

Rt Hon Sir Stephen Timms MP  
Chair, Work and Pensions Committee  
House of Commons  
London  
SW1A 0AA

16 September 2022

Dear Sir Stephen Timms,

I write in response to the Work and Pensions Committee's call for evidence for its inquiry, '*Plan for Jobs and Employment Support*'.

This inquiry is of particular interest and relevance to the Office for National Statistics (ONS) as we are responsible for producing employment and labour market statistics and analysis for the UK.

Within this submission, we have provided analysis on the impact of the pandemic on the labour market; looking specifically at young people, people with disabilities and people who have migrated to the UK.

We have included the latest data on earnings and on the occurrence of vacancies, noting in which sectors they are concentrated. Finally, we have also provided analysis of inactivity in the labour market, with a focus the inactivity of people over 50-years-old and the inactivity as a result of long covid.

I hope this submission is useful for your inquiry. Please do not hesitate to let me know if we can provide anything further.

Yours sincerely,



**Mike Keoghan**

Deputy National Statistician for Economic, Social and Environmental Statistics

## **Office for National Statistics written evidence ‘Plan for Jobs and Employment Support’, September 2022**

### **Impact of the pandemic on the labour market**

1. Following a fall in employment at the start of the coronavirus (COVID-19) pandemic, the UK labour market has become increasingly tight, with the employment rate now close to its pre-pandemic level and nearly half a million more vacancies than pre-pandemic, albeit falling slightly from recent record highs.
2. The unemployment rate is one of the lowest we have seen in the last fifty years; however, inactivity remains higher than before the pandemic. The driving labour supply trend has been the increase in the number of economically inactive people since the start of the COVID-19 pandemic, particularly by those aged 50 and over.
3. During the first year of the pandemic, increases in inactivity were largely driven by younger workers entering education, but more recent increases are driven by those aged 50 to 64, with over 60% of the increase in economic inactivity during the pandemic being driven by this age group. Another defining trait of the labour market in the initial phase of the pandemic was the decrease in the number of self-employed workers, which was partly driven by workers flowing out of self-employment and into employee status doing the same job (‘reclassified’). Though levels of “reclassification” have since stabilised to more normal levels, we have yet to see much of a reversal back towards self-employment.
4. The ONS Business Insights and Conditions Survey (BICS) shows that in August 2022, 15% of businesses were experiencing a shortage of workers, although that proportion was over 40% among businesses in the ‘Accommodation and food service activities’ and the ‘Human health and social work activities’ industries.

### **Young people**

5. Early in the pandemic, the unemployment rate of young people (aged 16 to 24) increased the most compared with other age groups and began to decline from Quarter 2 (April to June) 2021 onwards. The unemployment rate among young people is now lower than December to February 2020, before the pandemic began.
6. However, the Labour Force Survey (LFS) suggests that the reduction in unemployment among young people reflects movements to inactivity rather than employment. Comparing the latest period (May to July 2022) with the pre-pandemic period (December to February 2020), there were 86,000 fewer people aged 16 to 24 in employment, and 141,000 fewer in unemployment. In contrast, the number of those economically inactive increased by 178,000 over that period.
  - 6.1. The rate of inactivity among people aged 16 to 17 has increased 2.1 percentage points as of May to July 2022, to 70.8%, compared with the pre-pandemic period (December to February 2020). The rate of inactivity among people aged 18 to 24 has also increased 2.6 percentage points over the same period, to 31.4%.

6.2. The increase of 178,000 people economically inactive among those aged 16 to 24, compared with pre-pandemic levels, makes up 27.8% of the total UK rise in inactivity levels (which was 642,000, as of May to July 2022).

6.3. The increase was similarly split among men and women aged 16 to 24. Of the total 178,000 increase in the number of people economically inactive, 52% are men and 48% are women.

7. Median pay among those aged 18 to 24 increased 12.4% between February 2020 and August 2022; less than older age groups. Median pay across all age groups increased by 13.7%.

