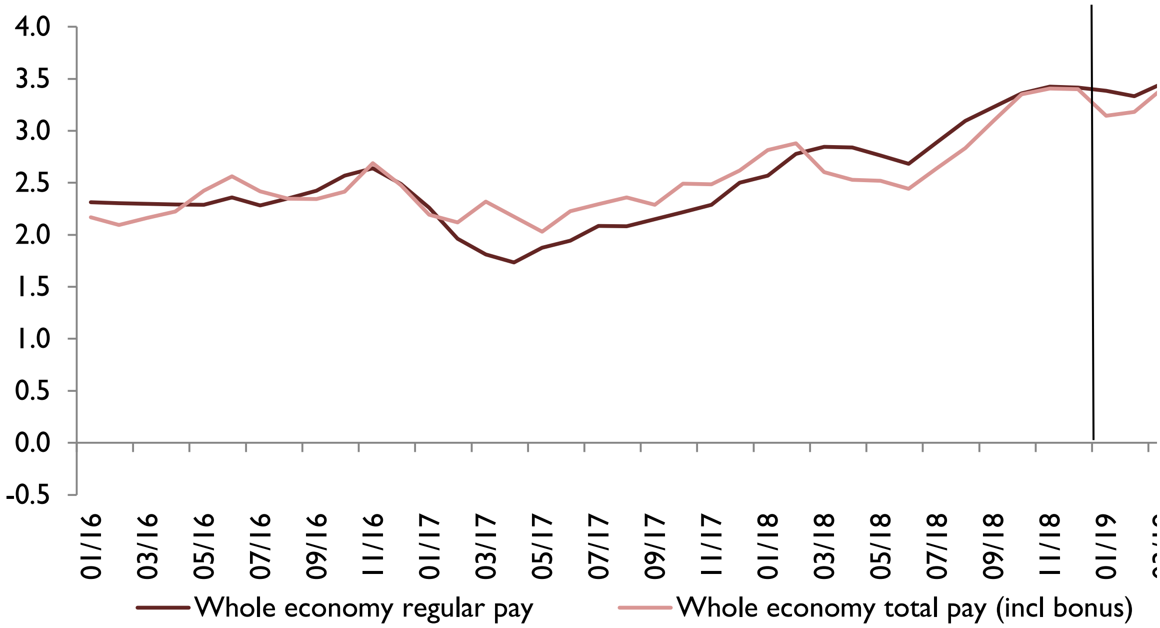
Press Release

NIESR WAGE TRACKER: FEBRUARY 2019

Nominal pay growing at fastest rate for a decade, but expected to stabilise in short term

Figure 1: Average Weekly Earnings (3 months average year on year growth, per cent)



