ies Briefing

Institute for Employment Studies

Labour Market Statistics, May 2022

17 May 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 March 2022 (the most recent quarter being January to March 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 April 2022, and the Wages and Salaries Survey to March 2022.

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 figures have some good news as well as continued reasons to be cautious. Unemployment has fallen to its lowest since 1974, there are green shoots on employment growth and economic inactivity in the data for the single month of March, and strong private sector pay is keeping total pay growth slightly ahead of inflation. All of this is welcome, and not entirely expected given the very weak data for the last two months.

However, today's data also lays bare the extent of the recruitment and participation crises affecting the labour market. Overall there are still around 1.15 million fewer people in the labour force than on pre-pandemic trends; nearly half a million more people economically inactive, with recent rises being due to long-term ill health and caring responsibilities; and continued wide employment 'gaps' for disabled people, ethnic minority groups, and older people. The headline picture on pay also disguises relatively weaker growth in 'regular' pay excluding bonuses (suggesting many firms are cautious about the recovery) and significant falls in public sector pay.

New data on labour market 'flows' today also illustrates how recruitment challenges are being driven by exceptionally high labour market turnover – with a record number of people changing jobs in the last quarter (nearly a million); near-record levels of resignations; and large numbers flowing into and out of work. These flows to and from worklessness are being driven in particular by flows into and out of economic inactivity, although relatively low flows from inactivity to unemployment mean that overall flows out of inactivity are flat over the last year, despite continued strong vacancies.

All told, as with recent months, this combination of high worklessness, labour shortages and spiralling inflation risks being a pretty toxic mix. So far, public policy is responding to this mainly by trying to dampen demand through higher interest rates and higher employer National Insurance. However we would argue that we also need to see far great focus on measures to boost supply – which would support higher growth, improved household incomes and lower inflation. In particular, we remain concerned that government appears to be cutting employment support at exactly the time that we should be increasing it (by laying off Jobcentre Plus work coaches, cutting back on the Restart scheme and not reinvesting underspends from Kickstart); and that its Way to Work campaign is focusing on the short-term unemployed at a time when short-term unemployment has never been lower.

So we continue to believe that we need a new 'Plan for Participation' – from government and employers – to help more people back into the labour force; improve recruitment, job design and workplace support; and help those out of work to get into and on in work.

Unemployment down to mid-1970s rates, while month of March saw strongest jobs figures since pre-Covid

Unemployment fell again this month, to 3.7%. The last time unemployment was lower was in May-July 1974 and Waterloo had just reached Number 1 in the charts. The employment rate has also ticked up slightly over the last quarter, by 0.1 percentage points to 75.7%; but economic inactivity (the measure of all of those out of work and either not looking and/ or not available for work) has edged up slightly too, to 21.4%.

This overall picture – of employment struggling to recover as lower unemployment is offset by rising economic inactivity – has been the story of most of the last year in the labour market. However there are signs today that things may start to improve over the next few months, with the single-month estimate for employment in March rising sharply, to its highest since before the Covid-19 pandemic, and economic inactivity falling sharply too. This is shown in Figure 1 below (yellow lines). These sharp improvements in March are in stark contrast to the very weak figures for February that we reported on last month, and with both the January and February single month figures being pretty weak it is likely that the quarterly averages could improve significantly in the next couple of months.

Put simply, it is not inconceivable that the gap with pre-Covid employment rates could close very quickly over the next few months.

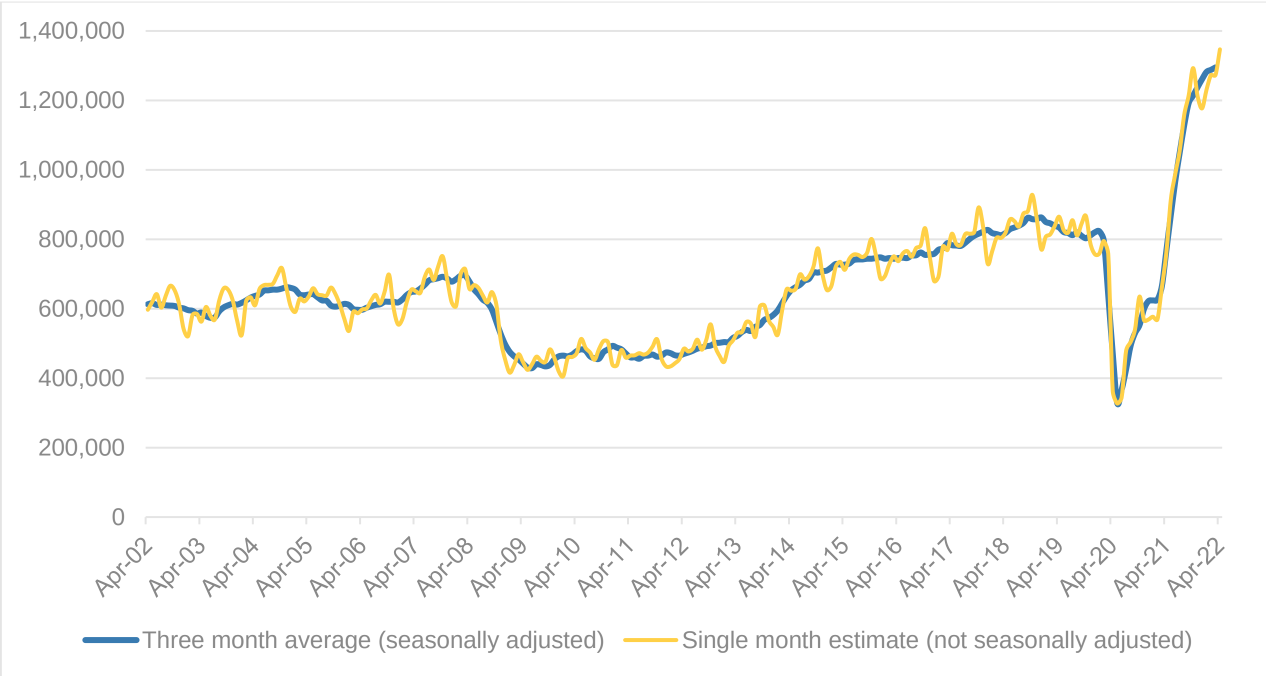
Figure 1: Employment, unemployment and economic inactivity rates (16-64) – quarterly average with single-month estimates

Source: Labour Force Survey

For the first time ever, there are more job vacancies than there are unemployed people

As with previous months, unemployment is falling even while vacancies continue to rise. The latest quarterly and single month estimates are shown in Figure 2 below, with on average 1.30 million vacancies in the quarter February-April 2022 and an estimate of 1.35 million for the most recent single month. These figures are nearly double a year ago, and now more than 50% higher than pre-pandemic.

Figure 2: Vacancies – quarterly and single-month estimates



Source: ONS Vacancy Survey

Combined with low unemployment, this means that there are now more vacancies than there are unemployed people (Figure 3). This is the first time that this has happened in at least fifty years and is a remarkable and rapid turnaround from last summer, when there were on average more than four jobseekers chasing every job.

