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UK LABOUR MARKET: TEMPORARY STABILISATION

Berenberg Macro View

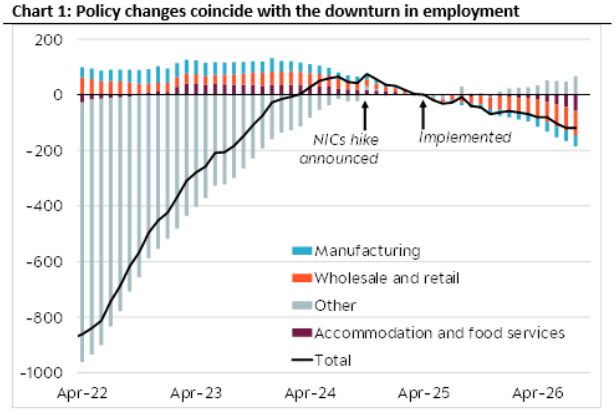
Is the worst over? After past government policy changes dealt a severe blow to the UK jobs market, payroll employment finally showed signs of stabilising in September, rising by 12,600 (Bloomberg consensus: -8,000). Nonetheless, the big picture remains that payroll employment has fallen by 181,000 since the Government announced that it would raise the minimum wage and hike payroll tax in October 2024 – see Chart 1. Moreover, forward-looking elements of the data suggest that the stabilisation may prove short-lived.

Renewed weakness ahead: A seventh consecutive monthly drop in the 3-month average of job vacancy numbers and a tick up in "HR1 notifications" (forms that employers must submit to give the government advance notice of redundancies) suggest that payroll employment may turn down again. The Office for National Statistics (ONS) reported that the fall in job vacancies was concentrated among "smaller firms, who continue to suggest that they may not be recruiting because of increased labour costs." That chimes with our assessment that high labour costs are impeding growth, alongside the costs of land, capital and energy – see "UK: high-cost island", 16 October 2026.

Subdued domestic price pressures: Limited demand for staff should ensure wage growth remains subdued, at least outside the public sector – see Chart 2. The 3-month average of private sector average weekly earnings excluding bonuses rose by 3% yoy in August, up from 2.9% in July but below the 3¼% pace that the BoE deems consistent with 2% CPI inflation. With productivity growth strong and the jump in non-wage labour costs now in the rear-view mirror, more limited labour cost pressures should facilitate a downtrend in services price inflation. As a result, we still think that the 25bp increase in the BoE policy rate we predict on 5 November will prove to be a solitary move rather than the start of a new tightening cycle. In the public sector pay growth remains high (6.3% yoy), which sets up problems for the government in the 2027 spending review when it will have to constrain the budget for civil service pay.

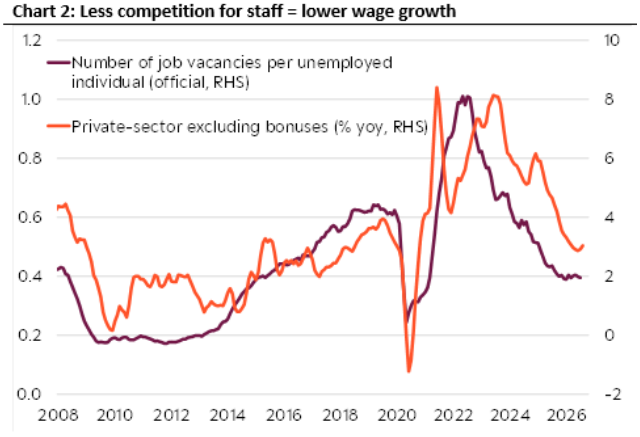
Weak labour supply: One aspect of the release would appear to undermine our weak labour demand story: the unemployment rate dropped to 4.7% in the three months to August compared to 4.9% in the three months prior. Much lower population growth than the ONS assumes for the purposes of labour market statistics squares the discrepancy. The ONS thinks the adult population increased by 531,000 over the past 12 months. However, with the number of births and deaths roughly equivalent to each other and net immigration under 200,000 in 2025, this is probably a big overestimate. This also explains the larger rise in the LFS measure of employment than other measures – see Chart 3.

Chart 1: Policy changes coincide with the downturn in employment



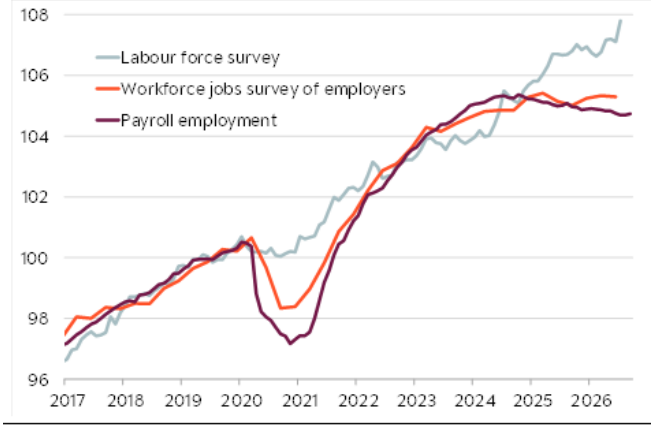
000s of employees, difference from October 2024 level. NICs = National Insurance Contributions, a UK payroll tax. Sources: ONS, Berenberg.

Chart 2: Less competition for staff = lower wage growth



Sources: Haver, Berenberg.

Chart 3: The LFS is awry: level of employment indexed to 100 in 2019



Sources: Haver, Berenberg.

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