National Institute of Economic and Social Research

NIESR Monthly Wage Tracker

Strong Wage Growth Persists Amidst Rise in National Minimum Wage

Monica George Michail

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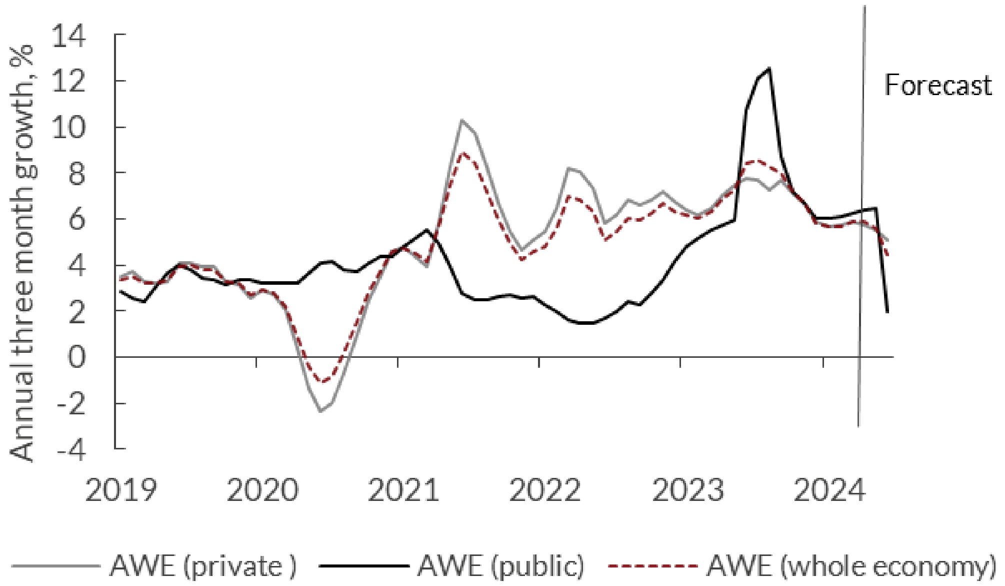
"Wage growth continues to be strong at 5.9 per cent (6 per cent excluding bonuses) in the three months to April, amidst the 9.8 percent hike in minimum wage. With inflation falling, real income gains for employees recorded 2.2 per cent in the three months to April, its highest level since October 2021. However, the persistence of wage growth also raises concerns about stickier inflation, prompting the Bank of England to remain cautious about interest rate cuts. We expect wage pressures to ease gradually in the coming months as the labour market cools, with unemployment rising relative to vacancies."

Monica George Michail
Associate Economist, NIESR

Figure 1 – Average weekly earnings in public and private sectors



Main Points

- **Growth in average weekly earnings (including bonuses) remains strong, recording 5.9 per cent in the three months to April 2024**, and 6.0 per cent excluding bonuses.
- With inflation falling, these figures represent a **2.2 per cent increase in real pay**, the highest level since October 2021.
- Amidst the 9.8 per cent minimum wage hike in April and better than expected economic recovery, total **wage growth is expected to remain strong at 4.5 per cent in the second quarter of 2024.** However, we expect pay growth to gradually slow as the labour market cools in the following months.
- The persistence of high wage growth raises concerns about stickier inflation and **prompts the Bank of England to remain cautious with regards to interest rate cuts.**
- **Unemployment rate has risen by 0.4 pp on the quarter**, recording 4.4 per cent in the three months to April, the highest level in three years.
- **The vacancy-to-unemployment ratio remains on a downward trend**, amidst a rise in unemployment and a gradual fall in labour demand, **indicating that the labour market continues to cool.**

Vacancies and employment

Today's release suggests that the employment rate continued falling, reaching 74.3 per cent, while the unemployment rate increased by 0.4 pp on the quarter, reaching 4.4 per cent, the highest level in three years. These figures indicate that the labour market continues to cool which could exert downward pressure on inflation. However, LFS data remains volatile so should be treated with caution.

