

UK: Three takeaways from the latest jobs numbers

The UK jobs market has stayed surprisingly resilient amid all the Brexit noise. Barring a significant deterioration in the broader growth outlook, we don't expect the Bank of England to cut interest rates this year



Source: iStock

1 Better jobs data than surveys suggested

Despite all the ups-and-downs over the past few months, the UK jobs market has stayed relatively resilient. That's the main message from the latest employment report – 180,000 jobs were added in the three months to December.

Hiring indicators deteriorated towards the end of 2019. Vacancy levels fell gradually but consistently, while various surveys pointed to lower demand – particularly for permanent staff. However that doesn't appear to have been fully reflected in the official jobs numbers. Excluding the volatile 16-24 age category, employment growth managed to stay just-about positive over the past few months.

2

Don't expect a quick – or substantial – increase in employment growth

The key question now is where the jobs market goes next. Virtually every business survey has pointed towards improved sentiment since December, including the latest KPMG/REC survey that highlighted a sharp rise in the number of job adverts, as well as a modest pick-up in placements.

It's probably too early to say whether the jobs market has turned a corner though. It'll take time for hiring decisions to translate into application processes, and more time still for new employees to come on-board.

But there is a risk that activity in the jobs market remains partially constrained by the ongoing uncertainty surrounding the future UK-EU trade relations. We're not convinced that the buoyant business sentiment will translate into a large pick-up in investment, given the potential for large changes in the UK's trading relationship at the start of 2021 and the extra costs/challenges that will bring for many firms. A lack of investment would potentially mean a further lack of new orders, which in turn limits the need to expand staffing capacity.

3 Lower wage growth unlikely to faze Bank of England

Away from jobs, we're seeing a gradual slowdown in the rate of pay growth. Excluding bonuses, wage growth is at 3.2%, down from almost 4% last summer.

However, we don't think this will worry policymakers too much. The Bank of England has long-argued that wage growth has been inflated by so-called "compositional effects" – a fancy way of saying that much of the employment growth over the past twelve months has been concentrated in higher-paying jobs, lifting the overall average level of pay.

It's also important to remember that household energy bills are set to decrease markedly in April/May time, which should be a timely boost for real wage growth and should aid consumer spending.

In other words, we think the bar for cutting interest rates will still be set relatively high in the next couple of meetings. Barring a material deterioration in growth, we expect rates to remain on hold this year.

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.