

Article

# Labour market economic commentary: June 2018

An overview of the labour market in June 2018 covering employment, unemployment, inactivity and underutilisation.

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# 1 . Main points

- Employment increased by 146,000 compared with the three months to January 2018 to a record high of 32.39 million.
- Unemployment fell by 38,000 compared with the three months to January 2018 to reach 1.42 million.
- While short and medium-term unemployment fell, long-term unemployment increased compared with the previous quarter.
- The number of part-time workers who want a full-time job has followed a general downward trend since the three months to July 2013 but has levelled off and remained stable in the latest quarter.
- Vacancies increased by 33,000 compared with a year ago to reach 818,000 in the three months to May 2018.

## 2 . Employment

The latest estimates from the Labour Force Survey (LFS) show that in the three months to April 2018, the employment rate increased by 0.3 percentage points to 75.6% when compared with the three months to January 2018. The number of people in employment increased by 146,000 when compared with the previous quarter. Employment increased to a record high of 32.39 million in the February to April 2018 period.

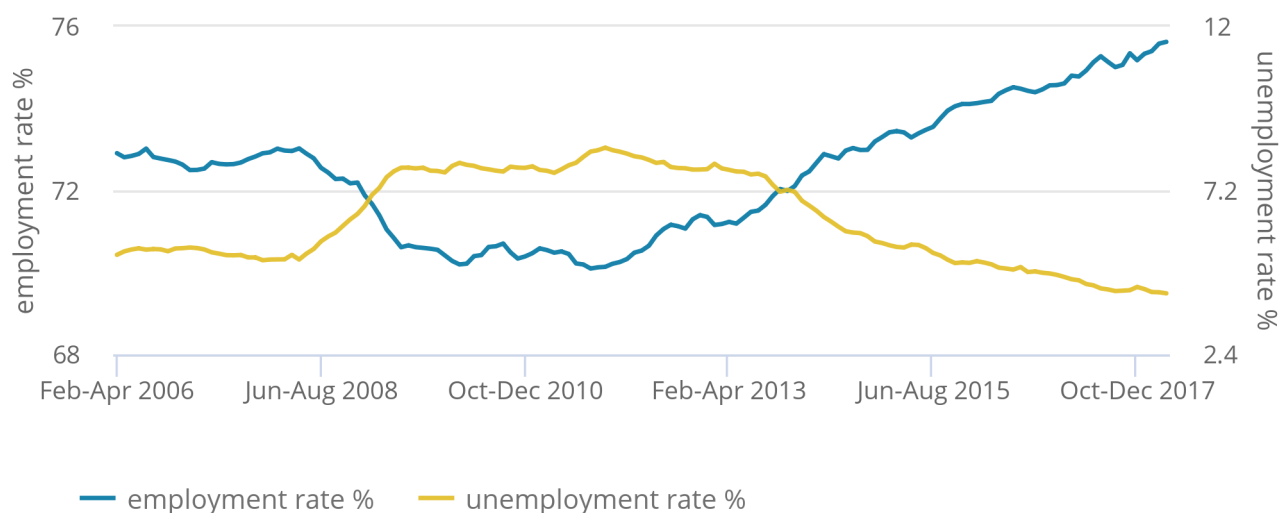
Figure 1 shows the employment and unemployment trends. The unemployment rate continues its decline and the employment rate continues its rise.

**Figure 1: Employment and unemployment rate**

UK, seasonally adjusted, February to April 2006 to February to April 2018

## Figure 1: Employment and unemployment rate

UK, seasonally adjusted, February to April 2006 to February to April 2018



Source: Office for National Statistics, Labour Force Survey

In the three months to April 2018, employment increased among all age groups except for those aged 25 to 34 years when compared with the previous quarter. The increase in overall employment was mainly driven by the increase in employment among those aged 50 to 64 years, whose numbers increased by 86,000 when compared with the November to January 2018 period.

Breaking down the employment data by gender shows that in the period February to April 2018, women experienced an increase in employment of 112,000, while men experienced an increase of 34,000. The number of employed men stood at a record high level of 17.14 million, and that of women stood at a record high level of 15.26 million.

The total number of employees was 27.43 million in the three months to April 2018. During the same period, there were 108,000 unpaid family workers, and 48,000 people in government-supported training and employment programmes. We define unpaid family workers as persons who work in a family business who do not receive a formal wage or salary but benefit from the profits of that business. The number of people in self-employment increased by 34,000 to reach 4.81 million. This increase on the quarter arose from the 54,000 boost in the number of part-time self-employed people when compared with the three months to January 2018. In the three months to April, the number of full-time self-employed people fell by 20,000 when compared with the period November to January 2018.

