

NIESR

Monthly Wage Tracker

Cost-of-Living Pressures May Alter Work Patterns in 2023

Paula Bejarano Carbo

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"Today's ONS figures suggest that economy-wide average weekly earnings, excluding bonuses, grew by 6.7 per cent in the fourth quarter of 2022, a record growth rate in regular pay outside of the pandemic period. As we expected last month, the disparity between private and public sector wage growth continues to decrease, as workers in the private sector saw average regular pay growth of 7.3 per cent in the fourth quarter of 2022 – a record high outside of the pandemic period – while workers in the public sector saw 4.2 per cent. Despite these elevated growth rates, economy-wide real regular pay growth fell by 2.5 per cent, indicating the extent to which inflation continues to erode consumer incomes. Interestingly, the UK employment rate increased by 0.2 percentage points in Q4 relative to Q3, driven by part-time workers, while this period also saw a record-high net flow out of economic inactivity driven by people moving into employment. Taken alongside high-frequency data from job-posting side Indeed, which saw a large increase in searches for part-time, weekend and night shift work in the three months to January, this may be a sign that 2023 will see an uptick in workers taking on extra hours or returning to the labour market to offset cost-of-living pressures."

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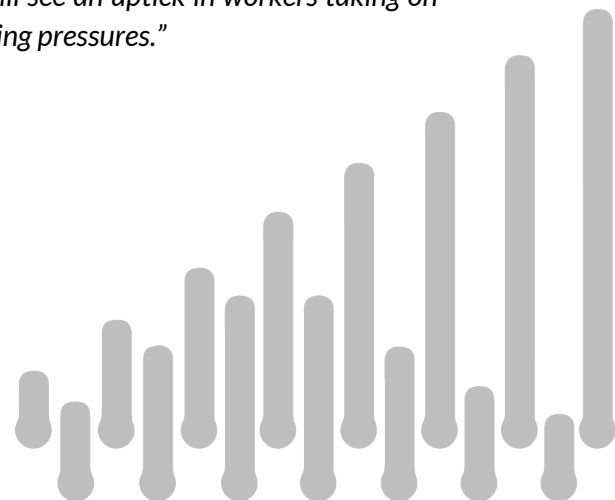
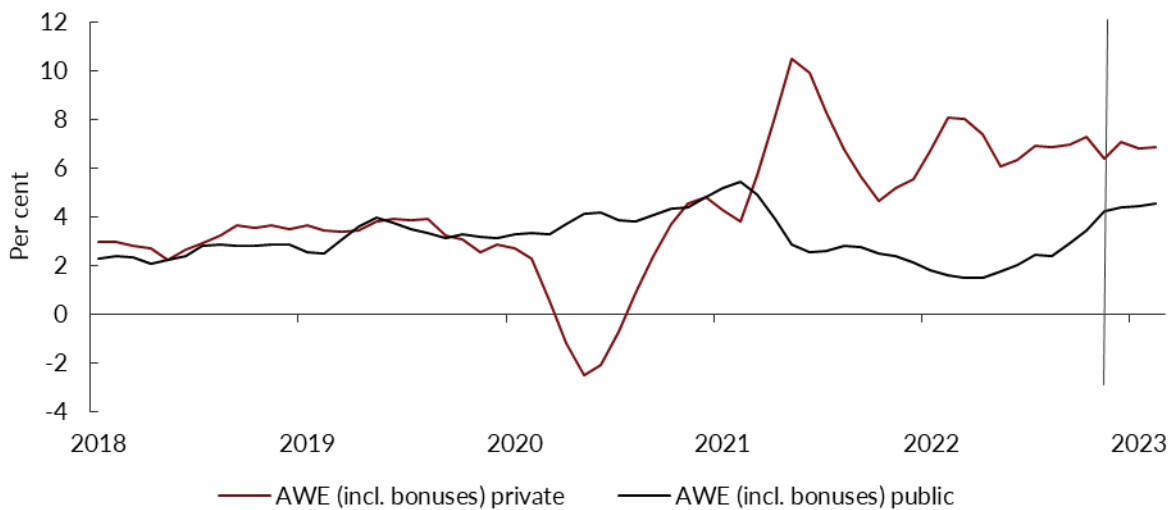


