ies Briefing

Institute for Employment Studies

# Labour Market Statistics, February 2022

**15 February 2022**

This briefing note sets out analysis of the Labour Market Statistics published this morning. The analysis draws on **Labour Force Survey (LFS)** data, which is the main household survey that collects official figures on employment, unemployment and economic inactivity and the **ONS Vacancy Survey**, which collects employer data on open vacancies. The LFS data covers the period October to December 2021; while the Vacancy Survey includes data up to January 2022 (and so may reflect some early impacts from Omicron).

In addition this month sees publication of quarterly data on labour market flows from the Longitudinal LFS, with analysis of this in the final section of the briefing.

## Summary

Today's headline figures are virtually identical to those published a month ago, and so remain disappointing overall – with employment growth levelling off and 'economic inactivity' remaining stubbornly high. Much of this is explained by fewer older people in work, with people aged over 50 accounting for four fifths of the total growth in economic inactivity since the pandemic began. All told, there are now 1.15 million fewer people in the labour force than we would have expected to see based on pre-crisis trends, with older people accounting for three fifths of this 'participation gap'.

Worryingly, new data today on employment for disabled people also suggests that the employment 'gap' between disabled people and non-disabled people is widening, as unsurprisingly is the gap for people aged over 50. Those who were most disadvantaged in the labour market before the crisis, and particularly those with health conditions, appear to be faring worst in the recovery.

This month has also seen vacancies rise even higher than in recent months, with little sign that the emergence of the Omicron variant has dampened demand. As a result, there are now nearly as many vacancies as there are jobseekers – with the unemployment-to-vacancy ratio dipping to another fifty-year low.

New data on labour market flows also suggests that those those leaving work are increasingly doing so to inactivity rather than unemployment, which is consistent with more people leaving due to ill health or retirement as well as with people leaving the labour market entirely at the end of the Coronavirus Job Retention Scheme. Flows into

work remain high, but have fallen back slightly for those exiting unemployment despite very high demand. Job-to-job moves meanwhile remain well above pre-crisis rates, although it is not clear yet how far this reflects pandemic-induced job changes or is start of a wider trend.

Looking ahead, today's figures make it clearer than ever that we need new measures – from employers and government – that are focused on addressing the participation crisis that are facing now rather than the unemployment crisis that we (thankfully) averted. The Budget next month will provide the ideal opportunity to do this.

## Employment remains subdued, with unemployment edging down but 'economic inactivity' still elevated

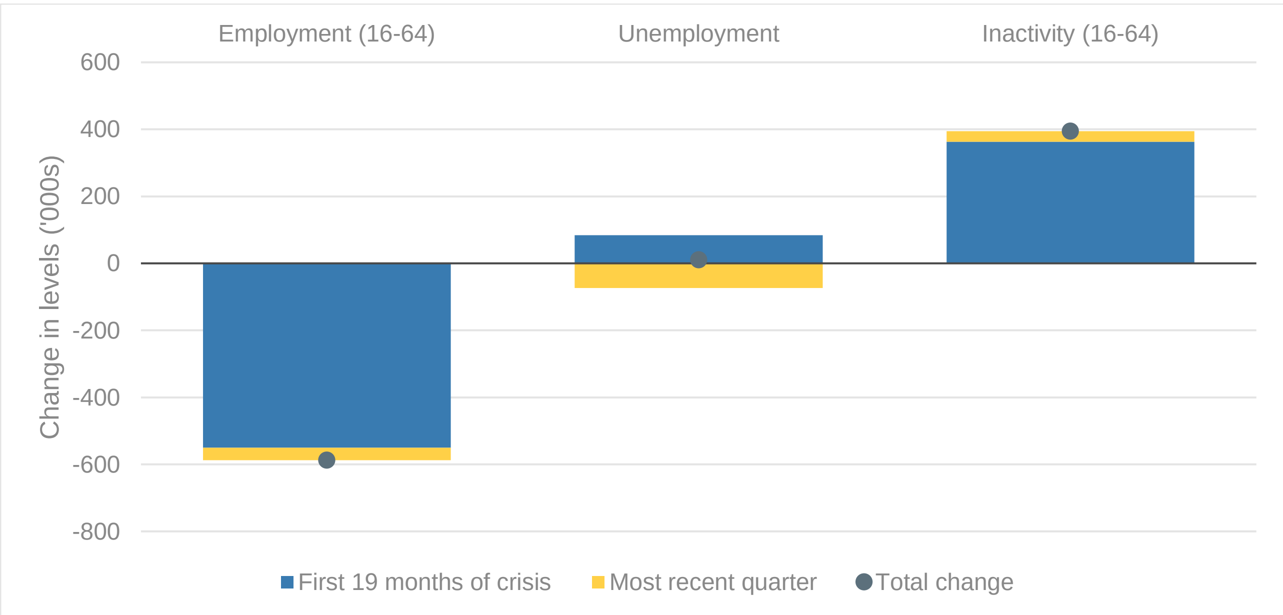
Today's headline rates for employment, unemployment and economic inactivity are identical to those published last month, and so remain disappointing overall. Employment remains a full percentage point below its pre-pandemic rate (600 thousand fewer people in work) while 'economic inactivity' – the measure of those not looking for work and/ or not available for work – is around one percentage point (or 400 thousand) higher. Unemployment is more or less back to where it was before the crisis began, but in a significantly smaller labour market overall, with more people out of work.

These trends are set out in Figures 1 and 2 below. Figure 2 shows changes in the levels of employment, unemployment and economic inactivity over the last quarter (yellow), the previous nineteen months since the start of the pandemic (blue) and overall (black dots) and brings out clearly just how stagnant the headline figures have been in recent months. However Figure 1 may just give some grounds for slightly cautious optimism, as it shows that on the single month estimates (the yellow lines) the most recent month of December does appear to have been a good month for employment economic inactivity. These monthly figures are very volatile, but it is possible that this could feed through into higher average figures over the next few months (although in next month's quarterly average the single month of October will drop out of the average, which was also a relatively strong month).

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


*Source: Labour Force Survey*

**Figure 2: Changes in employment, unemployment and economic inactivity: first nineteen months of the pandemic (Dec-Feb 2020 to Jul-Sep 2021) and most recent quarter (Jul-Sep to Oct-Dec 2021)**

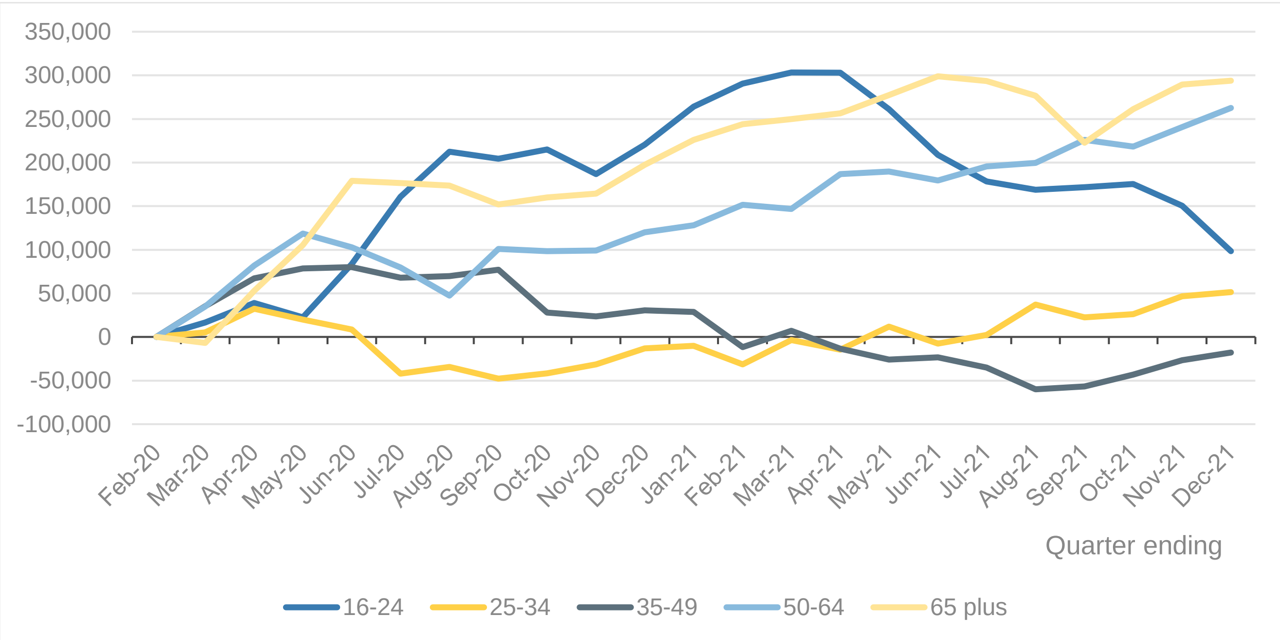



*Source: Labour Force Survey*

## Worklessness is rising particularly strongly for older people, who account for 80% of the post-covid growth

The large growth in economic inactivity is increasingly being driven by more older people outside the labour market. Figure 3 below sets this out, showing the growth in the levels of economic inactivity by age since the December 2019-February 2020 quarter. It shows that economic inactivity has risen pretty consistently through the crisis, and continues to rise, for those aged 50-64 and those aged 65 and over – up by 560 thousand in all, or by 80% of the total growth across all ages. Meanwhile economic inactivity is now falling back fast for young people, while for those aged 25-49 levels overall are broadly the same as they were before the crisis (although do appear to be trending upwards in recent months).

