ies Briefing

Institute for Employment Studies

Labour Market Statistics, March 2023

14 March 2023

This briefing note sets out analysis of the Labour Market Statistics published this morning. The analysis mainly draws on **Labour Force Survey (LFS)** data, which is the main household survey that collects official figures on employment, unemployment and economic inactivity and covers the period up to January 2023 (the most recent quarter being November 2022 to January 2023). The briefing also includes findings from the **ONS Vacancy Survey**, which collects employer data on open vacancies; and from the **Monthly Wages and Salaries Survey**, which collects pay data from businesses in order to estimate Average Weekly Earnings (AWE). The Vacancy Survey includes data up to February 2023, and the Wages and Salaries Survey to January 2023.

Summary

There is good news and bad in today's figures. The good news is that employment is continuing to creep up and economic inactivity is edging down. Unemployment is also broadly flat, and remains close to its lowest in 50 years. This now looks like a pretty well-established trend since last summer, and in further good news today some of the early indicators of a potential slowdown that we had flagged in recent briefings appear to be easing – with redundancies and short-term unemployment both levelling off, and vacancies falling less steeply than they were in the latter part of last year.

However, today's figures also show how bad news often comes in threes. First, the number of people economically inactive due to long-term ill health has risen again after a couple of months of falls. This is now up by half a million in four years, to just over 2.5 million people – the highest level since comparable records began in 1992.

Secondly, the employment recovery for older people has been very weak, especially for those aged 50-64. Employment fell over the last quarter for this group (again after an apparent recent improvement). Recent falls are being driven by fewer older men in work, but the longer-term picture is of flat or falling employment rates for both men and women aged 50-64, after decades of employment growth pre-pandemic (especially for women).

Thirdly, the number of young people outside of education or employment is rising. This is being fuelled in particular by large falls in the number of young people full-time education, with today seeing the largest quarterly fall on record (down by 150 thousand).

Employment for young people outside of education is up slightly, but not by nearly enough to offset this decline. It is not clear what is driving this, but separate 'NEET' data suggests that it may be a combination of fewer young people aged 18-20 entering education, while those aged 21-22 are finding it harder to get jobs when they leave.

Importantly, all three of these issues are being driven primarily by fewer people entering work rather than more people exiting it; and emphasise why at the Budget tomorrow we need a comprehensive plan to raise participation and to support better work. We have set out that this should include action in four areas: better access to employment support; investment in local partnerships; support to address the costs of working; and a far more coherent ask and offer for employers.

Headline indicators continue to improve: employment up, unemployment flat, economic inactivity down

Today's figures continue the trend of the last few months, with the employment rate edging up – to 75.7%, up from 75.6% last quarter – while economic inactivity edges down (by 0.2 points on the quarter, to 21.3%). Unemployment is unchanged at 3.7%, so still pretty much the lowest unemployment rate since 1974.

Figure 1 below shows that these improvements in employment and economic inactivity began in the summer and do not show any signs yet of slowing, which is good news. The underlying monthly figures which make up the quarterly average (shown in yellow) are fairly erratic but show that the January data was strong, especially on unemployment. However the graph also illustrates that we still have a long way to go to make up the ground lost since the start of the pandemic – with the employment rate still one percentage point below the pre-Covid peak and the economic inactivity rate around one percentage point higher.

Changes in levels of employment tell a similar story, but we have not graphed them in this month's briefing. Economic inactivity among 16-64 year olds is 490 thousand higher than pre-pandemic (rising to 810 thousand if over-65s are included) while the level of employment is 230 thousand lower.

However while the headline figures have improved overall, there are three significant worries in today's data: a further rise in economic inactivity due to long-term ill health; a weak employment recover for older people; and increasing numbers of young people neither in education nor employment. These are taken in turn below.

Figure 1: Employment, unemployment and economic inactivity rates (16-64) – quarterly average with single-month estimates

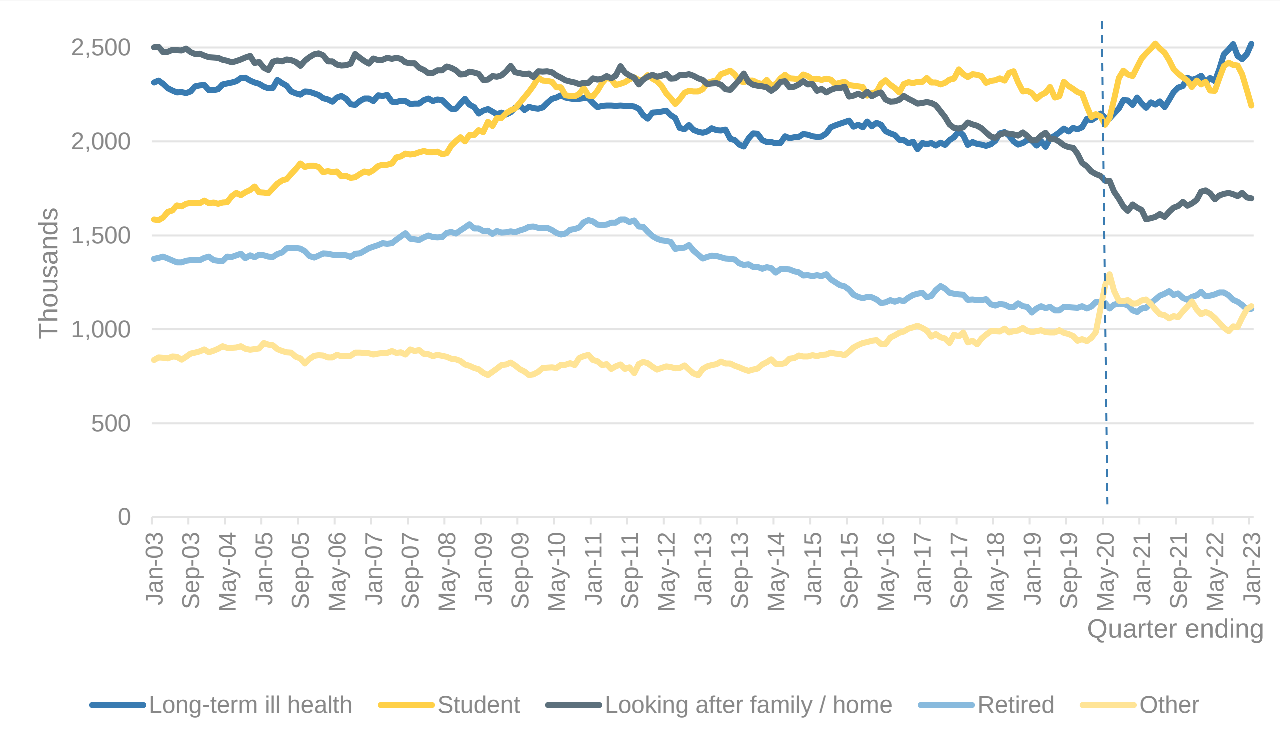
Source: Labour Force Survey

Economic inactivity due to ill health is back at record levels – masked by fewer students and early retirees

Perhaps of most concern, the number of people economically inactive due primarily to long-term ill health has risen sharply again, by 65 thousand on the quarter, to 2.52 million. This is the (joint) highest that this figure has ever been, and has risen following slight falls over the last few months. Most of this growth has been among people who say that they want to work right now, which at 600 thousand is the highest figure since 2017.

