

# United Kingdom

## Unemployment rate edges down with further falls likely in coming months

- **Jobless rate falls from 7.8% to 7.7%**
- **Employment rises as private sector hiring offsets government job cuts**
- **Surveys point to recruitment surge as economic growth gathers momentum**

The good news on the UK economy continues to flow, this time in relation to the all-important labour market. The rate of unemployment fell to its lowest since last October while employment rose, according to the latest official data.

The labour market looks set to improve further as we move towards the end of the year, perhaps at a pace that might continue to surprise policymakers. In particular, surveys of recruitment agencies indicate that demand for staff appears to be surging as the economy gains faster than expected momentum.

The upturn in the labour market bodes well for the sustainability of the wider recovery, as more people in employment and rising wages should help boost economic growth further. The improvement also increases the possibility that unemployment could fall faster than the Bank of England expects, meaning an earlier hike in interest rates than 2016, as currently envisaged under the Bank's 'forward guidance'\*

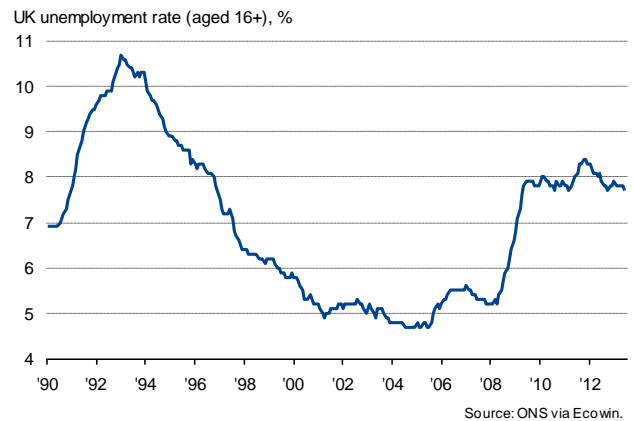
### Unemployment falls

The data from the [Office for National Statistics](#) showed the rate of UK unemployment falling to 7.7% in the three months to July. Economists polled by Reuters had expected the rate to hold steady at 7.8%. The actual number of people unemployed dropped by 24,000, down 105,000 on a year ago.

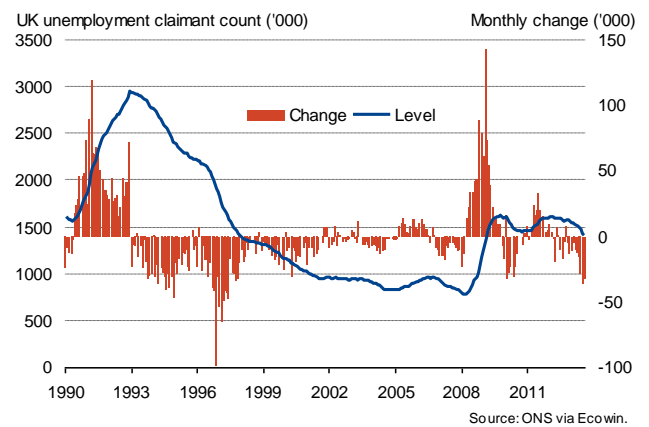
The narrower but more up-to-date claimant count measure also fell more than expected, down 32,600 compared to expectations of a 22,000 fall, adding to hopes that the unemployment rate will fall again next month.

Employment rose by 80,000 in the three months to July, taking the total to 29.84 million, 275,000 higher

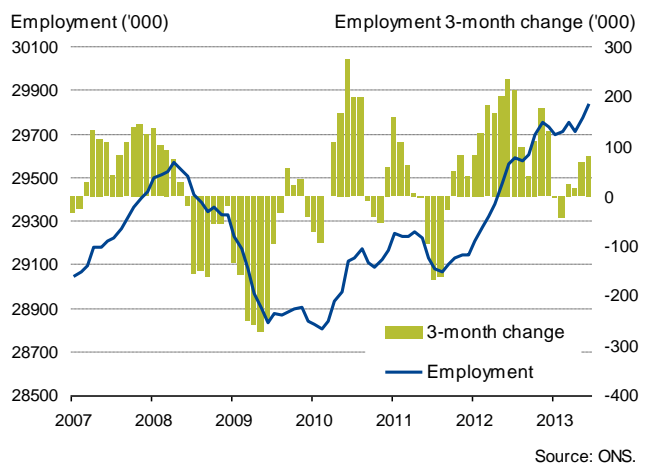
### Unemployment rate



### Jobless benefit claimants



### Employment



than a year ago. Rising demand for staff in the private sector is more than offsetting government job cuts. An 114,000 increase in private sector employment offset a 34,000 drop in the public sector in the second quarter.

