Institute for Fiscal Studies

Employees' earnings since the Great Recession: the latest picture

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Jonathan Cribb
Paul Johnson

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Jonathan Cribb and Paul Johnson

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Executive summary

Key findings

The latest data for April 2019 show median weekly earnings still being 2% below their April 2008 level, despite growth of 2.1% since April 2018. Median hourly earnings have performed slightly less badly since 2008, and have essentially returned to their 2008 level. However, on either measure there has essentially been a "lost decade" of average earnings growth since the recession.

Weekly earnings growth for men since 2008 has been particularly poor: men's weekly earnings are still 6% below their 2008 level. This is in part due to falling hours of work for men. Average male weekly earnings were no higher in 2019 than they were in April 2001, after accounting for inflation.

Large increases in minimum wages have massively boosted the earnings of those with low hourly pay. The 10th percentile of the hourly earnings distribution is 11% higher than it was in 2008. However, these gains have partly, but not completely, fed through into higher pay for those with low weekly earnings. This was in part due to falling hours for low earners between 2016 and 2018, although this trend did not continue in 2019.

Weekly earnings growth for men with low earnings has been disastrous since 2008. Between 2008 and 2014, for men at the 10th percentile of the weekly earnings distribution, pay fell by 20%. It has recovered somewhat since then. But in 2019 it is still 12% below its 2008 level. This looks to be mainly due to falling hours of work for these people.

Average earnings for those in their 30s, and in London, have performed worst since 2008. Median earnings for those in their 20s fell dramatically after 2008, but have recovered strongly, leaving those in their 30s as by far the worst performing age group. Richer regions like London and the South East have done worse than average. Poorer regions like the West Midlands and North East fared much less badly.

The Office for National Statistics have released the latest data on the distribution of employees' earnings in the UK, based on the Annual Survey of Hours and Earnings (ASHE), the highest quality source of data on employees' pay in the UK. The survey, of around 180,000 employees, is undertaken in April of each year and the latest data is available for 2019.

In this short briefing note, we use the latest ASHE data to look at how earnings have changed over the last 11 years, how that differs when looking at hourly and weekly pay, and how different groups have seen different trends. In particular, we focus on how the trends have differed by sex, age, region and nation of the UK, as well as how they have differed across the earnings distribution.

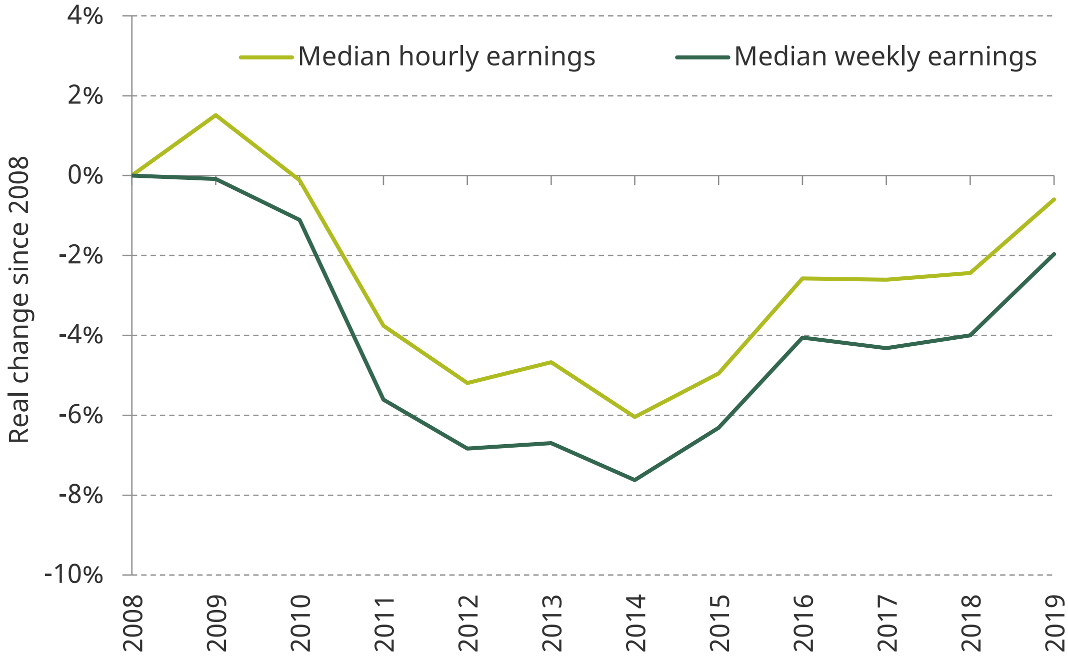
In all of this, we only consider pay of employees, not of the self-employed (as they are not included in the data). We also do not look at the *number* of people in employment, the growth in which has been a key feature of the labour market in recent years, although recent ONS statistics show much greater increases in women's employment than men's.[1] Our measure of earnings includes all wages and salaries paid to employees (including bonuses if they are paid in April), but it does not include other parts of remuneration, such as employer pension contributions, or benefits in kind.

