

UK LABOUR MARKET COOLING CONTINUES AND BUSINESS HIRING CAUTION PERSISTS

“The labour market continues to face pressure, with vacancies struggling to grow and wage growth softening as employers manage rising costs. Candidate availability is improving, but unemployment remains high, particularly among younger workers.”

“These trends underline the need to look ahead: investing in skills, supporting businesses to adapt and grow and boosting productivity will be essential to building a resilient labour market and creating sustainable opportunities for the future.”

**Carmen Watson, Chairperson,
Pertemps Network Group**

In the quarter to January 2026, employment and unemployment levels both rose, the inactivity rate fell, vacancies were broadly unchanged, and regular wage growth slowed to its lowest level in five years. Youth unemployment also remained high. Therefore, this month’s findings have reinforced messages from recent releases, with labour market cooling increasingly being driven by firms’ hesitation to hire and create jobs.

The UK employment rate (for people aged 16 to 64 years old) was estimated at 75.1% in the period between November 2025 and January 2026, which is slightly up on the quarter and the year. The UK unemployment rate (for people aged 16 and over) was estimated at 5.2% in the quarter to January 2026, also representing an increase on the quarter and, to a greater extent, the year.

The inactivity rate for people aged 16 to 64 years old was estimated at 20.7% in the three months to January 2026, which is down on both the quarter and the year. The provisional estimate for the number of vacancies in the UK economy in the quarter to February 2026 is 721,000, which is broadly unchanged on the quarter (-6,000) but down on the year (-76,000).

Estimates for payrolled employees in the UK fell by 96,000 (-0.3%) between January 2025 and January 2026, but increased by 6,000 (0.0%) between December 2025 and January 2026. The early estimate of payrolled employees for February 2026 decreased by 49,000 (-0.2%) on the year, but increased by 20,000 (+0.1%) on the month, to 30.3 million. The February 2026 estimate should be treated as provisional and is likely to be revised when more data is received next month.

Annual growth in employees’ average regular earnings (excluding bonuses) in Great Britain was 3.8% in the three months to January 2026, and annual growth in total earnings (including bonuses) was 3.9%. Annual growth in real terms (adjusted for inflation using the Consumer Prices Index including owner occupiers’ housing costs (CPIH)), for regular pay and total pay stood at 0.4% and 0.5%, respectively, across the same period.

This month’s data suggests that rising business costs remain a top challenge confronting the UK labour market, with many firms struggling to create jobs and help more people to enjoy the benefits of work. The high youth unemployment rate indicates that cost pressures are posing particular challenges for young people, who are less likely than adults to already be in work.

Many firms will welcome interventions that help address cost barriers to investment and recruitment, such as the Jobs Guarantee. However, the most effective way that government can help businesses to create jobs and drive growth is by tackling the rising cost of doing business. This involves recognising the pressures on firms’ cost base, and delivering meaningful Growth and Skills Levy reform that allows businesses to get out what they put into the Levy. It also means being mindful of the problems attached to high business costs when approaching further policy reform.

Please note: Ongoing sampling and methodological issues with the ONS’ Labour Force Survey means that figures should be interpreted with caution.

Exhibit 1 Vacancies (000s)

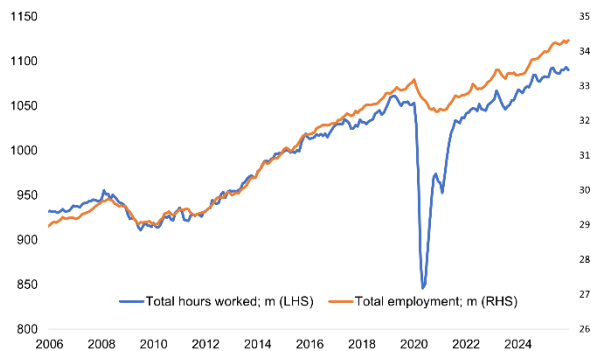


Source: ONS March 2026 labour market statistics

Headline figures	Rate	Number (000s)	Change on quarter (% change)	Change on year (% change)
Employment* (ILO)	75.1%	34,310	+84,000 (+0.2%)	+388,000 (+1.1%)
Unemployment** (ILO)	5.2%	1,869	+37,000 (+2.0%)	+323,000 (+20.9%)
Youth unemployment (16-24)	16.0%	732	-2,000 (-0.3%)	+99,000 (+15.6%)

