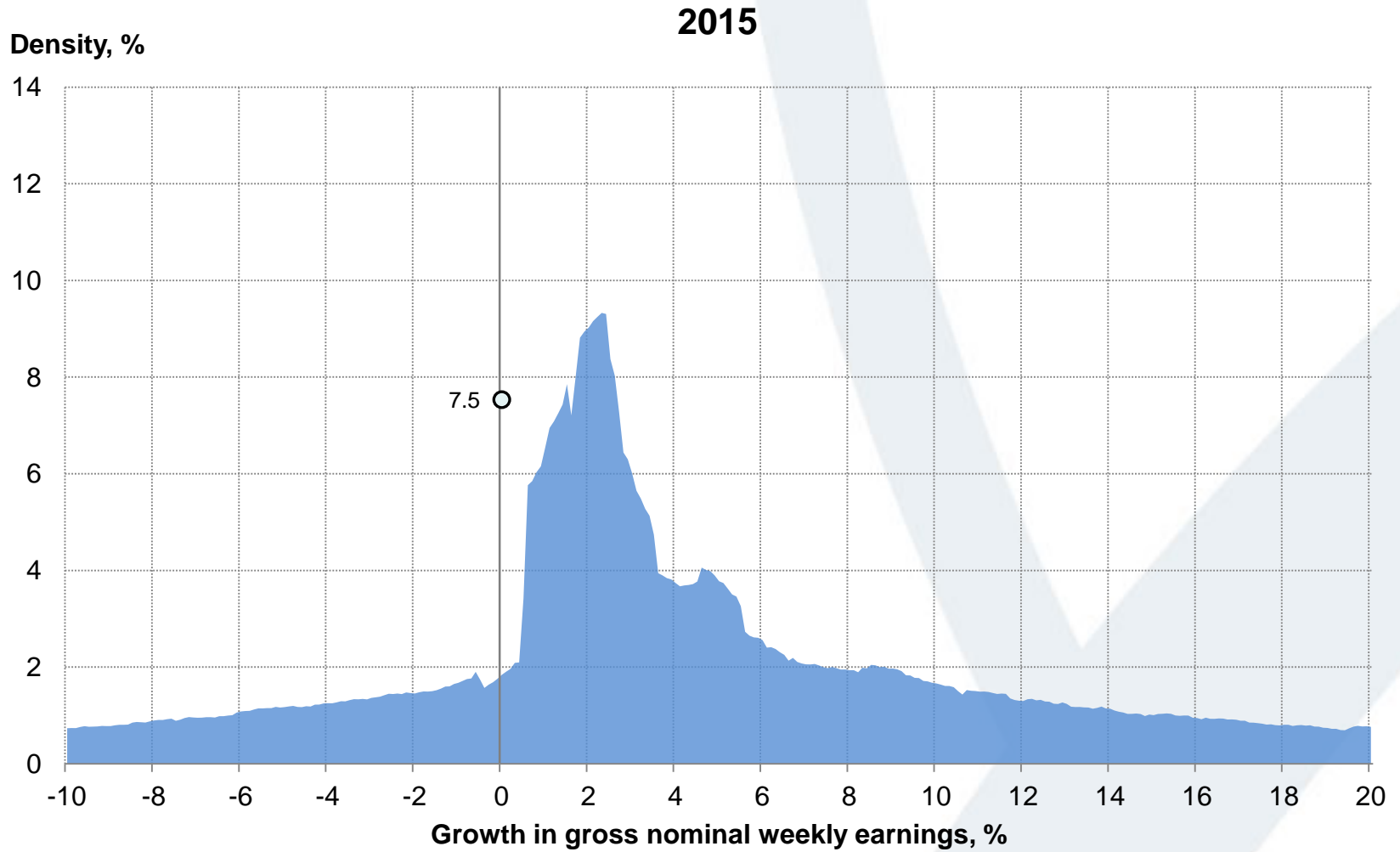
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