ies Briefing
Institute for Employment Studies

Labour Market Statistics, September 2021

14 September 2021

This briefing note sets out analysis of the Labour Market Statistics published this morning. The analysis mainly draws on **Labour Force Survey (LFS)** data, which is the main household survey that collects official figures on employment, unemployment and economic inactivity and where the most recent data covers the period May to July 2021. This is supplemented by analysis from the **ONS Vacancy Survey**, which collects employer data on open vacancies and includes data up to August 2021; and from **Pay As You Earn (PAYE) Real Time Information** data, which are administrative payroll figures on employee levels and pay also covering the period to August 2021.

Summary

The labour market is continuing to recover strongly, with employment up on the quarter, unemployment down and vacancies above one million for the first time. However this recovery disguises the fact that the overall labour market is over half a million smaller than when the crisis began – the largest contraction since the early 90s recession. Around two thirds of this is explained by higher 'economic inactivity' (driven by students, long-term ill health and family care) and one third by fewer foreign workers. As a result, the lack of workers is now becoming a bigger challenge in the labour market than any lack of jobs.

The jobs recovery appears to be somewhat stronger for young people and those aged 50 to 64, partially reversing the larger falls for these groups during the crisis. However the recovery appears to be weaker for women than men, with part-time work in particular not recovering to the same extent as full-time work. At the same time though, the number of people in part-time work because they can't find a full-time job remains above pre-crisis levels, as does the number in involuntary temporary work. This suggests that even with labour shortages and high demand, many people in the labour force may not be getting the flexibility or job security that they need.

In more positive news, long-term unemployment appears to be levelling off, earlier than we had previously anticipated. Redundancies are also now below pre-crisis levels and showing no signs of increase. Looking at trends across sub-regions, it appears that London and Scotland are continuing to lag behind other areas in the recovery, likely driven by international travel and the offshore oil and gas industry. The recovery otherwise appears to be broad based across areas, industries and jobs.

As with last month's briefing, today's figures reiterate that we – government, employers and wider partners– need to do far more to help bring more people into the labour market, and particularly those who are studying, have health conditions or have caring responsibilities.

The recovery is continuing – but this is still the largest fall in the size of the labour market since the early 90s

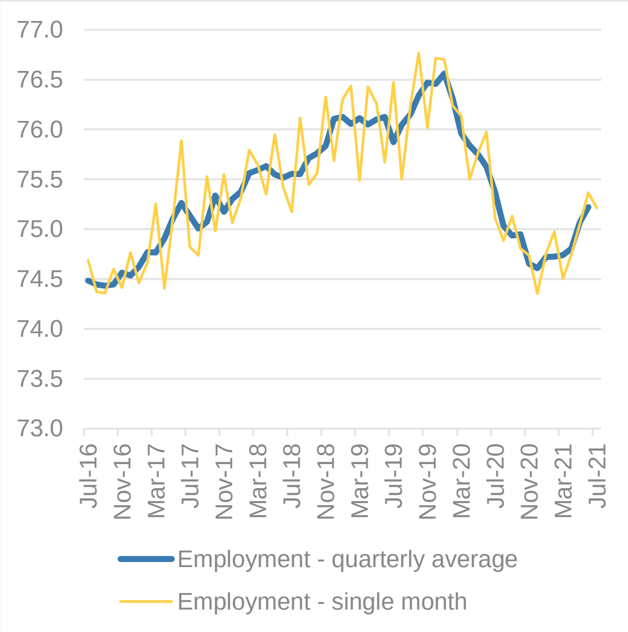
Today's figures show that the labour market recovery continued to gain momentum through the summer. On the most recent quarterly data (comparing February-April 2021 with May-July 2021), the employment rate increased by 0.5 percentage points to 75.2% (a rise of 180 thousand) while unemployment fell by 0.3 points to 4.6%. Economic inactivity, which measures those people not looking for work and/ or not available for work, also fell back this quarter to 21.1% (down by 0.3 points). These are all the strongest quarterly improvements that we have seen since the crisis began.