### **3 . Unemployment and inactivity**

In the three months to April 2018, the number of unemployed people fell by 38,000 to 1.42 million when compared with the three months to January 2018. Compared with the same time a year ago, unemployment fell by 115,000. This translates into an unemployment rate of 4.2%, which is 0.1 percentage points lower than in the previous quarter.

The number of people in inactivity stood at 8.65 million in the period February to April 2018. Inactivity decreased by 72,000 from the previous quarter. Year-on-year, inactivity fell by 200,000.

#### **Analysis of the underutilisation of labour**

One of the key issues in the study of labour markets is the analysis of the underutilisation of labour. The underutilisation of labour occurs when workers are unemployed, are underemployed or they have marginal attachment to the labour market. The discussion below highlights the important issues that characterise the underutilisation of labour.

### **4 . The structure of unemployment**

There are four main types of unemployment, namely classical unemployment, seasonal unemployment, structural unemployment, and frictional unemployment. The last is a result of people changing jobs, and it is the type of unemployment that exists when the economy is considered to be at full employment. Unemployment can lead to lost productive opportunity in the economy, given that the lost labour hours cannot be recouped. The number of lost hours is higher when unemployment is of a long-term nature (that is, if it lasts longer than 12 months). Eurostat defines the long-term unemployed as persons who are out of work and have been actively seeking employment for at least a year.

Long-term unemployment can be the result of the unemployed having skills that do not match with the skills required in current job openings. It is an indication of a mismatch in the labour market. It may also be a result of lack of mobility where the unemployed persons may be based in an area far away from where the jobs exist.

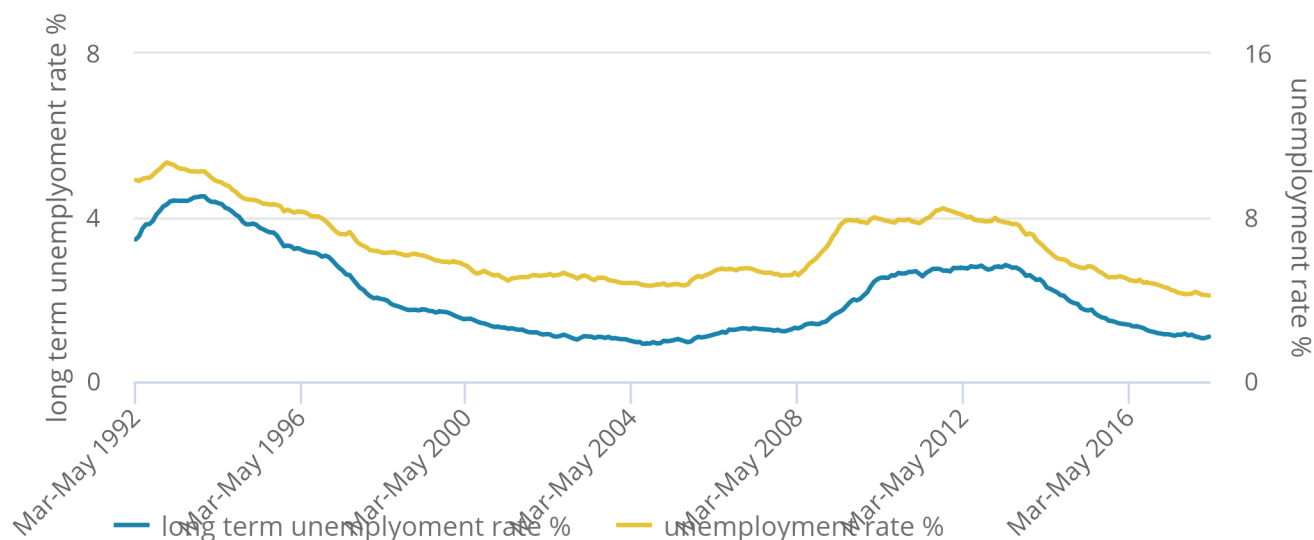
Long-term unemployment has negative economic and social effects for those involved. It can result in depreciation of human capital, which can then reinforce the persistence of unemployment. Figure 2 shows the trends of overall unemployment and long-term unemployment.

## Figure 2: Overall unemployment and long-term unemployment

UK, seasonally adjusted, February to April 2006 to February to April 2018

### Figure 2: Overall unemployment and long-term unemployment

UK, seasonally adjusted, February to April 2006 to February to April 2018



Source: Office for National Statistics, Labour Force Survey

Figure 2 shows that long-term unemployment tracks the overall unemployment rate. It increased after the economic downturn to reach a high of 2.8% in the period March to May 2013, and has followed a downward trend since then to reach 1.1% in the period February to April 2018. In the period February to April 2014 to February to April 2018, long-term unemployment declined at a faster rate than the overall unemployment rate.

