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## EMPLOYMENT RATE IS AT RECORD HIGH, UNEMPLOYMENT FALLS, WHILE PAY GROWTH SLIPS TO A SIX-MONTH LOW

The ONS' latest labour market data paints a familiar picture—strong employment growth and falling unemployment. But despite high vacancies, pay growth has slipped to a six-month low, keeping up the pressure on people's living standards. This leaves the MPC's decision on a knife-edge when it meets to set interest rates in a couple of weeks' time.

Employment remains at a record high, with growth similar to the relatively strong rates seen over most of 2017, bringing the employment rate back to a joint record high since 1971.

Unemployment decreased once again, returning the rate to a 42-year low. A very small margin of slack in the labour market likely remains among those who would prefer to work longer hours or in permanent employment.

However, the performance of the labour market has not been matched by stronger and more sustained real wage growth. Instead, pay growth has slipped putting pressure on people's living standards.

The UK's regions and nations have seen a mixed picture in employment while unemployment levels have remained broadly unchanged.

Labour productivity has grown for a third quarter in a row, but earnings and other labour costs have outpaced productivity.

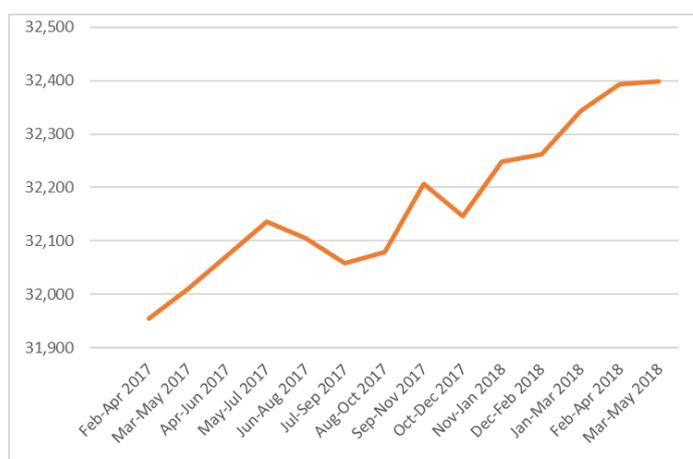
### The employment rate remains at a record high...

The rise in employment was mainly driven by an increase in the number of employees, particularly in the group aged 50-64 years old.

- Employment rose by 137,000 to 32.40 million in the three months to May 2018. On a year-on-year basis, employment rose by 388,000.
- The employment rate increased to 75.7%, up 0.3% points on the quarter, bringing it back to the joint highest since comparable records began in 1971.

- Growth was driven largely by the number of employees, which increased by 100,000, with the number of self-employed increasing by 35,000. On a year-on-year basis the number of employees rose by 408,000 and the number of self-employed remained largely unchanged (-8,000).
- Female employment increases by 94,000 on the quarter, while male employment rose by 43,000. Both also posted an increase year-on-year, with female employment rising by 238,000, and male employment increasing by 150,000.
- Employment grew in most age groups. The rise was strongest among those aged 50-64 years old (+77,000), followed by 25-34 (+21,000), 34-49 (+16,000) and 65+ (+13,000), while the number of those aged 16-24 in employment was largely unchanged (+10,000).

Exhibit 1 Employment (000s)



Source: ONS July 2018 labour market statistics

Headline figures	Rate	Number (000s)	Change on quarter (% change)	Change on year (% change)
Employment* (ILO)	75.7%	32,399	+137,000 (+0.4%)	+388,000 (+1.2%)
Unemployment** (ILO)	4.2%	1,411	-12,000 (-0.9%)	- 84,000 (-5.6%)
Youth unemployment (16-24)	11.6%	524	-1,000 (-8.8%)	- 93,000 (-17.7%)

Source: ONS July 2018 labour market statistics, March to May 2018 data \*Rate for those aged 16-64 \*\*Rate for those aged 16 and over

- The number of people working full-time increased by 177,000 over the quarter, while the number of people working part-time dropped by 40,000. On a year-on-year basis, the number of people working full-time increased by 324,000, while the number of part-time workers increased by 64,000.
- In the three months to June 2018, the number of vacancies reached 824,000 and is now the joint highest since comparable records began in 2001.