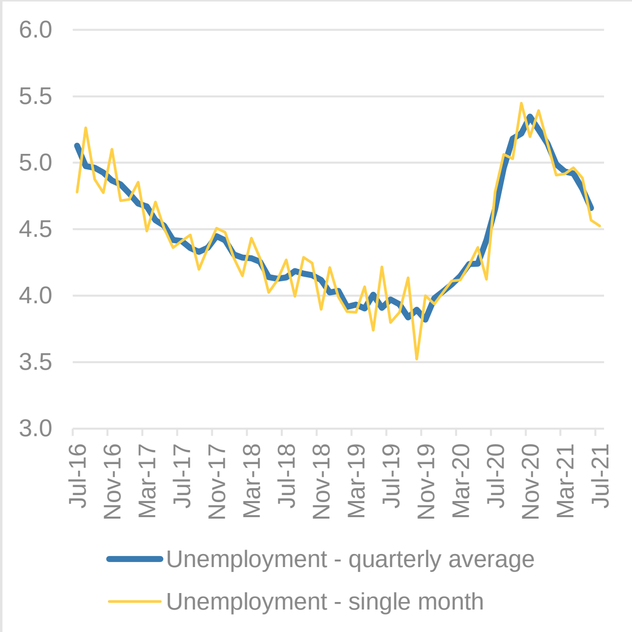
Figure 1 below shows the headline working age employment and unemployment rates, with rolling quarterly estimates in blue and underlying single-month estimates in yellow. The strong single month estimates for June and July suggest that we will continue to see improvement in the quarterly average figures for at least another month or two. In addition, the most recent PAYE data suggests that if anything the next few months may see even larger increases in employment, with the rise between July and August the highest since this data series began in 2014 (although these figures nee to be treated with some caution, as they are subject to monthly revision and exclude self-employment – with some of the recent growth likely to reflect changes in treatment of 'off payroll' workers introduced in April 2011 rather than changes in total employment).

However, despite these recent improvements, Figure 2 below shows that employment remains 720 thousand below pre-crisis levels, with unemployment 'only' 190 thousand lower. In other words, the overall labour market has contracted by more than half a million (530 thousand) since the crisis began. This is comfortably the largest fall since the early 1990s recession, and with up to a further 800 thousand people still 'employed' but on furlough this could in reality be the largest contraction since comparable records began in the early 1970s.

Figure 2 shows that about two thirds of this fall is being driven by higher economic inactivity (up by 340 thousand), while last month's briefing reported that around one third (180 thousand) is explained by fewer foreign workers in the UK.

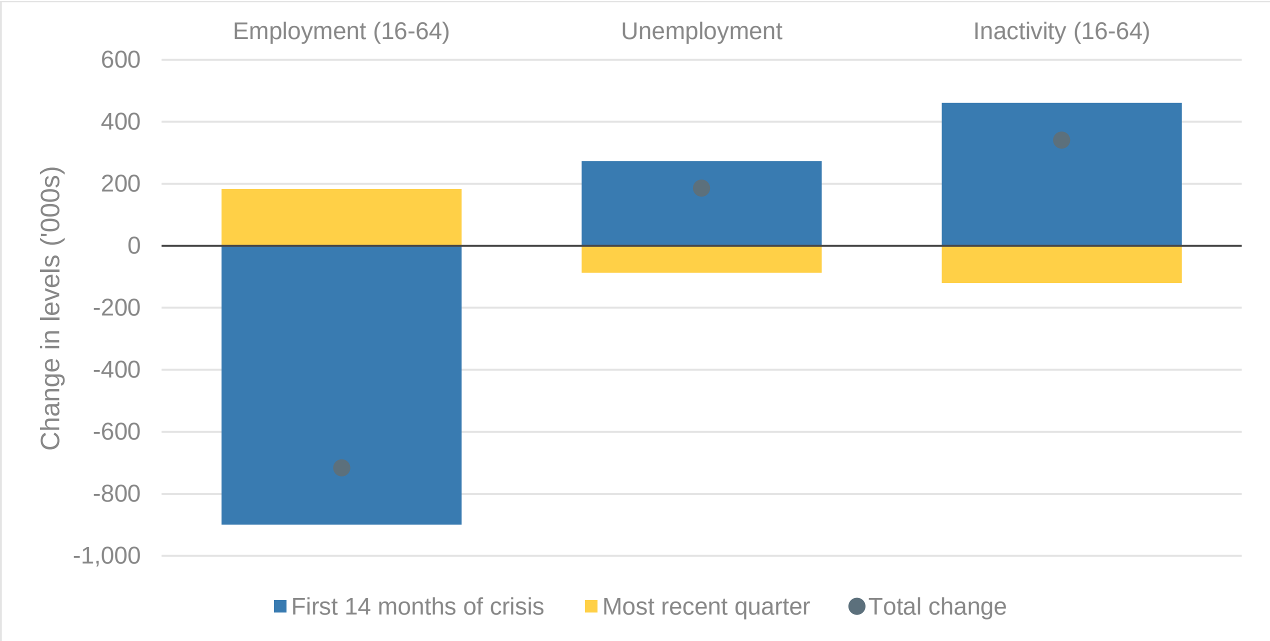
Figure 1: Employment and unemployment rates (16-64) – quarterly average with single-month estimates





