ies Briefing

Institute for Employment Studies

# Labour Market Statistics, February 2023

**15 February 2023**

This briefing note sets out analysis of the Labour Market Statistics published yesterday. 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 December 2022 (the most recent quarter being October to December 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 January 2023, and the Wages and Salaries Survey to December 2022.

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

This month's figures show a continued trend of gradual improvement, with employment edging up and 'economic inactivity' (those people not looking and/ or not available for work) edging down. However, falls in economic inactivity have been driven mainly by fewer students overall, with worklessness due to long-term ill health in particular remaining very high. Worryingly this month, the number of young people outside full-time education or employment has reached one million for the first time in nearly a year.

Data on employment rates for disabled people is also disappointing, with the employment 'gap' to non-disabled people remaining wider than it was before the pandemic and with disabled people still two-and-a-half times more likely to be out of work than their non-disabled peers. Employment gaps are also wider for older people and for young people outside of full-time education. And despite a slight improvement in employment for older people in the most recent quarter, they continue to account for three quarters of the growth in economic inactivity since the pandemic began.

There are also continued signs of slight weakening in the labour market, with vacancies continuing to fall – mainly due to fewer job openings in private sector services,

redundancies rising, and short-term unemployment up. All figures remain better than they were before the pandemic, but all appear to be trending in the wrong direction.

Data on labour market flows shows that in part, the rise in unemployment is being driven by more people leaving economic inactivity. There has also been a rise in those leaving economic inactivity for work, which is welcome, although more analysis is needed to understand which people are leaving, given that recent analysis (by IES and others) has shown that higher economic inactivity is primarily being driven by more people staying out of work for longer (rather than by higher inflows to economic inactivity). It is possible, for example, that higher flows out are explained by more students entering work and by more people returning from short-term sickness (both of which are above pre-pandemic levels).

Finally, pay data continues to show strong growth in nominal pay (of around 6.5%) while real pay continues to fall due to very high inflation. This means that pay in real terms is now back to where it was on the eve of the pandemic.

Overall then, the gradual improvement in this month's figures is welcome but the underlying data suggests that many of those most disadvantaged in the labour market are still losing out. There is also a long way to go to raise participation in work and support higher incomes, lower inequality and stronger growth. All the signs are that next month's budget will focus on addressing these challenges, and it could not be more timely. We believe that there needs to be action in four areas:

- Improved access to employment support for those out of work, who want to work but aren't currently looking – either by extending access to existing provision like Restart and the Work and Health Programme, and/ or by commissioning new, partnership-based support;
- Help with addressing the costs of working – particularly around childcare, travel to work and workplace adaptations;
- More support for employers – and higher expectations – around inclusive recruitment, flexibility at work, job design and support; and
- Trialling new approaches to supporting health and wellbeing at work – including better help for workers and employers to keep people well at work and support rapid returns to work when people leave.

## Employment and economic inactivity are continuing to improve, albeit slowly

This month's figures see employment continue to edge up, while economic inactivity is edging down – continuing the trend of recent months. The employment rate is now 75.6%, up by 0.1 percentage points on the previous quarter and on the same time last year, while economic inactivity is 21.4% – down by 0.2 percentage points on the quarter and by 0.1 points on the year. Unemployment is up very slightly on the quarter (by 0.1 points to 3.7%) but is still below the 4% figure of a year ago. The slight rise in unemployment

appears to be being driven by a combination of slightly higher flows into unemployment both from employment and economic inactivity.

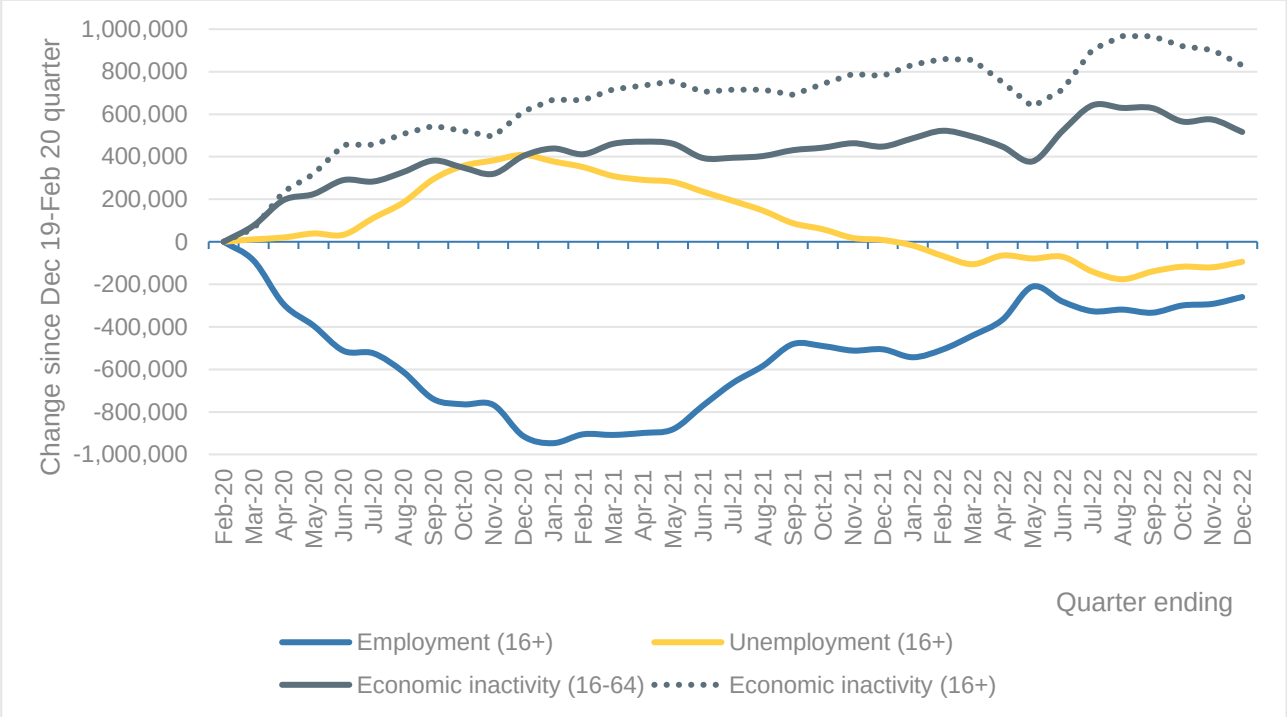
This is set out in Figure 1 below, showing the quarterly averages in blue with the single month estimates (which make up the quarterly average) shown in yellow. Progress overall remains slow though, with employment still nearly one percentage point lower than it was before the pandemic, and economic inactivity more than one percentage point higher.

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


*Source: Labour Force Survey*

Looking at changes in *levels* of employment, unemployment and economic inactivity illustrate this, as Figure 2 sets out. There are 260 thousand fewer people in work than before the pandemic, and 515 thousand more people aged 16-64 who are economically inactive – rising to 830 thousand if people aged over-65 are included. With unemployment around 95 thousand lower than before the pandemic began, the overall labour force is more than 350 thousand smaller than pre-pandemic – the most significant reversal in labour force participation that we have seen in more than thirty years.

