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Dame Meg Hillier MP
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Treasury Committee
House of Commons
London SW1A 0AA

31 July 2025

Dear Dame Meg,

Follow-up to re-appointment hearing on 15 July 2025

Thank you for your letter of 17 July following up on my testimony before the Treasury Committee on 15 July about when the OBR became aware of problems in the ONS's Labour Force Survey (LFS). In particular, I committed to come back to the Committee on Question 13 in the transcript:

> *At what point did you start noticing that the ONS Labour Force Survey was unreliable, and when did you flag to the Government that the data was potentially no longer reliable? (Q13)*

In our January 2019 *Welfare trends report (WTR),* which focused on disability benefits, we noted concerns about the reliability of LFS–derived measures of disability prevalence in the population which prompted the ONS to suspend publication of the *Labour market status of disabled* people statistical series in 2017. Specifically, Box 2.1 of the January 2019 WTR stated:

> *In November 2017, the ONS suspended publication of its LFS-derived Labour market status of disabled people statistical series for six months due to an apparent discontinuity between the second and third quarter releases in 2017. ONS analysis of the sudden increase in reported prevalence between the releases remains inconclusive, but it may be due in part to changes in respondent behaviour associated with mental health awareness campaigns. This hints at a broader problem in defining the underlying prevalence of disability in the population.*

Our initial concerns with the unreliability of the LFS *as a whole* arose in the second half of 2020 when the survey's response rates were hit by the pandemic lockdown. While our published reports are only one vehicle for raising concerns around data quality, this was communicated in the November 2020 *Economic and Fiscal Outlook (EFO),* where we noted our concerns around the representativeness of the survey's sample. Specifically, paragraph 2.60 of the November 2020 EFO stated:

> *While the big picture is clear, the available labour market indicators have sometimes provided conflicting signals on the details in recent months. That may be a reflection of the ONS's difficulty during the pandemic in ensuring that the main source of labour market information, the Labour Force Survey (LFS), is obtained from a suitably representative sample of the population.*

Our growing concerns about the quality of LFS statistics were repeated in subsequent EFOs and other publications over the past 5 years. I have set out, in an Annex to this letter, extracts from 12 OBR publications between 2019 and 2025 which expressed our concerns about LFS reliability.

Yours sincerely,

Richard Hughes
Chair

ANNEX: References to concerns about LFS reliability in OBR publications

January 2019 *Welfare trends report*

Box 2.1: In November 2017, the ONS suspended publication of its LFS-derived *Labour market status of disabled people* statistical series for six months due to an apparent discontinuity between the second and third quarter releases in 2017. ONS analysis of the sudden increase in reported prevalence between the releases remains inconclusive, but it may be due in part to changes in respondent behaviour associated with mental health awareness campaigns. This hints at a broader problem in defining the underlying prevalence of disability in the population.

November 2020 *Economic and Fiscal Outlook*

Paragraph 2.60: While the big picture is clear, the available labour market indicators have sometimes provided conflicting signals on the details in recent months. That may be a reflection of the ONS's difficulty during the pandemic in ensuring that the main source of labour market information, the Labour Force Survey (LFS), is obtained from a suitably representative sample of the population.

March 2021 *Economic and Fiscal Outlook*

Paragraph 2.69: Although the broad picture is clear, the available labour market indicators have sometimes provided conflicting signals on the precise details since the pandemic began. For instance, the fall in employee numbers reported in RTI of approximately 800,000 between March and December would, all else equal, suggest that the current unemployment rate should be closer to 6 per cent. That may be a reflection of the ONS's difficulty during the pandemic in ensuring that the LFS, the main source of labour market information, is drawn from a suitably representative sample of the population. Another issue with the LFS, is that it is still based on pre-pandemic assumptions about the size of the population. The latest published data suggest that a large fall in the foreign-born population over the past year of over 980,000 has been more than offset by a large rise in the UK-born population of around 1 million.

March 2022 *Economic and Fiscal Outlook*

- [Paragraph 3.34] The number of sole traders and partnerships fell by 3.8 per cent in 2020-21, a far shallower fall than the 10.4 per cent decline in self-employment measured in the LFS (and therefore implicitly assumed for sole traders and partnerships in our previous forecasts). This discrepancy will partly reflect the increase in the number of self-employed people who reclassified themselves as an employee in the LFS around the beginning of the pandemic (despite not changing jobs). The ONS has suggested that this reflects a clearer understanding of their employment status based on eligibility for the furlough scheme, or preparations to be compliant with changes to off-payroll working ('IR35' reforms) in April 2020 (which were delayed until 2021), with the implication that the LFS numbers therefore overstate the true fall in self-employment.

