

UK hiring demand falls as long-term sickness rates rise further

Hiring appetite is undoubtedly past its peak, but there isn't much sign that the acute labour shortages are easing. We expect the Bank of England to pivot back to 50bp rate hikes from December, though if we're looking for signs that the Bank is about to halt its tightening cycle, the jobs data probably isn't the place to look



Hiring demand is undoubtedly falling back now, and we can see that most clearly in a downtrend in unfilled vacancy numbers

UK hiring demand is clearly slowing

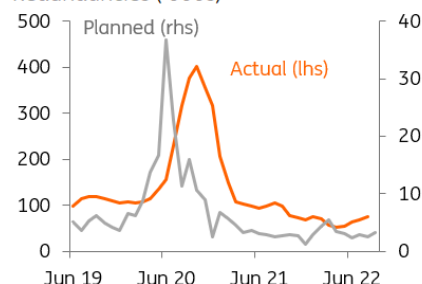
The UK jobs market is clearly past its peak. The question is whether we will see a significant deterioration as the economy slips into recession over the winter – and so far the signs are mixed.

Hiring demand is undoubtedly falling back now, and we can see that most clearly in a downtrend in unfilled vacancy numbers. But so far this is manifesting itself more as a hiring freeze rather than via layoffs. Redundancy numbers, be they planned or actual, are showing little-to-no sign of increasing from their lows – albeit we'd expect that to start to change fairly soon.

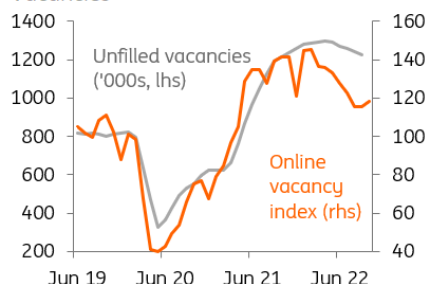
UK labour market dashboard

Worker demand

Redundancies ('000s)

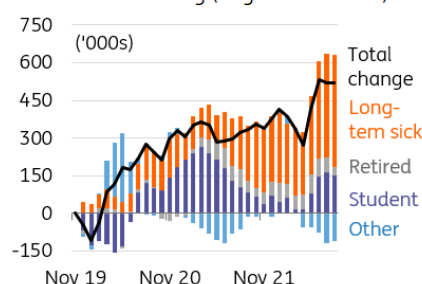


Vacancies

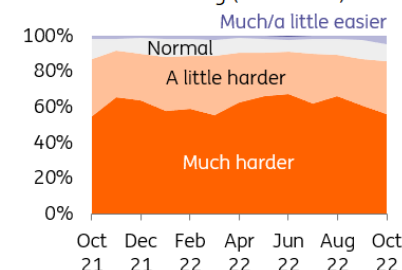


Worker supply

Economic inactivity (chg since Dec 19)



Recruitment difficulty (% of firms)



Source: Macrobond, ING, Bank of England

Worker shortage data is based on a question in the Bank of England's Decision Maker Panel survey

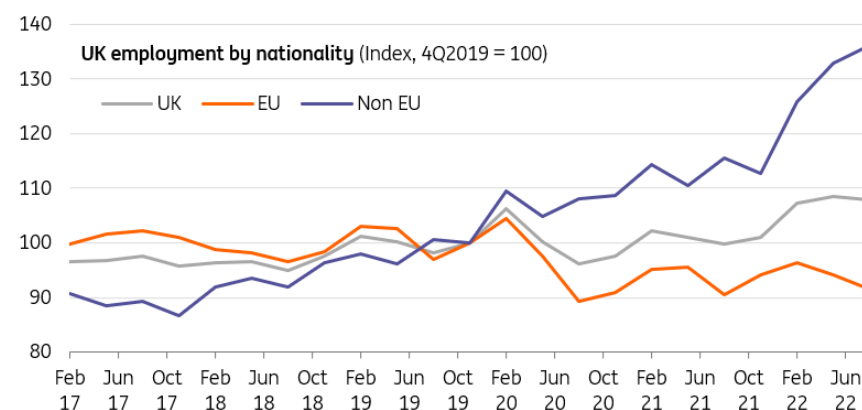
The unemployment rate edged higher too – from 3.5% to 3.6% – though given the sharp rise in inactivity numbers through the pandemic, this perhaps isn't the best gauge of hiring demand right now. This rise in inactivity – ie those neither employed nor actively seeking a job – is increasingly linked to long-term sickness numbers, which rose yet again in the latest data.

There are now almost half a million additional people registered as out of the workforce due to long-term illness than before the pandemic began. Unnervingly, this seems to be a fairly UK-specific issue, and most countries have seen inactivity rates resume a long-term downtrend as the Covid shock has faded.

[Recent ONS analysis](#) confirmed that there's no single condition that's causing all this, though it's hard to escape the conclusion that ballooning NHS waiting lists are a contributing factor. Those workers that have left a job due to illness are predominantly in lower-paid sectors and roles, most noticeably in consumer services. That suggests it may well be a contributing factor to the worker shortages we're seeing in hospitality. But generally those sectors with the highest ratio of vacancies to existing employee numbers – the likes of IT and professional/scientific/technical roles – are the ones less affected by the loss of workers to long-term sickness.

In other words, sickness isn't the only factor driving labour shortages right now. Immigration is also playing a role, and the latest quarterly data showed that the number of EU nationals working in the UK fell again in the third quarter. These numbers are down by roughly 9% since late 2019, though interestingly, the number of non-EU (and non-UK) nationals employed in Britain is up by a third over the same period.

The number of EU nationals working in the UK has fallen through the pandemic



Source: ONS

The bottom line for the Bank of England is that skill shortages are unlikely to be resolved quickly. Its own surveys have shown that the percentage of firms reporting difficult hiring conditions has stayed resolutely high, and wage growth expectations have climbed to almost 6%. If we're looking for signs that the Bank is about to halt its tightening cycle, the jobs data probably isn't the place to look.

Nevertheless, with inflation close to a peak and the economy headed for recession, we still think investors are overestimating the scope for further rate rises – albeit less so than a few weeks ago. We expect a 50bp hike in December and the Bank rate to peak around 4% early next year.

Author

James Smith

Developed Markets Economist

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>.