National Institute of Economic and Social Research

NIESR Monthly Wage Tracker

Record Vacancies Result in Pay Increases for New Hires

Cyrille Lenoël

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““After growing at a record rate of 3.9 per cent last year, public sector pay has moderated because of the Government’s pay freeze policy (except for the NHS and the Ministry of Justice). With a backdrop of record vacancies, private sector pay growth has recovered from its dismal 2020 year and is now growing faster than public sector pay. But inflation rising to more than 4 per cent next year will reduce any real wage gains, and households’ income will be further squeezed by the rise in national insurance contributions.”

Cyrille Lenoël
Principal Economist, NIESR

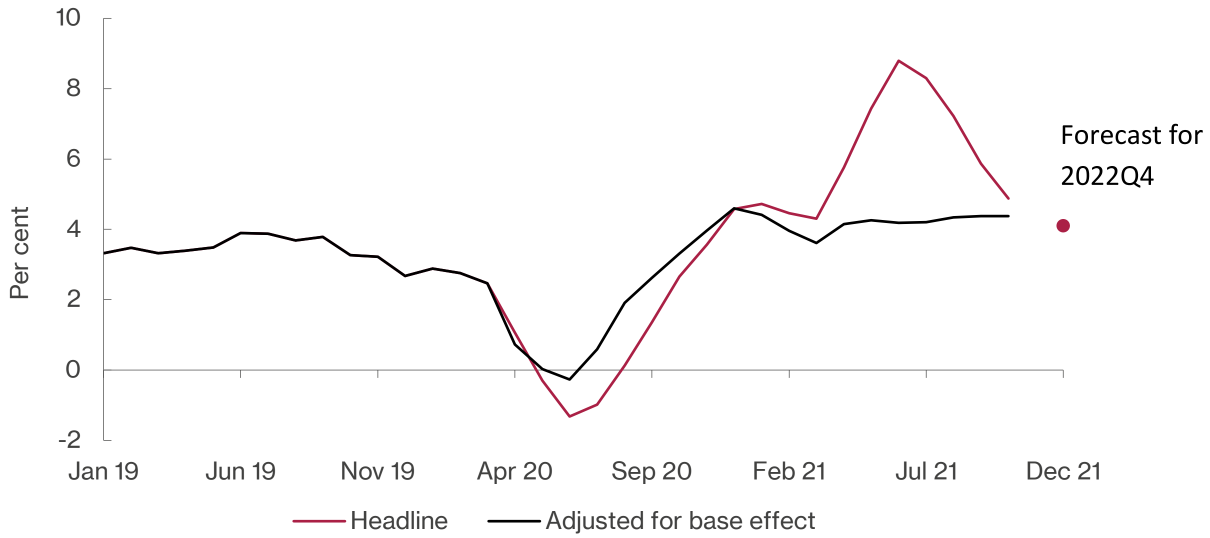
Main Points

- Growth in Average Weekly Earnings including bonuses (AWE) was 4.9 per cent in the 3 months to October, in line with our forecast in the November Wage Tracker.
- Private sector pay growth was slightly lower than predicted at 5.4 per cent because of lower-than-expected bonuses but public sector pay growth was higher-than-predicted at 2.7 per cent.
- AWE is currently being inflated by a base effect. Removing this effect, we estimate that underlying AWE is at 4.4 per cent.
- We forecast average weekly earnings to decelerate to 4.1 per cent in the fourth quarter as the base effect disappears and public sector pay decelerates because of the Government's pay freeze policy (except for the NHS and Ministry of Justice).
- The current imbalance between supply and demand for labour is leading to increases in pay for new recruits and record vacancies.
- We expect weekly earnings annual growth to average 5.7 per cent in 2021 – the highest in two decades - and 3.6 per cent in real terms, after 1.8 per cent (nominal) and 0.8 per cent (real) in 2020. The acceleration in average earnings growth is largely explained by the fact that fewer people used the furlough scheme this year compared to last year.
- The rise in inflation will mean close to zero average real earnings growth next year if there is no significant increase in underlying wage growth.

Pay

The growth rate in average weekly earnings including bonuses (AWE) in Great Britain decreased in the three months to October to 4.9 per cent compared to a year ago, down from 8.8 per cent in the three months to June. This is in line with our forecast last month and was driven by 5.4 per cent growth in private sector AWE, compared to only 2.7 per cent growth in public sector AWE. We estimate that **excluding base effects, underlying earnings growth stands at around 4.4 per cent** (see Figure 1)[1]. Temporary factors that affected the data earlier this year have now mostly worked through.

