

United Kingdom

Unemployment rate holds steady, but prospects brighten

- **Unemployment rate holds steady at 7.8%**
- **More timely claimant count shows better than expected drop**
- **Average earnings growth picks up**

The unemployment rate held steady at 7.8% in June, in line with expectations. But a much better than expected drop in the claimant count numbers, rising employment and increasingly upbeat business surveys suggest that the rate could soon start to fall, possibly quite sharply.

Jobless benefit claimant numbers declined a larger than expected 29,200 in July, according to the Office for National Statistics. The consensus according to Reuters was for a 15,000 reduction. The drop in June was also revised higher to 29,400, suggesting the claimant count is falling at the steepest rate since mid-2010.

Employment growth meanwhile accelerated, rising 69,000 in the three months to June compared with the first three months of the year, and also up 301,000 on a year ago.

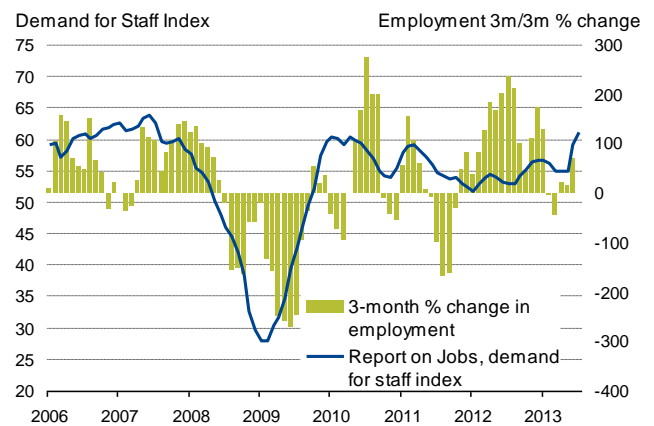
The unemployment numbers carry a new found importance now that the Bank of England has pledged to not raise interest rates until the jobless rate has fallen below 7.0%. The Bank envisaged this not occurring until 2016, but increasingly buoyant survey data suggest the threshold may be breached sooner. Surveys of purchasing managers and recruitment agencies indicate that the labour market improved markedly in July, pointing to monthly employment growth in the region of 50,000 per month.

PMI surveys at six-year high

The PMI surveys for July indicated that firms took on staff at the fastest rate since October 2007, with headcounts rising for the seventh successive month. The improvement was led by services. Nonetheless, construction employment grew at one of the sharpest rates since 2008, primarily on the back of renewed

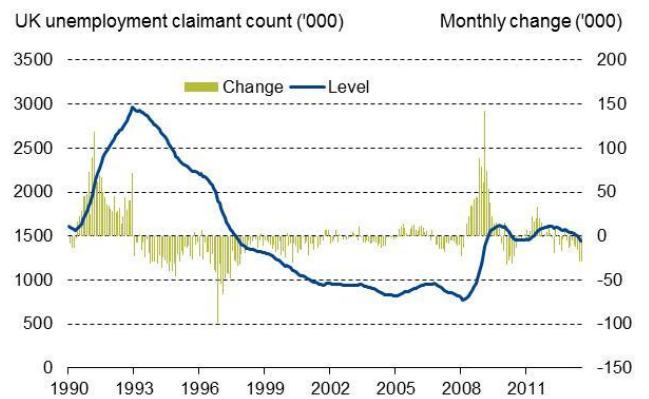
house building activity, and manufacturing staff numbers rose to the greatest extent for two years.

Employment and the Report on Jobs survey



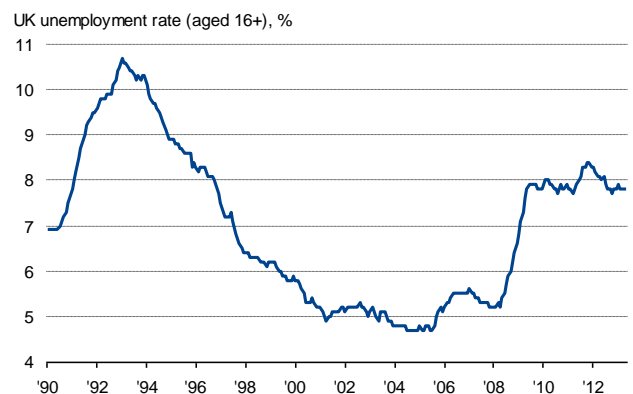
Sources: ONS, Markit.

Claimant count unemployment



Source: ONS.

ILO unemployment rate



Source: ONS via EcoWin.

Recruitment agencies busier

[Recruitment agencies](#) have also reported an upturn in the labour market at the start of the third quarter. Demand for staff was reportedly growing at the fastest rate for six years. The number of people placed in permanent jobs increased to the greatest extent since March 2010, while revenues from temporary staff appointments showed the joint-strongest increase since May 2007.

The ONS data also showed average earnings growth picked up to 2.1%, its highest since late 2011, though excluding bonuses the annual rate was just 1.1%. Both measures clearly continue to run well behind inflation, which is currently at 2.8%, thereby signalling a further reduction in real incomes. However, at least they are starting to move in the right direction.

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