

Article

Labour market economic commentary: December 2017

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

Contact:
Maja Savic
economic.advice@ons.gsi.gov.uk
+44 (0)207 592 8698

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1 . Main points

- The UK unemployment rate fell marginally (by 0.1 percentage points) to 4.3% in the three months to October 2017, compared with the previous quarter, to a joint lowest unemployment rate since 1975.
- The UK employment rate fell by 0.2 percentage points to 75.1% in the three months to October 2017 compared with the previous quarter.
- The level of employment fell by 50,000 for men and by 6,000 for women.
- In the three months to October 2017, real earnings decreased by 0.2% (including bonuses) and by 0.4% (excluding bonuses) compared with a year earlier.
- The net outflow from employment (44,000), during July to September 2017 represents the highest net outflow from employment since July to September 2011.

2 . Main labour market indicators

The unemployment level falls at a slower rate as the UK employment rate declines

Latest estimates from the Labour Force Survey show that the number of unemployed people fell by 26,000 to a level of 1.43 million in the three months to October 2017 compared with the previous quarter. As shown in Figure 1, this was a smaller decrease in the unemployment level compared with the three months to July 2017, when the fall was 75,000.

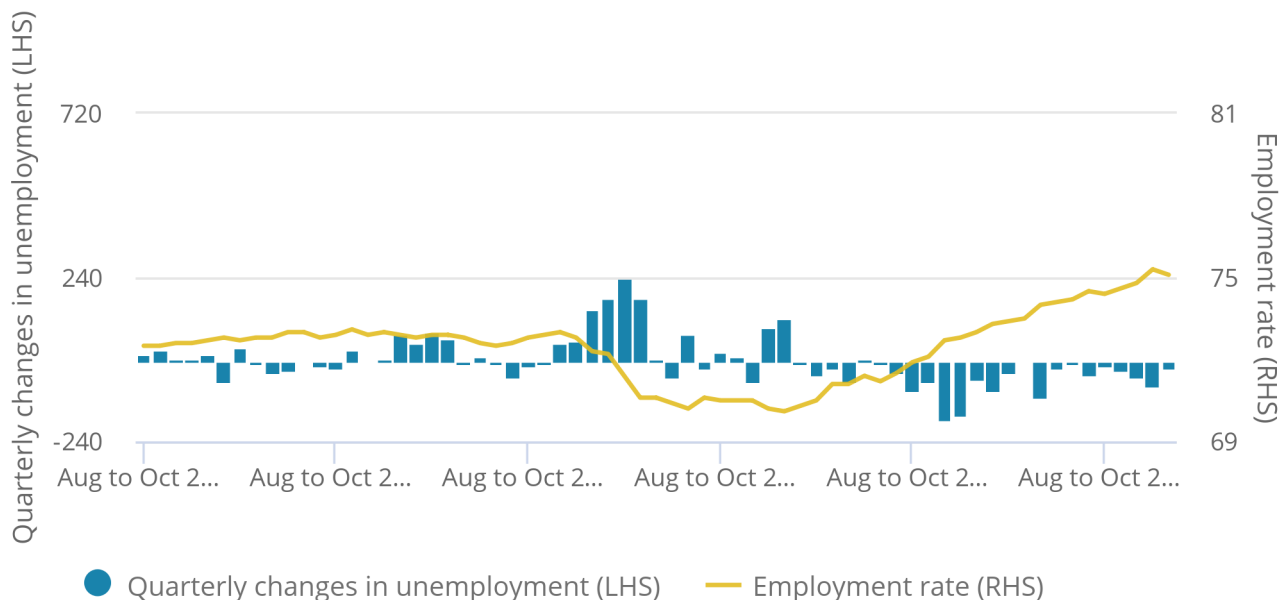
The UK unemployment rate declined marginally (by 0.1 percentage points) to 4.3% in the three months to October 2017 compared with the previous quarter, to a joint lowest unemployment rate since 1975. By age category, unemployment decreased for four age groups: 18 to 24, 35 to 49, 50 to 64 and 65 and over, whereas it increased for two age groups: 16 to 17 and 25 to 34.

