ies Briefing

Institute for Employment Studies

Labour Market Statistics, October 2020

13 October 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 June to August 2020. This month's data includes revisions to estimates since March 2020, following a reweighting exercise by the Office for National Statistics (ONS). This also means that single-month and weekly LFS data is not being reported this month.
- **Pay As You Earn Real Time Information**. These are experimental statistics on employee levels and pay, covering the period to September 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 benefits who are treated as being unemployed (i.e. expected to look and be available for work), compiled from Jobseeker's Allowance and Universal Credit data. 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 unemployment as at 10 September 2020.
- **The Alternative Claimant Count**. These statistics also measure the number of people claiming benefits who are treated as unemployed, but provide additional data on the 'flow' of claimants into and out of this status – and so provides useful additional context in analysing changes in the overall level of the claimant count.

Summary

Today's figures show that the official measure of employment has fallen by significantly more than had been previously estimated. Overall, employment is down by nearly half a million since the crisis began. In addition to this, it remains the case that there are likely to be a further half a million people who were still being counted as employed but were away from their jobs and not being paid.

The fall in employment appears to have been driven by a large fall in part-time work, which accounts for nearly 90% of the decline. Part-time employment is now at its lowest

since late 2013. It appears that women are particularly affected by this, although it has been offset to some extent by an increase in women's full-time employment.

So far, lower employment has fed through more into economic inactivity than into unemployment, but in recent months this has started to shift – with unemployment rising to from 4.1% to 4.5% in the last three months alone.

Redundancies have risen sharply again this month, doubling on the previous quarter to 230 thousand. This is the highest level since summer 2009 and the fastest rate of growth on record. We are forecasting that redundancies will continue to rise sharply through the remainder of the year.

The growth in the number of people claiming benefits and treated as unemployed has slowed down, with the published figure for this month actually slightly lower than the published figure last month. However, there is worrying data out today on benefit flows, which suggests that off-flows from benefit are not catching up with the very large on-flows early in the crisis. If off-flow rates do not increase in the next few months then we are likely to see significant rises in long-term unemployment next year.

Finally, there are some slightly more positive signs from the most recent data in today's figures. The number of payroll employees appears to have stopped falling, and has been broadly flat since June; and vacancies have continued their slow recovery (although they remain low by historic standards). Overall, much of the most negative news today does still appear to be an unwinding of the huge impacts of lockdown, with some signs that the labour market was recovering later in the summer.

Employment fell by more than we had thought during lockdown, and is now 500k lower than before the crisis

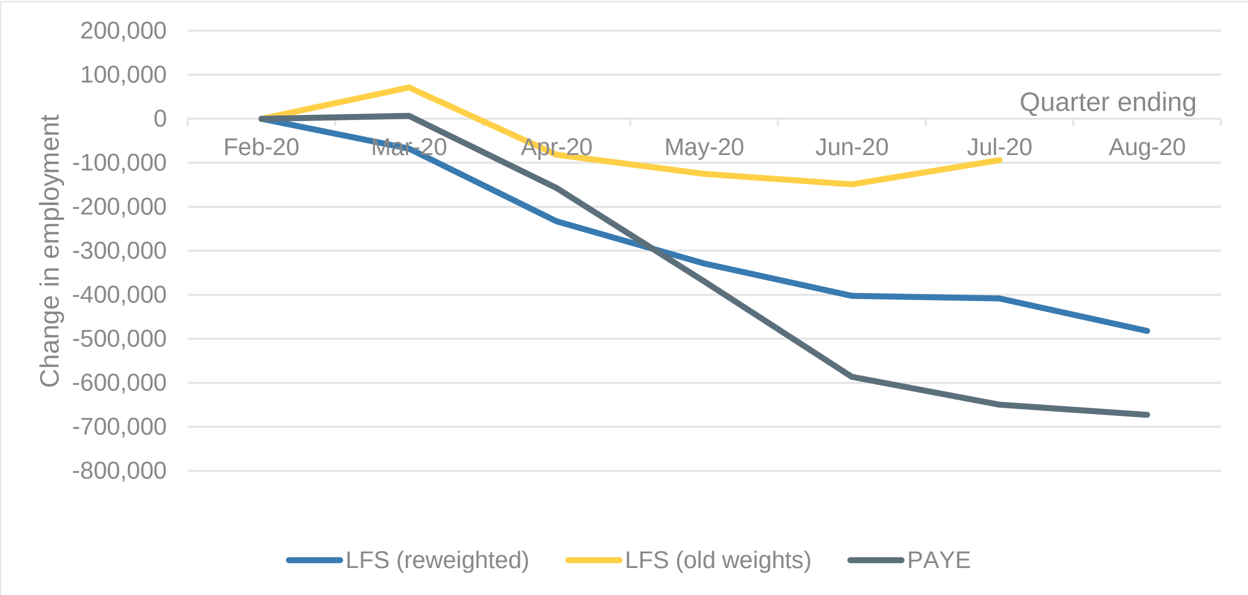
The ONS has today published revisions to the Labour Force Survey (LFS) back to March 2020. These revisions follow changes in the 'weightings' applied to the survey data (explained in this statement). To summarise, there has been a fall in the number of survey respondents overall since the pandemic began, driven by fewer respondents from the private rented sector. The ONS reweights data to account for differences in the age profile of respondents, but not changes in housing tenure. The ONS has now also sought to reweight the data to account for this under-representation of renters and over-representation of owner-occupiers.

