ies Briefing
Institute for Employment Studies

Labour Market Statistics, April 2022

12 April 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 February 2022 (the most recent quarter being December 2021 to February 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 March 2022, and the Wages and Salaries Survey to February 2022.

Summary

Today's figures are very disappointing. A further fall in unemployment, to its joint lowest since 1974, is masking a continued decline in the size of the labour force – with employment flat on the quarter and economic inactivity (the measure of those not looking for work and/ or not available for work) rising. There are now 590 thousand fewer people in work than before the pandemic and 490 thousand more people economically inactive.

This growth in worklessness continues to be driven by fewer older people in work and more people out of work due to long-term ill health. There are now 610 thousand more older people economically inactive than pre-pandemic, while today's figures report the largest annual growth in worklessness due to long-term ill health since records began in 1992 – taking the figure to 2.38 million (its highest since 2004).

Overall labour force participation (the number employed plus unemployed) fell sharply at the onset of the pandemic but then levelled off from late 2020 to late 2021. However it has been falling again since the end of the furlough scheme, likely in part due to (older) people who were technically counted as employed but on furlough leaving the labour market entirely when the funding ended. These continued falls mean that there are now 1.17 million fewer people in the labour force than we estimate would have been the case had the pre-pandemic trend (of rising participation) continued.

Despite falling unemployment, long-term unemployment remains significantly above pre-pandemic levels; with the long-term unemployed now account for 35% of all of those unemployed (compared with 28% two years ago). Short-term unemployment is at its lowest ever level.

All of this continues to happen despite record vacancies, with this month seeing as many vacancies as there are unemployed for the first time in at least fifty years. There are also some signs in more timely weekly data that job turnover remains well above pre-pandemic levels and may even be rising. This in turn is likely further fuelling vacancy growth as firms struggle to backfill posts from the (dwindling) numbers who are out of work, looking for and ready to work.

This tight labour market does appear to be feeding through into higher nominal pay, with regular pay growth above 4% and seemingly higher rates of growth in (private sector) industries with higher vacancies. However, soaring inflation is pushing regular pay negative in real terms – for the fourth month in a row – while total pay remains just positive due to high bonus payments in the private sector.

All told, higher worklessness, negative pay growth and continued labour shortages look to be a pretty toxic mix for living standards, with little sign in today's data that any of those three problems will get any better in the next few months. Our view remains that these problems will not fix themselves, and that we need a new 'Plan for Participation' – from government and employers – to help more people back into the labour force; improve recruitment, job design and workplace support; and help those out of work to get into and on in work. We also need more support for living costs for those out of work and on low incomes, particularly given the significant real-terms cuts to benefits this year.

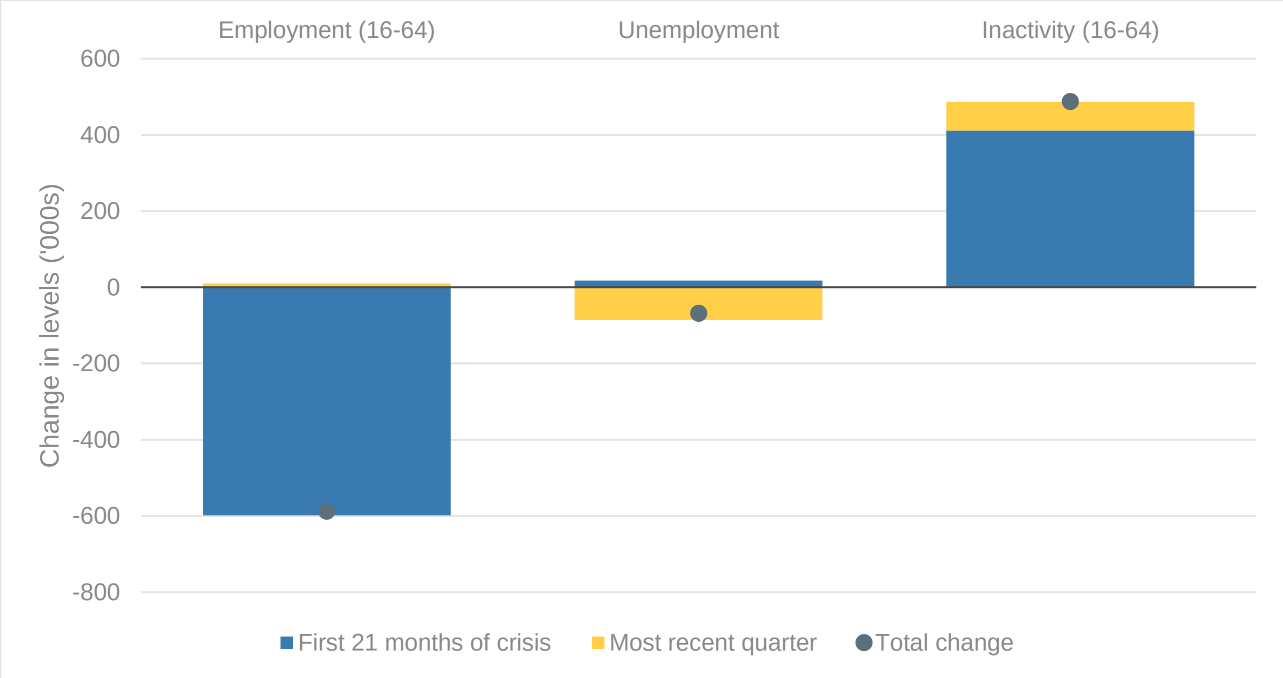
Falling unemployment is due to more people leaving the labour force entirely rather than more entering work

The headline rate of unemployment fell again this month to 3.8% – the lowest figure since 2019, which in turn was the lowest unemployment rate since 1974. However while we can celebrate the fact that we have avoided the unemployment catastrophe that looked inevitable in the early stages of the pandemic, these sharp falls in unemployment are far from good news. As Figure 1 below sets out (showing changes in employment, unemployment and economic inactivity over the most recent quarter and since the start of the pandemic), lower unemployment is feeding through into higher economic inactivity – up by 80 thousand on the quarter – while employment growth is flat. Overall there are still 590 thousand fewer people in work than before the pandemic and 490 thousand more people economically inactive.

Figure 2 sets out rates of employment, unemployment and economic inactivity for the 16-64 population. The overall employment rate has actually dipped slightly on the figure published last month (to 75.5%) while economic inactivity is back to the peak that it reached after the end of the third lockdown in spring 2021, at 21.4% (which in turn was the highest since 2017).

Looking more closely at the single month figures (the light yellow lines), the single month data for February is terrible – estimating 75.2% employment and 21.9% inactivity. So with the December data dropping out of next month's average, it is very likely that the economic inactivity rate is going to rise further still.

