

# The Resolution Foundation Labour Market Outlook

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When comparing the pre-pandemic period to today, the national employment story has generally focused on the rise in inactivity due to ill health and the resultant fall in employment. However, in this note, we show that this is not the picture in all parts of the country.

First, not everywhere has seen employment fall. Low-employment areas including West Central Scotland (which includes Glasgow) have seen the fastest employment growth compared to before the pandemic. In contrast, some high-employment areas' employment rates (like Surrey, Sussex and Cheshire) are well down on pre-pandemic levels. Second, the rise in economic inactivity due to ill health has been geographically uneven. Areas of the country with high rates of pre-pandemic ill health and low shares of the population with degrees, like Lincolnshire, have seen particularly steep increases in the share of the working-age population who are economically inactive due to ill health. Finally, putting these two trends together isn't as simple as you'd have thought. Some areas (like Tees Valley and Durham) have seen both rising inactivity due to ill health and rising employment – with other forms of economic inactivity pulling in the opposite direction.

In the 'Lifting the Lid' section, we explore regional differences in median pay, what the transformation of the Labour Force Survey could reveal about unemployment, and how UK employment compares internationally.

## **Spotlight** | The geography of employment today compared to pre-pandemic

Across Britain's long-term labour market backdrop has been one of regional employment gaps opening up during the period of de-industrialisation in the 1980s, followed by a welcome fall in employment gaps between places over the 2000s and 2010s. More recently, UK-wide headlines have focused on the rise in economic inactivity (primarily due to sickness) and the resultant fall in employment compared to the pre-pandemic period. But this national story of inactivity up and employment down has played out differently across the country. In this spotlight we zoom in on the geography of employment and sickness-related inactivity today compared to where it was before the pandemic.

### Areas with lower employment rates before the pandemic have seen faster employment growth since then – with the reverse true for higher-employment areas

Comparing the pre-pandemic period with today, there has been some return to normality in the UK labour market. As Figure 1 shows, the national working-age employment rate in the 12 months to September 2023 was only 0.1 percentage points shy of pre-pandemic levels.<sup>2</sup>

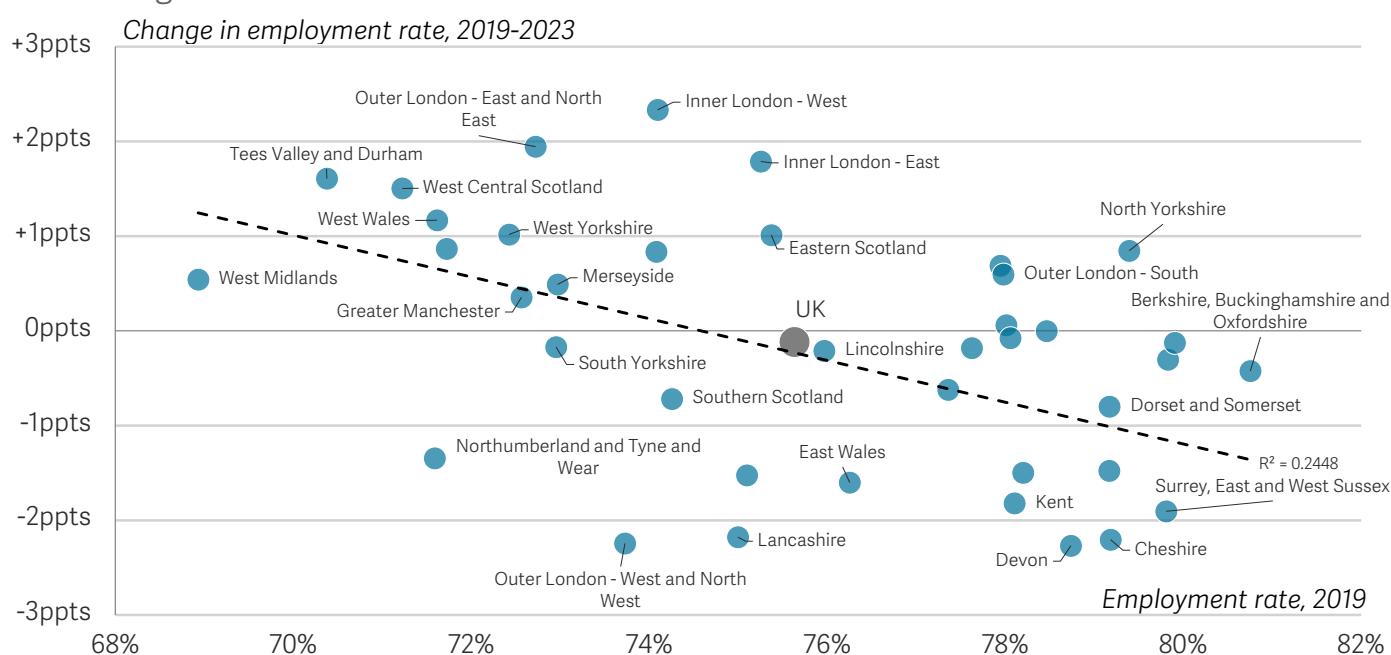
<sup>1</sup> The author is grateful to Greg Thwaites and Hannah Slaughter for advice and guidance. However, any errors remain the author's own.

