

NIESR

Monthly Wage Tracker

UK Sees Record Wage Growth in Q2 Despite Slight Labour Market Loosening

Paula Bejarano Carbo

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“Average weekly earnings, excluding bonuses, grew by 7.8 per cent in the second quarter of 2023, representing the highest growth rate in regular pay seen since comparable records began in 2001. Including bonuses, wage growth was 8.2 per cent, though this figure is partially driven by NHS one-off bonus payments. As a result of elevated wage growth and recent drops in inflation, this quarter marks the first time in nearly two years that real regular and total wage growth are both positive. Though there are increasingly tangible signs that the labour market is cooling – such as a rise in the unemployment to vacancy ratio to 1.4 – the labour market remains quite tight, suggesting we will still see continued high pay growth this year.”

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Associate Economist, NIESR

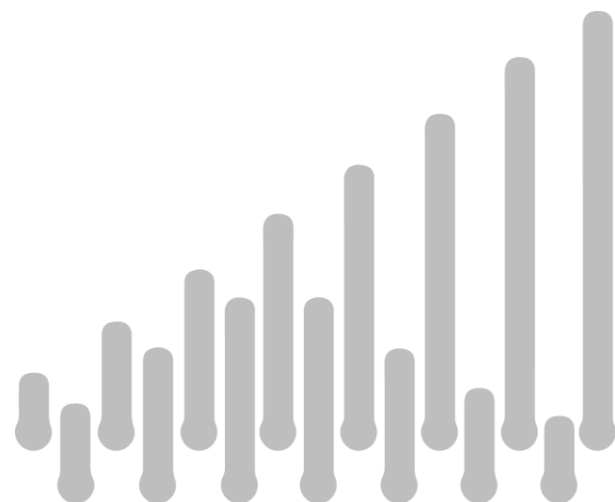
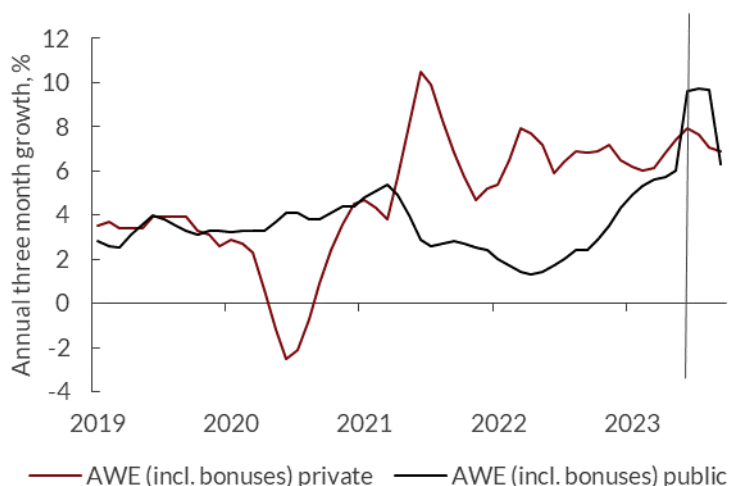


Figure 1 – Average weekly earnings in public and private sectors



Main Points

- The latest ONS estimates suggest that the annual growth rate of average weekly earnings, including bonuses, was 8.2 per cent in the second quarter of 2023, while pay growth excluding bonuses was 7.8 per cent – representing the highest annual regular pay growth rate recorded since comparable records began in 2001. Our forecast for the third quarter of this year sees economy-wide regular pay growing at 7.0 per cent and total pay growth at 6.9 per cent.
- Private sector regular pay grew by 8.2 per cent in the second quarter – representing the largest growth rate seen outside of the pandemic period - while regular pay in the public sector grew by 6.2 per cent. Our forecast sees these figures at 7.2 per cent and 6.6 per cent, respectively, in the third quarter of 2023.
- The unemployment rate increased by 0.3 percentage points relative to the previous quarter to 4.2 per cent in the second quarter of this year. The employment rate decreased by 0.1 percentage points to 75.7 per cent. The economic inactivity rate decreased on the quarter by 0.1 percentage points to 20.9 per cent, driven by those moving from inactivity to unemployment.
- Services sector total AWE annual growth has been on an increasing path since the initial pandemic-related plummet, currently at 8.4 per cent in the second quarter of 2023. Since pay in the services sector makes up most of the input costs in this sector, it is the main driver of services inflation. Elevated wage growth in this sector will concern monetary policymakers, who may take this as a sign that services inflation will continue to generate persistence in underlying inflation in the UK, despite monetary tightening.

