

Have voters noticed the “lost decade” of pay growth?

December 2022

Summary

Public First has undertaken new analysis of longitudinal survey data, tracking the same individuals over time.

While earnings growth has picked up recently, driven in part by labour market disruption and skills shortages during the COVID-19 pandemic, headline statistics show pay growth trailing behind inflation, with real (inflation-adjusted) average earnings [lower than 15 years ago](#).


We wanted to understand what that meant for individuals in different sectors - as they've become older, moved up pay bands, or been promoted.

We find that **individuals who have stayed in the workforce have seen real pay growth**. Our longitudinal analysis of the same individuals over time shows that the median worker saw pay grow by 15% between 2010/11 and 2020/21.

However there are important differences in pay trends across demographic groups:

- **Those that remained¹ employed in the public sector over the past decade have seen weaker wage growth than their private sector peers.** While the median worker in public administration had a similar wage to the median worker in professional services in 2010/11, by 2020/21 real wages for the same set of public administration workers were 15% lower than their peers in professional services - amounting to £5,600 per year (this excludes pensions).
- **The median residential care worker fell behind the median hospitality worker in terms of pay over the decade,** perhaps explaining the recruitment challenges the sector currently faces.
- **Among the cohort of workers that were not in the same industry in 2010/11 and 2020/21, median earnings had fallen over the decade after adjusting for inflation.** More analysis is needed to get to the bottom of this, but conceivably this could reflect factors such as unemployment between these years leading individuals to change

¹ To analyse pay trends by industry, we have focused on people that were in the same industry of employment in both 2010/11 and 2020/21, though may well have been promoted, changed hours worked or switched employer *within* the industry.



industry and start again at a similar or lower rung of the career ladder. It may also reflect the relative success and skill level of individuals that stick versus switch industry.


- **The regional picture is more complex than “North versus South”.** While Londoners saw the fastest real wage growth over the past decade, Yorkshire & Humber and the North East occupied second and third place. Wage growth in Wales pipped that seen in the South East and East of England, while the Midlands and South West of England saw relatively weak wage growth.
- **Those that had moved region between 2010/11 and 2020/21 saw similar pay growth to Londoners, and the median worker in this cohort had the highest pay in absolute terms.** This points to significant pay benefits from geographical mobility.
- **It’s not all bad for the young: taking into account career progression, younger workers saw much faster wage growth over the past decade.** Those that were in their 20s in 2010/11 saw pay rise by close to 38% a decade later, after adjusting for inflation.
- **In contrast, those that were in their 40s in 2010 saw their real earnings rise by just 2% a decade later.** Perhaps that’s part of the reason why [our analysis with Phoenix Insights](#) suggests the over 50s currently have such a downer on work, with large numbers taking early retirement.
- **The scarring effect of childcare responsibilities on career progression continues to suppress salaries for women.** While men in their 20s in 2010 saw their annual pay increase by 42% in real terms a decade later, for women growth in pay was less than half as much (18%).

Introduction

As Public First [has noted](#), the latest UK labour market statistics make for grim reading when it comes to pay and, in turn, living standards. After adjusting for inflation, the typical annual salary of British workers is smaller than it was 15 years ago. Average pay is £10,000 per year lower than it would have been had it grown at the rates we were accustomed to prior to the Global Financial Crisis. Expect this to be a big theme of the next election.

But do these headline numbers tell us the full story, and do they translate into on-the-ground experiences of what has happened to living standards over the past decade? In other words, are voters actually feeling the pain and stagnation displayed in the official statistics?

There are reasons to think this might not be the case - at least for some groups. Critically, average pay figures will be affected by the ever-changing composition of the workforce - people joining the labour market, others retiring and some climbing the career ladder or completely changing the industry or occupation in which they work. Someone who has been promoted several times is likely to have seen pay growth far in excess of what average figures suggest, while a (in all likelihood) woman who has reduced her hours for childcare reasons could have faced a decade in which pay has fallen.



What has happened to pay is likely to vary markedly by factors such as age, sex, region and industry of employment. To understand what is happening on the ground, and how the finances of voters are faring, we need to dig deeper.

In this paper, we shed new light on the “lost decade” of pay growth for different workers. Critically, rather than just looking at the headline average earnings figures, we draw on the longitudinal Understanding Society survey dataset, a survey which tracks the same individuals and households over time and allows us to understand the on-the-ground income progression (or regression) of different groups - taking into account the effects of job switching, promotion and changes to hours worked on wages. Understanding Society commenced in 2009, building on and incorporating the long-running British Household Panel Survey (BHPS). It covers all the regions and nations of the UK and had an initial sample of 39,802 households.²

We analysed two waves of Understanding Society, a decade apart - the 2010/11 wave, from immediately after the Global Financial Crisis and the latest 2020/21 wave in the public domain. We have also adjusted the figures for inflation, to gauge the extent to which living standards have risen or fallen for different groups. Here’s what the number-crunching tells us.

