National Institute of Economic and Social Research

NIESR Monthly Wage Tracker

Earnings Growth Remains Strong, But Shows Signs of Slowing

Max Mosley

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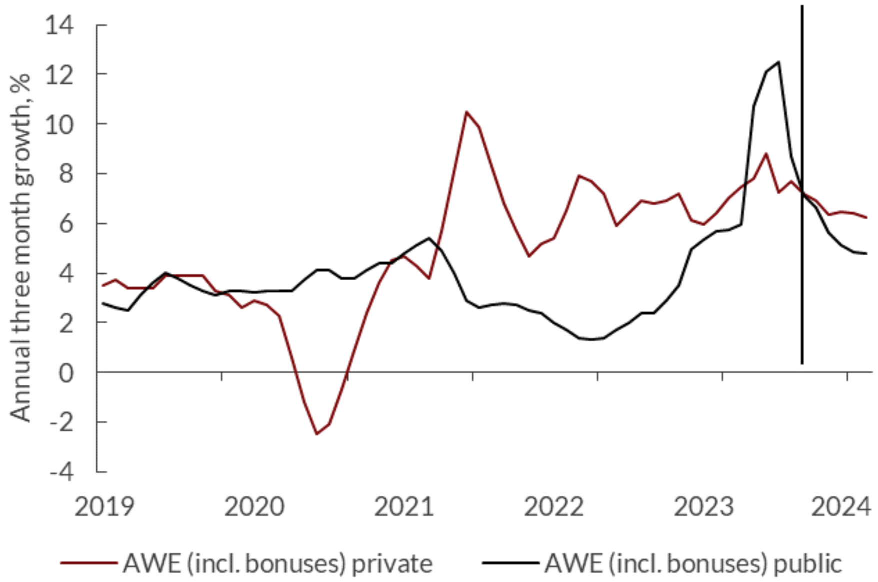
“Today's data show that average weekly earnings, excluding bonuses, rose by 7.3 per cent in August to October 2023 and by 7.2 per cent with bonuses, which is affected by one-off civil service bonus payments. While this remains high and well above historical averages, it has only recently started to outpace inflation. Taking price rises into account, total regular pay grew by 1.4 per cent and by 1.3 per cent including bonuses over the same period, meaning that workers have only recently seen their pay catch up with prices after a prolonged period of falling real wages. Furthermore, the experimental labour market data suggest that the unemployment rate remained unchanged at 4.2 per cent, while the number of job vacancies fell by 45,000 in the three months to November. Overall, these figures indicate that labour market continues to loosen at a slow pace and wage growth will remain elevated in the upcoming period."

Max Mosley
Senior Economist

Figure 1 – Average weekly earnings in public and private sectors



Main Points

- **Pay growth remains strong:** The latest ONS estimates suggest that the annual growth rate of average weekly earnings, including bonuses, was 7.2 per cent in the three months to October 2023 while pay growth excluding bonuses 7.3 per cent. Despite showing signs of slowdown these figures remain among the highest annual regular pay growth rates recorded since comparable records began in 2001.

- **We forecast wage growth to slow as the labour market continues to cool**: economy-wide total pay (incl. bonuses) and regular pay are projected to grow at 6.2 per cent and 6.3 per cent, respectively, in the fourth quarter of this year. Our early forecast for the first quarter of 2024 sees these figures at 6.2 and 6.3 per cent, respectively.

- **Private and public sector wage growth converges but is projected to widen again:** the latest figures show regular pay grew by 7.3 per cent in the private sector and 6.9 per cent in the public sector in August to October. Our forecast indicates that regular pay for private and public sector will grow by 6.5 per cent and 4.7 per cent, respectively, by the end of the first quarter of 2024.

- **The further fall in vacancies is driving the cooling of labour market conditions:** while the unemployment and inactivity rates remain unchanged, it is the 45,000 fall in vacancies in the three months to November that is currently driving a cooling in the labour market. However, the unemployment to vacancy ratio remains steady at 1.4.

