

Article

# Labour market economic commentary: March 2019

Additional economic analysis of the latest UK labour market headline statistics and long-term trends for March 2019.

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## Table of contents

1. [Main points](#)
2. [Overview](#)
3. [Employment](#)
4. [Unemployment](#)
5. [Economic inactivity](#)
6. [Labour market flows](#)
7. [Average weekly earnings and vacancies](#)
8. [Authors](#)

# 1 . Main points

- The level of employment in the UK increased by 222,000 to a record high of 32.71 million in the three months to January 2019.
- The employment rate of 76.1% was the highest since comparable records began in 1971.
- The rate of unemployment fell to 3.9%, the lowest rate since the mid-1970s, and the rate of inactivity fell to a record low of 20.7% in the three months to January 2019.
- The number of vacancies in the economy has been on an upward trend since mid-2009.
- Real total average weekly pay increased by 1.5% on the year in January 2019 and real regular average weekly pay increased by 1.4% on the year over the same period.

## 2 . Overview

The UK labour market continues to perform strongly, as experienced in 2018. Employment continues to increase while unemployment and inactivity rates continue to decrease. However, the general economic outlook is more complex.

The economy grew by 0.2% in the three months to January 2019, which was a 0.1 percentage points decrease from the September to November 2018 growth rate of 0.3%. The weak economic performance is partly explained by the weakening global trading system. In the three months to January 2019, [the manufacturing and construction sectors performed poorly](#), posing risk to employment in those sectors.

There is uncertainty in the economy and this has caused business confidence to decline. The Organisation for Economic Co-operation and Development (OECD) traces [the decline in business confidence](#) as having started in 2017. This decline is evidenced by firms announcing plans to shelve investments, or to downsize operations. Some firms have gone into administration, often resulting in job losses. Others have indicated their intentions to shift their operations abroad, for various reasons. These developments have knock-on effects on consumer confidence and expectations.

Consumer confidence has been declining and the decline may cause aggregate demand in the economy to decline too. The OECD shows [UK consumer confidence](#) as having been declining since March 2018. Despite the negative outlook, the labour market continues to perform well.

## 3 . Employment

In the three months to January 2019, the number of people in employment in the UK increased by 222,000 to a record high of 32.71 million. This was the largest rolling quarter-increase since the period September to November 2015. This is in contrast with the recent weakness in gross domestic product (GDP) growth, especially given that real wages growth rates have been rising.

The number of men in employment increased by 77,000 to reach a record high of 17.32 million in the three months to January 2019. The number of women in employment increased by 144,000 to reach a record high of 15.40 million over the same period. This was the largest increase in the number of employed women since the period February to April 2014.

The increase in the number of people in employment was driven mainly by the increase in the number of employed women. There are several reasons that may explain this robust increase. For instance, the increase in the State Pension Age for women from 60 years to 65 years means more older women are remaining in the labour market. This has resulted in growth of the labour market participation rate of women aged 60 years and older. Part-time employment has been expanding over time. More women (6.32 million) than men (2.28 million) worked on a part-time basis in the three months to January 2019. Of the women who worked on a part-time basis, 77% did not want full-time jobs.

The employment rate increased to a record high of 76.1%. The Bank of England's [Millennium of Macroeconomic Data for the UK](#) (which are not National Statistics) shows that the last time the employment rate was this high was in 1943 and in 1872 when it reached 76%.

The employment rates for men and women increased by 0.2 percentage points and 0.6 percentage points to reach record-high rates of 80.5% and 71.8% respectively.

The people in employment can be categorised mainly as employees or as self-employed workers<sup>1</sup>. In the three months to January 2019, the number of employees increased by 152,000 to a record high of 27.7 million. Over the same period, the number of self-employed workers increased by 60,000 to 4.84 million.

## Notes for: Employment

1. Other categories of people in employment are unpaid family workers and workers on government-supported training and employment programmes.

## 4 . Unemployment

The unemployment rate in the economy has been declining over the past year. In the three months to January 2019, the UK's unemployment rate reduced to 3.9%. The last time that the unemployment rate was this low was in the three months to February 1975.

The unemployment rate for women was at a record low of 3.8% and that for men stood at 4% in the three months to January 2019. The last time the unemployment rate for men was at 4% was in the period May to July 2018.

