

United Kingdom

Weak pay growth expectations put cloud over UK economic outlook

- **Survey data point to meagre pay growth in 2015**
- **Widespread pay freezes set to continue**
- **Data strike warning note for forecasters anticipating economic growth based on pay revival**

A survey of just under 1,000 UK employees shows an ongoing lack of pay pressures in the economy. [The results](#) point to an estimated average (mean) increase in employee earnings of just 1.1% in 2015. The average expected pay increase in the public sector is 0.8% compared to 1.2% in the private sector.

The survey data indicate that there are clearly few signs of pay growth picking up in 2015. This is a major concern as the sustainability of the current economic upturn appears to be very dependent on pay growth reviving.

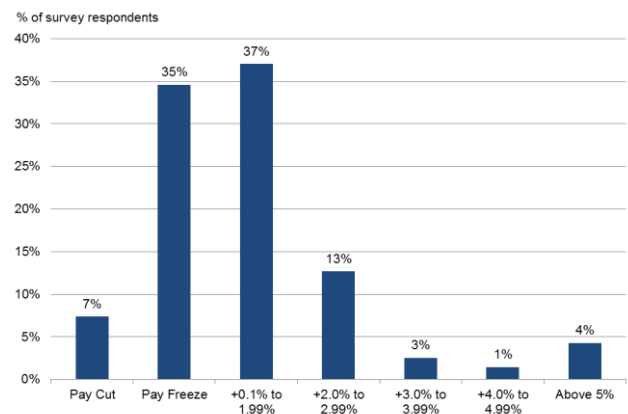
The weakness of pay growth is not just a consequence of public sector pay being hit by austerity-related spending cuts. There are scant signs of pay growth reviving in the private sector, where 40% of employees are either facing a pay freeze or pay cut this year.

The only real signs of rising pay pressures are among new hires, as indicated by [recruitment industry surveys](#), where skill shortages are forcing employers to offer higher salaries to attract suitable staff. People not changing jobs, constituting the vast majority of the workforce, are clearly struggling to negotiate higher pay, linked partly to record low inflation.

Like many others, the Bank of England is expecting a revival of pay growth to help support ongoing robust economic expansion this year. These data suggest policymakers are likely to be disappointed, meaning economic growth is likely to fall short of the 2.9 percent expansion currently being forecast by the Bank for 2015. The absence of upward pay pressures means interest rates are likely to stay low for longer, with the survey data adding to the likelihood of rates not rising until next year.

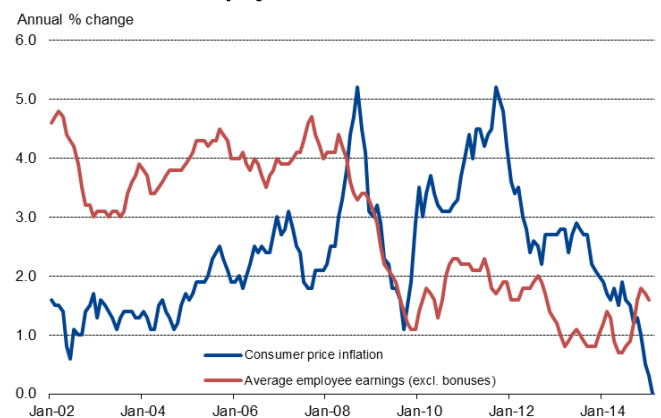
UK pay expectations

Thinking about your income from employment for 2015 as a whole, and without taking into account the impact of tax changes, which of the following best describes your expected earnings?



Source: Ipsos MORI/Markit.
Survey excluded those not currently earning.

UK inflation and pay



Sources: Markit, Office for National Statistics

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