ies Briefing

Institute for Employment Studies

Labour Market Statistics, July 2021

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

Summary

Overall today's figures point to a continued strong recovery in the labour market. Vacancies were at their highest ever level in June 2021 (962 thousand), with a bounce-back in hiring in previously shut down sectors adding to a sustained recovery in hiring in the broader economy. Even as firms 'catch up' on recruitment after lockdowns, we can expect to see vacancies settling at around pre-crisis levels for some time yet. The PAYE measure of employment also saw remarkably strong growth in June (up by 360 thousand), closing more than half of the outstanding 'gap' in employment and with young people particularly benefiting.

However, the LFS data was more subdued and suggests that we should take the PAYE figures with a small pinch of salt. In particular, the LFS suggests that employment overall was recovering less strongly through March-May – with self-employment still down by three quarters of a million on pre-crisis levels (and explaining part of the apparent growth in employee jobs), continued large falls in part-time work and signs of a stagnating recovery for women in particular.

Nonetheless there do remain some grounds for cautious optimism, with the most recent single-month LFS estimates very strong (for May) and the real possibility that we'll see LFS estimates start to grow more strongly in the coming months as they 'catch up' with other data.

Unemployment also remains above pre-crisis levels at 4.8%, but fell slightly on the quarter and is of course well below where we had feared last year that it may reach. We continue to believe that the unemployment rate may be at or close to its peak. Of far more concern however is continued strong growth in long-term unemployment, which is up by 70% over the last year – the highest rate of growth since the data series began in

1992, and now at its highest level since spring 2016 (at 560 thousand). Economic inactivity also remains elevated – up by over 400 thousand overall, and being driven in particular by strong growth in economically inactive students alongside continued very high levels of inactivity due to long-term ill health.

Looking ahead, with the numbers on furlough falling and vacancies rising, it is even clearer than in recent months that we need to refocus our effort on helping those who are out of work to get (back) into work, as well as working much better with employers to fill their vacancies. This means both delivering on the £7 billion investment in employment services that was committed in the Plan for Jobs, but also at the Spending Review going further on supporting those who are further from work including the longest-term unemployed and with long-term health conditions. At the same time, employers will increasingly need to ensure that they are designing and recruiting into jobs in ways that will enable groups like students, carers and older people to take them up.

Finally, note that from this month ONS is using new weightings for the LFS in order to better reflect changes in the size of the population and response rates since the start of the pandemic. An explanation of these changes and their impacts is set out in [this ONS article] and summarised in an Annex to this note. The reweighting has led to small upward revisions in unemployment and economic inactivity and a downward revision to employment. As a result of this reweighting, the 'health warning' around reporting on changes in LFS levels has been removed, and so today's briefing includes more analysis of changes in employment levels for different groups.

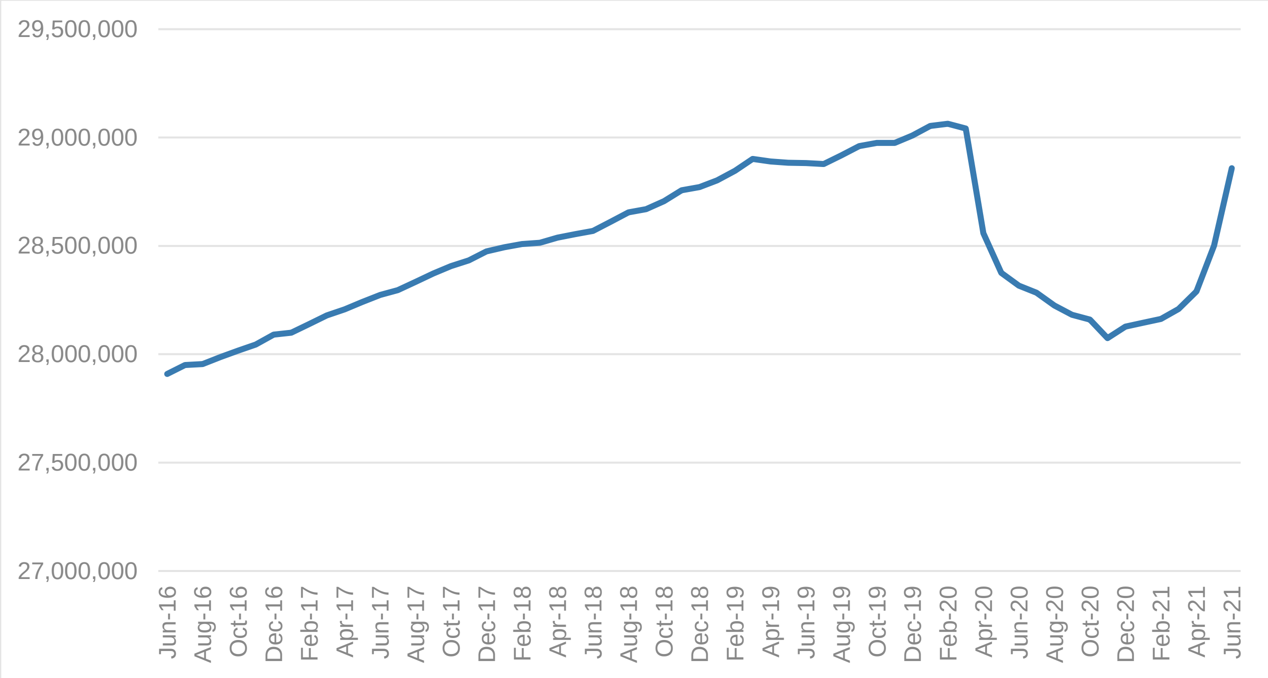
The good news first: PAYE employment is nearing pre-crisis levels

In recent months the ONS has tended to lead its briefing with the latest figures for PAYE employees, and today's data showed a remarkably strong improvement during June. PAYE employment is estimated to have grown by 356 thousand in the month, closing more than half of the previous gap to pre-crisis levels. As Figure 1 shows, this is now looking much more like a U-shaped recovery (and a little less like last month's elephant).

In all, 570 thousand PAYE jobs have been added in the last two months – nearly as many as were lost in April and May of last year (665 thousand). This is being driven by jobs growth in industries reopening as restrictions eased, with for example accommodation and food services accounting for a quarter of the total growth, but with PAYE employment up across all main industries. PAYE employment in two industries remains just over 10% below pre-crisis levels (accommodation and food services; and arts, recreation and entertainment) – but all other industries are now within a few percent of where they were before the crisis began, or are now back at their highest ever levels (as is the case in health, public services, admin and support, and professional/ scientific jobs).

