

Surge in UK jobs growth clouded by falling real wages

An astonishing rise in UK employment isn't enough to mask the fall in real wages.



Source: iStock

The real standout in today's UK jobs report was the surge in employment growth. The 3M/3M average came in well above consensus at 122k, lifted by a huge 340k "single month" increase in jobs – the highest in 2 years. This is hard to square given recent survey data, which suggests the outlook for hiring is more muted. The latest BoE agent's summary, released today, points to "very modest" jobs growth over the coming six months.

For now at least, we assume that this latest employment pick-up will be temporary.

112k Employment growth
(3M/3M Change)

Better than expected

It's also hard to ignore the fact that wages are now growing at a noticeably slower pace than prices. The key measure of wage growth, which excludes bonuses, came in at 2.1%. When taken together with yesterday's acceleration in inflation to 2.7%, real wages are now falling. We've already seen measures of consumer activity slow through the first quarter.

Last week, the Bank of England signalled that policy could be tightened less gradually than markets are currently pricing. One of the reasons for that guidance was that the current dip in wage growth was thought to be temporary, and the Bank forecasts that average hourly earnings could return to 3.5% next year.

Given that uncertainty related to the Brexit talks is likely to weigh on investment and hiring decisions over the next couple of years, we think that this assumption might be optimistic. Taken together with the squeeze on household spending, we don't anticipate any change in BoE policy before 2019.

2.1% Average weekly earnings (YoY%)

As expected

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