Figure 1 – Average weekly earnings in public and private sectors



Main Points

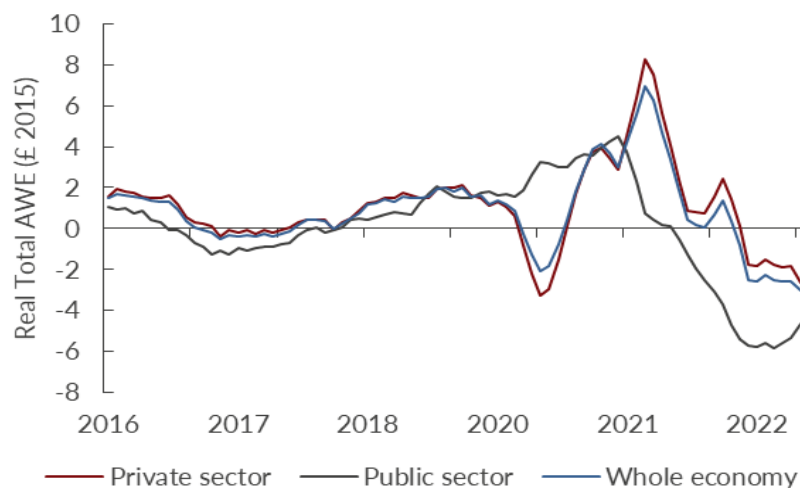
- The latest ONS estimates suggest the annual growth rate of average weekly earnings, excluding bonuses, was 6.7 per cent in the fourth quarter of 2022, while pay growth including bonuses was 5.9 per cent. NIESR's wage tracker estimates that regular (excluding bonuses) and total average weekly earnings will grow at 6.5 and 6.4 per cent, respectively, in the first quarter of 2023.
- Though the fourth quarter of 2022 saw regular pay growth that is once again the largest observed outside of the pandemic period, today's estimates also highlight that real regular pay in the UK fell by 2.5 per cent, remaining among the largest falls in growth since comparable records began in 2001. The most recent [report](#) by Hiring Lab - the economic research branch owned by and utilising the proprietary data of job-posting site Indeed - notes that rising searches for part-time, weekend and night shift work in the three months to January may be a sign of workers taking on extra hours to offset the ongoing erosion of their real incomes.
- The disparity in public and private sector wages has fallen for a third consecutive month, though it remains among the largest seen outside of the pandemic period, with private sector regular pay growing by 7.3 per cent while regular pay in the public sector grew by 4.2 per cent.
- In December 2022, 843,000 working ways were lost due to labour disputes - the highest we have seen since November 2011. Further, the latest [ONS Business Insights and Impacts Survey](#) suggests that 15.8 per cent of firms across the UK saw their business affected by industrial action in December 2022, both directly and indirectly. These figures are of concern as more industrial action is set to affect the UK economy over 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 quarter, with the former standing at 75.6 per cent and the latter at 3.7 per cent. The ONS attributes the rise in the employment rate to an increase in part-time workers. The economic inactivity rate for people aged 16-64 was estimated at 21.4 per cent, a decrease of 0.3 percentage points in the fourth quarter of 2022 compared to the third quarter. This period also saw a record-high net flow of people moving from economic inactivity to employment.

High Frequency Indicators: The latest [KPMG and REC report on Jobs](#) suggests that January 2023 saw a fourth consecutive fall in permanent staff hires due to high economic uncertainty and cost pressures from elevated starting pay inflation. That is not to say the new year has shown definitive signs of a cooling labour market; the same survey shows that January saw the first growth in vacancies for 9 months, with temporary vacancies growing at a stronger rate than their counterpart. The most recent [report](#) by Hiring Lab - the economic research branch owned by and utilising the proprietary data of job-posting site Indeed - notes that rising searches for part-time, weekend and night shift work in the three months to January may be a sign of workers taking on extra hours to offset cost-of-living pressures.

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 5.9 per cent in the fourth quarter of 2022 and 6.7 per cent if we exclude bonuses. These elevated economy-wide growth rates are driven by a record (outside of the pandemic period) increase in private sector regular pay growth. The Bank of England's February [Monetary Policy Report](#) attributes the rise in private sector wage inflation over the course of 2022 to elevated short-term inflation expectations (which the Bank estimates to have been 4 per cent in the

fourth quarter of 2022), as opposed to recruitment and retention difficulties in the previous year.

