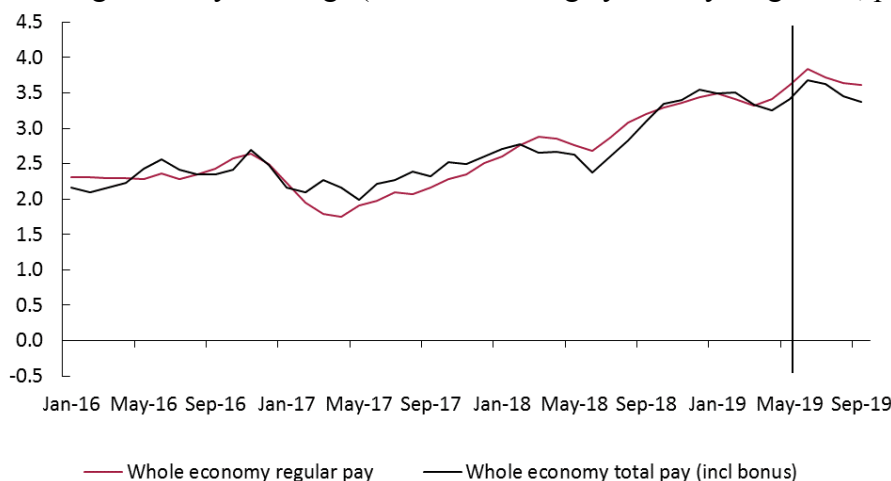


Press Release

NIESR WAGE TRACKER: JULY 2019

Pay growth at 11-year high but further acceleration unlikely

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



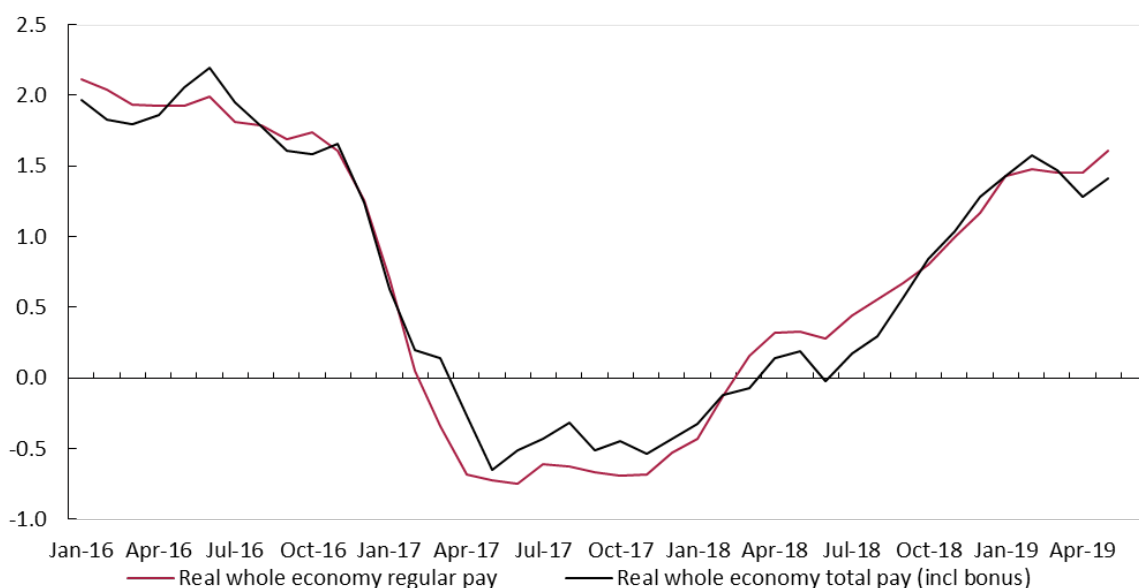
Source: NIESR, ONS.

