The Resolution Foundation Labour Market Outlook Q3 2025

Greg Thwaites | Nye Cominetti | Hannah Slaughter

Employment and the employment rate are falling according to Resolution Foundation estimates, but not according to the official statistics based on the Labour Force Survey (LFS). The official data also suggests that unemployment has risen by 0.5 percentage points over the past year, and that the labour market is loosening rapidly – but is the official data right about this?

Using a wide range of data, we broadly confirm the official picture: unemployment has indeed been rising and probably stands close to the LFS estimate of 4.7 per cent. This and other measures show that the labour market has loosened a lot over the past year, and is now looser than it was on the eve of the pandemic, when it was tight but sustainably so. As we would expect, pay growth has slowed somewhat and may be set to decelerate further – but it is surprisingly strong in the context of a loose and loosening labour market.

These data issues also have implications for economic inactivity. The level of inactivity in the LFS appears about right. But the recent changes are wrong: our estimates suggest that labour market inactivity has risen by about 1 percentage point over the past two years, in contrast to the official figure of a 1 percentage point decrease from a peak a year ago.

In our 'Lifting the Lid' section, we explore how LFS employee numbers compare to other data sources, how much of the falling employment rate is due to a decrease in jobs versus a fast-growing population, and the sectoral and occupational patterns in the recent decline in vacancies.

Spotlight | How tight is the labour market?

Data problems have cast doubt over official measures of unemployment and labour market tightness

The number of payrolled employees in the UK has fallen sharply over the past year – down 165,000 since its recent peak in October 2024. With the working-age population growing rapidly, driven by immigration, then assuming there has not been a sharp rise in self-employment, the employment rate has fallen even faster, according to Resolution Foundation estimates.

Does this mean that unemployment is rising, and that it's getting easier for firms to find workers? These questions are important for both macroeconomic and labour market policy. But they are difficult to answer, for two main reasons.

First, a statistical reason. Problems with the ONS' Labour Force Survey (LFS) have made it hard to assess the state of the UK's labour market. Two of the most important statistics it provides are the employment rate (the proportion of the population who are in work), and the unemployment rate (the proportion of those wanting to work who aren't working). We can proxy the employment rate using HMRC data on employee and self-employed jobs and ONS population data, and doing so suggests that both the number of jobs and the employment rate are falling quickly, contrary to what the LFS implies. So there is reason to believe the unemployment rate might be wrong too. But we can't produce estimates of unemployment in the same way, because payroll data doesn't tell us whether or not non-employed people are looking for work.

Second, a conceptual reason. While the number of unemployed people is something that can, at least in theory, be counted, labour market 'tightness' – how easy it is for firms to fill jobs – is a concept with no direct counterpart in the official data. But it is a key determinant of labour costs and inflation – if lots of workers are quitting their jobs and firms are finding it hard to fill vacancies, it is expensive to increase production, and firms will be more likely to raise their prices.

In this Labour Market Outlook, we shed light on both of these issues. We ask: how reliable is the LFS unemployment rate? What does this mean for how we should assess the amount of slack in the labour market? And how tight is the labour market now, as the employment rate falls?

The Labour Force Survey is currently measuring unemployment well

The unemployment rate is a hugely important economic indicator in its own right, not least given the impacts of unemployment for individuals, including their health and well-being. So it's important to measure it well. Thankfully, despite concerns about the LFS' ability to measure employment since the pandemic, it appears to have been doing a good job of measuring unemployment throughout the 2020s.

To see whether today's measured unemployment rate makes sense, we can look at a wide range of labour market series – including the claimant count, vacancies, wages and hiring difficulties. Later in this Spotlight, we combine these data sources to develop a fuller picture of labour market tightness. But first, we can use these past relationships to revise the published estimate of unemployment today, by looking back over time to see how they moved together with unemployment. We build a model assuming that the LFS unemployment rate was accurate prior to 2020 but has been measured with error since then.[1]

Figure 1 plots the resulting estimate of the unemployment rate. It turns out that this estimate of the true unemployment rate tracks the LFS rate very closely since the pandemic – in May, the published rate and our modelled estimate stood at 4.7 per cent and 4.8 per cent respectively, and both have risen by 0.3 percentage points in the past six months.

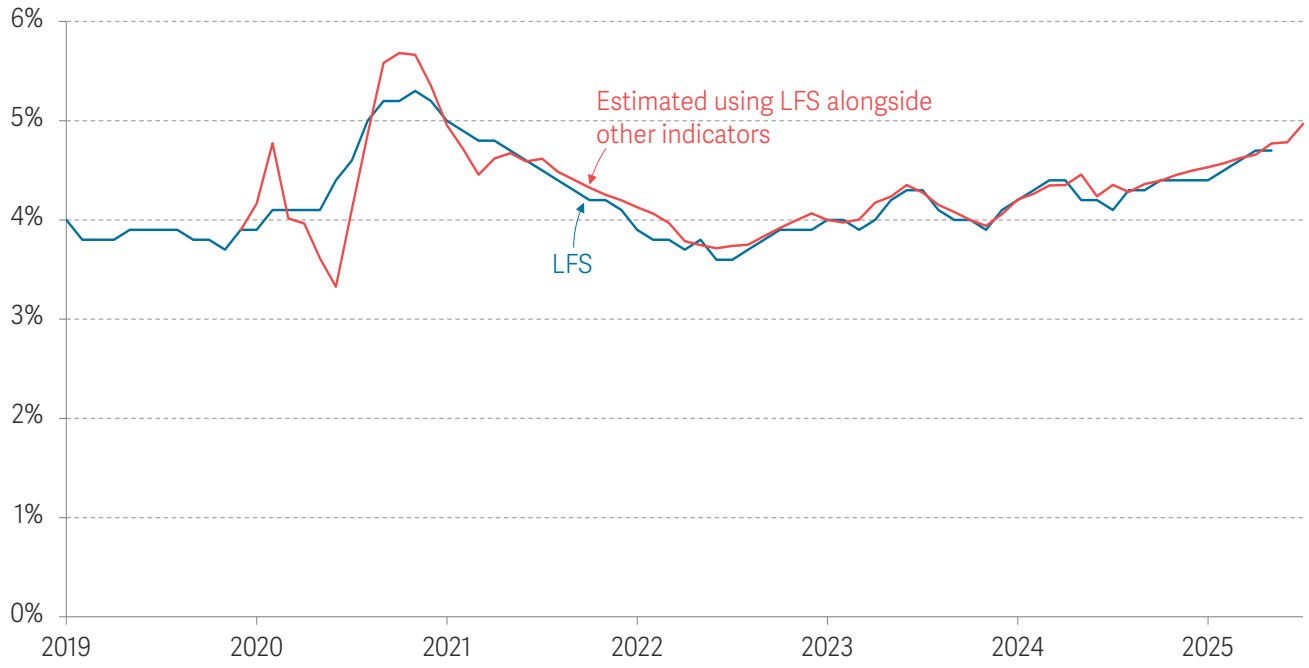
This model can also provide a nowcast for the period since the latest unemployment data,

