

UK: Don't overdo the gloom just yet

The mood music around the UK jobs market is becoming increasingly sour. But with big injections of government spending coming, 2025 growth still looks set to be reasonable



The UK Chancellor, Rachel Reeves, will give her 'Spring Statement' in March

'Non-linear' falls in employment? We're not there yet

Is the UK headed for recession? It's a question that's coming up more regularly following fourth quarter growth which, though fractionally positive, was a lot weaker than many had expected just a couple of months ago. And with a sizeable tax hike on employers looming in April, the mood music on the jobs market is turning increasingly sour. Bank of England rate-setter Catherine Mann – until recently an arch-hawk – surprised everyone with a vote for a 50bp rate cut on the basis that we could see “non-linear” falls in employment.

We're not convinced we're at that point yet, but the jobs data is undoubtedly cooling. With a handful of predominantly government-related exceptions, vacancy rates are below pre-Covid levels – and quite considerably across consumer services and retail. Private sector hiring, though more stable in the most recent month, did fall by close to 1% in 2024.

That said, there's no sign of a pick-up in redundancies. Employers are required to notify the government when they are proposing more than 20 job losses, and those notifications haven't risen. That will almost certainly change as we get closer to the April tax hike.

That all means that wage growth – currently stuck up at 6% - should, in theory, come lower this year, though we and others have been saying that for a while. The near-7% rise in the National Living Wage in April will maintain some pressure. But business surveys point to pay growth of more like 4% in the months ahead.

UK vacancy rates are generally below pre-Covid levels

UK unfilled job vacancy rates by sector

Vacancies per 100 employee jobs



Source: Macrobond, ING calculations

Tough spending decisions are coming in March

Barring a surprise collapse in the jobs market, UK growth should still be reasonable this year. We're already less optimistic on the fourth quarter than the likes of the Bank of England and Office for Budget Responsibility and we're keeping our previous 1.2% forecast for 2025 as a whole. A spike in activity in December gives the first quarter a decent tailwind. And remember that we're looking at hefty increases in government spending this year.

That fact is unlikely to change dramatically at the Spring Statement on 26 March. The Chancellor has run out of fiscal headroom, or money left over, once the fiscal rule requiring a balanced current budget in 2028/29 is met. Higher market rates and lower 2025 growth forecasts mean the Chancellor will need to make modest changes to spending in March. Whether this is done upfront or via changes to spending plans in future years will have a heavy bearing on how markets react. Backloaded spending cuts risks further gilt underperformance next month.

Ultimately, we think any changes the Chancellor makes will only delay the inevitable decisions on further tax hikes until later in the year.

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