ies Briefing

Institute for Employment Studies

Labour Market Statistics, May 2024

14 May 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 to January-March 2024. This month also sees publication of quarterly LFS estimates of employment for disabled people, ethnic minority groups and for those born outside of the UK, as well as estimates of over- and underemployment.

In addition to LFS analysis, the briefing includes as usual 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 April 2024, and the Wages and Salaries Survey to March 2024.

Summary

No news is bad news in today’s jobs data. Estimates of employment, unemployment and economic inactivity are almost identical to the figures published last month, which is very disappointing given how bad last month’s figures were. The employment rate remains stuck at its lowest since 2017, while economic inactivity is at its highest in nearly a decade. The last few years have seen the most significant and prolonged contraction in the size of the labour force since the late 1980s recession, which is holding back growth and undermining improvements in living standards.

Overall, there are now 900 thousand more people out of work than before the pandemic, with this continuing to be explained by more people off work due to long-term health conditions, more older people out of work and fewer young people in work. This is happening despite 900 thousand unfilled jobs in the economy and continued strong growth in earnings. On the former, vacancies appear now to be levelling off and remain

well above pre-pandemic levels in almost all parts of the economy (the main exceptions being retail, transport/ storage and the arts/ entertainment). On the latter, if anything earnings growth has picked up again since the turn of the year – particularly driven by many lower-paying industries where rises in the National Living Wage will likely lead to continued strong growth through the spring. Short-term unemployment and redundancies also remain flat, reiterating that weak labour supply is holding back demand rather than the other way round.

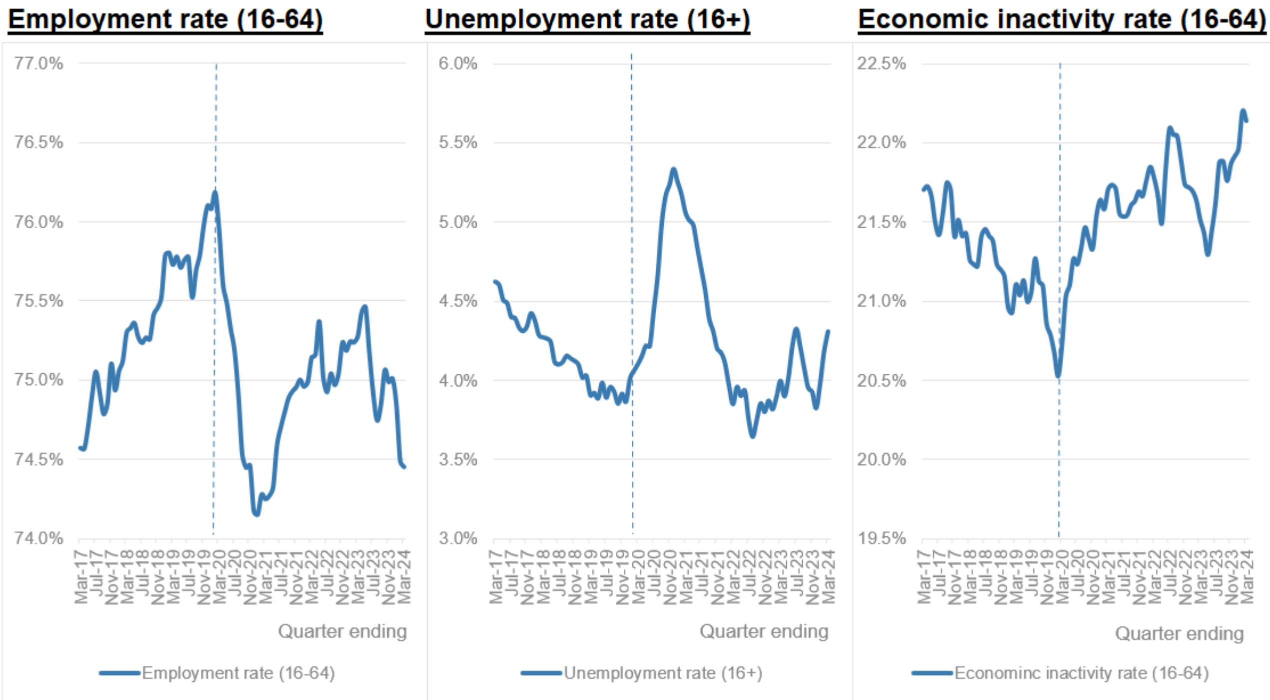
For those *in* work however, there are signs that more people are able to get the hours and the form of employment that they want – with the number of people either overemployed or underemployed (i.e. working more or fewer hours than desired) at its lowest in nearly twenty years; the number in temporary work because they can't find a permanent job its lowest since at least the early 1990s; and fewer in part-time work because they can't find a full-time job than since the eve of the financial crisis. However while all of this is welcome news, it is of no benefit to the growing numbers who are outside the labour force entirely.

Today also sees new data on employment by place of birth, which comes with health warnings (like other LFS data), but suggests that if anything things could have been even worse had it not been for significant increases in employment among those born outside the UK – with employment down by 600 thousand for people born in the UK but offset by growth of 600 thousand for those born overseas (and specifically from outside of the EU). To be clear, low unemployment and high vacancies means it is very unlikely that higher migration has contributed to lower employment for people born in the UK. Rather, lower migration would likely have simply led to lower employment overall and therefore an even weaker economic recovery and even higher vacancies. It reiterates though the importance of doing more and doing better at meeting labour and skills shortages in future, especially given recent changes to visa rules and salary thresholds.

No news is bad news, with continued poor figures on employment, unemployment and economic inactivity

Unfortunately, today's figures are almost identical to those published last month – with the employment rate again at 74.5% (down by 0.8 percentage points on this time last year), unemployment at 4.3% (up by 0.3 points on a year ago) and economic inactivity 22.1% (up by 0.6 points over the year). As we have said previously, the ONS has cautioned users not to read too much into short term changes in the LFS due to falls in response rates, so the fact that the headline indicators remain so weak after the large falls that we saw last month is disappointing. Figure 1 below sets out these three main indicators over the last seven years. Given uncertainties with the data, it is still too early to judge whether things have got significantly worse in recent months, but today's data does suggest that if anything the employment rate is edging down and economic inactivity edging up.

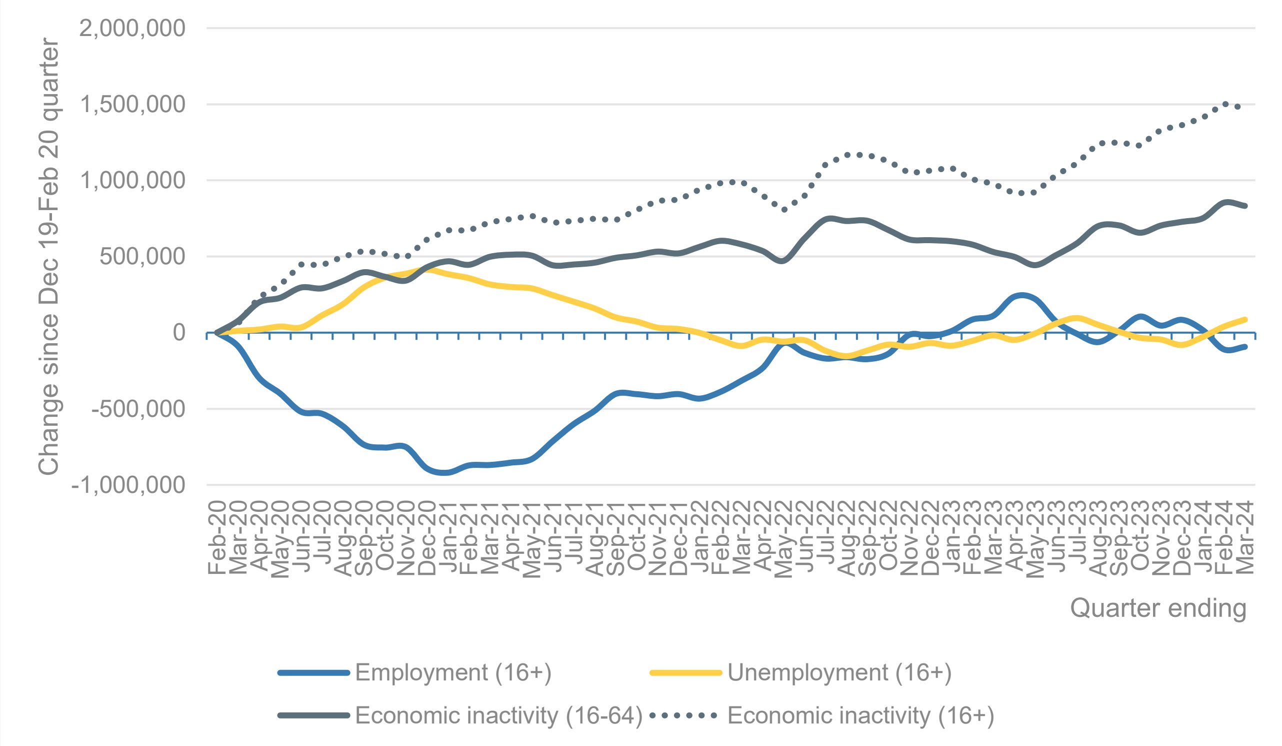
Figure 1: Employment, unemployment and economic inactivity rates (%)



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

Over this period the adult population has continued to grow, meaning that while the employment *rate* has fallen since 2020 the overall *level* of employment is almost exactly the same as it was before the Covid-19 pandemic began (down by around 90 thousand). Unemployment too is broadly where it was in 2020 (up by around 90 thousand). However this means that the level of economic inactivity has risen significantly, with 830 thousand more people outside of the labour force than four years ago (among those aged 16-64, with the figure rising to 1.48 million when those aged 65 and over are included). These trends are set out in Figure 2 below.

