ies Briefing

Institute for Employment Studies

Labour Market Statistics, March 2024

12 March 2024

This briefing note sets out analysis of the Labour Market Statistics published this morning. The analysis mainly presents **Labour Force Survey (LFS)** data, which is the main household survey that collects official figures on employment, unemployment and 'economic inactivity' (the term used to describe where people are either not looking and/ or not available for work).

Today's LFS data covers the period up to the three-month period November 2023 to January 2024. 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 2024, and the Wages and Salaries Survey to January 2024.

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 and the LFS. The latest WFJ data covers the period to the quarter October to December 2023.

Summary

The labour market remains subdued, with employment broadly flat, unemployment still low at below 4%, but 'economic inactivity' well above pre-pandemic levels – with 700 thousand more people outside of the labour force than there were four years ago. In part, this may reflect weaker demand as a result of higher interest rates and living costs, but this hasn't fed through into higher redundancies or unemployment, and we think that if anything labour and skills shortages are holding back what should be a stronger recovery.

Higher worklessness is particularly due to more older people and younger people out of work. For older people this is reversing the trend over recent decades of our ageing population leading to larger increases in employment than economic inactivity, with older women in particular faring worse. For young people, one in seven are now outside full-time education or employment, the highest rate in nearly a decade. More young people out of work with long-term health conditions, and weaker growth in education participation among young men, appear to be driving recent growth.

Vacancies continue to fall back but remain well above pre-pandemic levels (at just over 900 thousand), while short-term unemployment has dropped a little in the last six months after rising last year. So the labour market remains fairly tight, and suggests that there are continued labour and skills shortages in the economy, albeit less acute than we were seeing in 2022.

Pay growth continues to be reasonably strong, with regular pay rising by close to 6% year-on-year and 'real' pay after inflation growing by close to 1.5%. Looking at more recent changes, quarter-on-quarter pay growth implies that pay growth may fall to around the 3-4% range, which would be more in line with longer-term trends (and a bit above what we saw in the 2010s) and should see real terms pay remaining positive this year.

Overall then, today's data reiterates the need for a far greater focus on reaching, engaging with and supporting people who are not yet looking for work but would want to work with the right support. The government announced a range of measures in this space last year including nearly £1.5 billion in funding for a new Universal Support programme, the rollout of 'WorkWell' partnerships and pilots to improve joining-up across work and health, additional investment in specialist employment advisers in health services, and the extension of the Restart Scheme for the long-term unemployed.

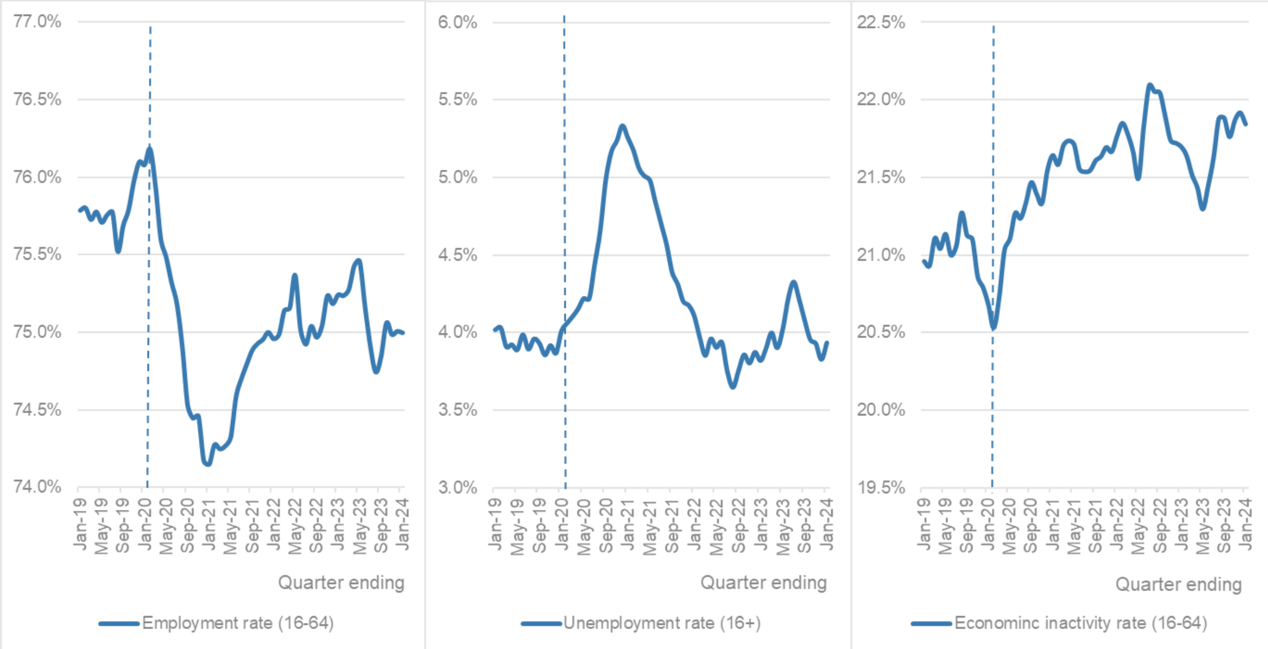
However a year on from many of these announcements, we need to start to see changes on the ground – as well as a change in approach in jobcentres, where the over-riding focus seems to continue to be to require ever-more frequent attendance for the diminishing number of people who are registered as unemployed. Employers have a key role to play too, both to help people stay in work and to bring more people back into the labour force. This means looking at the drivers of decent work and wellbeing at work, which include secure work, good relationships at work, two-way flexibility, control and support when things go wrong.

The labour market remains subdued, with 'worklessness' rising faster than employment

The ONS has cautioned us not to read too much into short-term changes in labour market data because of falling sample sizes in the Labour Force Survey, but at a headline level there is very little change to report on compared with last month's briefing. As Figure 1 below shows, the employment rate is bumping along at around 75%, unemployment is just below 4%, and economic inactivity is just below 22%. The overall picture, then, continues to be one of a very weak recovery from the pandemic, with this appearing to be entirely due to more people outside of the labour market altogether. When people are in the labour market and looking for work, they are generally able to find it.

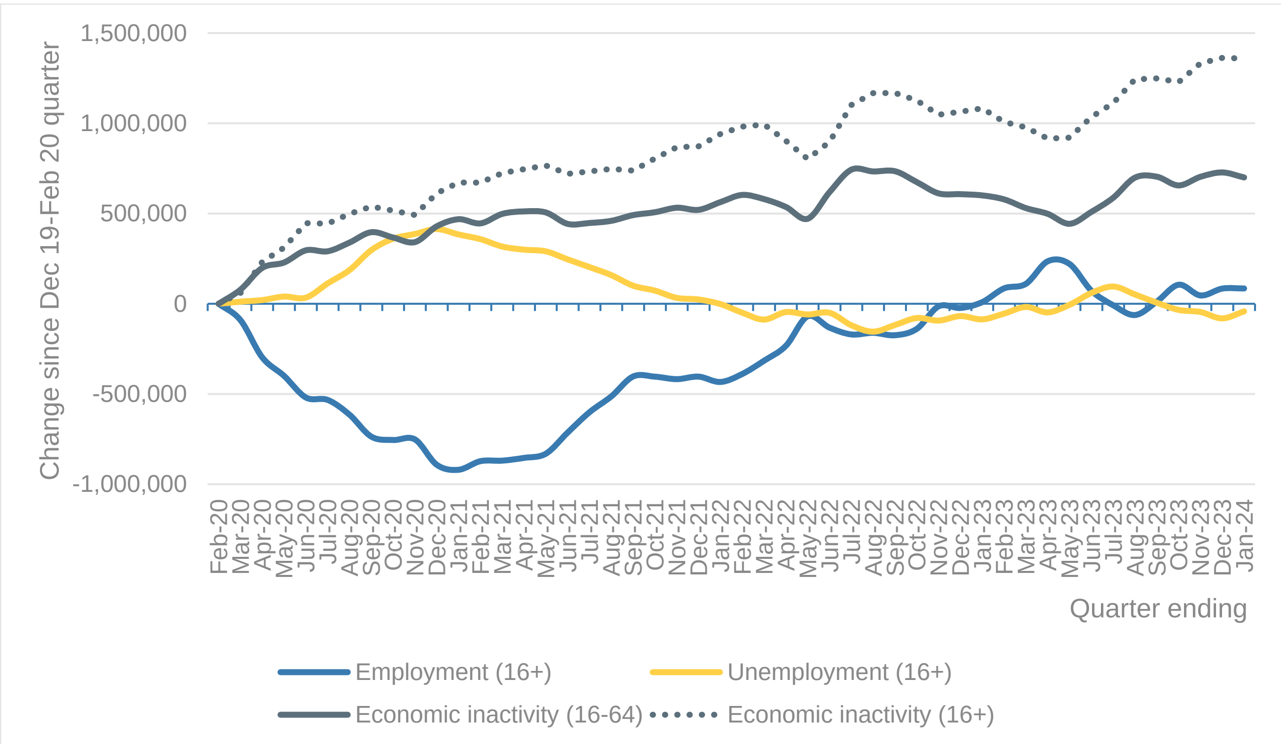
Figure 2 then shows changes in the *levels* of employment, unemployment and economic inactivity since the first Covid-19 lockdown. This illustrates how weak the employment recovery has been since early 2022, but also how far this is being driven by higher economic inactivity rather than higher unemployment – with the unemployment level now marginally lower than it was in early 2020, but 700 thousand more people aged under 65 and outside the labour force (which rises to 1.4 million when people aged over 65 are included).

