NIESR
Monthly Wage Tracker

High Wage Growth, Low Productivity Growth: Are we Experiencing Wage Stagflation?

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"Average weekly earnings, excluding bonuses, grew by 6.7 per cent across the whole economy in the first quarter of 2023, in line with what we had forecast last month. The private and public sectors saw regular pay growth of 7.0 per cent and 5.6 per cent, respectively. Higher-frequency data suggests that we have yet to see a turning point in wage growth; the KPMG and REC UK Report on Jobs, for instance, recorded a four-month high in the rate of starting pay inflation in April 2023. The continued embeddedness of high inflation expectations in the labour market threatens to generate further inflationary persistence, posing a dilemma for the Monetary Policy Committee."

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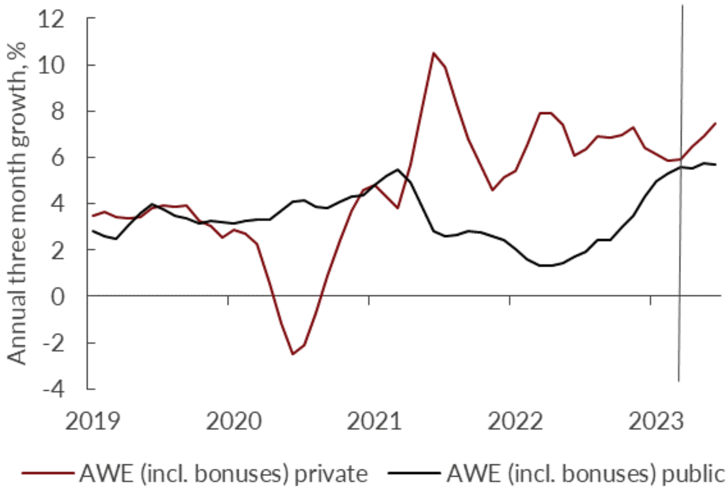
Figure 1 – Average weekly earnings in public and private sectors



Main Points

- The latest ONS estimates suggest the annual growth rate of average weekly earnings, including bonuses, was 5.8 per cent in the first quarter of 2023, while pay growth excluding bonuses was 6.7 per cent. Our forecast for the second quarter of this year sees these figures at 5.9 and 6.0 per cent, respectively.

- The disparity in public and private-sector wage growth has fallen for a sixth consecutive month, with private sector regular pay growing by 7.2 per cent while regular pay in the public sector grew by 5.5 per cent. That said, our forecast sees private sector wage growth outpacing its counterpart in the second quarter of 2023.

- The ONS's preliminary estimate of UK output per hour worked was 0.6 per cent lower than the first quarter of 2022, representing the weakest annual growth in this estimate of productivity since 2013, excluding the pandemic period. As we stressed in our latest UK Economic Outlook, published last week, the United Kingdom needs to see increases in business and public investment as a proportion of GDP in order to tackle its stalling productivity problem. With labour supply nearing capacity, it is imperative that productivity grows if we are to see future economic growth and an improvement to living standards.

- The economic inactivity rate decreased by 0.4 percentage points in first quarter of 2023, 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.

Employment

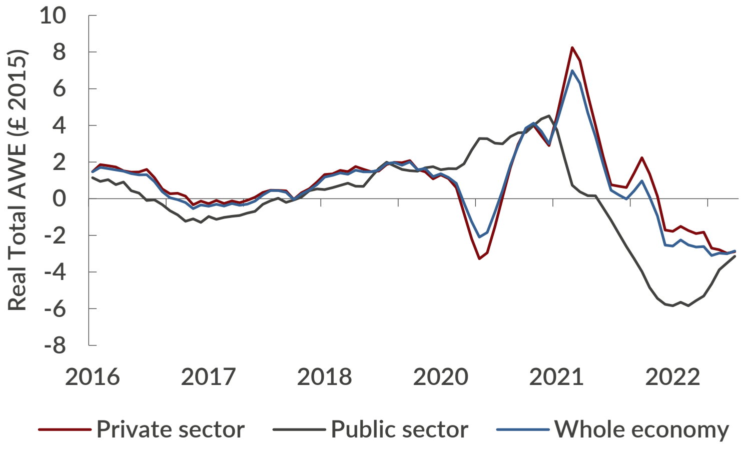
The latest data suggest that the employment rate increased by 0.2 percentage points compared with the previous quarter, rising to 75.9 per cent in the first quarter of 2023. The unemployment rate increased by 0.1 percentage point on the quarter to 3.9 per cent. Rises in both figures mean the inactivity rate has decreased. Indeed, the economic inactivity rate decreased by 0.4 percentage points in first quarter of 2023, 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. Worryingly, the number of people reported to be inactive because of long-term sickness increased to a record high.