1 See Box 1.

based on the timely indicators such as the Claimant Count. This suggests that unemployment has not yet peaked, and may have continued to tick up in June and July to around 5.0 per cent.

FIGURE 1: **The LFS appears to measure unemployment well**

16+ unemployment rate, LFS-based and estimated from LFS alongside other variables: UK



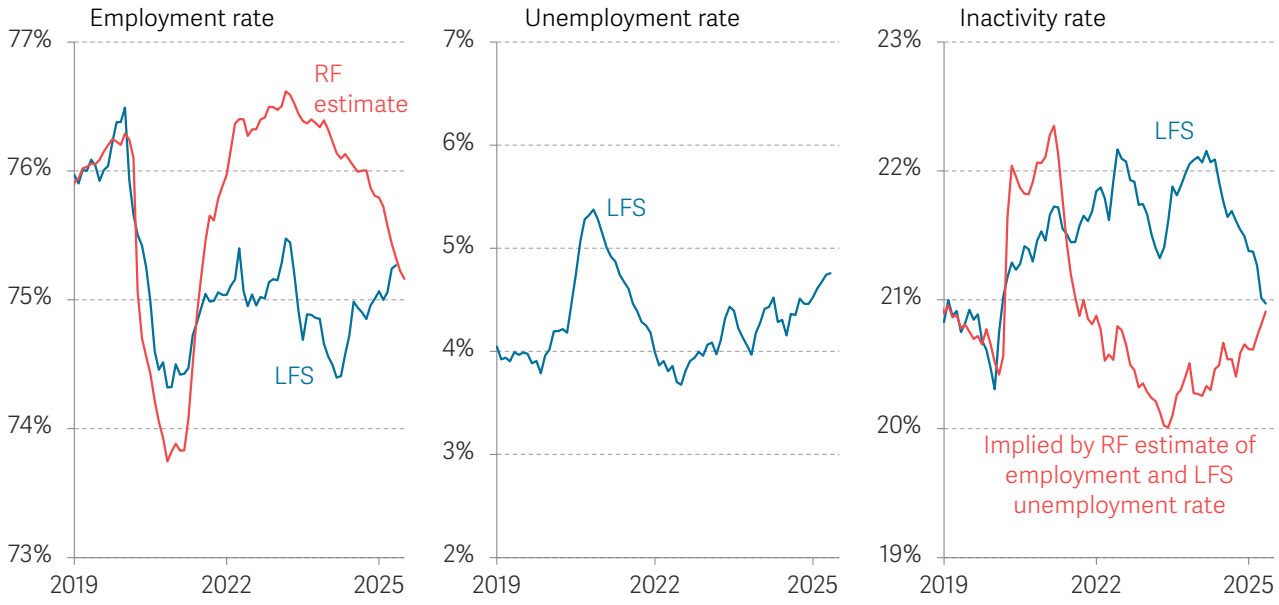
NOTES: Modelled unemployment rate is based on a Dynamic Factor Model using the variables shown in Figure 3, and include vacancies, wage growth, employment, and redundancies. See Box 1 for more information.
SOURCE: ONS, Labour Force Survey; and estimates from a Dynamic Factor Model using data sources set out in Box 1.

If the LFS is right about the unemployment rate but wrong about the employment rate, there are two implications. First, the survey bias that has plagued the employment rate (people without jobs being more likely to answer the survey, in a way that the ONS can't control for) must be roughly the same, but in the opposite direction, for those out of work.[2] Second, if the unemployment rate is rising more slowly than the employment rate is falling, then the inactivity rate must be rising too: the trends in employment and unemployment suggest that inactivity has risen by around 1 percentage point over the past two years, rather than fallen by 1 percentage point in the past year as the official data suggests (see the right-hand panel of Figure 2). If the inactivity rate is indeed rising rather than falling, this would be a major concern for policy makers trying to reduce inactivity and would make encouraging labour force participation more urgent than at any point since the height of the pandemic.

2 If the LFS was wrong about the employment rate by 1 percentage point (say, it thought the employment rate was 75 per cent when it was in fact 76 per cent), but right about the split of non-employed people between unemployment and inactivity, this would only lead to an error in the unemployment rate (by understating the denominator) of 0.05 percentage points.

