

BUZZ-ONOMICS

A CLEAR AND ACCESSIBLE GUIDE
TO THE STORIES THAT MATTER

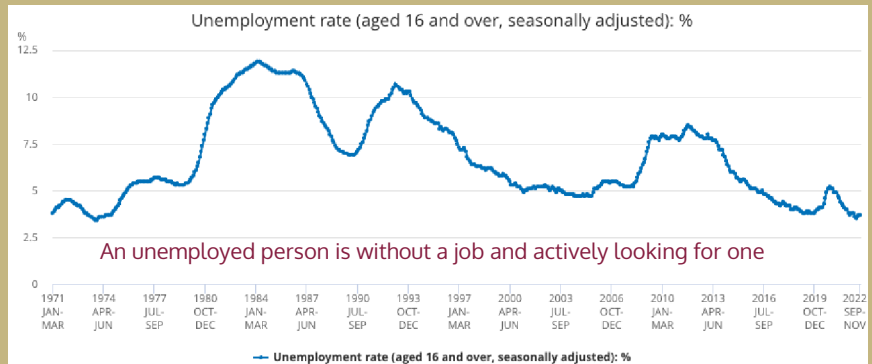


As the discussions continue on the length or depth of the recession the UK is likely to face, one thing that is clear is that the number of unemployed people is very low. Unemployment currently stands below 4% and as the top chart shows this is low by historical standards, never mind as the economy is slowing. What is the reason for this trend?

First we should clarify exactly what an economist means by an unemployed person. This is someone who is without a job and is actively looking for one. Ordinarily unemployment rises when the economy slows because businesses are producing fewer goods and services and therefore need to employ fewer people. This time though the number of people available for work (the labour force) has not yet regained its pre-pandemic level - see the middle chart. This means that even as the economy slows most people who want to work are able to because employers are filling vacancies from a shrinking pool of people. In some sectors employers are struggling to find people to work for them. The vacancy rate is highest in restaurants and hotels. The Prime Minister has said that tackling Britain's shrinking workforce is a top priority in 2023.

Why is it then that the labour force has been shrinking? Roughly 1/4 of people of working age are what economists call economically inactive. They are neither in work nor actively looking for work. You can see from the bottom chart that the reasons for inactivity vary by age. Click [here](#) to go to the article the chart is taken from and you will be able to see a gender breakdown for each category. Some of the measures discussed to address this issue include encouraging over 50s back to work (but the majority who have taken early retirement say this is not what they want) and making it easier for the long term sick to start work without losing all of their benefits. In fact around 1/4 of those who are sick or caring say they want a job. Some people say that childcare is too expensive for them to return to work.

In the past (when the UK was a member of the EU) such labour shortages might well have led to an increase in inward migration. Some businesses have suggested allowing more immigration but currently the Prime Minister has rejected this option. Phillip Hammond (former chancellor) has said "we need labour in the UK... if our economy is going to prosper.



UK's workforce not back to pre-pandemic size

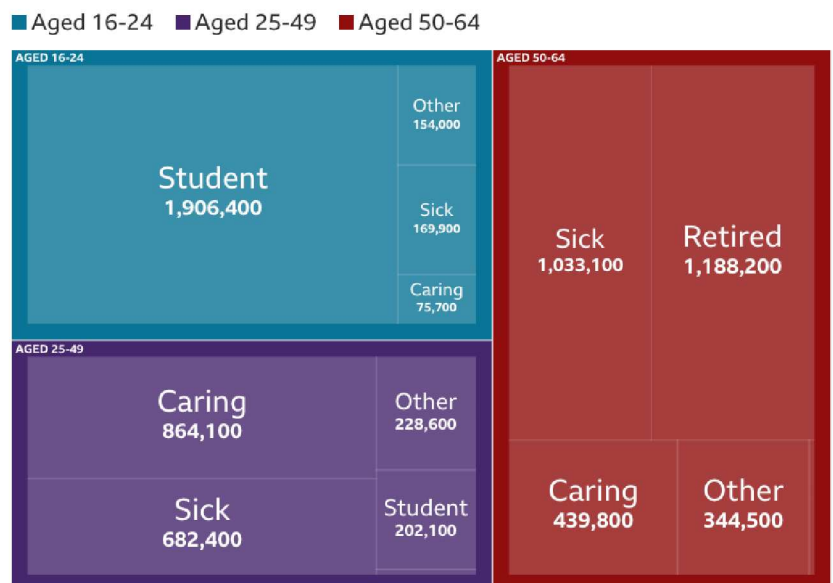
Change in economic activity rate (percentage points)



Figures show the difference in economic activity rate between Q4 2019 and Q3 2022

Source: OECD data on 'G7' group of leading advanced economies.

BBC



Source: Office for National Statistics (Jul 2021-Jun 2022)

BBC