

United Kingdom

Unemployment rate lowest in more than four years as job creation surges

- **Unemployment rate falls to four-year low of 7.6%, claimant count slumps**
- **Employment rises by 177k in three months to September**
- **Pay growth remains subdued but shows signs of strengthening**

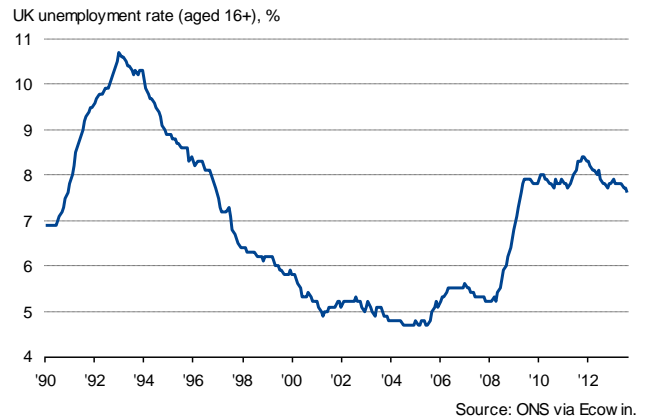
The UK labour market is booming alongside the recent surge in economic growth. Job creation is surging, with employment up by 177,000 in the three months to September, and surveys suggest further strong growth is to be expected in October. The unemployment rate is down to its lowest for over four years and the number of people claiming unemployment benefits is falling at the fastest rate since 1997. Even pay growth is starting to show a long-awaited revival.

The surge in demand for staff suggests that the Bank of England will bring forward its expectation of when unemployment will fall below the 7% threshold it wishes to see before considering any rise in interest rates. When the Bank set out its initial 'forward guidance' back in July, it did not expect the jobless rate to fall below 7% before late-2016. However, since then, the pace of economic growth has moved up a gear, leading to far stronger job creation than policy makers had been anticipating.

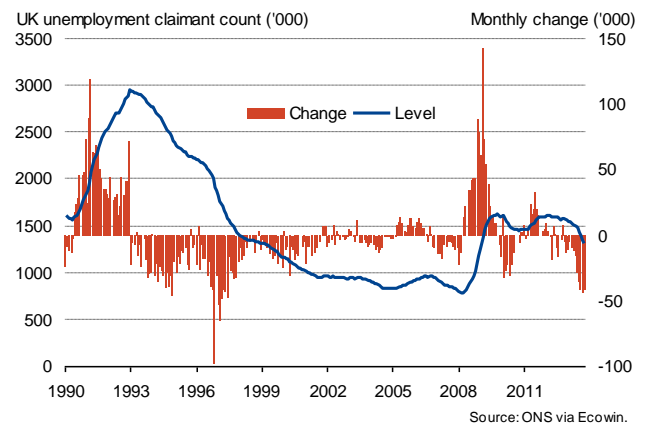
We expect to see the labour market continue to show strong improvements into the fourth quarter, as faster-than-expected economic growth is encouraging increasing numbers of companies to take on additional staff. The [PMI surveys](#) showed that recent record growth of business activity and surging inflows of new business led to a record increase in backlogs of uncompleted work, which firms responded to by taking on extra staff in October at a rate previously not seen in the survey's fourteen-year history.

There are also signs that the buoyant demand for staff is leading to skill shortages, which are in turn driving up pay rates. Surveys of [recruitment agencies](#) indicated that demand for staff was growing at one of

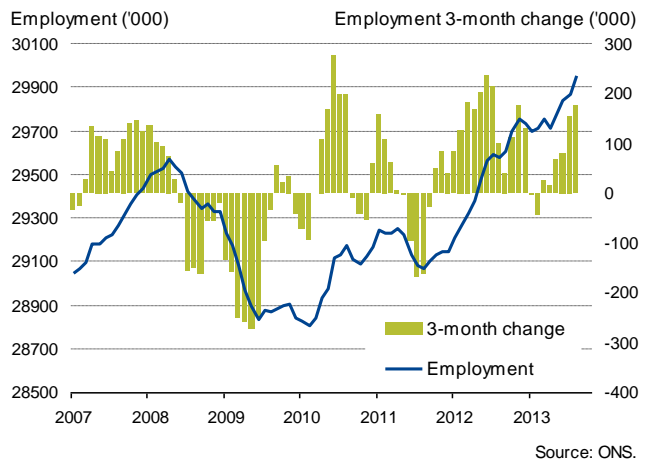
Unemployment rate



UK claimant count



UK employment



the fastest rates seen in the past 13 years in October, driving salaries offered to new recruits up to the greatest extent seen for almost six years. With candidate availability deteriorating sharply, companies were offering higher salaries to attract the best staff.

