# Foreword

## Wage growth and its impact on productivity continues to dominate debates on the overall health of the UK economy. This time last year concerns were raised about pay falling behind rising prices and growing at a lower rate than inflation.

12 months on and those concerns haven't gone away. The most recent figures suggest that despite a slight pick-up in earnings towards the end of 2017, the annual increase was 0.3% below that of 2016, lagging behind inflation and rising at a slower rate than consumer prices.

Developments in the employment market, however, may indicate a turn in fortunes for British workers. As is often the case with job figures, it's difficult to discern what the real story is — positive, negative or impossible to tell for sure? The facts are as follows: after a prolonged period of growth where the employment rate reached its highest level since records began, at the end of 2017, the number of people in work fell by 56,000. Yes, it looks bad and, of course, isn't ideal but during the last five years of strong employment growth, other instances of ultimately 'temporary' setbacks have occurred — could this simply be another one?

What's revealing is that redundancies are still declining and the number of unfilled vacancies continues to reach record highs — almost 800,000 jobs were available in November 2017, an increase of 5,000 from the previous quarter. The indication is that skill shortages rather than failing companies and a lack of work opportunities that have led to the fall. Skills shortages have long blighted UK employers and the situation appears to be worsening, but with the economy growing ahead of expectations in 2017, on the back of a manufacturing output at its highest for 10 years, surveys suggest most firms have optimistic prospects for 2018.

With that being the case, demands for skills will not abate this year, though we can assume pay will increase as employers compete for the best people from a limited pool.

And is the economy truly on the up? Well, GDP grew by 0.6% in the final quarter of 2017. A weaker currency and a strong global economy — with Europe, the US and China all simultaneously experiencing positive trading conditions since the recession — is allowing UK manufacturers to export more goods and services. The economist who conceived GDP however, Simon Kuznets, always warned against using it as a measure of social welfare. His warnings were ignored and now largely forgotten but the incremental fall in consumer spending growth to its worst performance in five years, would suggest buoyant economies don't automatically mean the enrichment of all those living in them.

Perhaps in anticipation of better wages, though, labour productivity did increase by 0.9% in September 2017, however, this by no means suggests problems with the UK's historically and comparatively listless workforce haven't gone away. With nervousness surrounding factors such as Brexit, automation, etc. employers will have to pull out all the stops beyond money to motivate their people.

We hope you enjoy reading the report and find the perspectives offered to be useful. Should you have further questions, please do not hesitate to contact a member of our team who would be more than happy to clarify any of the information presented.