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## UK: LABOUR MARKET COOLS AHEAD OF EU REFERENDUM

### Berenberg Macro Flash

Feb	Unemployment rate	Average earnings, ex bonus 3m/yoy
<b>Actual</b>	<b>5.1%</b>	<b>2.2%</b>
Previous	5.1%	2.2%
Consensus	5.1%	2.1%
Berenberg	5.1%	2.3%

**Minor rise in unemployment but headline rate remains stable:** The headline rate of unemployment was 5.1% in the three months to February, in line with estimates and stable for a fourth consecutive month. Although data showed that the number of people looking for work rose modestly (21k) compared to the three months to November, the number was down by 142k compared to a year ago. Employment gains were softer than expected. Just 20k new jobs were added, compared to an expectation of 60k. However, total employment remains the highest on record at 74.1%.

**Underlying earnings stable, total pay down:** Average earnings excluding bonuses beat estimates, growing by 2.2% on a 3m/yoy basis. Earnings including bonuses however, slowed to 1.8%, compared to 2.1% in the previous month and against a consensus estimate of 2.3%. The ONS reported that the lower growth rate for earnings including bonuses was due to a drop in bonuses paid in financial and business services compared to a year ago. This suggests that the dip is likely to be temporary and total pay should begin to pick up again in the coming months.

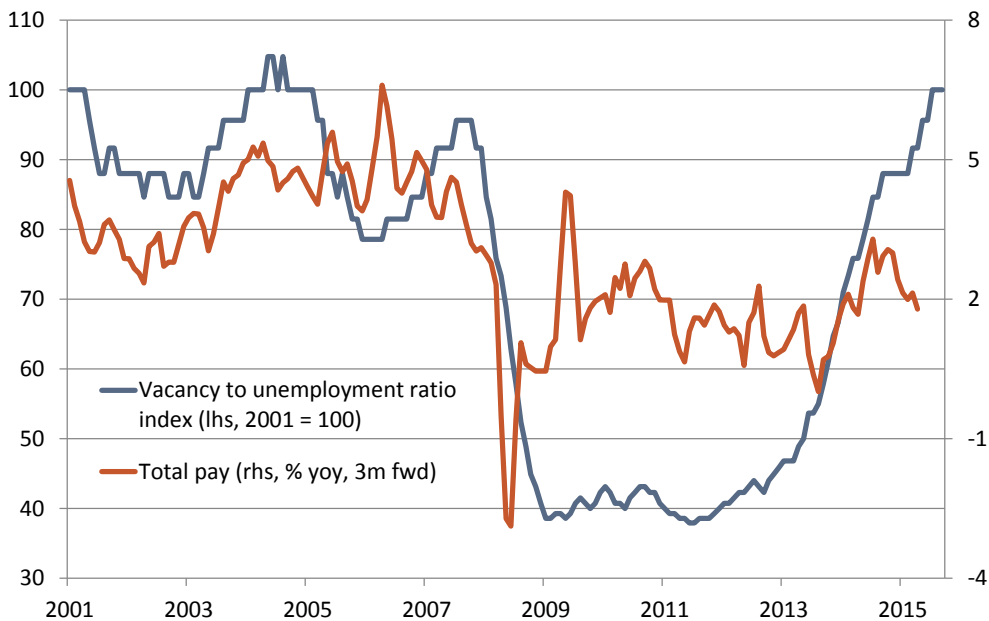
**Brexit risk may cause a temporary blip in an otherwise solid trend:** Overall, the labour market lost a little more momentum than expected in February. But considering that the beginning of 2016 was the worst start to a year in markets since 2008 and EU referendum uncertainty is looming over the UK, today's data is somewhat encouraging. So far, despite serious risks, the labour market is holding up. Brexit uncertainty may begin to feature more prominently in the coming months and temporarily reduce demand for new labour, as well as weigh on prospects for wage growth. There is a modest risk that unemployment could increase slightly and wage gains stagnate. But that wouldn't be too much of a concern so long as the UK votes to stay in the EU (we see a 35% chance of a Brexit). Labour demand should begin to accelerate again after the vote. We expect unemployment to fall to 4.9% by the end of the year, further tightening in the labour market should begin to contribute to faster wage growth too.

%		FEB	JAN	DEC	NOV	OCT	SEP
Unemployment rate	Level	5.1	5.1	5.1	5.1	5.2	5.3
Average earnings, ex bonus 3m/yoy	Change	2.2	2.2	2.0	1.9	2.0	2.4



## MACRO NEWS

**Chart 1: Vacancy/unemployment ratio versus wage growth**



Source: ONS

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