National Institute of Economic and Social Research

NIESR Monthly Wage Tracker

Labour Market Continues to Charge Ahead

Paula Bejarano Carbo

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"Today's ONS estimates suggest that average weekly earnings, excluding bonuses, grew by 7.2 per cent across the whole economy in the three months to April, representing the largest growth rate in regular pay recorded outside of the pandemic period. The private and public sectors saw regular pay growth of 7.6 per cent and 5.6 per cent, respectively. The employment rate increased by 0.2 percentage points to 76 per cent in this three-month period, while total hours worked reached a record high, surpassing pre-pandemic levels. It seems that the cooling labour market that high-frequency indicators have been pointing to is yet to materialise. "

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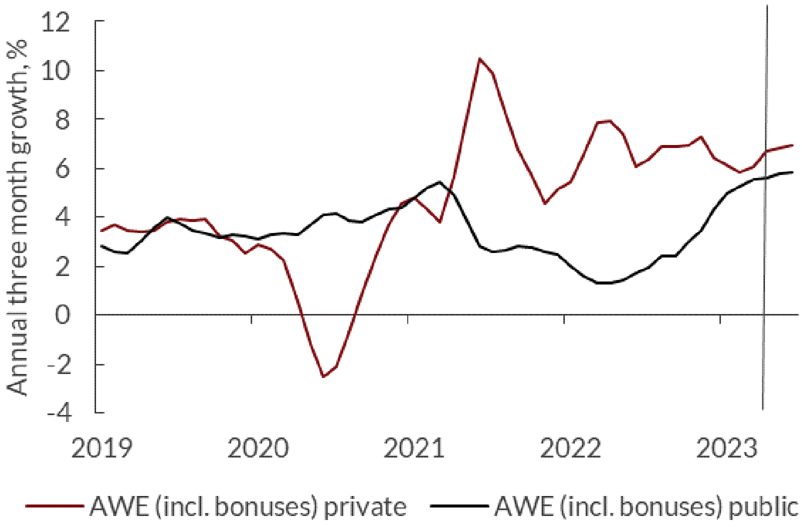
Figure 1 – Average weekly earnings in public and private sectors



Main Points

- The latest ONS estimates suggest that the annual growth rate of average weekly earnings, including bonuses, was 6.5 per cent in the three months to April, while pay growth excluding bonuses was 7.2 per cent - representing the largest growth rate in regular pay recorded outside of the pandemic period. Our forecast for the second quarter of this year sees these figures at 6.8 and 6.7 per cent, respectively.

- The disparity in public and private-sector wage growth has risen for the first time in six months, with private sector regular pay growing by 7.6 per cent while regular pay in the public sector grew by 5.6 per cent. Our forecast sees these figures at 6.9 per cent and 5.9 per cent, respectively, in the second quarter of 2023.

- The employment rate increased by 0.2 percentage points to 76.0 per cent in the three months to April. This rate remains 0.6 percentage points below its pre-pandemic level. Still, total hours worked reached a record high in this three-month period, surpassing pre-pandemic levels.

- The economic inactivity rate decreased by 0.4 percentage points in the three months to April, to 21.0 per cent. This was driven by those inactive for other reasons and those looking after family or home.

