

Article

Labour market economic commentary: July 2019

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

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1 . Main points

- The number of people in employment increased by 28,000 on the quarter to a record high of 32.75 million in the three months to May 2019.
- The number of people in self-employment increased by 123,000 to a record high of 4.96 million.
- The number of unemployed people reduced by 51,000 on the quarter to 1.29 million.
- The number of economically inactive people aged 18 to 24 years increased by 70,000 to 1.69 million.
- In the current period of high employment, ethnic minorities have higher-than-average unemployment rates, under-employment and the number of people with second jobs are falling.

2 . Overview of the economy

International outlook

The global economic outlook is characterised by uncertainty of the stability of the global trading system caused by growing protectionist tendencies. The major cause of the uncertainty is the trade war between the USA and China.

The G20 summit held in Osaka, Japan, at the end of June 2019 helped to ease the tensions between the USA and China as the two countries agreed to resume trade talks. The temporary truce reduces the uncertainty about the stability of the global trading system, but to a lesser extent.

At the end of June 2019, the EU signed a free trade agreement with Vietnam, and a bilateral trade agreement with the Mercosur group of countries (namely Argentina, Brazil, Paraguay and Uruguay). The latter committed to progressively cut duties and tariffs on goods from the EU.

The agreement between the EU and the Mercosur countries committed both parties to sustainable development, including respect for labour rights (freedom of association, the right to collective bargaining, the elimination of all forms of compulsory labour, the abolition of child labour, and non-discrimination) and the promotion of responsible business conduct.

In Europe, [economic growth in the EU-28 \(news release, PDF, 826KB\)](#) was 0.5% in the first calendar quarter of 2019. Growth in the Euro area was 0.4% over the same period. In May 2019, the [unemployment rate](#) was 7.5% in the Euro area and 6.3% in the EU-28.

The UK's economic outlook

In the UK, the economic outlook is characterised by ongoing uncertainty associated with the country's preparation to leave the European Union. The economy grew by 0.3% in the three months to May 2019, with services and production contributing positively, whilst construction made no contribution to growth. The latest estimates show that [labour productivity](#) (measured as output per hour) for the three months to March 2019 decreased by 0.2% compared with the same period in 2018. This was a third consecutive quarter decrease.

The inflation rate as measured by the Consumer Price Index including housing costs (CPIH) reduced by 0.1 percentage points on the month to 1.9% in May 2019. The fall was driven largely by reductions in transport fares and car prices.

The labour market continued to tighten as employment expanded and unemployment reduced in the three months to May 2019. Following the [Bank of England's Monetary Policy Committee \(PDF, 223KB\) \(MPC\)](#) meeting in June, the committee voted unanimously to maintain the bank rate at 0.75%.

The developments in the country impact on economic agents' perceptions and expectations about the future of the economy. The general perception from surveys is that the economy may be slowing down. For instance, the June [U.K. Construction Purchasing Managers Index \(PDF, 174KB\) \(PMI\)](#) fell from 48.6 in May to 43.1 in June 2019, with falling economic activity in all three sectors of house building, commercial activities and civil engineering activities. In June 2019, the [IHS Markit/CIPS UK Manufacturing PMI \(PDF, 144KB\)](#) was 48.0 (compared with 49.4 in May), the lowest since October 2012. Both domestic and foreign demand for goods weakened, including new export orders. A PMI value of 50 means that there is no change compared to the previous month; a value above 50 indicates an expansion, and a value below 50 a contraction.

In the labour market, [construction firms' demand for labour remained resilient \(PDF, 174KB\)](#), while services sector firms increased long-term employment. [The British Chamber of Commerce's labour market survey for the period April to May 2019 \(PDF, 366KB\)](#) showed that 51% of surveyed businesses that tried to recruit for high skilled positions in the previous 12 months reported average recruitment time exceeding three months. Over the same period, 16% of the businesses reported failing to receive apprenticeship applications.

3 . Employment, unemployment and economic inactivity

Employment

The number of people in employment increased to a record high of 32.75 million

The latest Labour Force Survey estimates for the three months to May 2019 show that the number of people in employment increased by 28,000 on the quarter to a record high of 32.75 million. The increase was driven mainly by women whose number increased by 59,000 to a record high of 15.47 million. The number of men in employment decreased by 31,000 on the quarter to 17.28 million.

