UK ECONOMIC AND FISCAL OUTLOOK

FINANCIAL SECTOR TRENDS

TURNING POINT
HR SOLUTIONS

APRIL 2024

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FOREWORD

The financial services sector in the United Kingdom, pivotal to the economic framework of the country, finds itself at a juncture, contending with the intricacies of an ever-shifting global milieu. The unfolding of 2023 has revealed a spectrum of hiring trends within the leading 20 accounting firms, offering a detailed glimpse into the sector's employment scenario. Also, within the arena of financial behemoths, a striking disparity in recruitment trends has become evident. Traditional bastions of the financial landscape such as Barclays, JP Morgan, and NatWest have seen their workforce numbers dwindle, with vacancies dropping by 64.5%, 49.6%, and 45.7%, respectively. This movement highlights the sector's exposure to macroeconomic flux and underscores the necessity for agility and adaptiveness amidst uncertain times.

Conversely, the Phoenix Group's standout performance, characterised by a 47.1% rise in vacancies on the back of a 55.4% increase the year before, signals burgeoning prospects in specialised areas, notably in the pensions market. This narrative of growth is emblematic of resilience and opportunity, showcasing the impact of strategic focus and innovation in navigating through turbulent periods.

Geopolitical dynamics have similarly influenced recruitment patterns. BAE Systems, benefiting from heightened defence expenditure following the Ukraine conflict, registered a significant 52.7% increase in job openings. In parallel, Lloyds Banking Group's ongoing recruitment effort, marked by a 25.4% growth in 2022/23 after a remarkable 112.9% jump previously, signifies strategic recalibration in response to industry evolution, driven by leadership changes and expansion strategies. Shifts have also permeated the commerce and industry sectors. Entities such as Publicis Groupe and Reckitt anticipate vacancy increases of 37.2% and 39%, respectively, reflecting a wider trend of sectorial expansion. In aggregate, eight among the top 20 firms were poised for an uptick in accounting job openings in 2023, collectively representing a significant 41.7% of all such positions, a notable rise from a 24.5% share in 2022.

Despite a general trend of reduced accounting vacancies across the domains of financial services, commerce, and industry, an optimistic foresight for 2024 emerges. Positive developments within certain entities and locales herald a potentially revitalised job landscape for accountants in the forthcoming year, influenced by a blend of economic, geopolitical, and sector-specific factors. This complex interplay suggests a promising yet challenging path ahead for the financial services sector.

As we approach 2024, the UK's financial services sector is geared up to confront the impending challenges and seize the opportunities that await. The insights derived from employment trends over the past year stand as a crucial guide for strategic planning and talent management. Armed with resilience, flexibility, and an acute awareness of evolving trends, the sector is well-positioned to foster growth and innovation within the global financial arena.

ECONOMIC AND FISCAL OUTLOOK

Economic and fiscal context

Since 2010, the UK has experienced the third-highest GDP growth and the third-largest decrease in unemployment among the G7 nations. However, similar to many advanced economies, productivity growth has been slower since the global financial crisis compared to earlier decades. Over the past four years, the economy faced several external shocks, notably the COVID-19 pandemic, which led to a significant drop in output and posed risks to the economy's long-term productive capacity. The UK government quickly intervened, injecting £373 billion into the economy to mitigate these effects, notably through initiatives like the Coronavirus Job Retention Scheme (CJRS) which helped to minimise economic damage and safeguarded approximately 4 million jobs. This surge in government expenditure during the pandemic, crucial for preserving jobs and livelihoods, resulted in historically high debt levels.

External shocks have adversely affected the UK's terms of trade, particularly due to surges in imported goods and energy prices, the latter exacerbated by the unlawful invasion of Ukraine by Putin. These shocks have contributed to higher inflation and reduced growth, though the economy has shown unexpected resilience.

Despite a reduction in the shock to energy prices, they are projected to be 39% higher than pre-invasion levels by April 2024, according to Ofgem's energy price cap. Businesses have increased prices in response to the rise in energy costs, and a combination of higher labour market inactivity and record job vacancies has fuelled wage competition among employers, leading to domestically driven inflation. The Bank of England's Monetary Policy Committee (MPC) addressed the inflation surge by increasing the Bank Rate to 5.25% from 0.1% in December 2021. Thanks to these measures, along with lower import prices and government fiscal strategies, inflation decreased from a peak of 11.1% in October 2022 to 4.0% in January 2024.

In the autumn of 2022, many forecasters, in light of the terms of trade shock, predicted significant economic downturns. The OBR in November 2022 anticipated a year-long recession with the economy shrinking by 1.4% in 2023. The Bank of England similarly forecasted the longest recession in a century, projecting a contraction of 1.5% in 2023.

The government took action against the rising cost of living by rolling out £94 billion in support over two years and covering nearly half of all household energy bills from October 2022 to June 2023. Contrary to the bleak forecasts of autumn 2022, the UK economy, buoyed by government policies, displayed remarkable resilience. GDP saw a modest increase of 0.1% in 2023, while unemployment stayed low at 3.8% in Q4 2023. Like the UK, many advanced economies struggled with weak growth, with both the UK and Japan facing recessions in the latter half of 2023, and Germany experiencing economic contraction within the last year.

Recent events and adjustments

Over the recent four-year period, the UK's economy has navigated through tumultuous times, marked by the COVID-19 pandemic and the aggressive incursion into Ukraine by Putin. These events have posed substantial hurdles, yet the economic horizon shows signs of improvement. In the early stages of 2023, the Prime Minister laid out five pivotal priorities, with a trio dedicated to economic rejuvenation: halving inflation within the year, spurring economic growth, and diminishing national debt. The strides made towards these objectives are notable:

- A significant reduction in inflation was observed, with rates falling from a peak of 11.1% to 4%. The Office for Budget Responsibility (OBR) projects that inflation will hit the 2% target in the upcoming quarter, reaching this goal a full year ahead of the earlier forecast made in November 2023.
- Economic growth has surpassed expectations set at the beginning of 2023, with the GDP on track to increase annually based on the OBR's estimates.
- A decrease in national debt relative to GDP is anticipated over a medium-term horizon.

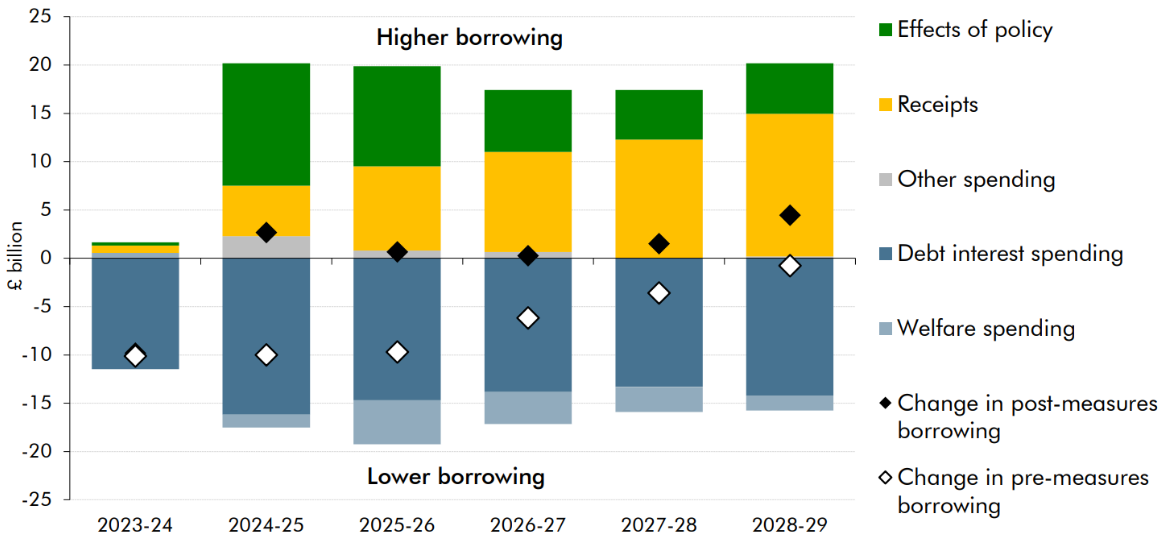
Building on the initiatives from the Spring Budget 2023 and the Autumn Statement 2023, the latest Spring Budget is crafted to support long-term economic prosperity. The newly introduced measures aim to cut taxes for 29 million individuals and are expected to boost total work hours in the economy, equivalent to the addition of over 100,000 full-time employees by the fiscal year 2028-29. As a result, policies enacted across the last three fiscal events are projected to enlarge the economy by 0.7% by 2028-29, increase work hours to match over 300,000 full-time positions, and elevate business investment by £14 billion. The government's fiscal strategy is cautiously designed to lower taxes for hardworking citizens while keeping borrowing in check. It is well-aligned to meet its fiscal mandates related to debt and borrowing, with the public sector net debt (excluding the Bank of England, or PSND ex BoE, also referred to as 'underlying debt') expected to reduce as a percentage of GDP by 2028-29, leaving a fiscal buffer of £8.9 billion. The broader measure of public sector net debt ('headline debt') is also projected to decline yearly starting from 2024-25.

Facing significant fiscal challenges such as high debt levels, modest economic growth rates, and the highest interest rates in over a decade, the UK's financial strategy necessitates achieving a primary surplus (revenue minus spending, excluding interest costs) of about 1.3% of GDP to maintain manageable debt levels over the medium term. This is a considerable shift from the 2010s, where stabilising debt was possible with a primary deficit of 2.1% on average. Projections for 2028-29 suggest that the government will attain a primary surplus and reduce debt through a 1.1% GDP increase in primary receipts and a 1.7% reduction in primary spending as a percentage of GDP. However, forecasting fiscal deficit involves the subtraction of two exceptionally large numbers (with both total revenues and total spending surpassing £1 trillion), leading to considerable uncertainty in our central estimates for borrowing and debt trends over the next five years.

Compared to predictions made in November, the short-term fiscal outlook before accounting for new measures shows slight improvement but remains largely unchanged by the end of the forecast period. Borrowing is expected to be £10.1 billion lower this year and about £10 billion lower for the subsequent two years, mainly due to reduced interest rates and inflation, which also decrease debt interest and welfare costs. Nonetheless, lower inflation also means diminished nominal tax receipts as the forecast progresses. Therefore, before the implementation of Budget policy measures, borrowing in 2028-29 is estimated to be £0.8 billion less than previously forecasted in November.

In response, the government has rolled out a series of measures, including significant net tax reductions, which are forecasted to increase borrowing by an average of £8.0 billion annually. The direct and indirect consequences of these measures are expected to raise borrowing by £12.7 billion in 2024-25, with a gradual reduction to £5.2 billion by 2028-29. Consequently, borrowing after these measures is anticipated to be slightly higher each year within the five-year forecast period compared to the projections made in November, peaking at an increase of £4.4 billion more in 2028-29.

FIGURE 1. Public sector net borrowing since November 2023 to 2029, annual basis, £billion.



Source: Office for Budget Responsibility.

Moreover, for the past two years, the Bank of England has been engaging in a policy of quantitative tightening (QT), with the aim of reducing its holdings of government bonds that were accumulated during previous phases of quantitative easing (QE). This move, which is relatively novel internationally, takes place against the backdrop of complex economic circumstances. An in-depth examination of QT has illuminated its impacts on the economy, its implications for financial stability, and the fiscal consequences associated with both QT and QE.

The direct economic and monetary effects of QT are still somewhat unclear, with the aim being to minimise impact. Despite this, there is concern about the Bank moving forward with this significant monetary policy step without a full understanding of its exact consequences. QT is being implemented alongside a brisk pace of conventional gilt issuance in the market, a novel situation. While QT has not yet posed immediate threats to financial stability, incidents in March 2020 and September 2022 have highlighted the gilt market's susceptibility to rapid shocks.

