ies Briefing

Institute for Employment Studies

Labour Market Statistics, December 2022

13 December 2022

This briefing note sets out analysis of the Labour Market Statistics published this morning. The analysis mainly draws on **Labour Force Survey (LFS)** data, which is the main household survey that collects official figures on employment, unemployment and economic inactivity and covers the period up to October 2022 (the most recent quarter being August to October 2022). The briefing also includes findings from the **ONS Vacancy Survey**, which collects employer data on open vacancies; and from the **Monthly Wages and Salaries Survey**, which collects pay data from businesses in order to estimate Average Weekly Earnings (AWE). The Vacancy Survey includes data up to November 2022, and the Wages and Salaries Survey to October 2022.

Summary

As with last month, today's headline estimates for employment, unemployment and economic inactivity are broadly flat – with some signs however that employment has edged up recently, with lower economic inactivity more than offsetting a slight rise in unemployment.

The small recent falls in economic inactivity are most pronounced among people aged 50-64, which is explained by higher employment among that age group (particularly men). Early retirement and economic inactivity due to long-term ill health are both down slightly, with economic inactivity for other reasons broadly unchanged.

However if that is the good news, that's about as good as it gets – and elsewhere there are some signs (albeit very early ones) of a wider slowdown in the economy and labour market. In particular vacancies are now falling back, down by about 9% on their peak in the early summer but still very high (at 1.19 million). Among predominantly private sector industries the fall is even greater, at around 12% – with public sector vacancies flat or rising.

As vacancy figures are a 'stock' measure, these falls could be explained by existing vacancies being closed rather than a slowdown in new vacancies. However this seems unlikely as today has also seen a noticeable rise in short-term unemployment (again from a very low base last quarter). And this in turn rise does not appear to be due to falling economic inactivity, as it is particularly concentrated among young people outside of full-

time education. Taken together, these data suggest a slowdown in hiring, most likely due to a weakening in the economy and employer uncertainty.

There are also some worrying signs in the latest redundancy figures, which are up by about two thirds from their trough in the early summer. At about 90 thousand in the last quarter, redundancies remain very low indeed by historic standards – and there is no sign of increase in advance notices to the Insolvency Service (HR1 forms), but it is nonetheless concerning.

On pay, this month sees continued strong growth in nominal wages – up by around 6% year on year – but once again very high inflation is more than offsetting this, with real terms pay down by 3% overall. We also continue to see divergent trends between the public and private sectors, with private sector pay growth around 7% and the public sector below 4%. This is undoubtedly contributing to the continued high vacancies that we are seeing in public services, and to wider recruitment and retention challenges. In this context it seems even more unsustainable for government to be trying to hold down public sector pay awards at around 2-3% rather than the 6-7% increases that we are seeing in the wider economy.

Looking ahead, while there are warning signs in today's data, there are also still very high vacancy levels and around three million people out of work who want a job. Our inability to meet this demand continues to hold back growth and make living standards worse. The government's announcement of a review into how we can help more of those who are economically inactive to get into work is welcome, and in our view as a minimum needs to broaden access to the Restart Scheme and bring forward funding for the Shared Prosperity Fund. Employers need to do more too – particularly on making work more flexible by default, improving and simplifying recruitment, and providing greater security and support for those returning to work.

Broadly flat on employment, with a slight rise in unemployment offsetting a dip in economic inactivity

The headline data on employment, unemployment and economic inactivity for 16-64 year olds are broadly unchanged again this month – with employment up slightly on the previous quarter (from 75.4% to 75.6%), economic inactivity down slightly (from 21.7% to 21.5%) and unemployment unchanged at 3.7%. As Figure 1 below shows, there may be the slightest sign of an uptick in unemployment over the last couple of months offsetting a slight fall in economic inactivity, which could be early signs of a wider slowdown or could reflect more of those who are economically inactive starting to seek work (or both). We explore this in more detail in the briefing below.

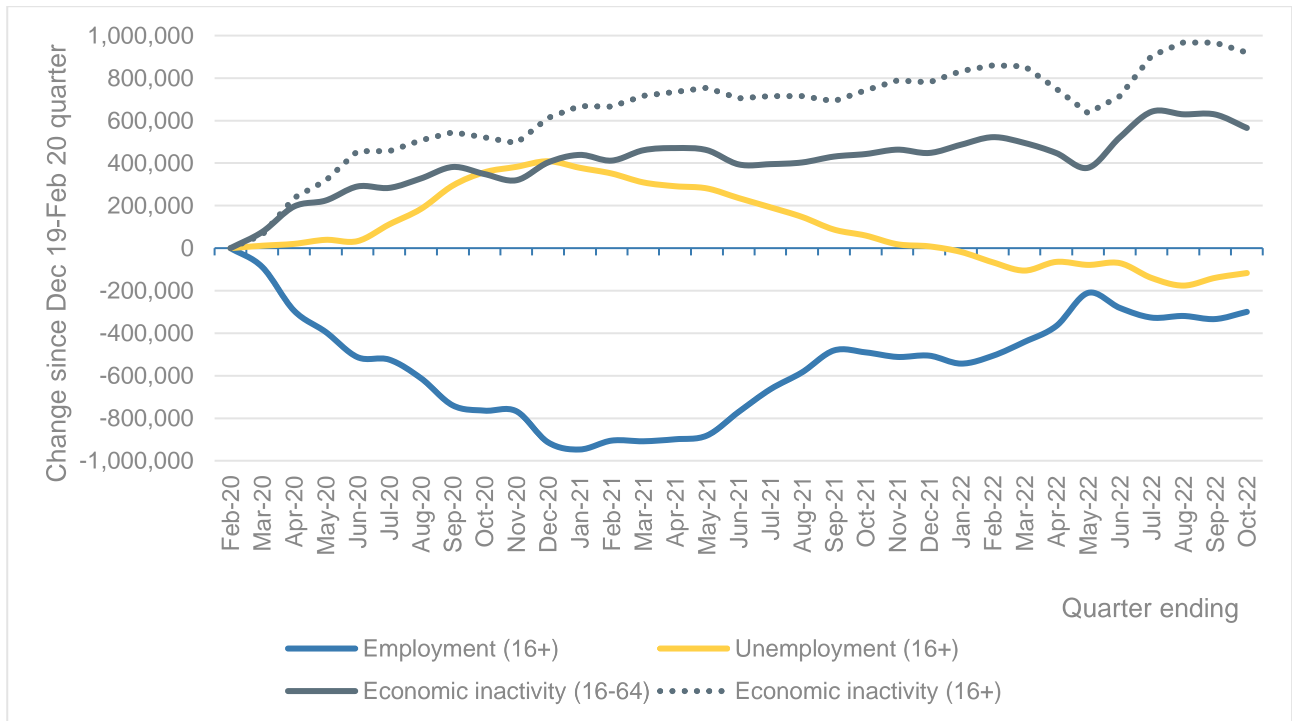
Figure 1 also includes the underlying monthly estimates (in yellow) that make up the quarterly average, and show that the single month estimates for October are pretty much in line with the quarterly estimate – so no signs yet of things getting either a lot better or a lot worse.

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

Source: Labour Force Survey

This picture of a broadly flat labour market with perhaps some slight signs of improvement is reflected too if we look at changes in *levels* of employment, unemployment and economic inactivity since the start of the pandemic (Figure 2). Employment is now 300 thousand lower than early 2020, unemployment 115 thousand lower and economic inactivity among those aged 16-64 is 565 thousand higher (rising to 920 thousand higher if we include those aged over 65).

