

# Labour Market Statistics, March 2021

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

## Summary

Today's figures, coming on the anniversary of the first lockdown, give us some welcome news that the labour market may be starting to recover. PAYE employment has grown for three months in a row, regaining just over one fifth of the jobs lost in the crisis, and the unemployment rate may even have peaked (for now) at around 5%. The Job Retention Scheme, and us all adapting better to this crisis, appears to have stopped any further deterioration in employment during the third lockdown. The main risk now to future unemployment is the wind-down of the furlough scheme in October, and if we can stay on the roadmap out of lockdown then even this is unlikely to push unemployment significantly higher.

However if that is the good news – and it is good news – the bad news is that the improvement in the labour market is being driven by job protection rather than job creation. New job starts remain very weak – stuck at one sixth below pre-crisis levels – while job exits are even lower (a quarter below pre-crisis).

This is particularly bad news for young people, who always lose out when hiring slows. Young people now account for nearly two thirds of the fall in employment, while long-term youth unemployment appears to be rising strongly (up by two fifths in the last year). Payrolled employment for people aged over 25, by contrast, is only around 1% below pre-crisis levels (although this measure excludes self-employment, which has fallen to its lowest in over a decade and appears to be affecting older workers in particular).

There are worrying signs too today that insecure work and 'second choice jobs' continue to rise, with the number of people in temporary work who want a permanent job up by

around a quarter in the last year. While we have clearly avoided an unemployment catastrophe, the risks of low pay, job insecurity and under-employment appear to be growing stronger each month.

Data on employment by sectors shows a similar picture to recent months, with jobs growth being driven by administrative and support services (likely including Test and Trace call centres and by contracted-out packaging and distribution) and in health.

Today's briefing includes new analysis by sub-region, which lays bare the scale of the impact on London in particular, as well as on Aberdeenshire. These areas have seen by far the biggest falls in employment and the weakest recoveries. By contrast, more rural areas and those with higher shares of public sector employment have been relatively better insulated during the crisis.

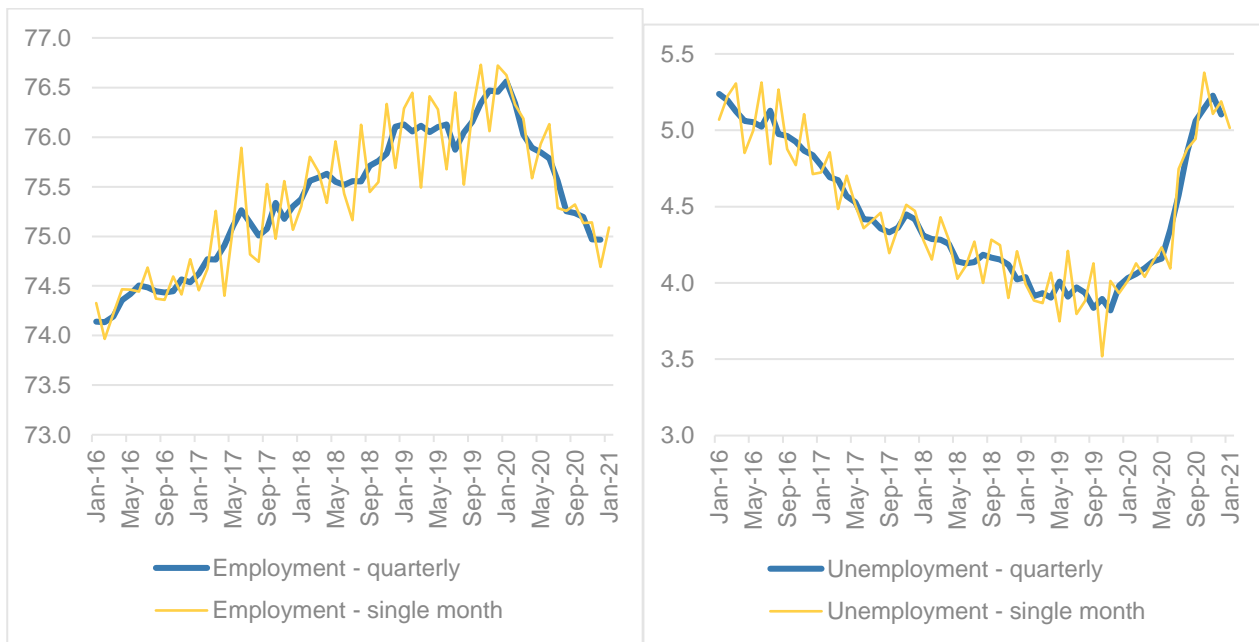
Finally, today has seen the release of new analysis of PAYE employment by nationality. This shows a far smaller impact on employment of non-UK nationals than some commentators had suggested, with their accounting for just over one fifth of the total fall in PAYE employment. This suggests that the measurement issues identified by the ONS in the LFS may be driven more by response rates than by emigration (this [article](#) explains those issues in more detail). The ONS have said today that they intend to reweight the LFS over the summer so as to correct for these issues, which should in turn lead to the health warning on using LFS levels being removed.

In the meantime, we have continued to use PAYE data in preference to LFS figures where both sets are available (so 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, in line with ONS guidance. Where levels are used, we have made this clear in the text.

## **There are clear signs now that the labour market may have turned the corner**

Both the LFS and PAYE data tell a consistent story today that employment may now be starting to recover. On the LFS data, the employment rate is down slightly on the quarter to 75.0% (compared with 75.2% the previous quarter), but the single-month estimates suggest that the fall in employment has levelled off (shown in the left panel of Figure 1 below). The unemployment rate now stands at 5.0% – up by 0.1 percentage point on the previous quarter but slightly below the figure reported last month. Here the single-month estimates give an even clearer picture that unemployment may be falling back (the yellow line in the right-hand panel below).

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



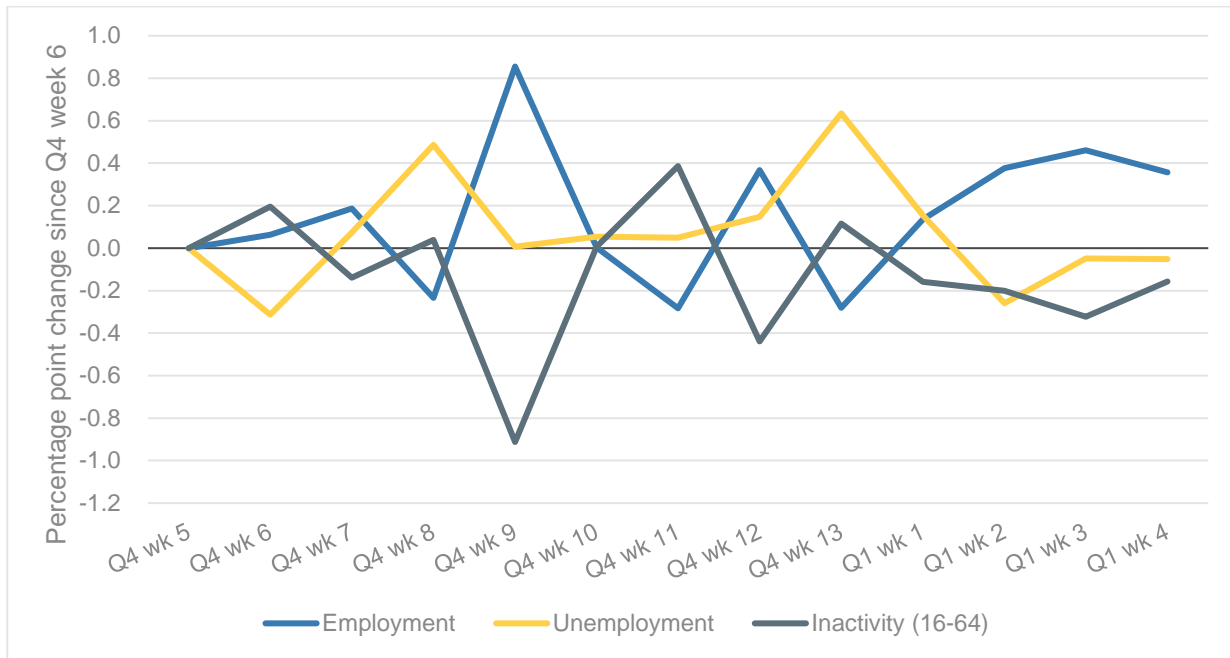
Source: Labour Force Survey

More detailed analysis of weekly data in the LFS, shown in Figure 2 below, suggests that *between* November and January all three main indicators – employment, unemployment and economic inactivity (i.e. those not looking and/ or not available for work) were broadly flat. The figures for the most recent four weeks (January) are even more positive still.

