ies Briefing

Institute for Employment Studies

Labour Market Statistics, March 2022

15 March 2022

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 January 2022 (the most recent quarter being November 2021 to January 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 February 2020, and the Wages and Salaries Survey to January 2022.

Summary

Unemployment fell sharply in today's figures, dipping below 4% for the first time since the start of the pandemic. However this disguises continued falls in labour force participation overall, with economic inactivity rising by 100 thousand in the last quarter and employment flat overall. There remain nearly 600 thousand fewer people in work, and 400 thousand more people out of work and not looking, than before the pandemic began.

The underlying story behind these figures will be wearily familiar to regular readers of these briefings – with economic inactivity for older people continuing to rise, a worrying shift towards worklessness due to ill health and retirement, and vacancies continuing to rise to new record levels as employers struggle to fill their jobs.

Today's briefing includes more detailed analysis of trends for young people, drawing out the extent to which youth participation has been supported by full-time education, and the recovery in employment has been dominated by students; and analysis of earnings growth overall and by industry.

Looking ahead, today's figures reiterate yet again that we need new measures – from employers and government – that are focused on addressing the participation crisis that are facing now rather than the unemployment crisis that we (thankfully) averted. The Budget next week needs to prioritise this, and in particular to improve support for those not claiming benefits and/ or not actively seeking work.

Unemployment falls sharply – masking continued falls in participation and rising economic inactivity

The most striking headline in today's figures is a sharp fall in the unemployment rate, which has dipped below 4% (to 3.9%) for the first time in two years. In fact the last time that unemployment was this low was in the figures published on 17 March 2020, on the eve of the first lockdown. At that same time, though, employment was 0.9 percentage points higher than it is in today's release (at 76.5%, compared with 75.6% now) while economic inactivity – the measure of those not looking for work and/ or not available for work – was 0.9 percentage points lower (at 20.4%, compared with 21.3% now).

As Figure 1 below sets out, we have avoided the unemployment crisis that we feared two years ago, but continue to grapple with weak employment growth and high worklessness. Figure 1 also includes the single-month estimates (in yellow) that combine to form the headline quarterly averages. We noted last month that a strong set of data in the month of December could yet presage some improvement in the average figures this month, but sadly the January estimates for both employment and economic inactivity weakened again. (Next month may yet be slightly better though, as the weak November employment figure will drop out of the average.)

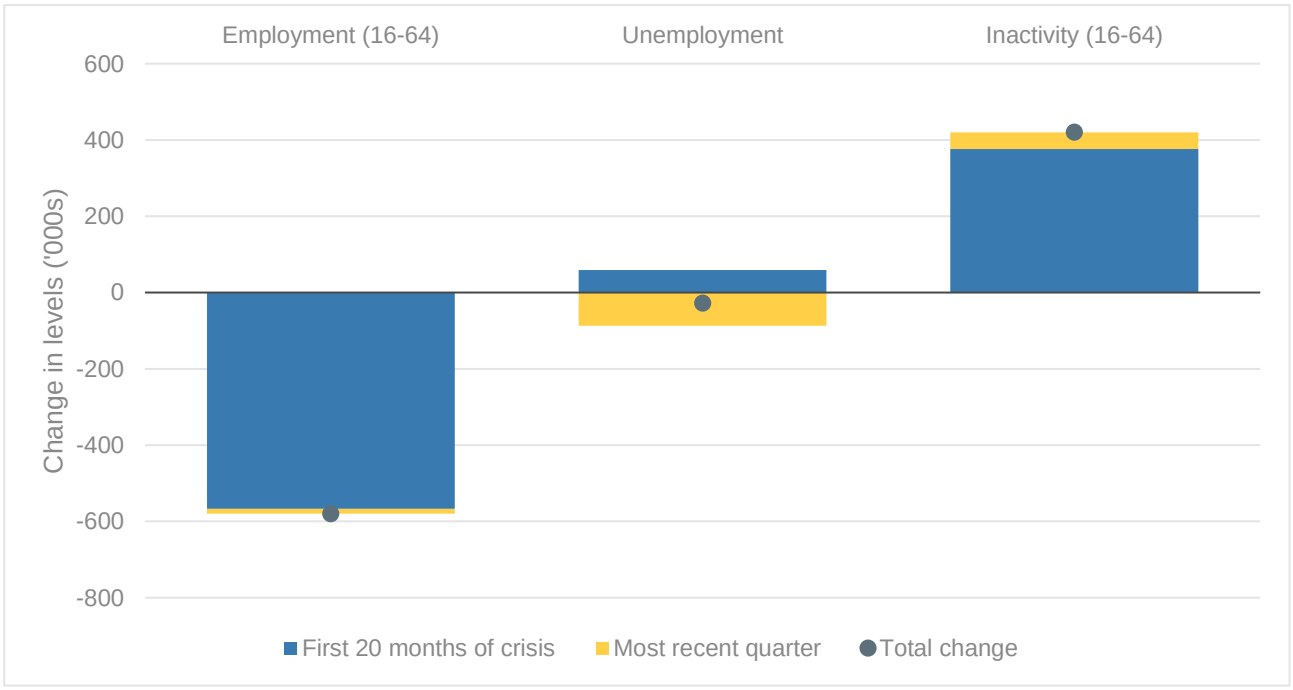
Figure 2 then shows changes in the *levels* of employment, unemployment and economic inactivity overall since the start of the pandemic (the black dots), broken down into the change in the last quarter (yellow) and the previous twenty months (blue). This reiterates how flat the employment recovery has been – with still nearly 600 thousand fewer people in work, employment edging down ever so slightly on the quarter, and economic inactivity continuing to rise (now 420 thousand above pre-pandemic levels). It also hints at the contribution of a smaller post-pandemic population – with the employment *rate* marginally up on the quarter, but the employment *level* marginally down. Overall there are an estimated 120 thousand fewer people aged 16 and over than pre-pandemic, around 90 thousand of whom are aged 16-64 – likely due to a combination of lower net migration and demographic changes[1].

[1] ONS data on employment by country of birth published last month suggests that this fall in population is actually being driven by fewer UK born people (down 290 thousand over the last two years) rather than fewer non-UK born (which they estimate to have risen, by 180 thousand); although some concerns have been raised about the reliability of these population estimates (most notably by Michael O'Connor, here: https://strongerinnos.medium.com/weighting-in-vain-c8dbd25bb3c6).

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

Source: Labour Force Survey

Figure 2: Changes in employment, unemployment and economic inactivity: first twenty months of the pandemic (Dec-Feb 2020 to Aug-Oct 2021) and most recent quarter (Aug-Oct 2021 to Nov 2020-Jan 2022)

