

Labour Market Statistics, June 2021

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

Summary

The labour market is continuing to recover strongly, with PAYE employment growing by nearly 200 thousand during May; vacancies in May close to their highest ever level and the headline unemployment rate ticking down to 4.7%. This appears to be being driven by new job starts, particularly in industries that were shut down and starting to reopen, and there are signs that at last young people are starting to benefit from that recovery – accounting for nearly half of the growth in PAYE employment last month.

However, we continue to see long-term unemployment rising strongly, now breaching half a million for the first time in five years, and rising across age groups; we are seeing large falls in part-time work, not explained by more people getting the hours that they want and nor entirely offset by rising full-time work; and even with recent employment growth, there remains very significant ground to make up for young people, those previously self-employed and in London. Furthermore even while increasing numbers of firms report recruitment difficulties, unemployment is still elevated – with well over two unemployed people for every vacancy, compared with around 1.6 before the crisis.

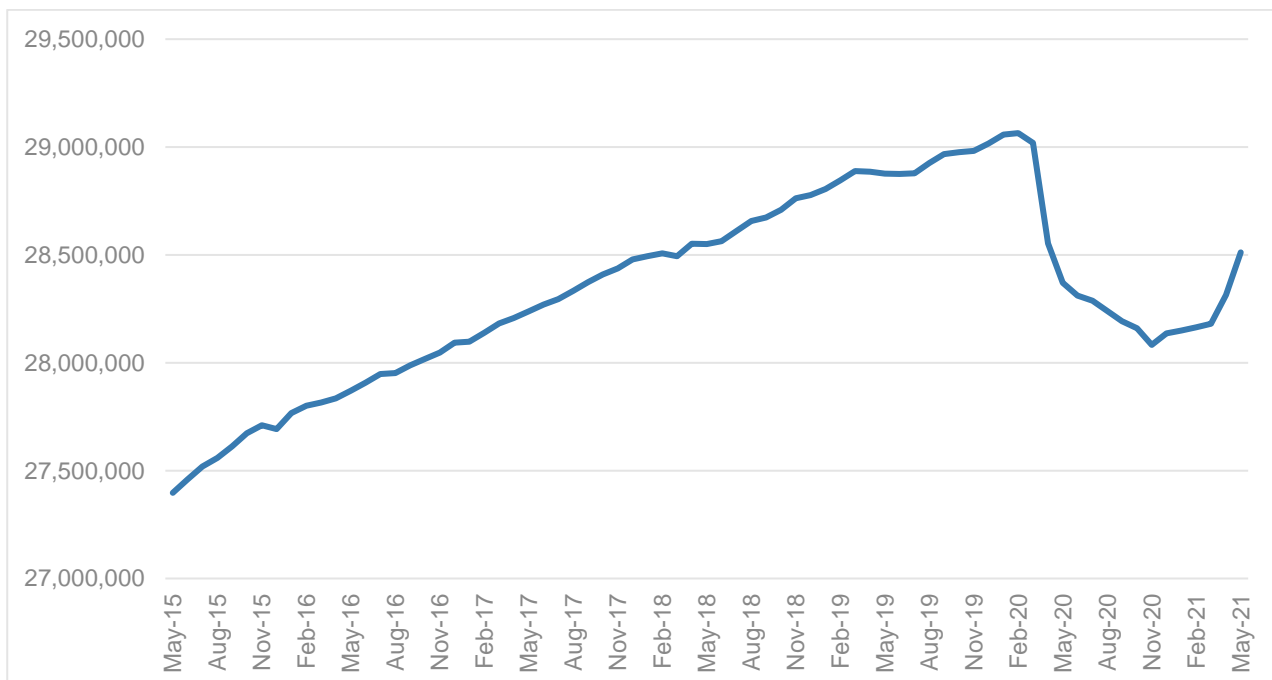
Looking ahead, the announcement of a month-long delay to the roadmap will take some of the wind out of the sails of the recovery but should not send us significantly off course. If there are further significant delays, or indeed a need for further restrictions, then government will need to revisit its plans for the winding down of the furlough scheme and other support. But in the meantime, today's data suggests that we need to refocus effort on helping those out of work to get (back) into work, as well as working much better with employers to fill their vacancies (including by ensuring that those jobs have the shift patterns, entry requirements, skills support and pay to enable them to be filled quickly).

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, and the ONS [published more detail last month](#) on how this will be addressed in future. This may mean that today is the last set of data with these caveats. In the meantime, the ONS continue to advise that reported *levels* in the LFS should be treated with caution, although *rates* remain robust. For this reason we have continued to use PAYE data in preference to LFS figures where both are available (in reporting on the levels of employment, changes by age and region); and as far as is practicable where LFS data is used we have limited the analysis to reporting on changes in rates rather than levels. Where levels are used, we have made this clear in the text.

The 'elephant recovery'? Employee numbers have bounced back, but the LFS remains more subdued

Today's figures show the strongest growth yet in PAYE data, with the number in employee jobs growing by nearly 200 thousand in the month of May alone (the highest since this data series started in 2014), and now just half a million below pre-crisis levels. Figure 1 illustrates this, and suggests that we may be seeing the beginnings of a U-shaped recovery – although for the moment it looks more like an elephant.

