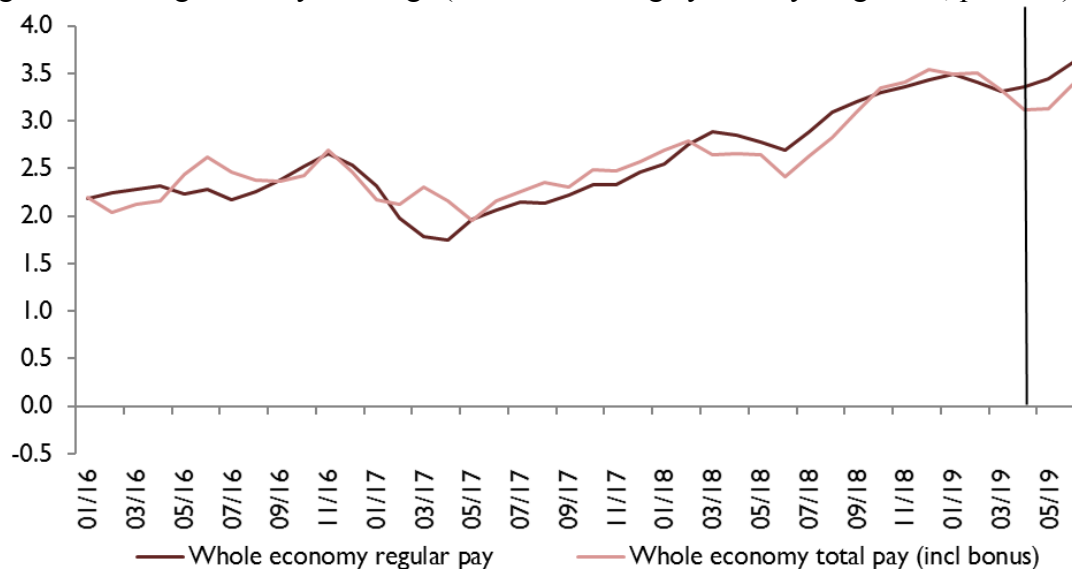


Press Release

NIESR WAGE TRACKER: JUNE 2019

Public sector earnings growth provides a temporary boost to whole-economy wages

Figure 1: Average Weekly Earnings (3 months average year on year growth, per cent)



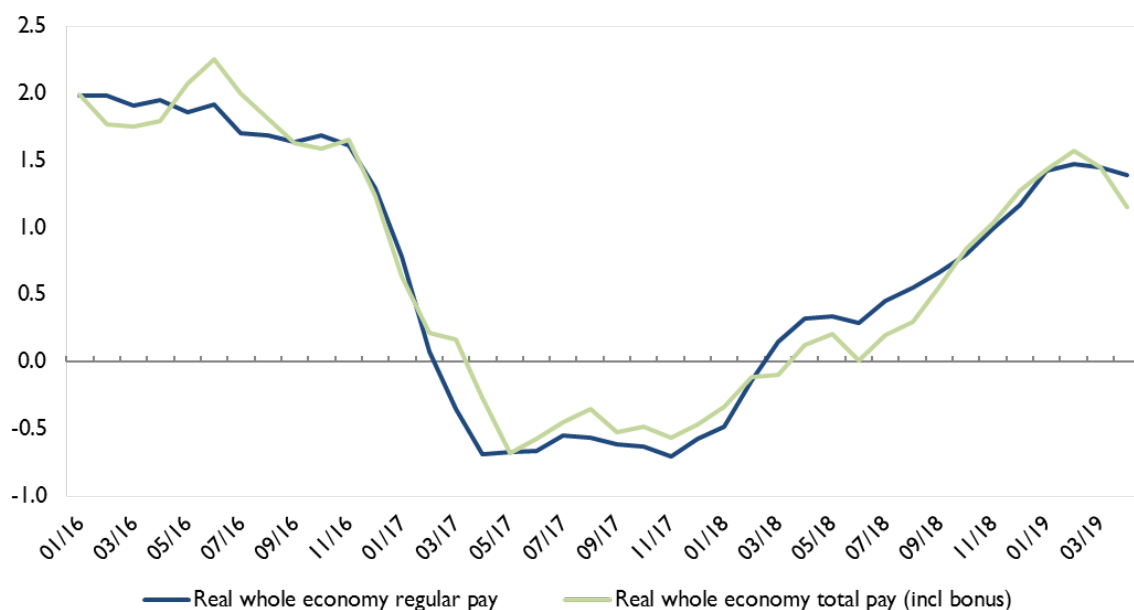
Source: NIESR, ONS.