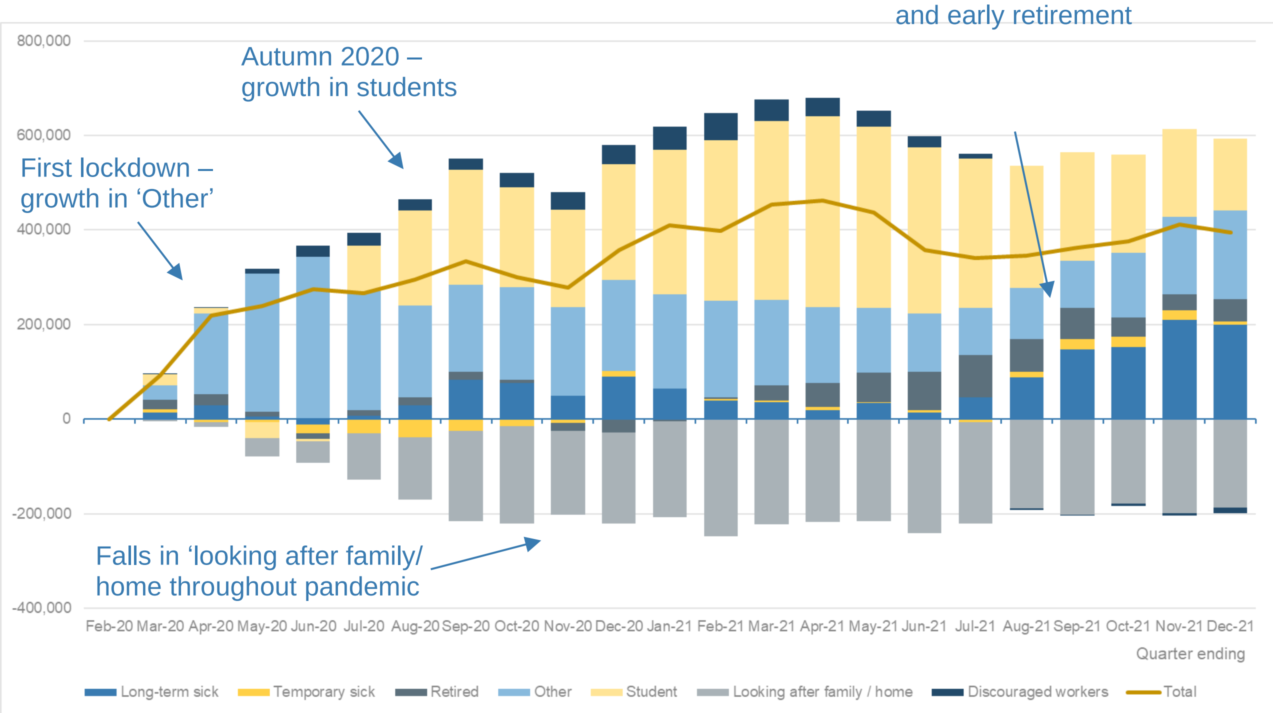
**Figure 3: Change in level of economic inactivity by age since start of pandemic**




*Source: Labour Force Survey*

These trends can partly be explained in the reasons why people are not in work and not looking for work. Figure 4 below illustrates how the reasons given have changed during the pandemic, with a large growth in lockdown/ pandemic related reasons in the early crisis affecting all ages but particularly older people; then a large rise in non-working students which is now starting to fall back (and explains patterns for young people); and more recent – worrying – significant rises in people out of work due to long-term ill health. Again this may be affecting all ages, but particularly older people – who are also more likely to have retired early. We also see significant falls in those out of work due to caring responsibilities, which appears to be particularly the case for women, perhaps aided by furlough and more flexible working, and partially offsetting growth in economic inactivity for other reasons (there is more discussion of these trends in [last month's briefing](#)).

**Figure 4: Changes in economic inactivity since start of pandemic (December-February 2020), by reason for inactivity and overall**



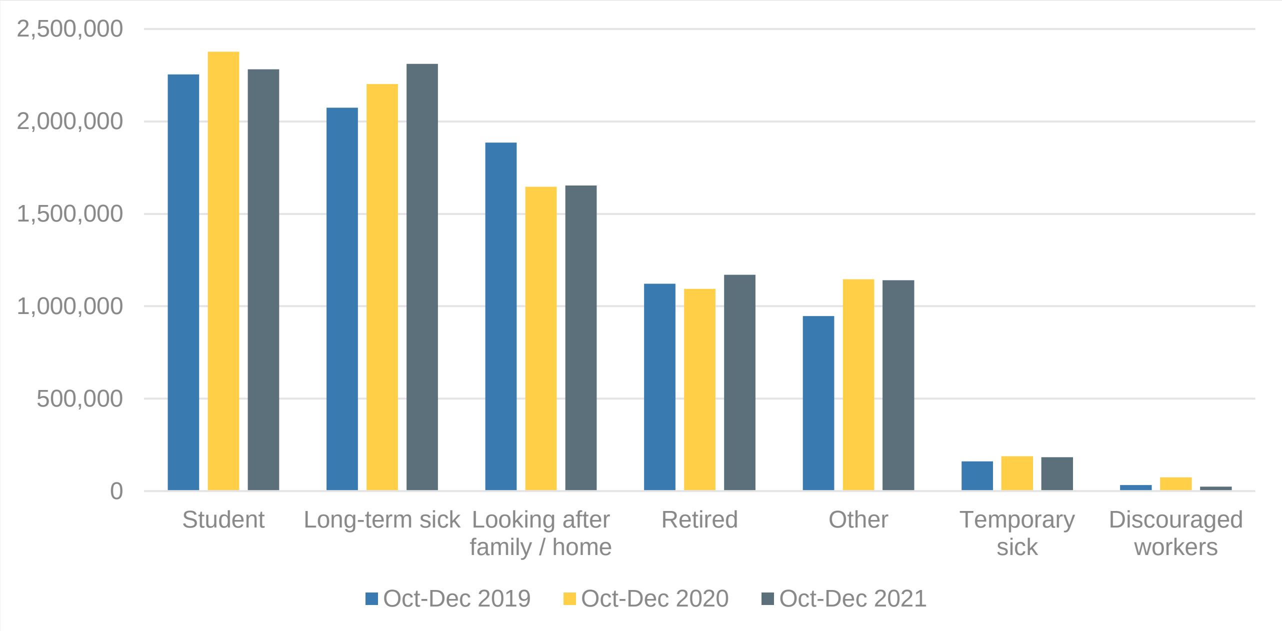

*Source: Labour Force Survey*

The impact of these changes mean that overall, long-term ill health is now the most common reason for being out of work and not looking for work. As Figure 5 below shows, this is also the only factor that has risen in each of the last two years – with non-working student numbers rising and now starting to fall back; while those not working due to caring or 'other' (pandemic related) reasons have levelled off in the last year (after large falls and rises respectively in the first year of the pandemic).

This growth in worklessness due to ill health is very concerning and likely mainly reflects more people with (pre-existing) health conditions leaving the labour market, for example because of concerns around exposure to the virus or due to a deterioration in their health condition, and/ or fewer people with health conditions entering work than would have been the case pre-pandemic. It is possible too that a greater prevalence of ill health, perhaps including 'long covid', could explain part of the growth, as data on disability employment published today suggesting that the number of people reporting a disability has grown slightly faster in the last two years than in prior years.

It should also be noted that the fall in the number of non-working students is due to more people combining work and study rather than fewer people studying – with separate data on the labour market status of young people estimating that the employment rate for young people in full-time education is now its highest since 2009 (at 31.4%). Nonetheless this remains around ten percentage points below where it was a decade before that.

