

UK labour market

Labour market shows signs of fragility after robust start to the year

- **Labour market on the mend in Q1 but signs of renewed weakness apparent.**
- **Average earnings growth slowed and remains well below consumer price inflation.**

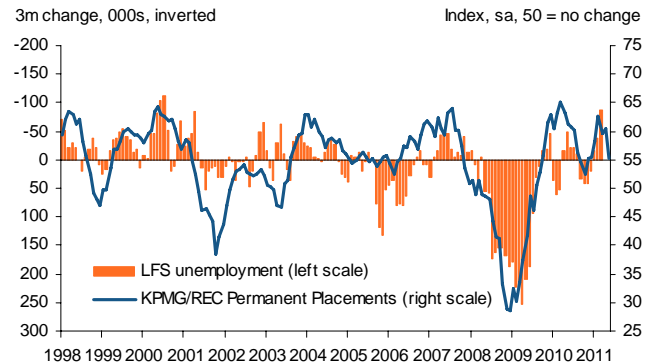
Latest official data provided more mixed news on the labour market. On the one hand, the broader ILO measure of unemployment declined by 88,000 to 2.43 million in the three months to April, the largest drop for more than a decade, and employment rose by 80,000 over the same period. On the other hand, more up-to-date information on the number of people claiming jobless benefit showed an increase of 19,600 to 1.49 million in May, the biggest rise for almost two years.

The data also showed that private sector job creation was sufficient to absorb a fall in government jobs during the first quarter of the year. Private sector employment increased by 104,000, versus a 24,000 drop in public sector jobs. However, the drop in government jobs would have been 39,000 excluding temporary hiring for the Census. Moreover, although overall employment rose by 80,000 in the three months to April, it actually fell by 1,000 in April itself.

The weaker employment and claimant count data for April therefore raise suspicion that the labour market may have softened, having shown some resilience in the early part of 2011. This corresponds with survey evidence from the KPMG/REC Report on Jobs, which signalled a sharp slowing in the rate of growth of staff placements in May to a seven-month low.

Business surveys meanwhile suggest the private sector may struggle to generate substantial numbers of jobs in coming months. The Markit/CIPS PMI™ surveys indicated that private sector output growth eased to a five-month low in May, while employment rose at a subdued pace.

Permanent placements and unemployment



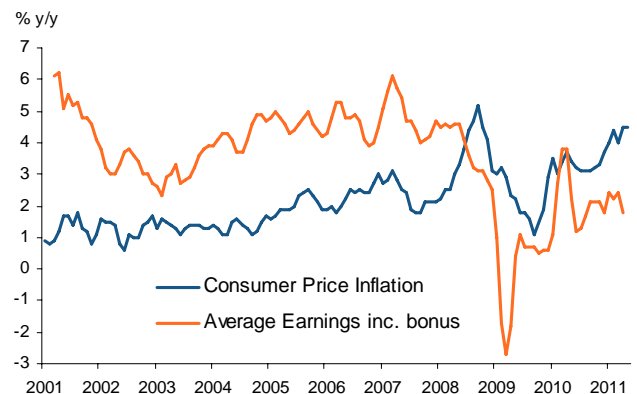
Sources: Markit, ONS.

It remains to be seen if the recent weakening of the labour market trend is the start of a renewed downturn or a soft-spot caused by temporary factors, such as the timing of Easter, Royal Wedding and extra public holiday in April.

Weak pay pressures

Pay growth remained very muted in April, especially in the private sector, highlighting widespread job insecurity. Average weekly earnings including bonuses rose just 1.8% on a year ago in the three months to April, down from 2.4% in March. Private sector pay was up just 1.6%. With inflation running at 4.5%, real take-home pay is clearly falling, putting pressure on consumer spending.

Average earnings and consumer price inflation



Source: ONS.

With real incomes falling, it is not surprising that the consumer sector was technically back in recession in the first quarter of the year, according to official consumer spending data, and looks likely to have acted as a further drag on the economic recovery in the second quarter.

On the other hand, the good news from the low level of pay growth is that the Bank of England will be

reassured that high inflation is still not feeding through to pay negotiations. Such 'second-round' inflation effects from a wage-price spiral are a big concern to policymakers and would be a key trigger for an early rate hike. The latest data therefore lend support to the doves on the Bank of England's Monetary Policy Committee, indicating that underlying inflationary pressures remain under control.

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