

# Labour Market Statistics, October 2022

11 October 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 August 2022 (the most recent quarter being June to August 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 September 2022, and the Wages and Salaries Survey to August 2022.

## Summary

At just 3.5%, the last time unemployment was this low was when Slade released Merry Christmas Everybody. But if that counts as good news, there's really very little else to welcome today. The employment rate has fallen again on the previous quarter, down by 0.3 percentage points to 75.5%, while 'economic inactivity' (the measure of those not in work and either not looking and/ or not available to work) has risen by a 0.6 points to 21.7%. Apart from the rise in economic inactivity during the first lockdown, this is the largest quarterly increase since comparable records began in 1971.

Higher economic inactivity continues to be driven particularly by fewer older people in work – who account for three quarters of the total rise – and by more people out of work due to long-term health conditions, which has again seen a record quarterly rise and reached its highest level in at least thirty years (at 2.49 million). However economic inactivity due to caring for family and home is also rising after three decades of sustained falls, which may well reflect more parents (and particularly single parents) struggling to find or stay in work; while student numbers are rising again, and the number of people citing early retirement has also edged up. So overall the labour force is contracting in many different ways, and is now half a million smaller than it was before the pandemic.

This is happening in spite of (and is likely contributing to) continued very high vacancies – which remain above 1.2 million. There simply are not enough workers for the jobs available. This is likely contributing to very strong nominal pay growth, which is now running at 6.4% in the private sector but at just 2.4% in the public sector, which is in turn

likely to be contributing to rising prices – with services inflation and core inflation (which excludes energy and food costs) both now running at around 6%. Overall however, this high nominal pay growth is still below the (even higher) rate of inflation, so real pay continues to fall (by 2.8% year-on-year in today's figures).

As with last month, there are some early signs that demand may be starting to weaken in the private sector, with vacancies falling slightly from their peaks in a number of industries. However vacancies are continuing to grow in the public sector – likely in part reflecting more people leaving public sector jobs for better paid work in the private sector, as well as continued struggles to recruit new staff in a highly competitive labour market.

Overall these are pretty worrying figures and an inauspicious backdrop against which to be looking for tens of billions of pounds of cuts to public spending. Perhaps the best (but least likely) course that the government could take would be not to make those cuts and instead delay its tax plans. Failing that though, we would argue that there are now four key priorities for the Chancellor's statement at the end of this month: to extend the Restart Scheme, which is due to underspend by around £1.2 billion; to do far more to improve access to specialist health and work related support; to ensure a decent settlement on public sector pay and reform; and to increase investment in skills and training, particularly for those out of work.

Employers will continue to need to step up too – particularly in understanding their workforces and local labour markets, broadening and simplifying recruitment, making work more flexible and secure, and improving access to workplace training and support.

## **Unemployment hits its lowest since 1973/4 – but the labour force continues to get smaller overall**

As noted, unemployment has continued its downward trend, falling by 0.3 percentage points on the quarter to 3.5%. However employment is also down by the same amount, to 75.5%, while economic inactivity has risen significantly to 21.7%.

The table below shows these trends, with quarterly rates in blue and the single-month estimates in yellow (these single-month estimates combine to form the quarterly average). A couple of important points stand out from here. First, it should be noted that the quarter-on-quarter comparison is with a particularly strong month for both employment and economic inactivity and so perhaps exaggerates the scale of the changes this month (a point that the ONS make themselves in their [Labour Market Overview](#), stating that employment was “notably higher” and economic inactivity ‘notably lower’ three months ago than in other periods). Secondly, the single month figure for August looks better than in the last few months, so we may start to see slight improvements in the quarterly averages in the next few months. Overall though, the trend is clearly of a continued weak employment recovery and of elevated economic inactivity.

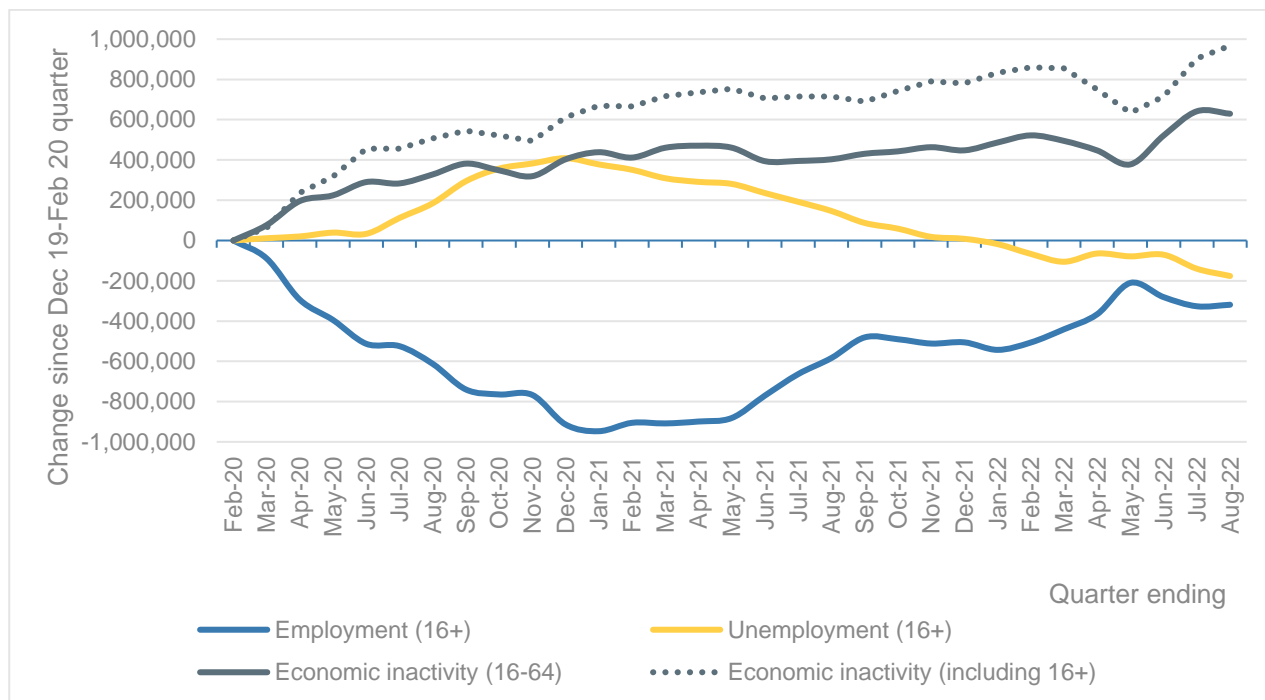
**Figure 1: Employment, unemployment and economic inactivity rates (16-64) – quarterly average with single-month estimates**