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

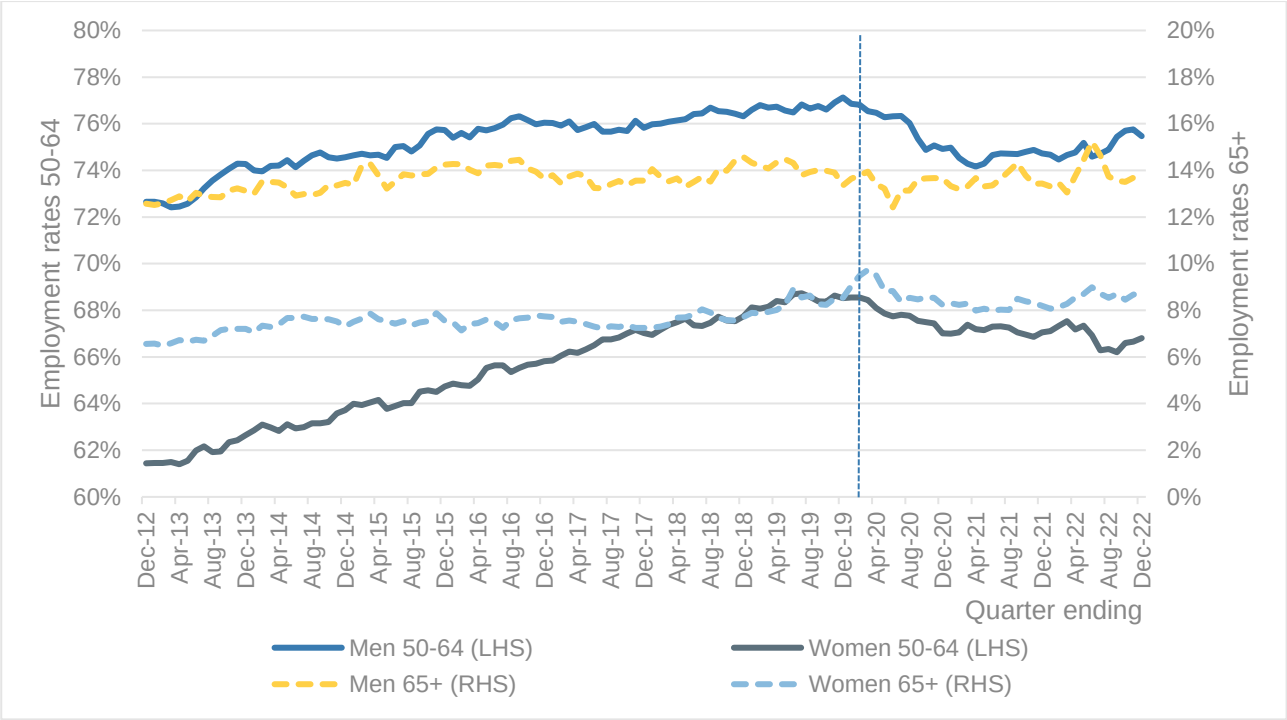



*Source: Labour Force Survey*

The slight improvement in employment over the last quarter has been even more pronounced for older people, with employment of over-50s rising by 60 thousand compared with the July-September quarter. This means that the level of employment among over-50s is now only 35 thousand lower than it was on the eve of the pandemic. However the over-50s population has also grown considerably over this period, and looking at employment *rates* the picture is far less positive. Figure 3 below sets this out, showing employment rates for men and women aged 50-64 (the solid lines, on the left hand scale) and for those aged 65 plus (the dotted lines, on the right hand scale).

This shows that employment rates for both men and women aged 50-64 remain well below pre-pandemic, having grown strongly for two decades prior (particularly for women). The very recent improvement over the last quarter has primarily been driven by a small recovery in employment among women. Meanwhile the trend in employment rates for those aged over 65 has been broadly flat since the pandemic, for both men and women.

**Figure 3: Employment rates for men and women aged 50-64 (left hand scale) and 65 or over (right hand scale)**

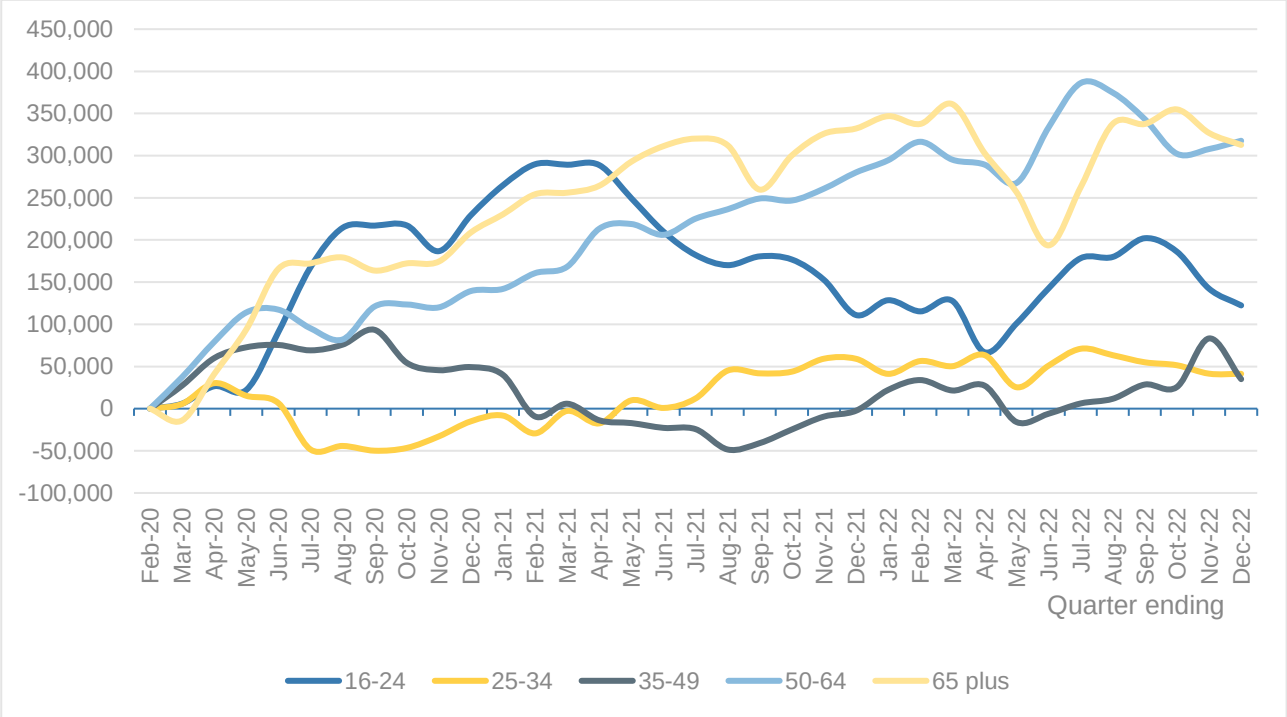



*Source: Labour Force Survey*

## Lower economic inactivity is mainly due to fewer students and early retired, with ill health still very high

With employment rates for older people still well below pre-pandemic, this means that older people continue to make up the vast majority of the rise in economic inactivity since early 2020. As Figure 4 below shows, economic inactivity among older people has grown by more than 600 thousand (accounting for three quarters of the total growth). Economic inactivity is broadly flat for people aged 25-49, and falling for those aged 16-24.

