Labour Market Statistics, January 2023

17 January 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 November 2022 (the most recent quarter being September to November 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 December 2022, and the Wages and Salaries Survey to November 2022.

Summary

Nothing to see here? Today's headline estimates of employment, unemployment and economic inactivity are all identical to those published last month. However underneath this we do see some signs of change in the labour market.

In potentially positive news, economic inactivity due to long-term ill health, early retirement and studies appear to be falling slightly, although economic inactivity due to long-term ill health remains well above its pre-pandemic levels. Economic inactivity due to early retirement is now back to where it was before the pandemic, illustrating that the challenges that we are now facing are primarily around fewer people *entering* work rather than more people *leaving* it.

However in more worrying signs, redundancies continue to rise (albeit so far only back to pre-pandemic levels), unemployment of less than a year is rising, and the number of young people outside of full-time education or employment is also up. Vacancies continue to fall back. It is possible that for each of these we are simply seeing things returning more towards normal, but it is perhaps more likely that these are early signs of a wider slowdown.

We have also this month included new analysis of the work intentions of those who are economically inactive. Overall, 1.7 million people (around a fifth of all of those who are economically inactive) state that they would like a job at the moment, including 560 thousand of those with long-term health conditions. Additional analysis by IES and

included in this briefing also finds that among those who do not want a job right now, there are more than 300 thousand people with long-term health conditions who state that they will definitely or probably work again in the future. Among those out of work due to caring responsibilities, 390 thousand want a job now while a further three quarters of a million expect to work again in future.

On pay, nominal wages continue to rise strongly (up by 6.7% on the year) but inflation continues to more than offset this, with real terms pay down by 2.4%. And public sector pay continues to fare particularly poorly, rising again by less than 4%. This is undoubtedly contributing to the continued high vacancies in public services and to wider recruitment and retention challenges.

Overall, today's labour market data paints a worrying picture, continued unmet demand for labour that is holding back growth and could be contributing to higher inflation, but also signs of a slowdown and potential weakening in the labour market in the coming months. The government's review on workforce participation is therefore welcome, but needs to focus on 'active' labour market measures to improve support for those who are out of work and want a job as well as more 'passive' measures affecting the tax and benefits systems.

In particular, we need to do more to extend access to employment support through the services that people use, delivered in the ways that they want, and delivering the support that they need. As we have said previously, in our view this should include as a minimum broadening access to the Restart Scheme and bringing forward commissioning of support through the Shared Prosperity Fund. We also need to work better with employers, and expect more from them – on making work more flexible and accessible, improving and simplifying recruitment, and providing greater security and support for those returning to work.

Looking further ahead, our new Commission on the Future of Employment Support, in partnership with abrdn Financial Fairness Trust, is looking to develop longer-term proposals for reform so that we can help more people to get the support they need to find decent, secure and rewarding work, and better help employers to fill their jobs. We are currently running a Call for Evidence until **Monday 30 January** seeking views on the current system and how it can be reformed for the future, as well as examples of what is working well and what we can learn from. Please do get in touch if you want to be involved, at www.bit.ly/employment-commission and www.bit.ly/call-for-evidence.

Next month's briefing: Please note that due to planned leave, next month's IES briefing will be published **the day after** the Labour Market Stats are released (so on Wednesday, 15 February).

Headline employment and economic inactivity are showing slight signs of improvement

As with recent months, the employment rate is around 75½%, unemployment is below 4% and economic inactivity The headline data on employment, unemployment and economic inactivity for 16-64 year olds around 21½%. In fact at 75.6%, 3.7% and 21.5% respectively, all three figures are exactly the same as last month's published figures.

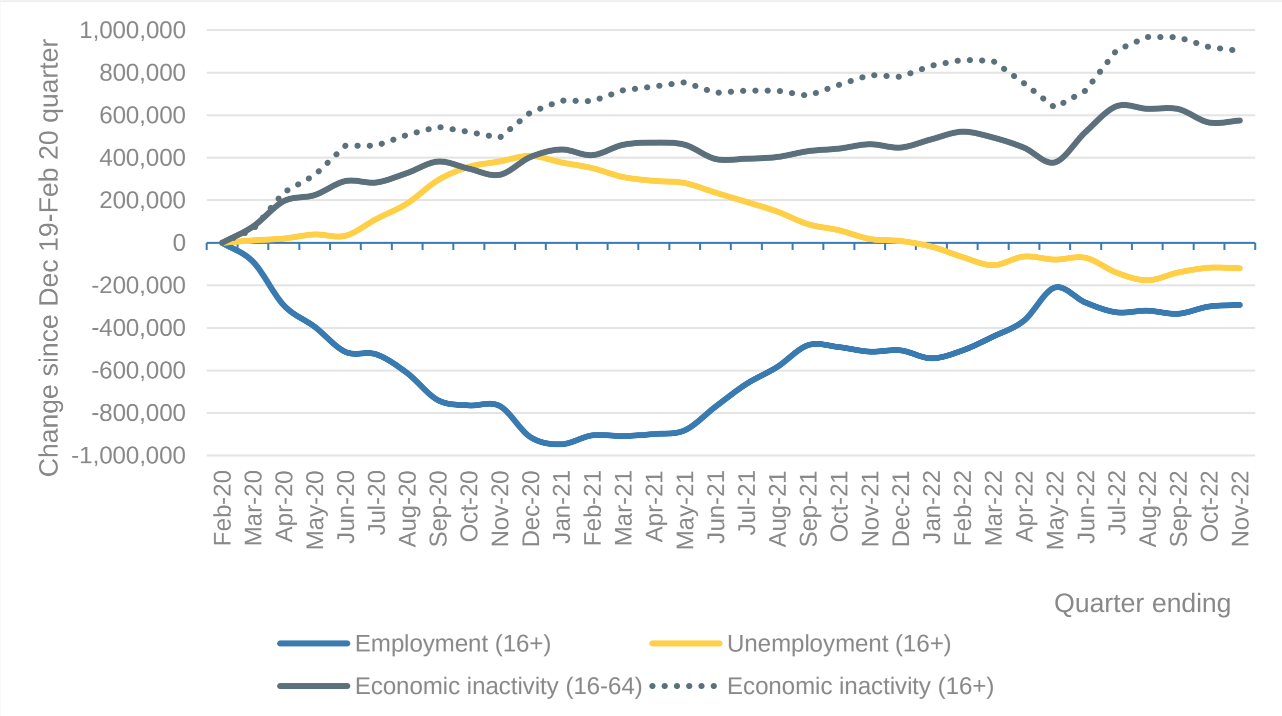
Taking a slightly longer view though, it does look like employment and economic inactivity are starting to show some improvement compared with the very poor figures that we saw over the summer, while unemployment looks broadly flat over that period. Figure 1 below illustrates this, showing the quarterly averages in blue but also the single month estimates that make up the quarterly average in yellow. These yellow lines are volatile, but the single month estimate for November – with higher employment, lower unemployment and lower economic inactivity – do at least suggest that the numbers are not about to take a significant turn for the worse.

