Resolution Foundation

A U-shaped legacy

Taking stock of trends in economic inactivity in 2024

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In an election year, jobs and benefits are often centre stage. Alongside the UK's stagnant wage growth, there is one big issue that will face the next government: the rises in economic inactivity and health-related benefit claims. Real pay growth, unemployment and vacancies have all returned roughly to 2019 rates. But there is one aspect of the labour market that remains far from normal: the UK employment rate is still lower than pre-pandemic, with economic inactivity up from 20.5 per cent to 21.8 per cent, equivalent to 700,000 people. And the continued rise shows little sign of slowing as the pandemic recedes. The UK is the only G7 country with a lower employment rate than before the pandemic.

This rise in economic inactivity has been U-shaped by age: those aged 16-24 and 50-64 account for nine-tenths of the rise in economic inactivity among working-age adults since the end of 2019. And while there are more young people who are economically inactive and in full-time education (up 160,000, or 15 per cent, in the past year), it is the rise in economic inactivity due to long-term sickness that stands out. The number of working-age adults who are economically inactive due to long-term sickness has been growing for over four years and stood at 2.7 million in November-January 2024, having peaked at a record-high 2.8 million a couple of months earlier.

These developments are concerning, first and foremost for the 2.7 million people whose health and living standards are affected. But it is also a worry for the Treasury, with claims for illness- and disability-related benefits rising fast. By December 2023, almost a third of people in receipt of Universal Credit (UC) had a health condition or disability that affected their ability to work, and again the pattern is U-shaped by age. More than half of claimants in their late fifties and sixties have a health condition or disability reflected in their UC award. But UC claimants in their early twenties are more likely than those in their thirties or early forties to have a health condition or disability that restricts their ability to work, and it is among young adults that health-related UC awards have increased most significantly in recent years.

But it is the rising number of claims for PIP – the main non-means-tested benefit for those with health conditions or disabilities – that is most striking. Among working-age adults in England and Wales, new claims for PIP have increased by two-thirds (68 per cent) between early 2020 and early 2024. Once again, it is those at each end of the age distribution who stand out. Older adults aged 55-64 are the age group most likely to claim PIP, but among young people, the *rise* in PIP claims in recent years has been most pronounced. The number of new PIP claims in England and Wales is up 138 per cent for 16-17-year-olds, and up 77 per cent for 18-24-year-olds.

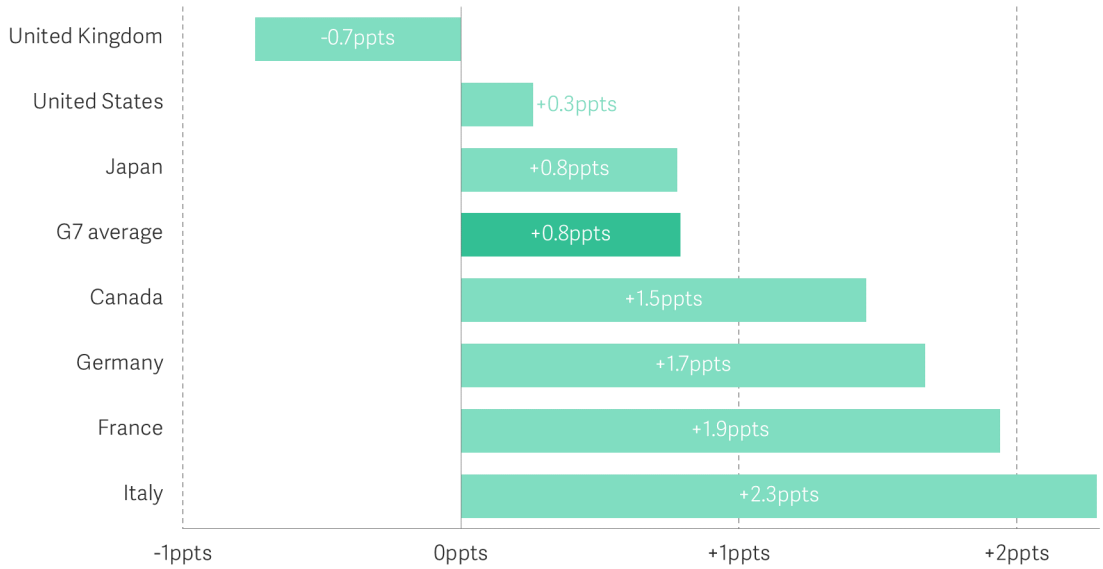
High economic inactivity remains the labour markey legacy of the Covid-19 pandemic