The large growth in worklessness due to ill health has been more-than-offset however by a record fall in the number of economically inactive students – down by 215 thousand on the quarter, the largest quarterly fall since these records began in 1992 – and a large fall in the number of people early retired (down by around 40 thousand). These trends are set out in Figure 2 below. This also shows a significant rise in the numbers out of work for ‘other’ reasons – up by 110 thousand on the quarter. These ‘other’ reasons include people who do not need to work (i.e. because they can afford not to) as well as people waiting for a job to start, and it is possible that either or both of these could be contributing to the rise. The number out of work looking after family and home (mainly mothers of younger children) appears to have levelled off at around 1.7 million people – so about one hundred thousand higher than a year ago.

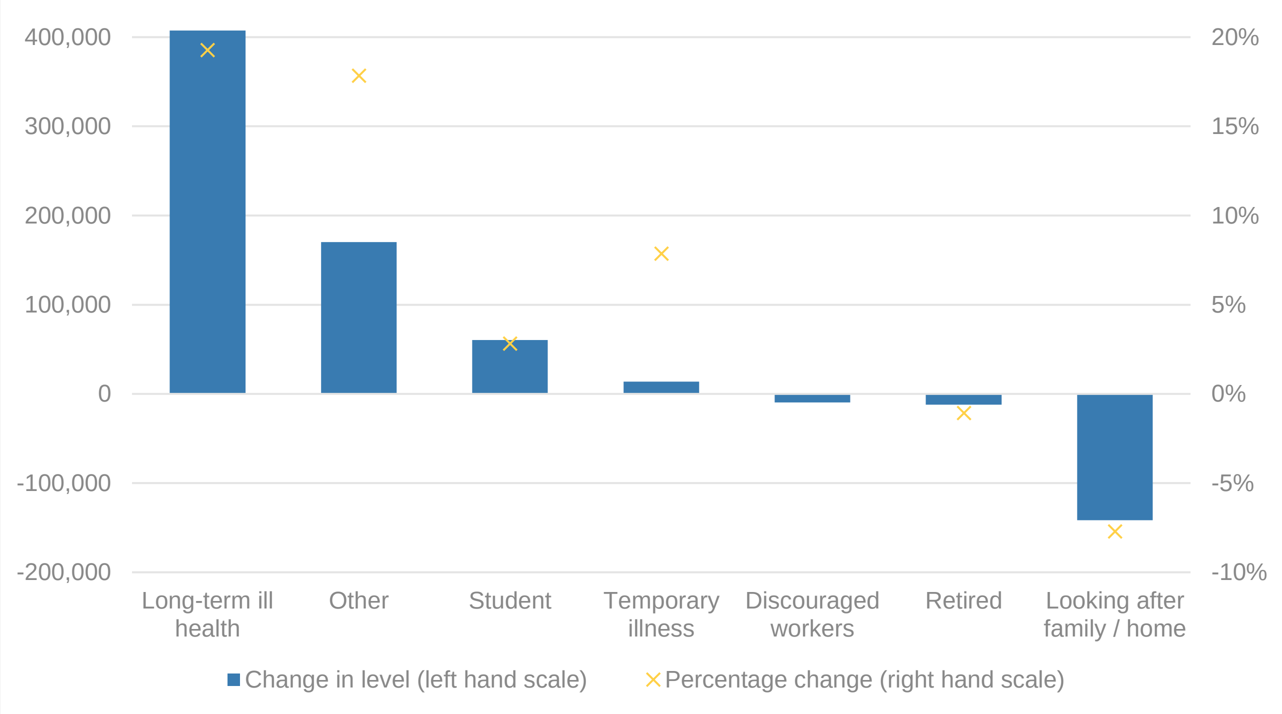
Figure 2: Levels of economic inactivity for the five main reasons given, 2002-present



Source: Labour Force Survey

Looking specifically at the change in levels since the pandemic, Figure 3 shows the extent to which long-term ill health is dwarfing all other changes – up by 410 thousand (left hand scale), or nearly 20% (right hand scale). Student numbers are now almost back to where they were (60 thousand up), while early retirement is ten thousand lower than pre-pandemic.

Figure 3: Change in economic inactivity by main reason, Dec 19-Feb 20 to Aug-Oct 22



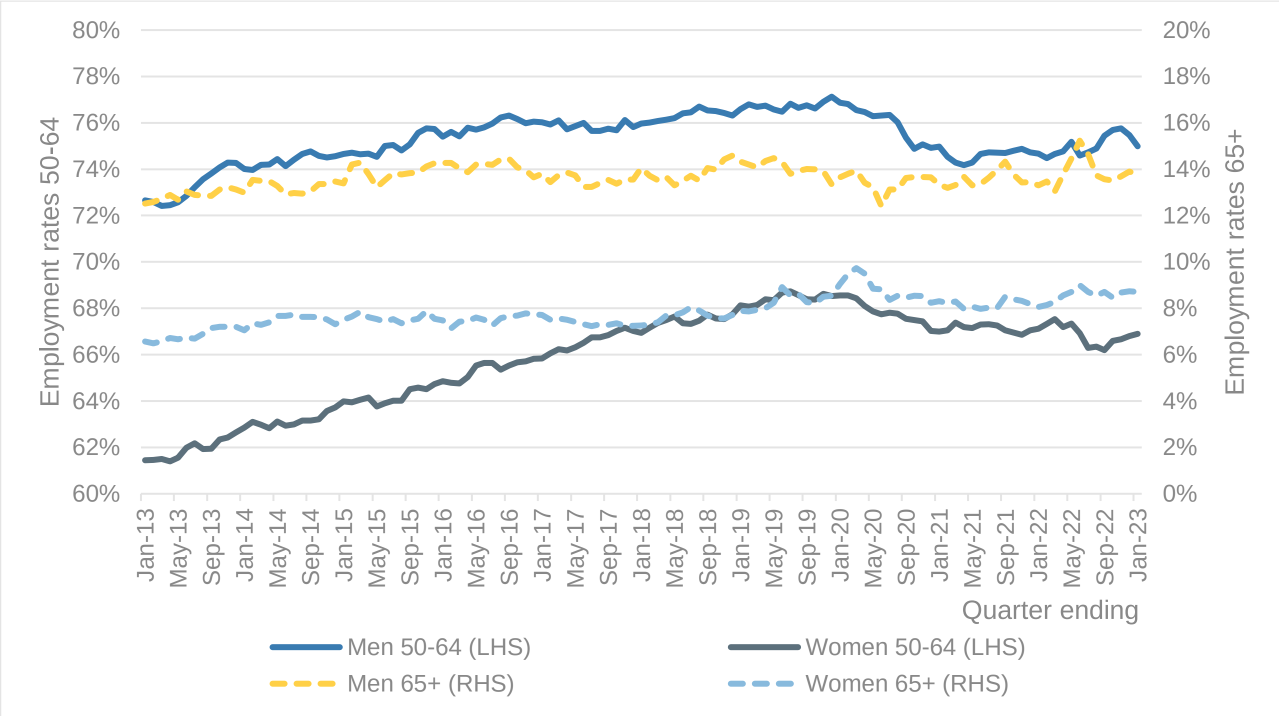
Source: Labour Force Survey

Employment for older people is stalling – and if anything is falling for those aged under 65

The second worry today is weaker data for older people's employment, after an apparent improvement in recent months. This is most pronounced for those aged 50-64, where employment has fallen by 30 thousand on the quarter (0.2 percentage points), offsetting a similar rise for those aged 65 and over (which is up by 30 thousand, or 0.3 points). This could reflect some sampling variability in the Labour Force Survey, but a closer look at the differing trends by age for men and women shows that the employment recovery has been weak for older people and if anything may be deteriorating for those aged under 65.

