

Article

# Labour market economic commentary: January 2020

Additional economic analysis of the latest UK labour market headline statistics and long-term trends for January 2020.

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# 1 . Main points

- The latest UK labour market statistics show that the level of employment increased by 208,000 (0.6%) on the quarter to a record high of 32.90 million in the three months to November 2019.
- The level of unemployment reduced marginally by 7,000 to 1.31 million, but the unemployment rate remained unchanged at 3.8%.
- Over the past six years, the fall in unemployment has been driven by falling long-term unemployment.
- From 2016 onwards, the average growth rate of total average weekly earnings was higher than that of productivity.
- Between 2013 and 2019, the proportion of workers on zero-hours contracts in total employment increased by 0.8 percentage points to 2.7%.

## 2 . Overview of the UK labour market

The world economic outlook improved in Quarter 4 (Oct to Dec) 2019, ending the year with modest growth. The latest [J.P. Morgan Global Composite Purchasing Managers' Index \(PMI\)](#) increased in December 2019, indicating accelerating worldwide growth. The global labour market also improved in December, with companies increasing hiring at a fast rate last recorded in July 2019. Hiring growth was dependent on aggregate demand, which remained constrained by export slowdown.

In the UK, economic growth (at 0.1%) was weak in the three months to November 2019. The rolling three-month growth rate slowed because of weakening growth in the services sector and falling production. The outcome of the elections in December 2019 helped to reduce the uncertainty associated with the Brexit process, but there remained uncertainty about the nature of the relationship between the UK and its largest trading partner, the EU.

The Bank of England (BoE) showed that Brexit uncertainty has been impacting the economy since the referendum in 2016. In the Monetary Policy Report (MPR) for November 2019, the BoE stated that “[at least 30% of firms have cited Brexit in their top three sources of uncertainty in the Bank's Decision Maker Panel \(DMP\) Survey](#)”, and that the Brexit uncertainty had been widespread in the economy. The BoE also discussed wide-ranging impacts of uncertainty on the economy, including its impact on investment and consumption decisions. [Bloomberg data](#) show that household final consumption expenditure declined from mid-2019 onwards. Households were getting more cautious with their expenditures, preferring to save or to postpone large expenditures.

The performance of the UK labour market has been robust. In the year to November 2019, employment increased and unemployment and economic inactivity reduced. Uncertainty also reduced labour market churning.

The [KPMG and REC UK Report on Jobs](#) stated that vacancy growth remained at a near decade low. The demand for staff increased across the private sector, but there were mixed trends in public sector vacancies where vacancies rose for temporary workers but fell for permanent posts. Staff availability fell sharply as the labour market conditions remained tight. The tight labour market conditions caused the starting pay for permanent and short-term staff to increase at a fast rate. However, [the KPMG and REC UK Report on Jobs](#) showed that recruitment activities picked up at the end of 2019 following the election outcome. Permanent placements rose for the first time in 12 months, indicating growth in hiring confidence. Our latest vacancies data show that in the period October to December 2019, the total number of vacancies reduced by 11,000 on the quarter to 805,000.

## 3 . Latest labour market estimates

## Employment

The latest UK labour market statistics show that the level of employment increased by 208,000 (an increase of 0.6%) on the quarter to a record high of 32.90 million in the three months to November 2019. In the year to November 2019, employment increased by 359,000 (1.1%). The employment rate increased by 0.6 percentage points on the year to reach a record high of 76.3%.

The increase in total employment was largely driven by women, whose employment increased by 148,000 to a record high of 15.58 million in the latest quarter. For women, this was the largest quarterly increase since February to April 2014. The number of men in employment increased by 60,000 to a joint record high (with November 2018 to January 2019) of 17.32 million. The employment rate for men was 80.4% and that for women reached a record high of 72.3%.

Women's employment performance has been strong, from 13.7 million in the period December 2011 to February 2012, to 15.6 million in the period September to November 2019. Their unemployment and economic inactivity rates have been falling, and many women have been joining full-time employment. The number of women in full-time employment increased from 7.8 million in the period December 2011 to February 2012, to 9.3 million in the period September to November 2019.

The female to male ratios of employees and full-time and part-time workers had strong upward trends, particularly from 2017 onwards. The trends were driven by more women than men joining the various categories of employment.

