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## LABOUR MARKET PUZZLE HAS INTENSIFIED, WITH EMPLOYMENT GROWTH QUICKENING WHILE PAY GROWTH CONTINUES TO WANE

The UK labour market's performance at creating jobs continues in puzzling contrast to the lacklustre GDP growth that has characterised recent months. Employment has grown strongly once again, and at a faster pace, pushing both the headline number and rate to new all-time highs.

Unemployment also continues to fall, with the rate once again at its lowest since 1975.

But pay growth has waned again, leading to a fifth consecutive month in which wage growth has not kept pace with rising prices.

For wage growth to move sustainably onto a higher path, it is crucial for productivity growth to pick up – productivity has fallen in the first half of 2017.

Looking across the regions and nations, the picture is mixed, with employment growth spread unevenly and few regions seeing a statistically significant fall in unemployment.

### Employment continues to grow impressively, and at the fastest pace since 2015

In the three months to July 2017, employment growth accelerated to 181,000 and stands at 32.14 million (**Exhibit 1**), the highest it has ever been. Year on year, it rose by 379,000.

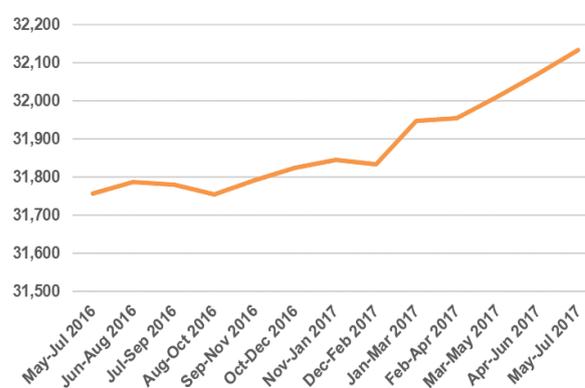
The employment rate also rose to a new record high, up from 74.8% to 75.3% on the quarter.

Employment growth was principally driven by employees, which increased by +147,000, compared to a rise of +43,000 in self-employment, and little change in the numbers classified as unpaid family workers (+2,000). There was a slight fall in the numbers registered on government supported training and employment programmes (-11,000). Full-time employment rose by

96,000, with the numbers working part-time also rising by 86,000.

In terms of the age breakdown, employment grew fastest for those aged 25-34 years old, (+127,000), with strong growth also for those aged 50-64 years old (+66,000) and those aged 35-49 years old (+64,000). Employment fell for workers over the age of 65 (-46,000), and for young people aged 16-24 years old (-27,000).

Exhibit 1 Employment (000s)



Source: ONS September 2017 labour market statistics

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Headline figures	Rate	Number (000s)	Change on quarter (% change)	Change on year (% change)
Employment* (ILO)	75.3%	32,136	+181,000 (+0.6%)	+379,000 (+1.2%)
Unemployment** (ILO)	4.3%	1,455	-75,000 (-4.9%)	-175,000 (-10.7%)
Youth unemployment (16-24)	11.9%	528	-36,000 (-6.4%)	-92,000 (-14.8%)

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

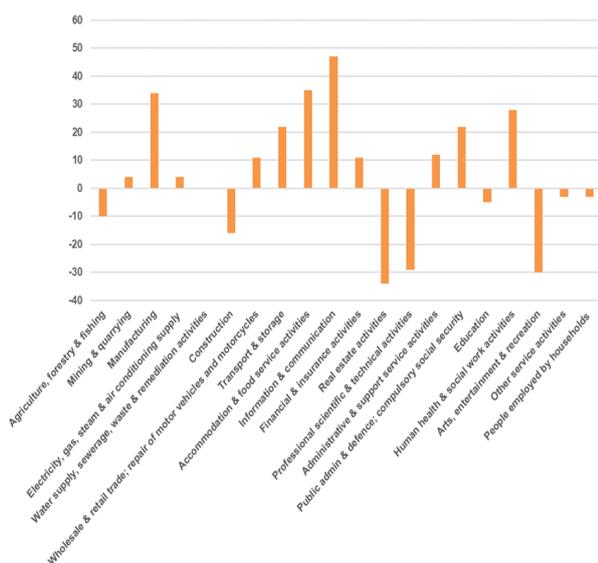
### Jobs growth varies by sector with some growing strongly and others in decline

Data released today on workforce jobs by industry (**Exhibit 2**) enriches our understanding of how the structure of the UK’s labour market is changing. When analysing these figures, it is important to remember that workforce jobs is a measure of the total number of jobs and not of the total number of people working in each industry.

