

Article

Labour market economic commentary: Apr 2017

Contact:
Wain Yuen
economic.advice@ons.gsi.gov.uk
+44 (0)1633 651586

Release date:
12 April 2017

Next release:
17 May 2017

Table of contents

1. [Main points](#)
2. [Compositional shift from part-time to full-time employment continues](#)
3. [UK unemployment rate remains at a generational low](#)
4. [Continued pick-up in consumer price inflation erodes growth in wages](#)
5. [Authors](#)

1 . Main points

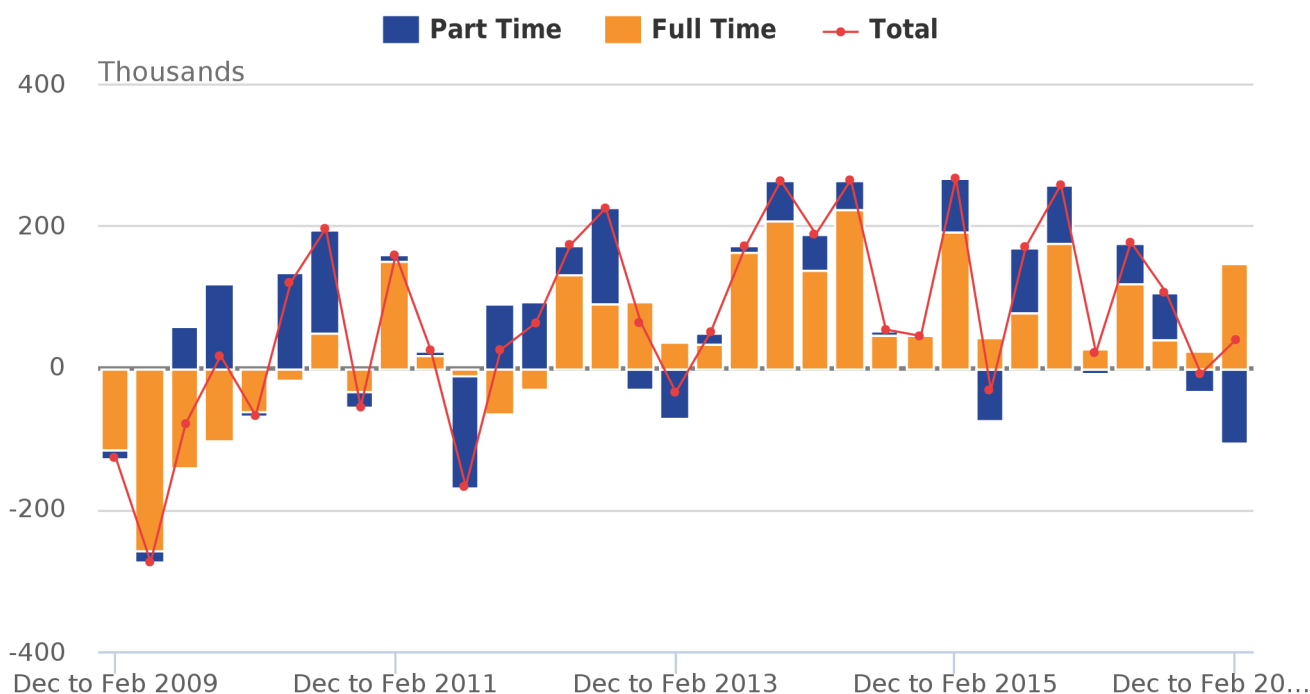
- The unemployment rate was 4.7% in the 3 months to February 2017, down from 5.1% a year earlier; it has not been lower since June to August 1975.
- Strong demand for labour is translating into a shift from part-time to full-time employment, and an increase in the average hours worked per week by both full time and part-time employees.
- The number of vacancies increased by 2.1% between the last quarter of 2016 and the first quarter of 2017 to 767,000, the highest level on record.
- A continued pick-up in consumer price inflation sees annual real wage growth weaken to its lowest rate since 2014.

2 . Compositional shift from part-time to full-time employment continues

The number of people in work increased by 39,000 in the 3 months to February 2017 to 31.84 million, with an increase in full-time employment (positive 146,000) partly offset by a fall in part-time employment (negative 107,000) (Figure 1). In addition to a record high employment rate (74.6%), and an unemployment rate at a generational low (4.7%), strong demand for labour is translating into a shift from part-time to full-time employment, and an increase in the average hours worked per week by both full time and part-time employees.

