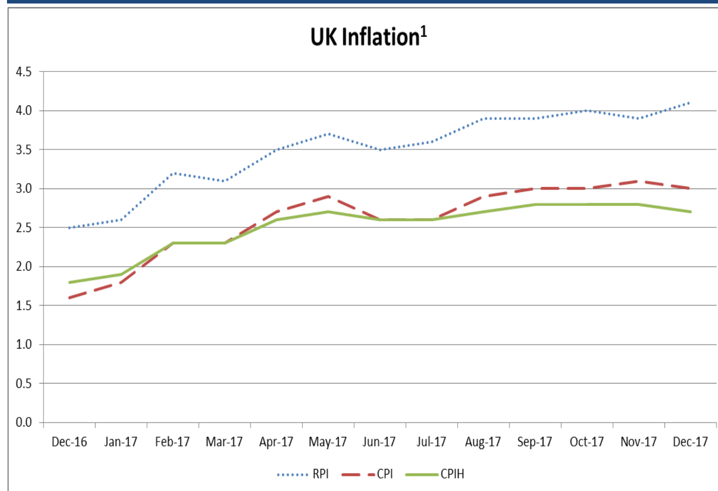
# Prospect Pay Bulletin

## January 2018

research@prospect.org.uk

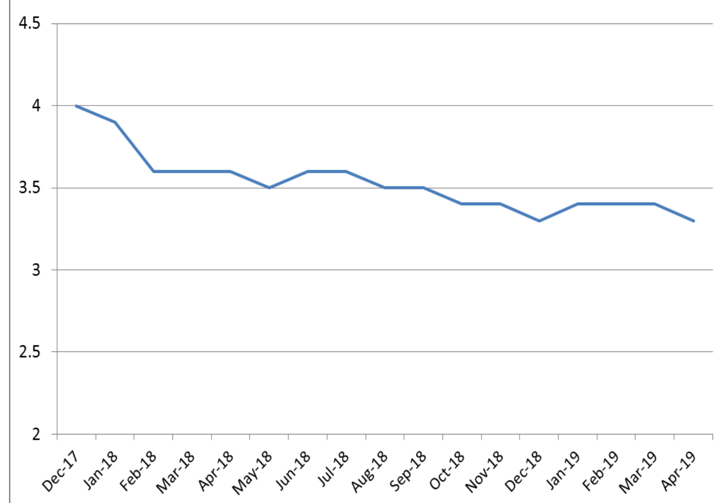
www.prospect.org.uk

## Inflation




| Inflation Oct-Dec 2017[1] | | | |
|---|---|---|---|
| **Month** | **RPI** | **CPI** | **CPIH** |
| **October** | 4.0% | 3.0% | 2.8% |
| **November** | 3.9% | 3.1% | 2.8% |
| **December** | 4.1% | 3.0% | 2.7% |

| Inflation Forecasts | | | | | | |
|---|---|---|---|---|---|---|
| | **RPI** | | | **CPI** | | |
| | 2018 | 2019 | 2020 | 2018 | 2019 | 2020 |
| **HM Treasury[2]** | 3.1% | - | - | 2.3% | - | |
| **OBR[3]** | 3.3% | 2.8% | 2.9% | 2.4% | 1.9% | 2.0% |
| **Bank of England[4]** | - | - | - | 2.4% | 2.2% | 2.1% |
| **IDR[5]** | 3.5% | 3.4% | - | - | - | - |




There was some divergence in the various measures of the rate of inflation in December 2017. On the CPI and CPIH measures, inflation fell slightly to 3.0% and 2.7% respectively, but RPI rose from 3.9% in November to 4.1% in December. RPI inflation is now at its highest level since December 2011.

The widening gap between RPI and the CPI/CPIH measures is largely due to two factors: the impact of a rise in mortgage interest payments (included in RPI, excluded from CPI/CPIH), and differences in the weighting of certain key items in the different indices. The largest downward influence on CPI and CPIH in December was due to the price of airfares – although ticket prices rose, they were given a lower weighting in this year's index compared to last.

The consensus on the outlook for this year remains that inflation will gradually reduce over the course of the year, though the pace and extent of that decline remains up for debate. On the RPI measure, although forecasters expect the rate to fall, most expect it will still be well above 3% at the end of this year. Similarly, on the CPI measure, there is little expectation that the rate will fall below the Bank of England's 2% target before next year.

One of the wild cards is the rise in commodity prices, particularly oil which has risen by more than a third since last summer and is now at its highest level since 2014. With OPEC members pledging to continue the supply squeeze this year, oil prices may continue to rise and create upward pressure on consumer prices.

