ies Briefing
Institute for Employment Studies

Labour Market Statistics, November 2021

16 November 2021

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 where the most recent data covers the period July to September 2021. This is supplemented by analysis from the **ONS Vacancy Survey**, which collects employer data on open vacancies and includes data up to October 2021.

This month's Labour Force Survey data contain additional, quarterly analysis on a number of areas including labour market flows, employment for disabled people and ethnic minority groups, temporary employment and zero hours contracts.

Summary

Today's data show a continued improving picture in the labour market, with unemployment falling sharply towards pre-crisis levels and employment increasing. New labour market flows data shows that underneath this, nearly 2.2 million people started new jobs in the summer (July to September) – the highest level and rate (7%) in at least twenty years, driven by record flows into work as well as record levels of job-to-job moves.

However despite these trends, vacancies have continued to grow strongly – across all industries – which combined with falling unemployment has led to the lowest number of unemployed people per vacancy since at least the early 1960s. Labour supply simply cannot keep up with demand, which in turn is holding back growth and adding to inflation.

A key cause of these problems is far lower labour market participation than on pre-crisis trends – with a participation 'gap' on our estimates of 950 thousand people. Around half a million of this gap is explained by fewer older people in the labour market, particularly older women. Worryingly, there are also signs today that higher economic inactivity is increasingly being driven by people out of work due to ill health or early retirement, while inactivity is falling among students and for 'other' reasons (like shielding or lockdowns). These trends have been emerging in the data for some months now, which makes it all the more disappointing that the Budget last month did not take action to address these growing problems, in particular for older people and those with ill health.

New data on employment for disadvantaged groups also presents a worrying picture, with employment gaps either growing or remaining stubbornly wide for disabled people, ethnic minorities, those aged over 50 and young people outside education. Combined with weaker than expected data on long-term unemployment, there are growing signs that the recovery is not being felt by those further from work – coming at a time of labour shortages, higher inflation and large cuts to Universal Credit, addressing this needs to be an economic and social priority.

Looking ahead, with really very little sign that the end of furlough will ease labour shortages, our view is that the current recruitment and participation crises will continue for some months yet, although this will at least mean that unemployment will (as expected) fall back towards pre-crisis levels faster than recent official forecasts have suggested. However it also makes even clearer the need for action to raise participation and support employment growth. This means in particular doing far more to improve support around work and health and to re-engage older people and disadvantaged young people. It also means that firms will continue to have to rethink and improve how they recruit, design jobs and support people in work.

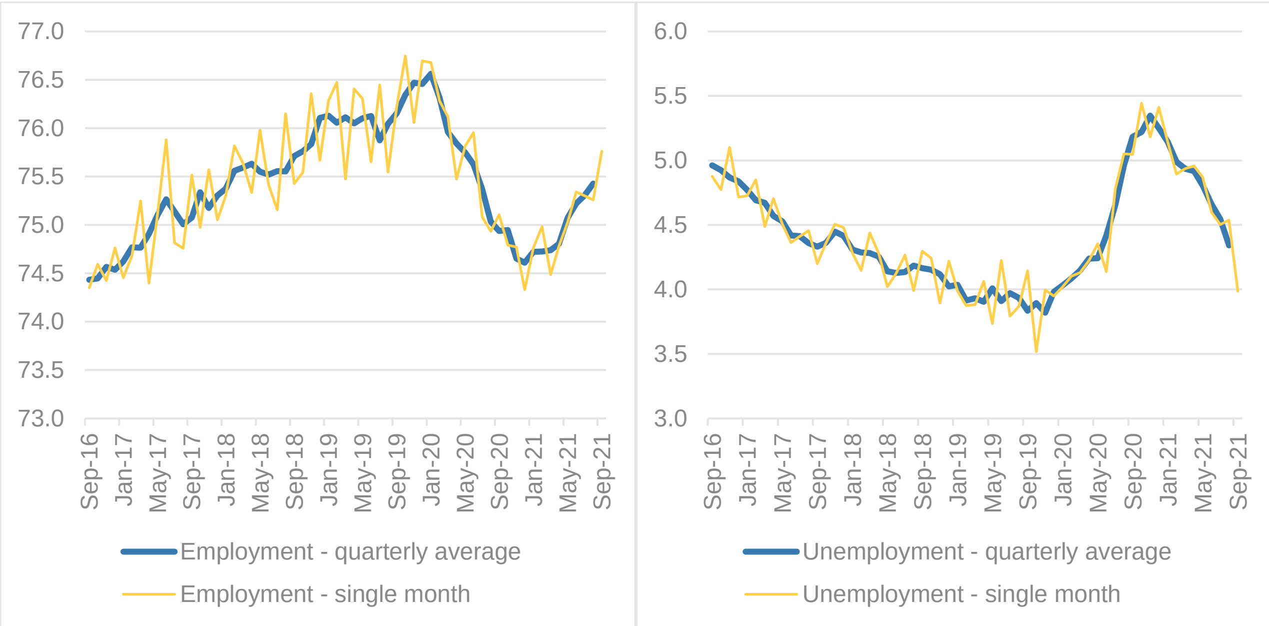
Unemployment is falling fast – but employment has further to go with 'economic inactivity' stubbornly high

Both employment and unemployment have improved significantly in the latest data, with employment rising by 250 thousand to 75.4% (an increase of nearly half a percentage point on the quarter) and unemployment falling by 150 thousand to 4.3% (down 0.5 points on the quarter). As Figure 1 below shows, the underlying monthly data that makes up these quarterly average (the yellow lines) are even more positive – with the single month estimate for unemployment in September hitting 4.0%.

This is welcome following quite subdued data for the single month of August (which we noted in last month's briefing) and suggests a continuing downward trend in unemployment through the summer. More timely data from the tax system (the 'Pay As You Earn' Real-Time Information data) also suggests that the recovery is continuing, with employee jobs estimated to have increased by a further 160 thousand between September and October (although this 'flash estimate' will be revised next month).

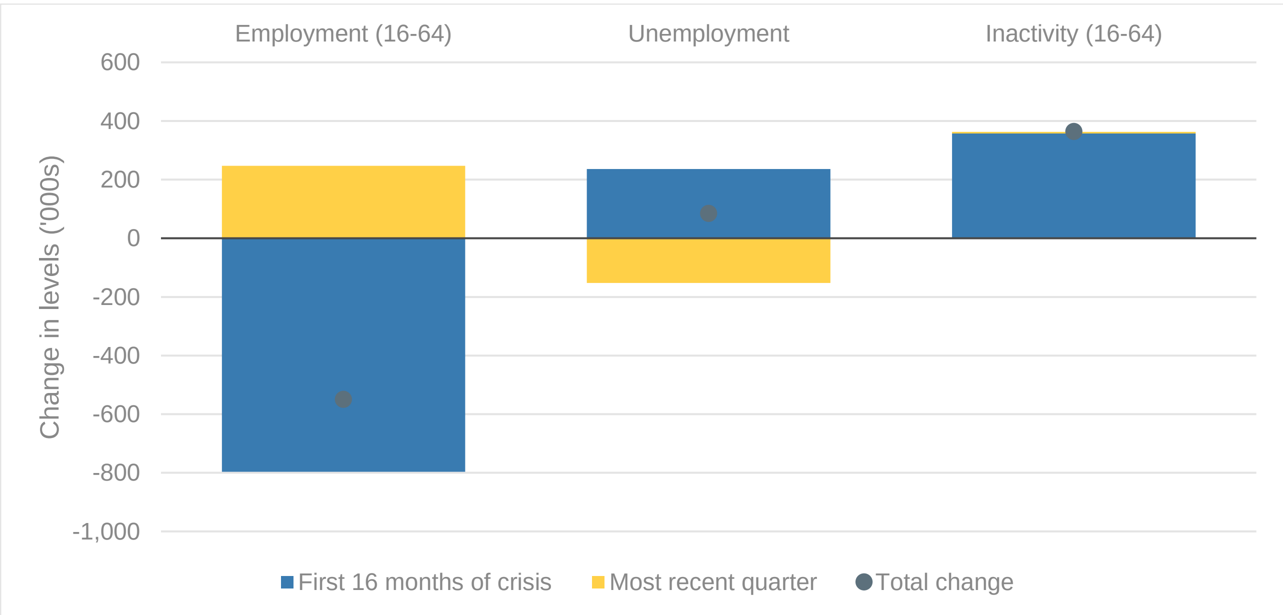
However Figure 1 also illustrates that despite the strong recovery, employment remains still some way below pre-crisis levels – with the rate 1.1 percentage points lower than before the pandemic and the level of employment down by over half a million. This gap continues to be driven by higher 'economic inactivity', which is the measure of those not looking and/ or not available for work. As Figure 2 below shows, this remains elevated – 360 thousand higher than pre-crisis levels – and more worryingly, is not falling (with the yellow bars showing changes in the most recent quarter, the blue bars the change over the rest of the period since the start of the crisis, and the black dots the total change).