With the economy likely to improve now over the coming months, we can expect to see the employment figures begin to rise and unemployment level off or even start to tick down (although this will in part depend on whether more or those who are ‘economically inactive’ start looking for work).

If we can stay on the roadmap out of lockdown, then the main risk to unemployment will be the unwinding of the furlough scheme in October – although even this is likely to have only a small impact if the economy can continue to improve.

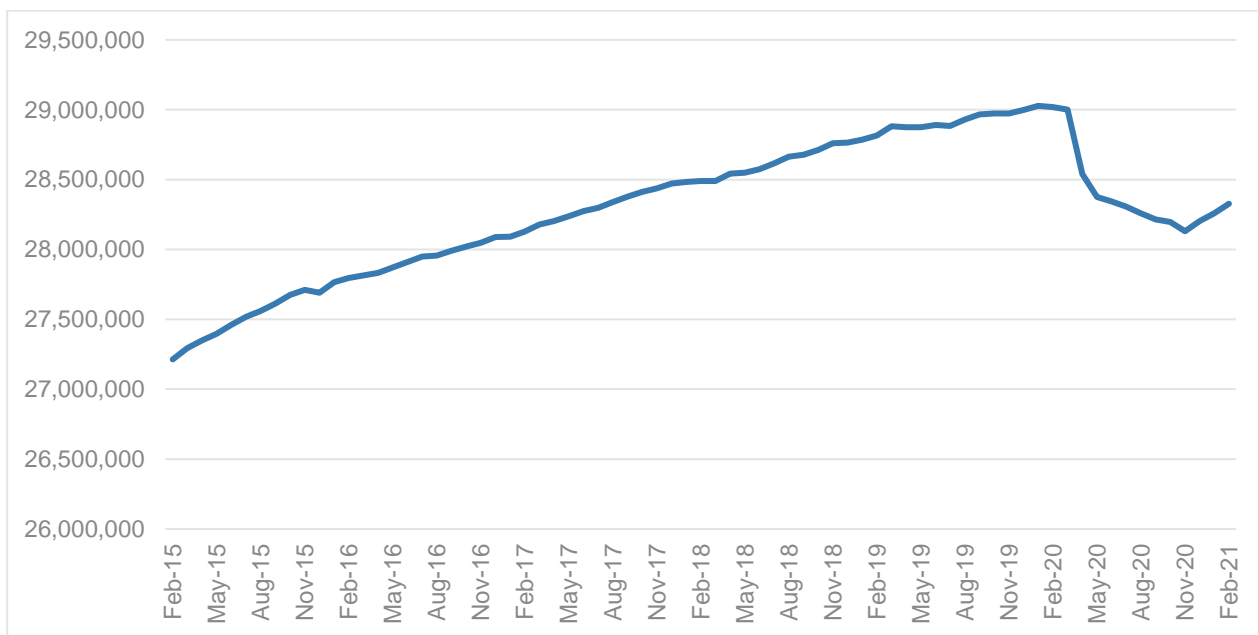
**Figure 2: Change in employment, unemployment and economic inactivity over three months from start of November (Q4 week 5) to end of January (Q1 week 4)**



Source: IES analysis of weekly Labour Force Survey X07

The PAYE data tells a similar story, with now three months of steady growth in employee numbers (Figure 3). These have grown by 197 thousand between November and February, clawing back just over one fifth (22%) of the 890 thousand fall reported in the first nine months of the crisis.

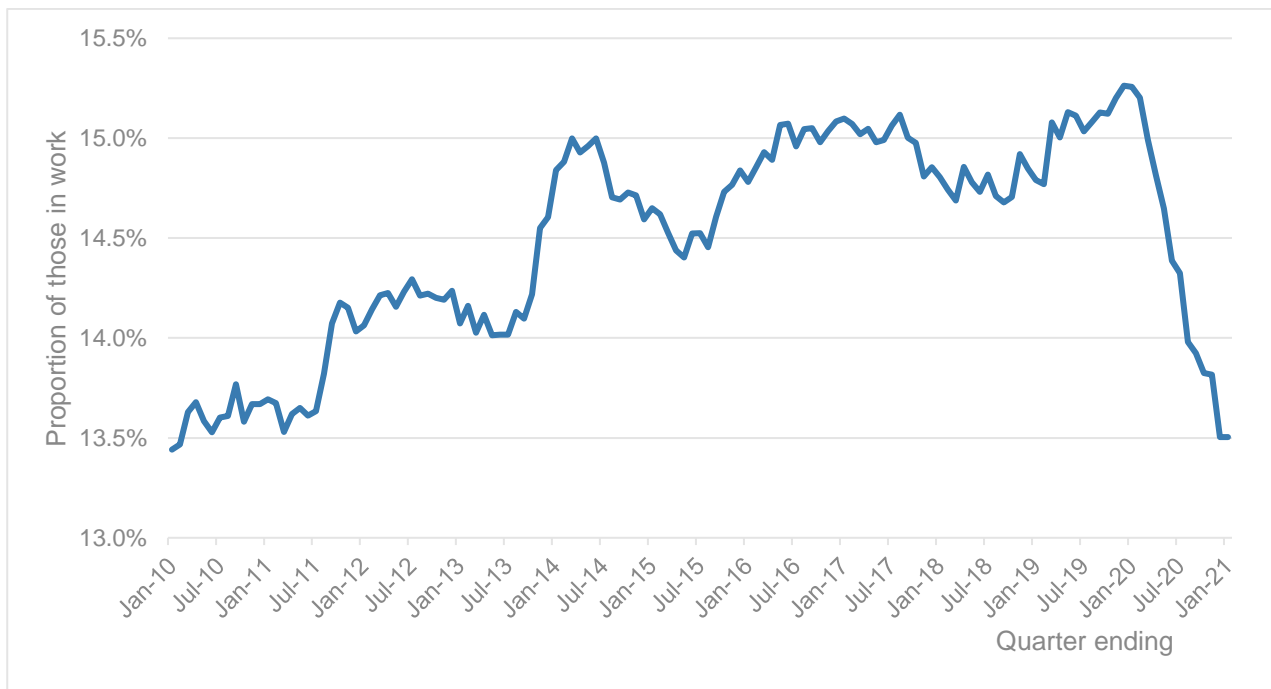
**Figure 3: Total number of payrolled employees**



Source: HMRC Pay As You Earn data

It is important to note that the PAYE data is an employee count and so excludes the self-employed. The LFS continues to suggest that there have been significant falls in self-employment during this crisis, set out in Figure 4 below. The proportion of workers who are self-employed now at its lowest in over a decade. This means that self-employment has fallen by at least half a million over the last year (although LFS data on labour market flows published last month suggests that around half of the flow out of self-employment is accounted for by people becoming employees rather than leaving work).