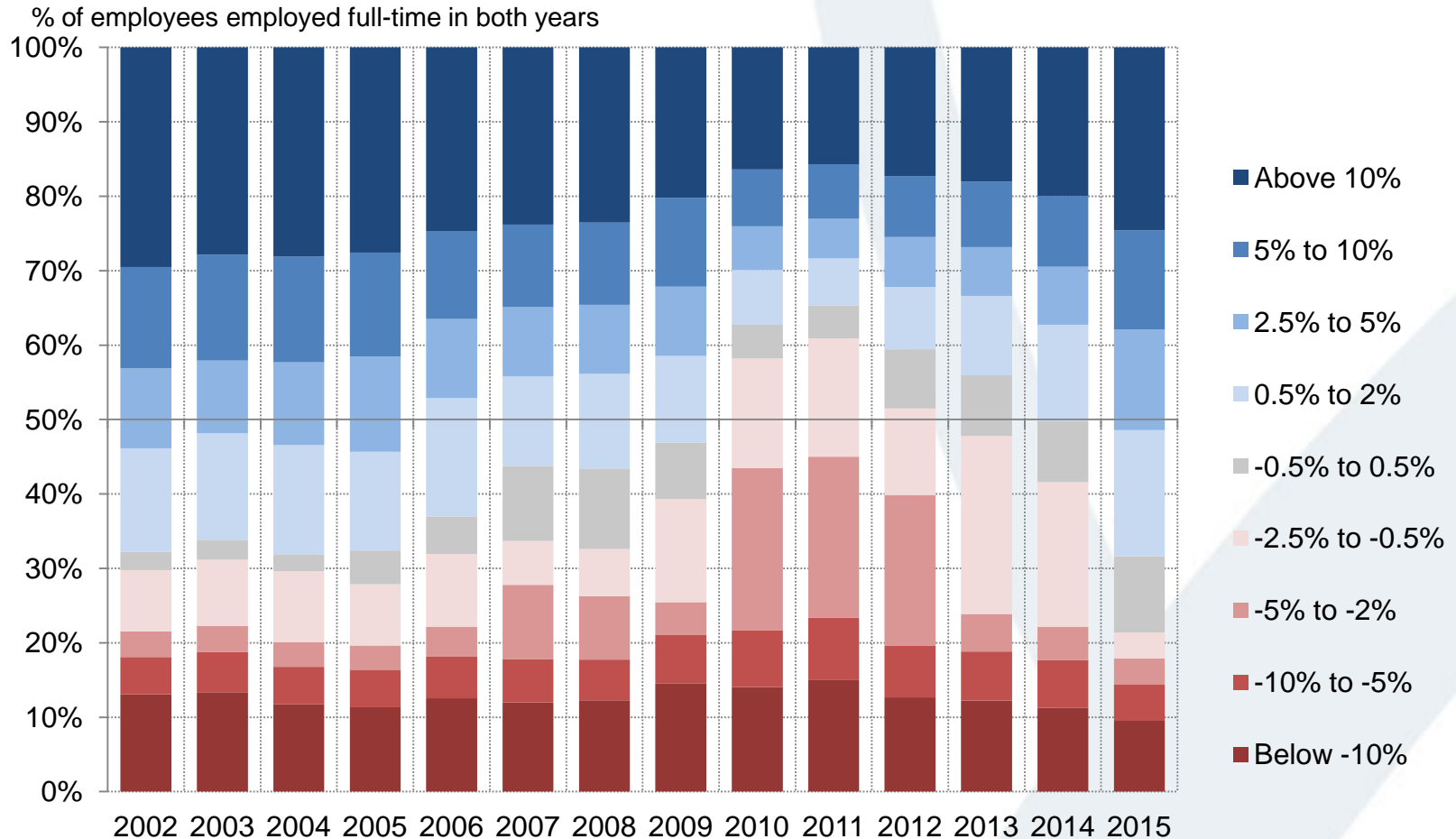
ASHE - distribution of earnings growth



