ies Briefing

Institute for Employment Studies

Labour Market Statistics, November 2022

15 November 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 September 2022 (the most recent quarter being July to September 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 October 2022, and the Wages and Salaries Survey to September 2022.

In addition, this month sees publication of quarterly data on employment for disabled people, ethnic minority groups and those born outside of the UK, as well as data on labour market 'flows' from the Longitudinal LFS, all of which are also covered below.

Summary

On the face of it today's figures are almost identical to those published last month: employment remains around one percentage point lower than it was before the pandemic; 'economic inactivity' (which describes those either not looking and/ or not available for work) is around one percentage point higher; this is despite more than 1.2 million unfilled vacancies; and while pay has grown strongly, earnings in real terms are falling as high inflation continues to bite.

However, if anything today's data is even more concerning than last month's for four reasons:

- First, economic inactivity due to long-term ill health has risen again and is now above 2.5 million for the first time on record. Our analysis last week for the new Commission on the Future of Employment Support suggests that this is being driven in particular by fewer people *leaving* economic inactivity to work; but also in part by more people becoming economically inactive since the pandemic (including due to 'Long Covid').
- Secondly, employment 'gaps' are widening for disabled people and older people, reversing pre-pandemic trends. For disabled people, employment has fallen by one percentage point in the last year alone while employment of non-disabled people has

risen by around one percentage point. Disabled people are 2½ times more likely to be out of work, and more likely to be in poverty and to be low paid when they do work. Nearly half (44%) of all people out of work are disabled.

- Thirdly, new ‘flows’ data shows that numbers moving into economic inactivity from work remain very high while flows the other way (into work) are not keeping up. At the same time, over a quarter of all unemployed people became economically inactive in the last three months (the highest rate on record, excluding the first lockdown) while the number of economically inactive people moving into unemployment is falling. In short, more people are becoming economically inactive and they are spending longer there.
- And finally, gaps between private and public sector pay are widening – with private sector pay up by 7% in nominal terms while public sector pay is up by just 2%. This is unsustainable and is contributing to labour and skills shortages and falling living standards for public sector workers.

These issues are holding back growth, adding to inflationary pressures and leading to lower living standards for those out of work. They are also not inevitable, as the UK is one of only five developed economies where employment remains lower now than it was before the pandemic.

In our view, taking action on this is long overdue and needs to be a focus of Thursday’s autumn statement. A top priority should be to reinvest the £2 billion in underspends from the Plan for Jobs to help more people back to work, in particular by broadening access to the Restart Scheme and by extending funding for community and local schemes that are closing their doors now as European Social Fund monies run out.

We also believe that there is an opportunity now for longer-term reforms that could support full employment and good work, and are keen to work with others on this through the new Commission on the Future of Employment Support. The Call for Evidence for the Commission is open until 30th January 2023 – please do get in touch if you want to be involved, at www.bit.ly/employment-commission and www.bit.ly/call-for-evidence.

‘As we were’ on employment, unemployment and economic inactivity – with no signs of recovery yet

The headline figures for employment, unemployment and economic inactivity are broadly unchanged on those published last month, as Figure 1 below shows. The employment rate is 75.5%, one percentage below where it was before the pandemic but roughly one point higher than in the depths of the crisis. However unemployment is again at pretty much its lowest since the early 1970s (3.6%) so lower employment continues to be explained by more people outside of the labour force altogether (with economic inactivity at 21.6%).

Figure 1 shows the quarterly estimates in blue but also the single month estimates in yellow, which combine to form the quarterly average. We flagged in last month’s briefing that the single month estimates for August were notably strong (with employment above 76% and economic inactivity close to 21%) and that this could mean that we start to see improvements this month in the headline rates. Unfortunately though, the September estimates published today have reversed the gains last month (with in fact the lowest employment estimate in nearly year). Overall, there continues to be little or no sign of improvement.

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

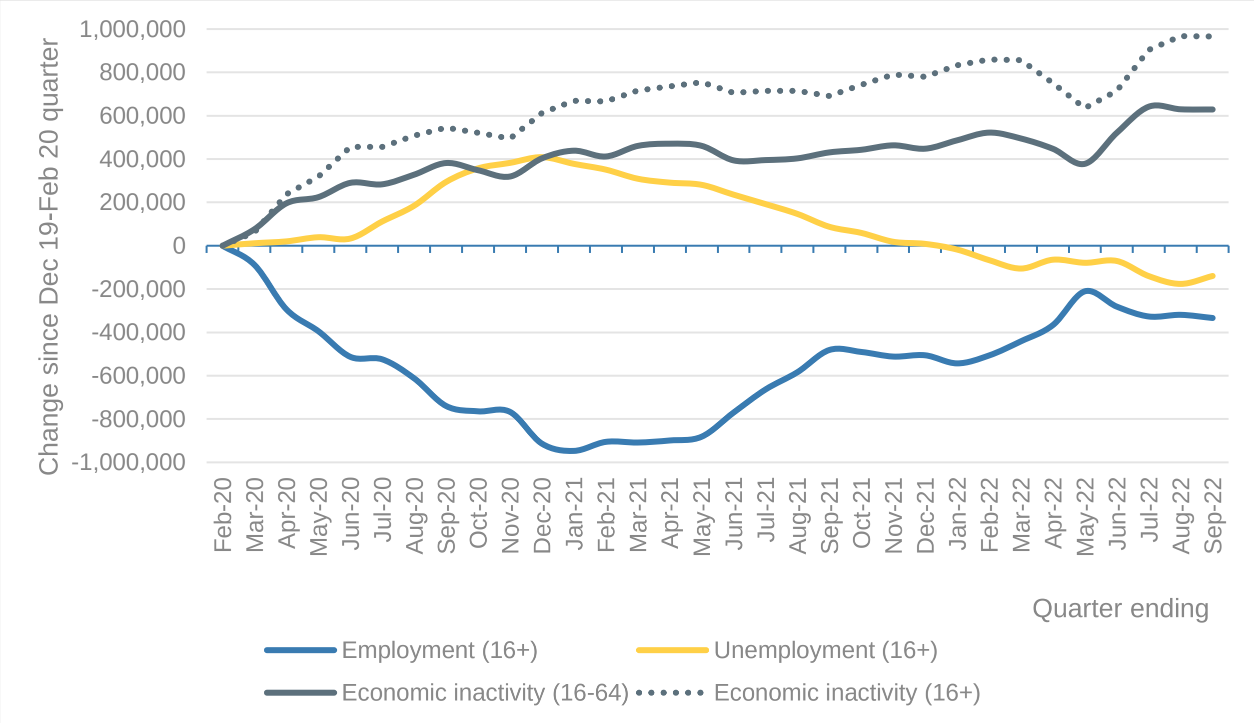
Source: Labour Force Survey

This story of a broadly flat or stagnant labour market is also reflected in changes in *levels* of employment, unemployment and economic inactivity. Figure 2 below sets these out, showing changes compared with immediately before the pandemic. Employment is 330 thousand lower and unemployment 140 thousand lower than pre-pandemic, meaning the labour force overall is smaller by nearly half a million (470 thousand). Meanwhile economic inactivity among those aged 16-64 is up by 630 thousand, while if we include the growth in those aged 65 and over who are not in work this figure rises to 970 thousand.