In the three months to June (Q2) 2017, the industries which saw the number of jobs grow were information and communication (+47,000), accommodation and food services (+35,000), manufacturing (+34,000), human health & social work activities (+28,000), public admin & defence; compulsory social security (+22,000), transport and storage (+22,000), administrative and support service activities (+12,000), wholesale & retail trade; repair of motor vehicles and motor cycles (+11,000), and financial and insurance activities (+11,000).

The number of jobs fell in other industries, however: real estate activities (-34,000), arts entertainment & recreation (-30,000), professional scientific & technical activities (-29,000), construction (-16,000), and agriculture forestry & fishing (-10,000).

**Exhibit 2** Workforce jobs by industry (000s)



Source: ONS September 2017 labour market statistics

The number of jobs was largely unchanged in: mining & quarrying (+4,000), electricity, gas, steam & air conditioning supply (+4,000), education (-5,000), other

service activities (-3,000), people employed by households (-3,000).

### Unemployment continues to fall, and is now at its lowest rate since 1975

In the three months to July 2017, unemployment fell by 75,000, to 1.45 million.

The unemployment rate dropped from 4.6% to 4.3% on the quarter, again to the lowest since 1975 (**Exhibit 3**).

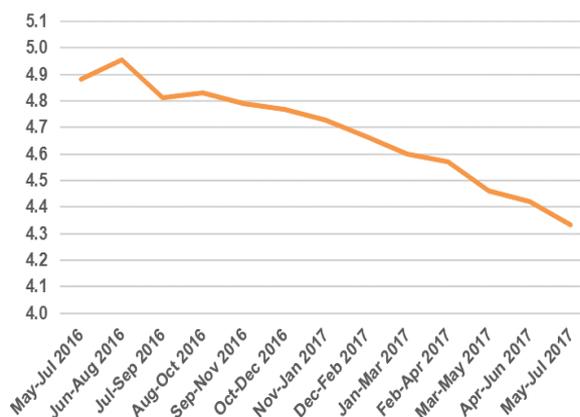
The number of vacancies for the period June-August 2017 remained high, despite falling by 7,000 on the quarter to 774,000.

In terms of the age breakdown, in the three month to July 2017, unemployment fell quickest for those aged 25-34 years (-42,000), 16-24 years (-36,000), and 35-49 years (-16,000). It rose modestly for those aged above 65 (+13,000), with little change for those aged 50-64 years old (+6,000).

The unemployment rate for those aged 16-24 years old fell from 12.5% to 11.9%.

The fall in unemployment was down to a significant reduction in the number of short term unemployed (unemployed for less than 6 months) which fell by 59,000 on the quarter. There was also a fall in those unemployed for 6-12 months (-13,000). But there was little change in the number of long-term unemployed over 12 months (-3,000) and over 24 months (+9,000)

**Exhibit 3** Unemployment (%)



Source: ONS September 2017 labour market statistics

...but there is a mixed picture on the degree of slack in the labour market

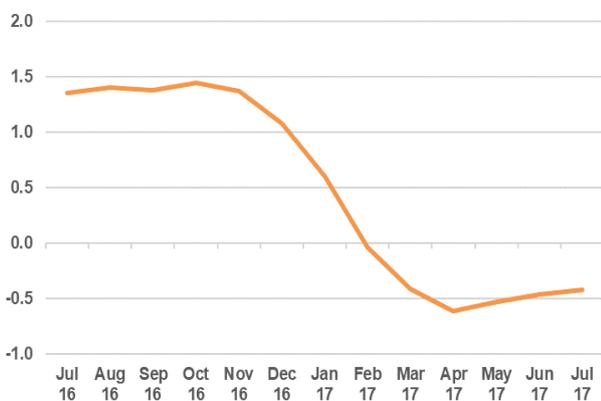
In addition to a strong growth in employment and falling unemployment, the proportion of people aged 16-64 classified as inactive (not looking or available for work) has fallen by 107,000 on the quarter. The rate is now at 21.2%, down from 21.5%.