Figure 2: Change in levels of employment, unemployment and economic inactivity since start of Covid-19 pandemic (December 2019-February 2020 quarter)



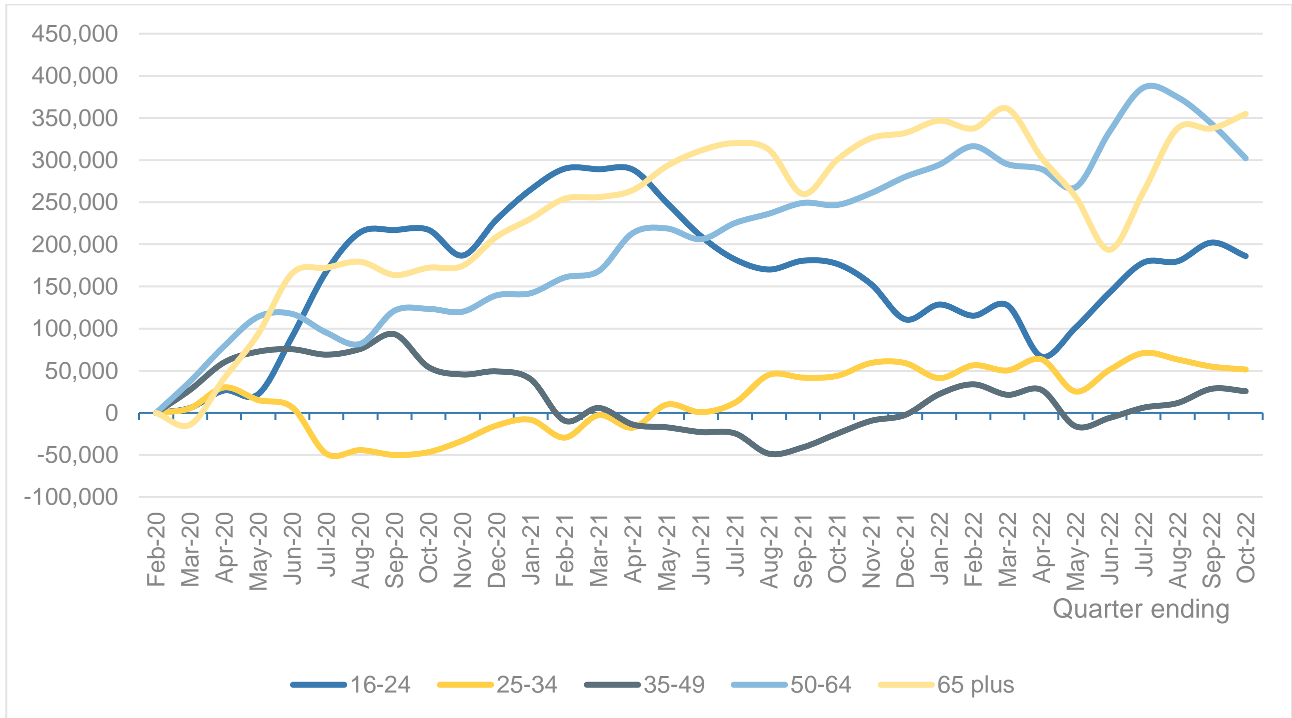
Source: Labour Force Survey

The slight improvement in economic inactivity is mainly due to falls in worklessness among people aged 50-64

This slight improvement in economic inactivity is being driven by falls in economic inactivity among those aged 50-64, as Figure 3 below illustrates – showing changes by age group since the start of the pandemic. Economic inactivity among other age groups is broadly flat (and in fact still rising among over 65s) while for those aged 50-64 it has fallen by around 85 thousand over the last quarter (the light blue line).

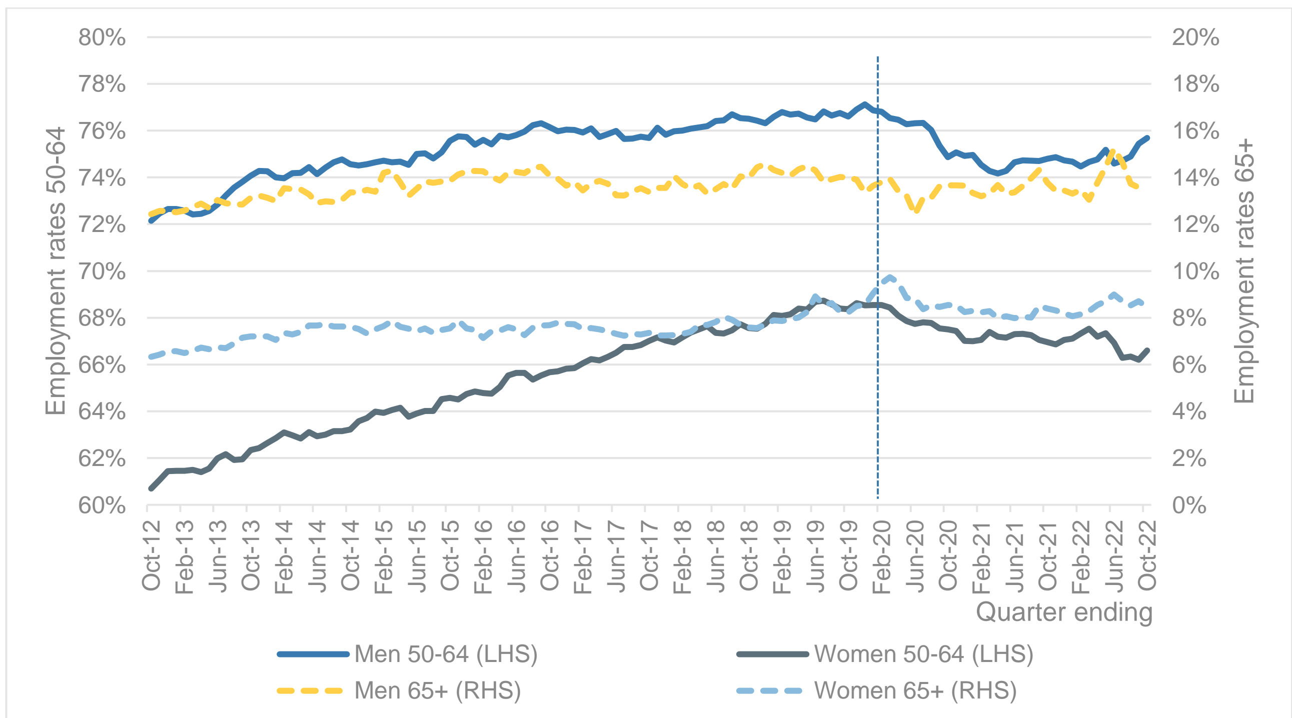
Figure 4 below shows employment rates among over 50s by age group and gender – with the solid lines representing those aged 50-64 (on the left hand scale and a range of 60-80%) while the dotted lines show those aged 65+ (on the right hand scale with a much lower range of 0-20%). This shows that both men and women in the 50-64 age group saw employment fall after the pandemic (reversing a strong upward trend for women before then), but that the improvement in recent months has been most pronounced for men. Among those aged over 65, employment appears to still be edging up for women (perhaps still reflecting State Pension Age changes), while for men it is broadly flat (with the improvement in the early summer unwinding).

