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

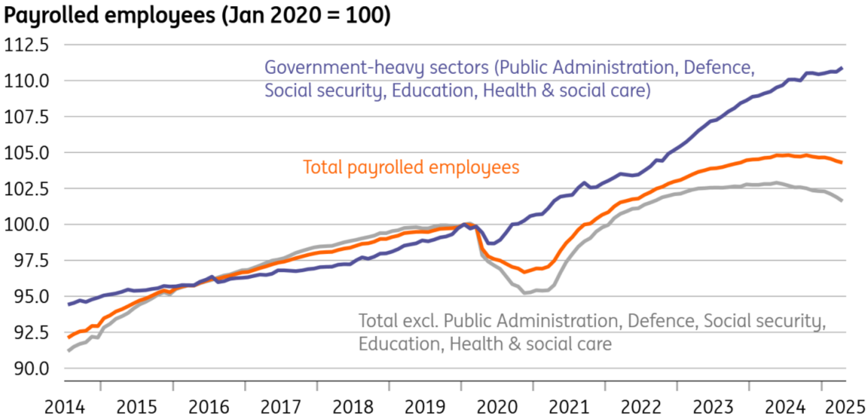
For the Bank of England, the main takeaway from the latest UK jobs report is that wage pressures are – very gradually – easing. Average weekly earnings growth (excluding volatile bonuses) slowed to 5.6% from 5.9% on a year-on-year basis, as of the most recent three-month period covering January to March.

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



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