ies Briefing
Institute for Employment Studies

Labour Market Statistics, October 2021

12 October 2021

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 where the most recent data covers the period June to August 2021. This is supplemented by analysis from the **ONS Vacancy Survey**, which collects employer data on open vacancies and includes data up to September 2021.

Today's briefing focuses specifically on labour demand and supply, and analysis of changes in labour market participation for different groups.

Summary

Today's figures give the clearest sign yet that labour supply just isn't keeping up with labour demand, and should be sounding alarms in central government and the Bank of England. Unemployment has fallen back to 4.5% while vacancies have reached a new peak of 1.1 million – with the single month estimate for September standing at an extraordinary 1.2 million job openings. We now have 1.45 unemployed people per vacancy – the lowest figure in at least half a century, making this likely the tightest labour market that we have seen in modern times.

Unfortunately this tight labour market is not (yet) being reflected in rapid jobs growth, with employment continuing to recover slowly but remaining 660 thousand below pre-crisis levels. Taking account of the pre-pandemic trend of a growing labour market overall, the total level of economic activity (i.e. those either in work or looking/ available for work) is now nearly one million (980 thousand) below pre-crisis trends. We estimate that approximately one third of this 'missing million' is explained by a smaller population, mainly due to lower migration, while two thirds is due to higher 'economic inactivity' – with 310 thousand fewer older people in the labour market than we would have expected (especially older women), and 210 thousand fewer young people (especially younger men).

The fall in youth participation has been offset entirely by higher student numbers; but the fall in participation for older people has coincided with a large increase in the number of people out of work due to long-term ill health – which has reached its highest level since 2010, at 2.2 million – and more people retiring early. In total, 6.2 million people are not

looking or available for work due to caring, long-term ill health or being students – with 1.3 million of these saying that they want to work.

There are also three more positive signs in today's data. First, recent employment growth has been driven in particular by part-time work (up by 250 thousand in the last quarter) with no increase in the number of people working part-time who wanted full-time work. This suggests that more people are getting more of the flexibility that they want, and may also reflect more firms recruiting more flexibly in order to fill their jobs. We have also seen a large increase in student employment, up by 160 thousand on the quarter.

Secondly, it appears increasingly clear that long-term unemployment is levelling off – far earlier than expected and much lower than in previous crises. Youth long-term unemployment in particular is now falling back, and is just 20 thousand above pre-crisis levels.

And thirdly, there is also no evidence of any increase in redundancies in the latest data, and further signs that the furlough scheme may have ended with a whimper rather than a bang – with the number of people reporting that they are on furlough falling by nearly a half between July and August, and the number of people in work but temporarily away from their job back to pre-crisis levels.

Overall, our view is that the current recruitment crises that firms are reporting are large scale, widespread and risk becoming chronic – which will hold back our economic recovery and start feeding through into higher inflation. Shortages are being driven by a sharp increase in demand but also by large falls in labour supply. With the Plan for Jobs having helped avert an unemployment catastrophe over the last eighteen months, we now need a new and different plan, that will work with employers and wider public services to far better support older people, disabled people, those with health conditions, parents and students to prepare for and get (back) into work. This needs to start at the Spending Review this month.

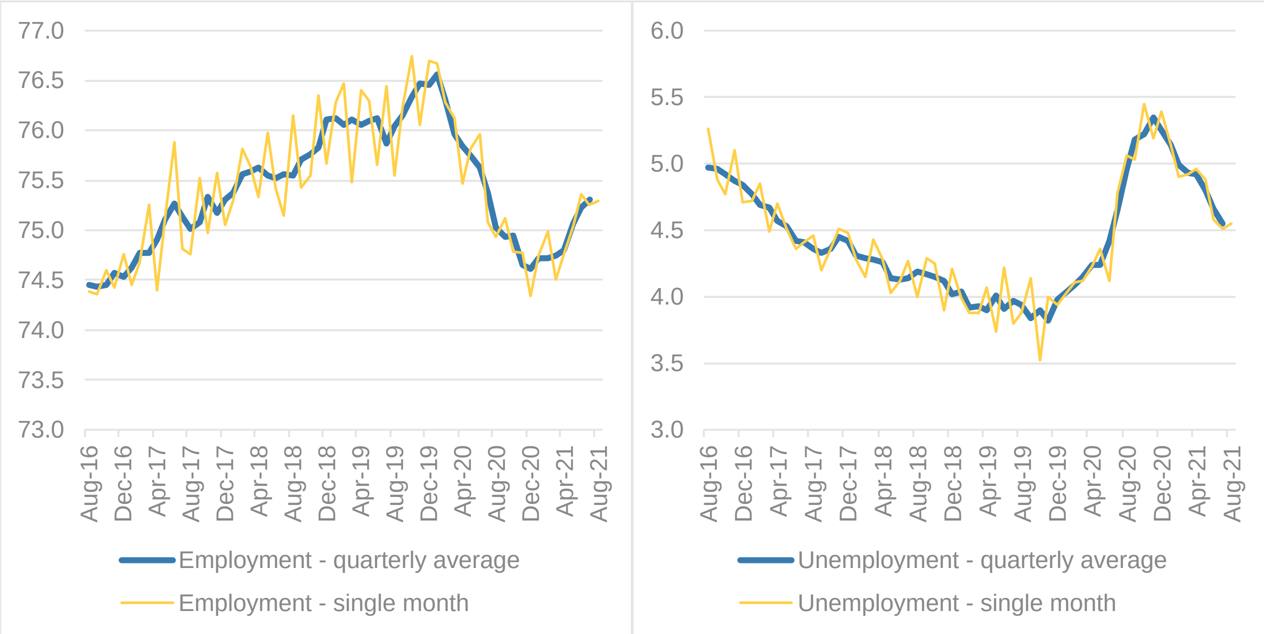
The labour market continues to improve – but this has been a "jobs light" recovery

The latest figures show continued improvements in employment and unemployment, with the employment rate rising to 75.3% – up by half a percentage point on the quarter – and unemployment falling to 4.5%, down by 0.4 points on the quarter. The unemployment rate is now within half a percentage point of its pre-crisis rate. Economic inactivity – the measure of those out of work but not looking or available for work – has also fallen back slightly on the quarter, by 0.2 points to 21.1%.

The LFS data is a quarterly average, and the single month estimates for August were somewhat subdued – which could just reflect sampling variation, or could be a slight weakening over the summer perhaps as furlough started to unwind (covered in more detail at the end of the briefing). Figure 1 below shows these headline quarterly estimates (in blue) with the underlying single-month estimates (in yellow).

More timely data from the tax system (the ‘Pay As You Earn’ Real-Time Information data) suggests that the recovery will continue into the autumn, with employee jobs estimated to have increased by a further 210 thousand between August and September. However it should be noted that these figures are subject to significant revisions, with last month’s estimate for July-August revised down today from a 240 thousand increase to 180 thousand. Nonetheless, both the PAYE and LFS data suggest that the number of employees has recovered to pre-crisis levels (with self-employment explaining the overall employment deficit – covered in more detail towards the end of the briefing).