Figure 3: Changes in economic inactivity by age group, Dec 19-Feb 20 to Aug-Oct 22



Source: Labour Force Survey

Figure 4: Employment rates for men and women aged 50-64 (left scale) and 65+ (right scale)



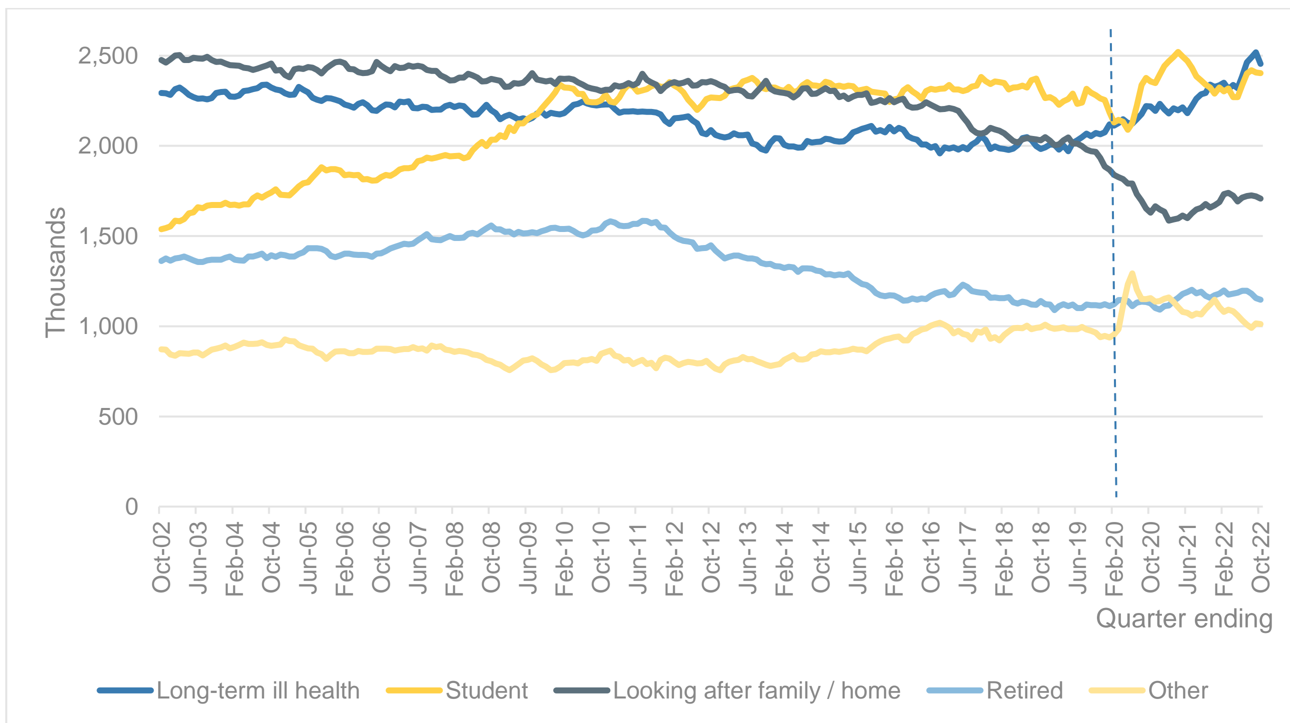
Source: Labour Force Survey

Economic inactivity due to retirement and ill health are down slightly, with the other main reasons broadly flat

The last year has seen very strong growth in economic inactivity due to long-term ill health, and today's data has some slightly better news on this too. Economic inactivity for this reason is broadly flat on the quarter (at 2.46 million) but down by 65 thousand on the very high figure reported last month. Early retirement is down by around 50 thousand on the quarter, with the other main reasons broadly unchanged.

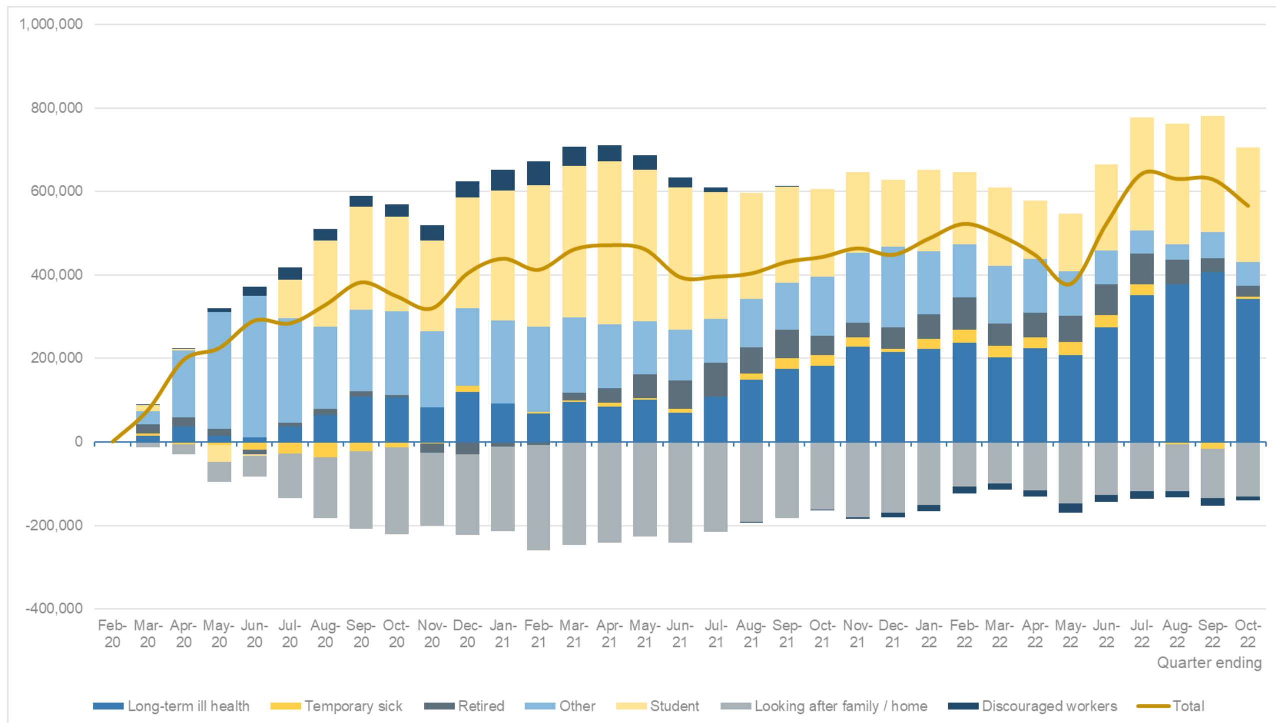
Overall levels of economic inactivity for the five main reasons given are set out in Figure 5 below. Figure 6 then shows changes in levels of economic inactivity by main reason since the start of the pandemic – which brings out more clearly the rises and then falls in long-term ill health, early retirement and 'other' reasons (which includes reasons related to Covid-19 as well as those who say that they do not need a job), and the growth in non-working students over the last few quarters.

Figure 5: Levels of economic inactivity for the five main reasons given, 2002-present



Source: Labour Force Survey

Figure 6: Changes in economic inactivity by main reason, Dec 19-Feb 20 to Aug-Oct 22

