ies Briefing

Institute for Employment Studies

Labour Market Statistics, April 2021

20 April 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 December 2020 to February 2021. PAYE data are administrative payroll figures on employee levels and pay, covering the period to March 2021. This is supplemented with analysis from the **ONS Vacancy Survey**, which collects employer data on open vacancies and also includes data up to March 2021.

Summary

Today's figures tell a very similar story to last month's briefing – with both employment and unemployment broadly flat and very little sign of any significant deterioration from the third lockdown. It looks even more likely than last month that unemployment may have peaked (for now) at around 5% and we should start to see a stronger recovery in employment in the months ahead.

However, today's figures are again very poor for young people: with PAYE employment now down by 12.0% since the start of the crisis compared with 1.4% for other age groups, and PAYE employment falling again in recent months for young people even as it rises for others. The full extent of these impacts has been masked to some extent by still-rising participation in education, which is now at its highest ever rate; but we are seeing significant increases now in long-term youth unemployment (defined as those unemployed for more than six months) which has now reached its highest in five years.

This youth employment crisis is being driven in particular by continued subdued hiring, with February PAYE job starts 24% below pre-crisis levels and March starts 10% below (and subject to further downward revision next month). And while we can expect to see some improvement on this with the reopening of hospitality and retail in April, many of the factors that have held hiring back over the last year may continue to do so in the coming year too – with spare capacity within companies, continued economic uncertainty and a number of struggling firms.

Data on employment by sub-region and by sector shows a similar trend to recent months, with PAYE employment in London continuing to fall even as it has started to recover elsewhere; and recent employment growth being driven by administrative and support

services (likely including Test and Trace call centres and by contracted-out packaging and distribution) and in health.

Looking beyond employee jobs, self-employment continues to plumb new depths – with the proportion of those in work who are self-employed falling to its lowest since late 2009 (at 13.3%). We will get a clearer idea next month as to the extent to which this is explained by self-employed people leaving work or becoming employees.

Finally, there is positive news today on redundancies – with the latest data suggesting that these may now fall back to pre-crisis levels – and some signs that the recent growth in involuntary part-time and temporary work may have stalled for now.

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 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.

The labour market remains subdued – but unemployment has almost certainly peaked (for now)

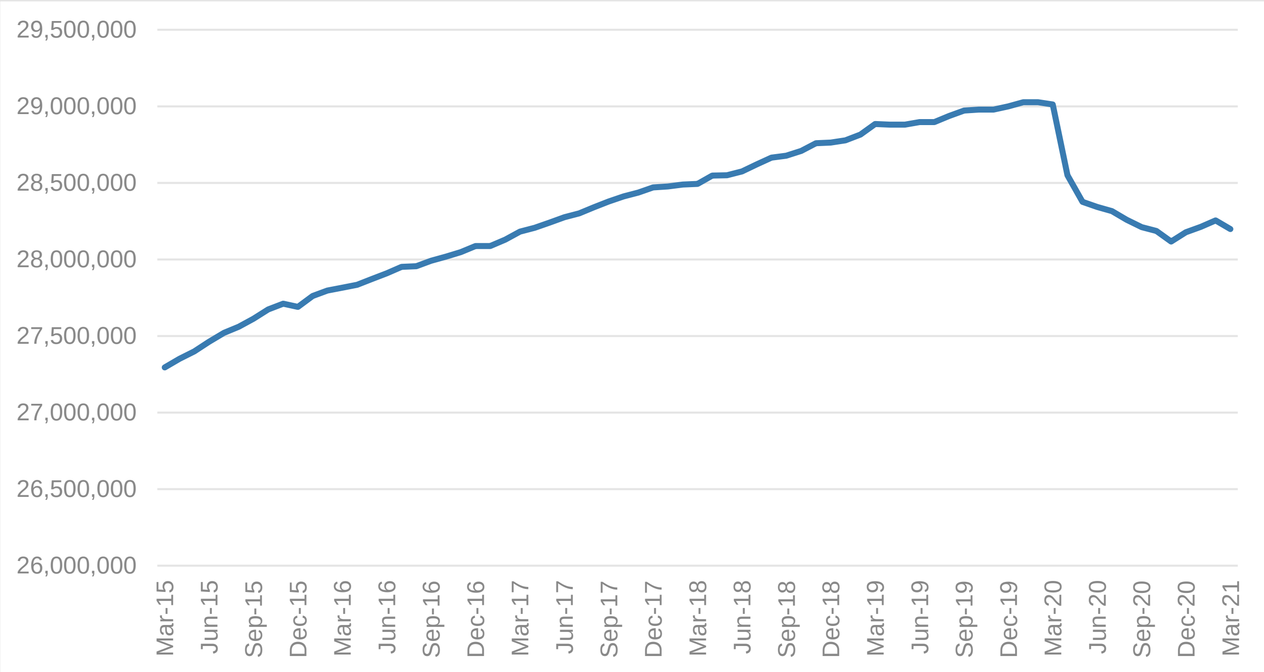
Overall, today's headline figures tell a similar story to those of recent months – with employment, unemployment and economic inactivity (the measure of those not looking and/ or not available for work) all broadly unchanged. There is very little sign that the full, national lockdown since January has caused any significant weakening in the labour market – which is undoubtedly good news – but on the other hand there is very little sign of any recovery yet either.

The most recent PAYE data shows a slight decline in employee numbers during March, falling by 56 thousand to 28.2 million (Figure 1). This has more than wiped out the gains made last month, although PAYE employment remains around 80 thousand higher than the low it reached in November 2020.

The LFS data, which covers the period to February, shows a similar picture – with the employment and unemployment rates both broadly flat at 75.1% and 4.9% respectively (each down by 0.1 points on the quarter). However there are also some signs of improvement on the figures published in the last two months, as can be seen in Figure 2 below, and the single month estimates (shown in yellow) suggest that the month of February saw strong performance on both employment and unemployment.

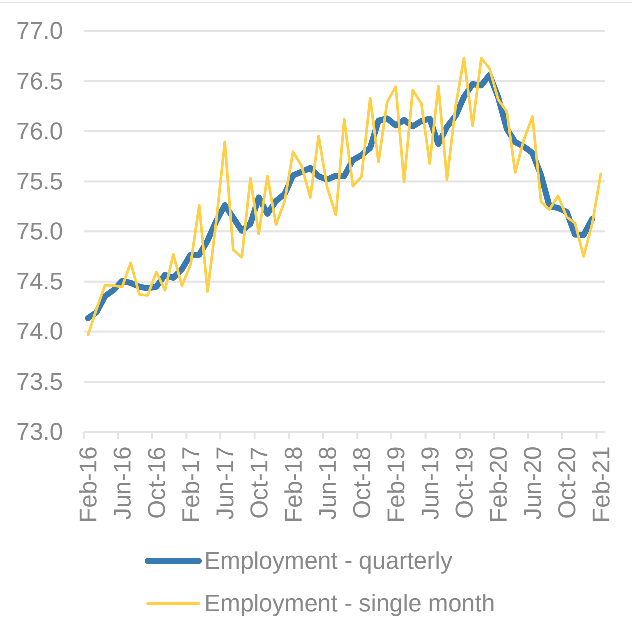
These monthly figures need to be treated with particular caution, but if nothing else they suggest that the next few months will see continued strong headline performance as these single-month estimates will remain in the three month average.

