

December 2005 assessment

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An overview of the UK labour market, drawing together the latest official labour market data and information from non-government sources and taking the wider economic picture into account.

Summary

The UK labour market remains historically strong in light of the current economic slowdown apparent in output data, although there are increasing signs of a cooling-off coming out of the latest data. According to the Labour Force Survey (LFS), there was a fall in the employment rate in the three months to October while the trend is broadly flat. The unemployment rate was up over the quarter and the trend may have started to rise. Total weekly hours worked showed an increase over the quarter, due to a rise in the number of people in employment. Looking at the more up-to-date claimant count, the number of people claiming Jobseeker's Allowance rose in November for the tenth consecutive month. There was a fall in vacancies in the three months to November and the trend in vacancies is falling. Looking at earnings growth, the excluding bonus series fell slightly in the three months to October compared with the three months to September. It has edged down since the recent peak recorded towards the end of 2004, suggesting

that wage pressures in the economy are easing.

Employment

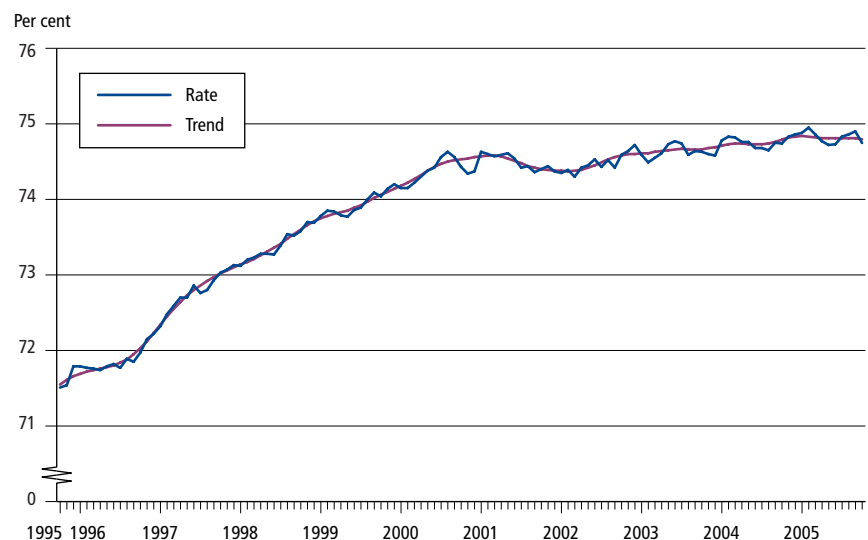
The latest employment figures for August-October 2005 show a fall in the working-age employment rate over the quarter of 0.1 percentage point, to stand at 74.7 per cent (see **Figure 1**). The employment rates for both men and women fell over the quarter by 0.1 percentage point, to

stand at 79.0 per cent and 70.2 per cent respectively. The trend in the employment rate is broadly flat.

The number of people aged 16 and over who are in employment increased by 58,000 over the quarter and 326,000 over the year. The employment level now stands at 28.813 million. The quarterly rise in employment was driven by men, with the male employment level rising by 40,000 to stand at 15.535

Figure 1

Working-age employment rate; United Kingdom; October 1995 to October 2005



Source: Labour Force Survey

million. The female employment level increased by 18,000 on the quarter and currently stands at 13.278 million.

The quarterly rise in employment was driven solely by people working on a full-time basis¹. The level of full-time employment saw an increase of 81,000 over the quarter, while the level of part-time employment fell by 23,000 over the same period. These changes are driven mainly by women, with the number of women in full-time employment rising by 51,000 over the quarter and the number of women in part-time employment falling by 33,000 over the same period (see **Figure 2**).

Looking at employment categories by type, there was an increase in the number of employees over the quarter (up 48,000), to stand at 24.970 million. This is a record high since comparable records began in 1992. The number of self-employed increased by 26,000 on the quarter to stand at 3.647 million. Breaking this down by sex, 2.676 million of the self-employed are men and 971,000 are women.

There was a small increase in workforce jobs (up 9,000) between June and September 2005. Over the year, the number of workforce jobs increased by 261,000 (0.9 per cent). Looking at the industry breakdown, the largest increases in the number of jobs over the quarter were recorded in education, health and public administration (up 17,000 or 0.2 per cent) and construction (up 11,000 or 0.5 per cent). The largest fall over the quarter was recorded in manufacturing (down 20,000 or 0.6 per cent).

