



Economic Affairs Committee

Corrected oral evidence: UK labour supply

Thursday 13 October 2022

10 am

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Members present: Lord Bridges of Headley (The Chair); Viscount Chandos; Lord Griffiths of Fforestfach; Lord Layard; Lord Livingston of Parkhead; Lord Monks; Baroness Noakes; Lord Rooker; Lord Skidelsky.

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Questions 41 - 49

Witnesses

I: Kate Shoesmith, Deputy CEO, Recruitment and Employment Confederation (REC); Lauren Thomas, UK Economist, Glassdoor.

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Examination of witnesses

Kate Shoesmith and Lauren Thomas.

Q41 **The Chair:** Welcome to this session of the Economic Affairs Committee, and our investigation into where all the workers have gone. Would you like to introduce yourselves please, and then I will ask the first question?

Kate Shoesmith: Good morning, everybody. I am the deputy chief executive at the Recruitment and Employment Confederation. We are the UK professional membership body for the recruitment industry.

Lauren Thomas: Good morning, everyone. Thanks for having us. I am an economist for Glassdoor. Glassdoor is a platform where jobseekers and employees can go to find insights about their companies or about jobs. I focus on the European labour market, specifically the UK.

The Chair: Thank you both very, very much for your organisations' written evidence, which is really very helpful, and for taking the time to come this morning. Let me just kick off with the big question. From your perspectives, what are the main causes for the labour shortages at the moment? If you had to pick one cause, what would it be? Would that cause explain the differences of age group, occupation and anything else that we are seeing in the data at the moment?

Kate Shoesmith: We have been tracking this for quite some time. We collate jobs data specifically from the perspective of recruitment activity. In the 25 years that we have been doing *Report on Jobs*, which is a monthly tracking survey of recruitment, we have never seen candidate—that is, people seeking work—shortages as bad as they have been. The worst we saw was in August last year, but it has been quite steady.

The thing that all the economists and commentators are talking about that is particularly causing us difficulties is that we now have half a million more economically inactive people than we did pre pandemic. That is one of the particular problems, but there are other issues. From the perspective of our members, recruitment businesses, we saw that people, particularly EU nationals, did go home at the start of the pandemic, whereas they had not gone home when the EU referendum first took place or as the Brexit deal was being negotiated. It was the pandemic that actually made them go home, and many of those people have not returned. For those of our recruitment members that are operating in certain sectors, that was particularly problematic. Think about drivers and all the newspaper headlines we had around driver shortages. We saw a particular problem there where we lost some of those EU nationals. There has obviously been some levelling out of the migration position.

The other thing that we have seen is people taking decisions. Some candidates are not willing to enter the labour market right now. Young people are opting to study—a natural phenomenon that happens every time there is any form of economic instability or an event such as the pandemic. People stay in education longer. It is the thing that your parents advise you to do, and that you may think is the safest option. We

have seen a number of features of why, and I am sure we are going to come on and talk about over-50s as well.

Lauren Thomas: I would have to agree that the main overarching cause is the rise in economic inactivity, and that falls into three main groups. The first is people who are economically inactive because of long-term illness. That has risen quite a bit; we do not know exactly why. I think we will be talking more about this later in the session but, given that it has happened since the coronavirus pandemic, it most likely has something to do with Covid.

The second group is, as Kate said, people who have chosen to turn to education. This is something that commonly happens when the labour market is weak, but what is interesting is that the labour market has actually been very strong. In the beginning, of course, it was quite weak, and it is important to note that is not so much about whether the labour market is weak or strong as whether young people think it will be weak or strong.

The third, and this is one of the most important problems of our time, is the issue of retirement. There are two groups here. There are people who have taken early retirement; these are often people aged 50 to 64, rarely earlier than that. There are also people who have aged into retirement, those who have reached state pension age at 65. That has definitely caused a large proportion of people to move out of the labour market.

The Chair: Thank you both very much. That is a great overview to start off with. To what extent do you think the shortages are due to search misallocation, in other words people looking for, or not looking for, a job in the right place?

Kate Shoesmith: I will base this on anecdotal evidence, rather than the data. Recruiters will be searching right now, and have been for the last 18 months. In any situation where you have a candidate shortage, our members will be actively searching for people to fill those roles. They will say to you that they have passive candidates, rather than people actively searching, and they will be working on that. It is not a misallocation for them; they can feel it.

Lauren Thomas: From the jobseeker's perspective, there are a lot of opportunities out there to search for jobs and have jobs emailed to you every day. I am sure some of you have experienced that. The three causes that I outlined, for the most part, have to do not with people not knowing where to search or what kind of jobs to look for, but rather with overarching causes that are not, unfortunately, easy to fix overnight.

