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Markit Economic Research

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United Kingdom

Recruiters report fastest pay growth since 2008 amid buoyant demand for staff

- **Recruitment firms report largest increase in demand for staff since 2007 in third quarter**
- **Rising skill shortages help to push up pay growth, suggesting incomes may start to rise in real terms**

Recruitment firms and employment agencies report that rising demand for staff is fuelling the fastest growth rate of employee pay since February 2008.

The findings from Markit's survey of the industry, conducted on behalf of REC and KPMG, confirm other survey data, such as the PMIs, which show that a marked gathering in the pace of economic recovery is driving a surge in job creation as employers seek to boost capacity to meet rising demand.

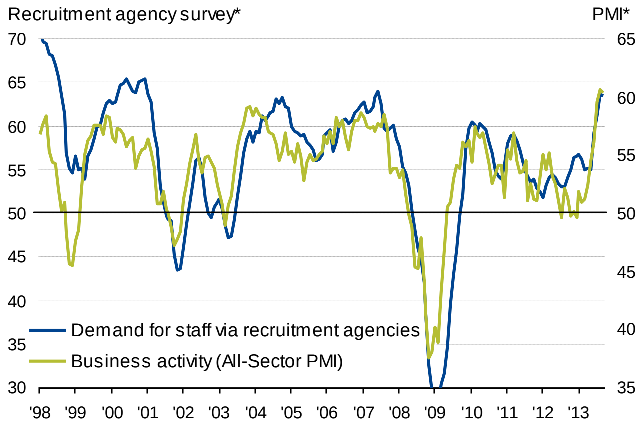
Staffing industry firms reported that employers' demand for workers grew at a rate only marginally below August's six-year high in September, with all major sectors of the economy seeking new staff to boost capacity.

Revenues from the provision of temporary staff to client companies showed the largest increase for 15 years over the third quarter as a whole, while the number of people placed in permanent jobs showed the largest quarterly upturn since the start of 2010, with the rate of growth gathering pace again in September.

Agencies also reported that the availability of suitable candidates to take up both temporary and permanent positions declined over the third quarter. This was the first such broad-based quarterly deterioration since 2007, indicating the resurgence of skill shortages.

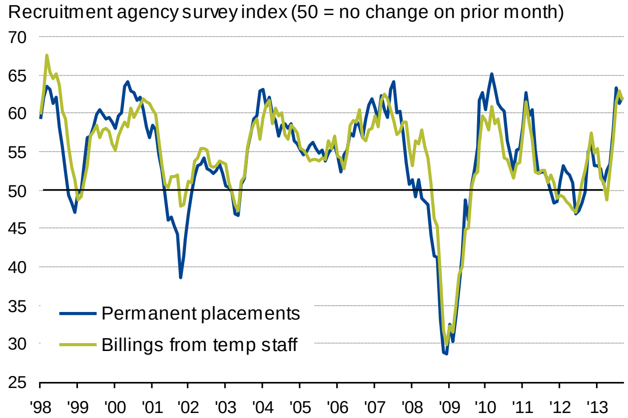
With demand for staff rising and skill shortages developing, it's inevitable that wage pressures have started to mount. Salaries offered to entice permanent staff into new positions showed the largest monthly rise since February 2008 in September, while recent months have seen temporary pay rates rise at the steepest pace since late-2007.

Busier firms are demanding more staff



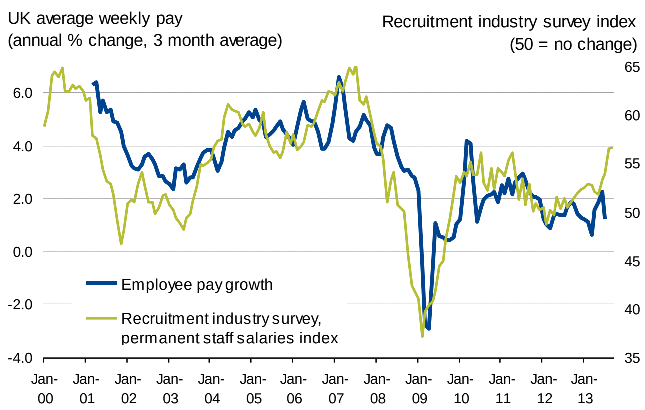
* 50 = no change. Source: Markit (CIPS, KPMG/REC Report on Jobs).

Permanent placements and temp staff revenues



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

Pay growth



Sources: Markit, ONS via Ecowin.

The recruitment survey data provide a reliable guide to official labour market data. The increase in earnings suggest that pay growth will rise from the 1.1% annual rate seen in July to perhaps as much as 3-4% if the labour market improvements persist in coming months.

Such pay growth would mean incomes are likely to start rising again in real terms, having fallen continually over the past four years. Rising real pay will help to drive economic recovery, but there is also a danger that wage pressures will feed back into higher inflation.

The growing indications of a faster-than-expected economic and labour market recovery also casts further doubt on the appropriateness of interest rates remaining at their historical low of 0.5% for as long as the Bank of England is currently indicating. The Bank has stated that it will not consider hiking interest rates until unemployment has fallen from its current 7.7% to below 7.0%, something which it does not expect to happen until 2016.

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