



International
Labour
Organization

▶ ILO Flagship Report

▶ **Global
Wage
Report**

2022-23

The impact of
inflation and
COVID-19 on
wages and
purchasing power

EXECUTIVE SUMMARY

Introduction

This edition of the *Global Wage Report* shows that wages and the purchasing power of households have been dented considerably during the past three years, first by the COVID-19 pandemic and then, as the world economy started to recover from that crisis, by the global rise in inflation. Available evidence for 2022 suggests that rising inflation is causing real wage growth to dip into negative figures in many countries, reducing the purchasing power of the middle class and hitting low-income groups particularly hard. This cost-of-living crisis comes on top of significant losses in the total wage bill for workers and their families during the COVID-19 crisis, which in many countries had the greatest impact on low-income groups. In the absence of adequate policy responses, the near future could see a sharp erosion of the real incomes of workers and their families and an increase in inequality, threatening the economic recovery and possibly fuelling further social unrest.

The global economic and labour market context

Since the previous edition of the *Global Wage Report* was published two years ago, humanity has been confronted with several overlapping crises: the COVID-19 pandemic, the outbreak of war in Ukraine in February 2022, and the rise in the cost of living that began in 2021 and has intensified rapidly during 2022 across countries and regions. It is not surprising that, in this climate of uncertainty, the International Monetary Fund lowered its projection for global growth in 2022 from the 3.6 per cent forecast in April 2022 to 3.2 per cent in July, while the October forecasts predict that global growth will slow down by between 2 and 2.7 per cent in 2023: for many people 2023 will feel like a recession. With regard to labour markets, by the second quarter of 2022 employment levels had bounced back (in some cases exceeded) those observed before the pandemic in high-income countries, while in middle- and low-income countries employment levels remained at about 2 per cent below the pre-pandemic level and employment in the informal economy was found to be rising faster than in the formal economy. One major concern is currently the rapid increase in inflation rates worldwide with price pressures in the last two quarters of 2022 proving quite stubborn despite a global response tightening

of monetary policy since mid-2022. Projections suggest that inflation will reach 8.8 per cent globally by the end of 2022, declining to 6.5 per cent in 2023 and 4.1 per cent in 2024. Unless wages and other types of labour income are adjusted to inflation, the living standards of many workers and their families are likely to decline.

Wage trends

Global wage trends

In this inflationary context, preliminary data for the first half of 2022 reveal a striking fall in real monthly wages. The report estimates that global monthly wages fell in real terms to –0.9 per cent in the first half of 2022 – the first negative global wage growth recorded since the first edition of the *Global Wage Report* in 2008. If China, where wage growth is higher than in most other countries, is excluded from the computations, the fall in real wages during the same period is estimated at –1.4 per cent. Among the G20 countries, which account for some 60 per cent of the world's wage employees, real wages in the first half of 2022 are estimated to have declined to –2.2 per cent in advanced economies, while wage growth in emerging economies slowed but remained positive at 0.8 per cent. This clearly indicates that nominal wages in many countries have not been adjusted sufficiently in the first half of 2022 to offset the rise in the cost of living.

This erosion of real wages comes on top of some significant wage losses incurred by workers and their families during the COVID-19 crisis. Although average wages increased globally by 1.5 per cent in 2020 and by 1.8 per cent in 2021, the increase in 2020 at the height of the pandemic was largely due to job losses and the change in the composition of employment in some large countries, such as the United States of America. In these countries, a majority of those who lost their jobs and hence their earnings during the pandemic were low-paid wage employees, while their higher-paid counterparts remained employed, thereby increasing the estimated average wage. As a result of this “composition effect” in some countries, average real wages in the advanced G20 economies jumped by 1.7 per cent in 2020, the highest wage growth recorded in many years, but then increased by a much lower rate of 0.4 per cent in 2021. In the emerging G20 economies, where the adverse impact of the COVID-19 crisis was reflected more

strongly in wages and hours worked than in the number of workers employed, average real wage growth slowed from 3.4 per cent in 2019 to 2.4 per cent in 2020 before rebounding to 4.5 per cent in 2021.