Lord Layard: Everything you have said is a pretty good explanation of the low unemployment rate. What is more puzzling is why the vacancies are so high at the level of unemployment. Could one of the causes be the very high turnover rate? Could you say why people are turning over so much at this stage? Also, of course, it could be mismatch, as the Chair was suggesting. Could you comment on the relationship between

vacancies and unemployment?

Lauren Thomas: I can certainly talk about why vacancies have increased so much. To begin with, it is definitely true that vacancies are extremely high, but it is important to note that that is not necessarily a cause of the labour shortage, but rather an effect, I would say. Generally speaking, there are two factors that cause vacancies to rise very high: supply and demand, like many other things in the economy.

The first thing to note is that, during coronavirus, there was a lot of pent-up demand that led to a quicker than expected surge in consumer activity after the pandemic. Household savings actually peaked during the pandemic. The ONS has had a lot of data on this, and you can see that household savings really went up a lot; they are lower now, but that means that people had more money to spend. More importantly, they had the desire to spend. You remember, we were all cooped up and we did not have the opportunity to go travelling, spend on hospitality and all of that.

If you look at vacancies, they are actually highest in these industries where people were not allowed to spend their money during the pandemic, so undoubtedly there was a huge surge in demand. As I was talking about before, there was also this decrease in labour supply; there were fewer workers to fill the jobs and more jobs for them to fill. This was just a perfect storm—high demand and low supply—and that led to this record rise in vacancies.

Kate Shoesmith: Some sectors have had a significant shortage of workers and high levels of vacancies that they have been carrying for quite some time. In addition to the points Lauren was making, if you look at the health and care sectors, you can see that there has been a significant shortage of nurses, carers and social workers for a really long time. Actually, the pandemic has exacerbated some of that. We have seen that we have a need for more people. What happened in those sectors is that people were retained and perhaps kept on longer because they were about to retire, but there have also been really high rates of burnout in those areas, for understandable reasons, over the pandemic. You have a number of pull factors.

I mentioned drivers earlier. In the 10 years that I have worked at the REC, we have always talked about a shortage of drivers. We have more drivers over the age of 60 than we do under the age of 30, which is a particular problem. Attraction to some of these sectors is a really big issue, and we have just seen it exacerbated by the pandemic.

Q42 **Lord Livingston of Parkhead:** This is probably one for Kate to take further the misallocation question. Are your members seeing any areas where there is an excess of workers? It largely puts it to bed if there are not. Normally you would expect to see surpluses in some places and shortages—IT, et cetera—in others. Are you seeing any surplus areas?

Kate Shoesmith: Absolutely not, no. This is one of the biggest issues now. Many of our recruiter members will say this is a great market for them to operate in, because it makes searching for people for their clients particularly important. It turns recruitment into a really needed service. The biggest thing that they are having to work on right now is how they help their clients retain staff. That is a really big issue.

- Q43 **Lord Skidelsky:** One of the perplexities of the inquiry is to locate our problems in a more cross-country context. If we are an outlier, why are we different in some way? We have had data from the OECD which suggests that our inactivity rate has been going up, and that is actually rather unusual. In fact it is almost unique; there are one or two similar cases. Others have been going down. Why is that? If we are sicker, why are we sicker? Particularly, Lauren, I wonder whether you could try to answer that in the supply and demand framework that you set up earlier. Have there been differences in Covid or epidemic policy in some countries, different from the UK? Could you have a bash at that?

Lauren Thomas: Of course. To begin with, demand has been relatively similar across countries. Many countries had very similar policy responses, and as a result of that many countries saw household savings peak. Certainly, that was true in the United States as well. That meant that, after Covid, a lot of countries had restrictions; people were cooped up; people had a lot more to spend. That is something that is very similar.

Turning to labour supply, countries are actually more similar than they are different. There are generally two types of shifts in any market, including the labour supply market: structural and cyclical. To start with the structural shifts, there is one big one, which is pretty universal: ageing demographics. That is a common trend across developed countries, where the working population is getting smaller. Some countries are further along the demographic curve than others, notably, as I am sure many of you know, Japan and Italy. Canada, Australia and the United States are younger, in large part due to migration and, to some extent, fertility, especially in the United States.

In terms of cyclical shifts, Covid has had a relatively similar impact on these different countries. We saw a rise in economic inactivity in most of these countries, including, notably, the United States. We have seen some divergence in labour force participation, which is basically the opposite of economic inactivity—so, economic activity—and employment rates among prime age workers, which are those aged 15 to 64 or 25 to 54, depending on the country. However, in many countries, such as Canada, France and Germany, but notably not really the United States, employment rates among prime age workers have recovered to pre-pandemic levels—this is from OECD data—but this has not happened in the UK.

Turning specifically to the two other causes I talked about, studenthood and long-term illness, those do vary between countries. The UK is seeing more people going to school; that did not happen in the United States. I

have my hypotheses as to why, but I will not get into that. Long-term illness seems to have varied between countries. It is not quite as prominent in other countries, but that does not mean it is not playing a role.