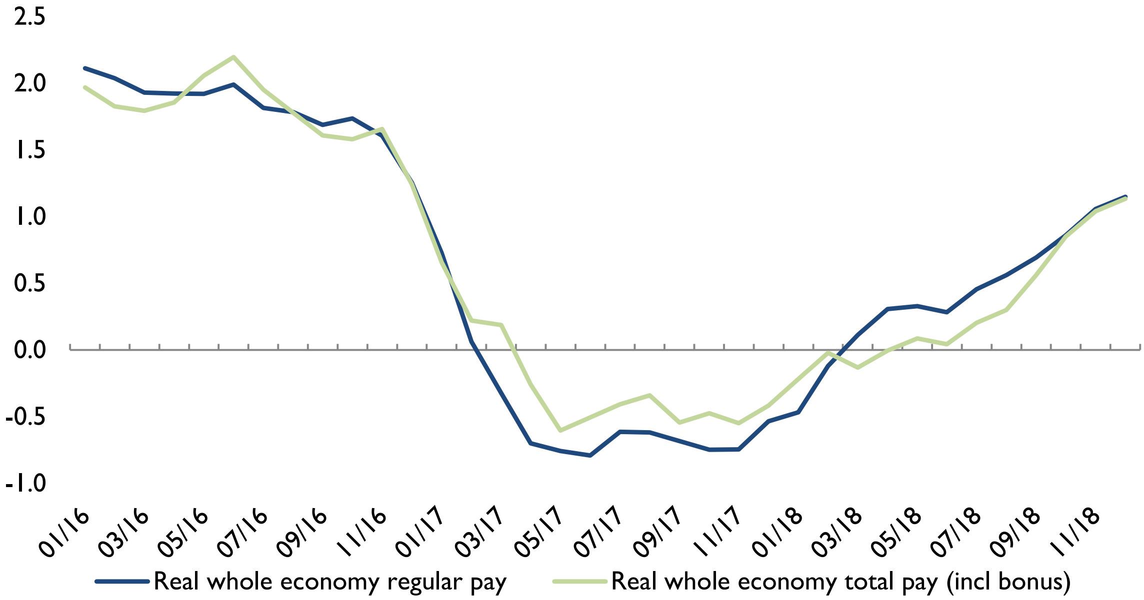
Source: NIESR, ONS

Main points

- According to new ONS statistics published this morning, UK average weekly earnings (AWE) expanded by 3.4 per cent (including and excluding bonuses) in the three months to December compared to the year before (figure 1).
- With CPI inflation at 2.3 per cent in the three months to December, real wages grew at an annual rate of 1.1 per cent over the same period, the fastest pace in two years (figure 2).
- Building on the official data, our monthly Wage Tracker suggests that regular pay will grow at a similar pace in the first quarter of this year, although headline total pay growth will drop slightly in January and February when strong private sector bonuses in September and October drop out of the three-month comparison (figure 3). With CPI inflation slowing in January, this points to annual regular real pay growth of around 1½ per cent in the first quarter.
- With productivity growth remaining very weak, the increase in pay is adding to employers' unit labour costs and hence domestic inflationary pressure.

Garry Young, Head of macroeconomic modelling and forecasting, said *"Earnings growth continues at a robust pace, boosting real incomes for those in work. There appears to be little slack in the labour market, with unemployment at 4 per cent in December, and this is contributing to higher real wages growth. Looking further ahead Brexit-related uncertainty may push up further on real pay. There is some evidence that businesses are seeking to take on more workers rather than invest in new capital, pushing up the demand for labour. At the same time workers seem reluctant to change jobs which may also add to pay pressures in expanding sectors."*

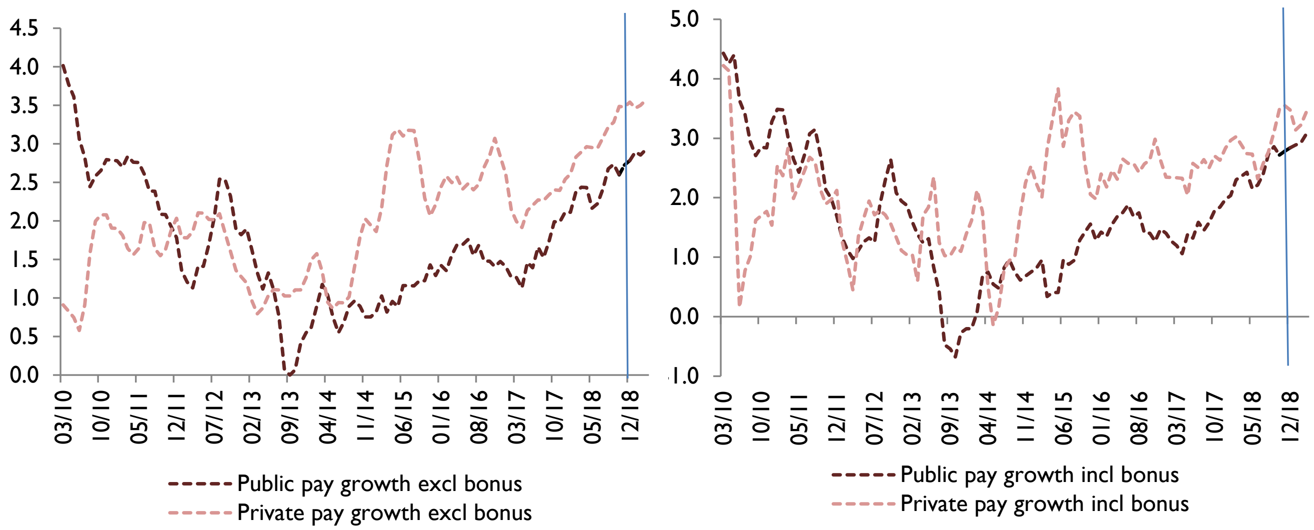
Figure 2: Real whole economy AWE (3 months average year on year growth, per cent)



Source: ONS, NIESR

Notes: Real pay growth is nominal pay growth deflated by a 3-month moving average of Consumer Prices Index (CPI)

Figure 3: Public and Private sector AWE (3 months average year on year growth, per cent)



Source: ONS, NIESR

Short-term pay forecasts

Our short-term forecasts for pay in the private and public sectors are shown in figure 3 and Table 2. These show the pace of regular pay picking up a little further in both sectors in the months ahead, driven by the tightness of the UK labour market and by the effects of the lifting of the public sector pay cap. Despite this acceleration in regular pay, the growth rate of total pay is forecast to drop slightly as strong private sector bonuses in September and October last year drop out of the three-month comparison.

