ies Briefing
Institute for Employment Studies

Labour Market Statistics, December 2023

12 December 2023

This briefing note sets out analysis of the Labour Market Statistics published this morning. The briefing mainly covers data from **ONS Vacancy Survey** and the **Monthly Wages and Salaries Survey**, which are both business surveys collecting data on unfilled vacancies and weekly pay respectively. The Vacancy Survey includes data up to November 2023, and the Wages and Salaries Survey to October 2023. This month also sees the publication of quarterly **Workforce Jobs** (WFJ) data, which measures the number of jobs in the economy using various employer surveys. The latest data covers July-September 2023.

As with last month, there is no **Labour Force Survey (LFS)** data published today as this has been withdrawn by the ONS due to concerns around its reliability. The ONS is continuing to make methodological improvements and now intends to publish LFS data again from January 2024. In the meantime, the ONS is publishing 'experimental' estimates derived from **HMRC Pay As You Earn data** and the **Claimant Count**, which are used in Figure 1 below. As with last month, we also include some additional analysis of the PAYE data at the end of this briefing.

Summary

Today's figures show that the labour market is continuing to cool off, as the impacts from higher interest rates and rising costs of living continue to feed through. However there is little sign so far of any significant deterioration in the labour market, with headline estimates of employment, unemployment and economic inactivity (the measure of those not looking and/ or not available for work) again exactly the same as those published last month. So while this could be the start of a 'soft landing' for the labour market, we should also be prepared for it to get a bit more bumpy next year than it has been so far.

There are four main signs of a slowdown in the labour market, which are covered in more detail in the briefing below:

- First, vacancies have fallen again, for the seventeenth time in a row. These are now down by over a quarter on their peak, with recent falls largest in many private sector services, manufacturing and construction – all industries that are likely to be more exposed to a slowdown in demand.

- Secondly, pay growth has fallen sharply in the most recent month – from an annual increase of 7.7% in the year to September to an increase of 6.3% in the year to October. So while pay is still growing pretty strongly, the rate of growth is slowing at the same time that rate of inflation is also falling. This in turn means that pay in 'real terms' appears to be levelling off and is barely higher than it was in 2009.
- Thirdly, employment appears to be falling for young people, down by nearly 1% over the last year – which is often an early indicator of weaker demand as young people are most affected by slowdowns in hiring.
- Finally, we are also seeing falls in employment in hospitality (down by over 1% in the last quarter) and to a lesser extent construction, which again are industries that tend to be affected first when demand slows.

Alongside this, but not published in today's statistics, there are also signs that redundancies may start to increase in the coming months – with 'HR1' statistics published last week showing that nearly 40 thousand people were notified as being at risk of redundancy in November, the highest monthly figure since late 2020. Our analysis has shown that these HR1 statistics can be a good leading indicator of future redundancies.

Employment, unemployment and economic inactivity remain broadly flat (again)

The latest 'experimental' estimates of employment, unemployment and economic inactivity are set out below. As noted in previous briefings, these extrapolate from the last available LFS data, using subsequent trends in employee estimates from PAYE data and in those claiming benefits and required to look for work from 'Claimant Count' benefits data. This is the third time that the ONS has led with these figures, and the third time that they have estimated employment at 75.7%, unemployment at 4.2% and economic inactivity at 20.9%.

Nonetheless as Figure 1 below shows, there are very marginal (fraction of percentage point) differences over that period, with signs that unemployment in particular is inching up ever so slightly. As with previous months though, Figure 1 also illustrates that employment remains well below where it was before the pandemic, with this mainly explained by higher economic inactivity. Unemployment is up very slightly, but remains low by historic standards. So people are still more likely to be out of work but less likely to be actively looking to get (back) into jobs. If we do get LFS data again next month, then we will be able to resume analysis on the more detailed reasons why people are outside the labour force.

Figure 1: Employment, unemployment and economic inactivity rates (%)

