

Evidence from Learning and Work Institute to the House of Lords Economic Affairs Committee's Inquiry into Recent Trends in the UK Labour Market

1. Introduction

Learning and Work Institute (L&W) is an independent policy, research and development organisation focusing on lifelong learning, skills and employment. We want everyone to have the opportunity to realise their ambitions and potential in learning, work and throughout life. We believe that a better skilled workforce in better paid jobs is good for business, good for the economy and good for society.

L&W helps to design, deliver and evaluate employment support services to improve its impact and shape policy. L&W's consultation response has drawn on this evidence, as well as our monthly labour market statistics analysis¹ and its wider research.

2. What are the recent trends in labour supply? How large are reductions in the size of the labour force?

The UK employment rate in May-July 2022 stood at 75.4% which is still lower than the pre-pandemic levels. The same period in 2019 saw 76.1% of the working age population in employment. The pandemic has ended a trend of increasing rates of employment, with 70.6% of people in employment in May-July 2009, growing by 5.5 percentage points ten years later.

The unemployment rate stood at 3.6% in May-July 2022, amounting to 1,224,000 people. It had generally been falling since late 2013 until the start of the pandemic. It then increased until the end of 2020 but has now returned to pre-pandemic levels. In the same period, 21.7% of the working age population were economically inactive.

The decrease in the supply of labour is not being driven by growing unemployment due to redundancies but increasing levels of economic inactivity since the start of the pandemic. The largest rise in economic inactivity has been among those aged 50 to 64 years with 527,000 over 50s leaving the labour market since March 2020. **As a result, our research shows that the UK labour force (the number of people economically active) is one million smaller than if pre-pandemic trends had continued.**

This increase in economic inactivity has shrunk the UK's labour supply, making it harder for employers to recruit staff. The number of job vacancies in May-July 2022 was 1,266,000, a decrease of 34,000 from the previous quarter. Employers are hiring people at record levels, with 1.9 million people starting work or changing jobs in quarter 2 2022, but there are now fewer people in work or actively seeking work to recruit². Three further issues are making it more challenging for employers to meet their recruitment needs:

First, there is a risk of a mismatch between those who are out of work (whether unemployed or economically inactive) and the jobs available. This takes the form of a skills mismatch, where people who are out of work do not have the required skills to fill vacancies. There is also

¹ <https://learningandwork.org.uk/what-we-do/employment-and-social-security/labour-market-analysis/>

² Learning and Work Institute (2022) *Labour Market Analysis, August 2022*, Leicester: Learning and Work Institute. <https://learningandwork.org.uk/what-we-do/employment-and-social-security/labour-market-analysis/august-2022/>

evidence of a mismatch between available jobs and the type of work that older people or those with disabilities want to or are able to do. Some jobs, for example, in construction, are physically demanding so it may not be possible to fill vacancies with older workers³. Among older workers there is a preference for flexible and/or part-time work, with a survey of over-50s for the Department for Business, Energy and Industrial Strategy (BEIS) finding 78% per cent of respondents said they would like more flexible hours, and 73% saying they wanted more part-time positions offered⁴.

Second, changes to immigration policy in January 2021 make it more difficult for UK employers to recruit low wage workers from the EU⁵. As discussed below, hospitality, social care, wholesale and retail, and transport and storage are sectors which have been particularly reliant on workers from the EU and are now experiencing increased vacancies.

Third, there has been a reduction in the numbers of people who want to work more hours from 3,351,000 in April-June 2019, to 2,827,000 in April-June 2022⁶. The UK's labour supply comprises (i) people who are satisfied with their hours of work (ii) an estimated 3,243,000 people who want to work fewer hours and (iii) the 2,827,000 people or 7.4% of those in employment who want to work more hours. Of this latter group 2,137,000 people who wanted to work more hours in this period in 2022 were working less than 35 hours in each week. Their numbers including 215,000 people who said that they are looking for another job with more hours. There is also evidence that it is often younger people who want to work more hours⁷. While their numbers are decreasing they are nevertheless an untapped resource for employers.

