

Article

Labour market economic commentary: July 2017

Additional economic analysis of the latest UK labour market headline statistics and long-term trends.

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1 . Main points

- The unemployment rate fell to 4.5% in the 3 months to May 2017 - the lowest since 1975.
- Employment growth in the 3 months to May 2017 was the strongest since the 3 months to December 2015; and the employment rate reached a new record high of 74.9%.
- The number of vacancies remained close to a record high in the 3 months to June 2017.
- With consumer price inflation continuing to outpace growth in wages, real average weekly earnings fell by 0.7% including bonuses, and by 0.5% excluding bonuses, compared with a year earlier.

2 . Employment rate reaches new record high in the 3 months to May 2017

The number of people in work increased by 175,000 between December 2016 to February 2017 and March to May 2017 to 32.01 million, the largest increase since the 3 months to December 2015. By category, there were increases in the number of employees working full-time (up 142,000), part-time (up 46,000), and the number of people in self-employment (up 13,000) (Figure 1). This represents the first increase in the number of employees working part-time since the 3 months to August 2016. It corresponds to an increase in the share of part-time workers who did not want a full-time job (up 1.1 percentage points to 70.0%), rather than who could not find a full-time job (down 0.5 percentage points to 12.1%, the lowest since 2009).

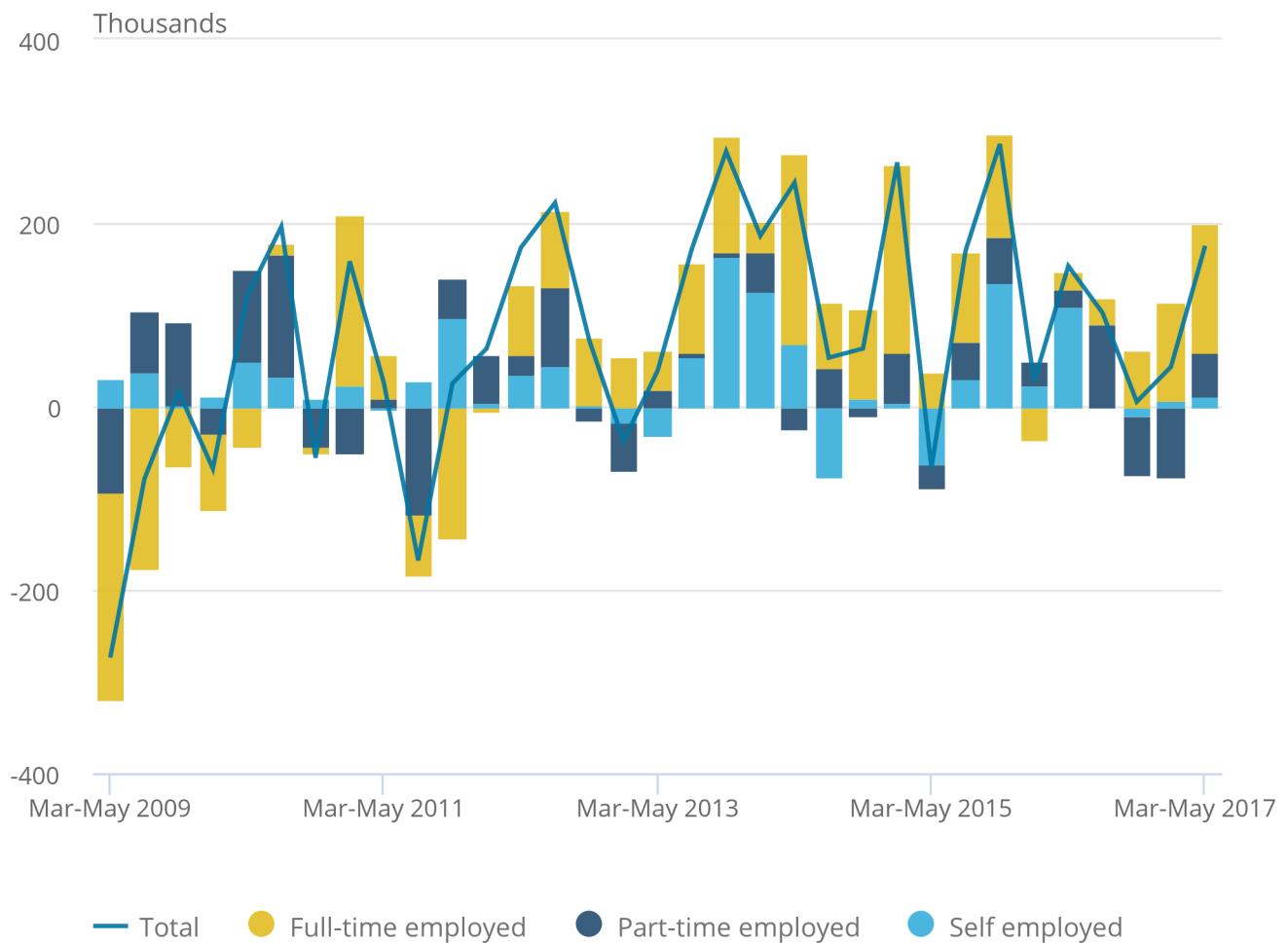
On the back of strong employment growth, the employment rate reached a new record high of 74.9% in the 3 months to May 2017.

