United Kingdom

Labour markets have been resilient despite the significant slow-down in economic activity

The labour market recovery from the COVID-19 recession has been strong, but lost momentum in 2022 and early 2023 in the context of the economic slowdown. However, employment and unemployment have held their ground, and job vacancy rates remain high in most countries, despite some signs of easing. By May 2023, the OECD unemployment rate had fallen to 4.8%, a level not seen in decades.

- Unemployment in the United Kingdom was 3.8% in March 2023, up 0.1 percentage points from a year earlier, but close to its pre-crisis level. Participation and employment rates remain high with a slight improvement in the year to Q1 2023. Whilst inactivity fell 0.4 percentage points to 21.0% in the year to Q1 2023, the United Kingdom remains one of the few OECD countries where the rate is still yet to fall below its pre-crisis level. This is particularly pronounced at older age groups (For 55-64 year-olds, the United Kingdom is the only European OECD member with an inactivity rate still above pre-crisis levels)
- Vacancies in the United Kingdom remain well above pre-crisis trends, although they have come down almost 20% since the middle part of 2022. Analysis of online job postings reveals an increase in vacancies offering employee benefits, relative to before the COVID-19 crisis, suggesting that workers may have benefitted from the tight labour market of the last year.
- The *OECD Economic Outlook* projects that GDP growth in 2023 will remain modest at 0.3%, before a moderate improvement to 1.0% in 2024. This will initially be driven by government spending and investment, before private expenditure gradually becomes stronger, as wholesale gas prices abate.
- A concerted effort was made in the Budget 2023 to tackle labour force participation for families and older workers. Free childcare was extended for working families of pre-school children aged at least 9 months, and greater funding was provided for wraparound care between the hours of 8 a.m. and 6 p.m. for school-age children. “Returnership” apprenticeships were introduced to encourage the over 50s to return to work. “Midlife MOTs”, offering financial, health and career guidance to older workers, were scaled-up. The digital offer was enhanced and the in-person Jobcentre-Plus offer expanded to serve up to 40 000 50+ Universal Credit claimants per year.

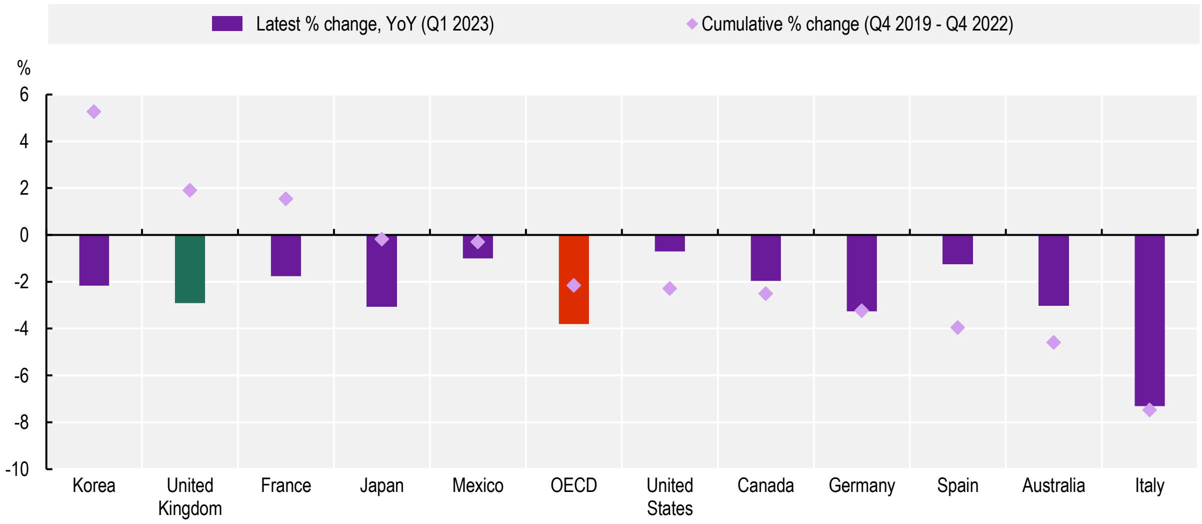
Real wages are falling amid a cost-of-living crisis

Russia’s war of aggression against Ukraine contributed to a surge in inflation, which was not matched by nominal wage growth. Consequently, real wages have fallen in virtually every OECD country. On average, real wages were down 3.8% in Q1 2023 year-on-year among the 34 OECD countries with data available. The loss of purchasing power is particularly challenging for low-income households who have less capacity to deal with increases in prices through savings or borrowing.

