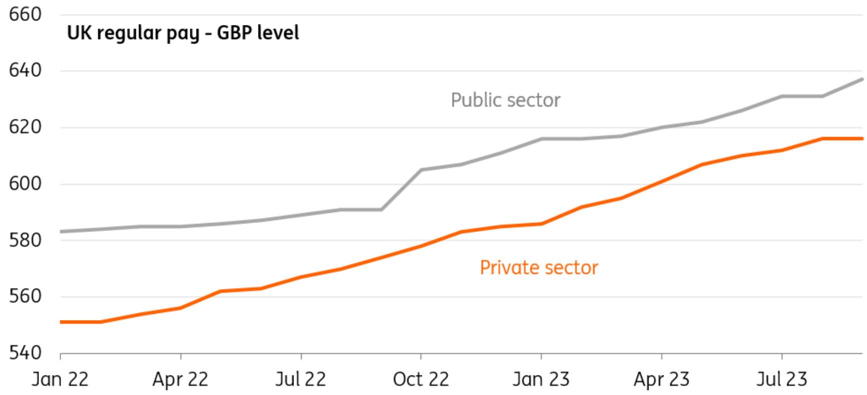
UK wage growth slows fractionally as jobs market cools

Private sector wage growth is starting to come down, albeit slowly. That's good news for the Bank of England, and with the jobs market cooling, we expect more progress on wage growth by next summer. That should help unlock rate cuts from August 2024

The latest UK wage figures are generally good news from the perspective of the Bank of England. Private sector regular pay growth, which strips out volatile bonus payments, inched lower to 7.8% from 8.1% on a year-on-year basis. This is one of the three key metrics the Bank has said it's looking at as a guide for policy.

Admittedly, that's still far too high and inconsistent with a 2% inflation target. But equally, the news is better if you look at pay in level terms. Private sector pay was unchanged in the most recent month, as the chart below shows. That means if you compare the most recent three-month period to the three months prior, the rate of growth has slowed a lot. These figures do bounce around, but it looks like a signal that momentum is slowing.

Private sector wage growth is slowing



Source: Macrobond

Figures are seasonally adjusted

That's a trend we expect to continue. If you try to produce a model of wage growth, typically the main drivers right now are either inflation expectations or labour market tightness – depending on exactly which indicator you use for both. Whichever is the dominant factor, both are easing rapidly. Measures of both consumer and business price expectations have fallen noticeably in recent months, which in part probably just reflects the fact that headline prices like energy are coming lower. But the latest data today also emphasises that the jobs market is easing too.

We can't reliably look at the new 'experimental' unemployment figures, which suggest the jobless rate stayed unchanged in the most recent three-month period. That's due to well-publicised issues with survey sample sizes. But vacancies have been consistently falling, and the data from firms' payrolls (PAYE) indicates that employment growth has stalled since the summer. Multiple surveys suggest that firms are finding it easier to find staff than a year ago when skill shortages were at their most acute.

All of that suggests the Bank's forecast for private sector wage growth to hit 6.6% in March appears to be on track, and if anything, might be beaten on the downside. We think these figures can reach the 4-4.5% area by next summer, and that might be one of the catalysts for rate cuts to begin in August.

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