Figure 1: Quarterly change in employment (thousands)

UK, between March to May 2009 and March to May 2017

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Source: Office for National Statistics, Labour Force Survey

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Notes:

- Contributions to employment growth do not sum to the total because unpaid family workers, and government-supported training and employment programmes are not displayed.

Average hours worked per week fell from a recent peak of 32.4 in December to February 2017 to 32.1 in March to May 2017, and is now at its pre-crisis average. This is the largest fall in the series since June to August 2012, with the December to February 2017 period partly inflated by Christmas and New Year falling on a Sunday.

The number of vacancies, an indicator of strength in labour market demand, remained close to a record high in the 3 months to June 2017, while the number of unemployed people per vacancy declined to 1.9 in the 3 months to May 2017, the lowest on record.

UK unemployment rate falls to its lowest since 1975

The unemployment rate declined to 4.5% in the 3 months ending May 2017, the lowest since 1975. The fall in the unemployment rate compared to 3 months ago reflects the largest fall in the number of people who are unemployed (down 64,000) since the 3 months to November 2015. This is while the over 16s participation rate increased (from 63.4% to 63.6%) and the headline 16 to 64 economic activity rate increased to its equal highest on record (78.5%).

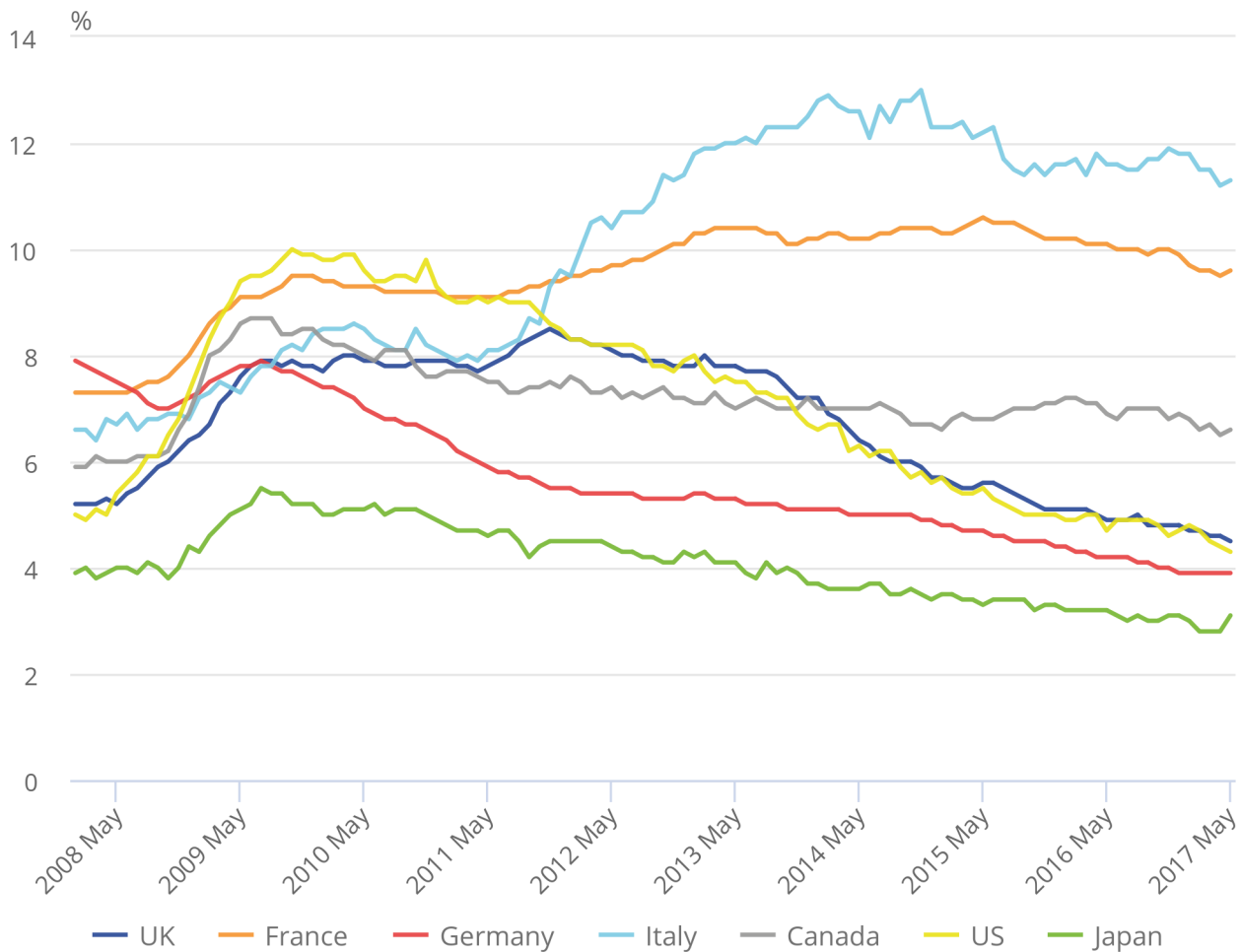
