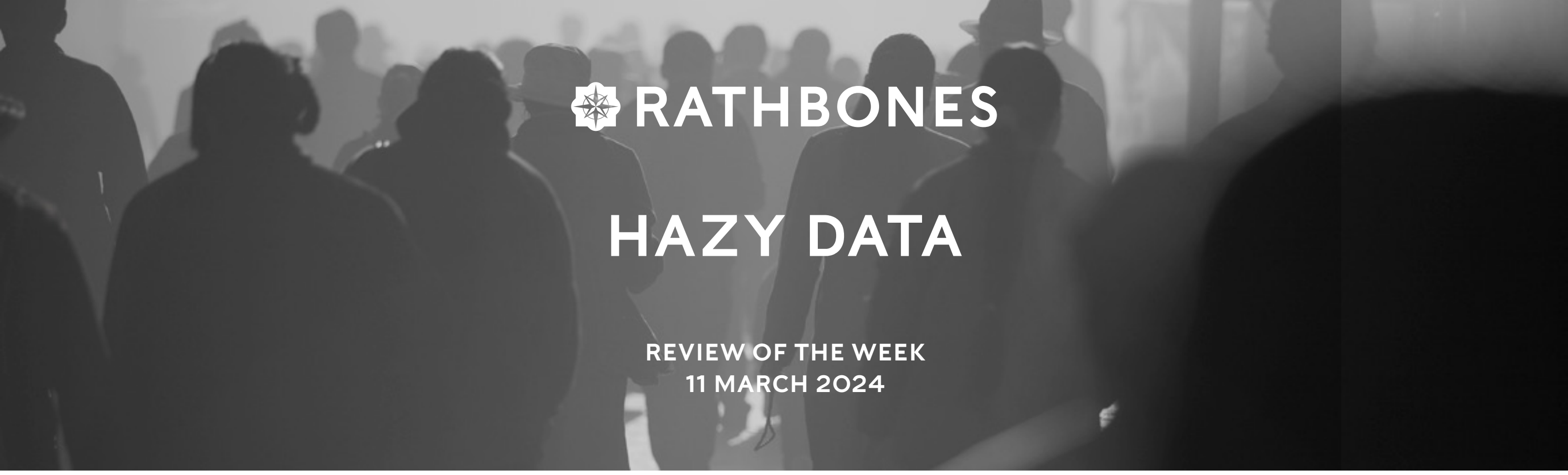

RATHBONES

HAZY DATA

REVIEW OF THE WEEK
11 MARCH 2024

PROBLEMS WITH UK LABOUR SURVEYS ARE MAKING IT HARD TO KNOW THE TRUE RATE OF UNEMPLOYMENT. MEANWHILE, THE CHANCELLOR RELEASES A TAX-CUTTING BUDGET THAT LEAVES THE NEXT GOVERNMENT WITH TOUGH CHOICES.

The UK unemployment rate will be released this week, yet that won't really help us know how the labour market is faring. Labour market statistics are of questionable quality these days and the Office for National Statistics (ONS) is struggling to correct the problem.

In fairness, it's a tough fix. During the pandemic and social-distancing measures, the British labour force survey suspended face-to-face interviews and moved to telephone canvassing instead. Unfortunately, in the 21st century few people answer their phone to an unknown caller; this is especially prevalent among people who weren't born in the UK. The survey's response rate has plummeted from roughly 50% a decade ago to 15%. The ONS has tried several changes to its methods to bolster engagement over the past few years and used other data to corroborate/ refine its data where possible. Yet the central problem remains: many, many people remain out of reach.

This is why the unemployment rate, which is expected to stay at 3.8% when reported this week, will still leave us all in the dark. The margin of error is twice what it used to be, so the real number could be anywhere +/-0.4% of the reported rate. Rather than being 3.8% in the three months to December, the unemployment rate could have been 3.4% or 4.2%. All but one of the unemployment prints in 2023 were in that range – and the odd one out was just 0.1% above it. The changes may simply have been statistical noise.

The ONS advises "increased caution" when interpreting short-term changes in the unemployment rate and recommends using it alongside a range of labour market indicators from several surveys. Labour market statistics – including the unemployment rate – are no longer official statistics because they aren't accurate enough. That's wild when you remember that this information is traditionally a large input for central bankers setting monetary policy!

Indeed, Bank of England (BoE) Governor Andrew Bailey told Parliament just last month that he was concerned about relying on the unemployment rate. It was especially difficult to determine how many people without jobs were unemployed (i.e. looking for one) and how many were inactive (i.e. not looking because of retirement, ill health or lifestyle). This is important for the BoE because someone who is retired is much less likely to return to the workforce or pick up a job than someone who is actively searching. The more people actively searching loosens the labour market and means there's less chance of wage rises to attract workers and therefore upward pressure on inflation. The truly unemployed are also less likely to spend, which reduces demand for goods and services in the economy.

Without quality statistics, economists, policymakers and investors are essentially running blind. So if you see a call from 02392 958 174, please take it!

Given concerns about the reliability of data from the official surveys, we look at a broad range of metrics, from private surveys to other measures of labour demand, such as job vacancies. Taken together, they generally suggest that the UK labour market has continued to loosen. Although longstanding high rates of long-term sickness keeping people out of work are no closer to being solved. Instead, weaker labour demand has probably helped loosen the market. Consequently, wage growth is now on a downward trend.

A poisoned chalice

Last week's Spring Budget delivered another two-percentage-point cut to National Insurance, the obligatory freezes on fuel and alcohol duty, and a range of other measures.

Chancellor Jeremy Hunt pinched Labour's plan to abolish 'non-dom' tax status, which is expected to save roughly £9.4 billion over the next five years. Non-domiciled tax status encourages wealthy foreign professionals and investors to move to the UK for work and commerce by allowing them to keep their foreign assets and income out of Britain's tax system.

The cost of snipping another 2ppt from National Insurance is much higher, at roughly £51.6bn over the next five years. There were reforms to child benefits to avoid parents being harshly penalised for earning more than £50,000 each, and a handful of other, smaller measures. **In sum, the package will provide a slight loosening in fiscal policy for the coming year compared with what was planned before the Budget.**

Despite that, frozen tax thresholds will still mean tax as a proportion of GDP increasing over the coming years. Meanwhile, further, unrealistic cuts to public services have been pencilled in for the future. Government finances are looking increasingly like a poisoned chalice for whoever wins the next election.

On the other side of the Atlantic, inflation and household barometers take centre stage this week. The US CPI measure is forecast to remain at 3.1% when released on Tuesday. Producer Price inflation (PPI), which looks at changes in the price of suppliers, follows on Thursday. Retail sales and consumer sentiment are also in the calendar.

US Federal Reserve (Fed) Chair Jay Powell gave testimony to Congress last week. He didn't spring any big surprises, suggesting that he was still anticipating cutting rates this year, yet reiterating that the Fed wouldn't be rushing. Investors have definitely moved to his camp in recent months. Just three 25-basis-point cuts to the Fed Funds Rate are fully expected this year. Not too long ago markets implied there would be six!
Still, there are more 2024 rate cuts currently priced into US markets than in the UK, even though the US economy has much stronger momentum. Compared with Britain, in America there's less (or no) disinflation left to come there in categories like food, goods and energy, and fiscal policy there could be loosened further. As such, we prefer UK government bonds relative to US ones.

If you have any questions or comments, or if there's anything you would like to see covered here, please get in touch by emailing **review@rathbones.com**. We'd love to hear from you.