LABOUR MARKET UPDATE

NOVEMBER 2017

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EMPLOYMENT FALLS SLIGHTLY AND REAL PAY GROWTH REMAINS NEGATIVE, BUT THE UNEMPLOYMENT RATE STAYS AT A 42 YEAR LOW

Today's ONS release paints a mixed picture of the UK labour market. Employment has fallen slightly for the first time in over two years. It is a notable change, though we should be cautious about drawing long-term conclusions from one quarter's data.

Unemployment continues to fall, and remains at a 42-year low. This is welcome news, though we should be mindful of any complacency, as there was a slight increase in the numbers registered as long-term unemployed.

Falls in both headline employment and unemployment levels are explained by a significant increase in the numbers registered as economically inactive.

Real wages continued to fall, and have now been negative for seven months in a row. In the three months to September 2017, real regular pay (excl. bonuses and adjusting for CPIH inflation) fell by 0.5%.

Despite this hampered pay growth, there is positive news on the productivity front, with labour productivity - output per hour – increasing markedly by 0.9% in Q3. This follows two quarters of negative output growth. Maintaining this positive development in labour productivity will be essential to reversing declining real wage growth.

Some regions continued to see employment rise, but by no means all. However, no part of the country saw any increase in unemployment.

Employment falls slightly, but we must be cautious about drawing long-term conclusions from one quarter's data

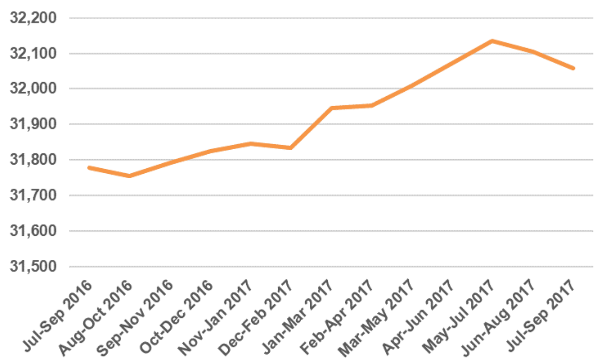
In the three months to September 2017 (**Exhibit 1**), employment fell slightly by 14,000 to 32.049 million. However, this follows a period of strong employment growth, and caution should be exercised in putting too much weight on one data point. In comparison to the same period a year ago, employment is 279,000 higher.

The employment rate is at 75%, down 0.1% pts on the quarter. But year on year, the rate is up 0.6% pts.

Looking more closely at the data, employment levels actually increased for women, up 23,000. In contrast, employment for men fell by 37,000. Over the year, more women in work has been the principal driver of employment growth, increasing by 198,000. Male employment levels have gone up by 81,000 over the same period.

In the three months to September, there was a small fall in the number of employees (-10,000) and no significant change in the number of self-employed (+4,000). There was a small fall in the numbers of unpaid family workers (-11,000). The numbers of those registered on government supported training and employment programmes was largely unchanged.

Exhibit 1 Employment (000s)



Source: ONS November 2017 labour market statistics

In terms of the age breakdown, in the three months to September, employment growth was strongest for those aged 25-34 years, (+47,000), those aged 50-64 years old

Headline figures	Rate	Number (000s)	Change on quarter (% change)	Change on year (% change)
Employment* (ILO)	75%	32,049	-14,000 (-0.1% pts)	+279,000 (+0.6% pts)
Unemployment** (ILO)	4.3%	1,425	-59,000 (-4.0% pts)	-182,000 (-11.3% pts)
Youth unemployment (16-24)	11.9%	517	-28,000 (-5.1%)	-71,000 (-12%)

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

(+42,000) and those aged 65+ (+15,000). Employment fell considerably among young people aged 16-24 years (-98,000), with a smaller decline for those 35-49 years old (-20,000).

This quarter saw the numbers of people working full-time fall by 64,000, with those working part-time going up by 50,000. Both changes were split between employees and the self-employed with the numbers of employees working full-time falling by 29,000 and employees working part-time increasing by 18,000. This contrasts with the trend seen over the past year where growth in full-time employment has been the bigger driver of overall employment growth.