**Figure 4: Change in level of economic inactivity by age since start of Covid-19 pandemic (December 2019-February 2020 quarter)**



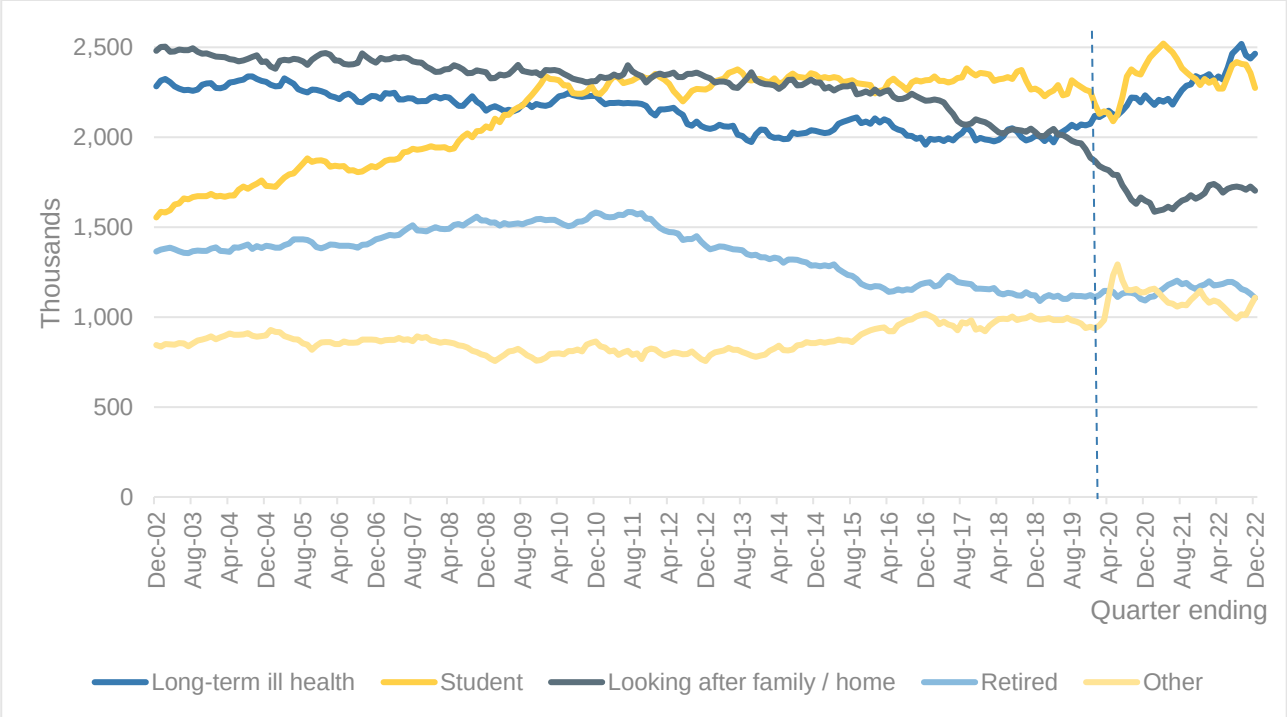

*Source: Labour Force Survey*

This decline in economic inactivity for younger people is being driven by fewer economically inactive students, which have fallen by 140 thousand in the last quarter. This is illustrated in Figure 5, showing economic inactivity by the main reasons given (the yellow line is students). Long-term ill health (blue) is also down on the quarter, by about 55 thousand, but this appears to be stabilising at around 2.5 million people – comfortably its highest ever level.

Economic inactivity due to early retirement is also down, by about 50 thousand, and is now back below pre-pandemic levels. It is not surprising that this is falling back, as older people who need to stay in work (because of rising costs of living) or want to stay (because of rising wages) will likely be offsetting the higher numbers who left during the pandemic. There is little evidence so far however to support the idea that people who retired in 2020 and 2021 are now coming back.

Interestingly, those economically inactive for ‘other’ reasons is also up (by about 90 thousand on the quarter) which includes things like people waiting for a job to start and people who do not need to work.

**Figure 5: Levels of economic inactivity for the five main reasons given, 2002-present**



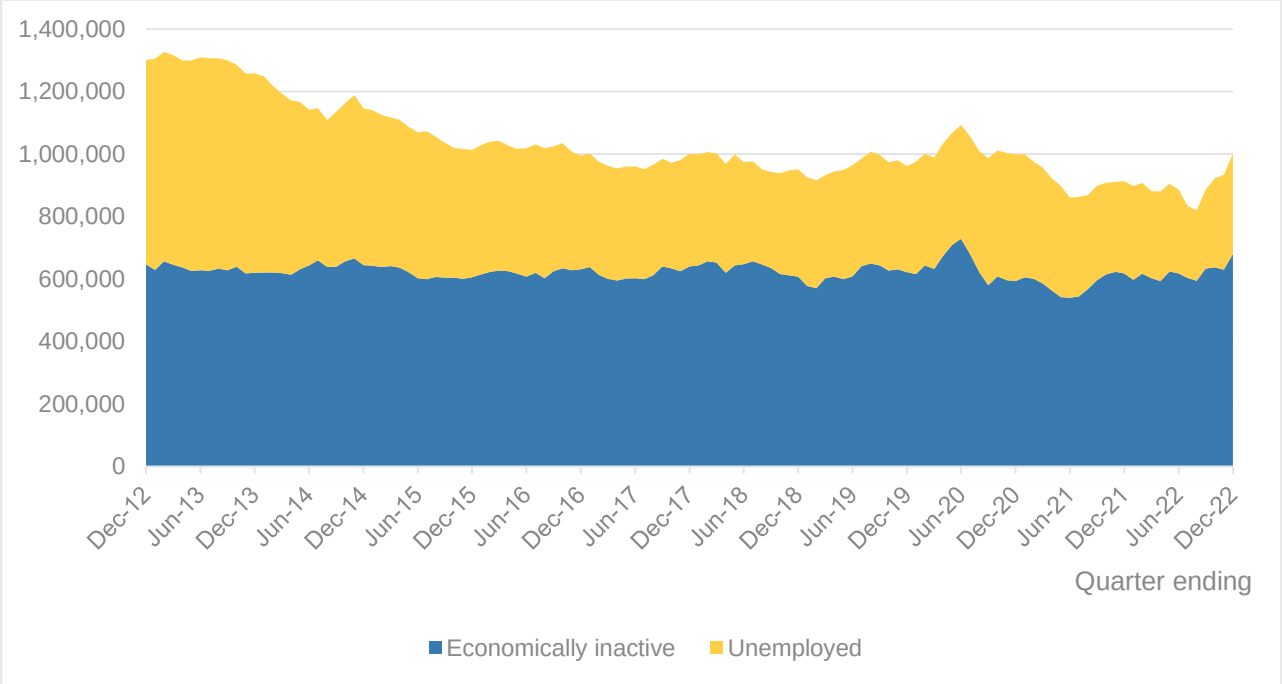

*Source: Labour Force Survey*

## The number of young people not in education or work is rising – above a million for the first time since 2021

Worryingly, the fall in student numbers is not translating into higher youth employment but instead to growing numbers of young people neither in education nor work. Since the summer, the number of young people in full time education has fallen by around 120 thousand, while overall youth employment is down by 40 thousand and the number of young people neither in full-time education nor work has risen by 180 thousand. This rapid growth – of more than a fifth – has pushed the total number of young people outside full-time education or employment above a million for the first time since 2021. And because the youth population is declining overall, the share of all young people who are neither in education or employment is at its highest in nearly two years (at around 15%).

Figure 6 below breaks this youth worklessness down into economic inactivity and unemployment. In all 680 thousand young people outside of full-time education are economically inactive, while 310 thousand are unemployed. Both figures have grown by around 90 thousand since the summer. This may suggest that falling economic inactivity among students is driving higher unemployment among ex-students, although it is also possible that it's the ex-students who are moving into work while those more disadvantaged in the labour market lose out – despite continued unmet employer demand.