Figure 1: Quarterly change in employment

UK, February 2009 to February 2017



Source: Office For National Statistics, Labour Force Survey

Following the financial crisis, the addition of part-time jobs at the expense of full-time jobs drove the part-time share of employment to a record high of 27.6% (in mid- 2012). Recent data suggest that this pattern could be starting to unwind. In the 3 months to February 2017, the part-time share of employment declined to 26.5%, the lowest since August to October 2009, but still above its pre-crisis average of 25.5% (Figure 2).

With the unemployment rate at its equal lowest in over 4 decades, [previous analysis](#) highlighted the proportion of part-time workers who could not find full-time work as one measure of slack in the labour market. Data released today (12 April 2017) show that this measure continued to contract with the proportion falling to 12.6%, down from 14.2% a year ago (and down from a peak of 18.4% in 2013). This proportion is now at its lowest since March to May 2009, but still well above its pre-crisis average of 8.3% (Figure 2).

Figure 2: Part-time share of employment, and share of part-time workers who could not find full-time work

UK, January 1996 - February 2017



Source: Office For National Statistics, Labour Force Survey

Average hours worked per week increased from 32.0 to 32.4 in the 3 months to February 2017, the highest since July to September 2002, largely due to more hours being worked over the Christmas and New Year period compared with recent years. There was an increase in the average hours worked by full-time employees, an increase in the average hours worked by part-time employees, as well as a shift from part-time to full-time employment.

The number of vacancies, another indicator of strength in the labour market, increased by 16,000 to 767,000 in the 3 months to March 2017, the highest level on record. Similarly, the number of unemployed people per vacancy declined to 2.0 in the 3 months to February 2017, the lowest on record.

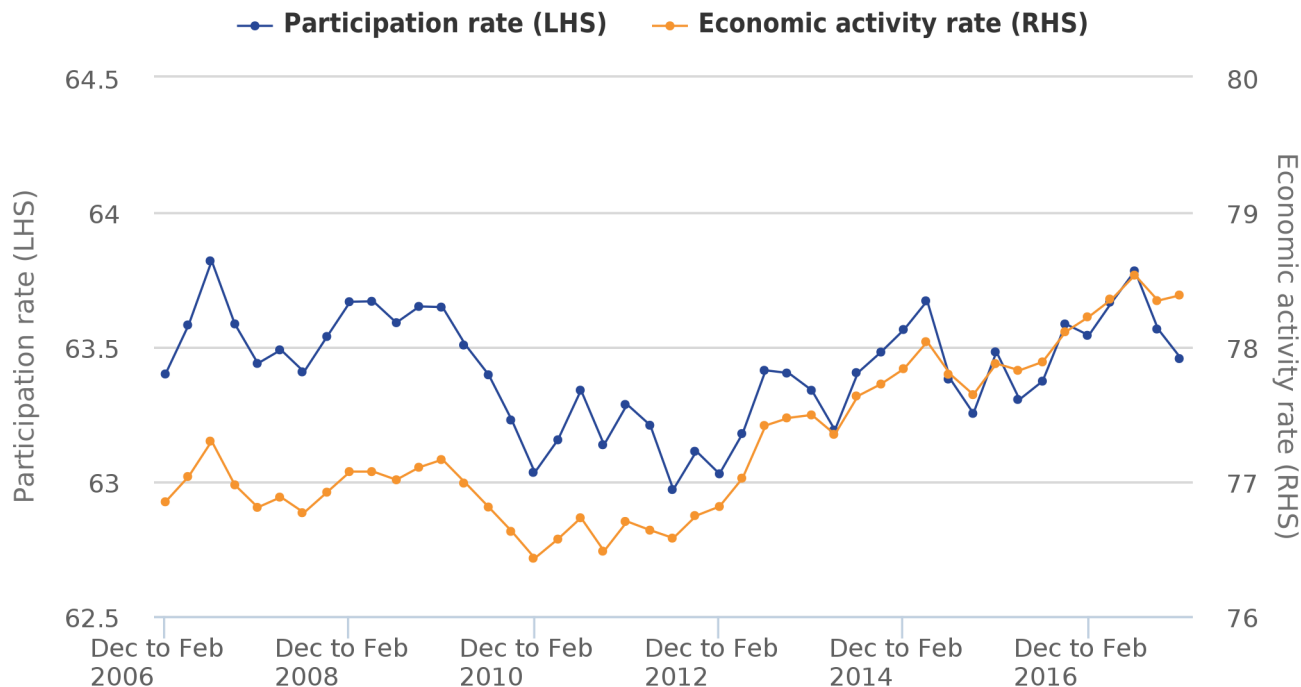
3 . UK unemployment rate remains at a generational low

The unemployment rate was 4.7% in the 3 months ending February 2017, and has not been lower since the 3 months ending August 1975. The fall in the unemployment rate compared to 6 months ago reflects both a fall in the number of people who are unemployed (down 5.9%) and a fall in the over 16s participation rate (from 63.8% to 63.5%), although the latter exhibits some volatility (Figure 3).