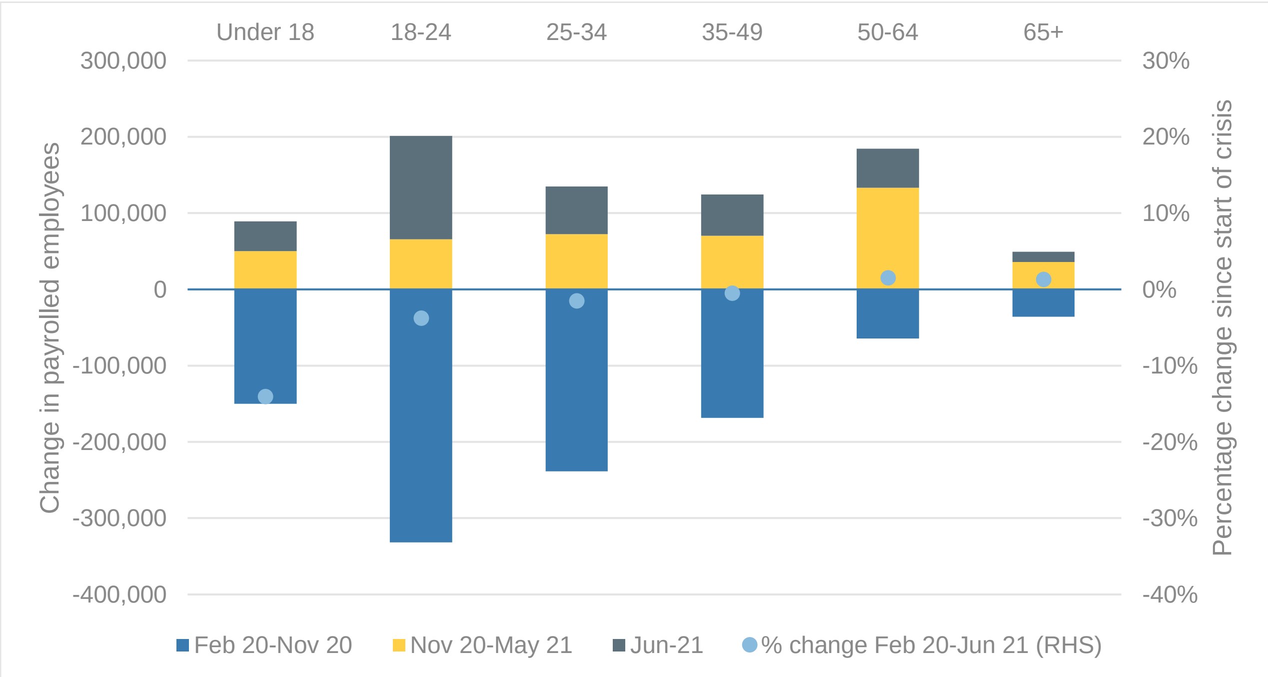
Looking at changes by age, Figure 2 below shows that the most recent month (black bar) has seen growth across age groups but a particularly strong recovery for young people – who have accounted for half of all the growth in PAYE employment during June (175 thousand). However, PAYE employment for young people remains 4.9% below pre-crisis levels, compared with 0.1% lower for people aged 25 or over.

Figure 1: Total number of payrolled employees



Source: PAYE Real Time Information

Figure 2: Change in payrolled employees by age: first nine months of the crisis (Feb-Nov 2020) six months of recovery (Nov 2020-May 2021) and most recent month (June 2021)

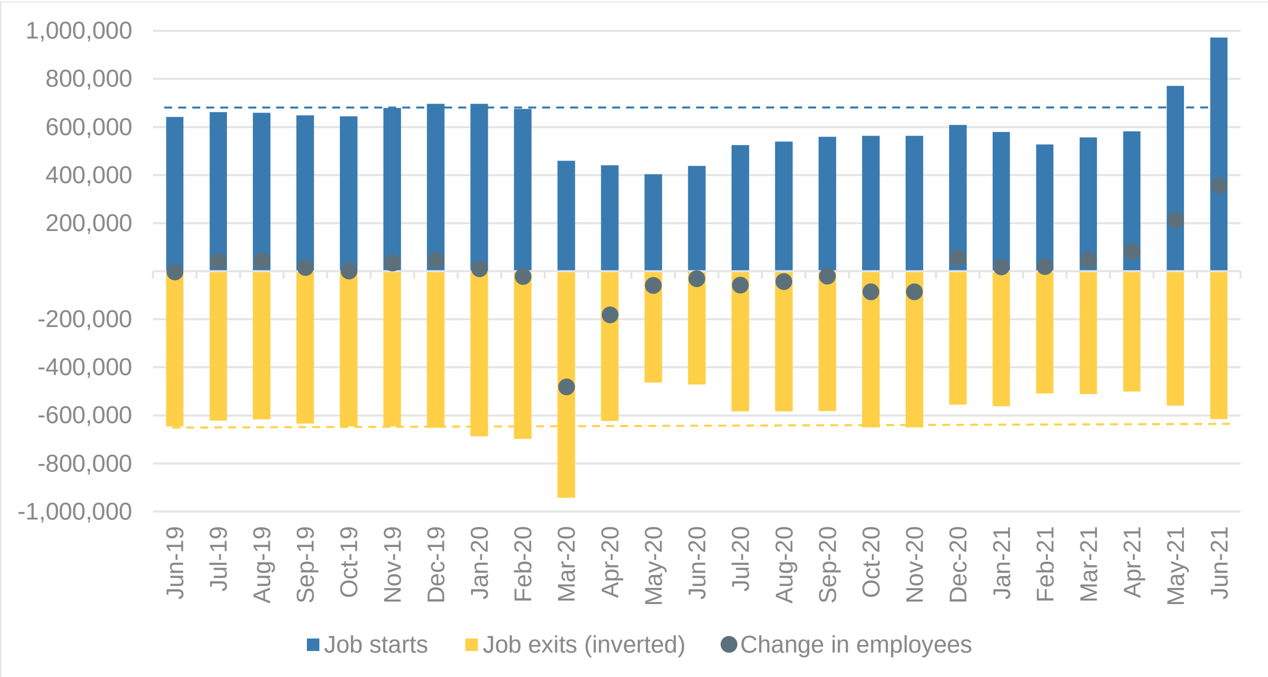


Source: PAYE Real Time Information

This bounce-back in PAYE jobs is being driven by new job starts, which as Figure 3 shows reached nearly a million (972 thousand) in the single month of June. Note that these figures include job *changers*, and we would expect in a recession/ recovery to see generally fewer people than usual moving jobs and more people than usual entering or exiting employment. Job exits have been a bit below normal levels in recent months, but appear to be edging back towards pre-crisis levels.

These flows figures are partially estimated based on historic trends, and job starts for the most recent month have invariably been revised down in subsequent months by low tens of thousands. So we would expect to see the June figures revised down a bit next month, but they will still be comfortably the highest level of job starts ever.

Figure 3: PAYE job starts and job exits, two years to June 2021



Source: HMRC PAYE Real Time Information

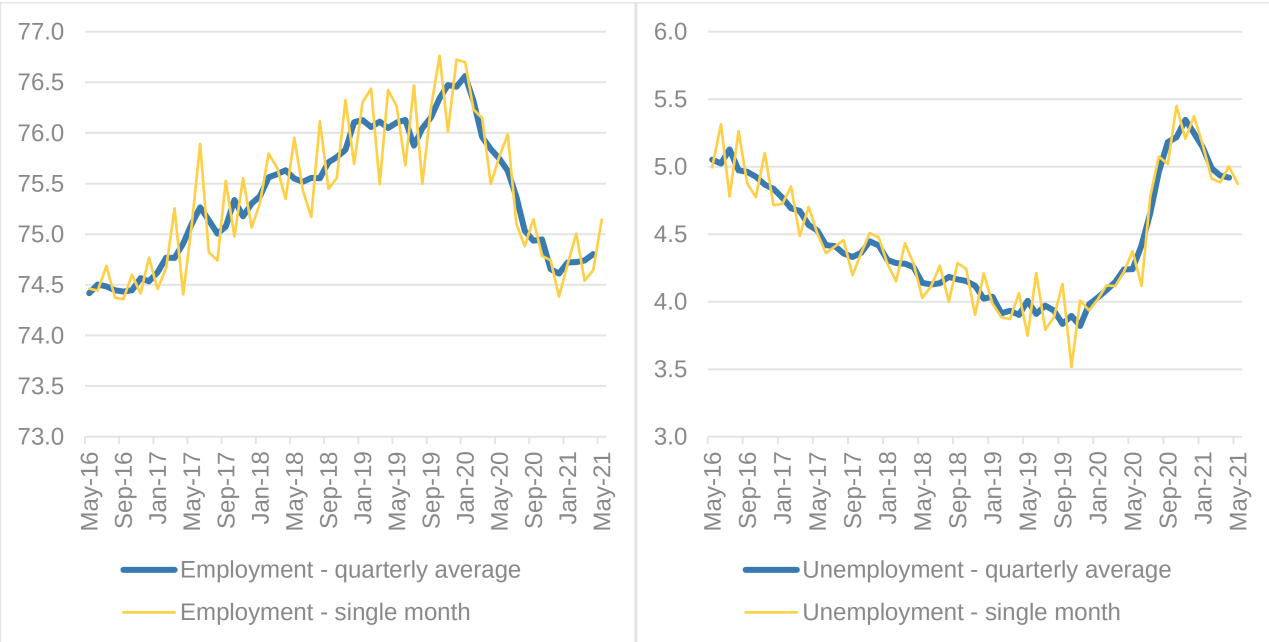
However, the official Labour Force Survey is more subdued – with very little sign of recent improvement

While the PAYE data is very positive, the LFS data continues to tell a story of a far more subdued recovery – with the headline employment rate for March to May 2021 standing at 74.8%, virtually unchanged on the quarter and well below its pre-crisis peak (76.6%). Unemployment has dropped back slightly in the most recent quarter, from 5.0 to 4.8% but is still nearly one percentage point above the pre-crisis rate; while 'economic inactivity' (the measure of those not looking and/ or not available for work) is broadly unchanged on the quarter at 21.3%, up by just over a percentage point on pre-crisis.

