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## MORE PEOPLE IN WORK, BUT PAY GROWTH REMAINS NEGATIVE

Today's ONS data shows that some aspects of the UK labour market continue to perform strongly.

Specifically, the number of people in work has risen once again, driven by an increase people working full-time for a business.

Alongside this, the unemployment rate fell to its lowest rate since 1975. Although unemployment declined amongst those who had been looking for work for both shorter and longer periods of time, it was short-term unemployment that fell most significantly.

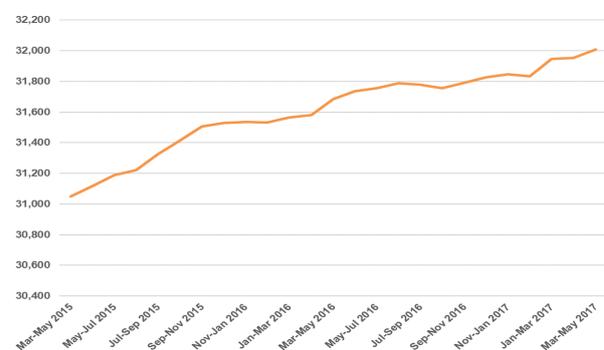
That said, the picture is less rosy for those people already in work. Rising inflation means that the real value of what people's pay packets are worth at the till has been falling. Boosting productivity is the key to securing sustainable increases in pay.

### More people move into employment...

Data released today by the Office for National Statistics shows the strength of the UK's flexible labour market in creating opportunities (**Exhibit 1**):

- In the three months to May 2017, the number of people in employment continued to increase, up by 175,000 on the previous quarter. The number of people in work now stands at just over 32 million.
- The employment rate rose to 74.9%, a 0.3 percentage point increase on the quarter, bringing the rate to the highest level since comparable records began in 1971.
- The growth in employment was principally down to an increase in the number of people working for a business (+189,000).

**Exhibit 1** Employment (000s)



Source: ONS July 2017 labour market statistics

- Encouragingly, the majority of employees moved into full-time positions (+142,000), while those working part-time rose by 46,000.
- Turning to look at self-employment, the number of people working for themselves increased only slightly, by 13,000 in the three months to May 2017.
- The most significant gains in employment in were seen amongst those aged between 25-34 (+85,000) and 50-64 (+53,000).
- The rise in employment amongst 18-24 year olds, while very welcome, was slightly less substantial (+22,000), this was also the case for 35-49 year olds (+18,000) and those aged 65 and above (+21,000).

Headline figures	Rate	Number (000s)	Change on quarter (% change)	Change on year (% change)
Employment* (ILO)	74.9%	32,010	+175,000 (+0.6%)	+324,000 (+1.0%)
Unemployment** (ILO)	4.5%	1,495	-64,000 (-4.1%)	-152,000 (-9.2%)
Youth unemployment (16-24)	12.5%	562	+4,000 (+0.7%)	-55,000 (-8.9%)

Source: ONS 2017 July labour market statistics, March to May 2017 data \*Rate for those aged 16-64 \*\*Rate for those aged 16 and over

- Encouragingly, businesses are looking to recruit more staff - provisional data shows that the number of vacancies stood at 774,000 in the three months to June 2017, a rise of 5,000 on the quarter.
- The number of vacancies per 100 employee jobs was highest in the accommodation and food services (4.3 in the three months to June), information and communication (3.3), electricity and gas and financial and insurance (both 3.2) sectors.

**...with fewer people in part-time or temporary roles**

There was also a welcome fall in the number of people who were working part-time (-27,000 in the three months to May) or in temporary roles (-16,000) because they couldn't find full-time or permanent work.

However, there is still a degree of 'slack' in the labour market given that 27% of temporary workers would like permanent work and 12% of part-time workers would like to work more hours and go full-time.

Labour market slack is a term economists use to describe the shortfall between the volume of work people want and the actual amount available.

**Unemployment continues to fall**

As employment rose, unemployment fell (-64,000), bringing the number of people unemployed to just below 1.5 million in the three months to May.

The unemployment rate also declined, from 4.7% in the three months to February, to 4.5% in the three months to May. The unemployment rate is now at its lowest level since 1975 (**Exhibit 2**).

