Institute for Employment Studies

Labour Market Statistics, December 2020

15 December 2020

This briefing note sets out analysis of the Labour Market Statistics published this morning. The analysis mainly draws on **Labour Force Survey** data, a household survey that collects official figures on employment, unemployment and economic inactivity and which covers the period August to October 2020 (so up until the eve of the second lockdown).

This is supplemented by analysis of **Pay As You Earn Real Time Information** data, which reports on employee levels and pay; the **ONS Vacancy Survey**, which collects employer data on open vacancies; and administrative data from the benefits system on **Universal Credit claims** – all of which cover the period to November 2020.

Summary

Today's figures show that the labour market was starting to recover through September and October, and that the impacts of the second lockdown in November appear to have been fairly muted so far.

The headline story today has been a further increase in redundancies, to 370 thousand between August and October, surpassing the record set last month. These rises continue to reflect the huge increase in redundancy notices over the summer, as firms restructured after the first lockdown. With redundancy notices now falling again, the headline redundancy figures will also start to fall back in the early part of next year.

On a quarterly measure – so comparing August-October with May-July – employment is down by 140 thousand and unemployment is up by 240 thousand. However underneath this, the single-month estimates of employment have been broadly unchanged for the last three months, with increases in unemployment being driven by more people who were previously 'economic inactive' starting to look for work as the economy showed signs of recovery.

The quarterly fall in employment is continues to be driven by young people, who make up three fifths of the drop. For the most part, this has been offset by rising participation in full-time education, but a sharp fall in the number of people working while studying. Employment also bounced back for those aged over 65 (rising by 70 thousand, or 5.5%) after very significant falls early in the crisis. However employment for people aged 50-64 is down by the same amount.

Perhaps most strikingly, in the last three months we have seen significant falls in employment for men – down by 150 thousand – while employment for women has risen slightly, driven by a rise of over 160 thousand in the number of full-time employees. This may well reflect people increasing hours in response to their partner losing their job or income, as we have seen in previous crises; or women working in health and social care having to increase their hours in response to the impacts of the pandemic.

Looking at the snippets of data that we have from November, it does appear that the second lockdown may have led to a further weakening, but this is on nowhere near the scale that we saw in the spring. Flows out of PAYE employment in November were just over 100 thousand higher than they had been in the previous three months, but remained well below the levels seen in April. New claims to Universal Credit were around 50 thousand higher in November than in recent months (so nowhere near the million-plus monthly rises in the first lockdown) and the single-month vacancy figure fell back between October and November. On the other hand though, flows into PAYE employment also grew strongly in November, reaching pre-crisis levels for the first time.

Overall, today's figures could have been much worse, but they also appear to be unlikely to get significantly better any time soon. This reiterates the need to do all that we can to support a jobs recovery in the new year – in particular by ensuring that we can get a trade deal with the EU and can do more to boost jobs growth, hiring and support for the unemployed.

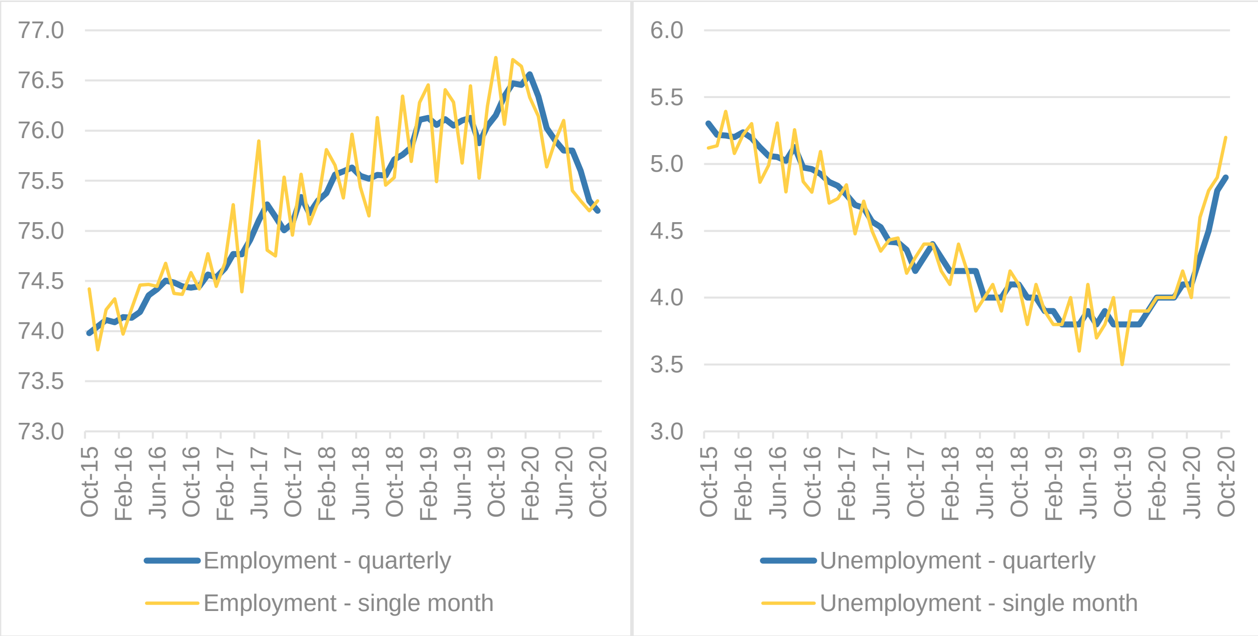
Employment is down and unemployment is up, but underneath this there are signs of recovery