Kate Shoesmith: I mentioned earlier that we have very long waiting lists for relatively routine operations in the NHS, and it feels like the pandemic has exacerbated some of that. It was in the news again this morning. This is more from the perspective of recruitment businesses, so it is more anecdotal rather than on the data side, but they are saying that people are making different choices based on the pandemic. Whether this is a long-term trend or not, that is something for us to consider.

We have people who have thought, “If I don’t change my role, my career or the discipline in which I work now, then when?” That has been a feature. They have taken a step back from the jobs market for that reason. We have particularly seen people take a step back from the jobs market because they felt that they were pulled in many directions through caring responsibilities. We have a squeezed generation who have both childcare responsibilities and caring responsibilities for family, such as parents. It is really difficult to balance all those priorities with work.

We have looked across countries to see how we compare. We did some economic modelling and desk-based research over the summer, because we wanted to see whether we could learn any lessons from other places. We looked at G7 countries because they felt more immediately comparable.

In Germany, the economic inactivity rate is very high, actually, but a couple of particular areas there have been a real feature. One of them is how they engage across communities. There is a very clear system of federal government, local government and social partners—businesses and the unions—working in concert to ensure that they are supporting people with in-work training and development programmes, which felt quite different. There is a big focus on the development of somebody’s career and their progression opportunities, which is done collaboratively.

In Canada, we noted businesses saying that they are definitely feeling worker shortages in key sectors. The ones that were prominent were accommodation and food services, which felt very much about the pent-up demand where people were coming back to spend money after the pandemic, very similar to what we were experiencing. Also, in construction and manufacturing, businesses there were talking about labour shortages.

One of the responses has been around how they think about automation of some of those roles. The other one has been thinking about immigration and how they attract people in. There is definitely a sense that the UK is not the only one facing labour shortages, but, whereas people thought there would be a shorter-term impact on our economic inactivity level immediately coming out of the lockdowns, we are still here 18 months later.

Lord Skidelsky: It is the trend that is different.

Kate Shoemith: Yes.

The Chair: Can I just pick you up on one point you just mentioned? You said that Germany's inactivity levels are high. You touched on some of the solutions, but what is the cause of that in Germany?

Kate Shoemith: I am definitely not the expert on this, but it seems to be that one of them is that it is more acceptable to retire early. It is one of the features of their labour market. There is also a sense that people are given more time off for caring responsibilities. There is a very clear system of childcare, where you would take a step back and businesses are expected to maintain a role for returning mothers—so there are different factors. It seems that that is a more acceptable feature of their society.

Q44 **Lord Rooker:** Good morning. If we take the overall labour supply trends, can you separate what are likely to be the temporary effects of the pandemic, as compared with what you might classify as long-lasting trends? At one time, one of my responsibilities through the Food Standards Agency was the regulation of the meat industry in this country. Over 90% of the vets in all meat plants were non-UK nationals, which is a really serious issue because without them the plants do not operate.

We are a more unequal country, geographically, than Germany. It is very unfair. Are there any trends within the geography of the UK that are more long lasting rather than short and temporary because of Covid? Is there any information in that respect at all?

Kate Shoemith: What was notable about our jobs data as we were coming out of the lockdown in March 2021 was the uplift in demand for vacancies: businesses looking to hire. Normally, you would see it, perhaps, start in London and the south-east and, quite often, the north-west. They tend to be the hubs. The notable part was that it was everywhere. That demand for jobs was across the UK. Businesses said that there was a sense that they had spent the pandemic almost recalibrating, doing what they could, but now the only way to grow and develop a business, and to sustain and have longevity as a business, was to hire more people. "Now I'm allowed to, and the market's shifting, I can do that".

We noticed that it was not just all the geography. We collate job vacancy postings data across all local authorities, and we could see that uplift across them all, but we can see, sector-wise, that there was this uplift. Lauren is completely right that there were certain sectors where the pent-up demand meant that there was an extreme reaction, so that you had a really high rise in vacancy numbers for hospitality, because they simply had not been able to trade previously. You are not comparing apples with apples, if you like. But the sectors were also growing.

In the longer term, we can see trends. I mentioned healthcare. It is a long-standing issue of not being able to attract people into the sector, so

now you have a problem where we do not have enough people. The NHS and private healthcare are running with significant levels of vacancies just alongside it, and that has been the status for a long time, so we have been trying to think about different solutions there. We know that there is always an uplift in demand around people needed in STEM industries. There have been shortages for quite some time.

If we take IT, computing and technology, for example, you can see trends and changes. The way we all shopped and engaged with each other meant that there was a huge uplift during the pandemic for things around digital marketing, the online retail experience, the user journey, with lots and lots of programming skills required for all of that. Recruitment businesses in that space in IT were saying to me that the next thing will be cybersecurity. They could not predict the war Russia declared on Ukraine, which of course has exacerbated some of this, but they knew that cybersecurity would be the next thing because there is a huge amount of data being collected for online transactions that then needs to be securely held. So there are definite areas where, in the months to come, there will be a need for greater numbers of staff. That is something that we can see from our jobs data.

