Hot UK wage data will embolden Bank of England hawks

Private sector wage growth surged in the most recent month, and that means Bank of England rate cuts will remain gradual for the time being

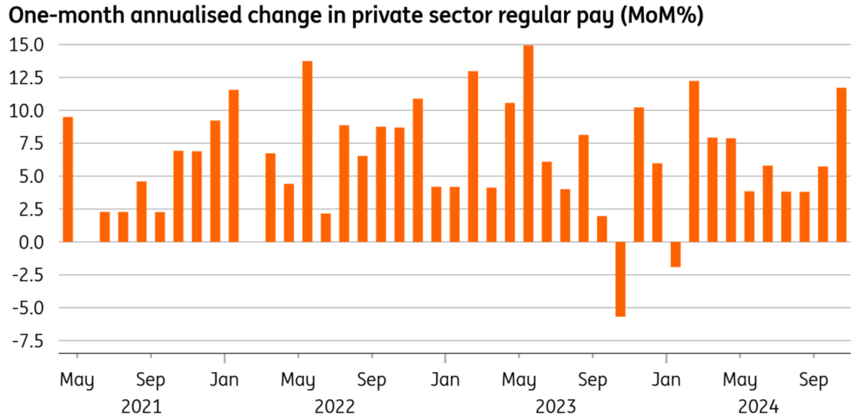
We think the Bank of England was already on course for a pause at this week's meeting long before today's data emerged, and we expect its next rate cut in February

The latest UK jobs report provides yet more justification, if any were needed, for the Bank of England to keep rates on hold at its meeting this week.

Wage growth surged more than expected in the latest data, which covers the three months to October. That's entirely down to the private sector, which saw regular pay increase by 10% on a one-month annualised basis. This matters for the Bank, because private sector pay trends tend to be more reflective of the wider situation in the jobs market than in the public sector.

Admittedl, these numbers can be volatile and it's hard to pin an obvious reason on the latest surge. But it will heighten suspicion among BoE hawks that wage growth is not going to readily come back down to pre-Covid levels. They can also point to the Bank's own 'Decision Maker Panel' survey of CFOs, which has shown wage growth expectations bottoming out around 4%, despite wider signs that the jobs market is cooling.

Private-sector pay growth has temporarily surged



Source: Macrobond, ING calculations

But cooling, the jobs market undoubtedly is. Remember, while the unemployment rate was flat at 4.3% in the latest data, the numbers underlying it still face quality issues and thus will be widely disregarded. Instead, we'd look at things like vacancy rates which, across the vast majority of sectors, have fallen below pre-Covid levels in recent months. The supposedly more reliable payroll based employee data shows that employment, outside of government-heavy sectors, is down by almost 1% so far in 2024, having fallen further in November.

For now though, the wage data will dominate when it comes to the next couple of interest rate decisions. Of course, the Bank of England was already on course for a pause at this week's meeting long before these numbers emerged. We still have services inflation data to come tomorrow, though we expect this to remain stuck around 5% – which, like wage growth, is much too high for the Bank's liking. We expect the next rate cut in February.

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