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## EMPLOYMENT FELL BUT PAY GROWTH REMAINS STRONG

Latest data from the ONS showed that the UK labour market remains in a good place, but there are signs showing that employment growth is tailing off.

Both, the unemployment rate and inactivity rate have increased. While vacancies have declined again and employment fell for the first time since late 2017, the labour market remains tight on the whole. The fact that the proportion of temporary employees who couldn't find a permanent job is the lowest since 2008 evidences this tightness.

In a sign that labour market tightness is feeding through to earnings, nominal pay growth has remained strong in the three months to August, with wage growth close to pre-crisis norms. But it may be peaking.

The only route to sustainably strong pay growth is a revival in productivity. But productivity growth continues to disappoint, being broadly flat. Amid a wider slowdown of the global economy, this is a timely reminder that a Brexit deal is needed to alleviate near-term uncertainty. This would enable firms and government to refocus on the domestic agenda and deliver productivity-enhancing investment in R&D, infrastructure and skills.

Across the UK, the regions and nations have seen a mixed picture on employment and unemployment.

### The employment rate has edged lower...

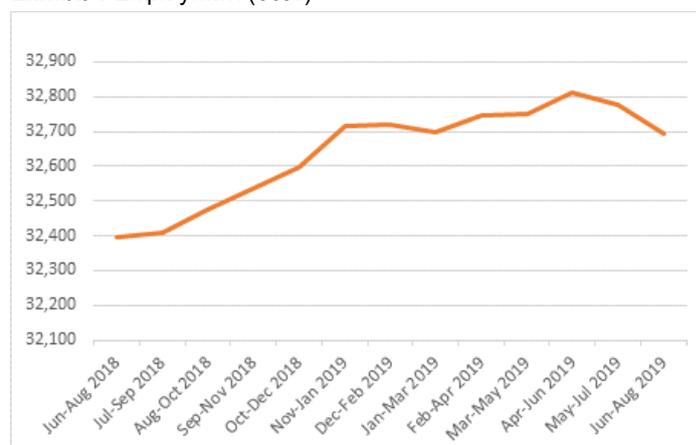
The decrease in employment in the quarter to August 2019 was driven by those aged 16-24 years old.

- Employment decreased by 56,000 in the three months to August 2019, compared with the previous quarter, but was still 282,000 higher than during the same period a year earlier.
- The employment rate edged lower and stood at 75.9%, 0.2% points down on the previous quarter.
- Male employment decreased by 24,000 and female employment decreased by 32,000 on the quarter. Both

groups saw rising employment year-on-year, with male employment rising by 80,000, and female employment by 202,000.

- Employment grew among those aged 50-64 years old (+50,000) and remained broadly unchanged among those 65+ years old (0). It dropped significantly among those 16-24 years old (-70,000), followed by those 25-34 years old (-21,000) and those 35-49 years old (-16,000).
- The number of people working full-time increased by 73,000 over the quarter, while the number of people working part-time decreased substantially (-129,000). On a year-on-year basis, the number of people working full-time increased by 263,000, while the number of part-time workers increased by 20,000. The number of employees decreased (-49,000) in the three months to August. The proportion of temporary employees who couldn't find a permanent job has decreased (-31,000), further pointing to a tight labour market.

Exhibit 1 Employment (000s)



Source: ONS October 2019 labour market statistics

Headline figures	Rate	Number	Change on quarter	Change on year
Employment* (ILO)	75.9%	32,693	-56,000 (-0.2%)	+282,000 (+0.9%)
Unemployment** (ILO)	3.9%	1,314	+22,000 (+1.7%)	-49,000 (-3.6%)
Youth unemployment (16-24)	11.5%	494	+1,000 (+0.2%)	-39,000 (-7.89%)

Source: ONS October 2019 labour market statistics, June to August 2019 data \*Rate for those aged 16-64 \*\*Rate for those aged 16 and over

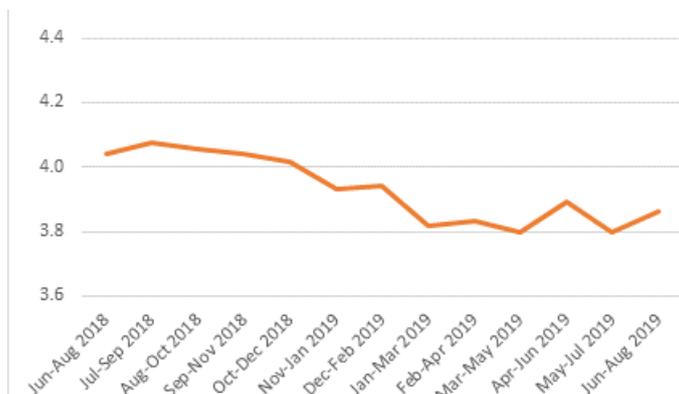
- Indeed, in the three months to September 2019, the number of vacancies dropped further by 11,000 to 813,000 – continuing the decline in the number of vacancies since the beginning of the year. The number of unemployed people per vacancy stood at 1.6 job seekers per vacancy in the quarter to August 2019 – unchanged on the quarter from March to May 2019.

**...with the unemployment rate remaining close to a record low**

The unemployment rate and the inactivity rate have both increased on the previous quarter.

- In the three months to August 2019, unemployment increased by 22,000 on the quarter to 1.31 million. On a year-on-year basis, the number of unemployed people was down by 49,000.
- The unemployment rate stood at 3.9%, 0.1% points higher than in the period from March to May.
- Male unemployment increased (+15,000) while female unemployment was broadly unchanged (+6,000) in the three months to August. Male unemployment was broadly unchanged over the year (-6,000) while female unemployment declined significantly (-43,000).
- The number of those registered as economically inactive (not available and/or not looking for work) has increased (+57,000) compared with the previous quarter, and decreased by 63,000 on a year earlier.
- The inactivity rate stood at 21.0%, 0.1% higher than in the previous quarter.