The headline numbers, while important, do not give a true picture of people’s experiences over the “lost decade”

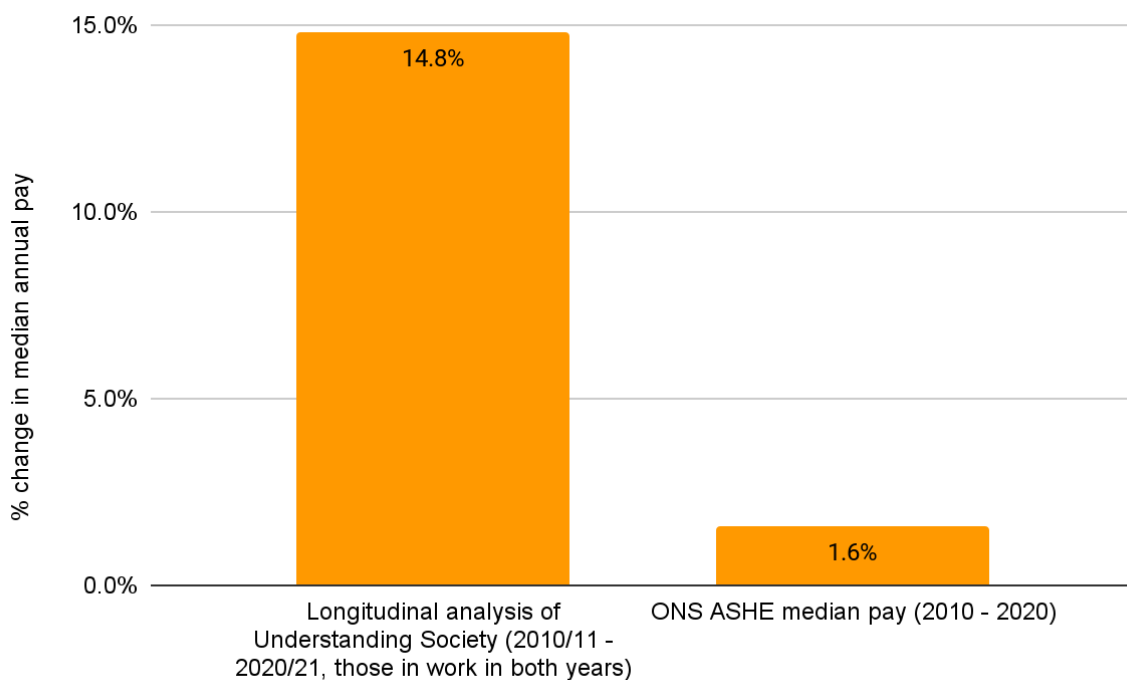
For the reasons set out above, headline averages are, for many, unlikely to be representative of changes in pay over a time period as long as a decade. Many of us will have changed jobs - possibly multiple times - over that time period. We may have been blessed with promotions. Childcare and poorly older relatives may have forced us to wind down the hours we work or to work more flexibly.

Among those that were in work in both 2010/11 and 2020/21, it seems that these headline numbers overplay the extent to which people’s incomes have seen sluggish growth since the financial crisis. The non-longitudinal ONS Annual Survey of Hours and Earnings dataset - the most comprehensive source of information on earnings in the UK - shows real median annual earnings grew by just 1.6% between 2010 and 2020. But our longitudinal analysis of Understanding Society - looking at those that were in work in both 2010/11 and 2020/21 - shows real terms pay growth of 14.8%.

This suggests much of the weakness in headline average pay growth over the past decade reflects compositional changes in the labour market, rather than the experiences of those in continuous employment. Such compositional effects include older workers leaving employment while lower paid young workers join the workforce for the first time, and

² <https://closer.ac.uk/study/understanding-society/>

unemployed individuals (re)joining the labour market and seeing their earnings prospects [scarred as a result of their unemployment](#).



Source: Public First analysis of Understanding Society and ONS Annual Survey of Hours and Earnings


None of this is to say that there has been no underperformance in UK wage growth in recent years and no cause for concern; the data suggest muted pay growth compared with pre-financial crisis norms, driven by a collapse in productivity growth in the economy. Too many of the new jobs we have created have been in low-wage sectors of the economy, rather than high-productivity, well-paying ones. And [cross-country analyses](#) suggest the UK is falling behind its peers on living standards.

Further, there are several sub-groups where our longitudinal analysis suggests pay growth **has** been particularly poor, even in the longitudinal data. It's to these that we now turn.

It's no surprise that social care is struggling to recruit and there is public sector unrest on pay

To analyse pay trends by industry, we have homed in on people that were in the same industry of employment in both 2010/11 and 2020/21, though may well have been promoted, changed hours worked or switched employer *within* the industry.

Over this decade, the median public sector worker fared badly in terms of earnings, with education, health, public administration and social care languishing at the bottom (alongside