Figure 4 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 4 below shows). So we can be hopeful, but not certain, that the LFS will start to 'catch up' with the PAYE estimates.

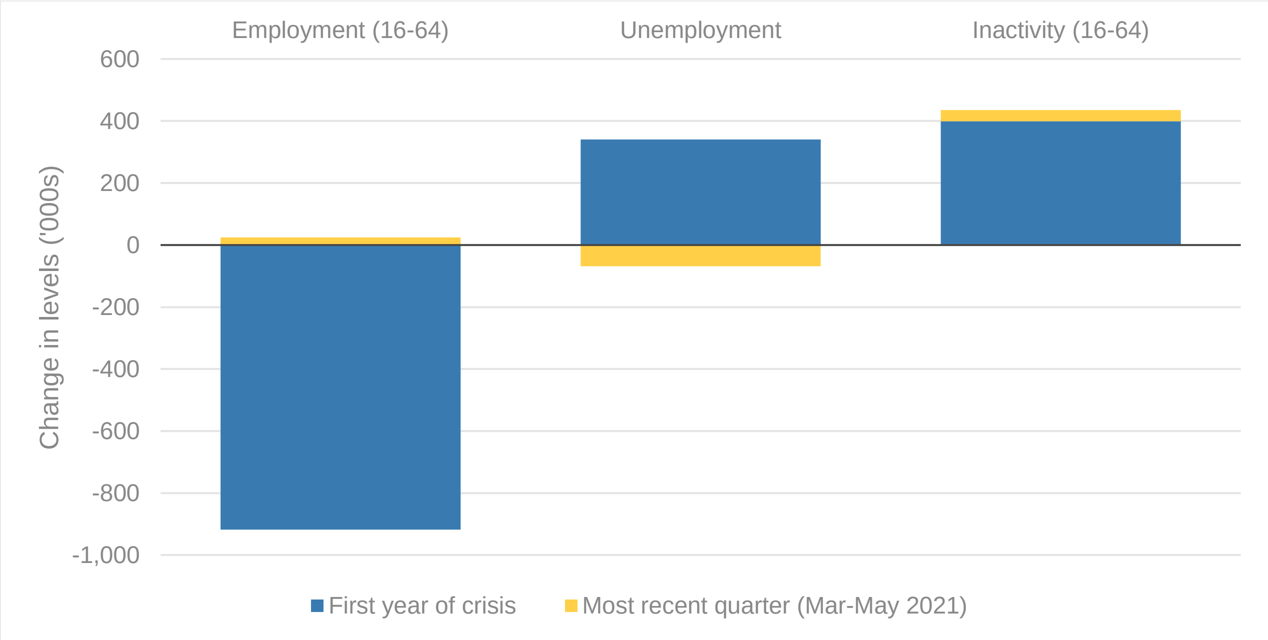
Figure 4: Employment and unemployment rates (16-64) – quarterly average with single-month estimates



Source: Labour Force Survey

Indeed looking at the overall quarterly changes, as Figure 5 below does, the LFS appears to be reporting no real rise in employment, no real fall in inactivity and only a small fall in unemployment. Employee estimates are also broadly flat on the quarter, while on the PAYE measure they have grown by nearly 200 thousand between the December-February and March-May 2021 quarters.

Figure 5: Changes in employment, unemployment and economic inactivity: first year of the crisis (Dec-Feb 2020 to Dec-Feb 2021) and most recent quarter (Dec-Feb 2021 to Mar-May 2021)



Source: Labour Force Survey

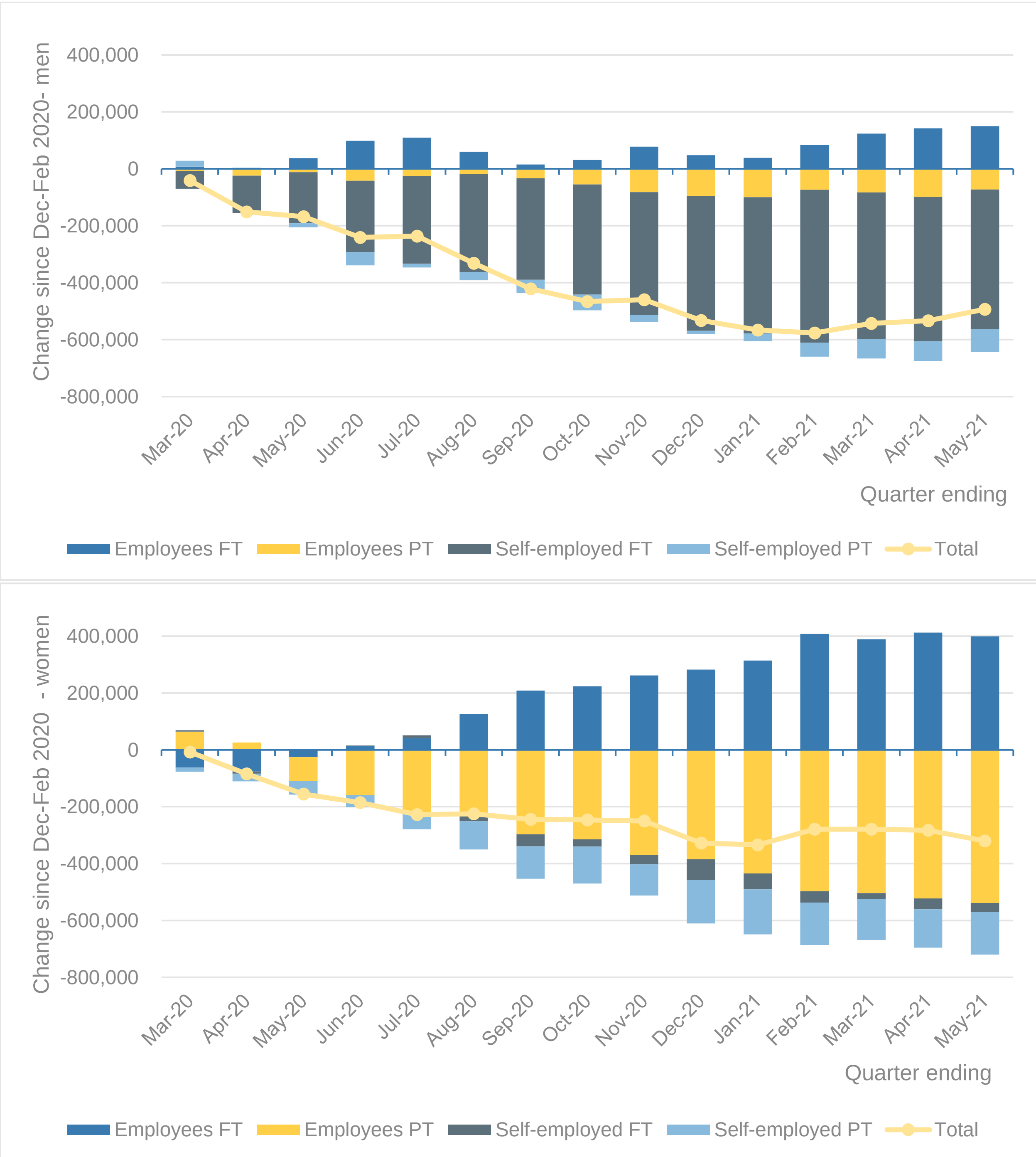
Self-employment and part-time work are both falling significantly – for both men and women

The other main reason why LFS and PAYE data tell different stories is that self-employment is not recorded in PAYE figures, and has fallen significantly during the crisis with little sign of recovery. Self-employment has fallen by 750 thousand during the crisis (15%) and is broadly unchanged over the most recent quarter.

