United Kingdom

Understanding how unemployment is calculated (and what to expect for October)

- **The UK's unemployment rate is effectively derived from three separate surveys, each run once per quarter**
- **September's survey in fact showed unemployment at 7.1%**

The rate of unemployment in the UK dropped in the three months to September from 7.7% to a four-year low of 7.6%, catching many analysts by surprise.

However, the drop in the unemployment rate is more easily explained with a little insight into how the jobless rate is calculated. This insight also reveals why the jobless rate may fall further in October.

The Office for National Statistics calculates the rate of unemployment through a survey of households. However, it's not the same sample of households that is polled each month. Instead, the ONS uses three 'cohorts' of households on a rotating basis. Each cohort contains around 15,000 households. The ONS then uses the rolling three-month average of the three cohorts to produce the latest unemployment rate.

Importantly, one of these cohorts has a lower number of unemployed people in it than the other two, and it was this cohort whose turn it was in September.

The monthly data from the ONS are shown opposite (and can be accessed fully here). Over the last two years, cohort 'C' (data for which are collected in March, June, September and December) has reported a consistently lower unemployment rate than the other two cohorts. Cohort C's jobless rate in fact fell from 7.4% in June to just 7.1% in September. That compares with 7.7% in cohort A and 8.0% in cohort B in the latest months.

The data also help us to predict what might happen to the October unemployment rate, when it's published on Wednesday 18 December.

Cohort A's unemployment rate needs to drop from 7.7% to 7.5% to bring the headline rate of unemployment down from 7.6% to 7.5%. For reference, it would need to drop right down to 7.2%, which looks
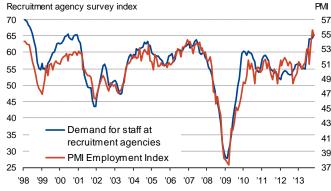
infeasible, to bring the headline rate down to 7.4%. However, given the record high rates of employment growth being signalled by the business surveys (such as the PMI and the recruitment industry polls), there is more than an outside chance of the unemployment rate edging down to 7.5% in October.

Single-month unemployment data

	Household Survey 'Cohort'	Single Month Rate	Published average of latest 3 months
Jan-12	A	8.2	8.3
Feb-12	B	8.3	8.3
Mar-12	C	8.1	8.2
Apr-12	A	8.0	8.1
May-12	B	8.1	8.1
Jun-12	C	7.9	8.0
Jul-12	A	8.2	8.1
Aug-12	B	7.6	7.9
Sep-12	C	7.7	7.8
Oct-12	A	8.0	7.8
Nov-12	B	7.5	7.7
Dec-12	C	7.8	7.8
Jan-13	A	8.1	7.8
Feb-13	B	8.0	7.9
Mar-13	C	7.4	7.8
Apr-13	A	8.0	7.8
May-13	B	8.0	7.8
Jun-13	C	7.4	7.8
Jul-13	A	7.7	7.7
Aug-13	B	8.0	7.7
Sep-13	C	7.1	7.6

Source: Office for National Statistics.

Survey data on employment

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

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