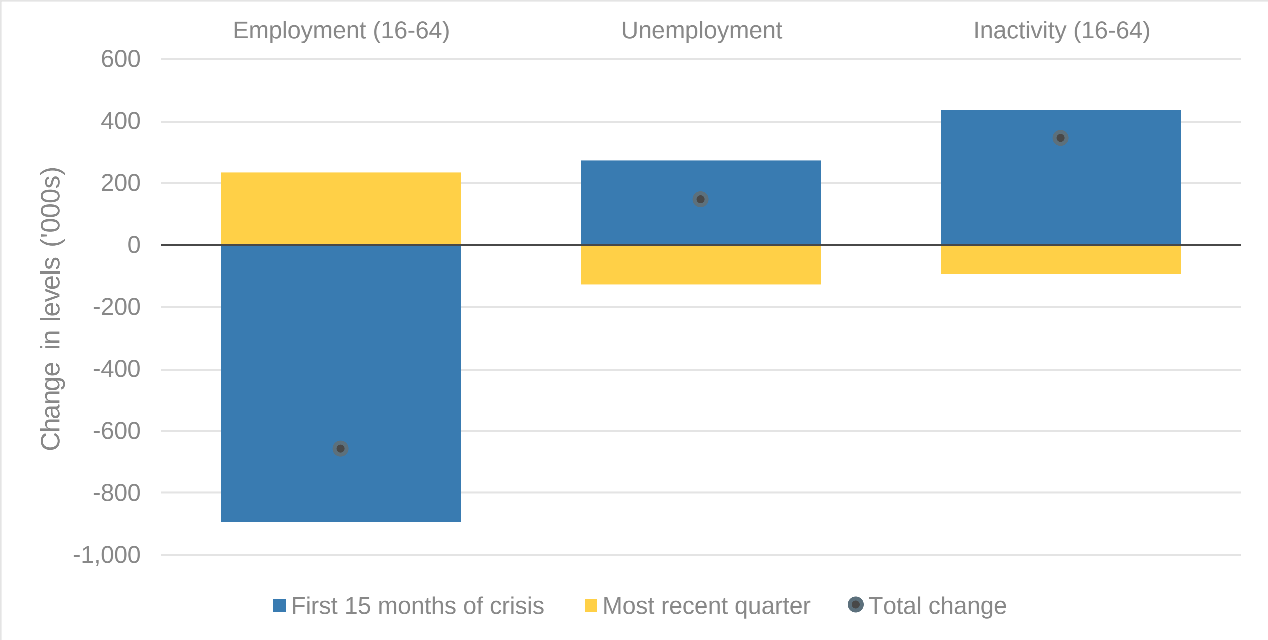
Figure 1: Employment and unemployment rates (16-64) – quarterly average with single-month estimates



Source: Labour Force Survey

However, today’s figures continue to show that employment overall is not recovering to the same extent as unemployment – with Figure 2 showing that total employment remains 660 thousand below pre-crisis levels, while unemployment is 150 thousand higher. This means that the labour market is still half a million smaller than it was before the crisis began, with economic inactivity still 350 thousand above pre-crisis levels. (The yellow bars in Figure 2 show changes in the most recent quarter, while the blue bars show the change over the rest of the period since the start of the crisis).

Figure 2: Changes in employment, unemployment and economic inactivity: first fifteen months of the crisis (Dec-Feb 2020 to Mar-May 2021) and most recent quarter (Mar-May 2021 to Jun-Aug 2021)

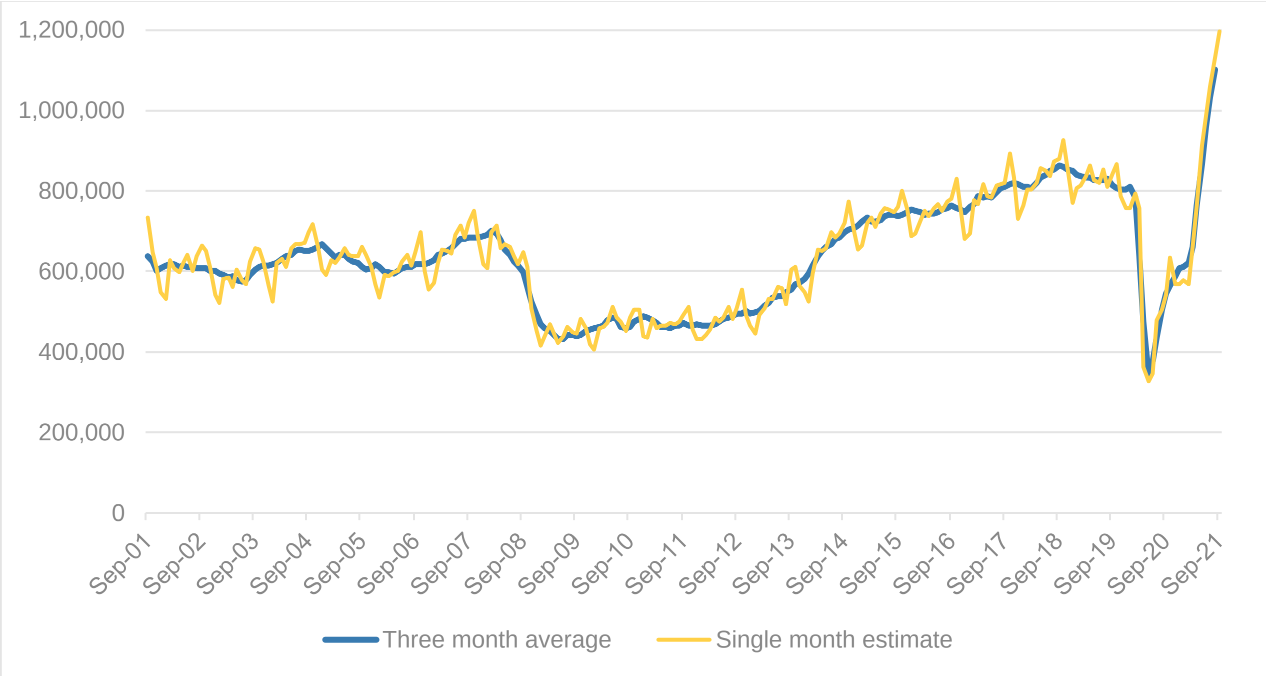


Source: Labour Force Survey

Record vacancies and falling unemployment mean the labour market may be at its tightest in modern times

As with recent months, today's vacancy statistics show that labour supply still cannot keep up with labour demand – with now 1.10 million vacancies on average between July and September, while the single-month estimate for September stands at 1.20 million (Figure 3 below). This is an extraordinary figure – fully 50% above the pre-crisis trend, and double the average for the last decade.

