

Article

Labour market economic commentary: May 2017

Additional economic analysis of the latest UK labour market headline statistics and long-term trends.

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1 . Main points

- The UK employment rate reached a new record high of 74.8% in the 3 months to March 2017 on the back of recent increases in full time employment.
- The unemployment rate dropped to 4.6% in the 3 months to March 2017, down from 5.1% a year earlier, and is now at its lowest since 1975.
- The number of vacancies increased by 3% in the 3 months to April 2017 to 777,000, the highest level on record.
- The recent increase in consumer price inflation including owner occupiers' housing costs has seen the annual rate of real wage growth (excluding bonuses) turn negative for the first time since the 3 months to September 2014.

2 . Full-time employment increases

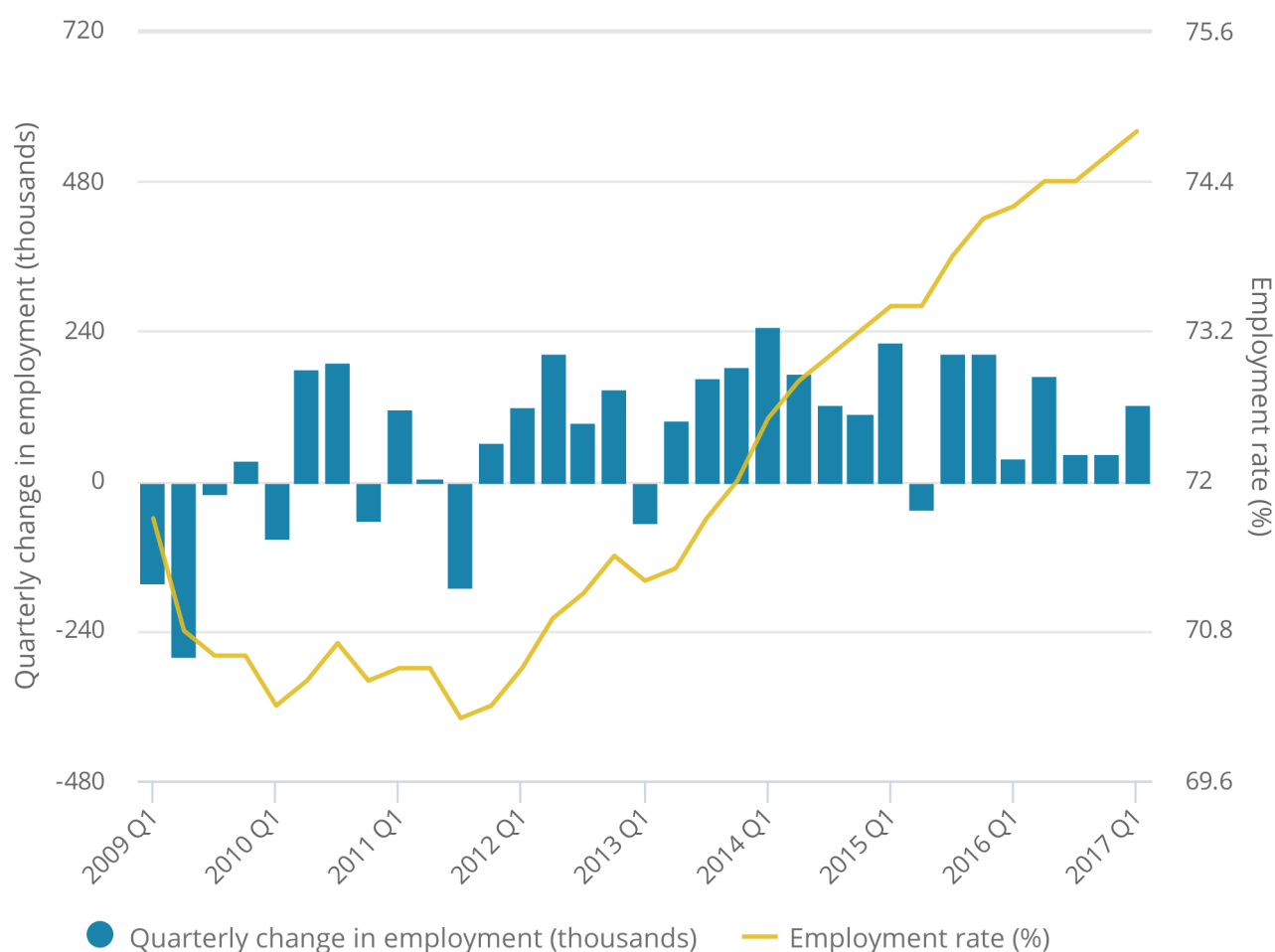
The number of people in work in the UK increased by 122,000 in the 3 months to March 2017 to 31.95 million, with an increase in full-time employment (200,000) partly offset by a fall in part-time employment (78,000). Following 7 consecutive quarters of growth, the employment rate reached a new record high of 74.8% (Figure 1).