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



Source: Labour Force Survey

Figure 2: Changes in employment, unemployment and economic inactivity: first sixteen months of the crisis (Dec-Feb 2020 to Apr-Jun 2021) and most recent quarter (Apr-Jun 2021 to Jul-Sep 2021)



Source: Labour Force Survey

New data on labour 'flows' shows that hiring, job moves and flows into work have never been higher

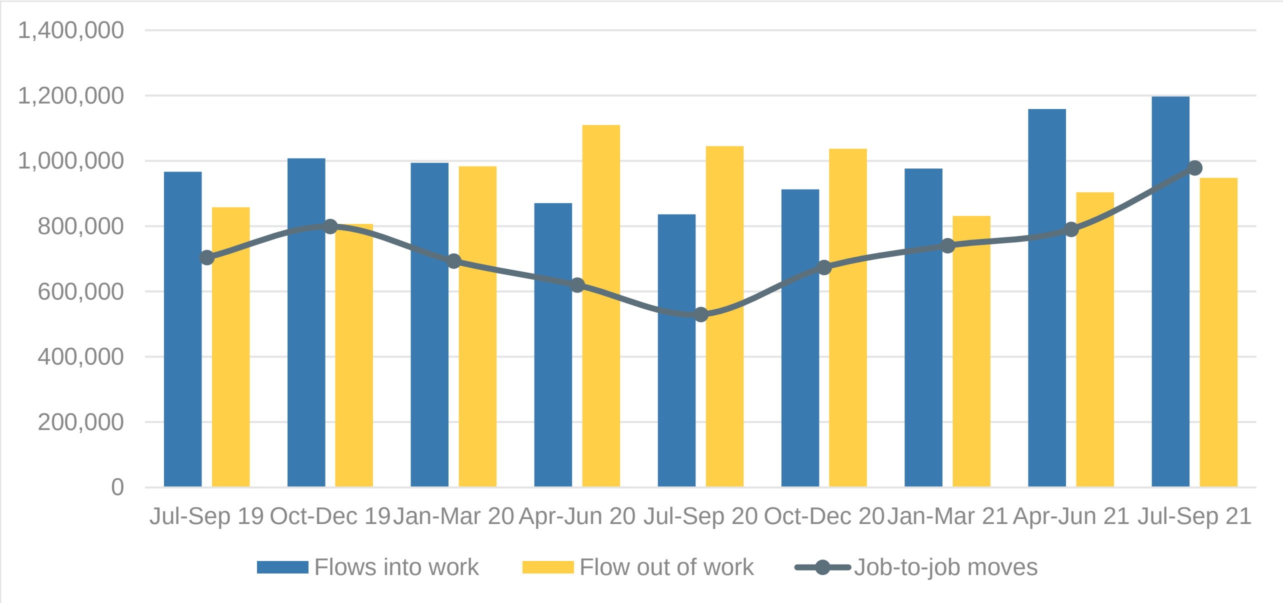
Quarterly flows data published today shows us that driving this growth in employment and falling unemployment has been record numbers of people moving into work; which combined with record levels of job-to-job moves has seen overall job starts reach comfortably their highest ever. Overall 2.18 million people started a new job between July and September, or nearly three quarters of a million a month. As Figure 3 below shows, flows into work and job-to-job moves have both risen to well above pre-crisis levels. Flows out of work (the yellow bars) are also higher than pre-covid, but well below where they were during 2020.

Underneath these headlines, flows into work were driven particularly by flows from unemployment, with a remarkable 38% of all of those unemployed during April to June finding work between July and September. However flows from economic inactivity into work were also high (accounting for just over half of the total flow into employment), but were more than offset by (even higher) flows from employment into inactivity, which drove the slight rise in inactivity levels overall. The flows out of economic inactivity would be consistent with more people coming back to work as furlough payments ended and restrictions eased, but the flows into inactivity are much more worrying – with analysis later in this briefing suggesting that this may be being increasingly driven by poor health.

Higher job-to-job moves may be an early sign of the 'Great Resignation' that has been more visible so far in the United States, with the ONS noting in their briefing that resignations are particularly fuelling the growth. If this is the case then this would be welcome overall, as voluntary job changes are a key driver of pay growth and progression. However it may also reflect more temporary reallocations following the impacts of lockdown (again, potentially more people moving jobs as CJRS payments ended).

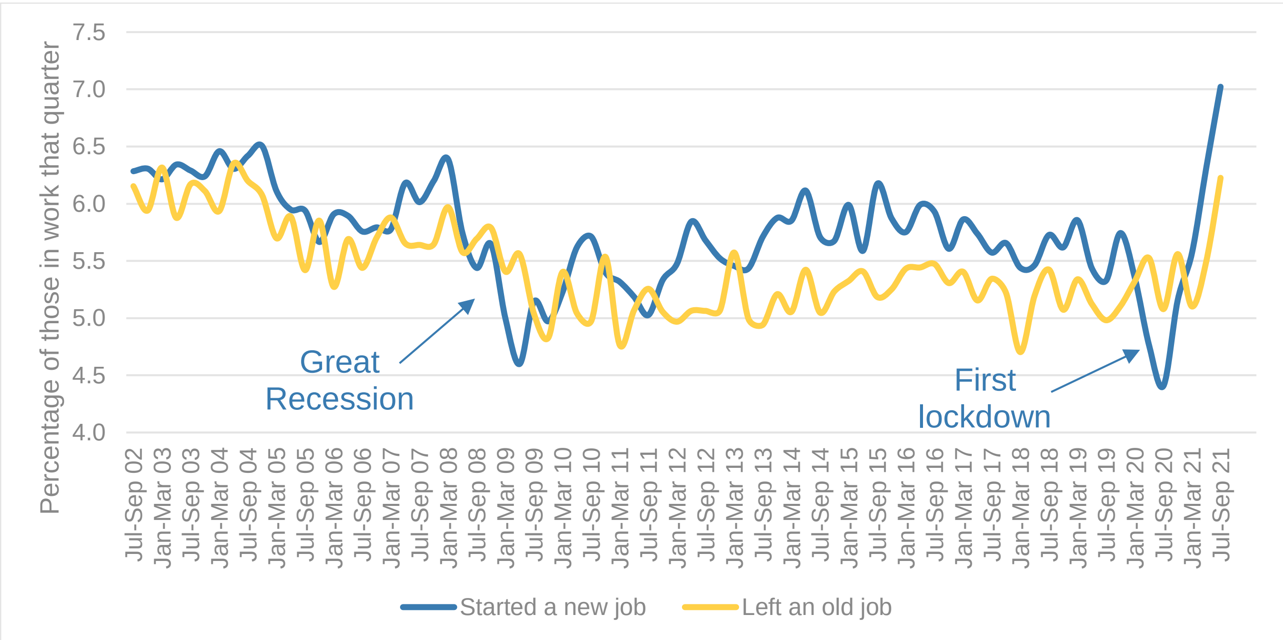
Figure 4 then estimates the total proportion of those in work who either started a new job or left an old one in the given three month period (by adding job-to-job moves to each of the total flows into work and out of work). This illustrates both the depths of the impacts of the first lockdown, and the strength of the recent recovery – with overall one in fourteen of all of those in work having started a new job over the summer. Again, if this rate stabilises more in line with the pre-2008 trend than the 2010s, then this could be good news for pay and progression.