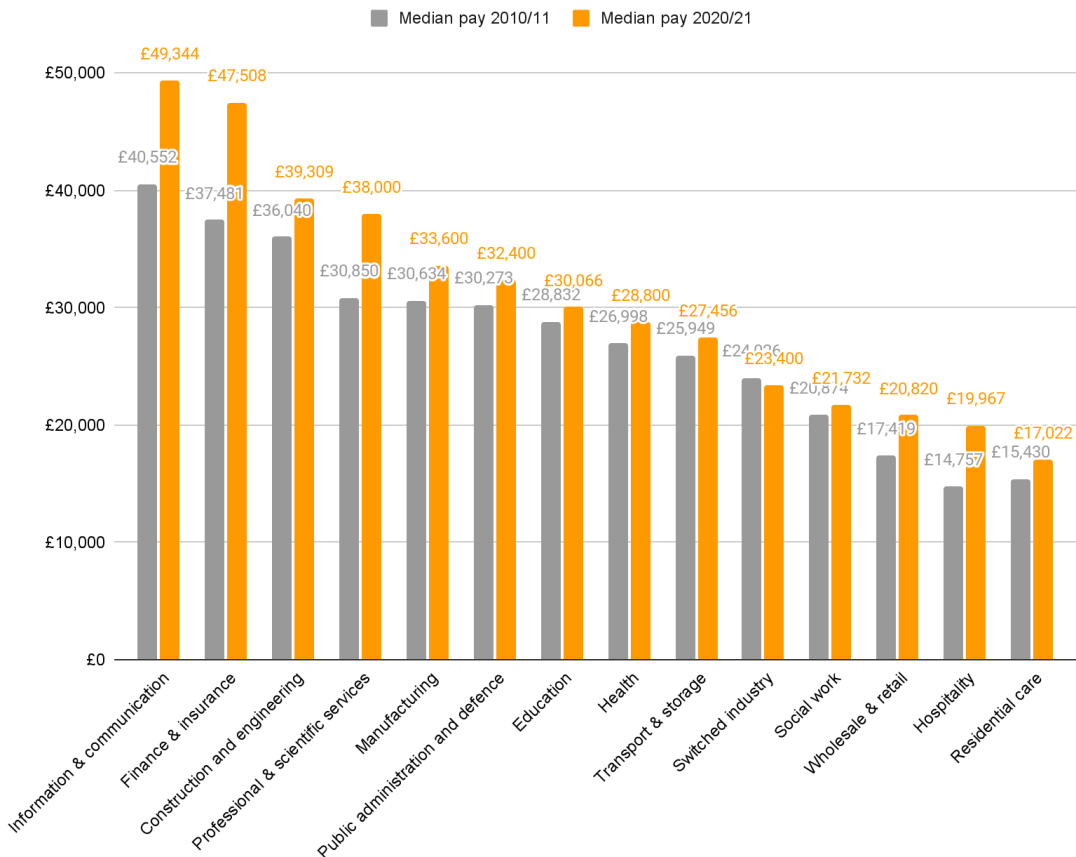
transport & storage) when it comes to pay growth. With high inflation and further public sector wage restraint since 2020, it's small wonder industrial unrest is ramping up.

While in 2010/11, those in the social work sector saw a significant wage premium on their peers in retail and hospitality, by 2020/21 this premium had been greatly eroded. The median residential care workers fell behind the median hospitality worker in terms of pay over the decade, perhaps explaining the [recruitment challenges](#) the sector currently faces.

Similarly, while in 2010/11 the median worker in education and public administration saw comparable pay to those in professional services and manufacturing, by 2020/21 they had fallen 15% behind professional services and 4% behind manufacturing. This widening pay gap will make it increasingly difficult for the public sector to attract and retain top talent going forward.

Interestingly, the median hospitality worker saw the strongest pay growth over the decade of our analysis by some margin, probably reflecting in part the fillip to wages brought on by the introduction of and subsequent upratings to the National Living Wage. Pay in the sector is still relatively low - but not by anywhere near as much as in the recent past.

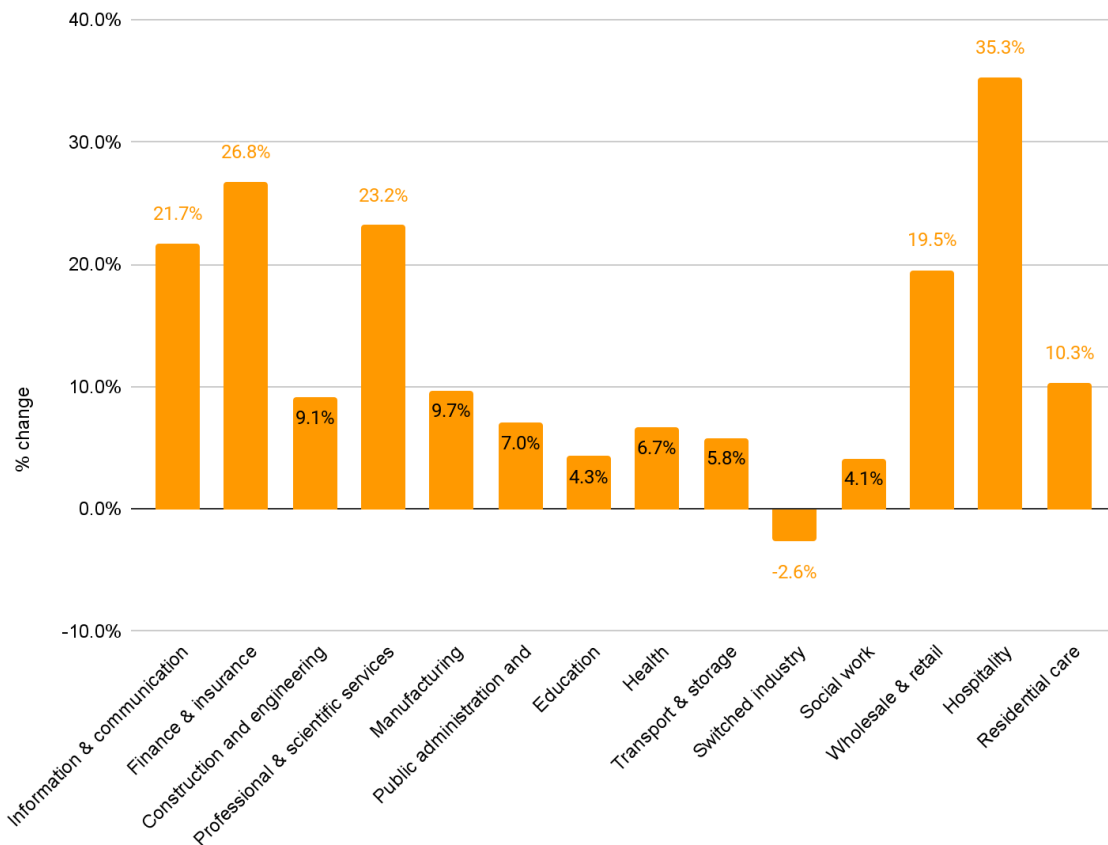
Median pay (2020/21 prices) - longitudinal analysis of workers in same industry in 2010/11 and 2020/21



