

## UK

### Labour Market Data Highlight Strength Of Economy

- There are several points of interest in today's labour market data. First, employment continues to surge. The number of people in work rose 239K (0.8%) QoQ and 691K (2.3%) YoY in December-February – the highest YoY growth since 1989. The numbers in work is at a new record high. Moreover, the average workweek rose 0.3% YoY, so that the total number of hours worked rose 2.6% YoY, outpacing job growth. Self-employment remains buoyant, up 298k (7.1%) YoY, but the number of full-time employees (i.e. not self-employed) is also rising quickly, up 329k (1.8%) YoY.
- Second, labour supply remains buoyant, with the participation rate among people aged 16-64 years up to 78.1% – the highest since 1991 – from 77.0% two years ago. Third, even with strong labour supply, rapid job growth is rapidly shrinking labour market slack. The jobless rate fell to 6.9% in December-February (the lowest since early-2009) from 7.1% three months earlier, with the single month figure for February down to 6.6% (the lowest since late-2008). We estimate that the BoE's medium-term equilibrium unemployment rate ( $U^*$ ) has edged down to 6.2% from 6.5% a year ago. Using this, the gap between the jobless rate and  $U^*$  has halved over the last year, from 1.4 percentage points to 0.7pp. We expect that the jobless rate will fall to roughly match  $U^*$  later this year. The number of job vacancies rose 21% YoY in Q1, the highest YoY gain since data began in 2001, and the level of vacancies (611K) is now within a whisker of the pre-crisis average (the 2001-07 average was 620K).
- Fourth, the labour market is improving across almost all regions of the UK. The jobless rate has fallen by at least 0.5 percentage points over the last year in all 12 standard regions of the UK for the first time since 1997-98. Job growth is at least 1% YoY in 11 of the 12 regions; the only exception is the West Midlands, where base effects are adverse due to very strong job growth (3.4% YoY) a year ago. Fifth, pay growth remains fairly low. The YoY growth of average earnings ex-bonuses edged down to 1.3% YoY in February from 1.7% in January, and on this measure earnings are still down YoY in real terms. Including bonuses, average earnings rose 1.9% YoY in February, after 1.7% YoY in January and hence are slightly up in real YoY terms. But the bonus element can be volatile from month to month, and we put more weight on the ex-bonus figure – which is still slightly down YoY in real terms.
- Looking forward, we expect that strong economic growth and subdued gains in unit labour costs will keep job growth high. The UK's employment rate among people aged 16-64 years has already reached 72.6%, up from 70.6% two years ago. The record high of 73.1%, recorded most recently in 2005 and before that in 1974, is likely to be surpassed later this year or in 2015. However, the Chancellor's aim of achieving the highest employment rate in the G7 may be a bit further out of reach; Germany is currently the leader at 73.7%. With strong GDP growth and shrinking slack, we continue to expect the MPC to start to hike rates later this year.

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