

Wages withstand the test of the health crisis

Short-term analysis of wages in the non-agricultural market branches is based mainly on monitoring two indicators: first, the hourly wage, where quarterly variations are followed by the index of hourly labour cost (ICT) –wages only, published every quarter;¹ second, average wage per capita (SMPT), published in the quarterly national accounts. Usually, these two indicators follow similar trajectories in that their ratio, which is similar to the average working time per individual in work, has been relatively stable since laws on the collective reduction of working time were implemented at the beginning of the 2000s. However, the onset of the health crisis in 2020 resulted in a sharp divergence between them.

The first indicator, the hourly wage, is the ratio of the gross payroll paid out by all businesses to the corresponding volume of paid hours of work. The hourly wage in the non-agricultural market branches increased sharply, by 2.8% in both of the first two quarters of 2020 (quarter-on-quarter, seasonally adjusted - SA). In fact, the short-time working scheme was used massively from the start of lockdown. While the main aim was to protect jobs as far as possible, it has also resulted in considerable reductions in payroll (which was replaced by compensation provided by the scheme) and in the number of paid working hours. Thus the first indicator fell back to a slightly lesser extent than the second, for two reasons. First, some amounts correspond to wages and since they form an integral part of the labour costs borne by employers they could continue to be paid, even if they were not remuneration for actual work. This was the case, for example, when an employer paid bonuses for previous activity; or when he paid out an additional amount to complement the State benefit over and above the possible remainder for which he was liable, or if he wanted to reassure employees on short-time schemes that they would continue to be paid, or if this was payment provided for in a collective agreement. Second, a composition effect also came into play: employees who were most affected by short-time working were usually manual workers and office workers, while

those doing teleworking were more often managers; since the hourly wage for manual workers and office workers is on average lower than that for managers, the average level of pay for the remaining paid employees was higher.

The second indicator, average wage per capita (SMPT), is regularly presented in *Conjoncture* in France and as such is the subject of forecasts. Unlike the hourly wage, the SMPT compares gross payroll to the number of people in employment, and not to the hourly volume of work. The introduction of short-time work has enabled job losses to be contained, but has resulted in benefits replacing part of the wage bill. Consequently, the SMPT has dropped considerably: by 3.0%, in Q1 2020, and even more sharply, by 10.1% in Q2 (Box). As an after-effect, and assuming that there is a strong reduction in the use of short-time work schemes after the summer (as confirmed by the first data emerging for July and August), the SMPT would appear to have bounced back significantly, by more than 11% in Q3, and is then expected to increase more moderately in Q4 by around 1%. With this infra-annual dynamic, it is unlikely that by the end of 2020 the SMPT will return to the level it reached one year earlier, it will probably be about 2% lower. The use of short-time work schemes will probably continue in certain sectors particularly badly affected by the health crisis (such as accommodation-catering), certainly to a lesser extent than in the spring but nevertheless much more so than before the crisis; in addition, the SMPT is also likely to be disadvantaged at the end of the year by a reduction in the short-term components of pay (end-of-year bonuses, overtime, etc.).

The SMPT forecasts given in this Focus for the end of the year remain particularly fragile, given the many uncertainties surrounding the development of the health crisis in the coming weeks. They are based mainly on assumptions concerning the use of short-time working towards the end of the year which could be significantly revised, depending on how the situation develops. ■

1. "In Q2 2020, labour cost index – wages and salaries rose by 2.8% and total labour cost index by 2.9%", *Informations Rapides* n°233, INSEE, September 2020.

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Bloc

How is the use of short-time work taken into account when explaining and predicting changes in average wage per capita (SMPT)?