Source: Annual Survey of Hours and Earnings, ONS calculations

Real earnings growth more prevalent in 2015...

Percentages of FT Employees by their annual rate of real weekly earnings growth

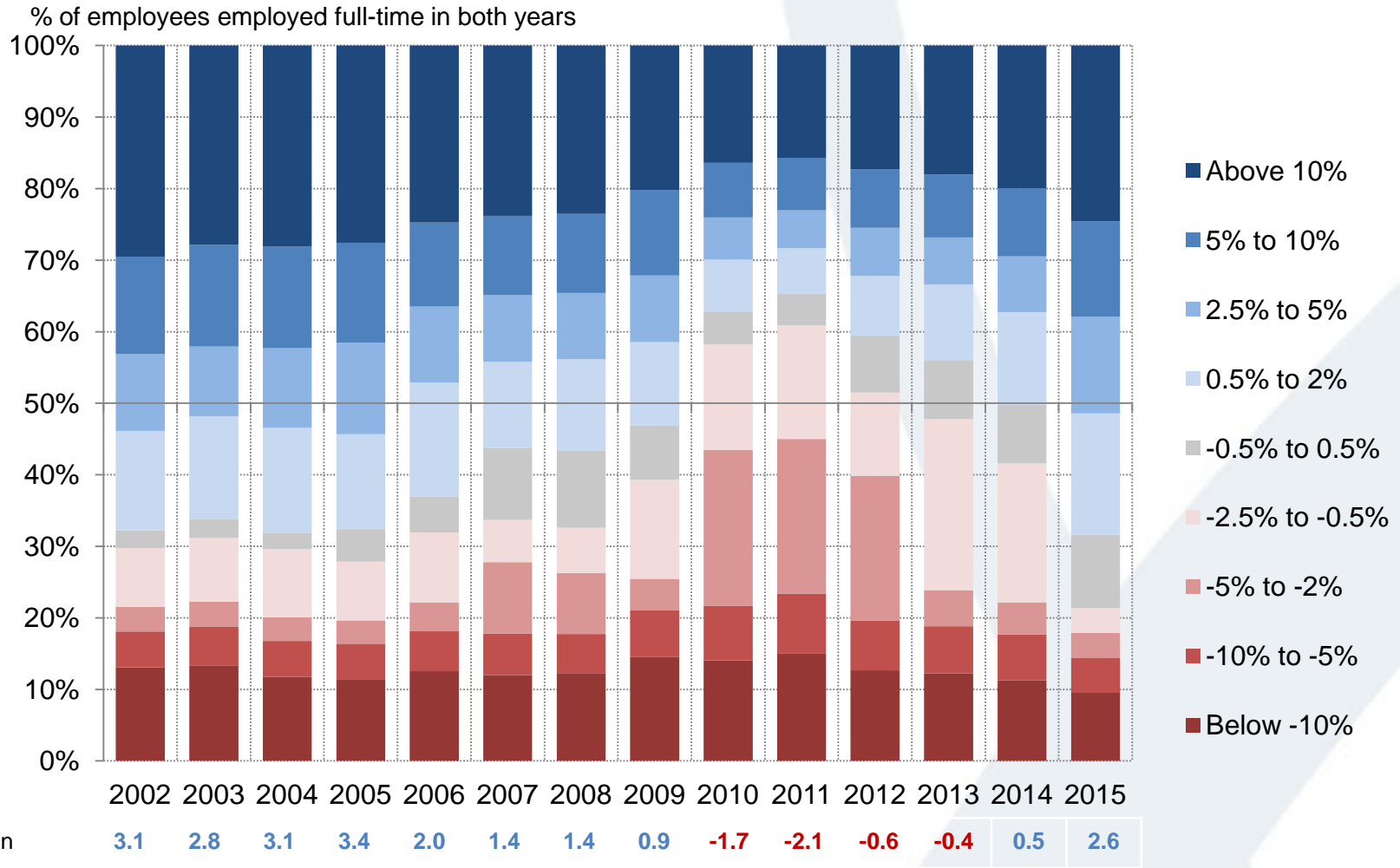