Official data on pay growth should therefore soon start to pick up. Alongside the recent fall in inflation, which hit a 13-month low of 2.2%, the improvement in pay means we could also see pay growth start to outstrip inflation for the first time since 2009 as we move into the new year. The return to real pay growth should help boost consumer spending and the wider economic recovery.

In the detail...

Employment rose to a new record high, up 177,000 in the three months to September, driving the ILO (headline) unemployment rate down to 7.6%, its lowest since April 2009.

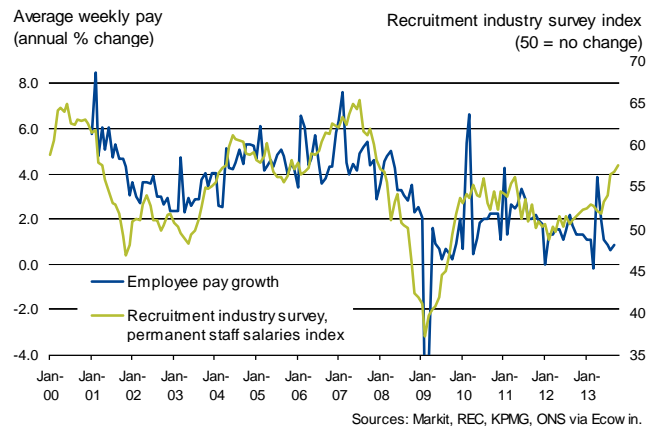
Note that the ILO unemployment rate is a three month average, and the single-month rate in fact fell to 7.1% in September.

The unemployment claimant count – the narrower but more up-to-date measure of joblessness, covering just benefit claimants – fell by 41,700 in October, with the September count also revised to show an even larger than previously thought fall of 44,700 (originally estimated at 41,700). The claimant count indicates that the number of people claiming jobless benefits is falling at the fastest rate since 1997. So far this year, the claimant count has fallen by an impressive 237,000.

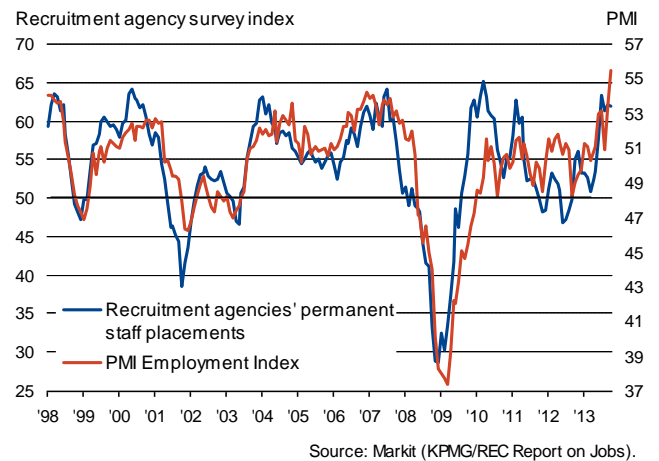
The one missing element from the job market revival has so far been the lack of response from wage growth. Total pay (including bonuses) rose just 0.7% in the three months to September compared with one year earlier, down from 0.8% in the three months to August. The rate excluding bonuses ('regular pay') held steady at just 0.8%.

However, there are signs that pay growth is starting to pick up, in line with the business survey evidence. Pay in September alone was 0.9% higher than a year ago, up from 0.6% in August, and surveys suggest that companies are increasingly having to offer higher salaries to attract suitable candidates.

Pay growth



Surveys point to surging demand for staff



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