Drop in UK jobs cast doubt over 2018 rate hikes

A bout of weakness in the jobs market weakness suggests slower 2017 economic growth may be starting to take its toll

Source: Bank of England

-14k Change in jobs growth ('000s)

(3M/3M change)

The stand-out feature of today's jobs report is the unexpected fall in employment. Markets will focus on the -14k 3M/3M change, but the picture looks much more concerning when we delve into the "single month" changes. The number of jobs fell by 138,000* between July and September (having fallen by 87k between June and August).

This is interesting because it raises the question of whether the growth slowdown we've seen throughout 2017 is starting to take its toll on the jobs market - and whether the boost from the stronger economic momentum in late 2016 is beginning to fizzle out.

If that is the case, then that has important implications for the Bank of England. That's because a central pillar of the Bank's outlook is that wage growth will pick-up strongly next year because of the strength in the jobs market, among other reasons. The BoE expects average hourly earnings growth to hit 3% next year (from 2.2% today) and cites evidence from Bank Agents that the first quarter wage-setting round looks set to be better than this year's.

> However, with Brexit and political uncertainty elevated and broader economic growth slowing, we think wage growth may not pick-up quite as sharply. For that reason, we expect the Bank to continue to take a cautious approach to further interest rate hikes, although we don't rule out another increase in 2018.

* This figure has been corrected

Author

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