Labour Market Statistics, August 2021

17 August 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 April to June 2021. PAYE data are administrative payroll figures on employee levels and pay, covering the period to July 2021. This is supplemented with analysis from the **ONS Vacancy Survey**, which collects employer data on open vacancies and also includes data up to July 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 figures show that the recovery continued to gain momentum through the spring as restrictions eased. Employment is up, unemployment is down, and there are now more than a million vacancies in the economy for the first time on record. At the same time, nearly two million people started a new job between April and June (including more than one third of all of those who were unemployed in the previous quarter), comfortably the highest figures ever.

Nonetheless, economic inactivity remains elevated – particularly driven by more students and by people out of work due to ill health – and the employment 'gaps' for disabled people, ethnic minorities and older workers are not narrowing even as demand outstrips supply.

As the labour market continues to tighten, we will need to increasingly shift our focus to helping to bring more people back into the labour market, and to supporting those still out of work to take up new jobs.

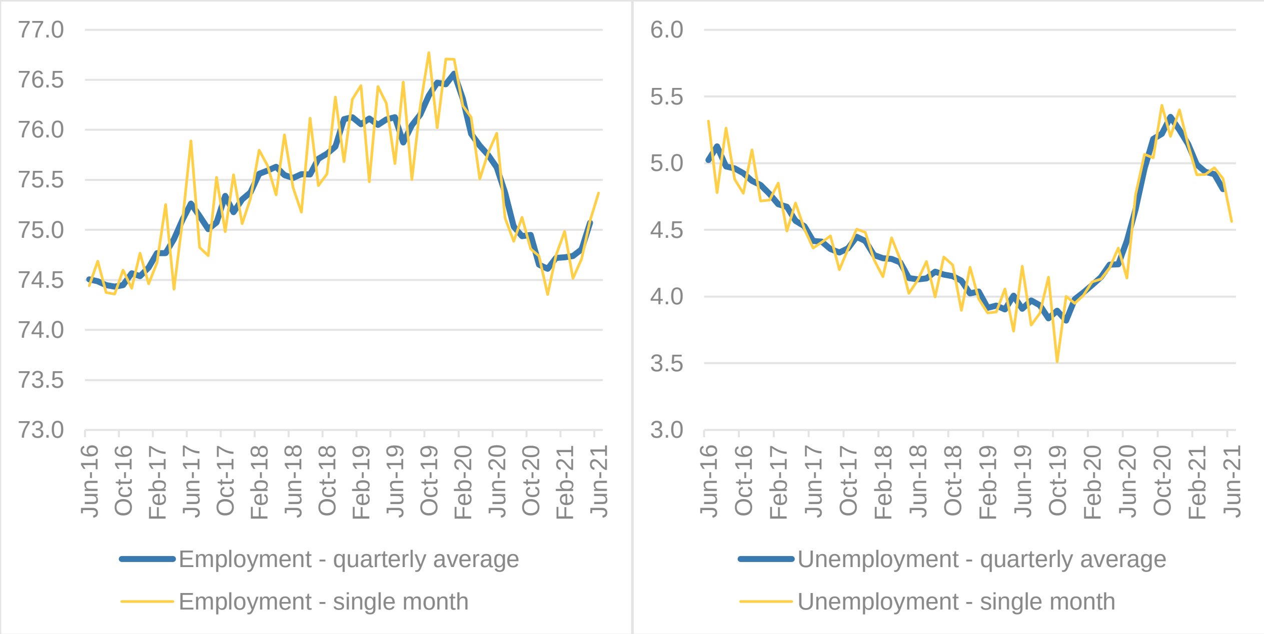
The labour market recovery appears to be gaining momentum

The latest Labour Force Survey data is now showing clear signs of recovery both in employment and unemployment – with the employment rate rising to 75.1% (up by 0.3 points on the previous quarter) and unemployment falling to 4.7% (down 0.2 points). After a few months of fairly subdued employment data, the LFS does now seem to be catching up with the growth in the (more timely, employee only) PAYE data. Figure 1 below illustrates this, showing quarterly and single month estimates for the working age population. In particular the single month figures for June were very strong, and so point to continued improvements in the headline, quarterly rate over the next few months as those figures work their way through the three-month average.

Figure 1 below shows the headline working age employment and unemployment rates, with rolling quarterly estimates in blue and underlying single-month estimates in yellow.

The apparent differences between the LFS and PAYE data are partly explained by the fact that the PAYE figures exclude self-employment (covered in the next section) and by the fact that the LFS only covers the period to May 2021 while PAYE data includes June. The most recent single-month estimate of employment in the LFS, for example, suggests growth in employment of around 200 thousand compared with April – which is broadly in line with the PAYE estimate. However, the LFS monthly estimates are not 'official' statistics and jump around significantly due to sampling variability (as Figure 1 below shows). So we can be hopeful, but not certain, that the LFS will start to 'catch up' with the PAYE estimates.

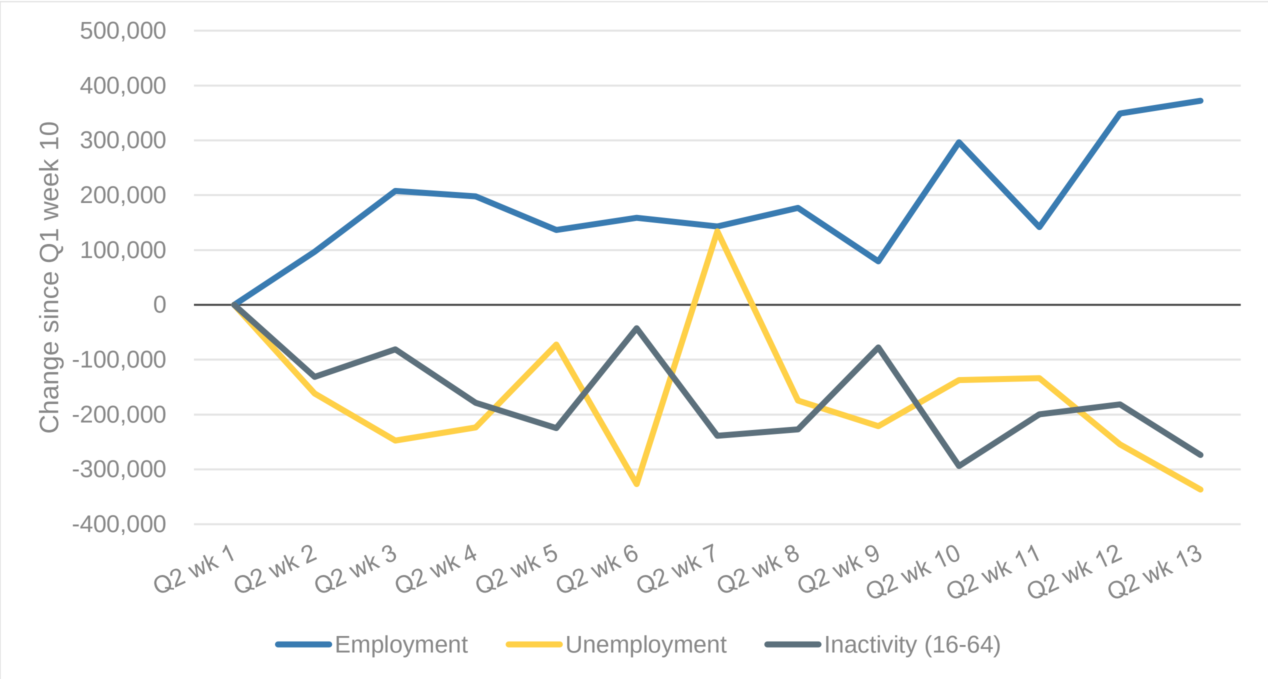
Figure 1: Employment and unemployment rates (16-64) – quarterly average with single-month estimates