Another factor that may push up RPI inflation is the potential for further interest rate rises. The global outlook from organisations such as the World Bank is that monetary policy will start to tighten this year, and the Bank of England has intimated that further rate rises are a definite possibility.

The ONS estimates that each 1% rise in interest rates adds 0.9 percentage points to the 1-month change in RPI; rises on this scale are unlikely, but further quarter-point increases in interest rates are a definite possibility and may at least slow the downward trend of inflation. It is also worth emphasising of course that RPI has not yet started to fall.

Sources:
1 ONS (https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/dec2017)
2 HM Treasury figure is an aggregate of a range of independent forecasts made in last 3 months for Q4 2018
3 OBR forecasts are annual averages, produced November 2017
4 Bank of England forecast from November 2017, CPI only, Q4 averages
5 IDR Pay Climate Dec 2017 (inflation forecast to April 2019 only)

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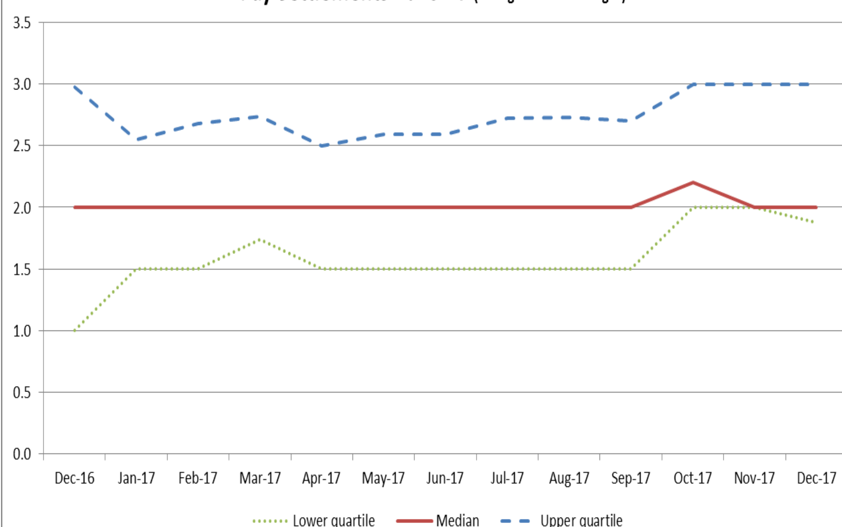
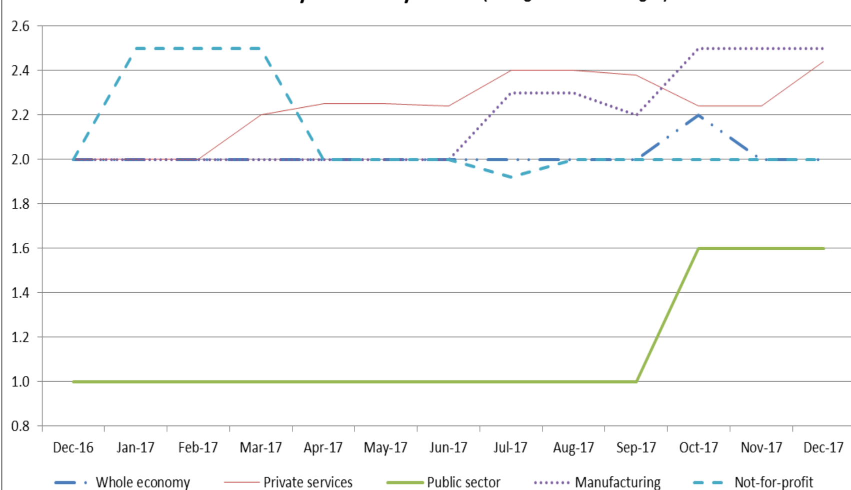
# Pay Settlements




## New Prospect Pay Agreements

| Branch | Headline Increase | Effective Date | Notes |
|---|---|---|---|
| **Drax** | 3.8% | 01/01/2018 | 2nd year of 2 year deal |
| **British Veterinary Assoc.** | 2.6% | 01/01/2018 | 1.5% revalorisation of each scale point, plus one point progression; £7,000 cash for individual bonuses |
| **Ricardo E&E** | 2.3% | 01/01/2018 | 1 year agreement |

## Pay Settlements by Sector[1] (6 months to Dec. 2017)

| | Whole economy | Public Sector | Manufacturing | Private services | Not-for-profit |
|---|---|---|---|---|---|
| **Median** | 2.0% | 1.6% | 2.5% | 2.44% | 2.0% |
| **Average** | 2.28% | 1.63% | 2.57% | 2.54% | 1.66% |
| **Interquartile range** | 1.88% to 3.0% | 1.0% to 2.0% | 2.0% to 3.0% | 2.0% to 3.2% | 1.49% to 2.1% |

Median pay settlements remained at the 2% level in December, continuing the long-term trend of weak pay growth. However, the aggregate figure disguises some areas of upward movement, chiefly in private services where median settlements increased from 2.24% in November to 2.44% in December (note that additions to the IDR database have led to slight revisions of data for previous months).

