

Forecasts for pay awards in 2023

In early 2023 pay awards reached a 32-year high on the back of a tight labour market and cost-of-living crisis. Our latest survey looks at how organisations are planning to compensate their workforce this year.

The past year has seen pay rises that many of us have not witnessed before in our working lives - and in the last couple of months, rates have moved even higher. In the year to the end of December 2022, the median basic pay rise stood at 4%. But on the more responsive three-month measure, pay awards reached a 5% median in the three months to the end of December 2022 before rising to 6% early in 2023.

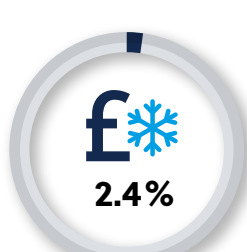
But will this 32-year high be maintained? Our latest pay survey gathered data from 266 organisations on pay awards and forecasts for 2023. We investigate what is driving the level of increases, including external factors such as the national minimum wage regime.

Majority of organisations planning a pay rise

We asked organisations what the outcome of their 2023 pay review was likely to be:



of employee groups can expect a pay rise

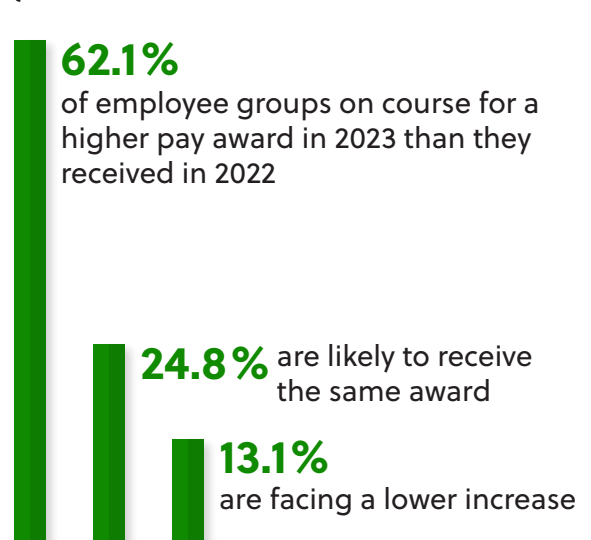


of employee groups have been predicted a pay freeze

(the outcome for the remainder is still uncertain or could result in rises for some workers and freezes for others).

10% of deals lower than last year

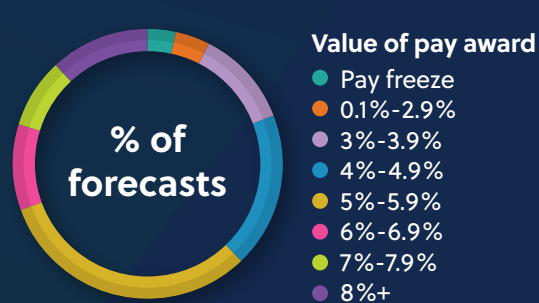
Where organisations were able to predict the value of their 2023 pay award, we asked how this would compare with the award made last year:



Pay award forecast, 2023

We asked survey respondents to provide a forecast for the overall level of pay award for 2023, and found that:

- organisations are predicting a median 5% pay award in 2023;
- pay settlements continue to be across a fairly wide spread, with the interquartile range or middle half falling between 4% and 6%;
- the most common prediction is 5%, with three in 10 awards at exactly this level;
- private-sector-services firms mirror the whole-economy figure, with a 5% median increase this year and an interquartile range of 4% to 6%;
- a wide spread of pay award outcomes is expected among manufacturing-and-production companies, with the middle half of deals falling between 3.5% and 7%, but centred on a 5% median as in other sectors; and
- more than one award in 10 (11.7%) is expected to be worth 8% or more.



In many industries there is a clear jump in the value of pay awards from last year to this, while some of the highest paying industries last year are expecting to maintain that level of increase in 2023 rather than see it rise further.

Pay award forecasts, by industry

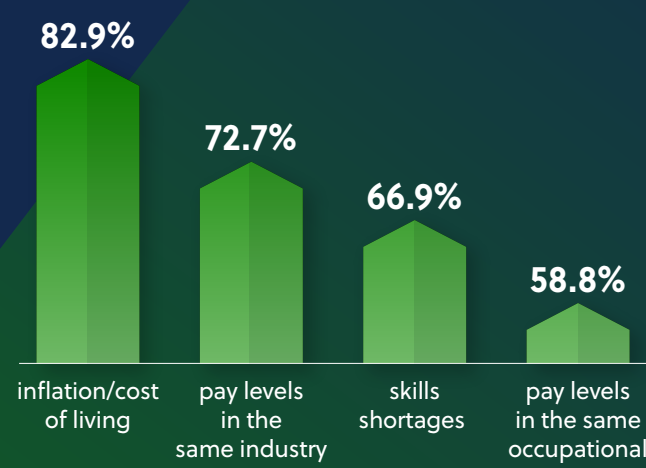


n = 191 employee groups (2023); 1,129 pay awards (2022). Source: XpertHR.

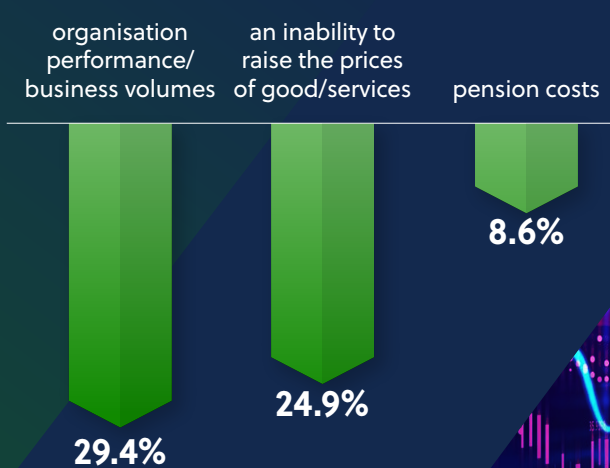
Upward pressure on pay awards continues

The majority (98%) of organisations reported that at least one factor is expected to exert upwards pressure on pay awards, compared with 49.8% specifying at least one downward factor.

The most common upward pressures are from the following:



By contrast, downward pressures, which were cited far less frequently, include:



National living wage increases April 2023

The national living wage - for adults aged 23 and over - will increase by 9.7% in April 2023, to £10.42 an hour. More than four in 10 (44%) of our survey respondents have employees paid this rate and will therefore have to make an increase to this level.

As a result of these payments, more than half (53.8%) of organisations expect that pay differentials - the difference in pay between one level of employee and the next - will be squeezed. Around one in three (32.5%) expect to be able to maintain current differentials.

How does the 9.7% pay increase in April 2023 for workers paid the national living wage compare/is likely to compare for other workers in your organisation this year?



- Workers paid the national living wage will/are likely to receive a **higher** pay award than other workers
- Workers paid the national living wage will/are likely to receive the **same** pay award as other workers
- Workers paid the national living wage will/are likely to receive a **lower** pay award than other workers
- Don't know
- Other

Our findings suggest that pay awards may well fall from their current rate of 6% (in the three months to the end of February 2023), to 5% over the year as a whole. There is still pressure on employers to increase the level of pay awards - not least while inflation remains high and national minimum wage increases must be adhered to - but perhaps we have seen the peak for now.

The view from XpertHR

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