ies Briefing

Institute for Employment Studies

Labour Market Statistics, May 2021

18 May 2021

This briefing note sets out analysis of the Labour Market Statistics published this morning. The analysis mainly draws on **Labour Force Survey (LFS)** and **Pay As You Earn (PAYE) Real Time Information** data. The former is the main household survey that collects official figures on employment, unemployment and economic inactivity, with the most recent data covering the period January to March 2021. PAYE data are administrative payroll figures on employee levels and pay, covering the period to April 2021. This is supplemented with analysis from the **ONS Vacancy Survey**, which collects employer data on open vacancies and also includes data up to April 2021.

This month's Labour Force Survey data contain additional, quarterly analysis on a number of areas, including labour market flows, employment for disabled people and ethnic minority groups, temporary employment and zero hours contracts.

Summary

Today's data gives the clearest indication yet that the labour market is turning the corner. Employee jobs rose by nearly 100 thousand in April, the fastest growth since 2015 and bringing employee numbers back to the levels of last summer; while vacancies in April were back close to pre-crisis levels and unemployment fell again, to 4.8%. This employment growth is being driven by new job starts, with flows data from the Labour Force Survey suggesting that flows into work from worklessness are holding up reasonably well.

However, there remain three significant concerns in today's figures:

- Long-term unemployment is continuing to rise sharply – at its fastest rate since 2010, and with long-term unemployment for young people and those aged over 50 both hitting their highest in five years. It looks increasingly likely that the lasting scars from this crisis will be felt in long-term unemployment.
- Young people are continuing to suffer most in this crisis – accounting for nearly two thirds of the fall in PAYE employment and none of the growth since November.
- There are signs that involuntary part-time and temporary employment are both on the rise – with the latter also reaching its highest in five years. Temporary work is generally elevated, and being driven by fixed term contracts, although under-employment (those wanting and available for more hours) fell back slightly during the third lockdown.

There is positive news in today's figures too, with hiring appearing to recover to pre-crisis levels (although initial estimates in this dataset tend to be revised down); and employment growth particularly strong in London, which has seen the largest falls in PAYE jobs but accounted for a third of the rise in April.

Finally, today sees publication of quarterly data on employment for ethnic minority groups and for disabled people. While the signs are that the employment rate 'gaps' for these groups have remained stable or fallen, it is also a timely reminder that disabled people in particular continue to face significant structural barriers in accessing employment – with barely half of all disabled people in work, and disabled people more than twice as likely to be out of work as those who are not disabled.

Looking ahead, the prospects for the recovery remain strong as long as we can stay on the roadmap out of lockdown. However with many firms reporting difficulties in filling jobs as the economy reopens, government and employers will need to do more to bring the long-term unemployed and those who are most disadvantaged in the labour market back into work.

Note that as with recent months' analysis, there remain concerns around how population changes and lower response rates may have affected the reliability of the LFS (described in more detail in last month's report). The ONS have today published more detail on how this will be addressed in future, which should see robust estimates available again from the summer. This note also suggests that the reweighting of LFS responses will see a slight downward revision in employment and upward revision in unemployment (of about a quarter of a percentage point).

In the meantime, the ONS continue to advise that reported *levels* in the LFS should be treated with caution, although *rates* remain robust. For this reason we have continued to use PAYE data in preference to LFS figures where both are available (in reporting on the levels of employment, changes by age and region); and as far as is practicable where LFS data is used we have limited the analysis to reporting on changes in rates rather than levels. Where levels are used, we have made this clear in the text.

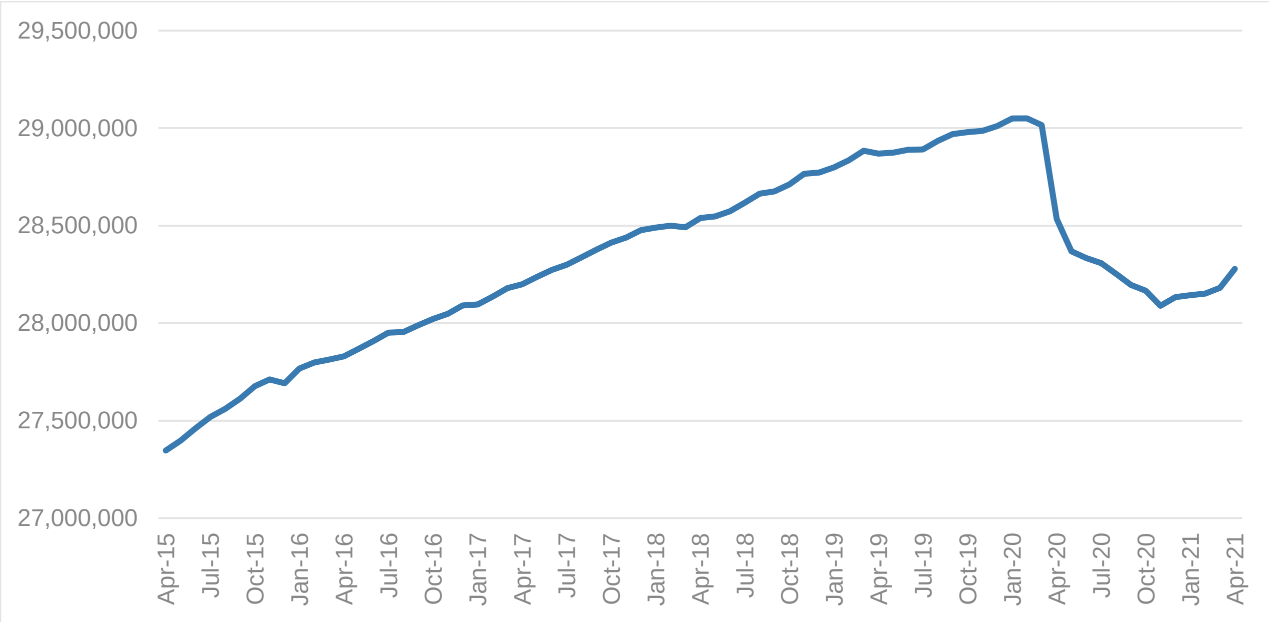
There are clear signs now that the labour market is turning the corner

Recent months have seen the labour market broadly flat – with positive data in March giving way to slightly more subdued figures in April. Today though is the clearest indication yet that the labour market is turning the corner and both employment and unemployment are starting to head in the right directions.

The PAYE employee data shows this most clearly, as it includes the month of April when the economy started to reopen. The flash estimate for that month suggests that employee numbers grew by 97 thousand – the largest monthly rise in six years – while large revisions to the data for December to February means that the fall reported last month has been replaced with a slight rise. This means that payroll employment has now grown for five consecutive months, to its highest since last July (Figure 1)