Source: Labour Force Survey

Figure 2: Changes in employment, unemployment and economic inactivity: first fourteen months of the crisis (Dec-Feb 2020 to Feb-Apr 2021) and most recent quarter (Feb-Apr 2021 to May-Jul 2021)



Source: Labour Force Survey

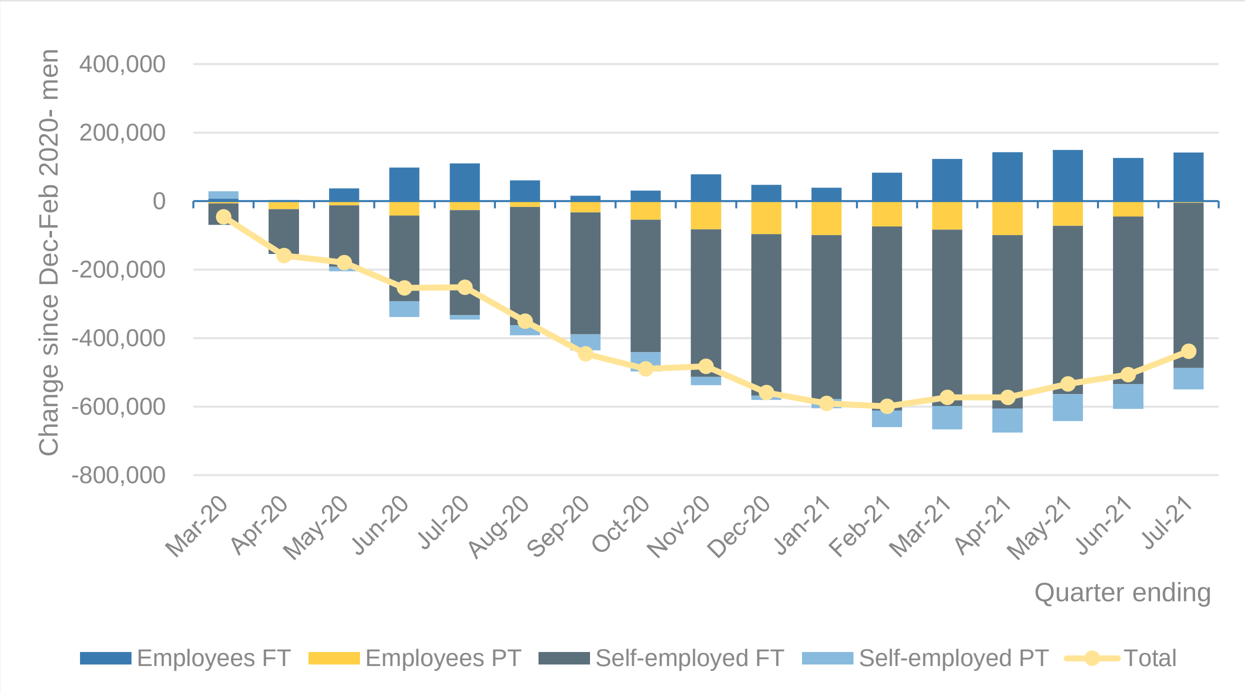
The recovery appears to be a bit stronger for those hit harder in the crisis – but a bit weaker for women