<sup>2</sup> In this spotlight we use the Annual Population Survey which combines 12 months of Labour Force Survey data to provide sufficient sample sizes for small geographical areas.

However, the local experience of employment changes is very different to the headline national picture. Compared to before the pandemic, low employment areas – like Tees Valley and Durham (+1.6 percentage points) and West Central Scotland, which includes Glasgow (+1.5 percentage points) – have generally seen the fastest employment growth.<sup>3</sup> Low-employment parts of Inner and Outer London, too, have continued with the strong employment performance that was [a feature of the 2010s](#). The reverse is true for high employment areas – Cheshire (-2.2 percentage points), Surrey and Sussex (-1.9 percentage points) have seen some of the largest falls. As a result, the positive pre-pandemic story of falling employment gaps between places has continued. The coefficient of variation of employment rates across areas also fell between 2019 and 2023. The difference this time is that employment has fallen in some higher employment areas, rather than the pre-pandemic trend of rising everywhere but fastest in low-employment areas.

**FIGURE 1: Areas with lower employment rates before the pandemic have seen faster employment growth since then – with the reverse true for higher-employment areas**

Employment rate in 2019 compared to the change in employment rate between 2019 and 2023, NUTS2 regions



NOTES: 2019 refers to the 12 months ending March 2020. 2023 refers to the 12 months ending September 2023. SOURCE: RF analysis of ONS, Annual Population Survey.

### There are spatial differences in the rise in inactivity due to ill health

Next, we turn to the post-pandemic rise in inactivity (those out of work and not looking for work) due to ill health, which has dominated recent discussions on the nexus between health and the UK labour market.

It is well established that regional differences in economic inactivity due to ill health exist. The share of working-age people not working due to ill health in the 12 months to September 2023 (the latest data point) was around 50 per cent higher in West Wales (9.1 per cent), Tees Valley and Durham (8.8

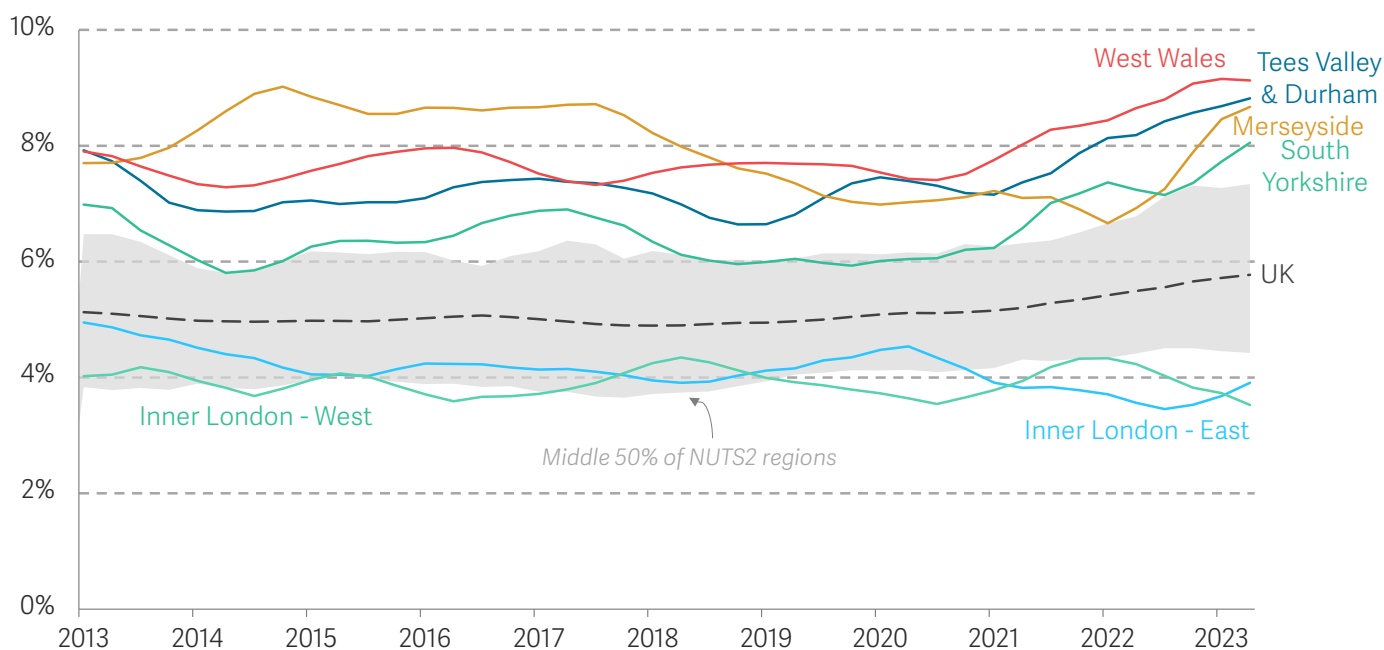
<sup>3</sup> In this note our analysis is conducted using the 40 NUTS2 regions, the smallest geographical disaggregation which also ensures sufficient sample sizes.

per cent) and Merseyside (8.7 per cent) than the UK-wide average (5.8 per cent). Historical [census data](#) also confirms those areas with high rates of sickness-related inactivity today tend to have a long history of health-related inactivity (dating back to at least the 1980s).

