National Institute of Economic and Social Research

NIESR
Monthly Wage Tracker

Public Sector Pay Set To Rise In Q4 As Strikes Intensify

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"Average earnings excluding bonuses for all sectors in the three months to October rose by 6.1 per cent year-on-year, which will maintain pressure on the Bank of England to keep hiking interest rates despite the backdrop of a worsening economic outlook. The private sector saw a 6.9 per cent increase while public sector wages just grew by 2.7 per cent. This asymmetry between the private sector and public sector will potentially fuel a Winter of Discontent on top of the 417,000 days lost due to industrial disputes in October and the wave of industrial action set to happen in the run-up to Christmas."
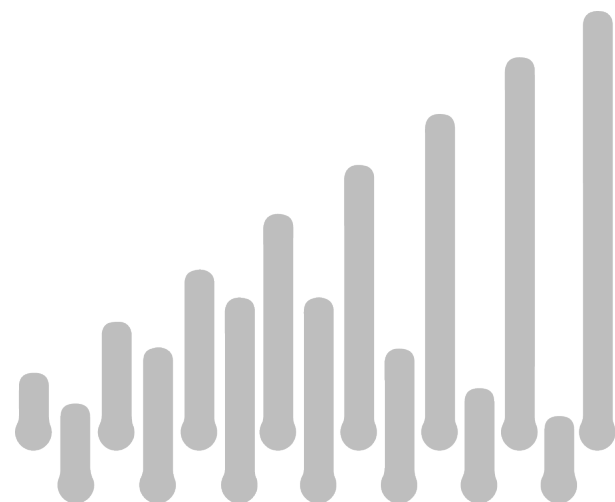
Hailey Low
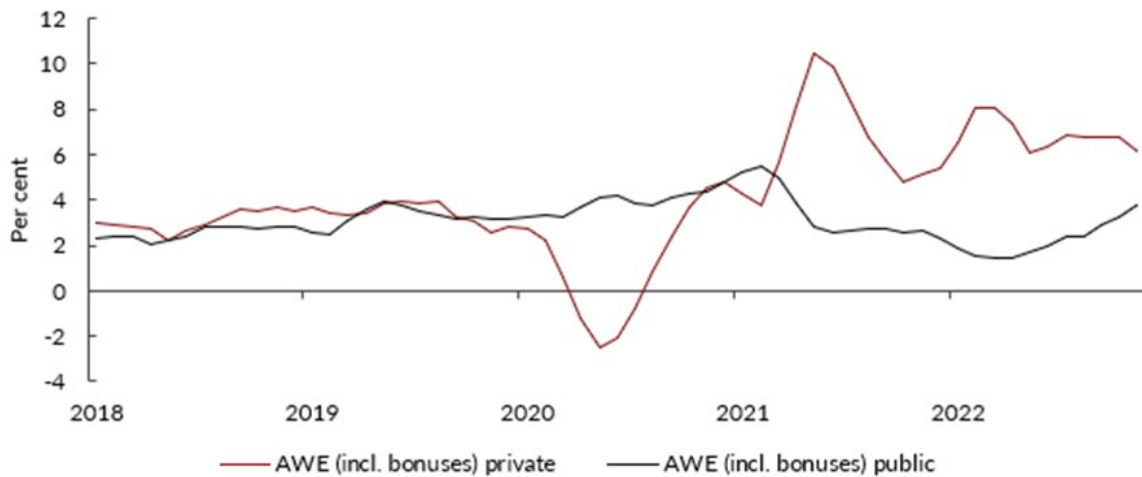**Associate Economist, NIESR**

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 6.1 per cent in the three months to October, marginally higher than the 5.8 per cent our tracker predicted last month.
- Today's estimates also suggest that real regular pay in the UK fell by 2.7 per cent, lower than the 3 per cent record fall in the second quarter, but remaining 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 5.7 per cent in the fourth quarter of this year as compared to our previous forecast of 5.6 per cent. This wage growth surprise is mainly driven by the public sector, which is forecast to see a regular pay rise of 3.9 per cent in the fourth quarter, a 1.7 percentage point increase from our previous forecast.
- The disparity in public and private sector wages remains among the largest seen outside of the pandemic period, with private sector regular pay growing by 6.9 per cent while regular pay in the public sector grew 2.7 per cent.
- In October 2022, 417,000 working ways were lost due to labour disputes – the highest we have seen since November 2011. While this pales in comparison to the figure of 2.5 million days per month recorded during the 'winter of discontent' in 1979, it remains a concern as more industrial action is set to occur in the coming months.

