# UK jobs market faces tricky winter, despite better data

While the Bank of England will welcome another great month for UK wage growth, concerns surrounding Brexit will dominate the economic outlook over the winter. The chances of a second-quarter rate hike are fading rapidly


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On the face of it, the latest UK jobs report looks a little more encouraging, and the Bank of England will be particularly pleased that wage growth has once again beaten expectations. In fact, at 3.3% year-on-year, regular pay is rising at the fastest pace since the crisis. This is another indication that firms are having to pay increasingly high premiums to retain and attract talent, particularly in areas such as hospitality, IT and construction.

Given that the UK is largely a service-based economy, and a sizable proportion of these firms' cost base is wages, this should in theory translate into greater core inflationary pressures in the medium-term – although of course, it's debatable how easy it is for some firms to pass on some of these costs given the current uncertain climate.

# 3.3%

## UK regular pay growth

(YoY%)

Higher than expected

Rising wage growth is a key reason why we think the Bank of England's preference is to raise rates again pretty soon, should a workable Brexit solution be found – although as the last few days have proven, that remains quite a big if.

Whichever way Brexit pans out, the one thing that looks more certain is that the Parliamentary vote may not happen until much further into the new year. For the economy, this greater uncertainty is likely to see an increased number of firms enacting contingency plans, or at the very least holding back on investment and hiring.

Admittedly, having been fairly stagnant for the past few months, the rate of jobs growth was better than hoped, with employment rising by 79,000 over the August-October period. However, we struggle to see this more positive trend persisting in the short-run. There's also a risk that, as fears over 'no deal' build, consumers become more wary about the risks to job security - the latest dip in consumer confidence offers some tentative evidence this is already happening.

For these reasons, we think economic momentum will continue to stall as we move into 2019. The chances of a rate hike coming shortly after March are fading rapidly.

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