Regional wage trends

The following regional wage trends may be discerned:

- ▶ In Northern America (Canada and the United States), the composition effect was very pronounced in 2020, with average real wages suddenly jumping by 4.3 per cent. Wage growth then slid down to 0 per cent in 2021 and dropped to –3.2 per cent in the first half of 2022.
- ▶ In Latin America and the Caribbean, the composition effect was also very visible, with real wages increasing by 3.3 per cent in 2020. Wage growth then decreased to –1.4 per cent in 2021 and –1.7 per cent in the first half of 2022.
- ▶ In the European Union, where job retention schemes and wage subsidies largely protected employment and wage levels during the pandemic, real wage growth slowed down to 0.4 per cent in 2020, increased to 1.3 per cent in 2021 and fell to –2.4 per cent in the first half of 2022.
- ▶ In Eastern Europe, real wage growth slowed down to 4.0 per cent in 2020 and 3.3 per cent in 2021, and fell to –3.3 per cent in the first half of 2022.
- ▶ In Asia and the Pacific, real wage growth slowed down to 1.0 per cent in 2020, increased to 3.5 per cent in 2021 and slowed down again in the first half of 2022 to 1.3 per cent.
- ▶ In Central and Western Asia, real wage growth fell by –1.6 per cent in 2020, recovered strongly in 2021 and slowed down to 2.5 per cent in the first half of 2022.
- ▶ In Africa, evidence suggests a sharp fall in real wage growth of –10.5 per cent in 2020 and thereafter real wage growth of –1.4 per cent in 2021 and –0.5 per cent in the first half of 2022.
- ▶ In the Arab States wage trends are tentative, but estimates point to low wage growth of 0.8 per cent in 2020, 0.5 per cent in 2021 and 1.2 per cent in 2022.

Wage indices in the G20 economies

Looking at a longer period, real wage growth among all G20 countries between 2008 and 2022 was highest in China, where real monthly wages in 2022 were equivalent to about 2.6 times their real value in 2008. In four countries – Italy, Japan, Mexico and the United Kingdom of Great Britain and Northern Ireland – it appears that real wages were lower in 2022 than in 2008. Conversion of all the G20 countries' average wages into US dollars using purchasing power parity exchange rates yields a simple average wage of about US\$4,000 per month in the advanced G20 economies and of approximately US\$1,800 per month in the emerging G20 economies.

Wages and productivity trends in high-income countries

Productivity growth is a key factor in achieving real wage growth. As pointed out in previous editions of the *Global Wage Report*, average wage growth has lagged behind average labour productivity growth since the early 1980s in several large, developed economies. This report shows that in 52 high-income countries for which data are available, real wage growth has been lower than productivity growth since 2000. Whereas the sharp decline in labour productivity growth during 2020 momentarily reduced the gap, the erosion of real wages in the first half of 2022, combined with positive productivity growth, has once more increased the gap between productivity and wage growth. In fact, in 2022 the gap between productivity growth and wage growth reached its widest point since the start of the twenty-first century, with productivity growth 12.6 percentage points above wage growth.

Beyond averages: The greater impact of inflation on the purchasing power of low-wage earners

The cost of inflation across the income distribution

The rise in inflation is often discussed as part of a narrative implying that the increase in the cost of living is the same for all households. However, the

report shows that rising inflation can have a greater cost-of-living impact on lower-income households. This is because such households spend most of their disposable income on essential goods and services, which generally experience greater price increases than non-essential items.

