ies Briefing

Institute for Employment Studies

Labour Market Statistics, June 2023

13 June 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 April 2023 (the most recent quarter being February 2023 to April 2023). The briefing also includes findings from the **ONS Vacancy Survey**, which collects employer data on open vacancies; and from the **Monthly Wages and Salaries Survey**, which collects pay data from businesses in order to estimate Average Weekly Earnings (AWE). The Vacancy Survey includes data up to May 2023, and the Wages and Salaries Survey to April 2023.

This month also sees the publication of quarterly **Workforce Jobs** (WFJ) data, which measures the number of jobs in the economy using various employer surveys and the LFS. We have included at the end of the briefing a brief analysis of the growing difference between the WFJ and LFS data.

Summary

The labour market is continuing to recover – with employment up, record earnings growth, falling economic inactivity and unemployment below 4%. Last month's concerns that the labour market may have been starting to weaken have been dispelled, with strong figures for the month of April and a sharp upward revision in the estimate for payrolled employee jobs. Both the estimated number of people employed and number of hours worked are now at their highest ever levels.

These improvements are being led by more older people in work, and in particular more older men. However while this recovery in employment is welcome, there still remain around half a million more older people out of work than before the pandemic began, while the employment 'gap' between older men and older women is rising for the first time on record – from 8.0% on the eve of the pandemic to 9.1% in the most recent data.

Worryingly, today also sees a further rise in the number of people off work due to long-term ill health, which has now hit 2.55 million and has risen for ten of the last eleven months. This is nearly 30% of all of those outside of the labour force, compared with 25% three years ago. Employment for young people outside of full-time education also appears

to be falling, from 76% a year ago to 74% now – so fewer students is mainly feeding through into more young people neither earning nor learning (which hit a million today, up from below 900 thousand a year ago).

At the same time, vacancies remain above a million but continue to fall back from the peaks that they reached a year ago. Vacancies are holding up in many public services and in private sector professions, but falling in retail, hospitality and in information/ technology. Given how high vacancies remain overall, it is likely that these recent falls reflect a bit more slack in the labour market (and employers filling their vacancies more quickly) more than a weakening of demand (and wider indicators on short-term unemployment and redundancies were positive today).

Earnings growth was exceptionally strong, up by 7.5% between April 2022 and April 2023 (the highest figure in at least twenty years). In part this pay growth will reflect firms and workers responding to higher inflation, as well as firms responding to labour shortages in some parts of market. However, it also reflects the impacts of a large increase in the National Living Wage in April (up by around 9%) and a slew of pay deals for public sector workforces. So it is likely that nominal pay growth will ease over the summer (alongside lower inflation).

Nonetheless, it is likely that today's figures will lead to more pressure to raise interest rates in order to dampen demand and bring down pay growth. While this is understandable, our view is that the top priority should instead be to do far more to boost supply, which would in turn support higher living standards and economic growth. This means in particular doing far more to support people who are out of work and who want to work – especially those with long-term health conditions, disabled people, young people and older workers – and working better with employers on inclusive recruitment, job design, workplace support and progression in work.

The labour market is recovering – record employment, low unemployment and falling economic inactivity

Today's figures are overall very strong – with employment rising again, economic inactivity continuing to edge down and unemployment still below 4%. The employment rate has hit 76% for the first time since the first Covid-19 lockdown and has risen by 0.3 percentage points in the last quarter. Economic inactivity is at 21.0%, the same as the figure published last month but down by 0.3 points on the quarter. Unemployment is broadly unchanged on recent months, at 3.8%. This is shown in Figure 1 below – with the blue lines showing the quarterly average and the yellow lines showing the single-month estimates that make these up.

These data continue the trend of recent months, however it should be noted that last month there were concerns that the apparent recovery in the labour market may have been weakening – with the LFS single-month estimate for March being fairly poor and the HMRC 'flash estimate' for payrolled employees in April showing a sharp fall. However, this month the LFS estimate for the month of April has been very strong, while the 'flash

estimate' for payrolled jobs has been significantly revised (not for the first time) to now show a small increase between March and April.

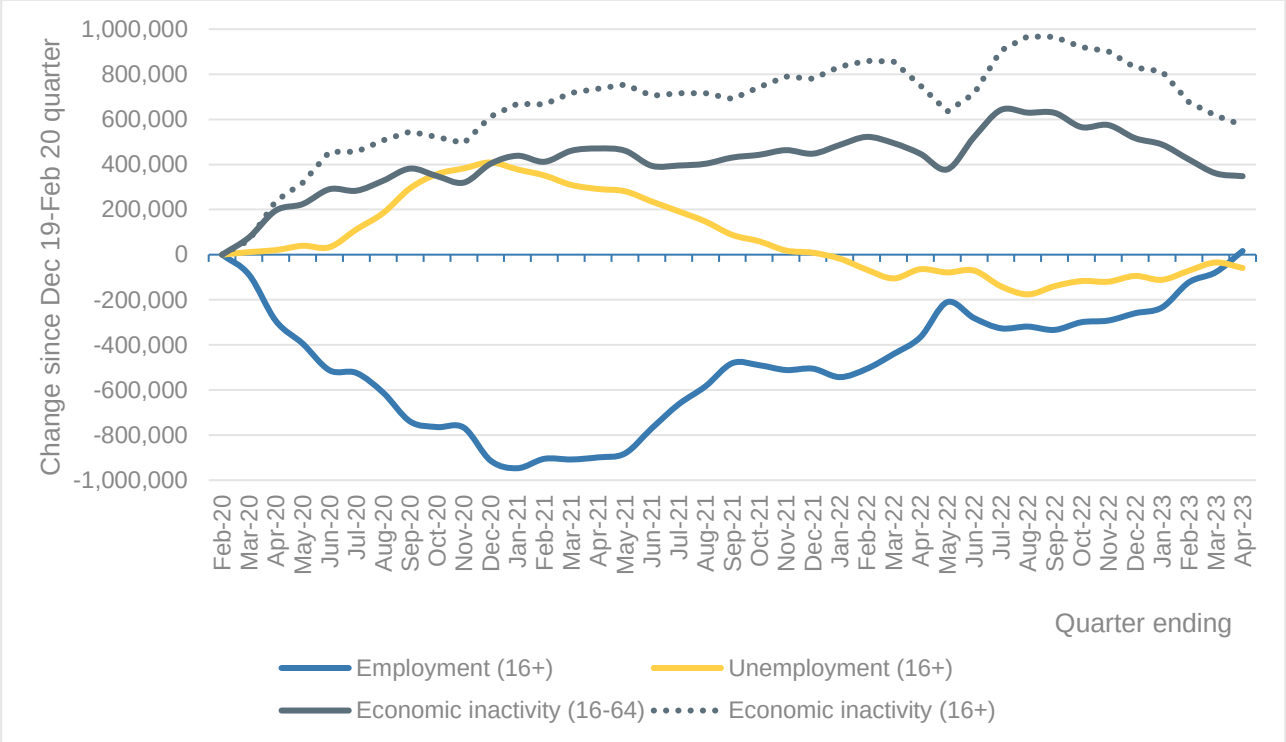
Figure 1: Employment, unemployment and economic inactivity rates (16-64) – quarterly average with single-month estimates

Source: Labour Force Survey

Looking at changes in levels (Figure 2) shows that the LFS estimate of employment is now higher than where it was on the eve of the pandemic, meaning there is now a record number of people in work (33.09 million). The level of unemployment has been broadly flat over the last year (and below pre-pandemic levels), while economic inactivity is falling back – the black line shows the change in the level of economic inactivity for people aged 16-64, and the dotted line for all of those aged 16 and over. However there are still around 350 thousand more people who are outside of the labour force and aged under 65 than there were before the pandemic began.

(As noted in previous briefings, the data on levels shows that population growth has translated into higher worklessness more than it has higher employment, leading to a smaller labour force overall than would have been the case if the pre-pandemic trend had continued. However, recent improvements are starting to close this gap.)