Figure 1: Employment rate and quarterly changes in unemployment level

UK, seasonally adjusted, August to October 2001 to August to October 2017

Figure 1: Employment rate and quarterly changes in unemployment level

UK, seasonally adjusted, August to October 2001 to August to October 2017



Source: Office for National Statistics, Labour Force Survey

In the three months to October 2017, the number of people in work fell by 56,000 to a level of 32.08 million compared with the previous quarter. Despite this fall on the quarter, the level of employment is still up by 325,000 on the previous year. The UK employment rate declined by 0.2 percentage points to 75.1%, in the three months to October 2017 compared with the previous quarter (Figure 1). The employment level decreased by 50,000 for men and by 6,000 for women.

The total number of self-employed decreased by 41,000 in the three months to October 2017 compared with the three previous months. This is the first decrease in the self-employment level since January to March 2017. In addition, the number of people working part-time who could not find a full-time job decreased by 56,000 in the three months to October 2017 compared with the previous quarter. This represents the first decrease since April to June 2017.

The number of economically inactive people aged from 16 to 64 increased by 115,000 to a level of 8.86 million in the three months to October 2017 compared with the three previous months. During the same period, the inactivity rate for 16 to 64 year olds increased by 0.3 percentage points on the previous quarter.

Students were the largest group amongst the economically inactive and this group increased by 35,000 in the three months to October 2017, on the previous quarter. This was slightly higher compared with an increase in the number of students on the previous year (up 33,000). Average weekly hours for full-time workers decreased from 37.5 to 37.3 on the previous quarter. The average weekly hours for part-time workers decreased slightly (by 0.1 hours) to 16.2 hours.

Real wages fell for the eighth successive month

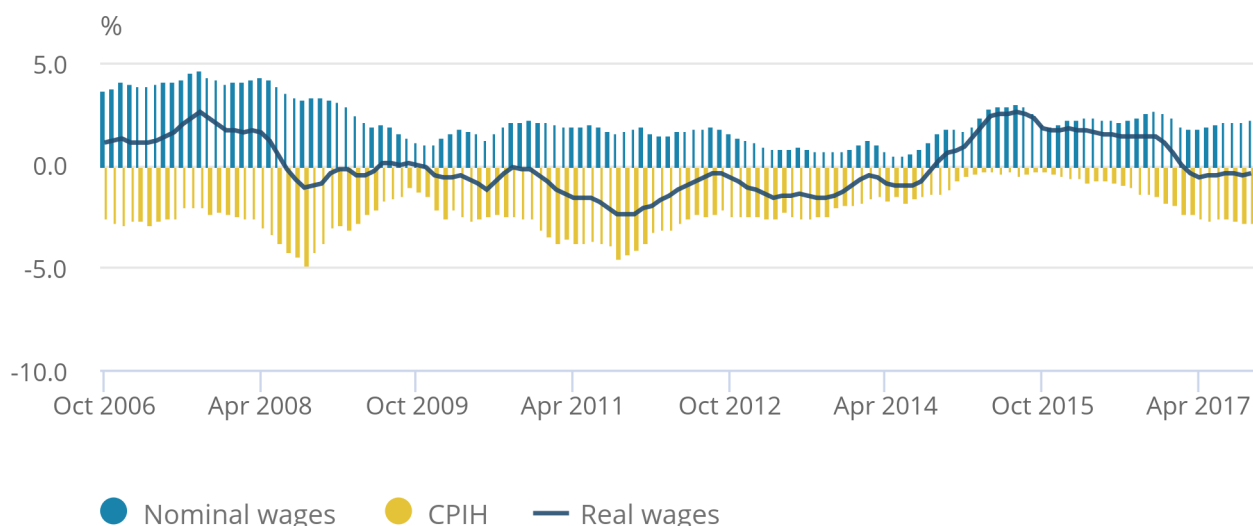
Nominal earnings increased by 2.5% (including bonuses) and by 2.3% (excluding bonuses) in the three months to October 2017 compared with a year earlier. However, real earnings (adjusted for inflation using the Consumer Prices Index including owner occupiers' housing costs (CPIH)) decreased by 0.2% (including bonuses) and by 0.4% (excluding bonuses). An increase in nominal earnings (including bonuses) was driven largely by finance and business services (K to N) where the increase in bonus pay was 19.7%. This is considerably higher compared with the whole economy increase in bonus pay, which stood at 8.4% in the three months to October 2017 compared with a year earlier.