Meanwhile, job vacancies dipped by 5,000 in the three months to July but nevertheless continued to run at levels not seen since 2008.

### Job creation set to pick up

Although rising, the rate of job creation remains modest compared to the gains seen in late-2011 and early-2012. However, a stream of increasingly upbeat economic data in recent weeks suggests we may soon see the rate accelerate. [Purchasing surveys](#) showed that business conditions are improving at the fastest rate since data were first available in 1998, with the PMI hitting a record high for a second month running in August. These surveys suggest that economic growth could accelerate from 0.7% in the second quarter to over 1.0% in the third quarter.

[Recruitment agencies](#), which are often the first to see the labour market pick up, have meanwhile become significantly busier as a result. Billings received by agencies from temporary and contract staff appointments rose at the fastest rate for 15 years in August, while the number of people placed in permanent jobs rose at a pace only slightly below July's three-and-a-half year peak.

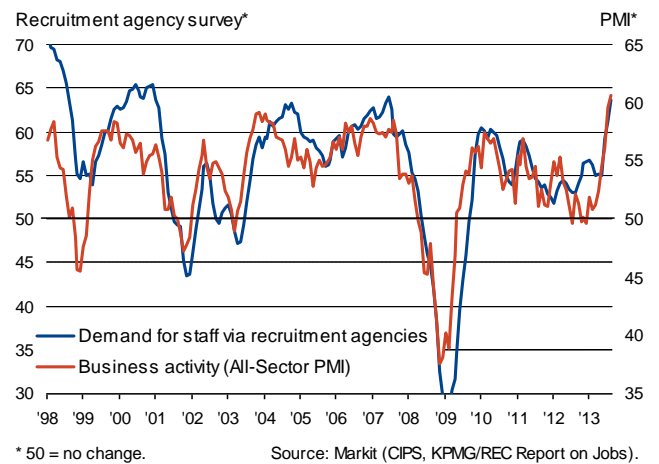
### Evidence of rising wage pressures

For all the current talk of spare capacity in the economy and the relatively high level of unemployment, it is worth noting that agencies are reporting that the availability of suitably skilled staff to take up positions has deteriorated at the fastest rate since 2008 over the summer. Pay rates are consequently also rising at the fastest rate since 2008, according to agencies, as employers seek to entice workers.

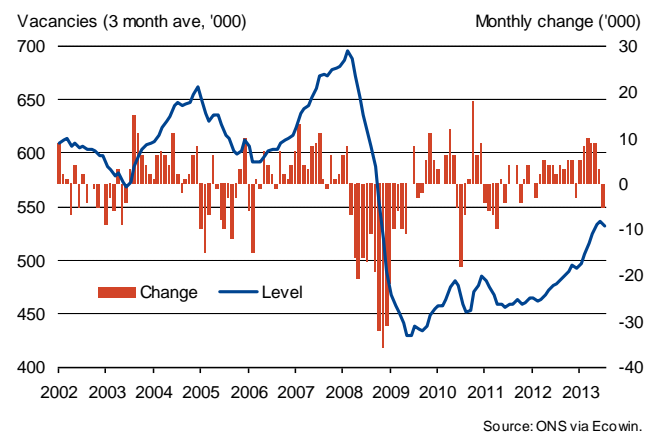
Today's official data showed underlying annual wage growth (excluding bonuses) was just 1.0%, in line with expectations, and down from 1.1% in the three months to June. With inflation running at 2.8%, real incomes clearly continue to fall at a substantial rate, highlighting the ongoing pressure on household finances. However, the survey data suggest pay growth should soon pick up, alleviating this income squeeze.