Source: Annual Survey of Hours and Earnings, ONS calculations

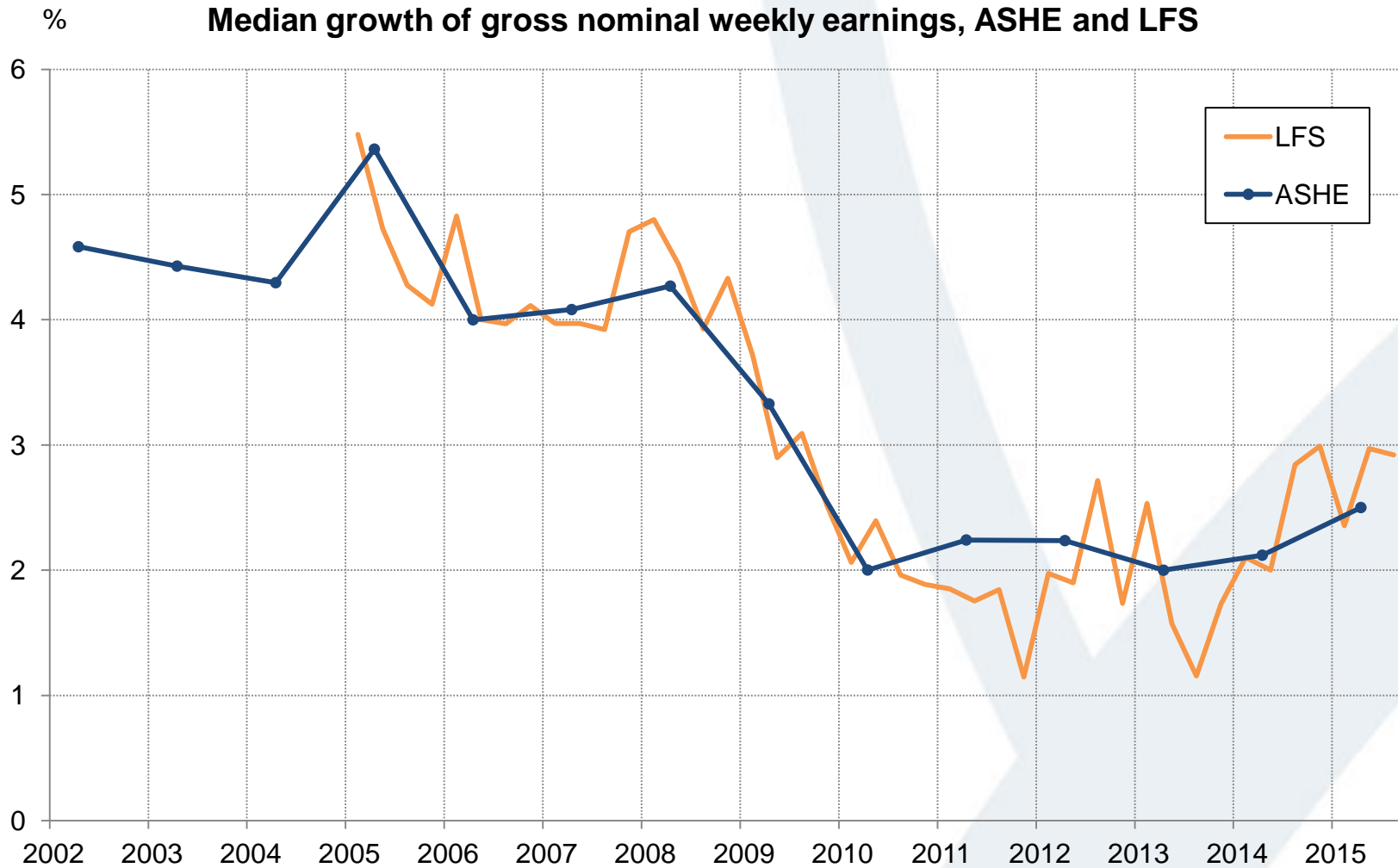
Notes: Real earnings calculated using the Consumer Prices Index (CPI)

Real earnings growth more prevalent in 2015...