3. Which sectors and regions are most affected?

The May-July 2022 ONS Vacancy Survey suggests that the industrial sectors with the largest numbers of vacancies were health and social work (219,000 vacancies), hospitality (168,000), wholesale and retail (161,000), professional, scientific and technical activities (129,000) and manufacturing (91,000 vacancies). Figure 1 (below) draws on the same survey and shows vacancy rates per 100 employee jobs, again highlighting the high level of vacancies within hospitality and health and social work.

As noted above, social care, hospitality, wholesale and retail and food manufacturing are sectors which have tended to employ high proportions of migrant workers, particularly those born in the EU. Some 18% of the UK workforce was born outside the UK in 2021, but this rose to 28% of people working in hospitality, 26% of people working in transport and storage, 25% of people working in information and communications and 21% of people working in health and social work⁸. Employers also need to consider the wages and terms and conditions they offer, how they design jobs and recruit staff, and their investment in training.

³ Chartered Institute for Building (2015) *Exploring the Impact of an Ageing Population on the Workforce and Built Environment*, London: CIOB.

⁴ BEIS (2018) *Ageing Society Grand Challenge: Saga Poll*, London: BEIS.

<https://www.gov.uk/government/publications/views-on-the-ageing-society-survey-of-older-people>

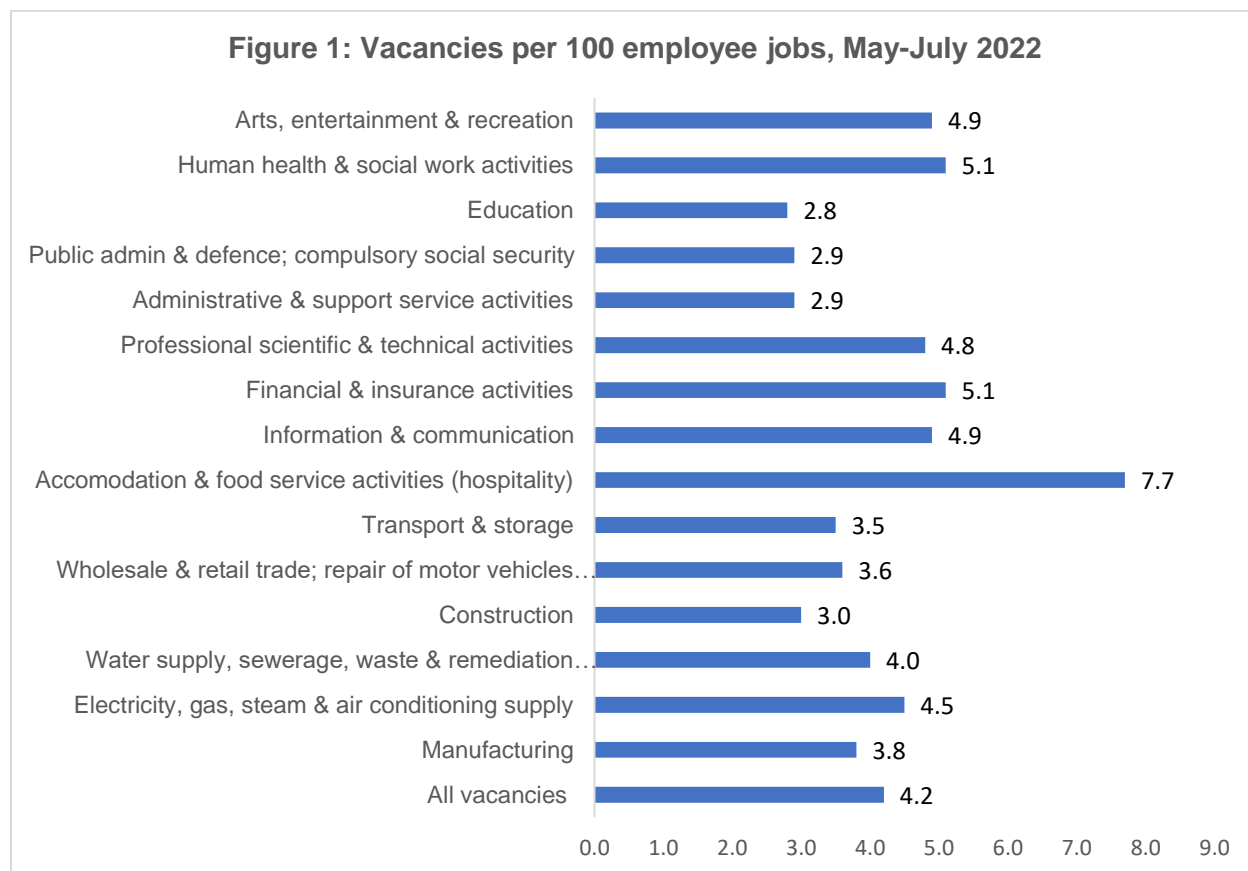
⁵ Since January 2021 workers from EEA countries (excluding Ireland) have been subject to immigration control, bringing them in line with citizens from outside the EEA+1. To qualify for a skilled worker (Tier 2) visa requires a job offer at the required skill level (Regulated Qualifications Framework level 3 or above), an English language qualification at B1 level or above, and to meet the required salary thresholds.