Source: Labour Force Survey

Using more granular weekly LFS estimates brings this recent improvement out even more clearly. Figure 2 below shows the estimated changes in employment, unemployment and inactivity over the 13 weeks between the start of April and the end of June, and shows that employment has grown consistently while unemployment and 'economic inactivity' (the measure of those not looking and/ or not available for work) have both fallen – with these trends accelerating through June as restrictions eased.

Figure 2: Estimated changes in employment, unemployment and economic inactivity between April and June 2021

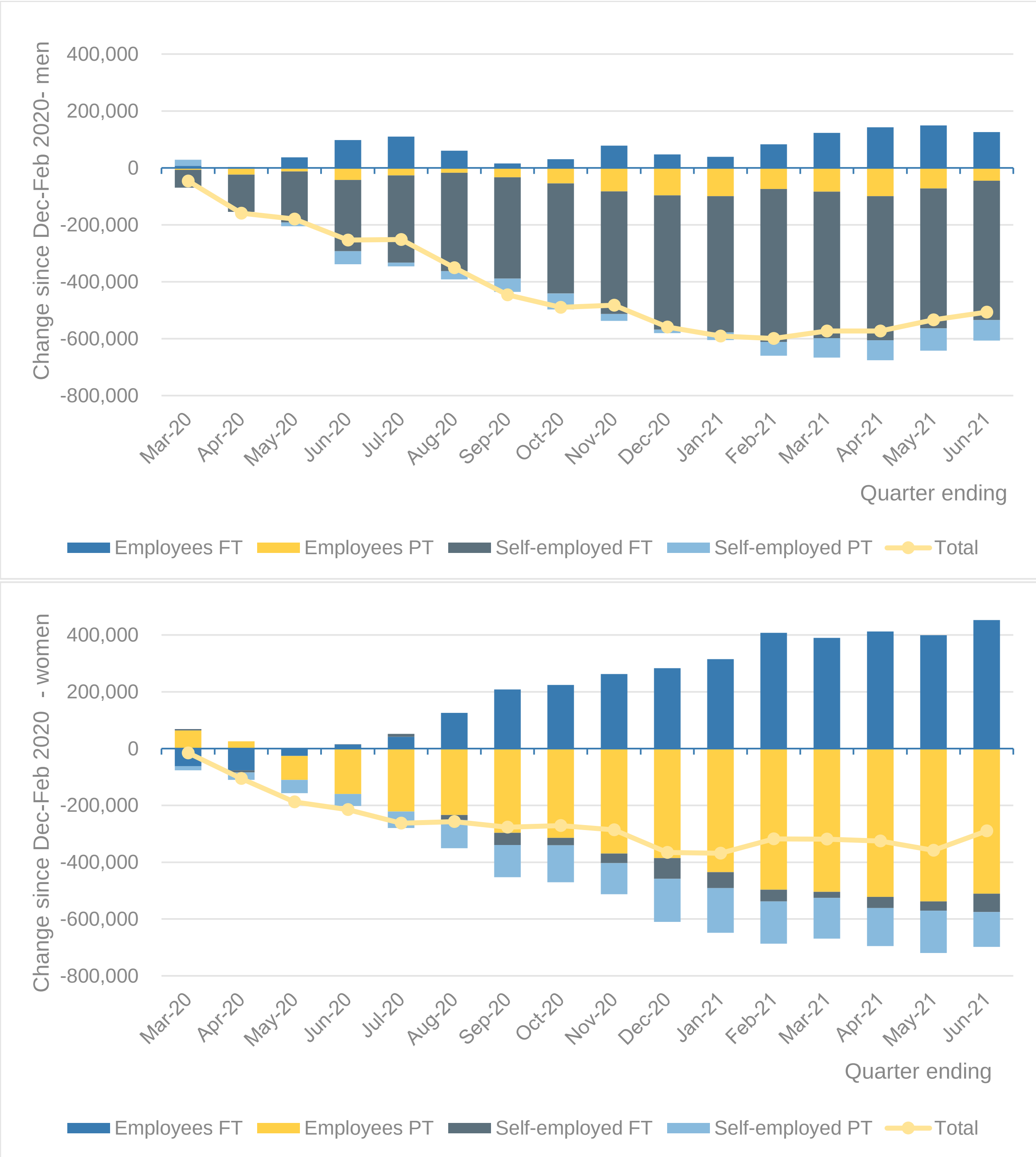


Source: Labour Force Survey weekly estimates

This is undoubtedly positive news, but it of course remains the case that all indicators are worse than they were before the crisis – with employment still 800 thousand lower than it was before the pandemic, unemployment 240 thousand higher and economic inactivity up by 360 thousand (with the balance mainly explained by fewer non-UK nationals, down by 180 thousand).

Figure 3 below shows that these large falls in employment continue to be driven by declining self-employment (particularly for men) and part-time work (particularly for women). There are some signs of improvement in part-time employment, particularly for women, while full-time employee jobs for women have also ticked up. Self-employment, however, remains subdued – unchanged on the quarter, and still three quarters of a million below pre-crisis levels (with data on flows published today suggesting that this continues to be due to lower flows into self-employment by employees, and higher flows from self-employment into employee jobs – possibly exacerbated by changes in tax rules).

