

Dovish UK jobs report bolsters case for further rate cuts

UK private sector wage growth is falling and is likely to continue on this path for the rest of this year. A December rate cut is possible, though for now we're forecasting February for the next move

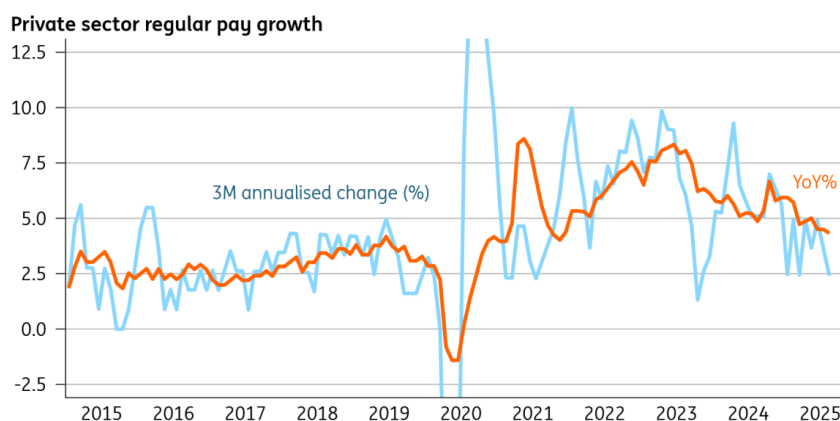


At a time when the Bank of England is poised to slow the pace of interest rate cuts, the latest UK jobs report suggests its work is not done yet. That's because private sector wage growth – something that's long proven to be a thorn in the Bank's side – is finally showing signs of falling more rapidly.

Pay growth among companies is now running at 4.4% in annual terms, down from 6% around the turn of the year. The news is even better if you look at the three-month annualised rate of private sector pay growth, which now sits at 2.4%. That suggests there's a good chance now that the annual rate will fall below 4% by November.

It's worth saying that this is already baked into the Bank's forecasts. But remember that wage growth has consistently come in higher than most economists had expected over recent years. Simply seeing its latest forecasts materialise would go some way towards alleviating concerns about the upside risks to inflation.

Private sector wage growth is easing



Source: Macrobond, ING

That's particularly true when you remember that the jobs market is still cooling. The unemployment rate nudged up to 4.8%. And payrolled employee numbers are still falling each month, albeit more gradually than earlier in the year. Surveys have turned marginally brighter on average, which suggests we're past the peak impact of April's tax hikes.

So far, so dovish. The only real fly in the ointment is that public sector pay growth is picking up. But this is linked to the sizeable real-terms increases in government spending in the current fiscal year, something that's currently not planned to be repeated next year. Assuming that's confirmed in the forthcoming Autumn Budget – a budget that's likely to be dominated by tax hikes – then this should add to the case for further Bank of England easing.

As for the timing, a November rate cut now looks unlikely. But December is in play, given that this meeting falls after the budget. And assuming we see further falls in wage growth, coupled with a bit of undershooting on the Bank's services inflation forecasts, then a Christmas rate cut is possible.

However, we think February is more likely, giving the Bank an extra month's worth of data to look at before acting. We expect three cuts in 2026, which is more than markets are currently pricing.

Author

James Smith

Developed Markets Economist, UK

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 www.ing.com.