These falls in employment are particularly stark because they have come off the back of three decades of near-continuous growth in the size of the labour force – meaning that there are now more than a million fewer people either in work or looking for work than would have been the case had the pre-pandemic trend continued.

We are also increasingly unusual internationally in seeing these trends, with last week's [launch report] for our [Commission on the Future Employment Support] showing that the UK is one of only five developed economies (excluding Latin America) where employment is still lower than it was 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

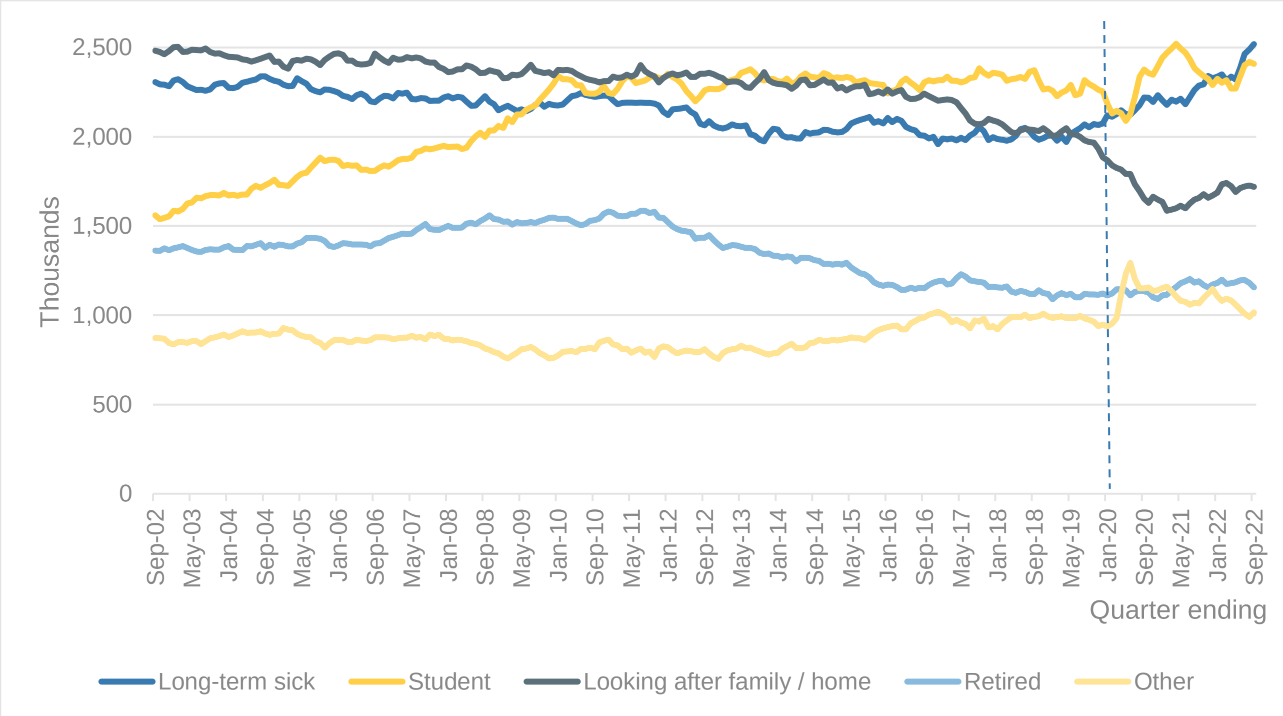
Economic inactivity due to long-term ill health is now above 2.5 million for the first time on record

Higher economic inactivity continues to be driven by increases in the number of people off work due to long-term ill health. As Figure 3 below shows, this is now above 2.5 million for the first time on record (the blue line) and is up by over 130 thousand in the last three months alone.

Our analysis published last week to accompany the launch of the new Commission on the Future of Employment Support suggests that this growth is being driven in particular by fewer people *returning to work* who have long-term health conditions, with the number of people out of work due to long-term ill health who last worked at least three years ago up by more than 200 thousand since the pandemic. However, we also find an increase in those who left work 2-3 years ago due to ill health, with Long Covid almost certainly playing a part in this (and in particular in a growth of 30 thousand in the number who last worked 2-3 years ago and state that they are off work due to temporary illness). Either way, there is growing evidence that we need to do far more to improve access to the right health treatment and employment support for those who are off work due to ill health.

Figure 3 also shows the change in the other main reasons for economic inactivity (it excludes short-term illness and people who have been discouraged from working, which combined account for fewer than 200 thousand people) and illustrates that this is also being driven by an increase in the number of non-working students and more recently by rises in the number of people out of work mainly due to early retirement or to look after their family or home. As we noted last month, the growth in those looking after family and home is particularly worrying, as it is reversing a thirty-year trend of rising participation among parents and particularly lone parents. This may suggest that more people (particularly women) are finding it harder to combine work and caring, likely combined with rising costs and less availability of childcare and transport.

Figure 3: Levels of economic inactivity for the five main reasons given, 2002-present



Source: Labour Force Survey

As with previous months, older people continue to account for most (70%) of the total rise in economic inactivity, although it has risen by around 200 thousand for young people and by 80 thousand for those aged 25-49. Previous monthly briefings set these trends out in more detail.

