ies Briefing

Institute for Employment Studies

Labour Market Statistics, December 2021

14 December 2021

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 where the most recent data covers the period August to October 2021. This is the first LFS data to cover the period after the end of the Coronavirus Job retention Scheme on 30 September 2021. The briefing also includes analysis from the **ONS Vacancy Survey**, which collects employer data on open vacancies and includes data up to November 2021.

Summary

Today's figures see a sharp fall in unemployment and a continued rise in employment. However, surprisingly, economic inactivity has also ticked up this quarter and remains 400 thousand higher than pre-crisis. Combined with a slightly smaller population, this means that there are now one million fewer people in the labour market than would have been expected on pre-crisis trends, with more than half of this gap now explained by fewer older people in the labour force.

This participation gap appears to be edging up, even though vacancies are continuing to set new records – at 1.2 million, there are twice as many job openings as this time last year and 50% more than immediately before the crisis. These jobs are being created across all industries, and firms' inability to fill them is continuing to hold back growth.

Higher economic inactivity is, as with recent months, being driven by ill health and early retirement. Inactivity for these reasons is up by 165 thousand since the third lockdown, compared with a fall of 255 thousand for all other reasons (including studies and caring). Overall there are now 2.5 million people out of work due to ill health, the highest figure since 2005; with worrying signs that economic inactivity for young people not in education is also rising sharply.

More positively, long-term unemployment appears to have levelled off and is falling for young people, while the end of the furlough scheme has not led to any increase in redundancies. The Plan for Jobs (and its delivery) has been a success, and should give us some hope that with similar effort we can also be successful in raising participation and supporting those further from work.

Looking ahead, rising Covid-19 cases means that it is looking increasingly likely that we will need tighter restrictions in the new year which in turn may take the wind out of (or even reverse) the improving picture on the labour market. If this happens then the government will need to be ready with temporary support to protect jobs and incomes. However we will enter the new year with nearly half a million more people out of work than there were before the crisis, so any new Plan for Jobs needs to be matched with a Plan for Participation, to help those already out of work with the support that they need to get (back) in – particularly for people with health conditions, older people, parents and disadvantaged young people.

Unemployment falls again – but employment remains 570k below pre-crisis with economic 'inactivity' up

On the face of it, today brings some welcome good news on the labour market, with the unemployment rate falling sharply again on the quarter to 4.2% – just a few tenths of a percentage point above its (very low) pre-crisis rate. There are no signs of any upward pressure on unemployment from the closure of the furlough scheme, confounding many forecasters' fears of a second wave of job losses. Employment also continues to rise, up by 0.2 percentage points to 75.5%. However as Figure 1 below shows, while unemployment is back close to pre-crisis rates employment still has a lot of ground to make up – with the difference explained by continued high rates of 'economic inactivity' (meaning those who are neither looking nor available for work). The employment rate remains around one percentage point lower than before the pandemic, with economic inactivity around one percentage point higher.

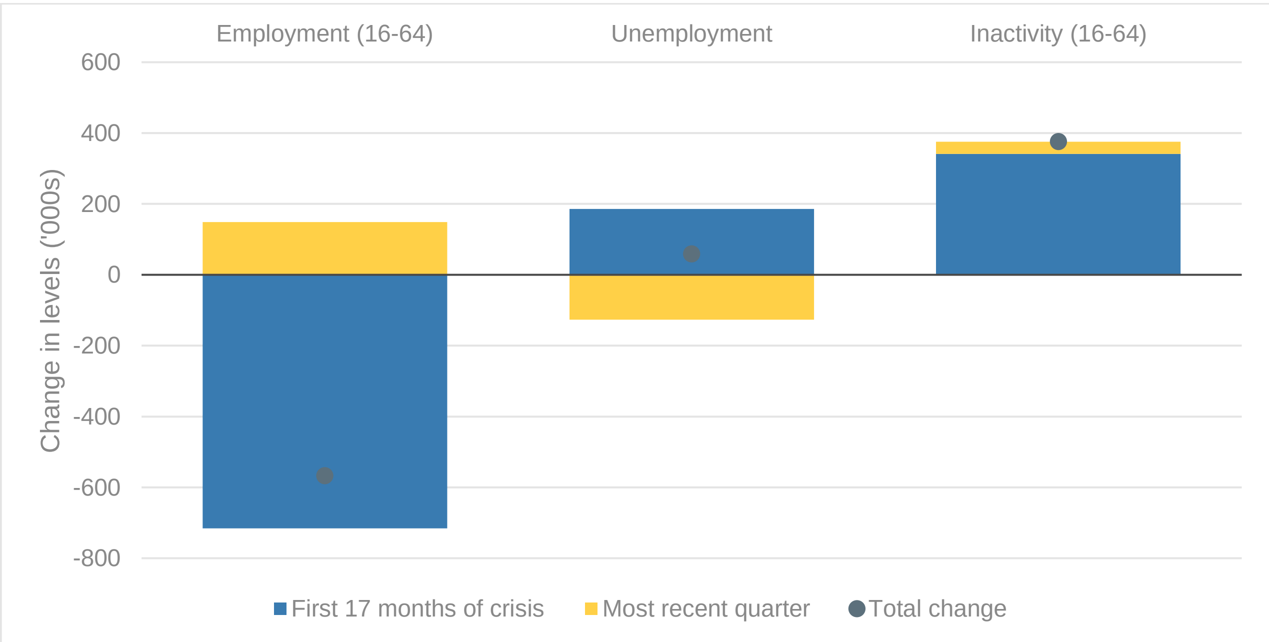
More timely data from the tax system (the 'Pay As You Earn' Real-Time Information data) also suggests that the recovery is continuing, with a 'flash' estimate of an additional 257 thousand employee jobs in the month of November. However, it should be noted that these flash estimates are subject to significant revision, with the October estimate reported last month being more-than-halved from 160 thousand to 74 thousand; while PAYE jobs continue to grow faster than estimates for employment overall, likely reflecting reclassification of self-employed workers as employees (covered in more detail later in the briefing). As such, given the unreliability of the flash estimates and the wider coverage of the Labour Force Survey, we continue to lead on analysis of the LFS.

Figure 2 then shows changes in the levels of employment, unemployment and economic inactivity over the last quarter (yellow), previous seventeen months since the start of the crisis (blue) and overall (black dots). This illustrates that while unemployment and employment are improving, economic inactivity if anything appears to be increasing. Overall, there remain 570 thousand fewer people in work than before the crisis began – with just 60 thousand more people unemployed, but 380 thousand more economically inactive.