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 tells a very similar story, of things being largely unchanged in recent months but also quite significantly worse than before the covid-19 pandemic began. As Figure 2 below shows, there are still 290 thousand fewer people in work, 575 thousand more people aged 16-64 who are economically inactive, and 900 thousand more who are economically inactive if people aged over-65 are included. Unemployment however remains around 120 thousand lower than before the pandemic began.

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

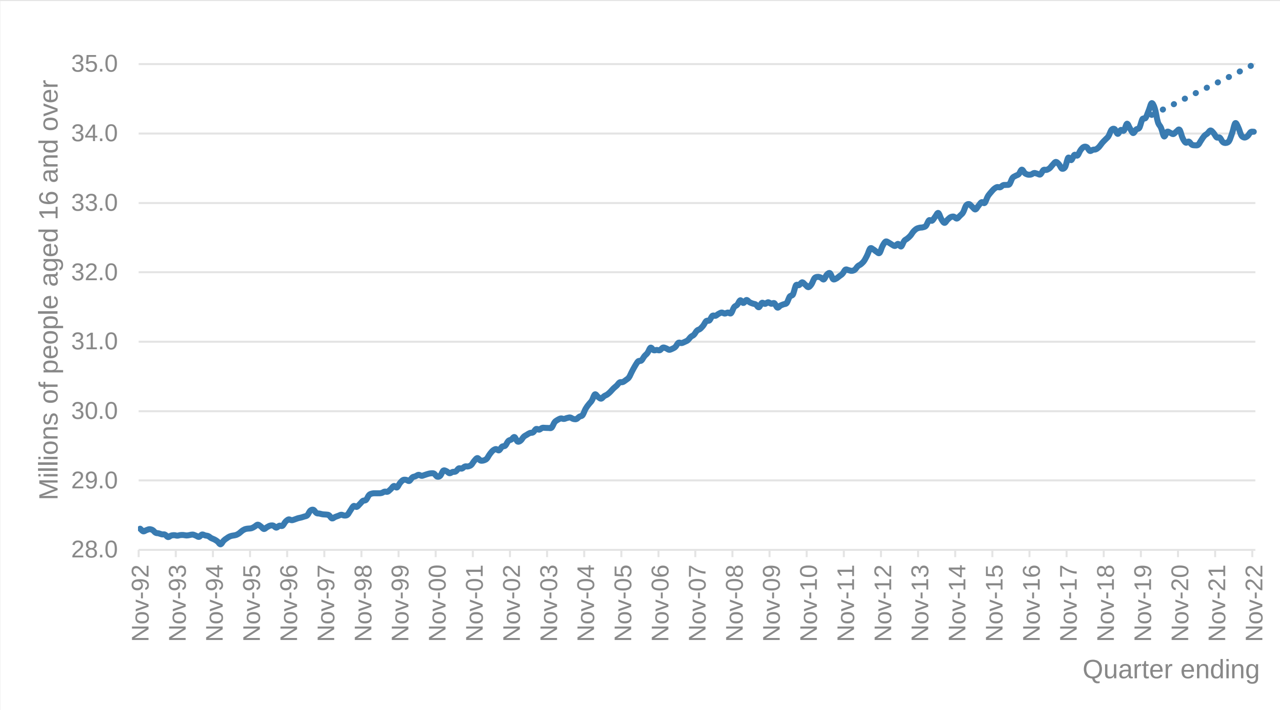


Source: Labour Force Survey

These falls in employment and unemployment mean that there are over 400 thousand fewer people in the labour force compared with the eve of the covid-19 pandemic. As Figure 3 below illustrates, this is the most significant slowdown in labour force participation that we have seen in thirty years, and has reversed a trend of rising participation – through recessions and recoveries – since the early 1990s.

This growth in the labour force was aided in particular by older people staying in work longer, more women in work and by higher migration. And even though these trends would not have continued indefinitely, the abruptness of the change is striking, and is at the root of many of the issues that we are now facing in the labour market. (It is also unusual: as we set out in the launch report for our Commission on the Future of Employment Support, the UK is one of the only countries in the developed world to have seen its labour force contract during the pandemic).

Figure 3: Number of people in the labour force (aged 16 and over) compared with pre-pandemic trend



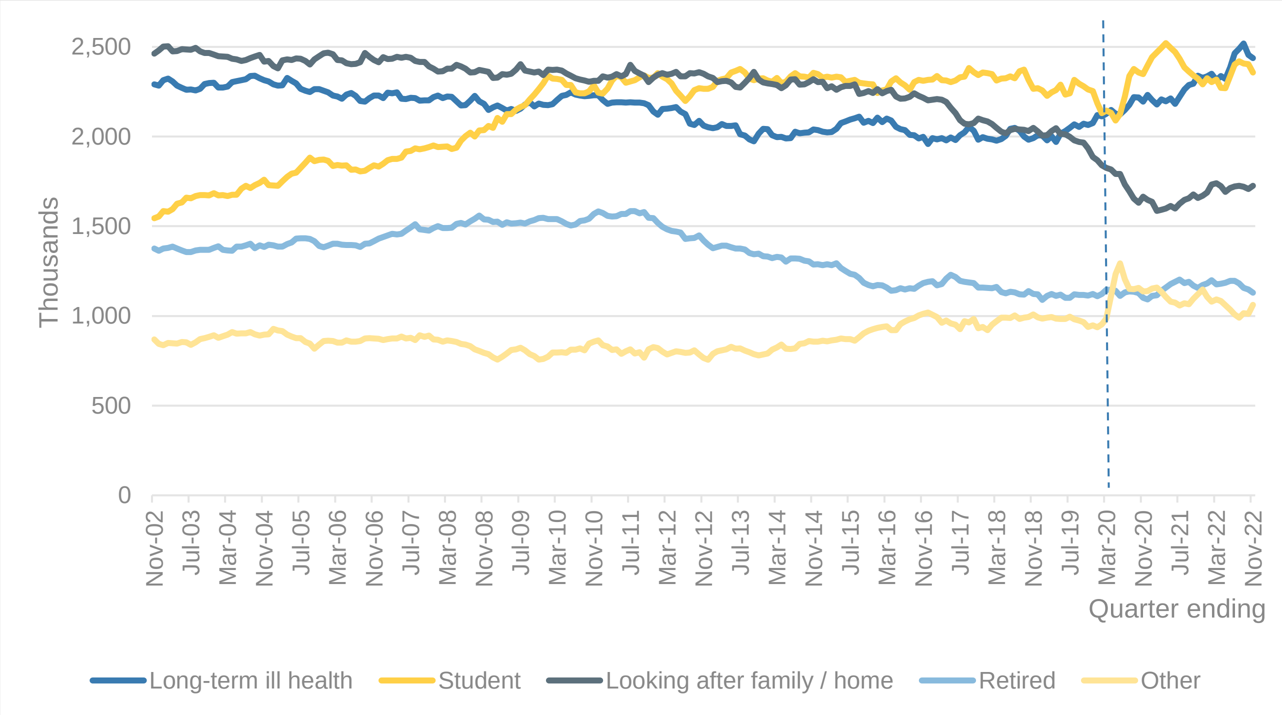
Source: IES analysis of Labour Force Survey

