

The Resolution Foundation Labour Market Outlook

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In recent months, labour market commentary has been dominated by the knock-on effects of the ongoing cost of living crisis. High inflation continues to erode real wages, despite strong nominal pay growth – and, in contrast to some policy makers’ fears that private sector wage growth could in itself drive prices higher, the latest evidence suggests that wage growth could now be flatlining. The Bank of England and OBR both predict a recession, and a rise in unemployment, over the coming year. And despite ticking up in the latest data, workforce participation – which fell during the Covid-19 pandemic, and remains 1.1 percentage points lower than pre-pandemic – continues to be a dominant issue for the labour market and the wider economy.

The spotlight of this Labour Market Outlook focuses on a longer-term issue: the decline in workplace training, and the impact on low-paid workers. We find that, holding constant a range of observable characteristics, workers paid at the wage floor appear more likely to receive training than other workers – a result consistent with employers investing in training to increase workers’ productivity in the face of minimum wage rises. The ‘Lifting the Lid’ section looks at zero-hours contracts, differences in unemployment rates by ethnicity, and how the recent rise in economic inactivity has played out across the different regions and nations of the UK.

Spotlight | Training among low-paid workers

Skills and human capital are a crucial driver of productivity and economic growth over the long term. But work-related training is in decline, despite [big shifts](#) in the skills needed to thrive in the workplace. In this spotlight, we look in more depth at the changing rates of training since the early 2000s among low-paid workers, and particularly those at the wage floor.¹

First, how has the overall decline in workplace training affected low-paid workers – who are [the least likely to receive training](#), despite having the highest potential gains to doing so?² (In this spotlight, we focus on what the Labour Force Survey calls ‘off-the-job’ training – work-related training that takes people away from their day-to-day job, as opposed to ‘on-the-job’ training which includes learning by doing.)

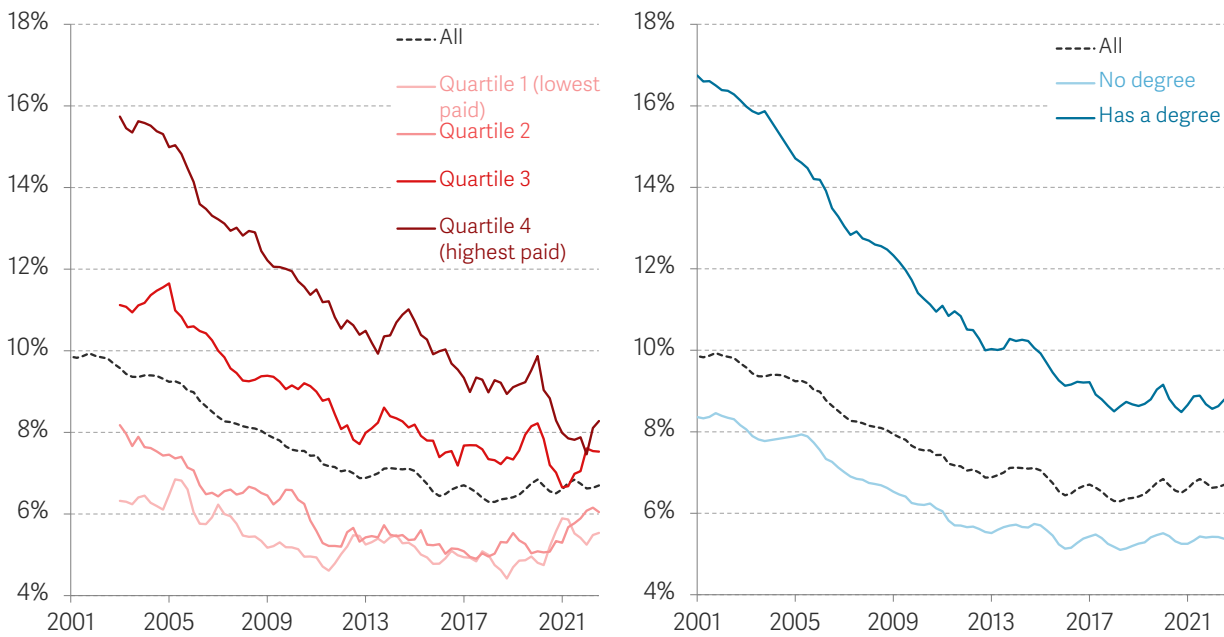
¹ The author is grateful to Torsten Bell, Tim Butcher, Lindsay Judge and Sandra McNally for comments on earlier versions, and to Greg Thwaites for advice and guidance. Any errors, however, remain the author’s own.