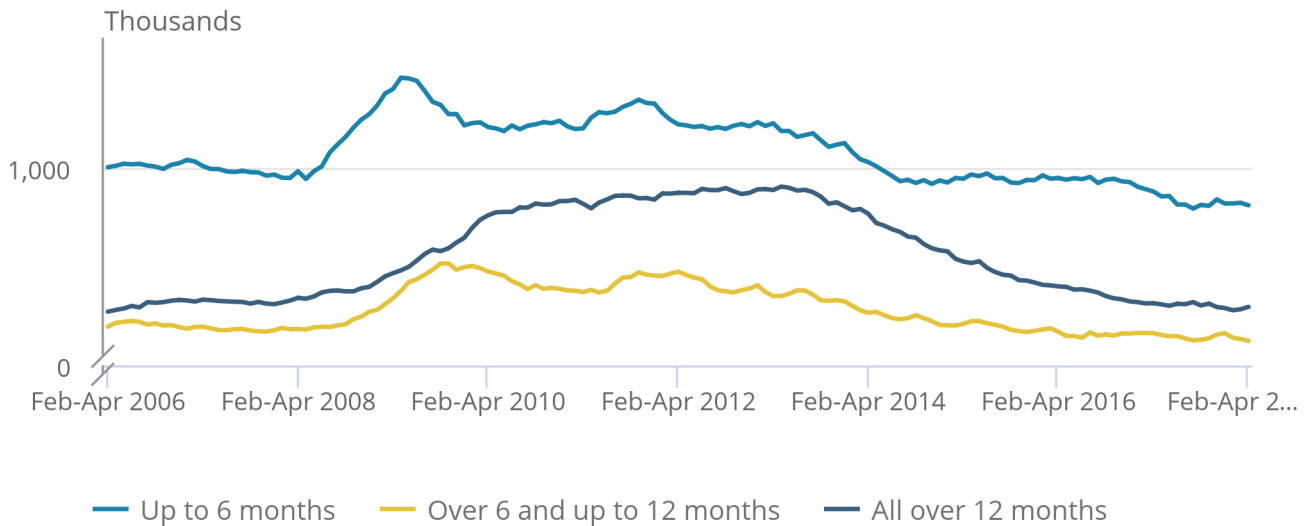
Further analysis of unemployment duration is presented in Figure 3. It shows that short-term unemployment (of up to six months) is the highest, but it has been declining since the economic downturn. For instance, in the period February to April 2017, 896,000 people were in short-term unemployment compared with 833,000 people in the February to April 2018 period. There are fewer people who are in medium-term unemployment of between 6 and 12 months, and this type of unemployment has also been declining generally over time. Long-term unemployment has been declining at a faster rate than the other two types of unemployment. In the year from February to April 2017 to February to April 2018, it decreased by 17,000 to 369,000.

### Figure 3: Short-term, medium-term and long-term unemployment

UK, seasonally adjusted, February to April 2006 to February to April 2018

### Figure 3: Short-term, medium-term and long-term unemployment

UK, seasonally adjusted, February to April 2006 to February to April 2018



Source: Office for National Statistics, Labour Force Survey

The structure of unemployment is similar between men and women, although there are more men than women in all states of unemployment. There is a larger difference between men and women in long-term unemployment. For instance, in the period February to April 2017, there were 233,000 men in long-term unemployment compared with 152,000 women. In the period February to April 2018, there were 217,000 men and 151,000 women in long-term unemployment respectively.

The overall decline in long-term unemployment may affect the economy in the sense that less human capital is lost through skills depreciation. However, the fall in the number of the long-term unemployment may be because the people are getting discouraged and therefore transitioning into inactivity.

## 5 . Underemployment

Another dimension of labour underutilisation is indicated by the level of underemployment in the economy. [The September 2017 Labour Market Economic Commentary](#) examined the structure of underemployment. Underemployment is a situation where employed labour resources are not fully utilised. We define underemployment as a situation where a person is willing to work more hours, available to start work within two weeks, and worked less than 40 hours a week for people aged under 18 years, or worked 48 hours or less for people aged 18 years and over. Simply, the underemployed work part-time because they cannot find full-time employment, and they are willing to work more hours. There are also working arrangements under which workers do not have a set number of hours to work even if they want to work more hours.

Underemployment constitutes under-utilisation of labour when a person's job fails to fully utilise that person's available working hours and/or skills. In the Labour Force Survey, the best representation of underemployment is given by people who work part-time and want a full-time job but cannot find one. This analysis therefore focuses on working hours.

Unemployment and underemployment have been decreasing while vacancies have been increasing. This suggests a shortage of workers to fill existing vacancies. In economic theory, such an outcome results in firms increasing wages as they try to attract workers to fill existing vacancies. The overall wage level has not increased significantly to indicate a tight labour market.

