

NIESR

Monthly Wage Tracker

Record fall in UK unemployment adds to inflationary concerns

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“Average weekly earnings, including bonuses, grew by 6 per cent in the three months to August, representing the largest post-pandemic growth in regular pay. Nevertheless, real regular wages fell by 2.9 per cent, confirming that wage growth is failing to keep pace with inflation. In light of heightened uncertainty and an increasingly recessionary outlook in the UK, we are now beginning to see a *demand*-side slowdown in the labour market that is met by a rising inactivity rate on the *supply*-side. It will be interesting to see what impact, if any, the growth-focused measures of the ‘mini-budget’ will have in this respect.”

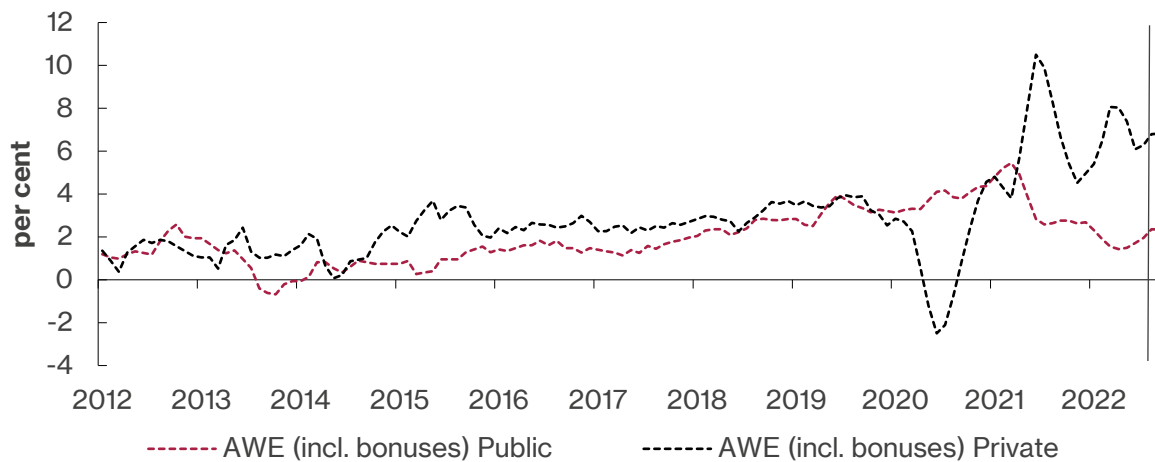
Paula Bejarano Carbo
Data Analyst, NIESR

“Today’s ONS estimates suggest the unemployment rate fell to 3.5 per cent, the lowest since 1974. Though there were earlier signs that the labour market might have been cooling, the shortfall in labour supply means it remains exceptionally tight. The shrinking labour market will undoubtedly add to ongoing inflationary concerns, placing the Bank of England under further pressures as it also tries to avert risks in financial markets.”

Hailey Low
Associate 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 6.0 per cent in the 3 months to August, consistent with what our tracker predicted last month.
- Today's estimates also suggest that real regular pay in the UK fell by 2.9 per cent, marginally lower than the record fall in the second quarter but remains among the largest falls in growth since comparable records began in 2001.
- NIESR's wage tracker now predicts that average weekly earnings will grow at 5.9 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 6.2 per cent while regular pay in the public sector grew by 2.2 per cent.
- The UK unemployment rate fell to 3.5 per cent in the three months to August, the lowest since 1974, driven largely by a record rise in the inactivity rate.
- The latest figures suggest the labour market is showing signs of an economic slowdown, with the number of job vacancies in the three months to September period falling by 46,000, the sixth consecutive quarter of weak vacancy growth and the slowest increase in demand since February 2021.

Employment

The latest [Labour Force survey \(LFS\)](#) estimates suggest the employment rate decreased marginally, by 0.3 percentage points compared with the previous three-month period, to 75.5 per cent and remains below pre-pandemic levels. The unemployment rate was estimated at 3.5 per cent, 0.3 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 0.6 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 6 per cent in the three months to September 2022. In real terms, total pay fell by 2.4 per cent in the three months to September 2022 relative to the three months to September 2021, according to latest ONS estimates.

Economic uncertainty feeds into job market. The latest [KPMG and REC report on Jobs](#) suggests the weak economic climate is affecting the jobs market, with the latest data signalling the supply of candidates continued to fall sharply in September, and also a demand for staff since February 2021. This combination has dampened the overall growth of the labour market. The latest ONS estimates suggest that job vacancies were 1,246,000 in July 2022 to September 2022. The fall of vacancies by 3.6 per cent since the previous quarter was the largest quarterly fall since the pandemic.

Private-sector regular AWE annual growth was 6.2 per cent in the 3 months to August 2022, and 6.8 per cent if we include bonuses. We now forecast regular private sector AWE growth to be 6.4 per cent in the third quarter of 2022. Including bonuses, the forecast for AWE growth is 6.8 per cent in the private sector. Our early estimate for the fourth quarter of 2022 is for growth in total AWE growth to slow to 6.4 per cent.

Public-sector total AWE annual growth has been on an increasing path since a low in the second quarter of this year of 1.4 per cent and is currently sitting at 2.4 per cent in the three months to August 2022. Our forecast for the third quarter of this year is now for public-sector total growth to settle at around 2.5 per cent and to remain there by the end of the year.

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
Jul-21	542	580	534	580	579	581
Aug-21	544	583	536	584	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	569	612	564	617	590	594
Jul-22	572	613	568	618	591	594
Aug-22	574	617	570	622	593	597
Sep-22	576	621	572	626	595	597
Oct-22	578	623	574	628	597	599
Nov-22	580	625	576	630	599	601
Dec-22	583	627	578	632	601	603
% change 3 month average year on year						
Jul-21	6.8	8.6	7.8	9.9	2.6	2.6
Aug-21	6.0	7.3	6.8	8.3	2.7	2.6
Sep-21	5.0	6.1	5.5	6.7	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	4.8	5.2	5.4	6.1	1.8	1.7
Jul-22	5.2	5.4	5.9	6.3	2.0	1.9
Aug-22	5.4	5.9	6.2	6.8	2.1	2.4
Sep-22	5.5	5.9	6.4	6.8	2.3	2.3
Oct-22	5.5	6.1	6.4	7.0	2.4	2.3
Nov-22	5.5	6.2	6.5	7.1	2.4	2.3
Dec-22	5.5	5.6	6.3	6.4	2.5	2.4
% change month on same month of previous year						
Jul-21	5.9	7.4	6.6	8.4	3.0	3.0
Aug-21	5.0	6.0	5.5	6.4	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	5.2	6.3	5.8	7.3	1.9	2.2
Jul-22	5.5	5.7	6.4	6.6	2.1	2.2
Aug-22	5.5	5.8	6.3	6.5	2.4	2.6
Sep-22	5.5	6.3	6.5	7.4	2.4	2.2
Oct-22	5.5	6.3	6.3	7.2	2.4	2.2
Nov-22	5.5	5.9	6.5	6.8	2.4	2.4
Dec-22	5.4	4.5	6.1	5.1	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 7654 1954 / l.pieri@niesr.ac.uk

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