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



Source: Labour Force Survey. Vertical dotted line indicates start of first Covid-19 lockdown.

Figure 2: Changes in employment, unemployment and economic inactivity since the first Covid-19 lockdown



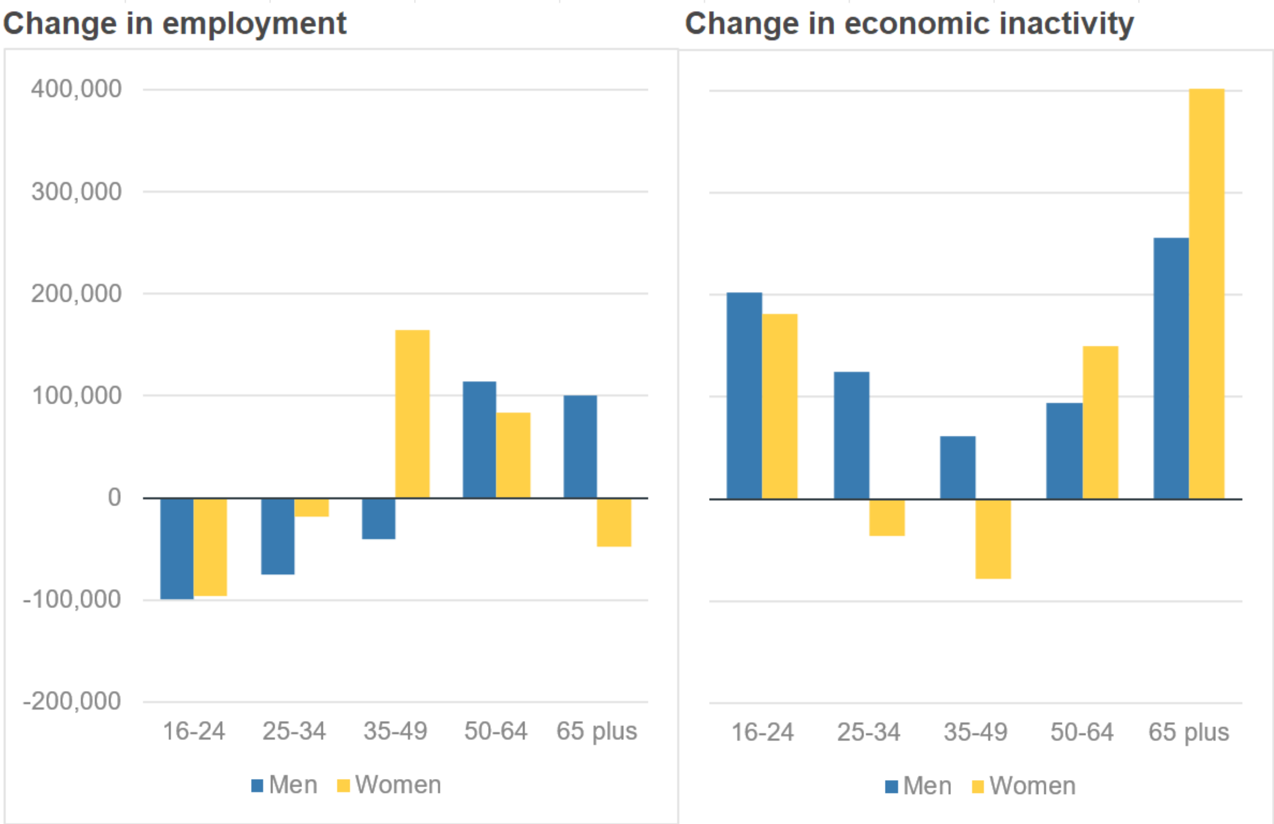
Source: Labour Force Survey

Falling participation among older people is because more women are out of work, reversing historic trends

This very large growth in worklessness among older people reflects in part our ageing society, and in particular that the 'Baby Boomers' have pretty much all left the labour force in the last decade or so, but also that their (eldest) children are increasingly entering their 50s. But while over the last three decades an ageing population has led to larger increases in employment than in worklessness (particularly for women), since the pandemic the reverse has been the case – with worklessness rising much more than employment (and a stronger reversal for women than men).

Figure 3 illustrates this, showing changes since the first Covid-19 lockdown by broad age group and gender in employment (in the left hand panel) and economic inactivity (in the right hand panel). Blue signifies men and yellow is women.

Figure 3: Changes in employment and economic inactivity by age and gender, since first Covid-19 lockdown



Source: Labour Force Survey

Four broad trends stand out:

- First, that we have seen some growth in employment since the pandemic for older people but this has been offset by larger growth in economic inactivity;

- Secondly, that employment growth among older people has been around six times greater for men than women, while the number of women outside of the labour force has grown by over half a million;
- Thirdly, that there are nearly 400 thousand more young people outside the labour force and 200 thousand fewer in work; and
- Finally for those aged between 25 and 49 employment has fallen by more than 100 thousand for men but risen by nearly 150 thousand for women – with a similar divergence in economic inactivity too.

Detailed data on reasons for economic inactivity by age and gender is not published in the monthly labour market stats, although it is available in Annual Population Survey data published on NOMIS, covering the period to September 2023. This suggests that higher economic inactivity among those aged 50-64 is being driven almost entirely by ill health, with women seeing a bigger rise than men; while at younger ages rises in ill health have been similar for men and women but with very large offsetting falls in the number of women off work because they are looking after family (which we have noted in previous briefings, and is likely explained by a combination of changes in the workplace and by people having smaller families and having children later).

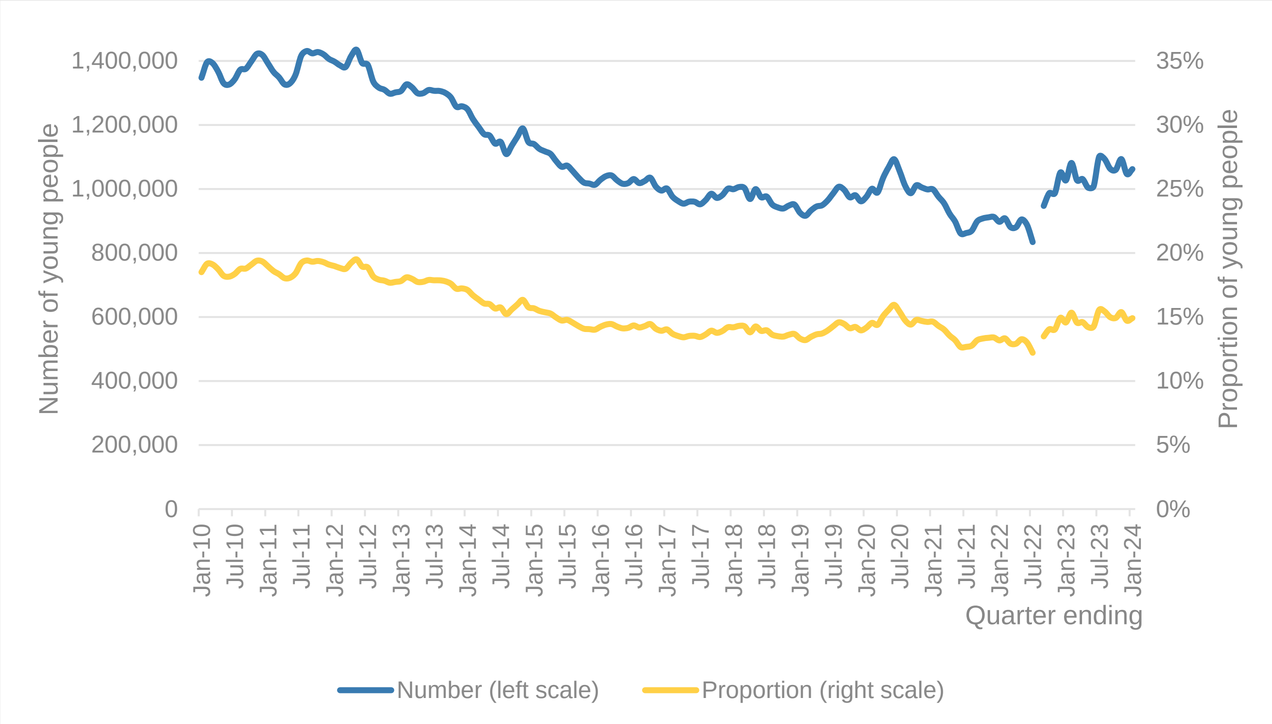
One in seven young people are not in full-time education or employment: a million reasons to act

We noted in last month's briefing the particularly weak data on youth participation in education or work and said that we would return to look at this in more detail this month. There are now more than a million (1.06 million) young people neither in full-time education or employment, which is the highest that this figure has been in nearly a decade. This appears to be rising again in recent years, after falling to close to its lowest level on record during 2021 (when we saw both strong growth in youth employment and record rates of participation in education).