² In this spotlight we use data from the Labour Force Survey, which has some known issues with hourly pay data. To correct for this, we use the imputation method used by the ONS, as outlined in Section 7 of: J Rowlings & A Nanton, [Earnings and low pay: distributions and estimates from the Labour Force Survey](#), Office for National Statistics, September 2017. While this gives, for example, minimum wage coverage rates that are in line with headline figures from the Annual Survey of Hours and Earnings, the imputation method could introduce measurement error in itself. We have therefore also run our analysis using the stated hourly rate of people who have reported one, and a derived hourly rate (weekly earnings divided by the usual numbers of hours worked) otherwise (not shown here). The main findings presented here hold using both pay measures.

It might seem reasonable to expect that low-paid workers have been at the sharp end of the fall in training, given that employers have always been more reluctant to upskill them. But as Figure 1 shows, the decline in training has, if anything, been driven by higher-paid workers and university graduates. In 2003, the highest paid were 2.4 times as likely to receive training as the lowest paid; this had fallen to 1.9 times by 2019, and 1.6 times by 2022. Similarly, over the same period workers with a degree went from being 2.0 times as likely to receive training than those without a degree to 1.7 times as likely.

FIGURE 1: The decline in training has been driven by higher-paid workers and graduates

Proportion of employees receiving off-the-job training in the past four weeks, by hourly pay quartile (left) and whether has a degree (right): UK



NOTES: Four-quarter rolling averages. Latest data point is Q4 2022. Excludes full-time students. The pay measure used here is adjusted using the pay imputation method used by the ONS to correct for known issues in the LFS pay data. Pay data only available from 2002 due to variables used in the pay imputation not being in the data in earlier periods. SOURCE: RF analysis of ONS, Labour Force Survey.

This small narrowing of the gap, of course, does little to change the overall problems with training in the labour market: an overall decline in the amount of training happening, and low-paid workers being consistently less likely than higher earners to get training. Indeed, the decline in the training gap has arisen because low-paid workers’ training levels have stayed relatively constant while training among higher earners has declined starkly; this could simply be because employers had more scope to cut back on training among higher earners to begin with, or because there is a minimum amount of essential training that employers cannot eliminate.

But there could be more going on beneath the headline result. The period covered by Figure 1 witnessed a rising National Minimum Wage (NMW) – and while this [has not had the large negative employment effects](#) that some feared, it is plausible that a rising wage floor could have affected training provision.