Source: Public First analysis of Understanding Society

Also of note: among the cohort of workers that were not in the same industry in 2010/11 and 2020/21, earnings had fallen over the decade after adjusting for inflation. More analysis is needed to get to the bottom of this, but conceivably this could reflect factors such as unemployment between these years leading individuals to change industry and start again at a similar or lower rung of the career ladder. It may also reflect the relative success and skill level of individuals that stick versus switch industry. Those flourishing in their industry of employment and displaying a talent for it may be more likely to stay within it and benefit from promotions.

% change in real median pay, 2010/11-2020/21



Source: Public First analysis of Understanding Society

The regional picture is more nuanced than a “North-South” divide

As with our analysis by industry, our regional figures focus on those that remained resident in the same region in both 2010/11 and 2020/21. We also look exclusively at those that were in work in both of these years.

The figures here are perhaps surprising, departing from the often-seen North-South divide in economic data. While Londoners saw the fastest real wage growth over this time period, Yorkshire & Humber and the North East occupied second and third place. Wage growth in Wales pipped that seen in the South East and East of England.

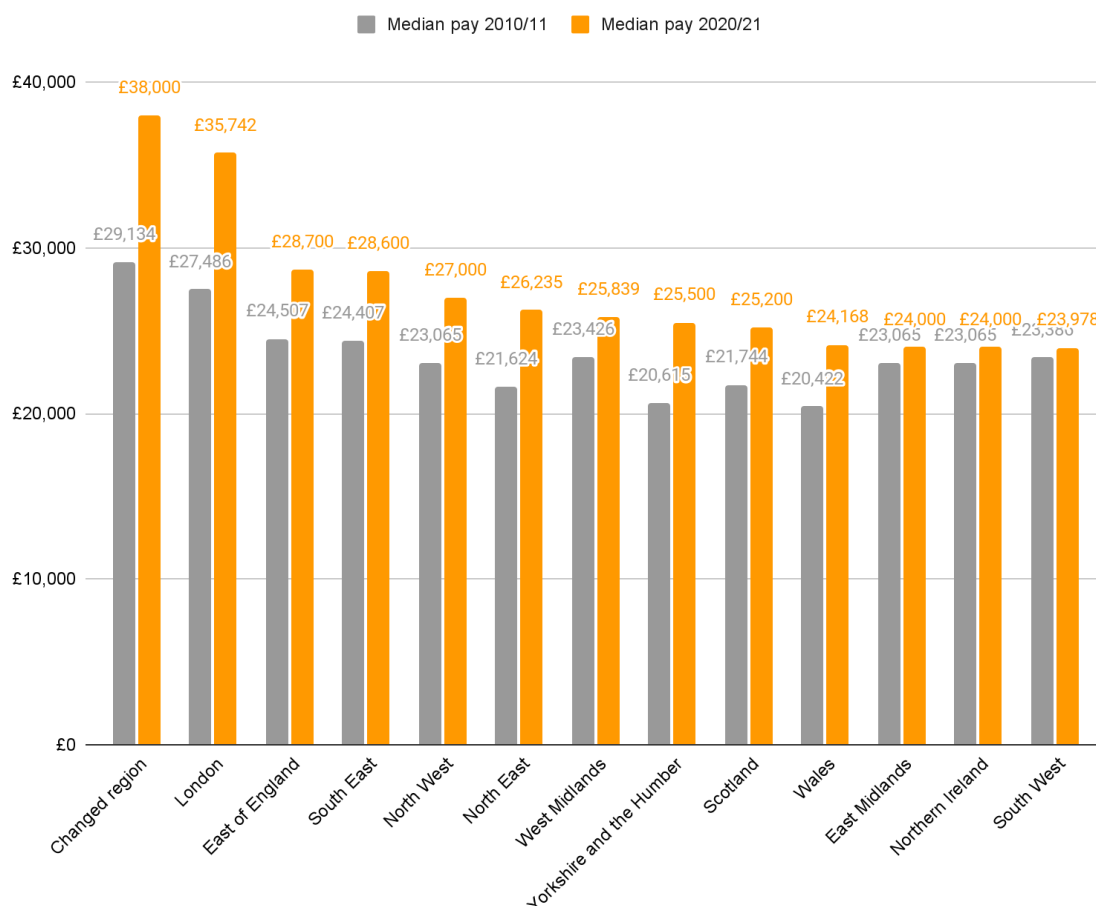
Conceivably, some of these trends may partly reflect the National Living Wage [benefitting areas](#) like the North East more than, say, the East of England.



