

Labour Market Statistics, June 2022

14 June 2022

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 April 2022 (the most recent quarter being February to May 2022). 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 May 2022, and the Wages and Salaries Survey to April 2022.

Summary

Today's figures are disappointing. While employment, unemployment and economic inactivity have all improved slightly on the last quarter, today's data is only marginally better than the figures published last month – with very weak single-month estimates for April wiping out the very strong single-month estimates for March that we reported on last time. Unemployment has actually ticked up slightly compared with last month's data, although this may in part reflect more people entering the labour force from economic inactivity (with economic inactivity among students falling by a similar amount).

The worst data today though was on pay, with the largest falls in real pay on record (down 3.4% compared with April 2021), as rocketing inflation more than wiped out continued relatively strong nominal pay growth (of 4.1%). Pay growth is particularly weak in the public sector (down by nearly 6% in real terms), with some signs that in the private sector it is growing strongest in those industries with higher vacancy levels (particularly in service industries). While this is far from a 'wage-price spiral', it may well add to concerns that relatively high nominal pay growth alongside weak GDP and productivity data could put further upward pressure on inflation.

The tight labour market continues to be reflected in high levels of vacancies and relatively low participation in the labour force. On vacancies, these hit a record high of 1.3 million today but growth is now clearly slowing, with job openings up by 85 thousand over the last six months compared with 450 thousand over the six months before.

On participation, there remain around a million fewer people in the labour force than on pre-pandemic trends. with around three quarters of this explained by higher economic inactivity – particularly among older people and those with long-term health conditions. And while economic inactivity among older people was marginally better in today's data than in recent months, ill health worklessness was marginally worse (and is back at a twenty-year high).

This month's briefing also includes more detailed analysis of changes in employee and self-employment by gender, which illustrates that the recovery in part-time employment appears to have stalled while self-employment remains very weak (particularly for men). This is likely explained by (and may also be explaining) what we are seeing in economic inactivity – as older men were more likely to have been self-employed, and low part-time employment may explain recent rises in economic inactivity due to caring responsibilities.

Finally we have also updated analysis on youth employment and participation, which illustrates that while the proportion of young people outside education or employment has continued to fall, there remain one in eight young people neither working nor studying – with very little change in the proportion of these who are economically inactive.

Overall then, the labour market continues to see a toxic combination of falling real terms pay, high worklessness and labour shortages. As we set out last month, our response to this cannot only be to try to cool demand through interest rate and tax rises – we also need a plan for higher participation and measures to boost labour supply. In particular this should be focused on expanding access to employment and skills support for people who are out of work but not currently eligible, and could use funding already committed for the unemployment crisis that we averted (where savings are likely to run to at least £2 billion). Firms will also need to do more (and be supported to do so) – particularly through more inclusive recruitment, flexible job design, and improving job security, quality and support at work.

Employment is up with unemployment and economic inactivity down, but the data was weaker than hoped

The employment rate rose slightly compared with the previous quarter, up by 0.2 percentage points to 75.6%. Unemployment was down by the same amount to 3.8%, while 'economic inactivity' fell by a tenth of a point to 21.3%. However as Figure 1 below shows, employment remains around one percentage point higher – and economic inactivity one percentage point lower – than pre-pandemic.

Figure 1 also shows that compared with the data published last month, the recent employment recovery may have slowed while unemployment has ticked up slightly. Underneath this, we commented [last month](#) that the single month for March were incredibly strong and could be early signs of a rebound in employment. However the April estimates are very weak – with March and April largely cancelling each other out.

The ONS has also noted today that the small growth in unemployment compared with last month's published figures is particularly due to higher short-term unemployment (up by 60

thousand) which could signal the start of a slight cooling in the labour market. Given that employment also rose slightly on last month's figures though, it is possible that this cooling is due to lower inactivity rather than weaker labour demand (with in particular 50 thousand fewer inactive students this month than last).

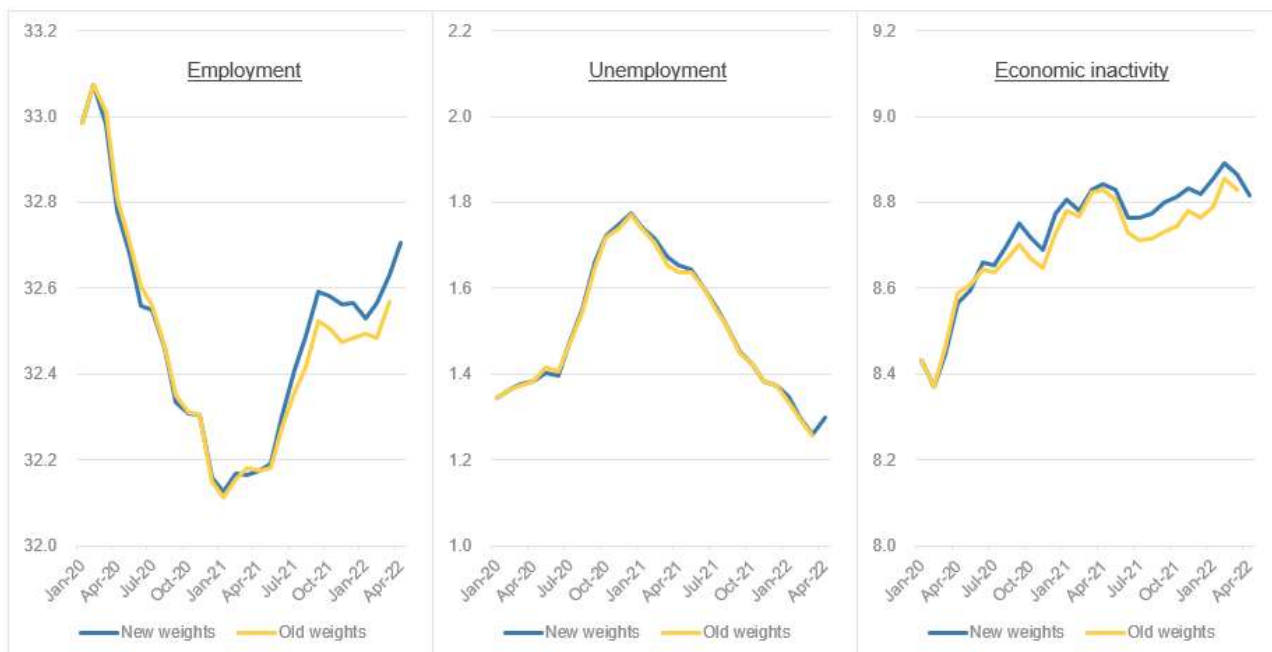
Figure 1: Employment, unemployment and economic inactivity rates (16-64) – quarterly average with single-month estimates



Source: Labour Force Survey

Today's data also reweights the Labour Force Survey estimates to correct for some minor errors in the major reweighting changes that were made in July 2021. [This article](#) explains the changes being made today and explains the very small impact that these will have on overall reported rates. However they do have a slightly larger impact on reported levels of employment and economic inactivity, as **Figure 2.** below shows. In summary, both employment and economic inactivity are now estimated to have been somewhat higher in the second half of 2021 than previously thought (and therefore the population overall was also slightly larger). Even with these changes though, this graph also illustrates that employment remains 370 thousand lower – and economic inactivity 450 thousand higher – than pre-pandemic levels.

