NIESR
Monthly Wage Tracker

Underlying earnings to accelerate to 4.5%
Cyrille Lenoël

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"The fact that the furlough scheme ended two weeks ago does not appear to have been a big labour market shock because it happened when employment was growing quickly. But a record level of vacancies suggests a future acceleration in underlying earnings growth from 4.2 per cent in the third quarter to 4.5 per cent in the fourth quarter. If that forecast proves to be correct, it will put additional pressure on the MPC to raise rates before the end of the year."

Cyrille Lenoël
Principal Economist, NIESR
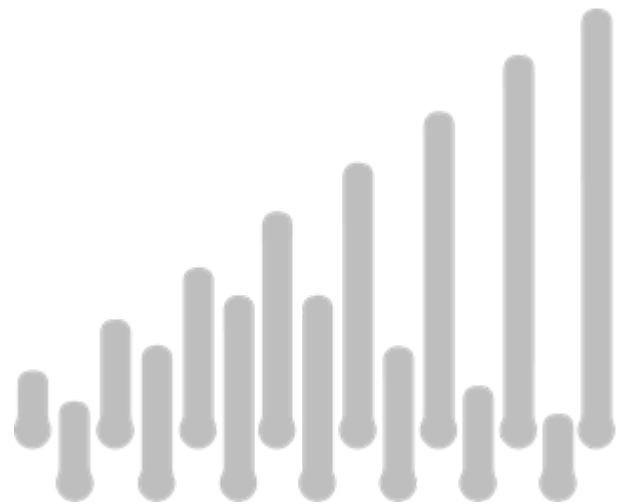
Main Points

- The growth rate in average weekly earnings including bonuses (AWE) in Great Britain decreased in the three months to August to 7.2 per cent compared to a year ago, down from 8.3 per cent in the three months to July. This is in line with the 7.1 per cent we forecast last month.
- Excluding base effects, the growth in average weekly earnings was at 4.2 per cent in the three months to August, unchanged from the three months to July.
- A record level of vacancies and rising inflation suggest a future acceleration in wage growth.
- We forecast underlying average weekly earnings (excluding base effects) to accelerate from 4.2 per cent in the third quarter to 4.5 per cent in the fourth quarter.

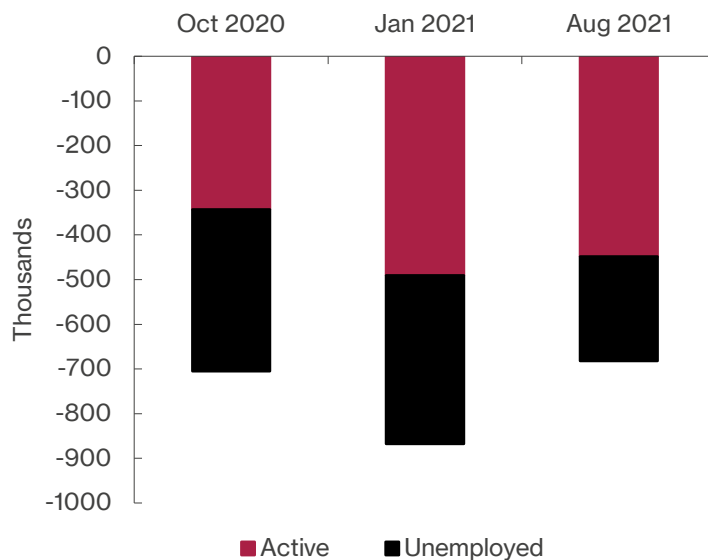## Figure 1: Average weekly earnings (incl. bonuses)
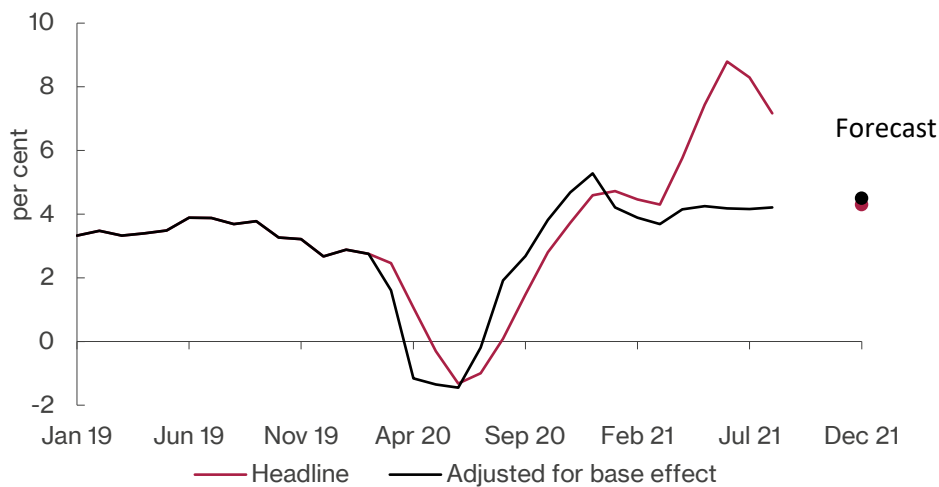
Employment