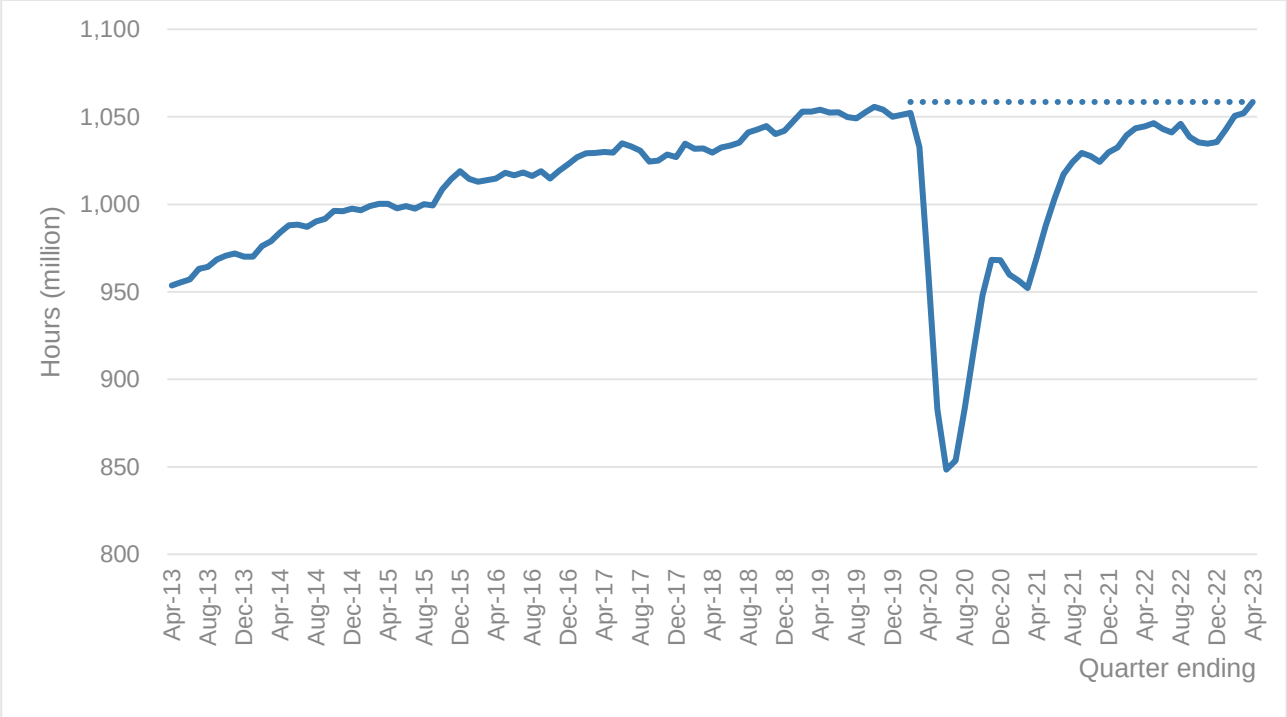
Figure 2: Change in levels of employment, unemployment and economic inactivity since start of Covid-19 pandemic (December 2019-February 2020 quarter)



Source: Labour Force Survey

The changes over the last three years are even more stark when looking at estimates of the total number of hours worked in the economy. This is set out in Figure 3 below. This shows that estimated working hours fell by nearly a fifth in the first lockdown, from over a billion working hours to around 850 million, with millions still counted as employed but furloughed from work (with employment falling by less than two per cent). Since then, working hours have been very slow to recover but with today's data have now reached (and slightly exceeded) the pre-pandemic peak.

Figure 3: Total hours worked



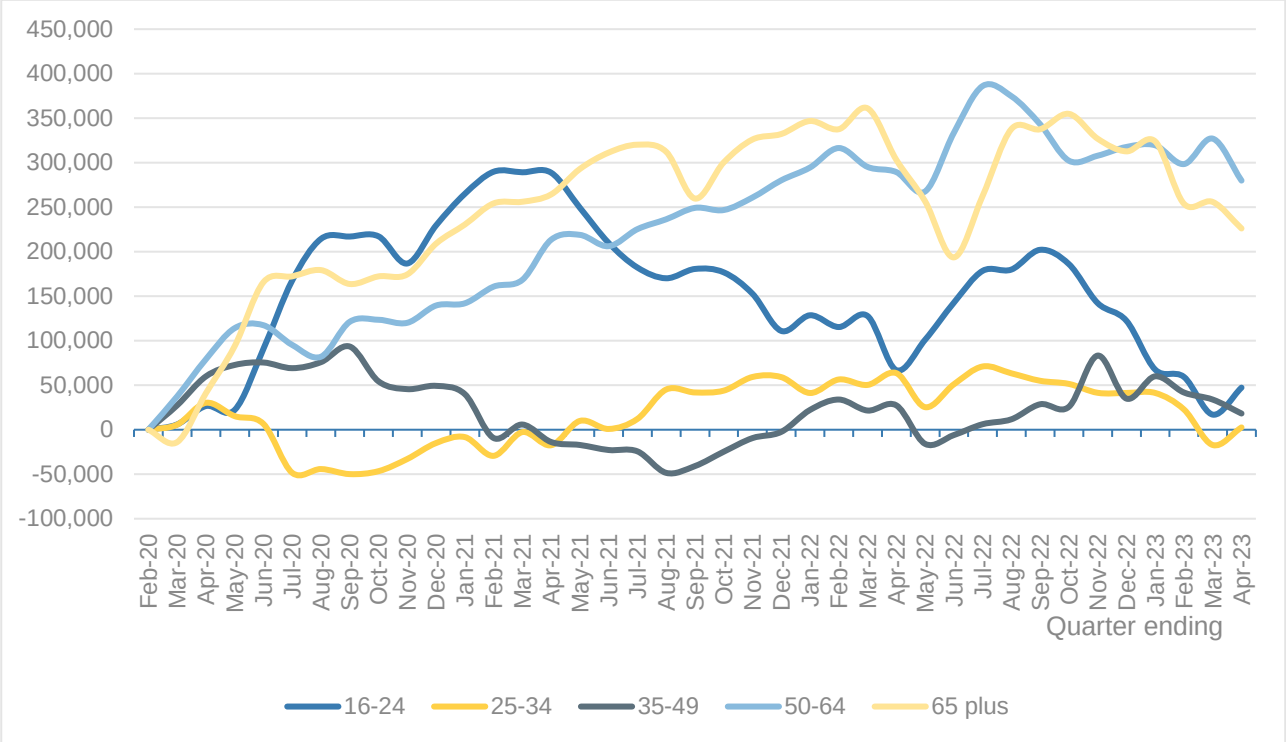
Source: Labour Force Survey. Dotted line indicates total hours worked in Dec-Feb 2020 quarter.

The labour market recovery has been led by older people, and most recently by older men

The recent rises in employment (and falls in economic inactivity) have been particularly pronounced for older people. Figure 4 below shows the change in economic inactivity levels by age group since the Covid-19 pandemic, with the strongest growth overall but also the biggest recent falls amongst older people. Nonetheless, there are still half a million more older people out of work than before the pandemic, with population growth for this group feeding through into higher worklessness more than higher employment.

Economic inactivity for people aged under 50 has been broadly flat in recent months, but with the reasons for economic inactivity changing (covered in the next section). The figures for young people (aged 16-24) rose significantly in the early pandemic as more young people stayed in education, fell back as the economy reopened, but now appear to have ticked up again (covered in more detail in the next section).