Figure 2: Levels of employment, unemployment and economic inactivity (millions) – estimates based on new weights and last month’s published figures on previous weights



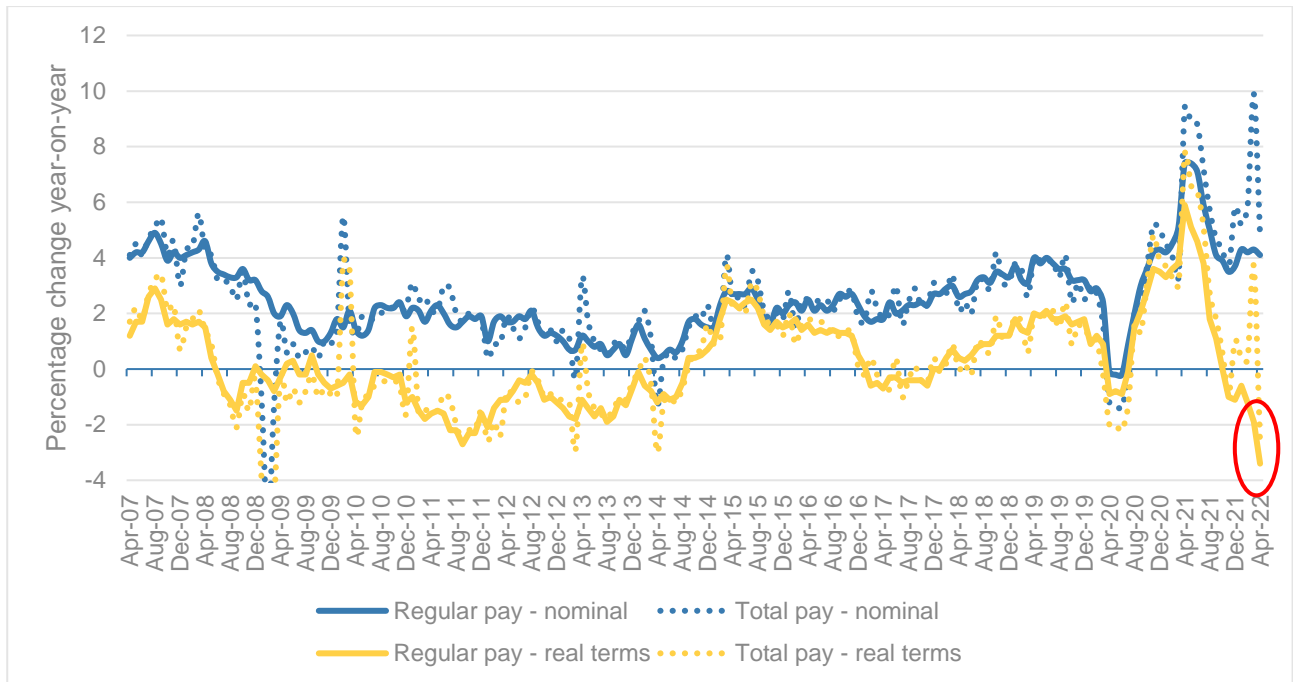
Source: Labour Force Survey

Real pay is falling at its fastest in at least two decades, with the public sector seeing the largest falls

The most concerning data today is on pay, where the impact of spiralling inflation is now leading to large falls in real terms pay. Growth in nominal pay remains relatively high by historic standards, with regular pay in April 2022 up by just over 4% compared with April 2021, and bonus payments meaning total pay is up by nearly 5% (although this is lower growth than recent months). However, 7%+ inflation means that regular pay in real terms fell by 3.4% in April 2022 compared with a year earlier, comfortably the largest fall since comparable records began in 2001. Figure 3 illustrates these trends, with nominal pay in blue and ‘real’ terms pay after inflation in yellow. With inflation forecast to rise even faster in the next few months, this picture is only likely to get worse.

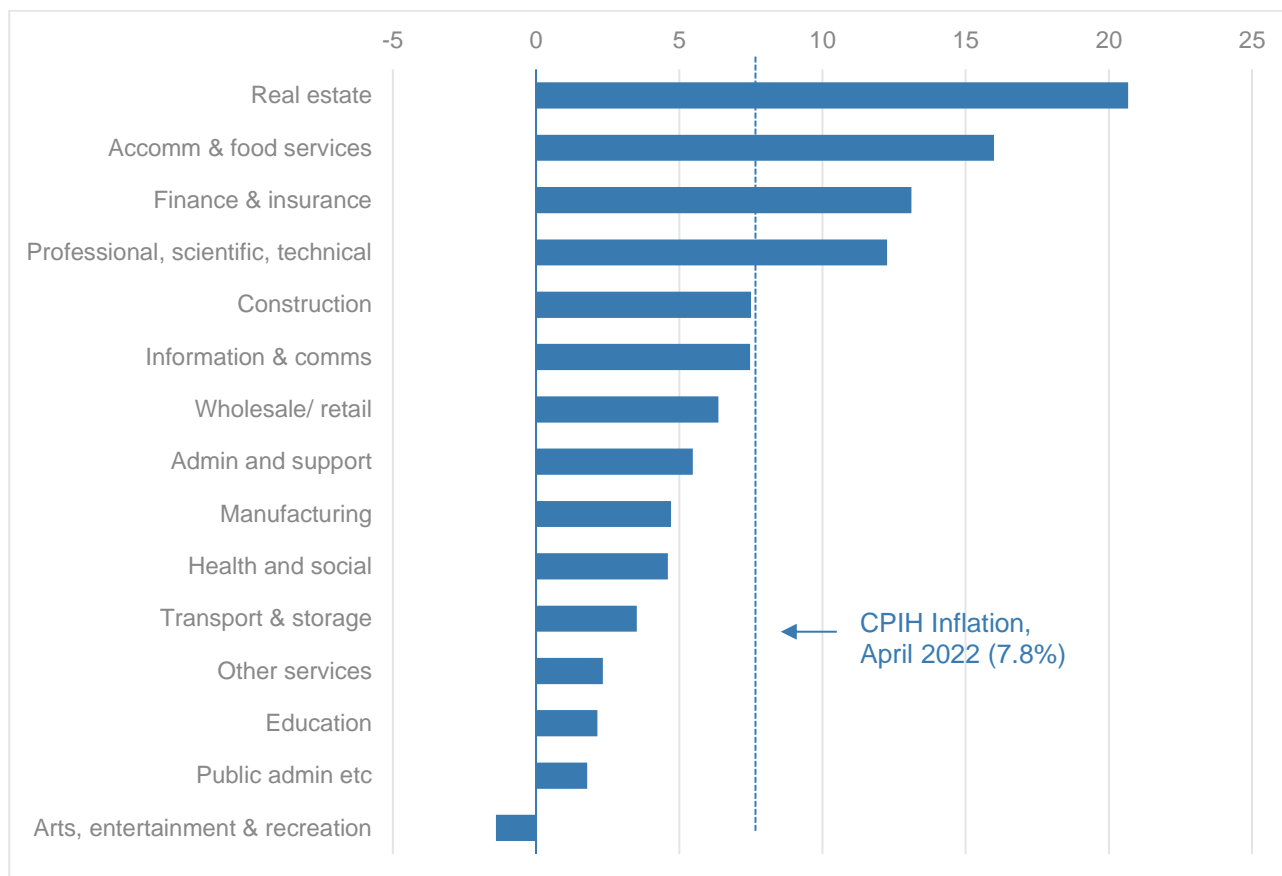
Underneath this, today’s figures estimate that private sector pay grew by 5.5% year-on-year while public sector pay grew by just 1.7%. This translates into a real-terms fall of 2.0% in the private sector and of 5.8% in the public sector.

Figure 3: 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.

Figure 4 below then shows growth in total pay by detailed industry. Unlike previous months, we have averaged out the three most recent single-month estimates of year-on-year pay growth in order to reduce some of the volatility in this data. However the figures should be treated with some caution as Covid-19 restrictions and furlough support during spring 2021 will over-state underlying pay growth in some industries (particularly in hospitality). Nonetheless this does illustrate that private sector services are seeing far stronger growth than public services; and that higher inflation means that there are very few industries now seeing pay grow faster than prices.