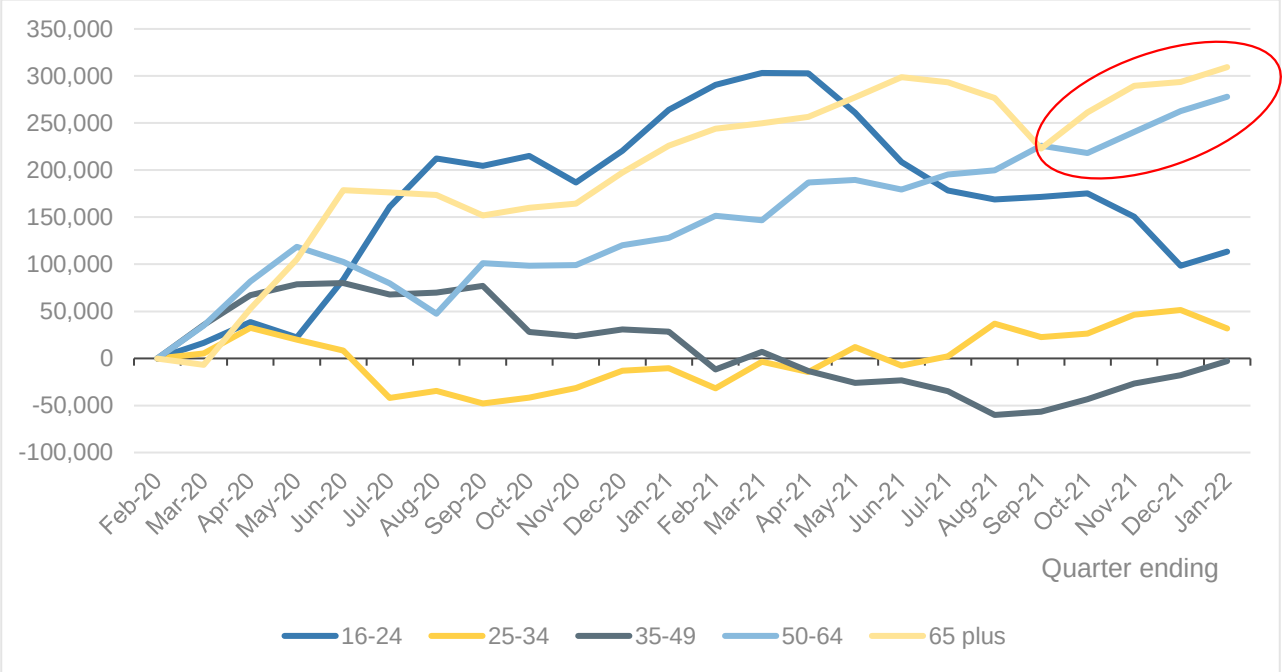


Source: Labour Force Survey

Worklessness continues to rise most strongly for older people, up by 580 thousand since the pandemic began

As with recent months, this growth in economic inactivity continues to be driven by fewer older people in the labour force. Including changes in economic inactivity for those aged 65 and over, economic inactivity is now 580 thousand higher than it was before the pandemic began and appears to still be rising. Figure 3 below sets this out, showing the growth in the levels of economic inactivity by age since the December 2019-February 2020 quarter. The change for people aged 50-64 and 65+ is circled in red. Economic inactivity is now falling back for young people, while for those aged 25-49 levels overall are broadly the same as they were before the crisis (although with some signs of recent growth, as noted in last month's briefing).

Figure 3: Change in level of economic inactivity by age since start of pandemic



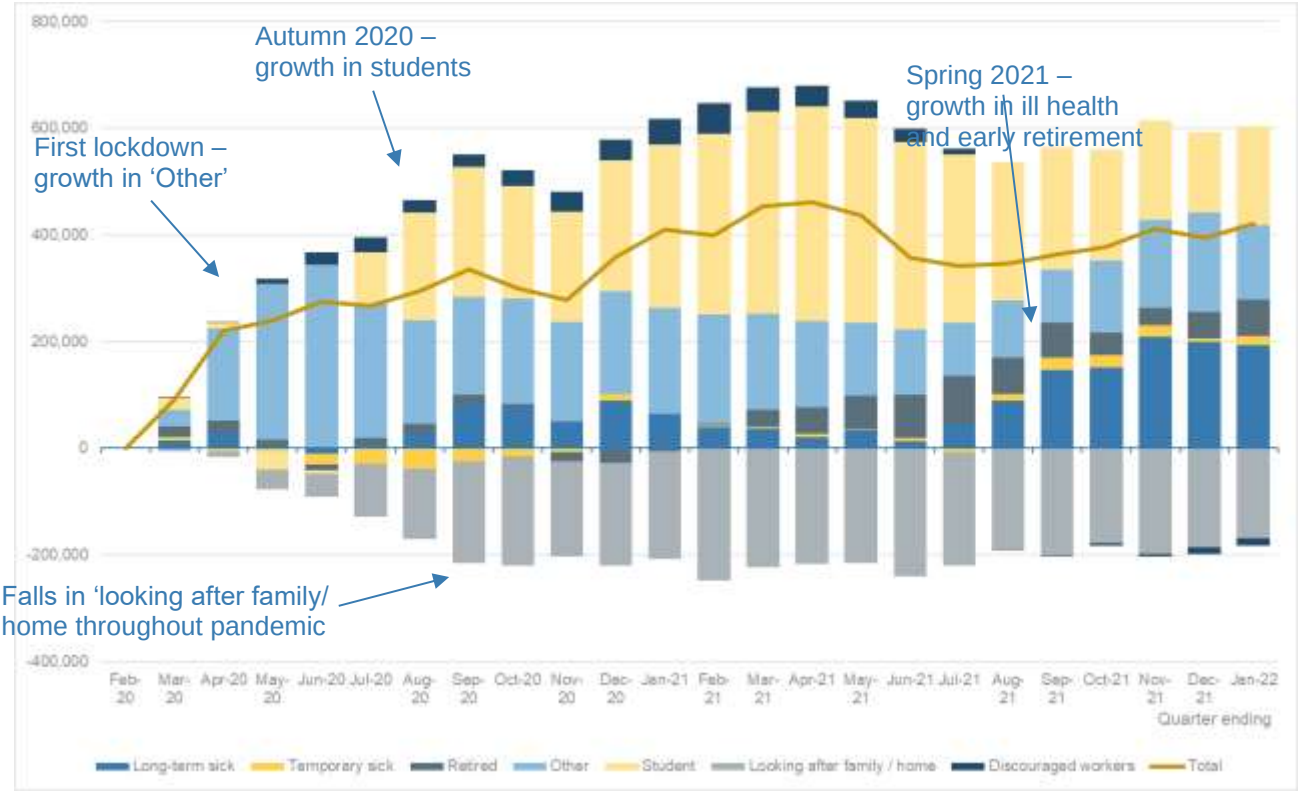
Source: Labour Force Survey

As with last month, behind these headline changes there are also changes in the reasons why people are leaving the labour force. These are shown in Figure 4 below, with a large growth in lockdown/ pandemic related reasons in the early crisis affecting all ages but particularly older people; then a large rise in non-working students which has fallen back but ticked up slightly in this month's release (and explains the slight increase in economic inactivity for young people in the graph above); and more recent – worrying – rises being driven by growth in long-term ill health and in early retirement. We also see significant falls in those out of work due to caring responsibilities, which appears to be particularly the case for women, perhaps aided by furlough and more flexible working.

This means that the trends in economic inactivity by age will disguise falling economic inactivity due to caring among women aged 25-49 being offset by rising economic inactivity due to ill health and other reasons (for both men and women). For older people meanwhile, economic inactivity will be rising due to pandemic ('other') reasons, ill health and retirement.

These broad classifications are not particularly illuminating in explaining why people have left work and whether they might come back, so helpfully the ONS has this week also published new analysis from a dedicated survey of older people who have left work, exploring their reasons for doing so and what might help them to return. This shows that four fifths of those in their 50s had left work earlier than planned, a large majority do not consider themselves to have retired, and that most would come back to work for the right job with the right support. Most of this group (people in their 50s) are supporting themselves through pensions, savings and other household income, with fewer than a quarter claiming benefits.

Figure 4: Changes in economic inactivity since start of pandemic (December-February 2020), by reason for inactivity and overall

