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Kallum Pickering, Senior Economist | Kallum.pickering@berenberg.com | +44 203 465 2672

UK: EMPLOYMENT GAINS HIGHLIGHT GOOD START TO 2019

Berenberg Macro Flash

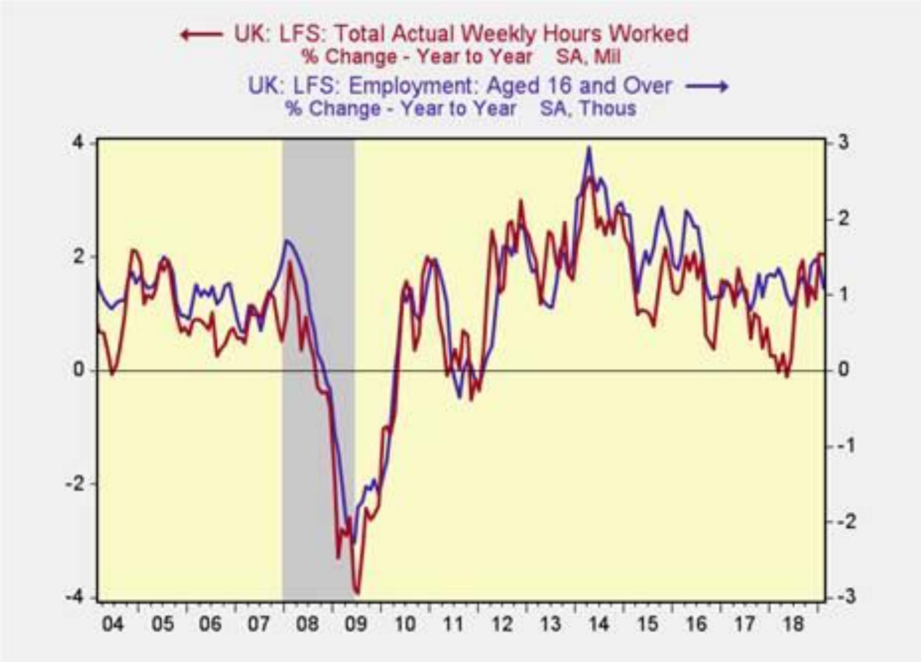
Mar	Unemployment rate %	Av. earnings, ex bonus 3m/yoy	Av. earnings, 3m/yoy
Actual	**3.9**	**3.3**	**3.2**
Previous	3.9	3.4	3.5
Consensus	3.9	3.3	3.4
Berenberg	3.9	3.4	3.5

The labour market is the acid test for economic health. The UK's impressive stretch of employment gains that continued in March supports the case that the UK started 2019 well despite heightened uncertainties linked to Brexit. Much of the market commentary on the causes of the rebound in real GDP growth to 0.5% in Q1 2019 from 0.2% in Q4 2018 focused on the potential one-off boost to demand from precautionary buying and stockpiling in case the hard Brexit risk materialised on 29 March 2019. We, on the other hand, had argued that these effects, while present, had been much smaller than anticipated and than the survey data had indicated. Instead, the healthy growth reflected improving underlying fundamentals, especially on the part of households. The solid labour market gains for Q1 supports this view.

Key takeaways from the March labour market report:
(1) The UK added 99k jobs on a 3m/3m basis, employment was 32.7m, and the employment rate remained at a record high of 76.1%. Hours worked continued to grow at a strong rate (Chart 1);
(2) the number of job vacancies (the key measure of labour demand) was 846k – slightly below the record high of 861k in January. The unemployment rate declined from 3.9% to 3.8%. (Chart 2);
(3) wage growth excluding bonuses slowed from 3.4% to 3.3% 3m/3m yoy – linked to softer gains in public sector wages (Chart 3).