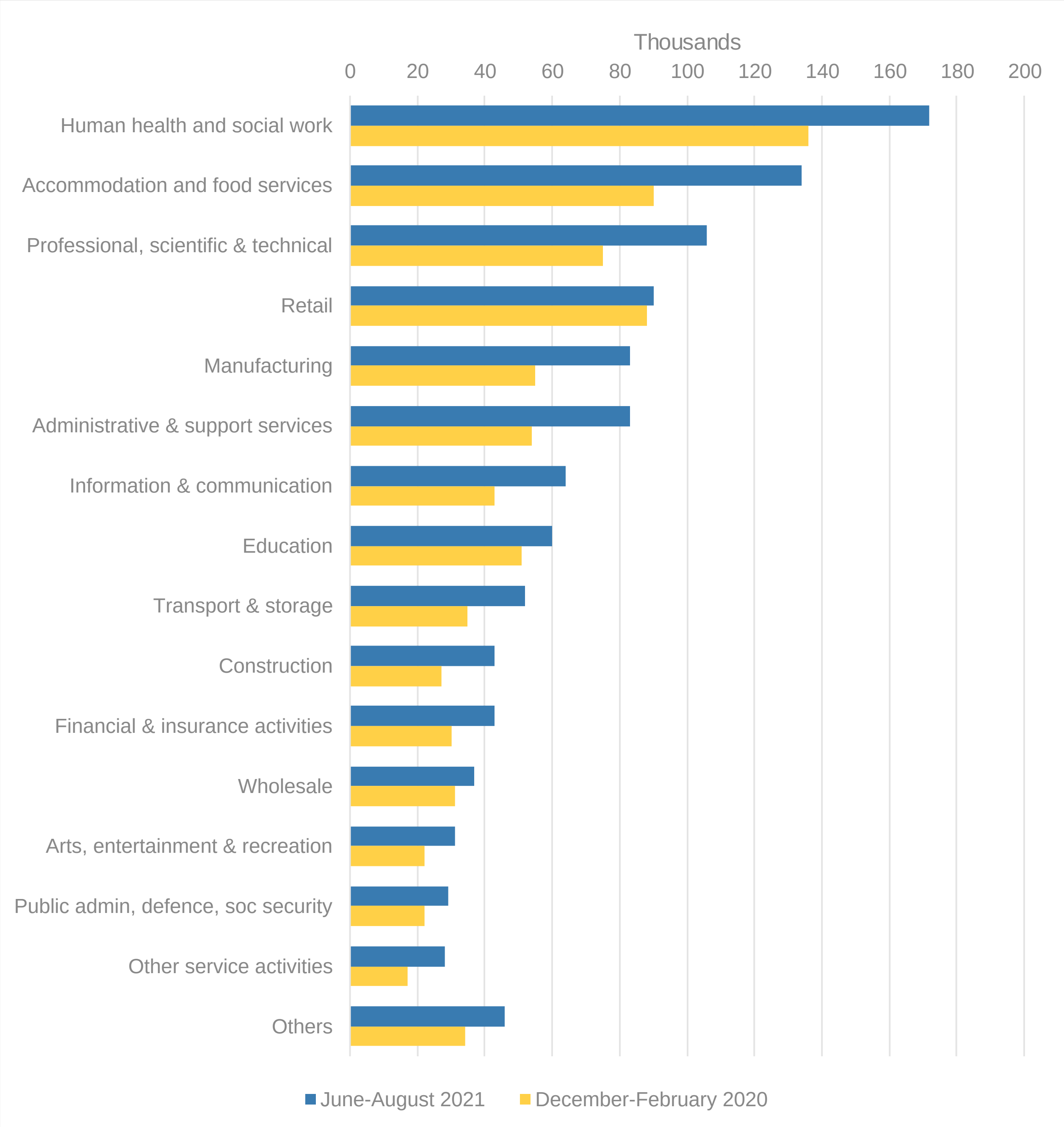
Figure 3: Vacancies – quarterly and single-month estimates



Source: ONS Vacancy Survey

Figure 5 below shows that vacancy growth is coming from all industries – with vacancies now above pre-crisis levels in every single industry for the first time.

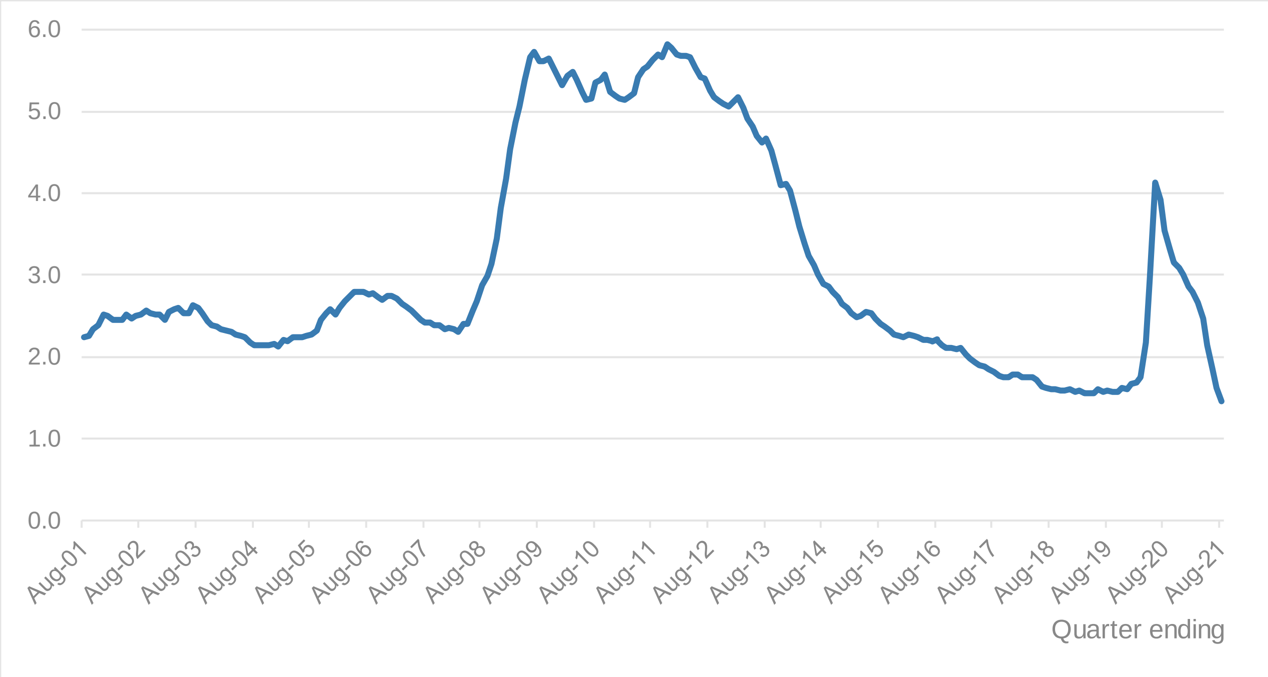
Figure 4: Vacancies by industry, pre-crisis and latest data



Source: ONS Vacancy Survey

Record vacancies and falling unemployment have now combined to give us the lowest number of *unemployed people per vacancy* in at least fifty years. This 'U:V ratio' Indicates the size of the readily available labour pool in relation to the degree of labour demand from employers, and suggests that at 1.46 unemployed people per vacancy we are now facing the tightest labour market in modern times. Figure 5 below sets this out back to 2001, while historic data from 1971 to 2001[1] suggests that over the previous 30 years the ratio was never lower than 1.5.

Figure 5: Unemployed people per vacancy (exc. Agriculture, forestry and fishing)



Source: ONS Labour Force Survey and Vacancy Survey

Another way to visualise unemployment and vacancies is through a Beveridge curve which plots over time the number of vacancies per 100 employee jobs (y axis) against the unemployment rate (x axis). Beveridge curves can give an indication as to how efficiently a labour market is working, as in theory when the graph moves away from the axes it implies that vacancies are not being filled efficiently (for example due to skills mismatches or long-term unemployment). It is also a good way to visualise where we are in the economic cycle, with movement towards the bottom right during contractions and towards the top left during expansions.

Figure 6 below shows a Beveridge curve for the UK, from 2001 to now (June-August 2021). Four time periods have been highlighted and a number of points stand out:

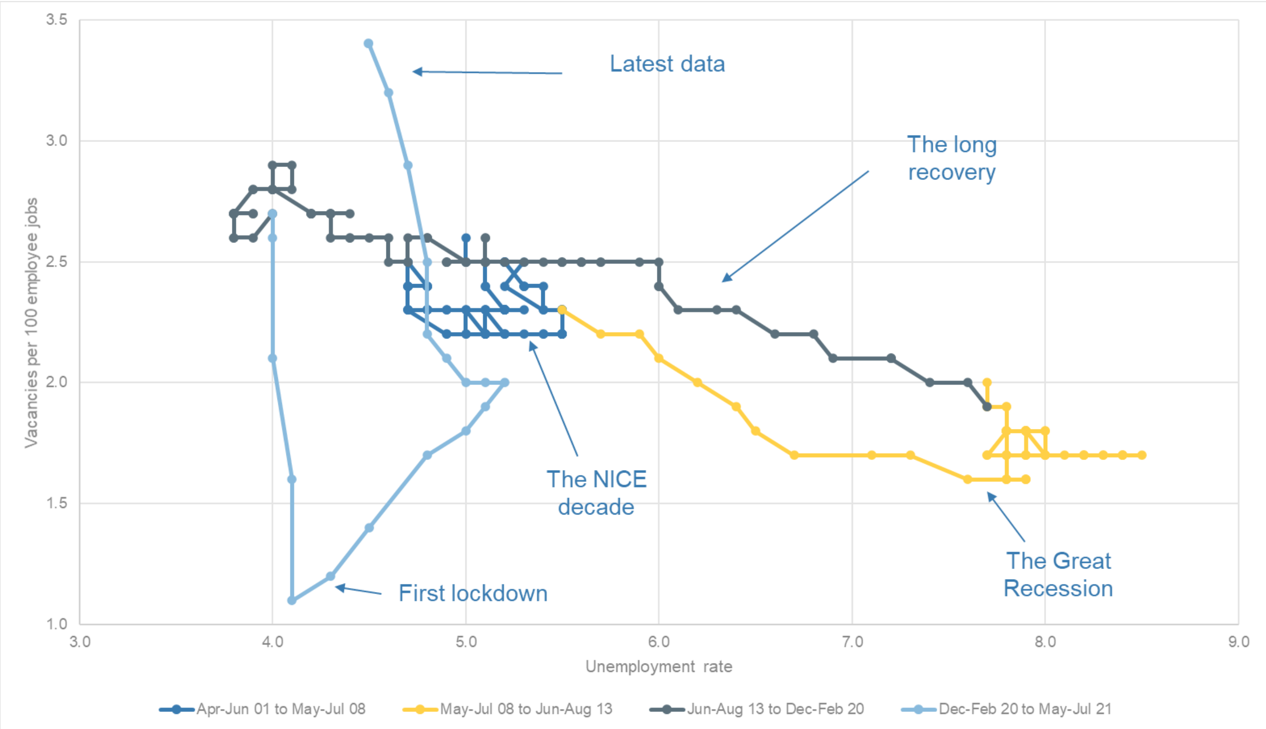
- A stable period in the early 2000s, perhaps with some signs of a slight decrease in efficiency as the decade wore on;
- The impacts of the Great Recession, pushing unemployment out and vacancies down;
- A long recovery period, initially on a different path from the recession (implying lower efficiency) but getting increasingly tighter through the end of the decade;

[1] Available via the Bank of England's Millennium of Macroeconomic Data, using the 'spliced series' for vacancies in table M5 https://www.bankofengland.co.uk/statistics/research-datasets

- The huge shock to vacancies caused by the pandemic, but with no commensurate increase in unemployment due to the government's measures to protect jobs (alongside rising economic inactivity); and
- A current path where the recovery is being driven by extremely strong demand, and where the line may be drifting away from the axes (i.e. becoming less efficient).

If the labour market is becoming less efficient, then this could be due both to the speed and scale of the recovery in demand (so a temporary issue), and/ or underlying skills or geographical mismatches between workers and jobs (i.e. a structural one).

Figure 6: Beveridge curve (relationship between unemployment rate and vacancy ratio), 2001-



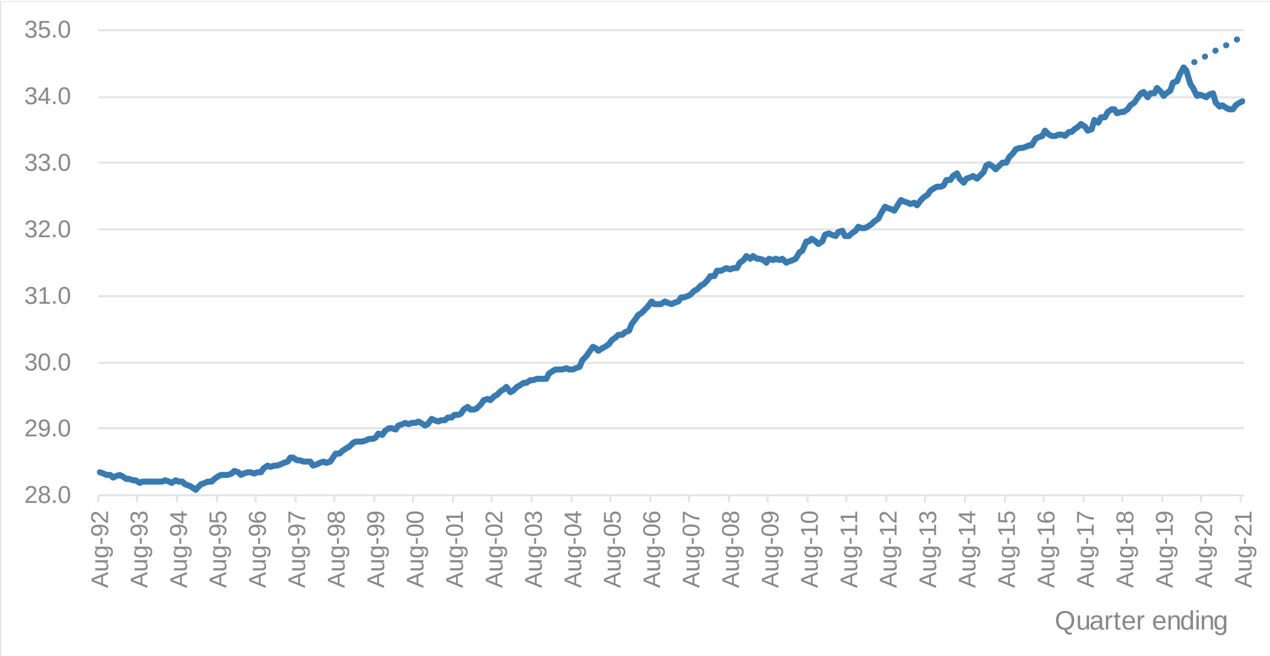
Source: ONS Labour Force Survey and Vacancy Survey

The recruitment crisis is a result of labour shortages – with a 'missing million' based on pre-crisis trends

The Beveridge curve above only tells part of the story, in that it shows how unemployment has evolved relative to vacancies. However as we set out in earlier in the briefing note, much of the fall in employment has been accompanied by rising economic inactivity rather than unemployment. In addition to this, we have also seen the population shrink, due to a combination of lower migration and demographic changes.

Figure 7 below presents this another way, showing the level of 'economic activity' – so all of those who are either in work or are looking/ available for work – since the early 1990s. This shows both that economic activity is substantially below pre-crisis levels (by 510 thousand) but that this gap widens even further if you take account of the upward trend in participation that we have witnessed since 1995. On this measure, the 'gap' between current economic activity and the pre-crisis trend is nearly one million (980 thousand).

Figure 7: Level of economic activity – actual and if pre-crisis trend had continued



Source: Labour Force Survey and IES estimates

Figure 8 below then sets out how this 'missing million' breaks down – by age and gender, and by how far it is explained by a smaller population overall (blue bars) or by higher economic inactivity within the population (yellow bars) – i.e. a negative change in the blue bar is a lower than expected population, while a positive change in the yellow bar is a higher than expected level of economic inactivity. The total change in activity levels is therefore the blue bar <u>minus</u> the yellow bar.

This shows that overall, around one third (37%) of the change in activity is explained by a smaller population, while the remainder (63%) is explained by higher economic inactivity. We will need to wait until next month's figures for updated estimates of the impact of migration specifically on the population changes, but previous data suggests that lower migration is likely to explain between a quarter and a third of the missing million (and likely explains in particular the population falls among people aged 25-34).

The rises in economic inactivity are very clearly concentrated among older people (who account for half of the total gap in economic inactivity), and in particular by older women; and by young people, and in particular younger men. Young people appear to be exiting the labour market overwhelmingly into full-time education, while for older people it appears to be a combination of ill health and retirement. The large falls in participation for women aged over 65 are particularly stark, and are equivalent to the labour force being a *quarter smaller* than on pre-pandemic trends. Separate analysis of occupational data suggests that this may be particularly driven by jobs lost in the pandemic (especially part time work in cleaning and in retail).