Source: Labour Force Survey

Figure 2 then shows changes in the levels of employment, unemployment and economic inactivity since the start of the Covid-19 pandemic. This shows that both employment and unemployment are below where they were pre-pandemic, which combined means that the workforce is now around half a million smaller than it was. At the same time, economic inactivity (among those aged 16-64) is 630 thousand higher. Note that this month we have added a further line to this chart showing the change in economic inactivity including people aged over 65 (i.e. reporting the change in economic inactivity on a consistent, 16+ basis to how we report on changes in employment and unemployment).

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

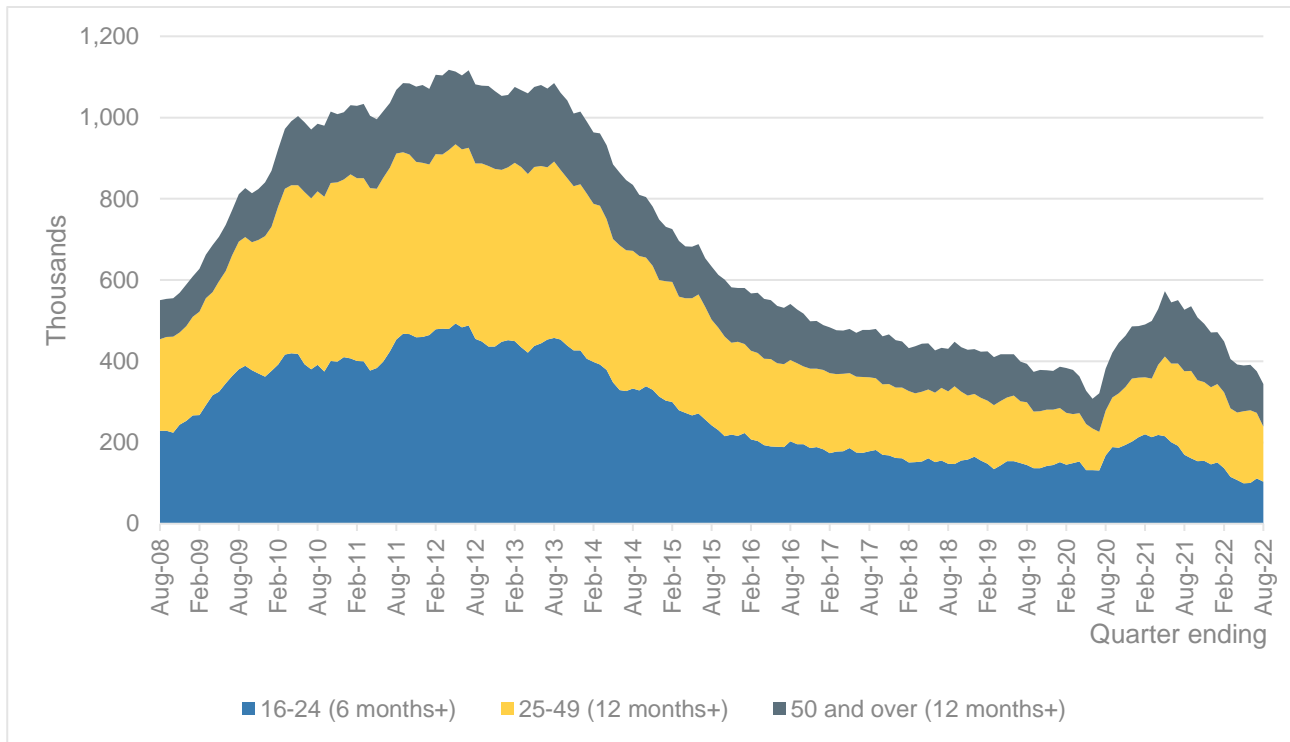


Source: Labour Force Survey

More positively, long-term unemployment is now back below where it was before the pandemic (we define this as more than six months unemployed for young people (aged 16-24) and more than twelve months for all others). In all there are now 345 thousand people long-term unemployed, a figure that has only been lower during the first lockdown (when many unemployed people temporarily stopped looking for work). At around a hundred thousand, long-term unemployment for young people is back to pretty much its lowest since comparable records began in 1992.

However while this is likely positive overall, it should be noted that part of these falls in long-term unemployment will reflect more people leaving the labour market entirely and becoming economically inactive, particularly among older people (covered in the following section). We have also included further analysis on participation of young people at the end of this briefing, as economic inactivity among those outside of education has fallen far less significantly than unemployment.