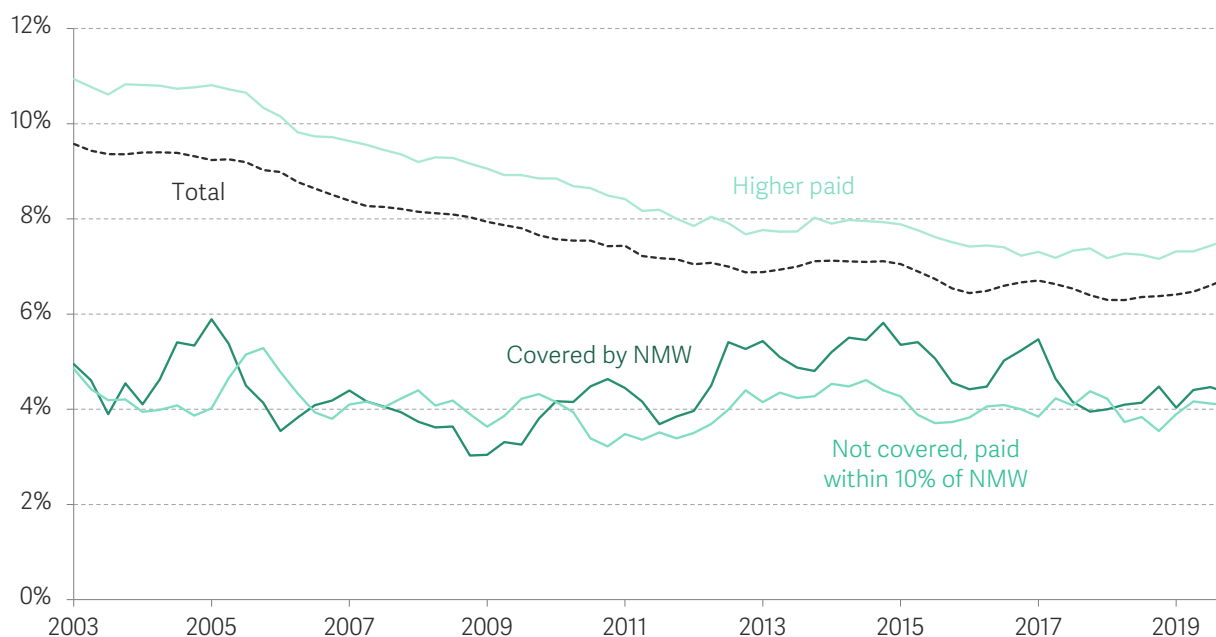
[In theory](#), the minimum wage could have affected training in one of two ways. In the face of rising labour costs, employers could choose to cut back on other expenses (including training) for those at the wage floor – there is evidence that this has happened in [Germany](#) and [Japan](#). More positively,

firms could choose to invest in training for their minimum wage workers: this could be in an attempt to boost their productivity to match their higher wage rates; moreover, if a higher wage floor reduces worker turnover, this will encourage employers to train their workforce because they reap the benefits of doing so over a longer period. [UK evidence](#) from the early days of the minimum wage found some evidence that on balance, the minimum wage increased training. More recently, a [UK study](#) has found that companies responded to a rising NMW by raising labour productivity, which the authors suggest is partly due to higher levels of training. And in 2016, a Resolution Foundation [survey of employers](#) found that 15 per cent of firms had increased their training provision in response to the introduction of the National Living Wage and 21 per cent planned to do so over the next five years.

In Figure 2, we break down the rates of training over time to focus on minimum wage workers, those who are above the minimum wage but still low paid, and all other earners. The data is relatively volatile, and so it is difficult to draw strong conclusions. But the chart finds no evidence that those who are paid at the wage floor have received less training than those paid slightly above the NMW – and in fact, there are periods where those who are covered by the NMW appear to have had more training than those who are paid slightly above the minimum.

FIGURE 2: There is no evidence that employers have cut training among minimum wage workers

Proportion of employees receiving off-the-job training in the past four weeks, by hourly pay category: UK



NOTES: Four-quarter rolling averages. Latest data point is Q4 2019. Excludes full-time students. The pay measure used here is adjusted using the pay imputation method used by the ONS to correct for known issues in the LFS pay data. Pay data only available from 2002 due to variables used in the pay imputation not being in the data in earlier periods. 'Covered' refers to those workers who are paid up to 1 per cent above the applicable minimum wage for their age group.