**Figure 4 Share of those in work who are self-employed**



Source: Labour Force Survey

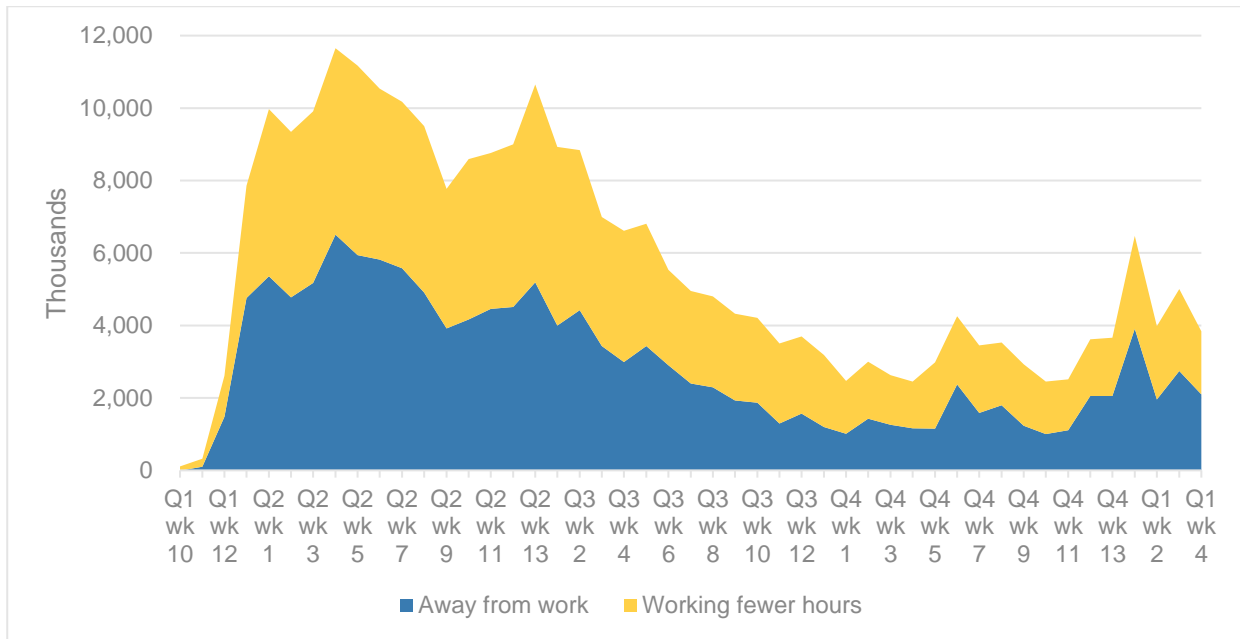
## The furlough scheme and short-hours working has continued to cushion the blow from lockdowns

The broadly positive picture on employment and unemployment continues to be largely explained by the success of the Job Retention Scheme and of labour market flexibility more generally – with people being kept on in work during lockdowns and periods of weak demand rather than let go. We see this most clearly in the LFS data on the number of extra people<sup>1</sup> in work but ‘away’ from their job or working reduced hours due to economic reasons. This is shown in Figure 5, with the numbers rising from an average of 3.0 million a week in December to 4.8 million in January, and a particular spike at the start of the

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

month when the third lockdown was announced. Those working fewer hours for ‘other’ reasons also rose in January, by on average half a million a week (not included in this graph). This may well include many of those who worked fewer hours in January due to school closures. The picture below is also broadly consistent with [HMRC data](#) on CJRS take-up, which reports 4.7 million claims in January (3.3 million for full furlough and 1.4 million for partial hours).

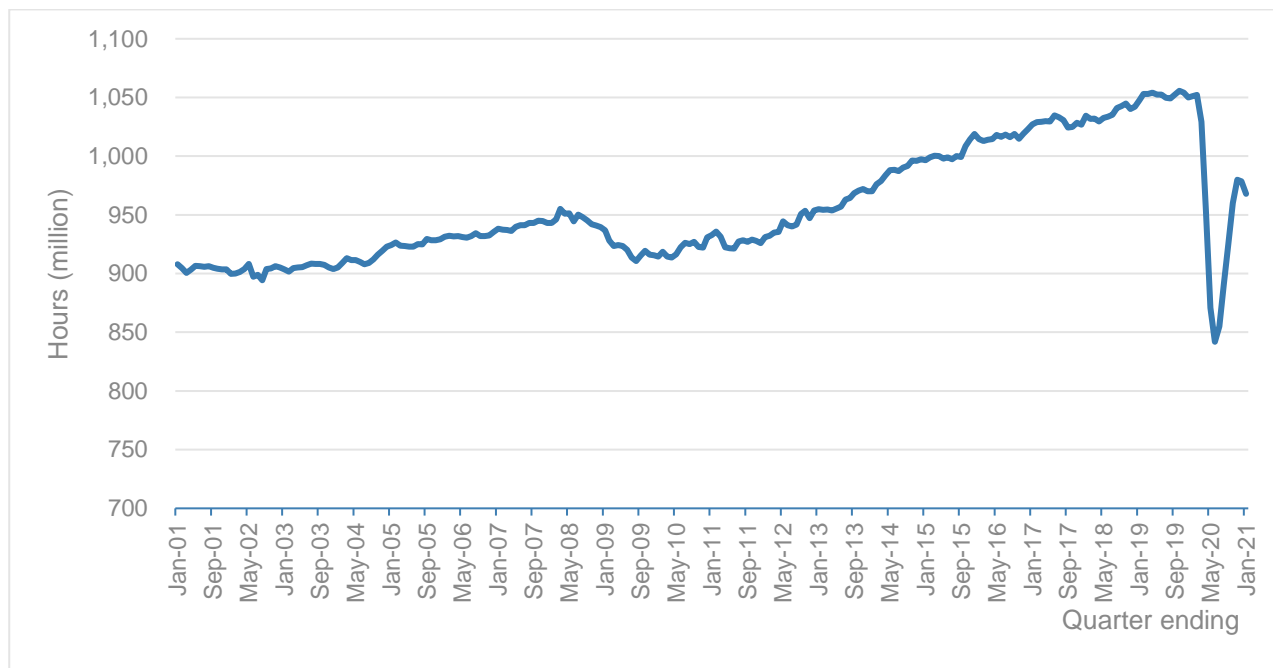
**Figure 5: ‘Excess’ number of people not working normally by week, Mar 2020 to Mar 2021**



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

The impact of the January lockdown is also visible in the data for the total number of hours worked in the economy. This is shown in Figure 6 below, which shows the depth of the initial crisis (when hours fell by one fifth overall), a fall back in hours in January with lockdown, but also just how far we still need to go in order to return to pre-crisis levels – with total hours worked still 8% below where they were on the eve of the crisis.

Note that both Figure 5 and Figure 6 use the LFS to report on levels of employment and hours rather than rates, and so should be treated with caution.