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

Source: Labour Force Survey

Figure 2: Changes in employment, unemployment and economic inactivity: first seventeen months of the crisis (Dec-Feb 2020 to May-Jul 2021) and most recent quarter (May-Jul 2021 to Aug-Oct 2021)

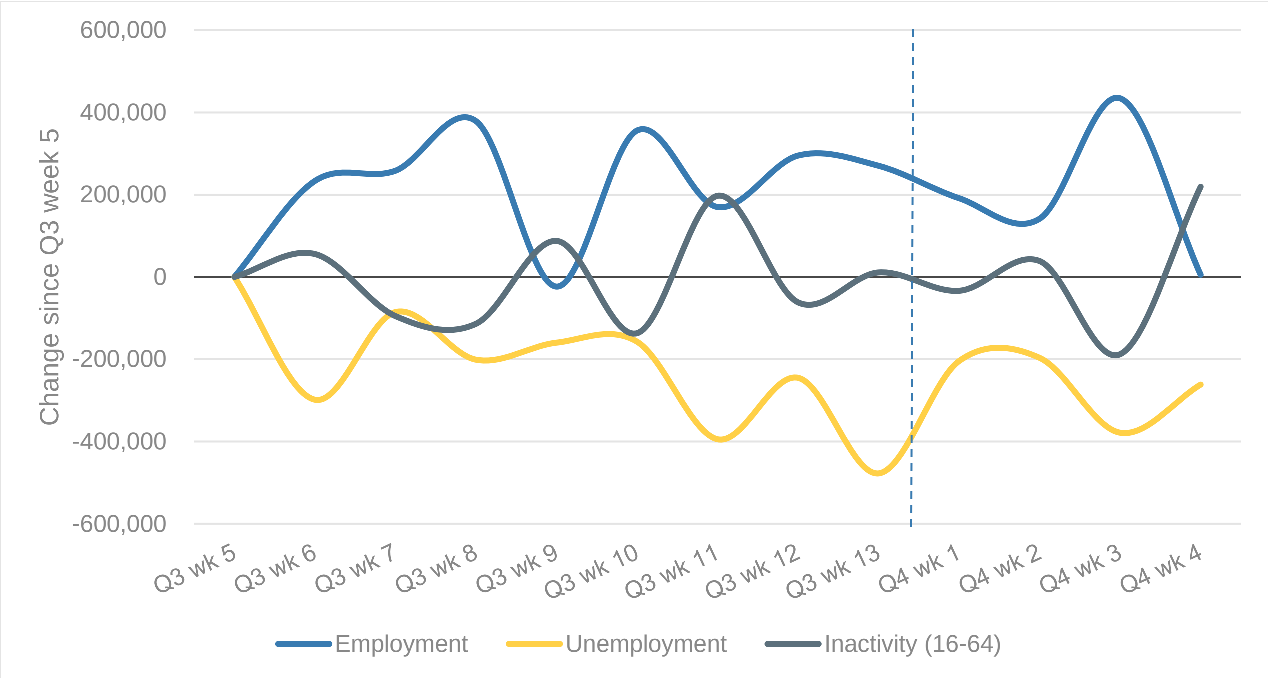


Source: Labour Force Survey

The ONS also publishes weekly estimates for key labour market indicators, which enables us to look specifically at whether there has been any discernible impact yet from the closure of the furlough scheme at the end of September. These are set out in Figure 3 below, with the end of September shown as a dotted vertical line. These are *weekly estimates of quarterly changes*, compared with the first week of August (Quarter 3, week 1). These weekly estimates are then averaged to generate the overall quarterly figure.

Weekly estimates are subject to significant sampling variability and so care should be taken in interpreting individual values. But broadly, the data suggests that the overall quarterly growth in economic inactivity was driven by growth in October in particular, while employment fell only very slightly and unemployment was largely unchanged. So the end of furlough was associated with a small rise in economic inactivity rather than any rise in unemployment.

Figure 3: Change in employment, unemployment and economic inactivity over the three months August to October 2021 (compared with first week in August)

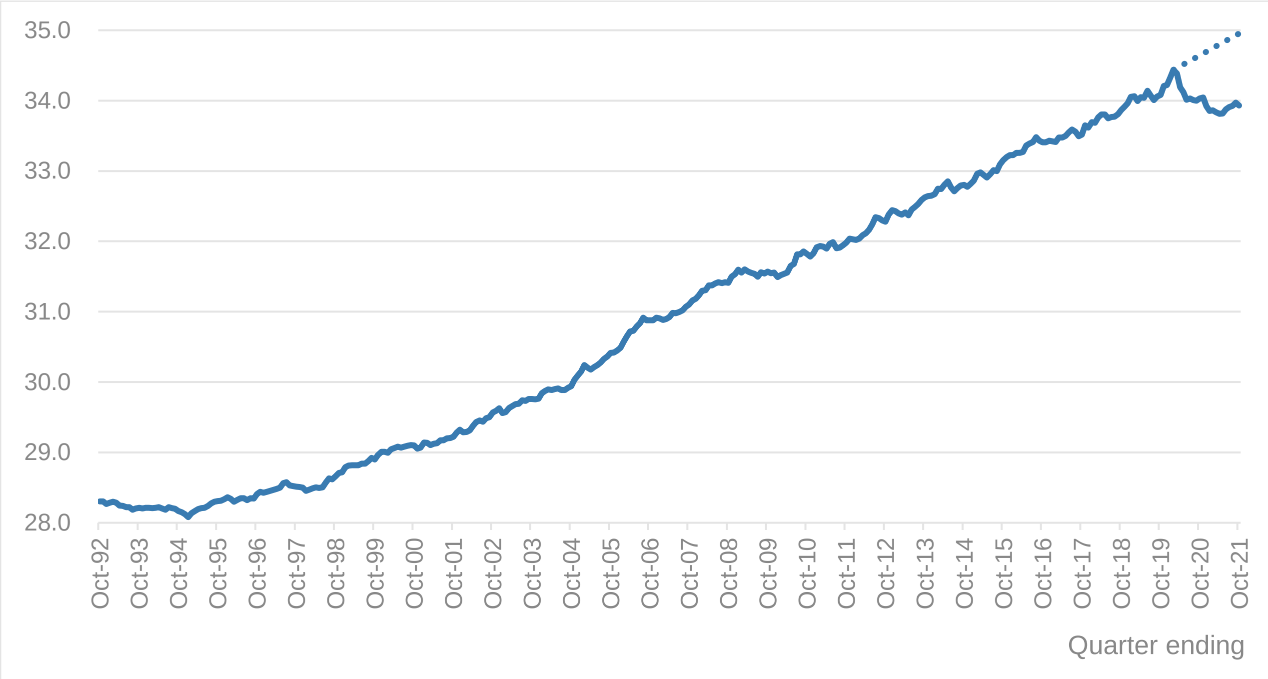


Source: Labour Force Survey weekly estimates

The participation crisis appears if anything to be getting worse – especially for older people

Rising economic inactivity combined with a slightly smaller population means that participation in the labour market overall is falling; which as we have reported in previous months has reversed the trend of the last thirty years, which has seen participation rise (through recession and recovery) as the economy and population have both grown. This is illustrated in Figure 4 below, with the participation 'gap' between current economic activity and what it would have been on pre-crisis trends now rising – reaching 1.0 million compared with 960 thousand in last month's briefing.

Figure 4: Level of economic activity – actual and if pre-crisis trend had continued



