ies Briefing

Institute for Employment Studies

Labour Market Statistics, April 2024

16 April 2024

This briefing note sets out analysis of the Labour Market Statistics published this morning. The analysis mainly presents **Labour Force Survey (LFS)** data, which is the main household survey that collects official figures on employment, unemployment and ‘economic inactivity’ (the term used to describe where people are either not looking and/ or not available for work). Note that LFS data was reweighted in February, and for some time series the ‘new’ weights are only available for autumn 2022 onwards. This is indicated in footnotes where applicable (and by a broken line in graphs).

Today’s LFS data covers the period up to the three-month period December 2023 to February 2024. 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 2024, and the Wages and Salaries Survey to February 2024.

Summary

Today’s figures are very poor all round. Employment is down by nearly a full percentage point over the last year, unemployment has risen unexpectedly, while ‘economic inactivity’ (the measure of those people not looking for work and/ or not available to work) has reached its highest rate since 2015 – worse even than it was in the depths of the pandemic. The big caveat on all of this is that the Labour Force Survey continues to be very volatile due to its falling response rates, but even looking through the short-term rises and falls there is no escaping the fact that employment is flat or falling while economic inactivity is rising strongly. And in our view, today’s data presents the clearest signs yet that a weak labour market is holding back growth far more than weak growth is holding back the labour market.

In all, there are now 850 thousand more people out of work than before the pandemic began (aged 16-64) with this growth in worklessness being driven in particular by fewer young people in the labour force, more older people out of work, and more people off work due to long-term health conditions (across all ages). In each of these three areas there are increasingly worrying signs in today’s data: with the number of young people not in full-time education nor the labour force reaching its highest level since comparable

records began in 1992 (760 thousand, or 10.7% of all young people); the employment rate for people aged 50-64 now 1.2 percentage points below where it was on the eve of the pandemic, having risen strongly over the previous decade; and worklessness due to ill health setting a new record high today at 2.83 million.

These increases in worklessness are all the more concerning as they have reversed a trend of rising participation in the labour force which had continued through thick and thin over the 25 years before the pandemic. Over that period, between 1995 and 2020, the labour force grew by on average one million people every four years. Over the last four years by contrast, the labour force has not grown at all.

If these issues were being driven by the economy, we would expect to be seeing unemployment rise, redundancies up, vacancies falling and earnings growth weak. In fact, the recent rise in unemployment in today's data has been almost entirely driven by long-term rather than short-term unemployment (i.e. those more disadvantaged in the labour market); redundancies are close to pre-pandemic levels; vacancies are falling but appear to be levelling off with around 900 thousand unfilled jobs; and earnings growth still sits at around 6% year-on-year.

Indeed today's earnings figures provides the only bright spot in the data – with 'real' pay now growing by around 2% a year and likely to continue as inflation falls. This means that earnings are now £10 a week higher (or 2.5%) in real terms than they were on the eve of the pandemic, which is no small achievement given inflation over the period has totalled 20%.

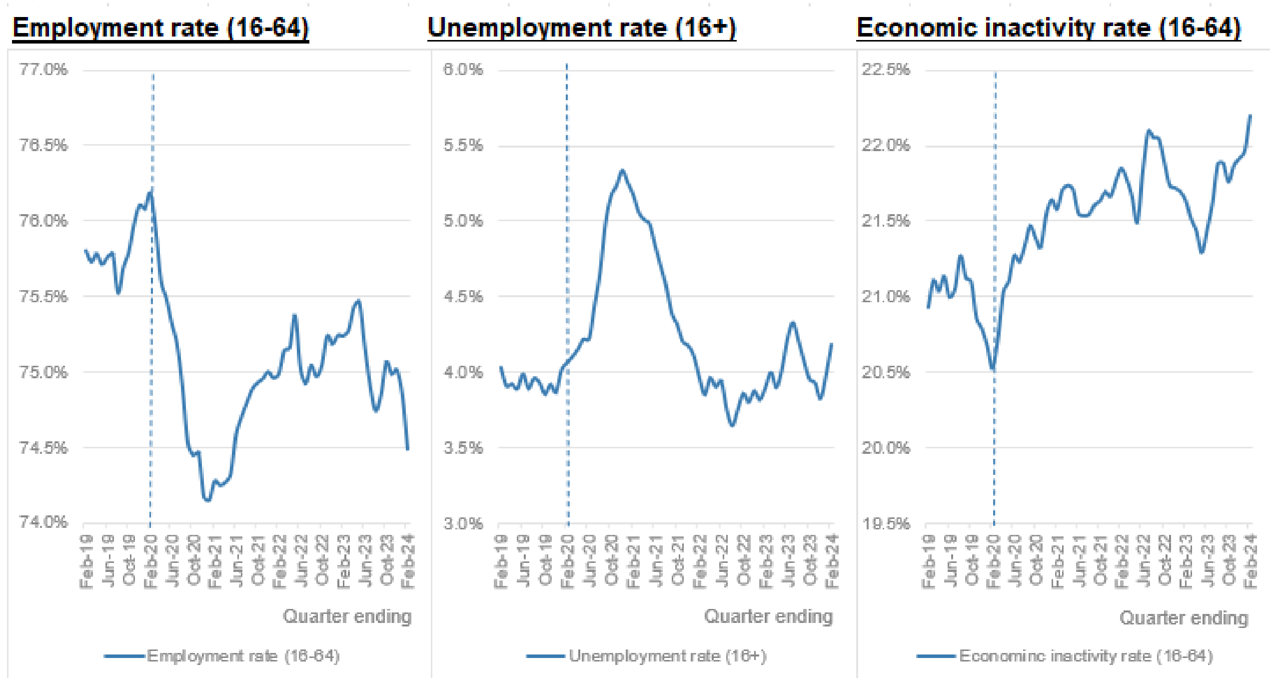
These figures show once again, and more clearly than ever, why we need to be far better at raising participation in the labour force in order to support growth, raise living standards and tackle inequalities. To their credit, the government announced significant new investment to support this at the 2023 Spring Budget and Autumn Statement, on a range of measures extending employment support, childcare and health services. However in the short term we need to move far more quickly in rolling this out, and in the longer term to look at our wider approach to employment support and services, which is increasingly not fit for purpose (as we are exploring in our Commission on the Future of Employment Support, in partnership with the abrdn Financial Fairness Trust). Employers will need to step up too, both in terms of what happens in workplaces (the design of jobs and the support that they offer) and in how they work with wider local partners who are engaging and supporting people outside the labour force.

Bad news comes in threes: with employment down, unemployment up and economic inactivity up

Today's figures show a significant deterioration in all three of the main labour market measures: with employment falling over the last year from 75.2% to 74.5% (the largest annual fall since 2020-2021), unemployment rising from 3.9% to 4.2%, and economic inactivity also up from 21.6% to 22.2% (the highest rate since 2015, i.e. even higher than during the depths of the pandemic). While the labour market data has been pretty flat since last summer, today's figures were much worse than expected.

Figure 1 below shows the trends in these three main labour market measures over the last five years and illustrates just how poor this month's figures (and other recent data) have been. As we said last month, the ONS has cautioned not to read too much into short-term changes due to falling sample sizes in the Labour Force Survey, and this month's figures do seem to be particularly volatile. However notwithstanding that, it does at the very least seem clear the employment is trending down while economic inactivity is trending up – so a continued picture of a weak labour market largely explained by more people outside of the labour force rather than unemployed. And in our view this weak labour market is holding back growth, rather than weak growth holding back the labour market.

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



Source: Labour Force Survey. Vertical dotted line indicates start of first Covid-19 lockdown.

