

UK wage growth remains sticky despite cooling jobs market

UK wage growth appears stuck in the 4.5-5% area, despite falling private sector employment and lower vacancy rates. Further declines in wage growth are coming, but not immediately. For the time being, the Bank of England will remain cautious



Private sector wage growth is stuck in the 4.5-5% area

There's one number that will catch the UK's headlines this morning, and that's the surprise surge in the unemployment rate from 4.0% to 4.3%. That's a sizable rise and much bigger than anyone had anticipated. It's also unusual because this number is based on three-month moving averages, which tends to dampen the volatility in this data.

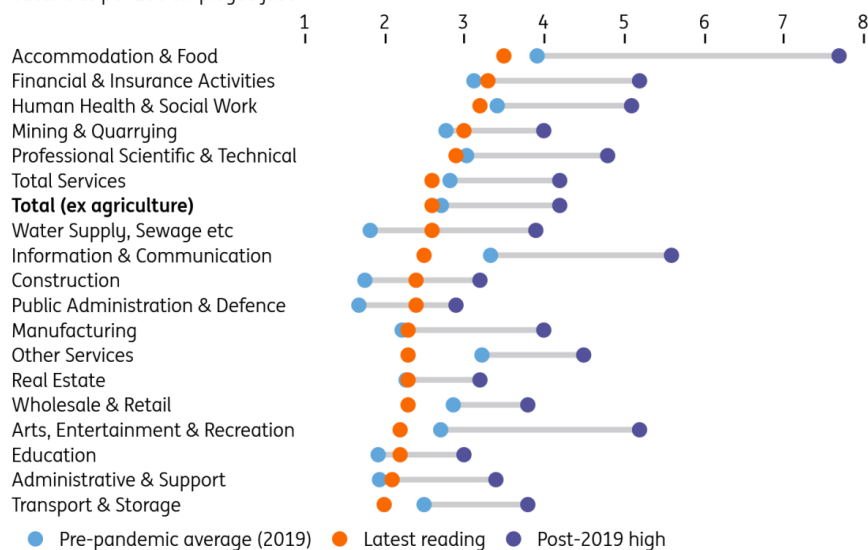
In reality, of course, this tells us very little. The Office for National Statistics readily concedes that these figures suffer from well-known reliability problems. Indeed, all this rise really does is reverse an equally strange dip in the unemployment rate from earlier in the summer.

That's not to say the jobs market isn't cooling it undoubtedly is. With one or two notable exceptions, the vacancy rate in the majority of sectors is comfortably below pre-Covid levels. If we look at internationally comparable data from Indeed, the hiring agency, this isn't a trend that's been repeated so far at least not as dramatically in the US, Germany or France.

UK vacancy rates are generally below pre-Covid levels

UK unfilled job vacancy rates by sector

Vacancies per 100 employee jobs



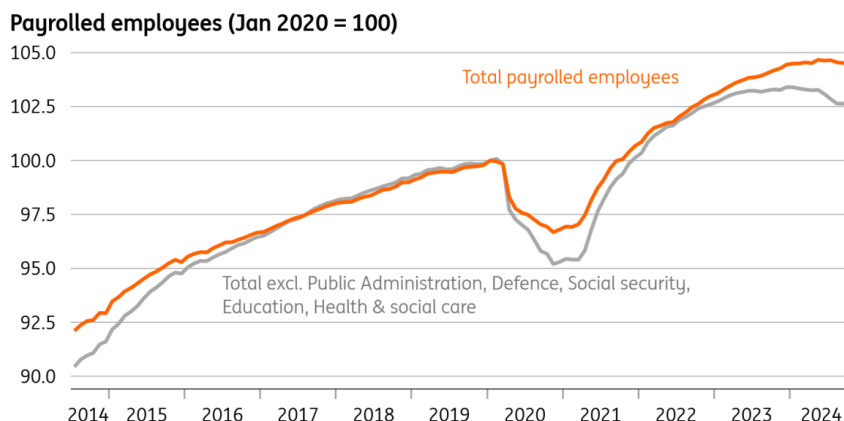
Source: Macrobond, ING calculations

It's a similar story with data taken from firms' payrolls. Strip out sectors with a high concentration of public sector roles, and the number of payrolled employees has fallen by 0.8%, or 160,000, since the turn of the year.

These aren't huge numbers, nor do these represent rapid changes in trend or the classic signs of recession. Redundancy levels are still very contained, for instance.

Still, against that backdrop, it's surprising that wage growth is still as strong as it is. Private sector wage growth is close to 5% year-on-year. That measure is likely to tick higher over the next few months due to unfavourable base effects. Even if we look at more timely measures of wage growth, like the change compared to three months ago, these are still consistent with annual rates of roughly 4.5%. The Bank of England's 'Decision Maker' survey of corporates has also seen the expected level of wage growth level out at around 4%. We think it'll take until the second quarter of next year for the official private sector wage growth numbers to fall below that level.

Excluding government-heavy sectors, payrolled employment has fallen this year



Source: Macrobond, ING calculations

What does this all mean for the Bank of England? Given how far the jobs market has cooled, there's nothing here that should stop officials from cutting rates to a much more neutral position. To our mind, that means rates in the 3-3.5% area. Markets are pricing fewer than three rate cuts now over the next two years, which we think is too little.

For now, though, both wage growth and services inflation are likely to remain sticky into year-end and early next year. Barring any surprises, we think the Bank will stay cautious and keep rates on hold in December, before cutting again in February. Assuming the data looks a little better by then, we think rate cuts will accelerate thereafter.

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.