Slight improvements on economic inactivity mainly on long-term ill health and students, but both remain high

Economic inactivity figures by age tell a very similar story to those published last month, and there is more analysis in last month's briefing on these (and in particular on employment and worklessness for people aged 50-64).

More notable today are slight changes in the main reasons for being economically inactive – with economic inactivity due to long-term ill health and early retirement both falling back again, and the number of students outside the labour force also falling. Economic inactivity for each of these three reasons has fallen by about 50 thousand over the most recent quarter. This has been partially offset by a rise in economic inactivity due to 'other reasons' (for example not needing a job, or people waiting for a job to start), which has risen by 70 thousand, while the number of people looking after family or home remains flat (having fallen consistently over the last two decades). However as Figure 4 below shows, a long-term health condition remains the most common main reason for being economically inactive, and this remains significantly higher than before the pandemic began.

Figure 4: Levels of economic inactivity for the five main reasons given, 2002-present

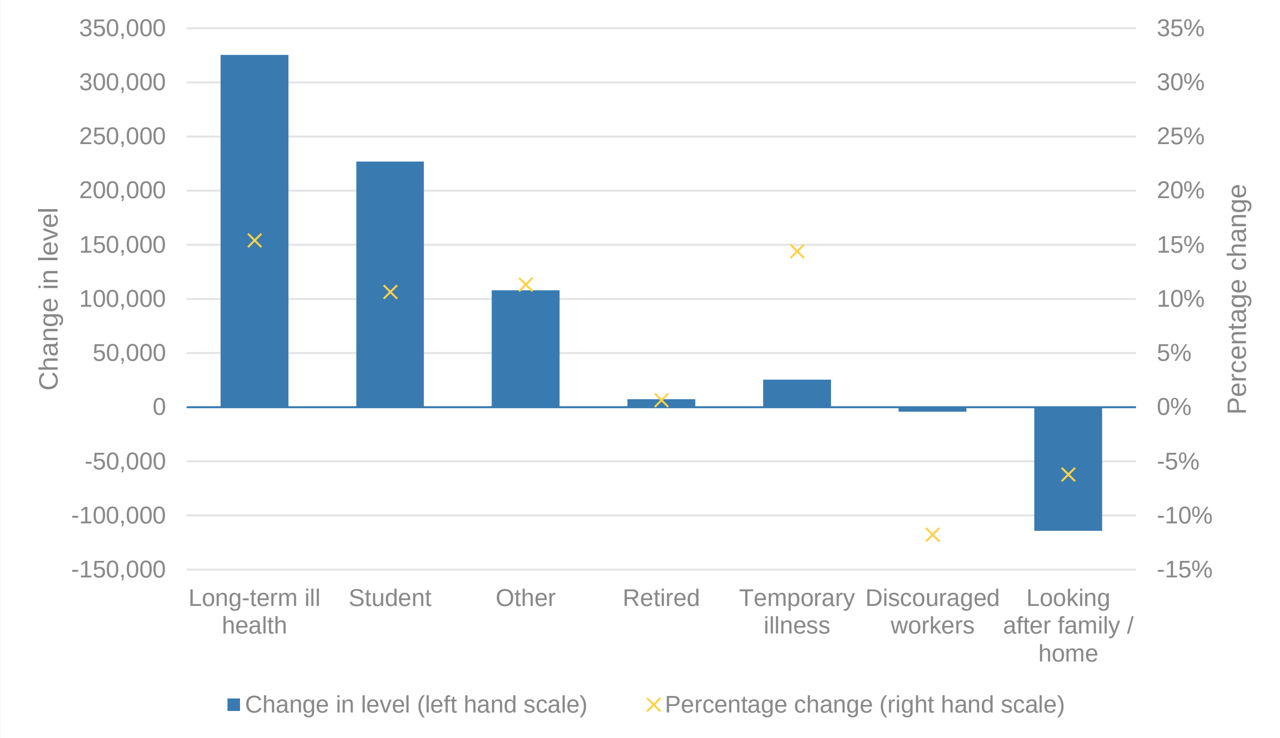


Source: Labour Force Survey

Figure 5 then illustrates this more clearly, showing the change in economic inactivity since the onset of the pandemic – with the bars showing the change in levels of economic inactivity (on the left hand scale) and the crosses indicating the percentage change (on the right hand scale). Economic inactivity due to long-term ill health is still 325 thousand higher than before the pandemic began (a rise of 15%), while the number of non-working students is 225 thousand higher (around 10%).

Importantly, 'early retirement' is now virtually back to where it was before the pandemic began – illustrating that increasingly the challenges that we are facing are around fewer people *entering* the labour market rather than more people *leaving* it. We explored this in more detail in analysis published in November, 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).

Figure 5: Change in economic inactivity by main reason, Dec 19-Feb 20 to Aug-Oct 22



Source: Labour Force Survey

Over half of the economically inactive either want a job now or expect to work again in future

Today's data also reports that one in five of those who are economically inactive state that they would nonetheless like a job. This includes over half a million (560 thousand) of those with long-term health conditions, 370 thousand people with caring responsibilities and 360 thousand students. These figures are reported in the statistical tables as those who 'want to work', but likely under-estimate those who would like to work in future as the specific wording in the survey asks if respondents would like a job 'at the moment'. So it is a measure of those who are not looking and/ or available for work but who want to work right now.

