# NIESR
Monthly Wage Tracker

High inflation continues to stifle wage growth

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"Wages in the UK picked up in January, largely driven by record high vacancies, but still lag behind inflation. With consumer price inflation rising to a near 30-year high of 5.4 per cent in December and expected to reach 7 per cent over the coming months, workers can expect a real squeeze on their income."

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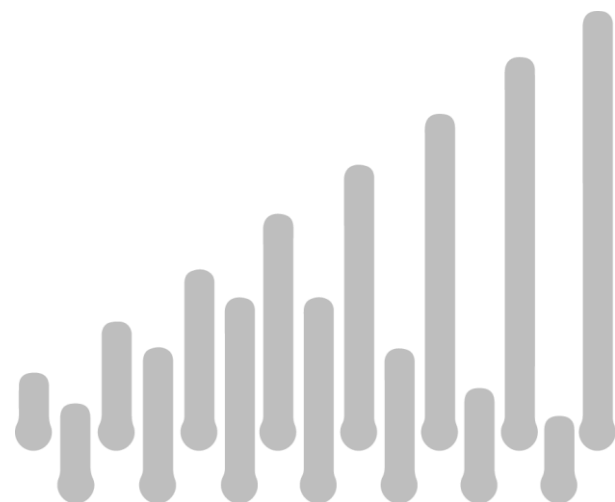
Main Points

- Growth in Average Weekly Earnings including bonuses (AWE) was 4.3 per cent in the 3 months to December 2021, stronger than the 3.8 per cent that we predicted in January.
- We now forecast private-sector AWE to decrease from 4.6 per cent in the 3 months to December 2021 to 4.3 per cent in the first quarter of 2022.
- With the current policy of moderation in public-sector pay, we forecast public-sector 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 was 4.3 per cent in the three months October to December 2021. The slowdown in growth rates compared to previous months is largely a result of the tapering of temporary base and compositional effects. In real terms, total pay fell by 0.1 per cent in October to December 2021, compared to a year earlier, according to latest ONS estimates.

Labour shortages continue to put upward pressures on wages. The latest KPMG and REC report on Jobs suggests that starting salary inflation remains close to record pace as the overall availability of candidates deteriorated at a quicker pace in January, driven by a steeper fall in permanent staff supply. The latest ONS estimates suggest that vacancies rose to a record high of 1,298,400 in November 2021 to January 2022. 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.

While there is considerable pressure on employers to increase pay to maintain pace with inflation, higher input costs to firms remain a constraint. Despite this, worker bargaining power is being boosted by a shortage of staff in a number of industries. A handful of occupations continue to see strong wage growth, typically those facing the biggest recruitment challenges.

Private-sector regular AWE growth was 3.9 per cent in the 3 months to December 2021, and 4.7 per cent if we include bonuses. We forecast regular AWE growth to increase moderately to 4.5 per cent in the first quarter of 2022 thanks to better pay settlements. Including bonuses, AWE growth would be 4.3 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 2.7 per cent in the 3 months to December. We forecast public-sector total pay growth 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	
Latest weights	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	540	586	583	586
Nov-21	550	589	541	590	585	587
Dec-21	552	596	544	596	585	589
Jan-22	554	587	546	586	588	592
Feb-22	557	590	548	587	595	599
Mar-22	559	592	550	590	597	601
% change 3 month average year on year						
Jan-21	4.2	4.8	4.0	4.6	4.7	4.8
Feb-21	4.4	4.4	4.0	4.1	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	2.8
Nov-21	3.9	4.2	4.1	4.6	2.6	2.6
Dec-21	3.6	4.2	3.9	4.7	2.6	2.7
Jan-22	3.7	4.0	4.0	4.3	2.3	2.5
Feb-22	3.8	4.1	4.2	4.5	2.3	2.5
Mar-22	4.0	3.9	4.5	4.3	2.5	2.7
% 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	4.2	4.6	2.8	3.0
Nov-21	3.6	3.5	3.6	3.9	2.6	2.4
Dec-21	3.6	4.9	3.8	5.5	2.5	2.6
Jan-22	3.9	3.4	4.4	3.6	1.9	2.4
Feb-22	4.0	4.0	4.4	4.3	2.6	2.6
Mar-22	4.2	4.3	4.6	4.8	3.1	3.3

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 July 2010 and October 2018. For whole economy earnings, the root mean square error is 0.2 percentage points for the measure excluding bonuses and 0.4 percentage 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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