ies Briefing

Institute for Employment Studies

Labour Market Statistics, February 2024

13 February 2024

This briefing note sets out analysis of the Labour Market Statistics published this morning. Today's release is the first using revised figures from the **Labour Force Survey (LFS)**, which has been reweighted to take account of new population estimates following the 2021 Census. The ONS published an article last week explaining the changes in more detail, but the main effects have been to increase the size of the population but reduce the estimates for the proportion of people in work. The new data covers the period to October-December 2023, and reweights previous estimates back to October-December 2022 (with revised estimates for key headline figures back to 2011).

Today's briefing also includes new quarterly estimates of employment for disabled people, ethnic minority groups and for those born outside of the UK. February would usually also see new estimates of labour market 'flows' but these appear to still be suspended.

In addition to LFS analysis, today's briefing as usual also includes analysis of data from the **ONS Vacancy Survey** and the **Monthly Wages and Salaries Survey**, which are both business surveys collecting data on unfilled vacancies and weekly pay respectively. The Vacancy Survey includes data up to January 2024, and the Wages and Salaries Survey to December 2023.

Summary

Things in the labour market are a bit worse than we had previously thought, with the employment rate nearly one percentage point lower and 'economic inactivity' (the measure of those outside the labour force and not looking and/ or not available for work) more than one percentage point higher than the estimates published last month. This reflects the impacts of ONS's reweighting exercise, which has led to substantial increases in the estimated size of the population and to larger growth for those out of work than those in work.

However even comparing reweighted figures with reweighted figures, the picture today is not great. The employment growth that we seemed to be seeing through 2022 has at best stalled, while economic inactivity is if anything edging up. Overall there are nearly 700 thousand more people out of work than before the pandemic began, with this now almost entirely explained by more people outside of the labour force due to long-term ill health.

Figures published today for youth participation are also particularly worrying, with record numbers of young people neither in full-time education nor the labour force (at nearly three quarters of a million).

This continued weak recovery is happening alongside very low unemployment – at just 3.8% – and continued strong vacancies (930 thousand) and pay growth (6.2% year-on-year), although both have fallen back from their peaks. So despite the weak employment data, and despite much higher interest rates and sluggish growth, demand in the labour market appears to be faring pretty well – it is just not being met with labour supply, which will in turn be further holding back growth and undermining living standards.

To the extent that there are positives in today's data, however, the revised estimates still do not point to higher interest rates pushing the labour market into a 'hard' landing: short-term unemployment has not risen in recent months, redundancies remain low and vacancies are still high. The revised population estimates in the LFS also mean that the overall *level* of employment this year is the highest it has ever been – the trouble is that employment growth is not keeping pace with population growth.

Overall then these figures reiterate the need for us to do much better in helping people out of work to get into work; helping those in work but struggling to stay there; and working with employers to fill jobs and support people in them. The government has announced welcome measures on the first of these three things (support for those out of work), particularly with the new Universal Support programme, Restart extension and more investment in employment advisers. However these measures are taking time to get going, and have been accompanied by unremittingly negative rhetoric around benefit claimants and sanctions – which pushes further away many of those who would most benefit from better support. We have also seen very little focus on employer engagement – either in terms of additional support or increased expectations.

In the short term, next month's Budget provides an opportunity to address this. However in the longer term we need a new approach, as we have been working to set out through our Commission on the Future of Employment Support.

The labour market is weaker than we thought, with nearly 700,000 more out of work than pre-pandemic

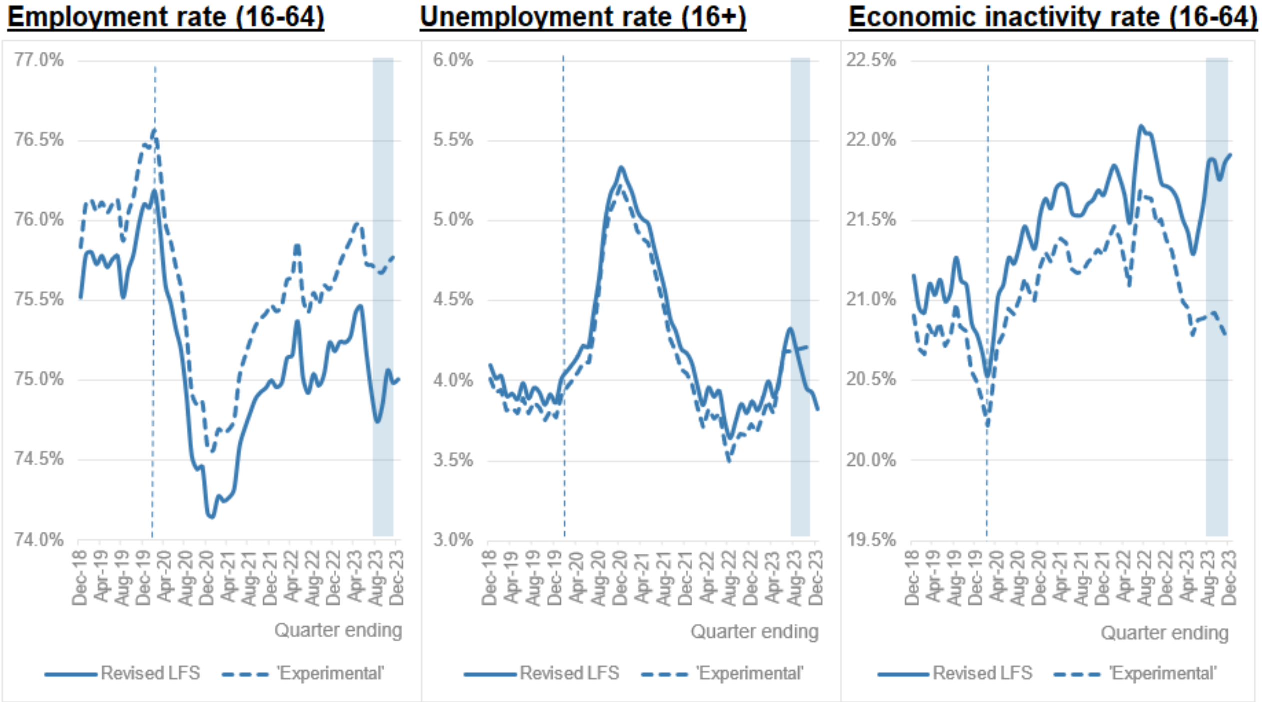
Figure 1 below shows the new LFS estimates for employment, unemployment and economic inactivity, compared with previous estimates (using the published 'experimental' data for the most recent period). The period for which only experimental estimates were available is highlighted in light blue, while the dotted line shows the first Covid-19 lockdown. This illustrates the very significant differences between estimates for employment and economic inactivity in particular, both of which are performing worse than previously estimated. Unemployment meanwhile is broadly similar but slightly lower.

The graph shows that these differences have existed since before the pandemic, and as the ONS set out in their separate note last week are explained by under-estimates of the size of the population which have been long-running. Differences have been particularly great in estimates for the number of women and young people in the population, and as these groups are on average less likely to be in work and more likely to be outside the labour force, this has had the effect of reducing employment rates and increasing economic inactivity rates.