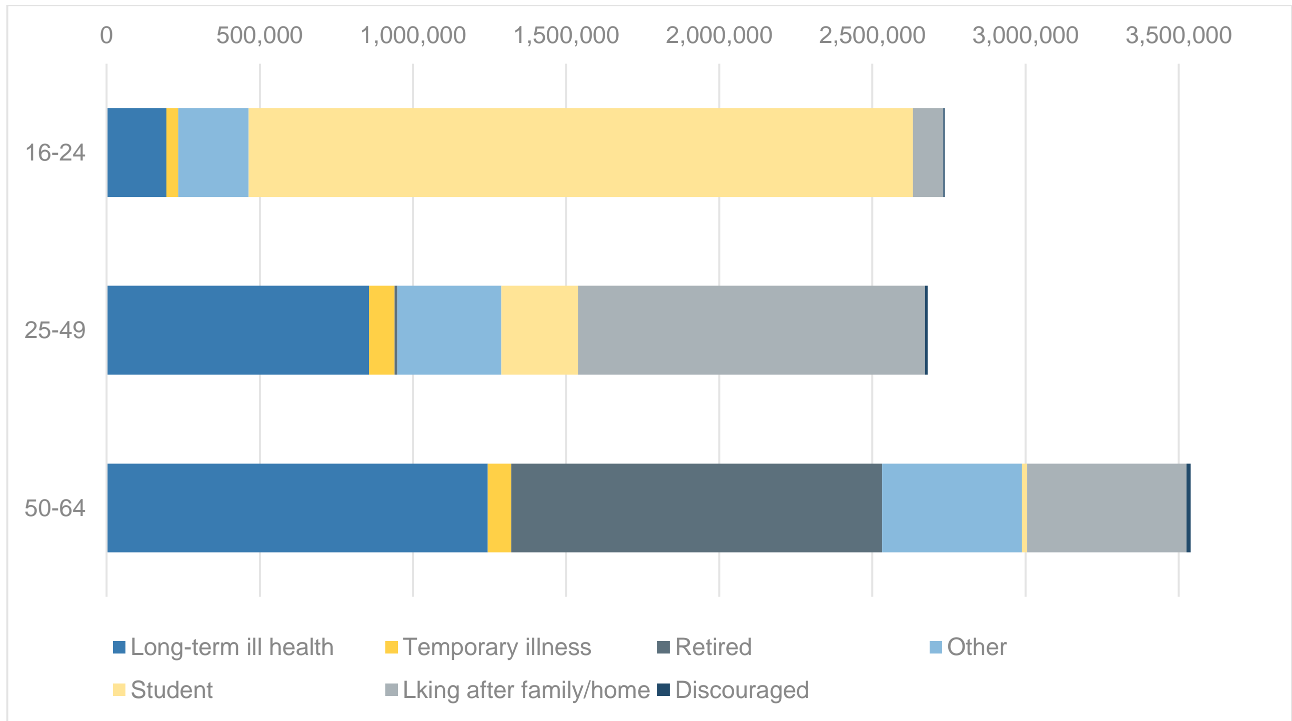


Source: Labour Force Survey

Our analysis published last month to accompany the launch of our new Commission on the Future of Employment Support set out that higher economic inactivity is being driven in particular by fewer people returning to work and longer durations out of work (rather than by higher exits from work) so these improvements may well be an early sign that more people who are economically inactive are starting to return to the labour force (although it could also be caused by *even fewer* people leaving work to economic inactivity). If it is more people returning to work then this is good news, but it is only a start – high economic inactivity is continuing to act as a brake on economic growth, and the very high figures for long-term ill health alongside the reversal in the downward trend of those out of work with caring responsibilities remain very worrying.

Stepping away from the monthly Labour Force Survey data, the ONS also periodically publishes estimates looking at both age groups and main reasons for being economically inactive via the Annual Population Survey (which in effect uses LFS data but with a slightly larger sample and pooled over a year rather than a quarter). This data is less timely than the LFS and covers a longer period – so the most recent figures are an average for the year July 2021to June 2022. However it is nonetheless useful in illustrating how reasons vary across age groups. Figure 7 below summarises this for the most recent data. It shows that a similar proportion of those aged 25-49 and 50-64 are economically inactive due to long-term ill health and ‘other’ reasons; and (unsurprisingly) shows that being a student is most common for young people, caring most common for those aged 25-49 and retirement most common for older people.

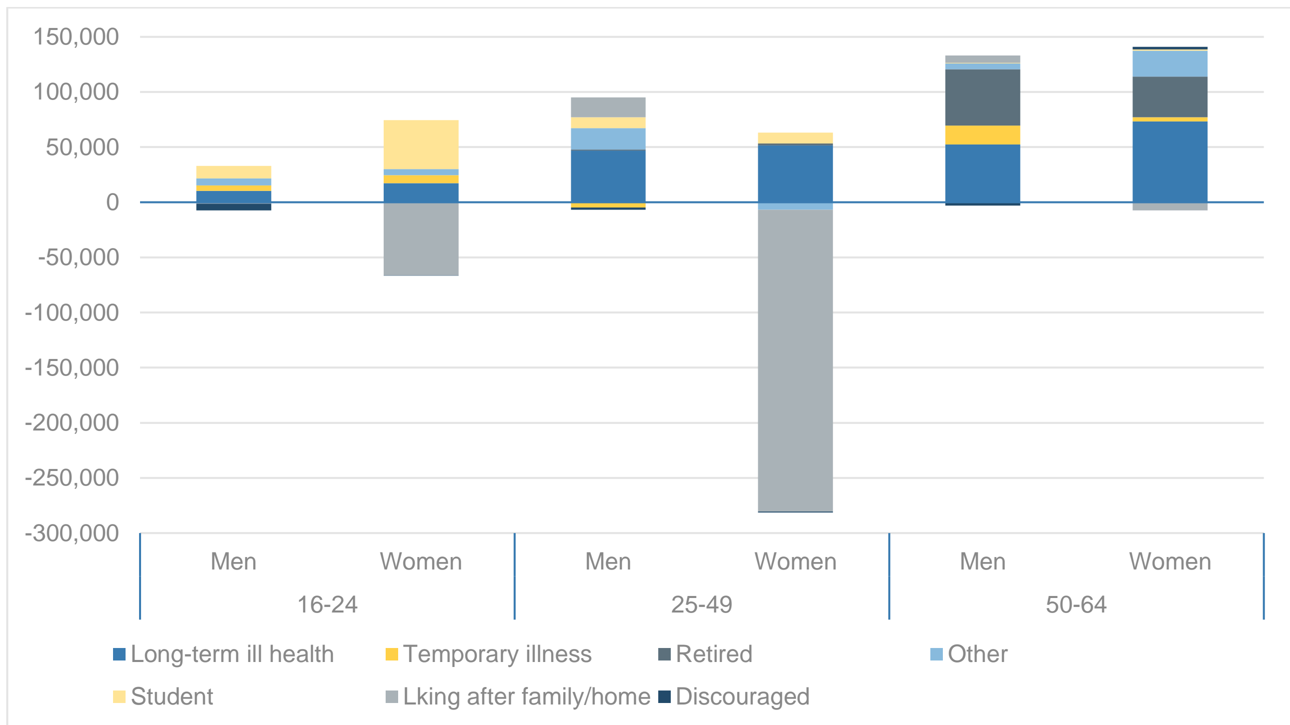
Figure 7: Economic inactivity by broad age group and main reason, July 2021-June 2022



Source: Annual Population Survey

However looking at changes by age, reason and gender over the last three years (Figure 8) is instructive as it shows that the headline of broadly flat economic inactivity for people aged 25-49 in Figure 3 above disguises significant changes by reason. In particular the growth in long-term ill health has been among those aged 25-49 as much as those aged 50-64 (in fact slightly more so), with men aged 25-49 also seeing growth in economic inactivity due to 'other' reasons (the growth in 'looking after family and home' for men is within the margin of error so should be treated with caution). Economic inactivity is flat overall however because of very significant falls in the number of women out of work and looking after family and home (accelerating a long running trend, although as noted above this has levelled off in more recent data).

Figure 8: Changes in economic inactivity by broad age group and main reason, July 2019-June 2020 to July 2021-June 2022

