

NIESR

Monthly Wage Tracker

Strong Wage Growth Adds to Concern Over Inflation Expectations

Paula Bejarano Carbo

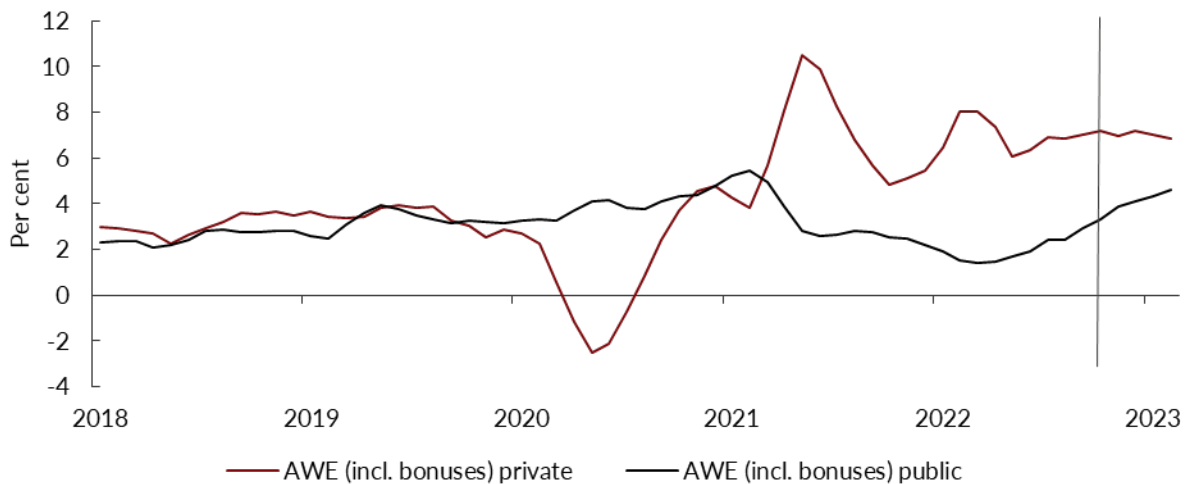
17th January 2023

"Today's ONS estimates suggest that total and regular average weekly earnings grew by 6.4 per cent in the three months to November, representing the strongest growth rate in regular pay observed outside of the pandemic period. Nonetheless, workers continued to face real income falls due to elevated inflation as real total and regular pay both fell by 2.6 per cent. Last month, we estimated that steep wage growth in the fourth quarter of this year would be driven by the public sector. November data indicates that, while the public sector saw a significant growth in average regular pay of 3.3 per cent in the three months to November, the private sector saw growth of 7.2 per cent, adding to the concern that high inflation expectations have embedded themselves in the UK labour market."

Paula Bejarano Carbo
Associate Economist, NIESR



Figure 1 – Average weekly earnings in public and private sectors



Main Points

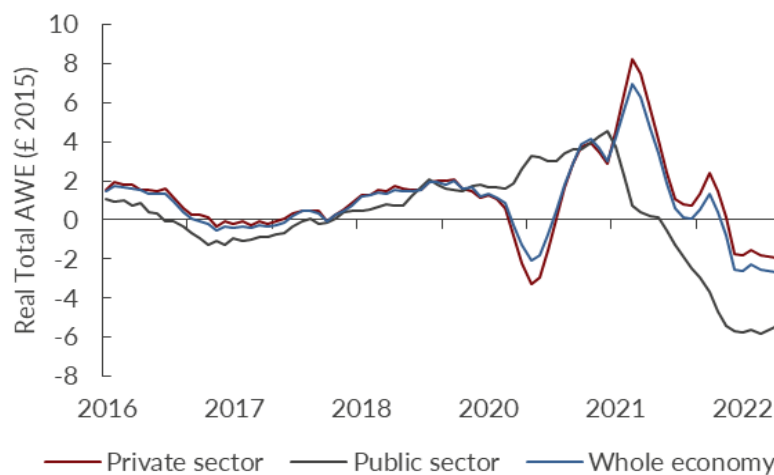
- The latest ONS estimates suggest the annual growth rate of average weekly earnings, excluding bonuses, was 6.4 per cent in the three months to November, marginally higher than the 6.3 per cent our tracker predicted last month. Though this regular pay growth is the largest observed outside of the pandemic period, today's estimates also highlight that real regular pay in the UK fell by 2.6 per cent, remaining among the largest falls since comparable records began in 2001.
- NIESR's wage tracker now estimates that total average weekly earnings grew at an annual rate of 6.4 per cent in the fourth quarter of 2022. Our early estimate for the first quarter of 2023 is for total average weekly earnings to maintain growth at an annual rate of 6.4 per cent.
- The disparity in public and private sector wages has fallen for a consecutive month, though it remains among the largest seen outside of the pandemic period, with private sector regular pay growing by 7.2 per cent while regular pay in the public sector grew 3.3 per cent. However, we estimate this disparity fell over the course of the fourth quarter of 2022 and will continue to fall through the first quarter of 2023.
- In November 2022, 467,000 working days 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 slightly 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 0.1 percentage points in the three months to November compared to the previous three-month period.