Main points

- According to new ONS statistics published this morning, UK average weekly earnings (AWE) expanded by 3.1 per cent including bonuses (3.4 per cent excluding bonuses) in the three months to April compared to the year before (figure 1).
- With CPI inflation at 2 per cent in the three months to April, real wages grew at an annual rate of 1.2 per cent over the same period, a slowdown on recent months (figure 2).
- Private sector earnings data for April was nearly identical to what our monthly Wage Tracker suggested last month. But April saw stronger than anticipated wage rises in the public sector, leading to a catch-up of public sector earnings growth with that in the rest of the economy. As a result, whole-economy earnings growth was slightly stronger than we had expected.
- Going forward, our monthly Wage Tracker suggests that regular pay growth will stabilise at around 3½ per cent in the second quarter of this year (figure 3). With CPI inflation stabilising at around 2 per cent, this points to annual regular real pay growth of around 1½ per cent in the first half of 2019.

Arno Hantzsche, senior economist at NIESR, said “A boost to wage growth in April came from the public sector where earnings picked up after a decade of pay restraint. It offset some of the emerging weaknesses in the private sector where pay growth is stabilising as a result of Brexit and global uncertainties.”

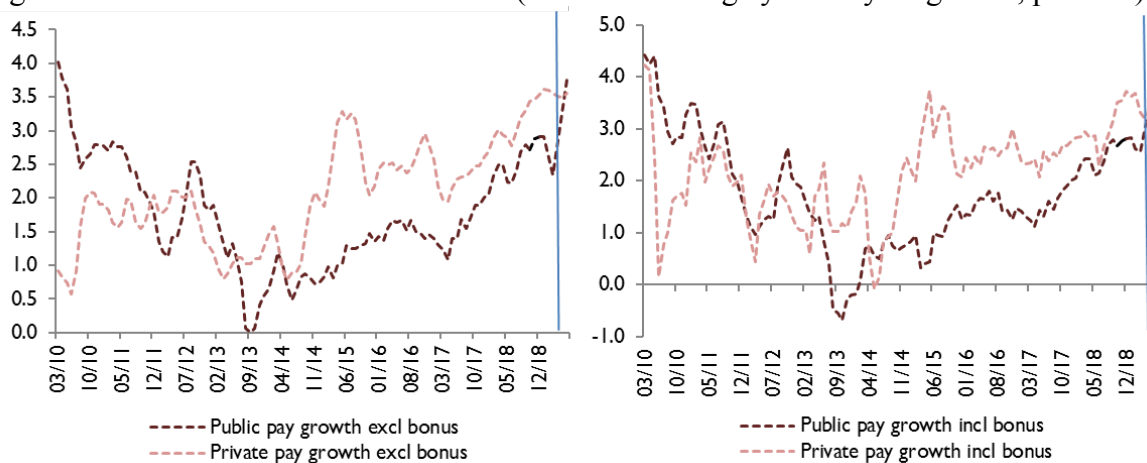
Figure 2: Real whole economy AWE (3 months average year on year growth, per cent)



Source: ONS, NIESR.

Notes: Real pay growth is nominal pay growth deflated by a 3-month moving average of Consumer Prices Index (CPI).

Figure 3: Public and Private sector AWE (3 months average year on year growth, per cent)



