NIESR Monthly Wage Tracker

High Inflation Expectations Continue to Drive Pay Growth

Paula Bejarano Carbo

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"Average weekly earnings, excluding bonuses, grew by 6.6 per cent across the whole economy in the three months to February. This was driven by higher-than-expected growth in both the private and public sectors, which saw regular pay growth of 6.9 per cent and 5.3 per cent, respectively. Despite these elevated figures, there are some signs that the labour market may begin to cool, with today's figures and higher-frequency data pointing to decreases in vacancies and a slight rise in the unemployment rate. Still, these changes remain marginal and are far outweighed by the effect of high inflation expectations on pay dynamics. Given that it will take some time for the Chancellor's most recent measures to have any effect on the labour market, I wonder if embedded inflation expectations will continue to drive high pay growth throughout this year."

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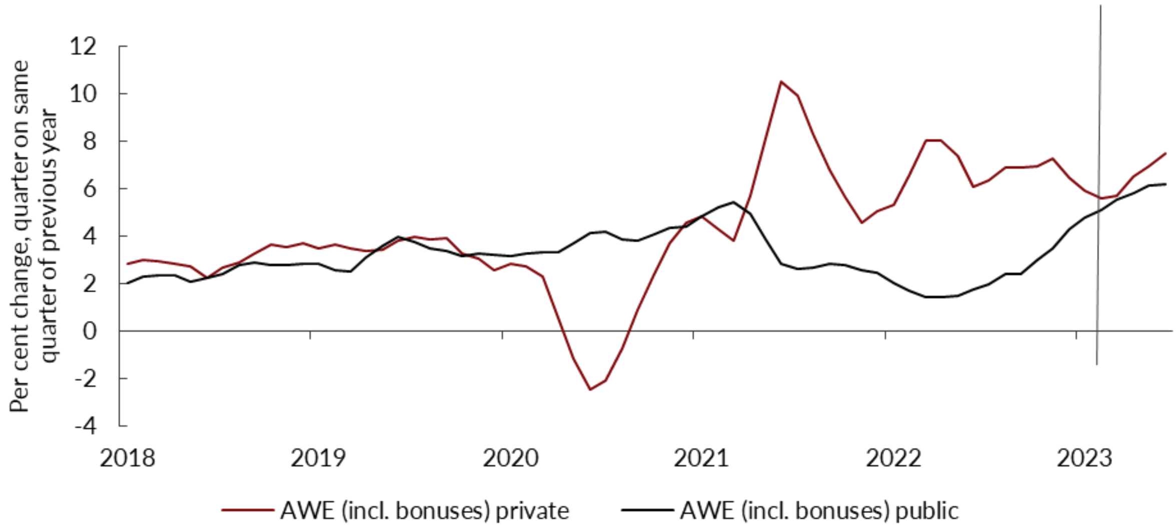
Figure 1 – Average weekly earnings in public and private sectors



Main Points

- The latest ONS estimates suggest the annual growth rate of average weekly earnings, including bonuses, was 5.9 per cent in the three months to February, while pay growth excluding bonuses was 6.6 per cent. NIESR's wage tracker estimates that total and regular average weekly earnings will have grown at 6.0 and 6.7 per cent, respectively, in the year to the first quarter of 2023. Our early forecast for the second quarter of this year sees these figures at 7.2 and 6.0 per cent, respectively, with the latter reflecting high expected private sector bonus growth.

- The disparity in public- and private-sector wage growth has fallen for a fifth consecutive month, with private sector regular pay growing by 6.9 per cent while regular pay in the public sector grew by 5.7 per cent.

- Real total pay in the United Kingdom fell by 3.0 per cent on the year in the three months to February, remaining among the largest falls in growth since comparable records began. Public-sector workers experienced an average fall of 3.5 per cent while private sector workers saw their income eroded by 2.8 per cent, on average.

- The economic inactivity rate decreased by 0.4 percentage points in the three months to February, though this was driven by students aged 16-24 rather than the key 50-64 age group the Chancellor sought to target in his Spring Budget.

