Office for National Statistics

Article

Labour market economic commentary: February 2019

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

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

Release date:
19 February 2019

Next release:
19 March 2019

Table of contents

1 . Main points

- The level of employment in the UK is at a record high, unemployment rate remains very low (4%) and the inactivity rate has been falling in the economy.
- In the three months to January 2019, unfilled vacancies increased by 16,000 to 870,000.
- Total average weekly earnings increased by 3.4% on the year to December 2018 to reach £527 and regular average weekly earnings increased by 3.4% on the year to reach £495.
- Private sector regular average weekly earnings were 92.1% of public sector regular average weekly earnings in December 2018.
- Changes to the State Pension age have had significant impact on the labour market statuses of women aged 50 years and older.

2 . Overview

Global economic growth weakened in 2018 and this contributed to the slowdown in the UK's economic growth. Despite the slowing growth, the labour market in the UK boomed. In 2018, the level of employment was at a record high, unemployment rate remained low, and the inactivity rate had been falling in the economy. The labour market participation of workers aged 65 years and older increased and women joined employment in large numbers.

Although employment growth was strong, the overall macroeconomic context was less strong. In the fourth quarter (Oct to Dec) of 2018, the economy grew by 0.2% compared with the previous quarter. Over the whole year, it grew by 1.4%, which was the weakest calendar year growth in six years.

Unfilled vacancies increased to 870,000 in the three months to January 2019

As unemployment remained at a relatively low level, the number of unfilled vacancies in the economy increased. In the three months to January 2019, unfilled vacancies increased by 16,000 to 870,000. Most of the vacancies were in the services sector (88.2%) where the wholesale, retail trade and repair of motor vehicles sector had 140,000 vacancies, and the human health and social work activities sector had 131,000 vacancies.

The existence of many unfilled vacancies indicates that employers may be facing challenges recruiting workers. The shortage of workers is felt across the whole occupations spectrum: employers in the construction sector have reported facing challenges recruiting skilled trades workers. Those in the human health and social work activities sector have also reported facing significant challenges in recruiting social care workers.

Citing the huge demand for more care professionals, the government recently launched a social care recruitment campaign encouraging young people to pursue careers in social care.

Weakening economic growth brings uncertainty to the labour market

Slowing growth, driven by declines in key sectors like manufacturing (which contracted by 0.7% in the fourth quarter of 2018), signals possible challenges that will affect the labour market. The year 2018 had several cases of company closures and job losses, especially in the retail and the motor vehicle manufacturing sectors.

For instance, in the retail sector, some big retail names went into administration. Others announced restructuring plans that entailed job losses. Also in 2018 in the motor vehicle manufacturing sector, there were announcements about changing investment decisions that may shift production out of the UK, partly because of the high level of uncertainty in the economy. Some major firms in the sector announced plans to trim their workforces. These developments in the economy entail job losses and adversely affect both business and consumer confidence.

Job losses have immediate adverse effects on workers and their households. The loss of incomes adversely impacts on household consumption and living standards.

3 . Average weekly earnings[1]

Earnings analysis is very important for our understanding of the labour market. For many households, employment income is their main source of income.

Office for National Statistics publishes employment earnings data for Great Britain every month. It publishes average weekly earnings (AWE), which measure the amount of money paid to each worker per job per week, excluding benefits-in-kind, unearned income and arrears of pay. Earnings from people who are self-employed are excluded from the AWE estimates. The estimates are calculated before tax and other deductions, and are seasonally adjusted. In addition, AWE can either be total pay (which includes bonus income) or regular pay (which excludes bonus income).

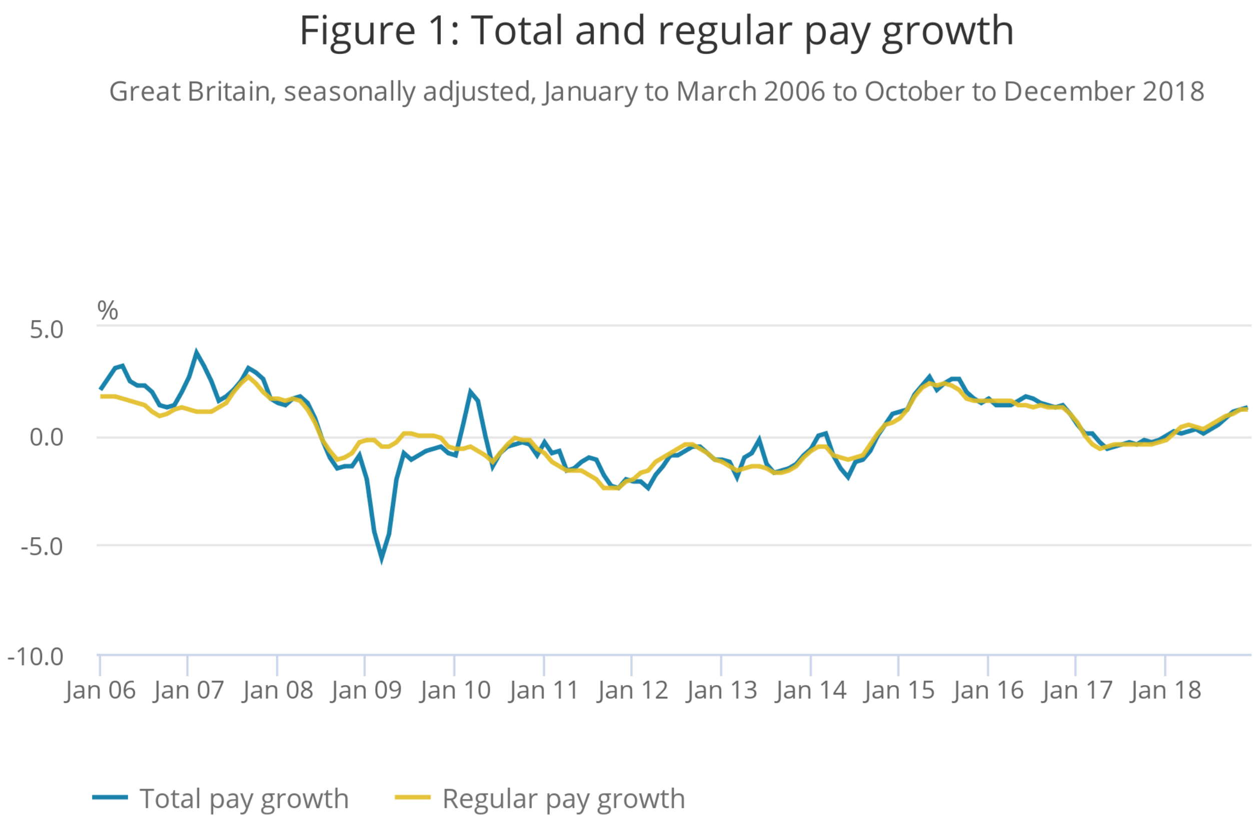
Both real total and regular average weekly earnings increased by over 1% in December 2018

The growth rate of AWE is calculated as a three-month average figure of the growth in the average seasonally adjusted values for the three months ending with the relevant month compared with the same period a year earlier.

