

Article

Labour market economic commentary: November 2019

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

Contact:
Blessing Chiripanhura
economic.advice@ons.gov.uk
+44 (0) 1633 582512

Release date:
12 November 2019

Next release:
17 December 2019

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1 . Main points

- The number of people in employment declined by 58,000 to 32.75 million in Quarter 3 (July to Sept) 2019.
- The unemployment rate fell by 0.1 percentage point to 3.8% in Quarter 3 2019.
- Total and regular average weekly earnings grew by 3.6% each in the year to September 2019 to reach £542 and £508 respectively.
- Since Quarter 3 2009, there have been sustained net flows from unemployment to employment.

2 . Overview of the UK labour market

In Quarter 3 (July to Sept) 2019, employment decreased by 58,000, unemployment decreased by 23,000 and economic inactivity rose by 53,000. From the period November 2018 to January 2019 onwards, employment growth has slowed. Economic inactivity reached a record low in the period November 2018 to February 2019 and showed signs of gradual increase thereafter.

Vacancies peaked in the period November 2018 to January 2019 and have steadily fallen thereafter. Earnings growth has slowed somewhat from its June 2019 peak. The number of unemployed people per vacancy had a downward trend from 2011 onwards, reaching a minimum of 1.5 in the period January to March 2019, and has picked up to 1.6 since. Figure 1 shows the general picture of recent trends.

Figure 1: Selected UK labour market indicators

Quarter 3 (July - Sept) 2017 to Quarter 3 (July - Sept) 2019

[Download the data](#)

The [Bank of England's latest Agents' summary of business conditions](#), as reported in the [Monetary Policy Report for November 2019](#), found that labour market activity appeared to be stabilising. Companies' employment intentions for the coming 12 months were "broadly flat", and recruitment difficulties appeared to have stopped increasing, though they remain elevated.

3 . Latest labour market estimates

Employment

The latest UK Labour Force Survey (LFS) estimates for Quarter 3 (July to Sept) 2019 saw employment decline by 58,000 to 32.75 million, the second rolling quarterly decrease. However, in the year to September 2019, employment increased by 323,000.

The fall in employment in Quarter 3 was driven by the fall in the number of women in employment, down by 93,000 to 15.46 million. Over the same period, the number of employed men increased by 35,000 to 17.3 million.

From 2012 onwards, the number of women joining the workforce increased at a faster rate than that of men. In the year to September 2019, the number of employed women increased by 226,000 while that of men increased by 97,000. The employment rate for women in Quarter 3 2019 was 71.8%. This was 8.5 percentage points lower than that of men (80.3%). The gradual increase in the State Pension age for women (from 2010 onwards) towards equalisation with that for men (in 2018) partly contributed to the increase in the employment rate for women.

Part-time employment

The number of part-time workers fell by 164,000 to 8.54 million in Quarter 3 2019, while the number of full-time workers increased by 106,000 to 24.21 million. The decline in part-time workers was driven by women (down 106,000 in the quarter) and the increase in full-time employment by men (up by 93,000 in the quarter).

Despite the latest results, more women than men have been joining full-time employment and more men have been joining part-time employment. There are many reasons why people may choose to work on a part-time basis. Part-time working offers flexibility to work around other activities like caring services. Some people work part-time because they cannot find full-time jobs, while others work part-time because they do not want full-time jobs.

The number of workers who worked part-time because they did not want full-time jobs increased strongly from Quarter 2 (Apr to June) 2013 onwards, as shown in Figure 2. They decreased by 93,000 to 6.12 million in Quarter 3 (July - Sept) 2019. This fall was driven more by women (down by 81,000 in the quarter) than by men (down by 11,000 in the quarter).

Figure 2: The number of people who worked part-time because they didn't want full-time jobs have been increasing strongly from 2013 onwards.

