

# Labour Market Statistics, September 2022

13 September 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 May 2022 (the most recent quarter being May to July 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 August 2022, and the Wages and Salaries Survey to July 2022.

## Summary

Today's figures are overall very poor, with employment down, 'economic inactivity' up (the measure of those out of work and not looking and/ or available for work) and real-terms pay falling. Of most concern today, economic inactivity due to long-term ill health saw its largest quarterly rise since comparable records began in 1992, reaching its highest ever level (2.46 million).

These falls in employment and participation are again coming in spite of unemployment plumbing new depths – now at its lowest since 1974 – and continued strong labour demand, leading to the tightest labour market in our lifetimes. Employers simply cannot find the workers that they need to fill their jobs. This in turn does appear to be feeding through into higher nominal pay, which is up by 5.4% year-on-year with private sector pay higher still (on average 6.4%). This at least means that the costs of living crisis is not as bad as it could have been for private sector workers, although in the public sector pay growth is anaemic at just 2.4% – well below its long run trend.

There are also some potential early signs that labour demand may be starting to weaken in the private sector as the combined effect of rising interest rates and higher inflation take their toll, although public sector vacancies continue to rise – likely due to their difficulties in recruiting and retaining staff without significant investment in pay and workforces.

All told, these figures reiterate that we need to do far more – public policy and employers – to help those out of work and who want a job to prepare for, find and stay in work. In

particular this should mean broadening access to employment services – whether on any benefit or none; investing more in specialist support, drawing on the public, private and voluntary sectors; and working far better with employers on job design, recruitment, training and workplace support.

## The employment recovery has gone into reverse, with economic inactivity rising sharply

In our [last briefing note](#) from two months ago we reported that employment was rising and economic inactivity falling, as labour supply appeared to be finally responding to demand. However in the two months since, this picture has reversed pretty dramatically (with last month's figures, covered in [this tweet thread](#), giving an early warning of this change). The employment rate has dropped back to 75.4% – more than a percentage point below where it was before the Covid-19 pandemic – while economic inactivity has risen to 21.7% – its highest in more than five years. This is happening despite unemployment falling to just 3.6%, the lowest rate since 1974.

Lower employment and unemployment means that overall the labour force is contracting, while the number out of work and not looking for work is growing. Figures 1 and 2 below illustrate this. Figure 1 shows quarterly rates (blue lines) and the single-month estimates (in yellow) that combine to form the quarterly average. The trends here are stark, and the underlying single month estimates of employment and economic inactivity for July are particularly worrying (although single-month figures can be highly volatile).

Figure 2 then shows changes in levels (rather than rates) just since the start of the Covid-19 pandemic. This shows clearly the depths of the fall in employment during the pandemic; how the growth in worklessness was then shared fairly equally between unemployment and economic inactivity; but then more recently that economic inactivity has not only not fallen but appears to be rising again – standing at 640 thousand higher than it was before the pandemic began.

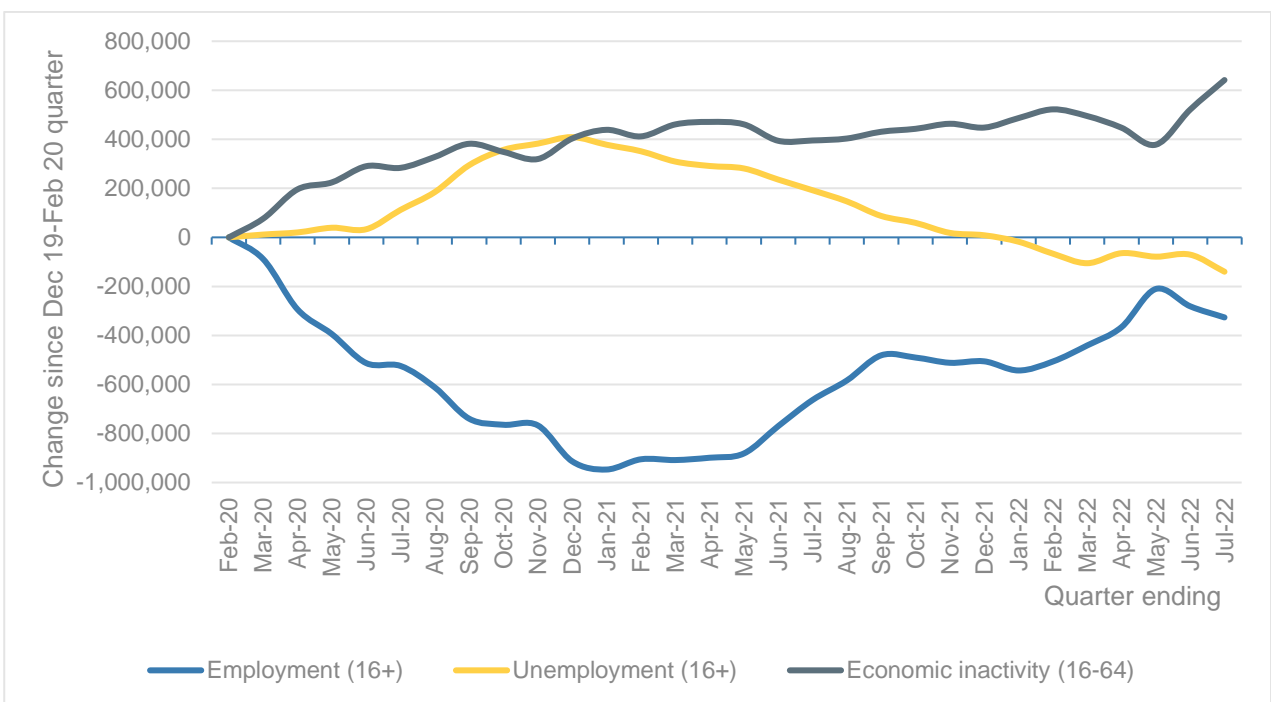
As we've noted in previous briefings, these large falls in participation are even larger when compared with the long-running trend before the pandemic of an ever-growing labour force – driven by population ageing, more women in work and higher migration. Compared with this pre-pandemic trend, and after accounting for recent pension age changes we estimate that there are now 1.1 million fewer people in the labour force than might have been expected.

