

Article

Labour market economic commentary: June 2019

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

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Release date:
11 June 2019

Next release:
16 July 2019

Table of contents

1. [Main points](#)
2. [Overview of the economy](#)
3. [Employment, unemployment and economic inactivity](#)
4. [Average weekly earnings](#)
5. [Other labour market outcomes during the period of high employment rates in the UK economy](#)
6. [Authors](#)

1 . Main points

- In the three months to April 2019, the number of people in employment in the UK increased by 32,000 to a record high of 32.75 million.
- The unemployment rate for women fell to a joint-record low of 3.7%.
- The number of economically inactive women reduced to a record low of 5.2 million.
- In the environment of high employment, relative poverty has remained stable and absolute poverty has reduced.
- The level of income inequality has increased at the top and bottom of the income distribution spectrum, but it reduced in the middle of the spectrum.

2 . Overview of the economy

The UK's economic outlook is characterised by uncertainty regarding the country's exit from the European Union (EU). In its latest [Inflation Report \(PDF, 3.84MB\)](#), the Bank of England stated that it expected economic growth to remain subdued. Several forecasters have pointed to EU exit uncertainty as a factor now affecting the economy.

For instance, the British Retail Consortium (BRC) reported that [total sales declined by 2.7% in May](#), due partly to the uncertainty that is causing the manufacturing sector to contract. The [EY's Europe Attractiveness Survey 2019](#) reported that stock build-up has weakened, which is likely to contribute to weaker growth. The survey reported that foreign direct investment in manufacturing declined by 35% in 2018. These developments have negative impacts on labour market outcomes.

On the international scene, the trade conflict between the USA and China is weighing down on trade between the two countries. The International Monetary Fund (IMF) points out that [the tariffs imposed by both countries hurt their consumers](#) and the trade deficit between the countries remains broadly unchanged.

For instance, the fall in US soya beans exports to China was replaced (in China) by soya beans imports from Brazil. A decline in US imports from China was nearly matched by the increase in imports from Mexico. The US administration's attempt to reshape the global trading system has seen the US removing India from the Generalised System of Preferences list.

In the UK labour market, unemployment and economic inactivity remain low, and employment continues to increase. The Bank of England's Inflation Report for May 2019 reported that recruitment surveys (by the [British Chamber of Commerce](#) and by the [Confederation of British Industry](#)) indicated that hiring new staff had become more challenging with labour shortages across a broad range of sectors and skill levels.

However, the British Chamber of Commerce (BCC) reported that in the first quarter of 2019, [there was a decline in the balance of firms that wanted to recruit new full-time workers](#), there was a decrease in the balance of firms that wanted to recruit for permanent workers and there was a decline in the balance of firms that had training investment intentions.

The BCC also expects firms to raise their prices due to increases in costs. For instance, firms that have high proportions of low-paid workers face increasing pay expenditure in line with changes to the National Living Wage from the beginning of April 2019.

3 . Employment, unemployment and economic inactivity

Employment increased to a record high of 32.75 million

The latest Labour Force Survey (LFS) shows that the number of people in employment in the UK increased by 32,000 to a record high of 32.75 million in the three months to April 2019. The employment rate remained unchanged at 76.1%.

The increase in employment was driven by women whose numbers increased by 60,000 on the quarter to a record high of 15.46 million. Consequently, the employment rate for women increased by 0.2 percentage points to 72.0%. The number of employed men fell by 27,000 on the quarter to 17.29 million. The employment rate for men fell 0.2 percentage points to 80.3%. The gap between the participation rates of men and women continues to decrease.

If we exclude unpaid family workers and those on government-supported training programmes, we can categorise people in employment as employees or as self-employed. The number of employees fell by 38,000 on the quarter to 27.67 million in the three months to April 2019. The decrease was driven by the fall in the number of men, which reduced by 80,000 on the quarter to 13.92 million. The number of women increased by 42,000 to 13.75 million over the same period.

The number of self-employed workers increased by 74,000 on the quarter to 4.91 million. The number of self-employed men increased by 47,000 to 3.29 million and that of women increased by 28,000 to 1.62 million. The [Labour market economic commentary for May 2019](#) discussed some of the reasons for the growth in self-employment in the economy.

Employment by age group

The structure of employment can be analysed using age groups of workers. For this analysis, workers are categorised into age groups 16 to 17 years, 18 to 24 years, 25 to 34 years, 35 to 49 years, 50 to 64 years and 65 years and older. The latest estimates show that employment for four age groups increased in the three months to April 2019. These were age groups 50 to 64 years (59,000), 25 to 34 years (29,000), 16 to 17 years (21,000) and 65 years and over (15,000).