\* Mark Carney, governor of the Bank of England, has stated that – barring upsets such as a sharp rise in inflation – the Bank will not start to consider hiking interest rates until unemployment falls below 7.0%. The Bank does not expect this to happen until 2016.

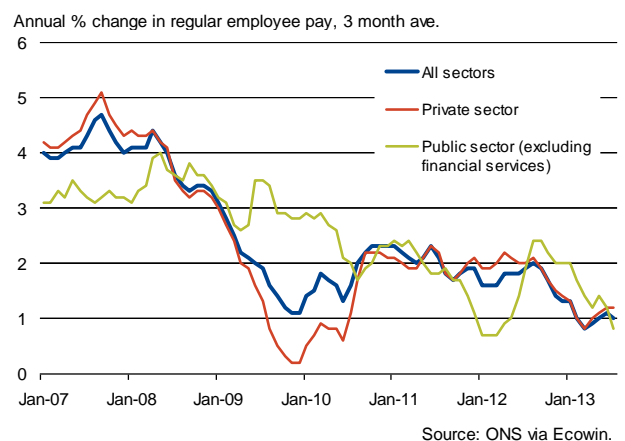
### Demand for staff has surged alongside faster economic growth



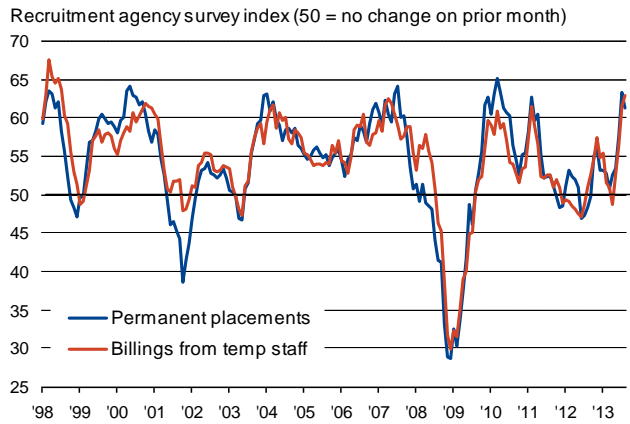
### Job vacancies



### Pay growth

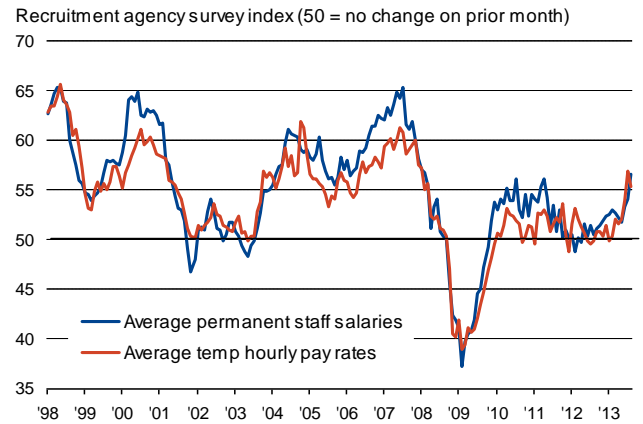


### Recruitment agency business levels



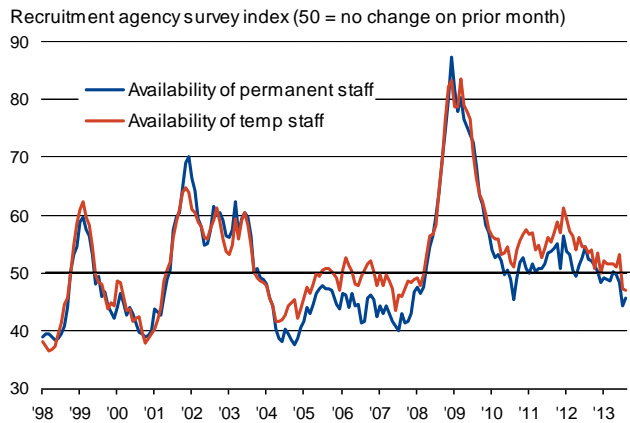
Source: Markit (KPMG/REC Report on Jobs).

### Recruitment agency pay rates



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

### Recruitment agency staff availability



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

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