

NIESR

Monthly Wage Tracker

Real income squeeze gets tighter

Kemar Whyte

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“Once again, wages have risen in nominal terms, according to latest ONS estimates. However, when taking the rising prices into consideration, regular pay (i.e., excluding bonuses) is 1.0 per cent lower than this time last year. With developments in Ukraine expected to further boost households’ energy bills, workers should expect an even tighter squeeze on their real income.”

Dr Kemar Whyte
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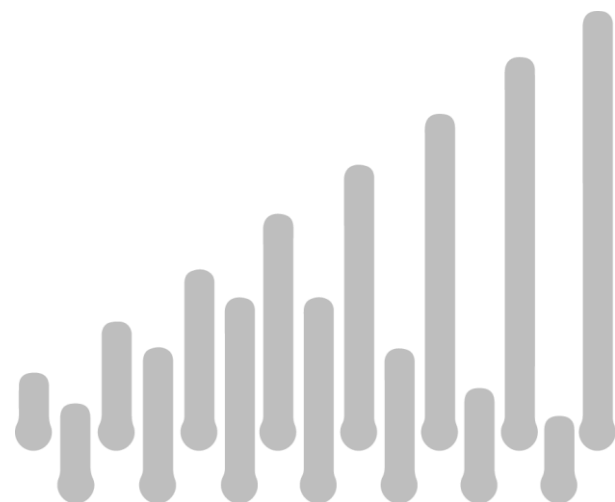
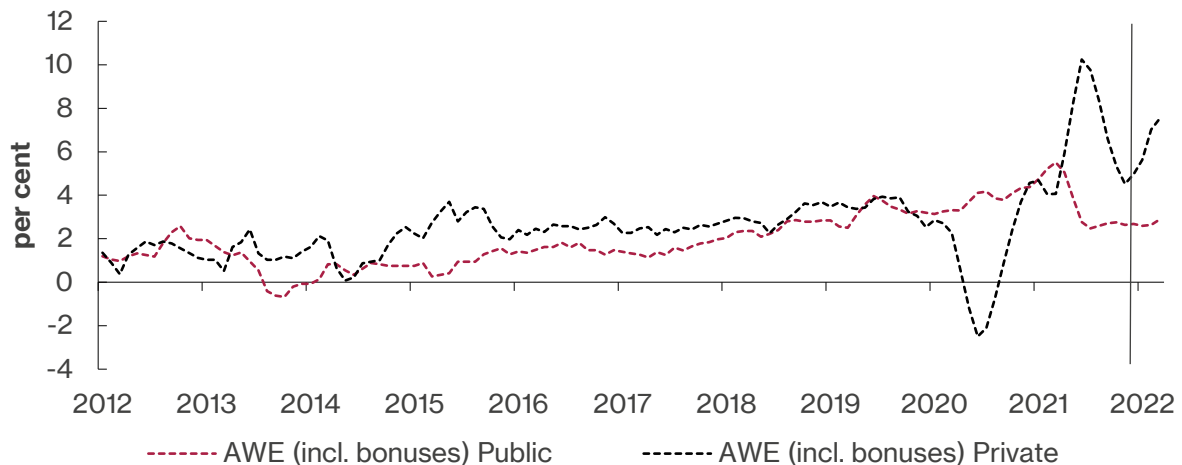


Figure 1 – Average weekly earnings in public and private sectors



Main Points

- Growth in Average Weekly Earnings including bonuses (AWE) was 4.8 per cent in the 3 months to January 2022, stronger than the 4.0 per cent that we predicted in February.
- We now forecast private-sector AWE to increase from 5.1 per cent in the 3 months to December 2021 to 7.5 per cent in the first quarter of 2022.
- We continue to expect public-sector AWE growth to stabilise between 2 ½ and 3 per cent until the first quarter of 2022 due to the current policy of moderation in public-sector pay.

Employment

The latest [Labour Force survey \(LFS\)](#) estimates suggest the labour market continues to recover, with the employment rate increasing on a quarterly basis and the unemployment rate decreasing. The employment rate increased by 0.1 percentage points to 75.6 per cent, largely driven by full-time employees. The unemployment rate decreased by 0.2 percentage points to 3.9 per cent. Notwithstanding, economic inactivity has increased slightly on the quarter to 21.3 per cent.

Pay

The growth rate in average weekly earnings including bonuses (AWE) in Great Britain was 4.8 per cent in the three months to January 2022. 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, growth in total pay was 0.1 per cent in the three months to January 2022, according to latest ONS estimates. Strong bonus payments over the past six months underpin the positive real total pay growth.

Pay pressures sharpen as candidate shortages continue. The latest [KPMG and REC report on Jobs](#) suggests that intense competition for workers in February meant there were further steep increases in rates of starting pay for both permanent and temporary staff. Overall vacancies expanded at the quickest rate for three months in February. Recruiters are filling record numbers of posts, but demand is still rising. The latest ONS estimates suggest that job vacancies rose to a new record high of 1,318,000 in December 2021 to February 2022.

Private-sector regular AWE growth was 4.1 per cent in the 3 months to January 2022, and 5.3 per cent if we include bonuses. We forecast regular AWE growth to increase moderately to 4.7 per cent in the first quarter of 2022 thanks to better pay settlements. Including bonuses, AWE growth would be 7.5 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 2.4 per cent in the 3 months to January 2022. We forecast public-sector total pay growth to be stable between 2½ and 3 per cent in the 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	577
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	590	541	590	585	587
Dec-21	553	600	545	602	586	589
Jan-22	555	602	547	604	589	593
Feb-22	557	606	549	607	595	599
Mar-22	560	607	551	608	597	601
% change 3 month average year on year						
Jan-21	4.2	4.8	4.0	4.7	4.7	4.7
Feb-21	4.4	4.4	4.0	4.1	5.2	5.2
Mar-21	4.6	4.3	4.2	4.1	5.5	5.5
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	4.5	2.6	2.6
Dec-21	3.7	4.5	4.0	5.0	2.7	2.7
Jan-22	3.8	5.1	4.1	5.6	2.4	2.6
Feb-22	4.0	6.2	4.4	7.0	2.4	2.6
Mar-22	4.2	6.5	4.7	7.5	2.6	2.9
% change month on same month of previous year						
Jan-21	4.3	4.2	3.8	4.0	5.5	5.1
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	3.7	2.6	2.4
Dec-21	3.8	5.8	4.0	6.5	2.6	2.6
Jan-22	4.0	5.9	4.6	6.7	2.0	2.7
Feb-22	4.2	6.8	4.6	7.9	2.6	2.6
Mar-22	4.4	6.9	4.8	8.0	3.2	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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