

JOBS AUDIT

UK labour market flows before and
since the 2008-9 recession

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Since 2010 the number of people in employment in the UK has increased by 900,000 to a record level of 29.84 million, 264,000 higher than before the onset of the recession in 2008. This has presented labour market watchers with two puzzles. Previous Jobs Audits have discussed the so-called 'productivity puzzle' - why has an economy that barely grew during most of this period managed to generate so much additional employment. But equally puzzling is that fact that employment growth has had seemingly little effect on unemployment, especially youth unemployment. Although the UK unemployment rate has fallen from 8.4% to 7.7% since the end of 2011 the rate is only slightly lower than three years ago and still close to 2.5 million. Youth (16-24 year olds) unemployment meanwhile has remained stubbornly close to 1 million, young people being seemingly bypassed by the recovery in employment.

Common explanations for the limited impact of recent employment growth on unemployment include competition from migrant workers for available jobs, older workers hanging onto jobs at the expense of young people, benefit reforms that are pushing more people into the jobs market intensifying the scramble for jobs, mismatch between the skills held by jobless people and what employers are looking for, and reluctance on the part of some jobless people to fill the growing number of jobs seemingly available to them. Whatever the merit or otherwise of these predominantly supply side explanations, some interesting clues as to what's happening in the labour market can be found by examining the pattern of flows between employment and non-employment. As this Jobs Audit finds, examination of labour market flows points towards a demand side (i.e. shortage of jobs) explanation.

Labour market flows

Most economic commentary focuses on net changes in employment and non-employment (the latter comprising people unemployed and actively seeking work and people outside the labour market, the so-called economically inactive). But the labour market is very fluid – these net changes are the outcome of much larger gross flows of people to and from employment, and in and out of unemployment and inactivity.

The magnitude of these gross flows is apparent from table 1. This shows Office for National Statistics estimates of quarterly gross flows around the UK labour market, obtained from the Labour Force Survey, during the course of the past decade.

Table 1 – Numbers of people flowing through UK labour market each quarter, Q2 2003-Q2 2013 (people of working age, thousands, seasonally adjusted)

	<i>Employment to unemployment</i>	<i>Employment to inactivity</i>	<i>Unemployment to employment</i>	<i>Unemployment to inactivity</i>	<i>Inactivity to employment</i>	<i>Inactivity to unemployment</i>
<i>Apr-Jun 2003</i>	318	533	472	280	504	348
<i>Jul-Sep 2003</i>	340	561	419	266	509	349
<i>Oct-Dec 2003</i>	317	597	445	275	504	344
<i>Jan-Mar 2004</i>	316	534	452	263	542	357
<i>Apr-Jun 2004</i>	347	616	437	273	510	347
<i>Jul-Sep 2004</i>	295	612	429	290	532	364
<i>Oct-Dec 2004</i>	344	554	425	270	585	349
<i>Jan-Mar 2005</i>	336	537	435	303	547	372
<i>Apr-Jun 2005</i>	342	586	418	268	519	347
<i>Jul-Sep 2005</i>	316	515	452	282	517	383
<i>Oct-Dec 2005</i>	384	578	390	270	510	380
<i>Jan-Mar 2006</i>	322	479	417	282	556	392
<i>Apr-Jun 2006</i>	351	530	420	304	514	449
<i>Jul-Sep 2006</i>	374	537	464	303	525	377
<i>Oct-Dec 2006</i>	348	561	446	301	483	387
<i>Jan-Mar 2007</i>	345	616	440	349	487	416
<i>Apr-Jun 2007</i>	321	545	461	347	541	420
<i>Jul-Sep 2007</i>	333	570	451	305	543	410
<i>Oct-Dec 2007</i>	322	562	498	319	543	435
<i>Jan-Mar 2008</i>	332	591	468	283	562	403
<i>Apr-Jun 2008</i>	341	567	433	315	511	447
<i>Jul-Sep 2008</i>	423	563	402	355	501	464
<i>Oct-Dec 2008</i>	468	575	482	333	523	482
<i>Jan-Mar2009</i>	537	471	436	348	447	447
<i>Apr-Jun2009</i>	546	564	459	367	377	483
<i>Jul-Sep2009</i>	433	519	545	406	433	504
<i>Oct-Dec2009</i>	420	461	514	441	414	495
<i>Jan-Mar2010</i>	415	562	484	399	439	534
<i>Apr-Jun2010</i>	413	512	578	397	505	517
<i>Jul-Sep2010</i>	407	455	592	397	477	519
<i>Oct-Dec2010</i>	430	595	536	423	450	541
<i>Jan-Mar2011</i>	395	472	550	422	456	549
<i>Apr-Jun2011</i>	456	488	522	428	437	535
<i>Jul-Sep2011</i>	413	536	513	337	369	521
<i>Oct-Dec2011</i>	437	472	549	347	456	474
<i>Jan-Mar2012</i>	403	486	609	374	408	495
<i>Apr-Jun2012</i>	375	472	593	392	505	567
<i>Jul-Sep2012</i>	395	473	590	389	444	508
<i>Oct-Dec2012</i>	418	453	595	374	423	513
<i>Jan-Mar2013</i>	416	525	577	368	383	515
<i>Apr-June2013</i>	404	466	545	398	433	523

Source: Office for National Statistics, Labour Force Survey

For example, in the most recent quarter for which data are currently available (Q2 2013), 404,000 people entered the unemployment pool straight from work, while 523,000 economically inactive people started looking for work and also joined the unemployment pool. However, in the same quarter 545,000 people left unemployment for work and further 398,000 left unemployment and became economically inactive. The net outcome of these flows— a quarterly fall of 16,000 in the total number unemployed – is thus dwarfed by the gross flows.