Figure 6 below shows changes in employee and self-employment, by whether this was part-time or full-time work, for men (top panel) and women (bottom panel). This shows that men have accounted for slightly more of the fall in employment overall, although the proportionate falls are very similar (3.1% fall for men compared to 2.3% for women), and recent months has seen employment recover somewhat more strongly for men than women. For men, the crisis has seen large falls in full-time self-employment (still nearly half a million below pre-crisis levels), while full time employee jobs have started to recover. Employee work overall is now above pre-crisis levels for men, although as previous briefings have set out the growth in employee jobs is partly being driven by flows from self-employment (either into new work, or as self-employed jobs are reclassified as employee work, for example due to IR35 changes).

For women, there have been very large falls in part-time work (particularly employee work) offset by smaller (but significant) rises in full-time employment. We set out in more detail last month how this has pushed part-time work to its lowest ever share of employment for women, and how [our work with Timewise] was suggesting that women may be at risk of falling behind in the recovery as part-time and flexible work declined. There are clear warning signs in today's data that the jobs recovery for women may be stalling – and that far from heralding a new era of flexible working, this recovery may see far fewer people getting the hours and the flexibility that they need.

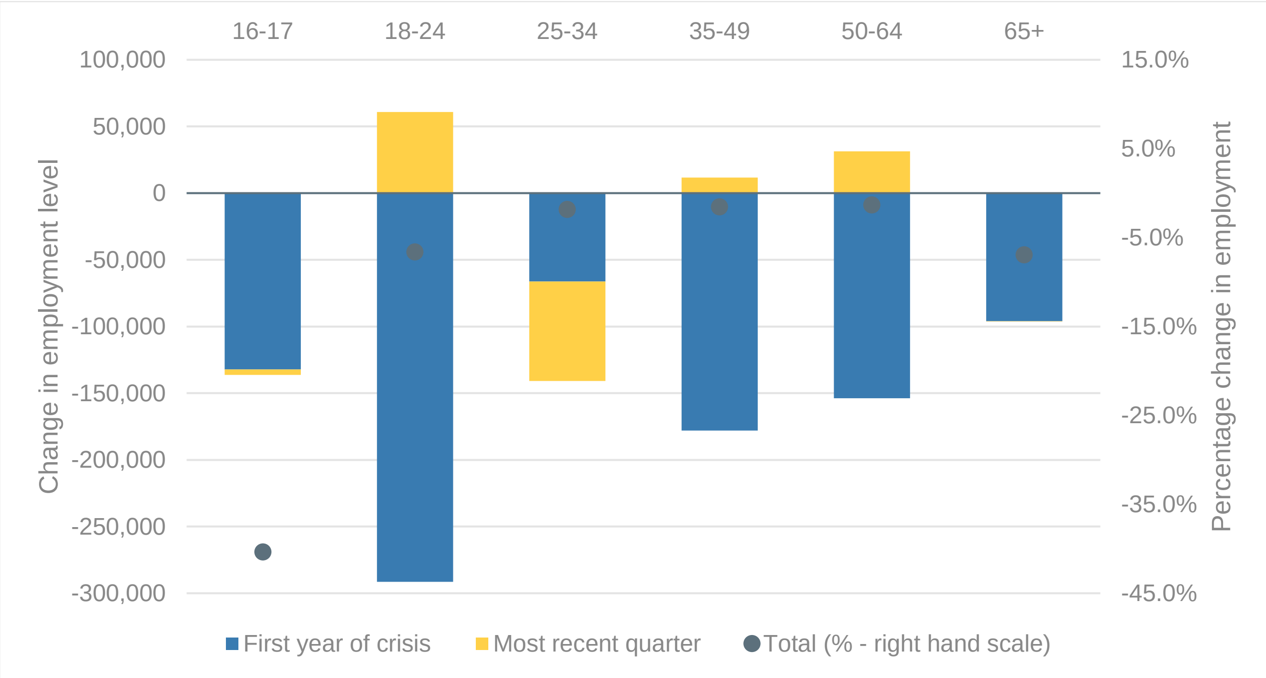
Figure 6: Change in full-time, part-time, employee and self-employed work since start of crisis (December-February 2020 quarter) – for men (top) and women (bottom)



Source: Labour Force Survey

The LFS also tells a somewhat different story to the PAYE on how the crisis has affected different age groups, with Figure 7 below showing the falls in LFS employment over the first year of the crisis (between December-February 2020 and December-February 2021) and the rises and falls in the most recent quarter (to March-May 2021). This tells a far less picture overall – which again may partly be explained by lags and averaging in the data – but an especially worse story for people aged 25 and over. This likely reflects a far greater reliance on self-employment among these groups, with every age band seeing employment still below pre-crisis levels.

Figure 7: Change in employment by age – first year of the crisis (Dec-Feb 2020 to Dec-Feb 2021) and most recent quarter (Dec-Feb 2021 to Mar-May 2021)



Source: Labour Force Survey

Drawing this together, there are reasons to believe that the LFS employment data may start to pick up strongly in the next few months as it 'catches up' with the recovery, but reasons also to take the PAYE data with a small pinch of salt – with the LFS showing continued weakness in self-employment, and suggesting that some of the growth in employee jobs reflects reclassification of workers rather than 'real' growth. Either way, it is clear that the employment recovery remains far from complete.

On vacancies though, all data is pointing the same way – to record levels of demand as industries reopen

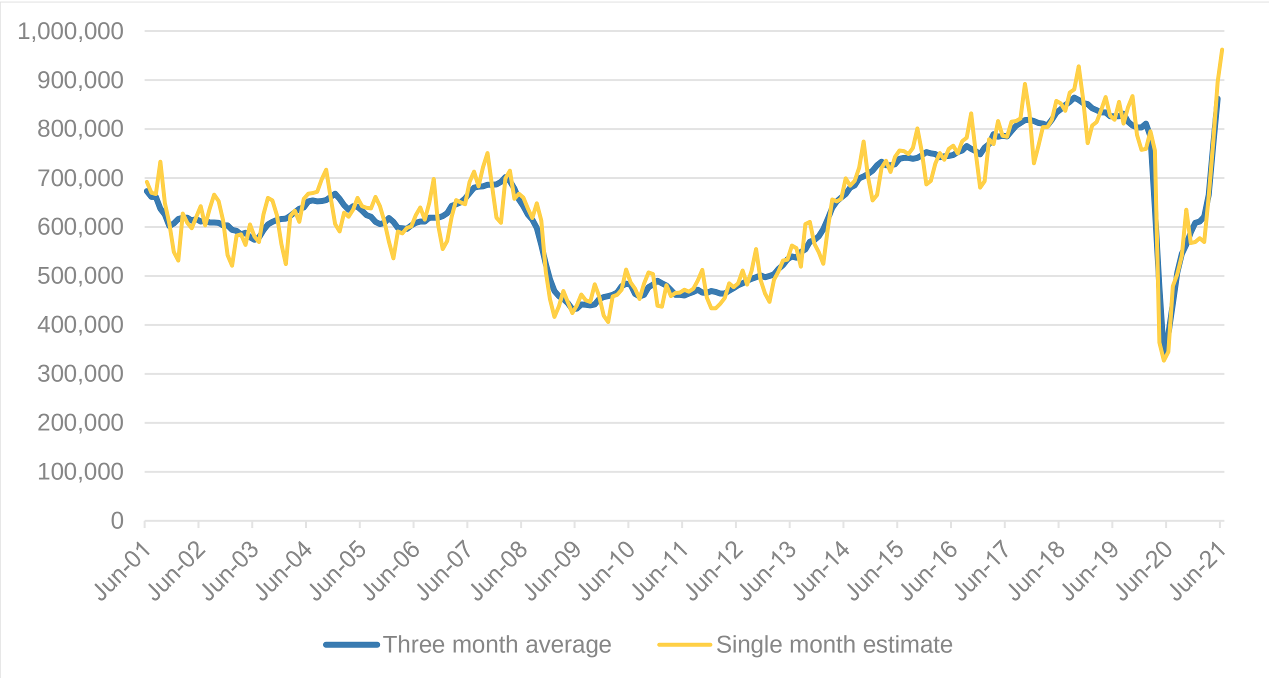
If the employment figures are sending mixed messages, the data on vacancies is emphatic – with the latest Vacancy Survey data showing that June saw the highest ever level of vacancies in the economy (estimated at 962 thousand) while the quarterly average is back above pre-pandemic levels (at 862 thousand). These are shown in Figure 8 below.