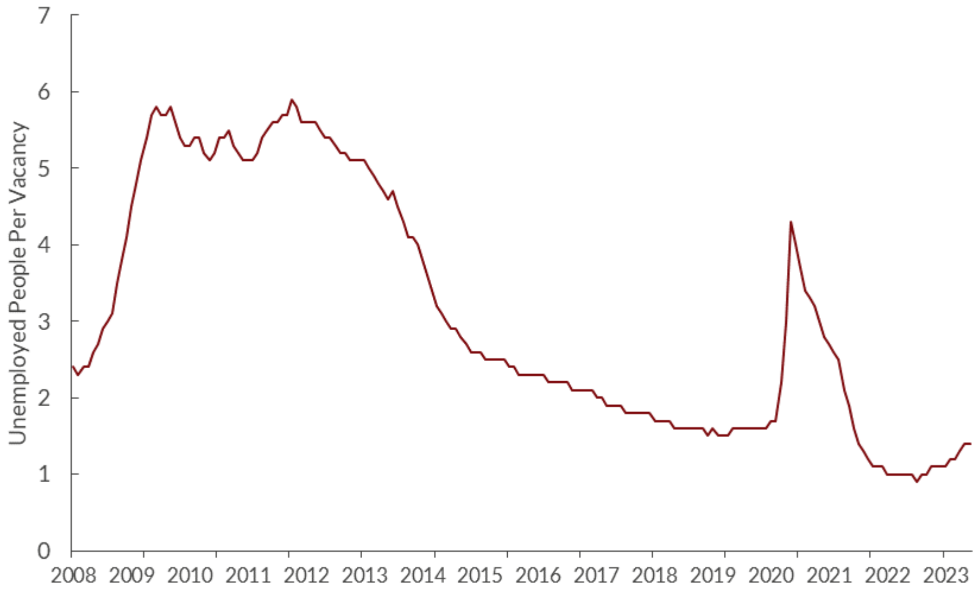
Vacancies and employment

The number of job vacancies fell by 45,000 in the three months to November, representing a 4.5 per cent decrease on the quarter and marking the 17th consecutive period in which vacancy numbers have fallen. This alongside a gradual increase in the unemployment rate over the last few months signals that the labour market is slightly 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, unemployment and inactivity rates remained largely unchanged on the quarter, at 75.7 per cent, 4.2 per cent, and 20.9 per cent respectively. 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 unemployment-to-vacancy ratio, which stands at 1.4 as of November. 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 949,000 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.

Figure 2 – Unemployed People Per Vacancy

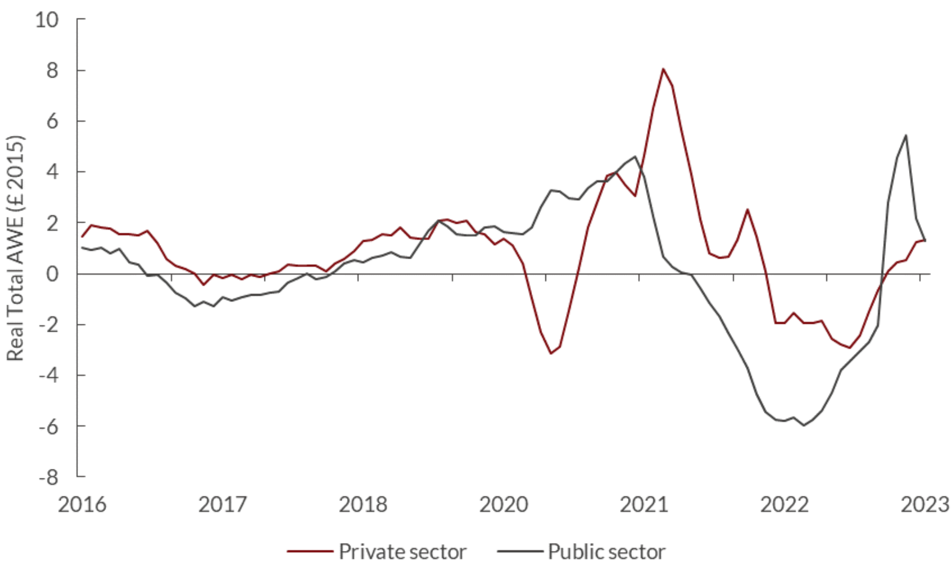


High-frequency data

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 32-month low. That said, temporary work placements decreased in November after two months of expansion, albeit at a slower rate than permanent appointments, suggesting that employers may prefer the flexible contracts amid weak economic outlook.

A recent report by hiring lab – the economic research branch of job-posting site Indeed – notes that the labour market continued to soften in November, as their proprietary the data saw a decrease in hiring demand throughout the month. This gradual easing can be expected to bring nominal wage growth to a more moderate level in the medium-term. That said, the report finds that wage growth remains very elevated in certain lower-paid occupations, such as childcare and cleaning, due to lower jobseeker interest in those categories (as noted by a reduction in clicks on job posts).

Figure 3 – Real average weekly earnings in public and private sectors



Another hiring lab report notes that the number of 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.

