ies Briefing
Institute for Employment Studies

Labour Market Statistics, November 2023

14 November 2023

This briefing note sets out analysis of the Labour Market Statistics published this morning. The briefing mainly covers data from **ONS Vacancy Survey** and the **Monthly Wages and Salaries Survey**, which are both business surveys collecting data on unfilled vacancies and weekly pay respectively. The Vacancy Survey includes data up to October 2023, and the Wages and Salaries Survey to September 2023.

As with last month, there is no **Labour Force Survey (LFS)** data published today as this has been withdrawn by the ONS due to concerns around its reliability. The ONS is currently making methodological improvements and intends to publish LFS data again from next month. In the meantime, the ONS is publishing 'experimental' estimates derived from **HMRC Pay As You Earn data** and the **Claimant Count**, and these are included in Figure 1 below. We also include some additional analysis of the PAYE data at the end of this briefing.

Summary

Today's figures look suspiciously like those published last month – with the new 'experimental' estimates of employment, unemployment and economic inactivity (the measure of those not looking and/ or not available for work) all exactly the same as those published last month. The PAYE estimates of payrolled employees and the estimates for wage growth are also almost unchanged. The overall impression, then, is of a labour market that is treading water in an economy that isn't growing either.

Of course things are not exactly the same as last month, and a closer reading has some broadly positive and also negative signs. Most positively, nominal wage growth remains very high – still running at above 7% year-on-year, and growing strongly for both public and private sector employers. Inflation has not fallen as much as we might like, but it has fallen enough to leave pay growth in real terms slightly positive, up by just over 1% on last year. However it does also look like pay growth has now peaked and will likely start to fall, and even with recent improvements in real pay we are earning barely any more than we did back in 2008.

Vacancy data also presents a mixed picture, with vacancies continuing to fall back but remaining well above pre-pandemic levels. Our view is that recent falls are likely more reflective of the labour market starting to function a bit more normally – fewer people moving jobs, fewer leaving the labour market, more competition for vacancies – than of a general slowdown in demand, although there are definitely some signs of things slowing down too. These signs are perhaps most pronounced in the PAYE data on employees by age and industry, which point to recent falls in the number of young people in work, and in employment in hospitality and construction – all of which tend to be warning signs that demand is weakening.

Looking ahead to next week's Autumn Statement then, there is enough in today's data – and in previous releases which included findings from the Labour Force Survey – to suggest that we should be doing more to boost labour and skills supply, which in turn could help meet shortages, support economic growth, raise living standards and control inflation. We set out at the end of the briefing the need for action in three areas next week, to:

- Help more people to get into work, particularly by widening access to employment support;
- Reform skills support to allow for more co-investment in flexible, demand-responsive training; and
- Work better with employers – to improve access to advice and support around recruitment, workplace practice and employee support, and to expect more from employers in return.

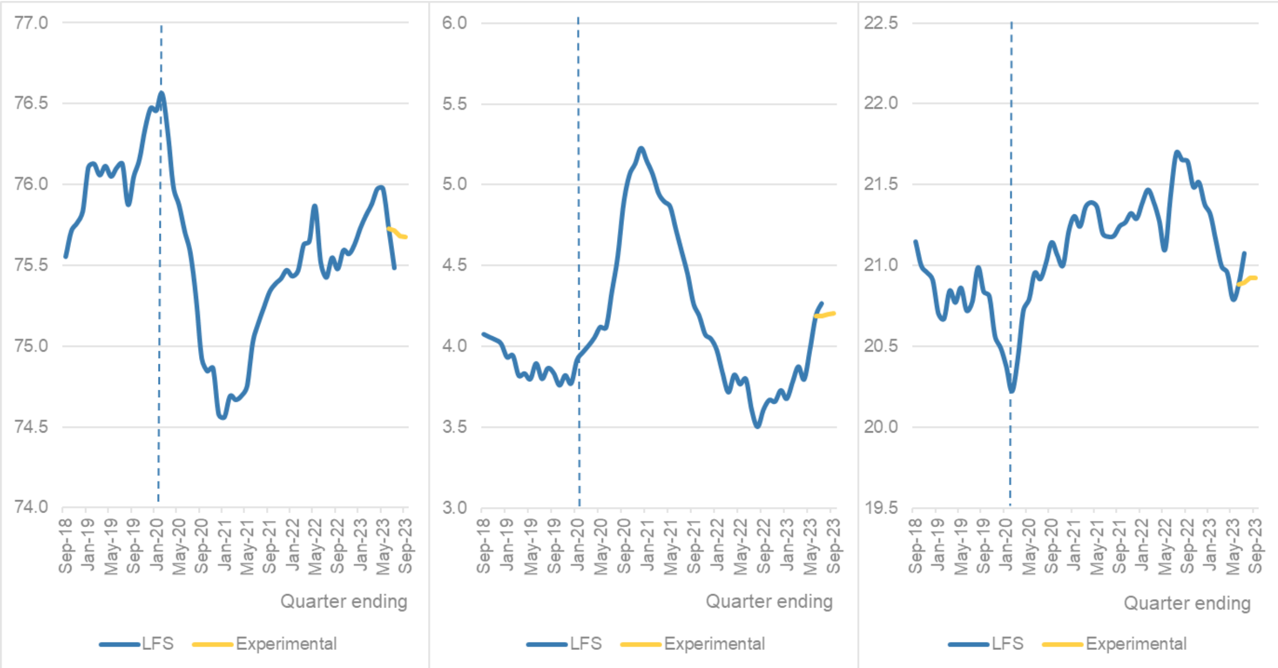
Nothing to see here: employment, unemployment and economic inactivity all unchanged

With Labour Force Survey data temporarily unavailable, the ONS have again led with new 'experimental' estimates of employment, unemployment and economic inactivity. These extrapolate from the April-June LFS figures based on trends in HMRC Pay As You Earn data for employee numbers, and trends in the 'Claimant Count' which measures those on benefit and required to look for work. Across all three indicators though, experimental estimates this month are unchanged from last month and the month before – with employment at 75.7%, unemployment 4.2% and economic inactivity 20.9%.

Figure 1 below shows the LFS estimates (up to the May-July 2023 quarter) and the new experimental estimates (which overlap from the May-July quarter onwards). This shows that economic inactivity is down fairly significantly over the last year – falling by 0.7 percentage points since July-September 2022 – but that this has mainly translated into higher unemployment (which is up by 0.6 points) rather than higher employment (up by 0.2 points). So more of those who are out of work are now looking for work, but appear to be finding it harder to get it.

