

Labour Market Statistics, September 2023

12 September 2023

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 July 2023 (the most recent quarter being May to July 2023). The briefing also includes findings from the **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 August 2023, and the Wages and Salaries Survey to July 2023.

Summary

Bad news has come in three in today's main labour market data – with employment falling sharply, a similarly large rise in unemployment, and an uptick in economic inactivity. The bad news does not end there either – with the number of young people neither in employment nor full-time education increasing by more than a quarter in the last year alone (to more than one million, or nearly one in six of all young people); signs that rising short-term unemployment is now feeding through into longer-term unemployment; another record set for the number of people out of work with long-term health conditions; and vacancies falling by more than 20% over the last year.

For all of that bad news, though, today's pay data is more positive. Nominal pay growth is again around 8% year-on-year, which combined with falling inflation means that regular pay in real terms has grown by just over 1%. This is starting to unwind some of the damage caused by high inflation over the last year or so, but it is only a start – with pay packets on average only around £5 a week higher than they were before the pandemic which in turn had only just reached the level they were at on the eve of the 2008 recession.

Today's briefing includes extra analysis on youth participation given the concerning growth in the number outside of employment and learning. We have also included some discussion and analysis of overall labour market tightness and efficiency, which shows that there is now significantly more slack in the labour market than there was a year ago but also some signs that the labour market may be a bit less efficient than it was. Vacancies remain very high (with close to one million unfilled jobs) and employment is still

well below where it was before the pandemic began, so there is more that we can do to help support economic growth, higher employment and better living standards.

Nonetheless, today's figures overall are weaker than we had expected, which likely increasingly reflects a cooling in the economy as much or more than inefficiencies in the labour market. If that is the case, then we should also expect nominal pay growth to slow in the coming months (as this tends to lag other indicators). This may well give more cause for the Bank of England to consider holding fire on further interest rate rises, at least until some of this picture becomes clearer and the effects of the large rises since last August start to feed through.

At the same time, as we have said in previous briefings, the labour market data continues to show that we cannot fix our problems solely through monetary and fiscal policy on the demand side – we need to do far more on the supply side too. With the Autumn Statement (budget) now just two months away, we need to be doing everything that we can to help people who want jobs to find and take up the jobs that want people. This should include improving access to employment support – for example by enabling more people to access appropriate help through Jobcentre Plus and extending the Restart Scheme; addressing skills shortages, for example through reform of the Apprenticeship Levy and greater flexibility to meet local needs; and a much more coherent offer for employers – so that they can access (and know where to go for) help with inclusive recruitment, training, flexible job design and workplace support.

Employment down, unemployment up, economic inactivity up

As noted above, today's figures have seen a significant fall in employment, similar rise in unemployment and slight rise in economic inactivity. The employment rate now stands at 75.5%, which is a fall of half a percentage point on the previous quarter, while unemployment has also risen by half a percentage point to 4.3%. Both of these are the largest changes since autumn 2020. Economic inactivity is up only very slightly on the quarter (from 21.0% to 21.1%), and it is too early to tell whether this is the start of a change in the trend or that it is levelling off.

Poor data was all-but inevitable today, after the shockingly bad figures published last month for the single month of June. Because the headline estimates are rolling averages over three months, the June figure is weighing down today's data (for May-July) and will affect next month's too (covering June-August). We cautioned in [last month's briefing](#) not to read too much into one poor single month, as the Labour Force Survey can be volatile and the very weak June data could in part reflect sampling variability. However, the single-month July estimates have not been particularly strong either – estimating slightly better employment than for June, better unemployment, but slightly worse economic inactivity – and have 'replaced' in the rolling average what were very strong estimates for April. Putting this all together, then, we expected today's figures to be weak but had hoped that they wouldn't be quite *this* weak.

Figure 1 below illustrates these points, showing quarterly averages for employment, unemployment and economic inactivity in blue and the single-month estimates that make up the quarterly averages in yellow.

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



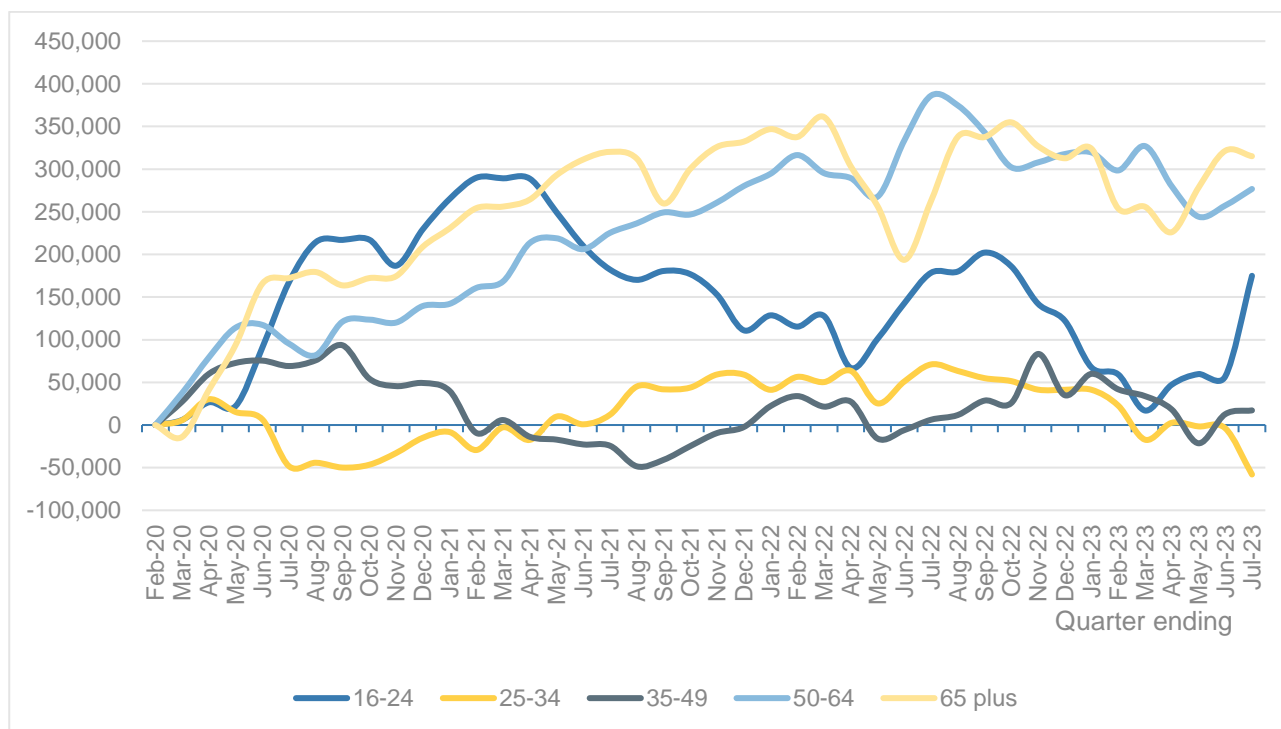
Source: Labour Force Survey

Economic inactivity is rising for young people and due to ill-health, but flat or falling for most other groups

Looking first at the recent rise in economic inactivity, while this has been relatively small overall over the quarter (up by around 60 thousand), it has risen very sharply for young people – by 130 thousand – while it is flat or falling for other age groups.

Figure 2 below shows change in the level of economic inactivity by age group since the start of the Covid-19 pandemic specifically. It shows how economic inactivity rose significantly for older people and remains elevated (mainly reflecting lower employment for 50-64 year olds and a larger population aged 65 and over) while at other ages it has ebbed and flowed but until recently appeared to be returning broadly to pre-pandemic levels. The recent rise for young people however is stark, and similar to the sort of rise that we saw early in the pandemic.