Despite these clear differences, there has been very little focus on the geographic nature of the recent rise in inactivity due to ill health. Figure 2 shows that UK-wide inactivity due to ill health as a share of the working-age population has risen by 0.7 percentage points since the 12 months ending March 2020 (up from 5.1 per cent to 5.8 per cent). But there are some clear spatial differences in this rise – places with already-high rates of sickness-related inactivity like Merseyside (+1.6 percentage points), Tees Valley and Durham (+1.5 percentage points) and West Wales (+1.5 percentage points) have experienced twice the national increase. In contrast, Inner London East (-0.4 percentage points) and West (-0.3 percentage points) have actually seen falls in the share of working-age people who are inactive due to ill health.

**FIGURE 2: There are spatial differences in the rise in inactivity due to ill health**

Proportion of working-age population who are economically inactive due to ill health, NUTS2 regions

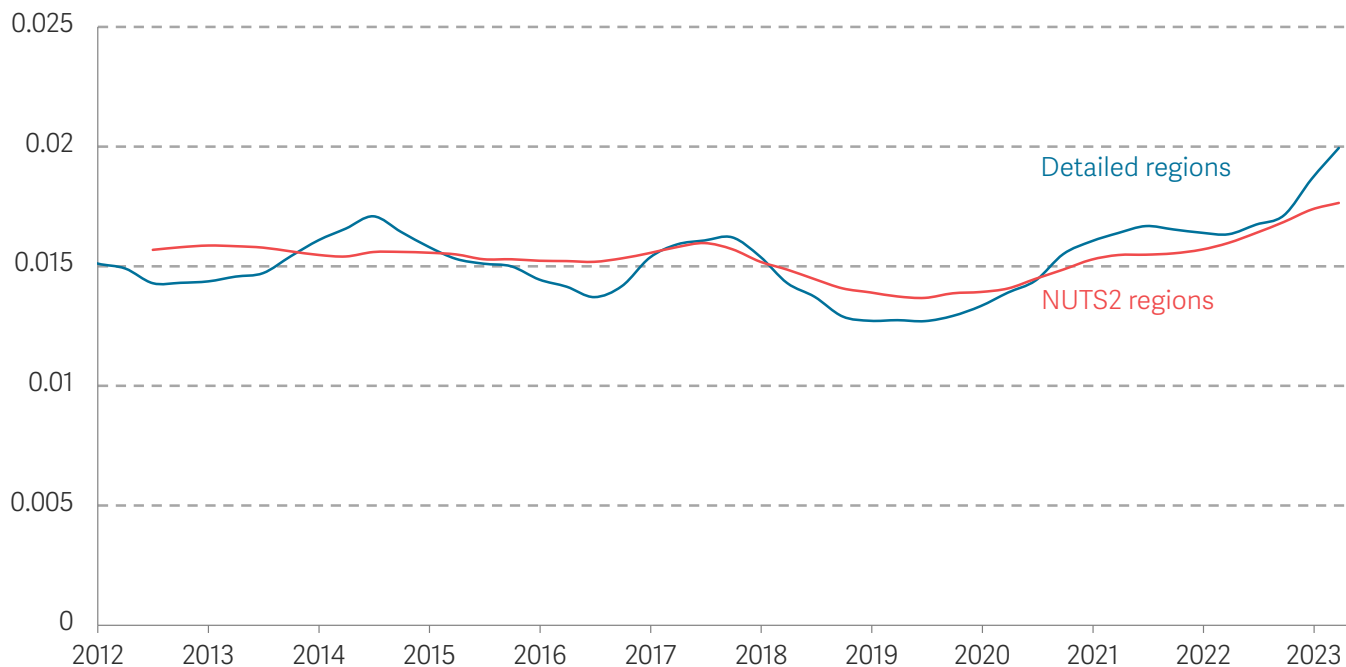


NOTES: Data is smoothed using four-quarter averages.  
SOURCE: RF analysis of ONS, Annual Population Survey.

In fact, regional variation in economic inactivity due to ill health looks to have risen since the onset of the pandemic. Figure 3 plots a measure of the spread (the standard deviation) of sickness-related inactivity for the working-age population, with a higher value indicating that rates have become more geographically dispersed. At both the NUTS2 region and detailed region (a group of 22 sub-regions using Labour Force Survey data) level, regional variation in economic inactivity due to ill health for the working-age population was flat over the 2010s but has been rising since the start of 2020.