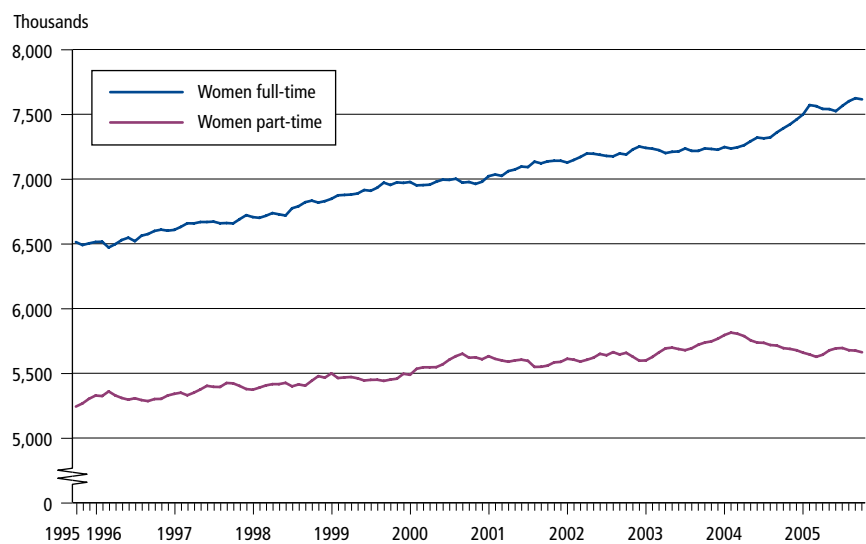
Looking at hours worked, total actual weekly hours of work increased by 1.2 million on the

quarter and by 11.4 million over the year to stand at 923.4 million in August-October 2005 (see **Figure 3**). The rise in total hours of work was driven mainly by men. Although over the year women's total actual

weekly hours of work increased by 7.8 million against an increase in hours worked by men of 3.6 million, recent movements over the quarter have meant women's total actual weekly hours have dropped 0.2

Figure 2

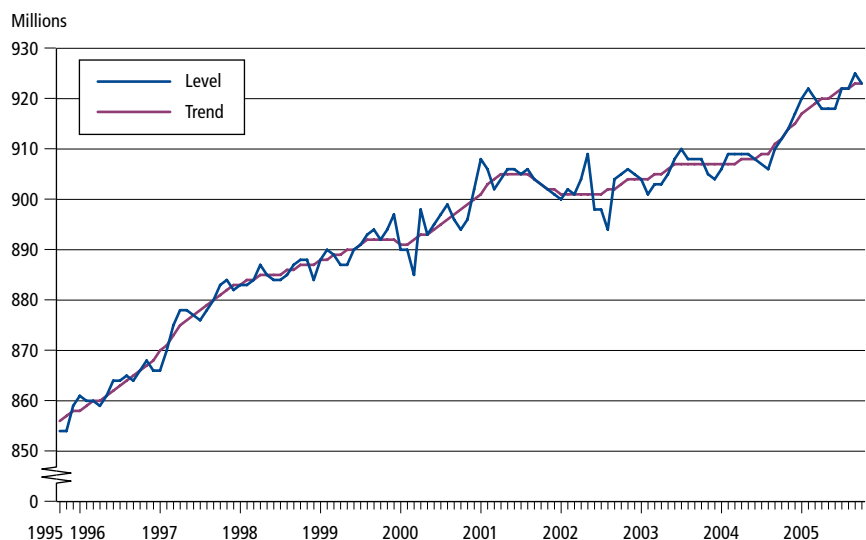
Full-time and part-time female employment; United Kingdom; October 1995 to October 2005



Source: Labour Force Survey

Figure 3

Total actual weekly hours worked; United Kingdom; October 1995 to October 2005



Source: Labour Force Survey

million whereas men have increased their hours worked by 1.4 million. These movements are linked to the observed decrease in the number of women in part-time employment. The trend in total actual weekly hours worked continues to increase.

Unemployment

The latest unemployment figures for August-October 2005 suggest that the trend in the unemployment rate may have started to rise. The unemployment rate for people aged 16 and over was up 0.2 percentage points on the quarter, to stand at 4.9 per cent (see **Figure 4**). Both men and women saw an increase in their unemployment rates, to stand at 5.4 per cent and 4.4 per cent (up 0.3 and 0.2 percentage points) respectively. The latest estimate of the unemployment level is 1.491 million, up 72,000 on the quarter and up 97,000 on the year. Breaking this down by sex, the unemployment level for men stands at 884,000 (up 47,000 on the quarter) and the unemployment level for women stands at 607,000 (up 25,000 on the quarter).