Figure 2: Change in level of economic inactivity by age since start of Covid-19 pandemic (December 2019-February 2020 quarter)



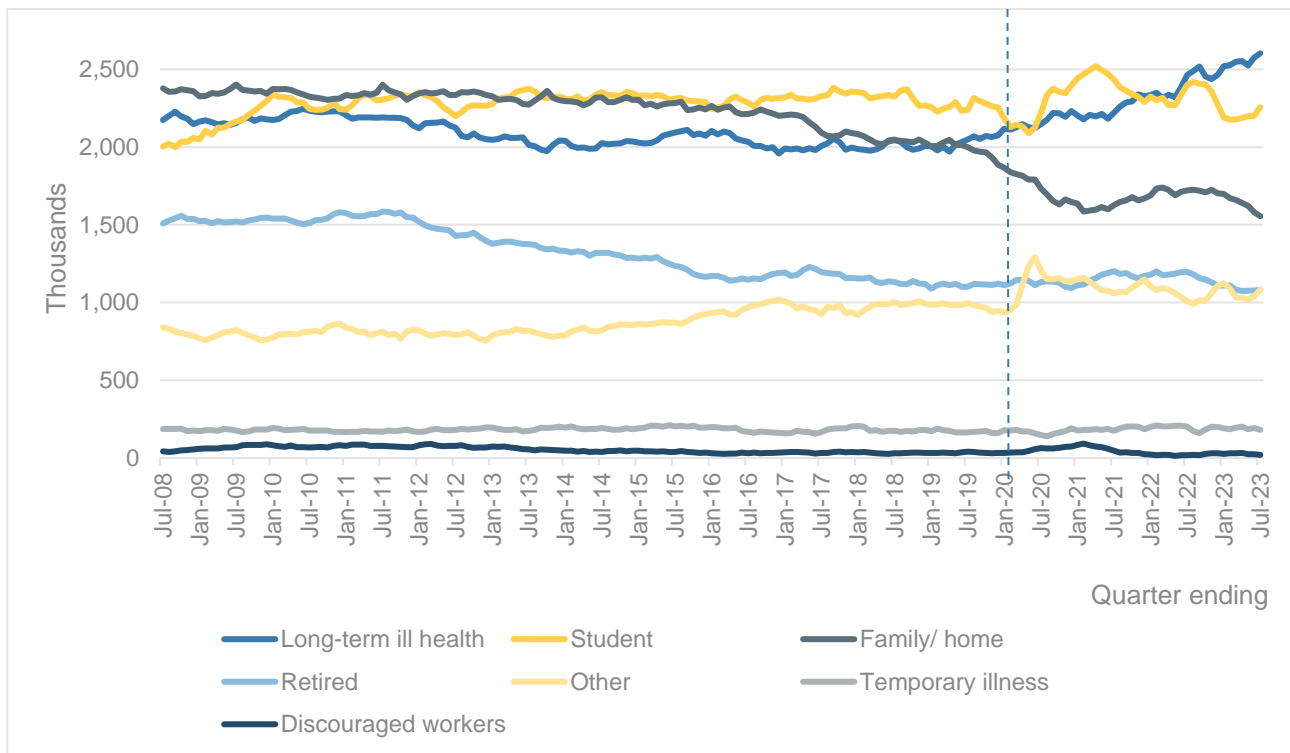
Source: Labour Force Survey

Economic inactivity also includes non-working students, and this almost entirely drove the rise in youth economic inactivity in the early part of the pandemic. The yellow line in Figure 3 below illustrates this. More recently however, the growth in non-working students has been less pronounced – rising by around 70 thousand on the quarter, or about half of the growth in youth economic inactivity overall. So it appears that youth worklessness is being driven by other factors too.

One explanation could be that there are more people who have left education and are economically inactive while they wait for a job to start. This would be picked up in the ‘other’ category below (the pink line), which has risen by 50 thousand in the last quarter. This data is adjusted to take account of the usual seasonal patterns here, including young people leaving education in the summer, but it should be noted that the higher education intake in autumn 2020 was particularly large and most of those young people will have left in June and July and most likely entered the labour market. If that’s the case, then we would expect to see youth economic inactivity drop back again in the autumn and employment rise.

However, it could also be contributing to the continued rise in economic inactivity due to long-term ill health, which is up by 50 thousand on the last quarter and by 500 thousand since early 2020, to a new record of 2.6 million people (the blue line below). Our research and others’ has shown that this is rising across age groups, and arguably continues to be the biggest social and economic challenge that we face in the labour market.

Figure 3: Economic inactivity by main reason given



Source: Labour Force Survey

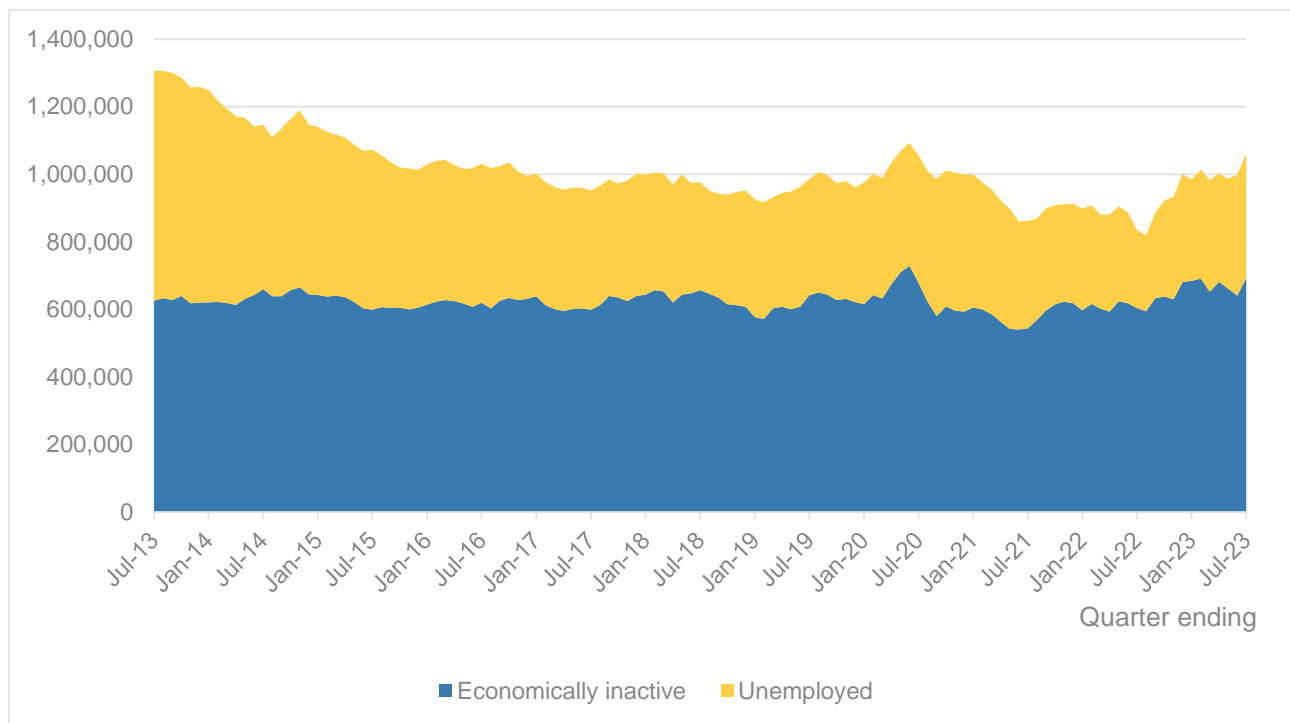
A million reasons to act on youth worklessness?

