ies Briefing

Institute for Employment Studies

Labour Market Statistics, July 2023

11 July 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 May 2023 (the most recent quarter being March to May 2023). 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 June 2023, and the Wages and Salaries Survey to May 2023.

Summary

Today's figures capture the 'Goldilocks' problem facing the government and Bank of England: how to stop the labour market from being too hot or being too cold; and instead get it 'just right' to avoid a prolonged downturn?

On the one hand, there are plenty of positives today. Economic inactivity has fallen again and if anything is falling even more sharply, which means the labour force is growing; vacancies are edging down but remain high, meaning there's more slack in the economy; and the employment recovery is pretty broad based (with analysis in this month's briefing showing in particular that more people are getting more of the flexibility at work that they want).

However on the other hand, lower economic inactivity is feeding through into higher unemployment more than employment; there are signs that short-term unemployment is starting to lead to longer-term unemployment; worklessness due to long-term ill health remains close to record levels; wage growth is running at well above the rate of inflation in many 'white collar' industries; and the public sector is falling behind and struggling to fill its jobs. All of this points to potentially significant mismatches between supply and demand, and that these mismatches are about skills as well as labour shortages.

The worry, then, is that we could be in the foothills of a period of higher unemployment, higher interest rates but still high prices – i.e. 'stagflation' – which would be disastrous for the economy but also for inequalities between areas and groups. However even in a best

case, given the issues that appear to be building on the 'supply' side, we would be facing a more general slowdown and the hope that this eventually hits demand in those parts of the economy where the porridge is still too hot.

What appears to be largely missing though, and is desperately needed, is a coherent strategy for the supply side – to help address mismatches and support a softer landing in the labour market. This needs to be addressed at the Autumn Budget, and based on a significant expansion in access to employment support, so that more of those who want to work can get help finding the right job; skills reform to help address mismatches, particularly through reform of the Apprenticeship levy; and more support for employers – including access to help with inclusive recruitment, induction training, flexible job design and workplace support.

Lower economic inactivity is feeding through into both higher employment and unemployment

This month's figures continue the trend of the last year, of falling economic inactivity translating into both higher employment and higher unemployment. The economic inactivity rate has now fallen to 20.8%, the lowest that it has been since mid-2020 and down from 21.1% in December-February quarter. Employment has risen to 76.0% from 75.8% in the last quarter, while unemployment has edged up to 4.0% (from 3.8%).

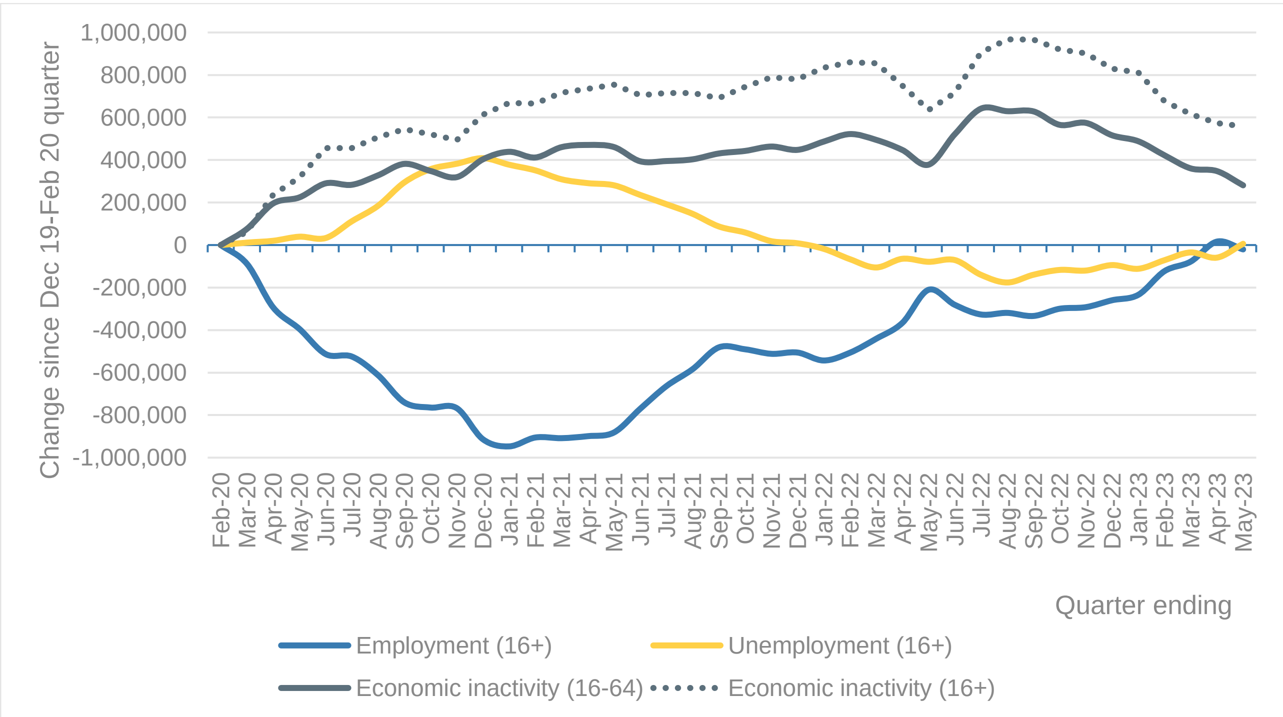
This quarter-on-quarter comparison disguises the fact that the most recent figures are being driven in particular by higher unemployment, which is illustrated in Figure 1 below (showing the quarterly averages for employment, unemployment and economic inactivity in blue and the single-month estimates that make up the quarterly averages in yellow). Compared with the figures published a month ago employment is unchanged with unemployment and economic inactivity moving sharply up and down respectively. The underlying single-month averages are even more stark – with the month of May seeing close to the lowest economic inactivity rate ever recorded (at 20.3%) and an unemployment estimate of 4.5%.

However while the labour force is growing overall, with 79.2% of the 16-64 population either employed or unemployed, it is still smaller than it was before the pandemic. Back then (December 2020-February 2022), 79.8% were economically active and there were nearly 300 thousand fewer people aged 16-64 and out of work. Figure 2 illustrates this, showing that the overall *levels* of employment and unemployment are back to where they were before the pandemic but that economic inactivity remains higher than it was. The dotted line shows that economic inactivity including people aged 65 and over is even higher still, at 560 thousand above pre-pandemic levels (which mainly reflects population growth in this group).