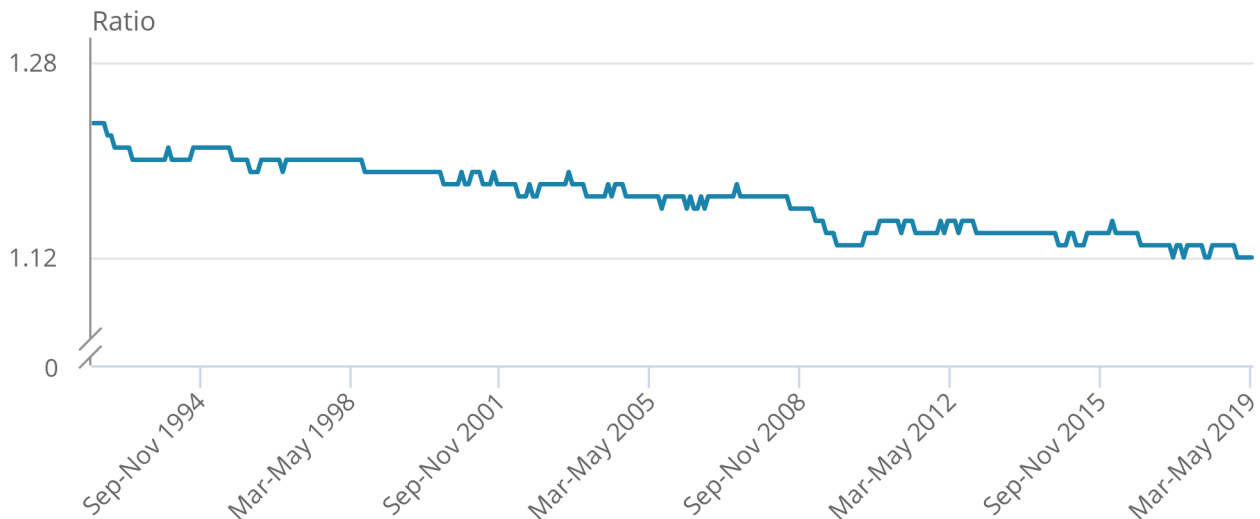
One important feature of the current labour market is the growth in the number of women entering employment. Figure 1 shows the ratio of men to women in employment. It shows that the number of men per every woman in employment has been falling. In 1992, the ratio was 1.23 men for every woman in employment. By the period March to May 2019, there were 1.12 men for every woman in employment.

Figure 1: The number of men per every woman in employment has been falling

UK, seasonally adjusted, employment sex ratio, March to May 1992 to March to May 2019

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UK, seasonally adjusted, employment sex ratio, March to May 1992 to March to May 2019



Source: Office for National Statistics -Labour Force Survey

The fall in the employment-sex ratio was driven by the rapid increase in the number of women joining employment compared with that of men. In addition, more women were joining full-time employment. For instance, the ratio of men to women in full-employment reduced from 2.03 in the period March to May 1992 to 1.64 in the three months to May 2019.

Several reasons may have contributed to the changes in the employment-sex ratio. These include policies that make it easier for women to seek employment, including improvements to childcare provision, the greater working flexibility and increase in the age at first child birth. Changes to employment legislation (for example, Employment Rights Act of 1996 and the Employment Act of 2003; the Maternity and Parental Leave Regulations of 1999; and Part-Time Workers (Prevention of Less Favourable Treatment) Regulations of 2000) contributed to equality and greater employment protection, which helped to transform the female labour market from being a secondary labour market to a primary labour market.

In the three months to May 2019, the employment rate decreased by 0.1 percentage point to 76.0%. The most recent period that the rolling quarter employment rate fell was in June to August 2018. Disaggregating the employment rate by sex shows that the employment rate for men decreased by 0.3 percentage points to 80.2% and that for women increased by 0.1 percentage points to 72.0%.

Unemployment

In the three months to May 2019, the number of people who were unemployed in the UK decreased by 51,000 on the quarter to 1.29 million. The decrease was driven mainly by the fall in the number of women who were unemployed, which reduced by 31,000 on the quarter to 580,000. The number of men who were unemployed reduced by 19,000 on the quarter to 712,000.

The unemployment rate of women decreased to a record low of 3.6%

The unemployment rate decreased by 0.1 percentage points on the quarter to 3.8%. The unemployment rate for women decreased by 0.2 percentage points to a record low of 3.6% and that for men decreased by 0.1 percentage points to 4.0%.

Economic inactivity

The latest Labour Force Survey estimates show that the number of economically inactive people increased by 83,000 on the quarter to 8.62 million in the three months to May 2019. The economic inactivity rate increased by 0.2 percentage points to 20.9% over the same period.

The number of economically inactive men increased by 78,000 on the quarter to 3.37 million. That of women increased by 5,000 on the quarter to reach 5.25 million. The inactivity rate for men increased by 0.4 percentage points to 16.4% and that for women remained unchanged at 25.3%.