The headline measure of employment continues to fall in today's figures, down by 140 thousand between May-July and August-October 2020, while unemployment has risen sharply – up by 240 thousand, to 4.9%. This is the highest unemployment rate since summer 2016. However beneath this, the single-month estimates of employment for August to October have been broadly flat, as Figure 1 below shows (yellow line, left pane). So the deterioration in employment may have started to level off, and we may see this starting to feed through into the headline figures in the coming months.

Recent rises in unemployment also appear to in part reflect a shift from economic 'inactivity' – which measures those not looking and/ or not available for work – into unemployment. Economic inactivity rose sharply in the early part of the crisis, but has been broadly flat since lockdown and may now be starting to fall.

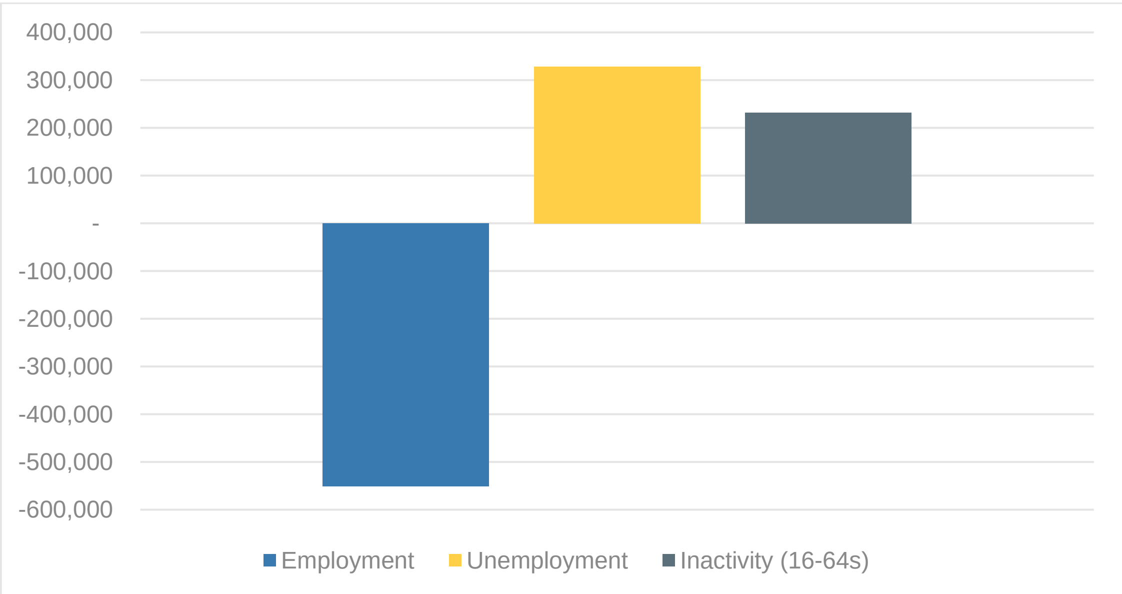
Figure 2 below shows the total changes in the three headline measures since the start of the crisis. The fall in employment – at 550 thousand – is actually slightly lower than the figure that we reported last month (570 thousand), while for the first time the rise in unemployment is greater than the rise in economic inactivity (with the rise in unemployment 70 thousand higher than we reported last month, and the rise in inactivity 60 thousand lower). We published more detailed analysis on trends in economic inactivity yesterday, exploring the growth in those inactive due to long-term ill health, falls in those looking after their families or home, and the rise in inactivity for 'other' reasons (likely pandemic related).

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



Source: IES analysis of Labour Force Survey

Figure 2: Changes in employment, unemployment and economic inactivity, December-February 2020 to August-October 2020