Figure 1: Total number of payrolled employees

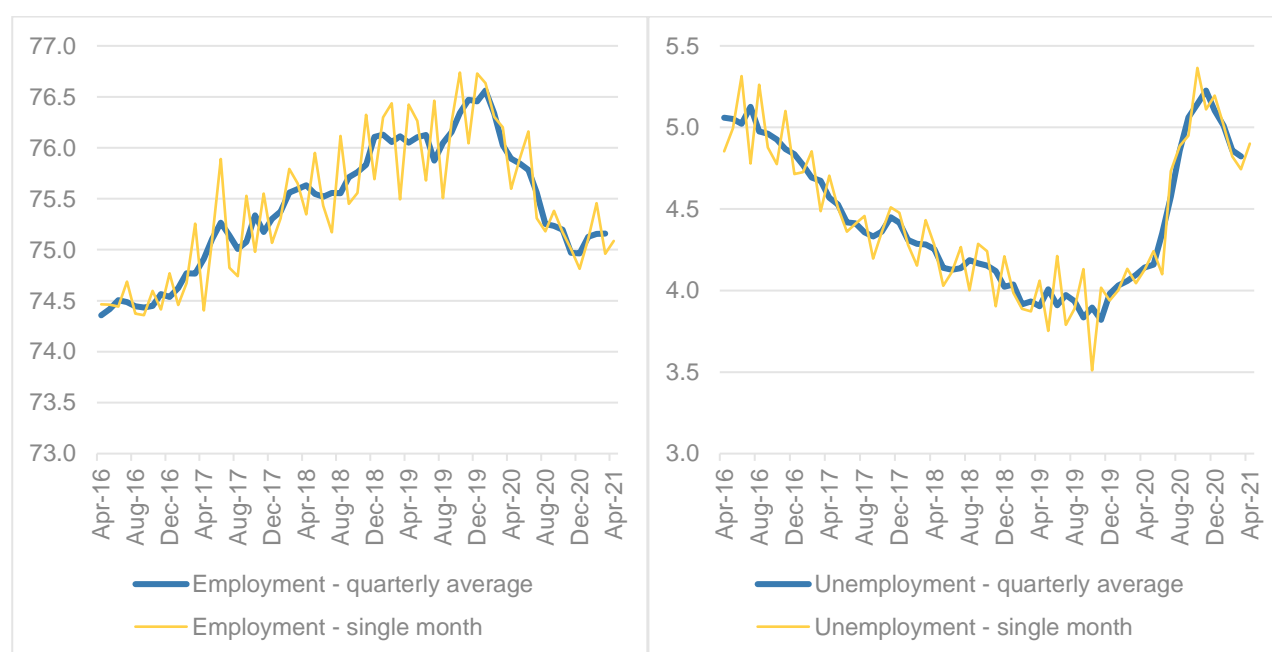


Source: HMRC Pay As You Earn data

The LFS data is somewhat more subdued, with employment rising slightly on the quarter to 75.2% (up from 75.0%) and unemployment ticking down slightly to 4.7%, but as Figure 2 shows, the trend in LFS employment in particular has been broadly flat since the

autumn. In part this may be explained by definitional differences between the LFS and PAYE sources, and in particular that the PAYE data excludes self-employment which has fallen significantly in the crisis and is not yet recovering (covered in more detail on page 14). This in turn may in part reflect more self-employed workers counting themselves as employees (or being counted in PAYE data as such), for example due to tax changes implemented in April ('IR35'). But it will also reflect the fact that the LFS data only covers the period to April, as lockdown restrictions started to be eased – so we should expect to see the LFS data start to recover more strongly in the coming months.

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

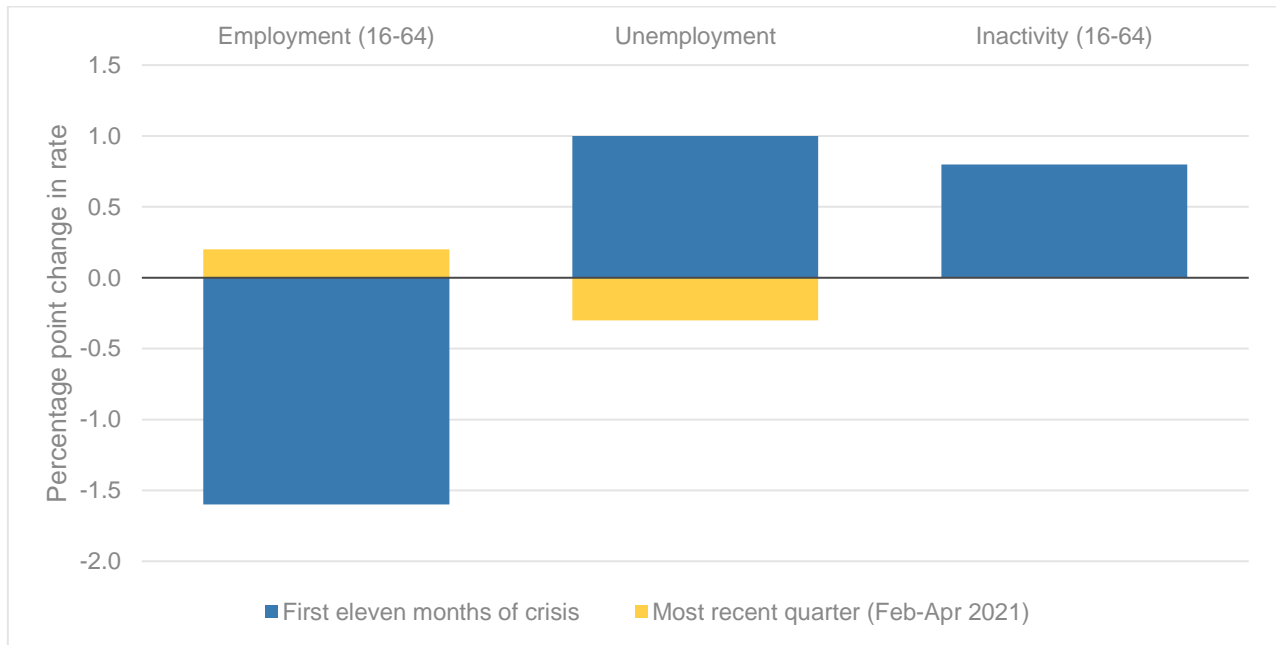


Source: Labour Force Survey

Of more concern today is that the economic inactivity rate (which measures those not looking and/ or not available for work) remains unchanged and very high at 21.0% - broadly the rate that it has been since the start of the crisis. As with last month, this continues to be driven by large rises in the number of economically inactive students, and people inactive for 'other' (likely pandemic related) reasons. In particular the number of young people in full time education but economically inactive has hit its highest ever level of 2.2 million – up by 300 thousand during the crisis. At the same time there have been significant falls in economic inactivity due to looking after family and home, particularly among women.

Figure 3 below shows in more detail the percentage point changes in the rates of employment, unemployment and inactivity over the first quarter of 2021 (in yellow) and over the previous eleven months of the crisis. As the labour market continues to improve, we should hope to see more of those who are 'economically inactive' starting to look for work and so feeding through into both employment and unemployment.