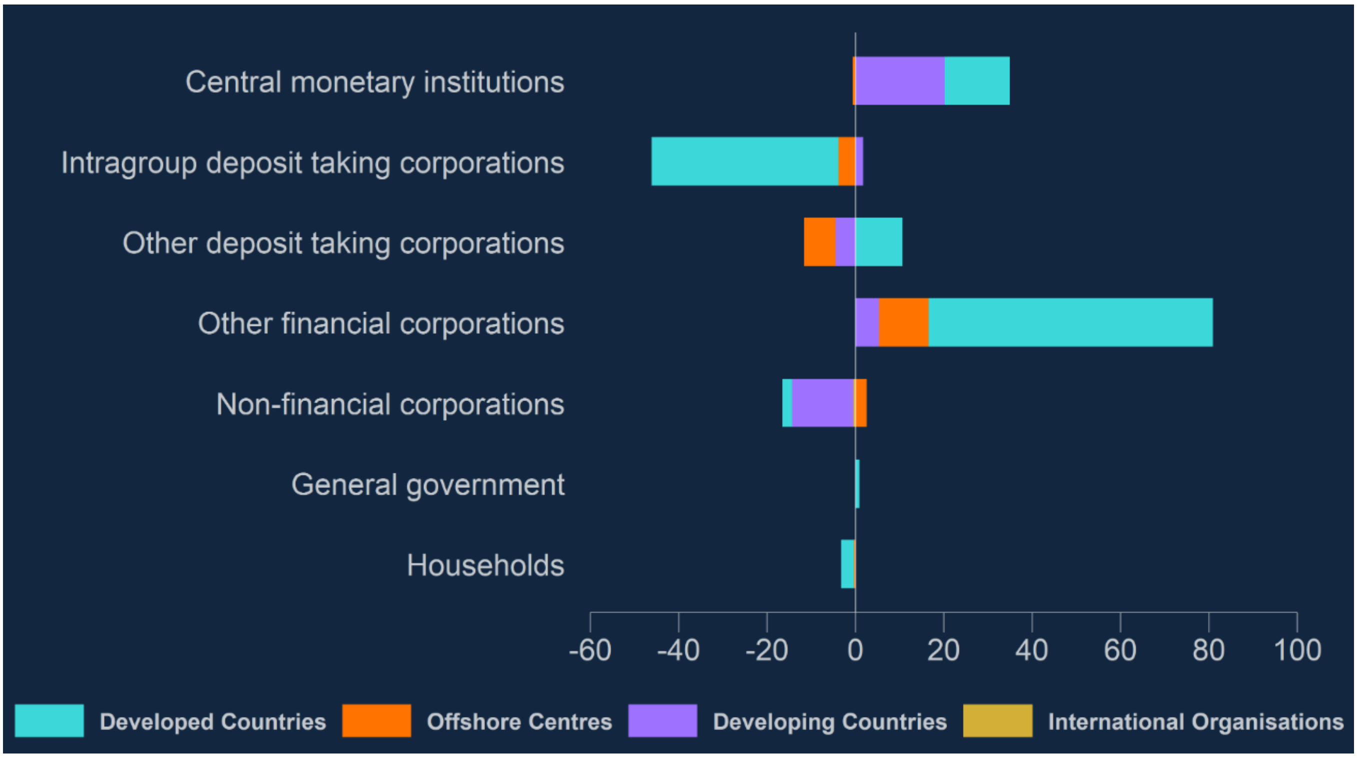
Financial Activity

In January, there was a noticeable change in financial activity across various sectors compared to December. Individuals repaid a total of £1.1 billion in mortgage debt, up from £0.9 billion the previous month. There was also an increase in the approval rate for new mortgages, from 51,500 in December to 55,200 in January, suggesting a rise in demand for home purchases. The number of net approvals for remortgaging stayed consistent at 30,900. Additionally, the effective interest rate for newly drawn mortgages dropped by 9 basis points to 5.19%.

In terms of consumer credit, there was a notable increase in net borrowing by individuals from £1.3 billion in December to £1.9 billion in January, indicating a heightened interest or necessity for personal finance. There was also a trend towards saving among households, with net deposits in banks and building societies reaching £6.8 billion in January. For UK non-financial businesses, including private non-financial corporations (PNFCs) and public corporations, there was a slight increase in net borrowing from £0.1 billion in December to £0.3 billion in January, pointing to a minor growth in business financing needs.

The overall monetary landscape remained unstable, particularly with the net flow of sterling money seeing a decline of £0.6 billion in January after a significant boost of £19.4 billion in December. This instability was largely due to changes in the holdings of money by non-intermediate other financial corporations (NIOFCs), which decreased by £6.9 billion in January after a £15.0 billion increase in December.

FIGURE 2. Exchange rate adjusted flows of liabilities by counterpart sector and region, Q4 of 2023, USD billions.



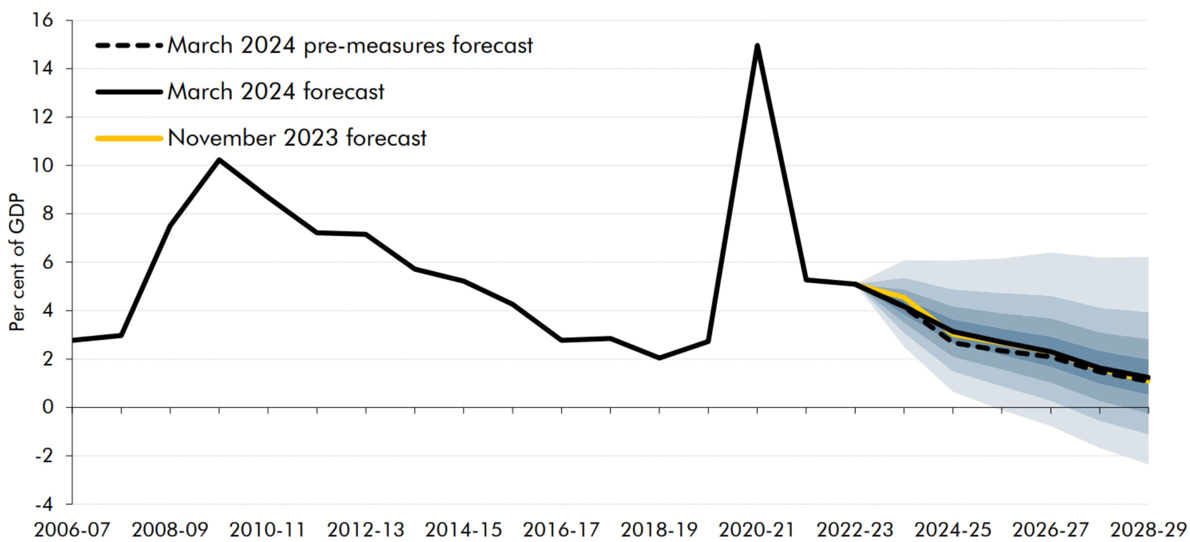
Source: Bank of England.

Furthermore, sterling net lending to the private sector experienced a downturn, going from £6.4 billion in December to -£3.5 billion in January, mainly due to reduced lending to NIOFCs. These shifts underscore the complicated dynamics within the UK's financial market at the beginning of the year. Adjusting for exchange rate movements, external liabilities saw an increase of $28.4 billion during the fourth quarter of 2023. Regionally, the largest growth in liabilities was towards Developed Countries, with the United States seeing the biggest country-specific increase ($36.7 billion). Similarly, adjusted for exchange rate changes, external claims rose by $37.2 billion during the same quarter. The largest regional increase in claims was on Developed Countries, with the United States experiencing the largest increase ($125.8 billion).

Debt, Borrowing, and Public Spending

Government expenditure as a percentage of GDP is expected to gradually decrease from 44.5% in the current year to 42.5% by 2028-29, remaining about 3% higher than its pre-pandemic figure. This reduction encompasses roughly 0.4% of GDP in debt interest cost savings from this year to 2028-29, with the most notable cut being a projected decrease in departmental public service spending by 1.0% of GDP over the next five years. Nevertheless, an anticipated increase in welfare spending by 0.4% of GDP, driven by higher health and disability benefit caseloads and the combined effects of an aging population and the triple lock policy, will partially offset this reduction.

FIGURE 3. Public sector net borrowing in the UK, from 2006 to 2029, as a percentage of GDP.



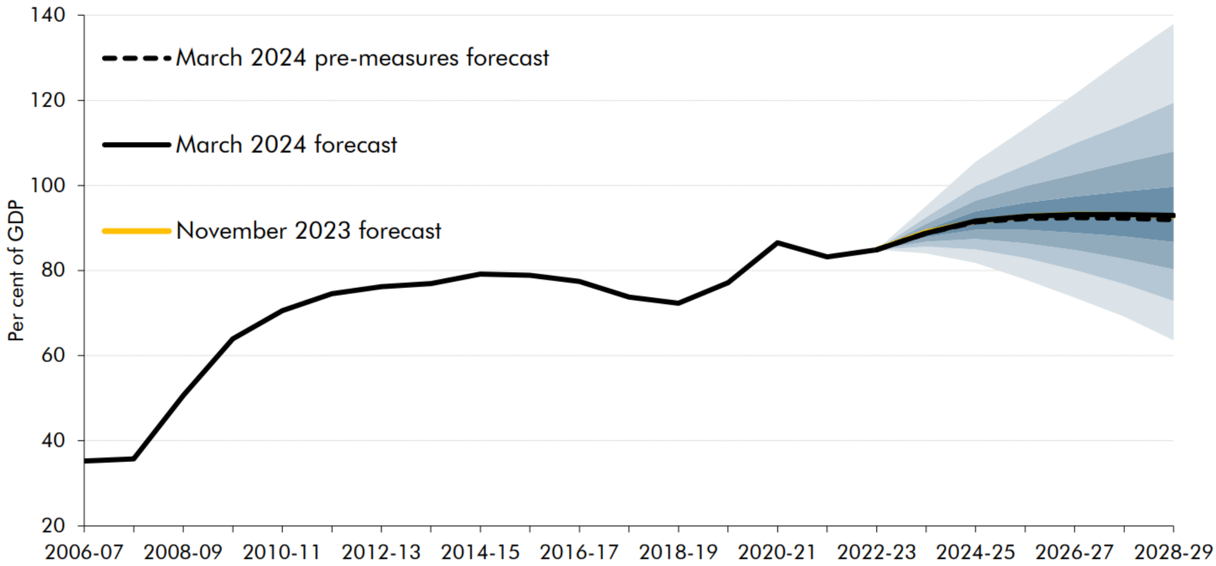
Source: Office for Budget Responsibility.

The UK's borrowing as a share of its GDP is forecasted to decline from 4.2% this year to 1.2% by the 2028-29 period, driven by an increase in receipts of 0.9% and a decrease in spending of 2.1%. It's expected that nominal borrowing will fall from £114.1 billion in the 2023-24 fiscal year to £39.4 billion by 2028-29, which is a slight increase by an average of 0.1% of GDP over five years compared to the forecasts made in November. The government aims to achieve a balanced current budget deficit by the 2027-28 fiscal year, focusing future borrowing solely on investments.

For the fiscal year 2024-25, the Debt Management Office's net financing requirement is projected at £265.3 billion, which will primarily be fulfilled through gilt sales. In the same period, National Savings and Investments aim for a net financing target of £9.0 billion, with a permitted flexibility range of ±£4.0 billion. The government's financing strategies for 2024-25 are comprehensively outlined in Annex A and are further detailed in the "Debt Management Report 2024-25," published alongside the Budget.

Concerning the underlying debt, which excludes the Bank of England and is a critical indicator of the government's fiscal stance, the forecast for 2023-24 is more optimistic than the OBR's projections from November 2023. This metric is anticipated to peak at 93.2% of GDP before marginally declining to 92.9% by the end of the forecast period. Importantly, the UK's underlying debt as a percentage of GDP is expected to stay below the figures announced at the Autumn Statement 2022 throughout the forecast period, demonstrating the positive impact of the government's fiscal policies.