**Figure 5: Reasons for economic inactivity – Oct-Dec 2019, 2020 and 2021**



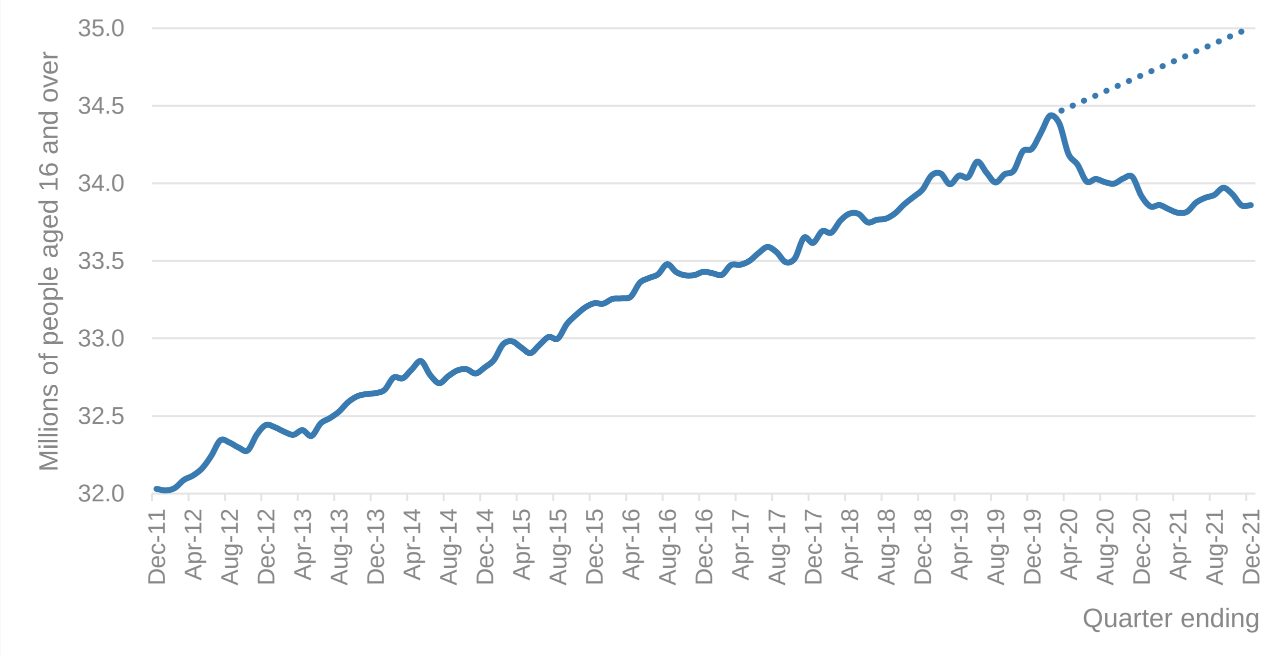

*Source: Labour Force Survey*

## This participation crisis looks even worse compared with the pre-crisis trend – especially for older people

The continued weakness of the labour market overall is even more stark when compared with the pre-crisis (decades-long) trend of rising participation (i.e. the number of people either in work or actively seeking work). Figure 6 below illustrates this, focusing in on the last decade. This growing 'participation gap' between current economic activity and what would have happened had pre-crisis trends continued now stands at 1.15 million.

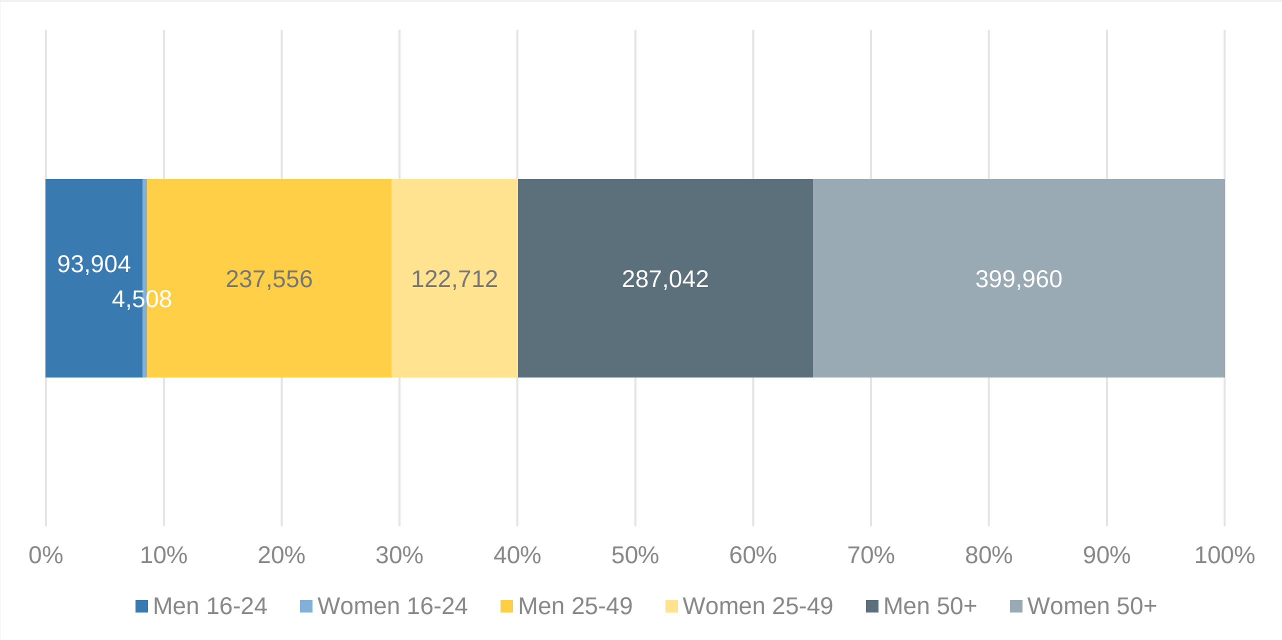
Around two fifths of this gap is explained by a smaller population, with the majority of this in turn due to lower net migration (i.e. pandemic and Brexit related factors), with the remainder explained by higher worklessness. Again, this higher worklessness is especially driven by fewer older people in work, as Figure 7 shows. In all, three fifths of the total gap is due to fewer over-50s in the workforce (660 thousand fewer people), and particularly due to fewer women. (It should be noted however that the pre-crisis trend of rising participation for older women was partially affected by changes in State Pension Age, which in turn likely partially over-states the 'gap' for women aged over 50. We will look to take account of this in future briefings.)

**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**

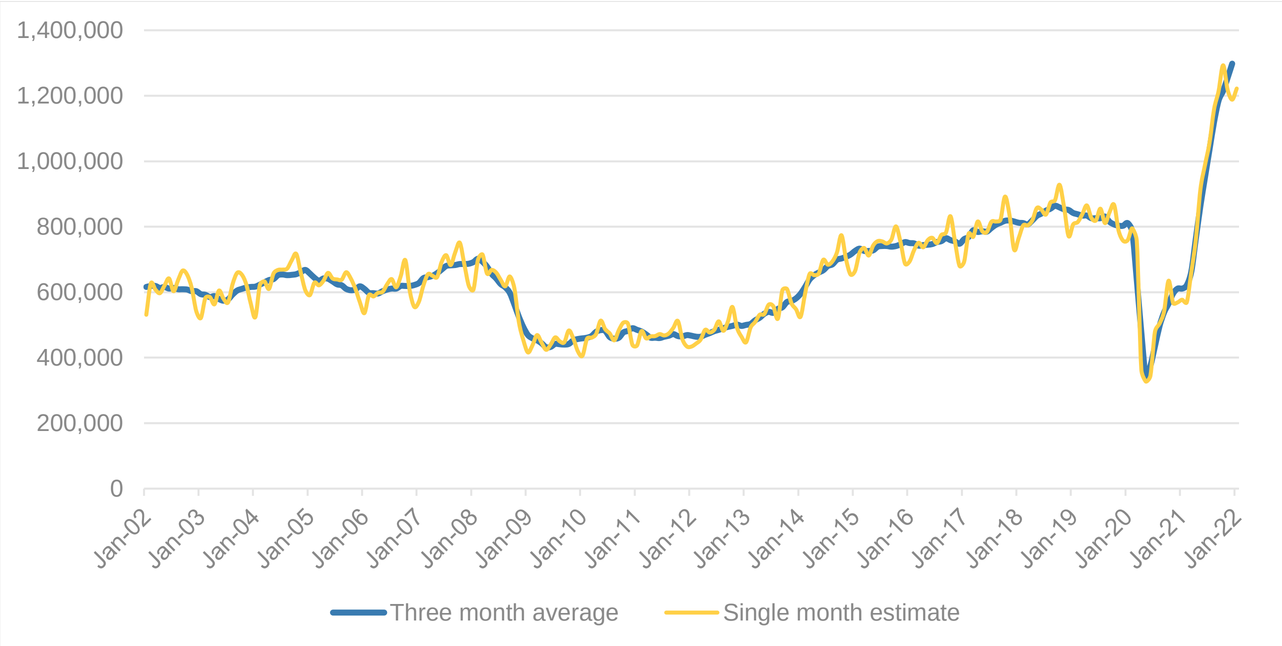



*Source: IES estimates based on Labour Force Survey*

## Meanwhile, labour demand has kicked on again – with vacancies rising even higher in recent months

As has been the case for some months now, this story of falling participation is happening despite record demand from employers – with vacancies actually rising even higher in the three month to January to reach a new record of 1.3 million. So as the 'real time' vacancy data from Adzuna has been suggesting, the emergence of the Omicron variant appears to have done little if anything to slow the growth in demand. The latest quarterly and single month estimates are shown in Figure 8 below. It seems very unlikely that vacancies will fall back towards pre-crisis levels any time soon.