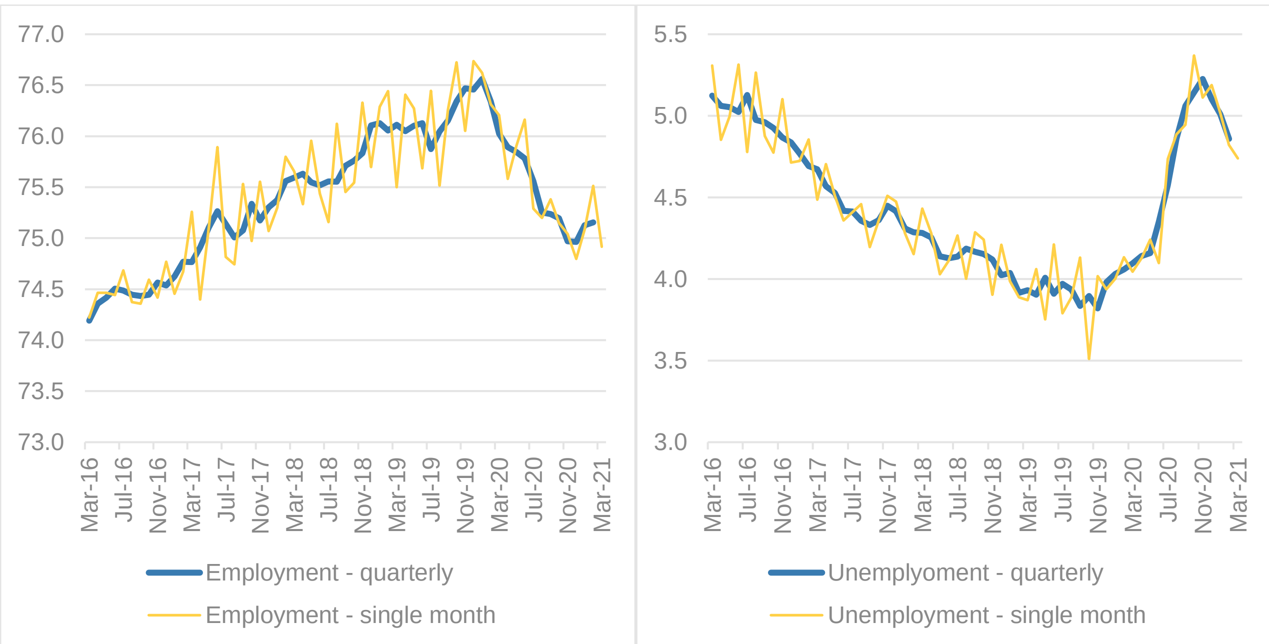
The LFS data, which covers the period to March (i.e. still in full lockdown), is also very promising. In particular as Figure 2 shows, the unemployment figures now appear to be very clearly trending back down (to 4.8%) and in advance of the economy reopening. Employment is also up slightly on the quarter, from 75.0 to 75.2% - still well below its peak, but surely likely to rise as we move through the spring.

Figure 1: Total number of payrolled employees



Source: HMRC Pay As You Earn data

Figure 2: Employment and unemployment rates (16-64) – quarterly average with single-month estimates

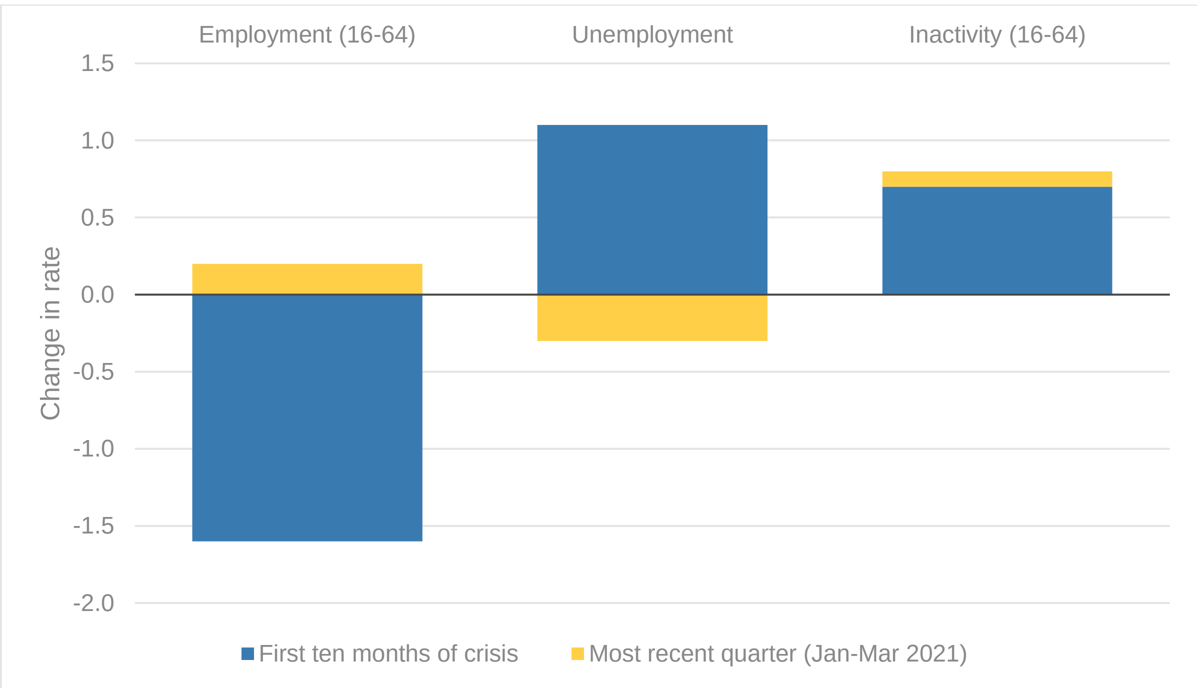


Source: Labour Force Survey

The economic inactivity rate (which measures those not looking and/ or not available for work) remains very high at 21.0% - broadly the rate that it has been since the start of the crisis. This is being driven by large rises in the number of economically inactive students, and people inactive for 'other' (likely pandemic related) reasons. At the same time there have been significant falls in economic inactivity due to looking after family and home – particularly among women, for whom employment overall is now starting to recover towards pre-crisis levels.

Figure 3 below shows in more detail the percentage point changes in the rates of employment, unemployment and inactivity over the first quarter of 2021 (in yellow) and over the previous ten months of the crisis. While unemployment is starting to tick down, it also seems likely that we may start to see more of those who are 'economically inactive' starting to look for work and so putting a bit more pressure on unemployment.

Figure 3: Changes in employment, unemployment and economic inactivity: first ten months of the crisis (Dec-Feb 2020 to Oct-Dec 2020) and most recent quarter (Sep-Dec 2020 to Jan-Mar 2021)



Source: Labour Force Survey

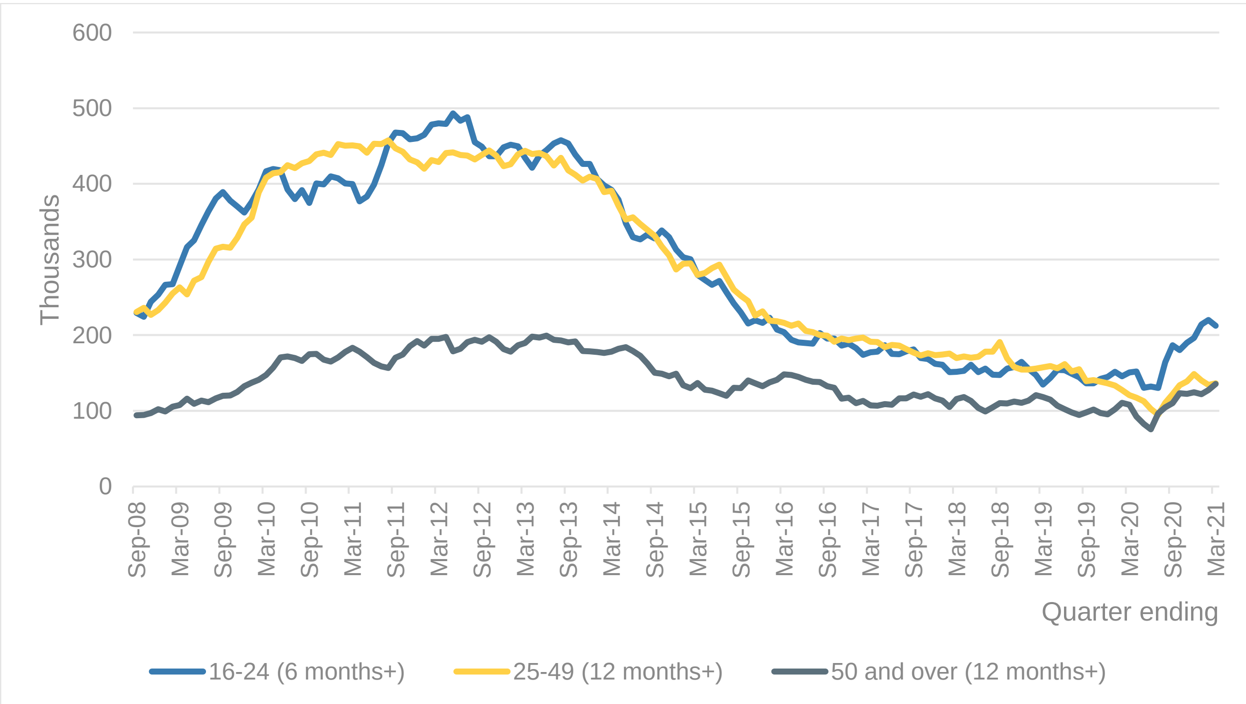
The main black spot today is further rises in long-term unemployment – particularly for older and younger

However while the headline labour market figures are positive today, the potential 'scarring' impacts of the crisis are now starting to become more apparent in the data on long-term unemployment. We define this as more than twelve months of unemployment for those aged over 25, and more than six months for those aged 16-24.