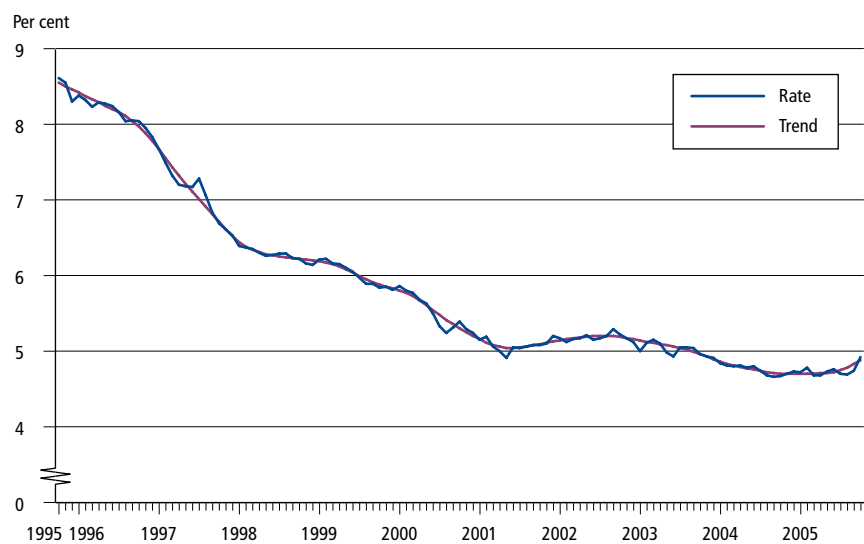
Looking at the duration of unemployment, most categories saw an increase in the number of unemployed people over the quarter. In detail, the number of people unemployed for up to 6 months increased by 40,000 on the quarter, the number of people unemployed over 6 and up to 12 months increased by 38,000 on the quarter and the number of people unemployed for more than 24 months increased by 2,000. On the contrary, the number of people unemployed for more than 12 months fell by 6,000. Overall, the latest data suggest that the trend in the unemployment level may have started to rise.

The claimant count (the number of people claiming Jobseeker's Allowance) increased further in November to stand at 902,000 (up 10,500 on the month) (see **Figure 5**). The claimant count has now risen by

88,200 since the low recorded in January. Looking at flows, increases were recorded in both claimant count inflows (up 4,800) and outflows (up 5,900) between October and November 2005.

Figure 4

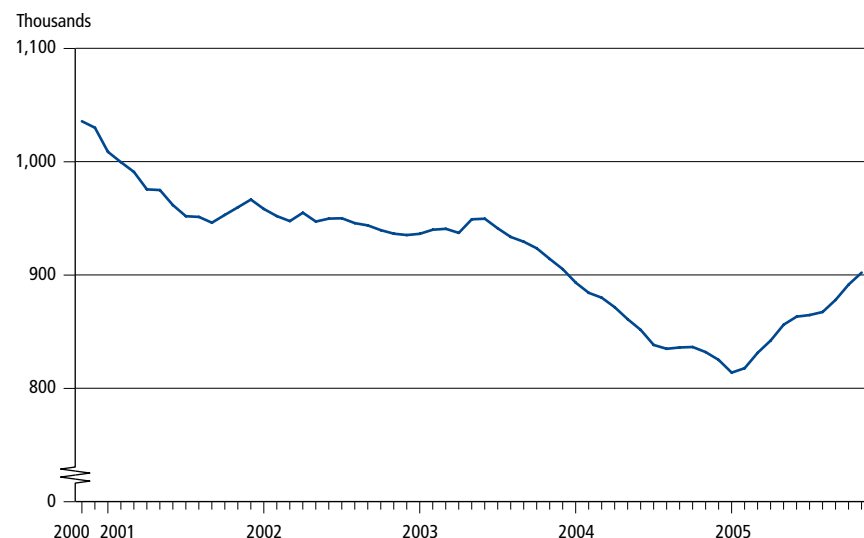
Unemployment rate; United Kingdom; October 1995 to October 2005



Source: Labour Force Survey

Figure 5

Jobseeker's Allowance claimant count; United Kingdom; November 2000 to November 2005



Source: Claimant count

► Vacancies

The number of job vacancies is a leading indicator of the demand for labour. The level of vacancies has seen a fall since the recent peak observed in the three months to January 2005. Job vacancies fell by 25,200 in September-November 2005 compared with the previous three months and by 41,500 compared with the same period last year (see **Figure 6**). The number of vacancies in the three months to November stood at 600,200 and the latest data indicate that the trend is falling. Analysis by industry shows that the largest decreases were observed in distribution, hotels and restaurants (down 9,800), education, health and public administration (down 8,500) and other services (down 5,000). The largest increase in the number of vacancies was recorded in the construction industry (up 3,500).