FIGURE 4. Public sector net debt in the UK, excluding the Bank of England, from 2006 to 2029.



Source: Office for Budget Responsibility.

In the central forecast, public sector net debt (excluding the Bank of England) increases from 88.8% of GDP this year to a peak of 93.2% of GDP in 2027-28, before slightly decreasing to 92.9% of GDP in 2028-29. This trajectory closely mirrors that of our previous forecast. The broader measure of headline debt, which encompasses additional factors, rises from 97.6% of GDP this year to 98.8% in 2024-25, then declines to 94.3% of GDP in 2028-29.

The UK's Spending Review 2021 outlined the budget allocations for government departments and the devolved administrations for the years 2022-23 to 2024-25. Following this review, additional funding was allocated to ensure the continued delivery of essential public services amidst inflation and other economic pressures. Significant boosts in funding were directed towards the NHS and adult social care in England, with an additional £8 billion earmarked for the year 2024-25, as announced in the Autumn Statement 2022. Education also saw a substantial increase, with schools receiving over £2.4 billion in 2023-24 and more than £2.8 billion in 2024-25. This investment aims to elevate per pupil funding for 5-16-year-olds to unprecedented real-term heights by 2024-25, marking an increase in average funding per pupil from £5,920 in 2019-20 to £7,690 in 2024-25. Other sectors also benefited from increased funding, including defence, which received £11 billion for the period between 2023-24 and 2027-28, and employment support services, which were allocated £3.5 billion annually by 2024-25. In response to the Horizon IT Scandal, approximately £1 billion has been committed to compensating affected postmasters, with provisions for increased funding if necessary.

The Spring Budget further supplemented these allocations with an additional £2.5 billion for the NHS in England for the year 2024-25 and announced a significant investment of approximately £500 million over two years to support childcare providers, reflecting the government's commitment to expanding free childcare services. An extra £500 million was also designated for local councils to enhance adult and children's social care services.

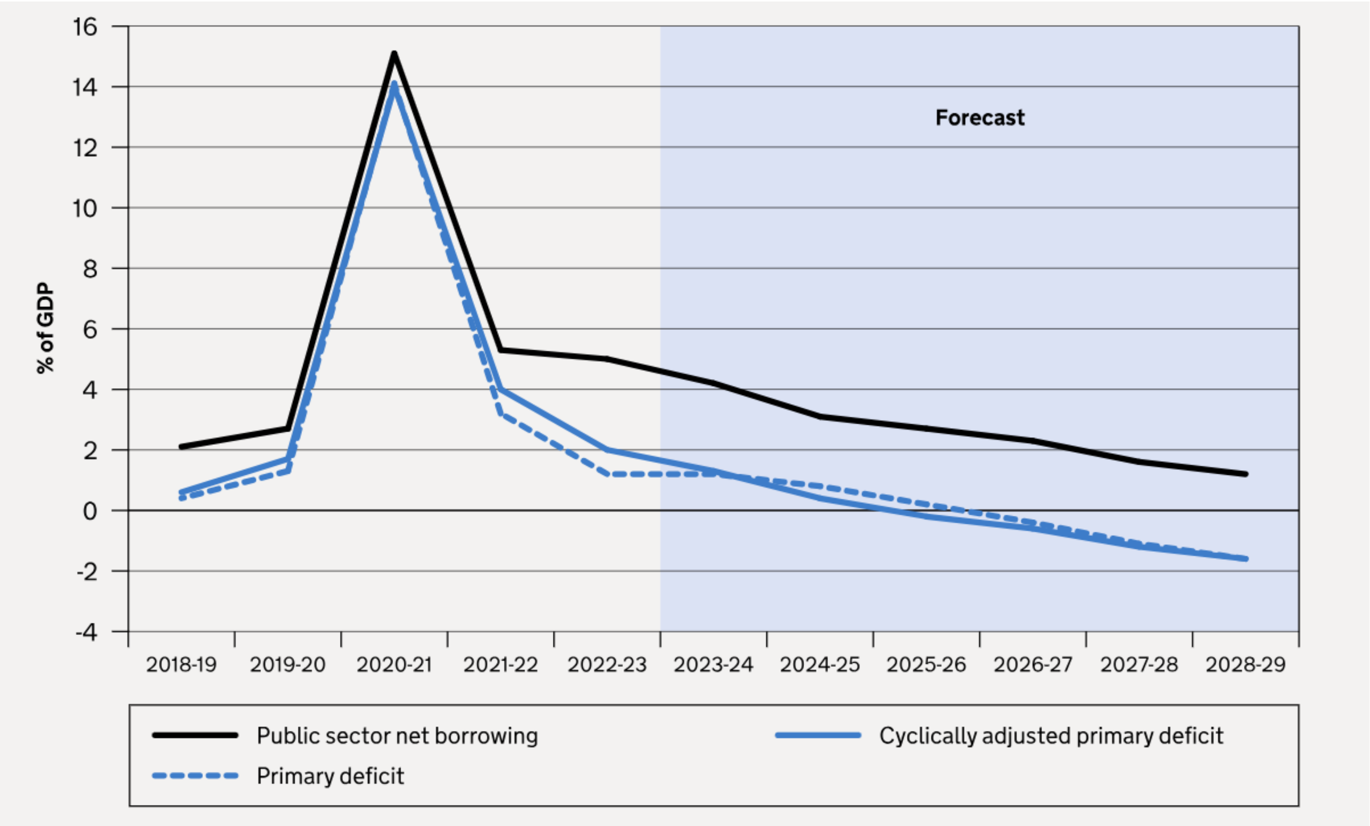
Consequently, total government expenditure (including welfare and debt interest payments) is projected to be approximately £340 billion higher in cash terms by 2024-25 compared to the onset of this Parliament in 2019-20, and about £480 billion higher than in 2010-11. The average real-term annual growth rates for departmental spending are set at 3.2% for total departmental spending, 2.3% for day-to-day spending, and 7% for capital spending throughout this Parliament.

Looking ahead beyond 2024-25, the government plans for departmental day-to-day spending to grow by an average of 1% per year in real terms, with capital spending to follow the cash profile outlined in the Autumn Statement 2023, adjusted for new productivity commitments. This approach anticipates total departmental spending to rise by £86 billion in real terms by 2028-29 compared to 2019-20. Infrastructure investment remains a priority, with over £600 billion of public sector investment planned over the next five years to support growth, energy security, Net Zero targets, and vital public services. This is part of a broader strategy that includes a record £30 billion real-term increase in capital budgets over this Parliament, averaging a 7% annual increase.

Fiscal Stance And Notable Fiscal Measures

Fiscal policy plays a pivotal role in shaping economic growth and inflation levels by either injecting or removing demand within the economy. This impact is encapsulated by the concept of the 'fiscal stance', which evaluates fiscal policy's effect on the economy through various indicators. Another important metric, the cyclically-adjusted primary deficit (CAPD), filters out the effects of the economic cycle from the primary deficit, offering a clearer view of the government's discretionary fiscal support to the economy. The CAPD is anticipated to decrease at an average rate of 0.6% of GDP annually in the upcoming years. This steady reduction in fiscal support is strategically timed with the economic forecast, aiding the Monetary Policy Committee (MPC) in achieving and maintaining the inflation target sustainably.

FIGURE 5. Public sector fiscal stance, United Kingdom, from 2018 to 2029, annual basis.



Source: Office for Budget Responsibility.

The key Budget measures with significant direct fiscal impacts are as follows:

- A decrease in the main rate of national insurance contributions (NICs) for both employees and self-employed individuals by 2p starting from April 2024, which is projected to cost £10.7 billion by the fiscal year 2028-29.
- A reform of the non-domicile regime set to begin in April 2025, which is expected to bring in an average revenue of £3.1 billion annually from 2026-27 to 2028-29.
- The introduction of several new taxes and initiatives aimed at increasing revenue, including a vaping duty, the carbon border adjustment mechanism, efforts by HMRC to tackle avoidance and improve compliance, and extending the energy profits levy for an additional year, with these measures collectively expected to generate £3.9 billion by 2028-29.
- An enhancement of £0.9 billion per year in departmental capital spending from 2025-26 to 2027-28 targeting a public sector productivity scheme with a focus on the NHS, alongside a yearly reduction of £0.8 billion in departmental resource spending starting from 2025-26.

These policy actions are poised to slightly boost demand in the near term and positively affect the labour supply over the medium term, mainly due to the immediate increase in disposable income from tax reductions. The cut in NIC rates, together with changes to the high-income child benefit taper, are expected to improve labour supply by providing enhanced incentives for work. By the end of the forecast period, it is anticipated that about half of the fiscal benefits from these measures will be offset by the additional debt interest costs incurred to fund the policy package. Taxation as a percentage of GDP is forecasted to rise to 37.1% by 2028-29, marking a 4.0% increase from the pre-pandemic level. Of this increase, 2.9% is expected to occur by the end of 2023-24, with the remaining 1.1% projected to take place up to 2028-29. Major tax policy shifts since March 2020 are estimated to raise tax revenues by 2% of GDP, with freezes on income tax thresholds alone accounting for 1.3% of GDP. These increases are partially offset by significant tax cuts amounting to 0.9% of GDP, including the NIC reductions announced in this Budget and previously in November 2023, which total 0.7% of GDP.

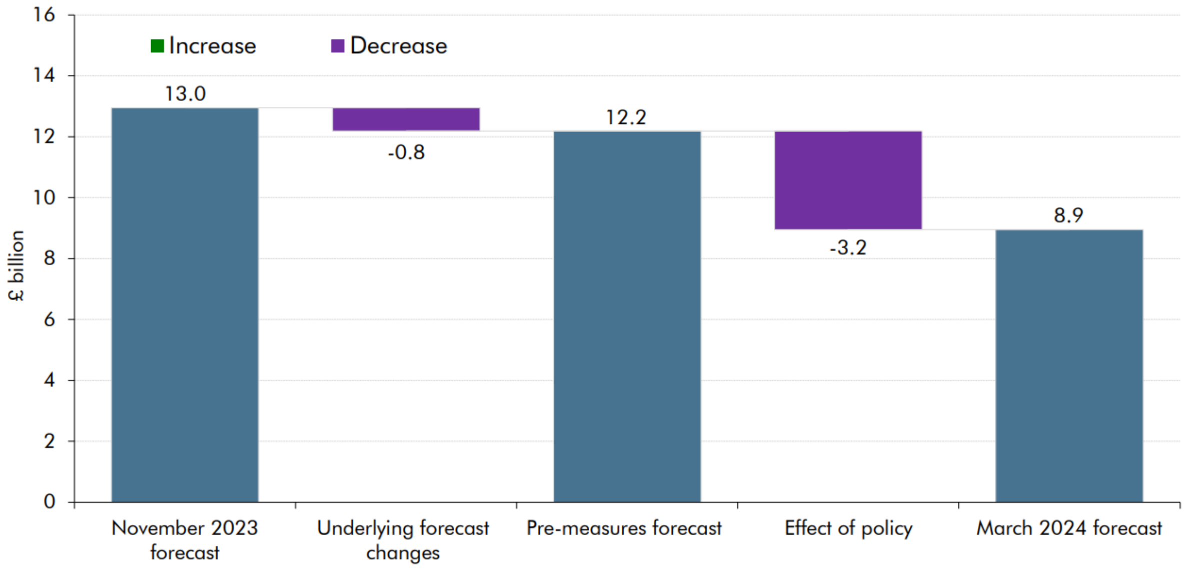
FISCAL TARGETS PERFORMANCE

Adhering To Fiscal Mandates

The Office for Budget Responsibility (OBR) has confirmed that the government is on course to adhere to its fiscal mandates regarding debt and borrowing. These mandates stipulate that the ratio of underlying debt to GDP should demonstrate a downward trend and that the Public Sector Net Borrowing (PSNB) should not surpass 3% of GDP by the end of the five-year forecast period, which is 2028-29 in this scenario. In the concluding year of this forecast, the government expects to have a safety margin of £8.9 billion regarding its debt target, marking a decline from the £13.0 billion margin projected at the Autumn Statement 2023 but an improvement over the £6.5 billion estimated at the Spring Budget 2023. As for the borrowing criterion, it is anticipated to be achieved comfortably with a significant £56.8 billion margin in the final year, notably reaching the target three years ahead of schedule as borrowing is projected to decrease to 2.7% of GDP by 2025-26.