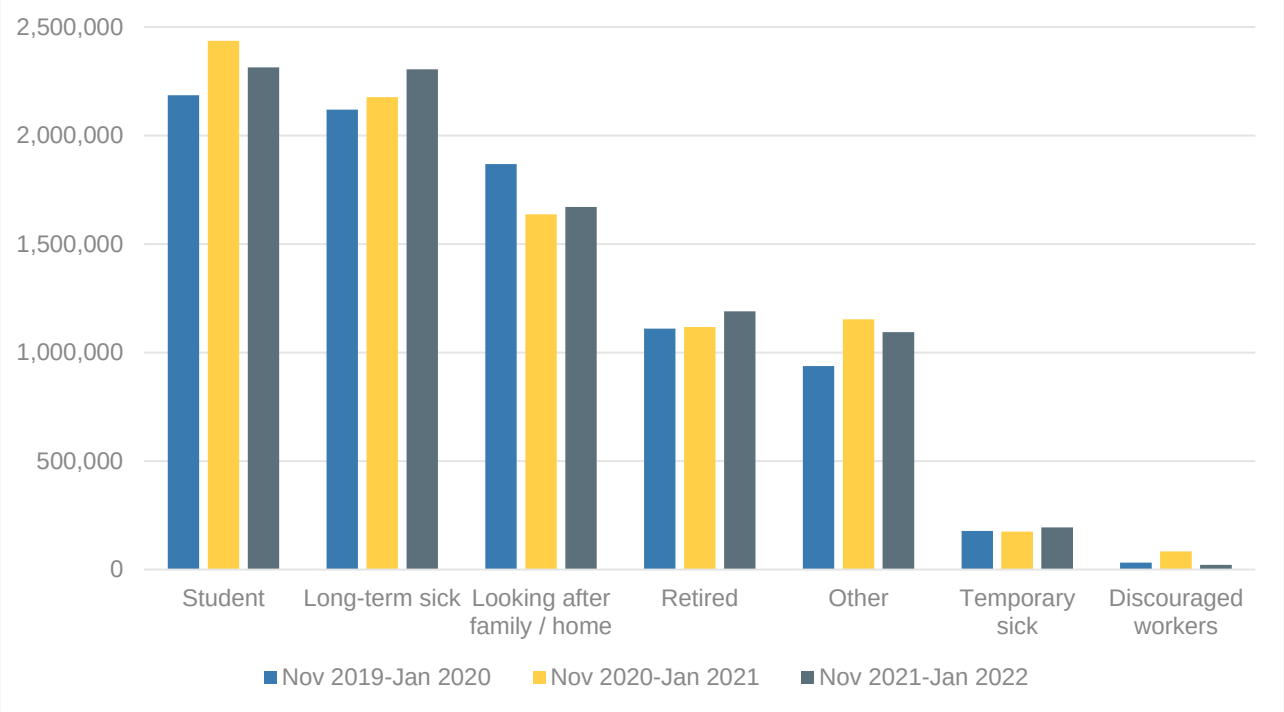


Source: Labour Force Survey

Figure 5 below shows the total number of people economically inactive by reason given, on the most recent data and at the same point a year and two years ago. Long term ill health has risen consistently, as has retirement and temporary illness. As noted last month, this growth in worklessness due to ill health likely reflects a combination of fewer people with pre-existing health conditions in work – for example because of concerns around exposure to Covid-19 or due to a deterioration in their health condition – but

possibly also a greater prevalence of ill health, perhaps including due to 'long covid' symptoms.

Figure 5: Reasons for economic inactivity – Nov 19-Jan 20, Nov 20-Jan 21, Nov 21-Jan 22



Source: Labour Force Survey

Falling participation means the 'missing million' compared with pre-crisis trends continues to grow

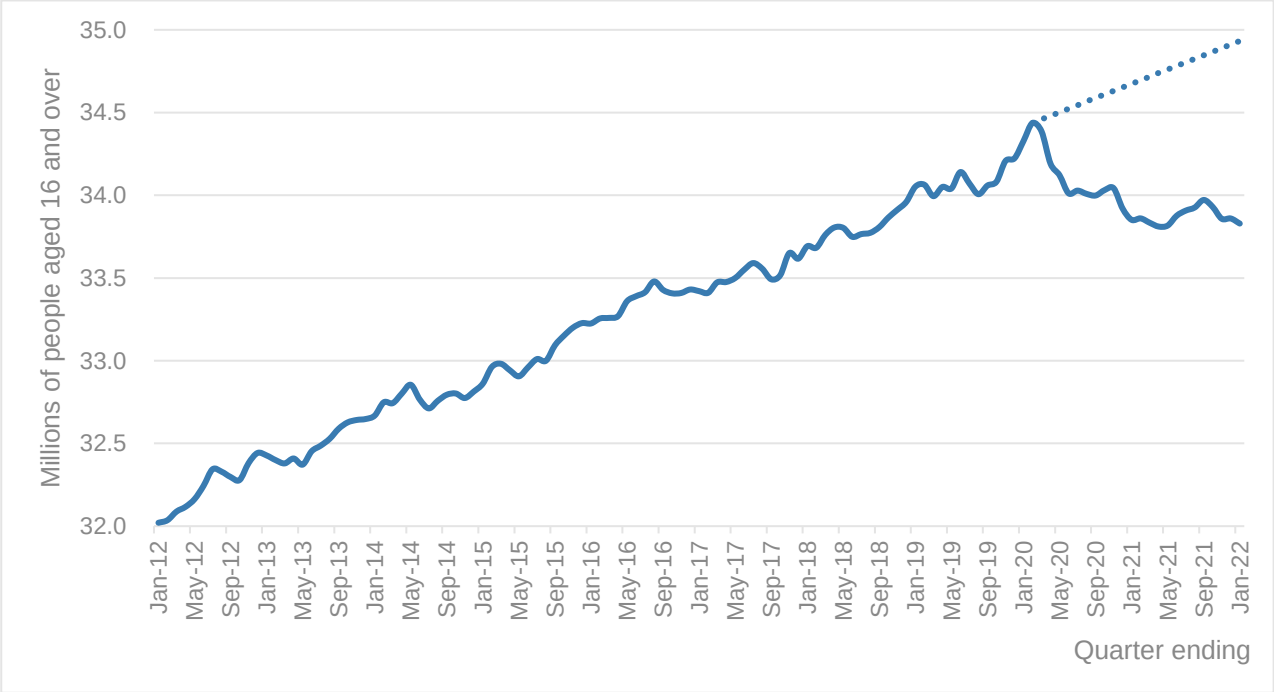
With employment flat and unemployment falling, this means that the gap between total labour force participation now and the pre-crisis trend – of decades-long growth in the labour force – is continuing to widen. This is illustrated in Figure 6 below, as with recent months focusing in on the last decade. This 'participation gap' between current economic activity and what would have happened had pre-crisis trends continued now stands at 1.10 million.

This month, following feedback from readers, we have changed the methodology for calculating this gap in order to try to compensate for the effect on pre-pandemic participation rates for women due to rises in the State Pension Age (SPA). Specifically, increases in the SPA for women were phased in between May 2010 and November 2018 to equalise SPA for women at 65, and then SPA for men and women was increased from 65 to 66 during 2019/20. This means that participation rises for older people have been driven in part due to regulatory changes which have since ended. More detail on how this

has been compensated for are in the footnote below, but the net effect of the changes are to reduce the estimated counterfactual for labour force participation by 100 thousand[2].

As Figure 7 shows, three fifths (58%) of the total gap in participation compared with pre-crisis trends continues to be explained by fewer over-50s in the workforce (635 thousand fewer people), and particularly due to fewer women.

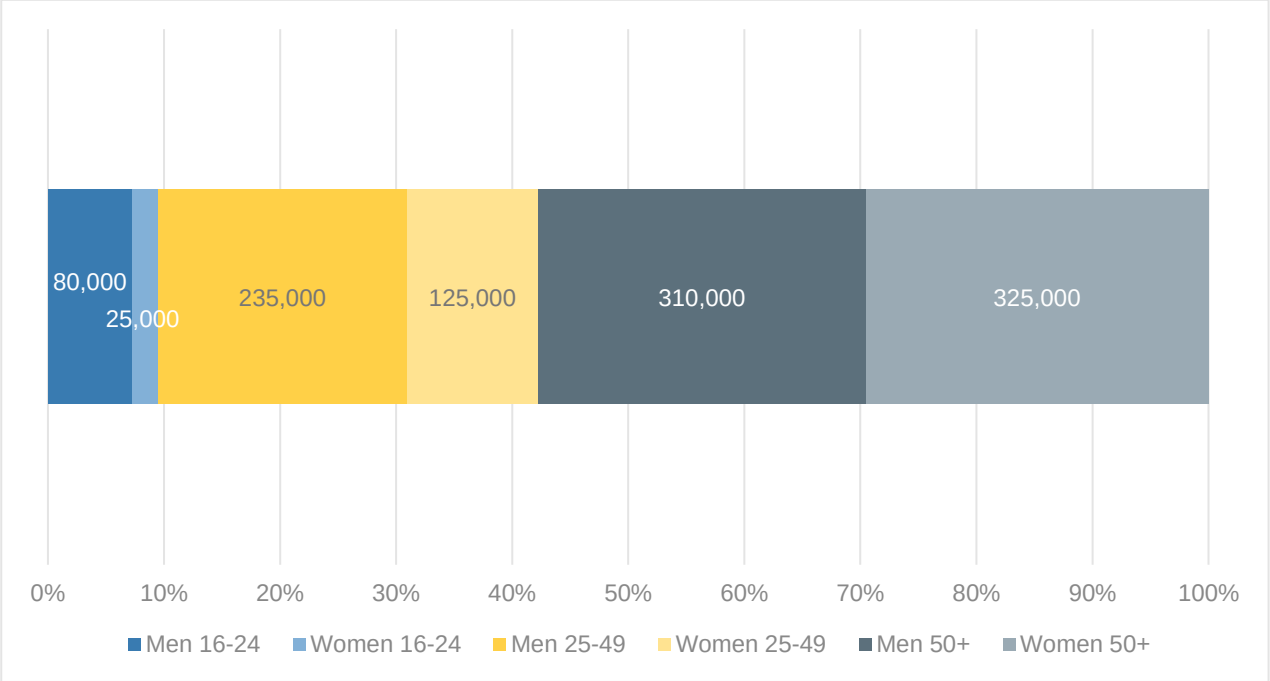
Figure 6: Level of economic activity – actual and if pre-crisis trend had continued