Figure 2: Regular average weekly earnings growth, real and nominal

Great Britain, seasonally adjusted, three-month on three-month a year ago, October 2006 to October 2017

Figure 2: Regular average weekly earnings growth, real and nominal

Great Britain, seasonally adjusted, three-month on three-month a year ago, October 2006 to October 2017



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

Notes:

1. CPIH is the rate of Consumer Prices Index inflation including owner occupiers' housing costs. It is shown as negative here to demonstrate the impact it has on real wages.

The total number of vacancies increased by 14,000 to 798,000 in the three months to November 2017 compared with the previous quarter, to an all-time record-high level. During the same period, there was an increase of 11,000 vacancies across all services sectors. In the three months to October 2017, the number of unemployed people per vacancy declined marginally to 1.8, from 1.9 in the previous quarter.

3 . Labour market flows

Previous analysis examined the data on labour market flows in order to provide [better understanding of the movements that underlie headline labour market statistics](#). This section of the commentary revisits the labour market flows analysis using the most recent published data (July to September 2017). The analysis in this section is motivated largely by the need to better understand more recent decreases in employment level as well as increases in inactivity. Hence, the latest quarterly changes in gross flows between the three economic statuses covered in this section show the underlying movements that sit behind the recent fall in both employment and unemployment as well as the increase in inactivity.

In the three months to September 2017, the UK employment level decreased (by 14,000) for the first time since August to October 2016 and in the three months to October it decreased further by 56,000. Prior to this, both the employment level and rate had been following an upward trend; reaching the highest level and rate (32.1 million and 75.3% respectively) in the three months to July 2017, since comparable records began. A similar trend applies to economic inactivity indicators. The inactivity rate followed a downward trend reaching a record low (21.2%) in the three months to July but it increased to 21.5% in the latest period (August to October 2017). Hence, these recent changes have prompted further analysis of labour market flows.

Figure 3 illustrates the quarterly change in flows obtained from two-quarter longitudinal data. Gross flows represent the total number of people moving from one stock to another, for example, from employment to unemployment, employment to inactivity and the other way around. Figure 3 shows that in the three months to September 2017 (the latest available period), the number of people who moved from employment to unemployment increased by 49,000 when compared with the three months to June 2017. This was the largest increase compared with all other gross flows during the same period.

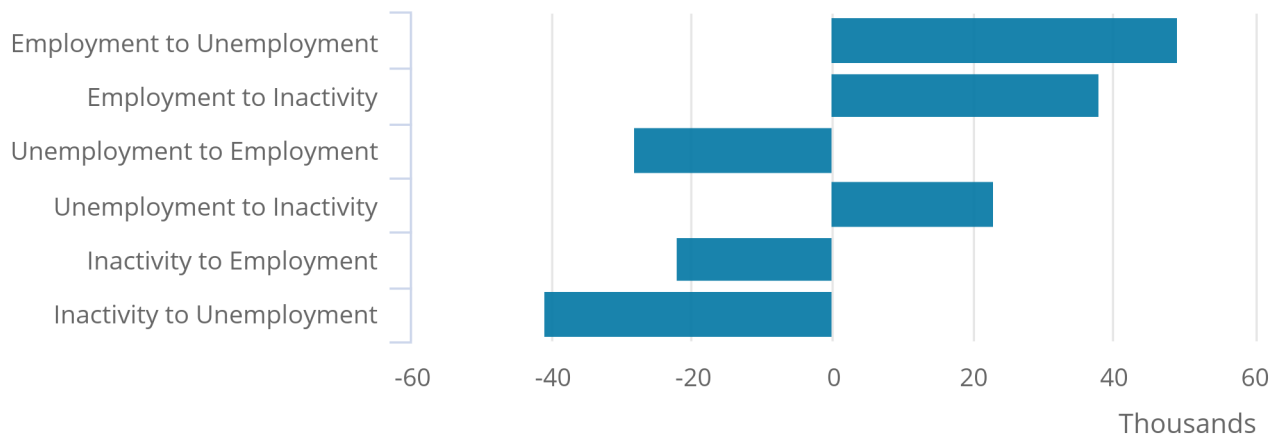
The number of people who moved in the opposite direction (from unemployment to employment), fell by 28,000 to 411,000. This indicates that more workers became unemployed, while fewer unemployed people found employment during the latest period (July to September 2017) when compared with the previous quarter. This trend coincides with the quarterly decrease in employment in the three months to September 2017, the first since August to October 2016.

