

UK jobs market stable despite growing pessimism

The latest jobs data is relatively solid, even if the outlook is looking increasingly shaky. Redundancy levels are low, but the major risk is that begins to change ahead of tax hikes in the spring. A cooler jobs market should help wage growth come gradually lower as the year goes on



Despite some of the pessimism currently surrounding the UK jobs market, the hard numbers don't actually look so bad

An air of pessimism is befalling the UK jobs market right now, ahead of a sizeable increase in employer's National Insurance (social security) in April. The surveys on hiring are turning increasingly sour and there's growing talk of redundancies as firms grapple with the combined hit of tax hikes and a near-7% increase in the National Living Wage. Bank of England policymaker Catherine Mann, explaining her vote for a bumper rate cut this month, spoke of "non-linear" falls in employment.

Despite that gloomy backdrop, the hard numbers on the jobs market currently don't look so bad. Unemployment is broadly stable, though remember this data is highly dubious right now. But even the supposedly more reliable payroll-based numbers were more stable in January. The steady 1% fall in those numbers across 2024, once government-heavy sectors are excluded, stalled last month. More importantly, there's no discernible increase in redundancies. So-called HR1

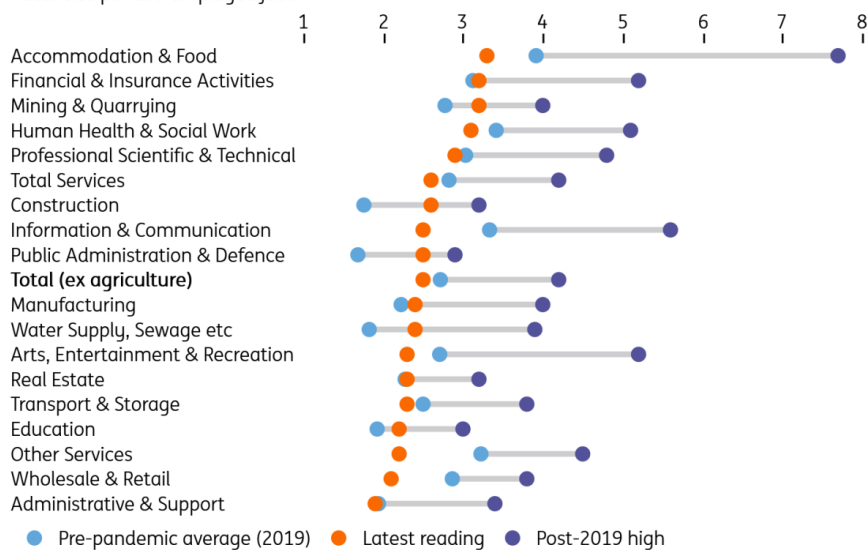
notifications, which companies are required to submit to the government if they are planning layoffs, are bouncing around their lows. The major question is whether that changes as the tax and Living Wage changes come through in the second quarter.

That's not to say the jobs market hasn't cooled materially, though. Vacancies have fallen steadily over the past couple of years, back to pre-Covid levels. On a sector basis, vacancy rates in the likes of retail and hospitality are well below the levels seen in 2019. And that makes it all the more puzzling that wage growth is still up around 6%.

Vacancy rates below pre-Covid levels in consumer services

UK unfilled job vacancy rates by sector

Vacancies per 100 employee jobs



The National Living Wage can explain some of that. According to payroll data, wage growth is strongest for those at the 25th percentile of the income spectrum. Some have argued that this is 'ratcheting' up the pay scale within companies, though we've not seen a huge amount of evidence of that beyond the strong overall wage growth figures.

Either way, with the jobs market weakening, if not in complete freefall, pay growth should slow gradually this year. The Bank of England's Decision-Maker Panel survey points to wage growth falling below 4% over coming months. We don't think we'll see that in the official numbers this year, but we suspect we'll end the year somewhere around the 4.5% area.

If we're right – both about that and a more material fall in services inflation through the spring – then this should give the Bank more confidence to keep cutting rates. We think the path of least resistance is for four rate cuts in total this year, or once per quarter.

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.