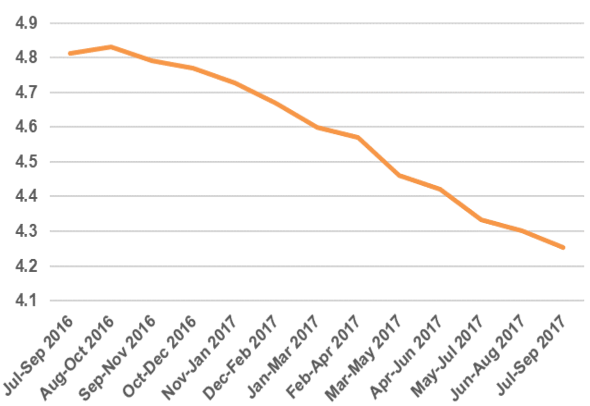
Unemployment keeps falling, and stays at a 42 year low…

In the three months to September 2017 (**Exhibit 2**), unemployment fell by 59,000 to 1.425 million. This is its lowest level in over 12 years. Year on year, the number unemployed is down 182,000.

The unemployment rate is at 4.3%, 0.2% pts down on the previous quarter. This is its lowest level for 42 years. Year on year, the unemployment rate has fallen by 0.6% pts.

The overall fall in unemployment can be largely attributed to the number of unemployed men (-48,000). Female unemployment also went down a little (-12,000).

Exhibit 2 Unemployment (%)



Source: ONS November 2017 labour market statistics

In terms of the age breakdown, in the three months to September 2017, unemployment fell most among those aged 16-24 (-28,000), followed by those aged 35-49 (-16,000), and then by those aged 25-34 (-14,000). There was no real change among those aged 50-64 (-3,000) and among those aged 65+ (2,000).

Unemployment fell most sharply among those on shorter unemployment durations. Among those out of work for up to 6 months, unemployment fell by 57,000, while there was a decline of 19,000 among those unemployed for 6-12 months. In contrast, there was a slight increase in the numbers long-term unemployed (+17,000).

Falls in both employment and unemployment are explained by a significant increase in the numbers registered as economically inactive (not available and/or looking for work), which is up by 151,000. Inactivity was also up by 224k on a year ago. The inactivity rate is at 36.6% (16+).

…but a small margin of slack in the labour market remains

The proportion of workers in temporary jobs because a permanent one was not available remains the same as the previous quarter, at 27.6%, though lower than a year ago (29.7%).

The proportion of people working part-time because they couldn't find a full-time job increased slightly on the quarter by 0.1% pts to 12.4%, but likewise remains lower than a year ago (-1.2% pts). This remains slightly above the pre-crisis average (9.3% between 1997 and 2007).

Wages continue to lag behind the cost of living

Real wages continued to fall, for the seventh month in a row (**Exhibit 3**). In the three months to September 2017, real regular pay (excl. bonuses and adjusting for CPIH inflation) fell by 0.5%.

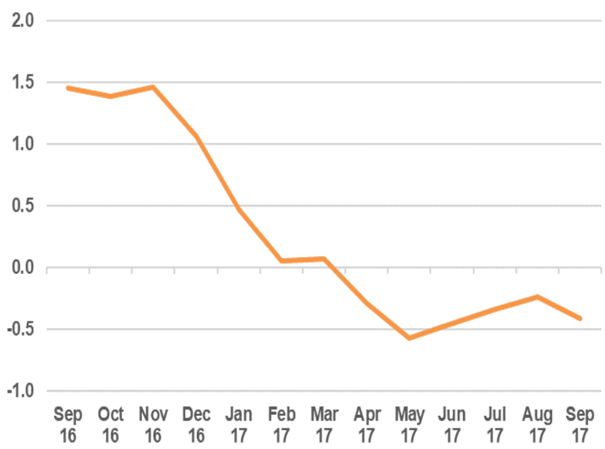
Nominal regular pay growth (excl. bonuses and before adjusting for inflation) was 2.2% on the year in the three months to September 2017, no change from August.

Nominal regular pay growth in the private sector was 2.3% on the year in the three months to September 2017, unchanged on August. In the public sector, pay growth was 1.7% on the year in the three months to September 2017, up 0.2% pts on August.