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

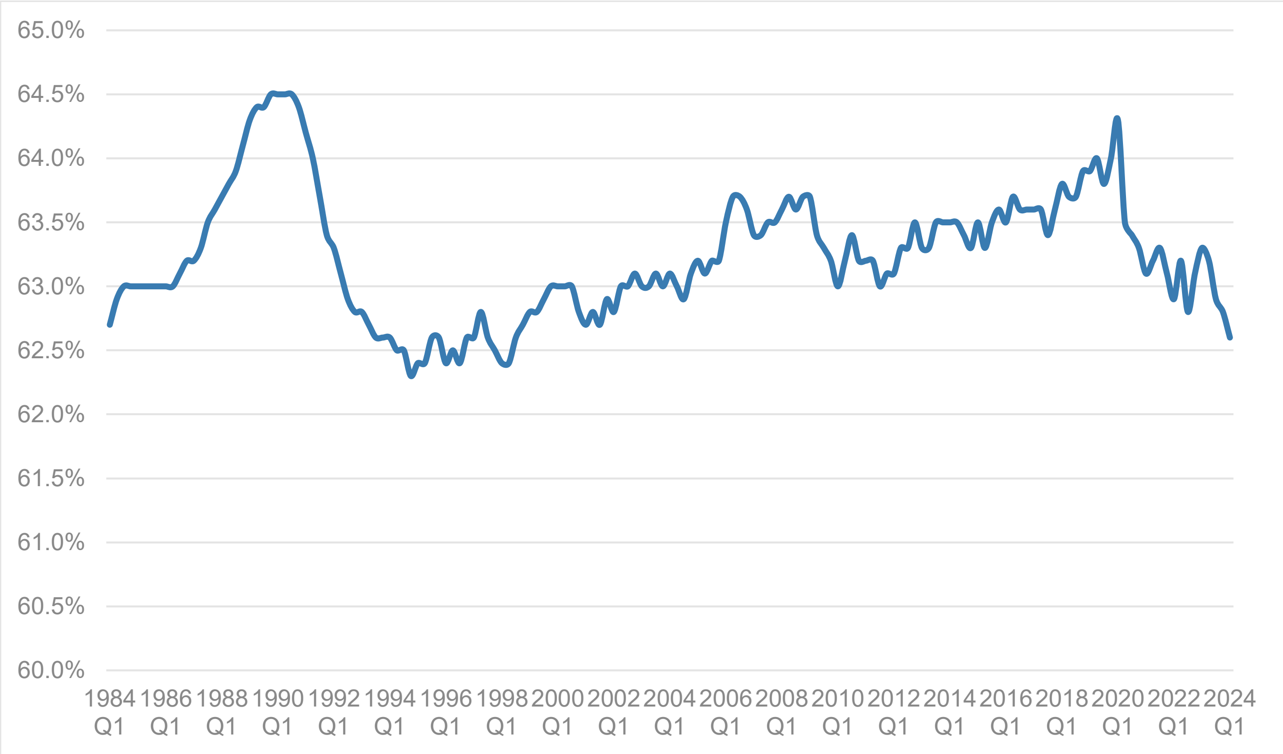


Source: Labour Force Survey

We set out in [last month's briefing] that trends since the pandemic have been in stark contrast to what has happened over recent decades – which have seen the size of the labour force (the number of people employed or unemployed) grow pretty much continuously, through recession and recovery, since the mid 1990s. More demand or changes in demand have invariably been met with more supply, which has helped to compensate for lacklustre growth in productivity.

However, it is also the case that the scale of the fall in economic activity *rates* – i.e. either employed or unemployed – is also without precedent in our recent history. This is most pronounced when looking at the economic activity rate for people aged 16 or over (so including those aged over 65), which is set out in Figure 3 below. This shows that the economic activity rate rose by nearly two percentage points from the mid 1990s to the eve of the pandemic, but these improvements have been all but wiped out over the last four years. This is around three times the size of the fall that we saw during the 2008/9 financial crisis, although it is dwarfed by the falls during the recession of the late 1980s.

Figure 3: The size of the labour force since 1993: economic activity rate (share of population either employed or unemployed) for people aged 16 and over



Source: Labour Force Survey

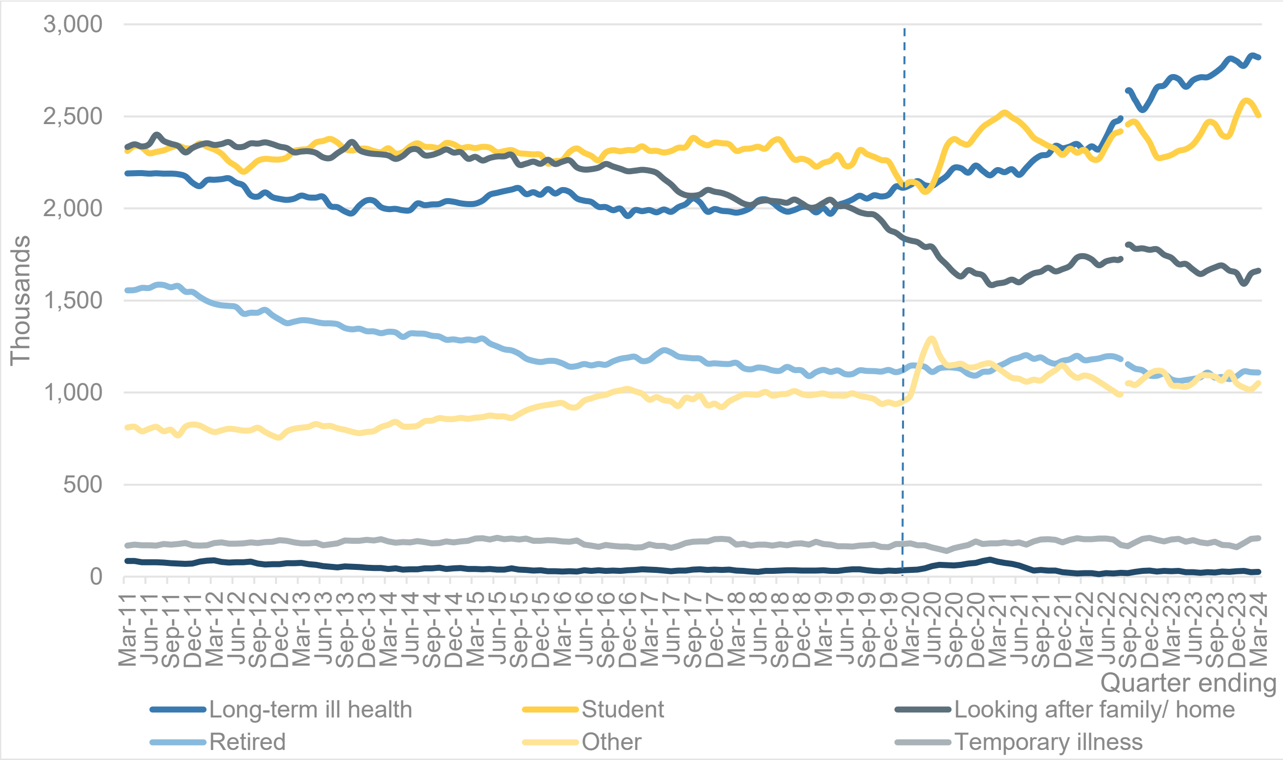
More people are off work due to ill health, more older people are out of work and fewer young people in work

As ever, and as discussed in previous briefings, the growing number of people outside the labour force continues to be driven by three main factors: more people off work due to long-term health conditions (at all ages), fewer young people in work and more older people out of work.