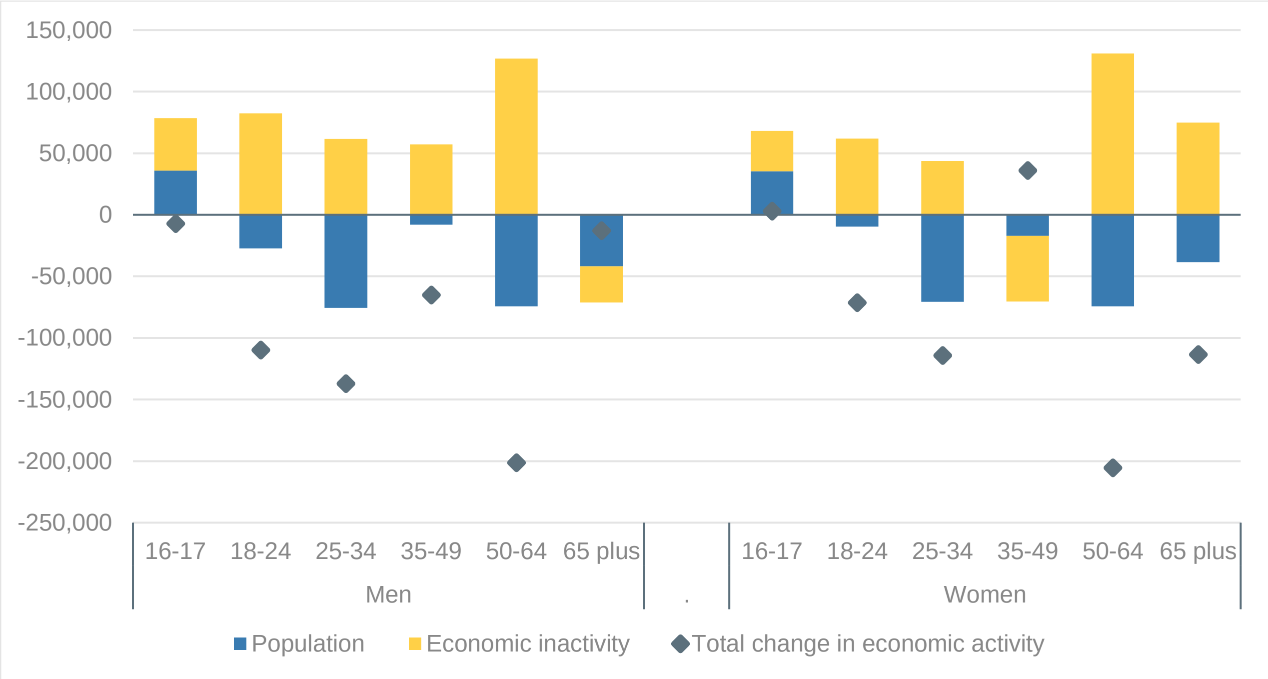
Source: Labour Force Survey and IES estimates

As with previous months, Figure 5 breaks this participation gap down by age and gender, and by how far it is explained by a smaller population (blue bars) or by higher economic inactivity (yellow bars) – i.e. a negative change in the blue bar is a *lower* than expected population, while a positive change in the yellow bar is a *higher* than expected level of economic inactivity. The total change in activity levels is therefore the blue bar minus the yellow bar, and is illustrated by the black dots.

This shows that overall, just over two thirds (37%) of the change in activity is explained by a smaller population, while the remainder (63%) is explained by higher economic inactivity. Lower population will reflect both lower net migration (than pre-crisis trends) and demographic changes, with migration likely to account for between a quarter and a third of the gap overall. More broadly however, Figure 5 shows that the participation gap is being driven by fewer older people in the labour market, down by 530 thousand (compared with 500 thousand last month) and with two thirds of this explained by women (despite far fewer older women being in work than older men).

Participation is also lower than pre-crisis trends for younger people, driven particularly by more young people staying in education; while for those aged 25-39, lower participation is driven by lower population (i.e. net migration) more than economic inactivity – although more detailed analysis suggests that both men and women aged 25-39 have seen inactivity due to ill health increase, with offsetting falls for women in those economically inactive due to caring responsibilities.

Figure 5: Changes in economic inactivity and population by age and gender, compared with pre-crisis trend

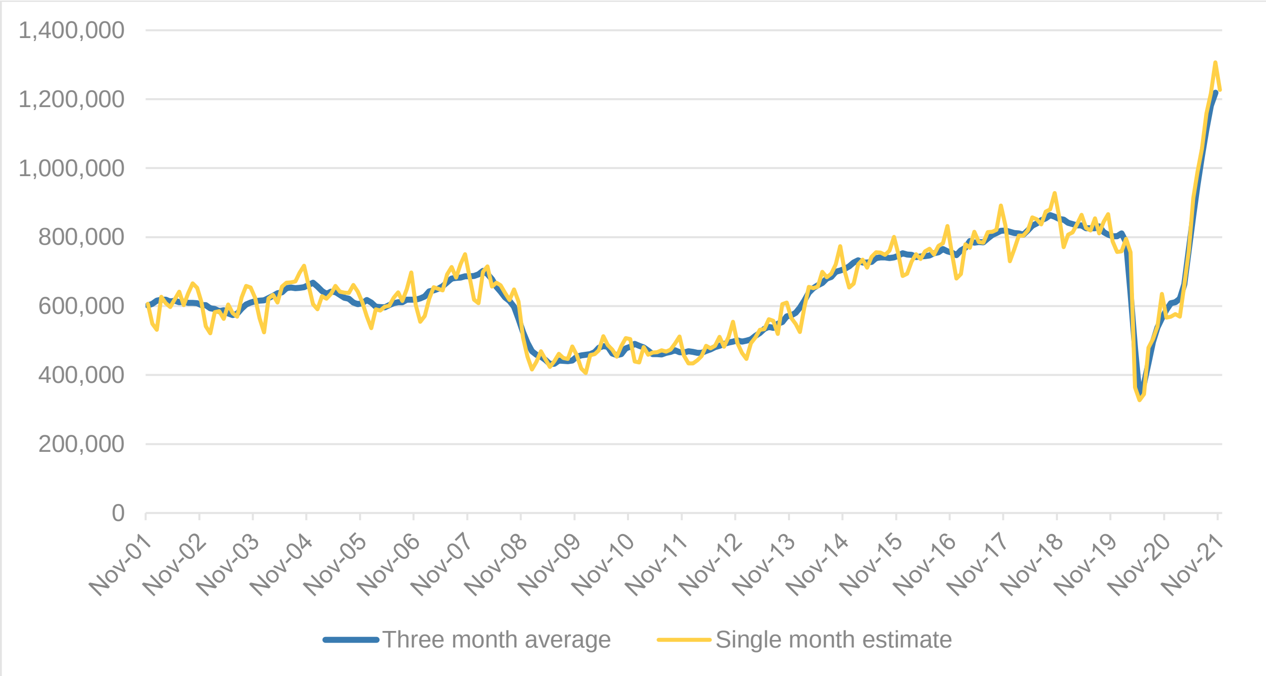


Source: IES estimates based on Labour Force Survey

Falling participation is despite record jobs vacancies – again fuelling the tightest labour market in 50 years

These falls in labour force participation, and particularly the recent rises in economic inactivity, are surprising and concerning given that vacancies remain at their highest ever levels. As Figure 6 below shows, there were 1.22 million vacancies on average between September and November, compared with 1.14 million in the previous quarter. The single month estimate for November has fallen back slightly, to 1.23 million from 1.31 million the month before, but this remains eye-wateringly high – more than double the level this time last year, and 50% higher than the (record breaking) levels before the crisis began.

