

Article

Labour market economic commentary: April 2019

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

Contact:
Blessing Chiripanhura
economic.advice@ons.gov.uk
+44 (0)1633 456738

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1 . Main points

- The level of employment in the UK increased by 179,000 to a record high of 32.72 million people in the three months to February 2019.
- The growth in employment was driven mainly by the number of women getting into jobs.
- The unemployment rate reduced to 3.9% and the economic inactivity rate reduced to a joint record low of 20.7% in the three months to February 2019.
- Actual weekly hours worked increased by 12.8 million to a record high of 1,052.9 million hours in the three months to February 2019.
- The UK's youth unemployment rate is lower than the EU28 average, but it is higher than that of Germany.

2 . Overview of the economy

In the three months to February 2019, the [UK economy grew by 0.3%](#). The growth was driven by growth in the services sector (0.4%). In recent months the rate of inflation has been subsiding; in February 2019 the 12-month Consumer Prices Index including owner occupiers' housing costs (CPIH) rate of inflation was at 1.8%. Households, corporations and government continued to be net borrowers in Quarter 4 (Oct to Dec) 2018, borrowing or running down their savings to finance their spending and investment, financed by the rest of the world being a net lender to the UK.

Despite continued growth and willingness to borrow, there is mixed evidence on the strength of business confidence. For example, while the [CIPS Manufacturing Purchasing Managers' Index \(PDF, 148KB\)](#) reached a 13-month high in March 2019, the [BDO Optimism Index](#) for April reports business sentiment is weaker.

The labour market performance in Europe remains mixed. The unemployment rate in the Eurozone reduced to 7.8% in February 2019. The lowest unemployment rates were recorded in the Czech Republic (1.9%), Germany (3.1%) and the Netherlands (3.4%). The highest rates were recorded in Greece (18%), Spain (13.9%), Italy (10.7%) and France (8.8%).

The UK's labour market has been performing well, with an employment rate of 76.1% in February 2019, and a historically low unemployment rate of 3.9% (which was lower than the Eurozone average), and an inactivity rate of 20.7%.

3 . Employment, unemployment and inactivity

Employment

In the three months to February 2019, the level of employment in the UK increased by 179,000 to a record high of 32.72 million people. The increase was driven by the number of women entering employment, with female employment increasing by 142,000 in the three months to February 2019 to a record high of 15.41 million. Over the same period, the number of employed men increased by 37,000 to 17.31 million.

The overall employment rate increased by 0.4 percentage points to 76.1%. The employment rates for men and women increased by 0.2 and 0.6 percentage points to 80.5% and 71.8% respectively.

In the three months to February 2019, the number of employees reached a record high of 27.71 million. The number of employees increased by 179,000 on the quarter and by 369,000 on the year. More women (173,000) than men (6,000) became employees.

The number of workers who were self-employed reduced by 23,000 on the quarter to 4.83 million over the same period. In the year to February 2019, the number of self-employed workers increased by 76,000.

The total number of people working on a full-time basis increased by 138,000 to reach a record high of 24.15 million. Part-time employment increased by 41,000 to 8.58 million. Men and women working full-time increased by 62,000 and 76,000 to reach record highs of 15.05 million and 9.09 million, respectively.

The latest data show that more women (6.32 million) than men (2.26 million) worked on a part-time basis. The distribution of women who joined employment shows that 76,000 joined full-time employment and 66,000 joined part-time employment.

The increase in the number of part-time workers was driven by people who were unable to find full-time jobs, which increased by 67,000 on the quarter to 950,000 in the three months to February 2019. This has implications for individuals, as being unable to obtain full-time employment reduces their earnings and could impact on longer-term opportunities. The number of part-time workers who did not want a full-time job increased by 5,000 to 6.09 million.

The number of ill or disabled people who were inactive decreased by 7,000 to 262,000. The number of students working part-time decreased by 40,000 to 1.07 million.

Unemployment

In the three months to February 2019, the number of unemployed people in the UK decreased by 27,000 to 1.34 million. The unemployment rate decreased by 0.1 percentage points on the quarter to 3.9%.

Disaggregating unemployment by sex shows that the number of unemployed women reduced by 20,000 on the quarter to 611,000. The number of unemployed men reduced by 7,000 to 731,000 over the same period. Thus, the decrease in the number of unemployed people was driven by women.