### FIGURE 3: Regional variation in economic inactivity due to ill health has risen compared to the pre-pandemic period

Standard deviation of the share of working-age people who are economically inactive due to ill health, across LFS detailed regions and NUTS2 regions



NOTES: Data is smoothed using four-quarter averages.

SOURCE: RF analysis of ONS, Annual Population Survey/ Labour Force Survey.

### Places with pre-existing health problems – and low graduate shares – have seen particularly steep increases in inactivity due to ill health

If geographic differences in health-related inactivity have risen since the pandemic (as shown in Figure 3), what, then, are some common characteristics of places that have seen particularly large increases?

We might expect the share of the working-age population aged 50-64 to help explain the rise in economic inactivity due to ill health ([because inactivity rates are higher for older age groups as health tends to worsen at older ages](#)). But there is not a clear relationship between the share of the working-age population aged 50-64 and the change in the number of people out of work due to ill health. Why might this be the case? Even at older ages there are different rates of sickness-related inactivity across regions. In Inner London, for example, just 11 per cent of those aged 50-64 are economically inactive due to ill-health, compared to 17 per cent in Tyne and Wear and 16 per cent in South Yorkshire.

There is likely to be a contributing role played by local – particularly health-related – factors. For instance, other measures of health, like life expectancies, [differ considerably across the country](#). Indeed, as the left-hand side of Figure 4 shows, places with high shares of working-age people who classify as disabled have seen the biggest deterioration in inactivity due to ill health.<sup>4</sup> West Wales had nearly twice the proportion of working-age people who classify as disabled (using the Equality Act

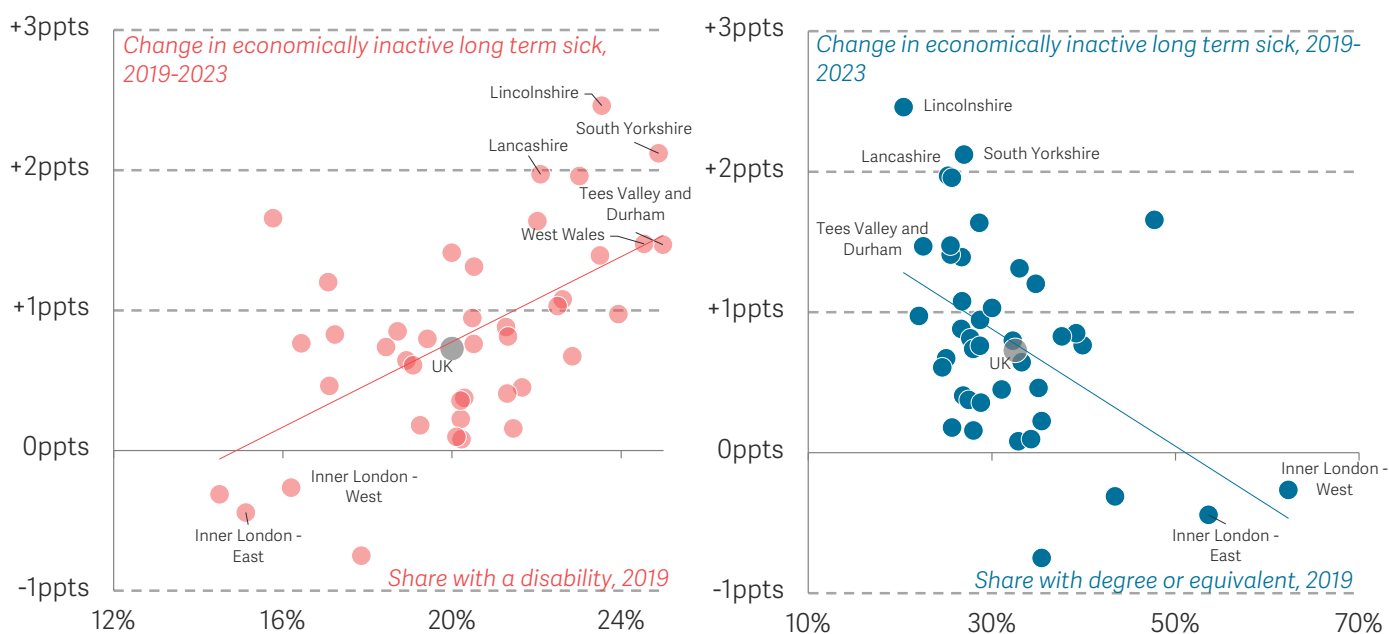
<sup>4</sup> This positive relationship also holds if we compare the change in the working-age population who are economically inactive due to ill health since pre-pandemic with the share of the pre-pandemic population who were economically inactive due to ill health in 2019.

definition) compared to Inner East London in 2019 (25 per cent vs 15 per cent) and has seen inactivity due to ill health increase rather than fall between 2019 and 2023 (+1.5 percentage points vs -0.4 percentage points).

