ies Briefing

Institute for Employment Studies

Labour Market Statistics, August 2023

15 August 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 June 2023 (the most recent quarter being April to June 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 July 2023, and the Wages and Salaries Survey to June 2023.

In addition, this month sees publication of quarterly data on employment for disabled people and ethnic minority groups, as well as data on labour market ‘flows’ from the Longitudinal LFS, all of which are also covered below.

Summary

Today’s figures are a mix of good and bad news, the bad being somewhat of a surprise based on recent data. Whilst the quarterly data indicate minimal movement, the latest monthly data shows that economic inactivity has started to rise, reversing the recent growth in the size of the labour force that we have seen. Meanwhile, employment has started to fall whilst unemployment continues to rise. These findings are borne out by quarterly averages, although movements in the monthly figures are even more stark, suggesting that these trends may be set to continue. This month also saw yet another record set for the number of people out of work due to long-term health conditions, now at 2.58 million people which is an increase of 460 thousand since the start of the pandemic, and an increase of 51 thousand in the last quarter alone.

One bit of good news is that strong pay growth means that regular pay has increased in real terms for the first time since the start of the cost of living crisis, up 7.9% on the year in nominal terms and up 0.6% on the year when adjusting for inflation. Total pay growth was also particularly strong in the public sector, where pay settlements including bonuses for NHS staff earlier this summer saw total pay grow by 16.5% on the year. There is clearly

however a long way to go in undoing the real falls in wages seen over the last two years and in the years after the financial crisis.

However, a range of indicators suggest that the cooling in labour market that has been seen until recently has restarted, and that in the face of continued rate rises labour demand does not appear to be holding up. Short-term unemployment is rising, increasingly so because of flows from employment to unemployment. Redundancies (both in terms of the actual number and the number of those employees at risk) are also on the rise. Meanwhile, vacancies continue to fall despite an increase in job-to-job moves, which was previously a key driver of higher vacancy levels during their peak.

Vacancies also remain well above pre-pandemic levels in many white collar industries (as well as the public sector) where wage growth also continues to run at well above the rate of inflation. This indicates potentially significant mismatches between supply and demand, which are about skills as well as labour shortages.

The cooling of demand that today's figures suggest should lend support towards a pause in interest rate rises. Whilst inflation still needs to be brought down, the time it takes for rate rises to feed through to the wider economy combined with the signs of a slowdown in the labour market that we are already seeing suggests that the Bank should be cautious about going too far. A period of higher unemployment, higher interest rates but still high prices – i.e., 'stagflation' – would be disastrous for the economy as well as inequalities between areas and groups, which remain significant especially for disabled people, certain ethnic minority groups, older people and younger people and when compared to before the pandemic.

Reducing demand is one way to bring wage growth and inflation under control, but a coherent strategy for the supply side – to help address mismatches, and maintain and maximise employment, supporting a softer landing in the labour market – is certainly preferable. This needs to be addressed at the Autumn Budget, and based on a significant expansion in access to employment support, so that more of those who want to work can get help finding the right job; skills reform to help address mismatches, particularly through reform of the Apprenticeship levy; and more support for employers – including access to help with inclusive recruitment, induction training, flexible job design and workplace support.

Employment falls whilst unemployment and economic inactivity are on the rise

This month's figures go against the trends of the last year, of falling economic inactivity translating into both higher employment and higher unemployment. Whilst the economic inactivity rate fell slightly on the figure for January-March, it rose by a tenth of a point from the March-May figure to 20.9%. Employment fell to 75.7%, down from 75.9% in January-March. The unemployment rate meanwhile increased from 4.0% to 4.3% on the quarter (analysis at the end of this briefing sets out that so far, higher unemployment appears to

be being driven mainly by flows from economic inactivity, although flows from work look to be increasingly significant).

These quarter-on-quarter comparisons however hide the fact that the most recent monthly figures are much poorer than previous. Figure 1 below shows the quarterly averages for employment, unemployment and economic inactivity in blue and the single-month estimates that make up the quarterly averages in yellow.

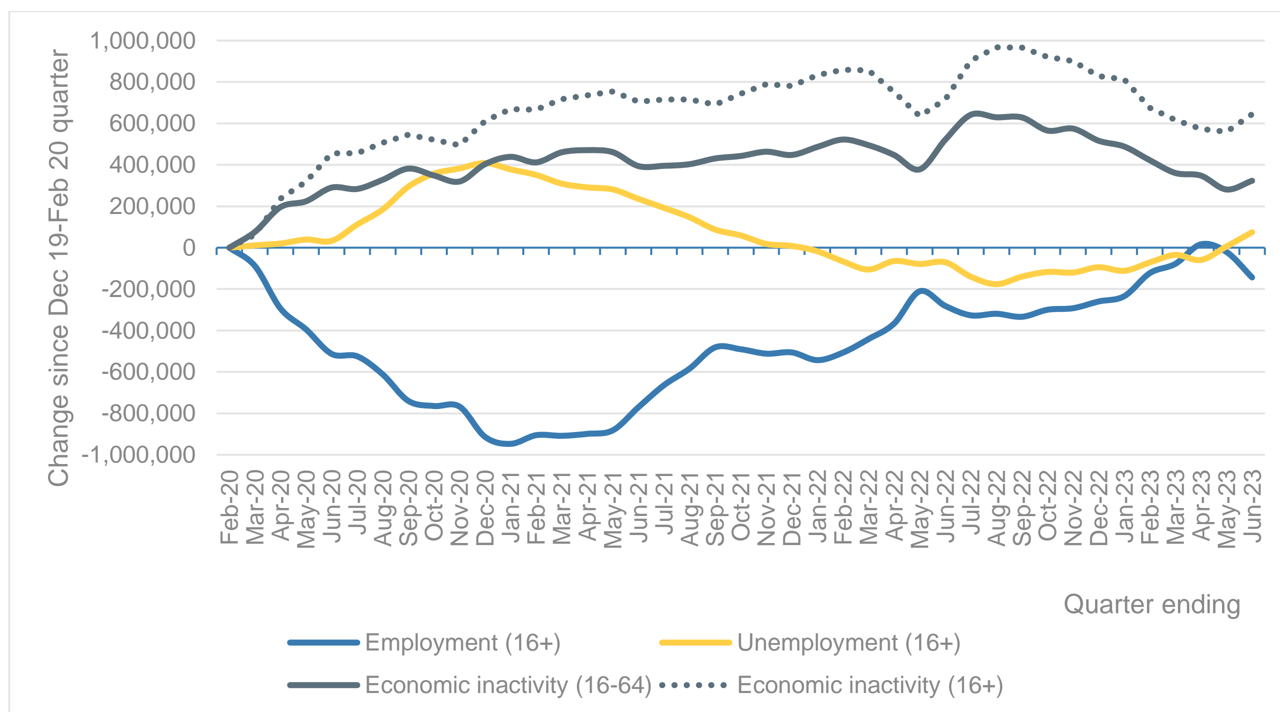
The single-month employment rate dropped to 75.0% whilst the unemployment rate rose to 4.7%, at their lowest and highest rates respectively since May 2021. The rate of economic inactivity also jumped to 21.3%, its highest this year. Whilst the single month figures are quite erratic with sampling variation adding to the uncertainty around the estimates, the extent to which they differ from previous is stark and suggests that these indicate movements in the data that may continue.

The recent growth in the labour force has thus halted, continuing to be smaller than it was before the pandemic with 79.1% of the 16-64 population either employed or unemployed now compared to 79.8% pre-pandemic (December 2019-February 2020). Figure 2 shows that in the most recent figures, the overall *level* of economic inactivity is now rising again, with 320 thousand more individuals aged 16-64 economically inactive than before the pandemic, with the figure rising to 645 thousand including those aged 65 and over (which mainly reflects population growth in this group).