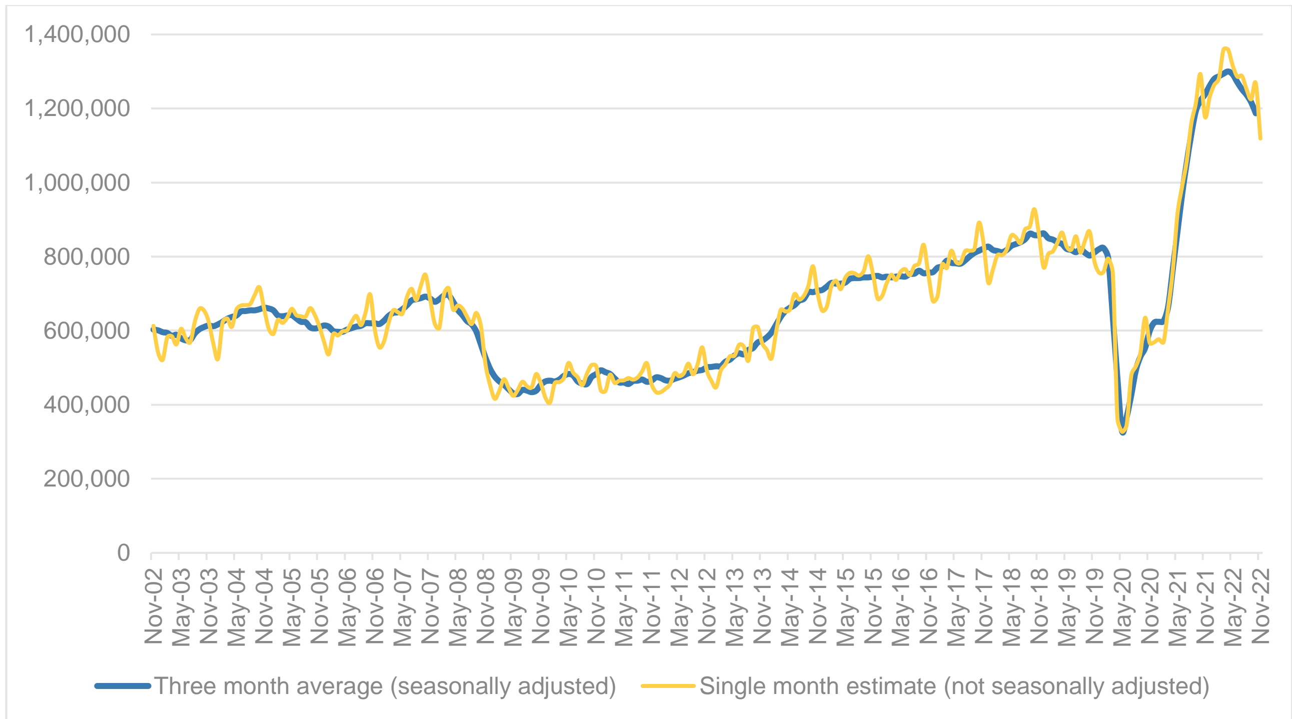


Source: Annual Population Survey

Despite this slight improvement in economic activity, the downturn in vacancies is continuing

While there are some potential early signs of improvement in economic inactivity and employment, elsewhere in today's figures it does look like we are the start of a wider slowdown in the economy and labour market. This is most pronounced in the vacancy data, where there are now 1.19 million job openings in the economy – down from 1.30 million in the early summer (a fall of 8.6%). These figures do still remain very high by historic standards, and these are changes in the 'stock' of vacancies so may well reflect old vacancies being filled or closed more than a slowdown in new vacancies being notified. However there is clearly now a downward trend, and the fall in the single month estimate for November (yellow line below) is particularly steep – even notwithstanding the fact that the monthly estimate for November tends to be lower due to seasonal factors.

Figure 9: Vacancies – quarterly and single-month estimates

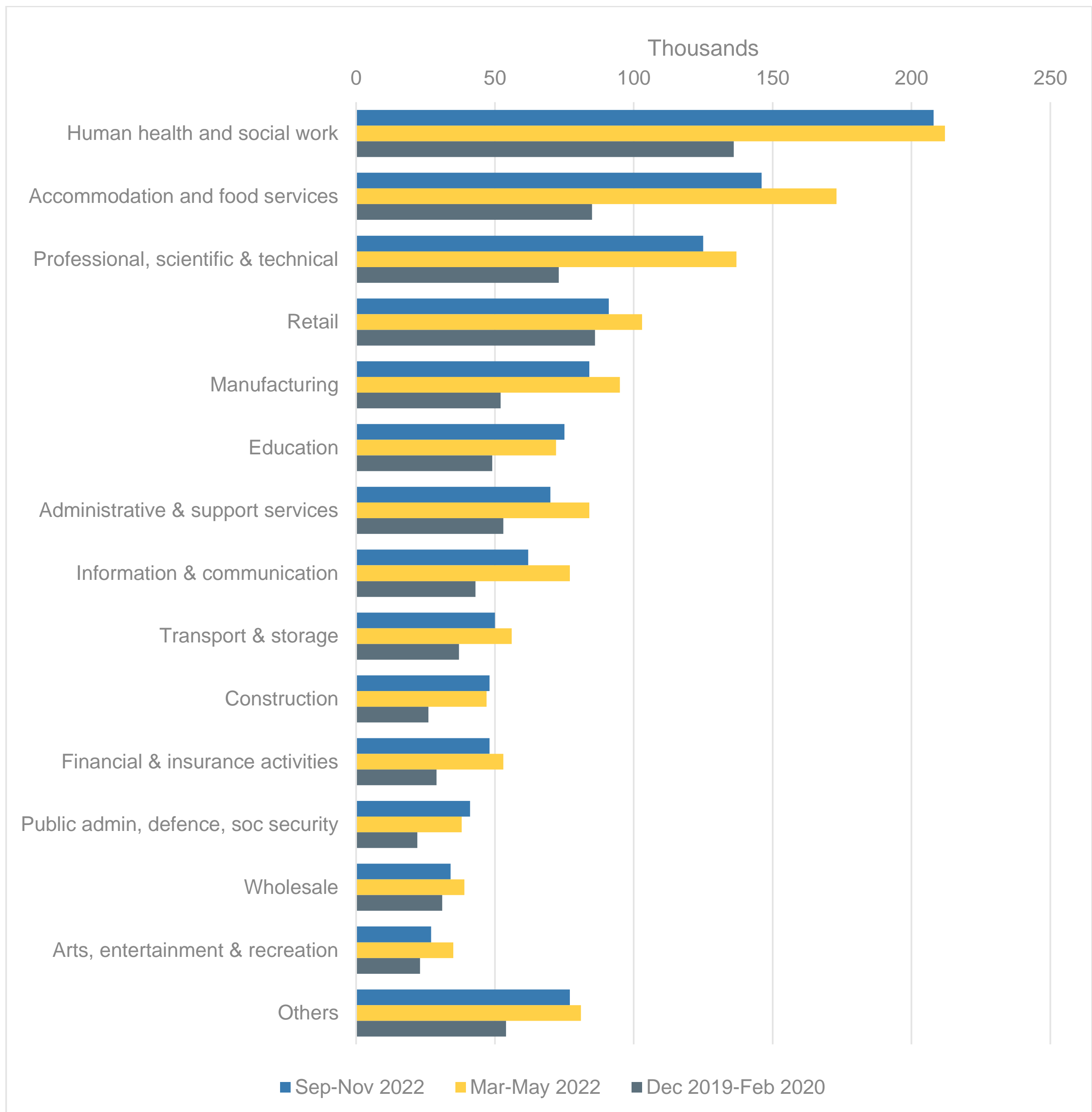


Source: ONS Vacancy Survey

Looking at vacancies by sector also suggests that this may be the start of a slowdown, as vacancies are falling fastest in predominantly private sector industries. Across health, education and public administration vacancies are flat overall, while in all other industries combined they are down by 12% on their peak (the graph shows the latest data in blue, the March-May 2022 'peak' figures in yellow and pre-pandemic figures in black). Falls have been greatest in hospitality (accommodation and food services), technology and administration, but are close to their pre-pandemic levels in retail and in arts and recreation. Vacancies are still up in construction however, perhaps reflecting specific workforce pressures there.

Public sector vacancies remain high likely because of continued labour and skills shortages due in no small part to the very weak growth in public sector pay covered later in the briefing.