Underemployment can help to give an idea of the level of spare capacity in an economy. As shown in Figure 4, the percentage of part-time workers who could not find a full-time job has been on a downward trend since the three months to August 2013. This measure of underemployment has not yet declined to its pre-downturn level.

#### Figure 4: part-time workers who want a full-time job

UK, seasonally adjusted, February to April 2006 to February to April 2018

#### Figure 4: part-time workers who want a full-time job

UK, seasonally adjusted, February to April 2006 to February to April 2018



Source: Office for National Statistics, Labour Force Survey

The gradual decrease in the number of part-time workers who want full-time jobs while unemployment is at a record low since 1975 may be an indication of a possible structural change in the labour market. [The January Labour market economic commentary](#) observed that employers were not finding it particularly difficult to fill vacancies.

## 6 . Marginal attachment to the labour market

Another phenomenon of the labour market is the existence of people who are outside the labour market but who have a marginal attachment to it because they express the desire to have a job. According to the [US's Bureau of Labor Statistics](#), marginally attached workers are persons not in the labour force who want and are available for work, have looked for a job sometime in the prior 12 months (or since the end of their last job if they held one within the past 12 months), and were not counted as unemployed because they had not searched for work in the four weeks preceding the survey. In the Labour Force Survey (LFS), the people classified as inactive can be disaggregated according to their attachment to the labour market, that is those that would want to work, and those that do not want to work. The first grouping, which includes discouraged workers, consists of people who are marginally attached to the labour market.

Figure 5 shows the trend of the marginally attached workers disaggregated by gender. The figure shows that in the latest period, there were more women (1.1 million) than men (837,000) classified as marginally attached to the labour market. The number shows a declining trend since 2012. In the three months to April 2018, there were 1.98 million marginally attached workers, 146,000 less than a year ago during the same period.