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

Source: Labour Force Survey

Figure 2: Change in levels of employment, unemployment and economic inactivity since start of Covid-19 pandemic (December 2019-February 2020 quarter)



Source: Labour Force Survey

Economic inactivity due to long-term ill health reaches another record level

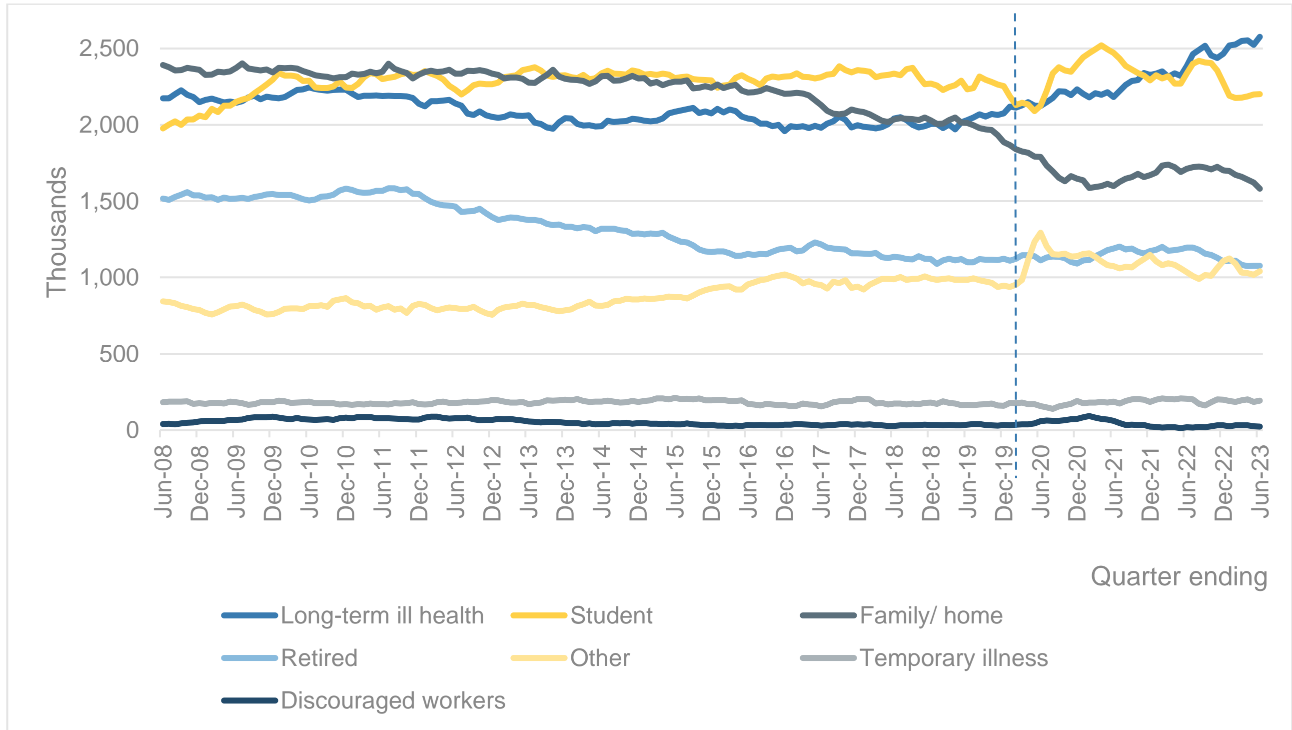
After last month's slight fall, economic inactivity due to long-term ill health rose, continuing its long-term trend. The number of people looking after their family or home continues to fall, whilst the levels of economic inactivity due to other reasons including being a student or retiring early have remained fairly even since last month's figures.

Figure 3 below shows these trends, while Figure 4 then shows changes compared with the start of the Covid-19 pandemic. This shows that in most categories economic inactivity is either in line with or below where it was before the pandemic. The main exception to this is economic inactivity due to long-term ill health, which is 464 thousand higher at more than 2.6 million people – a new record high level.

As we have said in previous briefings, these large increases in worklessness due to ill health are happening for people with a range of underlying conditions and at different ages, but with larger rises among older people because they are more likely than others to have long-term health conditions. Importantly though, it appears that most of the rise is explained by people who have been out of work for a long time – often since before the pandemic began – and becoming more disadvantaged in the labour market. We also know that many of those outside the labour force do want to work – with nearly 1.7 million people saying that they would like to work right now (including 610 thousand with long-

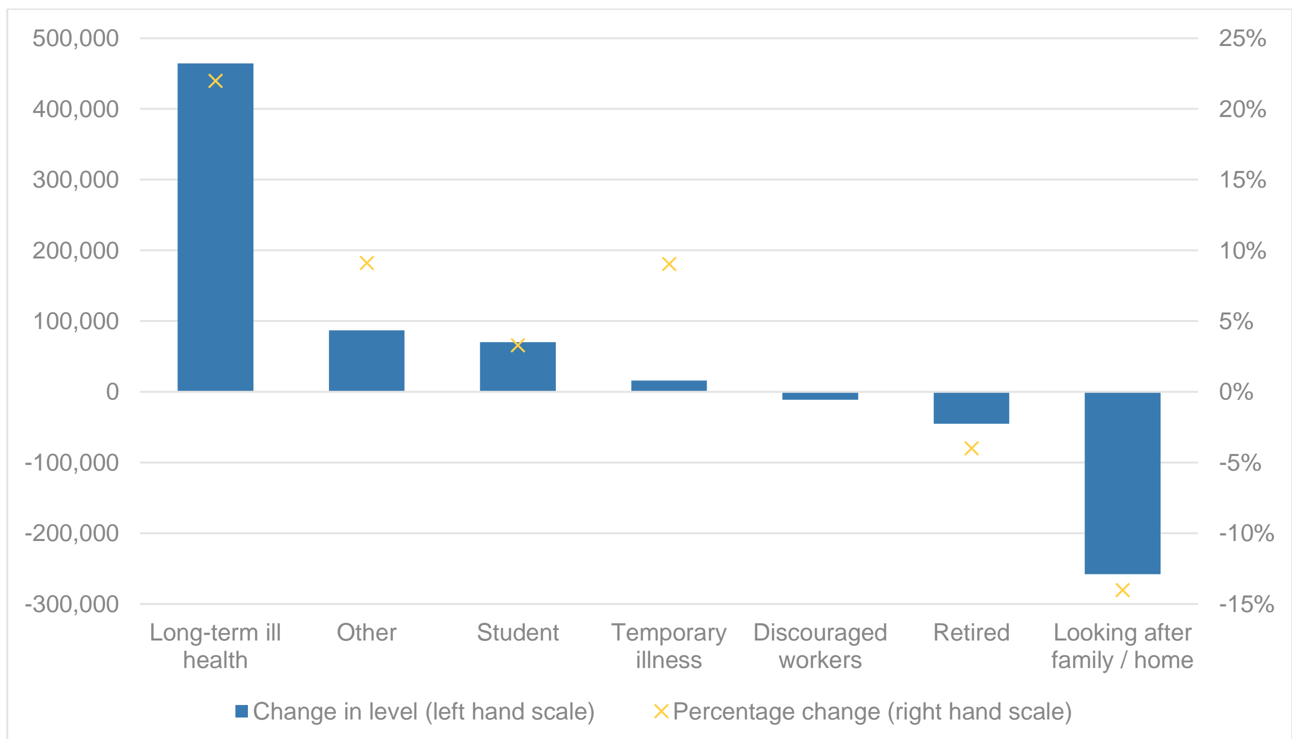
term health conditions) and many millions more who do not want a job now saying that they nonetheless expect to work in future.

Figure 3: Economic inactivity by main reason given



Source: Labour Force Survey

Figure 4: Change in economic inactivity by main reason, Dec 19-Feb 20 to Apr-Jun 23



Source: Labour Force Survey

There are more disabled people, but high economic inactivity and weak employment means wide ‘gaps’