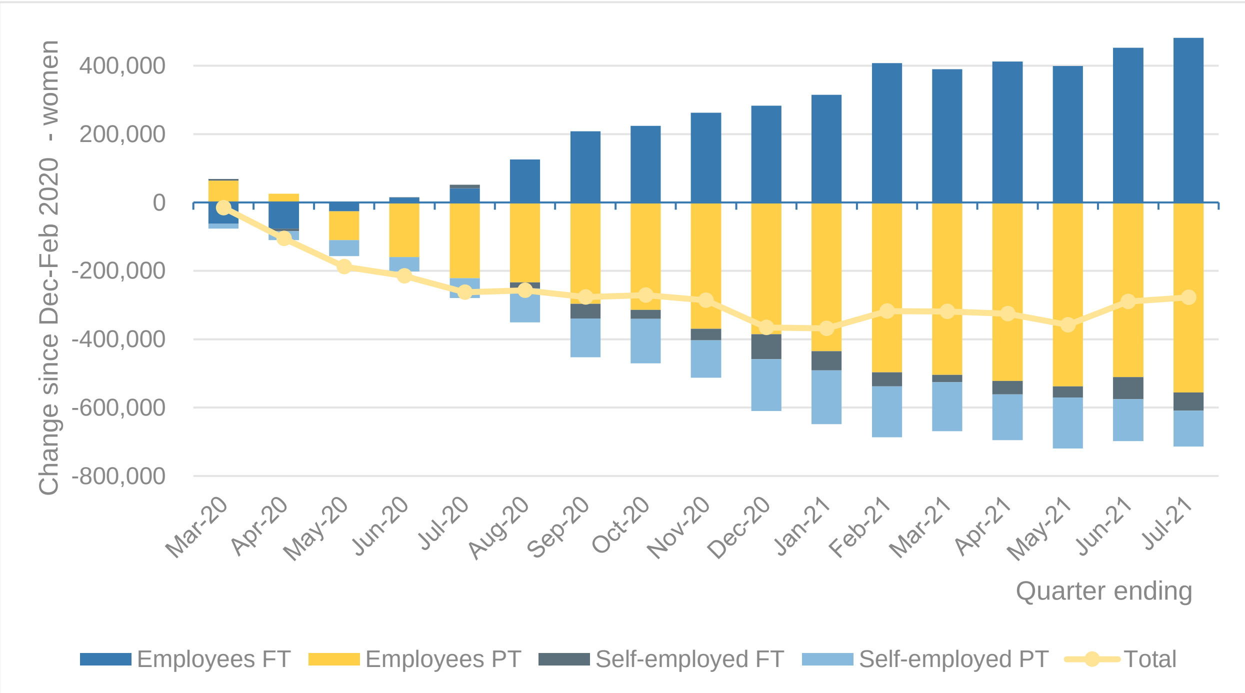
Figure 3 below shows changes in part-time, full-time, employee and self-employed work for men and women. The crisis continues to be characterised by a large fall in self-employment (still 700 thousand below pre-crisis levels) and part-time work (down by 790 thousand). Falling self-employment has particularly affected men – who accounted for two thirds of all self-employed; while falling part-time work has particularly affected women – who were three quarters of all part-time workers. This has been partially offset by rising full-time 'employee' employment, with growth stronger for women than men.

Figure 3 also suggests that in recent months the recovery in employment for women may have slowed, mainly due to continued weakness in part-time employment (despite some signs last month that this may have been starting to rise). As we have reported previously, and in research with Timewise earlier in the year, this may well reflect fewer workers being able to get the flexibility and working patterns that they need in order to return to work.

The latest data on changes by age suggests that those age groups hit harder during the crisis are seeing stronger recoveries as restrictions ease, with Figure 4 showing that those aged under 25 and between 50 and 64 accounted for almost all (93%) of the employment growth in the latest quarter. Nonetheless, employment for young people remains 7.3% below pre crisis levels, compared with a fall of 1.5% for those aged 25 and over.