Part-time employment because of not wanting full-time jobs, UK, seasonally adjusted, March to May 1992 to July to September 2019

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Part-time employment because of not wanting full-time jobs, UK, seasonally adjusted, March to May 1992 to July to September 2019



Source: Office for National Statistics – Labour Force Survey

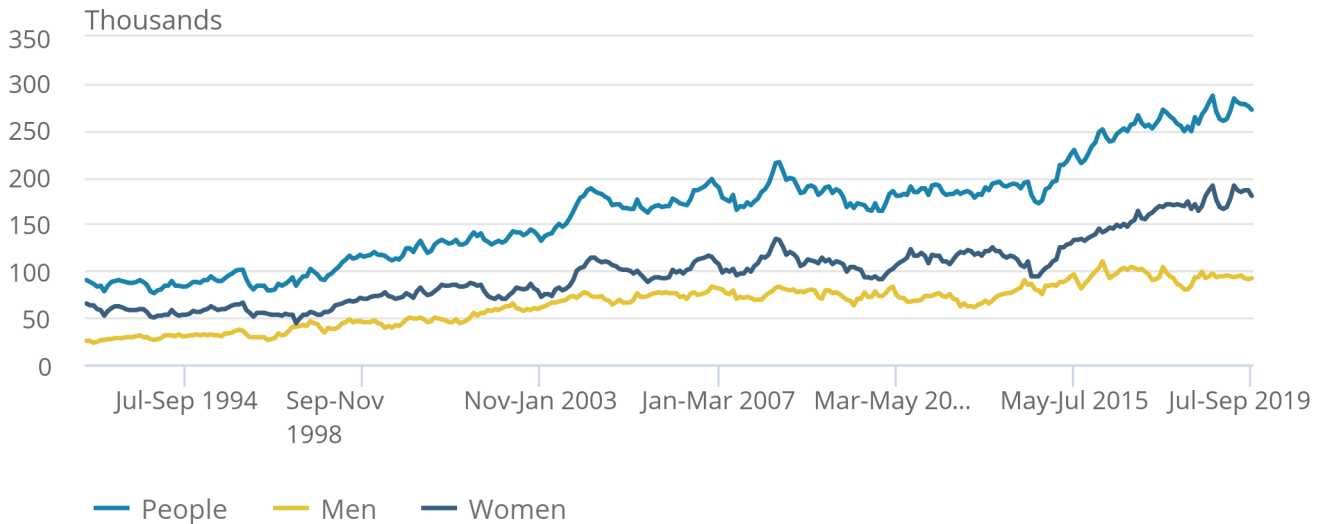
Another reason for part-time working is illness or disability. This may arise when a worker is on a phased return to work or when a worker is temporarily disabled and wants time to recover before going back to full-time employment. Figure 3 shows the trends for men and women who worked part-time because of illness or disability.

Figure 3: The number of women who work part-time because of illness or disability has been growing fast since the three months to August 2014

People who worked part-time due to illness or disability, UK, seasonally adjusted, March to May 1992 to July to September 2019

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People who worked part-time due to illness or disability, UK, seasonally adjusted, March to May 1992 to July to September 2019



Source: Office for National Statistics – Labour Force Survey

The numbers of men and women who worked part-time because of illness or disability followed a similar gradual upward trend between 2004 and 2014. The number of women who worked part-time because of illness or disability increased sharply from 2014 onwards, resulting in a growing divergence between the sexes.

Unemployment

The level of unemployment fell by 23,000 to 1.31 million in Quarter 3 2019, while the unemployment rate fell by 0.1 percentage point to 3.8%. Compared with Quarter 3 2018, the level of unemployment decreased by 72,000.

The fall in the level of unemployment was driven by both men and women whose unemployment numbers fell by 9,000 (to 731,000) and 14,000 (to 575,000) respectively. The divergence in unemployment rates by sex continued, with the unemployment rates for men and women decreasing by 0.1 percentage point each to 4.1% and 3.6% respectively.

Economic inactivity

The number of people who were economically inactive increased by 53,000 to 8.62 million in Quarter 3 2019. The inactivity rate increased by 0.1 percentage point to 20.8% over the same period.