Figure 4 below shows the number of people outside of the labour force by the main reason given, which illustrates that long-term health conditions continue to explain most of the rise – up by more than 700 thousand since early 2020 to 2.82 million. The number of non-working students is also up significantly, by around 380 thousand, and around 100 thousand more people are off work for 'other' reasons (which includes people who may be waiting for a job to start, or who say that they don't need a job). Meanwhile there are 180 thousand fewer people off work because they are looking after their family or home –

reflecting the fact that we are having fewer children, having children later, and often more able to combine work and care[1].

Figure 4: Economic inactivity by main reason given

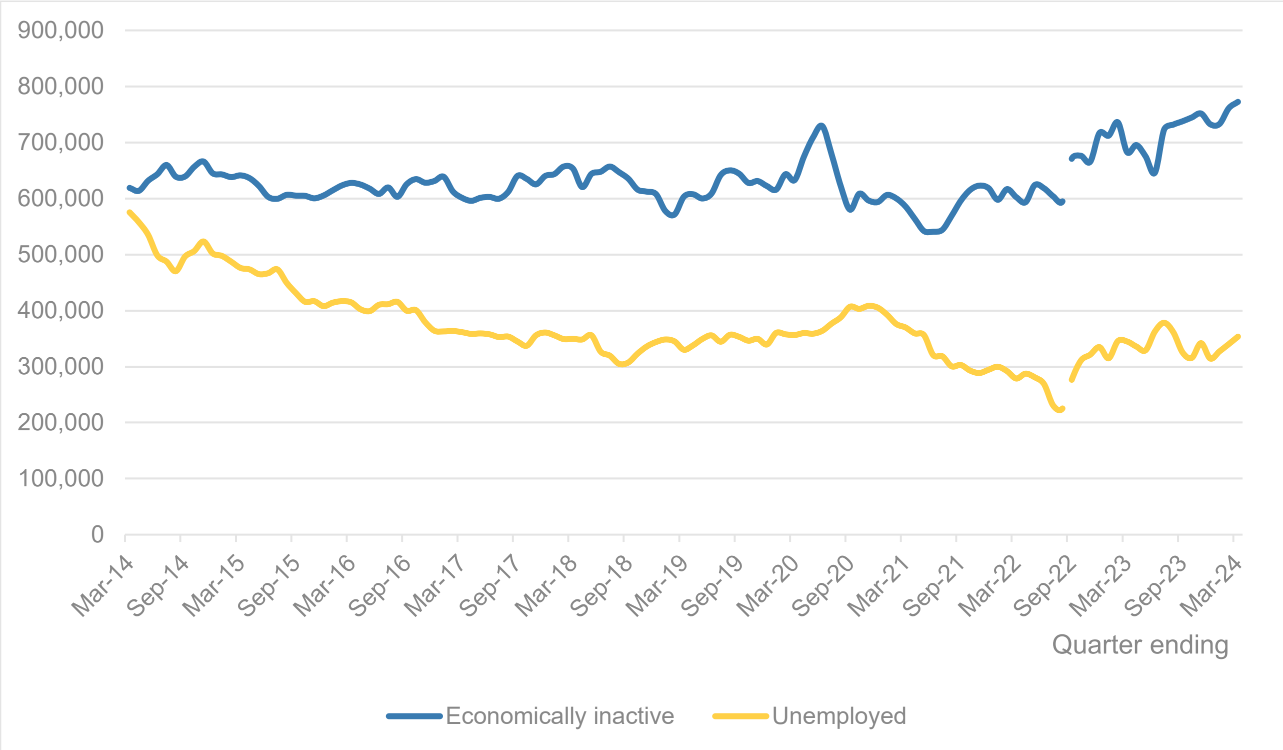


Source: Labour Force Survey. Note that data from July to September 2022 onward has been reweighted, causing a step change discontinuity.

As discussed in the last few briefings, rises in economic inactivity among young people are particularly due to more non-working students but are not solely driven by this. We have also seen steady and worrying increases in the number of young people neither in the labour force nor in education, which have continued in today's data. This is illustrated in Figure 5 below, which shows that there are now 770 thousand young people who are economically inactive and not in full time education, which is once again both the highest level and highest rate since comparable records began in 1992 (and around 140 thousand higher than in early 2020, although the discontinuity in this data series means that the figures are not directly comparable). The number of young people unemployed and not in education remains relatively low, at 350 thousand.

[1] Note that this data series has not been updated with new population estimates for the period before autumn 2022, which creates a discontinuity in the data and means that figures for 2020 are not directly comparable.

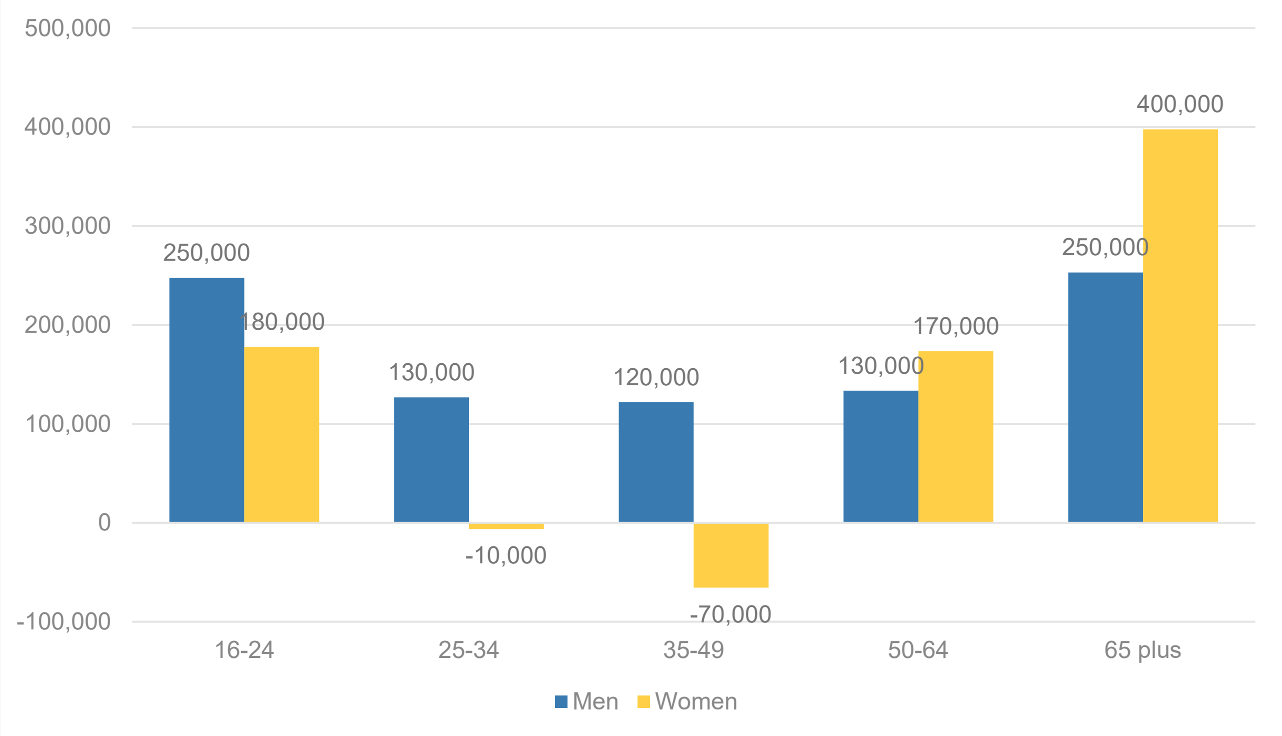
Figure 5: Number of young people not in full-time education or employment, by whether unemployed or economically inactive



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

Figure 6 below then shows changes in economic inactivity by age and gender since the start of the Covid-19 pandemic. This data series *has* been fully reweighted, and shows that overall there are 430 thousand more young people outside the labour force than four years ago (with between two thirds and three quarters explained by more non-working students and the remainder by more people neither in education nor employment), 300 thousand more people aged 50-64 not in the labour force, and 650 thousand more aged 65 and over (which as we set out last month reflects a growing population – with employment rates for those over 65 broadly flat). Meanwhile for those aged 25-49 we see the combined and gendered impact of higher worklessness due to ill health and lower worklessness due to caring responsibilities – with these factors more than offsetting each other for women, leading to falls in economic inactivity, but not offsetting for men, leading to rises.

Figure 6: Change in 'worklessness' (unemployment plus economic inactivity) by age group and gender since start of Covid-19 pandemic (December 2019-February 2020 quarter)



Source: Labour Force Survey.