The latest data from the Labour Force Survey show that the labour market continues to recover from the pandemic, with employment, vacancies and wages all increasing. The recovery, driven by improved confidence and the reopening of sectors of the economy, is broad-based across age groups, industries and regions. **The labour market recovery is U-shaped, with the number of payrolled employees in September reaching a record 29.2 million and the number of vacancies also at a record high of 1.1 million**.

Employment fell during the pandemic leading people to drop out of the labour force. Since the beginning of the pandemic, employment has declined by 682,000. Most of this decline can be attributed to people dropping out of the labour force, rather than a rise in unemployment: Figure 2 decomposes the decline in employment since February 2020. In August, the number of economically active people was 448,000 fewer than in February 2020, while the number of unemployed increased by only 234,000 over the same period.

Figure 2: Decomposition of the drop in employment since February 2020, between a reduction in economically active and a rise in unemployed

Source: ONS, NIESR calculations

Pay

Growth in average weekly earnings including bonuses (AWE) in Great Britain in the three months to August decelerated to 7.2 per cent compared to a year before, down from 8.3 per cent in the three months to June. This is in line with the 7.1 per cent we had forecasted in the September Wage Tracker and was driven by 8.3 per cent growth in private sector AWE, compared to only 2.5 per cent growth in public sector AWE.

High pay growth partly reflects the depressing effect of the pandemic on earnings a year earlier. Our estimate of underlying wage growth which excludes base effects was unchanged at 4.2 per cent in the three months to August, compared to the three months to July. Figure 1 shows that underlying wage growth has been stable around 4 per cent since January. As explained in the August Wage Tracker ,the compositional effect from some lower-paid workers dropping out of the labour force on AWE has fully disappeared, and we therefore only report the underlying wage growth adjusted for base effect, and ignoring the compositional effect.

Despite the stability in adjusted AWE, there is evidence of higher starting salaries for new recruits, particularly in sectors experiencing labour shortages. The record level of vacancies relative to unemployment suggests a persistent mismatch between the labour force skills and the post-pandemic pattern of labour demand. The 12-month rate of consumer price inflation rose from 0.4 per cent in February to 3.2 per cent in August, and is expected to reach 4 per cent by the beginning of 2022 according to the August UK Economic Outlook. The combination of a tighter labour market and rising inflation should result in higher wages. **We forecast adjusted AWE to increase from 4.2 per cent in the third quarter to 4.5 per cent in the fourth quarter.**

Base effect will continue to push up growth in headline AWE in the rest of the third quarter until it disappears in October-November. We forecast headline AWE growth to be 5.8 per cent in the third quarter, and 4.3 per cent in the fourth quarter (see Table 1).