Figure 3: Flows into work, out of work and job-to-job moves



Source: Longitudinal Labour Force Survey. Note that estimates of job-to-job moves are for those aged 16-69, while estimates of job entries and exits are for those aged 16-64.

Figure 4: Percentage of those in work who either started a new job or left an old one in that three month period

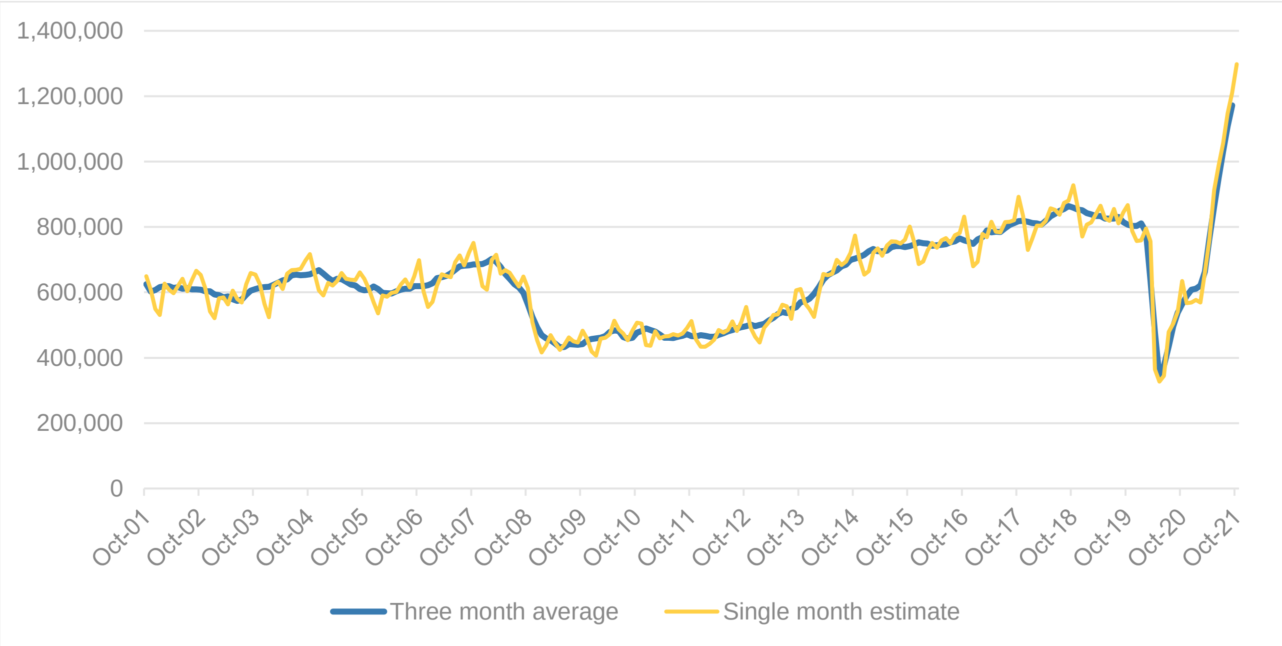


Source: Longitudinal Labour Force Survey. Note that estimates of job-to-job moves are for those aged 16-69, while estimates of job entries and exits are for those aged 16-64.

Despite these trends, vacancies just keep on rising – fuelling the tightest labour market in 50 years (again)

Even with record job starts however, vacancies are continuing to rise strongly – with now 1.17 million vacancies on average between August and October, and a single-month estimate for October of 1.30 million (Figure 5 below). These figures continue to be extraordinarily high and are showing very little sign of slowing.

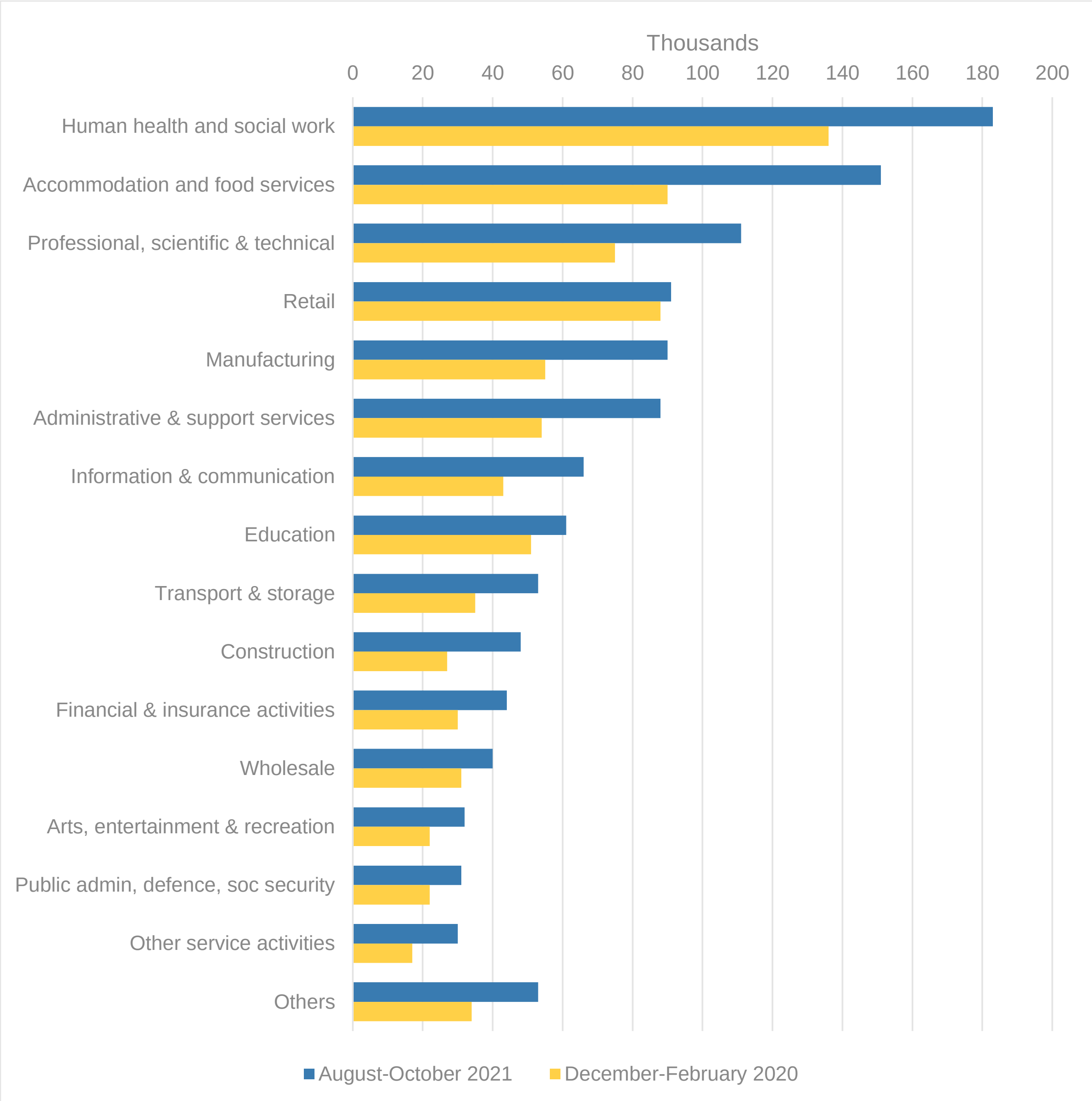
Figure 5: Vacancies – quarterly and single-month estimates