Figure 3: Quarterly change in gross flows for UK labour market

UK, seasonally adjusted, April to June 2017 to July to September 2017

Figure 3: Quarterly change in gross flows for UK labour market

UK, seasonally adjusted, April to June 2017 to July to September 2017



Source: Office for National Statistics, Labour Force Survey

Furthermore, the number of people who moved from inactivity to employment decreased by 22,000 to 518,000 in the three months to September 2017 compared with the previous quarter, whereas the gross flow from inactivity to unemployment fell by 41,000 to 356,000. The latest labour market flows data indicate that the number of people joining the labour force from inactivity decreased (this applies to movements from inactivity to both employment and unemployment) as shown in Figure 3. Meanwhile, the number of people leaving the labour force (movements from employment and unemployment to inactivity) increased (by 38,000 and 23,000 respectively).

Figure 4 depicts the net outflows from employment. The total net outflow from employment is calculated by subtracting the total inflow to employment (from unemployment and inactivity) from the total outflow from employment (to unemployment and inactivity). Hence, if the net outflow from employment is positive this means that more people are leaving the employment pool compared with those joining this pool. Similarly, comparatively larger negative values for the total net outflow show that more people are joining the employment pool compared with those leaving this pool.

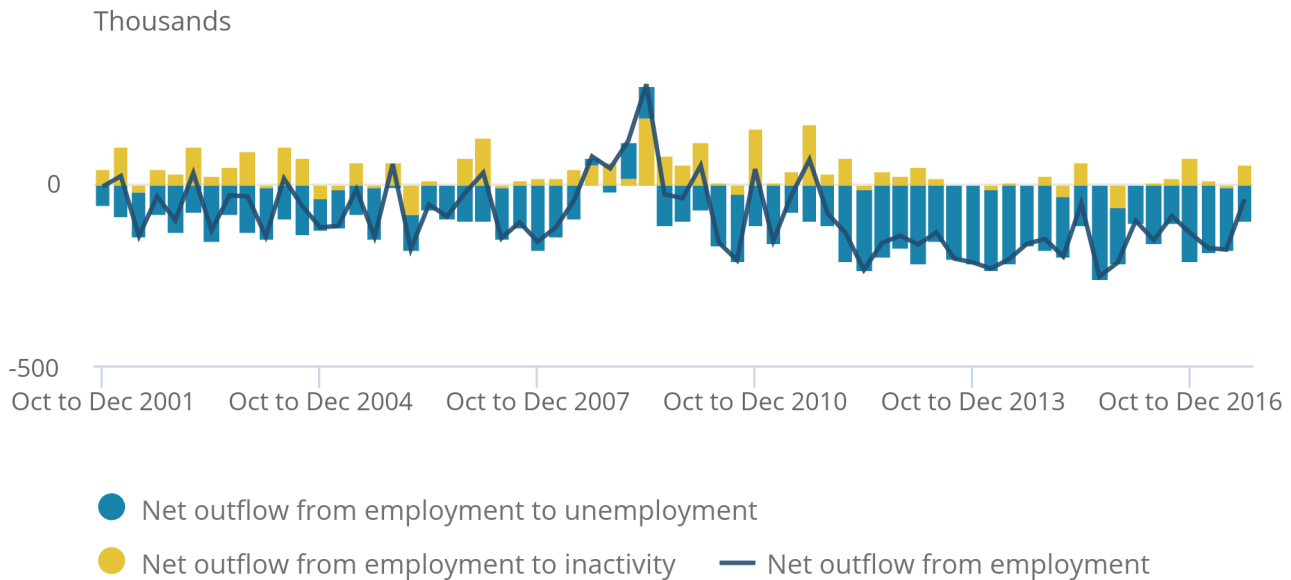
The net outflow from employment is generally negative and follows a procyclical trend indicating that inflows to employment are generally greater than outflows from employment, except during economic downturns when the reverse trend is expected. Figure 4 shows that the net outflow from employment reached a peak of 272,000 during April to June 2009, following the economic downturn, but it has remained negative since October to December 2011.