At a headline level, this reweighting has led to a downward revision in the estimate of employment, and upward revisions to estimates of unemployment and of economic inactivity. Overall, it is now estimated that the official measure of employment has fallen by 480 thousand since the crisis began. Based on last month's published figures, employment is around 300 thousand lower than previously estimated.

These revisions go some way towards closing the gap between the headline LFS figures, where it had previously appeared that employment had remained broadly flat, and the HMRC PAYE data, which had shown significant falls in employee numbers. Figure 1 illustrates this, setting out the quarterly change in the levels of employment in the LFS under the old and new weightings since the pandemic began, compared with the average quarterly change in the number of paid employees reported in PAYE data.

The fall in the number of paid employees (PAYE data) remains higher than the fall in LFS employment, even though the LFS figures also include the self-employed. The reason for this discrepancy is 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 but still reported that they had jobs to return to (and so are counted as employed in the LFS).

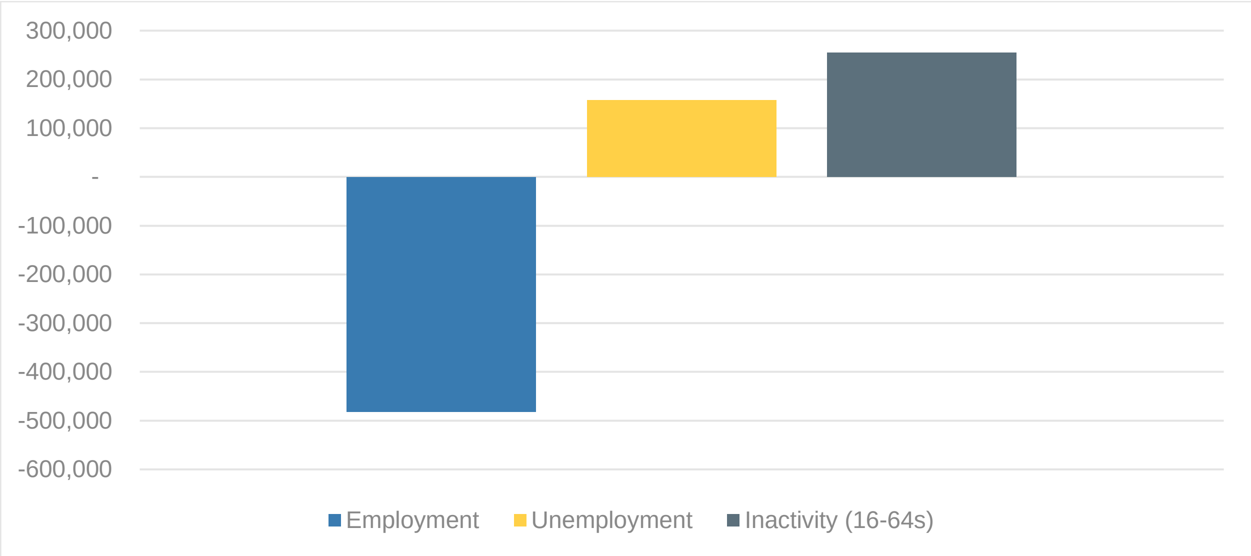
Figure 1: Change in employment levels from Dec-Feb 2020 to Jun-Aug 2020, old and new Labour Force Survey weights compared with HMRC Pay As You Earn data



Source: IES analysis of Labour Force Survey and HMRC PAYE data

As Figure 2 below shows, the fall in employment has so far led to slightly larger rises in economic inactivity (those either not looking or not available for work) than in unemployment. The rises in inactivity have been driven in particular by fewer students looking for work, and by people inactive for reasons not related to their health or caring responsibilities (described as ‘other’ reasons in the statistics).