Figure 4 below illustrates this, showing employment rates for men and women aged 50-64 (solid lines, on the left hand scale) and for those aged 65 plus (dotted lines, on the right hand scale). As noted in previous months, employment rates for 50-64 year olds were rising pre-pandemic – particularly for women – but have fallen significantly since then. For men (the top line), the employment appeared to be recovering in the second half of last year but is now falling again, while for women the overall trend appears to remain flat or edging downwards. Employment for those aged 65 and over is far lower and broadly flat post-pandemic (or possibly edging ever so slightly upwards).

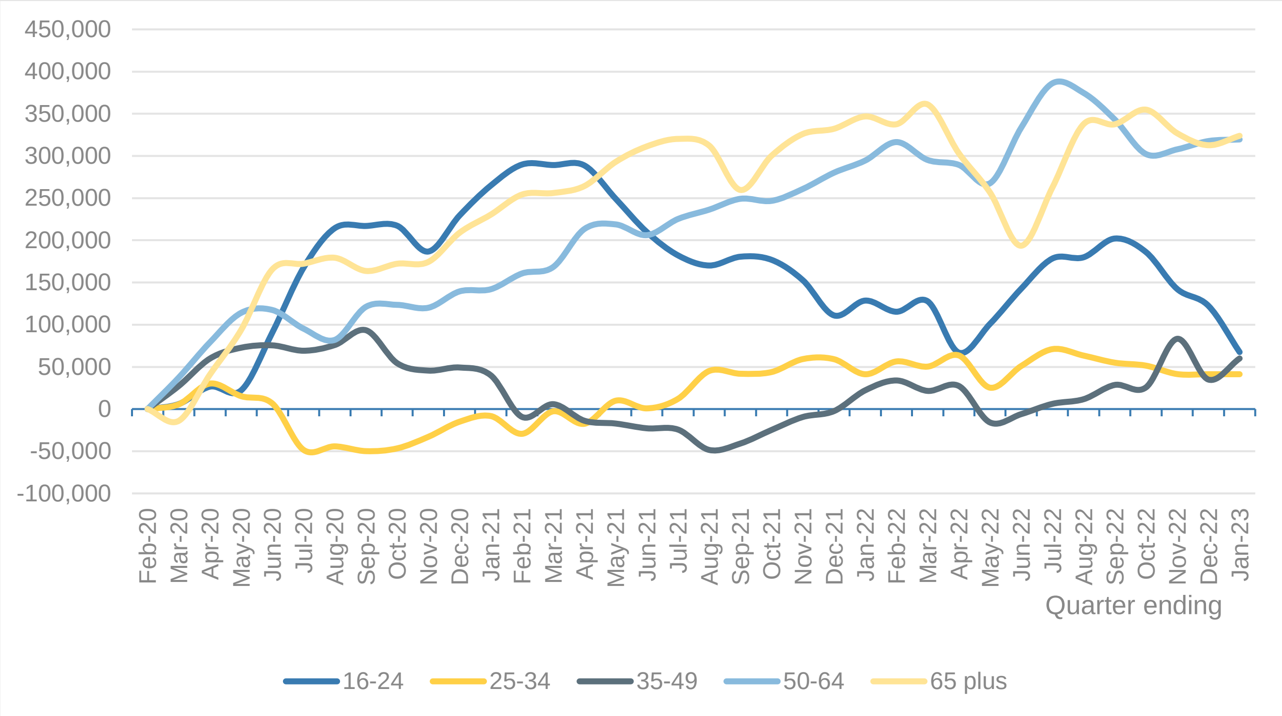
Figure 4: Employment rates for men and women aged 50-64 (left hand scale) and 65 or over (right hand scale)



Source: Labour Force Survey

This weak recovery for older people also comes through in the data on economic inactivity by age, where a combination of poor employment growth and a growing population means that there are 640 thousand more people who are economically inactive and aged over 50 than there were before the pandemic began. This accounts for four fifths (79%) of the overall growth in economic inactivity, and as Figure 5 below shows there are no signs of economic inactivity among older people falling back in recent months.

Figure 5: Change in level of economic inactivity by age since start of Covid-19 pandemic (December 2019-February 2020 quarter)



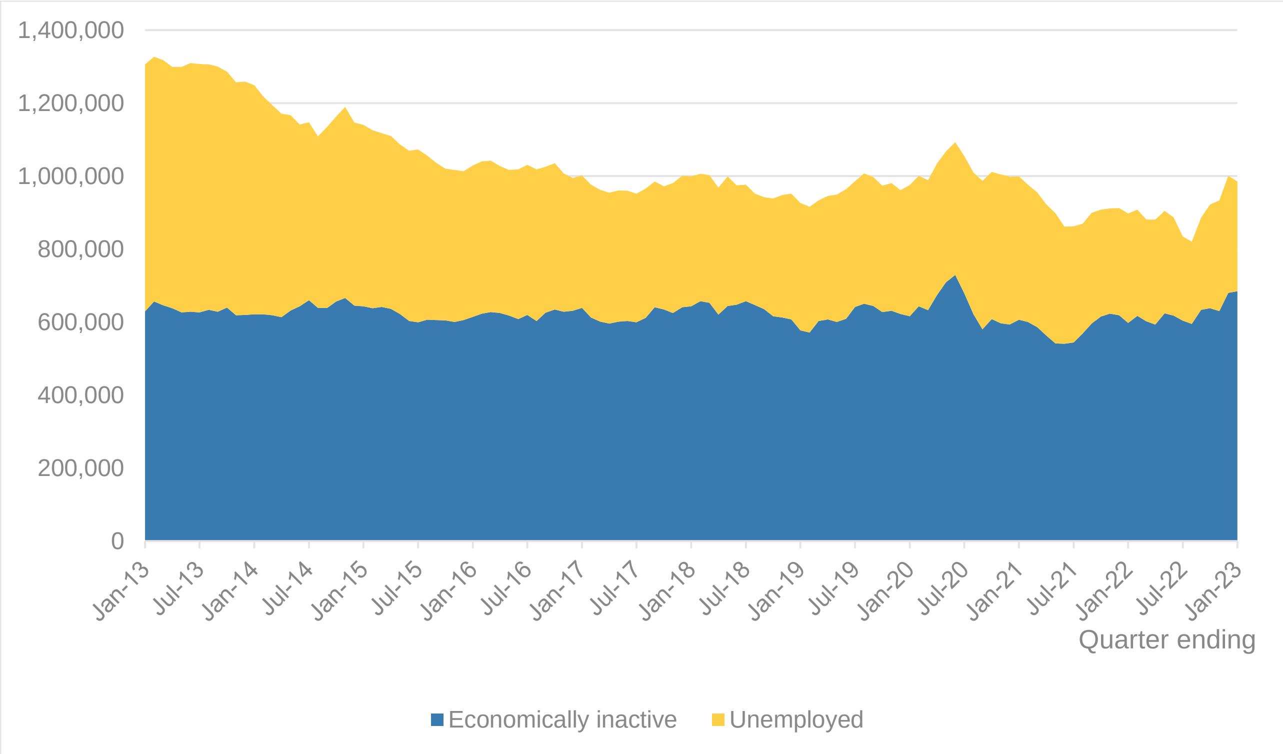
Source: Labour Force Survey

A record fall in young people studying has led to a worrying rise in the numbers outside education or work

Thirdly, the significant falls in the number of students appears to be leading to more young people outside both full-time education and employment. This figure now stands at 985 thousand, or 14.4% of all young people (a rise of 70 thousand on the quarter, but a slight decline on the one million figure reported last month).

Figure 6 below breaks this down into economic inactivity and unemployment, and shows that growth has been particularly strong in the number unemployed – suggesting that many of those who are not in full-time education want to work – but it remains the case that there are more than twice as many young people outside education who are economically inactive than unemployed (685 thousand economically inactive compared with 300 thousand unemployed). It is not entirely clear what is driving these trends, but the quarterly 'NEET' dataset does include more detailed breakdowns by age which suggest that rises are being particular driven by those aged 18-22 – which could suggest a combination of fewer young people entering higher-level education, and people who are now leaving that education finding it harder to get jobs.

