



HARDMAN & CO.

# UNEMPLOYMENT – THE SPECTRE RETURNS?

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## Summary

The rate of unemployment in the UK seemed to disappear from the headlines for many years. However, it looks to have crept up the news agenda again in recent months. Unemployment hit 5.2% early in 2026, the highest rate for five years. The latest data may show the headline figure contracting slightly, but it is the trend that is concerning.

This paper aims to help investors to understand:

- ▶ how to define unemployment and explain frictional unemployment;
- ▶ why looking only at the overall rate for the UK may hide serious problems;
- ▶ why unemployment matters to the government, Bank of England, society and individuals; and
- ▶ the factors contributing to rising unemployment in the UK.

Unemployment can have a corrosive impact on everyone. Even those in employment are affected as governments respond to fiscal pressures by putting up taxes and cutting expenditure on non-welfare areas.

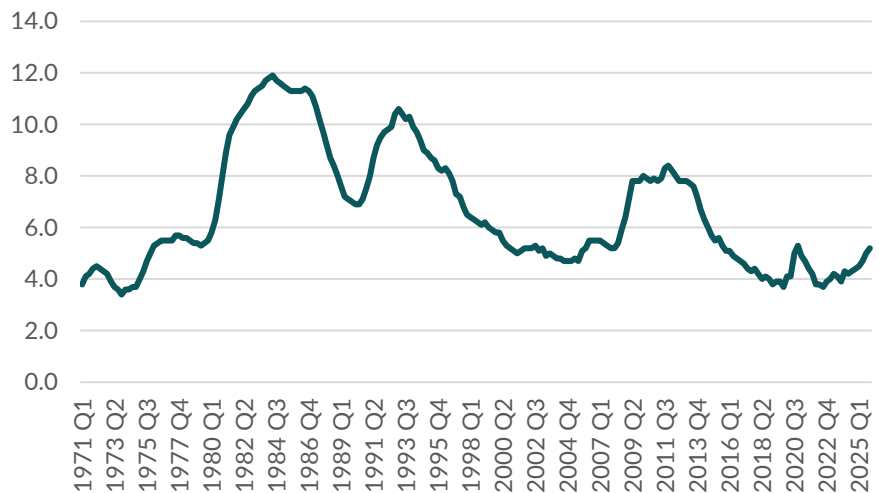
Unemployment undermines confidence, blights people's life chances and corrodes society. Many recent government initiatives mean well but do not end up doing good. Indeed, they may be exacerbating the problem rather than curing it.

# Unemployment – the spectre returns

The rate of unemployment in the UK seemed to disappear from the headlines for many years. However, it seems to have crept up the news agenda again in recent months, with the rate hitting 5.2% in early 2026, the highest for five years.

Let us put this into context. The rate today is still low compared with many periods in the past. The worry is not only that it is the highest for a while but also that it looks to be heading higher. We are clearly not talking the heights seen in the Thatcher era, when, in 1982, the rate hit 11.9%. Nor are we anywhere near the 22% reached in 1932 during the Great Depression.

Adult unemployment rate, %



Source: Office for National Statistics<sup>1</sup>, Hardman & Co Research

The Office for National Statistics’ (ONS) “Labour market overview”,<sup>2</sup> looking at the three months to February 2026, showed a slight downtick to 4.9%. However, this seems to be explained by an uptick in those not actively seeking work (and, therefore, excluded from the unemployment count), effectively giving up!

The same ONS report highlights worrying data about job vacancies. For the period between January 2026 and March 2026, vacancies reached their lowest level in almost five years, at only 711,000.

<sup>1</sup> Office for National Statistics, Labour Force Survey, 19 March 2026. “Adult” is defined as over 16 years old.

<sup>2</sup> Office for National Statistics, Labour market overview UK: April 2026, 21 April 2026,

## Definitions

### Common agreement on definition of unemployment

There is common agreement among economists about the definition of unemployment. For the International Labour Organisation,<sup>3</sup> “an unemployed person is defined as anyone of working age who is without work, currently available for work, and actively seeking work”. This definition allows consistent comparison between different countries.

### There will always be some “frictional” unemployment

Unemployment can be thought of in two parts: intentional, and unintentional. Some people may have chosen to be unemployed while they move between jobs; for example, they may be moving to a different part of the country or have already secured a new job and are taking a holiday between employments. This is intentional unemployment, otherwise termed “frictional unemployment”. The other type of unemployment is unintentional – you were made redundant because your employer downsized or shut up shop.