However, the graph also does suggest that the 'gaps' between the two estimates have widened post-pandemic, suggesting that the recovery has been weaker than we previously thought. They also show that in the most recent period, the 'experimental' data may not have been a particularly reliable substitute for the LFS – with unemployment falling when we had thought it was flat, and economic inactivity rising when we had thought it was edging down. However, an important caveat on recent trends is that lower response rates to the LFS mean that there is significantly greater volatility in data month to month than in the past, so changes over short periods should be treated with caution.

Overall though, the clear picture in today's data is that the labour market recovery continues to be very weak indeed and if anything is slowing further. This is not surprising given recent rises in interest rates and continued high inflation, but does mean that there are still nearly 700 thousand more people out of work than before the pandemic began.

Figure 1: Employment, unemployment and economic inactivity rates (%)

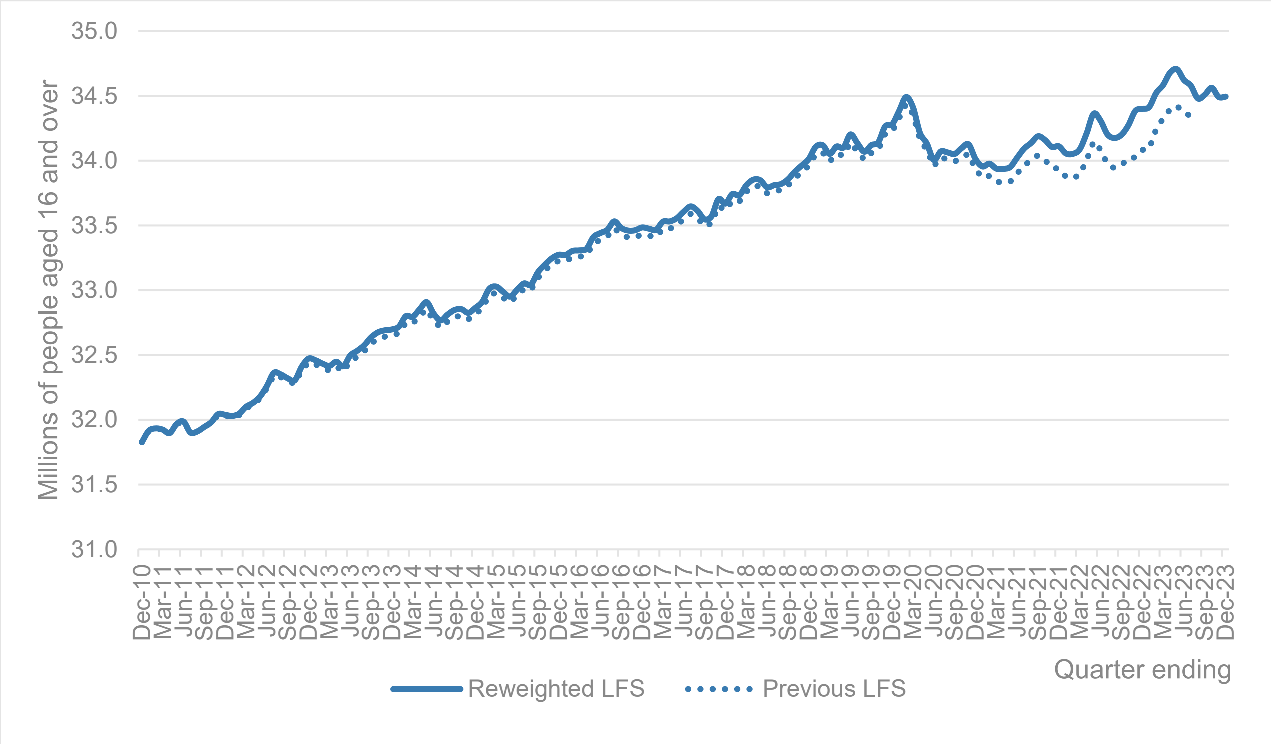


Source: Labour Force Survey and ONS experimental estimates dataset X10. Vertical dotted line indicates start of first Covid-19 lockdown; shaded area covers period that LFS data was withdrawn.

Importantly however, revisions in estimates for the size of the population do mean that the *number* of people in work is higher than we had previously thought even though the employment *rate* is lower. Figure 2 below illustrates this, showing the size of the labour force (employed plus unemployed) with the new weights and previous weights (we have used the labour force here rather than employment as this gives a better indication of the overall size of the labour pool). This shows that the labour force is now back to the size it was before the pandemic, at 34.49 million people, and within this employment is also around the highest it has ever been (at 33.17 million). However it is clearly nowhere near to rejoining the growth path that it had been on prior to the pandemic, and appears to have fallen back since last spring.

Note that the dotted line in this figure also goes back to 2011, with ONS modelling this using the revised Census population estimates. This does suggest that the 'gap' between the old and new weighted estimates did particularly open up in the pandemic period – i.e. it is over the last couple of years in particular that things have been relatively worse than we had previously understood.

Figure 2: Number of people in labour force (employed plus unemployed) – new reweighted Labour Force Survey compared with estimates pre-reweighting