In contrast to the participation rate (which captures those aged 16 and over), the headline economic activity rate features only those aged 16 to 64 and has remained relatively stable at 78.4%. The recent divergence between the over-16s participation and 16 to 64 economic activity rates reflects a falling number of economically active individuals aged over 65: in the 3 months to February 2017, this number decreased by 3.9%, the largest quarterly fall since April to June 2015.

Figure 3: Over 16s participation rate (%) and 16 to 64 economic activity rate (%)

UK, February 2006 to February 2017



Source: Office For National Statistics, Labour Force Survey

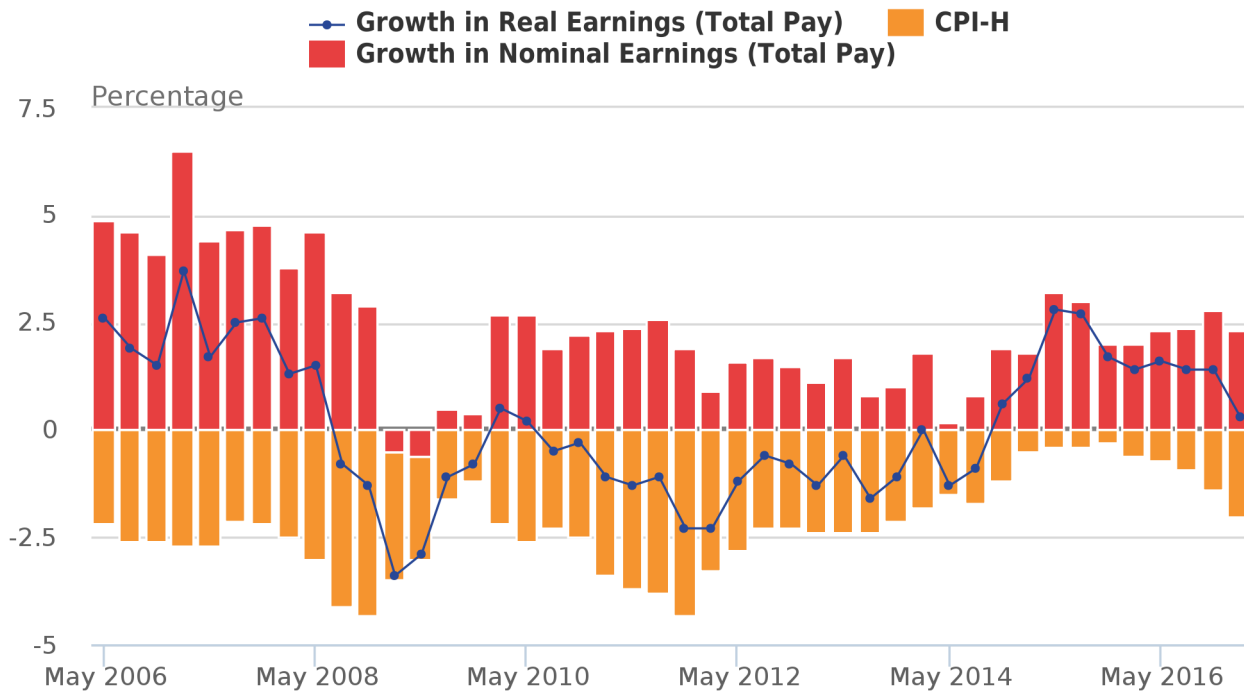
4 . Continued pick-up in consumer price inflation erodes growth in wages

Average weekly earnings for employees increased by 2.3% including bonuses and by 2.2% excluding bonuses, compared with a year earlier. However, adjusted for inflation, average weekly earnings grew by 0.2% including bonuses and by 0.1% excluding bonuses, over the year, the slowest rate of growth since 2014.

Figure 4 places the recent movement in real earnings in context by separating out growth in nominal earnings, from consumer price (CPIH) inflation. Following the economic downturn, the fall and slow recovery in nominal wage growth, alongside increasing CPIH inflation, led to real earnings falling in late-2008. By late-2014, an increase in nominal wage growth and low CPIH inflation, led to average real earnings increasing by 1.7% in the 18 months to mid-2016. With the depreciation of sterling, and the increase in import costs faced by manufacturers since mid-2016, consumer price inflation has picked up, leading to growth in real earnings to fall.