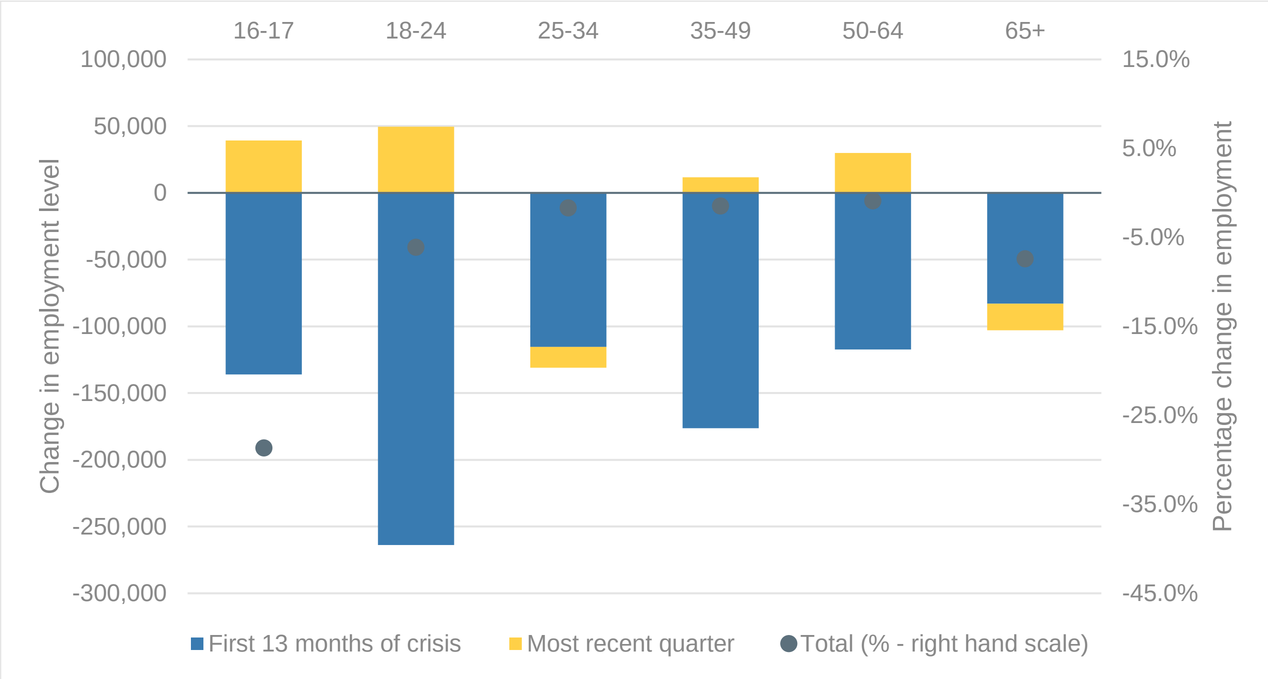
Figure 3: Change in full-time, part-time, employee and self-employed work since start of crisis (December-February 2020 quarter) – for men (top) and women (bottom)



Source: Labour Force Survey

Looking at changes by age, Figure 4 shows that young people continue to be significantly harder hit than other age groups by the crisis – with employment overall down by 8.1% for 16-24 year olds, compared with a 1.7% decline for those aged 25 and over. However young people have also benefited most in the recent jobs recovery, as ‘youth rich’ industries have more fully reopened – regaining just over a fifth of the ground lost in the crisis. Those aged over 65 and in work have also been hit hard, and continue to see employment fall.

Figure 4: Change in employment by age – first 13 months of the crisis (Dec-Feb 2020 to Jan-Mar 2021) and most recent quarter (Jan-Mar 2021 to Apr-Jun 2021)



Source: Labour Force Survey

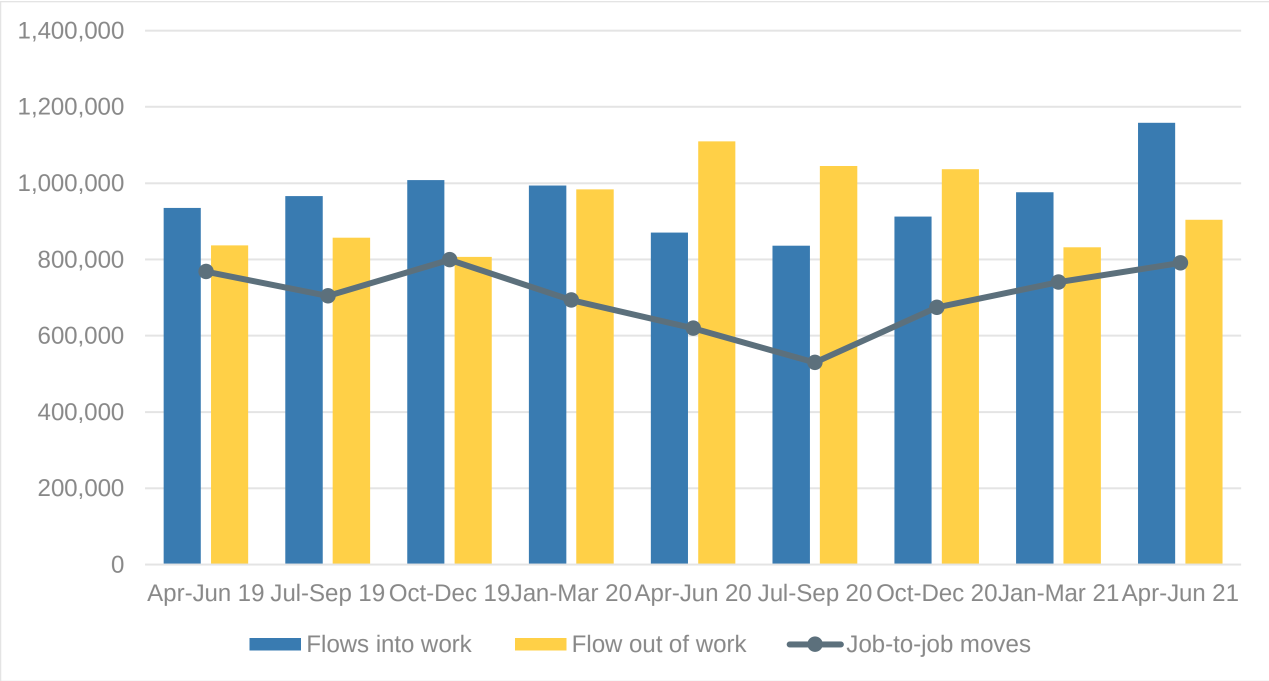
More timely PAYE employee data suggests that the overall employment recovery has continued into July, with employee numbers reported as having risen by 180 thousand on the previous month. However, this is offset by a huge downward revision in last month's reported rise (which is now estimated to have risen by 190 thousand between May and June, rather than the 370 thousand growth reported at the time). This reaffirms our caution last month to treat the PAYE data with a small pinch of salt, and leaves it still 200 thousand lower than pre-crisis levels.