⁶ Labour Force Survey EMP16 dataset.

⁷ <https://www.catch-22.org.uk/news/underemployment-hidden-face/>

⁸ Sumption, M. and Walsh. P. (2022) *How is the end of free movement affecting the low wage labour force in the UK*, Oxford: Oxford University Migration Observatory

The age profile of those employed in the health and social work sectors, and for males employed in manufacturing and transport and storage is also older than in many other industrial sectors⁹. In April-June 2022 some 15.6% of employees in health and social work were aged 50-64, while 14.3% were aged 35-49¹⁰. At a time when increased numbers of workers aged 50 or over are leaving the labour market it is likely that sectors with an older workforce are more likely to be affected by this trend.



Source: ONS Vacancy Survey.

The sample size of the ONS Vacancy Survey is not sufficiently large to enable a regional breakdown of vacancies by industrial sector. However, the Recruitment and Employment Confederation's monthly report on jobs reports higher rates of vacancies in most industrial sectors in London and the South East.

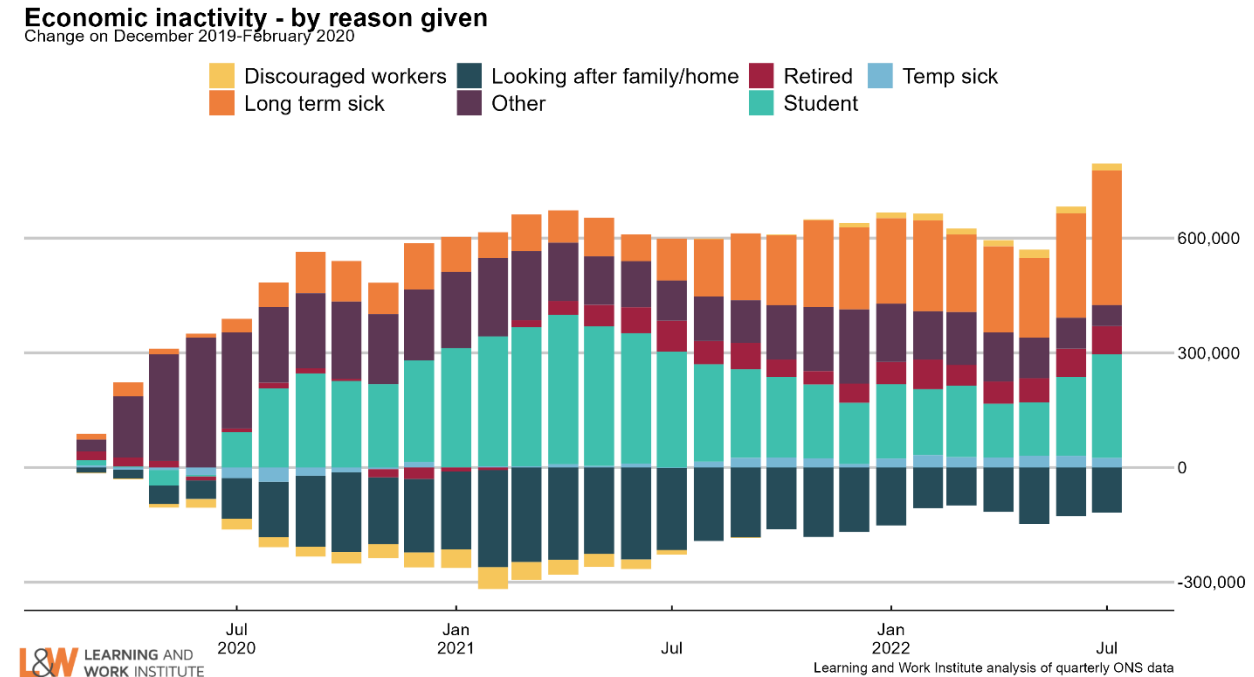
4. Which people have been leaving the labour market? What is the socio-economic and demographic breakdown?

⁹ Chartered Institute of Personnel and Development (CIPD) (2019) *Megatrends: Ageing Gracefully – the opportunities for an older workforce*, London: CIPD.

¹⁰ Labour Force Survey data published in ONS (2022) Economic labour market status of individuals aged 50 and over, trends over time: September 2022 <https://www.gov.uk/government/statistics/economic-labour-market-status-of-individuals-aged-50-and-over-trends-over-time-september-2022>

As noted above, 527,000 over 50s have left the labour market since the pandemic began, with 70% of the increase in economic inactivity since the start of the pandemic being driven by this age group. The numbers of people who are economically inactive because they are disabled or long-term sick has also increased since the start of the pandemic as Figure 2 shows. Many of this latter group are also aged 50-64.