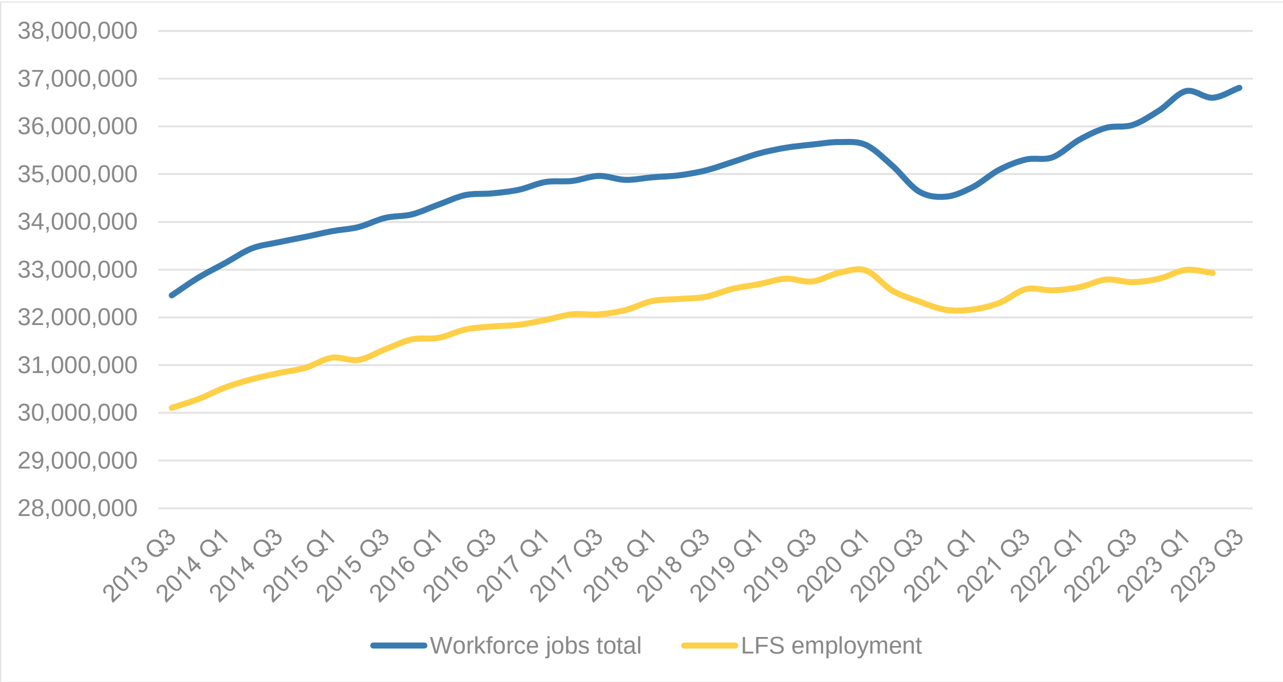
Source: ONS experimental estimates, dataset X10

The latest 'workforce jobs' data also shows that employment is broadly flat (but not falling)

The picture of a pretty stable labour market is also reflected in today's Workforce Jobs data, which is published every three months and estimates the number of jobs in the economy (rather than people in employment) from a series of employer surveys. It is also then supplemented by LFS estimates of self-employment, which in the latest release have simply projected forward the last data given the issues with the reliability of the LFS. Figure 2 below shows that Workforce Jobs have grown in the last quarter, up by 210 thousand to 36.8 million in the July-September period. This is the highest figure on record, slightly about the previous peak of 36.7 million set in the spring.

Figure 2 also shows in yellow the (currently discontinued) estimate of employment from the LFS, which is significantly lower than the Workforce Jobs figure. There are a number of reasons for this – in particular, there are about a million people who work more than one job and so they are counted once in the LFS but their jobs are counted more than once in Workforce Jobs; and there may be timing factors too, where employers may report a job as existing where someone has recently left it or is waiting to join. However these factors do not seem to explain why the gap between the LFS and Workforce Jobs has grown since the pandemic. If this is being affected by sampling issues in the LFS (i.e. if the LFS had been under-stating the level of employment) then this should become clearer with the revisions currently being made to that survey.

Figure 2: Number of workforce jobs (blue) and number of people employed (yellow)



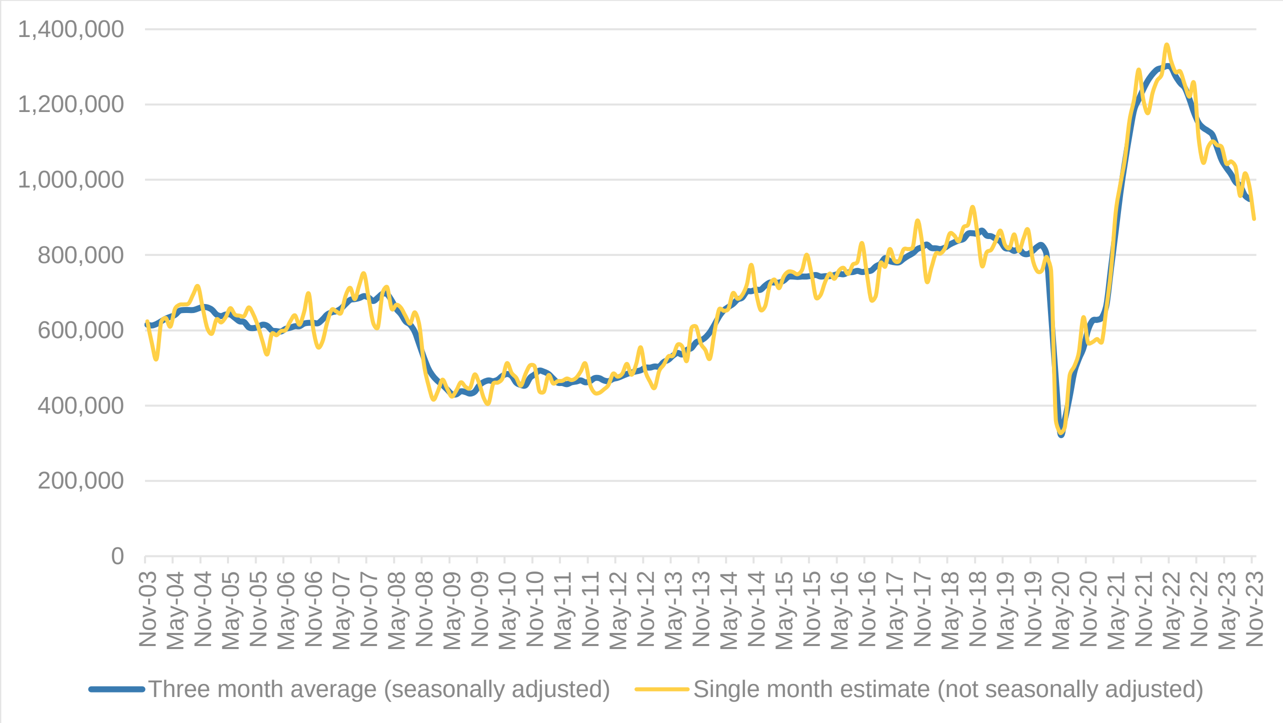
Source: Workforce Jobs, Labour Force Survey