Further analysis on youth participation is set out below, updating analysis last included in our March briefing. Figure 4 shows the estimated number of young people neither in full-time education nor employment. With recent rises, this figure now stands at 1.06 million – the highest it has been since the first Covid-19 lockdown in spring 2020. This figure has grown by over a quarter in the last year (from 830 thousand), or from 12.2% to 15.5% of all young people.

Figure 4 shows that around two thirds of these young people are not looking or available for work (the blue area), while around one third are unemployed (yellow). As noted above, the non-student ‘economically inactive’ group has grown a little over the last quarter¹, but the graph below illustrates that the main recent growth has been in young people unemployed and not in full-time education – which is up by around 50 thousand (or 15%) in the last quarter alone, and by 140 thousand (60%) over the last year.

¹ The growth in this measure is smaller than the growth in non-student economic inactivity. This will reflect two definitional differences: that the ‘student’ data includes those aged 25 and over, and that ‘full-time education’ excludes part-time studies. So plausibly this could reflect higher economic inactivity among young people previously studying part-time, and/ or a fall in the number of students aged 25 and over.

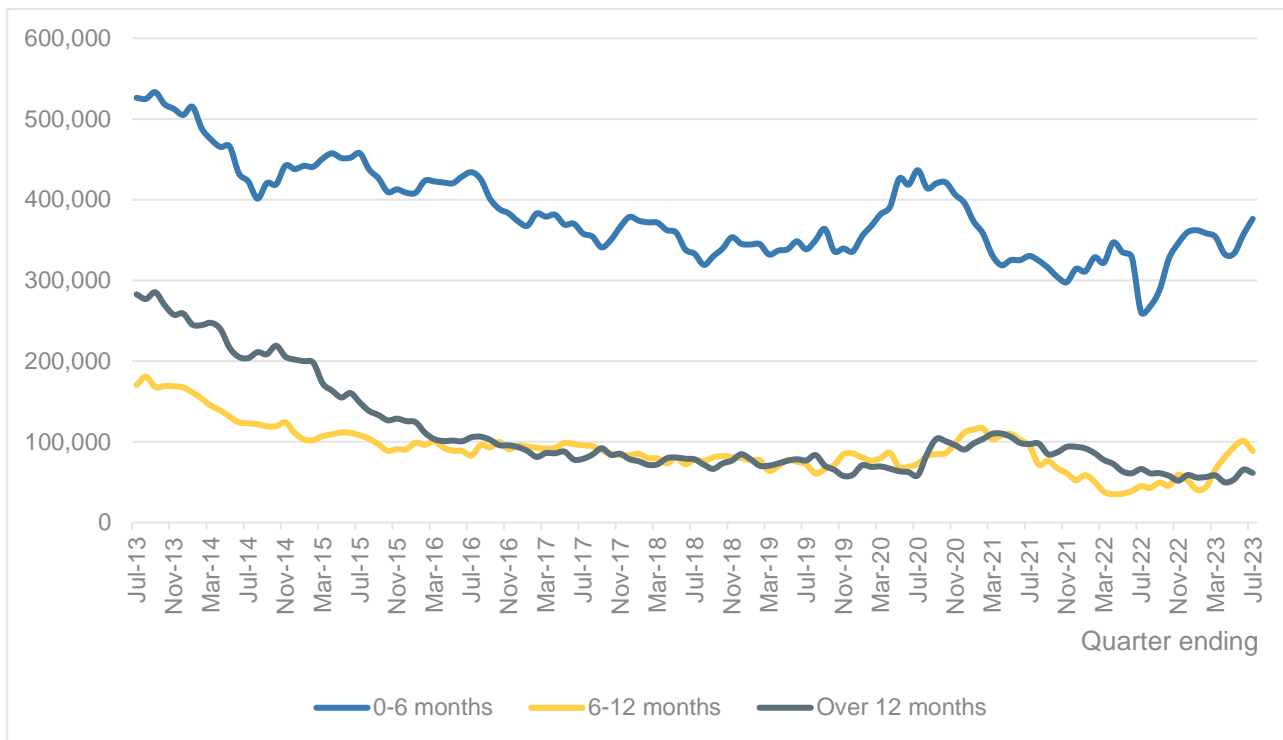
Figure 4: Number of young people (16-24) who are not in full-time education and either unemployed or economically inactive



Source: Labour Force Survey

This higher unemployment has been driven by rises in short-term unemployment which began last summer. [Analysis of separately-published 'NEET' data](#) suggests that this has been particularly pronounced among 18-20 year olds, perhaps as young people have either chosen to enter work rather than stay in education, or felt that they had to enter work because of costs of living pressures or there being fewer options to stay in learning (or take up an apprenticeship). Either way, higher unemployment means that young people who do enter the labour force are finding it harder now to then get a job.

In more recent figures though, we are also now seeing a rise in the number unemployed for between 6 and 12 months – which has doubled over the last year from 45 thousand to 90 thousand young people. So issues that may have begun as 'frictional' problems appear to be becoming more structural, and fundamentally point to failures in how we are supporting young people who want or need to work. These trends are shown in Figure 5 below. (It should be noted too that these risks of higher structural unemployment are affecting other ages too, as running this analysis for all age groups shows up similar trends, with unemployment of between 6 and 12 months now rising significantly.)

Figure 5: Youth unemployment by duration (aged 16-24)