Separate administrative data available at the local authority level on Personal Independence Payment claims (PIP) also displays a very clear relationship between the share of working-age residents receiving PIP pre-pandemic and the recent rise in PIP claims.<sup>5</sup> Put differently, places with pre-existing health problems have seen the steepest decline in the health of working-age people.

**FIGURE 4: Places with pre-existing health problems – and low graduate shares – have seen particularly steep increases in inactivity due to ill health**

Relationship between the change in the working-age population who are economically inactive due to ill health between 2019 and 2023 and the share who classify as disabled (left side) / are educated to degree-level or equivalent (right side), NUTS2 regions



NOTES: 2019 refers to the 12-month period ending March 2020, except for degree attainment in which data is only available on a calendar year basis. 2023 refers to the 12-month period ending September 2023.

SOURCE: RF analysis of ONS, Annual Population Survey; ONS, Labour Market Statistics.

The right-hand side of Figure 4 shows that areas with high shares of graduates tend to have seen the smallest increases in the share of working-age people who are economically inactive due to long-term sickness. Lancashire, for example, has seen a far greater increase in the share of working-age people who are inactive due to sickness since 2019 compared to Inner London West (+2.0 percentage points vs -0.3 per cent), and in 2019 had a far smaller share of working-age residents with degrees (25.2 per cent vs 62.3 per cent). Lincolnshire, too, has a relatively low concentration of graduates and has seen the share of 16-64-year-olds not working due to sickness increase by 2.5 percentage points since the pandemic – the biggest increase of any NUTS2 region. As previous [Resolution Foundation work](#) has highlighted, graduates are very unlikely to be workless due to ill health, which is consistent with the

<sup>5</sup> PIP, which is the main working-age disability benefit, is used here as a proxy for ill health.

finding that areas with larger pools of graduates (generally parts of London) have been least affected by the recent rise in health-related inactivity.

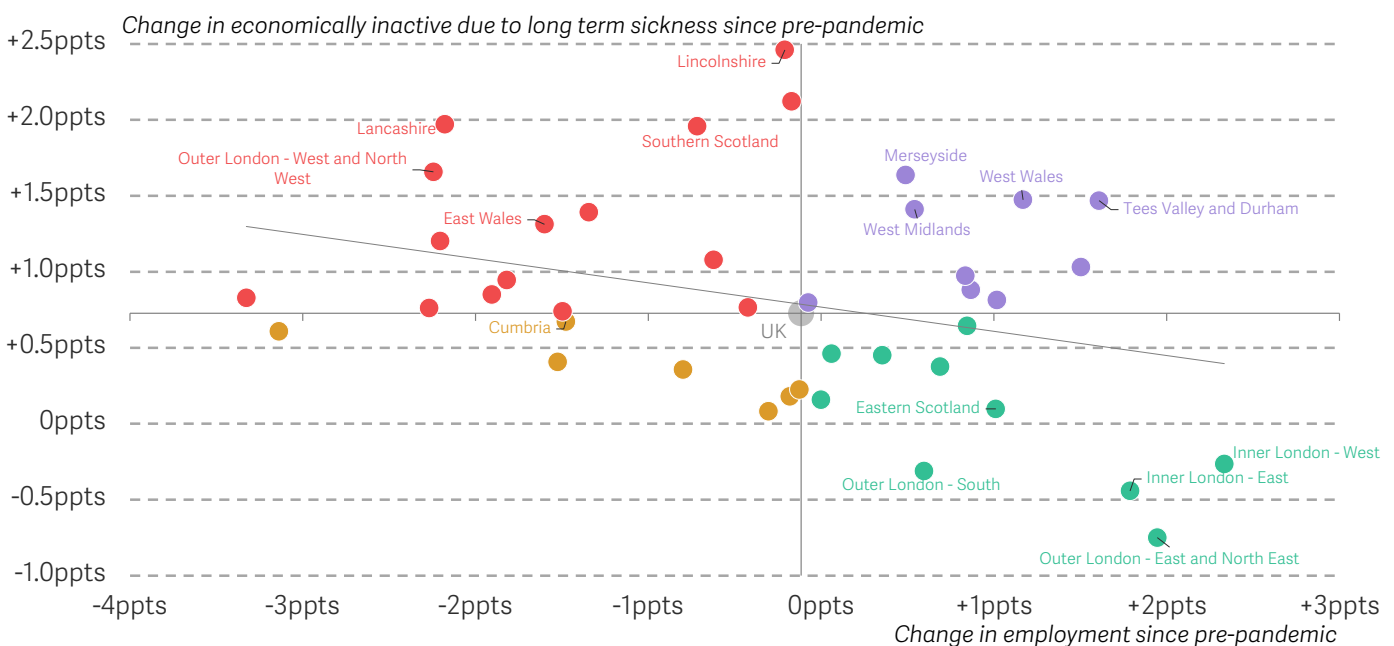
### On the whole, the same places saw rising sickness-related inactivity and falls in employment – but this is not true for all areas