Figure 1: Quarterly change in employment (thousands), and employment rate

UK, January 2009 to March 2017

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UK, January 2009 to March 2017



Source: Office for National Statistics, Labour Force Survey

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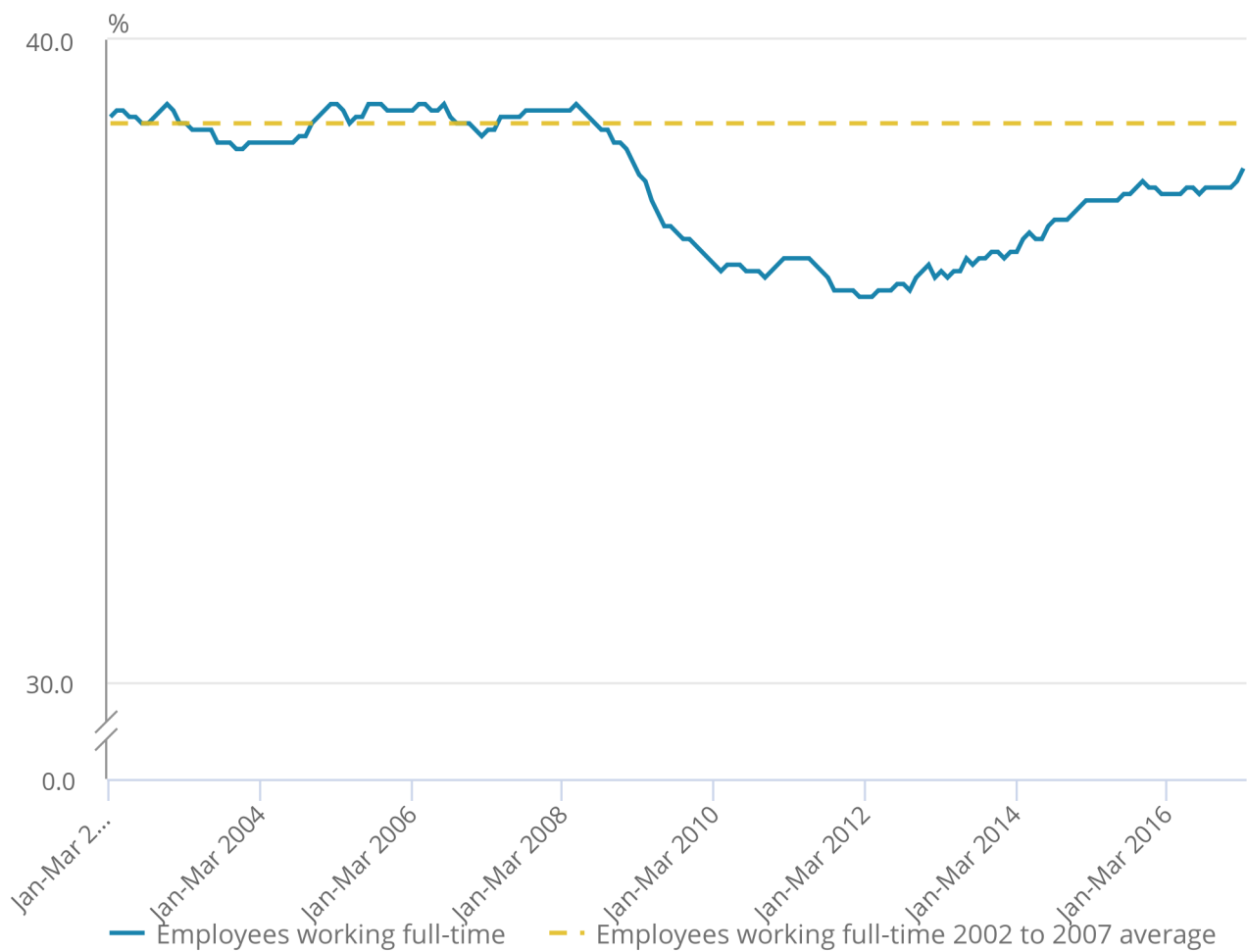
The employment rate is the ratio of employment to the aged 16 to 64 Labour Force Survey (LFS) population. To examine the composition of employment, Figure 2 presents the ratio of full-time employees, part-time employees, and self-employed to the 16 and over LFS population. Following the financial crisis, the number of full-time employees as a share of the 16 and over LFS population fell to 36% (in 2012) but has since increased to 38% in the 3 months to March 2017. In recent quarters, the increase in full-time employment has occurred alongside a fall in part-time employment: the number of part-time employees as a share of the 16 and over LFS population declined from 13.5% in the 3 months to August 2016 to 13.2% in the most recent quarter. Meanwhile, the share of self-employed has been relatively stable in the period since the 3 months to May 2016.