The reader can understand that frictional, intended unemployment is not a bad thing. Indeed, a “vibrant” economy may naturally have higher frictional unemployment than a “slow” economy.

The term “full employment” does not mean that everyone looking for a job has one. A world of full employment is one in which everyone OTHER than those in frictional unemployment are in a job. How much is frictional unemployment? No one knows for sure, but it is probably in the range of 3%-5%.

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<sup>3</sup> The International Labour Organisation was founded in 1919 as an agency of the League of Nations and is now an agency of the United Nations.

# The problem with total unemployment rate

The aggregate figure can disguise real problems...

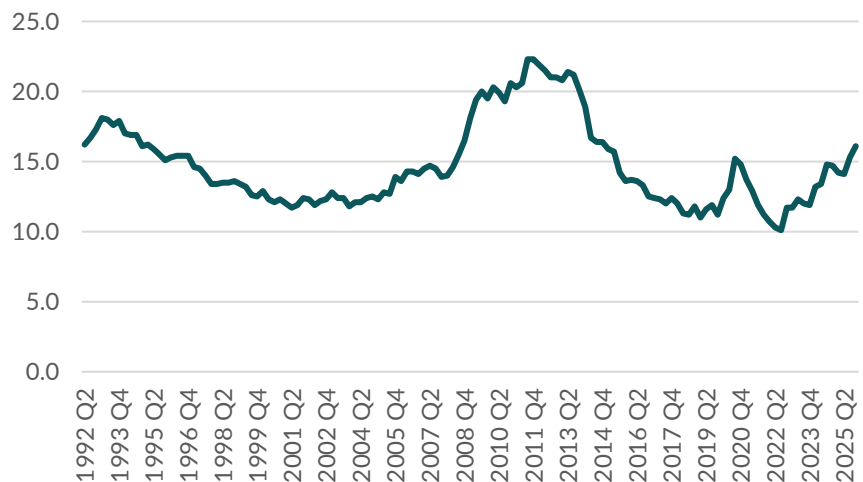
Like all big economic numbers, just considering the percentage unemployed in an economy can hide significant outliers, which may need specific government help.

In the 1980s, there were pockets of severe unemployment across the country, such as in some mining communities. The headline figure may not just hide substantial regional variations. There might be large differences based on type of trade (jobs in the retail and hospitality industries seem particularly vulnerable at the moment) or by gender, etc.

...such as youth unemployment

Today, the focus is on youth unemployment. Youth unemployment, typically, is higher than for adult rates across most economies because it takes time for youngsters to be assimilated into the workforce; in Spain, the rate hovers around 25%! However, there is a worrying upward trend in the rate in the UK. It now stands at 16.1%, the highest in more than 10 years. Unfortunately, government measures, as we suggest later in this paper, seem to be adding to the problem, not solving it.

16-24 unemployment rate, %



Source: Office for National Statistics,<sup>4</sup> Hardman & Co Research

<sup>4</sup> Office for National Statistics, Labour Force Survey, 19 March 2026.

## Why it matters

Unemployment hits the government’s financial position...

...making the Bank of England’s rate decision much more difficult...

...and scarring individuals’ lives

Long-term sickness is related to unemployment

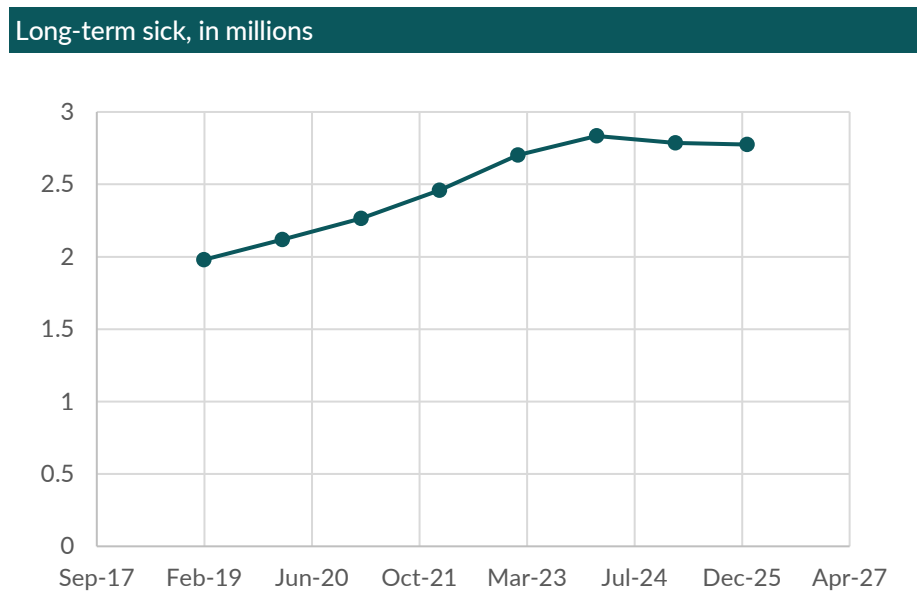
For the government, higher unemployment is a double-edged sword. First, higher unemployment results in lower tax revenues from employees and employers. Secondly, the cost of benefits paid goes up.

