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Pay growth expectations at lowest level since 2022, new CIPD research shows

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UK employers' anticipated wage growth for the next twelve months fell last quarter from 4% to 3%, according to the latest Labour Market Outlook report from the CIPD.

They had held at 5% throughout 2023 before falling to 4% at the turn of this year. With pay intentions cooling and cost-of-living challenges persisting, the CIPD is calling on employers to look at other ways they can support employees, such as improving job quality and incorporating financial wellness into their wellbeing strategies.

The quarterly CIPD report surveys 2,000 UK employers about their pay, hiring and redundancy intentions. This latest survey found that pay expectations have slowed to their lowest rate since the summer of 2022. Median basic pay increase expectations fell from 4% to 3% in the private and voluntary sectors and from 3% to 2.5% among public sector employers.

James Cockett, senior labour market economist for the CIPD, the professional body for HR and people development, said: "Falls in expected pay rises were anticipated now inflation is within a tolerable range for employees. However, many workers will still feel worse off than they did a couple of years ago, so other benefits like providing flexible working, offering benefits that help boost take home pay, and taking steps to improve job quality, are in employers' interest to help both support and retain staff."

Further highlights from this Labour Market Outlook include:

- The net employment balance – which measures the difference between employers expecting to increase staff levels in the next three months and those expecting to decrease – has continued its downward path. It was +18 this quarter, +19 last quarter, and +22 the quarter before.

- Two thirds of employers (66%) plan to recruit in the next three months with employment intentions remaining highest in the public sector (81%).
- 37% of employers have hard-to-fill vacancies. These vacancies are much higher in the public sector (48%) compared to the private sector (34%).

The employment landscape is set to be further defined by proposals made in the Government's 'Plan to Make Work Pay'. In a cooling labour market, the CIPD says that it's vital that the Government's proposals support rather than undermine employment opportunities. It is calling on the Government to consult closely with employers and business groups to ensure that any changes to day-one rights and probation periods have the best outcomes for both individuals and employers.

Focus on the public sector

The public sector has the highest recruitment intentions but also has the highest likelihood of plans to decrease staff levels. This could be because it has a higher rate of hard-to-fill vacancies (48% vs 34% in the private sector) and is more likely to anticipate significant problems filling future vacancies too (38% vs 15%). These figures point to a sector that urgently needs to recruit but cannot hire the people it needs.

When surveyed just ahead of the general election, half (48%) of public sector employers said they were planning a pay decision in the next three months (July-September), compared to just 17% of the private sector. Over this period, the CIPD's Labour Market Outlook shows they anticipated pay increases of just 2.5% compared to the 4.75%-6% which has since been confirmed by Chancellor Rachel Reeves in late July.

Cockett comments: "Our survey suggests that many public sector employers did not expect the level of pay rises that have been put in place by the Government for the rest of 2024.Pay is the first lever the Government have pulled in trying to make working in the public sector more attractive. However, on its own, it is unlikely to make a significant difference in helping gain candidates for hard-to-fill vacancies. Strategic workforce planning to ensure the supply of qualified doctors, nurses and teachers is also important for the long-term success of the economy. Among the wider workforce investing in skills and training, people management and technology is key in unlocking productivity gains and relieving some workload stresses, thus leading to stronger economic growth. This will be fundamental in helping all organisations to become fit for the future."

Read the report