ies Briefing

Institute for Employment Studies

Labour Market Statistics, November 2020

10 November 2020

This briefing note sets out analysis of the Labour Market Statistics published this morning. The analysis covers:

- **Labour Force Survey data**. This is a household survey that collects official data on employment, unemployment and economic inactivity. Today's release covers the period July to September 2020, so the first full quarter following the first lockdown. This month's release includes data on labour market flows, and employment of disabled people, of ethnic minorities and by nationality/ country of birth.
- **Pay As You Earn Real Time Information**. These are experimental statistics on employee levels and pay, covering the period to October 2020. The statistics are drawn from data supplied by employers in PAYE returns.
- **The Claimant Count**. This is a measure of the number of people claiming Universal Credit or Jobseeker's Allowance and who are treated as being unemployed (i.e. expected to look and be available for work). This is not an official measure of unemployment, but it has historically followed similar trends to the official survey-based unemployment measure. Today's data set out claimant numbers as at 8 October 2020.

Summary

Today's figures show that the labour market continued to weaken through July to September, weighed down by the ongoing fallout from the first lockdown. Employment fell and unemployment rose, with the latter reaching its highest since late 2016. Lower employment has been driven both by more people leaving work, and fewer people moving (back) into it – with job separations dominating during lockdown itself, but weak hiring playing more of a role in the recovery.

Redundancies reached a new peak in the three months to September, and we forecast that these will continue to rise in the next two months before falling back in the new year. While the growth in redundancies is alarming, today's figures have not been anywhere near as bad as they could have been. The 315 thousand rise in redundancies this quarter, and even the 570 thousand fall in employment since the crisis began, have been dwarfed by the extraordinary figure that around five million workers who were 'away' from work during lockdown had so far returned to work by the end of September.

Hiring and vacancies are likely being held back in part by the significant spare capacity in firms as furlough unwound, and by continued economic uncertainty. However there were signs that vacancies had started to recover more strongly in September and October, driven in particular by smaller employers. While still not back to pre-crisis levels, and although likely to fall back again during November, this does nonetheless suggest that hiring could return relatively quickly if the conditions are right.

The significant falls in employment since the crisis began appear to be being driven by lower self-employment amongst men – particularly full-time work – and lower part-time employment amongst women (employee and self-employed). This has been offset by significant rises in full-time employment for women – which is now comfortably at its highest ever level and rate. Under-employment also appears to be creeping up, with more part-time workers wanting to increase their hours.

Once again, there are signs that young people are bearing the brunt of the crisis – with youth employment down by more than 300 thousand (54% of the total) and the youth employment rate falling to its lowest since 2014. This has however been more than offset by rising participation in education – although this should be treated with some caution, as in practice this is describing July to September, so a time when many of those 'in education' will have been waiting for courses to start.

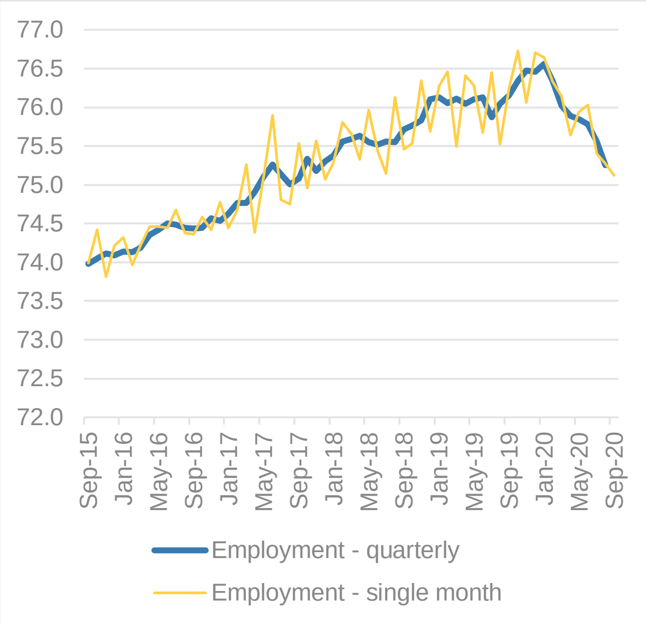
Worryingly, today's quarterly disability employment figures suggest that progress in narrowing the (very wide) employment gap for disabled people has stalled during this crisis and may be at risk of going into reverse. Disabled people are now more than two-and-a-half times more likely to be out of work than their non-disabled peers.

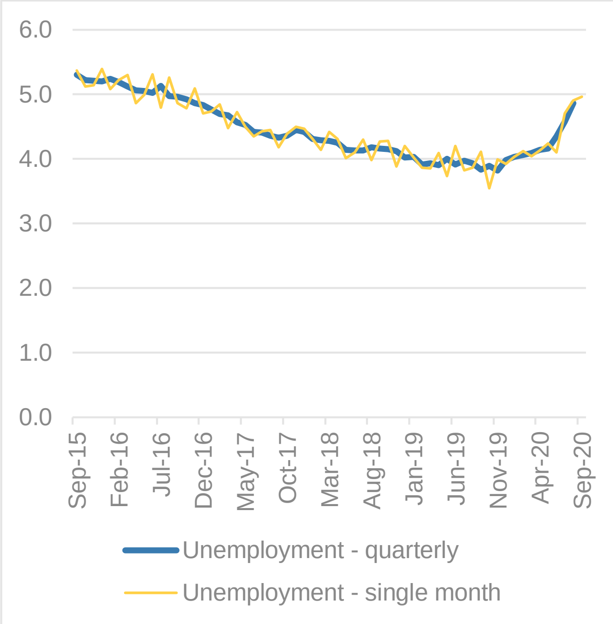
All told, the labour market had been in decent shape in the summer and early autumn, with most of the most negative impacts largely reflecting the continued fallout from the first lockdown in the spring. However, the second lockdown in November will bring with it a double dip, and likely further deterioration on the jobs market through the winter. This will be added to by uncertainty around Brexit. With the Spending Review just a few weeks away, the Chancellor needs to look at measures to get hiring going again and quickly – in particular by raising the National Insurance threshold so as to reduce labour taxes for firms, and by boosting departmental budgets so that public sector employment can pick up more of the slack from the private sector.

Employment and unemployment continued to weaken, but the picture could have been a lot worse

Today's figures show that employment continued to fall through the summer, reaching 75.3% for July to September – the lowest rate since the end of 2017. The unemployment rate rose to 4.9%, the highest since late 2016. The quarterly and single month figures are set out in Figure 1 below. The single month figures continue to lead the quarterly average, meaning the further deterioration is likely in the coming months.