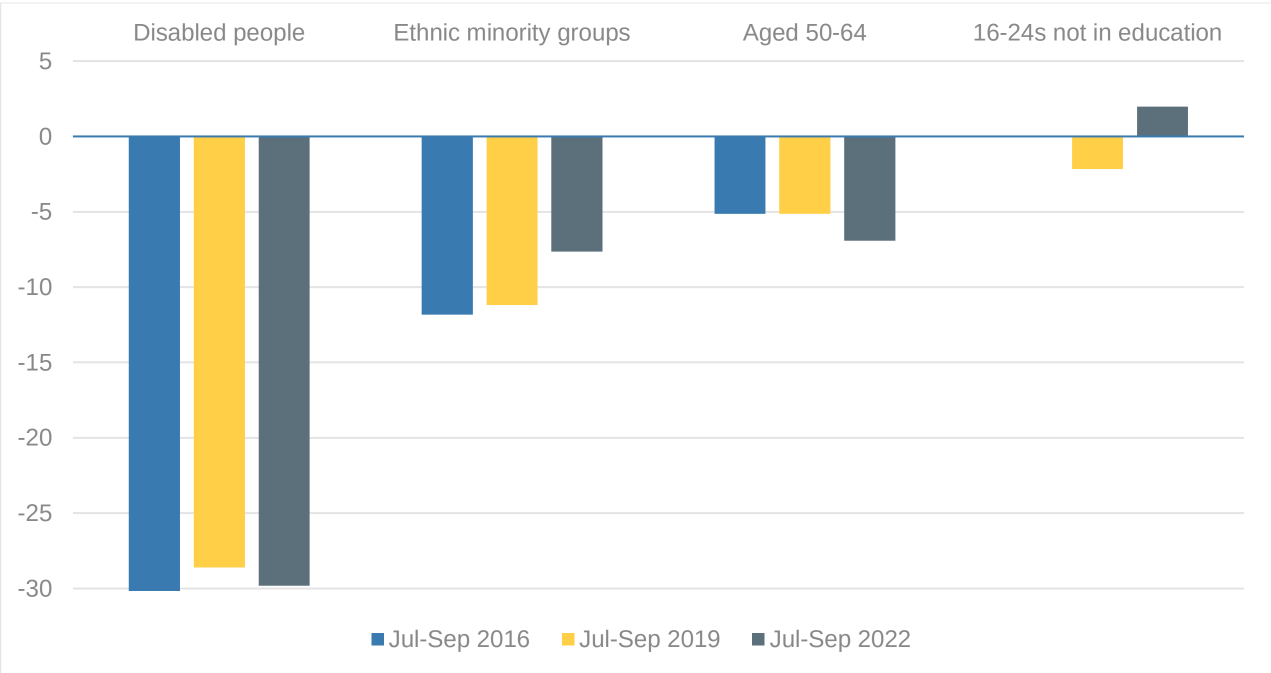
Employment ‘gaps’ are widening for disabled people and older people

Today 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 4Figure 4 below, alongside gaps for people aged over 50 and for young people outside full-time education (who have historically also faced disadvantages in the labour market). This shows data for the most recent quarter, three years ago (i.e. the same quarter before the pandemic) and six years ago.

Worryingly, this shows that employment gaps both for disabled people and for older people are now widening. For disabled people in particular – which is defined as those who report having a health condition or disability that has lasted for a year or more and limits their day-to-day activities – employment has fallen by one percentage point over the last year while employment for non-disabled people has risen by nearly one percentage point. As a result, the employment gap has risen by nearly two points in just a year. This gap is widening after years of improvement (albeit slow) and means that disabled people are now more than two-and-a-half times more likely to be out of work than non-disabled people. Overall, 44% of all of those out of work are disabled (while around 23% of the population report having a disability).

Employment gaps for older people are also widening significantly, after a long-running improving trend (which had slowed somewhat in the years leading up to the pandemic). On both employment of disabled people and older people it is also worth noting that the UK performs relatively poorly compared with other European nations. As the evidence paper published for last week's Commission launch set out, if we could close just half of the gap to the best performing nations in the world on these two measures, employment would be around a million higher (and the employment rate above 80%).

Figure 4: Employment rate 'gaps' for disabled people, ethnic minority groups, those aged 50-64, and young people not in full time education; Jul-Sep 2016, 2019 and 2022



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.

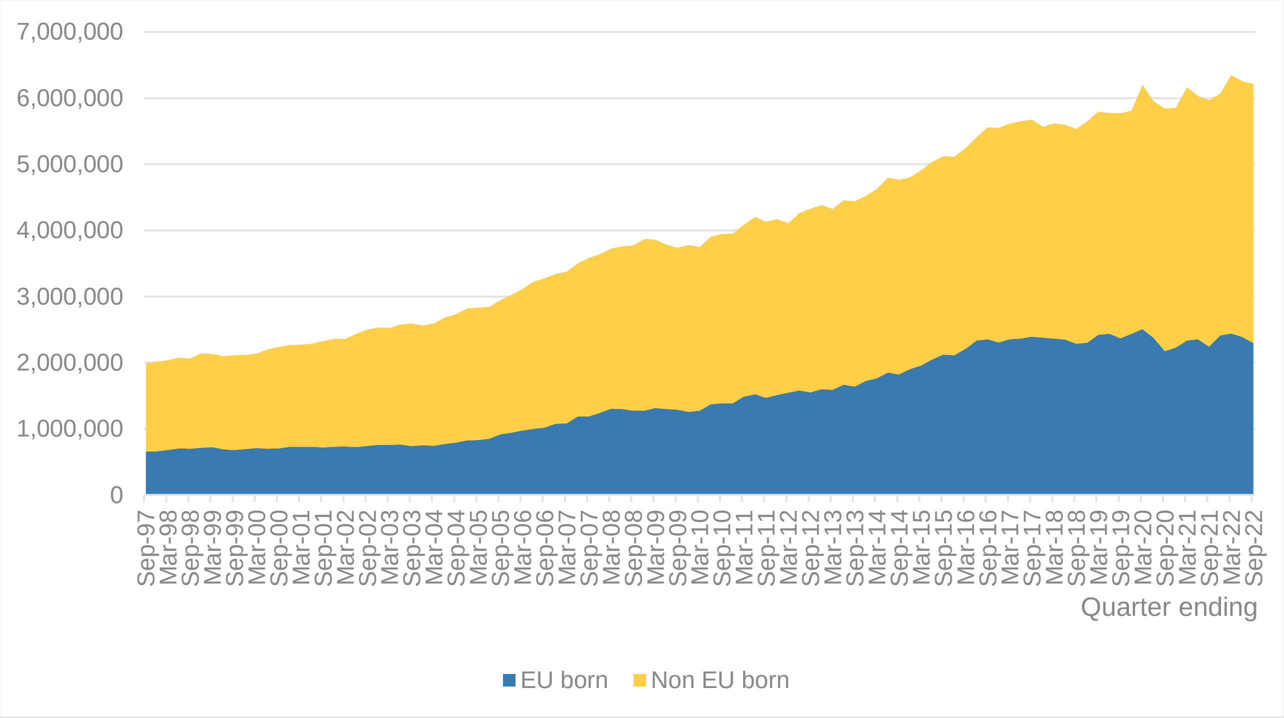
The above graph also shows however that employment has improved for ethnic minority groups overall, and for young people outside of full-time education. Looking in more detail, employment has grown compared with three years ago for nearly all ethnic minority groups while it is down by around one percentage point for white people. This improvement for ethnic minority groups is if anything accelerating the trend over recent years. For young people outside of education, the employment rate is now higher than it is for the wider population – which perhaps is not surprising given the tight labour market and availability of jobs.

Growth in workers born overseas has slowed since 2016 but remains positive

Quarterly data is also published today on employment by country of birth, which shows that lower migration is also playing a part in the weaker growth in the overall labour force compared with pre-pandemic trends. There is more analysis of these trends in last week's evidence paper, which set out that the trend appeared to change in 2016 (i.e. after the EU referendum) with growth in employment from non-UK born workers running at 220 thousand a year on average over the decade before 2016 and by 140 thousand a year in the six years since.

