

UK wage growth points to summer rate hike

With wage growth sitting at the heart of the Bank of England's rate hike rationale, these latest encouraging figures suggest markets may be underestimating the risk of a summer move



Source: istock

As markets become increasingly sceptical about the prospects of a UK rate hike this year, the latest wage data could prompt a bit of a rethink.

At 2.9%, earnings growth excluding bonuses is now running at the fastest rate since mid-2015 and will make the Bank of England more confident that its optimistic stance on wage growth is bearing fruit. Remember that survey evidence from Bank of England Agents has been pointing to the best year for pay settlements since the financial crisis.

Admittedly, we may be nearing a short-term peak. The first few months of last year were very bad for pay, but as this bleak period starts to exit the annual comparison, the numbers will start to encounter some more challenging base effects from next month.

2.9% Wage growth
(excl. bonuses, YoY%)

As expected

That aside, there's nothing here to make the Bank doubt its outlook for wage growth. Given that policymakers have cited rising pay pressure as a key justification for tighter monetary policy, we think markets are underestimating the risks of a summer rate rise.

Still, what really matters between now and August is what is happening in the consumer arena. By some measures, the first quarter of 2018 was one of the worst for UK retail, with slowing consumer demand, higher minimum wage costs and elevated business rates creating a kind of perfect storm for the high street. Whilst the jobs numbers have recovered since the start of the year (almost 200k increase in this latest report), and real incomes are no longer falling, retailers are not out of the woods just yet.

This is probably the biggest risk to the monetary policy outlook. But for now, assuming the activity data recovers, bolstering the Bank's assumption that much of the first quarter dip was snow-related, we still suspect that policymakers will be keen to raise rates in August.

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