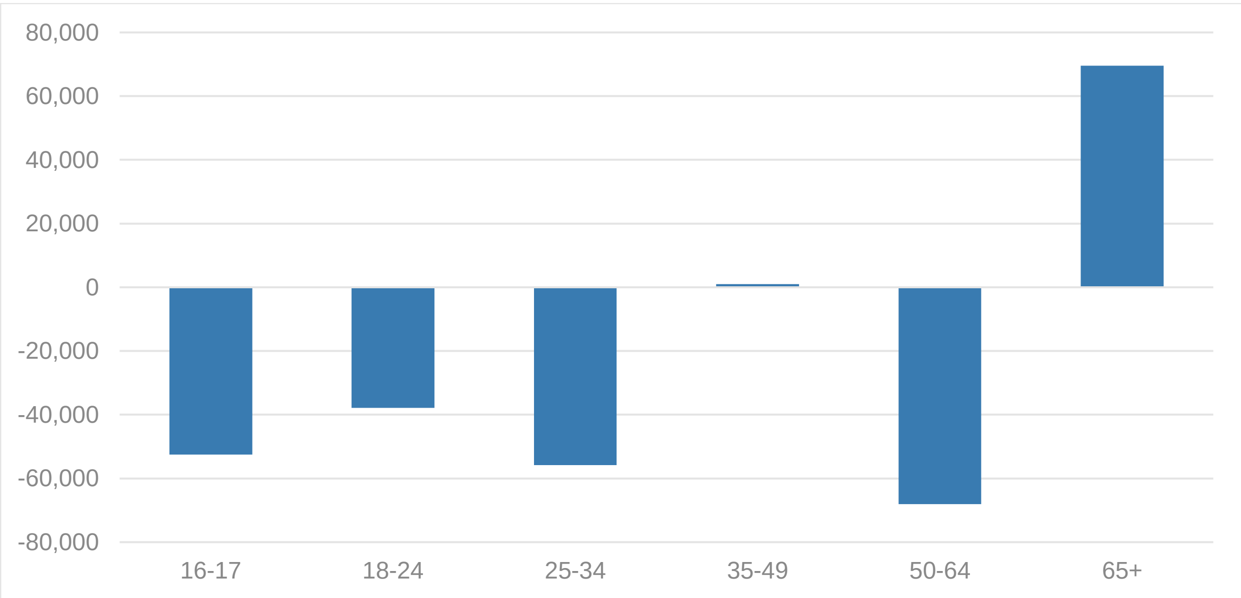
Source: Labour Force Survey

Employment impacts remain most pronounced for young people, with a mixed picture for older workers

The quarterly fall in employment is continues to be driven by young people, with a fall in employment for those aged 16-24 of 90 thousand over the quarter. This makes up three fifths (62%) of the total fall in employment.

Figure 3 below shows that employment is also down for those aged 25-34 and 50-64, with a slightly greater fall for the older age group. These impacts on older and younger workers both reiterate some of our findings yesterday, which suggested that these groups were more likely than others to have left work during the crisis. However we also see a strong improvement in employment among those aged over 65, with this rising by 70 thousand or 5.5% over the quarter. This has reversed just over half of the large fall in employment among this group since the crisis began, and may reflect more older workers being able to stay in work (and return to work) as things improved.

Figure 3: Quarterly change in employment levels by age, May-Jul 2020 to Aug-Oct 2020

