The Manufacturers' Organisation

PAY BULLETIN JUNE 2019

KEY POINTS

Three-month average settlement stable at 2.6%

Indecision on pay settlements continues

GDP forecast for the sector up 0.5% to 0.2% growth in 2019

Inflation fell back 0.1% to the Bank of England's 2% target rate

Summary of pay settlements

			SETTLEMENTS % INCREASE		DEFERRALS % OF SETTLEMENTS		FREEZES % OF SETTLEMENTS	
		NO. OF SETTLEMENTS	MONTHLY AVERAGE %	3 MONTH AVERAGE %	MONTHLY AVERAGE %	3 MONTH AVERAGE %	MONTHLY AVERAGE %	3 MONTH AVERAGE %
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	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	65	2.5	2.5	6.2	7.0	3.1	2.8
	Feb	6	2.5	2.5	0.0	6.7	0.0	2.7
	Mar	7	3	2.5	0.0	5.1	0.0	2.6
	Apr	66	2.5	2.6	12.1	10.1	6.1	5.1
	May	3	2.7	2.6	0.0	9.6	0.0	4.8

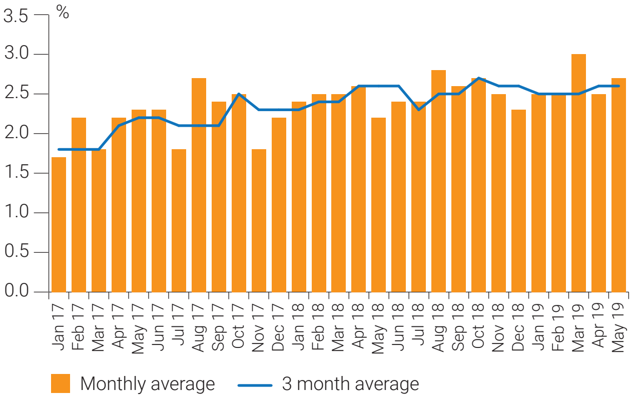
Source: Make UK Pay Bulletin

This pay survey includes 83 settlements covering 17,635 employees.

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

Chart 1: Average settlements has remained stable at 2.6% in the three months to May

Average % increase in pay settlements



Source: Make UK Pay Bulletin

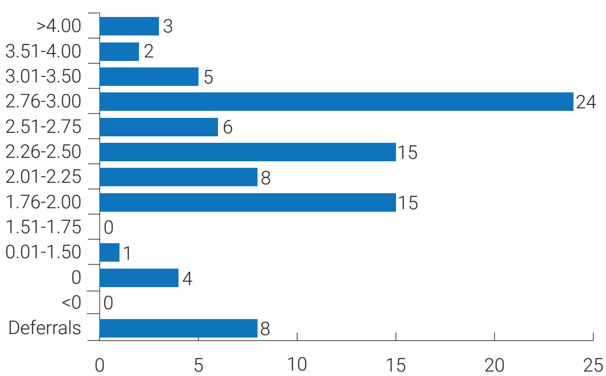
In what is one of the two key periods for annual pay reviews, last month's pay bulletin revealed that settlements for the three months to April showed earnings in manufacturing growing at 2.6%. This result was only slightly above the 2.5% recorded in the three previous bulletins (which included January data, the other key month for pay settlements). This time, our June bulletin finds that growth has again remained stable at 2.6%.

Our survey reflects the findings reported by the ONS, where growth in regular pay in manufacturing in the three months to April was recorded at 2.2%.

The ONS data continue to show a clear gap between regular pay in manufacturing when compared to the wider economy.

Chart 2: Many companies are still undecided about settlements

Settlement level breakdown, three-month average



Source: Make UK Pay Bulletin

Last month we reported that pay deferrals were at their highest in four months (10.1% of total settlements) and more significantly at a level much higher than reported in the same periods in both 2017 and 2018. This despite the fact our findings did not include deferrals classed as "still under review". When those still under review were added to these numbers an unprecedented 24% of settlements had not concluded in an increase for the worker. As if this wasn't enough, a further 5% of the companies surveyed said they are freezing pay.