FIGURE 2: **Unemployment and inactivity may both now be rising**

Estimates of the employment, unemployment and inactivity rates among 16-64-year-olds: UK



NOTES: Inactivity rate estimate is derived from RF's employment rate estimate and LFS unemployment rate. For further details on how the RF employment rate is calculated, see: A Corlett, Get Britain's Stats Working: Exploring alternatives to Labour Force Survey estimates, Resolution Foundation, November 2024.
SOURCE: RF analysis of ONS, Labour Force Survey; ONS/HMRC, Earnings and employment from Pay As You Earn Real Time Information; HMRC, Income of individuals with self-employment sources; ONS, National population projections: 2022-based.

Multiple indicators suggest the labour market is both loose and loosening

So, unemployment is rising in line with the official data. But labour market tightness is about more than unemployment alone - it depends not only on the size of the pool of under- and unemployed workers looking to work more, but also how many workers firms are looking to hire, and how easy it is for jobseekers and employers to find each other. For example, even if unemployment is low, the labour market can be loose (at least temporarily) if firms do not have very many vacancies to fill.

We can use the same broad range of data used to estimate the unemployment rate in Figure 1 to assess labour market tightness. Figure 3 plots each of these indicators normalised to their 2019 average level, and with signs reversed where necessary so that a higher number indicates more labour market slack. For example, wage growth measures have had their signs flipped, because slower wage growth is normally associated with more slack.)

The top-left panel of Figure 3 begins by looking at indicators of labour utilisation. While the LFS unemployment rate is an important indicator of this, it is not the only one: other indicators include the Claimant Count, the proportion of workers who want more hours (underemployment rather than unemployment) and the employment rate. A fall in labour

demand will affect them all, but to a different extent, and they will all be driven by their own unique set of factors.

For example, the employment rate depends on labour supply as well as labour demand, while the Claimant Count does not measure unemployed people who are not claiming benefits, and since the rollout of Universal Credit also includes people who are working but are required to look for more hours, which has likely distorted the trend. Nevertheless, all these indicators of labour utilisation suggest it is lower now than in both 2024 and 2019, although only marginally so for the underemployment rate.

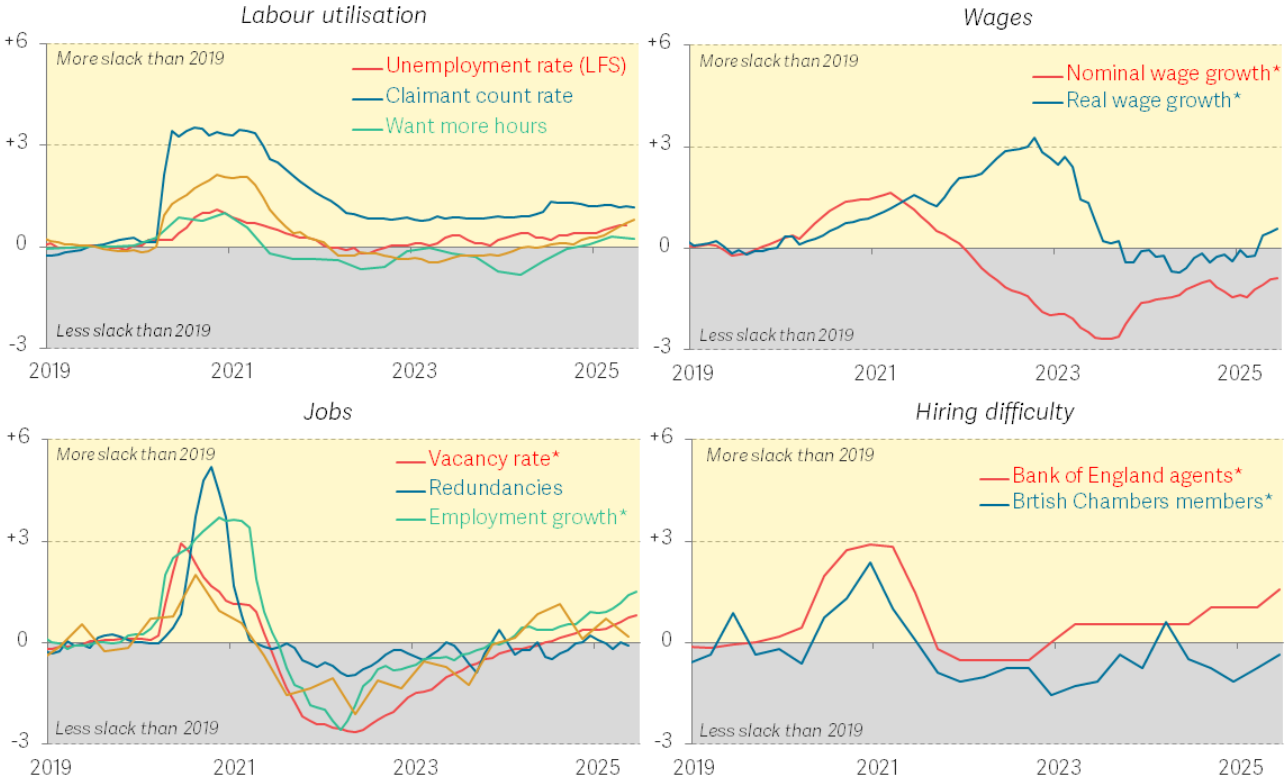
But for a full picture of labour market tightness we must look beyond labour utilisation, to how hard firms are finding it to retain workers and fill vacancies (the bottom two panels of Figure 3). The overall picture is of a labour market with more slack opening up – somewhat looser than it was both last year and in 2019, a point when the degree of labour market tightness appeared sustainable.[3] Of the 12 indicators plotted in Figure 3, all but two (the redundancy rate and the quit rate) suggest the labour market has more slack than a year ago. Along with weak utilisation, hiring conditions (as measured by the Bank of England's agents), the vacancy rate, the quit rate and employment growth all suggest that the labour market has loosened over the past year. A minority of indicators suggest similar conditions to 2019, including the redundancy rate (0.36 per cent of workers reported were made redundant in the three months to June, compared to 0.38 per cent on average in 2019). Finally, the top-right panel of Figure 3 shows that nominal wages are still growing at a rate consistent with a hot labour market – something we return to below.

