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

Source: Shutterstock

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.
>
> 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.

Author

James Smith
Developed Markets Economist
james.smith@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("**ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit http://www.ing.com.