Rising unemployment is providing a challenge for the Bank of England. It is wrestling two problems, which point in different directions. It would like to cut the Base Rate to spur growth in the economy and get unemployment on a downward path. However, its one official target is inflation (it is tasked to keep the annual increase in the Consumer Prices Index (CPI) at 2%), and it must be worried that inflation is already too high (CPI rose 3% in the 12 months to February 2026) and might be headed higher as the Iran war hits energy prices.

For individuals, a period of unplanned unemployment has many effects. In the short term, those affected are likely to cut all non-essential spending. In addition to this practical impact, their financial self-confidence may take time to recover; when they secure their next job, they are likely, for a while, to be more cautious than they were previously.

The longer the period of unemployment, generally, the more difficult it is to get back into the workforce. There is a risk that a prolonged period of unemployment might lead to individuals losing motivation and settling into a way of living on benefits. Clearly, the UK has a growing problem of people who are long-term unemployed. The evidence suggests that prolonged unemployment also leads to mental health issues, disengagement from society and higher crime rates.

One of the concerning trends has been the increase in those signed off as “long-term sick”. In early 2019, before COVID-19 struck, the number was just under two million. You might not be surprised to hear that it rose through the pandemic. The worrying thing is that it continued to rise and is maintaining those levels.



Source: Office for National Statistics,<sup>5</sup> Hardman & Co Research

<sup>5</sup> Office for National Statistics: “NAC01 SA: Economic inactivity by reason”, 19 March 2026.

### It is particularly tough for the young to enter the workforce

There are particular issues for individuals joining the workforce for the first time, whether they be graduates or school leavers. Getting that first job is crucial. If you do, you gain experience and join a new cohort who, then, find it easier to progress to the next job. If you do not land that first job within 12 months, you will be competing not only with your age peers, but also with next year's school leavers and graduates. It is a bit like Love Island; you've got 12 months to establish a media career, while your face is fresh, and before you find yourself competing not only against your fellow contestants, but also with next year's output!

# Why is unemployment rising in the UK?

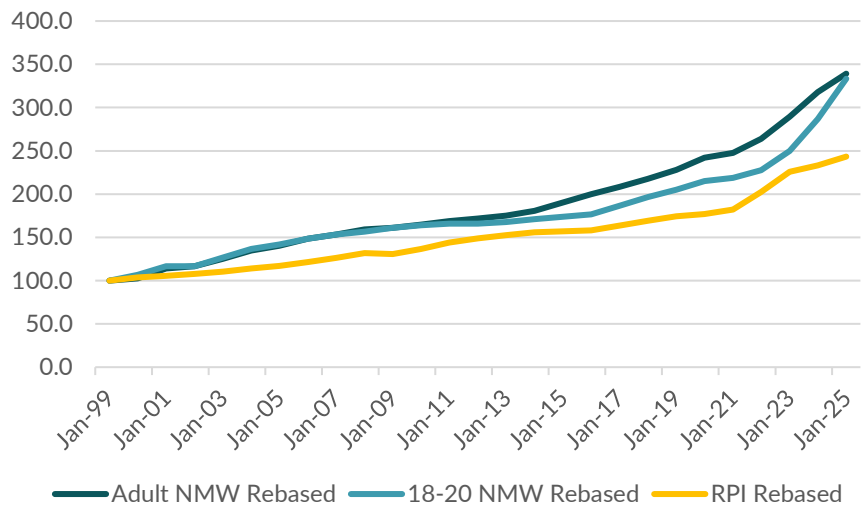
It is easy to confuse meaning well with doing good

There are many reasons behind growing unemployment in the UK, beyond the simple one of there being no or little economic growth. Ironically, some of these reasons are measures that aim to make life better for the working person! Politicians often confuse meaning well with doing good. Indeed, they can fall into the trap of thinking that, because they mean well, their actions MUST be doing good. Of the eight issues below, the first three are “mean wellers”.