The jobs recovery is being driven by record hiring

Quarterly flows data published today shows us that the strong improvement in employment has been driven by extraordinarily high levels of job starts. Nearly two million (1.95 million) people started a new job between April and June, with 1.16 million of these people having previously been out of work. Over one third (35%) of all of those unemployed in January to March moved into work in April to June. All of these figures are comfortably the highest ever. As Figure 5 below illustrates, job-to-job moves also recovered to pre-crisis levels (which is welcome, and again unusual for this stage in a 'normal' recession/ recovery).

Monthly PAYE flows data also bears out these improvements, with April, May and June all reporting at least 750 thousand new job starts compared with a pre-pandemic average of around 670 thousand.

Figure 5: Flows into work, out of work and job-to-job moves



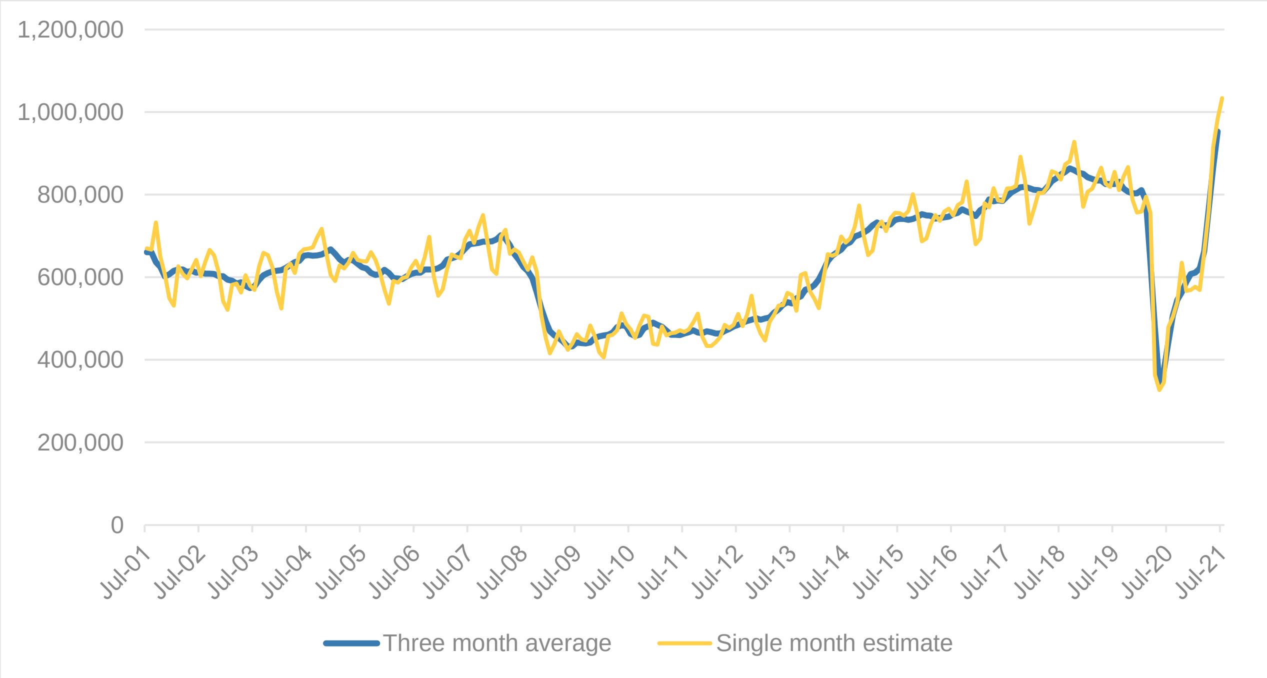
Source: Longitudinal Labour Force Survey

Despite this record hiring, vacancies continue to rise

This rebound in hiring, particularly from unemployment, has nonetheless not been enough to halt the strong growth in vacancies that we have seen since restrictions started to ease. The latest data, shown in Figure 6 below, shows that vacancies topped a million in July for the first time ever, bringing the quarterly average to 915 thousand (another record). This average will almost certainly rise again next month.

While much of this growth has been boosted by reopening industries, vacancy figures are up across the whole economy – with high street retail the only significant industry still lagging behind. This suggests that even if vacancies start to fall back as reopening employers find their feet, they will plateau at levels similar to where we were pre-crisis (with the latest online data from Adzuna showing no signs yet of a decline). So for the next few months at least, it'll likely continue to be the case that labour supply will struggle to keep up with higher demand.

Figure 6: Vacancies – quarterly and single-month estimates



Source: ONS Vacancy Survey

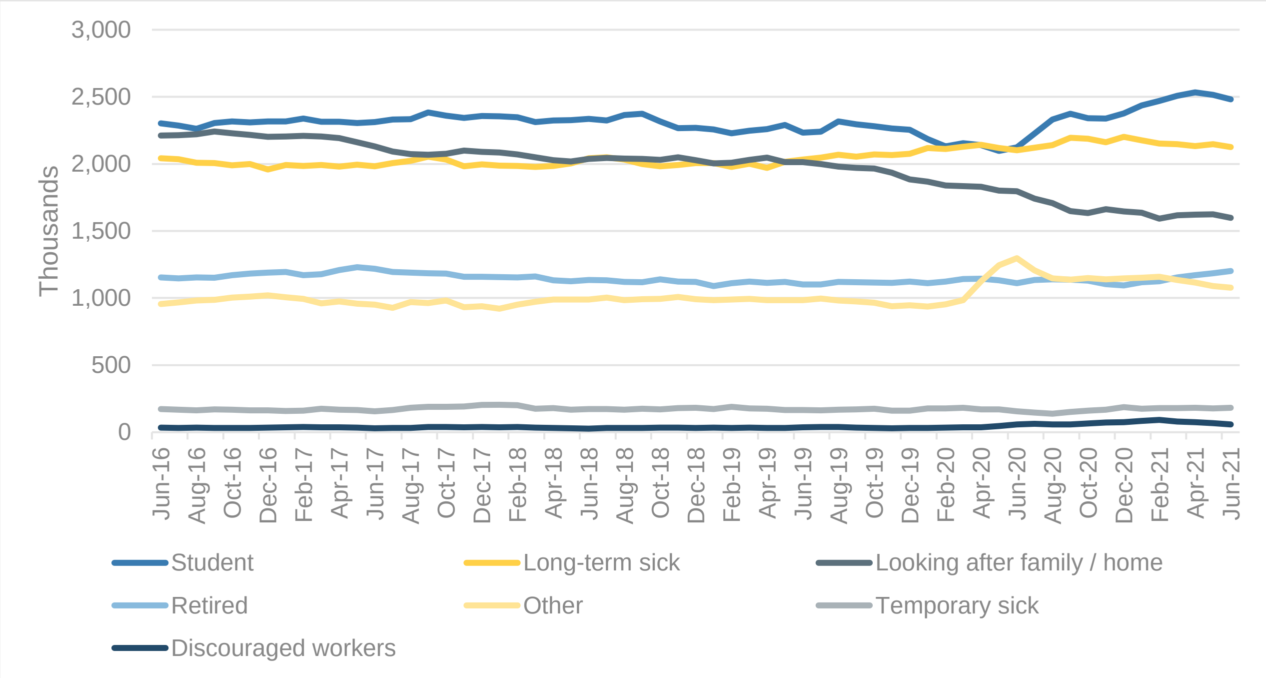
Supply continues to be constrained by higher economic inactivity – and fewer foreign workers

