NIESR
Monthly Wage Tracker

UK living standards falling at record pace

Kemar Whyte

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" The latest ONS estimates indicate the spending power of UK households is falling at its fastest rate in over two decades. When adjusted for inflation, average regular earnings were about 3 ½ per cent lower in April than a year earlier, whilst the most recent three-month average saw its worst decline in over a decade. The increase in regular pay of 4.2 per cent in April is dwarfed by the rate of inflation. The current situation is a timely reminder of the precarious situation faced by policy makers, particularly the MPC, who must try and bring inflation under control without plunging the economy into a recession."

Dr Kemar Whyte
Senior Economist, NIESR

Figure 1 – Average weekly earnings annual growth rates
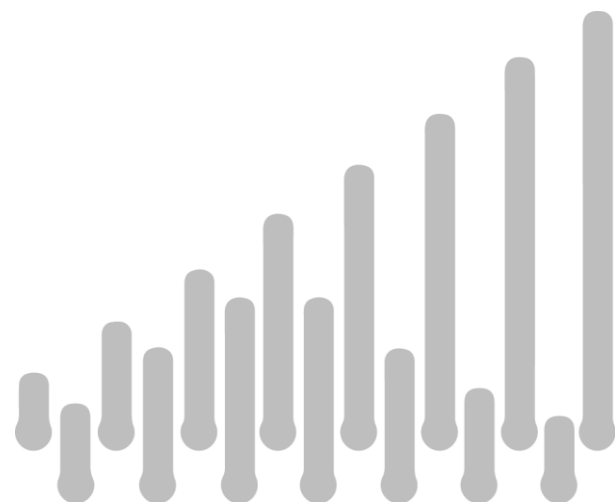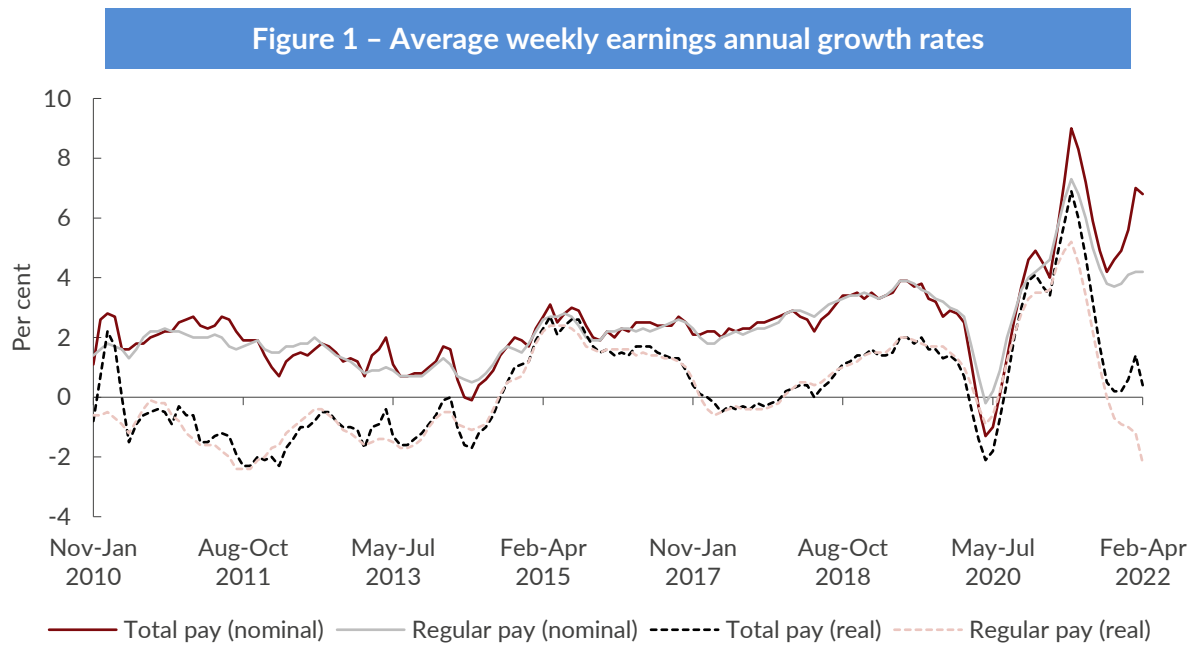
Main Points

