ies Briefing

Institute for Employment Studies

# Labour Market Statistics, April 2023

**18 April 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 February 2023 (the most recent quarter being December 2022 to February 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 March 2023, and the Wages and Salaries Survey to February 2023.

## Summary

Today's figures show continued improvement in the labour market – with employment up, economic inactivity down (this is the measure of those not in work and either not looking and/ or not available to work) and unemployment broadly flat. Employment is almost back to where it was around this time last year, although it remains around 0.8 percentage points higher – and economic inactivity 0.9 points lower – than on the eve of the pandemic.

Worryingly however, lower economic inactivity is still masking very large rises in the number of people out of work due to long-term ill health – which has hit a new record, of at 2.53 million – and more young people neither in full-time education nor employment (which is back above one million). Long-term unemployment may also be starting to tick up again. This suggests that those who are more disadvantaged in the labour market are not sharing in the recent recovery, which in turn is likely holding back growth and contributing to the UK's very poor performance compared to our international peers (with the UK now the only major economy where employment is still below its pre-pandemic rate).

Data on vacancies and redundancies suggest that labour demand is still fairly buoyant. Vacancies remain at around 1.1 million – down on their peak from last summer but well above pre-pandemic levels, and with further signs today that they may start to level off –

while redundancies appear to have settled at just below 100 thousand a quarter (which is just below pre-pandemic levels).

Today's pay data is broadly in line with (slightly better than) figures for last month, with annual pay growth at around 7%. This remains very high by historic standards, but not enough to offset stubbornly high inflation. There is significant uncertainty on both pay and inflation in the coming months, but if inflation falls faster than pay (which is plausible) then we may start to see real pay recover later in the year.

Today's briefing also includes analysis of changes in part-time, full-time, employee and self-employed work for men and women, and illustrates that recent improvements in employment are being driven by a recovery in employment for men, particularly in part-time work and self-employment. Interestingly, the number of people in part-time work because they cannot find a full-time job is falling (as is the number in temporary work because of a lack of permanent jobs).

## Good news first: the recovery since last summer in employment and economic inactivity continues

The good news in today's figures is that employment is up again, economic inactivity down and unemployment still broadly flat. Employment has risen to 75.8%, up from 75.6% in the previous quarter, and is closing in on the peak that it reached last spring. Economic inactivity has fallen even more sharply, down by 0.4 percentage points from 21.5% to 21.1% – also close to the low it hit nearly a year ago. Unemployment meanwhile is edging up more slowly and is still well below 4% (rising 0.1 points to 3.8% in the latest quarter).

These trends are shown in Figure 1 below, which also includes the single-month estimates (in yellow) which combine to form the headline quarterly average. As ever the monthly data is pretty erratic, but the single-month figures for February on both employment and economic inactivity are very strong so we should expect to see at least a few more months of good news (particularly next month, as weak figures for December 2022 will drop out of the average).

Nonetheless, the graph below does also show that we are still some way off pre-pandemic rates of employment and economic inactivity – with employment 0.8 percentage points lower and economic inactivity 0.9 points higher than they were this time three years ago. And the UK is very unusual among its international peers in having such a weak recovery – with now every other G7 nation seeing employment at or above its pre-pandemic rate, and among developed economies only the UK, Latvia and Switzerland still with lower employment than at the end of 2019. The UK's weak economic recovery is undoubtedly a major driver of this, but so is our poor performance on employment of older people and those with long-term health conditions – which are set out in more detail later in this briefing.

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

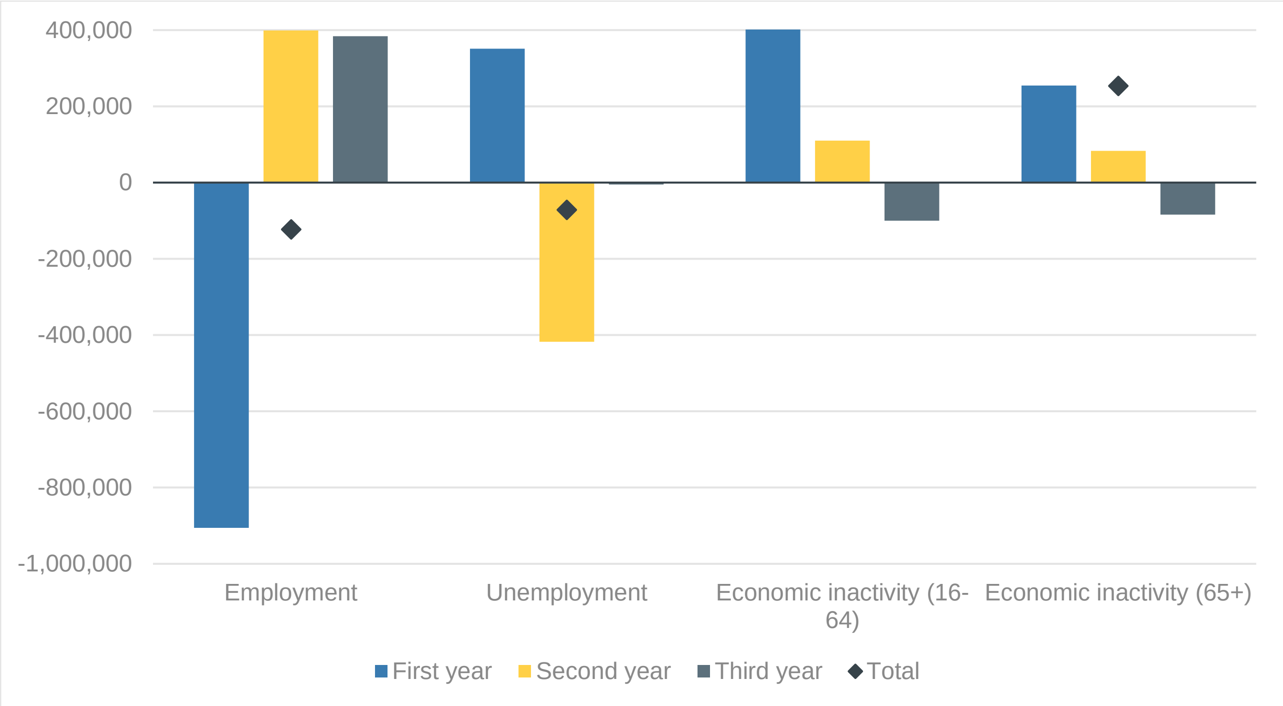

*Source: Labour Force Survey*

Today's release means that we now have three full years of data since the onset of the Covid-19 pandemic, so Figure 2 below looks at changes in the levels of employment, unemployment and economic inactivity over each of those three years. In broad terms:

- The first year covers the period of full lockdowns and widescale use of furlough (the year ending in the December 2020-February 2021 quarter);
- The second year the phasing out of furlough and initial strong recovery (ending in Dec 21-Feb 22); and
- The third year this more recent period of low growth, labour market tightness and high inflation (ending Dec 22-Feb 23).

Unsurprisingly, this shows that all of the fall in employment was in the first year of the pandemic, with this feeding through more into higher economic inactivity than unemployment (especially if the rise in over-65s out of work is included). Unemployment fell back entirely in the second year, however economic inactivity continued to rise; and in the third year the overall fall in economic inactivity has been very modest – meaning that the economic inactivity *rate* is still broadly where it was a year ago (even though it has fallen more recently). The employment recovery has been similarly subdued overall – rising by a bit less than 400 thousand in each of the last two years, meaning the overall level of employment is still just over 100 thousand lower than pre-pandemic.