Finally, in order to compare changes over time, we need to account for inflation. To adjust for inflation we use the ONS's CPIH measure of inflation. All changes shown in this briefing note are "real" (i.e. after adjusting for inflation).

[1] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/familiesandthelabourmarketengland/2019

Median weekly earnings in April 2019 still 2% below their 2008 level; with a slightly better performance for hourly earnings

Figure 1. Changes to real median earnings, weekly and hourly, since 2008



Source: Authors' calculations using ONS ASHE Time Series Estimates, Table 1, 2019 and ONS series L522 (CPIH index All Items). Earnings measures in April of each year.

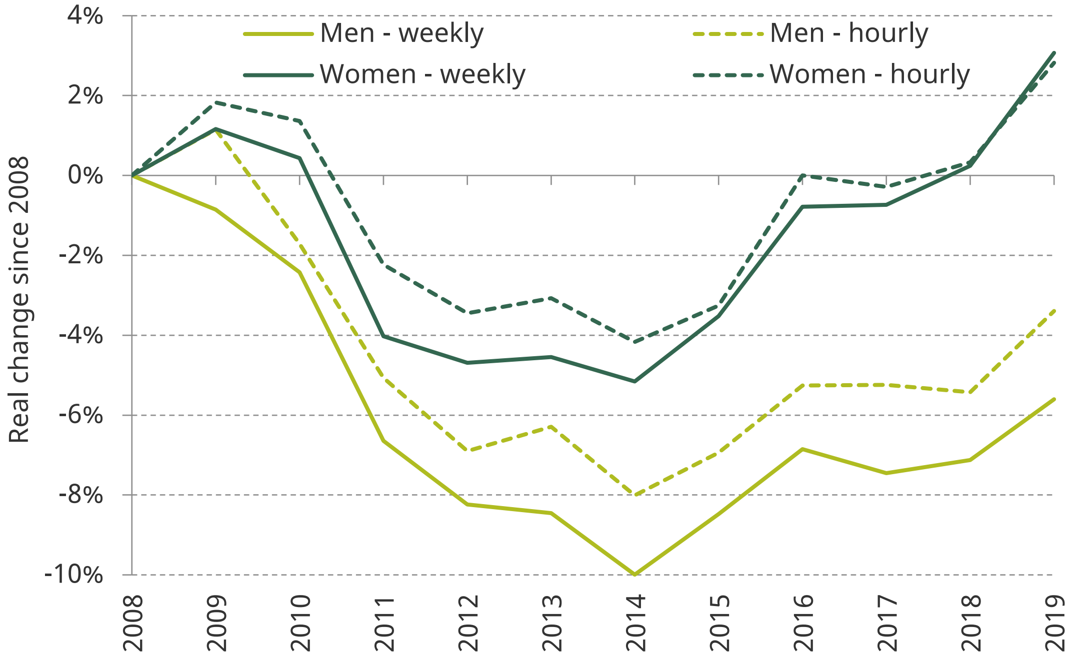
Median weekly earnings fell by almost 8% between 2008 and 2014 after adjusting for inflation, with the biggest falls occurring between 2010 and 2011. The partial recovery between 2014 and 2016 then came to a halt as inflation rose following the UK's vote to leave the European Union. The latest data for April 2019 show an increase of 2.1%. Despite this being the strongest real earnings growth since 2016, it still means that in April 2019 median weekly earnings were 2% below April 2008 levels.