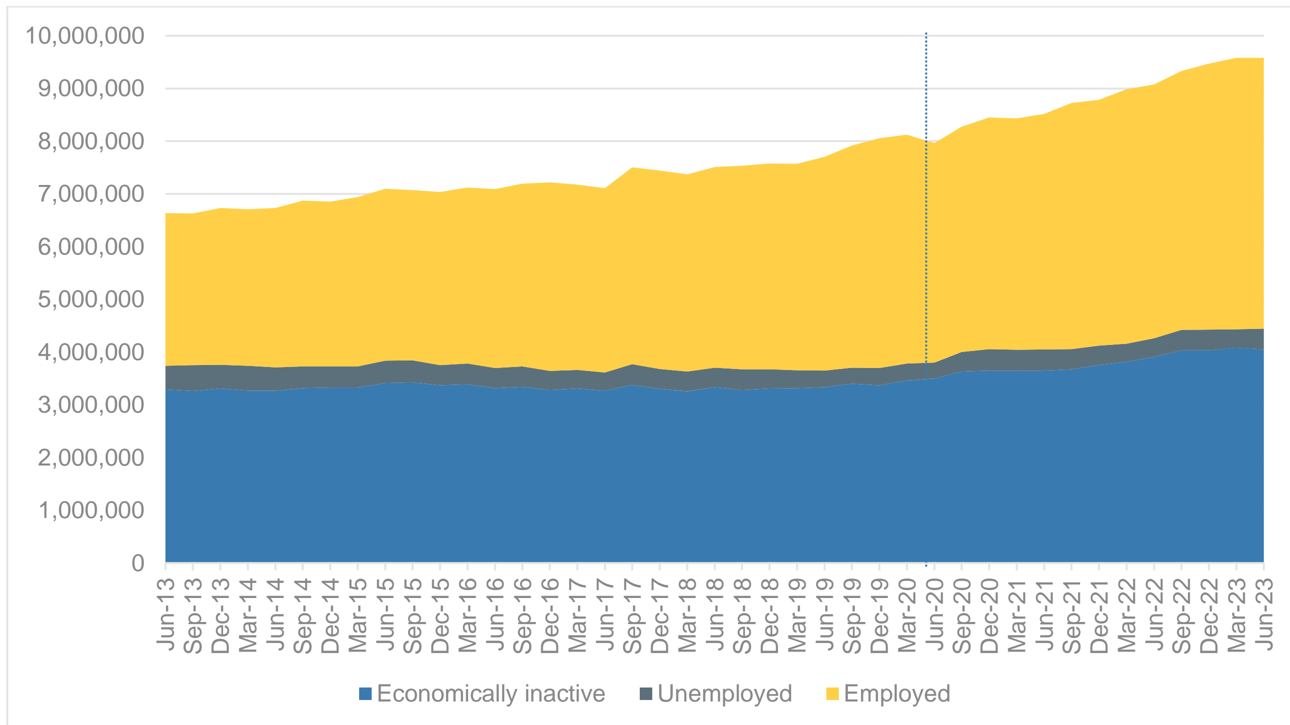
Today also sees publication of quarterly data on employment for disabled and non-disabled people, which can also help to shed some light on what is driving higher economic inactivity[1]. This shows that there has been a significant growth in the number of people reporting having long-term conditions that limit their day-to-day activities, and particularly since 2020. However, while pre-2020 employment rose overall while economic inactivity was broadly flat, since 2020 both employment and economic inactivity have been rising.

Figure 3 below sets this out in more detail. Overall, there are now 9.6 million disabled people aged 16-64 (around 23% of the population), with this figure rising by around 1.6 million over the last three years compared with a rise of just under 900 thousand over the previous three years. However, while the number of economically inactive disabled people was broadly unchanged at around 3.4 million before 2020, since then it has risen to 4.1 million. Employment has also grown, but at a similar rate to pre-pandemic (at around 200-250 thousand a year).

Overall, then, this may provide more evidence that people acquiring health conditions in work are no more or less likely to be able to stay in work, but that those out of work are finding it harder to get into work (and/ or may be seeing their health deteriorate further).

[1] The precise definition of disability used in this analysis is people who report a physical or mental health condition expected to last twelve months or more and that reduces their ability to carry out day-to-day activities.

Figure 3: Employment, unemployment and economic inactivity levels for disabled people



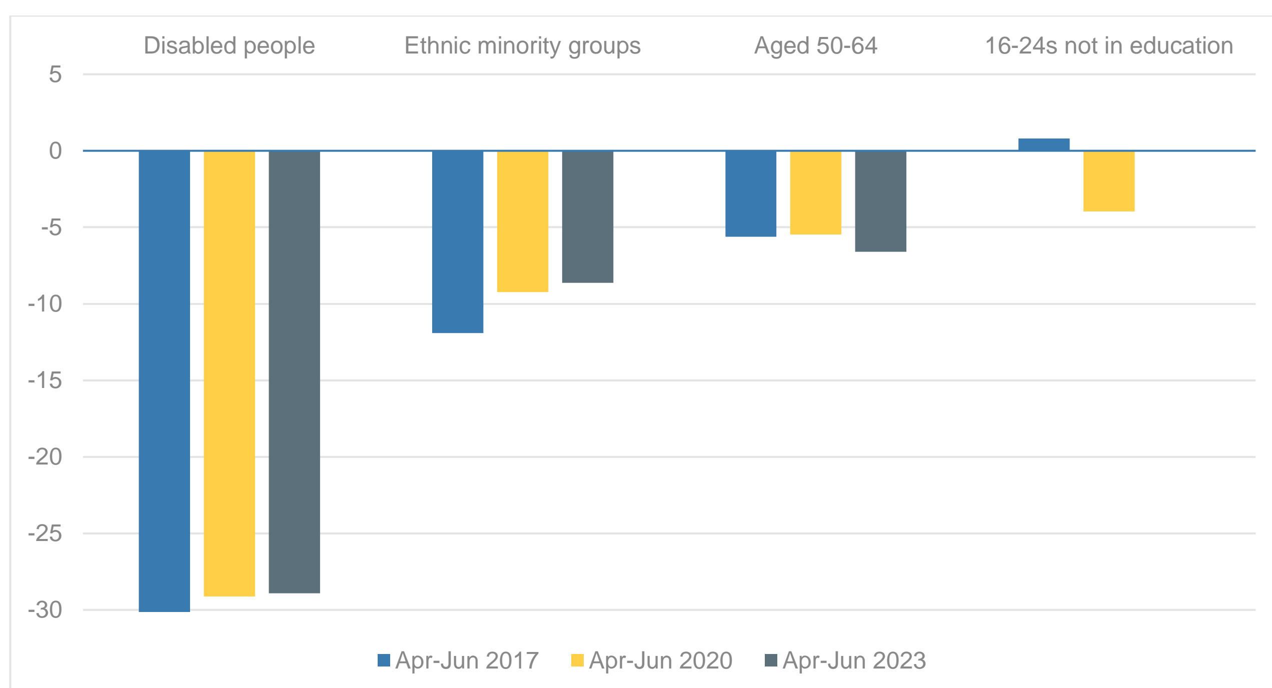
Source: Labour Force Survey

This trend of rising economic inactivity as well as rising employment means that the growth in employment rates for disabled people has slowed considerably since 2020. At the same time, employment for non-disabled people has continued to edge up, meaning that a longer-running trend of a narrowing in the 'gap' between employment rates of disabled and non-disabled people has halted, and if anything appears to be going in reverse. Compared with a year ago, the employment rate for disabled people has increased by 0.6 percentage points (from 53.0% to 53.6%), as has the rate for non-disabled people (from 81.9% to 82.5%). This means that disabled people are more than two-and-a-half times more likely to be out of work than non-disabled people, and the employment rate 'gap' has widened (since the start of the pandemic) to 29 percentage points. Disabled people now make up nearly half (47%) of all of those who are economically inactive.

Data on employment for ethnic minority groups is also published today, which shows that employment overall for ethnic minority groups has fallen (down by 0.3 percentage points on a year ago), while employment for white people has risen by 0.5 percentage points. Within this however, there is significant variation between groups – with for example increases in employment for Indian people (whose employment rate is on average higher than for white people) and people from mixed/ multiple ethnic groups (whose employment rate is significantly lower); and a decrease in employment for Pakistani, Bangladeshi and black people on the year. Overall, on average, people from ethnic minority groups are nearly nine percentage points less likely to be in work than white people.

Figure 4 below sets out employment gaps for disabled people, ethnic minority groups, people aged 50-64, and young people outside of full-time education. The graph shows data for the most recent quarter, the same time three years ago (i.e. the height of the pandemic) and the same time three years before that. This emphasises the sheer size of the employment gap for disabled people, but that gaps exist for all four groups – and in the case of older people and young people, these gaps have risen since 2017.

Figure 4: Employment rate 'gaps' for disabled people, ethnic minority groups, those aged 50-64, and young people not in full time education; April-June 2017, 2020 and 2023



Source: IES analysis of Labour Force Survey. Gaps are calculated as the percentage point difference in employment rates between the rate for the disadvantaged group and the rate for the overall 16-64 population excluding that group.