More broadly, the graphs also show that employment in the UK remains well below where it was on the eve of the pandemic, with this mainly explained by more people outside of the labour force entirely. Previous briefings have explored these trends in more detail, but it is worth reiterating that this simply is not happening in other countries – with the UK the only economy in the G7 to have seen employment fall since 2019.

Figure 1: Employment, unemployment and economic inactivity rates

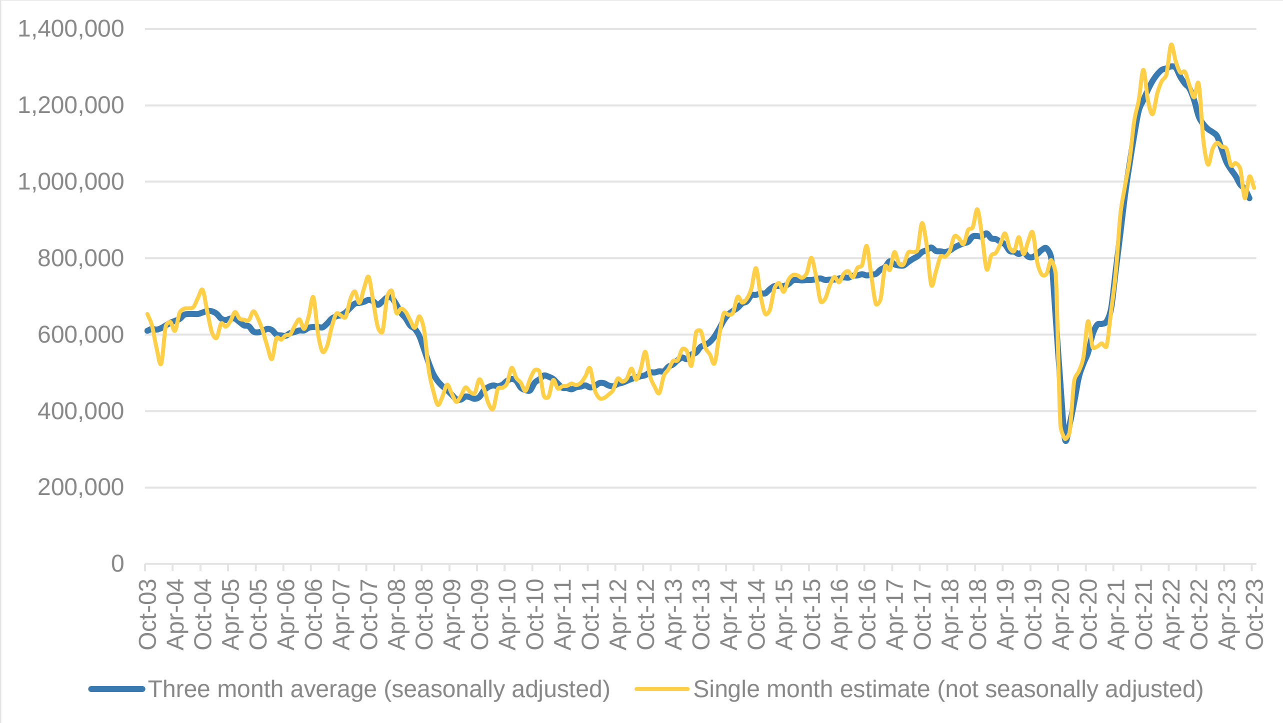


Source: Labour Force Survey (solid line) and ONS experimental estimates from May-Jul 2023 (dotted line)

Further falls in vacancies suggest the labour market is cooling, but it still remains tighter than pre-pandemic

While the headline employment figures suggest things are broadly unchanged in recent months, the latest estimates for vacancies suggest that the labour market is continuing to cool – with vacancies falling for the seventeenth month in a row, down by 60 thousand on the most recent quarter and by 260 thousand (or one fifth) over the last year. This is shown in Figure 2 below, which also includes the latest single-month estimates (in yellow).

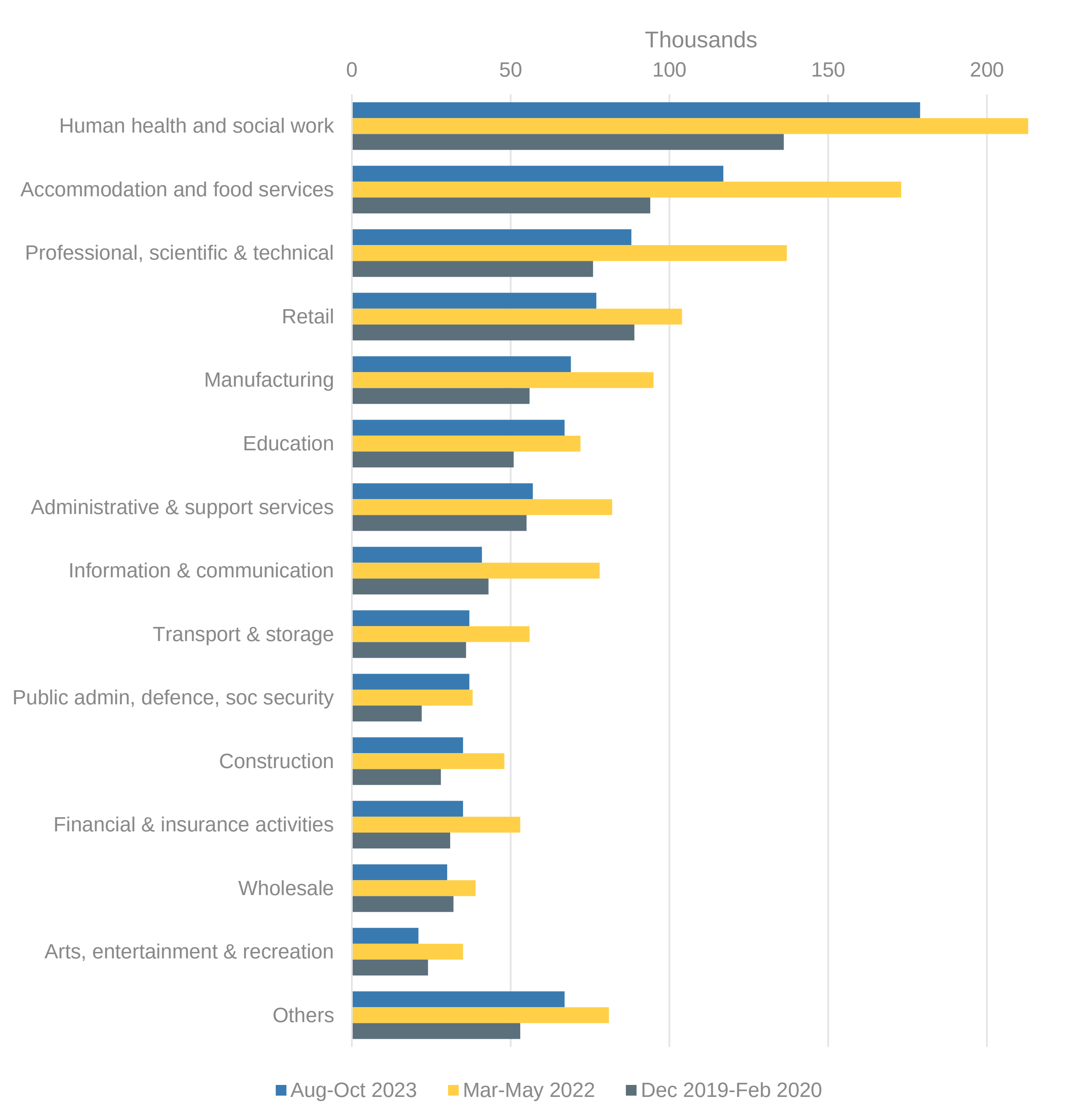
Figure 2: Vacancies – quarterly and single-month estimates