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



Source: Labour Force Survey

**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

## Worklessness due to long-term ill health saw its largest ever quarterly rise, reaching the highest level on record

Most worryingly in today's figures, this faster growth in economic inactivity appears to be being driven in particular by higher worklessness due to long-term health conditions. Economic inactivity for this reason has now reached 2.46 million – its highest since comparable records began in 1992 – and has risen by 350 thousand since the start of the pandemic. The last quarter alone saw a record rise of 130 thousand. This is shown in Figure 3 below, which illustrates too that worklessness due to long-term ill health started rising before the pandemic began. The below graph also shows that an increase in non-working students has further pushed up economic inactivity in the last couple of months – for reasons that are not entirely clear – while the number of people not working due to caring responsibilities has declined sharply but now appears to be levelling off (perhaps as some of the benefits from flexible working during the pandemic start to unwind).

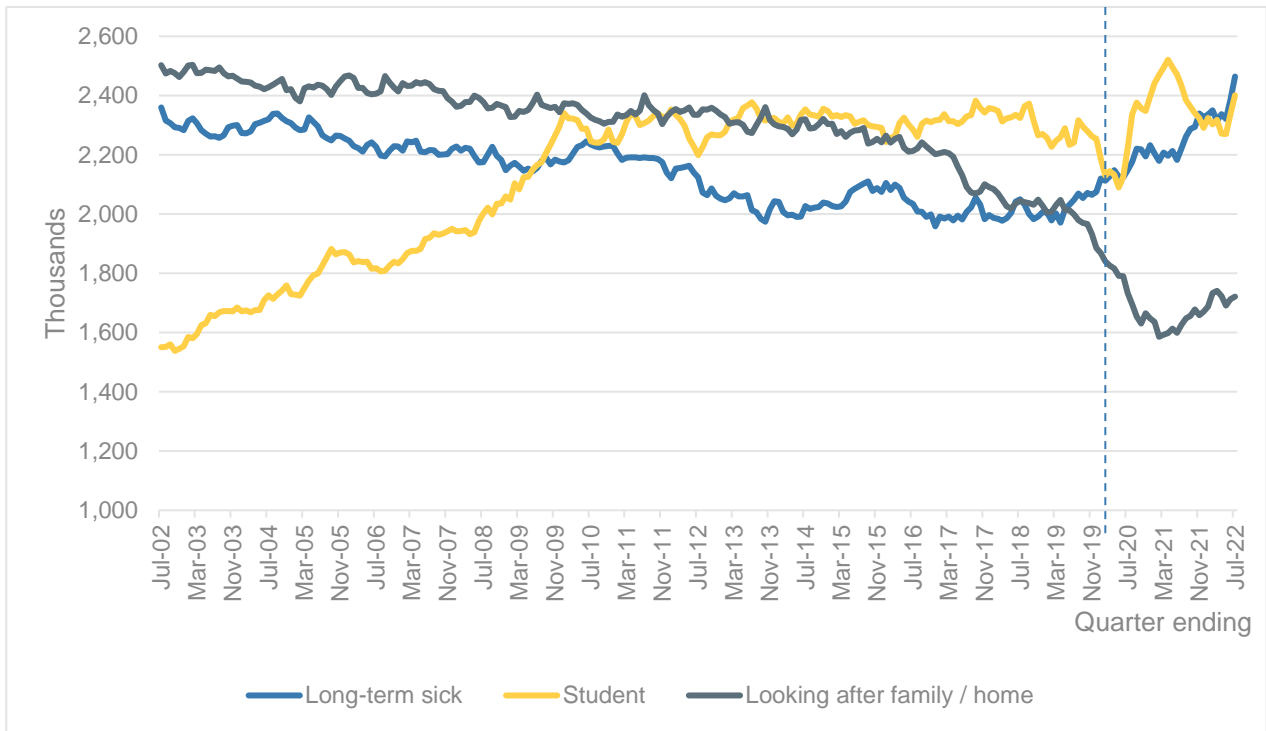
As we have set out in previous briefings, there are likely to be many reasons for this significant growth in worklessness due to ill health – including for example delays in treatment for chronic or work-limiting conditions; a deterioration in population health over recent years (perhaps due to long Covid, or to poorer mental health coming out of the pandemic); people with health conditions staying away from work or losing work due to risks of infection; or people who want to work being unable to access specialist employment support (which is increasingly limited and hard to access)<sup>1</sup>. But whatever the reasons, far more needs to be done to support those who are out of work and who want a job to prepare for, find and keep work – not least as nearly 600 thousand of those out of work due to long-term ill health say that they do want a job (up from half a million a year ago).

Figure 4 then updates previous analysis showing changes in economic inactivity by main reason since the start of the pandemic. This has been discussed in previous briefings, but illustrates again how the drivers of economic inactivity have evolved over the last two years and how far this is now being dominated by long-term ill health.

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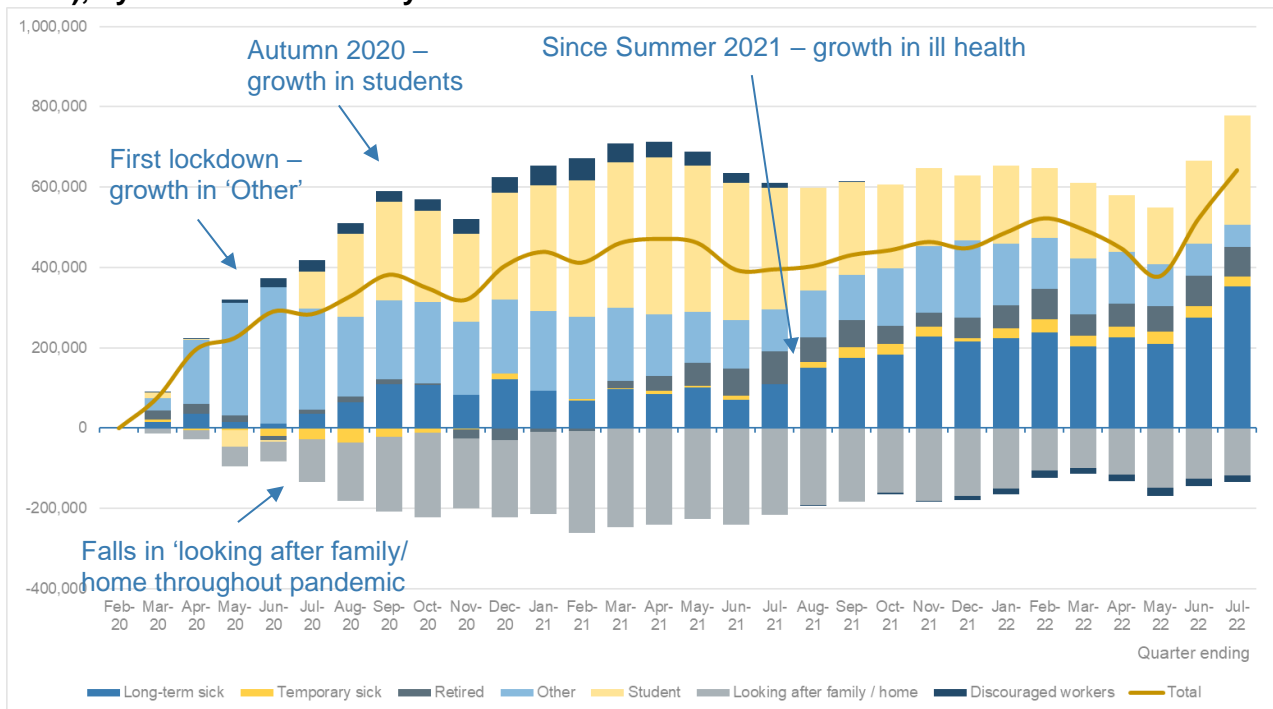
<sup>1</sup> This [recent working paper](#), from Jonathan Haskell and Josh Martin at the Bank of England, has more on some of the potential causes and consequences of higher economic inactivity due to ill health.