The size of the gross flows is determined by the number of people employed, unemployed and inactive at the start of each quarter and the rate at which people enter or leave employment, unemployment and inactivity during the quarter. Table 2 shows the rates of entry and exit underlying the quarterly labour market flows shown in table 1.

These entry and exit rates differ much more than the corresponding flows. This is because of big differences between the number of people in employment (around 29 million) the number unemployed (around 2.5 million) and the number inactive (around 9 million). Consequently, a relatively small exit rate from employment, or a change in that rate, has a much bigger impact on the overall level of flows in the labour market. Examination of the entry and exit rates therefore provides a clearer picture of the dynamics of change in the flows.

The recent trend in labour market flows

As table 2 shows, unemployment is always and by far the most fluid state in the labour market. Typically more than 1 in 3 people unemployed at the start of each quarter either find work or leave the labour market during the quarter. But what's most interesting about table 2 is what it tells us about the recent trend in the various entry and exit rates before, during, and since the recession.

The rate at which people leave employment for unemployment increased, as one might expect, during the recession but then fell back quite quickly and has since stabilized at an average of around 1.5% per quarter. This post-recession fall has lowered the inflow to the unemployed pool and thus, other things being equal, lowered total unemployment.

However, the rate at which people move in the opposite direction from unemployment to employment (which has averaged around 23% per quarter since the start of 2012) remains much lower than the pre-recession rate of around 30%. This is not immediately apparent from the actual number of people leaving unemployment for work each quarter because the total level of unemployment is much higher than before the recession, so the absolute outflow is larger for any given exit rate. But look through this to the fall in the exit rate and it soon becomes clear how much harder people are finding it to escape unemployment.

The exit rate fell to a post-recession low of 20% in Q1 2010 before subsequently improving but has not risen above 24% in the past three years despite the substantial growth in employment during that period. In other words, the employment recovery appears to have had only a limited impact on the rate at which people move from unemployment into work. The decline in the exit rate from inactivity to employment since the recession is less marked but also shows no sign of a sustained increase. No wonder then that many jobseekers desperate for work are perplexed when told that loads of new jobs are being created in the economy.

Some potential supply side explanations for this have already been mentioned above, to which one might add the possibility that the quality of the unemployed pool has been altered since the recession by an influx of previously economically inactive people. The rate at which people are flowing into unemployment from inactivity has increased from less than 4% a quarter a decade ago to often close to 6% a quarter in recent years. One reason for this is greater policy effort to encourage inactive welfare recipients to search for jobs. If former welfare dependents have an array of disadvantages that makes them less employable this might dampen the overall exit rate from unemployment but it's difficult to draw any firm conclusion on the basis of examination of the flows data considered here.

However, it is likely that the limited improvement in job prospects for the unemployed is related to a fall in the quarterly rate at which people leave employment and become economically inactive. This rate averaged above 2% per quarter in the five years prior to the recession but has averaged below

2% during the more recent period of employment growth. The labour market flows data don't tell us who these 'job limpets' hanging onto employment are. But from what we know about the overall pattern of employment growth in recent years they are likely to be older experienced workers who in previous decades might have retired from employment at an earlier age.

Taken together with the muted improvement in the exit rate from unemployment this indicates that job retention rather than recruitment has been the primary cause of UK employment growth in the past three years. Retention of 'job limpets' reduces the need for employers to recruit replacements. This enables even a modest level of recruitment to substantially increase total employment in the economy but in a way that does relatively little to increase prospects for jobseekers.

Retention led employment growth of this kind explains why the employment recovery has not been accompanied by a surge in the level of job vacancies, which still remains almost 25% lower than before the recession. This in turn is likely to account at least in part for the persistence of youth unemployment throughout the course of the employment recovery, since young entrants to the labour market are those most dependent on a vacancy led jobs recovery.

What this implies is that in order to achieve a more rapid fall in unemployment the UK economy needs a different kind of employment growth than that seen in the past three years, in particular a strong and sustained rise in entry level recruitment to provide job opportunities for young jobless people. While today's very high level of youth unemployment is undoubtedly partly related to lack of employability and skills, the bigger and more immediate cause is a simple shortage of job opportunities the only solution to which is a further substantial boost to demand for labour. In the absence of this, palliative efforts to encourage employers to hire and retain young jobless people, such as the government's Youth Contract wage subsidies, will continue to disappoint. Official figures show that between June 2012 and May 2013 Youth Contract subsidies were paid out for only 4,690 young people compared with an expected number of more than 50,000.