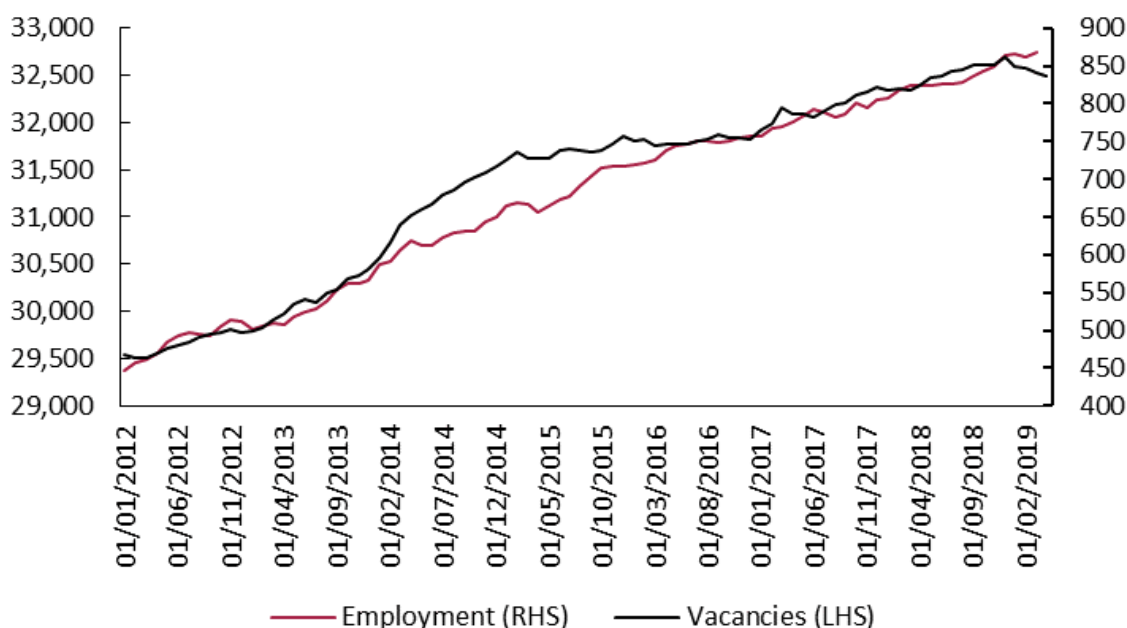
Source: ONS, NIESR.

Short-term pay forecasts

Our short-term forecasts for pay in the private and public sectors are reported in figure 3 and Table 2. These show that regular pay growth is stabilising over the first half of 2019 after reaching a robust pace at the turn of the year. While the unemployment rate continues to be very low by historical standards, reaching 3.8 per cent in the three months to April, the rate of growth in the number of people employed has now slowed down (figure 4). The number of vacancies has also been falling very gradually since December 2018.

NIESR’s monthly [GDP Tracker](#) suggests that the UK economy is on course to contract by 0.2 per cent in the second quarter of 2019. This is due to volatility around the original Brexit date but also reflects an underlying weakness resulting from uncertainties around Brexit and global trade. While public sector pay growth in the three months to April has almost caught up with dynamics in the private sector, partly as a result of pay decisions made a year ago and in line with research by NIESR on interactions between public and private sector pay¹, the occupation of government with Brexit is likely to prevent major additional decisions on pay in the near term. Altogether, this implies that some slack in the labour market may be opening up, preventing a further acceleration of earnings growth.

Figure 4: Total employment and vacancies (number of people in thousands)



Source: ONS, NIESR.

Using our short-term forecast of average weekly earnings growth, short-term forecasts of GDP growth from our Monthly GDP Tracker, employment data and accounting for upward pressure on labour costs due to rising contributions into auto-enrolment pensions from April, we construct an experimental short-term forecast of unit labour cost growth. The forecast suggests that unit labour cost growth reached around 2.6 per cent in the first quarter of 2019, accelerating to just below 3½ per cent in the second quarter of 2019. There is a risk that firms pass higher production costs on to consumers which will add to inflationary pressures in the economy.

Survey evidence

Survey data confirms that some slack may be opening up on the UK labour market. According to the KPMG and REC [Report on Jobs](#), permanent staff appointments continued to fall in May while temporary billings expanded at the slowest rate for over six years. While staff availability declined further, explained by an increased reluctance to move job amidst elevated levels of Brexit uncertainty, vacancy growth continued at a multi-year low, in particular in the retail and construction sectors. The implications for wage growth appear to be mixed. While wages increased at the quickest pace in six months for workers on temporary contracts, starting salary growth softened to a 25-months low for permanent contracts.

With April being a key month for pay settlements, [Incomes Data Research](#) report that median settlements moved down from 2.65 per cent in March back to 2.5 per cent, in line with where they have stood since the end of 2017. In the private sector, this was driven by weaker settlements in manufacturing while median pay settlements in services sectors rose from 2.5 per cent to 2.6 per cent, reflecting sharper increases in the number of higher-end awards and a response to the rise in the National Living Wage to £8.21 for employees above the age of 24.

