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.

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