Source: ONS Vacancy Survey

As with last month, vacancies are above pre-crisis levels in every single industrial category (Figure 6) with health, social care, hospitality and "professional" jobs (like law, accountancy, engineering and science) leading the way.

Figure 6: Vacancies by industry, pre-crisis and latest data

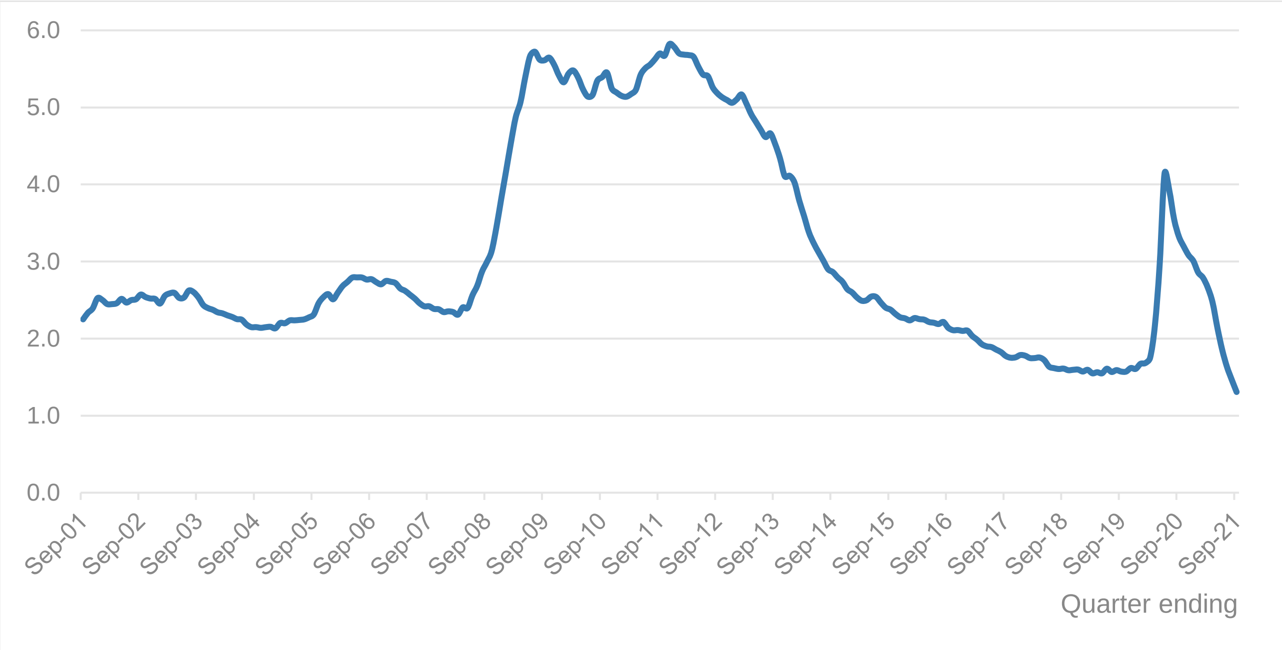


Source: ONS Vacancy Survey

As with last month, record vacancies and falling unemployment are pushing down the number of unemployed people per vacancy to the lowest we've seen in at least fifty years. This 'U:V ratio' indicates the size of the labour pool in relation to demand from employers, and is a key measure of how tight or loose the labour market is. At just 1.3 unemployed per vacancy, this is less than a third of the ratio during the crisis but also well below the pre-crisis ratio of around 1.6. Figure 7 below sets this out back to 2001, while historic data from 1971 to 2001[1] suggests that over the previous 30 years the ratio was never lower than 1.5.

Put simply, labour supply just cannot keep up with labour demand, and the problem appears to be getting worse. And with unemployment now getting close to the lowest its been, these mismatches will continue to hold back growth, contribute to shortages and help push up inflation.

Figure 7: Unemployed people per vacancy (exc. Agriculture, forestry and fishing)



Source: ONS Labour Force Survey and Vacancy Survey

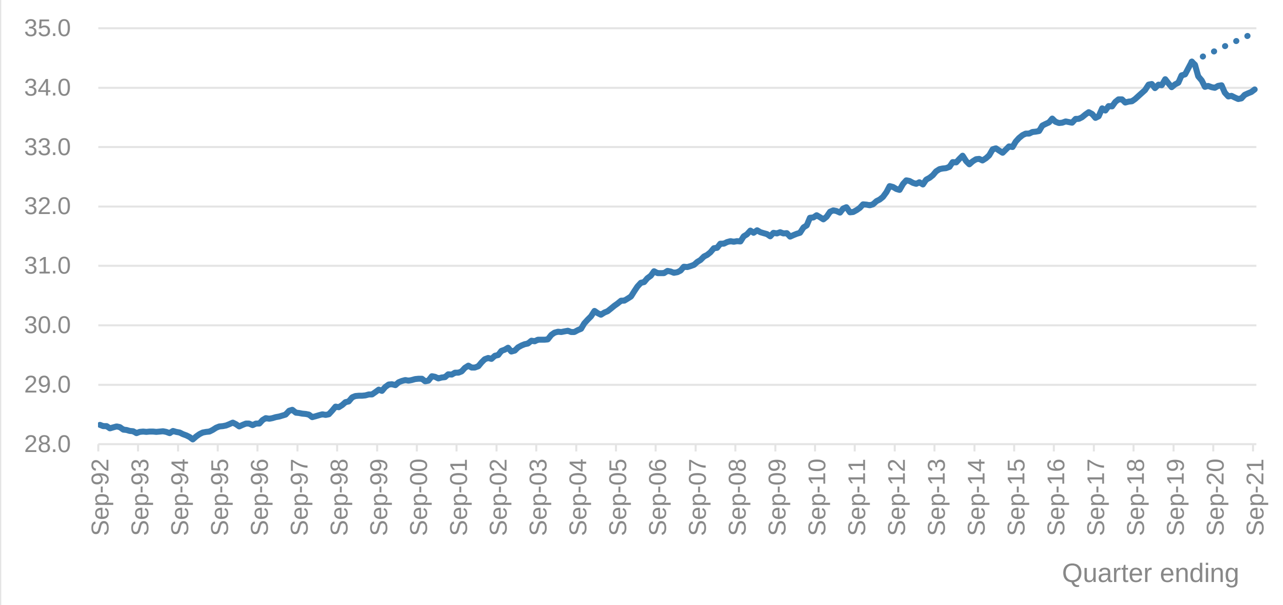
This is being driven by a participation crisis – with half a million fewer older people in the labour market

We reported last month on the growing participation crisis since the onset of the pandemic, with the number of people in the labour market (either in work or looking for work) falling due to a combination of population changes and higher economic inactivity. This has reversed the trend of the last thirty years, which has seen participation rise as the economy and population have both grown.