The number of people in the 18 to 24 years age group who were economically inactive increased by 70,000

Disaggregating economic inactivity by age group shows that the 18 to 24 years age group experienced the largest increase in inactivity (70,000), followed by the 50 to 64 years age group (18,000). Economic inactivity of people in the 25 to 34 years age group increased by 3,000. The 16 to 17 years and 35 to 49 years age groups experienced falling economic inactivity of 5,000 and 2,000 respectively.

The employment trend has been upwards while the unemployment and economic inactivity trends have been downward. Together with a high vacancy rate and a falling number of people who could not find full-time jobs, the indicators show that labour market spare capacity in the economy is increasingly shrinking. Ordinarily, the tightening of the labour market would increase the bargaining power of workers. The shortage of talent in the labour market puts pressure on employers to increase wages. Firms will be forced to increase wages to attract workers and to retain their current workers. The tight labour market may present an opportunity for firms to introduce workforce retention strategies like flexible working to improve workers' work-life balance and to reduce employee turnover.

4 . Vacancies and average weekly earnings

Vacancies

The interaction between employment, unemployment and vacancies is such that for a given size of the labour force, employment and unemployment, and employment and vacancies tend to move in opposite directions. Unemployment and vacancies tend to move in the same direction. However, these relationships are much more complex than this because there are different factors that determine employment, unemployment and the vacancy rate.

In the UK, employment is, by historical standards, relatively high, unemployment is relatively low, and the number of vacancies is relatively high. In the three months to May 2019, the estimated number of vacancies fell by 14,000 to 836,000. This decrease was driven by reductions in manufacturing (5,000) and information and communication (4,000) vacancies.

Three sectors with the highest number of vacancies were the wholesale and retail trade sector and the human health and social work activities sector with 136,000 vacancies apiece, followed by the accommodation and food services sector with 92,000 vacancies.

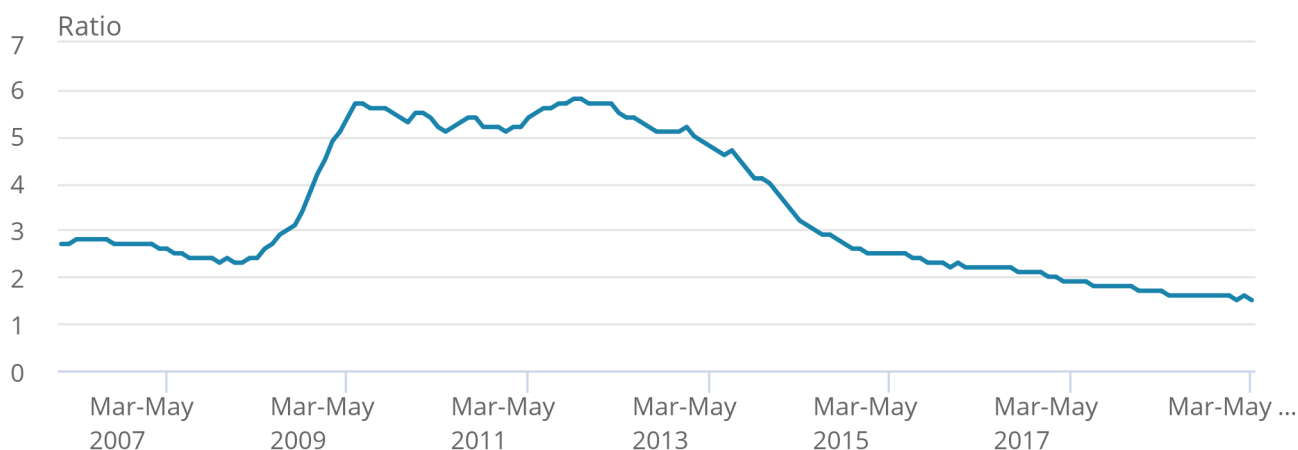
We can derive the ratio of unemployed people per vacancy if we assume that all existing vacancies can be filled by people who are currently unemployed. The ratio is plotted in Figure 2 for the period 2006 to May 2019.

Figure 2: The unemployment to vacancies ratio has been decreasing since 2011

UK, seasonally adjusted, January to March 2006 to March to May 2019

Figure 2: The unemployment to vacancies ratio has been decreasing since 2011

UK, seasonally adjusted, January to March 2006 to March to May 2019



Source: Office for National Statistics-Labour Force Survey

Figure 2 shows that the ratio increased during the 2008 to 2009 economic downturn and reached a peak of 5.8 in the period September to December 2011. It had a decreasing trend thereafter to reach 1.5 in the three months to May 2019. This was lower than the pre-downturn ratio of 2.5 in 2007.

The fall in the ratio is driven by increasing vacancies (some of which firms find too hard to fill) and falling unemployment.

