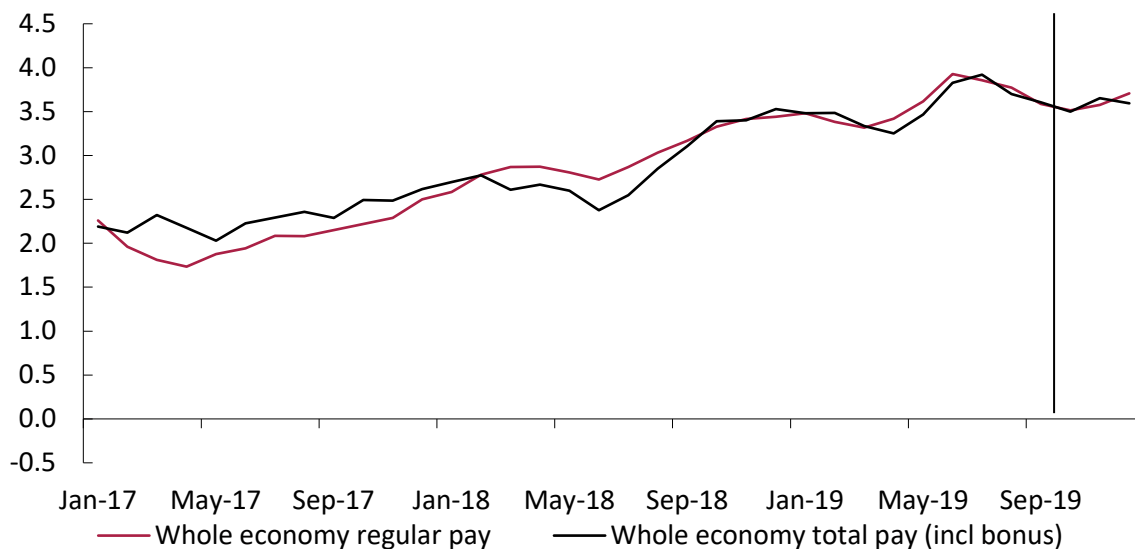


UNCERTAINTY TAKING TOLL ON LABOUR MARKET

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 3.6 per cent (excluding and including bonuses) in the three months to September compared to the year before (figure 1).
- With CPI inflation at 1.8 per cent in the three months to September, real wages grew at an annual rate of 1.8 per cent over the same period.
- Earnings growth was slower in September than at its recent peak in the three months to June and softer than the estimate we published in our Wage Tracker last month. In particular private sector earnings data was weaker than forecast, partly as a result of downward revisions to past data.
- The Wage Tracker indicates that regular earnings growth will remain just above 3½ per cent in the fourth quarter of 2019.
- Based on NIESR Wage Tracker and GDP Tracker information, we estimate unit labour cost growth of around 3-3½ per cent per annum in the fourth quarter, which is somewhat softer than in previous quarters.

“As the country approaches the general election, hiring activity is continuing to soften and the pace of earnings growth is slowing, suggesting that elevated uncertainty and a lack of growth momentum are increasingly taking a toll on the labour market.”

Dr Arno Hantzsche

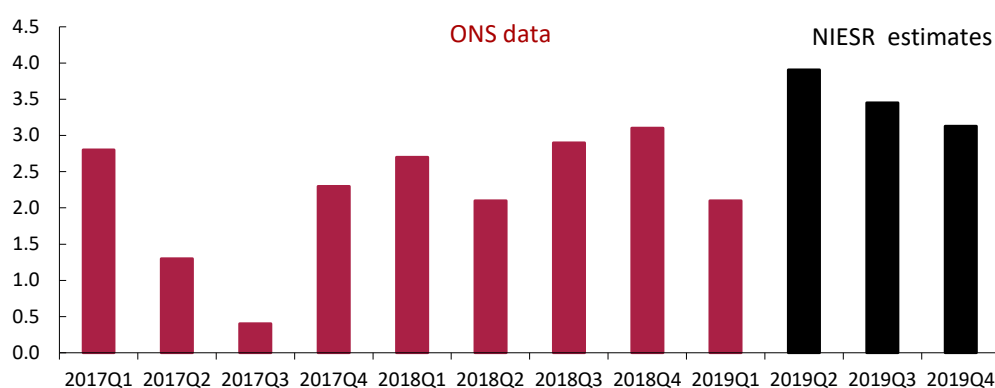
Principal Economist in Macroeconomic Modelling and Forecasting

Details

The labour market continues to be affected by weakening economic growth and political and economic uncertainty. Unemployment fell to 3.8 per cent in the three months to September, 0.1 percentage points lower than in the previous quarter but the number of people employed also fell by 58,000 relative to the second quarter of 2019 as female and part-time employment fell. Looking ahead, the [IHS Markit/CIPS](#) survey suggests that the private sector employment outlook improved somewhat in October with a net balance of 16 per cent of firms expecting to increase staffing in the next 12 months, the highest since mid-2018, as a more positive outlook in the service sector (net balance of 17 per cent) more than offset pessimism amongst goods producers (net balance of 8 per cent, an eight-year low).

In the three months to October, the ONS estimates that there were 800,000 vacancies in the UK, a drop of 18,000 relative to the three months to July and 53,000 fewer than a year earlier. At the same time, total candidate supply, in particular for permanent positions, fell at the sharpest pace in 4 months according to the KPMG and REC [Report on Jobs](#), explained by the uncertain environment and workers' reluctance to change job. The shortage of suitably skilled candidates contributed to a sharp rise in starting salaries in October.

Figure 2 – Unit labour cost growth (per cent per annum)



Source: ONS, NIESR estimates.

Average weekly earnings measure not only pay rises but also reflect changes in working hours and the composition of employment. Our short-term forecasts for the fourth quarter of 2019, reported in table 1, suggest that earnings growth will remain relatively stable at just above 3½ per cent in the private sector and between 3 and 3½ per cent in the public sector, preventing the current gap between public and private sector pay from closing.

The NIESR [GDP Tracker](#) predicts economic growth of 0.2 per cent in the fourth quarter as the economy remains fragile. Taking GDP and earnings forecasts together, we estimate that annual unit labour cost growth eases somewhat to around 3 per cent in the fourth quarter, after reaching an estimated 10-year high of just below 4 per cent and 3½ per cent in the second and third quarter, respectively.

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	500	540	542	542
Sep-19	508	542	501	541	544	545
Oct-19	511	546	504	546	545	547
Nov-19	513	547	506	547	547	548
Dec-19	515	546	507	546	549	550
% 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	3.6	3.7	3.7	3.2	3.2
Oct-19	3.5	3.5	3.6	3.5	3.2	3.1
Nov-19	3.6	3.7	3.6	3.6	3.2	3.2
Dec-19	3.7	3.6	3.8	3.6	3.3	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	3.4	3.6	3.5	3.2	2.7
Sep-19	3.5	3.6	3.5	3.6	3.4	3.3
Oct-19	3.5	3.6	3.6	3.3	3.1	3.1
Nov-19	3.7	3.8	3.8	4.0	3.2	3.2
Dec-19	3.8	3.4	3.9	3.4	3.5	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.

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