Figure 2a: Full-time employees

UK, January 2002 to March 2017

Figure 2a: Full-time employees

UK, January 2002 to March 2017



Source: Office for National Statistics, Labour Force Survey

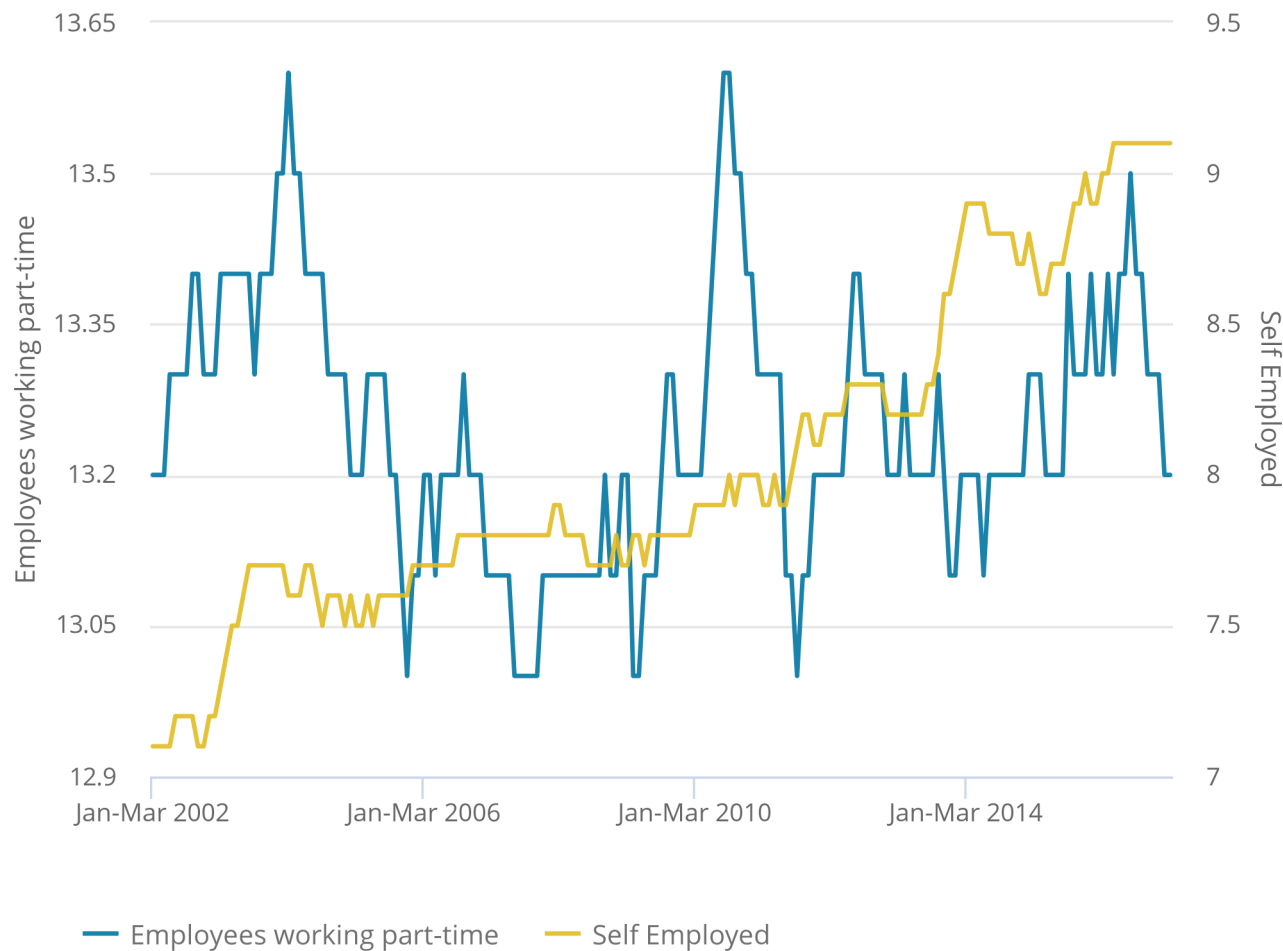
Source: Office for National Statistics, Labour Force Survey