Figure 10: Vacancies by industry, pre-pandemic, post-pandemic peak (Mar-May 2022) and most recent quarter (Sep-Nov 2022)



Source: ONS Vacancy Survey

There are further signs of a slowdown in higher short-term unemployment and youth worklessness

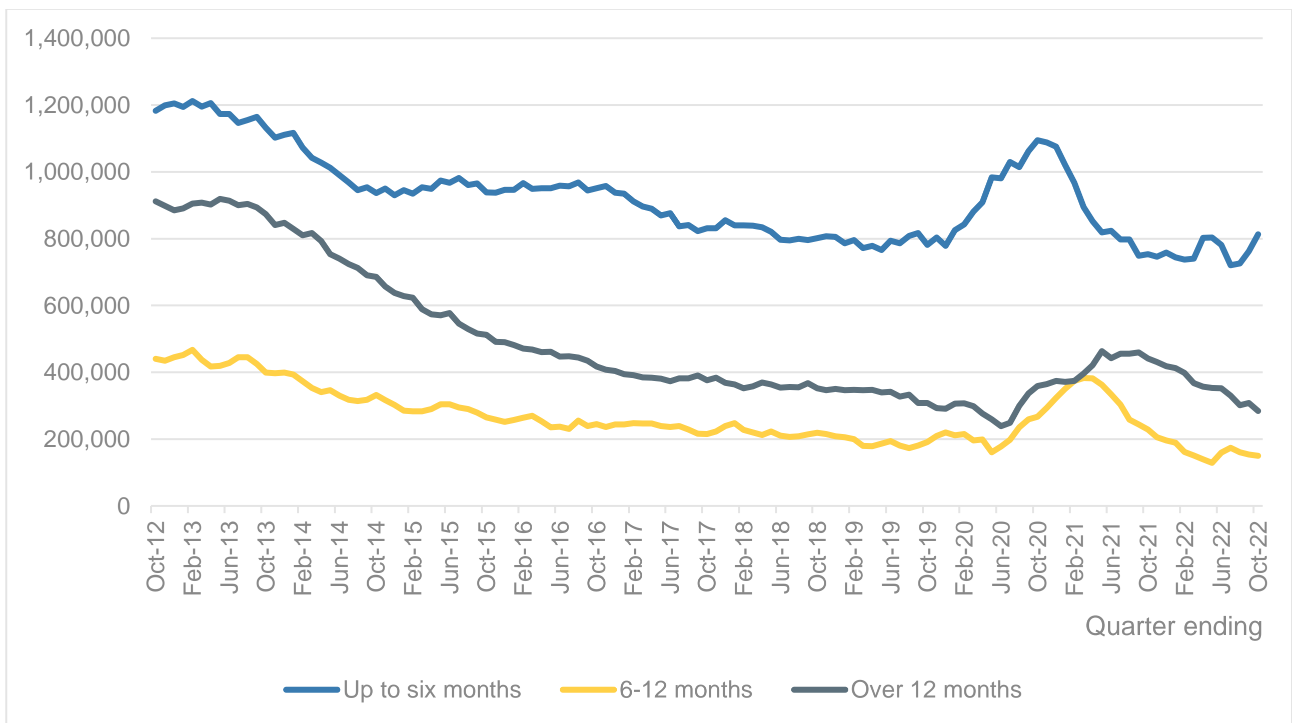
A further sign that this could be the start of a slowdown can be seen in data on unemployment and on young people. On unemployment, Figure 11 below shows that short-term unemployment (under six months) is now rising sharply – up by 95 thousand

on the previous quarter, when it hit its lowest ever level. Unemployment at longer durations however is continuing to fall.

As noted earlier in the briefing, this could reflect more people who are economically inactive joining the labour force – entering unemployment before they then find a job. However it does not appear that this is what is mainly driving this rise, as it has been most pronounced among those aged under 25 (who account for about two thirds of the rise). And as Figure 12 sets out, this is being driven by higher unemployment among people outside of full-time education (the yellow line) but *also* a rise in economic inactivity among this group.

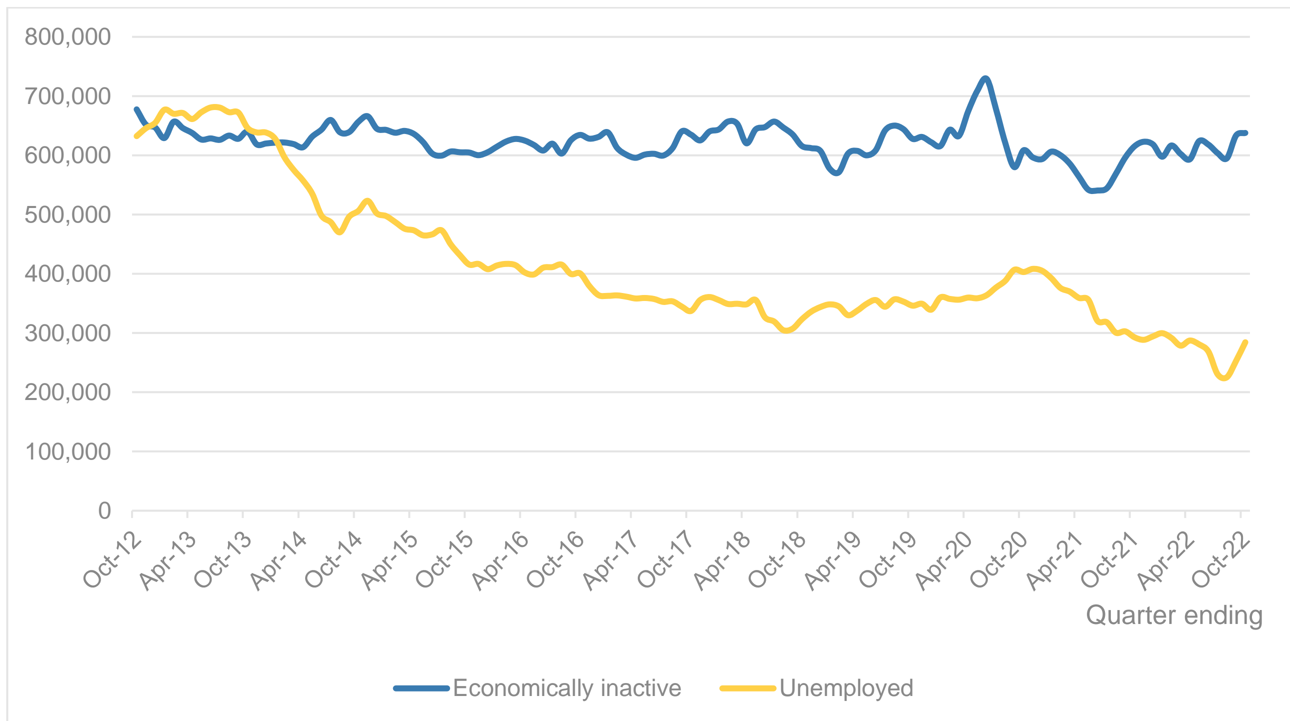
Higher youth worklessness is more consistent with a slowdown in hiring (as young people are more likely than others to be looking for work, and so are particularly likely to be hit when hiring slows), which is consistent with the vacancy data and also what we would expect to see in a wider economic slowdown when the labour market is this tight and labour supply so constrained. It should be stressed however that these indicators do remain low by historic standards and vacancies remain very high.