These results confirmed that with so much uncertainty in the economy firms are struggling to make clear decisions about investment and spending. Anecdotally, we have had a number of responses indicate that pay settlement decision have been postponed until after the new EU exit deadline of late October.

This month there is, unfortunately, little further to report. Just 3 firms in our sample have made new settlement decisions - a typical result for this time of year given the annual surge we see each April – but another indication that postponements from April will not be revised until much later in the year.

Settlement data

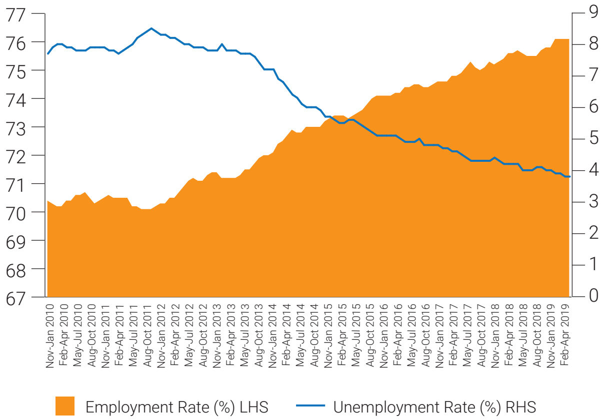
SETTLEMENT LEVEL	NUMBER OF SETTLEMENTS
Pay reduction	0
Zero (pay freeze)	4
1.00%	0
2.00%	15
3.00%	20
4.00%	2
> 4%	2

Latest information on pay trends

SURVEY	MEASURE	DATE	% CHANGE
Make UK	3 month median	May	2.5
Make UK	3 month average	May	2.6
XpertHR – private sector	3 month median	Apr	2.5
ONS – private sector	3 month median	Mar	3.5
ONS Average earnings – manufacturing	3 month average	Mar	2.2
ONS Average earnings – whole economy	3 month average	Mar	3.2

Chart 3: Unemployment at its historical low

Employment (LHS) and Unemployment rate (RHS)



Source: National Statistics

Despite political uncertainty around Brexit, UK businesses continued to add jobs in the latest quarter, keeping the unemployment rate at 3.8% – The lowest since records began in October 1974.

The overall employment rate improved from 75.6% to 76.1% – the joint highest total since records began in 1971.

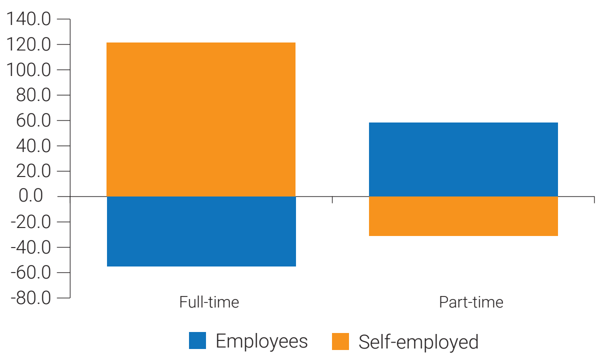
The record employment rate was driven by a continued expansion of the number of women in work, partly due to changes to the state pension age which have resulted in fewer women retiring between the age of 60 and 65. With employment growth among women coming from full-timers, the overall gap between men and women in hours worked is now the lowest ever - women now average about three-quarters of men's weekly hours, compared with around two-thirds 25 years ago.

In normal times, a tightening labour market would be expected to result in labour shortages and consequently put pressure on employers to increase wages. These are not normal times, however. As the ONS point out in their latest stats release, the high level of uncertainty in both the domestic and global economy may be reducing the impact of such pressure.

This is also reflected in the vacancy figures. While the number of vacancies remains high, it has fallen back slightly from the historic highs seen at the turn of the year. The suspicion is that companies are tailoring their behaviour in response to a worrying domestic economy due to prolonged Brexit uncertainty, and an unsettled global trade outlook.