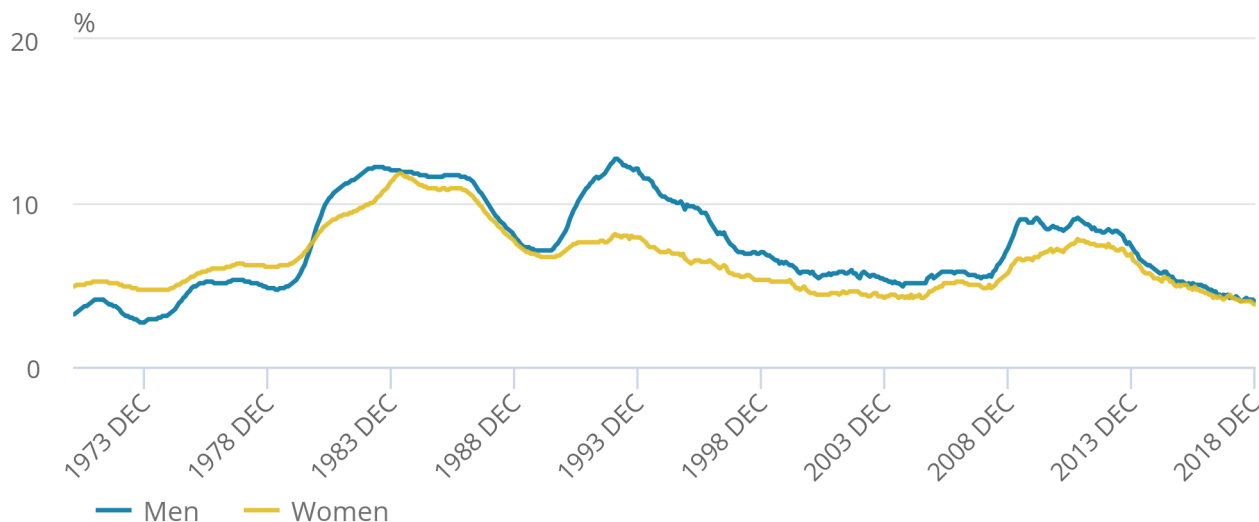
Figure 1 shows the trends of unemployment rates for men and women since 1971. It shows that unemployment rates increased following economic downturns in the 1980s, early 1990s and 2008 to 2009. Since the three months to November 2011, the unemployment rates for both men and women have been on downward trends.

### Figure 1: Unemployment rates for men and women

UK, seasonally adjusted, January to March 1971 to November 2018 to January 2019

## Figure 1: Unemployment rates for men and women

UK, seasonally adjusted, January to March 1971 to November 2018 to January 2019



Source: Office for National Statistics – Labour Force Survey

Figure 1 shows that from 1980 onwards, men had a higher unemployment rate than women. Over time, the unemployment rate for men has decreased at a faster rate than that for women such that in the period November 2018 to January 2019, the gap between the two rates had reduced to 0.2 percentage points.