**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*

## Employment 'gaps' are widening for disabled people and older people

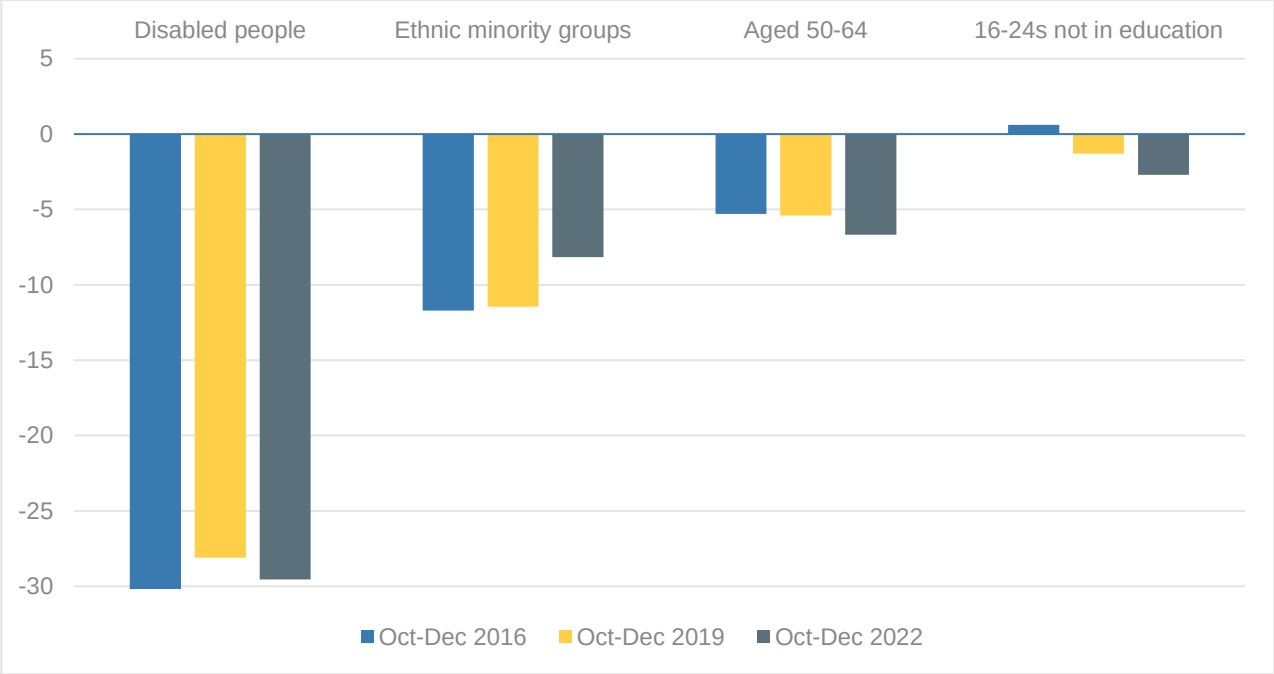
This month sees the publication of quarterly data on employment for ethnic minority groups and for disabled people, which means that we can assess the 'gap' in employment rates between these groups and the wider working age population. Figure 7 below sets these gaps out, alongside those for people aged over 50 and for young people outside full-time education. The graph shows data for the most recent quarter, the same time three years ago (i.e. before the pandemic) and the same time three years before that.

This graph shows a stubbornly wide employment gap for disabled people, which had started to narrow before the pandemic but has widened again since. This is not entirely surprising given the overlap between people who report being disabled (which in the Labour Force Survey is defined as those who report having a health condition or disability that has lasted for a year or more and limits their day-to-day activities) and those who report having long-term health conditions (which has driven the growth in economic inactivity described earlier). Overall, disabled people are more than two-and-a-half times more likely to be out of work than non-disabled people, with 47% of disabled people out of work compared with 17% of non-disabled people.

Employment gaps for older people are also continuing to widen, having narrowed over the decades before the pandemic (although this narrowing had slowed in the years leading up to the pandemic). The gap for young people outside of full-time education is also now

widening, particularly since summer 2022 as set out above. The employment rate gap for ethnic minority groups has continued to narrow – with employment rising for Pakistani, Bangladeshi, black and Chinese people since 2019 while it has fallen slightly for white people.

**Figure 7: Employment rate 'gaps' for disabled people, ethnic minority groups, those aged 50-64, and young people not in full time education; Oct-Dec 2016, 2019 and 2022**



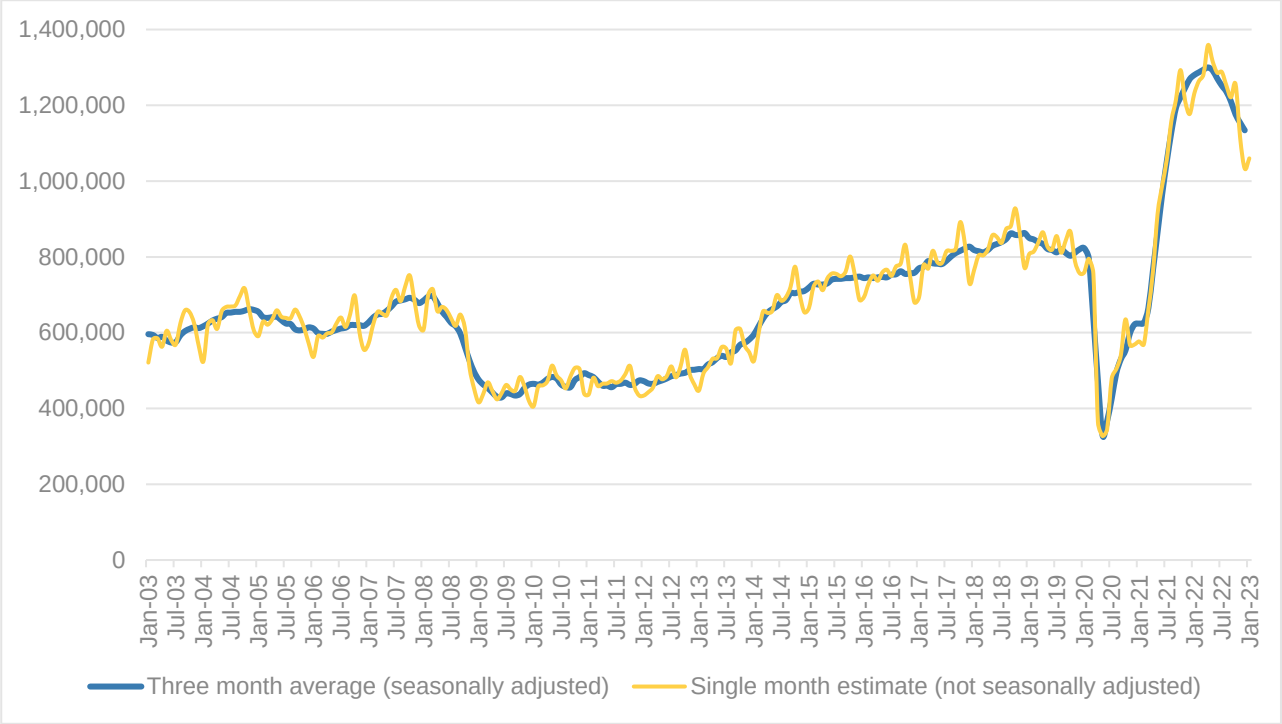

*Source: IES analysis of Labour Force Survey. Gaps are calculated as the percentage point difference in employment rates between the rate for the disadvantaged group and the rate for the overall 16-64 population excluding that group.*

## Vacancies continue to fall, while redundancies and short-term unemployment are edging up

There are further signs this month of demand starting to weaken, with vacancies continuing to fall, redundancies edging up and short-term unemployment rising. At the very least, this points to some of the tightness in the labour market starting to ease (which would be welcome) but at a worst case could be the early signs of a wider slowdown in the labour market.