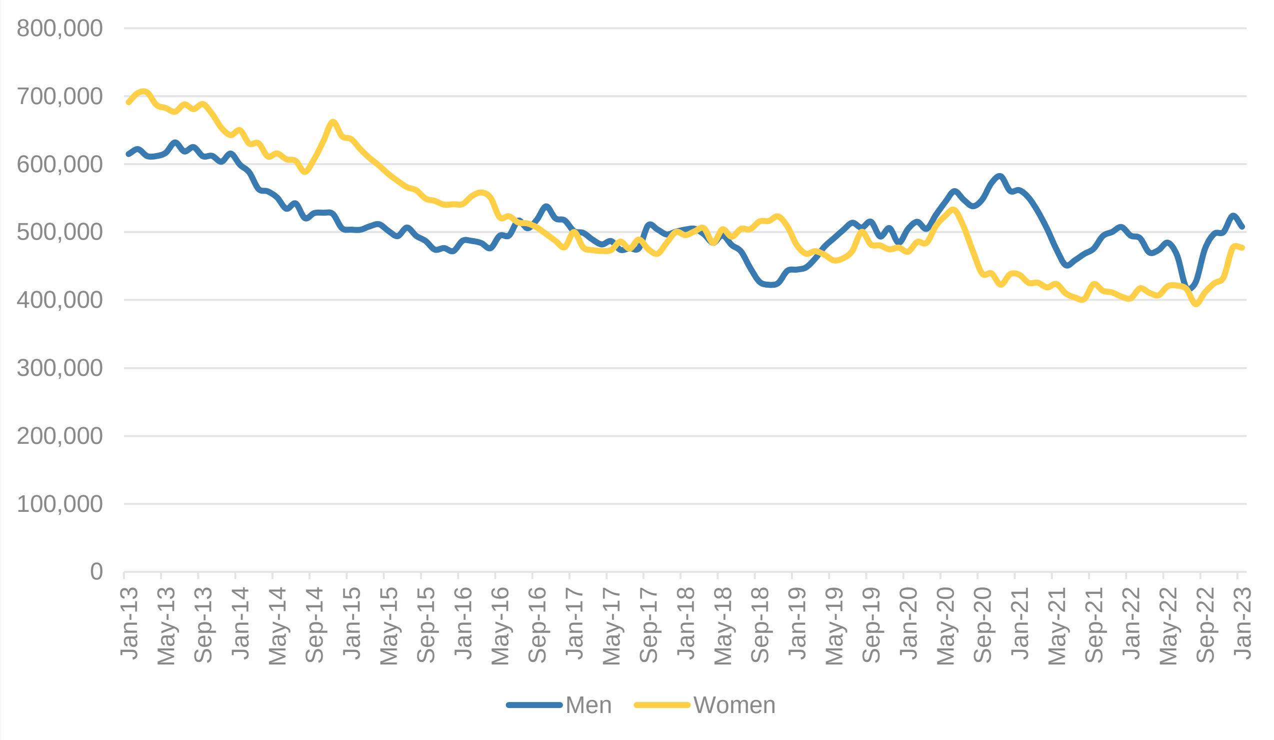
Figure 6: Number of young people (16-24) who are not in full-time education and either unemployed or economically inactive



Source: Labour Force Survey

Looking at the data by gender suggests that the recent rises are being felt equally by both men and women (Figure 7 below). This is in contrast to the post-pandemic period, when non-participation rose faster for men and fell for women – driven by more women than men entering/ staying in education, and fewer women being economically inactive outside of education (continuing a longer-running trend driven by people having children later).

Figure 7: Number of young people not in full-time education or employment by gender



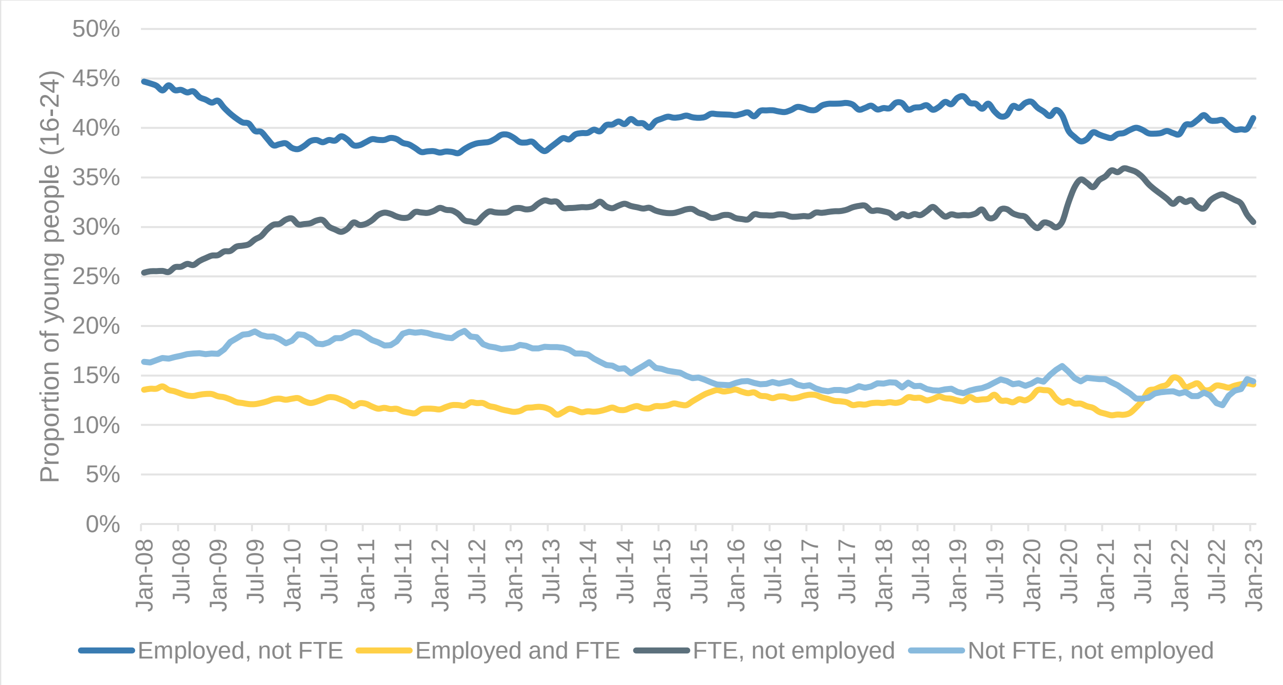
Source: Labour Force Survey

There are also clear signs that higher worklessness is being driven by falling student numbers rather than by falling employment. Figure 8 below illustrates this, which was last included in our October 2022 briefing. This shows the number of young people:

- In employment only (top blue line) – around 40% of all young people;
- In full-time education only (yellow) – around 30%;
- In both full-time education and employment (black) – around 15%; or
- In neither full-time education nor employment (light blue) – also around 15%.

This shows a steep, recent fall in the proportion of young people in full-time education only, which is only partially offset by a small rise in the number in employment only. The number combining education and work is broadly flat, which means that the number neither in education nor work has edged up. Overall, the last quarter has seen the largest ever fall in the number of people in full-time education – down by 150 thousand.