**Figure 3: 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.

## Higher economic inactivity is again linked to ill health and older age, but there are other factors too

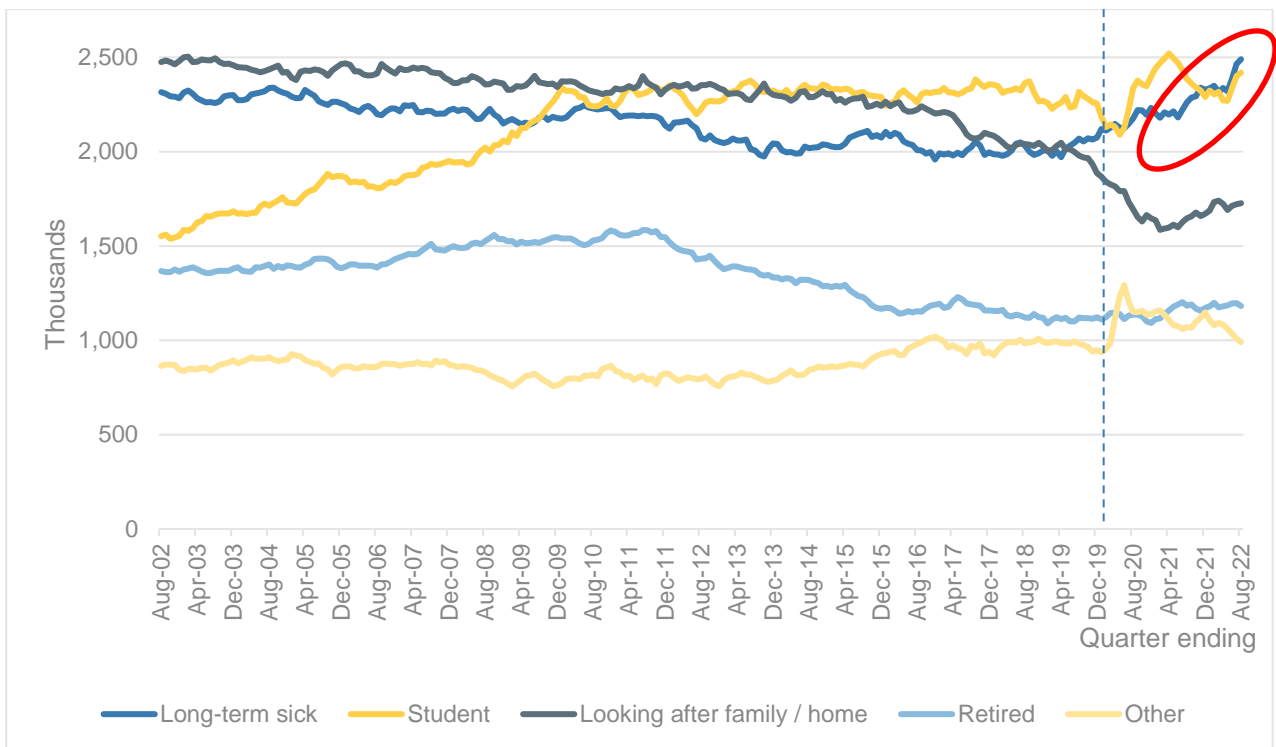
As with [last month's briefing](#), higher economic inactivity is being particularly driven by higher worklessness due to ill health and by more older people out of work.

Figure 4 below shows the levels of economic inactivity for the main reasons that are given (so it excludes short-term illness and people who have been discouraged from working, which combined account for fewer than 200 thousand people). Economic inactivity due to long-term ill health (the blue line) is now at its highest since comparable records began in 1992, at 2.49 million. It also saw the strongest quarterly growth on record, of 170 thousand – eclipsing the record that was set last month. This growth in worklessness due to ill health began before the pandemic but has accelerated since. As we have said previously, there are likely to be a range of factors driving this including longer waits for health treatment for those off work; a deterioration of general health during the pandemic; the impacts of long covid; a lack of access to appropriate employment support; and

changes in workplace practice or employer attitudes.<sup>1</sup> At the same time though, nearly 600 thousand of those out of work due to long-term ill health say that they want to work.

The graph below also shows that economic inactivity for other reasons is rising too, albeit often less starkly. The number of non-working students is back up to where it was last summer, reflecting a slight uptick in the number of young people in full time education; while the number of people out of work mainly due to early retirement or to look after family and home are both around one hundred thousand higher than in late 2020.

**Figure 4: Levels of economic inactivity for the five main reasons given, 2002-present**



Source: Labour Force Survey

The growth in this latter category of ‘looking after family and home’ is particularly worrying, as this had been falling consistently since these records began in the early 1990s and now appears to be rising for the first time. The falls had been largely driven by demographic changes – people having smaller families, having children later and staying in work longer – and benefited women. The fact that it is reversing now may suggest that more women are finding it harder to combine work and childcare, with separate data last week also showing that lone parent employment in particular appears to be deteriorating (again for the first time in decades)<sup>2</sup>.