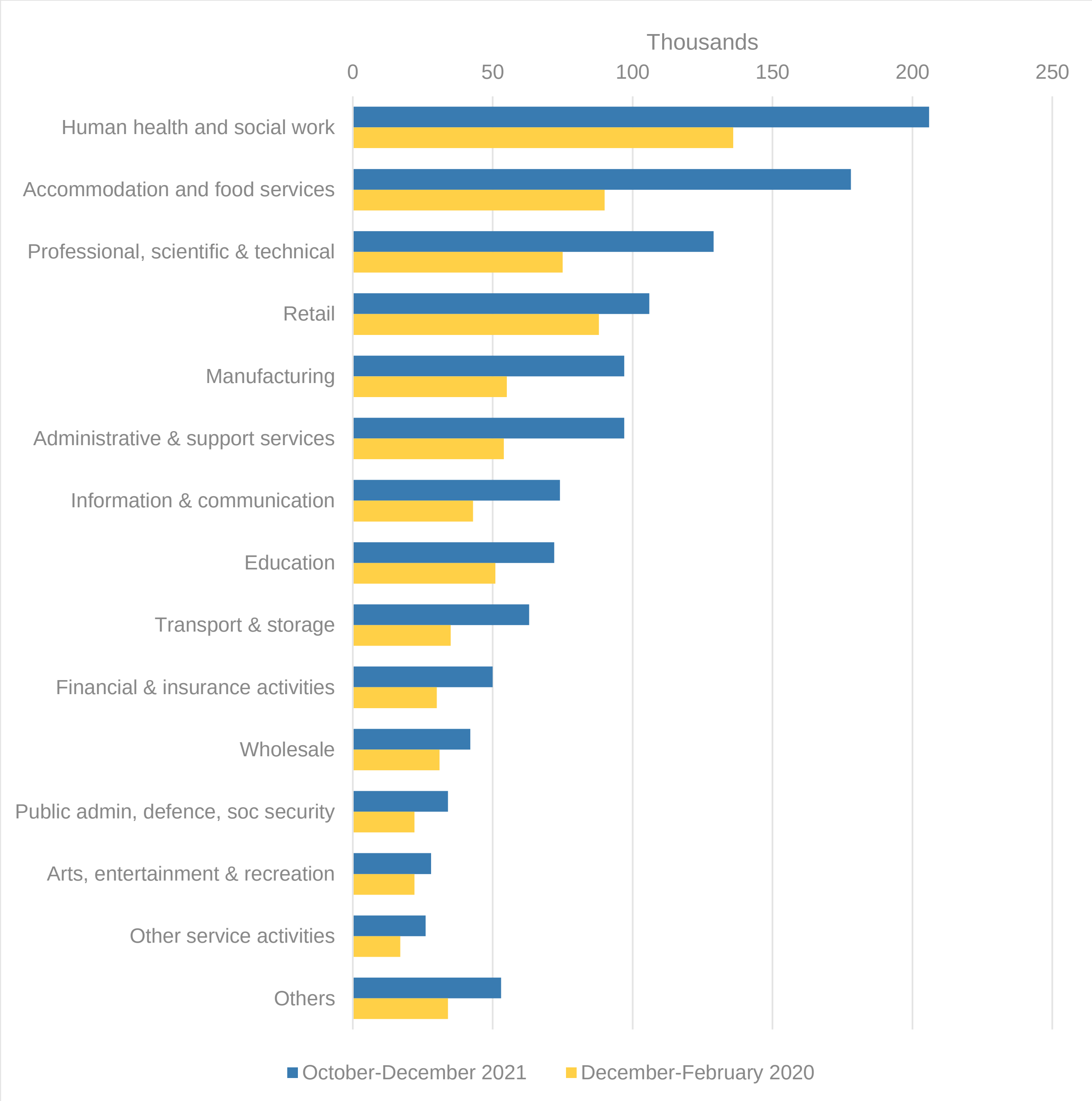
**Figure 8: Vacancies – quarterly and single-month estimates**




*Source: ONS Vacancy Survey*

We also continue to see vacancies above pre-crisis levels in every single industrial category (Figure 9), with again health, social care, hospitality and "professional" jobs (like law, accountancy, engineering and science) leading the way. As we have said in previous briefings, part of this growth, particularly in hospitality, will reflect problems in getting the right people into the right jobs as restrictions have eased and furlough ended, while part of it will reflect new demand in the economy, much of which employers cannot yet meet.

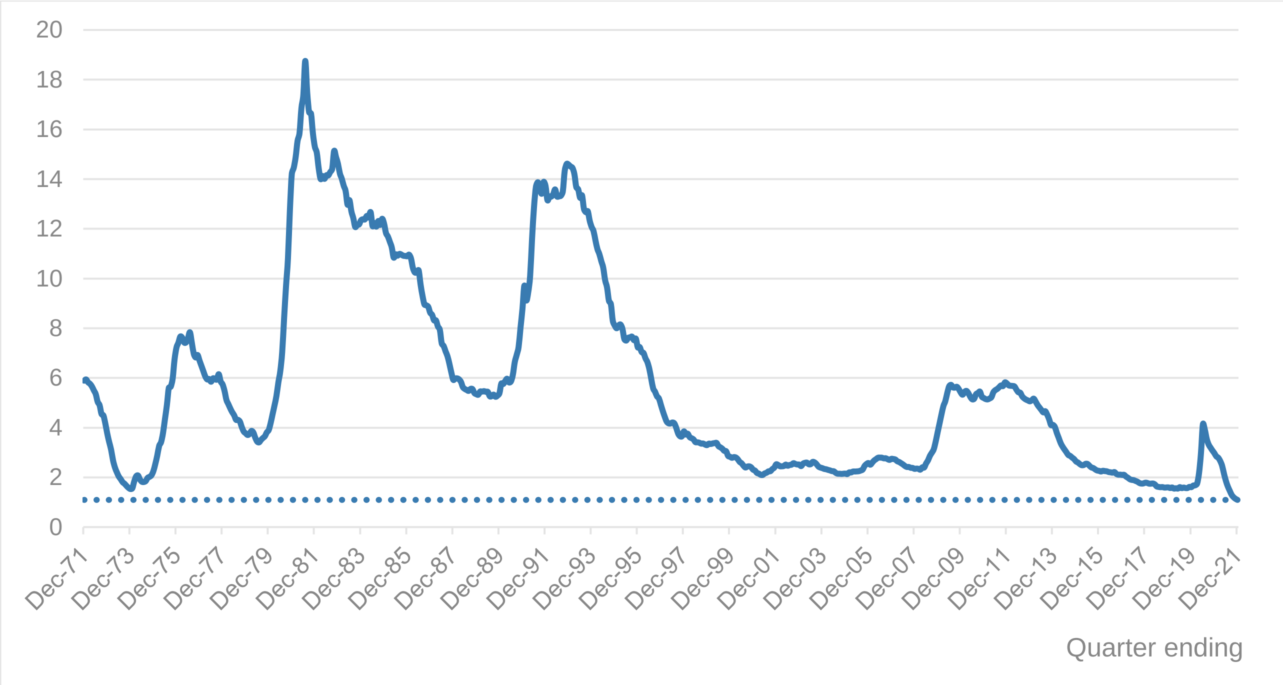
**Figure 9: Vacancies by industry, pre-crisis and latest data**




*Source: ONS Vacancy Survey*

Again as with previous months, very high vacancies and very low unemployment means a very, very tight labour market. The number of unemployed people per vacancy has edged down again this month to just below 1.1, and we are getting very close to having as many job openings as there are jobseekers. Figure 10 below, which shows the unemployment to vacancy ratio back to 1971, illustrates that this really is an unprecedented situation – and goes some way to explaining the concerns being raised by employers and business groups that the recruitment market has never been this tough.