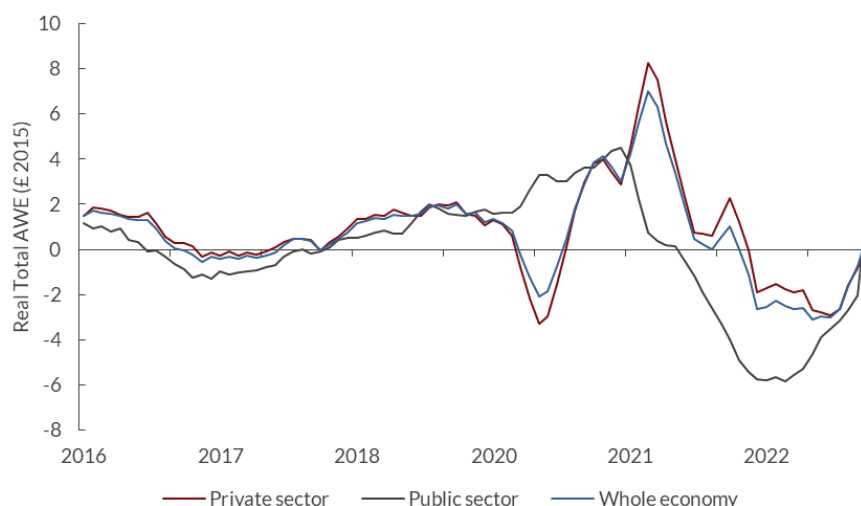
Employment

The latest data suggest that the unemployment rate increased by 0.3 percentage points relative to the previous quarter to 4.2 per cent in the second quarter of this year. The employment rate decreased by 0.1 percentage points to 75.7 per cent. The economic inactivity rate decreased on the quarter by 0.1 percentage points to 20.9 per cent, driven by those moving from inactivity to unemployment. The number of people reported to be inactive because of long-term sickness increased to a record high from 412,329 in the three months to May to 464,225 in the second quarter of 2023. This compares to a pre-pandemic (three months to February 2020) figure of 15,112.

The latest [KPMG and REC report on Jobs](#) notes that economic uncertainty and high starting pay inflation drove the steepest fall in permanent placements seen in over three years. Additionally, a recent [report](#) by hiring lab – the economic research branch of job-posting site Indeed – notes a recent decline in the prevalence of signing bonuses advertised on job postings on their website, further signalling a softening in recruiting intensity. At the same time, the ongoing slowdown in recruitment and increase in redundancies meant that July’s report also recorded the steepest upturn in total labour supply since October 2009. Today’s ONS data highlights that the number of vacancies fell by 66,000 in the second quarter of 2023 compared to the previous three-month period. While these figures indicate the labour market may be loosening, today’s data suggests it still remains tight given that the unemployment to vacancy ratio remains low at 1.4,

160,000 working days were lost due to industrial action in June 2023, driven mostly by labour disputes in the Health and Social Work sector. That said, following the NHS one-off bonuses payments in June, in the second quarter of 2023, public-sector workers experienced a real increase by 1.8 per cent while workers in the private sector experienced an average real pay increase of 0.2 per cent. This is the first time since March 2021 that public sector real pay growth has surpassed its private counterpart. Hopefully the restoration of real wage growth in the health sector will contribute to an easing of industrial action in this sector, which is likely exacerbating the long-term sick issue that is plaguing the labour market.

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



Pay

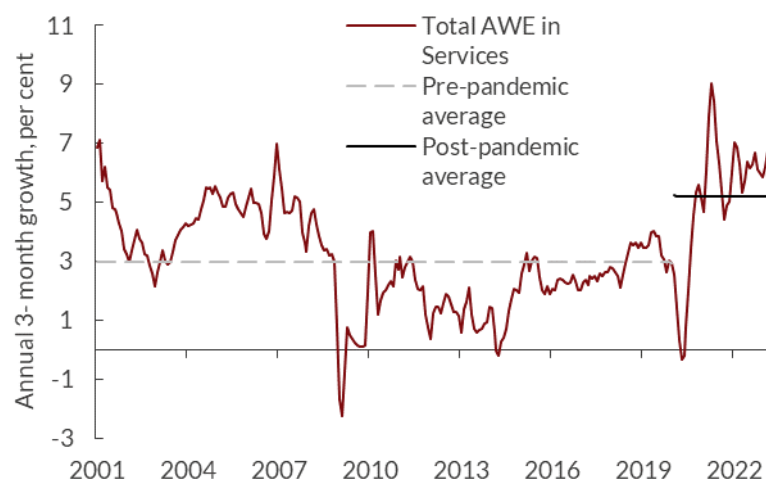
The annual growth rate in average weekly earnings including bonuses (AWE) in Great Britain was 8.2 per cent in the second quarter of 2023 and 7.8 per cent if we exclude bonuses - equalling the largest growth rate in regular pay since comparable records began in 2001.