Economic inactivity

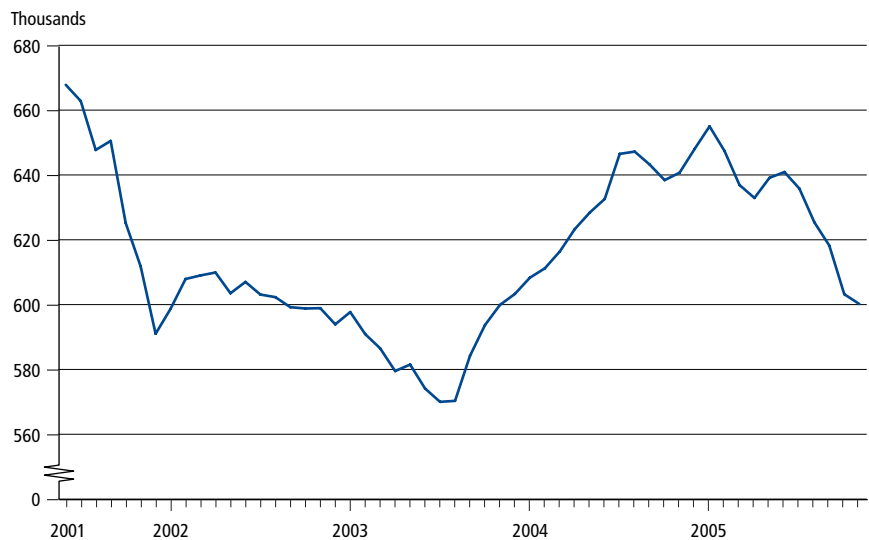
There were 7.895 million economically inactive people of working age in August-October 2005 (down 22,000 on the quarter). The number of working-age inactive men currently stands at 3.160 million (down 19,000 on the quarter) while the number of working-age inactive women stands at 4.736 million (down 3,000 on the quarter). The working-age inactivity rate fell by 0.1 percentage point on the quarter to stand at 21.3 per cent (see **Figure 7**). The inactivity rate for men currently stands at 16.5 per cent (down 0.1 percentage point on the quarter) and for women at 26.5 per cent (down 0.1 percentage point on the quarter). The latest assessment suggests that the trend in the economic inactivity rate appears to be falling slightly.

Looking at economic inactivity by reason, the largest increase on the quarter was recorded among those classifying themselves as students (up 54,000), due to a rise in inactivity in both men and women. Over the year, the number of

inactive people classifying themselves as students has increased by 130,000, partly offsetting the falls observed in other categories, such as long-term sick (down 51,000 over the year), looking after family and home (down 46,000 over the year)

Figure 6

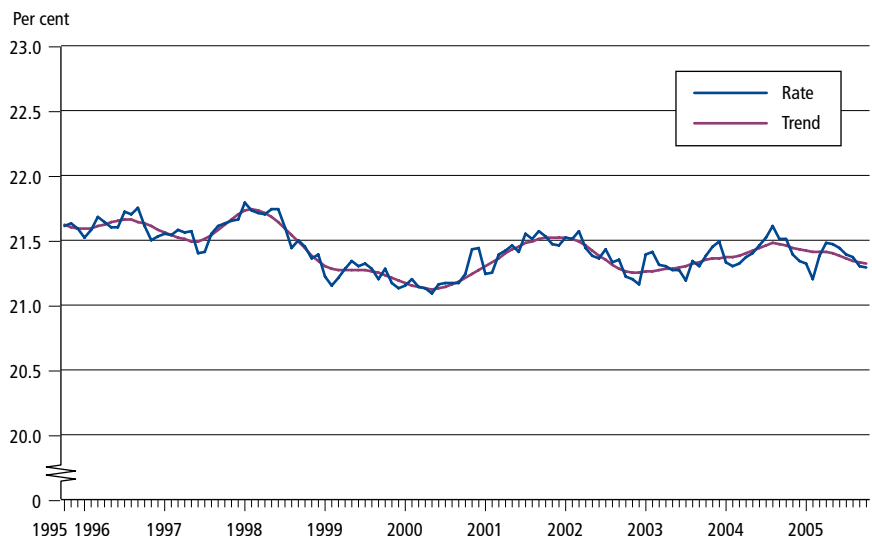
Number of vacancies; United Kingdom; June 2001 to November 2005