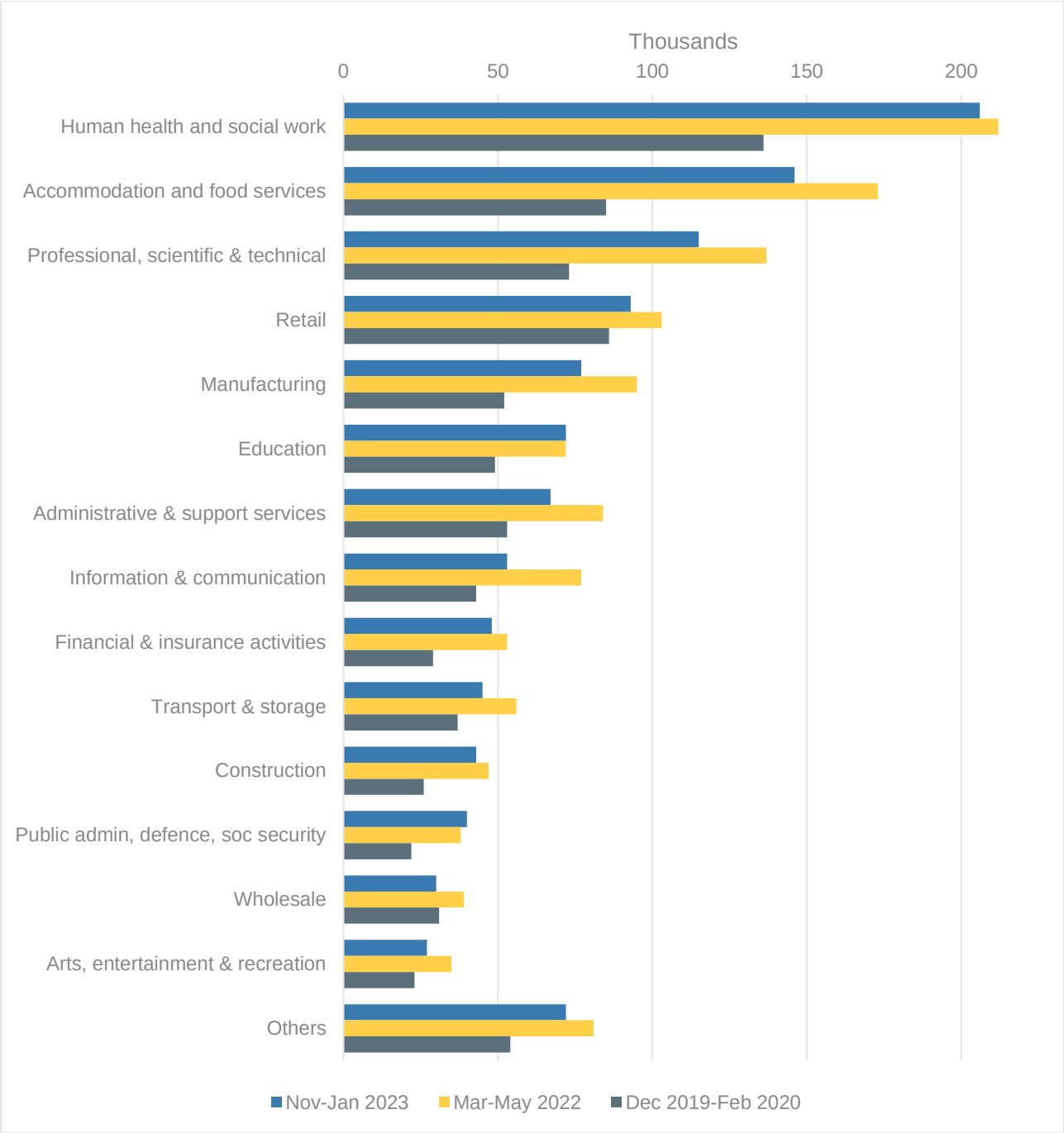
There are now an estimated 1.13 million vacancies in the economy, down 13% on their peak of 1.30 million but still well above pre-crisis levels (Figure 8). The picture on vacancies by industry is very similar to recent months, with Figure 9 showing that recent falls are being driven by private sector services – particularly in hospitality (accommodation and food services), professional services, information/ communications and administrative and support services. In public services – health, education and public administration – vacancies remain at or close to their peaks, likely reflecting ongoing recruitment and retention problems as pay falls further behind the private sector.

**Figure 8: Vacancies – quarterly and single-month estimates**




*Source: ONS Vacancy Survey*

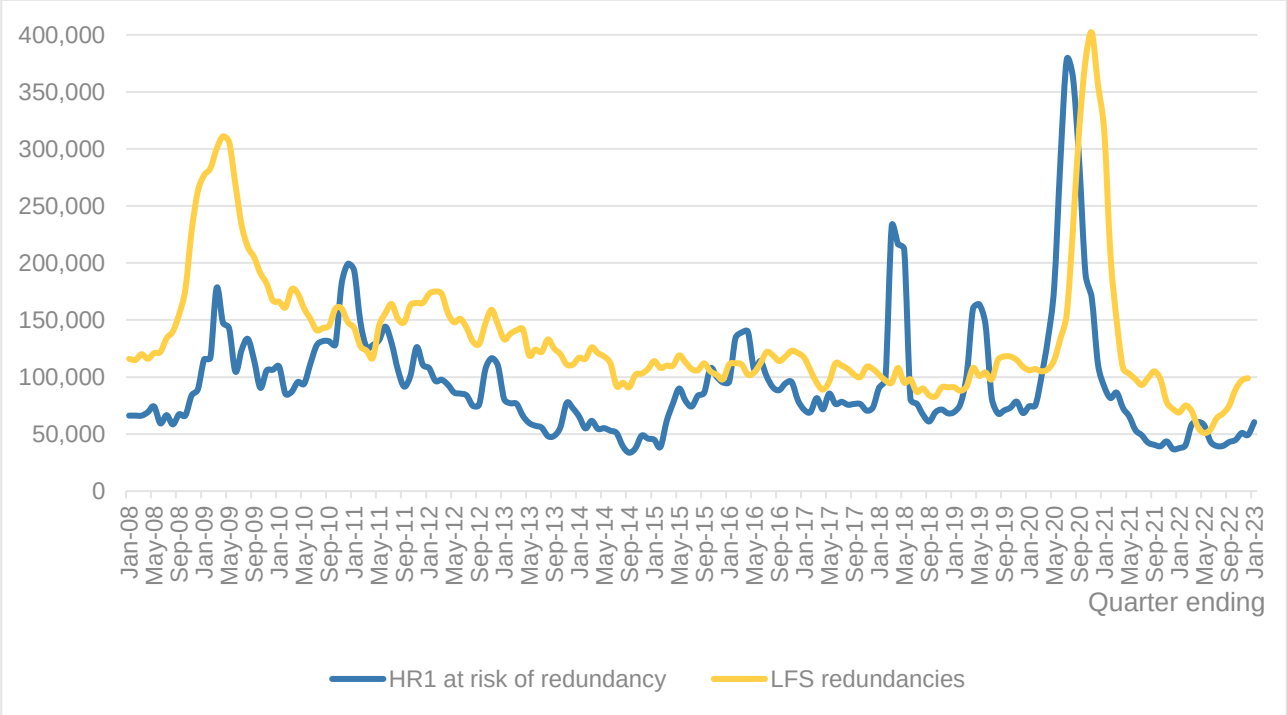
**Figure 9: Vacancies by industry, pre-pandemic, post-pandemic peak (Mar-May 2022) and most recent quarter (Nov 2022-Jan 2023)**




*Source: ONS Vacancy Survey*

Figure 10 below shows the continued growth in redundancies, which have now reached around a hundred thousand a quarter (compared with 55 thousand in the summer). These figures remain well below pre-pandemic levels, but the latest data from 'HR1' forms (where employers notify the Insolvency Service of future larger exercises) are also now starting to pick up, with 60 thousand jobs notified as being at risk over the most recent quarter (the blue line below).