This performance in earnings is historically unprecedented in modern Britain, and combined with relatively poor (but positive) earnings growth in the run up to the recession, means that the real earnings of the average employee in 2019 are similar to the level seen in 2004. The trends in hourly earnings are slightly better than those for weekly earnings. The reason weekly earnings have performed worse than hourly earnings is as a result of falling average hours for employees, which have fallen by 2% since 2008. On an hourly basis, median earnings in 2019 are essentially back at their pre-crisis level.

These data only go up to April 2019. Other ONS data have been released that have shown earnings growth to be slightly stronger than expected (by the OBR) in the Spring. According to the ONS *Average Weekly Earnings* series, real average earnings have grown by 0.9% between April and August, implying that, by the autumn of 2019, both median weekly and hourly earnings may well be very close to, or have surpassed, their pre-crisis level.

Men’s earnings have consistently performed much worse than women’s since the recession

Figure 2. Change to median earnings for men and women, since 2008

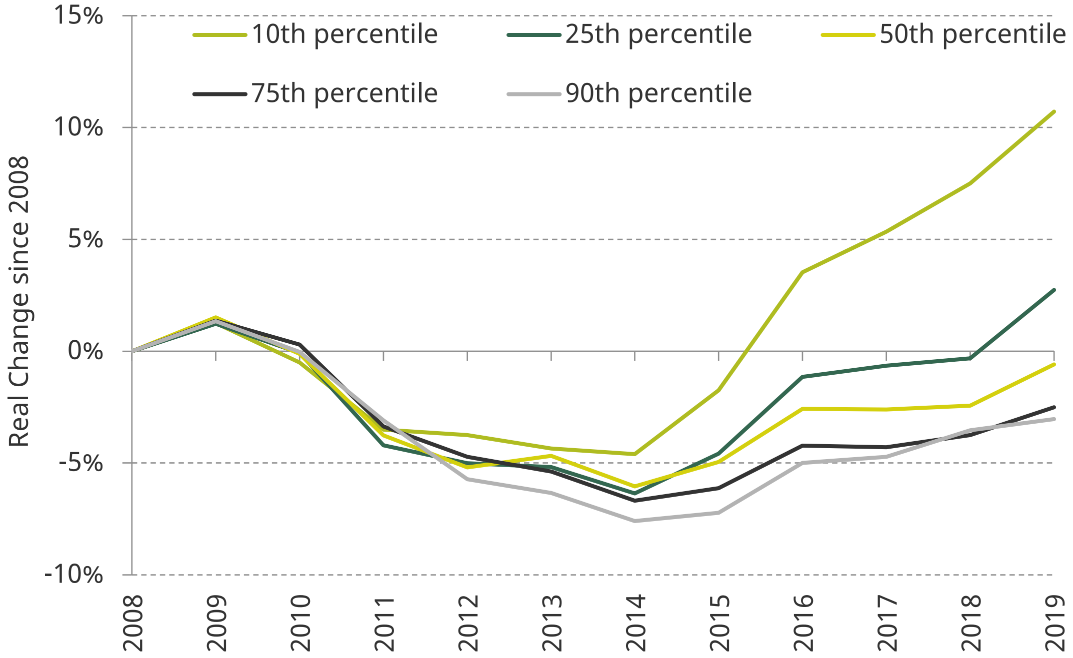


Source: Authors’ calculations using ONS ASHE Time Series Estimates, Table 1, 2019 and ONS series L522 (CPIH index All Items). Earnings measures in April of each year.