Stepping back, is there an overlap between the areas which have seen the biggest rises in sickness-related economic inactivity and those with the largest falls in employment since the pandemic began? On average, the answer is yes. For places like The West and North West area of Outer London (which includes the likes of Barnet, Brent, Ealing and Hillingdon), Lincolnshire and East Wales a rise in sickness-related inactivity appears to have been associated with a fall in the employment rate – because fewer people are in each local labour market. The reverse is true for most other NUTS2 regions of London, in which the share of the working-age population who are inactive due to ill health has fallen slightly at the same time as employment rates have risen. In these parts of London, the number of people unable to work due to ill health hasn't changed since before the pandemic, but population growth has far exceeded the national average.

But there are exceptions: for example, traditionally low-employment urban areas like Merseyside, Tees Valley and Durham, West Midlands and West Wales (which includes Swansea) have maintained strong pre-pandemic employment growth despite above-average increases in sickness-related inactivity. For these areas, we can observe in the data that other reasons for inactivity (like retirement) have moved in the opposite direction.

**FIGURE 5: Some, but not all, parts of the country have seen both rises in inactivity due to ill health and falls in employment**

Change in working-age population who are economically inactive due to sickness compared to change in the employment rate since pre-pandemic, NUTS2 regions



Source: RF analysis of ONS, Annual Population Survey.

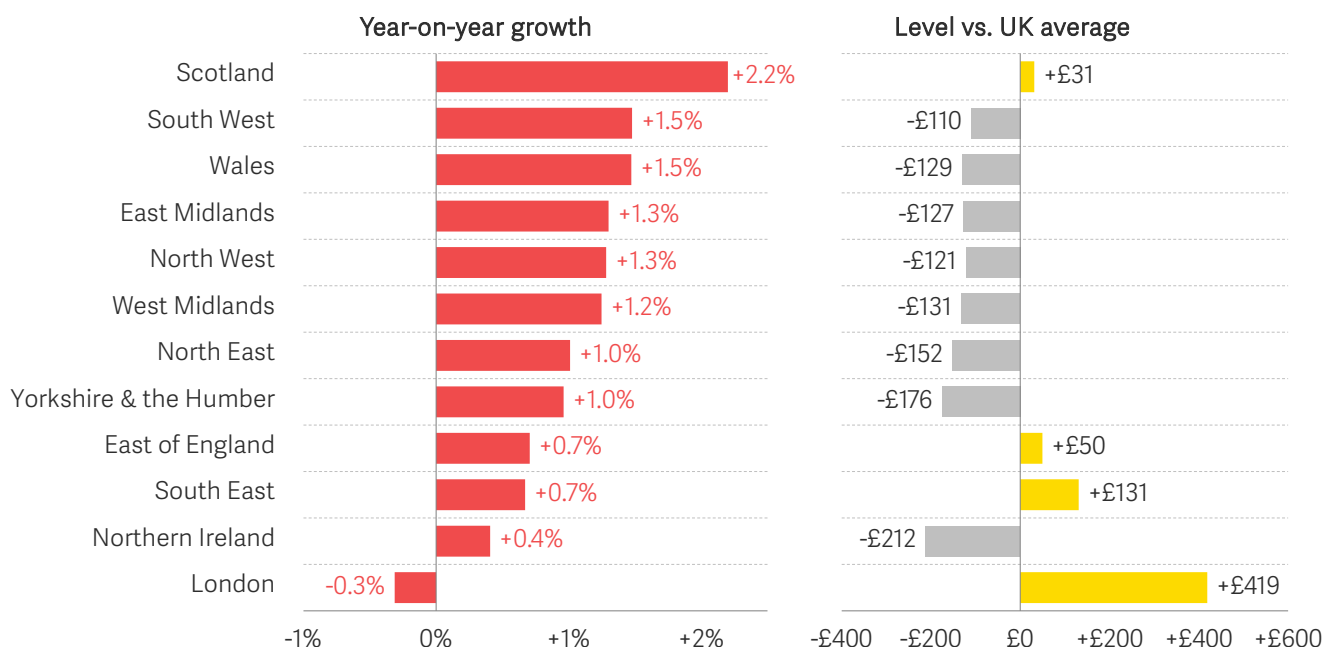
Overall then, there are parts of the country where inactivity due to ill health has risen sharply – primarily areas with pre-existing health problems. In some of these areas, rising ill health is associated with employment falls. But in other parts of the country the story is less straightforward: for example, where inactivity due to ill health and employment have both risen. Policy makers should be alive to these challenges that are experienced differently across the country. It’s unclear whether or not these geographic differences will endure. Nonetheless, boosting UK-wide labour market participation should remain a [core priority for the Government](#).

## 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 6: **Real pay is falling in London**

Annual growth in median real monthly pay, by region and nation: UK, November 2023



NOTES: Three-month averages. Figures are adjusted using CPIH inflation.