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

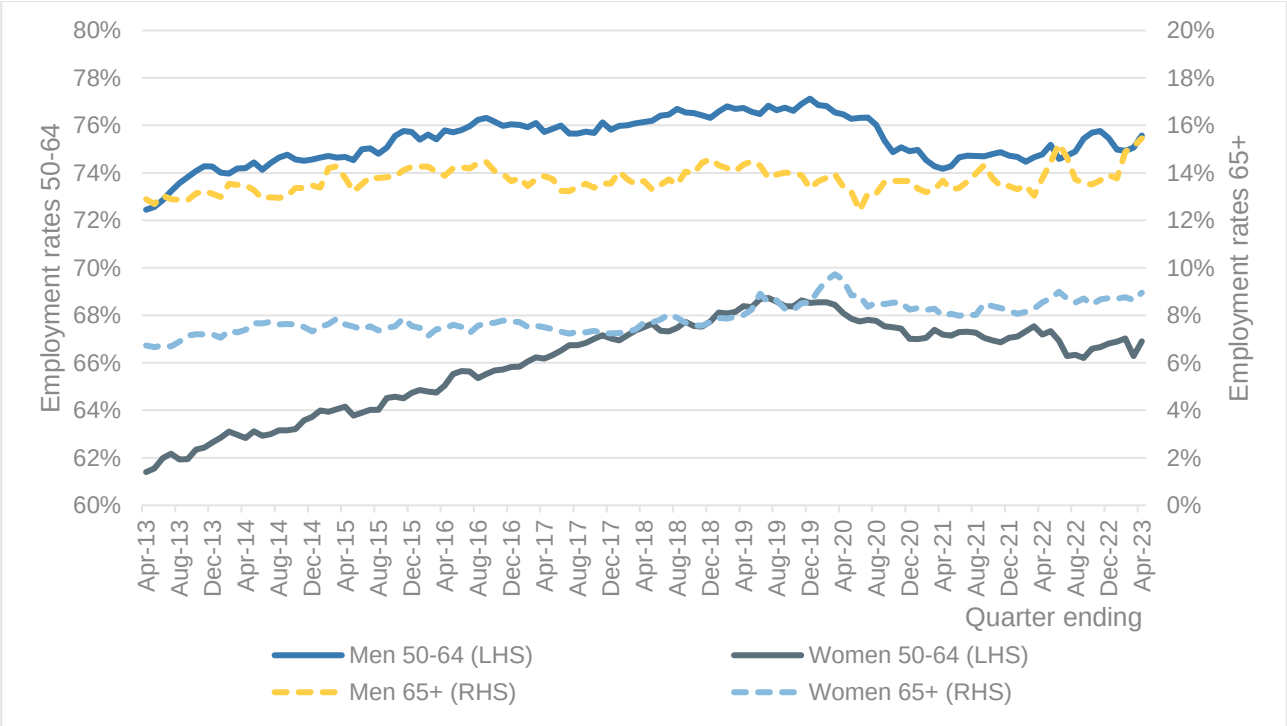


Source: Labour Force Survey

Around two thirds of employment growth in the last quarter has been among people aged over 50 (with just over half of employment growth in part-time work). Figure 5 below looks at trends in employment of older people in more detail, showing employment rates for those aged 50-64 (solid lines) and aged 65 and over (dotted lines). The employment rates for 50-64 year olds are on the left hand scale, with men in dark blue and women in grey. Rates for those aged 65 and over are on the right hand scale, with men in yellow and women in light blue.

Three things stand out from this graph: first that employment rates for 50-64 year olds were rising before the pandemic but have fallen since; secondly that employment rates for people aged 65 and over have seen little or no impact from the pandemic; and thirdly that the most recent rises in employment appear to be being driven in particular by higher employment for men (and especially for those aged 65 and over). This in turn means that the employment rate 'gap' between older men and women is now *widening* for the first time on record – with the gap having narrowed from 12.0 to 8.0 percentage points in the decade leading up to the pandemic, but now widening to 9.1 percentage points in the latest data.

Figure 5: Employment rates for men and women aged 50-64 (left hand scale) and 65 or over (right hand scale)



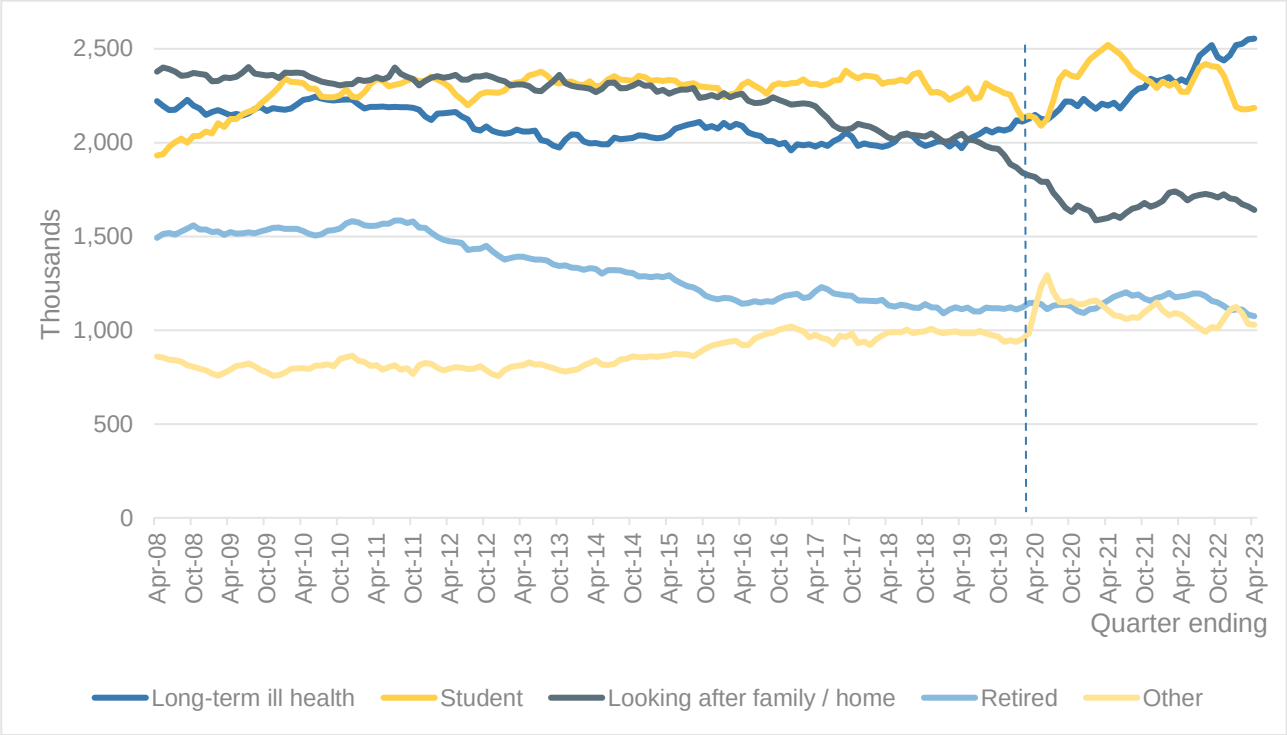
Source: Labour Force Survey

Worryingly, worklessness due to long-term ill health has hit another record level, with other reasons falling

While the data today is positive overall, it also continues to disguise worrying changes in the composition of economic inactivity. Yet again, for the tenth time in eleven months, economic inactivity due to long-term ill health has risen – setting another new record at 2.55 million people. This now accounts for nearly 30% of all economic inactivity, compared with 25% on the eve of the pandemic. Nearly 600 thousand of those off work due to ill health say that they would like to work at the moment, while many hundreds of thousands more who do not want to work right now will nonetheless expect to work again in future.

At the same time, economic inactivity due to caring responsibilities, studies, retirement and 'other' reasons (which includes people who can afford not to work or who are waiting for jobs to start) is all now falling. This is all set out in Figure 6 below, which shows levels of economic inactivity for the five main reasons given over time (with long-term ill health shown in blue).