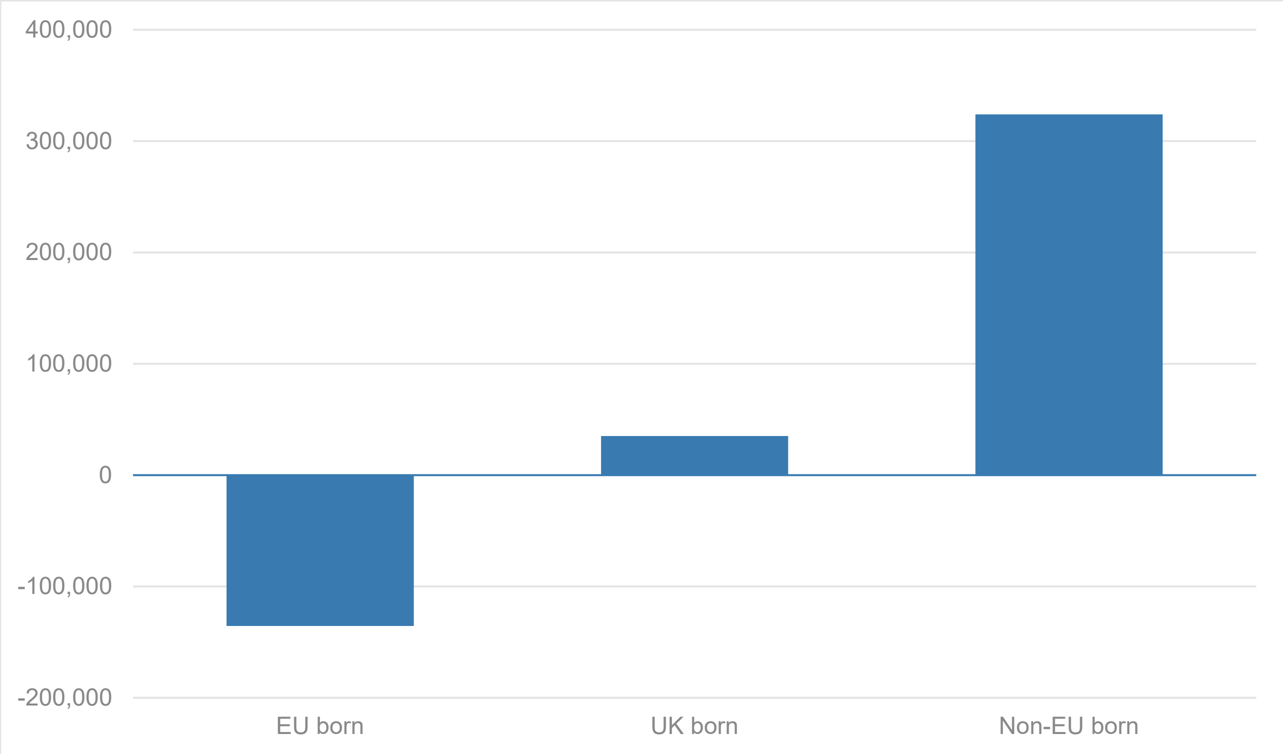


Source: Labour Force Survey

Today also sees publication of estimates of employment by place of birth (UK, EU and non-UK/ non-EU nations). This has only been revised back to October-December 2022, creating a discontinuity in comparing earlier periods with now. However from an initial look at the estimates for the April-June 2023 quarter – which has been revised with new weights – this suggests that changes in estimates of non-UK born workers are also a significant driver of changing estimates for the population overall. This is shown in Figure 3 below, which shows that the estimate for UK-born workers is largely unchanged (up by 35,000), while non-EU born workers is up by 325 thousand and EU-born is down by 135 thousand.

Given that we can only compare the very most recent data, it is impossible to say whether this simply explains recent changes in estimates (which is plausible, as concerns have been raised about how well the LFS has captured non-UK born migration in the last year or so) or the longer-running differences, but either way these are significant changes and suggest that growth in non-UK born workers has helped to offset what might otherwise have been even larger increases in worklessness since the pandemic.

Figure 3: Change in employment estimate following LFS reweighting for April-June 2023 quarter, by whether born in UK, EU or non-UK/ non-EU country



Source: Labour Force Survey

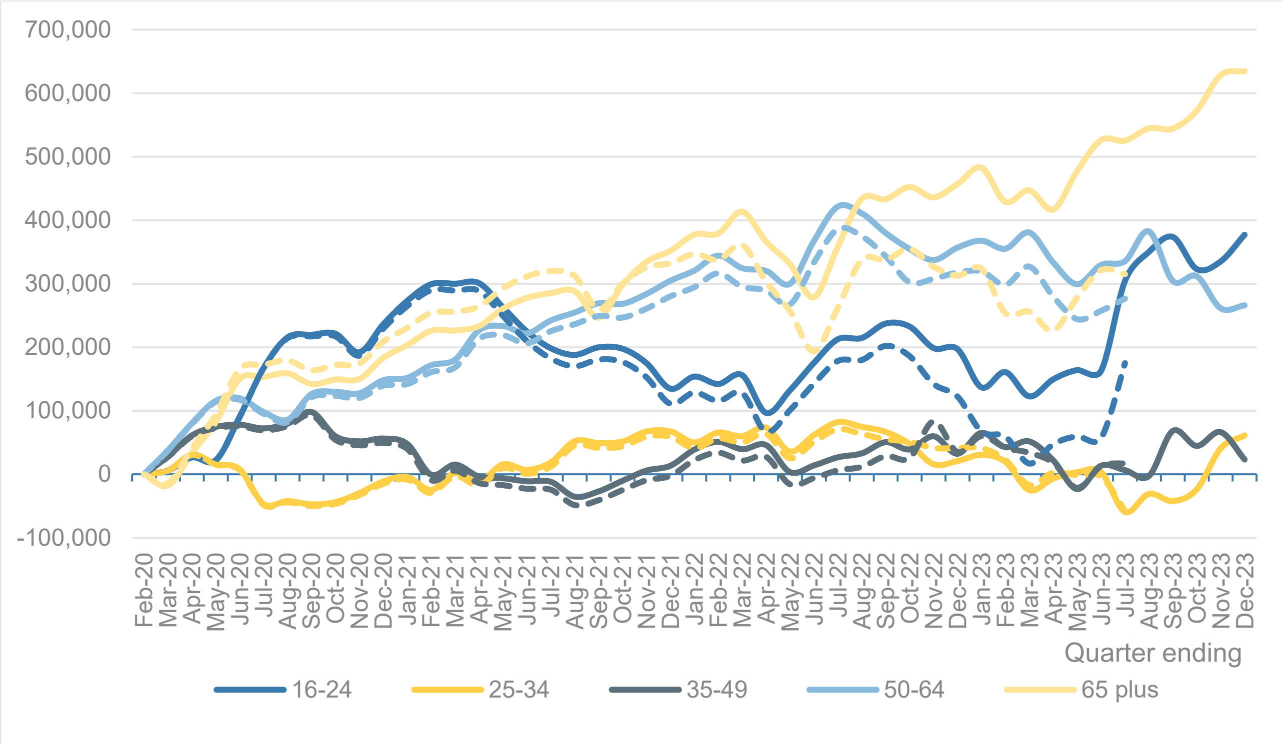
Higher economic inactivity is being driven by older and younger people and by long-term ill health

Figure 4 below shows change in the level of economic inactivity by age group since the start of the Covid-19 pandemic, with the solid lines representing the newly reweighted data and the dashed lines showing the previous estimates. Levels of economic inactivity are particularly high and rising for those aged over 65, which largely reflects strong population growth as our society gets older (with employment rates for this group broadly stable). Economic inactivity for those aged 50-64 is well above pre-pandemic levels and higher than previously estimated, although again this reflects population changes in particular – indeed the employment rate is growing slightly stronger now for this group than for others, after falling back during the pandemic.

Economic inactivity for those aged 25-49 is broadly unchanged with the reweighting and flat overall, but the figures for those aged under 25 have increased markedly – and appear to have shot up in particular since spring 2023. We will return to look at this in more detail in next month's briefing, but this is not entirely explained by more young people in education – with the numbers outside of full-time education rising too.