### People with disabilities

8. Comparing April to June 2022 with the same period three years prior, according to the LFS there has been 0.4 percentage point increase in the employment rate for both disabled people who meet the Government Statistical System (GSS) harmonised standard definition of disability (rising to 53%), and those who report having a health problem but do not meet the GSS standard definition of disability (rising to 81.9%).

9. Likewise, there has been a 0.5 percentage point decrease in the unemployment rate (as a percentage of economically active) and a 0.2 percentage point decrease in the economic inactivity rate among those who meet the GSS standard definition of disability (falling to 6.7% and 43.1% respectively). Among those who report having a health problem but do not meet the GSS standard definition of disability, there was a 0.3 percentage point fall in the unemployment rate, and 0.2 percentage point fall in the economic inactivity rate is seen (falling to 3.1% and 15.5% respectively).

10. Pay for disabled employees remains behind that of non-disabled people. The disability pay gap, the gap between median pay for disabled employees and non-disabled employees, was 13.8% in 2021. This gap has widened slightly since 2014 when disabled employees earned 11.7% less than non-disabled employees.

### Migrants

11. The fall in employment seen since 2016 have been largely driven by UK nationals as shown in the Changing Trends and Recent Shortages in the Labour Market publication<sup>1</sup>. In the 12 months to September 2020, the number of EU workers increased by 119,000 when compared with the same period in 2016. The year change from October to September 2020 to October to September 2021 saw a fall of 91,000 EU workers, suggesting a possible pandemic effect.

12. Payrolled employment counts from HMRC showed the same signal of a fall in EU workers, indeed, the magnitude was higher using this measure, though comparing a longer time period. Between June 2019 and June 2021, payrolled employments held by EU nationals fell by 6% (171,100). This was offset by non-EU nationals, which increased

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<sup>1</sup><https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/changingtrendsandrecentshortagesinthelabourmarketuk/2016to2021>

by 9% (186,300) in the same period. There is a lot of variation at industry level, meaning changes in the makeup of migration could be affecting some industries more than others.

13. In the same period, the largest decline in total payrolled employments was seen in Accommodation and food services; this was driven by a 25% (98,400) fall in payrolled employments of EU nationals during the two years up to June 2021. There were also large falls by EU employments in Agriculture, forestry and fishing and Arts, entertainment and recreation. These sectors also saw falls in non-EU employments. Indeed, the three sectors that saw the largest growth of EU and non-EU employments were the same: Construction, Transportation and storage and construction and Health and social work.
14. According to the Business Insights and Impact on the UK Economy Survey, looking at why businesses are experiencing vacancies, a year ago (23 August to 5 September 2021) a quarter of businesses who were experiencing difficulties recruiting cited reduced numbers of EU applicants. This has gradually declined to 12 per cent (as of June 2022) as EU migrants have returned to the workforce.
15. The Migration Observatory (based at Oxford University) published research on 15 August called, "*How is the End of Free Movement Affecting the Low-wage Labour Force in the UK?*" Their analysis looked at many of the same data sources reaching similar conclusions to ONS research, emphasising how the industries that have driven the increase in non-EU citizen employment are not the same ones that drove the decrease in EU citizen employment. They concluded there is some evidence that EU Exit has contributed to shortages in the UK labour market, although it is by no means the only driver of recruiting difficulties and some other countries have experienced similar problems without a major change in immigration policy. ONS analysis on specific industries where employment has reduced (including HGV drivers) showed that there has been a reduction in the number of EU-nationals but the impact of this was smaller than the reduction in UK nationals.
16. The latest estimates of international migration levels produced by the ONS are experimental and provisional. They are based on administrative data and supported by statistical modelling. There is a degree of uncertainty around them that we are unable to quantify at this time.
17. These latest statistics are produced using a new method that relies less on International Passenger Survey data, which we have long acknowledged has been stretched beyond its original purpose, and statistical modelling and makes greater use of administrative data.
18. Observed migration activity, from early insights of provisional census results, provide some confidence that these estimates derived from administrative data sources are more accurate than those derived using previous methods. Additionally, using these data and methods produces estimates that are more comparable with the latest Home Office statistics on the operation of the immigration system.