Table 1: Summary table of earnings growth

	Average Weekly Earnings					
	Whole economy		Private sector		Public sector	
Latest weights	100		82		18	
	Regular	Total	Regular	Total	Regular	Total
Jul-20	512	540	501	536	563	564
Aug-20	518	550	508	550	563	566
Sep-20	524	560	514	554	568	569
Oct-20	528	563	518	559	567	570
Nov-20	531	567	522	565	570	573
Dec-20	534	569	525	570	571	574
Jan-21	533	568	523	566	577	578
Feb-21	535	567	525	563	580	584
Mar-21	536	568	526	563	579	582
Apr-21	540	572	531	571	579	581
May-21	540	575	532	574	579	582
Jun-21	541	577	533	577	579	581
Jul-21	542	578	535	580	578	580
Aug-21	544	581	536	584	579	581
Sep-21	546	587	538	588	581	583
Oct-21	548	592	540	594	583	585
Nov-21	550	589	542	590	585	587
Dec-21	552	590	544	590	588	590
% change 3 month average year on year						
Jul-20	0.2	-1.0	-0.8	-2.0	4.4	4.2
Aug-20	0.9	0.1	0.1	-0.6	4.1	3.9
Sep-20	2.0	1.4	1.4	1.0	4.1	3.7
Oct-20	2.9	2.8	2.5	2.4	4.0	4.1
Nov-20	3.6	3.7	3.3	3.4	4.2	4.3
Dec-20	4.1	4.6	3.9	4.6	4.1	4.4
Jan-21	4.3	4.7	4.0	4.7	4.7	4.8
Feb-21	4.4	4.5	4.1	4.4	5.2	5.3
Mar-21	4.6	4.3	4.2	4.1	5.5	5.6
Apr-21	5.7	5.7	5.7	5.9	4.9	5.1
May-21	6.7	7.4	7.2	8.2	3.7	3.9
Jun-21	7.4	8.8	8.4	10.2	2.8	2.8
Jul-21	6.8	8.3	7.9	9.7	2.5	2.5
Aug-21	6.0	7.2	6.9	8.3	2.7	2.5
Sep-21	5.0	5.8	5.6	6.8	2.6	2.7
Oct-21	4.3	5.2	4.8	6.2	2.7	2.6
Nov-21	3.9	4.7	4.2	5.6	2.6	2.6
Dec-21	3.6	4.3	3.9	4.7	2.8	2.6
% change month on same month of previous year						
Jul-20	1.0	-0.2	0.2	-0.7	4.1	3.1
Aug-20	2.0	1.9	1.4	1.7	3.9	3.9
Sep-20	2.9	2.6	2.6	2.0	4.4	4.2
Oct-20	3.7	3.9	3.4	3.5	3.8	4.2
Nov-20	4.1	4.6	4.0	4.6	4.2	4.6
Dec-20	4.5	5.4	4.4	5.6	4.4	4.6
Jan-21	4.3	4.2	3.8	4.0	5.5	5.3
Feb-21	4.5	3.8	4.2	3.5	5.8	6.0
Mar-21	5.1	4.8	4.8	4.6	5.3	5.4
Apr-21	7.6	8.5	8.4	9.8	3.6	3.8
May-21	7.4	8.9	8.6	10.4	2.3	2.5
Jun-21	7.1	8.9	8.3	10.5	2.5	2.1
Jul-21	5.9	7.0	6.8	8.2	2.7	2.8
Aug-21	5.0	5.6	5.5	6.2	2.8	2.7
Sep-21	4.2	4.8	4.7	6.1	2.3	2.5
Oct-21	3.8	5.2	4.2	6.3	2.9	2.7
Nov-21	3.6	3.9	3.8	4.4	2.7	2.5
Dec-21	3.4	3.6	3.6	3.5	2.9	2.7

Caveat

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.

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 per cent points for the measure excluding bonuses and 0.4 per cent 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. In practice, we add residuals reflecting our judgement so the error bands may be larger or smaller.

Forecast schedule

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: press@niesr.ac.uk or Luca Pieri on 020 7654 1954 / l.pieri@niesr.ac.uk

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