

Funding the Future

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I have noticed paranoia on wage rises and their impact on inflation reaching the media this morning. The Resolution Foundation would appear to wish to cement their right wing credentials by opining on it in the Guardian. The Telegraph's business news splashed in the issue. This is the consequence of new data from the ONS.

It was, therefore, good to see some sense in this issue coming from investment advisers Hargreaves Lansdown, where Sarah Coles, head of personal finance, had this to say in a press release I was sent this morning.

It pays to look a bit closer at wages – because while wages have risen faster than inflation for the past five months, this isn't quite as positive as it seems.

Wage rises still have an awfully long way to go to make up for the spending power we've lost over the past couple of years. They've beaten inflation slightly for five months, but they had been growing slower than price rises for a full 18 months. This time last year, total pay was down 4% in a year, and the OBR expects living standards in the coming financial year to be 3.5% lower than their pre-pandemic level.

These wage rises aren't smoothly distributed either, with wages in the financial and business sectors up 8.3% and manufacturing 7.4%, compared with construction at 5.2%. It's also worth bearing in mind that inflation isn't being felt equally. Food inflation was still running at 10.1% in October. The lower your income, the bigger the proportion of it you spend on essentials like food, so the harder this hits. It means lower earners are still struggling disproportionately.

And worryingly, we're not making up ground as quickly as we were. These wage rises have been pretty lumpy, and an awful lot of them were back in the summer, when wages finally rose for the public sector. After falling dramatically behind private sector pay for the preceding two years, they made up for a chunk of this lost time in one big hit this summer – with annual wage growth for the public sector peaking in June-August at 12.5%. When you look at wage growth more recently, it's nowhere near as promising. If you were to compare wage growth to the previous quarter and then annualise that, they'd be up just 4.2% - behind inflation again.

She is spot on. Real wages have not recovered from the impact of profiteering driven inflation as yet. As a result we are still seeing a shift in reward in society from working people to companies, landlords and banks. To suggest that wage rises must now stop is madness: until the balance is redressed working people have the right to expect above inflation pay rises.