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# UK LABOUR MARKET SOLID IN MARCH – RATE HIKE COMING?

## Berenberg Macro Flash

| | Unemployment rate | Average earnings, ex bonus 3m/yoy |
|---|---|---|
| **Actual** | **4.6** | **2.1** |
| Previous | 4.7 | 2.2 |
| Consensus | 4.7 | 2.1 |
| Berenberg | 4.7 | 2.1 |

**FROM ALL ANGLES THE UK LABOUR MARKET LOOKS HEALTHY**

The uncertainty from the Brexit vote has not impacted labour demand in a serious way. Instead, firms continue to raise the size of their workforces in response to the healthy domestic expansion and improving global backdrop. The key highlights from the March jobs report are as follows: (1) the UK added 122k jobs on a 3m/3m basis, (2) unemployment fell to 4.6% - the lowest since 1975, (3) employment rose to 74.8% - a record high, and (4) the number of job vacancies (the key measure of labour demand) was the highest on record at 777,000. Meanwhile, wage growth including bonuses accelerated to 2.4% yoy, from 2.3% in March, but slowed to 2.1% yoy excluding bonuses (2.2% in Feb). Adjusting for rise in inflation over the period real wages declined by 0.2% yoy.

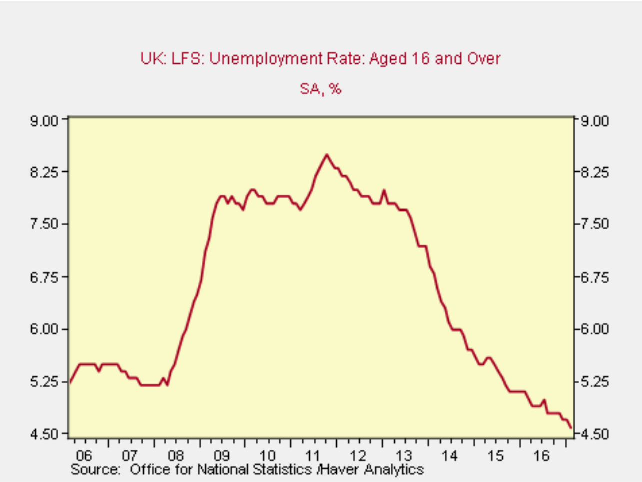
**KEEP AN EYE ON THE BoE**

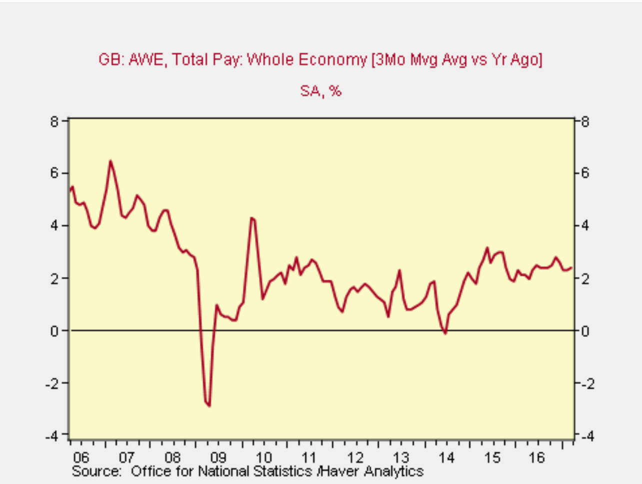
The near-term UK outlook remains solid from a demand point of view. We expect real GDP to expand by 1.9% in 2017 and by 1.7% in 2018, in line with the BoE - the market consensus according to Bloomberg is 1.7% and 1.3%, respectively. External demand is improving as export-oriented producers continue to benefit from the upturn in global demand and the more competitive sterling. Although real household spending growth is slowing as inflation rises, current spending growth remains strong. It shows that instead of cutting back spending as inflation picks up, households are digesting the inflation by spending more in order to target a desired level of real consumption. On the back of the robust expansion in demand core inflation is rising – 2.4% in April from 1.8% in March. With stable gains in demand amid weak(ish) supply growth – due to Brexit caution - inflation will remain above the BoE's 2% target even after the sterling effects have passed.

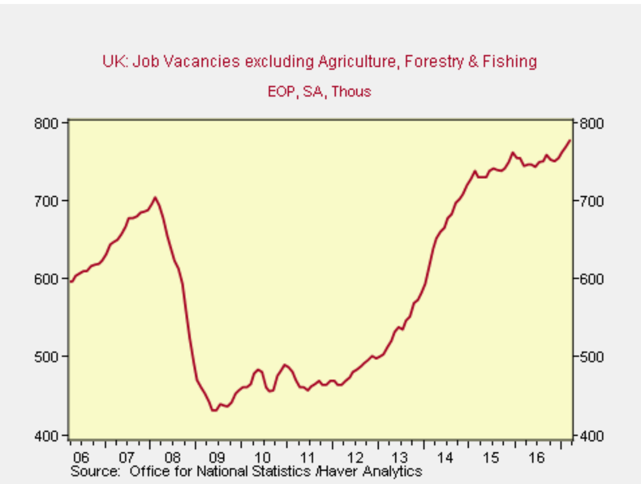
The healthy improvements in the labour market and growing underlying inflationary pressure underpin the growing hawkishness of the BoE. While the weakness in wage growth will probably keep the BoE on hold for now, the bank is gradually progressing towards a first hike. The BoE does not expect the weakness in wage growth to last. In the latest Inflation Report from May the BoE noted, that 'four-quarter wage growth is expected to fall a bit further in Q2, as the higher rate of growth at the start of 2016 drops out of the annual comparison. Further ahead, wage growth is projected to rise'. The acceleration in nominal wage growth will eventually outpace inflation and real wage growth will return. Based on this outlook the BoE expects a, 'modest withdrawal of monetary stimulus over the course of the forecast period'.

Rate hike on the way? The market could be a surprised on how early the BoE hikes. We expect the first hike in Q1 2018 with a 40% chance the BoE hikes this year, versus somewhat scattered – depending on the measure - market expectations of a first hike around late-2018/early-2019. We think it is unlikely that the BoE will hike so close to Brexit (March 2019). If the MPC sees an opportunity to raise rates soon, they may take it.

| % | MAR | FEB | JAN | DEC | NOV | OCT | SEP |
|---|---|---|---|---|---|---|---|
| Unemploy. rate | 4.6 | 4.7 | 4.7 | 4.8 | 4.8 | 4.8 | 4.8 |
| Average earnings, ex bonus 3m/yoy | 2.1 | 2.2 | 2.4 | 2.6 | 2.7 | 2.6 | 2.4 |



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