ies Briefing

Institute for Employment Studies

Labour Market Statistics, January 2024

16 January 2024

This briefing note sets out analysis of the Labour Market Statistics published this morning. As with last month, there is no **Labour Force Survey (LFS)** data published today as this has been withdrawn by the ONS due to concerns around its reliability.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 now intending to publish revised LFS estimates with next month's release (February 2024). In the meantime, the ONS is using 'experimental' data to estimate employment, unemployment and economic inactivity, with this derived from **HMRC Pay As You Earn (PAYE) data** and the **Claimant Count**. This is set out in Figure 1 below and covers the period to November 2023.

In addition, today's briefing covers data 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 December 2023, and the Wages and Salaries Survey to November 2023.

Summary

Could the economy be heading for a soft landing?

Today's figures show the labour market continuing to cool down, with vacancies falling by a further 50 thousand on the quarter (to 935 thousand) and earnings growth dipping below 6%. However they also show an unexpected slight improvement in the estimated employment rate, driven by falling 'economic inactivity' (the measure of those outside the labour force and not looking and/ or not available for work). Combined with decent GDP estimates last week, and likely further falls in inflation tomorrow, these are all positive signs.

However, there are important reasons to be cautious too. Firstly, there remains significant uncertainty around labour market data – and in particular, estimates of employment, unemployment and economic inactivity are based on underlying population figures that have been subject to significant revision and are currently under review. Secondly, the employment rate remains below where it was before the pandemic and earnings have barely reached where they were fifteen years ago. And thirdly, higher living costs (and more people facing higher mortgage repayments as fixed terms expire) will continue to

dampen demand and weaken growth in the year ahead. So even if we avoid a recession, there remains a lot of ground to make up in the recovery.

Hopefully next month's release should see publication of revised Labour Force Survey estimates and enable us to better understand recent trends. In the meantime though, today's figures appear broadly positive, and are welcome news to start the year.

Employment up, economic inactivity down – but we won't know why until next month

This month's 'experimental' estimates of employment, unemployment and economic inactivity paint a slightly better picture than recent months, with the estimated employment rate edging up by 0.1 percentage points to 75.8%, economic inactivity down by 0.1 points to 20.8%, and unemployment unchanged at 4.2%. This is shown in Figure 1 below, with the shaded blue area indicating the period for which the regular LFS estimates have not been available.

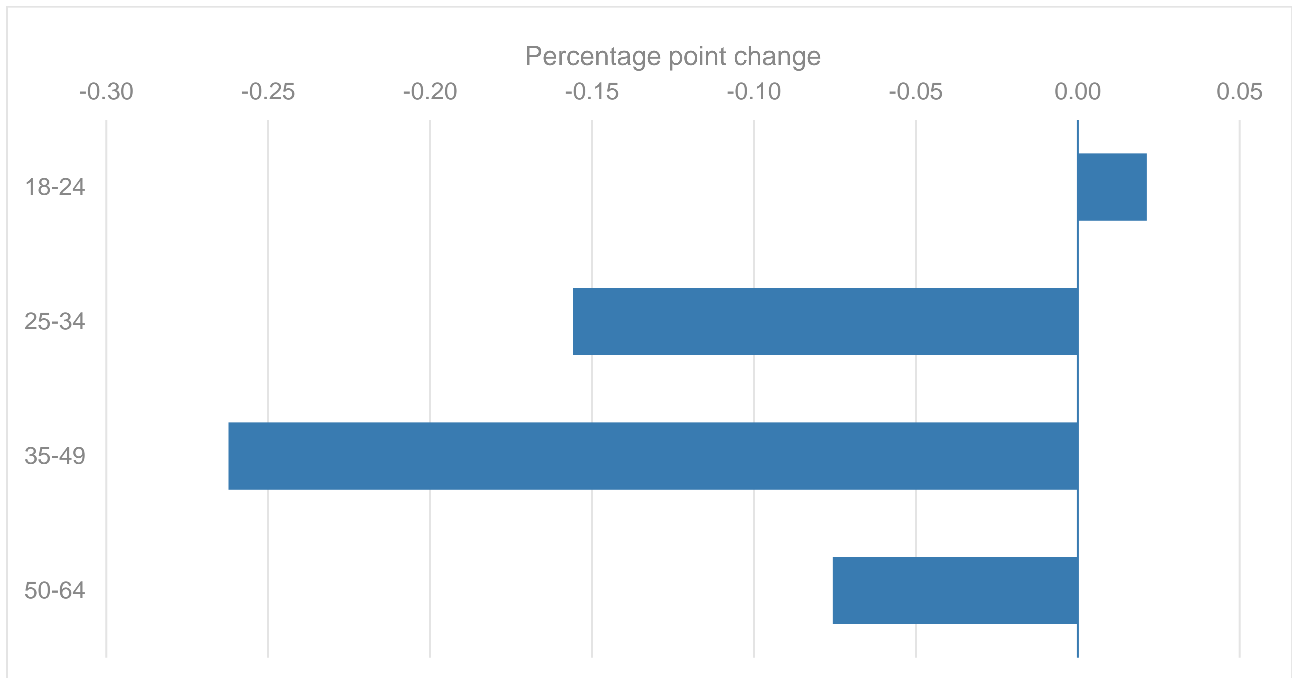
This slight improvement in the labour market, if genuine, is welcome news and somewhat unexpected given wider indicators of weak growth and a slowdown in hiring in the autumn (although the latest GDP figures, for the month of November, were more positive). They should probably also continue to be treated with caution, as there remains uncertainty around the population estimates that underpin these rates (the experimental estimates are based on estimates of payrolled jobs from PAYE data (a proxy for employment) and the 'Claimant Count' from benefits data (a proxy for unemployment) with economic inactivity then estimated as the residual figure but based on population estimates that are being revised).

