More time for next interest rate cut after jobs and wages numbers cool

Slowing wage rises and easing unemployment were revealed in a slew of official figures today, which pushed back the likely timing of the next interest cut.

But there was also a reminder of the finely balanced nature of the Threadneedle Street decision.

It came from reports warning the UK is facing a wave of job losses over the rest of September and on into the autumn, when the monetary policy committee is expected to take rates under 5% with a quarter-point cut to 4.75% in November.

The City refined its outlook for action from the MPC after the national unemployment rate for July dropped to 4.1%, down from 4.2% and in line with forecasts. There were also 23,700 more people claiming unemployment benefits in the three months to the end of July, down from more than 102,000.

Meanwhile, average earnings growth eased to 4.0%, down from 4.6%, and under the 4.1% expected in City forecasts.

Both sets of numbers, from the Office for National Statistics, looked to give BOE Governor Andrew Bailey and his colleagues on the MPC more time to act as they bring the base cost of borrowing down.

Mahmoud Alkudsi, senior market analyst at broker ADSS, said: “Hints of disappointment might enter the market given that the BOE will be less inclined to cut interest rates for the second consecutive month.”

But there was also a reminder of the complications faced by Bailey and the MPC, judging backward-facing official readouts on the economy against the outlook for what lies ahead.

Stark warnings of an autumn job losses reverberated around the City and Westminster alike as the ONS numbers were published,

Trade unions were pointing to thousands of potential layoffs, including fears over cuts at steelworks in Port Talbot in Wales, and in Scunthorpe, as well as at the Grangemouth oil refinery in Scotland. No final decisions have been taken at any of the sites, but worries about the viability of the industries remain.

Today’s ONS figures will also set the state pension, and will boost the spending power of those receiving it, a factor which will be considered by rate setters.

It will go up by £460 a year from April, with the so-called “triple-lock” that defines the rise reflecting today’s rise in average earnings. It came in higher than the two alternatives used to define the rise, either the rate of inflation, now back at 2.2% or the 2.5% figure set as the minimum increase.

Consumer price inflation is hovering above the BOE’s official target of 2%, having bounced back above it this summer. It was brought down from a peak over 11% in October 2022 by a run of 14 consecutive interest rate rises to a 16-year peak of 5.25%, which was in place until last August.

Lower rates boost the household spending power as the cost of variable rate mortgages and loans comes down, helping stimulate the economy.

The outlook for further rate cuts remained in place, even as City experts re-assessed the likely timing.

ADSS’s Alkudsi added: “Current pricing in the market suggests a Bank Rate of 3.75% at the end of 2025, so we can still expect to see cuts in gradual increments over the rest of the year.”

Richard Hunter, at Interactive Investor, said: “The BOE is mindful that rising wage pressures are themselves inflationary and that any further loosening of monetary policy could be damaging if implemented too early.”