The increase in the level of economic inactivity was mainly a result of women, for whom the number that are economically inactive increased by 75,000 on the quarter to 5.28 million. This was the largest increase since Quarter 4 (Oct to Dec) 2010. The number of economically inactive men reduced by 21,000 on the quarter to 3.33 million.

The people who are economically inactive can be categorised by age. The latest UK data show that people aged 18 to 24 years who were economically inactive increased by 89,000 on the quarter to 1.73 million. This was the only age group to experience record increases in both economic inactivity level and rate in the year to September 2019.

The number of people aged 50 to 64 years who were economically inactive increased, but their inactivity rate fell. The age groups 25 to 34 years and 35 to 49 years experienced decreases in both the level of economic inactivity and the inactivity rates.

4 . Average weekly earnings and vacancies

In the year to September 2019, nominal total pay (which includes bonus payments) grew by 3.6% to reach £542 per week. Over the same period, nominal regular pay (which excludes bonus payments) grew by 3.6% to reach £508 per week.

Total and regular pay can be expressed in real terms when they have been deflated. We deflate them using the Consumer Prices Index including owner occupiers' housing costs (CPIH) (2015=100). After adjustment, real total pay increased by 1.8% over the year to £502 in September 2019. Real regular pay increased by 1.7% over the year to £470.

Figure 4: Real regular pay remained below the highest level it reached in April 2008

Real regular pay, Great Britain, January 2006 to September 2019

Figure 4: Real regular pay remained below the highest level it reached in April 2008

Real regular pay, Great Britain, January 2006 to September 2019



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

Figure 4 shows that real regular pay was £3 (or 0.63%) lower than the pre-downturn peak of reached in the three months to April 2008 (£473). The real total pay value of £502 in September was £23 (or 4.38%) lower than the peak reached in the three months to February 2008 (£525).

The pace of increase in total and real pay has slowed since June 2019. This may be an indication that pay growth has started cooling off. The [Bank of England's latest Agents' summary of business conditions](#), as reported in the [Monetary Policy Report for November 2019](#), reported that pay growth “seemed to be stabilising, with settlements averaging around 2%–3%”. However, some contacts reported giving higher increases to address skills shortages or to keep pace with the National Living Wage.

Vacancies

The number of vacancies in the economy reduced by 11,000 on the quarter to reach 814,000 in Quarter 3 (July to Sept) 2019. The number of vacancies reached a peak of 861,000 in the period November 2018 to January 2019 and has been decreasing since then. The trend in vacancy numbers is illustrated in Figure 5.

Figure 5: The number of vacancies has been declining since the three months to January 2019

Number of vacancies, UK, seasonally adjusted, April to June 2001 to July to September 2019

Figure 5: The number of vacancies has been declining since the three months to January 2019

Number of vacancies, UK, seasonally adjusted, April to June 2001 to July to September 2019



Source: Office for National Statistics – Vacancy Survey

5 . Labour market flows

The Office for National Statistics (ONS) publishes quarter-on-quarter labour market flows data four times a year. These flows show the movement of people between the three labour market statuses of employment, unemployment and economic inactivity in succeeding quarters. The data make it possible to calculate net flows into and out of each status.

Quarterly changes

Of the people who were in employment in Quarter 2 (Apr to June) 2019, 30.51 million remained in employment in Quarter 3 (July to Sept) 2019, 279,000 moved into unemployment and 574,000 moved into economic inactivity.

Of all the people who were unemployed in Quarter 2, 631,000 remained unemployed in Quarter 3, while 410,000 transitioned into employment and 259,000 transitioned into economic inactivity.

Of all the people who were economically inactive in Quarter 2, 7.58 million remained economically inactive in Quarter 3, while 547,000 transitioned into employment and 368,000 transitioned into unemployment.

The transitions within and between labour market statuses can be presented as rates as in Table 1. The percentages for employment, unemployment and economic inactivity in the main diagonal refer to workers who remained in the respective labour market statuses in both Quarter 2 and Quarter 3. The rows in Table 1 represent data from Quarter 2 and the columns represent the data for Quarter 3.