## Unemployment

In recent periods, UK unemployment showed signs of stabilising, with limited changes occurring in the short term. In the three months to November 2019, the level of unemployment reduced marginally by 7,000 on the quarter to 1.31 million. The unemployment rate remained unchanged at 3.8%.

The fall in unemployment was caused by the number of unemployed women reducing by 9,000, while that of men increased by 2,000.

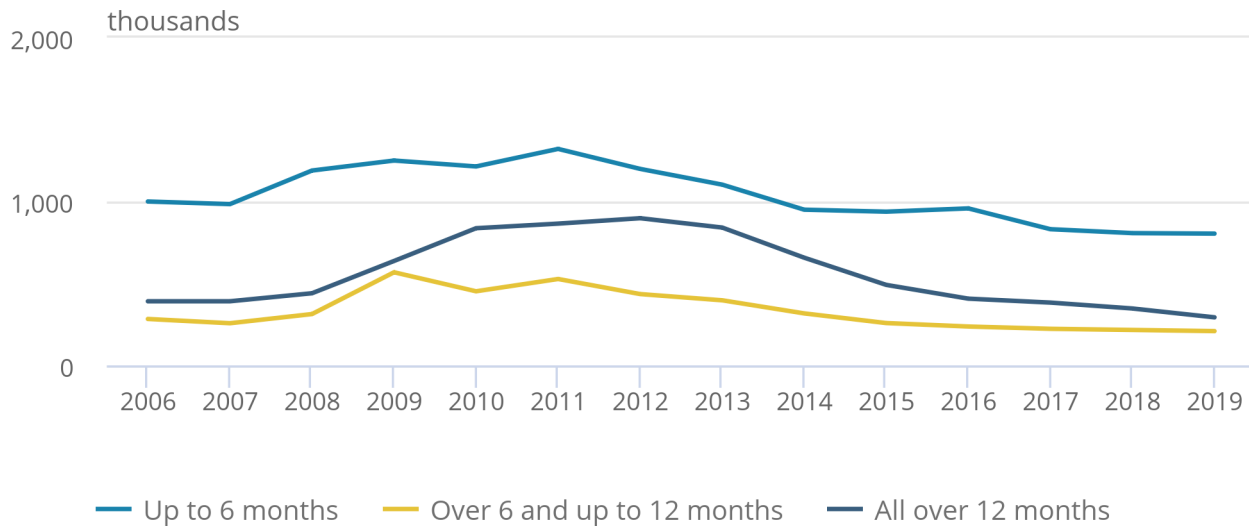
Over the past six years, the fall in unemployment has been driven by declining long-term unemployment (that is, with a duration of over 12 months), which means unemployment has become less structural. This is illustrated in Figure 1, which presents unemployment disaggregated by duration.

## Figure 1: The fall in unemployment was driven by long-term unemployment

Annual unemployment level disaggregated by duration, seasonally adjusted, UK, September to November 2006 to September to November 2019

### Figure 1: The fall in unemployment was driven by long-term unemployment

Annual unemployment level disaggregated by duration, seasonally adjusted, UK, September to November 2006 to September to November 2019



Source: Office for National Statistics – Labour Force Survey

In the year to November 2019, long-term unemployment reduced by 54,000. Short-term unemployment (of up to 6 months) and medium-term unemployment (of between 6 and 12 months) reduced marginally by 3,000 and 6,000 respectively.

Unemployment of all duration types reduced from the economic downturn period (2008 to 2009) onwards, but medium-term unemployment has remained broadly flat since 2017. Short-term unemployment remained higher, indicating higher churning frequency, which is an indicator of the health of the labour market.

## Economic inactivity

In the period September to November 2019, the level of economic inactivity fell by 171,000 to 8.51 million. This was the largest quarterly decrease since the three months to July 2012. In our [labour market economic commentary for October 2019](#), we highlighted that the downward trend of the level of economic inactivity was largely driven by women. In the most recent period, the number of economically inactive women reduced further by 131,000 on the quarter to a record low of 5.18 million. This was the largest quarterly decrease since the period November 1983 to January 1984.