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

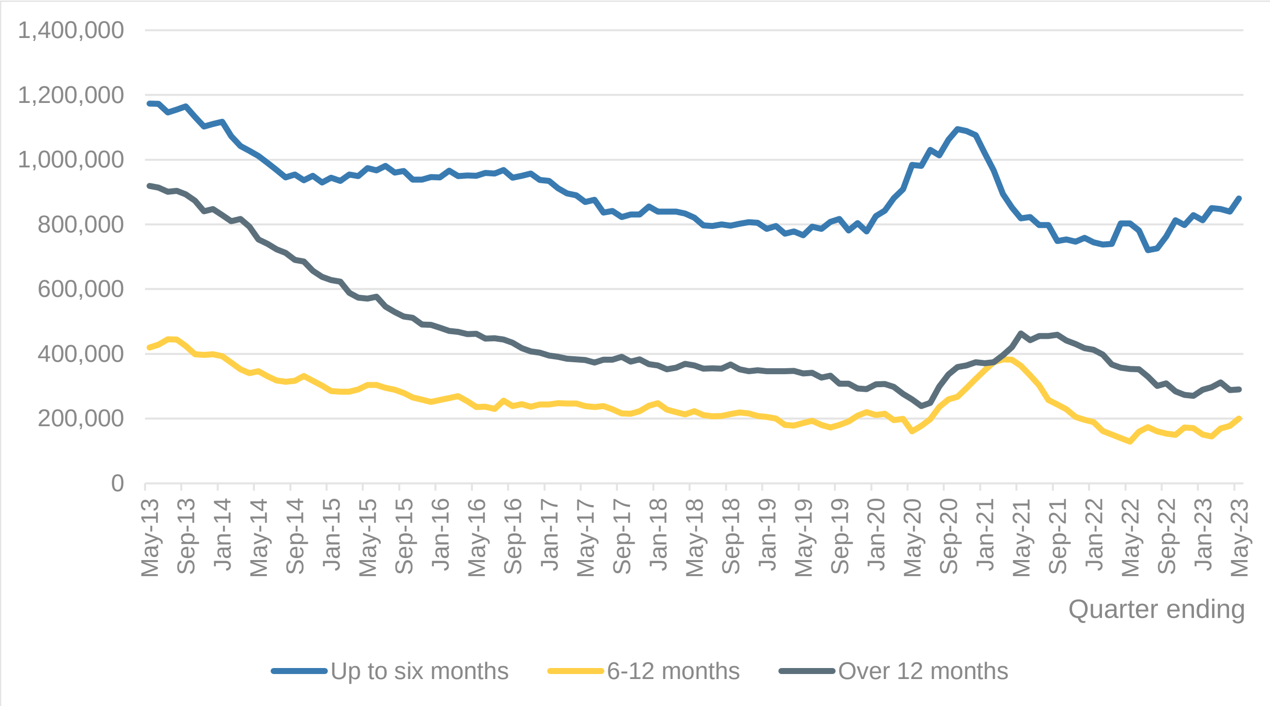
While short-term unemployment is up, there are signs that it's rising at longer durations too

We can see more evidence that higher unemployment is mainly being driven by lower economic inactivity when we look at the data on unemployment by duration. This is in Figure 3 below and shows that recent growth in unemployment is mainly being driven by rises in short-term unemployment – with unemployment of less than six months up by around 80 thousand over the last year. This suggests that people who might otherwise have been economically inactive are either being pulled into the labour force by higher wages or pushed into it because of higher prices and living costs.

Worryingly however, there are also some signs that those people who have become short-term unemployed are struggling a bit with then finding work. Overall, unemployment in the 6-12 month category is about a quarter of the level of unemployment in the 0-6 month group – as the large majority of those becoming unemployed leave it again very quickly (usually for work). However, the recent growth in 6-12 month unemployment is more like two thirds of the growth that was seen in 0-6 month unemployment last year (rising by 55 thousand in the last quarter, compared to growth in short-term unemployment of around 75 thousand a quarter late last year). This is surprising and disappointing given the tightness of the labour market and high volume of vacancies.

Looking at unemployment by age and duration, it appears that this growth in longer-term unemployment is being driven in particular by younger people – where unemployment of less than six months has fallen by 25 thousand but unemployment of 6-12 months has risen by 50 thousand in the last quarter. Given that we know that many young people do not access employment support through Jobcentre Plus, and may not have the experience to move into higher skilled jobs straight away, this does suggest that many of those becoming unemployed may not be getting access to the help that they need to take up the many jobs that are still being created.

Figure 3: Unemployment by duration



Source: Labour Force Survey

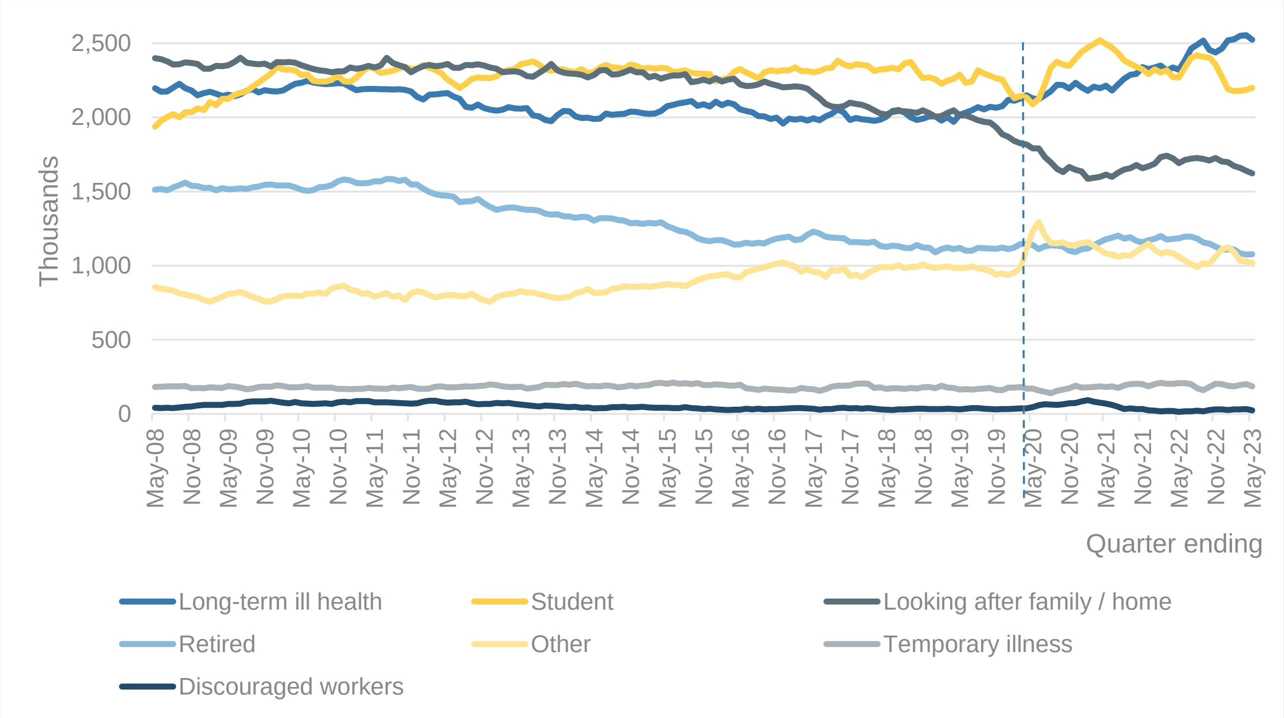
Although economic inactivity is down, there are still 2.5 million off work due to long-term ill health

As with recent months, the recent falls in economic inactivity have been particularly driven by fewer students, fewer people retiring early, fewer people looking after their family or home, and fewer off work for 'other' reasons (which includes people who can afford not to work, or who are waiting for a job to start).

