

PMI commentary 24/01/2018

## **United Kingdom**

Robust labour market adds to signs of resilient end to 2017 for UK economy

- Employment rebounds to show 102,000 rise
- Wage growth edges higher
- Jobless rate holds at four-decade low
- PMI data suggest hiring trend is robust but waning

The UK labour market showed signs of strength late last year, with employment rising and pay growth creeping higher.

The data corroborate business survey evidence which indicated that the economy maintained a solid pace of expansion towards the end of 2017.

Data from the Office for National Statistics showed employment up by a surprisingly strong 102,000 in the three months to November and the unemployment rate holding steady at 4.3%, it's joint-lowest since 1975.

Average total employee pay meanwhile rose at an annual rate of 2.5%, the rate of increase unchanged on the three months to October. Excluding bonuses, the rate of increase edged up to 2.4%, compared with 2.3% in the prior three months and the strongest gain since December 2016. That compares with a low of 1.8% last April, suggesting pay growth is edging higher amid a tightening labour market.

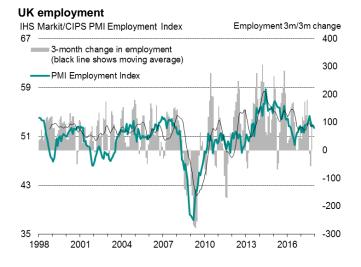
Pay growth nevertheless continues to run below inflation, squeezing consumer spending power and dampening households' views on their financial wellbeing in January, according to the <u>latest survey</u> <u>data</u>. Under such conditions, it seems likely that the recent disappointing consumer spending trend will persist into 2018, restraining economic growth. A poor December meant <u>retail sales growth</u> halved in the fourth quarter to 0.4%.

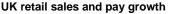
While recruitment survey data suggest that pay growth could well continue to move higher in coming months as employers offer higher pay to attract and retain suitable staff, inflation is also likely to remain sticky, in part due to higher oil prices.

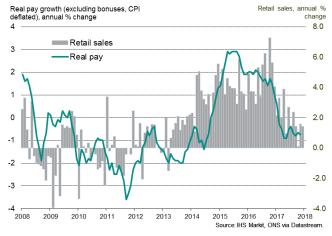
The welcome news of the rise in employment is tempered somewhat in that the upturn follows declines

in prior months, and merely brings the volatile official data more into line with survey data (see chart).

Furthermore, the survey data suggest that the hiring trend weakened in December, as firms often reported a cautious approach to expanding capacity in the face of the uncertain outlook. Some firms also reported hiring to have been curtailed by skill shortages, which have become more widespread in recent months. Private sector employment growth, as <u>measured by</u> the PMI surveys, showed the smallest increase for nine months as a result. The survey data suggest that improved optimism about Brexit will be needed to boost employment.









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