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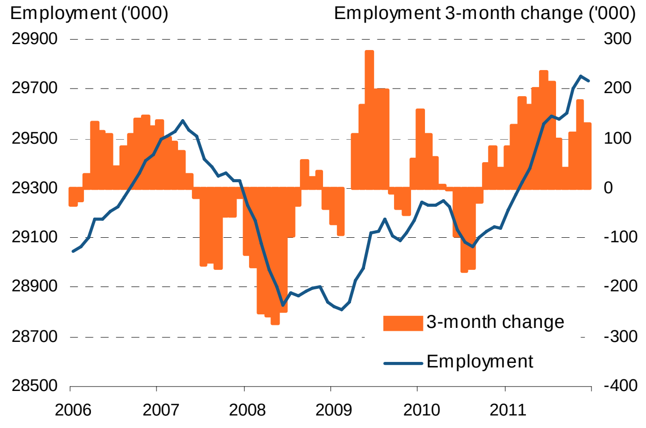
United Kingdom

Wage growth hits lowest since 2009 despite further upturn in employment

- **Private sector drives further robust employment growth**
- **Unemployment rises, though rate stays at 7.8%**
- **Slower wage growth points to ongoing weak consumer spending**
- **Bank of England worried by sterling's fall**

UK employment



Sources: ONS.

Official data once again provided a mixed picture of the health of the labour market data. Some reason to cheer came from a further rise in private sector employment, but the concern is that the jobs being created are low-paid positions which – combined with widespread job insecurity – means that average wage growth is worryingly weak.

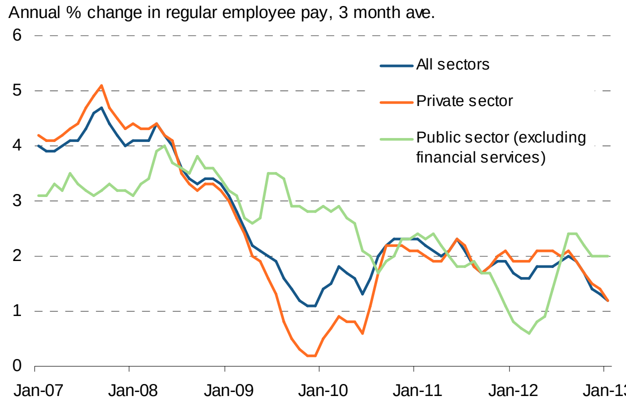
Employment rose by 131,000 in the three months to January, but with the size of the workforce increasing at the same time, the number unemployed rose by 7,000 over the same period, meaning the overall rate of joblessness held steady at 7.8%.

A 151,000 gain in private sector employment was offset by a 20,000 fall in public sector headcounts, as austerity-driven spending cuts continued to lead to job losses. While public sector employment has fallen to the lowest since late-2001, private sector employment is at an all-time high.

The positive news on higher employment is tainted, however, by the fact that pay growth continues to weaken. With squeezed incomes being one of the key factors behind the disappointing economic growth seen in the UK over the past two years, a further fall in pay growth at a time when inflation has picked up to 2.8% suggests that weak consumer spending is going to act as a drag on the economy for some time to come. Regular pay rose at an annual rate of just 1.2% in the three months to January, its weakest since December 2009. Public sector pay, excluding the bailed-out banks, continued to rise at an annual rate of 2.0% but pay growth in the private sector slumped to 1.2%.

Better news on joblessness came from the claimant count measure, which fell for the fourth month running in February to the lowest since June 2011. However, with just 1,500 less people claiming jobseekers' allowance, even the claimant count measure is showing signs of disappointment compared to the average 11,600 decline seen in each of the prior three months.

Wages



Source: ONS via Ecowin.

Policy on hold

The minutes from the Bank of England's Monetary Policy Committee meeting earlier this month meanwhile showed that policymakers remained split over the need for further stimulus. Bank Governor Mervyn King, Paul Fisher and external member David Miles voted for an extra £25bn extra of asset purchases, but the other six members remained unpersuaded of the appropriateness of further action.

One of the main concerns seems to be the potential for any further depreciation of the pound to hurt the economy, notably via higher inflation from the increased cost of imports. This is a valid concern. With inflation rising to 2.8% and today's labour market data showing pay growth sliding to 1.2%, squeezed incomes look likely to act as a drag on economic recovery for some time. Today's minutes therefore suggest that additional QE looks unlikely while sterling remains weak.

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