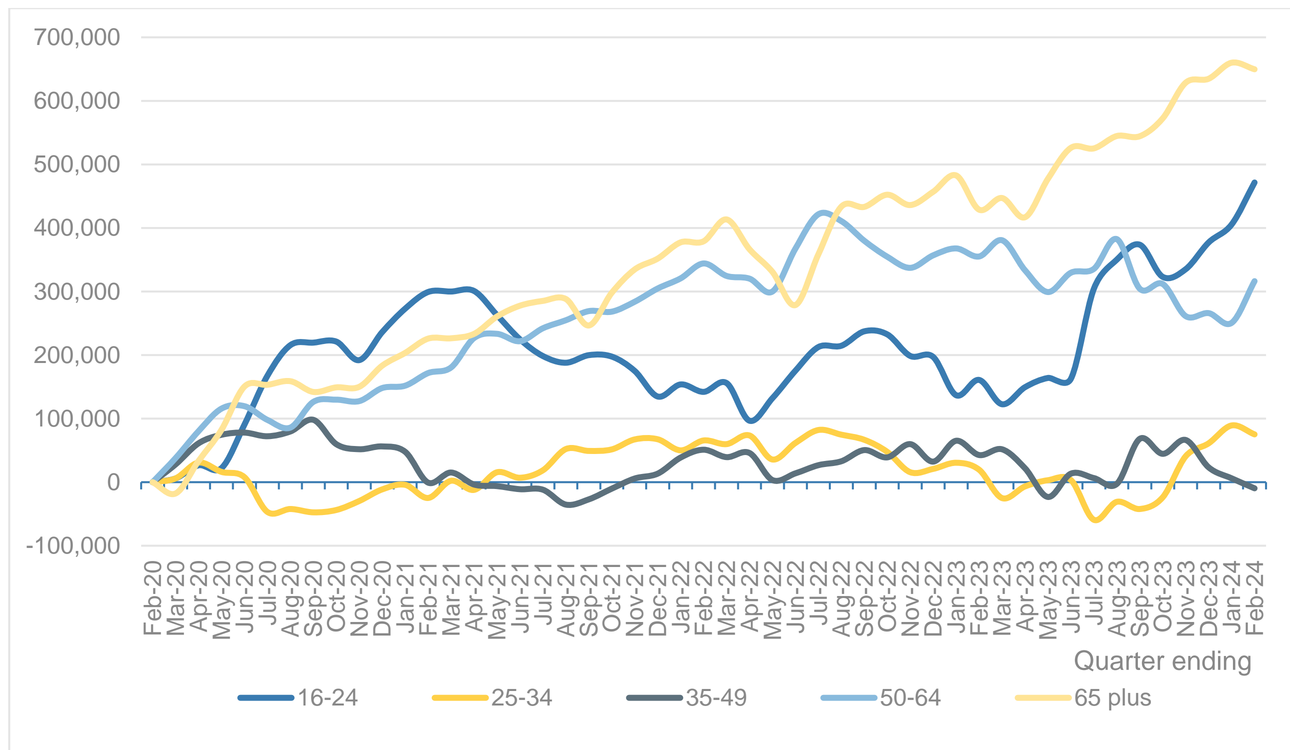
Higher worklessness is again explained by more older and young people out of work and long-term ill health

This weak employment recovery and rising economic inactivity continues to be explained by three main factors: fewer young people in work, more older people out of work, and more people off work due to long-term health conditions (at all ages).

Figure 2 below starts by showing changes in the level of economic inactivity by age group since the start of the Covid-19 pandemic, which is now exactly four years of labour market data. Over that time, the level of economic inactivity has risen by 850 thousand among those aged 16-64, and by 1.50 million if those aged 65 and over are included. Figure 2 shows that over the first year or so of the pandemic the growth in economic inactivity was driven by more older and younger people out of work; the second year saw continued rises in older people out of work; in the third year economic inactivity was broadly stable;

but over the last year we have seen strong growth again in economic inactivity among those aged under 25, a rise of just over a hundred thousand in the number out of work aged 25-34, and further growth among those aged 65 and over.

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

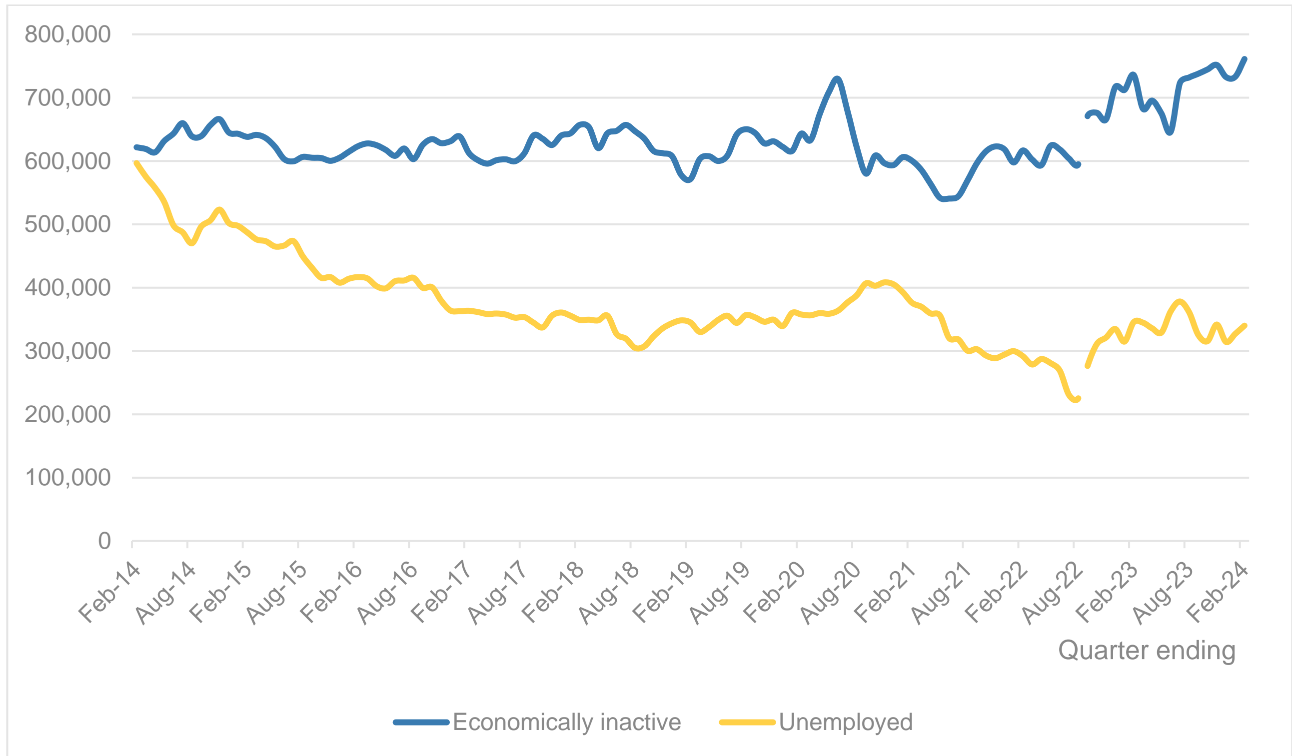
Last month's briefing discussed in more detail the trends in employment and economic inactivity by age, gender and reasons, and in particular that:

- Higher worklessness among those aged 65 and over is largely explained by population growth (with employment also rising slightly, by around 60 thousand);
- Among those aged 50-64 both employment and worklessness have increased;
- For people aged under 50 we have seen offsetting trends of higher worklessness due to ill health (for men and women) and lower worklessness due to caring responsibilities (mainly affecting women); and
- For young people, higher participation in education has also played an important role – accounting for around 90% of the growth in economic inactivity over the last year.

This month's data largely continues all of those trends, although in each case the figures are (unsurprisingly) a little worse than they were in March. For example for young people, there are no 1.1 million 16-24 year olds neither in full-time education or employment, which is the highest figure since early 2015. More worryingly, as Figure 3 below illustrates, this is increasingly explained by young people who are outside of the labour force entirely. Unemployment remains close to historic lows, while at 760 thousand the

number of young people economically inactive and not in full-time education is the highest since comparable records began in 1992 (as is the proportion of young people, at 10.7%).