Nonetheless, the ONS does also publish experimental estimates by age group and so Figure 2 below shows the ONS's estimate of the percentage point change in the economic inactivity rate between the June-August quarter and the most recent September-November quarter. Again this should be treated with caution but suggests that the main quarterly falls in economic inactivity have been among those aged 25-49 (and particularly the age group 35-49). If borne out by the revised LFS data next month, then this would suggest that recent falls are mainly not being driven by fewer economically inactive young people (i.e. fewer students) nor by a recovery in employment among older people.

Figure 1: Employment, unemployment and economic inactivity rates (%)

Source: ONS experimental estimates, dataset X10. Dotted line indicates start of lockdown; shaded area covers period that LFS data has been withdrawn.

Figure 2: Quarterly change in economic inactivity by age group (Jun-Aug to Sep-Nov 2023)



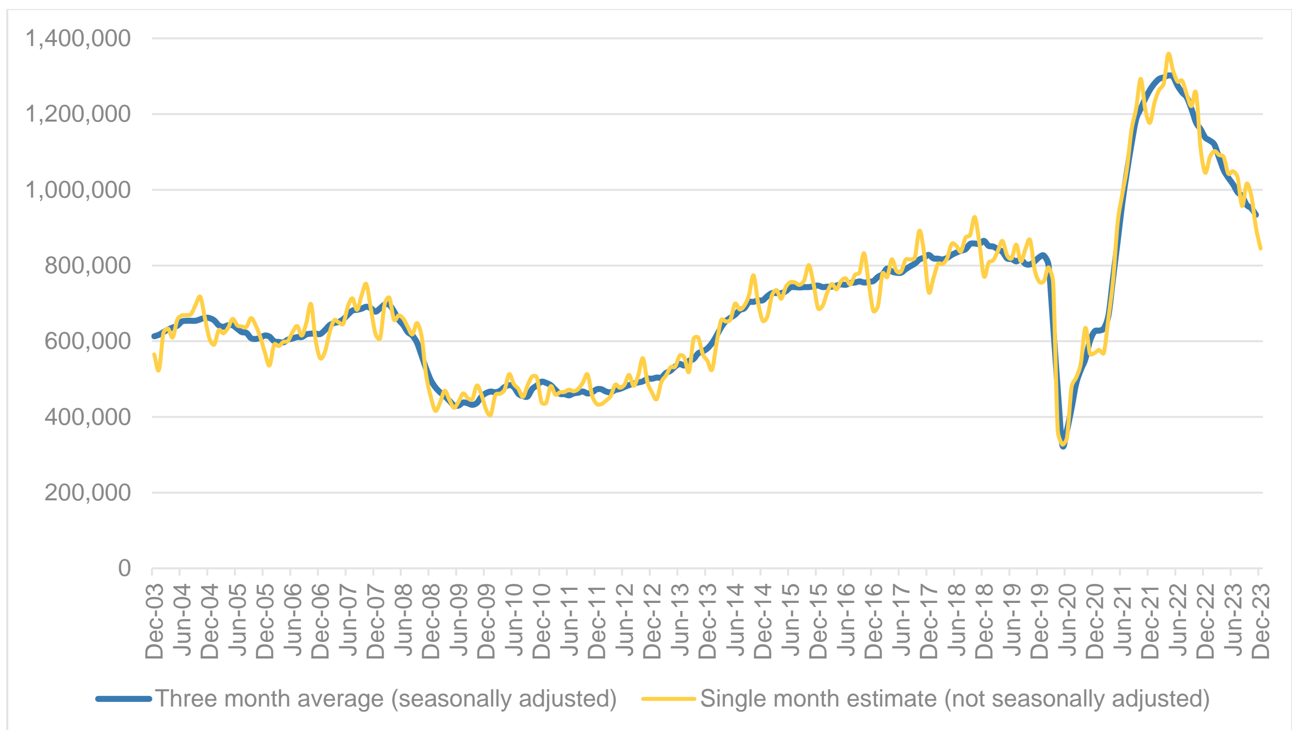
Source: ONS experimental estimates, dataset X10

Vacancies continue to fall across industries, although they remain above 2019 levels

Wider indicators point to a continued slowdown in demand, with vacancies falling for the eighteenth consecutive month to 934 thousand (down by around 50 thousand on the quarter and by around 230 thousand on a year ago). This is shown in Figure 3 below, with the seasonally adjusted quarterly estimate in blue and the unadjusted monthly estimate in yellow (the large monthly fall in December is consistent with seasonal trends). This also illustrates that while vacancies are down overall, there are still more than 100 thousand more vacancies in the economy than there were before the Covid-19 pandemic.