In real terms, total pay fell by 3.1 per cent in the fourth quarter of 2022 relative to the fourth quarter of 2021. As figure 2 above shows, workers in different sectors have felt this real squeeze asymmetrically.

Private-sector regular AWE annual growth was 7.3 per cent in the fourth quarter of 2022 – the largest on record outside of the pandemic – and 6.4 per cent if we include bonuses. Our forecast for the first quarter of 2023 sees these figures at 7.0 and 6.9 per cent, respectively. The Bank of England expects private sector regular pay to flatten out at just over 7 per cent in the near term.

Public-sector total AWE annual growth has been on an increasing path since a low in the three months to April of 1.5 per cent and is currently sitting at 4.2 per cent in the fourth quarter of 2022. 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.

Industrial Action

The latest [ONS Business Insights and Impacts Survey](#) suggests that 15.8 per cent of firms across the UK saw their business affected by industrial action in December 2022. This was, as expected, larger in sectors that were impacted directly as a result of the workforce engaging in strikes (e.g. 33 per cent of firms in the human health and social work activities). However, several other sectors were significantly indirectly affected; for instance, 20.1 per cent of businesses in wholesale and retail trade recorded that they were affected by strikes, of which 42 per cent attributed disruptions to being unable to obtain necessary goods.

In December 2022, 843,000 working days were lost due to labour disputes – the highest we have seen since November 2011. While this pales in comparison to the average 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. For more on public sector Pay Review Bodies, you can read Peter Dolton’s NIESR blog [here](#).

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.

Notes for editors:

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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
Dec-21	552	603	545	606	585	587
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	629	606	608
Nov-22	586	628	582	633	609	610
Dec-22	588	630	583	641	612	613
Jan-23	591	643	586	649	613	615
Feb-23	594	640	590	645	615	617
Mar-23	596	648	591	655	617	619
% change 3 month average year on year						
Dec-21	3.6	4.6	3.9	5.2	2.6	2.4
Jan-22	3.8	4.8	4.1	5.5	2.2	2.1
Feb-22	4.0	5.8	4.6	6.7	2.0	1.8
Mar-22	4.2	7.0	4.9	8.1	1.8	1.6
Apr-22	4.2	6.9	4.8	8.0	1.7	1.5
May-22	4.5	6.4	5.1	7.4	1.8	1.5
Jun-22	4.7	5.2	5.5	6.1	1.8	1.8
Jul-22	5.2	5.5	6.0	6.3	2.0	2.0
Aug-22	5.5	6.1	6.3	6.9	2.2	2.4
Sep-22	5.8	6.0	6.6	6.9	2.2	2.4
Oct-22	6.1	6.2	7.0	6.9	2.8	2.9
Nov-22	6.4	6.5	7.3	7.1	3.4	3.5
Dec-22	6.6	5.9	7.3	6.4	4.2	4.2
Jan-23	6.6	6.2	7.2	7.1	4.4	4.4
Feb-23	6.5	6.0	7.0	6.8	4.5	4.4
Mar-23	6.5	6.4	7.0	6.9	4.5	4.6
% change month on same month of previous year						
Dec-21	3.6	6.3	3.9	7.3	2.4	2.2
Jan-22	4.3	5.2	5.0	6.0	1.8	1.9
Feb-22	4.2	5.8	4.8	6.9	1.8	1.3
Mar-22	4.3	9.9	4.9	11.4	1.8	1.5
Apr-22	4.0	5.0	4.7	5.9	1.6	1.6
May-22	5.0	4.4	5.8	5.0	1.9	1.4
Jun-22	5.1	6.3	5.9	7.3	1.9	2.3
Jul-22	5.5	5.9	6.3	6.7	2.2	2.3
Aug-22	5.8	6.1	6.6	6.7	2.4	2.7
Sep-22	6.0	6.1	7.0	7.2	2.0	2.2
Oct-22	6.5	6.3	7.2	7.0	3.8	3.9
Nov-22	6.7	7.0	7.6	7.7	4.2	4.3
Dec-22	6.6	4.5	7.1	4.6	4.7	4.5
Jan-23	6.3	7.1	6.8	7.8	4.4	4.4
Feb-23	6.6	6.4	7.1	6.8	4.3	4.4
Mar-23	6.6	5.6	7.0	6.0	4.8	4.9