National Institute of Economic and Social Research

NIESR Monthly Wage Tracker

What Can We Learn from the New LFS Figures?

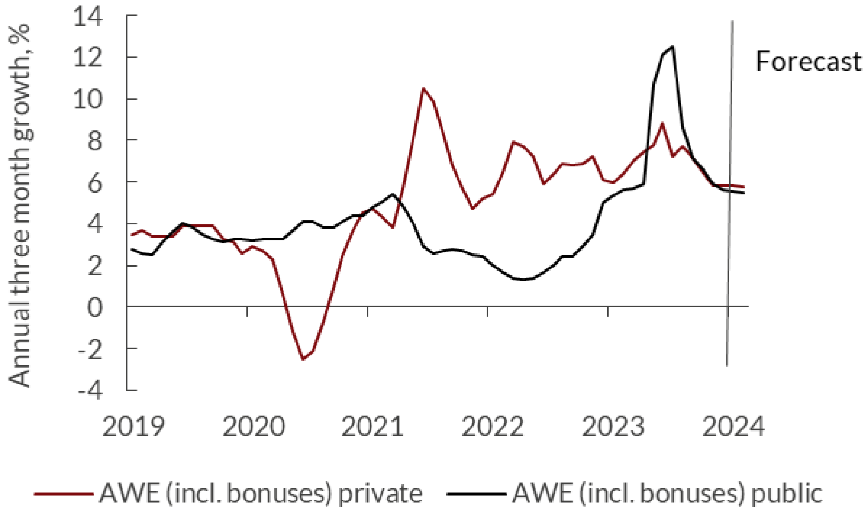
Paula Bejarano Carbo and Max Mosley

13th February 2024

"Today's ONS figures indicate that the annual growth rate in average weekly earnings, including bonuses, was 5.8 per cent in the fourth quarter of 2023, and 6.2 per cent excluding bonuses. While these figures remain high by historical standards, they indicate that wage growth softened towards the end of the year, after peaking over summer. Today's data release also sees the reintroduction of Labour Force Survey data for the first time since October 2023, which indicate that in the year to the fourth quarter of 2023, the employment rate fell by 1.2 percentage points to 75.0 per cent, the unemployment rate fell by 0.2 percentage points to 3.8 per cent, and the inactivity rate increased by 1.4 percentage points to 21.9 per cent. Concerningly, the latter was driven by an increase in the number of people out of work because they are long-term sick, which has reached record levels. With vacancies falling steadily for the 19th consecutive period, the vacancy-to-unemployment ratio was 0.71 in the fourth quarter of 2023, representing a 0.16 percentage points fall on the year, and indicating that the labour market has loosened in this time. If this trend continues, wage growth is likely to gradually return to historical levels in the medium-term."

Paula Bejarano Carbo
Economist, NIESR

Figure 1 – Average weekly earnings in public and private sectors



Main Points

- **Pay growth remains strong:** The annual growth rate of average weekly earnings, including bonuses, was 5.8 per cent in the fourth quarter of 2023 while pay growth excluding bonuses was 6.2 per cent. These figures indicate that wage growth continued to soften towards the end of 2023, after peaking over summer (Figure 1).

- **We forecast wage growth to slow as the labour market continues to cool**: we forecast economy-wide total pay (incl. bonuses) and regular pay to grow by 5.8 and 6.1 per cent in the first quarter of 2024, respectively.

- **Labour Force Survey data was reintroduced today:** On 5 February, the ONS released newly reweighted LFS estimates to better reflect the latest estimates of the size and composition of the UK population, and improve the post-pandemic data adjustments. Today marks the first data release since October 2023 in which these data have been updated. The latest LFS data indicate that in the year to the fourth quarter of 2023, the employment rate fell by 1.2 percentage points to 75.0 per cent, the unemployment rate fell by 0.2 percentage points to 3.8 per cent, and the inactivity rate increased by 1.4 percentage points to 21.9 per cent.

ONS Labour Force Survey: Issues

The Labour Force Survey (LFS) provides the basis for estimates of key labour market measures (including employment, unemployment, and economic inactivity) in the United Kingdom. The LFS collects data from a sample of households; thus, to provide representative estimates of national statistics, the collected LFS data are reweighted according to recent estimates of the UK population. The ONS suspended LFS-derived labour market measures in October 2023 as issues with the LFS became apparent. Notably, questions around the reweighting of LFS sample data and a falling survey response rate challenged the reliability of LFS data.

