

## Solid UK jobs report gives August hike the green light

Despite a slip in UK wage growth, we suspect the Bank of England will remain comfortable with the overall trend. We expect a rate hike in August



Source: Shutterstock

For the Bank of England, rising wage growth is a key pillar of its rate hike rationale. So at face value, the latest slip in average earnings (ex bonuses) to 2.7% may appear disappointing.

However, it's worth noting that, like last month's fall, this is mainly a function of base effects. Wage growth was particularly weak in early 2017, but began to recover from the second quarter – meaning the year-on-year growth rates are beginning to ease. Admittedly the recent momentum has slipped a little too. But with Bank of England Agents still pointing to skill shortages resulting in more rapid pay increases, we doubt the recent figures will lead to any kind of rethink amongst the committee on the overall trend for wages.

With employment growth also reasonably solid, Tuesday's jobs report gives the Bank another green light to hike in August. We doubt the few remaining data points between now and the next meeting will do much to change this. And even though the political scene has become particularly noisy, the Parliamentary recess that's due to start in a matter of days should (in theory) create a brief period of calm, giving the Bank enough cover to hike in August.

However, when it comes to Brexit, the bigger headache for the Bank of England could come beyond August. With the EU likely to remain resistant to the UK's latest proposals, the perceived risk of a "no deal" could feasibly increase (even if the actual probability of this happening remains low in our view).

If Brexit uncertainty picks up as time starts to run out, we think the Bank could have a tricky time hiking rates later this year. After an August hike, our current expectation is that the BoE remains on hold until May 2019.

## Author

### James Smith

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.