The public sector median remains at 1.6%, reflecting the partial easing of the pay cap for some workers, particularly teachers & police officers (who got a 2% increase, partially non-consolidated in the case of the police), university employees (deals between 1.7% and 2.9%), and staff at smaller bodies such as the Natural History Museum (who got a 1.8% pay rise) and the Crown Estate (3%).

As previously reported, the Bank of England has predicted that pay settlements in 2018 will tend to cluster in the 2.5% to 3.5% range, partly as a result of the increasing tightness of the labour market. The ratio of unemployed persons to vacancies is currently 1.8, the lowest level since comparable records began in 2001.

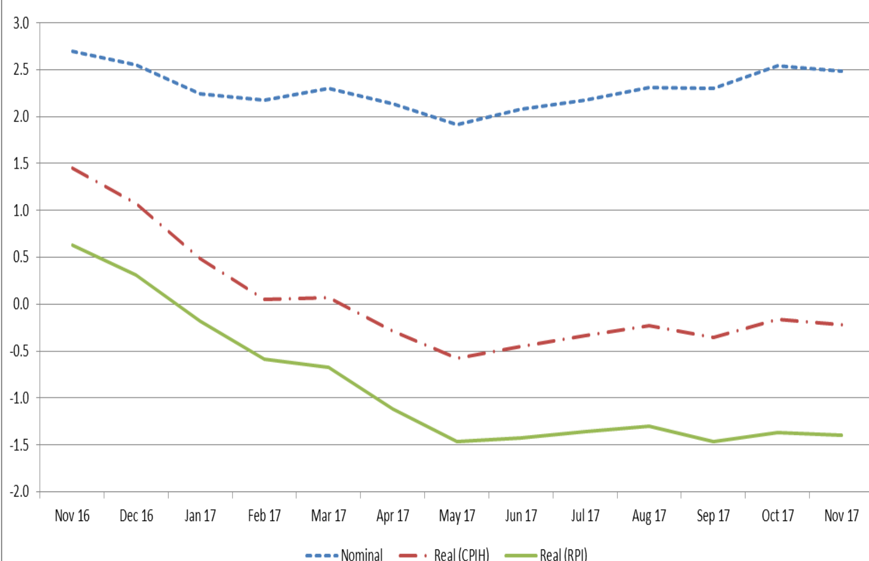
There is some early evidence that pay settlements are starting to improve. IDR have recorded 22 pay settlements so far for January 2018, and the median deal is currently 2.35% with 73% of the deals (16) in the 2%-2.99% range. Similarly, XpertHR have recorded 59 deals so far for 2018, with a median settlement for all sectors of 2.5%, and median awards in manufacturing and private services also both at 2.5%.

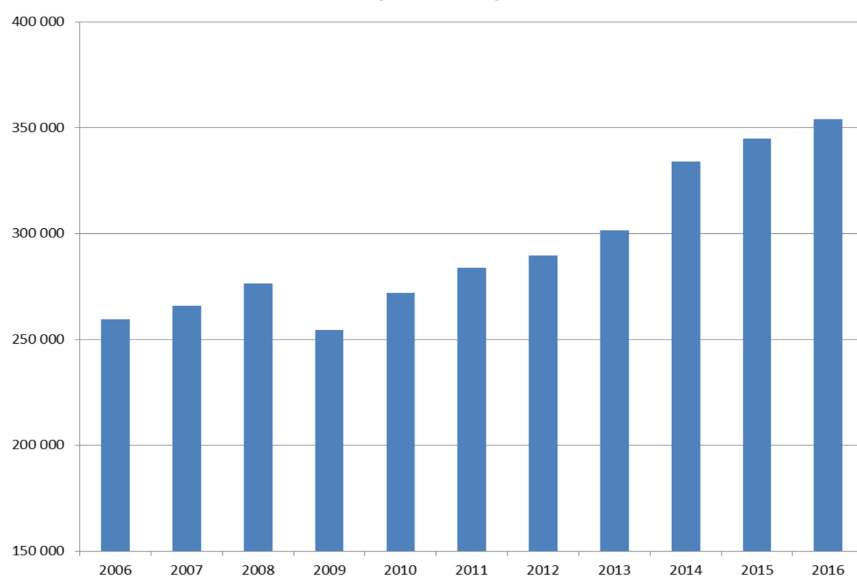
It is too early to say whether these deals are representative of what the year ahead will bring, but they provide grounds for cautious optimism. Coupled with the fact that further positive movement on public sector pay is also likely this year, 2018 may (finally) bring better news on pay for many workers.

