

## UK jobs report shows the bar to a BoE rate hike is high

The UK jobs market is considerably cooler than it was in 2022 when the last energy shock hit. While the latest report was a tad better than expected, vacancy rates are still well below pre-Covid levels in most sectors, private sector employment is flat-lining, and wage growth is falling. All of that suggests the bar to a Bank of England rate hike is high



Just-released jobs data won't shift the Bank of England's decision today, and it'll likely remain on hold to see where things settle by the April meeting

### Consumer-facing services remain weak

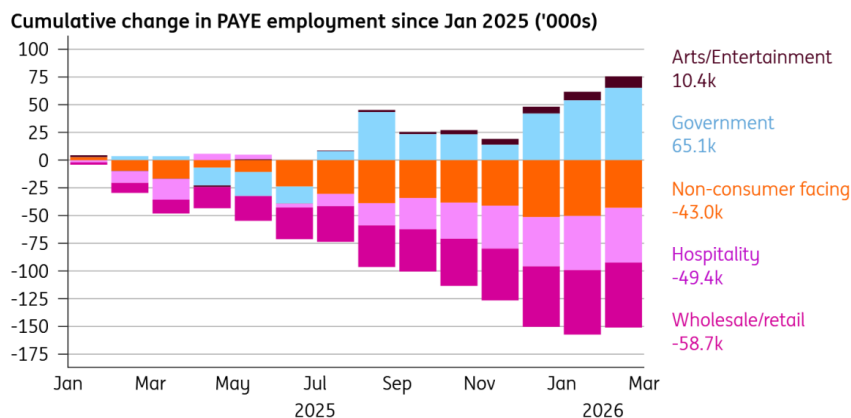
The latest UK jobs report shows the economy has changed enormously since the last energy price shock in 2022. The case for Bank of England rate hikes is much less clear-cut.

Back then, the UK jobs market was hot. Worker shortages were widespread. Today, hiring appetite is tepid; employment growth is low.

True, the report is better than expected across unemployment and job creation. The former stayed at 5.2%. But on the latter, as has been the case for much of the post-pandemic era, it is the government that is doing most of the leg work in driving growth in payrolled employment.

Consumer services still stands out as a particular area of weakness, after last year's tax/wage changes – although the pace of employment decline has eased a little over the past month or two. On a three-month annualised basis, growth in private non-consumer-facing sectors is flat.

## Government has boosted employment over the past few months



Source: Macrobond, ING

## The next move is more likely to be a rate cut than a hike

The good news for the Bank of England is that wage growth is still coming lower. Private sector wage growth (3.3%) is at target-consistent levels, according to the Bank's own analysis. We think this will drop towards 3% over coming months. While helpful for the Bank's inflation targeting, the flip side of lower/falling wage growth is that it means consumers are much less shielded from the effects of higher energy prices. Back in 2022, workers' ability to move jobs to chase higher wages and protect their disposable income was significantly higher than it is today.

None of this changes the calculus for the Bank's decision today, where the prudent thing is to remain on hold and see where things settle by the April meeting.

Clearly, the longer the crisis in the Middle East lasts, the higher inflation will go and the longer the Bank of England is going to wait on the sidelines. Oil prices around USD 90/bbl through the second quarter and gas prices around 50 EUR/MWh is consistent with inflation at 3.5-4% by late summer. If prices stay at today's levels for a prolonged period, we could head above 4%.

The bar for a rate hike is high, but the Bank will be highly reticent to lower rates until it is reassured that the crisis hasn't materially pushed up price/wage expectations.

The Bank's Decision Maker Panel survey is going to be key. That has shown forward-looking wage expectations bottom out around 3.5%, which is higher than officials would ideally like.

Still, vacancy rates are well below pre-Covid levels in most sectors and the scope for those industries to absorb higher energy costs, or raise prices in response, is more limited than it was four years ago. If energy costs do remain elevated for a prolonged period, as ING's base case now assumes, then it is likely we'll see further upward pressure on unemployment this year. It's hard to see wage growth picking up in that environment.

We still think the next move is more likely to be a rate cut, even if the timing is increasingly uncertain.

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