Figure 2b: Part-time employees and self-employed

UK, January 2002 to March 2017

Figure 2b: Part-time employees and self-employed

UK, January 2002 to March 2017



Source: Office for National Statistics, Labour Force Survey

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Average hours worked per week increased slightly from 32.1 to 32.2 in the 3 months to March 2017, reflecting an increase in the average hours worked by part-time employees, as well as a shift from part time to full-time employment.

The number of vacancies increased by 22,000 to 777,000 in the 3 months to April 2017, a new record high. The number of unemployed people per vacancy declined to 2.0 in the 3 months to March 2017, the lowest on record.

3 . UK unemployment rate falls

The unemployment rate declined to 4.6% in the 3 months ending March 2017, the lowest since 1975. This fall occurred alongside an unchanged participation rate (the proportion of people aged 16 and over who were economically active) and a slight increase in the headline economic activity rate (the proportion of people aged between 16 and 64 who were economically active). The economic activity rate is now 78.5%, the equal highest since records began in 1971.

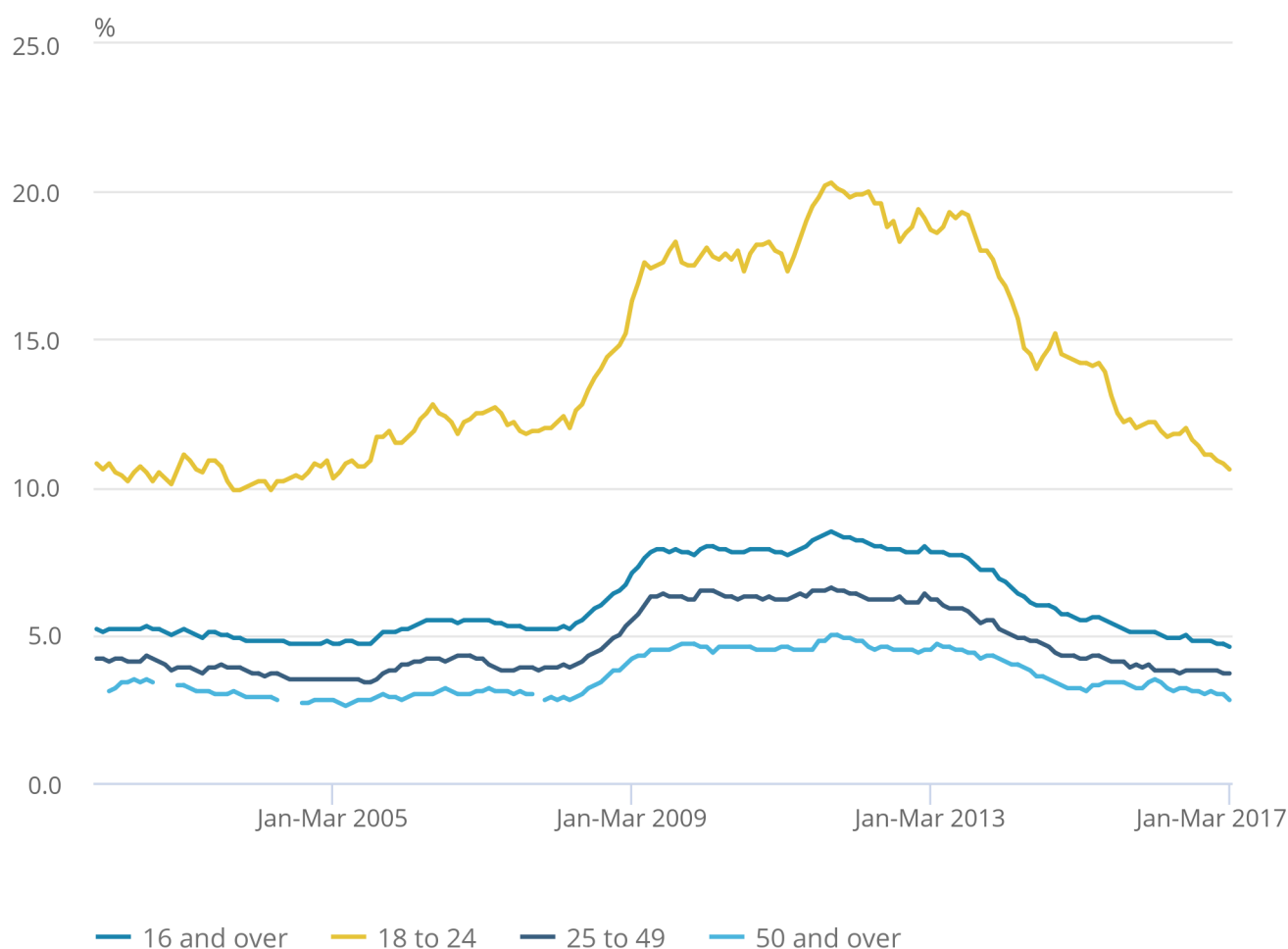
Figure 3 shows the headline unemployment rate, as well as equivalent rates for workers of different ages. Across all age groups, the unemployment rates have decreased from their post-downturn levels, and are now below their pre-crisis averages.