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

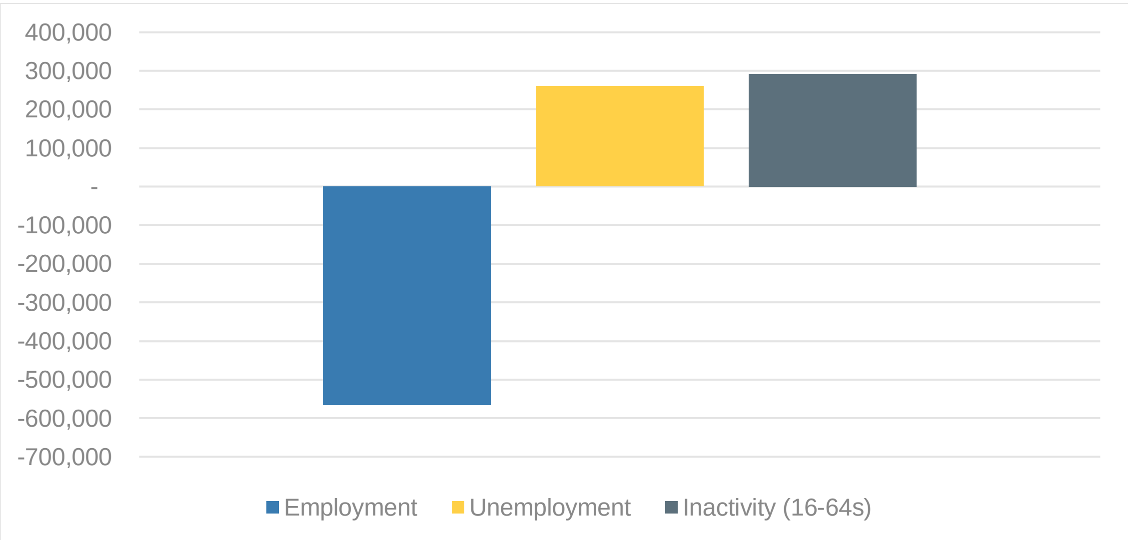




Source: IES analysis of Labour Force Survey

As Figure 2 below shows, this means that employment is now down by over half a million (570 thousand) since the crisis began. This has translated into both higher unemployment and higher 'economic inactivity' (those out of work but not looking and/ or not available for work. Earlier in the crisis the fall in employment was feeding through almost entirely into inactivity, but with the reopening of the economy the gap between the two has closed. Higher inactivity is increasingly explained by more students not looking for work and more people not looking due to long-term health conditions.

Figure 2: Changes in employment, unemployment and economic inactivity, Dec-Feb 2020 to July-Sep 2020



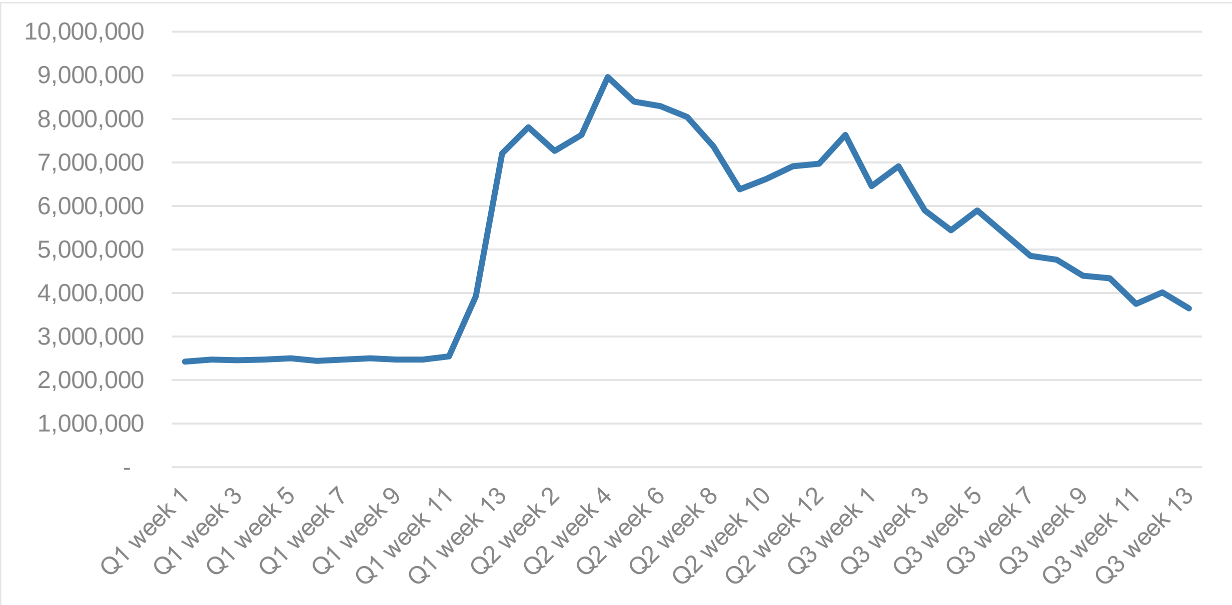
Source: Labour Force Survey

The fall in payroll employees, measured through HMRC ‘Pay As You Earn’ data, continues to be somewhat greater than the fall in employment measured through the LFS. Today’s HMRC PAYE data was rather weak – with a downward revision of 80 thousand on the previous provisional figures for September, and a further fall of 30 thousand in the new provisional data for October. All told, payroll employees are now 800 thousand lower than before the crisis began.

The differences between the PAYE and LFS figures are explained in this blog from the ONS, which sets out that there may have been around half a million people who were not being paid through PAYE during the crisis but still reported that they had jobs to return to (and so are counted as employed in the LFS). Experimental weekly data suggests that this figure had fallen to around 350 thousand in September.

While these impacts are very large – with for example unemployment rising faster than at any point since the 2008/9 crisis – today’s figures also reiterate that they could have been far worse. ONS estimates that the number of people ‘away’ from a job fell from a peak of 9.0 million people in April to 3.6 million at the end of September, with around 2 million of those away from work at the end of September reporting that this was a result of furlough or reduced demand. Even allowing for the 570 thousand fall in employment, this suggests that around five million people have successfully returned to work following furlough – dwarfing the fall in employment and rise in redundancies (with separate analysis by HMRC suggests that the vast majority of those returning went back to the same employer).

Figure 3: Number of people temporarily away from work by week, 2020



Source: Labour Force Survey weekly data

Falling employment has been driven BOTH by more people leaving work AND fewer people getting into it

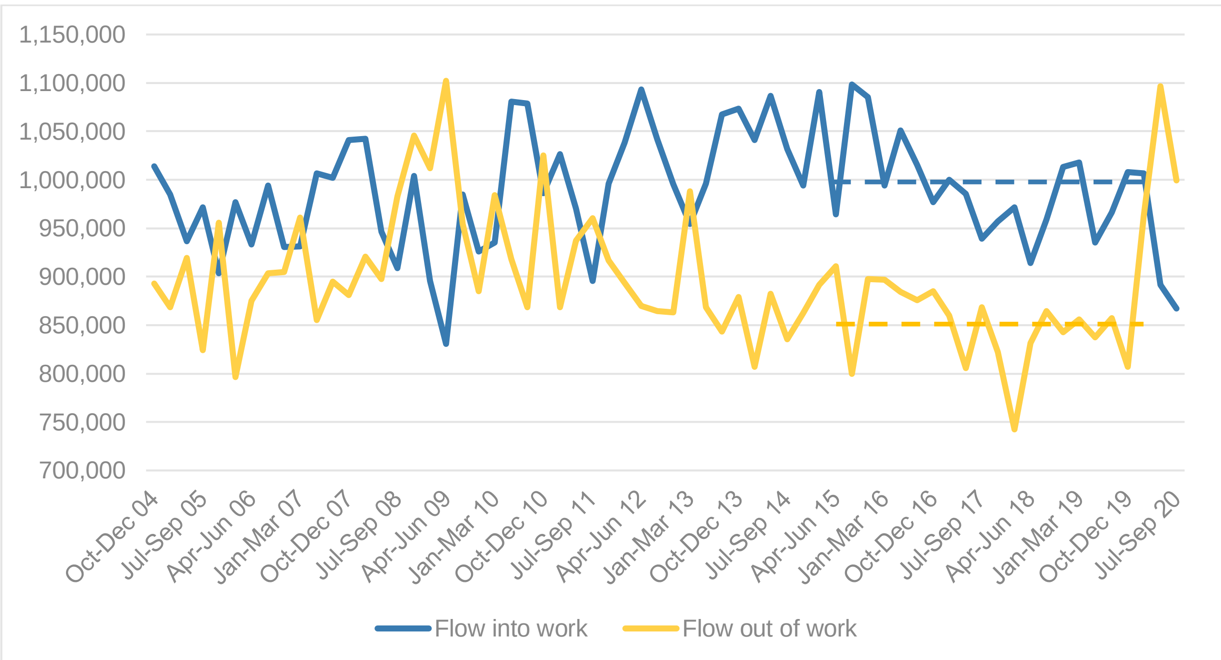
Today sees the publication of quarterly data on labour market flows, drawn from the longitudinal LFS. This data is important as it helps us to understand how far headline changes in employment are driven by movements into or out of work.