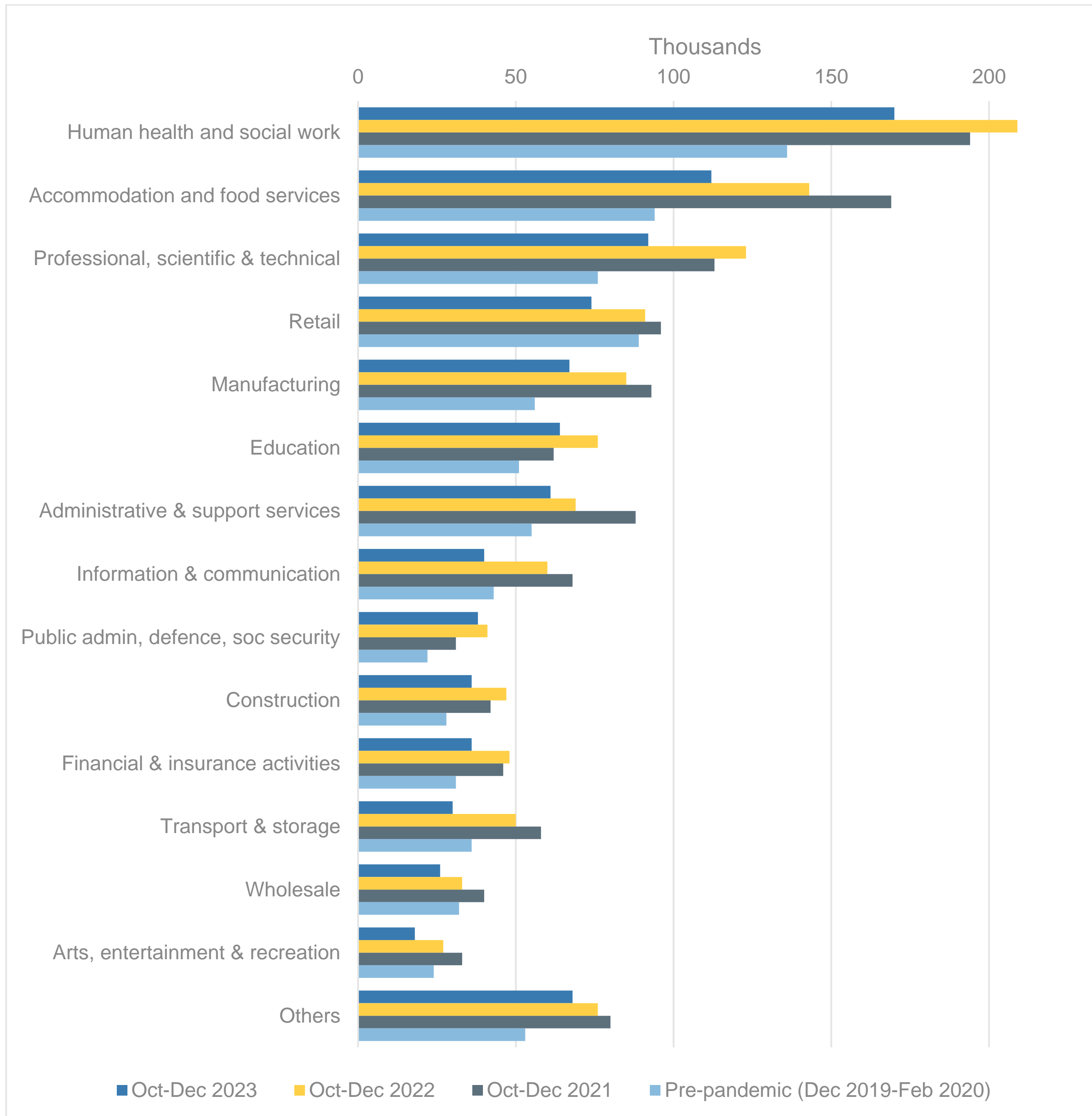
Vacancies are now falling across all industries (Figure 4), with trends over the last year fairly consistent across sectors (although somewhat lower in public administration and in education than elsewhere). Vacancies are now lower than pre-pandemic levels in a number of industries – retail and wholesale, information and communications, arts and leisure.