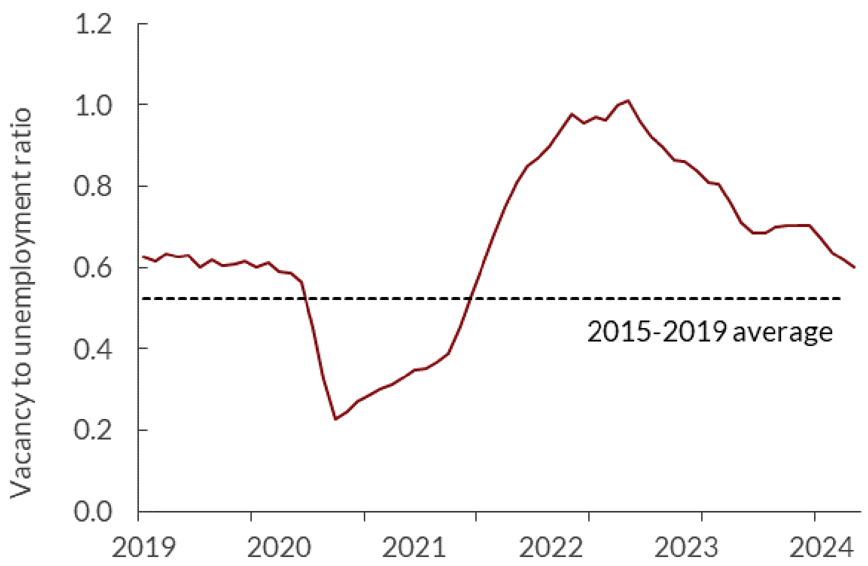
The inactivity rate rose to 22.3 per cent, its highest level since 2015. As discussed in our last UK Economic Outlook, rising inactivity rates since the Covid-19 pandemic are mainly attributed to a rise in long-term illness, possibly driven by long NHS waiting lists.

A good measure of labour market tightness is the vacancy-to-unemployment ratio. Figure 2 shows the vacancy-to-unemployment ratio continues to fall, reaching 0.6 in April, its lowest level in three years, compared to an average of 0.52 in 2015-2019. Decreasing vacancies have driven an overall gradual loosening of the labour market since 2022. The number of job vacancies fell by 12 thousand on the quarter in the three months to May 2024, representing a 1.3 per cent decrease.

In our last 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 the future.

The latest KPMG and REC report on Jobs suggests that demand for staff continues to fall in May, although at a slower pace compared to April, with a significant rise in staff availability and a fall in vacancies, supporting our analysis that the labour market continues to loosen.

Figure 2 – Vacancy-to-unemployment ratio



Pay

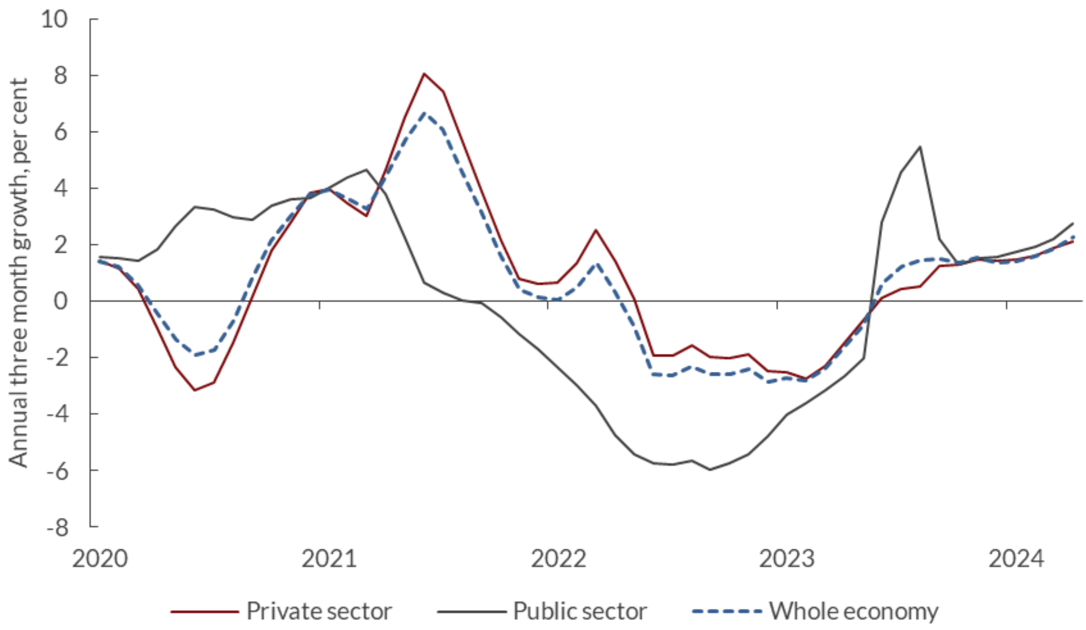
The annual growth rate of average weekly earnings, including bonuses, was 5.9 per cent in the three months to April 2024, while pay growth excluding bonuses was 6.0 per cent. These figures indicate that wage growth remains high by historical standards, although it has softened from its peak in mid-2023 (Figure 1).

The latest Hiring Lab Report by Indeed indicates that wage rises in April were predominantly driven by low-paid jobs, as expected amidst the recent national minimum wage hike.

With inflation falling, annual real economy-wide total pay growth records 2.2 per cent in the three months to April, its highest level in three years. Annual real total pay in the private and public sectors grew by 2.1 and 2.8 per cent in three months to April, respectively (Figure 3). Real wage growth is expected to bolster the UK economy's recovery from a shallow recession.