Wider data shows the labour market is cooling, with vacancies falling for the seventeenth month in a row

While the headline data is fairly steady, wider indicators do continue to point to a slowdown in the labour market as the impact of higher interest rates and high inflation starts to bite. This can be seen most clearly in the latest vacancy figures, which as the ONS points out have now seen the longest sustained fall in history – with a quarter-on-quarter fall reported in each of the last seventeen months. In fairness, for much of this time this has been explained by the jobs market returning a bit more towards ‘normal’ after the huge disruption and mismatches caused by the pandemic and then the economy reopening, and vacancies do still remain above pre-pandemic levels. However that gap to pre-pandemic vacancy levels is closing fast, and vacancies overall have now fallen by over a quarter from their peak, to around 950 thousand now.

This is set out in Figure 3 below, which also includes the latest single-month estimates (in yellow). The single-month figures show an even larger fall in the month of November, but it should be noted that these figures are not seasonally adjusted and November and December always tend to be weak months.

Figure 3: Vacancies – quarterly and single-month estimates

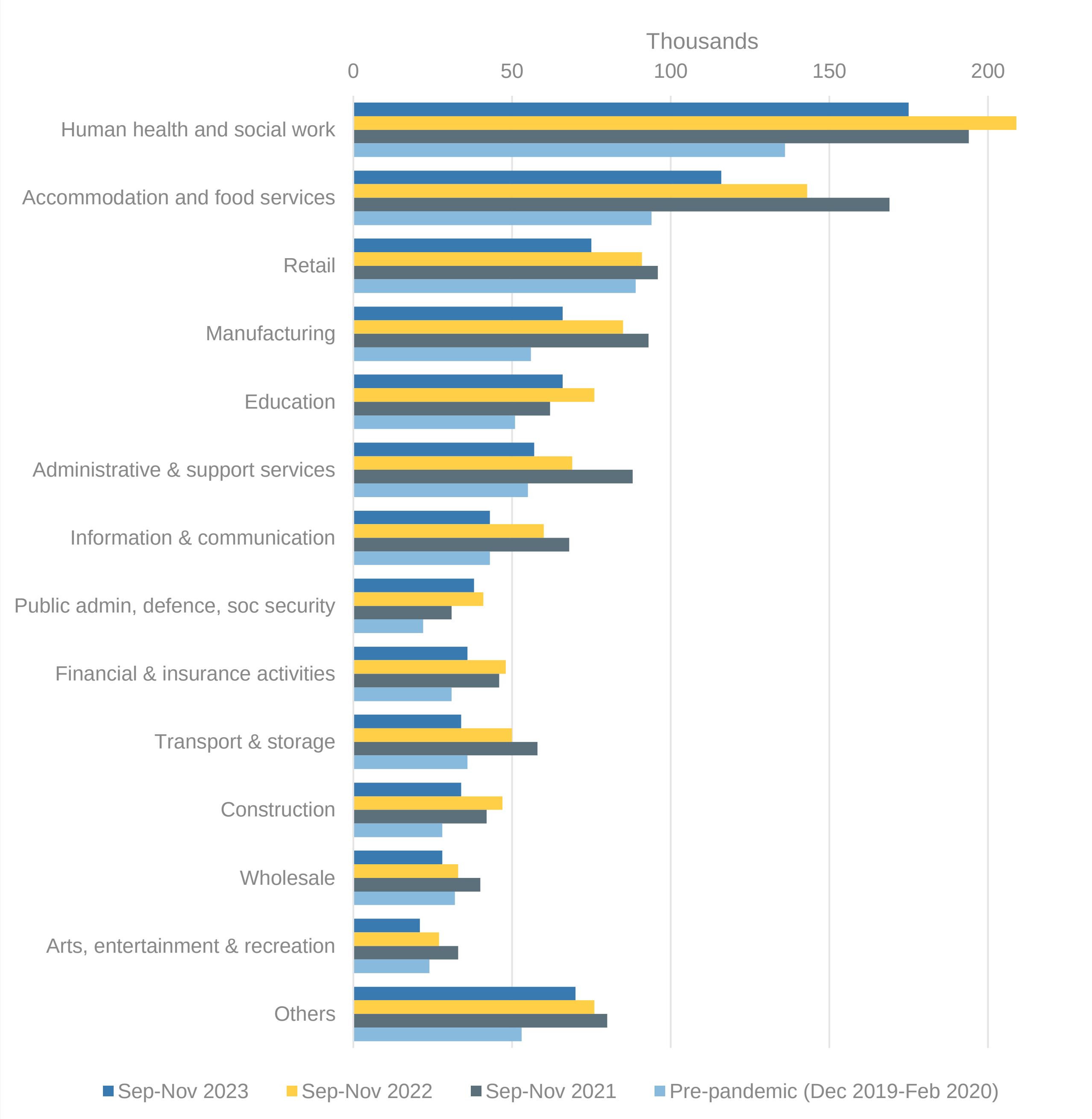


