

UK worker shortages persist as sickness weighs on the jobs market

The number of workers classified as long-term sick has jumped dramatically in the past couple of months, and that's one reason why firms are still struggling to source the staff they need. While worker demand has cooled, Bank of England hawks will be worried that these shortages will continue to push up wage growth



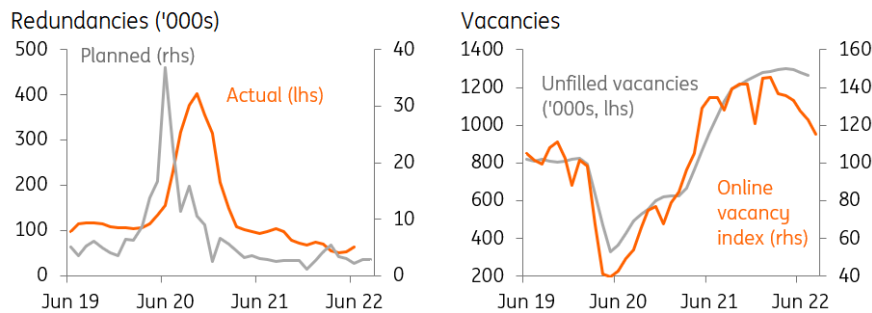
At a headline level, the latest UK jobs numbers don't look too bad. Unemployment fell by two-tenths of a per cent to 3.6%, the lowest level since 1974. But this is driven not by an increase in the number of people in employment, but primarily by another dramatic rise in those classified as inactive – that is neither in work nor actively seeking it. Alarming, the number of people classifying as not working due to long-term sickness is up by almost 400,000 since late 2019, and almost 150,000 in the last two months' worth of data alone. It's hard to escape the conclusion that this is linked to the pressures in the NHS (National Health Service).

The Bank of England will view all of this through the lens of the worker shortages that have plagued the jobs market for the past year or so. While some causes of that shortage appear to be abating – e.g. inward migration of non-EU workers has increased noticeably this year – other factors are, if anything, getting worse. A look at the survey evidence suggests firms are finding it

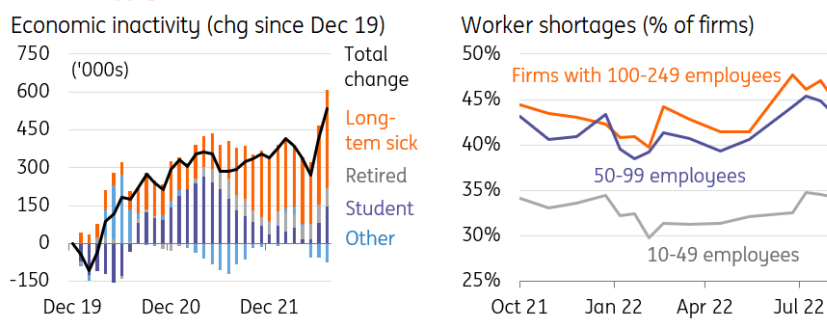
no easier to find staff than they were a few months ago either. Both the BoE's Agent's survey and the ONS' bi-weekly business survey have shown no improvement in the number of firms saying they are struggling to source workers.

UK jobs market dashboard

Worker demand



Worker supply



Source: Macrobond, ONS, ING

Worker shortages is taken from a question in the ONS bi-weekly business survey

At the same time, demand for employees does appear to be cooling, though not necessarily very quickly. The level of job vacancies has fallen from its high, but the number of redundancies is low and stable (even if the level increased slightly in this latest data). The question now is whether the pressure from energy prices will force companies to revisit these plans and make more material changes to their workforce. We would expect a more visible impact on the jobs market over the next few months, but the government's newly-announced pledge to cap corporate energy bills as well as households' should help avoid a sharp rise in unemployment this winter.

Persistent worker supply constraints coupled with so far only modest signs of reduced hiring demand will provide further ammunition for Bank of England hawks to push ahead with further tightening. We expect a 50 basis-point rate hike next week, and another in November. While markets may be overestimating how far the Bank will take interest rates over the coming months, we think the BoE is less likely to be cutting rates early into 2023 than some other global central banks.

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>.