**Figure 2: Changes in employment, unemployment and economic inactivity over the three years since the start of the Covid-19 pandemic (Dec-Feb 2020 to Dec-Feb 2023)**



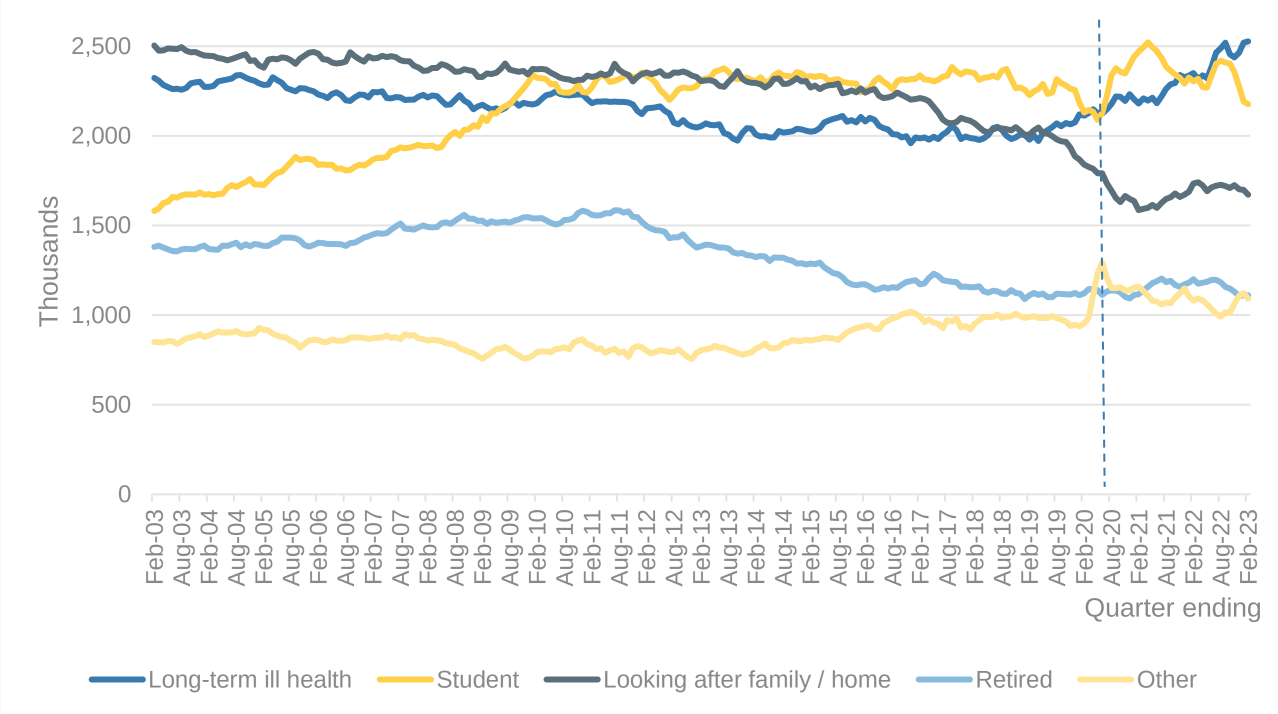

*Source: Labour Force Survey. 'First year' is change between Dec-Feb 2020 and Dec-Feb 2021, 'Second year' between Dec-Feb 2021 and Dec-Feb 2022, and 'Third year' Dec-Feb 2022 to Dec-Feb 2023*

## Economic inactivity due to ill health is back at a record level, even as most other reasons for not working fall

As with last month's data, recent falls in economic inactivity are disguising continued large rises in the number of people out of work due to long-term ill health. This latter figure has now reached its highest ever level (at 2.53 million), having risen by 90 thousand in the last quarter alone. This is shown in the blue line in Figure 3 below.

Figure 3 also shows that this rise is being more-than-offset by recent falls in almost all other categories and most markedly a fall in the number of non-working students. This figure is down by 180 thousand in the last quarter to 2.18 million, close to where it was before the pandemic began. The number out of work due to early retirement is also down again, while the number of people looking after family and home (mainly non-working mothers) appears to be edging back down again.

**Figure 3: Levels of economic inactivity for the five main reasons given, 2002-present**



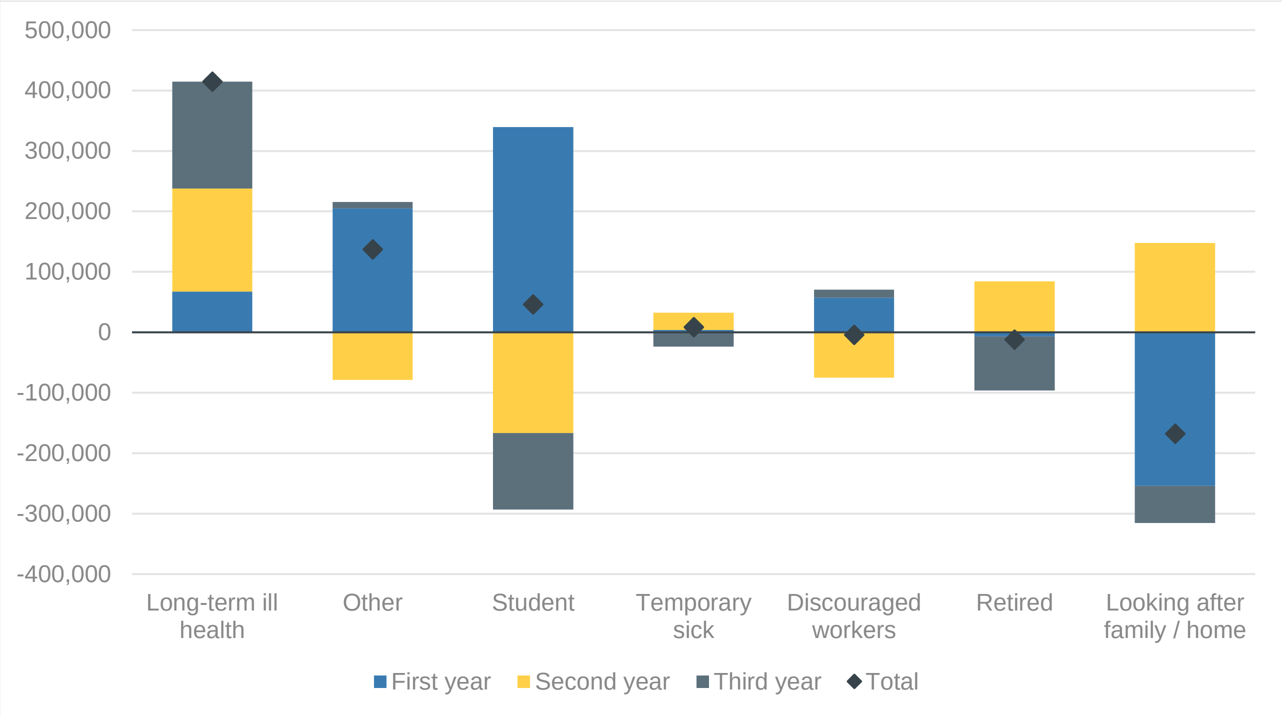

*Source: Labour Force Survey*

Figure 4 then breaks down the changes in levels of economic inactivity by reason given for each of the last three years (using the same approach as for Figure 2 above). This shows more clearly the divergent trends for different groups – with student numbers rising significantly in the first year of the pandemic (blue) before falling back; early retirement rising in the second year (yellow) particularly as furlough schemes ended before resuming its downward trend; and the large fall in the number of people looking after family and home unwinding a bit in the second year before falling slightly over the last year.

