Press Release

NIESR WAGE TRACKER: APRIL 2019

Pay growth stabilises amidst a tight labour market and Brexit uncertainty

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

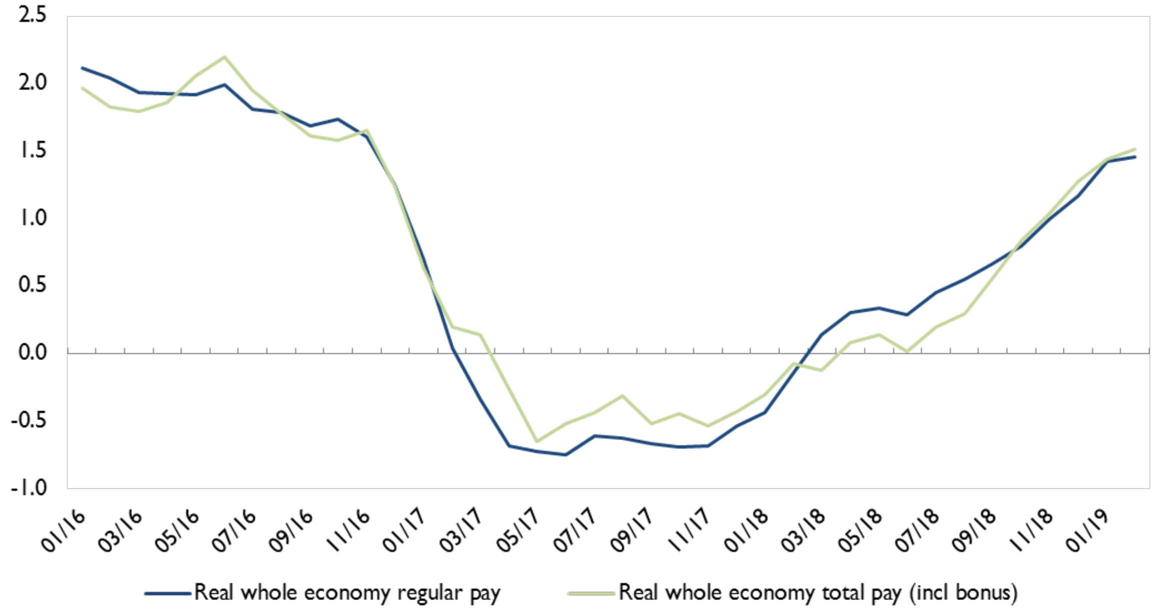
Source: NIESR, ONS.

Main points

- According to new ONS statistics published this morning, UK average weekly earnings (AWE) expanded by 3.5 per cent including bonuses (3.4 per cent excluding bonuses) in the three months to February compared to the year before (figure 1).
- With CPI inflation at 1.9 per cent in the three months to February, real wages grew at an annual rate of 1.4 per cent over the same period, the fastest pace in 27 months (figure 2).
- Whole economy regular earnings data for February was consistent with our monthly Wage Tracker from March, while public sector regular pay was slightly weaker than we expected.
- Going forward, our monthly Wage Tracker suggests that regular pay growth will have reached 3.3 per cent in the first quarter of this year and will stabilise at 3.4 per cent in the second quarter (figure 3). With CPI inflation stabilising at around 2 per cent, this points to annual regular real pay growth of around 1½ per cent in the first half of 2019.
- With productivity growth remaining weak, the increase in pay is adding to employers' unit labour costs and hence domestic inflationary pressure.

Arno Hantzsche, senior economist at NIESR, said *"Nominal wage growth appears to be stabilising at around 3½ per cent amidst a tight labour market and prolonged Brexit uncertainty. Yet real wages remain lower than before the 2008-9 financial crisis. With productivity growth continuing to be weak, nominal wage growth risks adding to inflationary pressures in the economy."*

