

# The UK's deteriorating jobs market should ring alarm bells at the Bank of England

UK job losses are picking up pace, casting doubts over the Bank of England's gradual approach to rate cuts. It's also bad news for Chancellor Rachel Reeves, whose fiscal headroom already looks like it has completely evaporated since the Spring Statement in March. Tax rises loom in the autumn



Andrew Bailey,  
Governor of the Bank of  
England

## Job losses appear to be picking up pace

A lot has happened in the UK over the past month, but a surprisingly bad jobs report has set off fresh economic alarm bells recently. It showed that employee numbers are falling at the fastest rate outside of the Covid-19 pandemic, since the data began in 2014. These numbers tend to get revised up later, but still, employment is down by more than a percentage point since the end of last year and has fallen in nine out of the last 10 months.

At face value, this has a clear recessionary feel to it. We're sceptical that's where we're heading, but these figures do at least tell us that the economy will struggle to sustain the astonishingly strong 0.7% quarterly growth rate recorded in the first quarter.

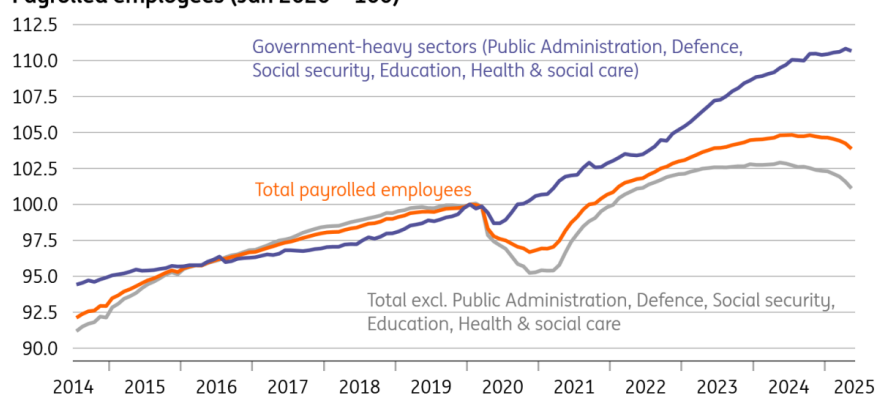
In fact, we think those figures probably overstate recent strength. Some of it was linked to firms' frontloading of US tariffs. But in general, the GDP data has been stronger in the first half of the year than the second, ever since 2022. That hints at problems with the way the numbers are adjusted for seasonal patterns.

Weaker growth and a cooler jobs market raise questions about the Bank of England's reticence to cut interest rates more quickly. Wage growth has already slowed from 6% to 5% in annual terms, and we think it should fall towards 4% and perhaps below by the end of the year. Similarly, we think services inflation – which is intrinsically linked to wages and a key focus at the Bank of England – should fall from 5.4% to 4% by early 2026.

The bar for the Bank to cut rates more rapidly appears set relatively high, judging by recent comments. But we expect the committee to keep lowering them once per quarter through this year, in August and November, with further cuts in 2026. Were the cooling in the jobs market to gather pace – in particular, if redundancies were to increase off their current low levels – then that could be a catalyst to move more rapidly.

## Private sector employee numbers are falling

Payrolled employees (Jan 2020 = 100)



Source: Macrobond, ING

## A weaker jobs market is bad news for the Treasury

A weaker jobs market is yet another headache for Chancellor Rachel Reeves. Even before the jobs numbers turned south, we thought it was highly likely the Office for Budget Responsibility would be forced to revise down its growth forecasts. That's on account of tariff uncertainty and weaker productivity growth. That would lower projections for tax revenues and make it much harder to balance the budget later this decade, which is what the fiscal rules require.

In March, the government was forecast to generate a slim surplus later this decade. By the autumn, we think those forecasts will show a deficit, particularly considering the growing pressure on the Treasury to boost spending. The Chancellor's spending review, which allocates previously set spending pots between government departments, demonstrated that there isn't enough money to go around. Day-to-day spending will likely have to rise more quickly in 2026 than currently budgeted.

That leaves a shortfall, perhaps above £20bn, that'll need to be filled to make the fiscal rules add up. We think tax rises are therefore inevitable and the way the fiscal rules work means that,

counterintuitively, a weaker jobs market only makes that more likely.

## Author

**James Smith**

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

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