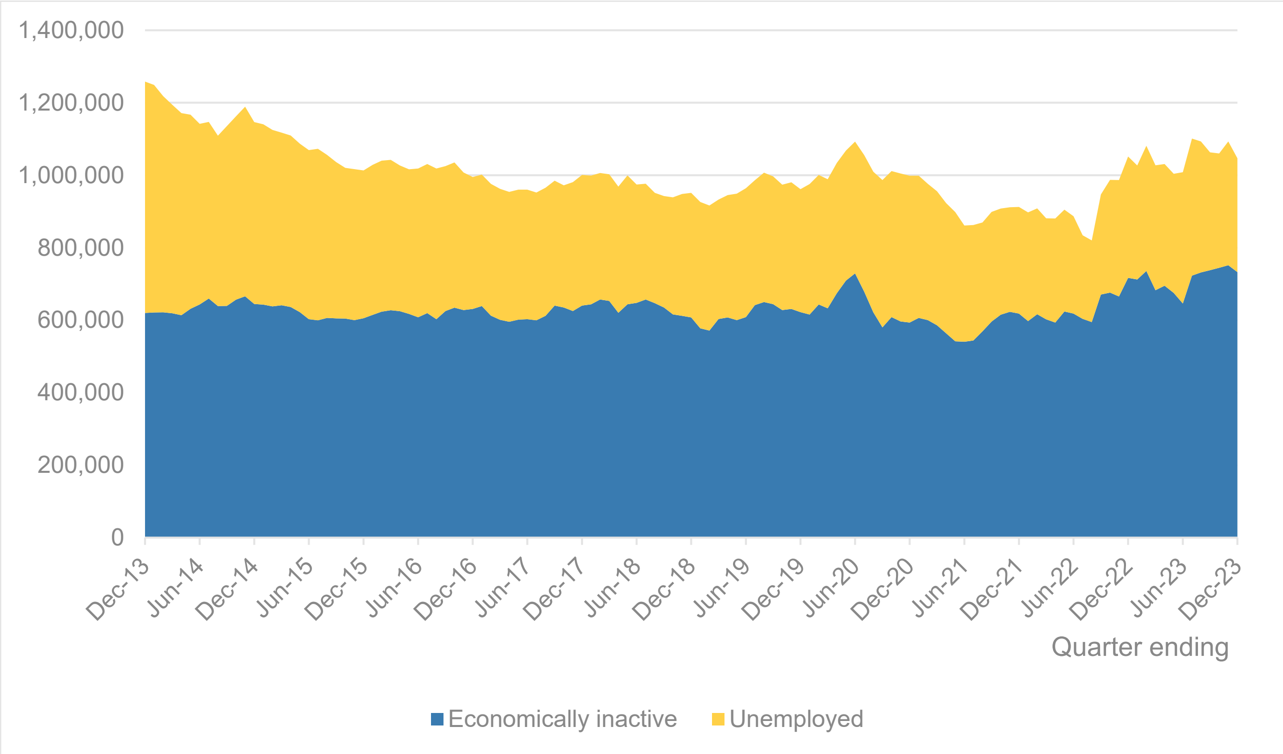
Figure 5 overleaf illustrates this, showing the number of young people neither in full-time education nor employment – with the blue area showing the number economically inactive and the yellow area the number unemployed. Both unemployment and economic inactivity increased in the pandemic, but unemployment has since levelled off while economic inactivity has risen steadily since mid 2021. In the most recent data, it is now around three quarters of a million, which is the highest such figure since records began in the early 1990s.

Figure 4: Change in level of economic inactivity by age since start of Covid-19 pandemic (December 2019-February 2020 quarter) – reweighted LFS and previous estimates



Source: Labour Force Survey

Figure 5: Number of young people not in full-time education or employment



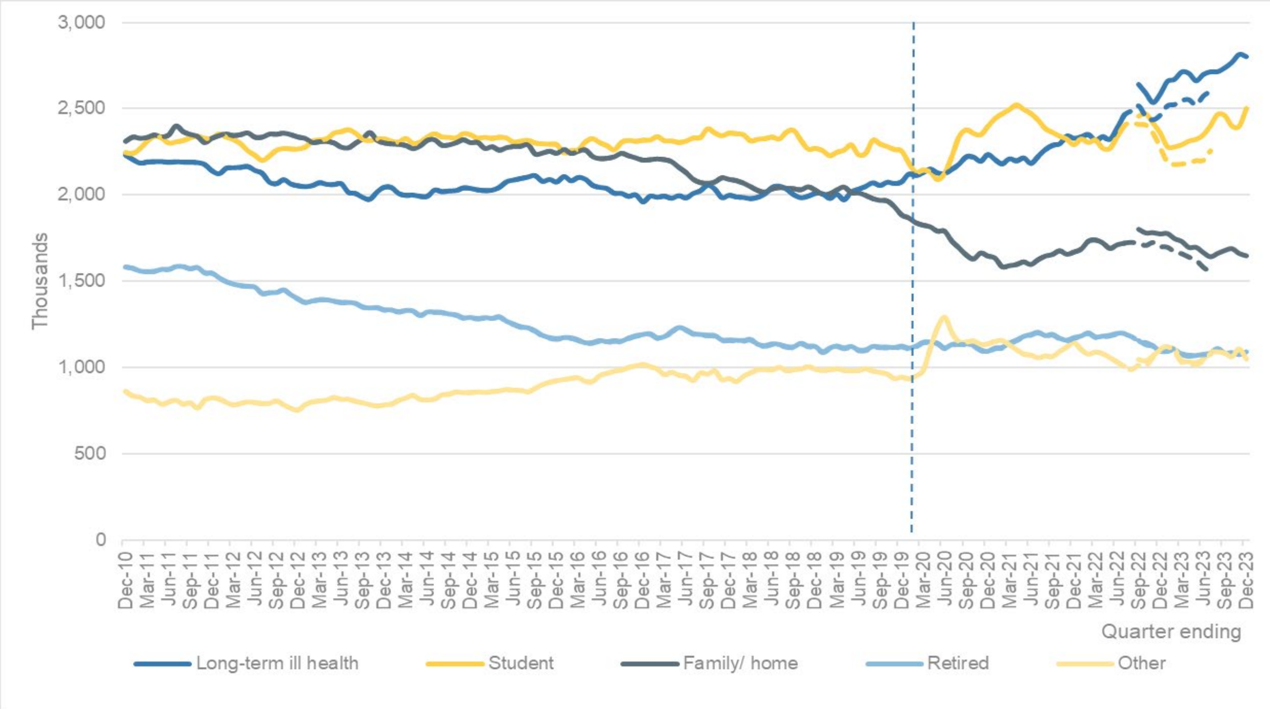
Source: Labour Force Survey. Note that data from July to September 2022 onward has been reweighted, causing a step change discontinuity.

Looking more broadly at economic inactivity by the main reason given, the revised data tells a very similar story to the data previously published but discontinued last autumn. Higher economic inactivity is being driven in particular by more people outside of the labour force due to long-term ill health and to some extent by more students, with economic inactivity for all other reasons either flat or falling.

Figure 6 shows these trends (for the five most common reasons given), with the solid line representing the data published today and the dotted line the last estimates published under the previous weights. Note however that the ONS has only reweighted figures back to October-December 2022, creating a discontinuity with previous estimates (shown with the broken line). This shows that estimates for long-term ill health, students and 'looking after family and home' are a bit higher than previously thought, while estimates for other reasons are largely unchanged.

More importantly however, the graph also shows that worklessness due to long-term ill health is continuing its relentless rise, reaching 2.80 million in today's figures.

Figure 6: Economic inactivity by main reason given



Source: Labour Force Survey. Note that survey weightings for July-September 2022 onwards have been revised, leading to a discontinuity at this point. The dotted line indicates the previously published estimates for the subsequent period.