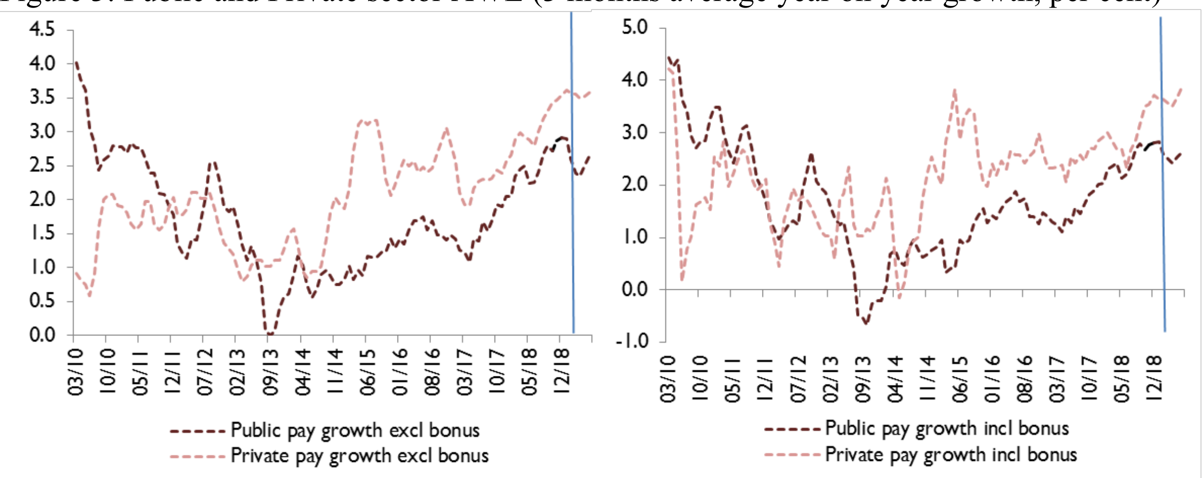
Figure 2: Real whole economy AWE (3 months average year on year growth, per cent)



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)



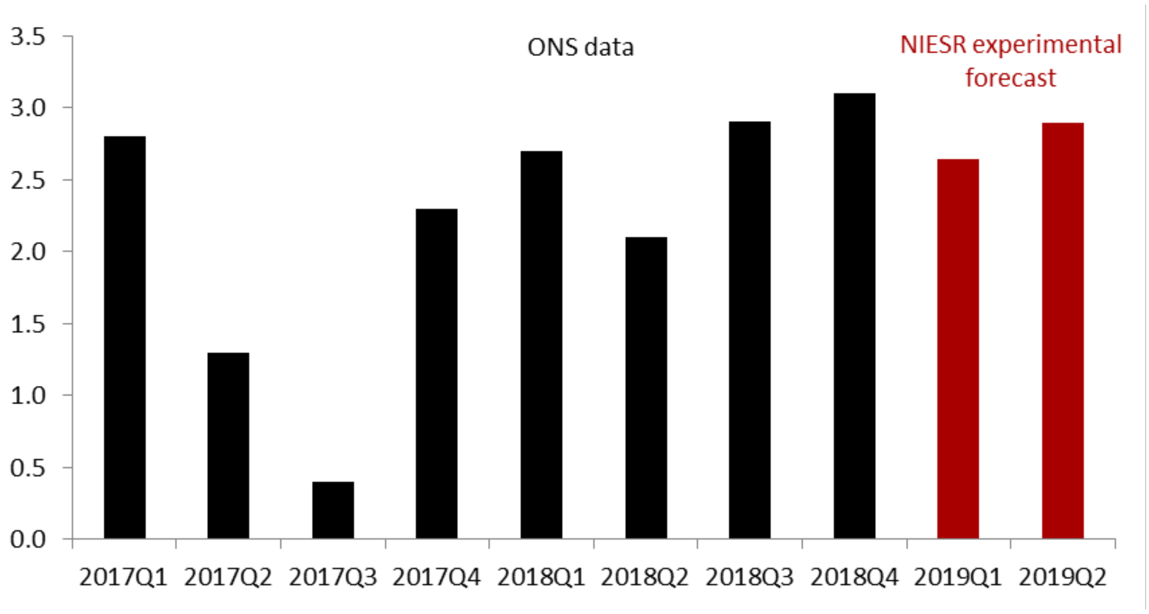
Source: ONS, NIESR.

