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STRONG PAY GROWTH FAILS TO KEEP PACE WITH INFLATION

The latest ONS data cover the period from October to December 2022 and show a labour market that is continuing to show early signs of softening. While the employment rate increased and economic inactivity fell, the unemployment rate also ticked higher as a result, and vacancies fell for the seventh quarter in a row.

Although nominal pay growth remains strong by historical standards, it has not matched the pace of consumer price inflation. Real regular pay growth remains in negative territory, with the three-month average (-2.5%) close to the lowest it has been since records began in 2001. Furthermore, there were 843,000 working days lost due to labour disputes in December 2022 – the highest since November 2011.

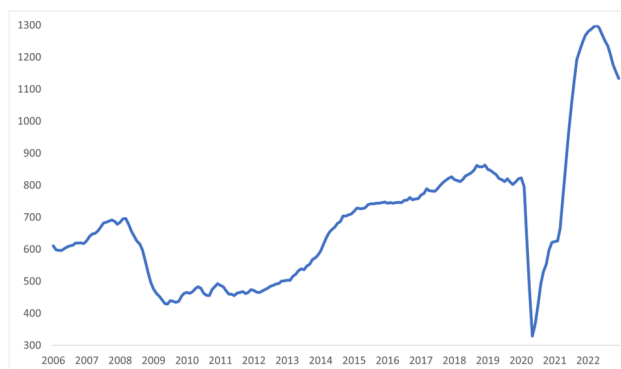
While there are tentative signs that more people are looking to get back into work, businesses are still having difficulty filling the very high number of vacancies. The upcoming Budget is an opportune moment for the Government to now make some real progress on the workforce shortages the economy is struggling with. That requires action on a number of fronts, including expanding childcare, updating the Shortage Occupations List and widening the scope of employer health support as a non-taxable benefit to prevent and treat some of the key drivers of long-term absence. By launching a two-year pilot of turning the failing Apprenticeship Levy into a more flexible Skills Challenge Fund, businesses would also be in a better position to help jobseekers of all ages learn new skills.

Employment rate increases and vacancy levels fall further...

- The official measure of employment shows an increase of 74,000 in the three months to December 2022, compared with the previous quarter, and an increase of 246,000 on the same period a year ago. The employment rate rose to 75.6%, an increase of 0.2% points from the previous quarter.
- Male employment (+43,000) and female employment (+31,000) increased in the quarter to December. On the year, male employment increased by 138,000 and female employment increased by 108,000.

- Those aged between 50 and 64 years old saw the largest increase in employment levels over the quarter (+39,000), followed by those aged 25-34 (+23,000). Those aged 18-24 saw a decline this quarter (-23,000) followed by the 35-49-year-old age group (-14,000).
- The number of people working full-time decreased (-61,000), while the total number of people working part-time increased (+135,000). The number of self-employed people working full time decreased (-12,000) while the total number of self-employed people working part-time increased (+21,000).
- Pay-As-You-Earn (PAYE) data show that the number of payrolled employees increased by 102,000 in January 2023, reaching the highest level (30.0 million) since the data series was introduced (July 2014).
- There were an estimated 1.13 million vacancies in the three months to January 2022, a decrease of 76,000 and the seventh consecutive quarterly fall. Vacancies either decreased or were broadly unchanged across all business sizes. The largest number of jobs available are in Human Health and

Exhibit 1 Vacancies (000s)



Headline figures	Rate	Number (000s)	Change on quarter (% change)	Change on year (% change)
Employment* (ILO)	75.6%	32,813	+74,000 (0.2%)	+246,000 (0.8%)
Unemployment** (ILO)	3.7%	1,270	+45,000 (+3.7%)	-103,000 (-7.5%)
Youth unemployment (16-24)	10.0%	471	+71,000	+10,000

Source: ONS February 2023 labour market statistics, October to December 2023 data *Rate for those aged 16-64 **Rate for those aged 16 and over

Exhibit 2 Employment vs actual weekly hours worked (millions)



Source: ONS February 2023 labour market statistics

Social Care (206,000), the Accommodation & Food Service activities sector (146,000) and the Wholesale and Retail Trade; repair of motor vehicles and cycles sector (147,000).

- The total number of hours worked decreased on the quarter to 1.036 million, a -0.3% decrease on the quarter but still up on the year by 0.6%. This is still below pre-pandemic levels.
- There were 843,000 working days lost in December due to industrial action – the highest since November 2011 – involving 168,000 workers.

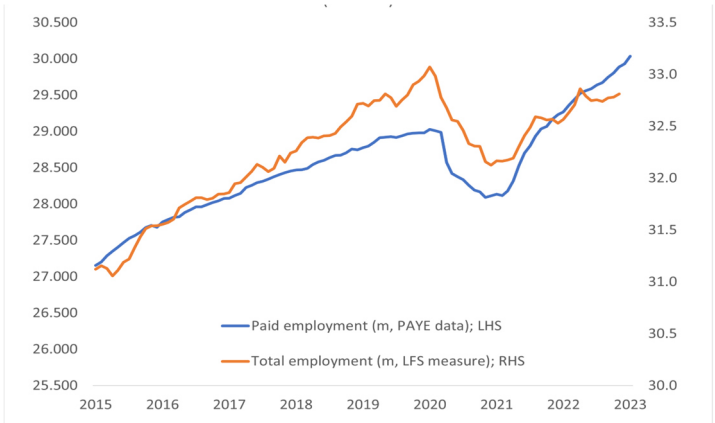
...while unemployment increases and economic inactivity decreases

- Official data show that, in the three months to December 2022, unemployment increased by 45,000 to stand at 1.27 million. The unemployment rate increased to 3.7%, an increase of 0.1% points on the previous quarter. There are 103,000 fewer unemployed people than in the same period a year ago.
- The number of redundancies increased on the previous quarter (+24,000) and is up by 27,000 on the year. This means that the redundancy rate is at 3.5 per thousand employees.
- The number of those who are economically inactive (aged between 16-64 years old) decreased by 113,000 compared to the previous quarter but is up by 68,000 on the year. The inactivity rate is at 21.4%. The decrease in economic inactivity during the last quarter was driven by those aged 16 to 24 years and those aged 50 to 64 years. Looking at economic inactivity by reason, the quarterly decrease was driven by those inactive because they are students and, to a lesser extent, long-term sick or retired.