Figure 3: Headline unemployment rate, and unemployment by age group

UK, seasonally adjusted, January 2002 to March 2017

Figure 3: Headline unemployment rate, and unemployment by age group

UK, seasonally adjusted, January 2002 to March 2017



Source: Office for National Statistics, Labour Force Survey

Source: Office for National Statistics, Labour Force Survey

Notes:

1. Gaps in the 50 and over series reflect missing observations.

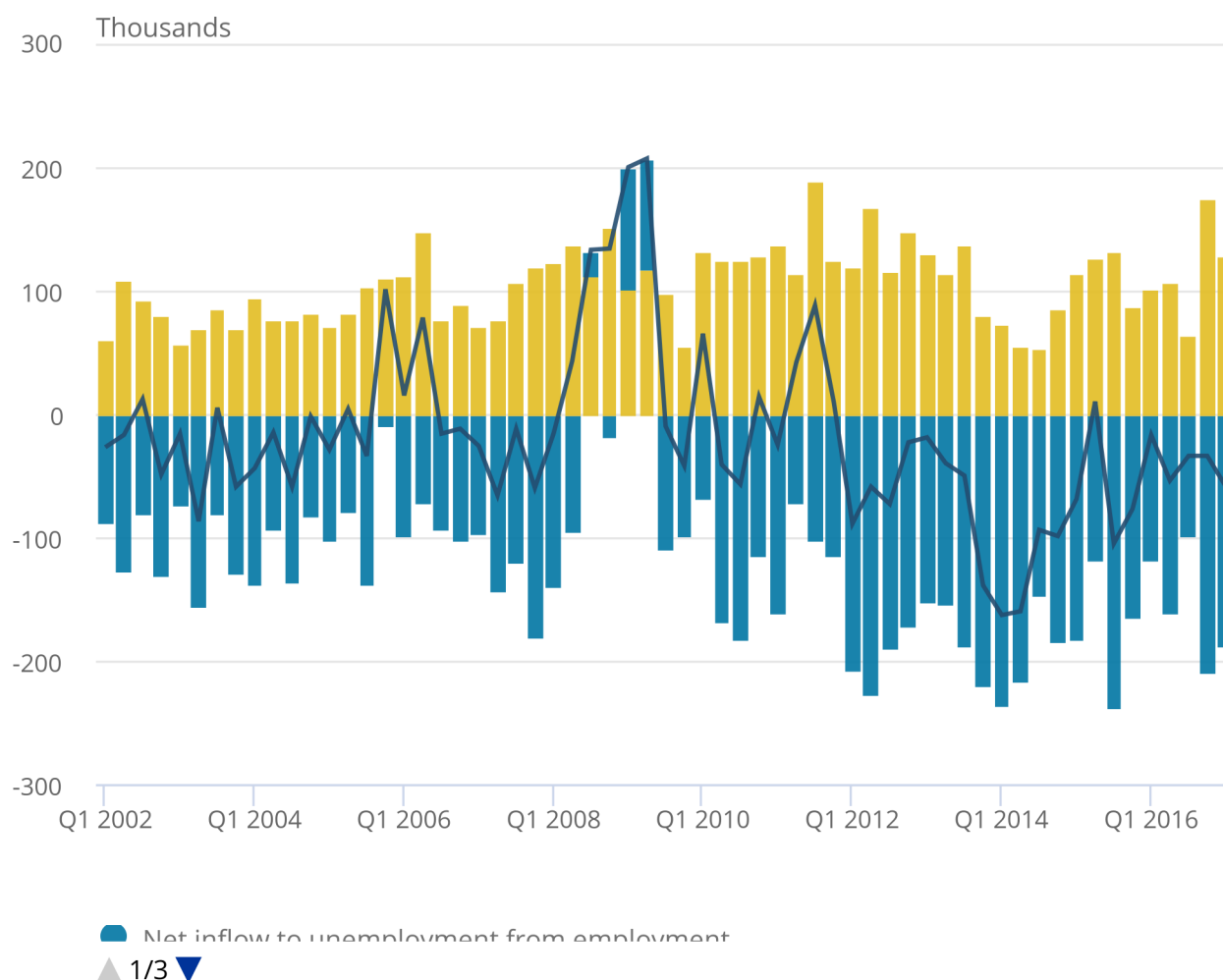
Figure 4 displays the net flows into unemployment from employment and inactivity. Consistent with a recovery in the labour market, net inflows into unemployment turned negative from 2012 onwards, as the flow of people from unemployment into employment picked up. Similarly, net hiring – the net outflow from unemployment to employment – remained relatively high in the 3 months to March 2017. Meanwhile, net inflows from inactivity remained above average, despite a slight fall in the most recent quarter. This reflects both an increase in the number of people moving from unemployment to inactivity and a decrease in people moving from inactivity to unemployment.

Figure 4: Contributions to net inflows to unemployment, from inactivity and employment

UK, seasonally adjusted, January 2002 to March 2017

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UK, seasonally adjusted, January 2002 to March 2017