Source: Labour Force Survey and IES estimates

[2] In order to compensate for changes to State Pension Age, we have used as a counterfactual for women aged 50-64 the (lower) growth rate in participation that occurred between Jan-Mar 2019 and Dec 2019-Feb 2020, so after equalisation at age 65 was complete. For 65+ women, we have used the (lower) trend in participation over the five years prior to when SPA started to rise from 65 to 66 (i.e. March 2019). Note that we have not applied this to men, as participation for men aged 65 and over actually fell during 2019, and so doing so would have increased the estimated counterfactual.

Figure 7: Composition of the 'missing million' (compared with pre-crisis trends in labour force participation) by age and gender

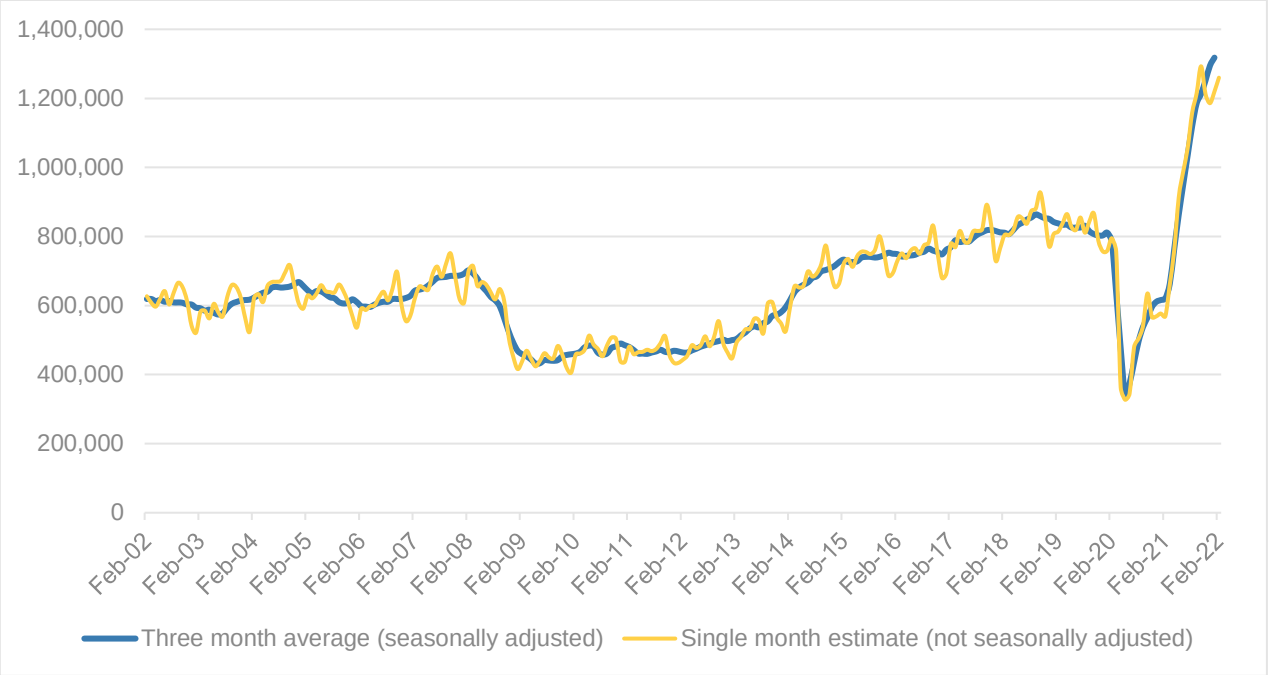


Source: IES estimates based on Labour Force Survey

Continued growth in vacancies means there's nearly as many job openings as there are people unemployed

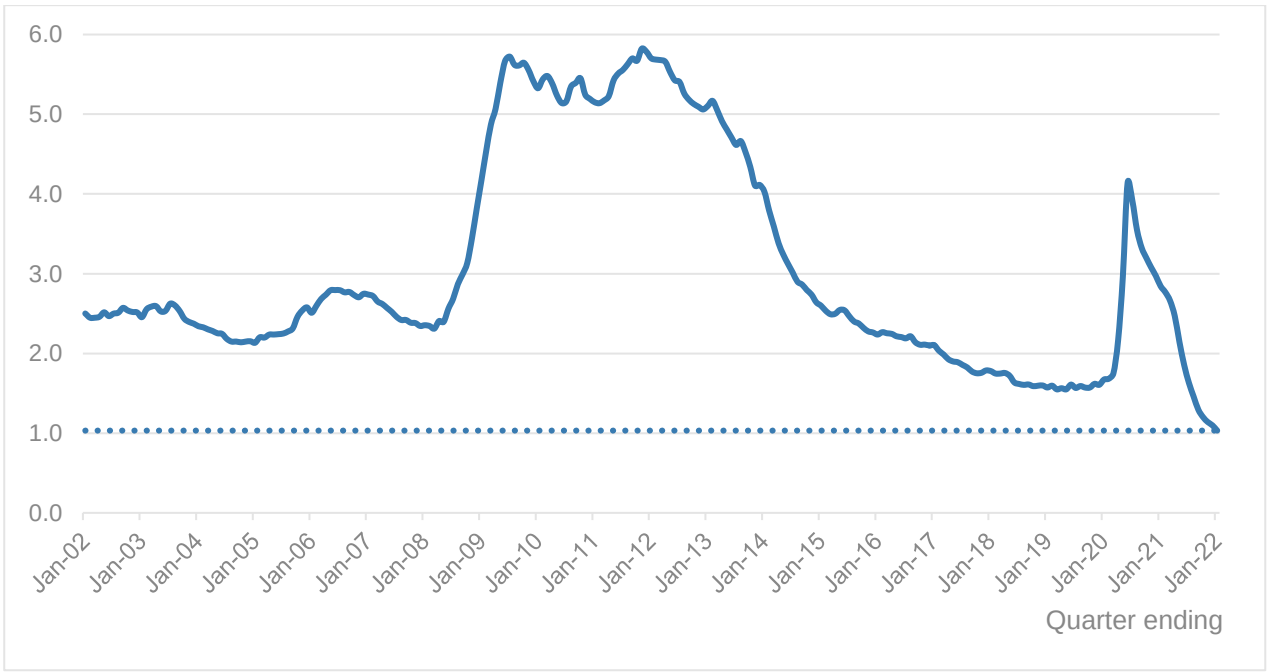
For the ninth consecutive month now, vacancies are above pre-crisis levels and have risen on the previous month's figures. So even as labour participation continues to flatline, the recruitment crisis for firms is persisting. The latest quarterly and single month estimates are shown in Figure 8 below. At 1.32 million, there are now nearly as many vacancies as there are people unemployed (1.34 million). This unemployment to vacancy ratio is a key measure of labour market tightness, and at 1.03 is now the lowest that it has been since at least the 1960s. As Figure 9 below shows, it has fallen from more than four jobseekers per vacancy in depths of the pandemic and is now well below pre-crisis levels. It seems likely that with unemployment continuing to drop and vacancies holding up on more recent online data, the ratio may well fall below 1.0 next month.