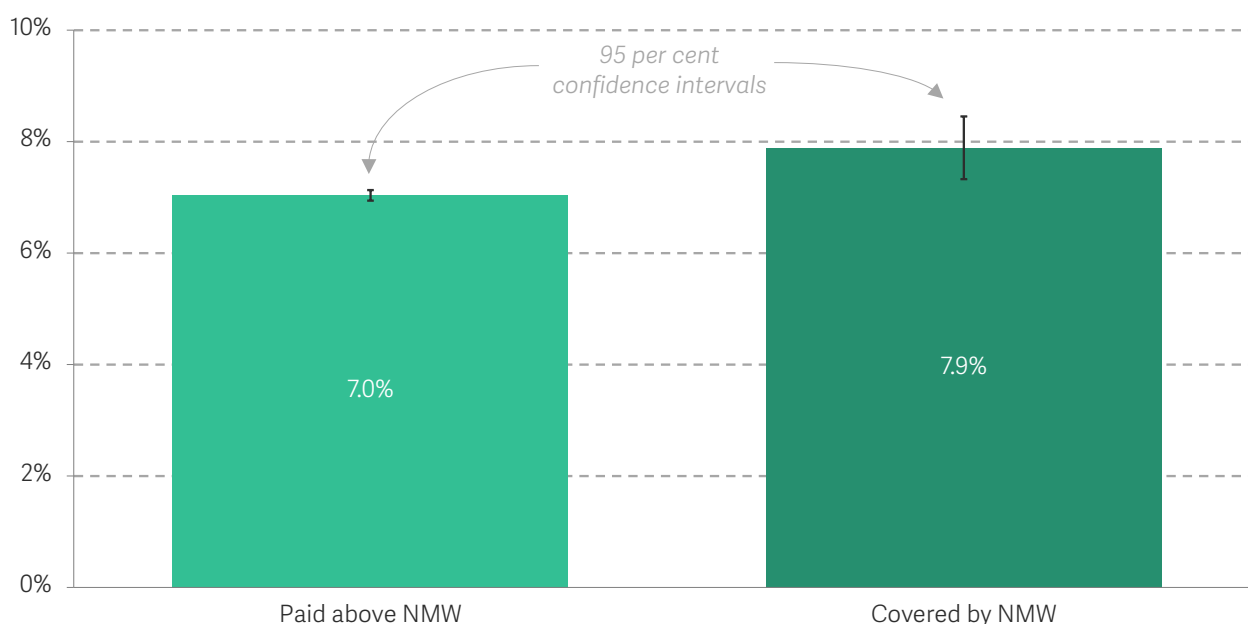
SOURCE: RF analysis of ONS, Labour Force Survey.

Workers at the wage floor, of course, are likely to have different characteristics to other low-paid workers – and as the minimum wage has risen to cover more workers, the composition of the minimum wage group has also been changing over time. As one example, if minimum wage workers tend to be younger (a factor that is associated with [higher levels of training](#) overall), then this could be pushing up training rates among those at the wage floor.

In Figure 3, we ask the question: what would we expect to happen to training rates if employees were equivalent in a range of observable characteristics – such as age, sex, and job type – except for whether they were paid at the wage floor. After accounting for all of these factors, we would expect the average worker at the wage floor to be 12 per cent more likely to get training than a comparable worker paid above the NMW.³

FIGURE 3: Controlling for other characteristics, minimum wage workers are more likely to receive training

Predicted probability of an employee having received off-the-job training in the past four weeks, by whether or not covered by the minimum wage, holding constant other personal and job characteristics: 2011-2019



NOTES: Predicted training rates using Stata’s ‘margins’ command, based on a logit regression controlling for age and age-squared, ethnicity (9 categories), whether has a disability, sex, whether working full or part time, log of real hourly pay, occupation, industry, job tenure, and dummy variables for the survey quarter both independently and interacted with the log of hourly pay and flag for workers covered by the NMW. Includes employees only, excludes those in full-time education, and uses data only up to Q4 2019 to avoid the Covid-19 pandemic. Robust standard errors used, and 95 per cent confidence intervals shown on the chart.
 SOURCE: RF analysis of ONS, Labour Force Survey.

This evidence is consistent with a rising minimum wage encouraging employers to invest in training, perhaps to improve the productivity of their workforce.⁴ (These results emerge only when we run the analysis in Figure 3 for the 2010s, rather than the full period shown in Figure 2: this is consistent with the fact that in the early days of the minimum wage, both the level of the wage floor relative to typical earnings and the number of workers covered were relatively low, so we would expect smaller effects in general.)

Even if the NMW has helped give a relative boost to training among the lowest earners, however, it is also clear that far more policy action is needed on training – both to raise the overall amount of

³ This analysis is run on the whole sample of employees with pay data. As a sensitivity check, we also ran versions (i) excluding workers with a degree and (ii) including only those paid below or within 10 per cent of the minimum wage. In the former case, minimum wage workers remained more likely to receive training than other workers. In the latter case, the sample size became too small to draw statistically-significant conclusions; however, when we run the regression on the full sample with a low pay dummy variable, minimum wage workers remain more likely to receive training.
⁴ The difference is statistically significant at the 5 per cent level, as shown by the confidence intervals on the chart.