Following the Covid-19 pandemic, LFS data collection moved from face-to-face interviews to telephone interviews, which decreased survey response rates and altered the composition of LFS sampling. As noted in this piece by Bill Wells, which outlines a range of developments in various labour market statistics since the Covid-19 pandemic, this led the ONS to reweight and adjust the data in this time, which caused discrepancies between the LFS statistics and other ONS labour market statistics such as those of the Workforce Jobs (WFJ) estimates and the Real-Time Information/Pay As You Earn (RTI/PAYE) figures. At the same time, the falling number of responses to the LFS led to increased volatility in estimates. Altogether, this led to decreased confidence in the LFS estimates.

Consequently, new data for key labour market variables was not updated from October 2023 (impacting data from June 2023 onwards) while the ONS made improvements to LFS estimates, creating significant uncertainty surrounding the state of the labour market.

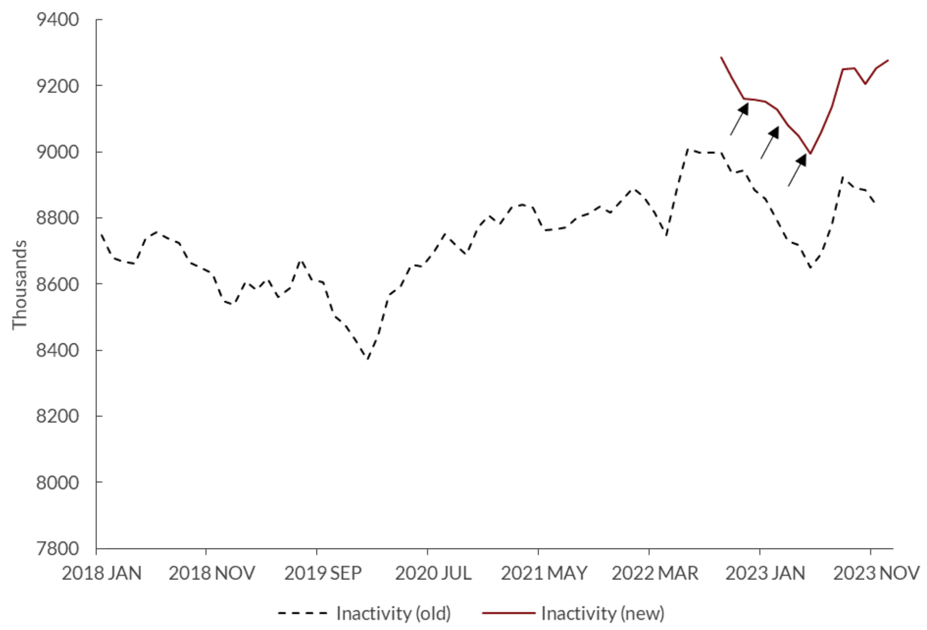
ONS Labour Force Survey: Updates

On 5 February, the ONS released newly reweighted LFS estimates to better reflect the latest estimates of the size and composition of the UK population, and improve the post-pandemic data adjustments.

The UK population is now estimated to have increased more since mid-2021 than previously thought. Also, there are more people aged 16-24 and 35-49, less people aged 25-34 and 60-64, and more women than previously thought. This has obvious implications for labour market variables: for instance, since people aged 16-24 and women tend to have higher rates of economic inactivity than other groups, these compositional changes will impact estimates of the inactivity rate.