What stands out most, though, is the very large growth in worklessness due to long-term ill health, and the fact that this has been rising strongly in particular over the last two years. There is a consensus now that this is being driven by higher long-term worklessness, either as those with long-standing health conditions find it harder to get back into work and/ or as those out of work for other reasons see their health deteriorate. Whatever the cause though, the consequence will be growing economic and social exclusion and lower economic growth.

The graph also shows how the rise in the first year of the pandemic in economic inactivity for 'other' reasons – which was likely mainly due to temporary lay-offs and people not seeking due to lockdowns – has only partially unwound since. As we have set out previously, this 'other' category includes people who do not need to work (i.e. because they can afford not to, which could include older people who have left the labour force but not yet consider themselves retired)) as well as people waiting for a job to start so it is possible that either or both of these could be contributing to the rise.

**Figure 4: Change in economic inactivity by main reason over the three years since the start of the Covid-19 pandemic (Dec-Feb 2020 to Dec-Feb 2023)**




*Source: Labour Force Survey. 'First year' is change between Dec-Feb 2020 and Dec-Feb 2021, 'Second year' between Dec-Feb 2021 and Dec-Feb 2022, and 'Third year' Dec-Feb 2022 to Dec-Feb 2023*

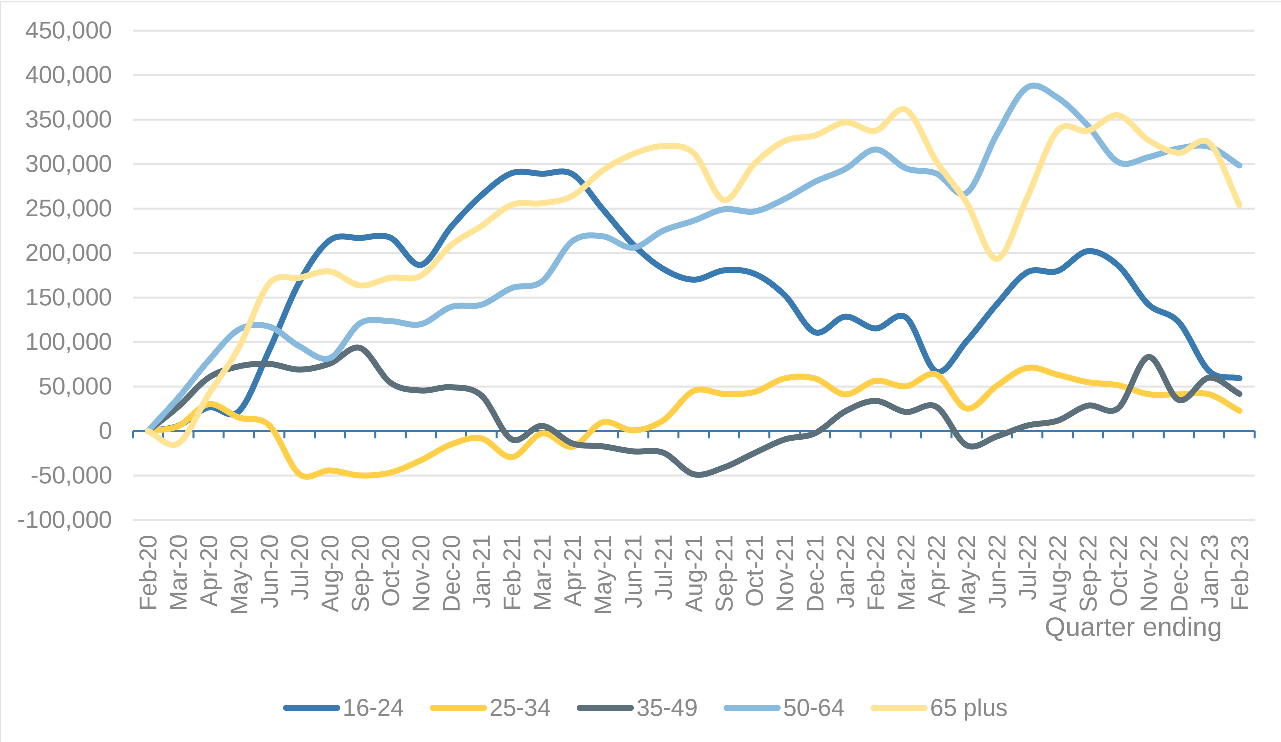
## Economic inactivity has risen most for older people, but recent growth in youth worklessness is worrying

The most recent data has seen economic inactivity falling across all age groups, although the reasons for this will vary – for example with:

- Fewer students pushing down economic inactivity for young people;
- Fewer people retiring early contributing to falls for older people (but that this is more likely to be as people *already in work stay longer* than people who have *previously left work coming back*); and
- Fewer people looking after family and home contributing to falls for those aged in between.

Overall, four fifths (82%) of the rise in economic inactivity over the last three years is explained by higher worklessness for people aged over 50, which likely mainly reflects that older people are more likely to be out of work due to long-term ill health or 'other' reasons. It should be noted however that economic inactivity due to long-term ill health has been rising across all age groups (as we set out in our December briefing).

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

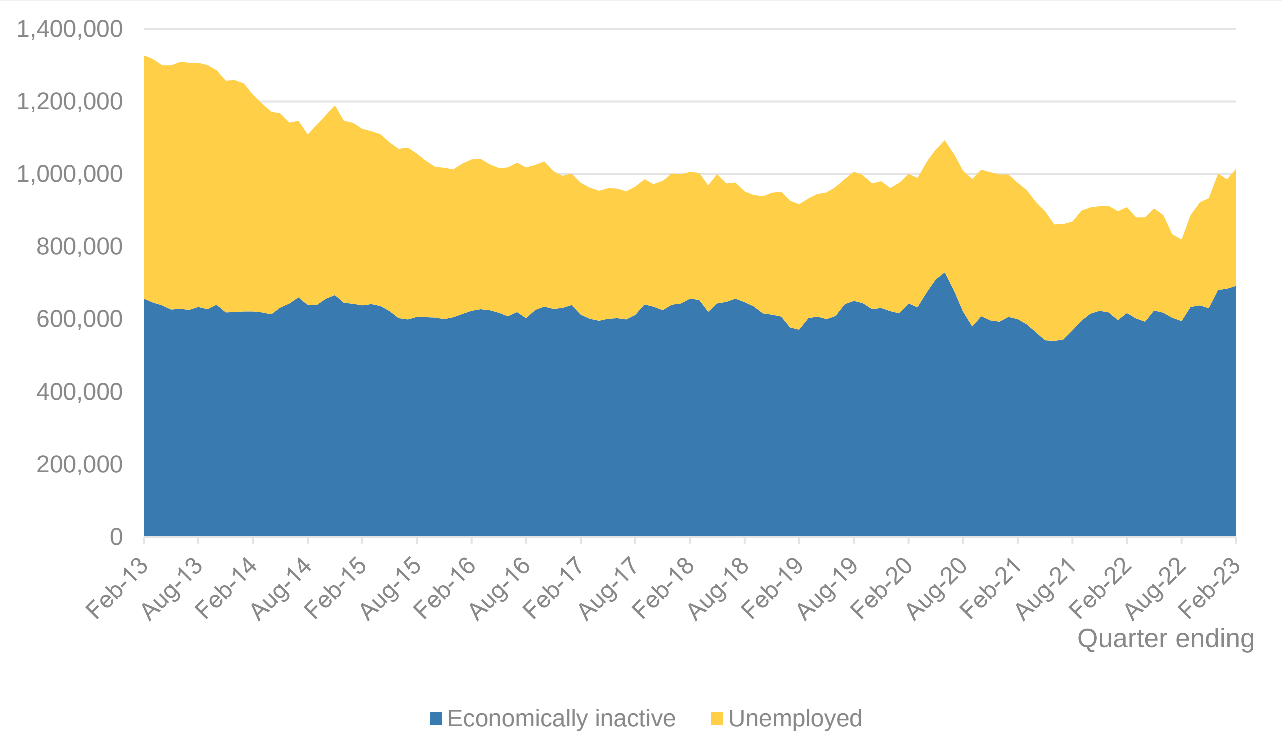



*Source: Labour Force Survey*

Of continued concern, however, are further increases in the number of young people who are not in full time education nor in employment – which has ticked back above one million in today's figures. Nearly 15% of all young people are neither in employment nor full-time learning (14.8%), the highest rate since autumn 2020.