Employment

The latest Labour Force survey (LFS) estimates suggest that both the employment and unemployment rates increased compared with the previous three-month period, with the former standing at 75.6 per cent and the latter at 3.7 per cent. The economic inactivity rate for people aged 16-64 was estimated at 21.5 per cent, a decrease of 0.2 percentage points on the quarter.

Pay

The annual growth rate in average weekly earnings including bonuses (AWE) in Great Britain was 6.1 per cent in the three months to October. In real terms, total pay fell by 2.7 per cent in the three months to October 2022 relative to the three months to October 2021. As figure 2 below shows, workers in different sectors have felt this real squeeze asymmetrically.

Economic uncertainty feeds into job market. The latest KPMG and REC report on Jobs suggests that the ongoing recessionary outlook is impacting the job market, with the November data recording the softest increase in vacancies for 21 months. Further, despite soaring inflation and increasing industrial action the November survey data noted that rates of inflation for starting salaries and temp wages have been easing.

Private-sector regular AWE annual growth was 6.9 per cent in the three months to October, and 6.8 per cent if we include bonuses. We now forecast regular private sector AWE growth to be 6.9 per cent and total pay to be 6.1 per cent in the fourth quarter of 2022.

Public-sector total AWE annual growth has been on an increasing path since a low in the three months to April of 1.4 per cent and is currently sitting at 2.7 per cent in the three months to October. Our forecast for the fourth quarter of this year is now for public-sector total pay growth to settle at around 3.8 per cent.

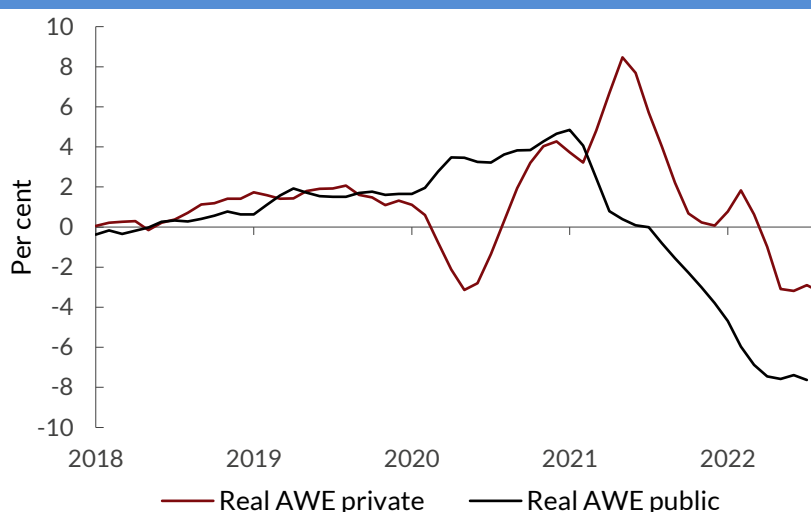Figure 2 – Real average weekly earnings in public and private sectors

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
Aug-21	544	582	536	584	580	582
Sep-21	546	585	537	585	582	584
Oct-21	547	588	539	589	583	585
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	614	568	619	591	594
Aug-22	576	618	571	623	594	598
Sep-22	579	621	575	626	593	597
Oct-22	583	624	577	628	605	607
Nov-22	585	626	579	630	607	609
Dec-22	587	629	581	632	609	611
% change 3 month average year on year						
Aug-21	6.0	7.3	6.8	8.3	2.8	2.6
Sep-21	5.0	6.1	5.5	6.8	2.8	2.8
Oct-21	4.3	5.2	4.7	5.7	2.7	2.7
Nov-21	3.8	4.4	4.1	4.8	2.6	2.6
Dec-21	3.6	4.6	3.9	5.1	2.7	2.6
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	5.5	5.9	6.3	2.0	1.9
Aug-22	5.5	6.1	6.2	6.9	2.1	2.4
Sep-22	5.8	6.1	6.7	6.8	2.1	2.4
Oct-22	6.2	6.2	6.9	6.8	2.7	2.9
Nov-22	6.3	6.1	7.1	6.8	3.2	3.3
Dec-22	6.4	5.7	6.9	6.1	3.9	3.8
% change month on same month of previous year						
Sep-21	4.2	5.0	4.5	5.6	2.5	2.5
Oct-21	3.6	4.6	4.1	5.2	2.8	2.8
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	5.9	6.4	6.7	2.1	2.2
Aug-22	5.9	6.2	6.5	6.7	2.4	2.7
Sep-22	6.0	6.2	7.1	7.0	1.9	2.2
Oct-22	6.6	6.1	7.1	6.6	3.8	3.8
Nov-22	6.4	6.2	7.0	6.8	3.8	3.8
Dec-22	6.2	4.8	6.7	5.0	4.0	3.8

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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