Figure 8: Changes in economic inactivity and population by age and gender, compared with pre-crisis trend

Source: IES estimates based on Labour Force Survey

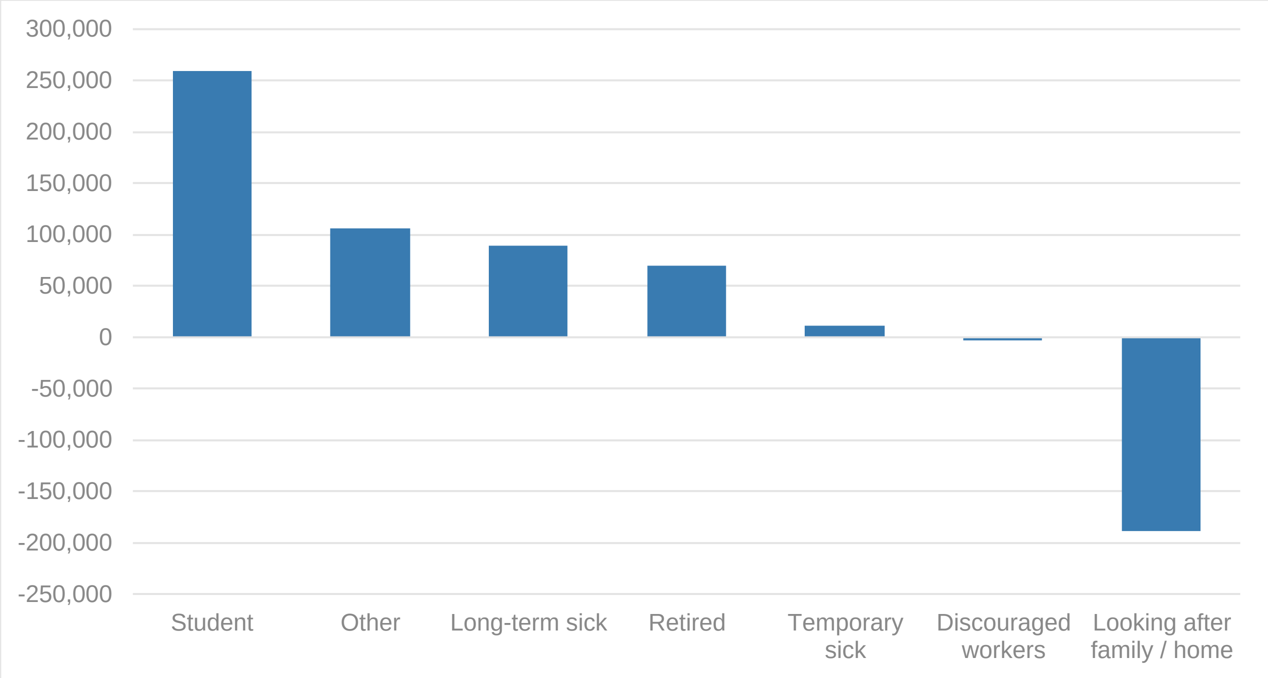
'Economic inactivity' continues to be related to study, health and caring – with a worrying rise in ill-health

Figures 9 and 10 below replicate analysis from [last month](), showing the change in economic inactivity by reason, and then a longer view of the overall levels. As with last month, the main factor explaining the higher levels of economic inactivity now is higher student numbers, but this has fallen back significantly in recent months (down by 120 thousand on the previous quarter). This is also reflected in the number of young people who are in full-time education and in work, which has risen by 160 thousand (20%) on the quarter. This is a positive sign, given that students are a key potential way for employers to meet labour shortages.

Of more concern, though, is a continued rise in the number of people economically inactive due to long-term ill health. This has risen by 50 thousand on the quarter, so in effect all of the rise since the start of the crisis has been in the last three months. At 2.2 million, the number of people economically inactive due to long-term ill health is now back up to its highest since 2010. The number of people economically inactive due to caring responsibilities remains well below pre-crisis levels, but has ticked up slightly in the most recent quarter (by 30 thousand).

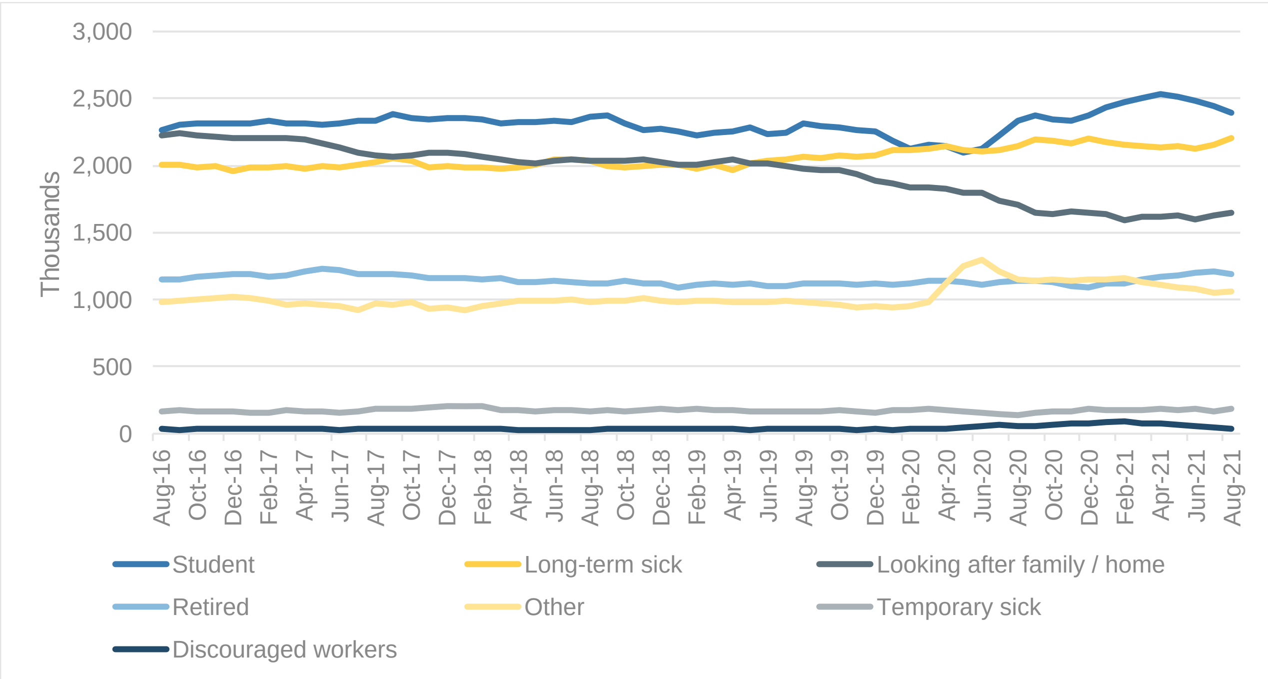
All told, the number of people not looking or available for work due to caring, long-term ill health or being students stands at 6.2 million, of whom 1.3 million say that they want to work (including half a million of those with long-term health conditions).