Regarding the welfare spending cap, the OBR projects an exceedance of £7.4 billion in the fiscal year 2024-25, which nevertheless represents a £1.1 billion reduction from the previously forecasted breach of £8.6 billion at the Autumn Statement. The Government's primary fiscal objective is to reduce public sector net debt excluding the Bank of England in the fifth and final year of the forecast. According to our central projection, this goal is achieved with a margin of £8.9 billion (0.3% of GDP), a decrease from the £13.0 billion (0.4% of GDP) margin forecasted in November. The reduction in headroom primarily stems from the impact of policy measures, while the pre-measures forecast remains largely unchanged by 2028-29.

FIGURE 6. Underlying debt falling headroom in the UK since November forecast.



Source: Office for Budget Responsibility.

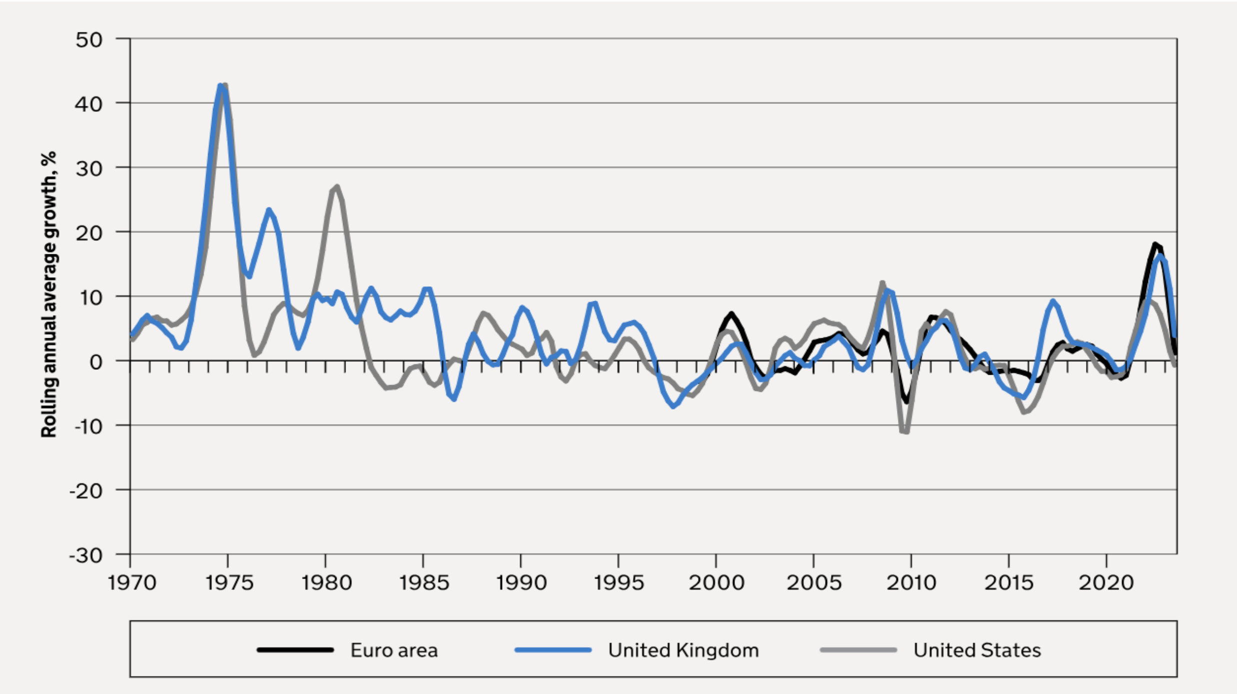
The headroom of £8.9 billion falls below the average of £26.1 billion that Chancellors have typically allocated against their fiscal rules since 2010. This figure represents a modest buffer compared to the risks associated with this forecast. Based on historical forecast errors over a five-year horizon, OBR estimates a 54% likelihood of meeting the fiscal target under current policy, a slight decrease from the 56% probability estimated in November. This forecast incorporates an additional £4.8 billion in revenue for 2028-29, resulting from the Government's announced policy to reverse the 5p cut and raise fuel duty rates in line with RPI inflation. However, maintaining duty rates at their current level, as has been the case since 2011, would eliminate nearly half of the headroom in 2028-29.

Furthermore, the supplementary target of public sector net borrowing being below 3% of GDP in 2028-29 is also achieved in our central forecast. This target is met by a larger margin than the fiscal mandate, with £56.8 billion, or 1.8% of GDP (down by £4.8 billion since November). Historical data suggests that this margin would be consistent with a 72% chance of meeting the supplementary target.

The Impact Trade Terms On The UK Economy

The terms of trade, which reflect the ratio of an economy's export prices to its import prices, play a pivotal role in economic assessments. In the UK, a significant importer of energy and various goods, recent global upheavals have led to an increase in import prices, adversely affecting its terms of trade. This situation has contributed to heightened inflation and decelerated economic growth.

FIGURE 7. Import price growth across selected advanced economies, from 1970 to 2020.



Source: OECD, HMT calculations and Office for National Statistics.

Looking ahead, the sustained rise in energy prices threatens to curtail the profitability and supply of a broad range of goods and services, potentially diminishing overall economic output. The shock experienced by the UK's terms of trade throughout 2021 and 2022 stands as the most severe since the 1970s, with import prices surging to a 15% increase in the third quarter of 2022. This phenomenon wasn't isolated to the UK; other European countries like France and Germany also encountered significant terms of trade shocks, with import prices in these nations climbing by 15% to 20% in the same timeframe.

Despite forecasts from the OBR, the Bank of England, and numerous analysts in November 2022 predicting a recession due to these trade dynamics, the actual economic performance surpassed expectations. Government support and unexpectedly strong nominal wage growth mitigated the anticipated decline in household real incomes. Furthermore, both individuals and businesses adapted to the elevated energy costs by modifying consumption patterns and production inputs, showcasing remarkable resilience. The Bank of England noted an absence of evidence indicating that the global energy price surge adversely affected firm productivity.

The initial adverse impact of the terms of trade shock resolved more quickly and thoroughly than anticipated. Wholesale energy prices declined rapidly, and improvements in global supply chain conditions contributed to a quicker reduction in inflation than expected in the OBR's November 2023 forecast. Consequently, the OBR has adjusted its projections for the medium-term drag on potential output due to higher energy prices downward. However, the residual effects of the terms of trade shock continue to fuel domestically generated inflation, highlighting the importance of maintaining a cautious fiscal policy that supports monetary efforts to sustainably reach the 2% inflation target.

FINANCE SECTOR

RECRUITMENT AND LABOUR

Employment

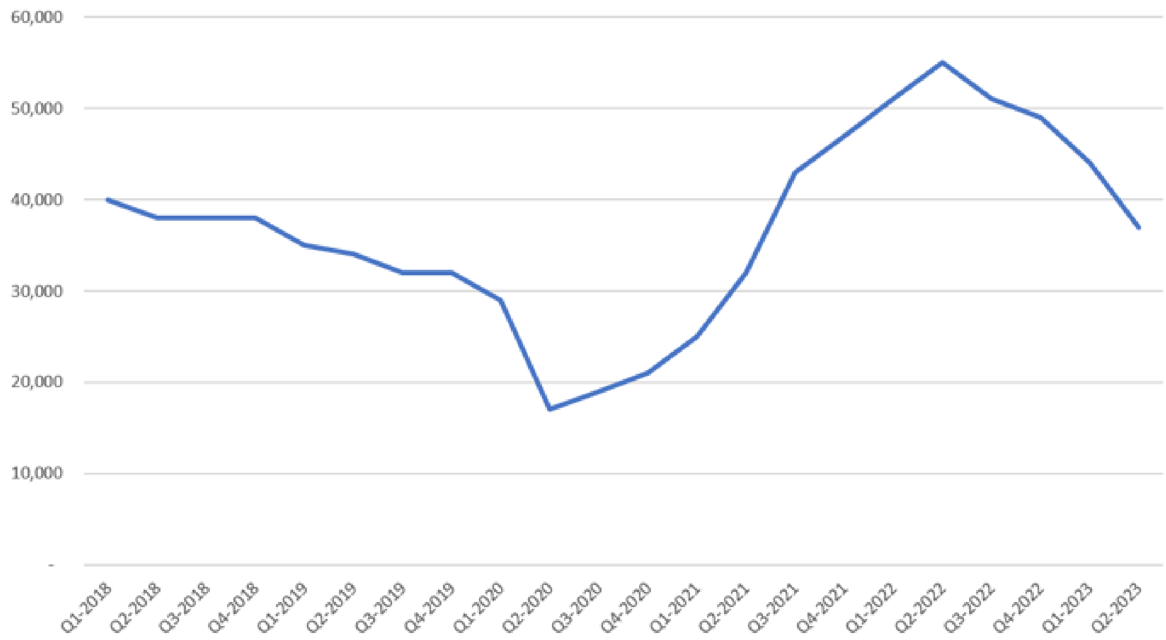
The employment and recruitment landscapes across a variety of sectors have exhibited stark contrasts and transformations when examining year-over-year vacancy statistics, revealing significant variances that shed light on the evolving market dynamics. A detailed survey targeting businesses within the United Kingdom has brought to light the fluctuating nature of job vacancies, particularly within the financial services sector. For the initial six months of the year 2023, the average count of job openings in this sector was recorded at 41,000. This figure represents a decline when compared to the average of 53,000 vacancies that was observed in the corresponding period of the previous year. Job vacancies serve as a pivotal gauge of labour market demand, and the data emerging from this period underscores a continuation of the downward trajectory in employment demand within the UK's financial services sphere. This trend has been consistent from the year 2018 up until the advent of the Covid-19 pandemic, indicating a period of contraction in labour demand within this sector.

Despite witnessing a substantial resurgence in demand for labour following the second quarter of 2020, which can be attributed to the economic rebound post-pandemic, the trend concerning declining job vacancies has remained steadfast. The employment scenario within the top 20 accounting firms in the UK during the year 2023 presents a complex tapestry of hiring trends, offering deep insights into the sector's inner workings and dynamics. Within the financial sector, prominent entities such as Barclays, JP Morgan, and Natwest have experienced considerable declines in their vacancy numbers, with reductions amounting to 64.5%, 49.6%, and 45.7%, respectively. In stark contrast, Phoenix Group has emerged as a beacon of growth, registering a 47.1% increase in vacancies. This surge follows a significant 55.4% increase in the preceding year, signifying a robust expansion in its pensions business.

Global events have undeniably played a role in shaping hiring trends, as exemplified by BAE Systems, which saw a 52.7% uptick in vacancies. This increase is likely a consequence of enhanced defence spending, triggered by the geopolitical tensions following the Ukraine conflict. Similarly, Lloyds Banking Group has continued its upward trajectory in recruitment, following an impressive 112.9% surge in vacancies during 2021/22, with a subsequent 25.4% increase in 2022/23. This continued growth can be attributed to the strategic initiatives undertaken by its new senior management team. In the broader commerce and industry sectors, companies such as Publicis Groupe and Reckitt have reported increases in vacancies of 37.2% and 39.0%, respectively. Among the leading 20 firms, eight have projected an expansion in accounting vacancies for the year 2023, cumulatively accounting for 41.7% of all job openings. This marks a significant upturn from a 24.5% market share in 2022, highlighting a strong inclination towards aggressive hiring practices within certain firms, potentially indicative of a broader trend across various sectors for the year.

