

Why we can see the UK economy very differently if we dig into its detail

Let me open with some nostalgic reflections on numbers from an earlier century.

It is over 30 years since I set off on an obsessive journey. One where I began to closely follow the almost totally overlooked monthly data collected by the UK Government's statistical agency. The body is now called the Office of National Statistics. Back then, in prehistoric pre-windows & www days, it was known as the Central Statistical Office. As for asking "what's in a different name from this to that?", the more relevant question should be "what's the difference in its numbers, then from now"? Well, **INCOMPARABLE**.

To be clear, as enthused as I was on having access to the vast myriad - in the hundreds that is - of CSO product level data points, these arrived by a pedal-powering courier transporting a floppy disk. On its arrival the disk carried figures which were informative but unformatted. And as swiftly as we tried to turn these numbers around, the 24 hours we finally managed to reduce the process too, now appears, thanks to real time fully formatted downloading, like an eternity; or equivalent to Formula One pitstops, now from then.

Not only has the arrival of granular UK economic data speeded up enormously, but the UK market landscape has changed so very much too. Over the period since beginning my close attachment to its detailed monthly data, the UK has morphed into a post-modern tech & service-based economy a far cry from its old self of shipyards, steel & textile mills, glass works, coal mines & pen pushing PC-lite offices. That said we have had to wait patiently for the data being released for the UK to catch up with events. Had that is, to await the arrival of figures capturing the evolution into internet sales, as well as businesses providing a service product – B2B & B2C. Well, such figures are now finally reliably available on a timely monthly basis, and it is on this new branch of UK data that I wish to focus.

Chart 1: UK vacancies – level & ratio per 100 jobs

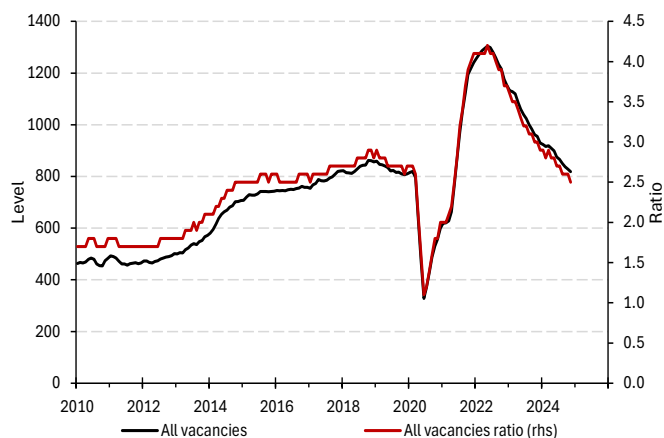
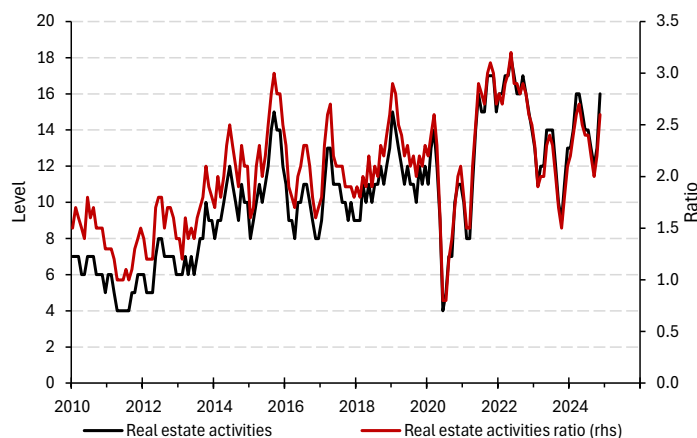


Chart 2: Vacancies in Real Estate Activities (L) – level & ratio



Source: ONS - Note: Ratios are vacancies per 100 employee jobs

With this new seam of rich data where should one start at such a critical juncture for the UK economy? Select that is, the most suitable canary in the UK cage, to signal what awaits the UK more widely? With this in mind, let me please run through a few candidates. Now who will challenge me claiming it is sensible to begin with the **UK's recruitment sector**. This after all surely is a HUB SECTOR, telling us so much about the macro-economy? It also provides more stock-specific information being where the likes of **Robert Walters, PageGroup, Hays, SThree et al**, operate? For those with a more global mandate, the data also holds earnings relevance for the overseas listed but very much UK operational, Adecco and Manpower.

As of November, the evidence would seem to be perfectly clear: **recruiters in the UK have been performing poorly & have moreover, been suffering as such for some time**. From a mere casual inspection of the relevant tear-sheet we see the UK's employment services sector has been experiencing year-on-year volume, revenue and margin erosion since 2023, **AND YET** curiously it has been performing in such a way despite the UK "recording" labour shortages. Is the data therefore wrong?

Now, as much as the ONS evidence seems clear enough, we must ask WHAT it signals?

Does the data for one, tell us it is unreliable? Well, its movements have been remarkably close to what one would have EXPECTED from such a pro-cyclical sector. On inspecting its tear-sheet we see how the recruitment sub-sector closely tracks the performance of UK business services overall. Indeed, we note recruiters have generally outperformed their peers across services since 2010, posting average revenue growth of c7% vs. c5%; their margins too outperforming. Surely this makes the recent relatively poor trading even more troubling. There is however a different question to ponder. Is there a possible reason the data we see for the UK's traditional recruiters, DOES NOT raise a clarion call of UK recession? Well, YES THERE IS an explanation consistent with all that came before.

It can be argued that data from the period since 2022 reflecting the fortunes of the UK's recruitment sector reveals how hiring practice has dramatically changed over recent years; a change catalysed by covid which forced so much of what had been "in person" to become virtual. Show that is, how the hiring process within the UK has evolved from the "traditional third-party model" in which the firms noted earlier have long dominated as hand holding intermediaries, to one involving disintermediating (impersonal!) PERSONNEL HIRING tech-platforms, for instance LinkedIn and Adzuna. Are we supposed to believe that recruitment activity in 2024 was hit as badly as it was through lockdown? Moreover, are we genuinely to see the demanning in traditional recruitment, as anything other than those working within it accepting their model isn't working well against the backdrop of disruption to the specific business model rather than "early onset widespread recession". Such an explanation borrows from the explanation of poor volume data relating to the categories covered by supermarkets, food convenience and specialist food stores. For rather than see this as signal we are "not eating as much", we need treat it as a sign we are eating very differently. Having that is, prepared foods delivered into our hands at home and work. So just as say JustEast is eating into the volumes of Tesco and Sainsbury, so it can be said the likes of Adzuna *etc.* are egressing into the work once done by Adecco *et al.*

Suppose we now move to another of the UK sub-sectors that the new services side of ONS data has proven so revelatory. Let's move specifically to figures capturing businesses active as **real estate agents**, viz. the likes of **Rightmove**, **Foxtons** and **Savills**. For this very much "cyclical sector" the evidence conflicts with what we see with recruiters. It after all paints a picture of robust real estate volume activity through 2024 and stable pricing; albeit like recruiters, culling headcount last year, or certainly when numbers are measured year-on-year (we also somewhat curiously see robust recruitment, see chart 2, which suggests high labour turnover, something the sector is indeed famed for). Less we forget, the genesis of **Rightmove** and PrimeLocation (Zoopla) came with traditional estate agents seeing the disruptive threat coming from technology, and "getting in early"; a first-mover lesson evidently lost on the UK's recruiters?