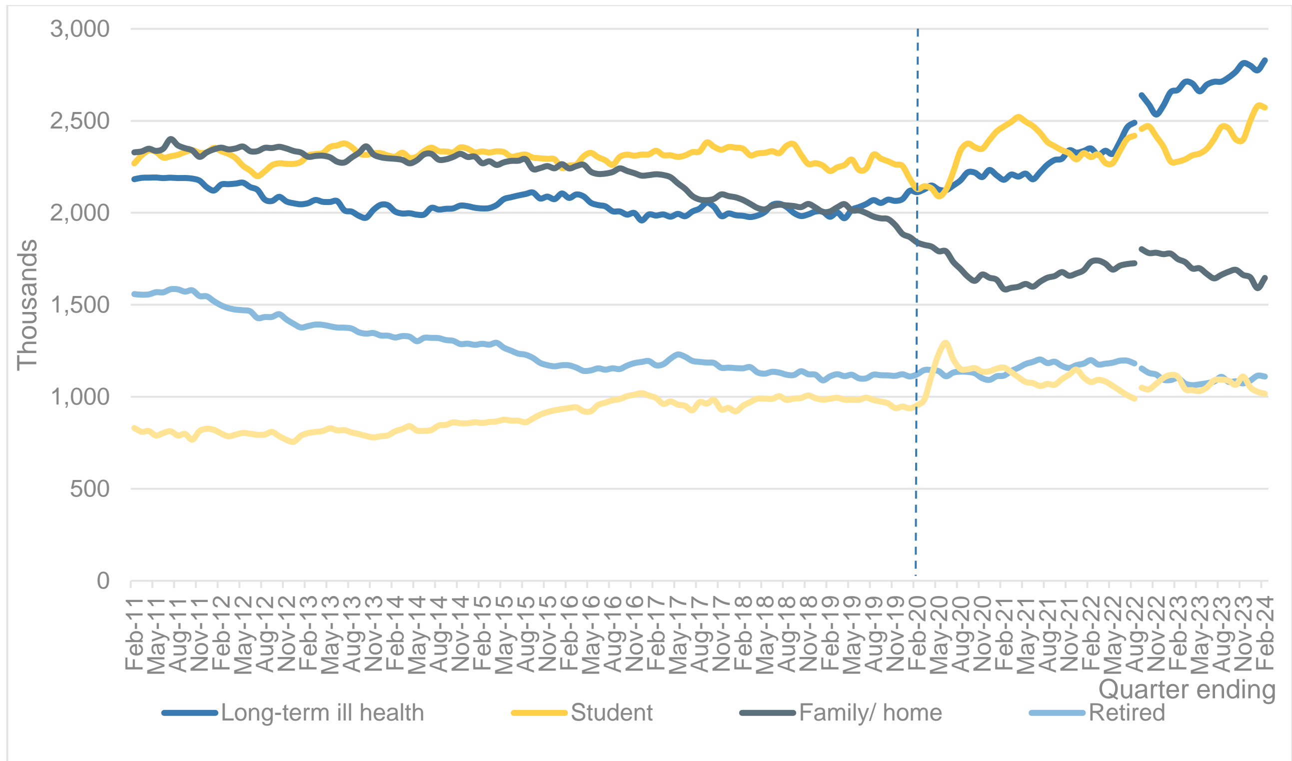
Figure 3: Number of young people not in full-time education or employment, by whether unemployed or economically inactive



Source: Labour Force Survey. Note that data from July to September 2022 onward has been reweighted,

Meanwhile looking more broadly at economic inactivity by the main reason given, Figure 4 below shows that the number of people out of work due to long-term health conditions is continuing to rise – hitting a new record of 2.83 million today (the blue line). As noted, the number of students outside the labour force has also risen in the last year (yellow), but for all other main reasons the figures are broadly back in line with their pre-pandemic trends.

Figure 4: Economic inactivity by main reason given



Source: Labour Force Survey. Note that data from July to September 2022 onward has been reweighted, causing a step change discontinuity.

Employment growth among 50-64 year olds has gone into reverse, especially for women

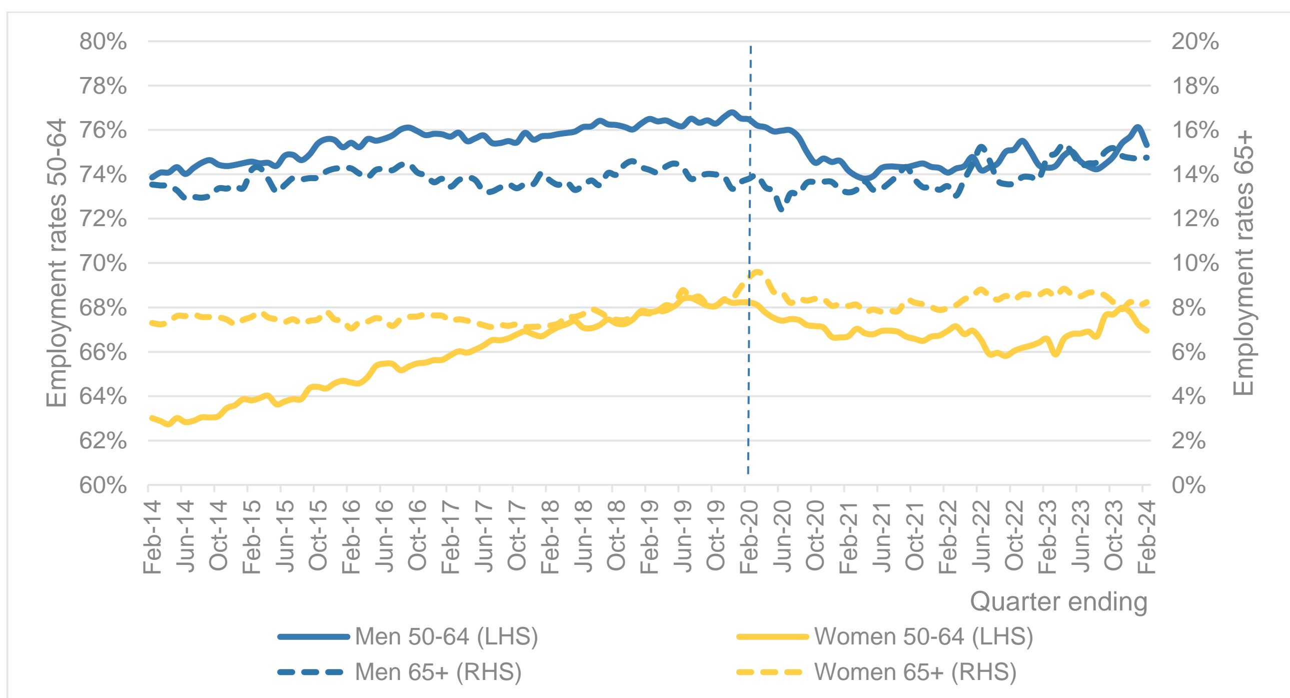
Looking in more depth at trends in employment for older people, the last four years has seen increases both in employment and in worklessness, as the number of people aged over 50 has continued to increase. However while the decade or so before the pandemic had seen this leading to significant increases in the likelihood of people in their 50s and early 60s being in work (particularly for women), since the pandemic looking in more detail at trends in employment, we can see that

This very large growth in worklessness among older people reflects in part our ageing society, and in particular that the ‘Baby Boomers’ have pretty much all left the labour force in the last decade or so, but also that their (eldest) children are increasingly entering their 50s. But while over the last three decades an ageing population has led to larger increases in employment than in worklessness (particularly for women), since the pandemic the trend has changed – with the employment rate overall broadly flat and if anything falling.

Figure 5 below illustrates this, showing employment rates for men (blue) and women (yellow) aged 50 and over, with solid lines denoting those aged 50-64 and dotted lines those aged 65 and over. Employment rates for 50-64 year olds are on the left hand scale,

while rates for those aged 65 and over are on the right hand scale. For those aged 65 and over, the likelihood of being in work is very low (around 14% for men and 8% for women) and there is no discernible impact from the pandemic – as we have noted previously, this may reflect impacts from rises in the State Pension Age offsetting any negative impacts from the pandemic. Among those aged 50-64 however, the pandemic clearly disrupts the trend, which had been of significant increases in employment among women and smaller increases among men. In both cases, employment is now 1.2 percentage points lower than it was four years ago, meaning that the 'gap' in employment rates between men and women has stopped narrowing for the first time since the late 2000s.

