Press Release

NIESR WAGE TRACKER: MAY 2019

Nominal pay growth dips temporarily but is expected to stabilise at around 3½ per cent in the second quarter of 2019

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

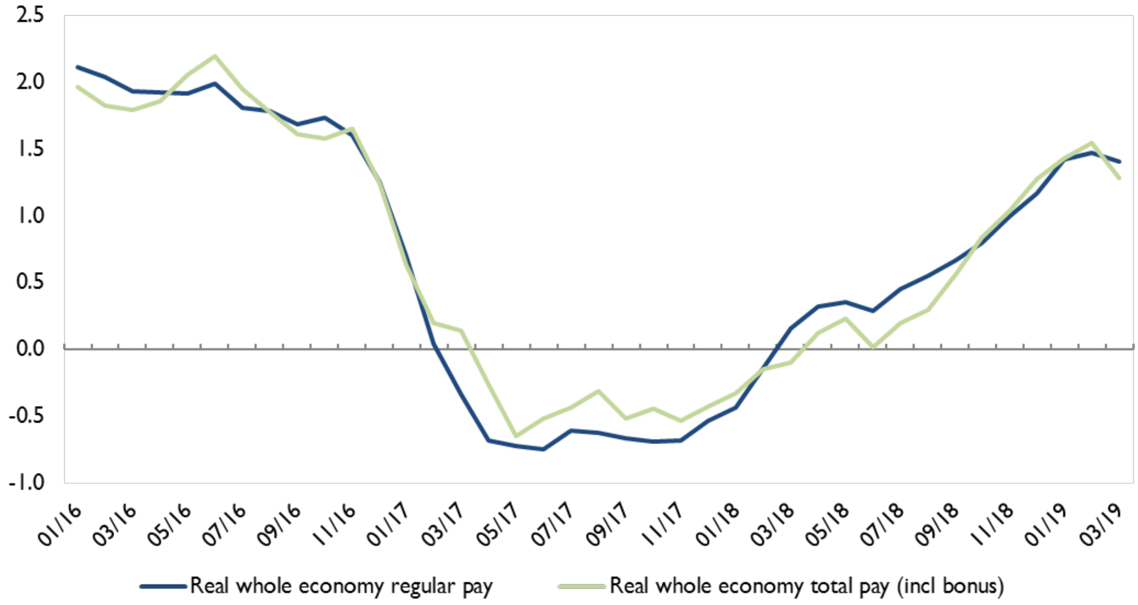
Source: NIESR, ONS.

Main points

- According to new ONS statistics published this morning, UK average weekly earnings (AWE) expanded by 3.2 per cent including bonuses (3.3 per cent excluding bonuses) in the three months to March compared to the same period a year earlier (figure 1).
- With CPI inflation at 1.9 per cent in the three months to March, real wages grew at an annual rate of 1.3 per cent over the same period, less than in January and February (figure 2).
- Whole economy regular earnings data for March was nearly identical to what our monthly Wage Tracker suggested in April. Total pay data was a little weaker than forecast due to a decline in volatile private sector bonus payments.
- Going forward, our monthly Wage Tracker suggests that regular pay growth will stabilise at 3½ per cent in the second quarter of this year (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.
- Our forecast for the year as a whole, published on 25 April and conditioned on a soft Brexit, sees earnings growth stabilise at just above 3½ per cent in 2019 and 2020. With productivity growth remaining weak, the increase in pay is adding to employers' unit labour costs but lower import price growth is expected to stave off overall inflationary pressure.

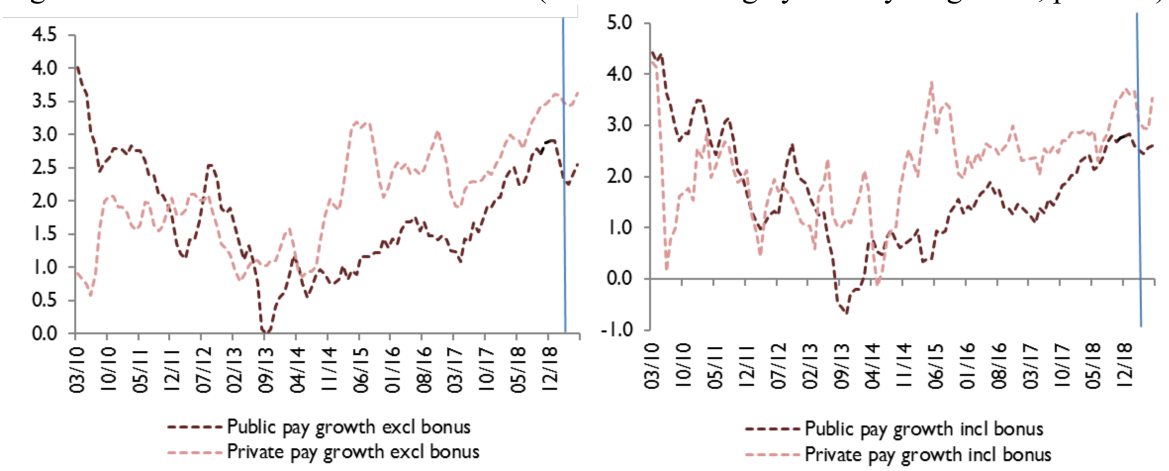
Arno Hantzsche, senior economist at NIESR, said *"While in the first quarter of this year, nominal wage growth of 3.2 per cent was robust, we don't expect it to rise substantially above 3½ per cent in the near term. Together with weaker import prices, this suggests that inflationary pressure is kept at bay but also means that real pay is unlikely to improve considerably."*

