

Will UK worker shortages push the Bank of England towards earlier rate hikes?

Migration, furlough, self-isolation and education-uptake may all be contributing to a shortage of workers in the UK consumer services industry. But as many of these factors are likely to be temporary, we suspect this won't translate into a period of high wage growth or earlier tightening from the Bank of England



City workers around Liverpool Street station, London

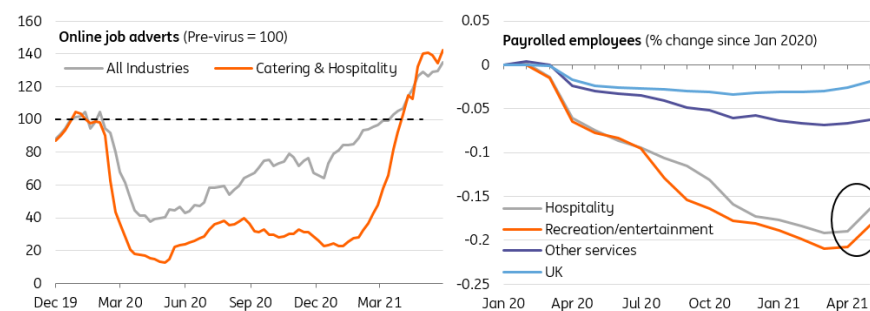
Source: Shutterstock

The UK is not alone in experiencing worker shortages

Worker shortages are becoming a hot topic in the global economic story. It's a major part of the [current US outlook](#) – and the UK is no exception.

The British press has been awash with reports of businesses across the economy, but predominantly in consumer services, struggling to find staff. This has come amid a sharp increase in consumer optimism and demand since the recent reopenings, which has helped foster a turnaround in hiring appetite in the hardest-hit areas of the economy. Online job adverts in many sectors, including hospitality, are above pre-virus levels – something that didn't happen after the first wave last summer.

Hiring is rebounding in hard-hit sectors



Source: Macrobond, ING

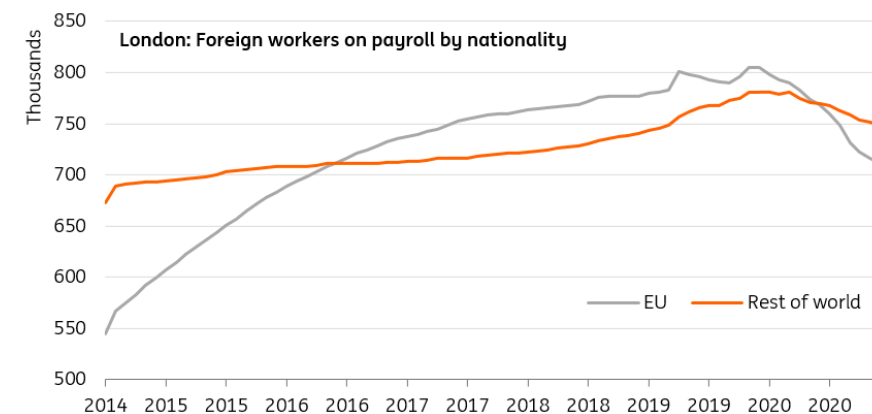
Anecdotal reports suggest that businesses including restaurants have in some cases been forced to operate reduced opening hours, or raise pay, as a result of staff shortages. Whether or not this proves to be a temporary blip will be a determining factor in when the Bank of England decides to hike interest rates.

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By and large, we think it's a phenomenon that probably won't last – or at least probably won't lead to a period of wage growth that's consistent with above-target inflation. Indeed our colleagues in the Eurozone reached a similar conclusion in an [article](#) earlier this week.

But what's driving this apparent shortage of workers? There are several potential factors at play, though by far the most obvious is linked to an outflow of foreign nationals towards the start of the pandemic. [ONS figures](#) from the end of 2020 suggest there was a 7.4% fall in the number of EU nationals on UK payrolls, with declines particularly concentrated in the major cities which are heavily reliant on migrant workers. According to the London Mayor's office, as much as [85% of the capital's chefs](#) may have been born outside the UK, to give one example.

The number of EU-born workers in London has fallen during the pandemic



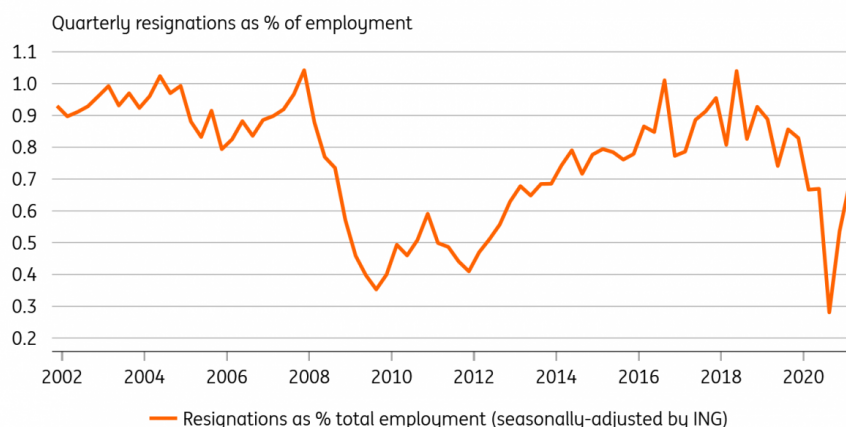
Source: ONS

Furlough may also be playing a role, in that it may be reducing the incentive to switch roles while wages are protected by the government. Admittedly there's not a great deal of data to back this up, though a rough-and-ready 'quits rate' – which we've calculated as resignations as a percentage of total employment – was still lower than usual in the first quarter (though in reality, this is probably a greater reflection of the depressed hiring appetite over the winter).