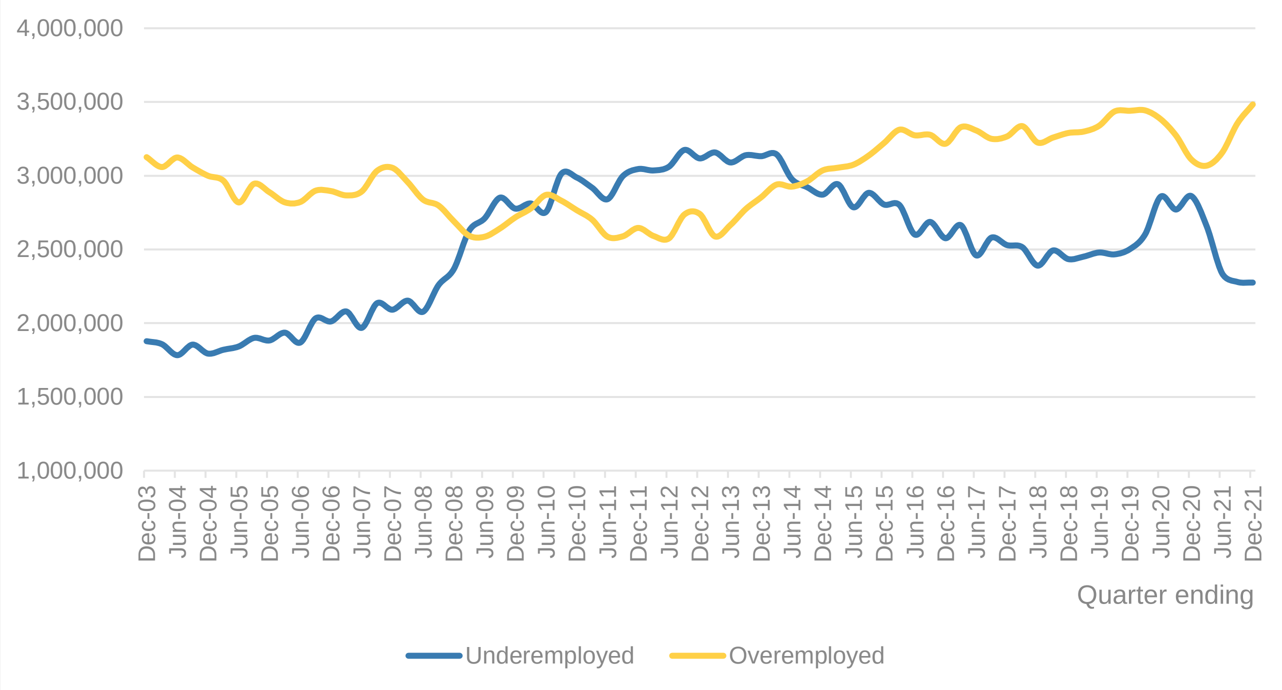
**Figure 10: Unemployed people per vacancy (exc. Agriculture, forestry and fishing)**




*Source: ONS Labour Force Survey and Vacancy Survey*

As the Bank of England has pointed out in their most recent Monetary Policy Report, lower participation in the labour market is one important factor which will contribute to higher inflation and lower growth in the coming year. For those in work, there are also signs that the recruitment and participation crisis is leading to higher ‘over-employment’, which is the measure of those who want to work fewer hours for less pay – with data out today showing that this is now at its highest in at least twenty years. At the same time, ‘under-employment’ has fallen back to its lowest since before the financial crisis.

**Figure 11: Levels of over-employment and under-employment**




*Source: Labour Force Survey. Underemployed is those who work below an hours threshold and who want and are available to work more hours; overemployed is those who want to work fewer hours for less pay*

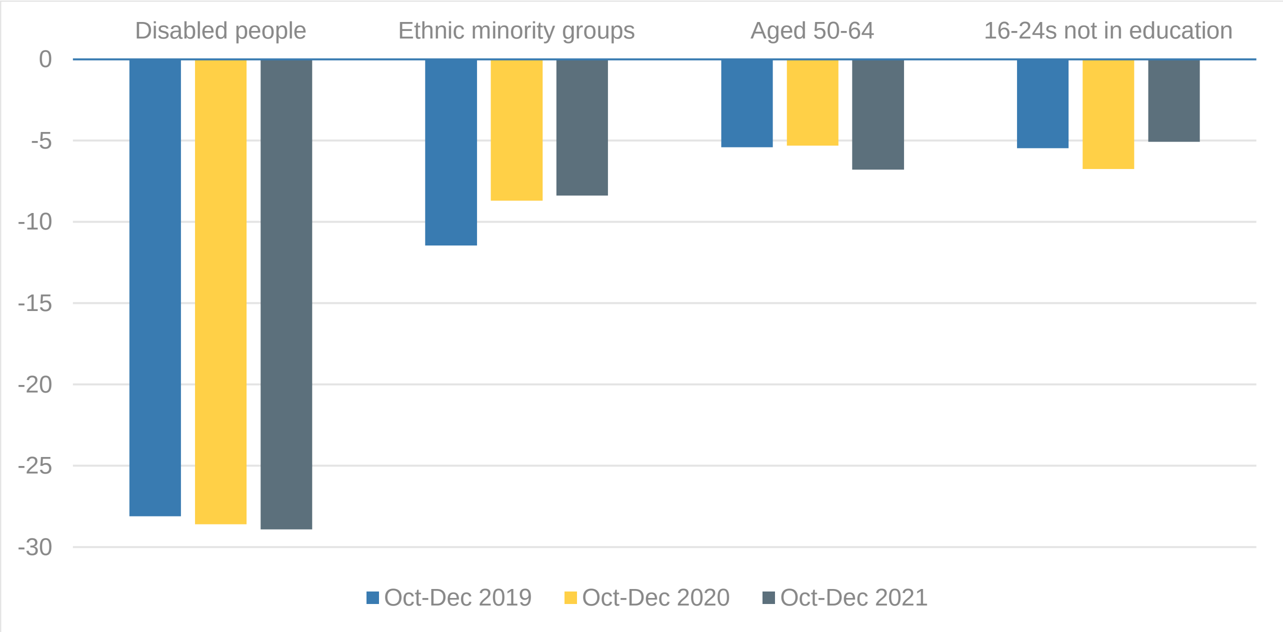
## There are worrying signs that those disadvantaged in the labour market are faring worse in the recovery

Today also sees the publication of quarterly data on employment for ethnic minority groups and for disabled people, which means that we can assess the 'gap' in employment rates between these groups and the wider working age population. This is set out in Figure 12 below, alongside gaps for people aged over 50 and for young people outside full-time education.

All told, this data presents a picture that is consistent with trends in economic inactivity and demand – with the employment 'gap' for disabled people and for older people widening in the last two years, after significant falls in the lead-up to the pandemic. Disabled people are now two and half times more likely to be out of work than non-disabled people, while the gap for older people is the highest it has been in half a decade.

For ethnic minority groups, the gap overall has narrowed slightly, as it had been doing in the years before the crisis, driven by demographic changes and higher participation for women in particular; while the gap has narrowed somewhat for young people outside of full-time education. Nonetheless given the sheer volume of jobs available, it is unclear why gaps should persist at all for young people not in education.