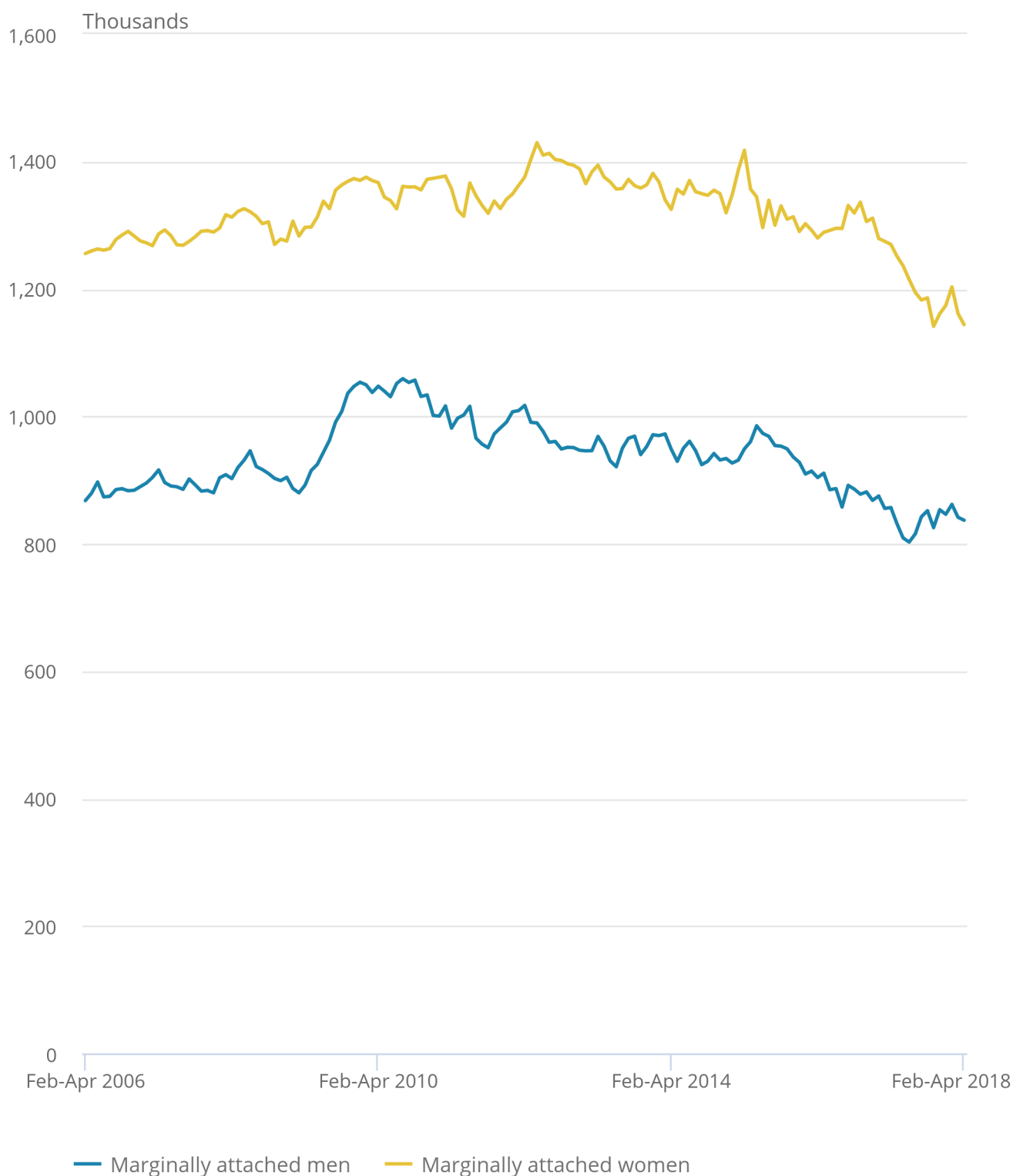


## Figure 5: Marginal attachment to the labour market

UK, seasonally adjusted, February to April 2006 to February to April 2018

# Figure 5: Marginal attachment to the labour market

UK, seasonally adjusted, February to April 2006 to February to April 2018



Source: Office for National Statistics, Labour Force Survey

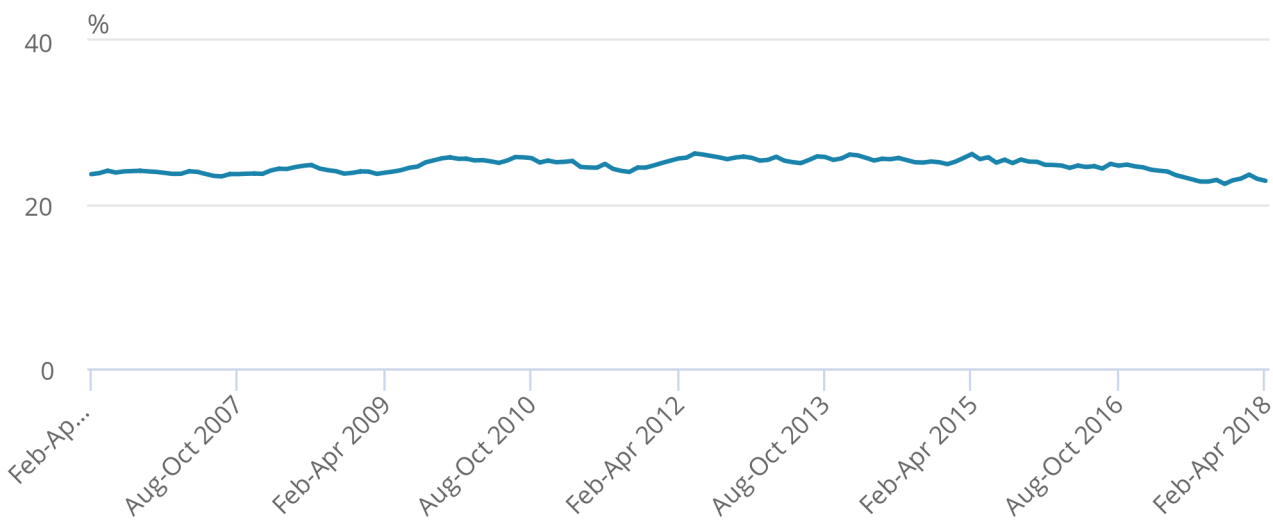
We looked at creating the various measurements of underutilisation in the October release of the [Economic Review](#). The measurements were based on those produced by the Bureau for Labour Statistics (BLS). The BLS builds different measurements of unemployment by including extra people on top of the base unemployment rate discussed above. The U-4, one of the unemployment measurements, sums the unemployed and discouraged workers. The U-5 measure consists of the U-4 measure and the marginally attached workers. The [Economic Review](#) observed that the U-5 rate was significantly higher than the U-4 rate because of the large number of marginally attached workers. The percentage of marginally attached workers in the inactive group has been falling since the three months to February 2018, as shown in Figure 6. When compared with the previous quarter, the proportion of the inactive who were marginally attached fell very slightly, and when compared with the same time a year ago, it fell by 1 percentage point.

**Figure 6 : The percentage of marginally attached workers in the inactive group**

UK, seasonally adjusted, February to April 2006 to February to April 2018

Figure 6 : The percentage of marginally attached workers in the inactive group

UK, seasonally adjusted, February to April 2006 to February to April 2018



Source: Office for National Statistics, Labour Force Survey

The downward trend of the marginally attached as a percentage of total inactivity was due to a significant decrease in the proportion of the inactive who are marginally attached between the period February to April 2015 and the same period in 2018. During this period, the number of people who identified as inactive fell by 4% and the number of people classified as marginally attached fell by 16%. There are several possible explanations for this decrease. For example, there may be more churning among the marginally attached workers, causing more of them to join the labour market compared with the inactive group as a whole. This is because the marginally attached express the desire to have a job while the rest of the inactive group does not. The marginally attached can stop from being marginally attached and become completely detached. This movement does not reduce the number of people in inactivity, but does reduce the number of the marginally attached. However, since overall inactivity has been falling during this same period, this is unlikely to be the case.