Figure 4: Year-on-year change in total pay by industry, nominal terms

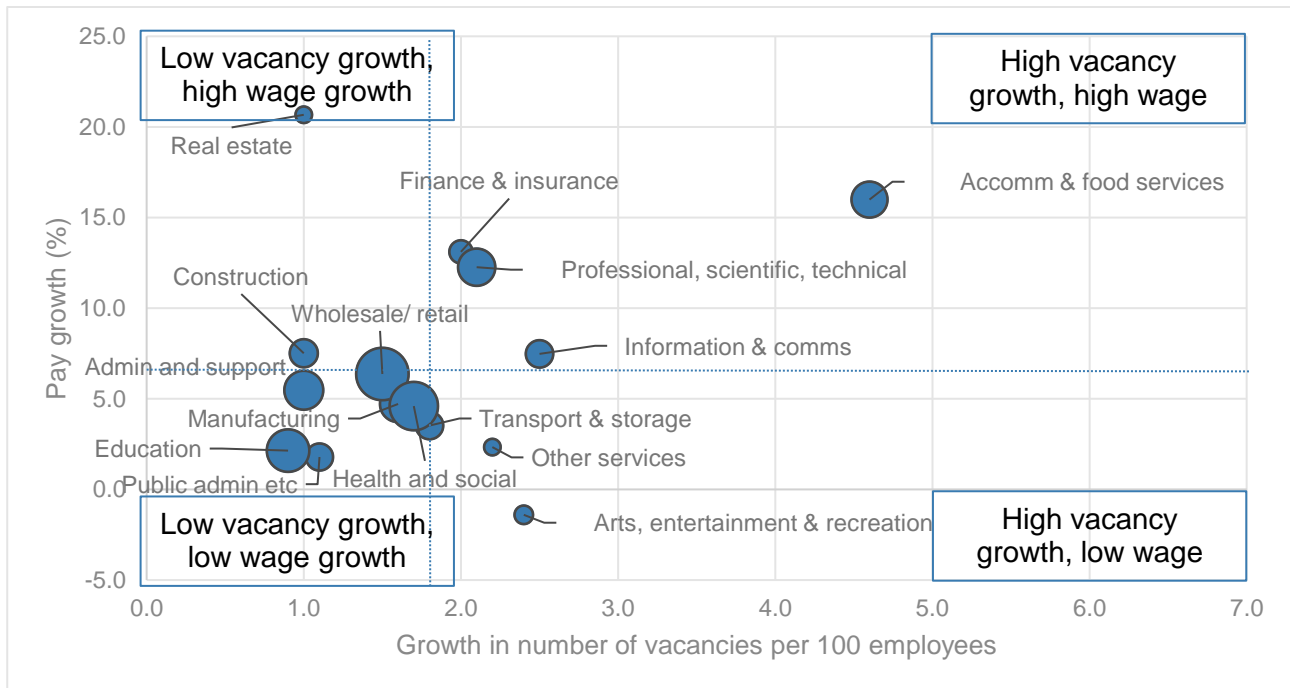
Source: ONS Monthly Wages and Salaries Survey. Pay growth is average of published single-month estimates of year-on-year growth in total pay including bonuses and arrears for Feb-Apr 2022 (not seasonally adjusted).

Figure 5 below then plots the ‘vacancy ratio’ by industry (the number of vacancies per 100 employees) against total pay growth for that industry, with the size of the bubble indicating the relative size of the industry. Vacancy data is for the most recent quarter (March-May), while pay data again averages single month estimates for February, March and April. The dotted lines indicate the average growth for each.

This shows that weaker pay growth is generally also associated with weaker growth in vacancies, while those industries with higher vacancy rates are generally seeing pay grow faster. However the correlation is not strong and does not apply across industries.

More generally then, there is little sign so far of any ‘wage-price spiral’ but some indications that private sector services are raising pay in response to a tighter labour market. And with overall nominal pay running far higher than growth in in [GDP](#) and [productivity](#), the concern around knock-on impacts on inflation is understandable. In our view a key part of the answer to this, however, is to try to boost labour supply and productivity rather than just try to slow the economy through interest rates and tax rises.

Figure 5: Year on year growth in vacancies (per 100 employees) and total pay, by industry



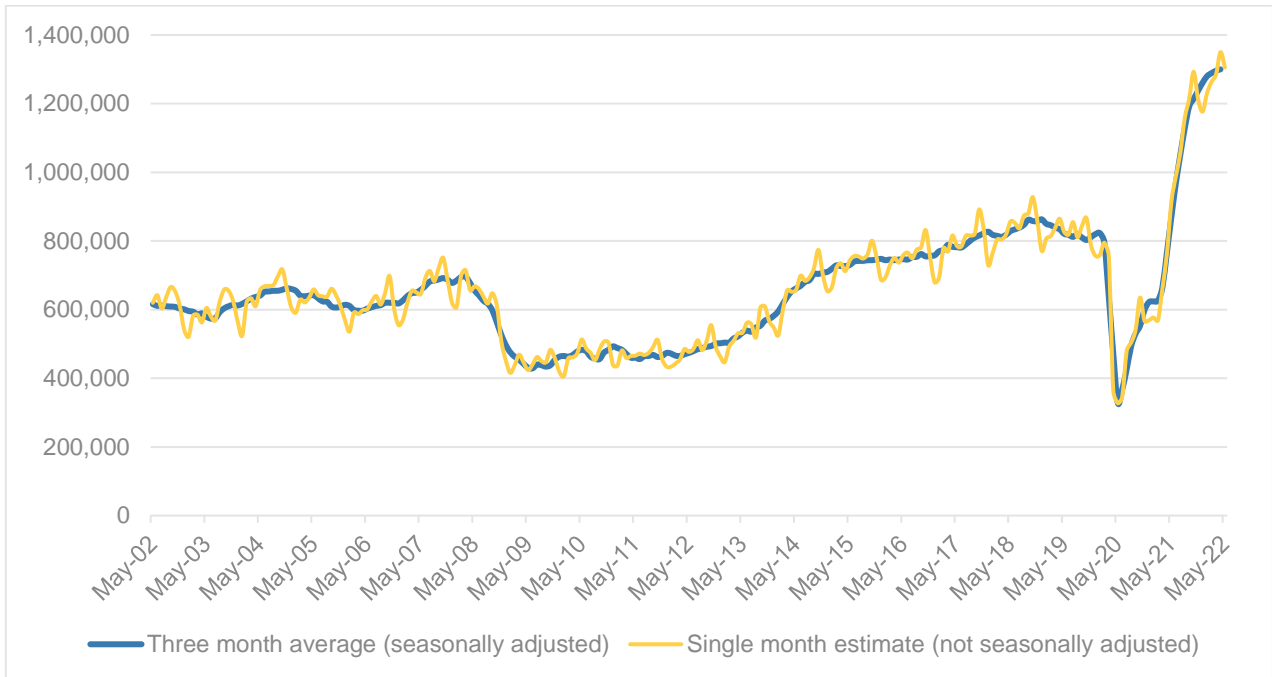
Source: IES analysis of ONS Vacancy Survey (VACS02) and Monthly Wages and Salaries Survey (EARN03). Vacancy growth is Mar-May 2022 compared with same quarter in 2021; pay growth is average of published single-month estimates of year-on-year growth for Feb-Apr 2022. Size of bubbles indicates size of industry by employee jobs.

Vacancies remain high, across industries, but with the rate of growth slowing

This labour market tightness is reflected most clearly in continued rises in levels of vacancies, which have hit 1.3 million for the first time ever (Figure 6 below, showing the latest quarterly and single month estimates). However the rate of growth in vacancies is now very clearly slowing, with vacancies growing by only 85 thousand in the last six months compared with 450 thousand for the six months before.