Figure 3: Vacancies – quarterly and single-month estimates



Source: ONS Vacancy Survey

Figure 4: Vacancies by industry: latest data (Oct-Dec 2023), for same quarters in 2022 and 2021, and pre-pandemic (Dec 2019-Feb 2020)



Source: ONS Vacancy Survey

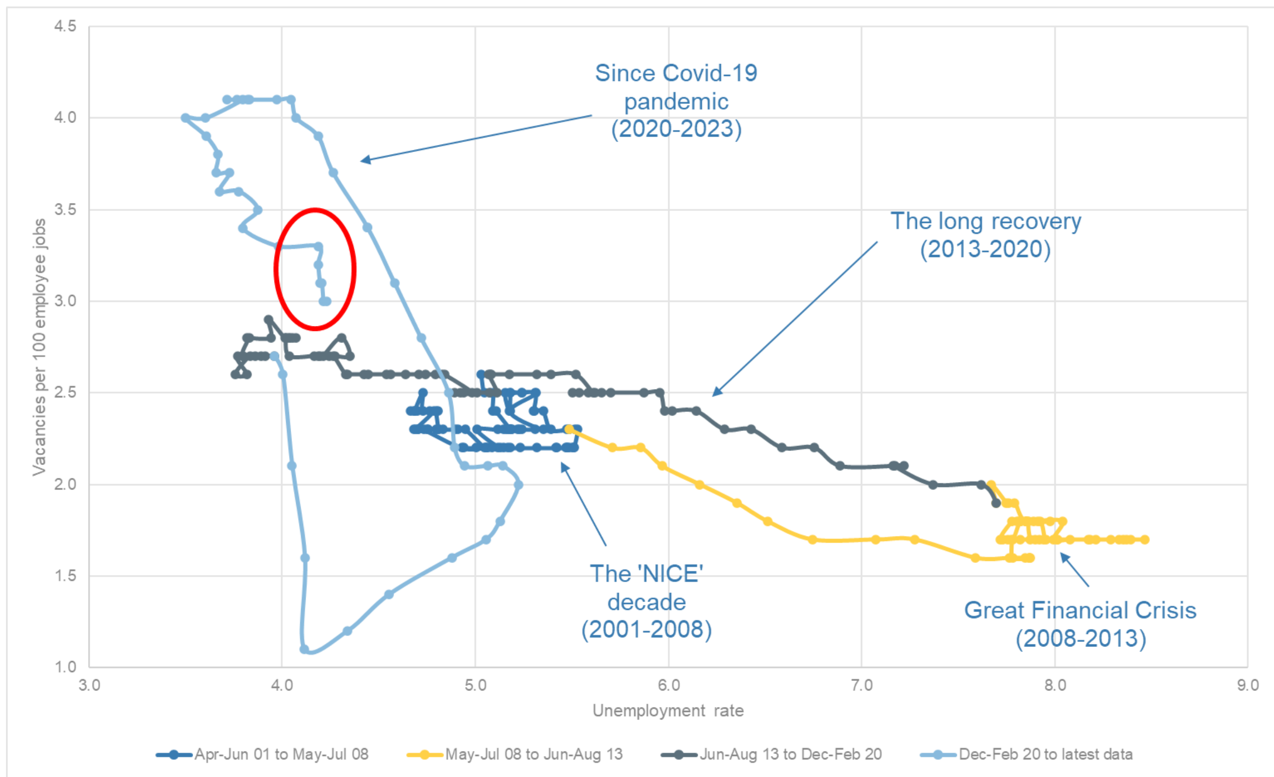
This picture of falling vacancies and unchanged unemployment means that there are now just over 1.5 unemployed people for each vacancy – which is almost back at the rate it was before the pandemic (1.6) and well above the low point that it reached in the summer of 2022 (when for a brief period there were more vacancies than there were people unemployed).

Another way to look at vacancies and unemployment is with 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 are a useful way of visualising the

tightness of the labour market but also its efficiency (the theory being that the market is more efficient when the line is closer to the two axes), although it has limitations too (particularly that it does not take account of economic inactivity, which also includes people who may want or expect to work, or other indicators of tightness or slack in the labour market).

The Beveridge curve for the UK is shown in Figure 5 below, broken down into four broad time periods (described in more detail in our September briefing). The recent falls in the line (circled in red) do suggest that the labour market is improving somewhat, although the line is moving down rather than inwards. So there is likely still more that we can do to better fill vacancies and to help those out of work to get (back) in.