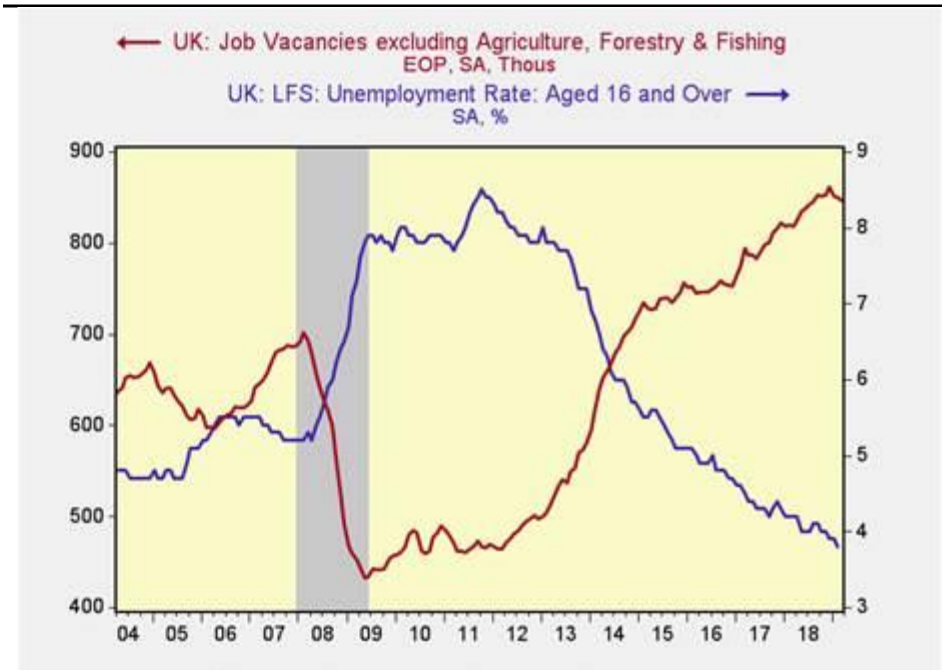
Weak productivity amid rising labour costs gives the a BoE a headache: While the labour market and output data show the UK in good light at the start of the year, the productivity data published today do not. Output per worker was broadly flat versus a year ago (-0.1%) following a similarly bad Q4 2018 (-0.2%). The UK has persistently suffered from weak productivity gains in the post Lehman era. Voting for Brexit, which has led to a stagnation in productivity-enhancing business investment has not helped much, to put it mildly. With productivity flatlining, the recent pick-up in wage growth has caused unit labour cost growth to accelerate sharply in recent quarters (Chart 4). At the May Inflation Report the BoE signalled it would continue to normalise its policy over the medium-term. While the Monetary Policy Committee may prefer to err on the side of caution and wait until Brexit is sorted before hiking again, the rising inflation risks stemming from the labour market keep the prospect of an August rate hike alive – even if Brexit is not yet solved by then.

Chart 1



Source: Office for National Statistics/Haver Analytics

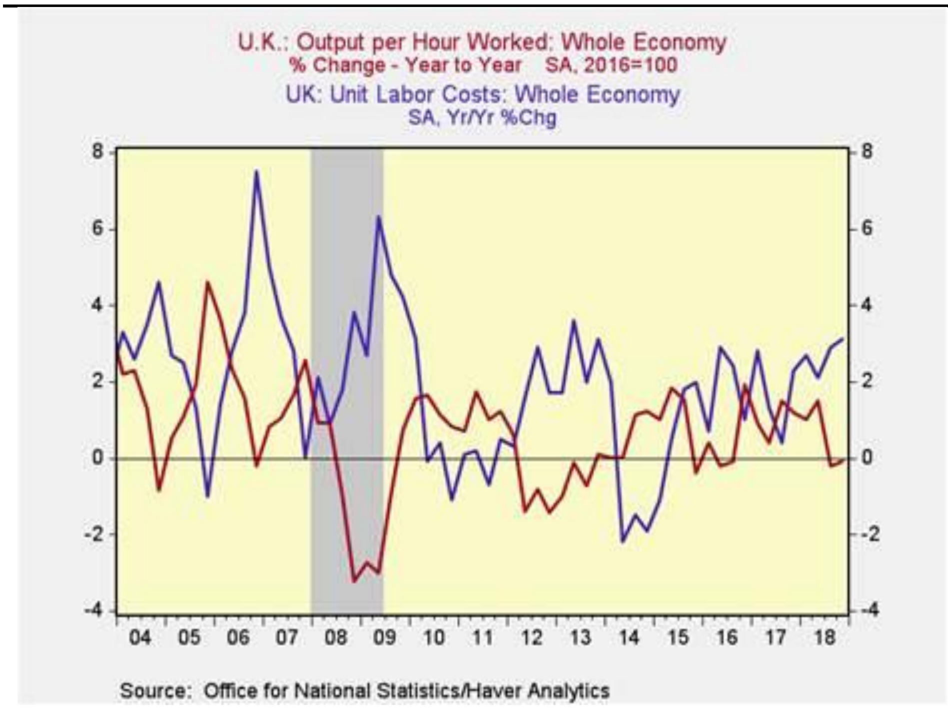
Chart 2



Source: Office for National Statistics/Haver Analytics

Chart 3

Chart 4



Joh. Berenberg, Gossler & Co. KG
60 Threadneedle Street
London EC2R 8HP
Phone +44 20 3207 7878
www.berenberg.com
kallum.pickering@berenberg.com