Figure 2 shows how average earnings have performed differently for men and women in employment. The clearest finding is that women’s earnings, on both a weekly and hourly basis, have performed much better (or at least less poorly) than have men’s. The fall in the aftermath of the recession was particularly bad for men, and the recovery has been weaker. This is particularly the case for weekly earnings, implying that men’s average hours of work have fallen (while women’s have not). In April 2019, median weekly earnings for women were 3% above their pre-crisis (2008) level, while men’s were still almost 6% below, back at the same level last seen in 2001.

Big increases in the minimum wage since 2015 have pushed up the hourly wages of the lowest earners compared to higher earners

Figure 3. Changes to real hourly earnings, by percentile point, since 2008



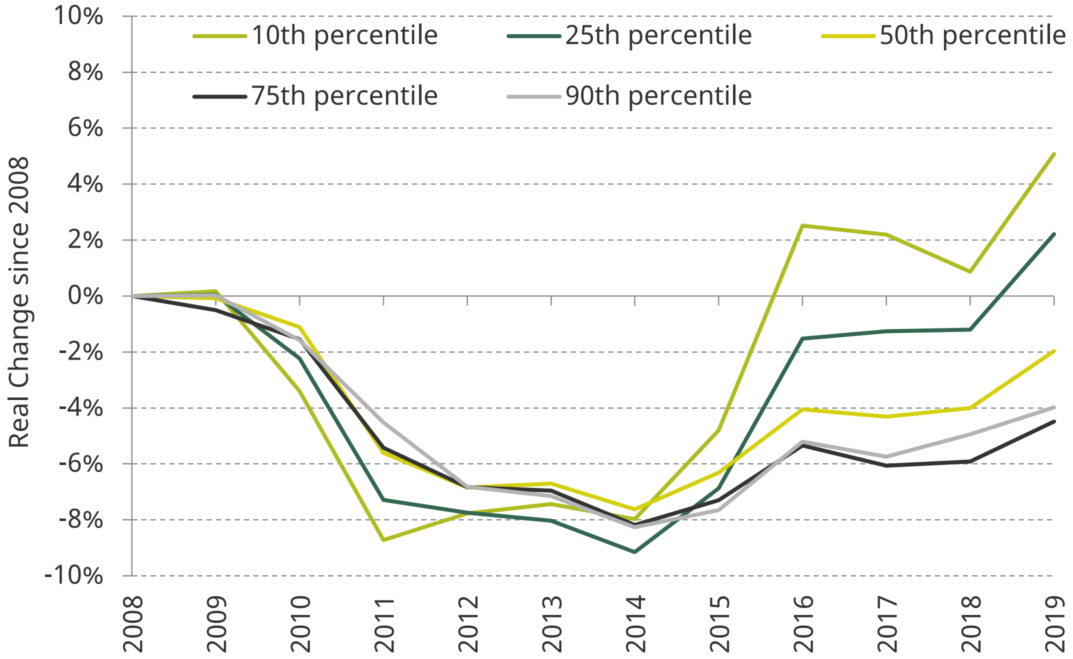
Source: Authors' calculations using ONS ASHE Time Series Estimates, Table 1, 2019 and ONS series L522 (CPIH index All Items). Earnings measures in April of each year.

So far, we have only looked at the median of the earnings distribution. Figure 3 shows that there have been radically different patterns across the hourly earnings distribution. Between 2008 and 2011, hourly earnings for high and low earners fell by roughly the same percentage amount. While earnings broadly stabilised for the lowest earners (10^{th} percentile) between 2011 and 2014 (at least in part due to the Low Pay Commission increasing the minimum wage by more than average earnings growth), they continued to fall for higher earners

However, the biggest differences have come since the introduction of the "National Living Wage" (a higher minimum wage for those aged 25+) in April 2016. Since April 2015, hourly earnings at the 10^{th} percentile have grown by 13%, leaving them 11% above their 2008 levels, while higher earners have seen much more modest increases in pay. With the government having announced further big increases in the minimum wage through to the mid 2020s, this is a pattern that is likely to continue.