January 2023 *Forecast evaluation report*

- [Paragraph 3.21] We underestimated self-assessed (SA) income tax in 2021-22 by £6.3 billion. This is more than explained by a fiscal forecasting difference of £6.4 billion. With SA income tax receipts in 2021-22 largely relating to tax liabilities incurred during 2020-21, this reflects incomes recorded in SA returns performing much better than implied by the corresponding economic determinants in 2020-21. For example, SA returns data show growth in sole-trader and partners income of 6.0 per cent, relative to a forecast fall of 5.1 per cent. This discrepancy was driven by the fall in the number of sole traders and partnerships being smaller than implied by the Labour Force Survey data that underpinned the forecast,[5] alongside the SEISS cushioning incomes for those who were eligible to a greater extent than anticipated (both explored in detail in paragraph 3.34 of our March 2022 EFO). Similarly, SA returns show a 7.6 per cent fall in dividend income in 2020-21, smaller than the 13.7 per cent fall in our March 2021 forecast.

[5] This partly reflects an increase in the number of self-employed people who reclassified themselves as an employee in the Labour Force Survey (LFS) around the beginning of the pandemic (despite not changing jobs). The ONS has suggested that this reflects a clearer understanding of their employment status based on eligibility for the furlough scheme, or preparations to be compliant with changes to off-payroll working ('IR35' reforms) in

April 2020 (which were delayed until 2021), with the implication that the LFS numbers therefore overstate the true fall in self-employment. See: ONS, Comparison of labour market data sources, February 2022.

March 2023 *Economic and Fiscal Outlook*

Paragraph 4.15: With SA income tax on self-employment incomes higher than would be consistent with outturn economic data for those incomes for the second year, Table 4.3 shows the extent to which provisional SA tax returns data (available in February for liabilities in the year 2021- 22) differ from information captured in the Labour Force Survey (LFS) and National Accounts. Looking at the single-year growth rate from 2020-21 to 2021-22 – the driver of the upside surprise in 2022-23 receipts described above – self-employment incomes have risen 5.4 percentage points faster than recorded in the National Accounts, while self-employment numbers have risen 6.5 percentage points faster than recorded in the LFS. Cumulatively over the two years of the pandemic, those differences rise to 14.0 and 14.6 percentage points, respectively. These are historically large differences and help to explain the historically large upside surprises in SA receipts in this and last March's forecasts. This higher implicit starting point for self-employment incomes consistent with the latest tax returns rather than in the National Accounts is largely carried through to later years of the forecast.

Table 4.3: Measures of self-assessed income and self-employed numbers compared

	Outturn			2021-22 growth (per cent)	
	2019-20	2020-21	2021-22	One-year	Two-year
Self-assessment income (£ billion)					
Mixed income (National Accounts)	152.4	151.9	156.4	3.0	2.6
Sole-trader and partners income (self-assessment)	99.7	107.3	116.3	8.4	16.6
Difference (percentage points)				+5.4	+14.0
Numbers of self-employed (million)					
Self-employment (Labour Force Survey)	5.0	4.4	4.3	-4.3	-14.6
Sole traders and partnerships (self-assessment)	4.6	4.5	4.6	2.2	0.0
Difference (percentage points)				+6.5	+14.6

October 2023 Forecast *evaluation report*

Paragraph 2.16: The assessment of our forecast performance relative to outturn has been complicated by measurement issues with the ONS' Labour Force Survey (LFS) which is the main source of our estimates. Comparisons to other datasets such as the HMRC's PAYE based employees and the ONS' Workforce Jobs Survey suggest the LFS may be underestimating employment, as while it shows a rise in employment of 360,000 in the year to the first quarter of 2023, the Workforce Jobs Survey indicates the rise is closer to 1 million. The HMRC dataset, which only covers employees, shows a rise of close to half a million. Some of the difference may be explained by differences in content, coverage and methodology between the datasets.[6]

Paragraph 3.13: The drivers of difference in each of these personal tax receipts forecasts are broadly similar:

- Economic determinant differences (primarily higher wages and salaries) made up £47.3 billion (72 per cent) of the March 2021 forecast difference and £7.2 billion of the March 2022 forecast difference. For PAYE, higher average wages and, to a lesser extent, higher numbers of employees than anticipated drove the overshoots. For self-assessed income tax, March 2021's difference was driven by higher self-employment income, while for March 2022, it was higher dividend income than forecast – in large part likely due to forestalling ahead of the 1¼ percentage points rise in dividend tax rates from April 2022. It remains difficult to estimate the self-assessment tax base using existing data: tax returns data for 2021-22 liabilities shows faster growth rates in self-employment income and self-employed numbers than captured in the Labour Force Survey (LFS) and National Accounts.

