

UK jobs market no longer tightening as hiring demand falls

The latest UK jobs numbers present a complicated picture for the Bank of England. Job vacancies are falling but labour supply issues remain a challenge, even if there are some encouraging signs that migration is starting to recover. We expect another 50bp rate hike in September, even if the Bank is nearing the end of its tightening cycle

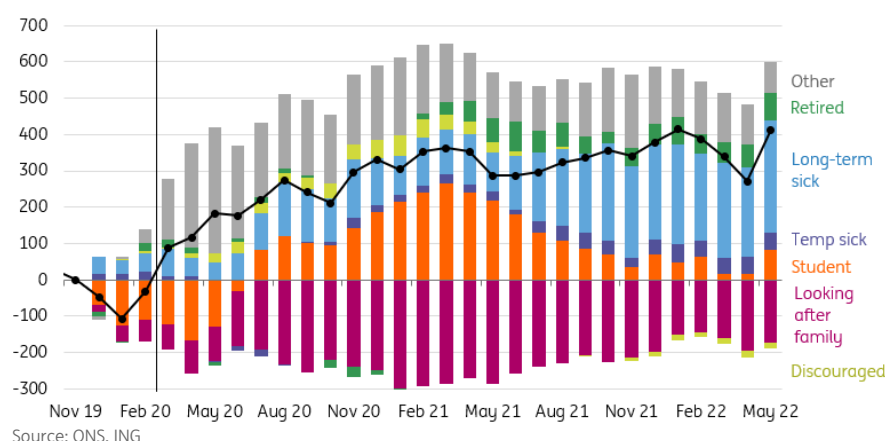


The number of people inactive in the jobs market – neither employed nor actively seeking a job – increased again last month, mostly due to long-term sickness

There are three key takeaways from the latest UK jobs numbers. Firstly, hiring demand is clearly falling, and that's most evident from a decline in unfilled job vacancies – a trend that's likely to continue, according to more up-to-date online vacancy numbers. That's not to say firms are letting staff go – redundancy levels haven't budged from their lows over recent weeks and unemployment doesn't appear to be rising, even if the jobs market has stopped tightening.

The second thing that stands out is that the number of people inactive – neither employed nor actively seeking a job – increased abruptly again last month. As the chart shows, the vast majority of the increase in inactivity we've seen since the pandemic began (and indeed in recent months) is linked to long-term sickness. There are now more than 300,000 extra people that fall into this category compared to pre-pandemic, and the challenges in the NHS suggest this story unfortunately isn't going to improve very quickly.

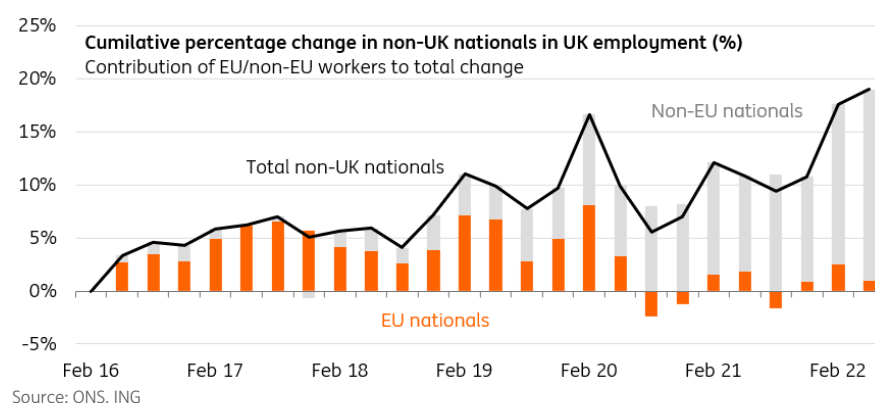
Contributions to the increase in inactivity since late 2019



The final takeaway is that the number of foreign nationals working in the UK jobs market has increased noticeably this year, having fallen earlier in the pandemic, though this is almost solely driven by non-EU workers. The number of EU nationals working in the UK is down more than 6% compared to the 2019 average.

All of this presents a complicated picture for the Bank of England. Hiring demand is fading, but at the same time the skill shortages and labour supply issues that have plagued the jobs market for several months now are showing only limited signs of improvement. Inactivity remains high, even if migration – a key source of worker shortages through the pandemic – is showing some signs of bouncing back.

The number of non-EU nationals working in the UK has increased over recent months



The Bank of England's official forecasts point to a material increase in the unemployment rate over the next couple of years, but policymakers will be looking for signs that firms are 'hoarding' staff even where margins are squeezed, amid concerns about their ability to rehire again in the future. Wage growth has decent momentum right now, and the committee will be concerned that this could be sustained.

In practice, we think wage pressures will begin to cool as margins are squeezed into winter. But for now, we think there's not much in these latest figures that will stop the Bank of England from hiking rates by 50bp again in September, even if we are nearing the end of the tightening cycle.

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.