In Mexico, for example, households in the bottom decile (the lowest 10 per cent) of the income distribution spend 42 per cent of their income on food, whereas those in the top decile spend only 14 per cent on food. A comparison of the evolution of the prices of different groups of items with that of the general consumer price index (CPI) for about 100 countries from all regional groups indicates that the prices of food, housing and transport have all increased more rapidly than the general CPI. By estimating the change in the cost of living between 2021 and 2022 at each decile of the household income distribution, the report finds that the increase in the cost of living among low-income households can be between 1 and 4 percentage points higher than that faced by high-income ones.

This means that even if wages were adjusted to compensate for the increase in the average cost of living as measured by the CPI, low-income households would still suffer in many countries from an erosion in the purchasing power of workers' wages.

Inflation biting into the purchasing power of minimum wages

Minimum wages are a widely used instrument around the world to protect the incomes and the purchasing power of low-paid workers and their families. However, owing to the effect of accelerating price inflation, minimum wages have decreased in real terms in various countries – even when measured against the average CPI. For example, during 2020–22, the minimum wage decreased in real terms owing to rising inflation in Bulgaria, the Republic of Korea, Spain, Sri Lanka, the United Kingdom and the United States. These trends reflect the way in which the cost-of-living crisis has hit low-paid workers particularly hard.

How have the total wages earned by women and men been affected by the COVID-19 crisis and inflation?

The evolution of the total wage bill before and during the COVID-19 crisis

The erosion of real wages due to inflation is in addition to significant wage losses incurred by workers and their families during the COVID-19 crisis, which are not captured in the data on average wages. The report thus also looks at changes in the total real wage bill (the sum of all wages received by employees, adjusted for inflation) since 2019. This analysis reveals how the combination of job losses, shorter hours worked and adjustments in hourly wages during the crisis resulted in an accumulation of lost earnings for wage employees and their families in many countries.

Drawing on data from 28 countries representing different regions and income groups, the report finds that in 20 of these countries the total wage bill decreased by between 1 and 26 per cent during 2020. The average decline in the total wage bill for the sample of 28 countries was 6.2 per cent, which is equivalent to the loss of three weeks of wages, on average, for each wage employee. Among the 21 countries with data available for both 2020 and 2021, the decrease in the total wage bill is equivalent to four weeks of wages in 2020 and two weeks in 2021, implying a cumulative loss of six weeks of wages over these two years. The decline in the total real wage bill was more pronounced in low- and middle-income countries than in high-income countries, where job retention schemes and wage subsidies sustained both wage employment and nominal wage levels during lockdowns, even when there was a decrease in the number of hours worked.

Decomposing the change in the total wage bill for women and men

Analysis of the contributions of different components – namely, employment changes (including jobs and hours worked), changes in the nominal wage and changes due to inflation – reveals that employment losses were the main driver of the

change in the total wage bill during 2020. That being said, in many countries the percentage decrease in the wage bill was smaller than the fall in employment because those who lost their jobs tended to be lower-paid workers. In 2021, the second year of the pandemic, employment outcomes began to improve overall, but the decomposition reveals the strong irruption of inflation as a factor impacting negatively on the growth of the total wage bill. Estimates from some 30 countries show that the contribution of inflation to the decline in the total wage bill ranged from 1 to 18 per cent. In 2022, inflation has become the dominant factor behind the decline in the total wage bill. Thus, in all 12 countries with data up to the first quarters of 2022 inflation has eroded the total real wage bill, with its contribution ranging from 2.2 to 18.2 per cent.

If the total wage bills for women and men are considered separately, estimates indicate that employment losses (including jobs and hours worked) from 2020 to 2022 were greater among women, particularly during 2020, even though employment levels in the last two years recovered for both women and men. At the same time, and especially during 2020, increases in average wages were greater for women. This suggests that the employment losses of women were even more concentrated among low-paid workers than those of men, leading to a stronger composition effect and hence a greater jump in average wages for women. Thus, despite losing more employment than men in almost all countries, particularly during 2020, women experienced a smaller decrease in the total wage bill. The contribution of inflation to the erosion of the total wage bill was found to be similar for both women and men, particularly in 2021 and 2022.

