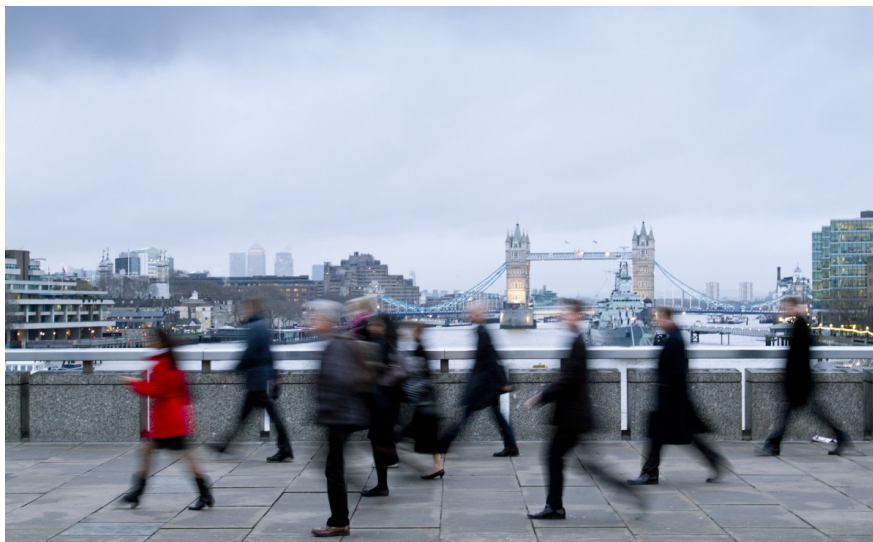


Solid UK jobs report helps cement June rate hike

Faster-than-expected wage growth points to a rate hike in June and potentially August, and is a reminder that pay pressures are likely to ease only gradually. That doesn't necessarily suggest the Bank of England needs to raise rates as aggressively as markets expect, but it does imply that rate cuts are some way off



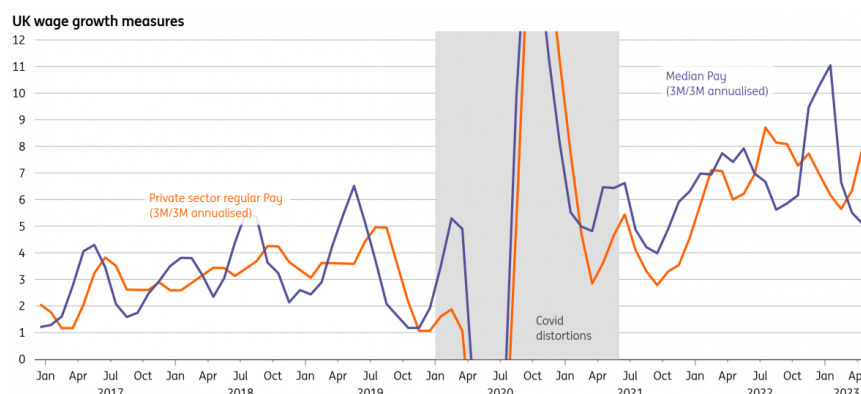
The latest UK jobs report is undeniably hawkish for the Bank of England.

The unexpected fall in the unemployment rate to 3.8%, which is still pretty close to all-time lows, underscores the overall resilience of the labour market right now. At the margins, there are still some signs of cooling, with vacancies edging lower and the redundancy rate higher, though both still look stronger than long-term averages.

Crucially for the Bank of England, we also saw another marked acceleration in wage growth – both when comparing the latest three-month period to the prior three, or to the same period last year. It's maybe easier to think about this in level terms, and regular pay increased by £4 across the most recent month of data, which compares to an average of £3-4 monthly increases through the second half of 2022. In other words, wage growth isn't necessarily accelerating – and indeed the annual rate of growth (now 7.2%) is unlikely to rise much further due to base effects. But it's also

clear that wage growth is failing to fall back either.

Wage growth momentum is failing to slow

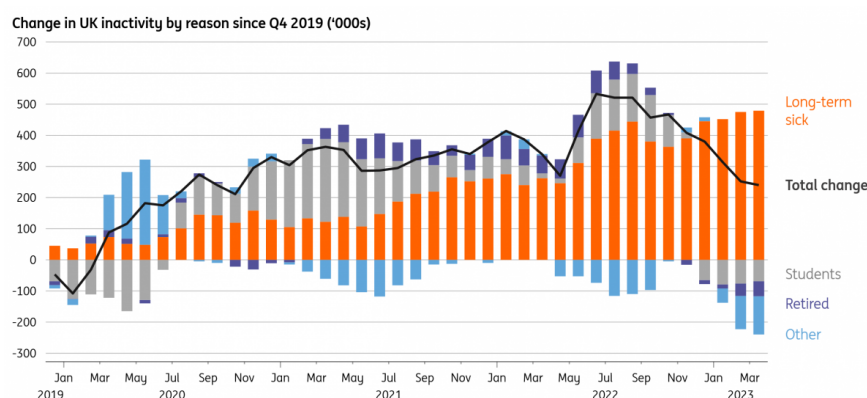


Source: Macrobond, ING calculations

Admittedly, survey evidence suggests firms are looking to raise wages less aggressively over the coming months, and the BoE's own survey of chief financial officers points to a marked slowdown in pay growth over the coming months. But [as we wrote in more detail yesterday](#), we think it's going to take some time for wage growth to come down to something consistent with at-target inflation.

Worker shortages do appear to have eased, and the number of workers inactive (neither employed nor actively seeking a job) has fallen in recent months. Nevertheless, it looks like some of the drivers of hiring difficulty during the pandemic are structural. That's neatly demonstrated by a further rise in the number of workers outside of the labour market due to long-term sickness.

Overall inactivity levels have fallen, though long-term sickness remains an issue



Source: Macrobond, ING calculations

For the Bank of England, all of this cements a June rate hike and if the inflation numbers continue to come in hot, it's quite plausible that we end up with an August move as well. Much will depend on how CPI inflation comes out over the next couple of months.

But the reality is that UK rates are now comfortably into restrictive territory, and we think the amount of tightening priced into markets – an additional 120bp of rate hikes – looks excessive. However, today's data are a reminder that the Bank of England is unlikely to rush into rate cuts, which we think are unlikely until this time next year.

Author

James Smith

Developed Markets Economist, UK

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 www.ing.com.