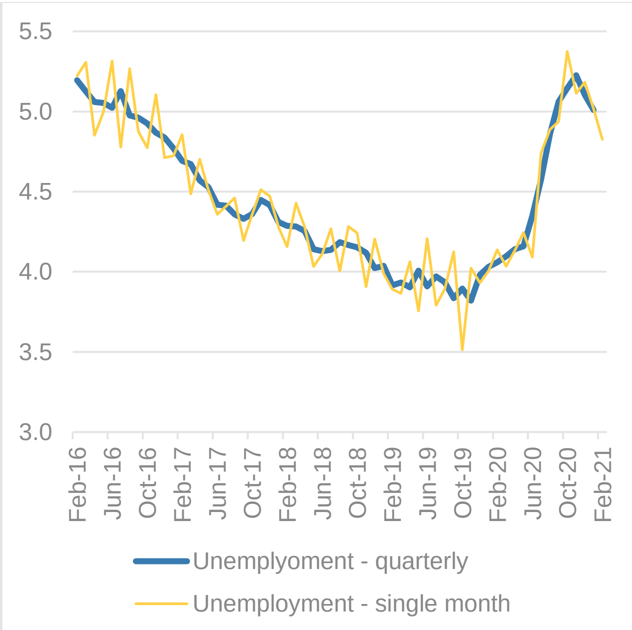
Figure 1: Total number of payrolled employees



Source: HMRC Pay As You Earn data

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

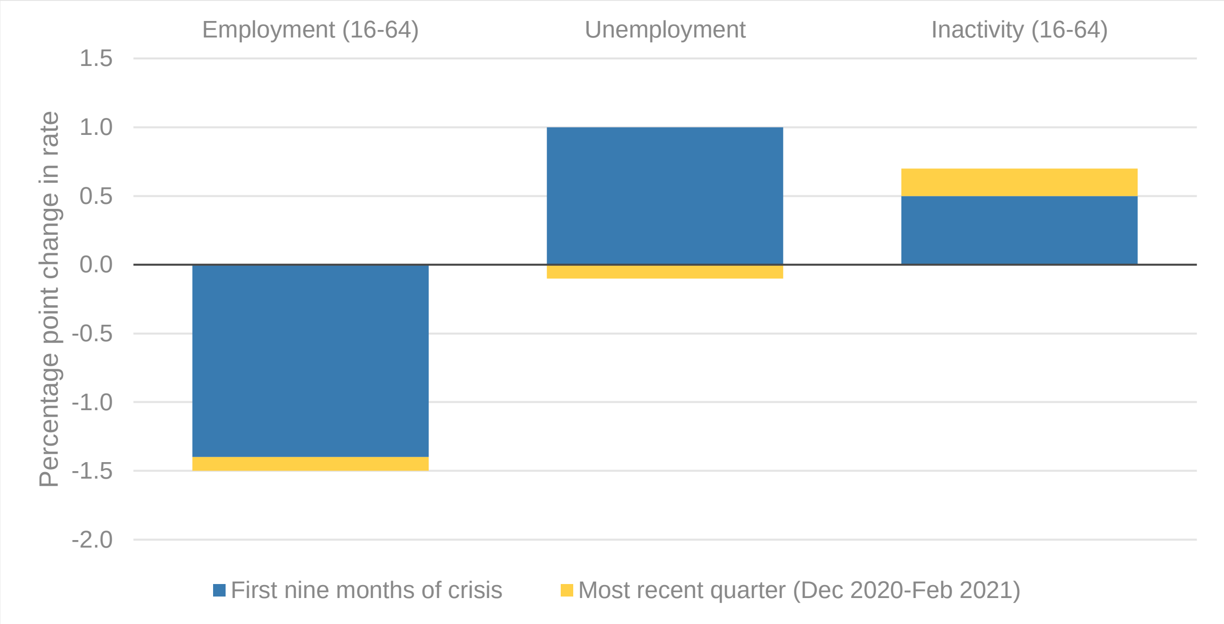




Source: Labour Force Survey

Figure 3 below shows in more detail the percentage point changes in the rates of employment, unemployment and inactivity over the most recent quarter (in yellow) and over the previous nine months of the crisis. This brings out more clearly how little impact we have seen since the turn of the year, despite the full lockdown, and the stark contrast with the impacts of the crisis last year. The small rise in inactivity is to some extent to be expected given the lockdown, but is almost entirely explained by students (up by 135 thousand) alongside smaller rises in early retirement and inactivitity for 'other' (likely pandemic related) reasons.

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



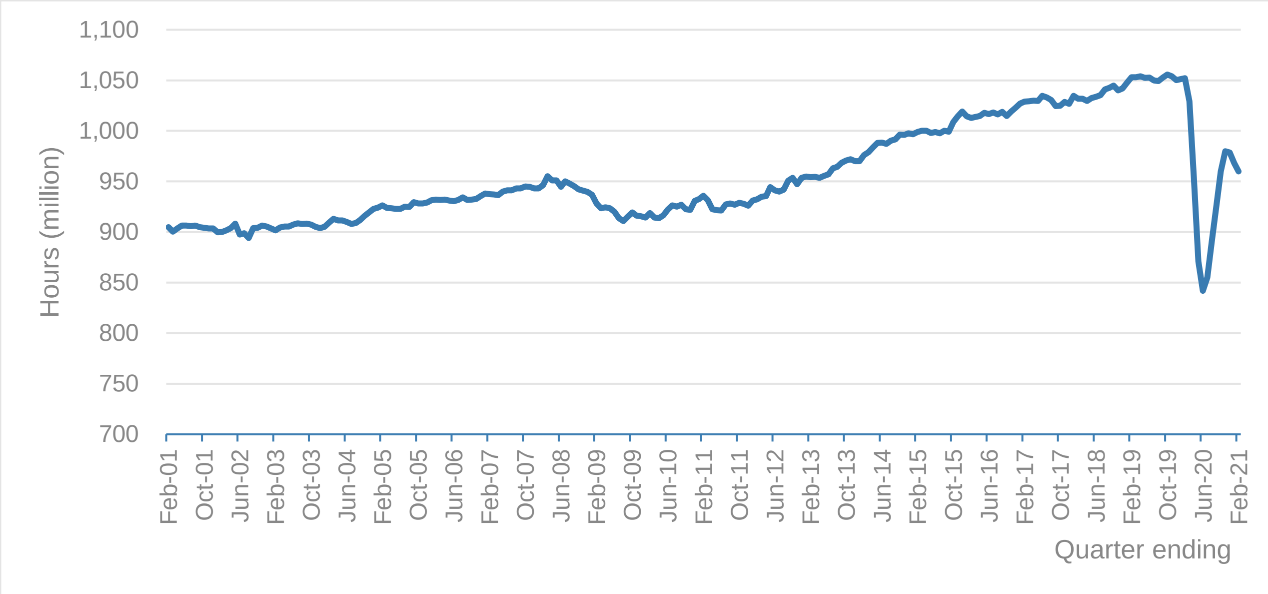
Source: Labour Force Survey

As we said in last month's briefing, with lockdown now starting to ease there is no reason to expect to see any further deterioration in employment and unemployment in the coming months and we should start to see a marked improvement from as early as next month. It seems increasingly likely therefore that unemployment has reached its peak for now, and may well not pass 5% again until the wind-down of the furlough scheme in the autumn. Our view also remains that if we can stay on the roadmap out of lockdown, then the unwinding of furlough is likely to have a relatively small impact on headline employment and unemployment.

Flat headline figures mask another fall in working hours – meaning furlough has worked in protecting jobs

If the impact of the third lockdown cannot really be seen in the headline employment figures, it is more clearly visible in working hours – which fell back again in the most recent data and are down by 2.0% on the latest quarter (and by 8.8% since the start of the crisis). This is shown in Figure 4 below. Clearly the impacts of this lockdown have been far less than the full lockdown last spring, but there remains a long way to go to reach pre-crisis levels.

