UK wage growth points to another rate hike in March

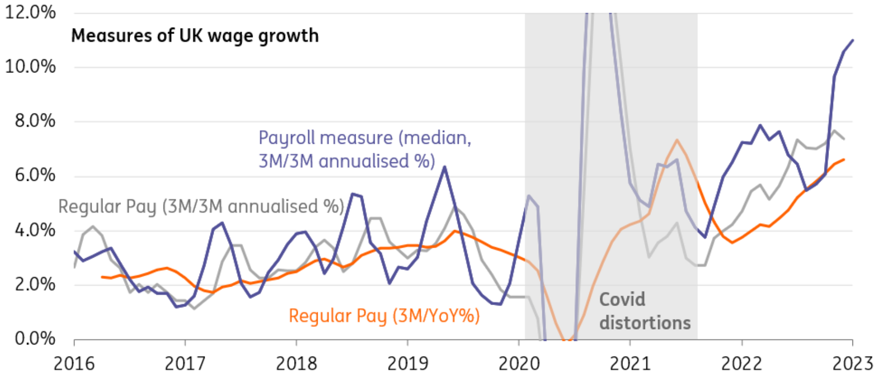
There's little sign that UK wage growth has reached a peak, and the jobs market looks reasonably healthy. A 25bp rate hike at the March meeting seems likely

The UK job market looks healthy

UK wage growth has come in higher than expected in the latest jobs report, and this will be a concern for the Bank of England's hawks. The headline year-on-year change in regular pay (measured as a three-month moving average) came in at 6.7%, up from 6.5% and above expectations. Admittedly the fact this beat consensus was mainly down to revisions, and in level terms December's pay level was only marginally above November's.

But these numbers are volatile month-to-month, and that's why the Bank of England favours looking at the annualised change over the past three-months, relative to the prior three-months. This measure is running over 7% and has been for a few months now. The alternative, payroll-based measure is running at 11% now on the same annualised basis.

UK wage growth doesn't seem to have peaked



Source: Macrobond, ING calculations

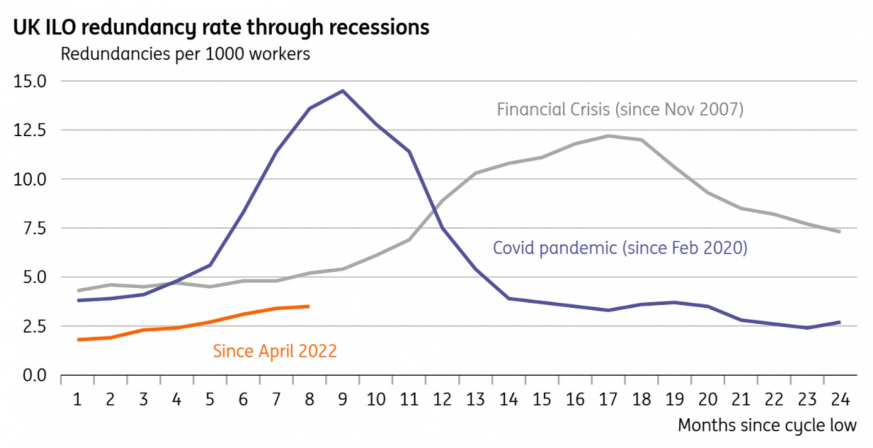
3M/3M annualised change = the annualised change over the past three-months, relative to the prior three-months

In short, there's little sign that wage growth is slowing, as some recent surveys have suggested. And the rest of the report shows the jobs market in reasonable health too.

The unemployment rate remains well below 4%, close to all-time lows. Redundancy rates have been gradually rising, though only to pre-Covid levels from an unusually low base.

Encouragingly, the number of people neither employed nor actively seeking a role (economically inactive) has inched lower recently, though mainly due to lower student numbers than a decline in levels of long-term sickness. The number of EU workers in the UK also inched higher in the latest quarterly data, though remain 6% below pre-Covid levels. Higher inactivity levels and a net outflow of EU workers through the pandemic have been key contributing factors to skill shortages.

UK redundancy levels are rising but remain low by historical standards



Source: Macrobond, ING

Today's data is one of a few key releases the Bank of England will be watching ahead of its March meeting, and so far the dial is pointing towards a 25bp rate hike. But with the BoE putting greater emphasis on the lagged impact of past tightening, and with inflation likely to show signs of improvement by spring, we suspect a March rate hike will be the last.

Read more on what data the BoE is watching to decide its next move

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