Figure 9: Change in levels of economic inactivity by reason, Dec-Feb 2020 to May-Jul 2021



Source: Labour Force Survey

Figure 10: Reasons for economic inactivity

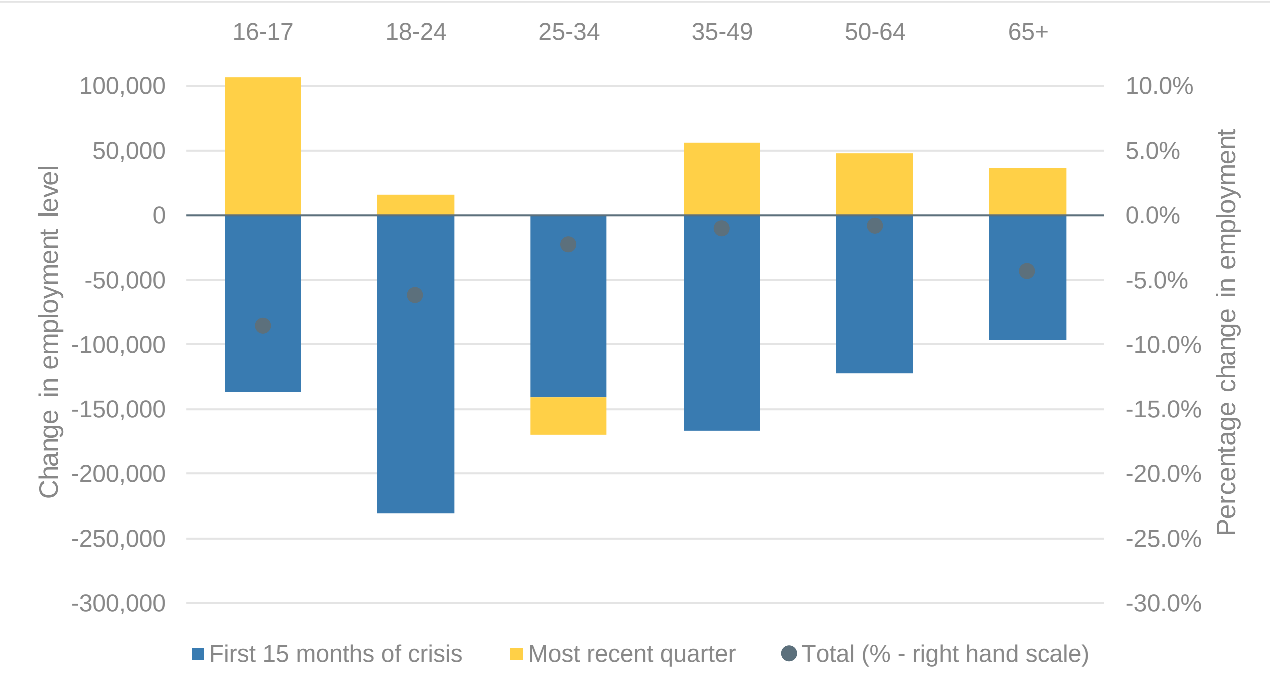


Source: Labour Force Survey

Recent employment growth has been driven by 16-17 year olds in particular, and is more subdued for 18-34s

Looking at changes in employment by age group – over the whole crisis and in the most recent quarter – we can see that it continues to be the case that the oldest and youngest have seen the largest proportionate falls. However over the last quarter, half of the total growth in employment was accounted for by 16-17 year olds (a rise of 50%) while employment was broadly flat for people aged 18-34 – likely mainly reflecting more students and lower migration, as set out previously. Quarterly movements in employment for 16-17 year olds should be treated with some caution due to small sample sizes, but a broad picture of higher youth employment is good news – even if employment remains 6% lower than before the crisis.

Figure 11: Change in employment by age – first 15 months of the crisis (Dec-Feb 2020 to Mar-May 2021) and most recent quarter (Mar-May 2021 to Jun-Aug 2021)



Source: Labour Force Survey

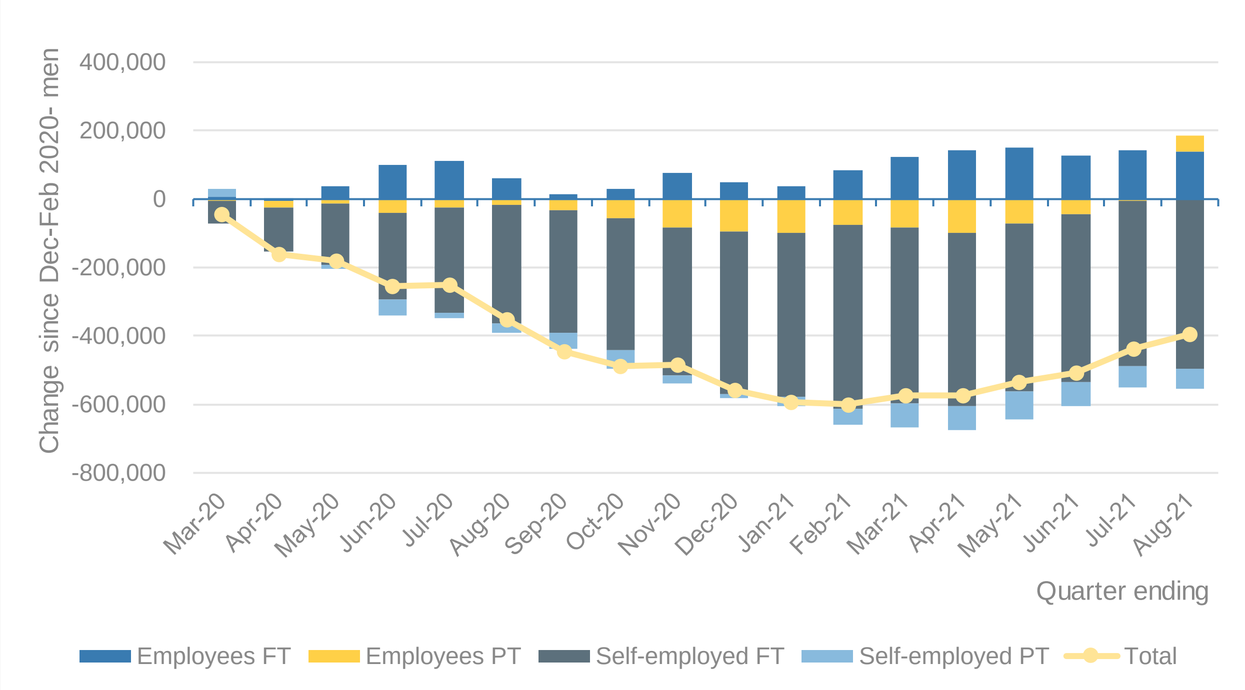
While the employment gap continues to be explained by fewer self-employed, especially among men

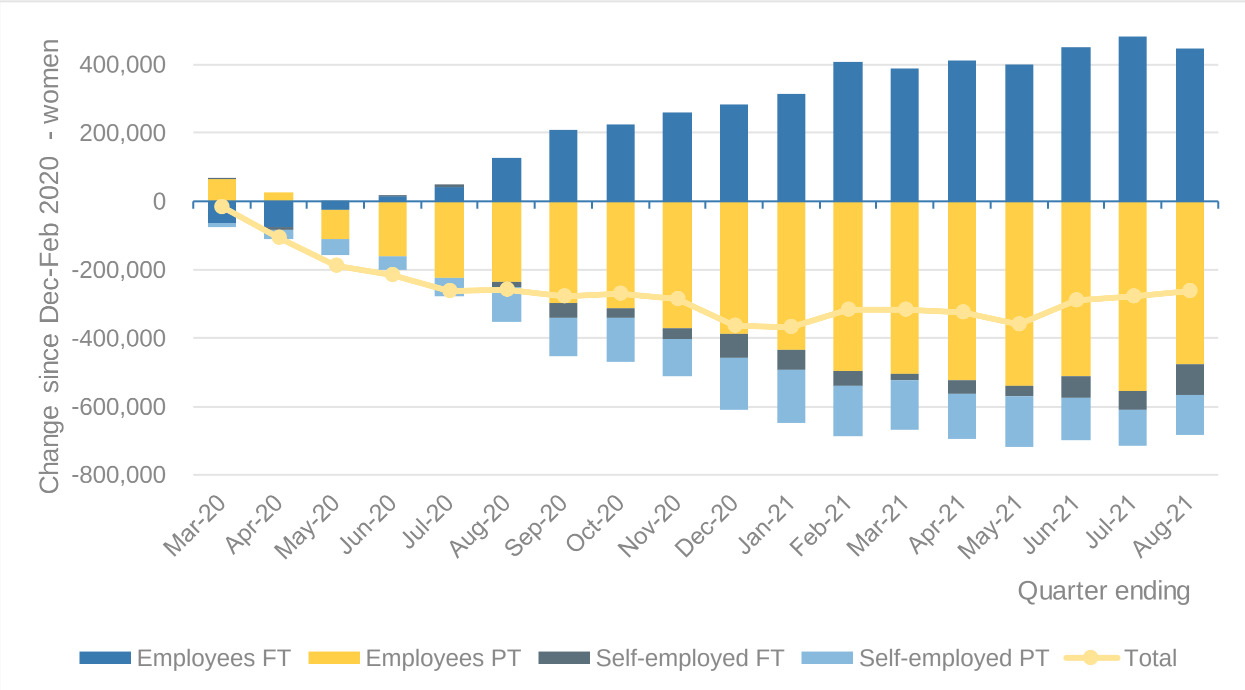
Figure 12 below sets out changes in part-time, full-time, employee and self-employed work for men and women, and illustrates that the large employment gap continues to be explained by lower self-employment. Employee jobs are now back to pre-crisis levels, although this disguises a significant shift from part-time to full time employee work for women; and a shift from self-employment to employee status for men.