**Figure 6: Total hours worked**

Source: Labour Force Survey

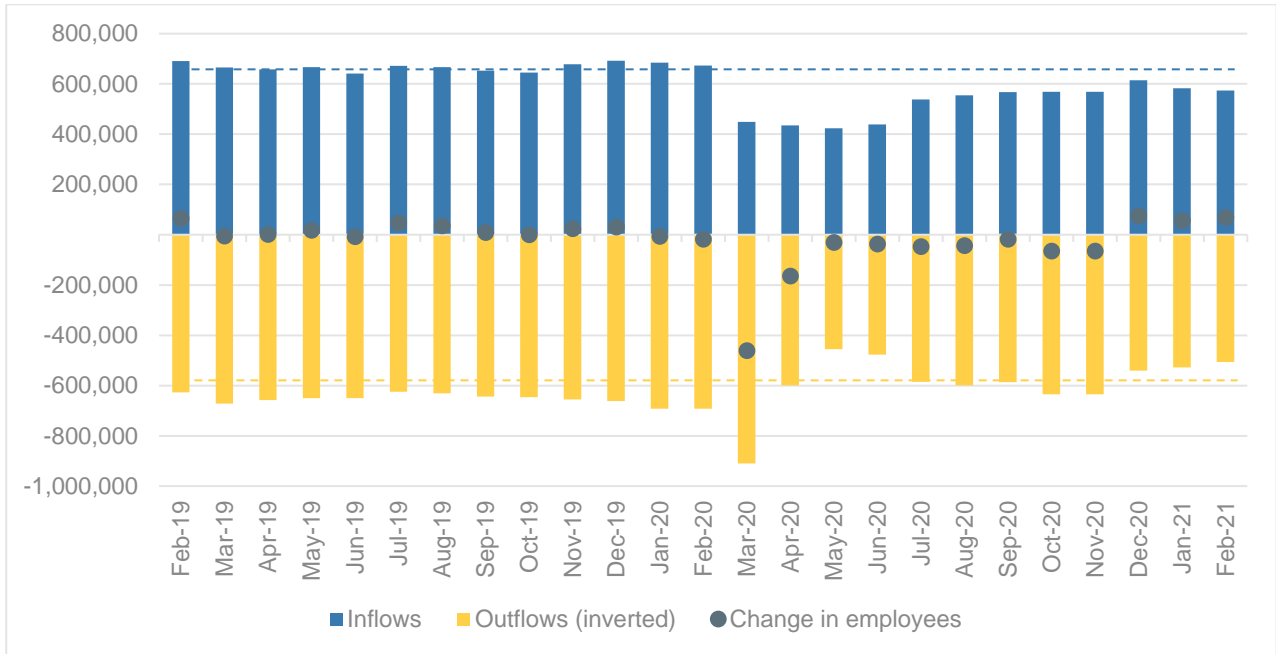
## But there is bad news on new job starts – which are one sixth below where they were a year ago

However if the good news is that the furlough scheme and short hours working has prevented further falls in employment, the bad news today is that new hiring remains incredibly weak. In other words, the recent employment recovery is being entirely driven by fewer people leaving jobs rather than more people starting new ones.

The PAYE data on flows into and out of employee work set this out clearly, in Figure 7 below. There were 574 thousand new job starts in February 2021, compared with 684 thousand a year previously – a fall of one sixth (16%). Job exits however fell by even more over the same period – from 692 thousand to 506 thousand (27%). Frustratingly, large revisions to the figure reported last month for January (revised down by 84 thousand) means that we now know that the sharp recovery in hiring that we presented a month ago did not in fact take place.

Ultimately, the path of the labour market recovery will be determined by how soon hiring returns to pre-crisis levels and how far it then gets above those levels. The recent slowdown in hiring is not surprising given the full national lockdown, but as the graph below shows hiring has not got back to pre-crisis levels at any point over the last year – and many of the factors that have held it back (spare capacity, economic uncertainty, struggling firms) may well continue to weigh on new jobs growth in the year ahead.

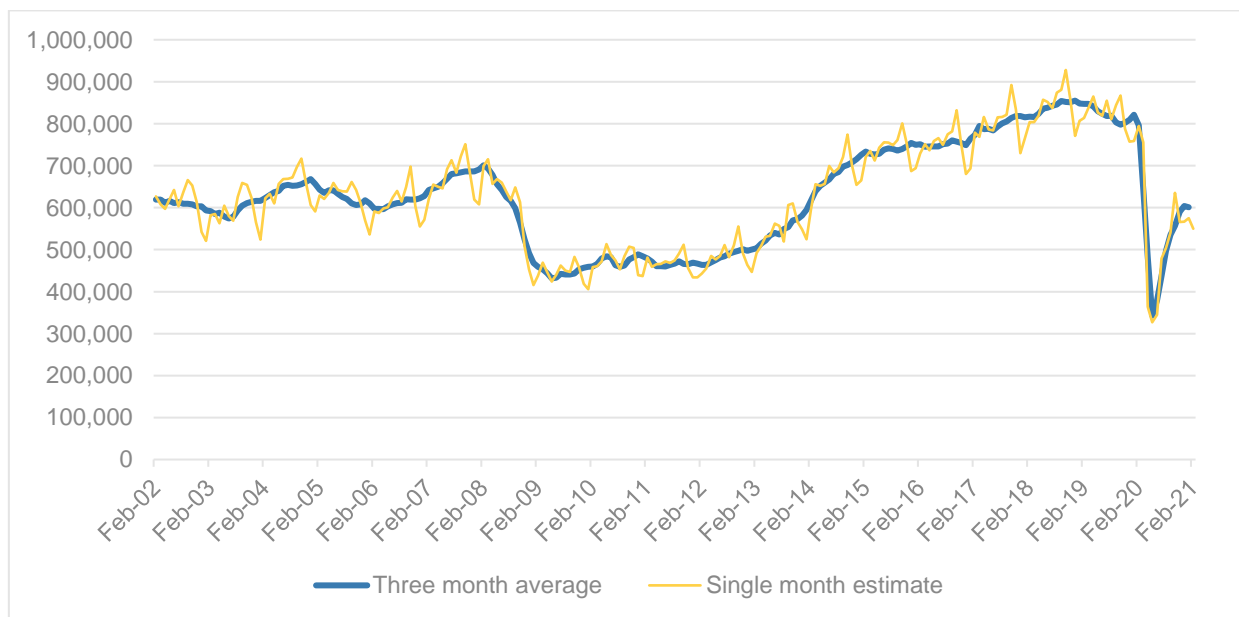
**Figure 7: Flows into and out of PAYE payrolled employment, two years to January 2021**



Source: HMRC PAYE Real Time Information

Today’s figures from the Vacancy Survey also do not give us too much cause for hope that there will be a bounce-back in hiring in the immediate term, with the quarterly average stuck at 600 thousand and the single month estimate for February falling back to 550 thousand. However, more timely data on [online job adverts](#) gathered by Adzuna does shows signs of a recovery through late February and early March – with the latest data (for 12 March) suggesting vacancies had reached 93% of pre-crisis levels.