Average weekly earnings

The latest earnings data show that total pay (which includes bonus payments) grew by 3.4% in the year to May 2019 to reach £536. In real terms, that is, after deflating by the [Consumer Price Index including owner occupiers' housing costs](#), (2015=100) total pay increased by 1.4% over the same period to reach £498.

Regular pay (which excludes bonus payments) increased by 3.6% in the year to May 2019 to £503. This was a real growth rate of 1.7%, which took real regular pay to £468 over the same period. The growth in regular pay of 3.6% was the highest since 2008. It was the quickest growth for over three years.

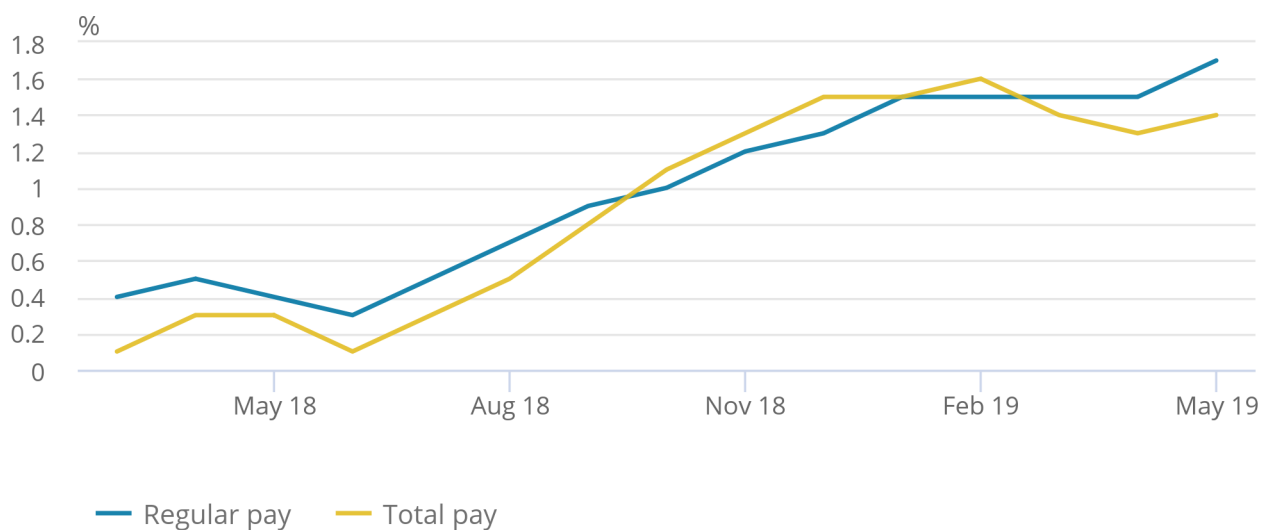
Figure 3 shows the real growth rates of total and regular pay since March 2018. It shows that in May, regular pay growth continued. Since March, real regular pay growth has outstripped total pay growth.

Figure 3: Both regular and total pay continue to grow in real terms

Great Britain, annual growth rates, March 2018 to May 2019

Figure 3: Both regular and total pay continue to grow in real terms

Great Britain, annual growth rates, March 2018 to May 2019



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

The fall in real total pay growth between February and April 2019 was a result of reduced bonus payments. The sustained growth in pay may indicate that the effect of a tightening labour market is beginning to generate wage pressure as firms find it difficult to recruit the talent they need.

5 . Other distributional outcomes of a tightening labour market

Our [labour market economic commentary for June 2019](#) examined some labour market outcomes obtained during the period of high employment rates in the UK economy. This commentary extends the analysis by focusing on the distributional outcomes of the labour market characterized by high employment and falling unemployment. Underneath the headline numbers is unevenness of the distribution of the benefits. There are differences in unemployment rates between different ethnic groups. There are changes in the patterns of part-time employment and self-employment. There are also changes in the number of people with second jobs, and of those with zero-hours contracts.

The unemployment rate has been falling since the period September to November 2011 when it was at a high of 8.5%. In the three months to May 2019, the unemployment rate was 3.8%. The fall in unemployment has not been experienced uniformly across different ethnic groups in the economy. The Office for National Statistics' (ONS) latest data on [labour market status by ethnic group](#) show that the unemployment rate of workers of white ethnicity was 3.4% in the year to March 2019. This was 0.4 percentage points below the total average unemployment rate for that period. The average unemployment rate of ethnic minorities, at 6.9%, was more than twice that of people of white ethnicity over the same period.