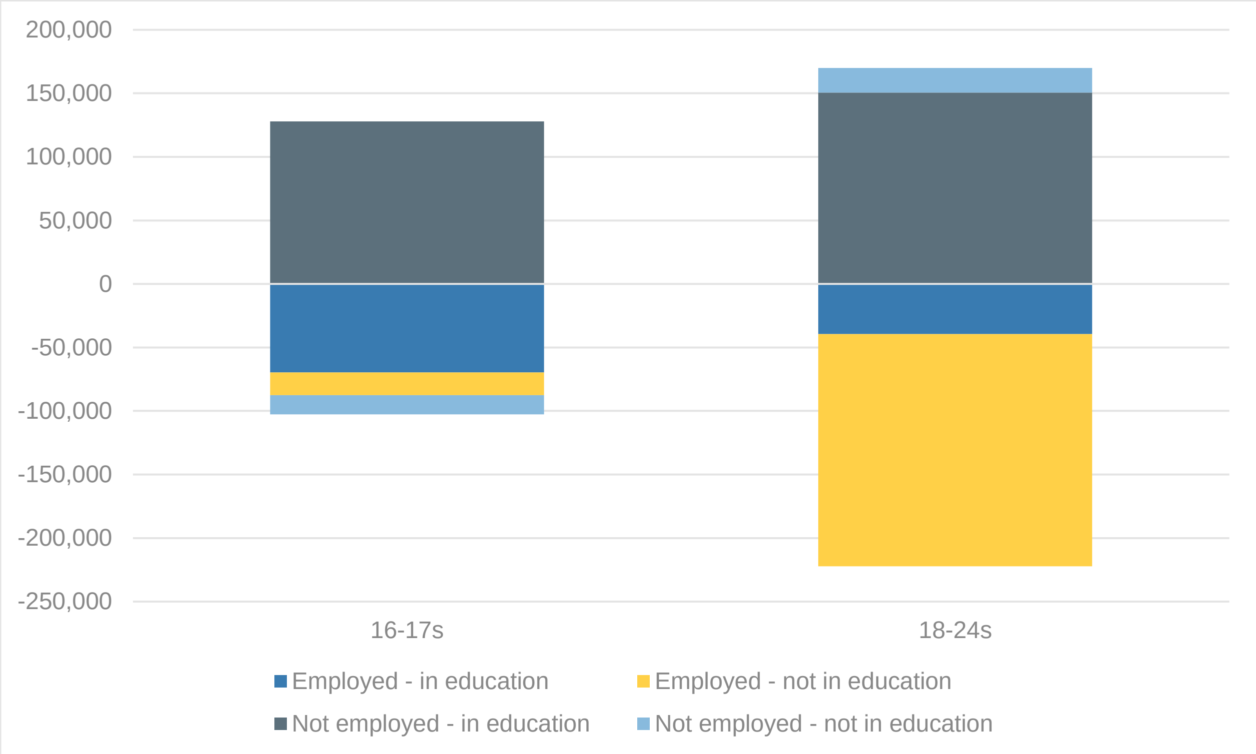


Source: IES analysis of Labour Force Survey

For the most part, falling youth employment has been offset by rising participation in full-time education, as Figure 4 below shows (covering the whole crisis period). For 16-17 year olds, the number of people neither in full time education nor employment has actually fallen slightly; although for 18-24 year olds this has risen slightly. Overall, just over a million young people are neither in full-time education nor employment.

Falling employment and rising education participation has also seen large drops in numbers working while studying – down by 200 thousand. This will have implications for student incomes and maintenance if we don't see a recovery in the coming months.

Figure 4: Change in employment and education participation among young people, Dec-Feb 2020 to Aug-Oct 2020



Source: IES analysis of Labour Force Survey

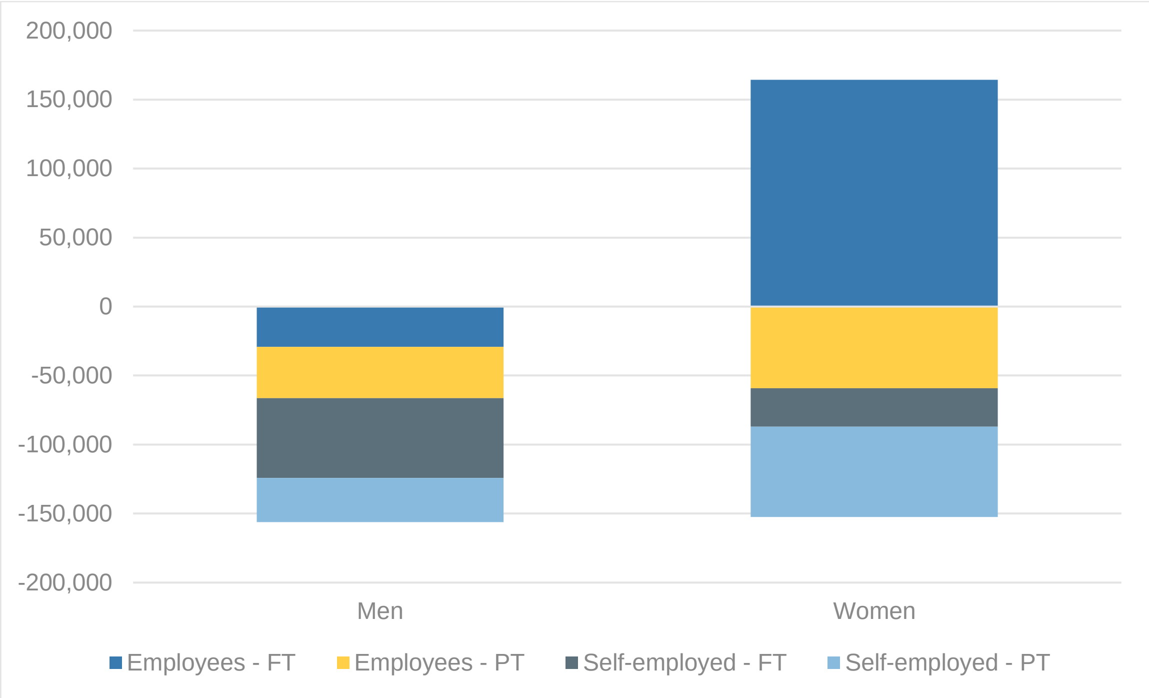
Recent falls in employment have been among men – with full time work for women rising strongly

Perhaps most strikingly, the last three months have seen significant falls in employment for men – down by 150 thousand – while employment for women has risen slightly, driven by a rise of over 160 thousand in the number of full-time employees. This is set out in Figure 5 below.

Full-time employment for women is now 240 thousand higher than it was on the eve of the crisis, and 400 thousand higher than a year ago. Rising full-time work has been a long-running trend, but may have accelerated in recent months both as more second earners increase their hours in response to a partner losing their job or income (as we have seen in previous crises); and/ or women working in health and social care having to increase their hours in response to the impacts of the pandemic.