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



Source: Labour Force Survey

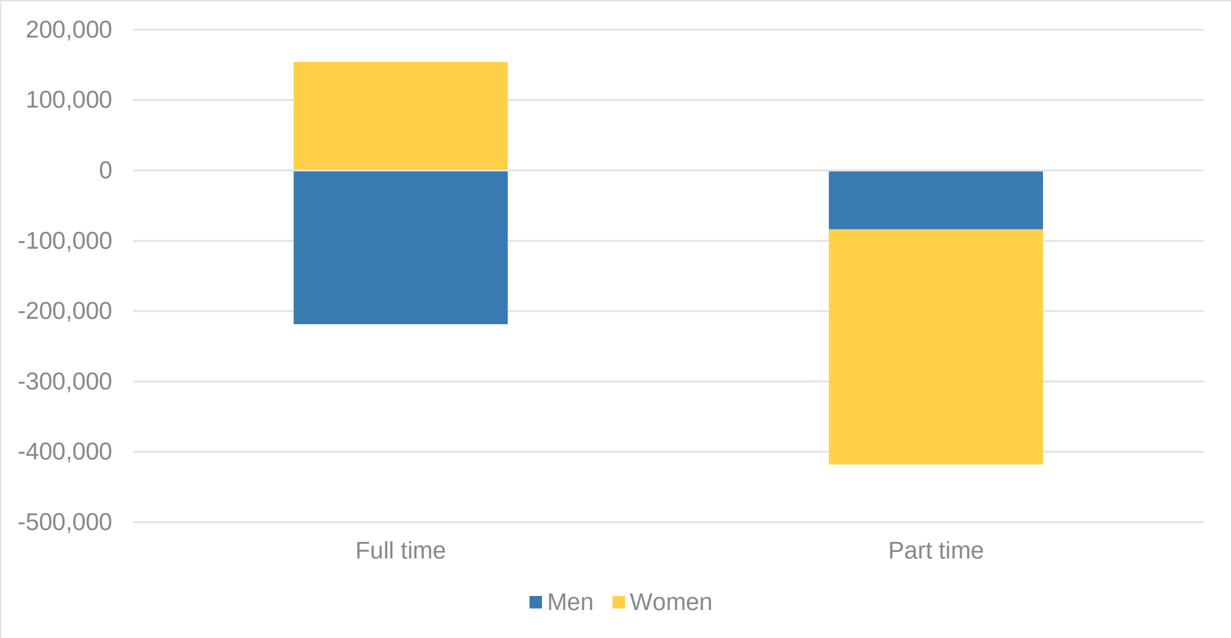
During the crisis this was accompanied by a sharp growth in the numbers who were inactive but stated that they wanted to work, which has dropped back in recent months as lockdown has eased. All of the growth in unemployment has been in the last three months – rising by 140 thousand, to 1.52 million (from 4.1% to 4.5% of the labour force). Unemployment remains at historically low levels, but is at its highest since spring 2017 and is certain to continue to rise through the autumn.

Falling employment is being driven by fewer people in part-time work, and fewer young people in work

Looking in more detail at the fall in employment, it is striking the extent to which this appears to be explained by fewer people in part-time work. This has fallen by 420 thousand, which is nearly 90% of the total fall in employment, to 8.2 million – the lowest figure since the end of 2013.

Looking at the changes by gender, Figure 3 shows that the fall in part-time work is being driven by fewer women working part-time. It is possible that this reflects some women leaving the labour force due to caring responsibilities, particularly as most of this fall appears to have happened in the spring. At the same time though, the number of women in full-time employment has risen – so part of this may be a shift to full-time work, perhaps due to employers changing working patterns in response to the furlough rules, or perhaps to compensate for a loss of partner earnings (with male full-time employment also falling significantly).

Figure 3: Changes in part-time and full-time work by gender, Dec-Feb 2020 to Jun-Aug 2020

