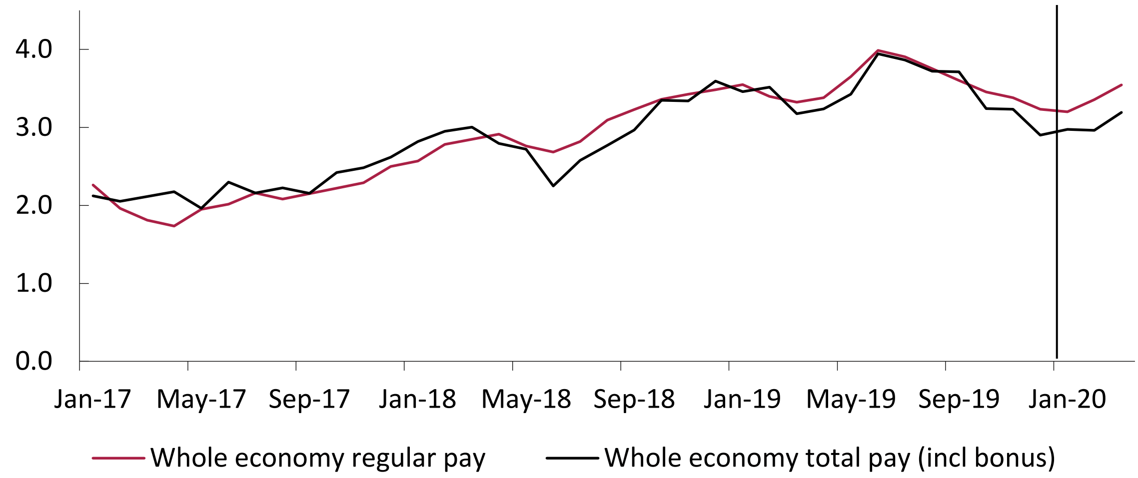
National Institute
Monthly Wage Tracker

Tuesday, 18 February 2020 niesr.ac.uk Cyrille Lenoel

SLIGHT REBOUND EXPECTED FOR EARNINGS GROWTH

Figure 1 – Average weekly earnings growth (per cent per annum)



Main points

- According to new ONS statistics published this morning, UK average weekly earnings (AWE) expanded by 3.2 per cent excluding bonuses in the three months to December 2019 compared to the year before, and by 2.9 per cent if bonus payments are taken into account (figure 1).
- Earnings growth in the public sector was in line with forecasts published in our Wage Tracker one month ago while private sector outturns were slightly weaker than forecast, mainly because of smaller bonus payments in December last year.
- With CPI inflation at 1.4 per cent in the three months to December, real wages grew at an annual rate of 1.8 per cent over the same period excluding bonus payments (1.4 per cent including bonuses).
- The Wage Tracker indicates that nominal earnings growth excluding bonuses will be 3½ per cent in the first quarter of 2020 and just above 3 per cent including bonuses.
- Based on NIESR Wage Tracker and GDP Tracker information, we estimate unit labour cost growth eased to around 3 per cent per annum in the fourth quarter and is expected to stay at this rate in the first quarter of 2020.

"The recent slowdown in earnings growth is expected to be temporary as there is little slack in the labour market and the number of vacancies ticked up. Real average weekly earnings are only back to their 2008 levels, which illustrates the long-lasting impact of the financial crisis on the average British worker.

Cyrille Lenoel
Senior Economist in Macroeconomic Modelling and Forecasting

Details

The labour market indicators at the end of 2019 were robust and there are signs that the strength of the labour market will carry on this year. The UK employment rate reached a record high of 76.5 per cent in the final quarter of 2019 and the unemployment rate remained unchanged at 3.8 per cent in the same period. The economic inactivity rate was estimated at a record low of 20.5 per cent. The number of vacancies was at 810,000 in the three months to January 2020, up 7,000 relative to the three months to December 2019.

According to both the [KPMG and REC Report on Jobs] and the [Royal Bank of Scotland Report on Jobs], permanent placements increased in January for the second consecutive month as business confidence improved somewhat after the General Election, but the number of job candidates declined. Despite the current tightness in the labour market, the surveys indicated that pay pressures were subdued.