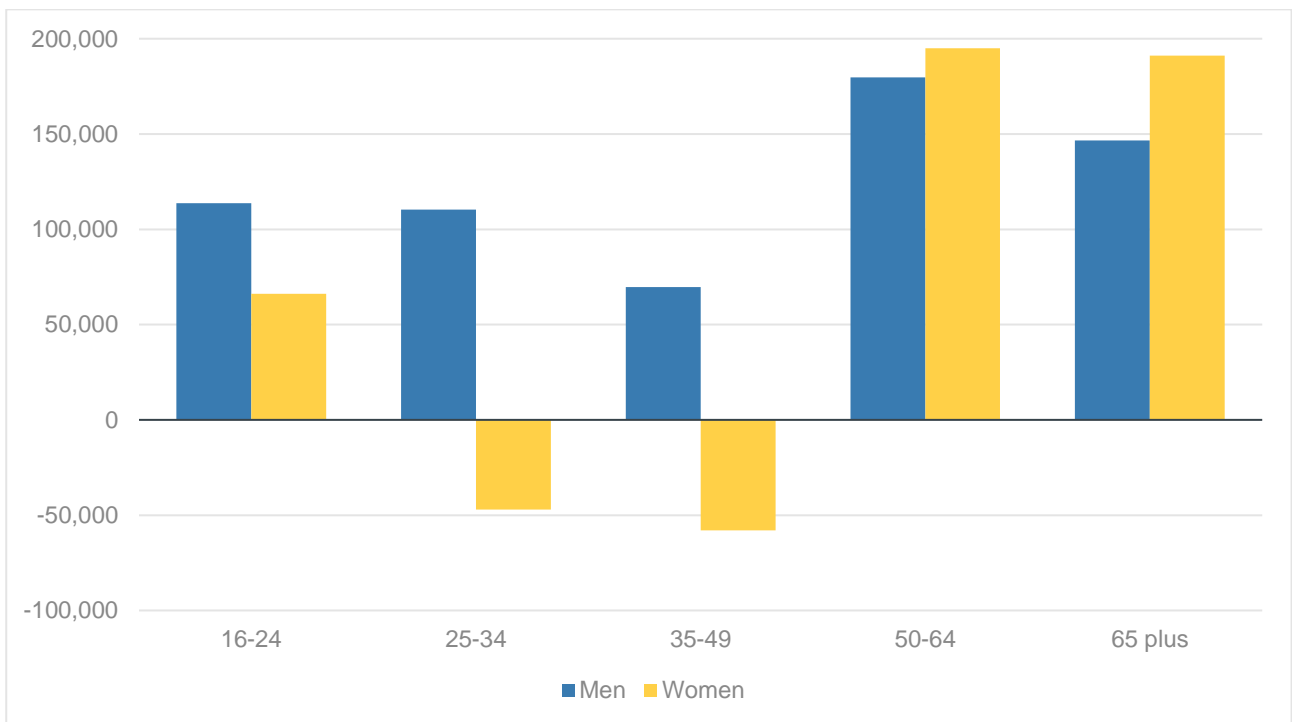
<sup>1</sup> More recent analysis last week in the Financial Times (summarised [here](#)) also suggests that a key factor behind the growth appears to be where people have multiple different health conditions.

<sup>2</sup> This is summarised [here](#) by Paul Bivand.

Figure 5 below is then a new chart showing the change in economic inactivity by age and gender, since the start of the Covid-19 pandemic. This tells a similar story to the line charts used previously, in that the large majority of the growth in economic inactivity has been among older people (just under three quarters of the total). This has been fairly evenly split between men and women, although it appears to have increased faster among women than men in the over 65 group (which most likely reflects the fact that the State Pension is now set at age 66).<sup>3</sup>

For those aged under 50 though, this chart brings out more clearly how different reasons for economic inactivity may be interacting. In particular for those aged 25-49, economic inactivity is up by around 180 thousand for men but has fallen by just over a hundred thousand for women. This will reflect that the number of people out of work and caring for children (overwhelmingly women) has fallen overall since the start of the pandemic while those out of work due to long-term ill health (men and women) has risen. For women, the falls in worklessness due to childcare have more than offset any rises for other reasons, while for men they have not. Finally among young people, economic inactivity is up for men and women primarily due to more young people in full-time education (which has risen more strongly, from a slightly lower base, for men than women).

**Figure 5: Change in economic inactivity by age, since start of Covid-19 pandemic**



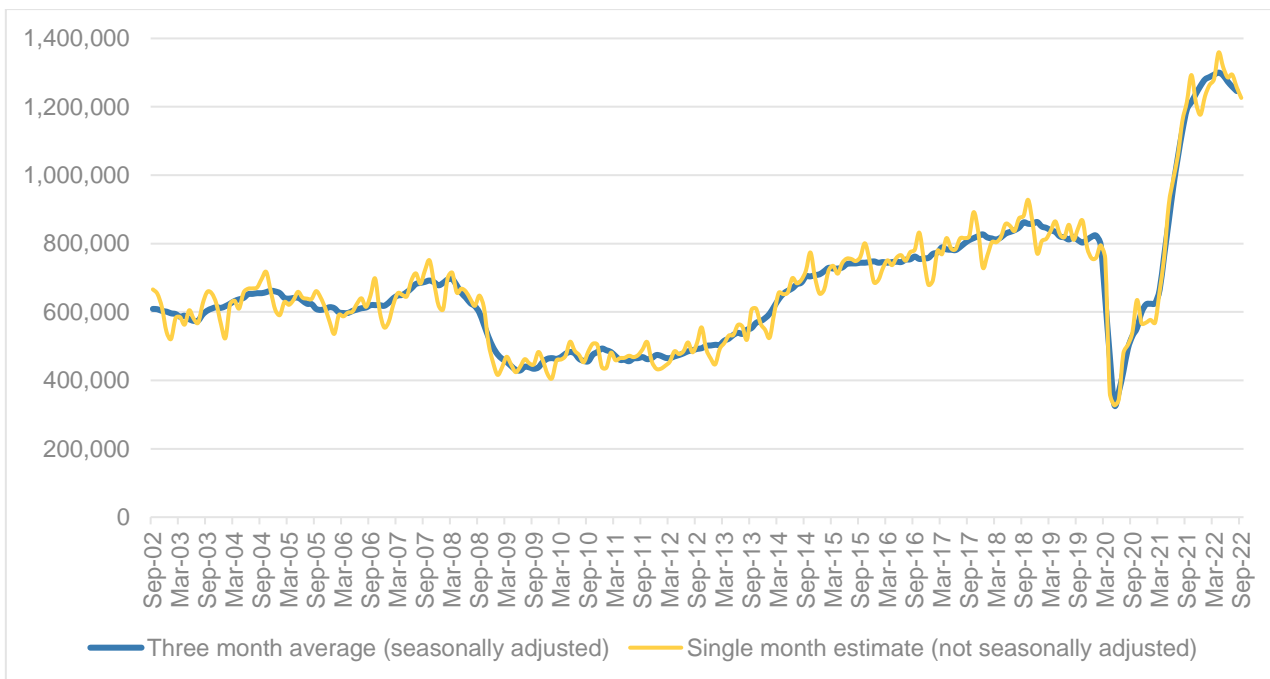
Source: Labour Force Survey

<sup>3</sup> State Pension is 66 for both men and women, but if a couple retired at the point that the first person reached State Pension Age then this would lead to more men than women working to age 66 – as men are on average 2-3 years older than women in married couples.