Figure 11: Unemployment by duration



Source: Labour Force Survey

Figure 12: Number of young people (16-24) who are not in full-time education and either unemployed or economically inactive



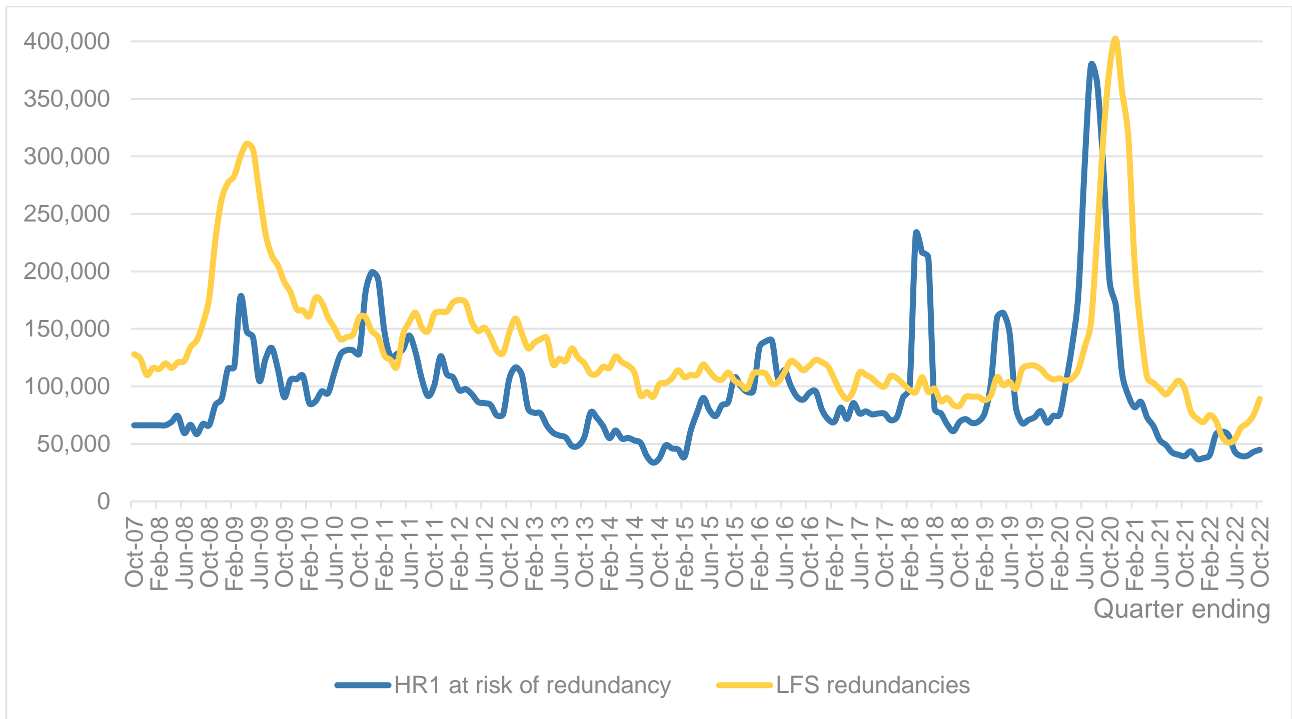
Source: Labour Force Survey

There are also some signs that redundancies may be edging up from their very low levels earlier in the year

While we would expect to see vacancies slow first if there is a downturn, there are also some signs that redundancies may be starting to edge up. This is shown in Figure 13 below, which shows the number of people notified to the Insolvency Service as being 'at risk' of redundancy (through HR1 forms) and the LFS estimate for actual redundancies over the same period. This graph was last included in this briefing over a year ago, as redundancies had fallen to their lowest ever level. However there are signs now that they are picking up again, rising by about two thirds from their trough in the early summer.

Again these figures are still low by historic standards, and there has been no uptick yet in HR1 notifications (which do only cover larger redundancy exercises – so it is possible that this is mainly being driven by smaller firms closing) but it will be important to keep an eye on these figures over the coming months.

Figure 13: Quarterly number of employees notified as at risk of redundancy (HR1 forms) and reporting having been made redundant (Labour Force Survey)

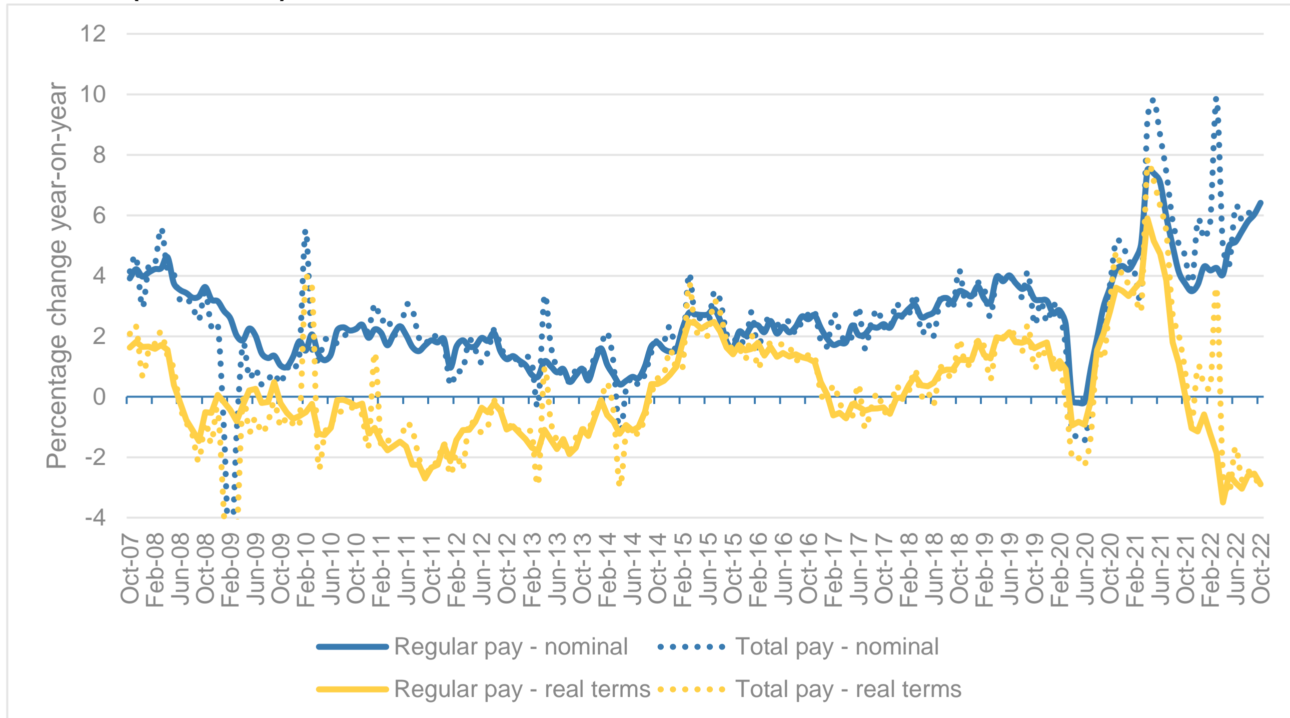


Source: IES analysis of Insolvency Service and Labour Force Survey data

Pay continues to rise by around 6% – but not enough to beat inflation, with public sector pay falling fastest

Finally, if there are signs of the labour market weakening in the employment data, this does not yet seem to be feeding through into weaker pay growth. Year-on-year pay growth remains around 6% (6.0% for regular pay, 6.4% for total pay), which is the highest in at least two decades excluding the post-furlough period. However even-higher inflation means that real terms pay is continuing to fall – with real pay down by 3%, and regular pay in real terms having fallen now for twelve consecutive months. These trends are shown in Figure 14 below.

