**Press Release**

# NIESR WAGE TRACKER: MARCH 2019

### Pay growth appears to be stabilising at around 3½ per cent per annum

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 January compared to the year before (figure 1).

- With CPI inflation at 2.1 per cent in the three months to January, real wages grew at an annual rate of 1.3 per cent over the same period, the fastest pace in 26 months (figure 2).

- Whole economy regular earnings data for January was consistent with our monthly Wage Tracker from February, while private sector bonus payments were revised up for December and in January were slightly higher than we expected.

- Going forward, our monthly Wage Tracker suggests that both regular and total pay growth will stabilise at 3.5 per cent in the first quarter of this year (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 weak, the increase in pay is adding to employers' unit labour costs and hence domestic inflationary pressure.

Arno Hantzsche, senior economist at NIESR, said *"Prolonged Brexit uncertainty is contributing to a situation in which firms are refraining from investment while meeting additional demand for their goods and services by raising employment. At the same time, workers have become more wary about changing jobs. As long as demand holds up, we expect this to translate into real wage growth of around 1.5 per cent in the first quarter of this year, stabilising after a robust pick-up in 2018. But lacklustre productivity growth means that wage growth is adding to inflationary pressure."*
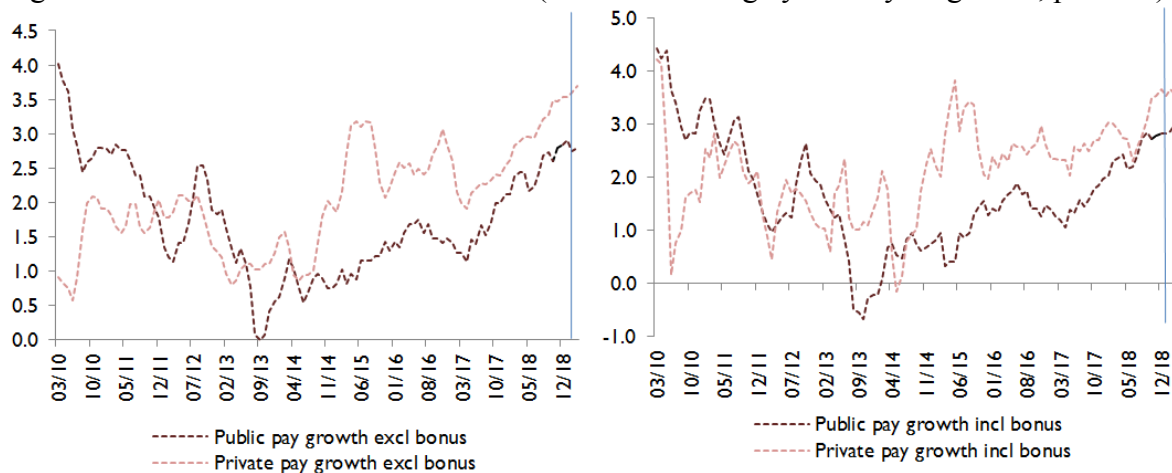
Figure 2: Real whole economy AWE (3 months average year on year growth, per cent)
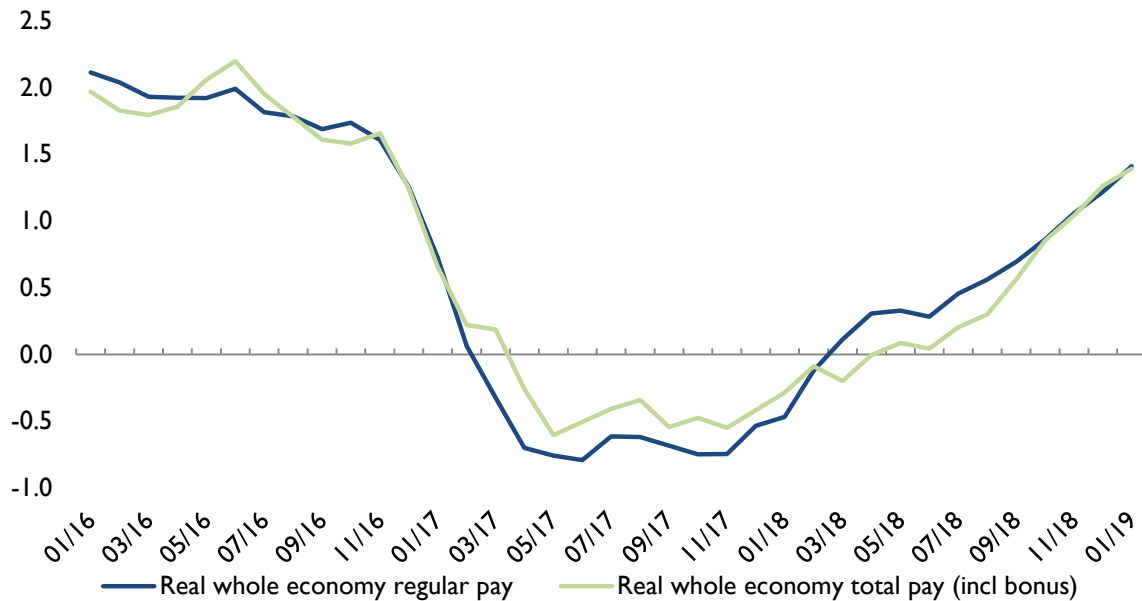