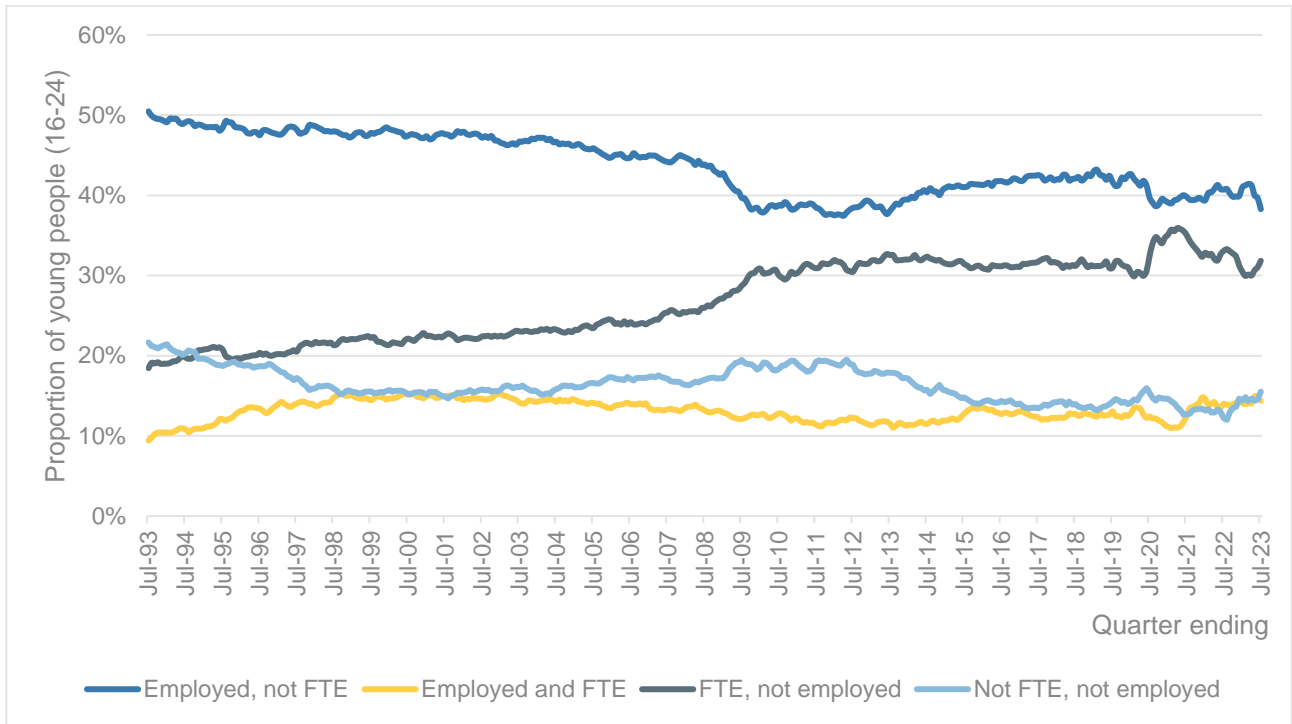
Source: Labour Force Survey

Looking more broadly at trends in youth participation in (full time) education or work, Figure 6 below shows that the proportion of young people in work and not in education is now the lowest that it has ever been, the number in full-time education but not employment has dropped back close to where it was before the pre-pandemic, while those combining both or doing neither have edged up to similar levels. Taking those four statuses in turn, it shows that:

- 38% of all young people are in in employment and not in full-time education (the top blue line);
- 32% are in full-time education but not employment (black);
- 14% are both in full-time education and employed (yellow); and
- 15% are neither in full-time education nor employment (light blue).

These changes reflect long-running structural changes in youth participation in education and/ or work, which combined with a smaller youth population overall has meant that there are now half a million fewer young people in the labour force now than there were a decade ago (around 4.1 million compared with 4.6 million). It is striking, however, that there has not been stronger growth in employment over the last year or so given the tightness of the labour market and growing levels of youth unemployment.

Figure 6: Proportion of young people (aged 16-24) employed and/ or in full-time education



Source: Labour Force Survey

The employment recovery among over-50s continues to stutter

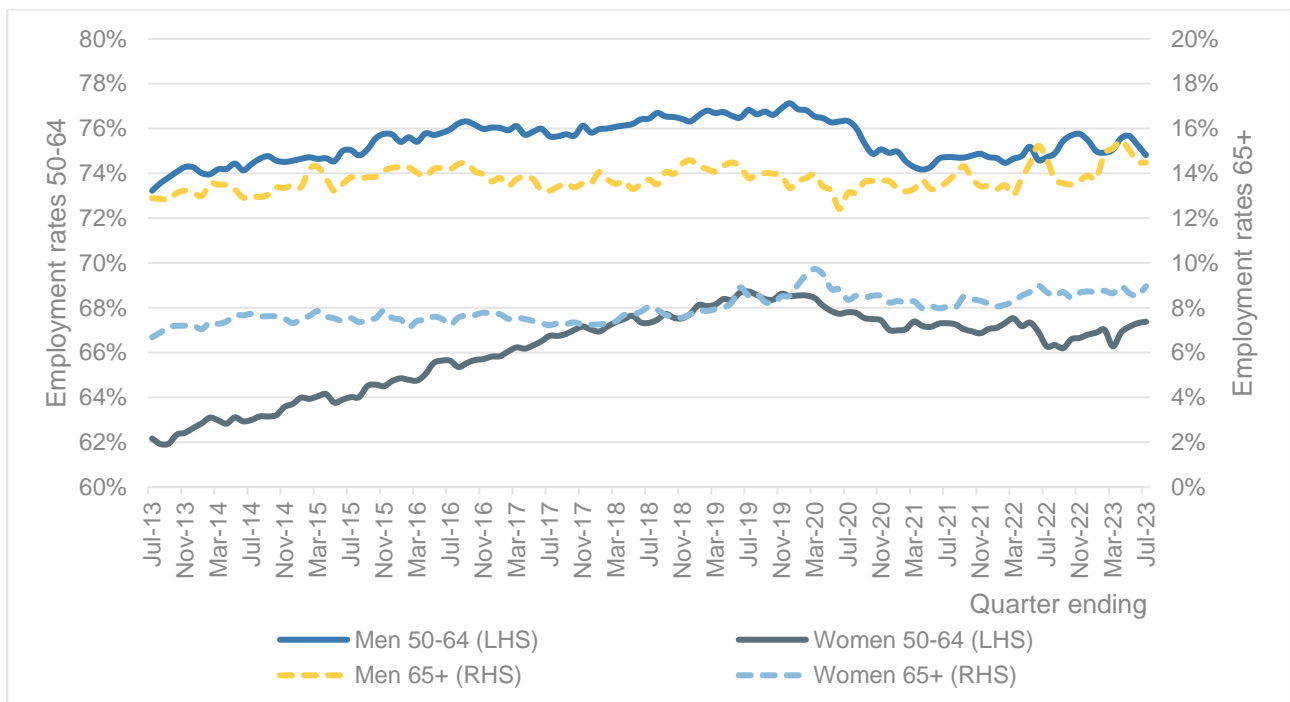
At the same time that the youth labour market appears to be getting weaker, employment among older people is struggling to recover after the disruption of the pandemic. Over the last year, the number of older people in work has grown by around 120 thousand, but this has largely reflected a growing population rather than a great likelihood of being in work. Indeed compared with the eve of the pandemic, the employment rate for those aged 50-64 remains 1.6 percentage points lower than it was, while the rate for those aged 65 and over is unchanged.

Figure 7 below looks at employment rates for older people in more detail, showing those aged 50-64 (solid lines) and aged 65 and over (dotted lines). Employment rates for 50-64 year olds are on the left hand scale, with men in dark blue and women in grey. Rates for those aged 65 and over are on the right hand scale, with men in yellow and women in light blue. This shows in particular that the weak employment recovery for those aged 50-64 is particularly stark when compared with the pre-pandemic trend, which saw strong growth in employment rates for both men and women (and particularly women). Combined with a growing population, this means that employment of older people drove jobs growth in the decade before the pandemic (about two thirds of all employment growth was among those aged 50 and over).

Since the pandemic however, employment rates have been broadly flat and the employment ‘gap’ between men and women has stopped closing (after three decades of falls).

Employment rates among those aged 65 and over have seen little change with the pandemic, and if anything are rising for older men. This likely reflects the impacts of State Pension Age increases, which have overlapped with the pandemic and which previous research has shown do have small positive impacts on employment.