Figure 2: Economic inactivity by reasons given, March 2020-August 2022



Source: Labour Force Survey

The Office for National Statistics' Over 50s Lifestyle Study¹¹ has examined the factors that have caused people aged between 50 and 70 years to leave the labour market since the start of the pandemic. This found:

- 47% of respondents said they had left work to retire (although the LFS shows only a small increase in the number of people saying they are economically inactive because they have retired)
- 15% had left work because of the coronavirus (COVID-19) pandemic
- 13% had left work because of illness or disability (although the Labour Force Survey shows this is the largest growth in reasons for economic inactivity overall)
- 11% had left their job because they did not want to work anymore
- 10% had left work for stress or mental health reasons
- 10% had left work because they wanted a change in lifestyle.

Some 75% said it was their choice to leave their previous job, 5% said they had lost their job, and 10% had been furloughed and then lost their job. The Over 50s Lifestyle Study also showed that 39% of those who left work or lost their job during the coronavirus (COVID-19) pandemic

¹¹ This study included 13,803 responses from individuals who had previously taken part in the Opinions and Lifestyle Survey, as well as individual in-depth interviews.

would consider returning to paid work in the future, with those in their 50s almost twice as likely to consider this (58%) than those aged 60 years and over (31%). There were no significant differences between men and women. This finding suggests that 205,000 of the 527,000 over 50s who have left the labour market since the start of the pandemic might consider returning to paid work.

As well as older, sick or disabled people leaving the labour market, Figure 2 shows that in the first phase of the pandemic there was a rise in 'other' reasons for economic inactivity. This is likely to be predominantly people stopping looking for work due to the pandemic, reduced work opportunities due to lockdowns, and requirements to stay at home and limit social contact.