Source: ONS Vacancy Survey

As discussed in previous briefings, lower vacancies are likely more reflective of the labour market getting back towards more 'normal' conditions than we saw in the aftermath of the pandemic: with fewer people changing jobs now, more people searching for work and a bit more competition for jobs overall. However, given the general weakness of wider economic data, it does also likely reflect a slight softening of demand in some parts of the economy and in particular in consumer spending. Figure 3 below, showing vacancies by industry, illustrates this – with vacancies now lower than they were before the pandemic in retail, wholesale, the arts and recreation/ entertainment. Vacancies in hospitality remain high (the 'accommodation and food services' line) but have been falling consistently over the last eighteen months – likely reflecting both weaker demand but also continued shortages in supply. As noted in previous months, vacancies remain strongest in public services – health, education, public administration – reflecting both continued strong demand, skills and labour shortages, and increased competition from private sector jobs (where pay growth has been much stronger).

Figure 3: Vacancies by industry, pre-pandemic, post-pandemic peak (Mar-May 2022) and most recent quarter (Aug-Oct 2023)

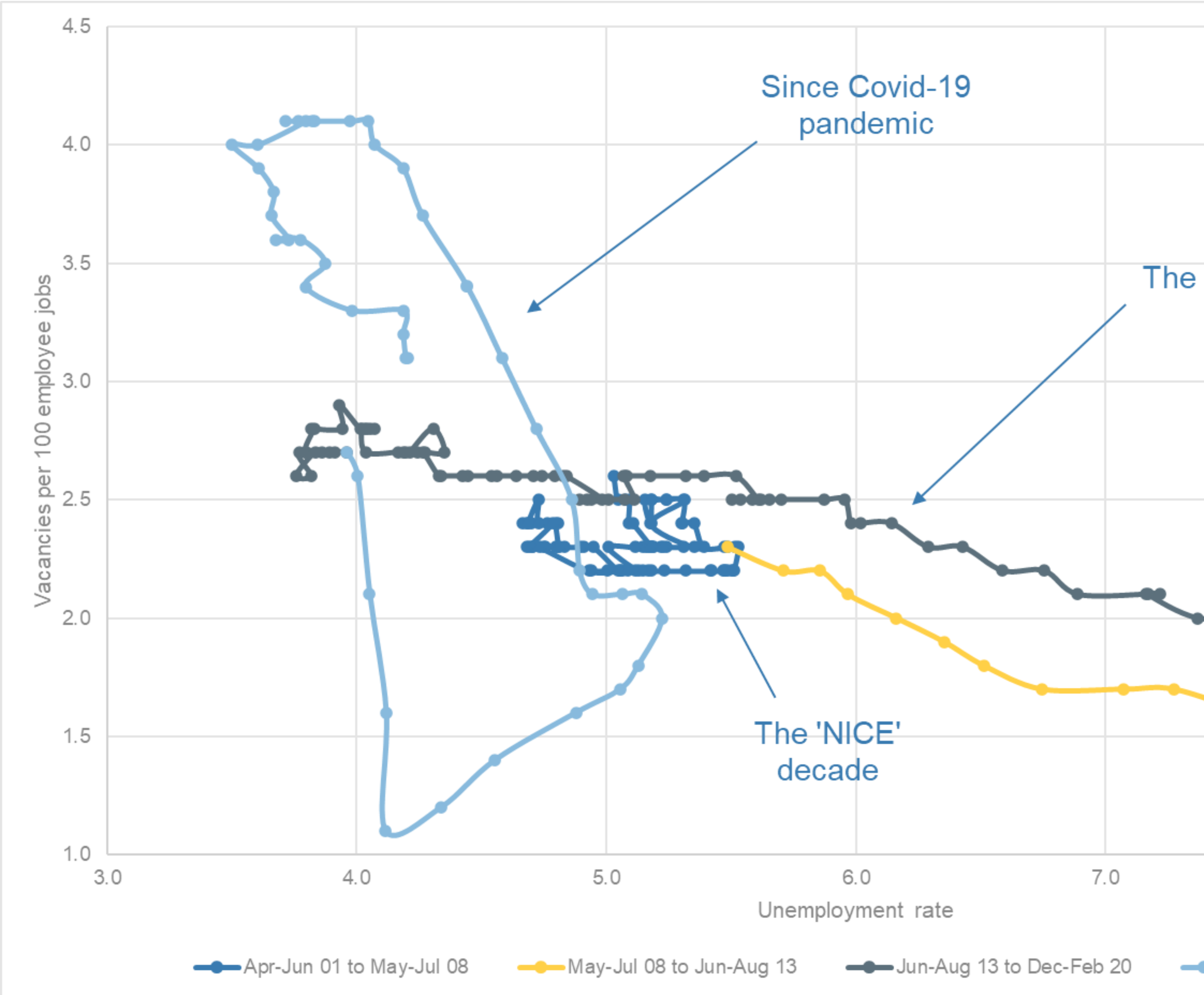


Source: ONS Vacancy Survey

This picture of a still-tight but cooling labour market can also be seen in the 'Beveridge curve' which plots over time the number of vacancies per 100 employee jobs (on the y axis) and the unemployment rate (on the x axis). We described this in more detail in the September briefing, and in particular the four time periods illustrated below. The key points to note though are that the labour market is tighter in the top left (high vacancies, low unemployment); and that if the curve is moving towards the two axes then (in theory at least) the labour market is working relatively well – with vacancies being filled and unemployment falling.

