

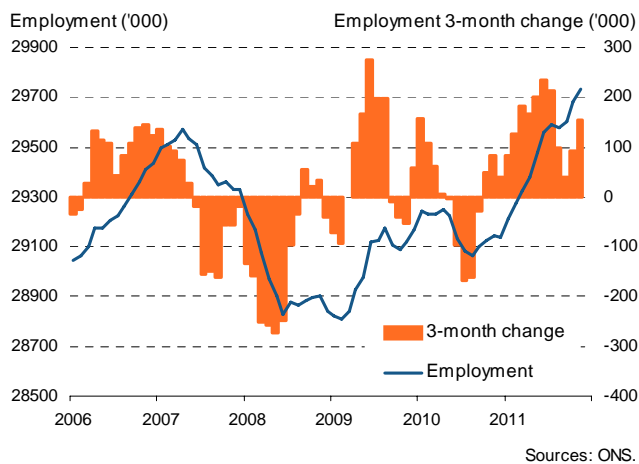
United Kingdom

UK employment reaches all-time high

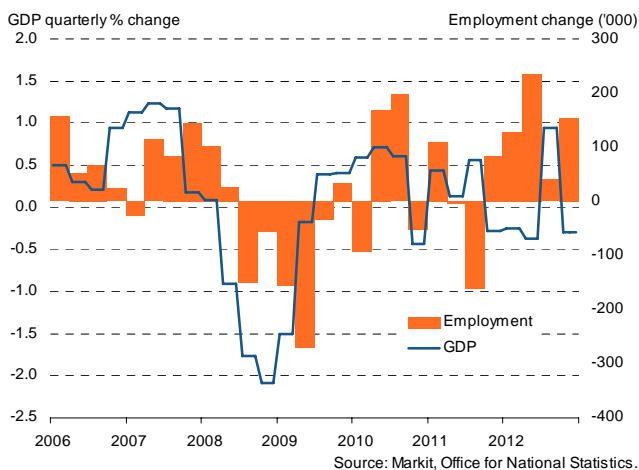
- Employment rises 154,00 in Q4 to record high, contrasting with 0.3% GDP fall
- Claimant count falls but unemployment rate rises to 7.8%
- Income squeeze intensifies
- Surveys point to further job growth in January

The head scratching intensifies as data show employment rising to a new all-time high at the same time as the economy contracted at the end of last year.

Employment



GDP v employment growth



While GDP data showed the output of the country falling 0.3% in the final three months of last year,

unemployment fell by 13,000 to 2.501 million and employment rose by 154,000 to a new record of 29.73 million, its highest since records began in 1971.

Unemployment has fallen by 156,000 over the last year, and employment risen by 584,000, but over this same period the economy has stagnated.

One of the most likely explanations of the so-called "productivity puzzle" is that companies are either reluctant or unable to make big investments in new plant, machinery and equipment, perhaps due to the uncertain economic outlook or a lack of available finance, or a combination of both. Companies have instead taken on more staff, meaning production has become more labour intensive and therefore less efficient in many cases. If this is the case, it is a worrying sign of deteriorating competitiveness for UK plc.

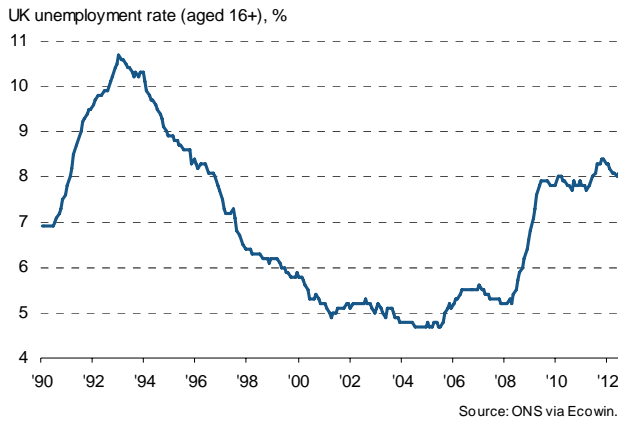
There were mixed signals on unemployment. The household survey based measure rose to 7.8% from 7.7% in November, but remained far lower than the 16-year peak of 8.4% seen a year ago. Promisingly, the claimant count fell sharply in January, down 12,500 with December's decline revised up from 12,100 to 15,800. The number claiming job seekers' allowance has now fallen significantly in each of the past three months.

