

UK labour market

Jobless rate climbs to 8.3% as youth unemployment breaks one million

- **Unemployment up to 2.622 million, highest since 1994**
- **Pay pressures weaken**

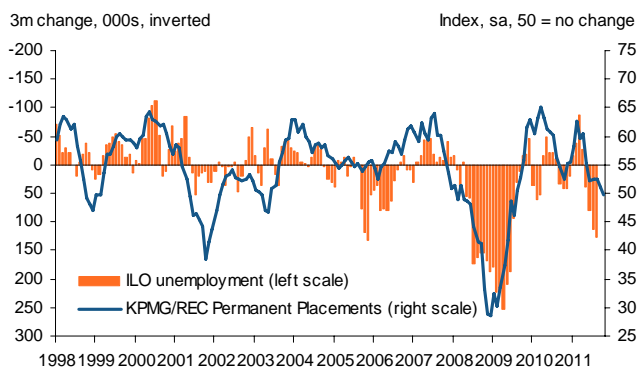
This morning's official data showed a further deterioration in labour market conditions. The rate of unemployment hit 8.3% in the three months to September, up from 8.1% in the three months to August and the highest since the spring of 1996. However, the actual number out of work reached 2.622 million, the highest since 1994.

The bleak figures raise concern that the UK economic recovery is fading away, and that a long-term impact will be felt among the nation's youth. Indeed, the number of unemployed aged less than 25 rose above the one million mark for the first time since comparable data were first available in 1992. More than one-in-five (22%) 16-24 year olds are currently unemployed.

Survey data signal reduced hiring activity

The deterioration in official labour market data chimes with recent survey evidence from the KPMG/REC Report on Jobs, compiled by Markit. The survey's headline Permanent Placements Index has exhibited a weakening trend in recent months, in advance of available official data, and dropped below the 50 no-change threshold for the first time in over two years during October.

Permanent placements and unemployment



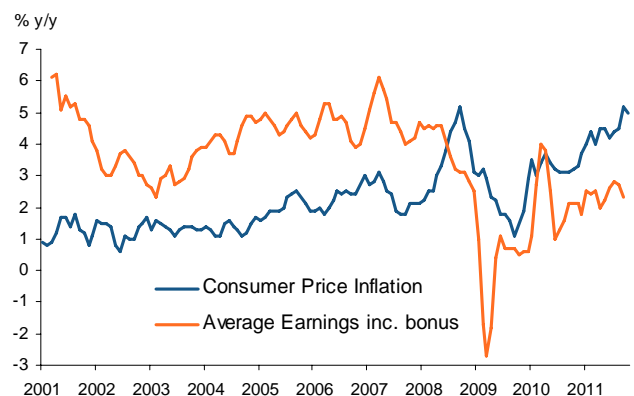
Sources: Markit, ONS.

The magnitude of the latest three-month change in unemployment is greater than that suggested by the level of the placements index, but both indicators are clearly pointing downwards. The decline in the placements index is particularly worrying, however, as it indicates that a clear downturn demand for staff at employers is occurring at the same time as widespread public sector lay offs.

Earnings growth eases

The latest official data also signalled a marked weakening of pay pressures, with average earnings rising just 2.3% in the three months to September, down from 2.7%. Excluding bonuses, pay rose just 1.7%. With inflation running at 5.0%, incomes are clearly growing at a much slower pace than average prices for goods and services, resulting in an ongoing substantial squeeze on real incomes.

Inflation and average earnings



Source: ONS.

An easing in the rate of inflation in October helped to offset the rise in unemployment to leave the so-called Misery Index unchanged, but it remains at a disturbing 19-year high. While this is a crude indicator, it is nevertheless useful in highlighting the plight faced by households at the moment and suggests that consumer spending, and therefore economic growth, will remain subdued at best in the fourth quarter. However, the squeeze on incomes is likely to ease as inflation looks set to fall, perhaps quite markedly, as

we move into the new year, suggesting we will begin to feel less 'miserable'.

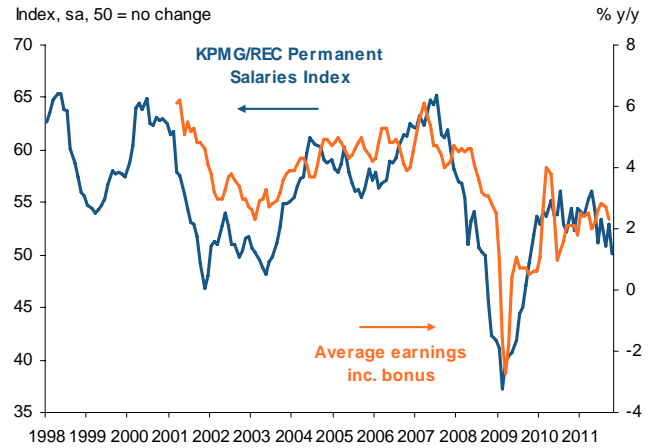
UK Misery Index

UK misery index (retail price inflation and unemployment rates)



While things may be set to get better on the inflation front, there is currently little to suggest a meaningful improvement in earnings growth is in the offing. The Report on Jobs showed that average permanent staff salaries broadly stagnated in October, the weakest outturn in two years.

Permanent salaries and average earnings



Sources: Markit, ONS.

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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