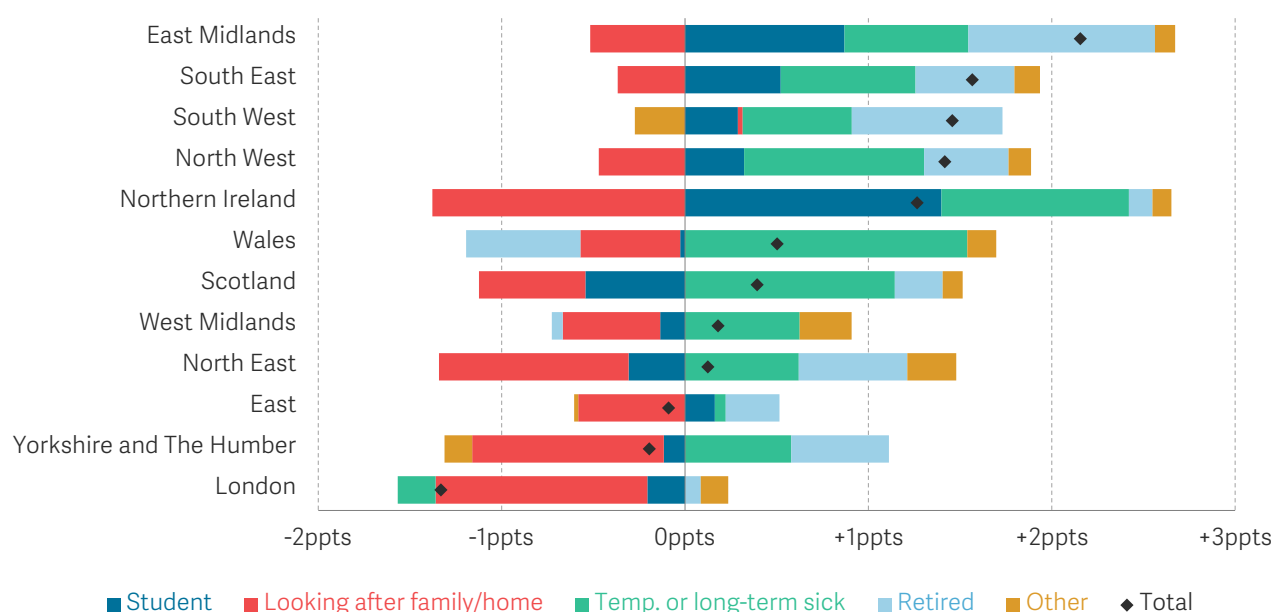
it, and to address the fact that low earners as a whole are far less likely to get training than those on higher pay. In addition, there are important questions around the utility of the training received by lower earners: lower-qualified adults are [more likely to undergo training for health and safety](#), and their training is less likely to be for career progression, than those with higher-level qualifications, and low-paid workers are also less likely than higher earners to get training [that will help them move jobs, reducing their power](#) in the labour market. In future work as part of the [Economy 2030 Inquiry](#), we will be developing policy recommendations to enhance skills and human capital to contribute to higher economic growth and lower inequality in the 2020s and beyond.

Lifting the lid | The picture across different groups and areas

Here we explore a few of the most interesting labour market developments for different groups of workers and different parts of the country

FIGURE 4: The headline rise in economic inactivity since the Covid-19 pandemic has not been evenly spread across the UK

Change in the proportion of 16-64-year-olds who are economically inactive, by reason and region/nation: UK, 2019-2022



NOTES: Change compares January-December 2019 and October 2021-September 2022 (latest data available). 'Sick' includes both temporary and long-term sick; 'caring' refers to 'looking after family/home', and the 'other' category here includes discouraged workers as well as those who are inactive for other reasons.

SOURCE: RF analysis of ONS, Annual Population Survey (via NOMIS).

