

# United Kingdom

## Unemployment plunges on back of record increase in employment

- **Jobless rate falls to 6.6%, lowest since January 2009**
- **Employment shows further record increase**
- **Pay growth drops in April, but looks set to rise in coming months**

Unemployment continues to fall faster than expected amid yet another bout of record hiring, bringing the jobless total to its lowest since the start of 2009. Weak pay growth and the 'cost of living crisis' remain the Achilles Heel of the economic recovery, but it should not be long until we see earnings growth accelerate as the labour market continues to tighten.

The strong labour market data will fuel more discussions at the Bank of England about the timing of the first interest rate hike, and whether an earlier-than-currently-envisaged hike is warranted to cool the economy. Policy makers will no doubt want to be sure that pay growth is picking up substantially before making the first move in tightening policy, but today's data will add to expectations that the first rate hike will take place this year rather than next.

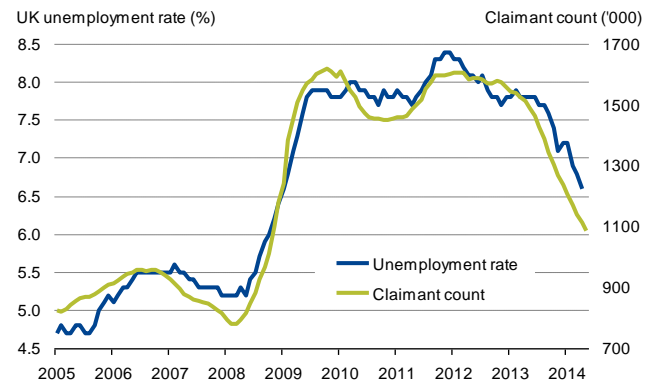
### Record jump in employment as hiring surges

The rate of unemployment fell from 7.2% in the three months to January to 6.6% in the Feb-Apr period, its lowest since January 2009 according to the Office for National Statistics and below expectations of a 6.7% drop. The number of people claiming unemployment benefit also decreased in May, down by 27,400 to the lowest since October 2008.

The number of people in employment meanwhile shot up by 344,000 in the three months to April, the largest jump seen since data were first available in 1971. Contrasting with prior months, the latest rise was driven by companies taking on staff, rather than an increase in self-employment.

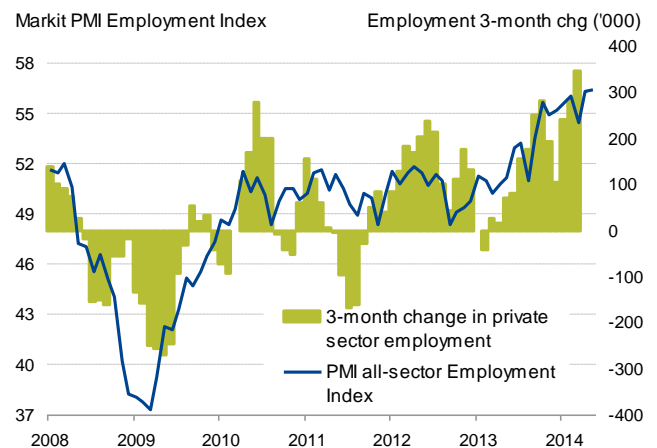
The improvement follows buoyant survey data, which also point to further labour market gains in the coming months. [Recruitment consultancies](#) have reported that the number of people placed in permanent positions so far this year has shown the strongest spell of growth

### Unemployment indicators



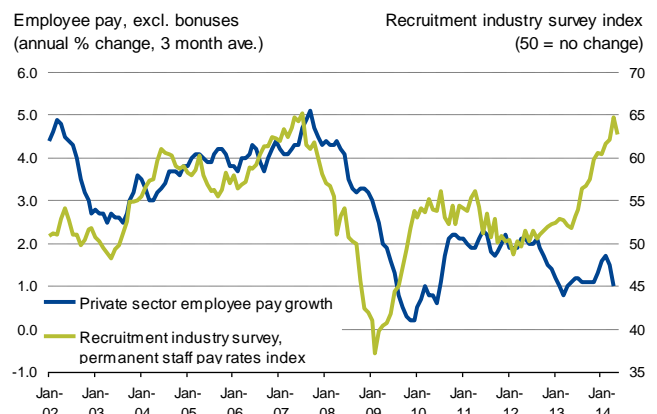
Source: ONS via Ecowin.

### Employment



Sources: Markit, ONS via Ecowin.

### Employee pay indicators



Sources: Markit, ONS via Ecowin.

since data were first available in 1997. The [Markit/CIPS PMI surveys](#) have likewise signalled the largest rise in employment in 16 years of data collection in May. Unemployment should therefore continue to fall.

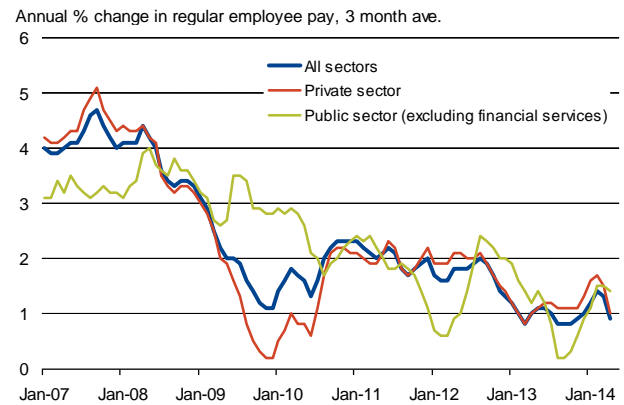
### Weak pay the Achilles Heel of the recovery

However, the generally positive report was marred once again by disappointing pay data. The annual rate of growth of employee earnings was just 0.7% in the three months to April, which compares with an inflation rate of 1.8% and a rate of 1.9% in the first quarter. Regular pay (excluding bonuses) also rose just 0.9%.

The good news is that the slowing pay growth is likely to have mainly reflected the impact of last year's top-bracket income tax change (which boosted pay this time last year).

Pay growth should pick up in coming months, perhaps significantly. The recruitment industry survey shows that skill shortages are currently rising at the fastest pace since 1997. Pay growth is naturally increasing as a result, with new starter salaries during the second quarter so far growing at the steepest pace in seven years.

### Pay growth



Source: ONS via Ecowin.

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