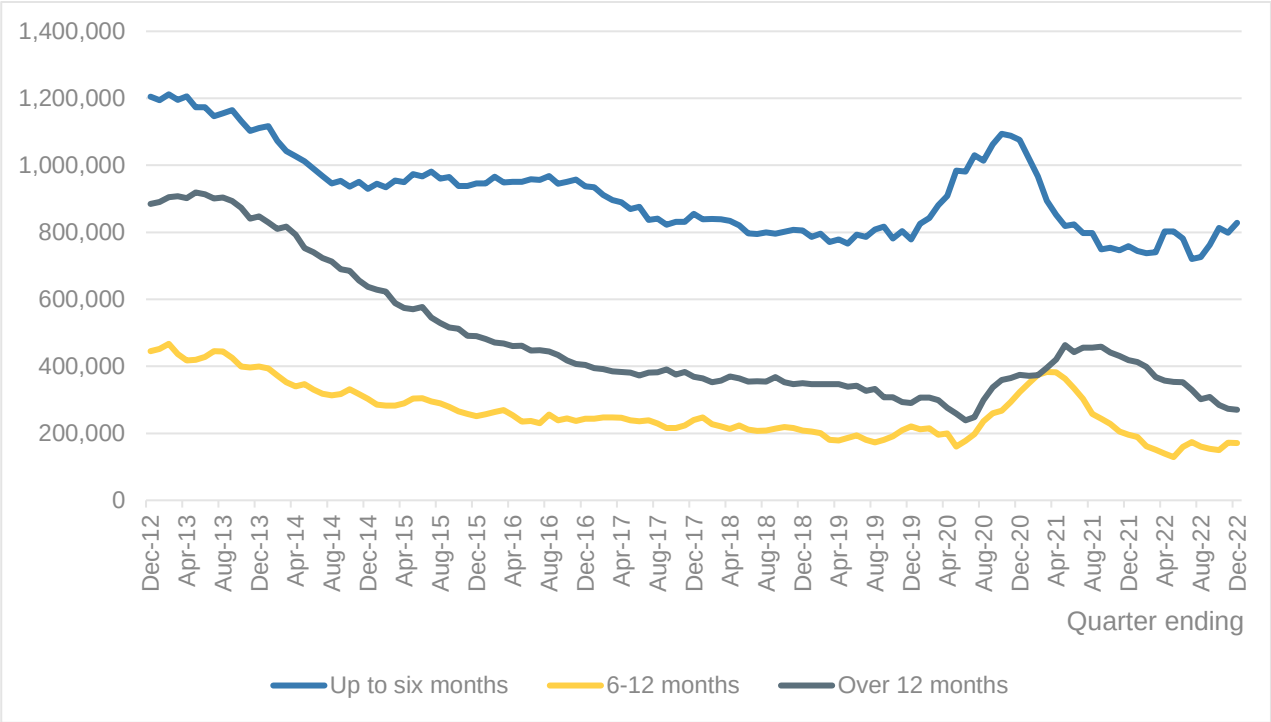
**Figure 10: Quarterly number of employees notified as at risk of redundancy (HR1 forms) and reporting having been made redundant (Labour Force Survey)**




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

Figure 11 then shows unemployment by duration. Most notably, short-term unemployment (under six months – blue line) has ticked up again in the latest data, to 830 thousand. This is the highest figure since early 2021 and likely reflects more people leaving work and leaving economic inactivity to unemployment, although again while these figures have increased they remain broadly in line with pre-pandemic levels. More positively, long-term unemployment is continuing to fall.

**Figure 11: Unemployment by duration**

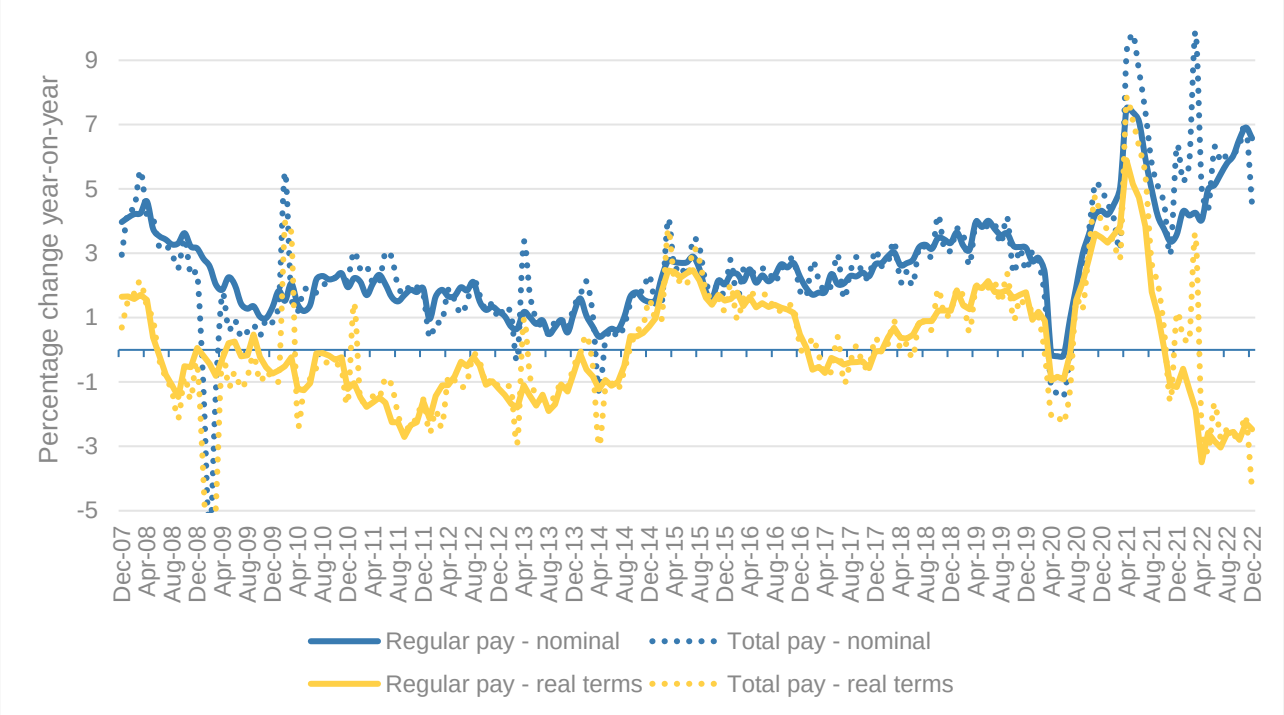



*Source: Labour Force Survey*

## Nominal pay growth remains close to seven per cent, but real pay is now back to where it was pre-pandemic

This month's pay data continues to show very strong growth in regular pay (not including bonuses), which was 6.6% higher in December 2023 than a year earlier. This is shown in Figure 12 below (solid blue line). Pay including bonuses was weaker (at 4.5%) but this is solely due to the data being compared with the single month of December 2022, when there were exceptionally high bonuses in financial services. However while nominal pay growth remains strong, pay accounting for inflation continues to fall – by 2.5% in real terms compared with the same time last year. This is the fourteenth month in a row where regular pay has fallen in real terms, and brings it back to where it was before the pandemic began.