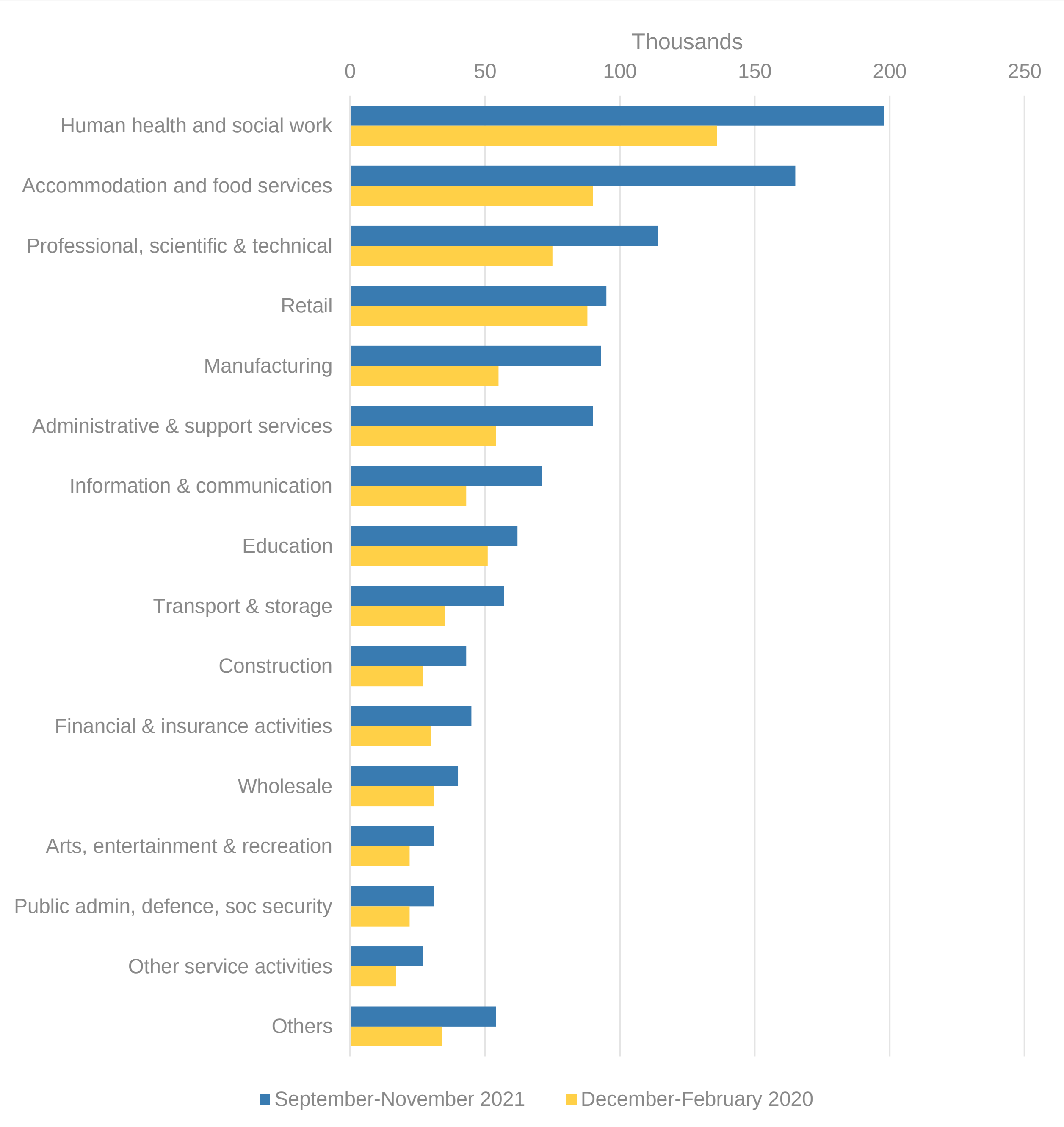
Figure 6: Vacancies – quarterly and single-month estimates



Source: ONS Vacancy Survey

We also continue to see vacancies above pre-crisis levels in every single industrial category (Figure 7), with again health, social care, hospitality and "professional" jobs (like law, accountancy, engineering and science) leading the way. Some of this growth, particularly in hospitality, reflects problems in getting the right people into the right jobs as restrictions have eased and furlough ended, but most of it appears to reflect labour shortages that are showing no signs of easing.

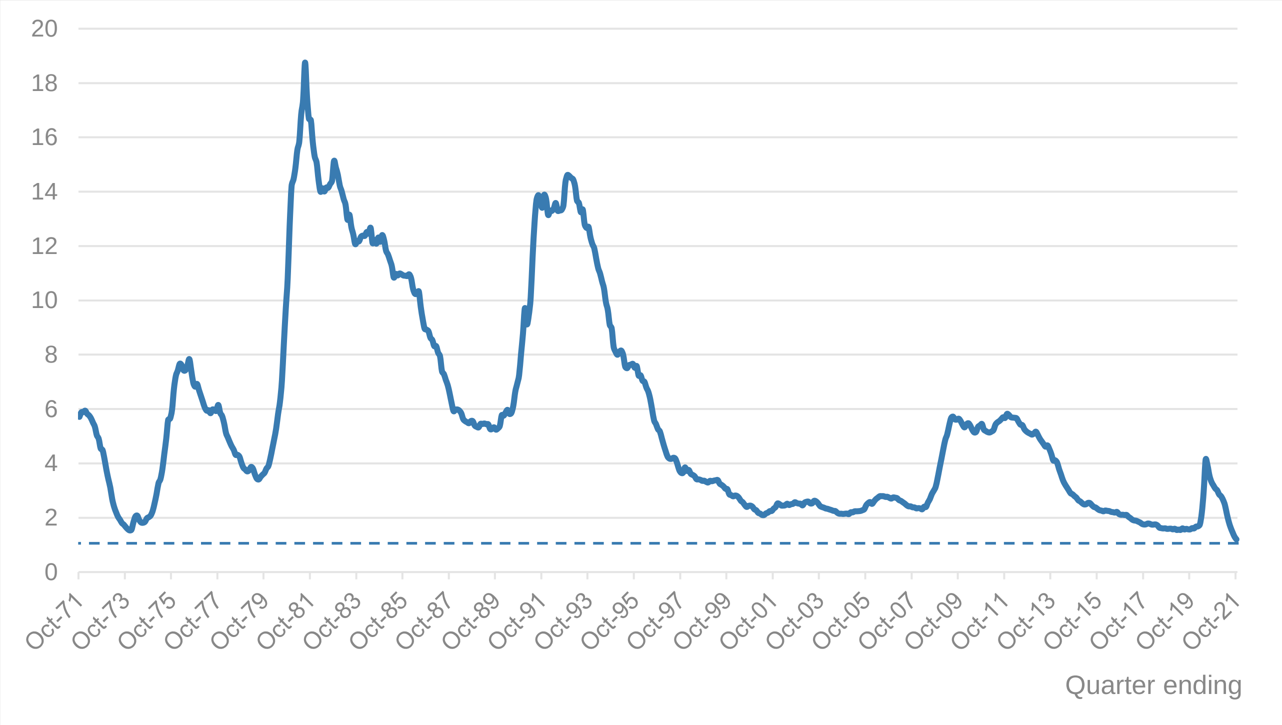
Figure 7: Vacancies by industry, pre-crisis and latest data



Source: ONS Vacancy Survey

Again as with last month, very high vacancies and very low unemployment means that the number of unemployed people per vacancy continues to plumb depths not seen since at least the 1960s. This 'U:V ratio' indicates the size of the labour pool in relation to demand from employers, and is an important measure of how tight or loose the labour market is. The figure now stands at 1.2 unemployed per vacancy, compared with 1.3 a month ago and 3.2 at this time last year. Figure 8 below sets this out back to 1971 and suggests that over the last half-century this ratio has never been lower than 1.5. Labour demand continues to outstrip supply, with the end of furlough making no apparent difference, and these shortages now threatening to hold back growth, contribute to shortages and push up inflation.