Despite the overall downturn in accounting vacancies across the financial services, commerce, and industry sectors, a more optimistic outlook for 2024 emerges from positive trends within specific companies and regions. This detailed analysis paints a nuanced and potentially hopeful picture of the job market for accountants in the forthcoming year, influenced by a multitude of factors directing the sector's trajectory. Delving deeper into the realm of financial services, specific sectors such as investment finance and commercial banking witnessed substantial decreases in vacancies, recording drops of 34% to 1,381 and 45.5% to 1,371, respectively. Similarly, the consumer finance and non-life insurance sectors experienced downturns, with vacancies diminishing by 21.1% and 19.2%, respectively. Moreover, asset management vacancies saw a decline of 10.9%, while general insurance experienced a relatively minor reduction of 6.1%. In contrast, the life insurance sector displayed resilience, with a 2.7% increase in vacancies, illustrating shifts in the distribution of vacancy shares across the industry.

FIGURE 8. Finance sector job vacancies have seen a decline in recent terms, from 2018 to 2023, quarterly basis.



Source: Office for National Statistics.

For the commerce and industry sectors in 2023, a uniform decline in vacancies was noted, marking a significant reversal from the growth trends observed in 2022. The technology sector was hit hardest, facing the steepest drop at 52.2%, reflecting the broader workforce reductions across tech companies globally. Despite a 24.7% fall in vacancies, the retail/CGS sector managed to increase its market share from 30.1% to 33.3%. The media sector also saw a significant reduction in vacancies, dipping below 1,000, while sectors such as industrials/engineering and real estate & construction, despite experiencing declines of 5.5% and 26.5% respectively, demonstrated market share growth, indicating resilience amidst economic adversities.

This shifting distribution of vacancies within commerce and industry, as opposed to the more concentrated changes within financial services, with the bottom four sectors now holding 34.1% of the market share, up from 31.5%, reflects the dynamic and challenging landscape these sectors face. This trend, ongoing since 2021/22, mirrors broader economic difficulties and changes in the industry landscape, showcasing the fluid nature of the job market and the varied factors influencing it.

Regional Trends in UK Employment

The financial services job market in the UK in 2023 presented a complex picture with stark regional differences. In the North of England, there was a remarkable increase in vacancies, surging by 91.5% in 2022/23, building on an 87.5% rise from the previous period. This surge was likely propelled by the activities of regional investment firms such as True Potential in Newcastle, marking a sharp contrast to the national trend. London, retaining its status as the predominant hub for financial services accounting jobs with 2444 vacancies, faced a 32.1% downturn, reducing its national market share to 50.9%. The Midlands experienced a 20.7% decline in vacancies, yet held onto a 6.3% market share, underlining its emerging importance. The South region saw a more pronounced decline, with a 35.2% reduction in vacancies to about 696.

The commerce and industry sector in London also witnessed a significant contraction, with vacancies dropping by 42.8% in 2023, lowering London's sectoral vacancy share to its lowest since 2021 at 31.8%. The South region anticipated a 28.6% fall in vacancies to just over 3000, with the South East expected to make up approximately 1538 of these. Despite overall declines, the South's share of vacancies was projected to increase to 28.7%. In contrast, the North region's vacancy share rose from 14.9% to 17.5%, possibly reflecting a move towards hybrid working models and job decentralisation. The Midlands saw a 22.8% vacancy drop but also a slight increase in market share from 10.9% to 12.4%, indicating some resilience amidst economic downturns.

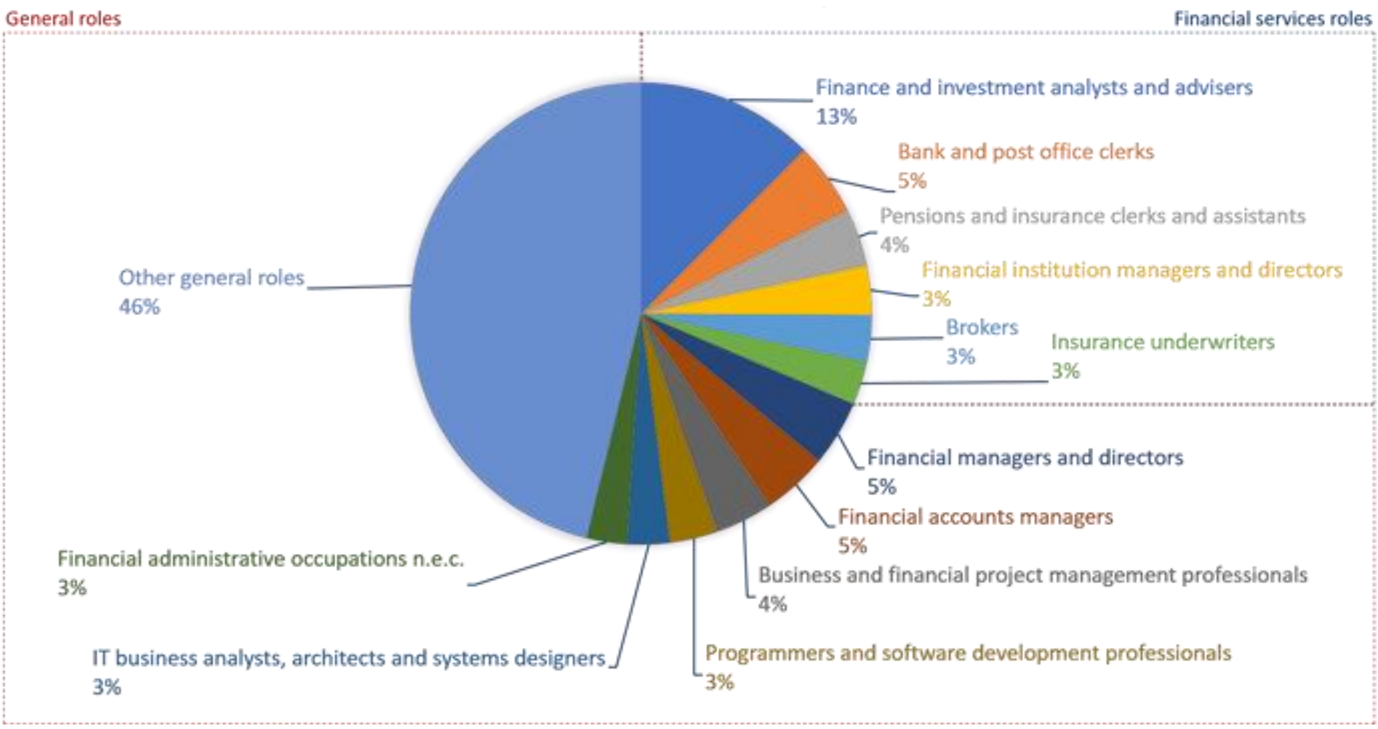
FIGURE 9. Top 10 roles within financial services employment in 2023.

Source: Office for National Statistics.

London's financial sector notably struggled in 2023, with Morgan McKinley reporting a near 40% drop in job availability due to market volatility and rising inflation, leading to aggressive cost reductions across companies. The London Employment Monitor noted a 38% year-over-year fall in finance job openings, alongside a 16% decrease in job seekers. The final quarter of 2023 saw a sharp 42% reduction in job openings compared to the same period in the previous year, marking the largest decrease since the 2008 financial crisis. Despite reports of strong profits from banks, the combined impact of inflation, reduced deal-making activities, and increasing geopolitical tensions dimmed employment prospects. Job cuts by major banks, including Barclays and Swiss bank UBS (post its merger with Credit Suisse), significantly contributed to the downturn, affecting jobs in London and elsewhere.

Beyond the industry-specific positions, there exists a vast array of more generic job roles, such as project managers and software developers. These roles, while present within the realm of financial services, are not exclusive to the sector and are commonly found across various industries. The analysis indicates that, within the financial services sector, approximately one-third of the positions are specialised roles unique to the industry. In contrast, the remaining two-thirds comprise roles that are also prevalent in other sectors, illustrating the wide-ranging nature of employment opportunities within financial services.

FIGURE 10. Fraction of roles within the financial services sector, 2023.



Source: TheCityUK, Office for National Statistics, and Financial Services Skills Commission.

SALARIES

Over the last year, 80% of employers have increased their employees' salaries, a significant rise from 58% the previous year. The primary motivation for 69% of these employers has been to counteract the rising cost of living, resulting in an average salary growth of 4.9%. The financial markets sector saw a higher increase of 5.4% compared to fintech's 3.9%, with junior level positions receiving the most substantial raises. Among specific roles, tax positions experienced the highest growth at 16.7%, driven by inflation and the need to mitigate operational tax risks in large banks. Other roles such as operations (9.9%), executive support (9.1%), treasury (8.9%), and finance (8.7%) also enjoyed above-average increases. In the fintech sector, the complexity of cyber threats has necessitated an average salary rise of 10.5%, while projects and change roles saw a 5.3% increase.

Despite these improvements, 31% of employees remain dissatisfied with their salaries, a slight decrease from 36% last year, with grievances primarily centred around compensation not adequately reflecting individual performance (60%), responsibilities (47%), or experience (46%). Looking ahead, 77% of employers are planning further salary increases.

Moreover, 85% of employees received a performance-related bonus, with 68% noting an increase from the prior year and 78% expressing satisfaction with their bonus. However, there's a discrepancy in perceptions of pay transparency; 82% of professionals value it, yet only 74% of employers claim to practice it, an improvement from 62% last year. Still, 49% of employees believe their organisation lacks consistent transparency in pay, up from 38%.

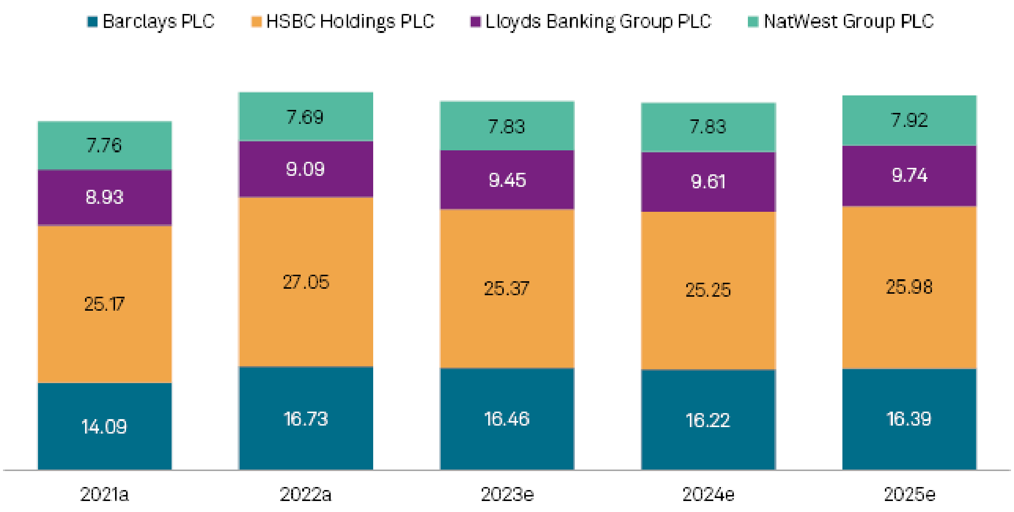
Employee optimism regarding career prospects remains unchanged at 61%, with 76% reporting job satisfaction, marginally up from 74% last year. Dissatisfaction is mainly due to inadequate career progression, insufficient salary, and limited development opportunities, cited by 54%, 54%, and 50% of respondents, respectively. Although 86% of employers recognise the potential for career advancement within their organisations, 27% of employees disagree. Job mobility trends show that 38% of employees have changed jobs in the past year, with another 37% considering it due to reasons like lack of progression, unfulfilling work, and low salary (each at 26%). The next year sees 56% of employees contemplating a job change, an increase from 51% last year, motivated by better salary and benefits (23%), concerns over job security (18%), and limited future opportunities (18%). Notably, an improved salary and benefits package could influence half of those not planning to switch jobs.

