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Snap

## UK wage growth dip unlikely to faze Bank of England

An unexpected slowdown in UK wage growth is unlikely to faze the Bank of England. An August rate hike looks more likely than not, but hinges on a more convincing pick-up in activity data

At 2.8%, the latest UK wage growth figure is a little weaker than anticipated but is unlikely to bat too many eyelids at the Bank of England. The trend so far this year has been solid, supporting the Bank's view that skill shortages in the jobs market are forcing firms to pay increasingly large sums to keep employees on board and attract new talent.

Admittedly, we think that last month's 2.9% wage growth figure was probably a peak. Base effects have played a role in the recent uptick (pay remained virtually flat through the first part of 2017), although the latest rise in the national living wage may provide a little further impetus over the next one to two months.

Separately, employment rose a little faster than expected at 146,000. The jobs market has been surprisingly resilient since Brexit, but worryingly a survey by ManpowerGroup released overnight suggested that employers were the most pessimistic they've been about the hiring outlook in six years. If this were to translate into slower job gains (or even losses), then this would come as yet another headwind for consumer spending.

And it's the outlook for spending that ultimately holds the key to the timing of the next Bank of England rate hike. The BoE has been surprisingly blasé about the dip in activity during the first quarter, but the latest data has been mixed. Despite some better news from the service sector last week, Monday's trade and manufacturing data looked more concerning. We also remain concerned about the retail sector, which is being buffeted by slower demand and higher wage costs.

We still feel an August rate hike is more likely than not, given what policymakers have been saying over recent weeks, as well as the better news on wage growth. But with the economy clearly still struggling to regain poise, nothing is guaranteed.

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