Figure 1: Changes in employment, unemployment and economic inactivity: first 21 months of the pandemic (Dec-Feb 2020 to Sep-Nov 2021) and most recent quarter (Sep-Nov 2021 to Dec 2021-Feb 2022)



Source: Labour Force Survey

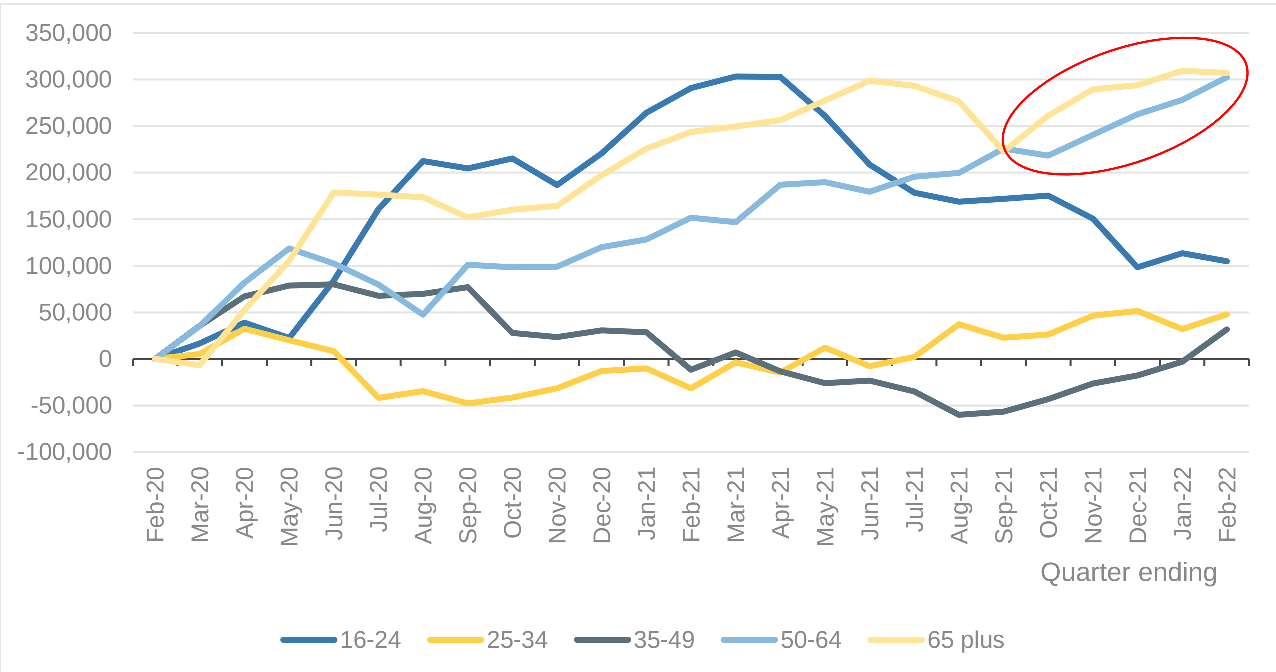
Figure 2: Employment, unemployment and economic inactivity rates (16-64) – quarterly average with single-month estimates

Source: Labour Force Survey

Worklessness due to ill health saw its largest rise since records began, with inactivity for older people up too

This story of falling participation and a shrinking labour market continues to be explained by a combination of fewer older people in the labour force and more people out of work due to long-term ill health. With each passing month these figures keep rising – with now 610 thousand more people aged 50 or over who are economically inactive than before the pandemic began (compared with 530 thousand for the previous quarter), but some signs too that economic inactivity among younger people is also starting to tick up. Last quarter there were 170 thousand more under 50s economically inactive than pre-pandemic, but on the most recent data this has risen to 185 thousand. Figure 3 below sets this out, showing growth in levels of economic inactivity by age since the December 2019-February 2020 quarter (with the changes for people aged 50-64 and 65+ circled in red).

Figure 3: Change in level of economic inactivity by age since start of pandemic

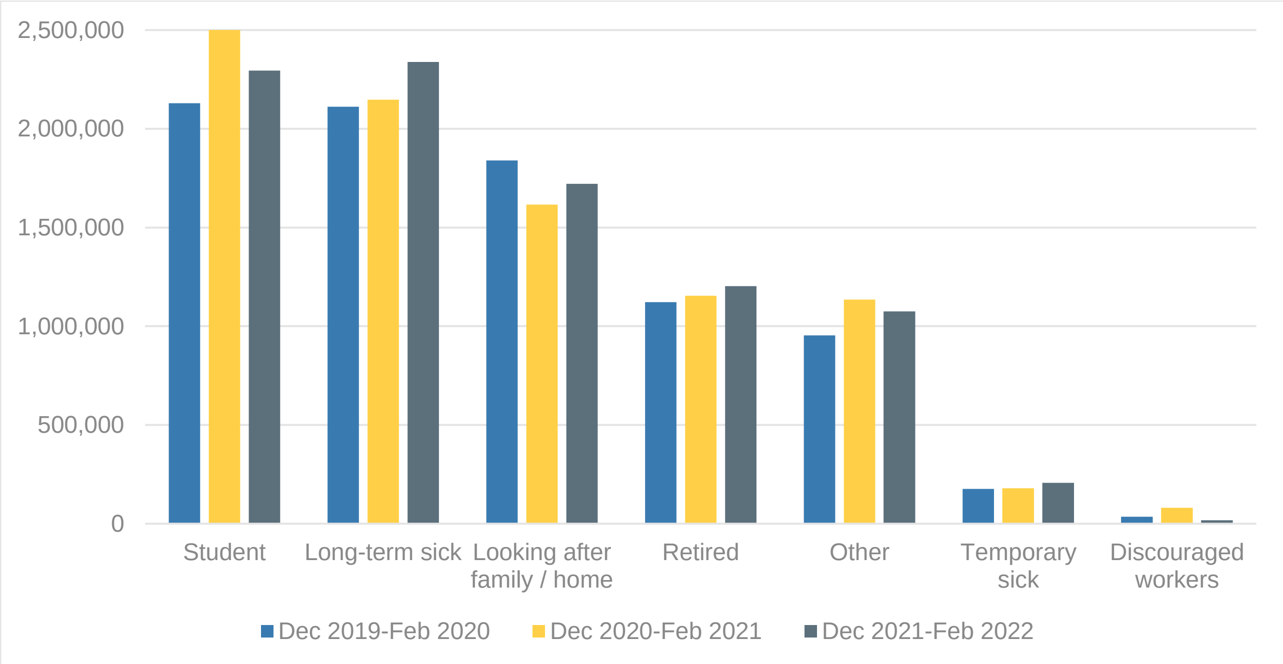


Source: Labour Force Survey

Looking at reasons for economic inactivity year-on-year since the start of the pandemic, Figure 4 below shows that the number of non-working students rose sharply in the first year of the pandemic before falling back as the labour market has improved, while across nearly every other category economic inactivity has risen in the last year. Most worrying here is the significant growth due to long-term ill health, which has risen by 190 thousand in the last year alone – the highest annual increase since comparable records began in 1992. At 2.34 million, this is now the most common reason for being outside the labour market and at its highest since 2005. As noted in previous briefings, this growth in worklessness due to ill health likely reflects a combination of fewer people with preexisting health conditions in work – for example because of concerns around exposure to Covid-19 or due to a deterioration in their health condition – but possibly also a greater prevalence of ill health, perhaps including due to ‘long covid’ symptoms.