## **Vacancies**

25. In June-August 2022 there were an estimated 1.266 million job vacancies in the UK after falling by 34,000 (2.6%) when compared with the previous quarter. Despite the falls seen

in recent months, the number of vacancies remains 470,000 above the level seen in January-March 2020.

26. All industries are above their pre-pandemic levels, with the largest increases seen in Accommodation and Food Service Activities, and Human Health and Social Care activities, both of which have increased by 83,000 since January-March 2020.
27. As at the UK level however, many industries have begun to see falls in the most recent data, with 12 of the 18 industry sections seeing falls in June-August 2022 when compared with the previous quarter. The largest fall was seen in Information and Communication which fell by 11,000 (14.0%).
28. Between 2001, when comparable vacancy statistics were first produced, and the start of 2022, our data had never estimated that there were more vacancies than unemployed people. Of the five 3-month periods between January-March 2022 and May-July 2022, the number of vacancies has been higher than the number of unemployed people on four occasions, highlighting a historically tight labour market.

### Sectoral/Industry Trends

29. According to our Business Insights and Conditions Survey (BICS), businesses in the accommodation and food service activities industry continue to report the largest percentage of businesses experiencing worker shortages. They are also most likely to report recruitment difficulties.
30. Estimates from BICS show that in mid-August 2022, 15% of businesses reported that they were experiencing a shortage of workers, up from a low of 13% reported in mid-January 2022. However, for businesses with 250 or more employees, the percentage that reported worker shortages in mid-August 2022 was 42%.
31. In mid-August, the accommodation and food service activities industry continued to report the largest percentage of businesses experiencing worker shortages, at 42%.
32. In the accommodation and food service industry, 61% of businesses reporting worker shortages said that 'employees working increased hours' in mid-August, while 31% 'had to recruit temporary workers' or were 'unable to meet demands'. In construction, 75% of businesses reporting shortages of workers reported that they were 'unable to meet demands' in mid-August, while 27% reported 'employees working increased hours'.
33. Since March 2022, when the question was first introduced, more than 1 in 10 businesses reported to have experienced difficulties in recruiting employees, rising to more than 4 in 10 among larger firms (with 50 or more employees). Accommodation and food service activities (39%), Human health and social work activities (35%), and Real estate activities (24%) had the highest percentage of businesses reporting difficulties in recruiting employees in July 2022.

34. In June 2022, across all businesses not permanently stopped trading and had difficulty recruiting employees, 47% reported they had difficulty recruiting skilled, manual, or technical employees, followed by 36% reporting difficulties in recruiting semi-skilled or unskilled employees. Lack of qualified applicants for the roles on offer and low number of applications for the roles on offer and were the most common reasons given (approximately half) for experiencing difficulties in recruiting employees.
35. Since early June 2022, the arts, entertainment and recreation industry and the information and communication industry have continued to report one of the smallest percentage of businesses experiencing worker shortages, with 4% of businesses in each industry reporting work shortages in mid-August.

### **Inactivity in the labour market**

36. The rise in economic inactivity since the start of the pandemic has been the main driver in the reduction in UK's labour supply.
37. Overall, total employment levels were 327,000 below pre-pandemic levels as of May to July 2022. There were 642,000 more people aged 16 to 64 years inactive, with three-fifths of those (60%, or 386,000) aged 50 to 64 years.
38. The share of the economically inactive population who want a job has also been declining. Of those aged 16 to 64 years and inactive, 19.2% wanted a job as of May to July 2022, compared with 22.1% before the start of the pandemic (December to February 2020).
39. Long-term sickness is currently the main reason for inactivity among those aged 16 to 64 (27.3%), followed by studying (26.3%), looking after family or home (19.1%), and retired (13.3%). However, increases in long-term sickness predate the pandemic, starting in 2018.

