Mixed UK jobs data overshadowed by Brexit for BoE

A further fall in UK wage growth is unlikely to faze the Bank of England too much at this stage. But with Brexit uncertainty picking up as 'no deal' talk increases, we don't expect another rate hike before the UK leaves the EU next March

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It's fair to say that the latest UK jobs report is a bit of a mixed bag. Wage growth – a key part of the Bank of England's rationale for hiking rates this month – slipped back further to 2.7% from a revised 2.8% May figure. At the same time, the 3M/3M of employment growth slipped sharply to a 42k from 137k previously.

Importantly though, a large chunk of all of this was related to base effects. The fall in employment was amplified by a particularly strong March figure dropping out of the moving average. In fact, a more rapid fall in unemployment means the jobless rate is now at another post-crisis low of 4.0%.

In the case of wages, it's worth remembering that the start of 2017 was exceptionally weak before recovering from the second quarter - the result of which was artificially higher year-on-year wage growth rates for the first few months of this year. If you look at all of this, the recent momentum has actually been reasonable - albeit a little slower than it was around the turn of the year – so we doubt Bank of England policymakers will be overly worried for now.

But when considering the timing of the next rate hike, we think it's what happens to growth that really counts. While the sunny weather gave the high street a much-needed boost in the second quarter, we suspect that cracks could begin to reappear over coming months. Consumers remain pretty cautious – and with talk of 'no deal' only likely to ramp up over the next month or so, sentiment could be hit further.

For this reason, we don't expect another rate hike before the UK leaves the EU in March 2019.

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