Next month's jobs data will include quarterly estimates of labour market flows, and so will enable us to look at how far these trends are explained by more self-employed people moving into employee jobs, fewer employees becoming self-employed, and/ or movements into and out of worklessness. However previous analysis suggests that it is likely that part of this shift from self-employment to employee status is reclassification of workers within the same job – perhaps as a result of IR35 tax changes, and/ or due to workers becoming clearer about their own employment status during the pandemic (for example if they previously reported being self-employed but were furloughed as employees).

The most recent data below also shows quite a large increase in part-time work – of 250 thousand – while the number of people in part-time work who wanted full-time work has remained flat. So this is likely to be a welcome sign, and may show both that labour market activity is getting a bit more back towards 'normal', and that firms are starting to offer more of the flexibility that many workers want.

Figure 12: Change in full-time, part-time, employee and self-employed work since start of crisis (December-February 2020 quarter) – for men (top) and women (bottom)





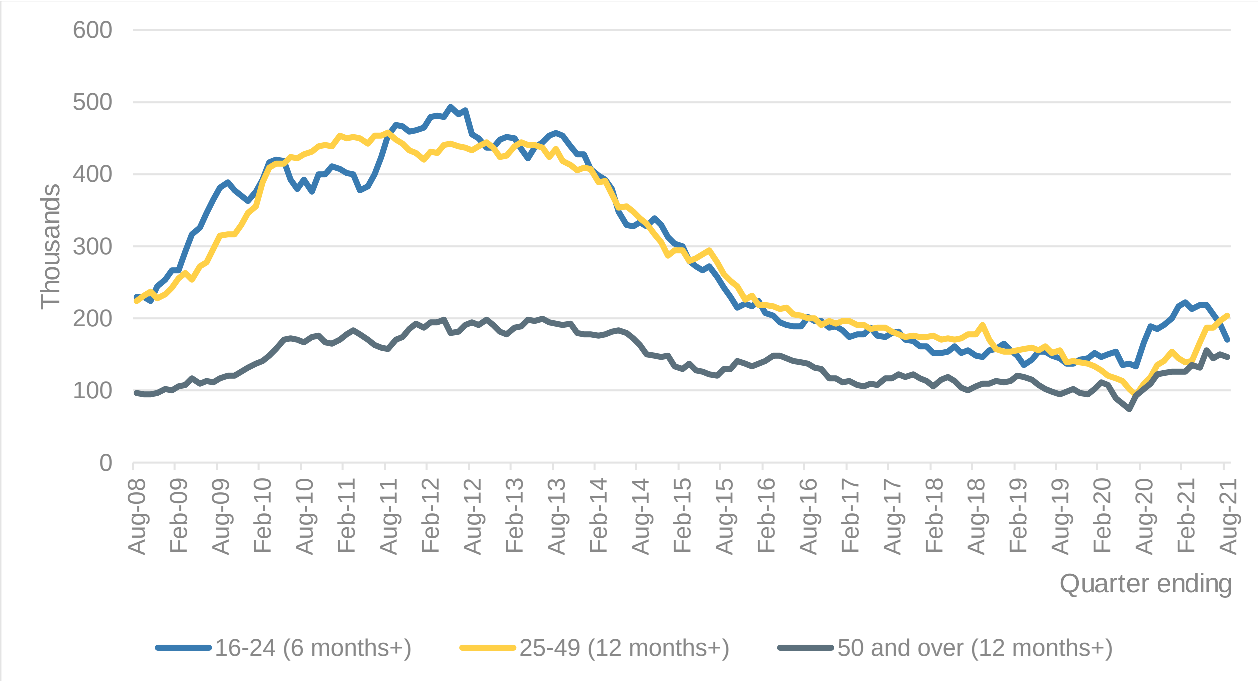
Source: Labour Force Survey

In better news, long-term unemployment continues to level off, and is definitely now falling for young people

Today's data also continues a trend that we started to notice in the summer, of long-term unemployment levelling off much earlier than (and well below the levels of) previous crises – as set out in Figure 13. This is being driven by falls for young people, where the latest figures suggest 170 thousand long-term unemployed (which we define as more than six months), so almost back to the low levels seen before the crisis (of around 150 thousand). This of course reflects the remarkably high levels of demand in the economy, but must also reflect the Plan for Jobs measures that have targeted unemployed young people (and in particular the 70 thousand jobs created through Kickstart).

For those aged 25 and over (where we define ‘long-term’ as more than 12 months unemployed) there are signs that this is levelling off for over-50s and that the rate of growth is slowing for people aged 25-49. It should of course be noted, however, that for over-50s in particular it does appear that the main impact of the crisis has been in far higher economic inactivity rather than higher unemployment.

Figure 13: Long-term unemployment by age

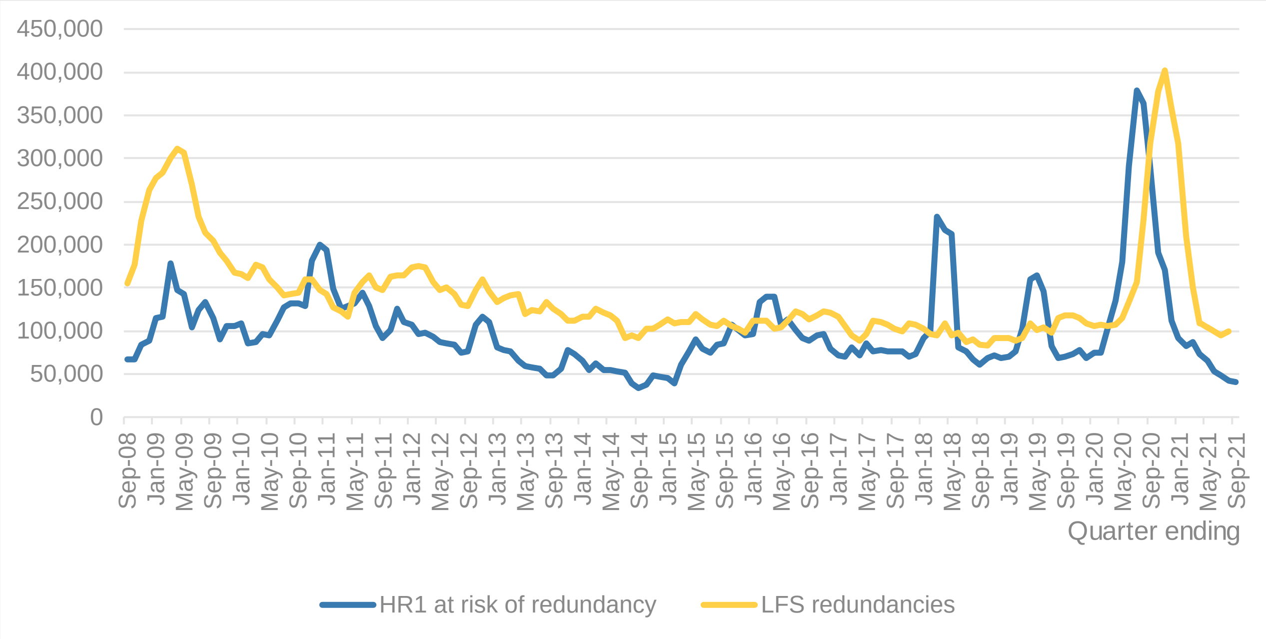


Source: Labour Force Survey. Long-term unemployment is defined as unemployment of more than six months for young people, or more than twelve months for those aged 25 and over.