Changes in weekly earnings a little less progressive; low weekly earners not always on minimum wage + falling hours from 2016-2018

Figure 4. Changes to real weekly earnings, by percentile point, since 2008



Source: Authors' calculations using ONS ASHE Table 1.5a , multiple years, and ONS series L522 (CPIH index All Items). Earnings measures in April of each year.

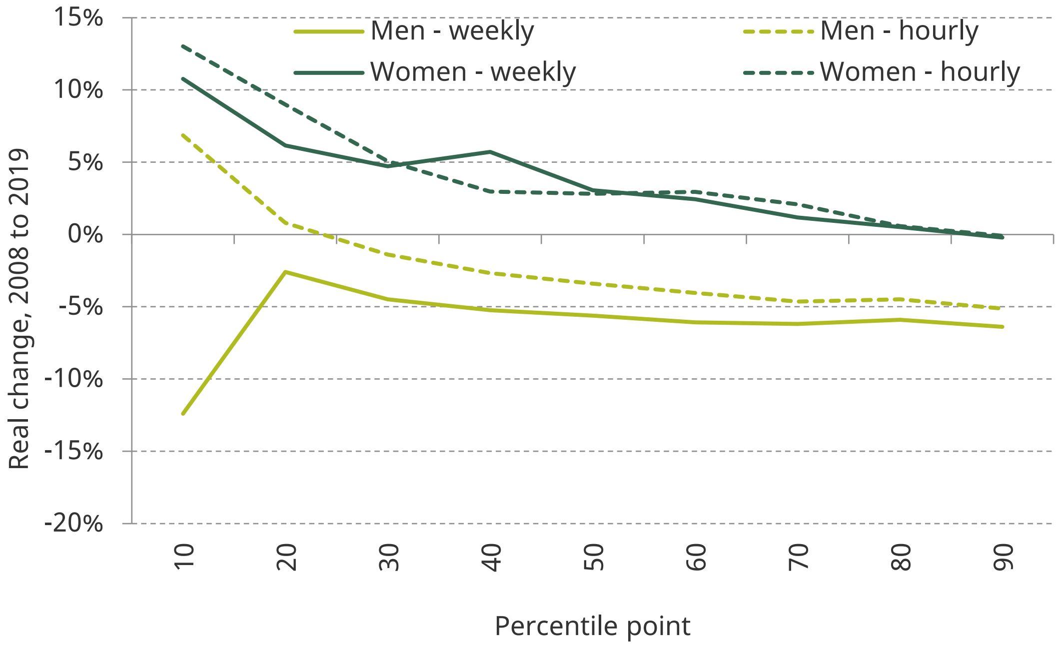
The strongly progressive pattern of hourly earnings growth has partially, but not fully, translated into higher *weekly* earnings growth for those with low weekly earnings. Figure 4 shows growth at certain percentile points of the weekly earnings distribution. Those with low weekly earnings have done better than those with high weekly earnings: growth since 2008 is 5% at the 10th percentile compared to –2% at the 50th (median) and –4% at the 90th percentile.

However, the earnings of low *weekly* earners have increased by less since 2008 (and since 2015) than the earnings of low *hourly* earners. This is in part because some people with low weekly earnings have earnings well above the minimum wage, but just work relatively few hours, so they do not receive the pay increase from a higher minimum wage.

Between 2016 and 2018, it also seemed to be the result of a more concerning trend, with weekly earnings at the 10th percentile falling by almost 2% between 2016 and 2018. Given that this did not come at a time of hourly earnings falling, it suggests that it was due to falling hours of work. This trend did not continue into 2019, with big rises in real weekly earnings for low earners. However, the government should keep a keen eye on trends in hours of work for low earners, as a much higher minimum wage could lead to lower hours of work for lower paid employees.

By far the worst performing group since 2008 are men with low weekly earnings

Figure 5. Total change in hourly and weekly earnings, by sex and percentile point, 2008 to 2019.



Source: Authors' calculations using ONS ASHE Table 1.5a , multiple years, and ONS series L522 (CPIH index All Items). Earnings measures in April of each year.

