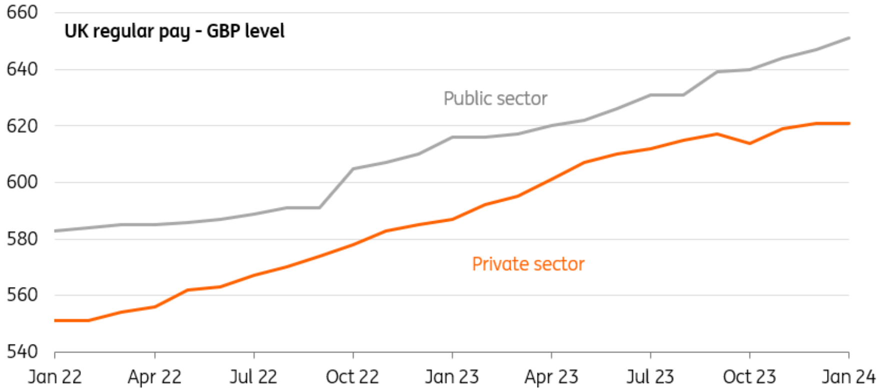
UK wage growth slows as jobs market cools

Private sector wage growth has dipped further and will probably reach the 4-4.5% area by early summer. We expect the first Bank of England rate cut in August

At the margin, the latest UK jobs report is slightly dovish for the Bank of England. The unemployment rate edged higher to 3.9%, with the usual caveat that there are still reliability question marks surrounding these numbers. Unfilled job vacancy numbers are falling steadily and are closing in on pre-Covid levels.

More importantly for the BoE, annual private sector wage growth dipped from 6.2% to 6.0%, and is now some way below last year's peak of 8.1%. Another way of looking at this reveals that the level of private sector pay remained unchanged in January compared to a month earlier, as the chart below shows. Given that we saw some very chunky month-on-month pay rises through the first and second quarter of last year, we'd expect this annual rate of wage growth in the private sector to slow to the 4-4.5% area by early summer.

The level of regular pay shows private-sector wage growth easing



Source: Macrobond

It's worth saying that much of this is already baked into the Bank of England's most recent projections. Policymakers had been saying late last year that the official pay numbers seemed a bit elevated relative to other indicators, so some of the recent pullback in wage growth will be interpreted as the numbers simply coming back into line.

Ultimately, the BoE will want to see more evidence of pay slowing before acting. The good news is that the most recent survey of Chief Financial Officers (CFOs), conducted by the BoE, shows that wage growth expectations have finally dipped below 5%, having been stuck there or thereabouts for the best part of a year.

But we'll see the National Living Wage increase by close to 10% again in April, and while this is unlikely to have a huge impact on the wider pay numbers, we suspect the Bank will want to see some data on it before acting. It's a similar story with services inflation, another key metric for the Bank. Last year, we saw huge price rises in the second quarter, in many cases linked to annual contractual increases which are typically based on prior rates of headline CPI. While this effect should be more muted this year, the Bank won't want to second guess it. We think the BoE will, at a minimum, want to see the April and May CPI reports, the latter of which won't be available until the June meeting.

Our base case is that the Bank waits until August, at which point it should have enough evidence that both wage growth and services inflation have eased sufficiently to be able to start cutting rates.

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