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

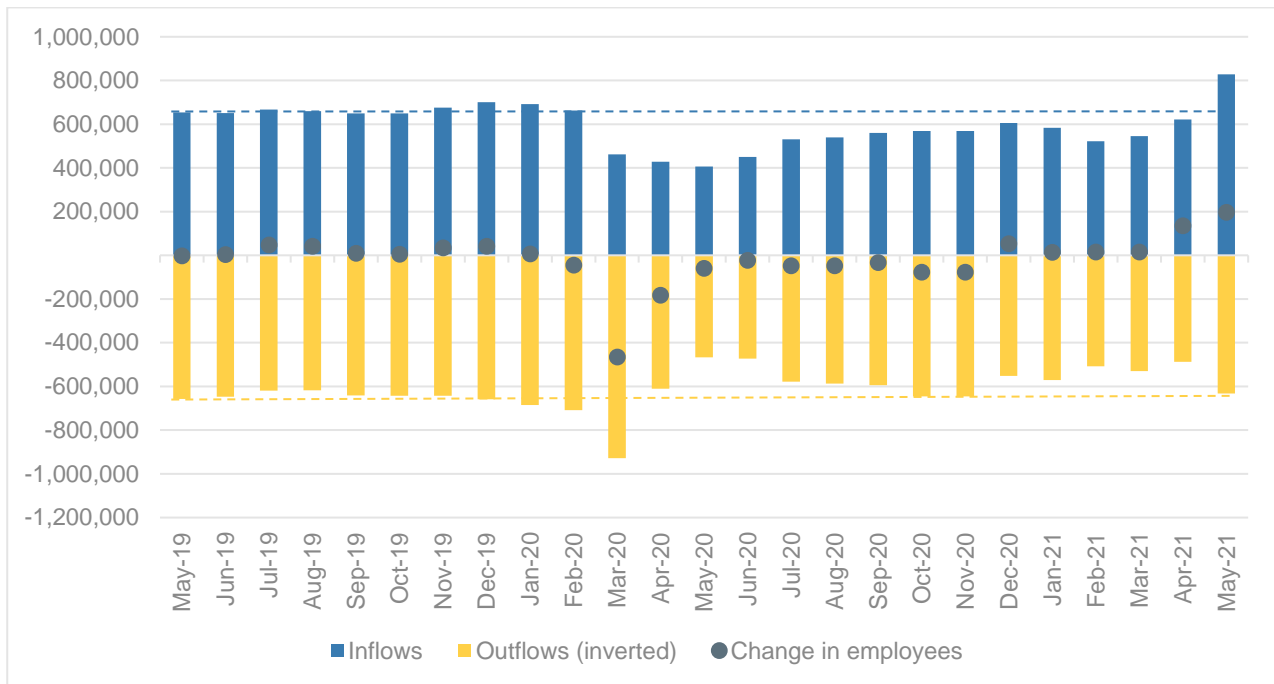


Source: Labour Force Survey

Job growth is being driven by new starts – and vacancy data suggests more may be to come

The latest PAYE job starts and job exits data shows that the strong growth in employee numbers in May was particularly driven by new hiring – with Figure 4 showing that this surpassed 800 thousand (at 829k), which is the highest figure ever recorded. Note that these figures are subject to monthly revision and are generally revised down, but even with revisions this will undoubtedly be above pre-crisis levels. It should be noted that these figures include job *changers*, so is not a measure of job entry for those out of work.

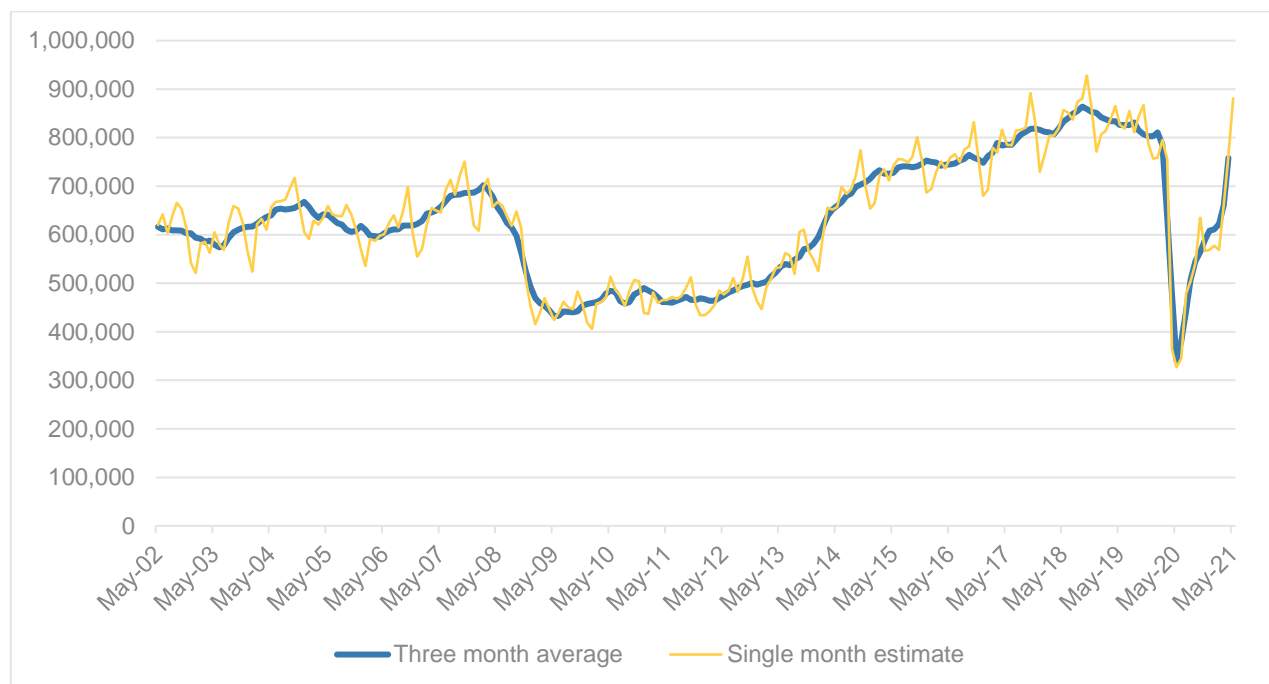
Figure 4: PAYE job starts and job exits, two years to May 2021



Source: HMRC PAYE Real Time Information

The latest Vacancy Survey data also gives us more confidence that we will see further improvement in the next few months, with the quarterly average for open vacancies back close to pre-crisis levels, and the single-month estimate for May (the yellow line in Figure 5 below) reaching one of its highest levels ever, at 881 thousand.

More detailed analysis by industry suggests that virtually all industries have now seen vacancies recover to close to or above pre-crisis levels (with retail and transport/ storage the only exceptions). Accommodation and food services in particular has bounced back strongly in recent months, rising from barely ten thousand open vacancies during recent lockdowns to over 100 thousand in May. However with many employers reporting recruitment difficulties, there are still well over two unemployed people for each live vacancy – up from around 1.6 unemployed per vacancy before the crisis. So there should still be scope to do much more to help those out of work to take up many of the new jobs being created, and to work with firms to support more inclusive recruitment.

