

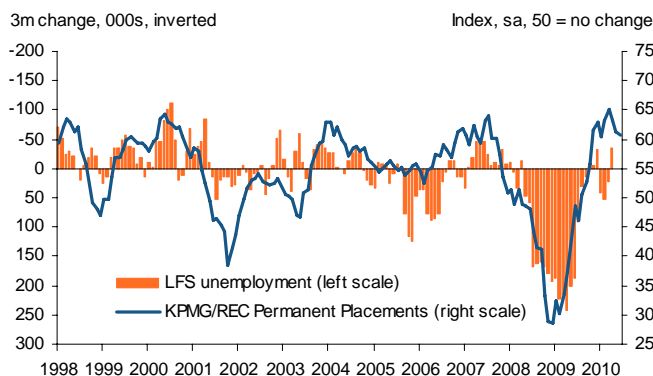
UK labour market

Labour market recovery continues as unemployment falls, but surveys point to only modest improvements further ahead

- **Unemployment falls, but employment growth is driven by surge in part-time working.**
- **PMI and recruitment industry surveys raise doubts on future jobs growth.**

Latest official data signalled a continuation of the recent improvement in UK labour market conditions. The claimant count declined by 20,800 in June, slightly more than analysts' expectations, while the wider Labour Force Survey measure of unemployment showed a decrease of 34,000 in the three months to May to 2.47 million. The unemployment rate edged down from 7.9% to a four-month low of 7.8%.

Recruitment activity and unemployment



Sources: ONS, Markit

Employment growing but doubts remain over sustainability of recovery

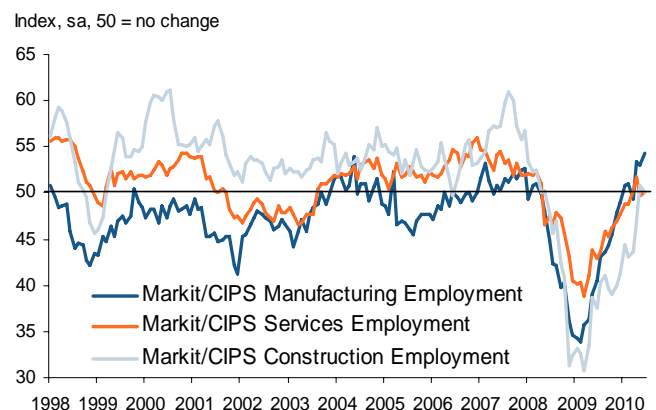
The number of people in employment rose by 160,000 to 28.98 million in the three months to May, the strongest increase for almost four years. The rise was driven by a surge in the number of part-time workers, up by 148,000 over the quarter to 7.82 million, the highest level since records began in 1992. Self-employment increased by 59,000 during the quarter to reach 3.93 million, but the number of full-time employees fell by 22,000 to 18.20 million. These figures suggest that

many people are being forced to work shorter hours in the absence of sufficient numbers of full-time jobs.

Evidence from the recruitment industry indicates that the upturn in employment continued during June. The KPMG/REC Report on Jobs, compiled by Markit, signalled that permanent staff placements increased for an eleventh consecutive month. However, the rate of growth eased further from March's peak to the slowest since January. Agencies' billings from temporary and fixed-term contracts rose at the weakest pace for seven months. Anecdotal evidence provided to Markit by recruitment consultants suggested that softer demand from public sector clients had started to be felt in the latest survey period amid the new government's drive to cut public spending.

The ability of the private sector to generate enough new jobs to absorb the inevitable losses in the public sector remains a concern, with doubts raised by Markit's PMI surveys of private sector services, manufacturing and construction. The All-Sector Employment Index signalled that jobs growth was sustained for a third month running in June, but only at a modest pace. The increase was centred on the manufacturing sector, as employment remained broadly static in services and construction.

PMI employment data



Source: Markit

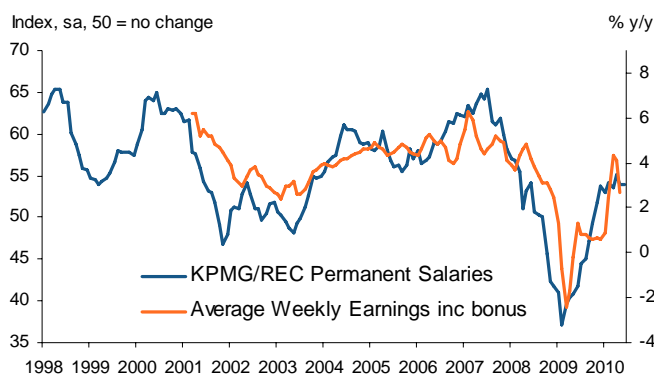
Pay pressures were muted in May, and are likely to have remained so in June

The latest official data signalled subdued earnings growth, suggesting that continued above-target consumer price inflation is so far having little upward effect on pay settlements. Total earnings (including bonuses) rose by 2.7 per cent for the three months to May 2010, down from 4.1 per cent for the three months to April, as the effect of higher bonuses in March this year compared with 2009 waned. 'Core' earnings (excluding bonuses) rose just 1.8 per cent for the three months to May 2010, down from 1.9 per cent for the three months to April.

A similar picture of muted pay growth is shown by the latest Report on Jobs data. The permanent salaries index remained below its long-run average in June, while temp pay also increased at a historically weak rate.

The next snapshot of labour market conditions will be provided by the Report on Jobs, released 4th August, covering July data. To find out how to receive the report, and also for enquiries relating to the PMI surveys, please contact economics@markit.com.

Permanent salaries and average earnings



Source: Markit

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