An exceptionally hot spell of spring weather has brought out the beachwear and disagreements on the MPC.

Phew! January 2017 marked the end of the two-year ‘consumer sweet spot’ whereby wage growth outstripped inflation. But in 2018 the mood is brightening. UK wages rose faster than inflation in the three months to February. Excluding bonuses, regular pay increased by 2.8% y/y, marking the strongest rate of growth since the summer of 2015. This has led some to suggest that the cost of living squeeze has ended. But has it? Inflation continues to outpace the 1% public sector pay cap. Household incomes are influenced by welfare benefits as well as earnings. A raft of working-age benefits are frozen until 2020. As a result, for many the cost of living squeeze has eased but is far from over.

'F-word' warning. The UK labour market continues to tighten. An additional 55,000 people were employed in the three months to February, bringing the total to a record high of 32.262 million. The proportion of 16-64 year olds in work, the employment rate, hit 75.4%, another record high. Meanwhile the proportion of working-age neither in work or looking for work, the economically inactive, has never been lower at 21.2%. Unemployment dropped to 4.2% a 43-year low. Expectations are rising that we could see a 3-handle unemployment rate for the first time since February 1975. One MPC member, Michael Saunders, has recently expressed this view. If so, wage growth should accelerate, particularly if the UK is approaching full employment. Hearing more talk of that 'F-word' would be very welcome.

Flattered. Northern Ireland's labour market statistics continue to provide a rich source of positivity. The latest Labour Force Survey (Dec-Feb 2018) indicated that employment is rising at its fastest pace in seventeen months (+2.2% y/y). Encouragingly there has been a shift towards full-time work rather than part-time. Female unemployment at 2.1% has never been lower. Meanwhile unemployment remains sub-4% for the fifth month in a row – a level not seen for the UK in the last 43 years. Only the South East & South West (3.4%) have a lower unemployment rate than NI (3.5%). But bear in mind that Northern Ireland is at the wrong end of regional league tables for inactivity and employment rate. So the labour market is not just as positive as the headline unemployment rate suggests.

Into reverse, with gusto. After hitting 3.1% in November last year, UK inflation was expected to retreat over the course of 2018. But not quite so quickly as this. Consumer prices rose 2.5%y/y in March, down from 2.7% in February. Women's clothing rose less than they did a year ago, contributing to the fall. The shift in the Budget from Spring to Autumn, meaning changes to the timings of tobacco tax changes, was also a factor. Core inflation, which strips out some volatile items including alcohol and tobacco, fell to 2.3%, its lowest level in a year.

Peering through the blizzard. UK retail sales slumped 1.2% in March as the spring snow kept people away from the shops. It kept them away from their cars too with petrol sales down 7.4%. Big stores had equally big problems keeping their shelves stocked as supermarkets sales were down 1.3%. But the difficulty of travelling encouraged more people to shop locally, benefiting specialist food stores who saw their takings rise by almost 12%. More time at home also meant more internet shopping and a new high point for online sales, now accounting for 17.4% of all retailing.

Enough? The Monetary Policy Committee was widely expected to hike rates again in May but a lower than expected inflation figure was enough for Governor Carney to remind us that nothing is a forgone conclusion. Cue a sharp reaction from the markets who dropped the implied probability of a May rate rise from 90% to evens. Of course the MPC could still decide that May is the right time to raise rates, but Carney’s comments mean it will be especially uncertain.

Persistent. Consumer prices across the eurozone rose 1.3%y/y in March. That was higher than February’s 1.1% but, like the UK, a weaker than expected reading. The core rate stood still at 1%y/y – it hasn’t been above 1.2% for the past five years. The persistently subdued inflation picture will keep the ECB cautious as it continues to mull over how quickly to withdraw its stimulus measures.

Forewarned. The good times for the global economy are set to continue according to the IMF’s latest World Economic Outlook. A global expansion of 4% is forecast for this year and next, matching 2017’s pace. The UK is set to be a bit of a laggard with growth of around 1.5% in both years (identical to the consensus view). And it wouldn’t be an IMF outlook without a warning or two. The current favourable growth environment won’t last, the Fund cautioned, with many countries requiring a bout of reform to combat the growth sapping impacts of ageing societies and lacklustre productivity.

Tarrifying prospect. Businesses on both side of the pond are becoming increasingly jittery about Trump’s trade policies. The word “tariffs” appeared 36 times in the Fed’s ‘Beige Book’ of business conditions. The word never appeared in the previous report on 7th March. Tariffs were mentioned as a factor affecting prices or a potential concern for the outlook in ten of the twelve regional Federal Reserve Banks. Exporting powerhouses have the most to fear. Financial analysts in Germany are well aware of this. Their ZEW survey of economic sentiment nosedived in April. Expectations for German economic growth in the next six months fell to their lowest level since November 2012. Expect these ripples of concern to spread.

Share this:

- Twitter
- Facebook
- LinkedIn
- Email