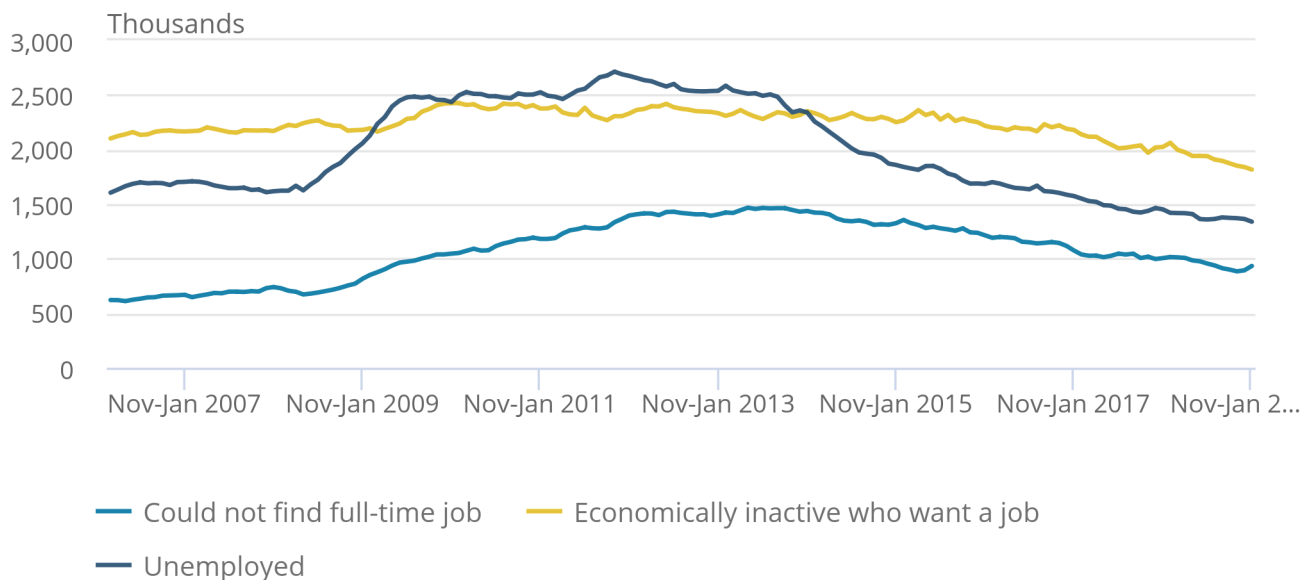
The fall in the number of people who are unemployed in the economy has been reducing under-utilised labour. Under-utilised labour consists of people aged 16 years and older who are unemployed, those aged 16 years and older who are in part-time employment but would want more hours, and those aged 16 to 64 years who are inactive but would like regular jobs. We can plot their trends as illustrated in Figure 2. The people who are classified as inactive but who wanted regular jobs did not meet the international definition of unemployment, but had weak attachment to the labour market. They may not have looked for work because they were discouraged, or because they expected to earn higher wages than those obtainable in the labour market. Although they are weakly attached to the labour market, the attachment can strengthen if conditions become more favourable to such people.

## Figure 2: Under-utilised labour

UK, seasonally adjusted, January to March 2006 to November 2018 to January 2019

### Figure 2: Under-utilised labour

UK, seasonally adjusted, January to March 2006 to November 2018 to January 2019



Source: Office for National Statistics – Labour Force Survey

Figure 2 shows that the number of people who worked part-time because they could not find full-time work has been decreasing since 2013. The number of unemployed people has also been decreasing, but at a faster rate than that of part-timers wanting full-time jobs. The number of people with weak attachment to the labour market has also been on a downward trend, especially from 2016 onwards. The overall picture from these indicators is that the under-utilisation of labour in the economy is on a downward trend.

Decreasing under-utilised labour has implications for hiring decisions. Employers may find it increasingly difficult to hire workers and this will likely put pressure on wages. In the three months to January 2019, there were 863,000 unfilled vacancies and 1.34 million unemployed people. The number of unemployed people per vacancy reduced from 5.8 in the three-month period to December 2011, to 1.6 in the three months to January 2019. This indicates a tightening labour market, which may cause recruitment problems for employers due to a shortage of new recruits.

Economic theory predicts that when the demand for labour grows faster than the supply, pressure builds up for wages to increase. Higher wages may entice more people to leave economic inactivity for the labour force.

## 5 . Economic inactivity

The number of people who are economically inactive has been declining as more people leave economic inactivity for other labour market statuses. In the period October to December 2018, there was a net outflow of 155,000 from economic inactivity into other statuses. In addition, 63.2% of the outflow from economic inactivity went into employment.

In the three months to January 2019, the number of economically inactive people in the UK declined by 117,000 to 8.55 million. The inactivity rate reduced by 0.3 percentage points to a record low of 20.7% over the same period.

