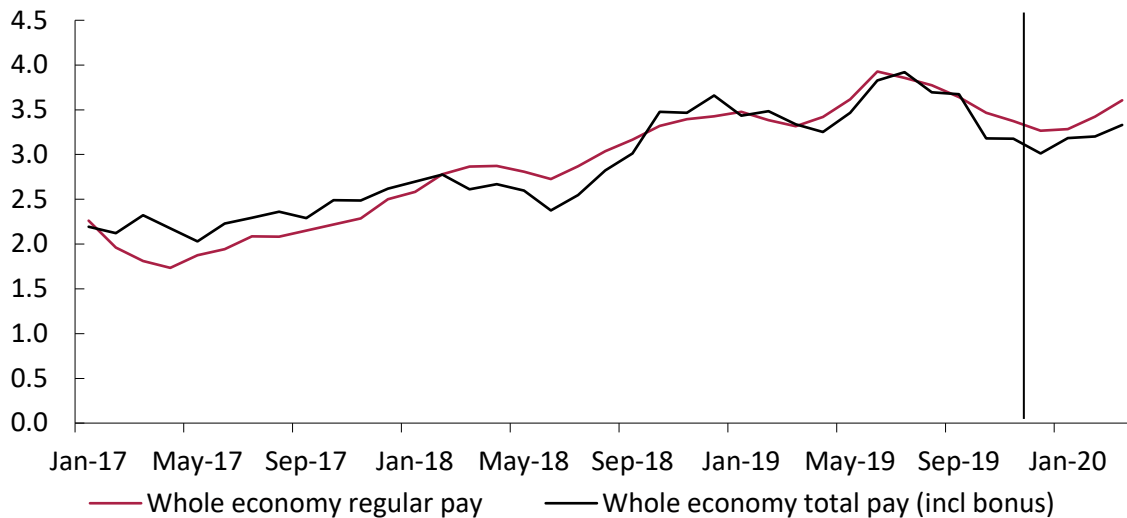


## REAL PAY GROWTH TO STRENGTHEN AT START OF 2020

**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 3.4 per cent excluding bonuses in the three months to November compared to the year before, and by 3.2 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 again marginally weaker than forecast.
- With CPI inflation at 1.6 per cent in the three months to November, real wages grew at an annual rate of 1.8 per cent over the same period excluding bonus payments (1.6 per cent including bonuses).
- The Wage Tracker indicates that nominal earnings growth excluding bonuses will have been 3.3 per cent in the fourth quarter of 2019 and is expected to remain around 3½ per cent in the first quarter of 2020.
- 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.

*“As expected, earnings growth continued to soften a little towards the end of last year but employees should see 2020 start with stronger real pay growth as demand for workers is holding up, inflation eases and upratings in the National Living Wage and minimum wages will benefit those on low incomes.”*

**Dr Arno Hantzsche**

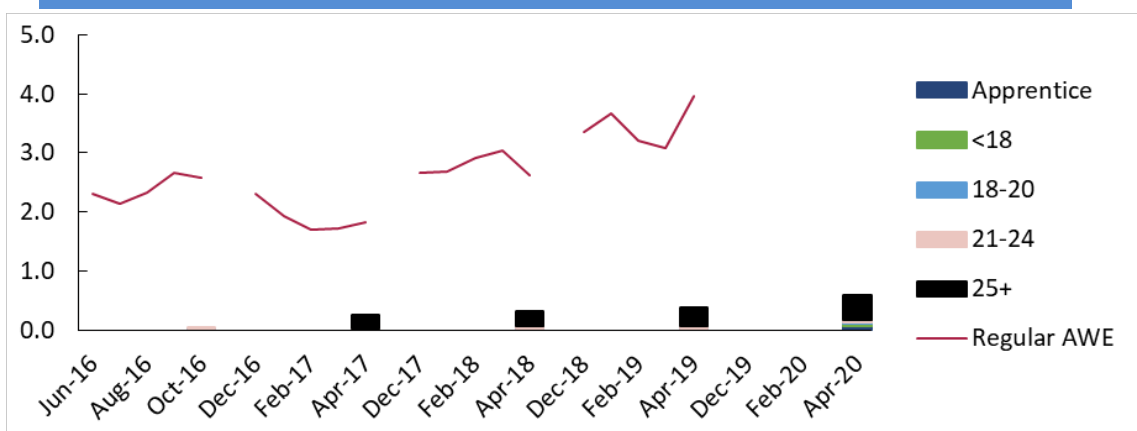
**Principal Economist in Macroeconomic Modelling and Forecasting**