Figure 8: Vacancies – quarterly and single-month estimates



Source: ONS Vacancy Survey

Figure 9: Unemployed people per vacancy (exc. Agriculture, forestry and fishing)

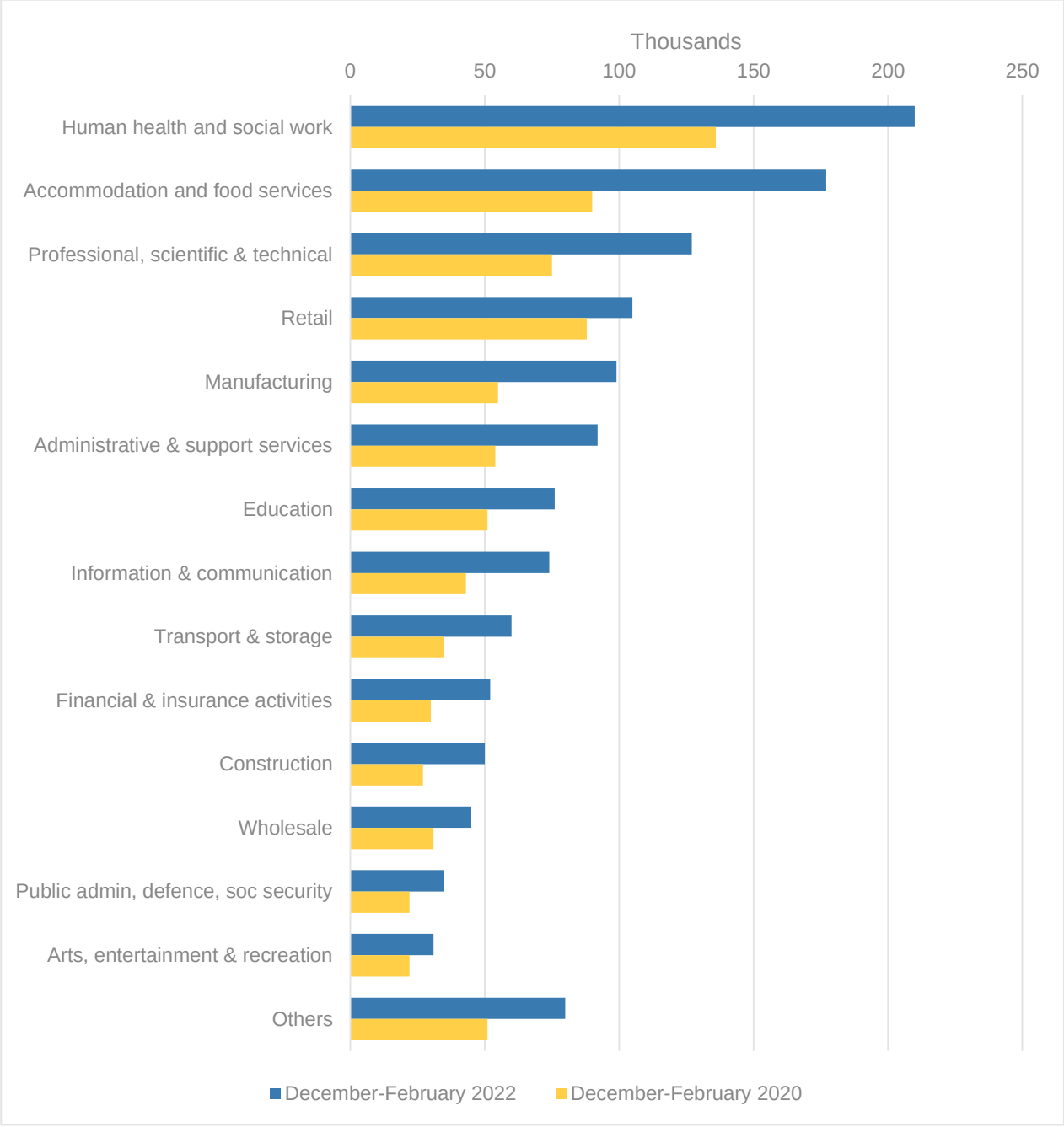


Source: ONS Labour Force Survey and Vacancy Survey

Figure 10 below shows vacancies by industry, with again health and social care, hospitality and “professional” jobs (like law, accountancy, engineering and science) leading the way; but also around one hundred thousand job openings in retail and in manufacturing. These persistent problems across industries appear to be becoming

chronic as employers continue to struggle to fill jobs – and as we set out last month, this in turn risks contributing to lower growth, higher inflation and falling living standards.

Figure 10: Vacancies by industry, pre-crisis and latest data



Source: ONS Vacancy Survey

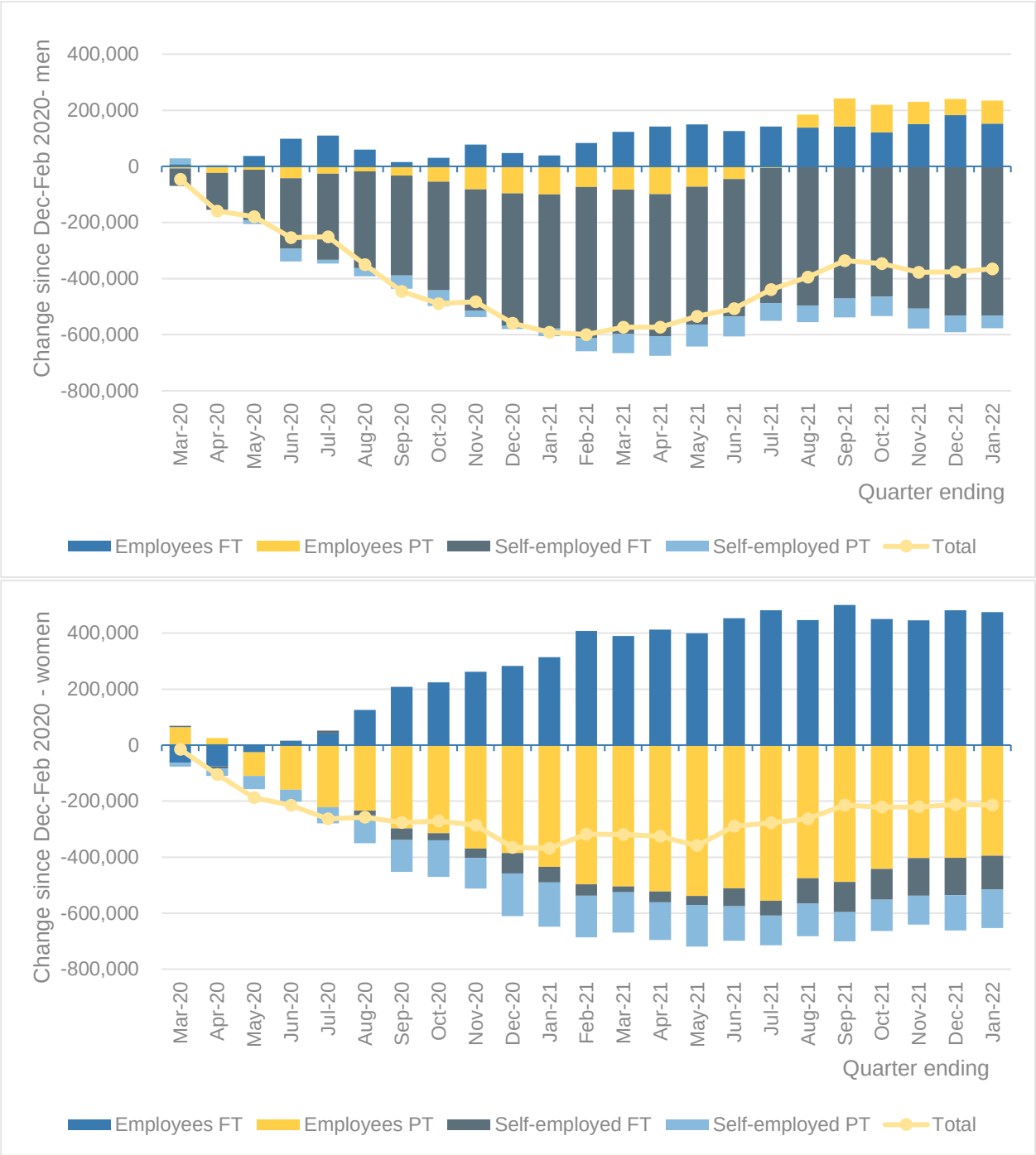
Employment falls are being driven by lower self-employment, particularly for men

Figure 11 below was last produced in December's briefing, and sets out changes in part-time, full-time, employee and self-employed work for men and women compared with the month before the pandemic (with the line then showing the overall change).

