

UK unemployment rate drops to fresh low

The Bank of England has said it will act forcefully at its November meeting, and the latest UK jobs numbers are unlikely to get in its way. Whether we get a 75bp or 100bp rate hike will depend on whether the government's fiscal plan in late October succeeds in stabilising markets

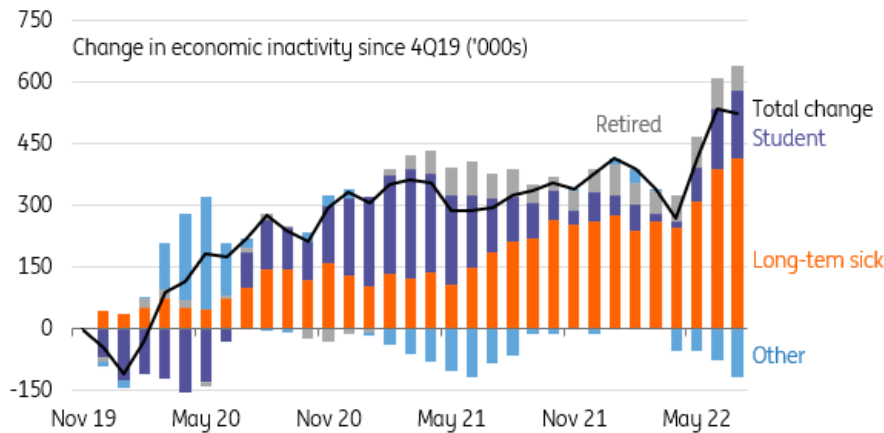


Long-term sickness continues to draw people out of the labour market

If you're looking for a source of good news in the UK right now, the jobs market is not a bad place to look. The unemployment rate fell to another post-1970s low of 3.5%, while wage growth accelerated. And despite all the concerns about recession – which indeed is our base case for this winter – there are few signs of it in the jobs market just yet. Redundancies are low and stable, even if vacancy levels have begun to gradually tail off.

It's not all rosy, however, and these positive headline figures mask some concerning underlying trends. Employment is still well below pre-virus levels, and the number of people inactive – ie neither working nor actively seeking a job – has risen by more than half a million since Covid-19 began. While that latter figure fell slightly in these latest numbers, the number of people classified as long-term sick and out of the jobs market has continued to climb. These figures are up by almost 170,000 people in the past three months' worth of data alone. It's hard to escape the conclusion that this is at least partly linked to delays in the NHS.

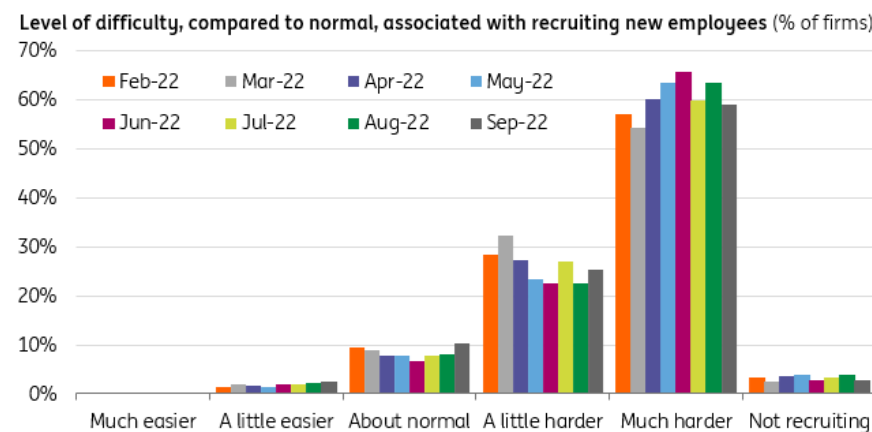
Long-term sickness continues to draw people out of the labour market



Source: Macrobond, ING

The Bank of England will ultimately view this through the lens of labour shortages, which don't appear to be improving. The Bank's own 'Decision Maker' survey shows the percentage of firms finding it 'much harder' to hire has barely budged this year. A lot could change over winter as firms' margins get squeezed further by a lack of consumer demand and mounting cost pressures. But even then there is an incentive to retain staff as much as possible, given concerns about rehiring.

Labour shortages don't appear to be improving, according to a BoE survey



Source: Bank of England Decision Maker Survey

The bottom line is that if the Bank of England wants to act forcefully at its November meeting, then these jobs figures aren't likely to stop it. Instead, whether we get a 75bp or 100bp move depends on wider market conditions – in which the BoE's bond purchases are important – and whether the government is able to reassure investors on debt sustainability.

Ministers have brought forward their Medium-Term Fiscal Plan to 31 October, and markets will be

looking for bold action to reduce planned debt issuance over the next couple of years. We're closely watching [reports](#) that the government is re-considering a form of revenue cap/windfall tax on certain energy providers.

If markets are calmer going into the November BoE meeting, then the BoE will more likely opt for a 75bp hike. But if volatile markets persist, and the pound weakens further, the Bank will be under a lot of pressure to act. We're therefore pencilling in a 100bp hike for the time being.

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>.