Figure 4: Total hours worked



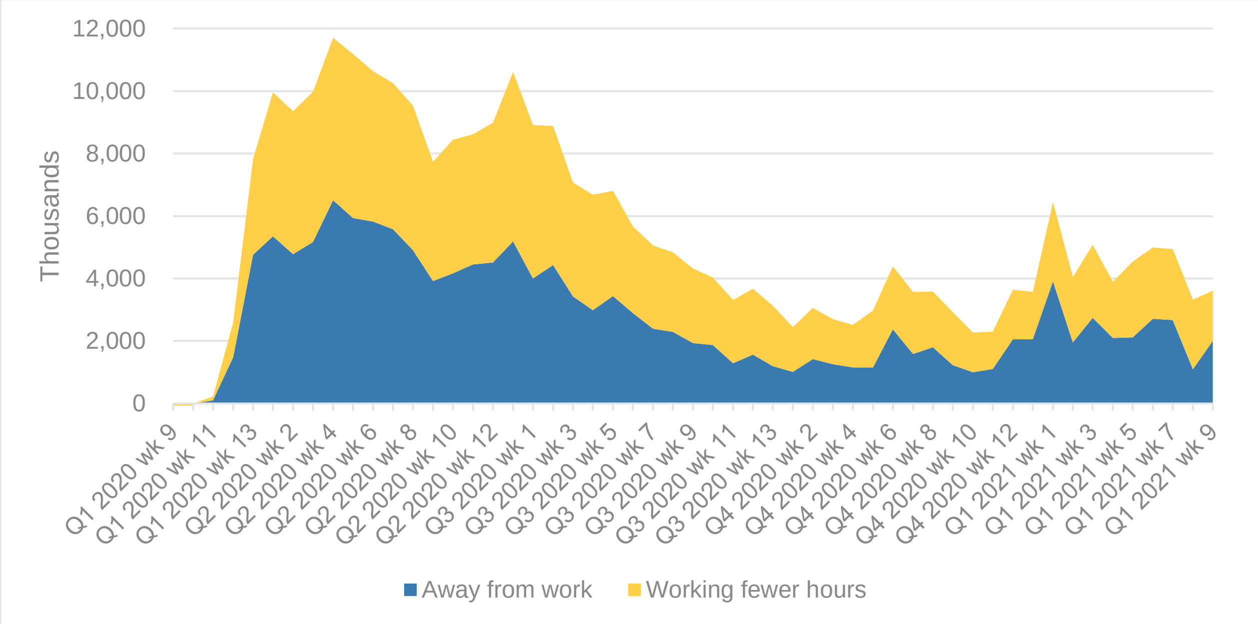
Source: Labour Force Survey

This disparity between levels of employment and working hours in large part reflects the success of the Job Retention Scheme and of wider labour market flexibility – with people being kept on in work during lockdowns and periods of weak demand rather than let go. As with previous months, Figure 5 illustrates this using LFS data on the number of extra people[1] in work but 'away' from their job or working reduced hours due to economic reasons. This shows increases in the numbers both away from work and working fewer hours in early 2021 compared with the end of 2020, with roughly equal numbers away from work (2.4 million) and working shorter hours (2.2 million) during January and February. As with last month, these figures are broadly consistent with HMRC data on CJRS take-up, although this suggests a somewhat higher share of those on the scheme are fully off work rather than working some hours.

Note that both Figure 5 and Figure 4 use the LFS to report on levels of employment and hours rather than rates, and so should be treated with caution.

[1] The 'excess' is defined as the additional number of people reporting as being away from work or working fewer hours than usual due to economic factors in the given reference week, compared with the average for the same reference week in the previous three years.

Figure 5: 'Excess' number of people not working normally by week, Mar 2020 to Feb 2021

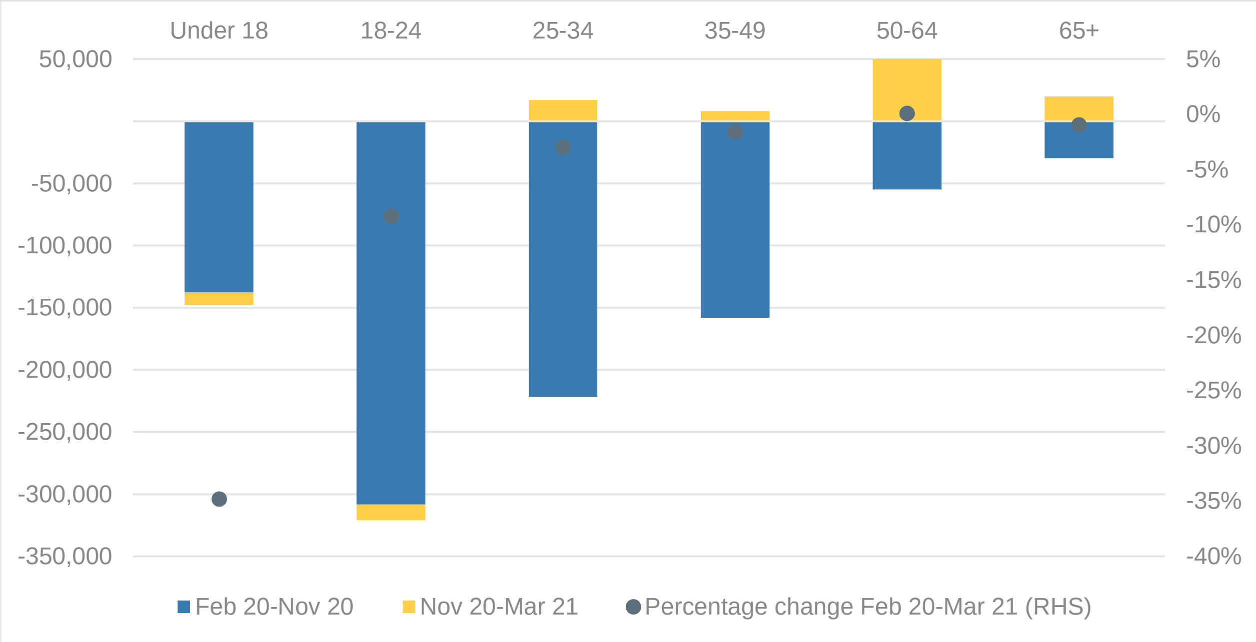


Source: IES analysis of weekly Labour Force Survey X07. The 'excess' is calculated as the difference between the number in the relevant reference week of 2020 and the number for the same reference week over the three years 2017-19. 'Working fewer hours' is limited to those doing so for economic reasons.

Once again, young people are losing out most – and these impacts again appear to be getting worse

If the relatively subdued figures today are broadly positive news given the full lockdown, the big losers have once again been young people. This is seen most clearly in the PAYE data, where the fall in employee numbers in March has translated into falling youth PAYE employment overall in the four months since November, even as it has risen for all other age groups (Figure 6 below). Youth PAYE employment has now fallen by 12.0% since the start of the crisis, while the fall for other age groups has been just 1.4%. Young people now account for nearly three fifths (57%) of the total fall in PAYE employment, while 16-17 year old employment is down by more than one third (35%).