Figure 6: Levels of economic inactivity for the five main reasons given, 2002-present

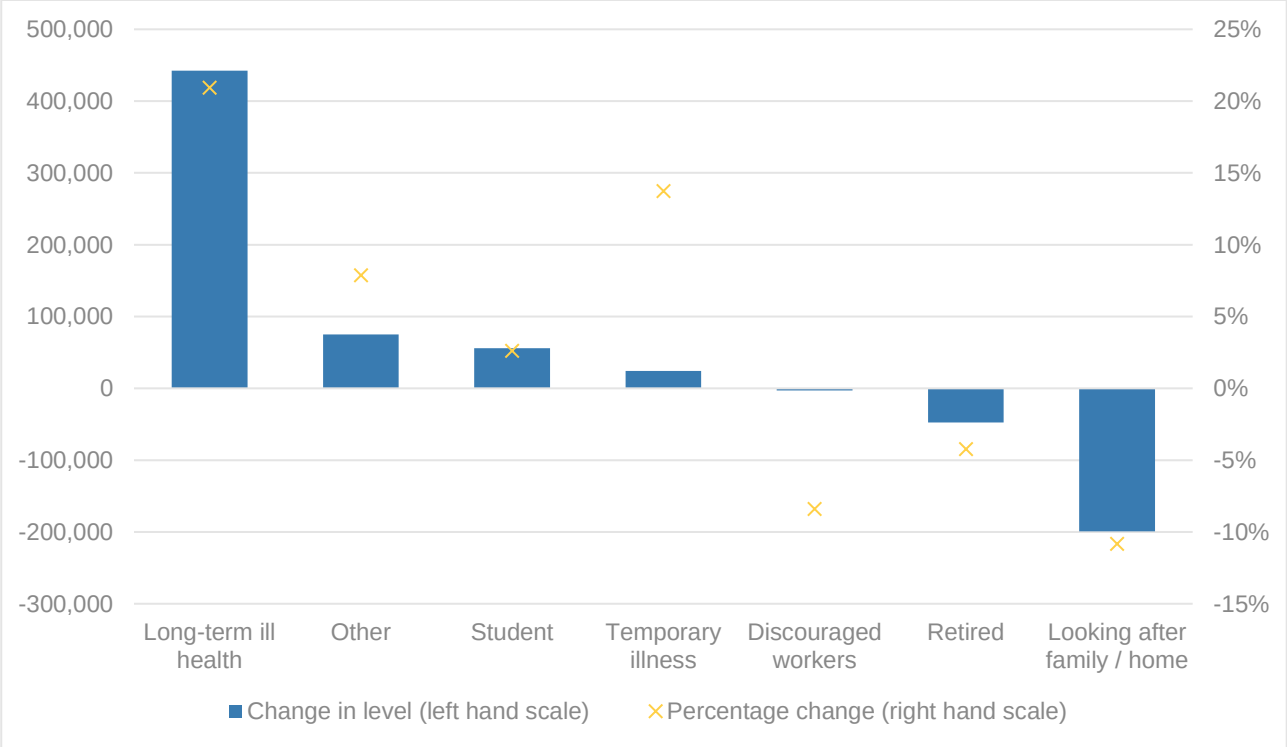


Source: Labour Force Survey

Figure 7 then shows the change in levels of economic inactivity since the start of the Covid-19 pandemic in each category. Economic inactivity due to long-term ill health is up by 440 thousand (or 21%), while for other categories economic inactivity is now close to or below its pre-pandemic levels.

To repeat what we said in our last briefing, ONS analysis shows that these increases in worklessness due to ill health are being driven by rises in the number of people out of work with mental ill health, musculoskeletal conditions, and 'other' reasons which likely includes the effects of Long Covid. This is happening across age groups, but with larger rises among older people because older people are more likely to have long-term health conditions than younger people. Our analysis has also shown that virtually all of the growth (to mid 2022) could be accounted for by people who were already out of work before the pandemic began, so appears to be less explained by people with long-term health conditions leaving work than by those with long-term conditions being unable to get (back) in.

Figure 7: Change in economic inactivity by main reason, Dec 19-Feb 20 to Feb-Apr 23

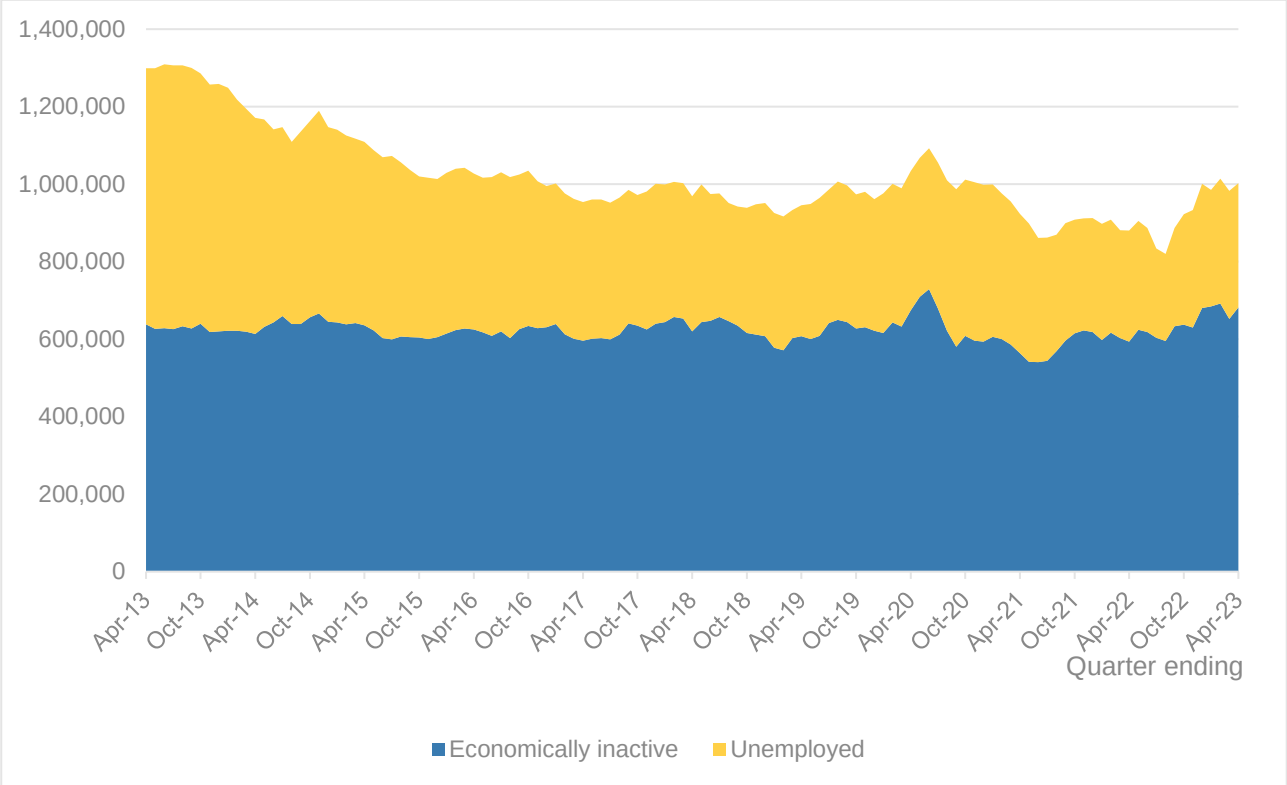


Source: Labour Force Survey

There are also further signs today that lower economic inactivity among students is not feeding through into higher employment for young people. Even while employment has risen overall, the employment rate for young people not in full time education has fallen in the last year – from 76% to 74%. This has also been accompanied by an increase in the number (and proportion) of young people neither in full-time education or employment – which has risen from just under 900 thousand people a year ago to a million people in today's data (or from around 13% to just under 15% of all young people).

Figure 8 below breaks this down into economic inactivity and unemployment, and shows that both have risen, but that there are twice as many young people economically inactive and not in education as there are who are unemployed.