Figure 5: Beveridge curve (unemployment rate to vacancy ratio), 2001-



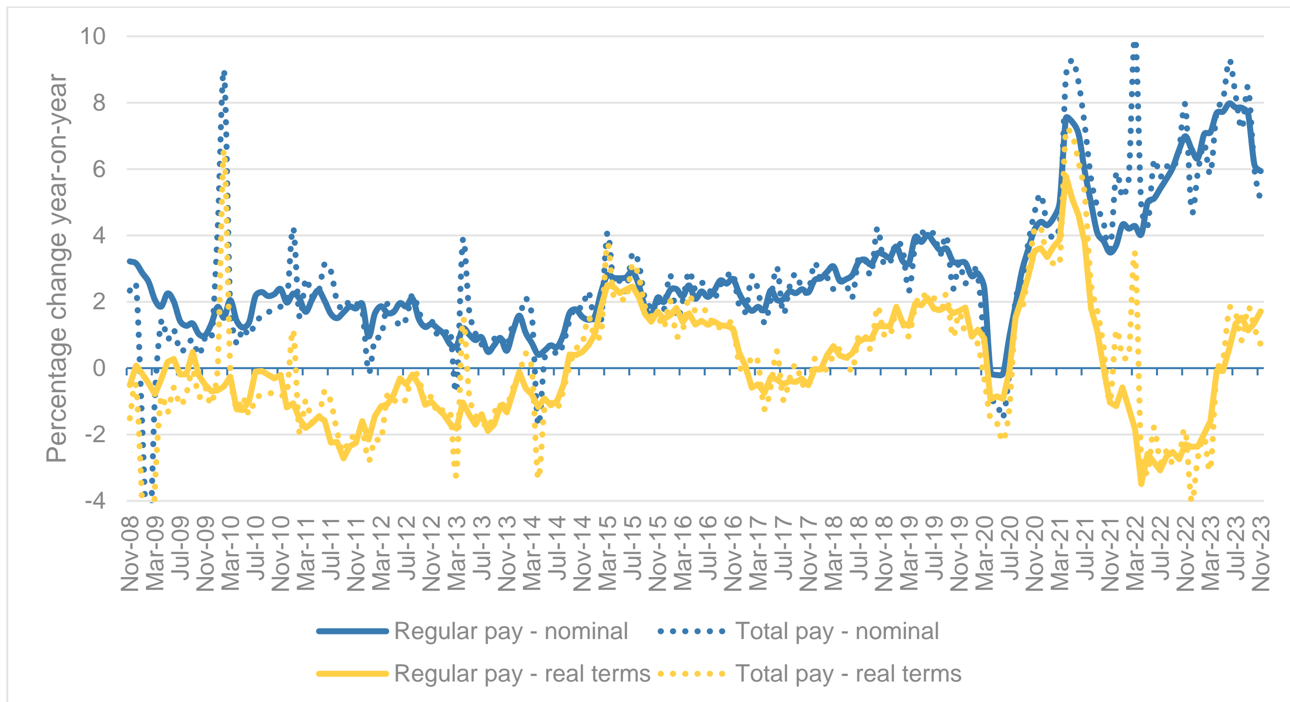
Source: ONS Vacancy Survey, Labour Force Survey and ONS experimental estimates of unemployment

Wage growth is now falling strongly, but is still around 6% and 'real' pay remains positive

Today's wages data also shows continued falls in pay growth, with both regular pay and total pay (i.e. including bonuses and arrears) now growing by less than 6% year-on-year. This is shown in the blue lines in Figure 6 below. This remains well above the pre-pandemic trends of between 2 and 4% pay growth, but does appear to be falling towards that range. The better news though is that these falls are happening alongside recent drops in inflation – meaning that 'real' pay (yellow lines) is continuing to grow by around 1% a year and so starting to unpick some of the damage done over the last two years.

Nonetheless, as we have said in previous months, pay in real terms is barely as high as it was on the eve of the 2008 financial crisis (just £7 a week higher than then).