In many aspects, the UK labour market looks a lot like it did before the Covid-19 pandemic. After a rollercoaster four years, real pay growth reached 1.8 per cent in the most recent data for January 2024 – this is only slightly above real pay growth in 2019, which averaged 1.7 per cent. There is a similar trend when we look at vacancies: after peaking at 4.0 per cent, the vacancy rate has fallen back to 2.7 per cent, only slightly higher than the 2019 average of 2.5 per cent. And unemployment remains low, at just 3.9 per cent – this is the same as the average rate in 2019.

But one aspect of the labour market looks far from normal. The working-age employment rate in the UK is still well below where it was before the Covid-19 pandemic, down from 76.2 per cent to 75.0 per cent. Not only does this reverse the trend experienced in the UK in the 2010s (when the employment rate was rising consistently), it also sets the UK apart from its neighbours. As Figure 1 shows, the UK is the only G7 nation where the employment rate has not reached its pre-pandemic level. In fact, most G7 countries have seen their employment rate surpass its pre-pandemic level: on average across the G7, the working-age employment rate is up by 0.8 percentage points. As a result, the UK has fallen from having the second-highest employment rate in the G7 in 2019 Q4 to having the fourth-highest employment rate in 2023 Q2, with Germany and Canada rising into second and third place. Looking at the OECD more widely, the UK has slipped from an impressive sixth place down to thirteenth place.

Figure 1: The UK is the only G7 country with an employment rate that is lower than before the Covid-19 pandemic

Change in employment rate for adults aged 15-64 between 2019 Q4 and 2023 Q2: G7 countries

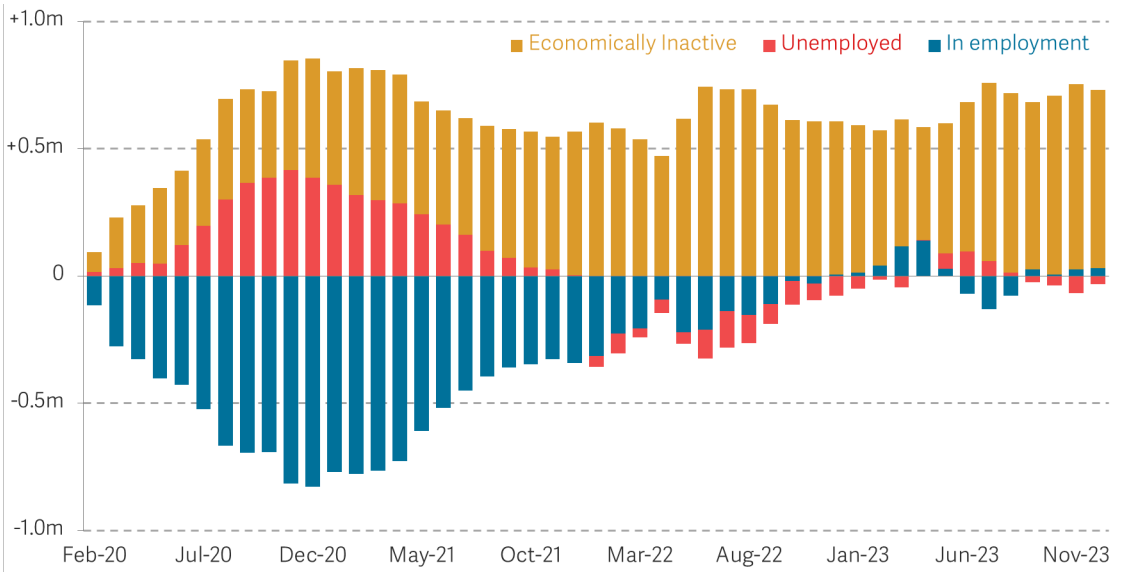


Notes: 2023 Q2 is the latest period where consistent data is available across all G7 countries.
Source: RF analysis of OECD.

