

Rachel Reeves nightmare as unemployment rockets to highest level in five years

Story by Jon King

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3 min read



The unemployment rate rose to 5.2% in the three months to December in a humiliating blow to [Rachel Reeves](#). It marks its highest level since the three months to February 2021. Office for National Statistics (ONS) figures show the latest rate increased from the 5.1% seen over the three months to November.

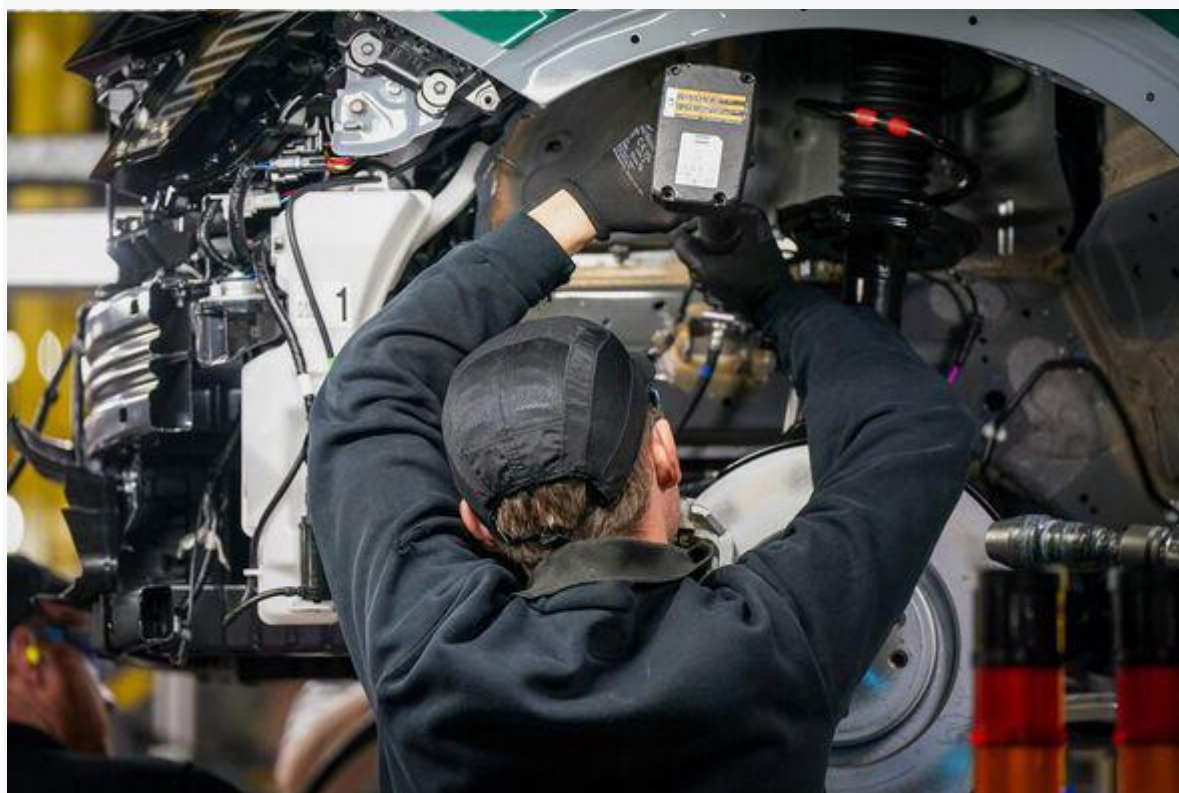
ONS Director of Economic Statistics Liz McKeown said: "The number of [workers](#) on payroll fell further in the final quarter of the year, reflecting weak hiring activity, although it is largely unchanged in the latest month. Over the same period the unemployment rate increased, with data showing that more people who were out of work are now actively looking for a job."

She said vacancy numbers remained "broadly stable" since the middle of last year.

Ms McKeown added: "Alongside rising [unemployment](#) this means the number of unemployed people per vacancy has increased, reaching a new post-pandemic high. Meanwhile, redundancies are also showing an upward trend."

The expert said private sector wage growth continues to slow and is at its lowest rate in five years, with public sector pay growth also slowing over the latest period.

However, public sector pay remains elevated as it is still affected by some pay awards introduced earlier in 2025 than 2024. Ms McKeown said this effect has now started to diminish.



A worker at Nissan Motor Co. as the firm Begins Production of New Leaf EV at Sunderland Plant© Getty

Peter Dixon, Senior Economist at the National Institute of Economic and Social Research (NIESR), said the ONS figures showed wage inflation continues to slow.

He said: "While the deceleration from 4.6% in the three months to November to 4.2% in the fourth quarter was sharper than expected, it is still elevated relative to recent productivity trends."

Mr Dixon said while companies remain concerned about the impact of high costs, a further marked slowdown in wage inflation is expected during the first quarter of this year.

He added: "This may be enough to tip the balance of MPC (Monetary Policy Committee) votes in favour of a 25 basis point cut in Bank Rate later in the spring."

Ben Harrison, Director of the Work Foundation at Lancaster University, said the figures show a weakening and uneven labour market.

He said: "The number of people out of work has risen by 331,000 over the past year to 1.88 million, with data suggesting the UK has the fastest annual increase in unemployment in the G7.

"While overall employment appears broadly stable and the rise in redundancies has slowed, the pain is not evenly spread. Young people, disabled people and men are bearing the brunt of the rise."

The ONS figures show youth unemployment is at 14%, also the highest rate in five years. The number of 18-24 year olds out of work rose 80,000 to 575,000.

Mr Harrison said ministers must prioritise a twin focus on rapidly expanding tailored employment support and ensuring those who return to work are able to access secure, well-paid jobs across the country.

Samuel Fuller, Director of Financial Markets Online, said Britain's labour market is in a spiral not a spurt.

He said: "Employers remain deeply wary of taking on new staff and the number of vacancies is all but flat, growing by just 2,000 compared with the previous quarter."

Mr Fuller said stagnation in the UK's vast service sector and employers' concerns about increasing headcount ahead of an imminent rise in the National Minimum Wage were behind the flatlining vacancies.

He too suggested cooling wage inflation and the dip in private sector wage growth set the stage for an interest rate cut as soon as next month, barring any surprises in Wednesday's inflation figures.

The expert said: "This will be welcome news for borrowers and would-be house-buyers, but sterling is wobbling in response. Britain's economy is stuck and global investors are dumping the pound as UK interest rate expectations head lower."