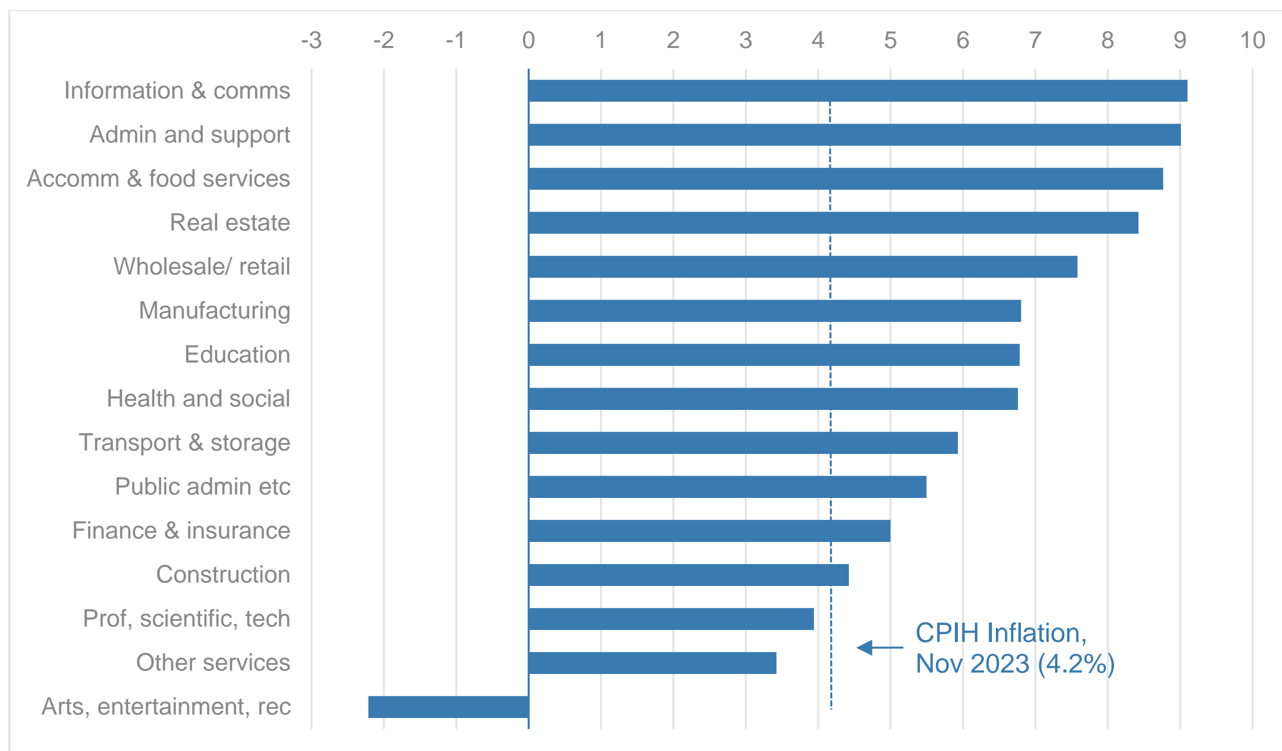
Figure 6: Year-on-year change in regular and total pay – nominal terms and adjusted for inflation (real terms)



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

Figure 7 below then shows pay growth by industry, illustrating that pay in virtually all industries is rising faster than inflation – with the strongest growth in some private sector services like information/ communications, admin and support, and hospitality (accommodation and food services), but also close to 7% in health, education and manufacturing. As noted in last month's briefing, pay growth remains strong even in industries where vacancies are falling, which may reflect that pay tends to be a lagging indicator, but also that pay growth is driven by a range of other factors too (including inflationary expectations, compositional changes in the workforce and productivity growth).

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 Sep-Nov 2023 (not seasonally adjusted).

Jobs growth appears to be being driven by a both more people entering jobs and fewer leaving them

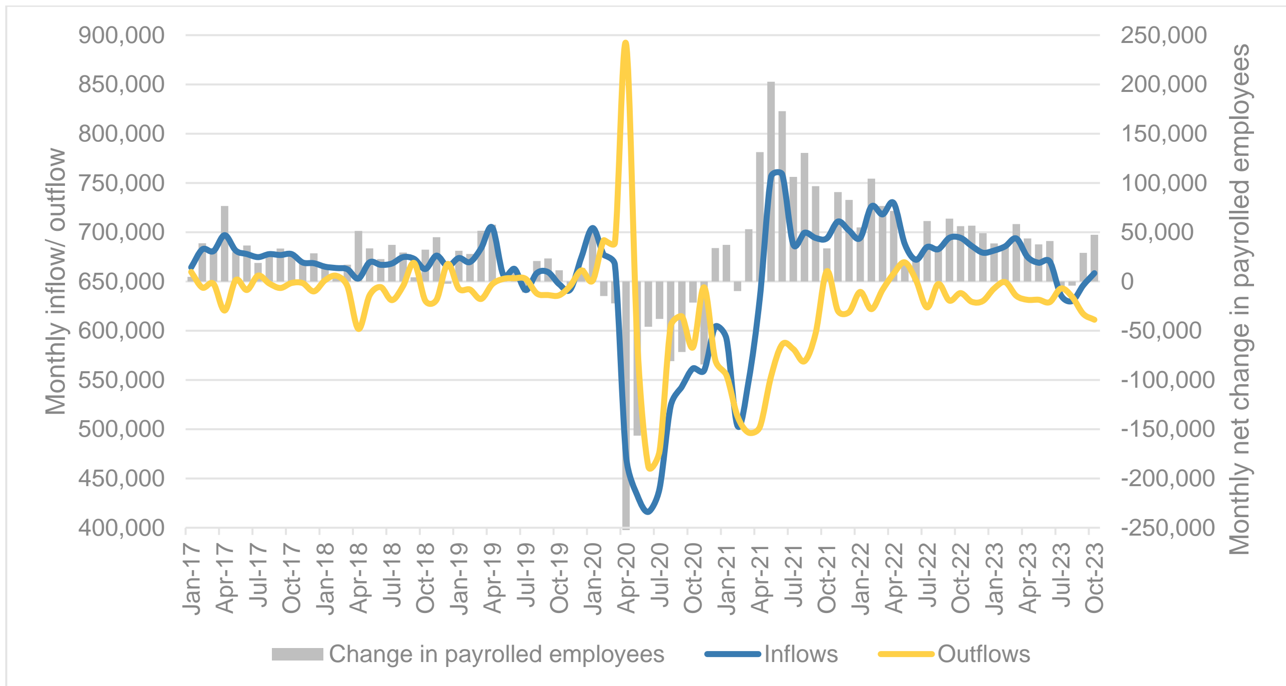
Looking in more detail at the latest 'Pay As You Earn Real Time Information' data – which feeds into the overall 'experimental' estimates – can give us more insights into what is driving recent changes in employment. This month we have included analysis of estimated 'flows' into and out of payrolled employment, which suggests that the recent uptick in employment growth is being driven both by a recovery in the number of people *entering* jobs and a fall in the number *leaving* them.

