NIESR Monthly Wage Tracker

Early Forecast Sees Total AWE Growing At 6.7 Per Cent in Q4

Paula Bejarano Carbo

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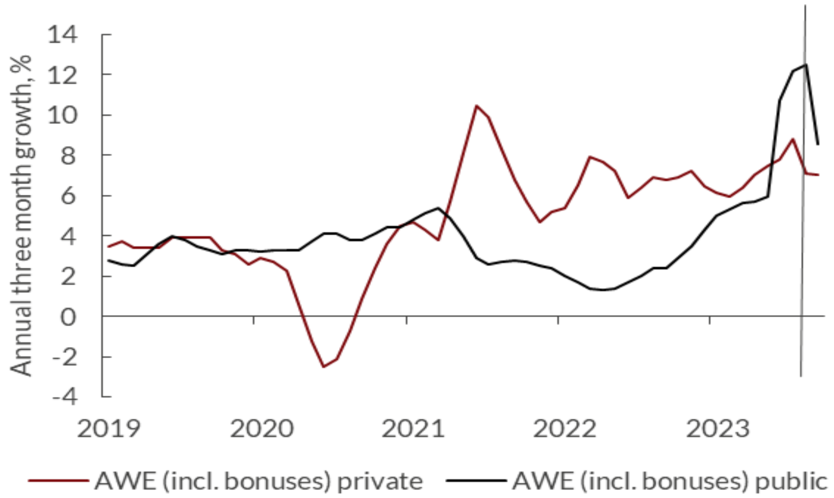
"Today's ONS figures suggest that average weekly earnings, excluding bonuses, grew by 7.8 per cent in the three months to August, representing one of the highest annual rates recorded since comparable records began in 2001. Including bonuses, average earnings grew by 8.1 per cent, though that rate partially reflects one-off public sector payments made in the three-month period. These figures are marginally higher than our forecasts of 7.7 and 8.0 per cent, respectively, from last month's tracker and indicate that, despite months of signs that the labour market might be loosening, wage growth continues to soar. On the one hand, this is positive in that it implies that workers in both the public and private sectors are seeing real average pay increases in for the first time in roughly two years; on the other hand, elevated wage growth continues to challenge monetary policymakers' efforts to tame inflation."

Paula Bejarano Carbo
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 8.1 per cent in the three months to August, while pay growth excluding bonuses was 7.8 per cent – representing one of 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 7.6 per cent and total pay growth at 7.2 per cent. Our early forecast for the fourth quarter of this year expects to see these figures at 6.9 and 6.7 per cent, respectively.

- Private sector regular pay grew by 8.0 per cent in the three months to August– representing one of the largest growth rates seen outside of the pandemic period - while regular pay in the public sector grew by 6.8 per cent. Our forecast sees these figures at 7.8 per cent and 7.0 per cent, respectively, in the third quarter of 2023, and 7.3 and 4.5 per cent in the fourth quarter of 2023.

- The number of job vacancies fell by 4.2 per cent in the third quarter of 2023 relative to the second quarter, amounting to a 43,000 decrease. Unsurprisingly, the real estate activities sub-sector saw the highest fall in vacancies in this time, likely reflecting the contraction in the construction sector in the monthly GDP data due to high borrowing costs in this industry. Mining and quarrying saw the largest increase in vacancies, possibly as a result of the government's announcement to grant hundreds of new oil and gas licenses on 31 July.

- Due to data collection issues affecting the ONS Labour Force Survey (growing attrition in the survey response rate), today's release only reflects earnings, vacancies and HMRC data. This tracker will therefore not contain an update on any other information normally included in the ONS labour market overview or employment releases.

Vacancies

The number of job vacancies fell by 4.2 per cent in the third quarter of 2023 relative to the second quarter, amounting to a 43,000 decrease. This marks the 15th consecutive period in which vacancy numbers have fallen. Many have taken this, alongside an increase in the unemployment rate over the last few months, as signals that the labour market is cooling. While it may be cooler than the immediate post-pandemic period, the labour market has remained very tight by historical standards, enabling high wage growth to continue throughout this year.

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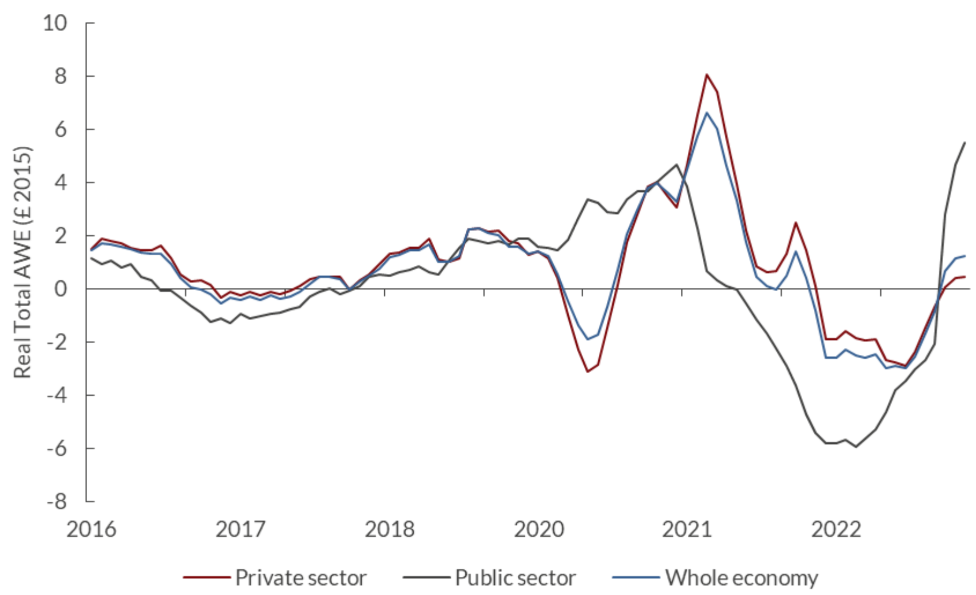
High-frequency data