Figure 7: Employment rates for men and women aged 50-64 (left hand scale) and 65 or over (right hand scale)



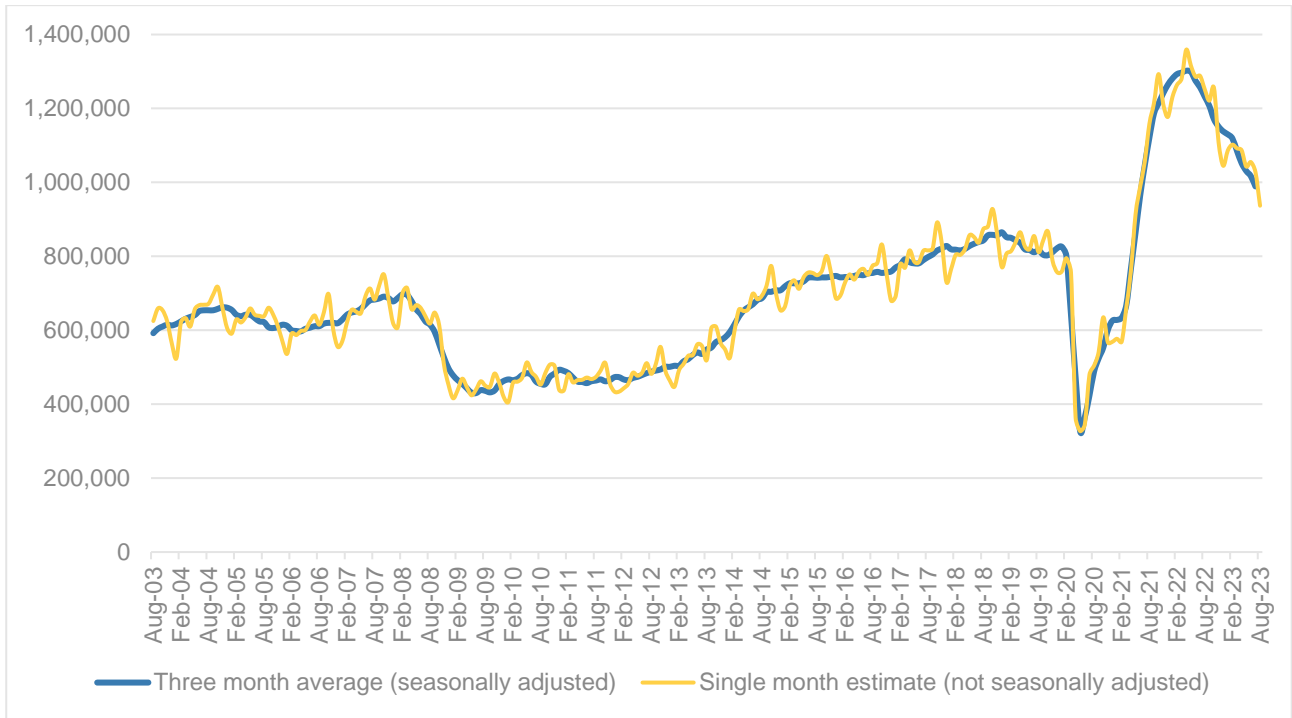
Source: Labour Force Survey

Vacancies are continuing to fall back, pointing to a wider slowdown in some industries

Vacancy levels have fallen by a further 60 thousand in the last quarter and by 270 thousand over the last year (or 21%). These falls have been from an exceptionally high level, driven by changes in demand post-pandemic, high volumes of job moves and relatively weak labour supply. It has been hard to tell over the last year how far the falls in vacancies have reflected the labour market returning more towards ‘normal’, and/ or a wider weakening in the economy. However with vacancies showing little signs of levelling off even as labour supply increases, it does appear that the labour market is cooling off and recruitment slowing (which is borne out in wider economic data too).

The latest vacancy figures are shown in Figure 8 below, which shows quarterly estimates in blue and the single-month estimates which make these up (and which are not seasonally adjusted) in yellow.

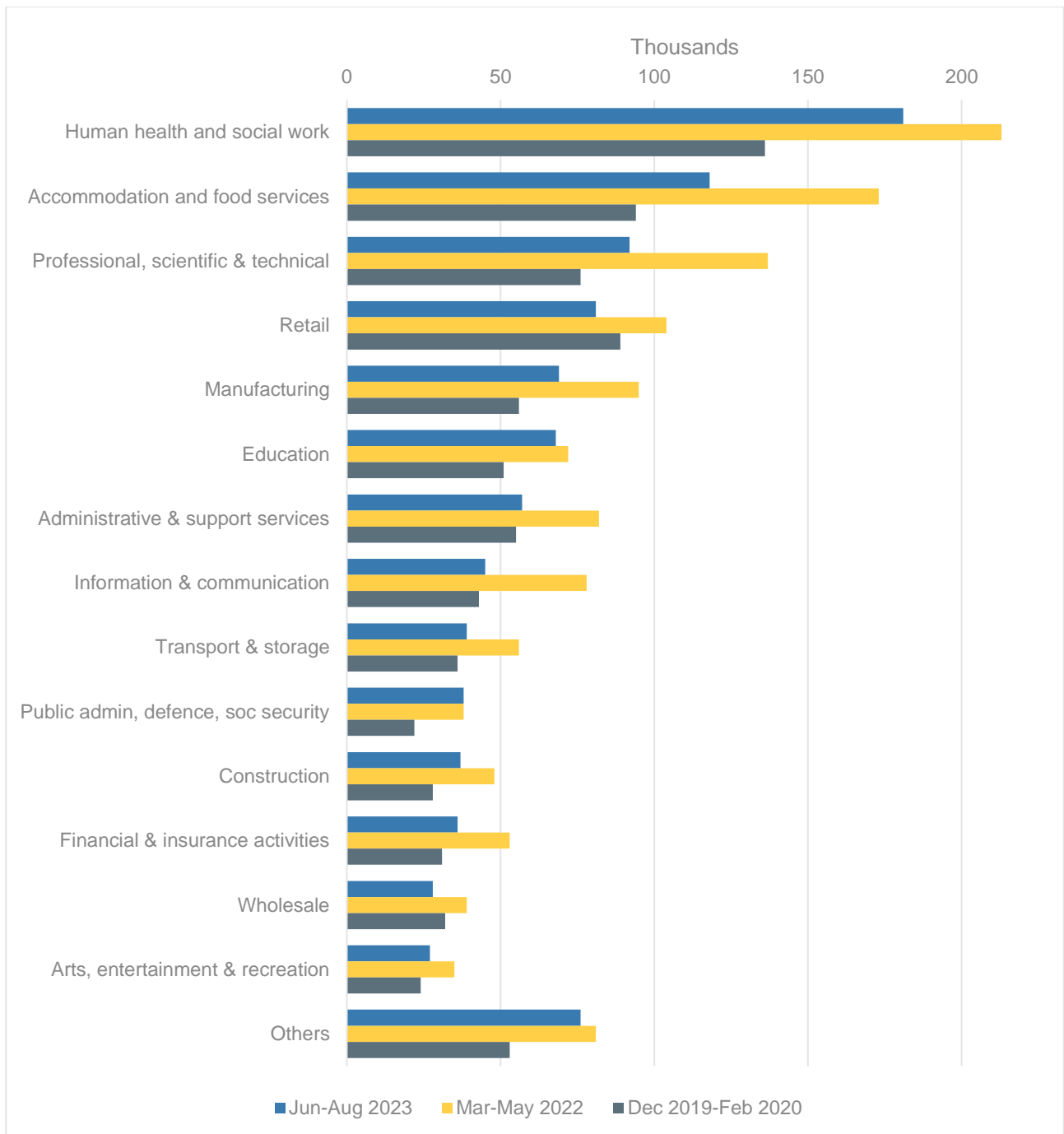
Figure 8: Vacancies – quarterly and single-month estimates



Source: ONS Vacancy Survey

Figure 9 then shows vacancies by industry, comparing the most recent data (in blue) with the figures from when vacancies were at their peak last spring (yellow) and before the pandemic began (in grey). This shows that vacancies have dropped back significantly in a range of private sector-led industries (particularly service industries) but remain fairly strong in the public sector. Compared with a year ago, vacancies in most private sector industries are down by around 25-30%.