## 7 . Discouraged workers

Discouraged workers, as [defined by the Organisation for Economic Co-operation and Development \(OECD\)](#), are persons not in the labour force who believe that there is no work available for various reasons and who desire to work. Discouraged workers are a sub-category of the marginally attached workers. Both categorisations indicate the underutilisation of labour.

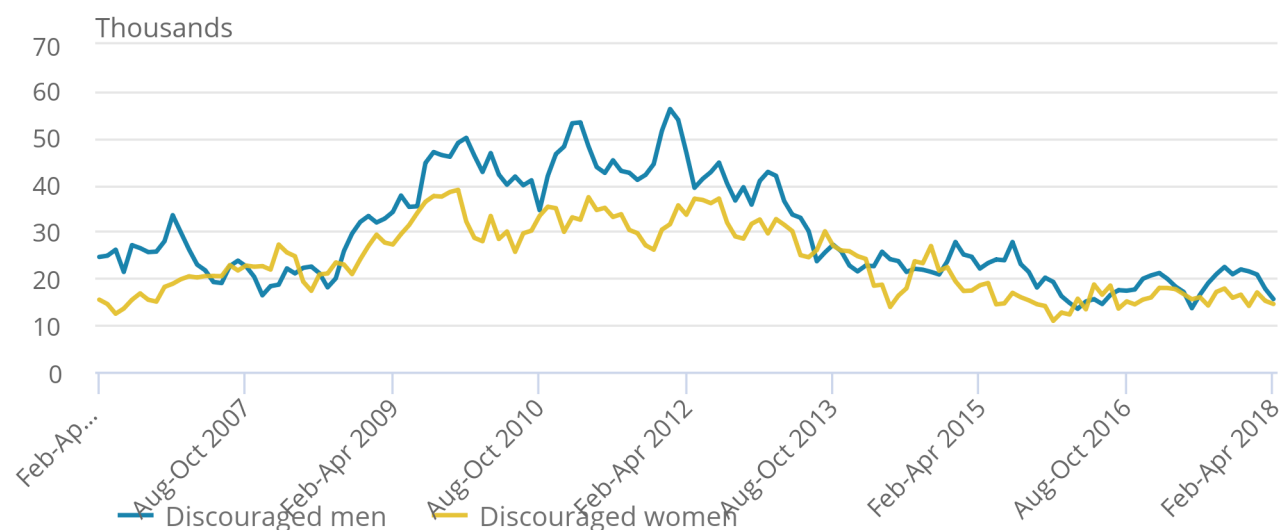
Figure 7 plots the number of discouraged workers disaggregated by gender. The number of discouraged workers fell by 6,000 when compared with the previous quarter, and fell by the same amount when compared with the same time a year ago.

**Figure 7: Discouraged workers**

UK, seasonally adjusted, February to April 2006 to February to April 2018

Figure 7: Discouraged workers

UK, seasonally adjusted, February to April 2006 to February to April 2018



Source: Office for National Statistics, Labour Force Survey

Disaggregating the number of discouraged workers by gender shows that generally there are more discouraged men than women. Over time, there have been brief instances when there were more discouraged women than men (for example, in the periods July to October 2014, February to August 2016, and April to June 2017). During the economic downturn, the number of discouraged men and women increased by a large amount, and during 2014 it returned to pre-downturn levels.

## 8 . Vacancies

The analysis of employment and unemployment figures has shown that employment growth has been persistent, and that unemployment has been declining. At the same time, the number of vacancies in the economy has been increasing. Vacancies are the positions for which employers are actively seeking to recruit from outside their businesses.