Figure 6: Change in payrolled employees by age: first nine months of the crisis (Feb-Nov 2020) and most recent four months (Nov 2020-Mar 2021)

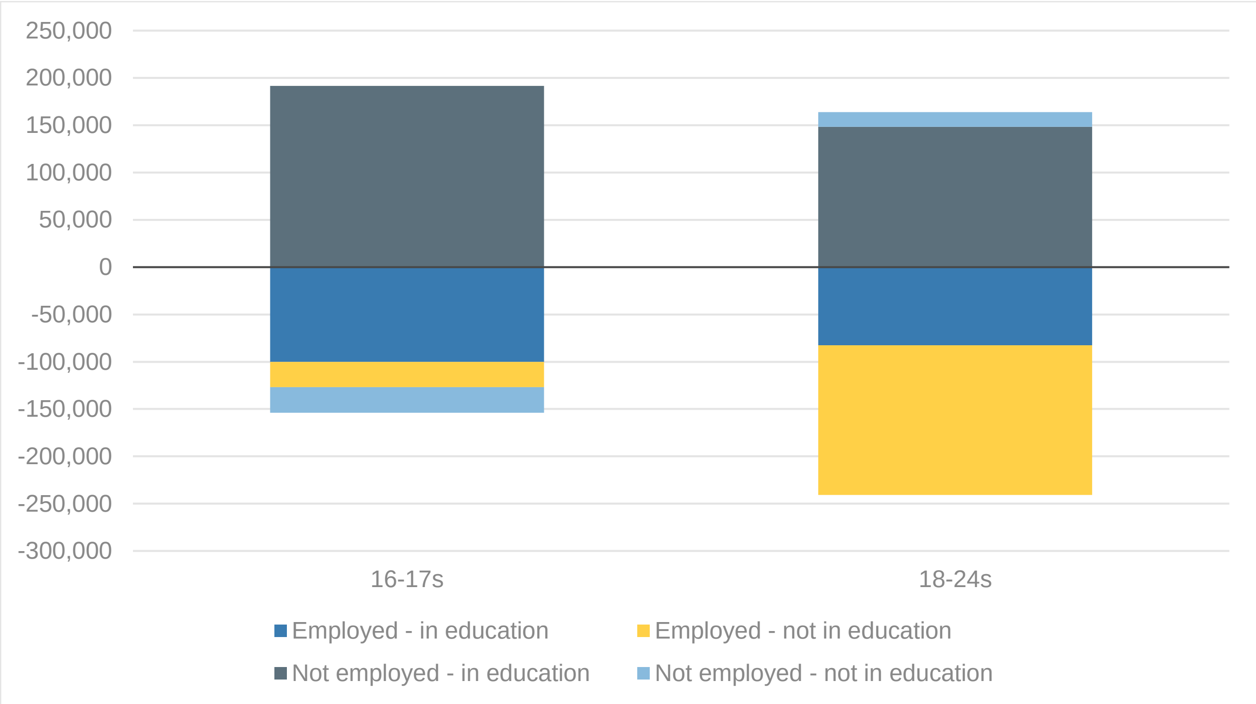


Source: PAYE Real Time Information

Once again however, LFS data on youth participation in full-time education or employment suggests that for the most part, these large falls in employment have been off-set by equally large rises in education. Figure 7 uses levels from the LFS and so should be treated with caution, but shows that for 16-17 year olds the number of young people neither in full time education nor work has actually fallen over the year, while for 18-24 year olds it has risen only marginally. As a consequence, the total share of young people neither in full time education nor work is unchanged on the year (14.5%) while the share in full-time education has reached its highest ever (46.0%) with the fastest rate of increase on record.

Nonetheless, our analysis published in February for Youth Futures Foundation and Blagrave Trust suggests that underneath these headlines there is significant variation by age, gender, ethnicity and place – with Black and Asian young people in particular, and those at transition points between education and work, losing out significantly.

Figure 7: Change in employment and education participation among young people, Dec 2019-Feb 2020 to Dec 2020-Feb 2021



Source: Labour Force Survey

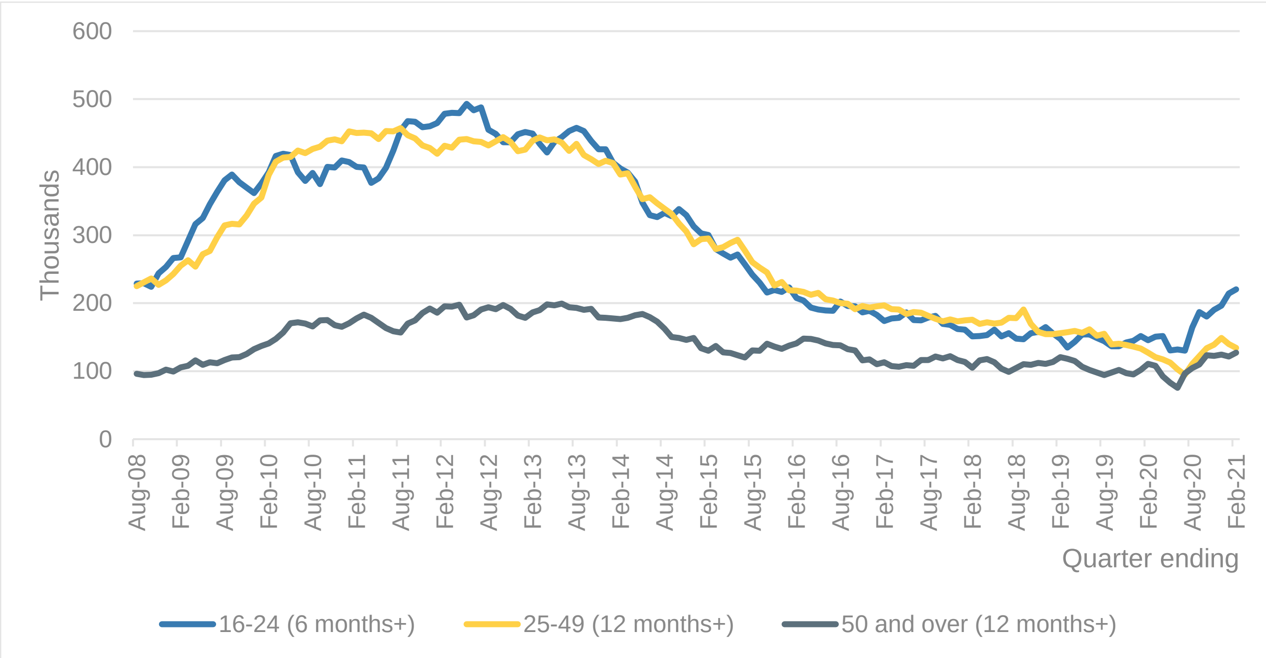
These impacts on young people have pushed long-term unemployment to a five-year high

Of even greater concern in today's figures has been a sharp rise in long-term unemployment, suggesting that some of those out of work risk becoming increasingly detached from the labour market. We define this as more than twelve months unemployed for those aged over 25, and more than six months for those aged 16-24.

The growth in six months plus unemployment has been particularly strong in recent months, and this is reflected in Figure 8 below – with youth long-term unemployment now reaching a five year high. (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 with last month's briefing, we anticipate that long-term unemployment will continue to rise strongly over the next year and will likely peak at more than double its pre-crisis levels in early-mid 2022. The government's Restart programme, alongside Kickstart jobs for young people, should begin to address this from the second half of this year – however they will both take time to build (with demand for Restart likely to outstrip supply until spring next year). In addition, Kickstart is not restricted to the long-term unemployed and is due to end in December. In our view, we are likely therefore to need more measures to support the long-term unemployed during the course of this year, and for young people in particular Kickstart needs to be targeted specifically at this group and extended beyond its planned end date of December 2021.