Figure 4 below shows these trends, while Figure 5 then shows changes compared with the start of the Covid-19 pandemic. This shows that in virtually all categories economic inactivity is either in line with or below where it was before the pandemic, with the main exception being economic inactivity due to long-term ill health – which is 410 thousand higher, at more than 2.5 million people.

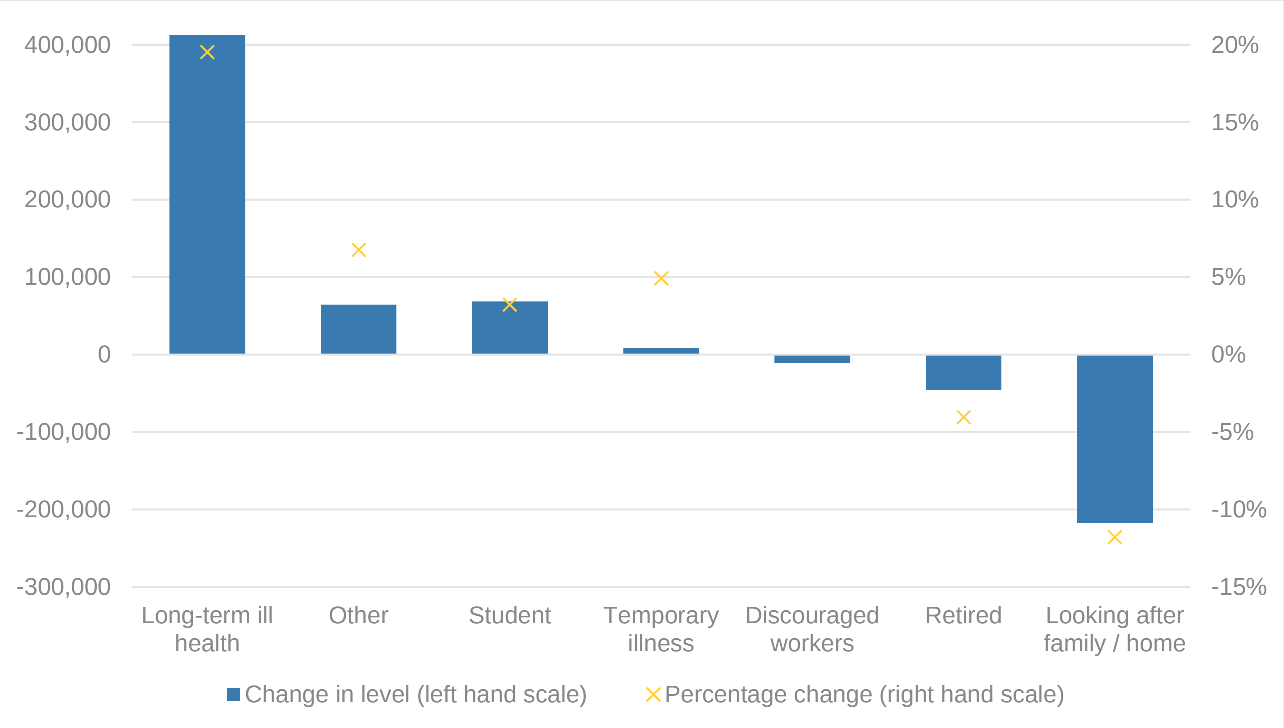
As we have said in previous briefings, these large increases in worklessness due to ill health are happening for people with a range of underlying conditions and at different ages, but with larger rises among older people because they are more likely than others to have long-term health conditions. Importantly though, it appears that most of the rise is explained by people who have been out of work for a long time – often since before the pandemic began – and becoming more disadvantaged in the labour market. We also know that many of those outside the labour force do want to work – with 1.7 million people saying that they would like to work right now (including 600 thousand with long-term health conditions) and many millions more who do not want a job now saying that they nonetheless expect to work in future.

Figure 4: Economic inactivity by main reason given



Source: Labour Force Survey

Figure 5: Change in economic inactivity by main reason, Dec 19-Feb 20 to Feb-Apr 23