Total AWE increased by 3.4% on the year to reach £527 in December 2018; regular AWE increased by 3.4% on the year to reach £495 in December 2018. Focusing our analysis on regular AWE, we observe that real regular AWE (deflated by the Consumer Prices Index including owner occupiers' housing costs (CPIH - Base year = 2015)) increased from £459 in December 2017 to £464 in December 2018. Figure 1 shows total and regular earnings growth since 2006.

Figure 1: Total and regular pay growth

Great Britain, seasonally adjusted, January to March 2006 to October to December 2018



Source: Office for National Statistics – Labour Force Survey

Figure 1 shows that total pay growth is generally more volatile than regular pay growth. The volatility of total pay growth is driven by bonus payments. Real regular pay growth is still below pre-downturn levels. The figure shows that real regular pay growth was negative in three periods: between July 2008 and May 2009; between November 2009 and September 2014; and between March 2017 and January 2018. Real regular pay growth was negative in these periods because the rate of inflation exceeded nominal regular pay growth.

Real total pay growth has been positive since January 2018 and real regular pay growth since February 2018. Although the UK has been experiencing historic low levels of unemployment, real pay growth has remained relatively low.

Low real pay growth results in low growth in households' real purchasing power. It also contributes to low consumer confidence and may lead to delayed expenditure on high expenditure items. Together, these effects can result in low growth in aggregate demand in the economy.

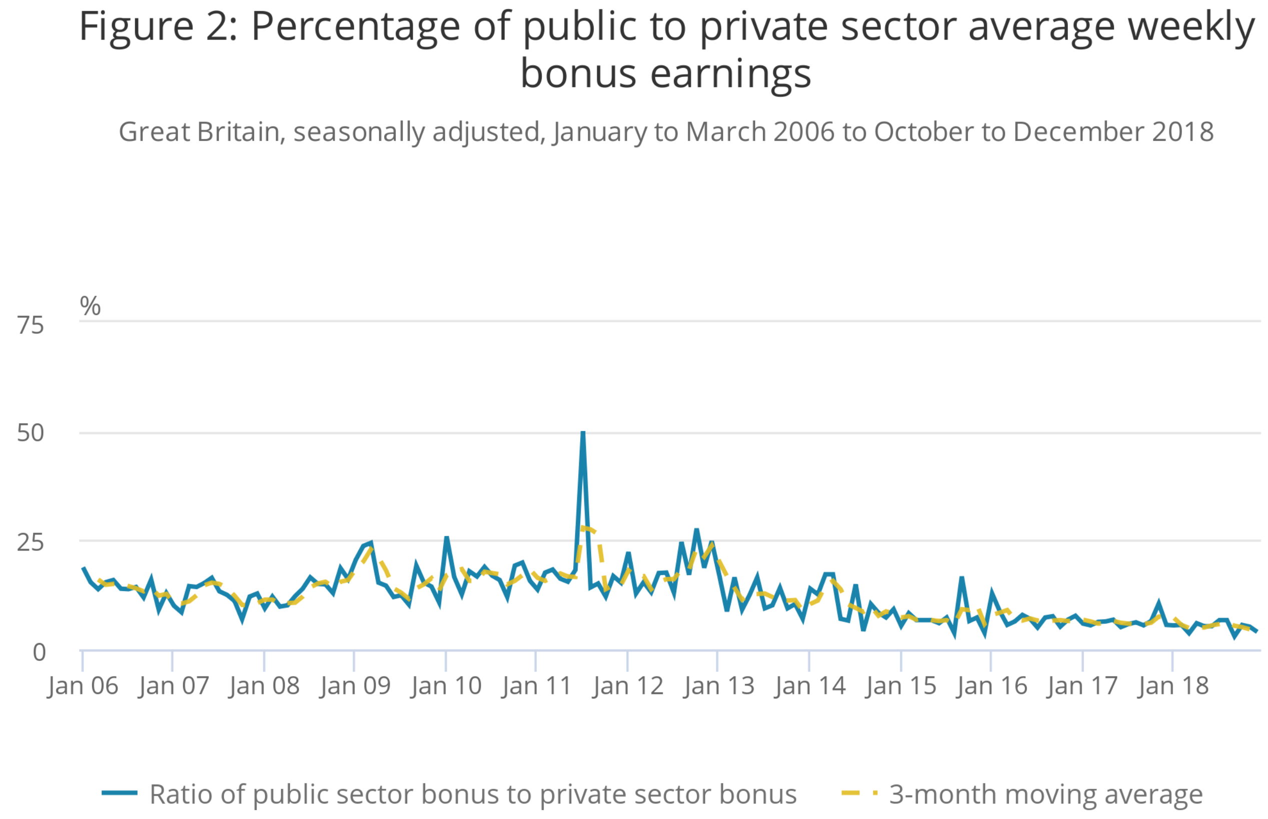
The private sector pays higher bonuses than the public sector

Total pay includes bonuses. Analysis of bonus payments shows that on average, the private sector pays higher bonuses than the public sector.

In December 2018, the average weekly bonus pay in the private sector was £38 and in the public sector it was £2. Over time, private sector average weekly bonus earnings have been increasing and public sector average weekly bonus earnings have been declining. This is illustrated graphically by plotting the percentage of public to private sector average weekly bonus earnings over time, as shown in Figure 2.

Figure 2: Percentage of public to private sector average weekly bonus earnings

Great Britain, seasonally adjusted, January to March 2006 to October to December 2018



Source: Office for National Statistics – Labour Force Survey

Figure 2 shows that there was a spike in the ratio of public to private sector average weekly bonus earnings in July 2011. The spike was linked to the reclassification of some financial sector firms from the private to the public sector.