The number of unemployed people can be classified by the duration of unemployment into three categories: short-term unemployment (up to 6 months), medium-term unemployment (over 6 and up to 12 months) and long-term unemployment (over 12 months). The latest estimates show that short-term unemployment fell by 12,000 to 796,000, medium-term unemployment fell by 16,000 to 200,000, and long-term unemployment remained unchanged at 347,000.

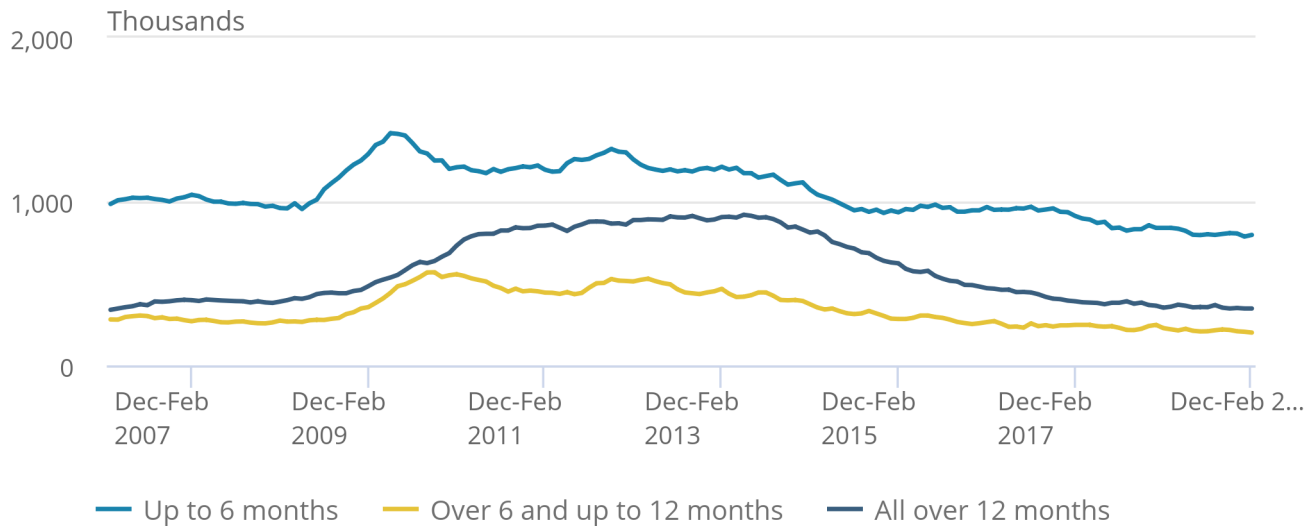
Figure 1 shows the trends of duration of unemployment. Short-term unemployment peaked at 1.4 million in the period April to June 2009 and declined gradually thereafter. Long-term unemployment decreased at a faster rate than medium-term unemployment, from the period April to June 2013 onwards.

Figure 1: Long-term unemployment decreased at a faster rate than medium-term unemployment

UK, duration of unemployment, January to March 2006 to December 2018 to February 2019

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UK, duration of unemployment, January to March 2006 to December 2018 to February 2019



Source: Office for National Statistics – Labour Force Survey

Economic inactivity

The number of people who were economically inactive decreased by 114,000 on the quarter to reach 8.54 million in the three months to February 2019. This was the largest fall since the November 2017 to January 2018 period. The number of economically inactive women decreased by 90,000 to reach a record low of 5.25 million. The number of inactive men decreased by 24,000 to 3.29 million.

The economic inactivity rate fell by 0.3 percentage points to reach a joint record low of 20.7% in the three months to February 2019, equal to the low point reached in three months to January 2019. The inactivity rate for women decreased by 0.4 percentage points to a joint record low of 25.3% and that for men decreased by 0.1 percentage points to 16.0% over the same period.

The analysis of economic inactivity by reason for inactivity shows that only one category (temporarily sick) increased by 11,000 to 189,000, while all the other categories (students, looking after family or home, long-term sick, the discouraged, retired and “other”) reduced.