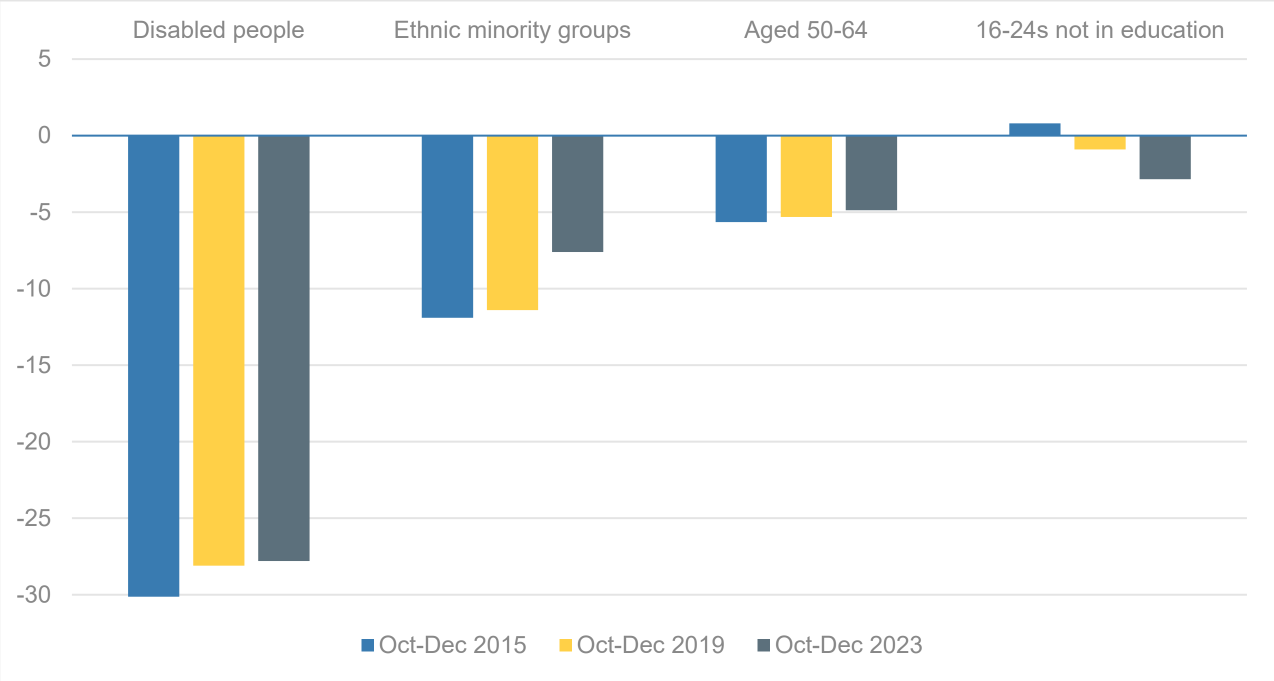
Despite some improvements, gaps for disadvantaged groups including the disabled remain wide

Today also sees publication of new data on employment for disabled people and ethnic minority groups, so Figure 7 below sets out employment 'gaps' for disabled people, ethnic minority groups, people aged 50-64 and young people outside of full-time education (i.e. the gap between the employment rate for each group and for the wider population not in that group).

The graph shows data for the most recent quarter, the same time four years ago (i.e. the eve of the pandemic) and the same time four years before that. This emphasises the sheer size of the employment gap for disabled people, and that whilst this gap appeared to be closing pre-pandemic, this trend has largely stopped since then. For ethnic minorities, the gaps have continued to narrow since the pandemic (although there are significant variations for different ethnic minority groups), while the gap for older people has narrowed slightly. In the case of younger people not in education, what was previously a positive gap (i.e., younger people not education were *more* likely to be in employment than the rest of the population) has now become significantly negative.

It should be noted however that the ONS has not reweighted data prior to October-December 2022, so there is a discontinuity between the most recent data and earlier periods. However we have continued to include this graph, as the discontinuity is unlikely to have had a significant impact on estimates of employment rates (as opposed to employment levels).

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 2015, 2019 and 2023



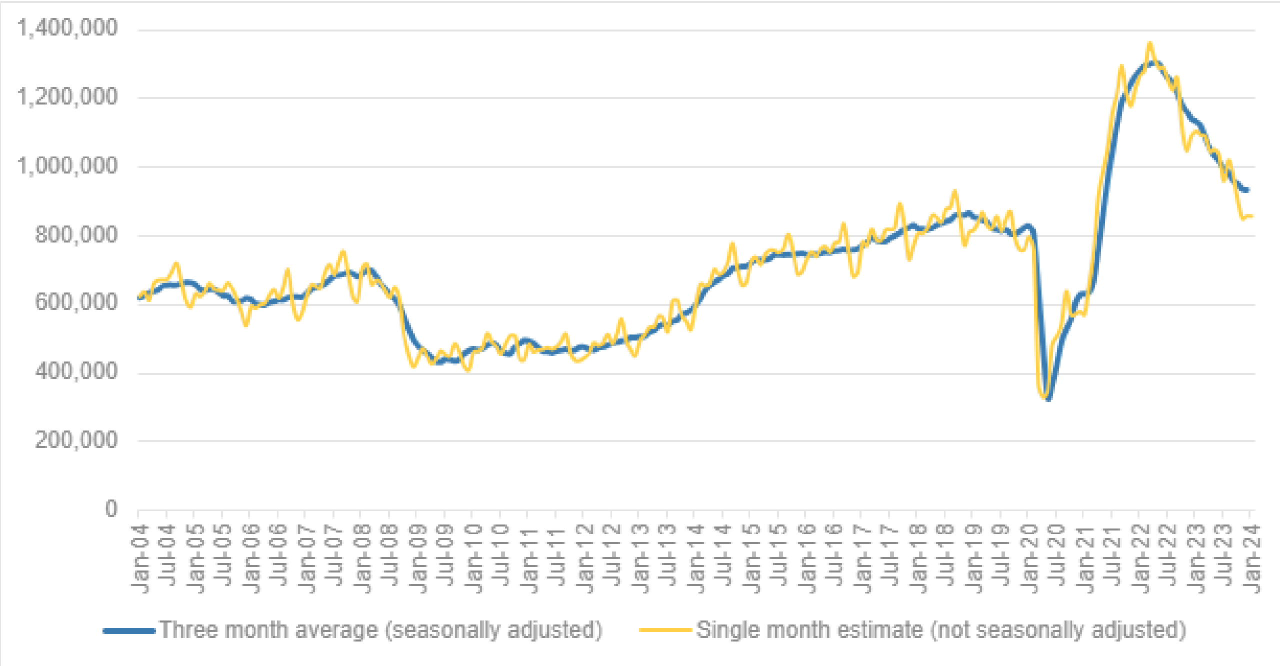
Source: IES analysis of Labour Force Survey. Gaps are calculated as the percentage point difference in employment rates between the rate for the disadvantaged group and the rate for the overall 16-64 population excluding that group. Note that data from July to September 2022 onward has been reweighted, causing a step change discontinuity.

Vacancies continue to fall, but they remain above 2019 levels and the rate of decline may now be slowing

Wider indicators point to a continued slowdown in demand, with vacancies falling for the nineteenth consecutive month to 934 thousand (down by around 25 thousand on the quarter and by around 210 thousand on a year ago). This is shown in Figure 8 below, with the seasonally adjusted quarterly estimate in blue and the unadjusted monthly estimate in yellow. Whilst there was an uptick in the monthly estimate in January from December, this is consistent with seasonal trends. There does appear to be a slowing of the rate at which vacancies are falling, however. This also illustrates that while vacancies are down overall, there are still more than 100 thousand more vacancies in the economy than there were before the Covid-19 pandemic.