There have in recent months been encouraging signs from recent employer surveys that the rate of recruitment is now speeding up but considerable uncertainty remains over whether the emerging

economic recovery will prove to be ‘vacancies rich’ or instead ‘vacancies light’ with employers seeking to increase productivity by increasing hours for existing employees before taking on additional staff.

Table 2 – Rates at which people flow through UK labour market each quarter, Q2 2003-Q2 2013 (people of working age, %, seasonally adjusted)

	<i>Employment to unemployment</i>	<i>Employment to inactivity</i>	<i>Unemployment to employment</i>	<i>Unemployment to inactivity</i>	<i>Inactivity to employment</i>	<i>Inactivity to unemployment</i>
<i>Apr-Jun 2003</i>	1.2	1.9	31.1	18.4	5.7	3.9
<i>Jul-Sep 2003</i>	1.2	2.0	28.8	18.3	5.8	3.9
<i>Oct-Dec 2003</i>	1.1	2.2	29.8	18.4	5.7	3.9
<i>Jan-Mar 2004</i>	1.1	1.9	31.3	18.2	6.1	4.0
<i>Apr-Jun 2004</i>	1.2	2.2	30.7	19.2	5.7	3.9
<i>Jul-Sep 2004</i>	1.1	2.2	30.0	20.3	5.9	4.1
<i>Oct-Dec 2004</i>	1.2	2.0	30.5	19.3	6.5	3.9
<i>Jan-Mar 2005</i>	1.2	1.9	30.8	21.4	6.1	4.2
<i>Apr-Jun 2005</i>	1.2	2.1	29.7	19.0	5.8	3.9
<i>Jul-Sep 2005</i>	1.1	1.8	31.7	19.7	5.7	4.2
<i>Oct-Dec 2005</i>	1.4	2.0	27.4	19.0	5.6	4.2
<i>Jan-Mar 2006</i>	1.1	1.7	26.8	18.1	6.1	4.3
<i>Apr-Jun 2006</i>	1.2	1.9	26.4	19.1	5.7	5.0
<i>Jul-Sep 2006</i>	1.3	1.9	27.8	18.2	5.9	4.2
<i>Oct-Dec 2006</i>	1.2	2.0	26.5	17.9	5.4	4.3
<i>Jan-Mar 2007</i>	1.2	2.2	26.0	20.6	5.4	4.6
<i>Apr-Jun 2007</i>	1.1	1.9	27.3	20.6	5.9	4.6
<i>Jul-Sep 2007</i>	1.2	2.0	27.5	18.6	5.9	4.5
<i>Oct-Dec 2007</i>	1.1	2.0	30.4	19.5	5.9	4.8
<i>Jan-Mar 2008</i>	1.2	2.1	29.3	17.7	6.2	4.4
<i>Apr-Jun 2008</i>	1.2	2.0	26.9	19.6	5.6	4.9
<i>Jul-Sep 2008</i>	1.5	2.0	24.2	21.4	5.5	5.1
<i>Oct-Dec 2008</i>	1.6	2.0	26.5	18.3	5.7	5.3
<i>Jan-Mar2009</i>	1.9	1.6	21.9	17.5	4.9	4.9
<i>Apr-Jun2009</i>	1.9	2.0	20.8	16.6	4.2	5.3
<i>Jul-Sep2009</i>	1.5	1.8	22.6	16.8	4.7	5.5
<i>Oct-Dec2009</i>	1.5	1.6	21.1	18.1	4.5	5.3
<i>Jan-Mar2010</i>	1.5	2.0	20.0	16.5	4.7	5.7
<i>Apr-Jun2010</i>	1.5	1.8	23.2	16.0	5.4	5.5
<i>Jul-Sep2010</i>	1.4	1.6	24.1	16.2	5.1	5.5
<i>Oct-Dec2010</i>	1.5	2.1	22.1	17.4	4.8	5.8
<i>Jan-Mar2011</i>	1.4	1.7	22.4	17.2	4.9	5.9
<i>Apr-Jun2011</i>	1.6	1.7	21.4	17.5	4.7	5.7
<i>Jul-Sep2011</i>	1.5	1.9	20.5	13.5	4.0	5.6
<i>Oct-Dec2011</i>	1.5	1.7	21.1	13.4	4.9	5.1
<i>Jan-Mar2012</i>	1.4	1.7	23.2	14.2	4.4	5.3
<i>Apr-Jun2012</i>	1.3	1.7	23.0	15.2	5.5	6.2
<i>Jul-Sep2012</i>	1.4	1.7	23.2	15.3	4.9	5.6
<i>Oct-Dec2012</i>	1.5	1.6	23.8	15.0	4.7	5.7
<i>Jan-Mar2013</i>	1.4	1.8	23.3	14.8	4.3	5.8
<i>Apr-June2013</i>	1.4	1.6	21.8	15.9	4.8	5.8

Source: Office for National Statistics, Labour Force Survey