Figure 8 below illustrates this trend, with the latest data showing very little improvement on recent months. In all there are 960 thousand fewer people in the labour market now than there would have been had pre-crisis trends continued.

[1] Available via the Bank of England's Millennium of Macroeconomic Data, using the 'spliced series' for vacancies in table M5 https://www.bankofengland.co.uk/statistics/research-datasets

Figure 8: Level of economic activity – actual and if pre-crisis trend had continued



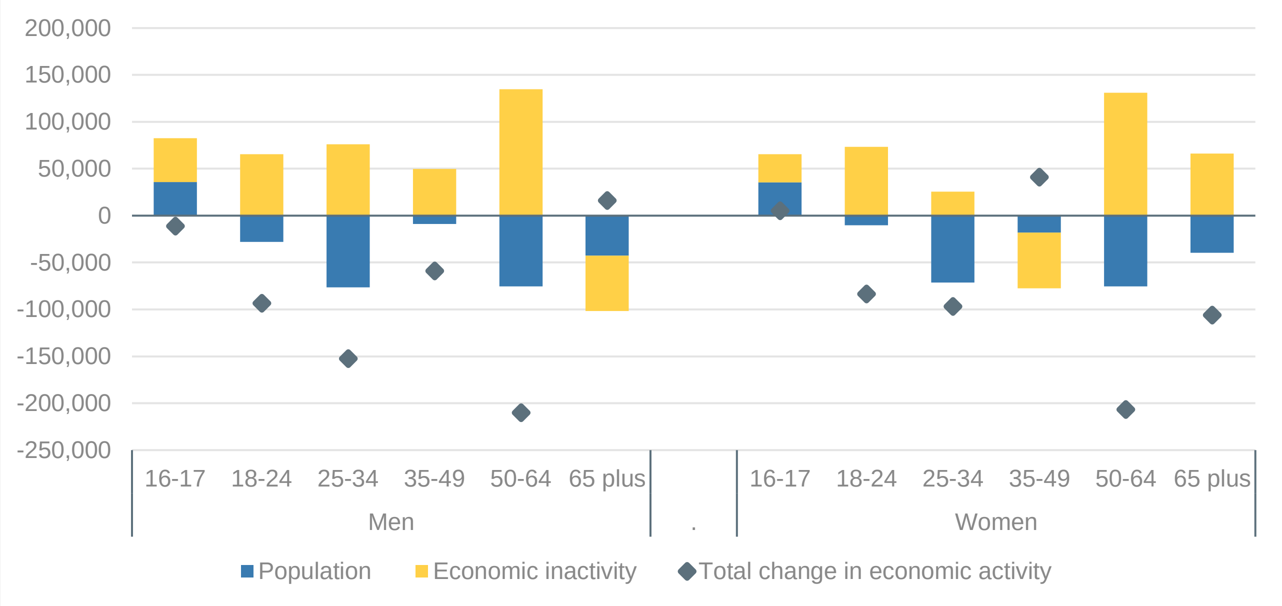
Source: Labour Force Survey and IES estimates

Figure 9**Error! Reference source not found.** then breaks this participation gap down by age and gender, and by how far it is explained by a smaller population (blue bars) or by higher economic inactivity (yellow bars) – i.e. a negative change in the blue bar is a *lower* than expected population, while a positive change in the yellow bar is a *higher* than expected level of economic inactivity. The total change in activity levels is therefore the blue bar minus the yellow bar, and is illustrated by the black dots.

This shows that overall, around two fifths (39%) of the change in activity is explained by a smaller population, while the remainder (61%) is explained by higher economic inactivity. (Today's data on labour market activity by nationality suggests that around one third of the total change may be explained by fewer non-UK nationals in the labour market, although this recent analysis by Michael O'Connor suggests that there remain some significant concerns around the reliability of these estimates.)

More broadly, Figure 9 shows that rises in economic inactivity remain concentrated among older people, who now account for more than half a million of the total gap, and particular by older women; and by young people, and in particular younger men. As we set out last month, this appears to reflect more older people leaving work and not returning, and more young people staying in education.

Figure 9: Changes in economic inactivity and population by age and gender, compared with pre-crisis trend



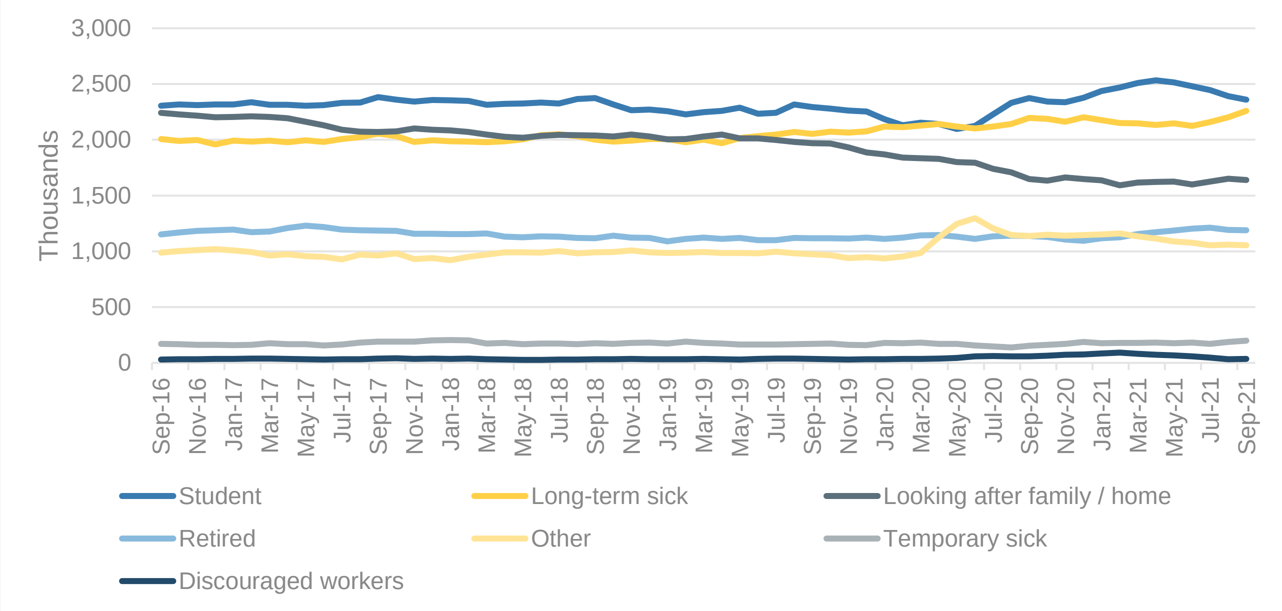
Source: IES estimates based on Labour Force Survey

'Economic inactivity' due to illness and retirement is now rising markedly, while it falls elsewhere

Looking in more detail at what is driving higher economic inactivity, the overall story of the crisis (Figure 10) has been a growth in student numbers and in long-term ill health, while the number of people looking after family or home has fallen (trends that we have discussed in more detail in previous briefings). However looking just over the last twelve months (Figure 11) we are now seeing very worrying signs that economic inactivity is being driven by increasing levels of ill health among those out of work and more people exiting entirely to retirement. These three categories have increased by 160 thousand combined over the year, while student numbers have edged down and inactivity for 'other' reasons (which will include people shielding or sitting out lockdowns) has fallen.