Interestingly, the most recent data is also showing a marked increase in economic inactivity due to looking after family or home – which fell sharply in the early pandemic as women stayed in or returned to work, and then levelled off. It is possible that the recent growth may reflect some unwinding of some of the benefits of more flexible and hybrid working as firms return to offices, and possibly also more people who entered the labour market for other reasons during the pandemic now leaving again (for example, people who came back into the labour force to help in health services and pandemic-related jobs, or perhaps who took up new jobs due to a partner losing work or income).

Figure 4: Reasons for economic inactivity – Dec 19-Feb 20, Dec 20-Feb 21, Dec 21-Feb 22



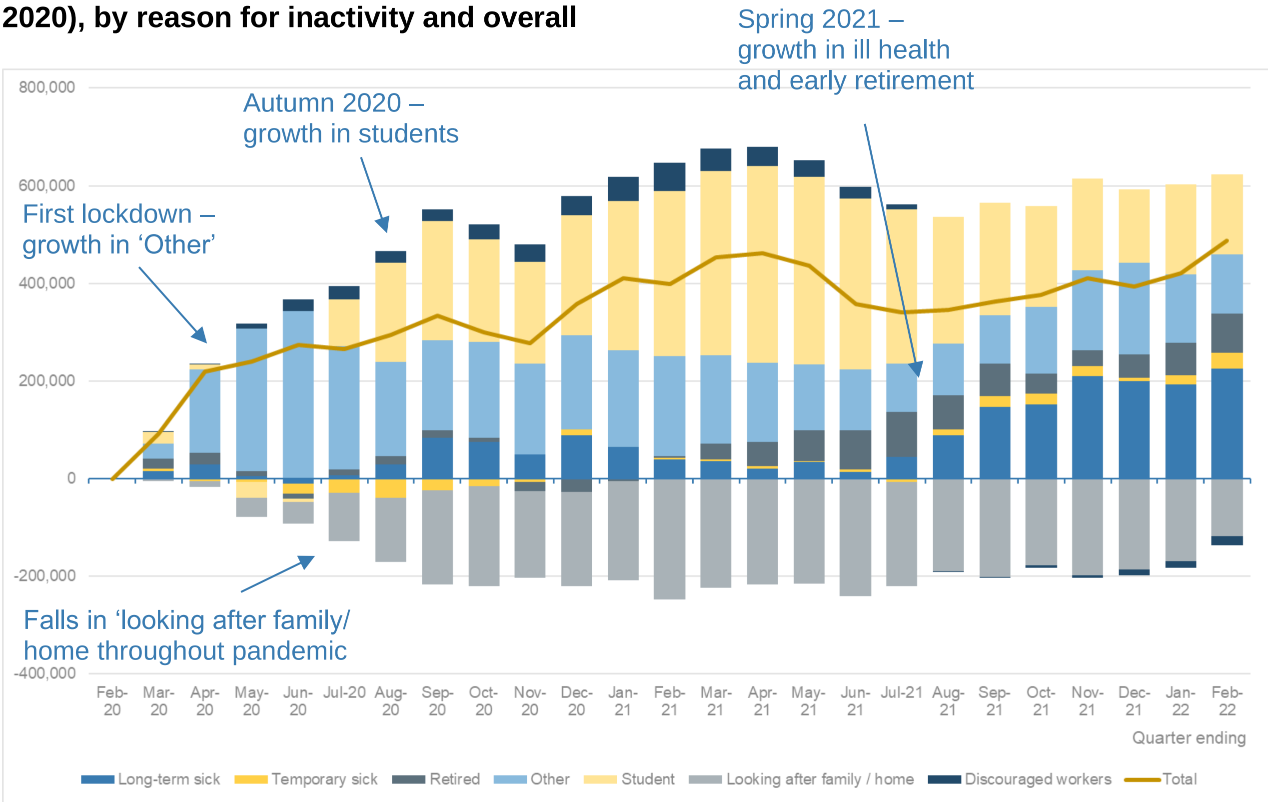
Source: Labour Force Survey

Figure 5 below then shows the broader story of reasons for worklessness since the start of the pandemic, with four distinct phases:

- An initial growth in worklessness for ‘other’ (lockdown/ pandemic related) reasons as people shielded, waited and in some cases lost their jobs but slipped through the cracks of the furlough scheme;
- A large rise in non-working students from the autumn, coinciding with the A levels fiasco and expanded university admissions – this has now fallen back, mainly due to more students also working rather than fewer young people studying;
- Significant growth in worklessness due to long-term ill health and in early retirement since early 2021; and

- At the start of the pandemic, falls in the number of people out of work due to caring responsibilities – levelling off in autumn 2020 and appearing now to partially unwind.

Figure 5: Changes in economic inactivity since start of pandemic (December-February 2020), by reason for inactivity and overall