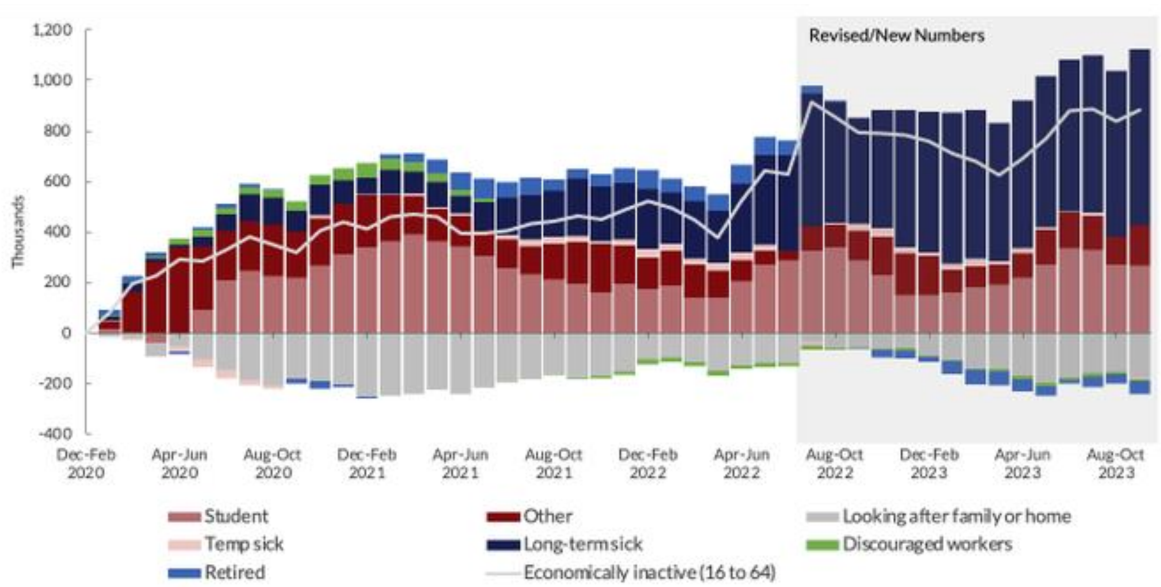
The 5 February reweighting indicates that the overall number of people in employment and economically inactive has increased significantly, while the number of unemployed people has increased marginally. Looking at rates rather than levels, in the three months to November 2023, the employment rate fell by 0.7pp, unemployment rose by 0.1pp and inactivity was 0.7pp higher than estimates based on previous weighting. The latter revision was the most important, suggesting 500,000 more people were inactive than previously thought, to a new total of 9.3 million (Figure 2).

Figure 2 – Inactivity Before and After 5 February ONS Revisions



The re-introduction of inactivity by reason was most revealing. First, it shows that inactivity relative to before the pandemic has not only been persistent, but has been rising for the period in which LFS estimates were not being released. Second, it shows inactivity due to long-term sickness (the main driver of the above), has also been rising since the pandemic.

Figure 3– Inactivity by Reason following 5 February ONS Revisions



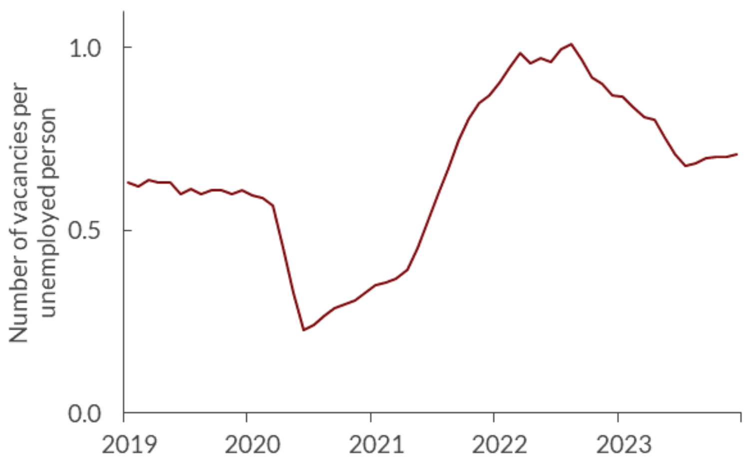
Vacancies and employment

Today's data release also sees the reintroduction of Labour Force Survey data for the first time since October 2023, which indicate that in the year to the fourth quarter of 2023, the employment rate fell by 1.2 percentage points to 75.0 per cent, the unemployment rate fell by 0.2 percentage points to 3.8 per cent, and the inactivity rate increased by 1.4 percentage points to 21.9 per cent.