And it is high economic inactivity – not high unemployment – that explains the UK's lower employment rate. Since the start of the Covid-19 pandemic, the overall size of the UK working-age population has increased by 700,000, a rise of 2 per cent. Economic inactivity has risen at a faster rate, with the number of working-age people who are economically inactive increasing from 8.6 million to 9.3 million between December-February 2020 and November-January 2024, a rise of 700,000 or 8 per cent. On the other hand, the number of working-age people in employment and unemployment is near-identical to that on eve of the pandemic (with employment rising, and unemployment falling, by just 30,000).[1] This is shown in Figure 2.

Figure 2: The legacy of the Covid-19 pandemic is high economic inactivity

Change in economic inactivity, unemployment and employment since Dec-Feb 2020 for adults aged 16-64: UK



Source: RF analysis of ONS, Labour Market Statistics

The good news: there has been a rise in the number of young people who are in full-time education

This rise in economic inactivity has been U-shaped: younger adults aged 16-24 and older adults aged 50-64 account for nine-tenths (90 per cent) of the rise in economic inactivity among working-age adults since the start of the pandemic. Indeed, economic inactivity among adults aged 25-49 has remained almost unchanged since the start of the pandemic, with one good news story resulting from the pandemic being the increase in labour force participation among women in mid-life.

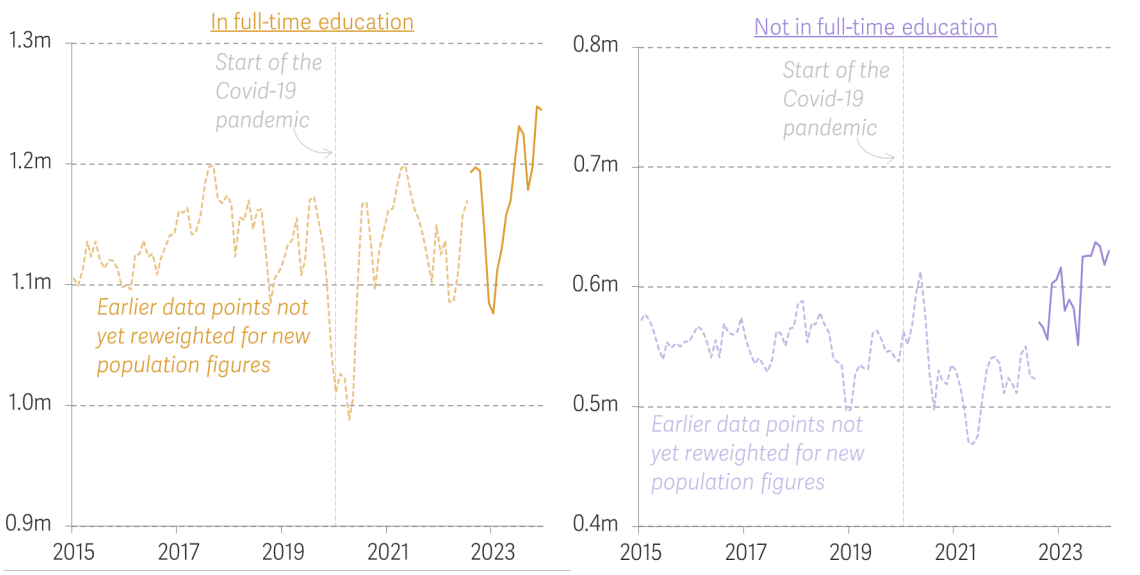
While there was concern about a frenzy of early retirement – with the number of older adults leaving employment into economic inactivity due to retirement picking up in 2021 – this does not seem to have turned into a significant lasting development. The number of working-age adults who are economically inactive due to retirement has remained relatively stable over the past year and a half, reaching 1.1 million in November-January 2024. And although data reweighting issues mean that we cannot directly compare recent data on reasons for economic inactivity to data from June-August 2022 or before, we can be sure that economic inactivity due to retirement is still well below the peaks seen in the early 2010s.