Wider indicators – on unemployment and redundancies – show signs of potential cooling in labour market

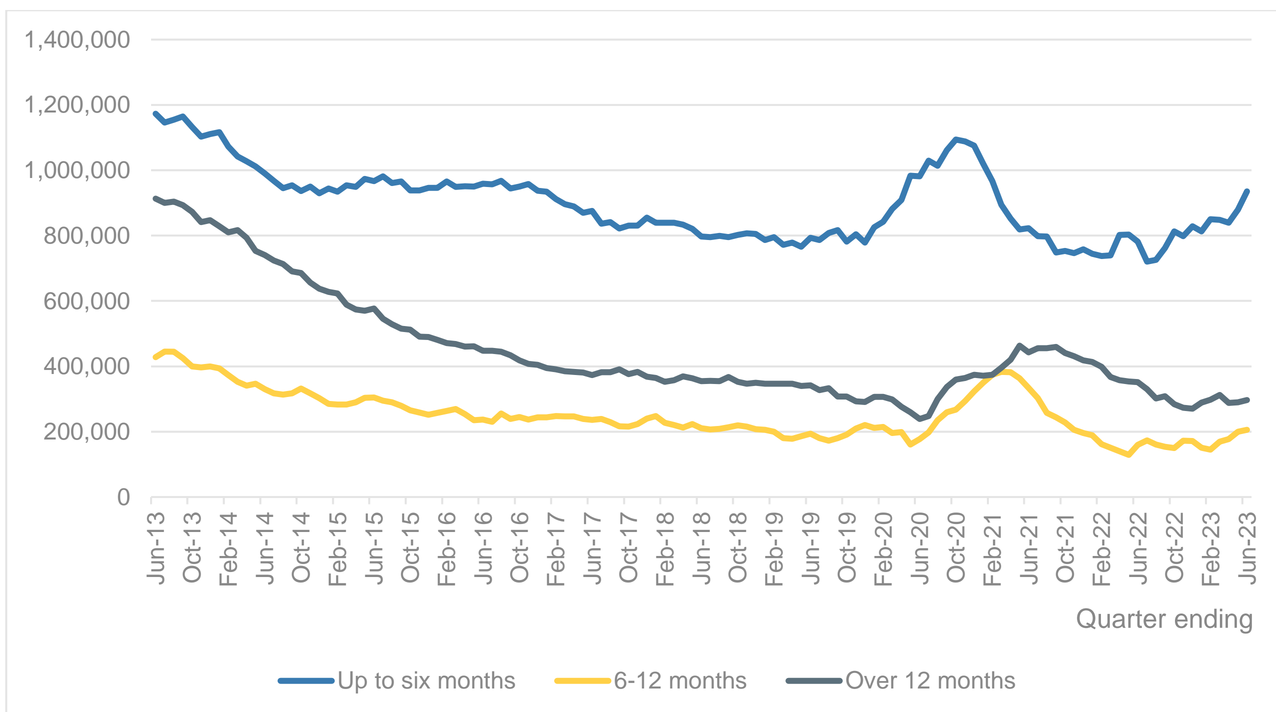
Up until the most recent briefings, we have reported rises in short-term unemployment, long-term unemployment and redundancies – which whilst low by historic standards might have provided evidence that the labour market was starting to cool. Despite recent improvements, the picture in today's data returns to these less positive trends.

The data on unemployment by duration, in Figure 7 below, shows that recent growth in unemployment is mainly being driven by rises in short-term unemployment – with unemployment of less than six months up by around 154 thousand over the last year. This suggests that people who might otherwise have been economically inactive are either being pulled into the labour force by higher wages or pushed into it because of higher prices and living costs. However, increasingly it appears that rising short-term

unemployment may be a result of people leaving employment (analysis at the end of this briefing highlights the increase in flows from employment to unemployment).

Looking at unemployment by age and duration, it appears that growth in longer-term unemployment is being driven in particular by younger people – where unemployment of less than six months has remained roughly level, but unemployment of 6-12 months has risen by 45 thousand in the last quarter. Given that we know that many young people do not access employment support through Jobcentre Plus, and may not have the experience to move into higher skilled jobs straight away, this does suggest that many of those becoming unemployed may not be getting access to the help that they need to take up the many jobs that are still being created.

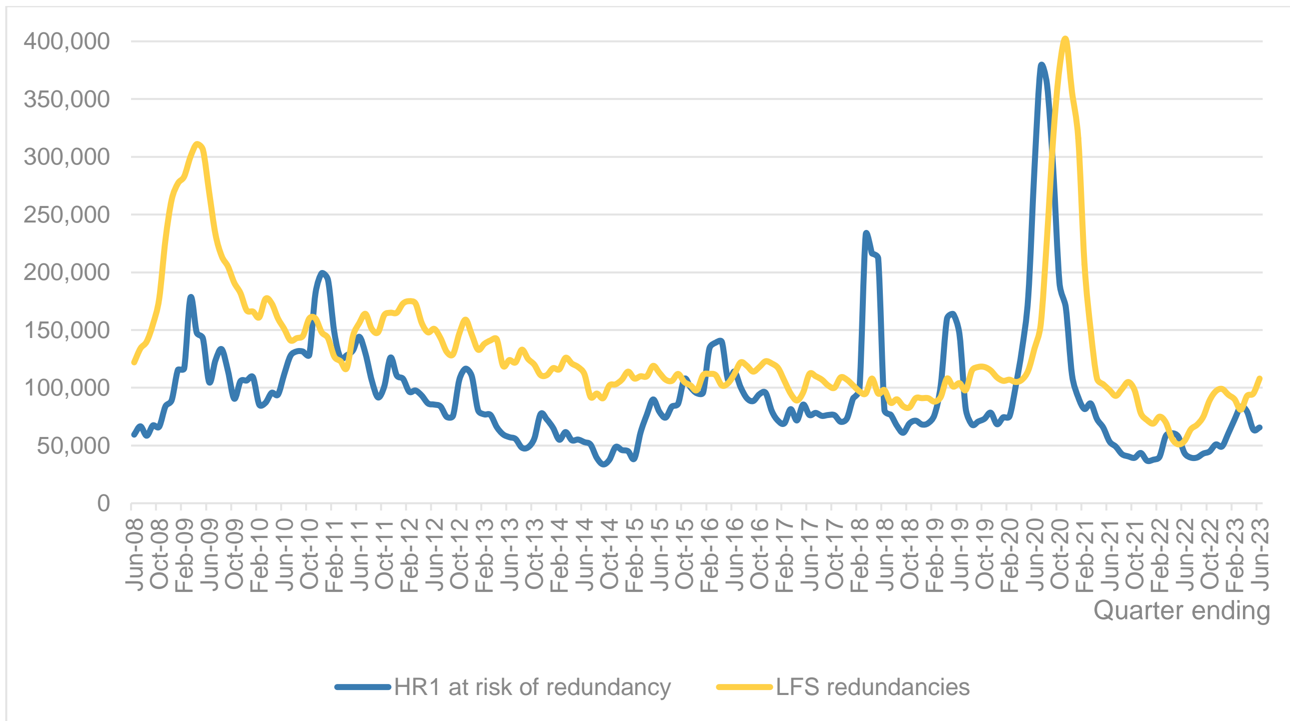
Figure 7: Unemployment by duration



Source: Labour Force Survey

Meanwhile on redundancies, the most recent data from 'HR1' forms (where employers notify the Insolvency Service of future redundancy exercises) has started to tick up again despite recent falls, while the estimated number of actual redundancies has increased to its highest level since April 2021. These trends are shown in Figure 8 below. Given that trends in the HR1 data tends to lead the labour force survey with some time delay, we might expect to see redundancies continue to rise in future releases, depending on the extent to which the peak in employees at risk of redundancy from a few months ago has fed through to actual redundancies.