Figure 1: Average weekly earnings (incl. bonuses) adjusted for base effect



Source: ONS, NIESR calculations and forecast

The current imbalance between supply and demand for labour is leading to increases in pay for new recruits and record vacancies. The latest KPMG and REC report on Jobs shows starting salary increasing at a record rate in November and the ONS estimates that the number of job vacancies in September to November 2021 rose to a record high of 1,219,000, up by almost 200,000 on the previous three months.

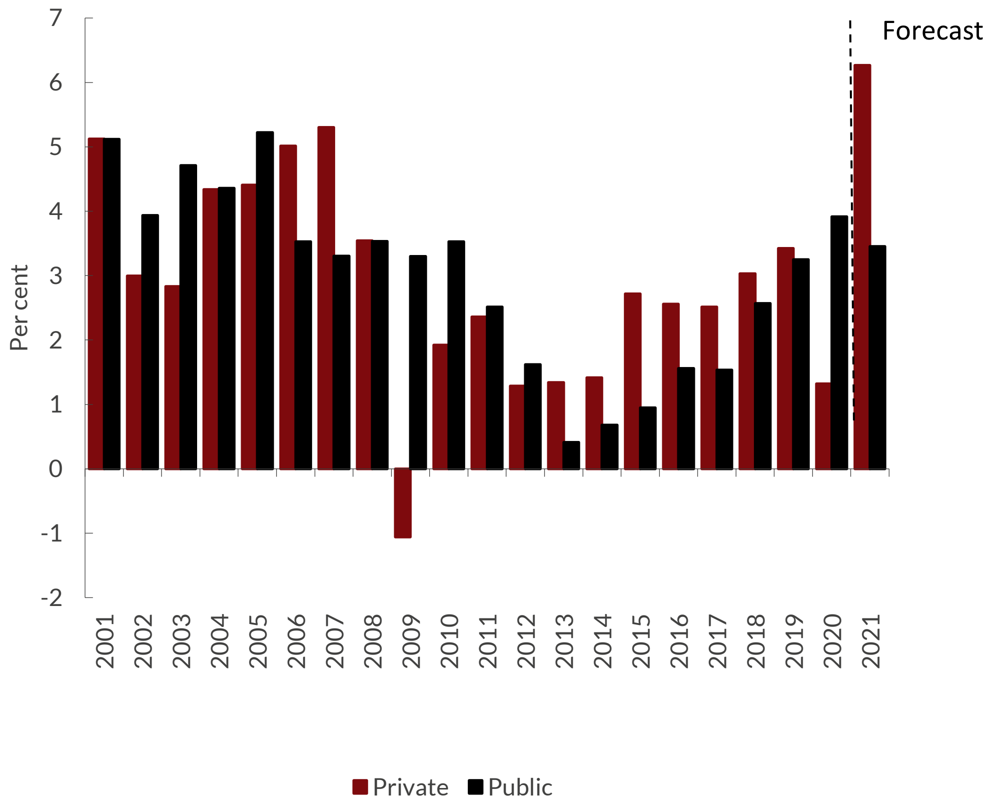
According to the latest research by Incomed Data Research, median pay awards rose from 2.0 per cent in the 3 months to September to 2.2 per cent in the three months to October. **The acceleration in pay increases was more pronounced for the higher paid.** The upper quartile of pay rises increased from 2.8 per cent in the 3 months to September to 3.5 per cent in the three months to October. However, autumn is a relatively quiet period because most pay settlements are re-evaluated between January and April, and the new pay settlements have so far had a limited effect on the official average earnings numbers. **We will see at the beginning**

[1] This is slightly higher than the 4.2 per cent that we had estimated previously because of data revision.

of next year if record vacancies and rising inflation lead to an acceleration in pay rises – we expect CPIH inflation to average 4.1 per cent in the first quarter of 2022.

In the public sector, total pay growth moderated because of a pay freeze policy for most staff (with the exception of the NHS and the Ministry of Justice) in 2021, but recruitment continued at pace in the NHS and the Civil Service (the NHS and the Civil Service added respectively 73,000 and 42,000 employees between September 2020 and September 2021). Public sector AWE growth declined from a peak of 5.6 per cent in the first quarter of 2021 to 2.7 per cent in the 3 months to October. Figure 3 shows that public sector pay growth has steadily increased over recent years from 0.4 per cent in 2013 to 3.9 per cent last year, but we forecast it to moderate to 3.5 per cent this year. There were very few employees furloughed in the public sector, so these numbers were not really affected by the furlough scheme – unlike in the private sector.