Lauren Thomas: Generally, you can categorise these trends into three groups: temporary or cyclical, long term or structural, and those that are just pretty unclear. To begin with cyclical effects, with education, that is actually both cyclical and structural. However, it seems like most of the changes we have seen since the pandemic, as it has been only a few years, have been cyclical rather than structural. It is not so much that way more people are going into education and this is a super long-lasting trend, but rather that people have entered education because they think the labour market is going to be weak. We expect to see this start to return, and not be quite so elevated, in the future, depending on what young people in particular think that the labour market will look like.

In terms of long-lasting and structural, as I mentioned before, a very prominent and important issue is the ageing of the workforce. This is very unlikely to reverse any time soon because we are seeing the same trend across pretty much every industrial country. The people who are ageing out of the workforce are highly unlikely to be replaced by births of the UK-born population.

Long-term illness is the third trend that I talked about before. It is less clear whether that is going to be cyclical or structural. We know that chronic illness can damage productivity, but we are not entirely sure yet whether this rise has been entirely because of Covid. A lot of it has happened in the last four to five months, quite a long time after the pandemic began. About 35% of the rise has happened in the last three or four months, but it is highly plausible that it is linked to Covid. Even if it is, we are still to uncover the lasting impacts of long Covid or the mental health effects of the pandemic. More importantly, we are still to discover what the potential treatments are. How we react will determine what the future is; it is not set in stone.

Comment [KS]: I'd like to suggest an edit to ensure this reads as intended and conveys the sense I was trying to put across.

To turn to the geography question, as Kate said, the trend is pretty universal across the UK. We saw unemployment go down and economic inactivity go up in pretty much all of the 12 regions of the UK, but the inequalities that already existed still exist. Both economic inactivity and employment, for example, tend to be notably higher in some parts of the UK, for example in the north-east, whereas they tend to be lower, for example, in the south-east. That has not changed; the inequalities have not been completely gotten rid of because of the pandemic.

Going forward to the future, a place like London tends to be younger. People tend to move to London in their 20s and then they move out of London in their 30s and 40s. That is just a trend that generally exists. We might see ageing impacting London or the south-east a little less, because people tend to be a little younger, but that does not mean it will not impact London—it will definitely impact every region of the UK.

The Chair: Lauren, in your evidence, I was very struck by what you were saying about different employment rates between EU-born, non-EU, and UK-born workers. You appear to be saying in paragraph 26 of your evidence that, since Brexit, a large number of EU workers have left. I am putting words into your mouth, so correct me. I am just interested, therefore, in the structural impact that might have on our workforce and where we are.

Lauren Thomas: Yes, definitely. As noted in our written evidence, economists generally agree that Brexit has impacted the labour supply. As I said in our written evidence, generally it seems to have negatively impacted the labour supply and there is certainly a difference between non-EU migrants and EU migrants in terms of what kind of jobs they come in for, but that is not something we have done any extra research on. I do not have any extra data to expand upon that point.

Q45 **Lord Livingston of Parkhead:** If I can focus on the over-50s in particular, we know what has happened to them, but I think the question is why. Both of you have touched on this in previous questions, but, Lauren, you have talked a lot about long-term structural changes, yet participation in the workforce, until the pandemic, was actually increasing. I think that was true for the over-50s as well. What has changed? That is the critical thing, not about the long term, but what over the last two years, in your view, has changed? I will ask you later whether there is anything we can do about it, but let us start with the “what”.

Lauren Thomas: To begin with, you are certainly correct that labour participation was improving. It went down a lot after the great recession, and then as things changed it was going up over time. However, it is important to note that, when economists, statisticians or the ONS talk about that, they are usually referring to prime-age labour force participation, so that would not account for the effect of the ageing workforce. That is definitely a trend that we have been seeing for the last couple of decades, and it is definitely very important.

However, you are right to focus on over-50s, specifically people aged 50 to 64, because when compared with the other age groups this group is the biggest driver behind the rise in economic inactivity, accounting for over 40% of it. The second-biggest group is the over-65s: basically people ageing. Early retirement is the biggest reason why, and that is something that we and the ONS have done research on. They seem to be saying the same things, which is always a good sign. We did a survey this year finding that the biggest barrier to employment for full-time employees over 55, people generally in this age group, is finding a job that matches their level of experience and skill, and this group prioritises salary more than any other group when job hunting.