Source: ONS March 2026 labour market statistics, *Rate for those aged 16-64 **Rate for those aged 16 and over

Exhibit 2 Employment vs actual weekly hours worked (millions)



Source: ONS March 2026 labour market statistics

Plateauing vacancies and increased employment levels indicate increased competition for jobs

- Estimated employment levels increased moderately in the three months to January 2026 (+84,000) to 34.3 million, and employment levels are higher than the figure recorded at the same point twelve months prior (+388,000). The employment rate is slightly up on the quarter and the year, sitting at 75.1%.
- Male employment levels are moderately up on the quarter (+26,000) and the year (+48,000), sitting at 17.6 million. Female employment is estimated at 16.7 million, and has increased on the quarter (+57,000) and, to a greater extent, the year (+340,000).
- In the quarter to January 2026, employment level changes across age groups were mixed. Employment levels rose the most across people aged 35 to 49 (+88,000) and 50 to 64 (+39,000). The largest quarterly decrease in employment was recorded across people aged 65 and over (-45,000), followed by people aged 18 to 24 (-10,000). Employment levels rose the most across people aged 18 to 24 (+122,000) and 35 to 49 (+118,000) in the year to January 2026.
- The number of employees working full-time is moderately down on the quarter (-37,000) but up on the year (+110,000), sitting at 22.6 million in the quarter to January 2026. The number of employees working part-time is estimated at 7.2 million, which is an increase on the quarter (+92,000) and the year (+253,000).
- Across the same period, the number of self-employed people working full-time (2.9 million) fell on the quarter (-13,000) and the year (-71,000). Meanwhile, the number of self-employed working part-time (1.5 million) is up on the quarter (+33,000) and the year (+79,000).
- In the three months to January 2026, there was an estimated 730,000 vacancies across the economy (excluding agriculture, forestry and fishing). This is broadly unchanged on the quarter (+6,000) but down on the year (-69,000). Vacancy levels were estimated at 721,000 in the quarter to February 2026.
- Provisional estimates of vacancy levels in the quarter to February 2026 indicated that, excluding the total services sector, the human health and social work activities sector continued to report the most vacancies (124,000). Also in line with recent months, the wholesale and retail trade and repair of motor vehicles and motor cycles sector ranked second (87,000 vacancies).
- Provisional estimates for the quarter to February 2026 indicated that the financial and insurance activities sector had the most vacancies per 100 employee jobs (3.0), closely followed by the accommodation and food service activities sector (2.9).
- There were an estimated 31,000 working days lost because of labour disputes across the UK in January 2026.

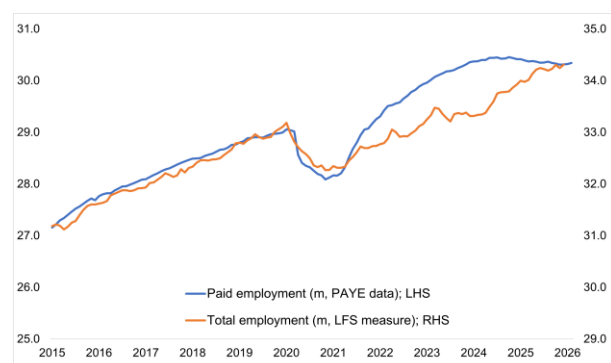
Inactivity has fallen, but unemployment levels have remained elevated

- In the quarter to January 2026, unemployment levels increased to 1.87 million (+37,000). The unemployment rate is up on the quarter and the year, sitting at 5.2%. There are 323,000 more unemployed people compared to the same period a year ago.
- There were 732,000 unemployed people aged 16 to 24 in the quarter to January 2026, which is broadly unchanged on the quarter (-2,000) but up on the year (+99,000). The youth unemployment rate is now 16.0%.
- Redundancy levels were estimated at 133,000 in the three months to January 2026, highlighting a fall on the quarter (-23,000) but slight increase on the year (+9,000). The redundancy rate is estimated at 4.5%.
- There was an estimated 9.0 million economically inactive 16 to 64 year olds in the quarter to January 2026. This represents a decrease on the quarter (-99,000) and, to a greater extent, the year (-268,000). The inactivity rate is also down on the quarter and the year, sitting at 20.7%.