UK BANKS

In 2024, the UK's leading banks—HSBC Holdings PLC, Barclays PLC, Lloyds Banking Group PLC, NatWest Group PLC, and Standard Chartered PLC—are set to up their dividend payouts, as per S&P Global Market Intelligence. In 2023, these entities handed out over £27 billion in dividends and share repurchases, intending to maintain or escalate rewards to shareholders into 2025, barring HSBC. HSBC's 2023 distributions topped the chart with $19 billion, its highest dividend payout since 2008 at 61 cents per share, plus $7 billion in share buybacks. Lloyds was next with £3.8 billion, upping its ordinary dividend by 15% and initiating a £2 billion buyback. It plans to boost future payouts by lowering its CET1 ratio target to 13% by 2026. At the end of 2023, Lloyds reported a CET1 ratio of 13.7%, with its 2024 capital generation, excluding distributions, estimated at approximately 175 basis points, expected to exceed 200 basis points by 2026. NatWest disbursed £3.6 billion in 2023, aiming for a 40% ordinary dividend payout ratio and additional buyback capability through 2026, which aided in reducing the UK government's stake from 46% to 35%, targeting a complete divestiture by 2026. Barclays distributed £3 billion in 2023, raising dividends by 37% and starting up to £1.75 billion in buybacks, with ambitions to hand out at least £10 billion by 2026. Standard Chartered's 2023 distributions amounted to $2.7 billion, inclusive of $2 billion in buybacks and $700 million in ordinary dividends, planning at least $5 billion in distributions by 2026, potentially reaching about $6 billion as forecasted by Berenberg analysts.

S&P Global anticipates a downturn in the earnings of the UK's major banks for 2024, ascribing this forecasted decline to reduced gains from previous central bank rate hikes and the economic downturn's negative effect on asset quality. According to S&P Capital IQ consensus estimates, Barclays PLC, HSBC Holdings PLC, Lloyds Banking Group PLC, and NatWest Group PLC are all expected to see a decrease in Return on Equity (ROE) after a strong 2023. Specifically, NatWest's ROE is predicted to drop by 22% year-over-year, Lloyds by 13.8%, Barclays by 4.6%, and HSBC by 5.7%. The outlook for 2024 suggests a year of two halves for the financial performance of these leading UK banks. Earnings are projected to remain robust in the first half, albeit slightly lower than the previous year, with the second half anticipated to benefit from improved margins due to income from banks' structural hedges, which are generally less impacted by short-term interest rate fluctuations. Moreover, the banks are expected to engage in further cost-reduction efforts to offset the effects of narrowing margins. Among the four major banks, only Lloyds is projected to see an uptick in non-interest expenses in 2024. In contrast, Barclays and HSBC are forecasted to have reduced expenses, and NatWest's expenses are expected to remain unchanged, as per Capital IQ data. Both Lloyds and NatWest predict persistent challenges with net interest margins (NIMs) in the early part of the year due to pressures on deposit and mortgage pricing. However, there is optimism for NIM stabilisation in the latter part of the year, fuelled by higher yields from structural hedges.

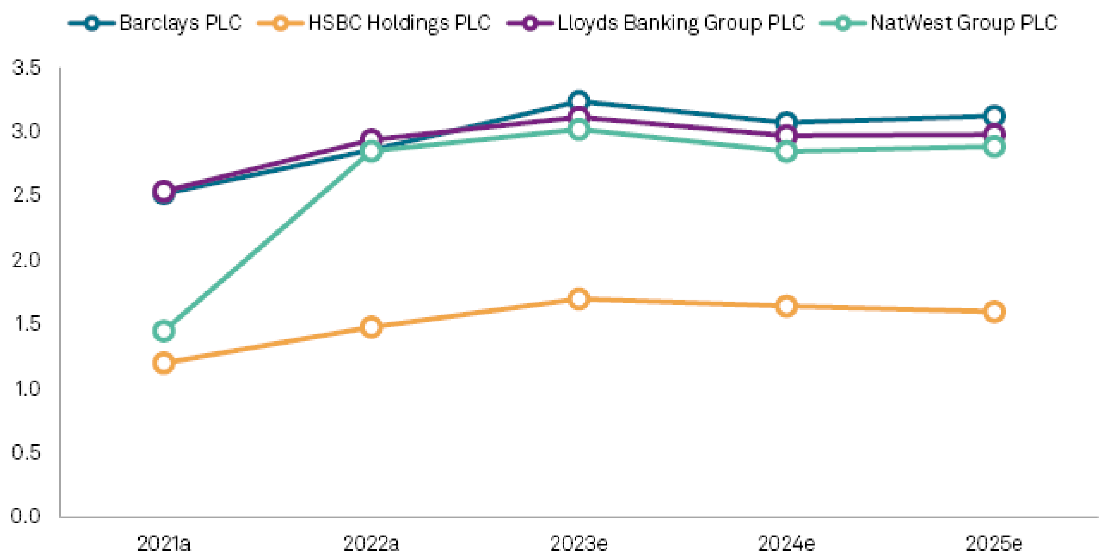
FIGURE 11. Big 4 UK banks' non-interest expenses, from 2021 to 2025, £billion.



Source: S&P Global.

The combined net income for these four major UK banks is projected to decrease to around £31 billion in 2024 from approximately £34 billion in 2023. This expected reduction is linked to ongoing net interest margin (NIM) compression and an uptick in loan loss provisions. The NIM contraction, starting in June 2023 due to deposit shifts and tighter new mortgage spreads, is likely to continue into the first half of 2024 before potentially stabilising. The fierce competition for deposits and mortgages, leading to margin squeezes, has forced Barclays, Lloyds, and NatWest to revise their NIM forecasts downward multiple times through the first three quarters of 2023 due to competitive pressures and customers switching to higher-rate products.

FIGURE 12. Big 4 UK banks' net interest margins, from 2021 to 2025, percent change.

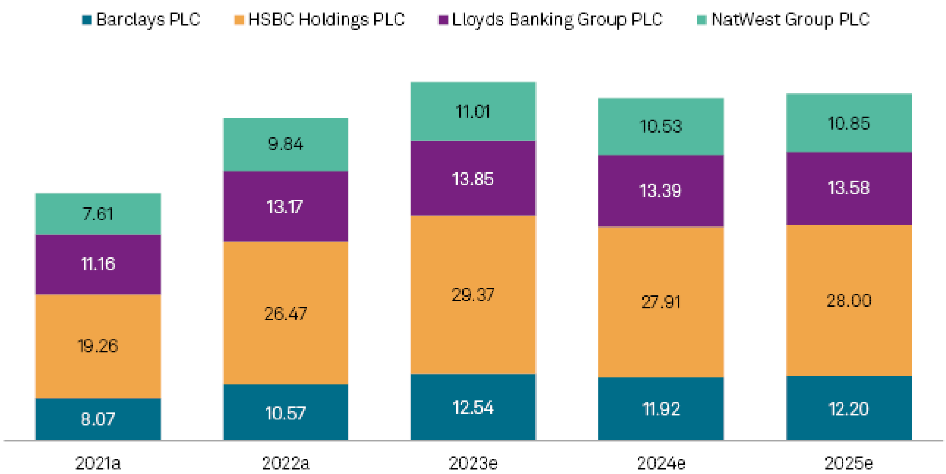


Source: S&P Global.

Current market forecasts indicate that the Bank of England is likely to start lowering interest rates in the second quarter of 2024, with expectations for the base rate to decrease to 3.75% by the end of the year. This anticipated reduction of 150 basis points is significantly more profound than the initial forecasts of 25 to 50 basis points for 2024, moving away from the current base rate of 5.25%. As a result, analysts are predicting that the net interest margins (NIMs) for UK banks will continue to decline until the third quarter of 2024.

Despite this expected decline in 2024, Barclays, Lloyds, and NatWest's NIMs are projected to make a recovery in 2025. However, they are anticipated to remain below the levels achieved in 2023, although they will be above the margins recorded in 2022. On the other hand, HSBC's NIM is expected to experience a further decrease in 2025 but will remain higher than its performance in 2022, as per Capital IQ consensus estimates. The trend in net interest income for the four major UK banks is expected to follow a similar pattern to that of the NIMs, with a decline anticipated in 2024, followed by a modest recovery in 2025.

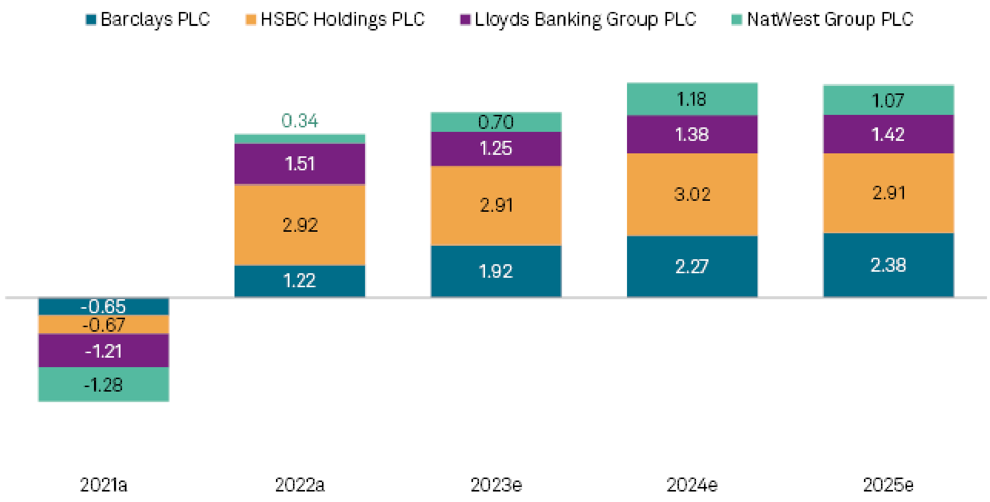
FIGURE 13. Big 4 UK banks' net interest income, from 2021 to 2025, £billion.



Source: S&P Global.

The impact on NIMs from deposit and mortgage pricing is anticipated to diminish as the year progresses. Analysts note a slowdown in the shift towards higher-rated fixed-term deposits as interest rates on these products decline and the most sensitive balances have already moved. Furthermore, the compression in mortgage spreads is expected to lessen in 2024 and may see slight improvements in 2025 for most of the major UK banks. This potential improvement is likely in response to anticipated cuts in the Bank of England's rates, which could invigorate mortgage demand and trigger the repricing of existing loans at higher rates. Approximately 55% of UK residential mortgage loans are estimated to have been repriced since the initial rate increase by the Bank of England in late 2021, with most loans being fixed for periods ranging from two to five years.

FIGURE 14. Big 4 UK bank's loan loss provisions, from 2021 to 2025, £billion.



Source: S&P Global.

Credit losses for banks in 2024 are expected to be in line with historical norms. Nevertheless, potential risks such as weaker-than-expected economic performance or market instability, especially in light of the forthcoming UK general election, could place additional strain on the quality of assets. While loan loss provisions are expected to rise in 2024, a moderation is forecasted for 2025, except for Lloyds, which is predicted to report higher provisions according to current consensus estimates. The big four UK banks are preparing to release their full-year results for 2023 in the upcoming month, starting with NatWest on 16th February, followed by Barclays, HSBC, and Lloyds in the days that follow.