Figure 8: 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.

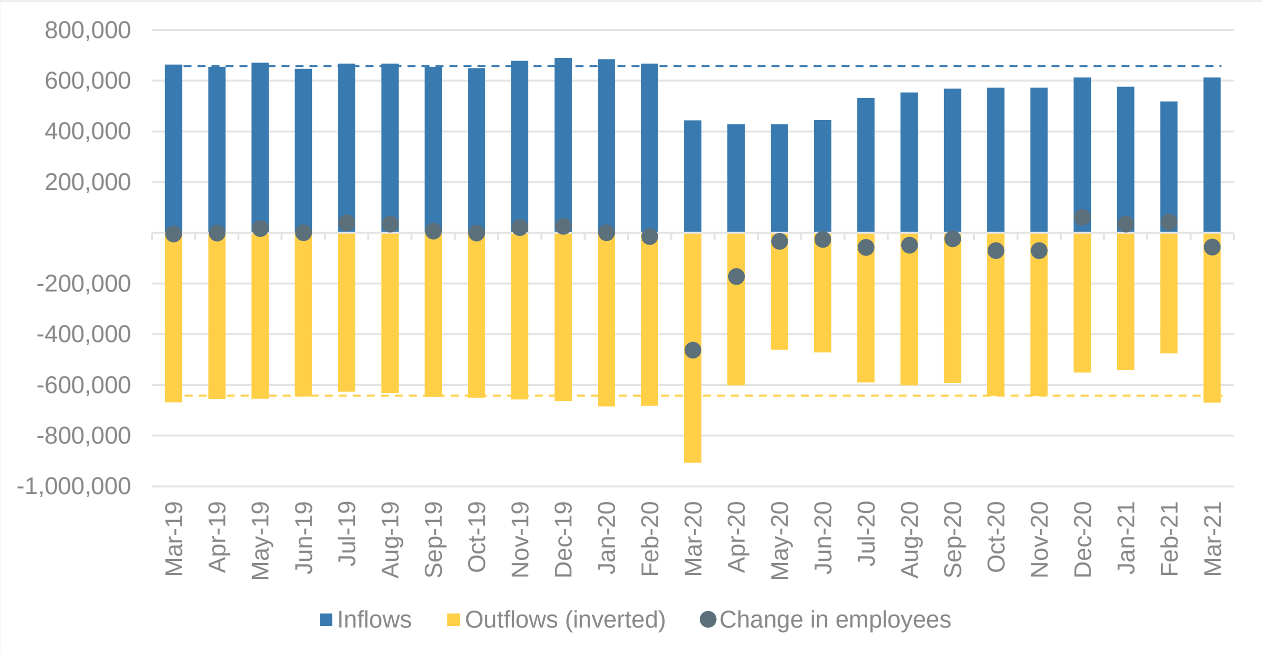
These negative impacts continue to be driven by very weak hiring

As with previous months, more detailed analysis of monthly flows into and out of PAYE jobs show that new hiring continues to be well below pre-crisis levels (Figure 9 below). The figure for new hires in February was revised down today to 518 thousand (24% lower than the previous February), and the figure for March was 10% below March 2019, at 613 thousand (and also subject to downward revision next month). Job exits have also been subdued over recent months, although these increased markedly in March.

It should be noted that these flows figures include job-to-job moves, so we cannot tell from this how far the increases in March reflect more people changing jobs as opposed to more people flowing into or out of employment. (Next month's LFS figures will give us a clearer picture on this, as they will include quarterly estimates of flows broken down by destination.)

Either way however, weaker hiring hits young people hardest, as they are most likely to be looking for jobs; and it also contributes to rising long-term unemployment. As we said last month, ultimately if we are to see a strong recovery in the labour market and want to reduce long-term unemployment then hiring needs to get significantly *above* pre-crisis levels – and there remain significant risks that even with a potential bounce-back in April many of the factors that have held hiring back over the last year (like spare capacity, economic uncertainty and struggling firms) will continue to weigh on new jobs growth in the year ahead.

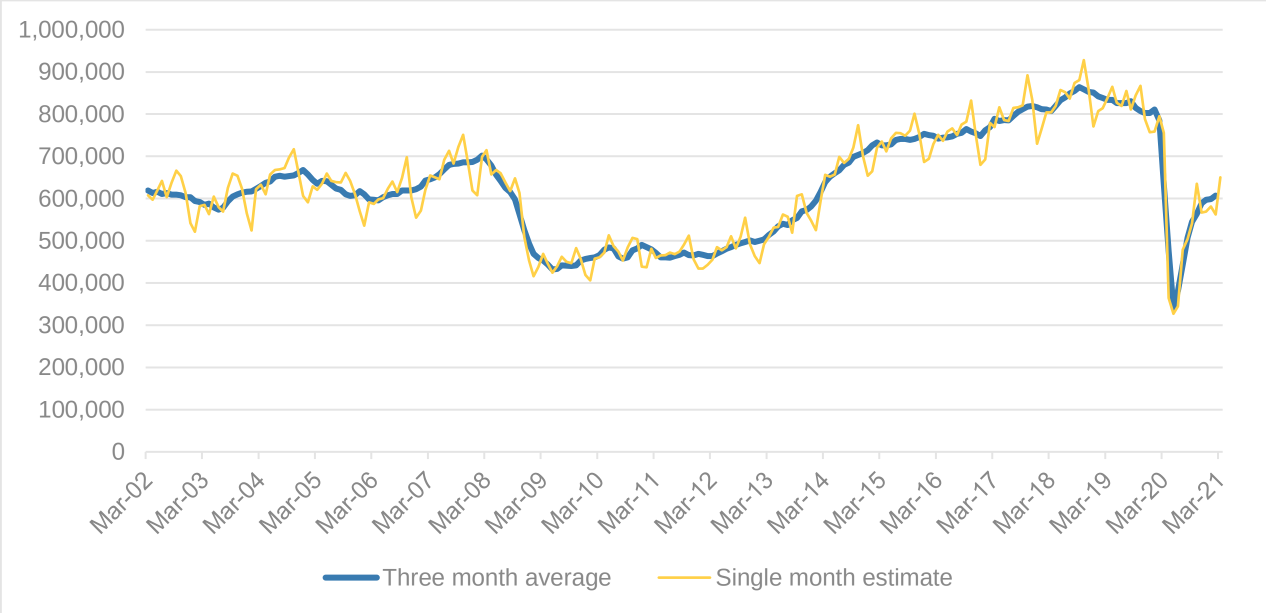
Figure 9: Flows into and out of PAYE payrolled employment, two years to March 2021



Source: HMRC PAYE Real Time Information

Looking at data from the Vacancy Survey, figures remained somewhat subdued through March although the single-month estimate for that month ticked up to the highest since the start of the crisis (at 650 thousand). While these figures are still pretty weak, the good news is that more timely data on online job adverts gathered by Adzuna shows a far stronger recovery in later March and early April – suggesting that next month's figure for April could be back close to pre-crisis levels.