Wages and employment across the wage distribution in the formal and informal economies

Analysis also shows how the employment and wages of low-paid workers and workers in the informal economy have been impacted disproportionately. The report categorizes wage workers according to their monthly earnings into five groups: one representing the bottom 20 per cent of the wage distribution, another the top 20 per cent, and three intermediary groups of 20 per cent each. In 8 out of 11 countries, employment losses in 2020

were greater among the lowest-paid and second-lowest-paid groups, while in 7 of the 11 countries those in the lowest-paid group received lower nominal and real wages relative to 2019. Similarly, employment losses among wage employees in informal employment were greater than among formal employees.

Wage inequality and the gender pay gap

Wage inequality

How has wage inequality evolved over the past few years? A first glance at various inequality estimates based on data from several countries across regions and income groups suggests that there is no general answer to this question. In 10 out of 22 countries studied, monthly wage inequality increased, while in the remaining 12 countries it decreased. Although there are exceptions, in most countries the direction of change in monthly wage inequality (positive or negative) is consistent with the direction of change in hourly wage inequality.

Reduced wage inequality in some countries may at least partly be due to a composition effect. If workers who lost their jobs during the COVID-19 crisis were mostly low-paid workers, it is possible that measures of wage inequality may have decreased as a result of a more compressed wage distribution among the remaining employees. To investigate this hypothesis, the report disaggregates changes in wage inequality between those due to composition effects and those due to a “structural” component (wage compression resulting, for example, from a higher minimum wage). The findings are not conclusive, with about half of the countries showing an increase in structural inequality and the other half a decrease. However, the decomposition exercise does point to structural wage inequalities in some countries that may become more noticeable over time, as employment levels recover and the composition effect in the data gradually vanishes. Unless these structural aspects are addressed, there is a risk that the COVID-19 crisis may leave a “scar” in their labour markets in the form of higher wage inequality.

It should be noted here that a decrease in wage inequality does not necessarily imply a decline in overall income inequality. When a composition effect compresses the wage distribution – for example,

when low-paid workers lose their jobs – this may translate into greater unemployment among low-income households, leading to an increase in income inequality.

Gender pay gaps

The overall gender pay gap does not seem to have changed significantly since the years immediately before the outbreak of the pandemic. The estimates presented in the *Global Wage Report 2018/19* indicated a global average gender pay gap of about 20 per cent, based on data from 80 countries. This edition examines the evolution of gender pay gaps in a more limited sample of countries, finding very little change between 2019 and 2021–22. Among 22 countries, the factor-weighted gender pay gap increased in 9 countries and decreased in 13 countries. On the whole, gender pay gaps in these countries were not greatly affected by the COVID-19 crisis. Whereas estimates based on mean hourly wages show an average drop of 0.6 percentage points among the 22 countries, estimates based on mean monthly earnings show an increase of less than 0.1 percentage points. Given that the gender pay gap remains persistently high across countries and regions, greater efforts are required to tackle gender inequalities in the labour market.

Policy discussion

Just as the recovery from the COVID-19 crisis was getting under way, the growing impact of a widespread and severe inflationary crisis, together with a global slowdown in economic growth (driven in part by the war in Ukraine and the global energy crisis), is pushing real wage growth into negative figures in many countries and regions. In this context, it is more than ever necessary to adopt measures aimed at maintaining the living standards of wage workers and their families. The final section of the report provides an overview of policy options and responses to the cost-of-living crisis.

From the second quarter of 2022 onwards, central banks and monetary authorities across the globe have responded to the current inflation crisis by, in particular, raising interest rates to stop inflation from soaring further. However, the tight monetary policy could lead to adverse outcomes for certain segments of the population and trigger a period of recession. Although central banks are aware of

this risk, the alternative scenario of continued price inflation is considered even more undesirable. One key question in this regard is whether a wage-price spiral is likely to set in. Drawing on empirical evidence, the report shows that nominal wages are not catching up with inflation as measured by the CPI, and that the gap between wage growth and labour productivity growth in high-income countries is continuing to widen, with labour productivity increasing in the first half of 2022 and wages falling in real terms. Hence, there would appear to be scope in many countries for increasing wages without fear of generating a wage-price spiral.