Table 1: Employment and economic inactivity have high persistence indicated by high transition rates
Transition rates in the labour market, UK, April to June 2019 to July to September 2019

From - To	Employment 2019: Q3	Unemployment 2019: Q3	Economic inactivity 2019: Q3
Employment 2019: Q2	97.3%	0.9%	1.8%
Unemployment 2019: Q2	31.5%	48.5%	19.9%
Economic inactivity 2019: Q2	6.4%	4.3%	89.2%

Source: Office for National Statistics – Labour Force Survey

Table 1 shows that 97.0% people in employment stayed employed and 88.5% of inactive people remained inactive between Quarter 2 2019 and Quarter 3 2019. Less than 1% of the people who were employed in Quarter 2 moved into unemployment in Quarter 3.

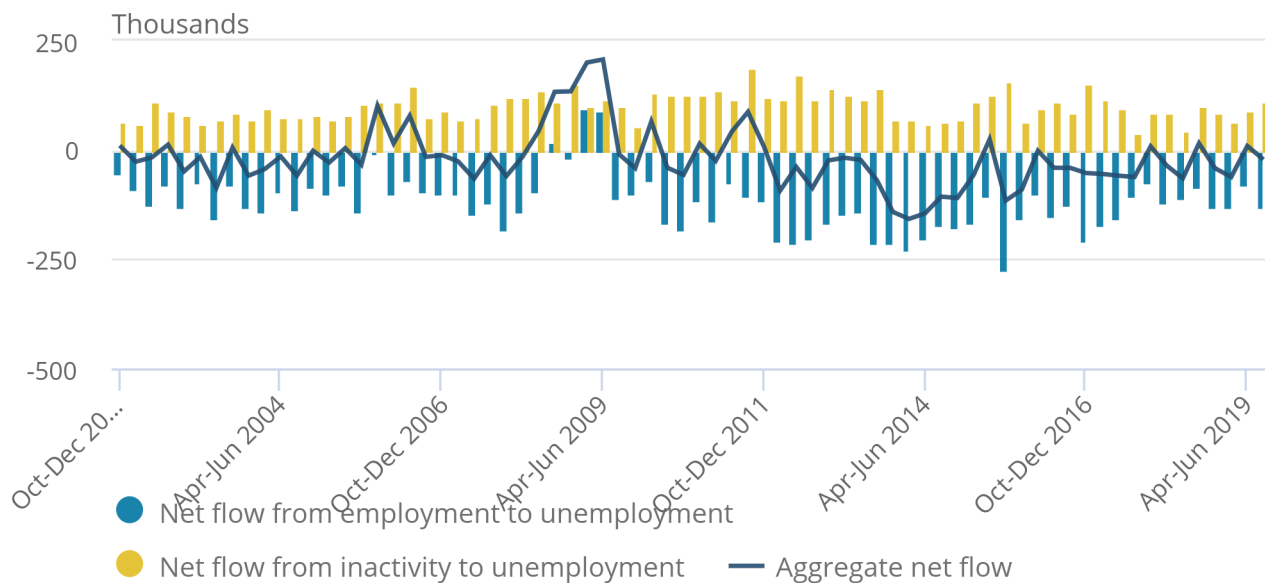
The flows between labour market statuses show the evolution of these through time. The flows into a status can be decomposed by source. Figure 6 does this for unemployment, where negative values indicate net outflows from unemployment and positive values indicate net inflows.

Figure 6: There were sustained net flows from unemployment to employment

Net flows between other labour market statuses and unemployment, UK, October to December 2001 to July to September 2019

Figure 6: There were sustained net flows from unemployment to employment

Net flows between other labour market statuses and unemployment, UK, October to December 2001 to July to September 2019



Source: Office for National Statistics – Labour Force Survey

Figure 6 shows the net flows from other labour market statuses to unemployment. In all the quarters from Quarter 4 (Oct to Dec) 2001 to Quarter 3 2019, there were net flows from economic inactivity into unemployment. The largest net flow from inactivity to unemployment (189,000) was recorded in Quarter 3 2011. Figure 6 also shows that, apart from during the economic downturn, there were net outflows from unemployment into employment. The aggregate net flows into unemployment were largely negative from the beginning of 2012 onwards, resulting in falling unemployment in the economy. In this period, more people left unemployment for employment than joined unemployment from economic inactivity.