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



Source: Labour Force Survey

**Figure 4: Changes in economic inactivity since start of pandemic (December-February 2020), by reason for inactivity and overall**



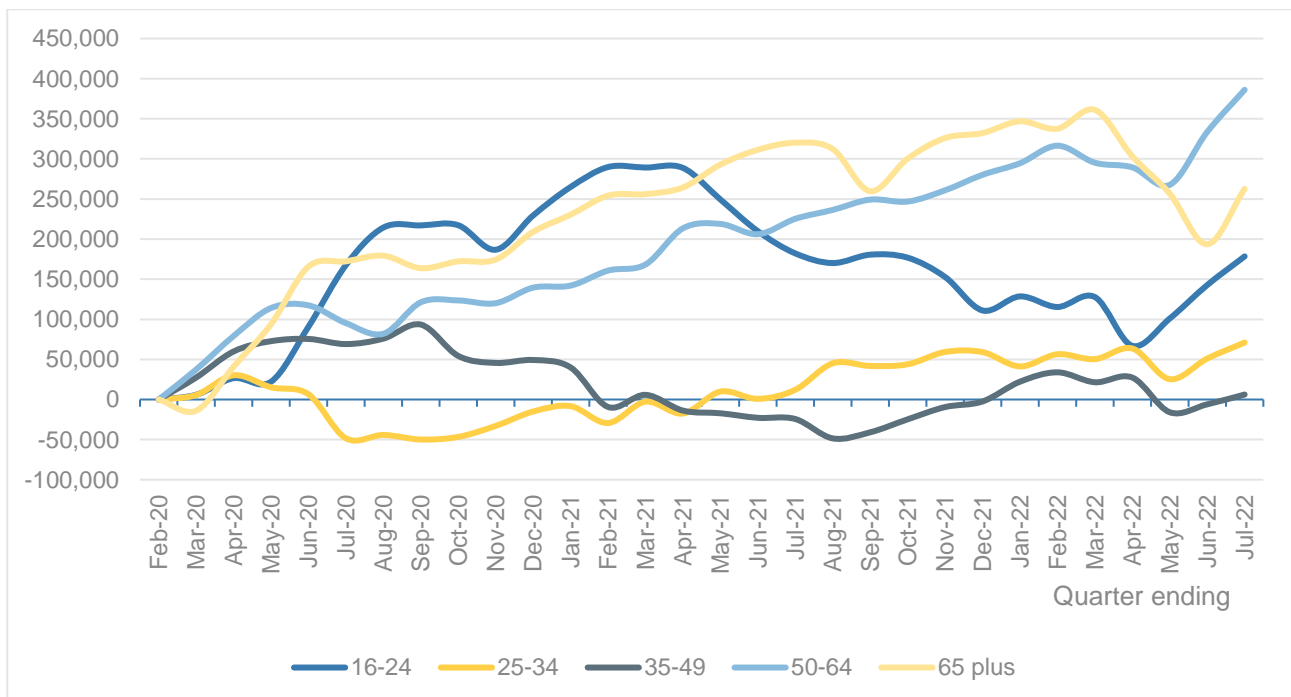
Source: Labour Force Survey

## Worklessness among older people also continues to rise, with talk of ‘unretirement’ proving premature

Previous briefings have also shown that higher worklessness has been driven in particular by fewer older people in the labour force. Some of this growth appeared to be levelling off earlier in the year, but recent months have seen further rises in economic inactivity particularly among those aged 50-64. For those aged 65 and over, economic inactivity appeared to be starting to fall back again – perhaps the impact of the raising of the State Pension Age to 66 between 2018 and 2020 finally starting to show through – but today’s figures have seen a slight deterioration for over-65s as well.

This is illustrated in Figure 5 below. In all, two thirds of the overall rise in economic inactivity (16+) has been among those aged 50 and over. The graph also shows rising economic inactivity for young people – reflecting more non-working students – and perhaps a slight uptick for others too. It should be noted though that even among people under 50, broadly flat economic inactivity appears to disguise changes in reasons why people don’t work – with more detailed analysis suggesting that falls in those looking after family/ home have been offset by rises in worklessness due to ill health. In other words, long-term ill health appears to be affecting all ages, not just older people.