- 348,000 working days were lost in February to industrial action (mostly in the education sector), up from 210,000 in January. While this pales into insignificance compared with the figure of 2.5 million days per month recorded during the 'winter of discontent' in 1979, it is nonetheless concerning as continued strike action is set to occur in the coming months.

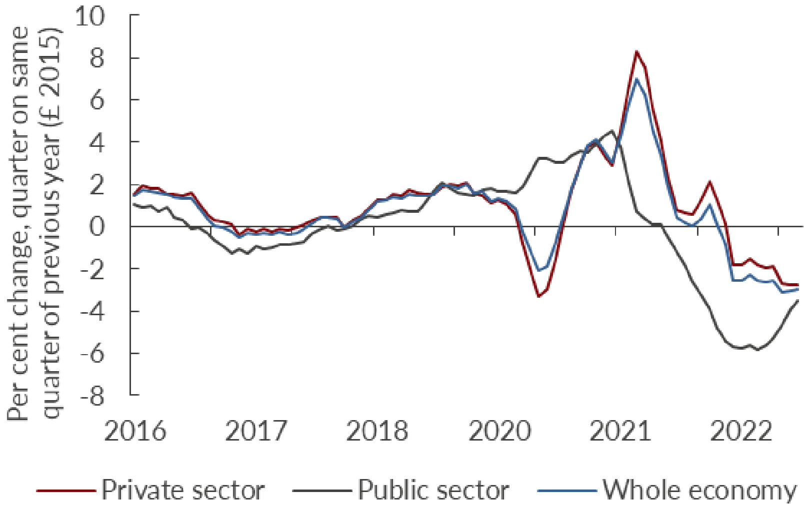
Employment

The latest data suggest that the employment rate increased by 0.2 percentage points compared with the previous three months, rising to 75.8 per cent in the three months to February. The unemployment rate increased by 0.1 percentage point on the quarter to 3.8 per cent, after remaining flat for four months. Given that the latest KPMG and REC report on Jobs notes increased redundancies in March, we think this rise in the unemployment rate will continue through 2023 as companies buckle under economic pressure and uncertainty.

The economic inactivity rate for people aged 16-64 was estimated at 21.1 per cent, a decrease of 0.4 percentage points in the three months to February compared to the previous three months. This was driven by students aged 16-24 rather than the key 50-64 age group the Chancellor sought to target in his Spring Budget.

The number of vacancies fell by 47,000 in the first quarter of 2023 compared to the previous quarter, caused by economic uncertainty and pressures holding back recruitment. However, we are still far from seeing the UK labour market cool. Indeed, 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 while vacancies continued to soften throughout the first quarter of 2023, job posting on their website still remained 26 per cent above their pre-pandemic (February 2020) figure as of 10 March.

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 three months to February and 6.6 per cent if we exclude bonuses. High inflation expectations continue to drive this high pay growth, with the Bank of England's latest Monetary Policy Report highlighting that expected CPI inflation will likely be a key driver behind increased pay settlements in 2023 and pose an important upwards risk to their forecast.

In real terms, total pay fell by 3 per cent in three months to February 2023 compared to the three months to February 2022. As figure 2 above shows, workers in different sectors have felt this real squeeze asymmetrically.

Private-sector regular AWE annual growth was 6.9 per cent in the three months to February and 6.1 per cent if we include bonuses. Our estimate for the first quarter of 2023 sees these figures remaining at 6.9 and 6.1 per cent, respectively. Our early forecast for the second quarter of 2023 is for these figures at 5.9 and 7.5 per cent, respectively, due to bonus growth on the year.

Public-sector total AWE annual growth has been on an increasing path since a low in the three months to April 2022 of 1.4 per cent and is currently sitting at 5.3 per cent in the three months to February. We estimate public sector total pay growth of 5.7 per cent in the first quarter of 2023, still below the record growth of 6.4 per cent observed in September 2001. Our early forecast for the second quarter of this year expects this figure to rise to 6.1 per cent.

