Clouds gather over UK inflation outlook as jobs market stumbles

The post-crisis highs in UK wage growth should help keep UK inflation gently supported in the medium-term. But whether there's a deal or not, Brexit uncertainty will continue to weigh on investment and appetite to hire over the next year-or-so. Concerns about the outlook for the jobs market, and the longer-term trend in wages are slowly growing

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At 1.7%, headline UK inflation was held back during September by a modest fall in fuel prices. But with energy stripped out, core CPI bounced back to 1.7% on favourable base effects, as well as some quirks in furniture and recreation costs. In the short-term, the outlook for inflation still looks relatively benign – headline CPI is likely to stay below 2% for the rest of the year.

Now, inflation is clearly not the biggest game in town today. But all of this fits into a broader debate about how the economy will shape up depending on how Brexit pans out in the coming days.

1.7% UK headline CPI

(YoY%)

Lower than expected

Over the past year, wage growth has picked up momentum as skill shortages have built up various sectors. Assuming this trend persists, then these higher wage costs could feasibly translate into a bit of upward pressure for consumer prices in the medium-term – particularly given that services make up a sizeable share of the inflation mix, and these tend to be labour-intensive.

But while the trend in wage growth displays some structural origins – demographic factors for instance – concerns about labour demand are mounting. It's early days, but the number of vacancies has slipped consistently through 2019, while employment is now falling on a 3-month basis – having only done so briefly on two other occasions since 2015. This follows increasingly negative PMI readings, some of which have pointed to a notable slowdown in hiring intentions given the lack of orders.

> If Brexit talks fail to yield a deal this month and trigger an election and Article 50 extension, then the resulting uncertainty will continue to cloud the outlook for hiring and investment. Following comments from Bank of England policymakers over the recent days, there is growing talk that this could trigger rate cuts in the not so distant future.
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> We don't think we're there yet – after all with productivity growth minimal, the level of wage growth is currently more than sufficient (in theory) to keep core inflationary pressures rising. But even if there is a deal this week, the considerable uncertainty over the future relationship with the EU will persist. These concerns, coupled with growing worries about the global economy, will continue to weigh on UK growth in 2020.

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