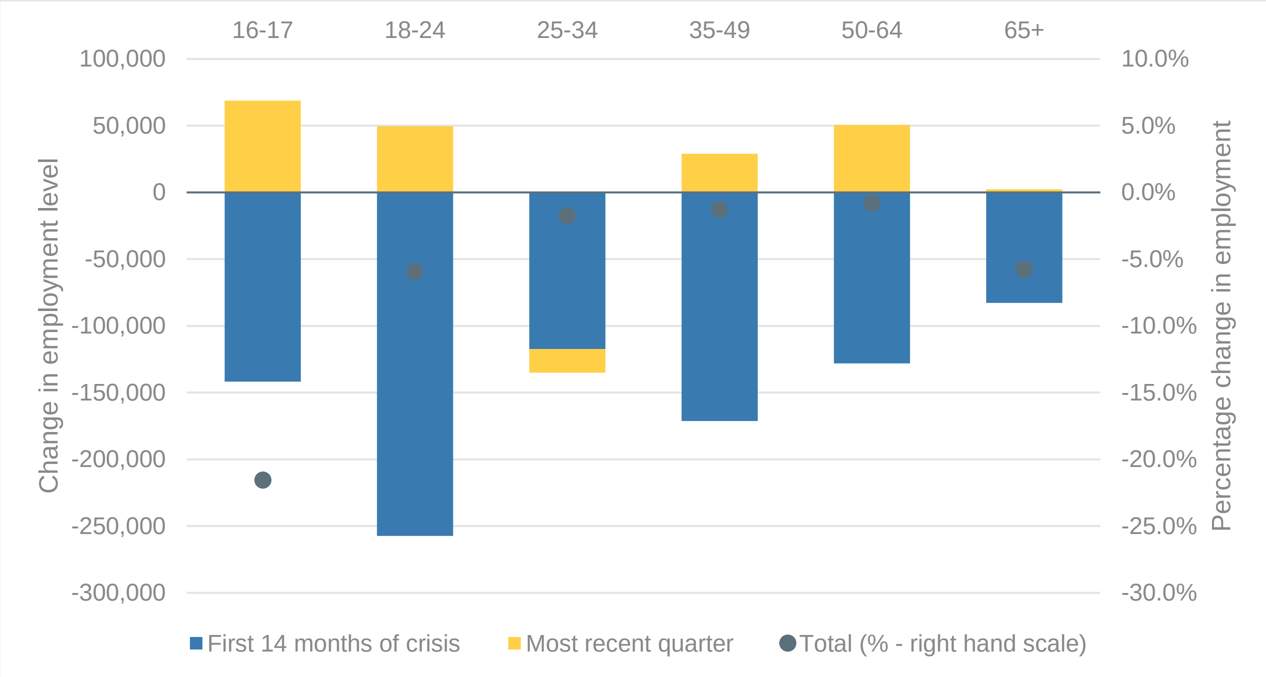
Figure 3: Change in full-time, part-time, employee and self-employed work since start of crisis (December-February 2020 quarter) – for men (top) and women (bottom)





Source: Labour Force Survey

Figure 4: Change in employment by age – first 14 months of the crisis (Dec-Feb 2020 to Feb-Apr 2021) and most recent quarter (Feb-Apr 2021 to May-Jul 2021)