**Figure 8: Vacancies – quarterly and single-month estimates**



Source: ONS Vacancy Survey

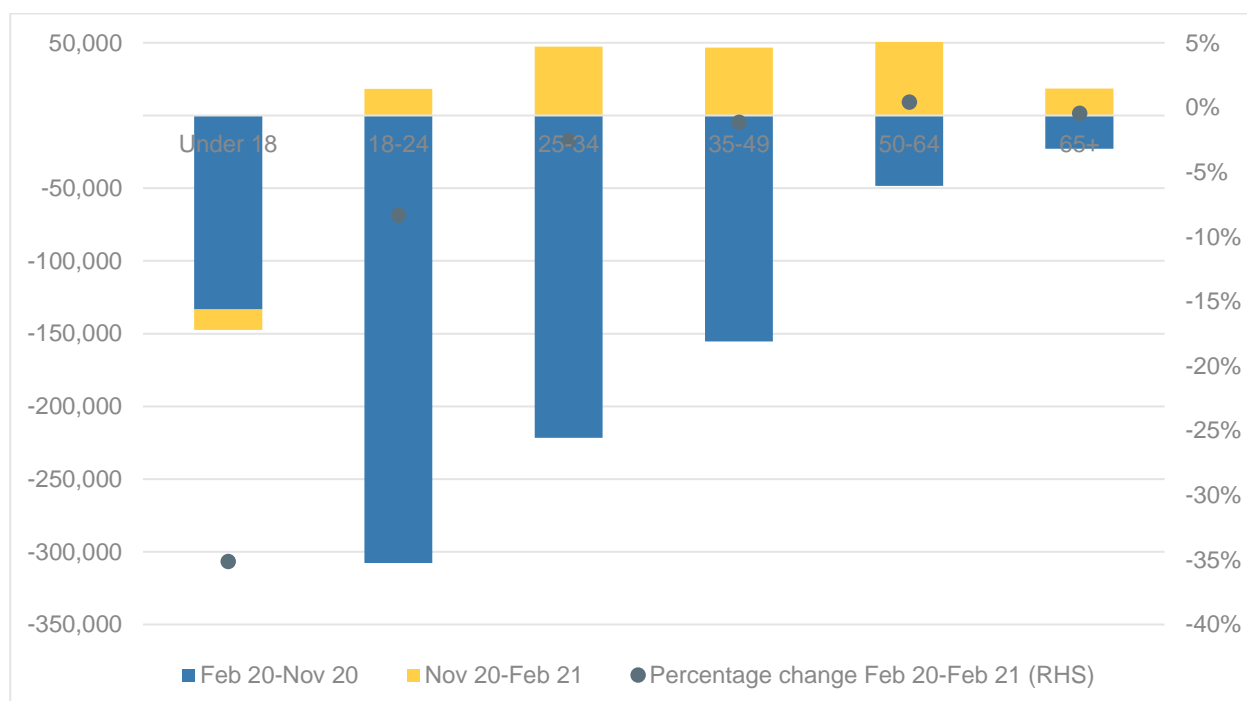


## Young people have been hit hard – and these impacts appear to be getting worse

The fact that jobs growth is being driven by job protection rather than job creation has been particularly bad news for young people, who always lose out when hiring slows. Young people now account for nearly two thirds (63%) of the total fall in PAYE employment over the last year, and they have accounted for virtually none of the growth in the most recent three months (four thousand of the 197 thousand rise). Figure 9 below illustrates this, showing the changes separately for the most recent three months (yellow) and the prior nine months (blue) to give a clearer indication of recent trends. The percentage changes by age group are shown as grey dots (right hand scale).

Overall, youth payrolled employment has fallen by 11.2% in the last year, while it is down by 1.0% for those aged over 25. It is important to reiterate, however, that the PAYE data does not include changes in self-employment, which we know has fallen by at least half a million and where older people are significantly over-represented. The LFS estimates do suggest that overall falls in employment for older people in particular may be higher than the PAYE data is showing – with the employment rate for those aged 50 or over falling by 1.2 percentage points (or 2.9%) over the last year.

**Figure 9: Change in payrolled employees by age: first nine months of the crisis (Feb-Nov 2020) and most recent quarter (Nov 2020-Feb 2021)**

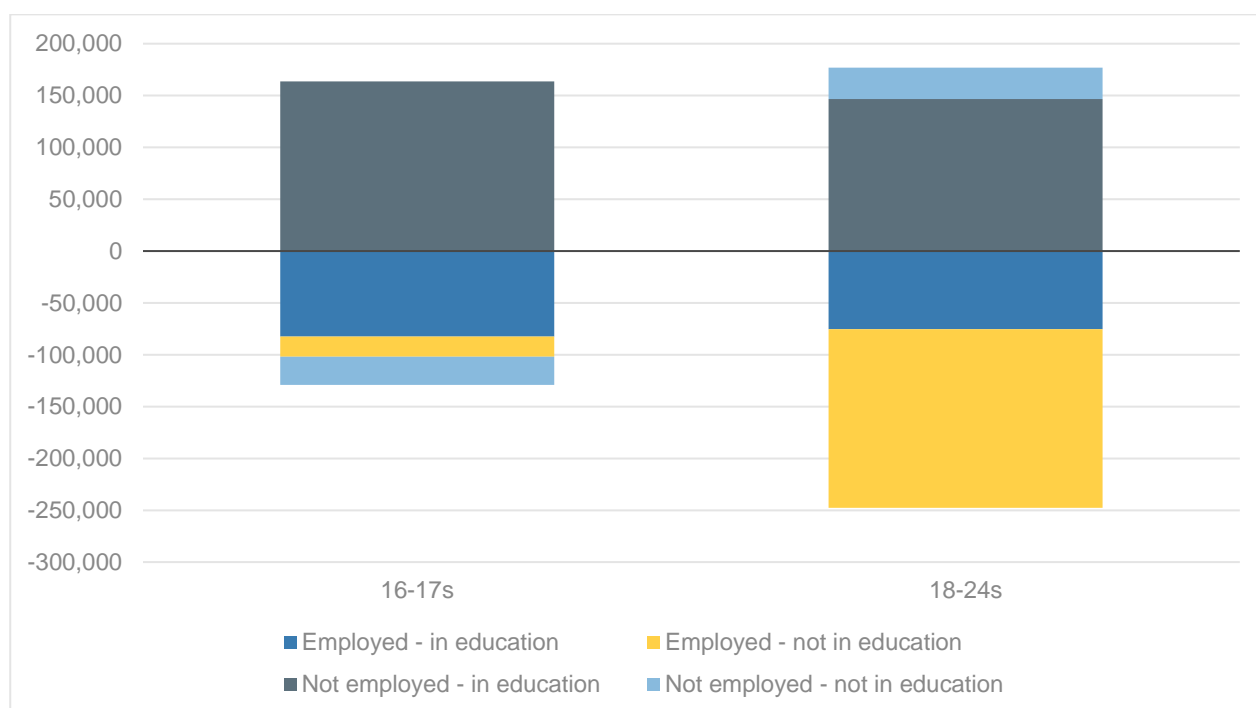


Source: PAYE Real Time Information

LFS data on youth participation in full-time education or employment suggests that for the most part, these large falls in employment for young people have been off-set by equally large rises in education (Figure 10). The overall share of young people in full-time

education has increased from 43% to 46% of the population in the last year – the highest figure on record. The graph below shows changes in levels from the LFS and so should be treated with caution, but it does suggest that fall in employment has been nearly offset by rising participation for 18-24s, and more than offset for 16-17s. However [our analysis last month](#) for Youth Futures Foundation and Blagrave Trust suggests that underneath these headlines there is significant variation by age, gender, ethnicity and place – with Black and Asian young people in particular, and those at transition points between education and work, losing out significantly.