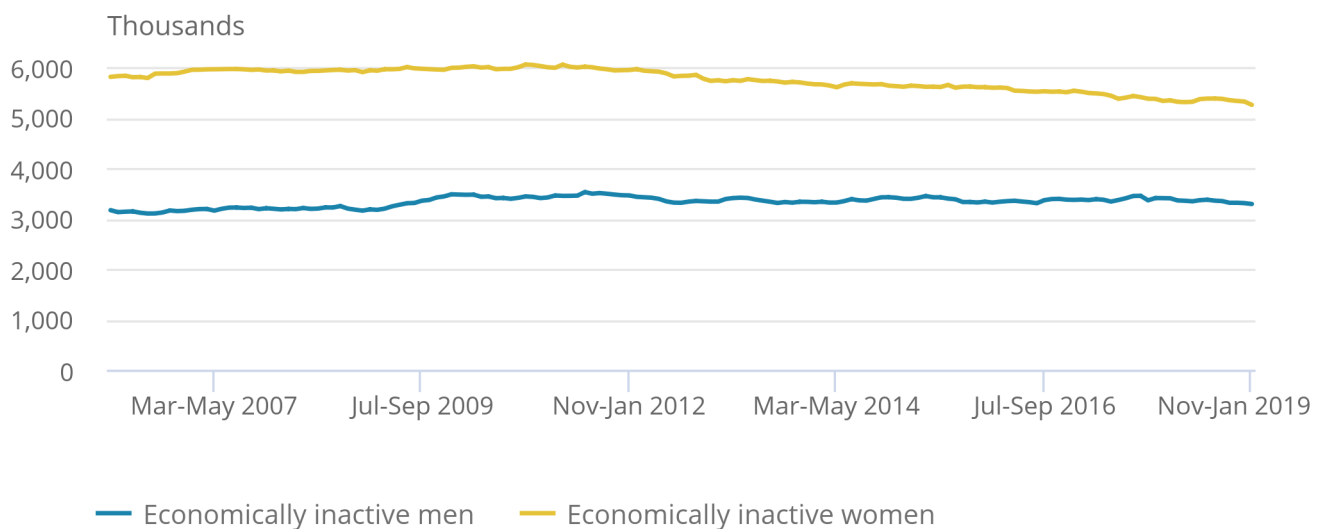
The number of economically inactive men fell by 24,000 to 3.29 million in the three months to January 2019. The number of economically inactive women fell by 92,000 to 5.26 million over the same period. Figure 3 plots the trends of economically inactive men and women since 2006.

**Figure 3: Men and women who were economically inactive**

UK, seasonally adjusted, January to March 2006 to November 2018 to January 2019

### Figure 3: Men and women who were economically inactive

UK, seasonally adjusted, January to March 2006 to November 2018 to January 2019



Source: Office for National Statistics – Labour Force Survey

Although more women than men were economically inactive, there was a larger fall in the number of inactive men in the year to January 2019 (116,000) than that of women (78,000). However, since 2011, the number of economically inactive women fell at a faster rate than that of men.

In the period November 2018 to January 2019, the number of economically inactive women had already fallen to below the pre-economic downturn level of 5.8 million that was recorded in the three months to July 2006. The number of economically inactive men (3.29 million) was higher than the one that was recorded in the pre-economic downturn period (3.1 million in the three months to September 2006).

The different categories of economically inactive people did not change in the same direction. The categories that recorded decreases were students (58,000), people who were retired (50,000) and people who looked after family or home (26,000). The fall in the number of students was the largest since the three months to February 2012. The categories that increased were those of people on long-term sickness (23,000) and people who were temporarily sick (4,000).