Figure 4 below sets out the headline data on flows into work (combining flows from unemployment and inactivity) and flows out of work (again to unemployment and inactivity combined). The dotted lines show the average numbers flowing in each direction over the period from January-March 2015 to January-March 2020 – on average, in each quarter 995 thousand people entered employment from worklessness; while 855 thousand exited (meaning that employment overall rose by on average 140 thousand a quarter).

In lockdown (April-June 2020), the numbers exiting work shot up to 1.1 million – a rise of 245 thousand above historic trends – while the numbers entering work fell to 890 thousand – a decline of 105 thousand. In the summer recovery (July-September), the number exiting work fell back slightly to 1.0 million, but the number entering work declined further, to 865 thousand.

So in lockdown, job separations contributed around two thirds of the fall in employment, while in the recovery the fall was explained almost equally by higher job losses and lower hiring. To put this another way, had either hiring or job losses recovered to their historic trends in the summer, then employment overall would have been flat.

Figure 4: Quarterly flows from worklessness to work, and work to worklessness (dashed lines = average Apr-Jun 2015 to Jan-Mar 2020



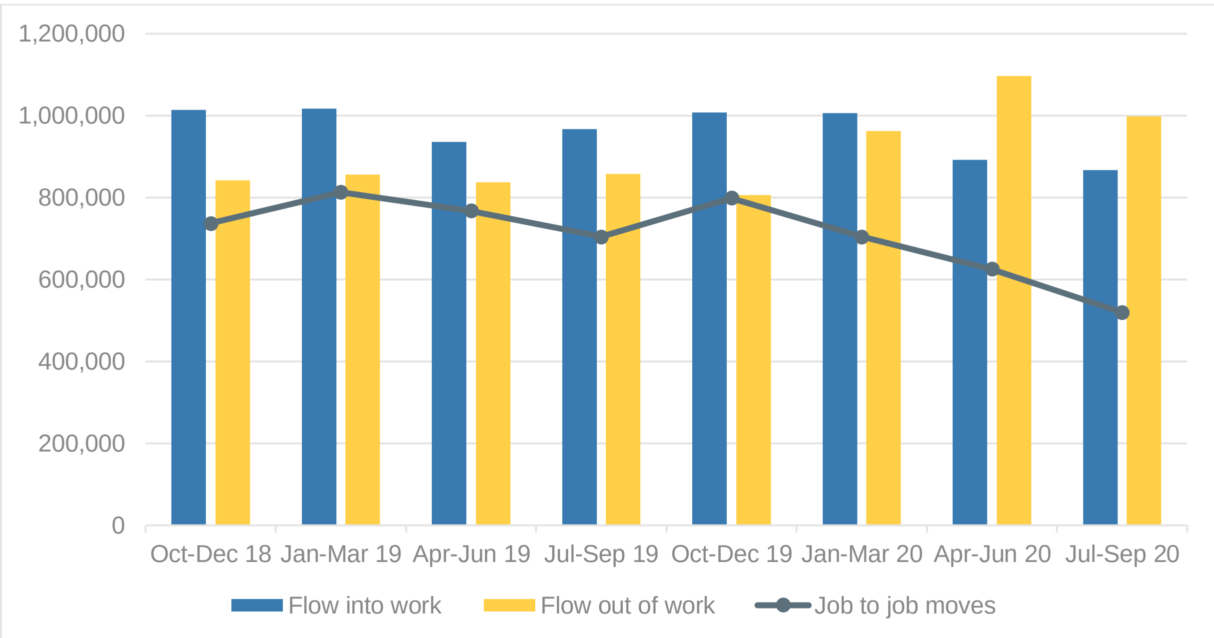
Source: IES analysis of Labour Force Survey

Figure 5 below shows in more detail the flows into and out of work for the last two years, with job-to-job moves overlaid. As happens in crises, job-to-job moves have fallen consistently in the last two quarters – and are now at their lowest rate since early 2011. In the last recession, lower job-to-job moves was accompanied by higher numbers of people moving from unemployment into work – so those out of work benefited to some extent from more people who were in work choosing to stay put. However there are no signs of that happening yet this time, suggesting that subdued demand is playing a bigger role in holding down new hiring.

In all, these figures show that 1.39 million people started a new job – either from another job or from worklessness – during July-September. This was actually lower than during lockdown (1.52 million) and lower than the average of 1.74 million a quarter over the previous two years. At the same time 1.52 million exited a job over the summer (either to another job or worklessness), compared with 1.72 million during lockdown and 1.62 million over the previous two years.

Interestingly, separately published experimental weekly Labour Force Survey data do suggest that hiring may have just started to pick up in the last two weeks of September – with the numbers reporting that they had either recently started or were waiting to start a new job around 80% higher than they were on average since the crisis began.

Figure 5: Flows into work, out of work and job-to-job moves – 2018 to 2020

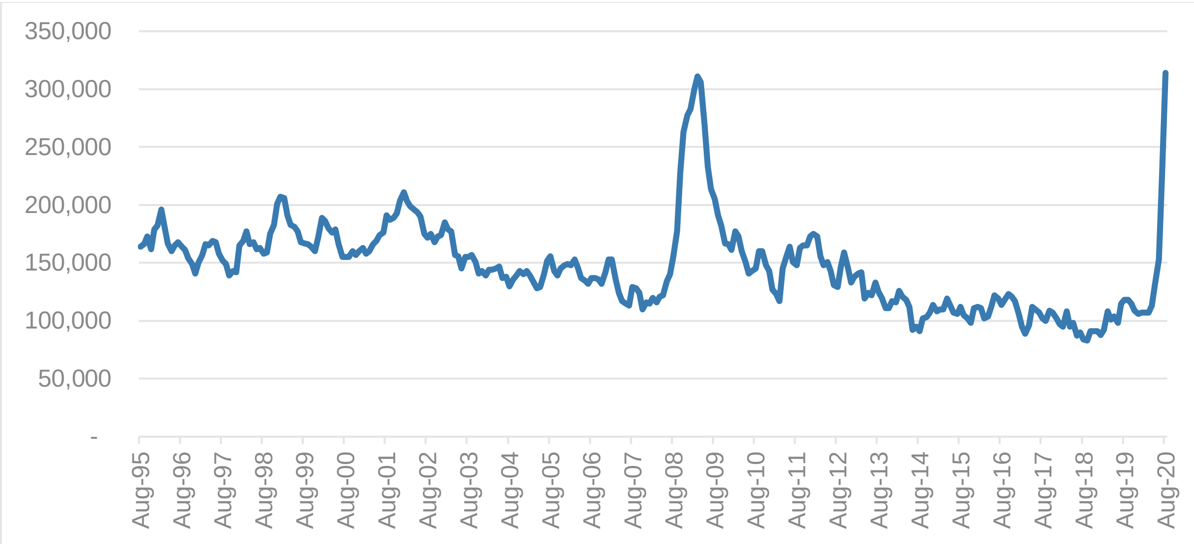


Source: IES analysis of Labour Force Survey

Record redundancy levels are contributing to higher exits from work – and these will continue to rise