As we noted in September, there had been signs over this year that the line may have been starting to drift out above the black line, so relatively high vacancies but rising unemployment. However the most recent (albeit experimental) unemployment data suggests that the line may be moving back in again. It should be noted though that as well as the health warnings on the unemployment data, Beveridge curves themselves are fairly crude indicators – and don't take account of other sources of slack or tightness in the labour market (in particular working hours, job-to-job moves, and people who may want to work but are not yet looking or available).

Figure 4: Beveridge curve (unemployment rate to vacancy ratio), 2001-



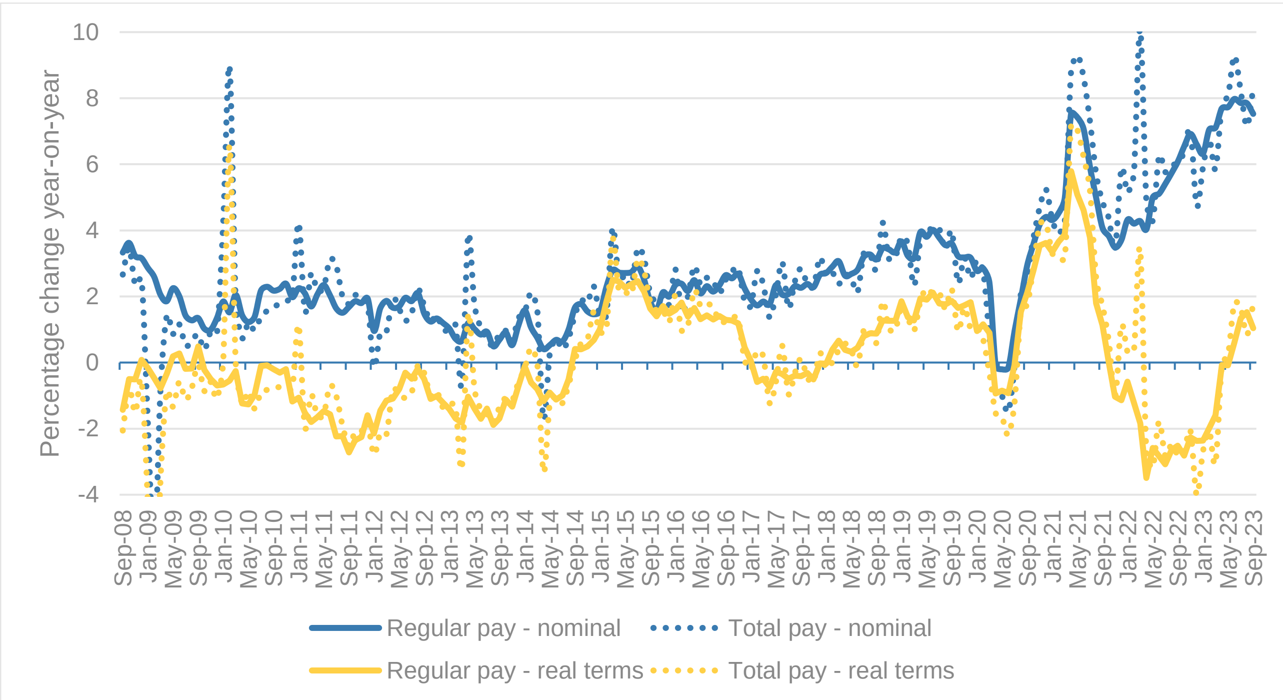
Source: Labour Force Survey, ONS experimental estimates and ONS Vacancy Survey

Wage growth remains high but is levelling off, with ‘real’ pay slightly positive as inflation edges down

There is less sign of the economy cooling down in today’s earnings data, with regular pay 7.5% higher on average than in September 2022, and total pay (including bonuses) 8.3% higher. With inflation edging down, albeit not by as much as might be hoped, this means that pay in ‘real terms’ has also risen for the fourth month in a row – by 1.0% for regular pay and by 1.8 for total pay.

These trends are illustrated in Figure 5 below, with year-on-year pay growth in nominal terms in blue and real terms in yellow (solid lines indicate regular pay while dotted lines are total pay). This shows that pay growth is now running at its highest since this series began in 2001, but does definitely appear to have levelled off and is likely to start falling back a bit in the coming months. Real pay on the other hand may continue to rise if inflation falls back, but so far is only just starting to undo the impacts of the significant falls through 2022 and early 2023.

Figure 5: Year-on-year change in regular and total pay – nominal terms and adjusted for inflation (real terms)