Figure 5: Vacancies – quarterly and single-month estimates

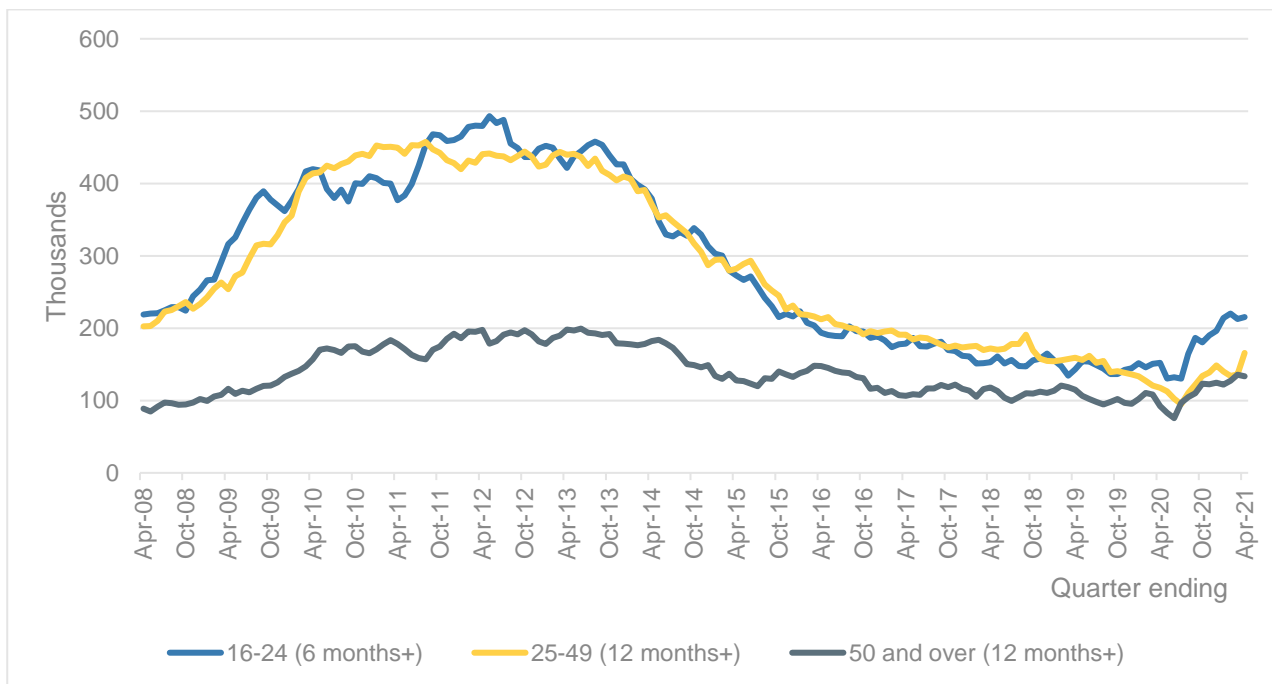
Source: ONS Vacancy Survey

Despite these improvements, long-term unemployment is continuing to rise

However as with recent months, even while the labour market is showing signs of recovery we are seeing 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 is continuing to rise at its fastest since 2010 (up by two fifths in the last year alone) and stands at its highest since autumn 2016. As Figure 6 below shows, these rises are now happening across age groups, (Note that this graph uses LFS levels and so caution needs to be applied, although the general trend of rising long-term unemployment is clear and is unlikely to be changed by any subsequent re-weightings by ONS.)

As we have said previously, long-term unemployment should peak below the levels seen in 2012 but is unlikely to do so for at least another year. Addressing this needs to be a top labour market priority as the recovery gathers pace, particularly given the very high levels of vacancies in the economy and many firms' reported difficulties in filling jobs. The new Restart programme for the long-term unemployed will have a key role to play, but so should the Kickstart scheme – which needs to be re-focused on creating jobs for long-term unemployed young people and extended until the peak has passed.

Figure 6: Long-term unemployment by age

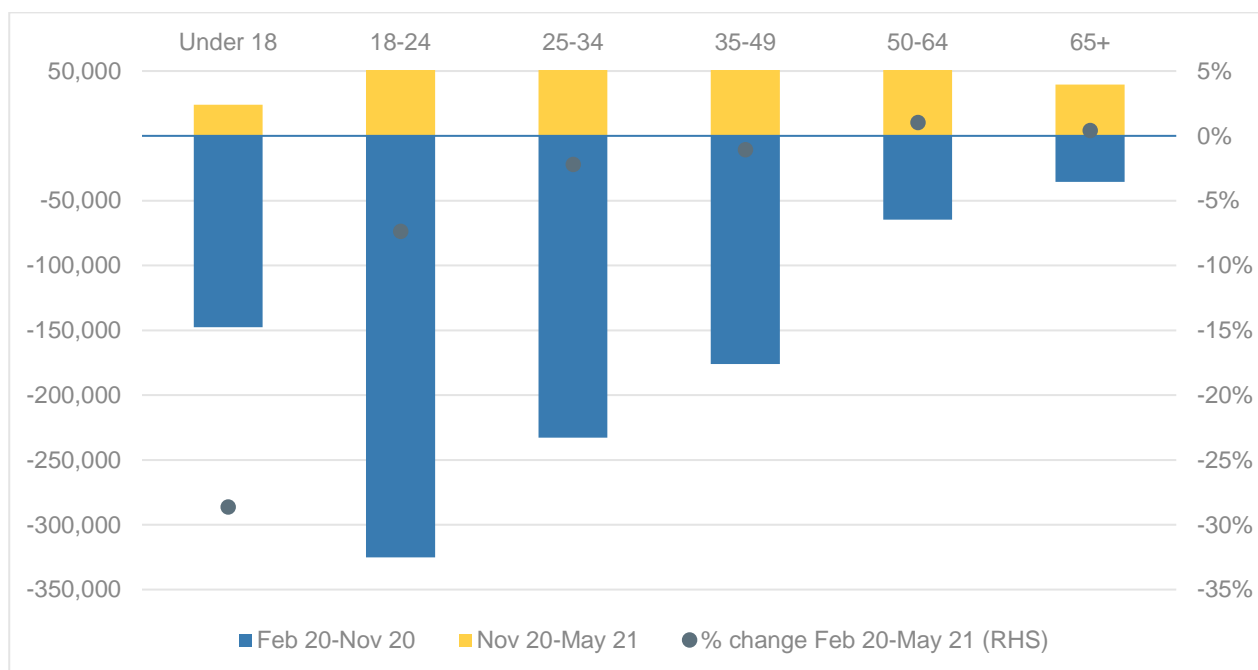


Source: Labour Force Survey. Long-term unemployment is defined as unemployment of more than six months for young people, or more than twelve months for those aged 25 and over.

At last, there are signs that young people are starting to benefit as ‘job rich’ sectors start to reopen

The pandemic’s impacts on the labour market have been characterised by young people seeing by far the largest falls in (PAYE) employment during the crisis and none of the benefits as things have recovered. However for the first time today, there are signs of this starting to reverse – with young people accounting for nearly half of (90 thousand) of the growth in employment in the last month. This has started to reverse the near-half-a-million fall in employment during the crisis, but there is clearly still a long way to go. Figure 7 illustrates this, showing impact by age when employment overall was falling (between February and November) and over the last six months as it has started to rise. Overall, there remain nearly 13% fewer young people in employee jobs compared with about 1.5% fewer people aged 25 and over.