Employment

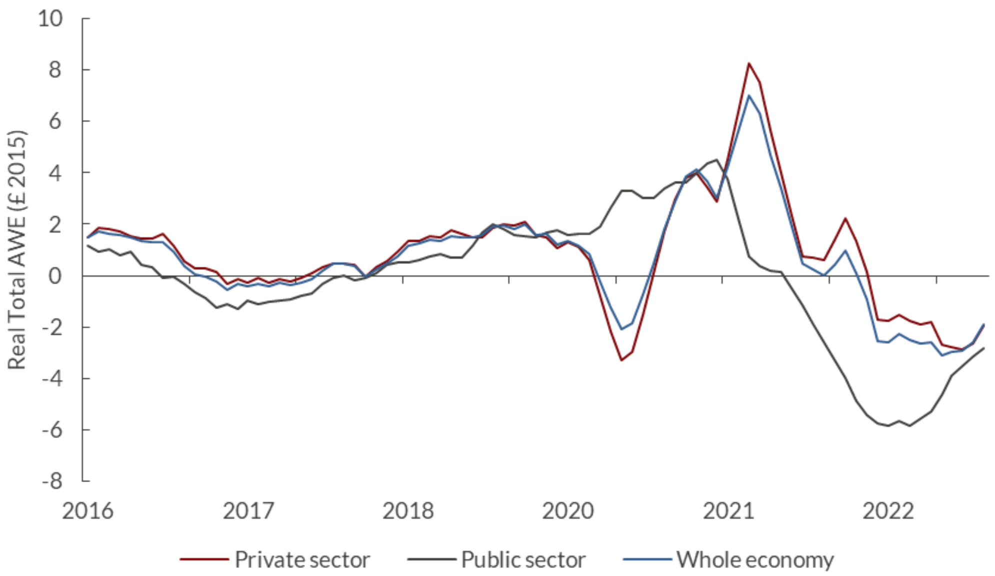
The latest data suggest that the employment rate increased by 0.2 percentage points compared with the previous three-month period, rising to 76.0 per cent in the three months to April. The unemployment rate increased by 0.1 percentage points on the quarter to 3.8 per cent. Rises in both figures mean the inactivity rate has decreased. Indeed, the economic inactivity rate decreased by 0.4 percentage points in three months to April, driven by those inactive for other reasons and those looking after family or home. With the Spring Budget childcare measures not set to kick-in for some time, the move away from inactivity by the latter group may be a result of factors such as increasing economic pressures. 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 hiring activity was subdued in May, with economic uncertainty and high starting pay inflation delaying hiring decisions among firms. In particular, permanent staff appointments fell for the eighth month in a row and at its fastest pace in over two years. This gentle slowdown in hiring activity over the last couple of months has led to a tangible uptick in overall candidate supply; whether this will be sufficient to reduce labour market tightness and generate a decrease in pay growth is tenuous, however, given that the unemployment to vacancy ratio remains low at 1.2 in the three months to April.

The number of vacancies fell by 79,000 in the three months to April compared to the previous three-month period, caused by high starting pay and 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 there has been a sustained slowdown in job postings since the start of the year, postings remained 22 per cent above the 1 February 2020 level as of 28 April (down from the peak of 50 per cent above the pre-pandemic level in December 2022).

257,000 working days were lost in April 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 6.5 per cent in the three months to April and 7.2 per cent if we exclude bonuses - representing the largest growth rate in regular pay recorded outside of the pandemic period.

In real terms, total pay fell by 2.0 per cent in the three-month period. As figure 2 above shows, workers in different sectors have felt this real squeeze asymmetrically: workers in the private sector experienced an average real pay decrease of 1.9 per cent in this time, while public sector workers experienced a 2.8 per cent hit to their real incomes.

Private-sector regular AWE annual growth was 7.6 per cent in the three months to April (representing the largest growth rate in private sector regular pay outside of the pandemic period) and 6.7 per cent if we include bonuses. Our forecast for the second quarter of 2023 sees both of these figures at 6.9 per cent.

Public-sector total AWE annual growth has been on an increasing path since a low in the three months to April 2022 of 1.3 per cent and is currently sitting at 5.6 per cent in the three months to April. 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.

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:

For further information please contact the NIESR Press Office: press@niesr.ac.uk or Luca Pieri on 020 3948 4488 / l.pieri@niesr.ac.uk

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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*
Apr-22	561	603	555	604	588	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	640	591	645	620	620
Mar-23	599	645	594	650	620	622
Apr-23	603	648	599	651	622	624
May-23	604	647	599	652	624	627
Jun-23	604	648	599	652	626	628
% change 3 month average year on year						
Apr-22	4.2	6.6	4.8	7.7	1.6	1.3
May-22	4.5	6.1	5.0	7.2	1.7	1.4
Jun-22	4.7	5.1	5.3	5.9	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	6.9	5.9	5.3	5.3
Mar-23	6.8	6.1	7.1	6.1	5.6	5.6
Apr-23	7.2	6.5	7.6	6.7	5.6	5.6
May-23	7.0	6.7	7.3	6.8	5.7	5.8
Jun-23	6.7	6.8	6.9	6.9	5.9	5.8
% change month on same month of previous year						
Apr-22	3.9	4.9	4.5	5.4	1.6	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	7.3	7.0	5.4	5.3
Mar-23	7.0	5.6	7.4	5.3	5.4	5.6
Apr-23	7.5	7.5	7.9	7.8	5.8	5.8
May-23	6.5	7.0	6.6	7.4	5.8	6.0
Jun-23	6.2	5.8	6.3	5.7	6.1	5.7