Redundancies also appear to be flat, while numbers reporting being on furlough are falling

In further positive news, redundancies remain well below pre-crisis levels – both in terms of the estimated level of quarterly redundancies and the number of jobs notified by employers as being at risk of redundancy via HR1 forms sent to the Insolvency Service. These are shown in Figure 14 below. Estimated weekly figures up to the end of August also show no sign of any rise in lay-offs through the summer, while more timely data on online searches (via Google Trends) are also below pre-crisis levels.

Figure 14: Quarterly number of employees notified as at risk of redundancy (HR1 forms) and reporting having been made redundant (Labour Force Survey)

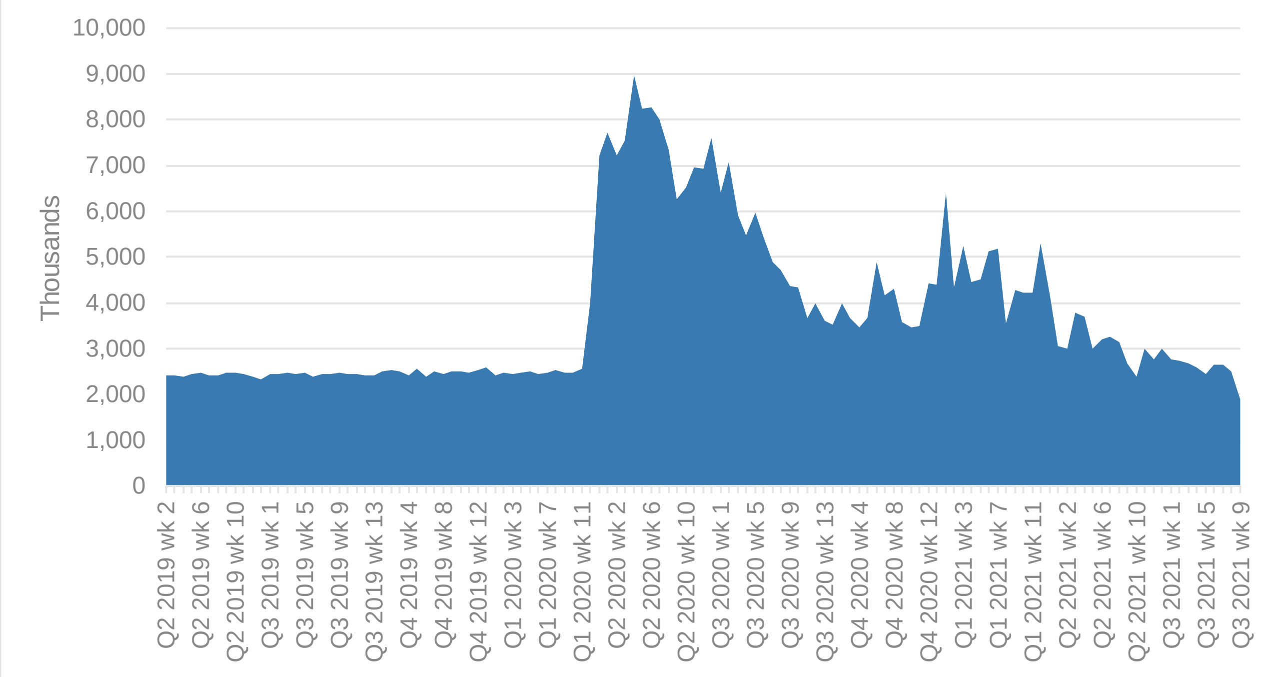


Source: IES analysis of Insolvency Service and Labour Force Survey data

The LFS also collects data on whether people report that they are on furlough, and the numbers doing so during August fell back sharply – to an average of 350 thousand from an average of 600 thousand in July.

Some of these people would have been working but on shorter hours, so it is useful to also look at the number of people who report being in employment but temporarily away from work. This is shown in Figure 15 below, and suggests that this is now back to pre-crisis levels (averaging 2.4 million through August). Underneath this, it is likely that there may be fewer people away from work due to maternity leave now than in the years before the crisis (due to fewer people having children) so this may still disguise some people temporarily laid off from jobs that they wanted to return to. But nonetheless, it suggests that any impacts on the headline data from the end of the furlough scheme at the end of September are likely to be very modest.

Figure 15: Whether temporarily away from paid work in reference week



Source: Weekly Labour Force Survey X07

So this is a different kind of crisis to last year… what should we do about it?

It is clear now that labour shortages have reached levels that we have not seen in modern times, and these shortages risk becoming chronic – which will hold back our economic recovery and drive up inflation. They are being driven both by a sharp increase in demand but also by large falls in labour supply, and will not correct themselves simply by exhorting firms to pay people more or invest more in training (important as those two things are).

With the Plan for Jobs having helped avert an unemployment catastrophe over the last eighteen months, we believe that we now need a new plan that focuses far more on raising participation in the labour market and on working with employers and wider public services to far better support older people, disabled people, those with health conditions, parents and students to prepare for and get (back) into work.

This needs to start at the Spending Review this month, where we believe that we need action in seven key areas, to:

- **Maintain but refocus investment in our employment services**. The worst response now to a supply crisis would be to cut back on the Plan for Jobs investment in our employment services – i.e. increased work coaches, Restart, Youth Hubs, the JETS programme and so on. However, this investment needs to be refocused on supporting increased participation in the labour market amongst those not currently unemployed and/ or not claiming unemployment benefits. This means in particular:

- Better support for those with long-term health conditions
- More support for parents of younger children, including to prepare for work and take up flexible work
- Targeted support for those multiply disadvantaged, including the one in ten young people who even now are outside education, employment or training
- Voluntary employment support for students, people above state pension age and others not claiming benefits but who would like to work
- A better approach to employer engagement – including support on job design, recruitment practices, and workplace support

- **Increase investment in work and health related support** – and in particular in occupational health services, vocational rehabilitation, health-related specialist employment support (e.g. group work, Individual Placement and Support) and dedicated 'health and work centres' that can link up health and employment support (in and out of work) within places.
- **Improve funding and access to childcare**. This must play a key role in supporting participation in work for parents of younger children.
- **Continue to increase in investment in retraining and upskilling**. We believe that the bootcamp model and the Skills Accelerator pilots have shown promise in improving employer-led training provision and local partnership working. Further expansion of models like this at the Spending Review should be a priority.
- **Work better with employers to support decent work**. As we set out in our Budget submission, we believe that there is a strong case for funding the testing and implementation of new Good Work Partnerships that would bring together public services, business-to-business support and employer/ industry bodies locally to support improvements in workplace practice, hiring, job design and in-work support, especially in lower paying industries.
- **Reinstate the £20 uplift to Universal Credit**. Our strong view remains that this is providing vital income support to low income families, and its removal will not significantly strengthen work incentives.
- **Support local partnerships and joining up**. We would like to see the Spending Review commit to funding new trailblazers of better devolved, integrated and locally co-ordinated approaches to economic development, employment and skills. The Work Local model provides a good potential approach for this which we would like to see being built on in the Levelling Up White Paper.

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