**...while unemployment continues to fall**

- The three months to May 2018 saw a small drop in unemployment of 12,000 on the quarter (to 1.41 million). On a year-on-year basis, the number of unemployed people was down by 84,000.
- The unemployment rate was at 4.2%, down by 0.1% point compared to last quarter and once again the lowest level since 1975.
- While male unemployment largely remained unchanged (+6,000) in the three months to May, the number of unemployed women declined (-18,000). The year-on-year change saw a decrease in male unemployment (-74,000) with little change in female unemployment (-10,000).
- The number of those registered as economically inactive (not available and/or looking for work) decreased by 86,000 compared with the previous quarter.
- Following falls recorded in recent months, the number of economically inactive people is the lowest since mid

-2000. The inactivity rate is now at 21.0% for the three months to May 2018, down by 0.2% on the quarter and the joint lowest since comparable records began in 1971.

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

This quarter saw an increase in employment in some regions—with the greatest increase in the West Midlands.

- In the three months to May 2018, employment grew in the West Midlands (+61,000), the East (+33,000), the North West (+32,000) and in Yorkshire and The Humber (+16,000).
- It declined in the North East (-30,000) and remained broadly unchanged in the South East (+10,000), Northern Ireland (+7,000), Wales (+5,000), the South West (+4,000), Scotland (+2,000), London (+1,000) and East Midlands (-4,000).

**... and little change in unemployment**

- London saw a significant rise in unemployment (+17,000). Meanwhile unemployment fell strongly in Yorkshire and the Humber (-19,000).
- There was no significant change elsewhere: East (-7,000), North West (-5,000), South West (-4,000), North East (-2,000), West Midlands (-2,000), Wales (-1,000), Northern Ireland (0), East Midlands (+1,000), South East (+5,000) and Scotland (+5,000).

**Exhibit 2** Unemployment (%)



Source: ONS July 2018 labour market statistics

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



Source: ONS July 2018 labour market statistics

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



Source: ONS July 2018 labour market statistics

**Pay growth slips to a six-month low keeping the pressure on living standards**

Nominal regular pay growth has dropped marginally. In the private sector construction saw the strongest nominal regular pay growth in the three months to May. But this cannot gloss over the slip in real regular pay.

- Nominal regular pay growth (excl. bonuses and before adjusting for inflation) was 2.7% on the year in the three months to May 2018, down marginally (by 0.1% pts) on April.
- Nominal regular pay growth remained unchanged in the private sector and dropped by 0.3% in the public sector in the three months to May 2018: private sector pay increased by 2.9%, while public sector pay rose by 2.2%.
- Looking at the private sector in more detail, the construction sector continues to have the strongest

nominal regular pay growth in the three months to May 2018 (+5.6% on the year – the fastest since mid-2008), followed by services (+2.7%) – down by 0.1%, finance (+2.5%) – down by 0.3%, manufacturing (+2.5%) – down by 0.2%, and wholesaling (+2.5%) – down by 0.2%. The continued strengthening in pay growth in construction could be linked to the acute skills shortages in the sector.

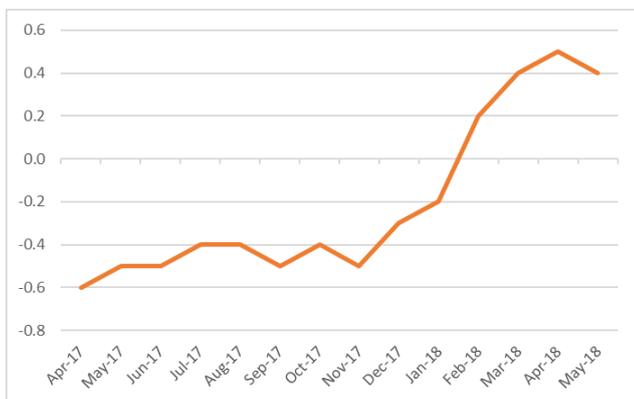
- Real regular pay (excl. bonuses and adjusting for CPIH inflation) dropped to 0.4% on a year ago (on the less volatile three-month rolling basis) and has slipped to a six-month low.

**Labour productivity up for a third quarter in a row**

Updated productivity data for Q1 was published on the 6th July:

- Labour productivity on an output per hour basis grew by 0.9% on the year in Q1 (January to March 2017). This was the third quarterly increase in a row. However, growth in output per hour largely reflected a decline in average hours worked rather than an improvement in output growth.
- At a sector level, output per hour in Q1 decreased by 1.7% in manufacturing and services on the quarter; but increased by 0.7% and 0.9% on the year.
- At the same time earnings and other labour costs growth outpaced productivity growth. Unit labour costs grew by 3.1% in the year to Q1 (January to March) 2018, up from the 2.9% growth in the year to Q4 (October to December) 2017.

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



Source: ONS July 2018 labour market statistics

The next labour market update will be published on **14th August 2018**.



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