Source: Office for National Statistics, Labour Force Survey

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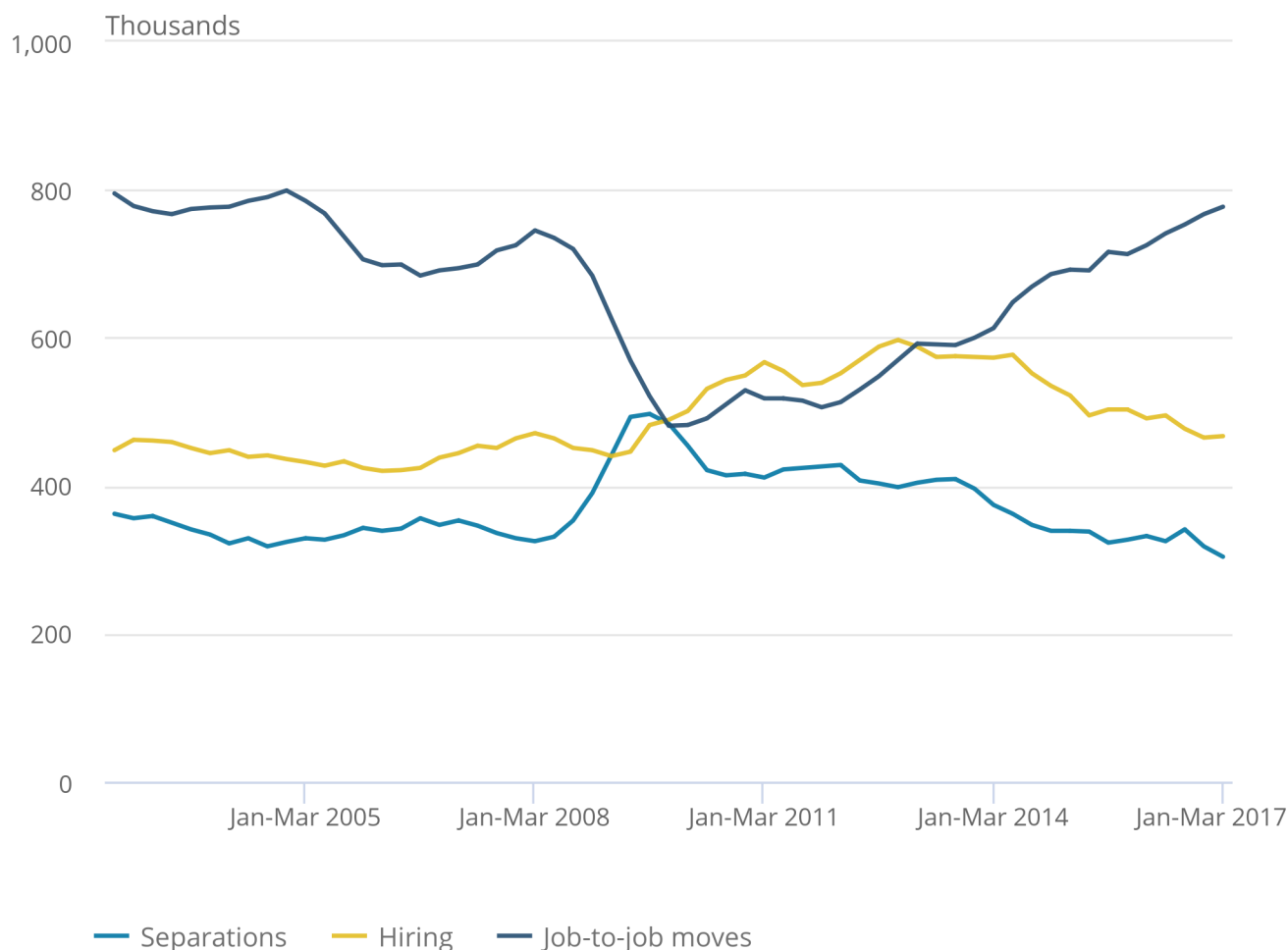
Figure 5 shows the number of people each quarter who move from employment to unemployment (separations), unemployment to employment (hiring), and job moves (within employment). Following the economic downturn in 2008, hiring and job-to-job moves fell while separations rose, as some employers sought to reduce labour costs or went out of business. As the labour market began to recover, hiring and job-to-job moves rose simultaneously. This is consistent with employers who were looking to recruit during this period finding the skills they were seeking among either the unemployed or the currently employed. In recent quarters, job-to-job flows have tracked at a high level.

Consistent with an unemployment rate at a generational low, and a record high economic activity rate, the flows data show an increase in the number of people moving from inactivity directly to employment.

Figure 5: Separations (flow from employment to unemployment), hiring (flow from unemployment to employment), and job-to-job moves, 4-quarter moving average

UK, January 2002 to February 2017

Figure 5: Separations (flow from employment to unemployment), hiring (flow from unemployment to employment), and job-to-job moves, 4-quarter moving average