The latest online data from Adzuna, also published today, suggests that vacancies may well have plateaued at these levels and we should hope to see them fall back somewhat as the surge in demand post-restrictions starts to be met. Reassuringly, our Situations Vacant report last week, jointly published with Adzuna, suggests that the flow of new vacancies is continuing to hold up – with around 30% of all job adverts having been advertised that week.

More detailed analysis by industry suggests that vacancies are strong across virtually all industries, with the recent very high levels of openings being driven by growth in accommodation and food services (up by over a hundred thousand on the turn of the year), admin and support services, health and manufacturing. However even if openings in these industries fall back as jobs are filled, the longer-running recovery in hiring across other sectors could well see vacancies plateau in line with pre-crisis levels.

Even with unemployment still elevated, this is undoubtedly positive news and could see the labour market continuing to strengthen (and tighten) over the rest of this year.

Figure 8: Vacancies – quarterly and single-month estimates



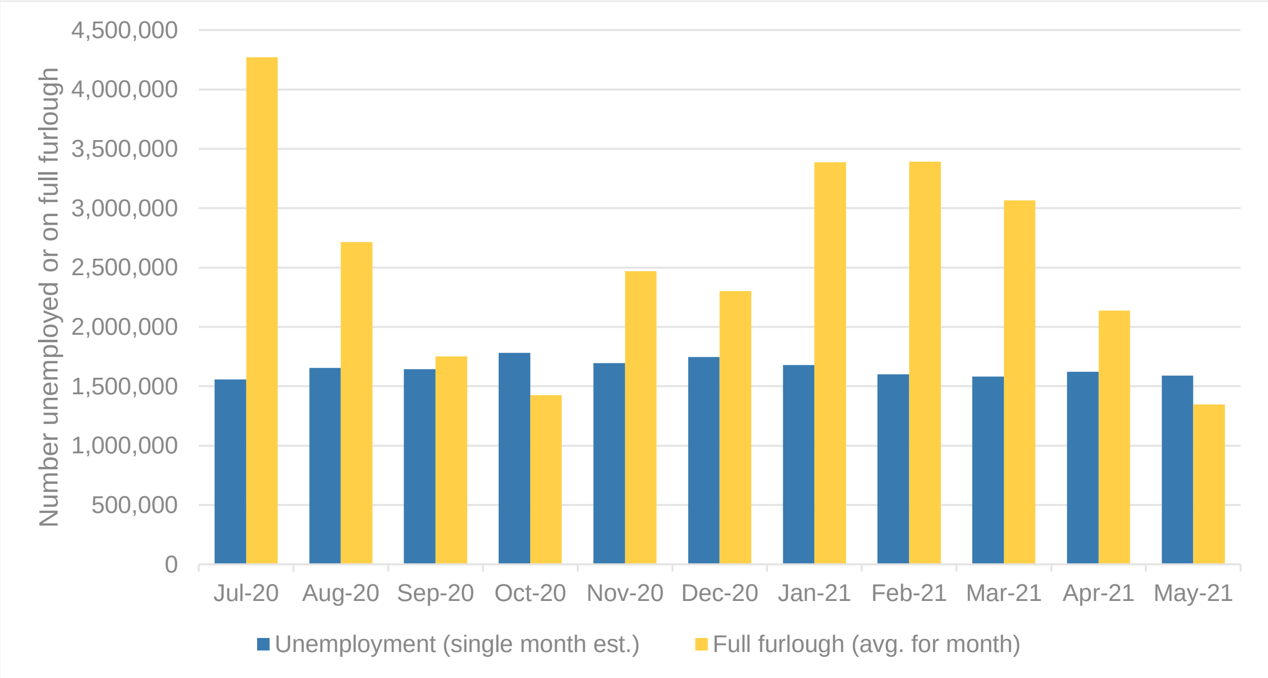
Source: ONS Vacancy Survey

With numbers on furlough falling, there are now more people unemployed than fully off work

Looking at measures of those out of work and off work, the number of people either unemployed or fully furloughed on the Coronavirus Job Retention Scheme (CJRS) has fallen from 5.0 million in February to 2.9 million in May. With unemployment remaining elevated and very large falls in the number of people on the CJRS, there are now for the first time more people off work unemployed than off work fully furloughed (as Figure 9 shows).

It is very likely that both figures will continue to fall as more people return to work or take up new jobs through the summer, but also that we will see some upward pressure on unemployment both as furlough unwinds through the autumn and as some of those who are currently 'economically inactive' start looking for work again.

Figure 9: Monthly estimates of unemployment and of full furlough on the Coronavirus Job Retention Scheme



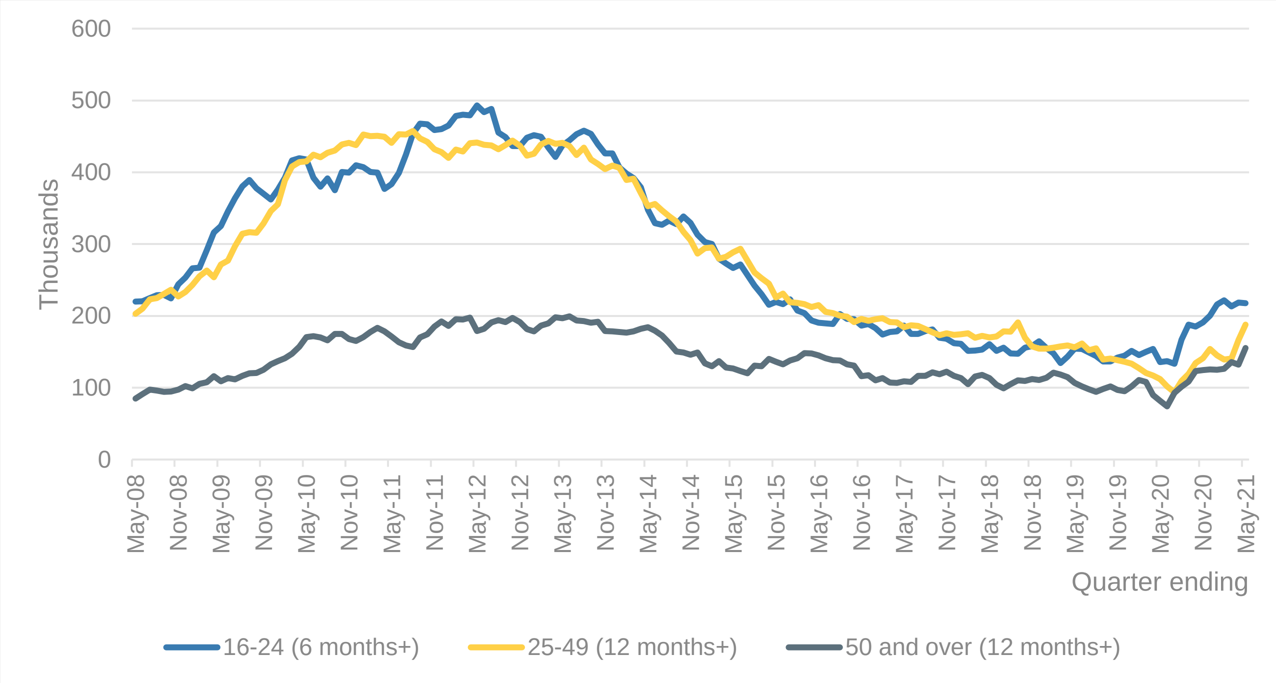
Source: Labour Force Survey and HMRC CJRS Statistics

Despite improvements in employment, long-term unemployment just keeps going up

Of much more concern in today's figures, as with previous months, is continued 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 is up by more than two thirds in the last year (70%), to 560 thousand – its highest since spring 2016 and the fastest rate of annual growth since at least the early 1990s (when these records began). As Figure 10 below shows, this is now growing particularly strongly for those aged over 25, while the level of long-term unemployment for those over 50 is at its highest in seven years. It is possible however that for young people, long-term unemployment may be starting to level off.