November 2023 *Economic and Fiscal Outlook*

Paragraph 2.34: Since October, updates of the Labour Force Survey (LFS), which is the primary source of our population and labour market data, have been temporarily paused as the ONS undertakes improvements to address issues with falling sample sizes. More timely, alternative, estimates of population and migration

suggest that the total number of adults in employment, unemployment and inactivity are higher than the LFS estimates. In addition, recent Bank of England analysis indicates that because the LFS has not captured the ageing of the population since mid-2021, it may be overestimating employment and participation rates by around 0.4 percentage points, but the unemployment rate is likely less affected. The net effect of these issues is hard to gauge and makes it more difficult to assess the starting point for our labour market forecast.

Paragraph 4.86: We therefore continue to emphasise the uncertainties around our forecast in the light of rapidly changing economic conditions and the possibility that any of our key judgements could prove significantly too optimistic or pessimistic. To illustrate three key uncertainties in this forecast:

- The number of working-age people classed as economically inactive has risen by over 400,000 since the beginning of the pandemic which is more-than accounted for by those citing long-term sickness as the reason. This is an important trend driving our forecast for the participation rate which is a key driver of both welfare spending and taxes on earnings. However, it is very uncertain and is further complicated by the suspension of ONS Labour Force Survey (LFS) estimates in September and October 2023 due to quality concerns from falling survey response rates. In our 2023 Fiscal risks and sustainability report, our downside scenario for health-related inactivity estimated that borrowing could be £21.3 billion higher in 2027-28.

March 2024 *Economic and Fiscal Outlook*

Paragraph 2.15: Our forecast for potential labour supply incorporates findings from the reweighted LFS published in February. We have used this data as a guide to the UK's current population and demographics. But there remains significant uncertainty around recent labour market data given the ONS will switch to its Transformed LFS survey later this year. This may have further implications for our understanding of labour supply and potential output.

Paragraph 2.31: Our forecast incorporates the reweighted ONS LFS estimates, released in February, of the size and composition of the UK population. While this improves the representativeness of the data, problems with low sample sizes and volatility in recent periods will take longer to resolve. We have therefore placed less weight on the LFS data for the last six months when thinking about the near-term outlook. Instead, we look at a wider range of indicators such as administrative data sources and surveys.

October 2024 *Forecast evaluation report*

Paragraph 1.7: Alongside the uncertainty around inflation and interest rates, over the past few years there have been significant challenges in forecasting two key drivers of the size of the labour force: inactivity and net migration. This has been compounded by uncertainty about the quality of the statistics in the ONS Labour Force Survey (LFS). Our March 2023 forecast for the participation rate was in line with outturn, as inactivity due to long-term sickness and among students rose, while inactivity due to caring fell. But we underestimated the size of the labour force due to a very large upward revision to the size of the population following the reweighting of the LFS. This was driven by net migration, which rose to 740,000 over the year to mid-2023, 430,000 higher than the assumption in our forecast.

Paragraph 2.9: Labour market outturns for 2023-24 have been restated following the reweighting of the ONS Labour Force Survey (LFS) in February 2024 with updated estimates of the size and composition of the UK population. This resulted in a larger adult population due to a stronger rise in net migration, which is partially offset by lower labour force participation and average hours worked due to the ageing of the population. While this reweighting has improved the representativeness of the data, challenges with low sample sizes and volatility in recent periods will take longer to resolve and the ONS advises caution when interpreting these numbers.[5] The ONS plans a further update to these estimates by the end of this year so they capture more recent trends in net migration and other demographics.[6] This will be followed with a fuller reweighting and switchover to the Transformed LFS survey in 2025, which may have further implications for our understanding of labour supply over 2023-24. These uncertainties complicate our assessment of the labour market forecast, which we plan to revisit when the final version of the labour *market estimates become available.*

Paragraph 3.17: Economic factors other than earnings, inflation and energy prices led to our 2023-24 receipts forecast coming in £10.5 billion higher than anticipated. Some of the main drivers of this overshoot included:

- Employment levels exceeded our forecast due to higher-than-anticipated population growth, boosting NICs by £3.6 billion and income tax by £0.9 billion. Both the measures of employment that we use in our forecasts came in higher than expected, though by differing degrees: Workforce Jobs (WFJ) by 2.2 per cent, and the Labour Force Survey (LFS) by only 0.3 per cent. The WFJ measure is most closely related to NICs receipts which explains the larger NICs forecast difference due to employment.4 While there are reasons for differences between these data sources, external commentators have suggested that the recent large discrepancy may be caused by data quality issues in the Labour Force Survey.

