NIESR Monthly Wage Tracker

Elevated Wage Growth Set to Boost Pensions by 8.5 per cent

Paula Bejarano Carbo

September 2023

"Today's labour market numbers indicate once again that, despite increasing unemployment and falling vacancies, wage growth remains elevated. Continued high wage growth poses challenges to both monetary and fiscal policymakers. On the one hand, the MPC will need to consider the extent to which this elevated wage growth may continue to generate persistence in inflationary pressures at its meeting next week; on the other hand, today's data will likely determine another elevated figure for the pensions triple lock, possibly squeezing the tight margin the Chancellor left himself for meeting his fiscal targets."

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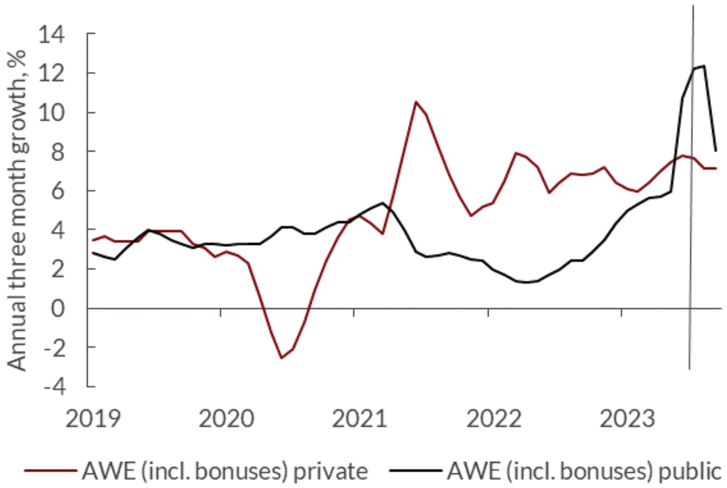
Figure 1 – Average weekly earnings in public and private sectors



Main Points

- The latest ONS estimates suggest that the annual growth rate of average weekly earnings, including bonuses, was 8.5 per cent in the three months to July, 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 7.5 per cent and total pay growth at 7.2 per cent.

- Private sector regular pay grew by 8.1 per cent in the three months to July– representing one of the largest growth rates seen outside of the pandemic period - while regular pay in the public sector grew by 6.6 per cent. Our forecast sees these figures at 7.5 per cent and 7.2 per cent, respectively, in the third quarter of 2023.

- Given today's data on the growth rate of economy-wide total average earnings, the state pension is set to rise by 8.5 per cent in Spring due to the pensions triple lock. The required increase in government spending to fund this commitment may well squeeze the narrow margins the Chancellor left himself for meeting his fiscal targets.

- Services sector total AWE annual growth has been on an increasing path since the initial pandemic-related plummet, currently at 8.8 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 United Kingdom, despite monetary tightening.

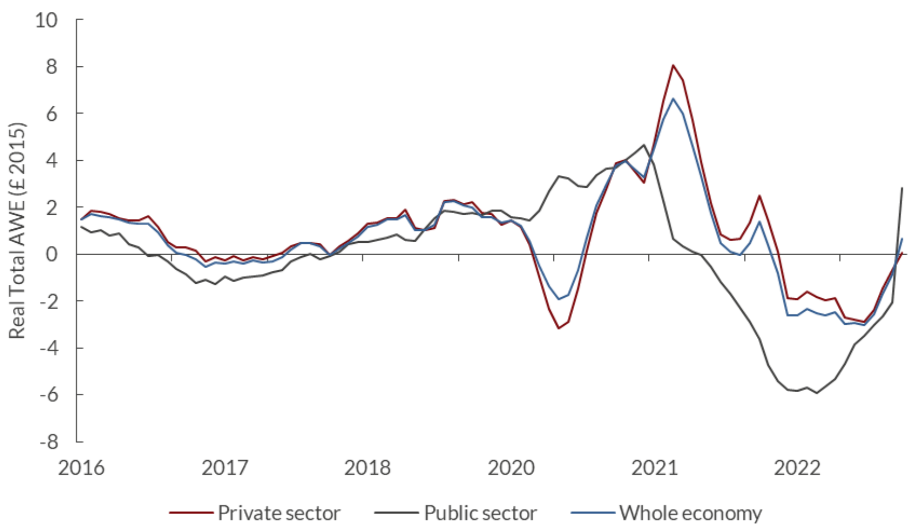
Employment

The unemployment rate increased by 0.5 percentage points relative to the previous three-month period to 4.3 per cent. The employment rate decreased by 0.5 percentage points to 75.5 per cent. The economic inactivity rate increased on the quarter by 0.1 percentage points to 21.1 per cent, driven by people aged 16 to 24 years. The number of people reported to be inactive because of long-term sickness increased to a record high from 464,225 in the second quarter of 2023 to 491,433 in the three months to July 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. However, a recent [report] by hiring lab – the economic research branch of job-posting site Indeed – notes that, though vacancies are decreasing, the labour market remains tight overall, such that signs of a cooling labour market have not yet translated to reduced wage growth. For example, today's ONS data highlights that the number of vacancies fell by 64,000 in the three months to July compared to the previous three-month period, bringing the total number of vacancies below the 1 million threshold for the first time in two years. At the same time, today's data suggests also indicates that the labour market remains tight give that the unemployment to vacancy ratio remains low at 1.4,

281,000 workings days were lost due to industrial action in July 2023, driven by the education, health and social work sectors. That said, following the NHS and civil services one-off bonus payments in June and July, in the three months to July, public-sector workers experienced a real increase in total wages of 4.7 per cent while workers in the private sector experienced an average real total pay increase of 1.2 per cent (see Figure 2). Hopefully the restoration of real wage growth in the public sector will contribute to an easing of industrial action, though worker's demands on work conditions will also need to be considered.