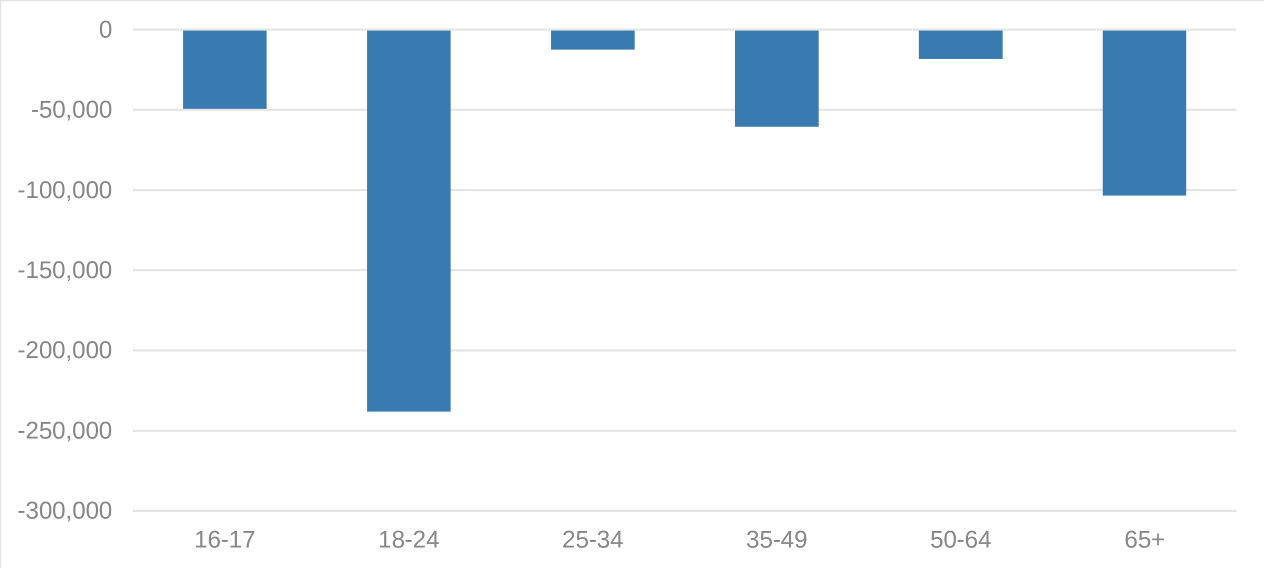


Source: IES analysis of Labour Force Survey

As with previous months, today's figures also show clearly that young people appear to be bearing the brunt of the labour market impacts so far. Overall, three fifths of the fall in employment is accounted for by fewer young people in work, while a further one fifth is explained by fewer people aged over-65 in work. This is set out in Figure 4 below, showing the change in employment levels by age group over the last six months.

The youth employment rate is now at its lowest since 2014. The large falls in youth employment appear to have been accompanied by higher levels of economic inactivity among students, and so likely reflect a combination of fewer entry-level or student jobs being available, higher levels of furlough and job loss among young people, and more students choosing not to look for work.

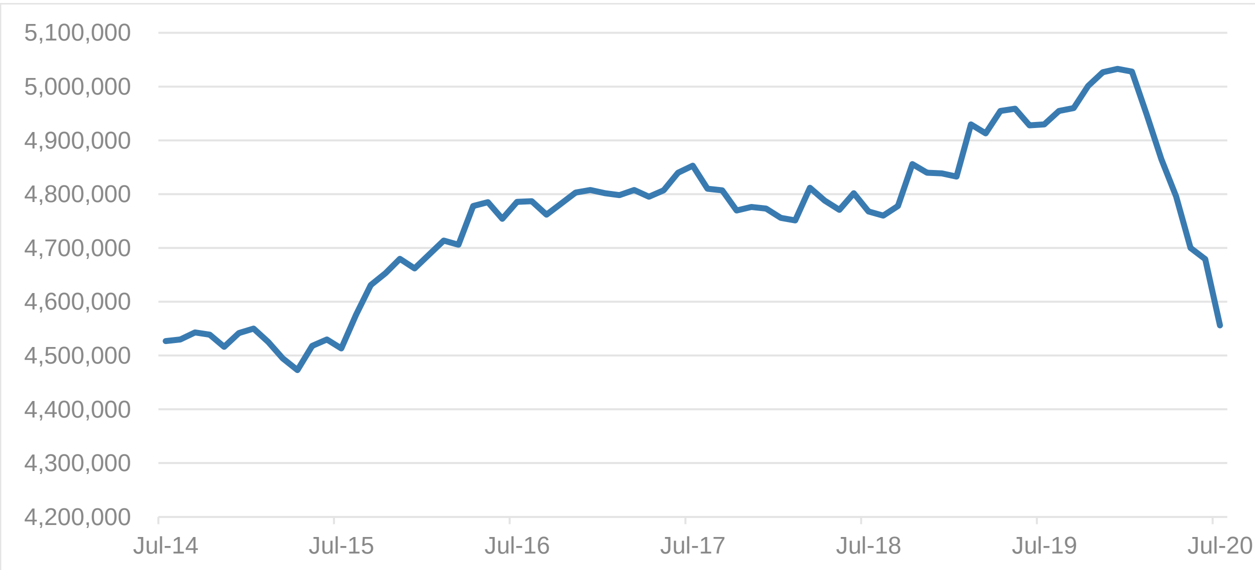
Figure 4: Change in employment levels by age, Dec-Feb 2020 to Jun-Aug 2020



Source: IES analysis of Labour Force Survey

Finally on the employment figures, it is also striking how far the fall in employment overall has been accompanied by fewer people in self-employment. Figure 5 illustrates this – with self-employment down by 470 thousand since before the crisis began (i.e. virtually the same as the fall in total employment). As we set out in our August briefing, these figures should be treated with a bit of caution as it appears most of the fall in self-employment during lockdown was explained by people moving into dependent employment (i.e. employees) rather than people exiting work altogether. We will have a better idea next month, when new 'flows' data is published, on whether this has continued to be the case. Either way, the number of people reporting as being self-employed is now at its lowest since 2015.