As we have set out in previous briefings, this means that there are now fewer jobseekers chasing each vacancy than at any point in most of our lifetimes – with virtually as many jobseekers as job openings now, compared with four times as many unemployed per vacancy a year ago (and a ratio of 1.7 unemployed per vacancy before the pandemic began).

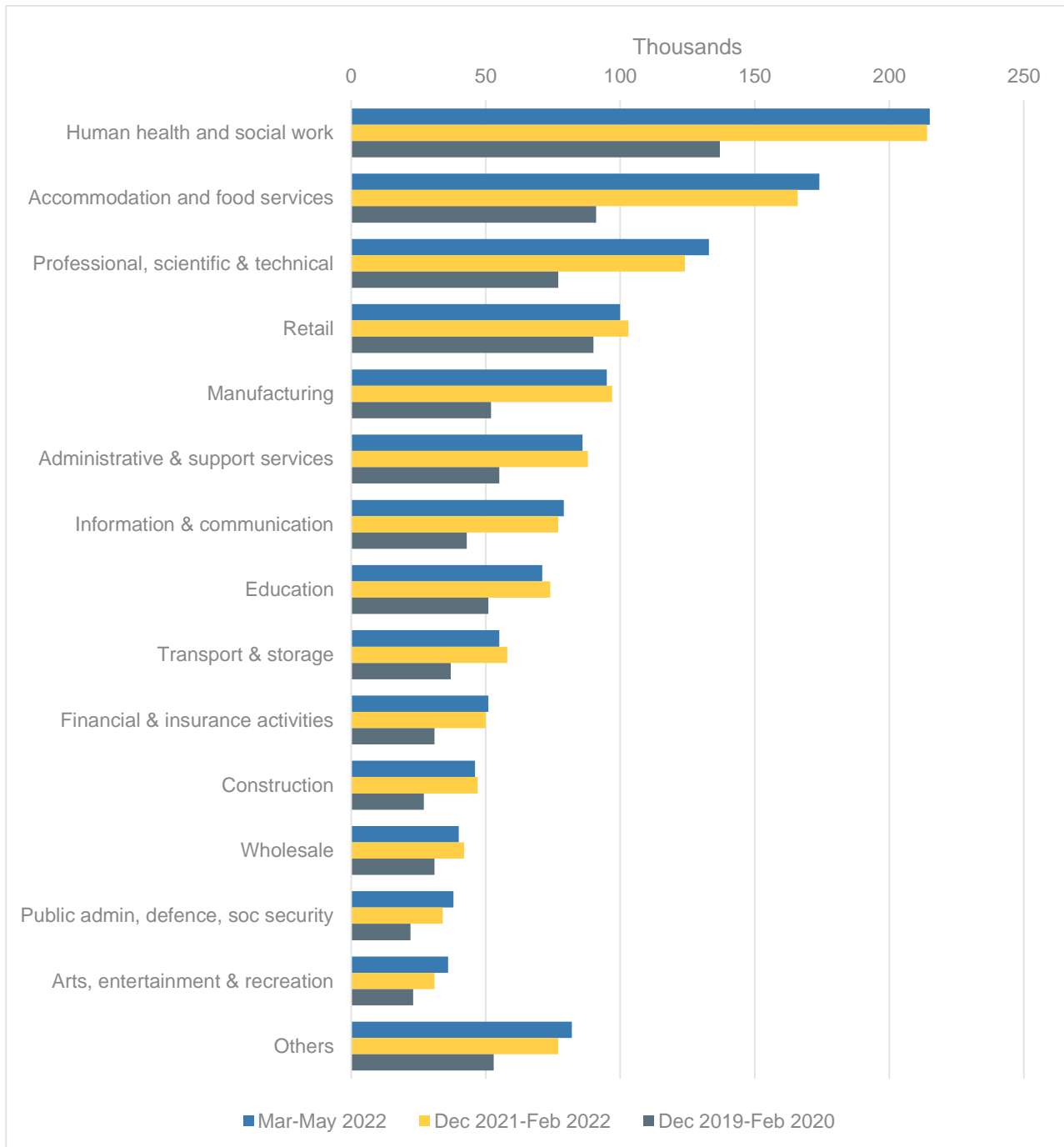
Figure 6: Vacancies – quarterly and single-month estimates



Source: ONS Vacancy Survey

Vacancies remain above pre-pandemic levels in every industry (Figure 7 below), although it is noticeable now as vacancies level off that some industries are seeing small falls compared with vacancy levels for the previous quarter (comparing the blue and black lines below).

Figure 7: Vacancies by industry, pre-crisis, latest data and previous quarter



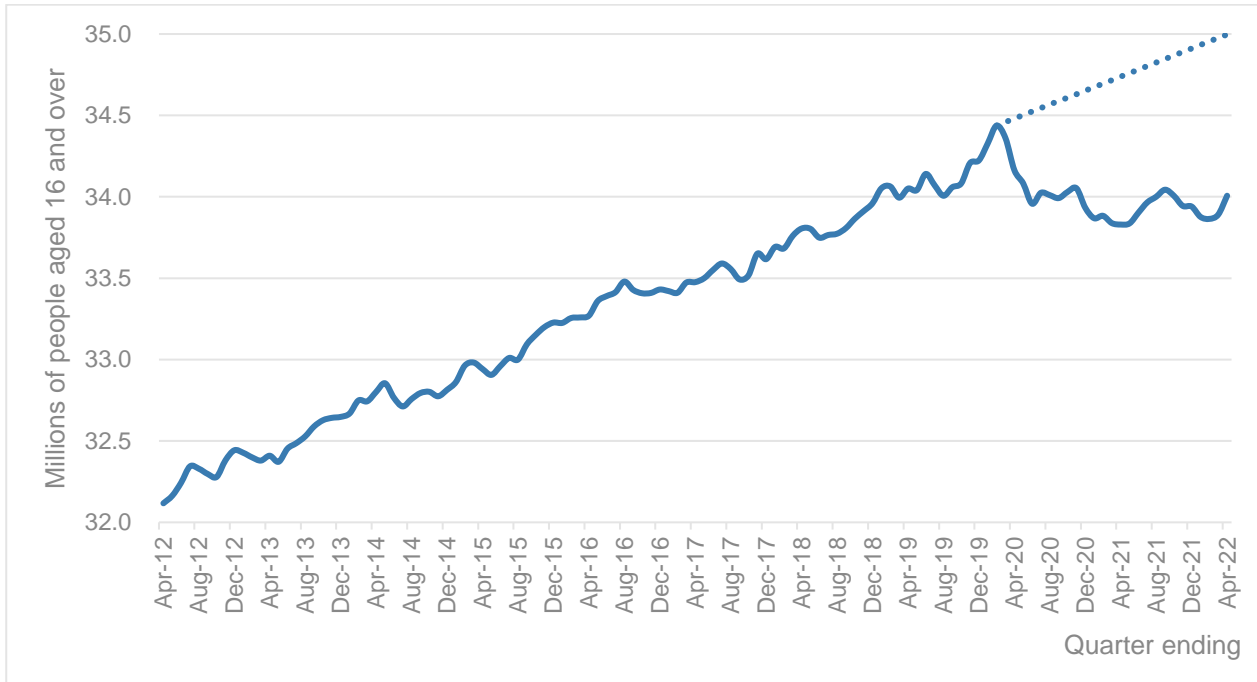
Source: ONS Vacancy Survey

Labour force participation continues to be affected by fewer older people in work, and more off with ill health

The reweighting of the ONS data, combined with a slight improvement in employment, has narrowed the ‘gap’ that we have reported on between the current size of the labour force (employed plus unemployed) and the pre-crisis trend. Nonetheless, even despite

this the gap still stands at 990 thousand – with about a quarter of this explained by a smaller population (including lower migration) and three quarters by higher economic inactivity. Note that this estimate tries to take account of pre-crisis growth due to changes to State Pension Ages (explained in more detail in our [March briefing](#)).