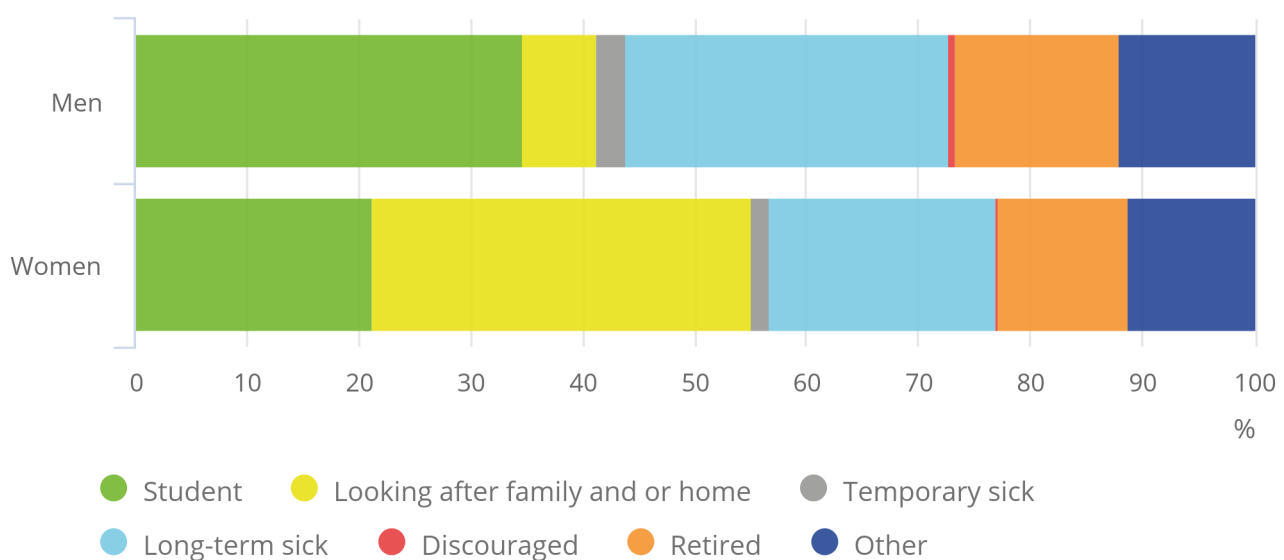
The distribution of men and women across the different categories of economic inactivity differed, as illustrated in Figure 4.

**Figure 4: Categories of economic inactivity disaggregated by sex**

UK, seasonally adjusted, November to January 2019

Figure 4: Categories of economic inactivity disaggregated by sex

UK, seasonally adjusted, November to January 2019



Source: Office for National Statistics – Labour Force Survey

Figure 4 shows that the largest proportion of inactive men were students, followed by those who were in long-term sickness. The largest proportion of inactive women looked after family or home, followed by those who were students.

If we disaggregate the total number of people who were long-term sick by sex, we observe that more men than women were in long-term sickness. If we disaggregate the total number of people who were looking after family or home by sex, we observe that women exceeded men by a ratio of 8.34 to 1. Generally, fewer men than women are inactive because of looking after the family or home. This adversely affects labour market outcomes of women. A study by Henrik Kleven and others (2019)<sup>1</sup> on [Child penalties across countries \(PDF, 381KB\)](#) argues that about 44% of the gender pay gap is explained by the fact that women take time to have children. The study also points out that in some countries, the cultural belief that women with young children must work in the home is still prevalent.

## Notes for: Economic inactivity

1. Kleven, H., Landais, C., Posch, J., Steinhauer, A. and Zweimuller, J. (2019) Child Penalties Across Countries: Evidence and Explanations.

## 6 . Labour market flows

Labour market flows explain the movement of workers into and out of the three labour market statuses of employment, unemployment and economic inactivity. The flows indicate the constant churning that takes place between the different statuses. The flows data are important because they make it possible to analyse the underlying labour market dynamics.

The analysis in this section refers to the fourth calendar quarter of 2018 (October to December). It is important to note that, unlike the current headline Labour Force Survey (LFS) estimates, the flow estimates presented here do not take into account the latest population estimates. The flow estimates will be revised to reflect the latest population estimates in May 2019.

There were net flows from economic inactivity to employment (70,000) and to unemployment (84,000); and a net flow from unemployment to employment (127,000). The flows vary with the economic cycle. As discussed previously, the persistent growth in employment is resulting in a dwindling pool of labour (that is, the unemployed and the economically inactive with attachment to the labour market).

The net flow from economic inactivity to employment was smaller than to unemployment. Several reasons may explain this. People leaving economic inactivity may find it more difficult to find work because they would have been out of the labour market for some time and their skills may have diminished. They may not have the networks and support that they need to get into jobs immediately. In addition, they may have less experience, especially when compared with people who are in short-term unemployment.



