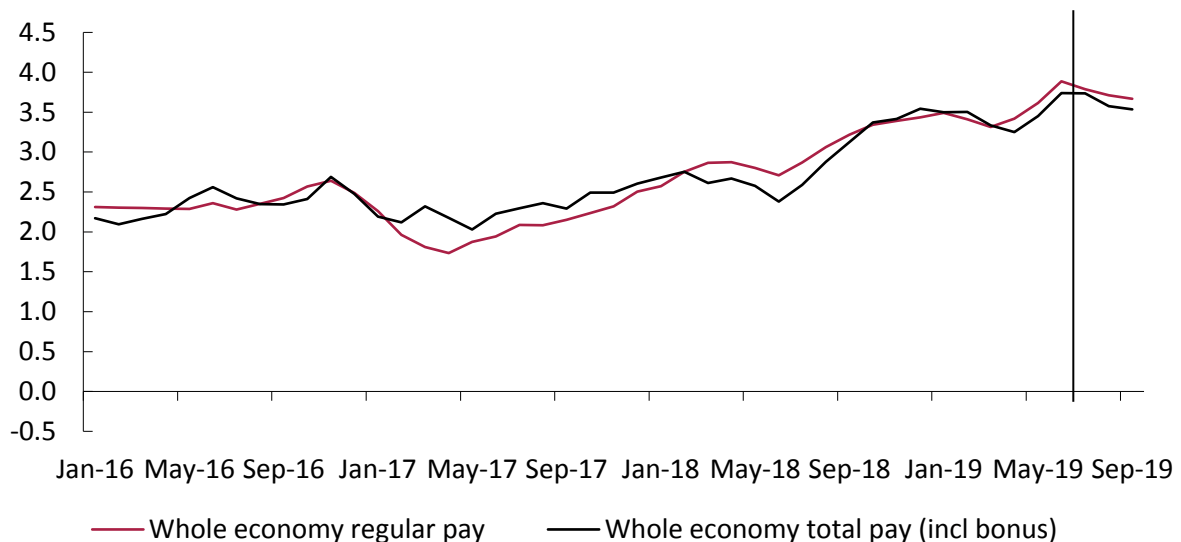


## REAL EARNINGS GROWTH RETURNS TO PRE-REFERENDUM RATES BUT IS UNLIKELY TO PICK UP ANY FURTHER IN THE NEAR TERM

Figure 1 – Whole economy and regular pay



### Main points

- According to new ONS statistics published this morning, UK average weekly earnings (AWE) expanded by 3.9 per cent excluding bonuses (3.7 per cent including bonuses) in the three months to June compared to the year before (figure 1).
- With CPI inflation at 2 per cent in the second quarter of this year, real wages excluding bonuses grew at an annual rate of 1.9 per cent over the same period, the strongest rate of regular real earnings growth since May 2016.
- June data outturns are in line with forecasts published in our Wage Tracker last month. Strong quarterly data is explained by April pay rises, with weaker quarter 1 data dropping out of the series; month-on-month earnings growth rates are considerably weaker, in particular in the public sector.
- Going forward, the Wage Tracker indicates that regular pay growth will stabilise at around 3½ per cent in the third quarter of this year, reflecting a less tight labour market and survey evidence of a softening in hiring activity.
- Based on NIESR Wage Tracker and weak GDP Tracker information, we estimate unit labour cost growth of nearly 4 per cent in the second of 2019 and above 3 per cent in the third quarter, up from just above 2 per cent in the first quarter. This is likely to put upward pressure on consumer prices in the months ahead.