- The labour market continues to recover, with employment, vacancies, and wages all increasing.
- Notwithstanding, the cost-of-living squeeze remains evident as real regular pay fell at its fastest 3-month average rate in over a decade.
- NIESR's wage tracker predicts that average weekly earnings growth will grow at 7.8 per cent in the second quarter of 2022, after increasing by 7.0 per cent in the first quarter. The strong growth is underpinned by a combination of high bonus payments and increasing regular 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 0.2 percentage points on the quarter to 75.6 per cent, but still below pre-pandemic levels. The unemployment rate decreased by 0.2 percentage points on the quarter to 3.8 per cent. The economic inactivity rate has decreased marginally in February to April 2022 to 21.3 per cent.

Pay

The growth rate in average weekly earnings including bonuses (AWE) in Great Britain was 6.8 per cent in the three months to April 2022. In real terms, growth in total pay was 0.4 per cent in the three months to April 2022, according to latest ONS estimates. Strong bonus payments underpin the positive real total pay growth, offsetting the fall in real regular pay.

Tight labour market means starting pay remain on the surge. The latest KPMG and REC report on Jobs indicates that robust competition for scarce candidates continues to place upward pressure on pay, where despite softening to a four-month low, permanent starters' salaries rose at one of its quickest rates since the survey began. The report also pointed towards a marked deterioration in the overall availability of candidates. There was a further sharp increase in overall vacancies in May. The latest ONS estimates suggest that job vacancies rose to a new record of 1,300,000 in March 2022 to May 2022.

Private-sector regular AWE growth was 4.8 per cent in the 3 months to April 2022, and 8.0 per cent if we include bonuses. We now forecast regular AWE growth to increase by 5.0 per cent in the second quarter of 2022. Including bonuses, the forecast for AWE growth would be 9.0 per cent in the private sector.

Public-sector total AWE growth declined from a peak of 5.5 per cent in the first quarter of 2021 to 1.5 per cent in the 3 months to April 2022. Our forecast for the second quarter of this year is for public-sector total growth to be around 2.0 per cent.

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	570	523	568	577	578
Feb-21	535	568	525	565	579	583
Mar-21	536	559	527	557	579	582
Apr-21	539	576	530	574	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	556	600	549	602	588	589
Feb-22	557	601	550	604	589	590
Mar-22	559	615	553	621	589	590
Apr-22	562	604	556	605	590	591
May-22	564	626	558	633	592	593
Jun-22	567	633	561	642	594	595
% change 3 month average year on year						
Jan-21	4.2	4.9	4.0	4.8	4.7	4.8
Feb-21	4.4	4.5	4.0	4.3	5.2	5.2
Mar-21	4.6	3.9	4.3	3.9	5.5	5.5
Apr-21	5.6	5.4	5.7	5.9	4.8	5.0
May-21	6.6	7.1	7.2	8.0	3.7	3.9
Jun-21	7.3	9.0	8.4	10.4	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	3.9	4.9	4.2	5.4	2.4	2.3
Feb-22	4.1	5.6	4.6	6.5	2.1	1.9
Mar-22	4.2	7.0	4.9	8.1	1.8	1.5
Apr-22	4.2	6.9	4.9	7.9	1.8	1.4
May-22	4.4	7.9	4.9	9.0	2.0	1.7
Jun-22	4.5	7.8	5.0	9.0	2.2	2.0
% change month on same month of previous year						
Jan-21	4.3	4.6	3.8	4.4	5.5	5.3
Feb-21	4.5	4.0	4.2	3.9	5.7	5.8
Mar-21	5.1	3.1	5.0	3.5	5.3	5.4
Apr-21	7.4	9.3	8.2	10.4	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	4.3	5.3	5.0	6.0	1.9	1.9
Feb-22	4.1	5.8	4.8	6.9	1.7	1.2
Mar-22	4.3	10.0	4.9	11.5	1.7	1.4
Apr-22	4.3	4.9	4.9	5.4	1.9	1.7
May-22	4.5	8.9	4.9	10.3	2.3	1.9
Jun-22	4.7	9.8	5.2	11.3	2.5	2.3

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 Scores. 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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