Daily Dose of Macro & Markets 14th August 2025: "UK Jobs Market – How Bad Is It?"

The 'Daily Dose of Macro & Markets' is our new publication designed to speak to the key global macro debates that matter for markets (with 1 - 3 charts and two paragraphs). This product will be published every Tuesday, Wednesday, Thursday and Friday morning (early London time).

Key (newspaper) Headlines Yesterday (post UK labour market data):

"UK job market cools as vacancies fell"; "UK labour market cools under pressure from Rachel Reeves's tax on businesses"; "UK employers cut back on bonuses and hiring as economic slowdown hits jobs"; "Reeves defends record on economy despite jobs plunge".

Sources: BBC, The Times, The Guardian, The Daily Telegraph (respectively, all in past 24 hours)

UK Jobs Market – How Bad Is It?

According to the newspaper headlines, it was not good news. To paraphrase the above quotes: 'The UK labour market is under significant pressure; employment and vacancies are down sharply'.

Certainly that's one interpretation of the latest national statistics labour market data (which was published on Tuesday morning). Vacancies fell from 725k to 718k (continuing their downtrend of the past 3 years), the unemployment rate stayed at 4.7% (up from 3.6% in July 2022), while the number of payrolled employees (according to HMRC tax data) fell by "26,000 between May 2025 and June 2025" & "by 149,000 (0.5%) between June 2024 and June 2025" – fig 2. That was the main focus of the newspaper reporting of the data and the first information a reader was presented on opening the UK's National Statistics August 2025 'Labour Market Overview' (Available HERE).

Other data – like the more traditional (although recently disgraced) Labour Force Survey (LFS) data, though, **tells a totally different story**. According to the LFS, employment is growing at 2.26% annually (whether looking at just 'employees', i.e. equivalent to the HMRC payroll data, or 'total employment' which includes the 'self employed' – fig 2). On this metric, the UK labour market is doing very well. Equally the 'claimant count' data (which is derived from government 'welfare benefits' data – and described as experimental) showed a fall in those claiming unemployment benefits (or equivalent). So it's clearly complicated. No doubt, the April rise in employer national insurance caused some job losses. Equally the LFS & claimant count data (different sources) points to a strong labour market.

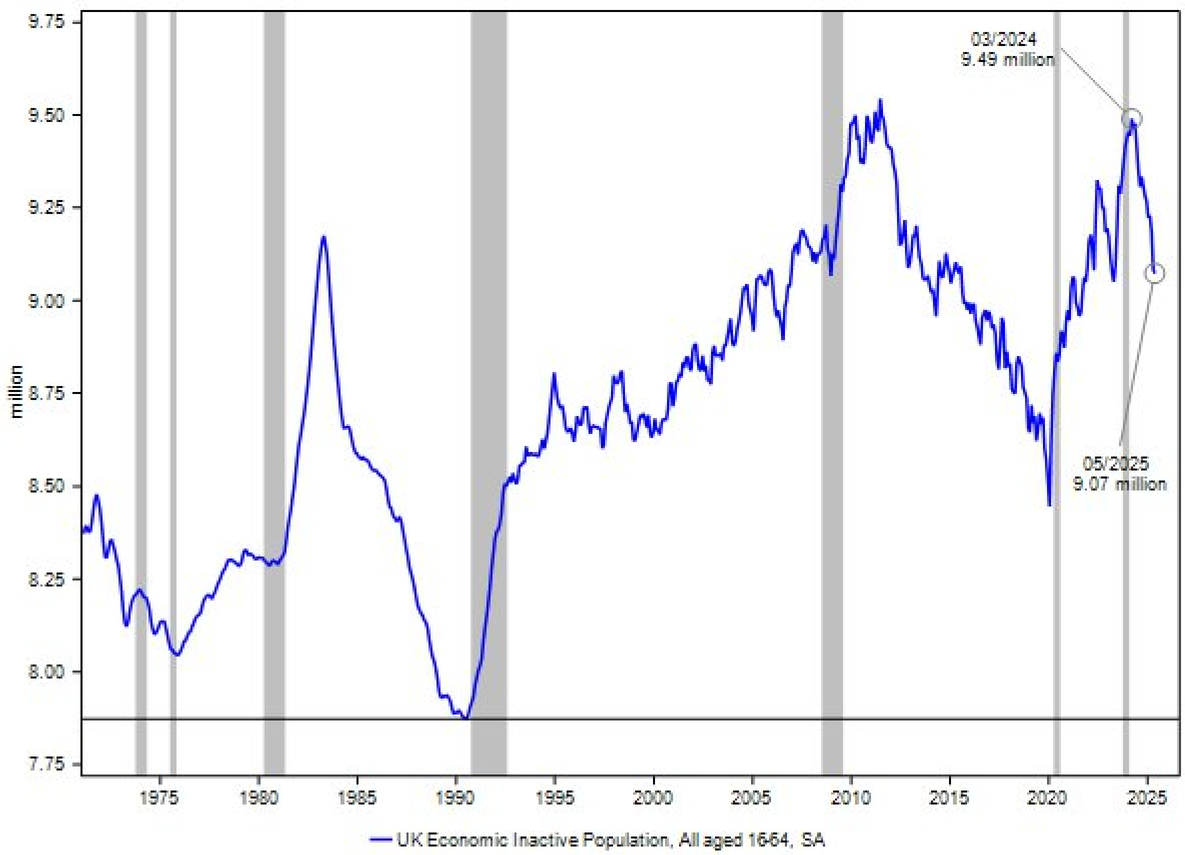
Business surveys, meanwhile, are also mixed: The Lloyds business barometer is at its highest in 10 years, while the CBI quarterly employment surveys are weak. The data, overall, therefore is contradictory, and further confused by this morning's GDP data, which has surprised positively with growth of 0.3% (q-o-q) vs. expectations of 0.1%. NB That comes after good Q1 growth of 0.7% (q-o-q).