Going forward, we expect wage growth to remain strong at 4.5 per cent in the second quarter of this year as a result of the minimum wage hike and stronger than expected recovery in economic activity. However, continued loosening in the labour market is expected to slow down wage growth to its historical levels in the second half of this year. That being said, the current persistence of high wage growth, combined with ripple effects from the 9.8 percent rise in minimum wage hike and sticky inflation in April, means that the Bank of England may remain cautious against interest rate cuts.

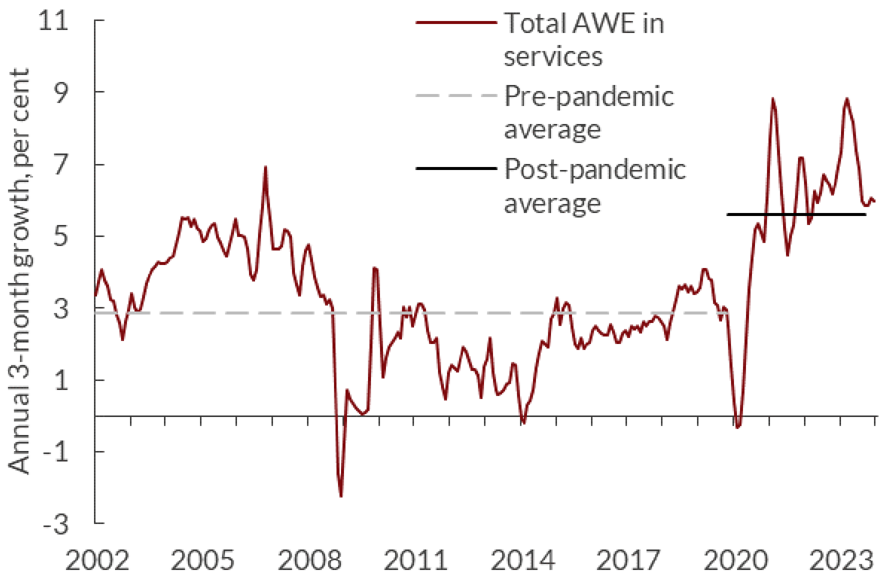
Figure 3 – Real average weekly earnings in public and private sectors



Private-sector annual regular pay growth was 5.9 per cent in the three months to April and 5.7 per cent if we include bonuses. Our estimate for the second quarter of 2024 sees both these figures at 5.1 per cent. We therefore expect private sector workers to continue making real income gains in the coming months, which can be interpreted as a 'wage catch-up' period following over a year of real income losses.

Public-sector annual total AWE growth was 6.4 per cent in the three months to April. We estimate annual public sector total pay to grow by just 2.0 per cent in the second quarter of 2024, amidst a large base effect from the one-off NHS and civil-service bonus payments in June 2023.

Figure 4 -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 6.0 per cent in the three months to April. As Figure 4 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 2.9 per cent from January 2002 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. With energy price inflation 'dropping out' of the CPI basket in recent months, services inflation is keeping CPI inflation elevated.

While it is positive that wage growth in the services sector has been on a steady downwards trend since mid-2022, it remains well above its pre-pandemic average (Figure 4). 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 tighter monetary conditions. 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.

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
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	666	619	671	647	649
Dec-23	626	670	622	674	651	653
Jan-24	628	672	621	677	657	658
Feb-24	633	679	627	683	658	660
Mar-24	637	684	631	687	662	664
Apr-24	640	687	635	690	662	665
May-24	642	688	637	692	665	667
Jun-24	644	690	639	694	667	669
% change 3 month average year on year						
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	7.2	7.2	7.2	7.1	7.0	7.2
Nov-23	6.7	6.7	6.6	6.7	6.6	6.7
Dec-23	6.2	5.8	6.2	5.9	5.9	6.0
Jan-24	6.1	5.6	6.1	5.7	6.0	6.0
Feb-24	6.0	5.7	6.0	5.7	6.1	6.1
Mar-24	6.0	5.9	5.9	5.9	6.3	6.2
Apr-24	6.0	5.9	5.9	5.7	6.3	6.4
May-24	5.7	5.6	5.5	5.5	6.4	6.5
Jun-24	5.2	4.5	5.1	5.1	6.2	2.0
% change month on same month of previous year						
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	6.1	6.0	6.2	6.2	5.8	5.8
Nov-23	6.2	5.6	6.3	5.7	5.9	6.0
Dec-23	6.2	5.8	6.2	5.7	6.0	6.1
Jan-24	5.9	5.5	5.9	5.7	5.7	5.4
Feb-24	5.9	5.8	5.8	5.8	6.2	6.2
Mar-24	6.2	6.3	6.0	6.1	6.7	6.6
Apr-24	5.8	5.6	5.7	5.2	6.1	6.3
May-24	5.0	5.0	4.8	5.2	6.3	6.4
Jun-24	4.9	2.9	4.8	4.8	6.2	-5.9