We have set out previously that long-term unemployment will peak below the levels seen in 2012 but that it will keep rising overall for the rest of this year. Tackling these rises needs to be a top priority over the next few years – both through the new Restart programme, a reformed and extended Kickstart for young people, and ideally a guarantee of decent work or training for the longest-term unemployed.

Figure 10: 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.

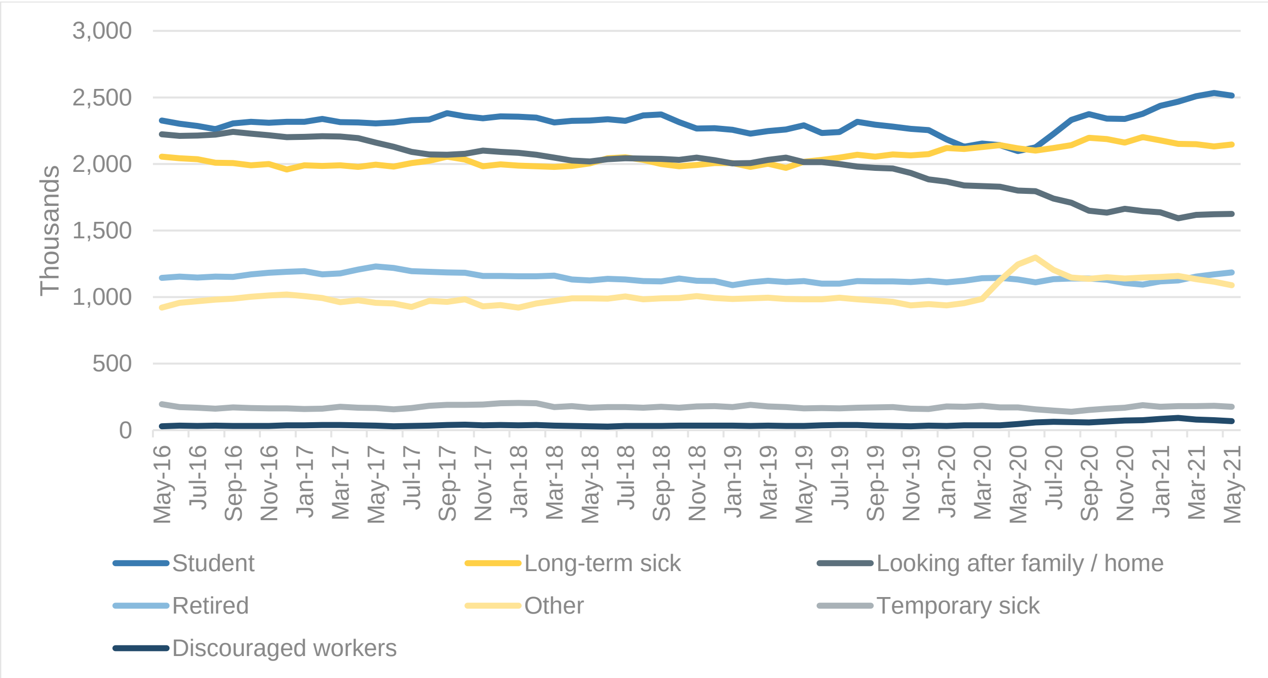
Economic inactivity remains high – driven by growth in students, but with near record numbers long-term sick

As noted in Figure 5 above, most of the rise in 'worklessness' since this crisis began has been explained by economic inactivity rather than unemployment. Figure 11 below shows that this has been explained in particular by a large growth in the number of economically inactive students, which is up by nearly 400 thousand since the crisis began (to 2.5 million overall). Much of this growth is also reflected in the number of students who say that they do not want to work – which is also up, by just over 300 thousand.

The two other main reasons for economic inactivity have seen contrasting changes – with the number off work due to long term ill health remaining stubbornly high, at 2.15 million, while the numbers off work caring for family members have fallen by more than 200 thousand to 1.6 million (accelerating a longer-running trend as more women stay in or return to work). The number inactive for 'other' (likely pandemic related) reasons also rose sharply in the early crisis but may now be falling back, to about 100 thousand above pre-crisis levels.

So far, the government's Plan for Jobs measures have largely ignored economic inactivity and just focused on tackling the crisis-related impacts on employment and unemployment. However with demand returning and the labour market tightening, 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. For government, this means in particular a greater focus on measures to support those with long-term health conditions to stay in and return to work; while employers will need to do more to design jobs and recruit in ways that will enable students, older people, those with health conditions and parents to take them up.

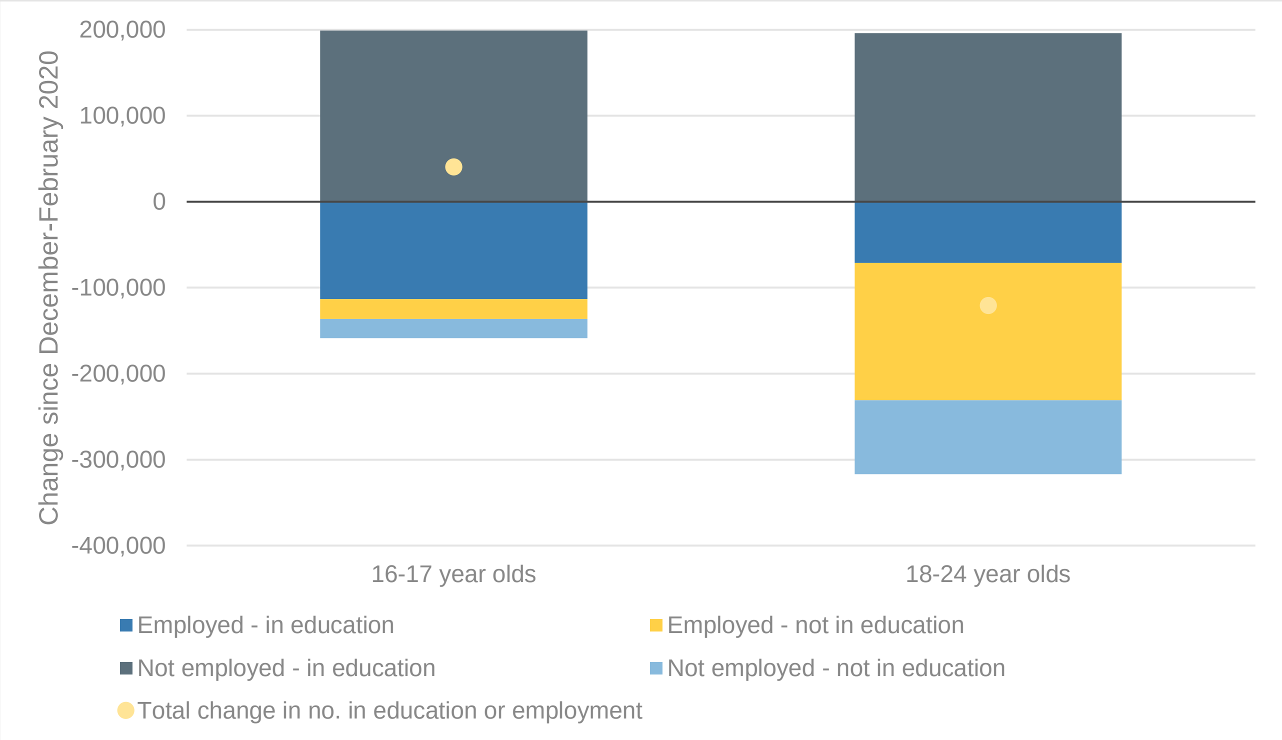
Figure 11: Reasons for economic inactivity



Source: Labour Force Survey

Unsurprisingly, these high levels of student inactivity are reflected too in youth participation in education and employment. The changes since the start of the pandemic are shown in Figure 12 below, which brings out that the crisis has seen very large rises in the number of young people in full-time education but not in work, which have almost offset the (slightly larger) falls in employment (both in and out of education). For young people overall, participation in full-time education is now at its highest ever rate (47%) while employment is close to its lowest ever (and is comfortably its lowest ever for 16-17 year olds, virtually halving from 24% to just 14% now).