In part, recent rises reflect a slightly larger population of 16-24 year olds than in late 2022 (up by around 100 thousand) and it should be noted that the data since late 2022 has been reweighted with new population estimates that in particular increased the size of the population – this was discussed in last month's briefing as well, and means that levels cannot be directly compared either side of July-September 2022. However, these two factors do not fully explain what is going on – as even looking at the *proportion* of young people who are outside of full-time education or work (which takes account of population growth and is largely unaffected by the reweighting) we see that excluding the first lockdown, young people are more likely to be outside of education or employment than at any point since spring 2015 (at 15%, or one in seven of all young people).

These two trends are illustrated in Figure 4 below – with the blue line showing the number of young people not in full-time education or employment (using the left axis), and the yellow line showing the proportion (using the right axis). The discontinuity in data is illustrated by the break in the lines.

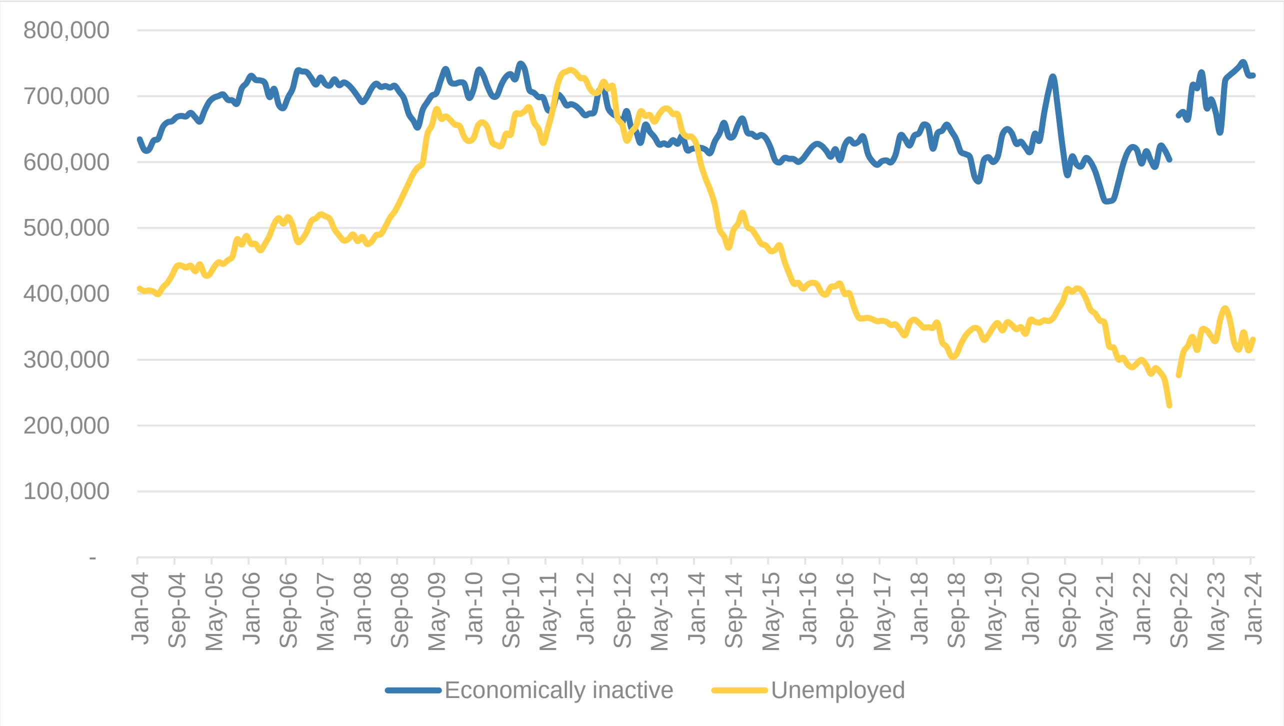
Figure 4: Number and proportion of young people not in full-time education or employment



Source: Labour Force Survey. Note that data from July to September 2022 onward has been reweighted, causing a step change discontinuity.

Figure 5 then shows how the 1.06 million figure breaks down between unemployment (yellow) and economic inactivity (blue). As we have noted in previous briefings, the unemployment figure tends to be highly cyclical – rising and falling with recessions and recoveries – and this is the case now too, with unemployment around the lowest it has been at 330 thousand. However economic inactivity pays no attention to the economy and has been consistently between 600 and 700 thousand for the last two decades. Currently however it is much higher than this at 730 thousand, pretty much the highest figure since comparable records began in the early 1990s. Note again however that there is a discontinuity affecting data between 2011 and 2022, and the youth population is likely to be marginally higher (and therefore these lines would be higher) particularly from the late 2010s to 2022.

Figure 5: Number of young people not in full-time education or employment, by whether unemployed or economically inactive

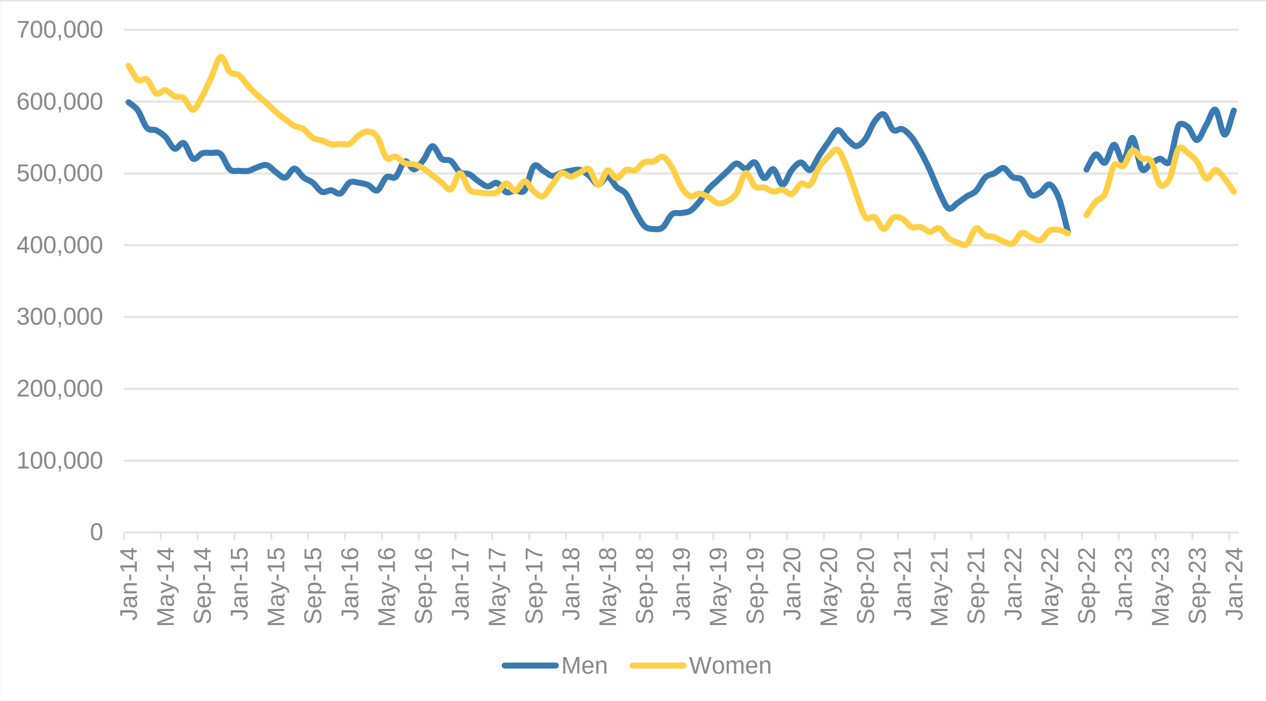


Source: Labour Force Survey. Note that data from July to September 2022 onward has been reweighted, causing a step change discontinuity.