Turning to young people, it is important to remember that not all forms of economic inactivity should be viewed as concerning. As Figure 3 shows, there has been a sizeable increase in the number of young people aged 18-24 who are economically inactive and in full-time education (up 160,000, or 15 per cent, in the past year, to reach 1.2 million in November-January 2024). This means that 87 per cent of the total rise in economic inactivity among

young people aged 18-24 over the past 12 months has been among young people in full-time education.

Figure 3: The number of young people who are economically inactive is well above pre-pandemic levels – and this is true among students and non-students

Number of young people aged 18-24 who are economically inactive, among those in full-time education (left) and those not in full-time education (right): UK



Source: RF analysis of ONS, Labour Market Statistics.

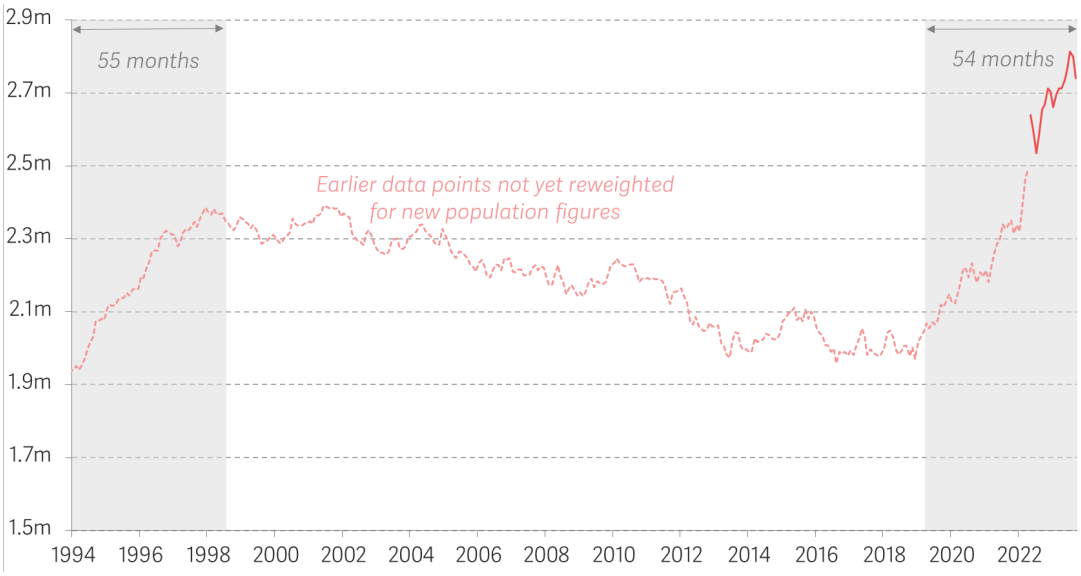
Although this rise in economic inactivity among young people in full-time education largely reflects a rising student population, it is also worth noting that the make-up of young students has also shifted slightly over the past year. By November-January 2024, 64 per cent of young people in full-time education were economically inactive – this is the highest proportion on record, and up from 59 per cent one year earlier.

The bad news: there are 2.7 million working-age adults out of work due to ill health, and the rise shows little sign of slowing

But while economic inactivity due to retirement is important among older adults and economic inactivity among those in full-time education important to younger adults, it is economic inactivity due to long-term sickness that stands out across the age distribution. There were 2.7 million working-age adults economically inactive due to long-term sickness in November-January 2024, with this number peaking at a record-high of 2.8 million a couple of months earlier in September-November 2023. This is shown in Figure 4.

Figure 4: Economic inactivity due to ill health has now been rising for five years – this is the longest sustained rise since the 1990s

Number of adults aged 16-64 who are economically inactive due to long-term sickness: UK



Notes: Shaded areas indicate the two longest spells of increasing economic inactivity due to long-term sickness, where the number of people who are economically inactive due to long-term sickness is higher than one year earlier. Using this measure, economic inactivity due to long-term sickness increased for 55 months between 1994 and 1998, and has been increasing for 54 months between 2019 and 2023.
Source: RF analysis of ONS, Labour Market Statistics.