Figure 5: Self-employment

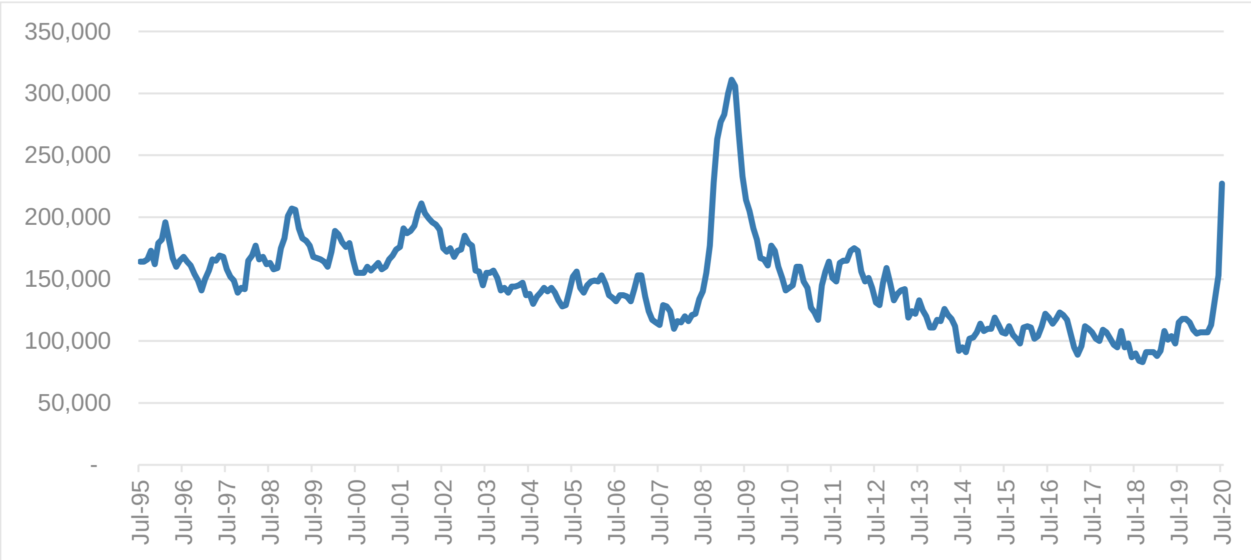


Source: IES analysis of Labour Force Survey

Redundancies have doubled in three months, to their highest since June 2009, and will continue to rise

Away from the headline labour market statistics, the other big news in today's figures is a record increase in redundancies. These have doubled in the last three months alone, with 230 thousand people reporting having been made redundant in the three months to August. Figure 6 below sets this out. This is the most redundancies since summer 2009, and the fastest rate of growth in redundancies since this time series began in 1995.

Figure 6: Redundancies

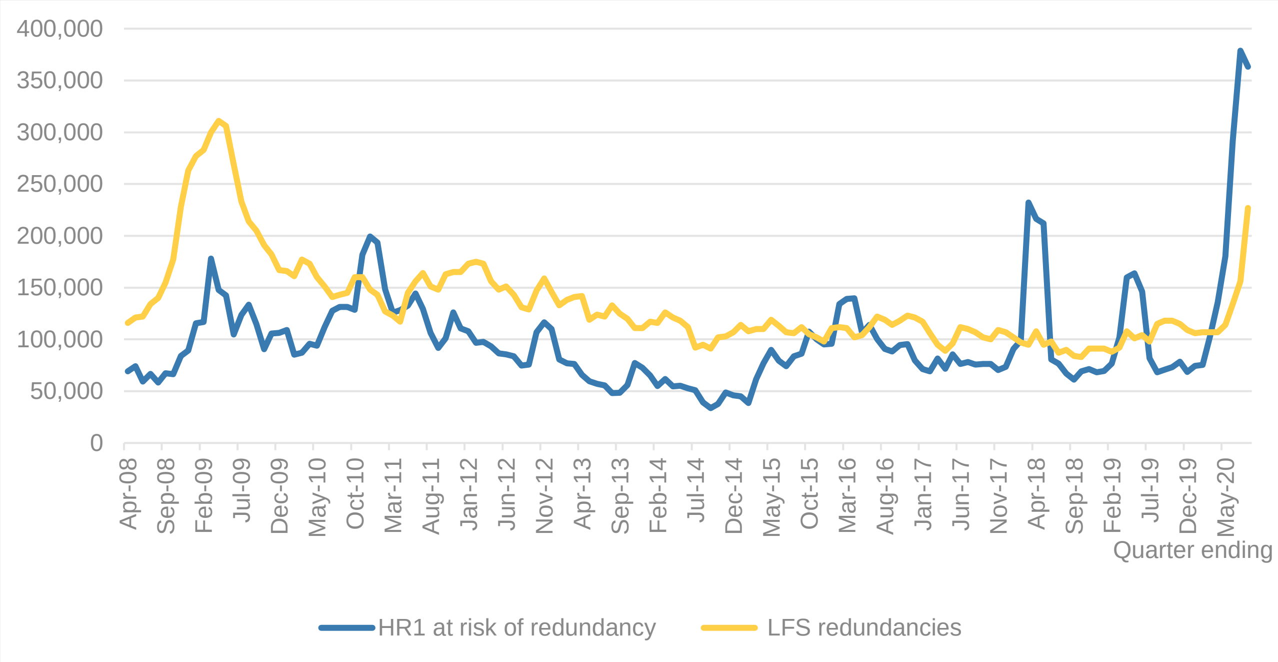


Source: Labour Force Survey

So far, the rise in redundancies is in line with the central scenario that we set out in the On Notice briefing paper last month. That briefing paper was based on analysis of employer notifications that were made to the Insolvency Service before the end of July, which were running at more than double the levels of the 2009 recession. Figure 7 below updates analysis set out in that report, to include HR1 data for August and LFS redundancy data for the last two months.