## The labour force contraction is alongside near-record vacancies, but there are signs demand may be cooling

As with much of the last year, very low unemployment and rising economic inactivity is happening despite continued very high vacancy levels, and is likely contributing to these shortages in labour too. We noted last month that there were signs that demand may be cooling in some parts of the economy and this is clear again today. Figure 6 shows that vacancies overall appear to now be dropping back slightly from their stratospheric heights earlier this year, but still remain more than 50% higher than the then-record levels that they had reached before the pandemic began. There is still no sign in the monthly data (the yellow line) that they are going to drop back significantly. Combined with very low unemployment, this means that there are now just 0.94 unemployed people per vacancy – another record low figure, and a sign of how tight the labour market continues to be.

**Figure 6: Vacancies – quarterly and single-month estimates**



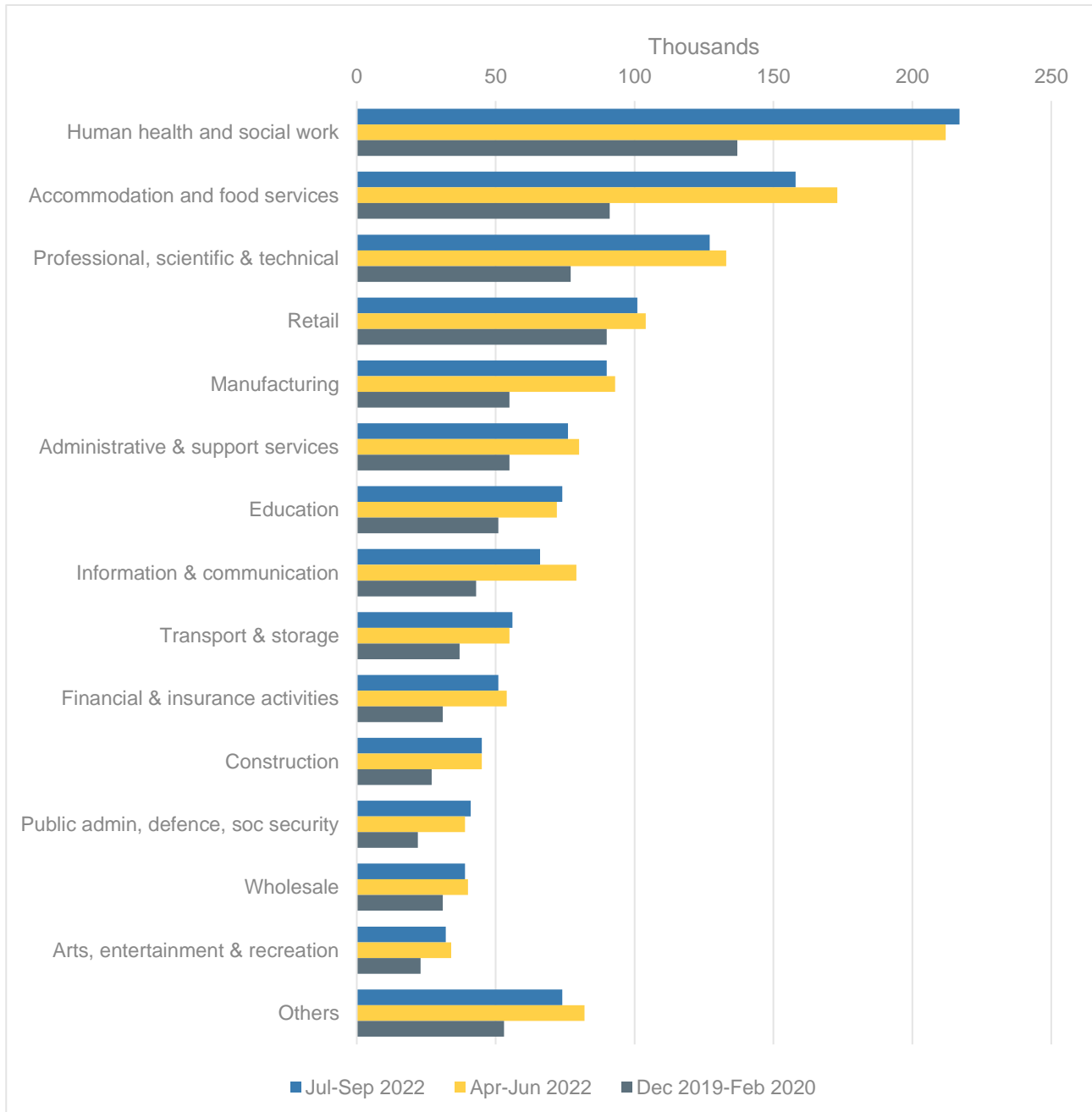
Source: ONS Vacancy Survey

Looking by industry however, there are clearer signs that things may be cooling down particularly in private sector services. The blue line in Figure 7 shows the most recent estimates, the yellow line the estimate for the previous quarter, and the black line the level of vacancies pre-pandemic. So while vacancies remain well above pre-pandemic levels across all industries (blue vs black), they appear to be dropping back in many parts of the private sector (blue vs yellow). This appears to be particularly the case for hospitality (the Accommodation and food services category) and for professional, scientific and technical jobs (which includes areas like accountancy, management consulting, legal professions, architecture and engineering).



At the same time however, vacancies in the main public sector industries continue to rise – health and social care, education and public administration – which most likely reflects a combination of continued strong demand and difficulties in attracting and retaining staff as pay falls relative to private sector jobs.

