

## The job queue lengthens

By Tom Stevenson, 12 August 2009

### What this week's unemployment data say about recovery prospects.

UK unemployment increased by 220,000 in the three months to June. This is another shocking sign of the depth of the economic downturn, even if it is a retreat from the record 271,000 rise in the three months to May.

The number of jobless in the UK now stands at 2.4 million on the widely-used International Labour Organization (ILO) measure. This is the highest for 14 years and the unemployment rate stands at a 13-year high of 7.8%.



**"UK unemployment increased by 220,000 in the three months to June"**  
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Unemployment is a personal setback for anyone, but a particularly worrying aspect of the latest data is the extent to which young people are being affected by the loss of jobs. The employment rate for 18-24 year olds has fallen to 60% in the three months to June from 64% a year earlier.

Moreover, it appears that many people who have lost their jobs are not claiming benefit, which is why another measure of unemployment, the claimant count, rose by a much smaller number over the same period.

Economists now forecast that unemployment will rise above 3 million in 2010. Because unemployment is a backward-looking indicator, job losses are likely to continue rising for some time even if the economy returns to growth, as some expect it to this quarter.

A related piece of data this week showed the impact rising unemployment is having on average earnings which grew by just 2.5% in the three months to June compared to the same period in 2008.

### Implications for investors

What does this all mean for investors? Obviously rising unemployment is bad news for economic recovery because a family that loses an income will rein in all but essential spending. In addition, people who still have their job but are fearful they could be next in line will also be much more careful with their money.

There are other knock-on impacts of rising unemployment too. House prices, which in turn are a key driver of consumer confidence and spending, are unlikely to stage a meaningful recovery as long as unemployment is still rising.

The flip side of all this bad news, however, is that cost-cutting by companies has a galvanizing impact on their profitability as and when sales begin to stabilise. This has been very much in evidence during the second quarter earnings reporting season on both sides of the Atlantic.

### Watching the recovery

For a sustainable recovery in the economy to take hold, there needs to be a stabilisation of data in three key areas. The financial system needs to be fixed, industrial production needs to get back on an even keel and the consumer needs to regain his or her poise.

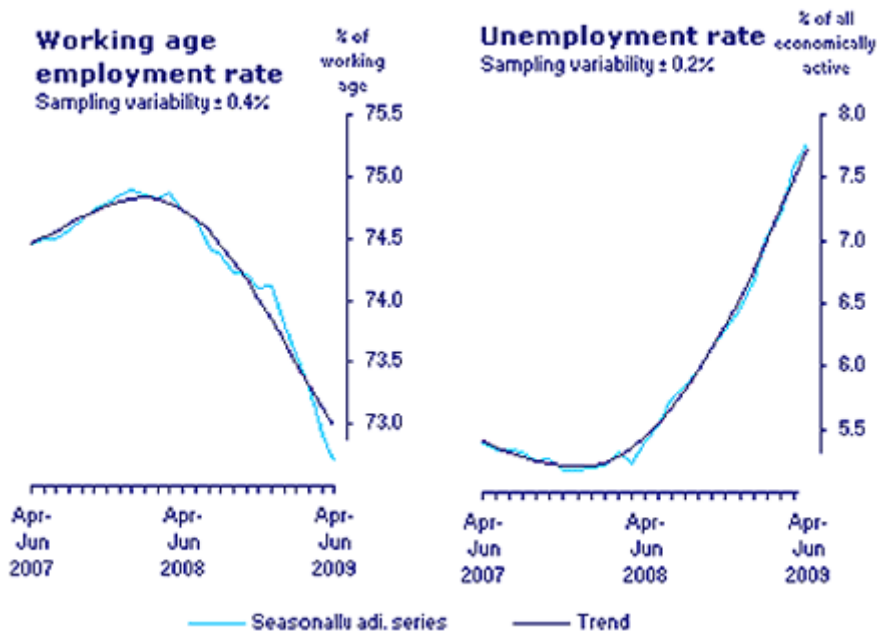
The evidence from the first of these areas is pretty encouraging – lending is returning to more normal levels, companies are able to access funding through the bond markets at more acceptable rates and market volatility is falling.

Industrial indicators, too, are beginning to point in the right direction. The purchasing managers' index, or PMI, recently started to indicate expansion rather than contraction in the economy and the prices of key raw materials such as oil and copper have sustained recoveries through the first half of the year.

But the final piece in the jigsaw – the consumer – continues to look vulnerable. Rising unemployment and the very shaky recovery in house prices make the recent resilience of retail sales look hard to justify.

Overall, the majority of these financial, industrial and consumer indicators are currently supportive of the recent rebound in the stock market. However, those which are not suggest that the road to recovery and further stock market gains will be long and hard.

Picking the companies that can continue to grow in the difficult environment ahead (and avoiding those that can't) has never been so important.



Source: Office for National Statistics

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