**Figure 12: Year-on-year change in regular and total pay – nominal terms and adjusted for inflation (real terms)**

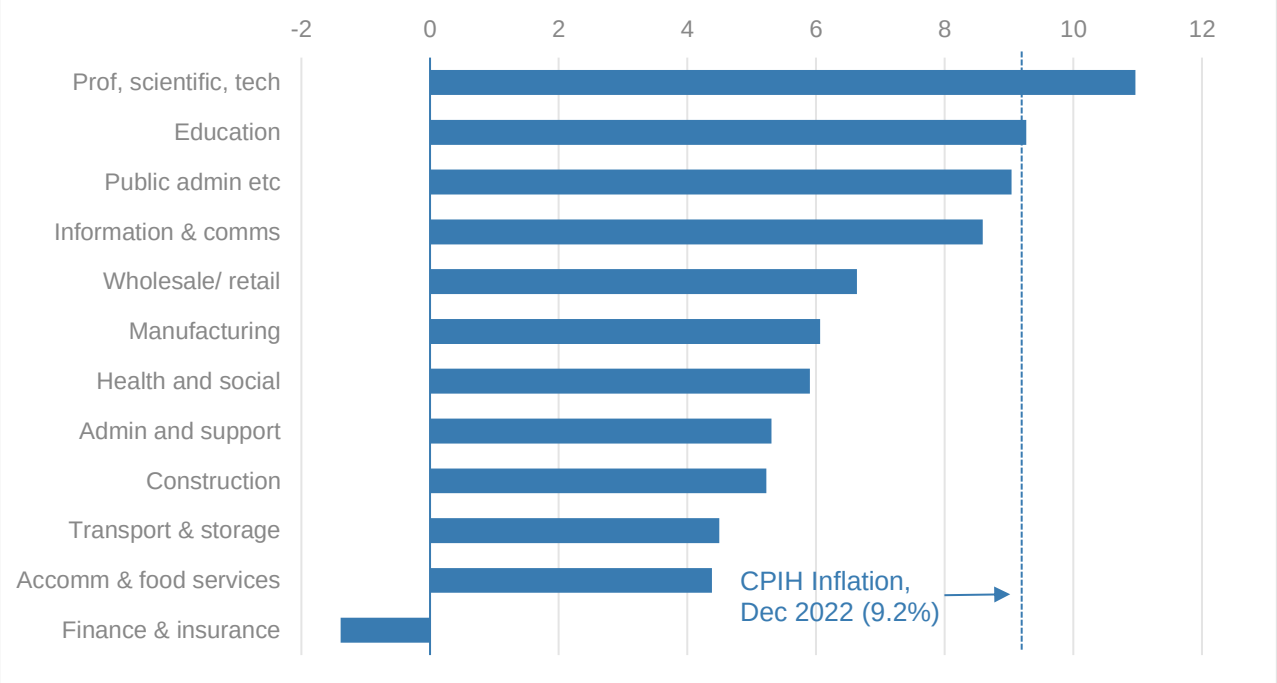



*Source: ONS Monthly Wages and Salaries Survey. Regular pay excludes bonuses and arrears; measure shown is year-on-year change in single month estimate.*

Looking at pay by industry, Figure 13 shows average year-on-year pay growth over the last three months compared with the same three months a year ago. This shows that pay growth in 'professional' jobs (a category that includes accountancy, engineering, consultancy and other professions) remains exceptionally high, at 11% year-on-year and above inflation. However there is also strong growth in some predominantly public sector industries (education, public administration) which seems counter-intuitive given continued weak pay growth in the public sector and high levels of unfilled vacancies. One possible explanation for this could be compositional changes in those workforces – if for example, employers in education and public administration are struggling most to fill lower paid jobs, then this would have the effect of raising average pay overall.

Elsewhere, pay growth is now pretty weak in hospitality (accommodation and food services), reflecting the fall in vacancies and weaker demand, while financial services pay growth has turned negative – which solely reflects lower bonuses in the most recent data compared with the same quarter last year.

**Figure 13: 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 October-December 2022 (not seasonally adjusted).*

## Flows into work from economic inactivity are improving, while flows into inactivity remain high

Finally, this month sees new quarterly data on the 'flows' of people between employment, unemployment and economic inactivity. These show that flows into employment from economic inactivity have increased, while flows from employment to economic inactivity have fallen back on recent quarters but remain high by historic standards. Flows into and out of unemployment are now very low, although there are signs that flows into unemployment from work may be ticking up. Job-to-job moves are also falling back, which may be contributing to a bit more 'slack' in the labour market.

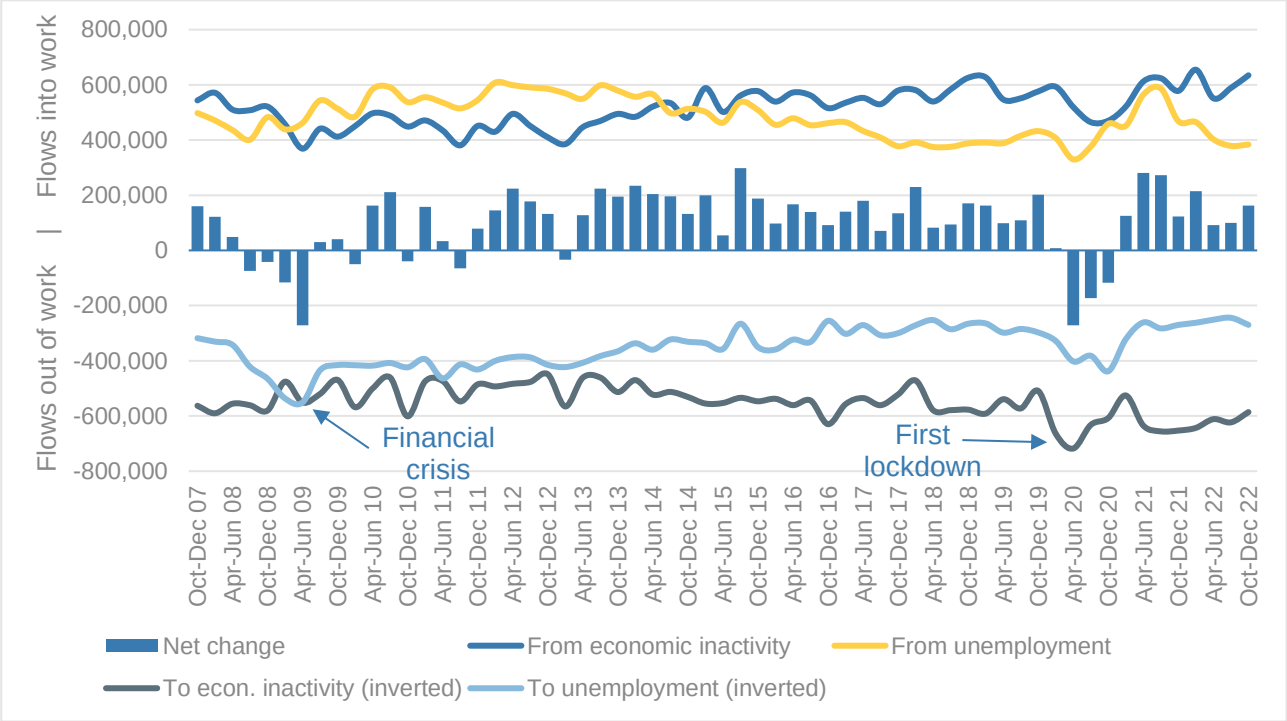
First, Figure 14 shows flows into work *from* unemployment and economic inactivity (the two positive lines above the bars) and flows out of work *to* unemployment and inactivity (which are inverted, as negative lines below the bars). The blue bars in the middle then shows the net effect of these changes.

Above the bars, this shows that flows from economic inactivity into work have increased (to 635 thousand in the latest quarter) which is close to their highest ever and slightly above the pre-pandemic trend. In part this reflects higher levels of economic inactivity overall, but it also reflects a higher rate of exit from economic inactivity – with 7.1% of people economically inactive leaving to work in the quarter, compared with an average of 6.7% over the previous year. Flows from unemployment to work are broadly flat, but the

rate of exit remains very high (with 32% of unemployed people entering work in the quarter).