Figure 4: Growth in nominal earnings, consumer price inflation and growth in real earnings, percent

UK, May 2006 to February 2017



Source: Office For National Statistics, Labour Force Survey

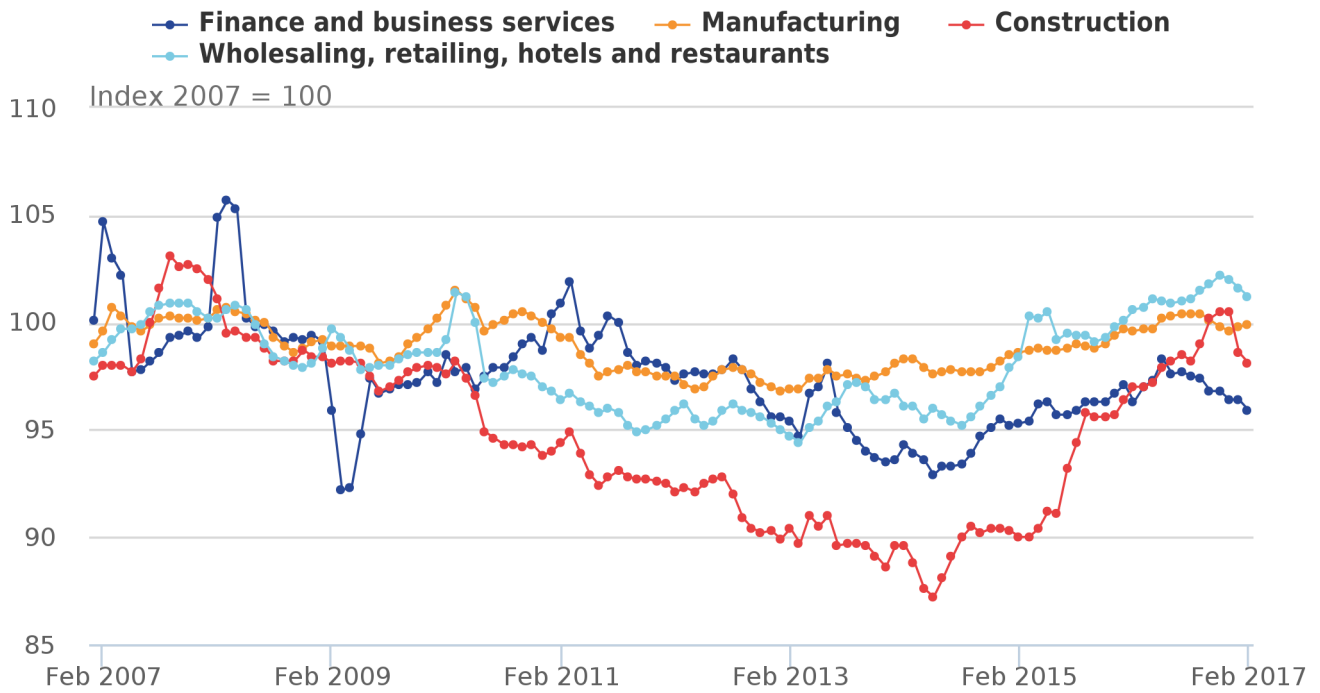
Notes:

1. CPIH is inverted to display its subtraction from real wage growth.

To examine this performance in more detail, Figure 5 shows real earnings across selected industrial groups, deflated by CPIH and indexed to their respective values in 2007. Real earnings have differed across industries since the downturn. Of the four industrial groupings, average weekly earnings fell most in finance and business services (negative 2.3%), construction (negative 2.0%) and wholesale, retailing, hotels and restaurants (negative 1.4%) by the end of 2009. Real earnings continued to move downward for all industrial groupings up until mid-2014, and started to recover by the end of 2014. By February 2017, finance and business services (negative 4.1%) still remained below its 2007 level, while the manufacturing and construction industry did surpass its 2007 level but has fallen in recent months. Wholesaling, retailing, hotels and restaurants (positive 1.2%) did perform relatively strongly compared with other industries, surpassing its 2007 level – which could be partly attributed to the increase in the living wage having a larger impact on the industry.

Figure 5: Real average weekly earnings (total pay) across selected industry groupings, index 2007 = 100

UK, January 2007 to February 2017



Source: Office For National Statistics, Labour Force Survey

5 . Authors

James Rowlings, Sunny Sidhu and Wain Yuen.