Overall, from the point of view of workers, these indicators are good news for those who have a job – the risk of job loss isn't rising, and pay growth remains relatively strong. But labour market conditions are getting worse for the growing number of unemployed (up by 206,000 over the past year according to the LFS), because jobs growth and hiring have slowed considerably.

3 It can be unhelpful to compare tightness to the historical average, because the average is made up mostly of periods of sustainable tightness, interspersed with long periods in which the labour market is too loose. Periods of excessive tightness (such as 2022-23) do happen but are rare. See: S Dupraz, E Nakamura & J Steinsson, A plucking model of business cycles, Journal of Monetary Economics 152, June 2025. https://doi.org/10.1016/j.jmoneco.2025.103766

FIGURE 3: **Multiple indicators suggest there is more slack in the labour market than pre-pandemic and last year**

Standard deviations from 2019 average among selected indicators (starred indicators have had sign reversed): UK/GB



NOTES: All series have been normalised using 2019 as the average, and the standard deviation in the period 2000-2025. Starred series have had their sign flipped.
SOURCES: See Box 1.

In Figure 4, we combine the indicators shown above into a single measure of labour market tightness, using a statistical model that assumes that all the series are driven by both underlying tightness and their own unique set of factors, none of which we directly observe.[4] It suggests the labour market has more slack now than immediately before the pandemic (the slack measure is 0.7 standard deviations above its 2019 level, based on the standard deviation of the series after 2000), but remains a long way short of the amount of slack that opened up during the financial crisis and Covid periods (when the measure was two standard deviations above its 2019 level, again based on the standard deviation of the series after 2000).

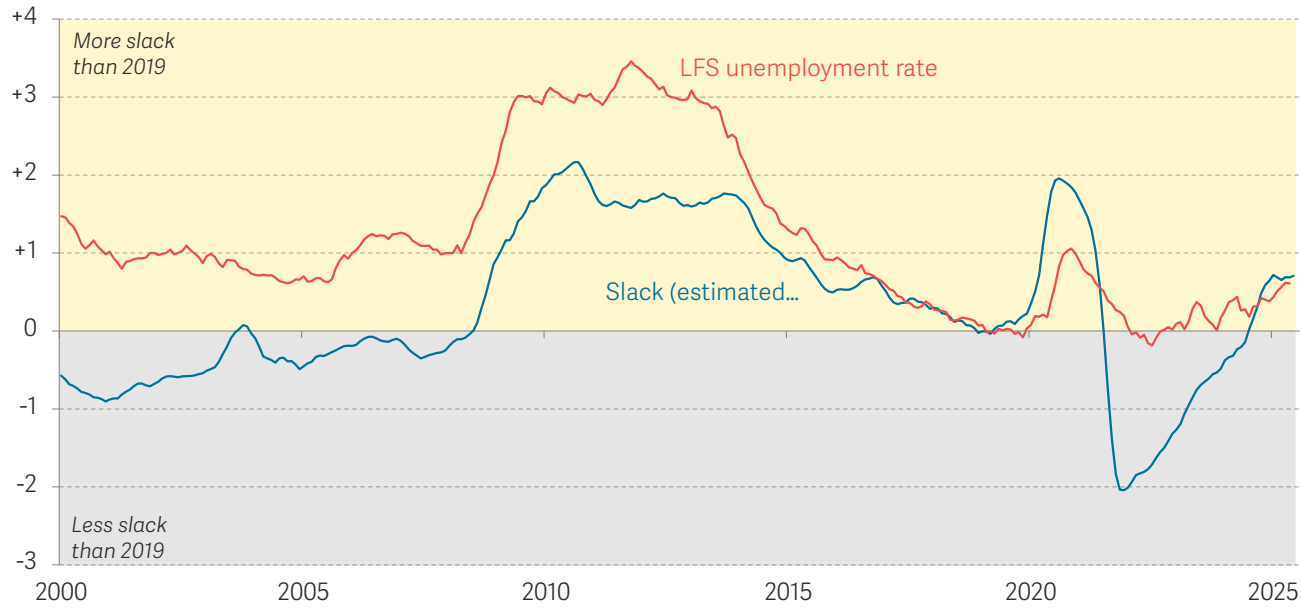
Figure 4 also plots the unemployment rate, scaled on the same basis, and this suggests that the unemployment rate currently gives the same steer on the amount of slack in the labour market relative to 2019 as the broader measure of slack. Reasonable adjustments to

4 See Box 1

the statistical model can change the precise numbers that come out, but the key takeaway – that the labour market is looser now than last year or 2019, but not as loose as after the financial crisis or during the pandemic – remains.

FIGURE 4: **The labour market is slack compared to pre-pandemic, but less so than in during the financial crisis and the pandemic**

Standard deviations from 2019 average, estimated labour market slack based Dynamic Factor Model and LFS unemployment rate: UK



NOTES: Both series are normalised using the standard deviation within 2000-2025 period and using average 2019 values used as the mean. Estimate of slack is from a Dynamic Factor Model; see Box 1 for more detail.
SOURCE: RF analysis of ONS, Labour Force Survey, and estimate of slack based on Dynamic Factor Model using multiple indicators, as set out in Box 1.