Overall, long-term unemployment is now rising at its fastest since 2010 (up by 28% on the year) and stands at its highest in four years. This is being driven in particular by those aged over 50 and under 25, with long-term unemployment for both groups at its highest since 2016. (Note that this graph uses LFS levels and so caution needs to be applied, although the general trend of rising long-term unemployment is clear and is unlikely to be changed by any subsequent re-weightings by ONS.)

As we have said previously, long-term unemployment should peak below the levels seen in 2012 but is unlikely to do so for at least another year. With increasing noises from firms about hard-to-fill vacancies as the economy reopens, both employers and government need to do more to bring the long-term unemployed back into work. In particular, this means rolling out the new Restart programme for the long-term unemployed as quickly as possible; re-focusing Kickstart jobs on long-term unemployed young people; and extending Kickstart until the peak has passed.

Figure 4: Long-term unemployment by age

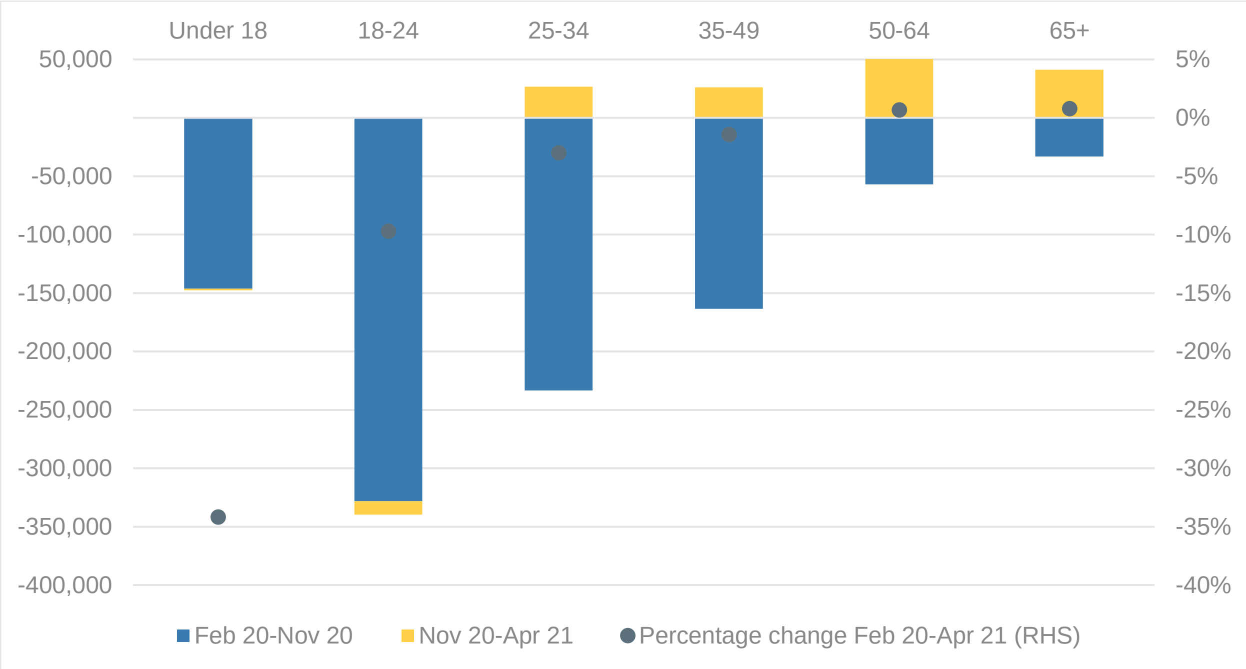


Source: Labour Force Survey. Long-term unemployment is defined as unemployment of more than six months for young people, or more than twelve months for those aged 25 and over.

While young people continue to lose out, even as 'job rich' sectors started to reopen

Also of concern today is continued poor figures for young people, who now account for nearly two thirds (63%) of the total fall in employee numbers since the crisis began. Figure 5 below also illustrates that they have also so far not benefited from the five months of growth in PAYE employees since last autumn – with employment continuing to fall even as it rises for other groups. Even in the most recent month, when hospitality and retail began to reopen, young people accounted for less than a fifth of the 97 thousand growth in employment.

Figure 5: Change in payrolled employees by age: first nine months of the crisis (Feb-Nov 2020) and most recent five months (Nov 2020-Apr 2021)



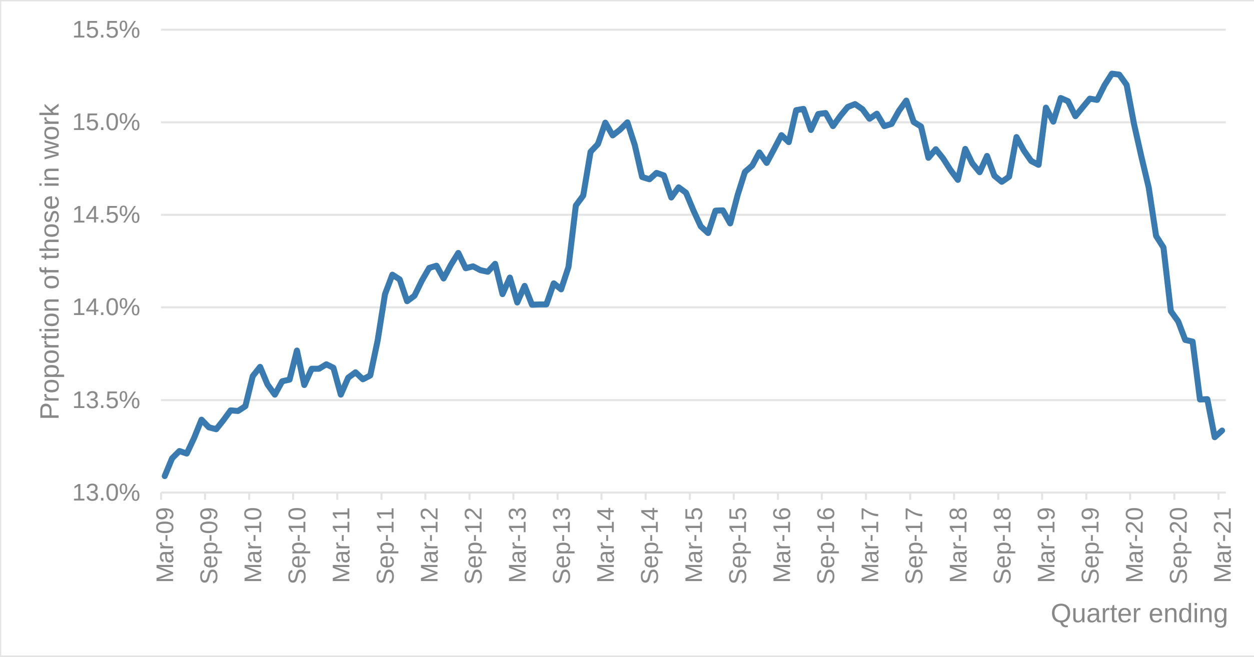
Source: PAYE Real Time Information

Recovering employee numbers disguises continued falls in self-employment (and flows between the two)

As noted in previous briefings, the PAYE system is an employee count and so excludes the self-employed. Figure 6 below sets that the share of those in work who are self-employed, using the LFS, is continuing to decline and now stands at 13.3% – its lowest since late 2009. It is also important to note that these falls are concentrated among people aged over 25, and so will be offsetting the more positive picture reported in the PAYE data above.