The improving claimant count numbers add to other survey evidence which suggests that further job market improvements are likely in coming months. The January PMI surveys pointed to a re-acceleration of business activity at the start of the year, which led to an increase in hiring, and recruitment agencies reported that vacancies at employers had risen at the fastest rate since April 2011. However, growth of employment remains insufficient to make a significant impact on the overall level of unemployment, which therefore looks set to remain high for some time unless the pace of economic growth picks up substantially in coming months.

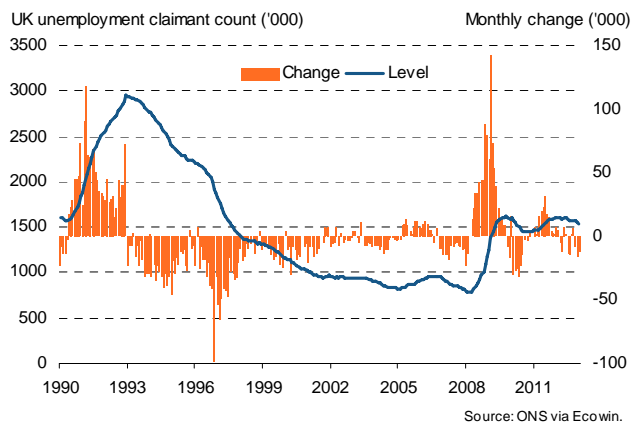
The consumer still looks an unlikely source of stronger economic growth in 2013, with pay continuing to fall in

real terms. Average pay grew by just 1.4% on a year ago in the three months to December, up an even weaker 1.3% if bonuses are excluded. With consumer price inflation running at 2.7% and retail prices rising 3.3%, the income squeeze has in fact intensified rather than eased compared with late last year.

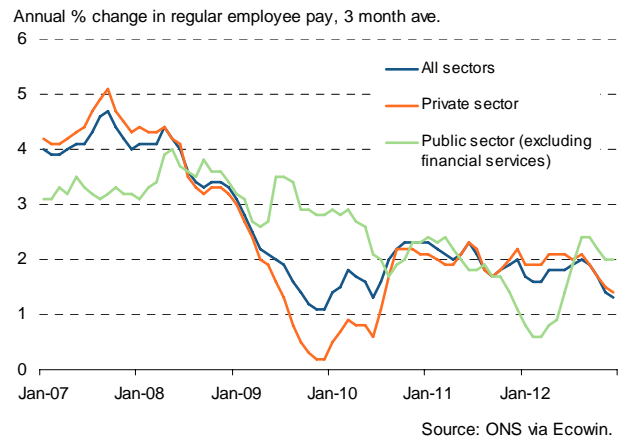
Unemployment rate (survey-based)



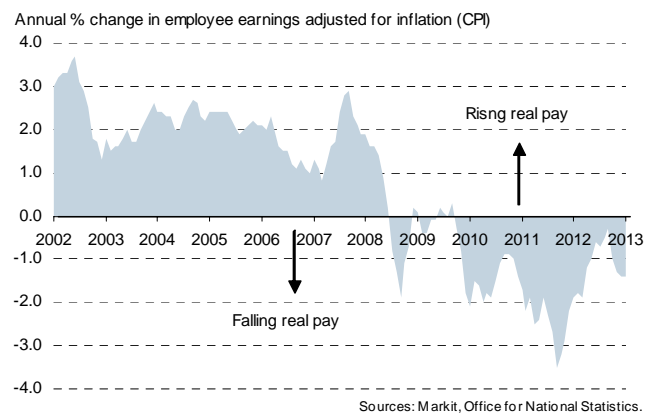
Claimant count unemployment



Pay growth



Income squeeze



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