The trends for EU and non-EU born workers are shown below. On the most recent data, employment of people born in the EU has now dipped back below where it was in spring 2016 at just below 2.3 million. Employment of those born outside the EU has continued to grow however, to around 3.9 million (up by around 180 thousand in the last year).

Figure 5: Number of people employed who were born outside of the UK

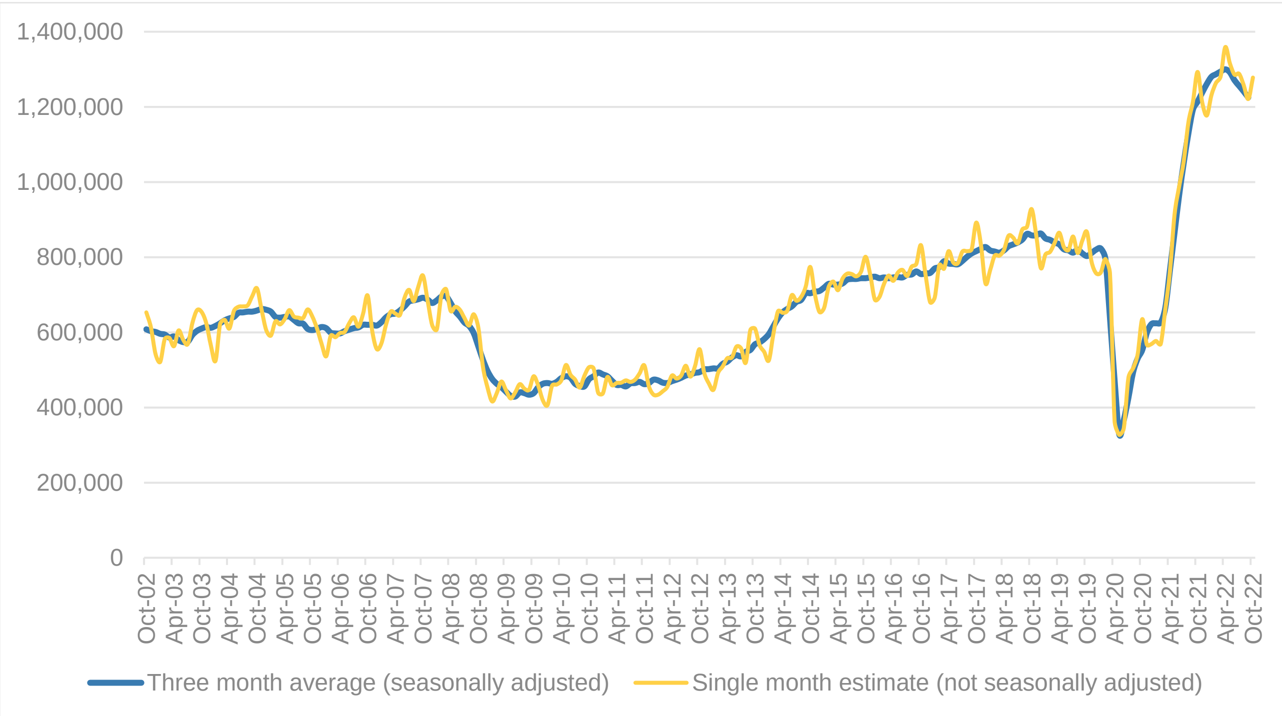


Source: Labour Force Survey

Vacancies remain very high, but appear to have peaked and started to fall back in the private sector

Much like the wider story on the labour market, the picture on vacancies is largely unchanged on recent months. They remain exceptionally high at over 1.2 million, which is still 50% higher than pre-pandemic (then-record) levels. There are still more vacancies than there are unemployed people. Figure 6 below shows that vacancies do appear to have peaked, although they are not significantly falling back – indeed the single-month estimate in yellow suggests that vacancies increased in October (although these monthly figures are not seasonally adjusted, and October tends to be strong due to Christmas recruitment).