But, whilst a 2.5% median would be an improvement, it would still leave many receiving below-inflation raises, and would not reverse the real losses sustained in the last few years.

Source:
[1]IDR (www.paybenchmarker.com). Note that IDR retrospectively update their settlements database, so historical data in these bulletins will be amended to reflect that.

## Average Weekly Earnings




### Changes in AWEs [1]

(total pay, rolling 3-month averages, all figures are nominal unless otherwise stated)

| | Whole Economy (nominal) | Whole Economy (real CPIH) | Whole Economy (real RPI) | Public Sector | Private Sector | Services | Manufac-turing |
|---|---|---|---|---|---|---|---|
| **Sept** | 2.3% | -0.4% | -1.46% | 1.7% | 2.5% | 2.4% | 1.9% |
| **Oct** | 2.5% | -0.2% | -1.37% | 1.8% | 2.7% | 2.6% | 2.3% |
| **Nov** | 2.5% | -0.2% | -1.40% | 1.9% | 2.6% | 2.6% | 2.6% |

### Forecasts for Average Weekly Earnings Growth [3]

| | 2018 | 2019 |
|---|---|---|
| **HM Treasury** | 2.6% | - |
| **OBR** | 2.3% | 2.3% |
| **Bank of England** | 3% | 3.25% |

There was no significant change to average earnings in November, with nominal earnings remaining at 2.5%, real (CPIH) earnings at -0.2% and real (RPI) earnings falling slightly to -1.4%. Real earnings, as measured using RPI, have now been falling for 11 consecutive months, wiping out the modest recovery in earnings that took place between late -2014 and mid-2016. As previously reported, revised forecasts from the OBR suggest that real average earnings will not recover to pre -crisis levels until at least the middle of the next decade, meaning almost two decades of lost earnings growth.

Within this generally gloomy picture, there are some small positive signs. The three month rolling average of earnings growth in the public sector was 1.9% in November, which is the highest rate of growth in close to five years. As discussed above, there are increasing signs of a (partial) end to the 1% pay cap for public workers, and that may help to further push up earnings growth in future months. Even so, growth remains anaemic and pay settlements need to improve significantly if the losses of recent years are to be reversed.

Weak economic performance, and poor productivity growth in particular have been singled out as major causes of this exceptional fall in real earnings. However, poor productivity performance has not stopped corporate earnings from climbing to record levels. The aggregate gross operating profits of UK businesses (excluding financial companies) increased from £266 billion in 2007 to £354 billion in 2016, a rise of around 33%. Over the same period, nominal expenditure on wages and salaries (not accounting for inflation) has increased much more slowly, by around 24%, implying a significant shift in the proportion of national income that accrues to workers rather than to investors.

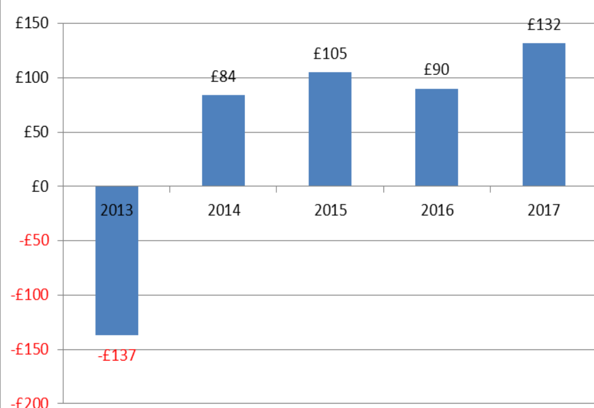
The message here is that economic weakness has not stopped investors from increasing their gains, and it should not be a barrier to workers fighting for a fair slice of the cake. With economic growth increasingly dependent on consumer spending, future prosperity may depend on workers getting a better deal on pay.