- The United Kingdom has seen some of the strongest cumulative real weekly wage growth among OECD members between the last quarters of 2019 and 2022 (2% compared to an OECD average of -2.1%). But pressures remain, and real weekly wages have fallen 3% in the year to Q1 2023.
- The real wages in low-pay industries in the United Kingdom, grew more rapidly than in mid-pay industries, with the difference exceeding 5 percentage points. The real wages of almost 3 million people in low-pay jobs were further bolstered in April 2023 by the 9.7% increase in its National Living Wage.
- However, the United Kingdom also saw a fourfold increase in the number of days lost to industrial disputes in 2022, compared to its 2010-19 average, with transport and storage sectors particularly affected.

Figure 1. Real wages are falling in most countries

Change in real hourly wages, Q1 2023



Note: OECD is an unweighted average of 34 OECD Member States (not including Chile, Colombia, Ireland and Türkiye). For the United Kingdom, average weekly earnings are used.
Source: *OECD Employment Outlook 2023*, Chapter 1.

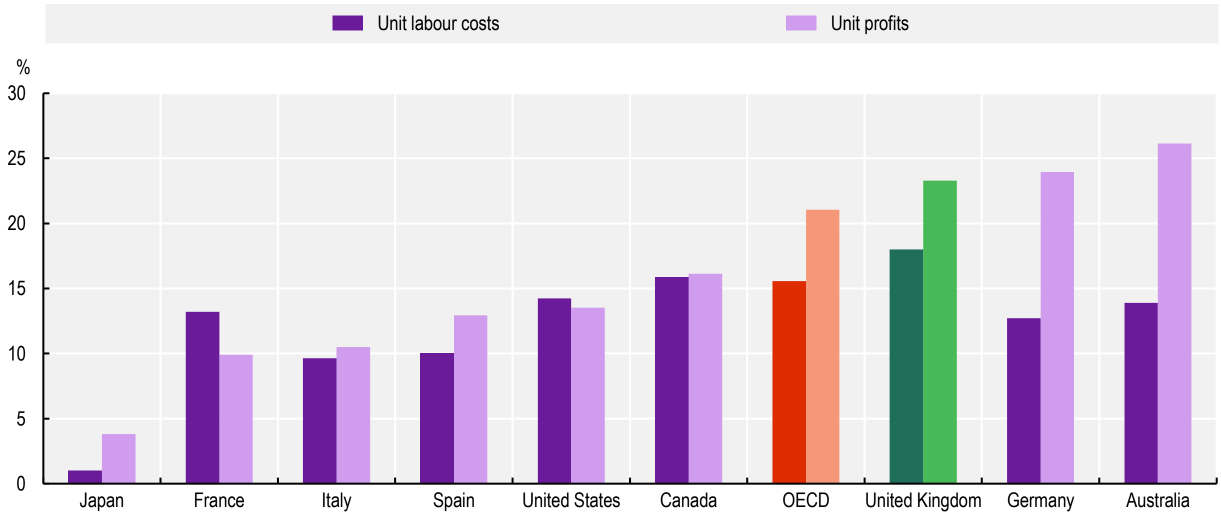
Profits increased more than labour costs in many countries

In most countries, profits have increased more than labour costs, making a large contribution to price pressures, and leading to a fall in the labour share of income. Data from Europe and Australia indicate that this is not limited to the energy sector. This indicates room for profits to absorb some future wage increases, but this might be less the case in small and medium firms that are more squeezed by other cost increases.

- The United Kingdom saw large nominal rises to both unit profits and labour costs. Relatively, profits rose by 29% more than labour costs, more than in France, Italy, the United States, Canada and Spain, giving the United Kingdom more headroom to absorb any future wage inflation pressures by reducing unit profits

Figure 2. Profits have increased more than labour costs in many countries

Percentage changes, seasonally adjusted, from Q4 2019 to Q1 2023



Note: OECD is an unweighted average of 29 OECD Member States (excluding Chile, Colombia, Costa Rica, Iceland, Israel, Korea, Mexico, New Zealand and Türkiye). Unit labour costs and unit profits are calculated by dividing compensation of employees and gross operating surplus by real GDP, respectively. Unit labour costs and unit profits are components of the GDP deflator, which captures the price changes of all goods and services produced in an economy.
Source: *OECD Employment Outlook 2023*, Chapter 1.