We come now to a question that really shouldn't challenge "a good economist". Of the two, which of these is the best leading and which the lagging sector for indicating a recession – recruitment or real estate? As such as the instinctive answers is that recruitment tells you what is about to happen, real estate what is already unfolding. Well, as this short piece tries to argue, though that may instinctively seem the correct answer, it may well prove an example of one not "thinking fast, but slow".

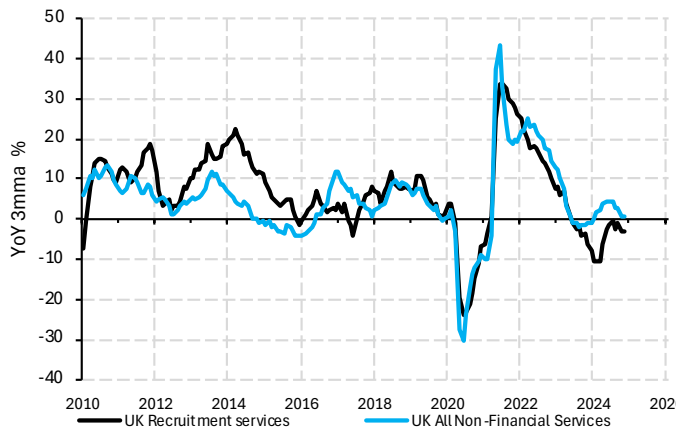
Let me shift focus to another cyclical UK business sector, the **provision of architectural, surveying and civil engineering services**. Here the evidence does not suggest a great deal of earnings concern towards the close of last year, with volumes up year-on-year and pricing stable.

There will of course be those suggesting matters will only worsen for the UK's recruiters; with its real estate agents, surveyors & architects joining them in their decline. To this my rejoinder is straightforward enough. Month by coming month I will be keeping a very keen eye on the ONS data, not on the surface, but digging well into it.

UK Recruitment services (78)

Sector turnover of £71.6bn (2.5% of all Non-Financial Services) - in the calendar year Nov2023 to Oct2024

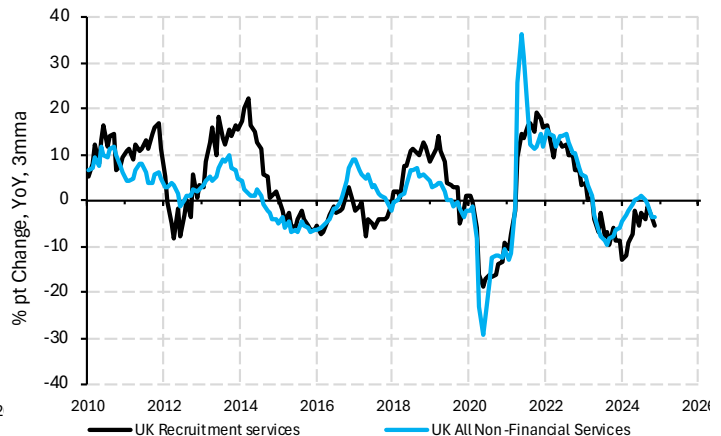
Chart 1. Operating Sales, £



Annual Growth Averages (%) and Inverse Coefficient of variance* in brackets

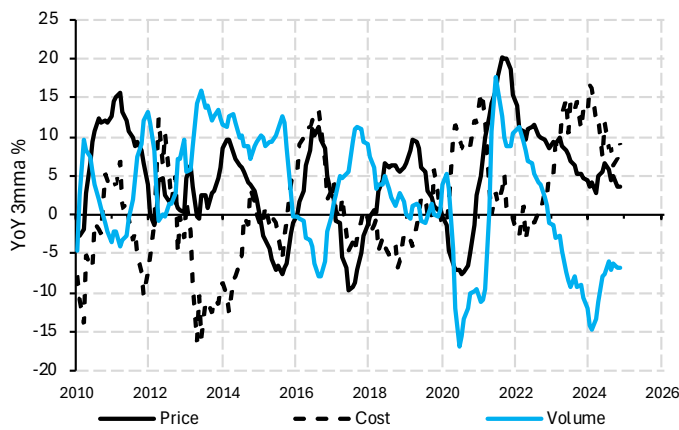
Category	Annual Growth Averages (%)	Inverse Coefficient of variance*
UK Recruitment services	6.9	(0.7)
UK All Non-Financial Services	5.2	(0.5)

Chart 2. Operating Margin



Category	Annual Growth Averages (%)	Inverse Coefficient of variance*
UK Recruitment services	3.1	(0.3)
UK All Non-Financial Services	1.9	(0.2)

Chart 3. Price, Cost & Volume



Category	Annual Growth Averages (%)	Inverse Coefficient of variance*
Price	4.5	(0.7)
Cost	1.4	(0.2)
Volume	2.4	(0.3)

Chart 4. Detailed price & cost dynamics

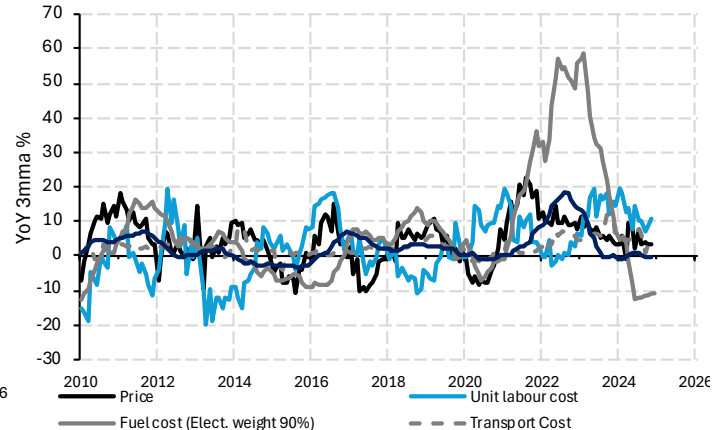
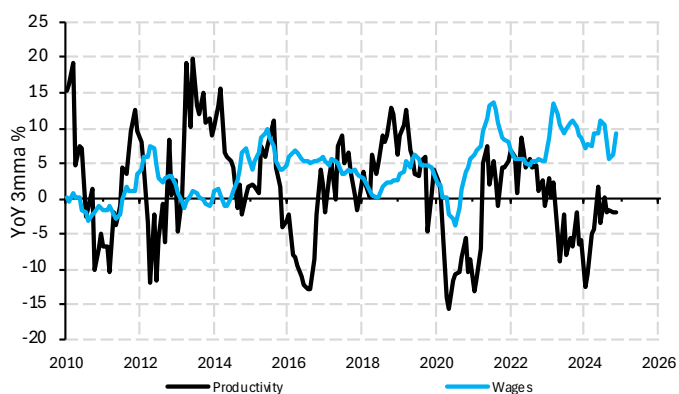
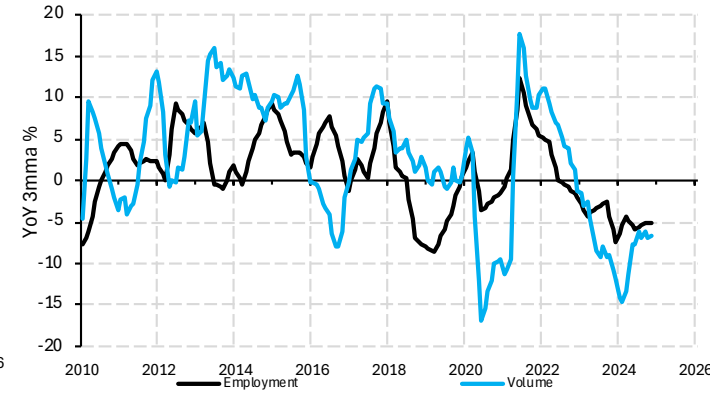