**Figure 10: Change in employment and education participation among young people, Dec-Feb 2020 to Nov 2020-Jan 2021**



Source: Labour Force Survey

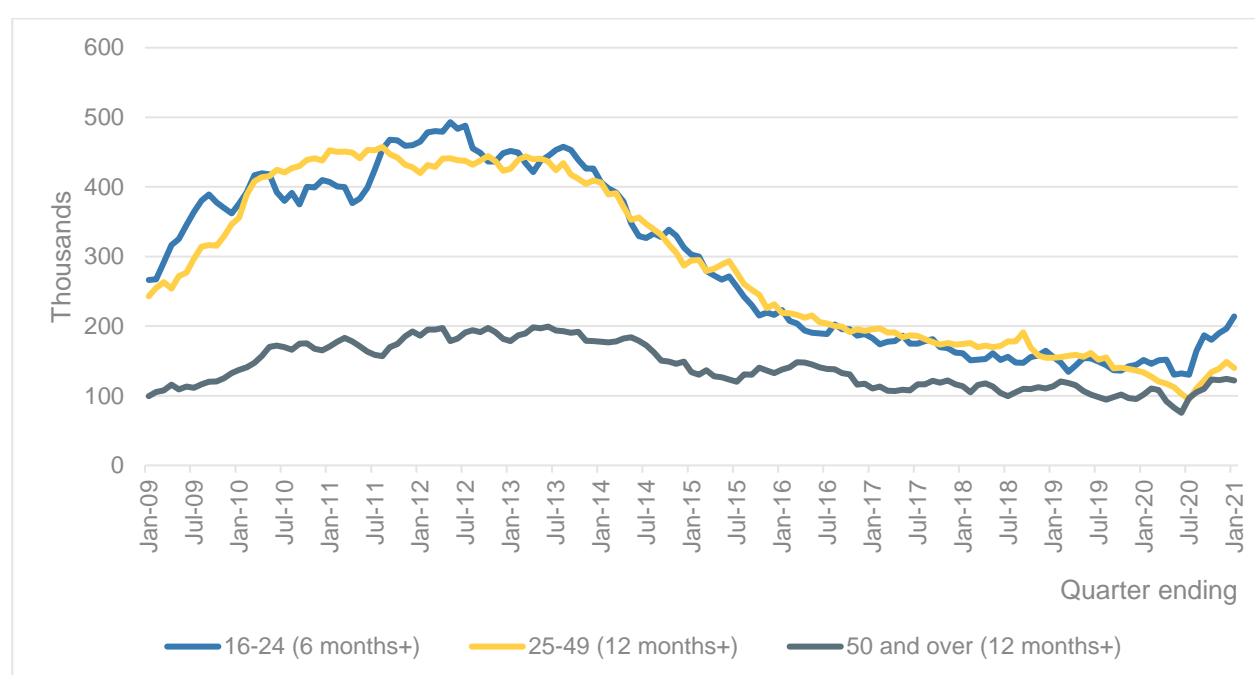
## Weak hiring is now more clearly feeding through into long-term unemployment – especially for young people

This general story of weak hiring is also now more clearly feeding through into the figures for long-term unemployment. We define this as more than twelve months unemployed for those aged over 25, and more than six months for those aged 16-24, and again this uses LFS levels and so caution needs to be applied. Nonetheless, the general trend of rising long-term unemployment is clear (Figure 11) and is unlikely to be changed by subsequent re-weightings.

These increases are most stark for young people, with long-term unemployment up by two fifths in the last year alone (with exactly the same percentage rise even if a twelve months plus definition is used).

We anticipate that long-term unemployment will continue to rise strongly over the next year and will likely peak at more than double its pre-crisis levels in early-mid 2022. The government's Restart programme, alongside Kickstart jobs for young people, should be well placed to begin to address this from the second half of this year – however they will both take time to build (with demand for Restart likely to outstrip supply until spring next year). In addition, Kickstart is not restricted to the long-term unemployed and is due to end in December. More is likely going to be needed therefore – in the next few months for everyone, and next year for young people – to stem this rising tide.

**Figure 11: 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.

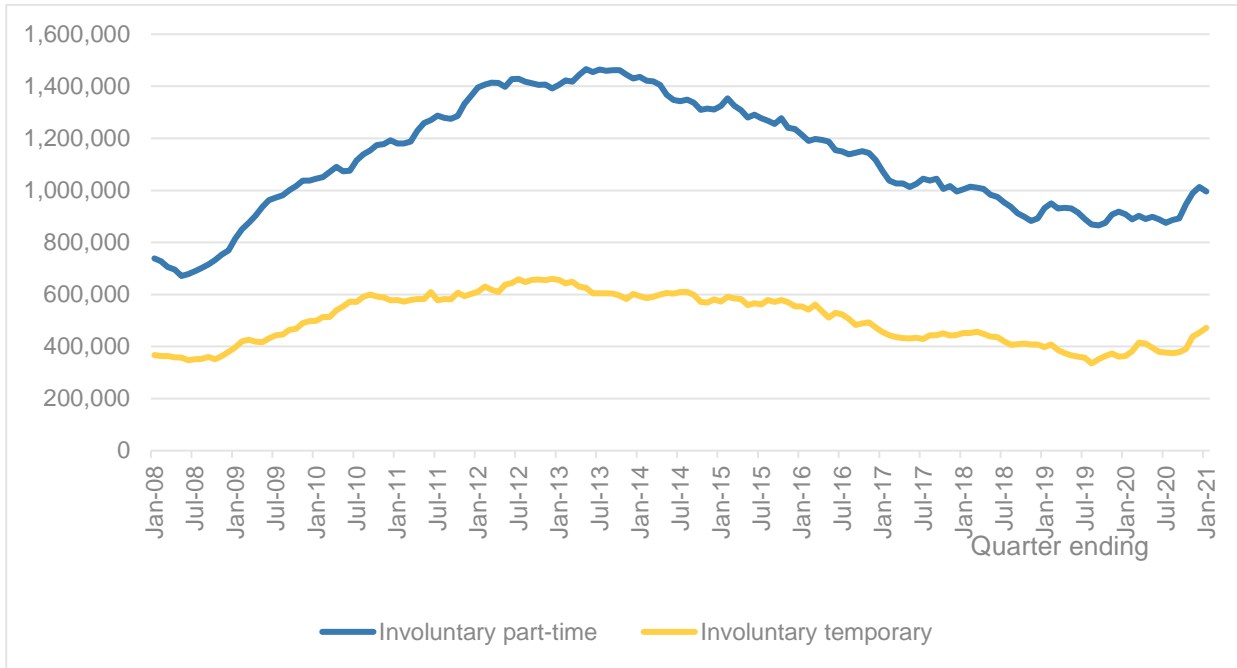
## ‘Second choice’ jobs and temporary employment are both on the rise

Also of some concern today is a continued – if so far small – rise in temporary employment, which now stands at 5.6% of those in work (the highest figure since 2018). As with recent months, this is being driven in particular by a growth in those in temporary jobs because they cannot find permanent work, which is up by around a quarter (24%) on pre-crisis levels. Those in part-time work because they cannot find a full-time job has also risen in the last year, although by a smaller amount (12%) and may have levelled off in recent months. These data are shown in Figure 12 below. Note again that these report on changes in LFS levels and so should be read with caution.

As we have said in previous monthly briefings, the risks of increased job insecurity and under-employment are rising even as the risks of mass unemployment recede. In our view, public policy needs to be able to respond to these growing risks, many of which

were not dealt with at all well in the aftermath of the last crisis. Our [Laid Low report](#), published in January, sets out in more detail how these issues could be addressed in future, by better engaging and supporting employers, working to improve management and HR practices, providing more targeted support to low paid workers, and improving how we regulate the labour market and enforce the law.