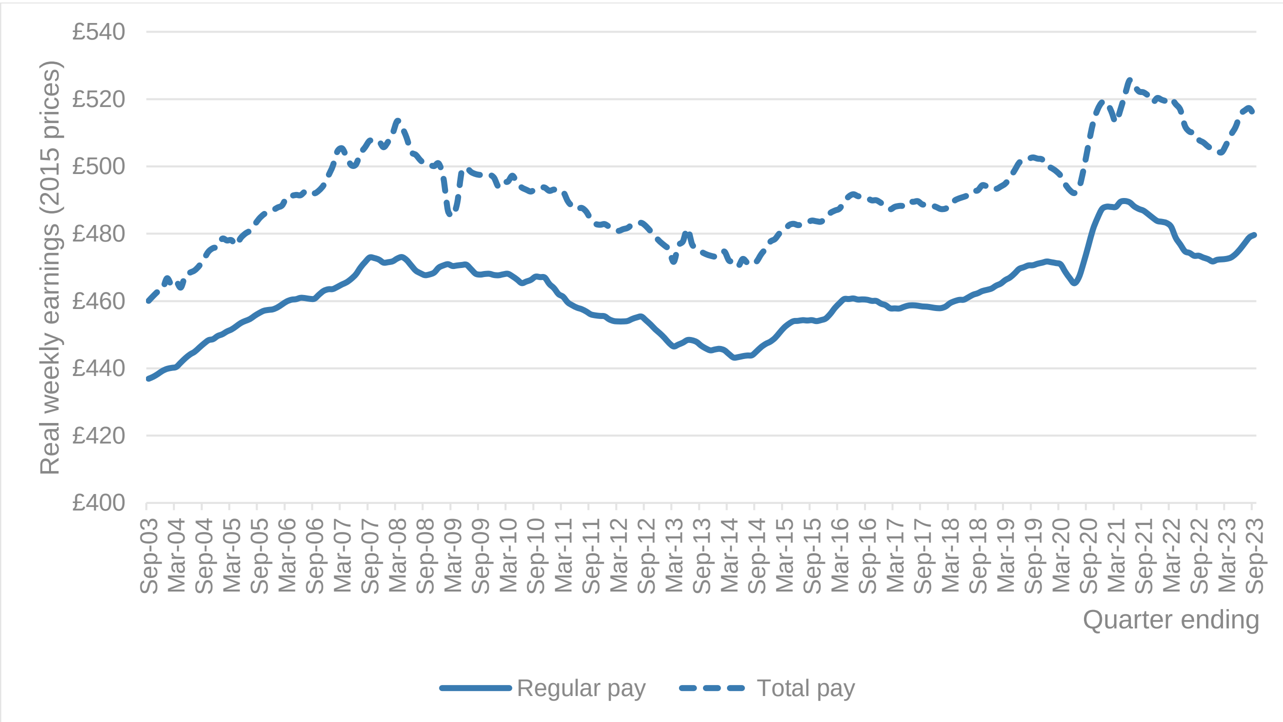


Source: ONS Monthly Wages and Salaries Survey. Regular pay excludes bonuses and arrears; measure shown is year-on-year change in single month estimate.

This improving picture on average pay is welcome, and average pay is now £8 per week higher than it was before the pandemic. However, this is also only £8 a week higher than the level that regular pay had reached on the eve of the great financial crisis in 2008. The ‘lost decade’ after that recession in reality lasted 15 years (and is unlikely to be fully caught up). Figure 5 below illustrates this, showing average regular and total pay in real terms over time.

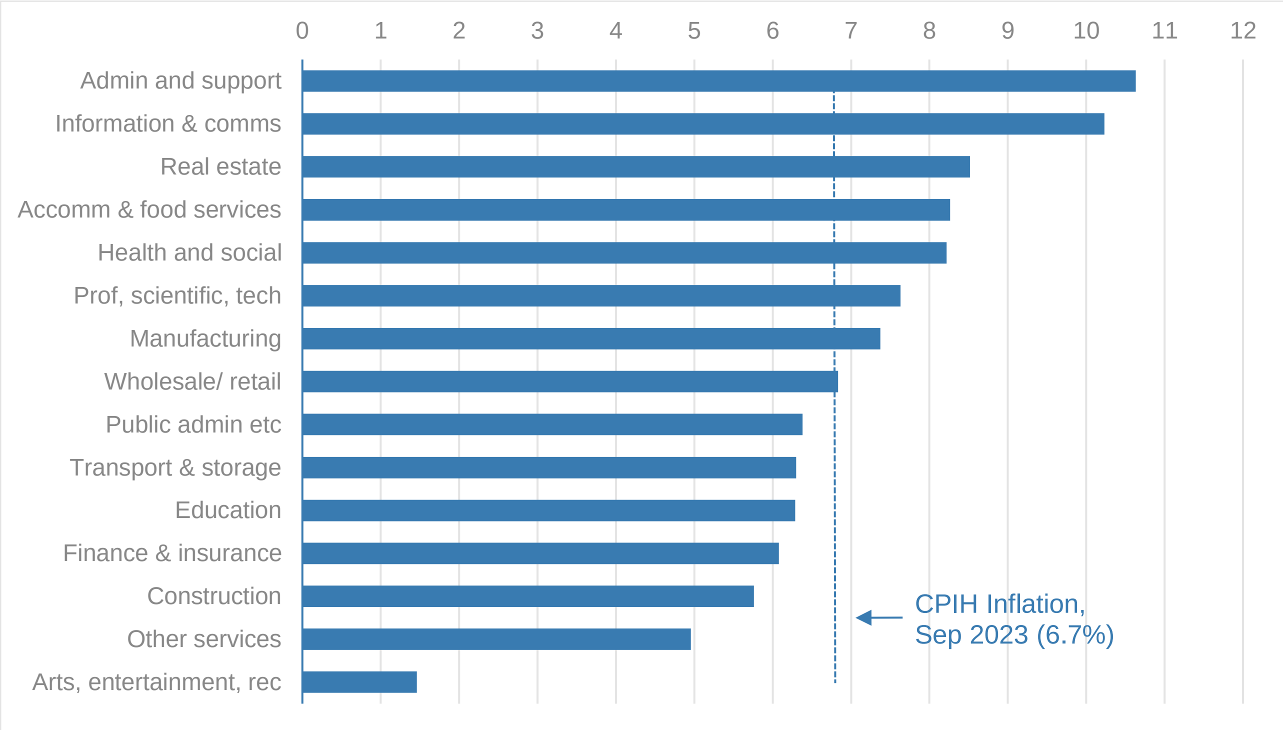
Underneath this headline strong pay growth, pay is rising fairly strongly in both the private and public sectors – slightly higher in the former, but aided in the latter by arrears and one-off payments in recent public sector pay deals. Figure 7 below sets out regular pay growth by more detailed industry, and shows that this is fairly strong across the board – generally above 6% – and particularly so in some service industries like hospitality, administration, information/ communications and healthcare. However, it also illustrates that pay growth is below the rate of inflation in large parts of the economy including public administration, education, finance/ insurance, construction and (in particular) arts and recreation.

Figure 6: Average weekly earnings, inflation adjusted in 2015 prices



Source: ONS Monthly Wages and Salaries Survey. Regular pay excludes bonuses and arrears.