This is shown in Figure 8 below, with estimates for the monthly flows into and out of payrolled employment (blue and yellow lines respectively), with the net change in payrolled employees on the secondary axis (in grey). We have used data up to October 2023, as the latest data can be subject to downward revision.

It is worth noting that through 2023, inflows to work had been falling – from an average of around 695 thousand a month during 2022 to around 665 thousand a month in 2023. This is consistent with a wider slowdown in demand (and specifically hiring). Outflows from work had also fallen but by less (from an average of 665 thousand a month to 635 thousand – so not suggesting any significant increase in separations from work). However in the most recent data we can see a significant recovery in inflows *and* a fall in outflows.

This is welcome overall, and does suggest that the labour market remains fairly buoyant (and other indicators also show that redundancies are not showing much sign of increasing, with statutory advance notifications of redundancy exercises still low by historic standards).

Figure 8: Monthly flows into and out of payrolled employee jobs

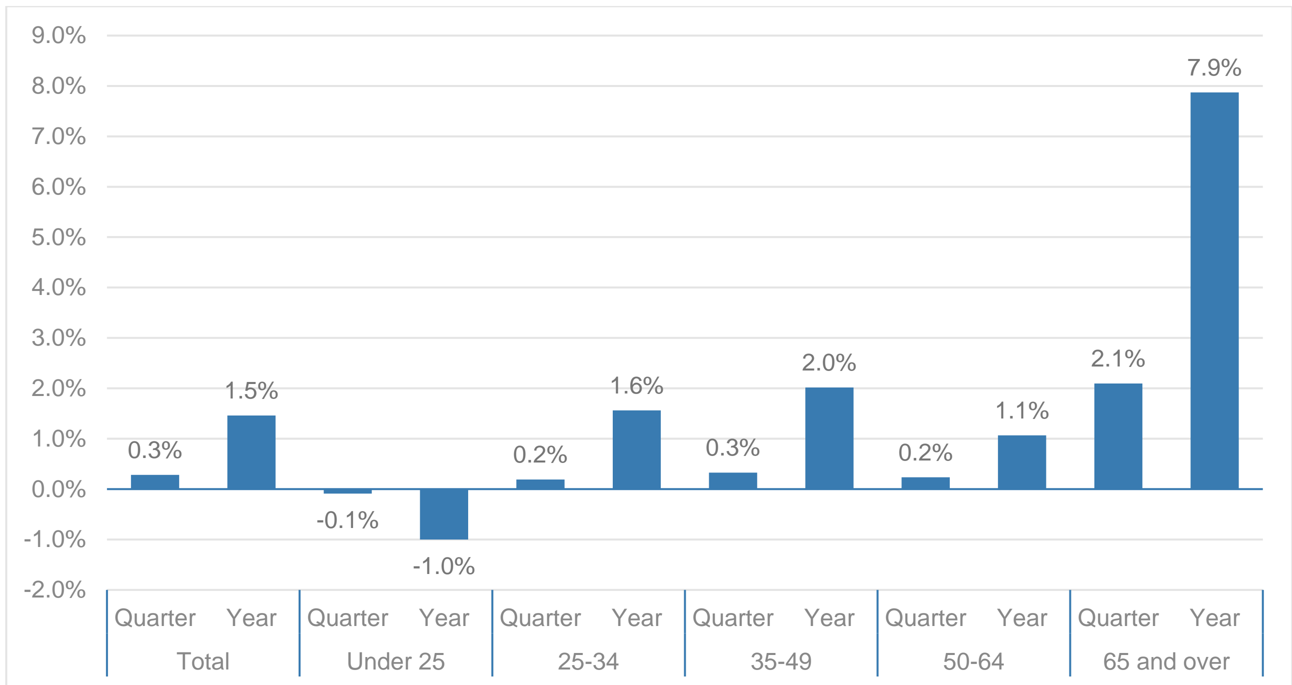


Source: Earnings and Employment from Pay As You Earn Real Time Information dataset.