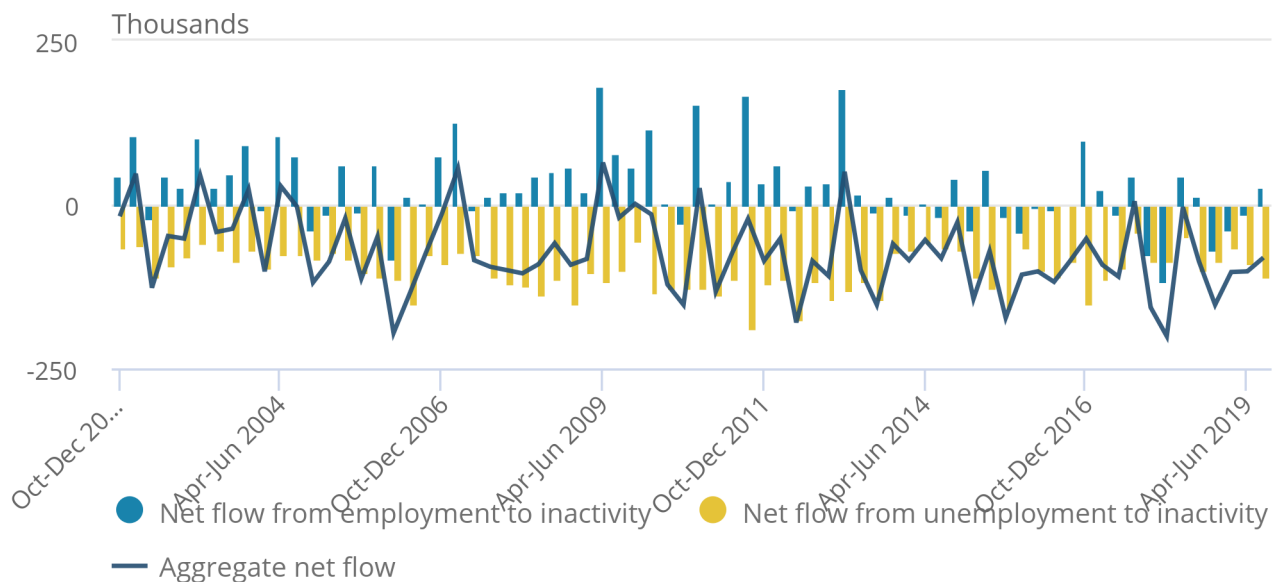
We can extend the same analysis to the net flows between economic inactivity and other labour market statuses. Figure 7 shows that there were net outflows from economic inactivity to employment and unemployment respectively for much of the period from 2013 onwards. However, for the series shown, the outflows from economic inactivity have been largely towards unemployment.

Figure 7: There were sustained net flows from economic inactivity to unemployment

Net flows between other labour market statuses and economic inactivity, UK, October to December 2001 to July to September 2019

Figure 7: There were sustained net flows from economic inactivity to unemployment

Net flows between other labour market statuses and economic inactivity, UK, October to December 2001 to July to September 2019



Source: Office for National Statistics – Labour Force Survey

There was largely a net outflow from economic inactivity for most periods shown. The net outflow indicates that economic inactivity declined as more people joined the labour force.

From Figures 6 and 7, it appears that an economically inactive person is more likely to join the labour market by becoming unemployed first than by becoming employed.

Although the flows data are seasonally adjusted, the employment aggregate net flow had greater variation than unemployment aggregate net flow. This indicates that the residual seasonal variation for employment net flows is of concern

6 . Authors

Blessing Chiripanhura, Alun Evans, Abby Lucas and Vicky Haigney, Office for National Statistics