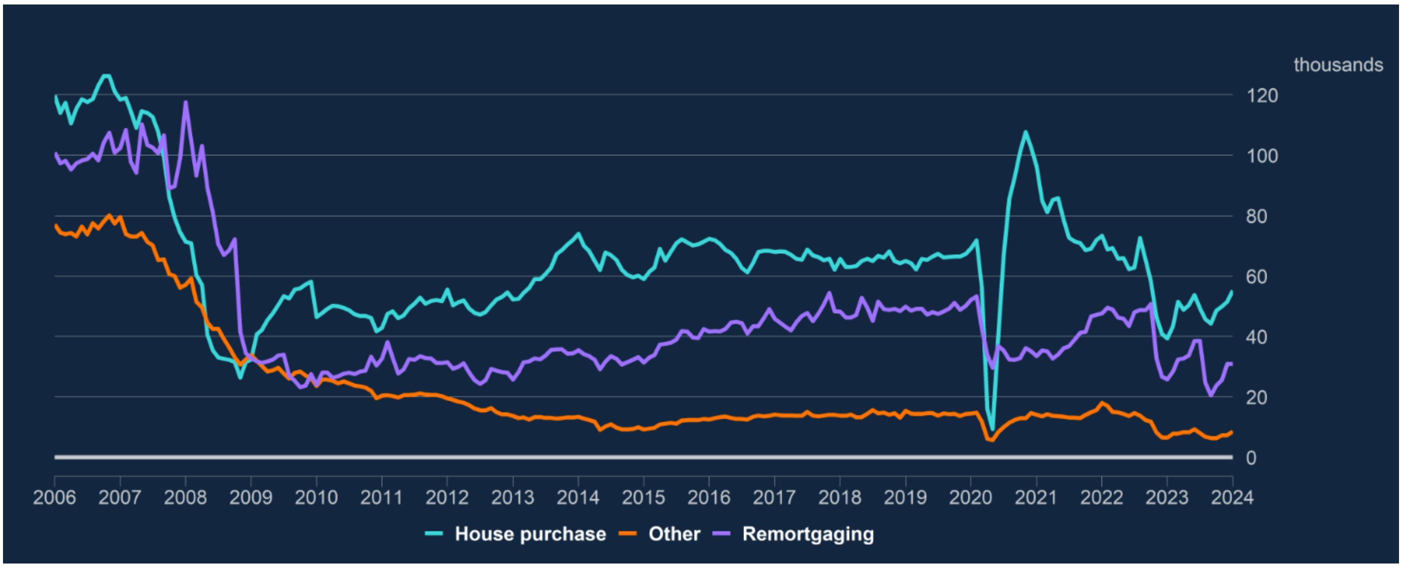
BANK LENDING

MORTGAGES AND CONSUMER CREDIT

Mortgage Lending

Forecasters are projecting a cautious 2% increase in UK mortgage lending for 2024, marking the most subdued biennial growth witnessed in the past decade, following a 1.5% rise in 2023. The outlook for 2025 is slightly more positive, with an anticipated growth rate of 2.8%. Meanwhile, consumer credit demand is expected to slow to 5% in 2024 before slightly declining to 4.3% in 2025. On the other hand, lending to businesses is forecasted to rebound, with growth rates of 1.8% in 2024 and 3.7% in 2025 anticipated. Additionally, the management of UK assets is expected to grow by 2.1% in 2024 and 5.7% in 2025, indicating increasing business confidence in the financial sector for the upcoming years. The UK mortgage lending sector is poised for its slowest growth pace in a decade in 2024, amid challenges such as high mortgage rates and limited economic growth impacting the real estate market. The overall economic environment is likely to face headwinds from sustained high interest rates, inflation, and a weakening labour market, leading to modest GDP growth. External geopolitical issues, like tensions in the Middle East and the Ukraine conflict, could further suppress consumer and business confidence in the near term. However, the UK's solid economic foundations and the innovative capabilities of the Banking & Financial Services sector suggest a cautiously optimistic outlook.

FIGURE 15. Mortgage approvals, seasonally adjusted, from 2006 to 2024.



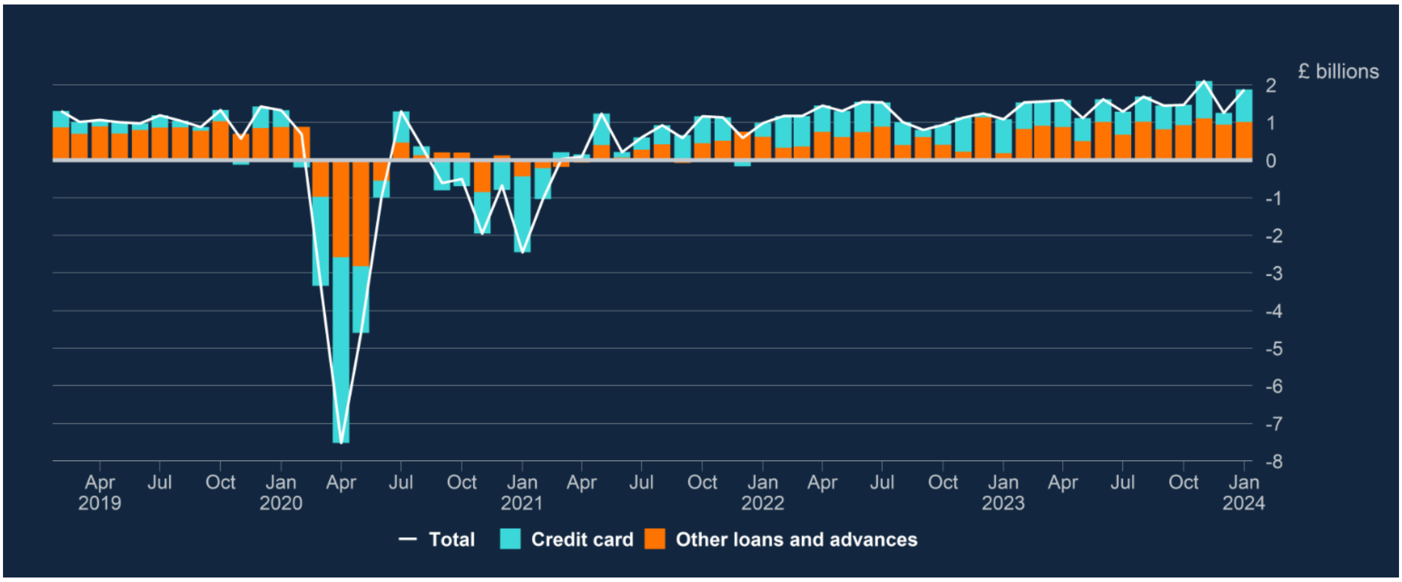
Source: Bank of England.

In January, individuals repaid a net amount of £1.1 billion in mortgage debt, an increase from £0.9 billion in December. For the first time since records began in March 1994, the annual growth rate for net mortgage lending turned negative, reaching a record low of -0.2%. Gross lending saw a decrease from £17.2 billion in December to £16.9 billion in January, while gross repayments also fell from £19.0 billion to £18.5 billion. Net approvals for house purchases, which serve as an indicator of future borrowing, increased from 51,500 in December to 55,200 in January. Net approvals for remortgaging (which reflect switching to a different lender) remained unchanged at 30,900 in January. The 'effective' interest rate, or the actual interest paid, on newly drawn mortgages dropped by 9 basis points to 5.19% in January. Conversely, the rate on the outstanding stock of mortgages edged up by 5 basis points, moving from 3.36% in December to 3.41% in January.

Consumer Credit

In January, there was a notable increase in net consumer credit borrowing, which climbed to £1.9 billion from the £1.3 billion recorded in December. This surge was largely attributable to a significant uptick in credit card borrowing, which jumped from £0.3 billion in December to £0.9 billion in January. Additionally, borrowing via other consumer credit avenues, including car dealership finance and personal loans, saw a modest rise from £0.9 billion in December to £1.0 billion in January. The overall annual growth rate of consumer credit accelerated to 8.9% in January. This growth includes an increase in the annual growth rate for non-credit card consumer credit, which moved up from 6.8% in December to 7.4% in January. However, the growth rate for credit card borrowing experienced a slight decrease, dipping from 12.8% to 12.6%.

FIGURE 16. Consumer credit trends, seasonally adjusted, from 2019 to 2024, £billions.



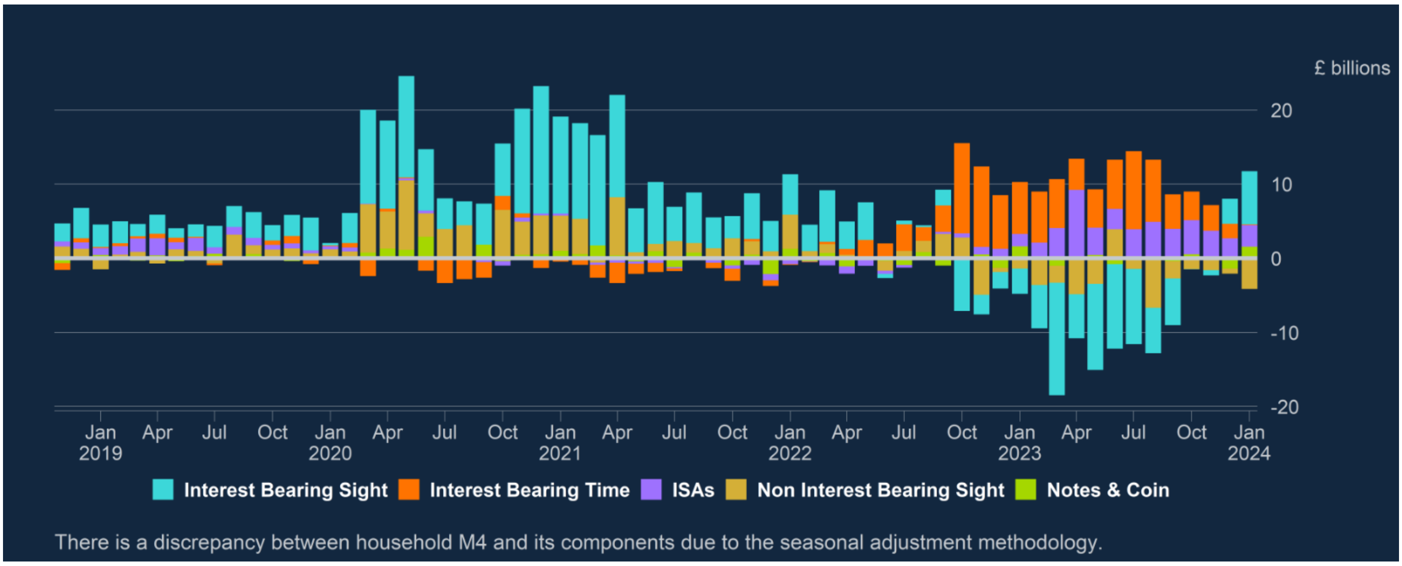
Source: Bank of England.

Interest rates on various forms of credit also saw changes. The effective interest rate on interest-charging overdrafts witnessed a significant rise by 101 basis points, reaching 22.92% in January. Credit card interest rates also increased, by 43 basis points, to 21.29%. Conversely, the effective interest rate on new personal loans to individuals decreased by 15 basis points, now standing at 9.02%.

Household deposits

In January, UK households deposited a net total of £6.8 billion with banks and building societies. There was a notable preference for sight deposits, which saw an influx of £7.2 billion, compared to a modest £0.1 billion for time deposits. However, this was partially counterbalanced by a £4.1 billion withdrawal from non-interest-bearing accounts. The net flow of household deposits into National Savings and Investment (NS&I) accounts shifted to a net withdrawal of £0.8 billion in January, down from a net deposit of £0.6 billion in December. Although NS&I deposits are distinct from bank and building society deposits, they serve as an alternative. Consequently, the total increase in household deposits across both banks, building societies, and NS&I accounts amounted to £6.0 billion in January. This growth exceeds the six-month average of £5.3 billion, yet falls short of the £7.5 billion peak recorded in October 2023.

