

## United Kingdom

### Job vacancy data and surveys cast doubt on weakness of current wage growth

- **The relationship between wages growth and indicators of labour market tightness has broken down**
- **Survey data suggest this is a possible issue with the official measure of wages rather than a new fundamental shift to lower pay growth**

Employee pay growth fell to a record low in May, according to the latest data from the Office for National Statistics. The wages data look odd, because the official data also showed record employment growth over the past year, a further marked drop in employment and rising numbers of job vacancies at employers. Usually, wage growth picks up when the labour market tightens.

A measure of labour market tightness – the difference between the demand and supply of labour – can be obtained via the vacancy ratio. This is the number of people unemployed per job vacancy, derived from the ONS labour market data. The first two charts show the change in that ratio over the past year. It is inverted in these charts to show how a tightening labour market correlates with wage growth.

Chart 1 shows ONS data indicating that wage growth has fallen despite there being fewer people to fill vacancies, defying conventional theory on wage behaviour.

In contrast, chart 2 shows Markit's [KPMG/REC recruitment industry survey](#) data, which indicate that salaries are rising at a record pace alongside the record pace tightening of the job market signalled by the vacancy ratio in recent months.

Note that the same survey also shows skill shortages rising at a record pace, corresponding with the labour market tightening signalled by the vacancy ratio (chart 3).

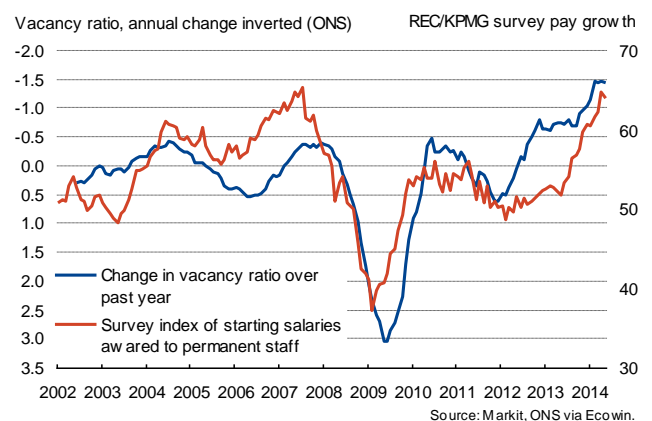
The Markit survey data on pay have therefore reacted exactly as one would expect in recent months, given the tightening of the labour market. In contrast, the relationship between ONS pay growth data and their own data on the tightness of the labour market appears to have broken down since 2010.

With wage growth being fundamental to the Bank of England's decision on when to start raising interest rates, the odd behaviour of the recent official pay data provides policymakers with a huge uncertainty about the financial health of households and their ability to withstand higher borrowing costs.

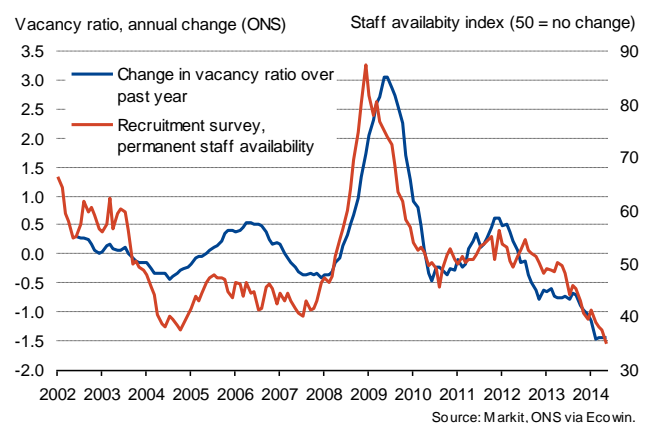
**Chart 1: ONS pay growth data & the vacancy ratio**



**Chart 2: Markit pay growth data & the vacancy ratio**



**Chart 3: Official and survey measures of labour market tightness**



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