4 . Average weekly earnings

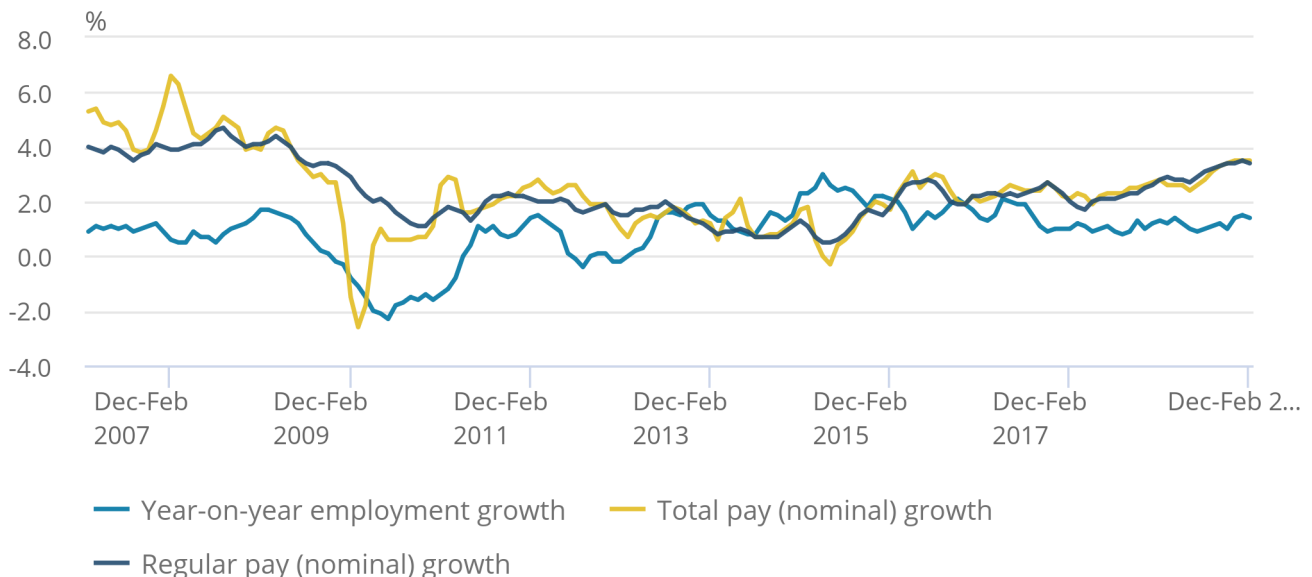
The sustained good performance of the labour market (that is, growing employment and decreasing unemployment and economic inactivity) means the economy is increasingly utilising the excess capacity it had. Economic theory predicts that a tightening labour market causes wages to increase. This relationship is illustrated by plotting year-on-year employment growth against nominal pay growth over time, as shown in Figure 2.

Figure 2: Employment growth is pushing up average wage growth

UK, year-on-year employment growth and nominal pay growth, January to March 2006 to December 2018 to February 2019

Figure 2: Employment growth is pushing up average wage growth

UK, year-on-year employment growth and nominal pay growth, January to March 2006 to December 2018 to February 2019



Source: Office for National Statistics – Labour Force Survey

Figure 2 shows that between 2011 and 2014, the rate of total pay growth was variable but with a slight downward trend. Both total and regular pay growth had positive trends from 2014 onwards. Figure 2 also shows sustained employment growth from 2012 onwards. Employment growth averaged 1.5% between January 2012 and February 2019. Over the same period, labour force growth averaged 0.8% and [population growth](#) averaged 0.7%. Faster employment growth over population or labour force growth means that, over time, the economy tends towards a state of full employment where extra demand for labour will not be met by existing supply, which will stimulate higher wage growth.

The latest earnings data show that total nominal average weekly earnings (which include bonuses) increased by 3.5% on the year to reach £529 per week in the three months to February 2019. Nominal regular average weekly earnings (which exclude bonuses) increased by 3.4% on the year to reach £497 per week over the same period.

Real total average weekly earnings (that is, nominal total average weekly earnings that have been deflated with the Consumer Prices Index including owner occupiers' housing costs (CPIH) in 2015 prices), increased by 1.6% on the year to reach £494 per week in the three months to February 2019. Real regular pay increased by 1.5% on the year to reach £465 per week over the same period. Real pay growth was mainly driven by a fall in the Consumer Prices Index including owner occupiers' housing costs inflation rate. Growing real pay boosts household purchasing power and this tends to increase aggregate demand in the economy.