Pay

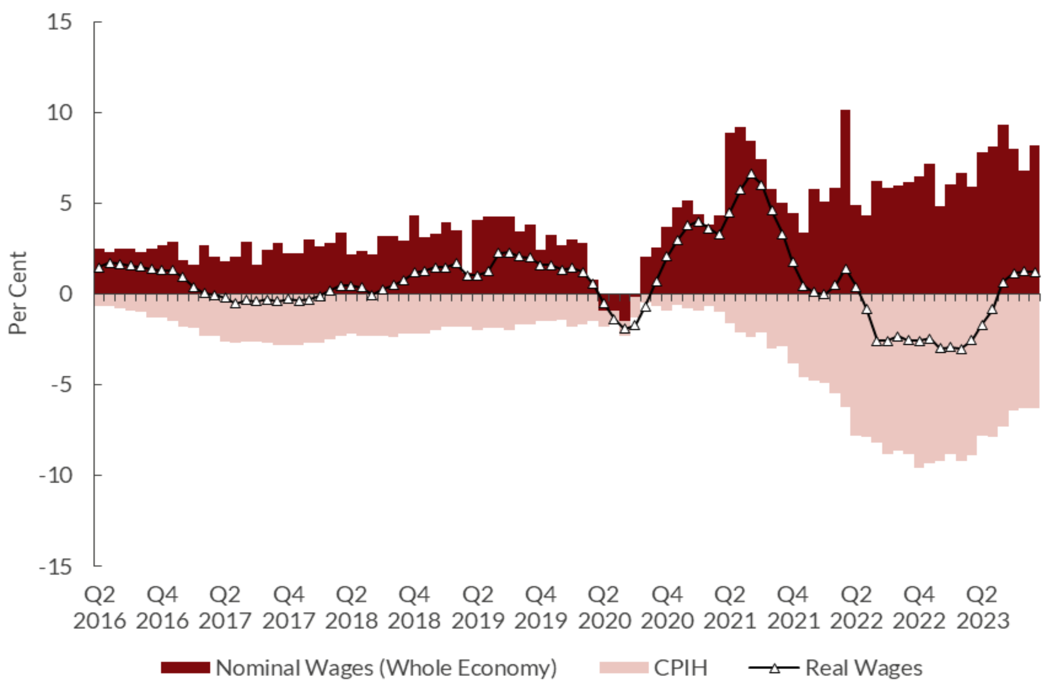
The annual growth rate of average weekly earnings, including bonuses, was 7.2 per cent in the three months to October 2023 while pay growth excluding bonuses 7.3 per cent – remaining among the highest annual regular pay growth rates recorded since comparable records began in 2001.

When we adjust for inflation, real economy-wide total pay growth falls from 7.2 per cent to 1.3 per cent in the three-month period to October, indicating the extent to which inflation continues to erode workers' real incomes. Real total pay in both private and public sector grew by 1.3 per cent in August to October 2023.

Private-sector regular pay growth was 7.3 per cent in the three months to October and 7.2 per cent if we include bonuses. We forecast both of these figures at 6.4 per cent in the fourth quarter of 2023. Our early forecast for the first quarter of 2024 sees these figures at 6.5 per cent and 6.2 per cent, respectively.

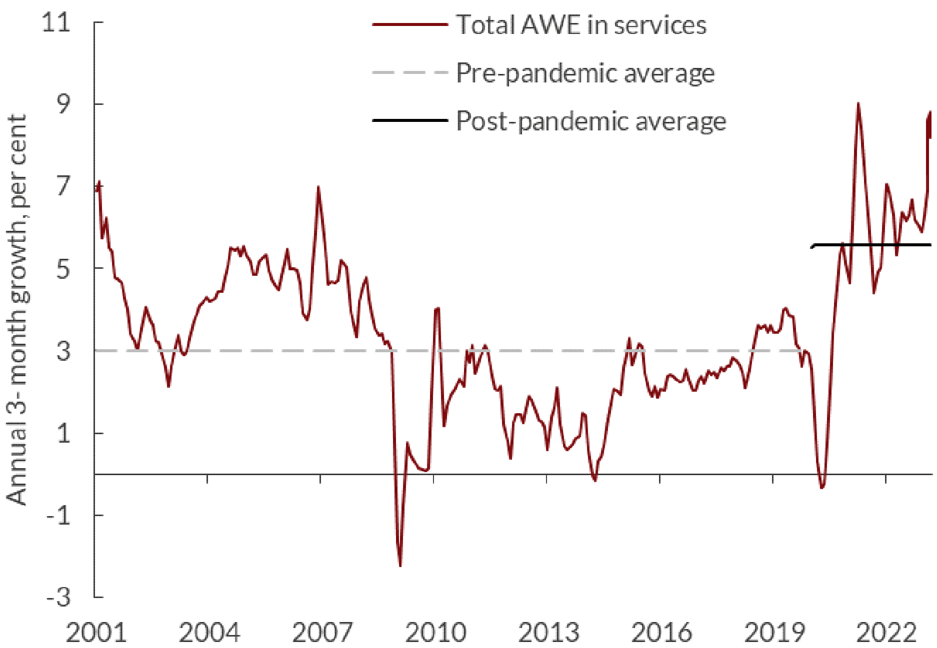
Public-sector total AWE annual growth has been on an increasing path since April 2022 of 1.3 per cent and is currently sitting at 7.1 per cent. This figure has fallen substantially from the series high recorded in August of 12.5 per cent which was largely driven by one-off NHS and civil-service bonus payments. We forecast public sector total pay growth to decrease to 5.6 per cent in the fourth quarter of 2023 and 4.8 per cent in the first quarter of 2024.