As noted in the previous section, the Labour Market Statistics release also enables us to compare trends for men and women and so Figure 6 below shows the number of people not in full-time education or employment by gender over the last decade. Sample sizes mean that this data is quite volatile, and the discontinuity in late 2022 means that the two periods either side of the line are best considered separately. But looking at the two periods they suggest that:

- Non-participation fell significantly for women between 2014 and 2022 but was broadly flat for men. Underneath this, the APS/ NOMIS data referenced in the previous section suggests that these divergent trends were mainly explained by a very large fall in the number of women spending time outside of the labour force looking after family, with the numbers outside of the labour force due to ill health rising for both men and women and the number of students broadly flat.
- Since autumn 2022, non-participation has risen slightly faster for men than women, which appears to be being driven by divergent trends in student numbers – with 80 thousand more women in full-time education offsetting smaller rises in the numbers out of the labour force due to ill health and family reasons; while the number of young men studying has fallen by around 10 thousand and added to rises in worklessness for other reasons.

Figure 6: Number of young people not in full-time education or employment by gender

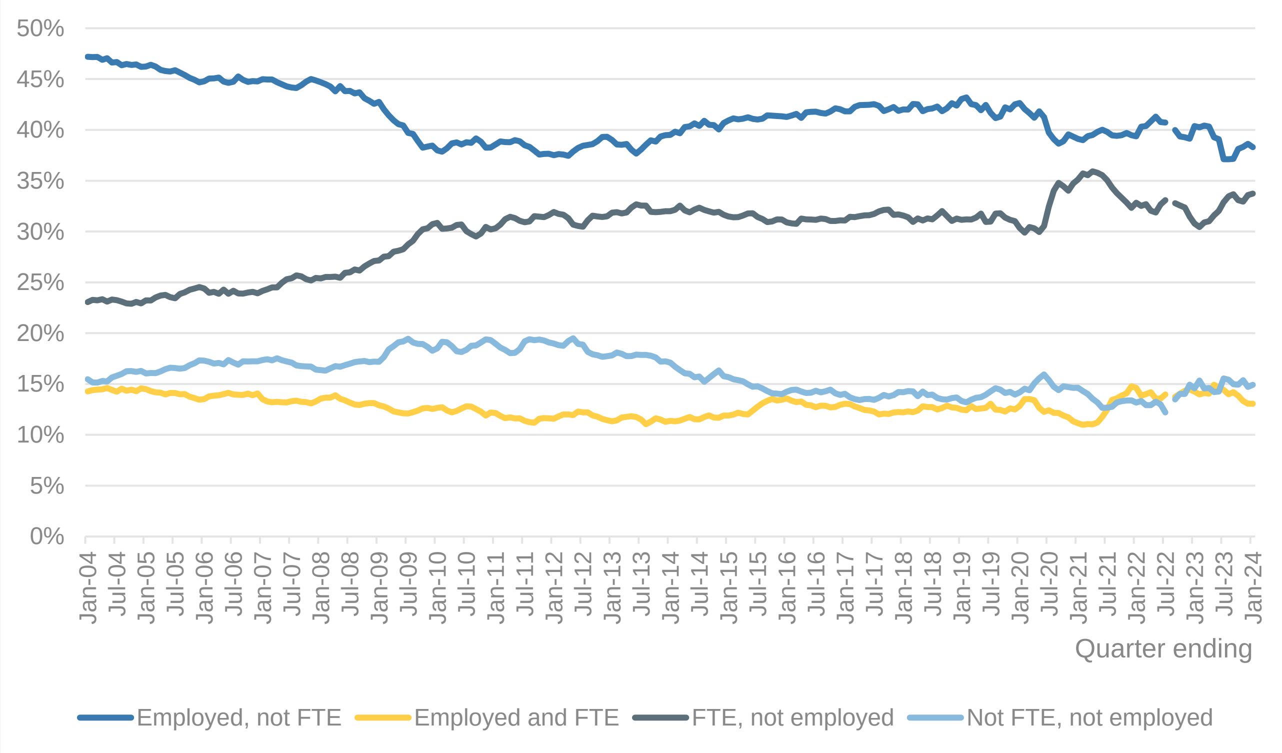


Source: Labour Force Survey. Note that data from July to September 2022 onward has been reweighted, causing a step change discontinuity.

Finally, Figure 7 below shows the make-up of the youth population by whether they are in employment only (dark blue), in full-time education only (black), in both employment and full-time education (yellow) or neither (light blue). This shows that the proportion of young people in employment only has fallen substantially over the last two decades, particularly with the 2008/9 recession and Covid-19 pandemic. However it did start to recover from the early-mid 2010s, and looked like it may have been starting to recover in 2021 – before now falling back further.

In part, this is explained by increases in participation in full-time education – with the number of people in education but not working virtually mirroring the trend in the number in work but not studying.: rising during the recession and pandemic and then levelling off after. However we do also see a more significant drop-off in 2022, and as noted this has been particularly the case among young men rather than young women (with women also driving the recent recovery more than men). At the same time, the proportion of young people combining full-time education and work rose during 2021 – likely reflecting the incredibly tight labour market at that time – but has dropped a little now, which in part is responsible for the growth in the share of people in full-time education only.

Figure 7: Proportion of young people by employment and/ or educational status



Source: Labour Force Survey. Note that data from July to September 2022 onward has been reweighted, causing a step change discontinuity.

Taking this all together, then, recent trends in the youth labour market are increasingly concerning, and appear to be being driven by slightly less access to full time education, more people outside of the labour force due to health reasons, and a longer running decline in labour market participation. These issues also appear to have been affecting men more than women in recent years, although longer-term improvements in participation for women mainly reflect the fact that young women are less likely to be taking time out to care for children.

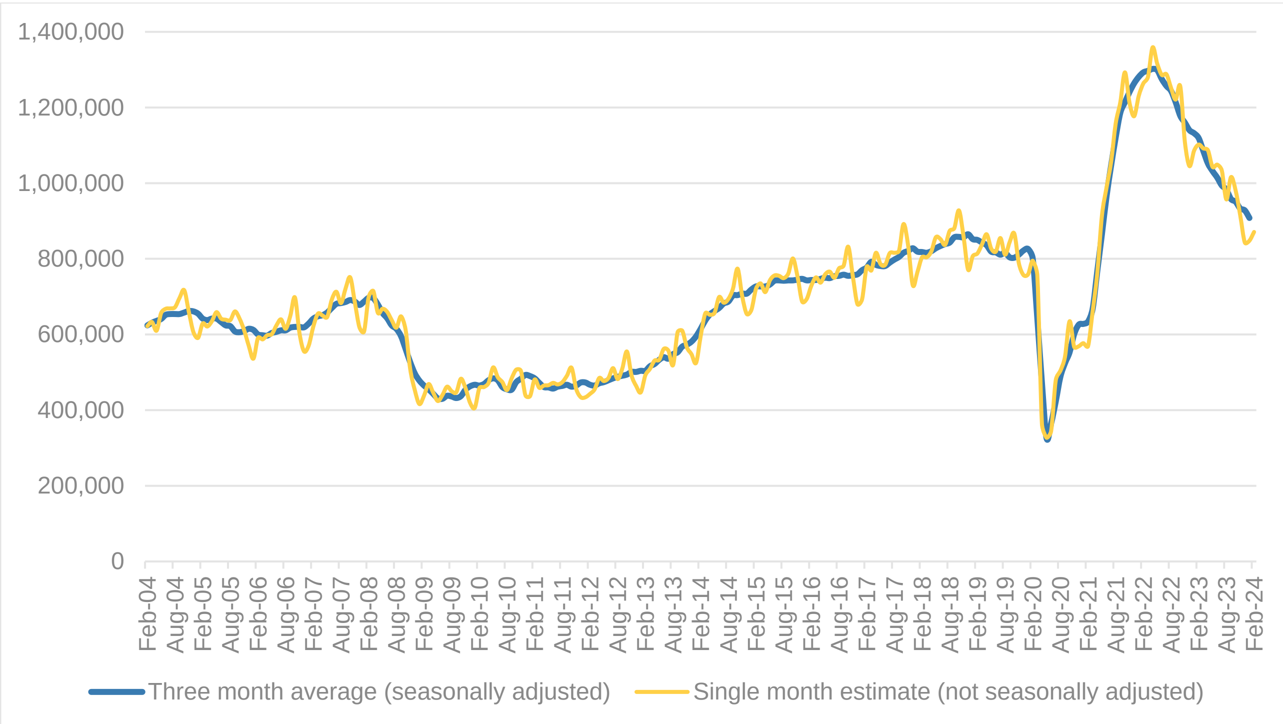
Recent research by the Resolution Foundation has illustrated in particular the very substantial deterioration in young people's mental health over recent years and the impact that this has had on labour force participation. Our research on young people's mental health in the workplace, published last year for the same Health Foundation inquiry, had similarly stark and worrying findings – with many people struggling with poor mental health, reluctant to disclose this, often finding that their working conditions made this worse, and generally lacking good quality support.