Figure 8: Level of economic activity – actual and if pre-crisis trend had continued

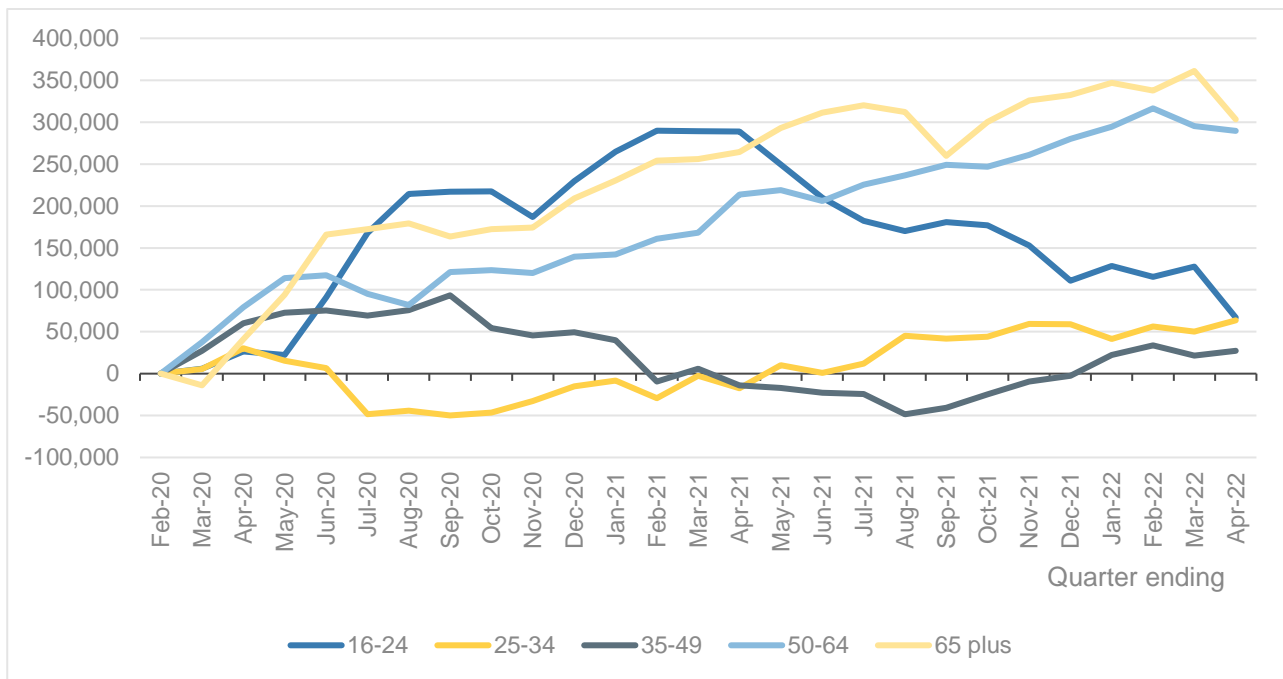


Source: Labour Force Survey and IES estimates

As with previous months, higher economic inactivity is particularly due to more older people leaving the labour force and more people off work due to long-term ill health.

Figure 9 shows changes in levels of economic inactivity by age, and illustrates that around four fifths of the growth is among those aged over 50. This is roughly even split between people under and over aged 65 – with some of the growth in the latter likely to be explained by population demographics, and some by higher worklessness among people who may have otherwise worked (including those aged between 65 and State Pension Age). It does appear however that the growth in economic inactivity among older people may be starting to level off, while it is falling significantly for young people (as noted, driven by fewer economically inactive students).

Figure 9: Change in economic inactivity by age, since start of Covid-19 pandemic

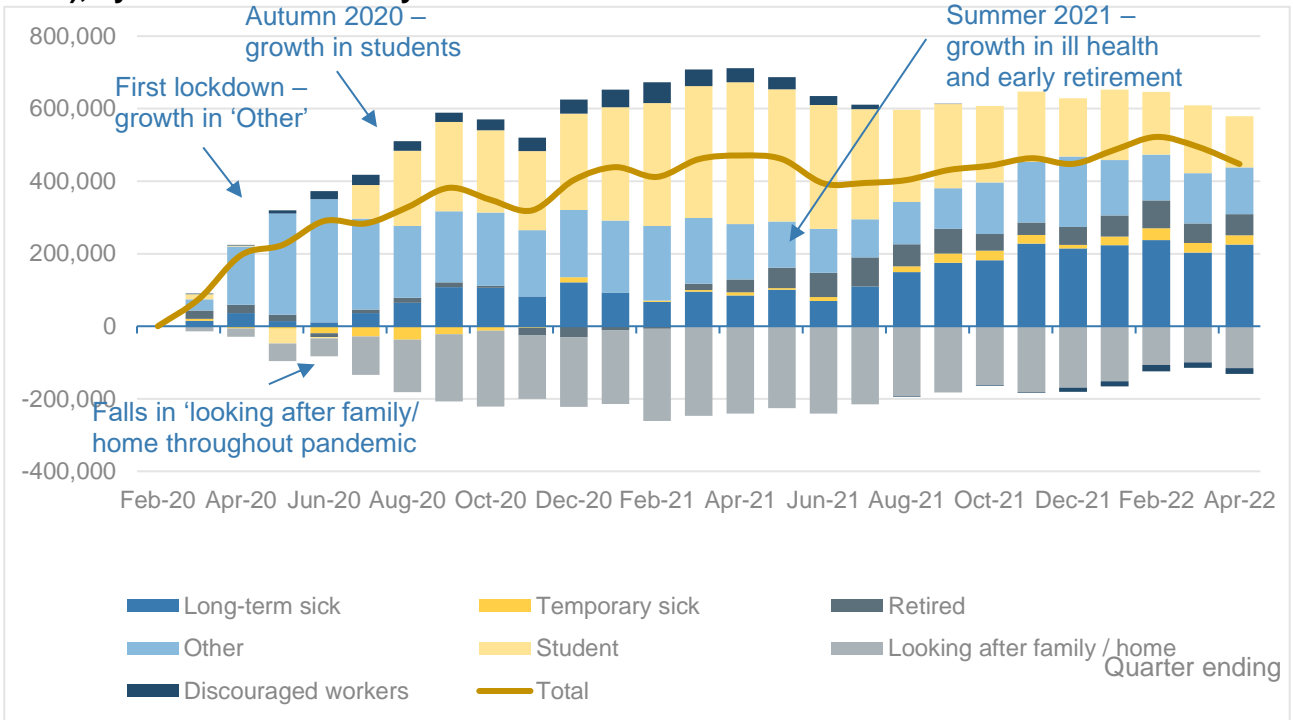


Source: Labour Force Survey

Figure 10 then shows changes in economic inactivity by reason since the start of the pandemic. This illustrates four distinct phases which have been discussed in previous briefings; but it is concerning that the recent slight growth does appear to be being driven by falls in non-working students even as economic inactivity due to long-term ill health (and to a lesser extent, early retirement and short-term ill health) remain elevated.