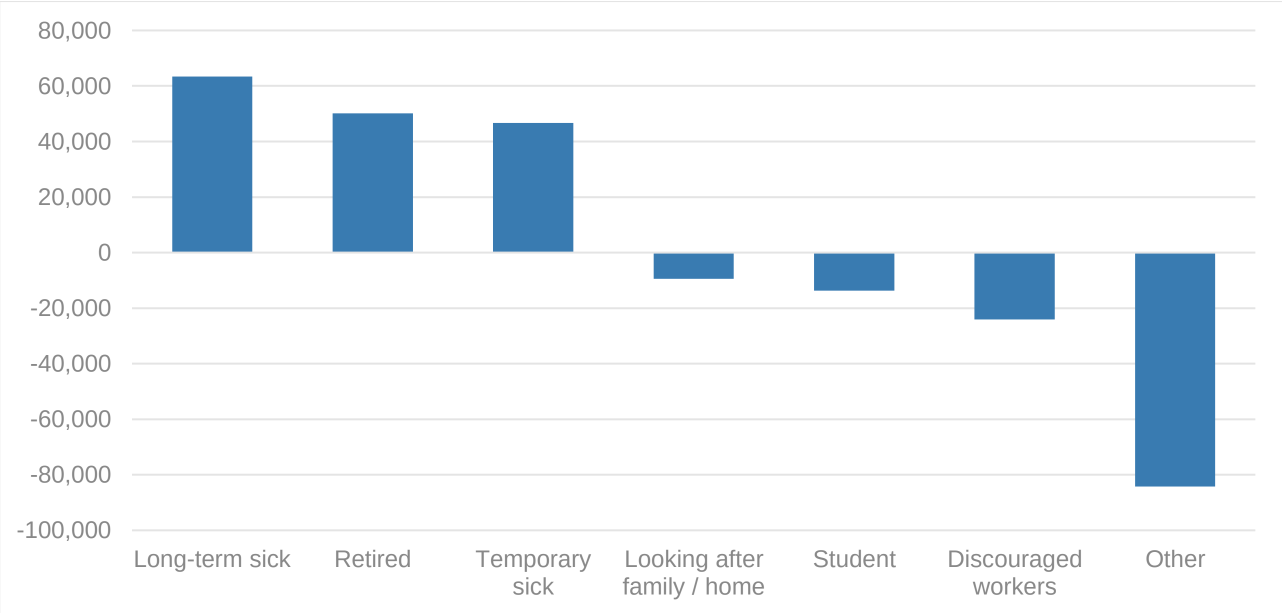
As noted in the discussion of labour market flows above, this is overall consistent with people going back to work where they can as restrictions eased, but then large numbers becoming further detached or disadvantaged and flowing out of the labour market entirely. It's likely that 'long covid' and clinical vulnerability to covid will also be contributing to these rises. Again given that these trends have been evident for some months now, it is concerning and disappointing that last month's Budget did not do more (or indeed do anything) to improve labour market support for these groups.

Figure 10: Reasons for economic inactivity



Source: Labour Force Survey

Figure 11: Change in levels of economic inactivity by reason, Jul-Sep 2020 to Jul-Sep 2021



Source: Labour Force Survey

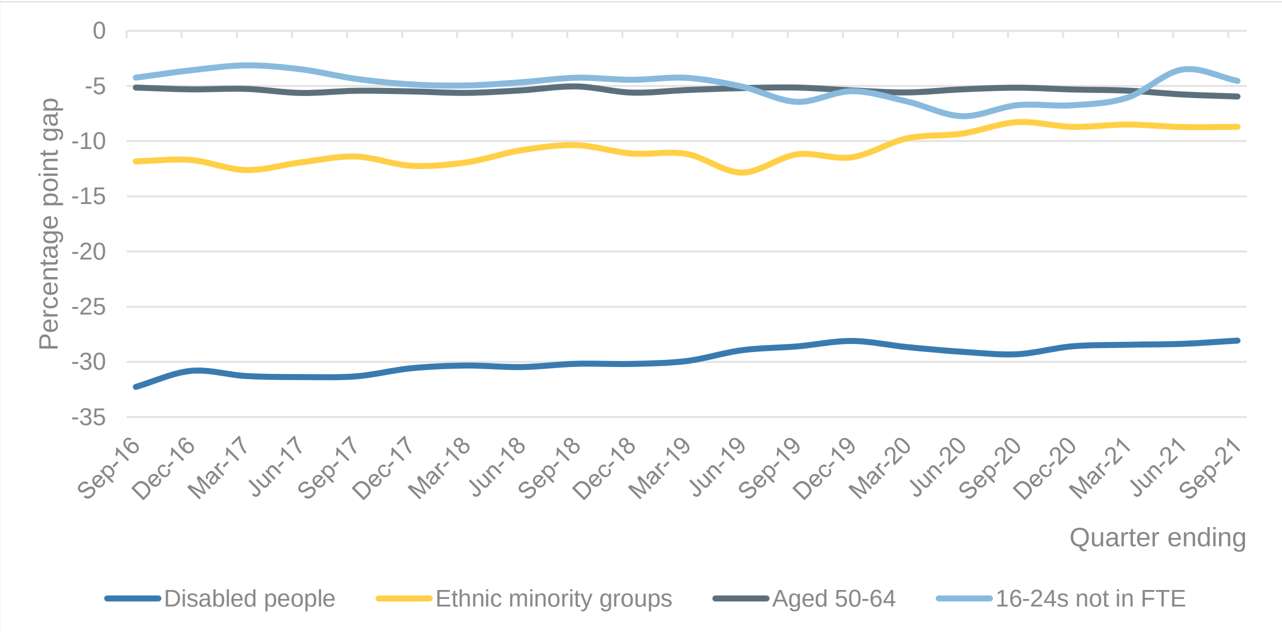
There are also signs that those more disadvantaged in the labour market are faring worse in the recovery

Today also sees the publication of quarterly data on employment for ethnic minority groups and for disabled people, which means that we can assess the 'gap' in employment rates between these groups and the wider working age population. This is set out in Figure 12 below, alongside gaps for people aged over 50 and for young people outside full-time education.

All told, this data presents a worrying picture of the recovery so far – where despite decent growth in employment and falling unemployment, the employment 'gaps' for all four disadvantaged groups are either widening or remain stubbornly high. The gap for disabled people is unchanged on the year but remains at 28.1 percentage points – meaning that disabled people are half as likely to be in work as non-disabled people.

For ethnic minority groups, the gap overall has widened slightly over the year (from 8.3 to 8.7 percentage points), as it has for people aged over 50 (from 5.2 to 6.0 points). For young people outside of education, the gap is lower than on a year ago but the narrowing that we reported on three months ago appears to have unwound – which is worrying and somewhat surprising, given the strength of the recovery in jobs that tend to employ more young people in particular.