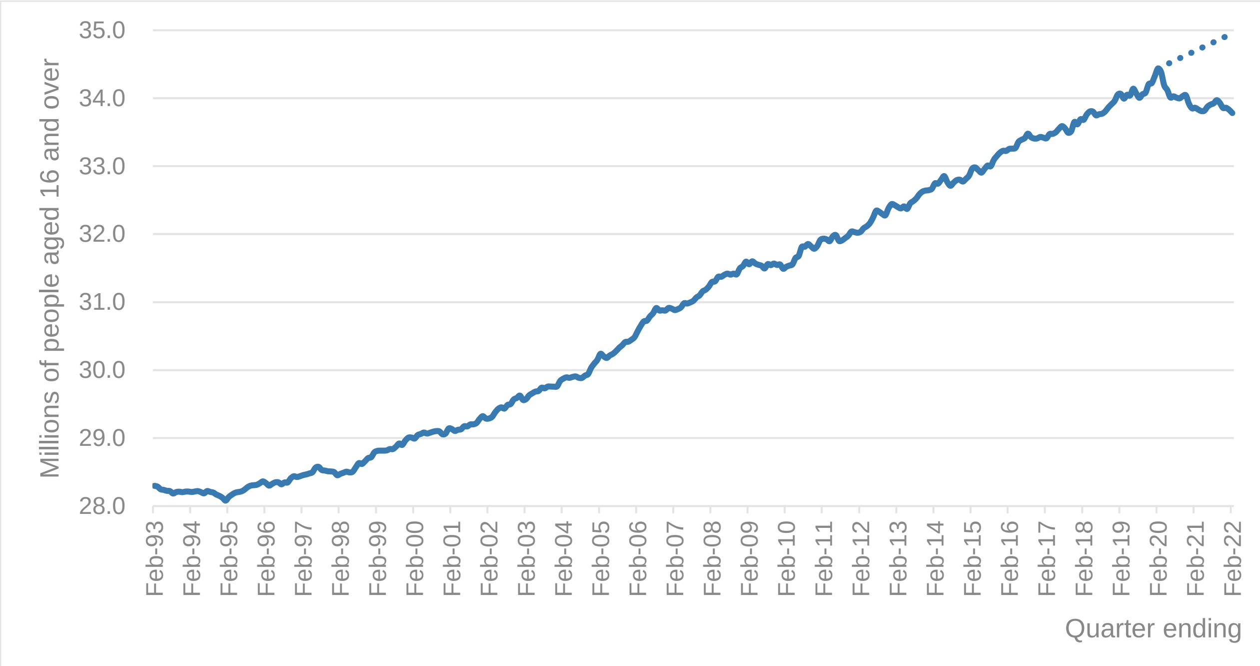
Source: Labour Force Survey

Further falls in participation mean there are nearly 1.2m fewer people in the labour force than pre-crisis trends

Overall participation in the labour force (the sum of those employed plus unemployed) fell sharply in the early pandemic, levelled off from late 2020, but has been falling again since August-October 2021. This coincides with the final end of the Coronavirus Job Retention Scheme, and it does seem likely that these two events are linked – with some of those who were technically still 'employed' but on furlough likely leaving the labour force entirely when the funding ran out.

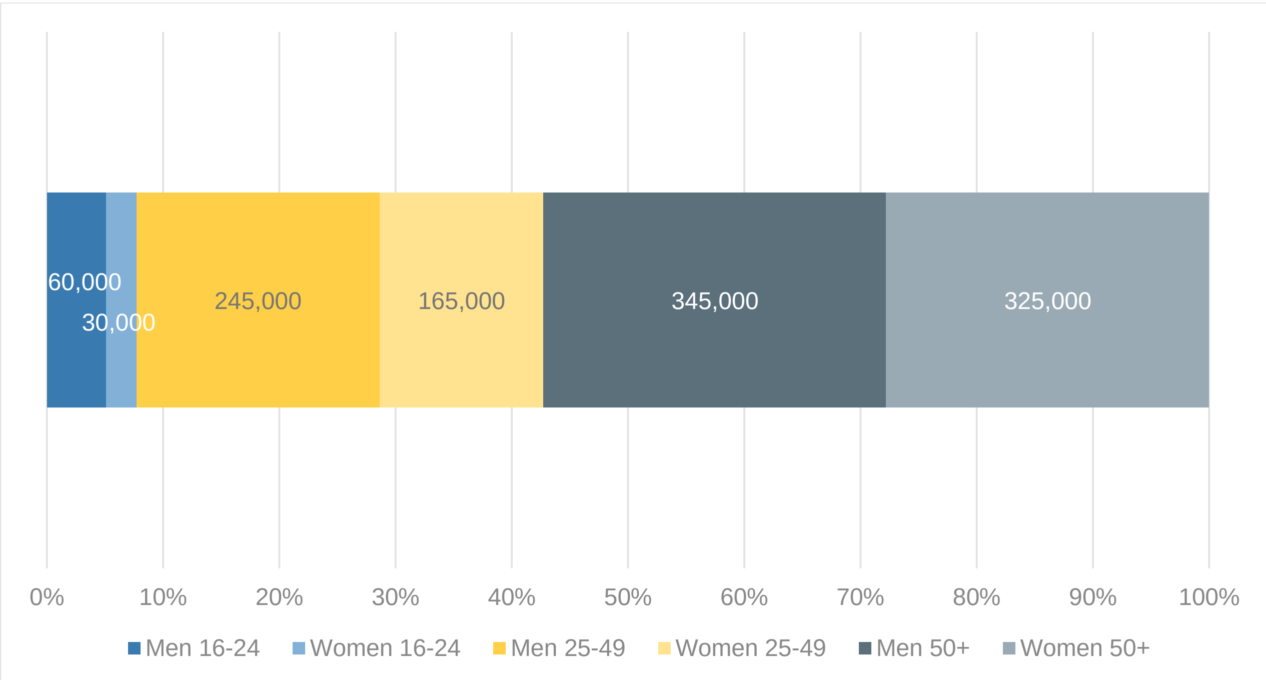
As Figure 6 below sets out, this reversal in labour force participation is even more stark when set against three decades of growth in the labour force. We noted last month that we have made improvements in our estimate of the pre-crisis trend (dotted line), to try to better take account of changes in State Pension Age. We now estimate that had this pre-crisis trend continued then there would be 1.17 million more people in the labour force than there are now. As Figure 7 then shows, around three fifths (57%) of the total gap in participation compared with pre-crisis trends continues to be explained by fewer over-50s in the workforce (670 thousand fewer people).

Figure 6: Level of economic activity – actual and if pre-crisis trend had continued



Source: Labour Force Survey and IES estimates

Figure 7: Composition of the 'missing million' (compared with pre-crisis trends in labour force participation) by age and gender



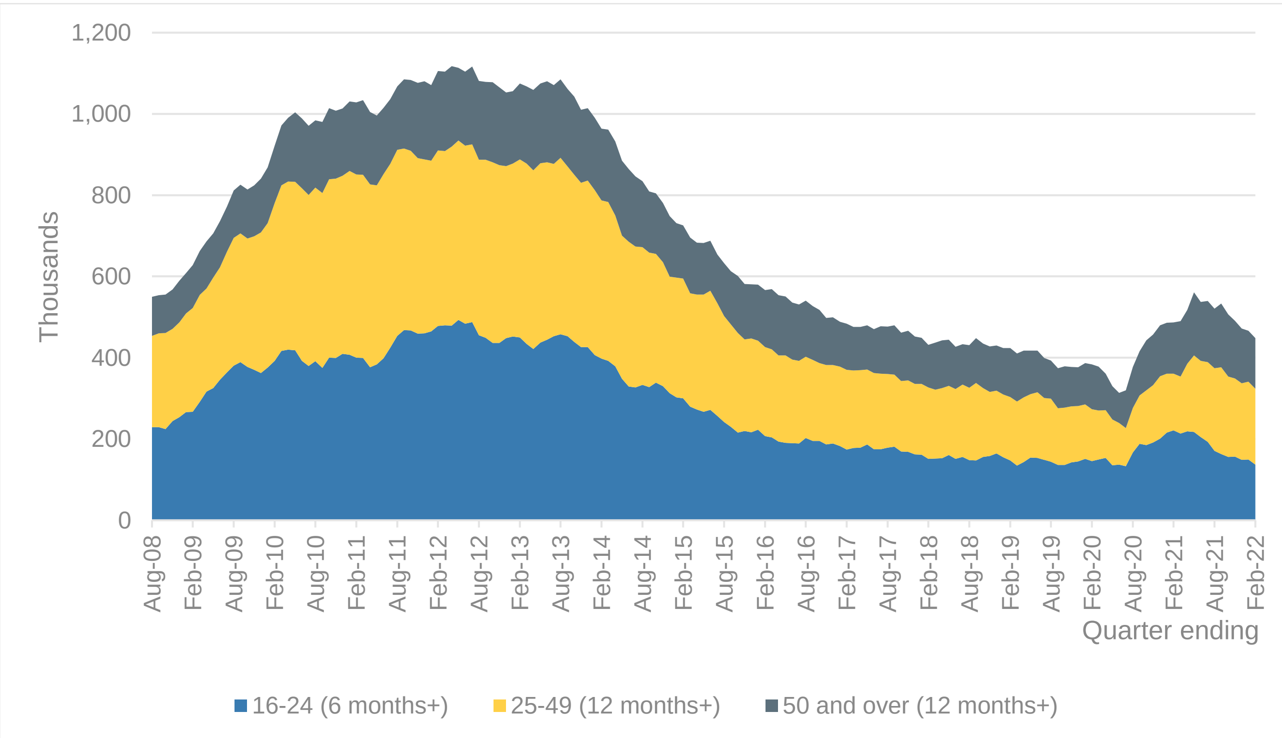
Source: IES estimates based on Labour Force Survey