Figure 9: Vacancies by industry, pre-pandemic, post-pandemic peak (Mar-May 2022) and most recent quarter (Jun-Aug 2023)



Source: ONS Vacancy Survey

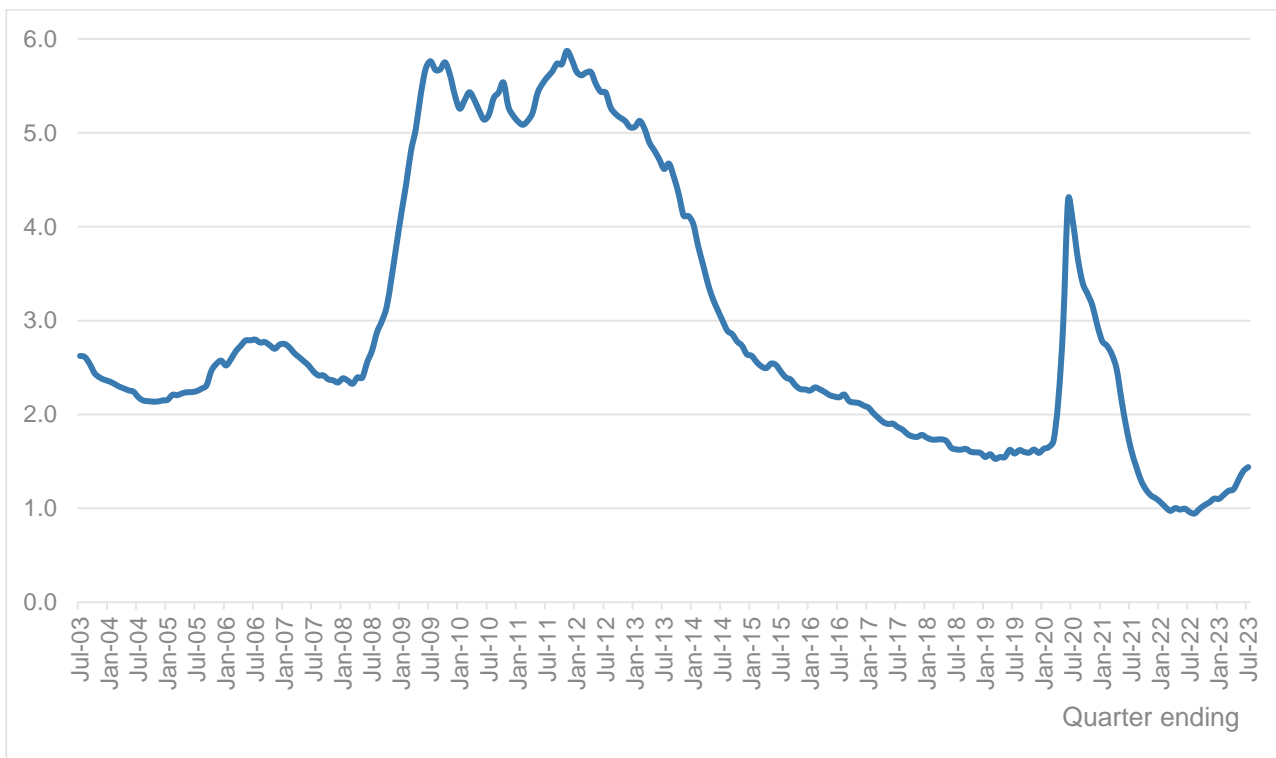
The labour market has loosened, but remains tight compared with the pre-pandemic period

While vacancies have fallen significantly over the last year, Figure 9 shows that they remain well above pre-pandemic levels in nearly every industry (the main exception being

retail and wholesale); and unemployment also remains low by historic standards, despite recent increases. As we have noted in previous briefings and suggested elsewhere in the briefing already, this does suggest that ‘mismatches’ are continuing to hold back economic growth and contribute to higher worklessness, at least in some parts of the economy. People who want jobs are unable to find them or access the support that they need; while employers that want people cannot find them and/ or unwilling to take them on where they may need more investment and support.

One very simple way to look at this is by comparing the number of unemployed people with the number of vacancies, to give a broad indication of the size of the readily available labour pool in relation to the degree of labour demand from employers. This is shown for the last two decades in Figure 10 below. Immediately before the pandemic, there were typically around 1.6 unemployed people per vacancy; which rose briefly to more than four people during the first lockdown, before falling back to its lowest ratio ever (1:1) around this time last year. Since then, the ratio has risen steadily and now stands at 1.44 jobseekers per vacancy. This is lower than at any point before the pandemic, but much less tight than we have seen since the end of the main pandemic period.

Figure 10: Unemployed people per vacancy (exc. Agriculture, forestry and fishing)



Source: ONS Labour Force Survey and Vacancy Survey

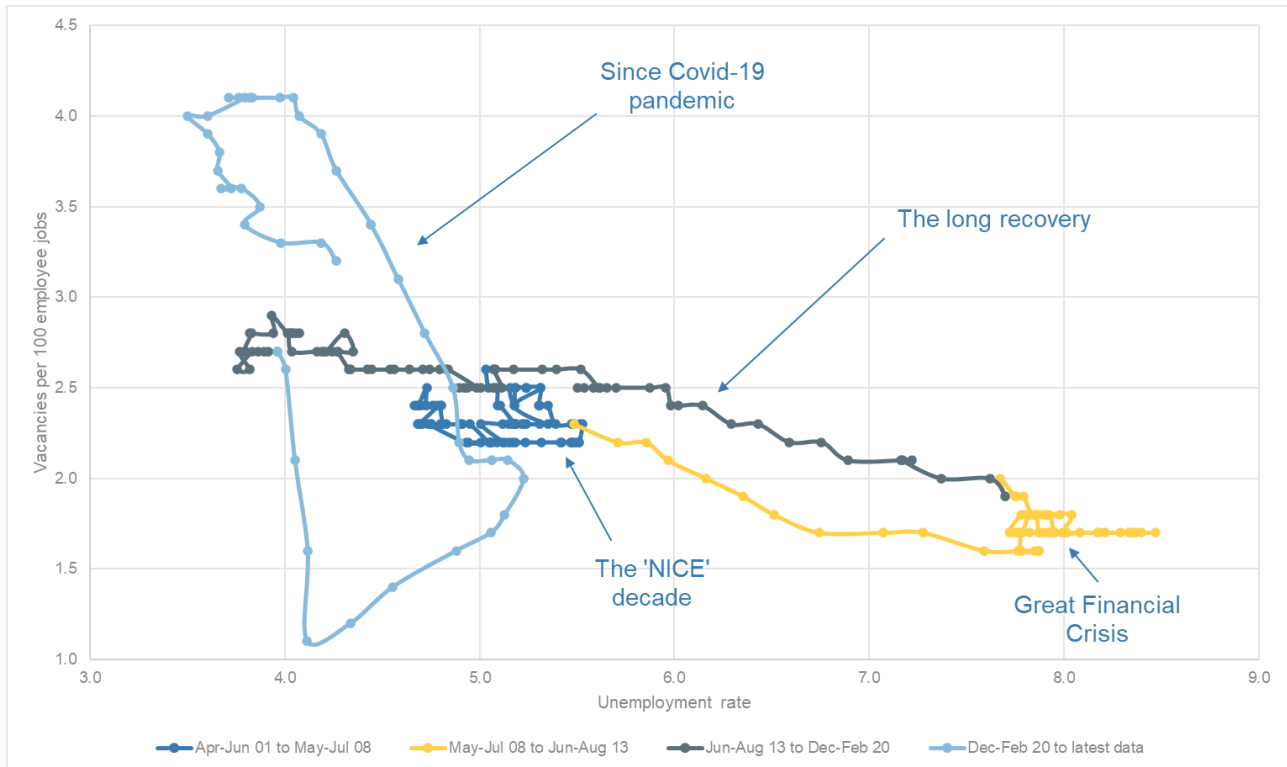
Another way to visualise unemployment and vacancies is through a ‘Beveridge curve’ which plots over time the number of vacancies per 100 employee jobs (on the y axis) and the unemployment rate (on the x axis). Beveridge curves can give an indication as to how efficiently a labour market is working, as in theory when the graph moves away from the two axes it implies that vacancies are not being filled efficiently (for example due to skills mismatches or long-term unemployment). It is also a good way to visualise where we are

in the economic cycle, with movement towards the bottom right during contractions and towards the top left during expansions.

