National Institute

Monthly Wage Tracker

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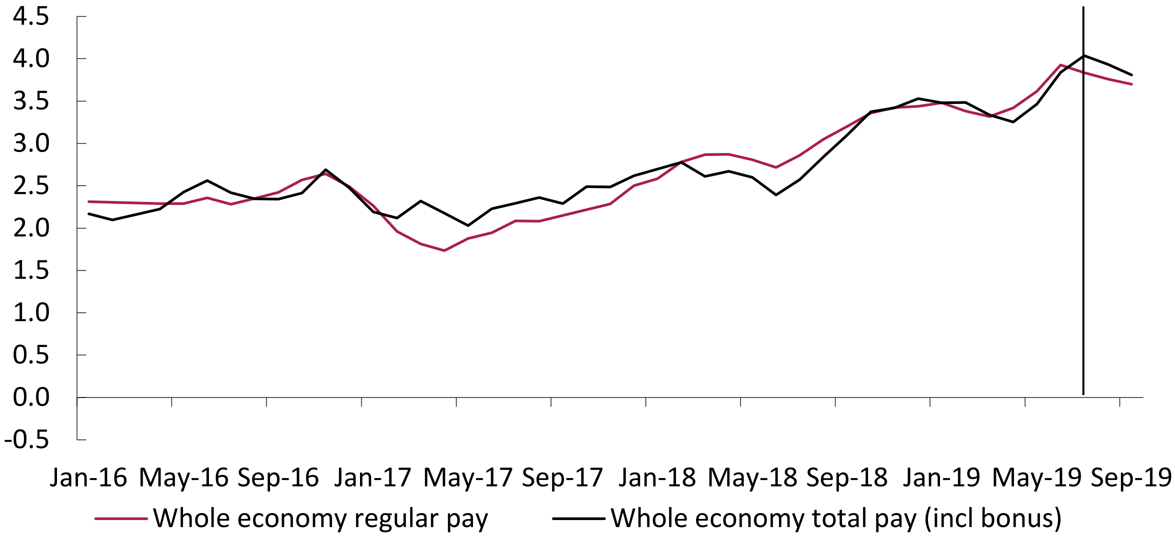
STRONG EARNINGS DATA DRIVEN BY JULY BONUSES AND PUBLIC SECTOR PAY BUT FURTHER PICK-UP UNLIKELY

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 3.8 per cent excluding bonuses (4 per cent including bonuses) in the three months to July compared to the year before (figure 1).
- With CPI inflation at 2 per cent in the three months to July, real wages excluding bonuses grew at an annual rate of 1.8 per cent over the same period (2 per cent including bonuses).
- July total earnings data was slightly stronger than we forecast last month due to above-expectation bonus payments, more robust public sector earnings, and back data revisions while data on private sector regular earnings turned out as forecast.
- Going forward, the Wage Tracker indicates that regular pay growth will stabilise at just below 4 per cent in the third quarter of this year, reflecting survey evidence of a softening in hiring activity.
- Based on NIESR Wage Tracker and GDP Tracker information, we estimate unit labour cost growth of around 3½ per cent in the third quarter as economic activity remains lacklustre. There is a risk that firms pass higher production costs on to consumers which could add to inflationary pressures in the economy.

"Today's labour market data were again strong but more timely signals show that a turning point may soon be reached as Brexit and global uncertainties increasingly weigh on hiring. Whole-economy earnings growth has become more reliant on services sectors whose output continues to be in strong demand and on hiring and pay decisions in the public sector."