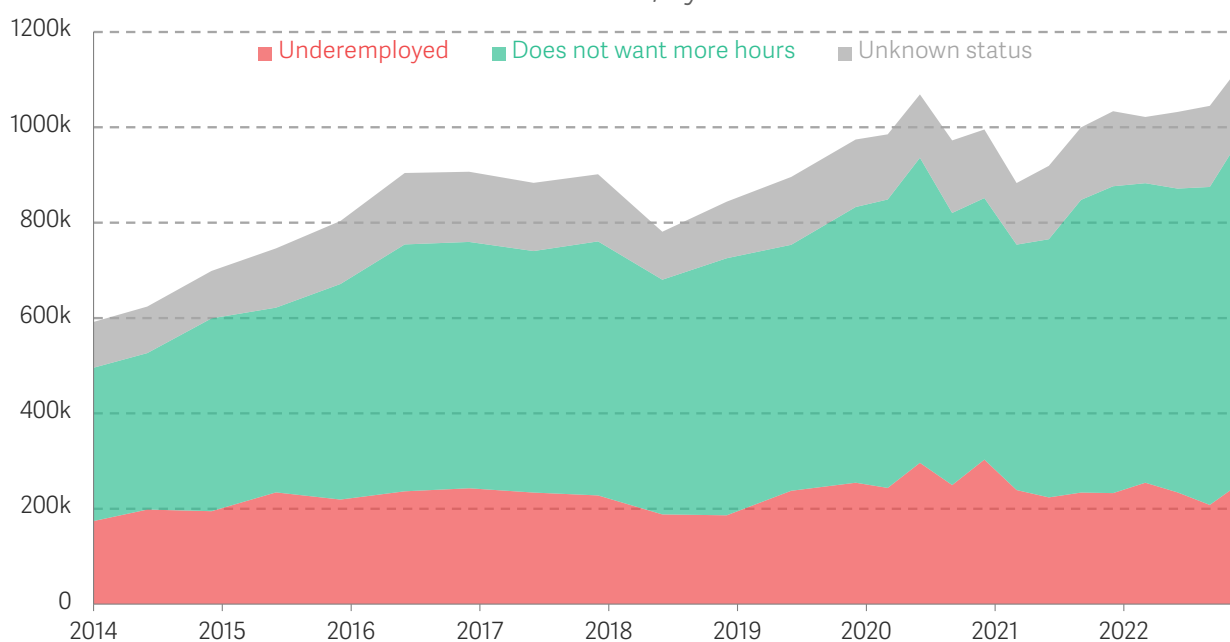
An enduring legacy of the Covid-19 pandemic has been a rise in economic inactivity, driven largely by long-term sickness and early retirement. Figure 4 shows how this varies across the regions and nations of the UK.⁵ The East Midlands is the region with the highest rise in economic inactivity among 16-64-year-olds (up 2.2 percentage points), followed by the South East, South West, and North West.

⁵ For further discussion of headline changes in labour force participation by region and nation (albeit referring to a slightly different time period), see Box 1 of: L Murphy & G Thwaites, [Post-pandemic participation: Exploring labour force participation in the UK, from the Covid-19 pandemic to the decade ahead](#). Resolution Foundation, February 2023.

On the other hand, the East of England, Yorkshire and the Humber, and London have seen a fall in economic inactivity, mostly thanks to falls in the number of people who are inactive due to looking after family and home (our [previous research](#) found this to be largely mothers with young children). As [recent Resolution Foundation work](#) has argued, however, policy makers should not focus solely on the recent rise in economic inactivity. Instead, the Government should focus on longer-term support for older workers, women with children, and those affected by rising ill-health and disability to return to – and remain in – work.