As discussed in last month's briefing, the main reason that the labour market is smaller now overall than it was pre-crisis is due to higher economic inactivity. This growth has bene driven by higher student numbers, although there are signs that this may have levelled off now; while the number of people off work due to long-term health conditions has been above two million since 2019 and has drifted up further over the last eighteen months (to over 2.1 million).

As we said last month, the government's Plan for Jobs measures have so far largely ignored economic inactivity and just focused on tackling the crisis-related impacts on employment and unemployment. However with employers struggling to fill jobs and unemployment now falling, there is a clear economic as well as social case for doing far more to support those who are economically inactive to return to the labour market and then to take up work – in particular a greater focus on measures to support those with long-term health conditions to stay in and return to work, and to support parents with flexible and affordable childcare. Employers will need to do more too, particularly by designing jobs and recruiting to them in ways that will enable students, older people, those with health conditions and parents to take them up.

Alongside this, data on non-UK nationals published today suggests that there are around 180 thousand fewer foreign workers than before the crisis (driven in particular by fewer EU nationals), further exacerbating labour shortages.

Figure 7: Reasons for economic inactivity

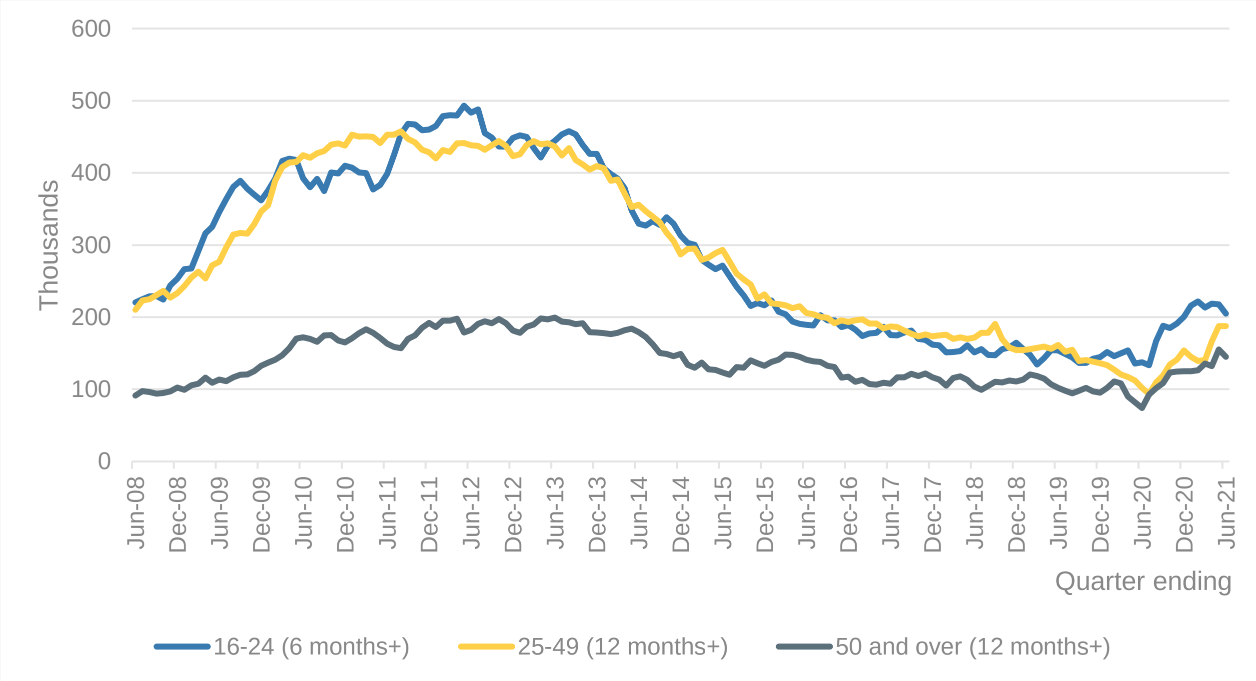


Source: Labour Force Survey

Long-term unemployment remains elevated, but may be showing signs of levelling off

Alongside higher inactivity, the crisis has also seen significant rises in long-term unemployment – which we define as more than twelve months of unemployment for those aged over 25, and more than six months for those aged 16-24. This has risen by 150 thousand, or 40%, since the start of crisis to just over half a million (540 thousand). Figure 8 below suggests that this may well have peaked now for young people, at just over 200 thousand. If so then this would be about half the level that it was in the aftermath of the last crisis, but around 50% higher than pre-pandemic. For older people the trends are less clear, and we have previously said that we expect long-term employment to keep rising for the remainder of the year as the impacts of last summer and autumn's job losses continue to feed through.