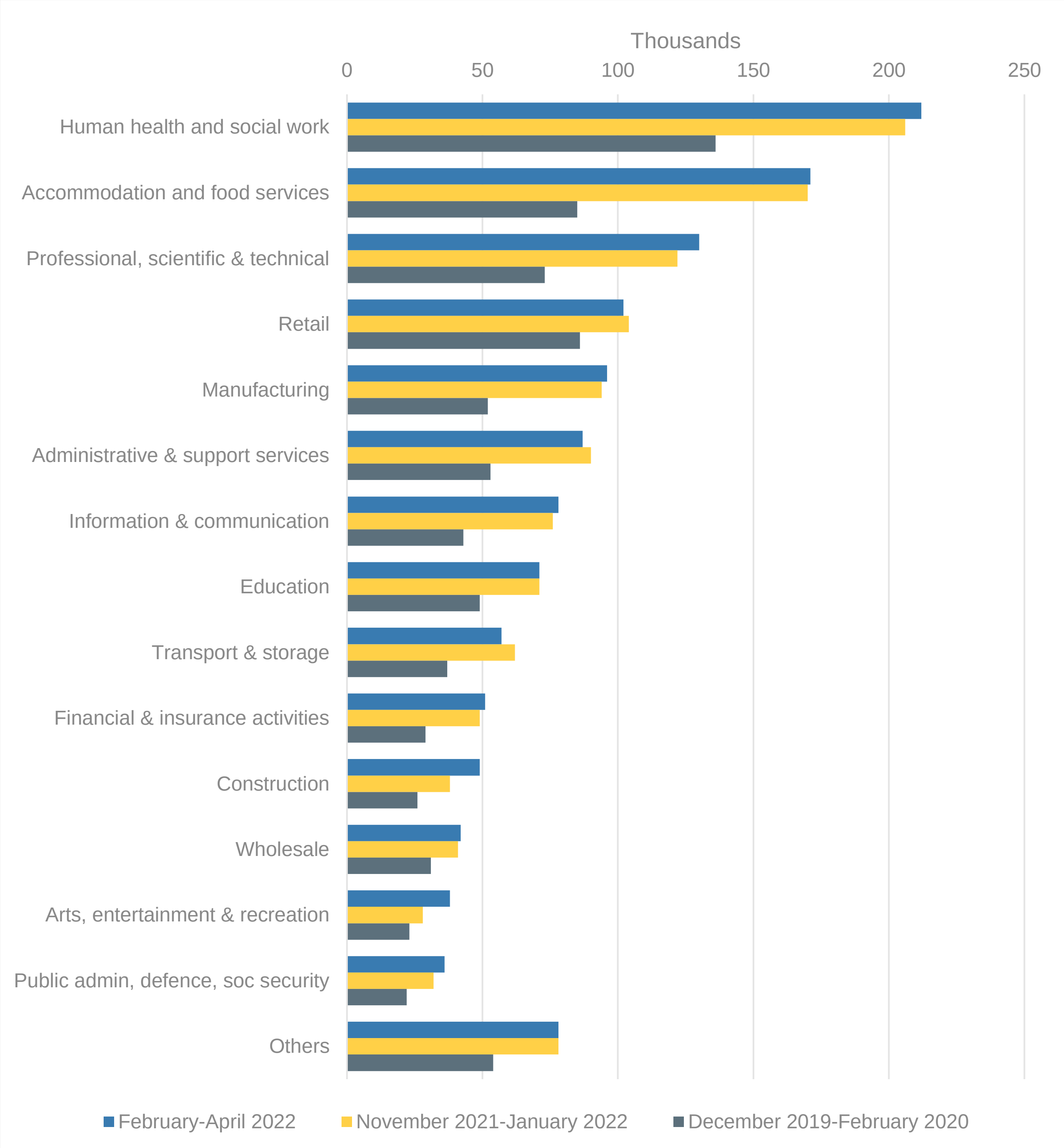
Figure 3: Unemployed people per vacancy (exc. Agriculture, forestry and fishing)

Source: ONS Labour Force Survey and Vacancy Survey

This national picture of a tight labour market, however, belies a varied picture locally. New research for the Local Government Association, also published today, explores in more detail differences in participation, unemployment and vacancies across local areas and the drivers and consequences of these. This points in particular to the need for greater local control, influence and joining up across employment, skills and wider services; and to better tailor services to the needs of local communities, employers and individuals.

Looking by industry, Figure 4 below shows that the last vacancy figures (blue) are higher than pre-pandemic levels (black) across every single sector. As with previous months, vacancy growth is being driven in particular by high demand in health services, hospitality and professional jobs (like law, accountancy, engineering and science), which account for two fifths of all vacancies between them; but there has been strong growth across a range of industries including manufacturing, construction and administrative jobs. Vacancies have continued to grow over the most recent quarter (yellow) although there have been slight falls in retail, admin and support, and transport.

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



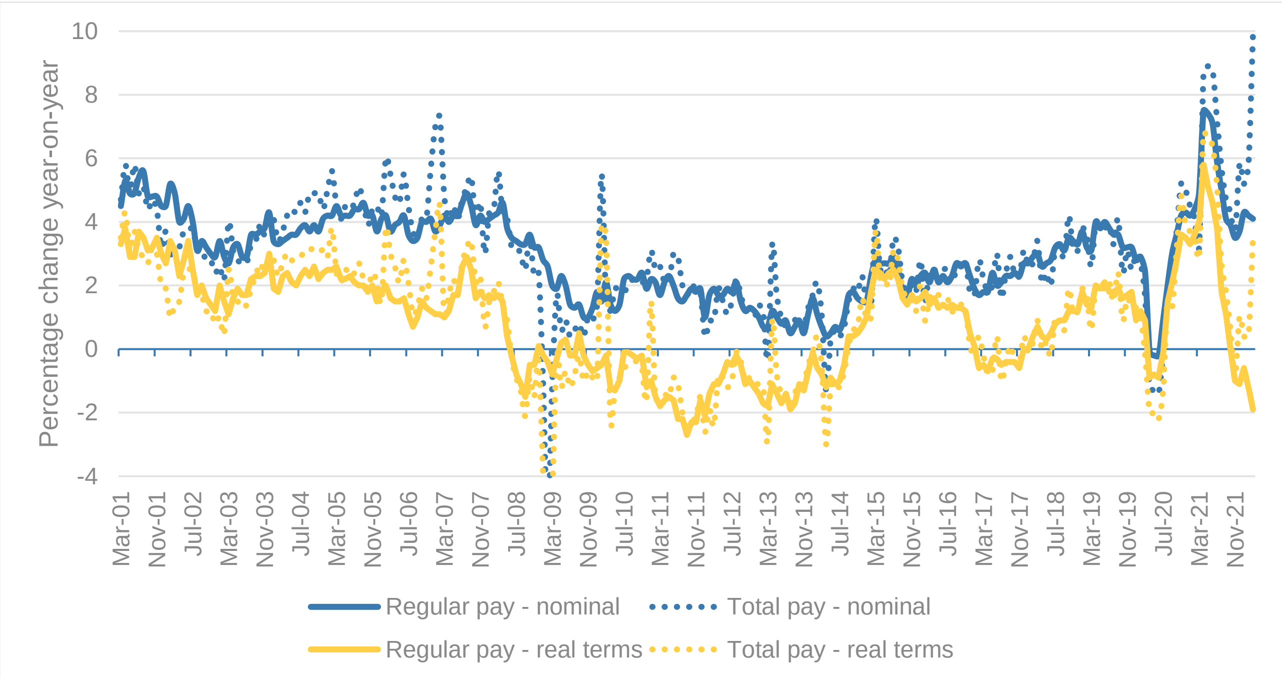
Source: ONS Vacancy Survey

The tight labour market is feeding into high pay growth including bonuses, especially in private sector services

There are clear signs now that firms' recruitment and retention problems are starting to feed through into higher pay, with total pay growth (including bonuses) of nearly 10% in March 2022 compared with March 2021 – the highest figure since comparable records began – and underlying nominal pay growth remaining slightly above 4%. However, incredibly high inflation is once again pushing 'real' regular pay growth negative (-1.9%, the largest fall in a decade) and eroding most of the growth in total pay (to 3.5% in real terms). Figure 5 illustrates these trends, with nominal pay in blue and 'real' terms pay after inflation in yellow.