The proportion of workers in temporary jobs because they were unable to find a permanent job has fallen to 26.7% and is a further indication of reduced slack in the labour market

However, the proportion of people working part-time because they couldn't find a full-time job increased for the third month in a row, rising from 12.3% to 12.5%, pointing to increased slack in this area.

**Wage growth remains depressed amidst higher inflation and low productivity growth**

**Exhibit 4** Real terms regular pay growth (%)



Source: ONS September 2017 labour market statistics

Real wages have now fallen for five consecutive months. In the three months to July 2017, real regular pay (excl. bonuses) fell by 0.4% on the year (**Exhibit 4**). The fall registered this month in the single-month rate was ever so slightly greater than the average over the previous three months (-0.5 vs -0.4%).

Nominal annual regular pay growth (excl. bonuses and before adjusting for inflation) was 2.1% in the three months to July 2017, the same as the three months to June 2017.

Pay growth in the private sector (2.3%) was unchanged on the three months to June 2017, but there was a small increase in pay growth in the public sector over the same period, rising from 1.4% to 1.6%. Looking across the economy, nominal annual regular pay growth rose fastest in the finance and business services sector

(2.2%, up from 1.7%), while the construction sector also saw pay growth strengthen from 1.7% to 1.9%. But pay growth weakened in manufacturing (1.2% to 1.0%) and in wholesaling, retailing, hotels and restaurants (2.1% to 1.7%).

It is crucial that productivity is increased if we are to see sustainable pay growth, but that too, remains weak. In separate figures to the ONS labour market release, productivity (on an output per hour basis) fell by 0.1% in Q2 (Apr-June 2017) following a fall of 0.5% in Q1 (Jan-Mar 2017).

**Employment growth is not spread evenly across the UK's regions and nations...**

In the three months to July 2017, employment strengthened in the following regions (**Exhibit 5**): London (+88,000), South East (+54,000), Scotland (+49,000), West Midlands (+36,000), and the East (+11,000).

But it declined in the South West (-22,000), Wales (-13,000), and the North East (-11,000).

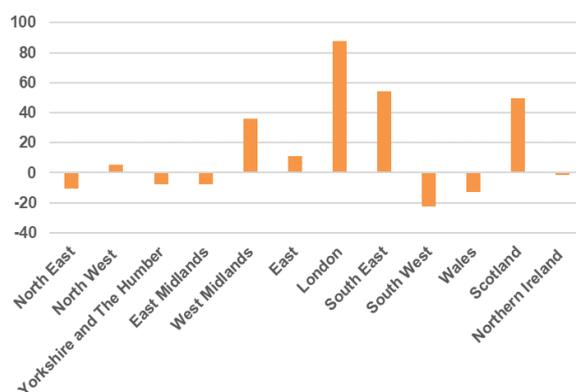
There was no statistically significant change in the North West (+5,000), Yorkshire and Humber (-8,000), East Midlands (-8,000), and Northern Ireland (-1,000).

**...and few regions saw a statistically significant fall in unemployment**

In the three months to July 2017, unemployment fell in London (-36,000), South East (-13,000), and Yorkshire and Humber (-10,000).

There was not a statistically significant change in levels in the South West (+9,000), North East (+8,000), Wales (-8,000), East (-7,000), East Midlands (-5,000), North West (-5,000), Scotland (-4,000), West Midlands (-2,000), and Northern Ireland (-1,000).

**Exhibit 5** Employment change in quarter in the regions and



Source: ONS September 2017 labour market statistics

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#### ABOUT THE SPONSOR

“Nationally, pay growth is not keeping pace with inflation. But despite that, there has been robust growth in jobs. This shows that businesses are continuing to create new opportunities in the face of challenging operating conditions. This is good news. But we need to work on improving productivity and addressing skills shortages to unlock sustainable and stronger pay growth.”

#### Carmen Watson, Chairperson, Pertemps Ltd

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