Most employment 'gaps' have narrowed in the last year, with employment falling less for disadvantaged groups

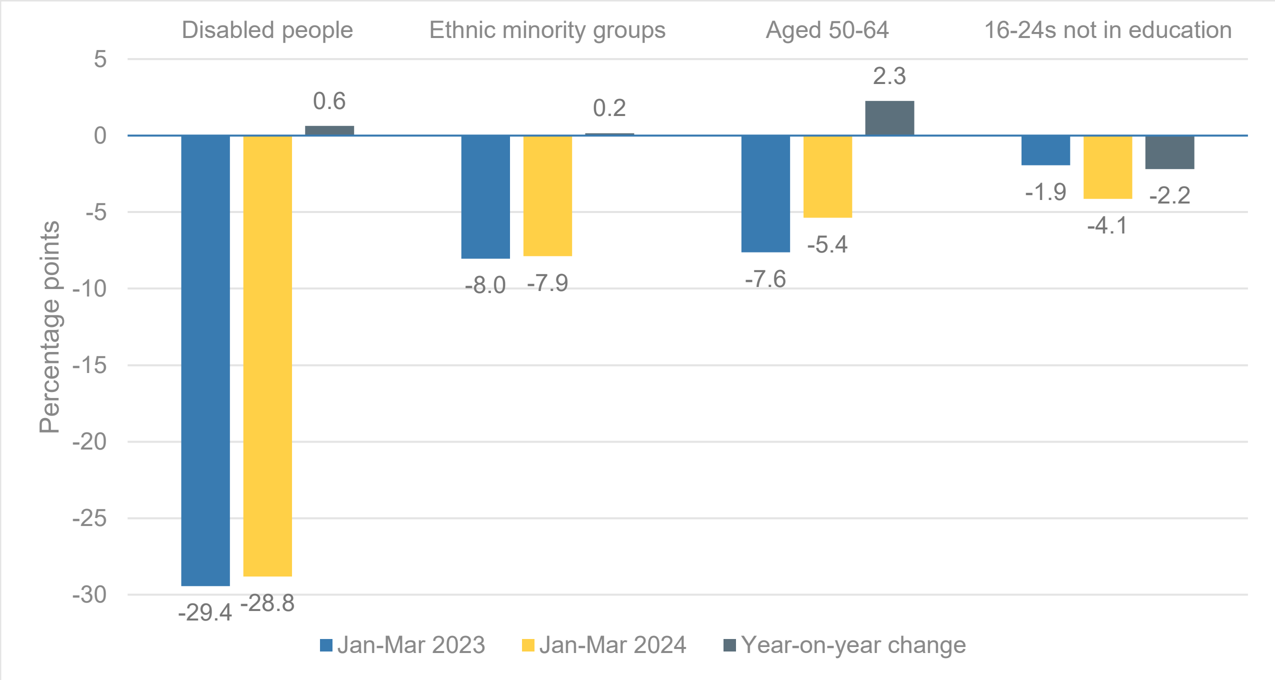
Today's release also includes new quarterly data on employment for disabled people and ethnic minority groups, which means that we can update our analysis of employment 'gaps' for disabled people, ethnic minority groups, people aged 50-64 and young people outside of full-time education (i.e. the gap between the employment rate for each group and for the wider population not in that group).

These are shown in Figure 7 below. Unfortunately the data for disabled people, ethnic minority groups and young people outside of full-time education has not been reweighted past autumn 2022, so we have withdrawn the comparison with pre-pandemic periods (although as we said three months ago, it remains our view that the discontinuity is unlikely to much affect employment *rates*, rather than levels). Instead this graph now shows the gap currently (first quarter of 2024) and a year ago (Q1 2023), and the percentage point change between those two points.

There is a mix of good news and bad news here – positively, employment gaps have closed for two of the four groups (disabled people and older people), are largely unchanged for ethnic minority groups, and have risen only for young people outside of full-time education. However less positively, many of these gaps remain very wide, and for young people in particular quite a large gap is now emerging where as recently as

2019 there was no gap at all (with health warnings about the data discontinuity etc). It should also be noted that it is a 'falling tide' that is closing these gaps – i.e. employment has fallen faster over the last year for non-disabled people, white people and people aged 16-49 than it has for disabled people, ethnic minority groups and those aged 50-64.

Figure 7: Employment rate 'gaps' for disabled people, ethnic minority groups, those aged 50-64, and young people not in full time education: Jan-Mar 2023 and Jan-Mar 2024



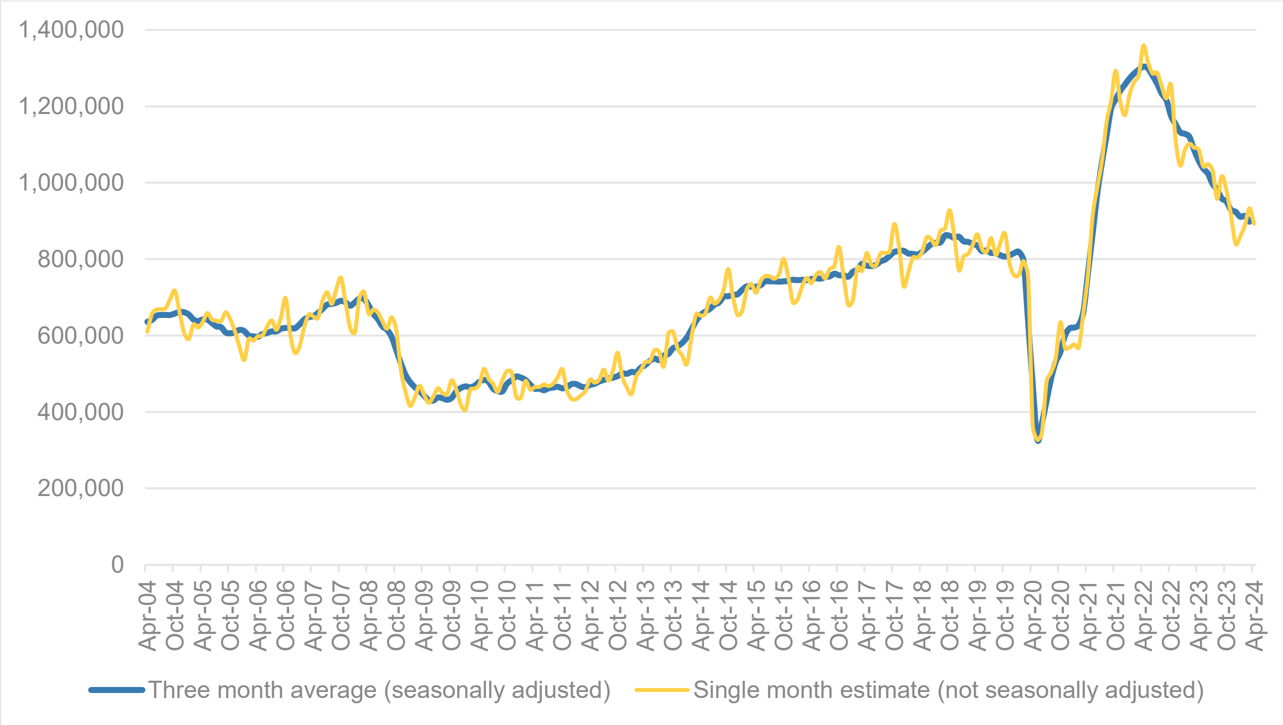
Source: IES analysis of Labour Force Survey. Gaps are calculated as the percentage point difference in employment rates between the rate for the disadvantaged group and the rate for the overall 16-64 population excluding that group.

Vacancies are levelling off at around 900 thousand unfilled jobs, but were a little disappointing today

While the labour force data was very disappointing today, wider indicators on vacancies, redundancies and wages were more positive. On vacancies, the significant falls over the last two years – from a stratospheric peak of 1.3 million in February-April 2022 – have continued to ease up, with vacancies appearing likely to level off at around 900 thousand. Today's data was slightly disappointing, in that last month actually saw a slight increase compared with the figure reported the month before, while today has seen a slight decrease again (mainly due to slight recent falls in manufacturing, retail and healthcare).