The UK's Beveridge curve is set out in Figure 11 below, covering the period from 2001 to now (May-July 2022). This was last included in these briefings two years ago, and has evolved considerably since. Four time periods have been highlighted, which illustrate:

- A stable period in the early 2000s, perhaps with some signs of a slight decrease in efficiency as the decade wore on;
- The impacts of the Great Financial Crisis, pushing unemployment out and vacancies down;
- A long recovery period, initially on a different path from the recession (implying lower efficiency) but getting increasingly tighter through the end of the decade;
- A very unusual period since the pandemic – with initially a shock to vacancies but little impact on unemployment (due to the government's measures to protect jobs alongside more people staying outside the labour force entirely), followed by a shift to the top left (as the labour market tightened) and back towards the middle again as it has loosened.

In this final period over the last two years, it is noticeable that the line is much steeper than either the yellow or black lines – which illustrates that larger rises in vacancies led to smaller falls in unemployment (suggesting less efficiency, albeit from a much lower base of unemployment). However in the last year or so the line has levelled off and then fallen on a path which is closer to the axes. Assuming vacancies continue to weaken, then, we may see the line drift back towards the black and blue areas (more towards the bottom left of the graph, suggesting a more efficient labour market) rather than away from the axes.

Figure 11: Beveridge curve (unemployment rate to vacancy ratio), 2001-

Source: Labour Force Survey and ONS Vacancy Survey

While this analysis is interesting and may be somewhat useful, it is important to note that Beveridge curves have drawbacks too. In particular, they focus only on unemployment and vacancies and so do not include wider indicators of potential slack in the labour market like working hours/ under-employment or those who are economically inactive but might want or expect to return to work. In addition, this provides a very broad-brush picture that does not account for differences by industry, occupational group or region (and there would be value in exploring how efficiently labour markets are working in each of these cases).

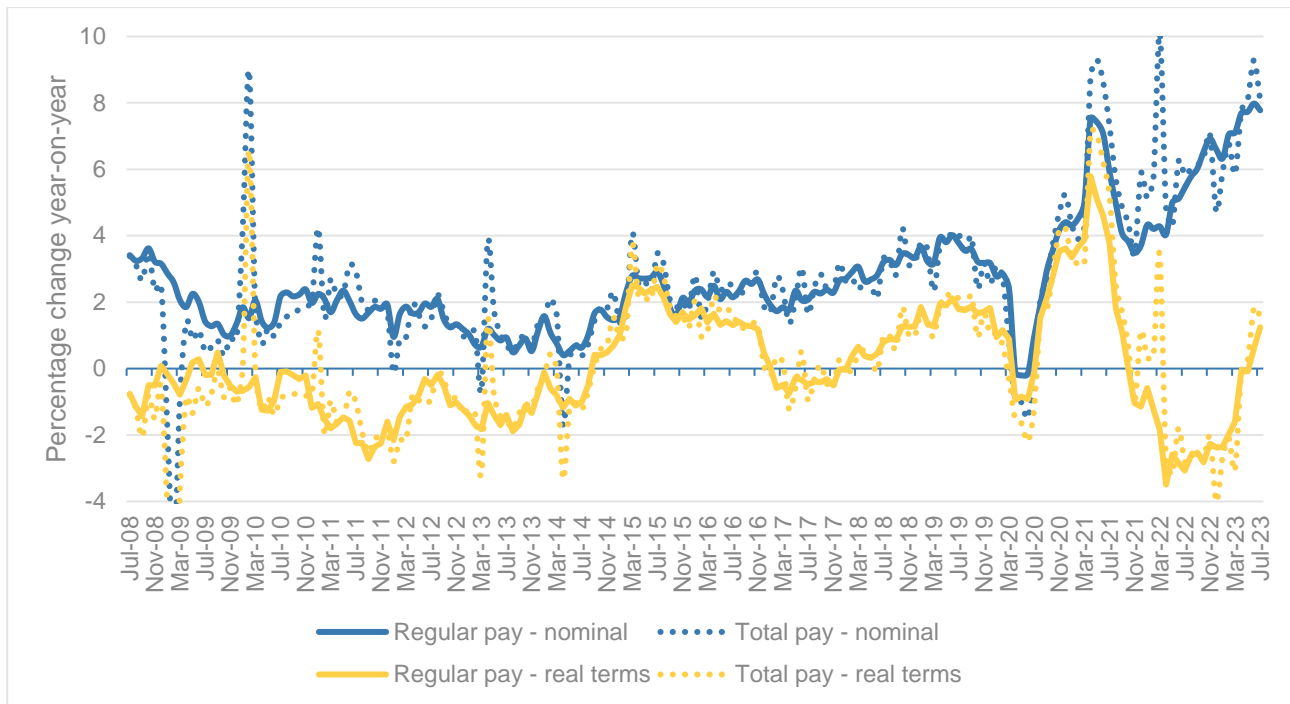
Real-terms pay is up by more than 1%, as nominal pay remains strong and inflation eases

In better news today, figures on pay growth remain very strong – which combined with a fall in the rate of inflation has seen ‘real terms’ pay growth rise at its strongest rate since the eve of the pandemic (excluding 2020/2021, when pay growth figures were distorted by the Coronavirus Job Retention Scheme).

Overall, regular pay was 7.8% higher in July 2023 than a year previously, while total pay (including bonuses) was 8.1% higher. ‘Real’ pay after inflation rose by 1.2% for regular pay and 1.6% for total pay. This is set out in Figure 11 below, which shows year-on-year pay growth in nominal terms (blue) and real terms (yellow) for both regular and total pay –

with the solid lines showing regular pay and the dotted lines showing total pay including bonuses and arrears.