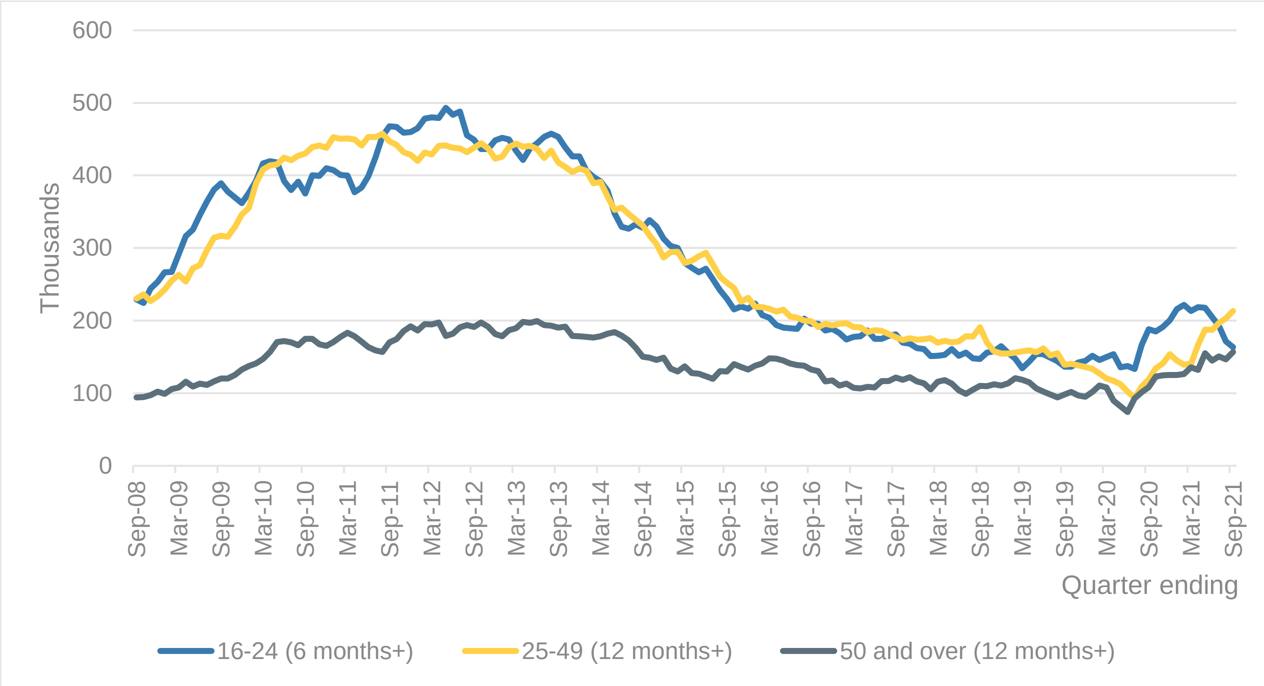
Figure 12: Employment rate 'gaps' for disabled people, ethnic minority groups, those aged 50-64, and young people not in full time education; Jul-Sep 2016 to Jul-Sep 2021



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.

Alongside this, data on long-term unemployment (Figure 13 below) presents a slightly less positive picture than in the last few months. While long-term unemployment for young people (which we define as more than six months) continues to edge down, it is falling more slowly than in recent months. Meanwhile for older age groups (twelve months or more unemployed), long-term unemployment has edged up again – especially for those aged 25-49. (For those aged over 50, it should be noted that the main impact of the crisis has been in far higher economic inactivity rather than higher unemployment.)

Figure 13: Long-term unemployment by age

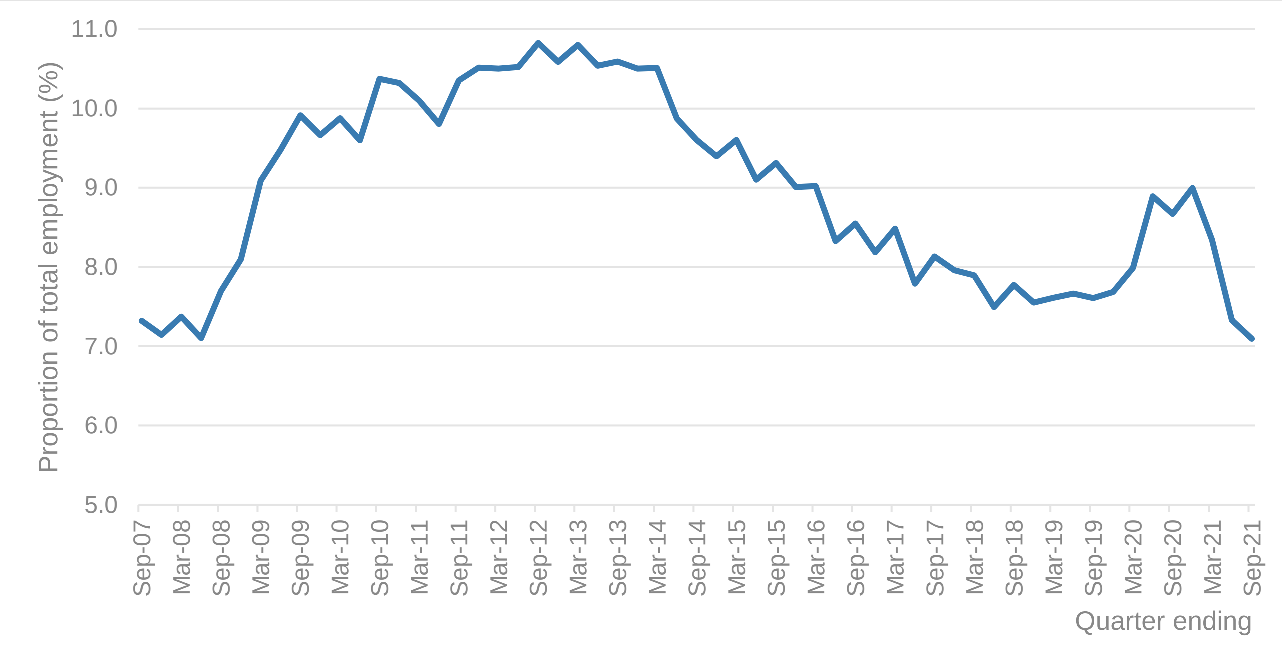


Source: Labour Force Survey. Long-term unemployment is defined as unemployment of more than six months for young people, or more than twelve months for those aged 25 and over.

In better news, under-employment has continued to edge down as the labour market tightens…

In better news, quarterly data on under-employment shows continued falls as the labour market has improved (Figure 14 below). This defines under-employment as those who are in work, working less than 48 hours a week, and who both want and are available for more hours. At 7.1% (excluding those with unknown status) this is now back to pre-pandemic rates. Figures for those in temporary or part-time work because they could not find a permanent or full-time job have also stabilised in recent months, although remain above pre-crisis levels. Interestingly, over-employment has also now risen back to pre-crisis rates, with 10.5% of those in work reporting that they want fewer hours and less pay than currently.