Chart 5. Labour Productivity vs Wages



Category	Annual Growth Averages (%)	Inverse Coefficient of variance*
Productivity	1.3	(0.2)
Wages	4.2	(1.1)

Chart 6. Employment vs Volume



Category	Annual Growth Averages (%)	Inverse Coefficient of variance*
Employment	1.1	(0.2)
Volume	2.4	(0.3)

* Inverse Coefficient of Variance = Mean / Standard Deviation

UK Real estate activities on a fee or contract basis (68.3)

Sector turnover of £29.4bn (1.0% of all Non-Financial Services) - in the calendar year Nov2023 to Oct2024

Chart 1. Operating Sales, £

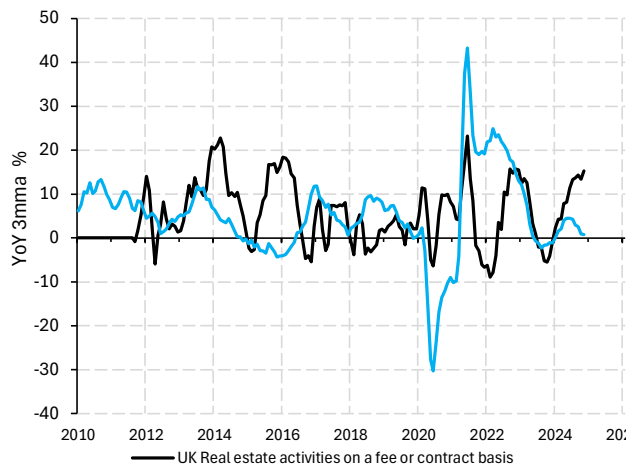
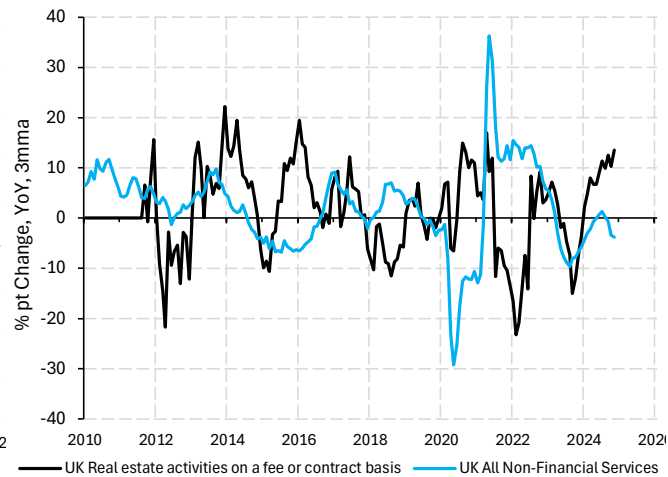


Chart 2. Operating Margin

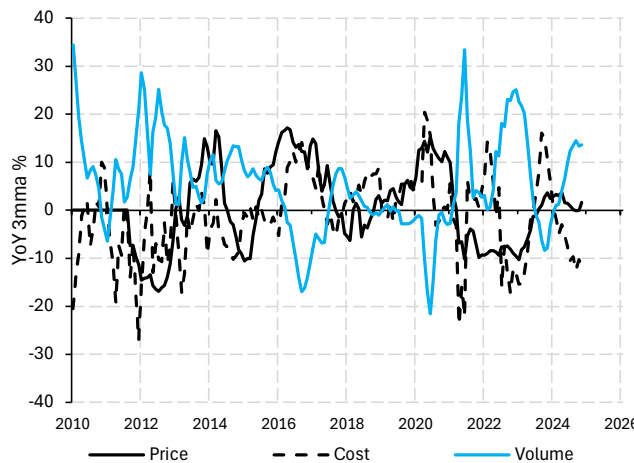


Annual Growth Averages (%) and Inverse Coefficient of variance* in brackets

UK Real estate activities on a fee or contract basis 6.0 (0.8)
UK All Non-Financial Services 5.2 (0.5)

UK Real estate activities on a fee or contract basis 1.8 (0.2)
UK All Non-Financial Services 1.9 (0.2)

Chart 3. Price, Cost & Volume



Price 0.8 (0.1)
Cost -1.3 (-0.2)
Volume 5.5 (0.6)

Chart 4. Detailed price & cost dynamics

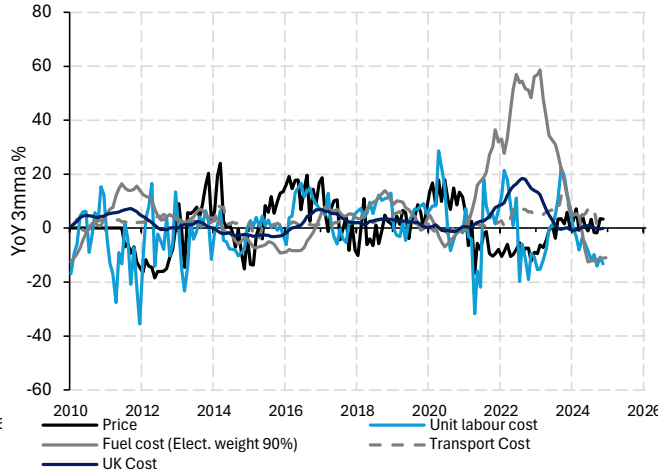
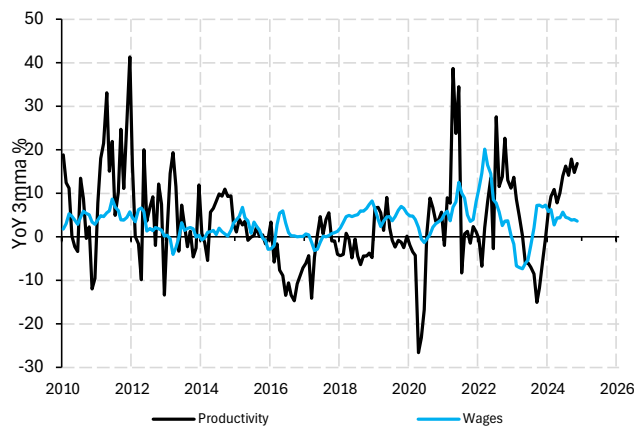
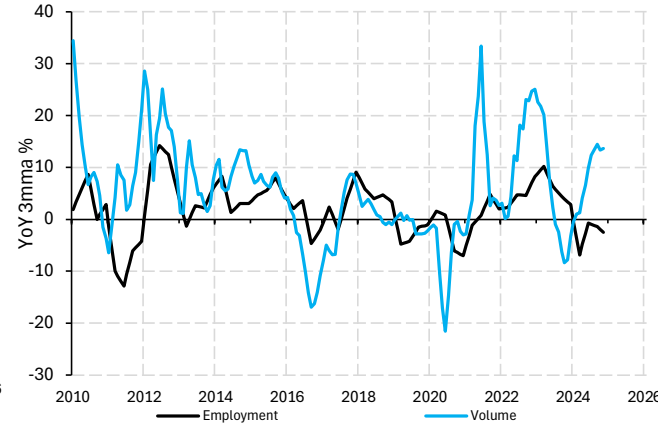


Chart 5. Labour Productivity vs Wages



Productivity 3.4 (0.3)
Wages 3.3 (0.9)

