National Institute of Economic and Social Research

NIESR Monthly Wage Tracker

Wages Grew by Nearly 8 Per Cent in Q3 And Are Expected to Grow by 7 Per Cent in Q4

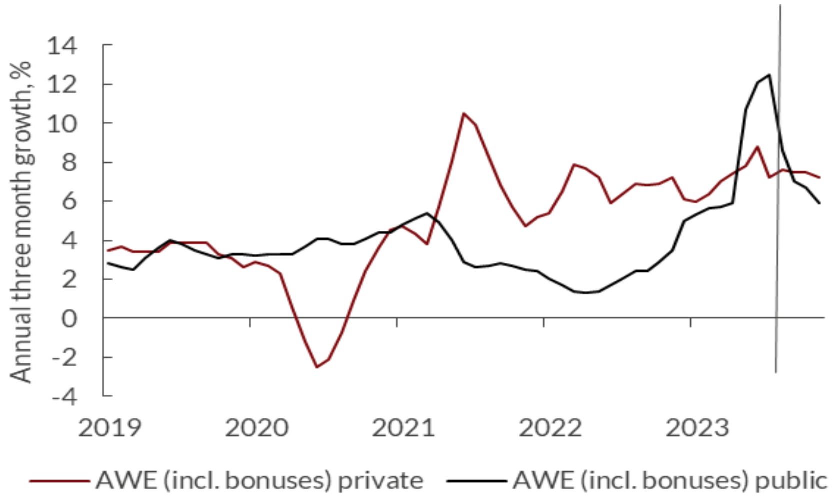
Paula Bejarano Carbo

14th November 2023

"Average weekly earnings, excluding bonuses, grew by 7.7 per cent in the third quarter of 2023 and by 7.9 per cent if we include bonuses – though the latter figure is affected by one-off civil service bonus payments. While both figures remain high relative to their respective historical average growth rates of 3.2 and 3.1 per cent, when we adjust for inflation, today's figures drop to 1.3 and 1.4 per cent, highlighting the extent to which elevated inflation continues to harm households. Today's experimental data suggest that the UK unemployment rate was largely unchanged on the quarter at 4.2 per cent, while vacancies fells by 58,000 in the three months to October; these data indicate that the labour market continues to loosen at a slow pace, leading us to expect that wage growth will remain historically elevated in Q4."

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 7.9 per cent in the third quarter of 2023 while pay growth excluding bonuses 7.7 per cent – remaining among the highest annual regular pay growth rates recorded since comparable records began in 2001. Our forecast for the fourth quarter of this year sees economy-wide regular pay growing at 6.9 per cent and total pay growth at 7.1 per cent.

- Private sector regular pay grew by 7.8 per cent in the third quarter of 2023 while regular pay in the public sector grew by 7.3 per cent. Our forecast sees these figures at 7.2 per cent and 5.1 per cent, respectively, in the fourth quarter this year.

- Due to data collection issues affecting the ONS Labour Force Survey (growing attrition in the survey response rate), today's release only contains traditional measures of earnings, vacancies and HMRC data. The ONS has released experimental estimates on UK employment, unemployment and economic inactivity, derived using growth rates from PAYE. While these experimental estimates can help give us an idea of where the values are, in the absence of LFS data, our understanding of these variables remains incomplete and uncertain.

- With the unemployment rate remaining unchanged on the quarter, it is decreasing vacancies that are contributing to a gradual loosening of the labour market. Regardless of where the unemployment rate is exactly, we know that an unemployment rate around 4.2 per cent paired with a total number of vacancies of 957,000 remains well above the series average of the vacancy-to-unemployment ratio of just under 0.4. As a result, the labour market remains tight by historical standards, enabling high wage growth.

Vacancies and employment

The number of job vacancies fell by 58,000 in the three months to October, representing a 5.7 decrease on the quarter and marking the 16th consecutive period in which vacancy numbers have fallen. Many have taken this, alongside a gradual 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.