Figure 8: Long-term unemployment by age



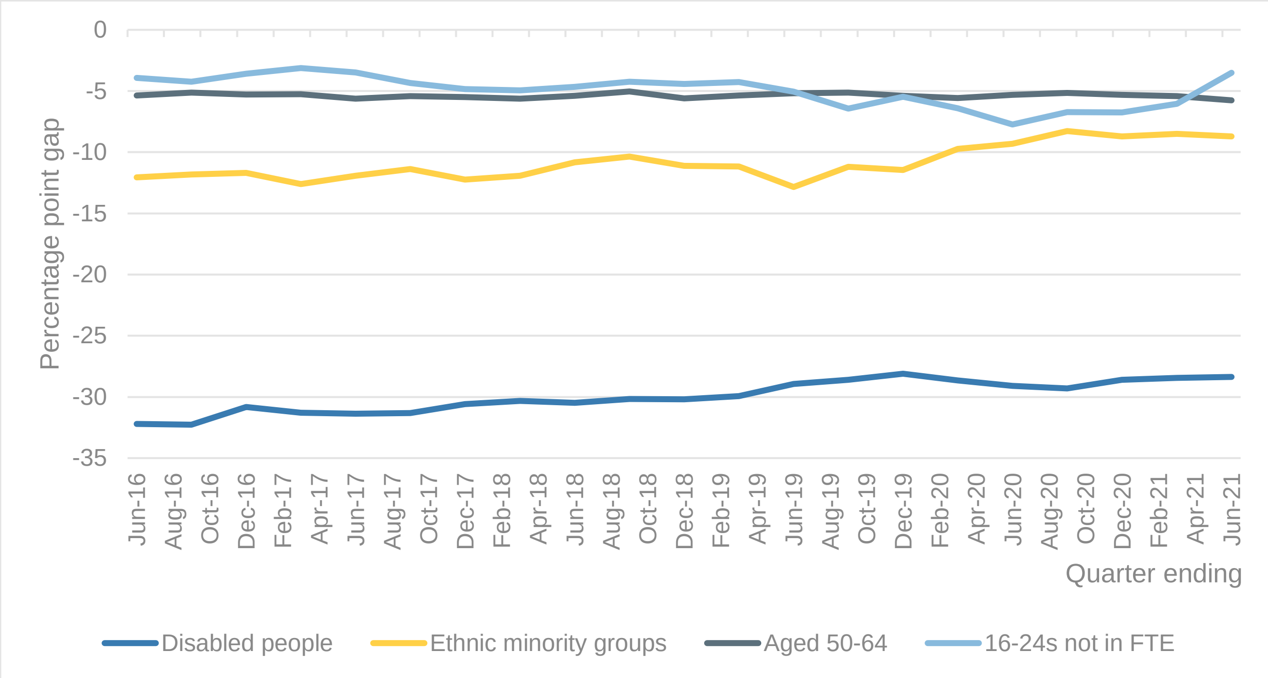
Source: Labour Force Survey. Long-term unemployment is defined as unemployment of more than six months for young people, or more than twelve months for those aged 25 and over.

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 for 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 9 below. This also includes the employment rate gaps for people aged over 50 and for young people outside full-time education.

Figure 9 is the first time that we have produced this graph using the new LFS weights that were introduced last month, and they tell a slightly more concerning picture than previous versions. The data now suggests that the crisis has seen employment gaps stop narrowing – and potentially start to widen – for over-50s, disabled people and ethnic minority groups (with the gaps widening for Bangladeshi people and those with mixed ethnicity). For young people outside full-time education, the gap has actually started to narrow in recent quarters as the labour market has recovered.

Figure 9: Employment rate 'gaps' for disabled people, ethnic minority groups, those aged 50-64, and young people not in full time education; Q2 2016 to Q2 2021

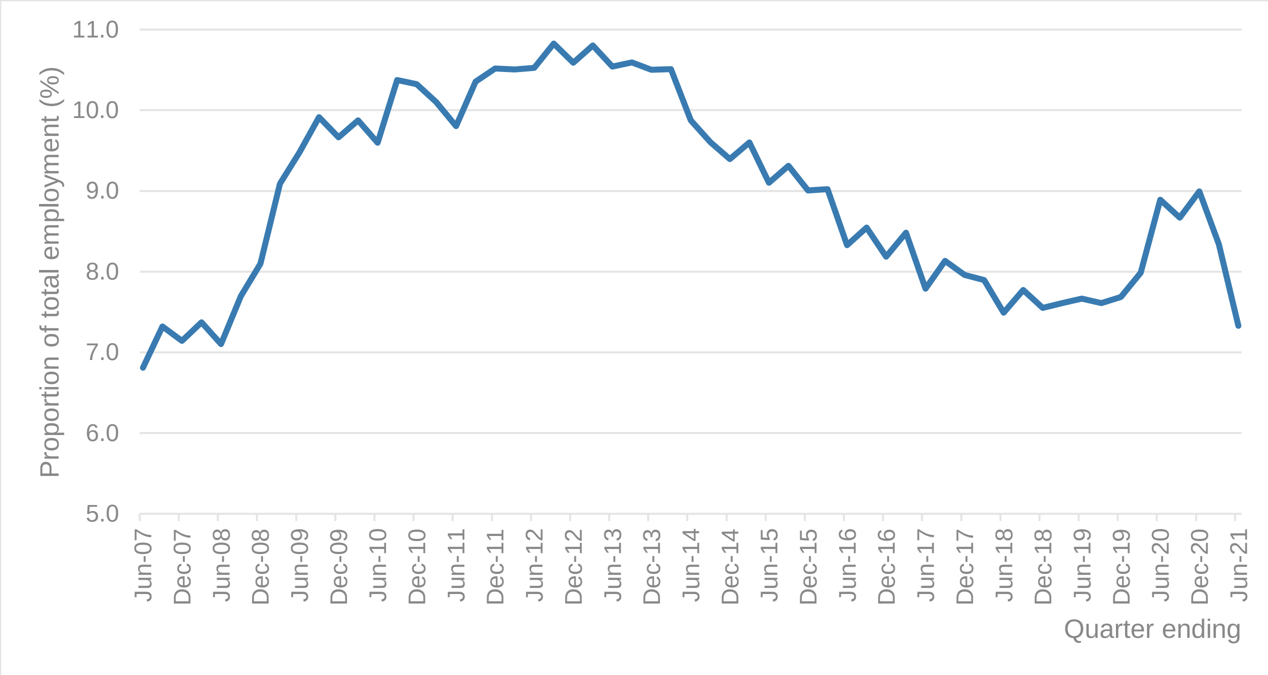


Source: IES analysis of Labour Force Survey. Gaps are calculated as the percentage point difference in employment rates between the rate for the disadvantaged group and the rate for the overall 16-64 population excluding that group.

Under-employment has fallen sharply, but involuntary temporary work continues to rise

Quarterly data on under-employment is set out in Figure 10 below. This 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 second quarter of 2021, suggest that it has now dropped to its lowest since the eve of the financial crisis. This is welcome, although as we reported three months ago it could also be the case that some of those who may in future want more hours are not actively seeking them right now due to the perceived impacts of the crisis.