Figure 8: Number of young people (16-24) who are not in full-time education and either unemployed or economically inactive



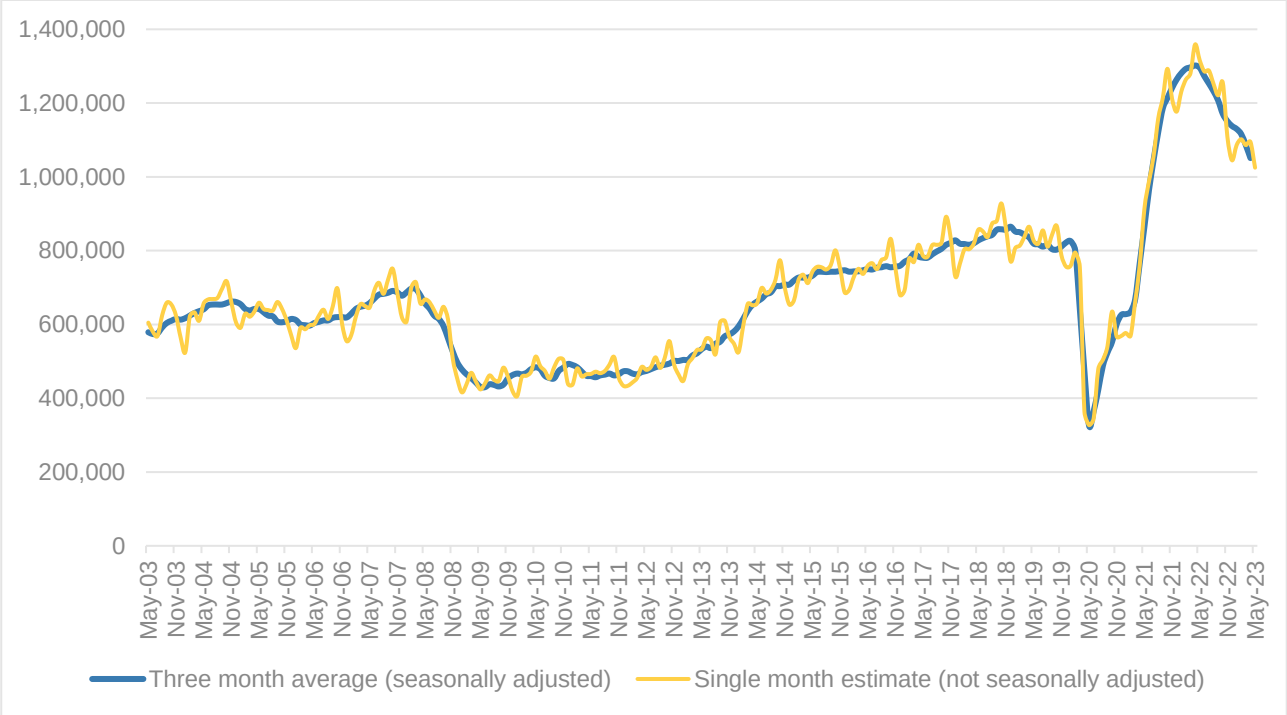
Source: Labour Force Survey

Vacancies continue to fall, but remain above one million

The latest vacancy data reports further falls in the level of vacancies overall, with the estimate for March-May falling to 1.05 million (down by 80 thousand on the quarter) and the latest monthly figure for May (which is not seasonally adjusted) even lower at 1.03 million. We had been anticipating that the vacancy figures might start to level off, particularly given the continued low levels of unemployment – but they are instead continuing to edge down. Nonetheless, Figure 9 shows that vacancies remain very high by historic standards – with vacancies never having been close to a million before 2021.

Therefore it may be the case that this easing in vacancy levels reflects there being a bit more ‘slack’ in the labour market overall as employers fill their jobs more quickly, rather than reflecting any significant slowdown in demand. This may also be consistent with the labour market flows data published last month, which showed job-to-job moves falling back somewhat (alongside continued strong hiring from among those out of work).

Figure 9: Vacancies – quarterly and single-month estimates



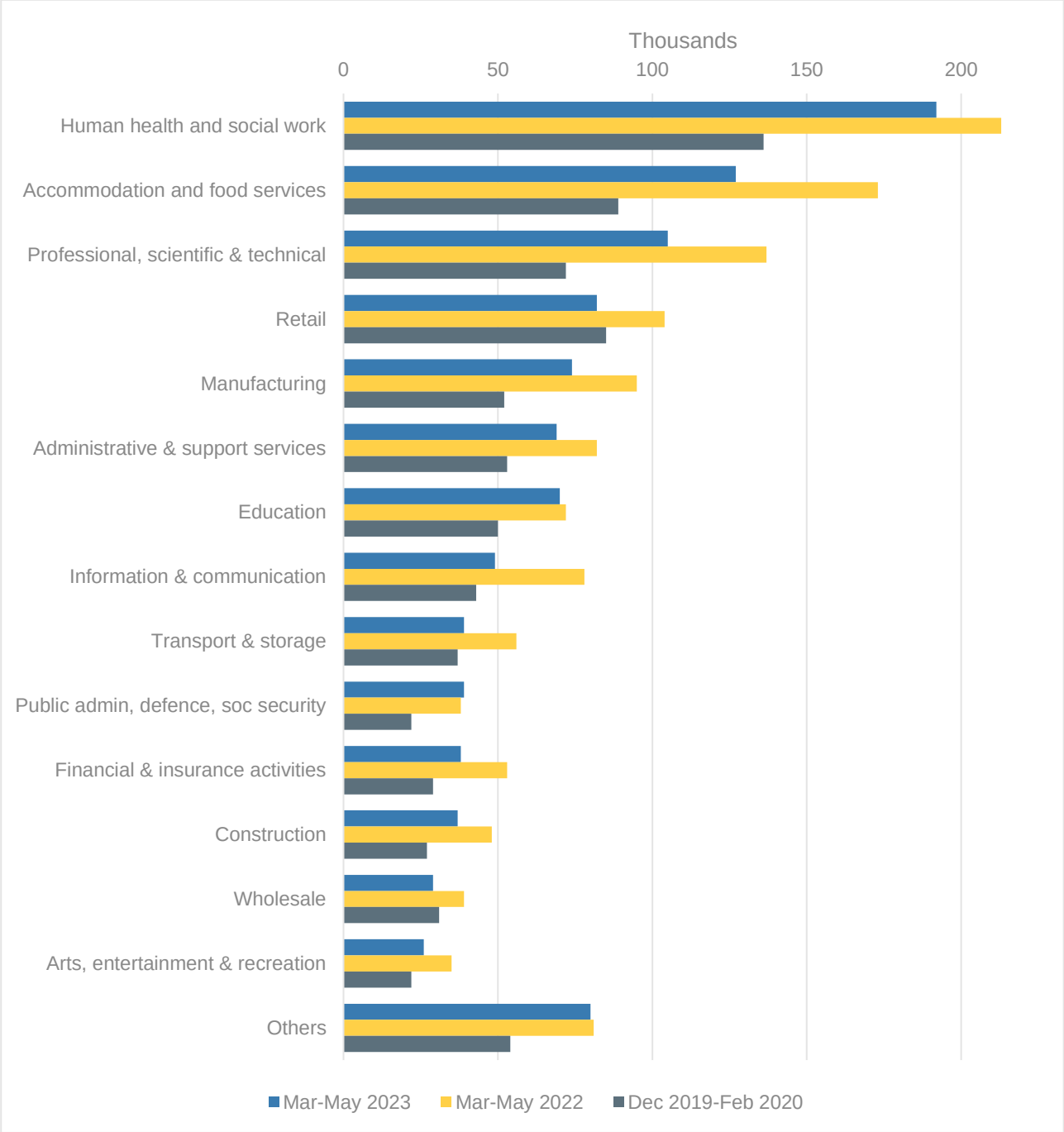
Source: ONS Vacancy Survey

Looking by industry shows quite different trends over the last year in particular. Figure 10 below illustrates this, showing the most recent vacancy data by industry in blue; the figures from when vacancies were at their peak a year ago in yellow; and data from the eve of the pandemic in grey.

Vacancies are particularly strong in public services – likely reflecting a combination of increased demand and lower pay growth than in the private sector – with health, education and public administration all close to (or even above) their peaks; while vacancies in some private sector industries have fallen significantly – particularly in hospitality (the 'accommodation and food services' group); information and communication; transport and storage; and in retail and wholesale. In retail and wholesale in particular, vacancies are now below where they were before the pandemic. Vacancies in professional jobs are also down (which includes legal, architectural, engineering, scientific and consultancy jobs), but are still about 50% higher than pre-pandemic.

