

U.K. Unemployment

U.K. unemployment fell to the lowest in more than 2 ½ years in October, as accelerating economic growth spurred companies to hire workers. Claims for unemployment benefits dropped 9,900 from September to 824,000, the least since February 2005, the Office for National Statistics said today in London. The jobless rate was unchanged at 2.6 per cent.

"There are no signs as yet that the labour market is weakening," Dominic White, an economist at ABN Amro Holding NV and a former U.K. Treasury official said "We're only seeing tentative signs the economy is slowing, so it may be a while before we see this feed through to jobs."

Uninterrupted economic growth has almost halved the jobless register since the Labour Party came to power in 1997 and made Britain a magnet for foreign workers, who took 1.13 million of the 2.17 million jobs created over the past decade. Jobless claims fell 13,900 in September, more than the 12,800 previously estimated.

Average earnings including bonuses rose an annual 4.1 per cent in the three months through September, the highest since March and up from 3.7 per cent in the period through August, the statistics office said today. Without bonuses, wage growth was unchanged at 3.7 per cent.

"The picture on the labour market is going to turn," Kenneth Wattret, a senior economist at BNP Paribas, said in an interview. "It wouldn't be a surprise if in the next few months small negatives on unemployment turned into small increases."

Claimant unemployment has fallen for 13 consecutive months, the longest stretch of declines since the period June 2003 to January 2005, the statistics office said. Vacancies posted at job centres stood at a six-year high in October. Employment as measured by International Labour Organization standards rose 69,000 in the three months through September to 29.2 million.

There are some signs that the labour market is cooling. ILO unemployment rose 6,000 to 1.67 million, today's report showed. The jobless rate held at 5.4 per cent.

The government and economists expect unemployment to rise next year as the Bank of England rate increases in a year and the global credit squeeze limits economic growth to about 2 per cent.

Service industries from banks to airlines, the bulk of the economy, grew at the slowest pace in 4 ½ years in October, a survey showed Nov. 5, while factory production dropped the most in seven months in September. An index of house prices fell to the lowest in more than two years in October, the Royal Institution of Chartered Surveyors said yesterday.

Questions

1. Explain why employment and wage growth is currently strong in the UK.
2. If 5 successive interest rate increases and the credit crunch caused a marked slow down in economic activity and employment, what would be the social and economic cost of unemployment?
3. What are the current policy issues relating to employment? How do they compare with the employment issues of the 1980s and 1990s?