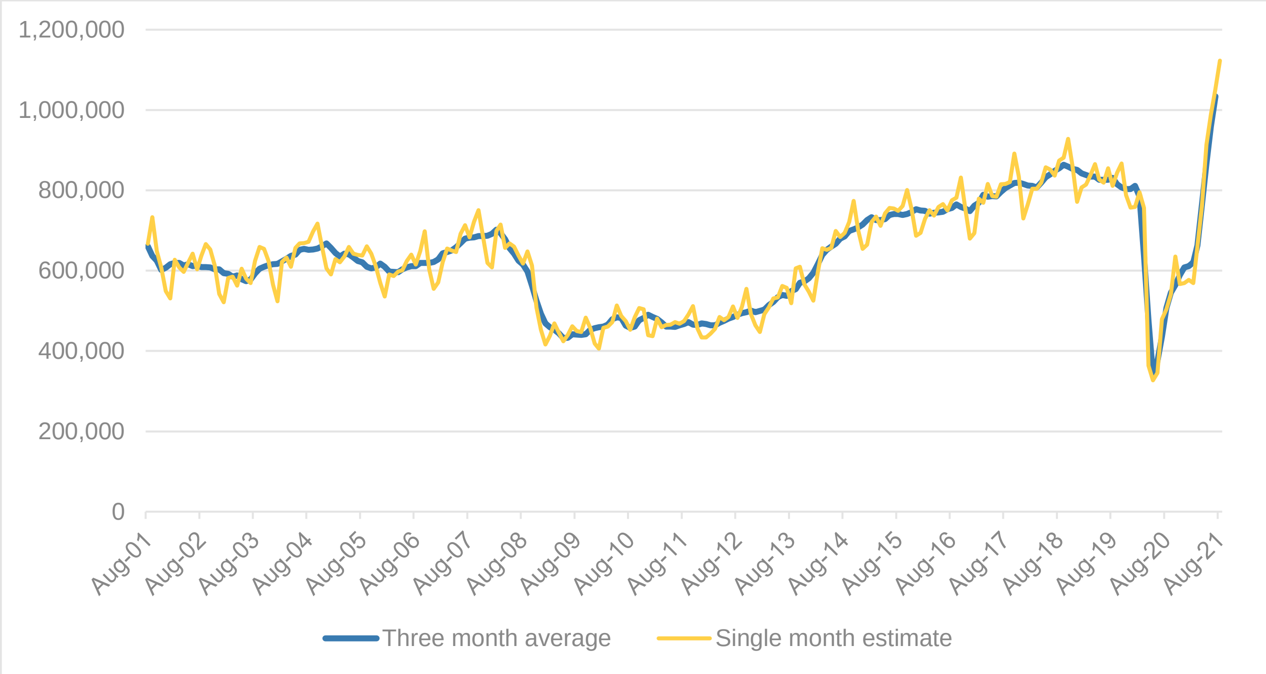
Source: Labour Force Survey

Record vacancies means employment growth is set to continue

The other standout statistic today, as with recent months, was the latest estimate of total vacancies in the economy. The quarterly average figure (for June to August) has now crossed one million vacancies (1.03 million) after the single month estimate for July passed a million last month. With the single month August figure even higher still, at 1.12 million (as Figure 5 below shows), the quarterly estimate appears likely to rise again next month.

As with the figures last time round, these vacancy figures have been boosted by ‘shutdown sectors’ reopening in late July but reflect a broad based recovery across industries and firm sizes. So while vacancies are likely to fall back towards the end of the year as furlough ends and ‘reopening’ jobs are filled, it appears very unlikely that they will fall back below pre-crisis levels. In other words, labour supply will continue to struggle to keep up with higher demand.

Figure 5: Vacancies – quarterly and single-month estimates



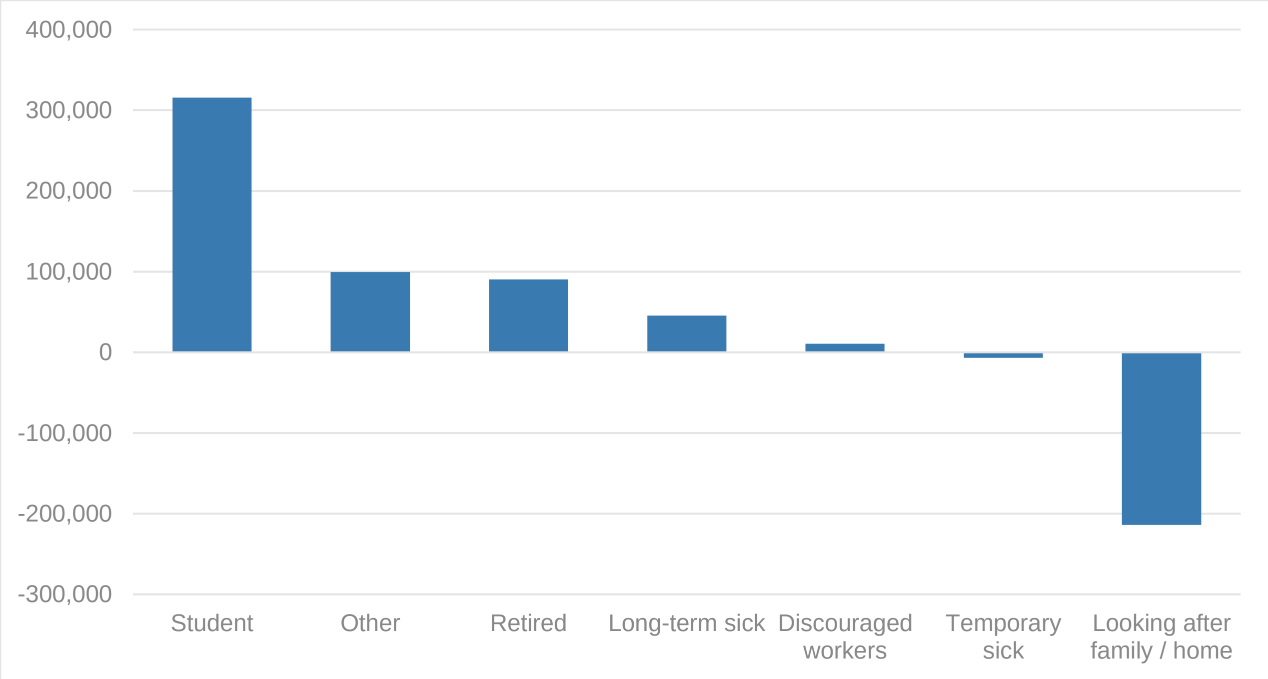
Source: ONS Vacancy Survey

Students, long-term ill health and family care continue to explain the vast majority of 'economic inactivity'

As set out in previous months, the large growth in economic inactivity since the onset of the crisis is mainly explained by higher student numbers. These are up by nearly 320 thousand, as shown in Figure 6 below. This is also contributing to lower youth employment overall, even as the number of young people outside of employment, education or training is falling.