5 . Total weekly hours worked

Total weekly hours worked increased by 12.8 million hours to a record high of 1,052.9 million hours in the three months to February 2019. This was the largest quarterly increase since October to December 2015. Total weekly hours worked increased by 21.2 million hours on the year to February 2019.

The increase in the total weekly hours worked was driven by women whose worked hours increased by 7.2 million hours in the three months to February 2019 to a record high of 420.6 million hours. The total weekly hours worked by men increased by 5.7 million hours to 632.3 million hours over the same period.

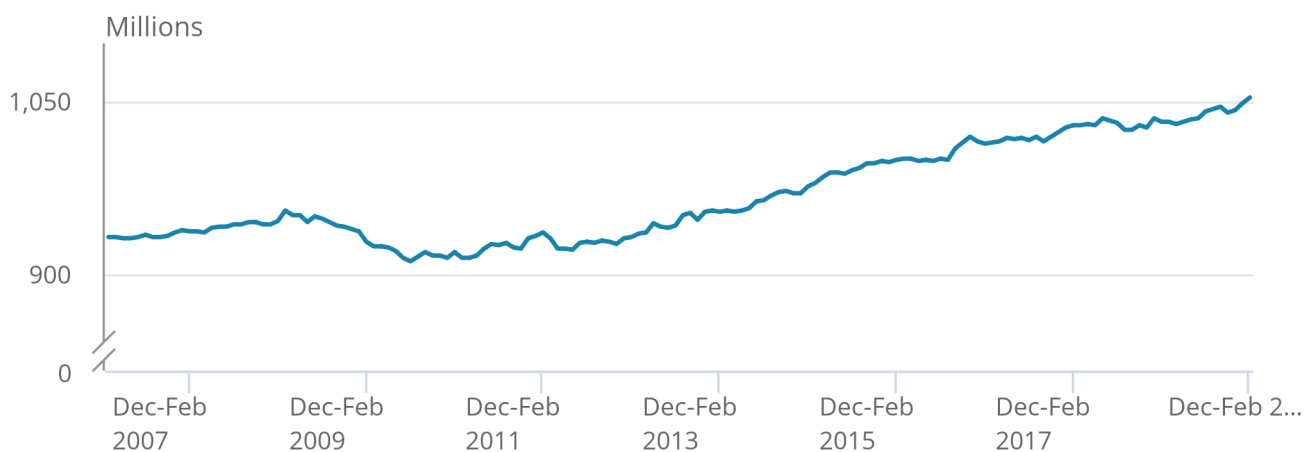
Figure 3 shows the trends of hours worked since 2006. It shows an increase in the number of total weekly hours worked from the period June to August 2009 onwards.

Figure 3: Total weekly hours worked reached a record high of 1,052.9 million hours

UK, total weekly hours worked, January to March 2006 to December 2018 to February 2019

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UK, total weekly hours worked, January to March 2006 to December 2018 to February 2019



Source: Office for National Statistics – Labour Force Survey

From 2009 onwards, the number of weekly hours worked by men increased consistently and, on average, faster than women's weekly hours worked. The increase in men's weekly hours worked was driven by the contribution of men who worked on a full-time basis. The growth in the number of weekly hours worked by women was slowed by the number of women working on a part-time basis who constituted 41% of all women in employment. Men working on a part-time basis constituted 13% of all men in employment.

6 . Youth unemployment

In this section, we focus on youth unemployment in the UK. We discuss its causes and consequences and compare with youth unemployment rates in selected EU countries.

The International Labour Organisation (ILO) defines youth unemployment as the number of all people aged 15 to 24 years who are unemployed. In the UK, where the school leaving age is 16 years, youth unemployment covers the age group from 16 to 24 years.

There are several reasons why youth unemployment is worth examining in detail. Young people entering the labour market face a higher risk of unemployment than older workers partly because they lack work experience. They will likely be churned between the different labour market statuses at a faster rate too.

Young workers tend to be more flexible than older workers. That flexibility may mean they change jobs a lot more often to gain work experience than older workers. A higher job turnover rate may be associated with more frequent periods of unemployment. It may also result in firms being less willing to employ and train young workers.