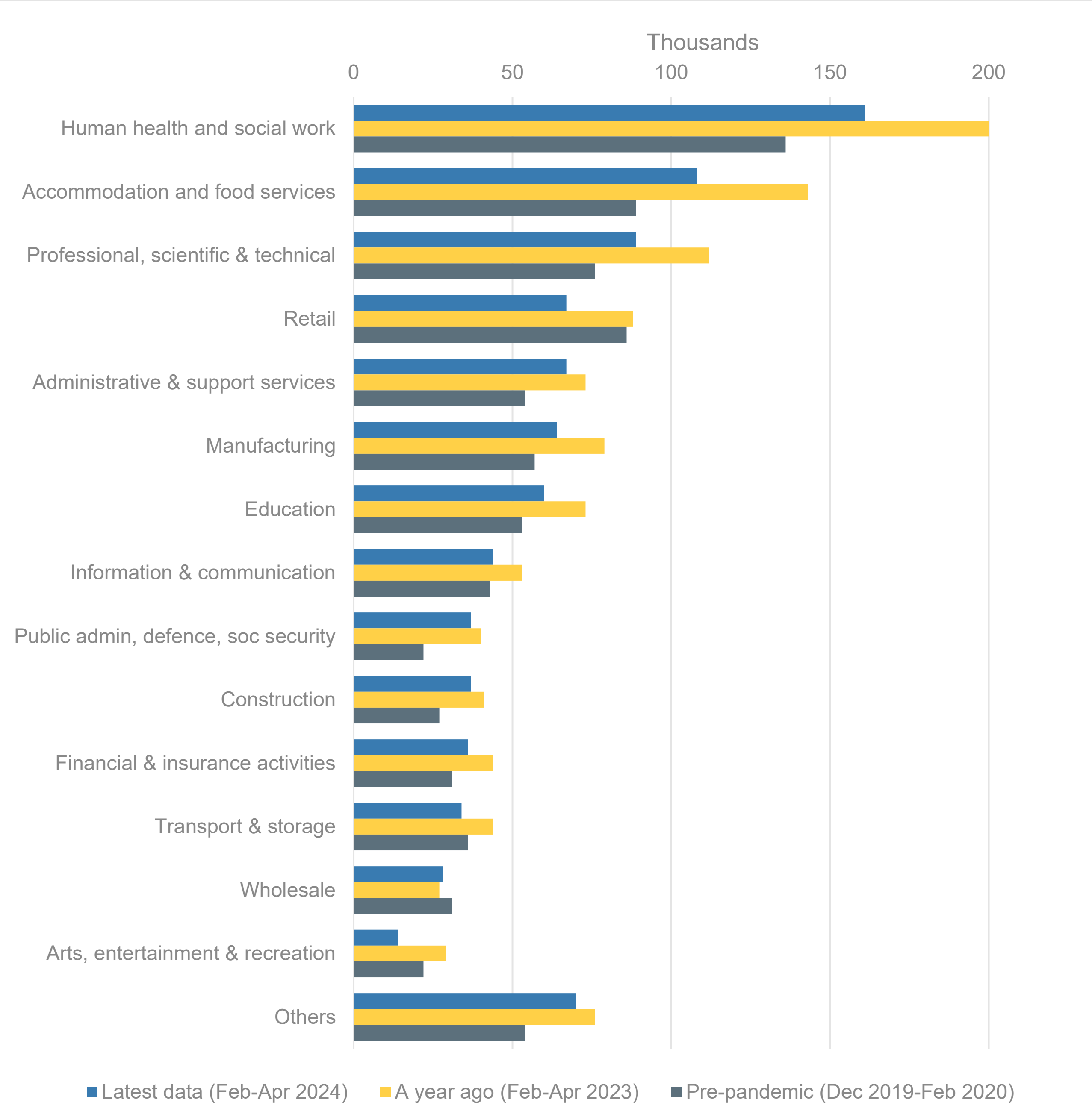
Nonetheless, the trend appears to be clear now that vacancies will settle well above their pre-pandemic peak. Figure 8 illustrates this, showing the headline quarterly estimate (in blue) and latest monthly estimates (in yellow, which are not seasonally adjusted). Looking by industry, Figure 9 shows that vacancies are down across the economy compared with a year ago (blue and yellow), but are at or above pre-pandemic levels in every industry except for retail and wholesale, transport and storage, and arts, entertainment and recreation.

Figure 8: Vacancies – quarterly and single-month estimates



Source: ONS Vacancy Survey

Figure 9: Vacancies by industry: latest data (Feb-Apr 2024), a year ago (Feb-Apr 2023) and pre-pandemic (Dec 2019-Feb 2020)

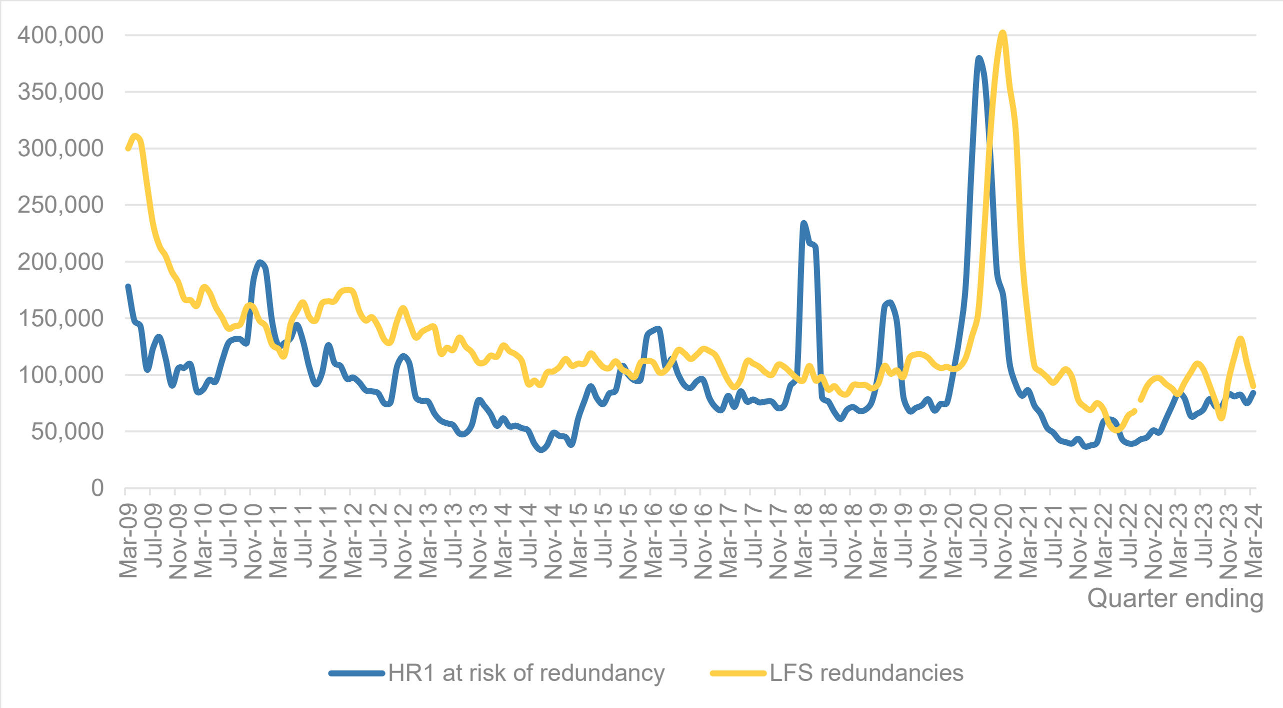


Source: ONS Vacancy Survey

Redundancies remain very low, while short-term unemployment is also broadly flat

There is also little sign in recent data that more people are leaving jobs, with redundancies at or below pre-pandemic levels and short-term unemployment broadly flat. Figure 10 below sets out 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 both indicators are in line with pre-pandemic levels.

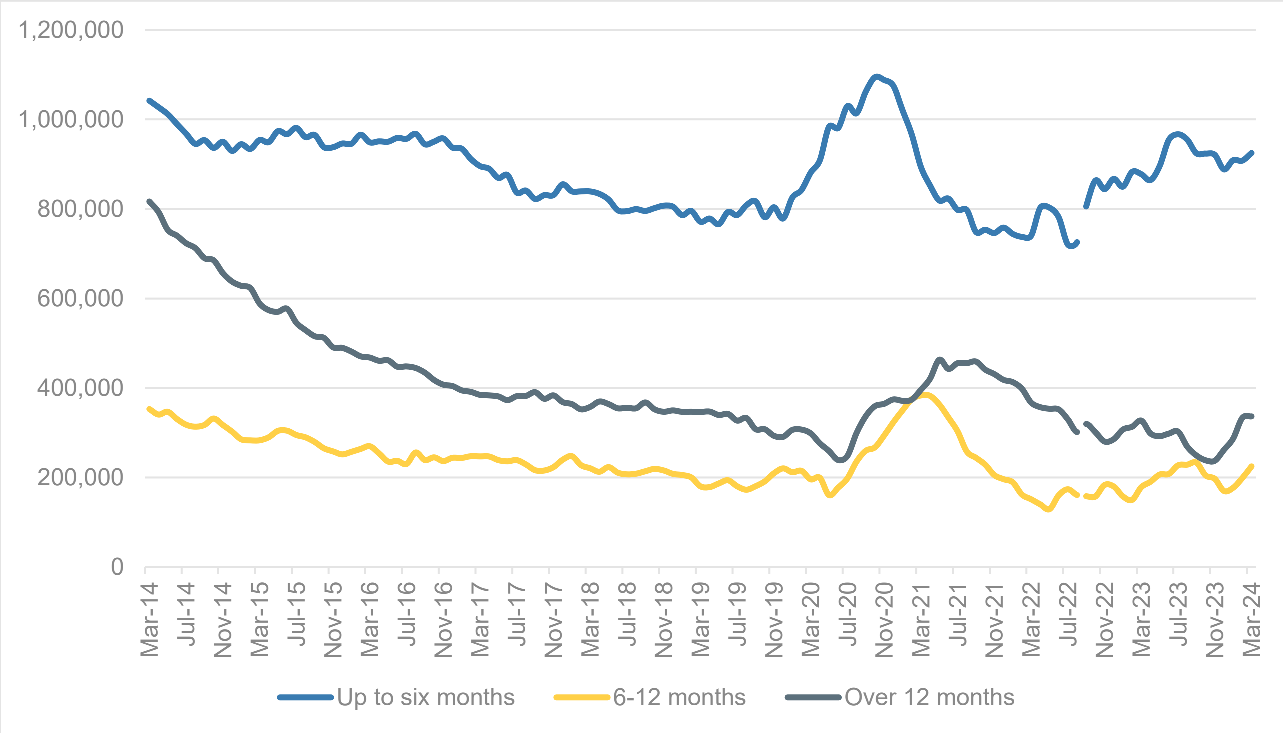
Figure 10: Quarterly number of employees notified as at risk of redundancy (HR1 forms) and reporting having been made redundant (Labour Force Survey)



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.