Indeed, as is indicated by the shaded areas in Figure 4, economic inactivity due to long-term sickness has been rising consistently on an annual basis for the past four-and-a-half years since the summer of 2019 (before the Covid-19 pandemic).[2] This is the second-longest sustained rise in sickness-related inactivity on record, and is only one month shorter than the longest rise, seen between 1994-1998. The consistency of this rise is what will worry policymakers (and Treasury officials) the most: it does not appear to be a short-term, Covid-19-related, blip. And the trend is even more noteworthy since it stands in stark contrast to those seen in the 2000s and 2010s, when economic inactivity due to long-term sickness was consistently trending down.

There has also been a rapid rise in the number of working-age adults claiming sickness- and disability-related benefits.

With the number of working-age people who are not working due to ill health reaching record highs in recent months, questions have arisen about the knock-on impact on claims for out-of-work benefits. The gradual rollout of Universal Credit (UC) and phasing out of 'legacy benefits' such as Employment and Support Allowance (ESA) makes it difficult to compare out-of-work benefit caseloads over time.[3] But it is clear that a rising proportion of UC claimants have work-limiting health conditions or disabilities, with almost a third (31 per

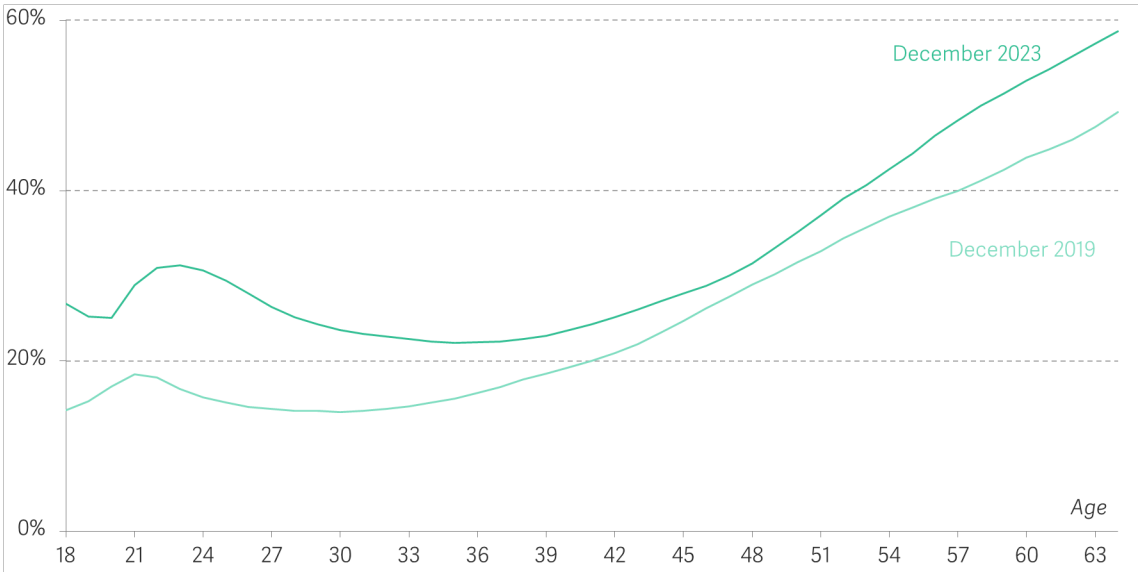
cent) of people in receipt of UC being on UC health in December 2023, up 4 percentage points compared to a year earlier.[4]

For the first time, the DWP has published data on the medical conditions recorded during Work Capability Assessments for UC (the assessment used to determine whether someone is deemed to have a health condition or disability that affects their ability to work). The prevalence of mental health problems is striking: of all Work Capability Assessment decisions between January 2022 and November 2023, more than two-thirds (69 per cent) recorded mental and behavioural disorders. The next most common medical condition to be recorded is diseases of the musculoskeletal system and connective tissue, with this being recorded in almost half (48 per cent) of Work Capability Assessment decisions in the time period.