Figure 8: Unemployed people per vacancy (exc. Agriculture, forestry and fishing)

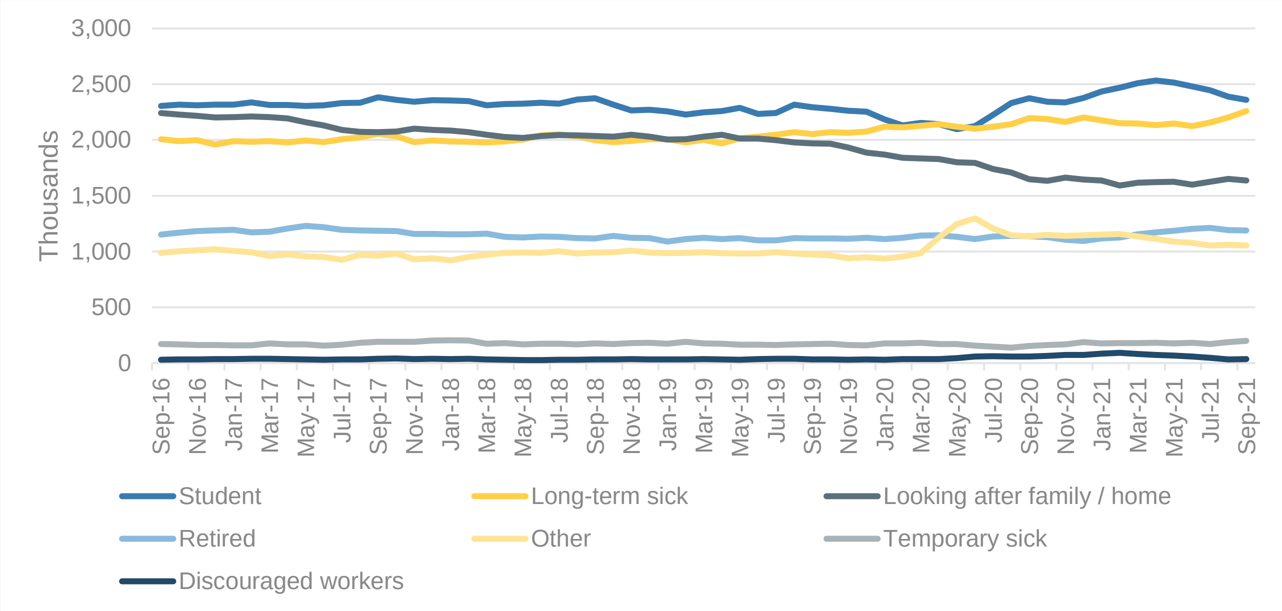


Source: ONS Labour Force Survey and Vacancy Survey

Reasons for worklessness are changing, with ill health and early retirement on the rise as student numbers fall

Of even more concern in today's figures, the slight rises in economic inactivity in recent months disguise more worrying compositional changes in the reasons why people are not in the labour force. Figure 9 shows that overall, being a student remains the most common reason for economic inactivity and the largest source of growth during the crisis. However ill health, and particularly long-term ill health, has been rising significantly this year, with early retirement also up. Overall there are now 2.5 million people economically inactive due to ill health, the highest figure since 2005. At the same time, the number of people looking after their family or home has fallen back (trends that we have discussed in more detail in previous briefings). Inactivity for 'other' reasons also spiked during the crisis, as people moved out of work for example due to shielding or concerns around safety.

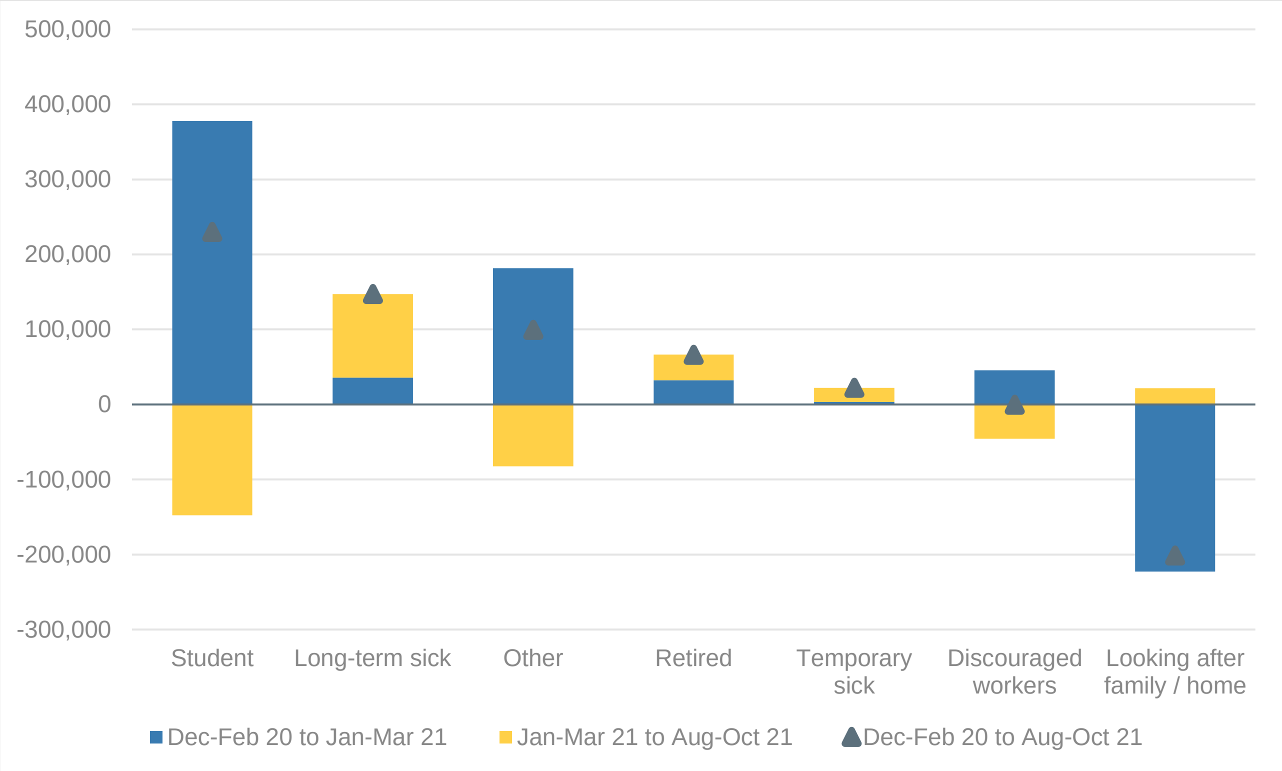
Figure 9: Reasons for economic inactivity



Source: Labour Force Survey

Figure 10 then shows the changes in levels of economic inactivity overall over the crisis (black dots), broken down into the period up to the third lockdown (January-March 2021) and since then. This shows that since the first quarter of 2021, economic inactivity due to ill health and early retirement has risen by over 165 thousand, while inactivity for all other reasons combined has fallen by over 255 thousand. It is likely that 'long covid' and clinical vulnerability to covid will be contributing to these rises, but it is also likely that they reflect people with pre-existing conditions who were previously in work becoming increasingly detached from the labour market, especially older people.