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)

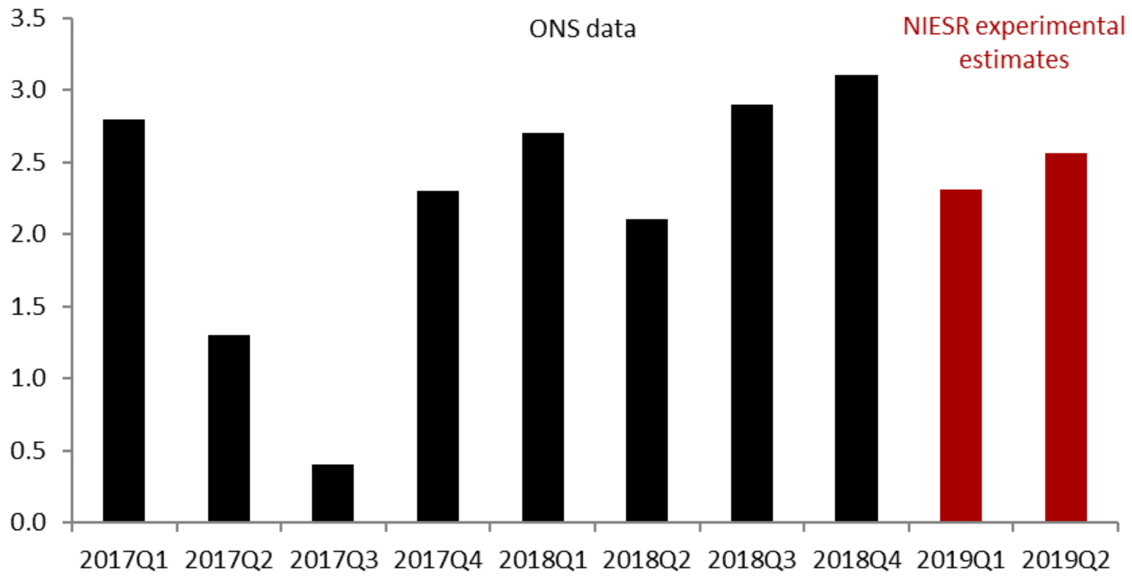


Source: ONS, NIESR.

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 reaching yet another 44-year low of 3.8 per cent in the three months to March. Where labour shortages remain high, like in certain services sectors, pay rewards are expected to remain strong. At the same time, Brexit negotiations and the global economic weakness appear to be weighing on hiring and pay decisions as firms face an uncertain economic outlook while deterring workers from moving jobs. Public sector pay growth is expected to remain below that in the private sector for as long as the preoccupation of government with Brexit leads to a delay in spending decisions.

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 reached around 2.3 per cent in the first quarter of 2019. This is a little weaker than what we estimated for the same period in April as stronger output growth and slower employment growth suggest a pick-up in productivity growth. We now expect unit labour cost growth to increase only slightly to just above 2½ per cent in the second quarter of 2019.

Survey evidence

Elevated Brexit uncertainty continued to weigh on hiring activity in April. According to the KPMG and REC Report on Jobs, permanent staff appointments fell slightly, in particular in London, while temporary billings expanded at a slightly quicker pace. At the same time, increasing reluctance of workers to move jobs and low unemployment led to a further decline in staff availability, although at a softer rate than in the previous month.

The Chartered Institute of Personnel and Development reports that half of the establishments facing recruitment difficulties in spring have increased salaries. Median basic pay intentions for the 12 months until March 2020 remain stable at 2 per cent but have fallen back to 2 per cent in the private sector from 2 ½ per cent in winter, while expected public sector basic pay growth strengthened again to 1.5 per cent after a softer 1 per cent in winter. The main reason given for expected pay increases of more than 2 per cent was elevated inflation. Around a fifth of the entities that expect to adjust pay by less than 2 per cent cite Brexit uncertainty as a reason.

Bank of England Agents scores indicate that the growth rate of labour costs per employee softened to 2 per cent in the three months to April in manufacturing industries, from 2.1 per cent in the three months to February, and remained at 2.5 per cent over the same period in services industries. This is consistent with our short-term forecast of robust but stabilising wage growth.

A disproportionally large number of pay settlements tends to be announced in April and risks to our short-term forecast would arise if these surprised to the upside or downside. Early data from Incomes Data Research, however, suggests that most recent median pay awards stabilised at 2.5 per cent after a somewhat stronger print in the three months to March.

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].

[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).

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.

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	529	531	533
Feb-19	497	529	490	528	530	532
Mar-19	498	528	491	526	530	534
Apr-19	500	532	493	531	532	535
May-19	502	534	495	533	534	536
Jun-19	503	536	496	536	535	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	3.7	2.6	2.6
Mar-19	3.3	3.2	3.5	3.1	2.3	2.5
Apr-19	3.2	2.9	3.4	2.9	2.2	2.4
May-19	3.3	2.9	3.5	2.9	2.4	2.6
Jun-19	3.5	3.3	3.6	3.5	2.5	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	4.1	2.7	2.7
Feb-19	3.2	3.3	3.4	3.5	2.2	2.3
Mar-19	2.9	2.3	3.2	1.7	2.1	2.6
Apr-19	3.4	3.2	3.7	3.6	2.4	2.5
May-19	3.4	3.4	3.6	3.5	2.6	2.6
Jun-19	3.5	3.4	3.6	3.5	2.6	2.7

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