Percentages of FT Employees by their annual rate of real weekly earnings growth



... consistent with other sources

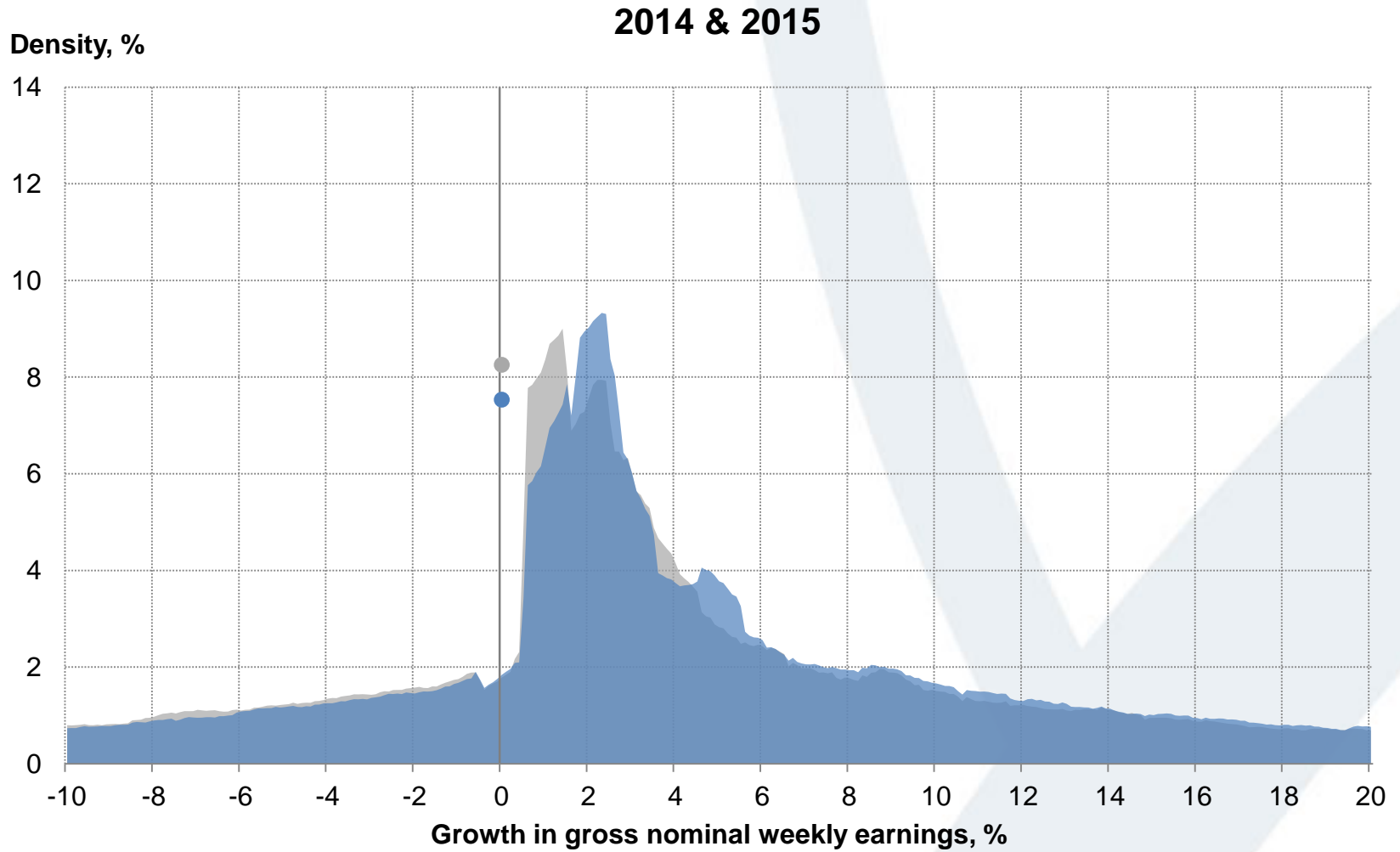


Source: Annual Survey of Hours and Earnings, Labour Force Survey, ONS calculations

ASHE - growth

- Lots of variation in the growth of individual earnings...
- ...which also varies over time...
- ...and is driven by some interesting dynamics