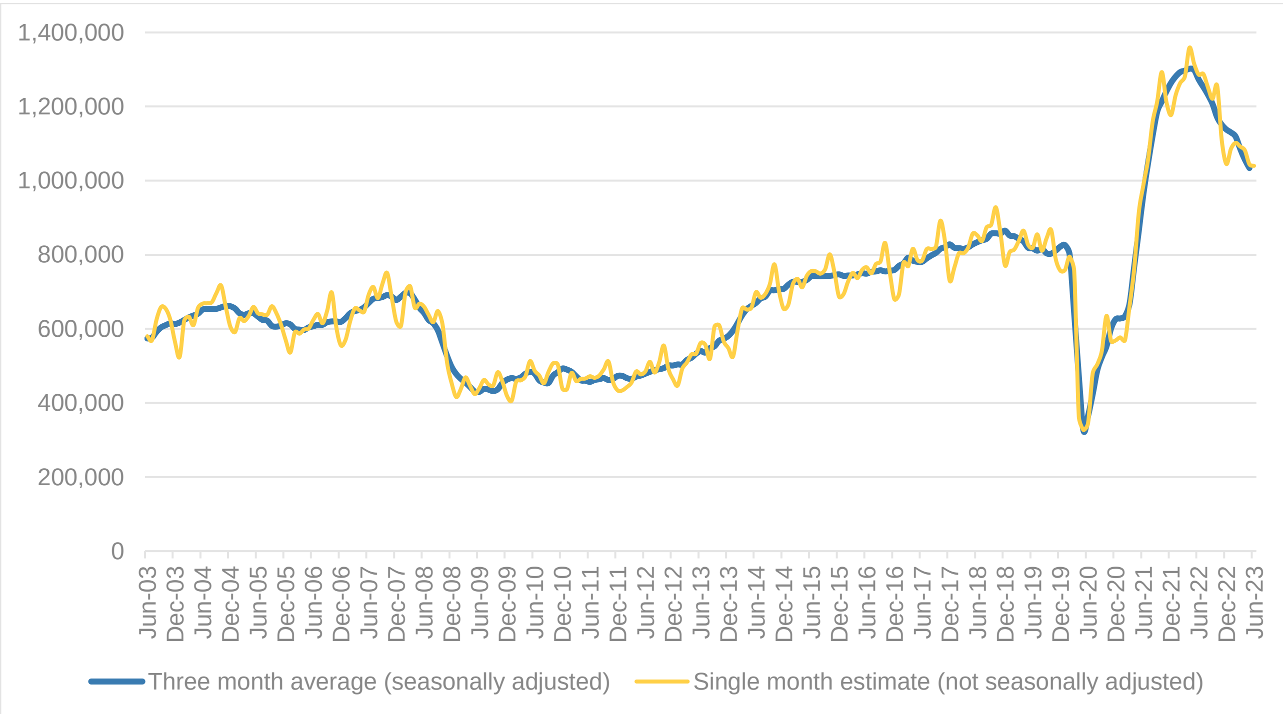
Source: Labour Force Survey

There are further signs that demand is edging down – but less so in white collar jobs and public services

Moving to the demand side, vacancies have fallen again today to 1.03 million (from 1.12 million in the last quarter) and overall are down by around 20% on their peak last spring. This is set out in Figure 6 below, which shows quarterly estimates in blue and the single-month estimates which make these up (and which are not seasonally adjusted) in yellow.

It is unclear how far these falls reflect a weakening of demand in the economy generally as interest rate rises start to feed through, and/ or a better match between supply and demand as the labour force grows and as job-to-job moves ease up a bit. Whatever is driving it though, the consequence is that the labour market is now significantly looser than it was a year ago. Back then there was one unemployed person for every vacancy, whereas on today's data this figure has risen to 1.3. This is nonetheless still well below the pre-pandemic rate, when vacancies were far lower and unemployment a bit higher (and there were typically around 1.7 unemployed people per job opening).

Figure 6: Vacancies – quarterly and single-month estimates



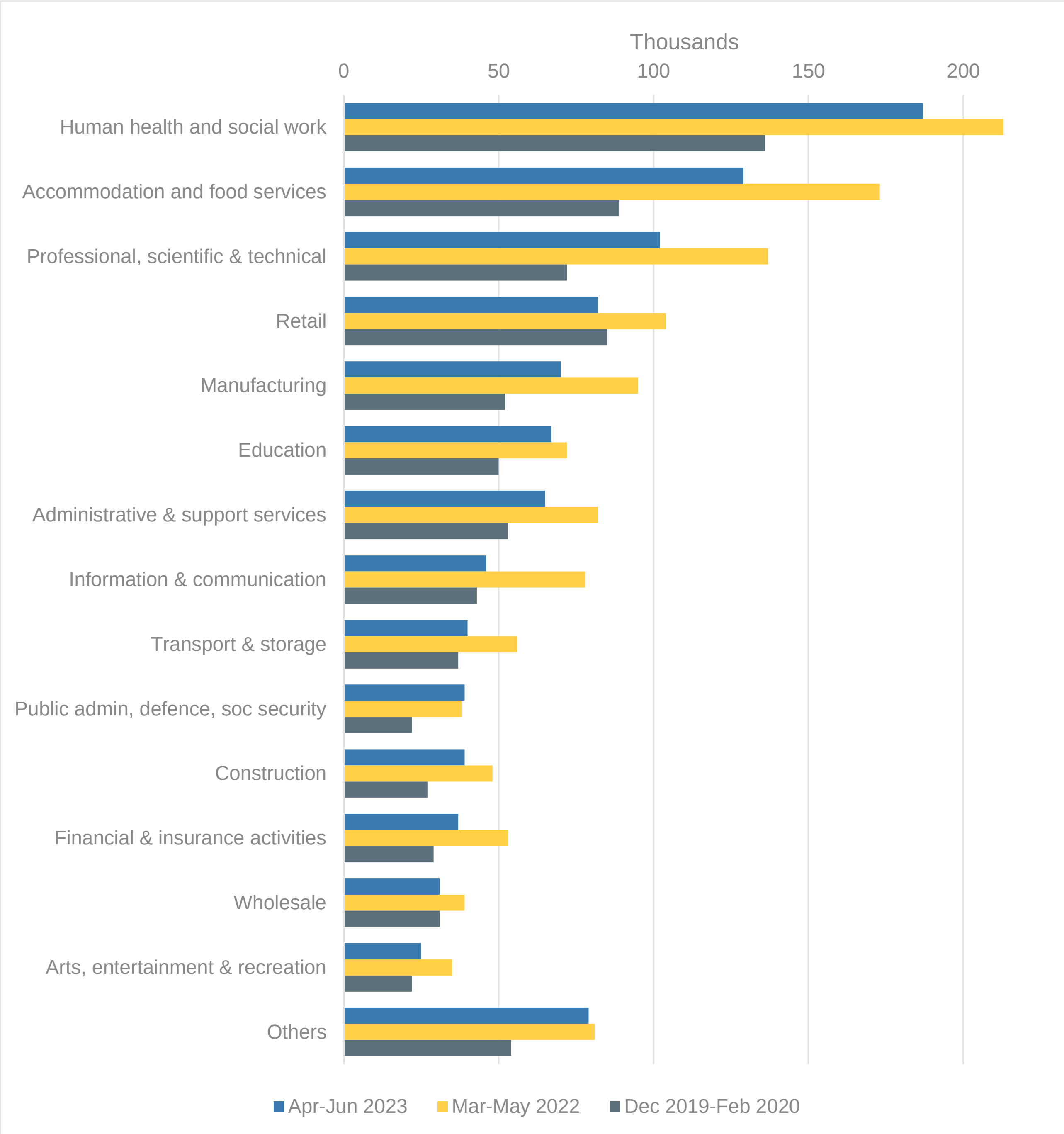
Source: ONS Vacancy Survey

Figure 7 below 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 a fairly similar story to recent months, with vacancy figures still well above pre-pandemic levels in many white collar industries and weaker figures in some lower-paying industries. Construction and manufacturing are also still significantly above pre-pandemic levels, which suggests continued strong demand (and/ or skills shortages). Public services in particular stand out – with vacancies close to where they were a year ago in health and education and higher than a year ago in public administration. This likely reflects both higher demand (especially in health and care) and falls in pay relative to private sector jobs (covered later in the briefing). In retail and wholesale, vacancies are now below pre-pandemic levels, although in hospitality (the ‘accommodation and food services’ category) vacancies remain fairly high.