Wage growth for those living in the Midlands and the South West of England, parts of the UK often overlooked in policy discourse, was relatively poor. Politicians might want to start paying more attention to these places, and the living standards of those living in them, in the run up to the election.

Those that were not living in the same region in 2010/11 and 2020/21 saw similar pay growth to Londoners, and the median worker in this cohort had the highest pay in absolute terms. This seems an intuitive finding; given the hassle of uprooting and switching region, for many this would need to come with significant financial benefits to be worthwhile. This finding also has important policy implications: if geographical mobility is an important enabler of pay progression, there is a case for doing more to encourage it, for example through reducing frictions in the housing market that make it more difficult to move - from stamp duty to a lack of affordable accommodation in high-paying regions.

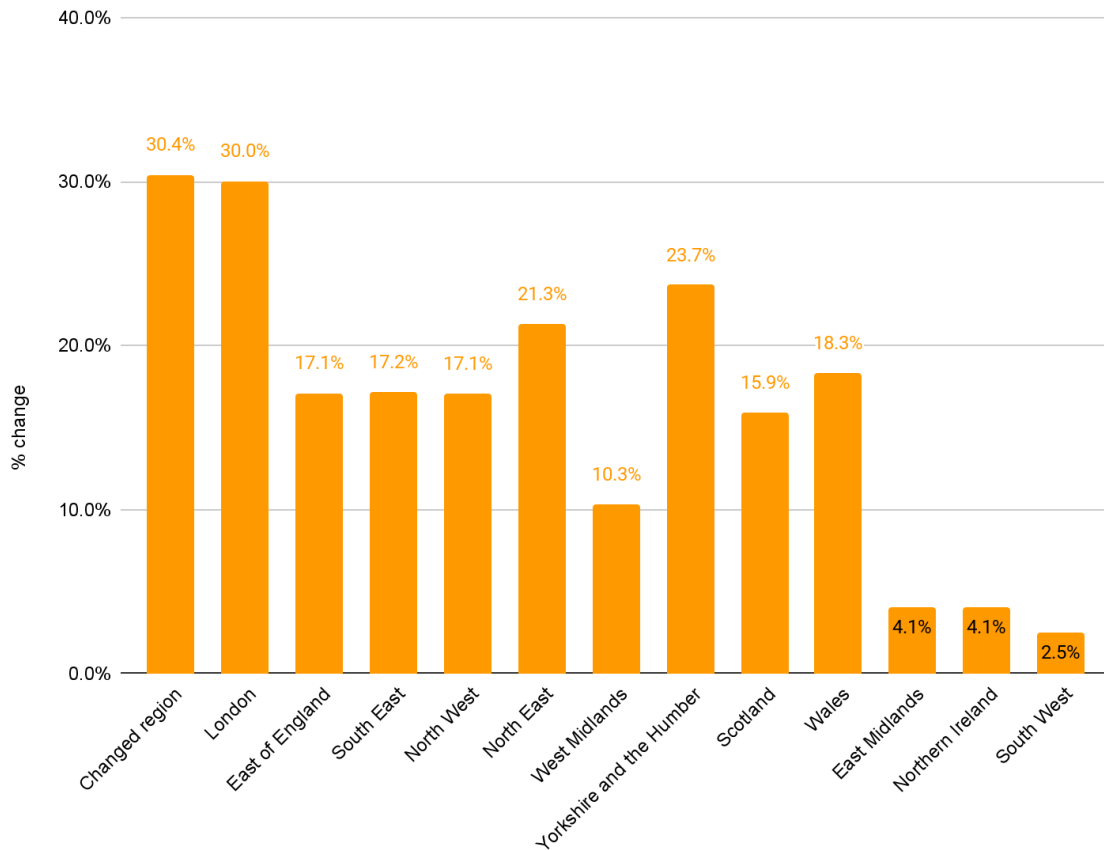
Median pay (2020/21 prices) - longitudinal analysis of workers in same region in 2010/11 and 2020/21