Figure 14: Proportion of those in work who are under-employed (not seasonally adjusted)

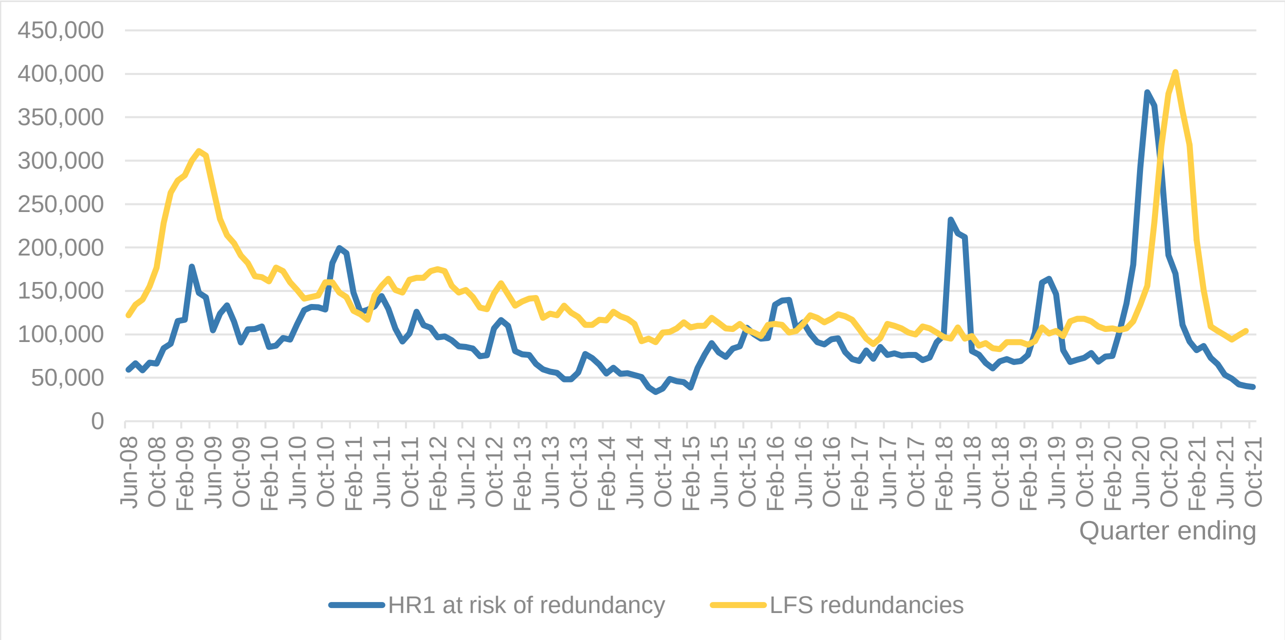


Source: Labour Force Survey

…While on the eve of the end of furlough, redundancies remain very low

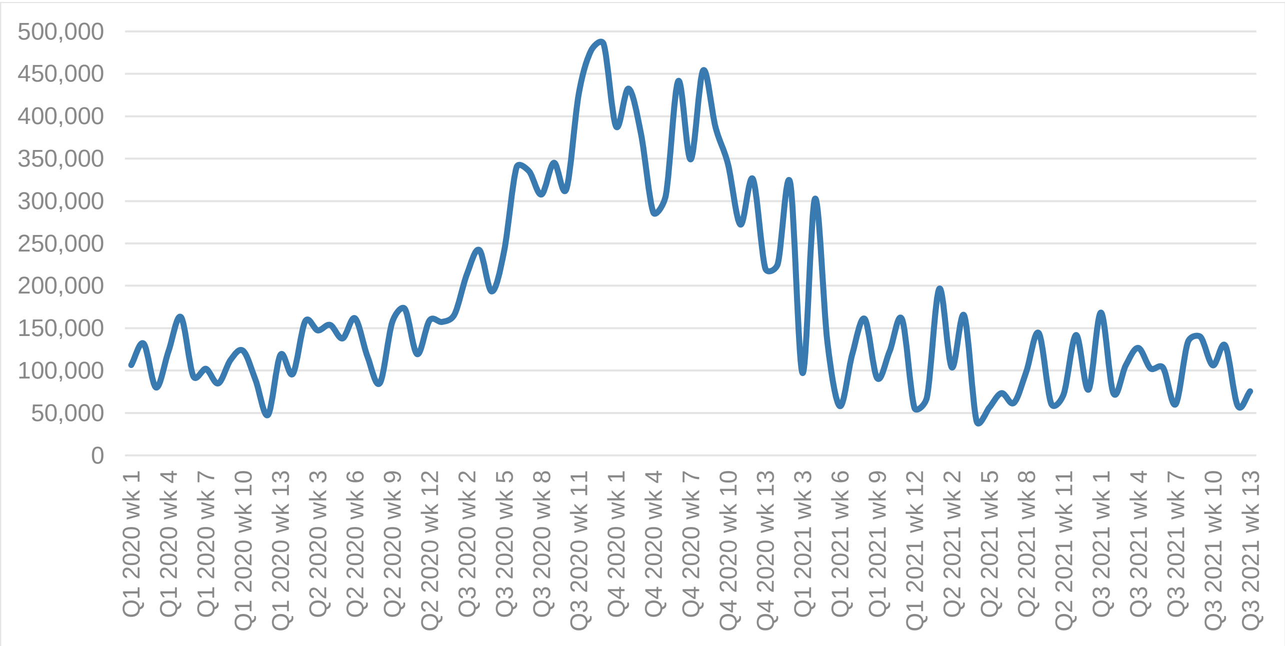
Finally, the latest redundancy data suggests that any impact of the end of the furlough scheme will be small. The quarterly average for the number of people made redundant in the previous three months remains at pre-crisis levels (around 100 thousand) while the number of jobs notified by employers as being at risk of redundancy via HR1 forms sent to the Insolvency Service continue to edge down to levels last seen in 2015 (before rules on reporting redundancies from company insolvencies were tightened up). These are shown in Figure 15 below. The weekly data through to the end of September is presented in Figure 16 and also suggests that there was no noticeable pick-up in redundancies through the month of September, while real-time Google Trends data, which has been a good leading indicator for current redundancies, also suggests little if any impact from the end of furlough.

Figure 15: Quarterly number of employees notified as at risk of redundancy (HR1 forms) and reporting having been made redundant (Labour Force Survey)



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

Figure 16: Whether made redundant in the last three months – weekly estimates, January 2020 to September 2021



Source: Labour Force Survey weekly estimates

Conclusion

So all told, today's figures tell a similar story to recent months but with more of the uncertainty about the impacts of the end of furlough starting to fall away. Unemployment is falling fast towards pre-crisis levels, labour demand continues to rise, and economic inactivity remains stubbornly high.

The quarterly flows data gives us a timely peek at the legs kicking furiously below the water, where flows into work and between jobs are the highest that they have ever been, but are still not doing enough to keep up with demand as some of those out of work drift further away, and more people leave work particularly into economic inactivity. Particularly concerning today is the continuation of a trend in recent months of rising worklessness due to ill health and early retirement, compounded by slightly weaker figures on long-term unemployment and continued very wide employment gaps for disadvantaged groups.

Looking ahead, with the end of furlough unlikely to do much to ease the tightness in the labour market, unemployment just cannot fall much further and so mismatches between demand and supply will continue to hold back growth and drive shortages and higher inflation. And while higher wage inflation may be good news for those in work, particularly if earnings rise faster than prices, it will be terrible news for those out of work coming on top of higher energy costs and large cuts to Universal Credit. It will of course also lead to a faster path of interest rate rises.

The way out of this problem, as has been apparent for some months now, is through supply side measures to increase participation and improve skills matches. The government prioritised the latter at the Budget last month but unfortunately did nothing on the former. We need to see much more focus now on support for those out of work and not looking for work, particularly to support those with long-term health conditions, older people, parents and disadvantaged young people (including through a meaningful jobs guarantee for young people). Firms too will need to (continue to) do more to support retention in work and more inclusive recruitment, including through offering greater flexibility, job security, training and induction, and workplace support with health, caring and wider needs.

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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