**Figure 7: Vacancies by industry, pre-pandemic, latest data and previous quarter**



Source: ONS Vacancy Survey

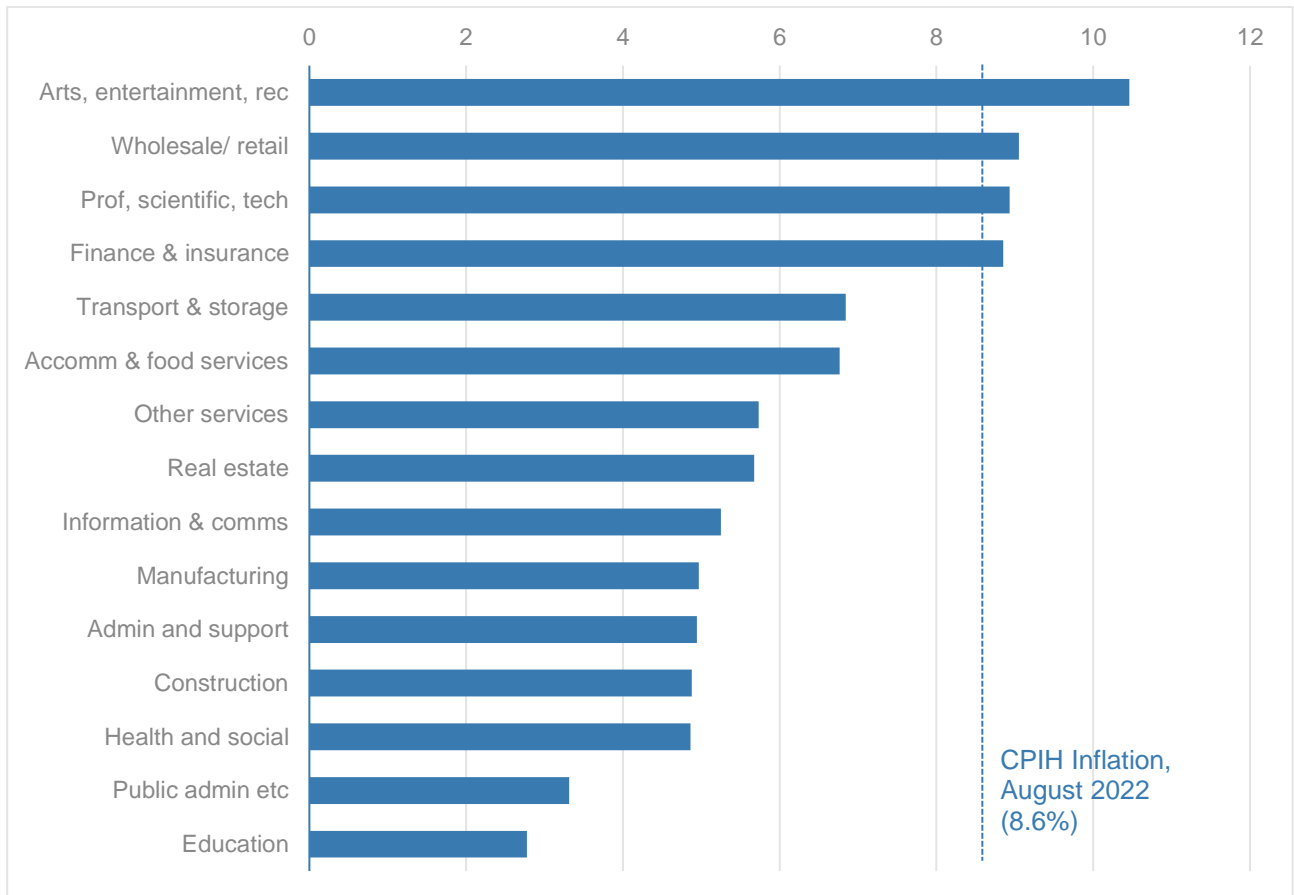
## Nominal pay growth remains very high in the private sector, but the public sector is falling further behind

The combination of low unemployment and high vacancies means that nominal pay growth (not accounting for inflation) remains very strong – with pay rising by 5.6% for regular pay and 5.8% for total pay (including bonuses and arrears) between August 2021 and August 2022. This is the strongest growth in nominal pay in at least two decades (leaving aside the pandemic period, when pay growth was affected by the introduction and removal of the Job Retention Scheme). Unfortunately productivity is growing far more slowly than pay, so this high nominal pay growth is contributing to higher inflation and may continue to do so (with the latest [ONS briefing](#) noting that both services and ‘core’ inflation – which strips out energy and food costs – rising at around 6% year on year).

This pay growth continues to be particularly driven by private sector pay, which is up by 6.4% year-on-year compared with 2.4% for the public sector. Overall, private sector is now £25 a week higher than pay in the public sector, with the gap growing. By detailed industry the differences are even more stark, as Figure 8 below shows – with pay growth in arts/ recreation/ leisure, wholesale/ retail, professional jobs and finance/ insurance all outstripping inflation (however the growth in the arts/ etc group is unusual as pay was falling until recent months – given the size of this group this could reflect some sampling variability, or a real but very delayed rebound post-pandemic). Hospitality has fallen back slightly, perhaps reflecting the withdrawal of CJRS support last summer (which kept pay artificially low) but remains close to 7%.

At the other end of the scale, however, are the three main public sector industries – with education and public administration seeing pay growth of around 3% and health and care seeing growth of around 5%. These large and growing differences are likely an important driver in the continued staff shortages and retention problems across many of our public services.

