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PAY GROWTH REMAINS STUBBORNLY SLUGGISH

Today's figures show that real wage growth, which strips out the affects of inflation, in the UK is at its lowest level for over two years. With inflation increasing at a faster pace, more sustainable productivity growth will be needed to drive faster wage growth.

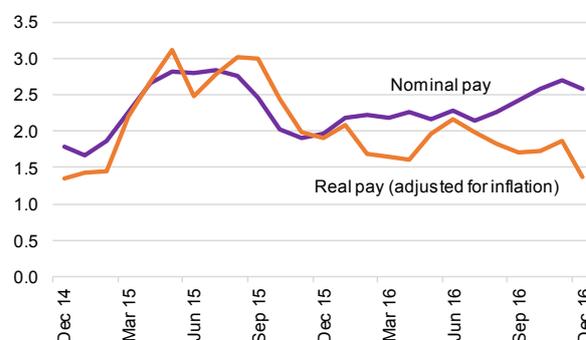
However, more positively, employment increased over the quarter to December with more people finding work. Alongside this, unemployment has continued to edge down. The unemployment rate remained at an 11 year-low reflecting the strength of the UK's flexible labour market.

Real wage growth at lowest level for two years...

Today's data shows that pay growth in the UK remains stubbornly sluggish (**Exhibit 1**):

- In the three months to December, real growth in regular pay (which strips out inflation and excludes bonuses) fell to 1.4%. Although this was the weakest growth in two years, it was still much stronger than in the years immediately following the financial crisis.
- Slower real pay growth was mostly driven by rising inflation, and suggests that the squeeze on households' purchasing power is tightening – this is likely to be a key theme for the economy in the year ahead.
- Nominal wages. i.e pay adjusted to take account of changes in prices also fell. Regular pay growth eased to 2.6% from 2.7% in the three months to November, playing a role in slower real wage growth.
- Productivity is showing tentative signs of improving. The ONS' new "flash" estimate showed growth of 0.3% in the three months to December. But, this is still far below the annual growth rates recorded before the economic downturn when productivity was growing at around 2%.

Exhibit 1 Annual growth in regular pay, whole economy (%)



Source: ONS 2017, February labour market statistics

So, there is still some way for productivity to go before it can sustainably drive faster wage growth.

As the employment rate reaches a record high

In contrast to sluggish pay growth, employment in the UK continues to increase (**Exhibit 2 overleaf**):

- In the three months of 2016, 31.8 million people were in work in the UK. This was an increase of 37,000 on the previous quarter.
- The employment rate for those aged 16 to 64 reached its highest rate since comparable records began in 1971, at 74.6%.

Headline figures	Rate	Number (000s)	Change on quarter in 000s (% change)	Change on year in 000s (% change)
Employment* (ILO)	74.6%	31,837	37 (0.1%)	302 (1.0%)
Unemployment** (ILO)	4.8%	1,597	-7 (-0.4%)	-97(-5.8%)
Youth unemployment (16-24)	12.6%	568	-23 (-3.9%)	-57 (-9.2%)

Source: ONS 2017 February labour market statistics, Oct to Dec 2016 data *Rate for those aged 16-64 **Rate for those aged 16 and over

- Increasing employment was driven by growth in those on government supported training and employment schemes (+21,000) the number of self-employed people (+13,000), and unpaid family workers (+4,000).
- There was no change in the number of employees, but, the majority of people in work - 26.8 million – are employees, showing that businesses are contributing to the UK’s successful labour market.

Exhibit 2 Employment in the UK (000s)



Source: ONS 2017, February labour market statistics

- The number of people working full-time was also on the up(+45,000) while part-time employment fell (-7,000). Breaking this down further, we see that:
- The number of people in full-time self-employment increased, reflecting the growth in the number of people choosing to work for themselves in the three months to December (+18,000), while part-time self-employment fell (-5,000).
- We also saw an increase in the number of employees working full-time (+7,000) while those working part-time fell by the same amount (-7,000).
- Though this is not broken down in the ONS figures, some people moving onto government training schemes and unpaid family workers will be working full-time contributing to the overall increase.

Unemployment remains broadly unchanged...

The number of people unemployed according to the ILO measure fell slightly in the three months to December (**Exhibit 3**). In total, 1.6 million people were looking for a job in the three months to December, a fall of 7,000 on the previous quarter.

Looking at the data in a little more detail, the number of people who had been out of work for shorter periods of time

has edged up. But, more positively, there has been a fall in the number of people who are long-term unemployed:

- In the three months to December, short-term unemployment (unemployed for up to six months) increased (up by 10,000 on the previous quarter).
- The number of people unemployed for over six and up to 12 months also increased (+12,000).
- Positively, the number of people long-term unemployed (unemployed for over 12 months), and generally further away from finding skill appropriate jobs, fell (-30,000).
- In their latest Inflation Report, the Bank of England suggested that the unemployment rate could fall further this year. Data in this area is worth watching closely in the next few months to see if this is the case.

Exhibit 3 Unemployment in the UK (000s)



Source: ONS 2017, February labour market statistics

...as the claimant count falls

Today’s data also revealed that the number of people on the claimant count fell for the first time since July 2016:

- 745,000 people were on the claimant count in January, a fall of 42,400 on December.
- Prior to this, the number of people claiming out of work benefits had increased fairly steadily over the course of 2016. This indicates that there may be more scope for unemployment to fall in the near future.

Youth unemployment continues to decline

Positively, today's fall in unemployment was largest among young people (**Exhibit 4**):

- In the three months to December, there were 568,000 16-24 year olds out of work and looking for work, a fall of 23,000 on the previous quarter.
- The youth unemployment rate stands at 12.6%, down 1.0 percentage points on the previous quarter. The rate remains significantly lower than the highs it reached during the financial crisis and is now steadily approaching the pre-crisis low of 11.6% as more and more employers bring young people into work.

Exhibit 4 Youth unemployment in the UK (000s)



Source: ONS 2017, February labour market statistics

Employment grows in four of the UK's nations and regions...

Turning to the outlook in the regions and nations, employment growth in four of the nations and regions, contributed to the national increase (**Exhibit 5**).

- Positively, employment rose in the North West (+39,000), Yorkshire and Humber (+28,000) London (+27,000) and the South East (+19,000).
- Employment was broadly unchanged in Scotland (+8,000), the South West (+7,000), Northern Ireland (+5,000) and the East Midlands (-2,000).
- The West Midlands saw the largest fall in employment (-42,000) followed by Wales (-19,000) and the East of England and North East (both -16,000).

...while unemployment remains broadly unchanged across most areas

Much like the national picture, unemployment was broadly unchanged across the nations and regions

- In the three months to December, Yorkshire and the Humber saw the most substantial fall in unemployment (-14,000), followed by the South East (-12,000).
- Unemployment was broadly unchanged in the South West (-8,000), North West (-7,000), London (-6,000), Northern Ireland (-3,000), Wales (-1,000), East of England (+5,000) and the East Midlands and Scotland (both +6,000).
- But, unemployment was on the up in the West Midlands (+17,000) and the North East (+11,000).

Exhibit 5 Quarterly change in employment (Jul– Sep 2016– Oct-Dec 2016), 000s



Source: ONS 2017, February labour market statistics

The next labour market update will be published on **15 March**

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“As the CBI/Pertemps Employment Trends Survey showed, businesses are keen to expand their workforces this year, particularly on a permanent basis.

We are continuing to hear this from our clients so anticipate jobs growth. Yes, skills shortages remain but I believe that through greater partnership working these shortages can be addressed to improve job skills and employability.”

Carmen Watson, Chairperson, Pertemps Ltd

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