We are forecasting that the yellow line will overtake the blue line in the coming months, as it has done in previous crises, and that there will be around 600 thousand redundancies during the second half of this year (with a quarterly peak of likely around 450 thousand).

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

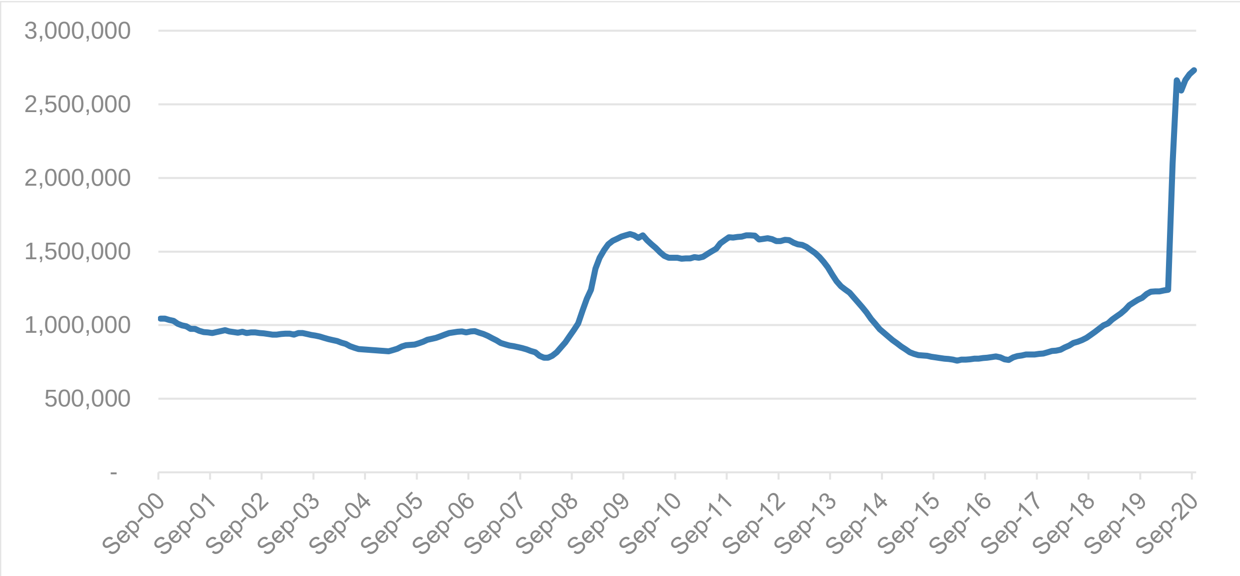
The rate of growth in the number of people claiming benefits and being treated as unemployed has slowed

Today's claimant count data, which measures all of those claiming benefits, out of work[1] and being treated as unemployed, shows a relatively small increase of 28 thousand in the month to 10 September. Somewhat confusingly, the claimant count has been subject to significant revisions in every month and so the published figure this month is actually below the originally published figure for August – which has now been revised down from 2.74 million to 2.70 million. Either way, the growth in the count is clearly slowing, after the meteoric rises at the start of lockdown. As previous briefings have set out, these rises appeared to be driven by a combination of falling employment, the half a million people who reported that they had a job to return to but were not being paid, self-employed people with no earnings, and non-working partners of new claimants who were *already out of work* but were not previously treated as unemployed in the benefits system.

[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.

So far, relatively little of this increase in the claimant count has fed through into headline unemployment, but it seems likely that the headline measure will continue to catch up with the claimant count in the months ahead.

Figure 8: Claimant count level



Source: Office for National Statistics

Analysis of the claimant count by age, region and local authority leads to very similar (virtually identical) findings to last month's briefing, and so is not reproduced in detail this month. As with last month, young people have seen generally larger rises than other age groups, but all age groups have seen claimant rates more or less double. There have also been similar increases by region and local area, although London stands out as having had disproportionately large increases. Percentage point changes by local area have been fairly similar outside of London, with the correlation between previous claimant rates and the growth in the rate during the crisis actually weakening slightly in the last month.