Figure 6 below breaks this down into economic inactivity and unemployment, and shows that both are clearly now rising. Last month we reported that the quarterly 'NEET' dataset suggested that this may reflect both fewer people entering higher-level education and people finding it harder to get jobs when they leave, but the growth in economic inactivity suggests that some of those young people are not entering the labour market at all (and/or are leaving it).

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




*Source: Labour Force Survey*

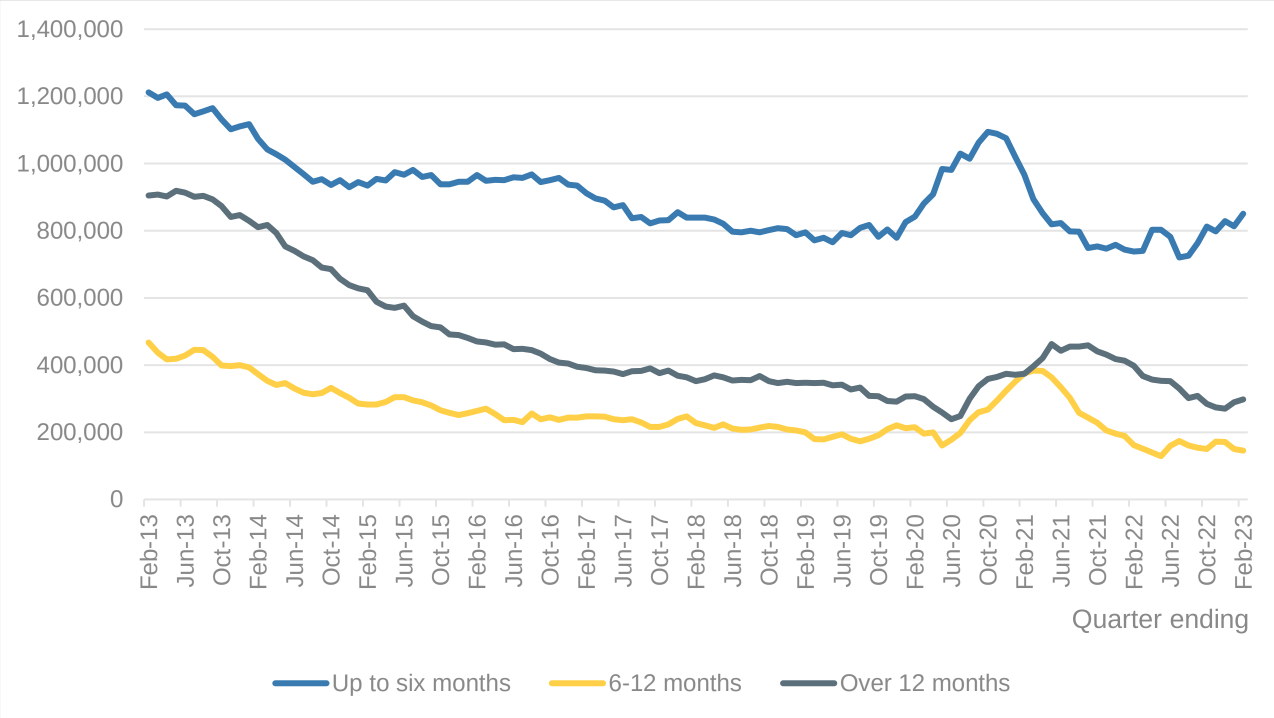
## Short-term unemployment is edging up, but so is long-term unemployment

This mixed picture in the labour market is reflected in the unemployment data too. Figure 7 below shows unemployment by duration, and suggests that the recent small rises are predominantly driven by higher short-term unemployment (blue line), with rises in long-term unemployment and falls in 6-12 month unemployment broadly offsetting each other.

The 'glass half full' explanation for higher short-term unemployment could be that there are more people entering the labour market and so who are unemployed for (hopefully) short periods while they find jobs. This would be consistent with fewer students and fewer people out of work for family reasons. But a more pessimistic view would be that the sustained rises could suggest that some of those people are finding it hard to get jobs and so may feed through into longer-term unemployment (or back into economic inactivity) at a later point. Either way, with vacancies still very high (discussed below) we should be able to do more to help people who want jobs to find the jobs that want people. And if this is being driven by students and parents, then many will likely not be in the main 'Searching for Work' group on Universal Credit.

More worrying is the rise in long-term unemployment, which we flagged as something to keep an eye on in last month's briefing. It is arguably still too early to say whether this is the start of a trend, but it is again concerning given the high level of vacancies overall.

**Figure 7: Unemployment by duration**




*Source: Labour Force Survey*

## Recent jobs growth appears stronger for men than women, driven by part-time work and self-employment

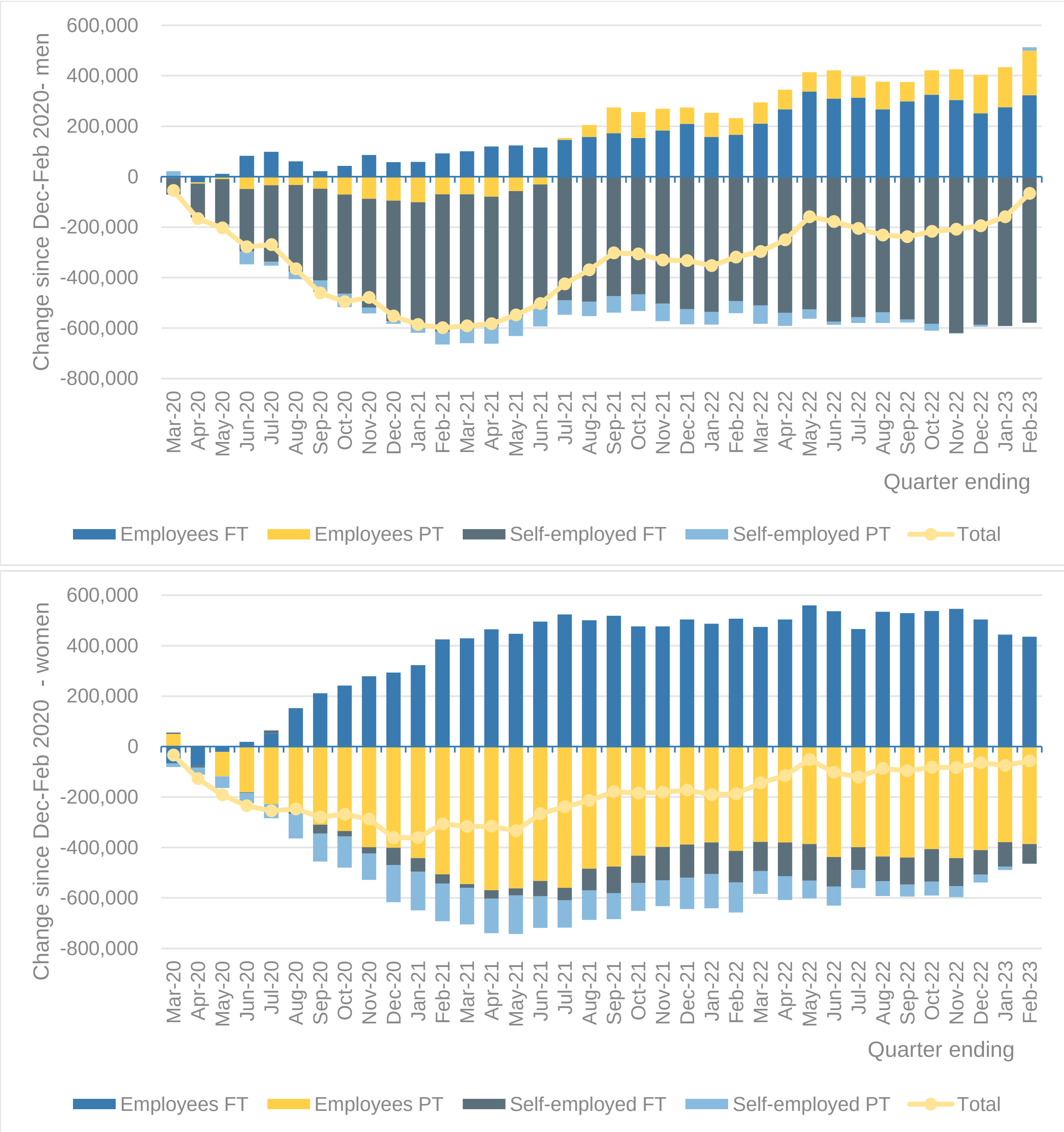
Figure 8 below updates analysis that was last published in our September 2022 briefing, showing the change in part-time, full-time, employee and self-employed work for men and women since the pandemic began (with the line then showing the overall change).