Chart 6. Employment vs Volume



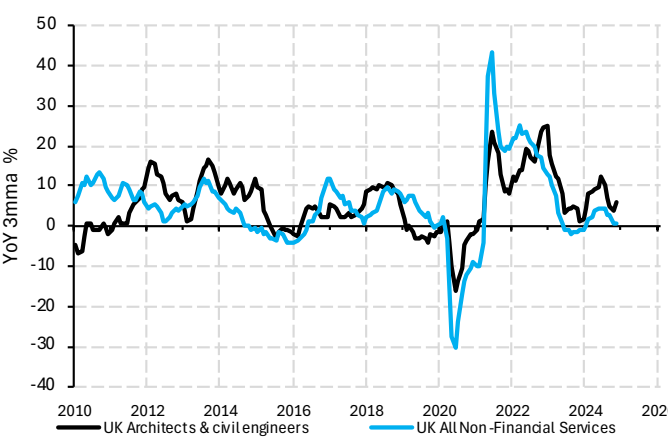
Employment 2.1 (0.4)
Volume 5.5 (0.6)

* Inverse Coefficient of Variance = Mean / Standard Deviation

UK Architects & civil engineers (71)

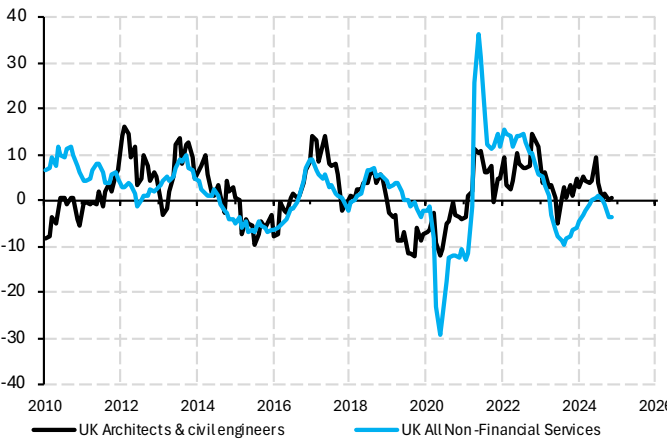
Sector turnover of £90.9bn (3.2% of all Non-Financial Services) - in the calendar year Nov2023 to Oct2024

Chart 1. Operating Sales, £



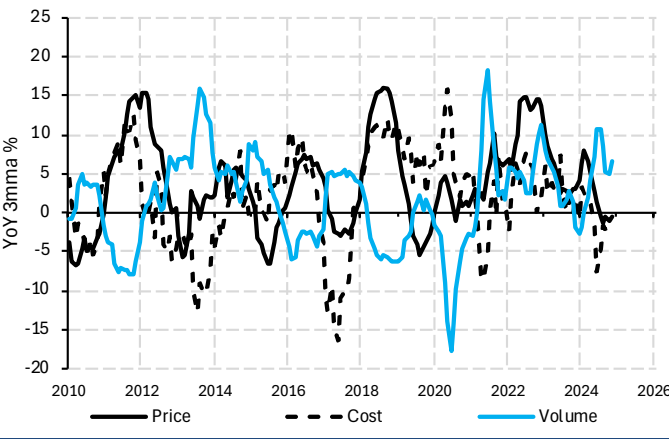
Annual Growth Averages (%) and Inverse Coefficient of variance* in brackets
UK Architects & civil engineers 5.6 (0.8)
UK All Non-Financial Services 5.2 (0.5)

Chart 2. Operating Margin



UK Architects & civil engineers 1.9 (0.3)
UK All Non-Financial Services 1.9 (0.2)

Chart 3. Price, Cost & Volume



Price 3.9 (0.7)
Cost 1.9 (0.3)
Volume 1.7 (0.3)

Chart 4. Detailed price & cost dynamics

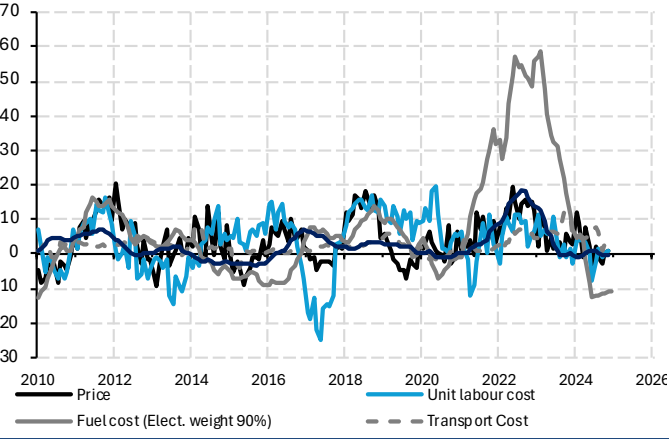
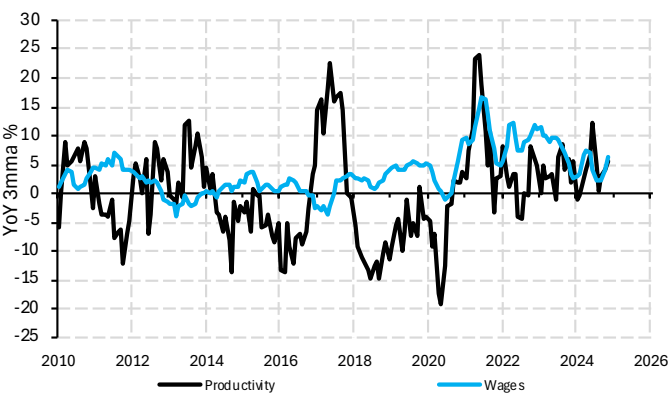
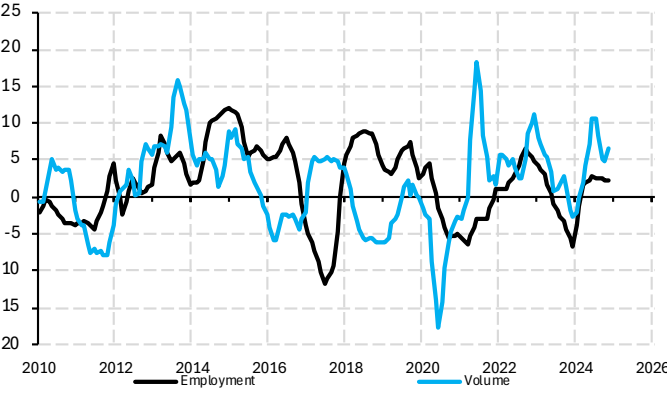


Chart 5. Labour Productivity vs Wages



Productivity 0.2 (0.0)
Wages 3.6 (0.9)

Chart 6. Employment vs Volume



Employment 1.8 (0.4)
Volume 1.7 (0.3)

* Inverse Coefficient of Variance = Mean / Standard Deviation

UK All Non-Financial Services (45-96)