We noted last month that the sharp and unexpected rise in unemployment was being driven by long-term unemployment rather than short-term, and so was very unlikely to reflect any change in the economy. That remains the case in today’s data, with Figure 11 showing that short-term unemployment (the blue line) remains around 900 thousand – higher than it was two years ago and immediately pre-pandemic, but broadly in line with longer-term trends, while longer-term unemployment has ticked up more recently (particularly for those out of work for a year or more, shown in the black line). Again then, little sign that the economy is driving worklessness, and more evidence that better access to employment support could help make a difference.

Figure 11: Unemployment by duration

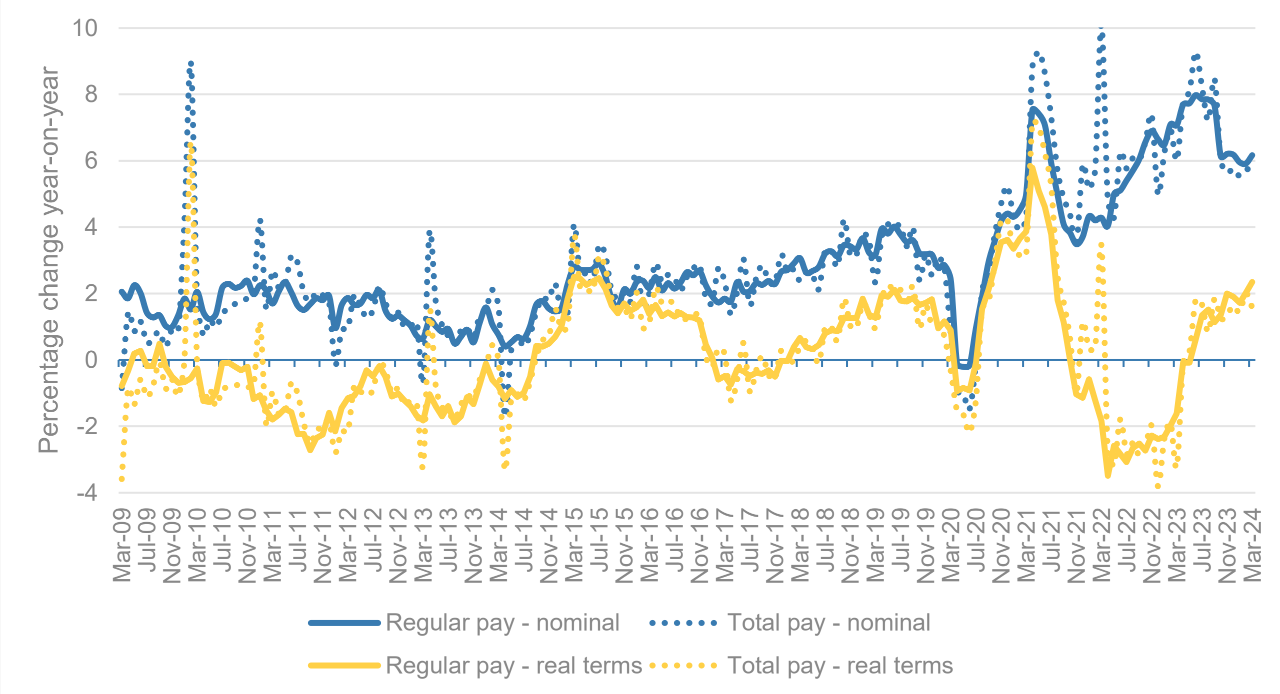


Source: Labour Force Survey. Note that data from July to September 2022 onward has been reweighted, causing a step change discontinuity.

Pay growth appears to be edging up again, with nominal pay growth above 6% and real pay above 2%

In other positive news, pay growth continues to be strong – with regular pay (excluding bonuses and arrears) 6.2% higher in March 2024 than March 2023, and pay in 'real' terms 2.3% higher, i.e. after taking account of inflation. This is 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 little by little, average pay is edging above its previous peaks – now £13 per week higher in real terms than on the eve of the pandemic, and £10 per week higher than its previous peak in late 2007.

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

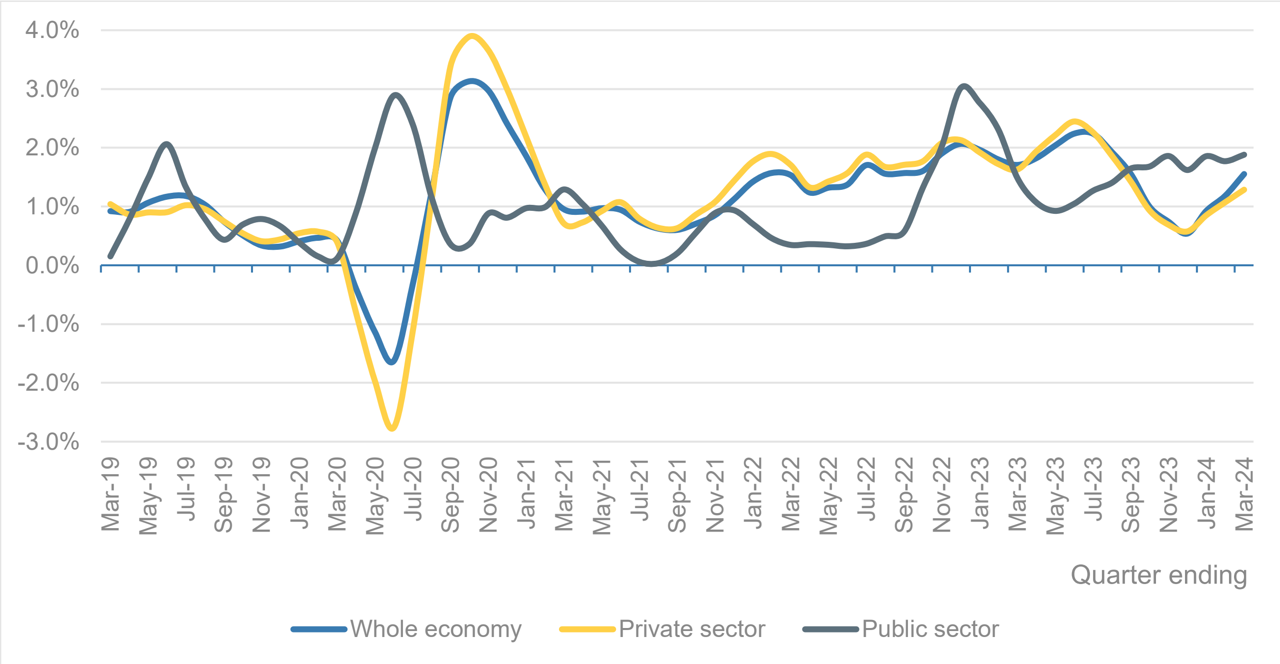


Source: ONS Monthly Wages and Salaries Survey. Regular pay excludes bonuses and arrears; measure shown is year-on-year change in single month estimate.

Looking at more recent quarterly changes, if anything pay growth appears to be picking up – with pay rising by 1.6% between October-December 2023 and January-March 2024, compared with growth of 0.5% over the previous quarter (July-September to October-December). These quarterly trends are shown in Figure 13 below, with quarterly public sector pay growth in black, private sector in yellow, and the whole economy in blue. This means that even on the most recent data, annualised pay growth is now back above 6% - and means that we should see continued strong growth into the summer especially if inflation continues to fall.