The most striking change in recent months is that the 'gap' to the pre-pandemic level of employment appears to be closing faster now for men than women. This appears to be mainly due to a growth in part-time employee work (yellow), although the very large falls in full-time self-employment have also improved slightly in recent months (the grey bars, which in part were offset by full-time employee jobs – in blue – earlier in the pandemic).

For women, part-time employment remains well below pre-pandemic levels and has not significantly changed over the last eighteen months. Full-time employment remains higher but has dropped back a bit recently, while self-employment remains lower but has improved slightly.

There will be a range of factors driving these trends. It is likely that the availability of furlough and more flexible working may have helped more women enter (or stay in) full-time work in recent years, perhaps also alongside people increasing their hours in under-resourced professions like health and social care. Falls in self-employment for men likely reflect a general decline in employment in construction and skilled trades as well as small business owners retiring, offset in part by more people being brought on to payrolls as employees.

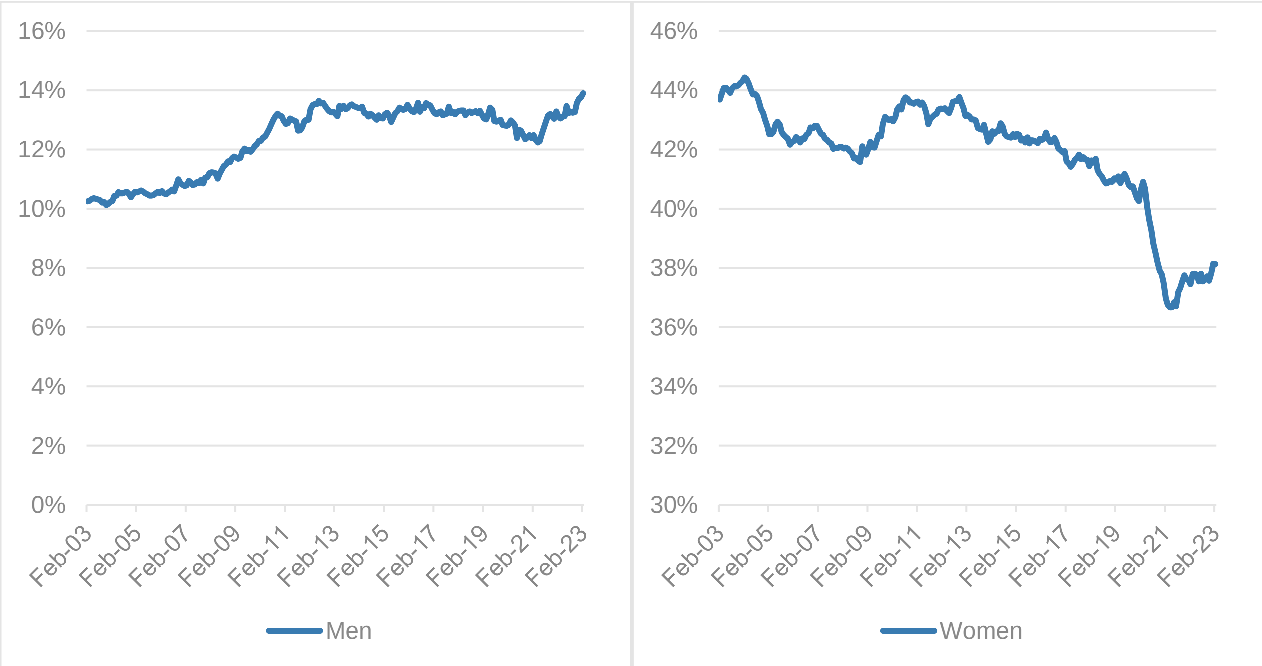
**Figure 8: Change in full-time, part-time, employee and self-employed work since start of pandemic (December-February 2020 quarter) – for men (top) and women (bottom)**




*Source: Labour Force Survey*

Trends in part-time work are particularly interesting, with this now setting new records for men but remaining close to its lowest ever for women. These trends are shown in Figure 9 below. Note that the ranges of these two graphs are different (from 0-16% for men, and from 30-46% for women) and overall women are more than two-and-a-half times more likely to work part-time than men. However two decades ago, women were four times more likely to do so – with the gap narrowing fastest in the last couple of years.

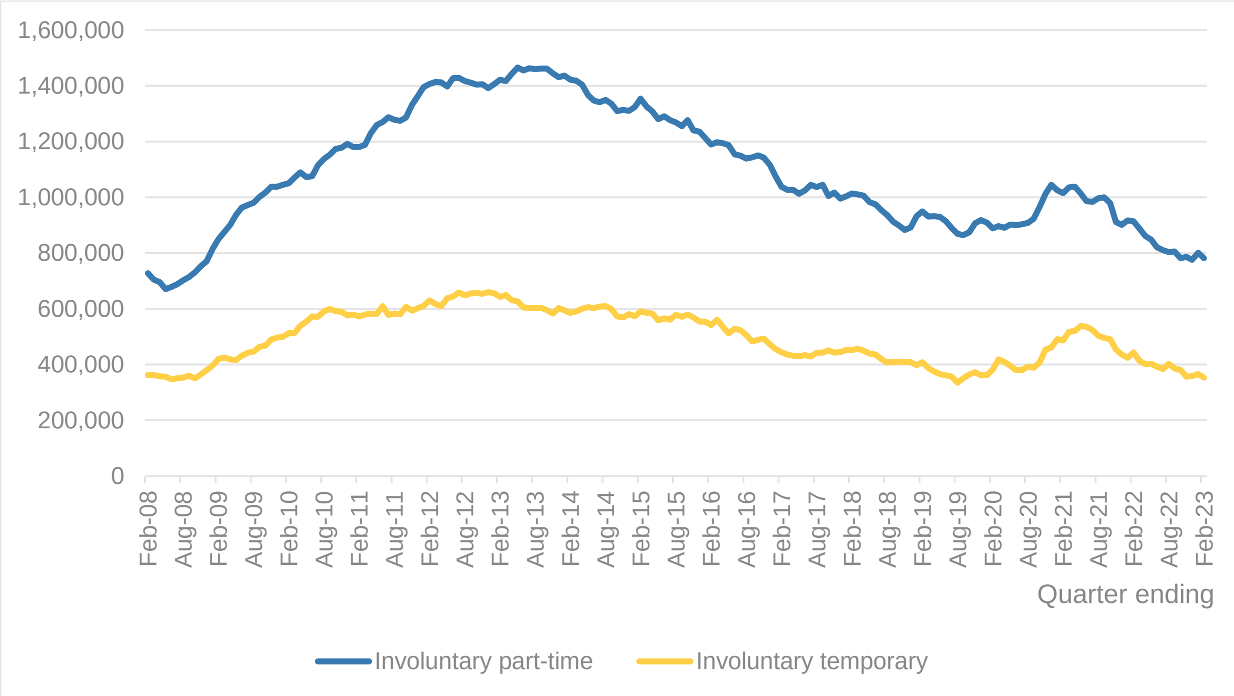
**Figure 9: Proportion of those employed who work part-time – men (left hand panel) and women (right hand panel)**




