

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



Source: iStockphoto

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.

Author

James Smith

Developed Markets Economist

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>.