Figure 6: Vacancies – quarterly and single-month estimates

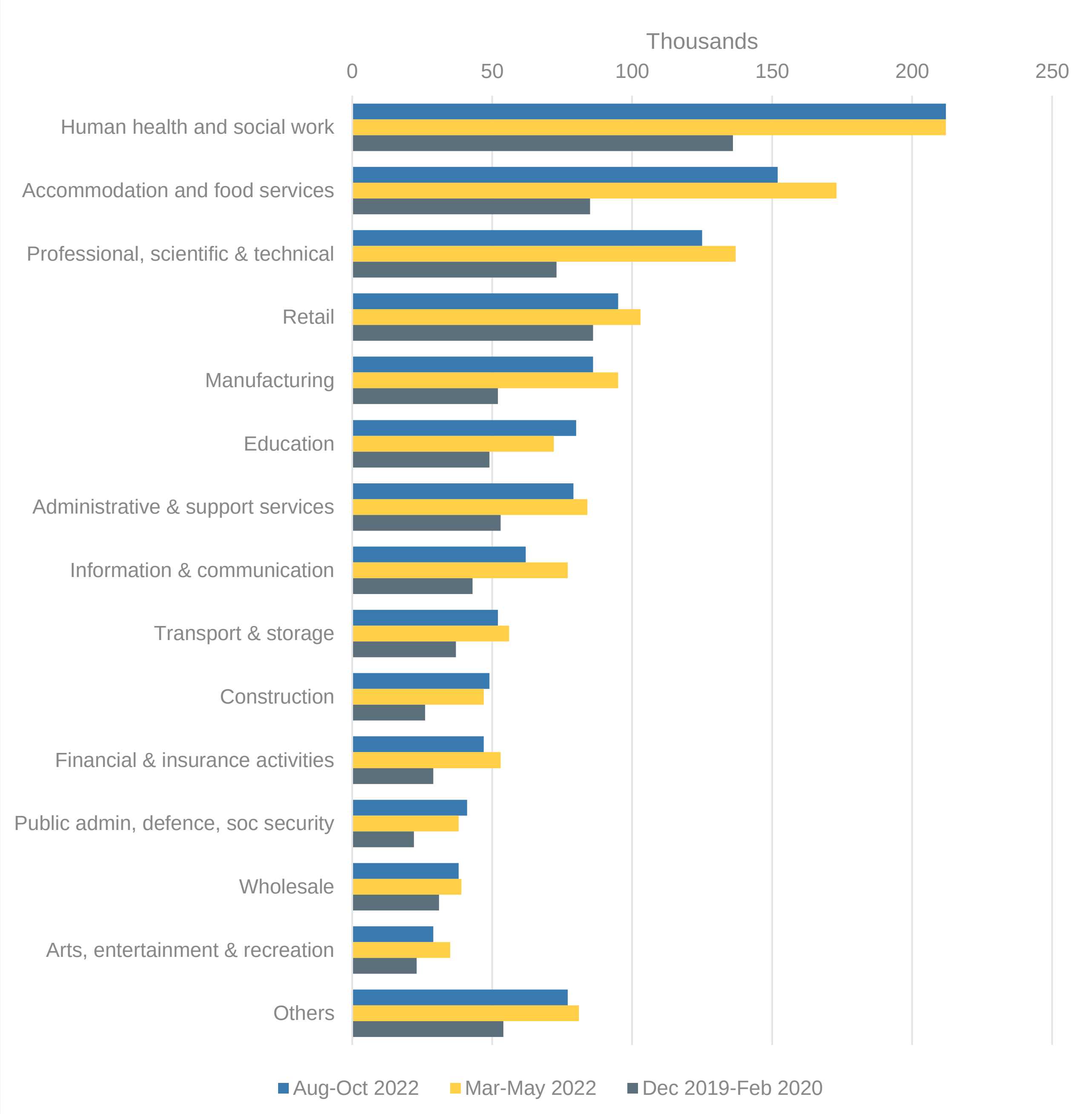


Source: ONS Vacancy Survey

Figure 7 below then shows vacancies by industry. This chart previously showed the most recent data, the previous quarter and pre-pandemic, but we have updated it this month to compare with the post-pandemic peak (which was in March-May 2022) rather than the previous quarter, as it does appear that vacancies have now peaked.

This shows then that compared with the peak (in yellow), vacancies are mainly falling in the private sector and particularly in information and communication (down by around a fifth – maybe reflecting the wider slowdown in tech jobs) and in accommodation and food services (i.e. hospitality – down by around an eighth). However, they are continuing to grow in public administration and education and are flat in health and social care, likely reflecting continued labour and skills shortages in public services (linked to the dire growth in public sector pay covered in the section below). Vacancies are also still rising in construction. Across all industries though, vacancies remain above pre-pandemic levels (shown in black) and there is little sign of vacancies falling back to pre-pandemic levels.

Figure 7: Vacancies by industry, pre-pandemic, post-pandemic peak (Mar-May 2022) and most recent quarter (Aug-Oct 2022)

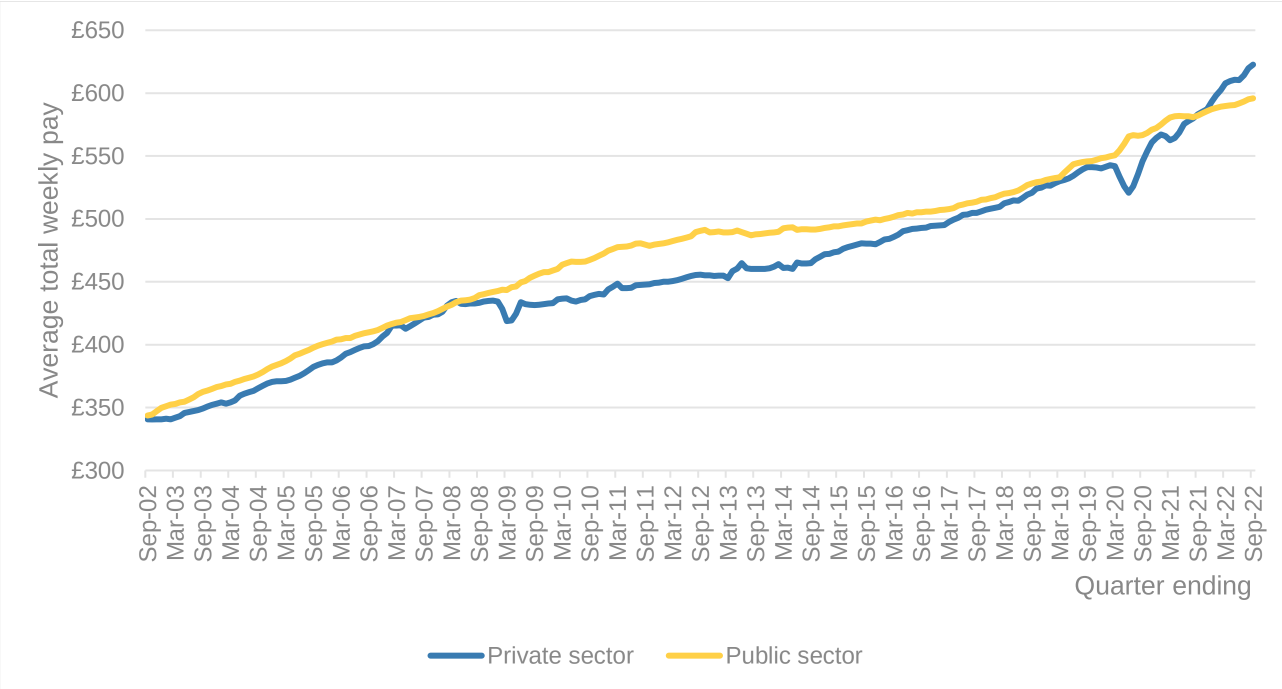


Source: ONS Vacancy Survey

Private sector pay growth has reached 7% – but in the public sector it's just 2%

Today's pay data continues the trend that we have seen through 2022 of very strong growth in private sector nominal pay (i.e. not accounting for inflation) and incredibly weak growth in the public sector. Private sector pay rose by 7.0% between September 2021 and September 2022 (both regular pay and total pay including bonuses) while public sector pay was up by around 2% (1.9% for regular pay and 2.1% for total pay). This means that average pay in the private sector has now not only overtaken the public sector for the first time on record, but is now nearly £30 a week higher (Figure 8 below).