Health warning:

NIESR's Wage Tracker includes predictions for regular pay and bonus payments for the whole economy, as well as forecasts for private and public sector wages. The Wage Tracker exploits information from key macroeconomic indicators, including labour market trends, building also on information from monthly GDP nowcasts produced by NIESR's GDP Tracker and survey evidence, such as labour costs in the manufacturing and service sectors from the Bank of England Agents Score. The wage models also capture the interaction between private and public pay, shown to be relevant in work done by NIESR¹.

To check how our methodology would work in real time we have produced judgement-free forecasts of earnings growth for the period between 2010M07 and 2018M10. For whole economy earnings, the root mean square error is 0.2% points for the measure excluding bonuses and 0.4% points for the measure including bonuses. So, on average, our projections are likely to have an error of 0.2/0.4 percentage points above or below the forecasts we publish. These numbers indicate the degree of uncertainty around the point forecasts produced by the models at each point in time. The errors are greater for the measure of earnings including bonuses because bonus payments, particularly in the private sector, are subject to short-term volatility.

¹ See Dolton, P., Hantzsche, A., Kara, A. (2018), 'Follow the leader? The interaction between public and private sector wage growth in the UK', NIESR mimeo (presented at Royal Economic Society Annual Conference, March 2018).

Table 1: Root Mean Square Error for Average Weekly Earnings forecasts

	Public-sector	Private-sector	Whole economy
Excluding bonus	0.26	0.24	0.22
Including bonus	0.31	0.48	0.38

Notes: 3-month average year on year growth rates, percentage points.

Forecast schedule

NIESR Wage Tracker provides a rolling monthly forecast for Earnings growth. The ONS produces an estimate of Average Weekly Earnings (AWE) for any particular quarter some 40 days after the end of the quarter. The NIESR Wage Tracker will publish AWE forecasts 5 months ahead of the ONS release for the reference quarter, updating that forecast four times before the official data is out, similar to the monthly GDP Tracker schedule.

Notes for editors: For further information please contact the NIESR Press Office or Paola Buonadonna on 020 7654 1923/ p.buonadonna@niesr.ac.uk

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Table 2: Summary Table of Earnings growth

Average Weekly Earnings (average £ per week)						
	Whole economy		Private sector		Public sector	
<i>Latest weights</i>	100		82		18	
	Regular	Total	Regular	Total	Regular	Total
Aug-18	491	522	483	521	525	528
Sep-18	491	524	484	523	526	528
Oct-18	494	527	487	528	528	530
Nov-18	495	527	487	526	530	531
Dec-18	496	528	488	528	530	532
Jan-19	498	530	491	529	531	533
Feb-19	497	529	490	528	530	533
Mar-19	498	529	491	528	531	534
Apr-19	502	532	493	531	541	542
May-19	502	534	494	533	538	540
Jun-19	504	537	495	535	541	543
% change 3 month average year on year						
Nov-18	3.4	3.4	3.5	3.6	2.9	2.8
Dec-18	3.4	3.5	3.5	3.7	2.9	2.8
Jan-19	3.5	3.5	3.6	3.6	2.9	2.8
Feb-19	3.4	3.5	3.6	3.7	2.6	2.6
Mar-19	3.3	3.3	3.5	3.3	2.3	2.6
Apr-19	3.4	3.1	3.5	3.2	2.8	3.0
May-19	3.4	3.1	3.5	3.1	3.3	3.4
Jun-19	3.6	3.4	3.6	3.5	3.8	3.8
% change month on same month of previous year						
Nov-18	3.5	3.4	3.5	3.4	3.1	2.9
Dec-18	3.4	3.3	3.4	3.4	2.9	2.8
Jan-19	3.7	3.9	3.9	4.1	2.7	2.7
Feb-19	3.2	3.4	3.5	3.6	2.2	2.3
Mar-19	3.1	2.7	3.3	2.3	2.2	2.6
Apr-19	3.8	3.3	3.8	3.7	4.2	4.2
May-19	3.5	3.4	3.4	3.4	3.4	3.4
Jun-19	3.6	3.5	3.5	3.4	3.7	3.8

Note: There may be inconsistencies in the growth rates arising from rounding.