As we noted last month, this suggests in particular that there are fewer jobs in many of the sort of entry-level jobs that may previously have been filled by those returning to work – in particular retail and hospitality jobs, with demand still strong (and the labour market tighter) in relatively higher skilled and professional jobs.

Figure 10: Vacancies by industry, pre-pandemic, post-pandemic peak (Mar-May 2022) and most recent quarter (Mar-May 2023)



Source: ONS Vacancy Survey

Nominal pay has seen its strongest growth in at least twenty years, almost (but not quite) offsetting inflation

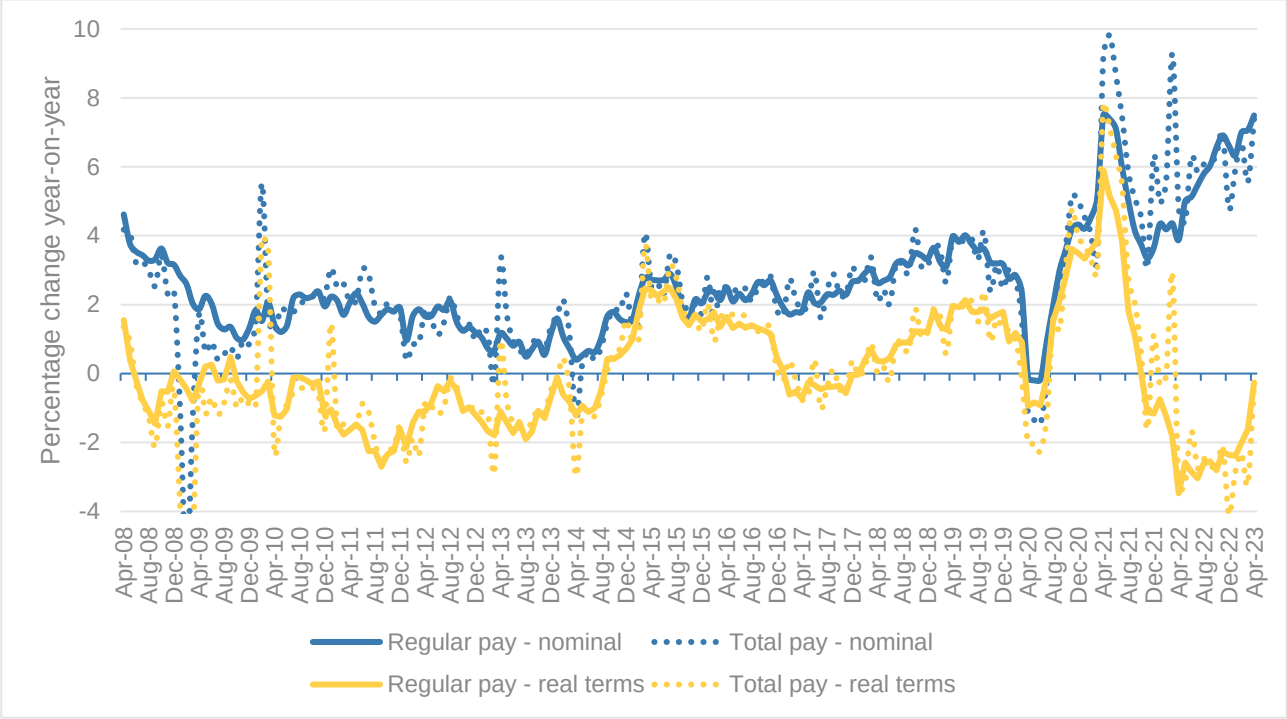
Today's figures for nominal pay growth were exceptionally strong, with regular pay 7.5% higher in April 2023 than in April 2022. This is the highest figure in at least twenty years

(when this dataset started) with strong pay growth in both the private sector (7.9%) and the public sector (5.8%).

This will doubtless lead to more pressure to raise interest rates, and in part this pay growth will reflect firms and workers responding to inflationary expectations as well as continued tightness in some parts of the labour market. However, it also reflects the impacts of a large increase in the National Living Wage in April (up by around 9%) and a slew of pay deals for public sector workforces. So it is likely that nominal pay growth will ease over the summer even without further increases in rates.

In the meantime though, higher nominal pay and falls in the headline rate of inflation mean that 'real' pay is now almost back to zero (after eighteen months of falls) – falling by 0.3 per cent between April 2022 and April 2023. However while it is welcome that real pay may turn positive in the next few months, it will likely take years to reverse the falls since late 2021. Figure 11 below shows year-on-year pay growth in nominal terms (blue) and real terms (yellow) for both regular and total pay – with the solid lines showing regular pay and the dotted lines showing total pay including bonuses and arrears.

Figure 11: Year-on-year change in regular and total pay – nominal terms and adjusted for inflation (real terms)



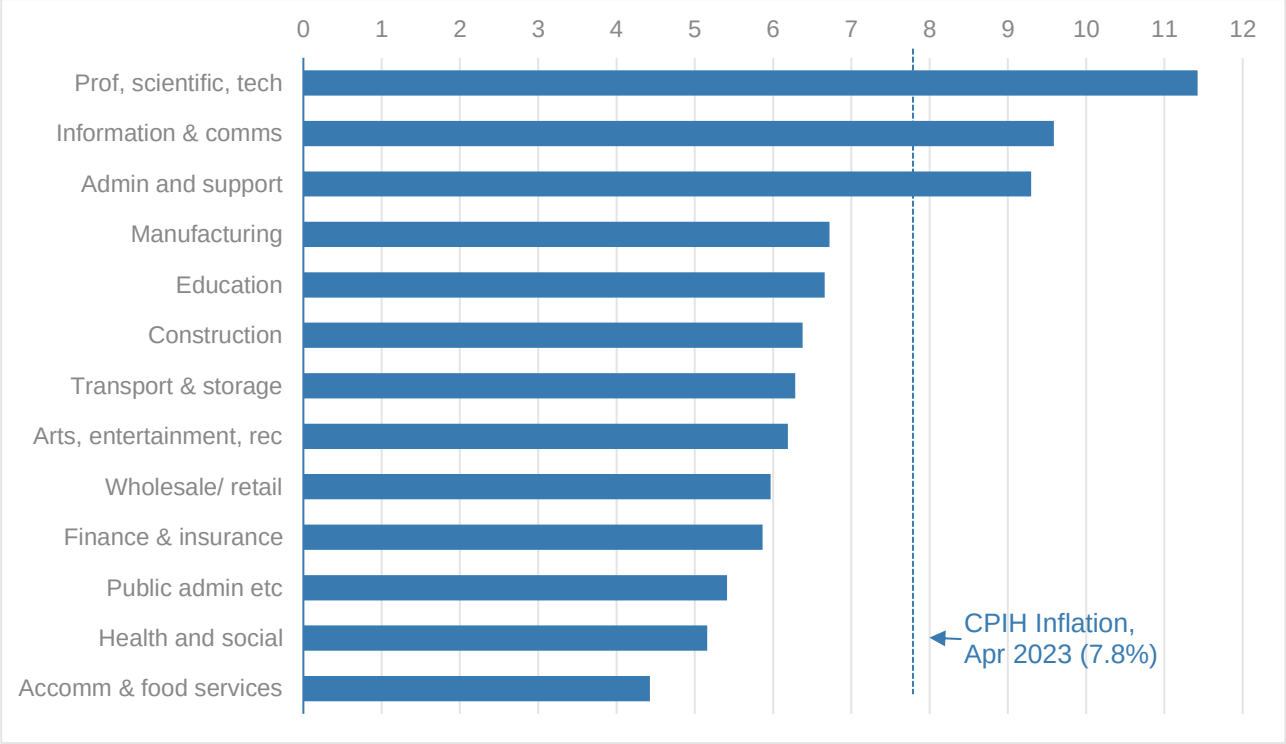
Source: ONS Monthly Wages and Salaries Survey. Regular pay excludes bonuses and arrears; measure shown is year-on-year change in single month estimate.