Source: Public First analysis of Understanding Society



% change in real median pay, 2010/11 - 2020/21



Source: Public First analysis of Understanding Society

Things haven't been as bad for the young when you account for career progression

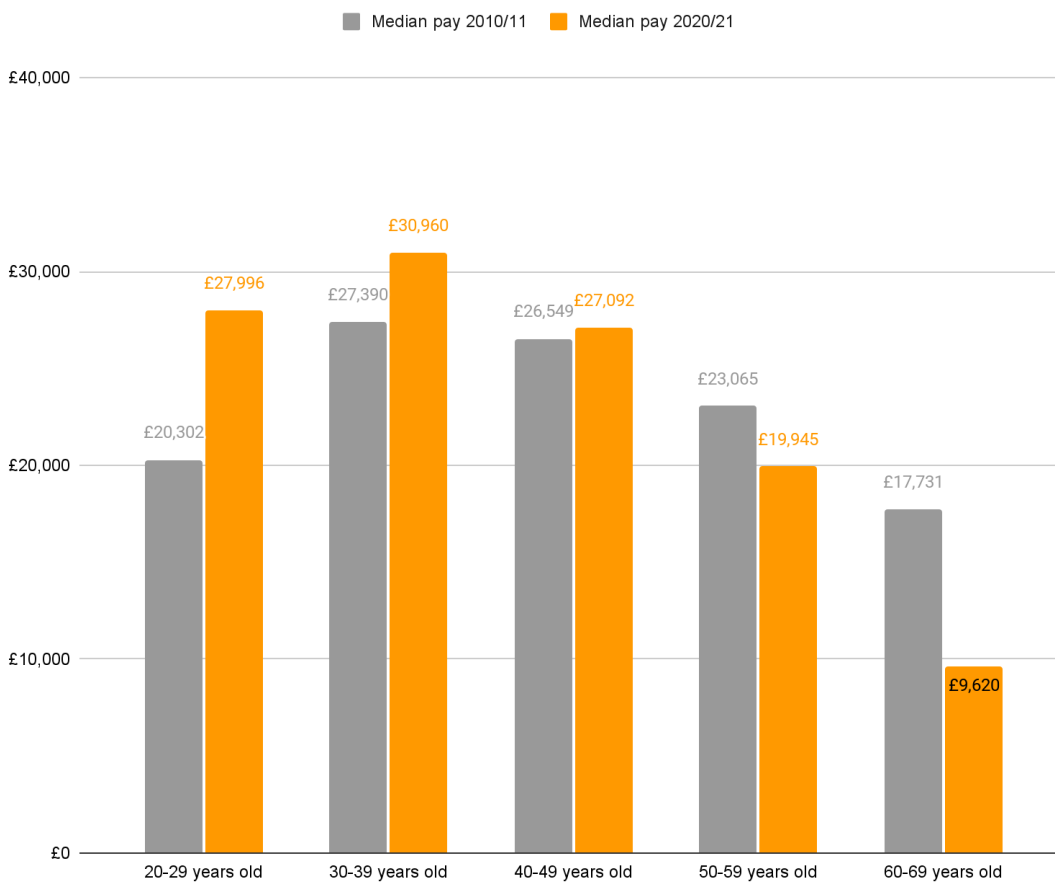
Young adults have certainly had it hard with rising student debt and hefty increases in housing costs. But, when we talk about living standards for this cohort, it's important not to overlook the career progression many in their 20s and 30s enjoy. Taking into account such progression, younger workers saw much faster wage growth over the past decade. Those that were in their 20s in 2010/11 saw their median pay rise by 38% in real terms a decade later.

In contrast, pay growth was much more paltry for those in their 40s in 2010; after adjusting for inflation, their pay was just 2% higher in real terms a decade later. Perhaps that's part of the reason why [our analysis with Phoenix Insights](#) suggests the over 50s currently have such a downer on work, with large numbers taking early retirement. Conceivably, employers need to

give more thought to ensuring that workers in their 40s, 50s and 60s have better access to progression opportunities.

Having said that, the weak real wage growth for this age group may also reflect health conditions and caring responsibilities leading to reduced hours worked, or indeed individuals positively choosing to rein in work in their 50s as they head towards retirement.

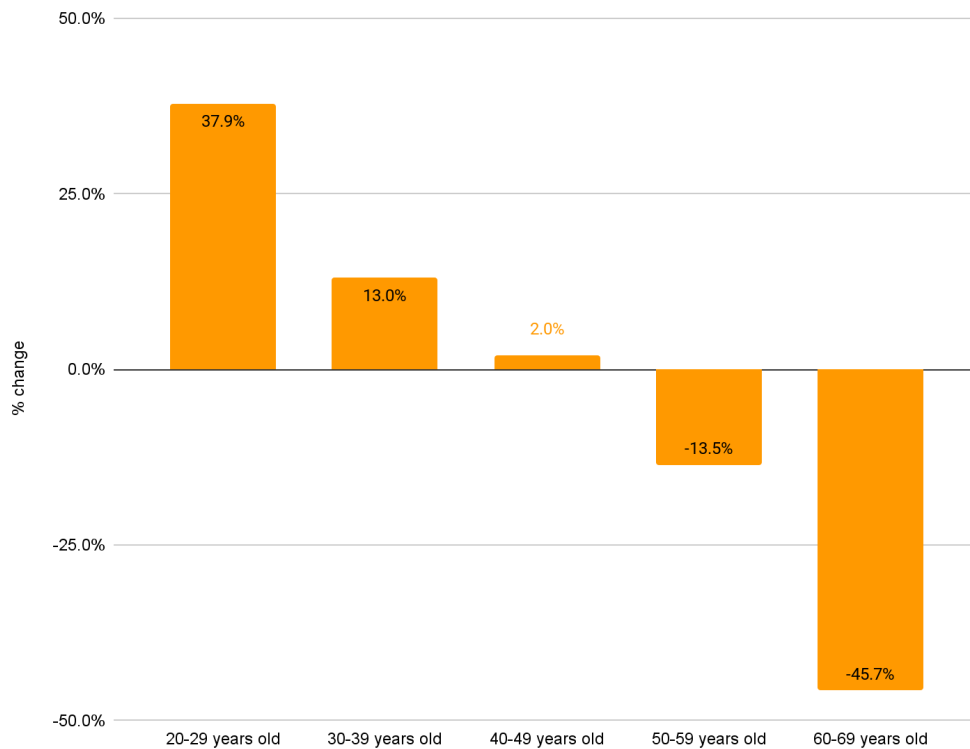
Median pay (2020/21 prices) - longitudinal analysis of workers by age group in 2010/11



