

UK employment outlook

Manufacturing sector set to lead UK jobs growth during next 12 months

- **One-year outlook for manufacturing employment rises to record high...**
- **...but service providers continue to forecast sluggish rise in payrolls.**

Private sector firms in the UK anticipate an increase in employment during the next 12 months, according to the summer 2010 Business Outlook Survey, conducted three times a year by Markit on behalf of KPMG. Although jobs are set to be created across both the manufacturing and service sectors, growth is forecast to be much stronger in the former.

The number of manufacturers expecting employment to be higher in a year's time exceeded those expecting a decline by 26% for manufacturing – an eight-year survey record high and up from 21% in the previous survey conducted in February. For services, the equivalent figure was just 8%, down slightly from 9% in February and the lowest since April 2009.

Optimism amongst UK manufacturers regarding the outlook for employment corresponds with recent data from the monthly PMI surveys, also compiled by Markit, which showed that the rate of job creation in the sector accelerated to a 15-year high in June. Companies reported that new staff were hired in response to increased production and rising backlogs of work, and to expand capacity following the substantial reductions initiated during the downturn.

Similarly, the muted outlook for service sector employment is in line with the recent message from the PMIs. Although an expansion of services employment was recorded for the third time in the past four months in June, the rise was again only marginal as cost pressures restricted growth in payroll numbers.

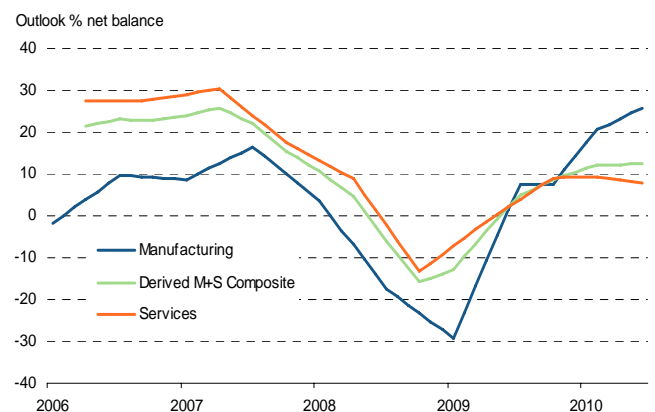
Doubts arise over strength of overall employment growth

The implications of these data are somewhat mixed for the UK labour market. On the one hand, they offer encouragement that private sector firms are confident

of delivering jobs growth over the next 12 months at a time when the public sector will be retrenching. Furthermore, the data also suggest that the fastest expansion is set to occur in the manufacturing industry, where many would like to see a rebalancing of the UK economy towards.

On the other hand, given the small size of the UK manufacturing sector relative to that of services (13% of total GDP compared to 38%, based on PMI survey definitions), the sluggish pace of job creation forecast in the latter raises doubts as to whether overall employment growth will be as strong as the government is hoping for. Its newly-created budgetary watchdog forecasts a rise in employment over the next five years equivalent to 400k new jobs a year, which would more than offset the projected 100-120k annual decline in public sector employment. In order to meet these expectations, it is likely that the dominant service sector will have to provide a substantial proportion of these new jobs.

UK business outlook: employment



Source: Markit.

Further information

The Outlook Survey covered 17 countries in total as well as numerous other variables, including input costs, staff costs, business activity levels, new orders, capacity utilisation, R&D and inventories. For further

information and to download a **free full copy of the survey results**, please visit:

<http://www.markit.com/en/about/news/commentary/markit-economics/markit-economics.page>

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