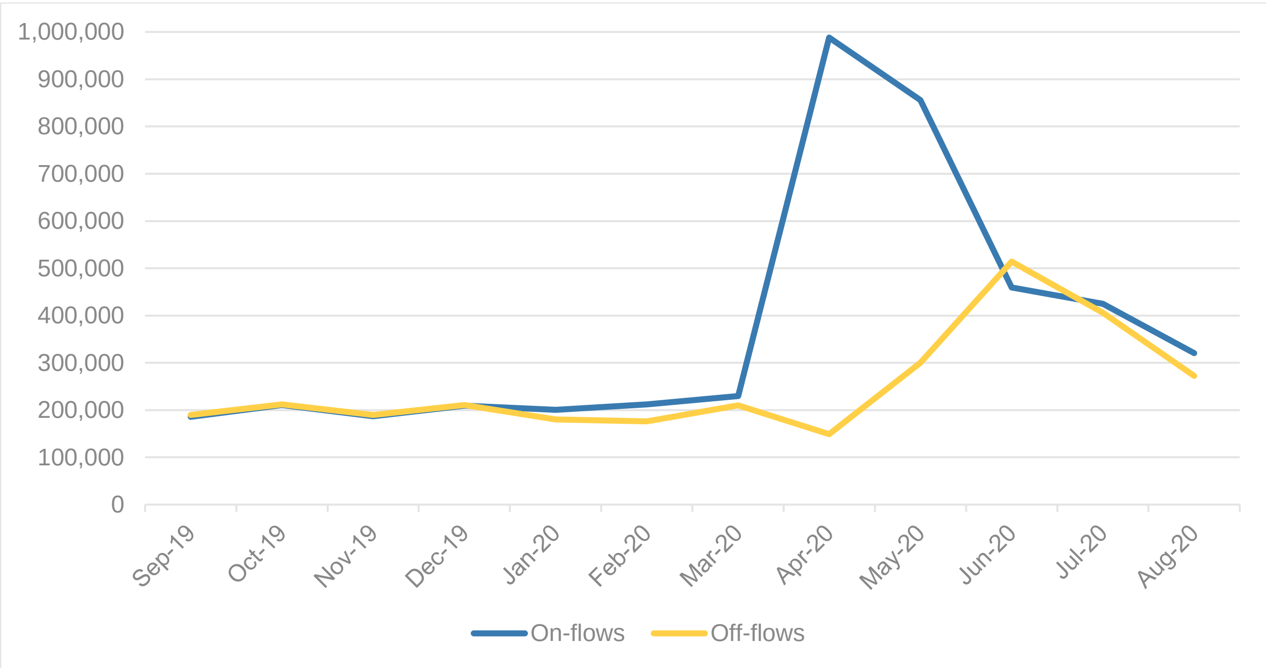
Flows out of the claimant count are not making inroads into the large rises from early in the crisis

Today has also seen publication of new 'Alternative Claimant Count' data, which shows in particular the estimated number of people who flowed into the claimant count (i.e. being treated as unemployed) and out of the claimant count up to August 2020. Figure 9 below sets this out. The data shows clearly (as we know) that the growth in the count was driven by a huge increase in on-flows in the months to April and May. However it also shows that while on-flows fell back over the summer, they remain well above their historic levels – with on-flows in August of 320 thousand compared with an average of 200 thousand before the crisis began.

Of more significant concern however, the graph also shows that off-flows are not keeping up. The spike in June was caused by self-employed claimants leaving the count on receipt of their Self-Employed Income Support payments, with off-flows in July and August barely tracking on-flows in those months.

If off-flow rates cannot increase to significantly above on-flows in the coming months, then we will see large increases in long-term claimant unemployment which will almost certainly feed through into large rises in the official measure of long-term unemployment as well.

Figure 9: Flows onto and out of the Alternative Claimant Count

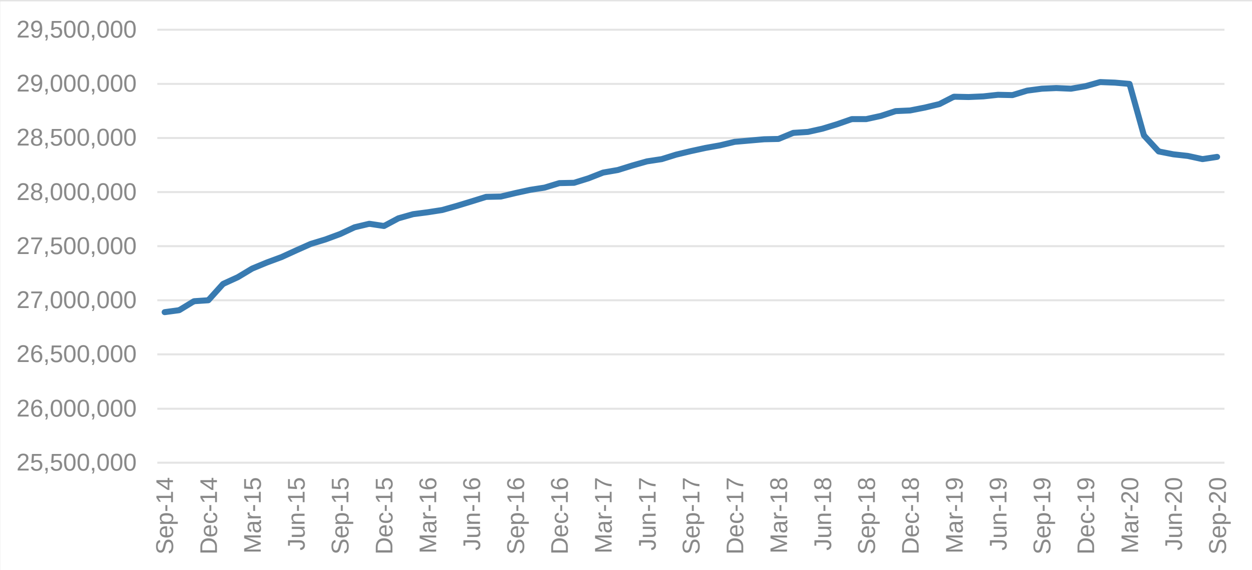


Source: Alternative Claimant Count

There are some positives today: the fall in employees is levelling off, and vacancies continue to slowly recover