Figure 7: Change in payrolled employees by age: first nine months of the crisis (Feb-Nov 2020) and most recent six months (Nov 2020-May 2021)



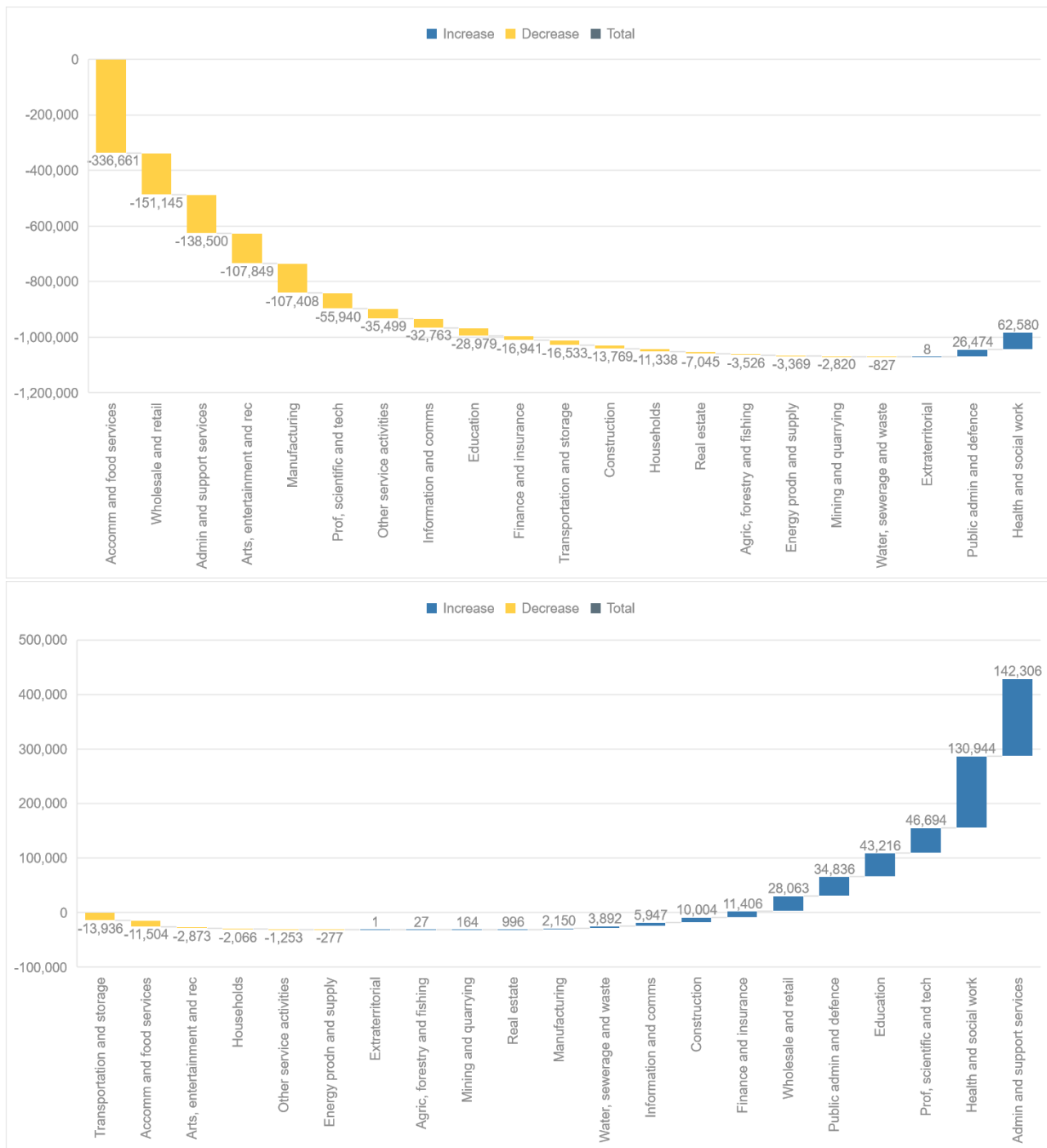
Source: PAYE Real Time Information

Job gains and losses by industry again reflect the impacts of the pandemic, lockdowns and reopening

As with previous months, changes in PAYE employment by industry show that the losses during the first nine months of the crisis (February to November 2020) were driven by shutdown sectors like hospitality, retail, manufacturing and the arts; while the gains since November appear to be driven by pandemic related jobs (this is shown in Figure 8 below). Health and public services stand out, while administrative and support jobs (the largest contributor to jobs growth) includes contracted-out work in call centres, administrative services, and packaging and logistics and so likely reflects both NHS Test and Trace and online retail.

For the most recent month of May however, we are also starting to see tentative signs of recovery in those sectors that were previously shut down – with employment in every sector stable or rising, while accommodation and food services (which encompasses many hospitality jobs) and admin and support services account for about a quarter of the single-month jobs growth each. But again there is a long way still to go in regaining the ground lost in hospitality in particular (where employment is around one sixth below pre-crisis levels).

Figure 8: Changes in payrolled employment by industry – February to November 2020 (top panel) and November 2020 to May 2021 (bottom panel)



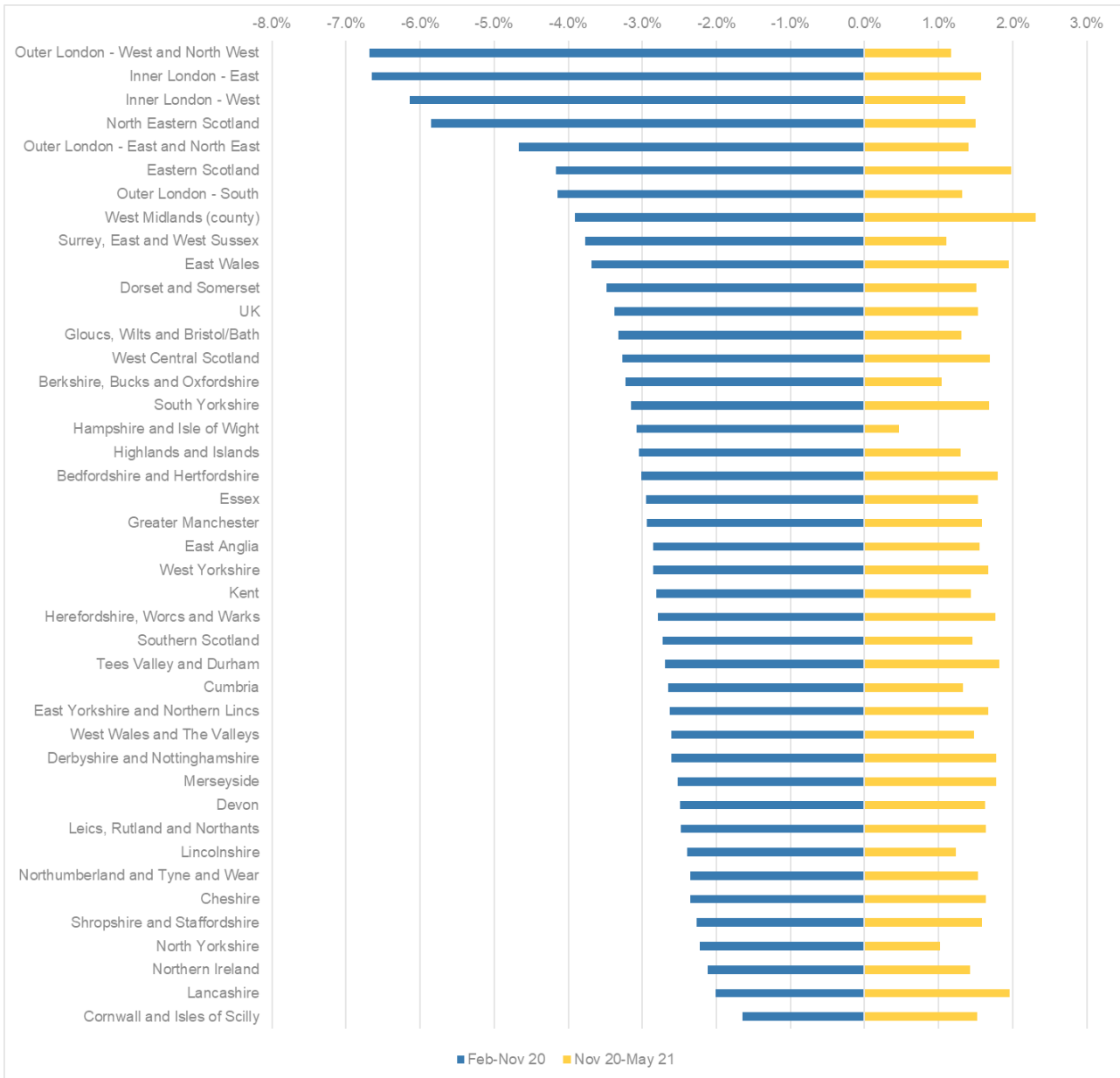
Source: IES analysis of PAYE Real Time Information