Inflation continues to outstrip strong nominal total pay growth

- Nominal total pay growth across the whole economy (incl. bonuses and before adjusting for inflation) stood at 5.9% on the year in the three months to December 2022 (the less volatile three-month rolling basis).
- In the three months to December, nominal total pay growth stood at 6.4% in the private sector (down by 0.4% points). In the public sector, nominal pay growth stood at 4.2%, an increase of 1.8% points from the previous quarter.
- Across the different sectors, nominal annual total pay growth was strongest in services (+6.0% - down by 0.2% points) followed by wholesaling, retailing, hotels and restaurants (+5.9% - down by 1.0% points), manufacturing (+5.7% - up by 0.6% points), and construction (5.5% - up by 0.2% points).
- Real total pay growth (incl. bonuses and adjusting for CPIH inflation) decreased compared with November (on the less volatile three-month rolling basis) – and stands at -3.1% on the year as high inflation continues to erode wage growth.

Exhibit 3 PAYE real time data vs official employment data (millions)



Source: ONS February 2023 labour market statistics

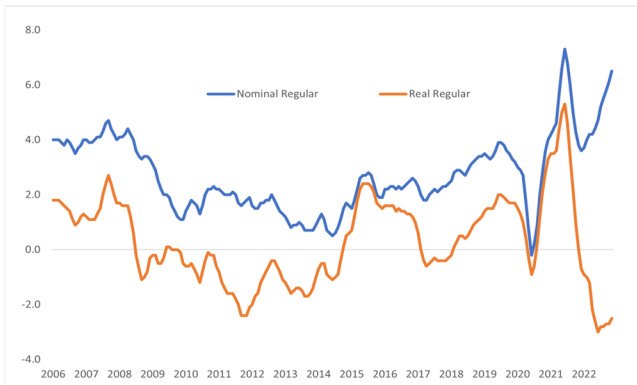
There was a mixed bag in employment levels across regions and nations...

- In the three months to December 2022, employment increased in the South West (+54,000), Scotland (+37,000), the North West (+36,000), and Northern Ireland (+21,000).
- Employment remained broadly unchanged in the East Midlands (+4,000), the West Midlands (+4,000), the

South East (-2,000), the North East (-4,000), and London (-10,000).

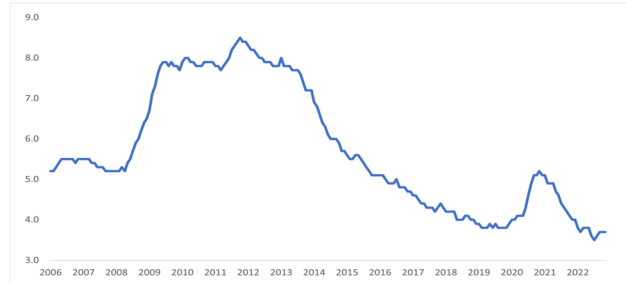
- The regions that saw a decline in employment levels were Wales (-12,000), Yorkshire and the Humber (-20,000), and the East (-33,000).

Exhibit 4 Real regular pay and nominal regular pay growth (%)



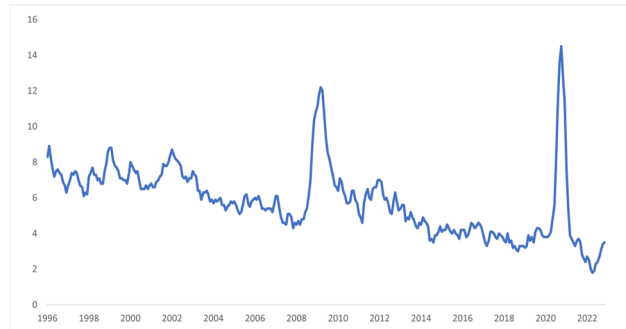
Source: ONS February 2023 labour market statistics

Exhibit 5 Unemployment rate (%)



Source: ONS February 2023 labour market statistics

Exhibit 6 Redundancy rate (%)



Source: ONS February 2023 labour market statistics

...while unemployment levels also varied across the country

- In the three months to December 2022, unemployment increased in the South East (+51,000), the East (+23,000) and London (+16,000).
- Unemployment levels remained broadly unchanged in Northern Ireland (-4,000), Scotland (-5,000), Wales (-3,000), the West Midlands (-8,000), the East Midlands (-5,000), the North East (+3,000), Yorkshire and the Humber (-6,000), and the North West (-6,000).
- Unemployment levels decreased in the South West (-10,000).

The next labour market update will be published on **14th March 2023**.

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“With the cost of living crisis, there is still a need to address the challenges our labour market currently faces.”

“We need to work together in partnership with Government and businesses to address the skills shortage, economic inactivity and immigration, to help our economy to grow and workers to prosper.”

Carmen Watson, Chairperson, Pertemps Ltd

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