Below the line, flows to economic inactivity are still high (585 thousand) but have dropped back slightly on the quarter, while flows to unemployment are low (270 thousand) but have increased a bit.

**Figure 14: 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.*

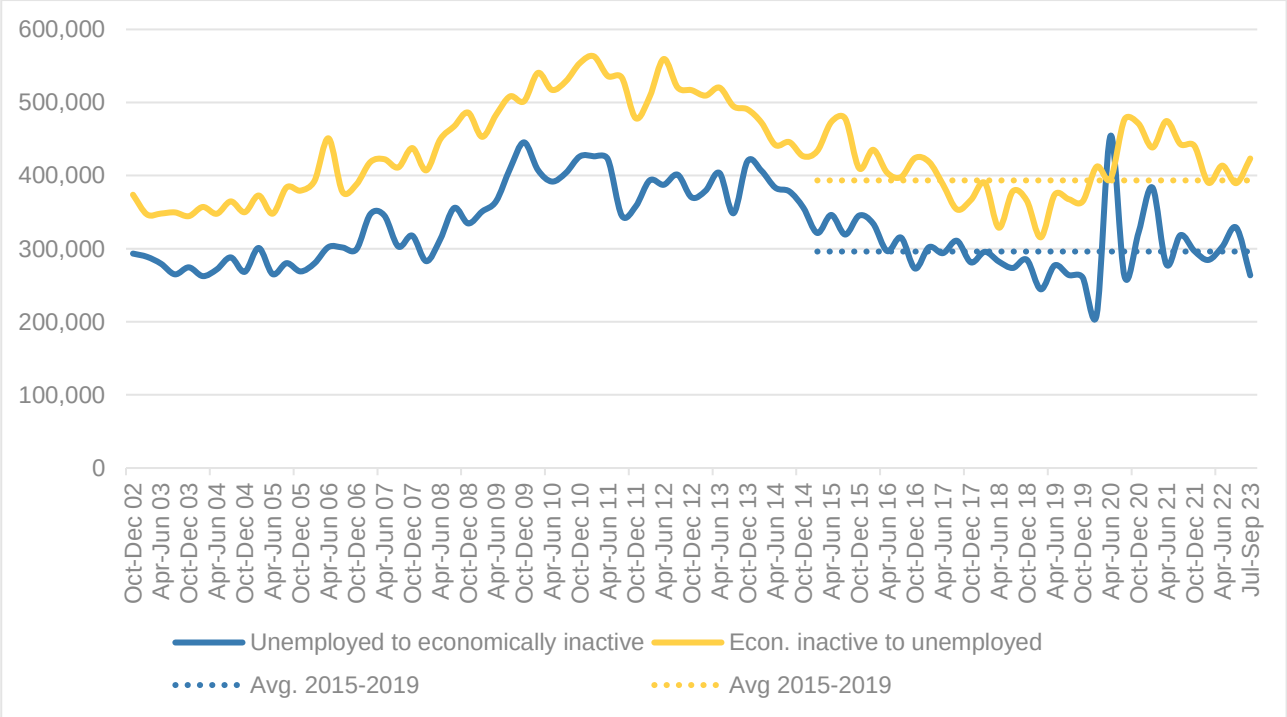
This picture of relatively high flows from economic inactivity to work and from work to economic inactivity is slightly counterintuitive given other data showing that higher economic inactivity is being driven mainly by people remaining out of work for longer and by more people who have never worked. We set this out in the evidence paper that accompanied the launch of the Commission on the Future of Employment Support, which showed that virtually all of the growth in economic inactivity could be explained by more people who have been out of work for more than three years – particularly due to long-term ill health – or who had never worked at all (either because of a health condition or because they are students).

So one possibility is that the high flows into work are being driven in particular by students entering work (which as discussed earlier, could in turn mean that higher youth worklessness is being driven more by disadvantaged young people losing out as the labour market weakens, rather than by former students) and by people returning to work following short spells economically inactive – for example following short-term illness,

which has been rising. But more work is needed to disaggregate changes in flows by reason and destination.

Figure 15 below then also shows flows between economic inactivity and unemployment. This shows a welcome drop in the number moving into economic inactivity following a worrying rise last month, alongside a smaller increase in the number moving the other way into unemployment – which will also be welcome if those people subsequently find work, and will be contributing to the increase that we are seeing in short-term unemployment.

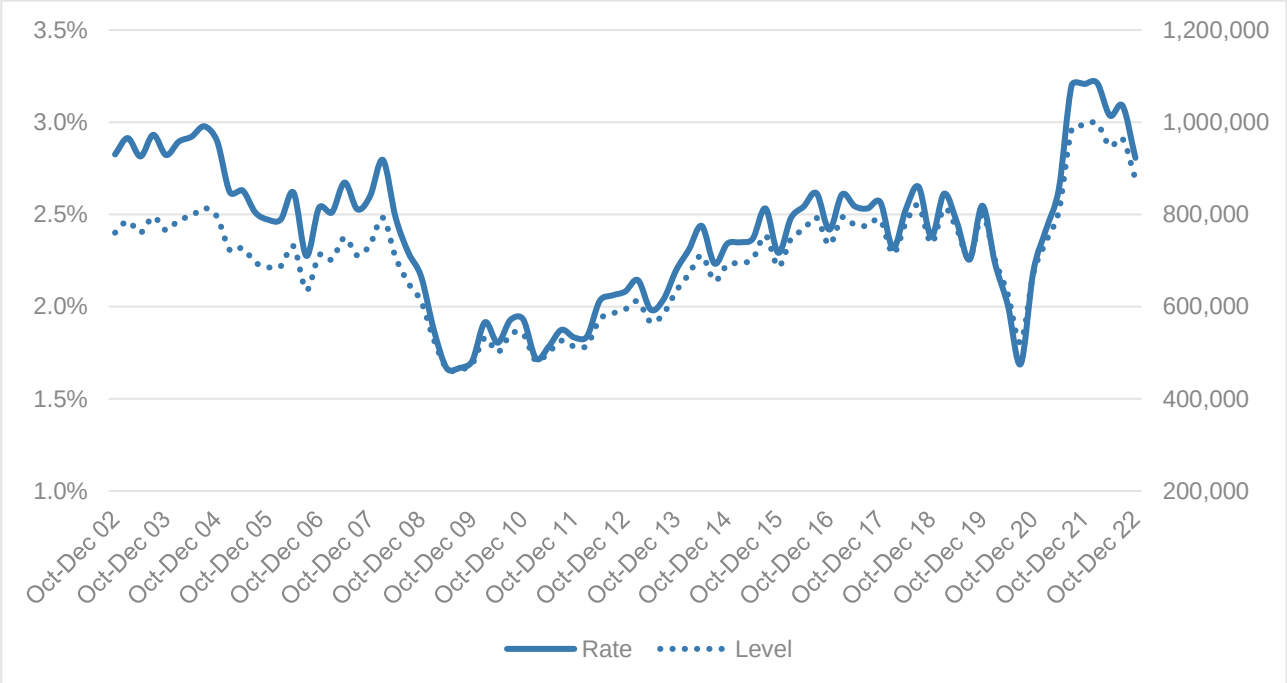
**Figure 15: Number of people moving from unemployment to economic inactivity and from economic inactivity to unemployment by quarter**




*Source: Longitudinal Labour Force Survey.*

Data on job-to-job moves is shown in Figure 16 below. These continue to drop back – which will be contributing to lower vacancies – but remain very high by historic standards. Overall 875 thousand people changed jobs between October and December 2022, compared with an average of 770 thousand per quarter during 2019.

**Figure 16: 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.*

## 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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