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EcoBrief

United Kingdom: the downturn in the labour market is becoming clearer and reinforces rate cuts

The labour market in the UK continues to deteriorate. According to tax data (PAYE) published on 21 January by the ONS, the number of employees in the UK fell by 46,922 (-0.2% m/m) in December, the largest one-month decline since November 2021, which followed a drop of -0.1% in November. The year-on-year change drops drastically and falls below zero (-8,407) for the first time since April 2021[1]

Source: ONS

On a three-month moving average, the number of job vacancies fell slightly (-0.1%) and is now at pre-Covid levels. However, this masks strong disparities between sectors: job vacancies remain high in construction, education, as well as public administration and defence, but they are particularly low in retail and wholesale trade (see chart).

However, wages remain dynamic. Average weekly earnings, excluding bonuses, rose by 5.8% year-on-year in November (+5.6% on a three-month moving average), which is close to the change in median earnings in December (+5.6% m/m, PAYE). A slowdown is expected in 2025 due to the reduction in tensions on the labour market.

This deterioration in the labour market is not a surprise, given the evolution of recent surveys (PMI, KPMG/REC) which indicate a continuous deterioration in employment prospects since the autumn. Despite aggregate wage increases, the deterioration in employment will dampen household consumption, which is already weakened by persistently high financing rates as well as historic rent increases (the latter reached 7.6% year-on-year in December, the fastest annual increase in 32 years). The latest development in this direction: retail sales (excluding fuel) fell by 0.5% m/m in December and by 1.1% in Q4 compared to Q3. As a result, we have revised downwards our growth forecasts for 2024 and 2025, from 0.9% to 0.8% and from

[1] These figures, communicated by the ONS to compensate for the problems of the LFS survey, are subject to revision, but these were very marginal compared to last month.

1.4% to 1.1%, respectively, as well as our inflation forecasts, from 2.6% to 2.5% for 2024 and from 3.2% to 3.1% in 2025.

In this context, and despite the still high inflation dynamics, the scenario of a larger cut in the Bank Rate in 2025 is gradually gaining momentum within the MPC. Alan Taylor, external member of the MPC, recently spoke of a "pessimistic" scenario but "more likely given recent data" of a cut of around 125 or 150 basis points in 2025[2]. Our scenario is for four key rate cuts in 2025, one per quarter, but a sharper monetary easing cannot be ruled out, especially if, forced by the rise in bond yields, the British government was to tighten its fiscal policy.

Guillaume Derrien
Senior Economist, Eurozone – United Kingdom
guillaume.a.derrien@bnpparibas.com

[2] See *The last half mile*, speech of Alan Taylor at Leeds University Business School, 15 January 2025.