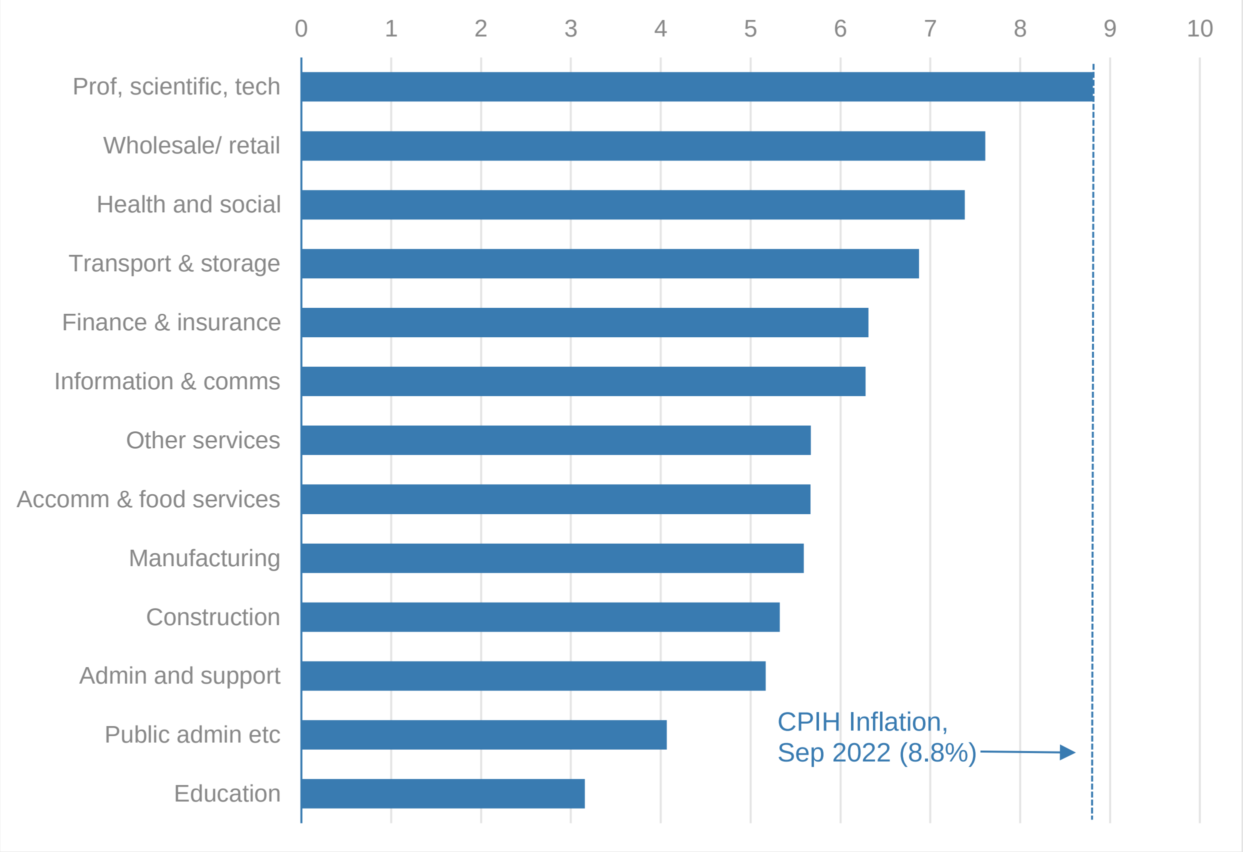
Figure 8: Average total weekly pay in the private and public sectors



Source: ONS Monthly Wages and Salaries Survey. Figures show total weekly pay including bonuses, in nominal cash terms (not accounting for inflation).

Figure 9 below shows pay growth by detailed industry, taking the average year-on-year pay growth over the last three months. This shows that pay growth is above 6% in a range of private sector services and is close to 9% in professional jobs (a category that includes accountancy, engineering, consultancy and other professions). In public administration and in education, however, pay growth is at or below 4% year on year. Note that the figures for health and social care are relatively high at 7.4%, which appears to be due to an unusually large increase in the estimate of weekly earnings for September 2022 (up by £41 a week, or 8%, compared with the figure reported for August).

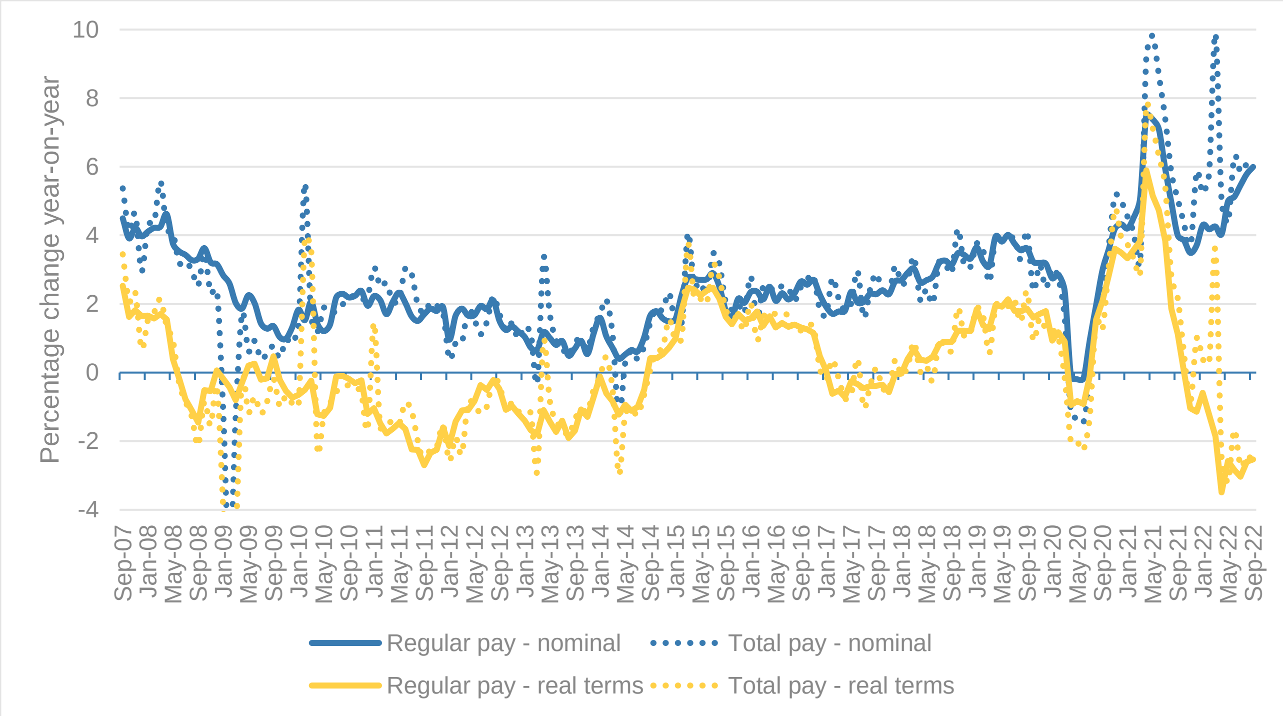
Figure 9: Year-on-year change in total pay by industry, nominal terms



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 July-September 2022 (not seasonally adjusted).

More broadly, strong pay growth in the private sector is almost certainly reflecting continued labour and skills shortages as firms try both to retain staff and fill vacancies, while weak pay growth in the public sector is likely making their recruitment and retention problems worse. It is also likely that some of these private sector pay increases are feeding through into higher prices, although clearly this will be making a smaller contribution to inflation than energy prices. Either way though, inflation is continuing to rise faster than pay across the economy, which means that pay in real terms continues to fall. As Figure 10 below shows, real pay (in yellow) is 2.6% lower than a year ago and has now fallen for the last eleven months in a row.