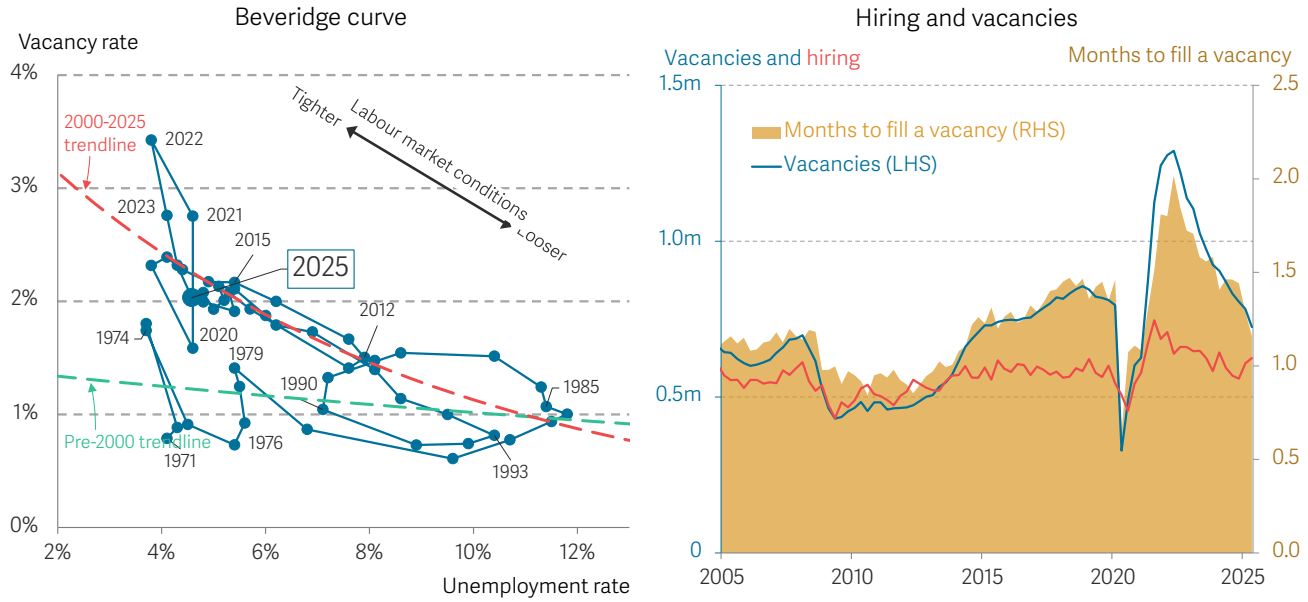
Two other standard measures of labour market tightness, shown in Figure 5, paint a similar picture. The left panel plots vacancies and unemployment. A move towards the bottom right of this chart (higher unemployment and lower vacancies) represents a loosening of the labour market, and that is what we have seen since 2022. The right panel shows the implied time it takes to fill a vacancy – a reasonably direct measure of tightness – which has also fallen sharply since 2022 and is now well below its pre-pandemic level.[5]

5 LFS problems mean that hiring may not be well-measured.

FIGURE 5: **Standard measures of tightness also suggest a loosening labour market**

Beveridge curve (unemployment rate and vacancy rate) (left panel) and vacancies, hiring, and implied time to fill a vacancy (right panel): UK, 1971-2025

NOTES: Vacancy rate is vacancies divided by employment. Monthly hiring is job-to-job moves plus moves into employment from non-employment. Months to fill a vacancy are vacancies divided by monthly hiring.
SOURCES: RF analysis of Bank of England, Millenium of Macroeconomic data (1971-2000); ONS, Vacancies survey; ONS, Labour Force Survey.



The strength of wage growth remains a puzzle

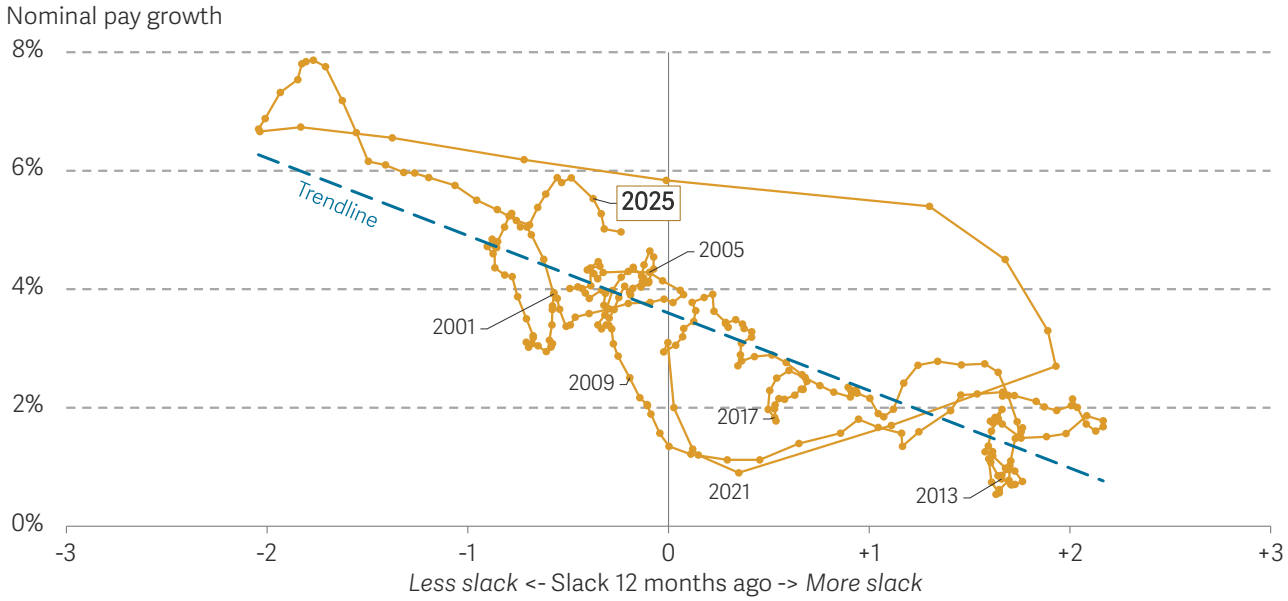
The vacancy-filling rate in Figure 5 directly influences the marginal cost of production: if it takes a long time to find a new worker, it is expensive and difficult to increase output.