Figure 8: Proportion of young people (aged 16-24) employed and/ or in full-time education

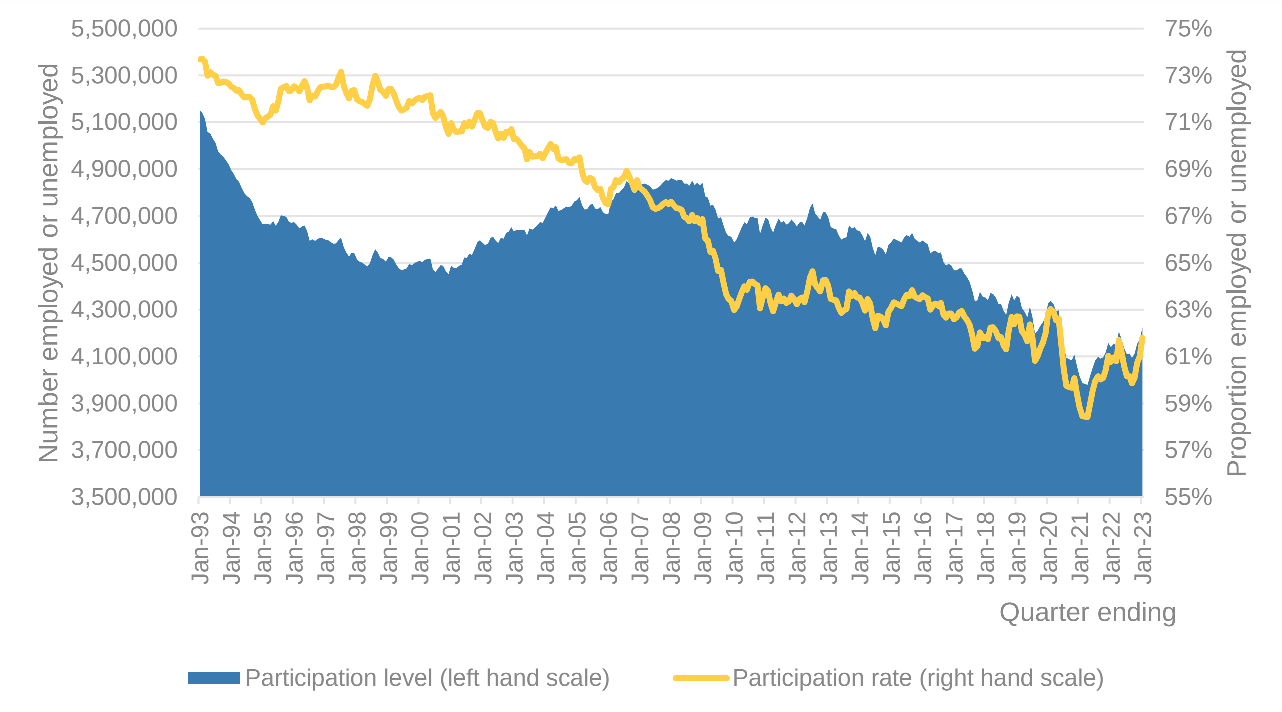


Source: Labour Force Survey

Taking an even longer view, Figure 9 below shows how the size of the youth labour force has changed over the last thirty years. The blue area shows the number of young people either employed or unemployed (on the left hand scale) – which fell from 5.1 million to 4.5 million between 1993 and 1998, before rising steadily to 2008, falling steeply during the Great Financial Crisis, and then falling steadily through the 2010s. The sharp fall in the pandemic has only partially recovered, meaning that the labour force is around 600 thousand smaller than a decade ago (4.1 million compared with 4.7 million). However looking at the proportion of young people in the labour force, and so taking account of the changing size of the youth population (the yellow line on the right hand scale), the impact of recessions and recoveries is less pronounced – in effect accelerating or slowing a pretty continuous decline, from over 70% of young people in the early 1990s to barely 60% now.

This matters because a smaller youth labour force is contributing to general labour shortages, particularly in entry-level roles, and is happening alongside a post-Brexit slowdown in employment growth among non-UK born workers.

Figure 9: The size of the youth labour force: the number (blue) and percentage (yellow) of young people either employed or unemployed



Source: Labour Force Survey

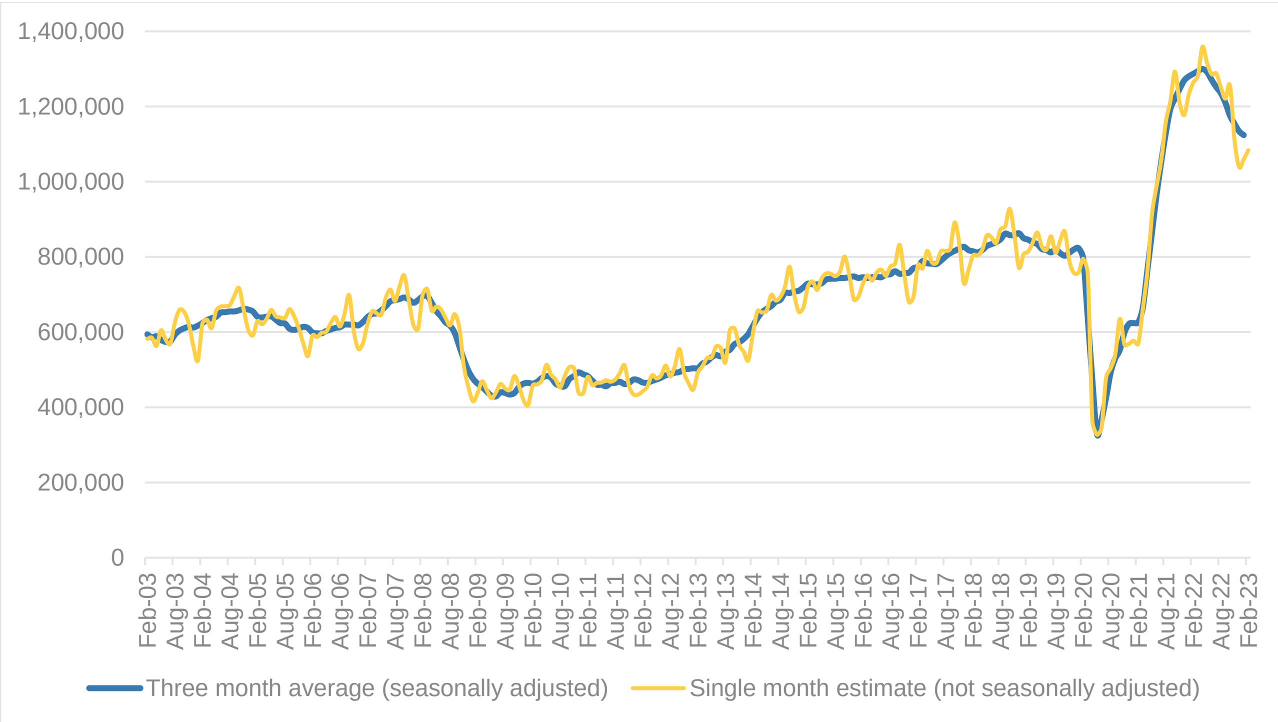
Importantly, across all of these three trends – rising ill health, a weak recovery for older people, and a deterioration in youth participation – work by us and others shows that the issues are mainly being driven by fewer people *entering* the labour market rather than more people *leaving* it. We explored this in more detail in analysis published in November alongside the launch of our Commission on the Future of Employment Support which showed that virtually all of the growth in economic inactivity could be explained by more people who have been out of work for more than three years or who had never worked at all. So our response to these challenges needs to focus on how we raise participation in employment for those out of work, and in particular to recognise that most of those out of work have been out of work since before the pandemic began.

Vacancies continue to fall, but the pace of these falls appears to be slowing

Away from the data on employment, unemployment and economic inactivity, other labour market indicators today also appear to be slightly more positive than in recent months, which is welcome given concerns that we might have been seeing earlier signs of a wider slowdown.