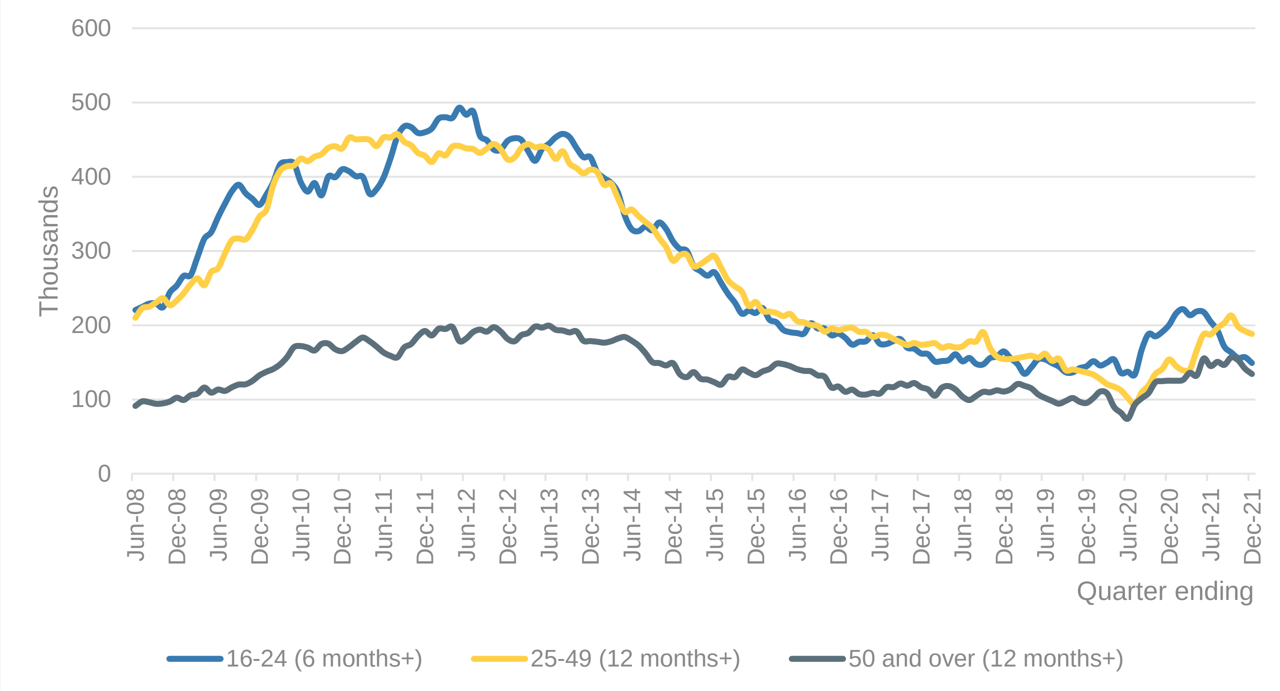
**Figure 12: Employment rate 'gaps' for disabled people, ethnic minority groups, those aged 50-64, and young people not in full time education; Oct-Dec 2019, 2020 and 2021**




*Source: IES analysis of Labour Force Survey. Gaps are calculated as the percentage point difference in employment rates between the rate for the disadvantaged group and the rate for the overall 16-64 population excluding that group.*

More positively however, long-term unemployment is continuing to fall back – which we define as unemployment of twelve months or more for people aged 25 and over, or six months or more for younger people. This is set out in Figure 13. It appears likely that the fall in long-term unemployment for younger people reflects a combination of the public policy and delivery focus on supporting young people through the pandemic, plus the strong recovery in demand in sectors that traditionally employ young people. However for over-50s, it does appear to be possible that the falls reflect more people leaving the labour force entirely and becoming 'economically inactive', with the next section setting out some of the evidence for this.

**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.*

## New data on labour 'flows' shows record job moves, but moves from worklessness falling back slightly

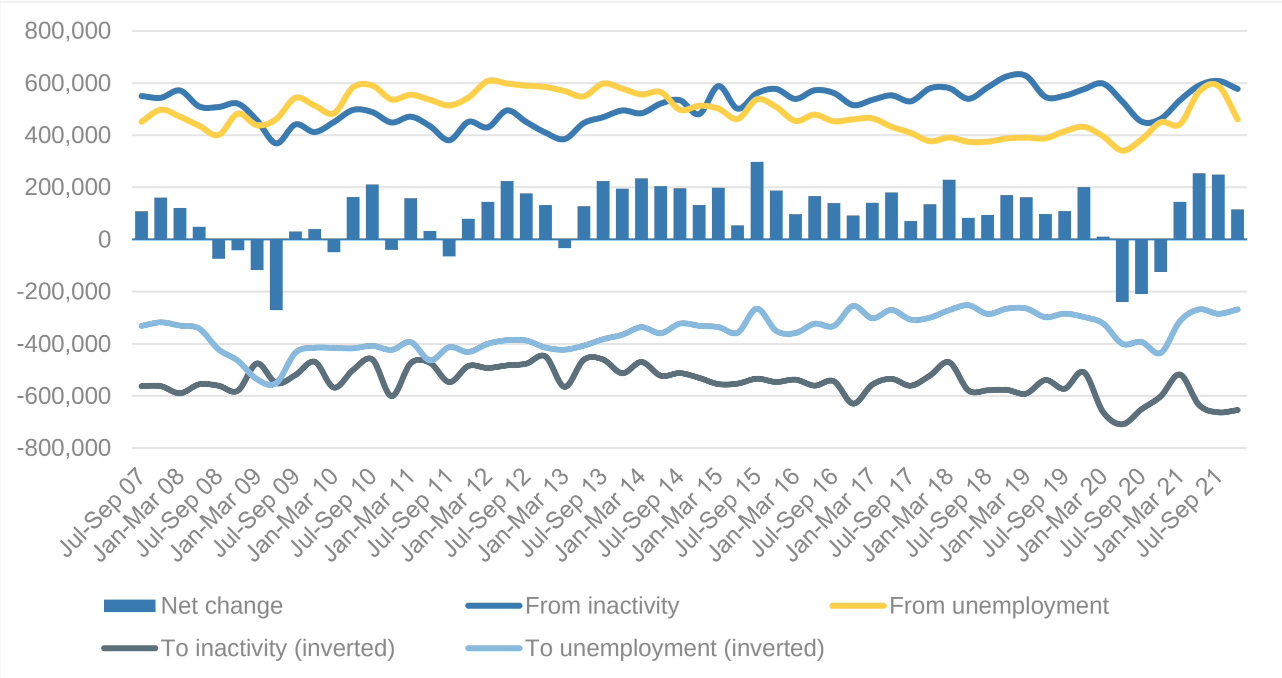
Quarterly data published today tells us more about the 'flows' of people between employment, unemployment and economic inactivity. The graphs below summarise the headlines from this.

First, Figure 14 tries to illustrate the extent to which the overall change in employment (the blue bars) is explained by flows into work from unemployment and inactivity (the two positive lines above the bars) or by flows out of work to unemployment and inactivity (which are inverted, as negative lines below the bars).

This shows that in the most recent quarter (the most recent bar), employment growth has been very low overall, mainly due to job moves from unemployment falling back a bit – while the other three lines have stayed fairly flat. However looking over the last year, we can see that flows out of work to unemployment have been as low as they were before the crisis and far lower than in the last recession; while flows into work from unemployment have been high – up at levels last seen in the early 2010s. Flows into work from inactivity are high by historic standards – in line with the period immediately before the crisis and much higher than after the last recession – but flows out of work to inactivity are also very high.

All told, this suggests that those leaving work are increasingly doing so to inactivity rather than unemployment, which is consistent with more people leaving due to ill health or retirement, as well as with people leaving the labour market entirely at the end of the Coronavirus Job Retention Scheme; and that while flows into work are relatively high, they are not high enough to offset these losses. The slight decline in flows from unemployment (with the rate of exit falling too) is also slightly concerning, given the very high levels of demand – and likely reflects that a higher proportion are long-term unemployed (even though the levels of long-term unemployment are falling back).

**Figure 14: Flows into work from unemployment and economic inactivity, and flows out of work (inverted) to unemployment and economic inactivity – with net overall change**