Sources:
[1] ONS (https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/november2017)
[2] ONS ASHE 2017
[3] Sources same as for inflation forecasts above

# Selected Financial News—Qinetiq

## Qinetiq Results H1 2017/18

| | H1 2017/18 | H1 2016/17 | Change |
|---|---|---|---|
| **Revenue (£m)** | 392.5 | 361.8 | +8.5% |
| **Operating profit (£m)** | 57.5 | 51.9 | +10.8% |
| **Funded order backlog (£m)** | 2,042.2 | 1,270.6 | +60.7% |
| **Interim dividend per share (p)** | 2.1 | 2.0 | +5% |




Defence research and training contractor Qinetiq, employer of several hundred Prospect members, recently published half-year results that revealed a 10.8% rise in underlying operating profit compared with the same period last year. Companies, like Qinetiq, who rely for a significant proportion of their business on MoD contracts have generally had a tough time of late, due to attempts by the government to rein in defence spending.

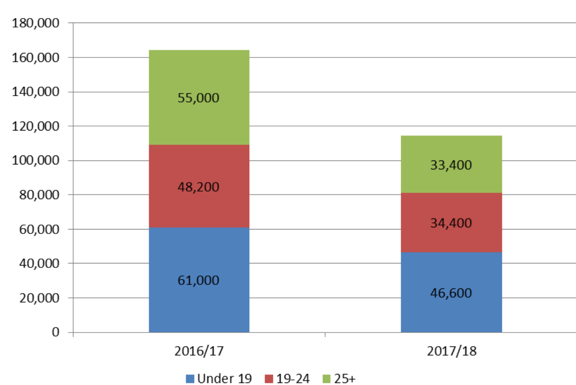
Unlike other contractors however, Qinetiq has benefitted from its niche position in R&D and training provision, and its reliance on longer term contracts that are more insulated from short term fluctuations in defence expenditures. For this reason, JP Morgan recently described Qinetiq as "the best house in a deteriorating neighbourhood."

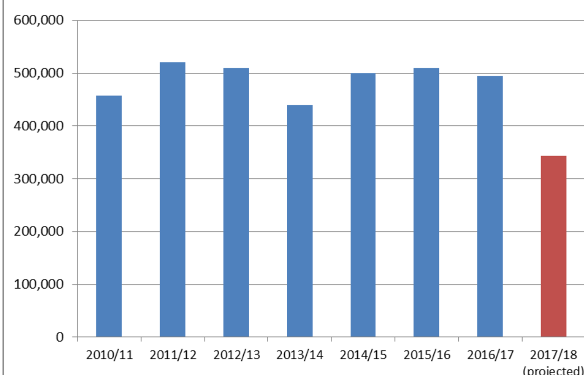
After a mixed few years for Qinetiq, the longer term picture looks relatively rosy, with its funded order book rising by just over 60% to around £2 billion worth of orders, compared with the same period last year. The company's cash flow position is also strong, with around £200 million in cash on hand. This improving picture was used to justify a significant increase in compensation for CEO Steve Wadey; his total 2017 package was just over £1.8 million, up by 9.9% from his 2016 package of just over £1.65 million. The average Qinetiq employee fared less well however; average total compensation per employee increased by less than half that amount (4.1%) over the same period.

The improving financial picture at Qinetiq has not helped its share price however. Although the positive half year results led to a temporary boost, Qinetiq's shares have fallen back since then and are now down around 20% year-on-year.

Sources: Qinetiq (https://www.qinetiq.com/en-gb/investors/results-centre)

# Are Apprenticeships Working?




The Department for Education has released new figures on apprenticeship starts for the first quarter of the current academic year, and they offer troubling reading for those interested in improving the UK's record on training and skills. The figures show that a total of 114,400 new apprenticeships started during this period, down by 30% from 164,200 new starts in the same period last academic year. The government has set a target of 3 million new apprenticeships by 2020, which would require 600,000 new starts per year. At the moment however we are on track to reach only around 340,000 new starts this year (typically a third of starts occur in the first quarter of the academic year).

As the Resolution Foundation has pointed out however, it is not just about numbers, quality matters too. Unfortunately, the evidence on that score is not positive either. Ofsted recently reported that more than half the companies that have registered as training providers have been classified as "inadequate" or "requires improvement." On other metrics too, there are concerns about quality; available data shows that many apprentices are spending well below the government target of 20% of their time in off-the-job training.

Recent research from the CIPD about employer responses to the new apprenticeship levy is not encouraging either. A fifth of employers say they intend to write off the levy as a tax, and nearly half (46%) say they intend to simply rebrand existing training as apprenticeships. All of this raises questions about the efficacy of the programme and the government's policy on skills. With serious skills shortfalls already affecting many sectors, much more needs to be done - engaging with unions, whose record on training is strong, would be a good first step.