- 1. National Minimum Wage:** Successive governments have trumpeted increases in the minimum wage, first introduced by the Blair government. The chart below shows the growth in the rate of the National Minimum Wage (NMW) for adults and 18-20-year-olds<sup>6</sup> compared with the Retail Prices Index (RPI), rebased to the same starting point in 1999 of 100. On this basis, the index value of RPI had risen to 243.3, while the adult NMW had reached 339.2. In other words, NMW has risen substantially faster than inflation. We have used RPI here as the measure of inflation. Had we used Consumer Prices Inflation (CPI) as the benchmark, the difference would have been even greater.

Minimum wage has outpaced inflation

UK National Minimum Wage vs. inflation



Source: Office for National Statistics, Hardman & Co Research

From April 2026, the new adult rate is £12.71 per hour, an increase of 4.1% on 2025. The 18-20-year-old rate rises to £10.85, an 8.5% increase. At the time of writing, we do not yet know the inflation data for April 2026, but the annual increase is unlikely to reach 8.5%.

- 2. Labour laws:** The Labour manifesto committed the party to a new Employment Rights Bill, which included provisions such as day-one rights to parental and sick leave. Employers can no longer give a new recruit a

<sup>6</sup> The categories for NMW have evolved over time. For example, between 2016 and 2024, there were five categories: 25 and over; 21-24; 18-20; under 18; and “Apprentice”. Since its creation, there have always been adult and 18-20 categories, hence our decision to focus on them here.

trial period. It is inevitable that employers will react by being far more cautious about taking on new recruits.

3. **Internships:** The new Fair Work Agency, created by the Employment Rights Bill, is going to tighten up the rules on paying interns. Some employers may just stop bothering to offer an intern programme, which they see as putting something back into the community.
4. **Employers' National Insurance:** In the autumn budget of 2024, Rachel Reeve's first, the Chancellor pushed up the Employers' National Insurance rate from 13.8% to 15%; this was the main way of filling the alleged £22bn hole in government finances that she claimed to have discovered. Her subsequent comments, and those of her colleagues, suggest she thought she had pulled off a coup – raised tax revenues without any impact on the “working person” (as promised in the manifesto). She seemed to think that employers would simply absorb this increase and move on. However, it has been a key factor in “slowing” job creation and threatening existing jobs. Hence, the working person has been affected.
5. **The benefits system:** Many commentators worry that the benefits system is so generous today that more and more people are better off not working.
6. **Deindustrialisation:** The UK has gradually deindustrialised, driven by the country's relatively high energy costs, an important input to many manufacturing businesses. This situation has been going on for a while. Unless, the government changes tack on its drive to net zero, it is likely to be a long-term issue.
7. **Artificial Intelligence:** There is a lot of talk of Artificial Intelligence erasing jobs. This is probably a concern for the long term, however, rather than a substantial explanation of today's unemployment.
8. **Employment replacement.** As the costs of employment have risen, firms have looked for ways to substitute technology for labour. Initially, this is likely to have the biggest impact on lower-paid jobs. Here are two examples:
  - a. McDonalds, Burger King, etc., now have screens into which customers are expected to enter their orders; and
  - b. Supermarkets have replaced many manned checkouts with self-checkouts; they may suffer more pilfering as a result, but the supermarkets must still be better off, or they would go back to manned checkouts.

## About the author

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### *Keith Hiscock*

*Keith Hiscock is the Chief Executive of Hardman & Co.*

*He is personally responsible for the firm's relationships with its corporate clients and also for corporate finance. In addition, he is the author of several articles tackling the issues facing companies in today's climate.*

*Keith has more than 45 years' City experience and has developed long-standing relationships with many major institutional investors, including Private Client Brokers and Wealth Managers. He started his career at James Capel, at the time the top-ranked research house in London. He was a founding member of Schroder Securities and of Agency Partners, a leading research boutique house, and was a member of the five-man securities board at Evolution. Keith has also advised companies, large and small, on their relationships with the capital markets.*

*Keith was part of the group of investors that acquired Hardman & Co in late 2012. He holds an MA in Philosophy, Politics & Economics from the University of Oxford.*



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Our smaller, boutique structure allows us to provide first-class customer service and to deliver a wide range of ad-hoc services for multiple clients with different needs.



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