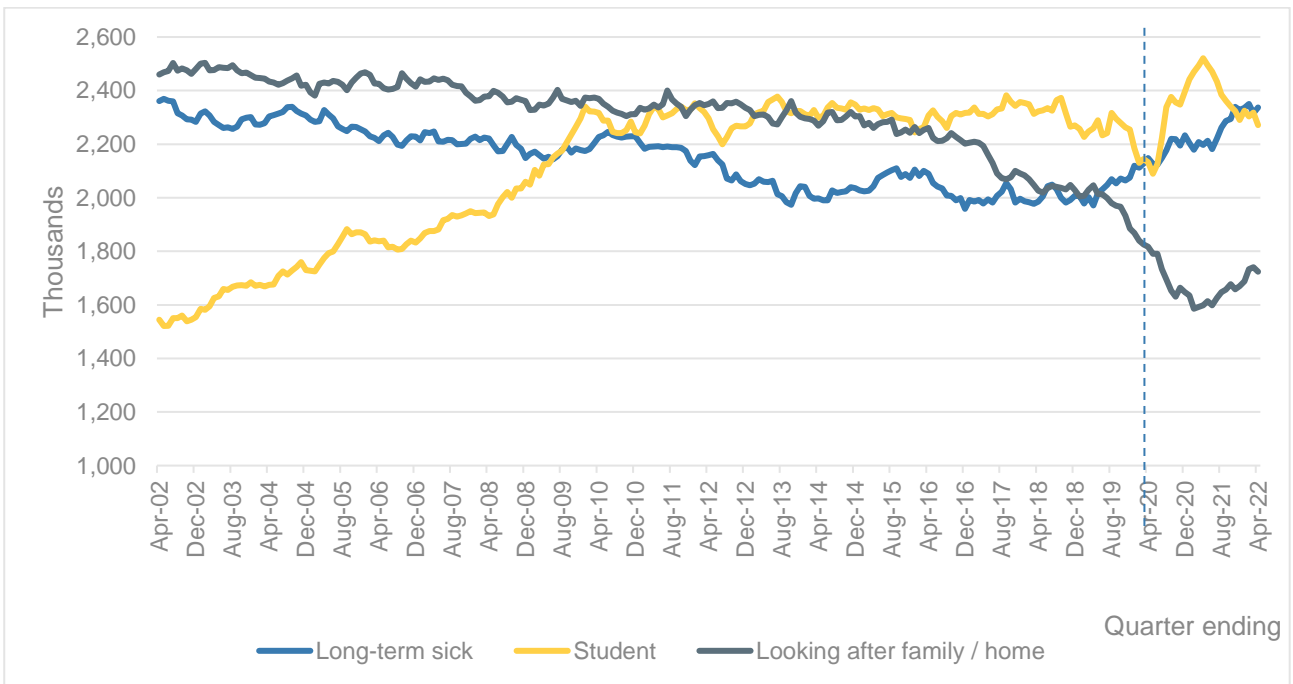
Figure 11 then shows the overall levels of economic inactivity for the three main reasons that are given (studies, caring and long-term health) and show more clearly how the composition of economic inactivity has changed. Economic inactivity due to long-term ill health is now at its highest for twenty years, likely due to a combination of factors including delays in treatment for chronic or work-limiting conditions, pre-existing conditions getting worse through the pandemic, long Covid, and people with underlying health conditions being more likely to leave or less likely to enter work because of changes in the labour market (and the health risks of working over the last two years).

Figure 10: Changes in economic inactivity since start of pandemic (December-February 2020), by reason for inactivity and overall



Source: Labour Force Survey

Figure 11: Levels of economic inactivity for the three main reasons given, 2002-present



Source: Labour Force Survey

Employment is recovering more slowly for men than women, particularly due to weak self-employment

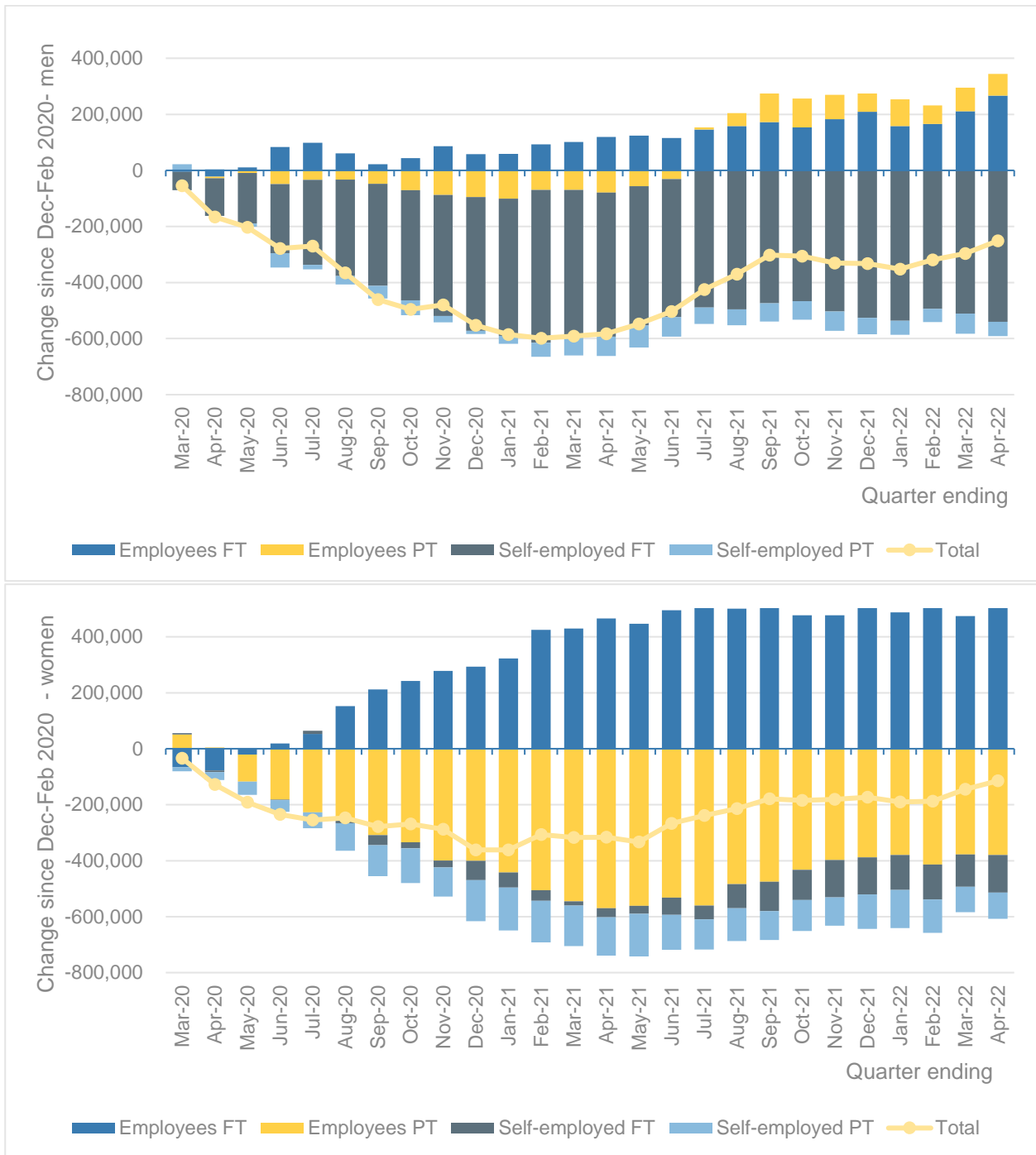
Figure 12 below was last published in our March briefing, and sets out changes in part-time, full-time, employee and self-employed work for men and women compared with the month before the pandemic (with the line then showing the overall change).

Looking in particular at the most recent three months, this shows that employment has grown for both men and women, aided in particular by continued growth in full-time employee jobs and a slight improvement in self-employment for women.

The recovery in part-time work over the previous year does seem to have stopped, which will be a double-edged sword for many people and particularly those with caring responsibilities (who are often women). This likely reflects some unwinding of the very flexible and hybrid working practices seen during the pandemic, as well as firms and households responding to labour shortages and rising prices. However it may also be contributing to the recent increases in economic inactivity due to caring in Figure 11 above, if people are unable to get the flexibility that they need and/ or are having to leave the labour force due to a partner increasing their hours.