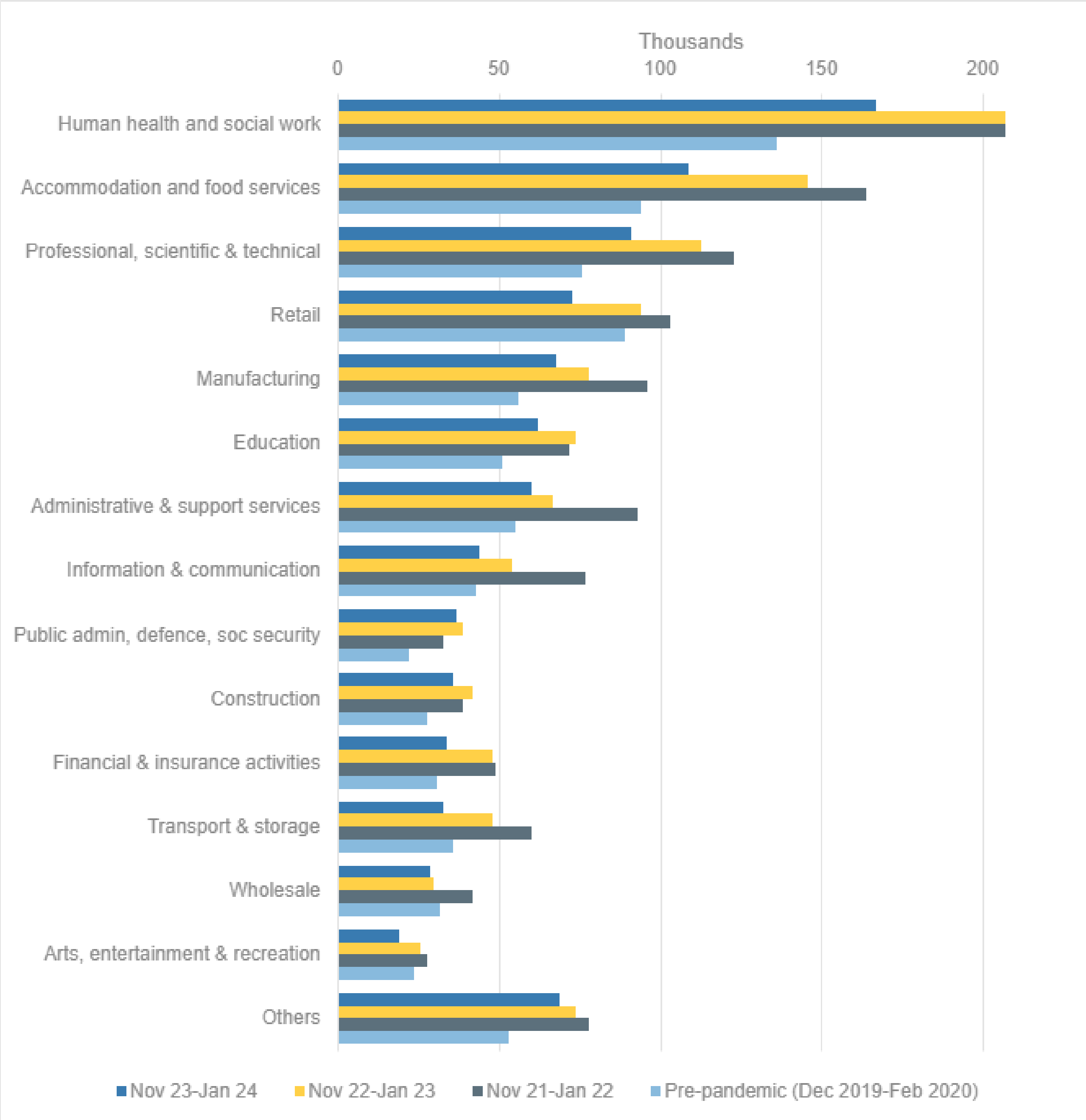
Vacancies continue to fall across all industries (Figure 9) with trends over the last year fairly consistent across sectors (although with somewhat smaller falls seen in public administration and in wholesale than elsewhere for instance). Vacancies are now lower than pre-pandemic levels in a number of industries – retail and wholesale, transportation and storage, and arts and leisure.

Figure 8: Vacancies – quarterly and single-month estimates



Source: ONS Vacancy Survey

Figure 9: Vacancies by industry: latest data (Nov-Jan 2023), for same quarters in 2022 and 2021, and pre-pandemic (Dec 2019-Feb 2020)

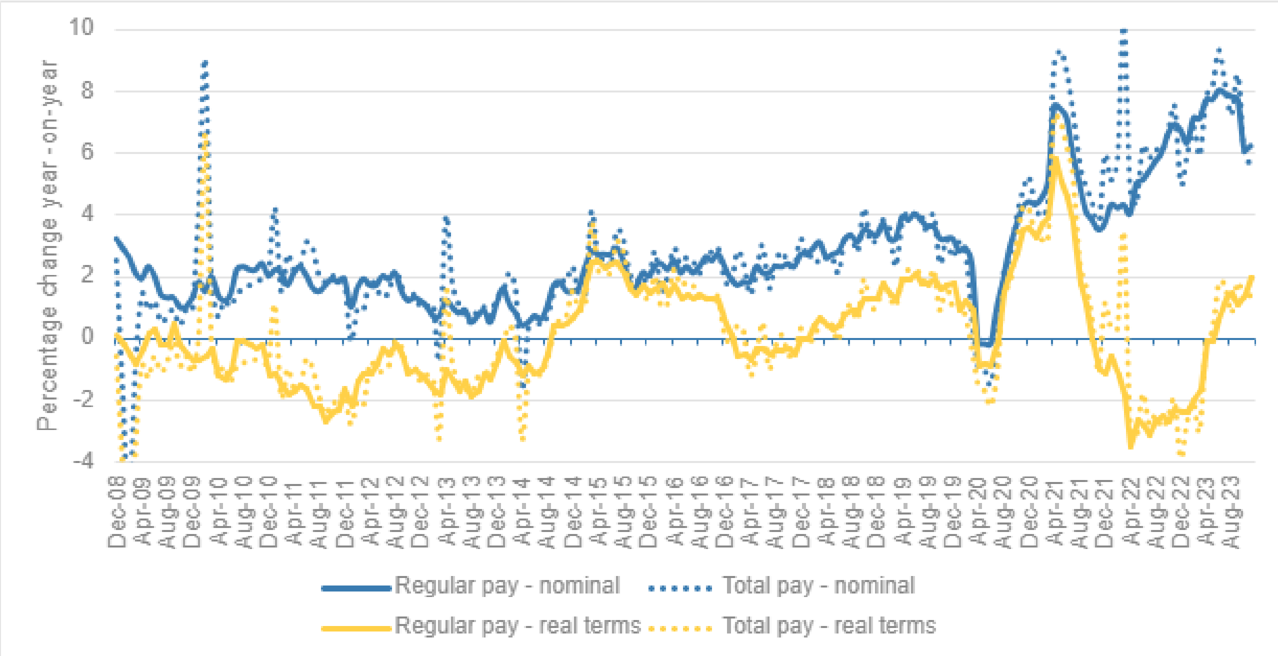


Source: ONS Vacancy Survey

Nominal pay growth was above 6% again, with 'real' pay growth at 2% as inflation eases