Private sector regular pay grew by 8.2 per cent in the second quarter – representing the largest growth rate seen outside of the pandemic period - while regular pay in the public sector grew by 6.2 per cent. Further, the latest data collected by XpertHR suggest that the median pay settlement in the year to May was 1.5 percentage points higher in the private sector than the public sector. Given that the private sector makes up around 80 per cent of the UK labour market, it is thus high private-sector wage growth and pay settlements (enabled by the tightness of the labour market) that drove UK wage growth in the second quarter of 2023.

Private-sector regular AWE annual growth was 8.2 per cent in the three months to June (representing the largest growth rate in private sector regular pay outside of the pandemic period) and 7.9 per cent if we include bonuses. Our forecast for the third quarter of 2023 sees these figures at 7.2 and 6.9 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 1.3 per cent and is currently sitting at 9.6 per cent in the second quarter of this year, the highest figure since comparable records began in 2001, driven by the one-off NHS bonus agreement. We forecast public sector total pay growth to decrease to 6.3 per cent in the third quarter of 2023.

Figure 3 - Total average weekly earnings in the services sector



Services sector total AWE annual growth has been on an increasing path since the initial pandemic-related plummet, and currently stands at 8.4 per cent in the second quarter of 2023. As Figure 3 above shows, there seems to have been a shift in services sector total AWE growth

pre and post-pandemic; the average growth rate in AWE in this sector was 3.0 per cent from January 2001 to February 2020, while from March 2020 onwards this average has increased to 5.1 per cent (even accounting for the initial covid-related plummet). Since pay in the services sector makes up most of the input costs in this sector, it is the main driver of services inflation. As we have been noting in our recent [CPI trackers](#), with energy price inflation 'dropping out' of the CPI basket in recent months, food and core inflation are the main factors keeping CPI inflation elevated. Elevated wage growth in the services sector alongside a low unemployment-to-vacancy ratio of 1.4 will concern monetary policymakers, who may take this as a sign that services inflation will continue to generate persistence in underlying inflation in the United Kingdom, despite monetary tightening efforts. That said, if households reduce services spending over the coming months as higher interest rates and the ongoing cost-of-living crisis squeeze budgets, we may see AWE growth in this sector return to pre-pandemic levels. There are concerns, however, as voiced by Bank of England Chief Economist Huw Pill in the 23 May Treasury Committee oral evidence session, that a behavioural change may have taken place during the pandemic, inducing households to spend more on services than pre-pandemic. Clearly, it will be important to closely monitor services wage growth and services inflation dynamics over the coming months.

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	
<i>Latest weights</i>	<i>100</i>		<i>82</i>		<i>18</i>	
	Regular	Total	Regular	Total	Regular	Total
Jun-22	568	610	564	617	591	595
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	595	651	620	622
Apr-23	605	651	601	654	624	626
May-23	610	656	607	657	625	628
Jun-23	613	663	610	661	629	693
Jul-23	614	658	610	663	630	632
Aug-23	616	660	612	665	632	635
Sep-23	619	663	615	668	633	636
% change 3 month average year on year						
Jun-22	4.6	5.1	5.3	5.8	1.8	1.8
Jul-22	5.1	5.4	5.9	6.2	2.0	2.0
Aug-22	5.5	6.0	6.2	6.9	2.2	2.5
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	6.7	7.6	6.8	5.7	5.7
May-23	7.5	7.2	7.9	7.4	5.8	6.0
Jun-23	7.8	8.2	8.2	7.9	6.2	9.6
Jul-23	7.7	8.0	7.9	7.6	6.3	9.7
Aug-23	7.4	7.5	7.6	7.0	6.5	9.7
Sep-23	7.0	6.9	7.2	6.9	6.6	6.3
% change month on same month of previous year						
May-22	4.8	4.5	5.5	4.7	1.9	1.4
Jun-22	5.0	5.9	5.8	7.3	2.1	2.4
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	7.7	7.8	8.1	8.3	6.1	6.1
May-23	7.8	8.3	8.2	8.6	5.9	6.3
Jun-23	7.9	8.7	8.2	7.1	6.4	16.5
Jul-23	7.3	7.1	7.4	7.2	6.7	6.5
Aug-23	6.9	6.8	7.2	6.8	6.4	6.1
Sep-23	6.9	6.7	7.0	6.6	6.6	6.4