Figure 7: Year-on-year change in regular pay by industry, nominal terms



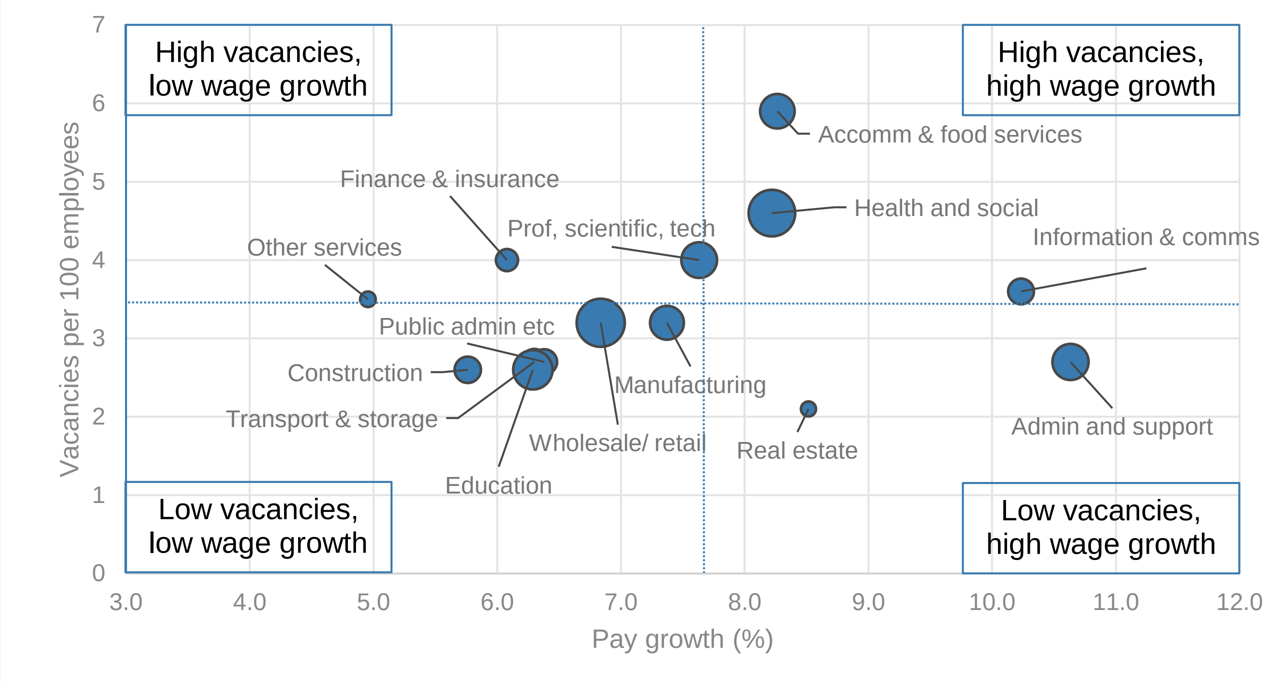
Source: ONS Monthly Wages and Salaries Survey. Pay growth is average of published single-month estimates of year-on-year growth in pay excluding bonuses and arrears for Jul-Sep2023 (not seasonally adjusted).

As with the September briefing, in Figure 8 below we have then set out the data on pay growth by industry compared with the 'vacancy ratio' for each industry, which is the measure of the number of vacancies per 100 employee jobs. The vacancy ratio figure used here is for six months ago (April-June 2023), on the basis that any labour or skills shortages would take time to feed through into pay.

This does suggest that there may be a relationship between vacancy ratios and pay growth, as most industries broadly fit a line running from the bottom left (low vacancies, low pay growth) to top right (high vacancies, high pay growth). However, this is not universal – with a couple of industries seeing higher wage growth than might be expected for their levels of vacancies (information and communications, administration and support, and real estate).

However while vacancies may be contributing to pay growth, this does not necessarily mean that this is making an outsized contribution to higher inflation – with analysis by the Bank of England this month suggesting that the tightness of the labour market may only be contributing around 1.5 percentage points to overall inflation (more than it was contributing pre-pandemic, but far less than the impact of higher inflation expectations).

Figure 8: Year-on-year growth in regular pay compared with number of vacancies per 100 employees, by industry



Source: IES analysis of ONS Vacancy Survey (VACS02) and Monthly Wages and Salaries Survey (EARN03). Pay growth is average of published single-month estimates of year-on-year growth in regular pay for July-September 2023; vacancy ratio is number of vacancies per 100 employee jobs in the quarter Jan-Mar 2023 – this has been lagged by six months to reflect that changes in pay would take time to respond to changes in vacancies. Size of bubbles indicates size of industry by employee jobs.

Analysis of Pay As You Earn data is consistent with a cooling labour market and (slightly) slowing economy

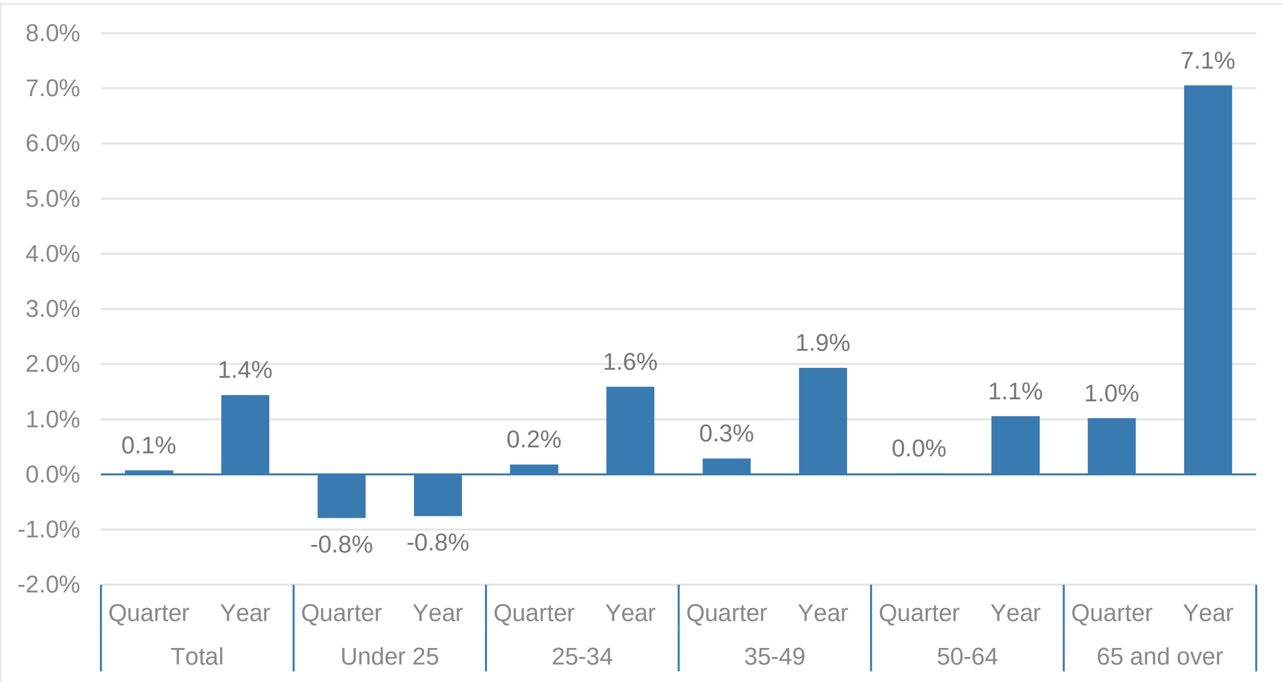
Finally, we are including in this month's briefing some additional analysis of the data published by ONS from HMRC 'Pay As You Earn Real Time Information'. These are experimental statistics covering payrolled employees, so they exclude the self-employed. We included this dataset in our monthly briefings until 2022, but stopped doing so because of concerns around the scale of revisions that were being made (particularly to the 'flash' estimate for employment in the preceding month), and that figures were being affected by changes in the tax treatment of self-employment (i.e. changes were not reflecting underlying trends in employment).