As Figure 5 shows, the proportion of UC claimants who are on UC health has risen among claimants of all ages over the past four years. But once again, we see a U-shaped pattern. It is the youngest and oldest claimants who are most likely to be on UC health, and who have seen the biggest increases between 2019 and 2023. By December 2023, young UC claimants in their early twenties were more likely to be in receipt of UC health than UC claimants in their thirties and early forties. And the proportion of 18-24-year-old UC claimants in receipt of UC health increased by 12 percentage points between December 2019 and 2023, from an average of 17 per cent to 29 per cent. This is a bigger change than has been seen among any other age group. And although there have been compositional changes to the UC health caseload between 2019 and 2023 (as more claimants move from ESA onto UC), the impact of these will be smallest among young people in their late teens and early twenties who are unlikely to be old enough to have previously been in receipt of ESA. Finally, it is worth emphasising just how many older UC claimants have health problems or disability: by December 2023, more than half of claimants aged 58 and above were in receipt of UC health.

Figure 5: There is a U-shaped pattern in Universal Credit health claims by age

Proportion of Universal Credit claimants aged 18-64 on UC health, by single year of age: GB, December 2019 and December 2023



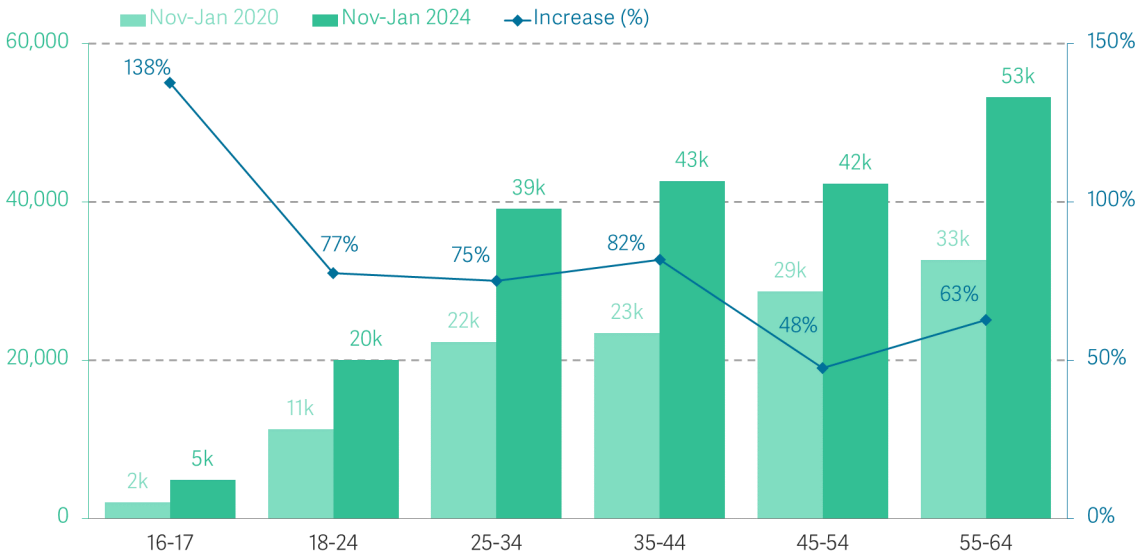
Notes: Data presented as three-year averages of each single year of age. The UC health caseload includes those with acceptable medical evidence of a restricted ability to work and are awaiting a decision, those assessed as having Limited Capability for Work (LCW) and those assessed as having Limited Capability for Work-Related Activity (LCWRA).
Source: RF analysis of DWP, Statxplore.

Although the UC health statistics show a marked rise in the proportion of UC claimants with work-limiting health conditions, it is the rising number of new claims for PIP (the main non-means-tested benefit for those with health conditions or disabilities) that will be of greatest concern to policy makers. Among 16-64-year-olds in England and Wales, new claims for PIP increased by two-thirds (68 per cent) between November-January 2020 (on the eve of the pandemic) and November-January 2024. And once again, this doesn't appear to be a time-limited Covid-19 shock: more recently, between November-January 2023 and November-January 2024, new claims among 16-64-year-olds in England and Wales increased by 14 per cent.

As Figure 6 shows, trends among the youngest and oldest claimants stand out. Among 16-17-year-olds in England and Wales, new claims have risen dramatically from a low starting point, up 138 per cent in the past four years. But the number of new claims is highest among older adults aged 55-64, with 53,000 new claims for PIP being recorded in November-January 2024, up from 33,000 in the same period four years earlier. Put differently, adults aged 55-64 accounted for a quarter (26 per cent) of new claims for PIP among working-age adults in England and Wales between November-January 2024.