The current UK unemployment rate is markedly lower than the peak of 8.5% observed in the 3 months ending November 2011. Figure 2 compares the recovery in the UK's unemployment rate following the financial crisis with its international peers. Like the UK, the unemployment rates in Germany, Japan and the US are at their lowest in at least a decade and significantly below their pre-crisis averages. In contrast, the unemployment rates in France and Italy, though falling, remain above their pre-crisis averages.

Figure 2: Unemployment rate for G7 countries

January 2008 to May 2017

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Source: Office for National Statistics, Organisation for Economic Co-operation and Development, and National Statistical Institutes

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Consumer price inflation continues to outpace growth in wages

Despite indications of strength in labour market activity, wage growth remains subdued (Figure 3). Average weekly earnings for employees increased by 1.8% including bonuses and by 2.0% excluding bonuses, compared with a year earlier. Meanwhile consumer price inflation (measured using the Consumer Prices Index including owner occupiers' housing costs - CPIH) has been steadily increasing and is at its highest rate since April 2012. Adjusted for inflation, average weekly earnings fell by 0.7% including bonuses and by 0.5% excluding bonuses, over the year.

Figure 3: Regular average weekly earnings growth: real and nominal

Great Britain, seasonally adjusted, 3 month on 3 month a year ago, May 2006 to May 2017

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Great Britain, seasonally adjusted, 3 month on 3 month a year ago, May 2006 to May 2017



Source: Office for National Statistics, Labour Force Survey

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Notes:

1. An error has been found in the legend of Figure 3. The correct labelling should show real average weekly earnings growth below nominal average weekly earnings growth. We apologise for any inconvenience caused.