The recovery appears to be geographically fairly broad based, but London has a lot of ground to make up

PAYE data for sub-regions (NUTS 2 areas) also tells a similar story to last month, with employment growth spread fairly evenly across the country. This means that employment in London has at least stopped falling, but having been hit twice as hard last year it has a lot of ground to make up. The reasons for this have been set out in previous briefings, but the continued prevalence of the virus means that prospects for a strong recovery in the capital remain uncertain – given the higher volumes of employment in office work, support services, the visitor economy, arts and aviation.

With this relatively broad based recovery, we are now within touching distance of PAYE employment getting back up above pre-crisis levels (i.e. back to its highest levels area) across parts of the North East, North West, South West and in Northern Ireland (as Figure 9 below shows). It should be reiterated though that these data do not include self-employment, which remains well below pre-crisis levels.

Figure 9 Percentage change in payrolled employees by NUTS 2 geographical area, February to November 2020 and November 2020 to May 2021



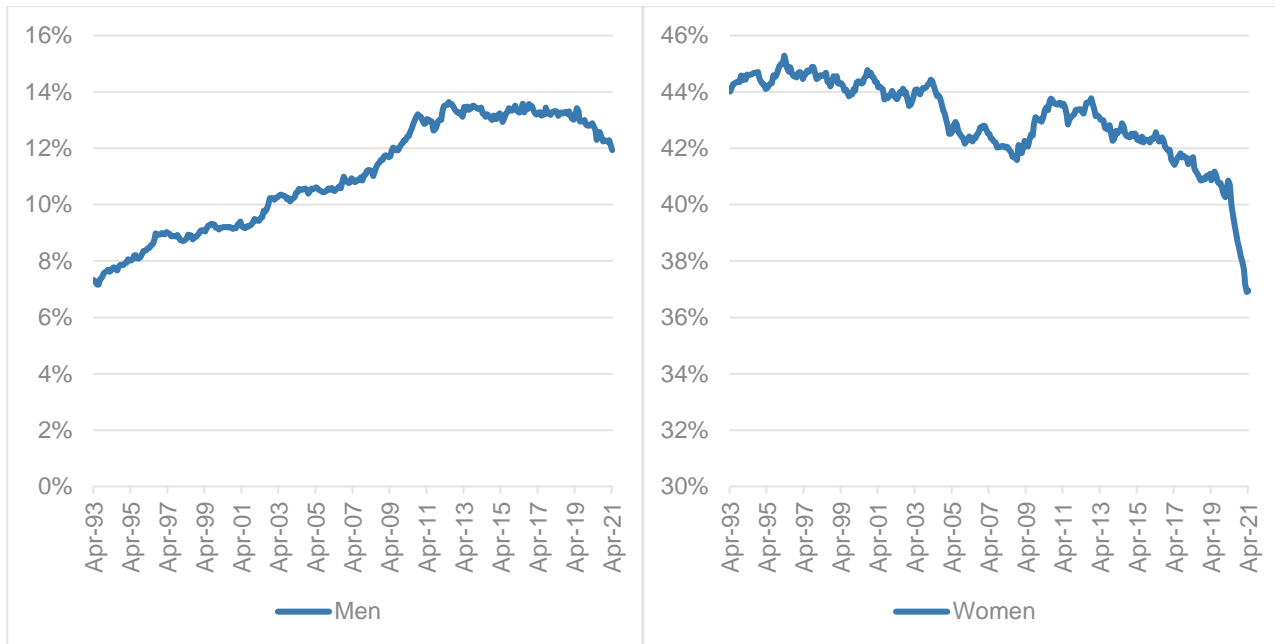
Source: IES analysis of HMRC PAYE data

Employment growth is being driven by full-time work – with part-time work falling at its fastest rate on record

Today’s figures also continue to show a significant shift away from part-time work and towards full-time employment, particularly among women. This data uses LFS levels and so should be treated with caution, but while both part-time and full-time work appear to have fallen by roughly equal amounts for men (each down by around 200 thousand),

there are over 600 thousand **fewer** women in part-time work than before the crisis and nearly 500 thousand **more** full-time workers. This has pushed part-time employment for women to its lowest ever as a share of employment (at 37%) while for men it has dropped back to levels last seen in 2009 (Figure 10 below).