On vacancies, these continue to fall overall – down by 50 thousand on the quarter to 1.12 million – but this is smaller than in recent months, where quarterly falls have been between 70 and 80 thousand. The underlying monthly figures (which are not seasonally adjusted) report slight growth in vacancies in both January and February, which in part reflects seasonal trends but at the very least does not suggest a significant slowdown in job openings. These trends are shown in Figure 10 below, showing the headline quarterly estimate (in blue) and monthly estimates (in yellow).

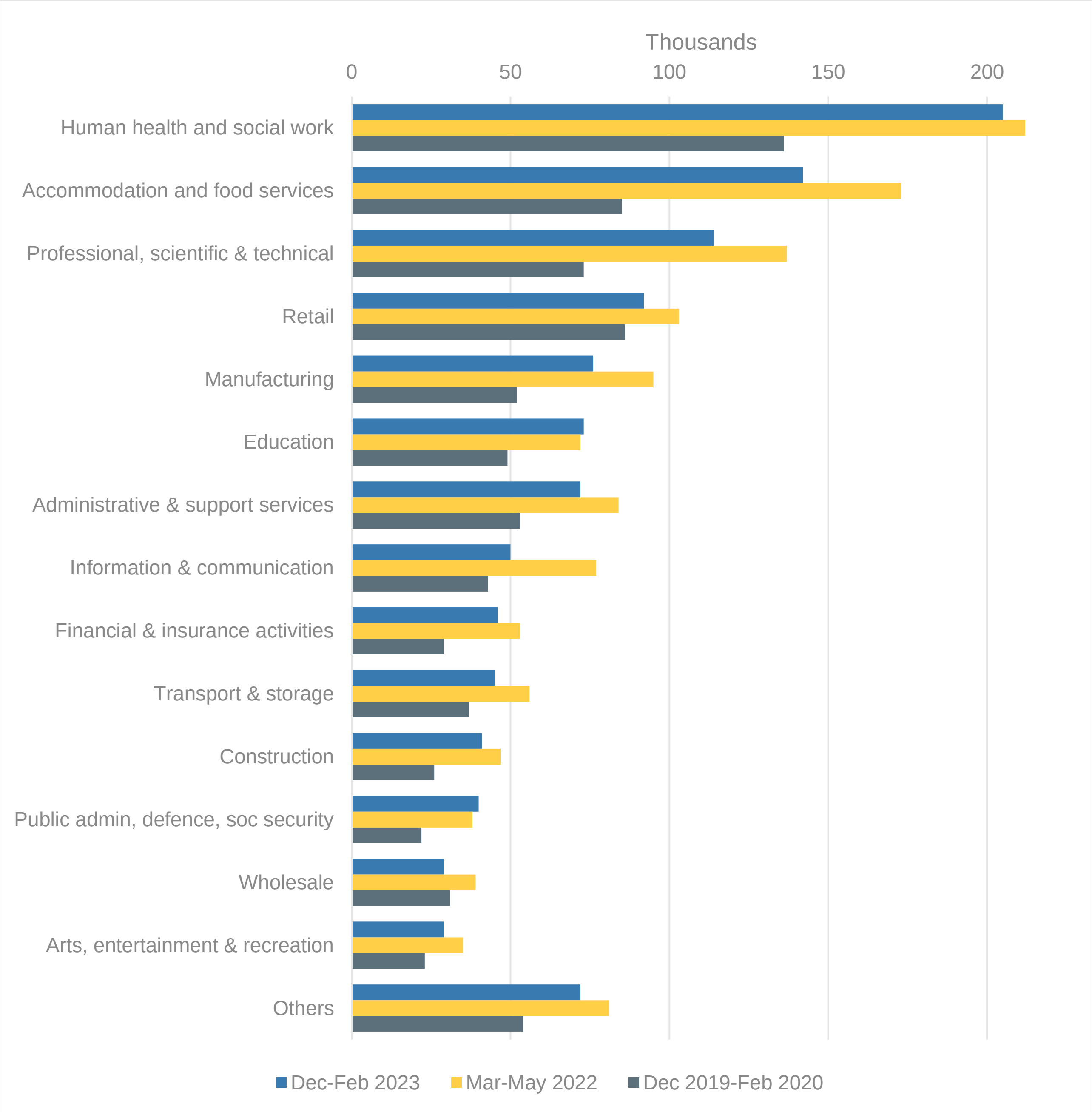
Figure 10: Vacancies – quarterly and single-month estimates



Source: ONS Vacancy Survey

Figure 11 shows vacancies by industry – with the most recent quarter in blue, the point when vacancies were at their peak in yellow, and pre-pandemic levels in black. Prima facie this is a similar story to recent months, with vacancies falling in private sector industries – particularly hospitality (accommodation and food services), professional services, information/ communications and manufacturing – and holding up or rising in predominantly public services – health, education and public administration. However over the most recent quarter (not shown), figures are broadly flat in many private sector services (retail, hospitality, arts/ entertainment) but down a bit in manufacturing, construction, professional jobs and information/ communication.

Figure 11: Vacancies by industry, pre-pandemic, post-pandemic peak (Mar-May 2022) and most recent quarter (Dec 2022-Feb 2023)

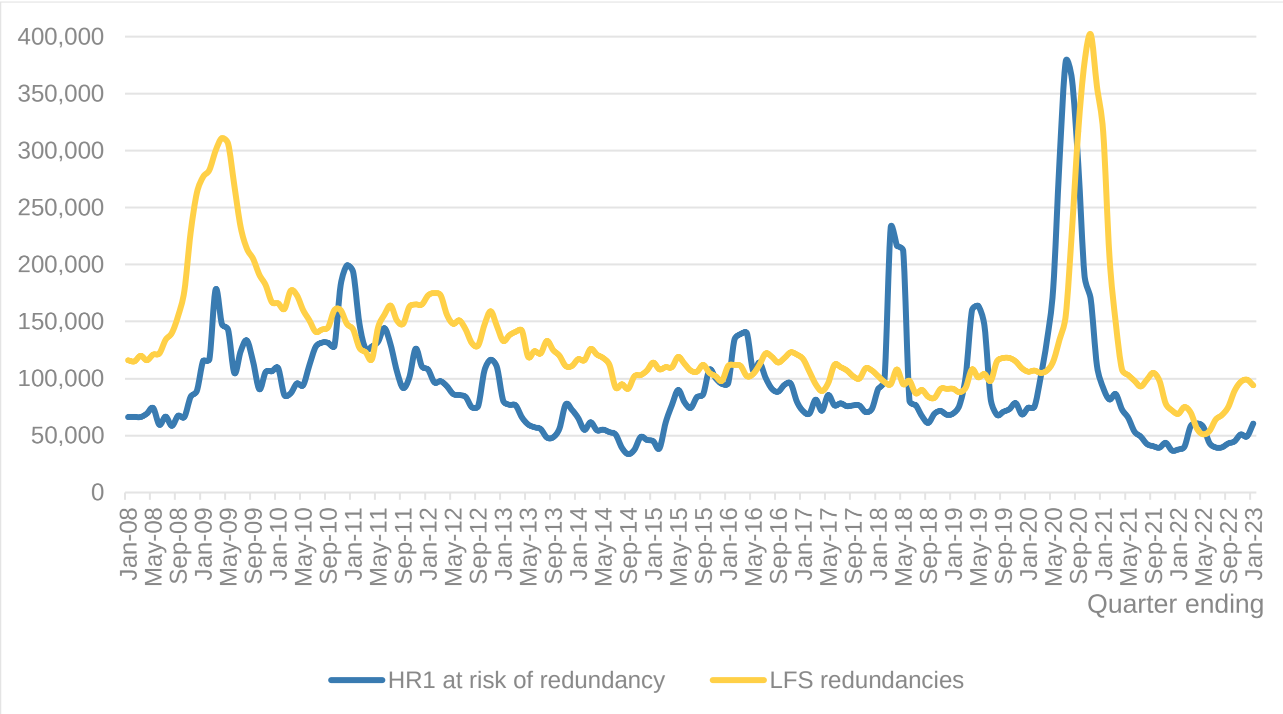


Source: ONS Vacancy Survey

Redundancies appear to have stopped rising for now, as has short-term unemployment