Source: ONS, NIESR
Notes: Real pay growth is nominal pay growth deflated by a 3-month moving average of Consumer Prices Index (CPI)

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 the pace of regular pay continues to be strong in both sectors in the months ahead. The UK labour market keeps tightening with unemployment falling to 3.9 per cent in the three months to January. This puts pressure on pay in the private sector.

Our estimates show that public sector wages currently lie some 3½ per cent below their long-run trend levels prescribed by private sector wages (figure 4). This suggests that after last year's lifting of the public sector pay cap the pressure to further raise public sector pay continues to be high. Historically wage gaps between the public sector and the private sector are reversed with a few years and in order for this to happen public sector wage growth needs to outpace wage growth in the private sector for some time.

Figure 4: Public – private sector wage gap (3 months average, per cent)
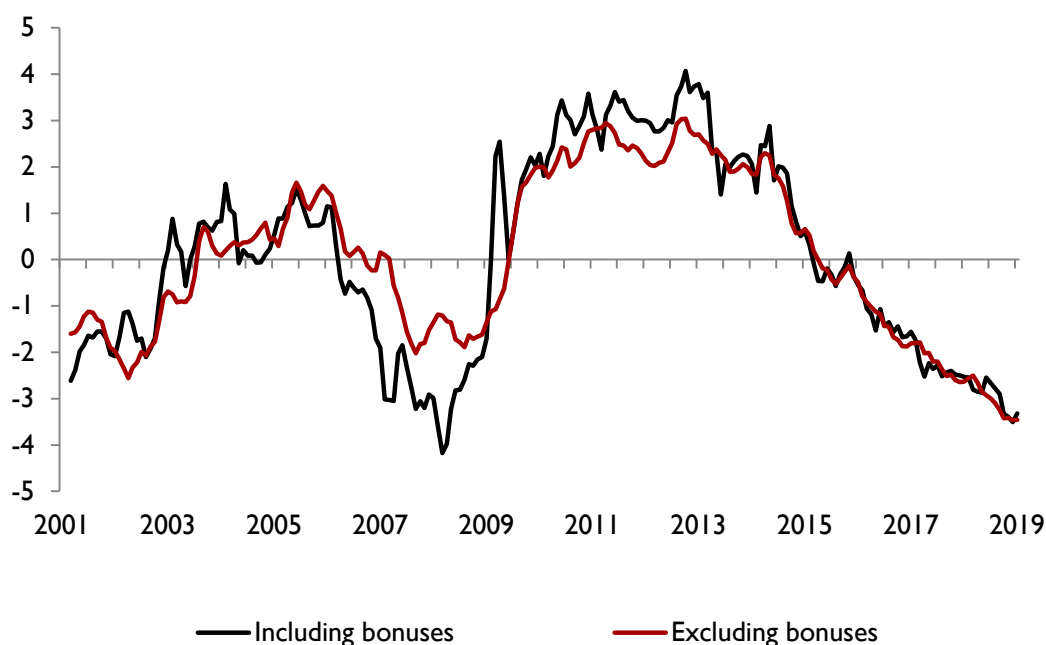


Source: NIESR

Based on real-time earnings information, the Office for Budget Responsibility shows that higher earnings benefit in particular those at the very top end of the income distribution, while rises in the National Living Wage contribute to relatively strong earnings growth at the bottom end of the distribution.

Total employment costs per hour, including other non-wage costs, were also growing at 3.4 per cent in the fourth quarter of last year compared to the same quarter in the previous year (figure 5). With the outlook for productivity growth continuing to be weak, this is consistent with unit labour cost growth to increase from its 2018Q3 growth rate of 2.8 per cent. There is a risk that firms pass higher production costs on to consumers which will add to inflationary pressures in the economy.