The employment trends of the age groups show these four age groups had notable trends, as shown in Figure 1. The age groups 25 to 34 years, 50 to 64 years and 65 years and older had upward trends, while the 16 to 17 years age group had a relatively downward trend.

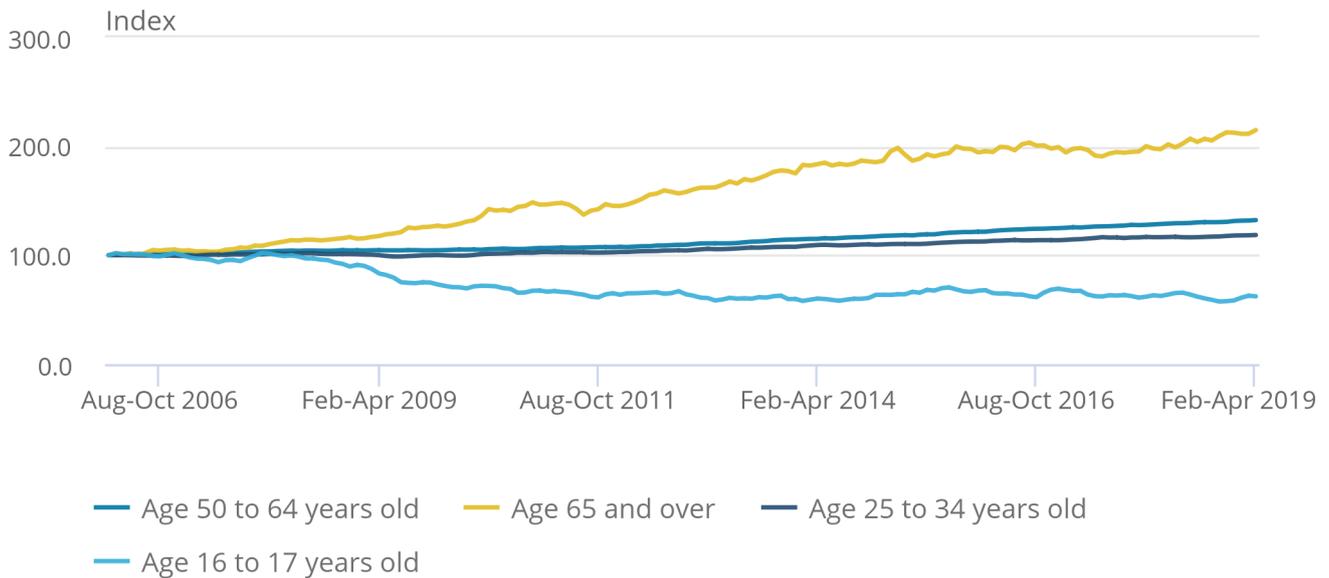
The number of people in the age group 65 years and older in employment more than doubled in size to 1.3 million between the first calendar quarter (Jan to Mar) of 2006 and the three months to April 2019. The age group 50 to 64 years increased from 6.96 million to 9.2 million over the same period. The 25 to 34 years age group increased from 6.38 million to 7.56 million, while the 16 to 17 years age group reduced from 545,000 to 339,000.

Figure 1: Older workers aged 50 years and over experienced the largest growth in employment

UK, Index of Employment, seasonally adjusted, January to March 2006 to February to April 2019

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UK, Index of Employment, seasonally adjusted, January to March 2006 to February to April 2019



Source: Office for National Statistics – Labour Force Survey

These figures show an interesting feature of the labour market: higher employment of older workers (that is, those aged 50 years and older). This phenomenon was caused partly by the equalisation of the State Pension age for women with that of men. The increase in the employment of people who are over 64 years old may be motivated by several factors, including financial considerations and the need to keep cognitive abilities. People are remaining in the labour market for longer due partly to the [removal of a default retirement age](#).

The unemployment rate decreased and that for women fell to a joint-record low of 3.7%

The number of people who were unemployed fell by 34,000 to 1.30 million and the unemployment rate fell by 0.1 percentage points to 3.8% in the three months to April 2019. This indicates further tightening of the labour market.

More men (719,000) than women (586,000) were unemployed. The fall in unemployment was driven more by the fall in the number of unemployed women (25,000) than by that of men (9,000). The unemployment rate for women fell to a joint-record low of 3.7% in the three months to April 2019.

The number of economically inactive women reduced to a record low of 5.2 million

The number of economically inactive people increased by 32,000 to 8.58 million in the three months to April 2019. The inactivity rate increased by 0.1 percentage points to 20.8%.