**Exhibit 2 UK unemployment (%)**



Source: ONS July 2017 labour market statistics

Looking at the data in a little more detail, unemployment fell most significantly amongst those who had been out of work and looking for work for a short amount of time:

- The number of people short-term unemployment - unemployed for up to six months - and generally considered to be closest to the labour market declined by 44,000 in the three months to May.
- The number of medium-term unemployed - over six months and up to 12 months - declined less significantly (-10,000).
- Finally, the number of people considered to be long-term unemployed - over 12 months - and who typically find it hardest to find suitable employment positions also fell, by 10,000.

**Real pay growth continues to decline...**

Today's data (**Exhibit 3**) revealed that annual growth in regular pay (which excludes bonuses), after accounting for inflation, fell (-0.5%) in the three months to May.

- Looking at the single month rate, real pay (regular) has now fallen for four consecutive months. Although that said, the fall registered this month was ever so slightly less than the average over the previous month (-0.4% vs -0.6%).
- Nominal regular pay growth (before adjusting for inflation) increased a touch to 2.0% in the three months to May, from 1.8% in the three months to April.

**Exhibit 3 Real terms regular pay growth (%)**



Source: ONS July 2017 labour productivity

Turning to look at regular pay growth (nominal) in different sectors of the economy:

- In the private sector, nominal regular pay growth, sped up slightly to 2.2% in the three months to May, from

2.0% in the three months to April. This was also the case in the services sector (1.8% to 2.1%), over the same time period.

- Nominal regular pay growth also ticked up a touch in finance and business services (1.1% to 1.5%) and wholesaling, retailing, hotels and restaurants (2.4% to 2.5%).
- In contrast, pay growth weakened in the manufacturing (1.7% to 1.4%) and construction (1.3% to 1.1%) sectors.

### ...hampered by weak productivity is growth

Faster productivity growth is the key to sustainable rises in pay so it is concerning that a separate data set on productivity covering a different time period shows that productivity fell.

- Despite some tentative signs of improvement, UK productivity growth fell by 0.5% between the final quarter of 2016 and the first quarter of 2017.
- Output per hour is now a substantial 17% below where it would have been had it continued to grow at its pre-crisis rate.
- The UK also performs poorly on productivity growth compared to our international competitors. According to the ONS, in 2015, output per hour in the UK was 16% below the average for the rest of the G7 economies.

### Strong employment growth driven by half of UK nations and regions...

While the number of people in employment rose across the UK as a whole, this was driven by half of the UK's nations and regions.

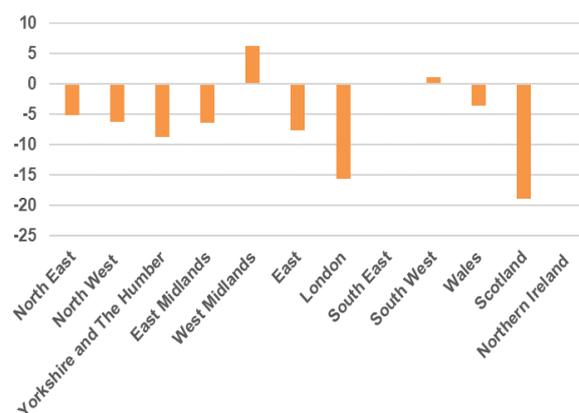
- In the three months to May 2017, employment rose in London (+63,000), the North West (+37,000), South East (+37,000), Scotland (+25,000), East (+23,000) and the North East (+22,000).
- But the number of people in work fell in Yorkshire and Humber (-13,000) and in the East Midlands (-10,000).
- There was no real change in employment in the South West (+4,000), West Midlands (-6,000), Northern Ireland (-3,000), and Wales (-2,000).

### ...while unemployment fell in only two areas of the country

The fall in unemployment at the UK level was due to declines in two locations, with other nations and regions seeing little change (**Exhibit 4**).

- In the three months to May 2017, unemployment fell in Scotland (-19,000) and in London (-16,000).
- But there was little change elsewhere: Yorkshire and Humber (-9,000), East (-8,000), North West (-6,000), East Midlands (-6,000), West Midlands (+6,000), North East (-5,000), Wales (-4,000), South West (+1,000), South East (0), and Northern Ireland (0).

**Exhibit 4** Unemployment change in quarter in the regions and nations (000s)



Source: ONS July 2017 labour market statistics

The next labour market update will be published on **16 August 2017**.

A CBI/Pertemps update will follow in due course.

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