Dr Arno Hantzsche

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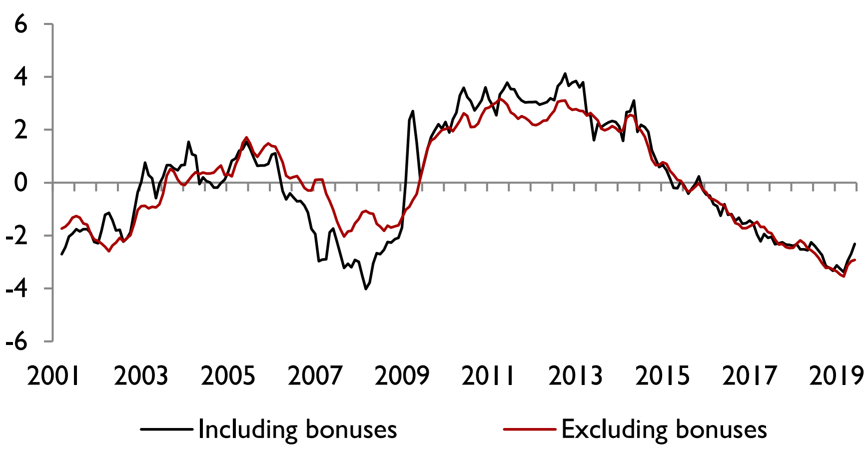
Details

With unemployment remaining at a multi-decade low of 3.8 per cent in the three months to July, the labour market continues to be tight, but more evidence is emerging to suggest it may be reaching a turning point. According to the KPMG and REC Report on Jobs, permanent placements were reduced at the quickest rate for over three years while temporary billings remained nearly flat in August. The IHS Markit/CIPS surveys report that employment in manufacturing fell that month at one of the fastest rates in over 6½ years and service sector staffing expanded at the slowest rate since May. Evidence discussed at NIESR's Business Conditions Forum (BCF) in August suggests that employment dynamics in manufacturing reflect a global trend to do with trade uncertainty while weaker employment growth in services than in other countries is consistent with the amplification of Brexit uncertainty.

While private sector employment was nearly unchanged in the second quarter of 2019 compared to the first, public sector employment expanded by 0.4 per cent over the same period. At the BCF it was also observed that pay pressures in the public sector are rising but that public sector employers planned to respond in a targeted way, rather than increasing pay across the board. The government's Spending Round allows for a £13.8 billion increase in real day-to-day spending in 2020/21 relative to the current financial year and we expect some of it to cover additional public sector pay rises. NIESR estimates show that in the second quarter of 2019 public sector pay stabilised at around 3 per cent below its equilibrium relative to private sector pay, after falling continuously for more than four years (figure 2). This suggests a pick-up in public sector pay in the months ahead, relative to private sector wage dynamics.

Figure 2 – Public sector pay gap (per cent)



Source: NIESR estimates.

Our short-term forecasts for pay in the private and public sectors are reported in table 1. These suggest that total pay growth in both sectors will stabilise at just below 4 per cent in the three months to September as the economic outlook remains fragile. NIESR's GDP Tracker suggests that economic output will increase by 0.3 per cent in the three months to September after contracting by 0.2 per cent in the three months to June. Robust average weekly earnings growth and high employment together with subdued GDP growth suggest that unit labour cost growth picked up to nearly 4 per cent in the second quarter of 2019, after 2.1 per cent in the first quarter. It is expected to stabilise at 3½ per cent in the third quarter 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***
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	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	538	540	543
Jul-19	507	542	499	541	542	546
Aug-19	508	542	501	541	543	547
Sep-19	510	542	502	541	545	548
% change 3 month average year on year						
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
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	3.8	4.0	3.9	4.1	3.5	3.7
Aug-19	3.8	3.9	3.9	3.9	3.3	3.7
Sep-19	3.7	3.8	3.7	3.8	3.4	3.7
% change month on same month of previous year						
Feb-19	3.2	3.4	3.5	3.6	2.2	2.3
Mar-19	3.1	2.8	3.3	2.3	2.2	2.6
Apr-19	4.0	3.6	3.9	4.0	4.5	4.5
May-19	3.8	4.0	3.8	4.1	3.8	3.8
Jun-19	4.0	3.9	4.1	3.9	3.4	3.7
Jul-19	3.7	4.2	3.8	4.2	3.2	3.7
Aug-19	3.6	3.7	3.6	3.7	3.4	3.5
Sep-19	3.8	3.5	3.8	3.5	3.6	3.9

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 Paola Buonadonna on 020 7654 1923/ p.buonadonna@niesr.ac.uk

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