

## **Reeves will hope weaker wage growth enables more interest rate cuts**

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by Heather Stewart (The Guardian)

The downturn in the UK's jobs market appears to be gathering pace, but the chancellor, Rachel Reeves, will hope that means slower wage growth will open the way to more interest rate cuts.

Unemployment has continued to rise, the Office for National Statistics (ONS) said, ticking up to 4.6% in the three months to April, from 4.5% in the three months to March.

Vacancies declined in the three months to May, the 35th successive fall, with some evidence that the downturn is accelerating. The ONS said the 63,000 fall in vacancies was the sharpest since mid-2023, reflecting survey evidence that “some firms may not be recruiting new workers or replacing workers who have left”.

Payrolled employment – a more timely estimate, but one the ONS suggests treating with caution – declined by 109,000, or 0.4%, in May.

The governor of the Bank of England, Andrew Bailey, has made clear he sees the labour market – and specifically wage growth – as the key determinant of whether interest rates can come down from their elevated level of 4.25%.

Speaking to MPs on the cross-party Treasury select committee last week, Bailey said the question of whether pay settlements would decline through this year was “a crucial judgment going forward”.

One dovish member of the Bank's nine-member monetary policy committee (MPC), Swati Dhingra, suggested she feared keeping rates high for such an extended period was damaging the economy.

Bailey is likely to have been modestly reassured, then, to see wage growth slipping in the three months to April, to 5.2% for regular pay, down from 5.5% in the three months to March.

The MPC acknowledges that interest rates are squeezing economic growth but is nervous about cutting further until it is confident lower rates will not unleash a fresh surge of inflation. In May, the ONS reported that prices increased at an annual rate of 4.1%, an increase of almost 1% since September.