But tightness is also a driver of another key determinant of production costs – pay. As we would expect, pay growth has been decelerating as the labour market has loosened. But Figure 6 shows that private sector pay growth remains about 1 percentage point higher than we would expect given the overall tightness of the labour market. Along the same lines, the Bank of England also thinks that there is a high 'unexplained' component to wage growth at the moment – i.e. not explained by productivity, slack or inflation expectations. ONS data suggests that changes in the composition of the workforce towards more highly-paid sectors may only be contributing around 0.2 percentage points to annual pay growth – so much of the puzzle remains. The relationship in Figure 6, which compares private sector wage growth in each period to labour market tightness a year earlier, suggests that wage growth is set to continue falling, consistent with the Bank's latest Monetary Policy Report and the Decision Maker Panel survey.[6]

6 The correlation of nominal pay growth is -0.85 with our slack measure lagged 12 months, compared to -0.78 when measured contemporaneously.

FIGURE 6: **Wage growth is higher than we'd expect given the amount of slack in the labour market**

Private sector nominal pay growth, and estimated labour market slack lagged 12 months: UK, 2000-2025



NOTES: Pay growth measure is 'regular' pay, i.e. excluding bonuses and arrears. The Bank of England's estimate of underlying pay growth is used in period affected by furlough measurement error (2020-2022). Slack is normalised using its 2000-2025 standard deviation and 2019 mean. Estimate of slack is from a Dynamic Factor Model using the variables listed in Figure 3.
SOURCES: RF analysis of ONS, Average Weekly Earnings; and RF estimate of labour market slack based on various indicators, as set out in Box 1.

So, to sum up, the Labour Force Survey appears to be giving a good read on unemployment at the moment. This is good news for the credibility of UK statistics, but bad news for households, with around 200,000 more people looking for work than last year. And it is also concerning for policy makers. The implied rise in the inactivity rate is especially concerning for a Government with a target to boost employment and GDP growth. And wage growth that looks too strong to be sustainable is likely to have slowed any adjustment to interest rates that the Bank of England would have taken in response to labour market loosening.

BOX 1: **Measuring unemployment and labour market tightness using many data series**

To estimate underlying unemployment, we specify a Dynamic Factor Model in which each of the panel of labour market series in Figure 3 is driven by the unemployment rate and a series-specific factor. The unemployment rate is observed perfectly (with LFS unemployment) up to 2020 and then with error after that. The model looks for the unemployment rate that best explains the full set of observed data, including the post-2020 LFS unemployment rate.

To estimate labour market tightness, once again we specify a Dynamic

Factor Model with each of the observable series being driven by both zero-drift measurement errors, an unobserved, non-stationary common component that represents labour market tightness, and series-specific drift term that represents structural changes in the relationship between the observable variables and labour market tightness (e.g. trend inflation, the NAIRU).

The data sources plotted in Figure 3 and used in the Dynamic Factor Models are as follows:

- The unemployment rate is from the LFS.
- The Claimant Count rate is the number of people claiming unemployment-related benefits compared to the number of jobs.
- 'Want more hours' refers to under-employment, from the LFS.
- Employment rate is based on RF estimates using tax and population data.
- Wage growth measures are annual growth in private sector regular pay from Average Weekly Earnings. Bank of England estimates of underlying nominal wage growth are used during 2020-2022 when data affected by furlough. Real earnings growth are deflated by CPIH.
- The vacancy rate is ONS vacancies divided by payrolled employees.
- 'Redundancies' refers to the redundancy rate from the LFS – the number of people reporting having been made redundant in the past three months divided by the number of employees in the previous quarter.
- Employment growth is as estimated by RF based on tax data.
- The quit rate is the number of job moves where resignation is given as the reason, divided by the number of jobs.
- Hiring difficulty measures are from the Bank of England agents and the BCC's Quarterly Economic Survey.

