BofA SECURITIES

UK Watch

UK Labour market: Hanging in there

20 March 2025

Macro
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No sharp slowdown in the labour market

Despite the pessimism, the UK labour market continues to hold up better than expected. Our view is that the labour market is loosening but we are not seeing a sharp slowdown. The unemployment rate was flat at 4.4% in the three months to January, in line with consensus. The rise in employment (3m/3m) was higher than expected at 144K, above consensus of 91K (while the previous rise was revised down from 107K to 88K). Unemployment rose by 40K while inactivity fell by 184K. At the same time payrolls rose by 21K in Feb, above consensus of a 21K fall. Redundancies remain low. Vacancies were broadly unchanged on the quarter which implies that the fall in vacancies has stalled. Our BofA composite indicator of UK employment growth, as described in this note UK Viewpoint: Labour market: Mixed signals 29 January 2025, points to employment growth of 0.7%y/y in Q4, weaker than the official Labour Force Survey data (1.5%), but stronger than some survey measures such as REC and HMRC payroll data (0.4%) would suggest.

Some moderation in wage growth

Regular wage growth (3mma) was elevated and flat at 5.9%, in line with consensus (with the single month flat at 6.1%). Private sector regular pay (3mma) fell slightly from 6.2% to 6.1% as expected (with the single month falling from 6.2% to 6.1%). The monthly increase in private wage growth fell from 0.55%m/m in December to 0.22%m/m in January, which should provide some encouragement to the BoE. Moreover, median monthly pay increased by 5.0%y/y, lower than 6.0% previously.

The data supports a cautious cutting cycle

This set of data should keep the BoE cautious and stick to quarterly cutting path (with the next cut expected in May). We are not seeing a sharp slowdown in labour market data and recent survey data are also showing some tentative signs of a turnaround (like the REC). We expect a modest easing of the labour market, with the majority of the NICs rise being absorbed in prices. At the same time, some signs of moderation in monthly pay rises should be encouraging for the BoE. This at the margin should reduce concerns of elevated persistence in domestic inflation which is encompassed in scenario 3 of the BoE's scenario analysis. This should allow the BoE to cut at the quarterly pace that we expect.

HMRC- HM Revenue and Customs

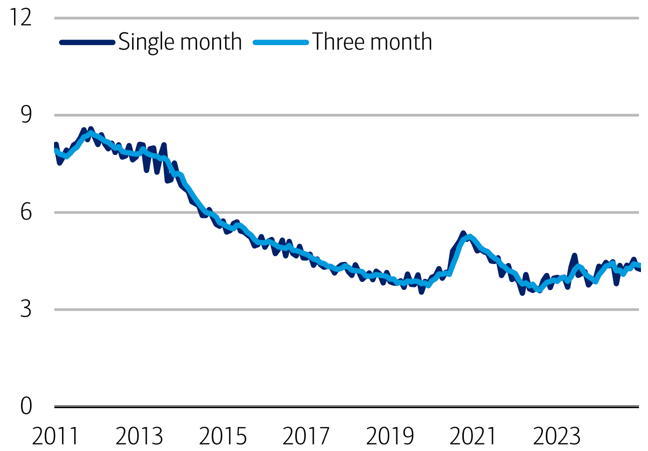
REC- Recruitment and Employment Confederation

BoE- Bank of England

Timestamp: 20 March 2025 05:51AM EDT

Exhibit 1: UK unemployment rate

UK unemployment rate was flat at 4.4%



Source: ONS, BofA

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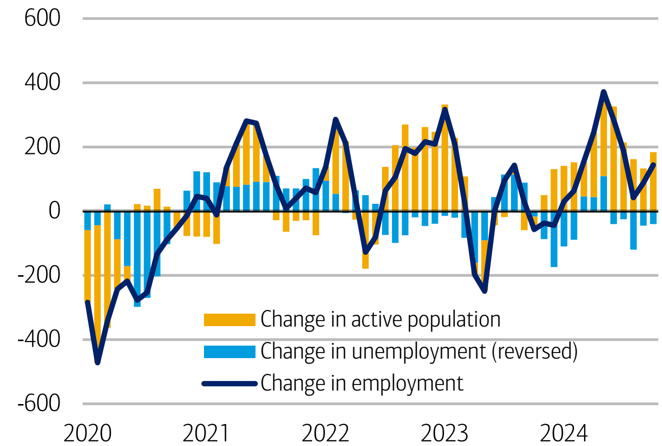
Exhibit 2: Changes in participation, employment and unemployment (3m/3m)

