

Lord Bridges of Headley MBE
Economic Affairs Committee
House of Lords
London
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Dear Lord Bridges,

Thank you for inviting me to provide evidence to the Committee's inquiry on UK Labour Supply on 8 November. I am responding to the questions asked by you and fellow Committee members on that occasion to elaborate further on some of my responses given as oral evidence.

Evidence of long-term sickness trends in other countries relative to the UK

You asked if there was evidence that the trend in long-term sickness pre-Covid is unique to the UK, and how it compared with the trends seen elsewhere, particularly in other EU countries.

At the outset, I would stress that cross-country comparisons are complicated by the lack of fully consistent data. The US and euro area data may encompass a wider set of reasons for inactivity than those captured in the UK definition of long-term sickness. Moreover, data from the EU only goes up to 2021 and Eurostat report a break in their series in 2021.

Before the pandemic, in the EU, the proportion of those outside of the labour force and wanting to work that were **inactive owing to their own illness or disability** exhibited a slight upward trend. This is in contrast to the US, where that proportion exhibited a slight downward trend pre-Covid. Over the course of the pandemic, that proportion remained little changed in the US, but has started to return to the pre-Covid trend. In level terms, it is now marginally below pre-Covid levels. In the EU that share increased sharply in 2020, and ticked down in 2021, though it remains above pre-Covid levels.



This is in contrast with the UK, where inactivity owing to sickness has increased by 444k among the 16-64yrs category since 2019Q4.

In the US, ahead of Covid, a slight downward trend was also present for those in employment who had to **reduce their working hours** (from full time to part time), or were absent from work, owing to an illness or injury. But this has reversed since the start of Covid, and currently the proportions of those employed who work part time, or are absent from work, owing to ill health remain above pre-Covid levels. In the EU, the share of part-time workers who report being in part-time employment owing to illness or disability was overall on a slight upward trend pre-Covid, and – as in the US – the latest data show it to be above pre-Covid average.

While we do not have data for those **unemployed** with a long-term sickness in the US and the EU, the share of the overall 16-64 year old population with self-reported long-term sickness in the EU had been ticking down over a few years pre-Covid. That share fell in 2020 and was broadly flat in 2021, though we do not view these data as fully reliable. In the UK, colleagues on the MPC and Bank staff¹ find that the number of people among the working-age population who have a long-term sickness has increased from 16% in 2019Q4 to 17% in 2022Q1, with that increase concentrated in a rise in the number of inactive persons who are long-term sick.

Accounting for the impact of an ageing population on labour participation

I was asked for further context to my statement on the impact of an ageing population on the labour participation rate in the UK. Below I offer more detail on the exercises on which my comments were based, focusing on counterfactuals for the aggregate participation rate under different assumptions for the age composition of the UK workforce.

For example, if you hold participation rates within age groups constant at their 2019Q4 level, and re-weight them according to the projected change in the age composition of the UK workforce from the latest available ONS (2020-based) population projection, the aggregate 16+ participation rate would have been 63.4% in 2022Q3, a decline of 0.6pp on 2019Q4. (This is slightly lower than the 0.7pp I reported at the oral hearing. The small difference owes to rounding.)

As I emphasised in my response earlier in the month, this does not necessarily imply that ageing of the workforce explains the bulk of the decline in the participation rate. At least in the years prior to the Covid pandemic, the impact of population ageing had been offset by rising participation rates within age groups – a trend that may have been

¹ Haskel, J. and Martin, J. (2022). [“Economic inactivity and the labour market experience of the long-term sick”](#). Working paper.

expected to continue to some extent, in the absence of other forces such as increased sickness. Disentangling the role played by the various possible drivers of rising inactivity remains challenging.

More generally, one of the principal ways the MPC takes account of the ageing population is via a “cohort” model of trend participation. Within this model, the participation rates for different age and gender groups are projected forward, on the basis of recent trends and changes in more structural factors (such as the increase in the state pension age). The resulting projections are then aggregated using weights that reflect the projected age and gender composition of the UK workforce (which, in turn, are based on the latest available ONS population projections). In the MPC’s baseline projections (including the most recent MPC forecast published in the November Monetary Policy Report), labour supply growth is assumed to slow, given the anticipated slowdown in population growth and population ageing.

We will continue to monitor developments in the UK labour market, both as part of the analysis presented to the MPC and as part of the Bank’s wider research efforts.

I look forward to further interactions with your Committee on this and other issues.

Yours sincerely,



Huw Pill

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