The number of women who were inactive decreased by 19,000 to 5.24 million. This is a record low since the start of this data series in the March to May 1992 period. The number of men who were inactive increased by 51,000 to 3.34 million.

The fall in the number of inactive women together with a rising employment rate and declining unemployment confirm that women are now part of the mainstream labour market and cannot be viewed as a secondary labour market as was the situation 40 years ago.

4 . Average weekly earnings

The latest earnings data show that average weekly earnings continue to grow. Total pay (which includes bonus payments) for the whole UK economy increased by 3.1% on the year to reach £532 in April 2019.

In the private sector, total pay increased by 3.2% on the year to reach £531 in April. In the public sector, it grew by 3% on the year to reach £542 in April.

In April 2019, total pay growth tapered off because smaller bonuses were paid in that month than a year ago, and there was reduced growth in private sector total pay, especially in the wholesaling, retailing, hotels and restaurants and the manufacturing sectors.

The data on regular pay (which excludes bonus payments) show that for the whole economy, regular pay increased by 3.4% on the year to reach £502 in April 2019. Private sector regular pay increased by 3.5% on the year to reach £493 in April, while public sector total pay increased by 2.8% on the year to reach £541.

Real total pay increased by 1.2% and real regular pay by 1.5% in the year to April 2019. Both pay measures were deflated by the [Consumer Prices Index including owner occupiers' housing costs \(CPIH\)](#). Figure 2 shows the annual growth rates of real total pay and regular pay since February 2018.

Figure 2: Real pay growth was relatively subdued

UK, seasonally adjusted, February 2018 to April 2019

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UK, seasonally adjusted, February 2018 to April 2019



Source: Office for National Statistics – Monthly Wages and Salaries Survey

Figure 2 shows that earnings growth has been relatively subdued over the past few months. In a tightening labour market, it would be expected that labour shortages would put pressure on wages to increase. However, the uncertainty in the economy may be reducing the impact of such pressure. As illustrated in our May 2019 report on [UK and non-UK people in the labour market](#), the number of non-UK workers increased in the three months to May 2019. This means the labour supply constraint may not be strictly binding.

5 . Other labour market outcomes during the period of high employment rates in the UK economy

The high employment rate in the economy indicates a strong labour market. The state of the labour market is important because employment plays an important distributional role. It facilitates social mobility and can aid households to exit from poverty. In this section, we examine the outcomes of some labour market variables alongside the high rate of employment. We start by presenting the trends of the employment rate and vacancies from 2001 onwards in Figure 3.

In the three months to April 2019, the employment rate remained largely unchanged. In April 2019, there were 841,000 vacancies.

Figure 3: The employment rate and vacancies have similar procyclical trends

UK, seasonally adjusted, January to March 2001 to February to April 2019

Figure 3: The employment rate and vacancies have similar procyclical trends

UK, seasonally adjusted, January to March 2001 to February to April 2019



Source: Office for National Statistics – Labour Force Survey and ONS Vacancy Survey

The employment rate and vacancies track each other closely. Both variables are procyclical to the business cycle. The employment rate has been on an upward trend since mid-2012, reaching a record rate of 76.1% in the period November 2018 to January 2019.

Vacancies started to increase from the period March to May 2009. They reached a peak of 861,000 in the period November 2018 to January 2019. In our [March 2019 labour market economic commentary](#), we discussed some of the implications of rising vacancies in the economy.

Underneath the high employment numbers lay mixed patterns of other labour market variables which, in part, indicate the unevenness of the benefits of the strong labour market. In this commentary, we analyse the patterns and trends of poverty and inequality. Other variables like trends of atypical employment including zero-hours contracts, growth in employment of older workers, the unionisation rate, falling under-utilisation of labour and growth in earnings will be examined in future commentaries.

Relative poverty has remained stable and absolute poverty has reduced

The Department for Work and Pensions (DWP) publishes [analytical tables of households below average income](#) based on the Family Resources Survey. The survey covers financial years from that ending 1995 (April 1994 to March 1995) onwards. The analysis is based on income that has been adjusted for housing costs and for household size.

A recent UN [report on poverty](#) in the UK stated that poverty increased significantly recently due partly to in-work poverty, but the UK government did not agree with the report. Instead, the government argued that extreme poverty has been falling. The tables show that absolute income poverty decreased, but relative poverty had mixed results. Absolute income poverty is defined as income that falls below 60% of the financial year ending 2011 median income held constant in real terms. Relative income poverty is defined as income that falls below 60% of the contemporary median income.