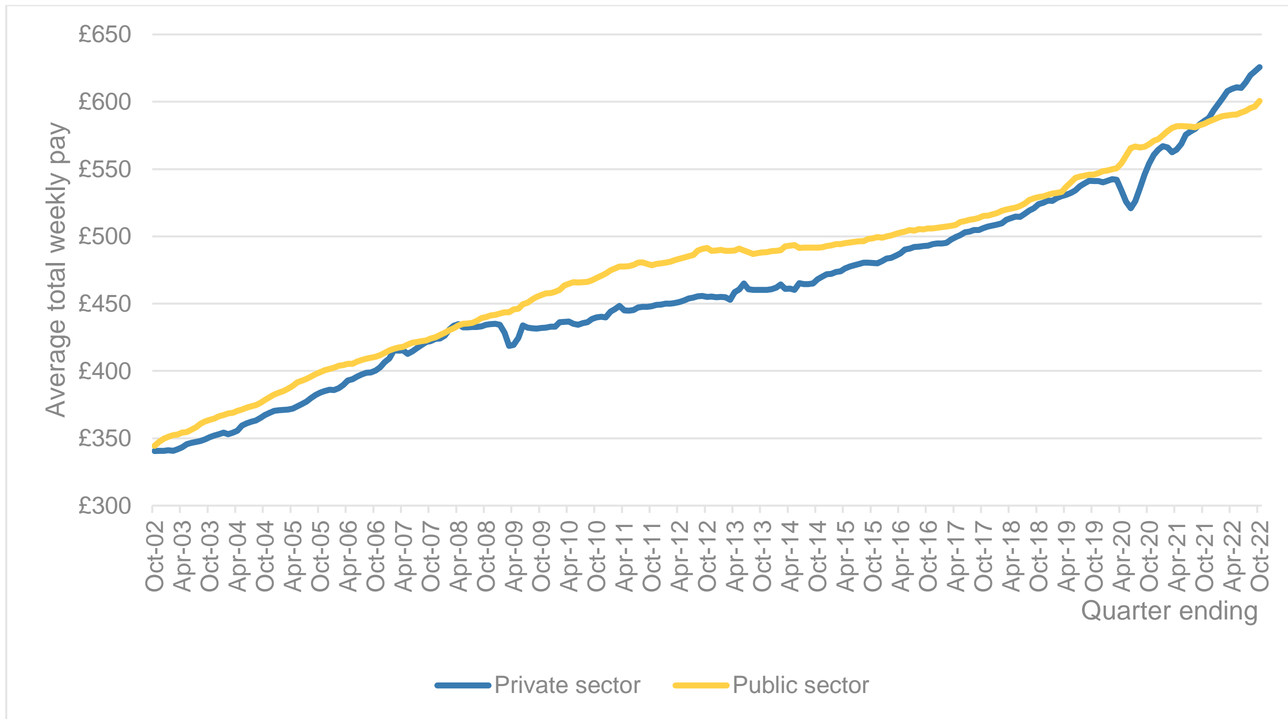
Figure 14: Year-on-year change in regular and total pay – nominal terms and adjusted for inflation (real terms)



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

Again as with recent months though, we continue to see divergent trends between public and private sector jobs – with regular pay in the private sector rising by 7.0% year on year and pay in the public sector up by 3.9% (a slight improvement on recent months, but still a significant real terms fall). This means that the gap between average public and private sector pay continues to grow, as Figure 15 below shows. It seems increasingly likely that this is contributing to the very high levels of vacancies that we are seeing in public services, and to recruitment and retention challenges more broadly. And these pressures will inevitably only get worse if public sector pay awards continue to be held below the 6-7% range that we are seeing in the private sector.

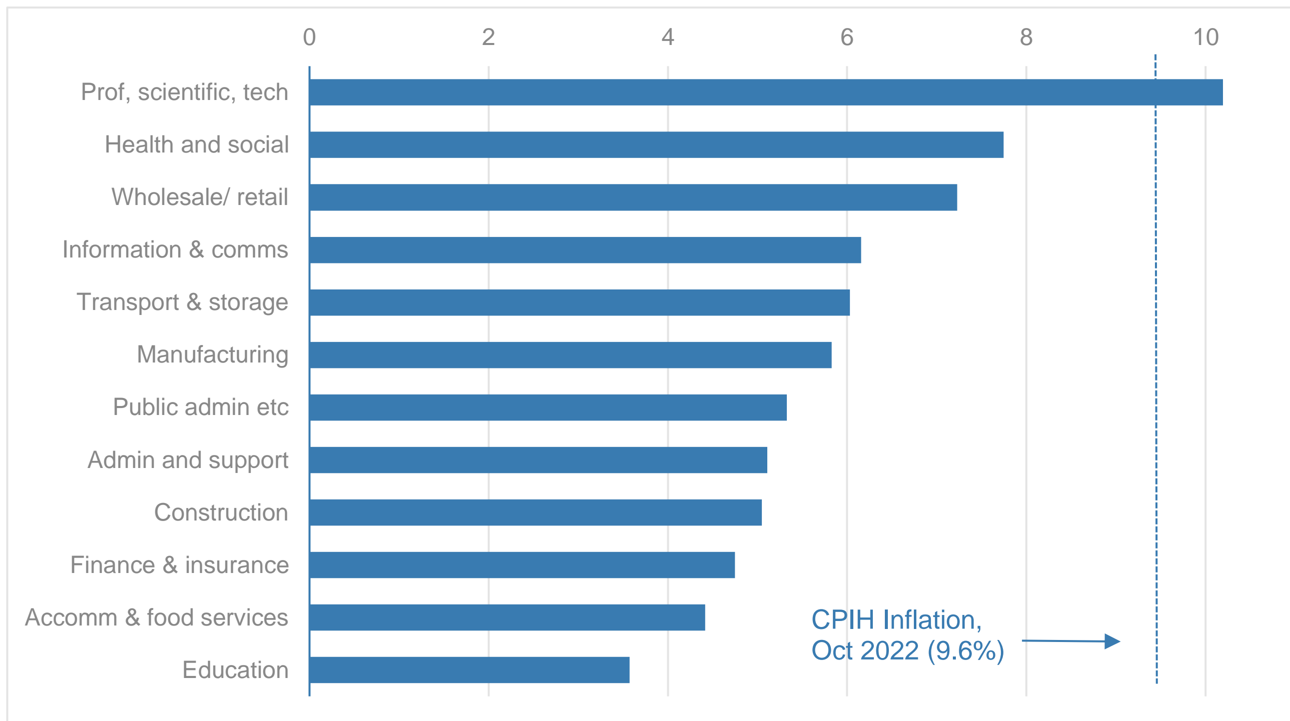
Figure 15: Average total weekly pay in the private and public sectors



Source: ONS Monthly Wages and Salaries Survey. Figures show total weekly pay including bonuses, in nominal cash terms (not accounting for inflation).

Looking more broadly at pay growth by industry, Figure 16 shows that average year-on-year pay growth over the last three months was slightly above inflation in 'professional' jobs (a category that includes accountancy, engineering, consultancy and other professions) but was below inflation in every other category. Pay growth in education was particularly weak at 3.6%. As noted last month, growth in health and social care is unusually high due to very large month-on-month increases between August and September. Most other industries are seeing rises of 5-6%.

Figure 16: Year-on-year change in total 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 total pay including bonuses and arrears for August-October 2022 (not seasonally adjusted).

Conclusion

Behind the broadly flat picture overall, there are early signs of a slowdown in hiring and possibly also of rising redundancies. Nonetheless vacancies remain very high by historic standards, and there are still around three million people out of work who want a job (1.73 million of whom are economically inactive and 1.25 million unemployed). Our inability to fill these jobs is contributing to the wider slowdown in the economy and is holding back growth and incomes.

It is welcome that the government announced last month a review into how we can help more people who are economically inactive to get into work, but it is important now that we follow through on that. In the short term, the top priority should be to reinvest some of the £2 billion underspent on Plan for Jobs measures that were announced during the pandemic, particularly by extending access to the Restart Scheme for people who want to work, have been out of work for more than a year and who either have a long-term health condition or are over-50; as well as bringing forward the Shared Prosperity Fund to enable the many community-based and local employment schemes that support those further from work to keep their doors open.

Employers need to do more too, and be supported to do more. In particular this means making work more flexible – with demand for flexible working being a golden thread that

unites pretty much all of those who are 'economically inactive' and want a job (parents returning to work, disabled people, older people, those with health conditions and students). Our research with Timewise published last month shows that there is extensive demand for good quality, flexible work which simply is not being met. Alongside this, employers also need to recruit differently (more quickly, with simpler language and processes, and greater local partnership working) and do more to make work more supportive and secure.

In the longer term, we believe that there is a real opportunity over the coming year or so to develop evidence-led proposals for longer-term reform that can help us to address the challenges that we're facing now and meet the opportunities that the future will bring. We launched last month a new Commission on the Future of Employment Support to develop proposals on this, and the Call for Evidence for the Commission is open until 30th January 2023. Please do get in touch if you want to be involved, at www.bit.ly/employment-commission and www.bit.ly/call-for-evidence.

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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