Despite low unemployment, long-term unemployment remains one sixth higher than pre-pandemic

While unemployment overall has fallen to pre-pandemic levels, long-term unemployment remains above where it was two years ago. Figure 8 below sets this out, defining long-term unemployment as more than six months for young people (aged 16-24) and more than twelve months for all others. Clearly, thankfully, the measures in the Plan for Jobs helped avert the scale of increase in long-term unemployment that we have seen in previous recessions. But nonetheless long-term unemployment still rose by around 50% overall, and remains around one sixth higher than it was before the pandemic. And while it is back to pre-crisis levels for young people, it is around 50% higher for those aged 25-49 (while for older people, it seems likely that many of the long-term unemployed have now moved into economic inactivity).

Long-term unemployment now account for 35% of all of those unemployed, compared with 28% before the pandemic began. Short-term unemployment, meanwhile, has hit its lowest ever level. This means that those still unemployed are likely to be more disadvantaged and harder to help than previously, but also that unemployment overall is still significantly above 'frictional' levels.

Figure 8: Long-term unemployment by age

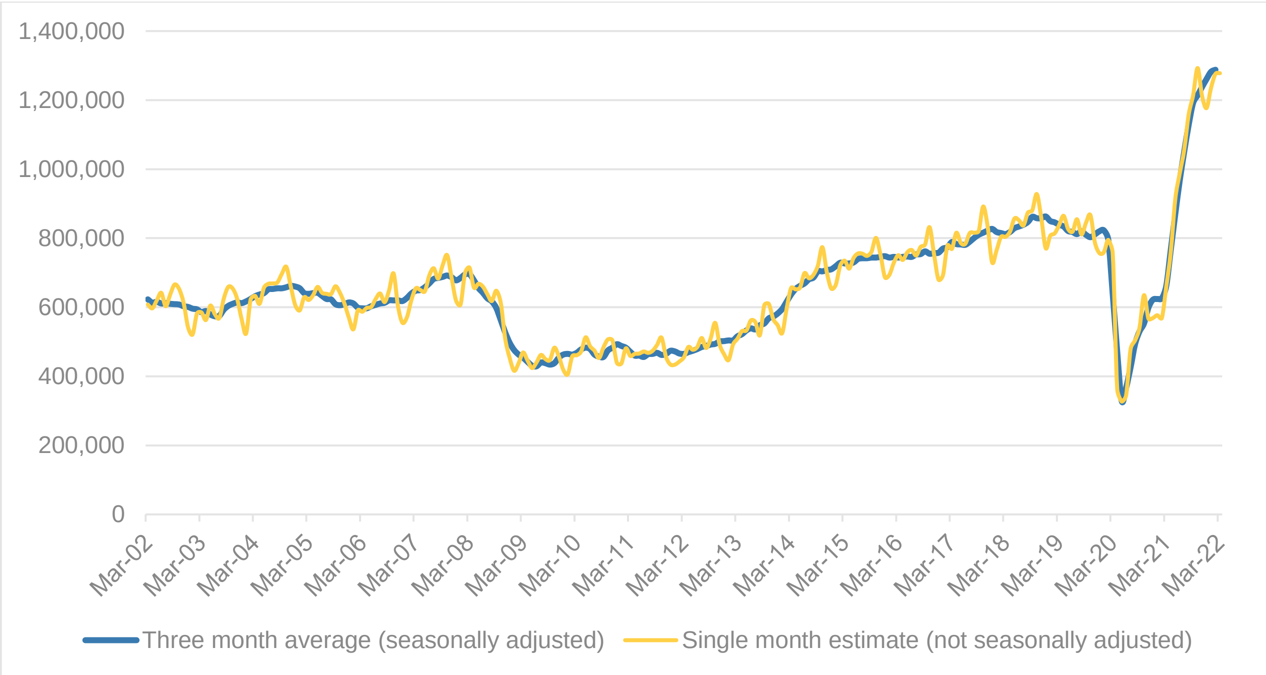


Source: Labour Force Survey. Long-term unemployment is defined as unemployment of more than six months for young people, or more than twelve months for those aged 25 and over.

This very weak data is in spite of record vacancies, with now as many job openings as there are unemployed

As has been the case for nearly a year now, falling participation in the labour force has happened in spite of – and will itself be contributing to – record levels of vacancies in the economy. The latest quarterly and single month estimates are shown in Figure 9 below, with 1.29 million vacancies in the quarter January-March 2022 – more than 50% higher than the pre-crisis peak, which was itself the highest figure on record.