October 2024 *Economic and Fiscal Outlook*

Paragraph 2.13: Labour supply growth falls from 0.9 per cent in 2024 to around 0.5 per cent in 2029, mainly driven by the drag on average hours worked from an ageing population. Labour supply is broadly unchanged from our March forecast. This is because higher average hours in outturn broadly offset a lower adult population in outturn and a lower employment rate (both from outturn data and the impact of the increase in employer NICs). The key drivers of the forecast are:

- The adult population rises from 55.2 million in 2024 to 57.3 million in 2029. The Labour Force Survey (LFS) outturn for adult population in the second quarter of 2024 was 153,000 lower than we had expected in March, a difference that is largely carried through into the forecast. But this does not fully reflect the recent strength in net migration.[3] The adult population grows at a similar pace as in our March forecast, largely (around two-thirds) driven by net migration.

Paragraph 2.33: Despite ongoing volatility in ONS Labour Force Survey (LFS) data, broader evidence points to a recent loosening of labour market conditions. Vacancies continue to fall, wage growth has eased, while administrative measures of employment and unemployment have weakened. The reweighting of the LFS in February 2024 has improved the representativeness of the data. But challenges with low sample sizes and volatility in recent periods will take longer to resolve, so the ONS advises caution when interpreting these numbers. Analysis from the Bank of England and the Resolution Foundation suggests current LFS estimates substantially underestimate the level of employment. Hence, we continue to place less weight on LFS data for recent months and instead consult a wider range of indicators such as administrative data sources and surveys. The ONS plans a further partial reweighting of LFS estimates by the end of 2024, so they capture more recent trends in net migration and other demographic factors. This will be followed with a fuller reweighting and switchover to the Transformed LFS, which may have further implications for our understanding of the labour market.

March 2025 *Economic and Fiscal Outlook*

Paragraph 2.20: The size of the adult population in the ONS LFS has been revised up by 0.5 million (0.9 per cent) to 55.7 million in 2024, mainly driven by higher historical net migration. There have been further revisions to migration which are not yet incorporated in the LFS data. Net migration is now estimated to have peaked at 906,000 in the year to mid-2023, 166,000 higher than the previous estimate. There are also some upward revisions to the years to mid-2021 and mid-2022, averaging 30,000 a year.[6] We use the 'migration category variant' of the latest ONS population projections in this forecast.

Paragraph 2.22: Based on these latest ONS population projections, we now assume the adult population grows by 2.1 million people over the next five years to reach 57.8 million in 2029. Annual adult population growth averages 0.8 per cent over the forecast period, in line with the October forecast. In 2029, the adult population is ½ million higher than in the October forecast, almost entirely reflecting the higher starting level. Despite the LFS now using a more up-to-date population base, it is still not capturing the latest upward revisions to migration data. This means that there are likely to be some further upward revisions to the adult population in the next LFS reweighting, expected in 2026.

Footnote 8: *There is evidence suggesting the LFS may be underestimating the employment and participation rate due to ongoing issues including low survey sample size, although the latest reweighting has helped to close around half of the gap with other measures. For more information see: Resolution Foundation, Get Britain's Stats Working: Exploring alternatives to Labour Force Survey estimates, November 2024, and Box E in the Bank of England's February 2025 Monetary Policy Report.*

Paragraph 2.41: Issues with the LFS remain, which currently make labour market forecasts particularly uncertain. Following the recent reweighting, the LFS now uses a more up-to-date population base (see paragraph 2.20). But it is still not capturing the latest upward revisions in migration outturn data, which are expected to further increase the LFS population base in the next reweighting. Additionally, sampling issues and resulting biases remain in the LFS, which mean that participation and employment rates are likely to still be underestimated.

Paragraph 2.42: The employment rate is forecast to decline slightly from 60.5 in the second half of 2024 to 60.2 per cent in 2029 as population ageing weighs on participation (Chart 2.12, left panel). The starting point is 0.6 percentage points higher than previously forecast and up from 60.2 in the first half of 2024. This is likely in part due to issues with the LFS as other employment measures, such as the RTI and workforce jobs, suggest employment growth slowed in 2024. Population growth means that cumulative employment growth over the forecast is around 1.2 million, broadly the same as in October. However, due to historical LFS revisions, the level of employment is estimated to be around ½ million higher in the outturn than in October, and this gap is retained throughout the forecast.

Paragraph 2.43: We expect the unemployment rate to peak at 4.5 per cent (1.6 million people) in 2025 as spare capacity opens up, before falling to its estimated structural rate of 4.1 per cent in 2028 (Chart 2.12, right panel). The unemployment rate has been trending up since the post-pandemic trough of 3.8 per cent in 2022, albeit with some volatility likely due to issues with the LFS. The general trend is in line with wider indicators of a cooling labour market as labour demand weakens. Compared to the October forecast, the unemployment rate is 0.4 percentage points (around 160,000 people) higher in 2025, in line with a more negative output gap, while our estimated structural rate is unchanged.