Figure 5: Employment rates for men and women aged 50-64 (left hand scale) and 65 or over (right hand scale)



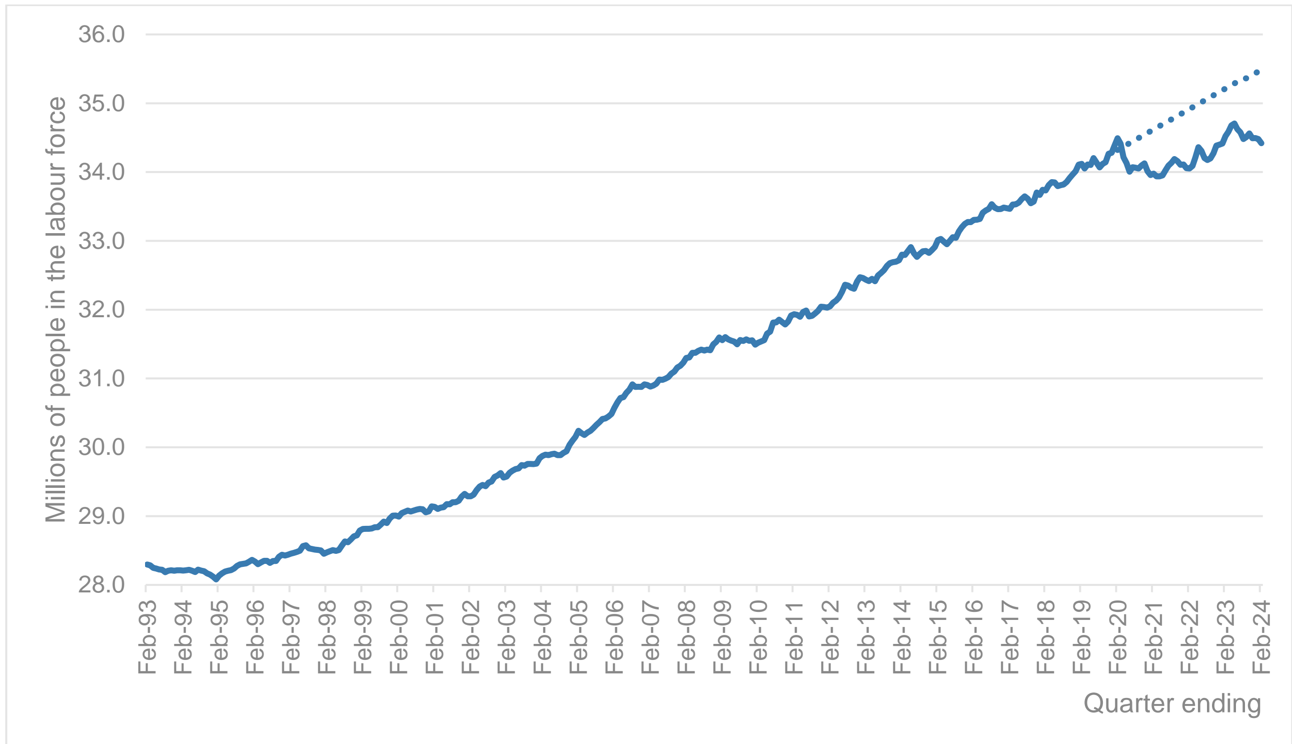
Source: Labour Force Survey

There's a million fewer people in the labour force than if pre-pandemic trends had continued

Taken together, a reversal in employment growth among those aged 50-64, higher economic inactivity among young people and pretty weak figures for those aged in between have combined to leave the labour force significantly smaller than it would have been if pre-pandemic trends had continued. This is illustrated overall in Figure 6 below, which shows the size of the labour force (the number of people either employed or unemployed) since the 1990s, with the dotted line illustrating the pre-pandemic path. This is the first time that we have included this graph using the newly reweighted LFS data, but the headline story is broadly the same as was the case when we last included it around two years ago: through thick and thin, over the 25 years before the pandemic, the labour force has grown by around a million people every four years. In the last four years

however, it has not grown at all. This once-in-a-generation change is a large part of why we are seeing firms continue to struggle to fill jobs, and why in our view it is the weak labour market holding back the economic recovery.

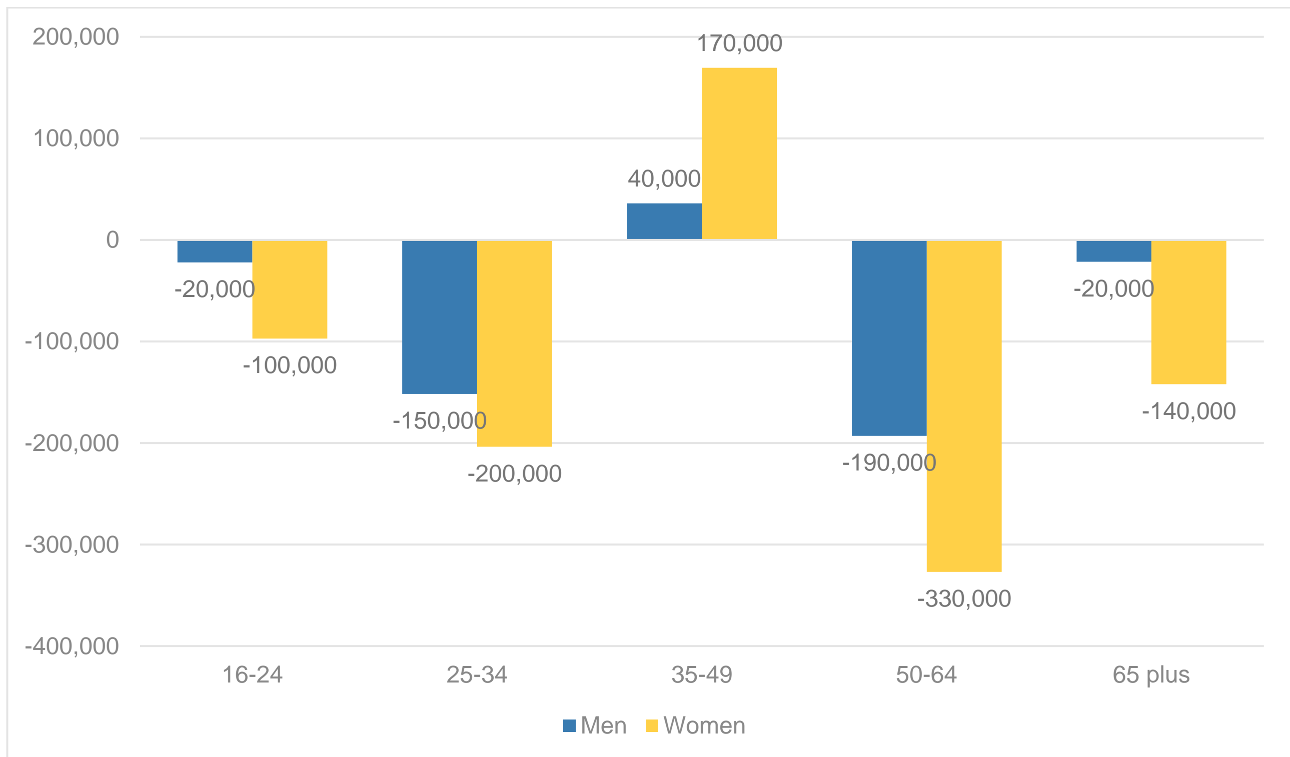
Figure 6: Level of economic activity – actual and if pre-crisis trend had continued



Source: Labour Force Survey and IES estimates

Figure 7 below then breaks down this 'missing million' (1.06m) by age and gender – specifically, showing the gap between the size of the labour force now and what it would have been had the previous decade's trend continued. This shows that the labour force is smaller than anticipated for men and women across nearly all age groups and largely in line with the analysis set out earlier in the briefing – big falls among those aged 50-64, particularly for women; with smaller falls among those aged 65 and over or those under 35 (but again larger fall for women). However for those aged 35-49 the labour force is actually somewhat larger than anticipated, which is largely explained by more women in work and in turn by fewer women outside of the labour force due to caring responsibilities.