Figure 2 also shows an increase in the number of people who are economically inactive because they are studying. Higher Education Statistics Agency data showed that 2020/21 student numbers were up by more than 8% over 2019/20¹², largely driven by increases in the numbers of students starting first degrees or taught post-graduate courses. At the same time, there has been a fall in the percentage of 18-year-olds taking apprenticeships or involved in work-based learning, from 7.5% of this age group in 2019 to 6.8% in 2021¹³ although the percentage of 16 to 18-year-olds participating in all forms of education and apprenticeships has stayed fairly constant, with a small increase in 2020¹⁴. There has also been a fall in further education and skills student numbers among those aged 19 or over from 1,745,800 in 2019/2020, 1,640,300 in 2020/21 to 1,511,900 in 2021/22, continuing a trend that predates the pandemic¹⁵. These figures suggest that the increase in economic inactivity because people are studying is being driven by students in higher education and 16-18 year olds at school or college.

5. How do recent changes in the UK's labour supply compare with those in other developed countries?

L&W has recently looked at post-pandemic labour market participation across ten OECD countries¹⁶¹⁷ and we have sent the Committee a copy of the report. **Our research shows that the UK has suffered the largest fall in employment since the start of the pandemic, and that other G7 countries have not seen falls in economic inactivity for the over 50s.**

Unemployment rose less in the UK in the UK during the first year of the pandemic compared with Australia, Canada, France, Italy, Spain, as well as the US at its peak. Furlough and other economic and employment support helped to prevent a large rise in unemployment in the UK. From 2021 onwards, however, the UK's employment rate performance has been less impressive compared to the other G7 countries. The UK and US are the only G7 countries where employment rates remain below pre-pandemic levels, with the UK seeing the biggest fall.

The UK has also seen seeing the largest fall in the proportion of people who are economically active (Figure 3). L&W calculations suggest that since the pandemic if the UK had matched the

¹² <https://www.hesa.ac.uk/insight/25-01-2022/impact-covid-19-2021-student-data>

¹³ <https://explore-education-statistics.service.gov.uk/find-statistics/participation-in-education-and-training-and-employment>

¹⁴ DfE data suggest that 81.2% of 16-18 year olds in England participated in education and apprenticeships in 2021, compared with 82.3% in 2020, 81.6% in 2019 and 81.3% in 2018.

¹⁵ <https://explore-education-statistics.service.gov.uk/find-statistics/further-education-and-skills>

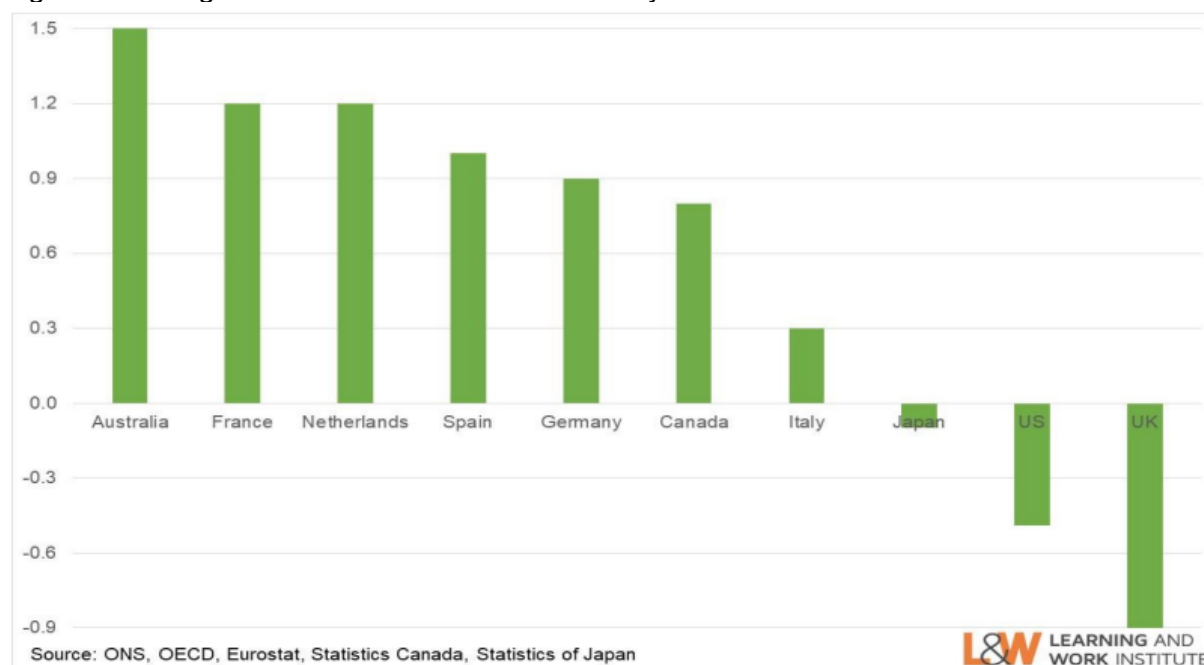
¹⁶ G7 plus Australia, Netherlands and Spain.