Source: Public First analysis of Understanding Society. Analysis excludes those not in work in 2010/11 or 2020/21

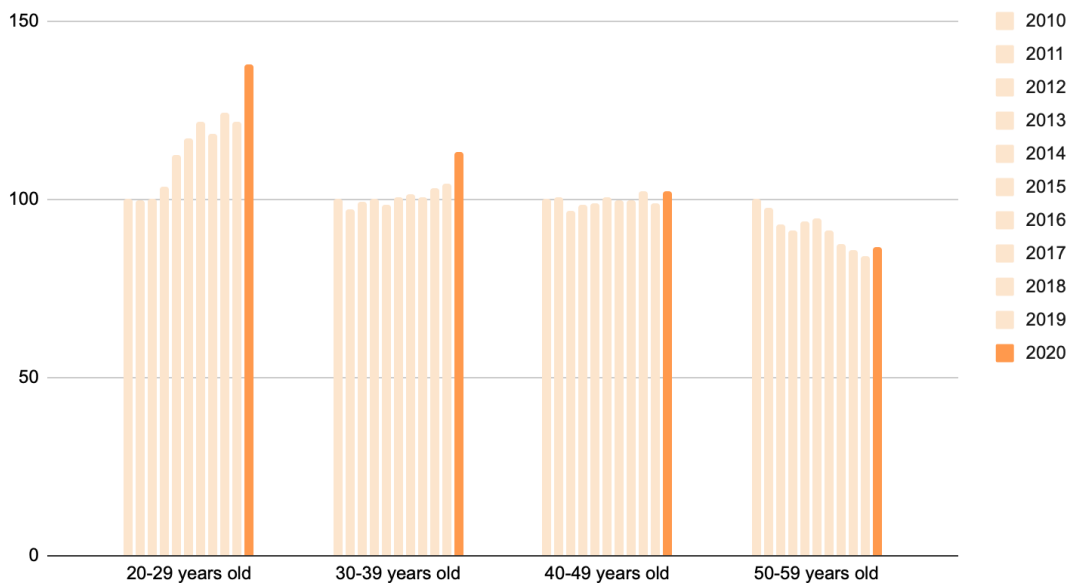


% change in real median pay, 2010/11 - 2020/21, by age group in 2010/11



Source: Public First analysis of Understanding Society. Analysis excludes those not in work in 2010/11 or 2020/21