Figure 7: Composition of the 'missing million': number of people fewer or more in the labour force by age and gender, compared with if pre-crisis trends had continued



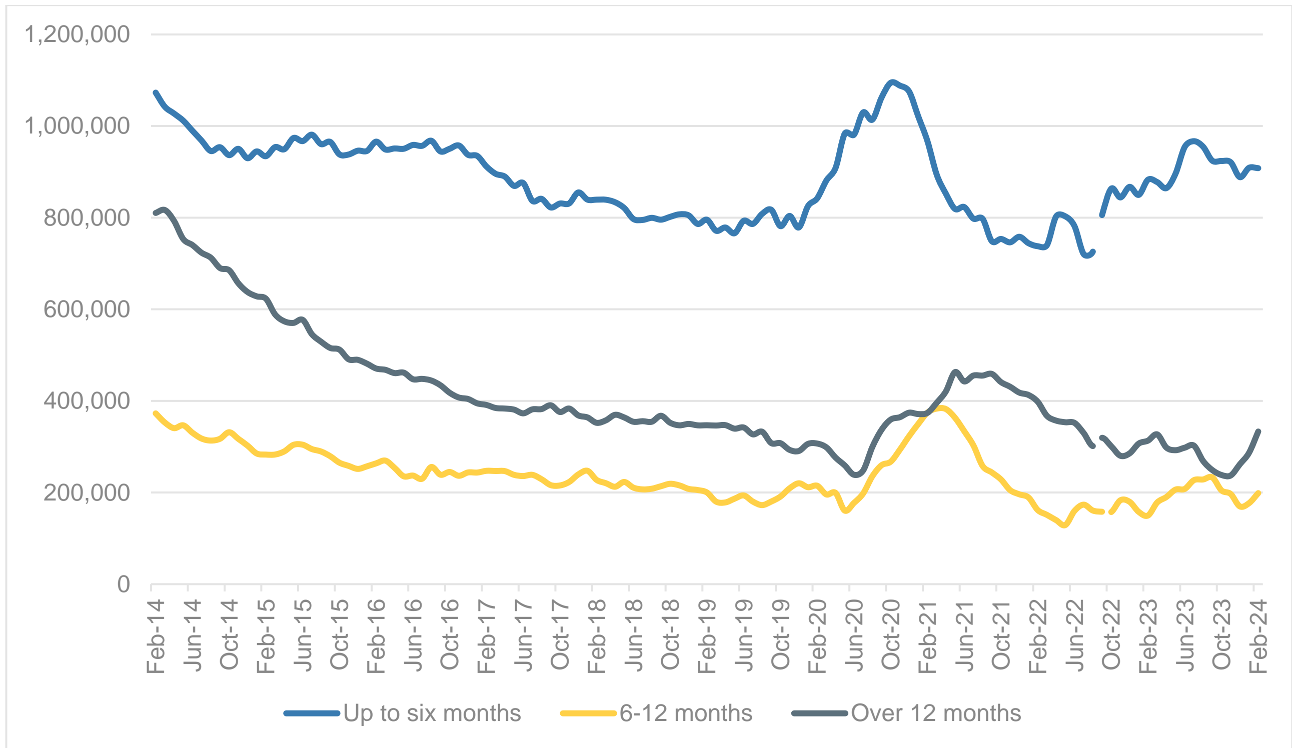
Source: IES estimates of difference between change in economic activity since first lockdown compared with trend in change of economic inactivity over the period 2010-2020; based on Labour Force Survey.

Recent rises in unemployment are being driven by long-term unemployment rather than economic factors

As discussed at the start of this briefing, today also saw a sharp and surprising rise in unemployment, which had dropped to below 4% in recent months but has now bounced back to 4.2%. Notwithstanding the general volatility in the data, this could signify that a weaker economy is feeding through into weaker jobs data – as there are more people looking for work and not able to get it. However, a closer look at the figures suggests that here, again, the driver is an increase in the number of people who are further from work rather than those closer.

Specifically, Figure 8 below shows the level of unemployment by the length of time looking for work. Short-term unemployment (the blue line) is slightly higher than it was a year ago, by around 25 thousand. However most of the growth in unemployment is being driven by longer durations – with those out of work for 6-12 months up by 50 thousand on the year (yellow line), and those out of work for a year or more up by 20 thousand (black line). All three are trending up slightly, but all three are broadly in line with pre-pandemic levels and it is long term unemployment driving the sharp spike that we have seen in the last few months.

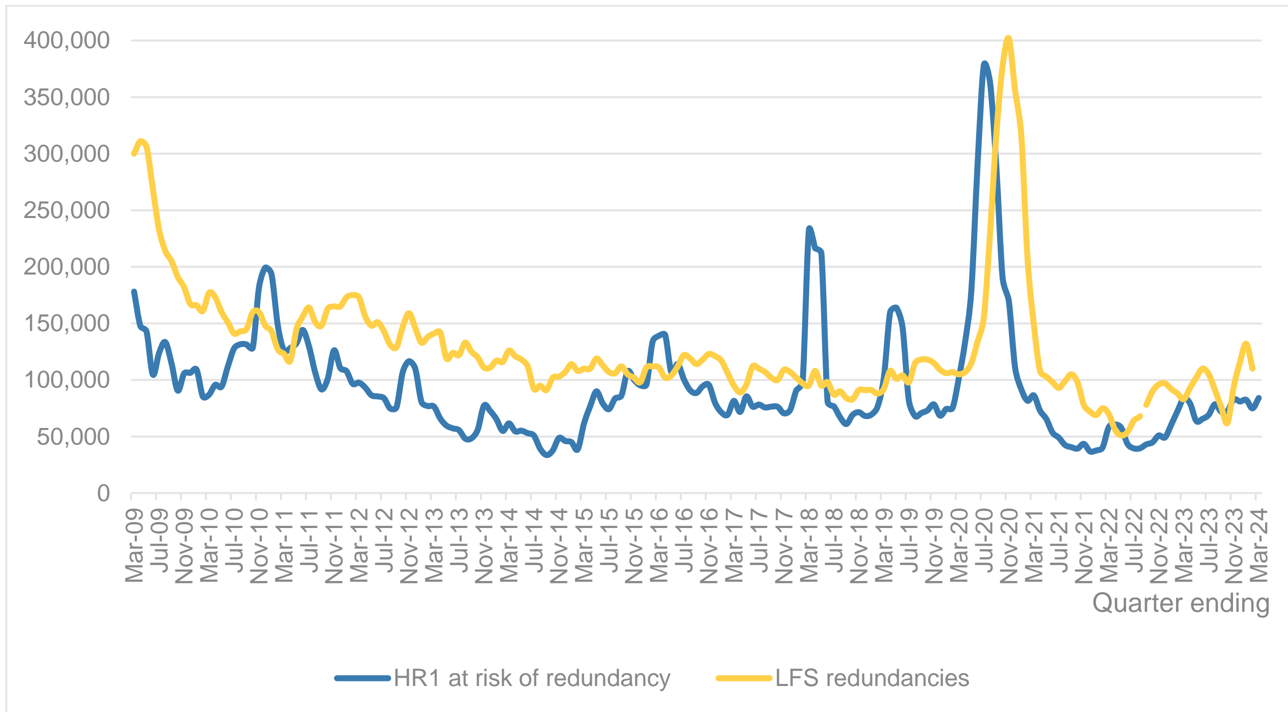
Figure 8: Unemployment by duration



Source: Labour Force Survey. Note that data from July to September 2022 onward has been reweighted, causing a step change discontinuity.