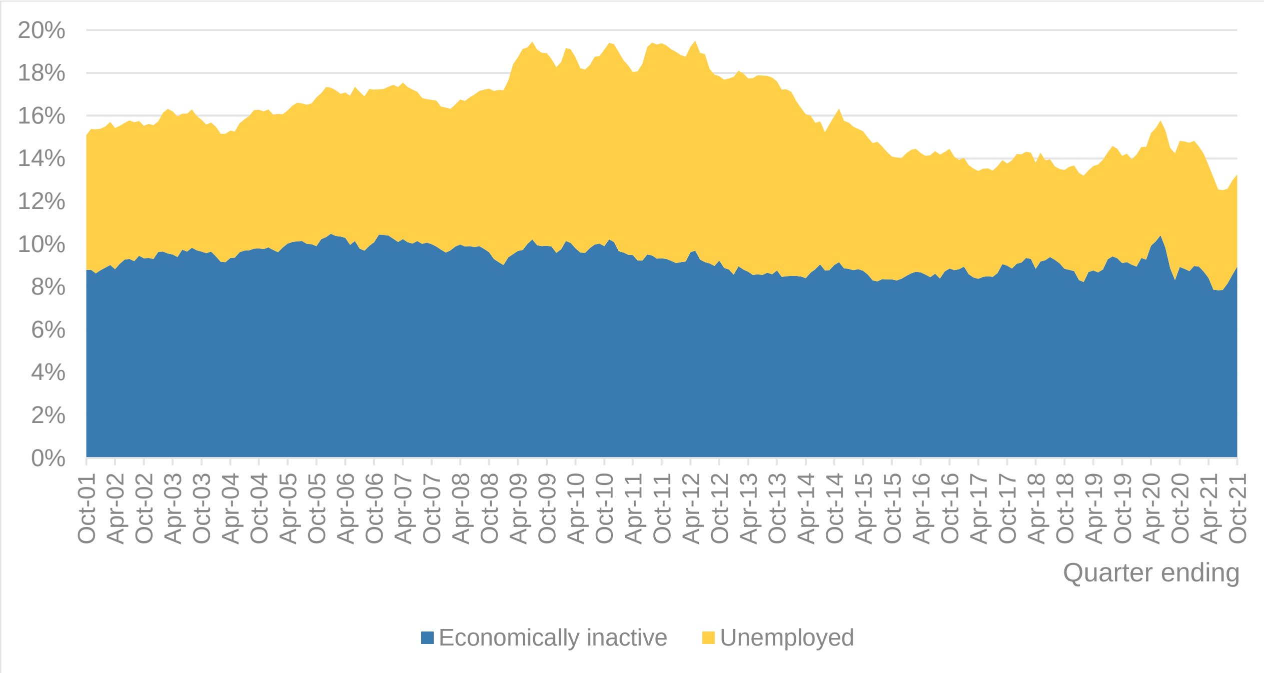
Figure 10: Change in levels of economic inactivity by reason – to end of third lockdown (Dec-Feb 2020 to Jan-Mar 2021), period since (Jan-Mar 21 to Aug-Oct 21) and overall



Source: Labour Force Survey

It should also be noted that recent months have seen worrying signs of growth in economic inactivity among young people not in full-time education. This has risen by 75 thousand in the last quarter, which is the joint-highest rise in at least thirty years (tied with an increase of the same amount during the first Covid-19 lockdown). This is shown in blue below, with 8.9% of all young people not in education or work and not looking for work. A further 4.3% are not in education or work but are unemployed, which is the lowest proportion on record. In other words, the rates of young people not in education or employment are ticking up again, with this being entirely explained by higher economic inactivity. (This also means that the employment rate for young people not in full-time education has actually started to fall even while employment among students is rising, despite there being over a million vacancies in the economy.)

Figure 11: Proportion of all young people (16-24) who are not in full-time education and either unemployed or economically inactive

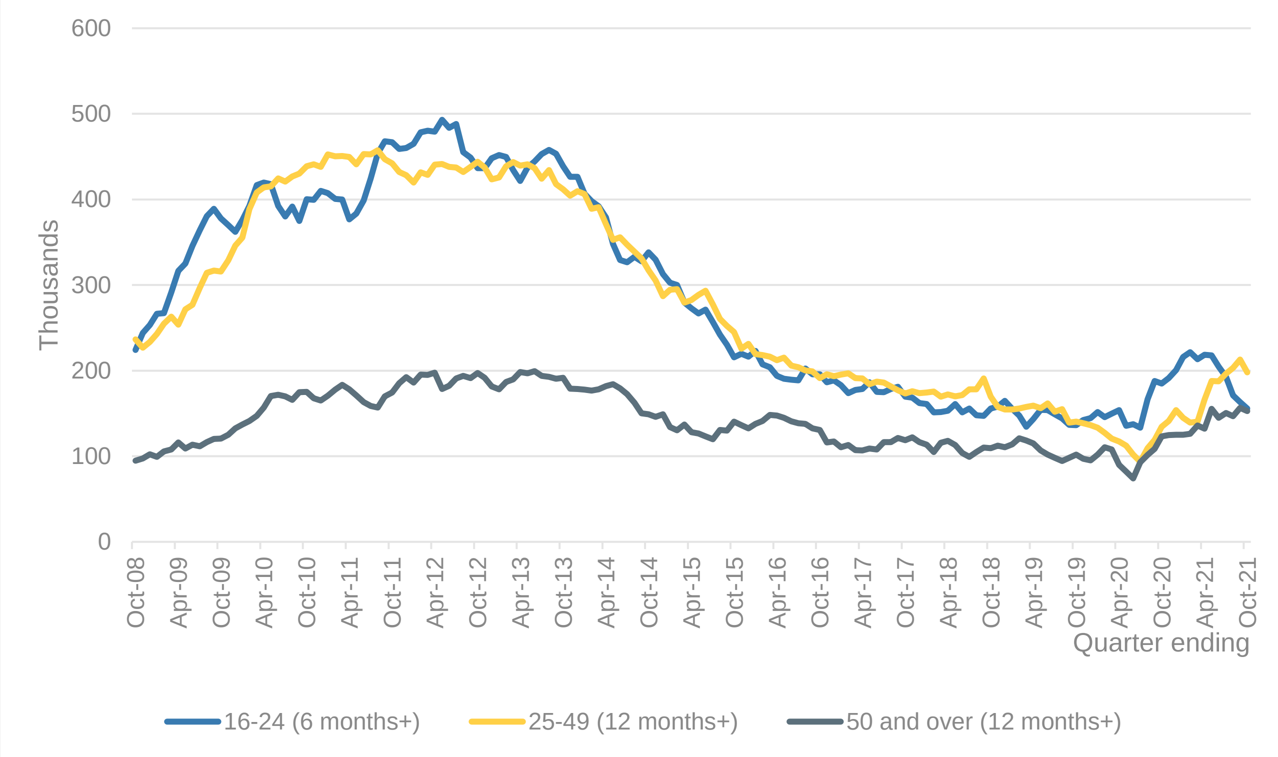


Source: Labour Force Survey

More positively, long-term unemployment is falling for young people and may be levelling off for other ages

While economic inactivity is rising, data on long-term unemployment (Figure 12 below) tells a somewhat better story – with long-term unemployment for young people (which we define as more than six months) virtually back to pre-crisis levels, while for older age groups (twelve months or more unemployed), it shows signs of levelling off. As noted in previous months, this levelling off for over-50s in particular may well reflect more people moving into economic inactivity. However across all age groups the impacts have been far less severe than in the last recession, and the large falls for young people are likely to reflect both the recovery in demand and the success of policy measures targeting long-term unemployed young people in particular.

Figure 12: 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.