High and persistent levels of youth unemployment can have long-lasting consequences. The immediate monetary costs to government include payment of unemployment benefits and social assistance, and indirect costs of foregone tax payments and social security contributions. People who experience long periods of unemployment tend to have lower career average earnings than those that remain in employment throughout their working lives. Thus, unemployment creates and perpetuates inequality among people of the same birth and education cohorts.

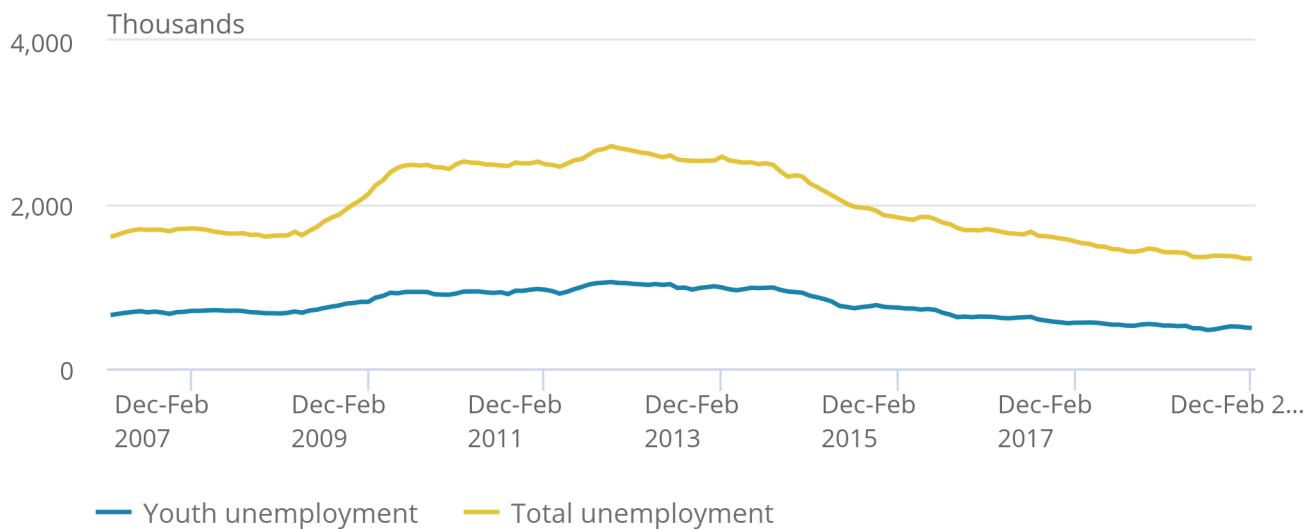
In the three months to February 2019, the number of unemployed youth in the UK decreased by 19,000 to 493,000. This equates to a youth unemployment rate of 11.3%. Figure 4 shows the trend of youth and total number of unemployed people since 2006. It shows that prior to the 2008 downturn the number of unemployed youth followed a similar trend to total unemployment. Following the downturn, adult unemployment levels increased at a faster rate than youth unemployment levels.

Figure 4: Youth unemployment followed a similar trend to total unemployment

UK, youth and total unemployment levels, January to March 2006 to December 2018 to February 2019

Figure 4: Youth unemployment followed a similar trend to total unemployment

UK, youth and total unemployment levels, January to March 2006 to December 2018 to February 2019



Source: Office for National Statistics – Labour Force Survey

The number of unemployed youths peaked in the three months to November 2011 at 1.05 million and reached its pre-downturn level of 654,000 in the July to September 2015 period.

Analysis of the duration of youth unemployment helps us to understand how difficult it is for the unemployed youths to find jobs. In the three months to February 2019, the number of short-term unemployed youths fell by 8,000 to 345,000 and that of medium-term unemployed youths fell by 4,000 to 77,000. The number of youths in long-term unemployment also reduced by 10,000 to 70,000.

One way of examining how the UK is addressing youth unemployment is to compare UK outcomes with those of some European countries. This is important because differences in institutions, education and training policies influence the transition path to work. For this analysis, we use data from [Eurostat](#).