The latest [KPMG and REC report on Jobs](#) suggests that the 2022 ended with subdued activity in the labour market, with the December data recording the softest increase in vacancies since the start of 2021. Further, permanent placements fell for the third month in a row at the same time as candidate availability for permanent and temporary labour fell. Overall, this signals the low-growth-high-inflation outlook continues to throw caution into the labour market.

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



Pay

The annual growth rate in average weekly earnings including bonuses (AWE) in Great Britain was 6.4 per cent in the three months to November. In real terms, total pay fell by 2.6 per cent in the three months to November 2022 relative to the three months to November 2021. As figure 2 above shows, workers in different sectors have felt this real squeeze asymmetrically, with private-sector earnings growth continuing to outstrip public-sector earnings growth.

Private-sector regular AWE annual growth was 7.2 per cent in the three months to November – the largest on record outside of the pandemic - and 7.1 per cent if we include bonuses. We now estimate regular private sector AWE growth of 7.1 per cent and total pay growth of 7.0 per cent in the fourth quarter of 2022. Our early forecast for the first quarter of 2023 sees these figures decreasing to 6.5 and 6.9 per cent, respectively. This forecast matches the trend of softening pay pressures in the private sector recorded in the latest KPMG and REC UK Report on Jobs.

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 3.3 per cent in the three months to November. Our estimate for the fourth quarter of 2022 is for public-sector total pay growth to

have continued growing, settling at around 3.9 per cent. We expect public sector total pay growth of 4.6 per cent in the first quarter of 2023, far below the record growth of 6.4 per cent observed in September 2001. Still, it would seem that industrial action across different public sector industries is contributing to a quickening in the pace of growth in public-sector average weekly earnings. Whether we will see public-sector negotiations reach an agreement at a higher rate of pay increase will have significant implications not only for workers' living standards, but for monetary and fiscal policymakers. On the fiscal side, financing higher pay increases will require a departure from the budgetary tightening observed in November; on the monetary policy side, higher pay increases would likely lead to further rate hikes (at a time of already weak output) to avoid high inflation expectations becoming embedded in the labour market.

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.

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.

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

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>

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
Nov-21	549	589	541	591	584	585
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	627	594	598
Oct-22	583	625	578	630	605	607
Nov-22	586	629	580	634	607	608
Dec-22	587	636	582	641	609	612
Jan-23	589	643	584	649	612	615
Feb-23	592	640	587	645	614	617
Mar-23	594	649	589	655	616	619
% change 3 month average year on year						
Nov-21	3.8	4.4	4.1	4.8	2.6	2.5
Dec-21	3.6	4.6	3.9	5.1	2.6	2.5
Jan-22	3.8	4.8	4.2	5.5	2.3	2.2
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	6.0	6.7	6.9	2.2	2.4
Oct-22	6.1	6.2	6.9	7.0	2.8	2.9
Nov-22	6.4	6.4	7.2	7.1	3.3	3.3
Dec-22	6.4	6.4	7.1	7.0	3.9	3.9
Jan-23	6.3	6.6	6.8	7.2	4.0	4.1
Feb-23	6.2	6.5	6.7	7.0	4.1	4.3
Mar-23	6.2	6.4	6.5	6.9	4.3	4.6
% change month on same month of previous year						
Nov-21	3.4	3.3	3.6	3.9	2.5	2.1
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	6.0	7.1	7.2	2.1	2.2
Oct-22	6.4	6.3	7.2	7.1	3.8	3.8
Nov-22	6.7	6.8	7.2	7.3	4.0	3.9
Dec-22	6.2	6.0	6.8	6.5	4.0	4.0
Jan-23	6.0	7.1	6.5	7.8	4.0	4.4
Feb-23	6.2	6.5	6.7	6.8	4.2	4.6
Mar-23	6.2	5.6	6.5	6.0	4.6	5.0