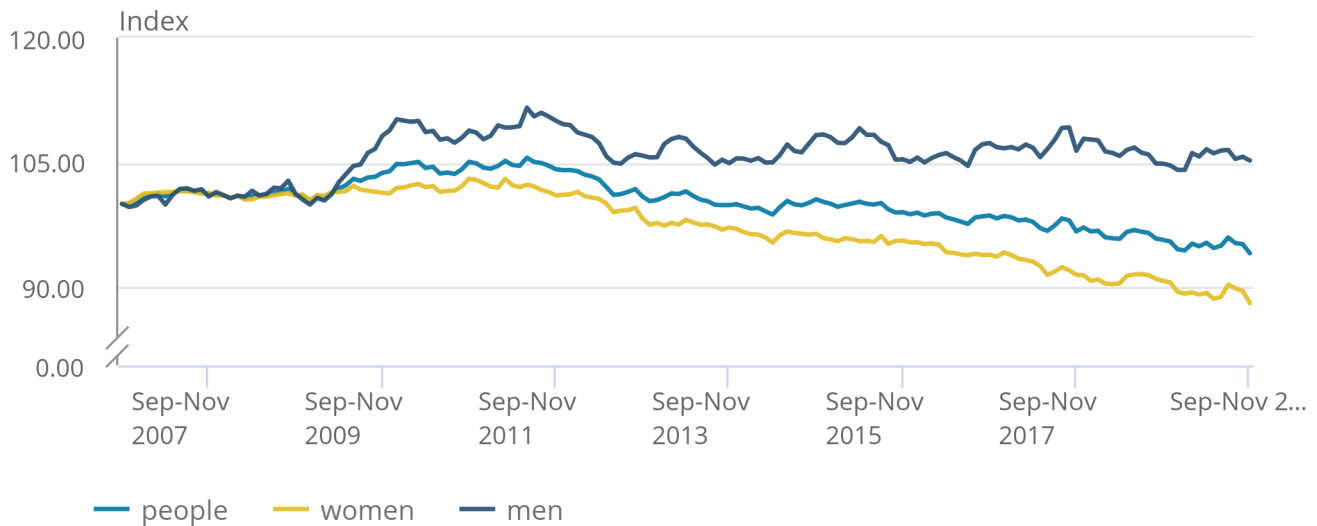
Figure 2 shows the indices of male, female and total economic inactivity since 2006 (2006=100).

## Figure 2: The fall in the level of economic inactivity has been driven by women

Indices of male, female and total economic inactivity (2006=100), seasonally adjusted, UK, September to November 2006 to September to November 2019

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Indices of male, female and total economic inactivity (2006=100), seasonally adjusted, UK, September to November 2006 to September to November 2019



Source: Office for National Statistics – Labour Force Survey

There are several possible explanations for the persistent decrease in the number of economically inactive women. The increase in the State Pension age for women to equal with that of men may have caused some women to leave economic inactivity. In our [labour market economic commentary for February 2019](#), we discussed the impacts of the change to the State Pension age on the labour market. There has also been a cultural shift away from women staying at home to be the primary caregivers to children and dependants. For example, in the year to November 2019, the number of women categorised as economically inactive because of looking after family or home fell by 119,000 to a record low of 1.70 million. This contrasts with a 4,000 increase in the number of men who were economically inactive for the same reason (to 232,000).

The composition of the inactive population has been affected by changes to paternity and maternity laws in the UK, as men are increasingly being encouraged to take paternity leave. In addition, the introduction of the two-child benefit limit in April 2017 may have incentivised more women to join the labour force.

## 4 . Productivity and average weekly earnings growth

The latest UK labour productivity estimates for the period July to September 2019 show that growth in labour productivity in the whole economy was weak, with output per hour growing by 0.4% on the quarter to September 2019. Since productivity is one of the main determinants of wage growth, weak productivity growth potentially limits wage growth. This is because workers are remunerated with part of what they produce. If output growth is low, wage growth is also reduced. However, economic theory tells us that wage growth is determined by other factors like the tightness of the labour market, [the volume of job-to-job moves](#), and [the level of inflation](#).