The ratio of public to private sector average weekly bonus earnings was quite variable until April 2016, after which the level of variability decreased. Since 2012, the ratio of public to private sector average weekly bonus earnings has been declining to reach a low of 4% in December 2018. The decline is driven by growing private sector average weekly bonus earnings. In the private sector, the finance and business services sector paid the highest average weekly bonus earnings (£74) and the wholesaling, retailing, hotels and restaurants sector paid the lowest average weekly bonus earnings (£21).

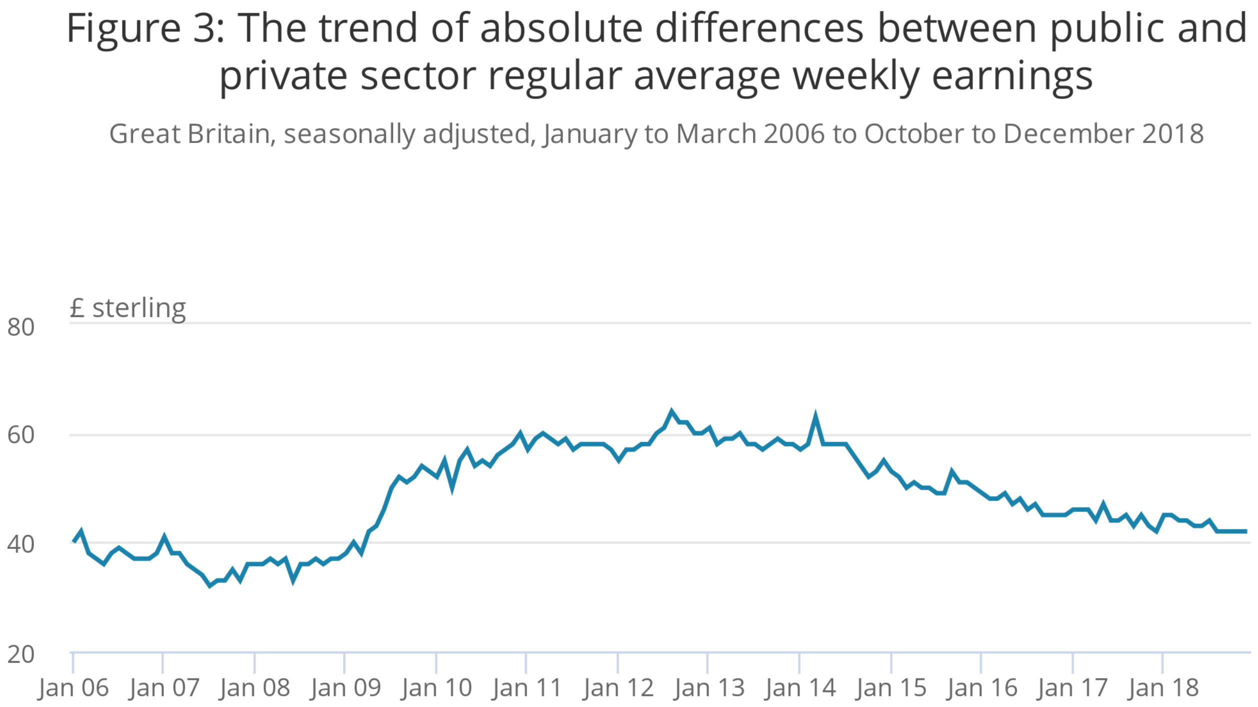
The gap between private and public sector earnings continues to narrow

We can compare the regular AWE of the private and public sectors. This is interesting because wage formation and growth in the two sectors may be different.

For instance, the government froze public sector pay between 2011 and 2013. This was followed by a 1% pay cap between 2013 and 2017. Over the period under analysis, the public sector had higher regular AWE than the private sector. The pay freeze did not apply to workers who earned £21,000 or less. In December 2018, the public sector regular AWE was £530, having increased from £515 in December 2017. Private sector regular AWE increased from £472 in December 2017 to £488 in December 2018. Figure 3 plots the trend of the absolute differences between public and private sector earnings.

Figure 3: The trend of absolute differences between public and private sector regular average weekly earnings

Great Britain, seasonally adjusted, January to March 2006 to October to December 2018



Source: Office for National Statistics – Labour Force Survey

Figure 3 shows that the absolute difference between public and private sector regular AWE increased between 2007 and the third quarter (July to Sept) of 2012 when it reached a peak of £64. Thereafter, the difference declined to reach £42 in December 2018. This indicates that private sector regular AWE had been growing at a faster rate than public sector regular AWE, thus narrowing the gap between them.

As of December 2018, private sector regular AWE was 92.1% of public sector regular AWE. The increase in the National Minimum Wage (from £6.19 for those aged 21 years and older in 2012, to £7.38 for those aged 21 to 24 years in 2018) and the introduction of the National Living Wage for workers aged 25 years and older (which increased from £7.20 in 2016 to £7.83 in 2018), both contributed to growth in earnings among low-earning workers who constitute a larger proportion of workers in the private sector than in the public sector. The National Living Wage will increase to £8.21 and the National Minimum Wage for those aged 21 to 24 years will increase to £7.70 from April 2019.