A good measure of labour market tightness is the vacancy-to-unemployment ratio. Figure 4 plots the vacancy-to-unemployment ratio, which stood at 0.71 at the end of 2023, compared to an average of 0.52 in 2015-2019 and a historical average of 0.42. Decreasing vacancies have driven an overall gradual loosening of the labour market since 2022. In fact, the number of job vacancies fell by 26,000 in the three months to January 2024, representing a 2.6 per cent decrease on the quarter and marking the 19th consecutive period in which vacancy numbers have fallen. That said, figure 4 illustrates that the vacancy-to-unemployment ratio has risen marginally in recent months. This partially reflects unemployment data being lower than previously thought. That said, in our recent UK Economic Outlook, we forecast the unemployment rate to rise slowly in the medium term. If this trend of a gradual loosening of the labour market continues as result of falling vacancies and/or increased unemployment, we can expect wage growth to return to historical levels in a few years' time.

The latest KPMG and REC report on Jobs notes that economic uncertainty led to a further fall in permanent placements in January, decreased vacancy postings and increased redundancies. Despite this increase in caution on the labour demand side, the report notes that candidate availability grew at the end of the year, with survey data indicating increased labour supply. Taken together, this survey data aligns with LFS estimates pointing to a moderate but gradual loosening of the labour market since late 2022.

Figure 4 – Vacancy-to-unemployment ratio

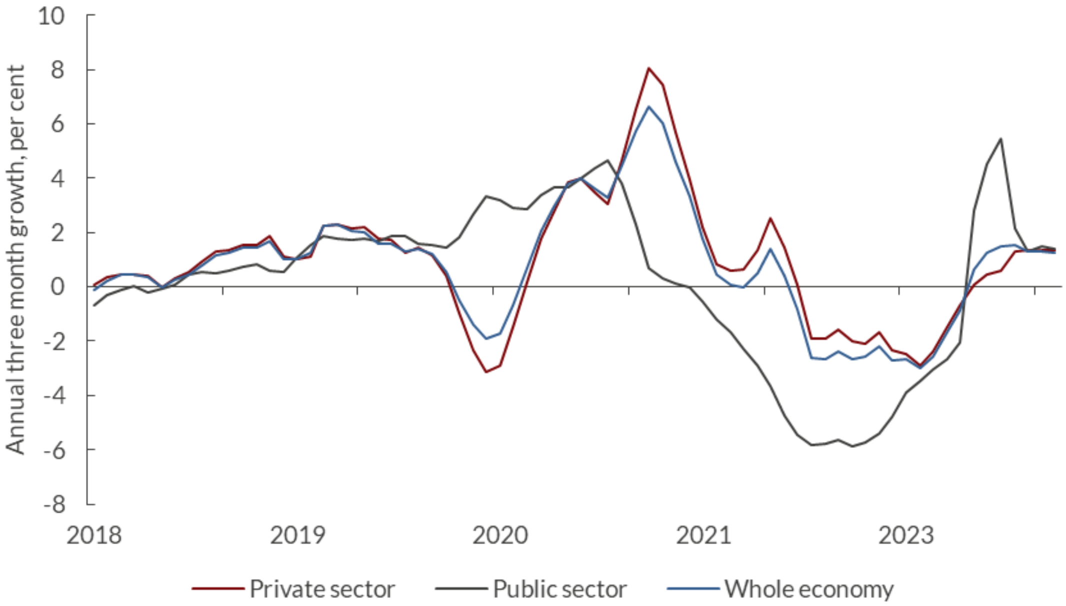


Pay

The annual growth rate of average weekly earnings, including bonuses, was 5.8 per cent in the fourth quarter of 2023 while pay growth excluding bonuses was 6.2 per cent. These figures indicate that wage growth continued to soften towards the end of 2023, after peaking over summer (Figure 1).

When we adjust for inflation, annual real economy-wide total pay growth falls from 5.8 per cent to 1.4 per cent in the fourth quarter of 2023, indicating the extent to which inflation continues to erode workers' real incomes. Annual real total pay in the private and public sectors both grew by 1.4 per cent in the fourth quarter of 2024, having converged in recent months (Figure 5).