Source: Office for National Statistics, Labour Force Survey

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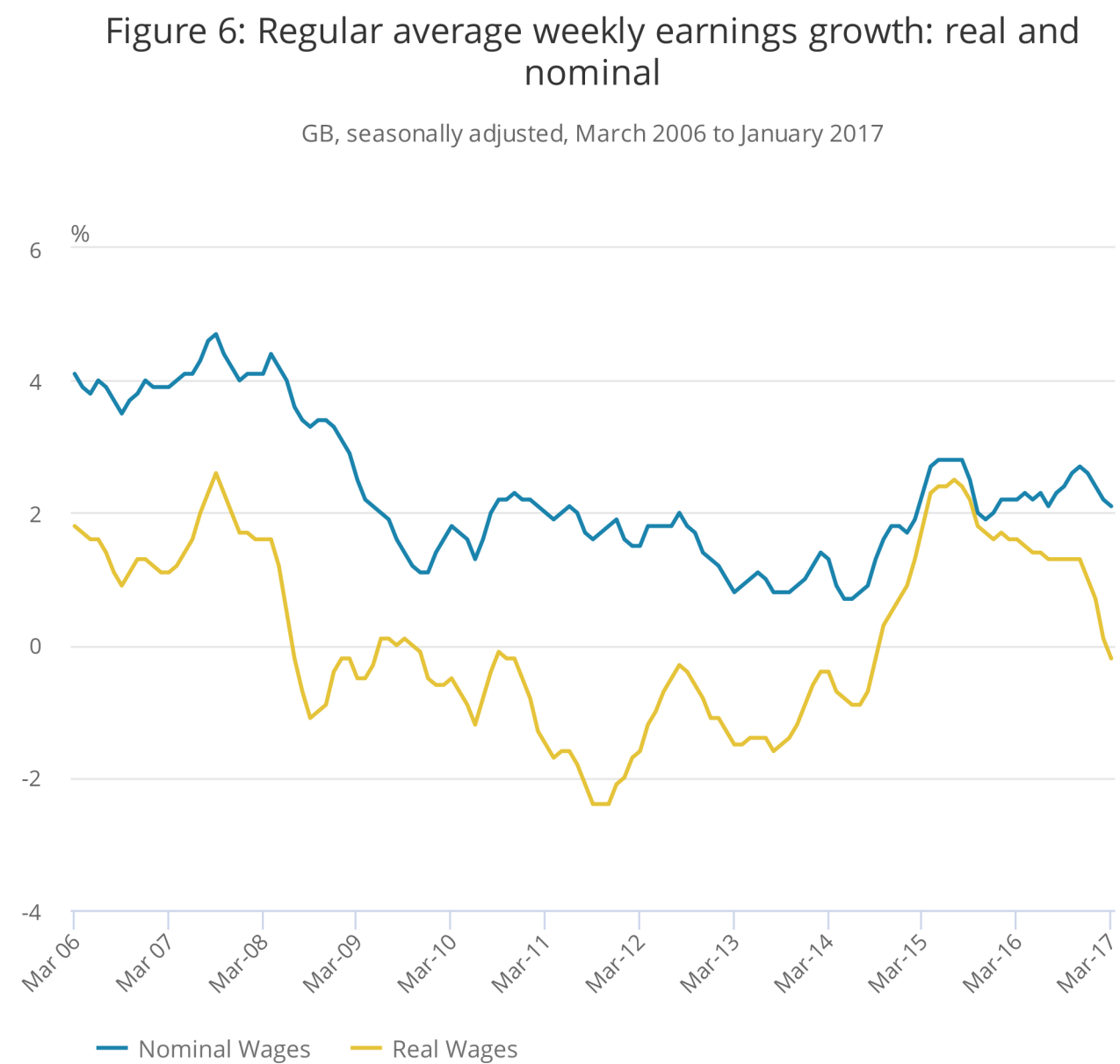
4 . Rate of wage growth slows

The rate of regular wage growth slowed in the 3 months to March 2017 (Figure 6). Average weekly total pay for employees in Great Britain increased by 2.4% in the 3 months to March 2017 compared with a year earlier, supported by bonuses in the finance and insurance sector. Excluding bonuses, average weekly earnings increased by 2.1% over the same period, the weakest since the 3 months to July 2016. Private sector regular pay grew by 2.3% in the 3 months to March 2017, while public sector pay grew by 1.3%, compared with the same period a year ago.

Adjusted for consumer price inflation including owner occupiers' housing costs (CPIH), average weekly earnings increased by 0.1% including bonuses, but fell by 0.2% excluding bonuses, in the 3 months to March 2017 compared with a year earlier. This is the first decline in real earnings since the 3 months to September 2014.

Figure 6: Regular average weekly earnings growth: real and nominal

GB, seasonally adjusted, March 2006 to January 2017



Source: Office for National Statistics, Labour Force Survey

Source: Office for National Statistics, Labour Force Survey

5 . Authors

Adama Lewis, James Rowlings, Amina Syed and Wain Yuen; Office for National Statistics.