The ONS report found the same thing. It found that salary is the most important thing when thinking about your job. Other key factors when considering where to work were the work/life balance, job location and the security of the role. Again, the ONS talks about how important flexibility is to workers. It is also important to note that early retirement is not a permanent shift, especially because many people are not yet at state pension age; they are drawing on their private funds instead. Oftentimes, people will retire, but they are willing to go back for the right role, and this is something that Glassdoor and the ONS has found. The types of jobs out there definitely matter a lot when we are thinking about how we reverse this rise in economic inactivity.

Lord Livingston of Parkhead: Kate, do you have anything to add to that and, particularly among your members, any views about policy changes that would help?

Kate Shoemith: Absolutely—the data shows it, but we could feel it and see it. I made this point earlier about people opting out for themselves because they had reassessed priorities over the pandemic, or perhaps experienced burnout or felt that they had not been brilliantly treated, so perhaps they felt that they needed to reassess what they were doing in terms of their working life and take different decisions. I talked about this squeezed generation. The big thing is care. Childcare is extortionately expensive, as we all know, and it is difficult. It is very hard to balance the caring responsibilities you have with children and elderly parents.

Lord Livingston of Parkhead: We are talking about over-50s. They are taking grandparent responsibilities.

Kate Shoemith: Absolutely, yes. This is a feature.

Lord Livingston of Parkhead: I know the feeling.

Kate Shoemith: Don't we all? How many people are doing school pick-ups because they can? It is a big thing. If you are a relatively new parent returning to work, there is a sense that you are reliant on other family members and the community around you to help you out. We need to invest in making childcare—and care—available that follows the child as much as possible, because there are other people involved in those arrangements who are taking a back step in their careers and their jobs.

The Chair: Do you have data on this?

Kate Shoesmith: We do not have specific data. However, we have done a number of focus groups with employers asking what is stopping people from working more hours, and we did a lot of that work over the summer. We also worked with the Centre for Ageing Better on why older workers are taking this step back.

We spent some time looking at who is working as a temporary worker, a contract worker or a freelancer, and why they are doing that. One of the big groups is the over-50s. There are four main groups there. The over-50s are doing it, they say, because they need the flexibility and they cannot get that from a permanent job, so that is why they are taking a temporary job. They are trying to balance these other responsibilities. That is the information we have to hand.

Lord Livingston of Parkhead: Can I just ask a specific question to you, Lauren? You presented some very interesting Glassdoor special data. Is your sample representative of the general population? While I use Glassdoor, I suspect I am not that representative of typical Glassdoor users.

Lauren Thomas: That is a great question. Glassdoor data is generally very reliable, especially when you are zooming in on specific groups. We have many over-50s, so a lot of the data I was talking about is from a survey that is representative of people in full-time employment. Some of the other data I am talking about is representative of what employees in general are thinking, but particularly those who tend to be in what we call "knowledge work": those who tend to have university degrees.

We have also done research focusing very specifically on seasonal workers, for example, who tend to be front-line workers. To be honest, a lot of what they are saying is pretty similar. Last year we did a piece on what seasonal workers were talking about, and one of the big things that came up was flexibility. Flexibility means different things to different people. You do not necessarily get to choose, "I will work two hours here and two hours there" when you are a seasonal worker, but you might get to choose "What time of day are my shifts? Are they on the weekend? Are they during the week?" and that sort of thing. It is definitely something that every group of workers cares about.

Q46 **Baroness Noakes:** I would like to shift on to long-term sickness, which as we know is one of the key drivers of economic inactivity, at least relatively recently, if I understood what Ms Thomas said a bit earlier. I am really just trying to find out what we know about this increase in long-term sickness. What kinds of sickness are we talking about? I think, Ms Thomas, you mentioned that we do not know yet whether it is cyclical or structural, so what will we be looking for in the data to give us clues on that? Do we know anything about equivalent trends in similar countries abroad? It is really a general fishing expedition in this.

Lauren Thomas: As I said before, the new ONS data shows that inactivity because of long-term illness—"chronic illness" might be a better way to put it; it rolls off the tongue a little easier—is at a record high. Some 2.5 million people, which is quite high, in the UK were off work because of chronic illness between June 2022 and August 2022. The ONS tends to release data over a three-month period rather than a one-month period.

The percentage of the prime-age—15 to 64—population that is economically inactive, neither working nor looking for a job, due to long-term illness has increased by 0.9 percentage points since before the pandemic. As I said before, what is interesting to note is that a lot of this rise has happened just since the three-month period of March to May 2022—not the majority, but it has certainly been the sharpest increase since that time period. That is very interesting and might have something to do with the rise in Covid in December 2021 to January 2022, because chronic illness tends to show up a little later.

As I mentioned before, chronic illness can definitely damage productivity. There is no doubt about it. We are not entirely sure yet what this is about. We can dig into the data and see why people who are off work because of chronic illness are off. Is it because of long Covid, because of mental health, or because of something else entirely that we are missing, which could have to do with the backlog in the NHS?