Source: ONS Vacancy Survey

Figure 4 below then shows vacancies by industry. We have changed this chart this month, to show the data for the latest quarter (blue), the same point a year ago (yellow), the same point in 2021 (black) and then immediately pre-pandemic (light blue). This helps to give a clearer picture of how things have evolved over the last two years, with some industries seeing consistent falls over that period, especially in private sector services and manufacturing; while others have seen falls only in the last year – in particular in public sector services and in construction.

We can also see that in industries that might be more prone to contraction when the economy slows – like hospitality ('accommodation and food services' below), retail, manufacturing, construction and information/ communications – do appear to have seen larger falls than other industries in the last year. There are also more industries now where vacancies are lower than they were before the pandemic: retail, wholesale, arts and entertainment, and transport and storage.

Figure 4: Vacancies by industry: latest data (Sep-Nov 2023), for same quarters in 2022 and 2021, and pre-pandemic (Dec 2019-Feb 2020)



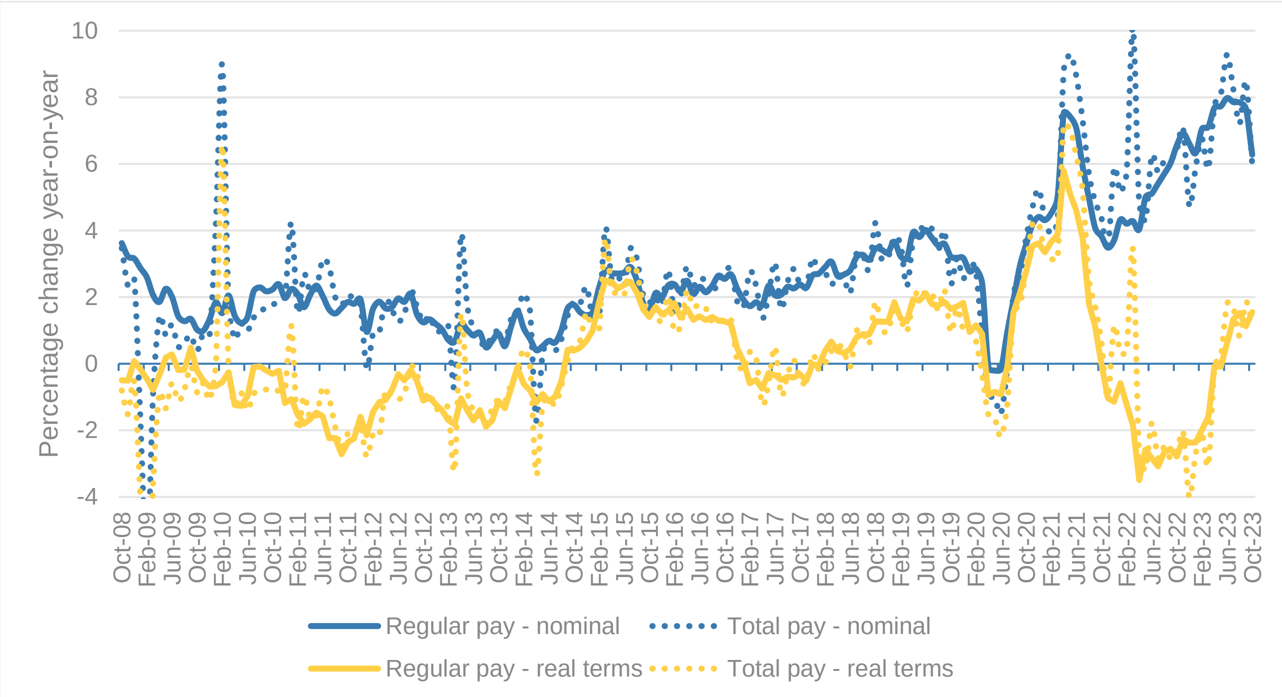
Source: ONS Vacancy Survey

Wage growth is also showing signs of slowing down now, so growth in 'real terms' pay has not picked up