Looking in more detail at the private sector, financial and business services registered the strongest nominal regular pay growth in the three months to September 2017 (+2.7% on the year) with the construction sector seeing growth of 2.4%. The weakest growth was in manufacturing and wholesaling, retailing, hotels and restaurants, with both only seeing a 1.4% rise.

In a separate release, the latest flash estimate of labour productivity - output per hour – showed a significant increase 0.9% in Q3, after two quarters of negative output growth. Maintaining this positive development in labour productivity will be essential to increasing earnings.

Exhibit 3 Real terms regular pay growth (%)



Source: ONS November 2017 labour market statistics

Some regions continued to see employment rise…

In the three months to September 2017 (**Exhibit 4**), employment grew strongest in the South East (+43,000), London (+11,000), and the North East (+10,000).

The biggest declines were in the South West (-25,000), the North West (-22,000), Yorkshire and Humber (-17,000), and Wales (-10,000).

There was no real change in Northern Ireland (-9,000), Scotland (+2,000), East Midlands (+2,000), East (+1,000), and West Midlands (0).

Comparing the three months to September 2017 with the same period a year ago, shows not all areas of the country has witnessed employment growth.

For instance, employment grew strongest in London (+130,000), South East (+114,000), North West (+90,000), Scotland (+46,000), North East (+25,000) and South West (+22,000).

But employment declined most in the West Midlands (-50,000), East Midlands (-45,000), Wales (-28,000), Northern Ireland (-16,000), and Yorkshire and Humber (-16,000).

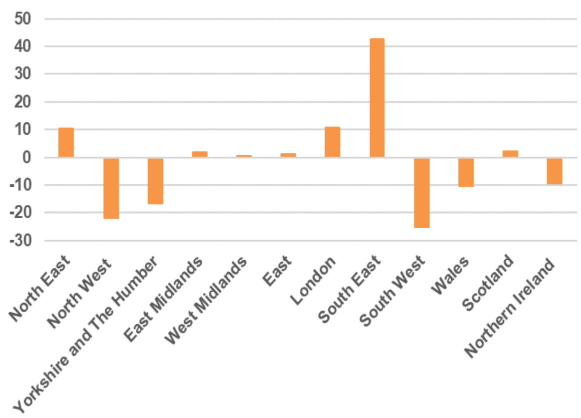
There was no real change in the East (+7,000).

…and no area saw a rise in unemployment

In the three months to September 2017, unemployment declined by 27,000 in London, 15,000 in the East, and 12,000 in Northern Ireland.

There was no real change in the North West (+9,000), West Midlands (-8,000), North East (-6,000), Wales (-5,000), Scotland (+2,000), Yorkshire and Humber (+2,000), East Midlands (+1,000), South West (+1,000), and South East (0).

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



Source: ONS November 2017 labour market statistics

Comparing the three months to September 2017 with the same period a year ago, shows no area of the country has seen unemployment increase.

The biggest falls in unemployment levels were in the North West (-31,000), London (-26,000), East (-21,000), Scotland (-20,000), Yorkshire and Humber (-20,000), South East (-17,000), Northern Ireland (-15,000), East Midlands (-14,000).

There was no real change in the North East (-8,000), South West (-6,000), Wales (-6,000), and the West Midlands (+1,000).

The next labour market update will be published on **13th December 2017**.

A CBI/Pertemps update will follow in due course.

For further information or a copy in large text format, please contact:

Rayhan Haque
Policy advisor
T: 44 (0)20 7395 8107
E: rayhan.haque@cbi.org.uk

The CBI is the UK's premier lobbying organisation, providing a voice for employers at a national and international level. Our mission is to promote the conditions in which businesses of all sizes and sectors in the UK can compete and prosper for the benefit of all.

To achieve this, we campaign in the UK, the EU and internationally for a competitive business landscape.

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"Although pay growth is not keeping in pace with inflation, businesses are continuing to create new opportunities and prospects nationwide. This is positive news, however we now 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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Kevin Cooke
PR and Communications Manager
T: 01676 525250
E: Kevin.Cooke@pertemps.co.uk
W: http://www.pertemps.co.uk/