Figure 4 shows ethnic unemployment rates between January to March 2018 and January to March 2019. Comparing the unemployment rates shows that:

- the unemployment rate of white workers was less than the total average unemployment rate
- the average ethnic minority unemployment rate was higher than the total average unemployment in both periods
- there was a 0.2 percentage point decrease in the average ethnic minority employment rate compared with the 0.4 percentage decrease in the total average unemployment rate
- between 2018 and 2019, the unemployment rates of Indian and Pakistani workers increased by 0.5 percentage points and 0.6 percentage points respectively
- the unemployment rates of white, Bangladeshi and “other” ethnic groups declined by 0.4 percentage points, 0.7 percentage points and 1.5 percentage points respectively

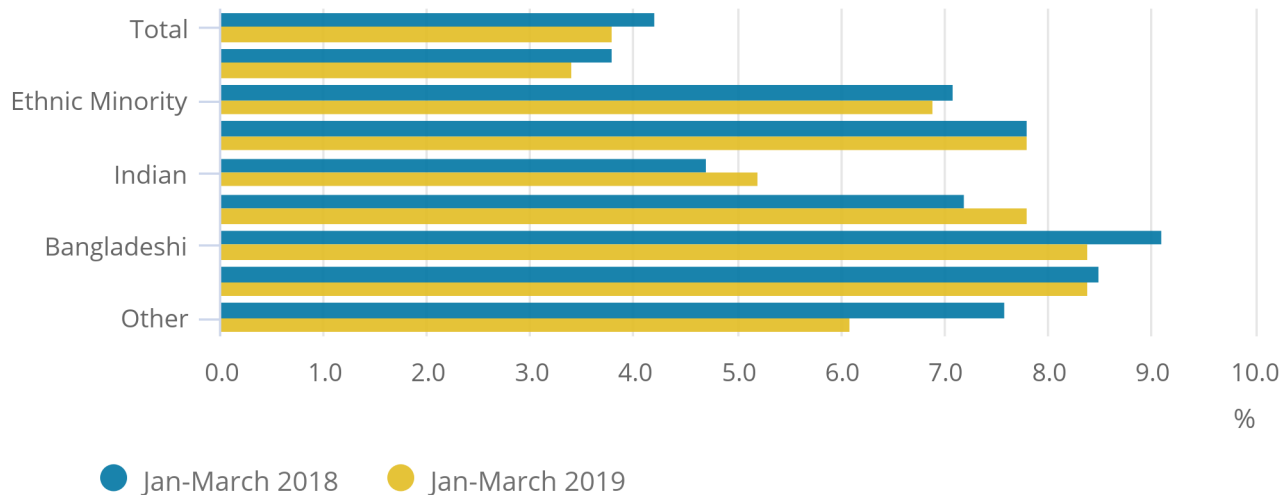
A disaggregation of unemployment by ethnic minority group in the period January to March 2019 shows that workers of Bangladeshi and of Black, African or Caribbean ethnicities had the joint highest unemployment rates (8.4% in the first quarter of 2019), followed by mixed and Pakistani ethnic groups (at 7.8% apiece) and “other” ethnicities (at 6.1%). Indian and Chinese ethnic groups had the lowest unemployment rates.

Figure 4: Ethnic minorities have above-average unemployment rate

UK, NSA, Unemployment rates of ethnic minorities, January to March 2019

Figure 4: Ethnic minorities have above-average unemployment rate

UK, NSA, Unemployment rates of ethnic minorities, January to March 2019



Source: Office for National Statistics - Labour Force Survey

Notes:

1. The unemployment rate of the Chinese ethnic group was missing in the first quarter of 2019.

The mixed, Pakistani, Bangladeshi and Black, African or Caribbean ethnic groups had above-ethnic-average unemployment rates that were more than twice the national average. These groups are benefiting less from the buoyant labour market.

Our recent publication on [ethnicity pay gaps in Great Britain](#) showed similar trends: Indian and Chinese ethnic groups had the highest median hourly pay (above the White British median hourly earnings) and Bangladeshi and Pakistani ethnic groups had the lowest (and below the White British median hourly earnings). The Black, African or Caribbean ethnic groups median hourly pay was less than that of White British workers, but higher than that of Pakistani and Bangladeshi ethnic groups. In general, the groups that have higher unemployment rates also have lower median hourly pay.

The employment, pay and unemployment outcomes are manifestations of underlying labour market conditions such as (direct or indirect) discrimination by employers and supply and demand reasons. Employment is largely affected by education and training outcomes. Differences in access and quality affect ethnic groups' attainments.

The high unemployment rates among ethnic minority groups may be the result of low educational outcomes and socio-cultural factors that limit labour market participation. For instance, the Equality and Human Rights Commission's report [Healing a divided Britain \(PDF, 2.04MB\)](#) discusses some of the challenges that are faced by ethnic minority groups. The report highlights that ethnic minorities have a higher presence in uncertain employment than white workers, and this contributes to low earnings and growing inequality. The Joseph Rowntree Foundation's report on [poverty and ethnicity in the labour market](#) analysed some of the challenges that ethnic minorities face in the labour market and how these factors result in poverty. The report found that African and Bangladeshi graduates tend to be over-qualified for the positions they hold in the labour market. This implies that there are other barriers (beyond qualifications) that limit the labour market outcomes of these groups.

