

UK jobs market proves resilient in the face of employer tax rises

There's no shortage of surveys pointing to weaker hiring intentions in the face of next month's employer tax hikes. But for now, at least, the official data shows little sign of that translating into lower employment or higher redundancies



The mood music surrounding the UK jobs market isn't good. Survey after survey has pointed to weaker hiring appetite and in some cases, layoffs, ahead of a sharp rise in employer taxation next month.

But so far, that doesn't seem to be having any material impact on the official data we're getting on the labour market. Private sector employment is more-or-less flat, having gently fallen through 2024, if we look at the payroll-based numbers and exclude government-heavy sectors. Vacancy levels have flattened out too around pre-Covid levels, and that goes for sectors that you'd expect to be more sensitive to the tax hikes (hospitality and retail).

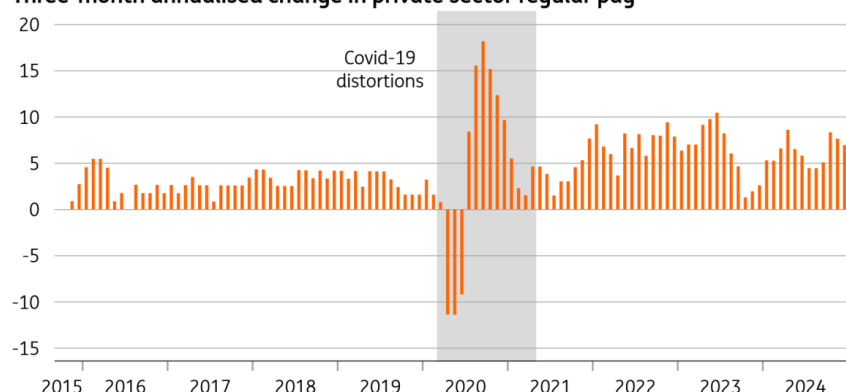
Redundancies similarly show little sign of change. Employers are required to notify the government if they are laying off more than 20 staff members at any given site, via a HR1 form. These notifications haven't discernibly increased over recent weeks.

This picture could of course change, not least because neither the tax hike nor the near-7% rise in the National Living Wage have kicked in yet. But thinking about the Bank of England decision later today, there's no clear impetus here for a greater number of officials to back a faster pace of rate cuts.

Back in February, Catherine Mann now-famously switched from the arch-hawk to arch-dove, suddenly favouring a more aggressive 50bp rate cut. She is likely to go against the committee again today and vote for another rate cut. At the time, she highlighted the risk of “non-linear” falls in employment as her catalyst for action. While she could still be proven right on that, for now, the data doesn't appear to back up that line of thinking.

Private sector pay growth appears to be slowing

Three-month annualised change in private sector regular pay



Source: Macrobond, ING calculations

While other officials might not join Mann's camp just yet, there are still good reasons to expect the Bank to keep cutting rates once per quarter throughout this year and into 2026. Elevated wage growth is among the most commonly cited reasons at the Bank for its recent caution. But momentum appears to have slowed; the latest three-month annualised change in private sector pay slowed to 3.7% in January. That suggests the year-on-year rate, currently just above 6%, should start to fall back over the coming months.

If that happens, and services inflation also proves more benign than the BoE expects, we think that should see officials cut rates further than markets are currently pricing into 2026. We expect a terminal rate of 3.25%, versus market pricing of roughly 3.90%.

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.