Figure 12: Change in levels of young people's participation in full-time education or employment, December-February 2020 to March-May 2021



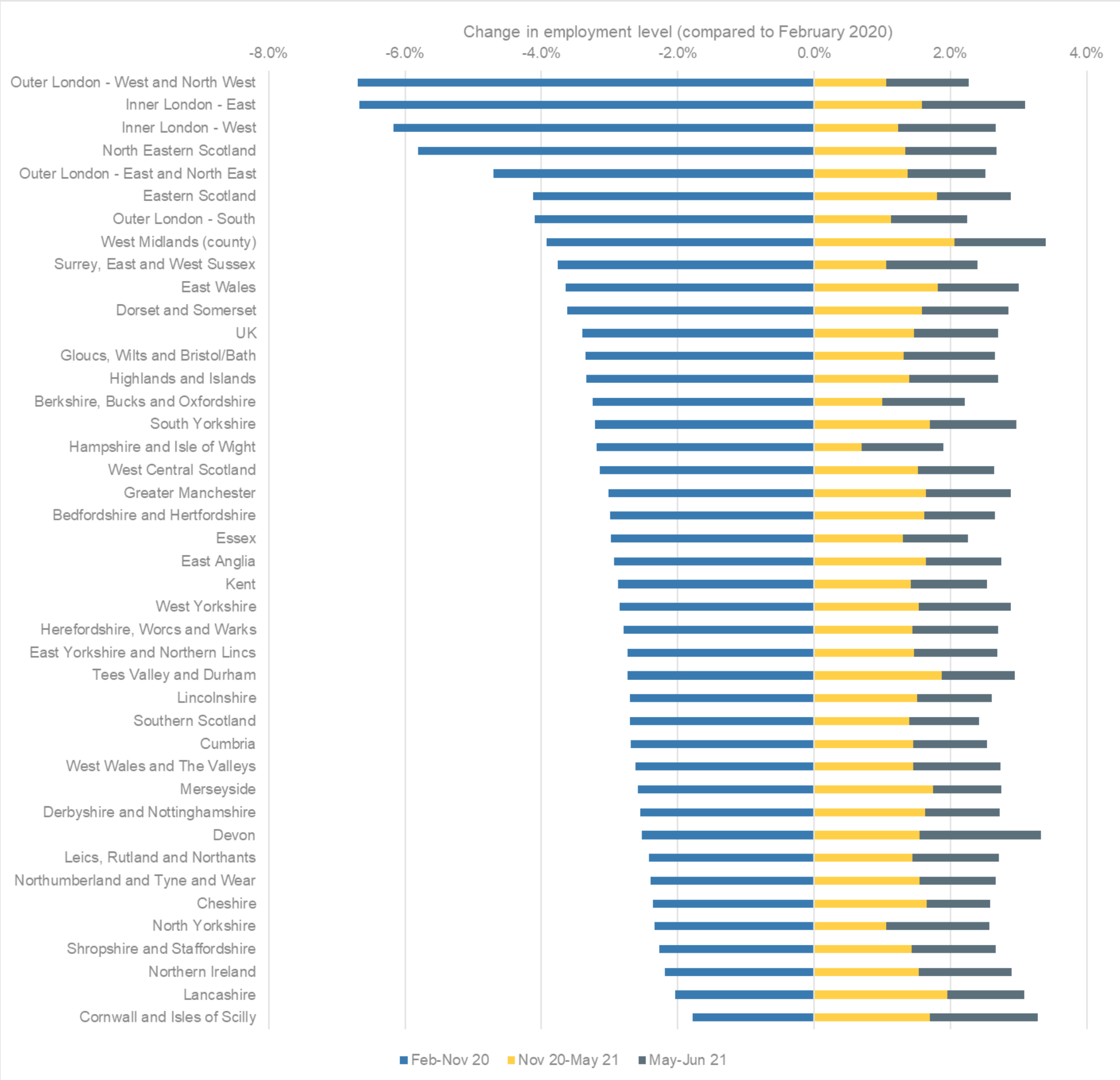
Source: IES analysis of Labour Force Survey

The most recent PAYE jobs growth has been across the country – with many areas now above pre-crisis levels

Finally, the latest PAYE data for sub-regions (NUTS 2 areas) shows that the most recent strong growth in PAYE employment has been broad based across areas – with Figure 13 below showing the change in employment by sub-region during the crisis (blue), recovery (yellow) and most recent month (black).

All areas have seen very similar rates of growth in the most recent month also tells a similar story to last month, which has pushed PAYE employment above pre-crisis levels in 13 areas (one third of the total). These are often more rural areas, but also includes all of the North East of England and Northern Ireland, as well as parts of the North West and Yorkshire. It should be reiterated though that these data do not include self-employment, which remains well below pre-crisis levels. By contrast, PAYE employment remains well below pre-crisis levels in central and west London – where the prospects for a rapid recovery in London remain uncertain – as well as in Aberdeenshire.

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



Source: IES analysis of HMRC PAYE data

the latest PAYE data includes for the first time, estimates of PAYE employment to NUTS3 level (broadly, counties and groups of councils) as well as the usual sub-regional (NUTS2) and regional analysis.

The new data suggests that in one third of all local areas (62 out of 179) PAYE employment is now above pre-crisis levels. These areas tend to be outside of London and the South East and generally more rural, but also includes a number of towns and cities in the North East, North West, Midlands, Wales and Northern Ireland (including Belfast, Manchester, Liverpool, Leeds, Tyneside, Teeside, Sheffield, Leicester, Nottingham, Blackburn and Darlington). By contrast, PAYE employment is still 2% or more below pre-crisis levels in about one in eight areas (23 in total) – predominantly London boroughs, but also including Edinburgh, Aberdeen/shire, Solihull, York and Southampton.

Conclusion

Today's figures tell a somewhat contrasting and confusing story. On the one hand, the evidence is clear that demand has bounced back very strongly – with large increases in vacancies in 'reopening' industries being added to a sustained recovery in job opportunities across wider swathes of the economy. The PAYE data also points to a remarkably large increase in employee jobs in June, closing more than half of the remaining gap in employment compared with pre-pandemic levels. However, the LFS tells a much more subdued story – which may reflect lags in the data and sampling variability, but also likely reflects that the PAYE data is overstating the strength of the labour market because it excludes the very large falls in self-employment.

At the same time, the LFS data also continues to point to a weaker recovery for women, particularly as part-time work continues to fall, and high levels of worklessness – with particularly worrying signs on long-term unemployment and economic inactivity. If these issues are not addressed then we may well see growing mismatches in the labour market, and ultimately risks of sustained higher unemployment, inflation and social exclusion.

Part of the solution to these issues is the same as we set out in last month's briefing – to make sure that we make a success of the £7 billion Plan for Jobs investment in Jobcentre Plus services, the new Restart programme and Kickstart jobs; and that we work much better with employers to design and then recruit into jobs in ways that will enable groups like students, carers and older people to take them up.

In addition, at the coming Spending Review we also need to see more focus on measures to extend and improve support for those who are further from work – and particularly those out of work due to ill health, caring and other reasons; as well as putting in place a longer-term replacement for the Kickstart scheme so that those who are out of work longest are guaranteed decent jobs or training.

Annex: How LFS reweighting has affected population estimates for UK and non-UK born people

Today's release sees the ONS using new weightings for the Labour Force Survey, to try to take better account of changes in the UK population and in LFS response rates. This Annex provides a little more background on the changes, with a full explanation available in this ONS article.