While the employment gap continues to be explained by fewer self-employed, especially among men

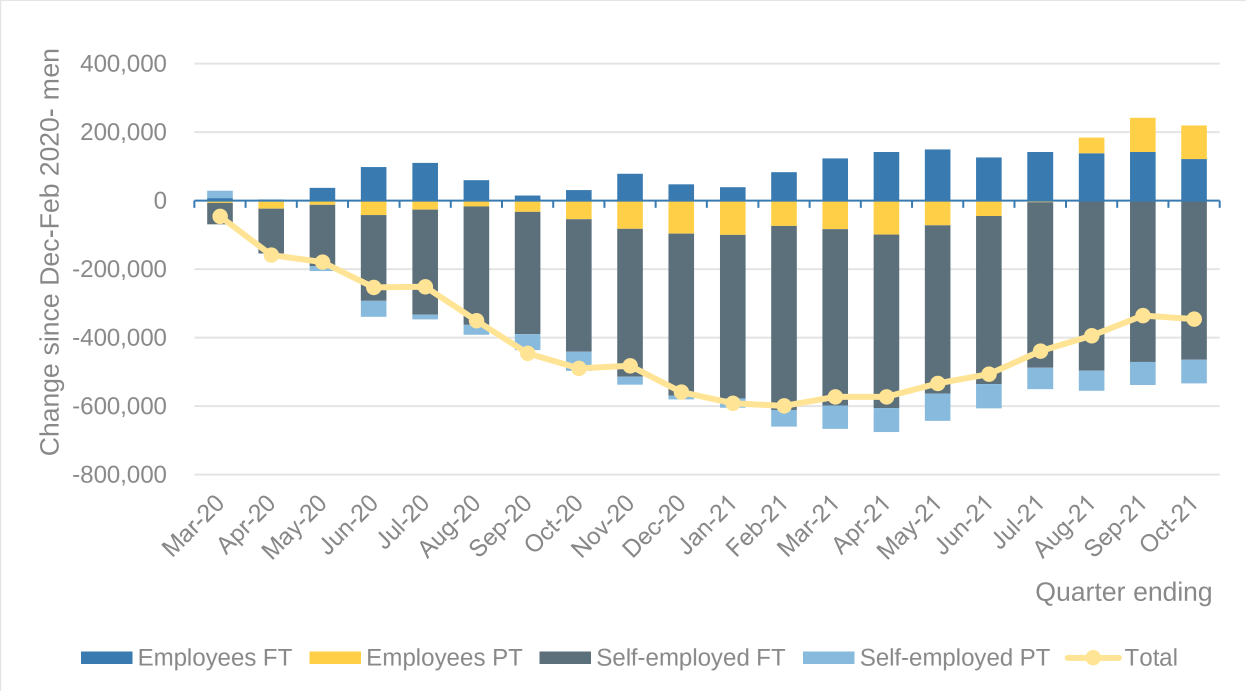
Looking more closely at what is driving changes in employment, Figure 13 below shows the change in part-time, full-time, employee and self-employed work for men and women compared with when the crisis began (with the line then showing the overall change). This illustrates that the large employment gap continues to be explained by lower self-employment, with employee jobs now back up above pre-crisis levels. As noted at the start of this briefing, the 'real time' PAYE data is for employees only and also finds that employee numbers are above pre-crisis levels.

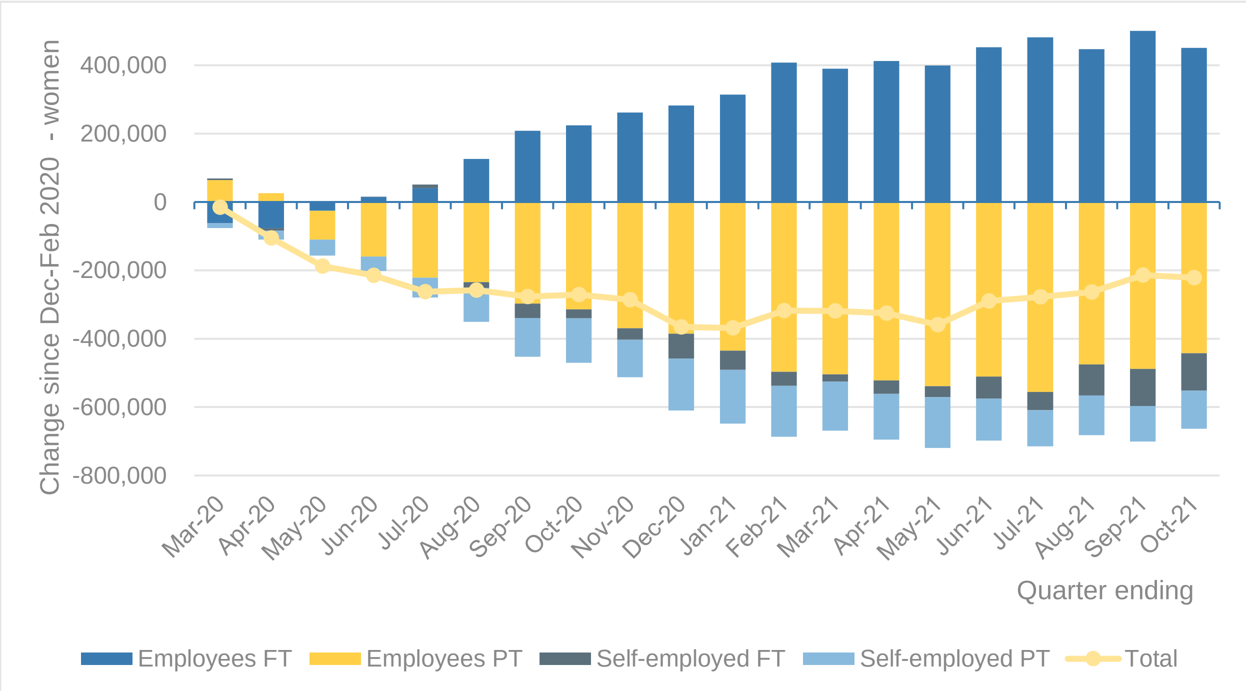
Self-employment is now at its lowest share of total employment since 2009 (13.1%), although it should be noted that some of this fall likely reflects people doing the same jobs as they were pre-crisis but now describing themselves as employees – either because they have been brought onto company roles as a result of the IR35 changes made in the spring, and/ or due to workers becoming clearer about their own employment status during the pandemic (for example if they previously reported being self-employed but were furloughed as employees). These self-employment impacts are most pronounced for men, reflecting in particular the fact that men are more likely to be self-employed than women.

The graph also shows a significant shift from part-time to full time employee work for women; but that part-time employee work has started to recover in recent months, both for men and women (up by 280 thousand since the spring). This is welcome, given the barriers that many people face in returning to work due to hours flexibility and the high levels of over-employment reported in last month's briefing; although part-time work remains more than half a million lower for women than it was before the crisis began.

Overall, employment for men is down by 350 thousand for men (2.0%) and by 220 thousand for women (1.4%) compared with the eve of the crisis.