Figure 10: Vacancies – quarterly and single-month estimates



Source: ONS Vacancy Survey

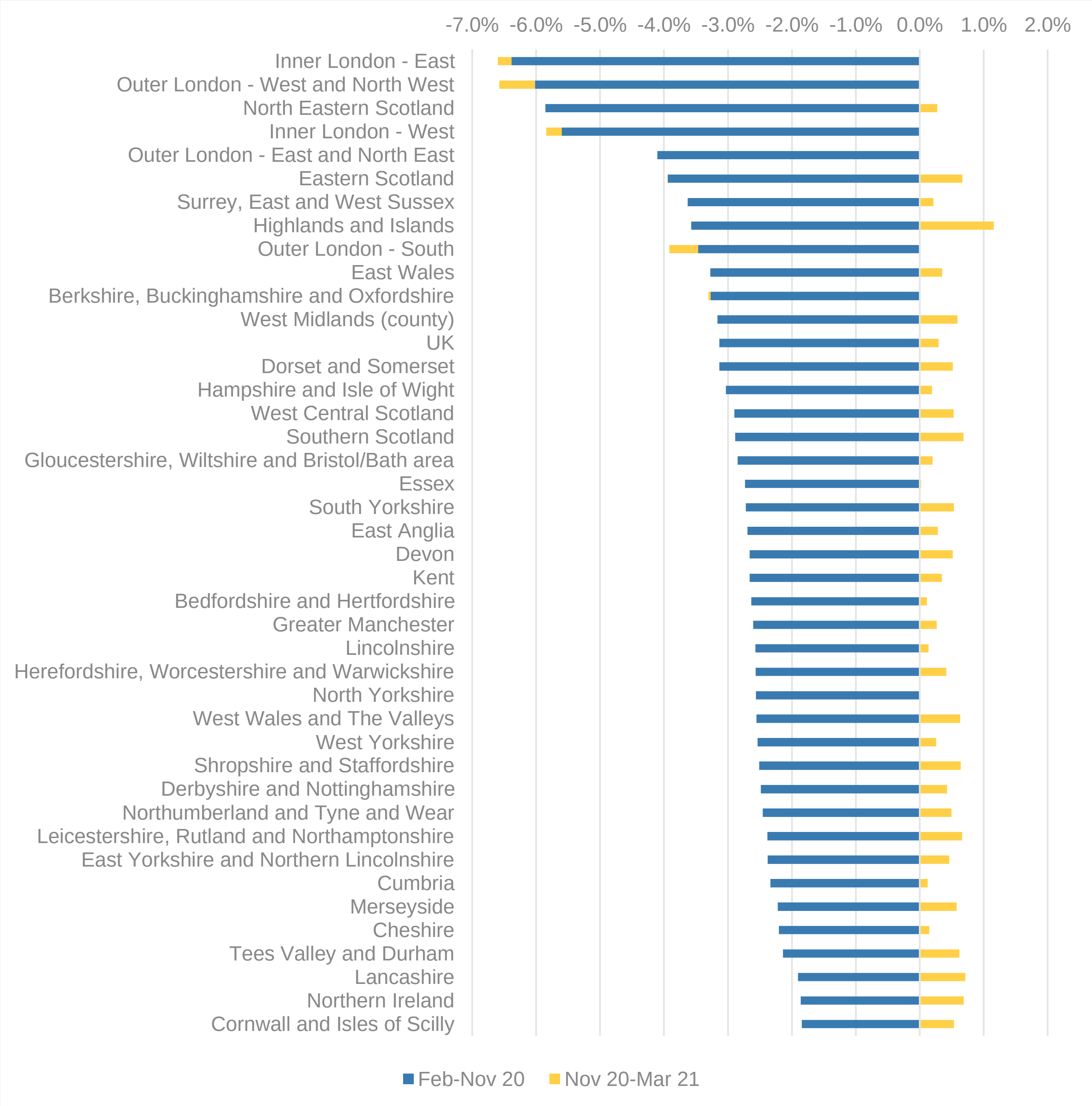
London is falling – although every sub-region has slipped back in the last month

PAYE data for sub-regions (NUTS 2 areas) shows again this month how hard this crisis has hit London in particular, for reasons discussed in last month's briefing (i.e. its reliance on office work, the visitor economy and the arts; and its generally higher share of private sector employment).

Figure 11 shows the percentage fall in employment for each sub-region over the first nine months of the crisis (when PAYE employment was falling overall) and the four months from November to March (when it has risen overall). Whereas last month this graph was showing a slight recovery in London in recent months, albeit smaller than other sub-regions, the decline in PAYE employment in March has particularly hit the capital and pushed four of the five sub-regions into net falls since November. Overall, PAYE employment has fallen by 5.6% in the capital since the start of the crisis, compared with 2.4% in the rest of the UK.

The graph below also shows very large impacts in North Eastern Scotland (which comprises Aberdeen and Aberdeenshire, reflecting the impacts of the crisis on oil and gas); and at the other end far smaller impacts on more rural economies and places less reliant on private sector employment. Tees Valley, Cornwall, Lancashire and Northern Ireland in particular have all seen PAYE employment recover to within 1.5% of pre-crisis levels.

Figure 11 Percentage change in payrolled employees by NUTS 2 geographical area, February to November 2020 and November 2020 to March 2021