Spring Budget Analysis

The Chancellor's Spring Budget was one which focused on sparking growth in what appears to be a flatlining economy, employing a wide range of policies, such as childcare and pensions reforms, to tackle structural issues, like the UK labour supply shortage. At the same time, the Chancellor left certain key issues entirely unaddressed, most notably that of public sector pay (or lack thereof). This is disappointing, but moreover, leaves question marks around the issues of how the government intends to deal with output losses from further industrial action and a possible outflow of skilled public sector workers. We provide a short overview of the five key policies employed to increase labour supply, and how they factor into the OBR's latest employment forecast, below:

- Childcare reforms
    - The new 30-hours-a-week of free childcare allowance for working parents of nine-month to two-year olds is likely to increase labour market participation. The OBR estimates this change will account for an increase in employment of 60,000 by 2027-28, with the average targeted worker entering part-time work.

- Childcare support within universal credit
    - The change to reimburse childcare support within universal credit (UC) upfront will have a small effect on labour market participation, estimated by the OBR to be an increase in employment of 15,000 over its forecast.

- Other universal credit reforms
    - The increase of conditionality on parents and carers claiming UC will also push some people into work (primarily by increasing their work search intensity). The OBR forecasts this will raise employment by 10,000 by 2027-28.

- Pensions reforms
    - Changes to the lifetime allowance and annual allowance thresholds on pension contributions will increase the labour participation of certain well-off groups, such as doctors. The OBR estimates this will positively impact employment by 15,000 over its forecast.

- A new disability employment programme
    - This programme aims to support disabled people entering employment; the OBR estimate it will increase employment by 10,000 over its forecast.

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. 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 actual 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***	
Latest weights	*100*		*82*		*18*	
	Regular	***Total***	***Regular***	***Total***	***Regular***	***Total***
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	587	628	582	632	609	611
Dec-22	589	632	583	635	613	615
Jan-23	591	634	585	637	620	621
Feb-23	596	638	590	644	620	621
Mar-23	597	645	592	649	623	625
Apr-23	598	649	593	654	624	627
May-23	600	651	594	656	626	628
Jun-23	602	653	596	658	628	630
% change 3 month average year on year						
Mar-22	4.2	6.6	4.9	7.8	1.6	1.4
Apr-22	4.1	6.6	4.8	7.8	1.6	1.4
May-22	4.4	6.4	5.1	7.4	1.8	1.5
Jun-22	4.7	5.2	5.5	6.0	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	6.8	2.2	2.4
Oct-22	6.1	6.2	7.0	6.9	2.8	2.9
Nov-22	6.5	6.5	7.3	7.2	3.4	3.5
Dec-22	6.7	6.0	7.3	6.5	4.3	4.3
Jan-23	6.6	5.9	7.0	6.2	4.9	4.9
Feb-23	6.6	5.9	6.9	6.1	5.3	5.3
Mar-23	6.7	6.0	6.9	6.1	5.7	5.7
Apr-23	6.8	6.5	7.0	6.7	5.8	5.8
May-23	6.3	6.7	6.4	6.9	6.0	6.1
Jun-23	6.0	7.2	5.9	7.5	6.2	6.1
% change month on same month of previous year						
Mar-22	4.3	9.9	4.9	11.5	1.8	1.5
Apr-22	4.0	5.0	4.7	5.8	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	6.6	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	7.1	2.0	2.2
Oct-22	6.6	6.3	7.2	7.0	3.8	3.9
Nov-22	6.9	7.0	7.6	7.6	4.3	4.3
Dec-22	6.6	4.8	7.1	4.9	4.8	4.6
Jan-23	6.3	5.9	6.5	6.0	5.8	5.8
Feb-23	6.9	7.0	7.3	7.3	5.5	5.4
Mar-23	6.8	5.0	7.1	5.0	5.8	6.0
Apr-23	6.5	7.5	6.6	7.8	6.1	6.1
May-23	5.7	7.5	5.6	8.1	6.1	6.2
Jun-23	5.8	6.7	5.6	6.6	6.3	6.0