Source: Vacancy Survey

Figure 7

Working-age inactivity rate; United Kingdom; October 1995 to October 2005



Source: Labour Force Survey

and other² (down 59,000 over the year) (see **Figure 8**).

Redundancies

The LFS redundancy rate in August-October 2005 was 5.7 per thousand employees, down 0.1 per thousand on the quarter and up 0.1 per thousand over the year. This fall was driven by men, for which the redundancy rate fell by 0.3 per thousand on the quarter to stand at 7.0 per thousand. The redundancy level decreased by 2,000 on the quarter and currently stands at 142,000. The trend in the redundancy level appears to be increasing. Looking at redundancies by industry (not seasonally adjusted), the latest data refer to the period June-August 2005 and show manufacturing to have the largest level of redundancies (55,000),

followed by distribution, hotels and restaurants (30,000) and banking, finance and insurance (25,000).

Earnings

Turning to the latest earnings numbers, the whole economy including bonuses annual growth rate in earnings was 3.6 per cent in the three months to October 2005 – down from 4.1 per cent in the three months to September. This is due to some one-off bonuses paid in October 2004 not being paid in 2005. There were also some bonuses paid in October in 2004 that were paid in September in 2005. This effect was mainly in the financial intermediation sector. Looking at growth as measured by the whole economy excluding bonuses series, annual growth in the three months to October stood at 3.9 per cent,

down from 4.0 from the three months to September (see **Figure 9**).

The overall picture is of steady earnings growth, exceeding the rate of growth in consumer prices (see economic overview). The excluding bonus series has edged down since the recent peak observed towards the end of 2004, suggesting that wage pressures in the economy are easing.

Looking at industry sectors, there is a pick-up in earnings growth in the manufacturing sector. In the three months to October, growth in earnings as measured by the excluding bonus series stood at 4.3 per cent, up from 4.0 per cent in the three months to September. Earnings growth including bonuses stood at 4.5 per cent in the three months to October, up from 4.1 per cent in the three months to September.

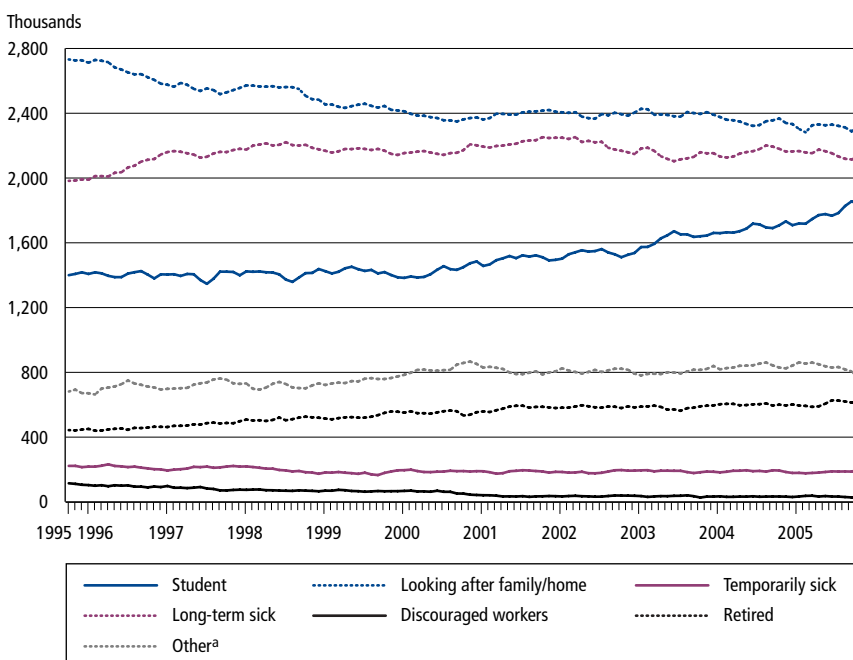
Economic overview

The latest estimate of GDP growth for the third quarter of 2005 is 0.4 per cent on the quarter and 1.7 per cent on the year, which indicates output growth remains below the trend rate of growth of 2.75 per cent, as estimated by HM Treasury³.