The second sign of a cooling labour market is in today's pay data, which has seen a sharp drop in the most recent month – falling to an estimated 6.3% annual growth in regular pay in October 2023, from 7.7% annual growth reported last month (September). Total pay including bonuses and arrears has risen by slightly less, at 6.0%. This sharp drop has happened at exactly the same time that inflation has also fallen sharply (to 4.7% on the ONS's preferred measure that includes owner-occupied housing costs), meaning that pay in 'real terms' after inflation has grown by a similar amount as in the last couple of months, by 1.5% for regular pay and 1.2% for total pay.

These trends are shown in Figure 5 below, with year-on-year pay growth in nominal terms in blue and real terms in yellow (solid lines indicate regular pay while dotted lines are total pay). Clearly pay growth remains pretty high by historic standards, but inflation remains high too – and if both continue to fall together then real pay will be unlikely to rise by much. And as we have noted in previous briefings, in real terms pay is barely any higher than it was fifteen years ago (just £6 a week higher on average than 2009).

Figure 5: Year-on-year change in regular and total pay – nominal terms and adjusted for inflation (real terms)

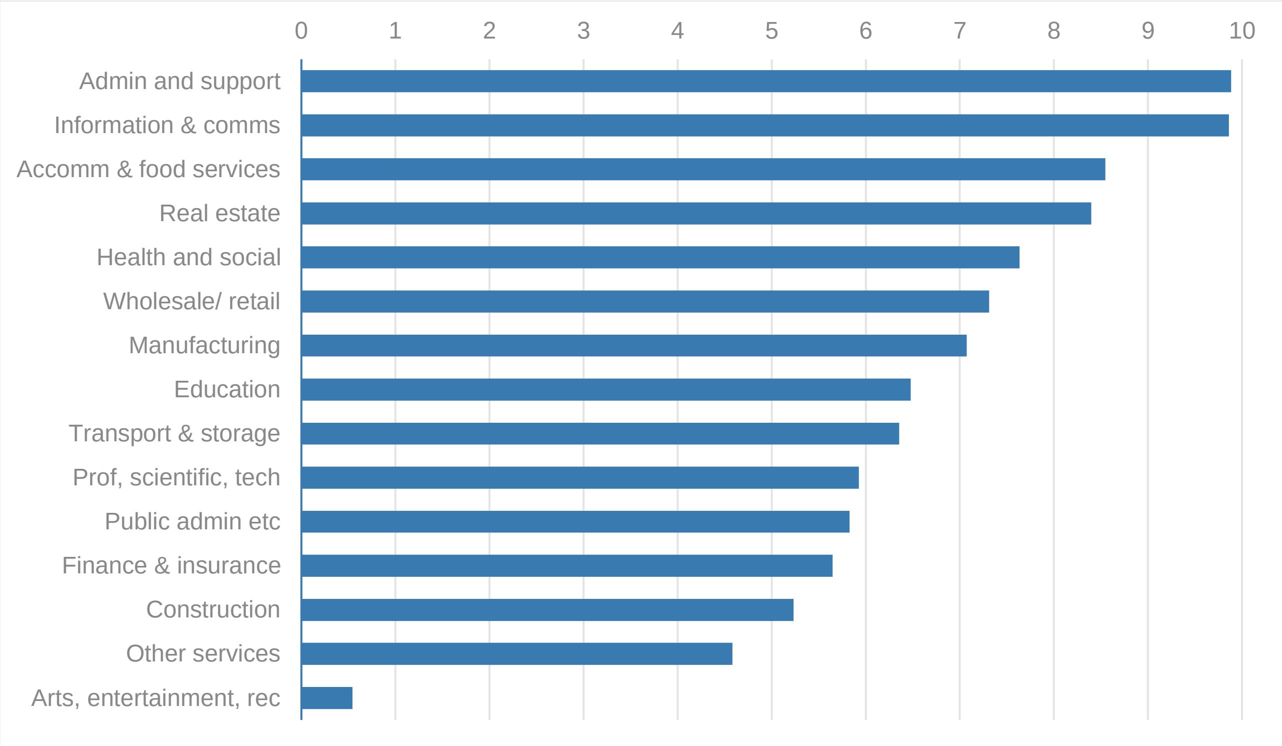


Source: ONS Monthly Wages and Salaries Survey. Regular pay excludes bonuses and arrears; measure shown is year-on-year change in single month estimate.