Bonus payments now account for 22% of private sector pay, up from 16% a year ago. Bonuses are particularly common in financial services (accounting for 34% of total pay in March) but have risen across the private sector – to 16% of total pay in manufacturing (up from 12% a year ago), to 14% in retail and hospitality (up from 10%) and to 12% in construction (up from 7%). This increasing reliance on bonuses points to the fragility of the recovery so far, with firms perhaps concerned about their ability to offer permanent pay increases now (and perhaps also their hope that the current recruitment challenges will start to ease later in the year).

Figure 5: Year-on-year change in regular and total pay – nominal terms and adjusted for inflation (real terms)

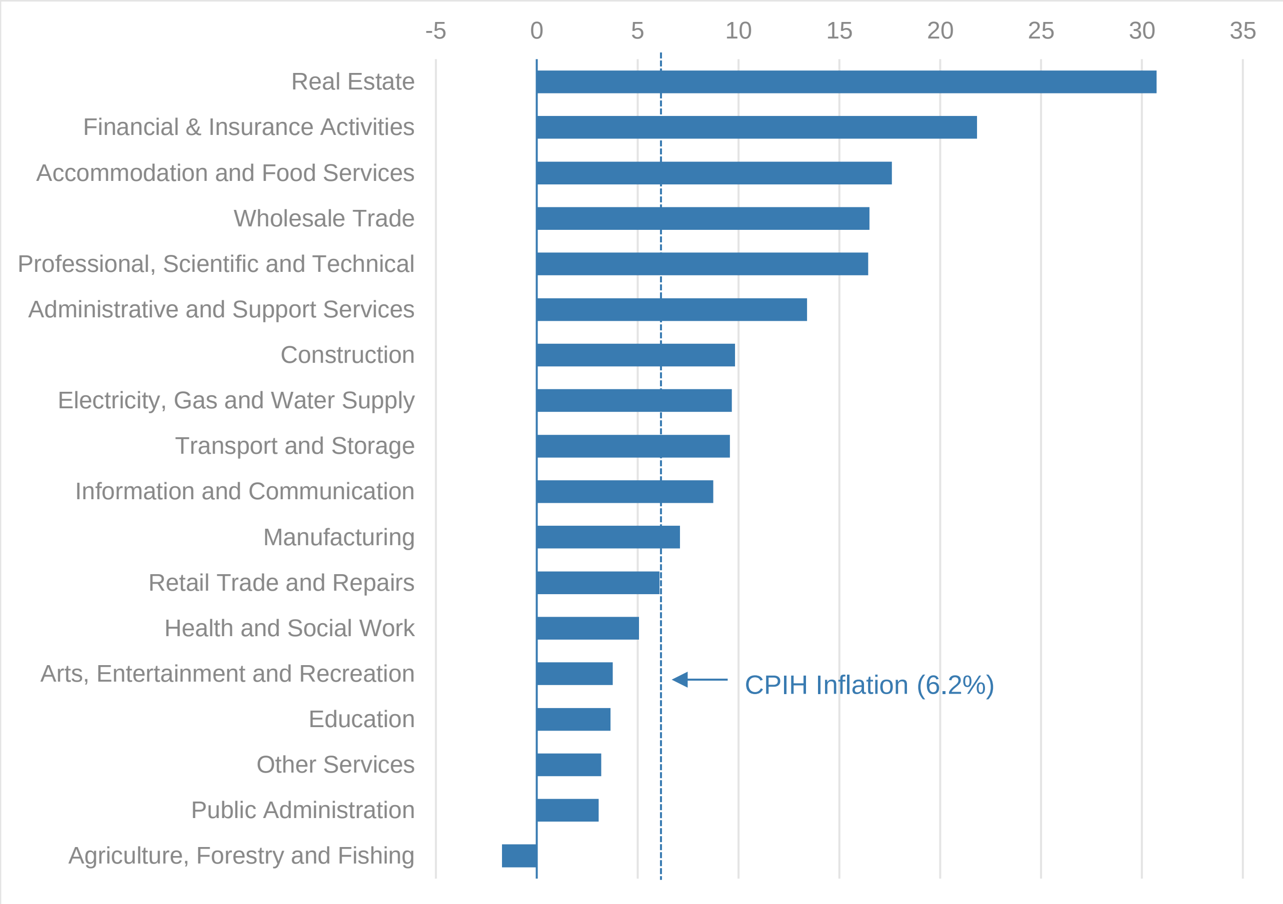


Source: ONS Monthly Wages and Salaries Survey. Regular pay excludes bonuses and arrears; measure shown is year-on-year change in single month estimate.

Looking more closely at total pay by industry, Figure 6 shows how far private sector services in particular are driving pay growth – with double digit growth in financial services, professional services, hospitality, real estate and admin/ support services. These monthly figures are quite volatile, but will add to concerns raised by the Bank of England this month that high private sector pay growth may start to feed through into even higher inflation (with this being a key factor in recent decisions to raise interest rates).

The graph also draws out more clearly the disparity between pay growth in the private sector and public sector, with pay growth in the latter continuing to fall in real terms. This will likely exacerbate recruitment challenges in health and education in particular.