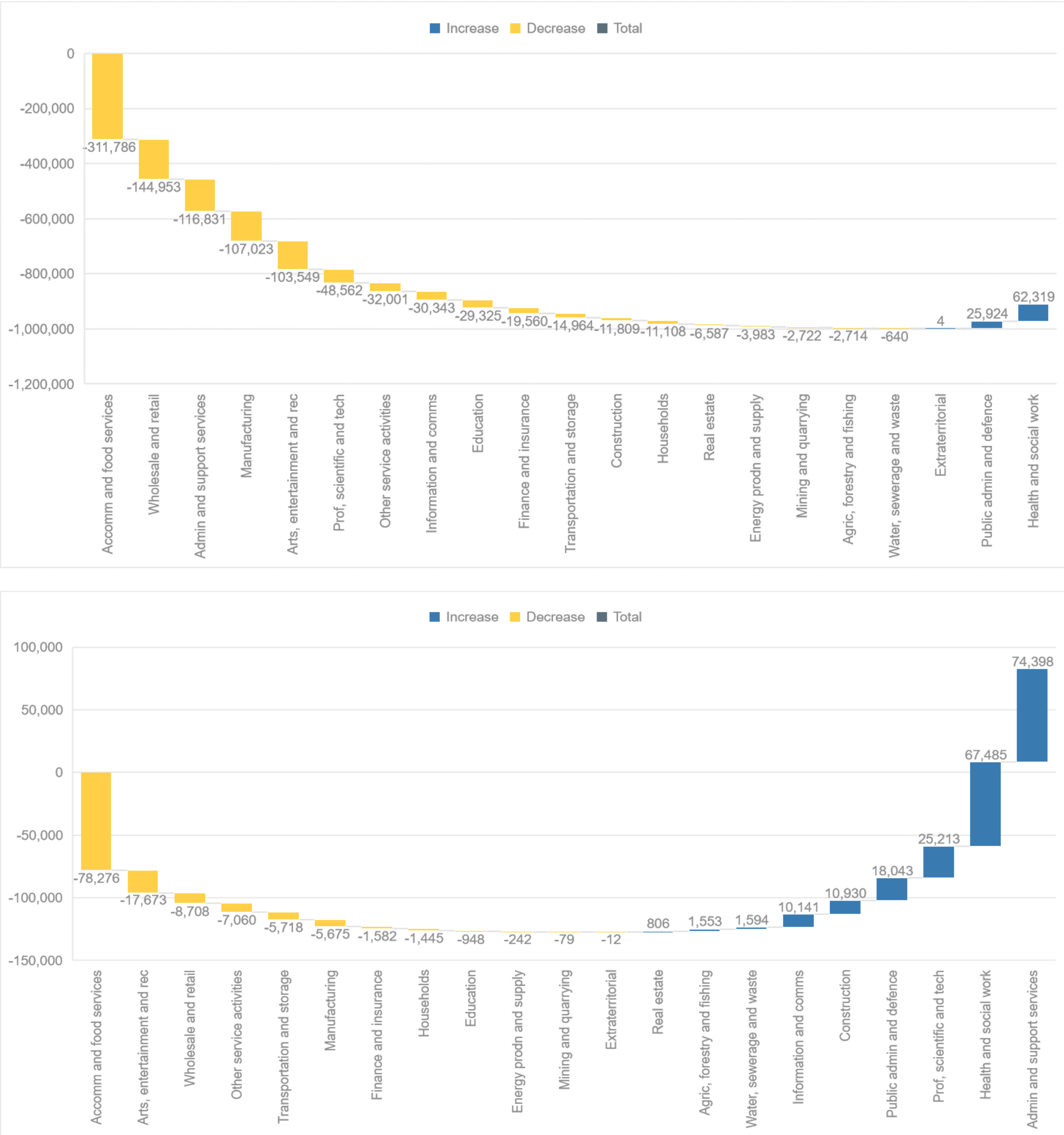


Source: IES analysis of HMRC PAYE data

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

Looking at changes in PAYE employment by industry, Figure 12 below shows that during the first nine months of the crisis (February to November 2020) job losses were driven in particular by the impacts of lockdowns on hospitality, retail, manufacturing and the arts (top panel); with employment only seeing growth in public services and health. More recently (bottom panel), hospitality and the arts have continued to decline while employment growth has been driven by health, public services, administrative and support jobs and professional and scientific work. As we set out last month, this is almost certainly reflective of pandemic related jobs and of online deliveries (with the admin and support sector including contracted-out work in call centres, administrative services, and packaging and logistics).

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



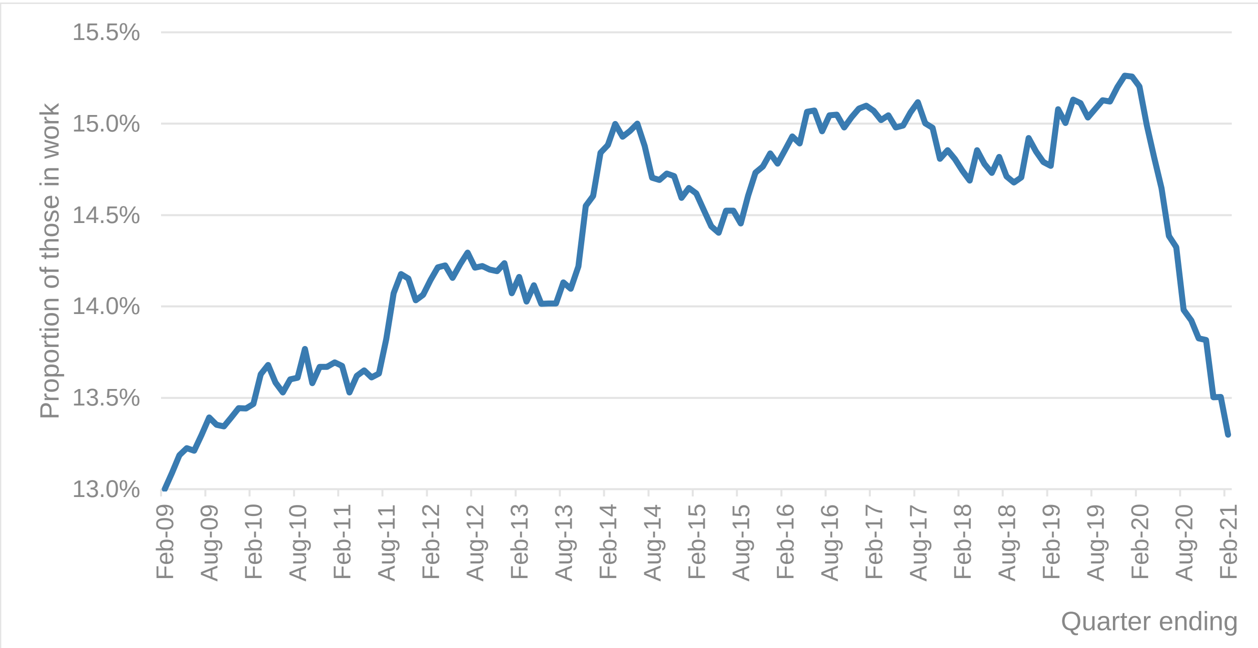
Source: IES analysis of PAYE Real Time Information

Self-employment continues to plumb new depths – now down to its lowest since autumn 2009

It is important to note that the PAYE system is an employee count, and so much of the analysis above which has focused on the PAYE data excludes the self-employed, where we have continued to see very significant falls in employment. Figure 13 below sets out the share of those in work who are self-employed, using the LFS, and shows a further significant fall in the most recent data to 13.3%. This is now over 700 thousand lower than pre-crisis levels (although the change in LFS levels needs to be treated with caution) and means that self-employment is its lowest since late 2009.

Previous data on the destinations of those flowing into and out of self-employment suggests that at least half of the decline last year reflected self-employed people becoming (or describing themselves as) employees rather than moving out of work entirely, with new quarterly data on this due to be published next month.

Figure 13 Share of those in work who are self-employed

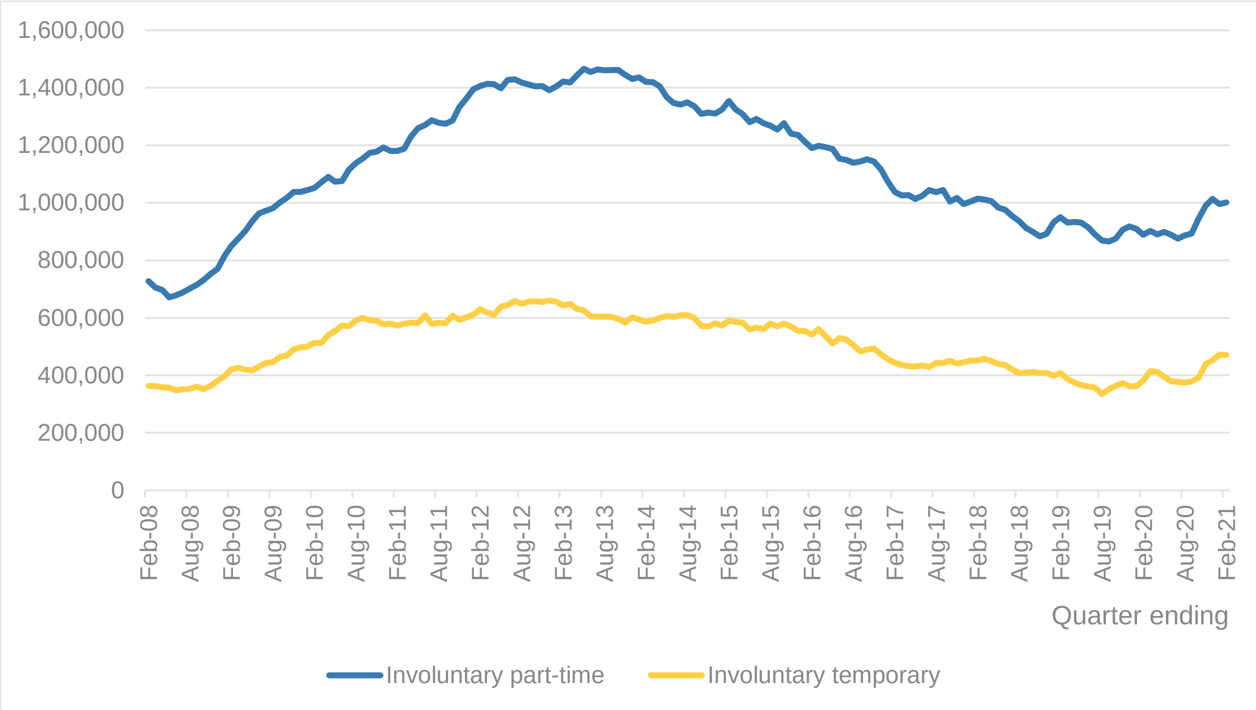


Source: Labour Force Survey

The growth in ‘second choice’ jobs and temporary employment appears to have slowed somewhat

In more positive news, today’s figures have seen a slowing in the growth in the number of people reporting that they are in temporary jobs because they cannot find permanent work or in part-time jobs because they cannot find a full-time one. As Figure 14 below shows, both of these remain above pre-crisis levels (21% higher for involuntary temporary work, and 12% higher for involuntary part-time), but have improved slightly on the figures reported last month. Note again that these report on changes in LFS levels and so should be read with caution.