Sector turnover of £2820.8bn - in the calendar year Nov2023 to Oct2024

Chart 1. Operating Sales, £

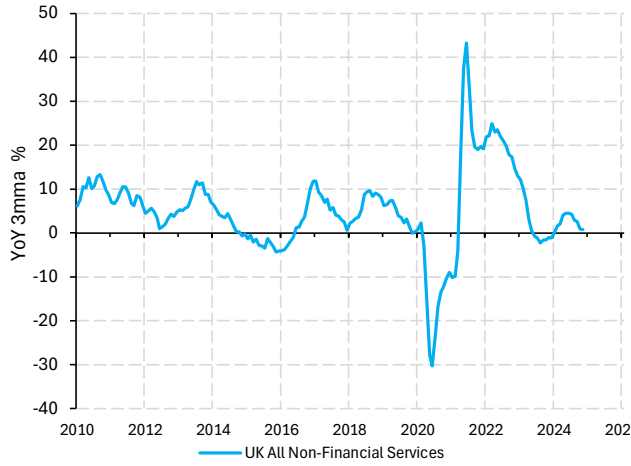
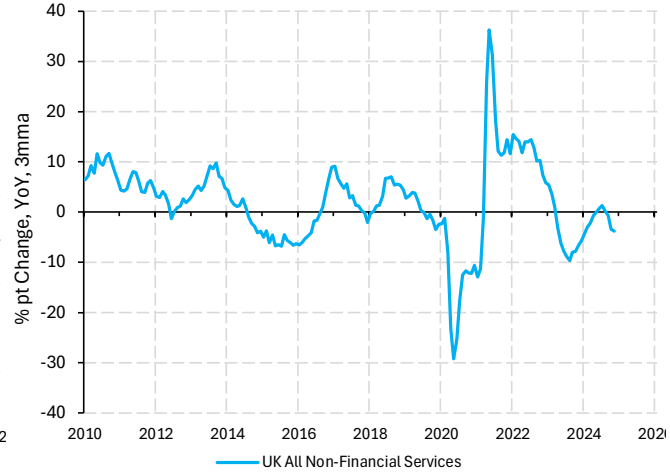


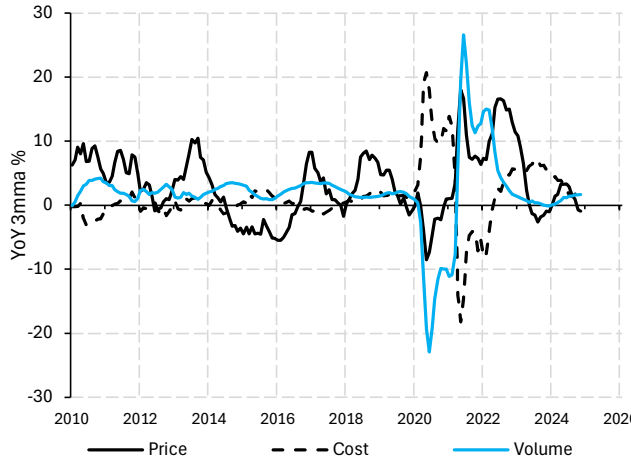
Chart 2. Operating Margin



Annual Growth Averages (%) and Inverse Coefficient of variance* in brackets

UK All Non-Financial Services 5.2 (0.5)

Chart 3. Price, Cost & Volume



Price 3.2 (0.6)
Cost 1.3 (0.3)
Volume 1.9 (0.3)

UK All Non-Financial Services 1.9 (0.2)

Chart 4. Detailed price & cost dynamics

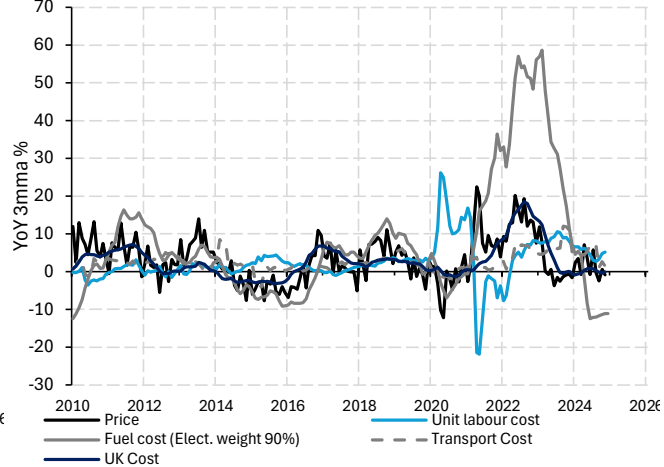
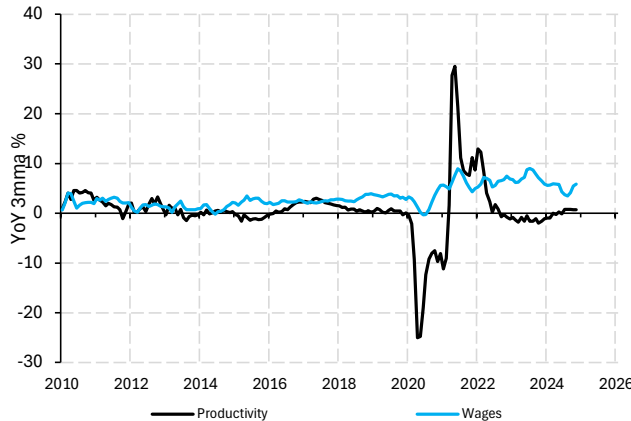
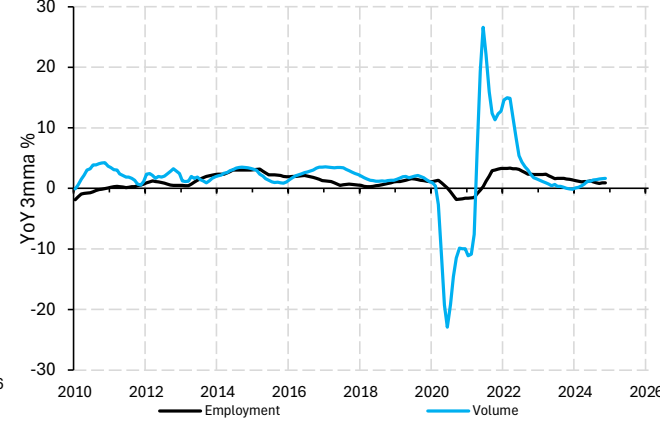


Chart 5. Labour Productivity vs Wages



Productivity 0.7 (0.1)
Wages 3.3 (1.5)

Chart 6. Employment vs Volume



Employment 1.2 (1.0)
Volume 1.9 (0.3)

* Inverse Coefficient of Variance = Mean / Standard Deviation

UK Vacancies – Charts continued from page 1

Chart 3: Vacancies in Total Services (G-S) – level & ratio

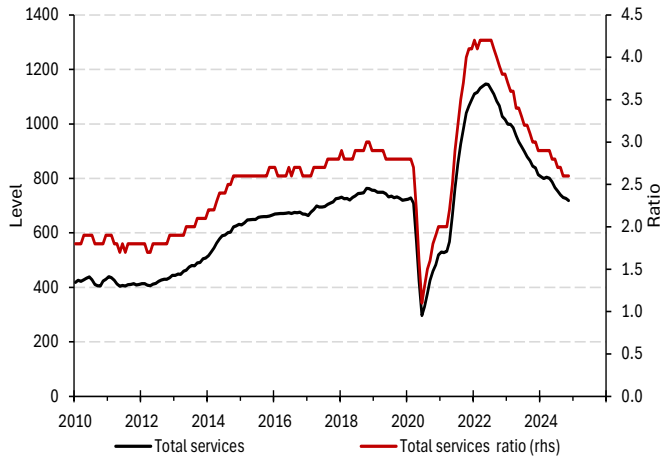
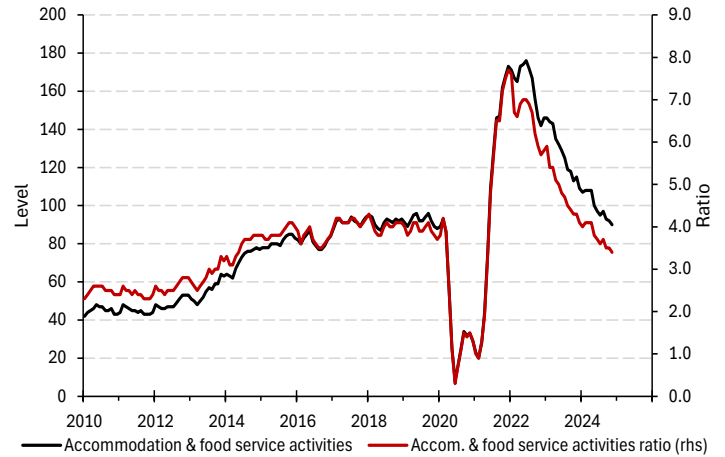


