

UK labour market

Unemployment hits two million, set to rise much further

- **Jobless rate climbs to 11-year high.**
- **Prolonged recession could push unemployment above 3 million.**

UK unemployment rose through the two million mark for the first time since 1997 in the three months to January. Official data released 18th March showed that the total number of people out of work rose by 165,000, pushing the jobless rate (as defined by the International Labour Organisation) up to an eleven-year high of 6.5%.

Many economists now forecast unemployment to peak at well over three million, exceeding the levels seen in the early 1980s and 1990s recessions.

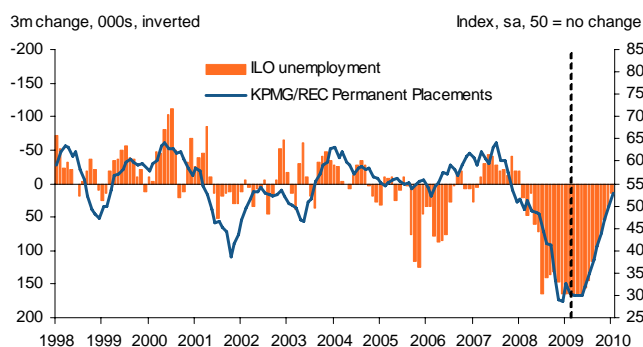
The steep increases in the jobless total over recent months mirrors extreme weakness in the recruitment market as signalled by the KPMG/REC Report on Jobs, produced by Markit. The survey's Permanent Placements Index has historically provided a useful guide to swings in unemployment (see charts).

Two scenarios are examined in the comparisons shown on the right; the first is a swift, 'V-shaped' recovery of the labour market, which broadly corresponds with the government's current expectation of a stabilising of the economy in the second half of this year and return to growth in 2010. In this scenario, labour demand improves quickly and the cumulative rise in unemployment would leave the total out of work at around 2.4 million.

In the second (gloomier) scenario, the job market remains depressed throughout 2009 before weakness fades in 2010. This assumes a 'U-shaped' recovery and corresponds with the latest draft IMF forecasts that recession in the UK will extend well into next year. In this case, unemployment could stand at around 3.1 million by the end of 2010.

The duration to which labour demand stays muted will be a key determinant as to how far unemployment will rise in the current cycle. Consequently, the Report on

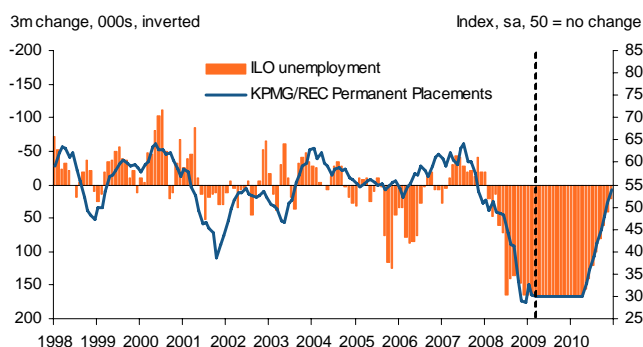
Scenario 1: V-shaped recovery Unemployment to peak at around 2.4 million



Assumptions:

	Q1 '09	Q2 '09	Q3 '09	Q4 '09
Placements Index (ave)	30.9	30.7	38.0	47.0
Unemployment '000	2140	2290	2390	2420

Scenario 2: U-shaped recovery Unemployment to peak over 3 million



Assumptions:

	Q1 '09	Q2 '09	Q3 '09	Q4 '09
Placements Index (ave)	30.9	30.0	30.0	30.0
Unemployment '000	2190	2360	2520	2690

	Q1 '10	Q2 '10	Q3 '10	Q4 '10
Placements Index (ave)	30.0	33.0	42.0	51.0
Unemployment '000	2850	2990	3070	3090

Sources: Markit Economics, Office for National Statistics.

Jobs has a key part to play in monitoring the speed and scope of any recovery.

The next snapshot of labour market conditions will be provided by the Report on Jobs, released April 8th, covering March data. To find out how to receive the report, please contact economics@markit.com.

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