The broader problem here, though, is that many of the areas where demand is strongest are in industries where employers are more likely to need higher level or job-specific skills (white collar professions, public services, manufacturing and construction). So people joining the labour force from economic inactivity may struggle to meet those needs without help to reskill (preferably in the job), and/ or will struggle to find the jobs that they *can* do if they do not have access to employment support.

Figure 7: Vacancies by industry, pre-pandemic, post-pandemic peak (Mar-May 2022) and most recent quarter (Apr-Jun 2023)

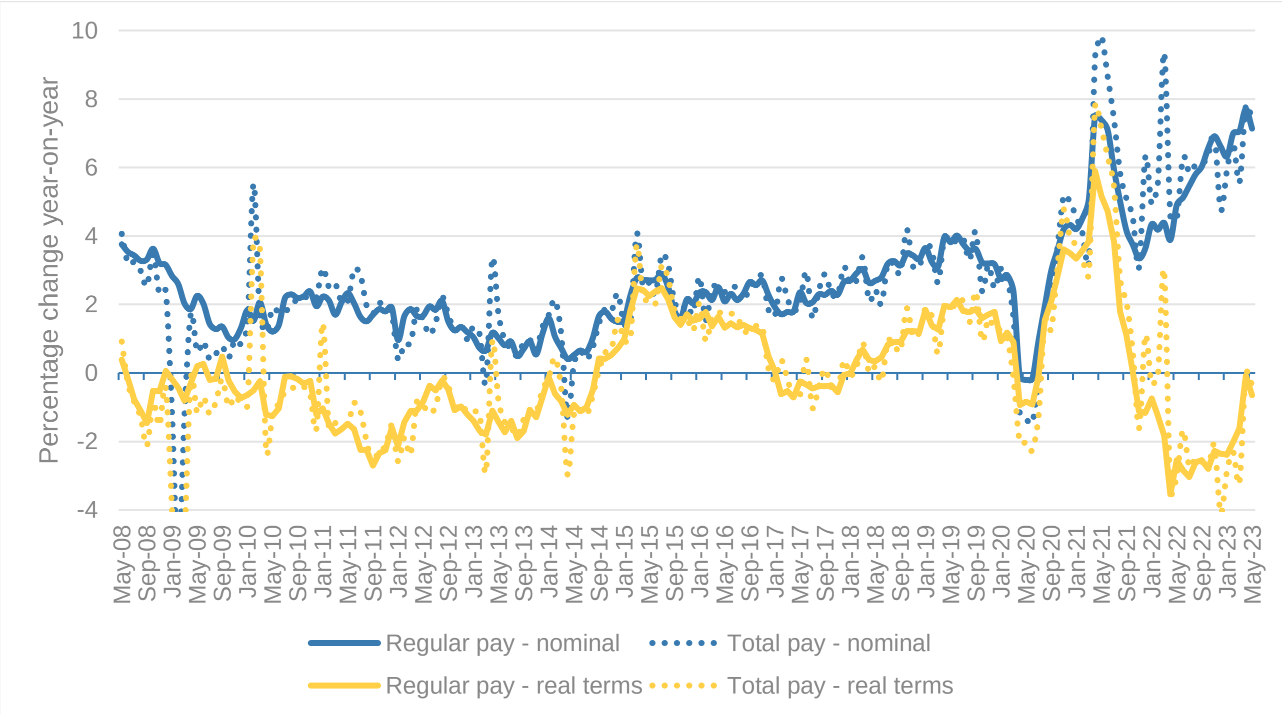


Source: ONS Vacancy Survey

Higher supply isn't (yet) dampening wage growth – which is also being driven by 'white collar' jobs

Building on the issues in the section above, there are signs in the pay data that continued mismatches between supply and demand mean that higher supply is not (yet) moderating wage growth. Regular pay was 7.1% higher in May 2023 than a year previously, while total pay (including bonuses) was 7.4% higher. This means that pay growth has almost but not quite kept pace with inflation over the last year (which was 7.9% including housing costs). These trends are set out in Figure 8 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 8: Year-on-year change in regular and total pay – nominal terms and adjusted for inflation (real terms)

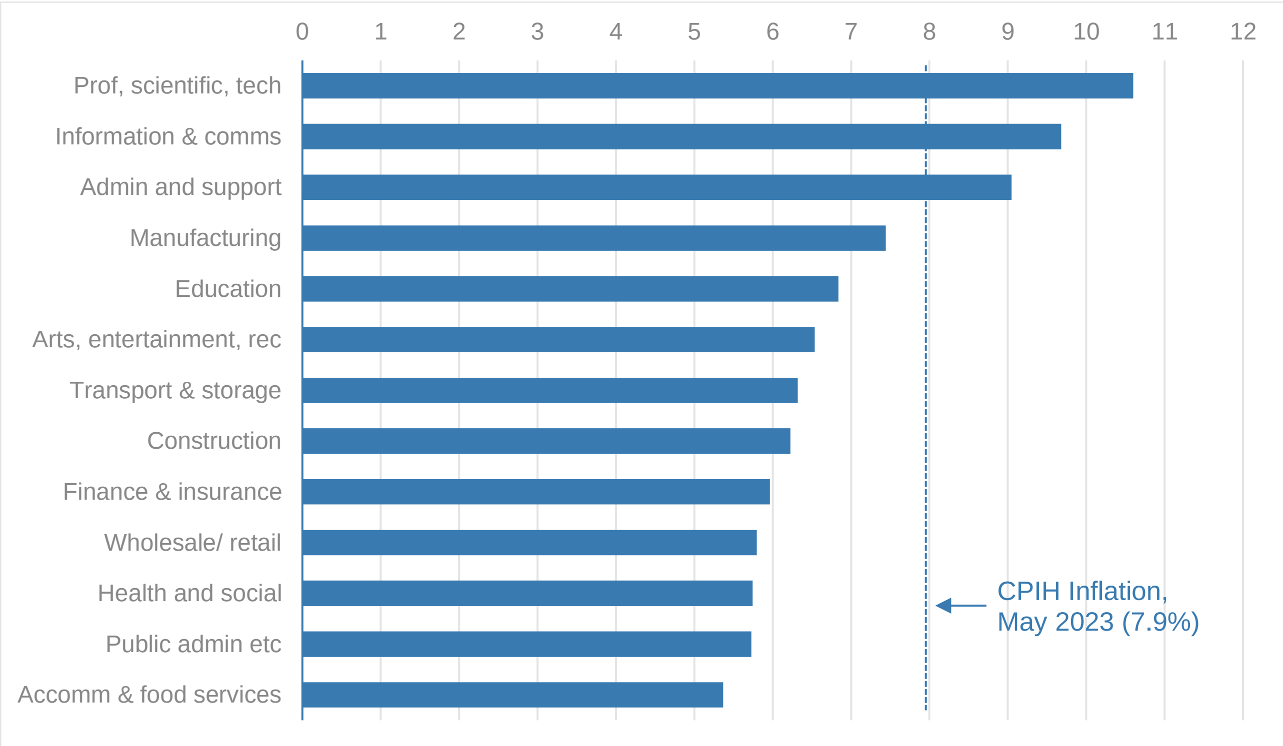


Source: ONS Monthly Wages and Salaries Survey. Regular pay excludes bonuses and arrears; measure shown is year-on-year change in single month estimate.

