UK wage growth hits another post-crisis high, signals rate cut unlikely

UK wage growth has hit another post-crisis high amid ongoing skill shortages in the jobs market. This suggests it may be too early to be talking about Bank of England rate cuts, although as ever, it all depends on Brexit

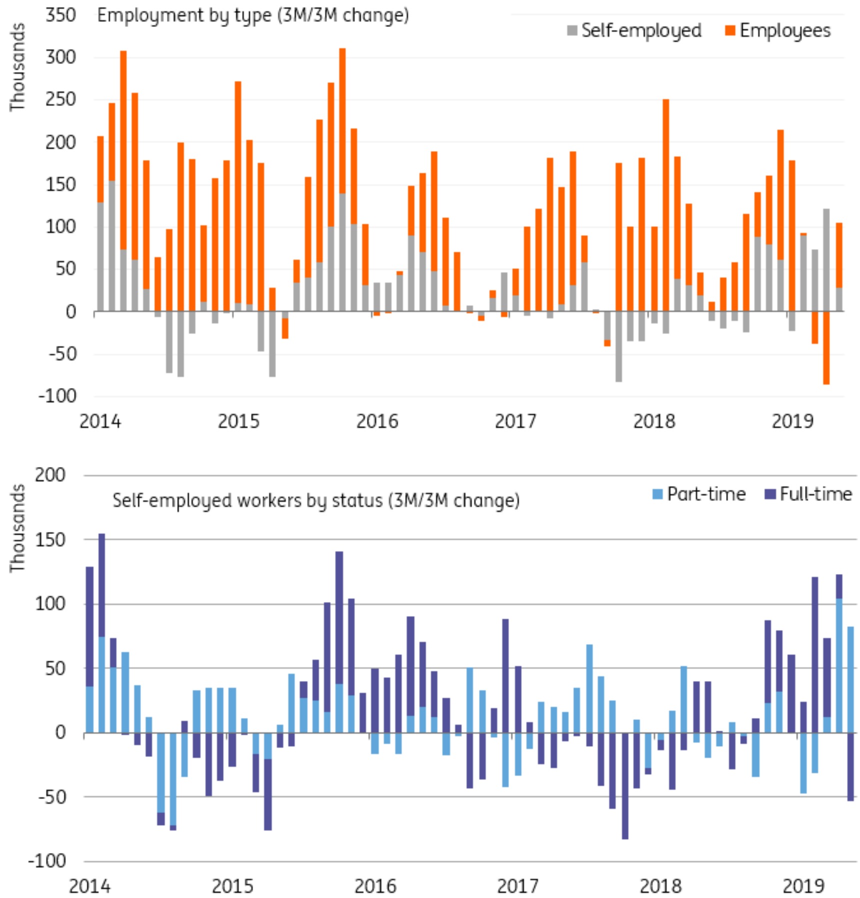
We don't believe a strong first half of the year is likely to change the course of Bank of England rate cuts in 2024

At 3.9%, UK wage growth (excluding bonuses) has hit another post-crisis high and is a key reason why it is probably too early to be talking about Bank of England rate cuts. And for the time being at least, we think pay growth has the potential to remain strong. The recent uplift in pay is linked to skill shortages in various industries - most notably in construction, IT & hospitality, according to last year's Employer Skill Survey. Given that this is as much structural as it is cyclical (demographic factors are a key driver in certain areas for instance), we'd expect wage growth to stay elevated in the near-term, albeit we may see a retracement towards 3.5% as we head into the autumn.

The jobs side of this month's report was also pretty encouraging, with employment rising by 115k in the three months to June. Until recently, PMIs had hinted at improved hiring appetite among firms, perhaps triggered by the temporary lull in uncertainty after the decision to extend Article 50 back in April.

That's not to say there aren't risks. The number of job vacancies, while still high, has been falling since the start of 2019. We'd also note that a large chunk of job gains over recent months has been driven by self-employed workers – in particular part-time. Up until these latest figures, the number of people in 'employee' roles had been falling in the past couple of jobs reports.

Self-employment has been a key driver of job gains in recent months



Source: Macrobond

When it comes to the Bank of England though, the stronger wage growth backdrop suggests that policy easing is unlikely in the near-term. A lot depends on Brexit of course, but for the time being, we think markets may be slightly overestimating the chances of BoE easing – investors are now pricing in a rate cut by early 2020.

Author

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Disclaimer