Main points

- According to new ONS statistics published this morning, UK average weekly earnings (AWE) expanded by 3.6 per cent excluding bonuses (3.4 per cent including bonuses) in the three months to May compared to the year before (figure 1).
- With CPI inflation at 2 per cent in the three months to May, real wages excluding bonuses grew at an annual rate of 1.6 per cent over the same period, the strongest rate of regular real earnings growth since November 2016 (figure 2).
- Our Wage Tracker published last month had suggested that wage growth would continue to pick up modestly in May. This is confirmed by May data outturns which came in slightly stronger than predicted, partly as a result of upward revisions to April data.
- Going forward, the Wage Tracker indicates that regular pay growth will have reached 3.8 per cent in the second quarter of this year. Our first estimate for the third quarter of this year has regular pay growth stabilising at around 3½ per cent, reflecting survey evidence of a reduction in hiring and fewer vacancies.
- Based on NIESR Wage Tracker and GDP Tracker information, we estimate unit labour cost growth of around 3 per cent in the second and third quarter of 2019, up from just above 2 per cent in the first quarter.

Arno Hantzsche, senior economist at NIESR, said “*Strong earnings growth in the first half of 2019 helped real pay recover most of the losses incurred since the financial crisis a decade ago. However, economic and political uncertainty pose a considerable risk to hiring activity and, according to our new estimates, prevent a further acceleration of earnings growth in the months ahead.*”

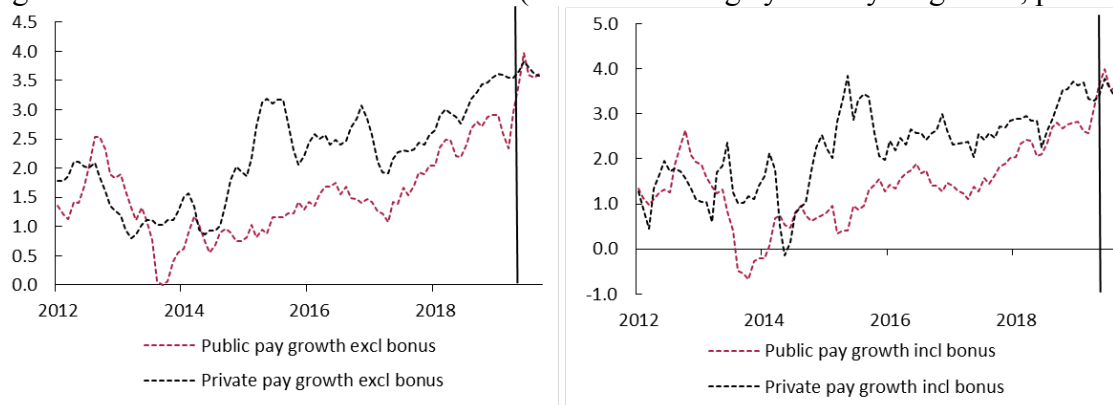
Figure 2: Real whole economy AWE (3 months average year on year growth, per cent)



Source: ONS, NIESR.

Notes: Real pay growth is nominal pay growth deflated by a 3-month moving average of the consumer price index (CPI).