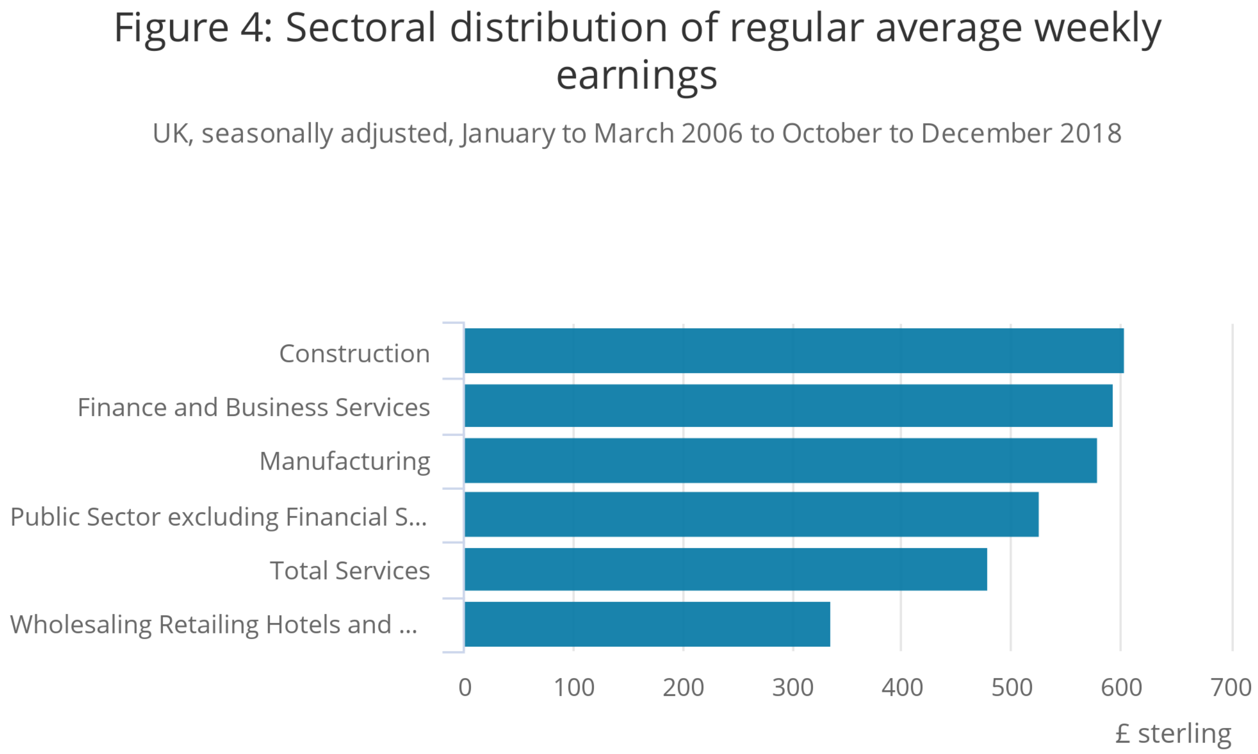
The construction sector had higher regular average weekly earnings than all other sectors

Weekly earnings differ across industries. Figure 4 shows regular weekly earnings in six sectoral groupings. The total services sector includes finance and business services, and wholesaling, retailing, hotels and restaurants.

Figure 4 shows that firms involved in construction paid the highest AWE, followed by those in the finance and business services sector. Firms involved in wholesaling, retailing, hotels and restaurants paid the lowest AWE. Despite the lowest average in the graph, the sector has some sub-sectors that pay even lower AWE. For example, waiters and waitresses, bar staff, and kitchen and catering assistants are among the lowest-paid workers in the economy.

Figure 4: Sectoral distribution of regular average weekly earnings

UK, seasonally adjusted, January to March 2006 to October to December 2018



Source: Office for National Statistics – Labour Force Survey

Another sector with low AWE is human health and social work activities. In the fourth quarter (Oct to Dec) of 2018, the sector had the second-largest number of unfilled vacancies (131,000) in the total services sector after wholesale, retail trade, repair of motor vehicles and motorcycles (140,000).

The AWE shown in Figure 4 mask big differences that exist between different occupations within the different sectors. One would have to analyse the micro datasets to bring out these differences.

The rate of unionisation continues to fall; the same for collective bargaining coverage

The UK has liberal wage formation processes ranging from individual pay agreements to collective bargaining. Collective bargaining for wages takes place between employers and trade unions (representing workers). Strong trade unions may be able to bargain for higher earnings for their members. However, the proportion of UK workers with the right to bargain has been declining over time [2].

The Organisation for Economic Co-operation and Development (OECD)'s data on collective bargaining coverage show that in the UK, the percentage of employees with the right to bargain decreased from 36.4% in 2000 to 26.3% in 2016. Collective bargaining is stronger in the public sector than in the private sector. In 2017, union membership was 51.8% in the public sector and 13.5% in the private sector. Table 1 shows the collective bargaining coverage rates in different European countries.

Table 1: Percentage of employees with the right to bargain, OECD, 2000 to 2016

	2000	**2004**	**2008**	**2012**	**2016**
France	..	96.1	98	98	..
Germany	67.8	65.8	61.4	58.3	56
Greece	82	82	83	51	..
Italy	80	80	80	80	..
Netherlands	81.7	84.9	78.6	85.1	78.6
Poland	25	..	..	14.7	..
Portugal	78.4	80.2	85.9	73.3	..
Spain	82.9	76.1	78.9	77	73.1
United Kingdom	36.4	34.7	33.6	29.3	26.3

The low proportion of workers with the right to bargain collectively may be partly responsible for the low earnings in some sectors of the economy. This is particularly so because the rate of union membership is low and has been falling over time.

Trade union membership as a proportion of all employees in the UK declined from 32.4% in 1995 to 23.2% in 2017. Trade union membership peaked in 1979 when 13.2 million workers were union members. In the wholesale, retail trade, repair of motor vehicles and motorcycles sector, only 12.7% of the workers were union members in 2017. In the human health and social work activities sector, the proportion was 38.3%.

Notes for: Average weekly earnings

1. Explanatory notes that must be borne in mind while analysing and interpreting the earnings data:

   (a) From July 2009, the Royal Bank of Scotland Group plc is classified to the public sector. In earlier periods, it was classified to the private sector.
   (b) Between July 2009 and March 2014, the Lloyds Banking Group plc was classified to the public sector. It is classified to the private sector for earlier and later time periods.
   (c) Between June 2010 and May 2012, English further education corporations and sixth form college corporations were classified to the public sector. They were classified to the private sector before June 2010 and after May 2012.
   (d) From October 2013, the Royal Mail plc is classified to the private sector. Before October 2013, it was classified to the public sector.

2. Trade union collective bargaining agreements may cover workers that are non-union members.

4 . Labour market statuses of women aged 50 years and older

Another front where we are seeing collective action is in pensions where the increase in the State Pension age (SPA) for women from 60 to 65 years is being challenged by some women who have been affected by the changes and must wait for longer to get their State Pension payments.

The SPA was first changed through legislation passed as part of the Pensions Act (1995). The change increased the SPA for women from 60 to 65 years by April 2020. The increase was going to be implemented gradually from 2010. The change in the SPA was necessitated mainly by the increasing longevity of the UK population and increasing State Pension expenditure borne by taxpayers. The equalisation of the SPA was also necessary for the equal treatment of men and women in the future.