At the same time, the latest redundancy data also remains subdued, with no signs of a pick-up in job losses. Figure 9 below shows estimates of the number of people made redundant (in yellow, from the Labour Force Survey) and the number of jobs at risk of redundancy in future (in blue, from 'HR1' forms notified to the Insolvency Service). This HR1 data is a good leading indicator for future redundancies and is broadly flat, while the LFS data has been very volatile but at worst is in line with the historically low figures pre-pandemic. Taken together then, there is little evidence in the unemployment or redundancy data that the weak economy is causing our weak labour market.

Figure 9: Quarterly number of employees notified as at risk of redundancy (HR1 forms) and reporting having been made redundant (Labour Force Survey)

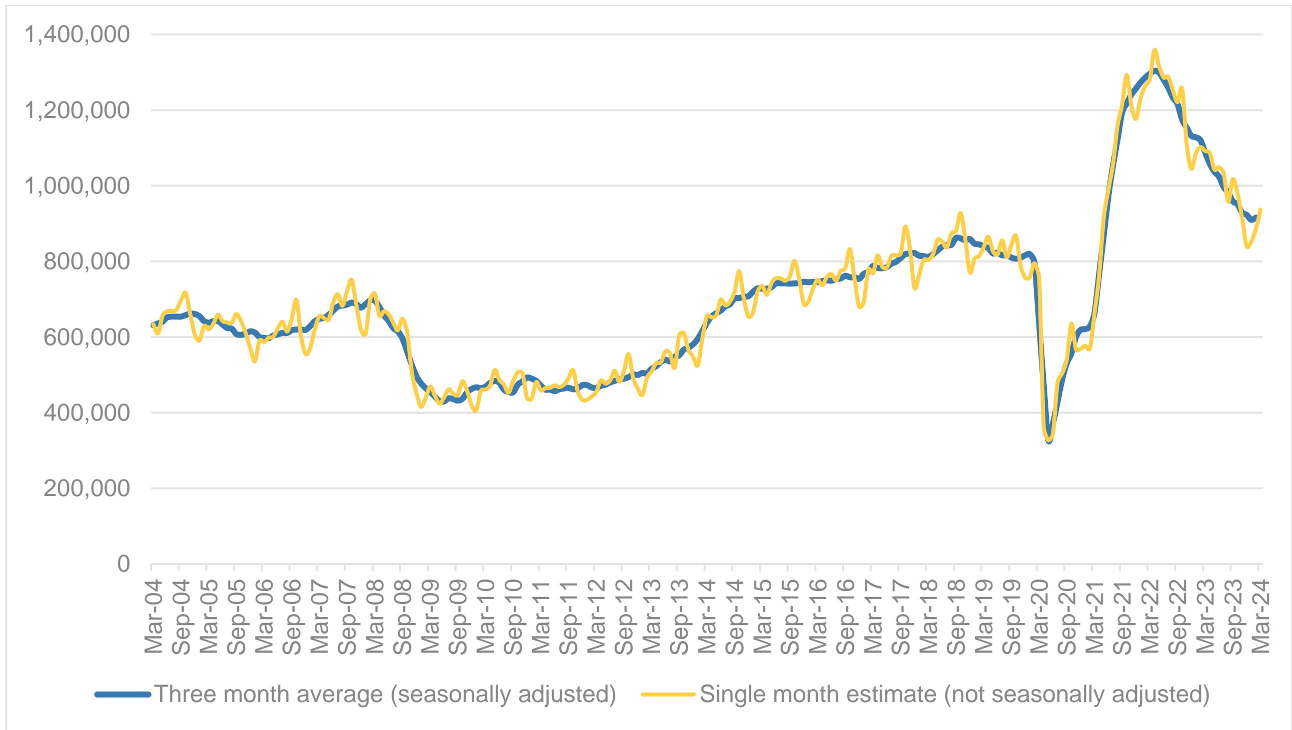


Source: IES analysis of Insolvency Service and Labour Force Survey data. Note that data from July to September 2022 onward has been reweighted, causing a step change discontinuity.

Vacancy figures do continue to point to more slack in the labour market, but falls appear to be levelling off

Where we do see more evidence of 'slack' in the labour market is in the latest vacancy data, with today seeing a further fall from 930 thousand in the final quarter of 2023 to 915 thousand in the first quarter of this year. Vacancies are now 390 thousand lower than they were at their peak in spring 2022. However as As Figure 10 below shows, the fall in vacancies does now appear to be levelling off, with the lates monthly estimates (in yellow, not seasonally adjusted) suggesting that vacancies increased in each of the first three months of the year. Indeed the headline quarterly estimate (the main blue line) was slightly higher today than the figure published last month, the first such increase since vacancies were at their peak two years ago. It is also worth noting that they remain more than 100 thousand higher than they were before the pandemic began.

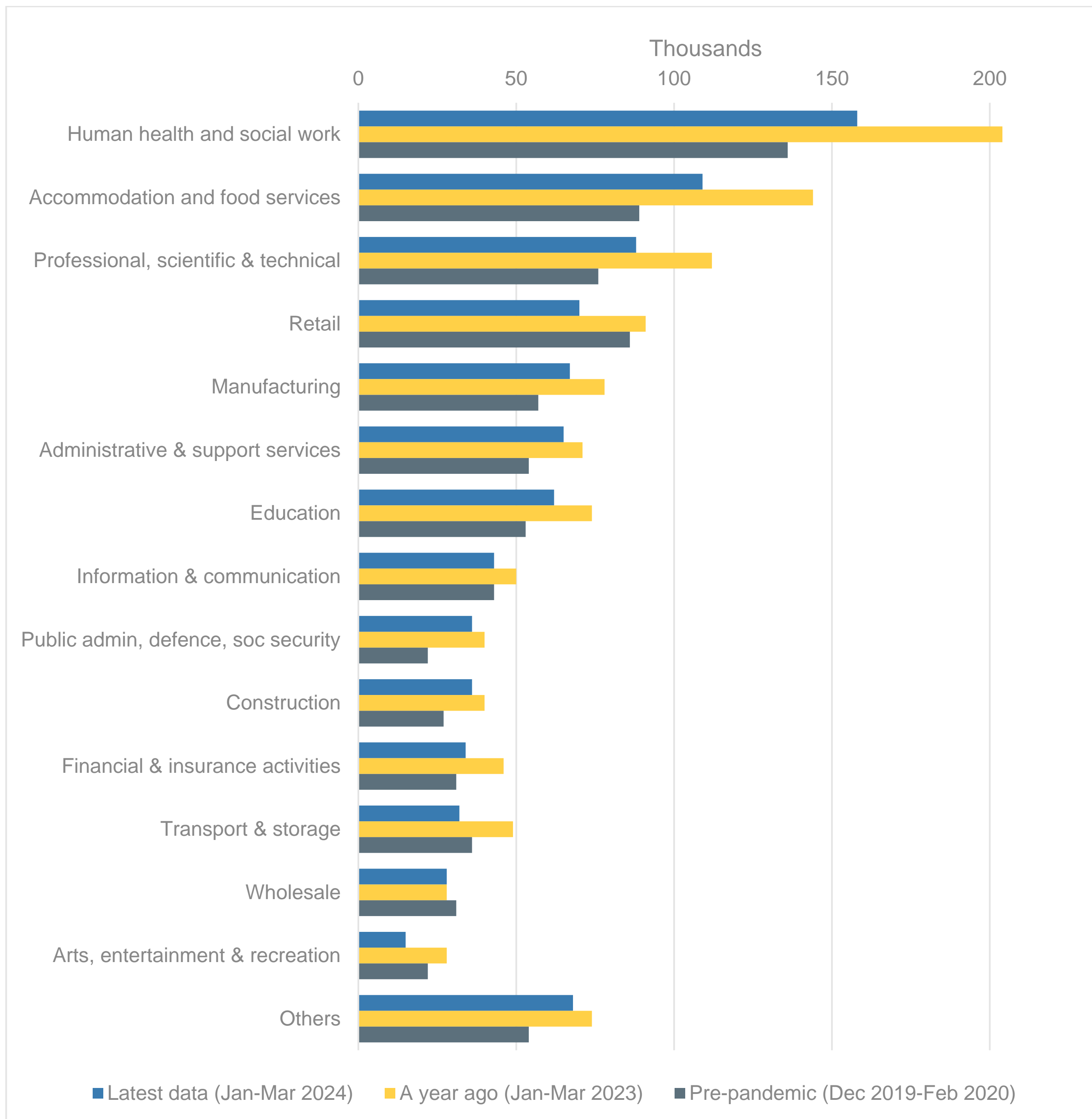
Figure 10: Vacancies – quarterly and single-month estimates