**Figure 12: 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

## The jobs crisis was driven by shutdown sectors – the recovery appears to reflect pandemic-related growth

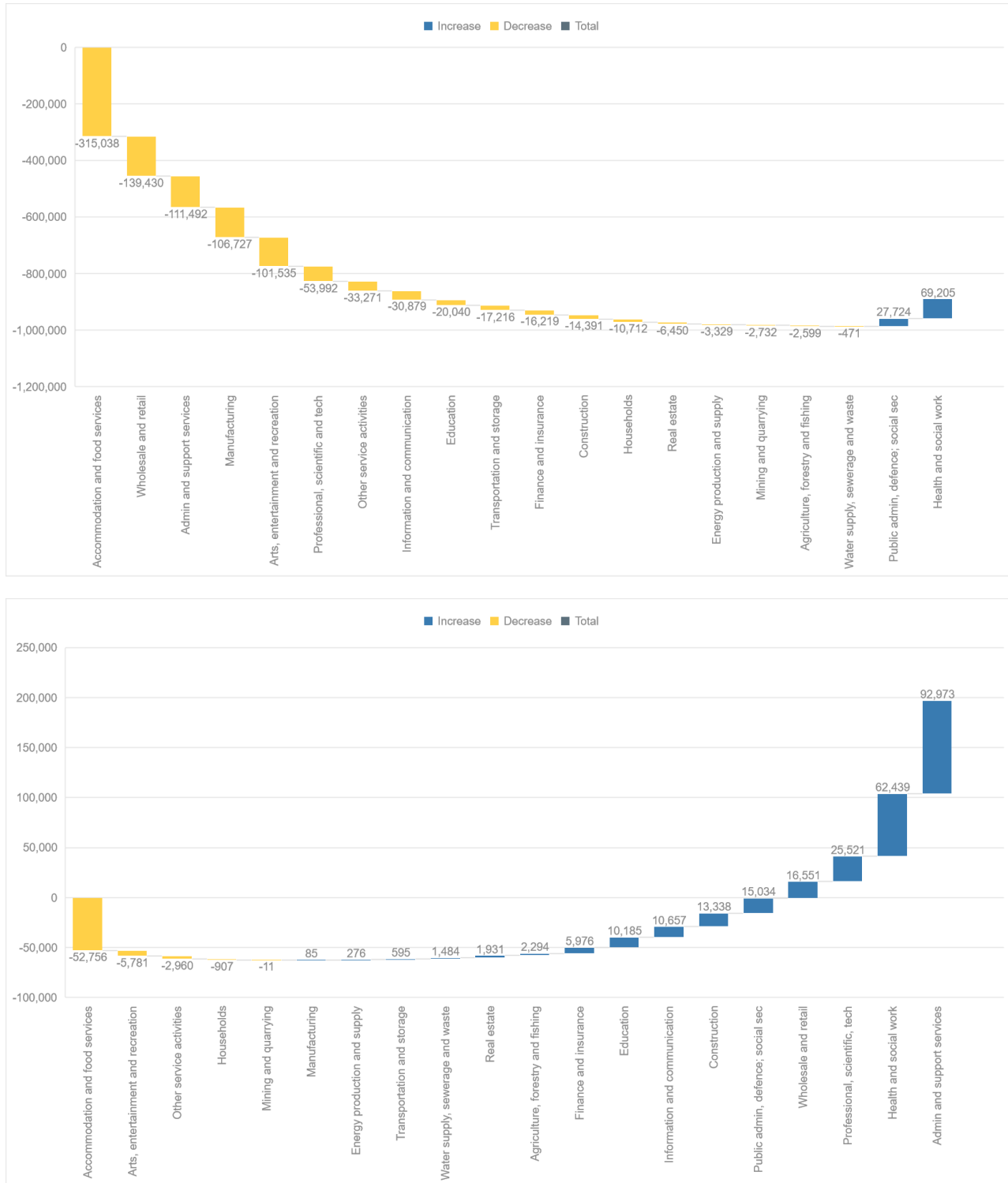
Figure 13 below shows changes in PAYE employment by industry over the last year. The top panel shows changes for the first nine months of the crisis (February to November 2020, when employment was falling), while the bottom panel shows the most recent quarter (November 2020 to February 2021, when employment grew).

This shows clearly how employment falls have been driven by shutdown sectors, even with the protection provided by the furlough scheme. Accommodation and food services and the retail sector combined account for just over half (51%) of the fall in the first nine months of the crisis; with accommodation etc and arts and recreation seeing employment fall by around one sixth overall (15% and 17% respectively). The only employment growth was in health and in public administration.

More recently, accommodation etc has continued to shrink but we have seen growth across nearly all other industries – driven by administrative and support services, health and the public sector. The admin and support sector includes contracted-out work in call

centres, administrative services, and packaging and logistics, so may well reflect a combination of NHS Test and Trace call centres and job growth related to online sales.

**Figure 13: Changes in payrolled employment by industry – between February 2020 and February 2021 (top panel) and most recent three months (Nov 20-Feb 21) (bottom panel)**



Source: IES analysis of PAYE Real Time Information

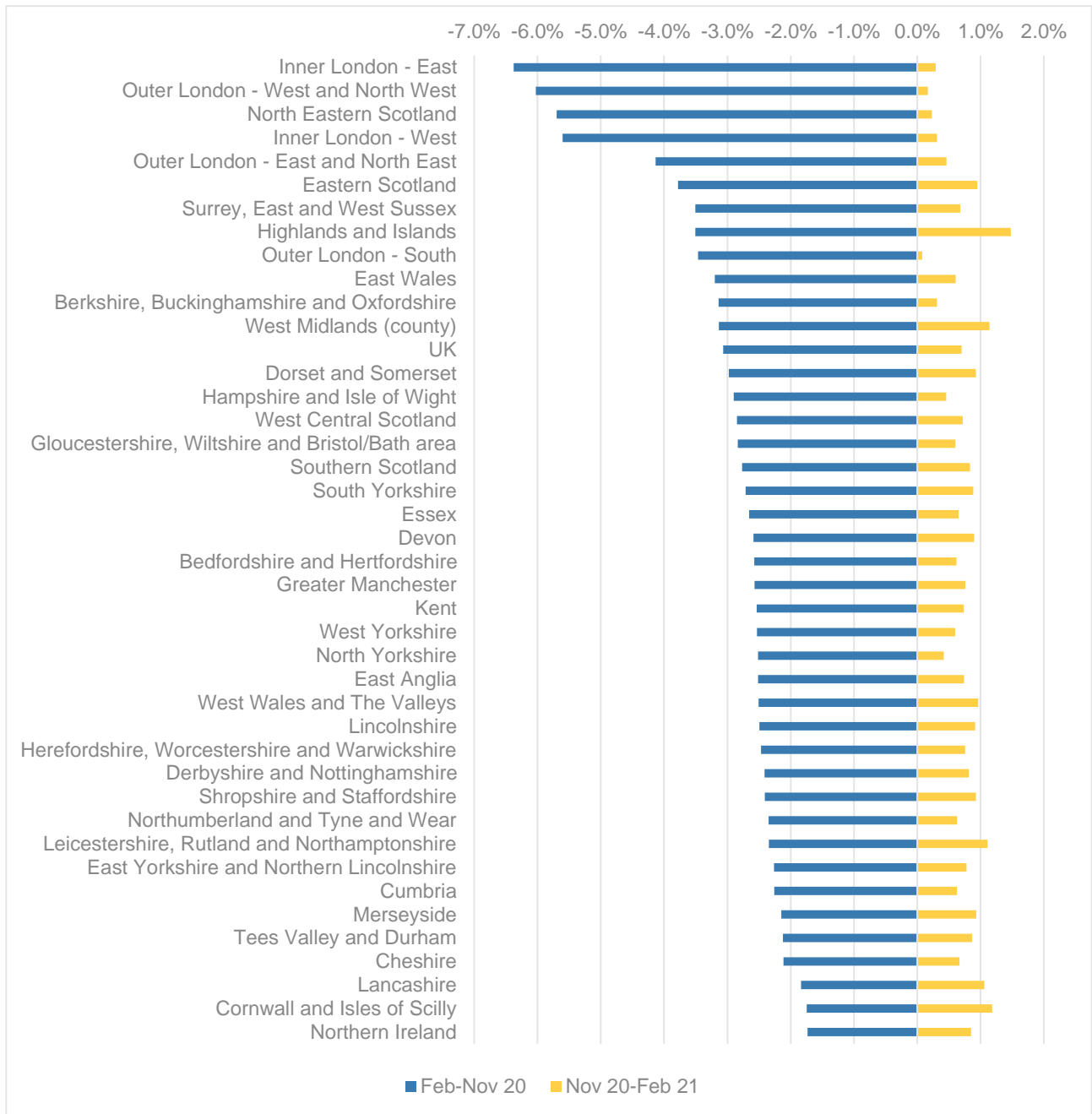
## London continues to suffer, while more rural areas and weaker economies have fared less badly

This month we have also included analysis of changes in PAYE employment by sub-region (NUTS 2 areas). This data is a more reliable source for changes below the national level than either the LFS or the claimant count, although it is limited to reporting on PAYE employment. Figure 14 shows the results, which set out clearly just how hard London has been hit by this crisis – with three of the five London sub-regions seeing payrolled employment fall by more than 5.5% in the first nine months of the crisis (the blue bars) and none of them seeing employment grow by more than 0.5% as employment has recovered.