As I said before, the future is not set in stone. Long Covid is a chronic post-viral syndrome; these have been around for a while. I am not a health expert, so I will not weigh in too much on that, but what I can say is we do not know a lot about treating them yet and there is still a lot of research and work to be done in that particular field, which could help.

Finally, as mentioned before by Kate, there is certainly an issue with labour supply and healthcare, which could definitely be contributing to the issue. There is a lot of demand for healthcare; demand remains pretty constant regardless of what happens in the broader economy, but supply is pretty low and looks set to remain low because it takes time to train people into healthcare. That is definitely something to be concerned about. If we cannot treat, we cannot get people back into work. I have not looked at the long-term illness rates in other countries, but I can look at that and try to get back to you in writing later on.

Baroness Noakes: That would certainly be very helpful. Is there any data or survey information on what it is that is driving long-term sickness? We can speculate that it is NHS waiting lists or long Covid, but do we know anything about what is actually happening?

Lauren Thomas: No, not as far as I am aware, but I would not be surprised if more data came out soon, I hope from the ONS. I do not know that at the moment, but it would not surprise me because this is something that the ONS and a lot of commentators are starting to pay a lot more attention to. It is definitely something to look into and encourage people to look at.

Kate Shoesmith: We have noted that there has been a lot of attention on how to support people who are perhaps the furthest away from the jobs market—the long-term unemployed. That is a different area, though, and you can see some trends there around why people are long-term unemployed.

Baroness Noakes: If we can see the phenomenon of the increase in economic inactives through long-term sickness, would we not expect to see some of that showing up in employment as well—ie higher sickness rates in employment before actually getting into economic inactivity? Is there any evidence of that?

Kate Shoesmith: I do not think there has been so far. There will be collections of sickness data and the average days that people are taking as sick leave et cetera. My understanding of that information is that, where we had a change in—let us call it the knowledge economy, as Lauren did—people working remotely, so during the pandemic they worked from home, that lessened the impact of sick leave.

Baroness Noakes: That should have worked its way through by now.

Kate Shoesmith: Absolutely. That is as much as I am aware of on that.

Lauren Thomas: I am not aware of any more data, necessarily, on the impact on employment other than that, generally speaking, it definitely impacts employment and whether people can show up and do their job on the day. As Kate said, when you are working from home, sometimes you can still do some work in a way that you would not necessarily be able to if you had to go into the office. However, when it comes to chronic illness, oftentimes it is a little bit different, especially when you are thinking about something such as post-viral syndrome. As I said, I am not a health expert so I will not weigh in too much on that, but it certainly causes a lot of fatigue and it makes it very difficult to work.

Baroness Noakes: It is an area that we just do not know enough about.

The Chair: Any more data on that would be very useful. Does either of you have any data points to show the correlation between those who are long-term sick and those who are also not looking for a job? The reason I ask for that is that, when you look at the data from the ONS, it shows a very steep rise in the number of men in particular who do not want a job and are economically inactive. Looking at this, in the last year it has gone up by about half a million. I do not know whether you have seen any data correlating one with the other.

Lauren Thomas: I have not.

The Chair: It would be very interesting to see if you are able to mine any of this data for us.

Lord Rooker: I just want to be clear. When we have looked at this with other witnesses, we have discussed the long-term sick and looked at the increase in the NHS waiting list prior to the pandemic from 2.5 million to

4.6 million. We must not assume that people are on the waiting list are out of work. That is, fundamentally, in a way, a mismatch. The question really is to follow up from Baroness Noakes. Do we know how many on the waiting list are actually working while they are waiting for treatment?

Kate Shoemith: I do not, and I would be surprised if we have the information fully available. You are completely right; people on a waiting list could be working still, but the longer they are on the waiting list, the less likely they are to be able to give as many hours. That is based far more on conversations and anecdotes than data, but we noticed that it particularly impacts people who are on the waiting list for longer. They will drop out further, and it is a significant problem for us.

Q47 **Lord Monks:** Historically we are used to young people in a recession heading for education and training, and improving their skills, because there is high unemployment and a shortage of opportunities. While you can understand when the pandemic was at its height that young people would do the same sort of thing, it is not quite so easy to understand now that the pandemic has eased—I will not say it is long gone; I hope it is but it might not be—why they are not going into employment now. Why are they not flocking to fill all the gaps, including some gaps in very good jobs with good career opportunities? Have I got the flow right—that actually there is no great sign of them taking up lots of the vacancies that exist in the economy at the present time?

Lauren Thomas: It is certainly correct that a lot of young people moved into education when the pandemic hit, probably because the labour market was very weak for several months, so they were not wrong there. The question is why people are not getting out of education now. Why are they not in the labour market? The labour market is quite strong; this is what we have been talking about this whole time.

