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

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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.

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