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UK: LABOUR MARKET ADDS JOBS, WAGE GROWTH DIPS

Berenberg Macro Flash

UK Unemployment, Mar

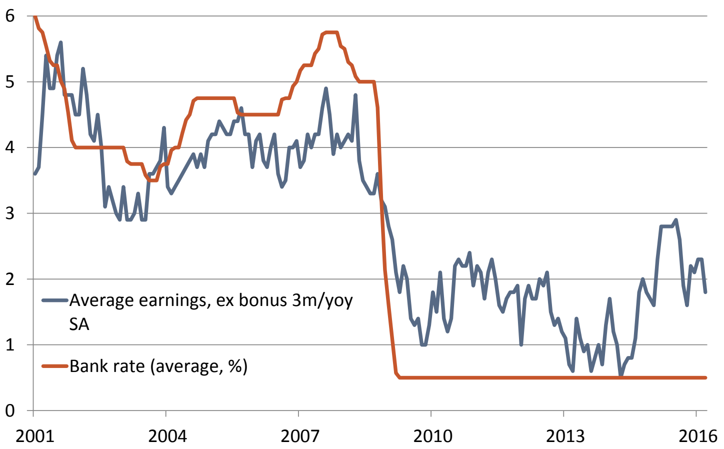
Mar	Unemployment rate	Average earnings, ex bonus 3m/yoy
Actual	**5.1%**	**2.1%**
Previous	5.1%	2.2%
Consensus	5.1%	2.3%
Berenberg	5.1%	2.3%

The UK employment machine keeps on humming. Despite the market turmoil in Q1 and concerns about the Brexit referendum in Q2, UK firms continued to hire. The employment rate reached a record 74.2% in March after the economy added a further 44k jobs. While job gains are slowing as the labour market approaches full employment, March marks the ninth month in a row when UK firms have expanded their workforces. The unemployment rate remained unchanged at 5.1% in March, in line with expectations and stable for the fourth consecutive month. Frustratingly, wage growth slowed despite the continued expansion in labour demand. Wage growth (ex bonuses) dipped to 2.1% yoy versus expectations of an acceleration to 2.3%, following growth of 2.2% in February. Monthly data can be volatile and with the UK's EU referendum coming up on June 23rd, it is hard to know if changes in data reflect underlying trends or erratic and temporary factors. It could be that employee bargaining has temporarily weakened due to Brexit uncertainty, or that firms are less willing to offer higher wages as a precautionary measure until it is confirmed that the UK will remain in the EU. But, weak wage growth has persisted during the whole recovery and exists elsewhere too, such as in the US. The sluggish wage growth story therefore, remains somewhat of a puzzle.

The Bank of England (BoE) will need faster wage growth before hiking. So far during the recovery, the pace of hiring has been stronger than expected relative to nominal GDP growth. It could be that the sub-normal rate of nominal GDP growth is showing up in wages, rather than in employment. Short of a Brexit, low and stable unemployment, and the on-going gradual recovery in inflation should contribute to faster nominal wage growth in the coming months. But we are cautious of this assessment based on recent trends. Without stronger growth in nominal wages, it is unlikely that the Bank of England will hike the bank rate. In the past, the Monetary Policy Committee (MPC) has expressed concern over the sluggishness of wage growth relative to the level of unemployment. As Chart 1 shows, in the past, the policy rate has followed a similar path to wage growth. Faster wage growth would point to greater underlying inflationary pressure and encourage the MPC to become more hawkish. Our best guess is that, it will take wage growth of around 3.0% yoy, for the BoE to start the process of gradual rate hikes.

%		MAR	FEB	JAN	DEC	NOV	OCT
Unemployment rate 3m	Level	5.1	5.1	5.1	5.1	5.1	5.2
Average earnings, ex bonus 3m/yoy	Change	2.1	2.2	2.2	2.0	1.9	2.0

Chart1: Earnings versus the bank rate



Source: ONS, Bank of England

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