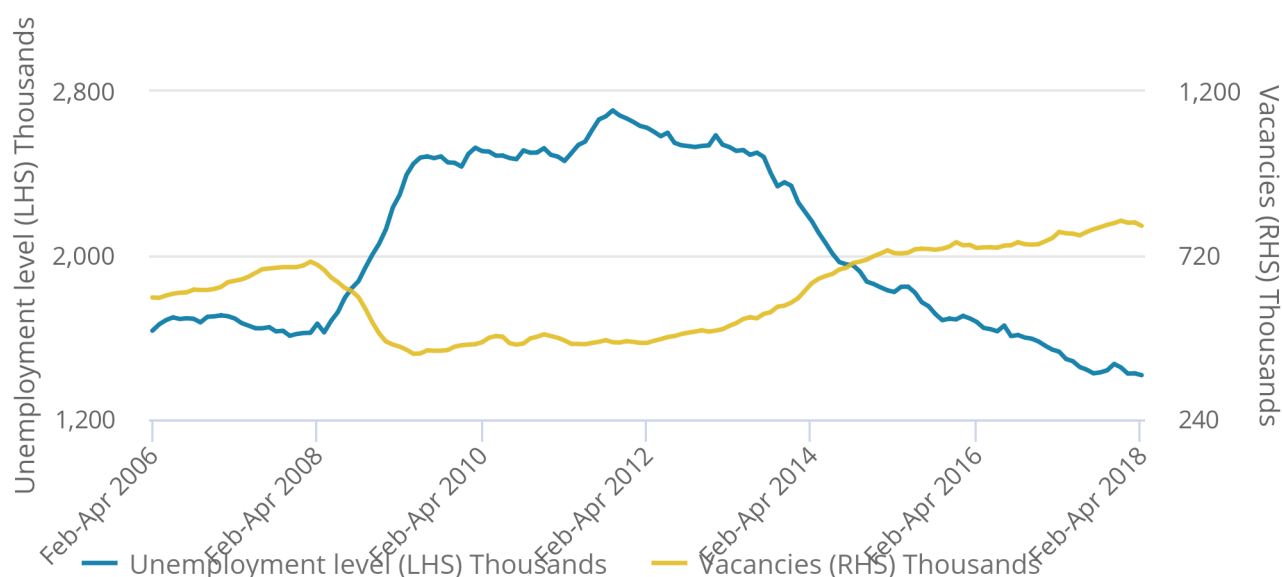
Figure 8 shows that although the number of vacancies is less than the number of people who are unemployed, the number of vacancies is increasing while that of the unemployed persons is decreasing. The existence of unemployment and underemployment when there are open job vacancies may be an indication of skills mismatch due to the unemployed not having the required qualifications and skills to fill in the existing jobs, or that the unemployed and vacancies exist in different geographical areas. It may also be that the existing job openings do not offer working patterns that suit the requirements of the people who are looking for work or to work full-time. For instance, part-time vacancies may be increasing while the currently underemployed or unemployed are looking for full-time jobs. The problem of increasing unfilled vacancies may also reflect inefficiencies in the recruitment process, if recruiters find it increasingly difficult to uncover applicants with the right skills for the advertised posts.

**Figure 8: Vacancies and unemployment**

UK, seasonally adjusted, February to April 2006 to February to April 2018

**Figure 8: Vacancies and unemployment**

UK, seasonally adjusted, February to April 2006 to February to April 2018



Source: Office for National Statistics, Labour Force Survey, Vacancy survey

**Notes:**

1. Vacancies data is a month ahead of unemployment figures. For consistency, vacancies have been given up to the latest period in which there is unemployment data

In the period March to May 2018, the number of vacancies reached 818,000. Vacancies increased by 33,000 compared with the period March to May 2017. The number of vacancies in the economy has been on an upward trend since the period February to April 2012.

Analysing the number of vacancies by industry shows that the total number of vacancies in the services sector have been generally increasing since the April to June 2009 quarter. Vacancies in the manufacturing sector have been on an upward trend since mid-2009, but with a lot of variation over the period. Figure 9 shows the vacancies in the manufacturing and the total services sector.