Figure 4: Net outflows from employment, to unemployment and inactivity

UK, seasonally adjusted July to September 2007 to July to September 2017

Figure 4: Net outflows from employment, to unemployment and inactivity

UK, seasonally adjusted July to September 2007 to July to September 2017



Source: Office for National Statistics, Labour Force Survey

However, during the latest available period, the net outflow from employment increased considerably, (by 137,000), compared with the previous quarter. This was due partly to a net outflow from employment to inactivity (of 54,000), which increased by 60,000 and turned positive in the three months to September 2017 from negative (6,000), in the three months to June 2017.

During the latest available period, the net outflow from employment to unemployment increased by 77,000 (to a negative 99,000) compared with the previous quarter. It should be noted that the average net outflow between 2010 and 2017 from employment to unemployment was negative (164,000). This implies that a rise in net outflow from employment to unemployment during the latest available quarter was the main driver of the overall increase in the net outflow from employment.

Notably, the net outflow from employment (negative 44,000), during July to September 2017 represents the largest net outflow from employment since July to September 2011. In line with this, during the latest available period (July to September 2017) the hazard rate for remaining in employment declined by 0.4 percentage points from 97.3% to 96.9%. Hazard rates represent the relative likelihood of someone changing their status or remaining in the same category.

An important distinguishing feature of the UK labour market (when compared with the US labour market, for example) over the past few years has been significant growth in the number of self-employed people. The number of self-employed reached a record high-level of 4.86 million in the three months to August 2017. Figure 5 shows net inflows to self-employment.

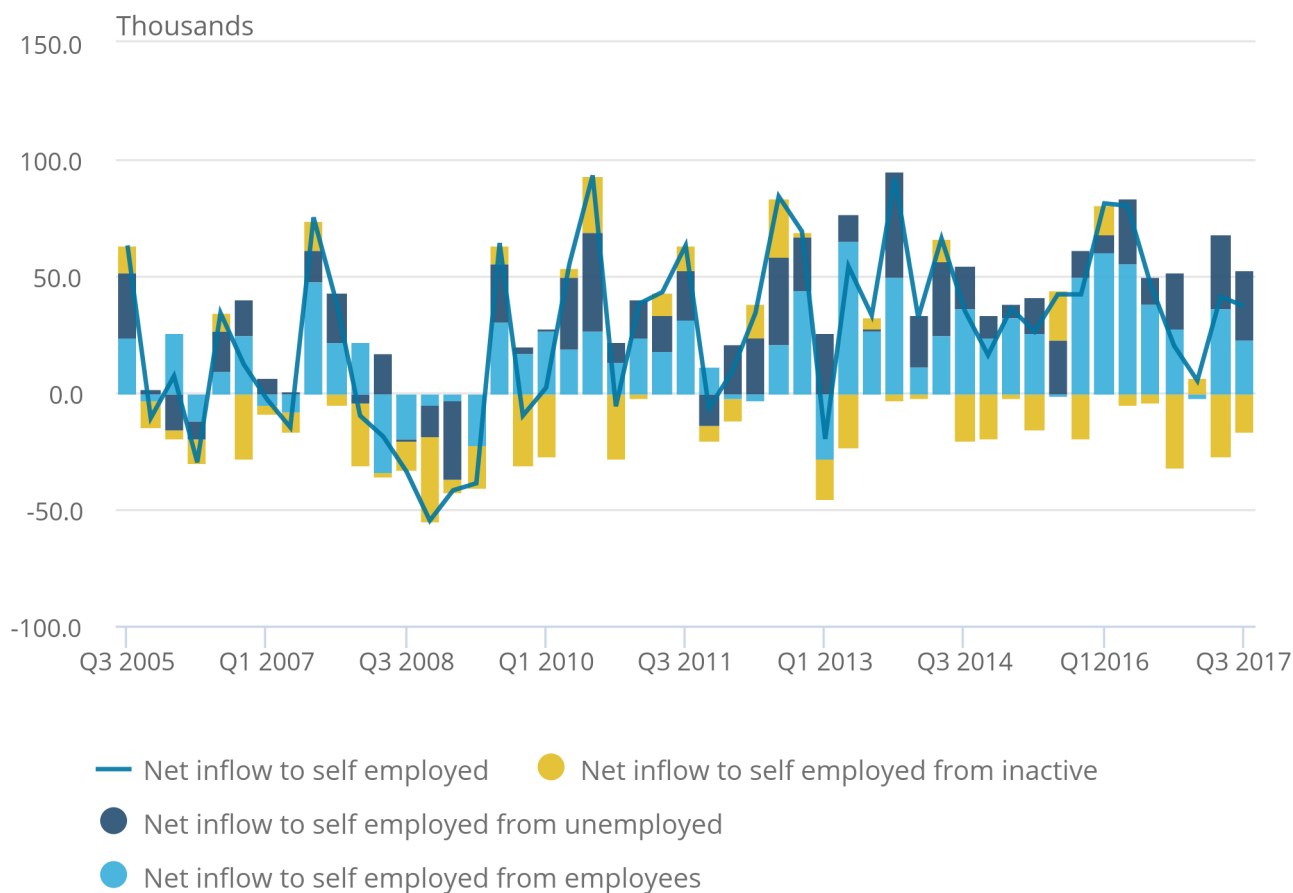
Since Quarter 1 (January to March) 2010, the average quarterly net inflow to self-employment from employment was 26,000. The net inflow to self-employment has been positive since Quarter 1 2013, indicating that more people were consistently joining the self-employed pool compared with those leaving this pool. This may serve as an indication that workers were choosing this form of employment over being an employee.