*Source: Labour Force Survey*

Interestingly, Figure 10 shows that this has happened alongside a fall overall in the number of people who say that they are working part-time because they could not find a full-time job. This figure is now at its lowest ever level, and is below pre-pandemic levels for both men and women (not shown). The graph also shows the number of people working in temporary jobs because they could not find permanent employment, which is also virtually back to pre-pandemic levels. So overall, it does appear that these changes in working patterns are more likely to reflect people being able to find work that is closer to the hours that they want, than involuntary part-time or temporary work.

**Figure 10: Number of people working part-time because they could not find a full-time job, and/ or in temporary employment because they could not find permanent work**

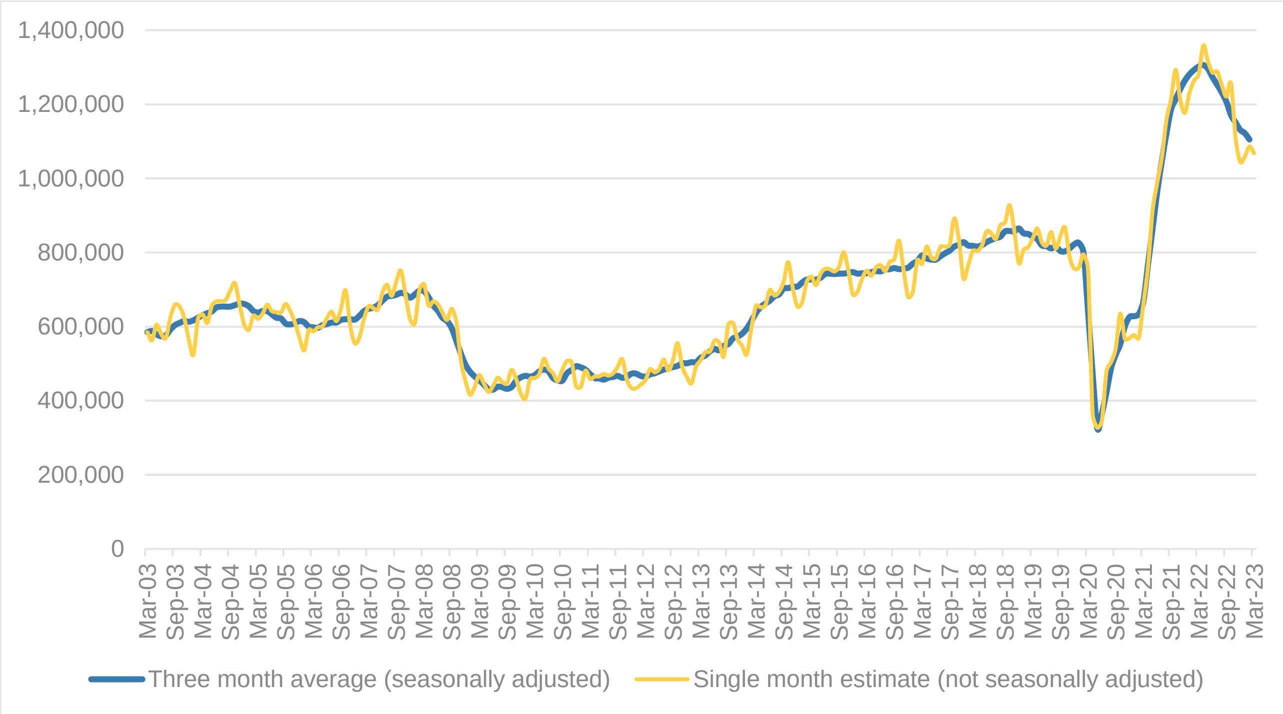



*Source: Labour Force Survey*

## Vacancies remain very high but continue to fall back from their peak – particularly in the private sector

Wider labour market indicators remain fairly positive today, with vacancies still high, redundancies low and nominal pay growth strong. On vacancies first, Figure 11 shows that there are still an estimated 1.11 million job openings, well above pre-pandemic levels but down by just under 50 thousand on the quarter. The fall in vacancy levels does appear to be slowing slightly, with the underlying monthly figures (in yellow, not not seasonally adjusted) largely unchanged over the last three months. So it is well possible that next month's figures will see vacancies level off overall.

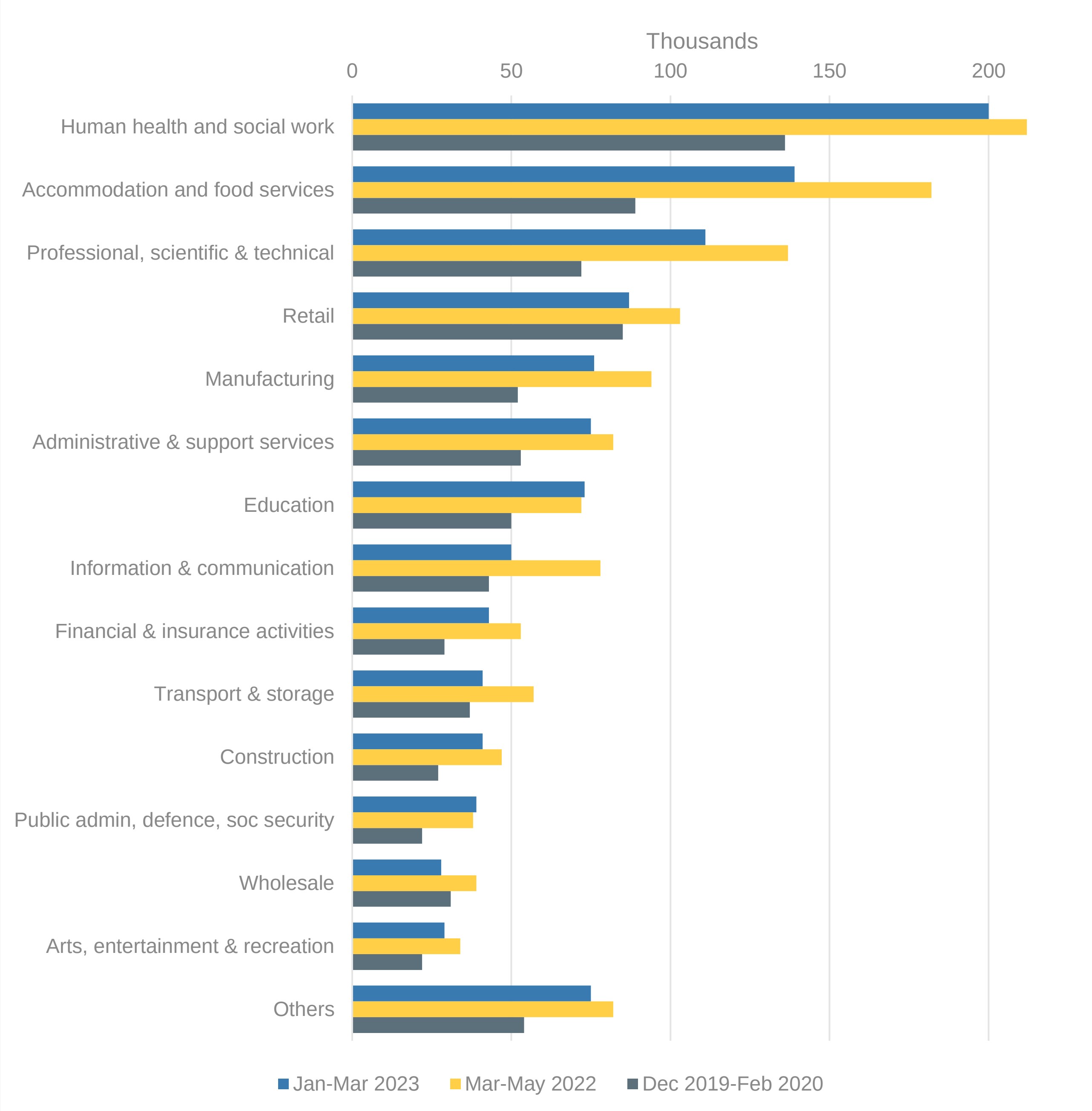
**Figure 11: Vacancies – quarterly and single-month estimates**




