Bank of England likely to raise interest rates again after fast wage growth, but it could be the last hike

T
he Bank of England looks set to raise interest rates again next week after wages in the UK continued to surge at a record rate, according to latest official data.

Total pay including bonuses jumped 8.5% in the three months to July, although this was boosted by one-off lump sum payments of at least £1,655 to NHS workers and civil servants over the summer. Underlying earnings growth stayed unchanged at 7.8% matching the Consumer Prices Index (CPI) inflation for the first time since October 2021.

Darren Morgan, director of economic statistics at the Office for National Statistics, said: “Earnings in cash terms continue to increase at a record rate outside the pandemic-affected period. “Coupled with lower inflation, this means people’s real pay is no longer falling.”

The strong earnings figures makes it likely that the Bank’s Monetary Policy Committee will lift the cost of borrowing for the 15th consecutive time when it meets next week.

A quarter-point rise would increase its rate to 5.5% but most commentators believe that is likely to prove the peak of a cycle that began in December 2021.

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Today, City financial markets were pricing in the likelihood of a further hike at around 75%, but also believe it is more likely than not that the Bank doesn't raise rates any further than 5.5%.

Janet Mui, head of market analysis at wealth manager RBC Brewin Dolphin, said: "The problem, and a big headache, for the Bank of England at this juncture is that wage growth remains very elevated, and that is a factor that the BoE judges to drive sticky core inflation. With that in mind, today's 8.5% total wage growth figure – in which the private sector is 7.6% and public sector is 12.2 – lends support to the hawks for a 25 basis point rate increase in September."

Bruna Skarica, UK Economist at Morgan Stanley, said: "While we saw the details of today's print as encouraging and consistent with peak pay pressures now being behind us, we think the MPC will hike once more, in September. Thereafter, we see the MPC on hold until mid-2024, when we expect that @JonPrynn cuts could start."

Today's labour market figures also provided more evidence that the long sequence of rate increases is starting to slow down the economy and create slack in the labour market.

The number of job vacancies fell below the one million mark for the first time in two years, down 64,000 in the three months to August to 989,000, although the ONS said they remain above pre-Covid levels.

Vacancies peaked at 1.3 million in the three months to May 2022 when the UK was suffering acute labour shortages after the pandemic.

The number of workers on UK payrolls edged 1,000 lower to 30.1 million, the ONS said.

The figures also showed that the rate of unemployment rose to its highest level for nearly two years, at 4.3% in the three months to July, up from 4.2% in the previous three months.