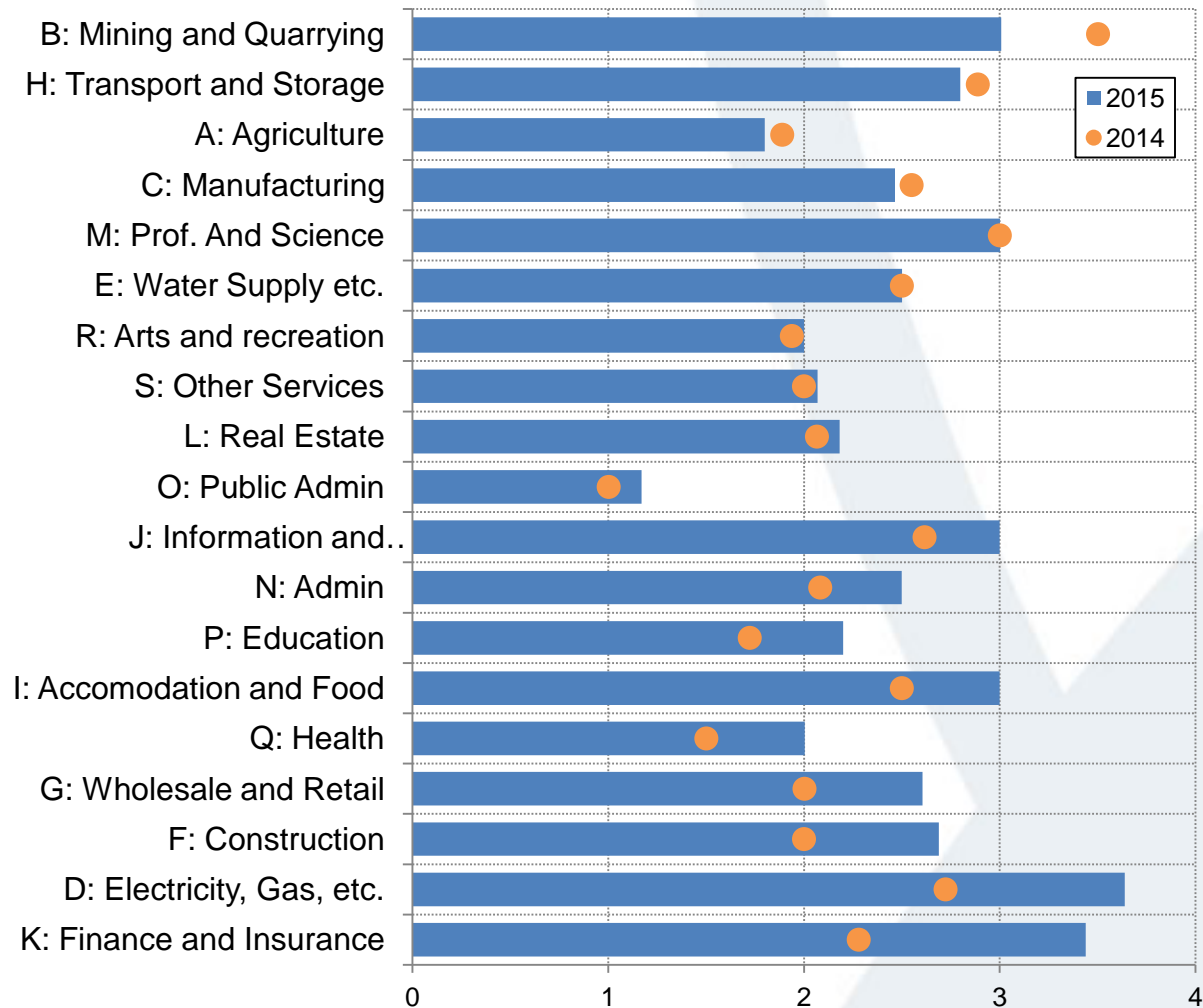
Changes in the distribution of growth...



