

Nothing in UK wage data that screams the need for another rate hike

Momentum in UK wage growth appears to have eased since 2022, and together with signs that the heat is coming out of the jobs market, there's nothing in the latest report that screams a need to keep hiking rates. But there's still plenty of data due before the next Bank of England meeting in June



Last month's surprisingly strong UK wage growth figure was almost certainly a key driver behind last week's Bank of England decision to raise interest rates further. This month though, the story appears more benign.

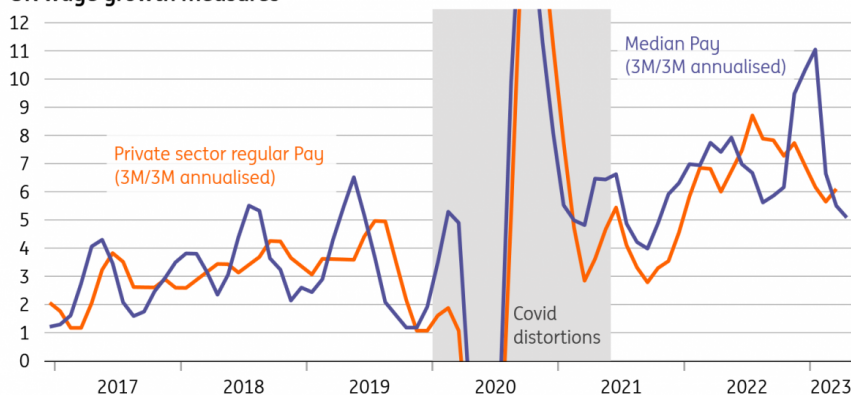
The headline rate of regular pay growth, which compares the past three months to the same period last year, notched up to 6.7%. But the level of average weekly pay (ex bonuses) increased by only £2 in the past month, a slower pace than we saw through much of 2022 and indeed in the previous month (which now looks like an aberration).

Smoothing out recent volatility and comparing the most recent three months to the three months before, the rate of private sector wage growth has clearly slowed since 2022. That trend is also supported by the BoE's own survey of businesses, which indicates that both price and pay

pressures beginning to ebb.

UK wage momentum has been slowing

UK wage growth measures



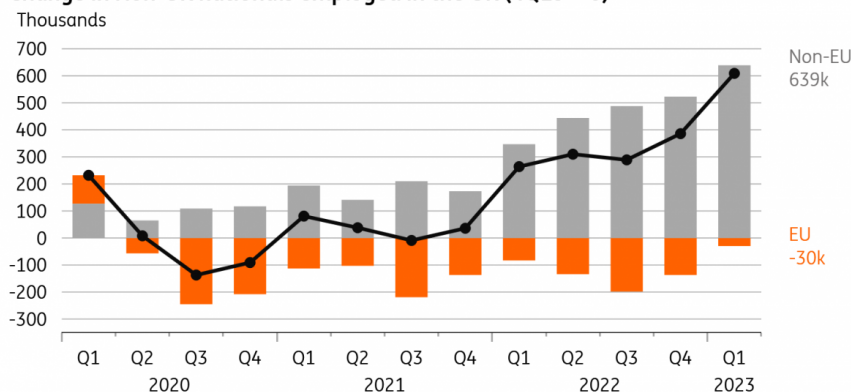
Source: Macrobond, ING calculations

Elsewhere there are further signs that the heat is coming out of the UK jobs market, albeit steadily. The unemployment rate inched up to 3.9%, while we saw the first monthly fall in employment since early 2021, at least according to the experimental payrolled employees measure.

The Bank of England will also be pleased that economic inactivity – people neither employed nor actively seeking work – has continued to fall, albeit not because of a decline in long-term sickness rates. There was also a healthy increase in the number of non-UK nationals employed in the UK, including a 5% rise in EU nationals during the first quarter. All of this, on paper, points to an improvement in worker supply – something that’s corroborated by the BoE’s surveys which have pointed to a less acute shortage of employees in recent months.

Numbers of non-UK nationals employed in the UK increased in Q1

Change in Non-UK nationals employed in the UK (4Q19 = 0)



Source: Macrobond, ING calculations

In practice, we still suspect it’s going to take time for wage growth to slow and that hiring issues

will remain a medium-term economic challenge. But from the BoE's perspective, today's report was the first big data test ahead of the June meeting, and there's nothing here that screams a need for further hikes. Our base case is a pause next month, though by its own admission, the Bank of England is data-dependent now, and there's still another jobs report and two CPI releases before next month's meeting.

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 www.ing.com.