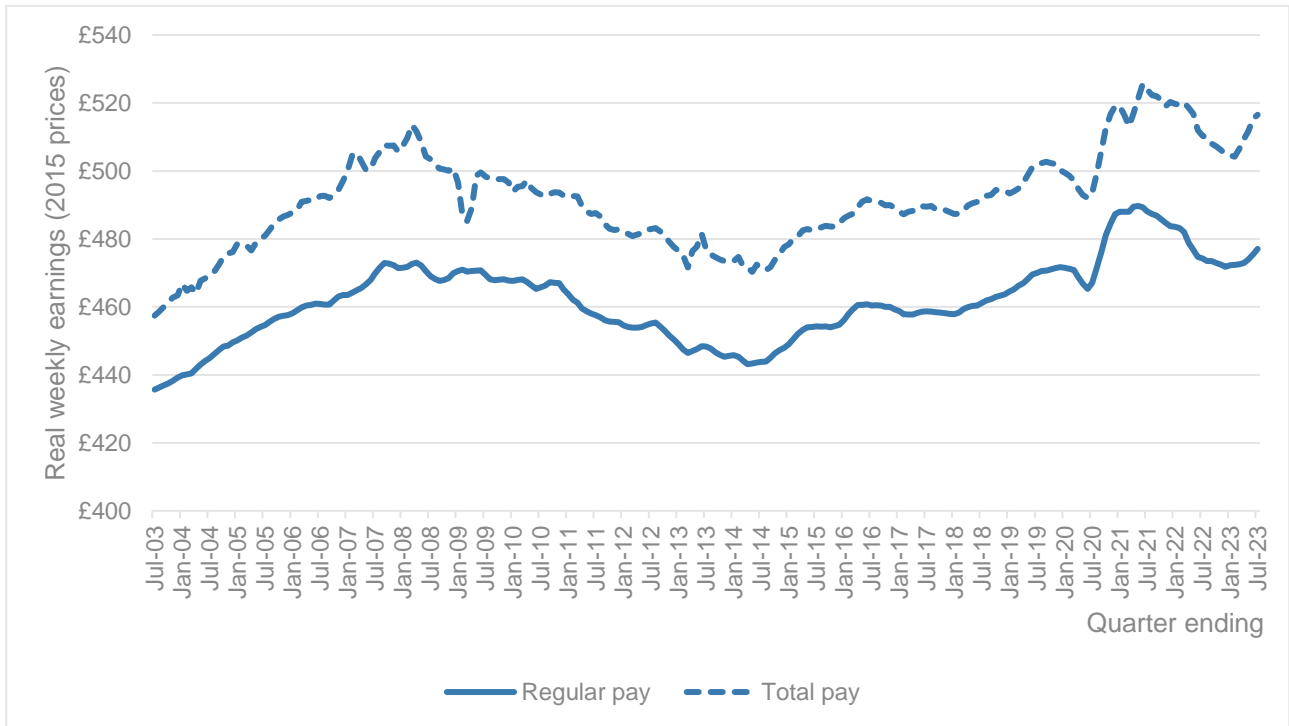
Figure 11: Year-on-year change in regular and total pay – nominal terms and adjusted for inflation (real terms)



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

While this pay growth is welcome – and may be sustained for a few months more, with inflation likely to fall back further – it should be noted that average pay is only now returning to pre-pandemic levels, which in turn had only just recovered the ground lost since 2008. Figure 12 below illustrates this, showing average regular and total pay in real terms over time. Ignoring the distortions caused by the pandemic, regular pay is £5 per week higher than the peak reached on the eve of the 2008 recession while total pay is £3 per week higher. The latter figure for total pay is also likely to drop back again in due course, as the impact of one-off ‘cost of living’ and arrears payments in the public sector drop out.

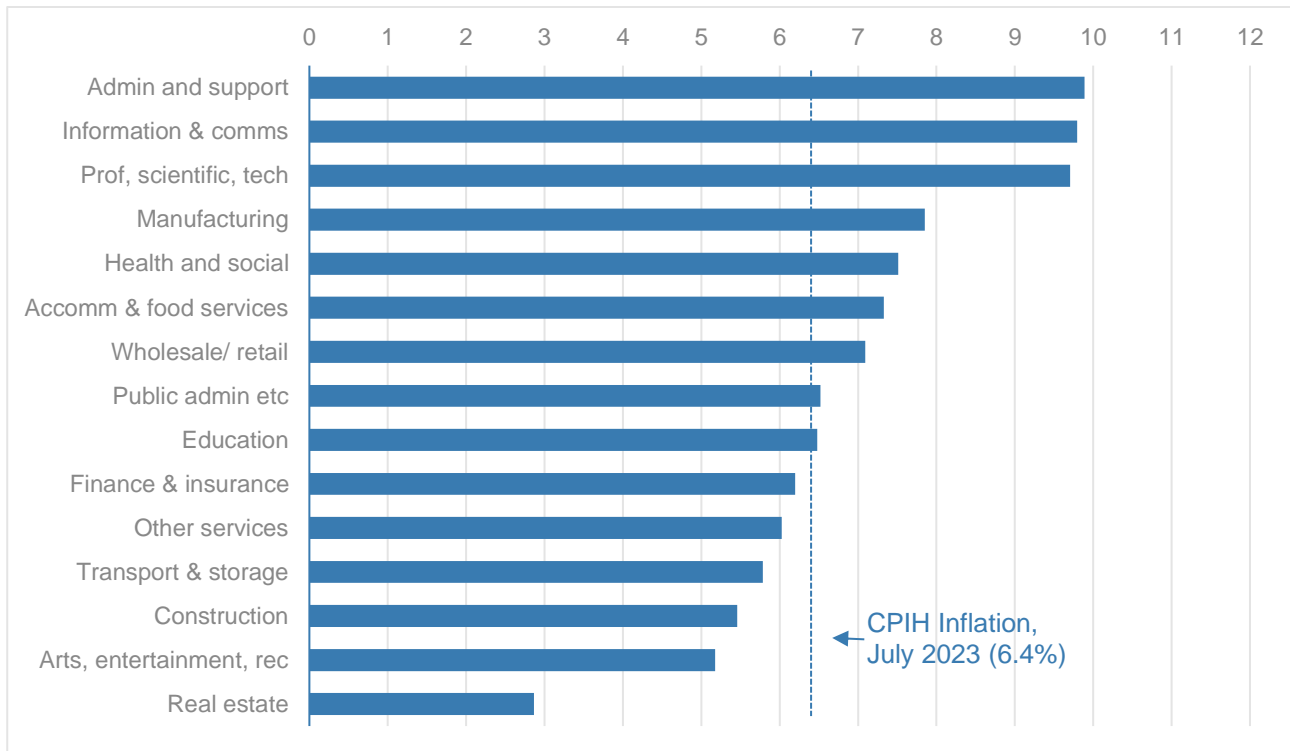
Figure 12: Average weekly earnings, inflation adjusted in 2015 prices



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

Figure 13 then shows pay growth by industry, and illustrates that many industries and particularly private sector services are seeing pay growth well above inflation and often close to 10%. This may seem slightly counter-intuitive given the slowdown in vacancies in these sectors, and likely in part reflects the fact that pay growth tends to lag other indicators (and perhaps partly also a greater ability or readiness to respond to specific shortages through higher pay).

Figure 13: 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 May-July 2023 (not seasonally adjusted).

Conclusion

Overall, despite somewhat positive news on pay, today’s figures were very weak and if anything weaker than we had been anticipating. The figures for young people are particularly concerning today, but are likely also symptomatic of challenges facing many other groups who are less well ‘attached’ to the labour market and struggling to find work once they start looking for it. This includes those with long-term health conditions – with again further rises in those outside the labour force for this reason – and older people, where the employment recovery continues to stall. Alongside this, there are more signs today that the economy and labour market are cooling down, with vacancies falling and showing little sign of levelling off.

As we have said in previous briefings, this mixed (and increasingly negative) picture strengthens the case for doing far more on the ‘supply’ side of the labour market to help more of those who want work to get it, to help employers fill their vacancies, and to support a softer landing if we do see a wider economic slowdown later in the year. The Autumn Statement (budget) is just two months away, and as we have said previously needs to see action on three main fronts:

- Improved access to employment support. The interim report of our Commission on the Future of Employment Support shows that the UK has the least well-used employment

service in Europe, with far too few people who are out of work getting access to employment services. This needs to change, including by extending voluntary access to Jobcentre Plus services, widening access to the Restart Scheme to more of those who want a job, and working better with local partners, providers and recruiters to join up services and support.

- Addressing skills shortages. Given increased economic uncertainty but continued shortages in the labour market, we need more and better ways to provide access to co-funded, flexible and employer-responsive training. This could include making temporary changes to the Apprenticeship Levy to allow employers to draw down funding directly for shorter-term training for new recruits, and giving local partnerships more discretion around the use of adult education budgets and funding.
- Support for (and expectations on) employers. This should include 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 like Enterprise Scotland, Business Wales and Invest NI.

About IES

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