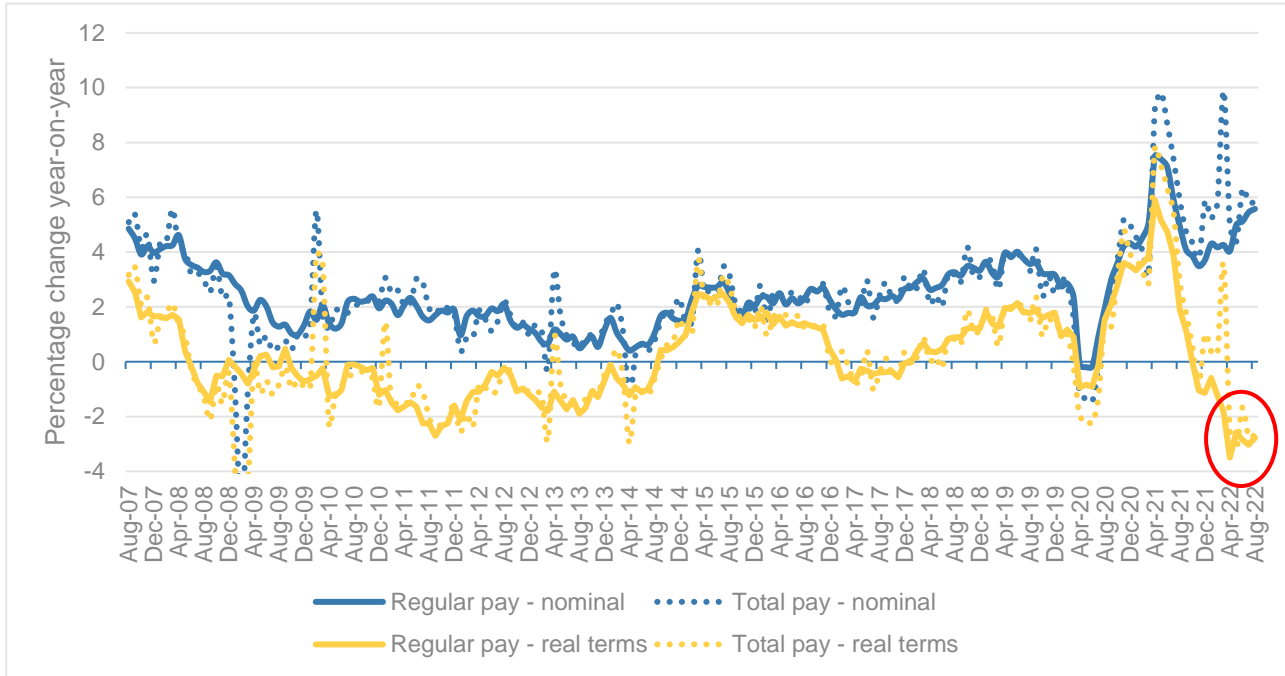
**Figure 8: Year-on-year change in total pay by industry, nominal terms**



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 June-August 2022 (not seasonally adjusted).

Despite this strong nominal pay growth, incredibly high inflation means that real terms pay continues to fall. Real pay is shown in the yellow line below. These are the steepest falls that we have seen in at least twenty years, and are likely to persist for some months yet as high energy costs continue to work through.

**Figure 9: 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.

## Youth employment has levelled off, as has ‘economic inactivity’ among those not in full-time education

This month we are also including further analysis on young people, which was last included in our June briefing. Figure 10 below shows the total population of young people (aged 16-24) broken down by whether they are:

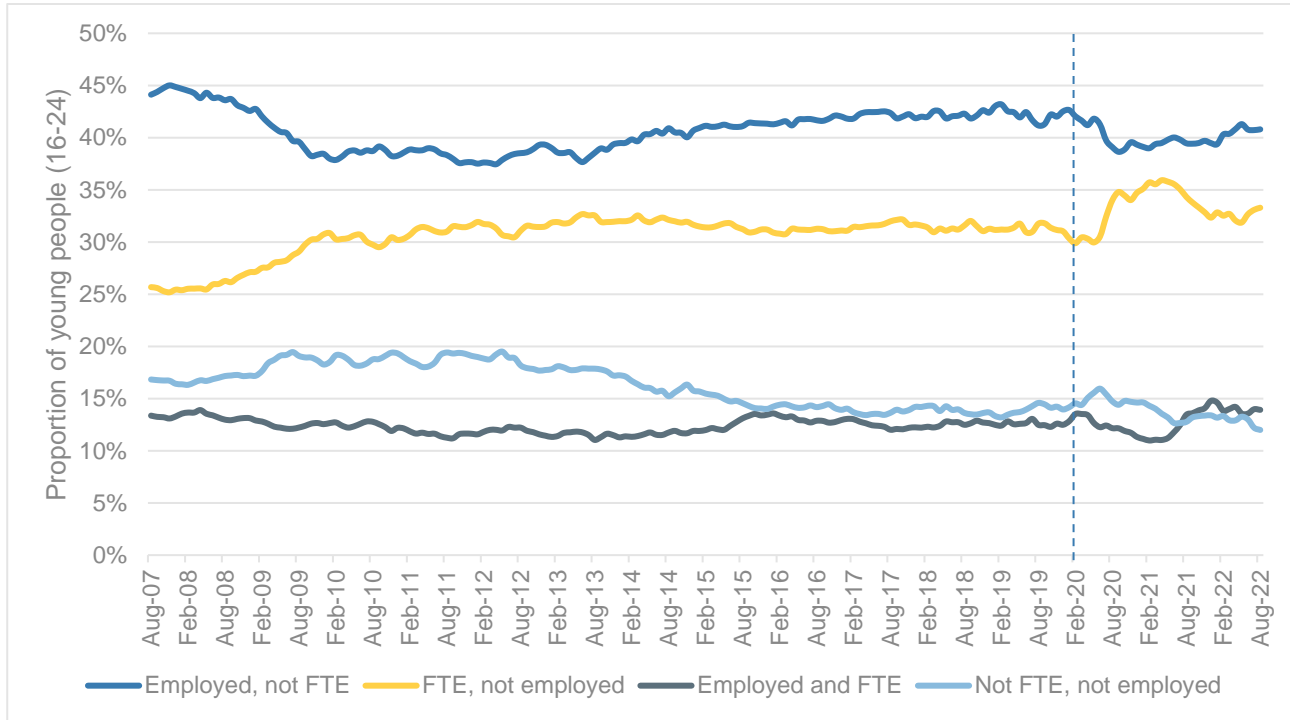
- In work but not in full-time education (blue) – around 40% of all young people;
- In full-time education but not in work (yellow) – around one third (33%);
- In both full-time education and employment (black) – around 15%; or
- In neither full-time education nor employment (light blue) – around one in eight (12%).