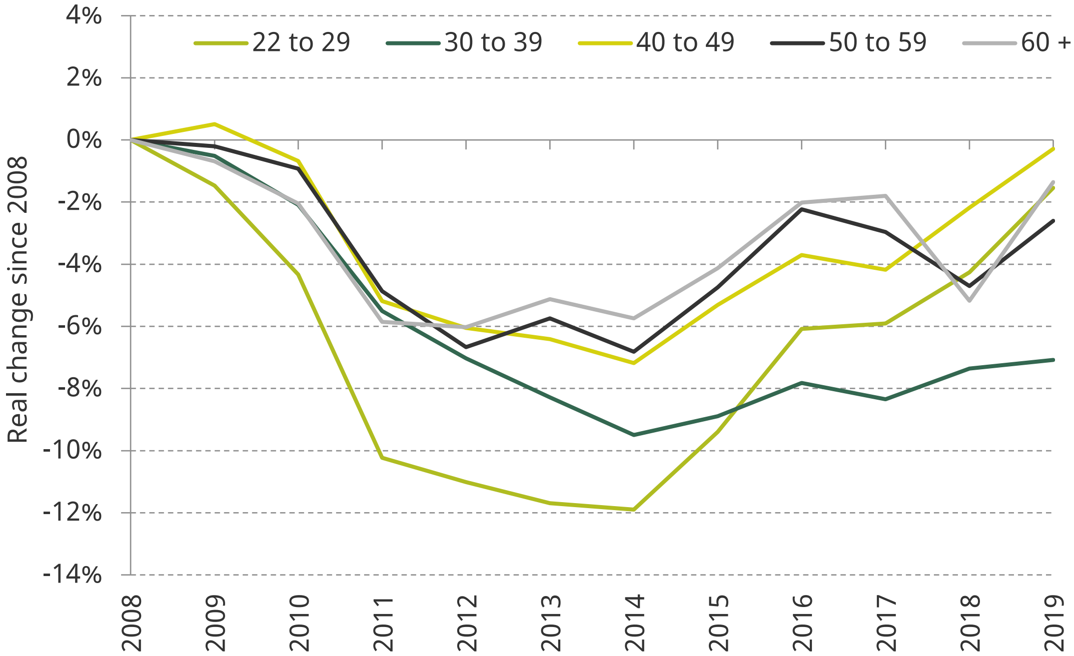
Overall, the patterns seen in Figures 3 and 4 show that lower earners (on an hourly or weekly basis) have done better since 2008 than higher earners. However, this is not the case when looking at how patterns across the distribution differ by sex.

Figure 5 shows the total real change in earnings (hourly and weekly) by percentile point from 2008 to 2019. The findings for women are not surprising given the preceding analysis: higher growth for lower earners. However, the patterns are very different for men: the 10th percentile of weekly earnings distribution for men is 12% lower than it was in 2008: meaning substantial falls in earnings for low earning men as a result of lower hours of work.

This is not a phenomenon from the last few years (when earnings have been gradually recovering), but instead happened in the aftermath of the recession. As recently as 2014, male weekly earnings at the 10th percentile were 20% below their 2008 level, meaning that they have actually partially recovered since then.

Strong recent increases in pay for 20-somethings: hardest hit are clearly those in their thirties (who were in their 20s in 2008)