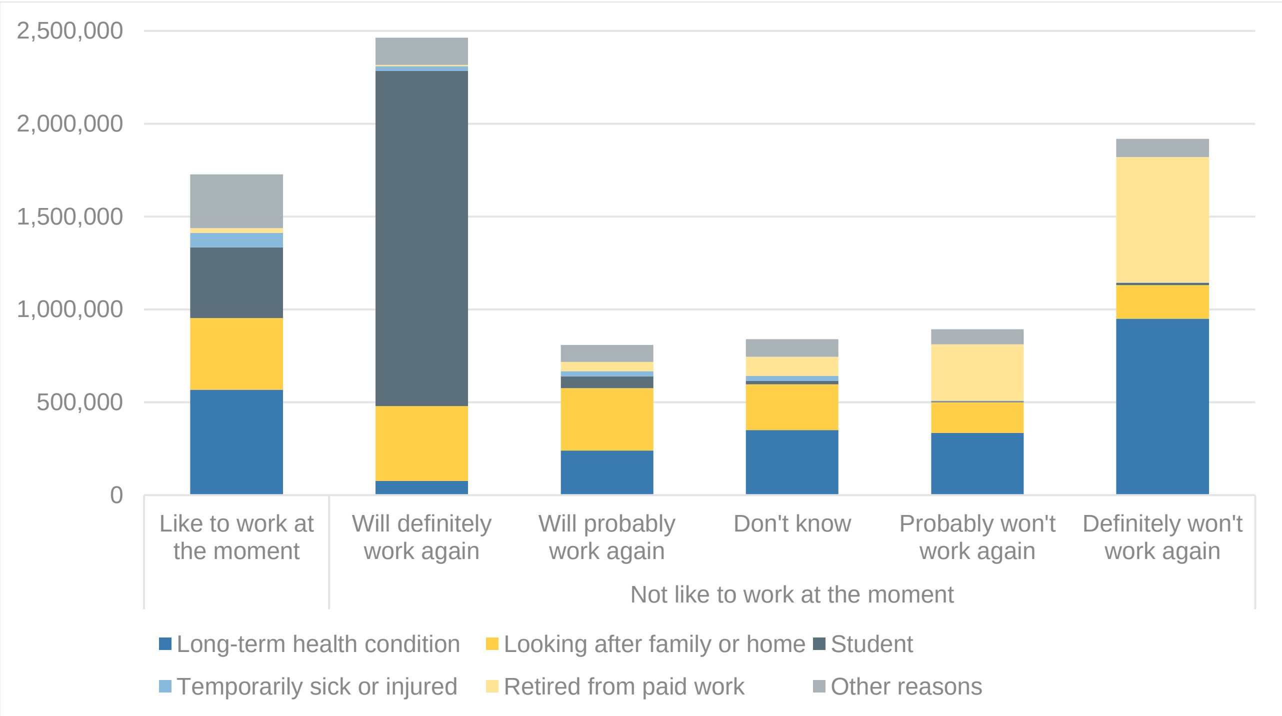
To give some idea of future work intentions, we have also analysed responses to a question in the Labour Force Survey asking if 'you think you will work in the future'. We have done this for the July-September 2022 data and presented it in the table below, broken down by response and reason for economic inactivity. The left-hand column shows the 1.7 million people who state that they would like a job at the moment, with the five further columns showing future work expectations of those who do not want a job at the moment.

This shows that there are 3.3 million people who do not want a job now but think that they will definitely or probably work in future. Perhaps unsurprisingly, this is dominated by current students, but taking this group out still leaves 1.4 million people who do not want to work right now but do expect to work in future. More than 300 thousand people in this group are out of work due to long-term ill health, while nearly three quarters of a million are out of work with caring responsibilities.

At the other end of the chart, nearly three fifths of those who have retired early state that they will definitely not work again (670 thousand people), but worryingly so do nearly half of those out of work due to long-term ill health (950 thousand).

Much like the 'want to work' figures, this analysis only gives us a partial picture of whether people feel able or want to work. But it does illustrate that the potential labour force among those described as economically inactive is far bigger than the 'want to work' figures published each month.

Figure 6: Economically inactive by whether would like to work at the moment, expect that they will work in future and main reason for being outside of the labour market



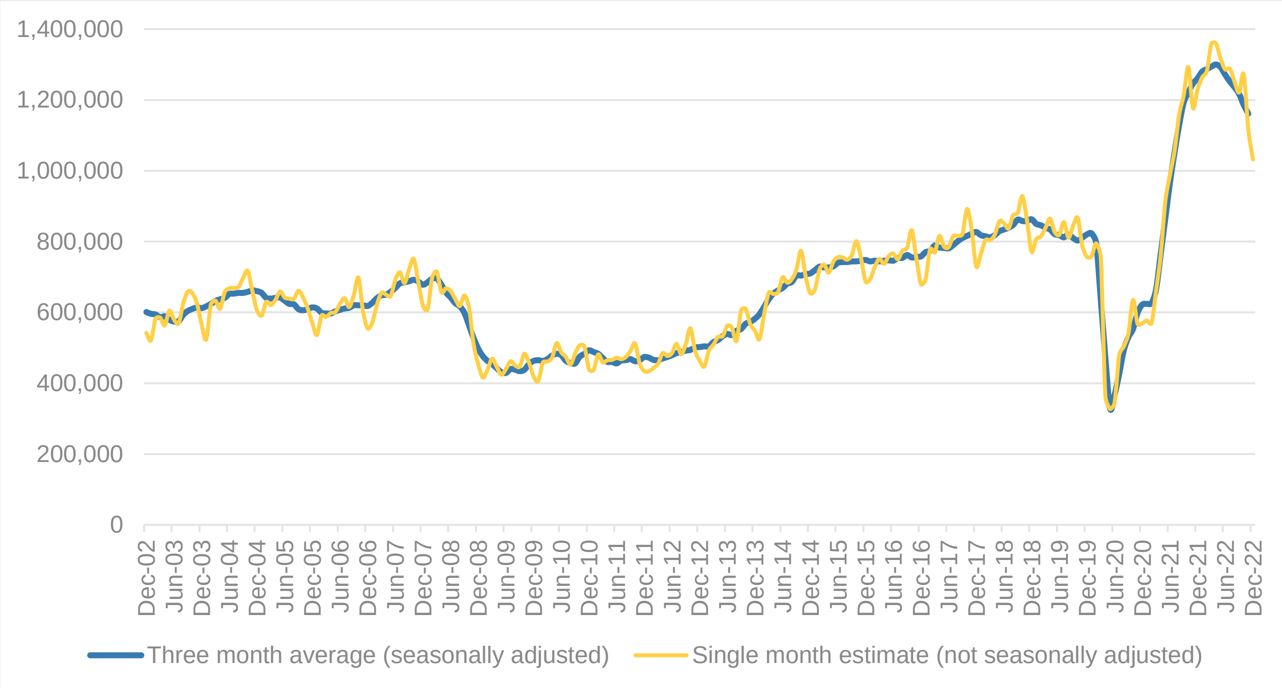
Source: IES analysis of Labour Force Survey

Vacancies appear to be falling sharply, but remain high and the labour market is still tight

Elsewhere in today's data, as with last month there continue to be some worrying early signs that the economy may be weakening – or alternatively, more positively, that things may be starting to return to 'normal'. On vacancies in particular, the falls in job openings that we have seen since the early summer are continuing with the headline average now standing at 1.16 million – down by 140 thousand (or 11%) on the March-May peak. Figure 7 illustrates this, and also shows the single month estimate in yellow. The very weak November data reported on last month has been followed by even weaker December figures. As we said last month, this data is not seasonally adjusted and so these sharp falls will in part reflect the annual slowdown in vacancies in the run-up to Christmas. But the scale of the falls does nonetheless suggest that the headline average will continue to fall back in the coming months.