Evolution of real annual pay by age in 2010. 2010=100

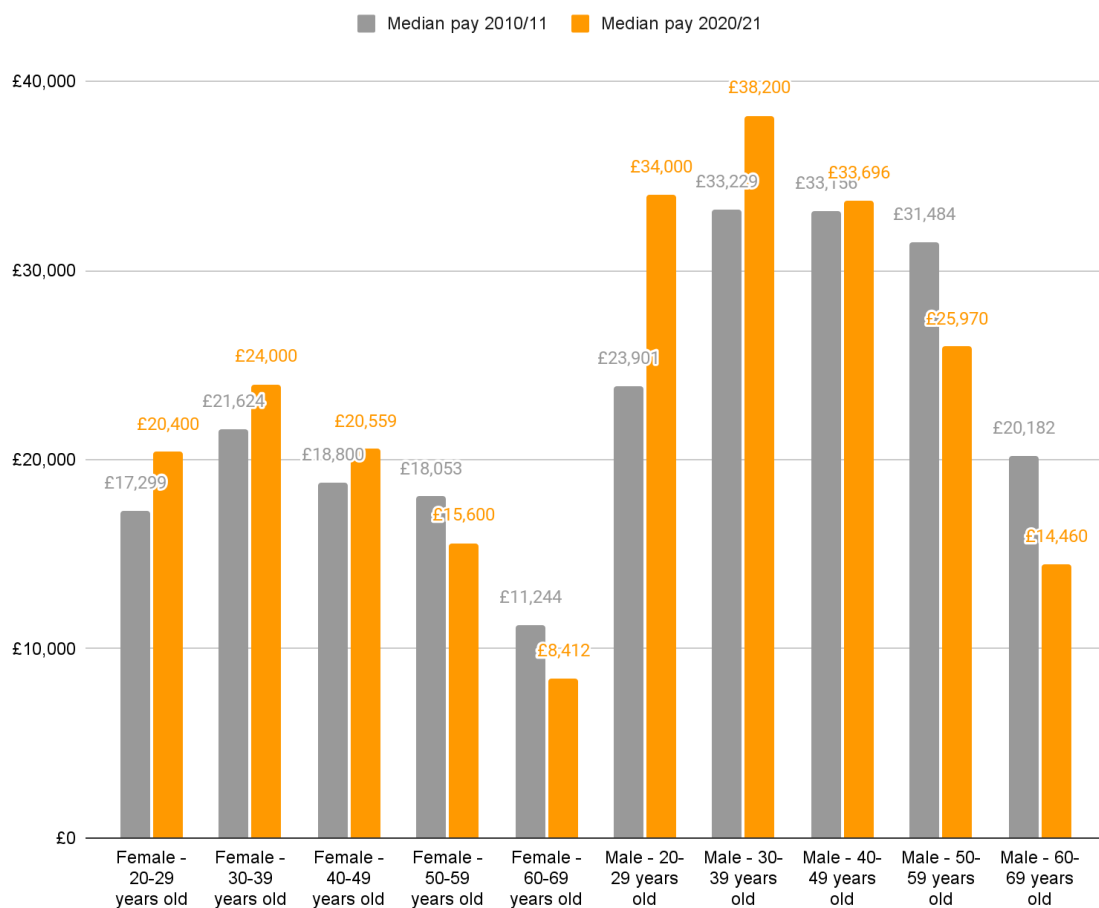


Source: Public First analysis of Understanding Society. Analysis excludes those not in work in 2010/11 or 2020/21

Pay growth for women has trailed behind men. We need to sort out childcare.

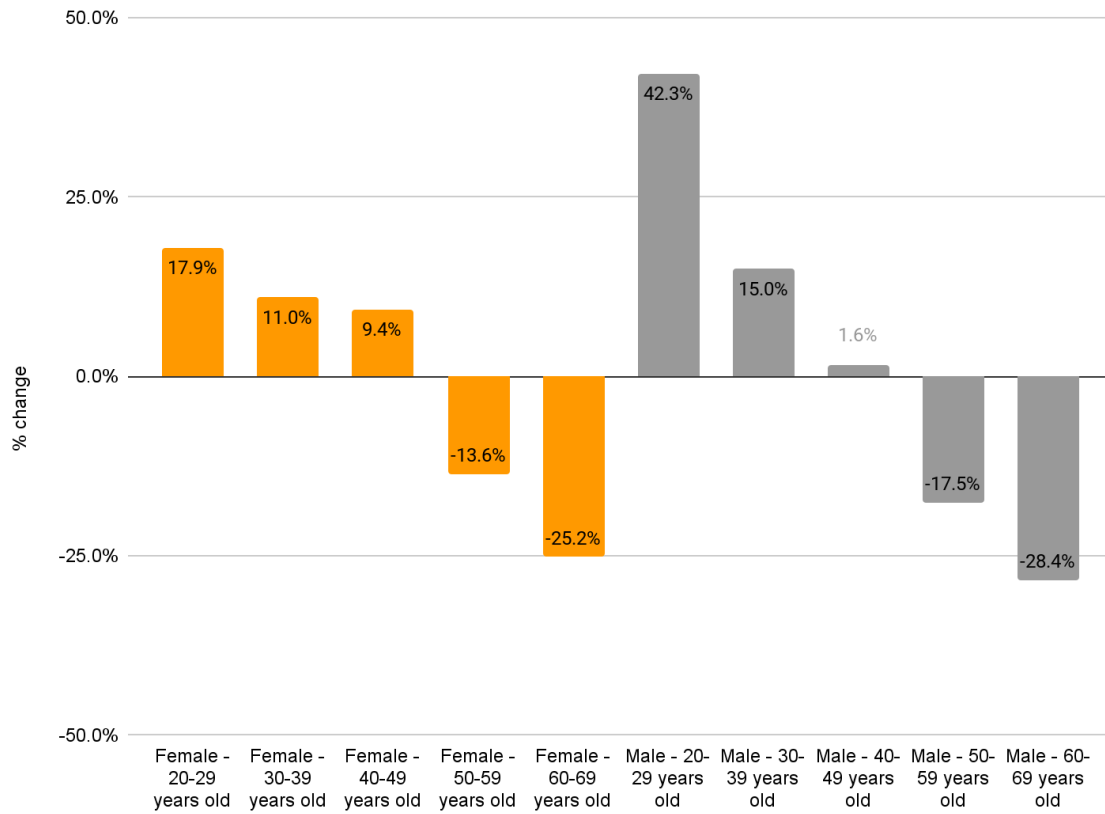
The scarring effect of childcare responsibilities on career progression and the ability to work full-time continues to suppress salaries for women. While men that were in their 20s in 2010 saw their annual pay increase by 42% in real terms a decade later, for women growth in pay was less than half as much (18%). Unless the high costs of childcare are addressed, things are unlikely to change anytime soon.

Median pay (2020/21 prices) - longitudinal analysis of workers by sex and age group in 2010/11



Source: Public First analysis of Understanding Society. Analysis excludes those not in work in 2010/11 or 2020/21

% change in real median pay, 2010/11 - 2020/21, by sex and age group in 2010/11



Source: Public First analysis of Understanding Society. Analysis excludes those not in work in 2010/11 or 2020/21