This illustrates that the large employment gap continues to be explained by lower self-employment, which is down by 835 thousand (a fall of around one sixth). Just over two thirds of this fall has been among self-employed men, and in particular those working full-time. As we set out last month, these large falls during the early crisis were mainly explained by more self-employed people becoming employees and fewer employees becoming self-employed – in turn partly driven by changes in the tax treatment of off-payroll working.

The graph also shows a significant shift from part-time to full time employee work for women; but that some of the large falls in part-time employee work for women had started to unwind in recent months. This is welcome, given the barriers that many people face in returning to work due to hours flexibility (as well as the high levels of over-employment reported in last month's briefing), but does appear to have stalled in the last couple of months. Overall, part-time work remains more than half a million lower for women than it was before the crisis began.

Figure 11: Change in full-time, part-time, employee and self-employed work since start of crisis (December-February 2020 quarter) – for men (top) and women (bottom)



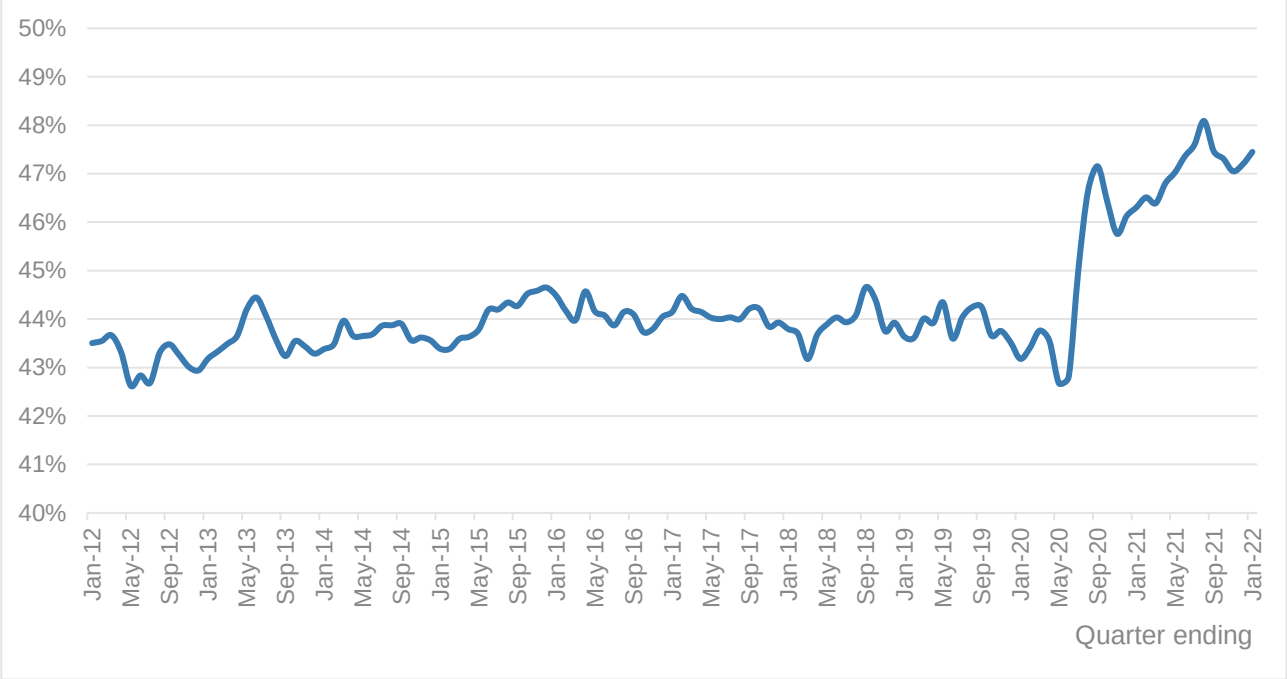
Source: Labour Force Survey

One in eight young people are outside education or work, with the jobs recovery being led by students

This month we are also including some further analysis on young people, given the recent improvements in headline figures for participation in education and employment. Overall,

the pandemic has seen a very large increase in participation in full-time education – through both increased demand from young people as the labour market weakened, and increased supply of places particularly with the opening up of more university places in autumn 2020. This is illustrated in Figure 12 below. The jump in participation rates, from 43 to 47%, was comfortably the largest and fastest increase at any point in at least three decades.

Figure 12: Proportion of young people (aged 16-24) in full-time education

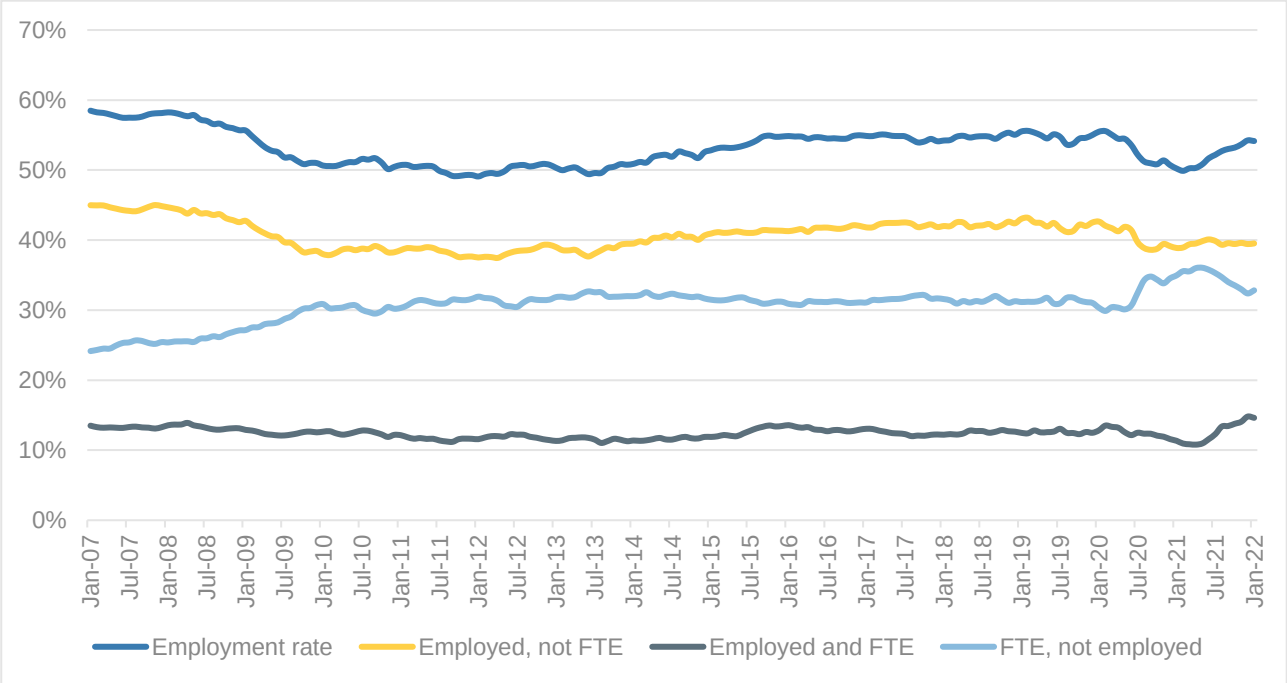


Source: Labour Force Survey

This increase in participation in education helped to avert an unemployment crisis for young people, with the headline unemployment rate peaking at 15% - well below the 22% peak after the 2008/9 recession – and now falling back to just below pre-crisis levels. More recently, employment for young people has also started to recover – with employment up by a quarter of a million in the last year and now just 150 thousand below pre-crisis levels.