Figure 8: Quarterly number of employees notified as at risk of redundancy (HR1 forms) and reporting having been made redundant (Labour Force Survey)

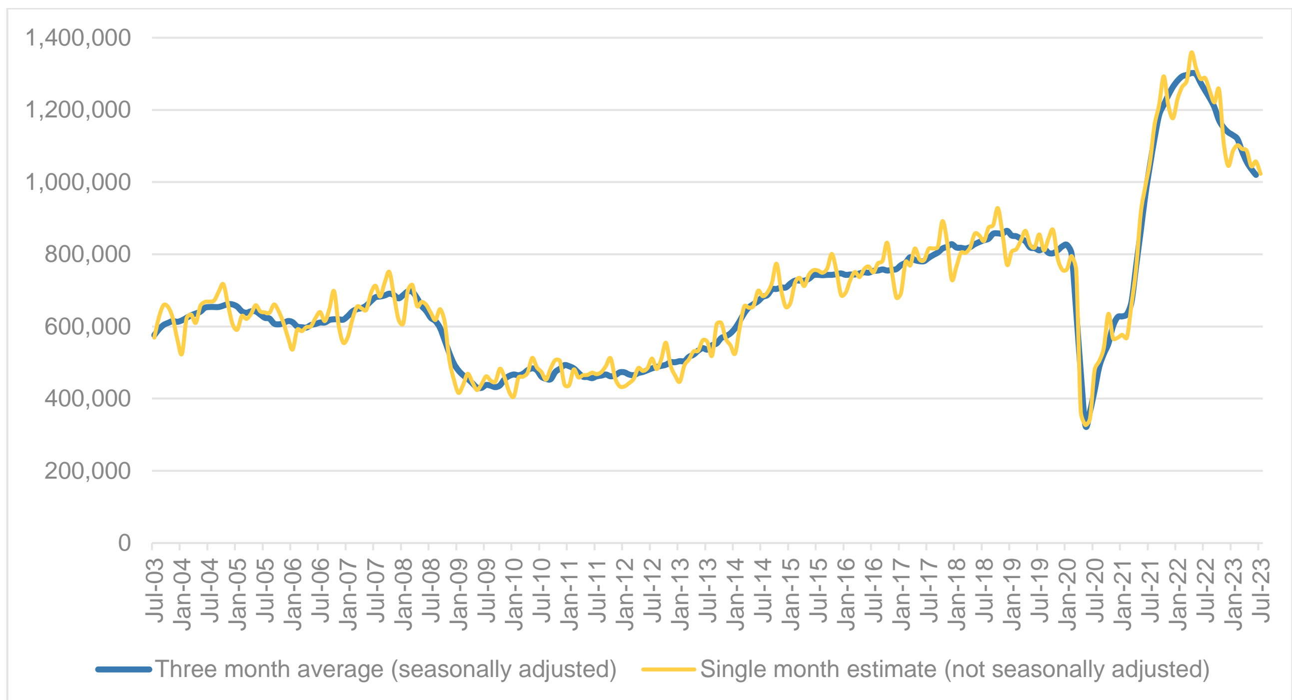


Source: IES analysis of Insolvency Service and Labour Force Survey data

Vacancies continue to fall – but less so in white collar jobs and public services

Total vacancies have fallen again today, to 1.02 million (from 1.09 million in the last quarter) and overall are down by around 20% on their peak last spring. This is set out in Figure below, which shows quarterly estimates in blue and the single-month estimates which make these up (and which are not seasonally adjusted) in yellow. Alongside the fall in employment and rises in unemployment, economic inactivity and job-to-job moves, this perhaps suggests that this is starting to reflect a weakening of demand in the economy generally as interest rate rises start to feed through. Whatever is driving it though, the consequence is that the labour market is now significantly looser than it was a year ago. Back then there was one unemployed person for every vacancy, whereas on today's data this figure has risen to 1.4. This is nonetheless still well below the pre-pandemic rate, when vacancies were far lower and unemployment a bit higher (and there were typically around 1.7 unemployed people per job opening).

Figure 9: Vacancies – quarterly and single-month estimates



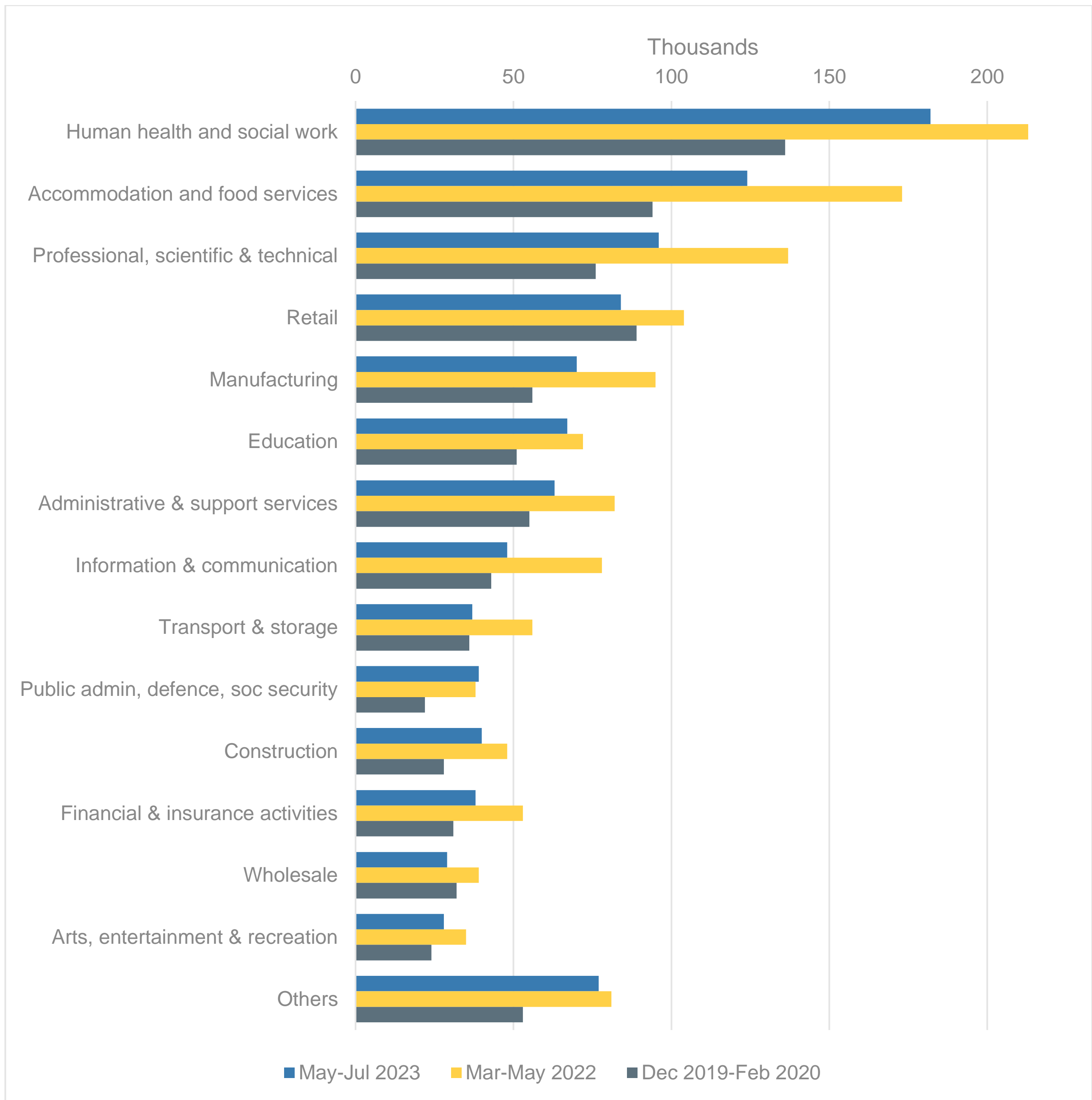
Source: ONS Vacancy Survey

Figure 10 below then shows vacancies by industry, comparing the most recent data (in blue) with the figures from when vacancies were at their peak last spring (yellow) and before the pandemic began (in grey).

This shows a fairly similar story to recent months, with vacancy figures still well above pre-pandemic levels in many white collar industries and weaker figures in some lower-paying industries. Construction and manufacturing are also still significantly above pre-pandemic levels, which suggests continued strong demand (and/ or skills shortages). Public services in particular stand out – with vacancies relatively close to where they were a year ago in health and education and higher than a year ago in public administration. This likely reflects both higher demand (especially in health and care) and falls in total pay relative to private sector jobs over the longer term (although the most recent pay figures discussed later in the briefing indicate recent improvements in this). In retail and wholesale, vacancies are now below pre-pandemic levels, although in hospitality (the 'accommodation and food services' category) vacancies remain fairly high.

The broader problem here, though, is that many of the areas where demand is strongest are in industries where employers are more likely to need higher level or job-specific skills (white collar professions, public services, manufacturing and construction). So people who may be in a position to join the labour force from economic inactivity in the future may struggle to meet those needs without help to reskill (preferably in the job), and/ or will struggle to find the jobs that they *can* do if they do not have access to employment support.