Nonetheless, the PAYE data does provide granular data on employment by age, industry and region, so in the absence of the LFS data we are including additional analysis below. Note that we are using the September 2023 estimates as the most recent data, rather than the flash estimate for October 2023.

With those caveats, Figure 9 below shows changes in employment for different age groups over the quarter (June to September 2023) and the year (September 2022 to September 2023). Overall, employment is flat over the quarter but slightly up over the year, but is falling over both the quarter and the year for young people – down by 0.8% (a decline of around 40 thousand people in work). This is broadly consistent with a cooling labour market, as young people tend to lose out as employers slow their recruitment.

For those aged between 25 and 49 employment has risen marginally more than average over both the quarter and the year, while for those aged 50-64 there are signs that employment growth is weaker. This is concerning and somewhat surprising, as employment for this group fell significantly through the pandemic but had been recovering somewhat over the last two years. Finally, the most stark figure below is the exceptionally strong growth in employment among those over 65 – up by 7.1% over the year and by 1.0% in the last quarter (an increase of 76 thousand and 12 thousand respectively). This trend was evident in the LFS data too and appears to be continuing – with employment being pushed higher with rises in State Pension Age, but also pulled up by demographic change.

Figure 9: Change in number of employees by age over last quarter (June to September 2023) and year (September 2022 to September 2023)



Source: Earnings and Employment from Pay As You Earn Real Time Information dataset

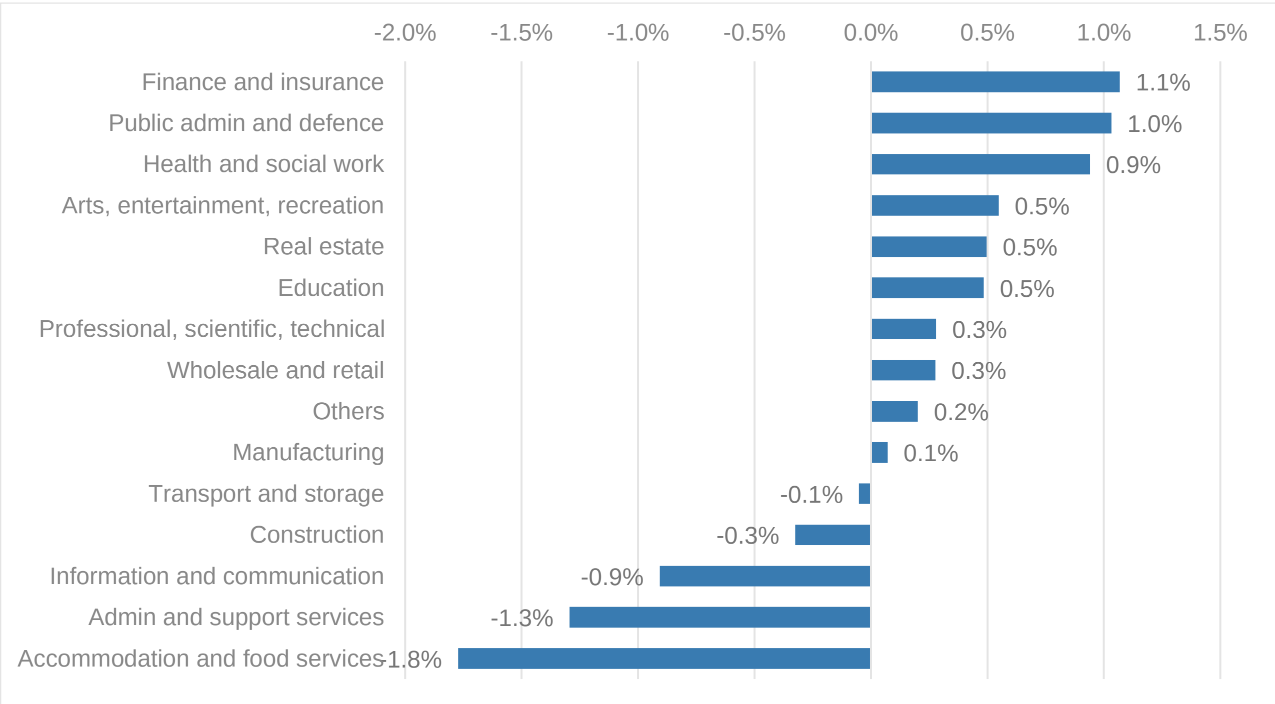
Employment changes by industry over the last quarter are shown in Figure 10. Employment growth appears to be strongest in public services, finance and insurance, and in arts and entertainment; while it is falling furthest in hospitality, administration and in information and communications.

Reading this alongside the vacancy and earnings data we can draw some tentative conclusions (or perhaps just speculate) about some industries, for example that:

- Public services are still struggling to recruit despite strong employment growth, perhaps because pay is not growing fast enough and/ or there are specific skills shortages pushing up vacancies;
- Hospitality is likely seeing slightly weaker demand but also continued shortages – with high but falling vacancies, falling employment but strong pay growth. It is also possible that pay growth may reflect compositional changes in the workforce, for example if the lowest-paid jobs are being ‘lost’ (or are hardest to fill) then the *average* pay for everyone else would be slightly higher;
- Various private sector, white collar industries may be starting to return more towards ‘normal’, with some employment growth, vacancies close to pre-pandemic levels and pay growth falling back a bit; and
- Construction appears to be struggling – with demand, supply or both: employment levels are falling, vacancies are down, and wage growth is weak.

These trends are overall consistent with a cooling labour market, but some are also more indicative of a wider dampening of demand from consumers and business – particularly with employment falling in hospitality and construction.