More positively, recent rises in redundancies appear to have levelled off, with around the same number of people made redundant in the most recent quarter as in the previous one (around 90 thousand). This remains higher than the trough of 55 thousand last summer, but broadly in line with levels seen pre-pandemic. Figure 12 below illustrates this (the yellow line), alongside the latest data from ‘HR1’ forms (where employers notify the Insolvency Service of future larger exercises, shown in blue). It seems possible that the rises in redundancies in late 2022 reflected in part the ‘bump’ in HR1 notifications in the early summer, which then subsequently fell back again. HR1s are rising again now though (albeit from a low base) so we may see further increases in redundancies in a few months’ time.

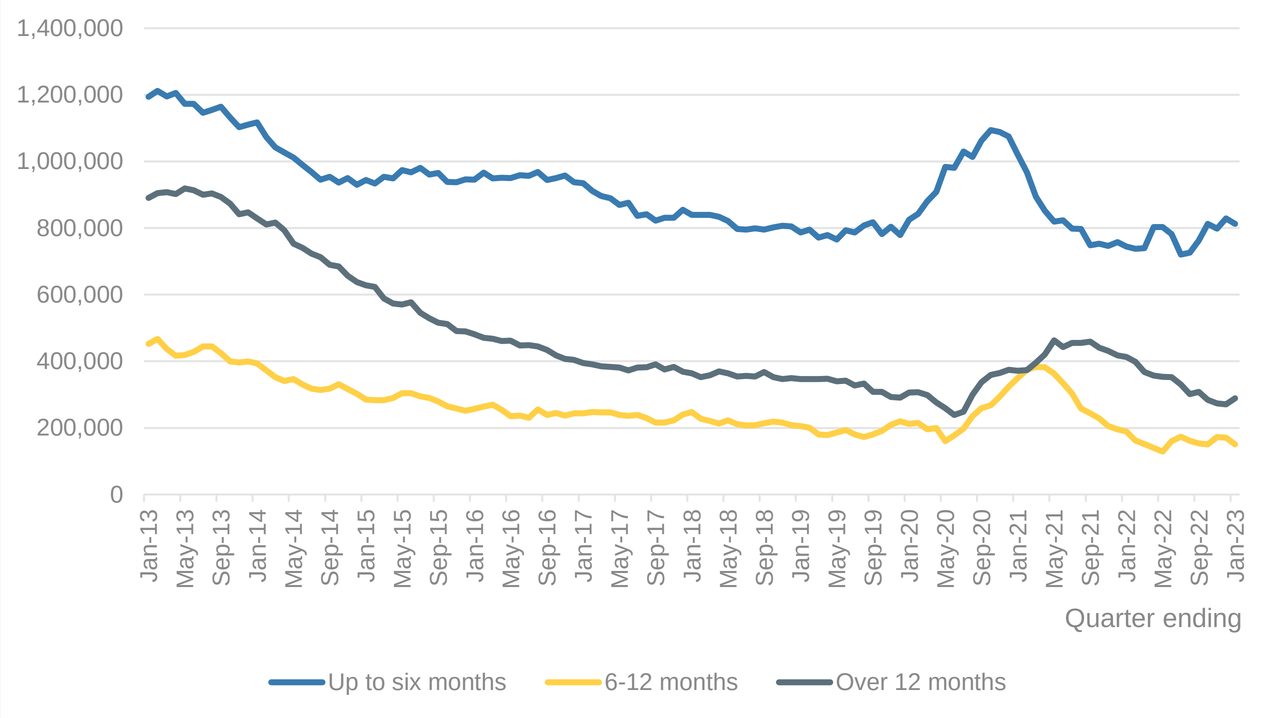
Figure 12: Quarterly number of employees notified as at risk of redundancy (HR1 forms) and reporting having been made redundant (Labour Force Survey)



Source: IES analysis of Insolvency Service and Labour Force Survey data

Similarly, recent rises in short-term unemployment appear to be levelling off, as Figure 13 below shows (blue line). Again this is broadly positive, and is not consistent with any rapid deterioration in the economy or labour market (and as previous briefings have stated, this may be as much explained by people exiting economic inactivity and looking for work, especially young people leaving or not starting education). Long-term unemployment appears to have ticked up in the very most recent data (the black line) although it is too early to say whether this is the start of a trend.

Figure 13: Unemployment by duration



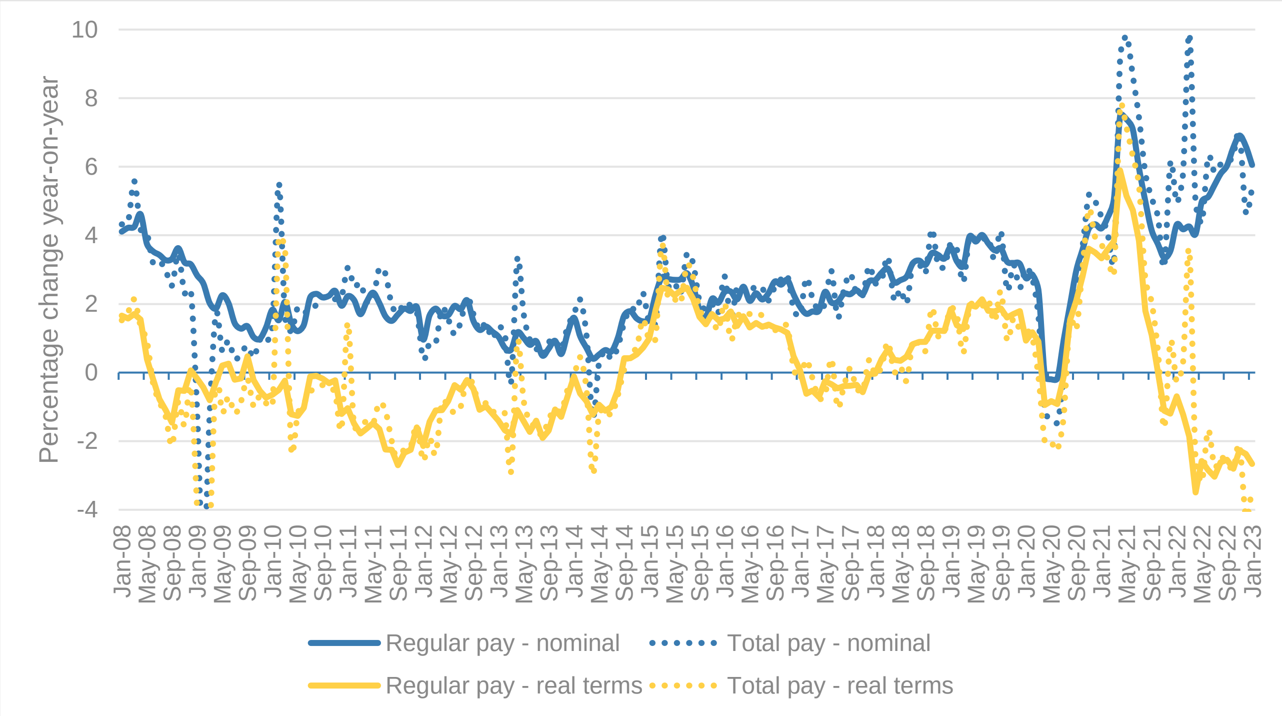
Source: Labour Force Survey

Nominal pay growth is around six per cent, but real pay is still falling as inflation continues to bite

Finally, Figure 14 below shows year-on-year pay growth over time in nominal terms (in blue) and in real terms i.e. after inflation is taken into account (in yellow). The solid lines indicate regular pay while ethe dotted lines show total pay including bonuses and arrears.