Source: ONS Vacancy Survey

Figure 11 then shows vacancy levels by industry. We have simplified the graph this month, only showing the latest data (blue), the figure for a year ago (yellow) and pre-pandemic levels (black). This shows that vacancies remain above pre-pandemic levels in most industries, but have fallen in all industries over the last year. As we have noted previously, this will likely reflect a combination of lower turnover in work (fewer people moving jobs) and weaker demand than a few years ago. However it is only really in retail and in the arts and entertainment where demand appears to be significantly below where it was before the pandemic.

Figure 11: Vacancies by industry: latest data (Jan-Mar 2024), a year ago (Jan-Mar 2023) and pre-pandemic (Dec 2019-Feb 2020)



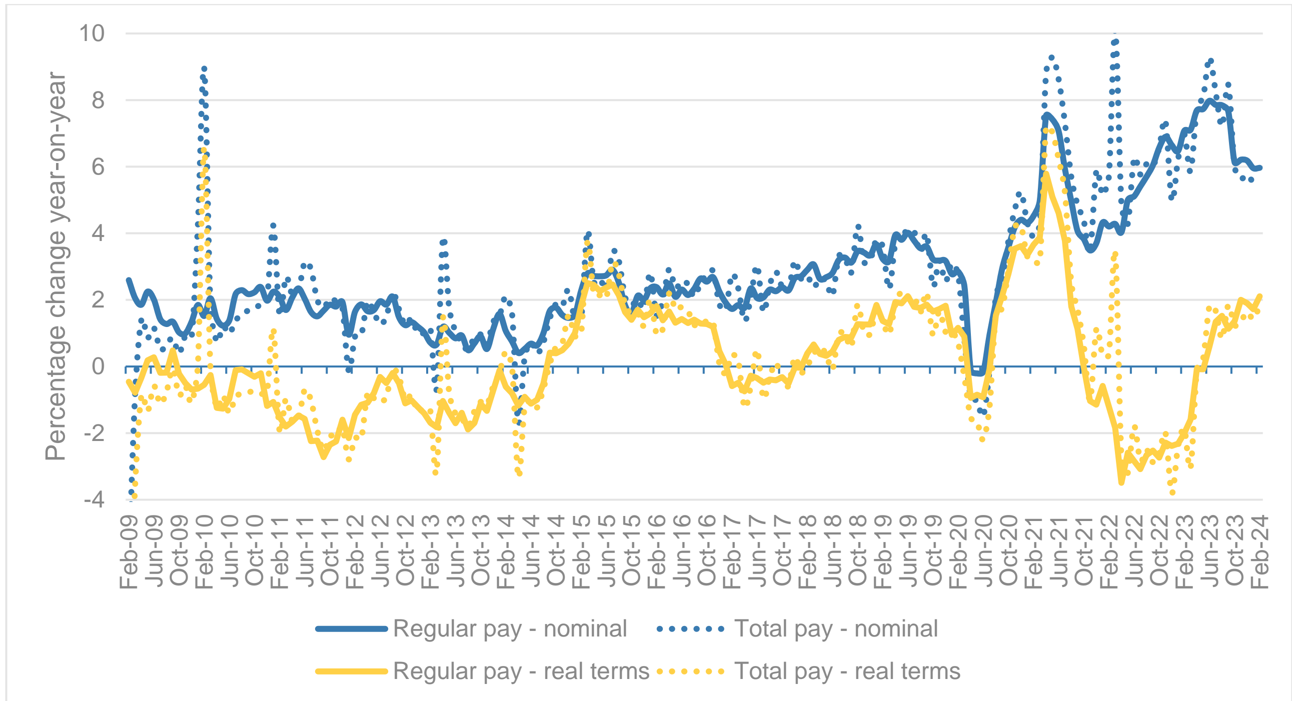
Source: ONS Vacancy Survey

In more positive news, pay growth is again around 6%, with real terms pay growth around 2%

Finally, while today's jobs figures are unremittingly bad, there is at least some continued positive news on pay – with year-on-year growth in regular pay at 6.0% and 'real' pay growth (after inflation) at 2.1% (comparing February 2024 with February 2023). These are shown in Figure 12 below, with nominal pay growth in blue and 'real' pay in yellow (solid

lines are regular pay, dotted lines are total pay including bonuses and arrears). This means that average pay in real terms is now £12 per week (or 2.5%) higher than it was four years ago – which is no small achievement, given inflation over that period has been 20.4%. However, taking a longer view this means that pay is still only around £10 per week higher than it was on the eve of the financial crisis in late 2007.

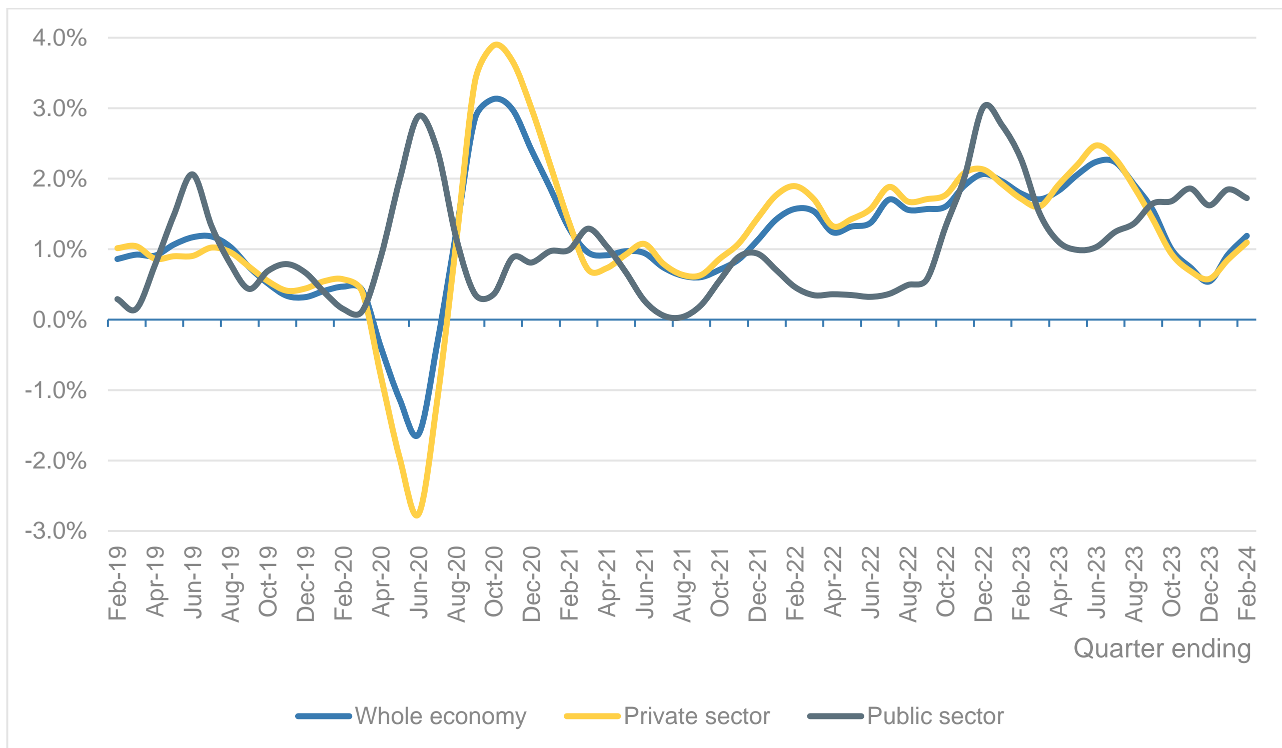
Figure 12: Year-on-year change in regular and total pay – nominal terms and adjusted for inflation (real terms)



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 13 then updates the graph first published last month, showing quarter-on-quarter changes in regular pay overall and for the private and public sectors. This compares the average estimates for regular pay over the most recent three month period with the average estimates for the previous three month period (i.e. the most recent data compares Dec-Feb 2024 with Sep-Nov 2023). This shows that quarterly pay growth has continued to edge up in recent months, to 1.2% in the most recent data (so on an annualised basis, this would be equivalent to pay growth of 4.8%). With inflation likely to fall back pretty sharply in the coming months, this suggests that we should see continued increases in real terms pay at least through the spring and likely into the summer.