This shows that the pandemic led to a significant fall among those in employment only (the blue line) and a growth in those in full-time education as well as combining education and work (the yellow and black lines). Most recently, employment has levelled off (both the blue and black lines) and fewer young people are in work than pre-pandemic. Those in education only is also ticking up slightly.

The share of young people outside of education and work has also continued to fall. While this is welcome, it does also illustrate that the supply of young people in the labour market has fallen since the pandemic, after (albeit fairly modest) growth in the 2010s. This is one

of the factors that is contributing to continued labour shortages, particularly in lower-paid industries.

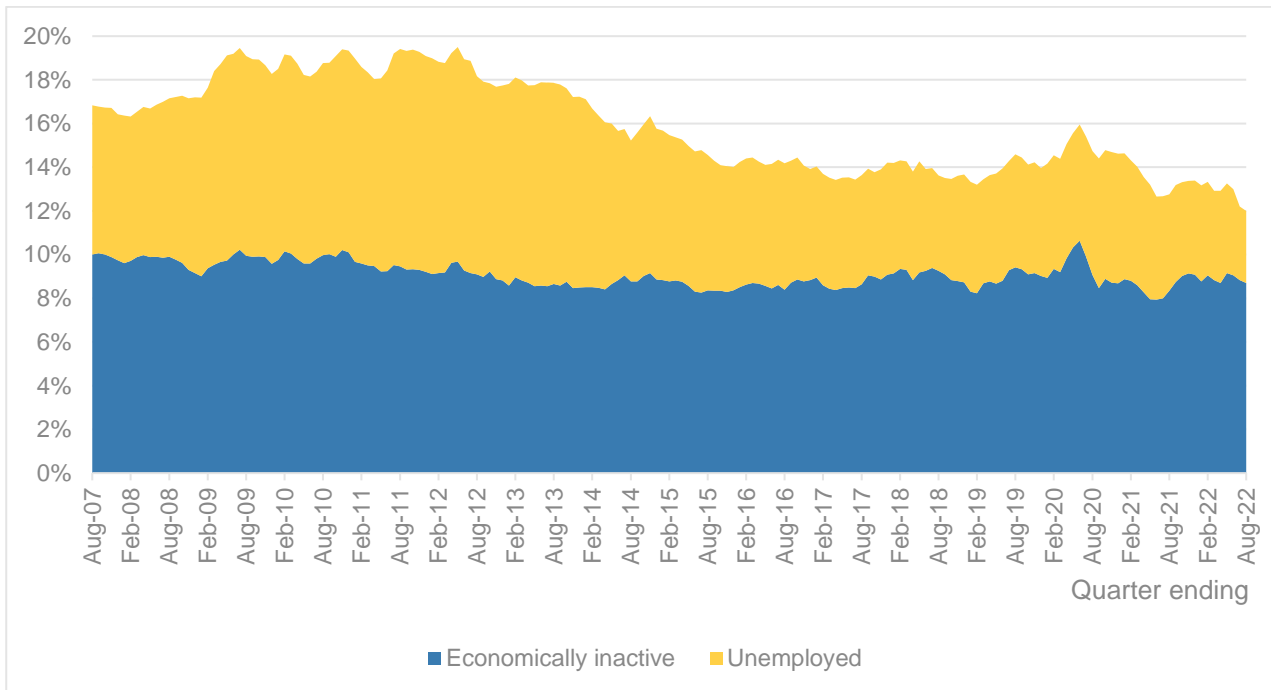
**Figure 10: Proportion of young people (aged 16-24) employed and/ or in full-time education**



Source: Labour Force Survey

Figure 11 below then breaks down the proportion of young people neither in full-time education nor work between those who are unemployed (yellow) and those economically inactive (blue). This illustrates that the fall overall has been largely driven by far lower unemployment – with just 3.3% of all young people now unemployed and not in education. Economic inactivity outside of education remains at similar rates to previous years, at just under 9% of all young people. Underneath this, as we set out in March, we are also seeing falls in economic inactivity among women (in particular due to fewer young women having children) being offset by rising economic inactivity among young men.

**Figure 11: Proportion of all young people (16-24) who are not in full-time education and either unemployed or economically inactive**



Source: Labour Force Survey

## Conclusion

Behind the headline of the lowest unemployment in nearly fifty years, this month's figures are again very worrying. The labour force continues to contract, worklessness is rising and those out of work appear to be becoming more disadvantaged. At the same time, private sector pay appears to be rising at an unsustainable rate as employers struggle to fill their vacancies – while public sector pay is falling further behind, fuelling even greater labour shortages in public services.

The government's fiscal statement on 31 October will be an opportunity to do something to address these issues. We would argue that there should be four priorities:

- In the short term, government should open up access to the Restart Scheme for all of those who want to work, are either over fifty and/ or have a long-term health condition and who have been out of work for at least a year (whether on any benefit or none). The government now expects to spend [£1.2 billion less](#) on Restart than originally planned (£1.7bn rather than £2.9bn). Programmes of this type can [more than pay for themselves](#) in tax revenues and benefit savings, and it would be a false economy to claw that money back rather than reinvest it.
- In the longer term, we need to do far more to provide access to more specialist health and work related support to help keep people in work longer and help people back into work quicker where they have long-term health conditions.

- Alongside this, we need a decent settlement on public sector pay alongside more support for employers on workforce planning, strategy and reform.
- And finally, we need to do more to improve access to skills support for those out of work or who want to progress. This should include making the apprenticeships model more flexible in order to leverage more employer investment; lengthening the training available under the [successful](#) Sector Based Work Academies model, and scaling up [skills bootcamps](#). But in the longer term we need a more coherent, stable and joined up approach to how we co-invest in adult training and co-ordinate this within industries and places.

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## 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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