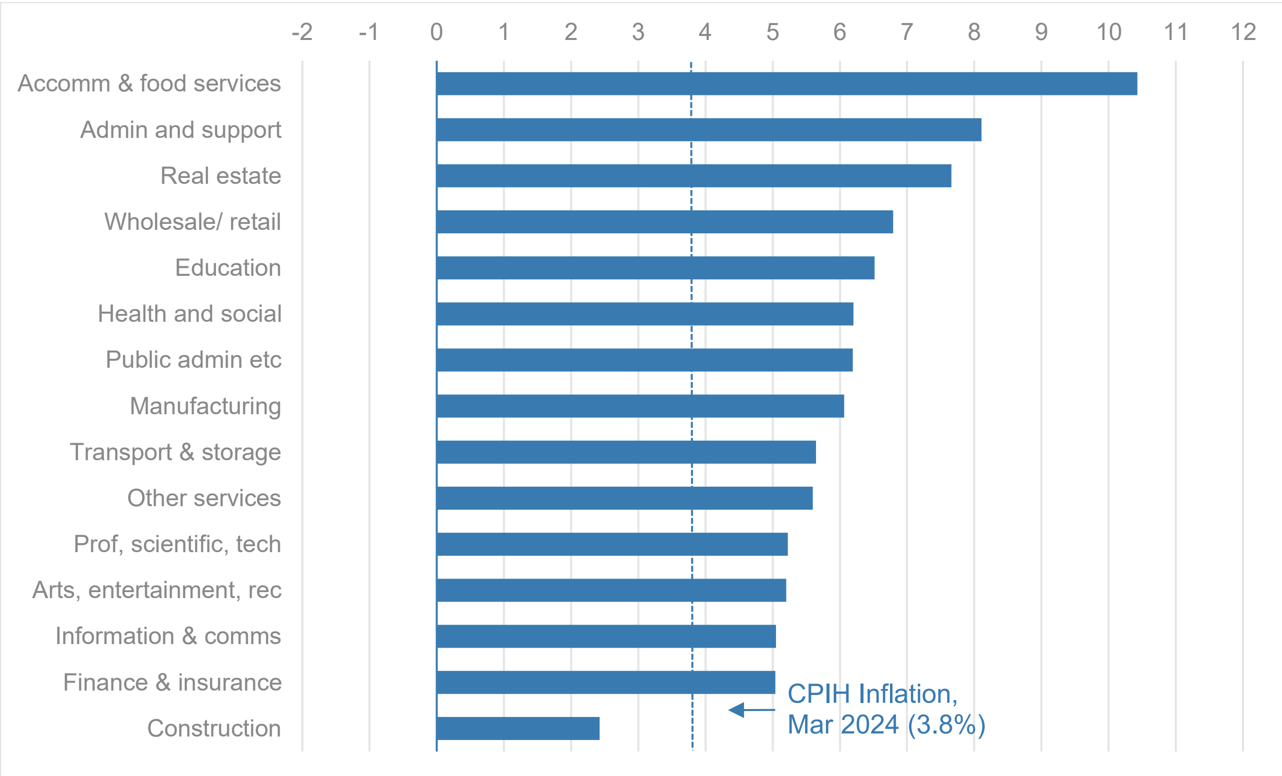
Figure 14 then shows pay growth by sector, which shows that pay is rising faster than inflation in virtually all industries (with the continued exception of construction, where wage growth has been pretty subdued since late autumn). Elsewhere, pay growth appears to be particularly strong in industries that are traditionally lower paid – hospitality, retail and administrative and support services – which is likely to continue in the coming months given the 9.8% increase in the National Living Wage in April. As we have said before though, variations in pay growth by industry seem to bear little relationship to relative tightness or slackness in demand, or at least as far as we can tell from vacancy data (we will look at this in a bit more detail in next month's briefing).

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.

Figure 14: Year-on-year change in regular pay by industry, nominal terms



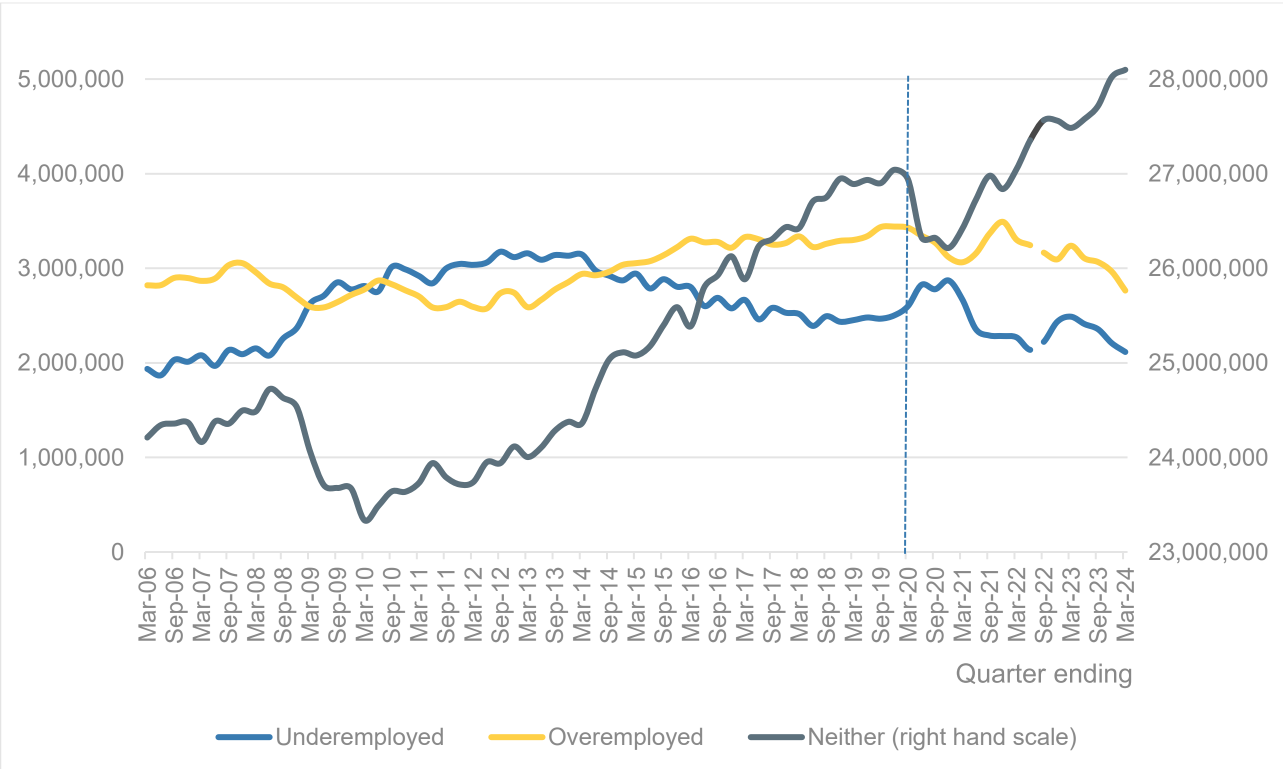
Source: ONS Monthly Wages and Salaries Survey. Pay growth is average of published single-month estimates of year-on-year growth in pay excluding bonuses and arrears for Jan-Mar 2024 (not seasonally adjusted).

The number of people working more or fewer hours than they want is at its lowest in nearly twenty years

One area where we may be seeing clearer impacts from tightness in the labour market, however, is in the number of people who report being either overemployed or underemployed – broadly meaning they would like to work fewer hours than currently for less pay, or would like to have more hours than current. Data on over- and underemployment is published every quarter, and the latest data is set out below.

This shows that there are 2.1 million people who report being underemployed, the lowest figure since spring 2008, while 2.8 million say that they are overemployed, the lowest since 2013. Putting these together, the combined figure is now the lowest it has been since 2006 (and the lowest on record as a proportion of all employment). Put another way, this means that more of those who are in work are able to get the hours that they broadly want – with the graph below also showing in black (on the right hand scale) that the number of people who are in work and neither over- or underemployed is now comfortably the highest that it has ever been.

