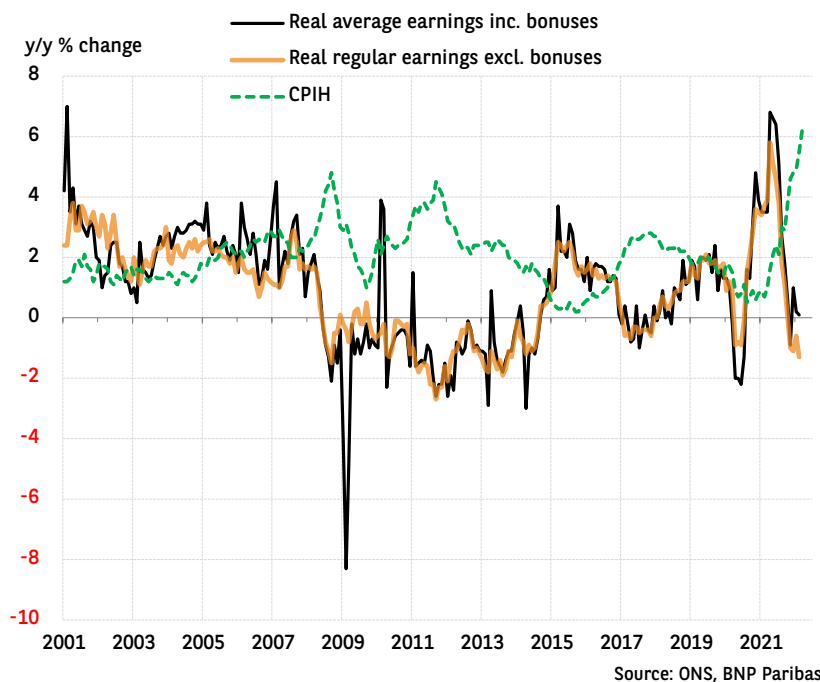


27 April 2022

UNITED KINGDOM: HIGHER INFLATION CAUSES DECLINE IN REAL WAGES

Félix Berte

United Kingdom: real average earnings and inflation



Faced with multiple pressures on prices, the United Kingdom has seen a sharp increase in inflation: CPIH hit 6.2% in March¹. For households, this acceleration has resulted in a considerable deterioration in purchasing power. In real terms – that is, inflation-adjusted – the trend in wages was clearly negative (-1%) year-on-year in February 2022. However, bonus payments have offset this reduction, with wages including bonuses rising slightly (0.4%).

The abrupt slowdown in real wage increases over little more than a year (in spring 2021, they were growing at 6%) has resulted in a collapse in consumer confidence, which in April fell to a near-record low of -38 points on the GfK index, close to the low point during the economic and financial crisis of 2008. This also affected retail sales (-2.2% q/q in February), where the decline has been increasing over the past three months.

Meanwhile, labour market pressures, given the very low unemployment rate (3.8% in February), are simultaneously good and bad news. Given the flexibility of the UK's labour market, they will help support wage increases, which will have the effect of mitigating the inflationary shock to purchasing power. But they could also contribute to increased inflationary pressures by triggering a price-wage spiral.

Having first been seen as transitory by the monetary authorities, inflation has proved both stronger and more persistent than expected. The Bank of England's Monetary Policy Committee (MPC) has already made three successive rate increases, taking its policy rate to 0.75% on 23 March. Against this background, the eagerly awaited MPC meeting of 5 May is likely to bring further tightening of monetary policy.

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¹ Consumer price inflation including owner occupiers' housing costs.

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