Figure 6: Year-on-year change in regular pay by industry, nominal terms

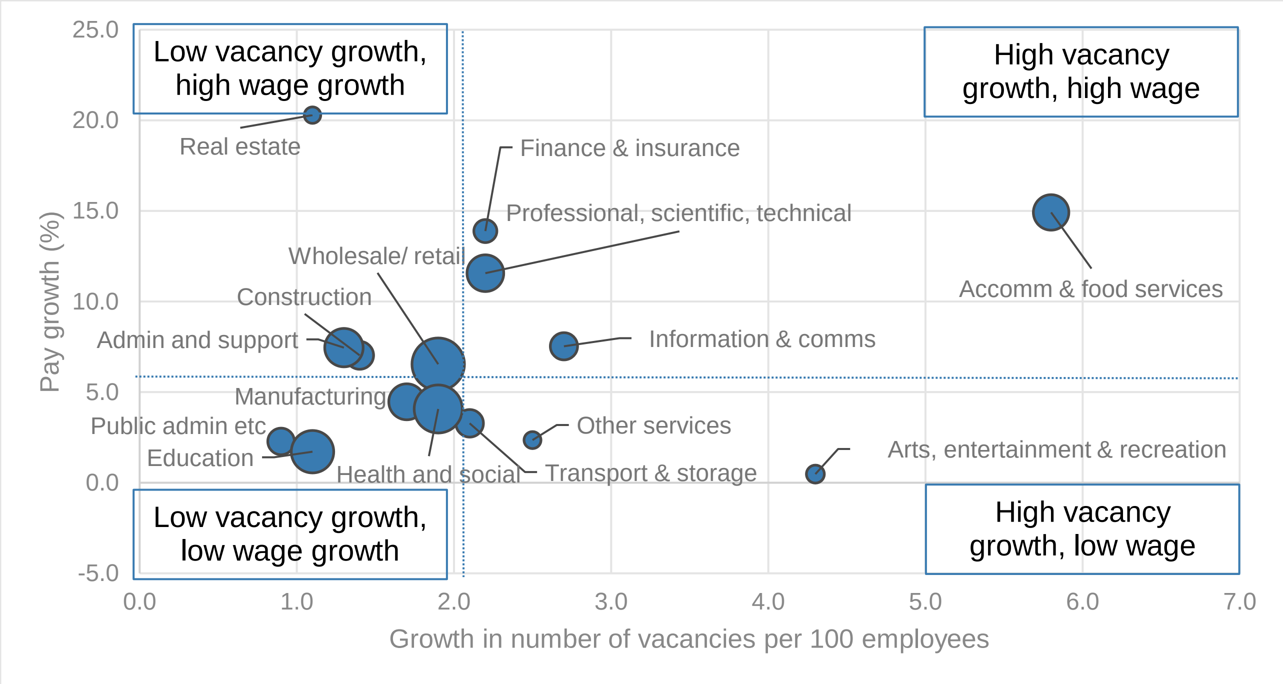


Source: ONS Monthly Wages and Salaries Survey. Regular pay including bonuses and arrears; measure shown is year-on-year change in single month estimate, not seasonally adjusted.

Figure 7 below then plots the vacancy ratio by industry (number of vacancies per 100 employees) against total pay growth for that industry, with the size of the bubble indicating the relative size of the industry. Vacancy data is for the most recent quarter (February-April), while pay data averages the single month estimates for January, February and March. The dotted lines indicate the average growth in the vacancy ratio, and the latest rate of inflation.

This shows again that many private sector services in particular are seeing both above-inflation pay growth and above-average vacancy growth (top right). Some service industries and construction are seeing above inflation pay but relatively lower growth in the vacancy ratio; while education and public administration in particular are seeing below inflation pay and below average vacancy growth. A number of industries – especially health, manufacturing and retail – are clustered around the middle of the graph. In some industries, it does appear that wages and vacancies are rising together, although there is only a weak correlation – if any – overall.

Figure 7: Year on year growth in vacancies (per 100 employees) and total pay, by industry

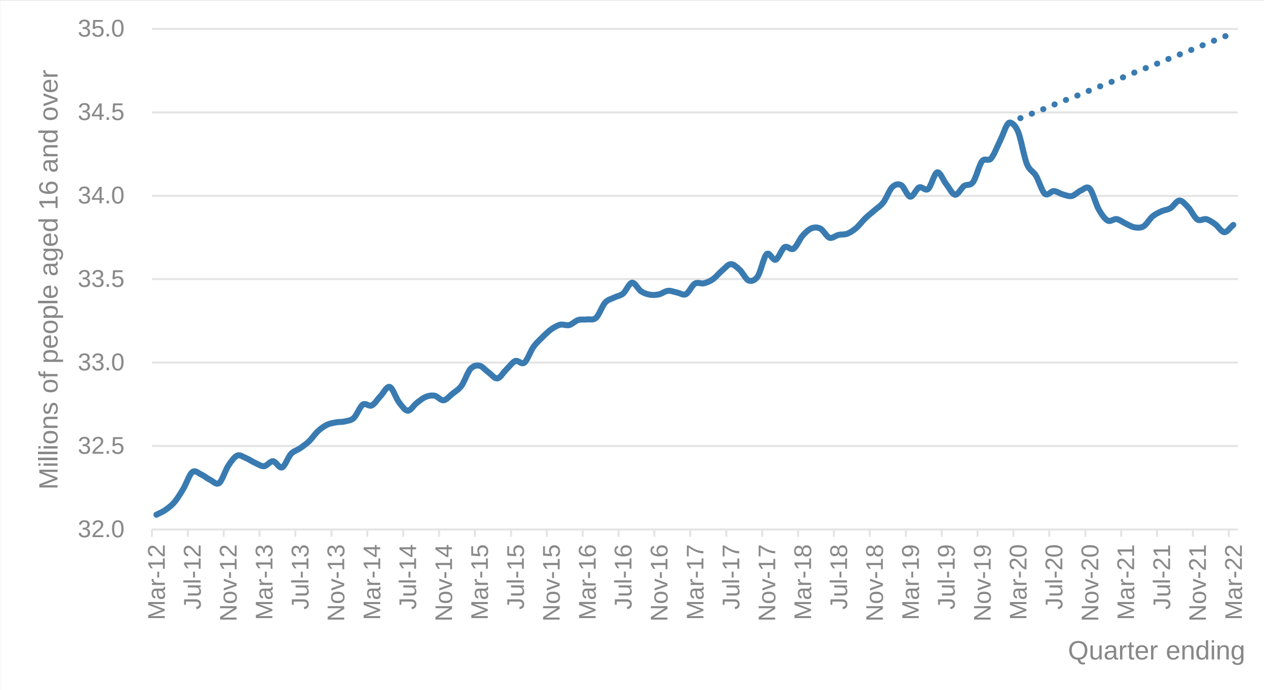


Source: IES analysis of ONS Vacancy Survey (VACS02) and Monthly Wages and Salaries Survey (EARN03). Vacancy growth is Feb-Apr 2022 compared with same quarter in 2021; pay growth is average of published single-month estimates of year-on-year growth for Jan-Mar 2022.Size of bubbles indicates size of industry by employee jobs.

Recruitment shortages are also being driven by continued weak participation in the labour force

As we have set out in previous briefings, a key driver of the current recruitment crisis has been the widening gap between current labour force participation (the sum of those employed plus unemployed) and the pre-pandemic trend of labour market growth. Figure 8 below illustrates this, and shows that even with the very recent, slight uptick in employment there remains a gap of more than one million (1.15 million) between current participation and what we might have expected pre-pandemic. Around three fifths (58%) of this gap is explained by fewer over-50s in the workforce; with higher student numbers and lower migration also playing important parts.