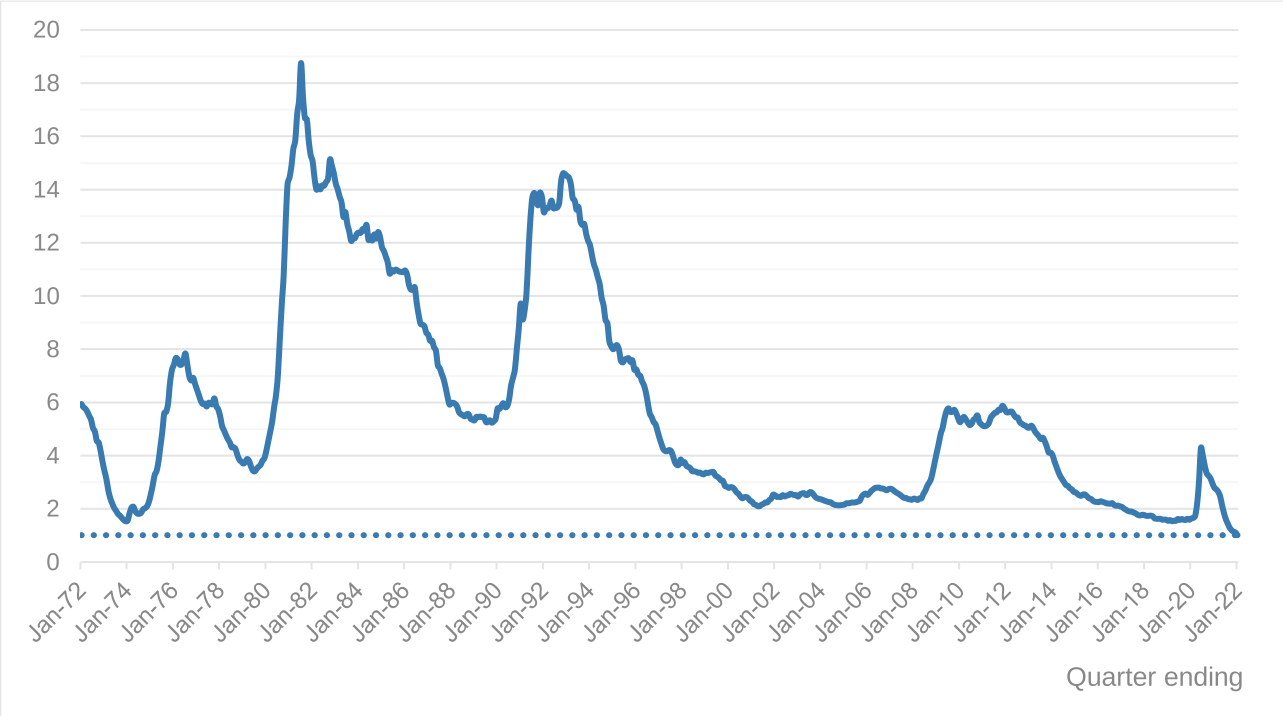
Figure 9: Vacancies – quarterly and single-month estimates



Source: ONS Vacancy Survey

Record vacancies combined with falling unemployment means that there are now virtually as many job openings as there are unemployed people (1.29 million vacancies and 1.30 million unemployed). This unemployment to vacancy ratio is a key measure of labour market tightness, and now stands at 1.01 – as Figure 10 below shows, this is comfortably the lowest that it has been in at least fifty years.

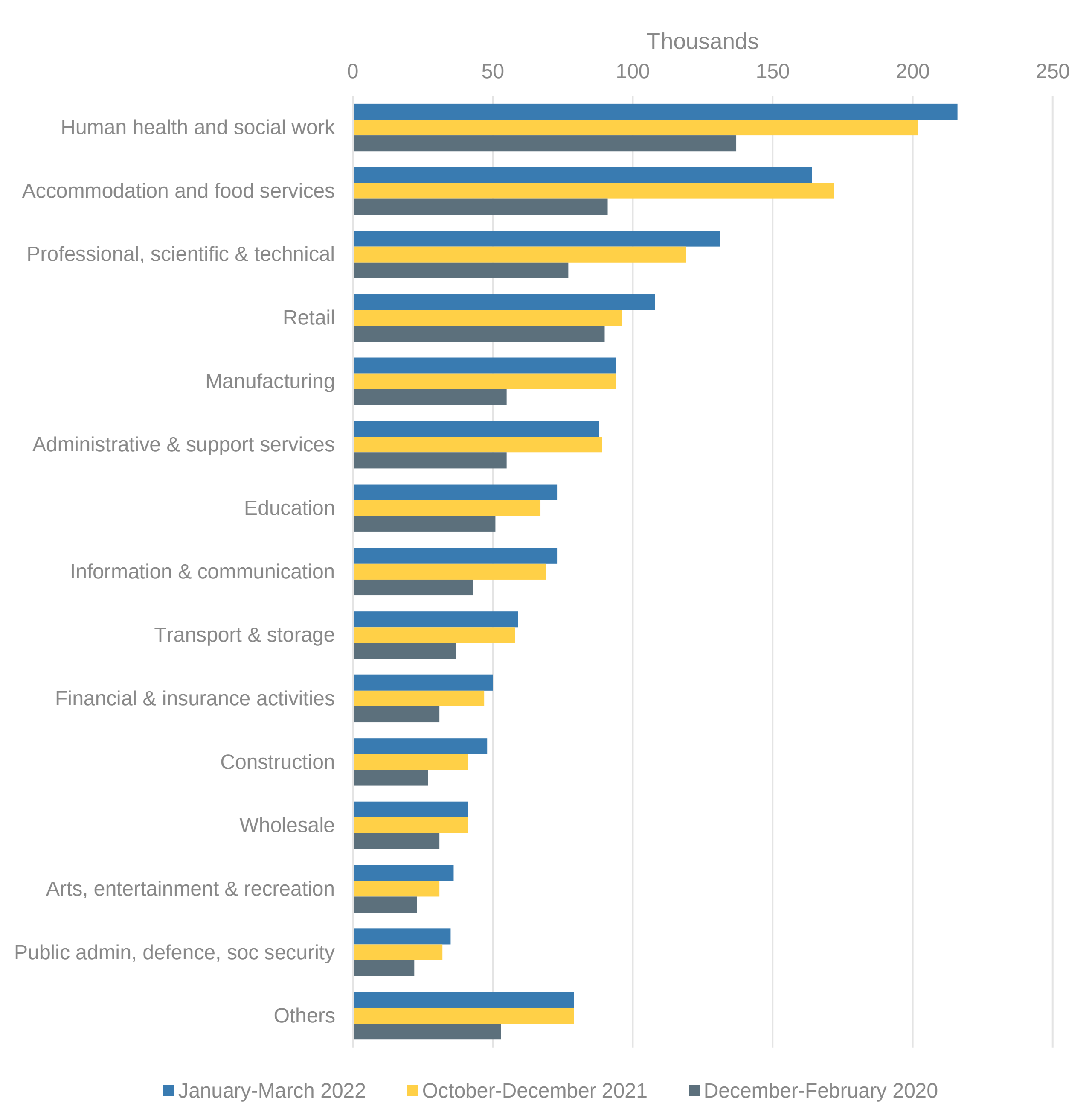
Figure 10: Unemployed people per vacancy (exc. Agriculture, forestry and fishing)



Source: ONS Labour Force Survey and Vacancy Survey

As with recent months, vacancy growth is being driven in particular by high demand in health services, hospitality and professional jobs (like law, accountancy, engineering and science), accounting for about two fifths of all vacancies between them; but high demand also in manufacturing, retail and administrative jobs. Figure 11 below sets this out, showing vacancy levels before the pandemic (black) in the most recent quarter (blue) and in the previous quarter (yellow). This illustrates that demand appear to be continuing to rise in health, professional jobs and retail, even as it may be starting edge back a bit in hospitality.

