PANTHEON MACROECONOMICS

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

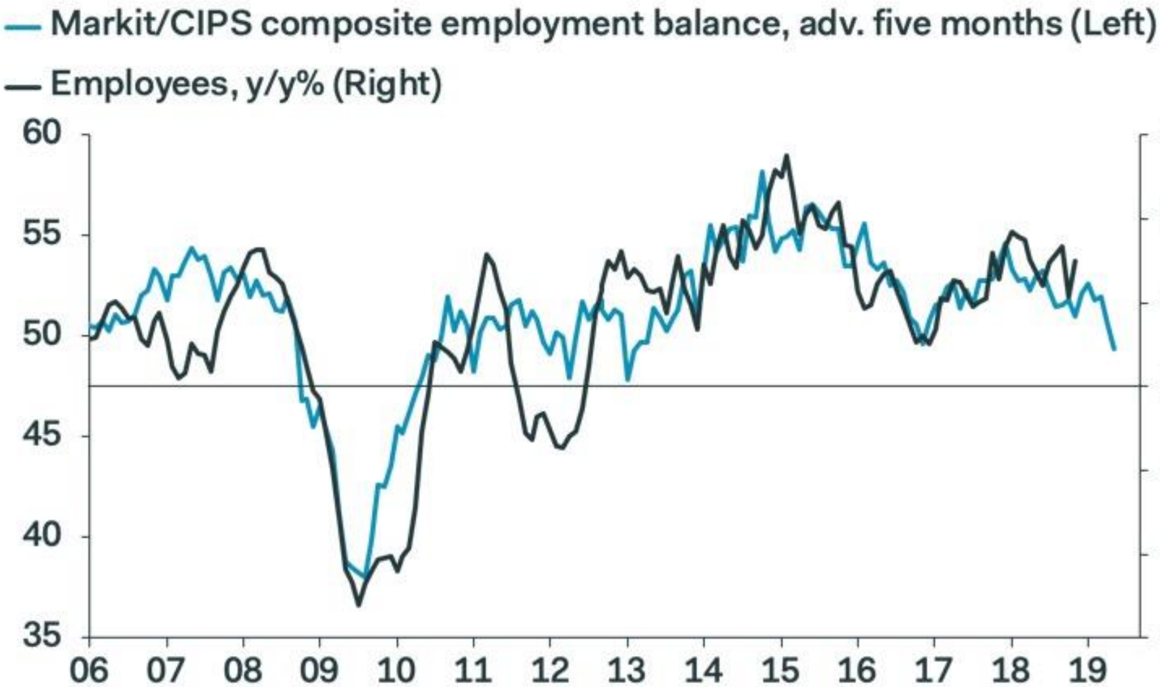
In one line: The tight labour market will keep domestically-generated inflation on its rising path.

The headline, three-month average, unemployment rate remained at 4.0% in December, matching the consensus. The headline rate of year-over-year growth in average weekly wages, including bonuses, also held steady, at 3.4% in December, but undershot the consensus, 3.5%.

The resilient labour market is continuing to test the MPC's patience in postponing the next rate hike. A hefty 167K, or 0.5%, quarter-on-quarter rise in employment in Q4 drove the employment rate up to a new record high of 75.8%, from 75.6% in Q3. The strength partly reflects an 80K, or 1.7%, jump in self-employment, but employee numbers still rose by a brisk 80K, or 0.3%. Full-time work accounted for two-thirds of the increase in overall employment. Both inactivity, and the proportion of inactive people that say they would like a job, has never been lower. Other measures of hidden labour market slack, such as the proportion of part-time employees that want full-time work, have continued to fall rapidly.

With surplus labour extremely scarce and job vacancies rising to a new record high, workers are having more success in obtaining above-inflation pay increases. Admittedly, year-over-year growth in wages, excluding bonuses, fell to 3.2% in December, from 3.5% in November. But wage growth always was likely to moderate soon, given that it had been boosted recently by unsustainably fast compositional changes in the workforce. Looking ahead, we doubt that wage growth will slip below 3% this year. While surveys of employment intentions deteriorated at the start of this year, they still suggest that job gains will match the rate of growth in the workforce. Meanwhile, CIPD reported yesterday that private-sector employers expect the median pay settlement to increase to 2.5% over the next 12 months—the highest rate since data were collected in 2012—from a steady 2% previously; overall wage growth almost always exceeds settlements. In addition, the main rate of the National Living Wage will rise by 4.9% in April, exceeding last year's 4.4% increase, and 10% of workers will be directly affected by the increase, above last year's 8%. Accordingly, domestically-generated inflation likely will continue on its slowing-rising path this year, persuading the MPC to press ahead with another rate rise before the end of this year.

The first chart shows that recent business surveys cast doubt on whether employment growth can be maintained at its current strong rate, but they still point to job gains. The second chart shows that year-over-year growth in average weekly wages dipped in December, but still is strong enough to create cost pressures for firms.


Markit/CIPS composite employment balance, adv. five months (Left)
Employees, y/y% (Right)
60
55
50
45
40
35
3
2
1
0
-1
-2
-3
06
07
08
09
10
11
12
13
14
15
16
17
18
19


Average weekly earnings including bonuses, y/y%
Average weekly earnings excluding bonuses, y/y%
5
4
3
2
1
0
-1
-2
13
14
15
16
17
18
19