Figure 5: Net inflows to self-employment from employment, unemployment and inactivity

UK seasonally adjusted, Quarter 3 (July to September) 2005 to Quarter 3 (July to September) 2017

Figure 5: Net inflows to self-employment from employment, unemployment and inactivity

UK seasonally adjusted, Quarter 3 (July to September) 2005 to Quarter 3 (July to September) 2017



Source: Office for National Statistics, Labour Force Survey

However, Figure 5 also shows that during the latest available period (July to September 2017), the net inflow to self-employment fell to 37,000 from 41,000 in the previous quarter. This fall coincides with the first decrease in the total self-employment level since January to March 2017. In the three months to September 2017, the net inflow to self-employment from unemployment was positive (30,000), whereas the net inflow to self-employment from inactivity was negative (16,000). The net inflow to self-employment from unemployment decreased slightly compared with the previous quarter (from 31,000 to 30,000), whereas the net inflow to self-employment from inactivity increased by 12,000 on the previous quarter. This indicates that more people are joining the labour force as self-employed from inactivity than those who move in the opposite direction (from self-employment to inactivity).

If a higher share of self-employed people would prefer to work for an employer, this would suggest excess slack in the labour market. If an increase in self-employment was driven by people choosing self-employment over not working, this would cause higher participation with no real effect on the labour market slack. During the most recent period, it is the decrease in the net inflow from employment to self-employment (by 13,000) that has led to a slight fall in the overall net inflow to self-employment. However, a general trend shows continued, positive flow from employment to self-employment (Figure 5), which suggests that many workers are choosing self-employment over being an employee.

4 . Comparison with the US labour market flows

In the three months to September 2017, the average number of people moving from employment to unemployment (last four quarters) in the UK decreased by 18.1% compared with Quarter 1 (January to March) 2007, whereas the average number of people moving from unemployment to employment increased by 1.9%. The average number of people moving from employment to inactivity decreased by 7.7% compared with Quarter 1 2007, whereas for those moving from inactivity to employment the average has increased by 9.4%. The average number of people moving from inactivity to unemployment decreased by 3.2% compared with the three months to March 2007. Over the past two years, all gross flows in the UK (as a four-quarter average), except employment to inactivity, have been following a downward trend.