Due to data collection issues affecting the ONS Labour Force Survey (growing attrition in the survey response rate), today's release only contains traditional measures of earnings, vacancies and HMRC data. The ONS has released experimental estimates on UK employment, unemployment and economic inactivity, derived using growth rates from PAYE. The experimental ONS data indicate that the employment rate decreased by 0.1 percentage points on the quarter to 75.7 per cent, the UK unemployment rate was largely unchanged on the quarter at 4.2 per cent, and the UK economic inactivity rate was largely unchanged on the quarter at 20.9 per cent. While these experimental estimates can help give us an idea of where the values are, in the absence of LFS data, our understanding of these variables remains incomplete and uncertain.

A good measure of labour market tightness is the vacancy-to-unemployment ratio. With the unemployment rate remaining unchanged on the quarter, it is decreasing vacancies that are contributing to a gradual loosening of the labour market. Regardless of where the unemployment rate is exactly, we know that an unemployment rate around 4.2 per cent paired with a total number of vacancies of 957,000 remains well above the series average of the vacancy-to-unemployment ratio of just under 0.4. As a result, the labour market remains tight by historical standards, enabling high wage growth.

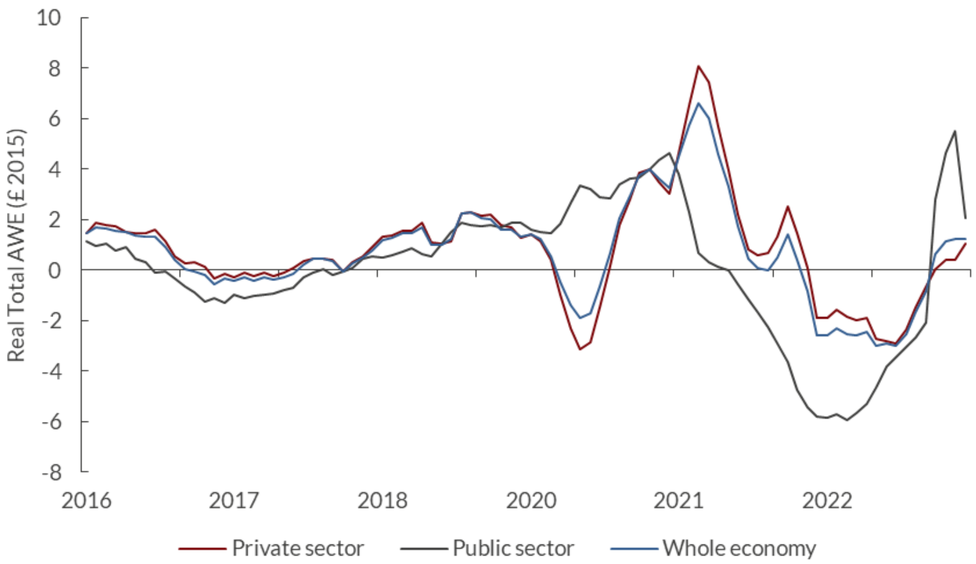
High-frequency data

The latest KPMG and REC report on Jobs notes that economic uncertainty led to a further fall in permanent placements in October, while candidate supply increased sharply. Alongside these indicators of a slight loosening in the labour market, the report's survey also finds that October saw a further easing of overall pay growth in the UK; in fact, the rate of starting salary inflation fell to a 31-month low. That said, temporary work placements increased in October, suggesting this is one way employers are coping with still-high labour demand while the weak economic outlook limits hiring on a permanent basis.

That said, the recent rise in temporary placements may simply be a symptom of seasonal hiring in the run-up to the holiday season, as noted by a recent report by hiring lab – the economic research branch of job-posting site Indeed. The report notes that seasonal job vacancy postings is higher this year relative to 2022, though lower than compared to the four years prior to that, suggesting that employers are showing restraint in holiday-related hiring due to the weak and uncertain economic outlook. At the same time, searches for Christmas-related jobs were up 31 per cent relative to 2022, indicating that high cost-of-living pressures continue to push workers into increasing their labour supply.

Overall, these higher-frequency data signal just how difficult it is to make sense of real-time labour market data. Whether an increase in temporary employment is a symptom of still-high labour demand that cannot be satisfied with permanent placements due to factors such as too-high starting pay inflation or skills mismatch, or is simply a seasonal factor, is unclear. And what that means for aggregate variables, such as the unemployment and inactivity rates – which we do not have certain estimates on – also remains unclear.

