PM Datanote: U.K. Labour Market Data, December

In one line: Wage growth weakness still looks set to be short-lived.

The headline—three month average—unemployment rate was 5.1% in December, unchanged from November and above the consensus, 5.0%. The headline rate of year-over-year growth in average weekly wages fell to 1.9% in December from 2.0% in November, matching the consensus, 1.9%.

Labour market slack still is being exhausted quickly, indicating that recent weakness in wage growth won't persist. Employment was 205,000—0.7%—higher in Q4 than in Q3. While this was not quite enough to pull down the unemployment rate again, it remains below its 5.3% average in the decade prior to the 2008 recession. The working-age employment rate rose to its highest rate since records began in 1971, while the proportion of part-time workers that say they want full-time work has continued to decline, to 14.9% in December from 16.1% a year ago. What's more, the number of job vacancies rose to a record high in January, showing that firms are struggling to find suitable workers and indicating the economy is nearing full employment.

Meanwhile, the further decline in headline rate of wage growth partly reflected an unfavourable base effect; bonuses were usually strong in December 2014. Admittedly, the headline growth rate of wages excluding bonuses remained subdued, ticking up to just 2.0% from 1.9% in November. But recent weakness partly reflects compositional changes; the average worker has become younger, less-experienced and less-qualified. The 1.7% *quarter-on-quarter* rise in total hours worked also implies that output per hour worked fell by an astonishing 1.2% in Q4. Workers therefore are extracting wage gains at the upper end of employers' ability to pay. Looking ahead, wage growth is likely to strengthen markedly in 2016, as these compositional changes wash out, labour shortages compel employers' to pay more to recruit and retain staff, and as the National Living Wage is introduced in April. Accordingly, it would be a mistake to conclude from today's weak wage figures that an interest rate rise is very distant.

The chart shows that the further rise in the ratio of job vacancies to unemployment points to a renewed pick-up in wage growth in the first half of 2016.