Figure 10: Vacancies by industry, pre-pandemic, post-pandemic peak (Mar-May 2022) and most recent quarter (May-Jul 2023)

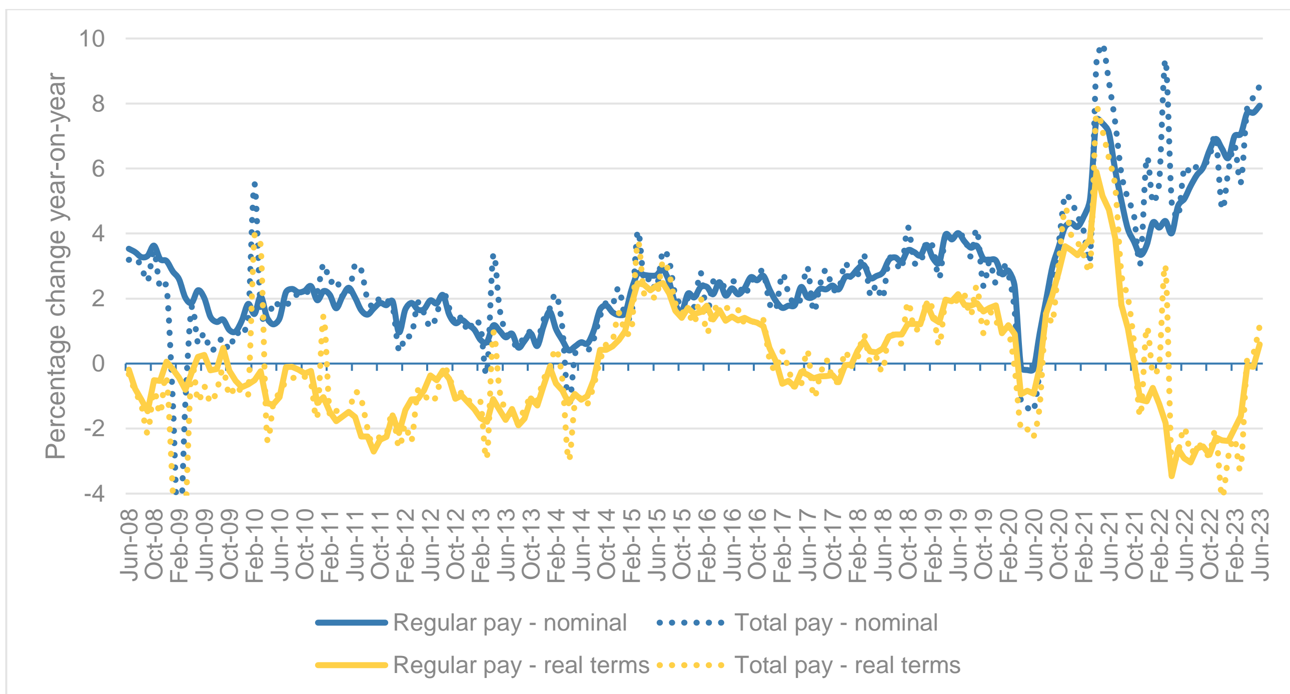


Source: ONS Vacancy Survey

Record wage growth, driven by public sector pay settlements, sees first real increase in pay since the start of cost of living crisis

Regular pay was 7.9% higher in June 2023 than a year previously, the highest increase on record, while total pay (including bonuses) was 8.5% higher. This means that for the first time since October 2021, regular pay growth has kept pace with inflation over the last year (which was 7.3% including housing costs), with regular pay increasing by 0.6% year-on-year. These trends are set out in Figure 11 below, which shows year-on-year pay growth in nominal terms (blue) and real terms (yellow) for both regular and total pay – with the solid lines showing regular pay and the dotted lines showing total pay including bonuses and arrears.

Figure 11: 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.

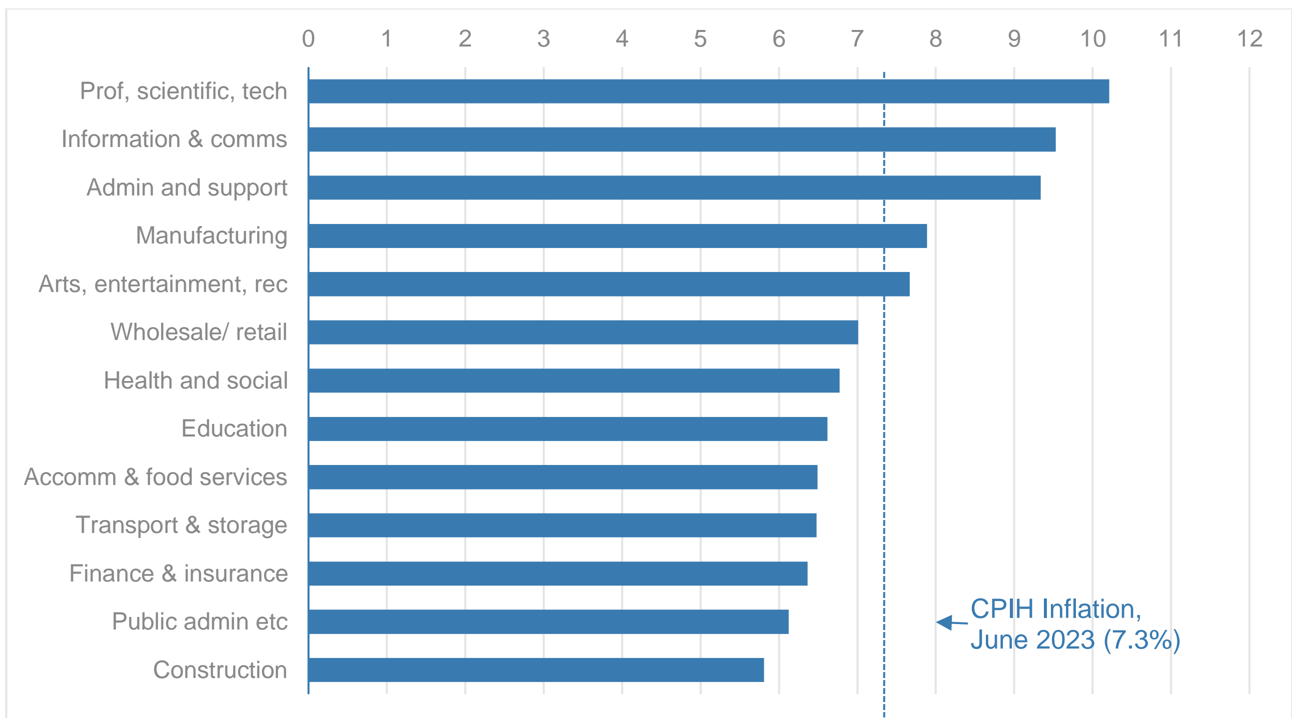
Pay growth was particularly strong in the public sector – whilst regular pay grew by 6.5% in June 2023 on the year, up by 0.5 percentage points from the previous month, total pay (which will include the one-off NHS backlog bonus) grew by 16.5% in the month, a record figure. Pay growth remained strong in the private sector as well though, with total pay growth averaging 7.9% year-on-year across the quarter.

Looking at changes in pay by industry, we see pay growth continues to be exceptionally strong in 'white collar' and often private sector services – which are largely not affected by

the significant minimum wage increase in April or the public sector pay settlements. Figure 5 shows average nominal pay growth for the most recent three months compared with the same period a year ago, and shows that pay growth is well above inflation in 'professional', administrative and information/ communication jobs, and now also exceeds the rate of inflation in manufacturing. This suggests then that skills and labour shortages are playing a part in pushing wages higher.

At the same time, we are seeing weaker wage growth in lower-paying industries like retail and hospitality as well as in health (less so than previously due to the pay settlements in June) and in public administration (likely contributing to labour shortages in the latter).