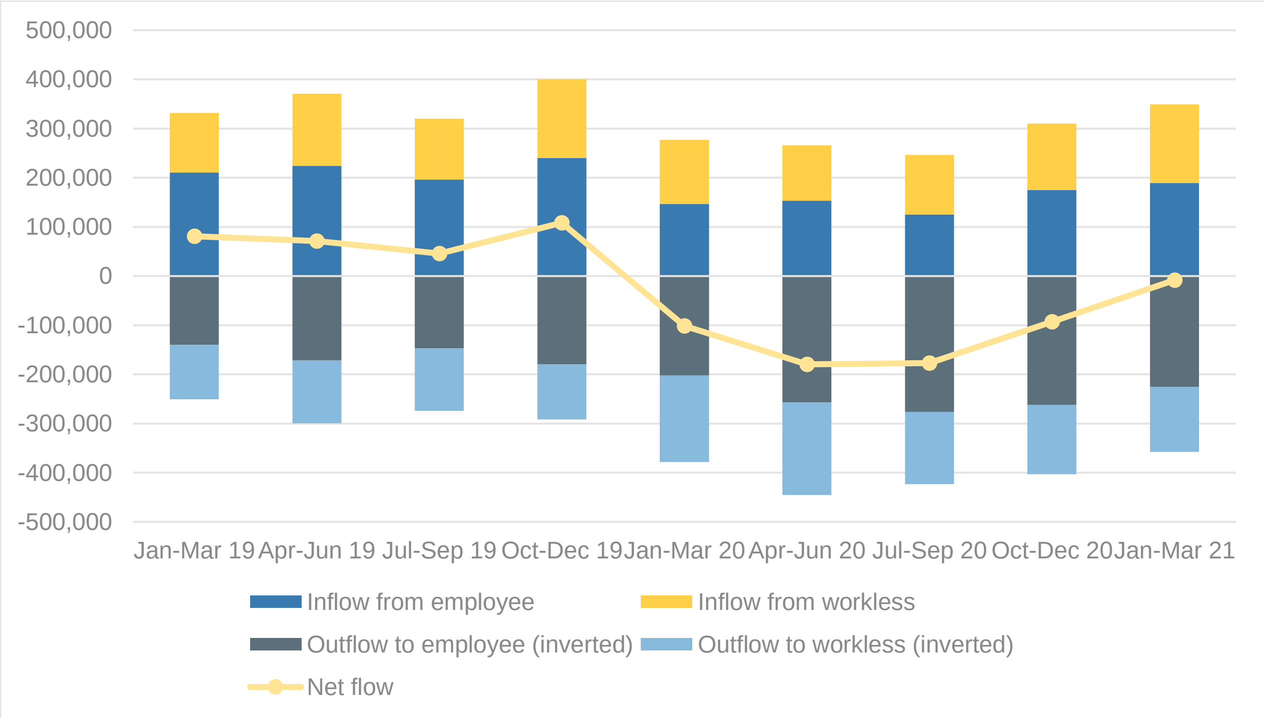
This is reiterated in data published today on flows into and out of self-employment, which shows that the large falls in headline self-employment are being particularly driven by flows into employee work (and lower flows from employee work to self-employment). In all, the increase in flows into employee work has been more than double the increase in flows from self-employment into worklessness. This is illustrated in Figure 7 below. In other words, part of the growth in employee numbers reported above will be being directly offset by lower self-employment.

Figure 6: Share of those in work who are self-employed



Source: Labour Force Survey

Figure 7: Flows into and out of self-employment, Q1 2019 to Q1 2021



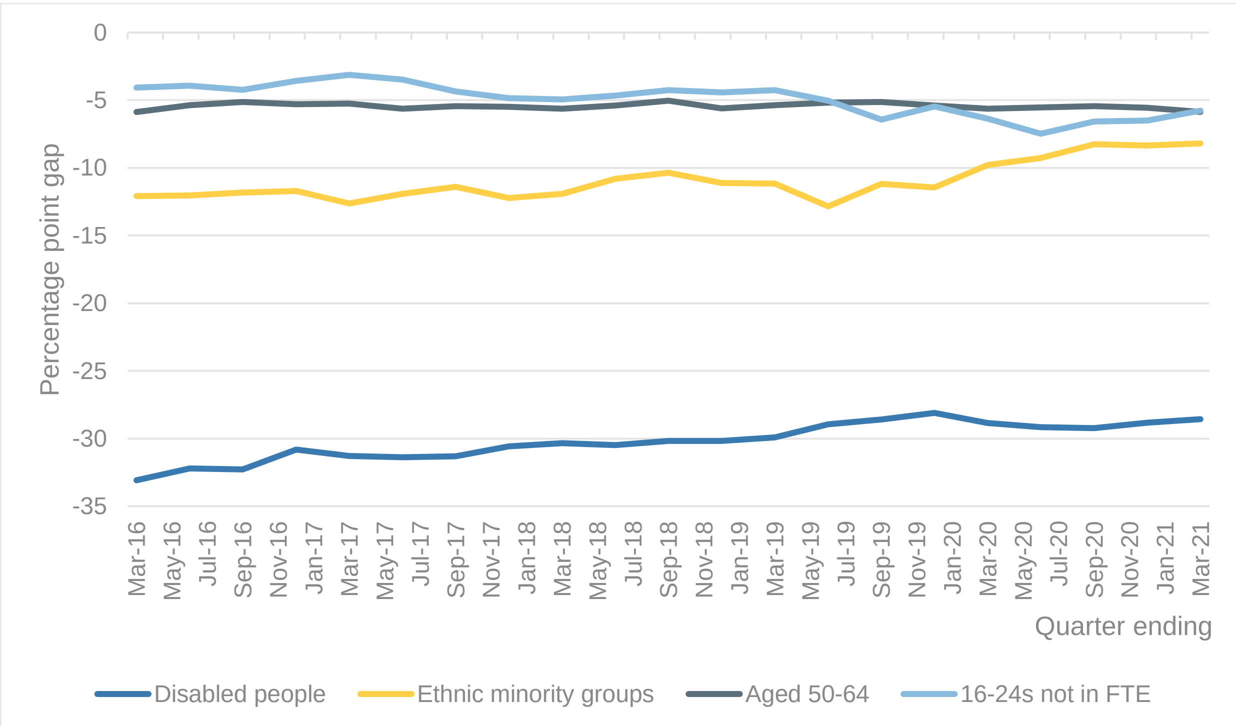
Source: IES analysis of Labour Force Survey

Employment rate 'gaps' for disadvantaged groups appear to be stabilising

Today also sees the publication of quarterly data on employment for ethnic minority groups and disabled people. This means that we can assess the 'gap' in employment rates between these groups and the wider working age population, which is set out in Figure 8 below. This also includes the employment rate gaps for people aged over 50 and for young people outside full-time education.

For most groups, this data suggests that the picture is slightly more positive in this quarter than at the end of 2020, although movements in single quarters need to be treated with caution and the most recent quarter covers the full lockdown period. Gaps are stable or narrowing for all groups except older workers which showed a very slight increase; although the gap for disabled people remains incredibly wide, at 28.6 percentage points. In other words, disabled people are more than twice as likely to be out of work as non-disabled people. Looking in more detail on ethnic minority employment, the most recent quarter has seen improvements across nearly all ethnic minority groups (except for those describing themselves as mixed ethnicity) and in particular appears to have reversed previous worrying falls in employment for Black people.