Details

Labour market indicators remain robust and there are signs that the slight softening observed since early 2019 is unlikely to gain pace. Unemployment remained unchanged in the three months to October and the number of vacancies stabilised at 805,000 in the fourth quarter of 2019, down 11,000 relative to the third quarter. According to the KPMG and REC [Report on Jobs](#) permanent placements rose in December for the first time in a year and temporary employment growth picked up as business confidence improved somewhat after the General Election. The Deloitte [CFO survey](#) shows that concerns about Brexit and global trade uncertainty have eased and hiring intentions are now stronger than at any time in the last four years. Pay settlements were unchanged in the 2019Q4 Bank of England [Agents survey](#) but higher for staff on the National Living Wage and for roles affected by shortages for skilled labour while tight margins and weak productivity growth constrain pay growth overall.

Table 1 reports our first estimates for earnings growth in the first quarter 2020. We forecast private sector regular earnings growth to reach 3½ 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 2 per cent in the first quarter of 2020 for the first time since 2016. Higher National Living Wage and minimum wage increases than in previous years could add up to 0.6 percentage points to annual earnings growth in 2020. Figure 2 shows annual average weekly earnings growth in the five months up to and including the month minimum wages were uprated in recent years. It suggests that upratings do not usually affect average weekly earnings growth in a systematic way. Should employers pre-empt upratings by increasing pay in the months leading up to the new financial year, this would constitute an upside risk to our earnings forecast.

**Figure 2** –Earnings contribution of minimum wage upratings (pctage points)



Source: Low Pay Commission, ONS, NIESR estimates.

The NIESR [GDP Tracker](#) estimates zero economic growth in the fourth quarter of 2019 rising to 0.3 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 second and third quarter of 2019.

Table 1 - Summary table of earnings growth

<b>Average Weekly Earnings (average £ per week)</b>						
	<b>Whole economy</b>		<b>Private sector</b>		<b>Public sector</b>	
<i>Latest weights</i>	100		82		18	
	<b>Regular</b>	<b>Total</b>	<b>Regular</b>	<b>Total</b>	<b>Regular</b>	<b>Total</b>
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	542	544	546
Oct-19	510	543	502	542	545	547
Nov-19	511	544	503	543	547	549
Dec-19	512	546	505	545	548	550
Jan-20	514	545	507	544	549	551
Feb-20	516	547	508	546	550	552
Mar-20	517	550	510	549	552	554
<b>% change 3 month average year on year</b>						
Aug-19	3.8	3.7	3.9	3.7	3.3	3.4
Sep-19	3.6	3.7	3.7	3.8	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	3.1	3.4	3.3
Dec-19	3.3	3.0	3.3	3.0	3.4	3.3
Jan-20	3.3	3.2	3.3	3.2	3.4	3.4
Feb-20	3.4	3.2	3.4	3.2	3.5	3.5
Mar-20	3.6	3.3	3.5	3.3	3.7	3.5
<b>% change month on same month of previous year</b>						
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	3.3	3.3	3.2	3.4	3.4	3.3
Dec-19	3.3	3.3	3.4	3.3	3.4	3.4
Jan-20	3.3	2.9	3.3	2.9	3.4	3.4
Feb-20	3.7	3.4	3.6	3.4	3.7	3.5
Mar-20	3.8	3.7	3.8	3.7	4.0	3.6

## 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	<b>0.26</b>	<b>0.24</b>	<b>0.22</b>
Including bonus	<b>0.31</b>	<b>0.48</b>	<b>0.38</b>

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.

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