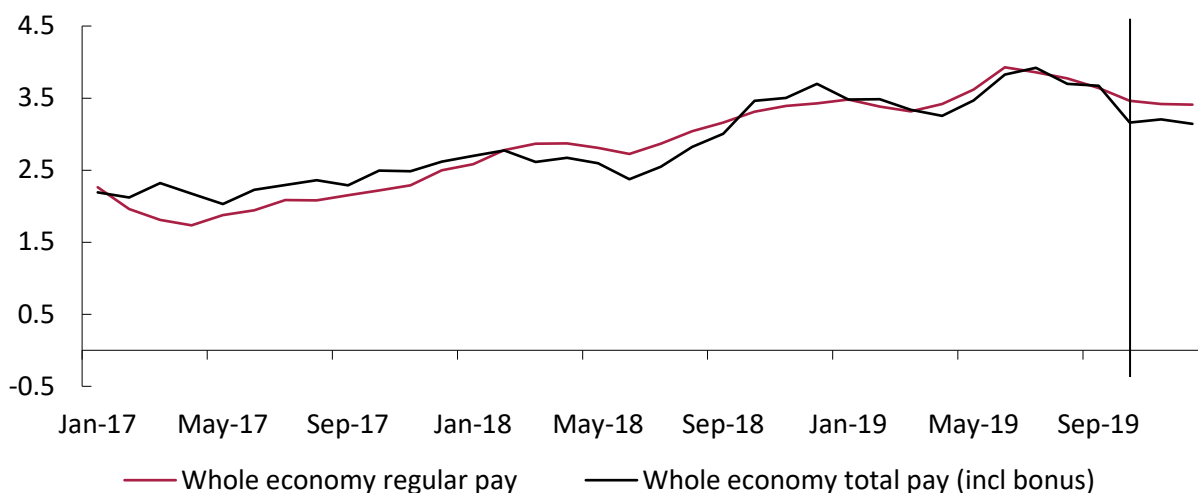


YEAR ENDS WITH SOFTER PAY GROWTH

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 3.5 per cent excluding bonuses in the three months to October compared to the year before (figure 1).
- Total earnings growth including bonuses was 3.2 per cent over the same period, with the drop relative to the previous quarter being explained by higher than usual bonus payments in October 2018 but normal bonus contributions in the same month this year.
- With CPI inflation at 1.6 per cent in the three months to October, real wages grew at an annual rate of 1.8 per cent over the same period excluding bonus payments (1.5 per cent including bonuses).
- The Wage Tracker indicates that nominal earnings growth excluding bonuses will have been around 3½ per cent in the fourth quarter of 2019, and just above 3 per cent if bonus payments are taken into account.
- Based on NIESR Wage Tracker and GDP Tracker information, we estimate unit labour cost growth picked up to more than 3½ per cent per annum in the fourth quarter, higher than what new ONS estimates suggest unit labour cost growth has been for the last two years.

"Earnings growth has softened slightly in recent months. With the general election removing some of the political uncertainty, there is a chance for a renewed pick-up in pay dynamics as we enter the new year. But with real wage growth outpacing productivity improvements and unit labour cost growth elevated, such a pick-up would unlikely be sustained."

Dr Arno Hantzsche

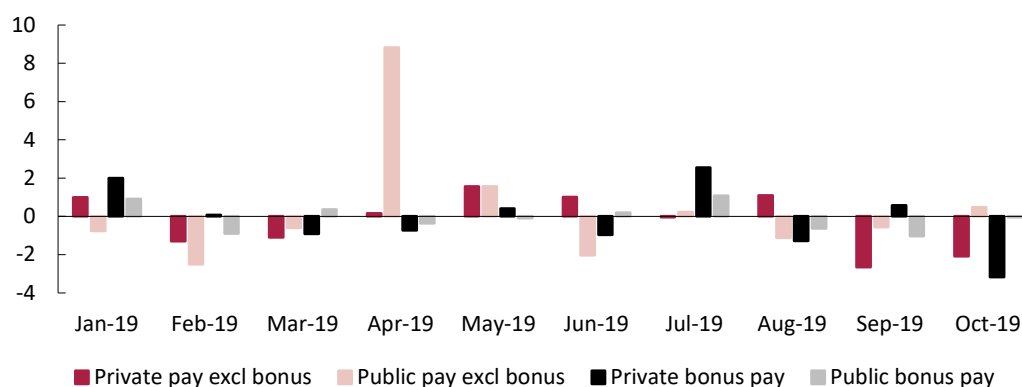
Principal Economist in Macroeconomic Modelling and Forecasting