Pay growth by industry shows a similar picture to previous months (Figure 6 below) with growth strongest in some private sector services like hospitality, administration and information/ communications as well as in manufacturing and in health and social care. This is not what we might expect given that many of these industries are also seeing significant falls in vacancies, but this will in part reflect that pay growth tends to significantly lag other indicators, and will partly reflect that the relationship between vacancies and pay growth is not always that strong – as changes in pay can be affected compositional differences in the workforce (e.g. more people in higher paid roles, fewer in lower paid), specific skills shortages, or increases in the minimum wage. (As we noted last month, the Bank of England have suggested that the tightness of the labour market may have contributed around 1.5 percentage points to the growth in prices during the recent period of high inflation.)

Figure 6 also shows that pay is growing more slowly in arts and entertainment (where pay is basically flat), construction and in some higher skilled white collar services – again similar to the picture reported last month.

Figure 6: Year-on-year change in regular 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 pay excluding bonuses and arrears for Aug-Oct 2023 (not seasonally adjusted).

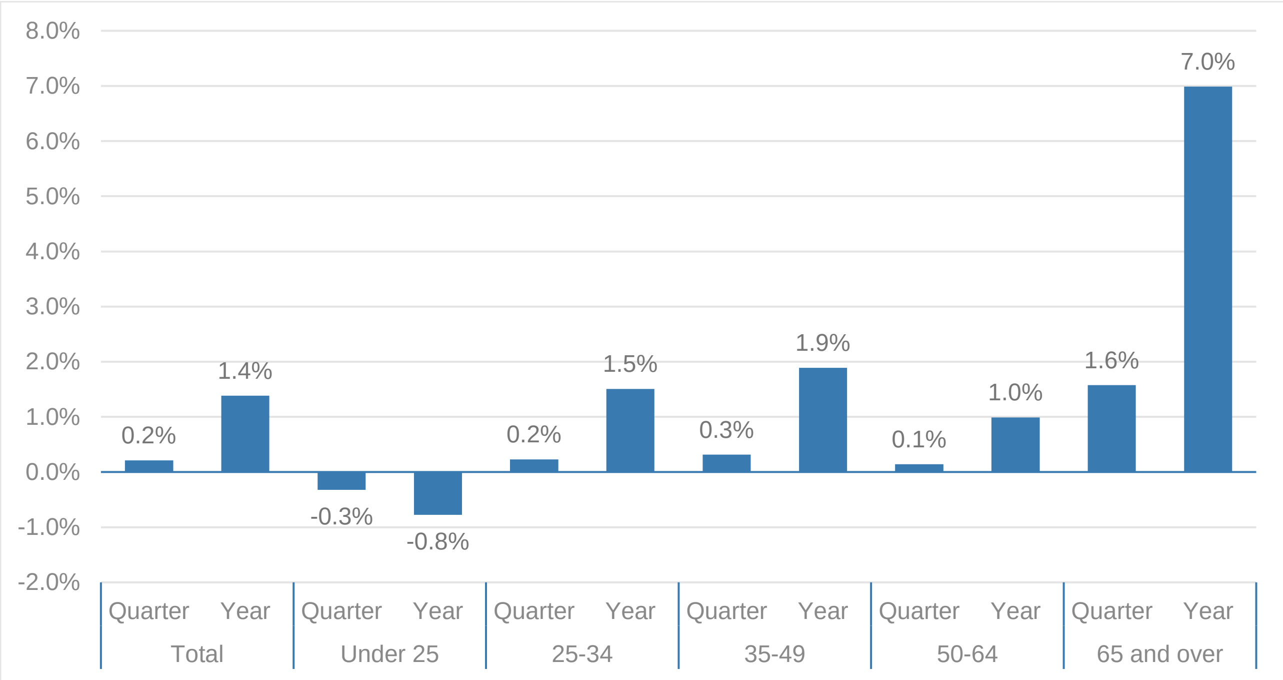
PAYE data also points to a slowdown in the labour market, especially for young people and hospitality

Finally, as with last month, we have set out below some additional analysis using HMRC ‘Pay As You Earn Real Time Information’ which covers payrolled employees and provides breakdowns by age, industry and place. The analysis uses the October 2023 data as the ‘latest’ data, rather than the flash estimate that the ONS publish for the most recent month (November) but which can be subject to significant revision.

First, Figure 7 sets out changes in employment for different age groups over the quarter (July to October 2023) and the year (October 2022 to October 2023). This shows that employment has risen marginally over the quarter but by more over the year, growing by 1.4%. However employment has fallen for young people and risen at other ages. We reported on similar falls in youth employment last month, and this is consistent with a cooling labour market and fewer vacancies.

As with last month, employment growth has been relatively weak for 50-64 year olds too (which is concerning, as this group saw the largest falls post-pandemic) but very strong for those aged 65 and over – likely reflecting the combined impact of rises in the State Pension Age and continued growth in the number of older people.