Given that 327 million wage earners before the pandemic, or 19 per cent of all wage employees worldwide, earned at or below the applicable hourly minimum wage, an adequate adjustment of the minimum wage would in itself help significantly to improve the living standards of low-income households in the current cost-of-living crisis. The importance of minimum wages as a tool for social justice is highlighted by the fact that 90 per cent of ILO Member States have minimum wage systems in place. Minimum wages can protect low-paid workers against hefty losses of purchasing power at times of high inflation. However, for this mechanism to be effective, it is necessary that minimum wages be adjusted regularly to take into account the needs of workers and their families, along with economic factors. This adjustment process should be undertaken with the full participation of the social partners and involve evidence-based social dialogue, in line with the Minimum Wage Fixing Convention, 1970 (No. 131).

Strong social dialogue, including collective bargaining, can be instrumental in achieving wage adjustments during a crisis. The prerequisite for this is adequate representation of employers' and workers' voices. Furthermore, social dialogue can benefit from the use of sound empirical evidence to inform bipartite or tripartite negotiations. This report has highlighted the importance of using relevant data to examine the impact of the COVID-19 crisis on the labour market outcomes of wage employees. In particular, such data can be used to disentangle the effects of employment composition on wage outcomes, leading to a more accurate understanding of how the crisis affected employees across the wage distribution.

Additional policies that can ease the impact of the cost-of-living crisis on households range from

measures targeting specific groups, such as means-tested vouchers provided to low-income households to enable them to buy essential goods, to more general interventions aimed at reducing the cost of living for all households, such as the (often temporary) reduction of indirect taxation on goods and services for all. For example, many governments are providing low-income households with energy vouchers to help them cope with the current energy crisis. Cuts to value added tax can also mitigate the burden of inflation among households while further helping to reduce inflation. Some countries have introduced windfall taxes on oil and gas companies to help pay for these measures.

Significantly more needs to be done to further reduce gender pay inequalities in the world of work. This includes addressing the part of the gender pay gap that can be explained in terms of the labour market attributes of women, that is, by improving the educational situation of women and striving for a more equitable distribution of women and men across occupations and industries. It also includes addressing other factors underlying the gender pay gap – notably by reducing the motherhood pay gap, increasing pay in undervalued, highly feminized sectors and industries, and implementing legal frameworks and policies to increase pay transparency at the enterprise level with a view to eliminating pay discrimination. Countries across the world

should make use of platforms like the Equal Pay International Coalition, launched jointly by the ILO, UNWomen and the Organisation for Economic Co-operation and Development in September 2017, to learn from successful examples of how to measure and monitor pay gaps at the national level, and to familiarize themselves with the tools that some major economies are applying and understand which are most effective in reducing pay discrimination between women and men.

Although the health crisis and, more recently, the outbreak of war in Ukraine have created much uncertainty, it is important to persevere with global funding efforts and the mobilization of resources to advance the United Nations 2030 Agenda for Sustainable Development. The 17 Sustainable Development Goals pursue a world without extreme poverty and with equal opportunities for everyone to realize their potential. Accordingly, in 2021, the United Nations Secretary-General presented an agenda of key proposed actions grouped under 12 commitments, which together seek to reaffirm global solidarity as a way of overcoming crises. *Our Common Agenda*, as the document is entitled, includes the strengthening of decent work as one of these key actions. The creation of decent wage employment, along with policies to ensure adequate wages, which are relevant to several of the Sustainable Development Goals, can make a vital contribution to the pursuit of social justice.



Advancing social justice, promoting decent work

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International Labour Organization
Route des Morillons 4
1211 Geneva 22
Switzerland