In our view, the scale of these challenges – for those out of work or education, and those struggling in learning and work – mean that we need a radically different approach to how we support young people before, during and after their transitions from education to employment. The Shadow Secretary of State for Work and Pensions, Liz Kendall, set this out as a key priority last week in her first major speech in post, with proposals for reform in careers advice, skills support, youth engagement, mental health services and support for disabled people. These are welcome proposals, and if anything there is the scope to go further too and draw this together into a single 'youth employment and skills service' that can align the current patchwork quilt of policies, accountabilities and services for young people. We will be exploring this too in the final stage of our Commission on the Future of Employment Support, in partnership with the Financial Fairness Trust.

Vacancies continue to fall towards pre-Covid levels, driven by declines in the private sector and health

In wider labour market news, today's vacancy figures continue the trend of the last two years now, falling by 40 thousand to around 910 thousand. This quarterly fall is slightly larger than the fall reported last month, but lower than the drops seen for most of last year. As Figure 8 below shows, vacancies remain above pre-pandemic levels, but the gap is continuing to narrow. The yellow line shows monthly rather than quarterly estimates, not adjusted for seasonal factors. This shows a slight (seasonal) improvement in the most recent data for February following the pre-Christmas lull.

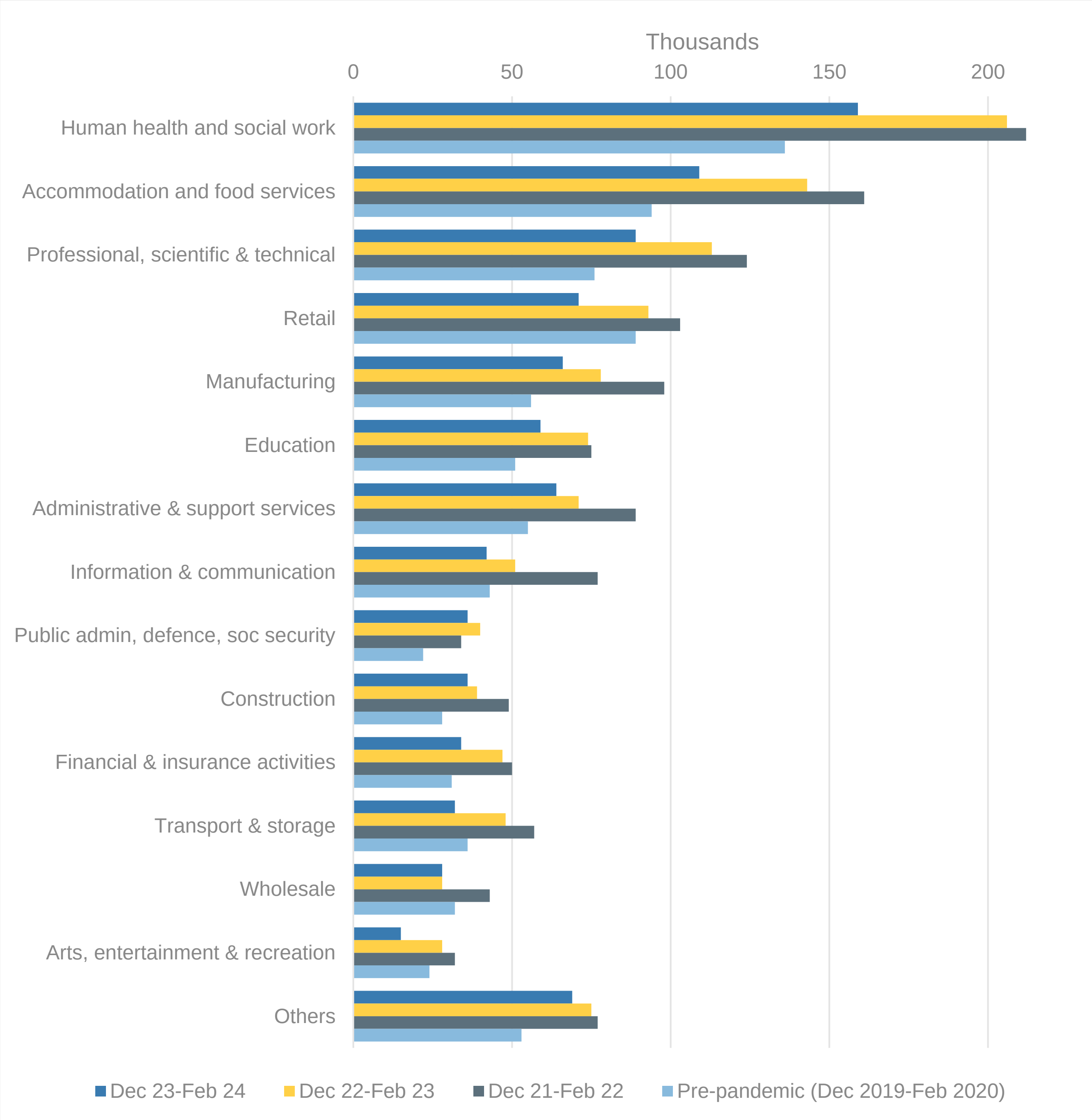
Figure 8: Vacancies – quarterly and single-month estimates



Source: ONS Vacancy Survey

Looking at changes by industry, Figure 9 shows the lates vacancy data (the dark blue line), the figures at the same time last year and the year before (in yellow and black) and pre-pandemic levels (light blue). This illustrates that many private sector service industries, manufacturing and construction have seen sustained falls over the last two years but generally remain above where they were on the eve of the Covid-19 pandemic, likely reflecting slightly weaker demand alongside lower turnover in jobs. Vacancies in retail and in the arts and entertainment however have fallen substantially below pre-pandemic levels, perhaps reflecting more fundamental challenges there. Within industries with predominantly public sector jobs we see a more mixed picture, with health vacancies falling back significantly in the last year but remaining elevated; education showing similar trends; but vacancies in public administration remaining pretty close to their peaks.

Figure 9: Vacancies by industry: latest data (Dec-Feb 2023), for same quarters in 2022 and 2021, and pre-pandemic (Dec 2019-Feb 2020)



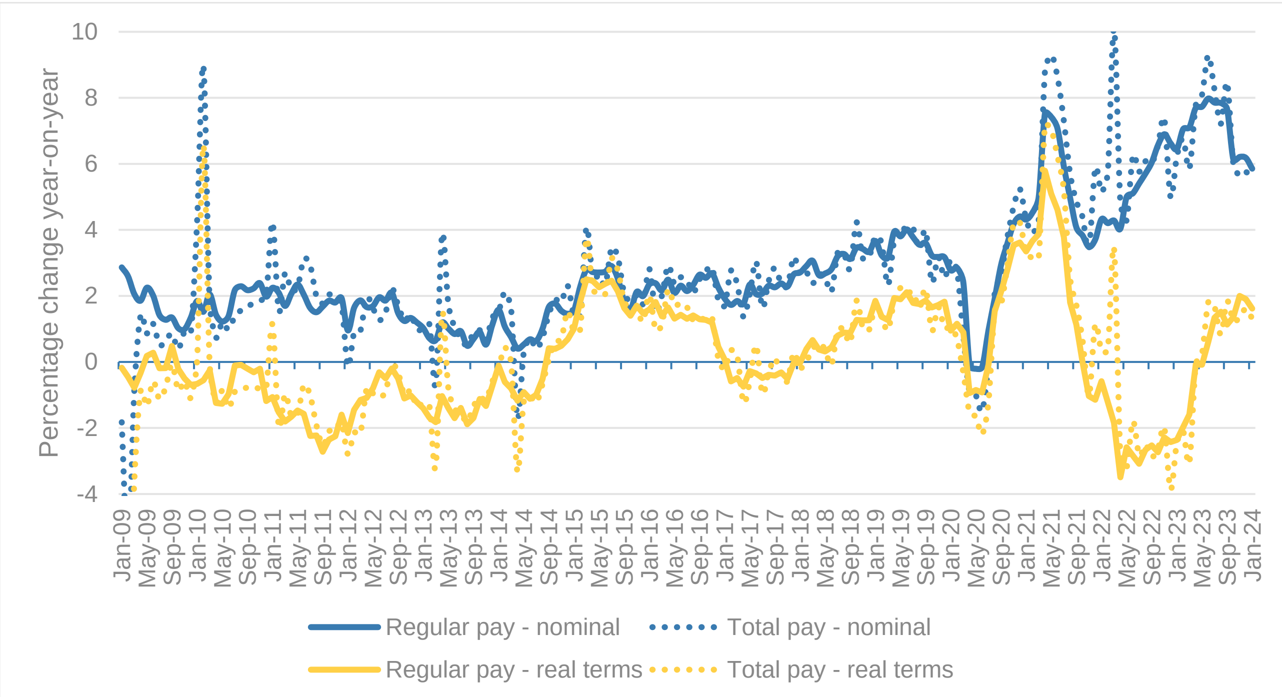
Source: ONS Vacancy Survey

Year-on-year pay growth remains close to 6%, and recent trends suggest it may remain above inflation

Meanwhile on earnings, today's figures look similar to those reported last month – with year-on-year pay growth of nearly 6% and 'real' pay growth (after inflation) of close to 1.5%. But underneath these annual headlines, looking at quarterly changes suggests that pay growth rebounded over the winter after falling back through last summer and autumn.