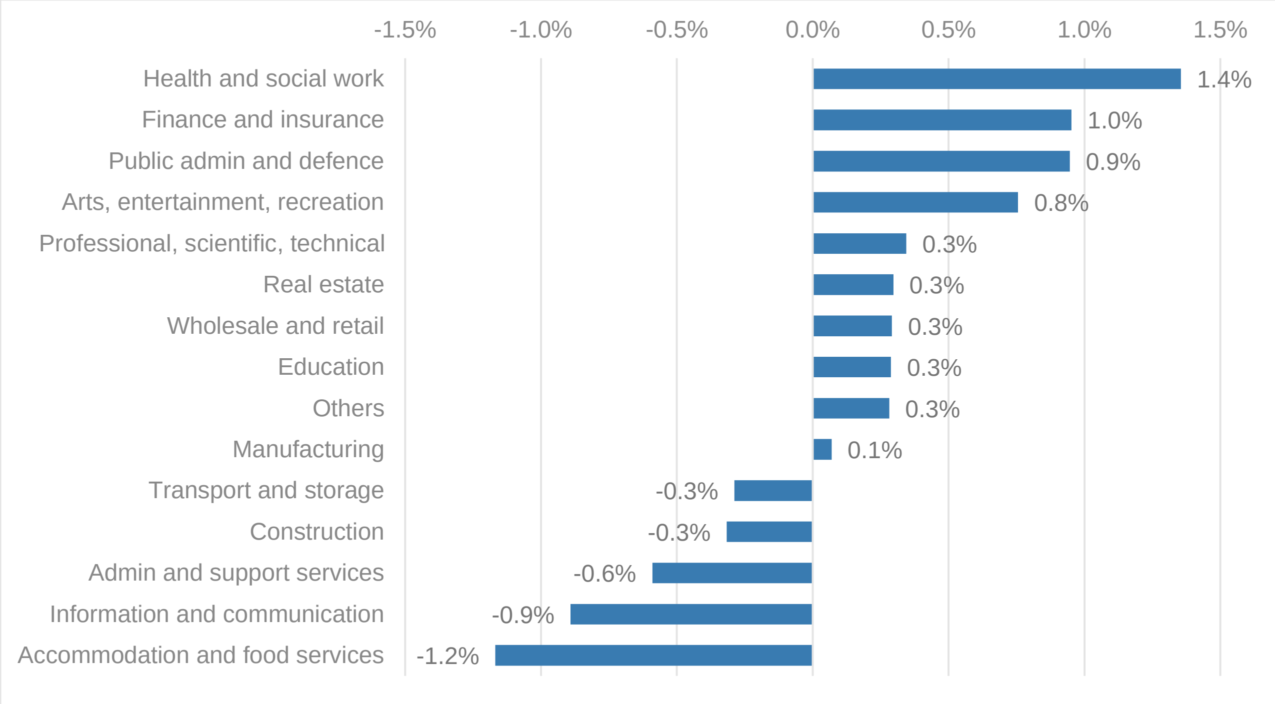
Figure 7: Change in number of employees by age over last quarter (July to October 2023) and year (October 2022 to October 2023)



Source: Earnings and Employment from Pay As You Earn Real Time Information dataset

Figure 8 then shows employment changes by industry over the last quarter. As with last month, the largest falls have been in in hospitality, information and communications, and administration, with a slight fall in construction and in transport/ storage as well. Recent employment growth is being driven meanwhile by health and social care, public administration, finance/ insurance and arts and entertainment.