Figure 2 –Real whole economy regular and total pay growth (per cent per annum)

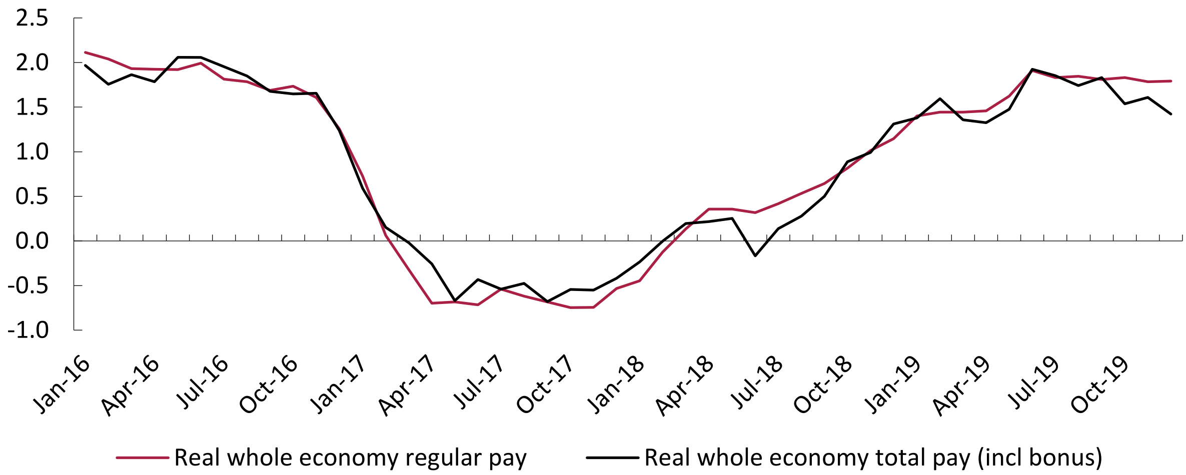


Table 1 reports our estimates for earnings growth in the first quarter 2020. We forecast private sector regular earnings growth to reach 3.4 per cent in the three months to March and slightly stronger pay growth in the public sector consistent with an expected easing of fiscal policy. With consumer price inflation anticipated to remain around 1½ per cent in the short term, this indicates that real earnings growth may reach close to 2 per cent in the first quarter of 2020, up from –½ per cent in the middle of 2017 (Figure 2). In level terms, real regular average weekly earnings are back to their peak of February 2008, which goes to show the deep and sustained impact of the financial crisis on real wages. An upside risk to our forecast is that National Living Wage and minimum wage upratings may add to whole-economy earnings growth in the first half of 2020.

The NIESR GDP Tracker estimates zero economic growth in the fourth quarter of 2019 rising to 0.2 per cent in the first quarter of 2020. Taking GDP and earnings forecasts together, we estimate that annual unit labour cost growth reached around 3 per cent in the fourth quarter of 2019 and cost growth is expected to remain at around that rate in the first quarter of 2020. This would be softer than the 3½ to 4 per cent increase in unit labour costs in the middle of 2019.

Table 1 - Summary table of earnings growth

Average Weekly Earnings (average £ per week)						
	Whole economy		***Private sector***		***Public sector***	
Latest weights	*100*		*82*		*18*	
	Regular	***Total***	***Regular***	***Total***	***Regular***	***Total***
Jun-19	506	538	498	537	540	544
Jul-19	507	539	500	539	541	546
Aug-19	508	540	501	539	542	544
Sep-19	509	542	501	541	544	546
Oct-19	510	543	502	541	546	547
Nov-19	511	544	503	543	547	549
Dec-19	512	544	504	542	548	550
Jan-20	514	545	506	544	550	552
Feb-20	515	548	507	547	552	554
Mar-20	517	550	509	549	554	555
% change 3 month average year on year						
Aug-19	3.8	3.7	3.9	3.7	3.3	3.4
Sep-19	3.6	3.7	3.7	3.7	3.2	3.3
Oct-19	3.5	3.2	3.5	3.2	3.3	3.1
Nov-19	3.4	3.2	3.3	3.1	3.4	3.3
Dec-19	3.2	2.9	3.2	2.7	3.4	3.3
Jan-20	3.2	3.0	3.1	2.9	3.5	3.5
Feb-20	3.4	3.0	3.2	2.9	3.7	3.7
Mar-20	3.5	3.2	3.3	3.3	3.9	3.9
% change month on same month of previous year						
Aug-19	3.6	3.3	3.6	3.5	3.2	2.8
Sep-19	3.6	3.8	3.6	3.9	3.4	3.5
Oct-19	3.2	2.4	3.2	2.2	3.3	3.2
Nov-19	3.2	3.4	3.2	3.4	3.4	3.3
Dec-19	3.2	2.8	3.2	2.7	3.5	3.5
Jan-20	3.2	2.8	3.0	2.6	3.5	3.6
Feb-20	3.7	3.4	3.4	3.4	4.0	4.0
Mar-20	3.8	3.6	3.6	3.8	4.2	4.1

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 NIESR.

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.

Table 2 – 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

Forecast schedule

The 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 Luca Pieri on 020 7654 1931/ l.pieri@niesr.ac.uk

National Institute of Economic and Social Research
2 Dean Trench Street
Smith Square
London, SW1P 3HE
United Kingdom

Switchboard Telephone Number: 020 7222 7665
Website: http://www.niesr.ac.uk