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Western European Economic Indicators and Insights

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UK: Solid Labor Market Signals Continue?

A Clear Olympic Boost?

Surprising positively once again, claimant count unemployment actually fell further and slightly more clearly in August, and with the drop of 15 000 also being the second fall in succession, albeit still keeping the jobless rate on this basis stable at a downwardly-revised 4.8%.

Notably, the Olympics and Paralympics may have had a positive impact on these figures, with a significant part of the overall drop coming from London. More remarkably, *the resilience seen in the past two months came in spite of a change to the benefits regime (with cuts to lone income parent support) which is expected to have provided a boost to claimant count figures (including an estimated boost of around 9 000 in June).*

Moreover, a better labor market backdrop was also evident in the alternatively-sourced and broader ILO measure of unemployment. This saw a fifth successive, but more muted drop, this time of 7 000, enough to keep the jobless rate on this basis at an upwardly revised 8.1%.

On a further upbeat note, the rate of redundancies fell, while vacancies were little changed. Hours worked, however, bounced clearly while employment numbers rose further and more clearly. However, what work there was remained dominated by (possibly far from voluntary) part-time working and self-employment. Even so, *a better underlying tone to the labor market may be discernible from the rise in the participation rate to the highest in well over three years*.

Earnings Growth Remains Subdued

Average weekly earnings growth slowed 0.3 percentage point to 1.5% Y/Y in the three months to July, similar to the single month Y/Y figure reading of 1.4%. These numbers were partly tempered by bonus pay effects as regular pay earnings growth edged up to 1.9%.

DE View: This is a set of clearly more reassuring messages regarding the labor market. Indeed, *the latest batch of labor market data suggest an unexpected resilience that seemingly provides a further rebuff to the notion that the UK economy is actually in recession.*

However, this relative strength is seemingly coming at a price at least for households. Average earnings are still running at a pace well below CPI inflation. More worryingly, average earnings growth may still be too high given the very clear weakness in productivity that the combination of soft GDP and rising employment is painting.