So far however, with unemployment remaining well below 4% and vacancies high by historic standards, the labour market continues to be very tight – with on average 1.05 unemployed people per vacancy (compared with around 1.6 on average before the pandemic, and around four unemployed people per vacancy during the covid-19 lockdowns).

Figure 7: Vacancies – quarterly and single-month estimates

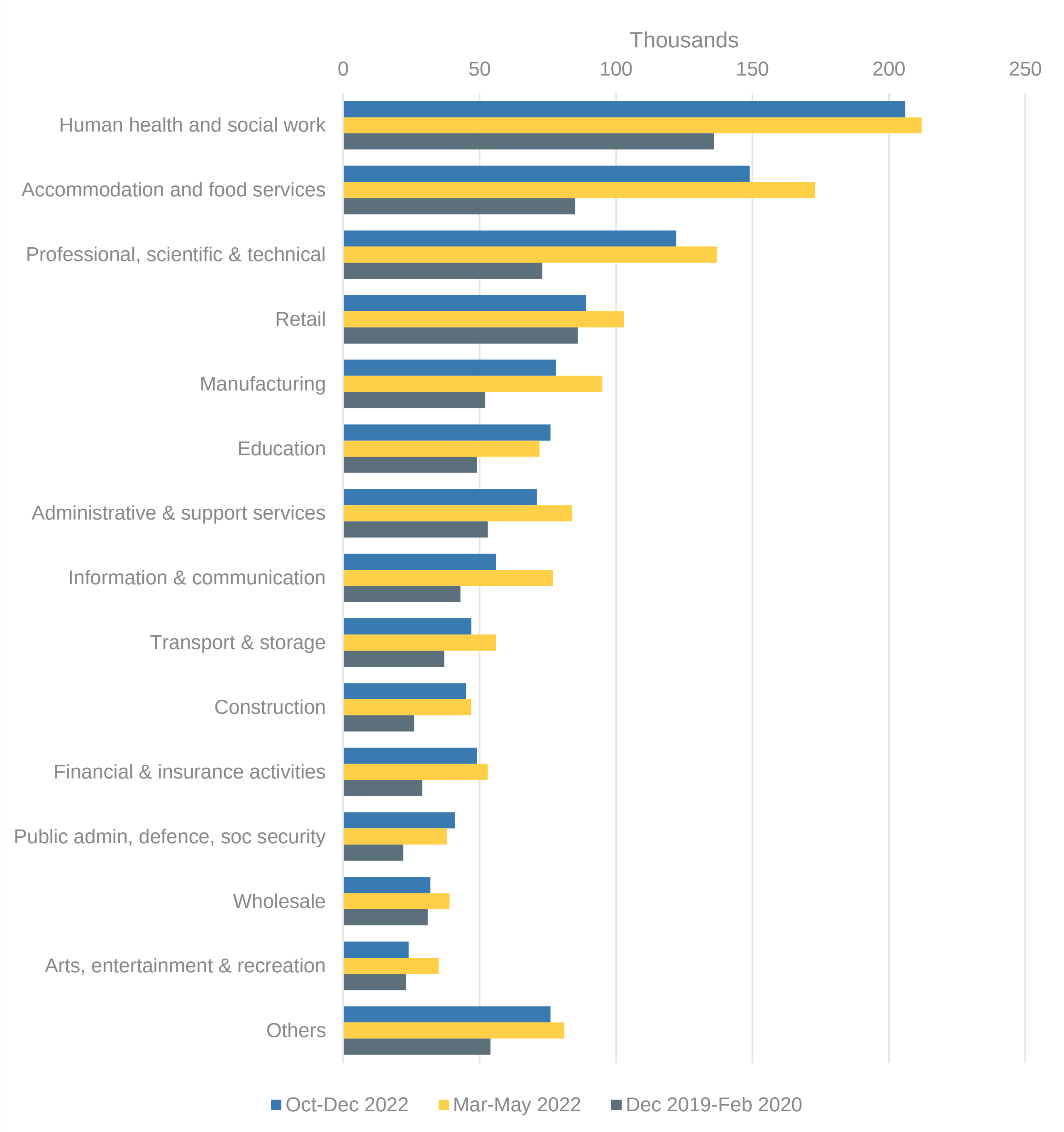


Source: ONS Vacancy Survey

It is well possible that these falls in vacancies reflect a labour market returning a bit more towards ‘normal’, with jobs either being filled by employers or replaced by other activity. However looking at changes in vacancies by industry (Figure 8) and comparing the latest figures with the March-May peak and the pre-pandemic data, it does seem that the largest falls are in those industries that we may expect to be particularly affected by a wider slowdown this year – with hospitality vacancies falling furthest, information/ communication jobs down sharply (reflecting the wider slowdown in technology) and notable falls this month in manufacturing vacancies.

As with last month, vacancies in public sector industries continue to hold up and even grow – likely reflecting wider pressures due to weak pay growth and strong demand in better paid private sector jobs.