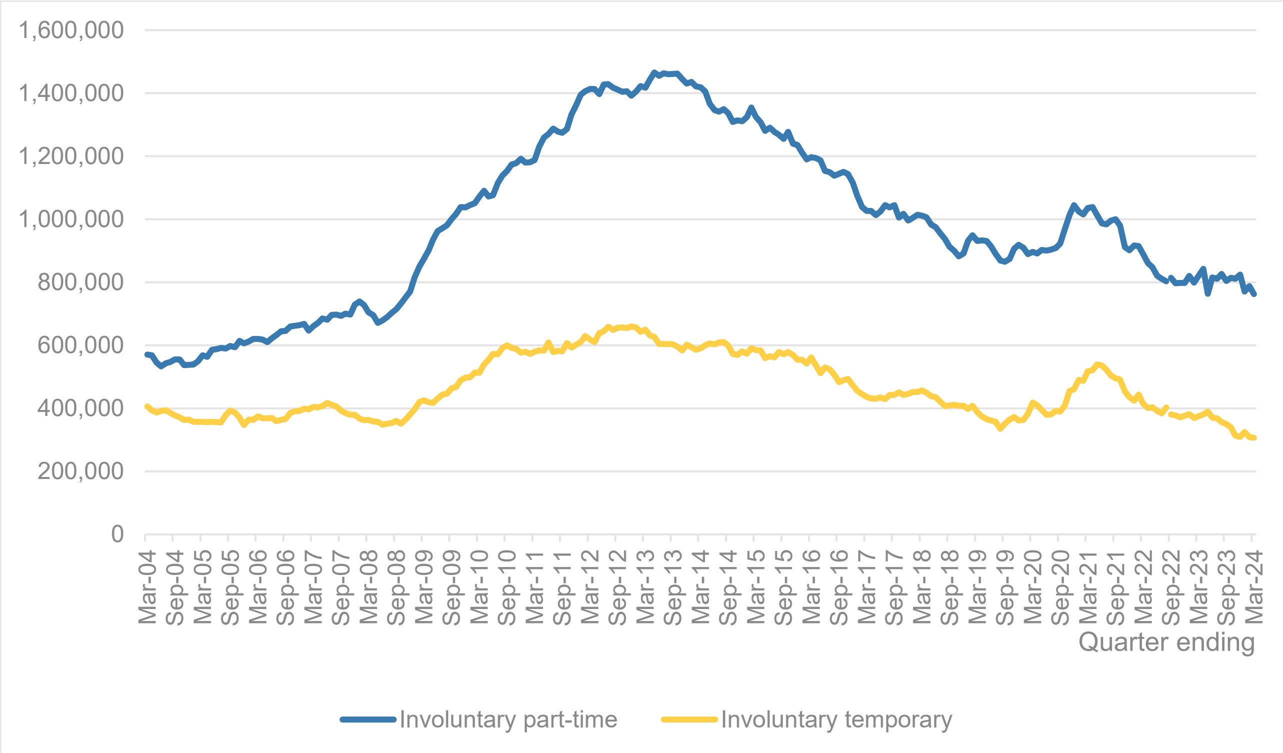
Figure 15: Number of people in work who are over-employed or under-employed (left hand scale) or neither (right hand scale)



Source: Labour Force Survey. Dotted line indicates Jan-Mar 2020. Note that data from July to September 2022 onward has been reweighted, causing a step change discontinuity.

We can see a similar picture too in data on involuntary part-time and temporary work, which we define as people who say that they are working in part-time work because they cannot find a full-time job or in temporary work because they cannot find a permanent job. These are shown in Figure 16 below: involuntary part-time work is at its lowest level since late 2008 (at 760 thousand), while involuntary temporary work is the lowest that it has ever been (310 thousand). There are signs, then, that those in the labour market are increasingly able to find the *form* of employment that they want, as well as the hours.

Figure 16: Number of people in involuntary part-time or involuntary temporary work



Source: Labour Force Survey. Dotted line indicates Jan-Mar 2020. Note that data from July to September 2022 onward has been reweighted, causing a step change discontinuity.

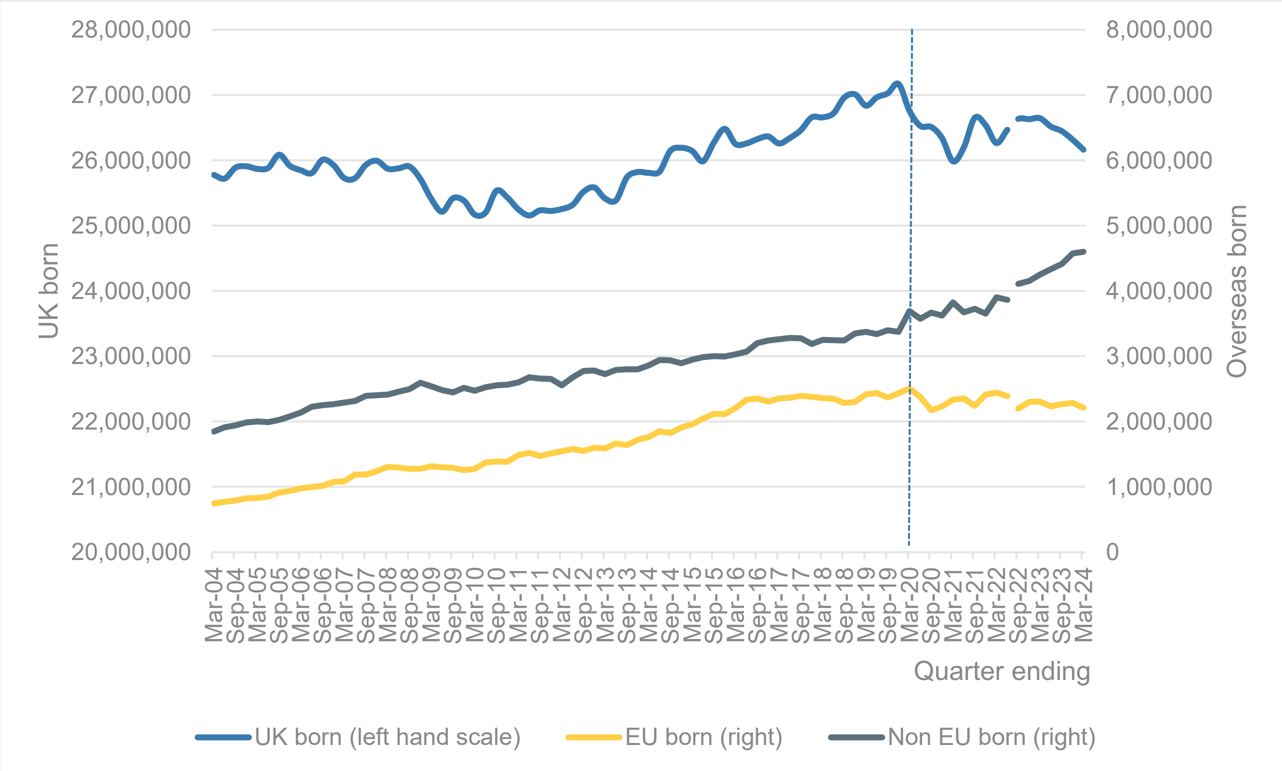
Employment down 600 thousand for people born in the UK, offset by similar growth for those born overseas

Finally, today also sees publication of new quarterly data on employment by place of birth (and specifically whether born in the UK, European Union or born in non-UK/ EU countries). These data have also only been reweighted back to autumn 2022 which creates a discontinuity with earlier periods, and it should also be noted that responses to the LFS from people born outside of the UK were particularly affected by changes in the delivery of the survey during the pandemic and by falling response rates since. Nonetheless, with these caveats, today's data suggests that the UK labour market would be in even worse shape had it not been for a significant increase in employment among people born overseas.

This is set out in Figure 17 below, which shows that employment for people born in the UK has fallen by 600 thousand, with nearly all of this fall happening in the last year; while it has risen by 600 thousand for those born overseas (up by 700 thousand for those born outside of the EU, partially offset by a fall of 100 thousand among those born in the EU). To be clear, with unemployment remaining very low and vacancies high by historic standards, there is no evidence that people born overseas are filling jobs that would otherwise be filled by people born in the UK.

The risk therefore is that without more being done to meet skills and labour shortages from those who already have a right to work in the UK, recent changes in visa rules and salary thresholds will simply lead to lower future employment and economic growth.

Figure 17: Employment by place of birth: UK (left hand scale), EU and non-EU (right scale)



Source: Labour Force Survey. Dotted line indicates Jan-Mar 2020 Vertical dotted line indicates start of first Covid-19 lockdown. Note that data from July to September 2022 onward has been reweighted, causing a step change discontinuity.

Conclusion

Today's figures are very disappointing overall, and suggest an increasing polarisation between those in work – who are seeing decent wage growth and some improvements in working hours and security – and those out of work, whose numbers are growing particularly among older people, young people and those with poor health.

Harsh rhetoric around a 'sicknote culture' or welfare being a 'lifestyle choice' will do nothing to narrow those gaps and if anything may end up pushing people further away from help and support. In our view, the priority instead in the last few months of this parliament should be to get on and deliver the commitments that have already been made – including new investment in specialist support for disabled people and those with long-term health conditions, the ‘chance to work guarantee’ that will protect people’s benefit status if they take up work, improved access to health and childcare support, and so on. And in the longer term, we need more radical reform of our approach to employment support and services so that we can extend access to support, improve the quality of support, join up better across services, and engage better with employers. (as we will be setting out in our Commission on the Future of Employment Support, in partnership with the abrdn Financial Fairness Trust).

About IES

The Institute for Employment studies is an independent, apolitical centre of research and consultancy in employment policy and human resource management. It works with employers, government departments, agencies and professional and employee bodies to support sustained improvements in employment policy and practice.

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