Figure 6. Change in median real weekly earnings, by age group, since 2008



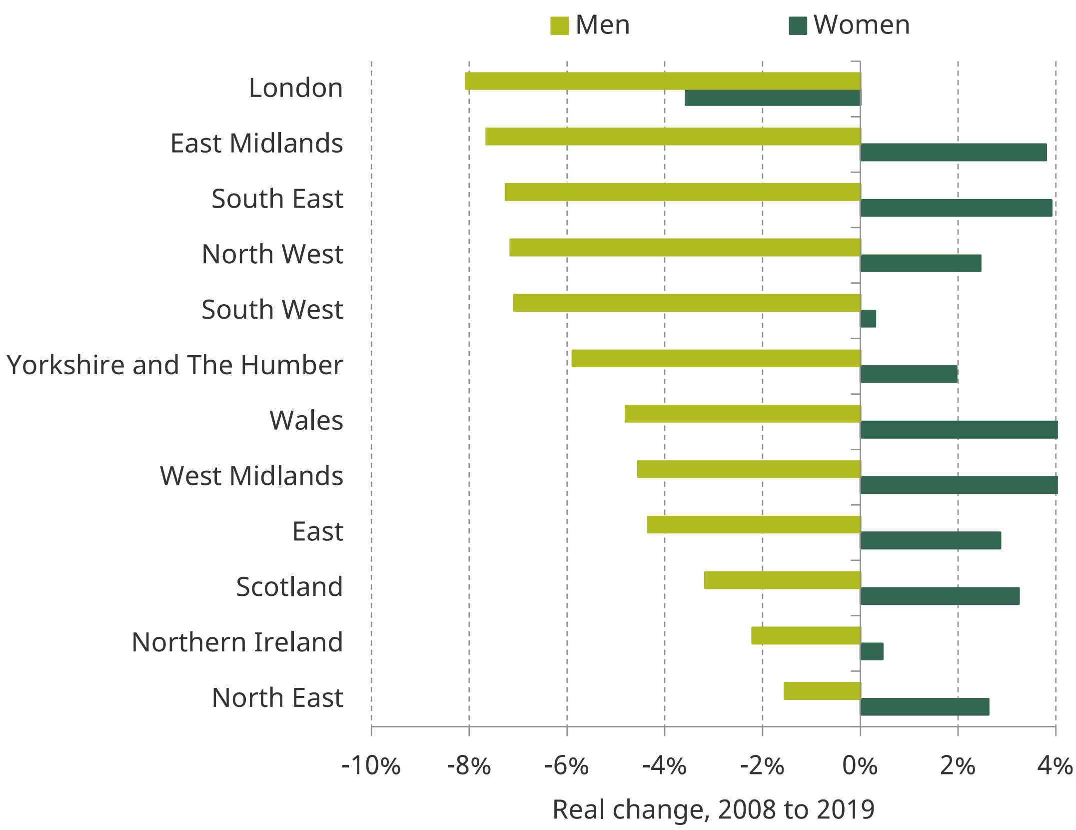
Source: Authors' calculations using ONS ASHE Table 6, multiple years, and ONS series L522 (CPIH index All Items). Earnings measures in April of each year.

Figure 6 shows how trends in median weekly earnings have differed by age. In the aftermath of the Great Recession, median earnings fell by most for those aged 22 to 29, falling by over 10% between 2008 and 2011. However, since 2014, the recovery in earnings has been strongest for those in their 20s, growing by almost 12% between 2014 and 2019.

The group that now looks to have done worst since the recession are those in their 30s; their average earnings are still 7% below the pre-crisis level for those in their 30s, and median earnings for this group are still lower than their 2012 level. Of course people in their 30s now are the same who (being in their 20s in 2008), actually experienced the largest falls in the immediate aftermath of the recession.

Average earnings have performed worse in richer regions of London and the South East, particularly for men

Figure 7. Real change in median weekly earnings, by region and sex, 2008 to 2019



Source: Authors' calculations using ONS ASHE Table 3, multiple years, and ONS series L522 (CPIH index All Items). Earnings measures in April of each year.

Finally, Figure 7 examines how different median weekly earnings growth has been across the regions and nations of the UK, split by men and women. For men, median earnings have fallen in all 12 regions and nations, with the lowest falls in the North East (–2%) and the largest in London (–8%) In almost all regions, women's earnings are above their pre-crisis levels, except for London where they are still almost 4% below.

In general, richer regions of the UK have done slightly worse than poorer regions of the UK since 2008, with the South East doing worse than average for men, and significantly falls for both men and women in London. In contrast, poorer regions such as the West Midlands and the North East look to have done better than average. These trends do not seem to be due to average hours of work declining consistently more in richer regions than poorer regions since 2008.