Perhaps more interestingly (given the data conundrum above), the **UK's economic inactivity rate** has been falling sharply in the past 14 months. In March last year, the total number of 16 – 64 year olds registered as economically inactive was 9.49 million (fig 1). By May this year, that had fallen to 9.07 million. That equates to over 400k more people now offering themselves for work (whereas before they had been absent either at home looking after the family, or studying, or long term sick). This type of sharp movement often occurs as the economy emerges from a crisis (e.g. see long, enduring sharp downtrends post the early 1990s recession and post the financial crisis). If it continues it provides the potential for an elongated economic expansion as there will be a growing supply of labour available for work (keeping a lid on wages). Interestingly as well, it's been accompanied by fast growth in the numbers of employees over the age of 65 (i.e. at/past retirement). The number employed in this age group has risen from 1.41 million (start of 2024) to 1.65 million (latest data, May 2025).

Now whilst much of the positive labour market data is sourced from the LFS (which underwent significant revisions to its data collection approach and was withdrawn from use temporarily in late 2023, until early 2024), it's also the case that, as the ONS states in its report: "Estimates from January to March 2025 include the full effect of the improvements in LFS data collection and sampling methods introduced from January 2024."

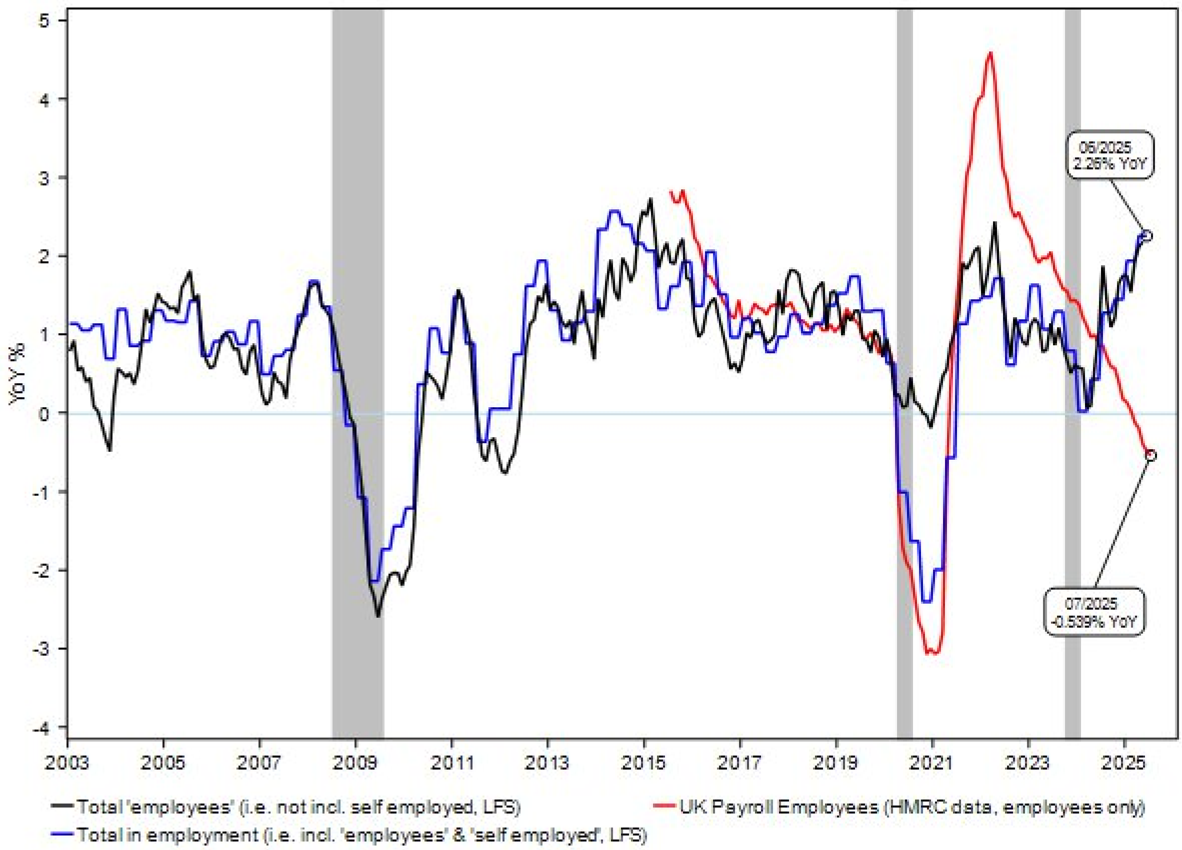
So whilst there's less confidence in the LFS data, other data, like the claimant count, GDP and some of the business surveys support the message of that data series. Equally, contracting payrolls (0.5% Y-o-Y, see fig 2) are inconsistent with rising GDP, and robust consumer confidence, especially the sub question in that data ("Personal Financial Situation over Next 12 Months") which is at high levels.

Fig 1: UK economically inactive (aged 16 – 64 years old, millions, LFS data)



Source: Longview Economics, Macrobond

Fig 2: UK annual growth in employment (Y-o-Y %, HMRC & LFS data)



Source: Longview Economics, Macrobond