UK jobs report keeps Bank of England on track for March rate cut

The UK jobs market is still cooling, even if much of the weakness is concentrated in consumer-facing industries that were most affected by last year's government policy changes. Wage growth has further to fall, and that's why we expect Bank of England rate cuts in March and June – and we don't rule out further moves thereafter

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UK unemployment is rising

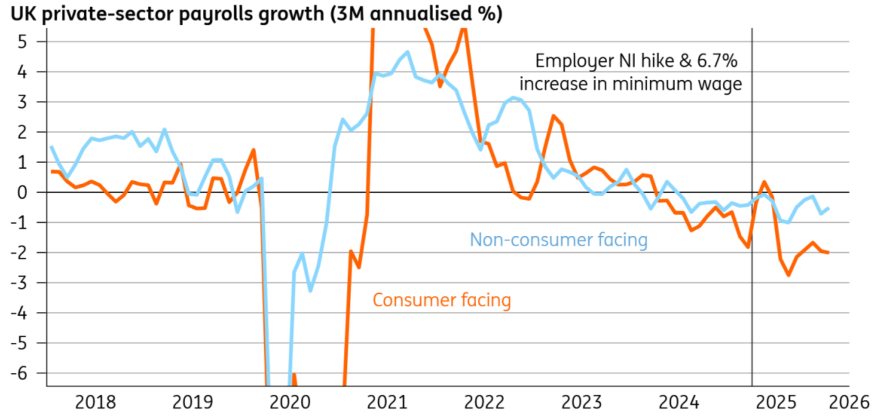
The latest UK jobs report keeps the Bank of England firmly on track for a March rate cut.

The unemployment rate is rising; it now sits at 5.2%, almost a percentage point higher than a year ago. Hiring surveys are still getting worse.

That said, the weakness is still heavily concentrated in consumer-facing industries – a legacy of last year's sizeable payroll tax (National Insurance) and National Living Wage increases. Hospitality payrolled employment may be down almost 3% since the start of 2025, but it is still 2% higher than pre-Covid levels. Yet economic output in the sector is still 6% below – suggesting the loss of jobs may have further to run.

Outside of these consumer-centric industries, the story looks more benign. Employment is still trending down across the wider private sector on a three-month average of payrolls growth, but only slightly. We're also not seeing a particularly noticeable pick-up in redundancies across the economy. Vacancy numbers have stopped falling, too.

Consumer-facing industries are seeing the sharpest falls in payroll employment



Source: Macrobond, ING

Consumer facing = Wholesale/retail, hospitality and arts, recreation and entertainment

Lower wage growth should enable further rate cuts

Our base case is for further gradual attrition in job numbers, rather than a sharper deterioration. The public sector, which saw staffing numbers rise 0.6% last year, is likely to be less of an offset to private-sector weakness this year, given more muted increases in departmental spending.

What about unemployment? BoE hawks would point to the sharp drop in net migration over recent months as an argument that the jobs market could re-tighten over the coming months. That remains a risk. But we think the significant increase in migration seen over the preceding few years is still the dominant story. Several (mostly low-paid) sectors like hospitality and health/social care saw the share of non-EU workers rise from 10% to 20% in the first half of this decade. And by most metrics, employers are not finding it difficult to hire. Vacancy rates are below pre-Covid levels in almost all sectors. The share of companies finding it "much harder" to hire is down to 10% in BoE surveys – from 66% in 2022.

We expect the unemployment rate to drift slightly higher – towards 5.5% throughout this year.

All of this suggests wage growth has further to fall. Private-sector wage growth is now 3.4%. We expect that to drop to 3% by the summer, despite a slight pick-up in the three-month annualised growth rate in the most recent data. By the Bank of England's own admission, that would be below the rate of pay growth that's consistent with a 2% target, and it would be below pre-Covid averages – a time when interest rates were sub-1%.

Barring any surprises in next month's data – or with inflation tomorrow – a March rate cut looks highly likely. We expect another cut in June, and we don't rule out the Bank taking rates even lower as it becomes more evident that inflation risks are subsiding.

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