As anticipated, redundancy levels have continued to rise in the most recent figures – reaching 314 thousand in the three months of July-September 2020. Figure 6 below sets this out. This is the highest level of redundancies since this time series began in 1995, and the fastest quarterly rate of increase on record.

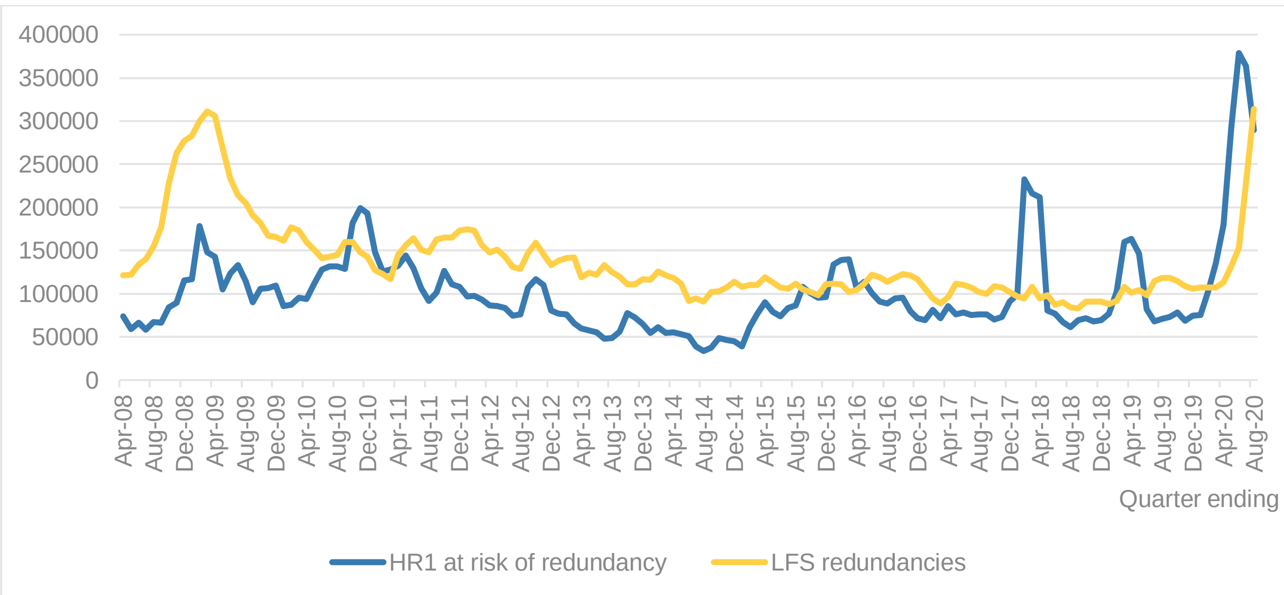
Figure 6: Redundancies



Source: Labour Force Survey

The rise in redundancies continues to follow the central scenario that we set out in the On Notice briefing paper in September, which set out forecasts based on employer notifications that were made to the Insolvency Service before the end of July. Figure 7 below updates the main analysis set out in that report, to include HR1 data for August and September, and the most recent LFS redundancy data.

Figure 7: 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

We still expect the yellow line to rise higher than the blue line, likely peaking at a quarterly rate of around 450 thousand in the next month or so before falling back. This appears to be being borne out in the LFS data already, with experimental weekly data suggesting that by the end of September redundancies were running at a quarterly rate of 450-500 thousand. All told, we anticipate that there will be 680 thousand redundancies in the second half of this year (i.e. that the quarterly rate for the non-overlapping October-December period will be around 350 thousand).

Redundancy rates are highest for young people – with around 1.7% of all young employees made redundant in the last quarter, compared with 1.1% across all ages. The growth in redundancies was driven in particular by hospitality and construction, but was also high in retail, administrative and support services, other services (which includes hairdressing, physical wellbeing and personal services), and manufacturing.

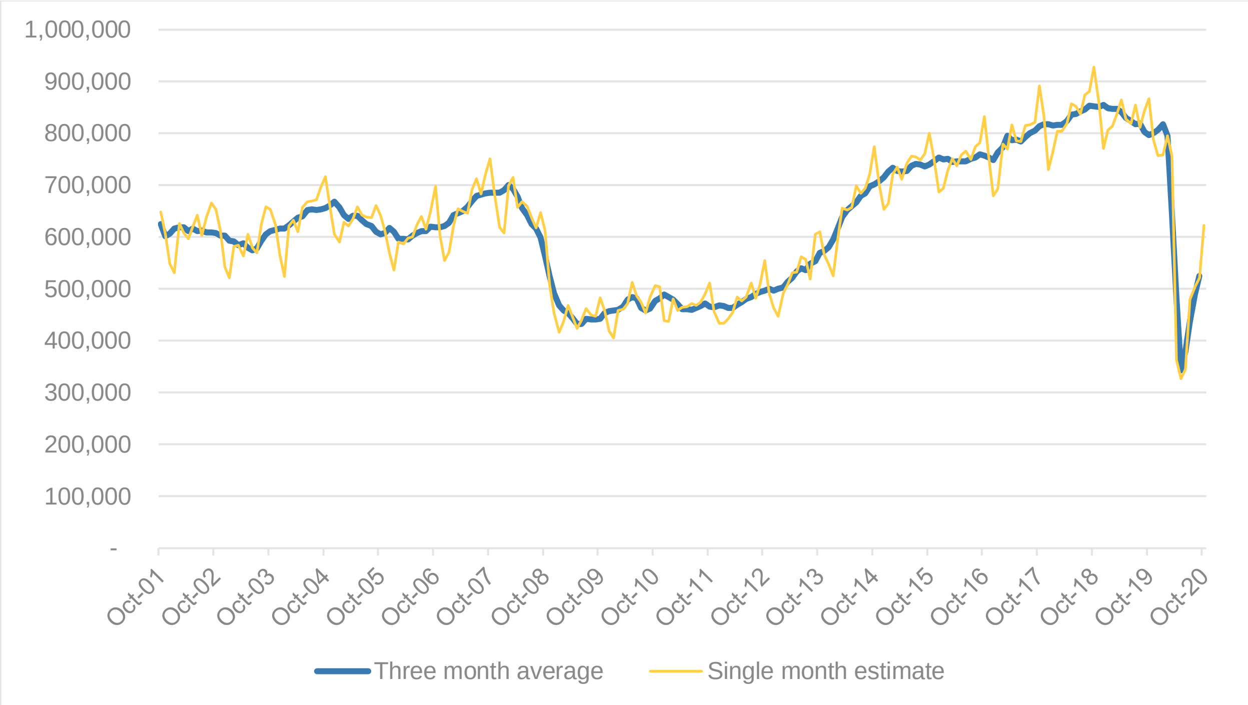
While these redundancy figures are very high indeed by historic standards, it is worth reiterating again that they are dwarfed by the five million people returning to jobs since lockdown, and redundancies continued to only account for around one in five of all reasons for people leaving a job (although this is far higher than the one in eight or ten during good times).

