

United Kingdom

Pay growth creeps high as labour market continues to tighten

- **Employment rises 193k in Q4**
- **Unemployment rate edges up to 7.2% but claimant count falls sharply again**
- **Pay growth picks up to 1.1%**

Pay growth in the UK showed signs of lifting higher towards the end of last year as job creation continued to surge in the fourth quarter.

Average employee earnings rose 1.1% on a year ago in the three months to December, rising at an annual rate of 1.5% in December alone, according to data from the Office for National Statistics. The rate was the highest since July and suggests that pay growth is closing the gap in inflation, which fell to 1.9% in January, to thereby help alleviate the squeeze on real incomes that has dogged households since late 2009.

Surveys such as the REC/KPMG recruitment industry survey point to pay growth accelerating further in coming months, and raising the prospect of pay starting to rise in real terms by the second half of 2014.

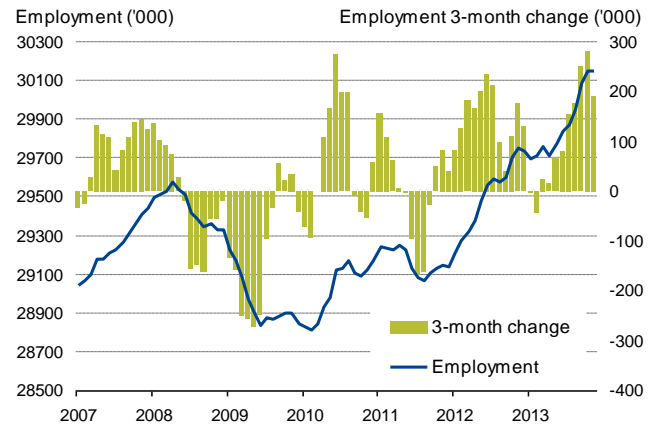
A recovery in real pay growth is likely to be a key determinant of when the Bank of England considers the UK recovery to be truly sustainable looking, and therefore a trigger for when it may feel the economy can withstand higher interest rates.

Pay rose 1.5% in the private sector compared to just 0.2% in the public sector.

The unemployment rate edged higher to 7.2% in the three months to December compared to 7.1% in the three months to November, but the slight change in this survey-based number does little to alter the underlying story of a rapid fall in joblessness over the second half of last year. A renewed decline in the jobless rate should be seen in coming months, after the claimant count fell a further 27,600 in January, taking the total number signing on for jobless benefits to the lowest since December 2008.

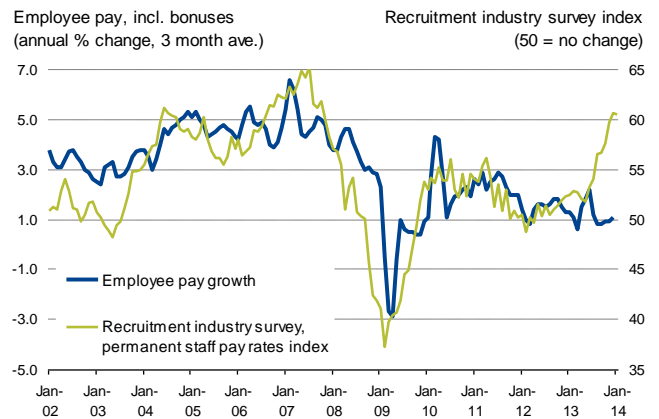
The drop in the jobless benefit claims numbers reflects the speed with which new jobs continue to be created. Employment rose by 193,000 in the fourth quarter, its largest quarterly rise since the second quarter of 2012 up 396,000 on a year earlier. The increase was driven primarily by a rise in full-time work.

Employment



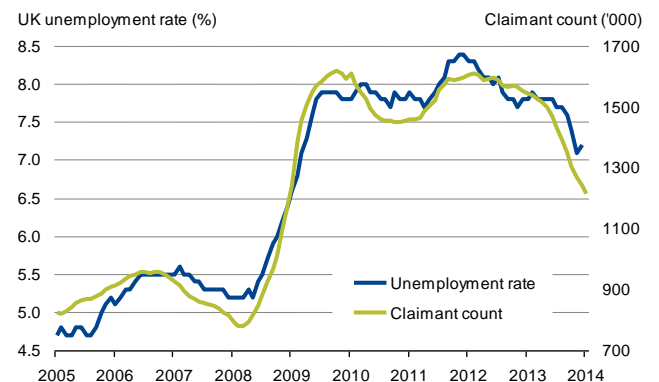
Source: ONS.

Employee pay indicators



Sources: Markit, ONS via Ecowin.

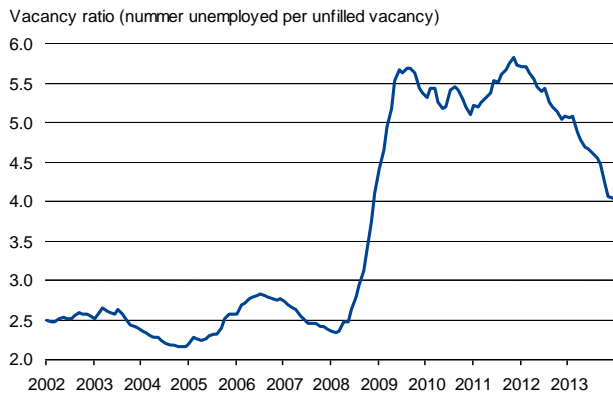
Unemployment indicators



Source: ONS via Ecowin.

The number of job vacancies meanwhile rose to 580,000, its highest since September 2008. The vacancy ratio (the number of unemployed people per unfilled vacancy) now stands at 4.0, the lowest seen since November 2008, which points to further employment and earnings growth in coming months.

Vacancy ratio (labour market tightness)



Source: Markit, ONS via Ecwin.

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