

NIESR

Monthly Wage Tracker

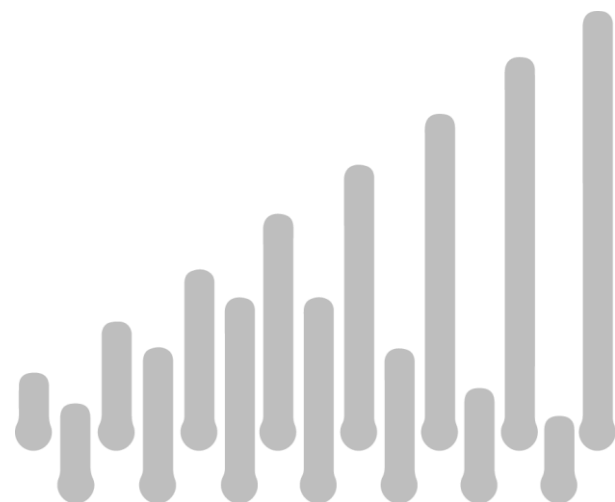
Rising Pay Increases to Pressure Bank of England

Cyrille Lenoël

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“We expect to see a significant increase in the annual rate of pay increase early this year, While underlying pay increases should pick up moderately to 4.3% early next year, private sector Average Weekly Earnings, fuelled by bonuses, are likely to rise by 5.6%. With the trend rate of productivity growth in the UK only around half a percent, this would imply unit labour cost increases of 5%. Such a rapid increase is inconsistent with the Bank of England’s 2% inflation target and implies that interest rates will need to rise significantly.”

Cyrille Lenoël
Principal Economist, NIESR



Main Points

- Growth in Average Weekly Earnings including bonuses (AWE) was 4.2 per cent in the 3 months to November 2021, slightly lower than the 4.3 per cent that we predicted in December and compared with 5.0% in the three months to October
- We forecast private AWE to increase from 4.5 per cent in the 3 months to November 2021 to 5.6 per cent in the first quarter of 2022 because of improved pay settlements, higher starting pay and higher bonuses.
- With the current policy of moderation in public sector pay, we forecast public AWE growth to be stable between 2½ and 3 per cent until the first quarter of 2022.

Pay

The growth rate in average weekly earnings including bonuses (AWE) in Great Britain decelerated in the three months to November 2021 to 4.2 per cent compared to a year ago, down from 8.8 per cent in the three months to June 2021. The decrease comes from the progressive disappearance of base and compositional effects that had pushed AWE up in the middle of 2021. Annual growth in AWE returns at the end of 2021 to its underlying growth rate of between 4 and 5 per cent.

The current imbalance between supply and demand for labour is leading to increases in pay for new recruits and could lead to better pay settlements in 2022. The latest [KPMG and REC report on Jobs](#) shows starting salary increasing close to a record rate in December and the ONS estimates that the number of job vacancies in October to December 2021 rose to a record high of 1,247,000, up by 128,000 on the previous three months. The extent to which increased pay at the margin for firms suffering shortages will be formalised into more general pay increases is unclear, especially as there are significant differences in labour shortages and the ability to pay between sectors. With the demand for labour strong, higher inflation and a reduction in the workforce post-Covid, the pressures on wage settlements are generally upward, but there is likely to be considerable heterogeneity.

The beginning of the year is the period where most pay settlements are re-evaluated. Consumer price inflation reached 5.1 per cent in November 2021 and we expect that it will increase further in the beginning of 2022 because of higher energy prices and the end of reduced VAT in some sectors. Thus, there is pressure on employers to increase pay to keep up with inflation. However, reduced demand for some firms, higher input costs and the forthcoming hike in National Insurance contributions will likely prove a constraint.

Private sector regular AWE was 4.1 per cent in the 3 months to November 2021, and 4.5 per cent if we include bonuses. We forecast regular AWE to increase moderately to 4.3 per cent in the first quarter of 2022 thanks to better pay settlements. Including bonuses, AWE would be 5.6 per cent in the private sector.

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. Public sector AWE growth declined from a peak of 5.6 per cent in the first quarter of 2021 to 2.6 per cent in the 3 months to November. We forecast public sector total pay to be stable between 2½ and 3 per cent in first quarter of 2022.

Table 1: Summary table of earnings growth

Average Weekly Earnings						
	Whole economy		Private sector		Public sector	
<i>Latest weights</i>	100		82		18	
	Regular	Total	Regular	Total	Regular	Total
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	546	584	537	583	581	584
Oct-21	548	586	539	585	584	586
Nov-21	550	588	541	588	585	588
Dec-21	551	590	543	590	587	589
Jan-22	553	593	545	593	589	593
Feb-22	556	597	547	597	595	599
Mar-22	558	598	549	597	597	601
% change 3 month average year on year						
Jan-21	4.3	4.8	4.0	4.9	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	6.0	5.5	6.6	2.6	2.7
Oct-21	4.3	5.0	4.7	5.4	2.6	2.7
Nov-21	3.9	4.2	4.1	4.5	2.6	2.6
Dec-21	3.5	3.8	3.7	3.9	2.8	2.7
Jan-22	3.5	3.8	3.8	4.0	2.5	2.6
Feb-22	3.6	4.4	4.0	4.7	2.5	2.6
Mar-22	3.9	5.0	4.3	5.6	2.6	2.8
% change month on same month of previous year						
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	4.2	4.8	4.5	5.2	2.3	2.5
Oct-21	3.8	4.3	4.1	4.7	3.0	2.8
Nov-21	3.6	3.5	3.6	3.7	2.6	2.6
Dec-21	3.2	3.6	3.4	3.4	2.8	2.6
Jan-22	3.8	4.4	4.2	4.8	2.1	2.7
Feb-22	3.9	5.3	4.2	6.0	2.6	2.6
Mar-22	4.1	5.3	4.4	6.1	3.1	3.2

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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