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



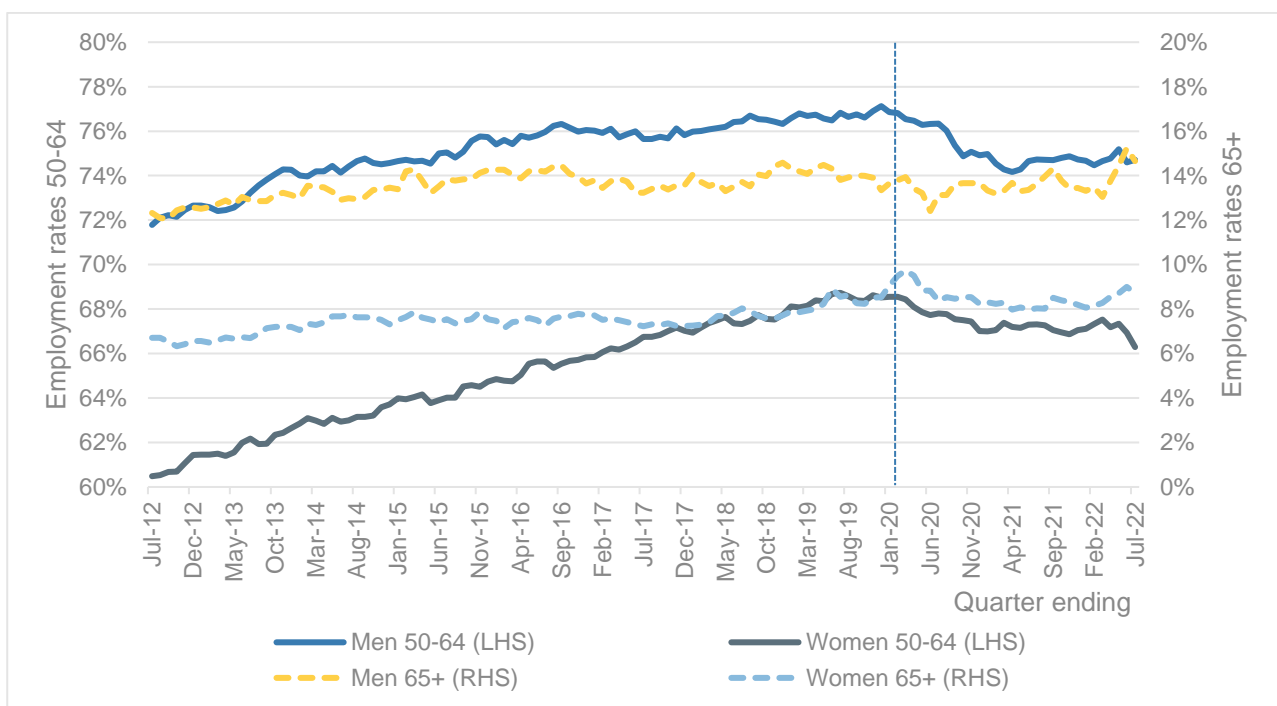
Source: Labour Force Survey

The recent apparent recovery in the labour market for over-50s has also led to some stories of growing ‘unretirement’ as older people start to return to the labour force – perhaps pulled by more jobs and better pay, or pushed by rising costs of living. However

the limited improvement in employment levels overall has largely reflected an ageing population rather than a higher likelihood of older people being in work. Figure 6 below illustrates this, using employment rates rather than levels. The solid lines show the employment rates for men (top) and women (bottom) on the left hand scale; while the dotted lines show rates for men (top) and women (bottom) on the right hand scale. The dotted line indicates the start of the pandemic.

This shows clearly that the pandemic led to significant falls in employment for those aged 50-64, which show very little sign of recovery. This reversed a clear trend of rising employment, particularly for women, with the post-pandemic falls most pronounced for men. For those aged 65 and over the trend has been broadly flat, with very few working overall and any increase likely to be driven in large part by people aged 65 having to wait an extra year for their state pension. There is more on the reasons why older people have left the labour force in [this briefing](#) by the ONS – but to summarise briefly, very few of those in their 50s considered themselves to be retiring, many would come back for the right job, and most are living in pensions/ savings and are not on benefit. So we can do a lot more to extend access to support, and to make work more attractive and accessible.

**Figure 6: Employment rates for men and women aged 50-64 (left scale) and 65+ (right scale)**



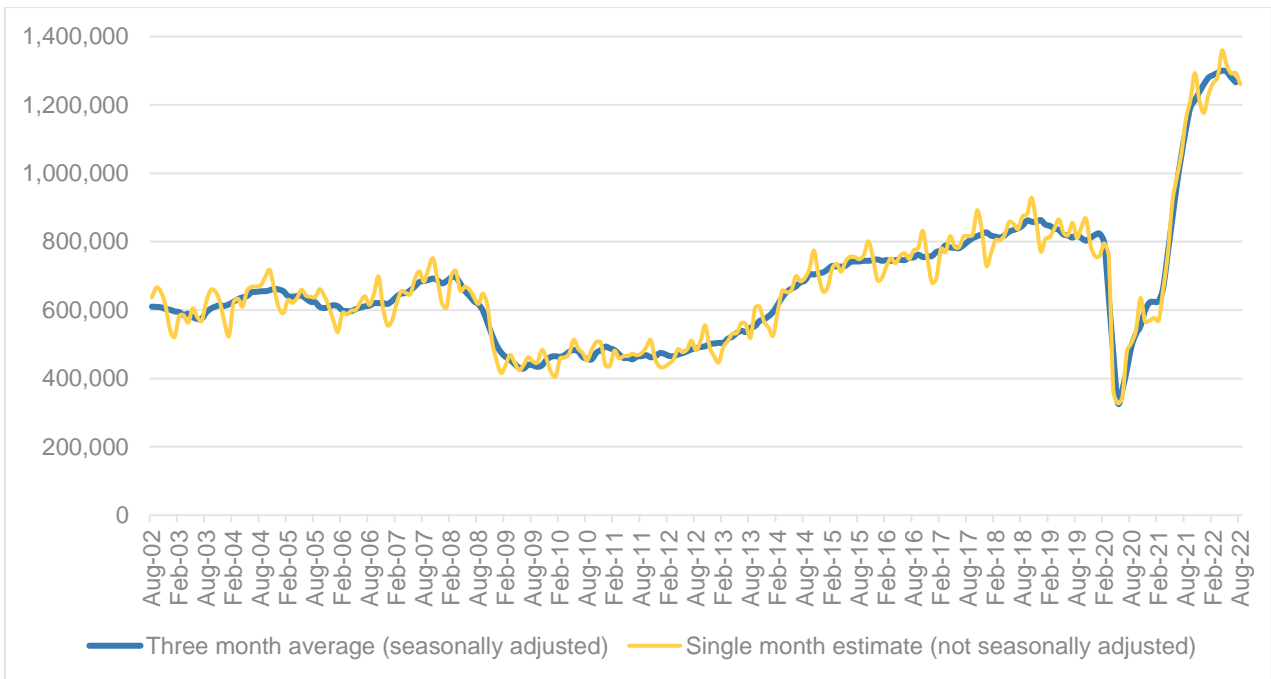
Source: Labour Force Survey

## Despite falling participation, vacancies remain high – leading to the tightest labour market in our lifetimes

The weak figures on employment and economic inactivity are despite continued very high vacancy levels in the economy overall, and across industries. Vacancy data from the ONS measures the ‘stock’ of vacancies rather than the ‘flow’ of new job openings and so

is not always a particularly timely indicator of changes in labour demand. There are also some signs today that demand may be weakening in some private sector industries – perhaps an early sign of a wider slowdown in hiring as the economy cools. However notwithstanding this, as Figure 7 shows vacancies remain above 1.2 million – close to their highest ever, and well above the pre-pandemic trend. The most recent single-month estimates (in yellow) also do not suggest that they are likely to fall significantly in the next month or two.