There were signs that vacancies were starting to recover more strongly by the end of the summer

Today's Vacancy Survey data also contributes to a picture of tentative recovery in the run-up to the second lockdown. Vacancies over the three months August to October continued to recover to reach an average of 525 thousand, which was still around one third below levels pre-crisis, but is nonetheless well above the levels seen in the three years after the last recession. Furthermore the single month estimate for October was just above 600 thousand – suggesting continued strengthening through the recovery, and even despite further tiered restrictions from late September. This is set out in Figure 8 below.

These vacancy figures are somewhat more positive than online-only estimates, which both ONS and ourselves have produced using data from Adzuna. This is likely explained by strong growth in vacancies among smaller employers in particular, which are less likely to be advertised online and which are picked up through the ONS survey. Looking at sectors, construction, transport/ storage and entertainment/ recreation saw strongest growth, although there was also modest growth in previously shutdown sectors (retail, hospitality), health and in public services.

Figure 8: Vacancies – quarterly and single-month estimates



Source: ONS Vacancy Survey

Looking at employment in more detail, men saw big falls in full-time work and women in part-time work

Figure 9 below shows how the large falls in employment since the crisis began have broken down between men and women, and according to whether they were in part-time or full-time work, or in self-employment or working as employees.

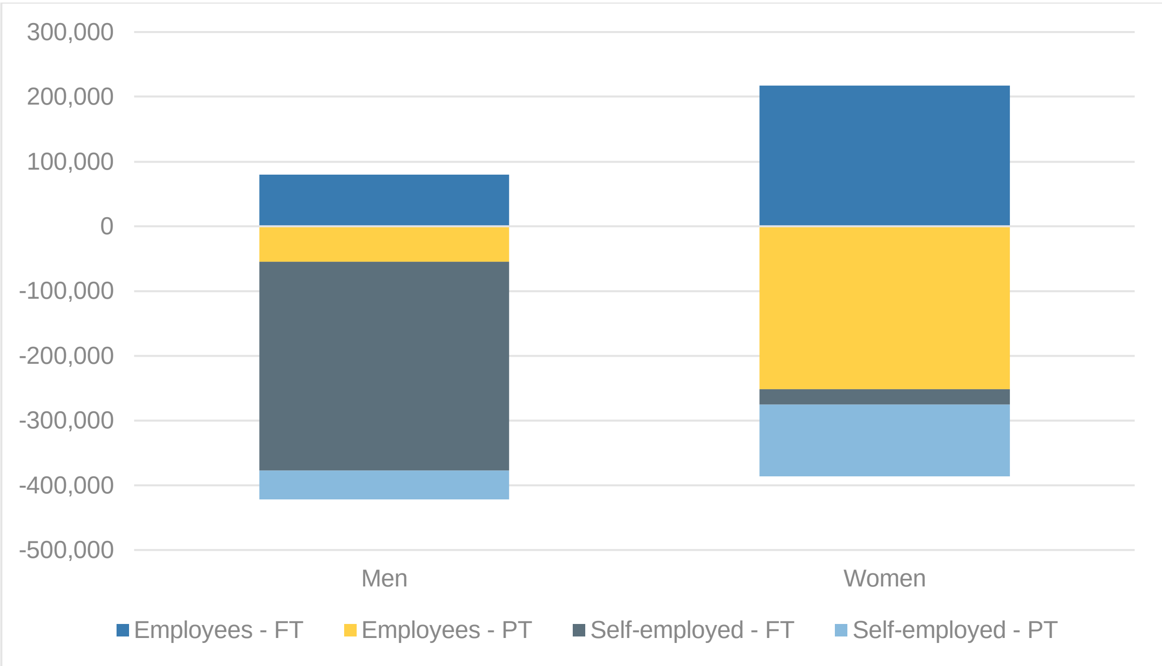
For men, employment overall is down by 340 thousand. However this is almost entirely explained by less full-time self-employment, which has fallen by 325 thousand. Part-time employment – employee and self-employed – is also down (by 100 thousand combined), with this offset by a rise in full-time dependent employment of 80 thousand.

The trend for women however is quite different – with employment overall down by 170 thousand, which is more than explained by fewer part-time employees (250 thousand lower) self-employed (65 thousand lower, largely part-time). This is then offset by a very large rise in dependent full-time employment, of 220 thousand.

This significant shift to full-time work for women, which is now comfortably at its highest level ever, reflects long-running demographic changes in the labour market but may have been accelerated in this crisis through a combination of employers changing working patterns in response to the furlough rules (bringing more people back full-time while keeping others off), and/ or second earners in couple households increasing their hours to compensate for a loss of partner earnings.

Interestingly, separate data on under-employment has also shown fairly significant rises – with an increase of around 200 thousand (7%) in the number of part-time workers reporting that they want and are available to work more hours.

Figure 9: Changes in employment types by gender, Dec-Feb 2020 to Jul-Sep 2020



Source: IES analysis of Labour Force Survey

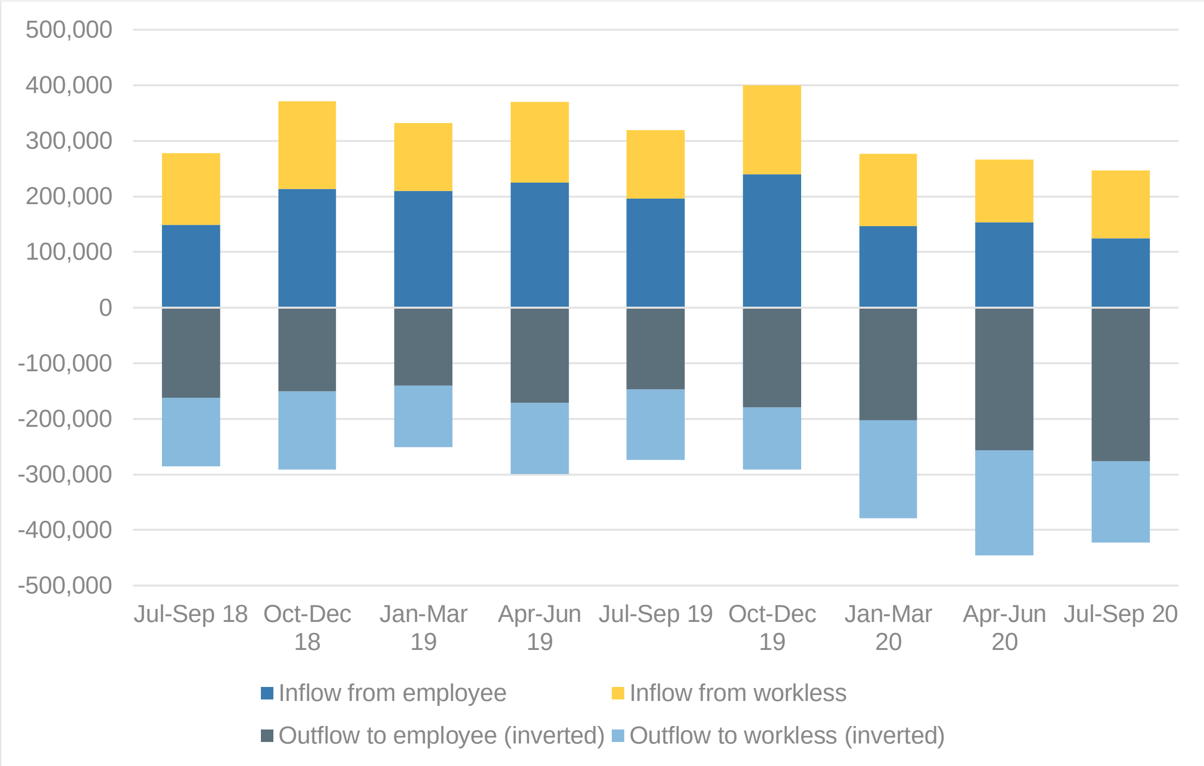
Falling self-employment is being particularly driven by flows between employee and self-employed status

