Real incomes rise just a little to June 2017

The ONS presented a healthy picture of employment growth in the year to June 2017. There are 338,000 extra jobs in our economy. Unemployment has fallen by 157,000 on the year. Many of the new jobs are full time jobs.

It also showed a small rise in average weekly pay, though it reported the figure as 2.1% up on a year. This left average earnings behind prices by 0.5%.

However, Figure 9 of the same ONS report provides a graph of average weekly earnings adjusted for price rises by putting the figures into a common 2015 price level. This shows June 2017 at £490.5, a little up on June 2016 at £488.2. This is confirmed by the average weekly pay figures in current prices reported at the top of Section 8. That says "average total pay for employees in GB was £506 a week (June 2017) up from £493 for a year earlier" That is an increase of 2.6%, in line with prices as measured by the CPI.

It is interesting that using June on June produces a different answer from using quarter on quarter which they highlight. It provides some light on why retail sales, consumer spending and jobs have increased when so many forecasters were expecting the opposite.

As some of you have pointed out, it leaves the unanswered question of why did the Treasury forecast big job losses following a pro Brexit vote and an Article 50 letter? It also raises the issue of which of these contrasting portraits in the same official document give the more accurate picture of what is happening?

Unemployment falls in the UK. Wokingham's rate is just 0.7%, well below the average.

It was good to see strong job generation again in the latest UK official job figures, with further substantial falls in unemployment. In Wokingham the unemployment rate remained low, with the constituency in the top 25 for a low rate nationwide out of 650.

We are now at record levels of employment, with good progress on creating more full time jobs. The national unemployment rate is 4.4%.

[Fare rises and Network Rail’s derivative losses]

Yesterday the RPI for July told us that rail fares will go up by 3.6% next year. As I reported yesterday on this site, costs have been mounting at the nationalised Network Rail which supplies the expensive track, stations and train slots. The railways will want this substantial fare rise, which always bears heaviest on commuters. Off peak and leisure travellers can benefit from highly discounted fares designed to try to fill the many empty seats outside peak hours.

Rail travellers paying those fares will not be amused to learn that the losses Network Rail have been making from their derivative dealing continue. According to the last accounts Network Rail lost another £116 m on “movement in the value of cash flow hedge derivatives”, compared to a £232 m loss the previous year. (Accounts page 95) The total fair value of derivatives they hold rose again last year, from £963 m to £1102 million. (Accounts p 97). The liabilities on derivatives rose from £1408 million to £1529 million. The notional amounts were of course much greater, rising from £17,094 m to £17,974 million. (Accounts pp 120-121 Note 19)

I am surprised Network Rail continues to run such large positions in derivative instruments now that its financing is all secured by the government. The present management have inherited both foreign currency borrowing and index linked borrowing. Their predecessors took out various derivative positions in interest rates and currencies with the results I have reported before by quoting their Accounts, now updated for the most recent year.

I continue to ask why do they do this. What benefit is this to taxpayers who supply 70% of the revenue and who own 100% of the shares of this business?

[Inflation stays stable at 2.6% on the CPI]

The BBC did its best this morning to talk inflation up, inviting on interviewees prepared to say inflation would rise owing to a weaker pound. They were wrong. Inflation stayed stable, with food prices dipping a little. The rise was sustained by Council taxes and associated housing costs and utility bills contributing. These are largely domestic costs given the switch to renewables and the high UK labour content of utility service and local government.

The poor performance of Network Rail

Network Rail had a disappointing last year. Their accounts for 2016-17, published in July reveal that they were £172 m net or £424m gross below target financially. Their operating costs rose by £124 m or 4.6%, well ahead of wage inflation. Total debt was up by £4.7bn, and debt costs were £370 more in the year. Much of this was the impact of the higher inflation rate on the index linked borrowing they decided to do in past years.

Worse still from the travellers point of view, they had to report cancelled trains in excess of target. Only 87.6% of trains were on time, well below target. Whilst it is good news no staff member was killed on the railway, under general safety they reported 680 injuries which was worse than target.

The railway is spending on increased capacity which drives debt higher, as does the failure to raise productivity and control costs. They are in consultation with the government over how to spend £450m on digital signalling. This could offer a much cheaper and more efficient way of increasing capacity. Lines currently only take 20 trains an hour, leaving the tracks unused for much of the day to allow safe braking. With better signals and controls, given the fact that trains are all going in the same direction on any piece of mainline, it should be possible to run 25% more trains on the same track with new systems. Indeed, with better brakes, lighter trains, better signals and sensible timetabling it may be possible to increase capacity by 50% to 30 trains an hour on any given piece of track.

I look forward to early decisions on how to step up this approach to capacity. I also look forward to the management having better success at raising the quality and curbing the costs of running the railway.