Chart 4: Vacancies in Accom. & Food services (I) – level & ratio



Source: ONS - Note: Ratios are vacancies per 100 employee jobs

Chart 5: Vacancies in Wholesale (46) – level & ratio

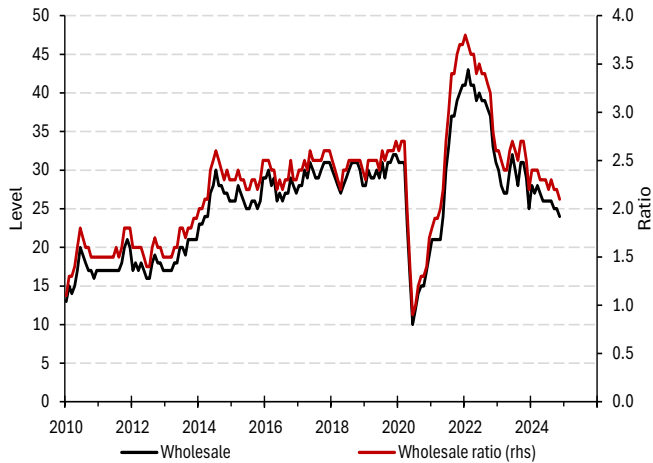
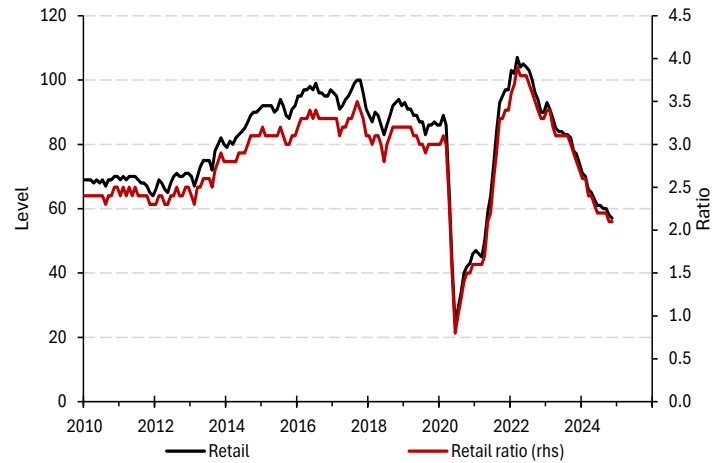


Chart 6: Vacancies in Wholesale (47) – level & ratio



Source: ONS - Note: Ratios are vacancies per 100 employee jobs

Chart 7: Vacancies in Professional, Scientific & Technical (M) – level & ratio

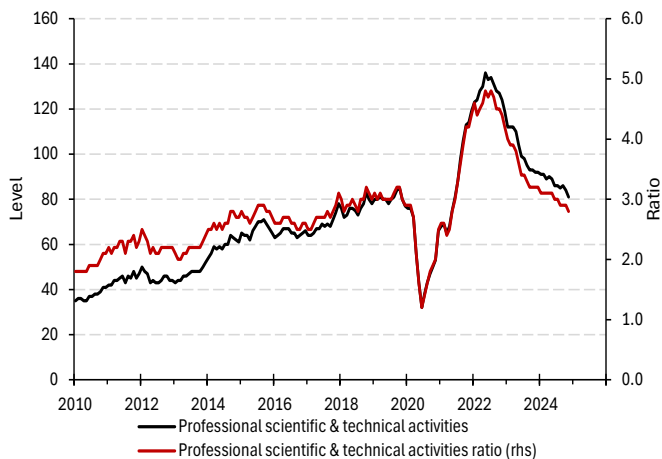
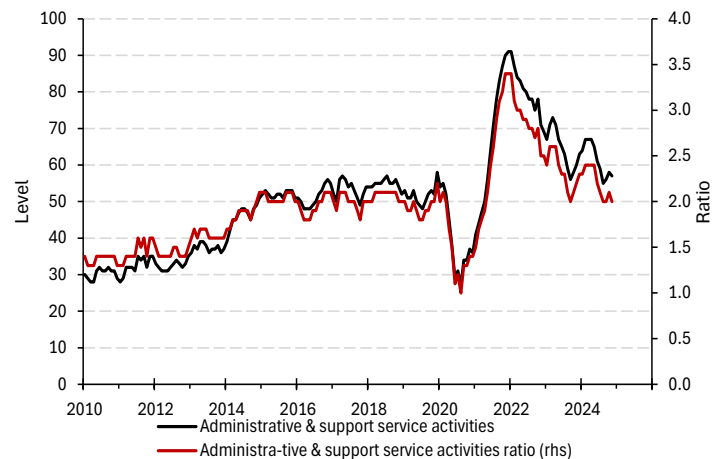


Chart 8: Vacancies in Admin. & Support services (N) – level & ratio



Source: ONS - Note: Ratios are vacancies per 100 employee jobs

Chart 9: Vacancies in Wholesale, Retail and Motor trade (G = 45, 46 & 47) – level & ratio

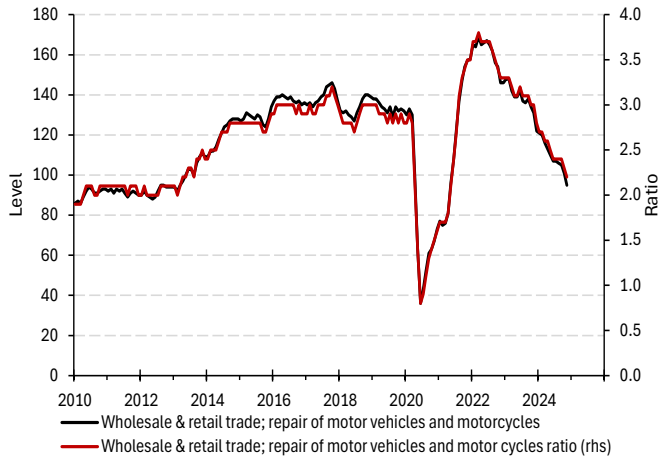
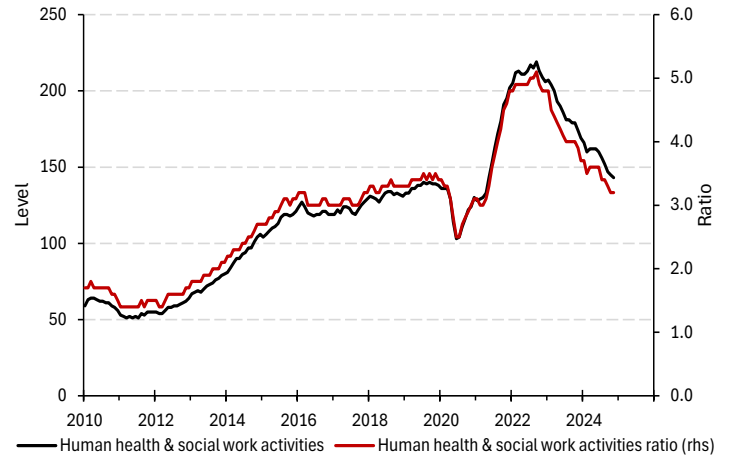