FIGURE 5: Recent rises in zero-hours contracts have come from those who do not want more hours

Number of workers on a zero-hours contract, by whether wants more hours: UK



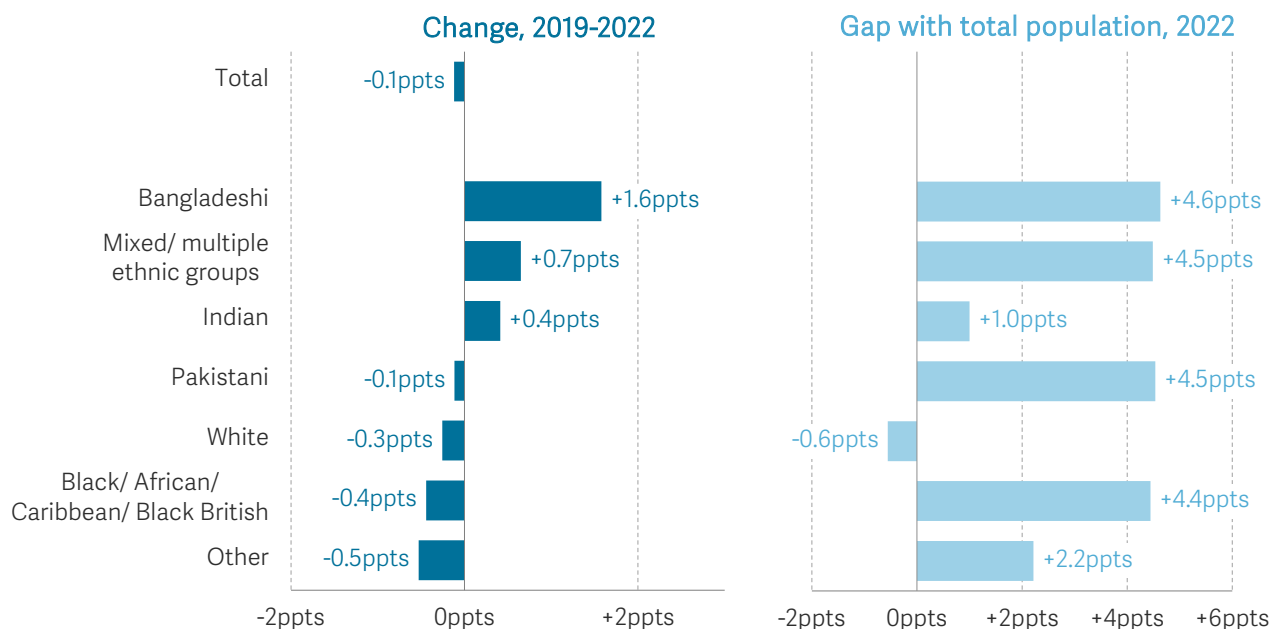
NOTES: Not seasonally adjusted. Latest data point is Q4 2022.

SOURCE: RF analysis of ONS, People in employment on zero hours contracts.

The number of people on zero-hours contracts (ZHCs) reached a record high in Q4 2022. While this is probably partly a seasonal effect, the uptick could also be linked to employers wanting to maintain a flexible workforce in the face of economic uncertainty (as happened [after the financial crisis](#)). ZHCs can be undesirable if they lead to one-sided flexibility, with employers setting working patterns while workers have [little say](#) over their hours. But Figure 5 suggests that the recent rise has been made up mostly of those who do not want to work more hours, rather than those who are underemployed. Those on zero-hours contracts may face other issues aside from the number of hours they work (for example, uncertainty over their hours and last-minute shift cancellations) – but on this measure at least, a rise in ZHCs does not seem to reflect bad news for workers. This is also consistent with the [current tightness of the labour market](#), which should mean that workers have more power to ask for better terms and conditions if they want them, as well as upping the number of hours that employers have to offer.

FIGURE 6: Some ethnic groups are yet to return to 2019 levels of unemployment

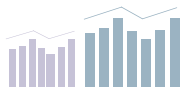
Change in the 16+ unemployment rate since 2019, and unemployment rate difference with the population average: UK, 2022



NOTES: Figures shown are averages over the four quarters of each year due to volatility in the data series. The Chinese ethnic group is excluded due to two out of the four data points for 2019 being unavailable.

SOURCE: RF analysis of ONS, A09: Labour market status by ethnic group.