### **Over 50's focus**

40. There are 521,000 more people aged 16 to 64 years who are economically inactive, with almost two-thirds of those (64%, or 334,000) aged 50 to 64 years.
41. In the period 8 to 13 February 2022, the ONS conducted the Over 50s Lifestyle Study looking at adults aged 50 to 70 years who left work or lost their job during the COVID-19 pandemic in Great Britain from March 2020 and had not returned to work at the time of the survey. This included asking why they left and whether or not they intend to return.
42. The most frequent reasons given for leaving work were to retire (47%); because of the COVID-19 pandemic (15%); because of illness or disability (13%) and because they did not want to work anymore (11%).
43. Nearly 6 in 10 said they would not consider going back to paid work in future. Although the majority of these (79%) said nothing would encourage them back to work, 10% said they would be encouraged to return if they were able to work from home; 9% said

they would be encouraged by flexible working hours and 4% said they would be encouraged if the job fit around caring responsibilities.

44. Nearly 4 in 10 said they would consider returning to paid work in the future with over half (54%) saying it would be for the social company or a job they would enjoy; around a half (52%) saying they would be encouraged by the money; and under a half (45%) saying they would be encouraged to return to work for a job that suited their skills and experience.
45. The ONS plans to publish new insights later this month into the reasons and factors for older workers leaving the labour market, and what may encourage them to return. The ONS is happy to send a copy of the new insights to the Committee once published.

### Long COVID

46. Data suggests that some of the increased inactivity could be due to long COVID. In July 2022, 1.8 million people reported suffering from long COVID in the UK, with 369,000 “limited a lot” by their symptoms.
47. The impact of long COVID is felt unequally. As a proportion of the UK population, the prevalence of self-reported long COVID was greatest in people aged 35 to 69 years, females, people living in more deprived areas, those working in social care, those aged 16 years or over who were not students or retired and who were not in or looking for paid work, and those with another activity-limiting health condition or disability.
48. Research on the prevalence of long COVID shows that the employment status with the highest prevalence across the UK is the ‘inactive and not looking for work’ group; with 6.43% of that population estimated to be living with self-reported long COVID of any duration. This compares with 3.81% among those employed, and 3.41% among those unemployed.
49. The ONS is currently working on an analysis of the association between SARS-CoV-2 infection / long COVID and changes in employment status (working or not working) using data from the Coronavirus Infection Survey. However, it is not possible to identify long-term sickness absence from the survey data. We anticipate being able to publish results from this work later this year and will share these with the Committee.

### Earnings

50. After falling at the start of the pandemic, partly as a result of furlough, growth in total earnings has remained strong in recent months with particularly high bonus payments, especially in March 2022. However, even with bonuses considered, pay has struggled to keep pace with inflation. Ignoring bonus payments, regular pay growth, though also strong (but more subdued than total pay) has seen record falls in real terms (that is, when adjusted for inflation).

51. Growth in average total pay (including bonuses) was 5.5% and growth in regular pay (excluding bonuses) was 5.2% among employees in May to July 2022.
52. Growth in total and regular pay fell in real terms (adjusted for inflation) on the year in May to July 2022, at 2.6% for total pay and 2.8% for regular pay; this is slightly smaller than the record fall we saw last month (3.0%), but still remains among the largest falls in growth since comparable records began in 2001.
53. Average regular pay growth for the private sector was 6.0% in May to July 2022, and 2.0% for the public sector; outside of the height of the pandemic period, this is the largest difference we have seen between the private sector and public sector.
54. The wholesaling, retailing, hotels and restaurants sector saw the largest regular growth rate at 7.0%, followed by the finance and business services sector at 5.9% and construction sector at 5.4%.

**OFFICE FOR NATIONAL STATISTICS**

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