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Markit Economic Research

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UK labour market

Further signs of weakening labour market

- **Soft labour market preventing pass-through of high inflation to pay rates.**
- **Employment falls at fastest pace since August 2009.**

Today's UK labour market data presented another mixed bag of indicators, though on the whole presented a picture of a softening trend, with weak demand for staff from employers meaning pay growth stayed subdued.

Unemployment up … and down

Especially confusing signals were sent in relation to unemployment. The Labour Force Survey of unemployment (based on data collected from households) showed the number of people out of work rising by 49,000 to 2.5 million in the three months to November, the biggest increase since March 2010. The number of 16-24 year olds out of work rose to the highest since 1992. However, the narrower, but more up to date, measure of unemployment based on the claimant count dropped by 4,100 to reach a 21-month low in December, the third consecutive fall, suggesting we may see some improvement in the Labour Force Survey next month.

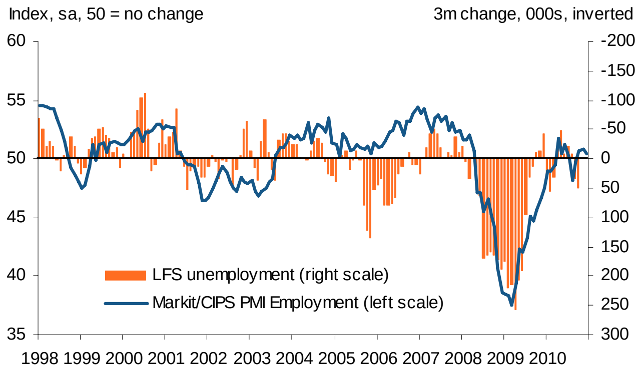
Employment fall led by public sector

Employment, which had been rising strongly over the summer, declined by 69,000 in the latest three-month period – the fastest rate of job losses since August 2009. Public sector employment fell for the third quarter running in Q3, down 77,000 from its peak at the start of 2010, with the rate of job losses gathering momentum. Private sector employment was meanwhile unchanged in Q3, meaning the increase in GDP during the quarter failed to generate jobs growth. Private sector employment remains some 647,000 below its peak in 2008 Q1.

The latest release of official labour market statistics therefore pulled no major surprises. Business survey data, such as the employment indices from the Markit/CIPS PMI surveys and the KPMG/REC surveys of recruitment consultancies, also produced by Markit, have been signalling weak hiring trends in recent months.

The PMI data indicated that rising manufacturing payrolls were offset by falling headcounts in services and construction, leading to an overall stagnation of the private sector workforce in December. The number of people placed in permanent jobs and temporary positions by recruitment consultants meanwhile rose at a weakened pace in the final quarter of last year, despite some signs of a pick up in December.

PMI surveys



Sources: Markit, ONS.

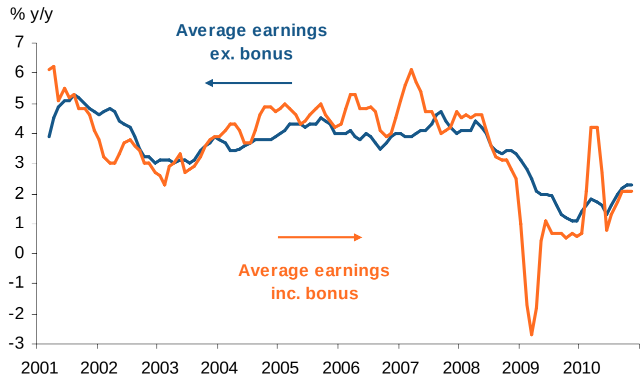
Dampened pay pressures

The earnings numbers from today's release were of particular importance, given yesterday's rise in inflation to an eight-month high of 3.7%. The annual rate of pay growth held steady at 2.1%, suggesting that rising prices show little signs of feeding through to pay negotiations. Such so-called 'second-round' effects are likely to be key to any rise in interest rates by the Bank of England.

Such weak pay pressures look set to have continued up to December at least. The recruitment industry survey, for example, also showed that indices of both permanent and temporary pay remained below their long-run averages (and well below pre-crisis averages) at the end of last year.

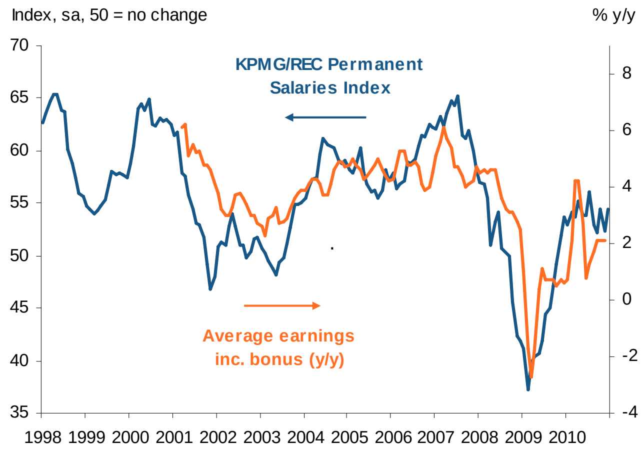
Furthermore, with the private sector showing a limited ability to offset the squeeze on public sector employment, job insecurity is set to remain high for some time during 2011, bearing down on pay pressures. This should help keep core inflation down in the medium term, offsetting rising energy and food prices. Today's numbers should therefore alleviate pressure on the Bank of England to hike interest rates in the face of a temporary spike in inflation while the economic recovery remains fragile.

Average earnings



Source: ONS.

Permanent salaries and average earnings



Sources: Markit; ONS.

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