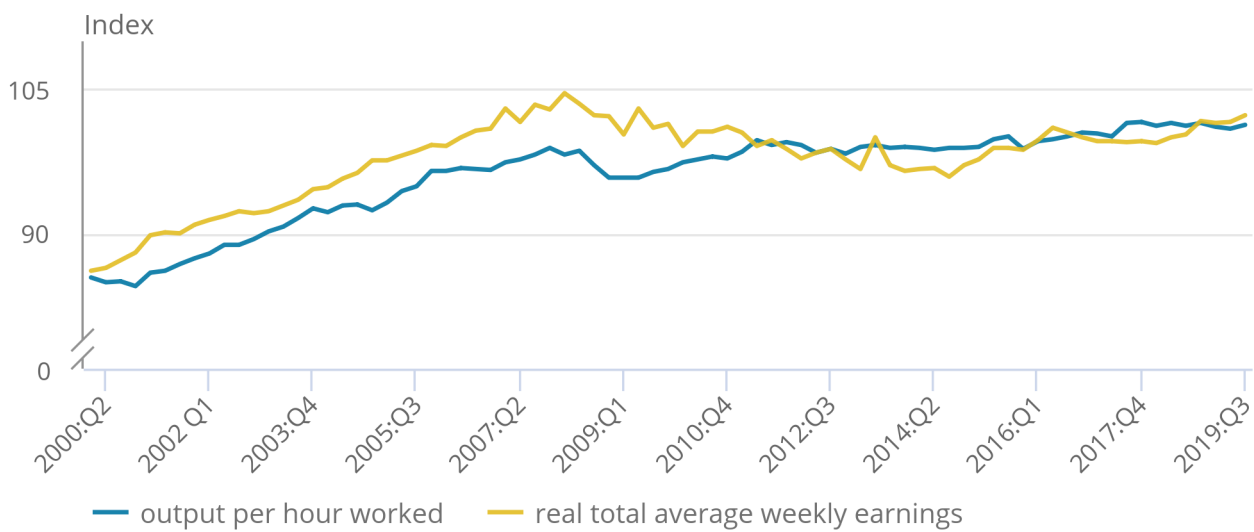
Figure 3 illustrates the trends of the indices of labour productivity (per hour) and real total average weekly earnings (that is, accounting for inflation as measured by the Consumer Prices Index including owner occupiers' housing costs (CPIH, with a base year of 2015)).

**Figure 3: The index of real total earnings has been growing at a faster rate than that of productivity from 2018 onwards**

Indices of productivity (output per hour worked) and real total average weekly pay (2016=100), seasonally adjusted, Quarter 1 (Jan to Mar) 2000 to Quarter 3 (July to Sept) 2019

Figure 3: The index of real total earnings has been growing at a faster rate than that of productivity from 2018 onwards

Indices of productivity (output per hour worked) and real total average weekly pay (2016=100), seasonally adjusted, Quarter 1 (Jan to Mar) 2000 to Quarter 3 (July to Sept) 2019



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

Figure 3 shows that between 2000 and 2011, the index of productivity was higher than that of real total average weekly earnings. From 2018 onwards, the index of real earnings grew at a faster rate than that of productivity.

Between January 2011 and September 2019, real total average weekly earnings grew by 0.1%. Over the same period, the average quarterly growth of labour productivity per hour was 0.1%. However, since February 2018, total average weekly pay grew by an average 1.1% per quarter. Between January 2018 and September 2019, labour productivity per hour declined by an average 0.04% per quarter. The lower average quarterly growth rate of productivity over that of wages has caused businesses to raise concerns about rising employment costs.

The latest average weekly earnings data show that total pay (which includes bonuses) grew by 3.2% to £544 in the year to November 2019, and regular pay (which excludes bonuses) grew by 3.4% to £511 over the same period. In real terms, total pay increased by 1.6% to £503 per week and regular pay by 1.8% to £472 per week. Real regular pay was £1 lower than the pre-downturn (2008 to 2009) peak of £473 reached in April 2008. Over the same period, real total pay was £22 lower than the pre-downturn peak of £525 reached in February 2008.

## 5 . Analysis of zero-hours contract working in the economy

The dawn of a new decade this month gives a special opportunity to reflect on the major changes that took place in the UK labour market in the past decade (2010 to 2019). Notable changes occurred across all labour market statuses and related indicators. There were legislative and institutional changes that impacted on labour market outcomes too.

