

Cooling UK jobs market bolsters chances of near-term rate cut

Whether it's falling vacancies or slower private sector wage growth, there's plenty of evidence that the UK jobs market is cooling



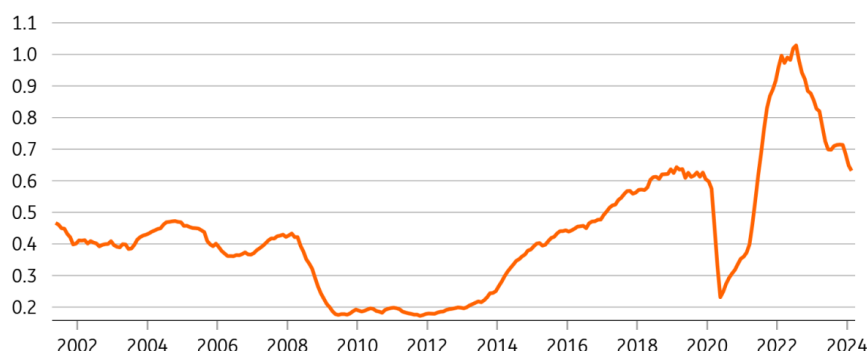
The UK jobs market is cooling and that's gradually translating into lower wage growth. This is the main takeaway from the latest UK labour market figures and is broadly consistent with the messaging from the Bank of England last week.

It's worth remembering from the outset that the headline jobs figures – employment, unemployment and inactivity – are still believed to be pretty unreliable, owing to an ongoing fall in the survey's response rate. The unemployment rate notched up to 4.3%, but it's hard to say how much weight we should really be putting on that (potentially not a lot).

But it's a message that's echoed elsewhere in the report. Vacancies are down further and if we look at these job openings as a ratio with the number of unemployed workers, that is now within spitting distance of the 2019 average. And if we look at an alternative measure of employment using official payroll data, then that has been flat to slightly negative so far this year.

Vacancy-to-unemployment ratio back at pre-Covid levels

Number of job vacancies per unemployed worker
(Vacancies exclude agriculture)



Source: Macrobond, ING calculations

That easing does appear to be resulting in some gradual decline in wage growth. Admittedly, the headline regular pay measure came in a tad above consensus this month – but that appears to be accounted for by the public sector, which the BoE has signalled is of lesser significance to monetary policy decisions right now. Private sector pay is down to 5.9% in annual terms from 8.4% last summer.

Even here though, there are concerns about reliability. It seems that wage growth was artificially boosted in 2023, after one-off cost of living payments were wrongly accounted for as permanent increases in pay. Those payments weren't repeated this winter, and it seems that this may now be exaggerating the fall in wage growth. And while the pay data doesn't share those issues of dwindling sample sizes, it is ultimately presented as a worker average and therefore it's possible the issues in the labour force survey are indirectly injecting some extra volatility.

For those reasons, the Bank is telling us that it's now putting less weight on wage growth than it was a few months ago. That means next week's services inflation figures are going to be the single most important determinant of whether the BoE cuts rates in June. Services CPI will fall back in year-on-year terms, but we think the risk is that this fall will be slightly less dramatic than the BoE expects. If we're right, then that slightly favours August over June as the start date for rate cuts. But in all honesty, we think it's looking pretty 50-50 right now.

Author

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial

instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.