Looking at changes in pay by industry, Figure 12 shows average nominal pay growth for the most recent three months compared with the same period a year ago. This illustrates that pay growth has been particularly strong in private sector professional services, and weaker in the public sector, retail and hospitality. This *may* suggest that pay growth is partly being driven by shortages – as vacancies are still pretty strong in professional jobs

and weaker in hospitality and retail – but this does not explain for example the very strong growth in pay in information and communication (where vacancies have fallen back significantly).

These divergent trends between industries with often higher skilled work and those with often lower skilled work may also have implications for earnings inequalities (as well as disparities between places) – which emphasises again the need to ensure that we can better support people to take advantage of the opportunities that the economy is creating.

Figure 12: Year-on-year change in regular pay by industry, nominal terms



Source: ONS Monthly Wages and Salaries Survey. Pay growth is average of published single-month estimates of year-on-year growth in pay excluding bonuses and arrears for December 2022-February 2023 (not seasonally adjusted).

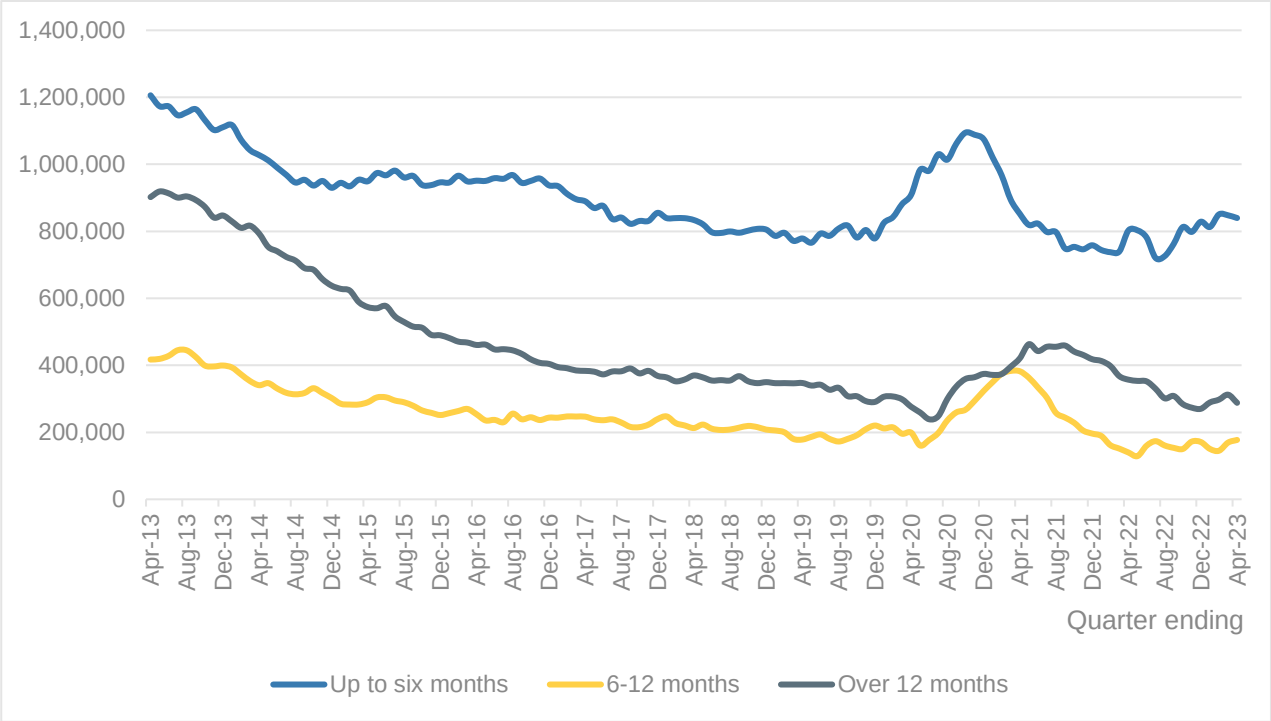
Wider indicators – on unemployment and redundancies – are showing signs of levelling off this month

In recent briefings, we have also reported rises in short-term unemployment, long-term unemployment and redundancies – which while still low by historic standards, may have provided further evidence that the labour market was starting to cool. The picture in today's data however is slightly more positive.

Figure 13 below shows unemployment by duration, and suggests that growth in unemployment in all three categories may be levelling off (or at least slowing down). As noted last month, higher short-term unemployment was most likely a result of more people who were previously economically inactive (re)entering the labour market, and

there are no signs (yet) that this is feeding through into higher unemployment in the 6-12 month group.

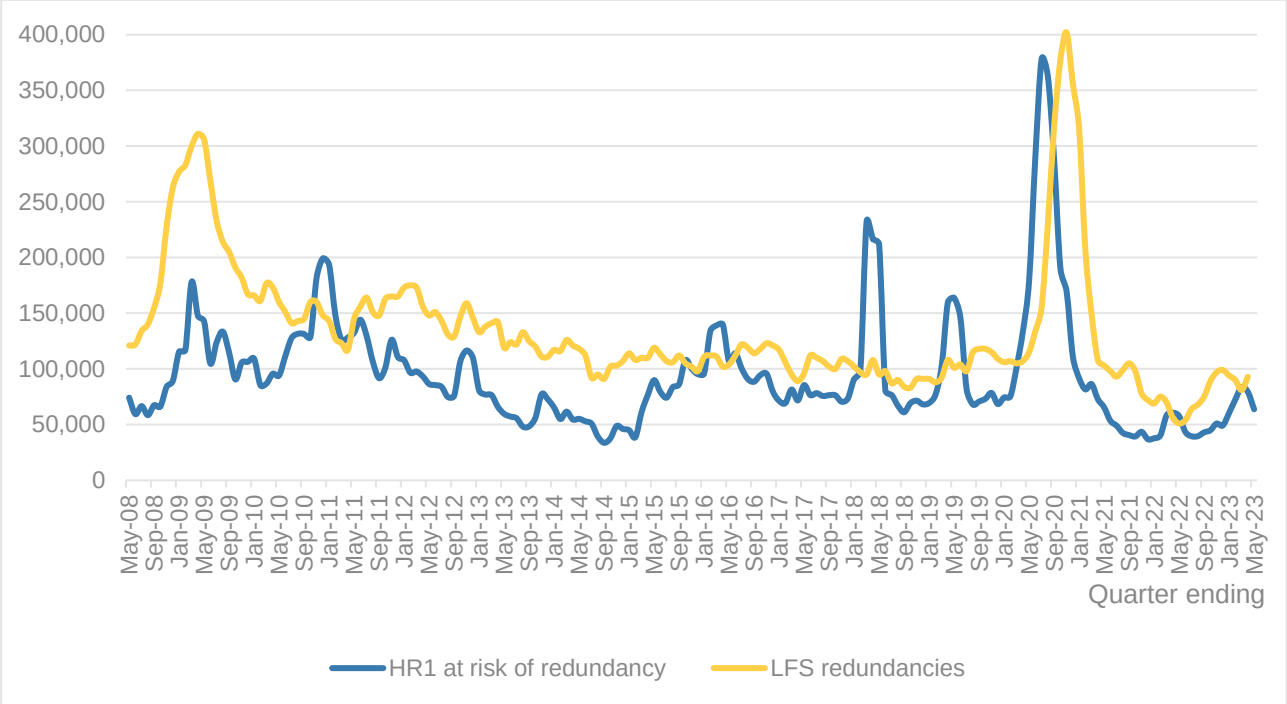
Figure 13: Unemployment by duration



Source: Labour Force Survey

Meanwhile on redundancies, the most recent data from 'HR1' forms (where employers notify the Insolvency Service of future redundancy exercises) has seen significant falls whle the estimated number of actual redundancies appears to have levelled off at below 100 thousand per quarter. These trends are shown in Figure 14 below. There are very few signs, then, of employers cutting back and laying people off.