The legislation has been amended several times since then to reflect changes in life expectancy. For instance, the Pensions Act of 2007 announced the plan to increase the SPA from 66 to 68 years between 2024 and 2046. The Pensions Act of 2011 brought forward the original timetable to ensure the SPA for women was increased to 66 by October 2020. More recently, the Pensions Act of 2014 stated that the equalised SPA would increase to 67 years sooner than previously outlined (that is, between 2026 and 2028).

That the SPA was brought forward by the 2011 and 2014 Pensions Acts means the stated SPA for women was increased to 65 years by November 2018. From December 2018, the SPA for both men and women was to increase to reach 66 years by October 2020.

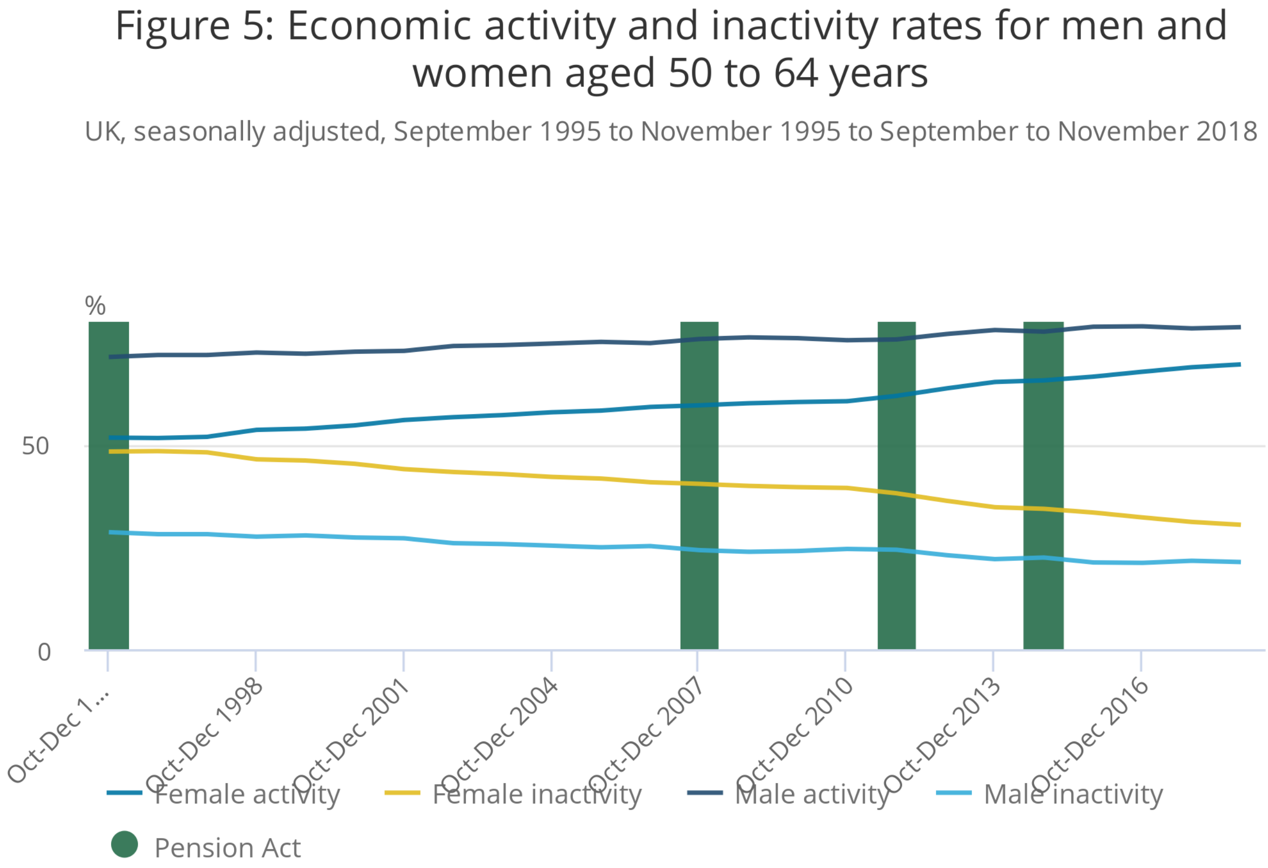
Given this background, Section 5 examines what has been happening to the labour market statuses of women aged 50 years and older since the changes were introduced.

5 . The economic activity and inactivity of women aged 50 years and older

We start the analysis by looking at economic activity and inactivity rates. People in economic activity are either employed or unemployed (that is, the labour force). Those that are economically inactive are not in the labour force. Figure 5 plots the trends of activity and inactivity rates for women aged 50 to 64 years since the change in the Pensions Act in 1995. We include the rates for men for comparison.

Figure 5: Economic activity and inactivity rates for men and women aged 50 to 64 years

UK, seasonally adjusted, September 1995 to November 1995 to September to November 2018



Source: Office for National Statistics – Labour Force Survey

Figure 5 helps us to analyse the behaviour of people nearing retirement. The years when the Pensions Act was amended are indicated by thick vertical lines. The figure shows that in 1995, there was little difference between female activity and inactivity rates. The economic activity rate was 51.8% and the inactivity rate was 48.2%.

The economic activity rate for older women has been increasing

Over time, the economic activity rate for older women has increased. It reached 69.6% in the three months to December 2018. The inactivity rate declined over time, reaching 30.4% in the three months to December 2018.

There was a big divergence between the activity and inactivity rates over time: from a difference of 3.6 percentage points in the year to November 1995 to a difference of 39.2 percentage points in the year to December 2018. The activity and inactivity rates for men did not change significantly between 1995 and 2018. There was a narrowing of the gap between the activity and inactivity rates for men and women. This was largely driven by increasing female economic activity and decreasing female economic inactivity respectively, both of which accelerated following the changes introduced by the 2011 Pensions Act.