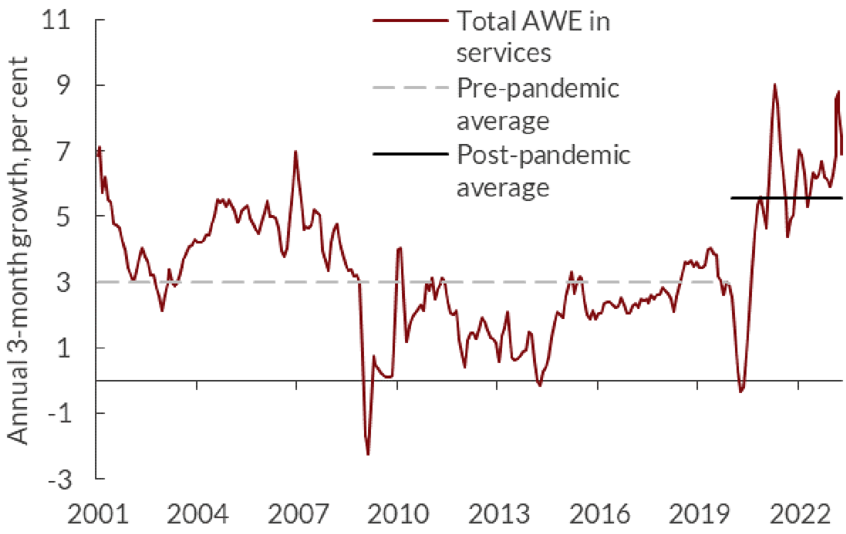
Figure 5 – Real average weekly earnings in public and private sectors



Private-sector annual regular pay growth was 6.2 per cent in the fourth quarter of 2023 and 5.8 per cent if we include bonuses. Our forecast for the first quarter of 2024 sees these figures at 6.3 per cent and 5.8 per cent, respectively.

Public-sector annual total AWE growth was 5.8 per cent in the fourth quarter of 2023. 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 to grow by 5.5 per cent in the first quarter of 2024.

Figure 6 -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 5.9 per cent in the fourth 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 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 the labour market remaining somewhat tight by historical standards may 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. Indeed, as noted in Haskel et al.'s (2023) recent model of the wage-price determinants of inflation in the United Kingdom, increased labour market tightness and its effect on elevated wage inflation became increasingly important components of CPI inflation throughout 2023.

Not only does strong wage growth pose an inflationary risk, but also it can create tension in financial markets. As we noted in our last term premium tracker, strong labour market data may have led to a rise in the US term premium in October as investors became less sure about the path of short-term interest rates and possibly anticipated 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:

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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***
Dec-22	590	634	585	638	613	615
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	673	617	674	642	645
Oct-23	619	664	614	670	643	646
Nov-23	624	667	619	672	646	649
Dec-23	626	669	622	674	649	651
Jan-24	630	674	625	678	651	655
Feb-24	633	677	629	682	653	657
Mar-24	636	680	632	684	655	659
% change 3 month average year on year						
Dec-22	6.7	6.4	7.3	6.8	4.2	4.1
Jan-23	6.6	6.2	7.0	6.4	4.8	4.8
Feb-23	6.7	5.9	7.0	6.1	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	8.3	8.1	7.3	6.8	12.5
Sep-23	7.8	8.0	7.8	7.7	7.4	8.6
Oct-23	7.2	7.2	7.2	7.2	7.0	7.2
Nov-23	6.7	6.7	6.6	6.7	6.7	6.7
Dec-23	6.2	5.8	6.2	5.8	5.9	5.9
Jan-24	6.3	5.8	6.4	5.8	5.6	5.6
Feb-24	6.2	5.8	6.4	5.8	5.4	5.5
Mar-24	6.1	5.8	6.3	5.8	5.2	5.5
% change month on same month of previous year						
Dec-22	6.7	5.1	7.1	5.1	4.6	4.4
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	7.3	7.9	7.2	6.7	7.4
Sep-23	7.6	8.4	7.5	8.2	8.3	8.2
Oct-23	6.2	5.9	6.2	6.2	5.9	5.9
Nov-23	6.3	5.7	6.2	5.7	5.9	6.0
Dec-23	6.1	5.5	6.3	5.6	5.9	5.9
Jan-24	6.4	6.2	6.7	6.1	5.0	5.0
Feb-24	6.0	5.8	6.2	5.7	5.3	5.7
Mar-24	6.0	5.5	6.2	5.6	5.5	5.7