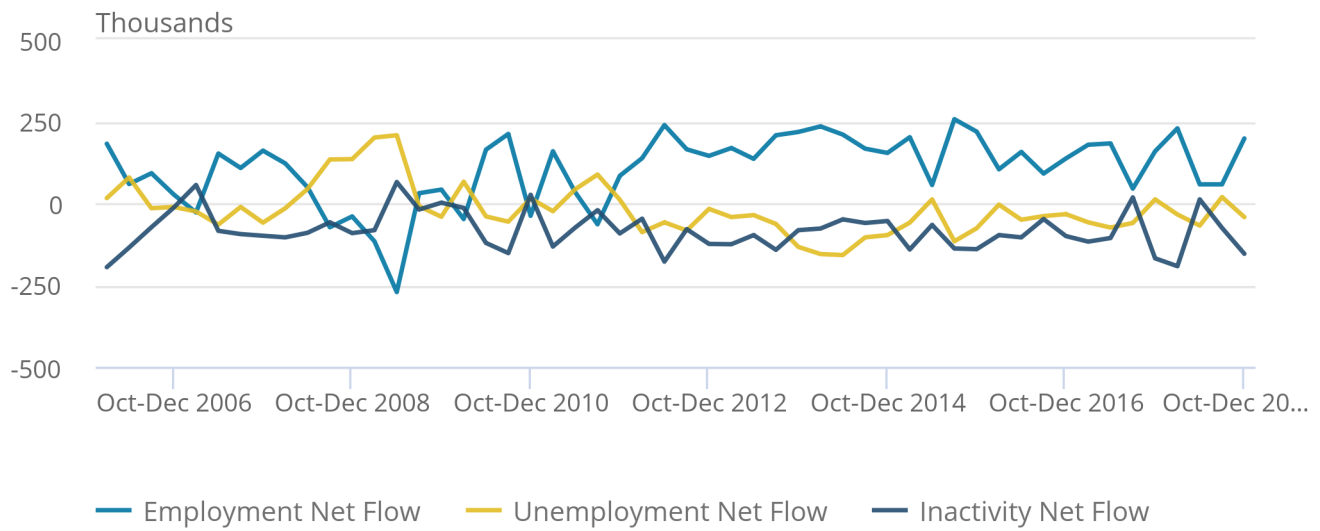
We can get a better understanding of the dynamics in the labour market by examining the net flows closely. Positive net flows imply a growing labour market status and negative net flows imply a declining status. Figure 5 plots the trends of the net flows associated with the three labour market statuses.

**Figure 5: Net flows between labour market statuses**

UK, seasonally adjusted, thousands, age 16 to 64 years, January to March 2006 to October to December 2018

### Figure 5: Net flows between labour market statuses

UK, seasonally adjusted, thousands, age 16 to 64 years, January to March 2006 to October to December 2018



Source: Office for National Statistics – Labour Force Survey

Figure 5 shows that there was a sharp net outflow from employment in 2009. This was as a result of the economic downturn. Since 2011, there has been a net flow into employment. Between 2012 and 2014, there were net flows from both unemployment and economic inactivity. For much of the period since 2012, these statuses recorded net outflows, except in the following periods: April to June 2015, October to December 2017 and July to September 2018 for unemployment; and July to September 2017 and April to June 2018 for economic inactivity.

The direction of the net flows indicates the robust growth in the level of employment in the economy. Given that the underutilisation of labour has been dwindling, one would expect firms to increase wages. Next, we explore the relationship between earnings and vacancies.

## 7 . Average weekly earnings and vacancies

Average weekly earnings (AWE) can either be total pay (which includes bonus income) or regular pay (which excludes bonus income). The [growth rate of AWE](#) is calculated as a three-month average figure of the growth in the average seasonally adjusted values for the three months ending with the relevant month compared with the same period a year earlier.

The latest earnings data show that total AWE increased by 3.4% on the year to reach £530 per week in the three months to January 2019. Nominal regular pay increased by 3.4% on the year to reach £497 per week over the same period.

We calculate real earnings by deflating nominal earnings with the Consumer Prices Index that includes owner occupiers' housing costs (CPIH – base year equals 2015). Real total pay increased by 1.5% on the year to reach £497 per week in the three months to January 2019. Real regular pay increased by 1.4% on the year to reach £466 per week over the same period.