However, as Figure 13 below shows, while employment overall is recovering (the blue line), this is being driven in particular by growth in the proportion of young people who are in full time education and also working (black line) – from 11% of all young people to 15% in the most recent data. The proportion of young people in employment and not in education, meanwhile, has been broadly unchanged over the last year (at around 40%). This suggests that as the labour market has improved, more young people in education have been able to also take up work, and likely firms struggling to fill vacancies have increasingly looked to recruit from among students.

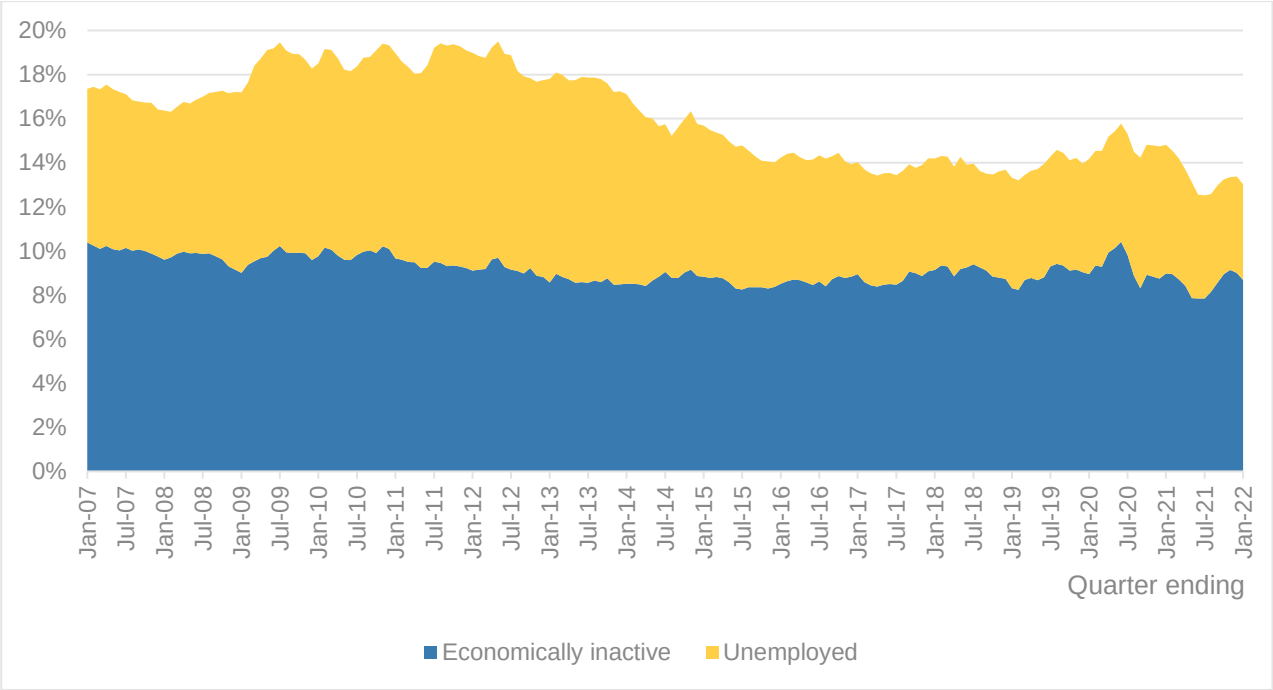
Figure 13: Proportion of young people (aged 16-24) employed and/ or in full-time education



Source: Labour Force Survey

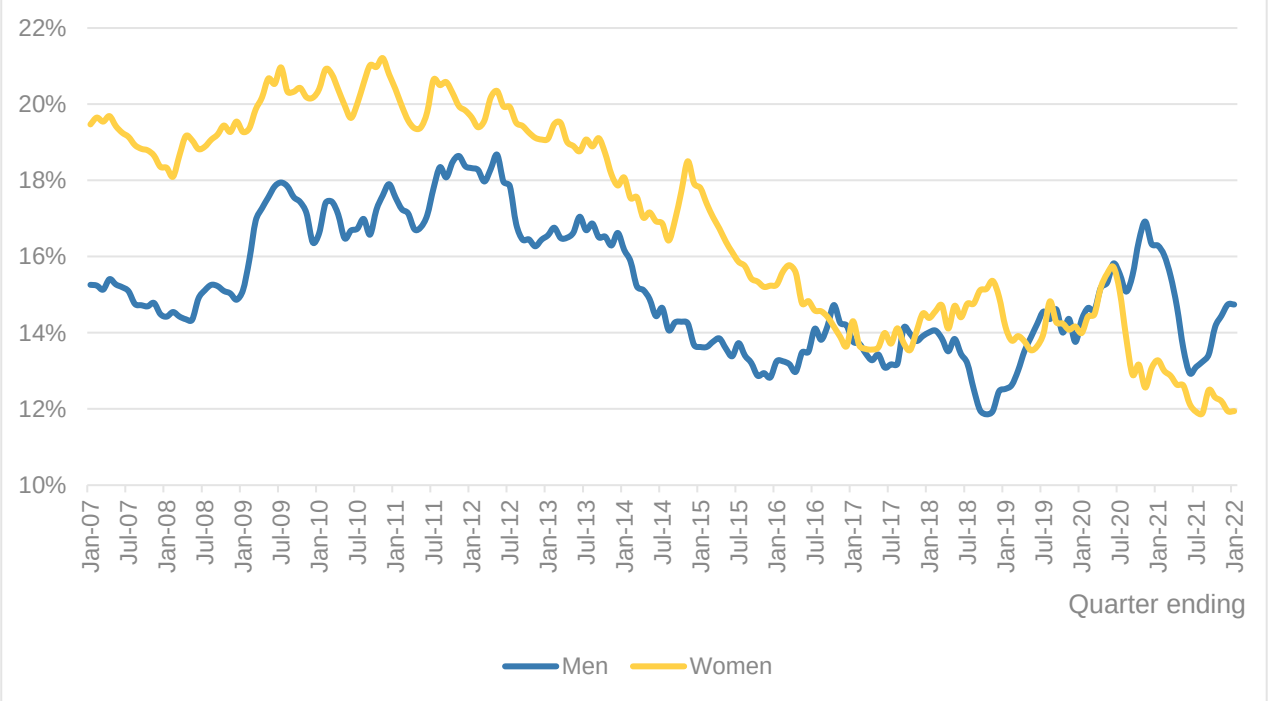
At the same time, while the proportion of young people not in full-time education or work has fallen back from its peak of around 16% at the start of the crisis, there remain more than one in eight young people (13.8%) neither in full-time education nor work. As Figure 14 below shows, this is increasingly explained by economic inactivity, as unemployment improves. The pandemic has also seen the non-participation rate for young men surpass that for young women, for the first time since comparable records began. As Figure 15 below shows, this gap had been closing over previous decades, particularly as a result of more women having children later. However since the end of the first lockdown, non-participation has fallen faster for women than for men (and particularly during 2021). This appears to be mainly explained by both lower rates of participation in education and lower employment rates for those not in full time study. It is important to note too that non-participation rates remain high for women too, with 12% of all young women neither in full-time education nor work.

