

## Bad news for UK consumers as wage growth falls sharply

The gap between inflation and pay growth is widening but we don't think the Bank of England will hike rates before 2019.



Source: Shutterstock

The lives of UK consumers aren't getting any easier, according to the latest jobs report. The key measure of wage growth, which excludes bonuses, fell sharply and is now much lower than the 2.6 - 2.7% readings we saw towards the tail-end of 2016. Employment growth stayed relatively elevated at 109k, but it is worth noting that this is being lifted by a large 340k "single month" reading for March.

**1.7%** Average weekly earnings (3M/3M YoY%)

Worse than expected

In its May Inflation Report, the Bank of England noted that it doesn't expect this weakness in wage growth to persist. It pointed to other labour costs, including the apprenticeship levy and workplace pension changes, as putting a temporary cap on salary growth. The Bank forecasts that average

weekly earnings could return to 3.5% next year.

---

*The widening gap between price and wage growth appears to be hitting spending*

---

However, given the uncertainty related to Brexit, and also now the overall UK political environment, we suspect that this forecast might prove to be optimistic. A survey recently conducted by the Institute of Directors suggested that 57% of members were either “quite” or “very” pessimistic about the UK economy of the coming year. We anticipate that this uncertainty will depress investment and hiring over coming months.

But whatever happens, what is clear now is that real incomes are falling noticeably. The sharp fall in the value of sterling, and more recently a pick-up in utility costs, has pushed headline inflation to 2.9%. This widening gap between price and wage growth appears to be hitting spending, and we are likely to see further evidence of this squeeze in tomorrow’s retail sales report.

Whilst yesterday’s spike in inflation might ruffle some feathers among Bank of England hawks, we think that the downside risks to growth from lower spending and uncertainty means that the MPC will not hike rates before 2019.

## Author

### James Smith

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10

Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.