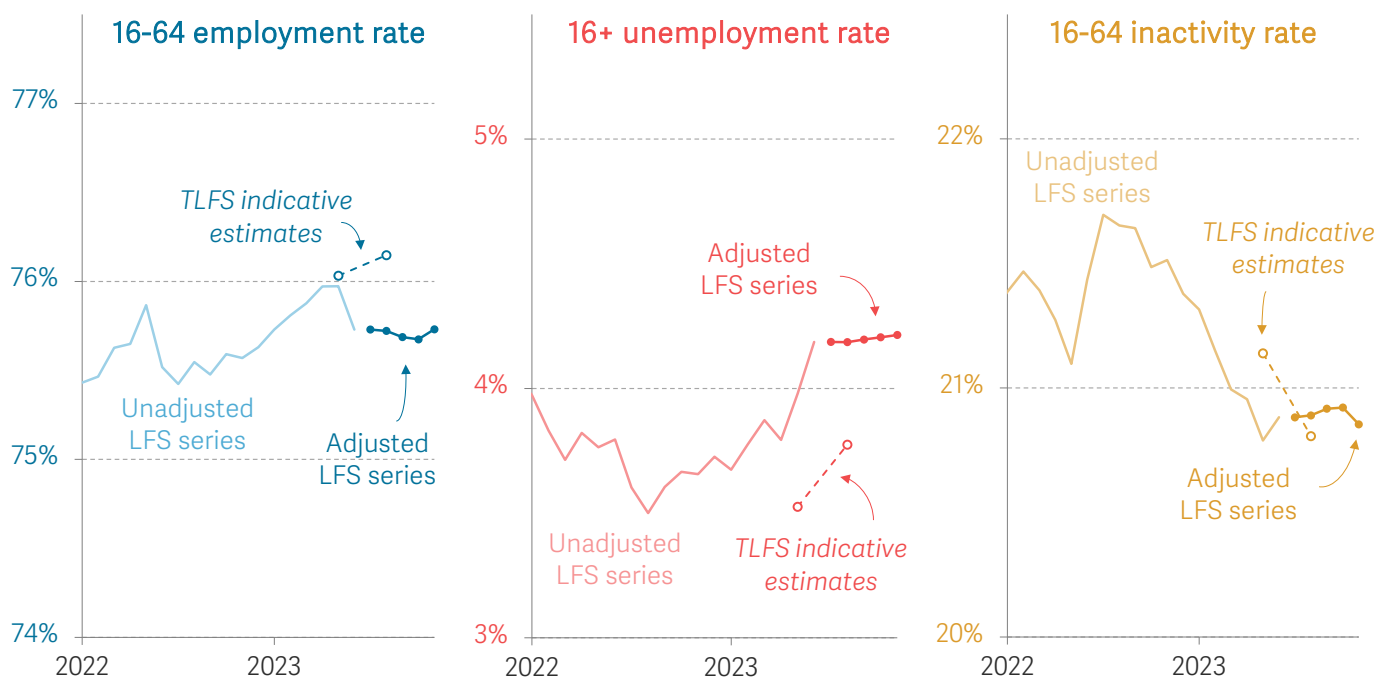
SOURCE: RF analysis of ONS/HMRC, Earnings and employment from Pay As You Earn Real Time Information.

This Outlook’s spotlight focused on geographic differences the share of people in and out of work. But how are different regions and nations doing when it comes to pay? Figure 6, which uses median pay according to real-time payroll data, shows that most parts of the UK have benefitted from the return of real pay growth (on this measure, UK-wide median earnings grew by 1.1 per cent in real terms). The one part of the country that didn’t was London, where typical monthly salaries fell by 0.3 per cent on the year after adjusting for inflation; however, as the right-hand panel of Figure 6 shows, the level of pay in London is well above the UK average. But more concerningly, pay growth was also below-average, and only 0.4 per cent, in Northern Ireland – where pay is the lowest in the UK, and currently £212 per month less than the UK average.



### FIGURE 7: The LFS transformation could tell us unemployment is lower than we think

Headline employment, unemployment and inactivity rates, before and after the ONS' October 2023 adjustments: UK



NOTES: The adjusted estimates are for May-Jul to Sep-Nov 2023. The final data point in the unadjusted series is May-Jul 2023. Dotted lines represent unadjusted data points that have since been revised. TLFS estimates are indicative only and cover Mar-May 2023 and Jun-Aug 2023.

SOURCE: RF analysis of ONS, Labour market statistics.