Figure 6: PIP claims have risen sharply since the start of the pandemic, and this is especially true among younger people

Number of new claims for PIP (left-hand axis) and increase in number of new claims for PIP between Nov-Jan 2020 and Nov-Jan 2024 (right-hand axis), by age group: England and Wales



Notes: Data is for England and Wales only, since PIP is being replaced by Adult Disability Payment (ADP) in Scotland. Data is for new claims only, i.e. excludes DLA reassessments. Data is for adults aged 16-64 only.
Source: RF analysis of DWP, Statxplore.

If we once again look back at the experience in the 1990s, we can see that the rise in economic inactivity due to long-term sickness was followed by significant changes to the benefits system (most notably the introduction of Incapacity Benefit in 1995), rather than significant action to improve the health of the population.[5] In the 2020s, reform is already underway, with the Government due to amend the Work Capability Assessment from 2025 onwards (to make it harder for some claimants with health conditions relating to their mobility or mental health to receive additional support), and they have announced longer-term plans to scrap the Work Capability Assessment entirely. We should not be surprised if further fiscally-driven welfare reforms are announced. But the important lesson to learn from the 1990s is that the health-related benefits system does not exist in a vacuum: for example, in the 1990s, job losses stemming from deindustrialisation did not result in a major uptick in unemployment, but instead manifested as economic inactivity due to long-term sickness. In the 2020s, we should be wary about having an increasingly strict unemployment benefits system (where claimants are subject to high levels of benefit conditionality), since this may be acting to encourage more people to claim health-related benefits instead.

Conclusion

In an election year, jobs and social security often take centre stage. As well as addressing the UK's stagnant wage growth, the next government will be tasked with tackling high levels

of economic inactivity due to long-term sickness and the simultaneous rise in benefit claims. This ongoing trend is having real impacts on the economy: high and rising rates of economic inactivity due to ill health were factored into the latest OBR growth projection, and spending on disability benefits is set to rise by 45 per cent in nominal terms between 2023-24 and 2028-29.

The U-shaped nature of this problem is especially worrying. Any spell out of work due to ill health can be damaging to an individual's well-being and living standards, but the risks are even greater for young people at the start of their working lives. But we should also worry about older adults spending their later years in poor health and on a low income, particularly given the UK's demographic profile. If we fail to address this problem soon, it is likely to result in even higher costs in the future.

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[1] The employment and economic inactivity data used in this Spotlight comes from the ONS Labour Force Survey. This has suffered from well-publicised data quality issues in recent months; see: ONS, Labour Force Survey: planned improvements and its reintroduction, November 2023. The data we use is from the recent March 2024 data release which has been reweighted to incorporate the latest ONS population estimates. However, it is worth bearing in mind that employment trends do look different when other data sources (such as PAYE RTI data) are used. See: N Cominetti, Flying blind? The case of the missing employment data, Resolution Foundation, October 2023.

[2] Since the data from July 2022 and earlier has not yet been reweighted for new population figures, the exact duration of the sustained rise in economic inactivity due to long-term sickness is subject to change. However, since economic inactivity due to long-term sickness has remained on an upwards trajectory from August 2022 onwards, and because the impact of data reweighting seems to be an *increase* in overall economic inactivity, it is unlikely that data reweighting will shorten the duration of the rise in economic inactivity due to long-term sickness. See Figure 3 in: ONS, Impact of reweighting on Labour Force Survey key indicators: 2024, February 2024.

[3] B Geiger, Why you can't trust stats on 'out-of-work benefit claims', Inequalities, January 2024;

[4] To achieve consistency with DWP publications, we use 'UC health' to refer to those on Universal Credit with a health condition or disability restricting their ability to work. See: DWP, Official Statistics: Universal Credit Work Capability Assessment, April 2019 to December 2023, March 2024.

[5] See, for example: J Banks, R Blundell & C Emmerson, Disability benefit receipt and reform: reconciling trends in the United Kingdom, IFS, March 2015; T Burchardt, The Evolution of Disability Benefits in the UK: Re-weighting the basket, CASE paper 026, June 1999.