Wage growth has continued to slow

- Nominal annual regular pay growth across the whole economy (excl. bonuses and before adjusting for inflation) stood at 3.8% in the three months to January 2026 (the less volatile three-month rolling basis).
- Despite the slowdown, real-term pay increases are still being awarded, with inflation decreasing to 3% in January. It is currently unclear how wider geopolitical developments will affect real-term wage growth and living standards in the months ahead.
- In the quarter to January 2026, nominal annual regular pay growth stood at 3.3% in the private sector. This follows a series of incremental falls recorded over the past year. Across the same period, nominal annual regular pay growth was 5.9% in the public sector. This figure is below previous months, which is largely due to when public sector pay rises were awarded.
- In the three months to January 2026, wage growth continued to be strongest in the public sector (excluding financial services) (5.9%), followed by the wholesaling, retailing, hotels and restaurants sector (4.8%). The lowest level of wage growth was recorded in the construction sector (1.6%).
- Real regular pay growth (excl. bonuses and adjusting for CPIH inflation) was 0.4% in the quarter to January 2026, which is slightly down on last month's figure (0.5%). Real regular pay growth for single-month changes year on year (excl. bonuses and adjusting for CPIH inflation) was 0.3%, which is in line with last month's figure.

Exhibit 3 PAYE real time data vs official employment data (millions)

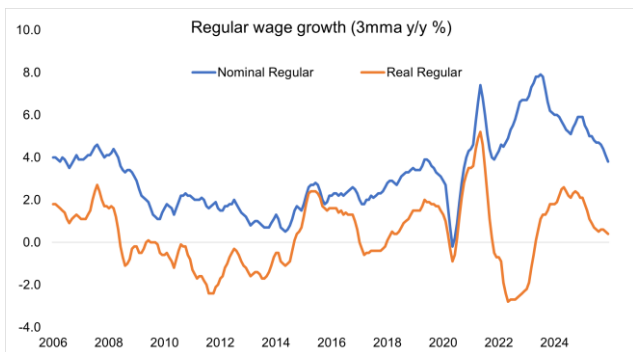


Source: ONS March 2026 labour market statistics

In the quarter to January 2026, employment level changes across the regions and nations were mixed...

- In the three months to January 2026, employment levels increased the most in the East of England (+47,000), followed by Yorkshire and The Humber (+38,000).
- Across the same period, the greatest employment drop was again recorded in London (-35,000).
- Over the quarter, employment levels rose in England (+60,000), Wales (+32,000) and Northern Ireland (+15,000), but fell in Scotland (-24,000).
- In England, the largest yearly change in employment levels was recorded in the East of England (+96,000), followed by the South East (+65,000). The only region in England to have observed a fall in employment levels on the year was the West Midlands (-11,000).

Exhibit 4 Real regular pay and nominal regular pay growth (%)



Source: ONS March 2026 labour market statistics

Exhibit 5 Unemployment rate (%)

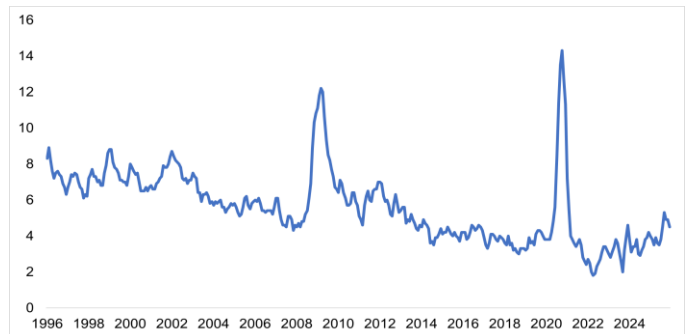


Source: ONS March 2026 labour market statistics

... As were changes in unemployment levels

- Between November 2025 and January 2026, unemployment changes were fairly varied across different regions and nations.
- The greatest increase in unemployment was recorded in London (+62,000), followed by the North East (+20,000).
- During the same period, the largest decrease in unemployment levels was recorded in the East of England (-23,000), followed by the North West (-12,000).
- In the three months to January 2026, unemployment levels rose in England (+77,000), were broadly unchanged in Scotland (+2,000) and Northern Ireland (-2,000), and fell in Wales (-40,000).
- Across the regions in England, unemployment levels rose in the year to January 2026.

Exhibit 6 Redundancy rate (%)



Source: ONS March 2026 labour market statistics



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For further information about Pertemps Network Group, please contact:

James Wilde

Head of PR and Communications

T: 01676 525250

E: james.wilde@pertemps.co.uk

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For further information or a copy in large text format, please contact:

Evie Matthews, Senior Policy Advisor

E: evie.matthews@cbi.org.uk

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