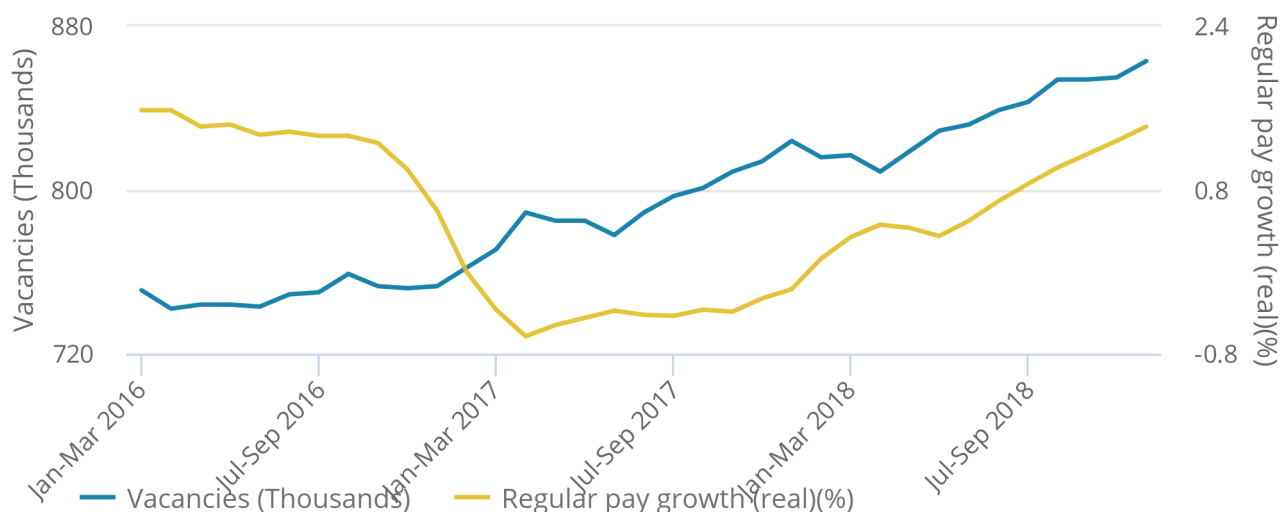
As highlighted earlier, vacancies have been increasing over time, which is likely to put upward pressure on wage growth. The number of vacancies in the economy increased by 4,000 on the quarter to 863,000 in the three months to January 2019. For the three months to January 2019, real regular pay grew by an average of 1.3%. The trends of vacancies and real regular pay growth from 2006 onwards are shown in Figure 6.

**Figure 6: Trends of vacancies and regular pay growth<sup>1</sup>**

Seasonally adjusted, January to March 2016 to November 2018 to January 2019

Figure 6: Trends of vacancies and regular pay growth<sup>1</sup>

Seasonally adjusted, January to March 2016 to November 2018 to January 2019



Source: Office for National Statistics - Monthly Wages and Salaries Survey, Vacancy Survey

Notes:

- 1. Vacancies data are for the UK and earnings data are for Great Britain.

Figure 6 shows that vacancies had an upward trend. This has been the case since mid-2009. Real pay growth was negative between 2009 and 2014 due to higher inflation. The growth fell back into negative territory between January 2017 and January 2018. Since then, real pay growth has been on an upward trend.

Real pay has had a weak positive trend since 2014. Despite the growth, the real regular pay of £466 per week (measured in 2015 prices) in the three months to January 2019 was still below the level of £473 per week recorded in the period February to April 2008.

Although the growth in real pay has been driven by falling inflation in recent times, that growth is partly influenced by pressure from increasing unfilled vacancies. In fact, the 2017 [Employer Skills Survey \(PDF, 6.2MB\)](#) reported that employers in some industries like construction and social care raised concerns about the challenges they were facing in recruiting new workers.

The relationship between vacancies and real pay growth may also be linked to the robust performance of employment and the record declines in both unemployment and economic inactivity. The labour market is now tighter and this puts pressure on wages to increase. When the labour market is tight, job movers can negotiate for higher pay, which contributes to pay growth. Employers may be forced to increase pay to retain their current workers.

A labour market where demand outstrips supply can be labelled a “sellers' market”. It forces employers (constituting demand) to look beyond their normal recruitment pool. This creates opportunities for people that employers may routinely ignore in normal times. For instance, less qualified or inexperienced people who may ordinarily find it difficult to get jobs, may find it easier to get employed when there is excess demand for workers. Employers may have to spend more on training to improve the skills of the workers who joined employment with inadequate skills.

## **8 . Authors**

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