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UK jobs market 'chill factor' back to where it was in spring 2011 – renewed market cooling began in autumn 2012

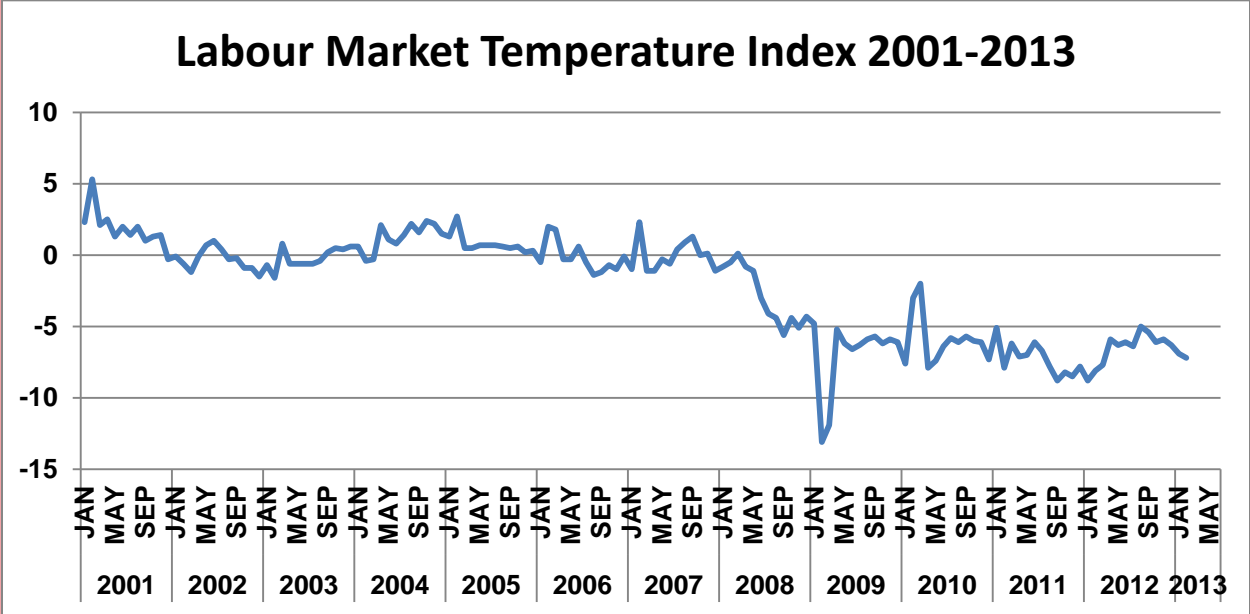
Rising unemployment and smaller pay rises since the start of 2013 signal the return of cooler conditions in the UK labour market after a somewhat warmer 2012, with the measured 'chill factor' back to where it was two years ago in spring 2011.

This is the finding of the latest update of the **Labour Market Temperature Index (LMTI)**, an indicator of the pressure of demand for labour constructed from official unemployment and pay data, published today by the Jobs Economist consultancy, which also suggests that **renewed market cooling began last autumn rather than at the turn of the year as indicated by the headline unemployment rate.**

The **LMTI** (see chart below) is constructed from official data on unemployment, (CPI) price inflation, nominal pay increases and changes in average hours worked per person. A zero reading represents the economy's potentially attainable combination of unemployment and real pay growth, as obtained from Office for Budget Responsibility estimates. A reading above zero indicates excess demand for labour, a reading below zero (i.e. the chill factor) indicates deficient demand. An increase in the reading indicates that the labour market is heating up (conditions improving), a decrease in the reading indicates that the labour market is cooling down (conditions deteriorating).

The **net reduction in pressure of demand for labour since 2008** as measured by the LMTI is **more than twice that indicated by the rise in unemployment**, some of the adjustment instead absorbed by a fall in real pay levels on the part of workers desperate not to price themselves out of work. The cooling shown by the LMTI is thus more indicative of the overall degree of pain inflicted on the labour market since the start of the financial crisis.

The **labour market was at its coldest at the depth of the recession in February 2009, at which time the LMTI reading fell to minus 13**. The reading then increased and broadly stabilized through the remainder of 2009 and 2010 before moving back onto a decreasing trend through to the end of 2011. A **combination of strong growth in employment, falling unemployment and moderation in the real pay squeeze saw the LMTI reading rise to minus 5 by autumn 2012**. However, by February 2013 rising unemployment and a bigger pay squeeze had again lowered the LMTI reading to minus 7.2. This was the lowest LMTI reading since March 2012 (minus 7.7) and equivalent to the April 2011 reading (minus 7.1). It's also apparent from the LMTI that the labour market started to cool again in autumn 2012, somewhat earlier than indicated by the recent rise in unemployment.



Dr John Philpott, Director of The Jobs Economist, comments:

“The UK labour market has proved remarkably good at creating jobs in the past two years but only because people have been desperate to price themselves into work. As the LMTI shows the prevailing combination of high unemployment and falling real pay indicates a significant ongoing shortfall in demand. People in work and jobseekers alike have now experienced five years of severe labour market chill. And with the somewhat warmer conditions of summer 2012 having given way to a much colder 2013, life in our deep chilled jobs market looks set to continue for some considerable time yet.”

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Notes to Editors:

John Philpott is available for interview

A copy of ***Labour Market Temperature: spring 2013 update*** is available on request

The Jobs Economist is an independent consultancy specializing in analysis of employment and pay trends and related public policy issues

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