The headline story here remains that nominal pay growth is significantly higher than the long-run trend, with regular pay 6.1% higher in January 2023 than January 2022; but that very high inflation continues to push real-terms pay negative – down by 2.7% year-on-year for regular pay. Overall, real-terms pay is on average the same as it was on the eve of the pandemic, which in turn was slightly lower than it was in the spring of 2008. There are some signs in the chart below that pay growth may be starting to slow a little bit – perhaps reflecting slightly more people in the labour force and slightly lower vacancies – which *may* ease some of the concerns around higher pay continuing to push up inflation this year.

Figure 14: Year-on-year change in regular and total pay – nominal terms and adjusted for inflation (real terms)



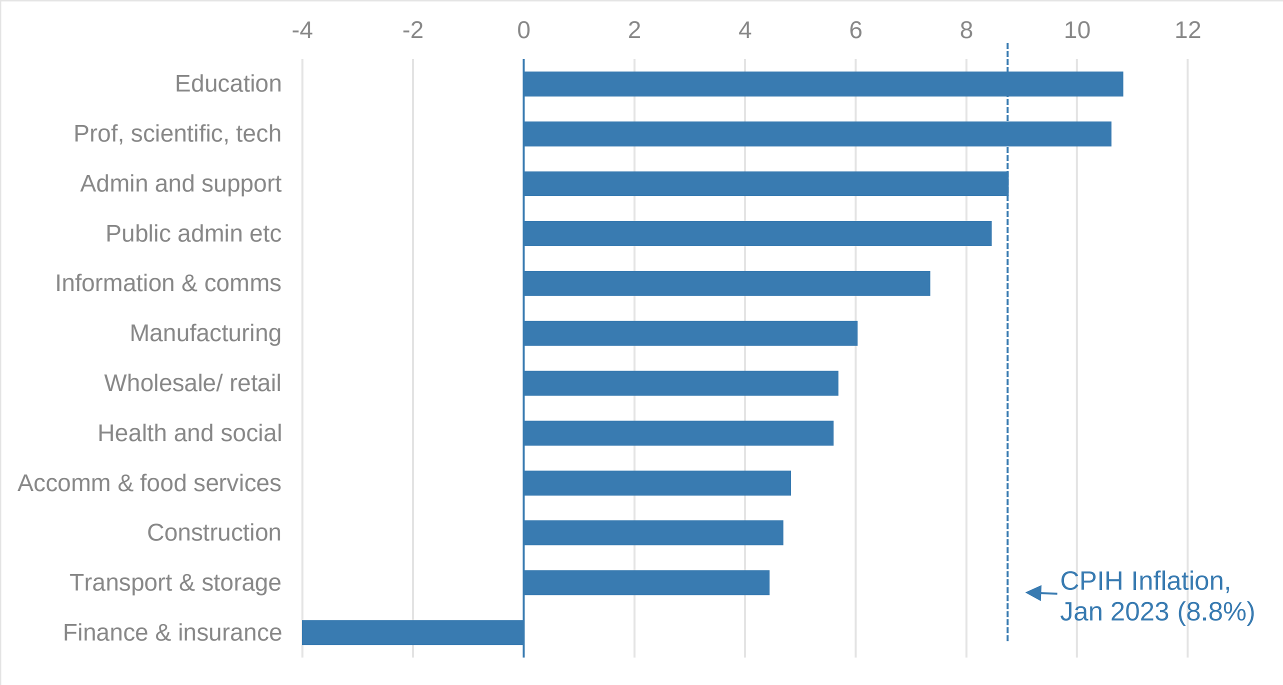
Source: ONS Monthly Wages and Salaries Survey. Regular pay excludes bonuses and arrears; measure shown is year-on-year change in single month estimate.

However underneath this headline, there is quite a mixed picture between sectors and industries. Regular pay in the private sector remains stronger than in the public sector (6.2% growth compared with 5.4%), but *total* pay growth is a bit weaker, mainly due to lower bonus pay in financial services this year than last. As we said last month, there may also be some compositional changes contributing to what appears to be relatively strong public sector pay growth – given the high level of vacancies, if employers are either cutting or struggling to fill lower paid jobs then this could be having the effect of leading to higher average pay overall without underlying rates of pay increasing that much.

These potential issues are illustrated in Figure 15 below, which shows average year-on-year pay growth by industry, over the last three months compared with the same three months a year ago. This shows that pay growth in 'professional' jobs (a category that includes accountancy, engineering, consultancy and other professions) remains very high at nearly 11%, but also implausibly large increases in pay in education (also around 11%). This likely reflects either compositional changes in the workforce (i.e. fewer low paid roles like teaching assistants, caterers and cleaners) or sampling variability. Similarly, pay growth in public administration is above 8%. At the other end of the table, pay has fallen in financial services, which reflects that this is a measure of total pay and so includes the effect of lower bonuses this year.

Elsewhere, pay growth remains relatively weaker in hospitality (accommodation and food services), manufacturing, construction and transport/ storage.

Figure 15: Year-on-year change in total pay by industry, nominal terms



Source: ONS Monthly Wages and Salaries Survey. Pay growth is average of published single-month estimates of year-on-year growth in total pay including bonuses and arrears for November 2022-January 2023 (not seasonally adjusted).

Conclusion

Today's figures are a mixed bag. The headline indicators are broadly positive and show an improving trend on employment in particular, and some of the indicators of a potential wider slowdown that we had flagged in recent months appear to have dissipated.

However, there are worrying signs today around growing worklessness due to ill health, a weak employment recovery for older people, and declining participation in education or employment for young people. All three of these are mainly being driven by fewer people entering work who were already out of work or who have never worked, and all three must be top priorities for action at the Budget tomorrow.

We believe that the Budget is an opportunity to address some of the longer-term challenges that we face in the economy and labour market, and should focus on action in four areas:

- A significant expansion of access to employment support. This needs to be an open offer to all of those significantly disadvantaged in the labour market and who want to work, without the threat of benefits being withdrawn for those who do not take part (which would make people's health worse and undermine trust and support from local partners). In the short term the government could expand the Restart Scheme and/ or Work and Health Programme, but ideally in the longer-term would involve commissioning of more specialist, tailored support particularly for those with long-term health conditions.

- Supporting local partnerships – working with and through local government, health services, colleges and training providers, social landlords and others – not just to co-locate and align local services but more fundamentally to develop better co-ordinated, joined up approaches to supporting decent work and participation.
- Addressing the costs of working – for example through targeted, time limited subsidies for people returning to work from long-term worklessness, and by making childcare more affordable, available and flexible.
- Working far better with employers – with a single, joined-up offer on recruitment; more investment in local- and sector-led partnerships to help make work better; and reforms to funding for workplaces skills support and apprenticeships. We should also expect more from employers too, especially by reintroducing the much-delayed Employment Bill.

About IES

The Institute for Employment studies is an independent, apolitical centre of research and consultancy in employment policy and human resource management. It works with employers, government departments, agencies and professional and employee bodies to support sustained improvements in employment policy and practice.

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