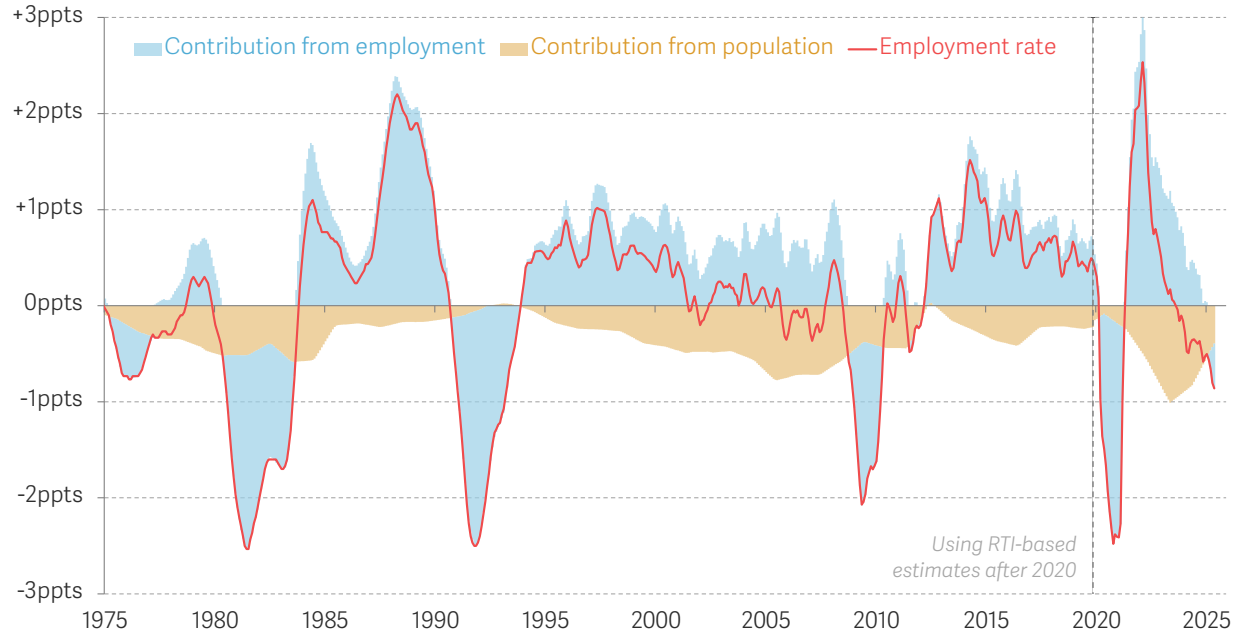
Lifting the lid | Three trends in focus

Falls in the employment rate are no longer being driven entirely by population growth

As set out in this Outlook's spotlight, the labour market is loosening, and one sign of this is a falling employment rate. The employment rate – calculated using administrative data due to issues with the Labour Force Survey – has been falling year-on-year since October 2023. But the nature of the fall has changed since early 2025 (Figure 7). Up until February, the employment rate was falling because the number of people in work and population were both growing, but the latter more quickly. So as the orange bars in Figure 7 show, the falling employment rate was driven by population change. But since then, not only has the population continued to grow quickly, but the absolute number of jobs has also started to fall. This has resulted in a negative contribution from employment (the blue bars in Figure 7) in addition to the negative population effect. This is worrying because absolute falls in employment are not normally seen outside of recessions.

FIGURE 7: **The employment rate is falling, thanks to both a growing population and fewer jobs**

Year-on-year change in the 16-64 employment rate, decomposed into contribution from employment and contribution from population: UK



NOTES: Uses estimates based on administrative data from 2020 onwards due to data quality issues.
SOURCE: RF analysis of ONS, Labour market statistics; ONS/HMRC, Earnings and employment from Pay As You Earn Real Time Information; HMRC, Income of individuals with self-employment sources; ONS, Population estimates; ONS, National population projections: 2022-based.

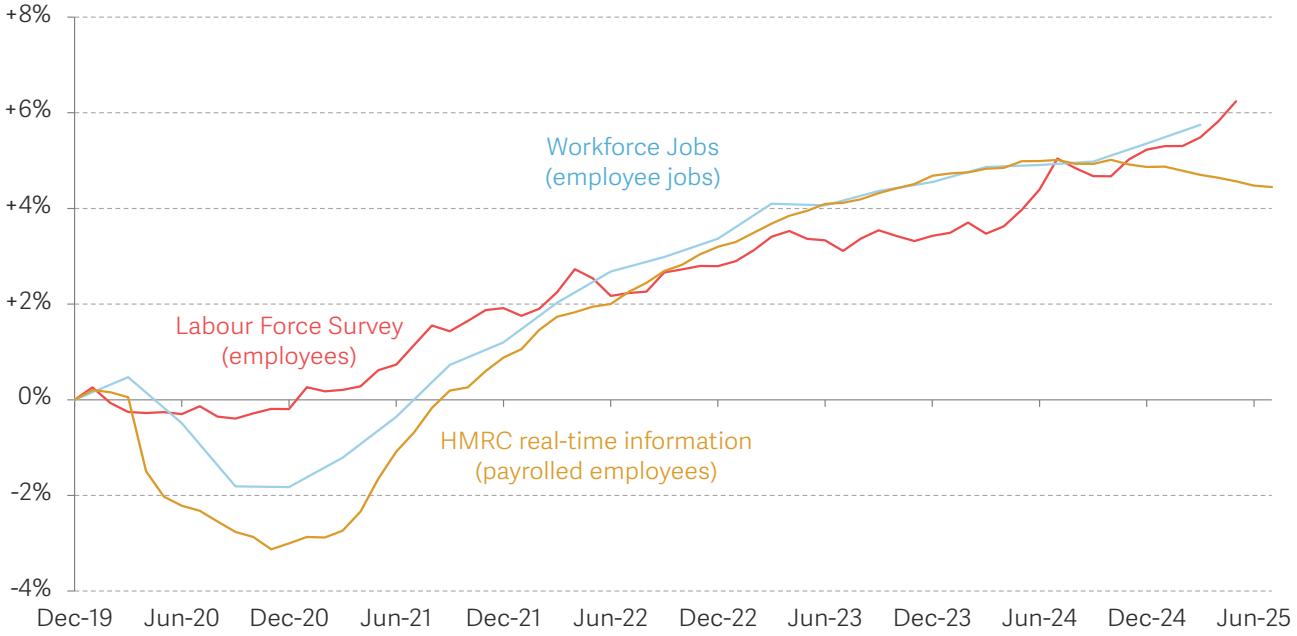
Administrative data shows a decline in the number of payrolled employees over the past year, but this is not reflected in other datasets

Since the onset of the Covid-19 pandemic, different data sources have painted very different pictures of what has happened to employment. Figure 8 compares employee figures from three key sources: the Labour Force Survey (LFS), which underlies the UK's headline employment statistics but has been beset by significant challenges; Workforce Jobs, which is based largely on a survey of businesses; and HMRC's administrative payroll data.[7] According to HMRC, the number of payrolled employees has been gradually falling since last summer – down by 165,000 from its peak in October 2024 – driving the fall in overall employment shown in Figure 8. But this fall is not reflected in the other two data sources, including Workforce Jobs, which has tended to line up well with payroll data.