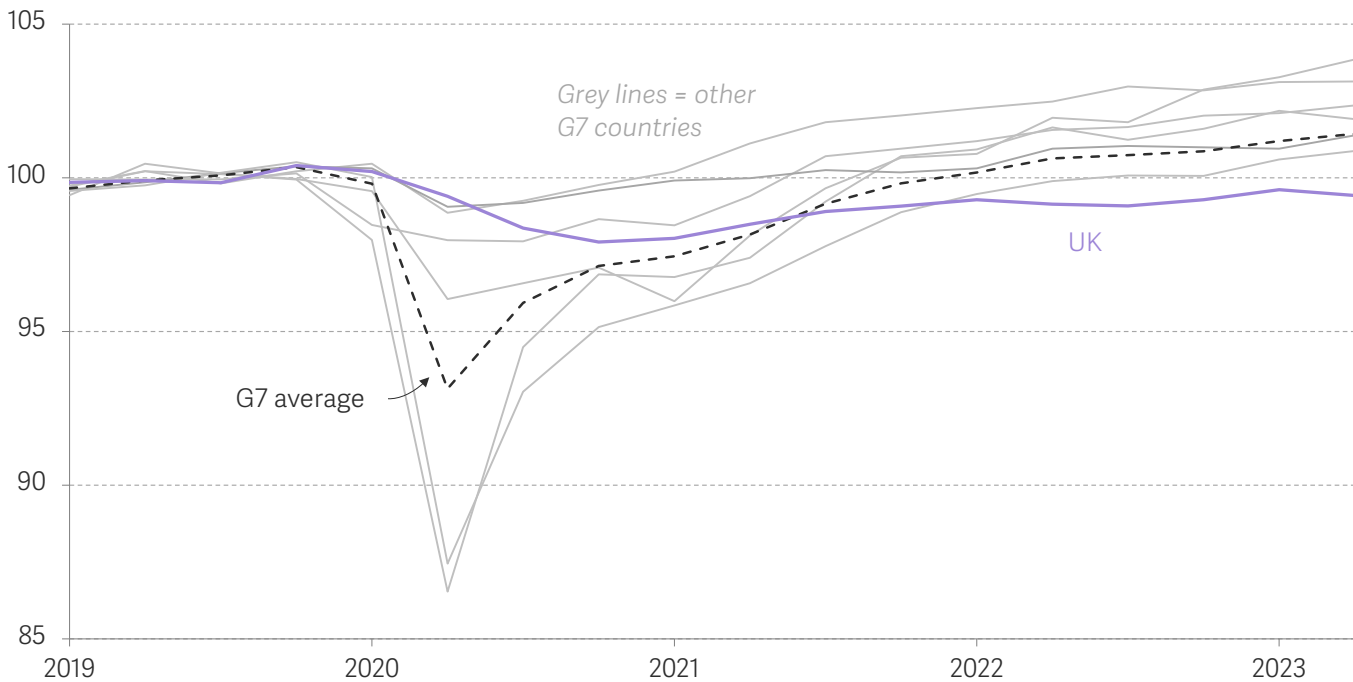
The past few months have been a confusing time for labour market aficionados. In October, the ONS [pulled](#) many of their regular statistics based on the Labour Force Survey (LFS) due to concerns around data quality, not least falling response rates. Since the autumn, the monthly ONS releases have contained [‘adjusted’ measures](#) of the headline employment, unemployment and inactivity rates (Figure 7); these incorporate information from wider labour market measures, such as payrolled employment figures from HMRC and the Claimant Count. [Future iterations](#) will also update the population assumptions used to gross up the survey results to population-wide estimates.

But further change is afoot: the ONS is introducing their [Transformed Labour Force Survey \(TLFS\)](#) this year, a bottom-up redesign that, among other things, aims to improve both the number and quality of responses. The TLFS will replace the LFS over the course of this year, but the ONS published some early estimates in October (as reported by the [Financial Times](#)). It should be emphasised that these are indicative estimates only – but they could give us a flavour of where the TLFS might leave us in terms of our understanding of the labour market. As Figure 7 shows, the early TLFS results imply that the employment rate could be higher than we thought, and the unemployment rate lower.



## FIGURE 8: The UK is unique among G7 countries in having lower employment than pre-pandemic

Index of the working-age employment rate (2019 = 100), by country: G7



NOTES: Seasonally adjusted. G7 countries shown here are Canada, France, Germany, Italy, Japan, the UK and the US. Employment rate data is for ages 15-64, except for the UK and US where the lower age limit is 16. Latest data point is Q2 2023.

SOURCE: RF analysis of ONS, International comparisons of employment and unemployment rates.

Since the economy reopened following Covid-19 lockdowns and restrictions, the labour market debate in the UK has turned to the stubbornly slow recovery of employment, largely driven by a [post-pandemic rise](#) in economic inactivity. In Figure 8, we look at how the UK compares to other advanced economies in this regard. While employment in the UK remained resilient during the height of the pandemic (in large part thanks to the [Job Retention Scheme](#)), our recovery has lagged other countries. In fact, by mid-2023, the UK was the only country in the G7 whose working-age employment rate remained lower than before the pandemic, although some of the puzzle could soon be revised away in the TFLS. In a [report](#) last year, we suggested ways to encourage and support UK workers to return to the labour market, from pension reform to better support for workers who are unwell.

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