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News release

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Quarterly Bulletin pre-release article: Wages, productivity and the changing composition of the UK workforce

In the aftermath of the financial crisis, wage growth has been weak. One of the factors that can affect wage growth is the makeup of the workforce. As people move into, out of and between jobs the characteristics of those in employment can change, leading to changes in the gender, tenure and level of education of the workforce. As this happens, the average wage of the workforce as a whole can change. These are known as compositional effects and understanding the size of compositional effects is important for monetary policy decision-making. This article explores the extent of this effect and what role it can play in explaining weak post-crisis wage growth.

There have been substantial changes to the composition of the UK workforce over the past 30 years. The article summarises these changes and considers what role various characteristics have played in wage growth from 1995 to 2015. It finds that:

- Changes in the composition of the workforce have typically boosted pay over time, on average, by just under half a percentage point between 1995 and 2015.
- The biggest factors determining this compositional effect were: education, job tenure, age, the type of job the employee is doing in their firm and industry. Of these, level of education contributed by far the largest effect, explaining around 0.4 percentage points of the positive impact of compositional effects on wage growth.

The effect of these factors on wages has changed over time. In particular:

- Since 1995, the effect of having a degree has fallen substantially. In 1995 a degree would on average increase wages by 45% relative to having no qualifications at all; by 2015 this premium had fallen to 34%.
- The effect of long tenure on pay has also declined by around a third since 1995.
- In addition, the relative earnings of those over 55 have increased since the financial crisis.

In much of 2014 and 2015, compositional effects dragged on wage growth by around ¾ of a percentage point relative to normal as lower-skilled employees returned to the workforce and some higher-skilled employees exited the workforce. This helps to explain some of the recent weakness in pay growth. More recent data for 2015 Q4 show that compositional effects have started to subside. The drag on wage growth is likely to dissipate as the labour market normalises and the effect on wages of changes in the composition of the workforce returns to normal.

The URL for the article (which will be live from 12:00 hrs (GMT) Friday 11 March) will be here

The rest of the Q1 edition of the *Quarterly Bulletin* will be published at 12:00 hrs (GMT) on 18 March 2016.

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