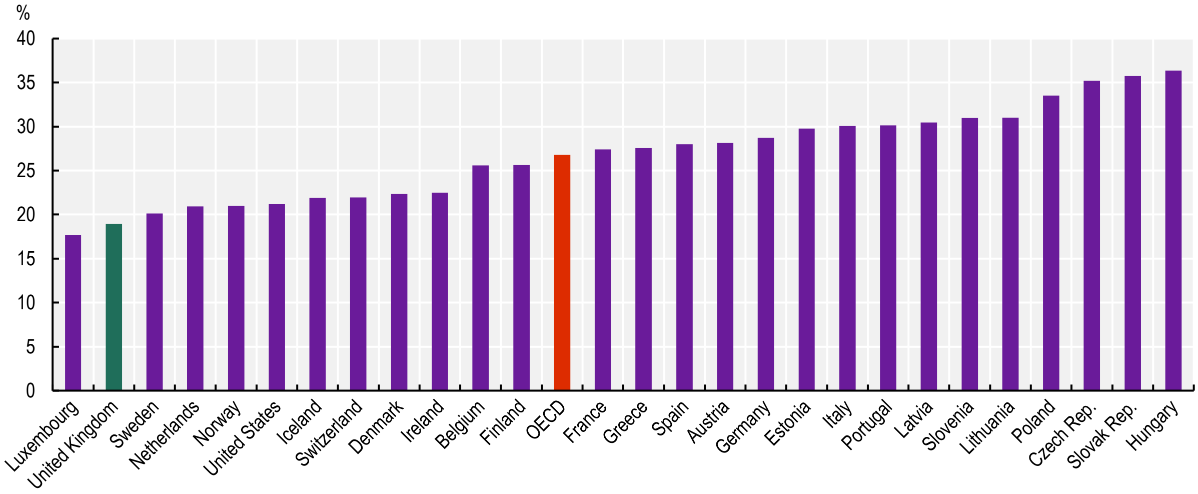
AI has so far helped high-skilled workers perform their jobs rather than displacing them, but employment effects could take time to materialise

So far, there is little evidence of decreased labour demand due to AI. High-skilled occupations have been the most exposed to recent progress in AI, but they have also experienced employment gains relative to lower-skilled workers. However, AI adoption is still relatively low and the technology is evolving rapidly including recent advances in generative AI. Any negative employment effects may therefore take time to materialise.

- AI appears to currently be complementing the skills of more exposed, high-skill occupations. When considering all automation technologies including AI, the occupations at the highest risk of automation are typically lower-skilled and held by younger workers. 19% of employment in the United°Kingdom is in occupations at highest risk of automation compared to an OECD average of 27%. This reflects the fact that AI is just one of many automation technologies (ICT, robotics etc.).

Figure 3. Although AI exposure has not (yet) led to decreased labour demand, certain groups remain at risk

Share of employment in occupations at the highest risk of automation by country, 2019



Note: The figure shows the employment shares of the occupations at highest risk of occupations, i.e. top quartile occupations when ranked according to their automation index. The results are based on a survey of experts who evaluated the degree of automatability for 98 skills and abilities. The risk of automation measure is then computed by occupation as the average rating for each skill or ability used in the occupation across all expert responses weighted by the skills or abilities' importance in the occupation as rated by O*NET.
Source: Lassebie and Quintini (2022), "What skills and abilities can automation technologies replicate and what does it mean for workers?: New evidence", https://doi.org/10.1787/646aad77-en, based on OECD Expert Survey on Skills and Abilities Automatability and O*NET.

Current AI applications can improve job quality, but they come with risks

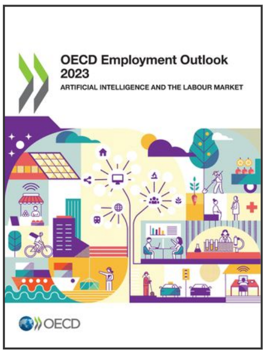
On average in the workplaces surveyed by the OECD, AI adoption has so far gone hand-in-hand with greater job satisfaction, improved mental and physical health, and higher wages for those workers with skills to develop and work with AI. Yet, some workers – e.g. those managed by AI, and female employees – have benefited less or have had negative experiences. Using AI entails risks for privacy, work intensity, and bias. Recent advances in generative AI may augment such risks. Addressing them is key to ensuring that AI contributes to more inclusive labour markets.

- In the United Kingdom there are bigger gender differences in attitudes to AI use at the workplace than in other countries. In the finance and insurance services industry, women in the United Kingdom were on average 22 percentage points less likely than their male peers to report positive impacts of AI on their job quality.
- Consultation on the use of AI was high among employers in the United Kingdom, with 78.8% reporting consulting their employees on the use of AI, the highest of all the countries in the OECD AI survey.
- The United Kingdom has opted for a flexible, principles-based approach to AI regulation. The 2023 AI Regulation White Paper outlines a framework designed to encourage regulatory co-ordination and mitigate risks to product innovation, working through its existing independent regulators rather than via the introduction of new AI-specific legislation.

Contact

Mark PEARSON (✉ mark.pearson@oecd.org)

Stewart BUTLER (✉ stewart.butler@oecd.org)



From:

OECD Employment Outlook 2023

Artificial Intelligence and the Labour Market

Access the complete publication at:

https://doi.org/10.1787/08785bba-en

Please cite this chapter as:

OECD (2023), “United Kingdom”, in *OECD Employment Outlook 2023: Artificial Intelligence and the Labour Market*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/c0d37822-en