

# UK labour market

## Further fall in unemployment, but labour market conditions remain fragile

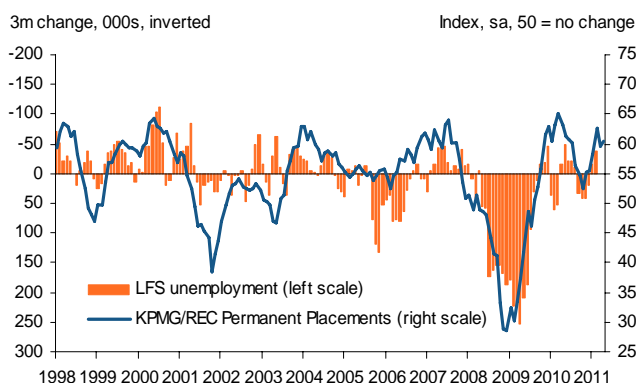
- **Unemployment fell 36,000 in first three months of 2011.**
- **Earnings growth remains well below rate of inflation.**

There were more mixed signals from the official labour market data this morning, as claimant count unemployment rose but the ILO measure showed falling joblessness. However, the general message seems to be one of an improving – albeit still fragile – labour market.

Unemployment, according to the government's preferred ILO definition, declined by 36,000 in the three months to March to reach 2.46 million. The number of people claiming jobless benefits increased by 12,400 in April, but this was skewed by an increase in claimants (largely female) switching from lone parent income support.

With claimant count data affected by changes to benefit rules, it seems appropriate to focus on the wider survey-based measure of unemployment. This showed the rate of joblessness falling to 7.7% in the three months to March, down from 7.8% in the three months to February and the lowest since September 2010. Employment meanwhile rose by 118,000.

### Permanent placements and unemployment

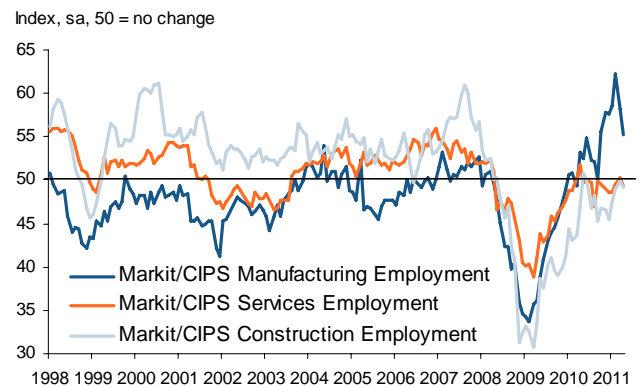


Sources: Markit, ONS.

This positive news tallies well with the business surveys and evidence from recruitment consultancies. The KPMG/REC Report on Jobs, compiled by Markit, indicated continued marked growth of permanent staff placements in April.

The Markit/CIPS PMI surveys, meanwhile, have signalled increased private sector employment in each of the past four months. That said, growth has largely been confined to the manufacturing sector, which now appears to be in the grip of a marked slowdown. ONS data indicate that manufacturing job vacancies increased 15.5% on a quarterly basis in the three months to April, compared with a 5.9% decline across all industries.

### PMI employment by sector

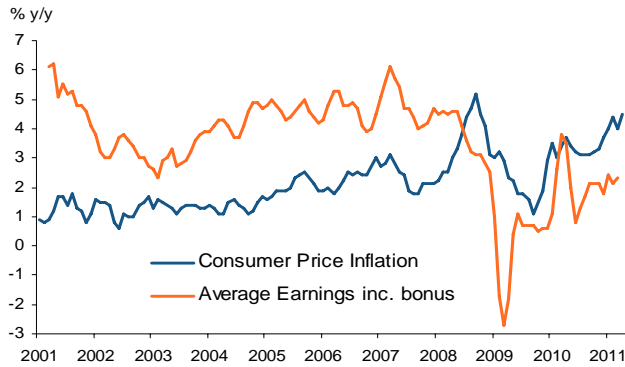


Source: Markit.

### Muted pay growth

Perhaps the most telling gauge of the labour market's health, however, is pay growth, which remains very weak. This reflects widespread job insecurity as employees worry about the uncertain economic outlook. The underlying annual rate of pay growth (excluding bonuses) fell from 2.2% to just 2.1%, while headline pay growth was just 2.3%. That was up from 2.0% but still very weak by historical standards.

**Average earnings and consumer price inflation**

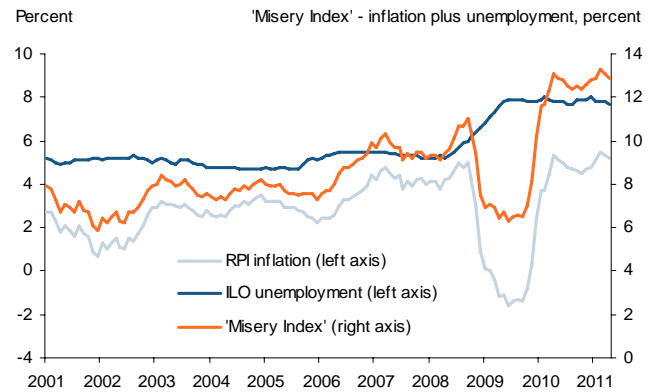


Source: ONS.

The advantage of low pay growth is that it will help keep the current high rate of inflation from becoming entrenched. The downside is that, with inflation at 4.5%, this means that real pay is falling at a rate of 2.3% per annum, which is going to further stifle consumer spending.

This weakness of the household sector may well be a feature of the economy for some time to come. The so-called Misery Index – which combines the rate of inflation and unemployment – remains uncomfortably close to the 20-year high seen back in February.

**'Misery Index'**



Sources: Markit, ONS.

**Chris Williamson**

**Chief Economist**

Markit

Tel: +44 207 260 2329

Email: [chris.williamson@markit.com](mailto:chris.williamson@markit.com)

For further information, please visit [www.markit.com](http://www.markit.com)

**Jack Kennedy**

**Senior Economist**

Markit

Tel: +44 1491 461 087

Email: [jack.kennedy@markit.com](mailto:jack.kennedy@markit.com)

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