As we said last month, this wage growth should moderate a bit in the summer as the effects of the large rise in the National Living Wage in April and of public sector pay deals from the spring start to feed through. However, looking at changes in pay by industry we see pay growth is exceptionally strong in 'white collar' and often private sector services – which are largely not affected by the minimum wage or public sector pay settlements. Figure 10 shows average nominal pay growth for the most recent three months compared with the same period a year ago, and shows that pay growth is well above inflation in 'professional', administrative and information/ communication jobs, and is close to the rate of inflation in manufacturing. This suggests then that skills and labour shortages are playing a part in pushing wages higher.

At the same time, we are seeing weaker wage growth in lower-paying industries like retail and hospitality as well as in health and in public administration (likely contributing to labour shortages in the latter). Indeed the public sector overall continues to lag behind the private sector on pay growth, with pay rising by 5.7% in the public sector compared with 7.7% in the private.

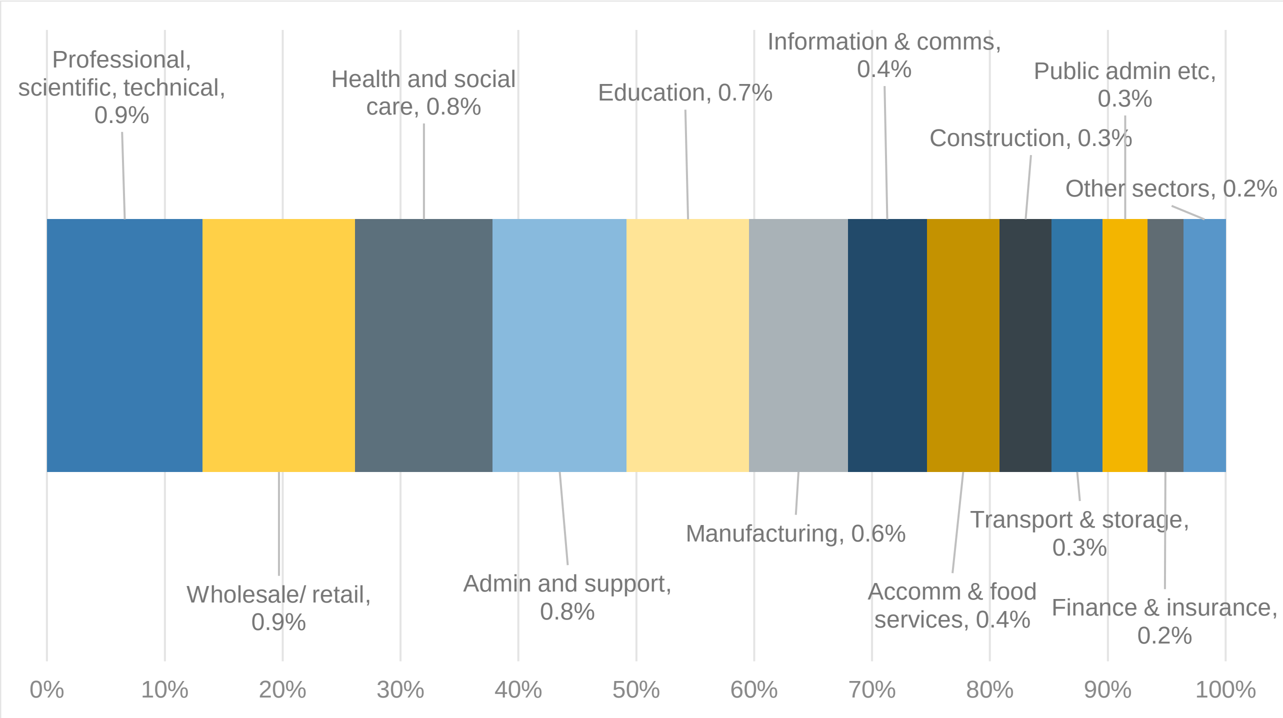
Figure 9: Year-on-year change in regular pay by industry, nominal terms



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 March-May 2023 (not seasonally adjusted).

This month we are also including new analysis to illustrate the part that each industry plays in contributing to the overall growth in regular pay (in nominal terms). This is set out in Figure 10 below, and again uses the average growth in year-on-year pay by industry for the most recent three months of data. This shows that three fifths of total pay growth is explained by five industries: professional jobs, retail and wholesale, health and care, administration and support, and education. Only two of these industries have above-average pay growth overall, with the others making a significant impact because of the number of people employed in those sectors. Pay growth in finance, public administration and construction – among others – make relatively small contributions to overall pay growth.

Figure 10: Contribution of industries to overall growth in regular pay



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 March-May 2023 (not seasonally adjusted).Percentages in data labels are the contribution to overall growth in regular pay for that industry.