A prominent feature of the past decade is the expansion of non-standard forms of working, defined by the International Labour Organization (ILO) as [any form of employment that deviates from standard employment](#), which consists of guaranteed minimum employment standards and security of tenure.

Zero-hours contracts are part of the growing employment flexibility in the UK labour market, together with other types of flexible working, including flexi-time, term-time working, job sharing and annualised hours contracts. We focus our analysis on the structure of zero-hours contracts over the past 10 years to improve our understanding of their evolution and the characteristics of people involved in them.

A zero-hours contract is defined as “[where a person is not contracted to work a set number of hours, and is only paid for the number of hours that they actually work](#)”. The zero-hours contracts statistics are based on respondents' self-classification of their working arrangements in their main job. The Organisation for Economic Co-operation and Development (OECD) argues that [the changing structure of employment is creating polarisation between professional and low-skill jobs](#) as the latter tend to be characterised by low pay and unstable tenure.

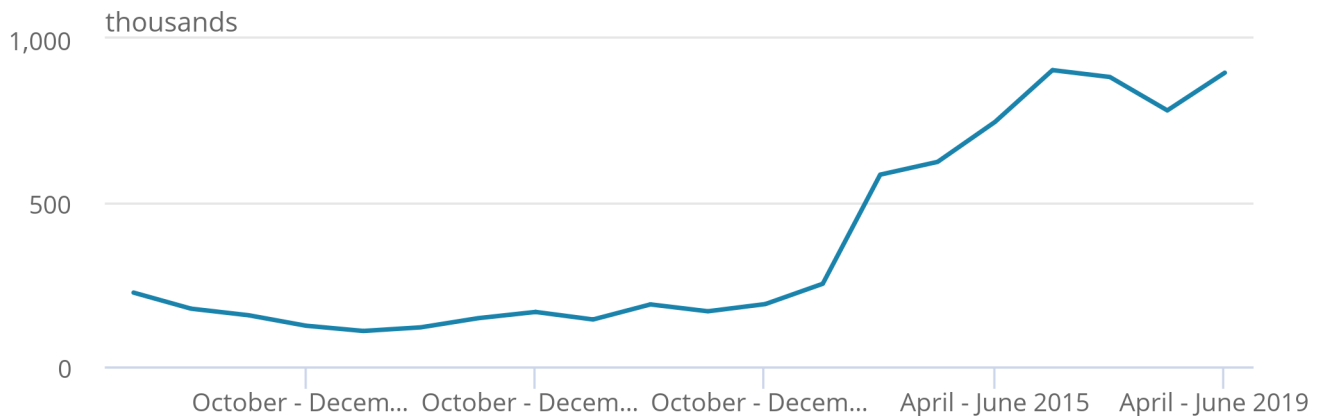
In our [labour market economic commentary for July 2019](#), we highlighted some of the features of zero-hours contracts in the labour market. The number of workers on zero-hours contracts has been increasing since 2004 as shown in Figure 4.

**Figure 4: The number of zero-hours contracts has been increasing since 2004, with a substantial increase from 2013 onwards**

Zero-hours contract employment, not seasonally adjusted, UK, October to December, each year 2000 to 2013, April to June, each year 2014 to 2019

Figure 4: The number of zero-hours contracts has been increasing since 2004, with a substantial increase from 2013 onwards

Zero-hours contract employment, not seasonally adjusted, UK, October to December, each year 2000 to 2013, April to June, each year 2014 to 2019



Source: Office for National Statistics – Labour Force Survey

The substantial increase in zero-hours contract workers from 2013 onwards was a result of [more people reporting to be on zero-hours contracts](#). The strong increase in people reporting that they are on a zero-hours contract after 2012 is likely to have been affected by a greater public awareness and recognition of the term “zero-hours contracts”, particularly as a result of the increased media coverage in the second half of 2013. Although the number of zero-hours contract workers reduced between 2016 and 2018, it increased between 2018 and 2019. The latest data for the period April to June 2019 show that there were 896,000 workers on zero-hours contracts.

Although the number of workers on zero-hours contracts has been increasing, the proportion of such workers in total employment remains low. The percentage of workers on such contracts averaged 0.6% of total employment between 2000 and 2012. Between 2013 and 2019, there was a 0.8 percentage point increase in the number of workers on zero-hours contracts to 2.7% of total employment, which is a small proportion of the labour force. However, the proportion is more substantial within some age groups. In the period April to June 2019, the 16 to 24 years age group had the largest proportion of its members on zero-hours contracts (8.8%), followed by the 65 years and older age group (with 4.0%).

