

UK

Labour Market Data and BoE Agents

- There are several points of interest in today's data. First, the jobless rate continues to fall rapidly, reaching 6.2% in May-July from 7.7% a year earlier. The drop in the jobless rate over the last year (1.5 percentage points) is the sharpest since 1989. The jobless rate is again below the MPC's forecasts (the August *Inflation Report* projected the jobless rate for May-July at 6.3%). The single month jobless rate for July alone is 5.9%, down from 6.4% three months earlier.
- Second, the claimant count jobless rate (the number of people receiving benefits because they are out of work and looking for work) fell below 1 million people in August, for the first time since 2008 and is now just 2.9% of the workforce. The claimant count jobless total is now slightly less than half of the LFS jobless total. The widening gap between these two measures indicates the marked tightening in eligibility tests for unemployment benefits, which has the result of greatly increasing pressure on the unemployed to move into employment.
- Third, job growth continues to be concentrated in sectors with relatively low pay levels. We estimate that the number of employees rose 3.9% YoY in May-July in sectors where the typical level of pay is at least 20% below the average for all sectors: conversely, employment fell slightly (0.1% YoY) in sectors with pay levels that are at least 20% above the UK average. In turn, the expansion of low-pay sectors is likely to depress both average earnings growth and productivity growth via composition effects. Fourth, labour market slack is being used up rapidly. The number of job vacancies continues to rise rapidly, up 25% YoY – the fastest growth since data began in 2002. The level of job vacancies is now within a whisker of the pre-crisis peak. Similarly, the BoE Agents survey shows that firms' recruitment difficulties are the greatest since 2007. Fifth, although the published ONS data for average earnings growth remains weak (0.7% YoY ex bonuses), the BoE agents report that labour cost growth is picking up and likely to increase further as the labour market continues to tighten.
- Sixth, there is no sign that Scotland's economy is being hit by pre-referendum nerves. Job growth in Scotland (3.4% YoY in May-July) is a little above the UK average (2.6% YoY), while the jobless rate in Scotland (6.0%) is a little below the UK average (6.2%).
- Seventh, for now the MPC remains split, with a 7-2 vote for stable rates. The majority emphasize the current weakness of pay and unit labour costs as reasons to keep the Bank Rate on hold. The minority emphasize that, with labour market slack shrinking fast, pay growth might subsequently "*pick up quite sharply*" – and argue the MPC need to start to withdraw stimulus before that point is reached. We continue to expect the first hike in the next six months.

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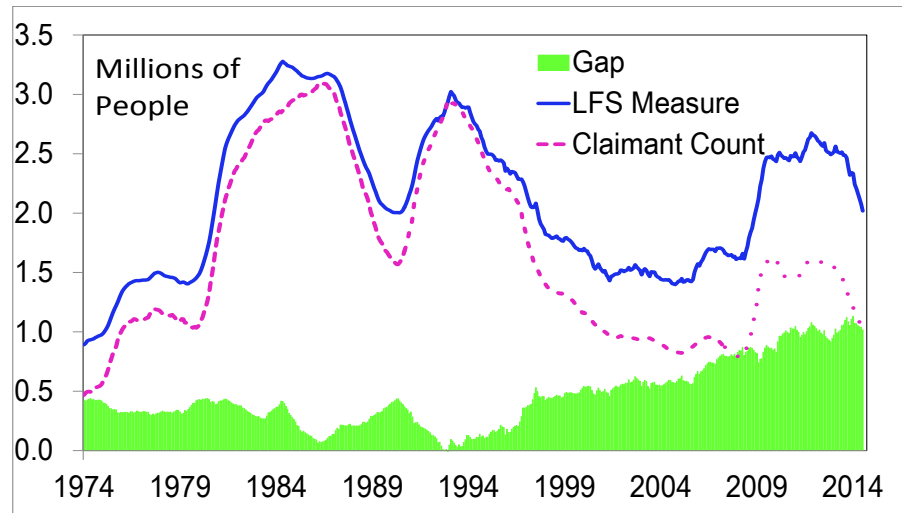
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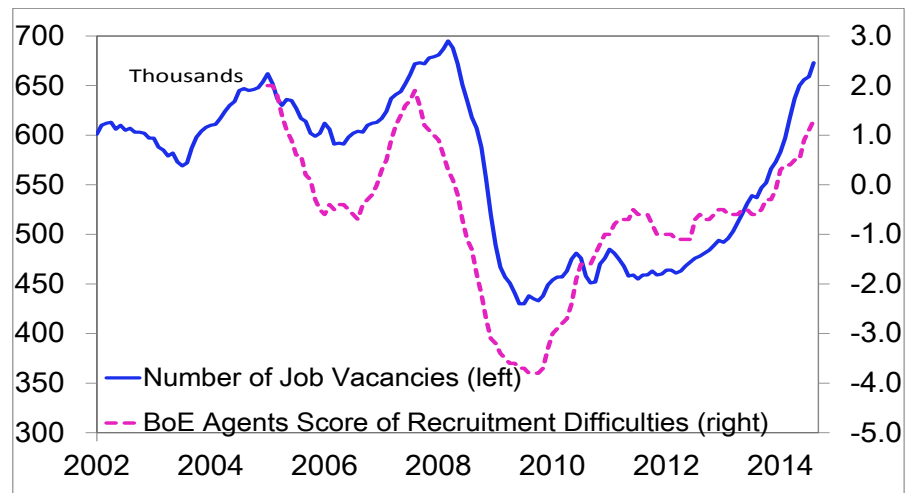
Labour Market Data and BoE Agents

Figure 1. UK – Measures of Unemployment, Millions of People, 1974-2014



Sources: ONS and Citi Research

Figure 2. UK – Vacancies and Recruitment Difficulties, 2002-14



Sources: ONS, BoE and Citi Research

The BoE agents comments on pay growth: “Steady growth in labour costs per employee had continued (Chart 4), with the majority of pay settlements continuing to be in the 2%–3% range. There was increased evidence however that pressure on pay costs was emerging, either as a result of some catch-up after periods of wage restraint or to retain and attract specific skills in areas where there were skills shortages. That had led to some targeted or discretionary awards that were somewhat above 3%. Overtime payments and performance-related bonuses were reported to be moderately higher than a year ago. There were continued reports of employers taking on more apprentices/trainees, hiring more junior or lower skilled staff to train up, or outsourcing jobs to reduce wage growth, all of which would bear down on average salaries to a small extent. In addition, other costs of employing people, such as pension auto-enrolment costs, ‘salary sacrifice’ schemes and other benefits may have led to lower wage growth in some companies. The increase in the National Minimum Wage in October 2014 was reported to be putting upward pressure on some pay awards to maintain differentials between staff.”

Appendix A-1

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