The percentage of working-age adults in relative low-income households increased by 1 percentage point from 19% in the financial year ending 2003 to 20% in the financial year ending 2018. The percentage of working-age adults in absolute low-income households reduced by 3 percentage points from 21% in the financial year ending 2003 to 18% in the financial year ending 2018.

Absolute income poverty decreased among individuals in households where someone was disabled, but relative income poverty did not change. On child poverty, the data show that the percentage of children in relative income poverty marginally increased by a percentage point to 30% between the financial year ending 2003 and the financial year ending 2018. The percentage of children in absolute income poverty decreased by 6 percentage points to 26% over the same period.

Although the percentage of individuals in relative income poverty remained unchanged at 22% between the financial year ending 2003 and the financial year ending 2018, that of individuals in absolute income poverty reduced by 5 percentage points to 19% over the same period. From this analysis, it appears the greatest gains were against absolute poverty while relative poverty remained broadly the same.

The gap between the bottom quintile group and the rest has increased since 1994

In terms of inequality, the Gini coefficient of income distribution after housing costs marginally reduced by 1 percentage point from 40% in the financial year ending 2010 to 39% in the financial year ending 2018. This means that although employment has been increasing, income inequality has largely stayed the same.

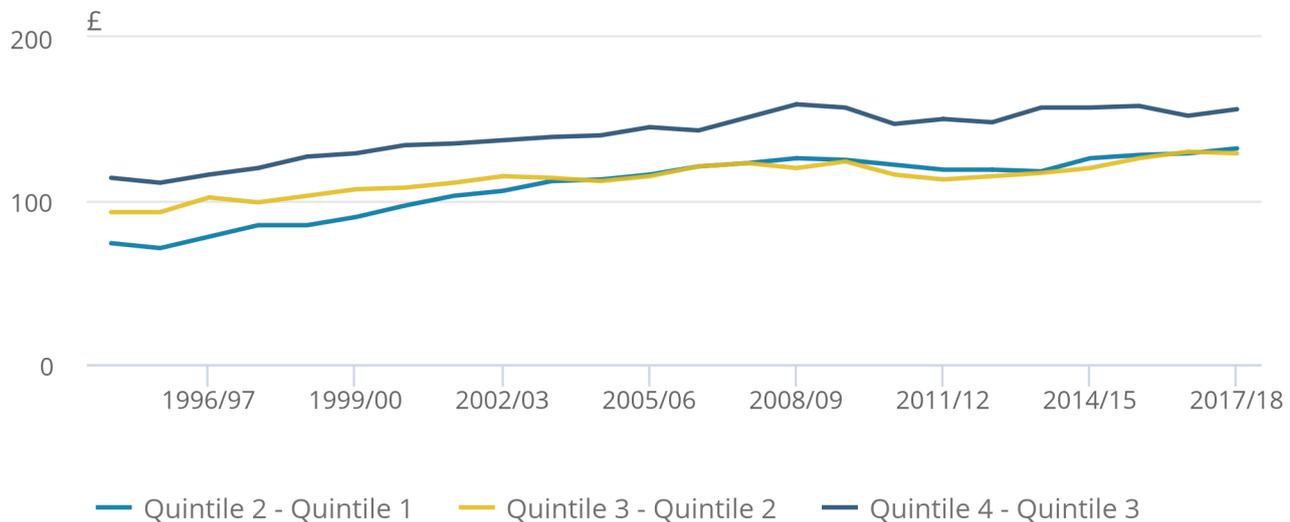
Analysis of the gaps between weekly incomes of quintile groups (which ranks equivalised household incomes of individuals after housing costs from lowest to highest, groups them into five categories (quintiles) and averages their income) in Figure 4 shows that the gap between the first and second quintile groups (that is, Quintile 2 minus Quintile 1) increased between the financial years ending 1995 and 2018. This indicates growing inequality between the bottom 20% of households and the next 20%.

Figure 4: The gaps between income quintiles has been increasing

Quintile gaps, UK, financial years ending 1995 to 2018

Figure 4: The gaps between income quintiles has been increasing

Quintile gaps, UK, financial years ending 1995 to 2018



Source: Department for Work and Pensions – Family Resources Survey

The gap between the second and third quintile groups (that is, Quintile 3 minus Quintile 2) also increased over the study period. The gap between the first and second quintile groups increased at a faster rate than that between the second and third quintile groups between the financial years ending 1995 and 2004. However, from the financial year ending 2005 onwards, the Quintile 2 minus Quintile 1 and Quintile 3 minus Quintile 2 gaps had similar trends, with the Quintile 2 minus Quintile 1 gap exceeding the Quintile 3 minus Quintile 2 gap for most of the period. This indicates that the second quintile group experienced faster income growth from 2003 onwards and this helped to improve the household income position of that quintile relative to the other two quintile groups.