An analysis of the age composition of zero-hours contract workers shows that in the period April to June 2019, young workers aged 16 to 24 years were predominant (36.8%), followed by those aged 50 to 64 years old (23.1%). This is largely consistent for all the periods between 2016 and 2019. Figure 5 shows the age group trends of zero-hours contract workers.

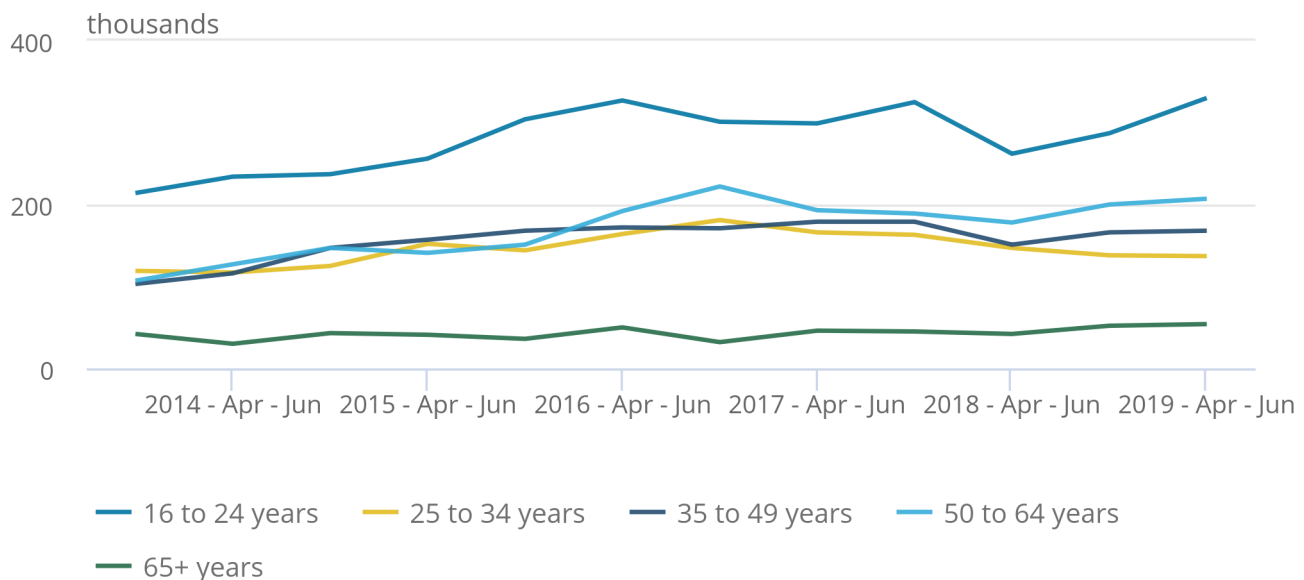


## Figure 5: The trends of workers on zero-hours contracts were dominated by the 16 to 24 years age group

Trends of workers on zero-hours contracts by age group, not seasonally adjusted, UK, October to December 2013 to April to June 2019

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Trends of workers on zero-hours contracts by age group, not seasonally adjusted, UK, October to December 2013 to April to June 2019



Source: Office for National Statistics – Labour Force Survey

Figure 5 shows that zero-hours contract workers in age groups 16 to 24 years, 50 to 64 years and 35 to 49 years increased between 2013 and 2019. The age group 25 to 34 years decreased between 2016 and 2019, while the over 65 years age group remained relatively unchanged between 2013 and 2019.

There are various reasons for the higher proportion of zero-hours contracts within certain age groups. The 16 to 24 years age group has the highest unemployment rate in the working age population. They often face unemployment and under-employment because of lack of experience and/or qualifications.

Young people may also lack resources to look for employment far away from home. Constrained job search mobility may cause them to take up whatever employment opportunities exist within their commuting distances, which may consist mainly of zero-hours contract working. As this group mainly consists of students, zero-hours contracts also provide flexibility for people to fit work around their studies.