Education is another factor, albeit probably a minor one. The education system has helped to absorb some of the workers that have been made redundant over the past year. The younger generation has been among the heaviest furloughed/affected by job losses, and the proportion of 18-24 year-olds in full-time education has correspondingly risen by around a percentage point on average. That might have temporarily reduced the pool of available workers over recent weeks, though you'd expect that to become less of a problem now we're into the holiday season.

Finally, the rapid rise in Covid-19 cases may well end up amplifying shortages, given the associated rise in contact tracing and self-isolation. Around 600k people were contacted by the [NHS app](#) or told to isolate by [contact tracers](#) in the week to 30 June, and we'd assume that weekly figure will be into the millions within days if it isn't already.

Resignations as a percentage of total employment



Source: Macrobond, ING calculations

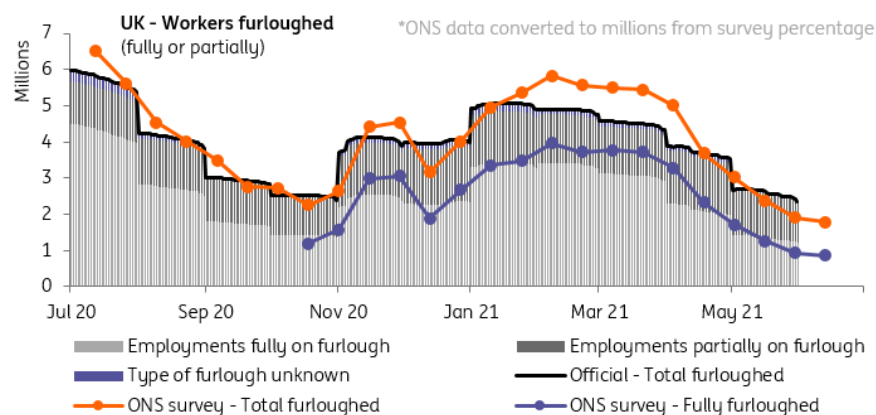
Ultimately these shortages are unlikely to last indefinitely

There have been other possible factors too – hiring agencies are [quoted](#) as saying that lifestyle preferences may be reducing appetite to apply for hospitality roles.

But ultimately we think much of this will prove temporary. Any distortions related to furlough and education aren't likely to last much beyond the summer, and by then Covid-19 cases should hopefully be falling again. Migration flows are also likely to increase again assuming travel restrictions are gradually eased, though post-Brexit visa rules (which make it trickier to work in the UK in lower-paid roles) will remain a challenge for businesses where shortages exist. Certain sectors – including transport/logistics and food preparation – were already facing hiring difficulties before the pandemic due to lower EU migration, and the pandemic has likely only accelerated this challenge.

Still, the worker shortage narrative is somewhat at odds with the recent furlough data, which suggests that over half a million hospitality workers were still on wage subsidies at the end of May, which was after indoor hospitality reopened. We'd expect that figure to gradually fall as firms get back on their feet, and there's probably also a mismatch between the types of roles/areas where workers are needed and those on furlough. But these stats nevertheless suggest there is still a fair amount of slack in the sector.

Furlough numbers haven't fallen as quickly as might have been expected



When thinking about the swift turnaround in consumer services hiring appetite, it's also worth remembering that this is not totally unprecedented or unexpected.

[We've noted before](#) that these industries have tended to see hiring rebound more quickly than the wider jobs market after past downturns. Hiring in the likes of the hospitality sectors is arguably more dynamic, linked to the lower-paid and more insecure nature of employment. Staff turnover is also much higher than average in consumer services.

Finally, there's a question mark over how much scope businesses in these sectors will have to increase prices to compensate for any sharp pick-up in wages – especially given their typically thin margins. In the short-term, we suspect there is more pricing power than usual, and there's early evidence for that in the inflation data from May. But looking further out, that may become trickier. While savings buffers have boosted spending power, that hasn't benefitted lower-income earners, who will also be affected more acutely by rising inflation. And unlike the US it also looks like there will be more of a drag from fiscal policy as we head into the winter/next year.

What it means for the Bank of England

The bottom line is that, while post-pandemic scarring in the jobs market will likely be lower than after the global financial crisis, we think it's unlikely that we'll emerge quickly into a period where job market tightness will begin consistently pushing up on wages. While we're likely to see inflation at 3% or higher later this year, we think this pressure will ease as we head into the middle of next year. That reduces the impetus for the Bank of England to look at rate hikes in 2022, as markets are currently contemplating.

We're pencilling in the first rate-rise in early 2023.

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