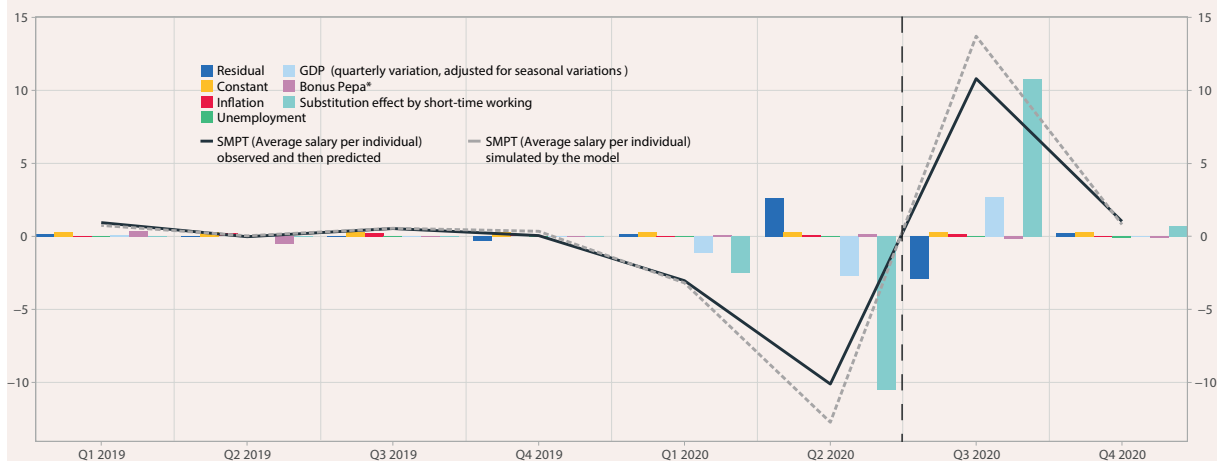
The *Graph* shows contributions of the different factors that account for quarterly variations in the SMPT (seasonally adjusted – SA), according to one of the four models normally used by INSEE to forecast wages in *Conjoncture in France*.¹ This model uses a linear regression to link the quarterly variation in the SMPT to that in GDP (in other words, to economic growth in the quarter under consideration) and to inflation and the unemployment rate.

Such a model usually has a high level of predictive power: residuals, or deviations between the quarterly variation observed in the SMPT and that explained by the model, are usually low. However, this was certainly no longer the case in the first two quarters of 2020, and the model therefore had to be adapted so that, in addition to the previously mentioned factors, it would take into account the use of short-time working, the main explanatory factor for the very significant decline observed in the SMPT during this period. Here, the contribution of short-time work to change in the SMPT is assimilated to the variation, in points, in the share of payroll not paid, which was replaced by the payment of benefits in the context of the scheme: thus the use of short-time work contributed –2.5 points to change in the SMPT in Q1 2020 and –10.5 points in Q2.

If we simulate a scenario for short-time working in H2 2020, we can then use the same principle to adapt the predictions resulting from the model based on GDP, inflation and the unemployment rate, while ensuring that the default prediction residual of this adjusted model, which was still considerable in Q2, is, as an average over 2020, around the same as that observed for the previous years. In Q3 2020, the strong decline in short-time working is expected to contribute around 11 points to the rebound in the SMPT, thus accounting for the majority of this increase; in Q4 2020, it should contribute less than one point. ■

1. "Do recruitment difficulties help to explain recent wage trends in France?", *Conjoncture in France*, INSEE, June 2019.

Prediction model for average wage per capita (SMPT): breakdown of quarterly variations (SA) in the observed, then predicted SMPT



* Extraordinary purchasing power bonus (PEPA - scheme enabling employers to pay a bonus of up to 1,000 euros in Q1 2019, exempt from social contributions and income tax, to employees whose remuneration is less than 3 times the minimum wage; this scheme was carried over into 2020, now with the possibility of paying the bonus at any time of year, and with a ceiling raised to 2,000 euros for businesses that have a profit-sharing agreement in place). Scope: non-agricultural market branches.

Sources: Quarterly national accounts (INSEE), Acemo surveys (DARES), DSN, INSEE calculations