Figure 13: Quarter-on-quarter changes in quarterly average for regular pay

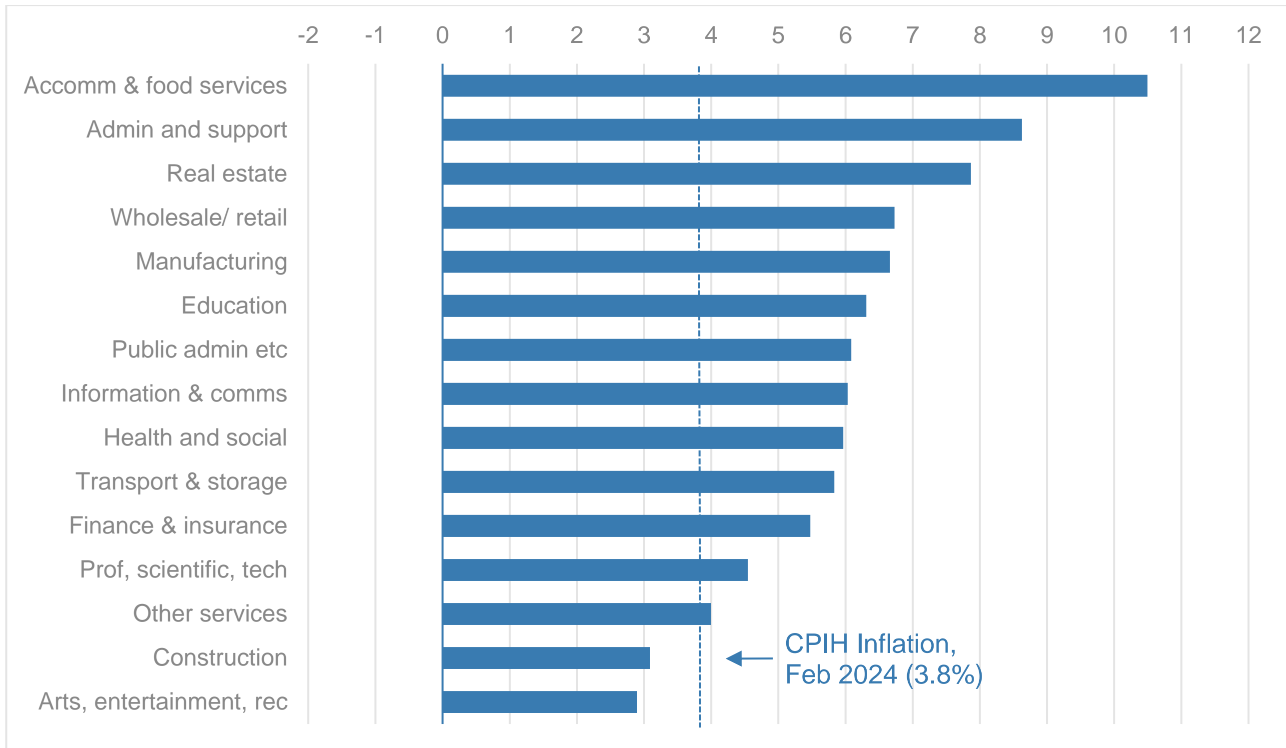


Source: ONS Monthly Wages and Salaries Survey. Measure shown compares average pay in the quarter ending in the month specified, compared with the previous non-overlapping quarter.

Looking at annual pay growth by industry, with inflation edging down we are seeing real terms pay growth across most of the economy as Figure 14 illustrates. The two exceptions to this are construction and arts/ entertainment, which continue to see very weak growth. Pay growth is highest in hospitality (accommodation and food services), and will likely increase further as the impacts of the large increases in the National Living Wage come through in a few months' time. Growth is also strong in a number of other private sector services, but weaker at the moment in the higher skilled 'white collar' finance/ insurance and professional/ scientific/ technical industries.

As we have said in previous briefings, there still does not appear to be any particular relationship between wage growth and vacancy growth (or falls), which perhaps reiterates that the relative tightness of labour markets makes less of a difference in aggregate than other factors like inflationary expectations (which are now falling), minimum wages (rising), compositional changes within industries (generally towards higher paid work) and productivity (which appears to continue to be very weak overall).

Figure 14: 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 Dec 2023-Feb 2024 (not seasonally adjusted).

Conclusion

Today's figures are very poor. Read at face value, they suggest that labour market is in as bad a state as it was in the immediate aftermath of the pandemic: with the employment rate back to where it was in spring 2021, and economic inactivity as high as it has been since 2015. In part this likely (surely) reflects continued volatility in the survey data due to low response rates – the statistical equivalent of catching the labour market when it is having a bad day. But even if that is the case, there is no escaping the fact that the general trend is of flat or falling employment and rising economic inactivity, in stark contrast to what we had seen before the pandemic – and indeed for most of the previous two decades – of strong growth in the labour force.

Over the last few months this labour market picture has often been reported as showing that the weak economy was starting to take its toll on jobs. In this briefing though we have tried to make the other argument, that it is a weak labour market taking its toll on the economy. If the economy were to blame – or more to blame – then we would be seeing higher short-term unemployment, higher redundancies, stronger falls in vacancies and quite possibly weaker pay growth. Instead unemployment remains close to its lowest in fifty years, redundancies at pre-pandemic levels, over 900 thousand unfilled jobs and pay growing by 6% a year.

There are many reasons that the labour market situation has got worse, but the three recurring themes – and most significant challenges – are higher worklessness among older people, lower participation among young people and large rises in the number of people out of work due to long-term health conditions (across all ages). Our work and that of others suggests that there are many factors driving these changes, but a common theme across all of them is that we need to get far better at reaching people who are outside of the labour force and at helping those who want or expect to work in future to take steps to get back in.

To their credit, the government has announced significant new investment to support this, with at least £2 billion committed at the 2023 Spring Budget and Autumn Statement on a range of measures extending employment support, childcare and health services. However a year on, virtually none of this is in place yet. So we need to move quicker now in rolling out the Universal Support scheme, specialist employment advisers in health services, more capacity in talking therapies, the new childcare offer, and more. Employers will need to step up too, both in terms of what happens in workplaces (the design of jobs and the support that they offer) and in how they work with wider local partners who are engaging and supporting people outside the labour force.

Looking further ahead though, it is also increasingly clear that our broader approach to employment support and services – which was built in the early 2000s – is no longer fit for the labour market challenges of the mid-late 2020s. In our Commission on the Future of Employment Support, in partnership with the abrdn Financial Fairness Trust, we set out what the principles for a new service should look like – being more open, specialist, responsive to local and employer needs, and joined up – and will be setting out proposals for reform in the coming months.

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.

Institute for Employment Studies, City Gate, 185 Dyke Road, Brighton, BN3 1TL United Kingdom

www.employment-studies.co.uk

@EmploymtStudies

01273 763400