Figure 10: Proportion of those in work who are working part time, by gender

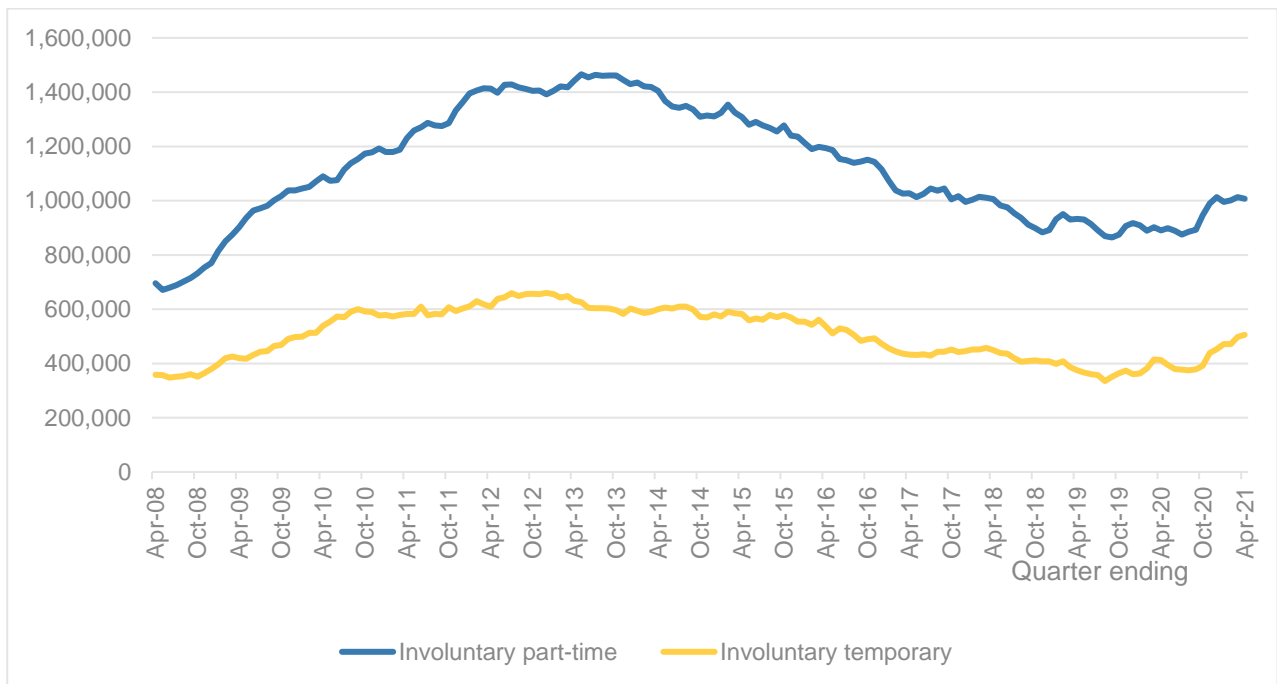


Source: IES analysis of Labour Force Survey

Rising full-time and falling part-time employment could of course be a good sign if it means that more people are getting more of the hours that they want, but the data do not suggest that this is what we are seeing now. In fact, the number who are working part-time because they couldn't find full-time work has risen during the crisis even as part-time employment overall has declined (shown in Figure 11 below). The rise has been greater for men than women, but it has risen for both. Figure 11 also shows that the number of people in temporary work because they couldn't find a permanent job is also rising, to its highest in five years.

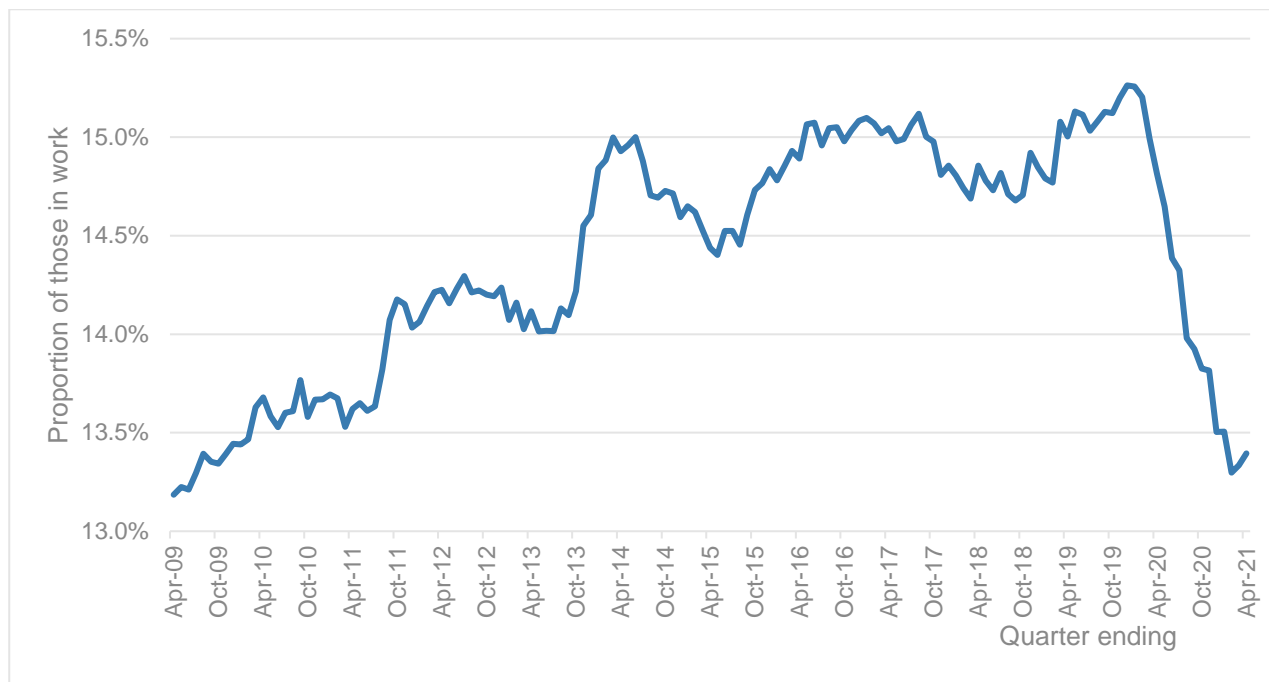
So it appears likely that at least part of the fall in part-time work is being driven by people taking on longer hours through necessity rather than choice – for example because they work in frontline roles like health services, or because they need to make up for lost earnings from a partner. However our [analysis for the Timewise Foundation](#), published last week, suggests that the fall is also being driven by people leaving employment altogether, with part-time workers more likely to be in low paid and insecure work, more likely to lose work and income during lockdowns and less likely to have benefited as restrictions have eased. 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 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

As noted in previous briefings and earlier in this note, the crisis has also seen a clear shift away from self-employment and towards employee status – with the share of those in work who are self-employed now standing at 13.4%. This has now been broadly unchanged for the last three months of data, so it may signal that the large falls in self-employment may have stopped, although there is not much sign yet that it is starting to recover (Figure 12).