Source: Annual Survey of Hours and Earnings, ONS calculations

Median earnings growth by industry

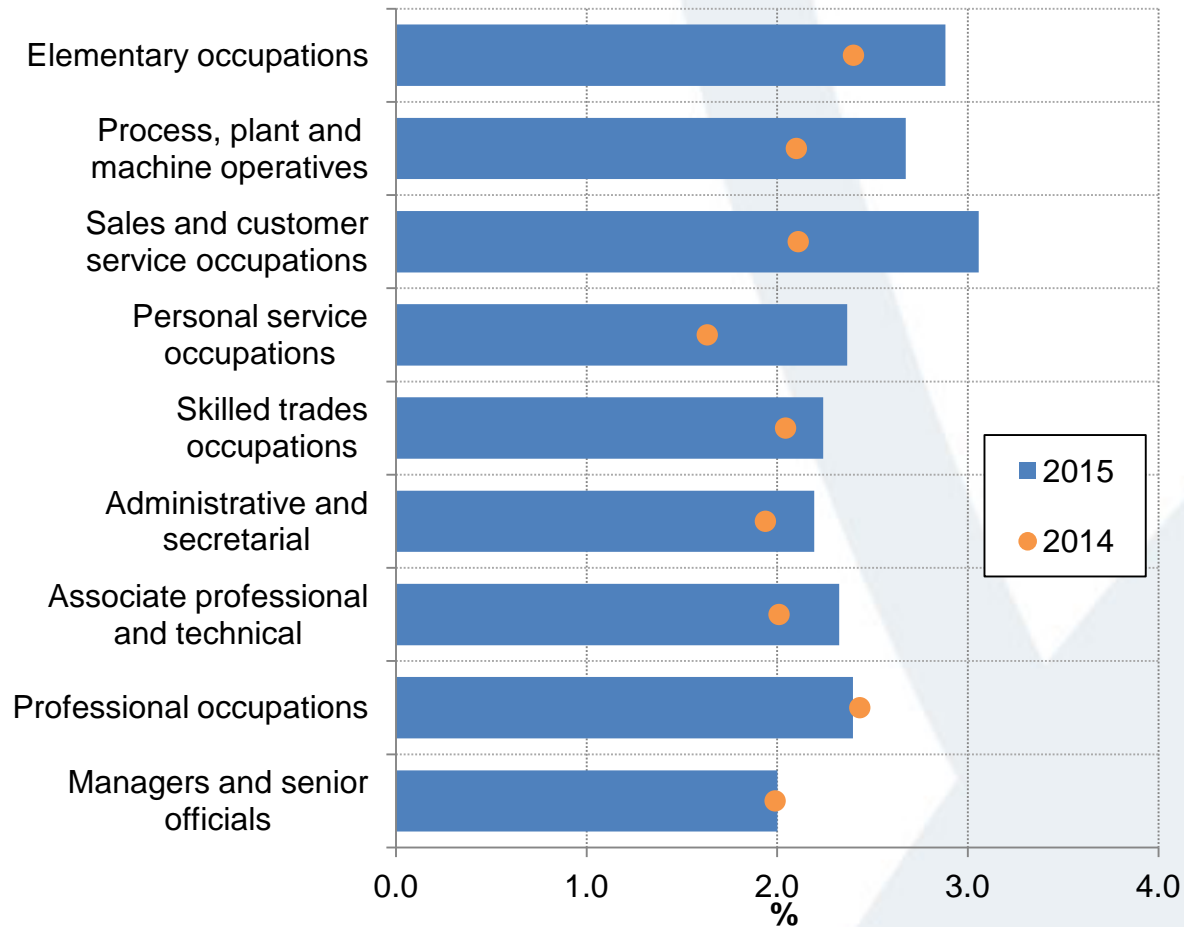
Median growth rate of nominal weekly earnings by industry: 2014 and 2015



Source: Annual Survey of Hours and Earnings, ONS calculations

Median earnings growth by occupation

Median growth rates of nominal weekly earnings by occupational groups: 2014, 2015



Source: Annual Survey of Hours and Earnings, ONS calculations

Conclusions

- Analysis suggests that the typical experience of pay growth increased in 2015: the median rate of nominal earnings growth increased to 2.0% from 2.5% over this period.
- A majority of full time employees experienced substantial real earnings growth in 2015 for the first time since 2009
- Stronger median pay growth in lower occupational groups and particular industries may be indicative of a tightening labour market.

Questions?



Annex



Median growth & Growth in median

- Growth in median pay =
 - *'how pay at the centre of the earnings distribution has changed between periods'*
 - *'how pay for the individual at the middle of the earnings distribution in one year compares with pay for the individual at the middle of the earnings distribution a year later'*
 - *Not necessarily typical of changes in wages experienced by the majority of the continuously employed*
- Median growth rate of pay =
 - *'the typical experience of earnings growth'*
 - *'the rate of pay growth at the centre of the distribution of earnings growth'*