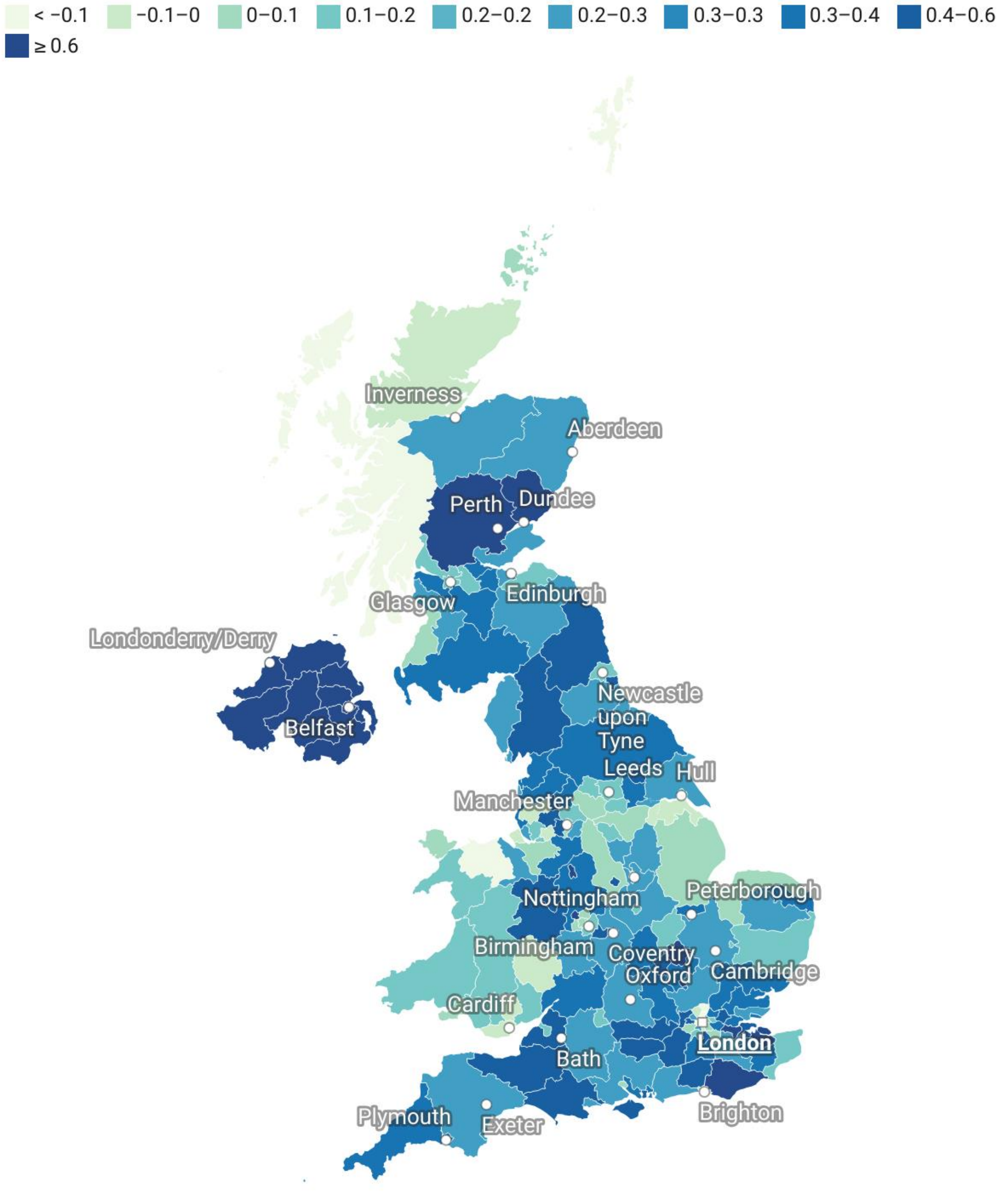
Figure 8: Change in number of employees by industry over last quarter (July to Oct 2023)



Source: Earnings and Employment from Pay As You Earn Real Time Information dataset. 'Other' comprises agriculture, mining, energy, water, 'other service activities' and household/ extra-territorial employment.

Finally, Figure 9 overleaf shows the percentage change in payrolled employees to 'NUTS3' level (which divides the UK into roughly 180 areas) between July and October 2023. The map places areas into one of ten deciles, with the lightest colours seeing the smallest employment growth (and in some cases slight falls) and darker areas seeing the strongest growth. This shows that over the last three months employment growth has been strongest in Northern Ireland, much of Scotland and in more rural (i.e. larger) areas in England, particularly in northern, western and southern areas. Employment growth has been much weaker in larger cities, eastern England and in Wales.

Figure 9: Percentage change in number of PAYE employees, July to October 2023



Source: Earnings and Employment from Pay As You Earn Real Time Information dataset. Created with Datawrapper.

Conclusion

The labour market is continuing to slow, but so far without any obvious adverse impacts on employment or unemployment. Depending on whether you are feeling optimistic or pessimistic, this could be the start of a 'soft landing' following the significant rises in interest rates and living costs over the last few years, or signs of a continued stagnation after the 'lost decade' before the pandemic and the disruption of the last few years. Either way though, next year is likely to be more challenging than this, as interest rates continue to bite and we start to see more impact from weaker demand and slower hiring.

It should also be noted that we still have more people out of work than before the pandemic, pay barely above where it was in 2009, and significant disadvantages in the labour market for disabled people, those with long-term health conditions, the lowest qualified, many people from ethnic minority groups, and others. So as well as trying to improve living standards overall, we also need to narrow the gaps in opportunity than many groups face.

This reiterates too why we need to do more than just dampen demand through higher interest rates and lower public spending. We also need a clear plan to support the supply side of the labour market – to help more people prepare for and get into work and to retrain, and to help employers to improve their practices and get the skills that they need. There were a number of positive measures announced at the recent Autumn Statement, but also some unnecessary and divisive language on benefit sanctions and 'coasters'. In our view, we need to move beyond this rhetoric and focus on delivering the commitments made in the Autumn Statement as quickly as possible, and then continue to make the case for more far-reaching reforms in the future.

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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