*“While real earnings growth has now returned to pre-referendum rates, the labour market appears to be reaching a turning point, with unemployment no longer falling, the number of job vacancies no longer increasing and companies and workers deterred from bigger employment decisions by Brexit and global uncertainties.”*

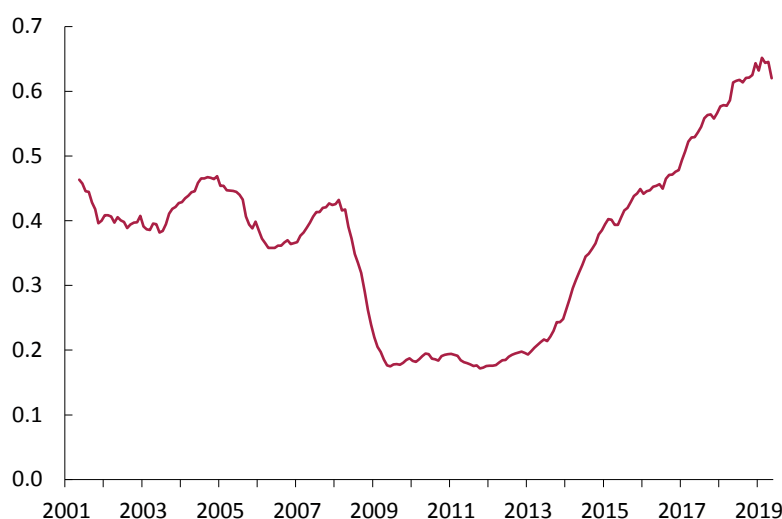
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**Principal Economist in Macroeconomic Modelling and Forecasting**

## Details

The rate of pay growth depends on the balance between labour supply and demand. According to ONS data, the unemployment rate, a measure of available workers, picked up by 0.1 percentage points to 3.9 per cent in the three months to June. Labour demand has continued to soften with the number of vacancies falling to 820,000 in the three months to July, compared to a high of 861,000 in the three months to January. This led to a reduction in the vacancies-to-unemployment ratio, an overall measure of labour market tightness, in the second quarter of 2019 (figure 2).

Figure 2 – Vacancies-to-unemployment ratio



Source: ONS, NIESR

According to the KPMG and REC [Report on Jobs](#), candidate availability kept declining in July amidst high rates of employment and economic and political uncertainty but the fall was less pronounced than in the last two and a half years. Vacancy growth picked up slightly in July, but the increase was among the weakest since late 2012. [CIPD](#) report a slight softening in employment confidence, with the number of surveyed companies intending to maintain total staff levels in the third quarter of 2019 increasing and those planning to expand staff levels decreasing slightly. Starting salaries remain strong, especially in areas with labour shortages.

Our short-term forecasts for pay in the private and public sectors are reported in table 1. These suggest that total pay growth reached an 11-year high in June but is expected to soften slightly in the third quarter of 2019 as the economic outlook weakens. NIESR's GDP Tracker suggests economic output will increase by 0.2 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 weak 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 just above 3 per cent in the third quarter of 2019. There is a risk that firms pass these higher production costs on to consumers which will add to inflationary pressures in the economy.

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 Total</b>		<b>Regular Total</b>		<b>Regular Total</b>	
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	536	496	535	539	542
Jun-19	505	538	498	536	539	542
Jul-19	507	539	499	538	541	544
Aug-19	508	541	501	539	543	545
Sep-19	510	542	502	541	545	547
<b>% change 3 month average year on year</b>						
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
Apr-19	3.4	3.3	3.6	3.3	3.0	3.1
May-19	3.6	3.5	3.7	3.4	3.5	3.6
Jun-19	3.9	3.7	3.9	3.9	3.8	3.9
Jul-19	3.8	3.7	3.9	3.7	3.4	3.5
Aug-19	3.7	3.6	3.8	3.5	3.2	3.3
Sep-19	3.7	3.5	3.7	3.5	3.3	3.3
<b>% change month on same month of previous year</b>						
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	4.0	3.8	3.8
Jun-19	3.9	3.6	4.0	3.6	3.3	3.6
Jul-19	3.7	3.6	3.8	3.6	3.1	3.1
Aug-19	3.6	3.5	3.6	3.5	3.3	3.3
Sep-19	3.8	3.5	3.8	3.5	3.5	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.

Notes for editors: For further information please contact the NIESR Press Office or Luca Pieri on 020 7654 1931/ [l.pieri@niesr.ac.uk](mailto:l.pieri@niesr.ac.uk)

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