

Two years of falling real wages look likely to come to an end, just what an embattled high street is crying out for.



Full speed ahead. To paraphrase, nothing in life is certain except death, taxes and clear evidence that, so far, Brexit has had no discernible impact on the UK labour market. The number of workers in the UK swelled by a mammoth 162,000 between November and January. The rise in the number of full-time employees was actually higher, at 182,000, meaning self-employment fell once again. While not yet a trend, it is starting to resemble one, so worth watching.

Pay now work later. Welcome relief as average UK wages rose by 2.8%/y/y in the three months to January. That's the fastest rise in almost three years. Pay growth will soon catch

up on rising prices. Still, until 2008 wages tended to rise by about 4% a year. The reason why strong jobs growth hasn't boosted pay by more is due to supply. The share of total population in work is higher now than it was in the 1970s, despite an extra five million people aged 60 and over. Female participation, those joining from abroad and more people working longer have all played a role.

How low can it go? When NI's unemployment rate slipped below 4% last autumn, a ten-year low, many thought that would mark the cyclical low. Not so. While the UK rate has been unable to breach July's record low of 4.3%, NI's unemployment rate limbo has continued. The latest drop to 3.2% in the three months to January represents the joint-lowest rate on record. Back to the summer of 2007's low. It is also the lowest of the UK regions. It gets better. NI's rate compares favourably with the mighty Germany (3.6%) and is below all EU-28 countries bar the Czech Republic. But steady on. This statistic flatters the NI labour market as our employment and inactivity rates aren't worth shouting about. Nevertheless, expect skills shortages to intensify and bigger pay rises in 2018.

You're hired! NI's private sector propelled total employment to a fresh record high in Q4 2017. Businesses reported a net gain in employee jobs of 5,330 over the last quarter and 15,090 over the year. That made 2017 the best year for job creation in three years. Services remain the dominant sector for gains but manufacturing and construction posted faster rates of growth. The latter's 10% y/y rise marked the steepest gain in almost 12 years taking construction employment to a near 7½-year high. Though this is still only three-quarters of what it was a decade ago. Manufacturers are benefiting from the strong growth in export markets with staffing levels approaching 13-year highs. The good news extended to the public sector. 2017 marked the first year in four years that employment levels didn't fall. But 2018 may see this recent trend resume.

Inflationary shock? Not quite, though the latest UK CPI figures did take some analysts by

surprise. The annual rate of consumer price inflation slipped below 3% for the first time since last August. That was expected, but February's drop to 2.7% - a seven-months low - was slightly lower than anticipated. Consumers will welcome the move as the gap between pay growth and CPI has almost closed. As flagged by the OBR, a return to real wage growth in the next few months looks likely as CPI moves closer towards the MPC's 2% target. But such a move will require interest rates to be nudged higher.

It's coming yet for a' that. The Monetary Policy Committee (MPC) left Bank Rate at 0.5% last week by a margin of seven votes to two. But another small rise is in the post. The MPC doesn't expect terribly rapid growth, quite the opposite. But it reckons the economy's speed limit is a good deal slower than it was, meaning even pedestrian rates of expansion will push up inflation over the next few years if unchecked. The Committee will make a, "fuller assessment," of the outlook in May and could well take that opportunity to make a 0.25% rise.

Respite. After a depressing December and January, the fortunes of the UK's retailers picked up in February. The volume of sales rose 0.8% on the month after falls in each of the previous two. Comparing the past three months to the previous three months - a 'cleaner' reading - still reveals a soft picture with sales off 0.4%. In tandem with the CPI, price growth appears to be moderating, chalking up a 2.5% rise in February after a 3.1% reading back in December. In other words, the end of the squeeze on real incomes is glinting on the horizon. It can't come soon enough for many.

Sterling job. Sterling's post-EU referendum slide has been a mixed blessing for UK manufacturers. Export price competitiveness was boosted but so too was industry's cost base. Around two-thirds of inputs (raw materials) required for manufacturing are imported. Following a 32-months run of deflation, manufacturers have notched up twenty straight months of rising prices. The exchange-rate effect has largely washed through. Indeed, last

month's 3.4% y/y rise was the weakest in the series - a far cry from the 20% y/y surge at the start of 2017. Factory gate inflation is also waning. Following a 3.7% peak last March, the price increases of manufactured goods slowed to 2.6% y/y in February. With sterling feeling a good bit perkier of late these trends should continue.

Powell to the people. Its new governor Jay Powell marked his first Fed meeting with an interest rate hike; a widely anticipated move taking America's equivalent of Bank Rate to 1.5%-1.75%. Of more importance to markets was the Fed's forecast, where the committee is split down the middle. Six members expect two more rate hikes this year, whilst another six think three more raises will be appropriate. But the Fed did raise its expectation for 2019, forecasting three hikes instead of two, citing a strengthened economic outlook and increased confidence that the inflation target is set to be hit later this year. For good measure a two further hikes are forecast in 2020. That would take rates to 3.5%-3.75% - a level last seen in early 2008.

Keep up. US policy on international trade just got a little more complicated on two fronts. First the EU managed to negotiate a temporary reprieve from the tariffs on aluminium and steel. That means the list of friendly countries where the tariffs don't apply has grown substantially from the initial announcement. But second, a new front was opened up with the imposition of tariffs on Chinese sectors covering robotics, trains and the aerospace industry. Exporters need a social media account to keep up with the rule changes these days.

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