¹⁷ Evans, S. (2022) *The participation gap: The UK's labour market through the pandemic in international context*, Leicester: Learning and Work Institute.

economic activity rate growth of Australia, France or Netherlands, there would be an additional one million people in the UK workforce.

Many of whom of those who would have remained in jobs would be older workers. But at the same time, it is important to note that the employment rate of those aged 50-64 is also lower in Italy, France, Spain, Canada and the United States than it is in the UK¹⁸.

Figure 3: Changes in the rates of economic activity Q4 2019-Q1 2022.



A number of different factors may have contributed to increased rates of economic inactivity in the UK compared to other G7 countries. This may include:

- limited employment support or retraining opportunities for people who are economically inactive enabling fewer people who are economically inactive but want to work to return to work. In the UK, most employment support programmes have strict criteria for referral into these programmes that exclude people who are economically inactive.
- less positive attitudes among employers and wider society to older or disabled workers than in some other countries¹⁹.
- fewer part-time or flexible work opportunities that appeal to older workers or those with disabilities and health conditions who want to work fewer hours.
- different regulations for accessing welfare benefits for people who are unemployed and actively looking for work. The level, structure, requirements, and eligibility rules for out-of-work benefits and other support can also affect people's decision making and the support they receive.

Policy implications

L&W's research suggests that the reduction in labour supply is mostly being driven by increased rates of economic inactivity. L&W believes that policy responses to increase the supply of labour

¹⁸ <https://data.oecd.org/emp/employment-rate-by-age-group.htm>

¹⁹ Peterson, L., and Ralston, M. (2017) Valued elders or societal burden: Cross-national attitudes toward older adults in *International Sociology*, Vol 32 (6) 731–754/

need to focus on supporting people who are economically inactive to look for work where they are able, including the 1.64 million people who say they want to work. Policy should aim to:

- (a) **Open up employment support.** Review the qualification criteria and referral pathways for employment support programmes as most DWP programmes exclude people who are economically inactive.
- (b) **Work with employers.** Work with employers' organisations, employers and recruiters such as Timewise to encourage more part-time employment opportunities for older people and others who want to work fewer hours.
- (c) **Build employment support on best practice.** Review the content and structure of employment support programmes for older workers and people with long-term health conditions and disabilities, drawing on evaluations of these programmes. For people with disabilities and health conditions, in-work support from a coach or support worker helps people to stay in work. One-stop-shop services have also been shown to be effective in helping disabled people find and stay in work where employment, debt, benefits, health and other services are offered by the same organisation or in the same building²⁰.

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²⁰ Learning and Work Institute (2019) *Evidence review: Employment support for people with disabilities and health conditions*, Leicester: L&W.