Part-time employment

Part-time employment has an upward trend but falling as a proportion of total employment

Part-time employment has been on an upward trend since records began. For example, in the three months to May 1992, there were 6.0 million part-time workers in the economy. The number increased to 6.92 million in the three months to May 2000, and to 7.89 million in the same period in 2010.

In the months to May 2019, the number of people who worked on a part-time basis increased by 86,000 on the quarter to reach 8.66 million. The number of men who worked on a part-time basis increased by 60,000 to 2.32 million, and that of women increased by 26,000 to 6.34 million.

Despite the upward trend of the number of people who worked on a part-time basis, the proportion of part-time employment in total employment had an upward trend only until 2012 when it reached a maximum of 27.6% in the three months to July. Thereafter, the proportion trended downwards, and in the three months to May 2019, part-time employment constituted 26.4% of all employment.

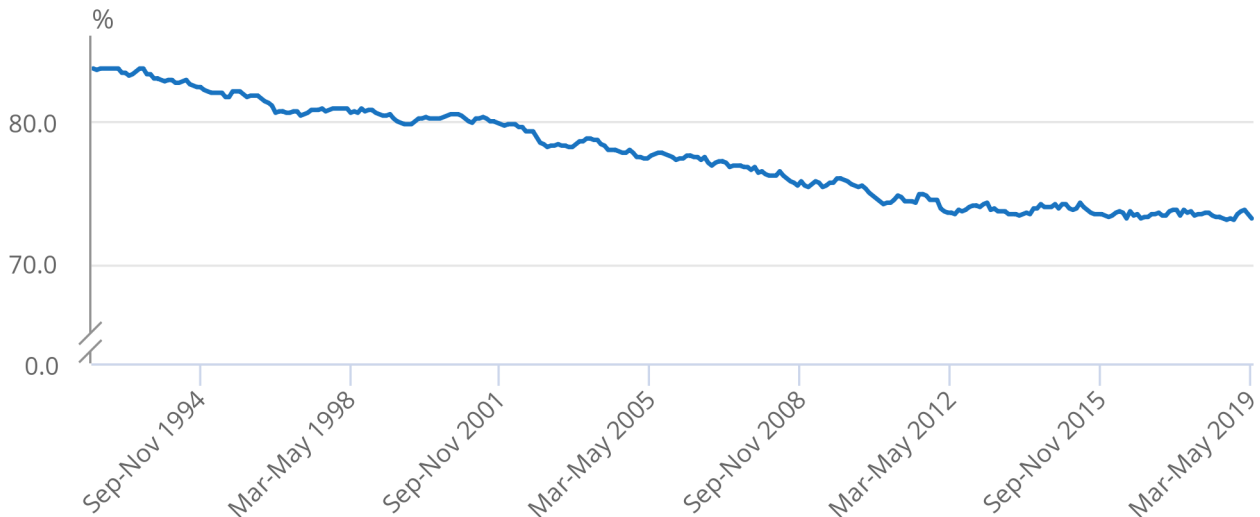
The downward trend of the proportion of part-time employment in total employment was driven by women leaving part-time employment for full-time employment. Figure 5 shows the proportion of women who worked on a part-time basis in total part-time employment.

Figure 5: The proportion of women working part-time in total part-time employment has been falling

UK, seasonally adjusted, March to May 1992 to March to May 2019

Figure 5: The proportion of women working part-time in total part-time employment has been falling

UK, seasonally adjusted, March to May 1992 to March to May 2019



Source: Office for National Statistics - Labour Force Survey

Although women still constitute most part-time workers, their proportion in part-time employment fell from 83.7% in the three months to May 1992 to 73.2% in the three months to May 2019. Between 2013 and May 2019, the proportion of women working part-time stabilised at an average rate of 73.6%. The opposite of the trend for women reflects what happened to men: there has been an increasing trend of the number of men working on a part-time basis.

The proportion of part-time workers who could not find full-time employment has been reducing

Of the people that worked on a part-time basis, nearly one in ten did so because they could not find a full-time job. The proportion of workers who could not find full-time employment increased during the economic downturn. It reached a peak of 18.4% in the three months to May 2013 and has been on a downward trend since. In the three months to May 2019, 10.9% of part-time workers could not find full-time jobs. The decrease in this category of workers, who may also be called under-employed workers, is reflective of the tightening labour market.