**Figure 7: Vacancies – quarterly and single-month estimates**



Source: ONS Vacancy Survey

Figure 8 then illustrates how our incredibly low unemployment and high vacancies have combined to lead to an even greater tightening in the labour market, with now 0.96 unemployed people per vacancy – comfortably the lowest figure in at least fifty years. In short, there are not enough workers to fill the jobs that are available.



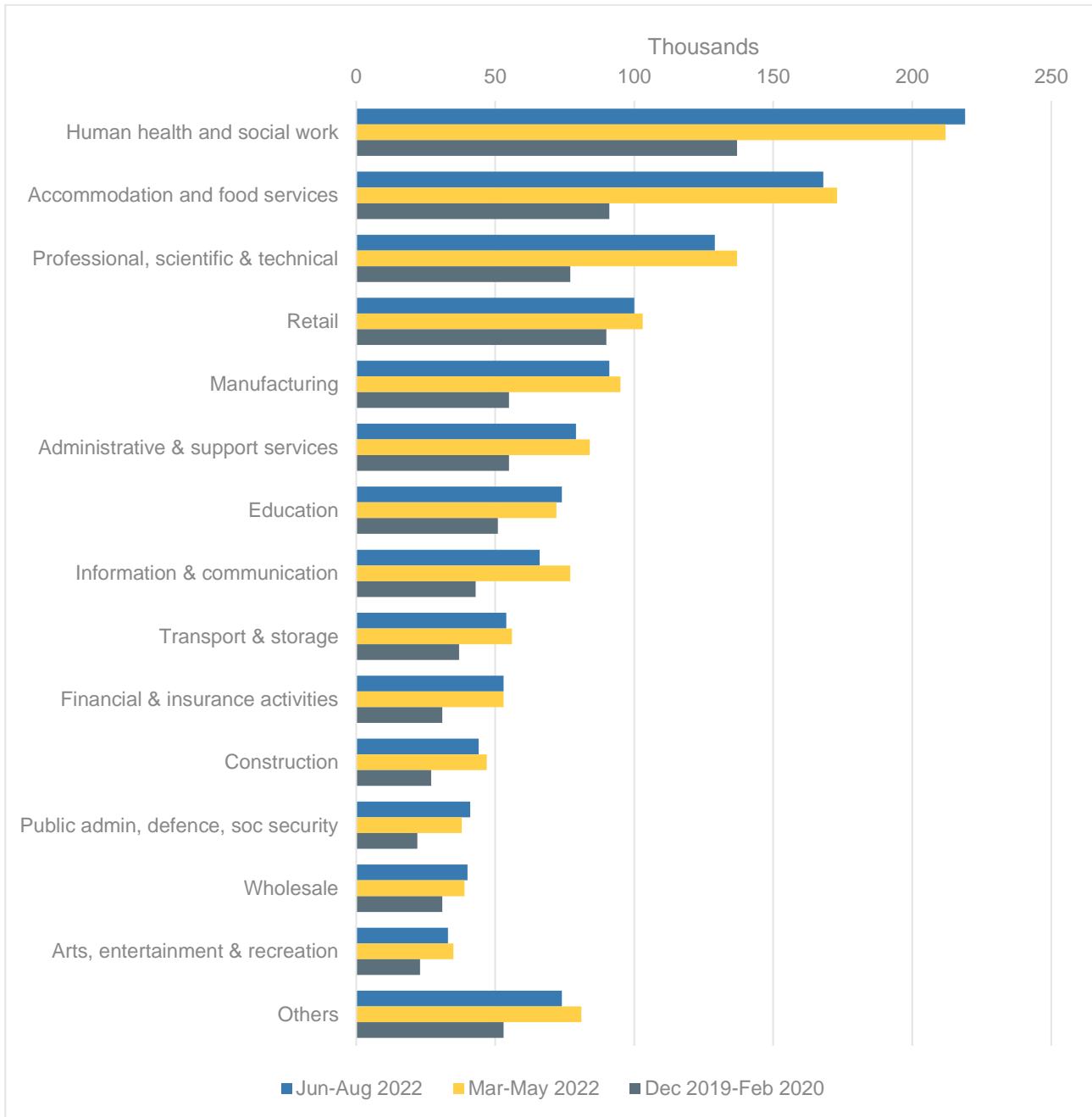
**Figure 8: Unemployed people per vacancy (exc. Agriculture, forestry and fishing)**



Source: ONS Labour Force Survey and Vacancy Survey

Vacancies remain above pre-pandemic levels in all industries, as Figure 9 below illustrates (comparing the blue and black lines). However, there are also clearer signs in today’s data that demand may be starting to cool in a range of private sector industries, with vacancies falling back on the previous quarter (the yellow bar) in a range of sectors including hospitality, professions, information/ technology, retail and manufacturing. At the same time, vacancies continue to rise in many public sector jobs – health/ social care, education and public administration.

