

Cooling UK jobs market translates into slower wage growth

Despite a big tax hike in April on employers, the UK jobs market is not showing any dramatic signs of deterioration. Hiring conditions are cooling, and this is very gradually putting downward pressure on wage growth. That's good news for the Bank of England, though it will want to see a few more months of improvement before drawing any firm conclusions



Despite a major hike in employers' National Insurance in April, the impact on the jobs market has been surprisingly benign

For the Bank of England, the main takeaway from the latest UK jobs report is that wage pressures are – very gradually – easing. Average weekly earnings growth (excluding volatile bonuses) slowed to 5.6% from 5.9% on a year-on-year basis, as of the most recent three-month period covering January to March.

That, admittedly, is partly a base effect. We saw a short-lived period of depressed wage growth in the second half of 2023, but that is now dropping out of the data. But we are also seeing a more genuine slowdown. The one-month annualised change in private sector pay was flat, for example.

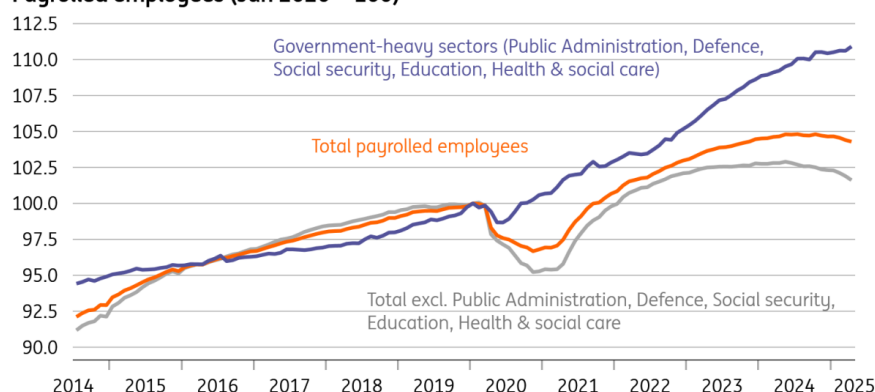
These numbers can be a little volatile between months, but generally it is good news for the Bank

of England which – like everyone else – has been surprised at how elevated wage growth has remained despite a dramatic cooling in the jobs market over the past couple of years.

'Cooling' is probably the right word for it, because despite a major hike in employers' National Insurance (social security) in April, the impact on the jobs market has been surprisingly benign. Redundancies haven't risen at all, judging by weekly data from the government. The unemployment rate has nudged up to 4.5% (from 4.4%), though this data is still sketchy owing to long-running sampling problems. Vacancies have continued to fall, but no more dramatically than we have seen over the past year or two.

Payroll-based employment is starting to fall

Payrolled employees (Jan 2020 = 100)



Source: Macrobond, ING

That said, we are now seeing more consistent falls in payroll-based employment, though these figures do have a habit of being revised up later on. A 78,000 drop in employment in March attracted a lot of publicity, but unsurprisingly that has been revised up to -47k. April's -33k fall will probably subsequently be nudged up too. It's worth saying that the story is a little more dramatic if you strip out the public sector. For now, the story is still consistent with a gradual slowdown in hiring demand, rather than the more dramatic deterioration that some surveys had hinted at since last October's budget. But it's something we'll be keeping an eye on.

In short, the UK labour market is slowing, not collapsing, and that is translating into a steady fall in wage growth. The Bank of England will want to see this trend continuing for a few more months before it becomes more confident on the wage story. Until then, next week's services inflation number will be much more consequential, given that April's data is when the big annual price hikes kick in. We think this could come in a little below the Bank's forecasts, which would help cement an August rate cut.

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.