One possible explanation could be more people taking on multiple jobs – which would raise the number of employee jobs (which Workforce Jobs measures) but not the number of people who are employees. (LFS data shows a rise in the number of workers with a second job, albeit measured with uncertainty.) It is also possible that the divergence between data sources is temporary. Workforce Jobs figures are currently only available up to Q1 2025, and the Q2 data, set to be published in September, could align more closely with payroll data.

FIGURE 8: **Payroll data currently paints a worse picture on employment growth than household and business surveys**

Cumulative change in the number of employees and employee jobs since December 2019, by data source: UK



NOTES: All series are seasonally adjusted.
SOURCE: RF analysis of ONS, Labour market statistics; ONS, Workforce jobs; ONS/HMRC, Earnings and employment from Pay As You Earn Real Time Information.

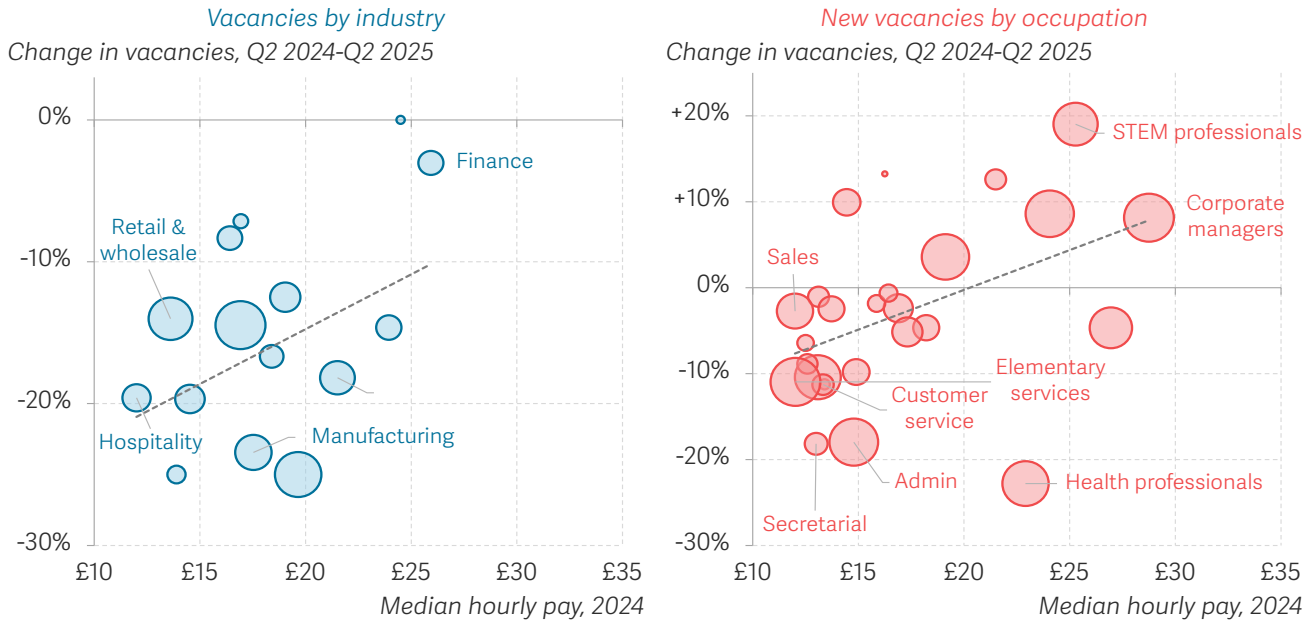
7 The Labour Force Survey series shown here differs from the trend shown in Figure 2 because it covers employees only. One reason the number of employees did not fall in 2020, despite a decline in overall employment, is that some survey respondents who had previously classified themselves as self-employed began reporting that they were employees, even though they had not changed the jobs they were doing.

Vacancies have fallen most in the industries and occupations where pay is lowest

One potential driver of the recent labour market cooling is two recent policy changes that increased the costs of employing lower-paid workers: a large rise in the minimum wage combined with a cut to the earnings threshold at which employers begin to pay National Insurance contributions. It is too early to say for sure whether these changes have directly hit employment, but both were announced in October 2024, around the same time that payrolled employment began to fall (Figure 8). Figure 9 provides further evidence consistent with these two policy changes having hit labour demand. The left panel shows that, over the past year, vacancies have fallen most in lower-paying industries. The right panel shows that this is also true across occupations (here looking at newly posted vacancies), with the biggest falls in vacancies in the lowest-paid roles.

FIGURE 9: **Hiring has slowed fastest in low paying jobs**

Change in vacancies by industry (left panel) and occupation (right panel) between Q2 2024 and Q2 2025 (vertical axis) and median hourly pay in 2024 (horizontal axis): UK



NOTES: Each bubble represents a SIC section (left panel) or two-digit SOC group (right panel). Bubble size reflects the number of employee jobs in each industry/occupation in 2024.
SOURCE: RF analysis of ONS, Earnings and hours worked (ASHE Tables 2 and 5); ONS, Vacancies by industry; ONS, Textkernel new online job adverts.

Resolution Foundation

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.

For more information on this report, contact:

Greg Thwaites, Senior Economist
0203 3722960 | greg.thwaites@resolutionfoundation.org

Resolution Foundation
2 Queen Anne's Gate
London SW1H 9AA
Charity Number: 1114839

@resfoundation
@resfoundation.bsky.social
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