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Markit Economic Research

09/01/2014

United Kingdom

Surge in recruitment points to upturn in pay growth and further jobless fall

- **Recruitment agencies report further strong surge in job creation in December**
- **Survey adds to signs that pay growth will soon rise and unemployment will continue to fall**

Job creation continued to surge in December, according to recruitment agencies. Alongside deteriorating staff availability, rising demand for workers pushed up pay rates at the fastest pace for six years. The data therefore suggest that unemployment should continue to fall sharply, possibly breaching the Bank of England's policy threshold of 7% in early 2014, and that a return to real wages growth is in sight for 2014.

Recruitment agencies reported that the number of people placed in permanent jobs rose in December at the second fastest rate since late-1997, according to Markit's survey of the industry, conducted on behalf of REC and KPMG. The rise was exceeded only by that seen in March 2010.

The increase in placements reflected another steep increase in demand for permanent staff from employers, which rose at a pace only marginally weaker than the 15-year high seen in November.

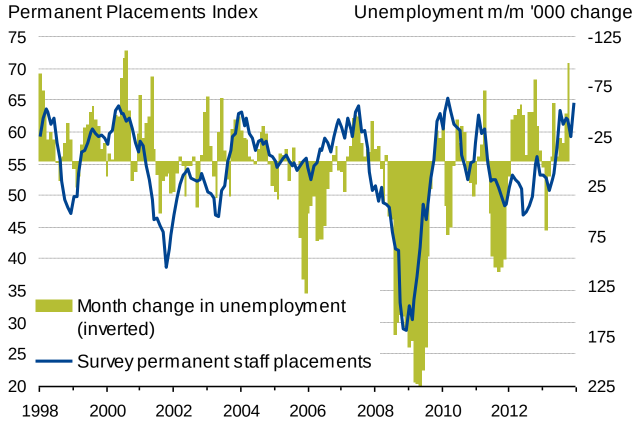
Revenues received from the employment of temporary and contract staff also rose at the fastest rate since mid-1998, underscoring the gathering momentum behind the labour market upturn at the end of last year.

However, the surge in demand for staff has generated skill shortages, leading recruiters to report the largest deterioration in availability of staff to fill permanent jobs since November 2004. The availability of temp and contract staff also continued to deteriorate at a historically strong pace.

Pay growth on the rise

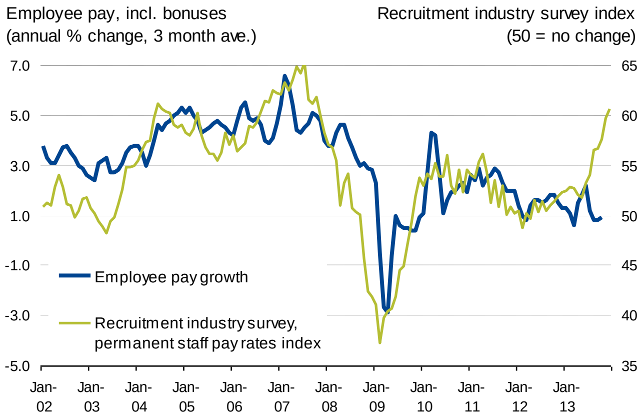
With demand for staff surging higher but availability of candidates deteriorating, higher salaries often had to be offered to tempt recruits into new jobs. On average, pay offered to new employees rose at the fastest rate since October 2007.

Permanent placements v. unemployment



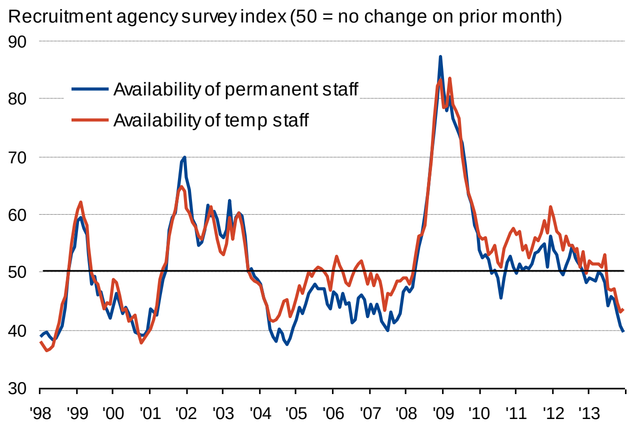
Sources: ONS, Markit.

Pay growth



Sources: Markit, ONS via Ecowin.