One of the economic success stories of the Covid-19 pandemic was that the rise in unemployment feared at the end of the furlough scheme was both limited and short-lived. In fact, the headline unemployment rate [fell to rates last seen in the 1970s](#) in the middle of last year and remains below pre-pandemic levels. As Figure 6 shows, however, this is not the case across all ethnic groups. During 2022 as a whole, unemployment rates among the Bangladeshi, Indian, and Mixed/multiple ethnic groups remained higher than in 2019 – and all ethnic minority groups shown on the chart have higher unemployment rates than the average across the whole population. To ensure a tight labour market delivers for all and that any future rises in unemployment do not exacerbate these gaps still further, wider structural changes are needed – not least [addressing workplace discrimination](#), for which ethnicity is the most commonly-reported grounds.



The Scorecard | Q1 2023

<p>Median employee earnings</p>	<p>↓ 2.2% on yr (all) ↓ 2% on yr (private sector)</p>	<p>In Q4 2022, real median hourly pay fell by 2.2% as inflation outpaced wages. Pay fell slightly more in the public sector, largely due to the public sector pay freeze. Our all worker earnings measure is based on data up to 2020-21, so the falling gap does not the most recent fluctuations in self-employed earnings in the latter stages of the pandemic and during the latest crisis. The compositional effect on earnings increased by 4.2 ppts compared to a year earlier, from a negative effect to a positive effect. This measure has been in flux recently due to changes in the workforce since the start of the Covid-19 pandemic. Median year-on-year real hourly pay growth for employees in work over a year (both job stayers and changers) stood at 1.4% in Q3 2021, 0.7 ppts lower than the previous year. The p75:p25 and p90:p10 ratios both fell on the year, with the p90:p10 ratio falling by 6%. Pay growth for lower earners has been supported by recent increases in the minimum wage.</p>
<p>All worker earnings</p>	<p>Employee earnings and all worker earnings gap ↑ 0.1ppts on yr</p>	
<p>Earnings decomp.</p>	<p>↑ 4.2ppts on yr</p>	
<p>Annual pay rises</p>	<p>↓ 0.7ppts on yr</p>	
<p>Earnings Inequality</p>	<p>r75:25 ↓ 0.8% on yr r90:10 ↓ 6%</p>	

<p>Unemployment by duration</p>	<p>↓ 0.7 ppts on yr (all) ↓ 0.4 ppts on yr (longterm)</p>	<p>The unemployment rate was 3.6% in the latest data, close to record lows, and long-term unemployment is also down on the year. Under-employment rose significantly in the crisis, likely due to employers making hours reductions in the face of weak demand and supply constraints, but has since fallen to its lowest level on record as the labour market has tightened. The proportion of workers voluntarily moving job (an indicator of worker confidence) fell by 3% on the year but remains above pre-pandemic levels. The proportion of jobs going to new migrants fell during the crisis but is now at record high levels.</p>
<p>Under-employment</p>	<p>↓ 16% on yr</p>	
<p>Job-to-job moves</p>	<p>↓ 3% on yr</p>	
<p>Migrant job entry</p>	<p>↑ 12% on yr</p>	

<p>Workforce participation</p>	<p>↓ 0.4% on yr</p>	<p>The labour force participation rate of 18-69-year-olds fell to 76.4% in Q3 2021. The 'Lifting the Lid' section explores the reasons behind rising inactivity. Hourly productivity fluctuated during the pandemic (likely in part for compositional reasons) but in Q3 2022 was up 1.0% on the year.. 'Off-the-job' training fell by 3% on the year, following two decades of falls in such training – a potential drag on productivity. The proportion of graduates in non-graduate roles (a measure of mismatched demand and supply of skills) has risen over the past year, but remains below pre-pandemic levels at 35.7%.</p>
<p>Labour productivity</p>	<p>↑ 0.1% on yr</p>	
<p>Training intensity</p>	<p>↓ 3% on yr</p>	
<p>Graduates in non-graduate occupations</p>	<p>↑ 1% on year</p>	

The Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged.

We do this by undertaking research and analysis to understand the challenges facing people on a low to middle income, developing practical and effective policy proposals; and engaging with policy makers and stakeholders to influence decision-making and bring about change.

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