The sliver of good news as UK’s economic malaise spreads to jobs market

The cracks are starting to show.

Tuesday’s labour market figures suggest that the economic malaise afflicting the country is now spreading to the jobs market.

The unemployment rate edged higher in the three months to September to 3.6%, in a sign that employers are paring back their hiring plans in the face of rising costs and weaker demand.

Vacancies fell for the fourth quarter in a row and redundancies also edged higher at a time when businesses are facing a severe squeeze.

The worst is yet to come.

Separate figures show that the insolvency rate for companies is at a 13 year high, which is likely to usher in more job losses.

This could be the beginning of a painful period for the workforce.

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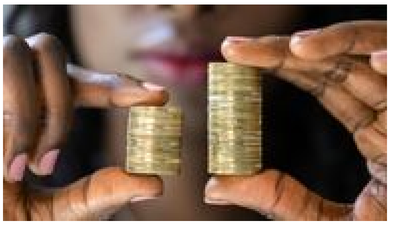

Wages rise by more than expected but unemployment also grows, Office for National Statistics figures show

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The Bank of England expects the [jobless rate to have almost doubled by 2025] as the country braces itself for a prolonged two-year recession.

It wasn't too long ago that the country was enjoying a post-pandemic jobs boom, with businesses struggling to recruit and unemployment at record lows.

This tightness, which the government repeatedly hailed as a sign of the economy's "resilience", was largely driven by economic inactivity.

Almost nine million people are neither in work nor looking for work, so they don't show up in the unemployment figures.

The surge in the "hidden unemployment" over the past year means that the workforce is smaller than it was before the pandemic.

Although today’s figures show that the jobless rate rose it is still close to record lows, largely because of a surge in economic inactivity, which is flattering the headline rate of unemployment.

The actual level of worklessness is much higher.

The tightness of the labour market over the past year did provide some opportunity to those in work and looking for work, with some managing to negotiate chunky pay deals.

However, that window of opportunity is closing.

Higher unemployment will take some of the pressure off wage demands, which does not bode well for households who have already seen their pay packets stagnate over the past decade.

Although wages increased by more than expected in the three months to September they failed to keep up with inflation, which is expected to have hit 10.9% in October. When you take CPI inflation into account, wages actually fell by 3.7% last month.

The tight labour market failed to deliver meaningful pay rises to workers, with inflation leaving households poorer than they were earlier in the year.

This does not bode well for household incomes but may come as a relief to the Bank of England.

Policymakers at the Bank have been fretting about the prospect of a “wage-price spiral”, whereby higher wages push up inflation even more, forcing them to raise interest rates even higher.

So, if there’s a sliver of good news, it’s that the slowdown in the jobs market may take some of the pressure off the Bank of England to raise interest rates.

Samuel Tombs, chief UK economist at Pantheon Macroeconomics, said: “The slowdown in hiring also will lead to less churn in the job market, easing the pressure on businesses to pay more to retain staff.

“As a result, we continue to think that the MPC [monetary policy committee] will have seen enough hard evidence of rising unemployment and slowing wage growth by its meeting in mid-March to stop its tightening cycle, with Bank rate at about 4%.”