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



Pay

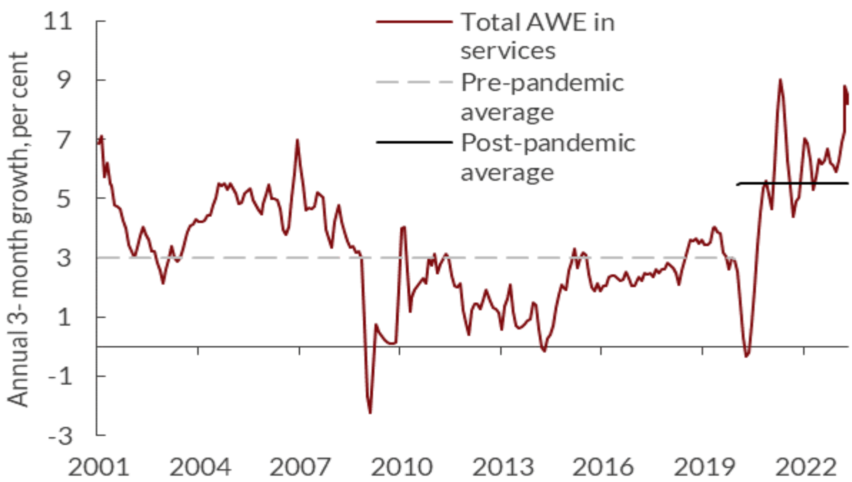
The annual growth rate in average weekly earnings including bonuses (AWE) in Great Britain was 7.9 per cent in the third quarter of 2023 while pay growth excluding bonuses 7.7 per cent – representing one of the highest annual regular pay growth rate recorded since comparable records began in 2001.

When we adjust for inflation, real economy-wide total pay growth falls from 7.9 per cent to 1.3 per cent in the third quarter of 2023, indicating the extent to which inflation continues to erode workers' real incomes. Real total pay in the private sector grew by 1.1 per cent in this time while real public sector pay growth grew by 2.1 per cent.

Private-sector regular was 7.8 per cent in the third quarter of 2023 (representing the one of the largest growth rates in private sector regular pay outside of the pandemic period) and 7.7 per cent if we include bonuses. Our forecast for the fourth quarter of 2023 sees these figures at 7.2 and 7.3 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 8.6 per cent. Though this figure partially reflects the impact of one-off civil service payments, it has fallen substantially from the series high recorded last month of 12.5 per cent which was largely driven by one-off NHS and civil-service bonus payments. We forecast public sector total pay growth to decrease to 5.9 per cent in the fourth 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 8.2 per cent in the third quarter of 2023, decreasing from 8.5 per cent in the three months to August (revised up from 8.3). 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 5.5 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 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:

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

National Institute of Economic and Social Research
2 Dean Trench Street
Smith Square
London, SW1P 3HE
United Kingdom

Switchboard Telephone Number: 020 7222 7665
Website: http://www.niesr.ac.uk

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
Sep-22	578	621	574	625	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	665	612	667	633	656
Aug-23	620	663	616	669	635	640
Sep-23	621	673	616	676	640	643
Oct-23	623	670	619	676	640	647
Nov-23	627	674	624	678	642	653
Dec-23	631	677	628	683	644	650
% change 3 month average year on year						
Sep-22	5.7	5.9	6.7	6.7	2.2	2.3
Oct-22	6.1	6.1	7.0	6.9	2.8	2.8
Nov-22	6.5	6.5	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	8.6	8.1	8.8	6.6	12.1
Aug-23	7.9	8.2	8.1	7.2	6.9	12.5
Sep-23	7.7	7.9	7.8	7.7	7.3	8.6
Oct-23	7.4	7.5	7.5	7.5	6.7	7.1
Nov-23	7.0	7.5	7.2	7.5	6.1	6.7
Dec-23	6.9	7.1	7.2	7.3	5.1	5.9
% change month on same month of previous year						
Sep-22	6.1	6.0	7.1	6.8	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	8.3	7.9	7.8	7.1	10.3
Aug-23	7.8	7.1	8.1	7.0	6.9	7.4
Sep-23	7.4	8.4	7.3	8.2	7.9	7.9
Oct-23	6.9	7.1	7.2	7.2	5.3	5.9
Nov-23	6.8	7.1	7.0	7.1	5.1	6.3
Dec-23	7.1	7.1	7.3	7.4	4.8	5.5