For both men and women, we have continued to see significant falls in self-employment – down by 180 thousand on the quarter, and dipping below 4.5 million for the first time since spring 2015. However, separate analysis published today by the ONS and comparing different sources of labour market data suggests that part of this fall in self-employment may reflect people re-classifying themselves as employees rather than changing jobs (for example where they are self-employed but on PAYE, or if they are freelancers whose roles have been converted into employment contracts).

Figure 5: Quarterly change in employment types by gender, May-Jul 2020 to Aug-Oct 2020



Source: IES analysis of Labour Force Survey

Redundancies have hit new record levels, but are now near their peak and will fall back early next year

Overall 370 thousand people were made redundant between August and October, well over double the figure in the previous quarter (up by 140%) and comfortably the highest level since this time series began in 1995. The redundancy rate also this month exceeded the record set in the last crisis (reaching 13.3 per 1,000 employees).

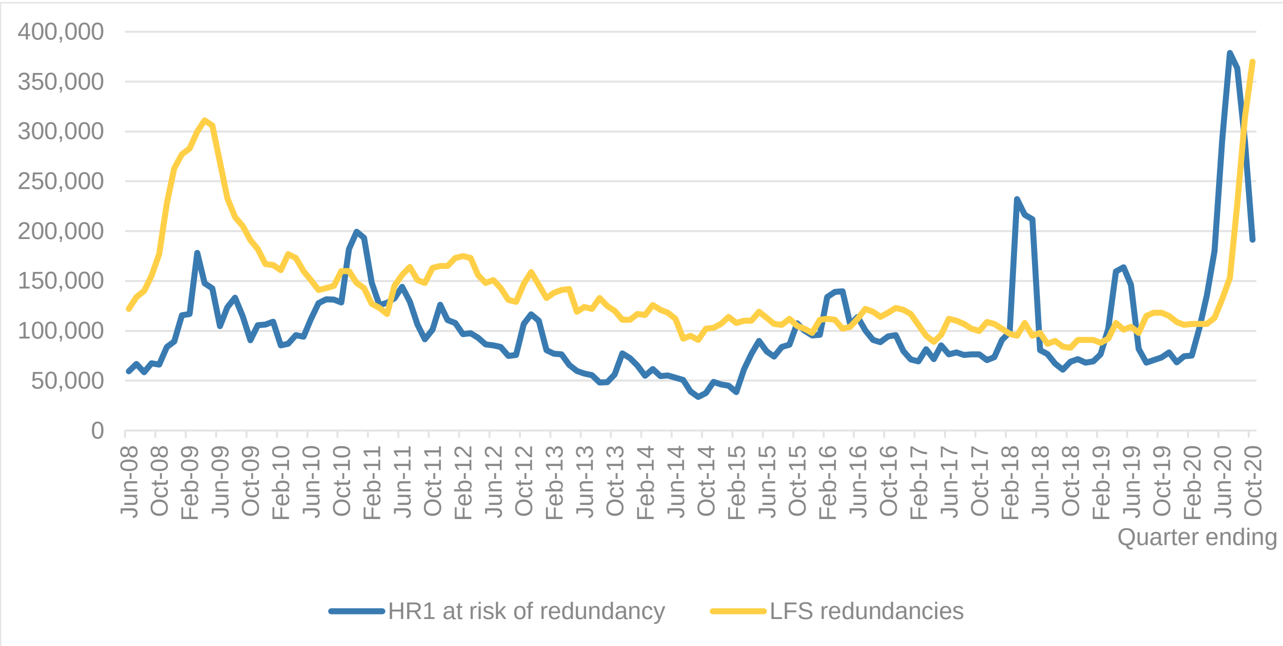
These redundancy figures continue to reflect the unwinding of the impacts of the first lockdown, rather than any more recent deterioration in the labour market. In particular, the summer saw very high levels of employer notifications to the Insolvency Service of plans to make lay-offs (which is a legal requirement where more than 20 redundancies are planned in a single establishment) – rising from around 25 thousand a month to just over 150 thousand in both June and July.

Figure 6 below sets out the trends in both employer notifications (from HR1 forms) and actual redundancies. As can be seen, actual redundancies tend to lag notifications by 2-3 months, and often peak a little higher (we explore the reasons for this in our On Notice briefing paper from September).

Reassuringly, we have seen significant falls in HR1 notifications in recent months, with monthly notices falling back to 50 thousand in October (and Google Trends searches for ‘redundancy’ falling to pre-crisis levels in November and December).

The ONS has also today published weekly LFS data on redundancies, which suggests that redundancies peaked in mid-late September and fell back through October. However because the headline measures are quarterly averages, it is possible that the figure next month will be the same as or slightly higher than today's (and we are still anticipating that total redundancies for the second half of 2020 will be around the 680 thousand mark).