The graph below also suggests that self-employment among men is showing no signs of improvement at all. Part of this is likely due to changes in off-payroll working rules (explored in more detail in the [January briefing note](#)), while part may also be explained by the falls in employment of older people – as many older men are self-employed in for example skilled trades or as company directors (which have both also seen falls in male employment in quarterly Annual Population Survey data).

Figure 12: Change in full-time, part-time, employee and self-employed work since start of crisis (December-February 2020 quarter) – for men (top) and women (bottom)



Source: Labour Force Survey

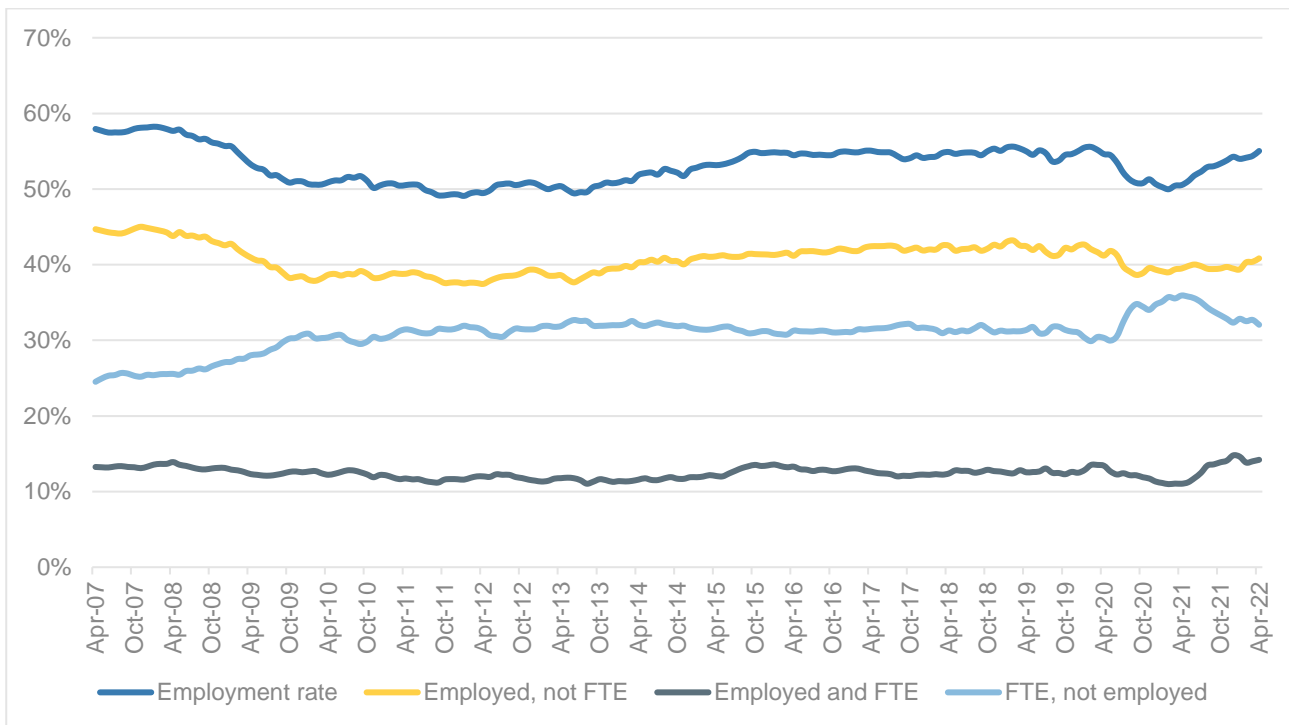
Youth employment is recovering, but ‘economic inactivity’ among those not in education remains high

This month we are also including some further analysis on young people, which was last included in our March briefing.

Figure 13 below shows that the overall youth employment rate continues to improve (the blue line), reaching 55% on the most recent data from a low of 50% in early 2021. This is almost back to the pre-pandemic rate (56%). Within this, 41% of young people are employed and not in full-time education (the yellow line) while 14% are employed in full time education (black). A further third (32%) are in full-time education but not employed (light blue).

This graph illustrates that the pandemic led to what appears to be a step change in participation in full-time education, and more recently within that a shift towards higher rates of young people combining work and study. More recently though, there are some signs that the proportion of young people working but not studying may be starting to edge back up.

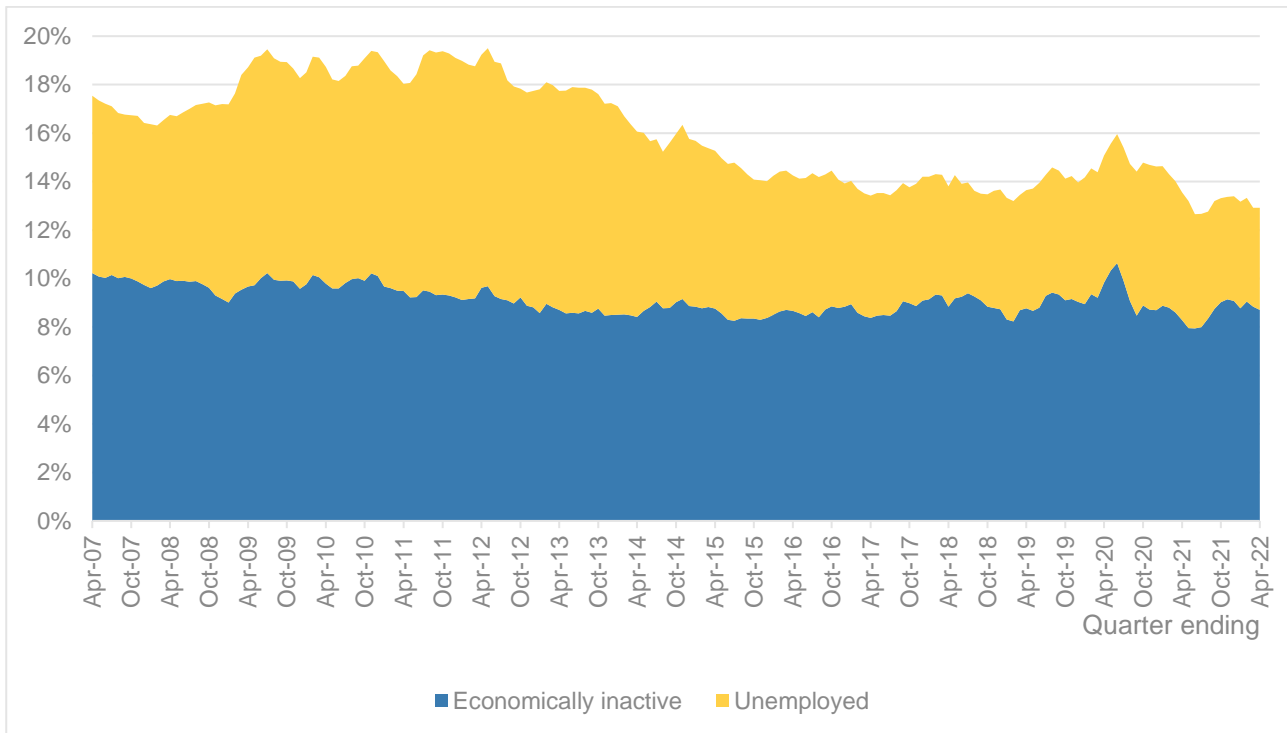
Figure 13: Proportion of young people (aged 16-24) employed and/ or in full-time education



Source: Labour Force Survey

Figure 14 below then shows that the proportion of young people neither in full-time education nor work has continued to fall back in recent months, and is now at its lowest ever rate (12.9%). This is particularly due to fewer young people unemployed and outside of education, with rates of economic inactivity falling much more slowly. Underneath this, as we set out in March, we are also seeing large falls in economic inactivity among women (in particular due to fewer young women having children) being offset by rising economic inactivity among young men.