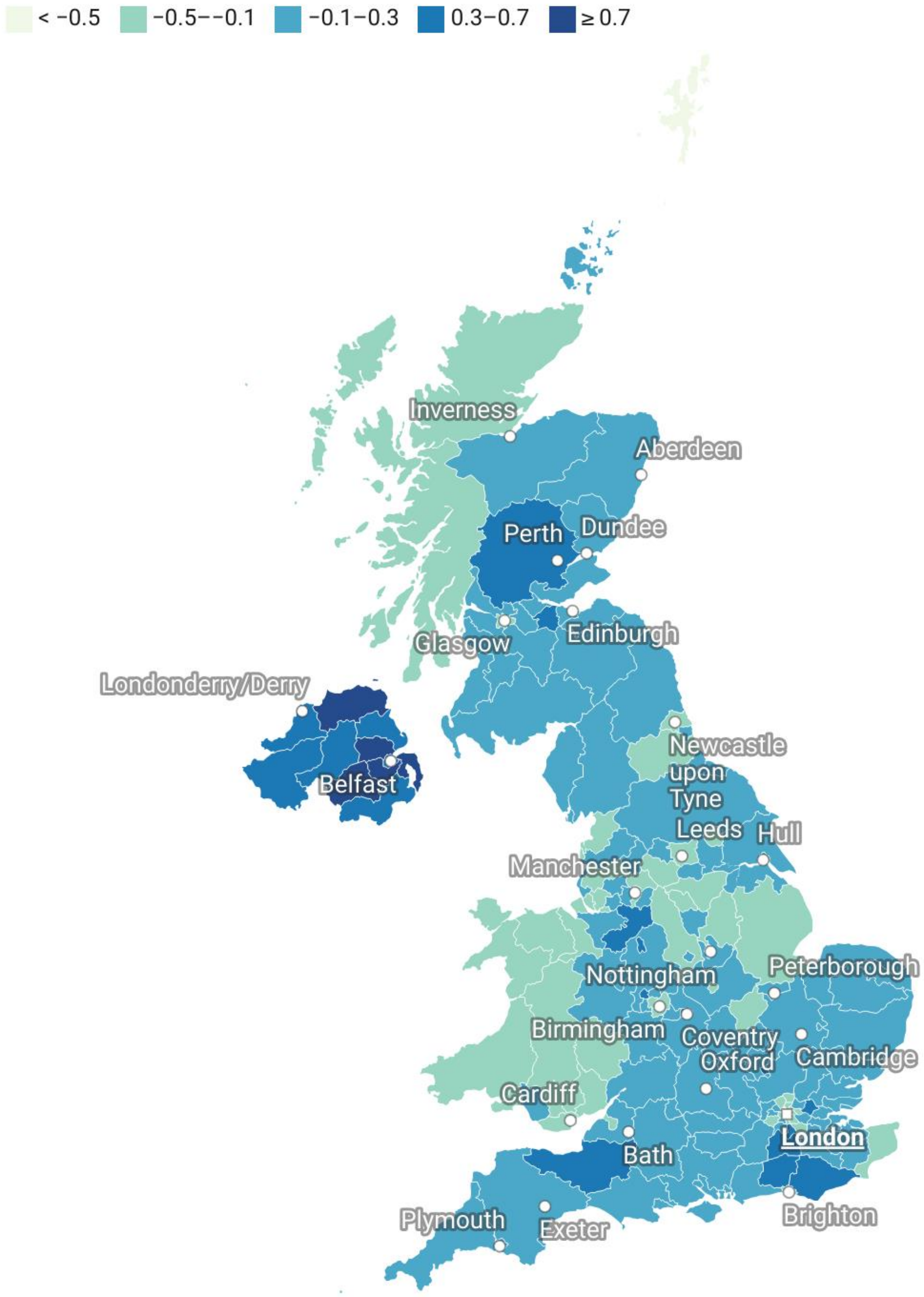
Figure 10: Change in number of employees by industry over last quarter (June to Sep 2023)



Source: Earnings and Employment from Pay As You Earn Real Time Information dataset. ‘Other’ comprises agriculture, mining, energy, water, ‘other service activities’ and household/ extra-territorial employment.

Figure 11 overleaf then shows the percentage change in payrolled employees to ‘NUTS3’ level (which divides the UK into roughly 180 areas) between June and September 2023. Overall over that period, payrolled employee numbers were broadly flat, but this map shows that this disguised employment growth in Northern Ireland, much of Scotland and parts of England (particularly around the Home Counties and parts of the South West); while employment fell in Wales and in many larger cities in England.

Figure 11: Percentage change in number of payrolled employees between June and September 2023



Source: Earnings and Employment from Pay As You Earn Real Time Information dataset. Created with Datawrapper.

Conclusion

Drawing this together, there are clear signs in today's data that the labour market is cooling, although our view is that on balance this likely more reflects a return towards a more normal state after the disruption of the pandemic and recovery, than it does a wider slowdown in economic activity. At the same time though, the labour market is still pretty tight and there are signs that employers are still struggling to fill jobs even as there are more people looking for work.

Looking ahead then, the available data suggests that the Bank of England is right to continue to hold rather than raise interest rates; but it also suggests that the government could do more on the supply side to support a softer landing for the economy – in particular around raising participation in work, tackling skills shortages, and working better with employers. The Autumn Statement next week provides the ideal opportunity to take action on all three. We have set this out in previous briefings, but in our view next week's Statement needs to include measures to:

- Broaden access to employment support, so that more of those who are out of work and want to work can access the help that they need to get (back) in. This should include widening access to the Restart Scheme, investing more in employment support through local partnerships and other public services (including health and childcare), and shifting the focus in Jobcentres away from repeated meetings with the unemployed and towards more open and voluntary engagement with others who are out of work.
- Address skills shortages, in particular by creating more flexibility within adult education budgets and the Apprenticeship Levy to co-invest with employers in flexible, shorter-term and employer-responsive training (particularly for new recruits).
- Support (and expect more from) employers – for example by better drawing together support for firms around inclusive recruitment, training, flexible job design and workplace support, working in partnership with employer bodies like the CIPD and Chambers network, and learning from models in the three devolved nations Enterprise Scotland, Business Wales and Invest NI).

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.

Institute for Employment Studies, City Gate, 185 Dyke Road, Brighton, BN3 1TL United Kingdom

www.employment-studies.co.uk

@EmploymtStudies

01273 763400