Chart 10: Vacancies in Human health & social work (Q) – level & ratio



Source: ONS - Note: Ratios are vacancies per 100 employee jobs

Chart 11: Vacancies in Education (P) – level & ratio

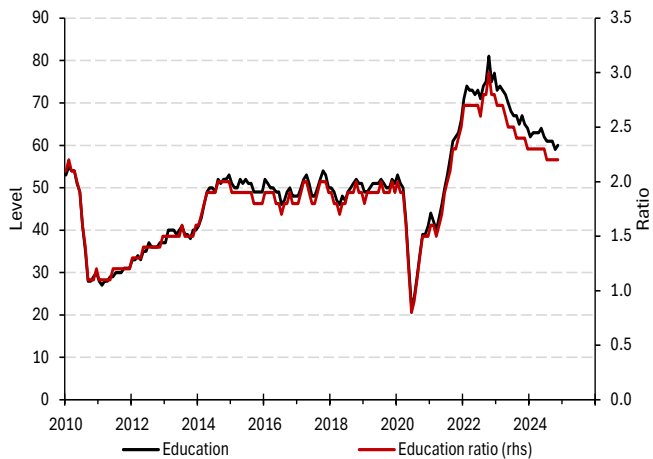
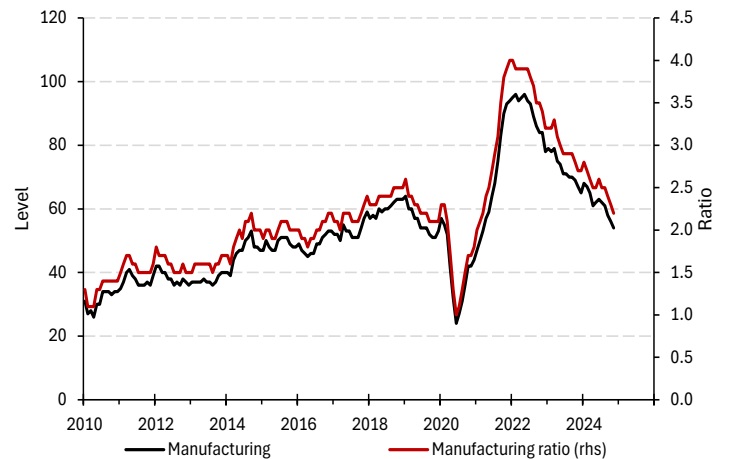


Chart 12: Vacancies in Manufacturing (C) – level & ratio



Source: ONS - Note: Ratios are vacancies per 100 employee jobs

Chart 13: Vacancies in Transport & storage (H) – level & ratio

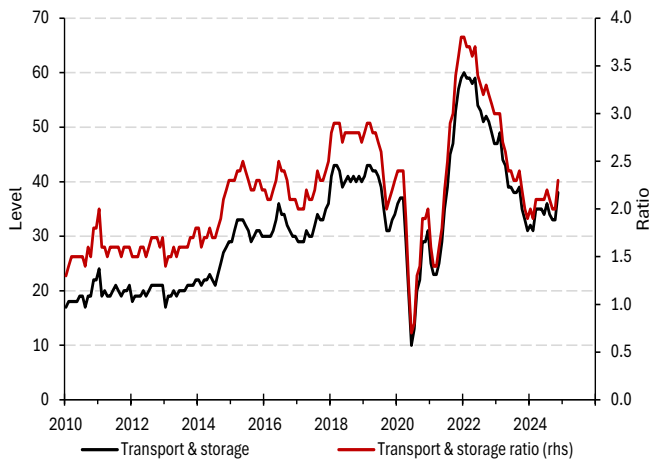
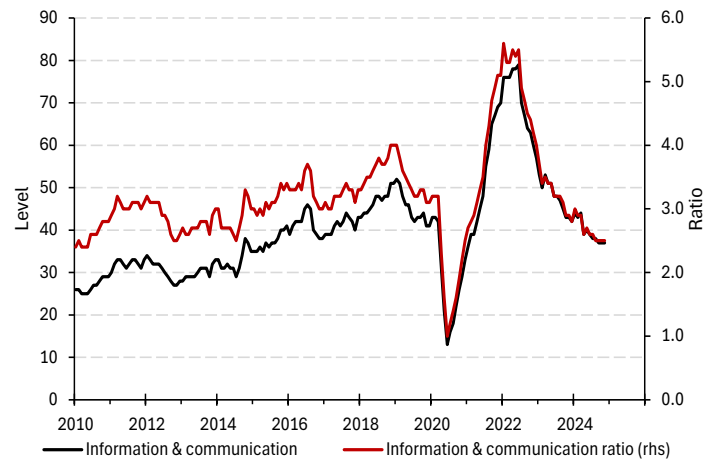


Chart 14: Vacancies in IT & Comms. (J) – level & ratio



Source: ONS - Note: Ratios are vacancies per 100 employee jobs

Chart 15: Vacancies in Public admin & defence; compulsory social security (O) – level & ratio

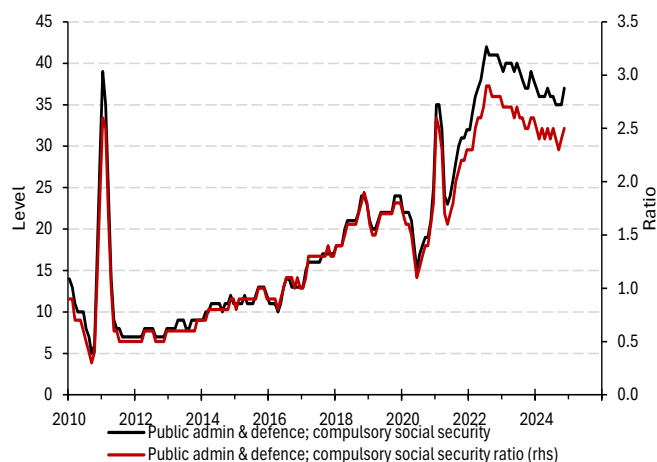
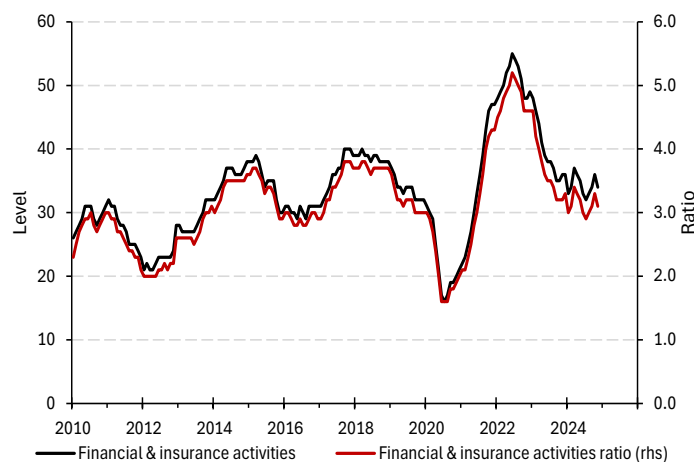