The increase in the number of older workers (50 to 64 years) on zero-hours contracts may be because of several reasons, including older workers easing themselves into retirement. Older workers may partially retire and work few hours to protect their entitlement to a full state pension when it becomes payable. There is also the possibility that older workers are finding it difficult to find jobs with standard employment conditions. Such a situation may cause older workers to take up zero-hours contract employment rather than be unemployed or become inactive.

## More women than men are employed on zero-hours contracts

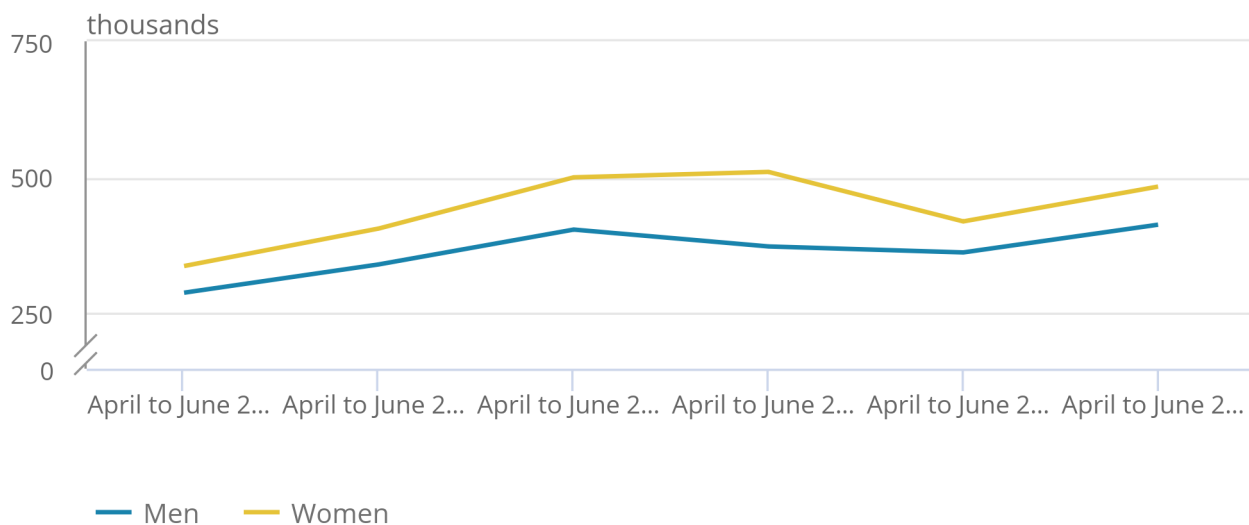
We can also disaggregate zero-hours contract employment by sex, as shown in Figure 6.

**Figure 6: There are more women than men on zero-hours contracts**

Gender structure of workers on zero-hours contracts, UK, April to June, 2014 to 2019

### Figure 6: There are more women than men on zero-hours contracts

Gender structure of workers on zero-hours contracts, UK, April to June, 2014 to 2019



Source: Office for National Statistics – Labour Force Survey

Figure 6 shows that more women than men were on zero-hours contracts between 2014 and 2019. Over the same period, there were more women than men in part-time employment. Because zero-hours contracts and part-time employment tend to be more concentrated in low-skill and low-pay sectors, the cumulative effects of these two types of employment is that [women end up with lower average levels of earnings](#) and they are more likely to be income-insecure, resulting in low or falling living standards. A [House of Commons briefing paper](#) in May 2018 highlighted that many workers on zero-hours contracts were income-insecure and that about a third of zero-hours contract workers preferred to work more hours.

## There are more low-skill workers on zero-hours contracts

Zero-hours contracts are prevalent among low-skill workers and in low-wage sectors. Low-skill and low-wage sectors include “wholesale and retail”, “accommodation and food services” and “health and social work services”. The data for the period April to June 2019 show that elementary occupations had the largest number of workers on zero-hours contracts (comprising 31.8% of all zero-hours contracts), followed by the “caring, leisure and other service” sector occupations (19.5%). The data show that there are fewer people on such contracts in highly-skilled and high-pay occupational categories.