Figure 8: Level of economic activity – actual and if pre-crisis trend had continued

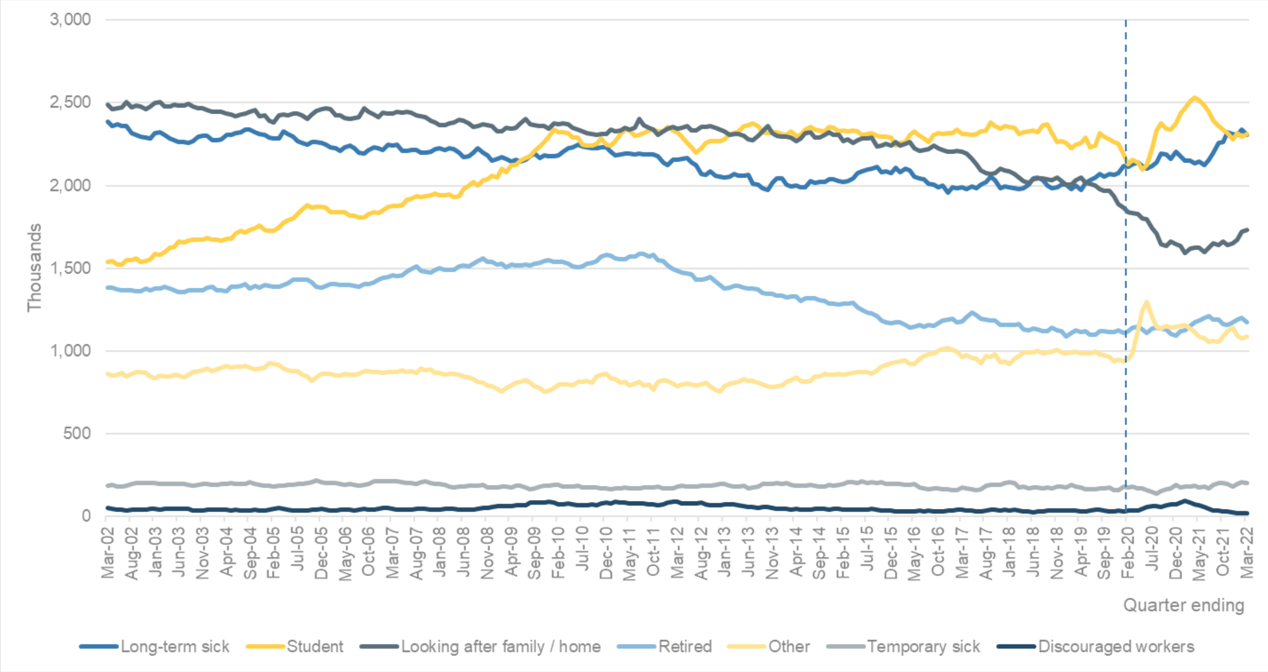


Source: Labour Force Survey and IES estimates

Alongside this, we also continue to see increases in economic inactivity due to long-term ill health and – in recent months – due to caring responsibilities. Figure 9 below sets out trends in reasons for economic inactivity over the last two decades, with the dotted line showing the start of the Covid-19 pandemic. The pandemic saw a sharp rise in student numbers that has now fallen back as more young students take up work; a continued rise in ill health that has accelerated in recent months; sharp falls in economic inactivity due to caring which now appear to be reversing somewhat; and a large increase in economic inactivity for ‘other’ (Covid-19 related) reasons, that has fallen back but remains elevated.

These trends are discussed in greater detail in [last month’s briefing](), but do suggest that our current near-total focus on delivering employment services only to those who are actively seeking work and claiming Universal Credit will not address the issues that are driving low participation and high worklessness.

Figure 9: Reasons for economic inactivity – Jan-Mar 2002 to Jan-Mar 2022



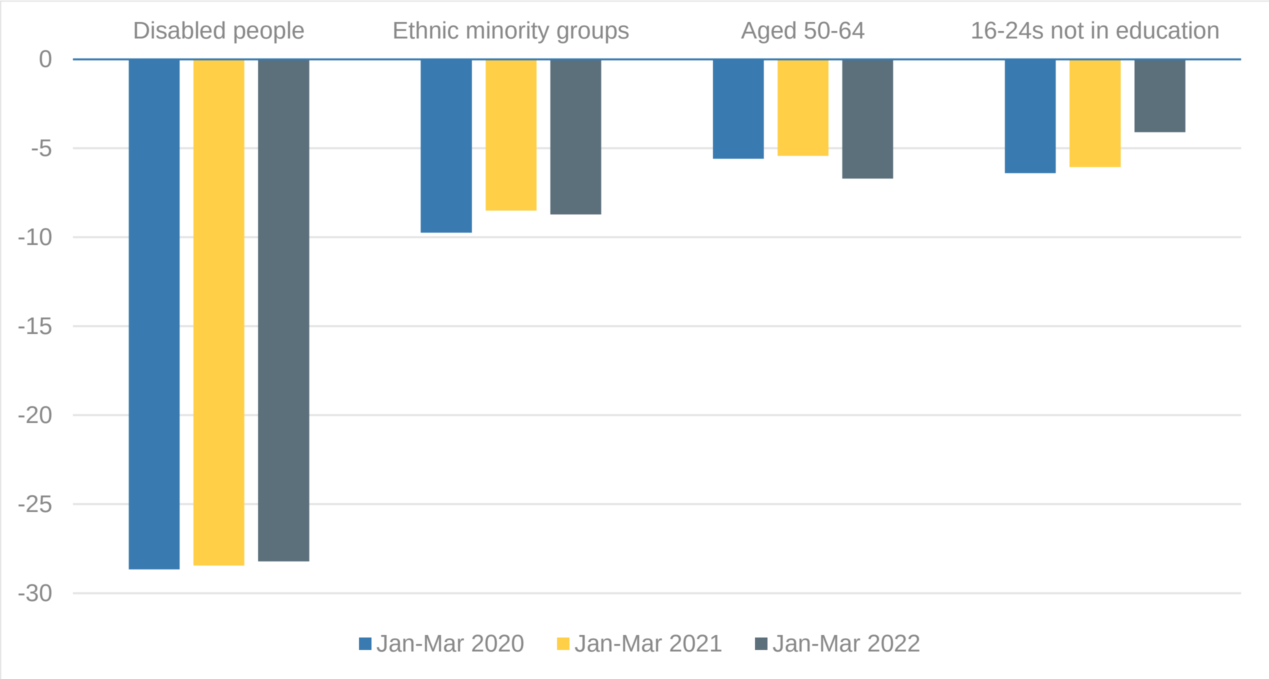
Source: Labour Force Survey

Employment ‘gaps’ for disadvantaged groups continue to persist, and in some cases are widening

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 10 below, alongside gaps for people aged over 50 and for young people outside full-time education.

This shows that employment gaps remain incredibly wide for disabled people, even though they have narrowed slightly over the last two years; while the gap has narrowed somewhat for ethnic minority groups but is up slightly on a year ago (driven in particular by poorer outcomes relative to White people for people from Black, Indian, Pakistani and Chinese ethnic minority groups. For older people, the employment gap is now widening significantly – to its widest in nearly a decade – while the gap for young people not in full-time education appears to be narrowing again after rises earlier in the year.