Figure 11: Vacancies by industry, pre-crisis, latest data and previous quarter

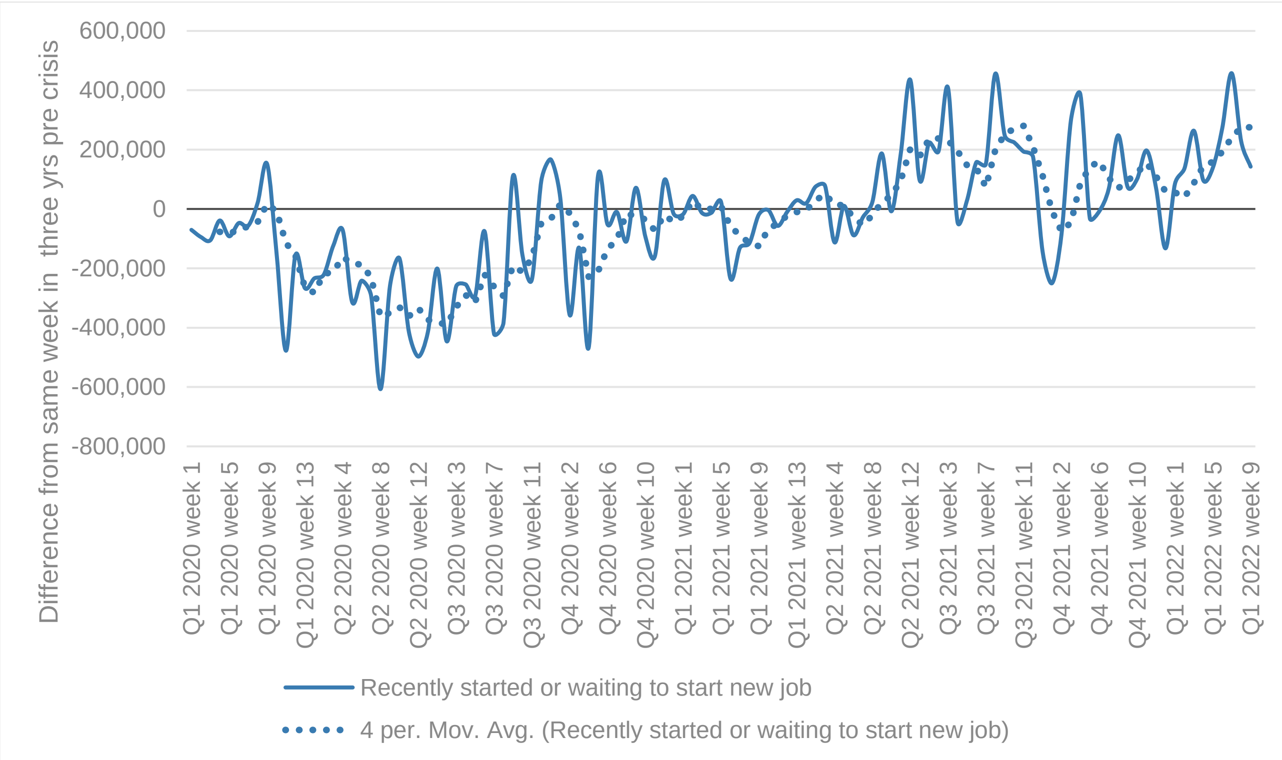


Source: ONS Vacancy Survey

Although employment is flat, there are signs that job turnover is rising – which may be fuelling shortages

Interestingly, experimental weekly data from the Labour Force survey – showing the number of people who reported that they had recently started a new job or were about to do so – suggests that the number of job changers has settled well above pre-pandemic levels and may still be rising. This echoes data on labour market flows published two months ago, and suggests that the apparently stagnant picture on employment overall disguises increased turnover in the labour market. This in turn may be fuelling higher vacancies and labour shortages – as firms struggle to backfill from the (dwindling) numbers who are out of work and looking for a job. Figure 12 below sets this out, showing the difference between the figures for 2020-2022 compared with the average for the same reference week over the three years pre-pandemic. The weekly data is quite volatile, so the dotted line is a rolling four-week average of the weekly figures. (Note that ONS will be discontinuing this experimental data from next month.)

Figure 12: Change in number of people who started a new job or are waiting to start one, compared with average for same week in three years pre-pandemic



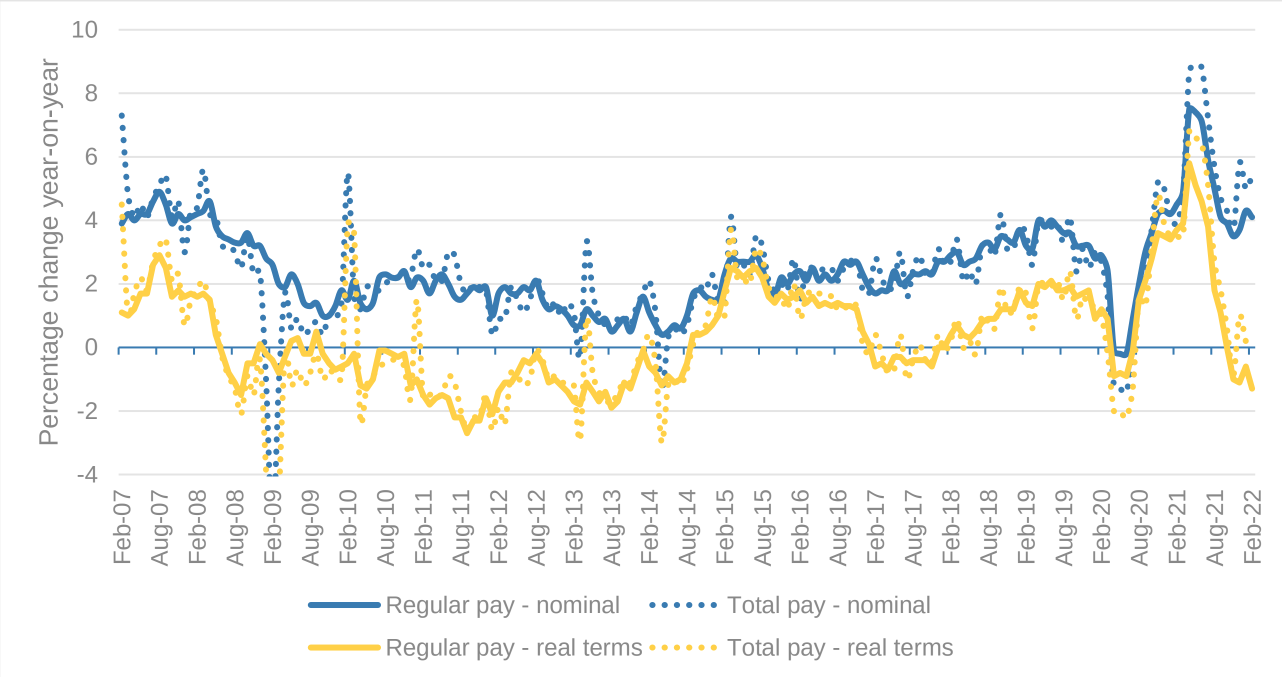
Source: IES analysis of weekly Labour Force Survey X07

The tight labour market appears to be feeding into higher nominal pay, but not enough to offset inflation

Finally, Figure 13 shows single-month estimates for year-on-year pay growth in nominal terms (blue) and in 'real' terms after the effects of inflation are taken into account (yellow). The solid lines show regular pay excluding bonuses and arrears, with the dashed lines showing total pay (so including bonuses and arrears). This shows that nominal pay growth overall remains relatively strong, at just above 4%. The data for the first eighteen months of the pandemic was distorted by the furlough scheme; but taking a longer view, 4%+ pay growth is back up towards levels last seen before the financial crisis.