Figure 14: Quarterly number of employees notified as at risk of redundancy (HR1 forms) and reporting having been made redundant (Labour Force Survey)



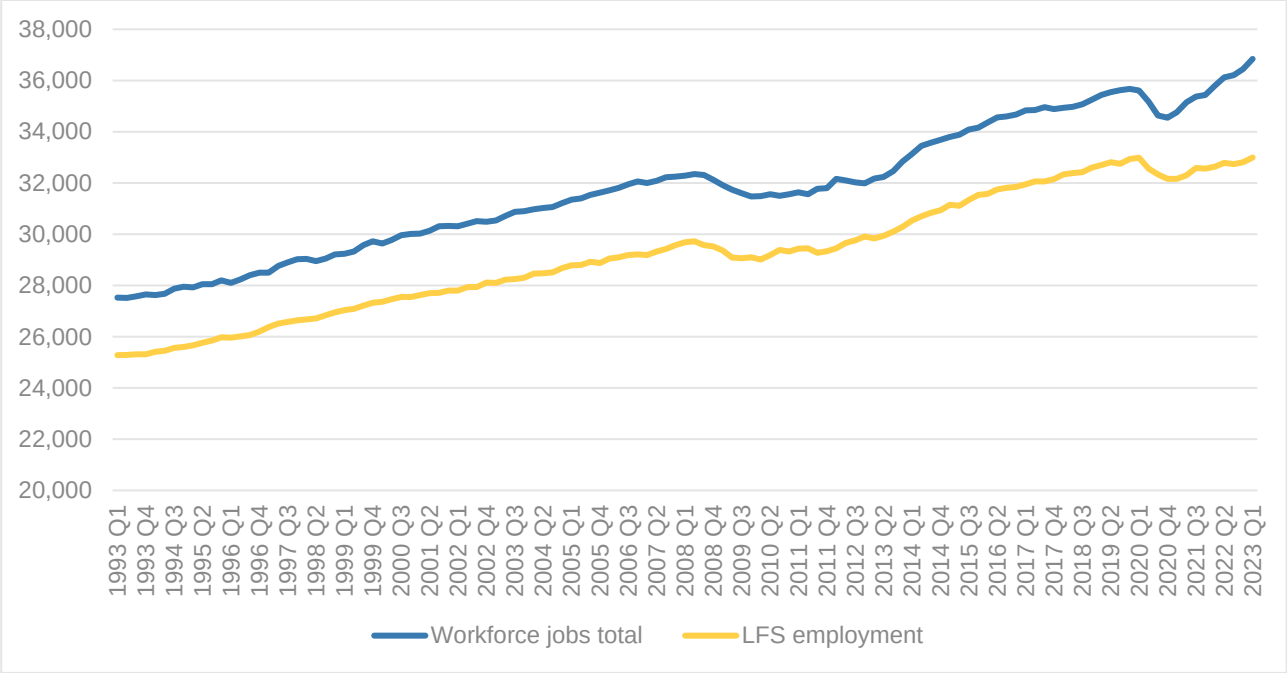
Source: IES analysis of Insolvency Service and Labour Force Survey data

Estimates of 'workforce jobs' continue to diverge from the LFS – although the reasons for this are not clear

Finally, today sees the publication of new quarterly estimates of 'Workforce Jobs', which are compiled using returns from a series of employer surveys (in the public and private sector) and data from the Labour Force Survey. The estimate of workforce jobs is always higher than the estimate of employment in the LFS, as there are more jobs in the economy than there are people employed (partly because a million or so people work two jobs, and partly because of other factors like timing differences). However in the last two years, the gap has grown considerably – from around two million to three million. Figure 15 below shows the two headline estimates, and Figure 16 shows the difference between them.

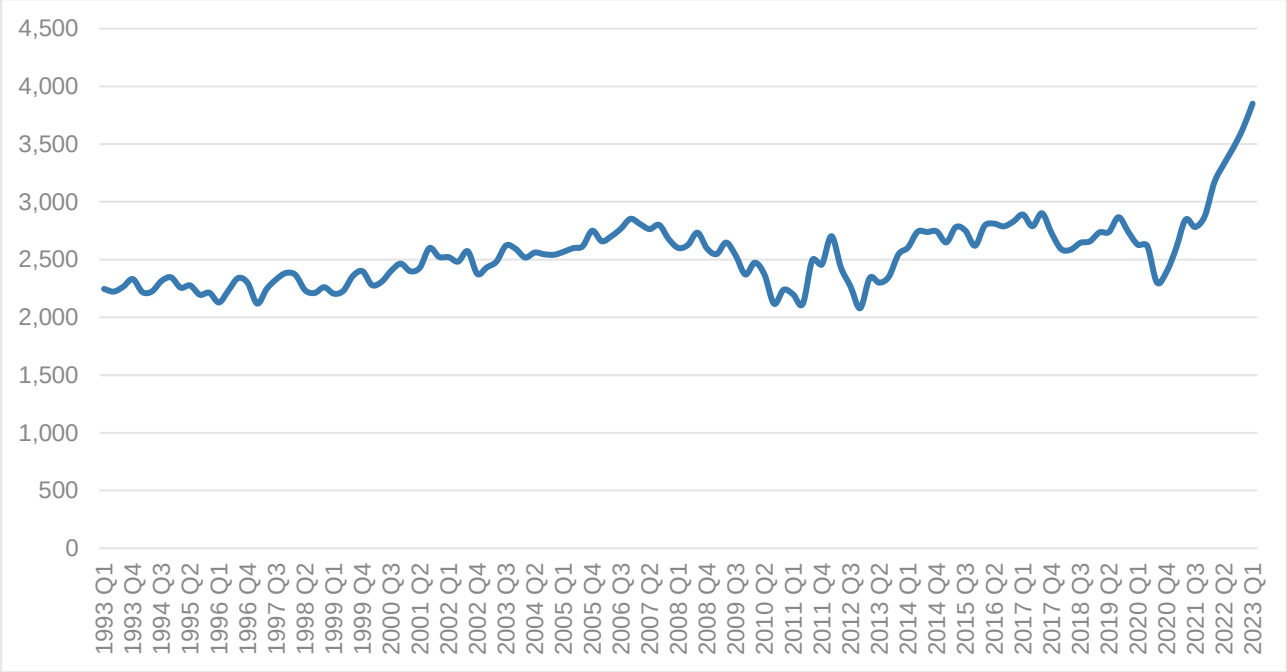
It is not clear what is driving this difference, and the most recent ONS note on this does not shed any light either. However it is possible that it could reflect issues in the population estimates for the Labour Force Survey (due to changes in sampling and weighting post-pandemic), which in turn may be leading to employment levels being under-stated in the LFS. This likely doesn't effect estimates of employment *rates* but may mean that the employment *level* is higher than the the LFS is suggesting. Hopefully, this will become clearer as the ONS reviews its population estimates in the months ahead.

Figure 15: Number of workforce jobs (blue) and number of people employed (yellow)



Source: Workforce Jobs, Labour Force Survey

Figure 16: Difference between estimated number of workforce jobs and number of people employed



Source: Workforce Jobs, Labour Force Survey

Conclusion

Overall then, these are strong figures that nonetheless still leave significant room for improvement – particularly around raising employment for those with health conditions, older people and young people outside of education; and in addressing potential bottlenecks in professional jobs in the public and private sectors.

So rather than (just) raising interest rates to try to dampen consumer demand and job creation, we should be focusing far more on how we can boost labour supply in order to support sustainably higher employment, growth and living standards.

In particular, as we said last month, this should mean going further and faster on implementing the measures announced at the Budget – including commissioning the new Universal Support programme for people with long-term health conditions; focusing Shared Prosperity Fund investment on employment support for those out of work and not currently being support; and improving access to employment and health related support through workplaces and health services. We also need to go further than the Budget measures, particularly to widen access to support for those not on benefits, improve partnership working across services, address skills needs and to better support employers on recruitment, job design and workplace support.

We also need to expect more from employers and offer more support in return – particularly around ensuring that recruitment practices are open, accessible and fair; as well as by looking at how jobs are designed, improving workplace support (including line manager support), and improving access to induction and work-related training.

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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