Figure 6: 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

More than five million people have returned to work – but five million more are still not working normally

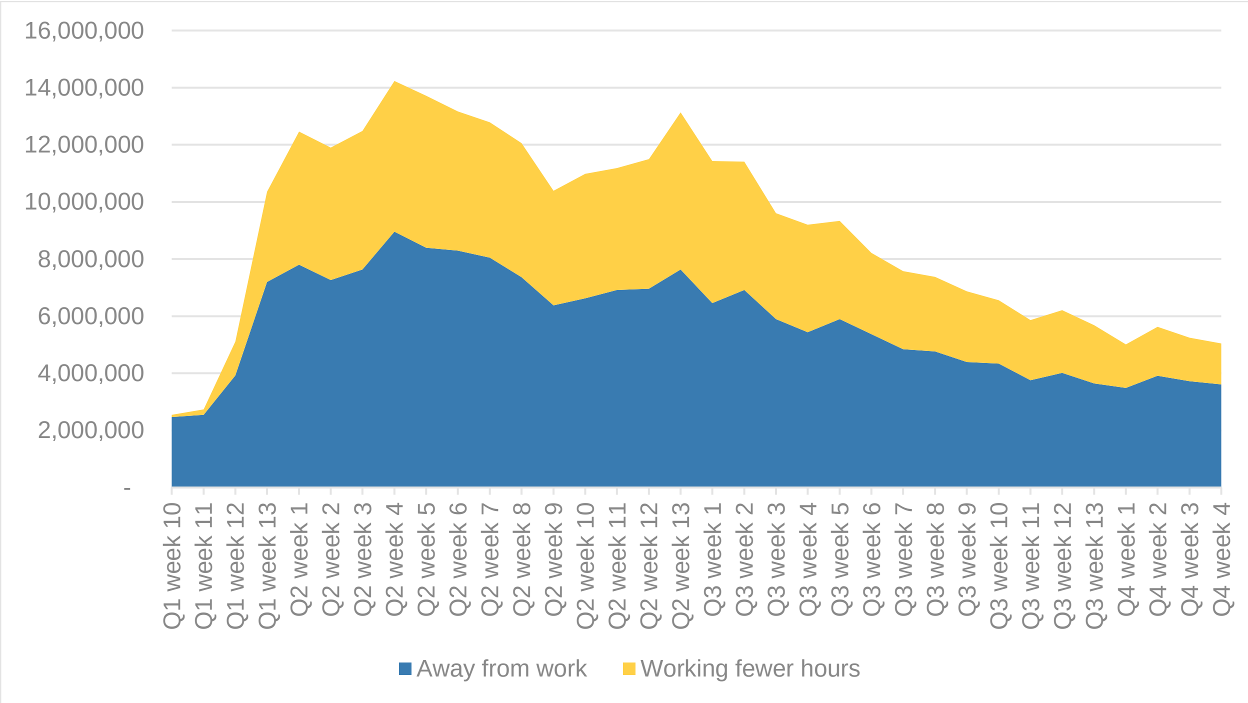
Figure 7 below shows the number of people not working normally by week between March and October – comprising those who report being temporarily away from work, plus those working fewer hours than usual due to economic reasons.

This shows that at peak (at the end of June), 14 million people were either away from their jobs or working reduced hours. By the end of October, this had fallen to 5 million – with the number of people away from their usual jobs down by 5.2 million, and the number on reduced hours down 3.8 million. These increases and decreases dwarf the changes that we have seen in the headline labour market indicators during this crisis, and reflect both the success of the Job Retention Scheme in protecting jobs and the UK's flexible labour market in supporting adjustments in hours rather than job loss.

At the same time however, the fall back in numbers not working normally slowed somewhat in October, in particular on the measure of those away from their usual job – with around 1.1 million more people still away from work at the end of October than before the crisis began.

It is also notable that the number of people working reduced hours is more than twice as high as the fall in employment since the start of the crisis (at 1.4 million).