## The “accommodation and food services” sector has the largest number of zero-hours contract workers

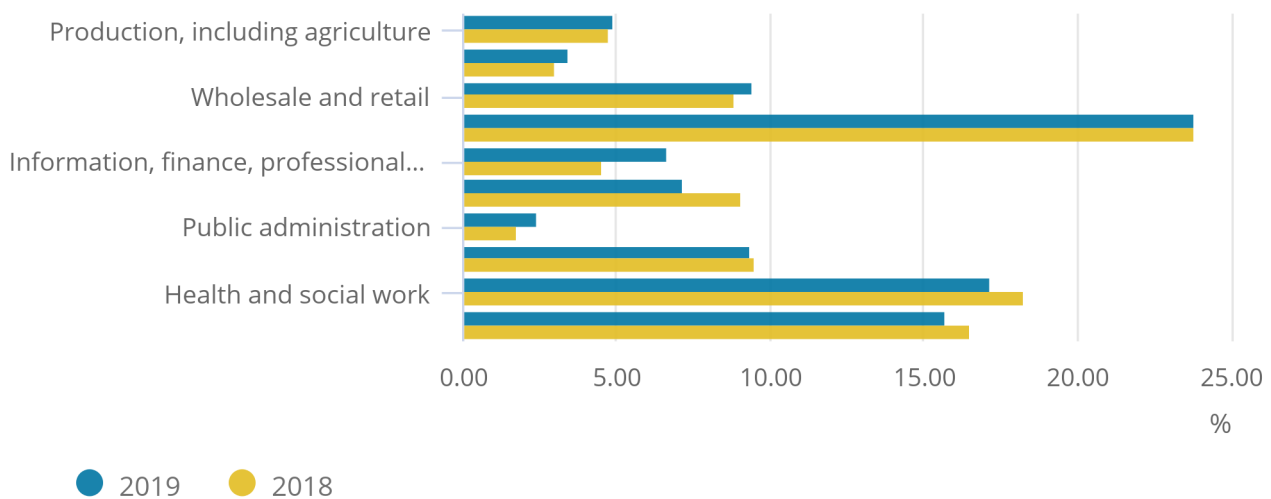
The sectoral distribution of zero-hours contract working is illustrated in Figure 7. It shows that there were more zero-hours contract workers in the “accommodation and food services”, “health and social work services” and “transport, arts and other services” sectors.

### Figure 7: The “accommodation and food services” sector has the highest proportion of zero-hours contract workers

Sectoral distribution of zero-hours contract workers, not seasonally adjusted, UK, April to June, 2018 and 2019

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Sectoral distribution of zero-hours contract workers, not seasonally adjusted, UK, April to June, 2018 and 2019



Source: Office for National Statistics – Labour Force Survey

Figure 7 shows that between 2018 and 2019, the contribution of each sector to the total number of workers on zero-hours contracts increased in the following sectors:

- production, including agriculture (by 0.1 percentage points)
- construction (by 0.4 percentage points)
- wholesale and retail (by 0.6 percentage points)
- information, finance and professional services (by 2.1 percentage points)
- public administration (by 0.6 percentage points)

The proportion of zero-hours contracts decreased in the remaining sectors, with the largest decrease of 1.9 percentage points taking place in the “administration and support services” sector.

Zero-hours contract working is also associated with job-insecurity, as more people with such contracts have fewer than 12 months’ employment duration. While short-term employment contracts may be desirable for some workers, they may place a burden on some workers because of uncertainty about future employment and income. In 2015, the [IZA World of Labor](#) discussed the negative effects of job insecurity as including heightened mental and physical health problems.

The sectors with the largest numbers of zero-hours contract workers are also often low paying. A calculation of the gap between sectoral total average weekly earnings and the national average weekly earnings in November 2019 (£544) shows that the total services sector paid £16 less than the national average, and the “wholesale, retailing, hotels and restaurants” sector paid £182 less than the national average. The concentration of zero-hours contract working in low-paying sectors (such as the total services sector, which employs more than 80% of all workers) implies that zero-hours contract workers may be experiencing income-insecurity and in-work poverty; the [Institute for Fiscal Studies \(IFS\)](#) estimated this to be 18% in 2019. Our study on persistent poverty in the UK and EU showed that [7.8% of people in the UK were persistently poor in 2017](#). Some of the reasons for this were various combinations of low hourly pay and too few working hours.