On the year-on-year changes first, Figure 10 below shows that nominal growth in regular pay and total pay (i.e. including bonuses and arrears) is around 6% (the two blue lines), which is well down on the 8% growth that we saw last summer but well above the longer-running trend of around 2%. After taking account of inflation, 'real' pay growth remains positive at 1.3% - and with inflation set to fall to closer to 2% in the next couple of months we may well see real pay growth rising significantly in the short term at least. Nonetheless, as we have said a number of times in these briefings, pay in real terms is only very slowly inching above where it was on the eve of the 2008/9 financial crisis (currently around £8 a week higher now than then).

Figure 10: Year-on-year change in regular and total pay – nominal terms and adjusted for inflation (real terms)

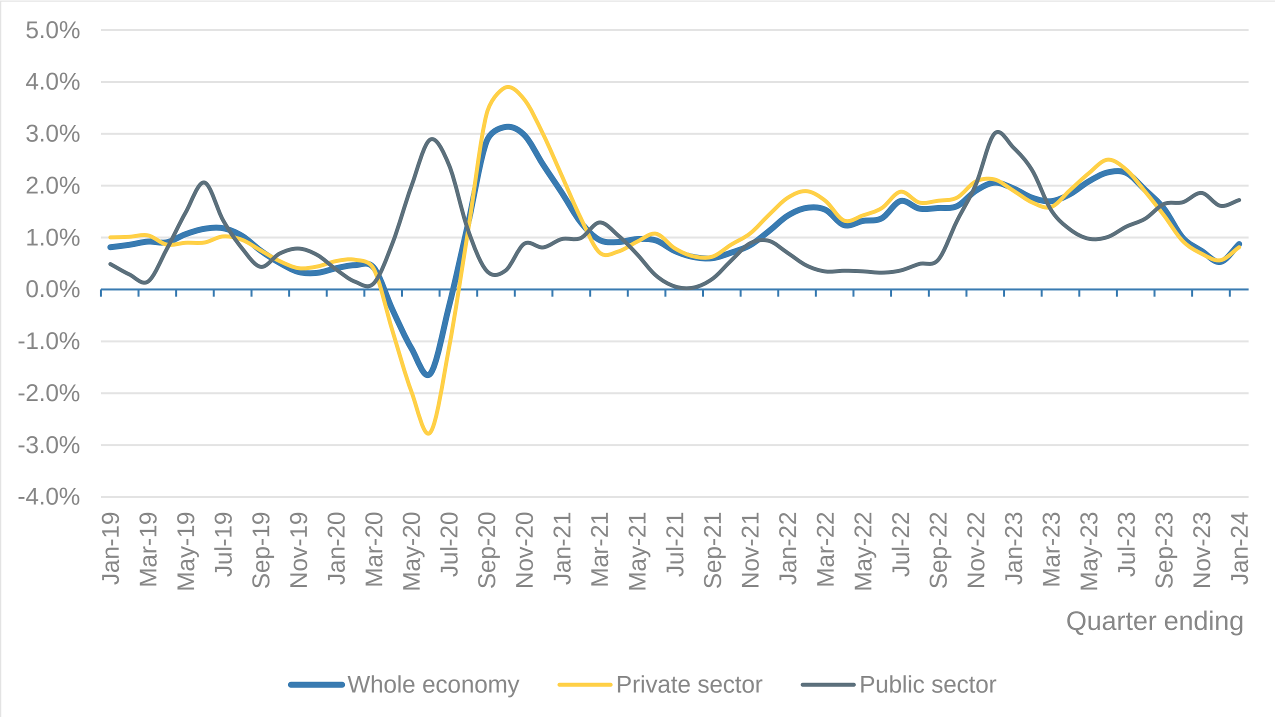


Source: ONS Monthly Wages and Salaries Survey. Regular pay excludes bonuses and arrears; measure shown is year-on-year change in single month estimate.

Looking at year-on-year changes can make it harder to identify short-term trends or turning points, so Figure 11 below sets out the quarter-on-quarter changes in regular pay overall and for the private and public sectors. It does this on the same basis as Labour Force Survey estimates of employment, so averaging figures over a three month period and comparing those with the average for the previous three months (e.g. comparing October-December with July-September). Overall pay growth (in blue) broadly follows the private sector line (yellow) as most employment is in the private sector.

The data shows that quarterly pay growth was between 1½% and 2% from early 2022 to mid 2023 – i.e. between 6% and 8% on an annual basis – but had fallen back fairly steeply from then, reaching 0.6% in the final quarter of 2023 (which on an annual basis would be a pretty paltry 2.4%). We would expect some softening as demand eases and also as inflation expectations change (and the latter tends to have a bigger impact than the former), but more recently there are signs that pay growth is recovering slightly – reaching 0.8% a quarter (i.e. 3-4% on an annual basis). Of course this is still much lower than recent years, but with inflation set to fall to 2% in the coming months and then likely closer to zero, this does suggest that 'real' pay growth should remain positive for a while yet.

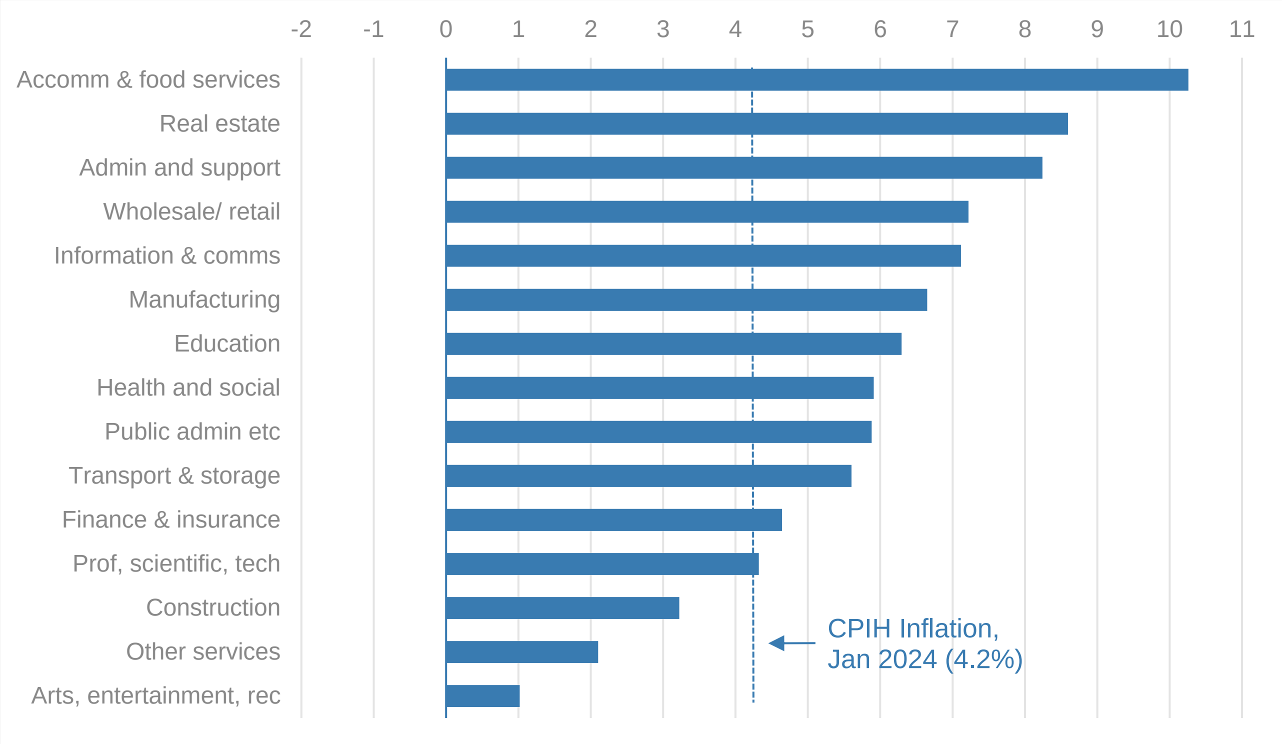
Figure 11: Quarter-on-quarter changes in average quarterly regular pay



Source: ONS Monthly Wages and Salaries Survey. Measure shown compares average pay in the quarter ending in the month specified, compared with the previous non-overlapping quarter.