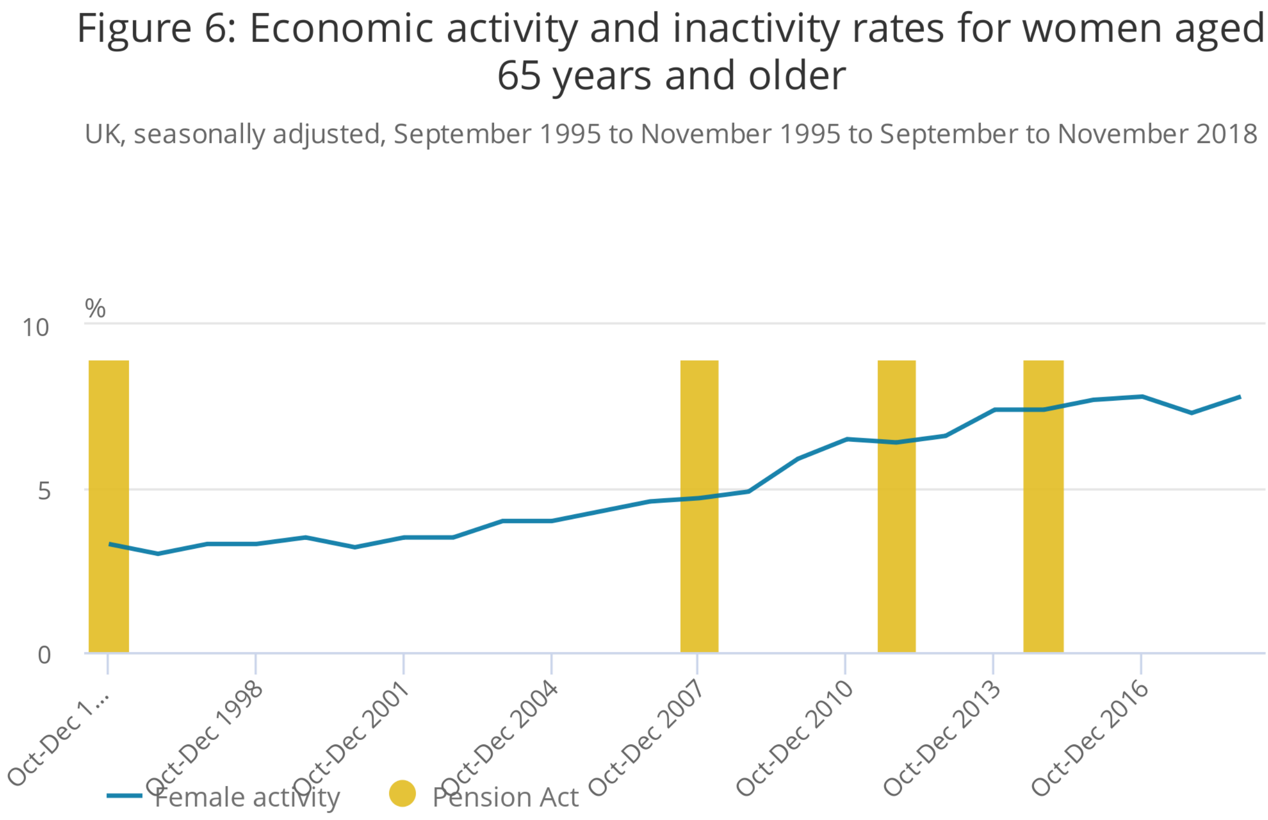
There are many pressures that have impacted on older women’s labour market statuses. The changes brought about by the Pensions Act meant women had to wait longer before they could become eligible for State Pension. They had to remain in the labour market to be eligible for higher levels of the State Pension. They may also have had to build up savings to bridge the gap between retirement and the new State Pension age (SPA).

The economic inactivity rate for older women has been decreasing

We can extend the analysis of labour market statuses of older women by looking at those aged 65 years and older. The activity and inactivity rates for both women and men show scissors-shapes of rising activity rates and falling inactivity rates. Figure 6 shows the activity rate for women.

Figure 6: Economic activity and inactivity rates for women aged 65 years and older

UK, seasonally adjusted, September 1995 to November 1995 to September to November 2018



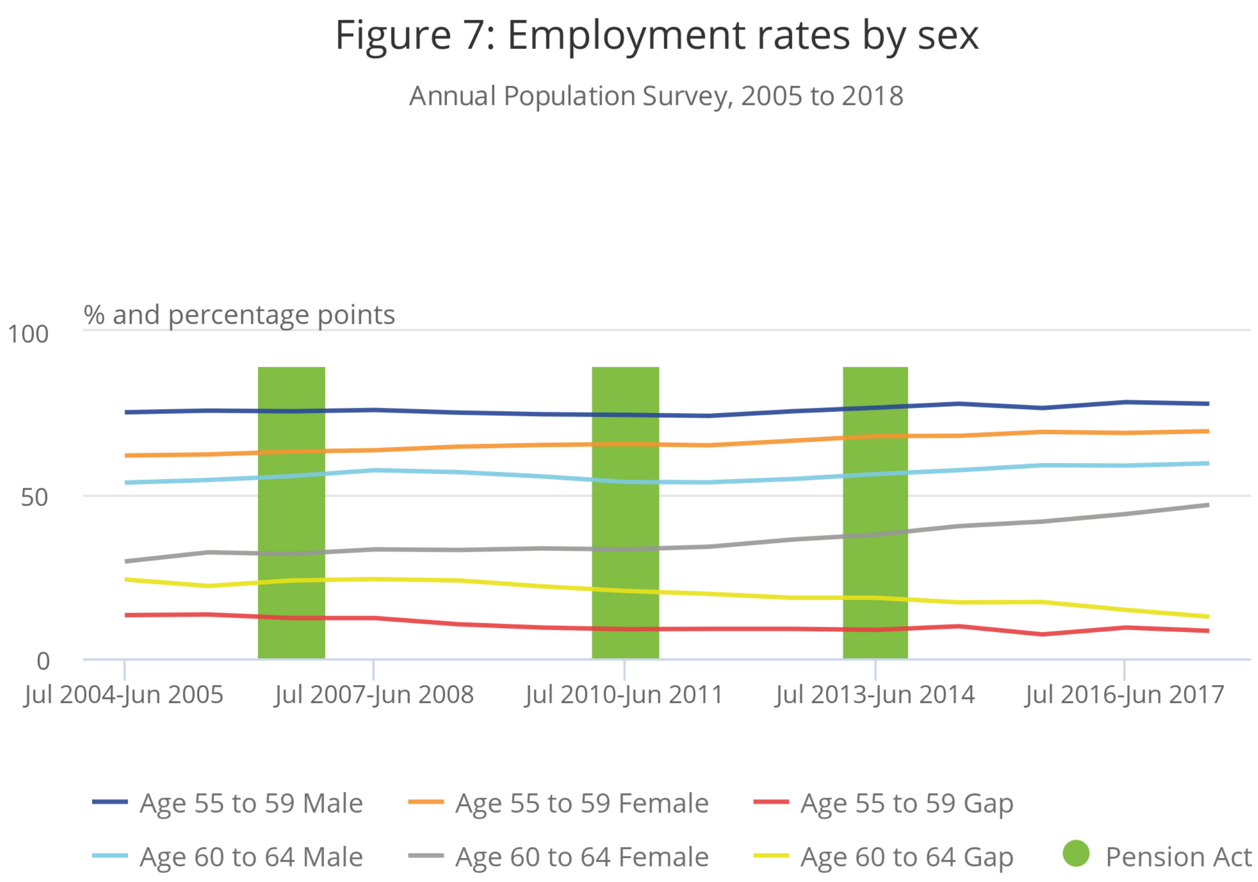
Source: Office for National Statistics – Labour Force Survey