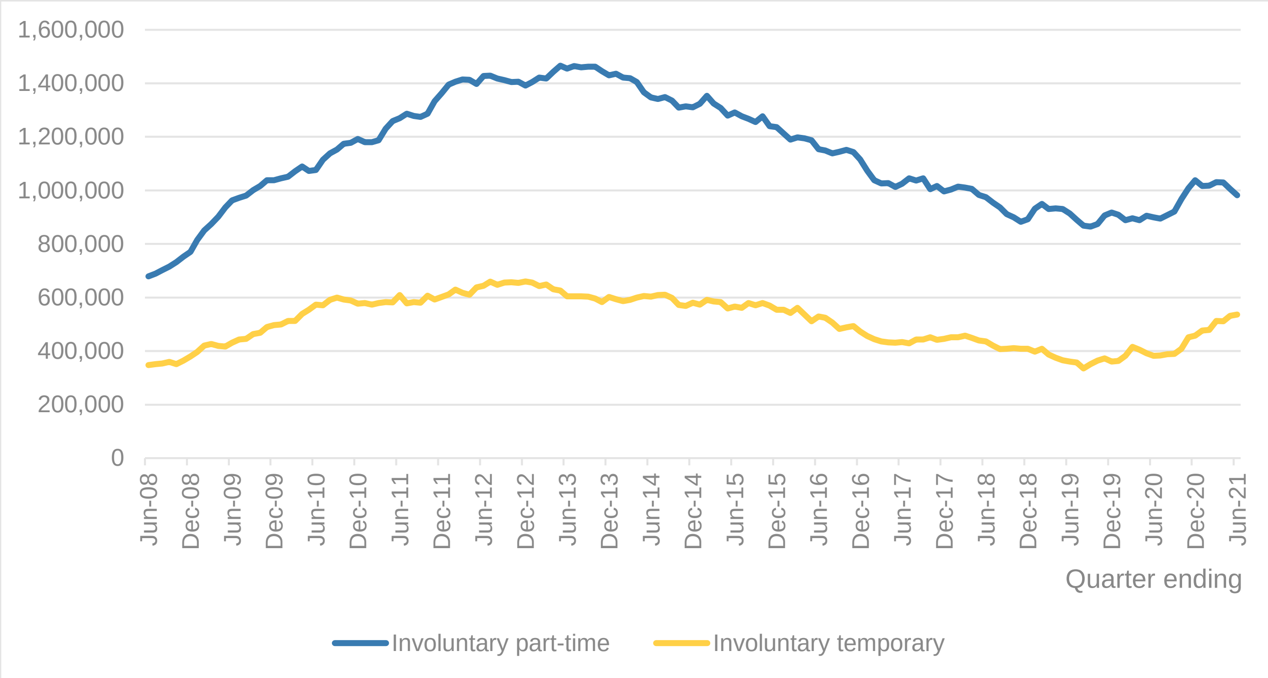
Figure 10: Proportion of those in work who are under-employed (not seasonally adjusted)



Source: Labour Force Survey

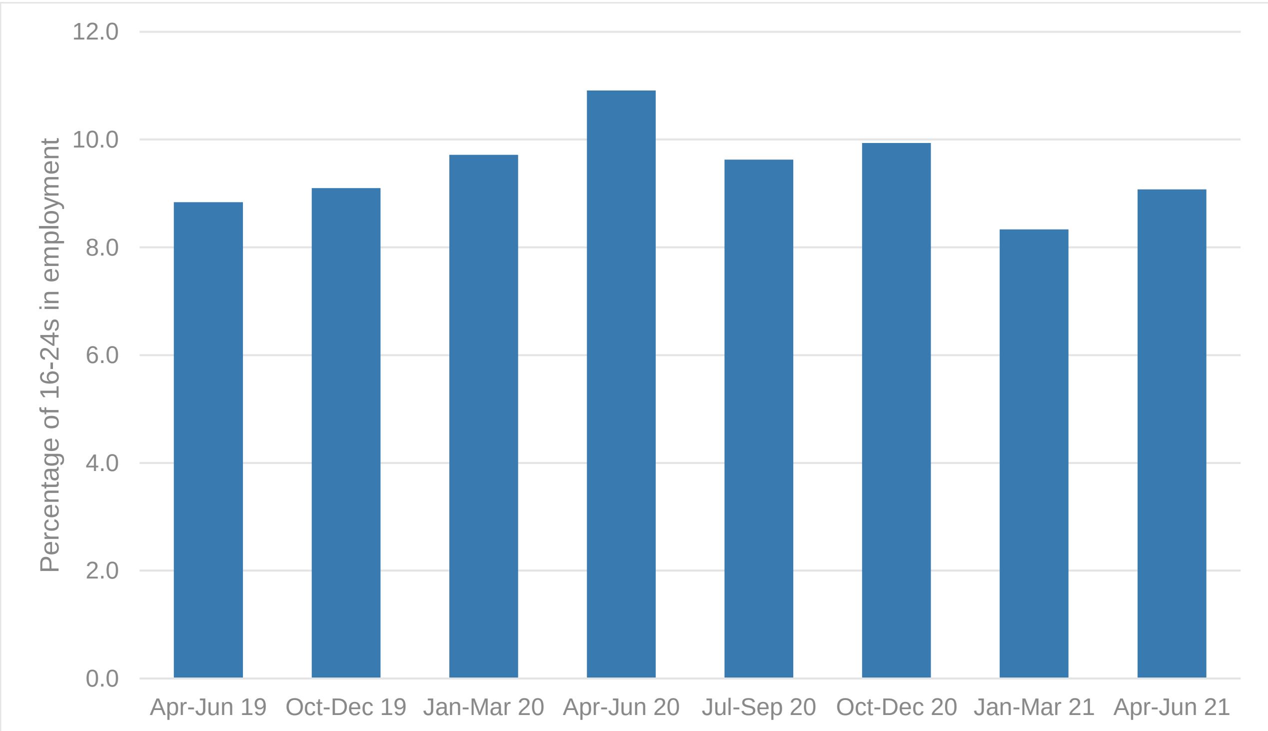
At the same time, Figure 11 shows that the number of people in part-time work but who want to work full time may be starting to drop back again, which is welcome given the recent slight recovery in part-time work overall. Of more concern though is the fact that the number of people in temporary work who want permanent work is continuing to rise (with temporary work overall also ticking up). This suggests that many employers may still be uncertain about the strength of the recovery and the longer-term prospects for new employment. We see a similar picture on zero hours contracts, with the fall reported in the first quarter being offset by a rise in the most recent three months – particularly affecting young people, where as Figure 12 shows one in eleven of those in work do not have fixed hours.