We have written before about some of the reasons for this huge impact on the city, which reflects its large visitor and tourist economy; large retail, hospitality and arts industries; higher spending by office workers; and the fact that public sector employment (which has held up in the crisis) accounts for fewer jobs in London than elsewhere. Parts of the wider South East of England have also been hit relatively hard, as has East Wales (driven by Cardiff). North Eastern Scotland also stands out – this sub-region comprises Aberdeen and Aberdeenshire, and so will reflect in particular the impacts of the crisis on oil and gas prices, on top of the sorts of impacts seen elsewhere in hospitality, tourism and retail.

At the other end of the table, areas that have fared relatively less badly have been both with more rural economies and less reliant on private sector employment. Looking at the recent recovery, this has been fairly broad based – with all sub-regions seeing growth of at least 0.5% with the notable exceptions of London, North Eastern Scotland and Berks/ Bucks/ Oxon.

**Figure 14 Percentage change in payrolled employees by NUTS 2 geographical area, Feb-Nov 2020 and Nov 2020-Jan 2021**



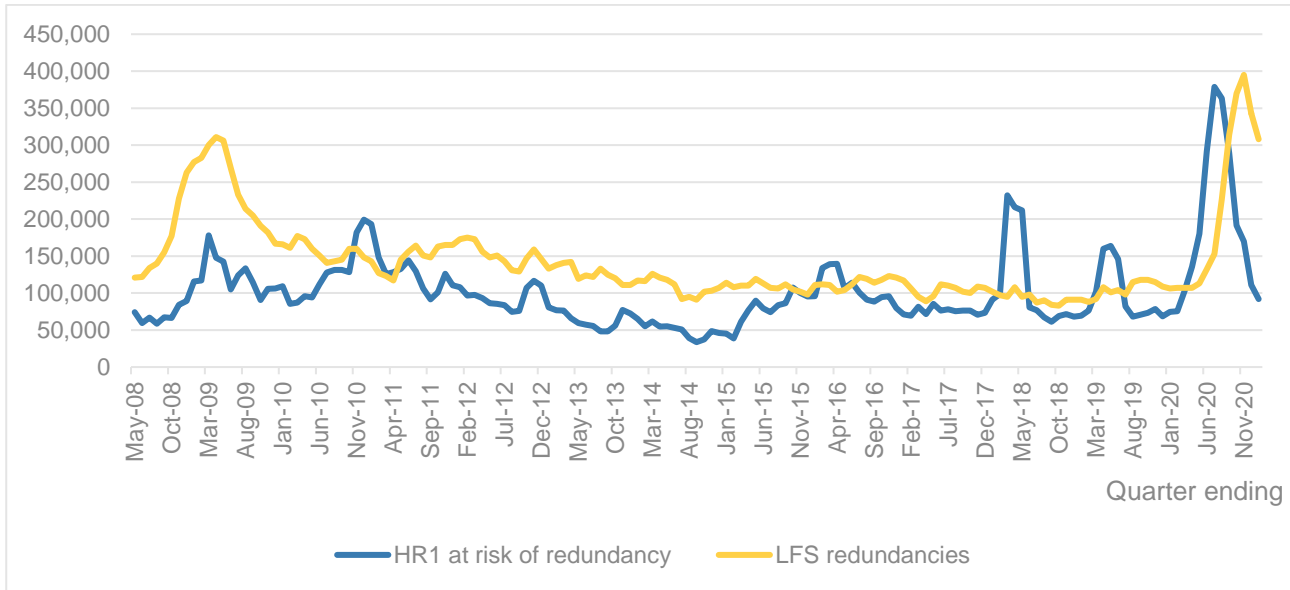
Source: IES analysis of HMRC PAYE data

## Redundancies continue to fall back, but remain elevated

One further piece of good news in today’s data is a continued decline in the number of people reporting that they have been made redundant. Figure 15 below shows the level of

quarterly redundancies alongside the number of jobs notified by employers as being at risk of redundancy in HR1 forms sent to the Insolvency Service. Actual redundancies tend to follow a similar, but lagged, trend to these ‘HR1’ figures, and so the yellow line is starting to fall back towards more normal levels. Note that these are changes in LFS levels and so need to be used with caution, but redundancy rates show the same trend.

**Figure 15: Quarterly number of employees notified as at risk of redundancy (HR1 forms) and reporting having been made redundant (Labour Force Survey)**



Source: IES analysis of Insolvency Service and Labour Force Survey data

Nonetheless looking at more recent weekly data from the LFS, while redundancies are falling back they still remain very high – with on average 250 thousand people each reporting that they were laid off in the previous three months (compared with around 150 thousand pre-crisis). This may well still reflect the delayed impact of restructuring by firms during the autumn of last year, for example with people being kept on furlough through Christmas before being laid off, but they do suggest that it may take some time yet before figures fall back to where they were a year or more ago.



**Figure 16: Whether made redundant in previous three months – weekly responses, April 2020 to March 2021**



Source: Weekly Labour Force Survey X07

## Non-UK nationals accounted for (just) one fifth of the fall in employment last year

Finally, ONS has today published [experimental estimates](#) from PAYE data of changes in employment by nationality, using HMRC's 'migrant worker scan'. The extent to which changes in the labour market over the last year may have been accompanied by emigration from the UK has been a source of some controversy in recent months, with estimates that over a million non-UK nationals may have left the UK and so accounted for a large part of the change in employment.

Today's figures show that in fact the impacts have been far more modest – with non-UK nationals accounting for 178 thousand of the 805 thousand fall in PAYE employment during 2020 (or 22%). This does nonetheless show that non-UK nationals were hit particularly hard, which is not surprising given their greater likelihood of working in jobs affected by the pandemic. Employment for this group fell by 4.0% in the last year, compared to 2.6% for UK nationals. This suggests that a larger part of the difference between the LFS and PAYE measures of employment may be explained by lower response rates from non-UK nationals during the crisis rather than there being substantially fewer non-UK nationals resident.

One important consequence of this analysis is that the ONS will now be able to re-weight the LFS results to account for these changes, which they intend to do over the summer. This should in turn hopefully lead to the current health warnings on using the LFS being removed.

## Conclusions and implications

Today's figures are overall very positive, and show a slowly recovering labour market and no further deterioration as a result of the third lockdown.

However, the incredibly weak hiring figures should worry us all – as they continue to drive disproportionately negative impacts for young people and are heightening the risks of this feeding through into substantially higher long-term unemployment over the next year. The growth in insecure work is also worrying, and points to growing risks of job insecurity and under-employment as we recover from the crisis.

The government missed the opportunity at the Budget to introduce new measures to support new hiring and jobs growth, instead banking on a strong recovery as restrictions unwind. If this does not materialise – and if we see similar issues to last summer, of spare capacity, economic uncertainty and struggling firms – then surely more action will be needed to get hiring going again before the end of the year.

In the meantime, in the next few months it will be imperative that as much as possible of the £7 billion announced last year to support re-employment (through Kickstart, Restart and Jobcentre Plus services) is mobilised as quickly as possible, and as far as possible is targeted at those becoming long-term unemployed and otherwise disadvantaged in the labour market. In our view, this should include a meaningful jobs and training guarantee for long-term unemployed people and the extension of Kickstart beyond the end of this year.

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## 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.

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

[www.employment-studies.co.uk](http://www.employment-studies.co.uk)

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01273 763400