The gap between the third and fourth quintile groups (that is, Quintile 4 minus Quintile 3) increased over the period of analysis. From the financial year ending 2009 onwards, the gap was relatively unchanged. The gap between the fourth and the fifth quintile groups (that is, Quintile 5 minus Quintile 4) increased between the financial year ending 1995 and the financial year ending 2009, and it became unchanged thereafter. The widening gaps indicate growing inequality between the quintile groups.

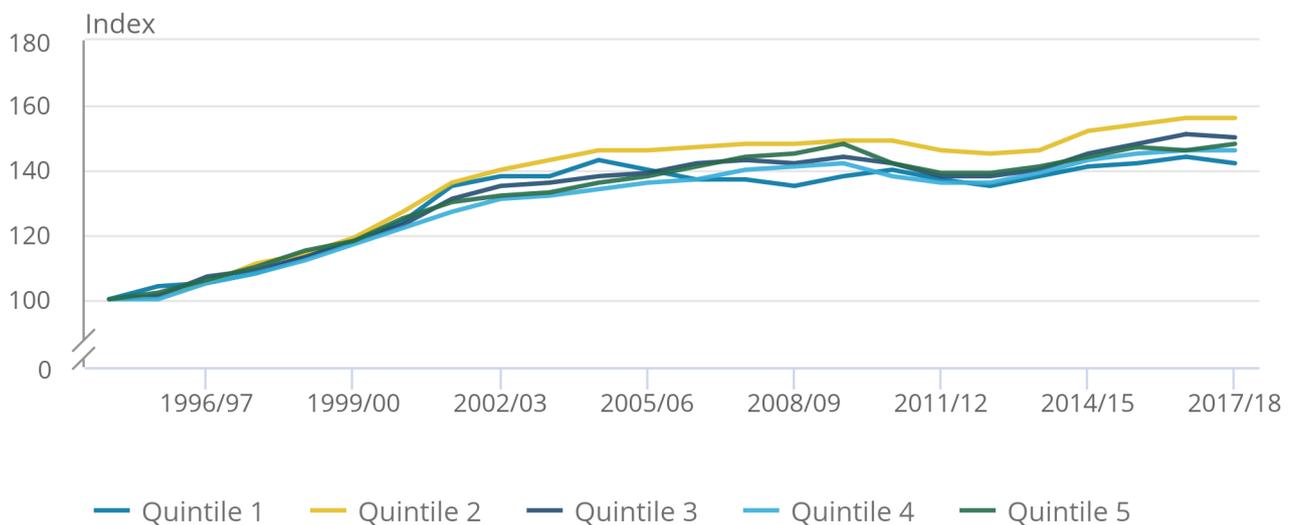
In addition to the gaps between quintile groups, we can perform comparative analysis of the growth of the incomes of the quintile groups. We generate indices of the average incomes of the quintile groups and analyse the trends over time. The indices are illustrated in Figure 5.

Figure 5: Average income for the second quintile grew fastest and that of the first quintile slowest

UK, quintile indices (financial year ending 1995 = 100), financial years ending 1995 to 2018

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UK, quintile indices (financial year ending 1995 = 100), financial years ending 1995 to 2018



Source: Department for Work and Pensions – Family Resources Survey

Figure 5 shows that the second quintile group experienced the highest income growth between 1994 and 2018. This narrowed the level of inequality between itself and higher quintile groups.

The third quintile group had the second-highest income growth during the reference period. The fourth quintile group average income performed worse than the average incomes of the second, third and fifth quintile groups. This indicates an income squeeze in the upper-middle section of the income spectrum and growing inequality at the bottom of the income distribution. The latter is because the lowest quintile group had the lowest average income growth, which enhanced inequality between itself and higher quintile groups. In other words, the growth in employment and incomes have been least beneficial to households at the lowest level of the income spectrum. This appears to tally with some of the findings of the UN [report on poverty in the UK](#).

Our [analysis of persistent poverty¹ in the UK and EU](#) based on 2017 data shows that persistent poverty rates in the UK in 2017 were comparable with the rates in 2008.

Notes for: Other labour market outcomes during the period of high employment rates in the UK economy

1. Persistent poverty is defined as experiencing relative low income both in the current year and at least two out of the three preceding years.

6 . Authors

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