Figure 8: Employment rate 'gaps' for disabled people, ethnic minority groups, those aged 50-64, and young people not in full time education; Q1 2016 to Q1 2021

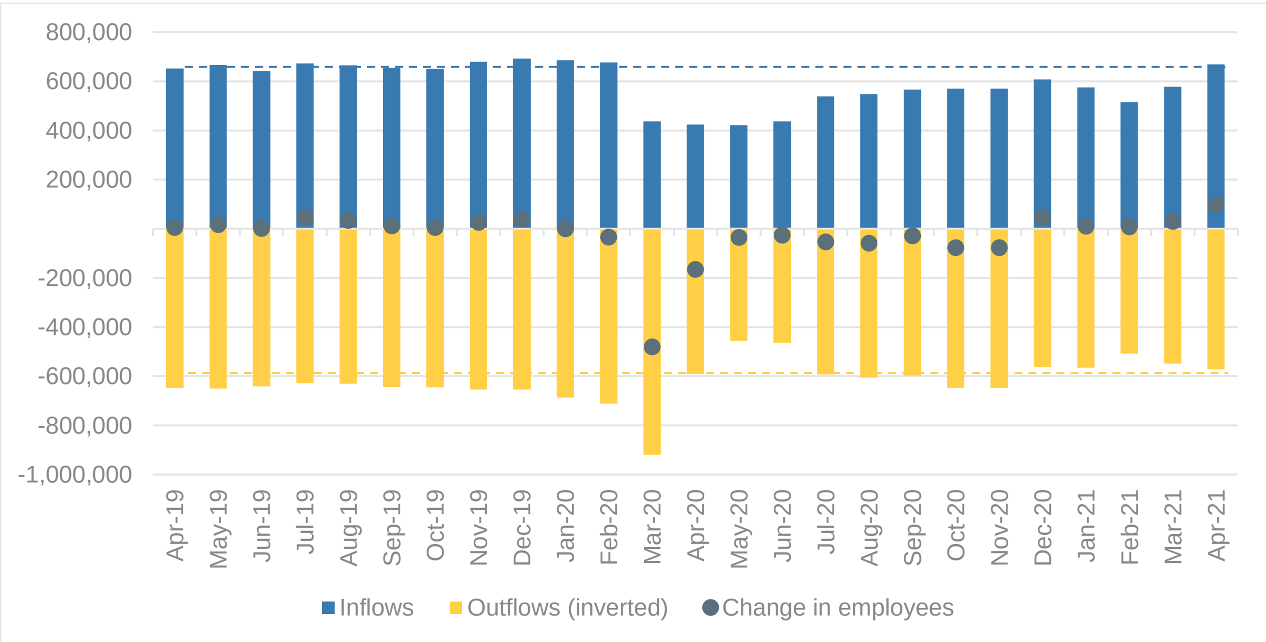


Source: IES analysis of Labour Force Survey. Gaps are calculated as the percentage point difference in employment rates between the rate for the disadvantaged group and the rate for the overall 16-64 population excluding that group.

Job growth is being driven by hiring – with job starts for those previously out of work appearing to hold up

In more positive news, today's data on monthly PAYE job starts and job exits shows that the strong growth in employee numbers in April has been driven by new hiring – with Figure 9 showing that job starts recovered to pre-crisis levels (at 670 thousand). These figures are subject to monthly revision and are generally revised down, so we may well see the inflow estimates for April falling back below pre crisis levels next month. And it is also the case that much of this hiring will represent firms 'catching up' on staff turnover during lockdowns and staffing up for reopening. Nonetheless, the broad trend of improving hiring is encouraging.

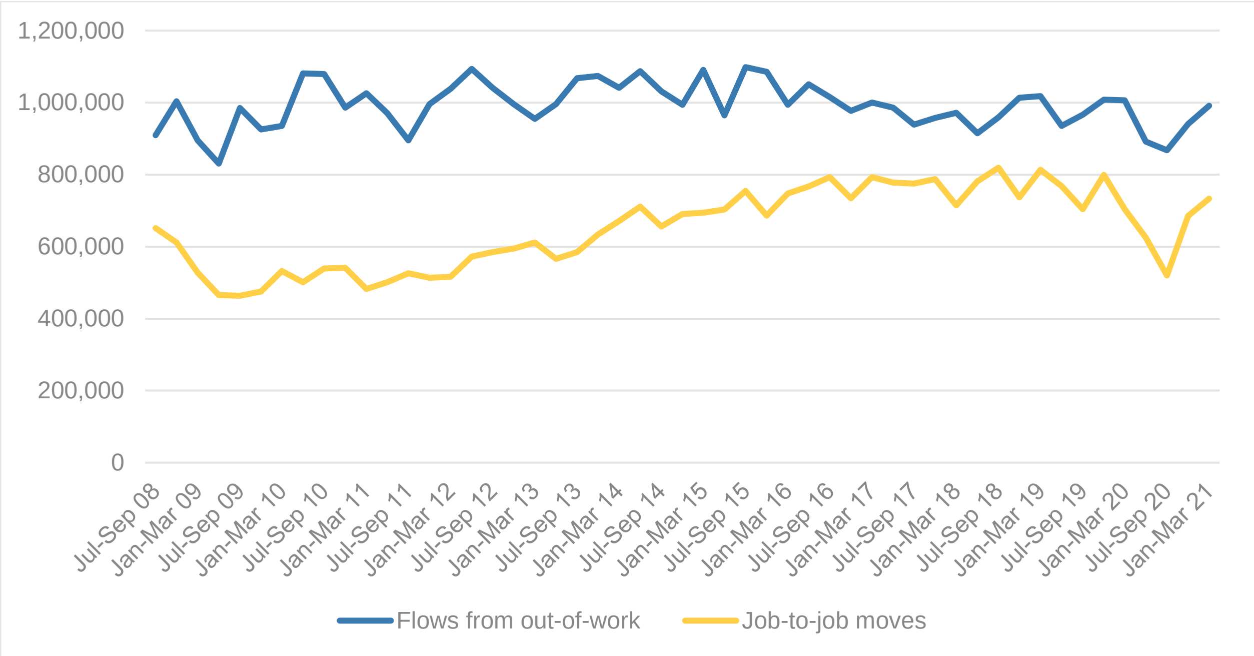
Figure 9: PAYE job starts and job exits, two years to April 2021



Source: HMRC PAYE Real Time Information

The PAYE data include both job-to-job moves and movements from out-of-work to in-work, but this month's quarterly flows data from the LFS gives us more detail on this (covering the period to January-March 2021) and suggests that flows from being out-of-work are also recovering after falling back last year. This is shown in Figure 10 below, and suggests that job-to-job moves are also recovering (after larger falls in 2020). Note that this uses LFS levels and so should be treated with caution.

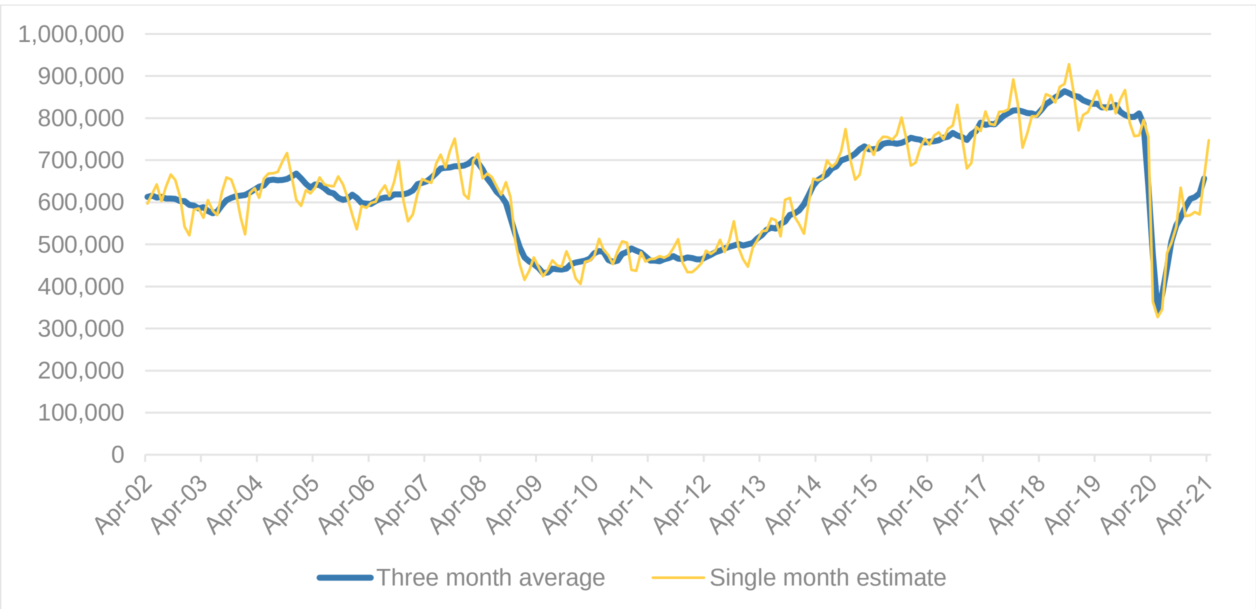
Figure 10: New job starts by whether moving from out of work or another job



Source: Longitudinal Labour Force Survey

Further encouragement can also be taken from the Vacancy Survey, where the single-month estimates for April (the yellow line in Figure 11 below) show a recovery to close to pre-crisis levels (at 750 thousand) – driven by a rebound in hospitality, but also strong growth more or less across the board. This is now more closely reflecting the strong growth reported in more timely online job vacancies, which are now back to where they were before the crisis.