Looking at annual pay growth by industry, Figure 12 shows that pay has risen fairly strongly in virtually all industries, with the main exception being construction where pay growth remains weak. As we have noted previously, these increases are happening despite falls in vacancies across the private sector – which reflects the fact that pay growth is driven by a range of factors including inflationary expectations, increases in the Minimum Wage, compositional changes in the workforce and productivity gains. Nonetheless we should expect to see pay growth by industry falling across the board as year-on-year pay growth overall falls back towards 3-4%.

Figure 12: Year-on-year change in regular pay by industry, nominal terms

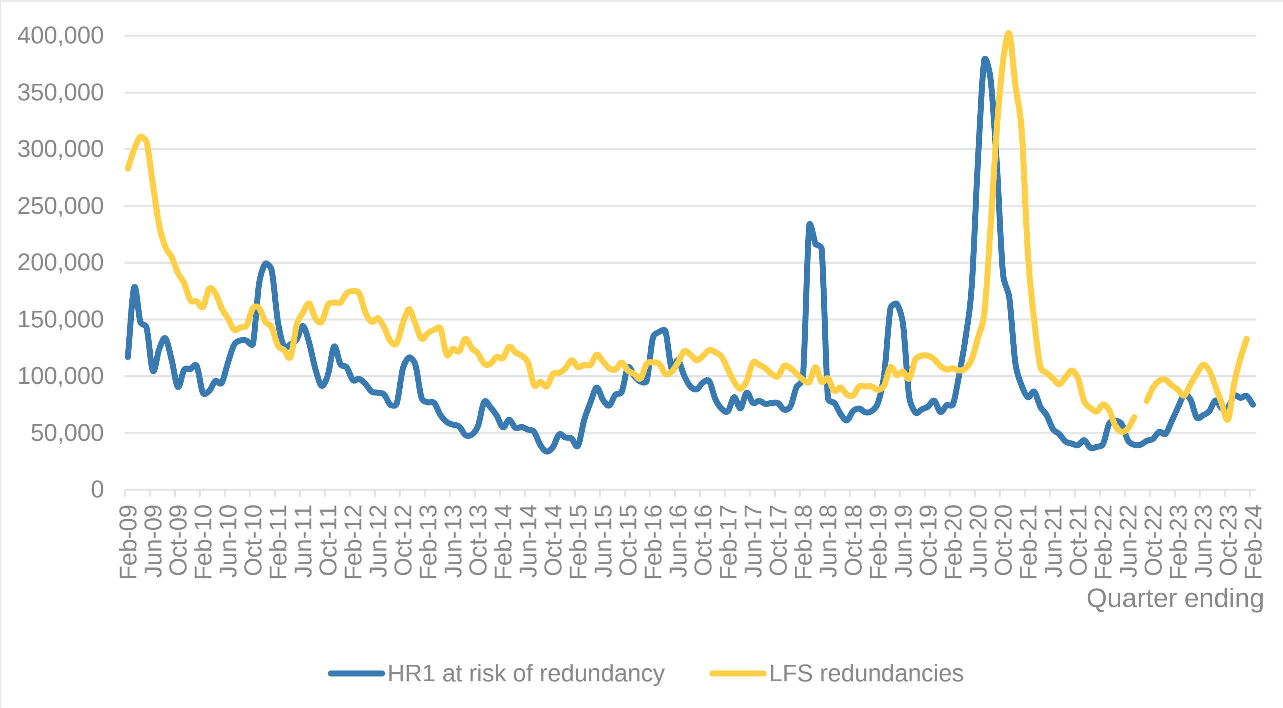


Source: ONS Monthly Wages and Salaries Survey. Pay growth is average of published single-month estimates of year-on-year growth in pay excluding bonuses and arrears for Nov 2023-Jan 2024 (not seasonally adjusted).

Redundancies have seen a sharp but perhaps illusory rise, with short-term unemployment edging down

Figure 13 below shows estimates of the number of people made redundant (in yellow, from the Labour Force Survey) and the number of jobs at risk of redundancy in future (in blue, from 'HR1' forms notified to the Insolvency Service). This can be a good indicator of changes in the wider economy and suggests, surprisingly, a very large increase in redundancies over the winter, to nearly 120 thousand – which outside of the pandemic would be the highest figure since the mid 2010s. However there is no similar trend in the HR1 data, which tends to be a good leading indicator (even though not all redundancies need to be notified). We suspect therefore that the recent sharp rise may well reflect volatility in the data driven by small sample sizes and the very small number of survey respondents who would have reported being made redundant.

Figure 13: Quarterly number of employees notified as at risk of redundancy (HR1 forms) and reporting having been made redundant (Labour Force Survey)

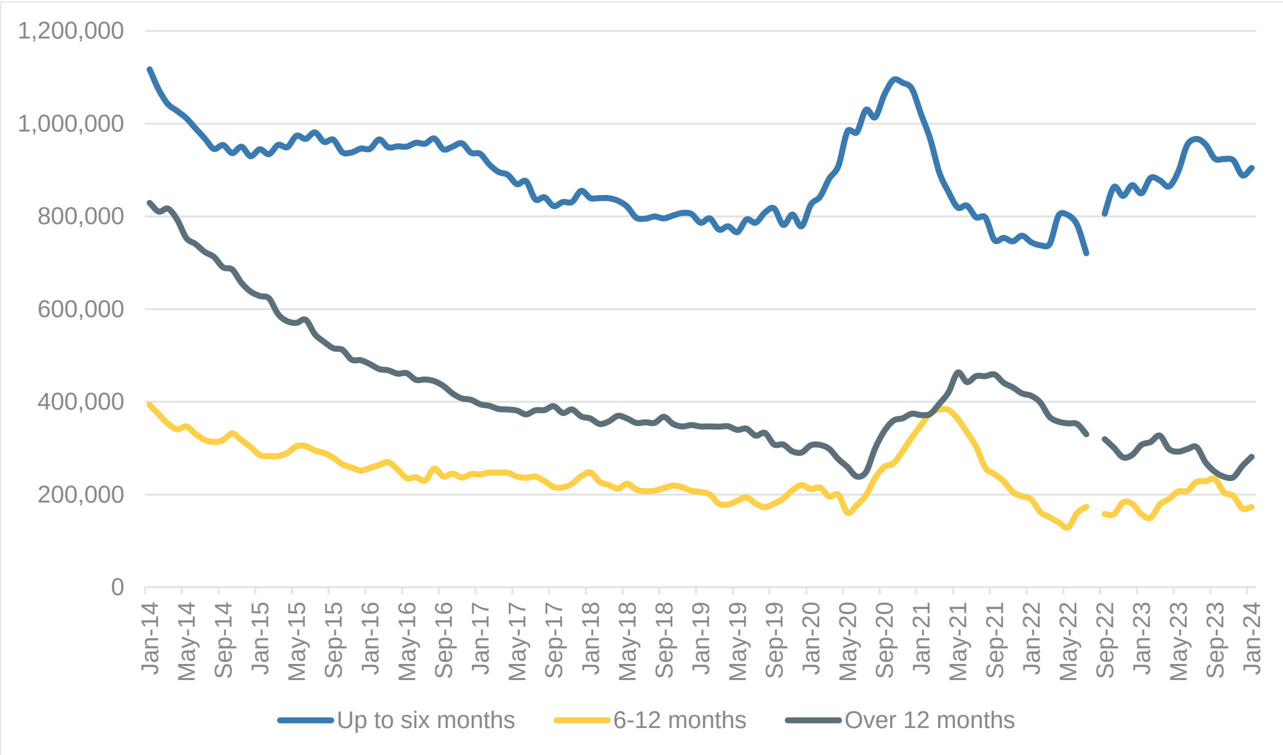


Source: IES analysis of Insolvency Service and Labour Force Survey data. Note that data from July to September 2022 onward has been reweighted, causing a step change discontinuity.

Indeed looking at data on short-term unemployment, which can also help identify changes in demand, Figure 14 below suggests that if anything short-term unemployment is edging down – to around 900 thousand from around 950 thousand last summer. On the one hand, it is a positive sign that falling vacancies is no longer being accompanied by rising short-term unemployment; but on the other hand it is surprising that short-term unemployment remains so much higher than it was before the Covid-19 pandemic despite there being over 900 thousand unfilled jobs in the economy.

Looking elsewhere in the data, it is also concerning that long-term unemployment is ticking up – the timing of which appears to suggest that this is the same people who became short-term unemployed a year ago, then moved into 6-12 month unemployment (the rise in the yellow line last year) and are now reaching long-term unemployment. All told, these trends in short- and long-term unemployment do suggest that despite unemployment being below 4%, there is more we can do to reach and support unemployed people and to address labour and skills shortages in the economy.