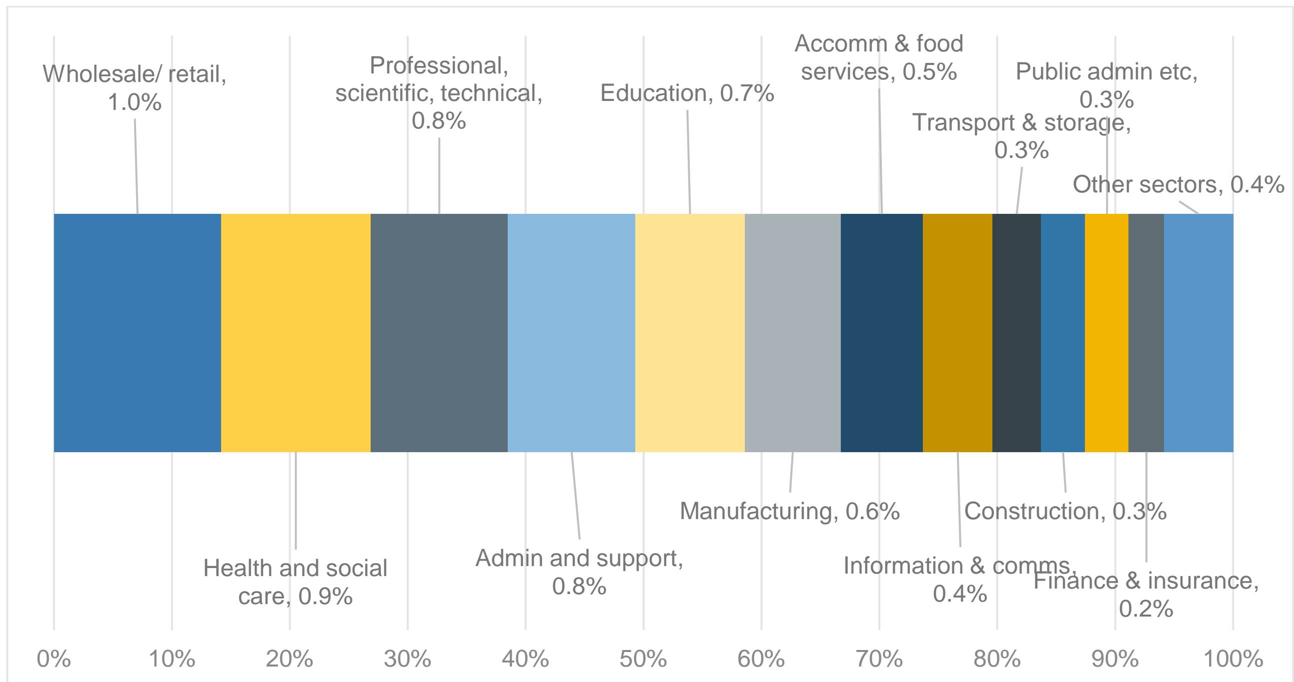
Figure 12: Year-on-year change in regular pay by industry, nominal terms



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 April-June 2023 (not seasonally adjusted).

Figure 5 below sets out analysis to illustrate the part that each industry plays in contributing to the overall growth in regular pay (in nominal terms), which again uses the average growth in year-on-year pay by industry for the most recent three months of data. This shows that nearly three fifths of total pay growth is explained by five industries: retail and wholesale, health and social care, professional jobs, administration and support, and education. Pay growth in finance, public administration and construction – among others – make relatively small contributions to overall pay growth.

Figure 5: Contribution of industries to overall growth in regular pay



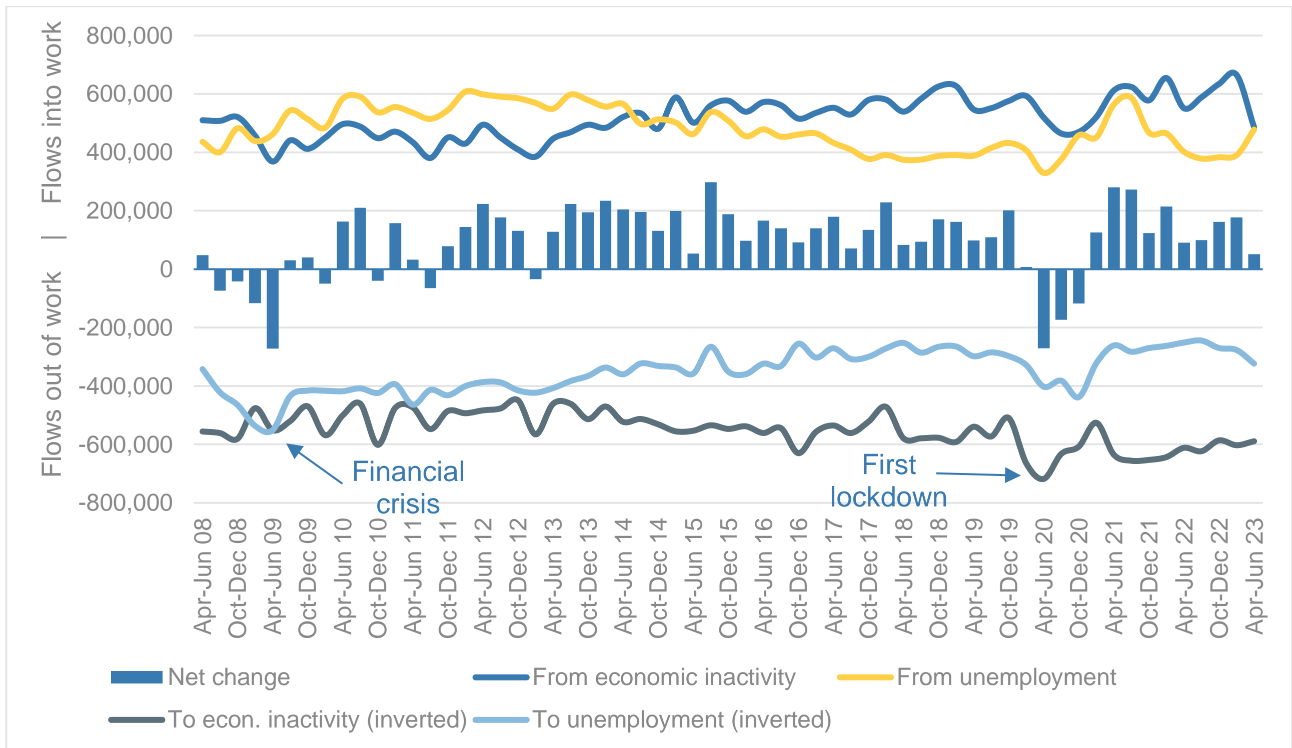
Source: ONS Monthly Wages and Salaries Survey. Pay growth is average of published single-month estimates of year-on-year growth in pay excluding bonuses and arrears for April-June 2023 (not seasonally adjusted).Percentages in data labels are the contribution to overall growth in regular pay for that industry.

New 'flows' data shows large fall in flows from economic inactivity into employment

Finally, this month sees new quarterly data on the 'flows' of people between employment, unemployment and economic inactivity. Figure 6 below shows flows into and out of work from economic inactivity and from unemployment, and the net change from these flows. The two positive lines above the bars are flows into work, while the negative lines below the bars are flows out of work (which have been inverted). The blue bars in the middle then shows the net effect of these changes.

This figure illustrates in particular the low level of net flows into employment over the quarter (the dark blue bars). Flows into economic inactivity from work – the bottom, black line – dropped slightly although they still remain high at around 600 thousand (or at least, higher than might be expected given the tight labour market, strong earnings growth and inflationary pressures). There was also a large drop in the number of people leaving economic inactivity to enter employment – just 490 thousand individuals joined the labour market to enter employment in April-June, compared to 670 thousand in January-March which was a record high level. The flows into and out of unemployment, which previously looked as though they were broadly back in line with pre-pandemic levels, have also both increased.

Figure 6: Flows into work from unemployment and economic inactivity, and flows out of work (inverted) to unemployment and economic inactivity