Figure 5: Labour costs per hour (year-on-year growth, per cent)
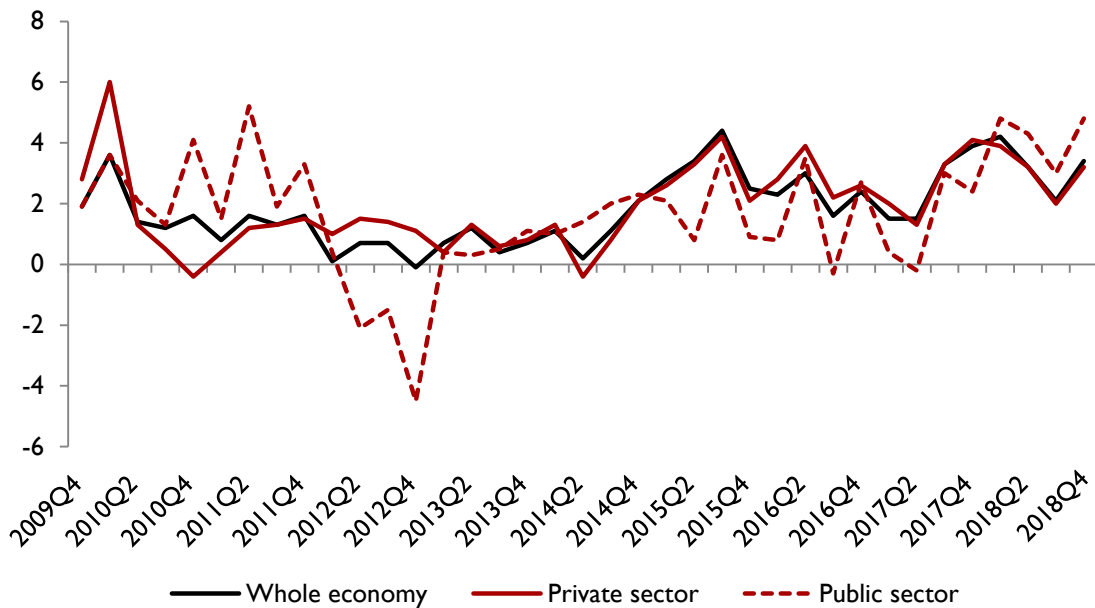


Source: ONS experimental series

## Survey evidence

According to the KMPG and REC [Report on Jobs](#) uncertainty about the economic outlook increasingly weighs on hiring and staff availability. Vacancy growth has eased to the slowest rate in 29 months. At the same time, staff supply both for permanent and temporary positions remained weak in February after a sharp drop at the beginning of the year. Amidst shortages for skilled labour, starting salaries continued to rise in February but at a lower rate compared to the previous seven months while temporary wage growth eased to a 13-month low.

Incomes Data Research reports that after a pick-up in pay settlements at the end of 2017, indicative of stronger wage growth in the months after, median pay awards were stable at 2.5 per cent since. This suggests that a further continued pick-up in earnings growth is unlikely in the near future.

**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  | 0.26          | 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.

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[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 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 | 526 | 530 | 531 |
| Dec-18 | 496 | 529 | 488 | 528 | 530 | 532 |
| Jan-19 | 497 | 530 | 490 | 530 | 531 | 533 |
| Feb-19 | 499 | 530 | 491 | 529 | 533 | 536 |
| Mar-19 | 500 | 531 | 492 | 530 | 535 | 538 |
| | | | | | | |
| **% 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 | 2.8 | 2.8 |
| Dec-18 | 3.5 | 3.5 | 3.5 | 3.7 | 2.8 | 2.8 |
| Jan-19 | 3.5 | 3.5 | 3.5 | 3.5 | 2.9 | 2.8 |
| Feb-19 | 3.4 | 3.5 | 3.6 | 3.7 | 2.8 | 2.9 |
| Mar-19 | 3.5 | 3.5 | 3.7 | 3.6 | 2.8 | 3.0 |
| | | | | | | |
| **% 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 | 3.1 | 2.9 |
| Dec-18 | 3.3 | 3.3 | 3.4 | 3.3 | 2.9 | 2.9 |
| Jan-19 | 3.5 | 3.7 | 3.8 | 3.9 | 2.7 | 2.7 |
| Feb-19 | 3.4 | 3.6 | 3.6 | 3.7 | 2.6 | 3.0 |
| Mar-19 | 3.5 | 3.3 | 3.7 | 3.0 | 3.0 | 3.4 |

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

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