Data published today also shows that the significant falls in self-employment – now down by more than half a million since the crisis began – are being particularly driven by higher flows into dependent (employee) employment from those previously self-employed, and by lower flows from employee jobs into new self-employment.

Figure 10 sets this out in more detail. During the crisis (the last two bars), on average 265 thousand self-employed each quarter have entered employee status, while 170 thousand have entered worklessness. Over the previous two years, those figures averaged 165 thousand and 130 thousand respectively. Meanwhile the inflow to self-employment has averaged 255 thousand a quarter during this crisis, compared with 335 thousand in the two years previous – with the largest falls in inflows coming from employee status rather than worklessness.

This suggests that many of those in more precarious self-employment have sought out, and found, employee work during the crisis in order to mitigate the impacts on their business – while others may have held off on setting up a business or going freelance because of the crisis.

Figure 10: Flows into and out of self-employment, 2018 to 2020



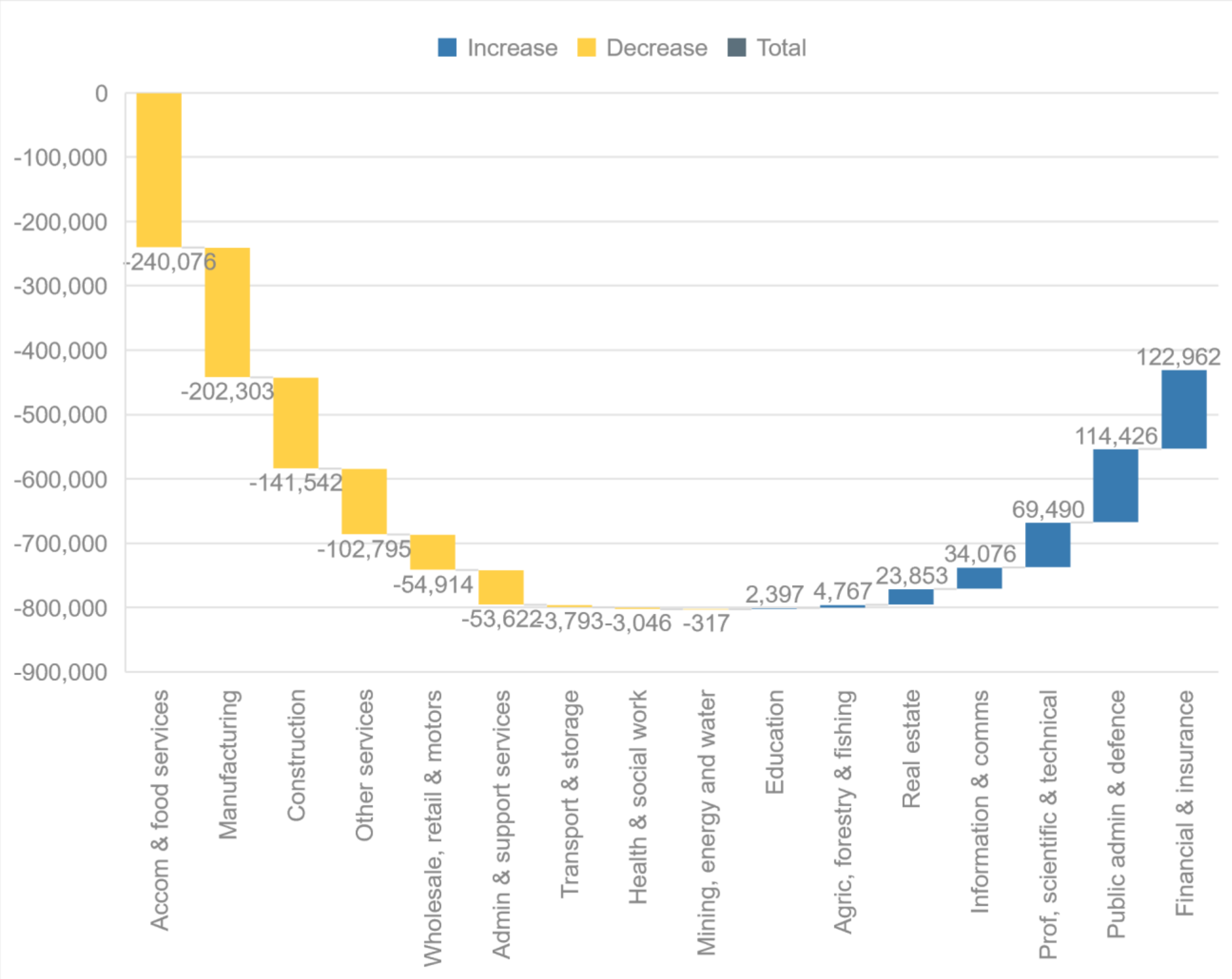
Source: IES analysis of Labour Force Survey

Employment has fallen most in hospitality and manufacturing, but has risen in some professions

Figure 11 below shows changes in employment by broad industry since the first three months of this year. Unsurprisingly, the largest falls in employment levels have been in hospitality, but this has been followed by manufacturing and construction – both sectors that tend to see significant cyclical impacts during recessions and recoveries. The fall has been relatively lower so far in retail, which is somewhat surprising given the size of the sector and its high use of furlough.

On the other side of the graph, employment has continued to grow in a number of service industries – particularly the public sector, but also in financial services and in other professions. Interestingly, health and social work have seen no change in employment overall. It appears likely that while some parts of the broad sector have seen some growth, notably in social care and primary health, others may have seen employment fall as a consequence of lockdown – for example in dentistry, occupational health and other secondary services.