Figure 14: Unemployment by duration



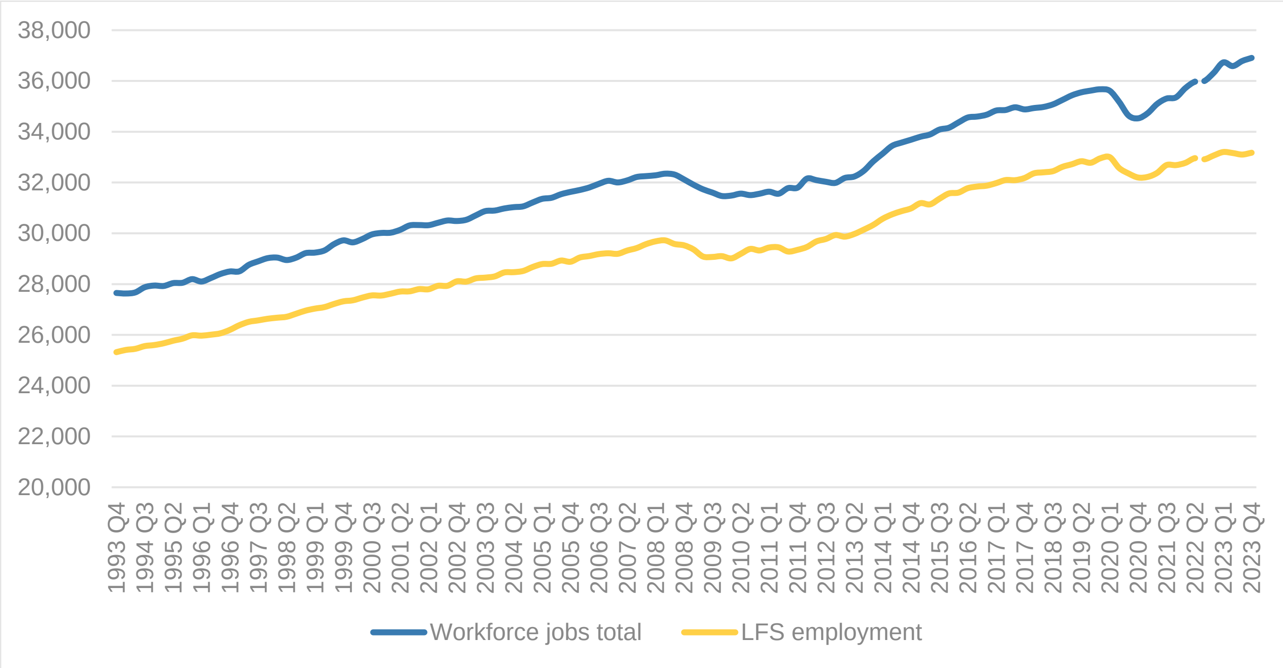
Source: Labour Force Survey. Note that data from July to September 2022 onward has been reweighted, causing a step change discontinuity.

The re-weighting of the LFS seems has not solved the mystery of its divergence from 'Workforce Jobs' data

Finally, today also sees the publication of quarterly estimates of 'Workforce Jobs', which are compiled using returns from a series of employer surveys (in the public and private sector) and data from the Labour Force Survey. The estimate of workforce jobs is always higher than the estimate of employment in the LFS, as there are more jobs in the economy than there are people employed (partly because a million or so people work two jobs, and partly because of other factors like timing differences). However in the last two years, the gap between the two measures has grown considerably – from around 2.5 million to over 3 million.

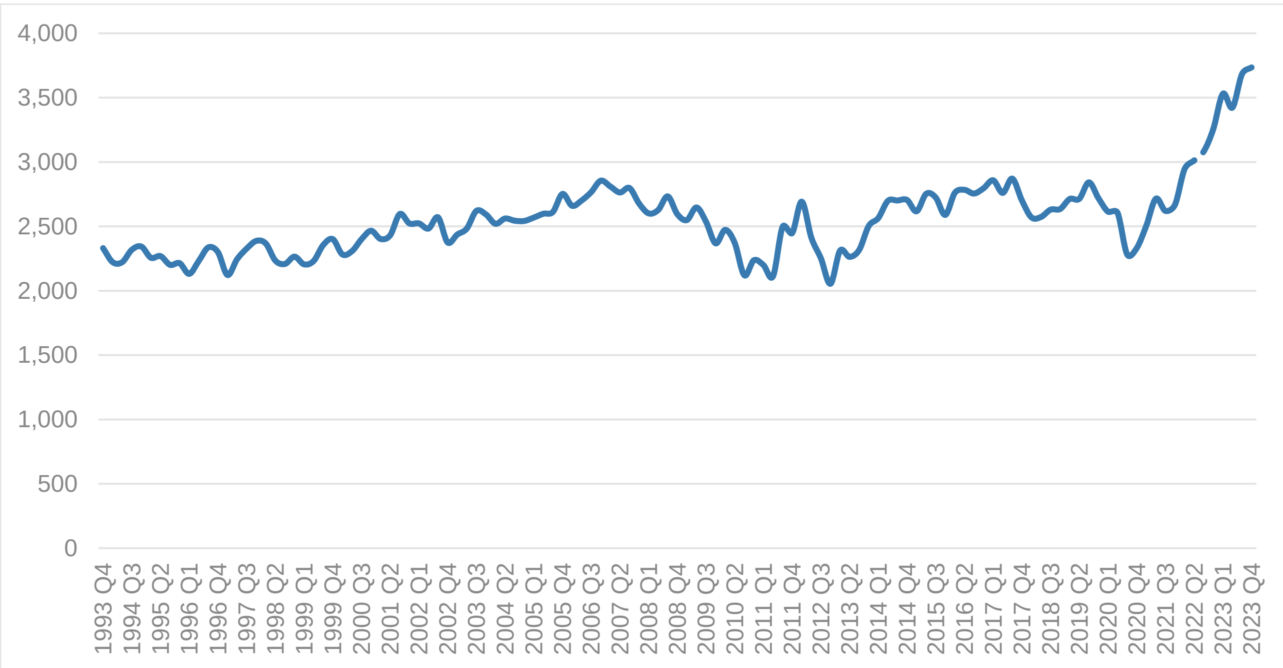
It is not clear what has been driving these differences, and the last 'reconciliation' by the ONS (in October 2022) did not shed much light either. In our briefing in June 2023 we noted that it was possible that the divergence could have been due to issues with the population estimates for the Labour Force Survey, caused by changes in sampling and weighting post-pandemic. We and others had wondered therefore whether the re-weighting of the LFS would lead to higher estimates of employment and a narrowing of the gap with the Workforce Jobs figures. However with that reweighting exercise now completed, it appears that if anything the gap is widening: with Figure 15 below showing the respective series including today's data and Figure 16 showing the gap between the two estimates. The break in the lines illustrates the point from which the newly reweighted data is available. At 3.7 million, the gap is now the widest that it has ever been and the mystery is no closer to being solved.

Figure 15: Number of workforce jobs (blue) and number of people employed (yellow)



Source: Workforce Jobs, Labour Force Survey

Figure 16: Difference between estimated number of workforce jobs and number of people employed



Source: Workforce Jobs, Labour Force Survey

Conclusion

Today's figures tell a similar story to last month's, with no real signs yet of any meaningful improvement in employment or progress in bringing more people into the labour force who are currently outside it. In part this of course reflects a weakening of demand as both interest rates and living costs have risen; but vacancies remain very high, and weaker demand does not explain why so many young people and older people are outside of the labour force entirely rather than unemployed. Indeed if anything, it feels more likely that labour and skills shortages are holding back growth and that these issues will become more acute as inflation falls and consumer confidence recovers.

The government did not take the opportunity to announce new measures at its Budget last week, but in fairness it has previously announced a range of initiatives in its Autumn Statement and Spring Budget last year, including nearly £1.5 billion in funding for the new Universal Support programme, the rollout of 'WorkWell' partnerships and pilots to improve joining-up across work and health, additional investment in specialist employment advisers in health services, and the extension of the Restart Scheme for the long-term unemployed. However a year on from many of these announcements, it is still not entirely clear when we will start to see changes on the ground, and more broadly within Jobcentre Plus the over-riding focus seems to continue to be to require ever-more frequent attendance at jobcentres for the diminishing number of people who are registered as unemployed.

We are exploring longer-term proposals for reform through our Commission on the Future of Employment Support, in partnership with the abrdn Financial Fairness Trust, but in the more immediate term we need to see a far greater focus through existing services and planned provision on reaching, engaging with and supporting people who are not yet looking for work but would want to work with the right support. Employers have a key role to play too, both to help people stay in work and to bring more people back into the labour force. This means looking at the drivers of decent work and wellbeing at work, which include secure work, good relationships at work, two-way flexibility, control and support when things go wrong.

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