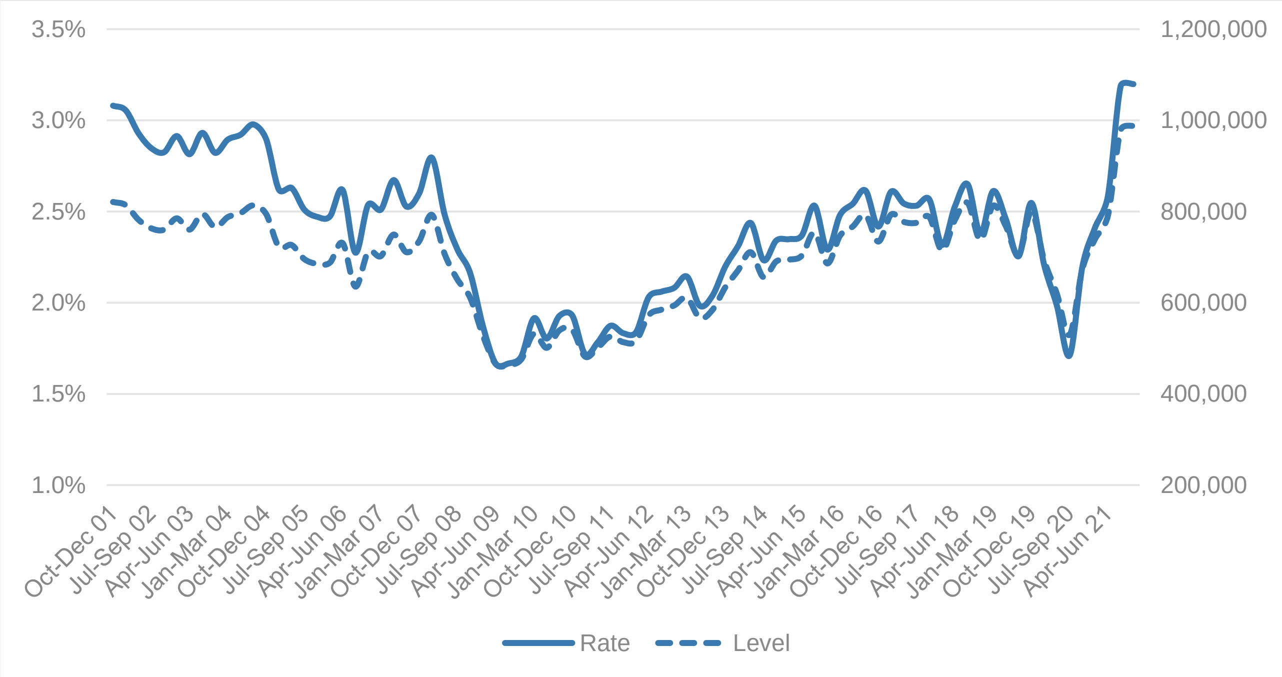



*Source: Longitudinal Labour Force Survey. Note that estimates of job-to-job moves are for those aged 16-69, while estimates of job entries and exits are for those aged 16-64.*

While flows into and out of work have fallen back, rates of job-to-job moves continue to rise, as Figure 15 below shows. The proportion of people changing jobs in the most recent quarter was the highest since comparable records began in 2001, as was the level (at 990 thousand). Figure 16 shows the reason for job-to-job moves. This shows that ‘resignations’ remain high, but that the largest driver of growth has been in ‘other’ reasons – which tends to be due to contracts ending or people leaving due to ill health, but may well be capturing wider pandemic impacts like people looking for a new job because furlough was due to end.

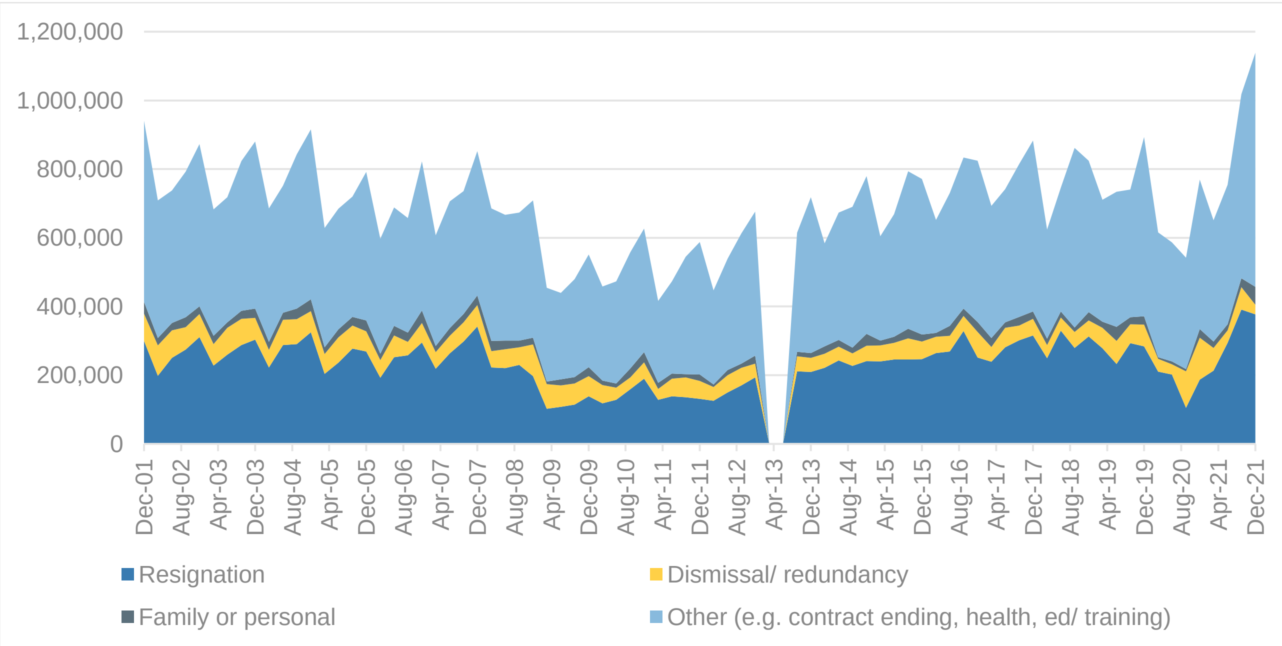
Higher job-to-job moves is generally a positive sign, as workers who move jobs voluntarily tend to see much larger pay rises than those who stay or who lose their jobs. The fall in job-to-job moves after the last crisis was likely a key contributor to lower pay growth during that period. So if this high rate of job moves becomes a trend, then this will likely be a net positive. However, it should also be noted that the growth in job switching for ‘other’ reasons may well reflect many people changing jobs because they felt that they had to rather than wanted to, so it is unclear yet how far these benefits will be felt, at least in the short term. Of course, high rates of job changing will also be driving higher churn in the labour market, and therefore contributing to high vacancy rates for employers.

**Figure 15: Job-to-job moves by quarter –rate (proportion of all of those in work) and level**




*Source: Longitudinal Labour Force Survey. Estimates are for those aged 16-69.*

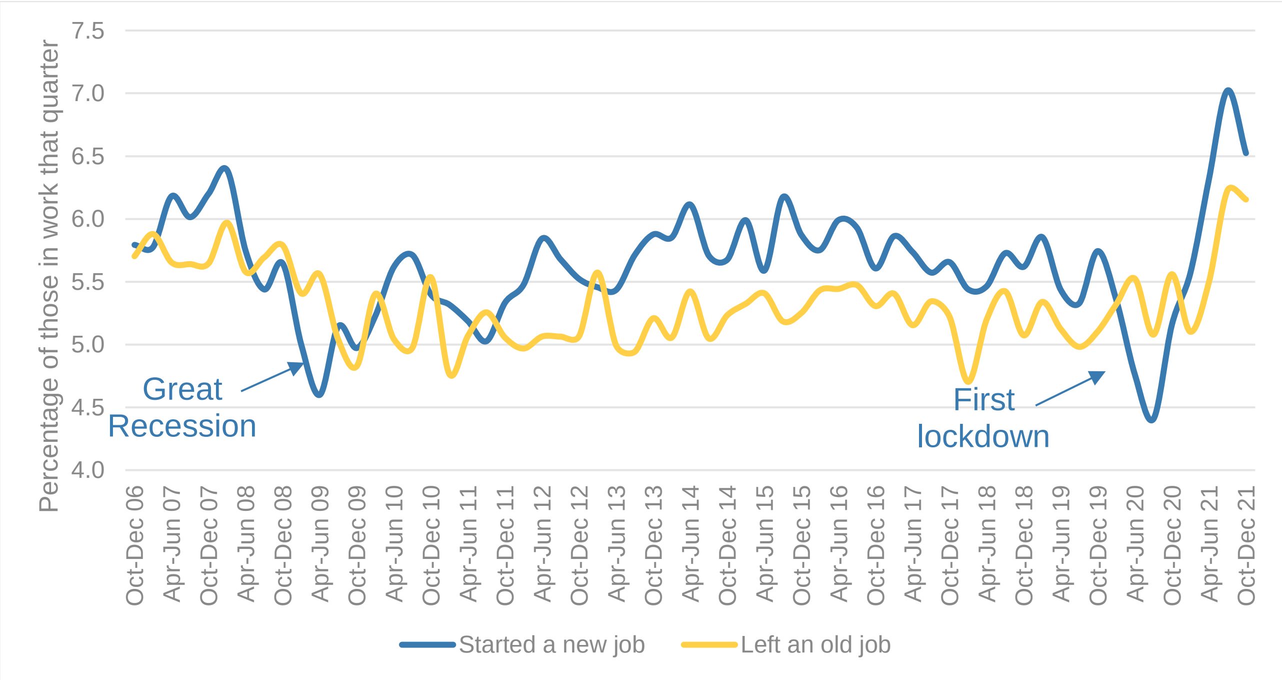
**Figure 16: Reason for job-to-job move**




*Source: Longitudinal Labour Force Survey. Data not available for Q1 and Q2 of 2013 due to changes in ONS weighting methodology.*

Putting together job-to-job moves and flows into and out of work, we can show the total proportion of those in work that quarter who either started a new job or left an old one in the given three month period. This is shown in Figure 17 below. It both the depths of the impacts of the first lockdown but also the strength of the recent recovery – although in the most recent quarter, new job starts have fallen by slightly more than job exits.