The latest KPMG and REC report on Jobs notes that economic uncertainty led to a further fall in permanent placements in September, while candidate supply increased. Alongside these indicators of a slight loosening in the labour market, the report's survey also finds that September saw a further easing of overall pay growth in the UK; in fact, the rate of starting salary inflation fell to a two-and-a-half year low.

A recent report by hiring lab – the economic research branch of job-posting site Indeed – finds that posted wage growth on Indeed fell 7.3 per cent in the three months to August to 7.1 per cent in the three months to September, expecting that the gradually cooling labour market has reached peak wage growth.

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



Pay

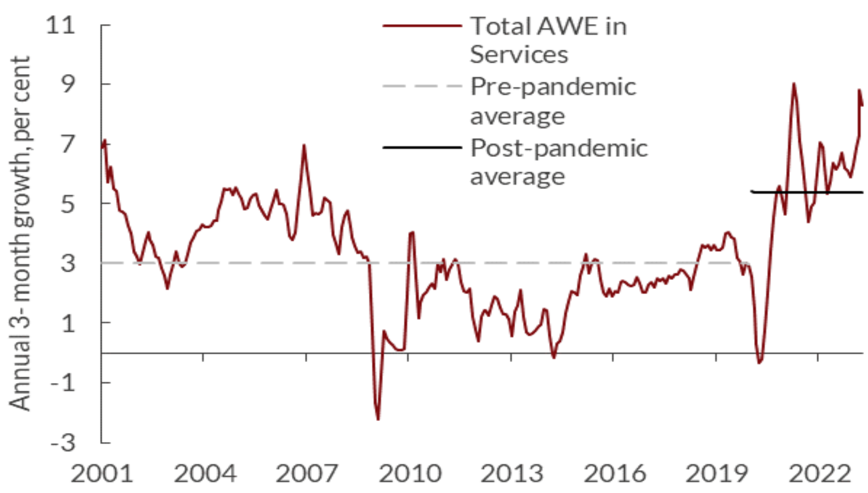
The annual growth rate in average weekly earnings including bonuses (AWE) in Great Britain was 8.1 per cent in the three months to August, while pay growth excluding bonuses was 7.8 per cent – representing one of the highest annual regular pay growth rate recorded since comparable records began in 2001

Private sector regular pay grew by 8.0 per cent in the three months to August– representing one of the largest growth rates seen outside of the pandemic period - while regular pay in the public sector grew by 6.8 per cent.

Private-sector regular AWE annual growth was 8.0 per cent in the three months to August (representing the one of the largest growth rates in private sector regular pay outside of the pandemic period) and 7.1 per cent if we include bonuses. Our forecast for the third quarter of 2023 sees these figures at 7.8 and 7.1 per cent, respectively. Our early forecast for the fourth quarter of this year sees these figures at 7.3 and 6.8 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 12.5 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 8.5 per cent in the third quarter of 2023. Our early forecast for the fourth quarter of this year sees this growth rate easing to 5.8 per cent.

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 8.3 per cent in the three months to August, decreasing from 8.8 per cent in the three months to August. 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 5.4 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 in July 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. There are even concerns, 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**
Aug-22	575	619	570	625	594	596
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	612	666	633	656
Aug-23	619	661	615	667	634	640
Sep-23	621	664	618	669	635	644
Oct-23	624	668	621	672	637	646
Nov-23	627	672	624	676	638	653
Dec-23	631	674	629	680	640	648
% change 3 month average year on year						
Aug-22	5.4	6.0	6.2	6.9	2.2	2.4
Sep-22	5.7	5.9	6.7	6.8	2.2	2.3
Oct-22	6.1	6.2	7.0	6.9	2.8	2.8
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	8.8	6.6	12.1
Aug-23	7.8	8.1	8.0	7.1	6.8	12.5
Sep-23	7.6	7.2	7.8	7.1	7.0	8.5
Oct-23	7.3	6.7	7.6	6.8	6.2	7.0
Nov-23	7.0	6.7	7.3	6.8	5.4	6.7
Dec-23	6.9	6.7	7.3	6.8	4.5	5.8
% change month on same month of previous year						
Aug-22	5.7	6.0	6.5	6.8	2.6	2.4
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	8.1	7.9	7.6	7.1	10.3
Aug-23	7.7	6.8	7.9	6.7	6.7	7.4
Sep-23	7.4	6.8	7.6	6.9	7.1	8.0
Oct-23	6.9	6.6	7.4	6.7	4.7	5.7
Nov-23	6.8	6.8	7.1	6.7	4.5	6.4
Dec-23	7.1	6.7	7.4	6.9	4.2	5.3