Figure 11: 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

Figure 12: Proportion of young people in employment who are on zero hours contracts

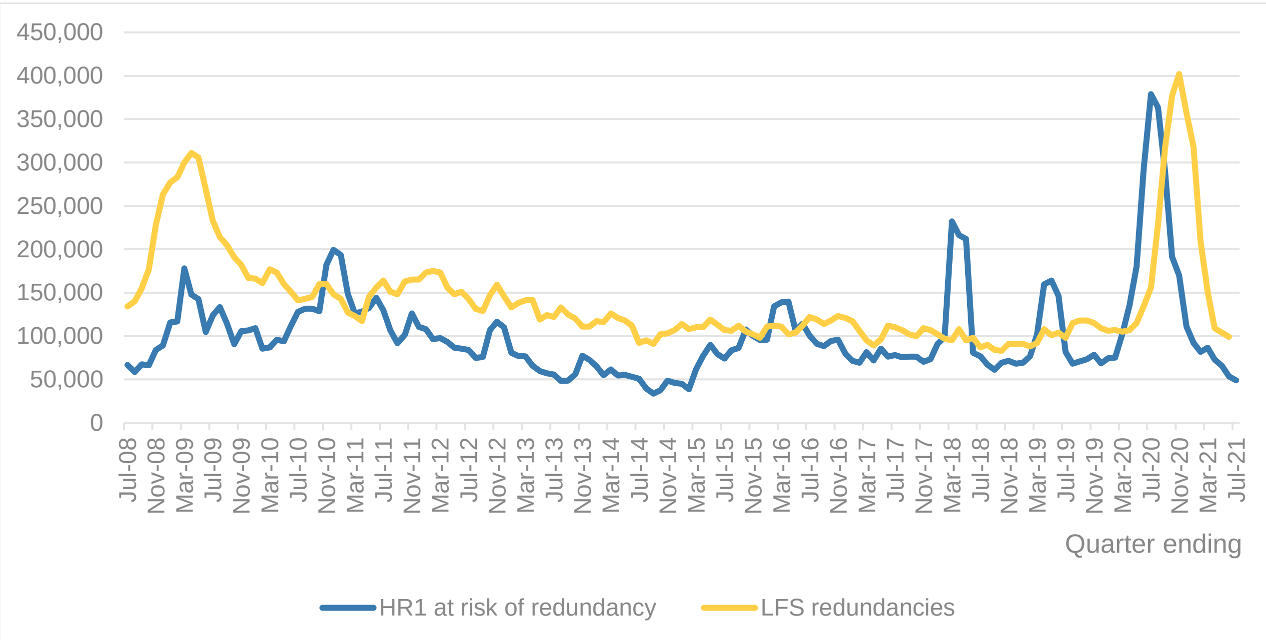


Source: Labour Force Survey

Redundancies are now back at pre-crisis levels

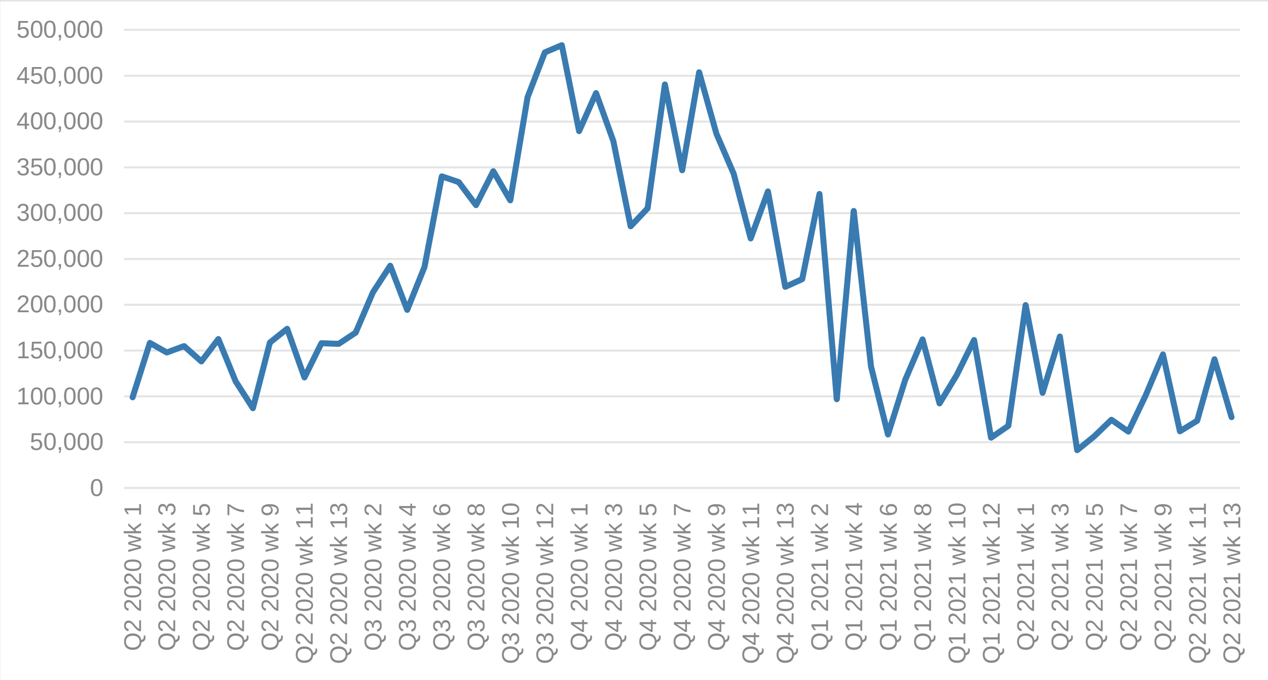
Finally, while there are continued concerns about the potential impacts of furlough unwinding, so far we are seeing no increase in redundancy activity. Figure 13 below shows the level of quarterly redundancies alongside the number of jobs notified by employers as being at risk of redundancy in HR1 forms sent to the Insolvency Service. The most recent figures show continued falls on both measures, with both advance notifications and actual redundancies back in line with (and in fact slightly below) pre-crisis levels. Real time online searches for information about redundancies (via Google Trends) are also below pre-crisis levels. The most recent weekly data, in Figure 13 below, show too that redundancies have stayed low throughout the April—June quarter.

Figure 13: 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

Whether made redundant in previous three months – weekly responses, April 2020 to June 2021



Source: Weekly Labour Force Survey X07

Conclusion

Today's figures show a labour market continuing to recover, and with clear signs that labour demand is rising faster than supply. This means that looking forward, we need to ensure that the government's Plan for Jobs investment (in Jobcentre Plus services, the new Restart programme and Kickstart) can continue to help those out of work to get back into jobs, but also to focus in the coming Spending Review on how we can bring more people back into the labour market – in particular with better support for those out of work due to ill health, caring and other reasons.