Healthier UK jobs report as wage growth beats expectations

The latest jobs and wage data came in above consensus, but won't be enough to bring forward the date of the first Bank of England rate hike

Source: iStockphoto

Unemployment rate hits another record low

Wednesday's jobs report was slightly healthier than might have been expected. Jobs growth beat expectations, coming in at 125-thousand, even as March's 340k "single month" increase drops out of the three-month moving average comparison. That, combined with a further fall in unemployment, was enough to take the unemployment rate down to yet another record low 4.4%.

The big question for the Bank of England is whether the ever-tighter jobs market starts to translate into a sharp acceleration in wage growth. We have seen slightly more momentum in the level of average weekly earnings recently following a particularly sluggish start to the year. That appears to corroborate the BoE's view that some of the recent weakness in pay growth is attributable to temporary factors like the apprenticeship levy and pension costs.

2.1 Average weekly earnings, ex bonuses (YoY%)

Better than expected

Wage growth unlikely to rise much further this year

However, even as the probability of a Brexit transition period increases, there's still plenty of political uncertainty facing businesses. Throw in rising import costs, which will keep pressure on firm's cost bases, and slowing economic growth & consumer demand, then it looks unlikely that wage growth will pick up rapidly over coming months. Or at least, not enough to meet the Bank's 3% target for 2018.

In fact, we expect wage growth to hover around the 2% level for the rest of this year. With inflation likely to inch closer to 3%, that means real incomes will continue to be squeezed.

We expect the Bank of England to increasingly "look through" rising inflation and focus instead on the muted outlook for growth. A 2017 rate hike looks very unlikely.

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