However, soaring inflation is entirely offsetting the benefits of this higher pay and pushing regular pay negative in real terms, for the fourth month in a row. At -1.3%, the year-on-year fall in real regular pay is the largest since 2013 and is likely to deteriorate further as inflation continues to rise. Note that very high bonus payments, across a range of private sector industries but especially financial services, have kept total pay marginally positive in real terms, although again this is likely to deteriorate in the months ahead.

Figure 13: Year-on-year change in regular and total pay – nominal terms and adjusted for inflation (real terms)

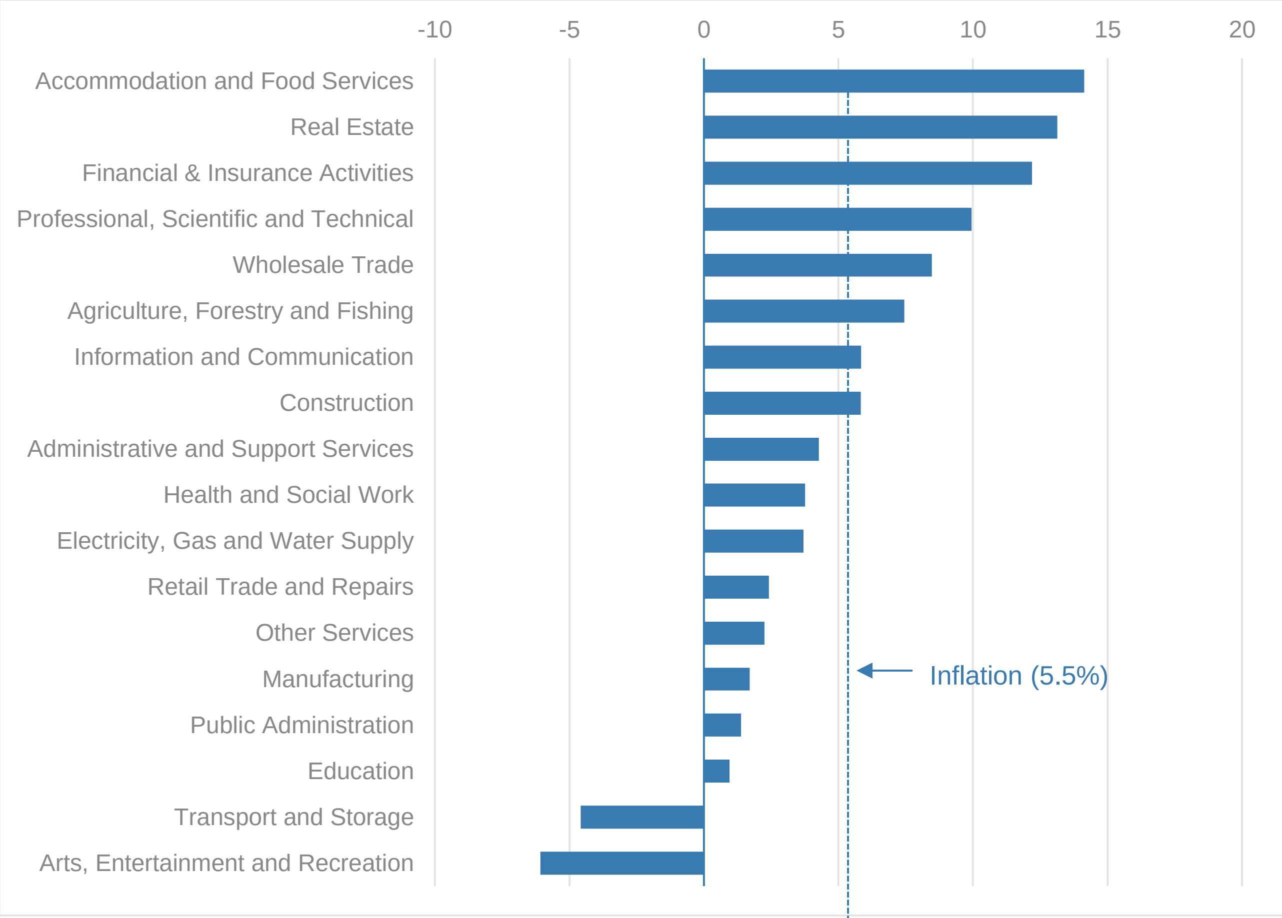


Source: ONS Monthly Wages and Salaries Survey. Regular pay excludes bonuses and arrears; measure shown is year-on-year change in single month estimate.

Figure 14 below then shows changes in pay by industry. This measure includes bonuses and arrears, and shows pay growing strongly – and faster than inflation – across a range of private sector industries including hospitality, technology, professional jobs and finance. However pay growth remains well below inflation in public sector industries like health, education and public administration (where surely pay settlements of 2-3% just will not be sustainable, given rising costs of living and labour shortages), but appears to be weak in retail, manufacturing, the arts and transport/ storage.

Prima facie, it does also appear that in private sector industries, those seeing strongest growth in vacancies are also seeing strong growth in pay – suggesting that firms are responding to the tight labour market (and high turnover) by raising wages. While this is clearly positive if it is also leading to higher productivity and output, it does also highlight the potential risks that continued shortages could further add to rising inflation.

Figure 14: Year-on-year change in regular pay by industry, nominal terms



Source: ONS Monthly Wages and Salaries Survey. Regular pay including bonuses and arrears; measure shown is year-on-year change in single month estimate, not seasonally adjusted.

Conclusion

Today's figures are if anything even more disappointing than the fairly weak data that we have seen in recent months. With labour force participation down, worklessness up, real terms pay falling and labour shortages appearing to get worse, it is hard to find any positives in today's data at all.

However one positive that we can take is that through the Plan for Jobs and Spending Review, the government committed more than £10 billion for measures to tackle an unemployment crisis that thankfully has been averted. As we have said previously, we need to target that investment – some of which has been significantly underspent already – on helping to address the participation and recruitment crises that we are facing now. These needs to focus on improving support for those out of work to get back in, and be open to all of those who are out of work – not just those claiming the right bit of Universal Credit. Employers will also need to step up, through more inclusive recruitment, better job design (particularly around shift notice, patterns and flexibility), improved induction and in-work training, and workplace support with health, caring and wider needs.

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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