PAYE data also suggests growth in public service jobs but continued falls in employment for young people

Finally, Figure 9 and 10 update analysis from previous months showing changes in PAYE employment by age group and by industry, with trends similar to those shown in recent briefings. Looking by age group, employment has risen marginally over the quarter (August to November 2023) but by more over the year and the year (November 2022 to November 2023), with employment growth mainly being driven by people aged 25 and over. Weaker growth for young people is consistent with the recent slowdowns in vacancies and inflows, and we should get a better idea with next month's release the extent to which this is being offset by higher participation in full-time education. As with previous months, employment growth continues to be strongest for those aged 65 and over (which reflects both a larger population but also a growth in the employment rate).

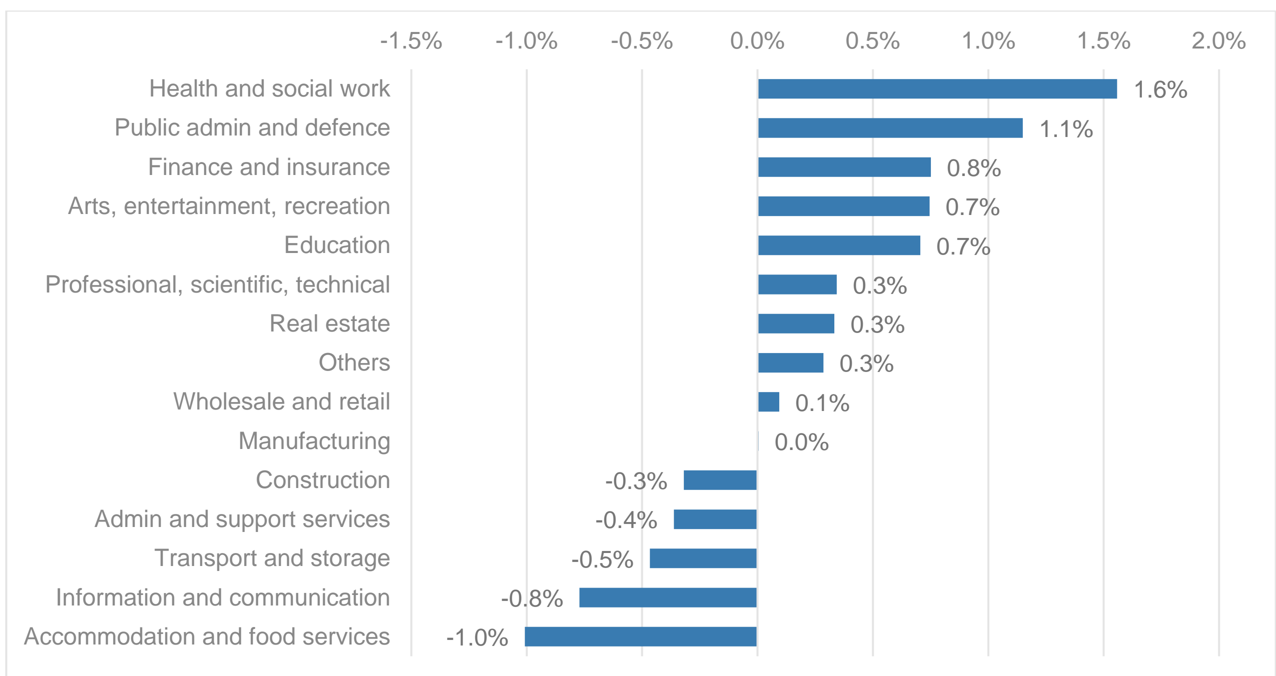
Figure 9: Change in number of employees by age over last quarter (July to October 2023) and year (October 2022 to October 2023)



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

Figure 10 then shows employment changes by industry over the last quarter, and again as with last month shows falls in employment in hospitality, information and communications, transport and storage, construction and administration; and employment growth being particularly driven by health and social care and by public administration.

Figure 10: Change in number of employees by industry over last quarter (July to Oct 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.

Conclusion

All told, these are positive figures given the wider context of high inflation and rising interest rates. However they remain very uncertain, and we will need to wait for the revised LFS data (hopefully next month) to get a clearer picture of the labour market and what is driving recent changes.

In addition even if these trends are confirmed next month, there remains significant ground to make up as the economy recovers – with the employment rate below where it was before the pandemic, earnings barely where they were fifteen years ago, and many households likely to be struggling with higher living costs. So as we have said in previous months, we need a clear plan to support the supply side of the labour market in the years ahead: to help more people prepare for and get into work and to retrain, and to help employers to improve their practices and get the skills that they need. This needs to focus in particular on delivering the commitments made in the Autumn Statement as quickly as possible, and then continue to make the case for more far-reaching reforms in the future.

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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