Figure 13: 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)



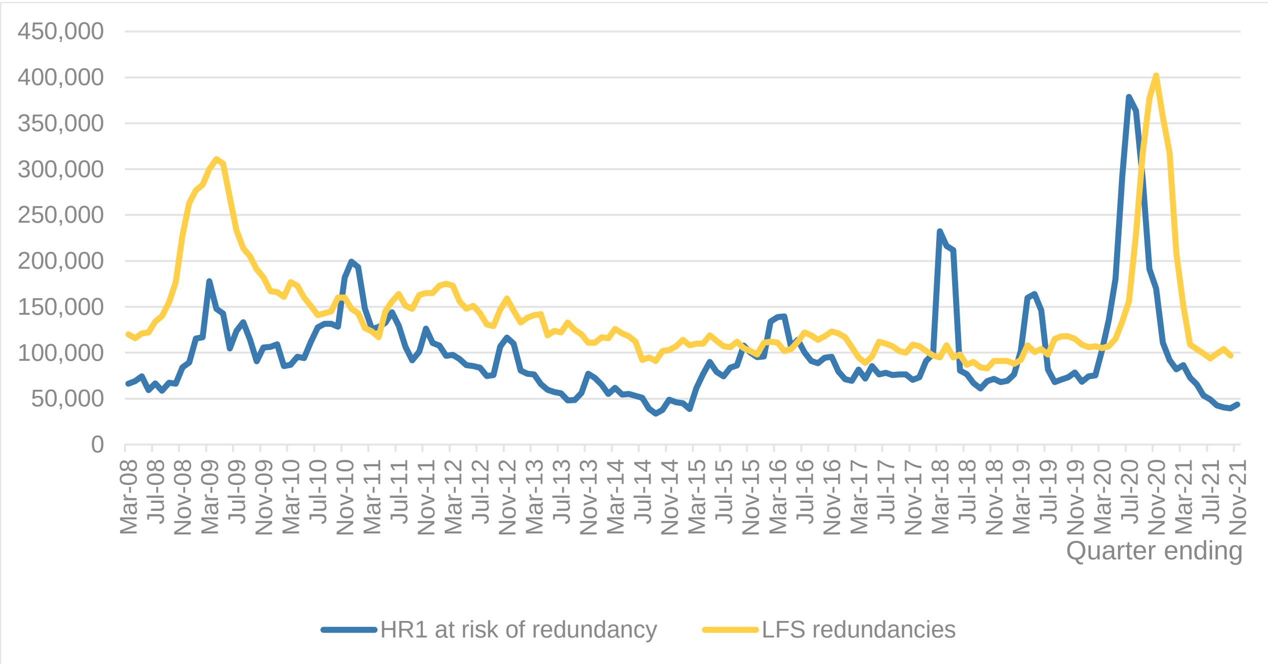


Source: Labour Force Survey

Redundancies have definitely returned to pre-crisis levels, with no signs of an increase as furlough ended

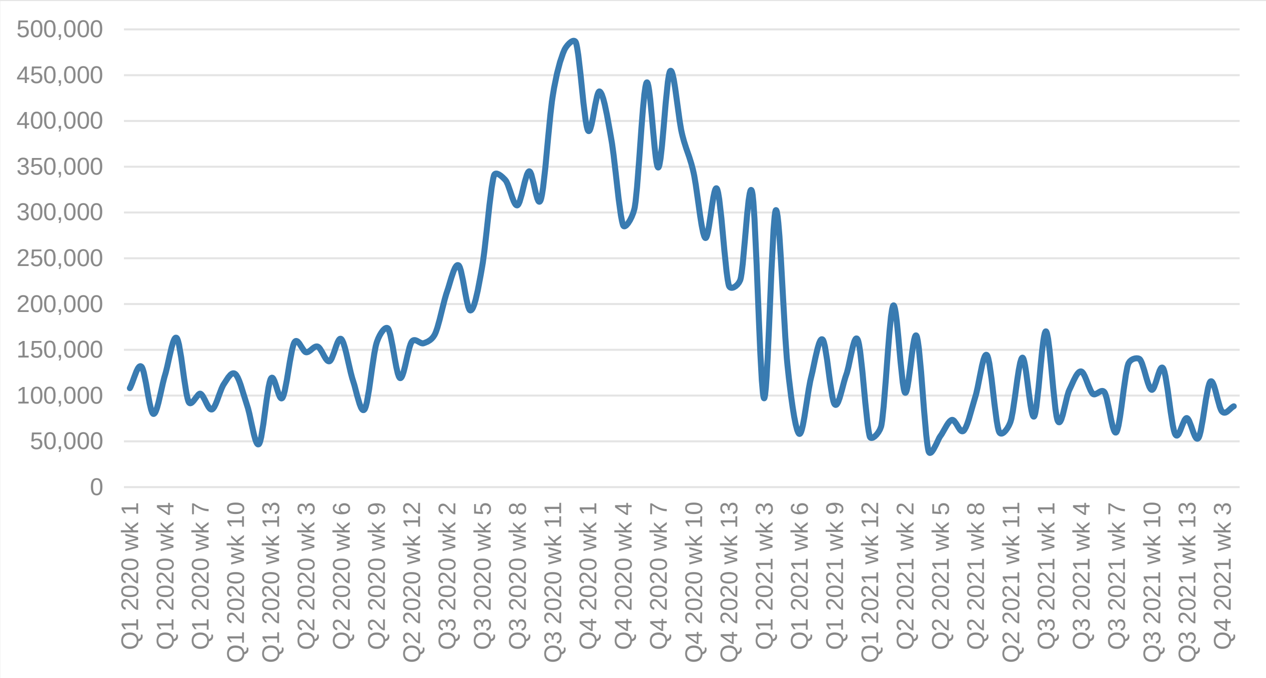
Finally, the latest redundancy data shows that (as anticipated) the furlough scheme has had no discernible impact on redundancies. The quarterly average for the number of people made redundant in the previous three months remains at pre-crisis levels (around 100 thousand) while the number of jobs notified by employers as being at risk of redundancy via HR1 forms sent to the Insolvency Service continue to edge down to levels last seen in 2015 (before rules on reporting redundancies from company insolvencies were tightened up). These are shown in Figure 14 below. The weekly data through to the end of October is presented in Figure 15 and shows redundancies flat through October, while real-time [Google Trends](https://trends.google.com) data is also flat.

Figure 14: 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

Figure 15: Whether made redundant in the last three months – weekly estimates, January 2020 to October 2021



Source: Labour Force Survey weekly estimates

Conclusion

Today's figures overall are disappointing. Behind the headline fall in unemployment and growth in employment, economic inactivity appears to be ticking up even as vacancies reach new record levels. This means that the 'participation gap' appears to be widening when it should be falling, and the labour market continues to tighten – holding back growth and contributing to shortages. Of even more concern, higher economic inactivity is being driven by ill health and early retirement.

More positively, the end of furlough does not appear to have had any significant negative impact on the labour market and long-term unemployment is falling. By coincidence, these two areas – protecting jobs and tackling long-term unemployment – were also the main focus of the Plan for Jobs, and perhaps illustrating how good public policy and delivery can make a difference in the labour market.

Sadly, looking ahead, it appears to be increasingly likely that rising Covid-19 cases will mean that further restrictions will be needed in the new year which may lead to temporary lay-offs and a falling back in vacancies. If this happens, then the government needs to be ready to step in with temporary furlough and income support for those affected, to minimise unnecessary job losses and protect incomes. However we will also enter the year with nearly half a million more people out of work than before the crisis, and the large majority of these people not looking for work.

So a new Plan to protect jobs needs to be matched by a Plan for Participation, to help those already out of work to get the support that they need to prepare for and get back in. As we have said in previous months, this needs to include more targeted support for those with long-term health conditions, older people, parents and disadvantaged young people (including through a meaningful jobs guarantee for young people); as well as better access to specialist support around health, childcare, retraining, housing, treatment services and so on.

We also need to improve support for employers in filling jobs and making work better, and firms themselves need to do more too – through more inclusive recruitment, better job design (particularly around shift notice, patterns and flexibility), improved induction and in-work training, and workplace support with health, caring and wider needs.

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.

Institute for Employment Studies, City Gate, 185 Dyke Road, Brighton, BN3 1TL United Kingdom

www.employment-studies.co.uk

@EmploymtStudies

01273 763400