Employment rose by 144K, unemployment rose, and active population rose



Source: ONS, BofA

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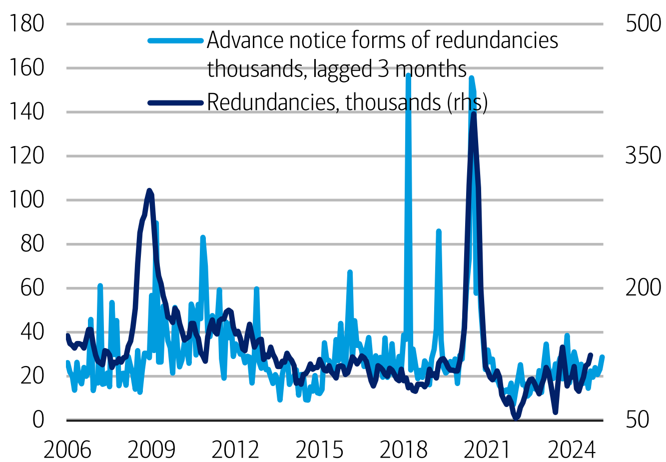
Exhibit 3: Redundancies

Redundancies remain low



Source: ONS

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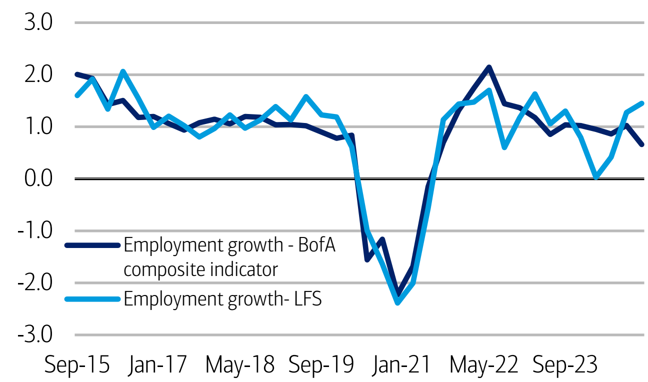
Exhibit 4: Employment growth (y/y%) from official LFS and BofA composite indicator of UK employment growth

BofA composite indicator is showing employment growth of 0.7% in Q4, weaker than LFS, but stronger than survey measures (like REC) and payrolls



Source: ONS, Markit, Lloyds, BCC, BoE Agents, BofA Global Research, The indicator is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. The indicator was not created to act as a benchmark.

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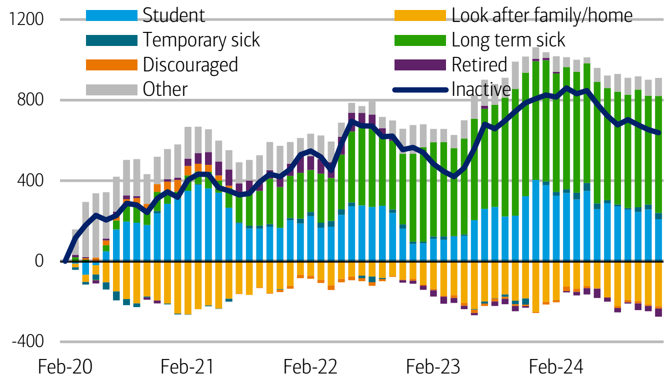
Exhibit 5: Change in inactive population relative to Feb 2020 levels by reason (thousands)

Number of inactive 638K higher than 2019 levels



Source: ONS, BofA

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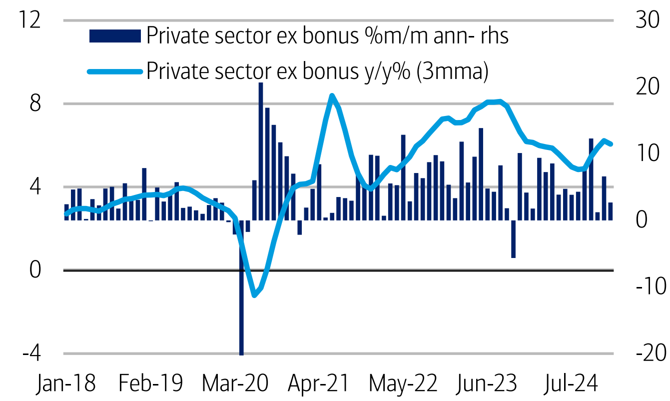
Exhibit 6: Private sector regular wage growth

Monthly growth in pay moderates



Source: ONS, BofA

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