

NIESR

Monthly Wage Tracker

UK Wage Growth Leaves No Room for Respite as it Continues to be Outpaced by Inflation

Kemar Whyte

13th September 2022

"Today's ONS estimates suggest a growth in average weekly earnings, including bonuses, of 5.5 per cent – in line with our previous forecast. Despite this growth, real regular wages fell by 2.8 per cent in the three months to July, indicative of the intensity of inflationary pressure in the economy. Strikingly, the figures today note the largest disparity in public and private sector wages recorded outside of the pandemic period, where private sector regular pay grew by 6 per cent while its public sector counterpart grew by 2 per cent. Workers in these sectors may well be asymmetrically equipped to deal with the ongoing cost of living crisis."

Paula Bejarano Carbo
Data Analyst, NIESR

"The latest labour market statistics showed the unemployment rate fell to its lowest since 1974 as more people dropped out of the workforce. The fall in the unemployment rate was largely driven by a sharp increase in the inactivity rate as students and those suffering from long-term illness left the workforce."

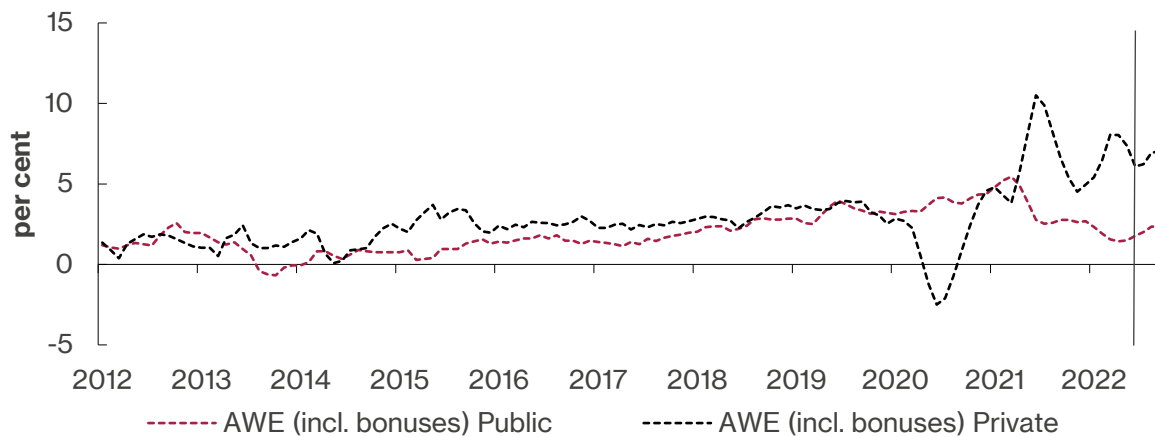
Hailey Low
Associate Economist, NIESR

"Today's figures suggest there is less slack for the economy to grow without pushing prices further above the Bank of England's 2 per cent target. This undoubtedly adds pressure on the BoE to be more aggressive with interest rate hikes, but also on the government to help get people back into work."

Dr Kemar Whyte
Principal Economist, NIESR



Figure 1 – Average weekly earnings in public and private sectors



Main Points

- The latest ONS estimates suggest the annual growth rate of average weekly earnings was 5.5 per cent in the 3 months to July, consistent with what our tracker predicted last month.
- Today's estimates also suggest that real regular pay in the UK fell by 2.8 per cent, marginally lower than the record fall in the second quarter but remains one of the highest falls on record.
- NIESR's wage tracker now predicts that average weekly earnings will grow at 6.2 per cent in the third quarter of this year.
- The figures today show the largest disparity in public and private sector wages outside of the pandemic period, where private sector regular pay grew by 6 per cent while regular pay in the public sector grew by 2 per cent.
- The UK unemployment rate was 3.6 per cent in the three months to July, the lowest rate since 1974. The fall in the unemployment rate was driven largely by a rise in the inactivity rate.
- The latest figures suggest the labour market might be losing some of its momentum, with the number of job vacancies in the three months to August period falling by 34,000, the largest quarterly fall in two years.