Figure 7: Number of people not working normally by week, March to October 2020



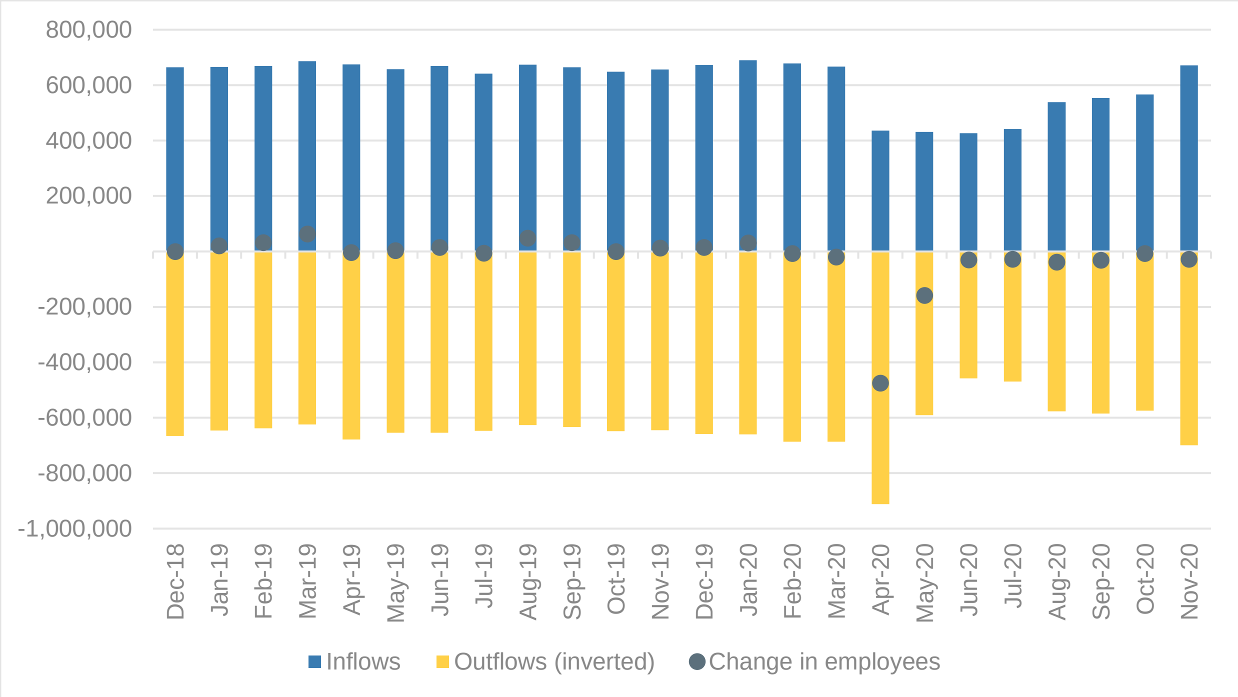
Source: Labour Force Survey weekly data

Limited data for November suggests that the second lockdown has had some impact, but modest so far

Finally, today's figures include some data for November and so can give us some clues as to the early impacts of the second lockdown.

First, the PAYE payroll figures suggest a further slight fall in payrolled employment in November, down by 30,000 on the previous month. This is a similar scale to the falls seen between June and September, and well below the fall in April and May (where payrolled jobs fell by more than 600 thousand). Underneath this data however we see that flows out of PAYE employment in November increased markedly – up by just over 100 thousand compared with the average for the previous three months (but still well below the levels seen in April). Figure 8 below sets this out.

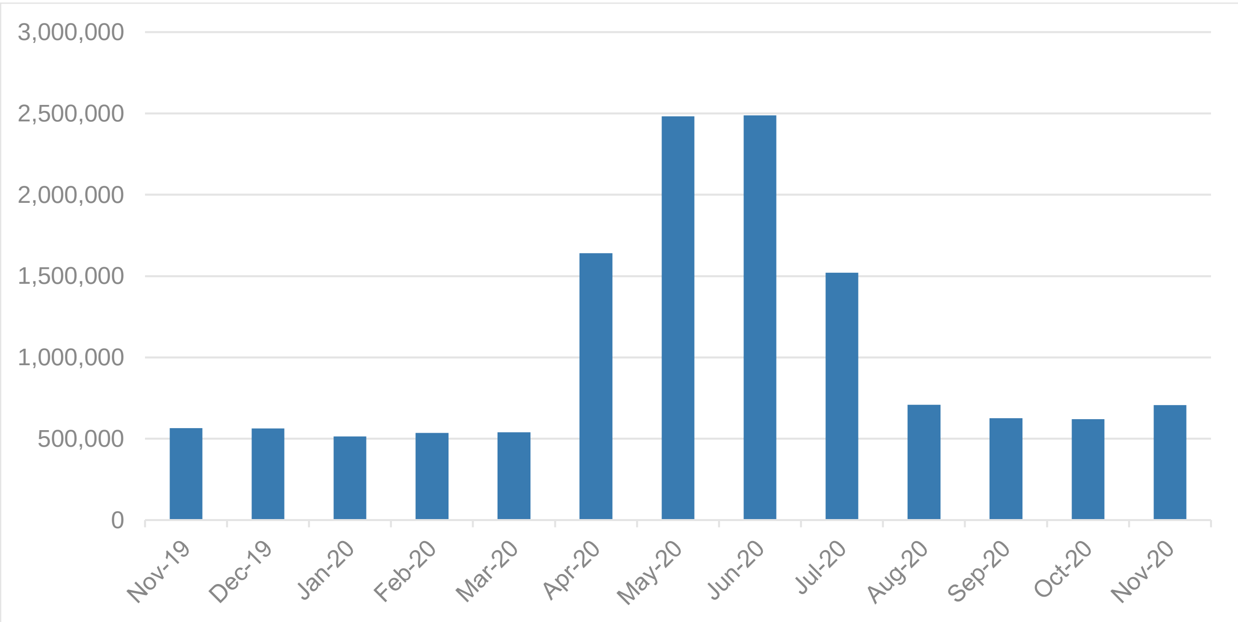
Figure 8: Flows into and out of PAYE payrolled employment, 2018-2020



Source: Labour Force Survey weekly data

Figure 9 shows new claims to Universal Credit over the last twelve months (using claims with a duration of 0-3 months as a proxy). Again, this shows an increase in new claims in November – up by around 50 thousand on the October figure (and about 25% higher than the same time the previous year). However, this is nowhere near the million-plus increases seen in the first lockdown, again suggesting far more modest impacts.