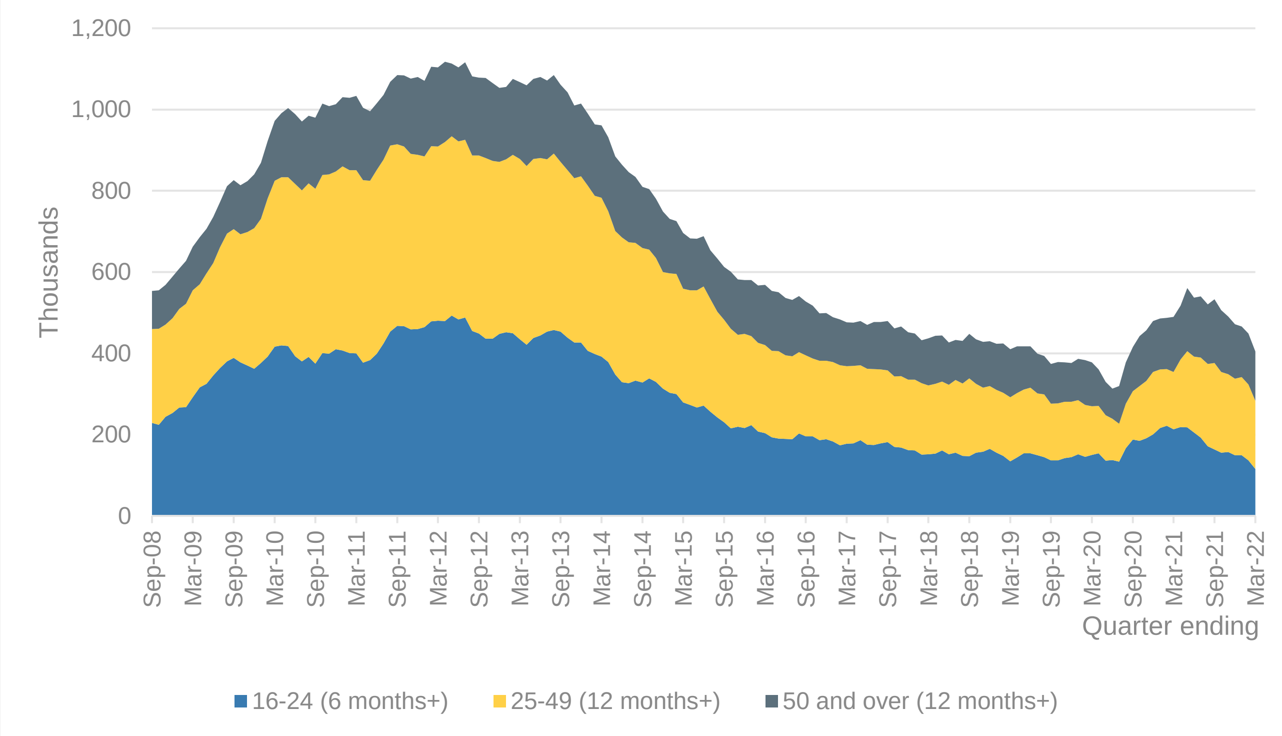
Figure 10: Employment rate 'gaps' for disabled people, ethnic minority groups, those aged 50-64, and young people not in full time education; Jan-Mar 2020, 2021 and 2022



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.

At the same time, we are seeing an improving picture on long-term unemployment, which we define as more than six months for young people (aged 16-24) and more than twelve months for all others. Figure 11 below sets this out, and shows that overall long-term unemployment is now close to pre-pandemic levels. For young people meanwhile, it is now the lowest that it has been since comparable records began in 1992, with the level of youth unemployment also now at its lowest on record. Both of these are a welcome reflection both of the focus on employment support for young people and the strength of the recovery in the labour market.

Figure 11: 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.

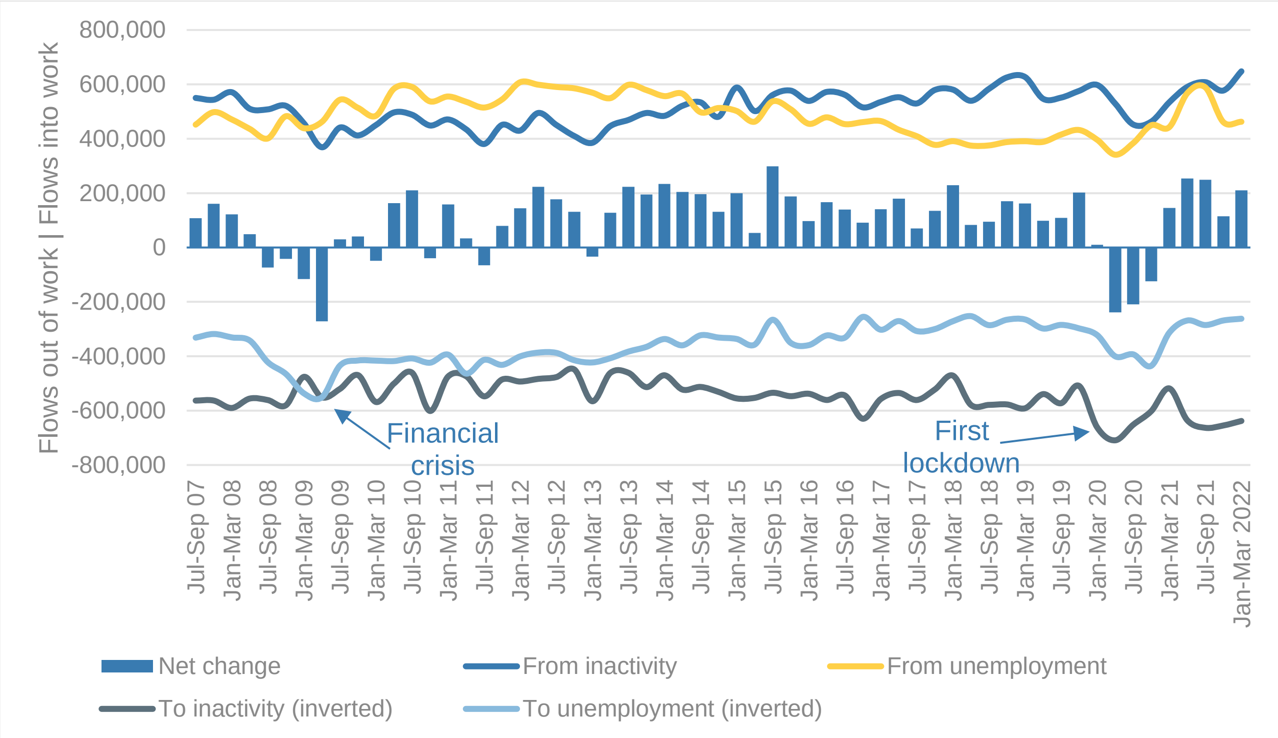
New data on labour 'flows' shows more entering work, but many leaving too – plus record job-to-job moves

Today also sees new quarterly data on the 'flows' of people between employment, unemployment and economic inactivity. In summary, this shows that while record numbers of people have entered employment from worklessness, we have also seen continued very high exits from work, especially to and from economic inactivity. At the same time, record levels of job-to-job moves point to continued dynamism in the labour market alongside recruitment and retention challenges for firms.

First, Figure 12 tries to illustrate the extent to which the overall quarterly 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 employment growth has recovered slightly in the most recent quarter (aided by the very strong figures for the month of March) with this appearing to be explained in particular by very high flows into work from economic inactivity (the dark blue line, which as reached a highest ever quarterly level of 650 thousand). At the same time, flows both into and out of unemployment have dropped back – reflecting low unemployment overall and very low redundancies and job losses. However we also see that flows out of work and into economic inactivity remain very high (the black bottom line). At 640 thousand, these are significantly greater than at any point pre-pandemic, and only slightly lower than the 710 thousand that left the labour force during the first lockdown in spring 2020. This covers a period after the end of the Coronavirus Job Retention Scheme, and suggests that many people – likely older and/ or with health conditions – are continuing to leave the labour force entirely even with labour shortages and record vacancies.