Within this, output of the production industries showed a fall of 0.6 per cent on the quarter, while output of the services industries increased by 0.6 per cent on the quarter. There was a slight pick up in the volume of retail sales in the three months to October. However, the value of retail sales grew by only 0.2 per cent compared with the same period last year, the lowest annual growth rate since comparable records began. Looking at prices, the inflation rate, as measured by the Consumer Prices Index (CPI), stood at 2.3 per cent in the year to October, down from 2.5 per cent in the year to September. This is the

Figure 8

Working-age inactivity by reason; United Kingdom; October 1995 to October 2005



Source: Labour Force Survey

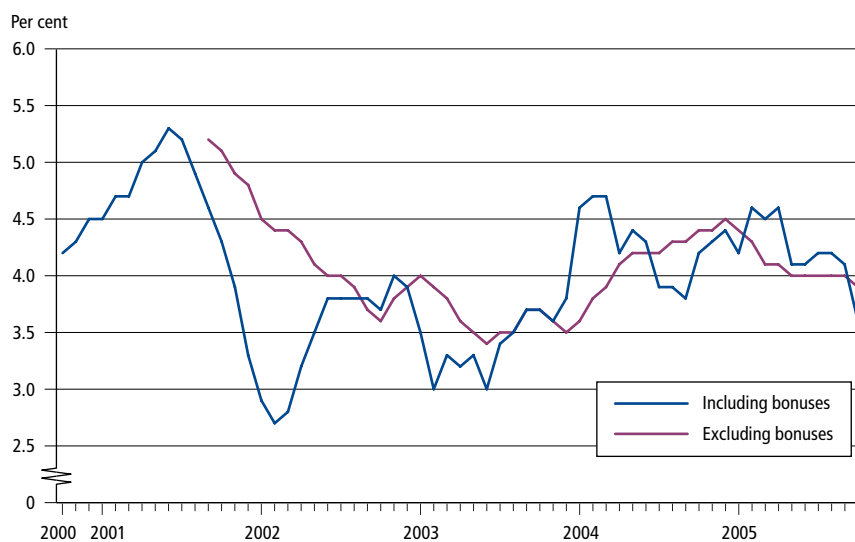
^a Other = no reason given, other reason, and not started looking.

- ▶ first fall in inflation as measured by the CPI in over a year.

The latest ONS labour market statistics suggest that the cooling down observed in the wider economy since mid-2004 may be starting to have an impact on the labour market, albeit somewhat delayed. Given the slowdown apparent in the output data, the labour market remains strong by historical standards. However, the rise in the unemployment rate, the latest fall in vacancies, an easing in earnings growth and the tenth consecutive increase in the claimant count suggest that the dip in output may be having a greater impact on the labour market than previous data have indicated.

Figure 9

Whole economy average earnings growth; Great Britain; October 2000 to October 2005



Source: *Monthly Wages and Salaries Survey*

Further information

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Notes

1. The split between full-time and part-time status of employment is based on self-definition of respondents in the LFS.
2. The observed fall in the 'other' category may be due to minor modifications in the LFS questionnaire that have led to changes in the way that people respond to inactivity questions.
3. See the Pre-Budget Report 2005, available online at: www.hm-treasury.gov.uk/media/FF8/07/pbr05_complereport_1980.pdf

Technical details of sources

Series	Sample size	Frequency	Time series
Labour Force Survey	53,000 households per quarter	Monthly	Three-month averages from spring 1992. Pre-1992 data are modelled three-month averages of the headline figures.
Workforce jobs	28,000 service firms 9,000 production firms	Quarterly	Annual 1959-77 Quarterly since 1978
Claimant count	All JSA claimants	Monthly	Consistent series from 1971
Vacancy Survey	6,000 businesses	Monthly	Three-month averages from June 2001
AEI	8,000 firms 9 million employees	Monthly	Consistent series from 1990
CIPS services	600 firms	Monthly	Since July 1996
CIPS manufacturing	620 firms	Monthly	Since January 1992
CBI Industrial Trends Survey	Around 1,000 firms	Quarterly	Since 1958

Unless otherwise stated, all ONS data are seasonally adjusted, and LFS data are consistent with 2001 Census population data.