Today's wages data shows that large falls in pay growth we have previously highlighted have halted, with both regular pay and total pay growth (i.e. including bonuses and arrears) largely unchanged. This is shown in the blue lines in Figure 10 below. Both sit at around 6%, which remains well above the pre-pandemic trends of 2-4% year-on-year pay growth. The better news though is that as inflation continues to remain a couple of percent below this having dropped over recent periods, ‘real’ pay (yellow lines) is continuing to grow by around 2% a year and so starting to unpick some of the damage done over the last two years. Nonetheless, as we have said in previous months, pay in real terms is barely as high as it was on the eve of the 2008 financial crisis (just £8 a week higher than then).

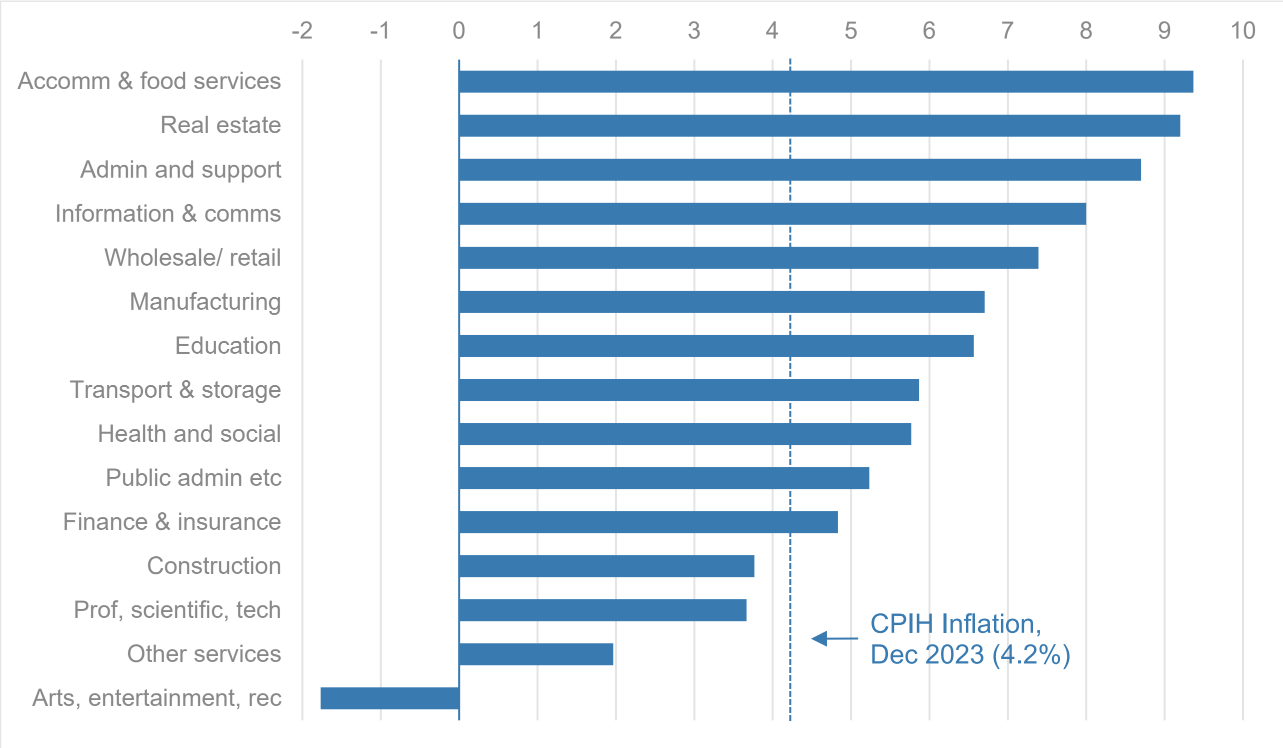
Figure 10: Year-on-year change in regular and total pay – nominal terms and adjusted for inflation (real terms)



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 11 below then shows pay growth by industry, illustrating that pay in virtually all industries is rising faster than inflation – with the strongest growth in some private sector services like hospitality (accommodation and food services), real estate, and admin and support, but also between 5-7% in manufacturing, education and health. As noted in [last month’s briefing](), pay growth remains strong even in industries where vacancies are falling, which may reflect that pay tends to be a lagging indicator, but also that pay growth is driven by a range of other factors too (including inflationary expectations, compositional changes in the workforce and productivity growth).

Figure 11: Year-on-year change in regular pay by industry, nominal terms



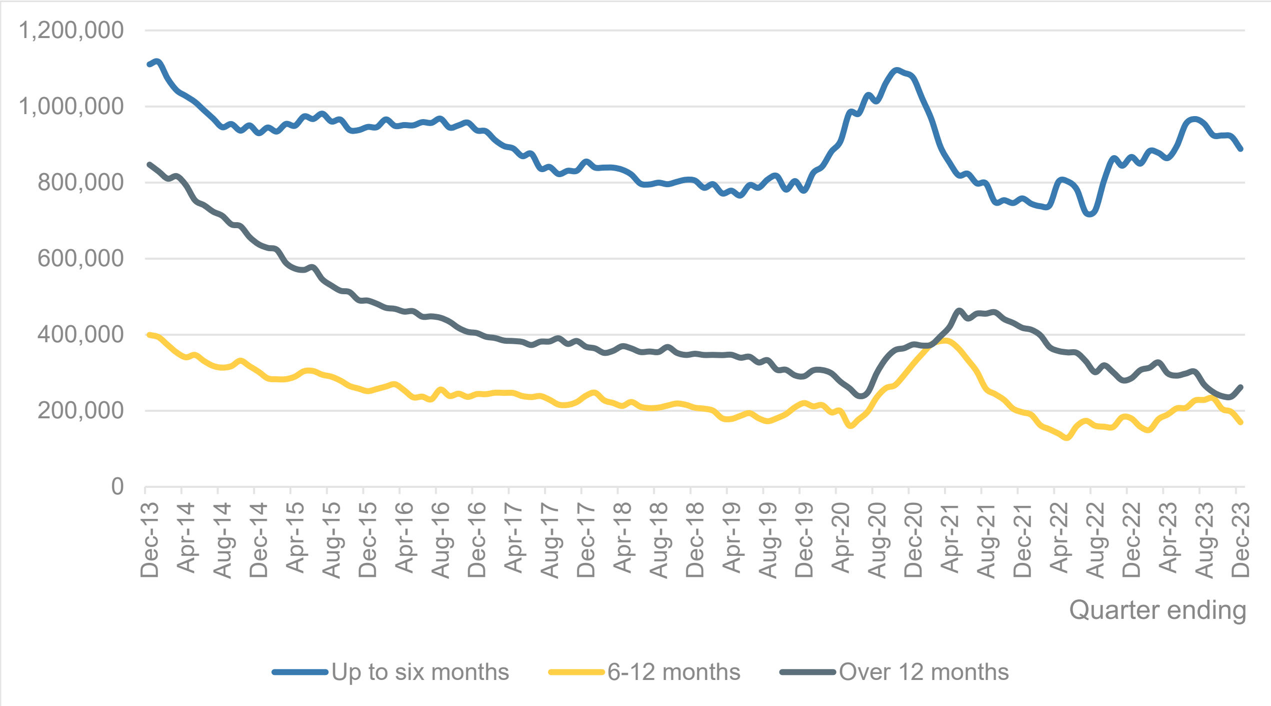
Source: ONS Monthly Wages and Salaries Survey. Pay growth is average of published single-month estimates of year-on-year growth in pay excluding bonuses and arrears for Oct-Dec 2023 (not seasonally adjusted).

