

# OpenVoiceNews

Transparent. Unbiased. Yours.

## UK Economy Faces Pressure from Labour Shortages

August 25, 2025

– Categories: Economics



Britain is grappling with a significant economic challenge driven by weak growth and a decline in workforce participation since the pandemic, according to Bank of England governor Andrew Bailey.

Speaking at a major policy gathering in Jackson Hole, Wyoming, Bailey highlighted the increasing strain on the economy caused by a growing number of long-term sick individuals and a sharp drop in young people entering the workforce. These factors, coupled with an ageing population, are contributing to a persistent labour shortage that threatens long-term productivity.

By 2040, nearly 40% of the UK population is expected to be over 64 years old, Bailey noted, stressing that this demographic trend is unlikely to reverse in the foreseeable future. He emphasised the need for renewed efforts to boost productivity and labour force participation rather than relying solely on traditional unemployment measures.

Recent data from the Office for National Statistics revealed that 21% of Britons aged 16 to 64 are currently neither working nor actively seeking employment. Although this figure has slightly improved from a peak of 22.2% last year, it remains higher than the pre-pandemic low of 20.3%. Mental health challenges remain the most common reason cited for economic inactivity, which Bailey described as a “very concerning development”.

Some Bank of England policymakers are concerned that reduced labour participation could keep inflation above the Bank’s 2% target for longer. Britain’s inflation stood at 3.8% in July, the highest among G7 nations.

The UK economy grew faster than expected in the second quarter of 2025, expanding by 0.3% in the three months to June. However, this represents a slowdown from 0.7% in the first quarter and comes amid pressures from tax increases and global trade tensions. City economists had forecast even weaker growth of 0.1%, but the latest figures still highlight the scale of the challenge facing Chancellor Rachel Reeves as she prepares for her autumn budget.

The government has pledged to boost workforce participation and strengthen economic growth, but earlier this year, proposed reforms to disability benefits—seen by some analysts as a potential driver for getting more people into work—were rejected by MPs.

With productivity growth stagnant and labour shortages persisting, policymakers face mounting pressure to introduce measures that can reinvigorate the UK’s economic prospects over the coming years.