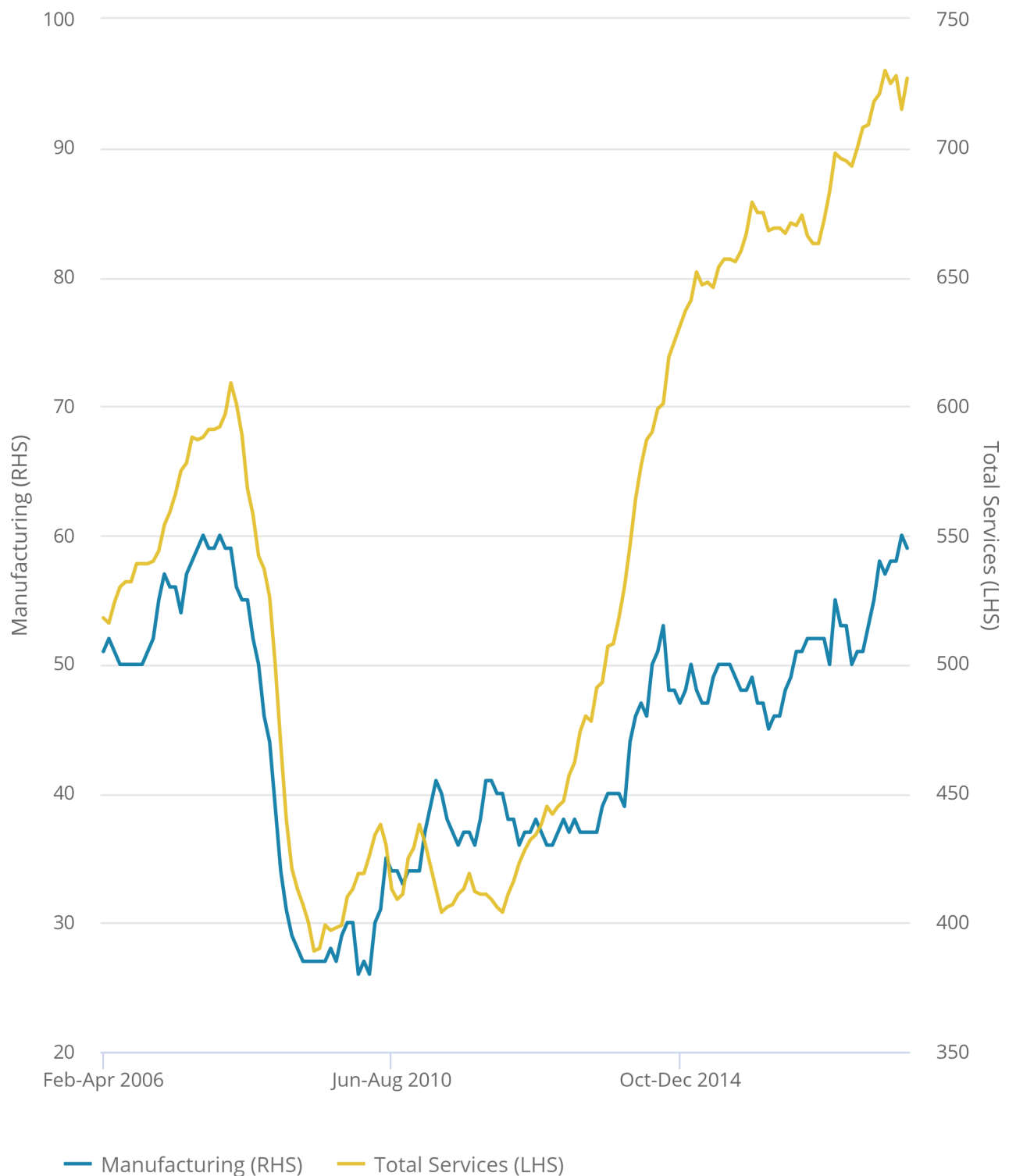


**Figure 9: Vacancies in the manufacturing and the total services sectors**

UK, seasonally adjusted, March to May 2006 to March to May 2018

# Figure 9: Vacancies in the manufacturing and the total services sectors

UK, seasonally adjusted, March to May 2006 to March to May 2018



Source: Office for National Statistics, Labour Force Survey, Vacancy survey

Figure 9 shows that the number of vacancies in the manufacturing sector was 59,000 in the three months to May 2018. In the same period, there were 727,000 vacancies in the services sector. The number of vacancies in the services sector indicates the relative size of the services sector in the economy. The services sector experienced a quarter-on-quarter increase of 2,000 vacancies and the manufacturing sector experienced a quarter-on-quarter decrease of 1,000 vacancies.

A breakdown of the services sector shows that the vacancy rate in that sector is driven by four sub-sectors. The four sub-sectors of the services sector with the largest number of vacancies are Wholesale and retail trade sub-sector (133,000), the Human health and social work sub-sector (130,000), the Accommodation and food service sub-sector (90,000) and the Professional scientific and technical activities sub-sector (74,000). The differences in vacancy rates across sectors is an indication of the relative sizes of the sectors, and may be indicating that labour market tightening is not felt in the same way across the different sectors.

Another way of analysing the vacancies data is to calculate the job vacancy ratio in the economy. The job vacancy ratio is a ratio of the number of job vacancies to the number of occupied posts and vacancies. This ratio, in part, reflects the unmet demand for labour, as well as potential mismatches between job requirements and the skills and qualifications held by those in unemployment and underemployment. The vacancy ratio increased from 2.6 per 100 employees to 2.7 per 100 employees between March to May 2017 and March to May 2018. The sectors with the highest vacancy ratios were Accommodation and food services (4.0), Financial and insurance activities (3.6), Information and communication (3.5) and "Other service activities" (3.7). Quarter-on-quarter, the vacancy ratio increased in the Financial and insurance and information and communication services sectors, and decreased in the Accommodation and food service and "Other services" sectors.

The analysis above has shown the extent of underutilisation of labour in the economy. The vacancy rate has been increasing, pointing to the existence of mismatch in the labour market. Since the vacancies and unemployment data do not indicate the job requirements and qualifications held respectively, it is not possible to be definitive about the type and extent of the mismatch in the economy.

## 9 . Authors

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