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



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

Flows into unemployment are their lowest ever – but flows into and out of economic inactivity are worrying

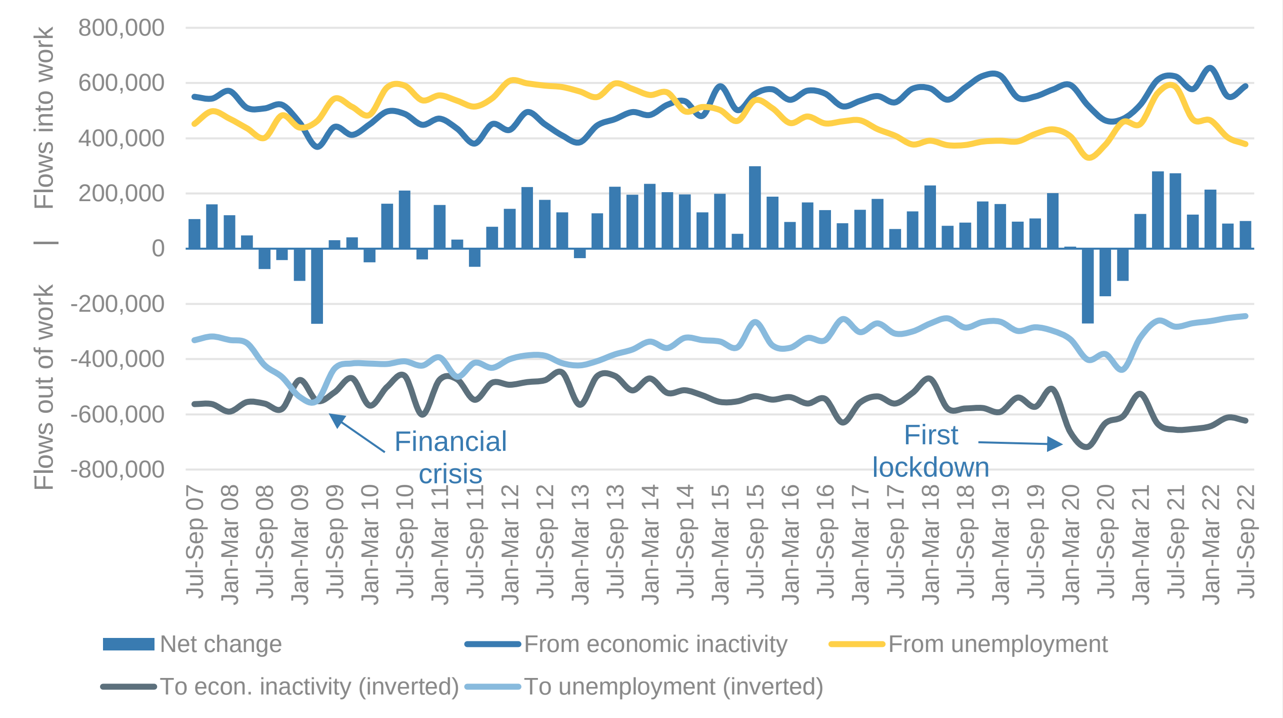
Finally, today also sees new quarterly data on the ‘flows’ of people between employment, unemployment and economic inactivity. These show that very few people are now moving into and out of unemployment, but flows into economic inactivity are high while flows from economic inactivity are relatively low. At the same time, job-to-job moves remain very high by historic standards which will be contributing to vacancies and recruitment problems.

First, Figure 11 shows the extent to which the overall quarterly change in employment (the blue bars) is explained by flows into work *from* unemployment and economic inactivity (the two positive lines above the bars) or by flows out of work *to* unemployment and inactivity (which are inverted, as negative lines below the bars). Note that these are figures for people aged 16-64 only, so still show slight growth in employment overall in recent quarters.

Most strikingly, this shows that flows out of work to unemployment (the light blue line) are the lowest that they have ever been, at just under 250 thousand. Flows to economic inactivity however remain above pre-pandemic levels at around 620 thousand in the last quarter (black line). In the top half of the graph, flows from economic inactivity and into work are below 600 thousand (the blue line) which is broadly in line with the pre-pandemic trend. So overall more people are leaving work to economic inactivity and not enough people are coming back.

Flows from unemployment to work are also falling and are now below 400 thousand. This largely reflects the fact that unemployment itself is so low, as the proportion of unemployed people returning to work each quarter remains high by historic standards at around 30%.

Figure 11: Flows into work from unemployment and economic inactivity, and flows out of work (inverted) to unemployment and economic inactivity – with net overall change

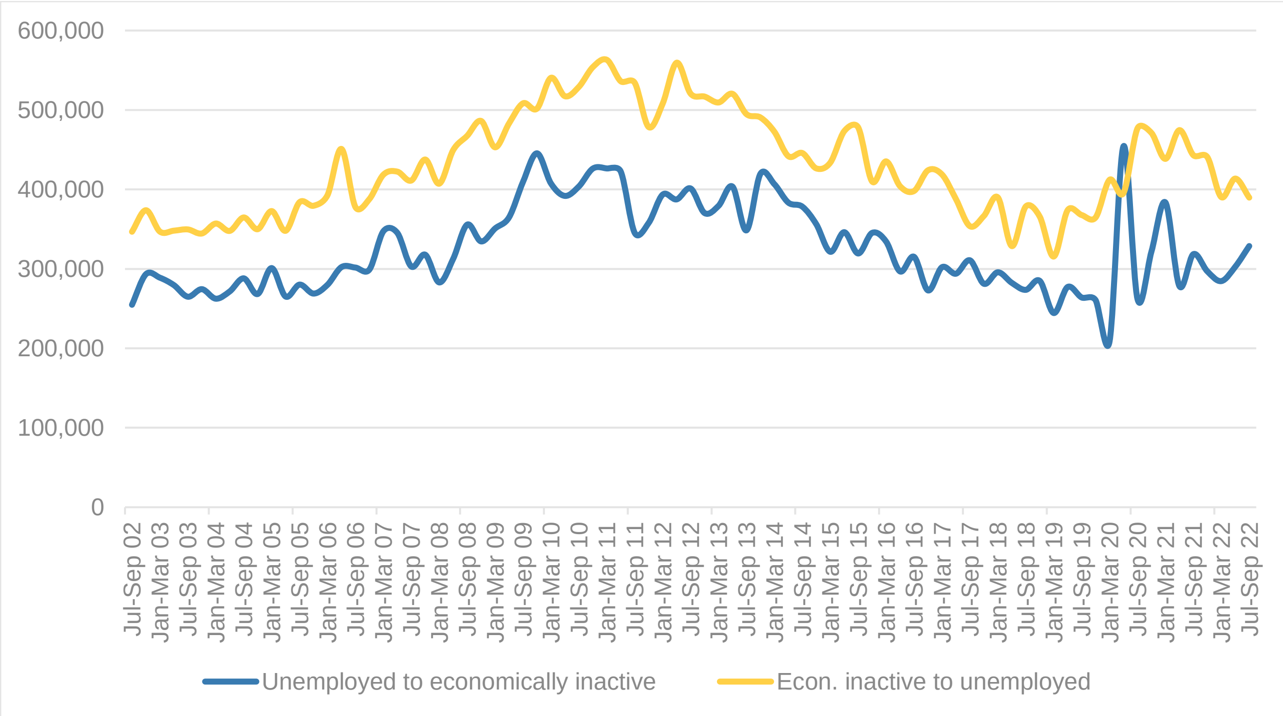


Source: Longitudinal Labour Force Survey. Note that estimates of job-to-job moves are for those aged 16-69, while estimates of job entries and exits are for those aged 16-64.

