

UK labour market

Unemployment rose in February, but latest survey evidence indicates labour market has turned the corner

- **Mixed bag of official data raise uncertainty about the labour market...**
- **...but recruitment consultants report increased hiring activity.**

There was mixed news for the UK labour market in Wednesday's official data. On the one hand, unemployment according to the International Labour Organisation definition climbed by 43,000 between December and February to 2.5 million, its highest level for 15 years. But the number of people claiming jobless benefits fell by 37,000 to 1.54 million in March, as government training and employment schemes helped to keep down dole queues.

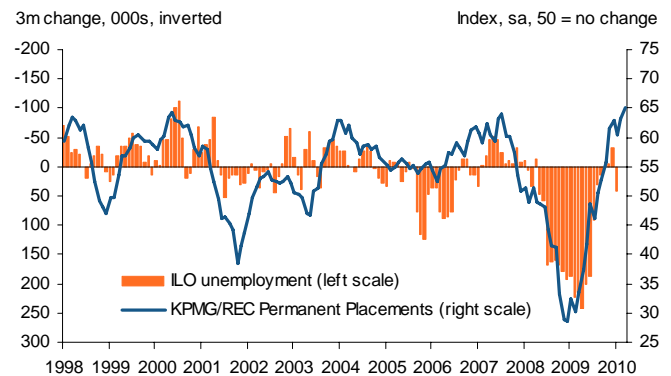
A detailed breakdown is not yet available, and it is possible that some of the weakness of ILO unemployment in February may have reflected bad weather conditions which hit the construction and retail sectors in particular, but the contrasting trends in the unemployment measures adds to uncertainty about the strength and sustainability of the recovery. Business survey evidence, on the other hand, seems to point in one direction: that of improving job market conditions and sharply rising recruitment activity.

Permanent placements rising strongly

The KPMG/REC Report on Jobs, compiled by Markit, signalled that the number of people placed in permanent jobs by recruitment consultancies in the UK rose in March at the fastest rate since October 1997. Growth of permanent staff appointments has been recorded throughout the past eight months, following a steep decline in the aftermath of the financial crisis. In March, over 50% of agencies reported a rise in placements against just 14% that saw a fall.

Recruitment consultancies are well-placed to pick up on early changes in prevailing conditions, and trends in placements tend to move in advance of those in unemployment. The Report on Jobs data suggest that official figures will show improvement in the coming months.

Recruitment activity and unemployment



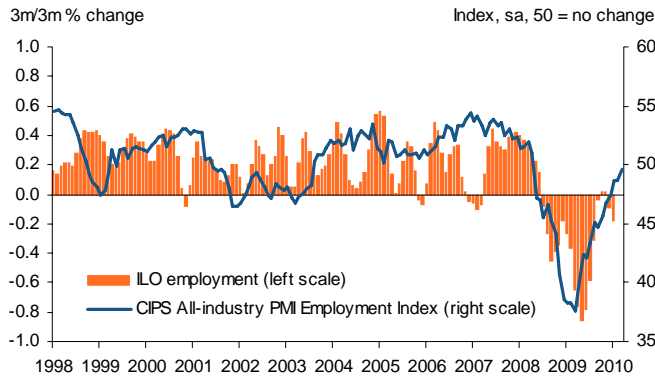
Sources: Office for National Statistics, Markit.

Private sector employment stabilising

The most up-to-date official employment data – currently available only up to the end of December – highlight a disparity between the public and private sectors. Public sector jobs rose by 7,000 in the final quarter of last year, taking public payroll numbers 46,000 higher than a year earlier, while private sector employment declined by 61,000, leaving it 527,000 down on a year ago.

The private sector's performance will be key to determining labour market prospects once large-scale job cuts hit the public sector, as is widely expected to occur following the General Election. It is therefore encouraging to see an improvement in this respect; the latest Markit/CIPS PMI data signalled that employment at private sector firms across the services, manufacturing and construction sectors broadly stabilised in March following a sustained downturn since May 2008. Again, this indicates that unemployment should fall in coming months.

PMI survey and employment



Sources: Office for National Statistics, Markit.

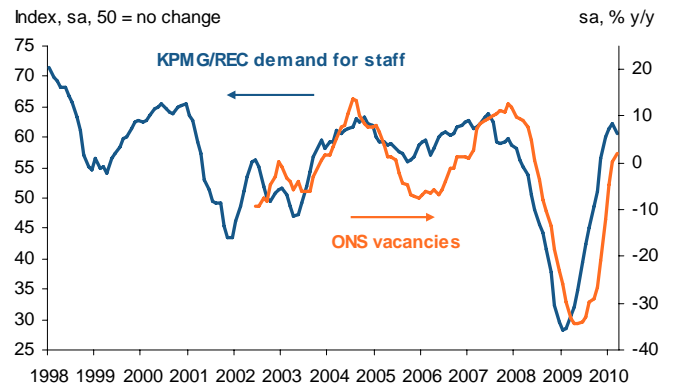
Demand for staff picks up

Further evidence of improving conditions is provided by the latest official data on job vacancies. For the second consecutive month, an annual rise in vacancies was recorded in March. Although the rate of growth was moderate, at 1.9%, it was nevertheless the sharpest since May 2008.

Official vacancy data correlate well with demand for staff as measured by the Report on Jobs, with the latter displaying leading indicator properties. The Report on Jobs vacancy series provided early indications of the

slowdown in 2007 and also signalled the start of the recovery in early 2009, before these trends were apparent in the official data. The recent strength of the index suggests that the ONS vacancy series will continue to show an upward trend in the coming months.

Vacancies rise as the demand for staff picks up



Sources: Office for National Statistics, Markit.

The next snapshot of labour market conditions will be provided by the Report on Jobs, released 5th May 2010, covering April data. To find out how to receive the report, and also for enquiries relating to the PMI surveys, please contact economics@markit.com.

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