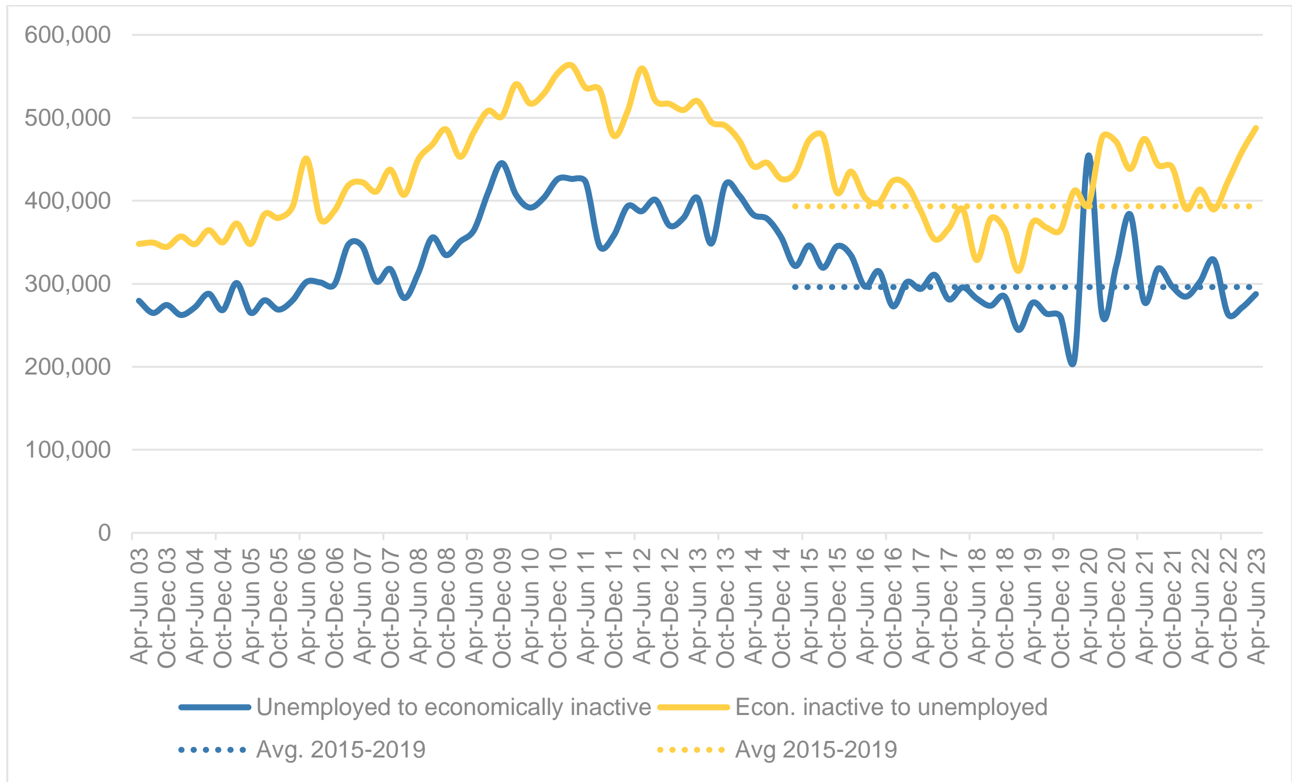


Source: Longitudinal Labour Force Survey. Note that estimates of job-to-job moves are for those aged 16-69, while estimates of job entries and exits are for those aged 16-64.

Figure 7 below then shows flows between economic inactivity and unemployment. This shows a continued sharp increase in people moving into unemployment and still relatively low (although increasing) numbers of people moving the other way. This shows that over the quarter increasing unemployment appears to being driven more by people joining the labour market people than by people leaving work, although the trends in monthly employment, unemployment and inactivity rates suggest that the latter may be becoming increasingly important – flows from employment to unemployment increased by nearly 50 thousand to 323 thousand, the highest its been since the end of 2020.

While we would expect most of those people entering the labour market and unemployment to then find work relatively quickly, it is not a given that this will happen – especially if there are mismatches in people's skills and where they live, or if employers are not willing or able to offer the terms that people may want or need.

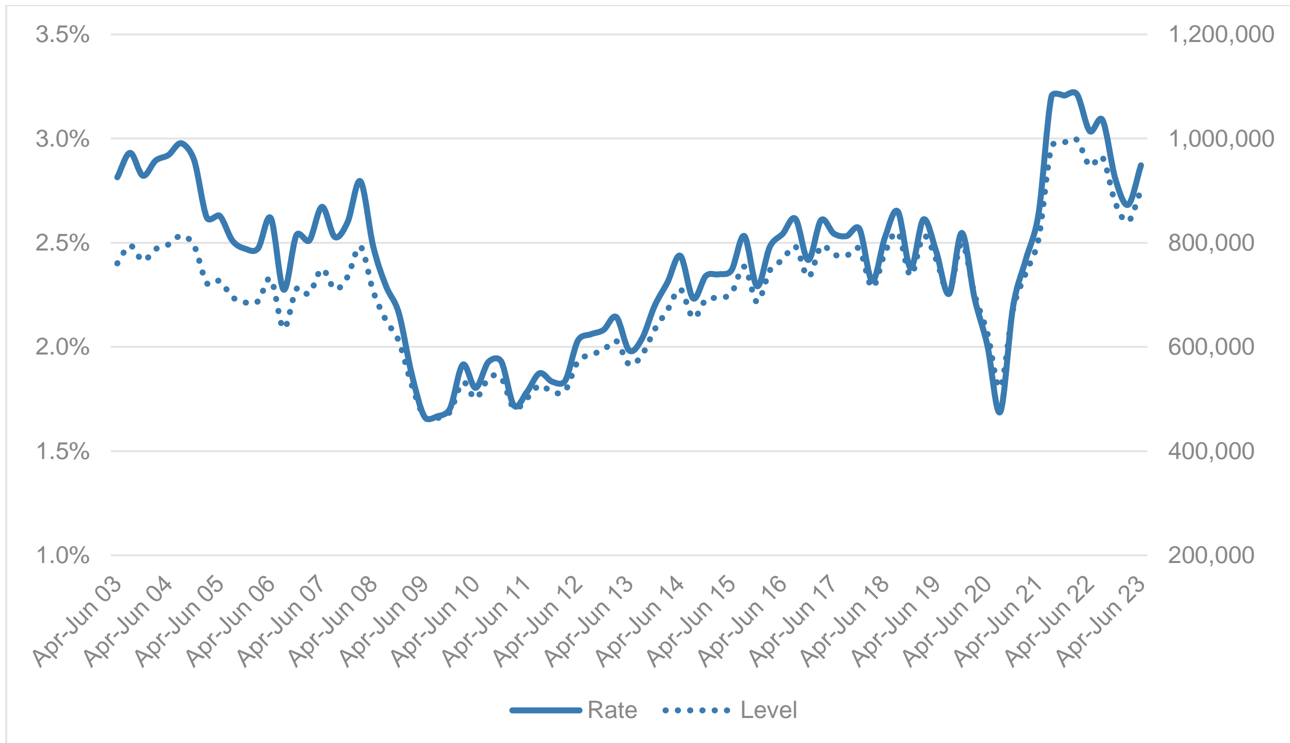
Figure 7: Number of people moving from unemployment to economic inactivity and from economic inactivity to unemployment by quarter



Source: Longitudinal Labour Force Survey.

Figure 8 displays data on job-to-job moves. These have ticked back up this quarter, some of the way back to the extremely high levels that they were at in 2022. This was undoubtedly a significant driver of higher vacancies last year, so the fact that job-to-job moves are up but vacancies are down indicates that demand in the labour market might be falling as interest rates start to bite.

Figure 8: Job-to-job moves by quarter – rate (proportion of all of those in work) and level



Source: Longitudinal Labour Force Survey. Estimates are for those aged 16-69.

Conclusion

Today's figures are a mix of good and bad news. Whilst record high nominal pay growth means that earnings have increased in real terms for the first time since the start of the cost of living crisis, there is clearly a long way to go in undoing the real falls of the last two years. There are also clear signs that demand is cooling: employment is down whilst unemployment (particularly short-term) is up; vacancies are also falling despite an increase in job-to-job moves; and redundancies are up. Economic inactivity has also risen, reversing the recent growth in the size of the labour force that we have seen, with another record set for the number of people outside of the labour force due to long-term ill health. And it looks like there are still significant mismatches in certain areas of the economy requiring specific and high-level skills.

The cooling of demand in the labour market that today's figures suggest should lend support towards a pause in interest rate rises. A period of higher unemployment, higher interest rates but still high prices – i.e. 'stagflation' – would be disastrous for the economy as well as inequalities between areas and groups. Reducing demand is one way to bring wage growth and inflation under control, but a coherent strategy for the supply side – to help address mismatches, and maintain and maximise employment, supporting a softer landing in the labour market – is certainly preferable. This needs to be addressed at the Autumn Budget, and based on three pillars:

- A significant expansion in access to employment support. Far too few people who are out of work have access to employment services, especially those not on benefits or on ill-health benefits. We need a radical extension of support and services, using Jobcentre Plus, the Restart Scheme, local partners and providers and the recruitment industry, to help people who want jobs to find the jobs that want people.
- Skills reform, so that the state and employers can co-invest in workplace training to help address skills shortages. 'Skills Bootcamps' are a start, but we should also explore making temporary changes to the Apprenticeship Levy to allow employers to draw down funding directly for shorter-term training for new recruits.
- Support for employers – including access to help with inclusive recruitment, induction training, flexible job design and workplace support. The infrastructure to do this exists already in Scotland, Wales and Northern Ireland (Enterprise Scotland, Business Wales and Invest NI), but is a complicated patchwork of services in England.

We (IES) set out more analysis of these issues and challenges last month in the interim report of our Commission on the Future of Employment Support, in partnership with abrdn Financial Fairness Trust.

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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