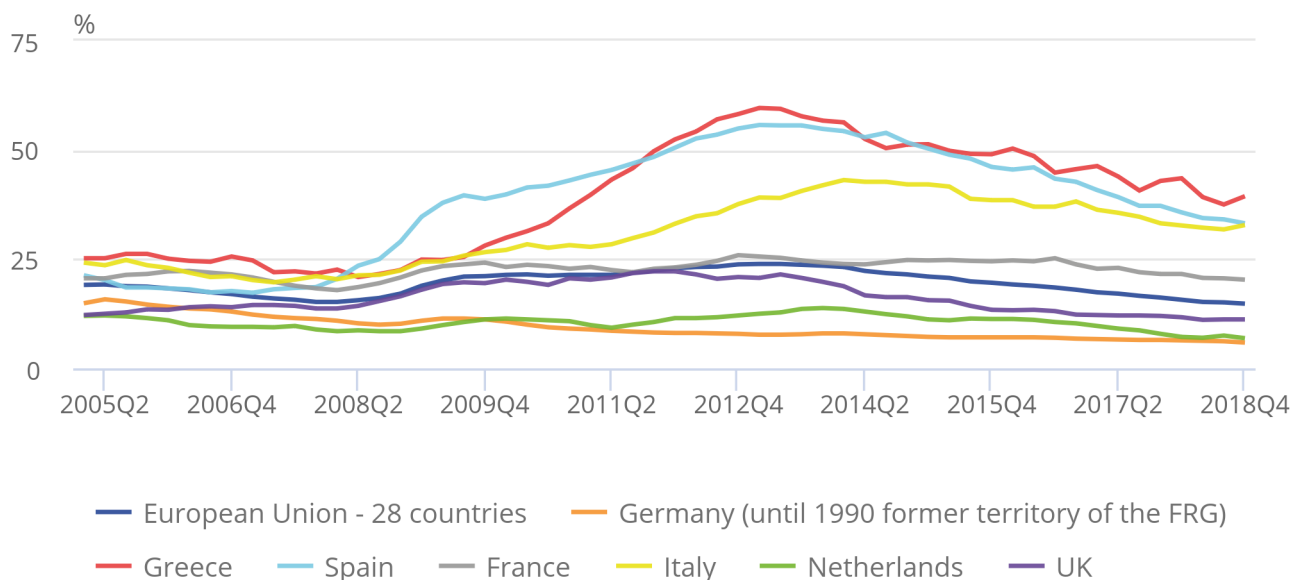
Figure 5 shows the trends of youth unemployment in selected EU28 countries. The figure shows that the lowest pre-downturn EU28 average youth unemployment rate (15.1%) was recorded in the first quarter (Jan to Mar) of 2008. The youth unemployment rate in some EU28 countries increased significantly during the economic downturn. The EU28 average youth unemployment rate reached a peak of 23.9% in the first quarter of 2013 and declined to reach 14.8% at the end of 2018.

Figure 5: The youth unemployment rate in the UK was lower than the EU28 average rate

Comparison of youth unemployment with selected EU countries, Quarter 1 (Jan to Mar) 2006 to Quarter 4 (Oct to Dec) 2018

Figure 5: The youth unemployment rate in the UK was lower than the EU28 average rate

Comparison of youth unemployment with selected EU countries, Quarter 1 (Jan to Mar) 2006 to Quarter 4 (Oct to Dec) 2018



Source: Eurostat

The UK youth unemployment rate closely tracked the EU28 average rate between 2007 and 2012. From 2012 onwards, the UK rate diverged further below the EU28 average rate.

The UK youth unemployment rate was lower than in France, Italy, Spain and Greece. The youth unemployment rate of Greece, Spain and Italy increased significantly from 2009 onwards. The increases were driven by the 2008 to 2009 economic downturn.

Germany's youth unemployment rate has been lower than that of the UK from 2006 onwards. The Netherlands' rate has been lower than that of the UK from 2005. In 2018, Germany's youth unemployment rate was 5.9% and the Netherlands' was 6.9%. The UK's rate was 11.2%. The UK may be able to learn some lessons from Germany and the Netherlands on how to reduce the level of youth unemployment in the economy.

7. Authors

Blessing Chiripanhura, Alun Evans and Tingyi (Paloma) Ye Zhang, Office for National Statistics.