Self-employment

Self-employment has an upward trend

Another feature of the labour market is the growth in self-employment over time. During the economic downturn, self-employment provided a fall-back position for some households that had lost jobs. In the three months to May 2019, the number of self-employed workers increased by 123,000 on the quarter to a record high of 4.96 million. The number of self-employed men increased by 36,000 on the quarter to 3.29 million, and that of self-employed women increased by 86,000 on the quarter to 1.66 million.

The proportion of self-employment in total employment has an upward trend. It reached a peak of 15.1% in the three months to May 2016 and since then, it has been relatively flat but fluctuating, as shown in Figure 6.

Figure 6: The proportion of self-employment in total employment has been falling

UK, seasonally adjusted, January to March 2006 to March to May 2019

Figure 6: The proportion of self-employment in total employment has been falling

UK, seasonally adjusted, January to March 2006 to March to May 2019



Source: Office for National Statistics- Labour Force Survey

More men than women are in self-employment. The number of men in self-employment fluctuates more than that of women. The trend of women in self-employment flattened from 2016 onwards.

From the period February to April 2011 onwards, the percentage of self-employed men in total employment averaged 10%. From the period September to November 2013 onwards, the percentage of self-employed women in total employment averaged 4.8%.

Zero-hours contracts

The number of workers on zero-hours contracts is falling

The growing employment flexibility in the UK labour market has brought about different types of flexible working, including flexi-time, term-time working, job sharing and zero-hours contracts. We publish [zero-hours contracts data tables](#), for the period 2000 onwards. In the latest data tables, only flexi-time working and zero-hours contracts have estimates that are consistent with those published prior to the period April to June 2018.

The data show that the number of workers who were aged 16 years and over who had flexi-time working between October to December 2013 and October to December 2018, increased by 14.3%, from 3.2 million to 3.7 million. Over the same period, job sharing reduced by 25.2%, and the number of zero-hours contracts increased by 44.2%, from 585,000 to 844,000.

The number of zero-hours contract workers reached the highest level of 907,000 in the fourth quarter of 2016. The number trended downwards from the fourth quarter of 2017.

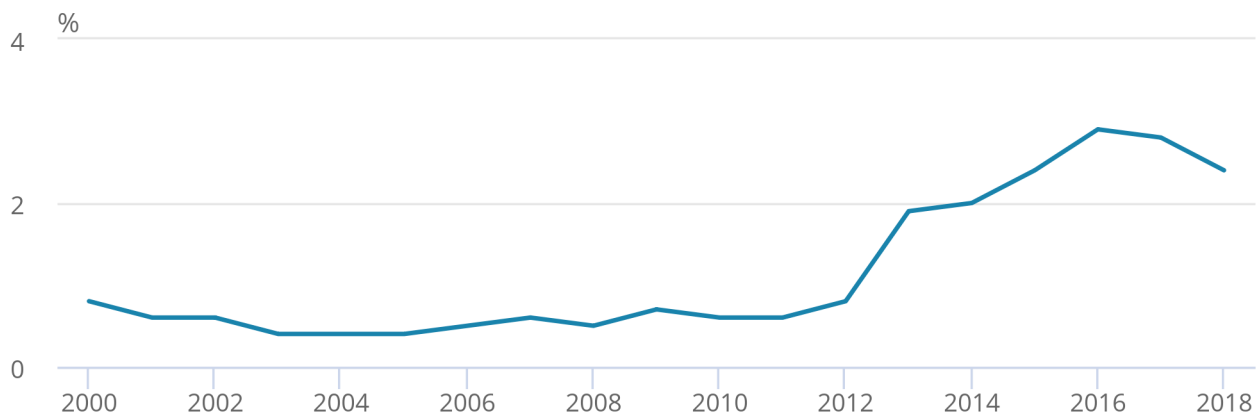
The proportion of zero-hours contract workers in total employment increased from 1.9% in 2013 to 2.4% in 2018. The number of people who report being on zero-hours contracts is affected by whether or not they know that they are on a zero-hours contract, which itself depends on people's awareness of the concept. Thus, the steep increase in recorded zero-hours contract workers from 2012 onwards may have been affected by the increased coverage of the survey.