Employment

The latest [Labour Force survey \(LFS\)](#) estimates suggest the employment rate decreased marginally, by 0.2 percentage points compared with the previous three-month period, to 75.4 per cent and remains below pre-pandemic levels. The unemployment rate was estimated at 3.6 per cent, 0.2 percentage points lower than the previous three-month period, and the lowest it has been since May to July 1974. The economic inactivity rate for people aged 16-64 was estimated at 21.7 per cent, an increase of 0.4 percentage points relative to the previous three-month period.

Pay

The annual growth rate in average weekly earnings including bonuses (AWE) in Great Britain was 5.5 per cent in the three months to July 2022. In real terms, total pay fell by 2.6 per cent in the three months to July 2022 relative to the three months to July 2021, according to latest ONS estimates.

Economic uncertainty weighs on job market. The latest [KPMG and REC report on Jobs](#) suggests the economic uncertainty is affecting the jobs market, with the latest data signalling the supply of candidates continued to fall sharply in August, and also a further slowdown in the growth of vacancies. This combination has led to the softest increase in starting salaries since June 2021. The latest ONS estimates suggest that job vacancies were 1,266,000 in June 2022 to August 2022. The fall of 34,000 since the previous quarter was the largest quarterly fall since the pandemic.

Private-sector regular AWE annual growth was 6.0 per cent in the 3 months to July 2022, and 6.2 per cent if we include bonuses. We now forecast regular AWE growth to be 6.3 per cent in the third quarter of 2022. Including bonuses, the forecast for AWE growth is 7.0 per cent in the private sector.

Public-sector total AWE annual growth declined from a peak of around 5.5 per cent in the first quarter of 2021 to 2.0 per cent in the three months to July 2022. Our forecast for the third quarter of this year is now for public-sector total growth to be around 2.5 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	555	578	581
Apr-21	540	575	531	573	579	581
May-21	540	580	532	578	579	583
Jun-21	541	576	533	575	579	580
Jul-21	542	580	534	580	579	581
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	614	553	618	589	590
Apr-22	562	604	556	607	589	590
May-22	567	605	562	607	590	591
Jun-22	568	612	564	617	590	594
Jul-22	571	613	567	617	592	594
Aug-22	574	620	570	625	594	596
Sep-22	576	621	571	627	596	598
% 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	3.8	5.4	5.4
Apr-21	5.7	5.4	5.8	5.7	4.8	4.9
May-21	6.7	7.3	7.3	8.1	3.6	3.9
Jun-21	7.4	9.2	8.4	10.5	2.8	2.8
Jul-21	6.8	8.6	7.8	9.9	2.6	2.5
Aug-21	6.0	7.3	6.8	8.2	2.7	2.6
Sep-21	5.0	6.0	5.5	6.6	2.7	2.8
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	4.8	8.0	1.8	1.4
May-22	4.5	6.4	5.1	7.4	1.8	1.5
Jun-22	4.7	5.2	5.4	6.1	1.8	1.8
Jul-22	5.1	5.4	5.9	6.2	2.0	2.0
Aug-22	5.3	6.1	6.1	6.9	2.2	2.4
Sep-22	5.4	6.2	6.3	7.0	2.5	2.3
% 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	3.2	5.1	5.3
Apr-21	7.6	9.1	8.4	10.2	3.6	3.8
May-21	7.4	9.8	8.6	11.2	2.3	2.6
Jun-21	7.1	8.7	8.3	10.2	2.5	1.9
Jul-21	5.9	7.4	6.6	8.4	3.0	3.0
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	9.8	4.9	11.4	1.9	1.5
Apr-22	4.1	5.0	4.7	5.9	1.7	1.5
May-22	5.0	4.3	5.6	5.0	1.9	1.4
Jun-22	5.0	6.3	5.8	7.3	1.9	2.4
Jul-22	5.4	5.7	6.2	6.4	2.2	2.2
Aug-22	5.5	6.5	6.3	7.2	2.6	2.4
Sep-22	5.5	6.4	6.4	7.5	2.6	2.4

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 3948 4488 / l.pieri@niesr.ac.uk

National Institute of Economic and Social Research
2 Dean Trench Street
Smith Square
London, SW1P 3HE
United Kingdom

Switchboard Telephone Number: 020 7222 7665
Website: <http://www.niesr.ac.uk>