Accelerating UK wages put another tick in the rate hike box

For Bank of England rate-setters, today's jobs report may well have sealed the deal on a rate hike at their May meeting

Source: iStockphoto

2.8%

UK regular pay growth

(YoY%)

As expected

At 2.8%, the rate of regular pay growth is now more or less as high as it has been in the post-crisis years, barring a short period over the summer of 2015. This latest pick-up also means that wages are now rising ever so slightly faster than inflation – which on the face of it, implies that the household squeeze has come to an end. Although, with consumer confidence still relatively low, we don't think the economy is out of the woods just yet.

It's worth repeating that these wage figures are still being flattered by the sharp slowdown seen at the start of 2017. And while the recent momentum has undoubtedly been encouraging, it has slowed a touch over the past couple of readings (the 3M/3M annualised rate of growth has eased back to 2.6% from 3.1% previously).

Having said that all that, we suspect policymakers will remain fairly comfortable with wage growth. We suspect even the hawks at the Bank will have been slightly taken aback by quite how rapidly pay accelerated towards the end of last year, and survey evidence increasingly points to a bumper year for pay settlements. Bank Agents believe 2018 will see the best performance since the crisis, as firms increasingly encounter skill shortages.

This is a key reason why we expect a May rate hike from the Bank of England. But what happens thereafter is less clear. While the committee has indicated they'd be comfortable with raising rates for a second time this year, Brexit talks still have the potential to get noisy in the autumn. Coupled with ongoing economic fragility, this could complicate efforts to hike again later in 2018.

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