The latest KPMG and REC report on Jobs notes that preferences for short-term staff continue to prevail in the labour market, while permanent staff appointments contracted at the fastest pace in over two years. This shift in hiring practice is due to a combination of factors, not least rising starting pay inflation – which hit a four-month high in April.

The number of vacancies fell by 55,000 in the first quarter of 2023 compared to the previous quarter, caused by economic pressures holding back recruitment. However, we are still far from seeing the UK labour market cool. In fact, a 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 22 per cent above their pre-pandemic (February 2020) figure as of 3 May.

556,000 working days were lost in March to industrial action. 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.

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 5.8 per cent in the first quarter of 2023 and 6.7 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 high and persistent wage inflation poses a significant upside risk to their inflation forecast. The Bank expects economy-wide total average weekly earnings to settle at 5 per cent in the fourth quarter of 2023. In real terms, total pay fell by 3.0 per cent on the year to the first quarter of 2023. As figure 2 above shows, public-sector workers have faced a worse hit to their real incomes than workers in the private sector.

Private-sector regular AWE annual growth was 7.0 per cent in the first quarter of 2023 and 5.9 per cent if we include bonuses. Our forecast for the second quarter of 2023 sees these figures at 6.1 and 6.0 per cent, respectively.

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 5.6 per cent in first quarter of 2023. We forecast public sector total pay growth of 5.8 per cent in the second quarter of 2023, still below the record growth of 6.4 per cent observed in September 2001.

Productivity

Today, the ONS released its preliminary estimates of UK productivity, based on today's labour market data and the first quarterly estimates of gross value added (which are volatile and may be subject to revision).

The preliminary estimates show that output per hour worked was 0.6 per cent lower than the first quarter of 2022, representing the weakest annual growth in this estimate of productivity since 2013, excluding the pandemic period.

Output per worker, a second measure of productivity, was 0.9 per cent lower in the first quarter of 2023 than a year before, and it remained unchanged compared with the period immediately before the start of the pandemic.

With labour supply nearing capacity, it is imperative that productivity grows if we are to see future economic growth and an improvement to living standards. As we stressed in our latest UK Economic Outlook, published last week, the United Kingdom needs to see increases in business and public investment as a proportion of GDP in order to tackle its stalling productivity problem. Indeed, as explored by Samiri (2023) in Box C of the Outlook, the United Kingdom missed the opportunity to increase capital expenditure during the decade following the financial crisis provided by low borrowing costs; given the current monetary tightening cycle, the country may remain on its low investment trajectory if current uncertainty surrounding inflation and financial market turbulence cannot be managed. If that is the case, the United Kingdom may find itself in a low productivity trap. Given stagnating productivity growth alongside high wage growth, one can wonder if we are entering an era of 'wage stagflation'.

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.

References

Samiri, I. (2023). 'Box C: Finance, business investment, and productivity'. National Institute UK Economic Outlook, Spring 2023, Series A No.10.

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	612	553	618	588	589
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	591	643	619	620
Mar-23	598	642	593	647	620	622
Apr-23	599	642	593	646	622	624
May-23	600	643	595	647	623	626
Jun-23	601	644	596	648	625	627
% change 3 month average year on year						
Mar-22	4.2	6.5	4.9	7.9	1.6	1.3
Apr-22	4.2	6.6	4.8	7.9	1.7	1.3
May-22	4.5	6.2	5.1	7.4	1.8	1.4
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	6.9	2.8	3.0
Nov-22	6.5	6.4	7.3	7.3	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	6.1	5.0	4.9
Feb-23	6.7	5.8	7.0	5.9	5.3	5.3
Mar-23	6.7	5.8	7.2	5.9	5.5	5.6
Apr-23	6.8	5.9	7.1	5.9	5.4	5.6
May-23	6.4	5.8	6.6	5.9	5.6	5.8
Jun-23	6.0	5.9	6.1	6.0	5.7	5.8
% change month on same month of previous year						
Mar-22	4.3	9.5	4.9	11.4	1.7	1.4
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	7.0	3.9	3.9
Nov-22	6.9	7.0	7.6	7.7	4.3	4.3
Dec-22	6.7	4.8	7.0	4.8	4.8	4.8
Jan-23	6.3	6.0	6.6	6.0	5.8	5.8
Feb-23	7.0	6.7	7.5	6.8	5.3	5.3
Mar-23	7.0	4.9	7.2	4.7	5.4	5.6
Apr-23	6.5	6.2	6.7	6.4	5.6	5.8
May-23	5.8	6.3	5.8	6.6	5.6	5.9
Jun-23	5.7	5.3	5.7	5.0	6.0	5.6