Figure 8: Vacancies by industry, pre-pandemic, post-pandemic peak (Mar-May 2022) and most recent quarter (Oct-Dec 2022)

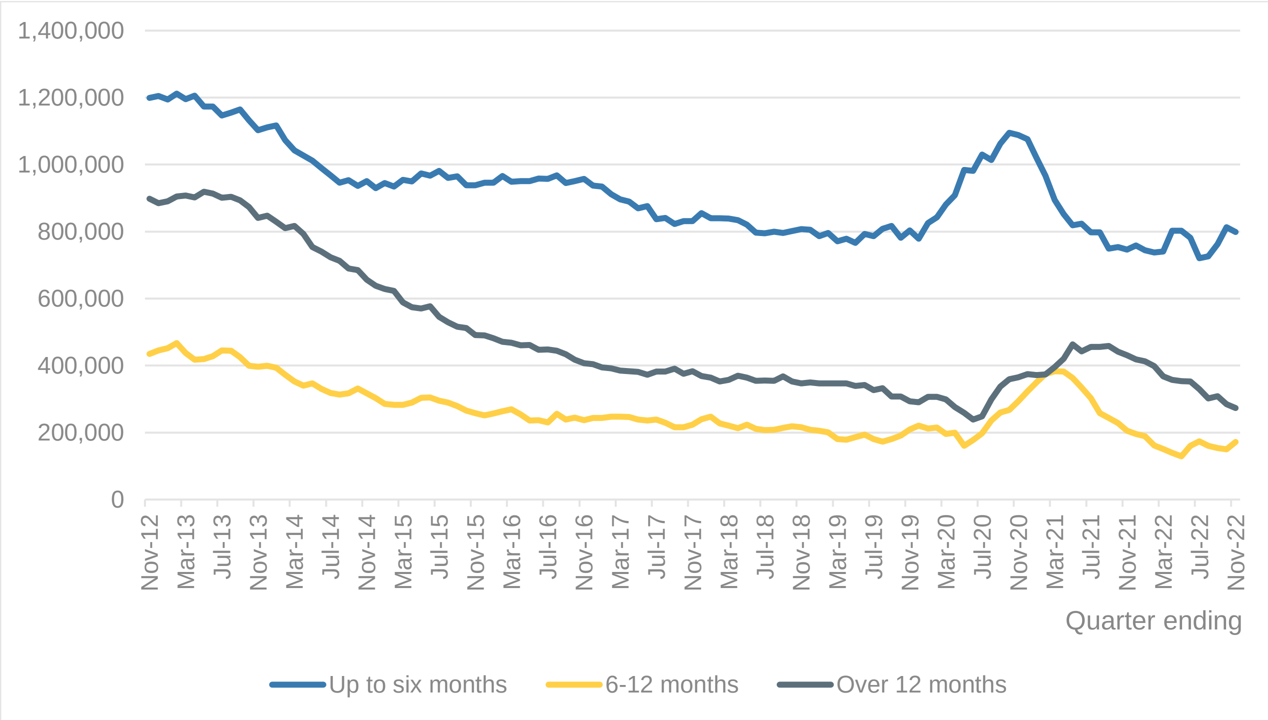


Source: ONS Vacancy Survey

Short-term unemployment and youth unemployment are also up on the last quarter

As we reported last month, there are further signs of things slowing down in the data on unemployment by duration and on young people not in full-time education. On unemployment by duration, Figure 9 shows that short-term unemployment (under six months – blue line) has dropped back slightly on the sharp rise reported last month but remains slightly elevated compared with where it has been for most of the last year. However there are signs that unemployment of 6-12 months is also now trending up (the yellow line) – which makes it even more likely that the rises we are seeing are due to people finding it harder to get work rather than more people entering the labour market. Long-term unemployment continues to fall however, perhaps reflecting the success of policy measures focused on tackling long-term unemployment (like the Restart scheme).

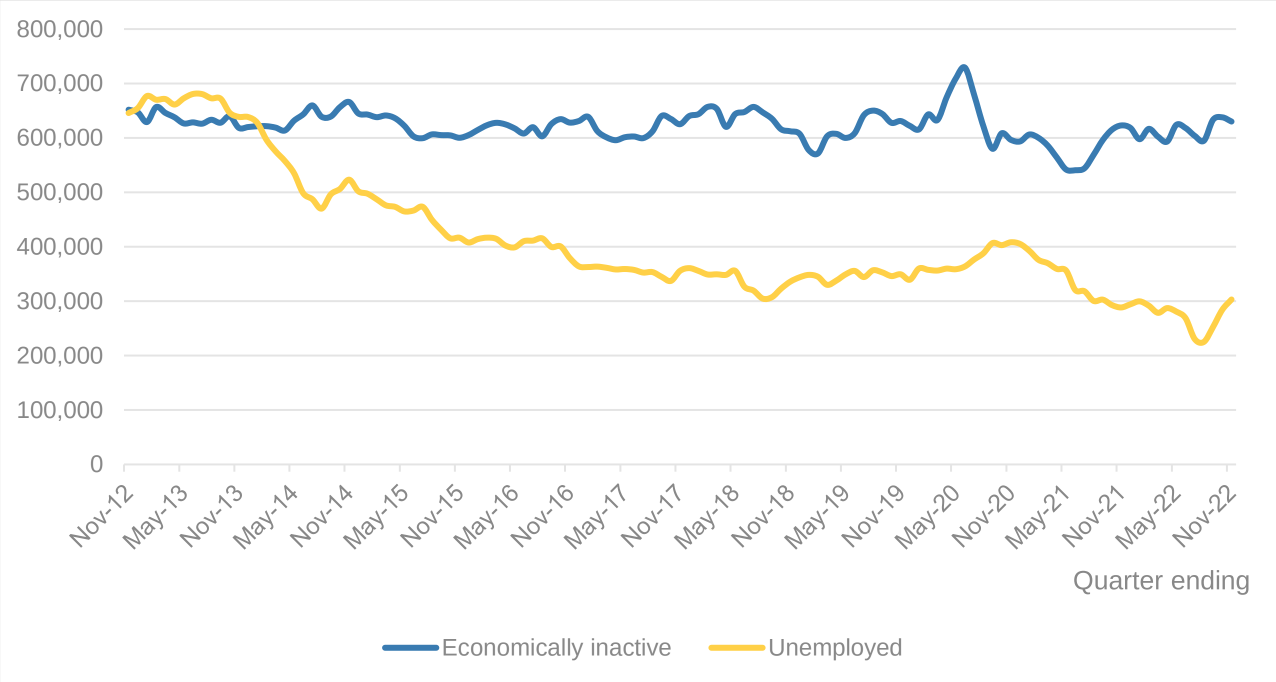
Figure 9: Unemployment by duration



Source: Labour Force Survey

Data on young people outside of employment or full-time education is also concerning, with Figure 10 showing that the number of these young people who are unemployed is now above 300 thousand while a further 630 thousand are economically inactive. Both figures are the highest since 2021.

