

## Solid UK jobs report does little to dampen rate hike expectations

The latest UK jobs numbers won't sow any seeds of doubt among investors, who are pricing a strong likelihood of a rate hike this year. We're more cautious, not least because the furlough scheme is likely to result in an increase in jobs market slack. But much depends on whether BoE speakers offer any firm push back against market pricing later this week



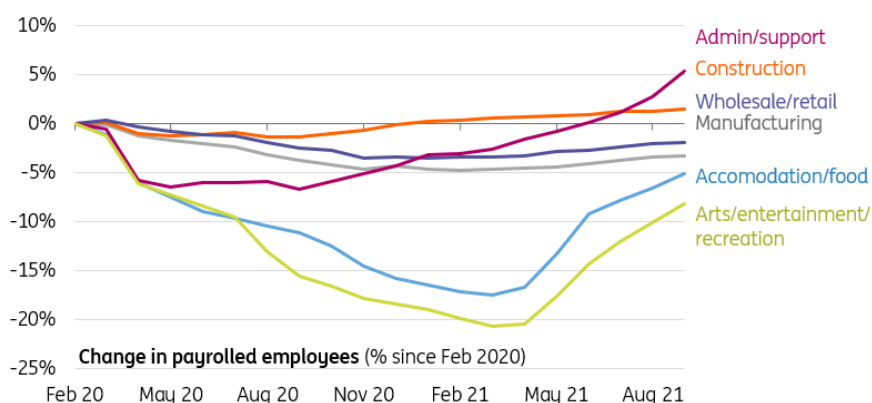
A Job Centre in Cambridge, UK

Source: Shutterstock

If markets are right, we may only be a matter of weeks away from the first Bank of England rate hike. That's undoubtedly bold, but at face value there's little in the latest UK jobs report that will sow any fresh seeds of doubt in the minds of investors.

Hiring demand is clearly strong, and the rebound in employment in the hardest-hit consumer services sectors continues apace. Wage growth is around pre-virus levels, if ONS estimates of underlying trends are to be believed. And so far, there's no discernible increase in redundancies ahead of the furlough scheme ending.

## Consumer services employment is rapidly recovering

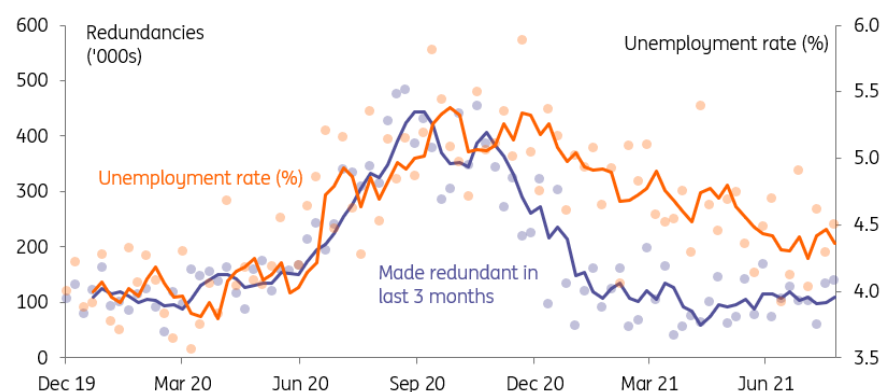


Source: ONS, ING calculations

Still, we suspect caution will prevail at November’s Bank of England meeting. True, there hasn’t been much push back from MPC members in light of recent market pricing. But before hiking the Bank will want to be sure that a) wage growth is going to be sustained and more importantly, widespread, and b) that the furlough scheme hasn’t resulted in a material increase in jobs market slack.

The reality is that policymakers are unlikely to have the answer to either question before the next meeting.

## Redundancies aren't yet picking up based on ONS weekly data



Source: ONS, ING calculations

Dots are weekly estimates from the ONS. Line is a four week moving average

On the question of the furlough scheme, we suspect the Bank of England may be too optimistic in assuming that the unemployment rate won’t increase over coming weeks. Around 2% of employees were likely still furloughed for all of their usual hours when the scheme recently ended, and three-fifths of staff on the scheme were in small businesses. We suspect this partially reflects a lack of confidence among smaller firms to return to their pre-Covid workforce size.

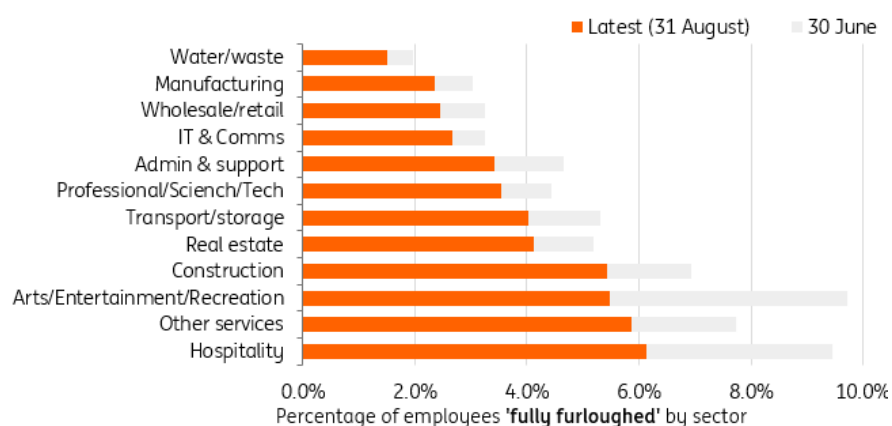
We’d also note that those furloughed just before the scheme ended appeared to be much more evenly dispersed across sectors than earlier in the pandemic – and it appears some industries have

managed to return to pre-virus levels of economic activity with smaller workforces.

In short, it's an uncertain backdrop in the jobs market. At a time when the cost of living is increasing sharply – and inflation is set to be at or above 4.5% next April – it's likely that real wages will be flat, or indeed negative for many workers over the winter.

For now, we're pencilling in the first rate rise for May 2022, but we accept we may soon need to bring that forward depending on what Bank of England speakers say about market pricing over the coming few days.

## Furloughed workers were dispersed across a number of sectors



Source: HMRC, ING calculations

### Author

**James Smith**

Developed Markets Economist, UK

[james.smith@ing.com](mailto: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 <http://www.ing.com>.