*Source: ONS Vacancy Survey*

Looking at changes by industry Figure 12 tells a similar story to recent months with current vacancies well above pre-pandemic levels in nearly all industries but with the falls since the vacancy peak most pronounced in private sector services.

**Figure 12: Vacancies by industry, pre-pandemic, post-pandemic peak (Mar-May 2022) and most recent quarter (Jan-Mar 2023)**

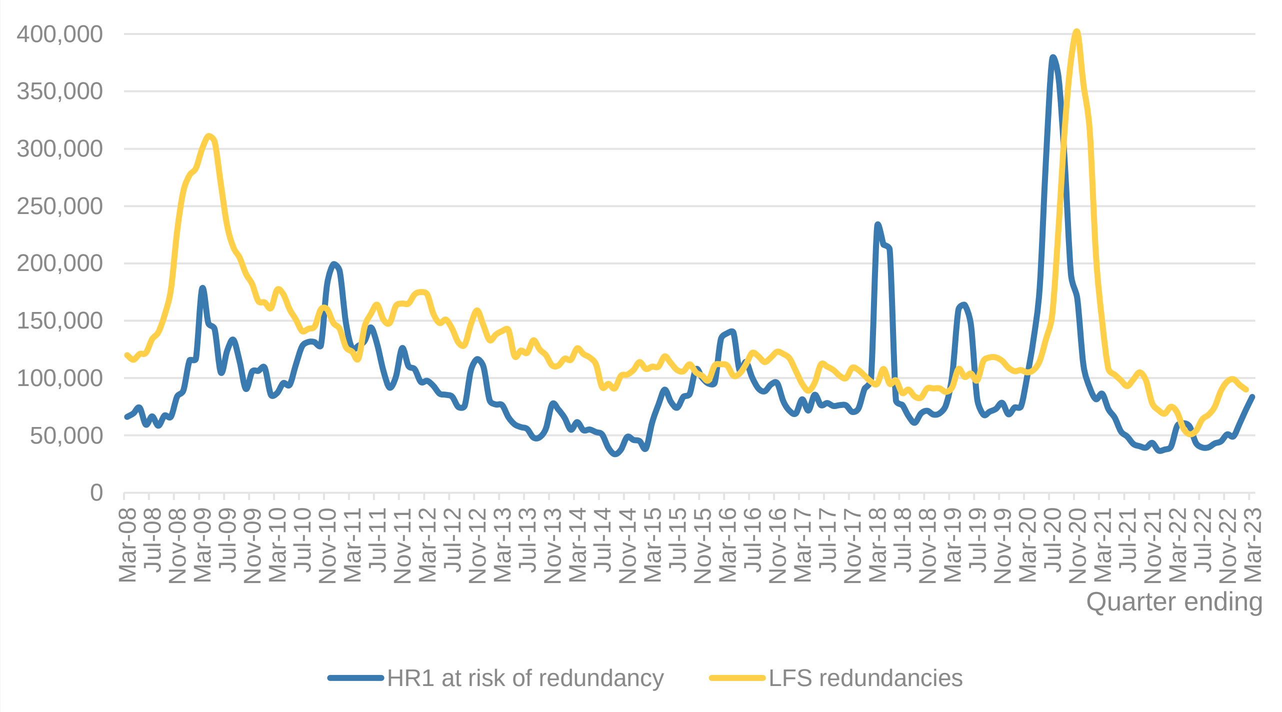



*Source: ONS Vacancy Survey*

## Redundancies have dipped slightly, but 'HR1' advance notices are up, so we may see rises again this summer

More positively, Figure 13 below shows that redundancies overall appear to be edging down (yellow line) and remain below 100 thousand a quarter. The number of people at risk of redundancy in the future however is rising (the blue line, which shows data from 'HR1' forms where employers notify the Insolvency Service of future larger exercises) which suggests that we will likely see a further rise in redundancies later in the summer. So far though, these figures remain very low by historic standards and the very most recent monthly figure for March (not shown) was lower than the figure for February and lower too than figures for March 2022 and 2021. Overall, both redundancy and vacancy data suggest that labour demand remains strong.