Details

There are clear signs that political and economic uncertainty have had an impact on the labour market in recent months. Unemployment remained unchanged at 3.8 per cent in the three months to October but the number of job vacancies fell by 20,000 in the three months to November relative to the previous quarter, to 794,000. IHS Markit/CIPS report a continued fall in manufacturing employment in November, with job losses reaching the steepest rate since September 2012, while staffing in service sectors is stabilising. The KPMG and REC [Report on Jobs](#) shows that the number of people placed into permanent jobs fell in November, for the ninth month in a row, but at a weaker rate than in the last 3 months, while growth in temporary placements was marginal. At the same time, candidate supply kept falling. Starting salary growth softened both for permanent and temporary positions. In wage settlements data collected by Incomes Data Research median pay awards rose to 2.8 per cent in the three months to October on the back of higher awards in the private service sector, after a print of 2.5 per cent in the previous six months, but more recent data suggest that this pick up was not maintained.

Average weekly earnings measure not only pay rises but also reflect changes in working hours and the composition of employment. Our estimates for the fourth quarter of 2019, reported in table 1, suggest that regular earnings growth has remained stable at around 3½ per cent in the private and public sector. Figure 2 reports forecast surprises since the beginning of the year, highlighting that overall, errors made in one-month ahead earnings forecasts were small. An exception was the large upward surprise to public sector regular pay in April data. In September and October, private sector earnings data surprised somewhat to the downside.

Figure 2 –Earnings data surprises (relative to one-month ahead forecasts, £)



Source: NIESR.

Average unit labour costs growth has been 3 per cent between 2018Q1 and 2019Q2 according to new [indicative ONS estimates](#) based on an improved methodology. The NIESR [GDP Tracker](#) predicts economic growth of 0.1 per cent in the fourth quarter of 2019 as the economy remains fragile. Taking GDP and earnings forecasts together, we estimate that annual unit labour cost growth picked up to 3.4 per cent in the third quarter and to 3.7 per cent in the fourth quarter. There is a risk that this translates into higher consumer price inflation although there is no evidence for this materialising at the moment and instead wage growth could soften in response.

Table 1 - 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	
Feb-19	497	529	490	528	530	533
Mar-19	498	530	491	529	531	534
Apr-19	503	534	494	533	542	544
May-19	503	537	496	536	540	542
Jun-19	506	539	498	537	540	543
Jul-19	507	540	499	539	541	546
Aug-19	508	540	501	539	542	542
Sep-19	509	542	501	541	544	546
Oct-19	510	542	502	541	545	547
Nov-19	512	546	504	545	547	549
Dec-19	513	547	506	547	549	551
% change 3 month average year on year						
May-19	3.6	3.5	3.7	3.5	3.5	3.6
Jun-19	3.9	3.8	4.0	4.0	3.9	4.0
Jul-19	3.9	3.9	4.0	3.9	3.5	3.7
Aug-19	3.8	3.7	3.9	3.7	3.3	3.4
Sep-19	3.6	3.7	3.7	3.7	3.3	3.3
Oct-19	3.5	3.2	3.5	3.2	3.3	3.1
Nov-19	3.4	3.2	3.4	3.2	3.4	3.3
Dec-19	3.4	3.1	3.4	3.1	3.4	3.3
% change month on same month of previous year						
May-19	3.8	4.0	3.8	4.1	3.8	3.8
Jun-19	4.0	3.9	4.1	3.8	3.4	3.7
Jul-19	3.8	3.9	3.9	3.9	3.2	3.7
Aug-19	3.6	3.3	3.6	3.5	3.2	2.7
Sep-19	3.6	3.8	3.6	3.9	3.5	3.4
Oct-19	3.2	2.4	3.2	2.2	3.3	3.2
Nov-19	3.4	3.5	3.4	3.6	3.3	3.3
Dec-19	3.6	3.6	3.5	3.6	3.6	3.5

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>