Figure 6 shows that the activity rate increased from 3.3% in the period September to November 1995 to 7.8% in the three months to December 2018. There was an accelerated increase between 2008 and 2015. The increase in economic activity may be in part a response to the changes introduced by the Pensions Act amendments.

We can further analyse the economic activity of women aged 50 years and older by disaggregating the age groups. We analyse the employment of women who were about to get to retirement (55 to 59 years) and those that had reached retirement (60 to 64 years) at the old SPA of 60 years. The sub-groups show us how the affected women likely reacted to the changes in the SPA. Men are included in the analysis for comparison. Figure 7 plots the employment rates over time using data from the Annual Population Survey.

Figure 7: Employment rates by sex

Annual Population Survey, 2005 to 2018



Source: Official for National Statistics – Annual Population Survey

Figure 7 shows that the employment rate for women was consistently lower than that of men and the inactivity rate for women was consistently higher than that for men throughout the time period. Several factors explain these phenomena: women may be making lifestyle choices that reduce their employment rate. They may also be affected by the inertia after maternity leave, as well as the possible challenges associated with re-entering the labour market after their children have grown up.

The employment gap between men and women has been falling

Figure 7 also shows the employment rate gap between men and women. The employment rate gap for the age group 55 to 59 years reduced, from 13.2 percentage points in the year up to June 2005, to 8.4 percentage points in the year up to June 2018.

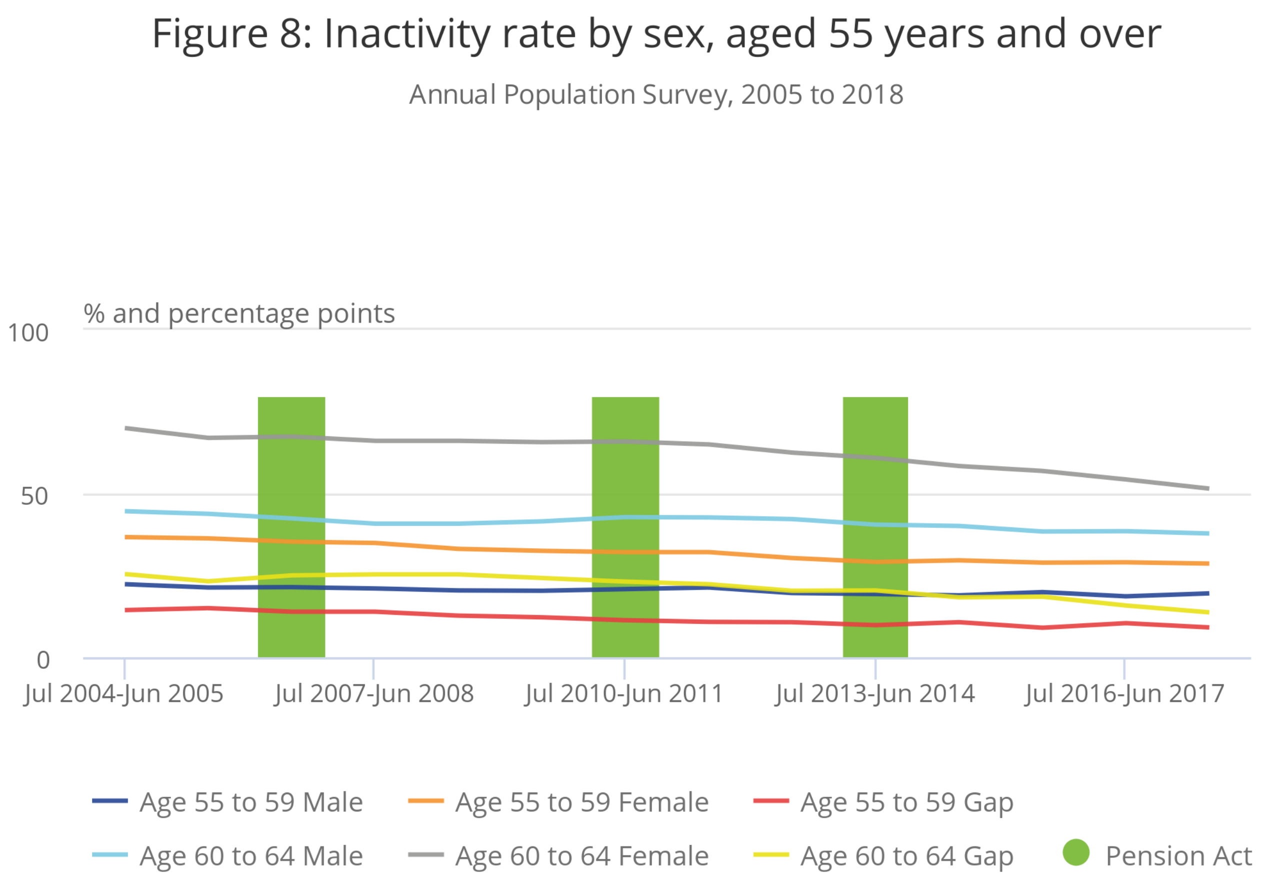
The gap for the age group 60 to 64 years shows a much larger decrease, from 24.1 percentage points in the year up to June 2005, to 12.7 percentage points in the year up to June 2018.

The employment rate gaps of the two age groups decreased over time, especially from the year up to June 2009 onwards. This is a result of both the financial crisis of 2008, which led to a decrease in the employment rate of men up to June 2011, as well as an increasing employment rate for women due to the SPA increasing from the year up to June 2011 onwards.