Figure 11: Changes in employment by industry, Jan-Mar 2020 to Jul-Sep 2020



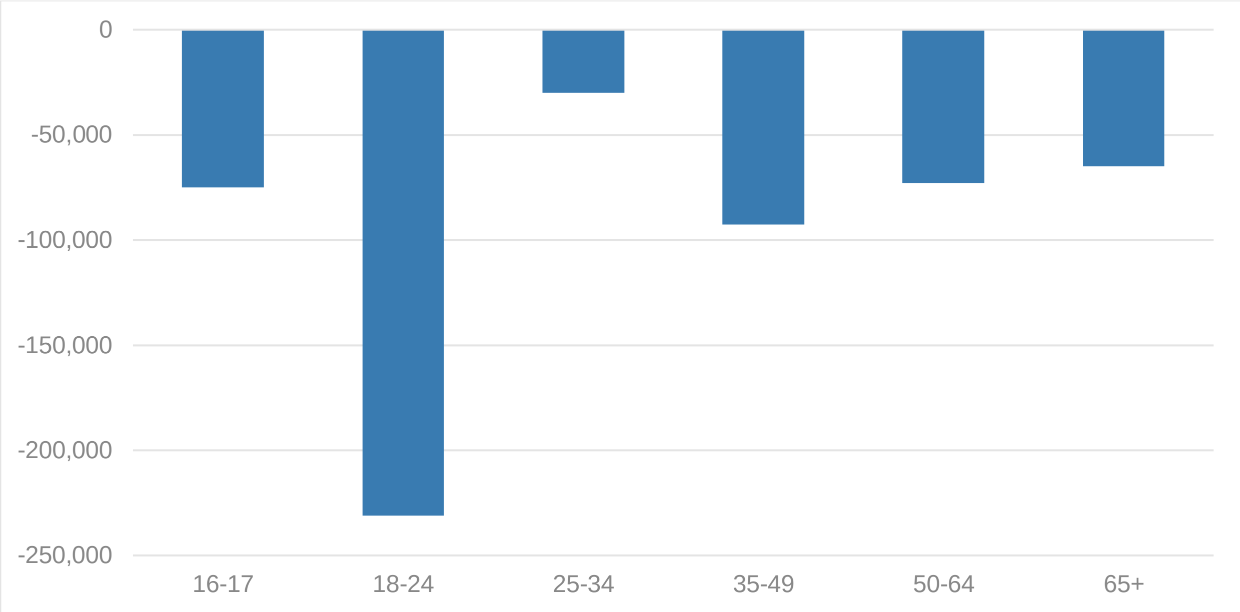
Source: IES analysis of Labour Force Survey

Looking at impacts by age, young people continue to be worst affected

Today's figures continue to show that young people are bearing the largest impacts of the crisis so far, with employment for those aged under 25 falling by 305 thousand since the crisis began – more than half (54%) of the total fall in employment. This is set out in Figure 12 below. The youth employment rate is now at its lowest since 2014, and the level of youth employment at its lowest on record.

This month however has also seen the falls in employment among people aged over 25 starting to pick up, particularly among the 35-49 group.

Figure 12: Change in employment levels by age, Dec-Feb 2020 to Jul-Sep 2020

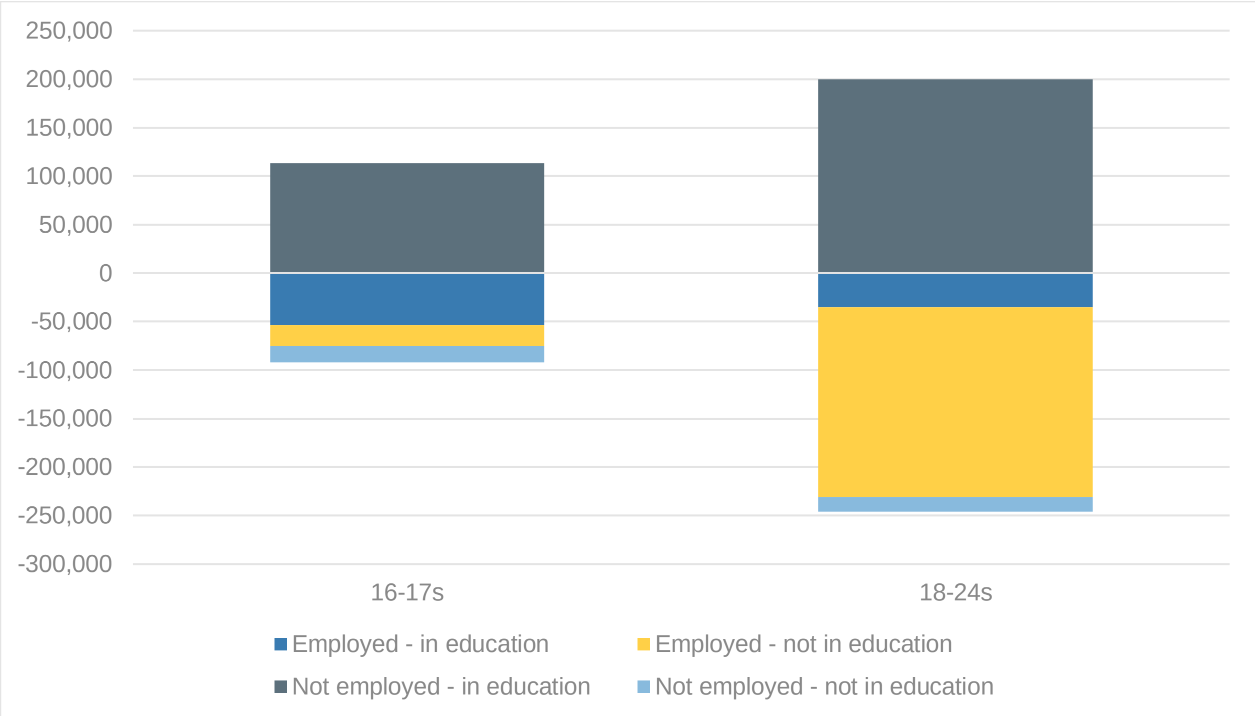


Source: IES analysis of Labour Force Survey

Somewhat more positively for young people however, Figure 13 below shows that the fall in youth employment has been more than offset by large rises in participation in full-time education. As a consequence, the number of young people neither in full-time education nor employment (the light blue bars) has actually fallen overall since the crisis began.

While we can take some comfort from this, it should be remembered that this covers the period July-September when many young people would not have been in education at all but would have been waiting for courses to start in the autumn. So while we know that this will reflect higher planned university and college admissions, in the immediate term it largely reflects a larger volume of young people not working during the summer while they wait for courses to start (with the numbers combining education and employment falling). How this plays out over the next few months will be key, but we are unlikely to see a rapid recovery in youth employment and may well see further rises in worklessness overall.

