UK wage data gives BoE the green light on May rate hike

Alongside the positive steps made in Brexit talks this week, today's UK wage growth figures make a May rate hike look increasingly likely. Here are our three key takeaways from today's data

Source: Shutterstock

2.6% Wage growth

(excl. bonuses, YoY%)

As expected

1 Wage data effectively gives the Bank of England a green light to hike in May

Another month, another buoyant set of UK wage data. At 2.6%, growth in average weekly earnings excluding bonuses suggests that wages are gathering momentum. Admittedly, the current year-on-year rate of growth says almost as much about the weakness at the same time last year, as it does about current strength.

But even so, the latest numbers should support the Bank's view that the tight jobs market is putting pressure on firms to lift pay more rapidly to retain staff/attract new talent. This certainly appears to be the message from various surveys.

Evidence from BoE agents point to the best year for pay settlements since the crisis, while a recent Markit/REC employment survey indicated that starting salaries are rising at the fastest pace in two-and-a-half-years.

2 The pay squeeze is easing, but..

The latest pick-up in wage growth now means that incomes are more or less rising at the same pace as inflation. At face value, that suggests there may be light at the end of the tunnel for consumer spending after a tough year. But, we still think there are a few reasons to be cautious.

While incomes are no longer falling in real terms, they aren't set to start rising significantly any time soon either. And with consumer confidence not far off post-Brexit lows, we suspect households are likely to remain cautious for a few more months to come.

3 Better jobs data tentatively suggest turbulence is over

It's fair to say the jobs numbers have been all over the place recently.

At the end of 2017, there were signs that the weak economic momentum through last year may finally be catching up with the labour market. However, the strong recovery in employment growth seen in the latest report (up to 168k from 88k previously) suggest that the blip we saw was, well, just a blip.

All in all, today's data may well give policymakers the green light to hike rates again in May. Now that a deal has been struck on the transition period, which helps cement the Bank's assumption that the road to Brexit will be "smooth" (for now at least), there are few other obvious barriers to a near-term hike.

Attention is now turning to whether policymakers could go for a second rate rise at some point later in the year. Recent commentary from the Bank suggests that's certainly a possibility, although for now, we feel that a hike could prove tricky if talks reach a noisy conclusion later in the autumn.

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