It is true that, in the first school year after the pandemic, you saw an elevated rise in education and then there actually was a bit of a drop. But there has again been a rise in education, and the question is why. As I said before, it is important to note that it is not so much about whether the labour market is weak or strong, as it is about whether people think the labour market is weak or strong. That is the first point. Certainly, there is a lot of stuff in the news about people speculating as to how the labour market will be in a couple of months. There is a lot of nervousness. We have found in our own data that there are a lot more people talking about layoffs or recessions than there were before. That is certainly something that is in the national mood, so it would not surprise me if that was impacting education decisions for young people.

Importantly, there is a second point here that has to do with the pandemic as well. A Glassdoor survey of young adults aged 18 to 25 found that the biggest barriers to employment were a lack of industry experience, confidence and connections. This is not new. We all experienced this when we began our careers. However, something that most of us probably did not experience was beginning our careers in a post-pandemic, remote-first or hybrid working world. These things are

especially tricky in that world. It is really important for employers and the Government to consider this. Economic research, which has mostly taken place in the US, but I would imagine a lot of this is similar in the UK, has found that there is a negative impact of a remote work environment on mentorship and on feedback: people getting more information on their work and improving.

Young people know this. Our research found that one in two young people say that the Covid-19 pandemic has negatively impacted their career opportunities, so that is definitely something to consider when we are thinking about why more young people are not in the workforce.

Kate Shoesmith: Young people are holding themselves back from the jobs market, and whether that is because of reality or perception is one thing. The other side of that is that, when businesses are looking to hire now, in certain industries the entry-level roles particularly welcome people of all ages, all disciplines, et cetera, and there are lots and lots of opportunities.

We do an awful lot of surveying information around employers on their hiring intentions. Even now, more are looking to hire than to reduce their workforce, but their confidence in the overall economy and the markets is very low. It is in negative territory and it has been for some time. In that situation, you take different decisions about who to hire and you may be looking for people who are more highly skilled in a number of different jobs. There will also be that perception playing into it in some ways, and people will be aware of that. We know that young people are disproportionately impacted whenever there is any form of turbulence in the jobs market.

Lord Monks: In effect, it is the sense of uncertainty that you would get in a period of high unemployment, which, according to the Bank of England we might be going into next year. In the present context, there is still the uncertainty and the sense that we do not really know what is going to happen, so it is better to get our skills up to whatever level we can. That is the mindset that you are identifying.

Lord Livingston of Parkhead: Lauren, can I come back to you a little bit on your comment about the knowledge economy et cetera? I accept exactly what you are saying and have seen it directly, but the vast majority of workers, a large proportion, still have to go to places because of the nature of retail and hospitality, et cetera. Some of the most difficult places to find people are where you have to turn up at a job. Are we being a little bit focused in our views, because we work in the knowledge economy and we can do things remotely? I am not doubting what you are saying about that group of workers, but we are seeing it also where people have to turn up at a job. They could be the shortages.

Lauren Thomas: Yes, it is definitely true that a huge proportion of the workforce does have to show up every day. There is a proportion that has to show up hybrid and a proportion that has to show up remotely. However, there are two points that I want to make here. First, we are

talking about people who are choosing to move into education. Where people choose to continue their education after 18, sometimes that is through apprenticeships or that sort of thing, but for the most part this is referring to people who are going to university. It is those people who are disproportionately likely to be in these hybrid or remote jobs.

Secondly, this is something that economists love to say, but the margin really matters. Things happen on the margin. Certainly, while it is true that a lot of people still do have to show up every day, we are not talking about the entirety of young people no longer being able to find a job or choosing to go into education, or anything like that. We are talking about a rise. I am not aware of whether that rise is taking place entirely among young people who are going to university or among everyone. But that rise could, in large part, be from people who would move into these remote-likely careers.

Finally, this point about uncertainty applies to everyone, but it probably applies to people who are not in remote-friendly jobs more than anyone else.

Q48 Lord Layard: I wanted to ask about the cost of living, whether that pressure is going to make more people go back into the labour market and whether we can already see signs of that.

Kate Shoemith: Thus far, no. It is worth remembering that people with cost of living pressures may already be in work. A number are, and what they are looking for is more hours or better pay. It does not necessarily immediately impact the economic inactivity levels.

Lauren Thomas: It is also often difficult to tell why people are making a choice like re-entering the labour force, and usually there are multiple reasons why people do so, but we do have data that provides some insight on this topic. To set the stage, the ONS, as I am sure you know, has shown that, while wage rises are actually very high in nominal terms, in real terms, because inflation is at a 40-year high, they are pretty low—negative. The number of workers with a second job has increased, so that seems to suggest that the cost of living is definitely impacting people's choices.

Zooming in on our data, it suggests that workers are becoming more concerned about the cost of living. We can see that concerns about inflation are growing sharply in Glassdoor reviews. Negative mentions of "inflation" or "cost of living" have grown over 400%, which is a very big increase for a set of words, since December 2021. Then we have also looked at how people are talking about their salary, compensation and pay, and negative mentions of that have increased by 16% since 2020. That negativity is more prevalent in industries such as government, and less prevalent in industries such as hospitality. In fact, it is prevalent but has decreased in hospitality, which is interesting because hospitality is also the industry with one of the highest wage rises, because they have had such a hard time finding workers.