Figure 10: Number of young people (16-24) who are not in full-time education and either unemployed or economically inactive

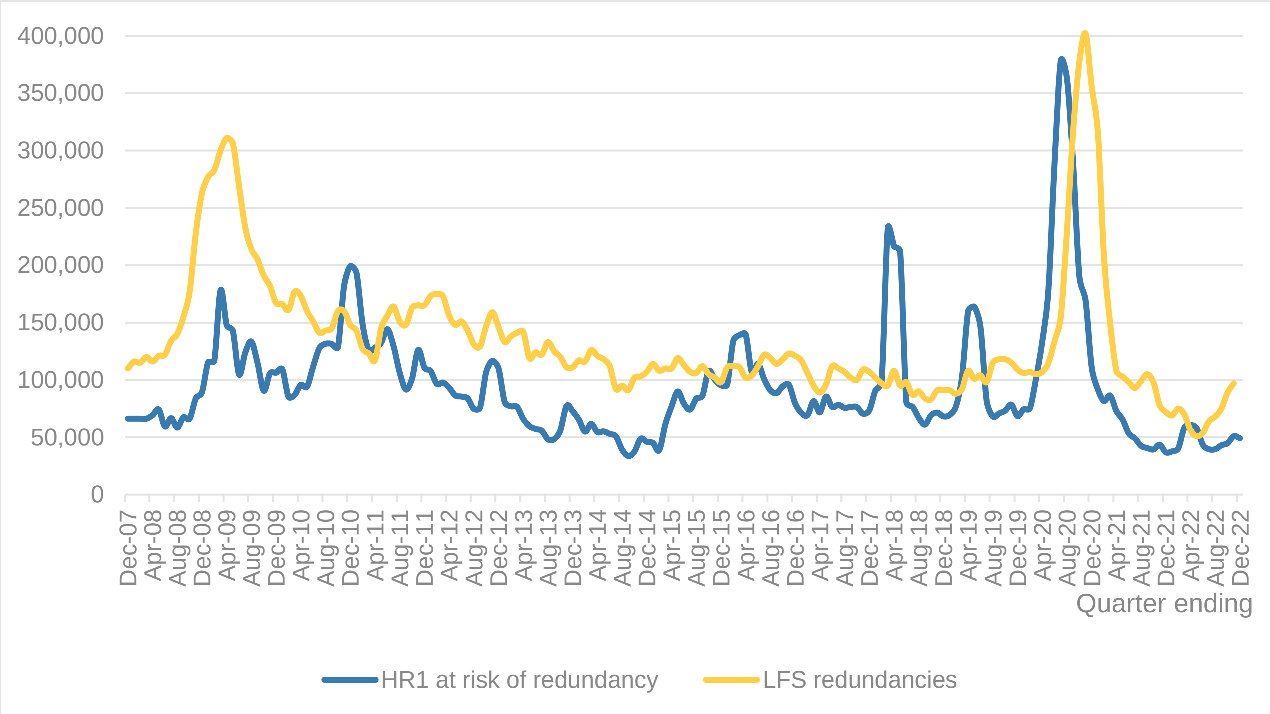


Source: Labour Force Survey

Redundancies have also risen again, and are now back to where they were before the covid-19 pandemic

Last month we also reinstated a previous graph showing the number of people notified to the Insolvency Service as being ‘at risk’ of redundancy (through HR1 forms) and the LFS estimate for actual redundancies over the same period. This is updated in Figure 11 below, and shows that LFS redundancies are continuing to rise and are now around 100 thousand – the highest since autumn 2021 and broadly in line with pre-pandemic levels. More detailed analysis suggests that this growth is being driven in particular by hospitality jobs, retail and by a broad ‘finance/ insurance/ real estate’ group. HR1 forms remain relatively low, which could suggest that redundancies are predominantly happening in smaller establishments.

Figure 11: Quarterly number of employees notified as at risk of redundancy (HR1 forms) and reporting having been made redundant (Labour Force Survey)

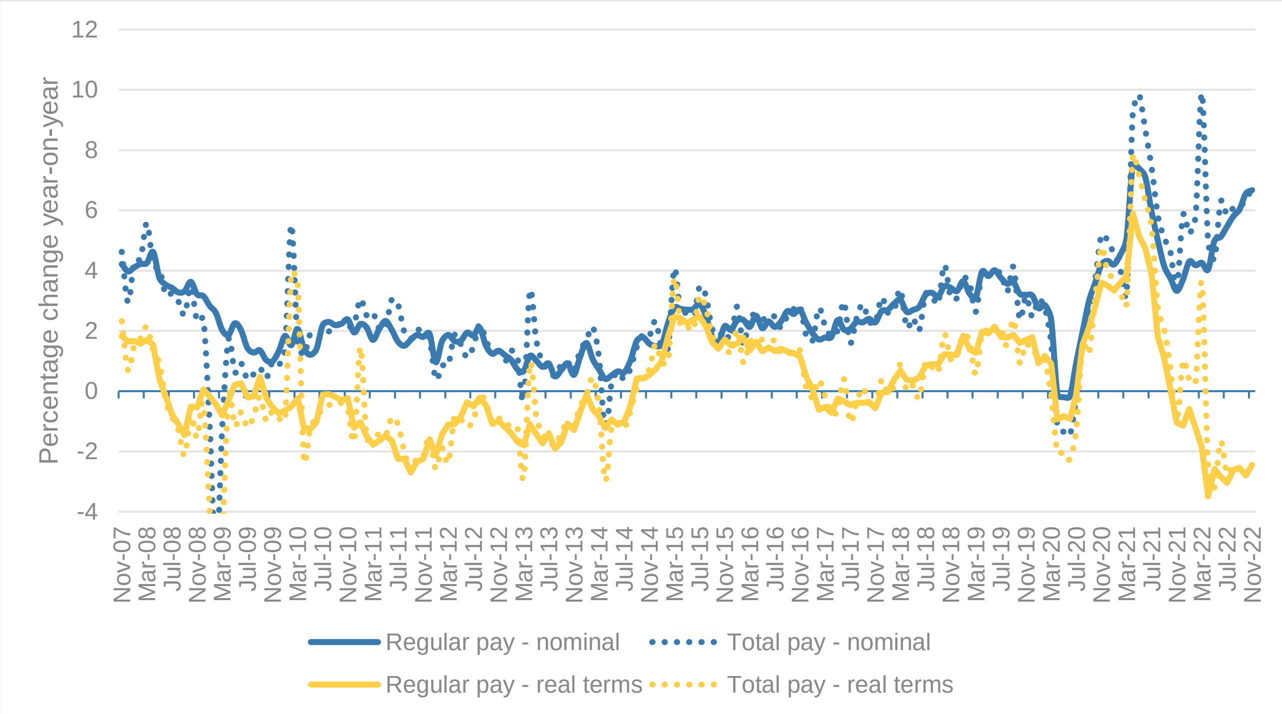


Source: IES analysis of Insolvency Service and Labour Force Survey data

Nominal pay growth in the private sector remains strong, but is still well below the rate of inflation

Finally, nominal pay growth remains very strong and if anything appears to be rising. Regular pay and total pay (including bonuses) both rose by 6.7% compared with November last year, comfortably the highest rate of nominal pay growth outside of the pandemic (when figures were artificially inflated by the end of the furlough scheme). However, inflation of above 9% means that real-terms pay continues to fall significantly – down by 2.4% on the year and with real pay now 4.3% lower than it was in its peak in March 2022.