Figure 2: Private and Public Average Weekly Earnings Growth, including bonuses



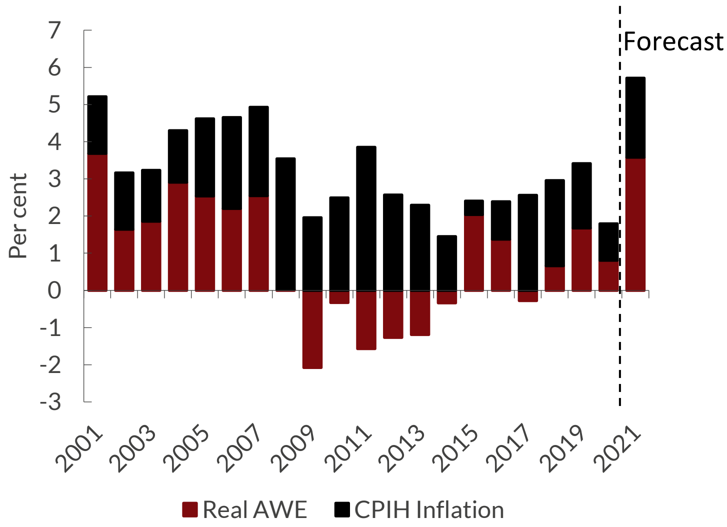
Source: ONS, NIESR calculations

Over the whole year, we expect weekly earnings annual growth to average a record 5.7 per cent in 2021[2] and 3.6 per cent in real terms, after 1.8 (nominal) and 0.8 per cent (real) in 2020 (see Figure 3). The exceptional real pay gains in 2021 are unlikely to last into next year because they reflect a combination of statistical effects (compositional and base effects). CPIH inflation

[2] A record since 2000 when the ONS survey began

is expected to more than double from 2.1 per cent in 2021 to an average 4.4 per cent in 2022 according to our Autumn UK Economic Outlook. Unless there is an acceleration in underlying pay growth, rising inflation will reduce any real wage gains next year, and households' income will be further squeezed by the rise in national insurance contributions.

Figure 3: Average weekly earnings (incl. bonuses), real and inflation components



Source: ONS, NIESR calculations and forecast

Employment

The Labour Force Survey shows 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 November reaching a record 29.4 million and the number of vacancies also at a record high of 1.2 million**. The end of the furlough scheme in September does not appear to have had a significant impact on the number of jobs and employers still report difficulties in filling their vacancies. A challenge for the next few months will be to attract back to the labour market the people who have left it: UK employment rate at 75.5 per cent is 1.1 percentage point lower than before the pandemic.

Table 1: Summary table of earnings growth

Average Weekly Earnings (seasonally adjusted £)						
	Whole economy		Private sector		Public sector	
Latest weights	100		82		18	
	Regular	Total	Regular	Total	Regular	Total
Jul-20	512	540	501	535	562	564
Aug-20	518	550	508	549	564	566
Sep-20	524	558	514	554	568	570
Oct-20	528	563	518	560	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	579	534	580	578	580
Aug-21	544	582	536	583	579	582
Sep-21	545	584	537	584	581	584
Oct-21	548	586	539	585	584	586
Nov-21	549	591	541	591	585	590
Dec-21	551	592	543	593	586	589
% change 3 month average year on year						
Jul-20	0.2	-1.0	-0.8	-2.1	4.4	4.2
Aug-20	0.9	0.1	0.1	-0.7	4.1	3.9
Sep-20	2.0	1.3	1.4	0.9	4.1	3.8
Oct-20	2.9	2.6	2.5	2.4	4.1	4.2
Nov-20	3.6	3.6	3.3	3.5	4.2	4.4
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	7.8	9.8	2.5	2.5
Aug-21	6.0	7.3	6.8	8.3	2.7	2.6
Sep-21	5.0	5.9	5.5	6.7	2.6	2.7
Oct-21	4.3	4.8	4.7	5.4	2.6	2.7
Nov-21	3.7	4.3	4.0	4.8	2.6	2.8
Dec-21	3.4	4.1	3.7	4.3	2.8	2.8
% change month on same month of previous year						
Jul-20	1.0	-0.2	0.2	-0.9	3.9	3.1
Aug-20	2.0	1.9	1.4	1.5	4.1	3.9
Sep-20	2.9	2.2	2.6	2.0	4.4	4.4
Oct-20	3.7	3.9	3.4	3.7	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	7.2	6.6	8.4	2.8	2.8
Aug-21	5.0	5.8	5.5	6.2	2.7	2.8
Sep-21	4.0	4.7	4.5	5.4	2.3	2.5
Oct-21	3.8	4.1	4.1	4.5	3.0	2.8
Nov-21	3.4	4.2	3.6	4.6	2.7	3.0
Dec-21	3.1	4.1	3.4	4.0	2.7	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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