Finally, there are some positives in today's figures. Most importantly, the PAYE data published today shows that the number of paid employees had stopped falling over the summer and has been broadly flat since June (at 28.3 million). This has happened even while the number of workers on furlough has fallen sharply (with the ONS Business Impacts of Coronavirus Survey estimating that furlough rates fell from around 25% of the workforce in late June to 9% by mid September). As Figure 10 shows, the number of payroll employees does however remain around 700 thousand below where it was before the crisis began.

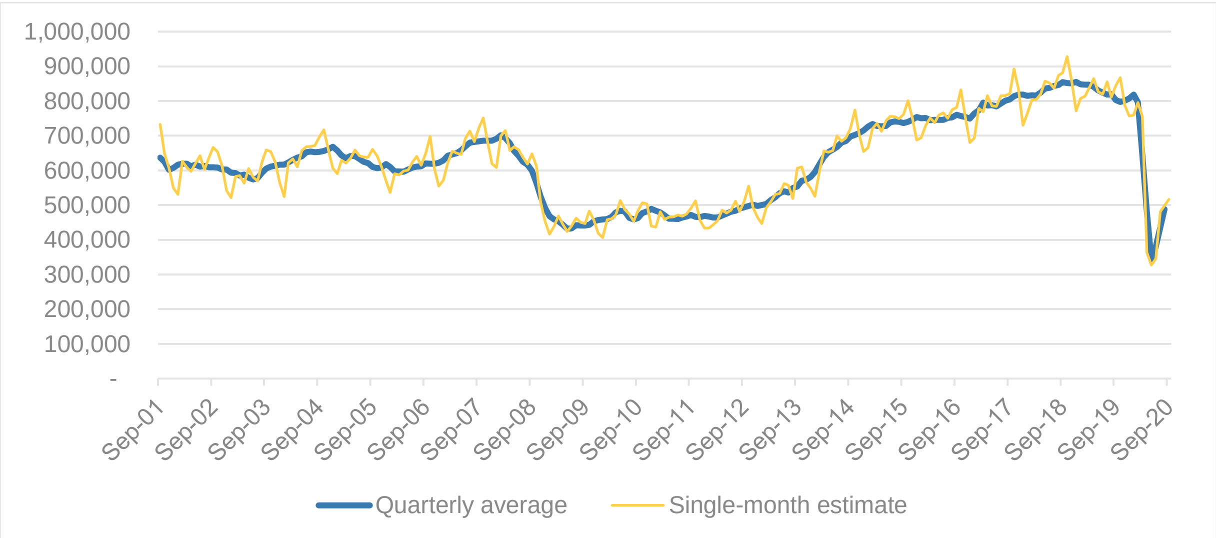
Figure 10: Number of payrolled employees



Source: HMRC PAYE data

Secondly, vacancies have continued their slow recovery from the depths of lockdown. The quarterly average for July-September now stands at nearly 500 thousand, which is broadly in line with vacancy levels during the early 2010s, while the single-month estimate for September is slightly higher, at around 520 thousand. As with last month, this has been driven particularly by vacancies in smaller firms, the public sector, and recovery in administrative/ support, finance and construction roles.

Figure 11: Vacancies – quarterly and single-month estimates



Source: ONS Vacancy Survey

Conclusions and implications

Today's figures show that the labour market continued to weaken through the summer as the impacts of lockdown fed through into lower employment, rising unemployment and very fast-rising redundancies. These appear to have impacted on young people, part-time workers and the self-employed in particular, although in part these impacts may have been offset by increased numbers of students, some people moving to full-time work, and self-employed people taking up employee jobs.

These trends are likely to continue in the coming months, and we will likely also start to see rises in longer-term unemployment unless out-flows from unemployment start to pick up. There will be LFS data on flows next month which should shed more light on this.

Despite this gloomy picture overall, there were nonetheless signs of improvement in the late summer and into September. In particular, it is noticeable that the big declines in the numbers of people on furlough did not feed through into large falls in employment overall. This may well moderate the negative effects over the next few months, particularly if more of the impacts of the crisis are felt on working hours rather than employment levels.

Finally, should also be noted that none of today's data takes account of the tightening of restrictions announced in September, nor the prospect of further local lockdowns. All of these will be adding to employer uncertainty and likely reducing economic activity.

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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