Figure 7: The proportion of workers who were on zero-hours contracts has been declining from 2016 onwards

UK, not seasonally adjusted, 2000 to 2018

Figure 7: The proportion of workers who were on zero-hours contracts has been declining from 2016 onwards

UK, not seasonally adjusted, 2000 to 2018



Source: Office for National Statistics - Labour Force Survey

There are more women on zero-hours contracts than men. In the last quarter of 2018, most zero-hours contract workers were aged 16 to 24 years, followed by those aged 65 years and older. There have been growing concerns over zero-hours contracts, as highlighted by a [House of Commons Briefing Paper on the subject \(PDF, 432.73KB\)](#) in May 2018. Some of the concerns about zero-hours contracts are:

- most workers on zero-hours contracts are women and the young
- the contracts make the workers “on-call”, to be used when need arises with no guaranteed work hours and income
- many of the workers on such contracts are reported to be income-insecure
- about a third of workers on zero-hours contracts would prefer to work more hours

Zero-hours contract employment and employment in the gig economy in general is associated with the erosion of job security and workers’ rights. For instance, the 2017 Taylor [review of modern work practices](#) examined the implications of new forms of employment on workers’ rights and responsibilities, as well as on employers’ freedoms and obligations. Similarly, a July 2017 policy discussion paper by the Advisory, Conciliation and Arbitration Service (ACAS) explored the [everyday challenges for an atypical workforce](#), which includes zero-hours contract workers. A key message from the research was that atypical employment is characterised by reduced employment protection. The workers tend to have reduced confidence to assert their rights because of the vulnerability of their employment. From an employer’s side, there may be the challenge of balancing flexibility with building an efficient, trained and experienced workforce that delivers at a high standard.

Another challenge associated with zero-hours employment is that in some sectors it is characterised by low skills and low wages (for example in social care). This leaves the workers with inadequate incomes and unable to attain an adequate standard of living. In general, low pay has been associated with in-work poverty. When this happens, the redistributive role of employment breaks down and the economy fails to work for everyone.

The number of workers with second jobs has been falling

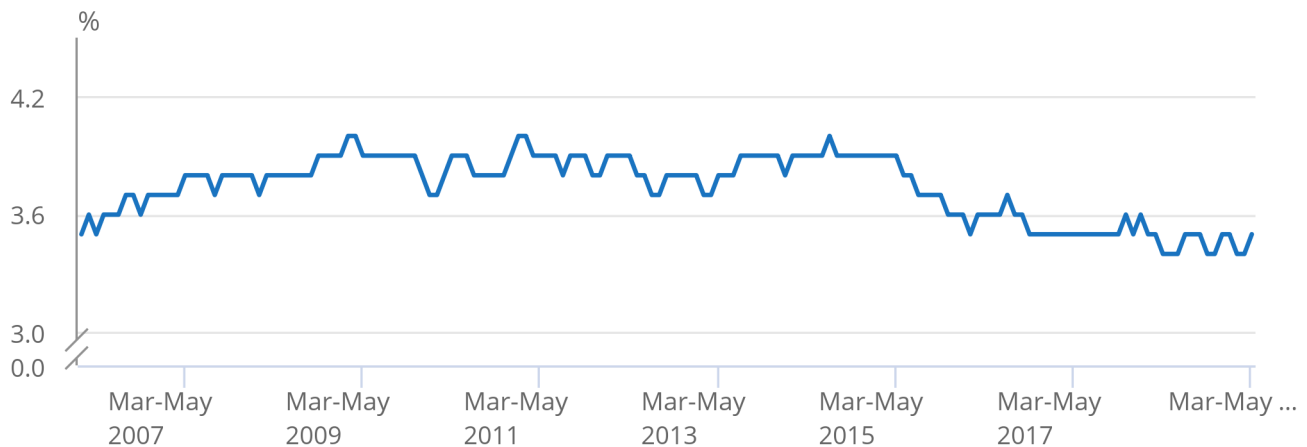
In the labour market, some workers have more than one job. There are several reasons why people may want more than one job. For instance, they may want to boost their income, especially if their main jobs do not provide adequate income. Some do it for income diversification, and others as a way of easing themselves into self-employment. In addition, some people may have more than one job because they want the experience of working in a different field. Whatever the reasons, the proportion of people with second jobs in total employment has been decreasing since 2014 as shown in Figure 8.

Figure 8: The proportion of workers with second jobs in total employment has been falling since 2014

UK, seasonally adjusted, January to March 2006, to March to May 2019

Figure 8: The proportion of workers with second jobs in total employment has been falling since 2014

UK, seasonally adjusted, January to March 2006, to March to May 2019



Source: Office for National Statistics-Labour Force Survey

The most recent data show that the number of workers with second jobs increased by 24,000 on the quarter to 1.15 million in the three months to May 2019. The increase was driven by the number of women with second jobs, which increased by 14,000 on the quarter to 671,000. The number of men with second jobs increased by 9,000 to reach 482,000. It is likely that more women than men have second jobs because more women than men work on a part-time basis and may have extra hours to take on additional work.

Figure 8 shows that the proportion of workers with second jobs has fallen to around the pre-economic downturn rate. Some people who had second jobs because they were under-employed may be getting into full-time jobs.

6 . Authors

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