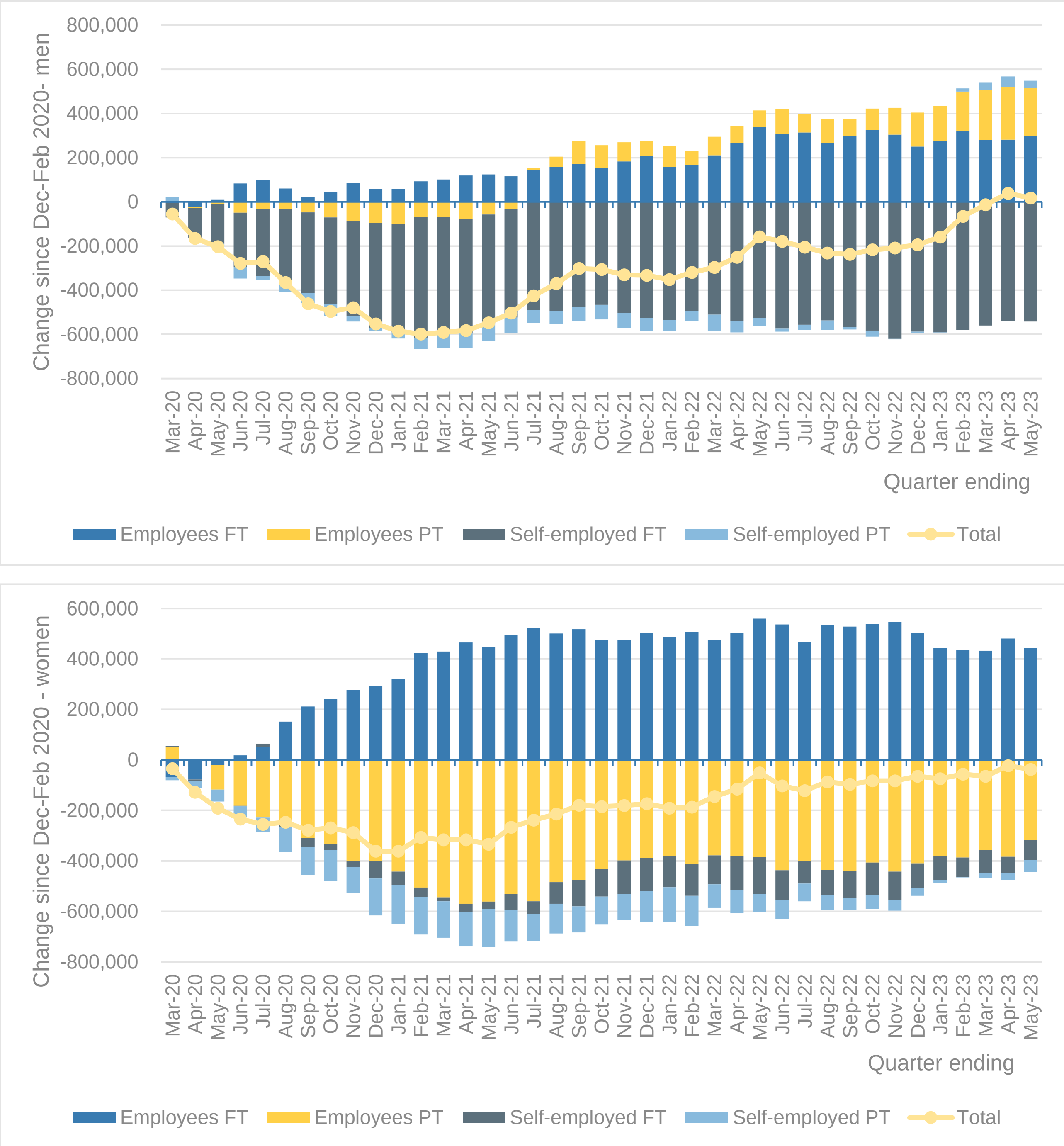
Employment 'gaps' between men and women have stopped narrowing, and are widening for older women

Finally, this month we are including updated analysis of trends in part-time, full-time, employee and self-employed work for men and women since the start of the pandemic, which was last published in our April briefing. This is shown in Figure 11 below (with coloured bars for each employment category and the line showing the overall change).

The overall picture is similar to previous analyses – of large falls in self-employment for men (who are much more likely to be self-employed), offset by more part-time and full-time employees; and of lower part-time work for women being offset by more full-time employment. Overall, in the most recent data we can see that employment is now back to pre-pandemic levels for men but slightly below these for women.

We have said before that it is likely that the availability of more flexible working may have benefited both men and women in different ways – with women perhaps more able to stay in or move into full-time work through hybrid working if they are caring for children; and some men perhaps changing their working arrangements as a result of the availability of more flexible hours and/ or more sharing of care responsibilities.

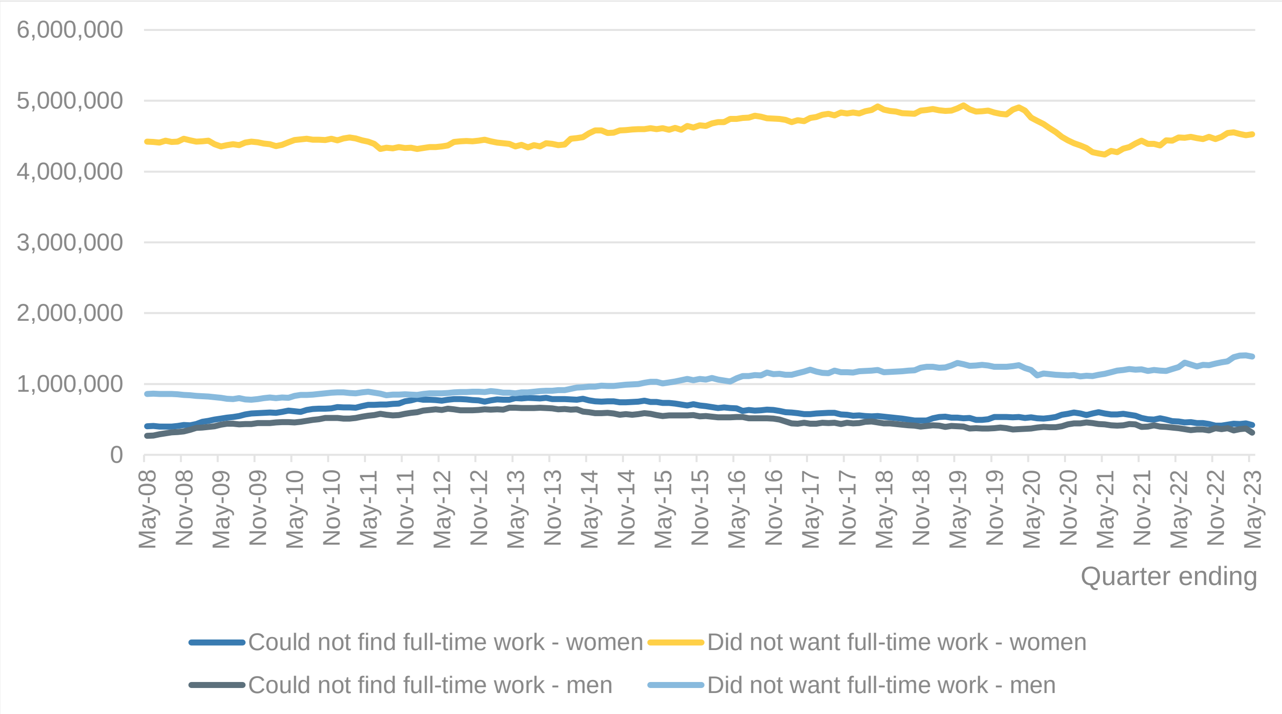
Figure 11: Change in full-time, part-time, employee and self-employed work since start of pandemic (December-February 2020 quarter) – for men (top) and women (bottom)



Source: Labour Force Survey

Interestingly, changes in part-time employment appear to be driven entirely by more people getting the hours that they want, rather than settling for the hours that they can get. Figure 12 illustrates this, showing the number of men and women who say that they work part time either because they do not want or cannot get a full-time job. Overall around 740 thousand people say that they work part-time because they cannot get a full-time job, which is roughly evenly split between men and women. Because far fewer men than women work part time, this means that they are more likely to be 'involuntarily' part-time, but importantly the number of people in these categories have been falling since the end of 2020 even as part-time employment has risen significantly for men. At the same time, the number of men and women saying that they work part-time because they do not want full-time work has risen (faster for men, reflecting the growth in part-time work overall).