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

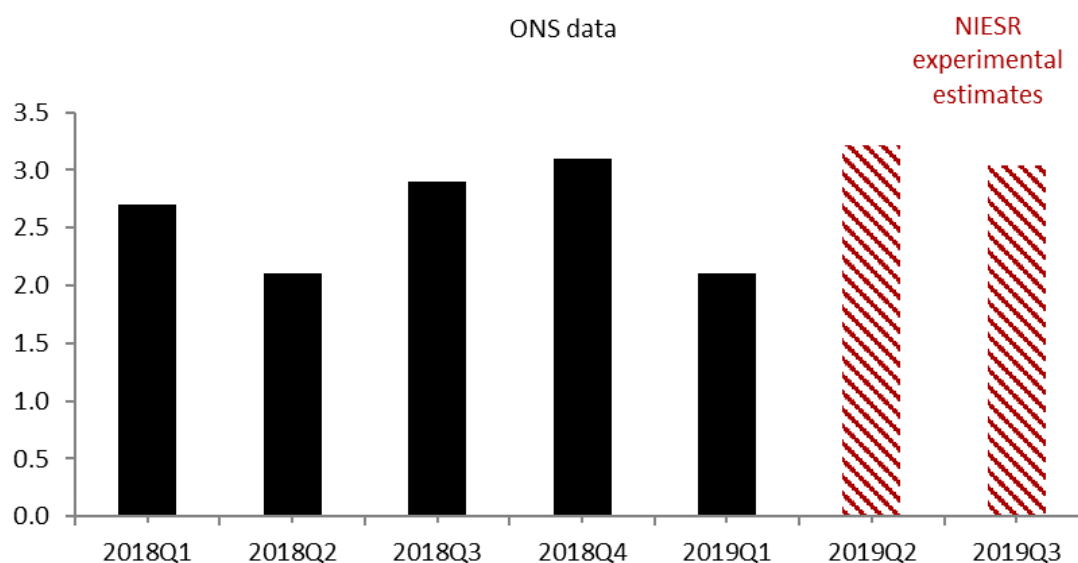


Source: ONS, NIESR.

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 has been robust in the first half of 2019, supported by historically low levels of unemployment. In the three months to May, the unemployment rate appears to have reached a floor of 3.8 per cent as employment growth is slowing and the number of vacancies has been falling since the end of 2018. Economic headwinds in the form of Brexit uncertainty and global trade tensions are increasing and survey evidence suggests that this may weigh on hiring in the third quarter of 2019, leading us to forecast a somewhat slower pace of private sector earnings growth going forward.

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



Source: ONS, NIESR.

The ONS estimates that unit labour costs increased by 2.1 per cent in the first quarter of 2019. 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. The forecast suggests that unit labour cost growth reached around 3.2 per cent in the second quarter of 2019 and is expected to stabilise at around 3 per cent in the third quarter 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

Survey evidence from [KPMG and the Recruitment and Employment Confederation](#) shows that the number of people placed in permanent positions in June fell for the fourth month in a row and temporary placements also expanded at a historically subdued pace while the increase in vacancies remained close to April's multi-year low. Brexit uncertainty and global trade tensions appear to have played an important role in explaining the slowdown. Nevertheless, a continued decline in candidate availability pushed up pay for permanent and temporary workers in June.

According to [Deloitte](#), 62 per cent of surveyed CFOs expect to reduce hiring in the next three years as a result of Brexit.

In the [Bank of England's Agents survey](#), employment intentions fell in the second quarter of 2019, the first negative print since 2016, and recruitment difficulties, although still elevated, eased somewhat. Staff turnover also eased as employees were more reluctant to change job amidst economic uncertainty. Companies reported that total labour cost growth had stabilised since the beginning of the year, with survey participants experiencing a slight easing in pay, in particular in areas where labour costs cannot be passed on to output prices easily.

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 NIESR¹.

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 | 0.26 | 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

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).

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

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Table 2: 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 |
| 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 | 536 | 496 | 534 | 540 | 542 |
| Jun-19 | 505 | 537 | 497 | 536 | 541 | 543 |
| Jul-19 | 506 | 538 | 498 | 537 | 543 | 545 |
| Aug-19 | 508 | 540 | 500 | 538 | 544 | 547 |
| Sep-19 | 510 | 541 | 502 | 540 | 546 | 549 |
| % 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 | 3.4 | 3.7 | 3.4 | 3.5 | 3.6 |
| Jun-19 | 3.8 | 3.7 | 3.8 | 3.8 | 4.0 | 4.0 |
| Jul-19 | 3.7 | 3.6 | 3.7 | 3.6 | 3.6 | 3.6 |
| Aug-19 | 3.6 | 3.5 | 3.6 | 3.4 | 3.6 | 3.5 |
| Sep-19 | 3.6 | 3.4 | 3.6 | 3.3 | 3.6 | 3.6 |
| % 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 | 3.9 | 3.8 | 3.9 | 3.8 | 3.8 |
| Jun-19 | 3.8 | 3.6 | 3.8 | 3.5 | 3.7 | 3.7 |
| Jul-19 | 3.6 | 3.4 | 3.6 | 3.4 | 3.4 | 3.3 |
| Aug-19 | 3.5 | 3.3 | 3.5 | 3.2 | 3.6 | 3.6 |
| Sep-19 | 3.7 | 3.4 | 3.6 | 3.3 | 3.8 | 3.9 |

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