Figure 14: Proportion of all young people (16-24) who are not in full-time education and either unemployed or economically inactive



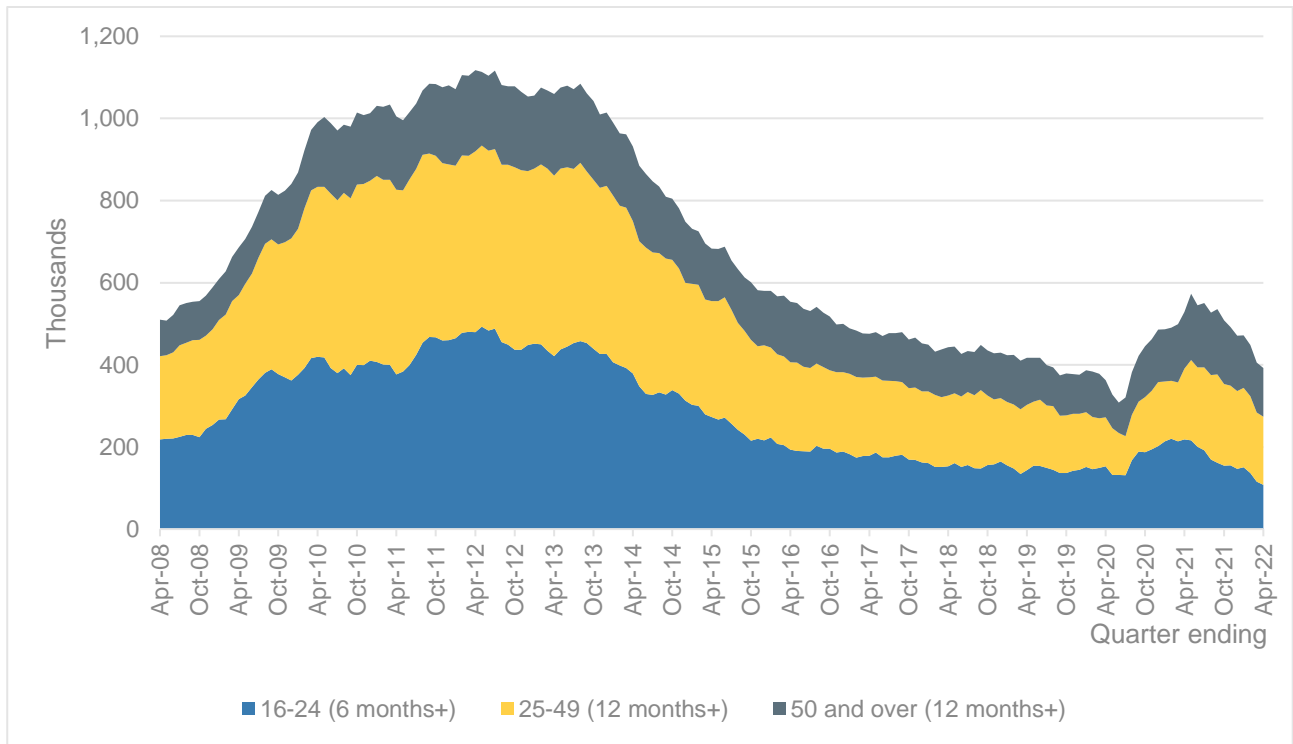
Source: Labour Force Survey

In better news today, long-term unemployment and ‘involuntary’ part-time and temp work are both falling

Finally, in better news, today’s figures show continued improvements in long-term unemployment – we define as more than six months for young people (aged 16-24) and more than twelve months for all others, and Figure 15 illustrates is now almost back to pre-pandemic levels. At 110 thousand, long-term unemployment for young people is again the lowest that it has been since comparable records began in 1992.

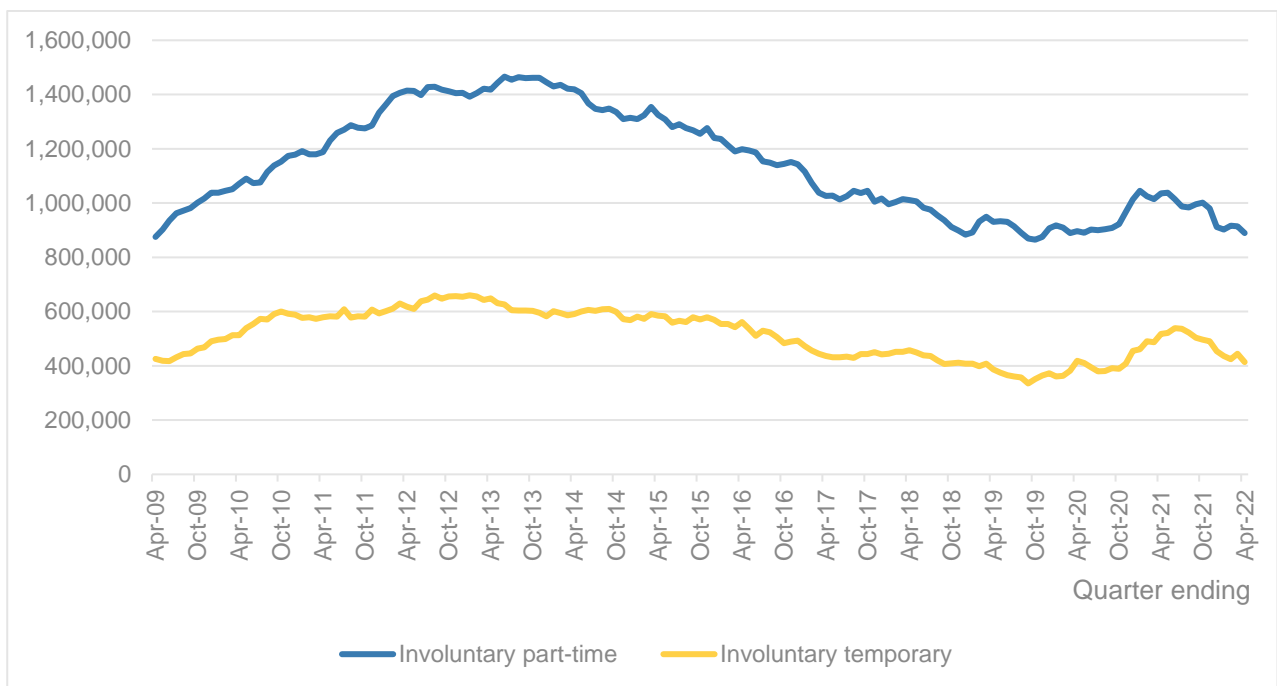
There are also signs that the tight labour market is leading to lower rates of ‘involuntary’ part-time and temporary employment (i.e. people in those jobs because they could not find full-time or permanent alternatives). This is shown in Figure 16 below.

Figure 15: Long-term unemployment by age



Source: Labour Force Survey. Long-term unemployment is defined as unemployment of more than six months for young people, or more than twelve months for those aged 25 and over.

Figure 16: Levels of involuntary part-time and temporary work



Source: Labour Force Survey.

Conclusion

All told, today's figures suggest that the labour market recovery that we may have been seeing in recent months is slowing, while spiralling inflation takes an even greater toll on real pay. It appears that these problems are likely to get worse in the coming months as interest rates rise further and investment and spending (likely) slows.

In our view then, the case is clearer than ever that we should be doing more to try to raise participation in the labour force – to help ease shortages and inflation risks, raise household incomes and support higher growth. As we have said previously, this could use investment committed but not spent through the Plan for Jobs and Spending Review, and focus on extending access to employment and skills related support to those not currently eligible (on any benefit and none). We also need to do more to support employers, and expect more from employers too – on inclusive recruitment, job design, flexibility, and workplace support.

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