

UK wage growth slows as recruitment difficulties ease

UK private sector pay growth now sits a fair bit below the Bank of England's November projections. That opens the door to a rate cut, though we think it requires further progress on both wages and services inflation. A lot will also depend on the extent of tax cuts at the March budget



Private sector regular pay growth now sits at 6.5%, down from a peak of over 8% last summer

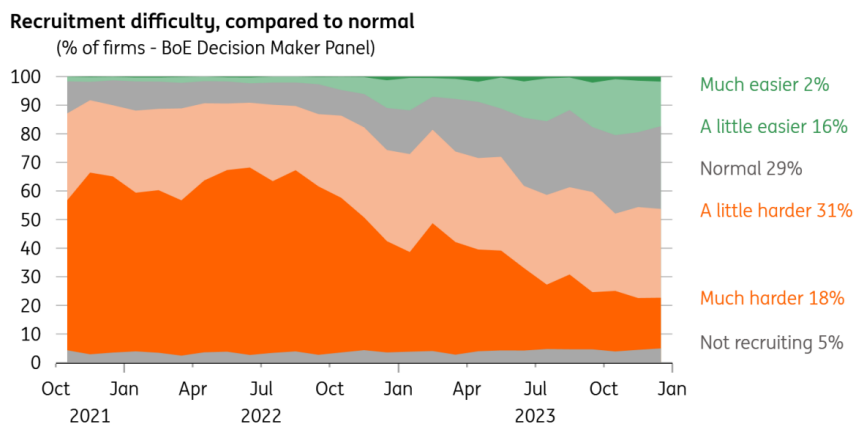
We've now got the last set of UK wage data ahead of the February Bank of England decision, and it confirms that pay growth is tracking a fair bit below where policymakers had forecast it to be at this point. Private sector regular pay growth – which removes the volatile bonus category – now sits at 6.5%, down from a peak of over 8% last summer.

Admittedly, that doesn't represent a surprise on consensus expectations for today's release – and indeed there aren't any major shocks in the latest jobs numbers overall. And the Bank of England itself has been warning that the official wage figures have been tracking a little high relative to what we've been seeing in other measures of pay.

Still, the bottom line is that both wage growth and services inflation, the datasets that are guiding monetary policy right now, are below Bank of England projections. But further progress is likely to

be steady, at least for the next quarter or so. BoE survey data shows that wage growth expectations among companies have been stuck around the 5% area for much of the last year, despite firms saying that recruitment difficulties have eased considerably.

Recruitment difficulties have eased



Macrobond

Part of the issue for policymakers is that we still don't have a true grip on what's happening to unemployment. Experimental data suggests the jobless rate has essentially been flat at 4.2% for the past few months, but we won't know for sure until we get improved labour force data over the next few months. Vacancy numbers continue to come down and will probably hit pre-Covid levels in the first half of this year. But for now nothing suggests the cooling in the jobs market is picking up pace.

Nothing in these latest figures is likely to alter the market's view that the BoE is headed for a May rate cut. But we'd caution that the Bank will want to see more progress on both the official pay numbers as well as those survey expectations of wages before kick-starting an easing cycle. We also think the budget on 6 March will have a strong influence on the timing of the first cut. A sizeable package of tax cuts would probably help convince the committee to keep rates higher for a little longer. Our base case for now is that the Bank starts rate cuts in August.

[Read more on the outlook for UK inflation and the Bank of England here](#)

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.