Finally, our own survey found that one in five people, or 20%—so not everyone, but a big proportion; this was a couple of months ago, so I would imagine things are even more stark now—are worried about finding a job that covers the increased cost of living. So in general we are not entirely sure yet, but this is definitely something that workers are thinking about and concerned about, and that shows up.

The Chair: Would it be possible for you to provide us with any data that can try to track whether more people are returning and using your services, having been out of the workforce and inactive for some time? Is it possible to try to do that?

Lauren Thomas: I can certainly look into that. I cannot say for sure right now whether that would be possible; it is plausible but I cannot say for sure.

Q49 **Viscount Chandos:** I would like to ask about vacancies. I think a number of factors that are affecting them we have already discussed. Why are vacancies, since the beginning of the pandemic, running at such a high level? To what extent do you think that is temporary? How do you think the macroeconomic environment, as Lord Monks referred to, in the next one to two years is going to affect that vacancy level?

Kate Shoesmith: From our data, we are seeing that what we call the “sugar rush” after the pandemic—that sense of coming out of lockdown—is beginning to slow. Job vacancies and hiring activities are still in growth, but it is at a much slower rate than it was last year. We have been surprised at how high it has been throughout this year thus far, because we did think it was going to slow much earlier in the year. The expectation from our side is that we will see it slow further. We still expect there to be that high level of vacancies because, as we were talking about earlier, there has been a number that have been carried through the pandemic, pre pandemic, where we have significant issues attracting people into certain career areas. We do know that we have a problem there.

If you take STEM industries as an example, we simply do not have enough people in the pool that are going through the education system in STEM training, whether that is university, apprenticeships, the whole lot. The biggest problem there is that we need to grow the pool of people going through that type of training in order to get them into these jobs.

Viscount Chandos: That is very long term.

Kate Shoesmith: Very, yes.

Lauren Thomas: It is definitely important to distinguish between structural and cyclical trends in employer demand, just like in labour supply. As Kate said, there seems to be a slowdown starting. This is not surprising. I did not expect vacancies to rise for ever, because then we would have infinite vacancies and that is just not possible. Certainly there are signs that it is starting to slow down. If there is a recession, we would

certainly expect hiring demand to slow in that case, but that is a cyclical thing.

In terms of the structural long term, hiring is likely to remain challenging, and that is because of the overarching trend that I have been talking about, which is long-term demographic and socioeconomic trends—basically, the number of working-age people dropping. Even if labour demand does drop in the medium to long term, supply of workers will remain tight. We say to employers, “Don’t expect this to get easier in the long run. This is something you’re going to have to face from now on”. Jobseekers will hold a relatively stronger position than they did in the early to mid-2000s.

In the short term, things could certainly change, but in the longer term the labour market will still be relatively tight.

The Chair: Baroness Noakes highlighted the lack of data on inactivity and NHS waiting lists. If you had a magic wand, what are the one or two key data points that you would suggest we need to have in order to answer this question? Is it on what Baroness Noakes was talking about—causes of inactivity and long-term sickness? Is there something else that we should be looking at here?

Kate Shoesmith: That is important—how you make sure you are collating better data across personal circumstances. The other point is that there are a number of people who are in work and seeking more hours or better pay, but are carrying health conditions or other responsibilities. There are a number of factors. If we look at what we have been doing, for instance, around the Restart scheme that DWP runs, there are a significant number of people in that pool who need a number of supporting requirements, which are not just about employability skills. There are a number of barriers to getting them into work that need to be addressed, and we need all of that information.

Lauren Thomas: If I had a magic wand, there are two things that I would really want to see in the data. The first is tracking people over time. A lot of the data that the ONS has is really great and reliable—it is the gold standard—but it tends to be a more cross-sectional approach, which means a snapshot of the labour market at that point, rather than longitudinal, where you follow people over time. When you think about cause and effect, tracking people over time is really important.

The other thing that I would love to see—the ONS does have some of this, and certainly private sector organisations such as Glassdoor can help provide it—is more real-time data. As I mentioned before, the ONS data released to the public tends to be a three-month rolling average, and it tends to be a little bit lagging. The most recent data came out on Tuesday, and most of it is from June to August 2022. They have started to provide some more real-time data from HMRC, which is really great, but in terms of real-time data it would be great to expand that and to get more about what is going on right now.

The Chair: Thank you both very, very much. Thank you for answering so many searching questions. I think we have even more questions now, thanks to this session, than we started with, but many, many thanks. Thank you once again also for the excellent written evidence. If you could answer in writing some of those points we raised, that would be much appreciated. Sorry to set you even more homework. Thank you very much.