

Real wages fall -1.2% in December as pay lags behind inflation

Wage growth in the UK struggled to keep up with increasing inflation between October and December 2021, according to the latest Office for National Statistics (ONS) data.

Average weekly pay packets across Britain fell in December by -1.2%, reflecting how wages are struggling to keep up with the rising cost of living.

And while regular wages, excluding bonuses, increased by 3.6% between October and December 2021, when adjusted for inflation regular pay actually fell on the year at -0.8%.

Recent labour market data has shown how [wage rises are struggling](#) to keep pace with spiralling inflation.

With inflation expected to rise above 7% this year, the Bank of England has warned that this hit to workers will likely get worse.

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“These figures confirm working people still face a fragile recovery in the face of a growing cost of living crisis and spiralling inflation,” said Pat McFadden MP, Labour’s shadow chief secretary to the Treasury, in response to the data.

Britain’s cost of living squeeze has seen a surge in prices across the board led by higher household bills but also including rising petrol, energy, and food costs.

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It is set to worsen in the spring after Ofgem announced an increase in the [energy price cap](#), which will add around £700 on average to annual gas and electricity charges for millions of consumers.

Early estimates for January 2022 suggest that median monthly

pay increased by 6.3% compared with January 2021 – although this does not account for rising costs of living and does not reflect what most workers are experiencing. Much of this growth is being driven by employers hiking wages to attract talent in the face staffing shortages.



Image:

Andrew Bailey, the governor of the Bank of England, has been criticised for suggesting workers should not ask for big pay rises

Other figures released by the data authority show that between October and December 2021, employment was 75.5%, while unemployment was 4.1%, and economic inactivity was 21.2%.

“The good news is that the UK economy is continuing to create jobs,” said Matthew Percival, director for people and skills at the Confederation of British Industry (CBI). “The bad news is that businesses are struggling to hire and pay is failing to keep up with inflation.”

“Bold action is needed to go for growth, with steps to address skills and labour shortages,” he added.

The most recent figures show that job vacancies hit a new

record high of 1.3 million, while unemployment fell to 4.1%, only slightly above pre-pandemic levels, according to the ONS.

Last week, the Bank of England governor Andrew Bailey was criticised after suggesting that workers should not ask for big pay rises as it battles surging inflation.

One union leader described the comments as a “sick joke” while Downing Street said the wage restraint urged by Mr Bailey was “not something that the prime minister is calling for”.

The Bank has acted to combat accelerating price growth by [hiking interest rates to 0.5%](#). But if employees ask for big wage increases to match the cost of living, its task could be made harder.

That is because of the risk that employers would then pass on those higher wage costs to consumers in the form of prices, creating an inflation spiral.