Persistent UK wage squeeze raises doubts over 2018 rate hikes

Negative real wages and a drop in job creation mean a Bank of England rate hike next year is far from guaranteed

Source: iStockphoto

2.1% Average weekly earnings

(excl. bonuses, YoY%)

Better than expected

UK wage growth beat expectations in August, but after yesterday's pick-up in UK headline inflation, it still means that the household squeeze is intensifying. But the million dollar question is how much longer this will last.

It's too early to say this is the start of a new wage growth trend

Well, there has certainly been some renewed momentum in the level of regular pay having come to a standstill earlier this year. But at this stage, we put this down to temporary drags starting to unwind (things like pension changes and the apprenticeship levy, that the Bank of England has previously highlighted).

We think it's probably too early to say this is the start of a more rapid upward trend and crunching the numbers, we don't expect wage growth to go much above 2.1/2.2% before next summer.

So whilst we expect headline inflation to peak at 3.1% next month, the gap between CPI and wage growth is likely to stay fairly wide for some time to come. This will likely keep a lid on consumer spending and we may see some further evidence of this in tomorrow's retail sales report, as households continue to take a cautious approach to discretionary spending.

There was also some pretty bad news on the employment front, with the headline 3M/3M change in job creation falling back to 94k. Worrying, the "single month" measure showed that in latest three months, employment fell by 108,000. It's early days, but this could be an indication that the sluggish economic growth we've seen so far this year is starting to weigh on the jobs market.

> So what does this mean for interest rates? Whilst we expect a November hike from the Bank of England - the committee is keen to get out of emergency mode - all of this suggests that the amount of subsequent tightening from the Bank will be limited.

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