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

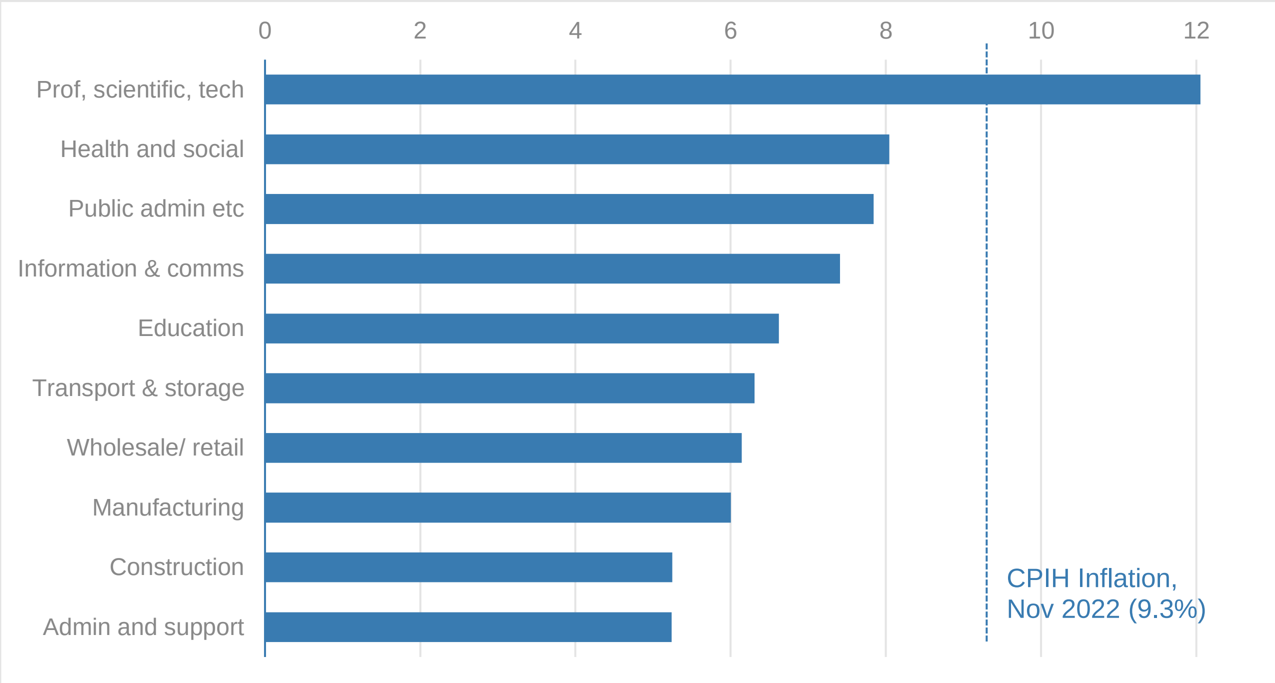


Source: ONS Monthly Wages and Salaries Survey. Regular pay excludes bonuses and arrears; measure shown is year-on-year change in single month estimate.

However, the pay situation continues to be very different between the private and public sectors, with private sector pay now rising by 7.2% while public sector pay is up by just 3.9% in nominal terms (i.e. a 5-6% real terms fall). With vacancies rising and pay falling in public sector industries, it does seem increasingly unsustainable for government to hold pay awards below the 6-7% range that we are seeing across the wider economy.

Looking at pay growth by industry, Figure 13 shows that average year-on-year pay growth over the last three months was again above inflation in ‘professional’ jobs (a category that includes accountancy, engineering, consultancy and other professions) but below inflation in every other category. As noted last month, growth in health and social care is unusually high due to very large month-on-month increases between August and September, which will drop out of the averages next month.

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 August-October 2022 (not seasonally adjusted).

Conclusion

As with last month, the broadly flat (and potentially slightly positive) overall picture may be disguising early signs of a slowdown in hiring and possibly also of rising redundancies. Nonetheless vacancies remain very high by historic standards, and there are still around three million people out of work who want a job (1.73 million of whom are economically inactive and 1.25 million unemployed) plus a further 1.4 million people who are outside of the labour force and expect that they will work in the future.

As we stated in last month's briefing, the government's review of measures to support labour force participation is welcome. So far, government Ministers have trailed potential future announcements around the benefits system, which are positive and echo proposals made by the Labour Party last week. The suggestion of a large scale tax break for older people re-entering work seems less thought through and would likely come with significant costs (potentially in the billions of pounds[1]) in providing tax relief for people who would have got a job anyway. If there is new money available, then the top priority should

[1] Around three quarters of a million people aged 50-64 move into work each year having previously been out of work, while income tax on an average wage is around £3,800. So if relief were provided for all of these people for a full year, the cost would be nearly £2 billion.

be looking at ways to extend access to high quality employment support to more of those who are out of work and want to work either now or in future.

Additional employment support would ideally be delivered through the services that people use, in the ways that they want, and offering the support that they need. This would include for example improving access to employment support through health services (as Labour has proposed) as well as extending support through other services like social housing (as we and the Learning & Work Institute have set out) children's services, adult and community learning, and other local community, voluntary and public services.

In the short term though, the immediate priority should be to broaden access to current employment programmes and services – like the Restart Scheme (or potentially the Work and Health Programme) or by bringing forward commissioning of support through the Shared Prosperity Fund (which would enable current European-funded programmes that are closing down to deliver services for these groups).

Alongside this, we also need to work better with employers and to expect more from them – particularly on making work more flexible (with demand for flexible work like a golden thread that is common across all of those outside the labour market including students, older people, disabled people, parents and those with long-term health conditions) as well as improving and simplifying recruitment processes, and providing greater security and support for those returning to work.

Looking further ahead, our new Commission on the Future of Employment Support, in partnership with abrdn Financial Fairness Trust, is looking to develop longer-term proposals for reform so that we can help more people to get the support they need to find decent, secure and rewarding work, and better help employers to fill their jobs. We are currently running a Call for Evidence until **Monday 30 January** seeking views on the current system and how it can be reformed for the future, as well as examples of what is working well and what we can learn from. Please do get in touch if you want to be involved, at www.bit.ly/employment-commission and www.bit.ly/call-for-evidence.

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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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