Chart 4: The employment boom is beginning to show signs of fray

Change in number of workers between Q4 2018 and Q1 2019 (in thousands)



Source: ONS

The strong labour numbers are great news and something the UK should be proud of. However, the employment boom cannot last forever.

While the positive headline numbers are very welcome, they may be masking some less obvious weaknesses under the bonnet.

The rate of job creation is slowing. When we strip out inflation, real wages also remain below their pre-Global Financial Crisis levels. When you dig beneath the headline figures it becomes clear the UK's jobs 'miracle' is in fact almost entirely driven by older workers due to pension reforms pushing back the retirement age for women.

Further, data shows the scale of job losses in the retail sector is increasing after tough conditions on the High Street. Meanwhile, there have been a number of significant cut backs announced by firms in the manufacturing sector. All of this suggests the economy is headed for more choppy waters soon.

Economic Outlook

	ANNUAL % CHANGE				
	2016	2017	2018	2019	2020
Economic Environment					
GDP	1.8	1.8	1.4	1.1	1.7
CPI	0.7	2.7	2.5	1.9	1.8
Short-term interest rate (%)	0.5	0.4	0.7	0.8	1.2
Labour market					
Claimant count (% rate)	2.2	2.2	2.5	3.0	3.1
ILO (%)	4.9	4.4	4.1	4.2	4.1
Average Earnings	2.3	2.4	3.0	3.0	2.7
Manufacturing employment (000s)	2,637	2,685	2,719	2,684	2,645

Sources: Oxford Economics and Make UK

Stockpiling ahead of the original Brexit deadline of March 29th was the highest level ever recorded in the G7. The result, as we now know from our latest figures is that output has been relatively strong this year, albeit with significant downturns in key subsectors such as automotive.

Orders are however decreasing meaning recent output has not been driven by demand. For the second quarter in a row, domestic orders have exceeded export orders. Ominously, export orders from Asia and Europe remain near their lowest since 2016 as foreign customers increasingly move away from buying UK goods due to Brexit uncertainty.

Delving deeper, business investment has worryingly contracted for 4 quarters in a row for the first time since the Global Financial Crisis in 2008.

Productivity growth (defined as output per worker) has also been negative for the last 3 quarters (albeit partly because of increased hiring of staff which has diluted the result on paper).

Despite this, and thanks to the artificial boost from stockpiling and the now seemingly reduced risk of crashing out of the EU without a deal, Make UK has revised our *Manufacturing Outlook* forecasts for the sector up 0.5% to 0.2% growth in 2019, while we now expect the overall economy to grow by a slightly improved 1.2% (up 0.1%) this year.

Inflation trends and forecasts

		CPI	RPI	RPIX
2019	Q1	1.9	2.5	2.4
	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

Sources: National Statistics and Make UK

Release Dates

	Jul	Aug
Inflation	17	14
Average earnings and unemployment	16	13
Make UK Pay Bulletin	18	15

Inflation outlook

Our *Manufacturing Outlook* survey indicates that output has slowed versus Q1 in part due to the end of stockpiling activities as well as significant shutdowns across the auto industry in April, as car-makers brought forward their annual maintenance work to coincide with the previous Brexit deadlines.

The problems, however, go further. The strong labour market is putting upward pressure on prices and wages but some of that is being offset by weakening customer demand. Total orders continued to shrink in June.

All of this shows that the weak pound isn't giving UK manufacturers much of a boost.

A recent fall in transport costs by 3.8% between April and May (notably due to reduced air fares over the Easter period) has brought to an end the recent rise in inflation that threatened to push the Bank of England to increase interest rates. Energy costs, which spiked in April, and a price war in the car industry following a slump in sales over the past year also helped to bring down the consumer prices index (CPI) from 2.1% in April to 2% in May.

However, the CPI's drop was largely due to extreme price movements. The underlying rate of inflation, excluding the most extreme price movements, actually climbed 0.3 percentage points to 0.8%. Underlying inflation also increased in every region of the United Kingdom, rising most in the west Midlands, the North and London.

With the prospect of no-deal Brexit for dragging back UK economy, the Bank of England have, as expected, decided to keep interest rates unchanged at 0.75%.

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