Figure 12: Number of people working part-time because they could not find a full-time job, and/ or in temporary employment because they could not find permanent work

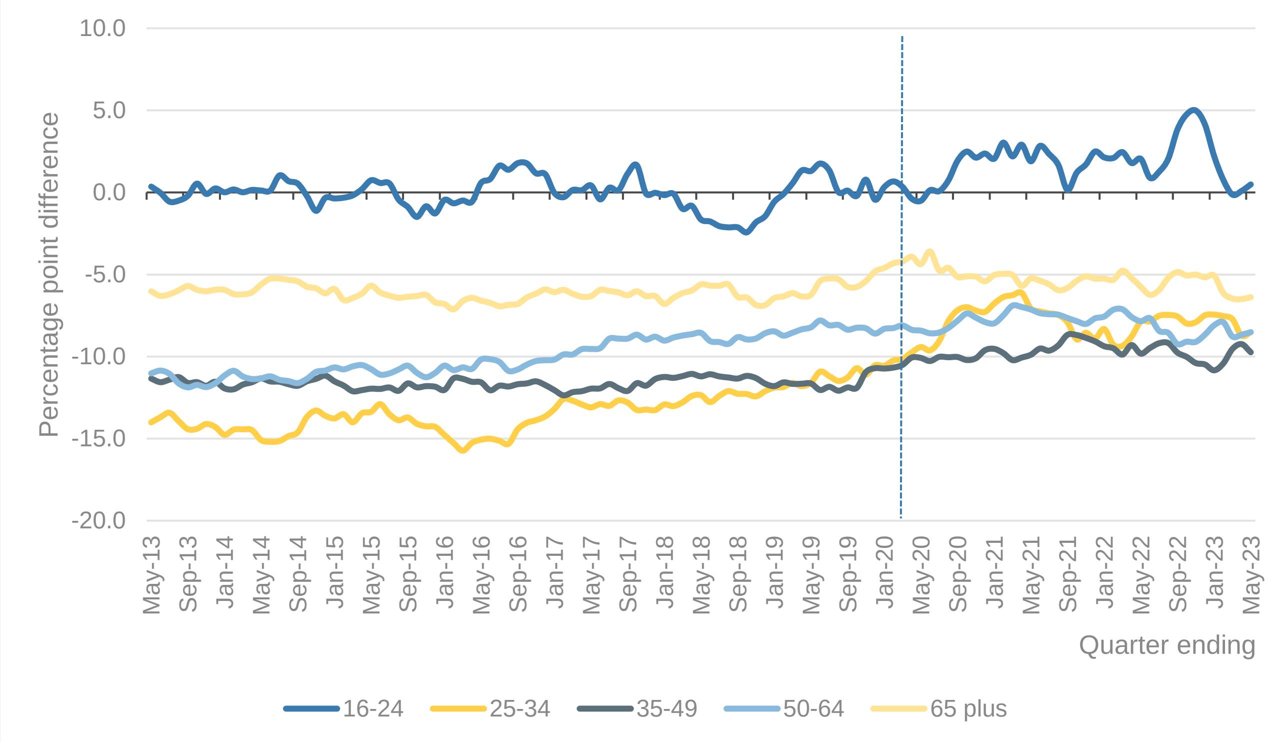


Source: Labour Force Survey

These shifts towards full-time work for women, and part-time work for men, mean that even though employment has more for men than women, total hours worked have grown more quickly for women than men. On average, men are working around 10 million fewer hours per week than before the pandemic (which sounds a lot, but is a fall of around 1.6%); while women are working 13 million more hours per week (a rise of 3.0%).

Nonetheless, lower employment growth for women also means that the employment 'gaps' between men and women (measured as the difference between employment rates) have stopped closing and for some age groups are widening. This is shown in Figure 13 below. The employment gap opens up from age 25, and while the gap had been narrowing substantially for those aged 25-34 (due to women having children later) and from age 50 (with more women returning to work), gaps now appear to be flat or widening at these ages. This is perhaps particularly concerning for older women as it could reflect for example older women who have left the labour market or those with health conditions finding it harder to return than older men.

Figure 13: Employment rate 'gaps' between women and men, by age group



Source: Labour Force Survey. The employment rate 'gap' is measured as the employment rate for women minus the employment rate for men in each age group.

Conclusion

Today's figures are a real mixed bag. The labour force is still getting bigger and economic inactivity is falling, which are both positives; but there are signs that increases in short-term unemployment may be feeding through into longer durations, while the number of people off work with long-term ill health remains unacceptably high. Demand appears to be cooling, which may reflect a bit more 'slack' in the labour market and/ or the first impacts of higher interest rates; but it looks like there are significant mismatches which mean that wage growth in white collar jobs (and possibly in manufacturing) remains unsustainably high.

In a very worst case, we could be in the foothills of a period of higher unemployment, higher interest rates but still high prices – the 'stagflation' that some economists fear – which would be disastrous for the economy but also for inequalities between different areas and between those on low incomes and those better off. However even in a best case, given the issues that are building on the 'supply side' of the economy, we may be facing a more general slowdown as interest rates kick in, and the hope that this eventually hits demand in those parts of the economy that are still overheating.

What appears to be largely missing though, and is desperately needed, is a coherent strategy for the supply side – to help address mismatches and support a softer landing in the labour market. This needs to be addressed at the Autumn Budget, and based on three pillars:

- A significant expansion in access to employment support. Far too few people who are out of work have access to employment services, especially those not on benefits or on ill-health benefits. We need a radical extension of support and services, using Jobcentre Plus, the Restart Scheme, local partners and providers and the recruitment industry, to help people who want jobs to find the jobs that want people.
- Skills reform, so that the state and employers can co-invest in workplace training to help address skills shortages. 'Skills Bootcamps' are a start, but we should also explore making temporary changes to the Apprenticeship Levy to allow employers to draw down funding directly for shorter-term training for new recruits.
- Support for employers – including access to help with inclusive recruitment, induction training, flexible job design and workplace support. The infrastructure to do this exists already in Scotland, Wales and Northern Ireland (Enterprise Scotland, Business Wales and Invest NI), but is a complicated patchwork of services in England.

We (IES) will be setting out more analysis of these issues and challenges later this month in the interim report of our Commission on the Future of Employment Support, in partnership with abrdn Financial Fairness Trust.

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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