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## MACRO NEWS

18 / 01 / 17

Kallum Pickering, Senior UK Economist | [Kallum.pickering@berenberg.com](mailto:Kallum.pickering@berenberg.com) | +44 20 3465 2627

### UK: SIGNS POINT TO FULL EMPLOYMENT AS WAGE GROWTH ACCELERATES

#### Berenberg Macro Flash

| Nov           | Unemployment rate | Average earnings, ex bonus 3m/yoy |
|---------------|-------------------|-----------------------------------|
| <b>Actual</b> | <b>4.8%</b>       | <b>2.7%</b>                       |
| Previous      | 4.8%              | 2.6%                              |
| Consensus     | 4.8%              | 2.6%                              |
| Berenberg     | 4.8%              | 2.6%                              |

#### Solid UK labour market in November

Despite Brexit the UK labour market has remained strong so far. Headline unemployment remained unchanged in November at 4.8% while average weekly earnings growth ex. bonus accelerated to 2.7% yoy from 2.6% yoy in October. Total wages (incl. bonus) rose 2.8% yoy versus the consensus expectation of 2.6% yoy. Unemployment has not been lower since 2005. On a 3-month/3-month basis employment fell by less than expected, just 9k (exp. 35k) after declining 6k in October. Indicators available for the month of December, which give a good idea of where the main series are heading, show that the UK labour market finished 2016 on a strong footing. The December claimant count rate remained unchanged at 2.3% as jobless claims declined by 10.1k. Vacancies in December held firm at 748k, close to an all time high.

#### Upside risk to near-term growth outlook

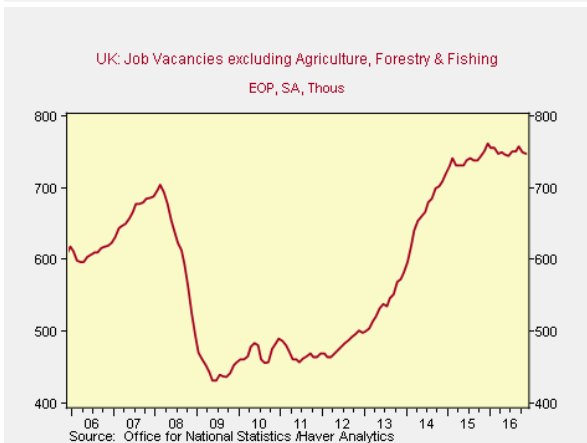
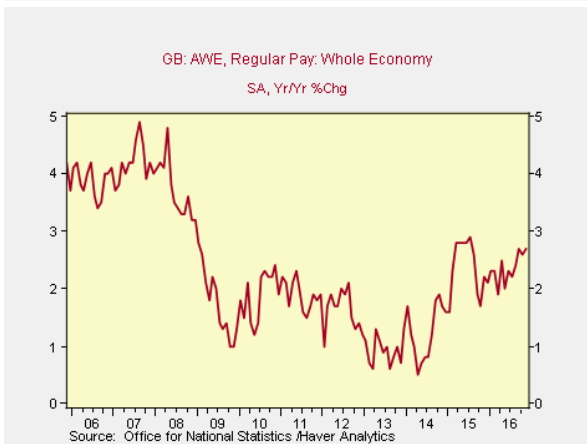
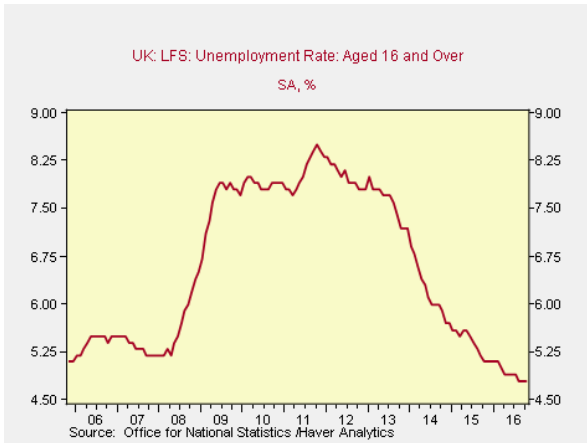
While employment gains have eased significantly in recent months, vacancies have continued to remain high and wage growth has accelerated despite the Brexit uncertainty. That points to a healthy level of optimism by firms and increasing pressure in the labour market. With little slack in the labour market, the degree of mismatch between the skills of the remaining workers and the skills demanded by firms will widen. To get the right workers firms must be willing to pay higher wages.

In our base case, we expect GDP to grow to slow to 1.6% in 2017 and 1.5% in 2018. For this, we factor in only a small acceleration in nominal wages growth from current rates. In turn, we expect real consumption growth to slow from an average rate of 2.6% yoy in 2015 and 2016 to 1.7% in 2017 and 2018 as real wage gains are eroded by rising inflation. Due to the continued strong demand for labour and better than expected wage growth, risks to the growth outlook are skewed to the upside. If wage growth continues to accelerate by more than expected, along with rising consumer credit, household consumption – two-thirds of GDP – might not slow down by much in the coming years. This would suggest upside risk to our growth outlook.

For our key calls for the UK in 2017 and beyond please see [‘The UK economy: 10 questions for 2017’](#).



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| %                                 | NOV | OCT | SEP | AUG | JUL | JUN |
|-----------------------------------|-----|-----|-----|-----|-----|-----|
| Unemployment rate Level           | 4.8 | 4.8 | 4.8 | 4.9 | 4.9 | 4.9 |
| Average earnings, ex bonus 3m/yoy | 2.7 | 2.6 | 2.4 | 2.3 | 2.1 | 2.3 |



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Joh. Berenberg, Gossler & Co.  
KG  
60 Threadneedle Street  
London EC2R 8HP  
Phone +44 20 3207 7878  
[www.berenberg.com](http://www.berenberg.com)  
[Kallum.pickering@berenberg.com](mailto:Kallum.pickering@berenberg.com)