**Figure 9: Vacancies by industry, pre-crisis, latest data and previous quarter**



Source: ONS Vacancy Survey

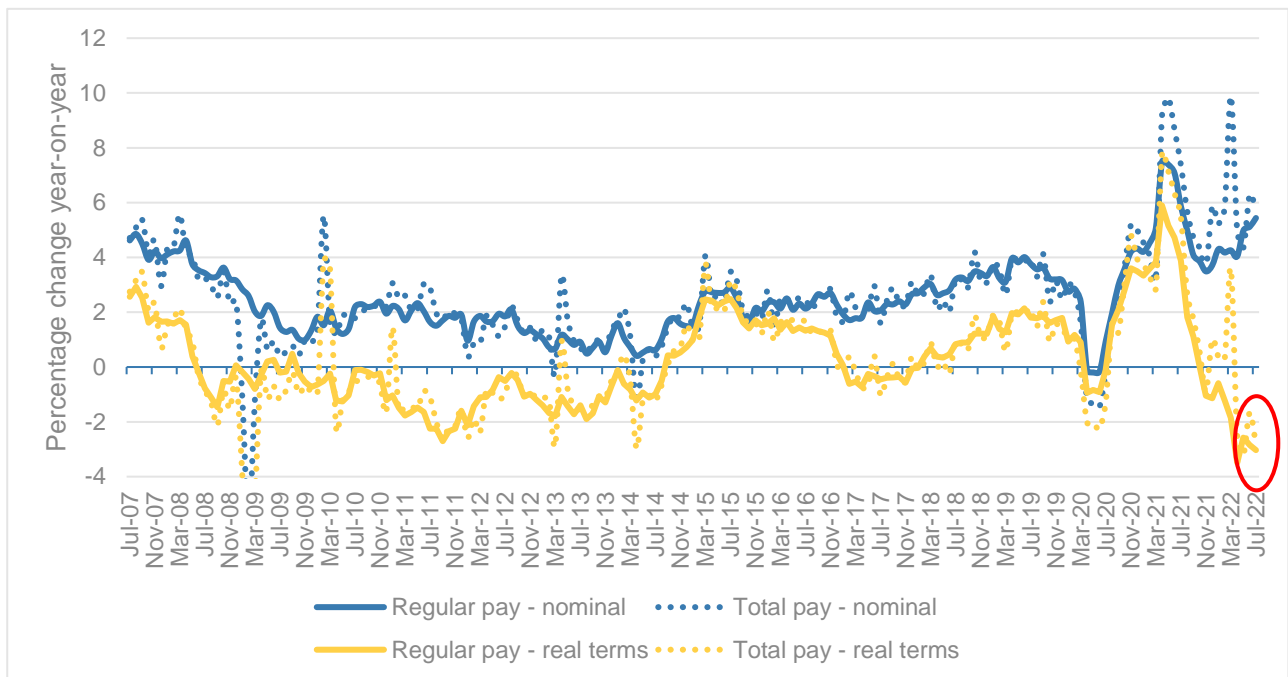
## Strong demand is keeping (nominal) pay growth high, but spiralling inflation is pushing ‘real’ pay negative

This tight picture in the labour market continues to feed through into strong nominal pay growth – up by 5.4% for regular pay between July 2021 and July 2022. However despite these rises, incredibly high inflation means that pay continues to fall in ‘real’ (inflation-adjusted) terms, down by 3.0% for regular pay, the ninth consecutive monthly fall. These divergent trends are shown in Figure 10 below (with nominal pay in blue and real pay

after inflation in yellow – the solid lines indicate regular pay, and the dotted lines pay including bonuses).

Overall the level real terms pay, after a strong recovery in late 2020 and 2021, is now back where it was on the eve of the financial crisis in 2008.

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

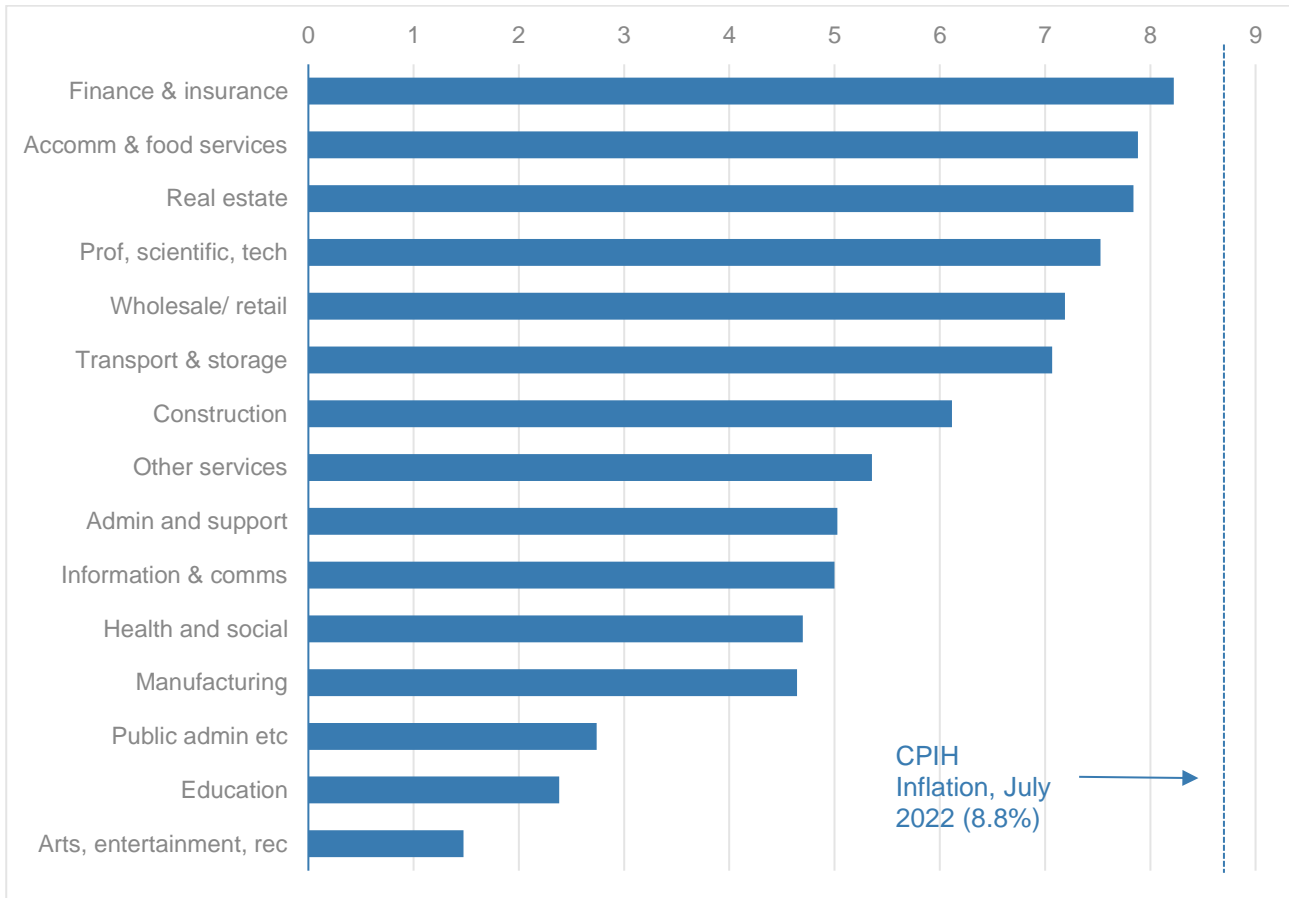


Source: ONS Monthly Wages and Salaries Survey. Regular pay excludes bonuses and arrears; measure shown is year-on-year change in single month estimate.