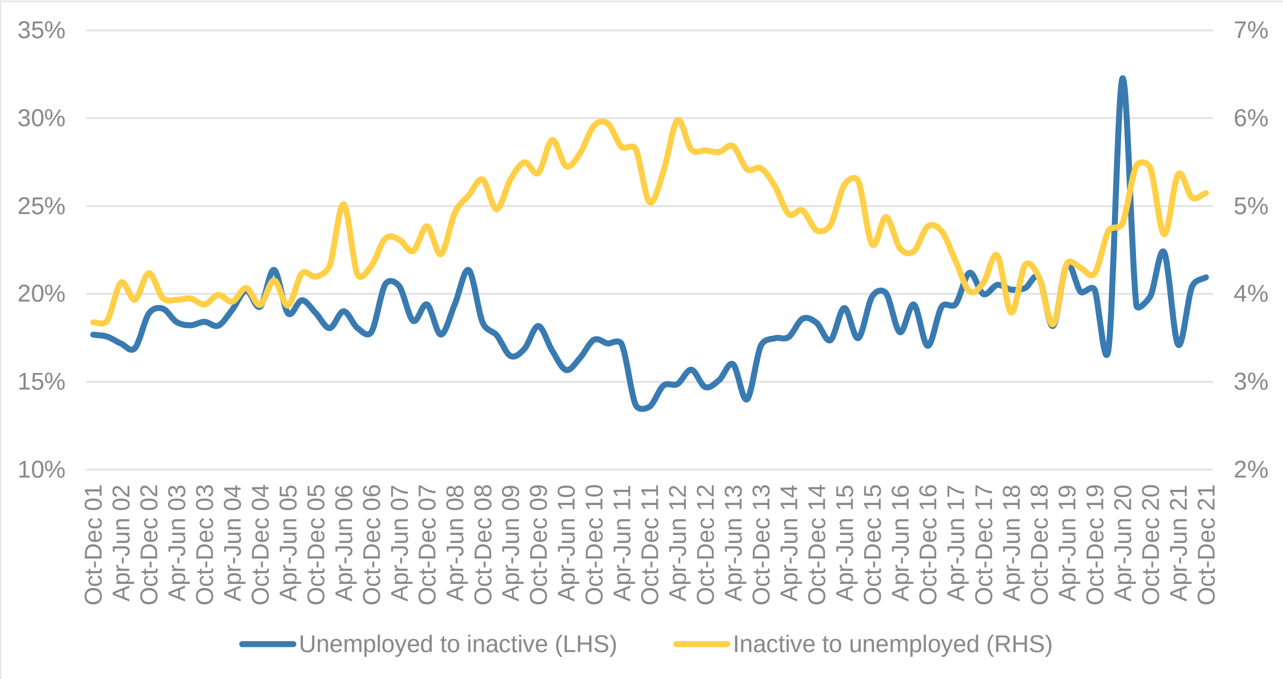
**Figure 17: Percentage of those in work who either started a new job or left an old one in that three month period**




*Source: Longitudinal Labour Force Survey. Note that estimates of job-to-job moves are for those aged 16-69, while estimates of job entries and exits are for those aged 16-64.*

Data on flows between unemployment and economic inactivity is set out in Figure 18 below. Reassuringly, flows from unemployment to inactivity remain fairly low by historic standards, although well above where they were in the recovery from the financial crisis. This suggests that the growth in inactivity is being driven by unemployed people leaving the labour market entirely. However while flows from inactivity to unemployment are higher than pre-crisis, they are well below where they were in the years after the financial crisis – which suggests that we are not seeing as many people as we might expect starting to return to the labour market.

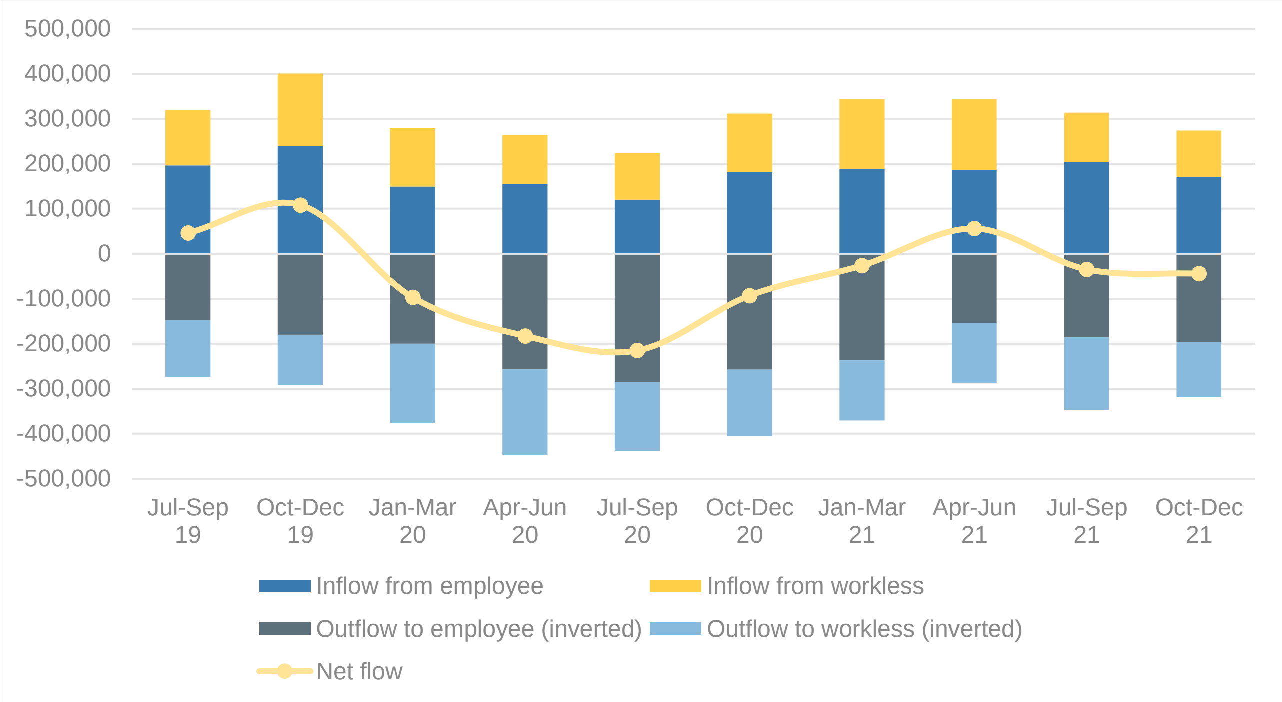
**Figure 18: Flows from unemployment to economic inactivity and from economic inactivity to unemployment (percentages of those unemployed or economically inactive)**




*Source: Longitudinal Labour Force Survey.*

Finally, data is also published on flows into and out of self-employment, and is set out below. This shows that the large falls in self-employment during 2020 were mainly explained by far fewer people moving from employee to self-employed status, and far more people moving the other way from self-employment to employee. Previous analysis, discussed in last month's briefing, suggests that these movements may have often been people in the same jobs but changing how they described their employment status (perhaps also as a result of the IR35 off-payroll working rules). However with those numbers now returning more or less to pre-crisis levels, it is more noticeable that there are now fewer people entering self-employment from worklessness. Given this, it is surprising that the government ended last month its only scheme to support new self employment (the New Enterprise Allowance) and does not appear to have plans for any replacement.

**Figure 19: Flows into and out of self-employment by origin/ destination, and net change**




*Source: Longitudinal Labour Force Survey*

## Conclusion

Today's figures continue the themes of recent months – a participation crisis driven by fewer older people in work and higher worklessness due to ill health, and a continued recruitment crisis for firms. These twin issues will make the living standards crisis in the coming year worse than it needs to be, and may hold back growth in the longer term.

As we have said in previous months, employers have a key part to play in helping solve these problems – through 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. However government also needs to act – and while the Plan for Jobs has succeeded in preventing an unemployment catastrophe, we need a new Plan for Participation that can extend support to all of those who are out of work and want help, and that can focus on working better with older people, health and social services, local partners and employers.

The Budget next month will provide an excellent opportunity to do this, in particular through near-£10 billion already committed for employment services and support.