

UK jobs data hints trouble could lie ahead for wage growth

UK wage growth is close to post-crisis highs, but some tentative early warning signs suggest that the jobs market is entering a turbulent period. We don't expect a rate hike from the Bank of England this year, although recent comments from Governor Carney suggest a November move shouldn't be ruled out

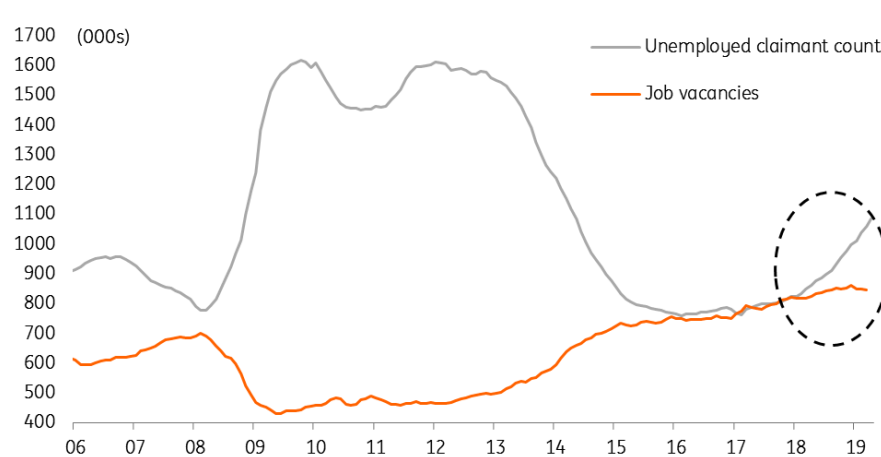


Source: Shutterstock

At 3.3%, UK regular pay growth is continuing to rise at a rate close to its post-crisis high. The question is: can this strength persist through 2019 – and in fact, will wage growth gradually accelerate towards 3.5 - 4% as the Bank of England expects?

Well, in principle there are few reasons to expect an imminent or sharp slowdown. The recent acceleration in pay growth has been driven by rising skill shortages across the economy, particularly concentrated in sectors such as construction and hospitality. Some of this is undoubtedly down to the lagged effect of earlier economic strength, but equally, there are a number of structural factors driving shortages of skilled labour which are unlikely to disappear rapidly. For instance, [a chronic shortage of lorry drivers has been caused by demographic factors](#) and this is forcing haulage firms to offer higher wage rates for certain shifts.

Unemployed claimant count diverging from number of vacancies



Source: Macrobond

For the time being then, higher wage growth, coupled with benign inflation, should give consumer spending a modest boost over the next few months. Amid all the uncertainty though, there are some early warning signs emerging from the jobs market. Employment growth has slowed since the start of the year, which tallies with various survey indicators that have hinted at reduced appetite to hire – particularly full-time positions. Meanwhile, the number of people on the unemployed claimant count has been gradually rising, and now noticeably exceeds the number of job vacancies. While there are various caveats with using this measure of unemployment, it does hint at a margin of slack opening up.

Having said all of that, it's still early days and for the time being, we don't expect any of this to change the Bank of England's positive outlook on wage growth. We don't currently expect a rate hike this year, but following some recent hawkish comments from Governor Carney, we wouldn't completely rule out some further tightening in November if either a Brexit deal is ratified, or more likely, Article 50 is extended further.

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 <http://www.ing.com>.