Recruitment survey staff availability



Source: Markit (KPMG/REC Report on Jobs).

The upturn in pay has yet to materialise in official data, but adds to evidence that employee earnings growth could rise above inflation over the course of the next year, thereby rising in real terms for the first time since late-2009. The latest available official data provide a picture only up to the three months to October, showing pay rising at an annual rate of just 0.9%. Consumer price inflation was meanwhile running at 2.1% in November.

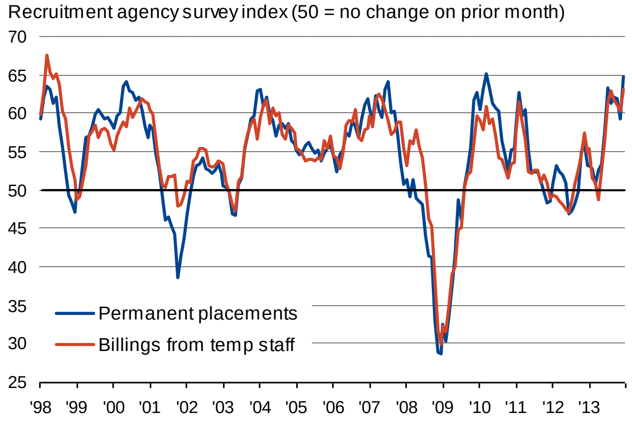
The recovery of real wage growth is widely seen as a key element of a more sustainable and robust economic recovery.

Unemployment to continue falling

However, perhaps more importantly from a policy perspective is the implication for unemployment. The Bank of England has pledged not to consider raising interest rates from their record low until unemployment has at least fallen below 7.0%. Back in the summer, with unemployment running at 7.8%, the Bank originally did not envisage this to happen until mid-2016. However, job market improvements then encouraged the Bank in November to pull forward its expectation of when the 7.0% threshold is likely to be breached to late-2014.

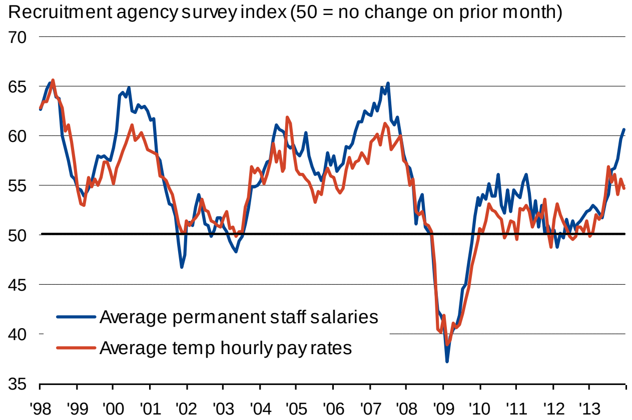
Even that new forecast already looks out of date. The official data have since signalled a drop in unemployment to 7.4%. The monthly data which lie behind the headline unemployment rate (which is a three month average) suggest the unemployment rate could fall to 7.0% in early 2014, providing the job market continued to improve. The recruitment agency survey, alongside the buoyant PMI surveys, suggest that – if anything – job creation accelerated in December, making the breaching of the 7.0% threshold look increasingly imminent.

Permanent placements and temp staff revenues



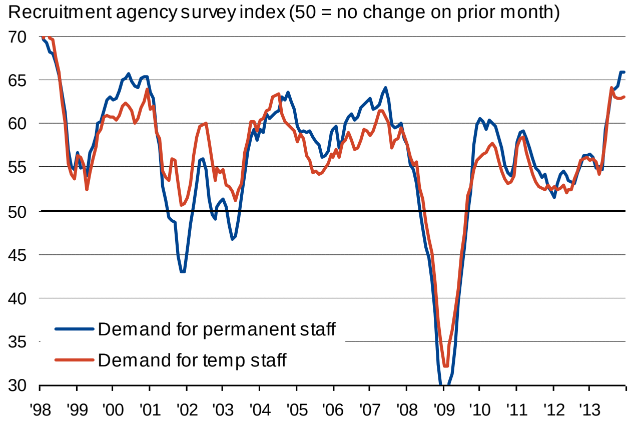
Source: Markit (KPMG/REC Report on Jobs).

Recruitment survey pay rates



Source: Markit (KPMG/REC Report on Jobs).

Demand for staff



Source: Markit (KPMG/REC Report on Jobs).

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