Figure 4 – Real average weekly earnings



Notes: Real wages estimated using 3 month average growth rate so may not perfectly match the difference between nominal wages and CPIH.

Figure 5 -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 7.4 per cent in August to October, decreasing from 8.2 per cent in the third quarter of 2023. As Figure 5 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 5.6 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 may concern monetary policymakers at the upcoming MPC meeting on 14 December, 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. Not only does strong wage growth pose an inflationary risk, but also it can create tension in financial markets. Strong labour market data may lead to a rise in the US term premium in October as investors become less sure about the path of short-term interest rates and possibly anticipate a further fed rate hike. One way to calm market uncertainty despite strong wage data would be for central banks to publish rate path forecasts, in order to align market expectations to a particular, but not definite, trajectory.

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***
Oct-22	583	626	578	632	607	610
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	664	615	669	634	641
Sep-23	622	674	617	675	642	645
Oct-23	620	663	615	672	642	645
Nov-23	624	668	620	673	643	650
Dec-23	627	673	624	678	645	649
Jan-24	630	675	626	681	648	650
Feb-24	633	678	629	684	649	652
Mar-24	636	681	633	687	651	654
% change 3 month average year on year						
Oct-22	6.1	6.2	6.9	6.9	2.8	2.8
Nov-22	6.5	6.5	7.3	7.2	3.3	3.4
Dec-22	6.7	6.1	7.3	6.6	4.3	4.3
Jan-23	6.6	5.9	7.0	6.2	4.9	5.0
Feb-23	6.7	5.8	7.0	5.9	5.3	5.4
Mar-23	6.8	6.2	7.1	6.3	5.6	5.6
Apr-23	7.3	6.8	7.7	7.0	5.7	5.7
May-23	7.5	7.2	7.9	7.5	5.9	6.0
Jun-23	7.8	8.4	8.2	7.8	6.2	10.7
Jul-23	7.9	8.5	8.1	8.8	6.6	12.1
Aug-23	7.9	8.2	8.1	7.3	6.8	12.5
Sep-23	7.8	8.0	7.9	7.7	7.4	8.7
Oct-23	7.3	7.2	7.3	7.2	6.9	7.1
Nov-23	6.7	6.9	6.7	6.9	6.4	6.6
Dec-23	6.3	6.2	6.4	6.4	5.4	5.6
Jan-24	6.4	6.4	6.6	6.4	4.9	5.1
Feb-24	6.3	6.3	6.6	6.4	4.8	4.9
Mar-24	6.1	6.0	6.5	6.2	4.7	4.8
% change month on same month of previous year						
Oct-22	6.6	6.4	7.2	7.3	3.9	3.8
Nov-22	6.9	7.0	7.6	7.7	4.3	4.4
Dec-22	6.6	4.7	7.1	4.8	4.8	4.7
Jan-23	6.3	5.9	6.5	6.0	5.8	6.0
Feb-23	7.1	6.8	7.5	7.0	5.4	5.4
Mar-23	7.1	5.9	7.5	6.0	5.5	5.6
Apr-23	7.7	7.8	8.1	8.0	6.1	6.1
May-23	7.7	8.1	8.1	8.5	6.1	6.2
Jun-23	8.0	9.3	8.3	7.0	6.6	19.8
Jul-23	7.9	8.2	8.0	7.7	7.1	10.3
Aug-23	7.8	7.2	8.1	7.1	6.8	7.5
Sep-23	7.7	8.5	7.5	8.2	8.2	8.2
Oct-23	6.3	6.0	6.4	6.3	5.7	5.8
Nov-23	6.3	6.3	6.3	6.2	5.3	5.9
Dec-23	6.5	6.5	6.6	6.5	5.1	5.2
Jan-24	6.4	6.4	6.8	6.6	4.4	4.3
Feb-24	6.0	5.9	6.3	6.0	4.8	5.0
Mar-24	6.0	5.8	6.3	6.0	4.9	5.0