People also move between economic inactivity and unemployment, and looking in more detail at this data also gives two major causes for concern (Figure 12 below):

- First, flows from economic inactivity to unemployment are falling back and are now below 400 thousand a quarter. This is even though: economic inactivity has risen by nearly 600 thousand overall, flows into economic inactivity remain elevated, and flows from economic inactivity into work are not particularly high. In other words, this appears to back up earlier analysis that durations of economic inactivity are increasing.
- Second, flows from unemployment to economic inactivity have ticked up in the last few quarters, despite unemployment being very low. In all, 26% of the unemployed became economically inactive in the last quarter, which is the largest proportionate flow into economic inactivity in the twenty years that this data has been published (excluding the first lockdown, when one third of the unemployed stopped looking for work).

Figure 12: Number of people moving from unemployment to economic inactivity and from economic inactivity to unemployment by quarter

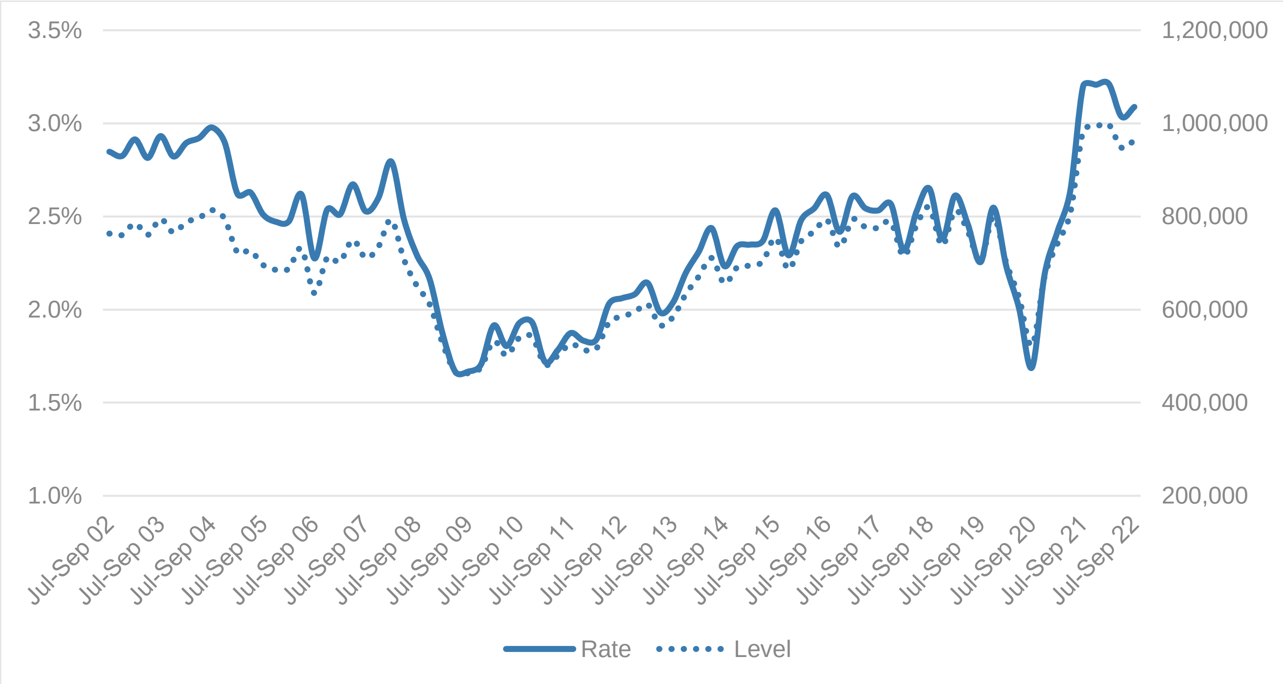


Source: Longitudinal Labour Force Survey.

While flows into and out of work have been fairly subdued (at least compared with what we might have expected), job-to-job changes remain very high by historic standards and again reflects the tight labour market and rising nominal pay. This is illustrated in Figure 13 below. Overall, 960 thousand people changed jobs between July and September 2022, or 3.1% of the workforce. Both of these figures are well above pre-pandemic levels and rates, and higher even than the early 2000s.

Job-to-job moves generally lead to pay growth and progression, so this is broadly positive news overall (and nearly two thirds of the growth since 2019 is explained by moves into higher skilled jobs). However, the flip side of this is that high rates of churn in the labour market are likely contributing to higher vacancies in the economy.

Figure 13: Job-to-job moves by quarter – rate (proportion of all of those in work) and level



Source: Longitudinal Labour Force Survey. Estimates are for those aged 16-69.

Conclusion

On the face of it, today's figures are very similar to recent months and if anything bring into even sharper relief some of the issues that we are now facing around long-term worklessness and labour shortages. Alongside other research in recent weeks and months, they also reiterate the pressing need to do far more to help people who are out of work to access the support that they need, and to help employers to fill their jobs. Failing to do this will continue to hold back economic growth, add to inflationary risks and lead to lower living standards overall.

However the government's Autumn Statement on 17 November gives us (yet another) chance to do something about this. Our view continues to be that the immediate priority should be to stop cutting funding for employment support. There is around £2 billion underspent on Plan for Jobs measures that were announced during the pandemic, and it is a false economy not to use this money to enable more people who are out of work to access the help that they need to get (back) in.

This could include extending access to the Restart Scheme for people who want to work, have been out of work for more than a year and who either have a long-term health condition or are over-50 (whether on any benefit or none); as well as providing more funding to the many community-based and local employment schemes that are now closing down because of the gap between the end of the European Social Fund and the start of the Shared Prosperity Fund that replaces it. We can also continue to do more to extend access to employment support through health and local services, building on recent measures like the expansion of employment advice in talking therapies.

Employers can do far more too, and be supported to do more – on working with local partners, inclusive recruitment, making work more flexible and secure, induction and training, and workplace support.

Finally, as we set out in the launch for our Commission on the Future of Employment Support last week, we believe that there is a real opportunity over the coming year or so to develop evidence-led proposals for longer-term reform that can help us to address the challenges that we're facing now and meet the opportunities that the future will bring. The Call for Evidence for the Commission is open until 30th January 2023 – please do get in touch if you want to be involved, at www.bit.ly/employment-commission and www.bit.ly/call-for-evidence.

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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