Figure 11: Vacancies – quarterly and single-month estimates



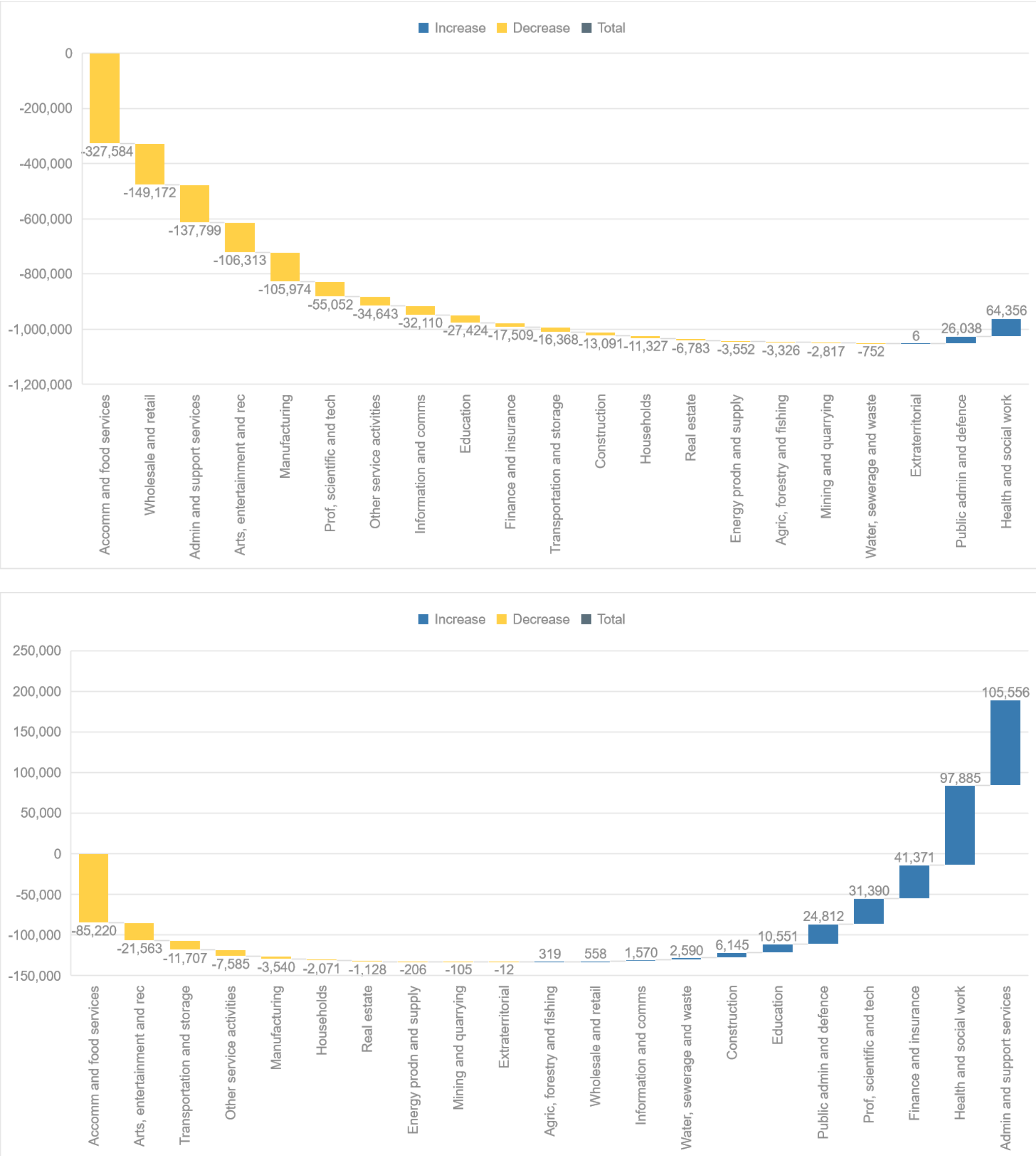
Source: ONS Vacancy Survey

Job gains and losses by industry continue to reflect the impacts of the pandemic and lockdowns

As with last month, data on changes in PAYE employment by industry show that the losses during the first nine months of the crisis (February to November 2020) were driven by shutdown sectors like hospitality, retail, manufacturing and the arts; while the gains since November appear to be driven by pandemic related jobs (this is shown in Figure 12 below). Health and public services stand out, while administrative and support jobs (the largest contributor to jobs growth) includes contracted-out work in call centres, administrative services, and packaging and logistics and so likely reflects both NHS Test and Trace and online retail.

Interestingly, the most recent month of jobs growth does not appear to be being driven by hospitality, where employment remains basically flat. This may suggest that staffing up in April was mainly driven by workers returning from furlough, and means that we may see stronger growth in the coming months (given the large rises in reported vacancies in April).

Figure 12: Changes in payrolled employment by industry – February to November 2020 (top panel) and November 2020 to April 2021 (bottom panel)



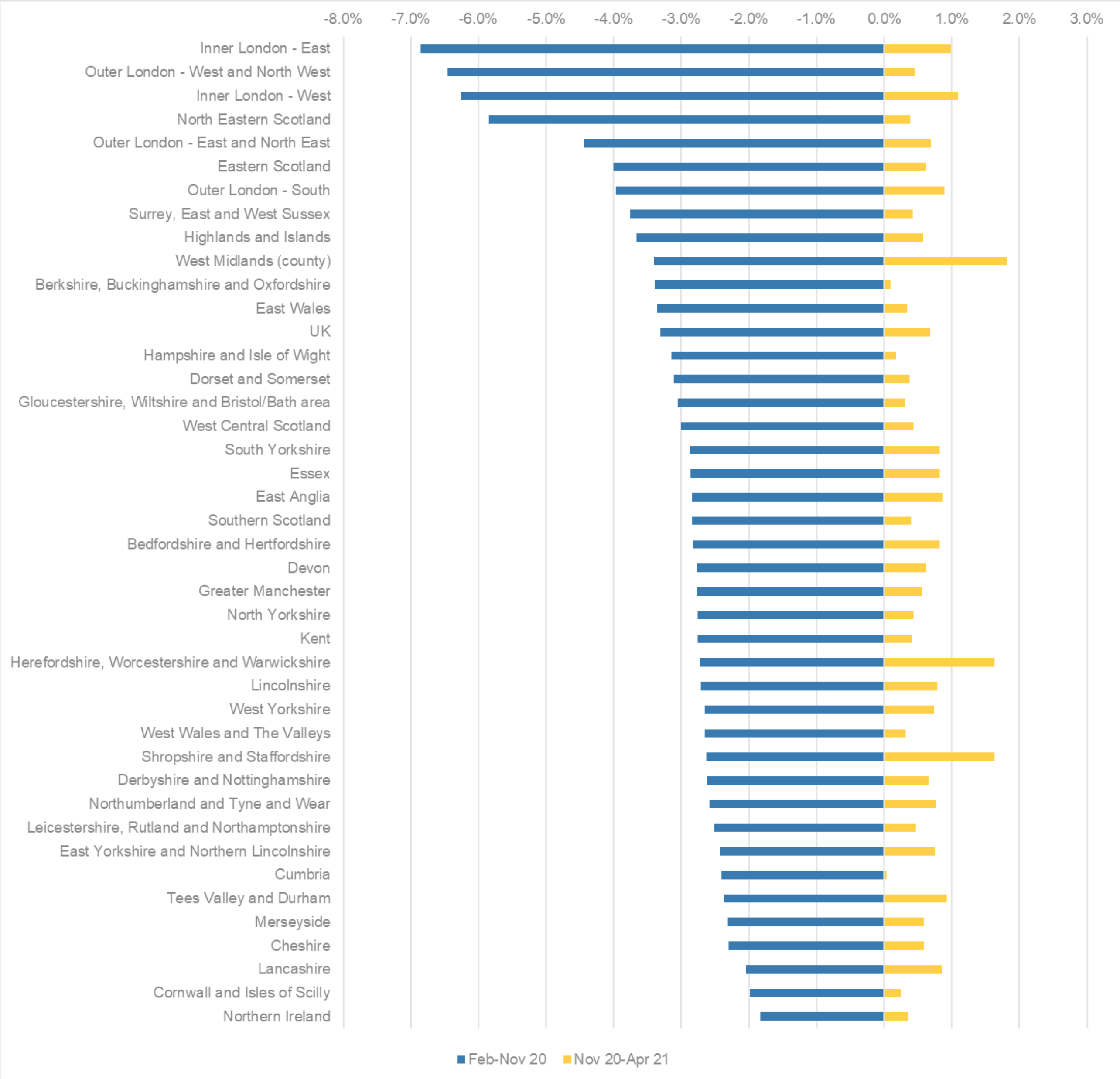
Source: IES analysis of PAYE Real Time Information