Figure 12: Flows into work from unemployment and economic inactivity, and flows out of work (inverted) to unemployment and economic inactivity – with net overall change

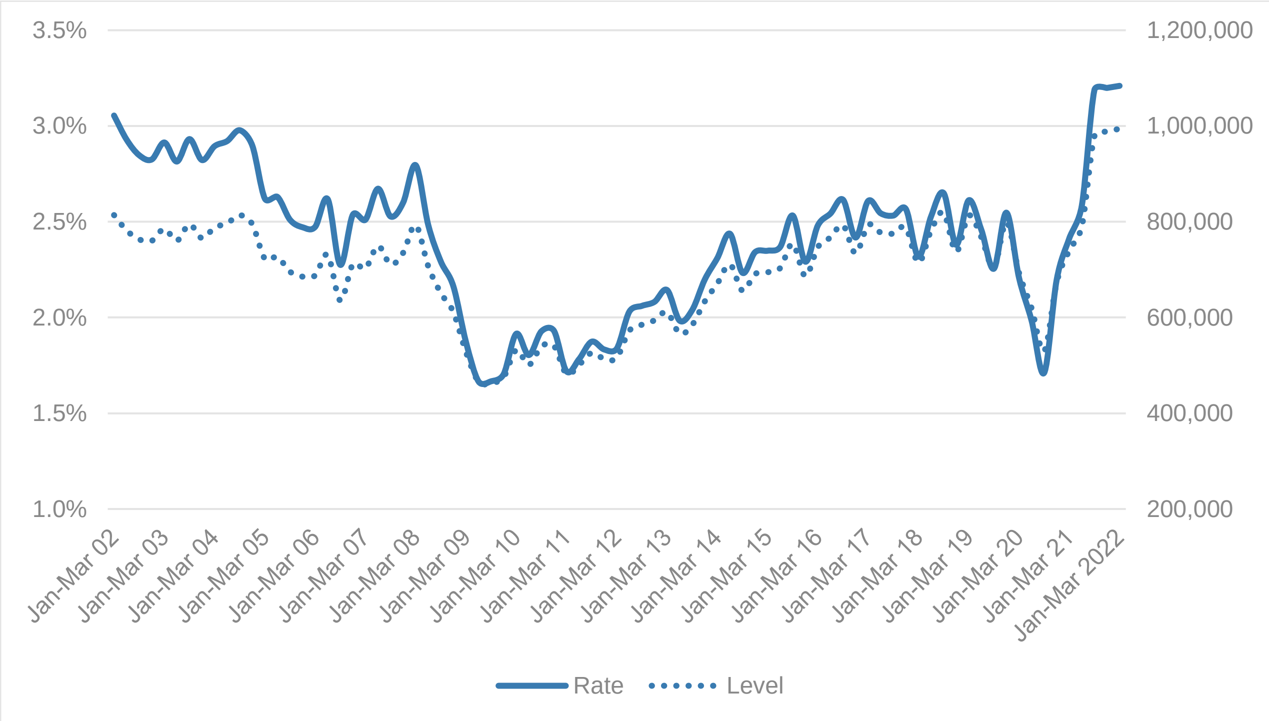


Source: Longitudinal Labour Force Survey. Note that estimates of job-to-job moves are for those aged 16-69, while estimates of job entries and exits are for those aged 16-64.

High volumes of people moving into and out of work has been accompanied again by record numbers of people changing jobs, as Figure 13 below shows. In all, 990 thousand people changed jobs between January and March 2022. Figure 14 then shows reasons for job-to-job moves. The most common reason – ‘other’ –tends to be due to contracts ending or people leaving work due to ill health, and has fallen back to pre-pandemic levels after a spike in the last quarter due to the end of the furlough scheme. Resignations remain very high (and close to their highest on record).

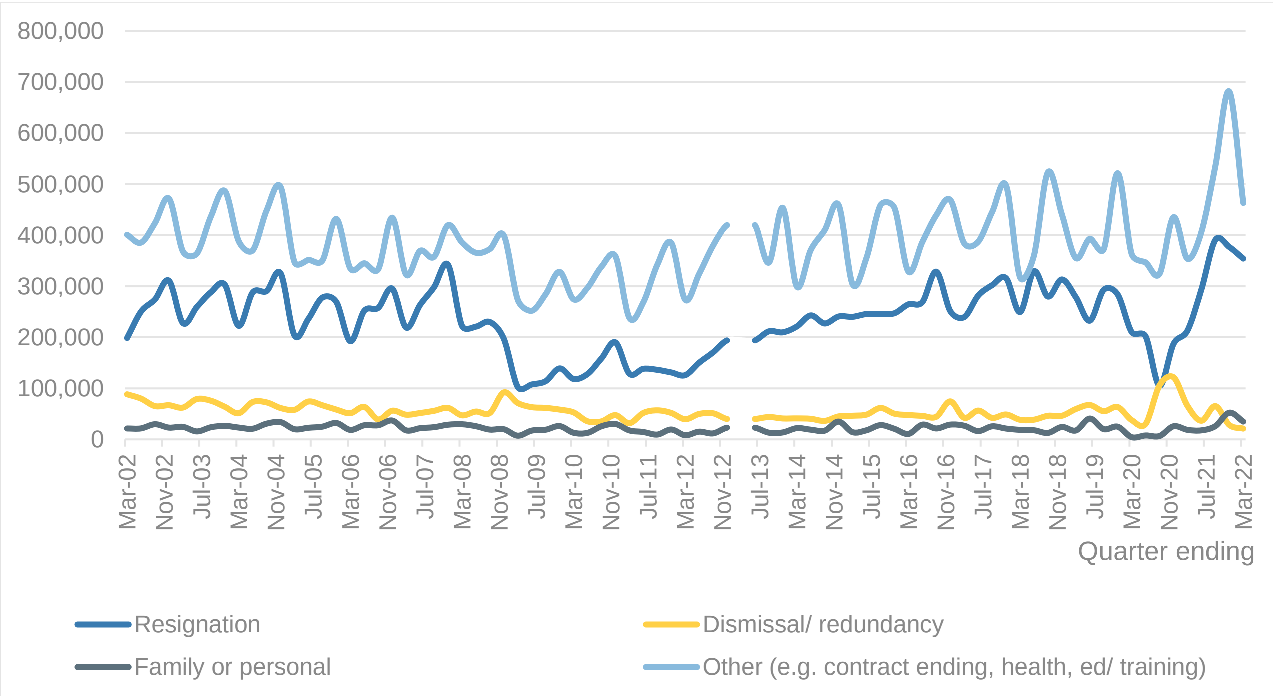
As noted last month, higher job-to-job moves is generally a positive sign as workers who move jobs voluntarily tend to see much larger pay rises than those who stay or who lose their jobs. However the flip side of this is that high rates of churn in the labour market are contributing to recruitment problems, holding back growth and rising higher inflation.

Figure 13: 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.