There are no signs of rising short-term unemployment or redundancies, implying job losses remain subdued

The data on unemployment by duration, in Figure 12 below, shows that short-term unemployment continues to remain well above pre-pandemic levels, with unemployment of less than six months up by around 110 thousand since the same period in 2019. This is despite the level of vacancies also still remaining above pre-pandemic levels, which may suggest both that those out of work are not getting the support that they might need and/ or that there are mismatches between the skills employers are demanding and those that are being supplied. However, more positively, short-term unemployed has stopped rising recently and may be starting to drop. Unemployment of 6-12 months is also falling, although long-term unemployment (12+ months) has risen by around 30 thousand on the quarter (likely the impact of the increases in short-term unemployment observed a year ago starting to feed through).

Looking at unemployment by age and duration, it appears that this most recent uptick in longer-term unemployment is being driven by 25-49 year-olds, for whom unemployment of at least 12 months has risen by approximately 18 thousand, although long-term unemployment for younger people continues to rise. For 18-24 year-olds, it is at its highest level since early 2022. Given that we know that many young people do not access employment support through Jobcentre Plus, and may not have the experience to move into higher skilled jobs straight away, this does suggest that many of those becoming unemployed may not be getting access to the help that they need to take up the many jobs that are still being created.

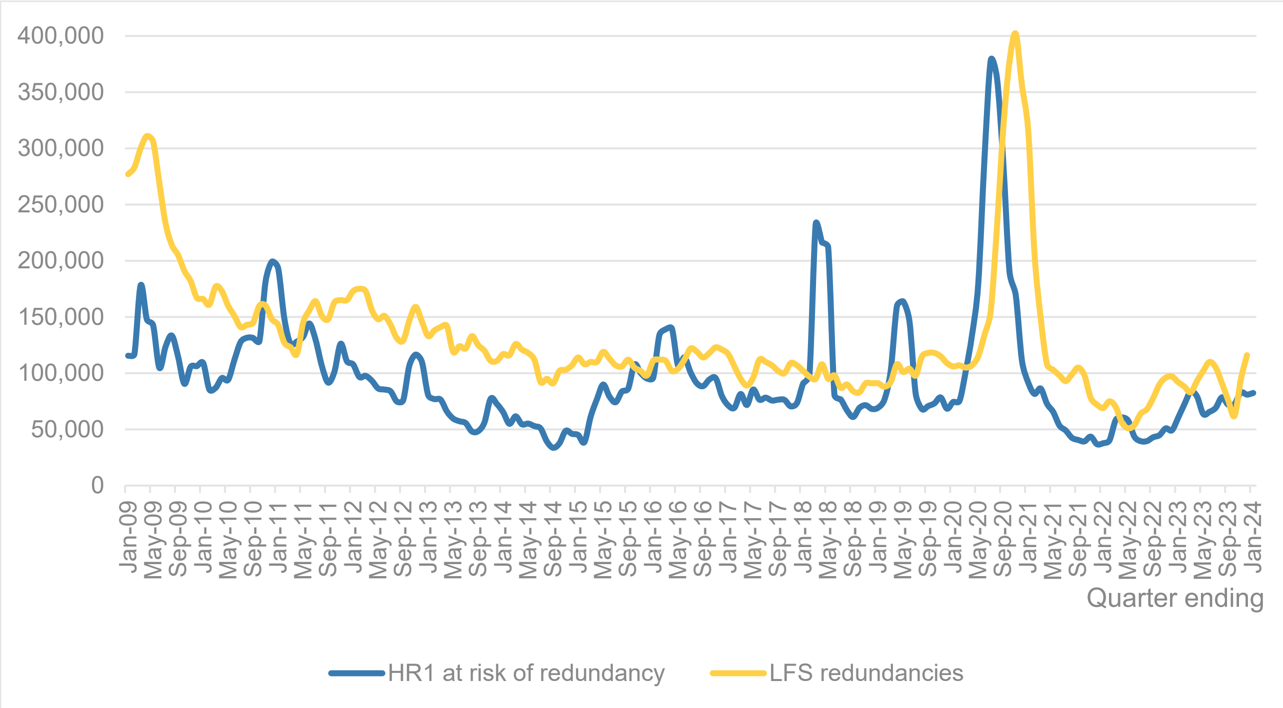
Figure 12: Unemployment by duration



Source: Labour Force Survey. Note that data from July to September 2022 onward has been reweighted, causing a step change discontinuity.

Lastly, on redundancies, the most recent data from 'HR1' forms (where employers notify the Insolvency Service of future redundancy exercises) has remained fairly flat across the last few months, although still above the low level generally seen across the second half of 2021 and across 2022. The estimated number of actual redundancies has increased in the very most recent data, although this should be treated with a lot of caution given volatility in the LFS. This data is displayed in Figure 13 below. Taking a longer view, the level appears low by historic standards, so it seems unlikely that we are seeing any 'take-off' in redundancies even if demand is weakening slightly overall.

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. Note that data from July to September 2022 onward has been reweighted, causing a step change discontinuity.

Conclusion

Overall, today's figures are pretty disappointing – but less because of any obvious deterioration over recent months and more because they show us that what we thought had been a pretty weak labour market recovery was actually somewhat worse than we thought. It also confirms many of our fears over the last couple of years – that many of those out of work are now further away from work than before, that this is being exacerbated by poor health and population ageing, and that many young people appear to be faring particularly badly. At the same time however, the economy continues to create jobs and pay continues to grow, albeit at lower levels than in the recent past. Our failure to take advantage of this, and to help those out of work to get into work and those in work to stay there, is holding back growth and contributing to lower standards of living.

So these figures reiterate the need for us to do much better – in helping people out of work to get into work; helping those in work but struggling to stay there; and working with employers to fill jobs and support people in them. The government has announced welcome measures on the first of these three things (support for those out of work), particularly with the new Universal Support programme, Restart extension and more investment in employment advisers. However these measures are taking time to get going, and have been accompanied by unremittingly negative rhetoric around benefit claimants and sanctions – which pushes further away many of those who would most benefit from better support. We have also seen very little focus on employer engagement – either in terms of additional support or increased expectations.

In the short term, next month's Budget provides an opportunity to address this. However in the longer term we need a new approach, as we have been working to set out through our Commission on the Future of Employment Support.

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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