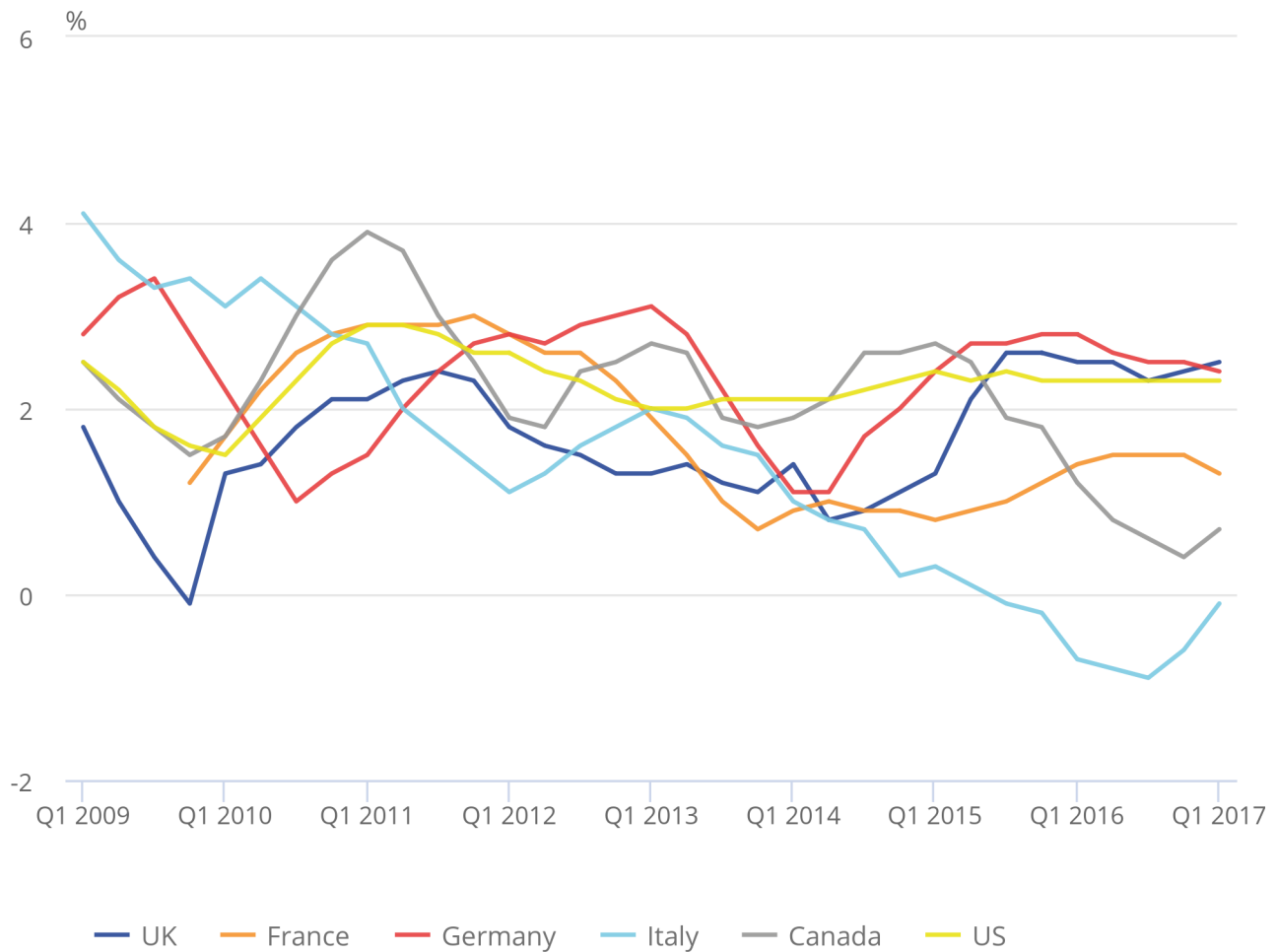
Figure 4 compares nominal earnings growth in the UK with selected G7 economies. Recent movements in the UK, US and Germany have been similar, with these countries experiencing broadly stable earnings growth since Quarter 3 (July to Sept) 2015. Despite low and declining unemployment rates in these countries, there is little evidence of a pick-up in earnings growth. Conversely, growth rates in Canada and Italy have been rising in recent quarters, following a slowing in earnings growth from the start of 2015.

Figure 4: International comparison of nominal earnings growth

Quarter 1 (Jan to Mar) 2009 to Quarter 1 (Jan to Mar) 2017

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Quarter 1 (Jan to Mar) 2009 to Quarter 1 (Jan to Mar) 2017



Source:

Notes:

1. US series calculated by average hourly earnings multiplied by average weekly hours.
2. UK and Canada series are Average Weekly Earnings including bonuses.
3. France, Germany and Italy series are Labour cost indices. Movements in Labour cost indices could also reflect changes in non-wage costs such as employer's social contributions.