Looking at sub-regions, London is at last showing some signs of recovery

PAYE data for sub-regions (NUTS 2 areas) reiterates the disproportionate impact that this crisis has had on London and on some other major cities, for reasons explored in previous briefings (i.e. its reliance on office work, the visitor economy and the arts; and its generally higher share of private sector employment). However as Figure 13 shows, in this most recent data we are at last seeing some signs of life in the London labour market – with London accounting for fully one third of all of the PAYE employment growth in the month of April.

Parts of the West Midlands also stand out as having recovered strongly, while more rural areas appear to be falling back somewhat – after a number months of quite strong growth. It is too early to tell how this may play out over the next few months, but it could suggest that some of the gaps that opened up between sub-regions during the crisis may start to narrow again as the economy fully reopens.

Figure 13 Percentage change in payrolled employees by NUTS 2 geographical area, February to November 2020 and November 2020 to April 2021



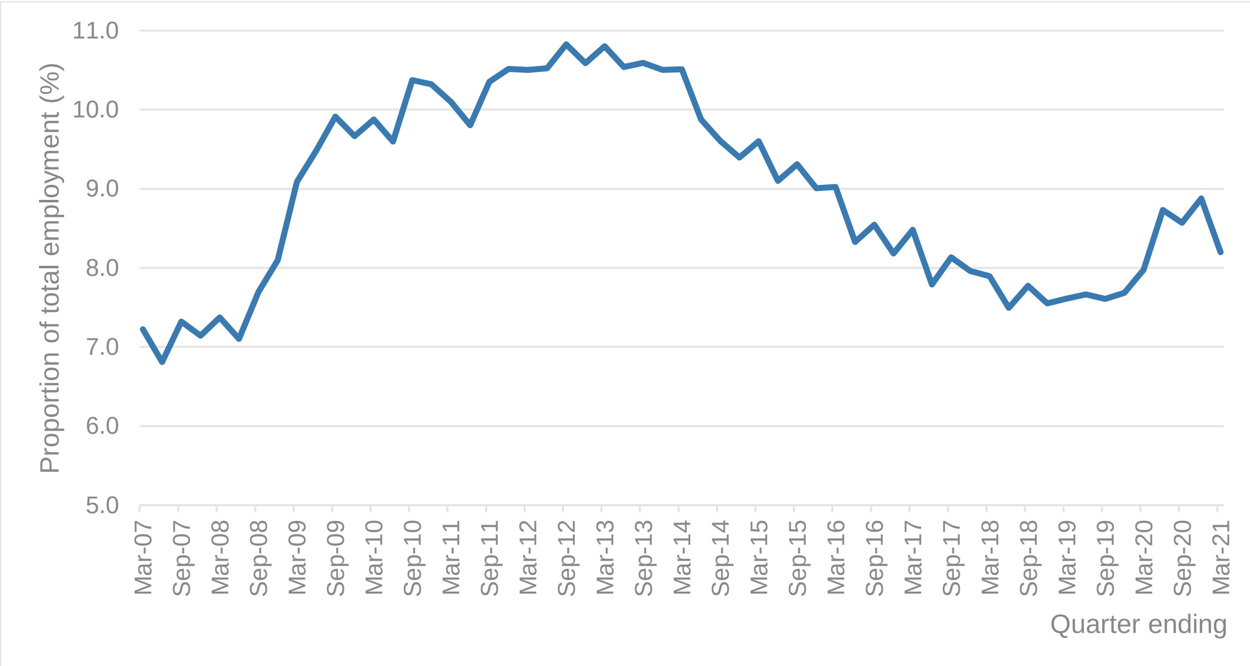
Source: IES analysis of HMRC PAYE data

Under-employment has fallen back slightly, but 'second choice' jobs may be starting to tick up

Quarterly data on under-employment is set out in Figure 14 below. Under-employment is defined as people who are in work, working less than 40 hours a week, and both want and are available for more hours. This rose sharply in the early crisis, likely driven by the precipitous falls in working hours for the self-employed during the first lockdown.

However the most recent figures, for the first quarter of 2021, suggest that under-employment has fallen back slightly – although it remains at levels last seen in 2017. This is reassuring, although it may also reflect that employment was generally better protected during the third lockdown than the first, and some of those who could work more hours may have stopped looking due to the second wave.

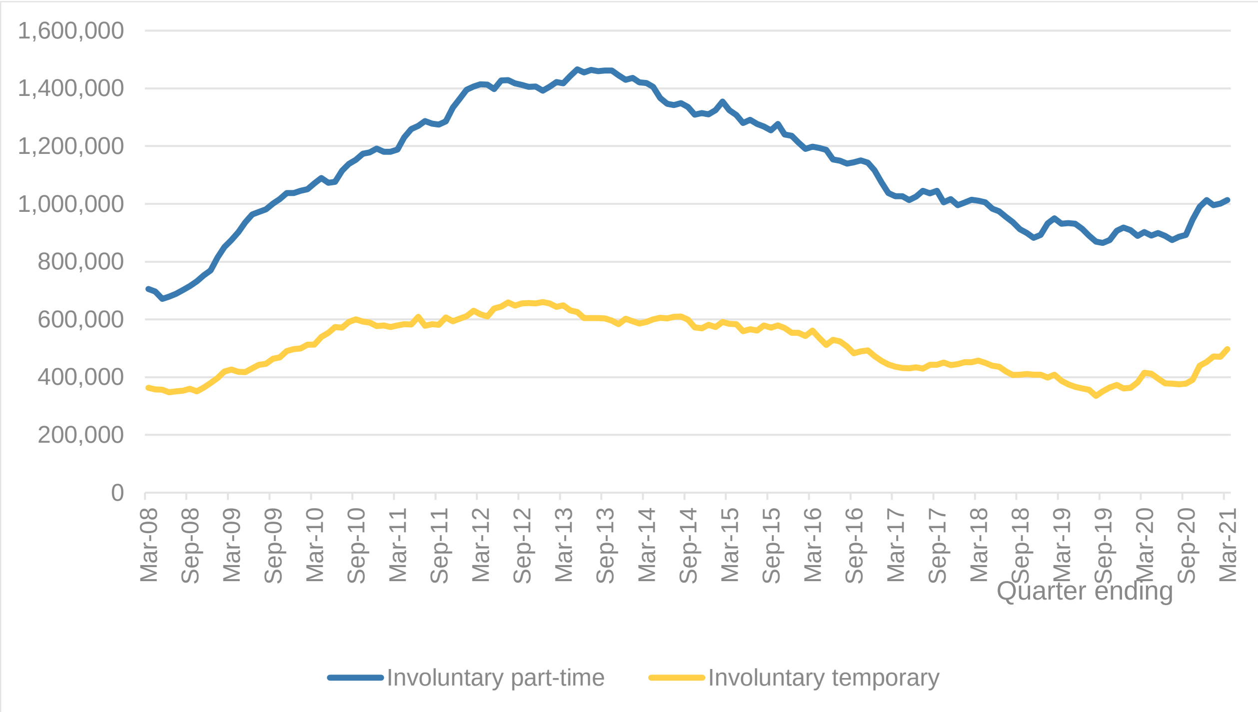
Figure 14: Proportion of those in work who are under-employed (not seasonally adjusted)



Source: Labour Force Survey

Of slightly more concern today was a further growth in the number of people reporting as being in part-time jobs because they cannot find a full-time one, or a temporary job because they can't find permanent work (Figure 15). Both of these remain well above pre-crisis levels, with involuntary temporary reaching its highest in nearly five years (note again that these report on changes in LFS levels and so should be read with caution). Separate data published today on temporary employment also shows that temporary work remains elevated, particularly through use of fixed-term contracts (which are at their highest in two decades).

