Kallum Pickering, Senior Economist | Kallum.pickering@berenberg.com | +44 20 3465 2672

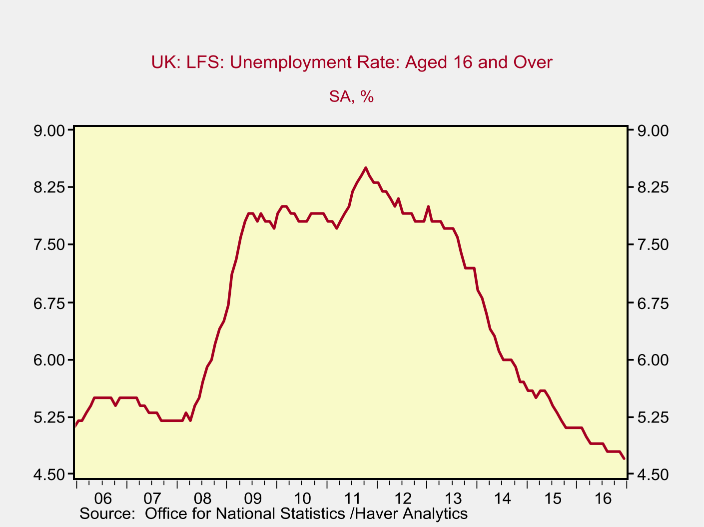
UK LABOUR MARKET: UNEMPLOYMENT HEADS LOWER WHILE WAGE GROWTH DIPS

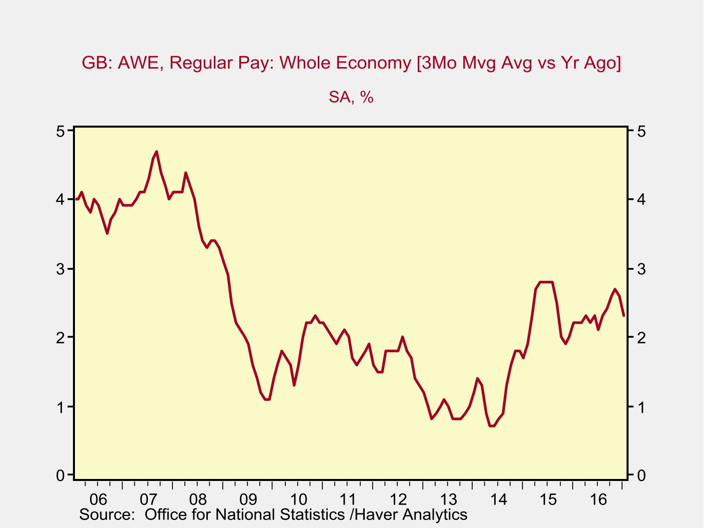
Berenberg Macro Flash

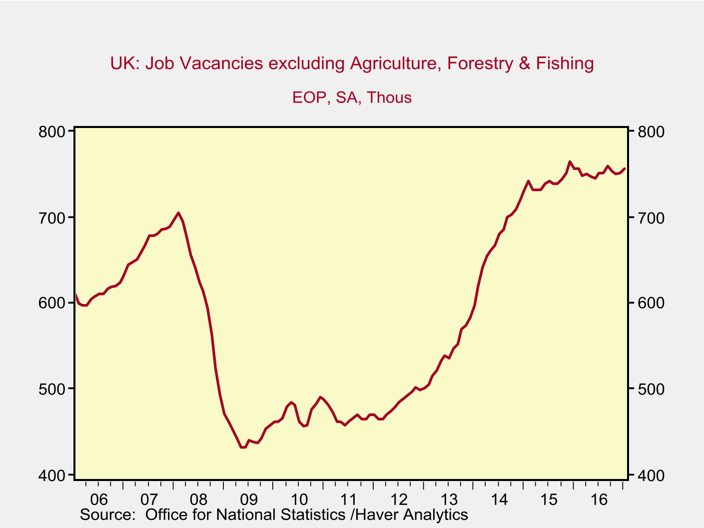
Jan	Unemployment rate	Average earnings, ex bonus 3m/yoy
Actual	**4.7%**	**2.3%**
Previous	4.8%	2.6%
Consensus	4.8%	2.5%
Berenberg	4.8%	2.7%

Solid labour market in January despite a little disappointment on wage growth. The headline unemployment rate declined to 4.7% in January from 4.8% in December, driven by strong gains in employment (92k 3m/3m). Meanwhile, average weekly earnings growth ex. bonus surprised on the downside, falling to 2.3% yoy from 2.6% yoy in December. The unemployment rate was the lowest since August 1975 as the employment rate remained at a record high of 74.6%. The more timely labour market data, available for the month of February, point to continued improvement through the middle of Q1. The February claimant count rate remained unchanged at 2.1% as jobless claims declined by 11.3k. Vacancies rose to 757k in February from 752k in January - close to an all time high.

Who is complaining about low unemployment? The continued fall in unemployment amid the drop in annual wage growth hints at more slack in the labour market. But monthly data are volatile and should be taken with caution. The broad trend over the last year is one of slowing employment gains and accelerating wage growth – suggesting the labour market is getting tighter. If the economy can sustain a sufficient level of real output growth amid Brexit risks, firms' labour demand should remain strong. The continued high level of vacancies supports this view. If wage growth remains subdued because firms can find the workers to fill the vacancies, and the unemployment rate falls much lower than expected, that is good news. In such a scenario, although the acceleration in wage growth would take more time to come through, the total level of employment would be higher. That is undoubtedly a good thing. But if, as the broader trend over the last year indicates, employment gains are slowing despite high vacancies, then workers wage bargaining power will begin to increase and nominal wage growth can begin to accelerate. As our base case, we project real GDP growth of 2.0% in 2017 and 1.7% in 2018. Such growth should enable firms to continue to hire if they can find the workers, or alternatively, offer increases in nominal wages to work existing staff harder or to find better suited labour. Either way, the outlook remains positive.


UK: LFS: Unemployment Rate: Aged 16 and Over
SA, %
9.00
8.25
7.50
6.75
6.00
5.25
4.50
06 07 08 09 10 11 12 13 14 15 16
Source: Office for National Statistics /Haver Analytics


GB: AWE, Regular Pay: Whole Economy [3Mo Mvg Avg vs Yr Ago]
SA, %
5
4
3
2
1
0
06 07 08 09 10 11 12 13 14 15 16
Source: Office for National Statistics /Haver Analytics


UK: Job Vacancies excluding Agriculture, Forestry & Fishing
EOP, SA, Thous
800
700
600
500
400
06 07 08 09 10 11 12 13 14 15 16
Source: Office for National Statistics /Haver Analytics

%	JAN	DEC	NOV	OCT	SEP	AUG
Unemploy. rate	4.7	4.8	4.8	4.8	4.8	4.8
Average earnings, ex bonus 3m/yoy	2.3	2.6	2.7	2.6	2.4	2.3

Joh. Berenberg, Gossler & Co. KG
60 Threadneedle Street
London EC2R 8HP
Phone +44 20 3207 7859
www.berenberg.com
florian.hense@berenberg.com