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



Pay

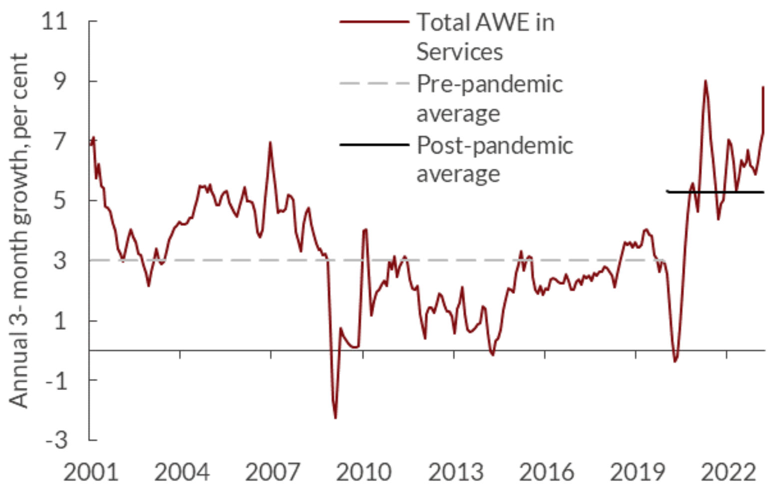
The annual growth rate in average weekly earnings including bonuses (AWE) in Great Britain was 8.5 per cent in the three months to July and 7.8 per cent if we exclude bonuses - equalling the largest growth rate in regular pay since comparable records began in 2001.

Private sector regular pay grew by 8.1 per cent in this time– representing the one of the largest growth rates seen outside of the pandemic period - while regular pay in the public sector grew by 6.6 per cent.

Private-sector regular AWE annual growth was 8.1 per cent in the three months to July (representing the one of the largest growth rates in private sector regular pay outside of the pandemic period) and 7.6 per cent if we include bonuses. Our forecast for the third quarter of 2023 sees these figures at 7.5 and 7.1 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 12.2 per cent, the highest figure since comparable records began in 2001, though this is driven by one-off bonus payments. We forecast public sector total pay growth to decrease to 8.1 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 8.8 per cent in the three months to July. 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 5.3 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. Continuing high 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 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 monitor closely 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**	
Latest weights	*100*		*82*		*18*	
	Regular	**Total**	**Regular**	**Total**	**Regular**	**Total**
Jul-22	572	615	567	619	591	594
Aug-22	575	619	570	624	594	597
Sep-22	578	622	574	626	593	596
Oct-22	583	626	578	630	608	611
Nov-22	587	629	583	633	611	614
Dec-22	589	632	585	636	614	616
Jan-23	592	635	586	639	620	624
Feb-23	597	640	592	645	620	621
Mar-23	600	644	595	648	621	623
Apr-23	605	651	601	655	624	625
May-23	611	655	607	658	626	626
Jun-23	614	670	610	663	629	711
Jul-23	617	664	611	666	634	657
Aug-23	617	661	613	667	635	636
Sep-23	620	664	616	670	636	638
% change 3 month average year on year						
Jul-22	5.2	5.5	6.0	6.2	2.0	2.0
Aug-22	5.4	6.0	6.2	6.8	2.2	2.4
Sep-22	5.7	6.0	6.7	6.7	2.2	2.3
Oct-22	6.1	6.2	7.0	6.9	2.8	2.9
Nov-22	6.5	6.6	7.3	7.2	3.4	3.5
Dec-22	6.7	6.1	7.3	6.4	4.3	4.3
Jan-23	6.6	6.0	7.0	6.1	4.9	5.0
Feb-23	6.6	5.8	7.0	6.0	5.3	5.3
Mar-23	6.8	6.2	7.1	6.4	5.6	5.7
Apr-23	7.3	6.8	7.6	7.0	5.7	5.7
May-23	7.5	7.3	7.8	7.5	5.9	5.9
Jun-23	7.8	8.4	8.1	7.8	6.3	10.7
Jul-23	7.8	8.5	8.1	7.6	6.6	12.2
Aug-23	7.7	8.0	7.9	7.1	6.9	12.4
Sep-23	7.5	7.2	7.5	7.1	7.2	8.1
% change month on same month of previous year						
Jul-22	5.3	5.9	6.4	6.5	2.1	2.2
Aug-22	5.7	6.0	6.5	6.7	2.6	2.6
Sep-22	6.1	6.1	7.1	7.0	1.9	2.1
Oct-22	6.6	6.5	7.2	7.0	3.9	3.9
Nov-22	6.9	7.2	7.6	7.7	4.3	4.4
Dec-22	6.5	4.8	7.1	4.8	4.8	4.6
Jan-23	6.3	6.0	6.4	6.0	5.8	5.9
Feb-23	7.0	6.7	7.4	7.1	5.4	5.4
Mar-23	7.1	5.9	7.4	6.1	5.6	5.6
Apr-23	7.7	7.8	8.1	7.9	6.1	6.1
May-23	7.8	8.1	8.0	8.4	6.1	6.1
Jun-23	7.9	9.3	8.3	6.9	6.6	19.9
Jul-23	7.9	8.0	7.8	7.6	7.3	10.6
Aug-23	7.3	6.8	7.6	6.9	6.9	6.6
Sep-23	7.2	6.8	7.3	7.0	7.3	7.0