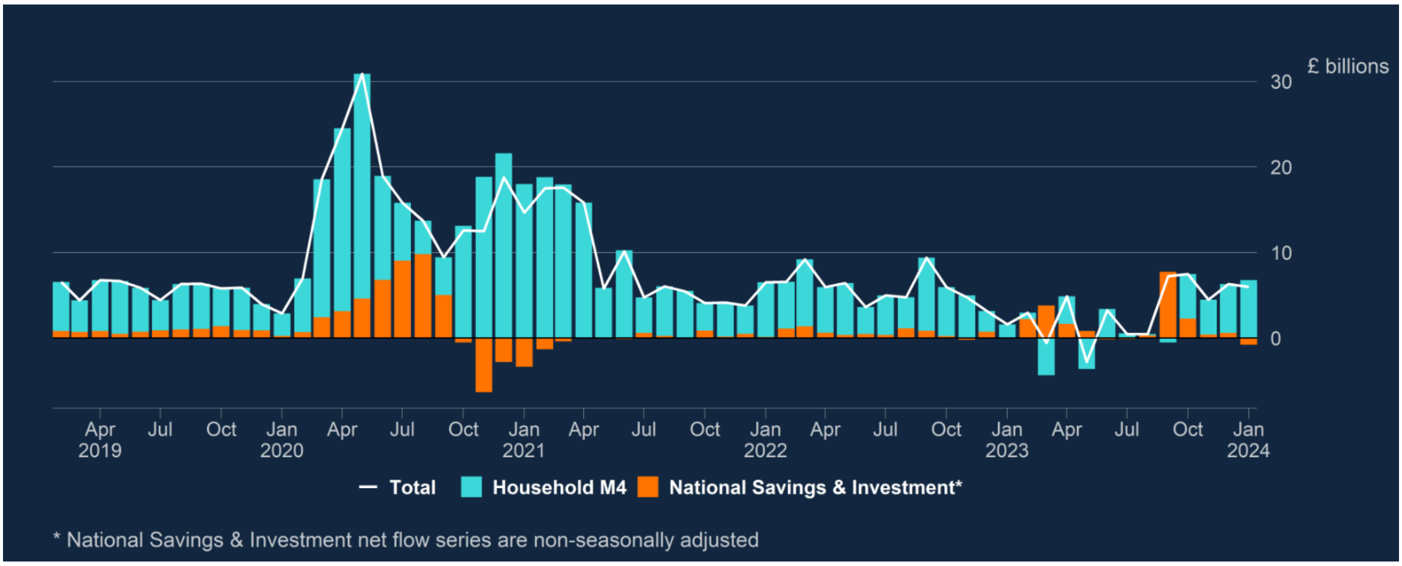
FIGURE 17. Breakdown of households' deposits, seasonally adjusted net flow, from 2019 to 2024, £billions.



Source: Bank of England.

Regarding interest rates, the effective rate on new time deposits with banks and building societies experienced a 27 basis point decline to 4.53%. Meanwhile, the effective interest rate on the existing stock of time deposits saw a slight increase of 5 basis points, reaching 3.76% in January. Additionally, the effective rate on stock sight deposits rose by 4 basis points to 2.07%.

FIGURE 18. Household deposits, seasonally adjusted net flow, from 2019 to 2024, £billions.



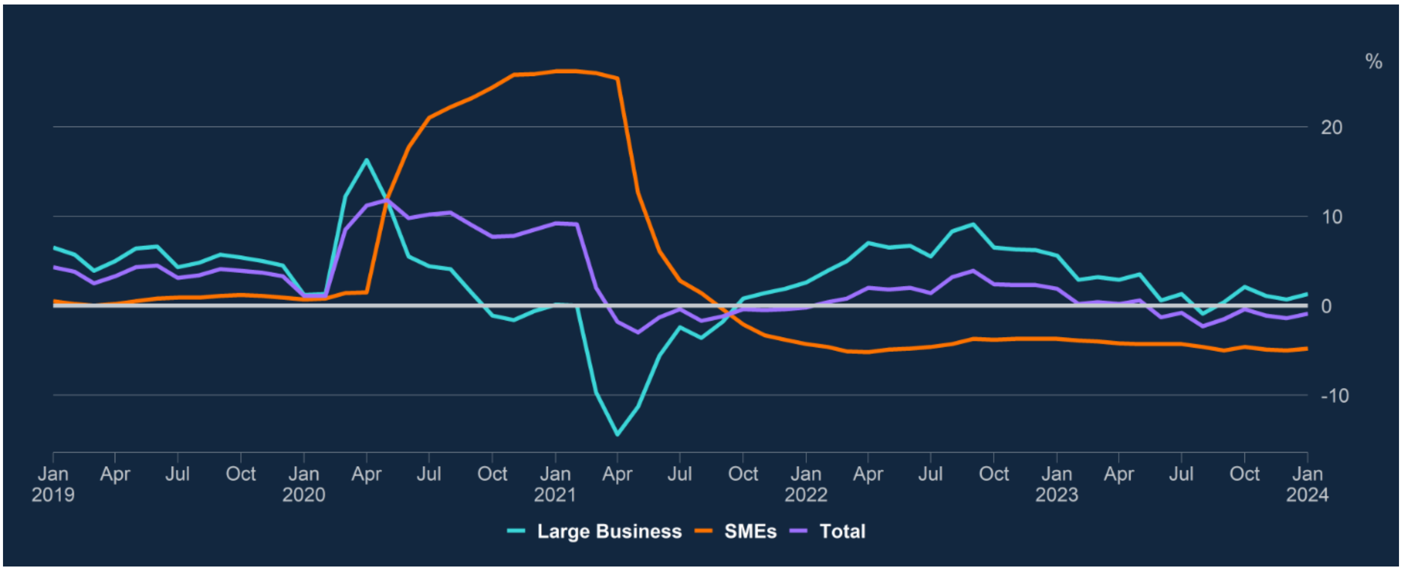
Source: Bank of England.

BANK LENDING IN BUSINESS

In January, UK non-financial businesses, encompassing private non-financial corporations (PNFCs) and public corporations, experienced a subtle shift in their borrowing and financial activities with banks and building societies. The net borrowing from banks slightly increased to £0.3 billion, up from £0.1 billion in December. This was largely attributed to large non-financial businesses which borrowed £0.4 billion, although this was a decrease from the £1.1 billion borrowed in December. Meanwhile, small and medium-sized enterprises (SMEs) saw their net repayments decrease from £1.0 billion in December to just £0.1 billion in January, indicating a slight easing in their repayment activities. The borrowing growth rates for January also reflected interesting trends; large businesses experienced an annual growth rate in borrowing of 1.3%, an increase from 0.7% in December. SMEs, on the other hand, witnessed a marginal improvement in their lending growth rate, moving from -5.0% in December to -4.8% in January, suggesting a slow but ongoing recovery.

The cost of new borrowing saw an uptick in January, with the average cost for UK PNFCs rising from 6.78% in December to 7.01%. SMEs faced a similar trend, with the effective interest rate on new loans increasing slightly by 4 basis points to 7.50%. January was also notable for the net finance raised by PNFCs, which saw them repaying a net total of £3.8 billion from monetary financial institutions (MFIs) and market finance, marking a significant increase from the £1.5 billion net repayments in December. This consisted of £2.9 billion in loan repayments, £1.9 billion in equity buybacks, and the issuance of £0.6 billion in bonds and £0.2 billion in commercial paper.

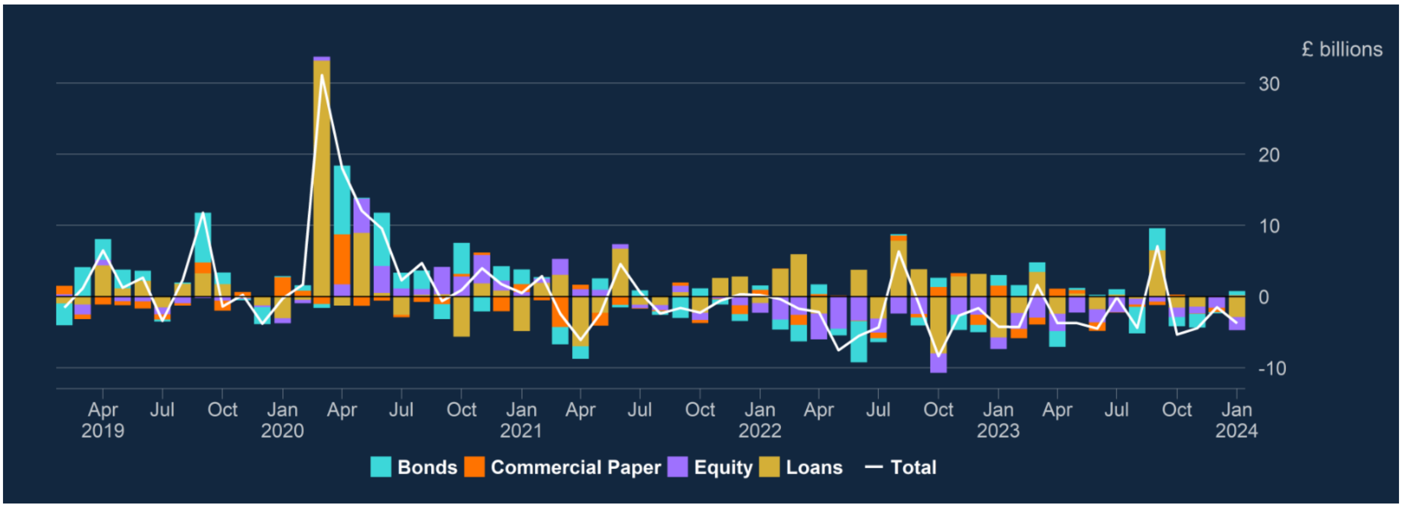
FIGURE 19. Annual growth of lending to SMEs and large businesses, seasonally adjusted, from 2019 to 2024, percent change.



Source: Bank of England.

Businesses' deposits presented another key financial movement, with non-financial businesses withdrawing £19.9 billion from banks and building societies across all currencies in January, a considerable increase from £5.5 billion in December. The effective rate on new time deposits for PNFCs decreased by 7 basis points to 4.65%, whereas the effective rate on stock sight deposits increased by 7 basis points to 2.69%, reflecting shifting preferences and conditions in the financial landscape for businesses.

FIGURE 20. Net finance raised by PNFCs, seasonally adjusted net flow from 2019 to 2024, £billions.



Source: Bank of England.

CONCLUSION AND PLANS FOR THE FUTURE

Reflecting on the UK's Banking & Financial Services sector and its economic context as we move into 2024 and beyond, it's evident we're witnessing a period of significant transformation. The push towards digitalisation, automation, and sustainability is not just a response to the present challenges—ranging from economic uncertainties and cybersecurity threats to environmental responsibilities—but a proactive move towards future-proofing the industry. This pivot is largely driven by strategic investments in cutting-edge technology and efforts to attract and cultivate digital talent, signalling a shift towards not only resilience but also a path of continuous innovation and growth.

Yet, it's clear that our journey is shaped by more than just internal industry dynamics. The challenges of reactivating the economy post-pandemic and the critical importance of fiscal strategies that support growth, manage debt, and promote environmental sustainability are front and centre. These strategies play a vital role in rejuvenating the labour market and bolstering the UK's economic fortitude and prosperity. Amidst these strategic shifts, there are promising signs of recovery. The Monetary Policy Committee's interventions and targeted fiscal policies are set to recalibrate inflation more swiftly than anticipated, while key economic indicators hint at an uptick in activity and optimism. Such developments breed hope, suggesting we're on the verge of a turnaround towards growth and stability.

However, this path is not without its uncertainties, especially on the global stage, where geopolitical tensions threaten to unsettle trade and economic balance. This landscape serves as a crucial reminder of the importance of vigilance and adaptability in our policy approaches, ensuring we're equipped to navigate the complexities of an interconnected world economy. As we draw conclusions from our observations, the ongoing evolution within the UK's Banking & Financial Services sector—marked by digital breakthroughs, a commitment to sustainability, and resilience in the face of adversity—stands as a testament to the broader challenges and opportunities that lie ahead for the economy. Looking forward, the sector's proactive stance and the government's strategic policy measures are instrumental in guiding the UK towards a future marked by innovation, prosperity, and resilience.

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