Short-term pay forecasts

Our short-term forecasts for pay in the private and public sectors are reported in figure 3 and Table 2. These show that regular pay growth is stabilising at a robust pace over the first half of 2019. The UK labour market remains tight with unemployment staying at 3.9 per cent in the three months to February. This means that pressure on pay in the private sector remains high. At the same time, prolonged uncertainty around Brexit and a subdued economic outlook are weighing down on permanent hiring while also deterring workers from moving jobs. With sizeable spending commitments absent from the Chancellor's Spring Statement, room for public sector pay rises remains very limited.

The recent pick-up in nominal wages and softer inflation meant that real wages recovered from their fall after the EU referendum. The level of regular real wages, however, remains 2 per cent below the average reached prior to the 2008-9 crisis, and around 6 per cent below the pre-crisis average if bonus payments are taken into account, while productivity growth continues to be weak.

Figure 4: Unit labour costs (quarterly year on year growth, per cent)



Source: ONS, NIESR.

With weak productivity growth, higher wages translated into unit labour cost growth of 3.1 per cent in the fourth quarter of last year compared to the same quarter in the previous year. Using our short-term forecast of average weekly earnings growth, short-term forecasts of GDP growth from our Monthly GDP Tracker, employment data and accounting for upward pressure on labour costs due to rising contributions into auto-enrolment pensions from April, we construct an experimental short-term forecast of unit labour cost growth (figure 4). The forecast suggests that unit labour cost growth stabilises at robust rates just below 3 per cent in the first half of 2019. There is a risk that firms pass higher production costs on to consumers which will add to inflationary pressures in the economy.

Survey evidence

Recruitment difficulties continued increasing in the three months until February according to the Bank of England's [Agents survey](), in particular in services industries, engineering and haulage. Business contacts continued to address skill shortages by providing targeted pay awards. In addition, pay increases were concentrated on staff on or just above the National Living Wage. At the same time, employment intentions weakened further, in particular in the consumer services industry, "reflecting caution due to slower output growth and Brexit uncertainty".

According to the KMPG and REC Report on Jobs, uncertainty about the economic outlook explains the fastest decline in permanent staff appointments since the EU referendum. Growth of short-term employment also remained weak in March. Pay growth is reported to have softened since February with increases in starting salaries being reported as the lowest in just under two years while temporary pay growth is also easing.

Evidence from pay settlements provided by IDR and XpertHR, who report stable median pay settlements in the three months to February, further confirms that pay growth is stabilising.

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.

[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).

Table 1: 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 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
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	526	530	531
Dec-18	496	528	488	528	530	532
Jan-19	498	530	491	530	531	533
Feb-19	497	529	490	528	530	533
Mar-19	499	530	492	530	531	533
Apr-19	500	533	493	533	532	535
May-19	502	536	494	536	534	537
Jun-19	503	537	496	537	536	538
% change 3 month average year on year						
Nov-18	3.4	3.4	3.5	3.6	2.9	2.8
Dec-18	3.4	3.5	3.5	3.7	2.9	2.8
Jan-19	3.5	3.5	3.6	3.6	2.9	2.8
Feb-19	3.4	3.5	3.6	3.6	2.6	2.6
Mar-19	3.3	3.4	3.6	3.6	2.4	2.5
Apr-19	3.3	3.3	3.5	3.5	2.3	2.4
May-19	3.4	3.4	3.5	3.7	2.5	2.5
Jun-19	3.4	3.6	3.6	3.9	2.7	2.6
% change month on same month of previous year						
Nov-18	3.5	3.4	3.5	3.4	3.1	2.9
Dec-18	3.4	3.3	3.4	3.4	2.9	2.8
Jan-19	3.7	3.9	3.9	4.2	2.7	2.7
Feb-19	3.1	3.2	3.4	3.4	2.2	2.3
Mar-19	3.2	3.1	3.4	3.1	2.3	2.5
Apr-19	3.5	3.5	3.7	4.0	2.5	2.5
May-19	3.4	3.7	3.5	4.0	2.7	2.6
Jun-19	3.4	3.6	3.6	3.8	2.7	2.8

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