Chart 16: Vacancies in Financial & insurance activities (K) – level & ratio



Source: ONS - Note: Ratios are vacancies per 100 employee jobs

Chart 17: Vacancies in Construction (F) – level & ratio

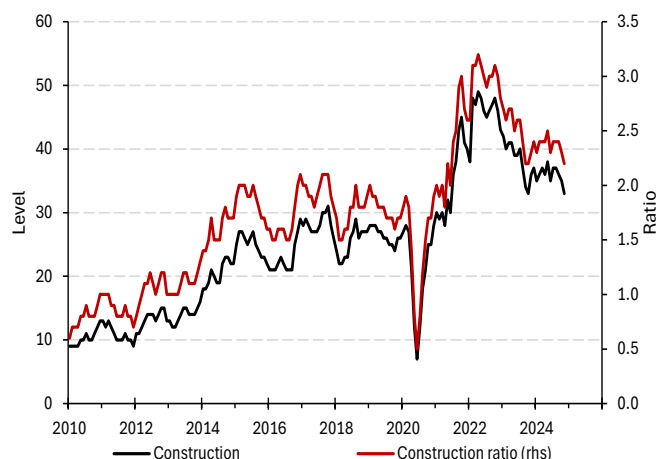
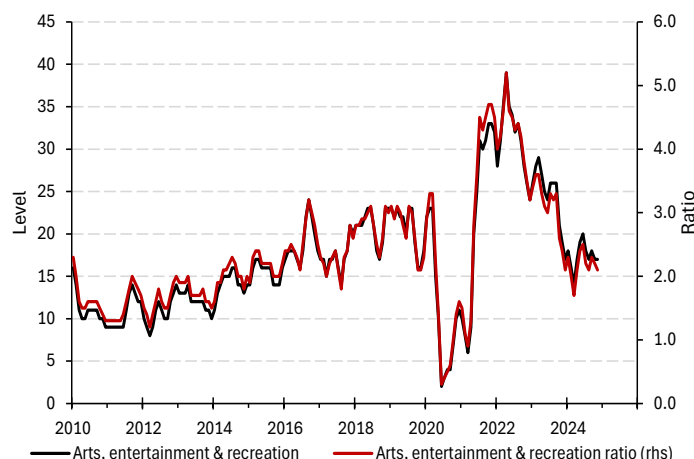


Chart 18: Vacancies in Arts, entertainment & recreation (R) – level & ratio



Source: ONS - Note: Ratios are vacancies per 100 employee jobs

Chart 19: Vacancies in Motor Trades (45) – level & ratio

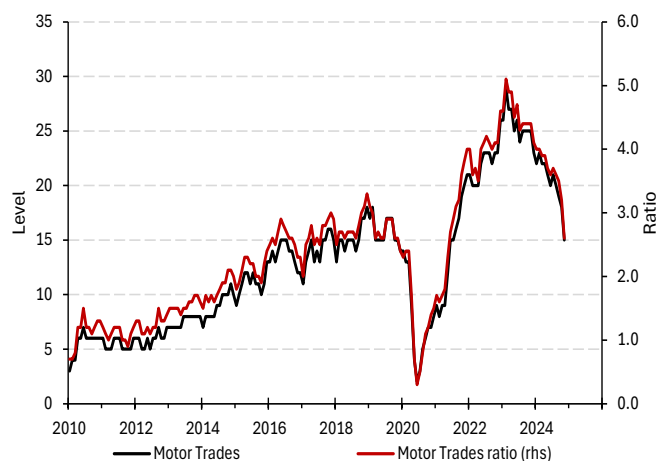
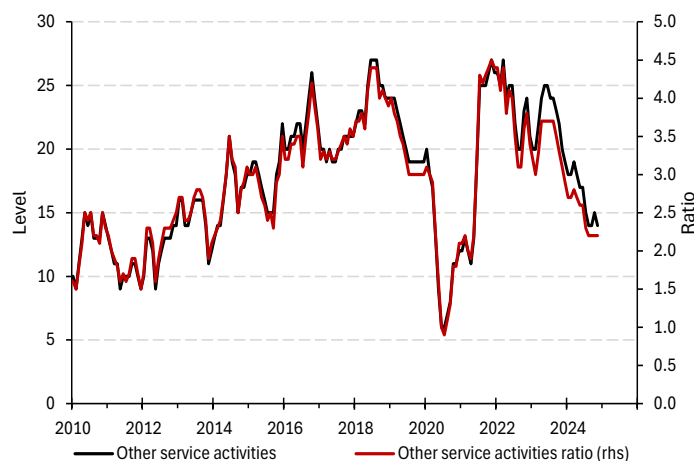


Chart 20: Vacancies in Other service activities (S) – level & ratio



Source: ONS - Note: Ratios are vacancies per 100 employee jobs

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List of Companies within the UK Non-Financial Service sectors

List of UK Non-Financial Service sectors	SIC	Companies
UK Wholesale & retail trade & repair, only of vehicles	45	
UK Wholesale trade services, of everything except vehicles	46	
UK Land transport, trains & buses - people & freight	49.3-5	FirstGroup, Trainline
UK Warehousing & support services for transportation	52	Diploma, Restore
UK Postal & courier services	53	Smiths News
UK Hotels and other short-term accommodation services	55	Accor, IHT, Whitbread (Premier Inn)
UK Food & beverage serving sectors	56	Compass
UK Publishing services - newspapers, periodicals & computer games	58	De la Rue, DMGT, AutoTrader, Bloomsbury
UK TV, film & sound production & presentation	59	CineWorld, ITV, STV
UK Telecoms services	61	Maintel, TalkTalk
UK Software developers	62	CPP, ComputerCenter, PCI-Pal, Petards, RWS, Software Circle, Tribal
UK Providers of data processing & hosting services	63	1Spatial, Experian, Journeo , Vianet
UK Real estate activities on a fee or contract basis	68.3	International Workplace , LSL Property Services, Mitie Group, Savills, Foxtons, Rightmove, Winkworths, MAB
UK Legal services	69.1	Gately, Keystone Law, Knights Group, the Ince Group, Begbies Traynor
UK Accountants, auditors & tax consultants	69.2	Begbies Traynor
UK Architects & civil engineers	71	Diales, Hargreaves Services, Intertek, Kier Group , Mears Group, Northern Bear, Renew Holdings, Ricardo
UK Scientific R&D	72	Science Group
UK Advertising & market research services	73	YouGov, WPP, M&C Saachi
UK Property, graphic & fashion design & photography	74	Christie Group, Record, Powerhouse Energy, DCC
UK Veterinary activities	75	Pets At Home, CVS Group
UK Rental & leasing services, non real estate	77	Johnson Service, SZigup
UK Recruitment services	78	Norman Broadbent, Page Group, Robert Walters, RTC, Staffline Group, Sthree, Hays
UK Travel agents & tour operators	79	Hostel-World, OnTheBeach Group
UK Security & investigation services	80	Croma, Synetics, Westminster
UK Office admin & business support - including call centres	82	Capita, IWG
UK Human health services	86	Spire Healthcare
UK Creative arts & entertainment services - theatres etc	90	
UK Library, archive, museum & other cultural services	91	
UK Sporting, amusement & other recreation services	93	GYM Group, Hollywood Bowl
UK Repair services of computers, personal & household goods	95	

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