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Markit Economic Research

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United Kingdom

Survey points to further drop in unemployment and rising pay pressures

- **Recruiters report strongest pay pressures since late-1990s amid record drop in staff availability**
- **Unemployment to have dropped further in the summer**
- **Policymakers puzzled by lack of pay growth**

Surging demand for staff and a record deterioration in staff availability led to a further steep increase in pay rates in July, according to recruitment industry survey data.

Data collected by Markit on behalf of the REC and KPMG found starting salaries for permanent staff continued to rise at a rate not seen since the late-1990s in July and temp pay growth rose at a pace just shy of June's six-and-a-half year high.

Recruiters reported that higher pay rates were having to be offered in order to attract suitable staff as skill shortages grew increasingly widespread. The availability of candidates to fill permanent positions deteriorated to the greatest extent seen since survey data were first available in 1997.

Unemployment plunge to continue

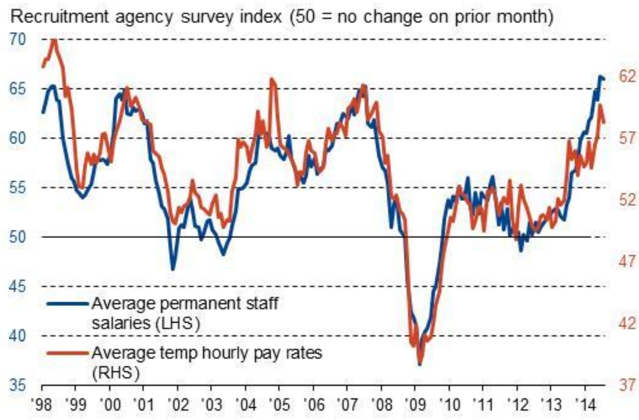
The demand for staff also continues to surge higher, with July seeing recruiters report one of the largest monthly upturns in demand for staff by employers in the survey's 17-year history.

The recruitment industry data add a valuable insight into employment trends and they are available well ahead of comparable official labour markets statistics. For example, the persistent strength of the demand for staff in recent months indicates that the official measure of unemployment will continue to fall from the latest estimate, which showed joblessness running at 6.5% in the three months to May. A further drop to 6.2% or even 6.1% looks possible by July given the strength of the survey data.

Odds increase of 2014 rate hike

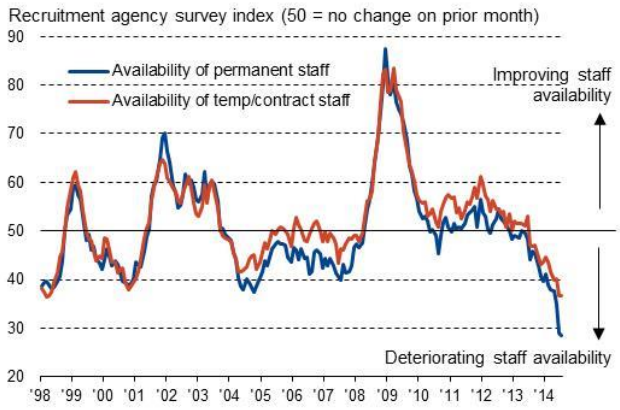
The tightening labour market that has accompanied the current spell of very strong economic growth raises

Wage pressures



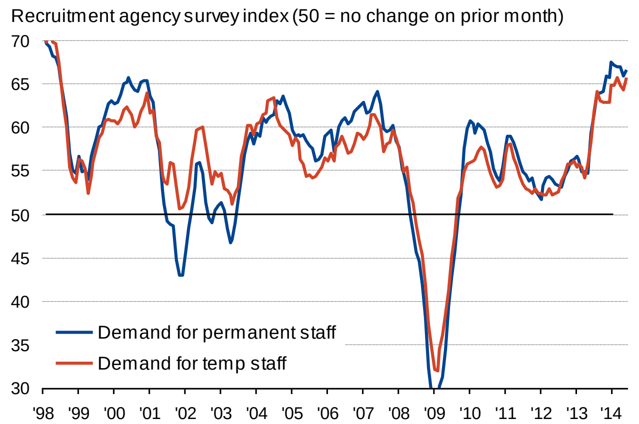
Source: Markit (KPMG/REC Report on Jobs).

Recruitment survey staff availability



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

Recruitment survey demand for staff



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

the likelihood of the Bank of England hiking interest rates later this year, rather than waiting until next year.

However, while some members of the Bank's Monetary Policy Committee will be increasingly nervous that policy is being left too loose for too long, risking higher interest rates at a later date, others will be minded to keep interest rates at their record low of 0.5% until official pay data follow the survey data upward.

The latest official pay data in fact showed average weekly employee earnings growing at the slowest rate on record, up just 0.7% on a year ago in the three months to May (excluding bonuses).

The policy debate now appears to be hinge largely on pay growth. Until pay rises, there is a clear argument for not raising interest rates: not only is there no inflationary threat from the labour market, but households will also struggle to cope with higher mortgage costs.

Pay growth puzzle

Discussion is likely to be centred on the puzzle as to why official pay data are not behaving as expected, showing no signs of picking up in response to record hiring and a steep downturn in joblessness.

A concern is that the official data may be understating pay growth, perhaps due to temporary factors such as year-on-year comparisons being distorted by last year's change to the higher rate tax bracket, and that pay could therefore soon start rising in the second half of 2014.

In this scenario, policymakers are being lulled into a false sense of low inflationary pressures which could change rapidly, meaning a rate hike in November looks likely.

The other, less likely, scenario is one where wage growth remains weak until new pay deals are negotiated in the new year, meaning the first rate hike is delayed until the second quarter of 2015. Next week's Inflation Report will hopefully provide more guidance on which scenario the Bank of England perceives to be the more likely.

Official and recruitment survey pay data compared

Sources: Markit, ONS via Ecowin.

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