Figure 13: Change in employment and education participation among young people, Dec-Feb 2020 to Jul-Sep 2020



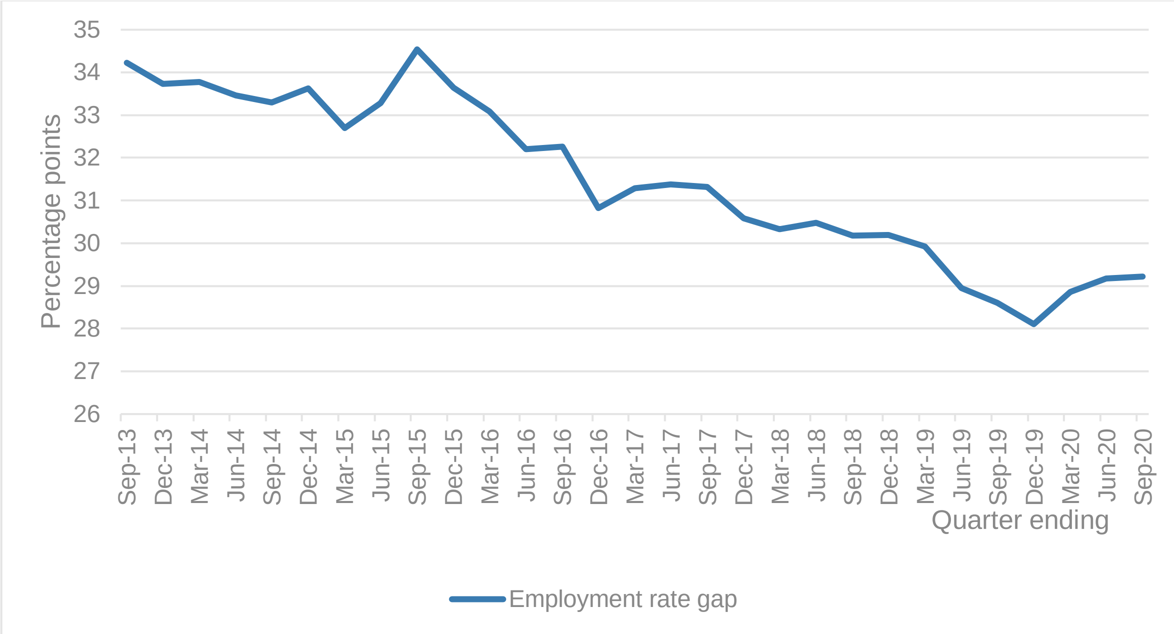
Source: IES analysis of Labour Force Survey

Progress on closing the disability employment gap has also stalled, for the first time since the early 2010s

Today also sees the quarterly publication of data on employment of disabled people and of ethnic minority groups. On the latter, there remains no sign of any impacts of the pandemic on employment levels for different ethnic minority groups. The overall gap in employment rate between white people and all ethnic minorities has continued to narrow (to 8.3 percentage points) and it is stable or narrowing for all of the individual ethnic minority groups reported on in the statistics.

However for disabled people, employment appears to have fallen by more (1.9%) than it has for non-disabled people (down 1.1%). As a consequence, the already-huge difference in employment rates between disabled and non-disabled people, which had narrowed consistently to the end of 2019, now appears to be flat or rising, at around 29 percentage points (Figure 14). Disabled people remain two and half times more likely than non-disabled people to be out of work.

Figure 14: Gap in employment rates between disabled people and non-disabled people



Source: IES analysis of Labour Force Survey

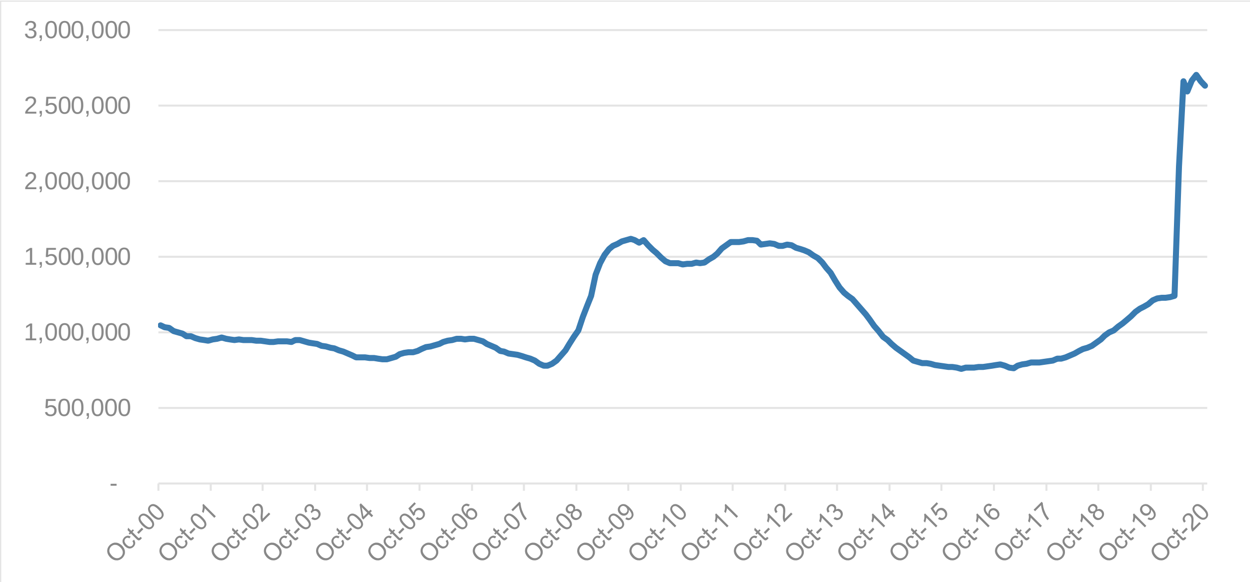
The claimant count appears to have levelled off – with previous months also revised down

Finally, today's claimant count data, which measures all of those claiming benefits, out of work[1] and being treated as unemployed, has seen significant downward revisions in previous monthly figures (by 80 thousand) which combined with a slight fall in the month of October (to 2.63 million) means that the large rises during the immediate crisis appear now to have levelled off. This is set out in Figure 15 below. It is likely that over the coming months we will see the headline unemployment measure continue to make up ground on the claimant measure, as more of those out of work but not looking for jobs start to do so.

Analysis of the claimant count by age, region and local authority has not been repeated this month, as trends are virtually unchanged from those presented in recent briefings.

[1] Although there are around 280 thousand people on the claimant count who are in very low paid work, i.e. around 10% of the total.

Figure 15: Claimant count level



Source: Office for National Statistics

Conclusions and implications

Today's figures show that the labour market continued to weaken through the summer. However looking through the headline changes, the labour market had been in decent shape considering the depths of the crisis –with most of the most negative impacts, in terms of redundancies, subdued hiring and rising unemployment – largely reflecting the continued fallout from the first lockdown in the spring.

However, the second lockdown in November will bring with it a double dip, and likely further deterioration on the jobs market through the winter. This will be added to by uncertainty around Brexit.

Of particular concern today are the signs that some groups historically disadvantaged in recessions – notably young people and disabled people – are facing more significant impacts again; while the continued falls in self-employment suggest ongoing impacts on those in more precarious work. And with job starts and hiring remaining very weak, even if the measures to protect existing jobs stop a sharp rise in unemployment they will clearly not be enough to stop an inexorable rise in unemployment and long-term worklessness if demand recovers slowly.

The government's Plan for Jobs has been strong on measures to support jobsearch for those out of work, but relatively weak on measures to boost demand, to support retraining and target help at disadvantaged groups. With the Spending Review just a few weeks away, we would argue that the top priority must be to look at measures to get hiring going again and quickly – in particular by raising the National Insurance threshold so as to reduce labour taxes for firms, and by boosting departmental budgets so that public sector employment can pick up more of the slack from the private sector. Alongside this, there is a strong case for further investment in work-related training for those out of work or in insecure work, and targeted support for those who are most disadvantaged in the labour market.

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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