UK jobs report no Bank of England game changer

We still think a 2017 UK rate hike looks unlikely, despite above-consensus wage and jobs data

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UK real wages continue to fall, making BoE forecast look optimistic

The latest wage growth data for May could have been much worse. Excluding bonuses, average weekly earnings came in above consensus at 2%, but crucially, that's still well beneath the latest 2.9% inflation reading.

We think firms will be decreasingly willing to lift pay packets

The Bank of England (BoE) has taken a relatively optimistic stance on wage growth recently, putting the recent decline down to temporary factors such as the apprenticeship levy and pension changes.

But as firm's costs rise with higher input prices, and given the uncertainty over Brexit and the outlook for consumers, we think firms will be decreasingly willing to lift pay packets.

We, therefore, think the BoE's 2018 wage growth forecast of 3.5% looks optimistic, and this means the household spending squeeze is likely to persist. The latest data from Visa suggested that the last three months were the worst for consumer spending since 2013. Throw in last week's disappointing trade, production and construction data, and 2Q growth isn't looking great.

Jobs growth remains solid, but underlying trend more subdued

The other key element of today's report - jobs growth – increased to 175k, but it's worth remembering that this is a 3M/3M average and the headline figure is currently being supported by an unusually high "single month" figure in April. This will drop out in the next set of numbers, and growth will likely move back to the 60-80k region, which would be more indicative of the underlying trend.

> All of this suggests that a 2017 rate hike from the Bank of England still looks unlikely, particularly in light of the dovish comments from Deputy Governor Broadbent this morning. We continue to view the overall hawkish shift from the BoE as an effort to get markets entertaining the possibility of more imminent policy tightening, rather than an explicit near-term rate hike signal.

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