

UK labour market

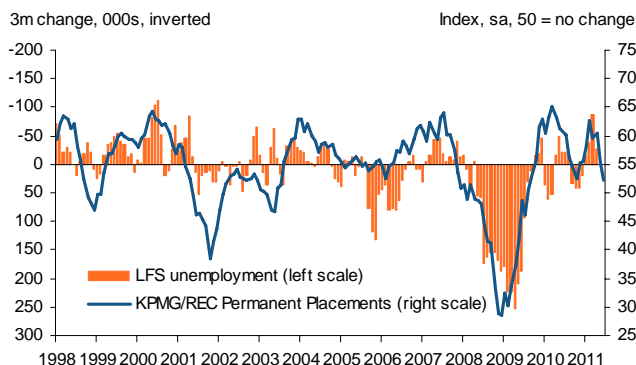
Official labour market data mixed, but surveys point to weakness ahead

- **Different measures of unemployment again show contrasting trends.**
- **Pay growth quickens but remains muted and well below rate of inflation.**

This morning saw another set of mixed UK labour market data from the Office for National Statistics (ONS). The number claiming jobseekers' allowance showed the largest monthly jump for two years in June and, at 1.52 million, is now 70 thousand (5%) higher than the low reached in February. The Labour Force Survey, on the other hand, suggested that unemployment fell by 26 thousand in the three months to May to 2.45 million and that employment rose to the highest since January 2009.

The ONS state that the claimant count data were again distorted by changes to benefit rules, suggesting that the wider Labour Force Survey currently paints the more reliable picture of the health of the job market. However, while these data suggest some tentative improvement in the labour market, more up to date information suggests that weakness lies ahead. The number of job vacancies, excluding distortions due to census hiring, fell by 7,000 between the first and second quarters of the year, and Markit's recent survey of recruitment consultancies for REC/KPMG showed that the number of people placed in permanent jobs showed the weakest rise for 22 months in June.

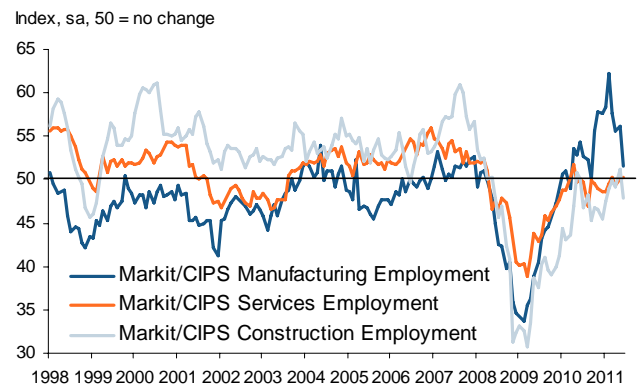
Permanent placements and unemployment



Sources: Markit, ONS.

PMI™ data from Markit/CIPS, meanwhile, signalled that private sector jobs growth almost stagnated in June. Hiring in the dominant service sector remained anaemic, while manufacturing staffing levels rose at the weakest pace for nine months and construction jobs fell outright.

PMI employment by sector



Source: Markit.

Pay growth also remains weak, indicative of still high unemployment – 7.7% (down slightly from 7.8%) – and low pay bargaining power as employees generally remained worried about job security. Average total pay including bonuses rose 2.3% on a year earlier in the three months to May, up from 2.0% in the previous month but still well below the current rate of inflation, which is running at 4.2% (and was 4.5% in May).

Average earnings and consumer price inflation



Source: ONS.

The combination of weak pay growth, squeezed real incomes and signs of an ongoing reluctance among employers to take on staff in the face of uncertain economic conditions is likely to act as a drag on economic growth, which we expect to have more or less stagnated in the second quarter. However, these weak data plus the recent easing in the rate of inflation

will add weight to the doves on the Bank of England's Monetary Policy Committee who are considering a further bout of quantitative easing.

For more information about the Report on Jobs and Markit PMIs, please contact economics@markit.com.

Chris Williamson

Chief Economist

Markit

Tel: +44 207 260 2329

Email: chris.williamson@markit.com

For further information, please visit www.markit.com

Jack Kennedy

Senior Economist

Markit

Tel: +44 1491 461 087

Email: jack.kennedy@markit.com

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