These headline figures also disguise very different trends for the public and private sectors, as noted in our last briefing. Private sector regular pay is up by 6.2% year on year, while for the public sector it has risen by just 2.2%. By comparison, in the two decades before the pandemic, pay growth averaged 2.8% in the private sector and 3.0% in the public sector. More detailed analysis by industry (Figure 11) illustrates how pay has grown most strongly in private sector services – many of those industries that were most struggling to recruit in recent months – and has grown by the least in many public services – which unsurprisingly are seeing vacancies continue to rise.

As noted in previous briefings, there are likely still some lingering distortions in this data from people on furlough in July 2021 (particularly in hospitality), but the broad picture is nonetheless clear. What is also clear though this month (unlike previous months) is that no industries are seeing pay grow by more than CPIH inflation. In real terms, pay now appears to be falling everywhere.

**Figure 11: 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 Feb-Apr 2022 (not seasonally adjusted).

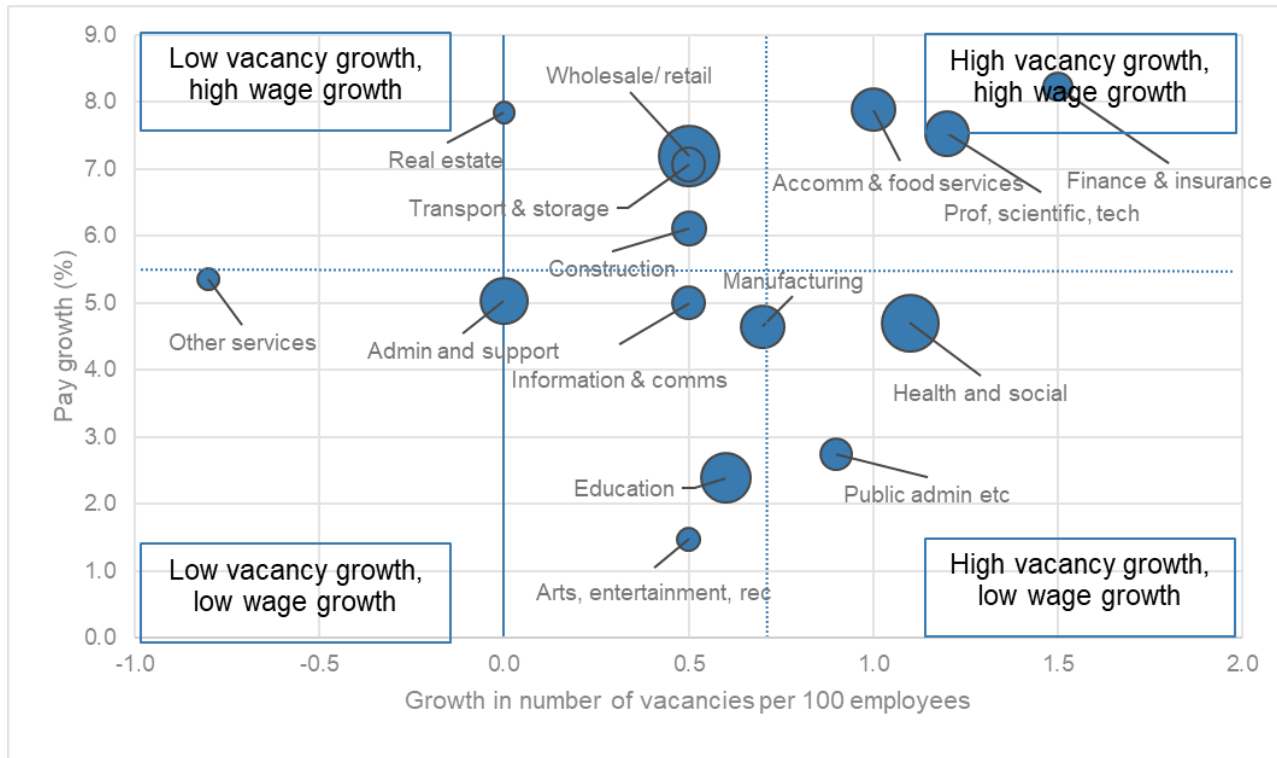
Figure 12 shows the relationship between changes in the ‘vacancy ratio’ by (the number of vacancies per 100 employees) and in pay by industry, with the size of the bubble indicating the relative size of each sector in terms of employment. Vacancy data is for the most recent quarter (June-August), while pay data again averages single month estimates for May, June and July. The dotted lines indicate the average growth for each.

In our last (July) briefing, the correlation between vacancy and pay growth appeared to be getting stronger, but it is not as clear in the graph below. Nonetheless it is still the case that private sector services are predominantly in the top right hand quadrant (strong vacancy and pay growth) although some are shifting left (towards lower vacancy growth). The Bank of England’s intention and hope, with raising interest rates, will be to see more shift left and then down, with lower pay and vacancy growth. The graph also shows though show how public services in particular are drifting to the bottom right – with continued shortages but weak pay growth, and the two factors surely linked.

As we have set out previously, the more that we can do to boost labour supply, the less that the Bank will have to do through interest rate rises to weaken demand – and the more we can do too to relieve pressure on public services. This will also become even

more important if the government really does follow through on large scale tax cuts and fiscal stimulus.

**Figure 12: Year on year growth in vacancies (per 100 employees) and total pay, by industry**



Source: IES analysis of ONS Vacancy Survey (VACS02) and Monthly Wages and Salaries Survey (EARN03). Vacancy growth is June-August 2022 compared with same quarter in 2021; pay growth is average of published single-month estimates of year-on-year growth for May-July 2022. Size of bubbles indicates size of industry by employee jobs.