In the three months to September 2017, the gross flow from employment to unemployment in the US decreased by 8.8% compared with the three months to March 2007. This represents a smaller decrease when compared with the UK (18.1%). In the US, the average number of people moving from unemployment to employment decreased by 4.8%. The average number of people moving from employment to inactivity increased by 6.9%, compared with Quarter 1 2007, but for those moving from inactivity to employment the average has increased by 14.2%. The average number moving from inactivity to unemployment increased by 3.2% compared with the three months to March 2007.

In the UK as well as the US, an increasing number of people were transitioning from inactivity to employment since Quarter 1 2007. However, this trend has been more pronounced in the US (up 14.2%) compared with the UK (up 9.4%).

When interpreting these figures it should be noted that the US Bureau of Labor Statistics collects labour market flows data on a monthly basis, whereas the UK longitudinal Labour Force Survey is a quarterly survey. The figures for the US are therefore calculated as three-month averages for comparison purposes. These should be interpreted with caution as there might exist multiple transitions within the quarter. Suppose someone is unemployed in the first month and then moves to employment in the second and then back to unemployment. While the US monthly survey would pick up all transitions, the quarterly average does not show these.

Job-to-job moves and separations

Trends in job-to-job moves for the UK and the US indicate how easy it is for workers to find jobs, for companies to find workers as well as whether workers are confident enough to switch between jobs. Separations represent movement from employment to unemployment. Separations and job-to-job moves indicate the overall state of the labour market. Separations appear countercyclical, which means that during downturns an employed person is more likely to lose their job, whereas job-to-job moves appear procyclical, meaning that during downturns an employed person is less likely to change jobs.

Figures 6 and 7 show that, following the economic downturn in 2008 in both the UK and the US, job-to-job moves fell while separations rose. However, Figure 7 shows more a consistent labour market recovery in the US, especially when compared with the more volatile picture for the UK (Figure 6).

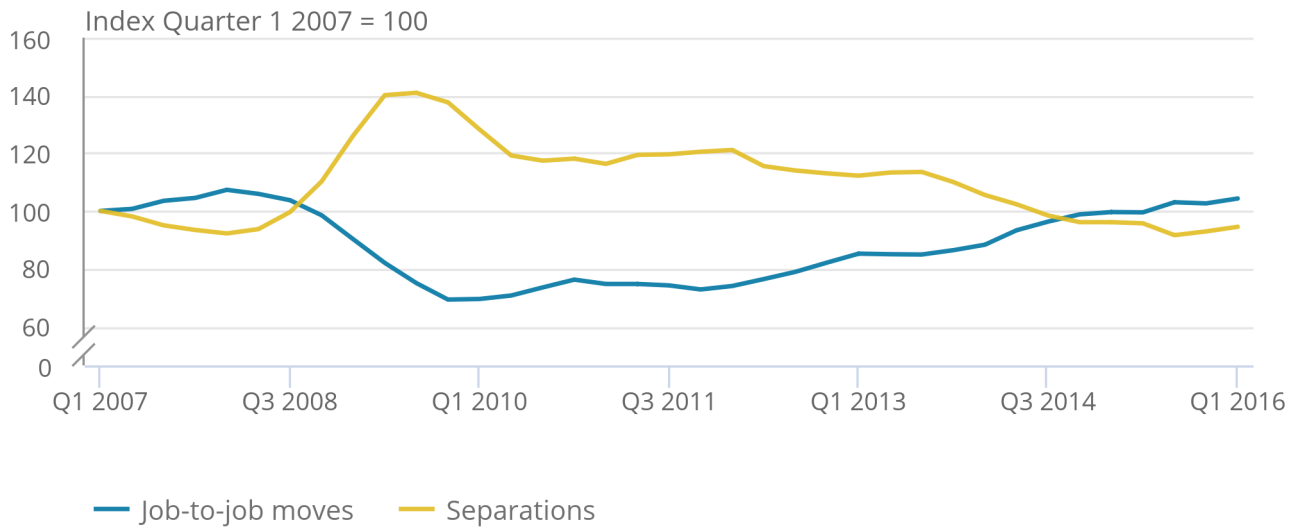
More specifically, Figure 7 shows a clear turning point in the US in 2009, followed by a steady upward momentum in job-to-job moves. In contrast, the UK job-to-job moves show more volatility, while the recovery appears to have stalled between 2010 and 2012 (Figure 6). Despite this, since Quarter 1 2007, the number of job-to-job moves in the UK increased by 4.3%, whereas the number of separations decreased by 5.5%.