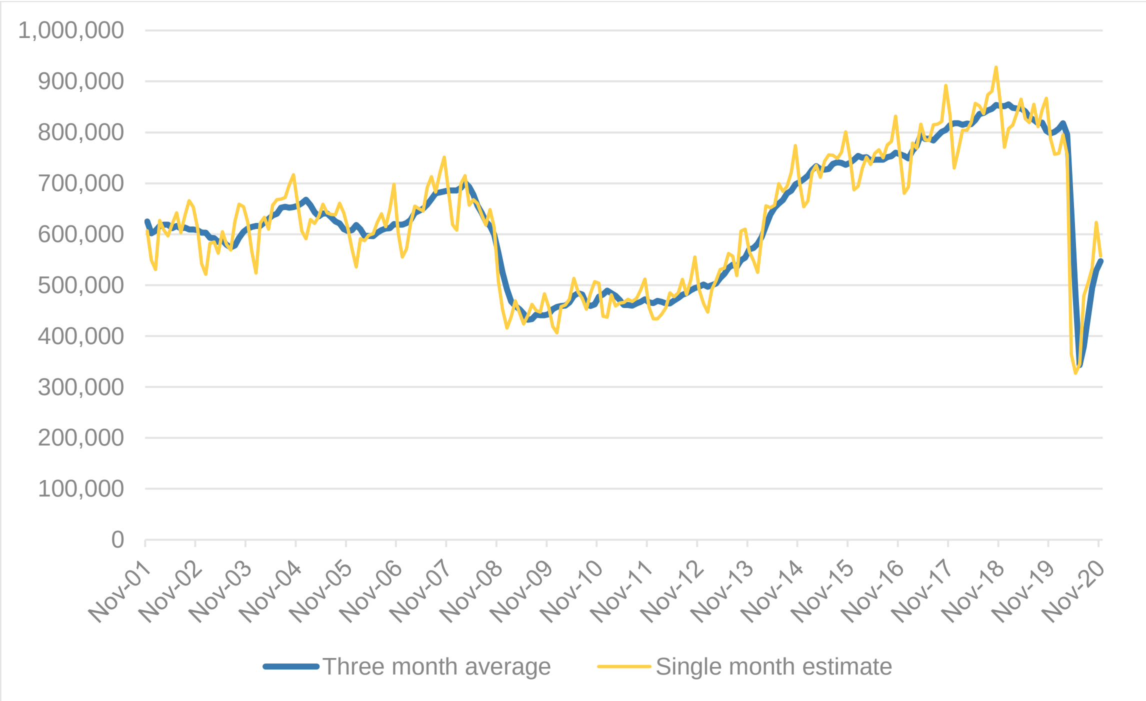
Figure 9: Universal Credit claimants with a duration of less than three months on benefit



Source: DWP Stat-XPlore

Finally in Figure 10 we have set out the latest data from the ONS Vacancy Survey. Here there may be more signs of a lockdown impact, with vacancies falling for the single month of November after a strong bounce-back in October (with falls particularly among smaller employers).

Figure 10: Vacancies – quarterly and single-month estimates



Source: ONS Vacancy Survey

Conclusions and implications

Overall, today's figures suggest that the deterioration in the labour market in the aftermath of the crisis is slowing, and there are signs of a nascent recovery through September and October. Nonetheless we are still seeing pronounced impacts on employment for young people and older people, falling employment among men and still well over a million people working fewer hours than usual (and likely not eligible for furlough support).

Our more detailed analysis of Labour Force Survey data, published yesterday, also pointed in particular to risks that inequalities could widen even as the labour market starts to recover – particularly for disadvantaged young people, older people, those with health conditions and ethnic minority groups.

Looking ahead, the impacts of the second lockdown in November, a likely further lockdown likely in the new year, our absence to secure a trade deal with the EU and the winding up of the Job Retention Scheme all present significant risks and uncertainty for the early part of next year. This points to four potential priorities for our labour market response in 2021, as we set out yesterday:

1. A far greater focus on how we support those who are likely to be most disadvantaged in the labour market – in particular for ethnic minority groups, disabled people, those with long term health conditions, older people and women.
2. To take more account of the impacts of the crisis on those in the lowest paid, least secure and lowest skilled work, and those seeing their hours reduced – for example by introducing the previously announced Job Support Scheme and improving access to employment support for those in low paid work.
3. More support those affected by the crisis to move into sectors and occupations that are growing, with in particular a greater focus on retraining support and a greater targeting of this on those most at risk in the crisis.
4. Measures to support new hiring in the new year, including measures to reduce hiring costs for employers and potentially new hiring subsidies for taking on those who have previously been unemployed.

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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