Figure 12: Share of those in work who are self-employed

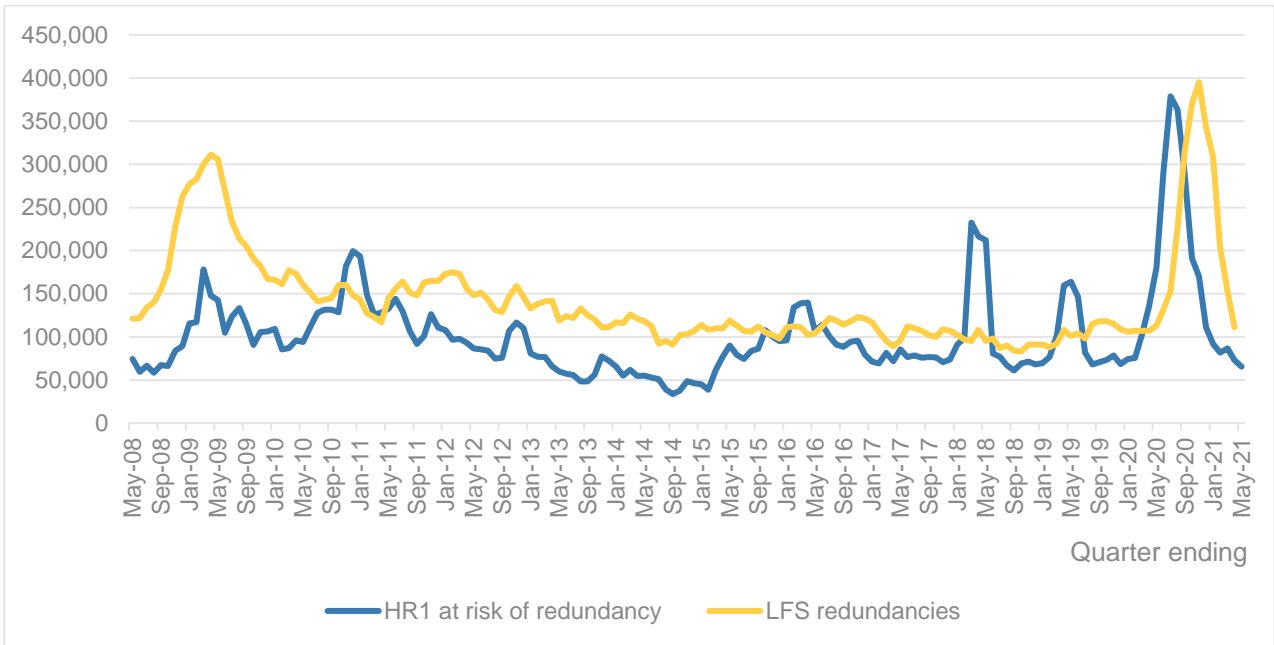
Source: Labour Force Survey

Redundancies are now returning to pre-crisis levels

Finally, today's data confirms that redundancies are on track to return to pre-crisis levels. 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 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.

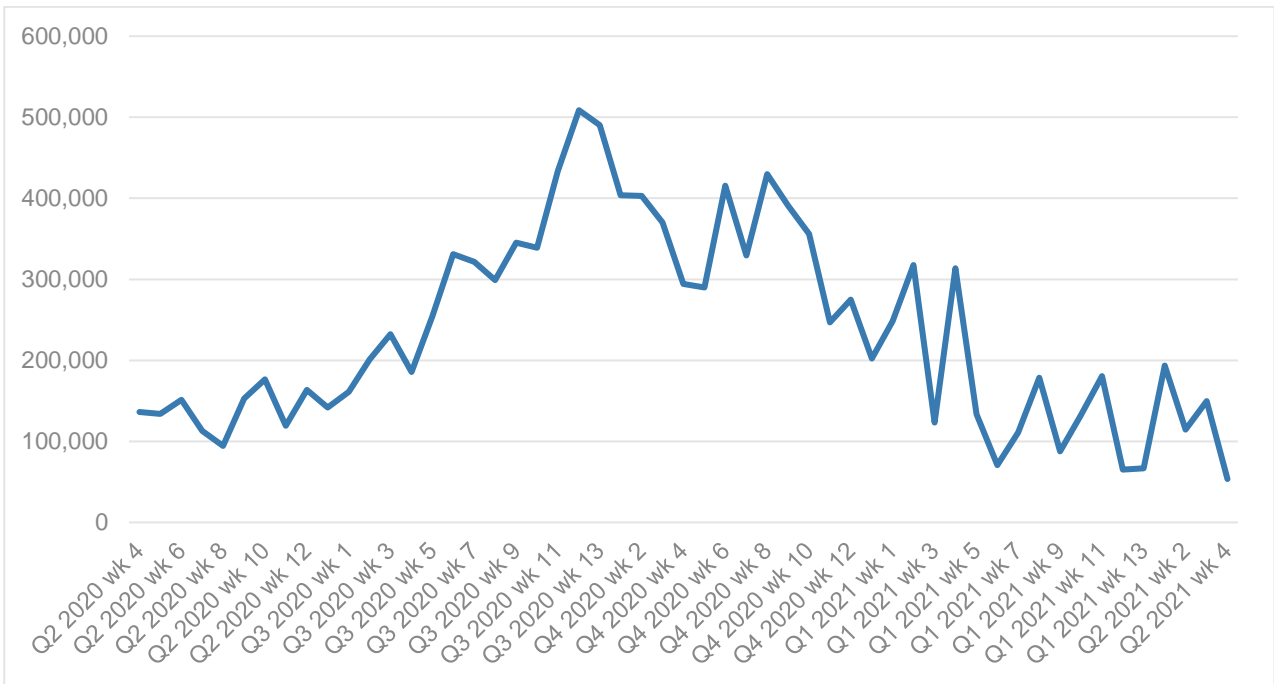
The most recent weekly data, in Figure 14 below, show even more clearly that redundancies falling back to pre-crisis levels during March – with on average 130 thousand people each week reporting that they were laid off in the previous three months. There are no signs in either the HR1 or LFS data that redundancies are going to pick up in the near future.

Figure 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

Figure 14: Whether made redundant in previous three months – weekly responses, April 2020 to April 2021



Source: Weekly Labour Force Survey X07

Conclusion

Today's data continues a run of very positive labour market indicators over recent months, with strong growth in vacancies and PAYE employment, a small fall in the unemployment rate and signs of recovery across age groups, industries and areas. The LFS data remains a bit more subdued than might have been expected, which may just reflect timing differences and sampling, but may also point to some definitional differences with the PAYE sources, particularly around treatment of self-employment. Economic inactivity also remains very high, driven particularly by students.

Nonetheless as with last month, there are clear warning signs that the longer-term 'scars' of the crisis will be felt in rising long-term unemployment, and that many people who are staying in or finding new work may not be getting the hours and security that they need. So looking ahead, with Jobcentre Plus getting back to normal running and the £7 billion investment in new employment support starting to come on stream, we need to:

- Mobilise support for those out of work as quickly as possible, particularly through Jobcentre Plus and the Restart programme;
- Target support much better at those further from work and longer-term unemployed, including by reforming and extending Kickstart to focus on creating transitional jobs for long-term unemployed young people; and
- We work much better with employers – across services – to help advertise jobs with the shift patterns, entry requirements, skills support, hours and pay that will enable those who are out of work and want to work to take them up.

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