Figure 6: UK job-to-job moves and separations, four-quarter moving average

UK, not seasonally adjusted, Quarter 1 (January to March) 2007 to Quarter 1 (January to March) 2016

Figure 6: UK job-to-job moves and separations, four-quarter moving average

UK, not seasonally adjusted, Quarter 1 (January to March) 2007 to Quarter 1 (January to March) 2016



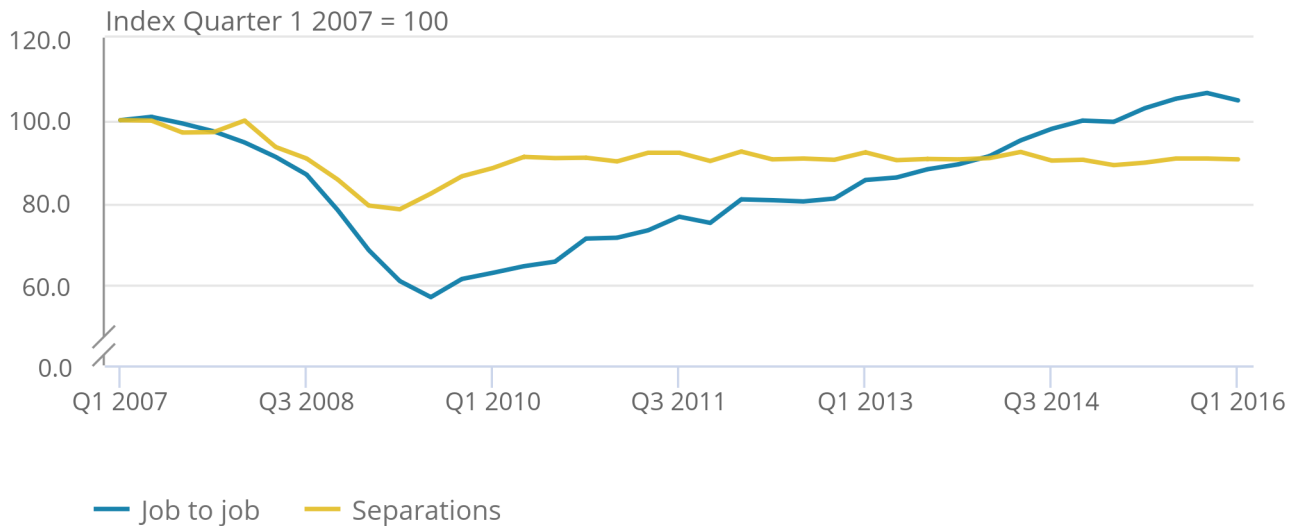
Source: Office for National Statistics, Labour Force Survey

Figure 7: US job-to-job moves and separations

US, seasonally adjusted, Quarter 1 (January to March) 2007 to Quarter 1 (January to March) 2016

Figure 7: US job-to-job moves and separations

US, seasonally adjusted, Quarter 1 (January to March) 2007 to Quarter 1 (January to March) 2016



Source: US Census Bureau

US job-to-job moves reached a trough in Quarter 3 (July to September) 2009 when they fell by 42.9% following the economic downturn. However, the number of job-to-job moves since this trough has been steadily rising. From Quarter 1 2007, to the same period in 2016¹, job-to-job moves increased by 4.8%, whereas separations decreased by 9.5%. Overall, Figure 7 shows that in comparison with the UK, there was less fluctuation in the number of job-to-job moves and separations in the US².

Notes for: Comparison with the US labour market flows

1. The latest available period.
2. It should be noted that Figure 6 is based on non-seasonally adjusted estimates as published for the UK, whereas Figure 7 shows seasonally adjusted data as published for the US.

5. Authors

Adama Lewis and Maja Savic, Office for National Statistics