

United Kingdom

Rising employee pay sits uncomfortably with loose policy stance

- **Recruiters report strongest upward pay pressure since mid-2007**
- **Official data, which already show pay growth far above inflation in some sectors, set to improve**
- **Policy makers will need to reassure pay will not feed through to inflation**

Income from employment is rising, and some sectors are already seeing pay growth well above inflation. With the recruitment industry reporting that salaries have risen at the fastest rate since 2007, policy makers will come under pressures to reassure that the easy-money stance is appropriate.

Pay growth hits seven-year high

Pay pressures hit their highest since mid-2007, according to the March recruitment industry survey, conducted by Markit on behalf of REC and KPMG. The index measuring changes in pay awarded to people taking up permanent positions shows that salary pressures have risen over much of the past year, with especially strong rates of increase signalled since last November.

The higher pay awards reflect shortages of suitable staff. Recruiters reported that the availability of candidates to fill permanent vacancies deteriorated at the fastest rate for just under ten years in March. This in part reflects surging demand for staff, which has shown some of the strongest growth rates seen in the recruitment survey's sixteen-and-a-half year history in recent months.

The upturn in employment signalled by the recruitment industry survey matches similar record growth of job creation signalled by the Markit/CIPS PMI surveys. The upbeat surveys are also reflected in improving official data: claimant count unemployment has shown some of the largest falls on record in recent months and employment has shown near-record commensurate rises.

There remains, however, a major divergence between the survey and official data relating to employee pay.

Wage pressures



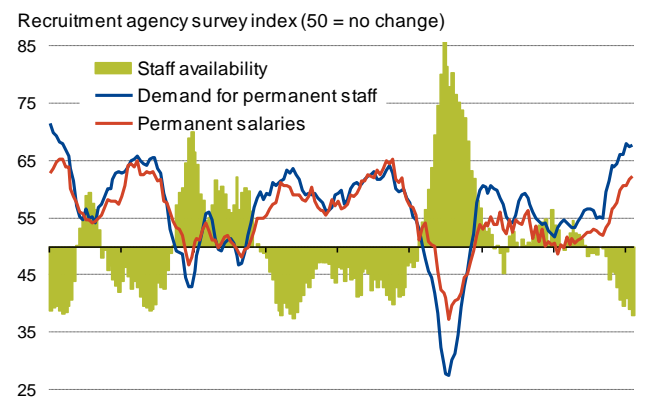
Sources: Markit, ONS via Ecwin.

Average weekly pay, annual % change

	All workers	Manufacturing	Construction	Wholesale, retail, hotels & restaurants	Finance and business services	Public sector excl financial services
Aug 13	0.6	1.6	2.1	3.3	-1.1	-0.4
Sep 13	0.9	1.8	2.7	3.1	-0.5	0.3
Oct 13	1.1	2.1	0.1	3.3	-0.2	0.5
Nov 13	0.8	2.7	0.7	2.6	-0.8	0.6
Dec 13	1.7	2.9	2.2	3.9	1.0	0.7
Jan 14	1.7	3.9	6.1	4.6	-0.6	1.3

Source ONS.

Rising demand for staff pushing pay higher



Sources: Markit, REC, KPMG.

Continued ...

While the survey measure has surged higher, the official rate of pay growth remains in the doldrums at just 1.4% in the three months to January.

However, the weak headline rate of employee earnings disguises underlying signs of strengthening pay growth. This is partly because the official rate is a three-month moving average, which induces lags. The weekly pay table shows the annual changes in a single month, highlighting that annual pay growth was in fact 1.7% in both December and January, which matches the current rate of consumer price inflation. A return to real pay growth therefore is on the cards for February.

The one-month data also indicate how strong pay pressures are in some sectors: construction pay was up 6.1% on a year ago in January, wholesale, retail, hotels and restaurant workers saw a 4.6% annual pay increase and manufacturing staff saw their pay rise 3.9% on a year ago.

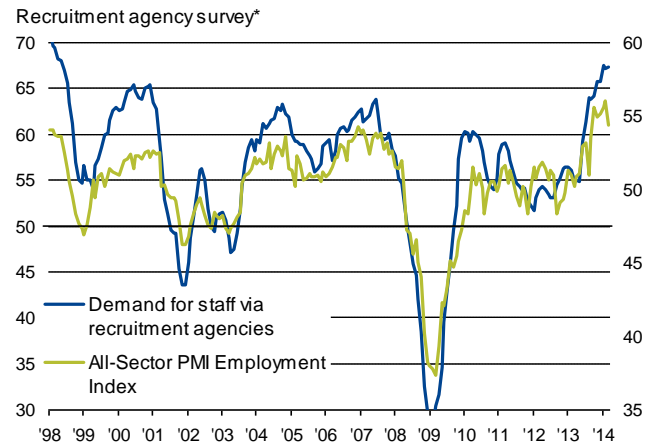
The overall rate of pay growth is being held back by weak trends in the public sector and financial services.

Pay to apply pressure on policy makers

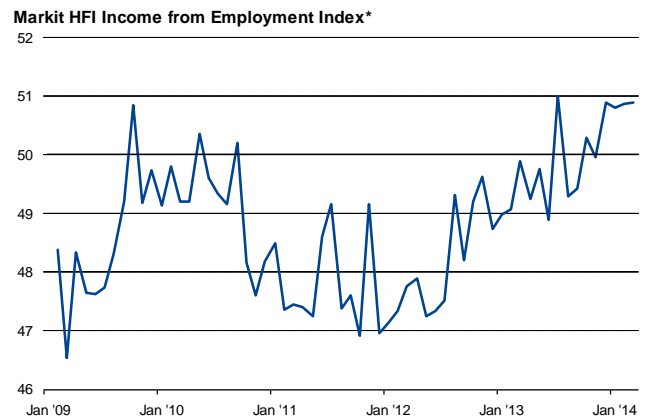
Households are already in fact reporting month-on-month improvements in their income from employment, according to Markit's Household Finance Index survey of 1,500 households. Income rose for a fourth successive month in March.

Given the improvements in the recruitment industry, the PMI and the HFI survey data on employment and income, it seems likely that the official data will likewise show rising pay growth as we move into the summer. That in turn will put pressure on the Bank of England to reassure that it is appropriate for interest rates to stay low for long and that pay pressures will not feed through into higher inflation in the absence of higher interest rates.

Survey measures of employment



Household survey: income from employment



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