Figure 14: 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



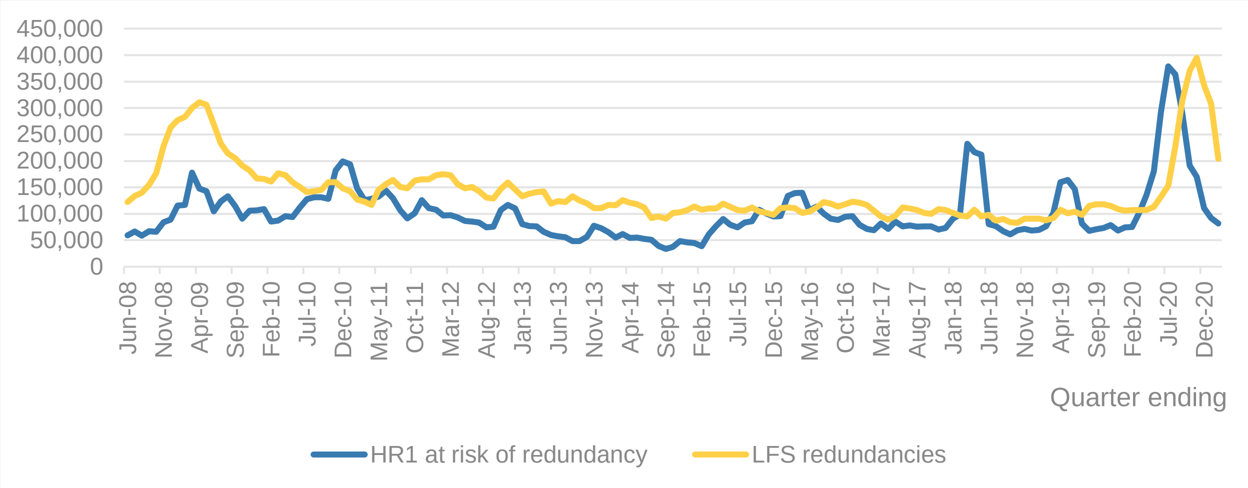
Source: Labour Force Survey

Redundancies are now falling sharply, with the most recent data back to pre-crisis levels

Finally, today's data also sees good news on redundancies, which are now very firmly falling back to pre-crisis levels. Figure 15 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.

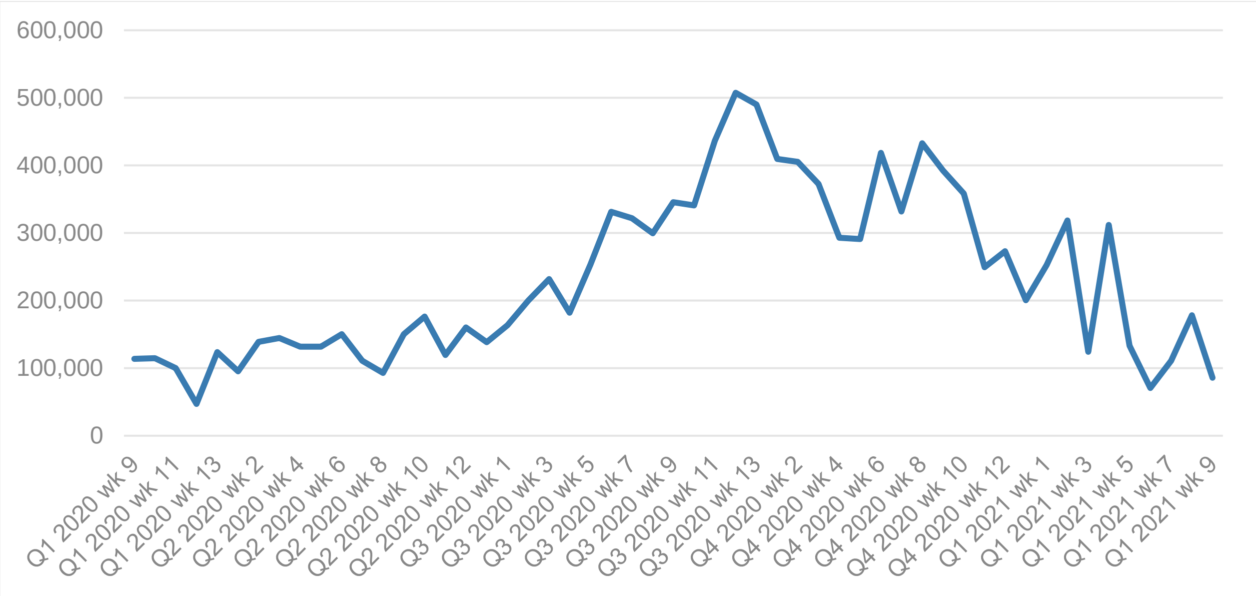
The most recent weekly data, in Figure 16 below, show even more clearly that redundancies falling back to pre-crisis levels during February – with on average 116 thousand people each week reporting that they were laid off in the previous three months. This suggests that the rather higher figures that we saw in January may well have reflected the impacts of autumn restructuring being delayed past Christmas (as we suggested last month), rather than any ongoing impacts among smaller employers not being picked up through the HR1 process.

Figure 15: 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 16: Whether made redundant in previous three months – weekly responses, February 2020 to February 2021



Source: Weekly Labour Force Survey X07

Conclusions and implications

Overall, it is undoubtedly positive news that the labour market has shown so little sign of deterioration during early 2021 given the scale of the third lockdown. We can also expect to see the figures start to improve over the coming months, as the effects start to be felt from the reopening of hospitality and retail in early April.

However, continued weak hiring and the ongoing impact of the crisis on ‘youth rich’ occupations has seen young people continue to lose out, with this month’s figures even worse for youth employment than last month. While the worst effects of this have been masked to some extent by higher participation in education, we are nonetheless seeing them feed through very clearly now into higher long-term unemployment.

As with last month, we think that there is a pressing need now to mobilise the £7 billion announced last year to support re-employment (through Kickstart, Restart and Jobcentre Plus services), and to target this help at those becoming long-term unemployed and otherwise disadvantaged in the labour market. In our view, this should include a meaningful jobs and training guarantee for long-term unemployed people and the extension of Kickstart beyond the end of this year.

In addition, while we can look forward to a bounce-back in employment from next month as we start to see the effect of the reopening of hospitality and retail, many of the same issues that held back hiring last year may continue to do so this year too – particularly very significant spare capacity, economic uncertainty and struggling firms. We may yet need to see more support later in the year to boost hiring and drive down unemployment.

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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