

UK jobs market tight despite surprise rise in unemployment rate

We can tentatively say that UK worker shortages have stopped getting worse, but high levels of sickness and lower inward migration mean they are unlikely to improve dramatically in the near term. This is further ammunition for Bank of England hawks this Thursday, though we still suspect the overall committee will favour another 25bp hike over a 50bp move



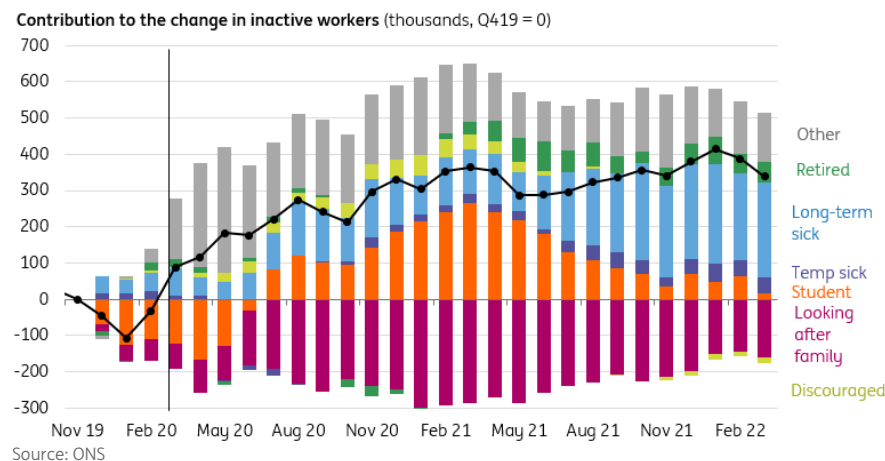
The UK job market looks healthy

The UK's unemployment rate surprisingly increased in the three months to April, bucking more than a year's trend of repeated decline. But big picture, the story is essentially the same as it has been for months. While the unemployment rate is at 3.8%, which still equates to pre-Covid lows despite the latest increase, total employment is still down by roughly a third of a million people – though that deficit has narrowed this year. The number of people inactive – that is neither in employment nor actively seeking it – is up by a similar amount.

The result is that there is still more than one worker for every unfilled role, albeit the sharp rise in vacancies we saw through the second half of last year does appear to be levelling out. We can tentatively say that worker shortages are no longer actively getting worse.

That said, long-term sickness rates are still the overwhelming reason behind lower participation rates. While the underlying drivers of this trend are not fully clear – it doesn't appear to be entirely a Covid story, for instance – we can probably say that it's unlikely to improve dramatically in the near term. Lower inward migration from the EU has also exacerbated the problems with sourcing labour, and again this is a trend that's unlikely to change quickly.

Long-term sickness has driven up inactivity levels through the pandemic



Assuming these shortages persist, at least for certain sectors, then firms have a strong incentive to retain staff as much as possible even if economic demand slows considerably later this year, amid concerns about rehiring when conditions improve. With margins under pressure, we suspect firms are more likely to reduce individual worker hours in periods where demand slows, rather than reducing the size of the workforce.

All of this provides ammunition for the Bank of England's hawks to continue arguing for a 50bp hike this week. The ball is undoubtedly in their court, with an increasing number of global central banks considering more aggressive rate rises.

But the Bank of England's forecasts from May showed that, based on market interest rate expectations from the time, inflation would undershoot target in 2024 – a not-so-subtle way of saying that policymakers thought investors were pricing in too much. A 50bp hike risks adding further fuel to that fire, so we still suspect the committee as a whole will come down in favour of another 25bp hike this week. But as was the case in May, we're likely to get a split vote with at least three officials voting for a faster move.

[Click here to read our full BoE preview](#)

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 <http://www.ing.com>.