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



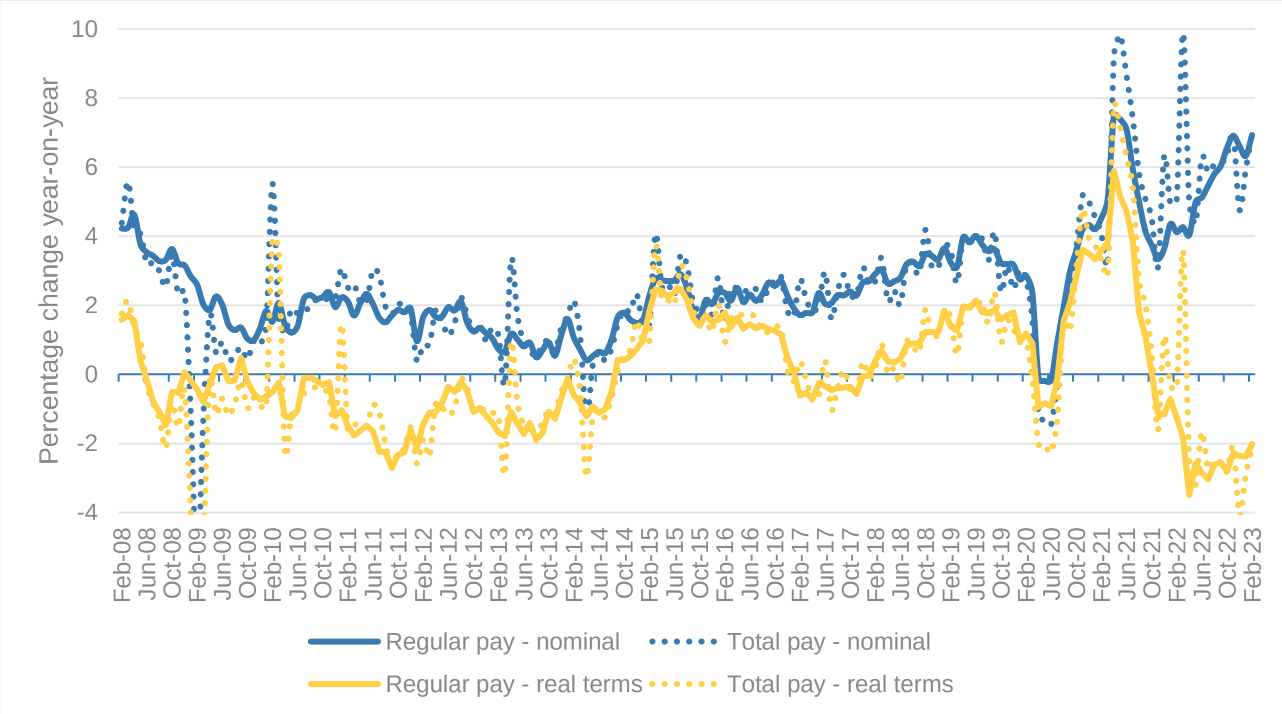

*Source: IES analysis of Insolvency Service and Labour Force Survey data*

## Nominal pay growth has edged up to around seven per cent, but high inflation continues to erode 'real' pay

Finally, the most recent pay data shows a slight uptick in nominal pay growth in the year to February 2023 compared with the figure reported last month for the year to January. Overall, it looks like nominal pay growth may be settling at just under 7%. This is shown in the blue lines in Figure 14 below (with the solid line showing regular pay while the dotted line shows total pay including bonuses and arrears).

This continues to be the strongest growth in nominal pay in more than twenty years (excluding the year after the pandemic, when pay growth was inflated by the unwinding of the Coronavirus Job Retention Scheme). However, stubbornly high inflation means that 'real terms' pay (i.e. after inflation is taken into account) continues to fall, which is shown in yellow below. Of course if nominal pay holds up and inflation starts to fall in the next few months then we may see living standards improve rapidly – which in turn could create further inflationary pressures – but at the moment all of these things remain highly uncertain.

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

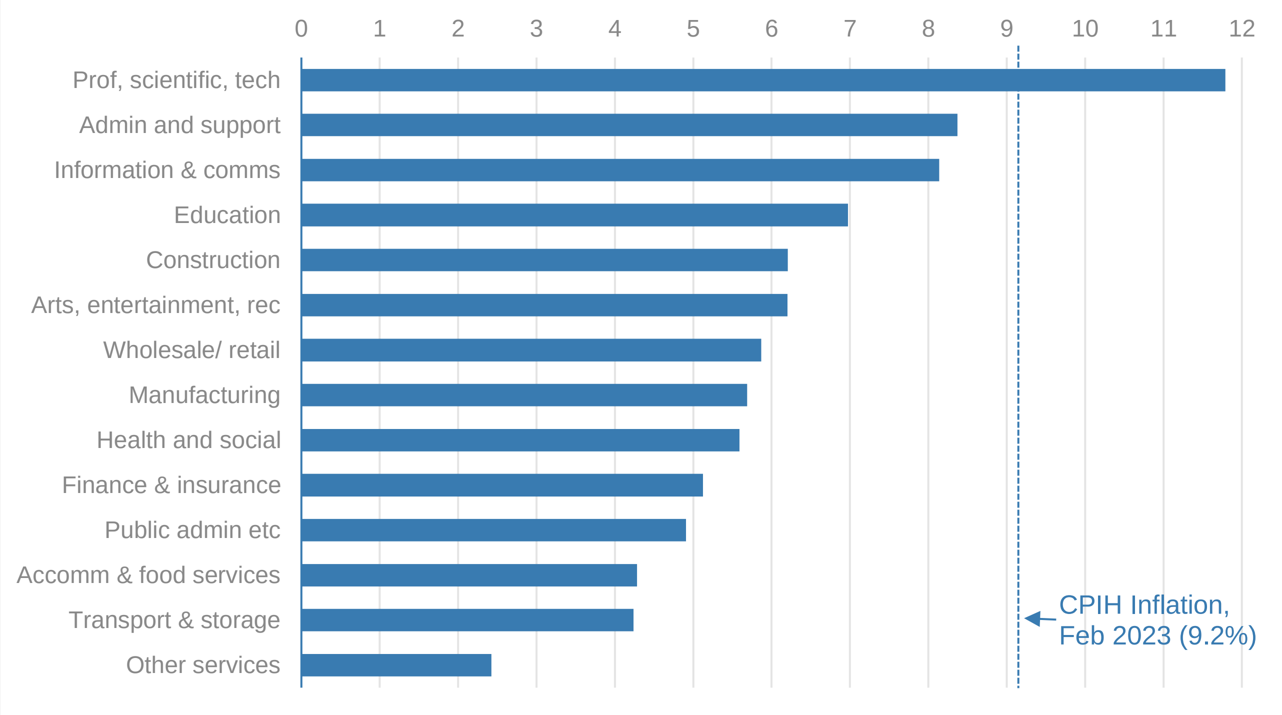



*Source: ONS Monthly Wages and Salaries Survey. Regular pay excludes bonuses and arrears; measure shown is year-on-year change in single month estimate.*

Figure 15 below shows changes in nominal pay by industry. Note that this month we have switched to presenting regular pay – so excluding bonuses and arrears – as this is likely giving a more accurate reflection of current trends (due to the effect of high bonuses in private sector professional services – and particularly finance – last year and low bonuses this year).

This shows that growth in private sector services remains very strong (the 'professional' category includes accountancy, engineering, consultancy etc) but is high generally across industries. The exceptions are public administration – which mainly covers national and local government – and accommodation and food services (a very large category covering hospitality jobs, where vacancies and demand appear to be slowing). As noted in previous months, health and education are seeing quite strong growth too – which could reflect compositional changes (i.e. fewer low paid roles) or real underlying increases.

**Figure 15: 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 December 2022-February 2023 (not seasonally adjusted).*

# Conclusion

Overall, today's figures show that the labour market is continuing to recover. Employment is rising and economic inactivity falling, while vacancies remain very high and redundancies low. However despite all of this, there are more people than ever out of work due to long-term ill health; continued weak employment growth for older people; rising numbers of young people outside of education and employment; and signs that long-term unemployment may be ticking up too.

Taken together, it appears that many of those who are most disadvantaged in the labour market are struggling the most to get into work even as the economy continues to create jobs. This in turn is holding back growth and contributing to the UK's very weak recovery compared with other major economies.

While the Budget announcements last month were broadly welcome in trying to address this – with more investment in specialist employment support and in funded childcare, and bringing forward investment in the Shared Prosperity Fund – it unlikely that those measures alone will be enough to meet the scale of these challenges. In particular, the government's main focus continues to be on supporting people who claim Universal Credit – and often only those in the 'Searching for Work' group. However, many of those facing disadvantage now – people with long-term ill health, older people returning to work, parents returning to work, students – will not be in that conditionality group and may not be on benefit at all. So we need to do far more and better to reach people who are out of work and disadvantaged irrespective of the benefits that they claim, and to provider more specialised employment support.

Our Commission on the Future of Employment Support, in partnership with abrdn Financial Fairness Trust, will be developing proposals for longer-term reform to help address these issues. We will be publishing next week a summary of the key findings from our call for evidence, to which around a hundred organisations and individuals responded with a range of evidence and proposals for reform.

Employers have a key role to play too, both in helping people to stay in work and enabling more people who are out of work to return – in particular through more inclusive recruitment practices, flexible job design, better training and support in the first few months of employment, improved line management and better access to workplace support. Our annual conference next week will be exploring these issues in more depth, with more details here.

## 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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