Survey evidence

The Bank of England agents survey asked companies about the expectations of total labour costs (TLC) per employee, compared to 2018 (*February 2019* Inflation Report). On balance, companies expected TLC growth to be higher in 2019 than 2018. Amongst the key factors driving up pay are a higher National Living Wage, the ability to retain and recruit staff and adjustments to pension contributions. That said, other factors are set to offset higher cost pressure according to the survey, including companies' ability to pass on cost increases into their prices, Brexit uncertainty and a sustained loss in economic momentum.

Figure 4: Agents Score survey – labour costs per employee in services and manufacturing

Source: Bank of England

While recruitment and retention costs are set to increase labour costs, workers seemed hesitant to take up new jobs on the back of the rising economic uncertainty at the start of 2019. The KPMG and REC UK Report on Jobs showed that worker availability to switch roles continued to decline around the turn of the year. Additionally, placements to permanent roles declined for the first time since mid-2016 during January, whilst growth in candidate supply was the lowest in 30 months, sustaining pay pressures. The Report noted that 'pay pressures subsequently remained high, with salaries and temp wages both increasing strongly since December'.

The CBI Employment Trends Survey highlights that firms are on track to create more jobs, adding to the UK's record labour market performance. Their report reveals that 45% of businesses across the UK expect to grow their workforce in the year ahead. The report also suggested that businesses expect to be able to improve pay levels over the coming year, though they also reported heightened uncertainty about the future business environment.

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[1].

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 1: Root Mean Square Error for Average Weekly Earnings forecasts

	Public-sector	Private-sector	Whole economy
Excluding bonus	***0.25***	***0.23***	***0.20***
Including bonus	***0.32***	***0.47***	***0.37***

[1] See Dolton, P., Hantzsche, A., Kara, A. (2018), 'Follow the leader? The interaction between public and private sector wage growth in the UK', NIESR mimeo (presented at Royal Economic Society Annual Conference, March 2018).

Notes: 3-month average year on year growth rates, percentage points

Forecast schedule

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

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Table 2: 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**
Apr-18	483	515	476	513	519	522
May-18	485	517	478	515	520	523
Jun-18	486	519	479	518	522	524
Jul-18	489	520	481	519	525	528
Aug-18	491	522	483	521	525	528
Sep-18	491	524	484	523	526	528
Oct-18	494	527	487	528	528	530
Nov-18	495	527	487	525	529	531
Dec-18	495	527	488	525	530	532
Jan-19	497	528	489	527	532	534
Feb-19	498	530	491	528	534	536
Mar-19	500	533	492	531	535	537
% change 3 month average year on year						
Aug-18	3.1	2.8	3.2	2.8	2.7	2.7
Sep-18	3.2	3.1	3.3	3.1	2.7	2.9
Oct-18	3.4	3.4	3.5	3.5	2.6	2.7
Nov-18	3.4	3.4	3.5	3.5	2.7	2.8
Dec-18	3.4	3.4	3.5	3.5	2.8	2.8
Jan-19	3.4	3.1	3.5	3.1	2.9	2.9
Feb-19	3.3	3.2	3.5	3.2	2.9	2.9
Mar-19	3.5	3.4	3.6	3.4	2.9	3.1
% change month on same month of previous year						
Aug-18	3.4	3.2	3.4	3.2	2.5	2.7
Sep-18	3.2	2.9	3.2	3.0	2.7	2.7
Oct-18	3.6	3.9	3.8	4.3	2.5	2.7
Nov-18	3.6	3.3	3.4	3.3	2.9	2.9
Dec-18	3.1	2.9	3.4	2.7	2.9	2.9
Jan-19	3.5	3.2	3.6	3.3	2.9	2.9
Feb-19	3.4	3.4	3.5	3.6	2.8	3.0
Mar-19	3.5	3.6	3.6	3.4	3.1	3.3

Note: There may be inconsistencies in the growth rates arising from rounding.