Figure 15: People in part-time work because they couldn't find a full-time job, or temporary work because they couldn't find a permanent one



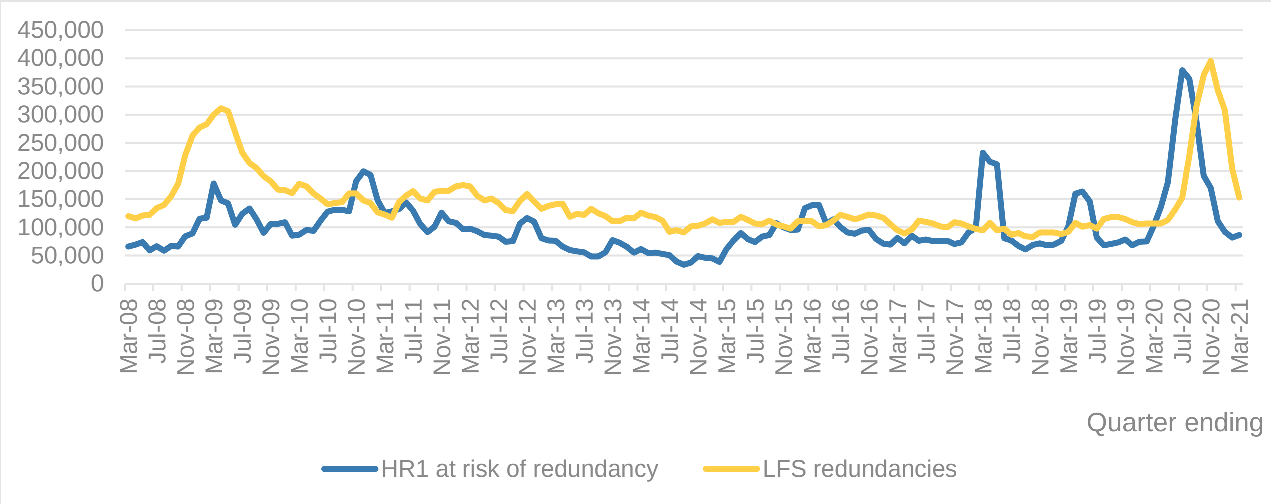
Source: Labour Force Survey

Redundancies are now returning to pre-crisis levels

Finally, today's data sees further improvements in redundancies, in line with the trend in recent months. Figure 16 below shows the level of quarterly redundancies alongside the number of jobs notified by employers as being at risk of redundancy in HR1 forms sent to the Insolvency Service. The most recent LFS figures show a sharp fall, and so are now more clearly following the (lagged) trend of the HR1 data. Note that these are changes in LFS levels and so need to be used with caution, but redundancy rates show the same trend.

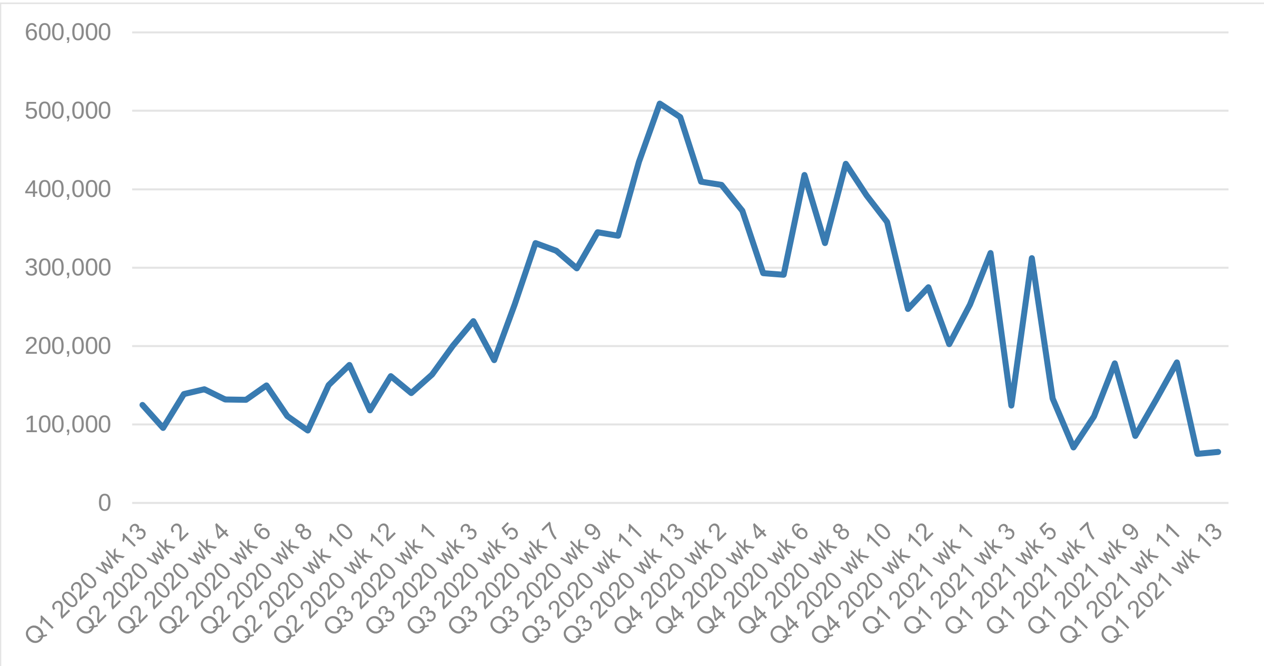
The most recent weekly data, in Figure 17 below, show even more clearly that redundancies falling back to pre-crisis levels during March – with on average 110 thousand people each week reporting that they were laid off in the previous three months. There are no signs in either the HR1 or LFS data that redundancies are going to pick up in the near future.

Figure 16: Quarterly number of employees notified as at risk of redundancy (HR1 forms) and reporting having been made redundant (Labour Force Survey)



Source: IES analysis of Insolvency Service and Labour Force Survey data

Figure 17: Whether made redundant in previous three months – weekly responses, February 2020 to March 2021



Source: Weekly Labour Force Survey X07

Conclusion

Today's data is very positive overall and give the clearest indication yet that the labour market is recovering. We can look forward to continued growth in employment in the coming months, although unemployment may remain close to 5% as more of those who were previous economically inactive start to look for work again.

Nonetheless there are clear warning signs today, most importantly that the longer-term 'scars' of the crisis will be felt in rising long-term unemployment, and that many young people are still struggling to find their way in the labour market. There also remain areas of uncertainty around job quality and security, and today's data reiterates that we have a long way to go on addressing the structural disadvantages that existed before the crisis began, particularly for disabled people.

Looking ahead, with Jobcentre Plus getting back to normal running as the economy reopens, and the £7 billion investment in new employment support starting to come on stream, it will be imperative that we mobilise support for those out of work as quickly as possible and that we target that on those facing the most significant disadvantages in the labour market.

About IES

The Institute for Employment studies is an independent, apolitical centre of research and consultancy in employment policy and human resource management. It works with employers, government departments, agencies and professional and employee bodies to support sustained improvements in employment policy and practice.

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