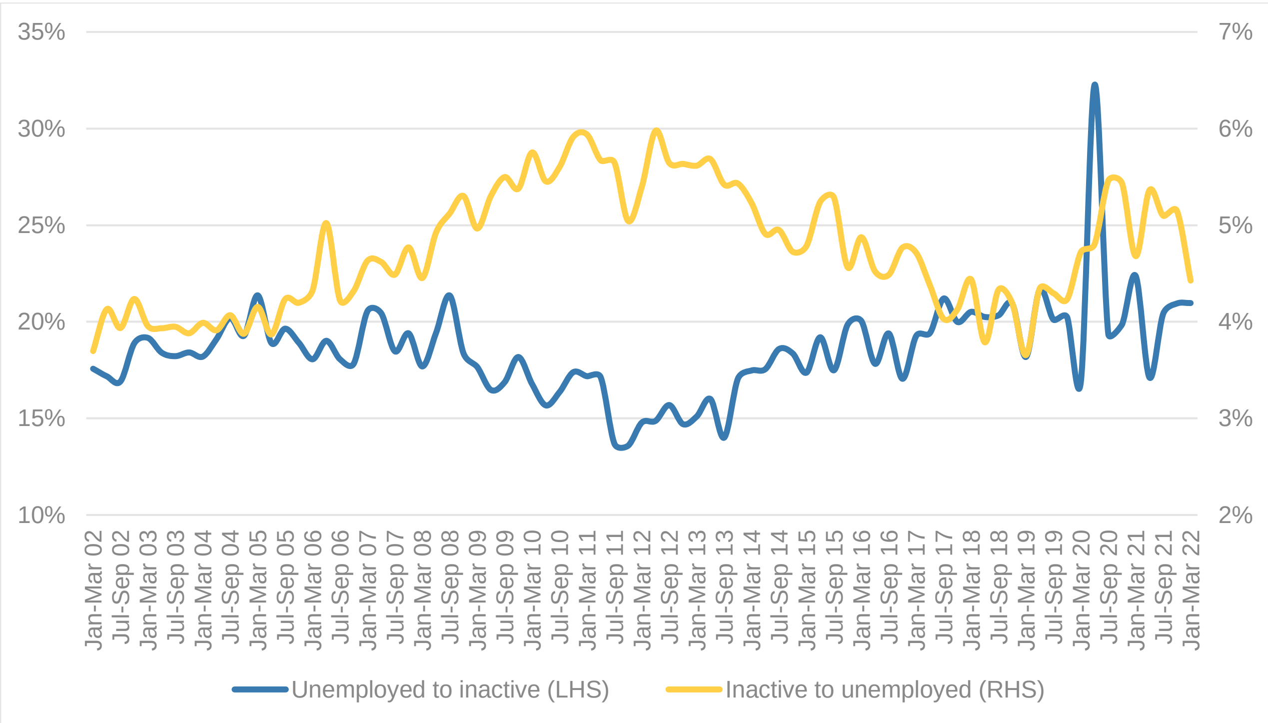
Figure 14: Reason for job-to-job move (not seasonally adjusted)



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

Data on flows between unemployment and economic inactivity is set out in Figure 15 below. As with the previous quarter, flows from unemployment to inactivity remain fairly low by historic standards (blue line, left hand scale) and so suggests that relatively few unemployed people are leaving the labour market entirely. However, flows from economic inactivity to unemployment have fallen sharply in the most recent quarter (yellow line, right hand scale). This fall in moves from inactivity to unemployment almost entirely offsets the growth in flows from inactivity to employment set out above – meaning overall, flows out of inactivity are broadly flat (as they have been for nearly a year now).

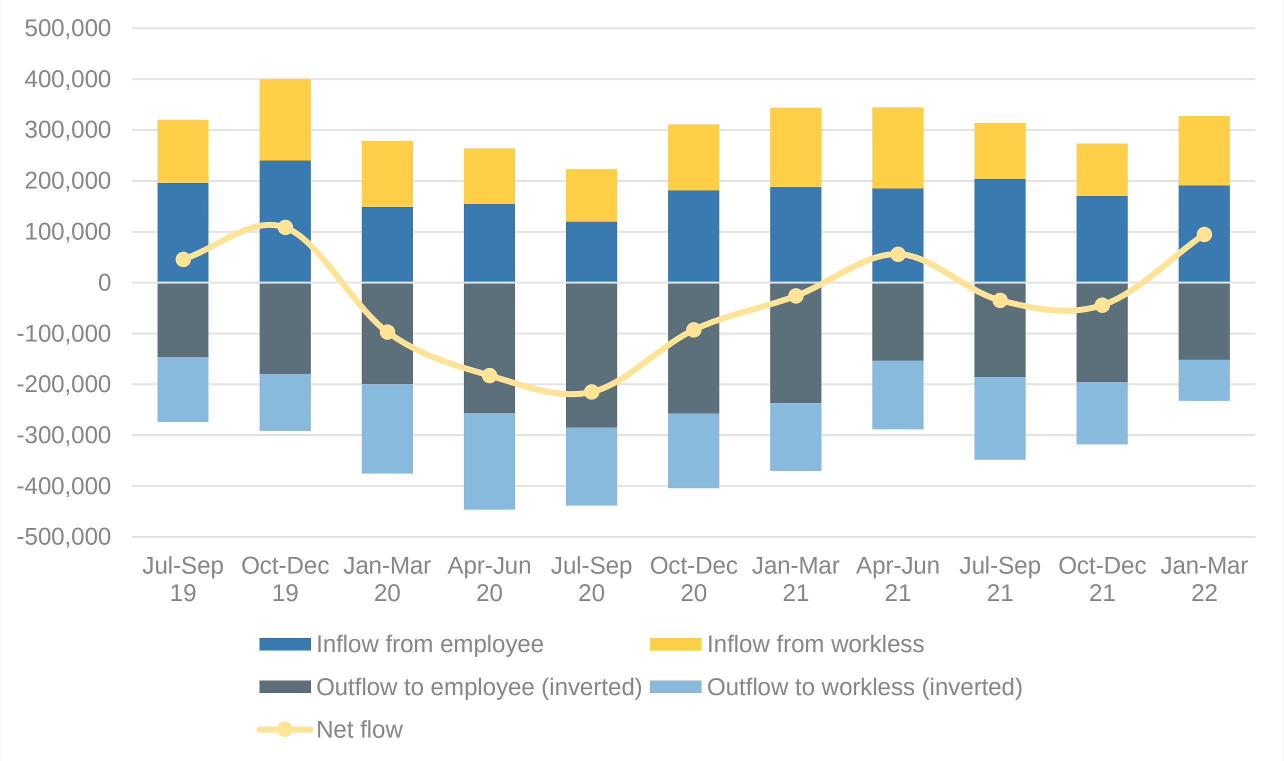
Figure 15: Flows from unemployment to economic inactivity and from economic inactivity to unemployment (percentages of those unemployed or economically inactive)



Source: Longitudinal Labour Force Survey.

The flows data also includes estimates of flows into and out of self-employment, which is useful in helping us understand what is driving the low levels of self-employment overall and the slight recovery that we have seen in recent months. Figure 16 below sets this out, and suggests that outflows from self-employment – to employee jobs or worklessness – have fallen right back, in fact to their lowest since 2013. At the same time inflows to self-employment have recovered more or less to pre-Covid levels, both on flows from employee jobs and flows from worklessness.

Figure 16: Flows into and out of self-employment by origin/ destination, and net change



Source: Longitudinal Labour Force Survey

Conclusion

Today's figures are a welcome improvement on the last couple of months, but continue to suggest significant risks to the economy around participation, recruitment and pay.

So we continue to believe that we need to focus the Plan for Jobs investment announced the last two years on raising participation and addressing recruitment challenges. This needs to focus on improving support for those out of work to get back in, and be open to all of those who are out of work – not just those claiming the right bit of Universal Credit. Employers will also need to step up, 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.

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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