

# United Kingdom

## Unemployment tumbles as economic recovery gains momentum

- **Unemployment rate holds steady at 7.7%, but claimant count falls at fastest rate since 1997**
- **Employment surges by 155,000**
- **Vacancies hit highest level since 2008**
- **Pay growth remains subdued**

Employment has risen to a record high, job vacancies are at their highest level since 2008 and the claimant count is falling at the fastest rate since 1997, according to official data. This highlights how a faster than expected economic recovery is translating into a stronger than anticipated improvement in the labour market.

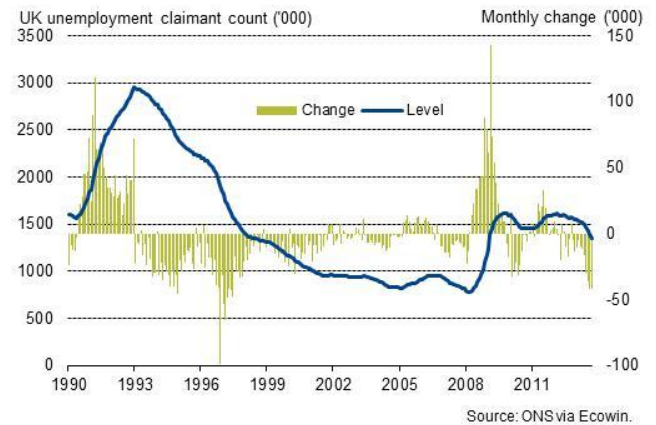
The upturn is welcome news as far as the economy is concerned, but also raises the possibility that the Bank of England has underestimated the speed with which the economy is reviving.

The good news on the labour market corroborates upbeat business survey data, which also suggest the improvement is likely to continue in the coming months. Surveys of recruitment agencies indicated that demand for staff is currently growing at one of the strongest rates since 2007, as companies boost employment in response to signs of the economic recovery gaining momentum. The data available so far, including particularly buoyant business surveys, suggest that the economy grew by 1.0% or more in the third quarter, with prospects looking good for further robust growth in the coming months.

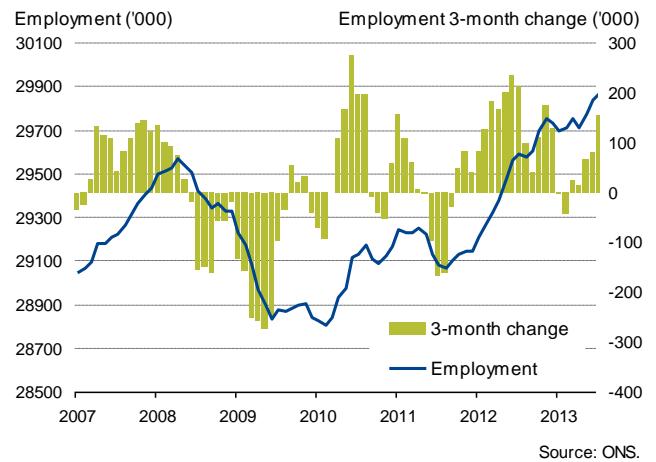
The data add to evidence that unemployment is set to fall faster than that anticipated by the Bank of England. In theory, this means that a hike in interest rates could be justified earlier than in 2016, which is currently envisaged under the Bank's 'forward guidance'.

The worry is that any hike in interest rates before real incomes start to revive would set the economic recovery back significantly, as rising demand for staff is still not feeding through to higher wages. Official data showed that average weekly pay (including bonuses) rose 0.7% per annum in the three months to August, down from 1.2% in the three months to July.

### UK claimant count



### UK employment



### Unemployment rate



However, the official data are published with a substantial delay, and more up-to-date survey data suggest pay growth is picking up: recruitment agencies reported the fastest pay growth since early-2008 in September.

Importantly, pay growth continues to run well below inflation, which is currently stuck at 2.7%, meaning incomes continue to fall in real terms. The resulting on-going squeeze on household finances will keep a lid on the pace of economic recovery.

### Detailed analysis

The data from the Office for National Statistics showed that the UK unemployment rate held steady at 7.7% in the three months to August. That said, the actual number of people unemployed fell to 2.487 million, down 18,000 on the previous three months and the lowest since mid-2011.

The narrower, but more up-to-date, claimant count measure fell 41,700 in September, the biggest fall since mid-1997. The August claimant count was also revised to show a larger than previously thought reduction of 41,600.

Employment meanwhile rose by 155,000 in the three months to August, taking the total to a record high of 29.869 million.

Meanwhile, job vacancies rose to 541,000 in the three months to August, the highest level recorded since late-2008.

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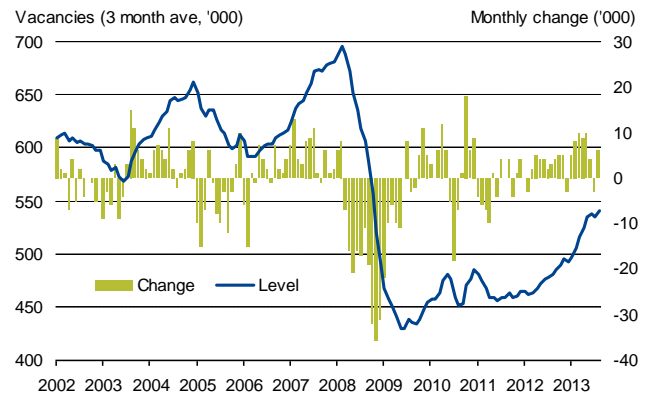
For further information, please visit [www.markit.com](http://www.markit.com)

### Pay growth



Sources: Markit, ONS via Ecwin.

### Vacancies



Source: ONS via Ecwin.

### Demand for staff and economic growth



\* 50 = no change.

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