Figure 14: Proportion of all young people (16-24) who are not in full-time education and either unemployed or economically inactive



Source: Labour Force Survey

Figure 15: Proportion of young people not in full-time education or employment by gender



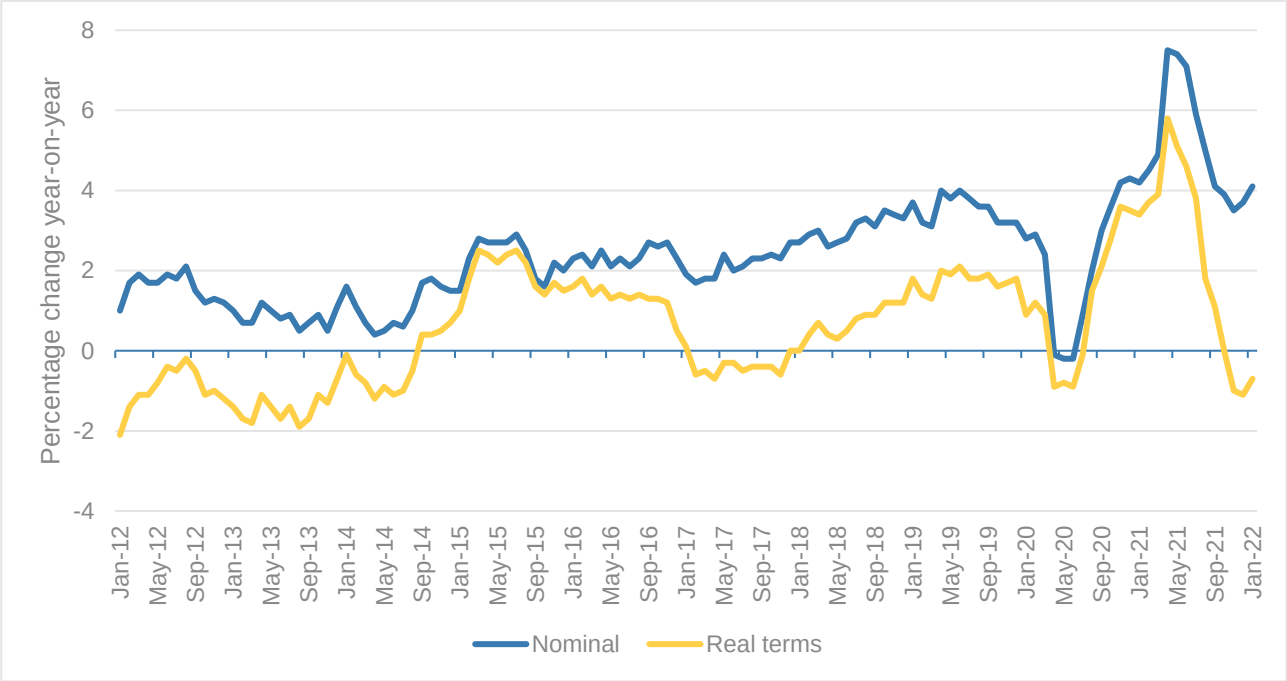
Source: Labour Force Survey

Pay is rising, but not fast enough to offset the impacts of high inflation – leading to real-terms falls in earnings

Finally, this month we are including analysis of the latest estimates of average weekly earnings, also published today. On the latest single-month estimates, nominal pay growth is relatively strong, at 4.1% compared with January 2021 for regular pay, or 4.9% when bonuses are included. Bonus pay has been particularly strong this month, especially in finance and business services. However with inflation now running at 4.9%, this means that 'real' earnings growth has been negative year-on-year for regular pay, and flat on total pay including bonuses.

Figure 16 below illustrates these trends in nominal and real terms pay growth for regular pay. This is now the third month in a row that year-on-year real pay growth has been negative, and it is likely that real earnings will continue to fall as inflation rises.

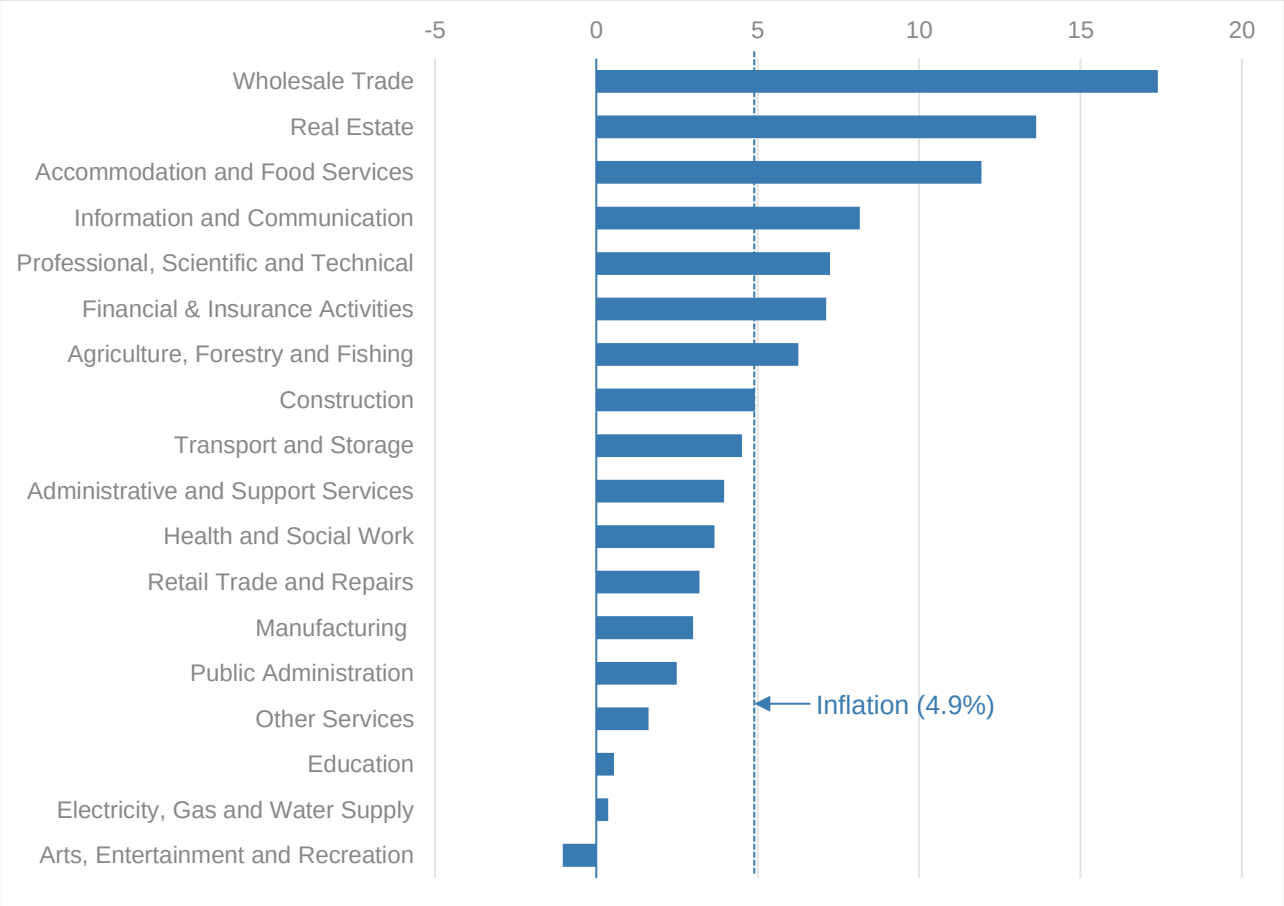
Figure 16: Year-on-year change in regular pay – nominal terms and adjusted for inflation (real terms)



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

Figure 17 below then shows changes in pay by industry. This measure includes bonuses and arrears, as and shows pay growing strongly – and faster than inflation – in a number of private sector industries including hospitality, technology, professional jobs and finance. Pay is well below inflation in public sector industries like health and education, but also in retail, manufacturing and the arts.

Figure 17: Year-on-year change in regular pay by industry, nominal terms



Source: ONS Monthly Wages and Salaries Survey. Regular pay including bonuses and arrears; measure shown is year-on-year change in single month estimate, not seasonally adjusted.

Conclusion

Today's figures continue to be concerning overall, with ongoing evidence of a participation and recruitment crisis, driven in particular by higher worklessness amongst older people. This in turn will fuel the living standards challenges that households will face in the months ahead, as those out of work will be the most severely affected by rising prices, while labour shortages could themselves risk contributing to prices rising even faster.

As we have said since late last summer, we need to see urgent action to now address these challenges. Employers have a key role to play, through more inclusive recruitment, better job design (particularly around shift notice, patterns and flexibility), improved induction and in-work training, and workplace support with health, caring and wider needs. However government also needs to act. At the Budget next month, we need to see a new 'Plan for Participation' to help those out of work to get back in, and this needs to be open to all of those who are out of work and want help to find a job – not just those on benefits.