## Employment is slowing for men and women, and particularly in full-time work

Finally, Figure 13 below updates analysis last published in our June briefing, showing the change in part-time, full-time, employee and self-employed work for men and women since the onset of the pandemic (with the line then showing the overall change).

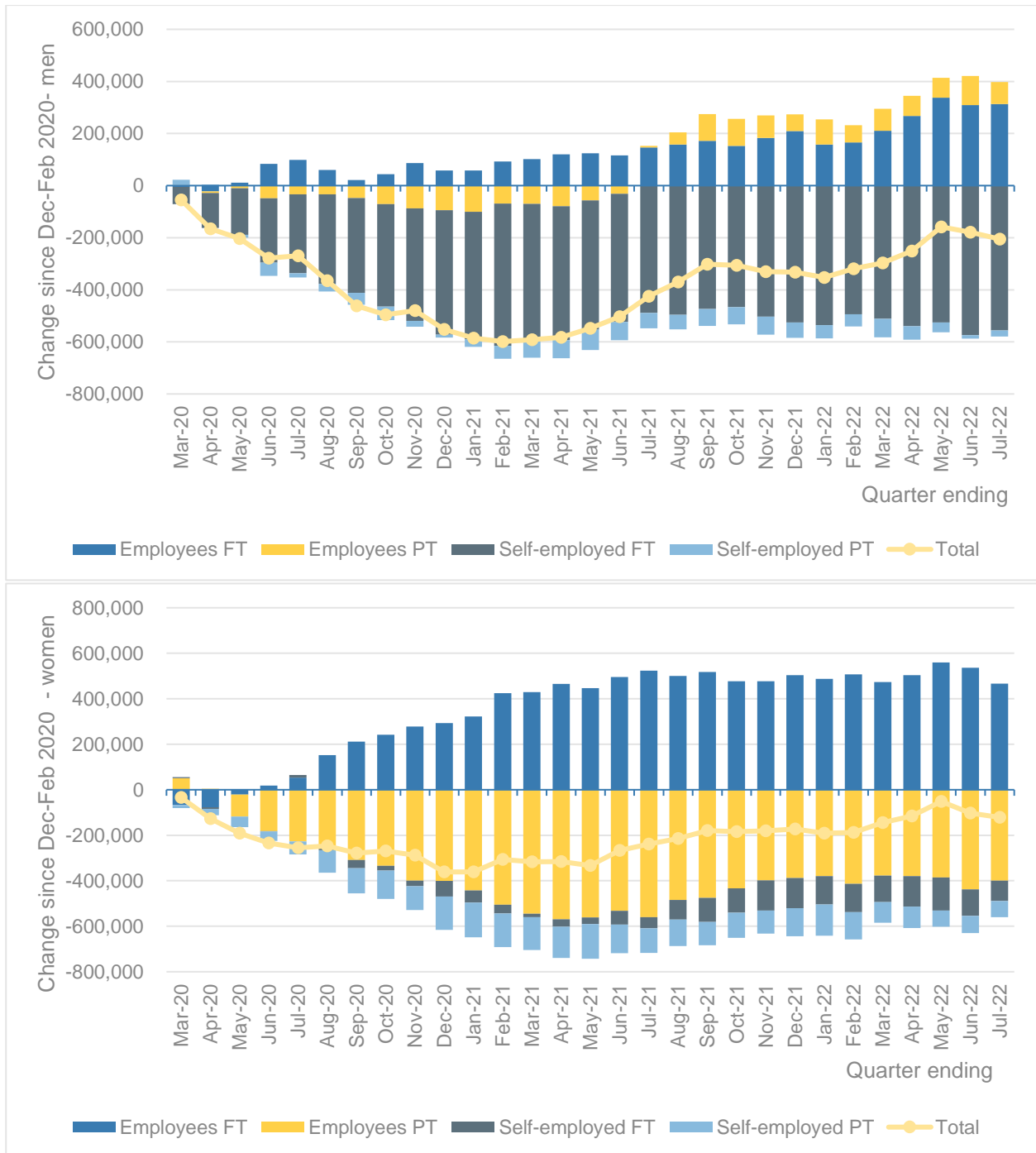
The headline trends in that time have been large falls in self-employment (particularly for men) and part-time work (particularly for women) and strong growth in full-time employee jobs. We have set out some potential drivers of this in briefings last year – including around changes in tax treatment of self-employment<sup>2</sup>; how freelancers/ contractors

<sup>2</sup> Explored in more detail in the [January briefing note](#).

describe their employment relationship; and more people being able to (or needing to) work longer hours during the pandemic.

In the most recent few months though, as the employment recovery appears to have reversed, we can also see that this is being primarily driven by fewer full-time jobs – employee and self-employed for men, and employee jobs for women. A number of factors could be at play here, but interestingly there has also been a slight fall (for both men and women) in those who are working part-time because they could not find a full-time job. So this may be reflecting people being able to work more flexibly rather than a weakening in demand.

**Figure 13: Change in full-time, part-time, employee and self-employed work since start of crisis (December-February 2020 quarter) – for men (top) and women (bottom)**



Source: Labour Force Survey

## Conclusion

Today's figures overall are very concerning and will likely be ringing alarm bells in government and with new Ministers. It is clearer now than ever that we need to do far more to boost participation in work – which will be good for those out of work who want a

job, good for household incomes, good for the economy and inflation, and good for our public services. This means in particular doing far more to extend employment support and services to those out of work who want help to prepare for and get into work – especially older people and those with health conditions. These need to be open to people whether they are on any benefit or none, and draw on expertise across the public, private and voluntary sector – including but not limited to Jobcentre Plus. Many of these services more than pay for themselves, and it is a false economy to not invest in them now – especially as there is at least £2 billion underspent through Plan for Jobs and Spending Review measures (in particular on Restart, Kickstart and Jobcentre Plus support). This also needs local co-ordination and leadership, and access to employment support in different services and settings (as the Local Government Association has set out in its [Work Local](#) proposals).

Employers need to step up too, as many are doing, with more inclusive and straightforward recruitment, better job design, more flexibility and security at work, greater access to training and improved workplace support. Local and national government can do more too to support this (with recent [IES work for the LGA](#) setting out a number of key lessons and good practices already).

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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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