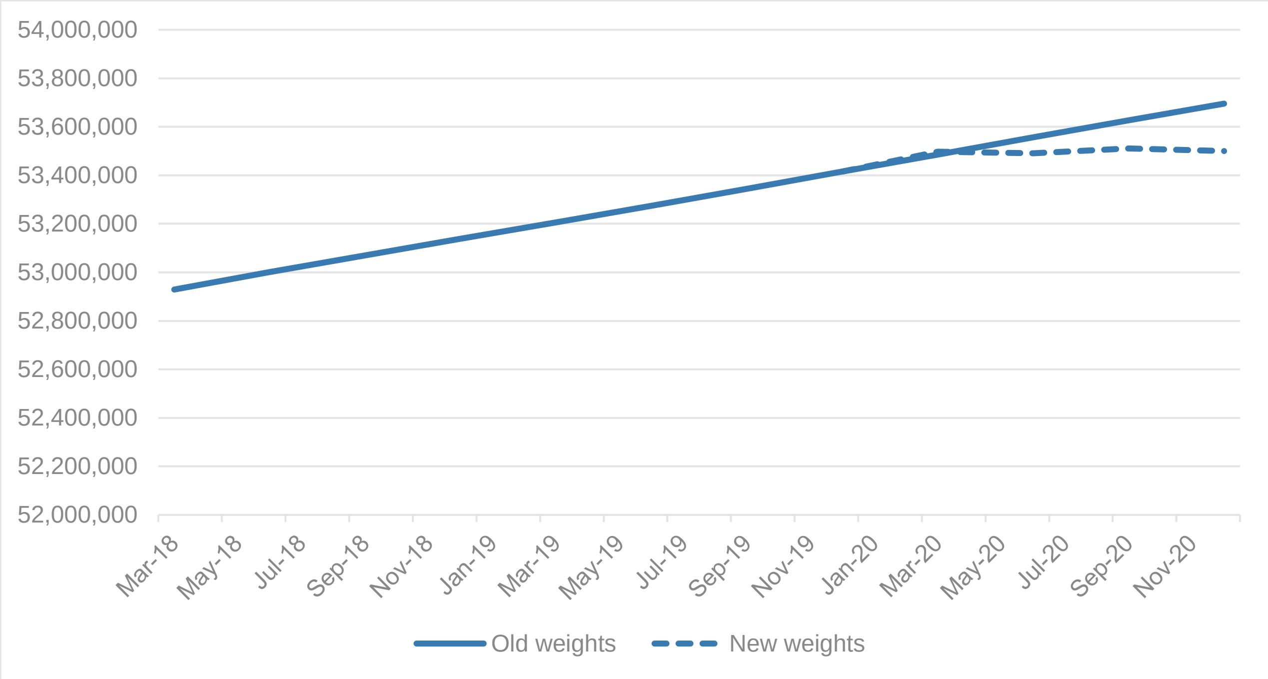
Previously, the weighting approach for the LFS held the size of the population constant, and in line with separate population estimates that are published each year. Therefore population size was an *input* to the LFS rather than an *output* from it, and was not affected by who responded to the survey. During the pandemic, the LFS saw a significant reduction in responses overall, but particularly from non-UK born people – which was believed to be a consequence both of some non-UK born people leaving the UK (so reducing the population size overall) and non-UK born people becoming less likely to respond to the LFS than was the case previously (due to a change in how the survey was conducted).

However, because the size of the whole population was being kept constant, a fall in non-UK born respondents led to large falls in the estimated size of this group but then automatically led to *offsetting large rises in the estimated population of UK-born people* (so that the grand total would remain the same). This is clearly implausible, and so in recent months the ONS has been revising its weighting approach in order to better take account of non-response biases, and also to try to adjust the population size based on LFS responses (in other words, to make population size an output from the model rather than an input to it).

The ONS has done this by comparing LFS data to an HMRC scan of migrant workers in PAYE data. They have now completed this exercise and developed a weighting approach that will better correct both for changes in response rates and population sizes. The headline results of this are set out in Figure 14 below, which shows that the ONS now forecasts that the population overall has plateaued since the onset of the crisis rather than continued to grow – a difference of around 200 thousand people.

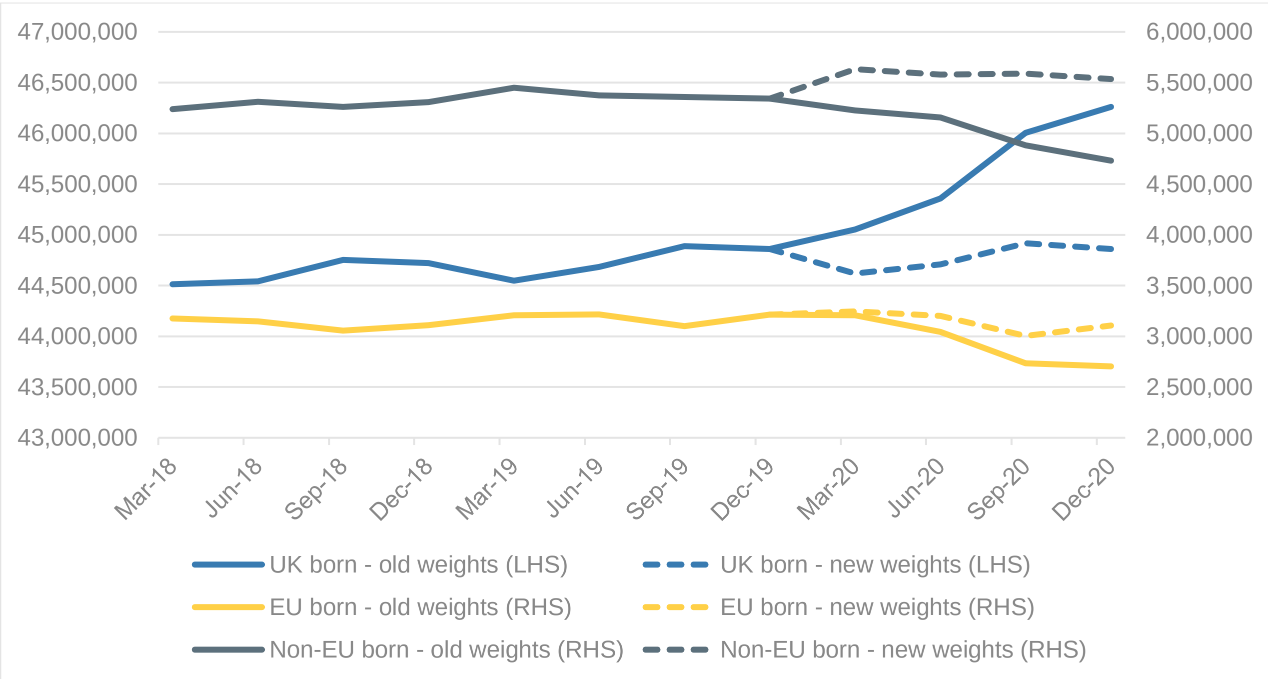
Underneath this, Figure 15 then shows the revisions to population estimates by place of birth. This illustrates how the previous approach had led to implausibly large rises in the UK-born population, purely to counterbalance the falling responses for other groups. The revised method sees the UK-born population continue on the same trend as pre-crisis (as would be expected). At the same time it revises up the estimated population sizes for non-UK born groups (note that these are on a different and much smaller scale on the right hand side of the graph). The ONS now estimates that the non-EU born population continued to increase broadly in line with pre-crisis trends, while the EU-born population has been broadly stable (falling slightly). The ONS has also now published revised estimates of employment by place of birth, which will also be updated for Q2 2021 next month (and so will be covered in the next briefing).

Figure 14: Estimated population – old and new weights



Source: Labour Force Survey

Figure 15: Population estimates by place of birth, old and new weights (UK born on left hand scale, non-UK born on right hand scale)



Source: Labour Force Survey

About IES

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Institute for Employment Studies, City Gate, 185 Dyke Road, Brighton, BN3 1TL United Kingdom

www.employment-studies.co.uk

@EmploymtStudies

01273 763400