Analysis of the inactivity rate gaps shows similar trends. With the inactivity rate gap, we calculated the difference between female and male inactivity rates, since the latter is lower than the former. Figure 8 shows the inactivity rate gaps for women and men aged 54 to 59 years and 60 to 64 years.

Figure 8: Inactivity rate by sex, aged 55 years and over

Annual Population Survey, 2005 to 2018



Source: Office for National Statistics – Annual Population Survey

Figure 8 shows that the inactivity rate gaps for the two age groups declined over time. The inactivity rate gap for the age group 55 to 59 years reduced, from 14.4% in the year up to June 2005, to 9.1% in the year up to June 2018. The inactivity gap rate for the older age group reduced by a larger proportion, from 25.4% in the year up to June 2005, to 13.7% in the year up to June 2018.

In both cases, the fall in the gaps was driven by the fall in the number of women in economic inactivity. It indicates that women were responsive to the changes in the pension regulations. Without flows data, it is not possible to establish which labour market status they went into.

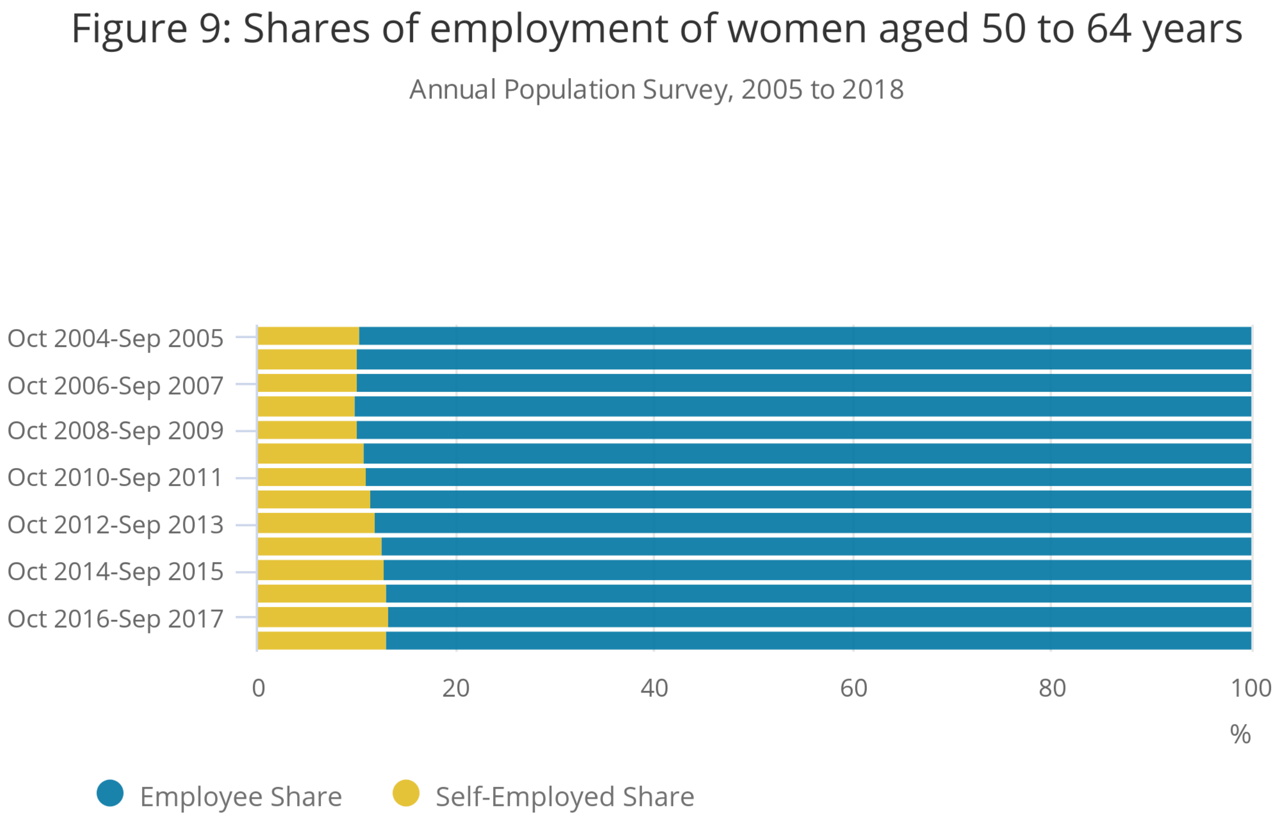
These differences in the employment and inactivity rate gaps between men and women highlight a change in the labour market behaviour of women, partly because of the increase in the SPA for women. The employment rate gap for the age group 60 to 64 years decreased significantly following the incremental increase of the SPA from 60 to 65 years between 2010 and 2018, however, the gap remained higher than that of the age group 55 to 59 years.

That the inactivity rate gap for women aged 60 to 64 years also decreased but remains higher than that of the age group 55 to 59 years suggests that older women (60 to 64 years) have not yet fully adjusted their employment behaviour to the increase in working years compared with younger women (55 to 59 years) even though the adjustment of the SPA to 65 years has been fully realised.

We can extend the analysis of women aged 50 years and older by disaggregating the number of those in employment into employees and the self-employed, as well as whether they worked on a part-time or a full-time basis. For women nearing retirement the changes in the SPA may affect the decision to work part-time or to become self-employed. Figure 9 shows the shares of women aged 50 to 64 years who were either employees or in self-employment.

Figure 9: Shares of employment of women aged 50 to 64 years

Annual Population Survey, 2005 to 2018



Source: Office for National Statistics – Annual Population Survey

Figure 9 shows that from 2009 onwards, the employee share of women in employment had a downward trend. At the same time, the share of women in self-employment had an upward trend. The employee share decreased, from 89.7% in the year to September 2005, to 86.8% in the year to September 2018. The share of self-employment increased, from 10.2% in the year up to September 2009, to 13.2% in the year up to September 2018. There was an increase of 4.6 percentage points in the proportion of women working on a full-time basis between the year to September 2005 and the year to September 2018.

There are several possible explanations for the increase in the level of self-employment. In general, older workers tend to face difficulties looking for work. This may cause them to join self-employment. The [labour market economic commentary for July 2018] discusses some of the reasons for the growth in self-employment in the economy.

6 . Authors

Blessing Chiripanhura, Nikolas Wolf and Alun Evans, Office for National Statistics.