**Exhibit 2** Unemployment (%)



Source: ONS October 2019 labour market statistics

**Regions saw a mixed picture in employment...**

The latest quarter saw significant increases and decreases in employment in the regions, with the greatest increase in the West Midlands and the greatest decrease in Scotland.

- In the three months to August 2019, the largest increases in employment were in the West Midlands (+35,000), followed by South East (+21,000), the South West (+17,000), and Yorkshire and The Humber (+14,000).
- Employment remained broadly unchanged in Northern Ireland (-8,000), the East (-6,000), the North West (-4,000), the East Midlands (+4,000) and the North East (+6,000).
- Employment decreased in Scotland (-59,000), London (-44,000), and Wales (-32,000).

**... as well as in unemployment**

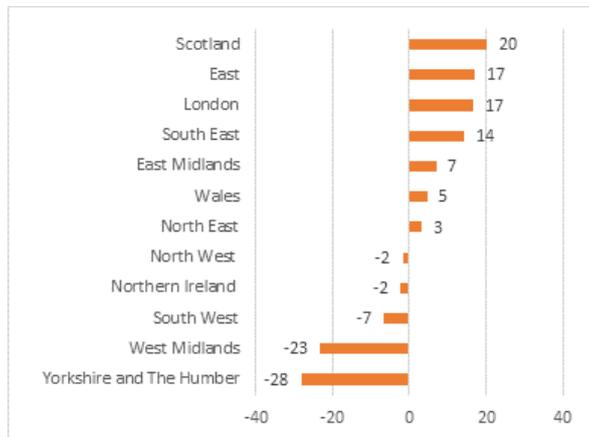
- In the three months to August 2019, unemployment increased in Scotland (+20,000), the East (+17,000), London (+17,000) and the South East (+14,000).
- Unemployment remained broadly unchanged in the South West (-7,000), Northern Ireland (-2,000), the North West (-2,000), the North East (+3,000), Wales (+5,000) and the East Midlands (+7,000).
- Unemployment decreased in Yorkshire and The Humber (-28,000) and the West Midlands (-23,000).

**Exhibit 3** Employment change by regions & nations (000s)



Source: ONS October 2019 labour market statistics, shown as quarter on quarter changes

**Exhibit 4** Unemployment change by regions & nations (000s)

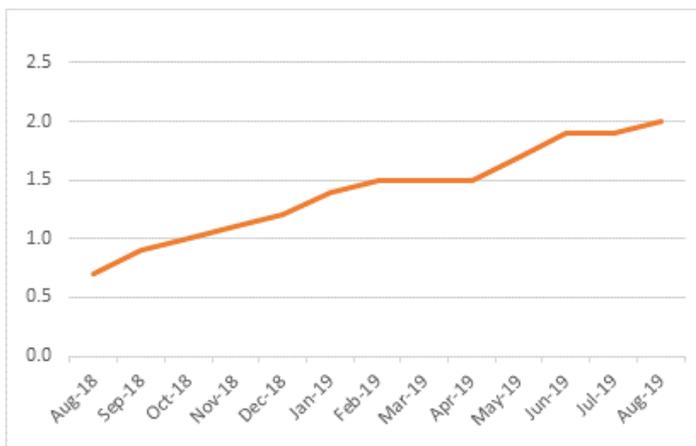


Source: ONS October 2019 labour market statistics, shown as quarter on quarter changes

**Pay growth close to strongest in almost four years - but could be peaking**

- Nominal regular pay growth (excl. bonuses and before adjusting for inflation) was 3.8% on the year in the three months to August 2019, down by 0.1% points on July, remaining close to its strongest since mid-2008.
- In the three months to August, nominal regular pay slowed in the public sector to 3.3% (down by 0.2% points) but remained broadly unchanged in the private sector, at 4.0%.
- Looking across the private sector, pay growth was strongest in construction (+5.6% - up by 0.2% points) and finance (+4.8% - up by 0.2% points), followed by services (+3.9% - down by 0.1% points),

**Exhibit 5** Real regular pay growth (%)



Source: ONS October 2019 labour market statistics

wholesaling, retailing & hospitality (+3.2% - unchanged) and manufacturing (+2.5% - unchanged).

- Real regular pay (excl. bonuses and adjusting for CPIH inflation) increased by 2.0% on a year ago (on the less volatile three-month rolling basis) – the strongest growth in almost four years and close to pre-crisis norms.

**Productivity growth has been broadly flat**

Data published earlier this month showed that productivity growth in Q2 2019 remained weak. Productivity growth also varied across industries.

- Labour productivity for Quarter 2 (Apr to June) 2019, as measured by output per hour, decreased by 0.5% compared with the same quarter in the previous year; and followed two previous quarters of zero growth. Annual productivity growth therefore remained well below the pre-financial crisis trend rate of almost 2% per year.
- Both services and manufacturing saw a fall in labour productivity growth of 0.8% and 1.9% respectively, compared with the same quarter in the previous year.

The next labour market update will be published on **12th November 2019**.



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#### ABOUT THE SPONSOR

“We are finding that businesses remain slightly cautious about hiring in the current environment but, in the main, are continuing to invest in creating permanent and interim opportunities. The jobs market therefore remains stable compared to previous months. The short-term increased by 1% for permanent staff, and by 2% for agency workers, despite concerns raised regarding the UK's economy.”

**Carmen Watson, Chairperson, Pertemps Ltd**

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