The crisis has also seen a rise in those saying that they are retired (up by 90 thousand) and those inactive for 'other', likely pandemic-related, reasons (up by 100 thousand). At the same time there has been a fall of 210 thousand in the number inactive due to family care, perhaps reflecting more parents moving in to work due to a partner losing their job or income, or possibly more parents being able to stay in work due to the ability to work from home.

Figure 6: Change in levels of economic inactivity by reason, Dec-Feb 2020 to May-Jul 2021

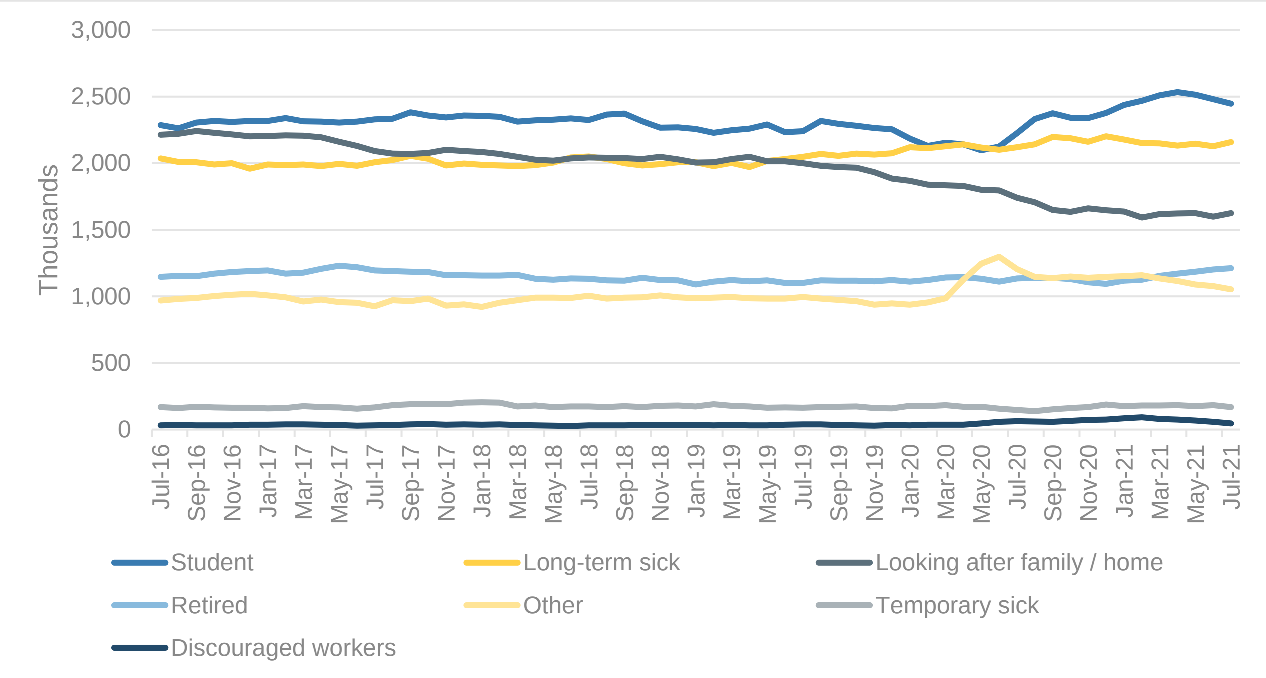


Source: Labour Force Survey

Nonetheless, looking at overall levels of economic inactivity (Figure 7) shows that between them, students, long-term ill health and family care account for over six million of the 8.7 million people who are economically inactive (72% of the total). Overall one in five of those who are economically inactive (1.7 million people) state that they want to work, with the largest group within this being people with long-term health conditions (480 thousand people).

As we said last month, the government's Plan for Jobs measures have so far largely ignored economic inactivity and instead focused on tackling the crisis-related impacts on employment and unemployment. With employers struggling to fill jobs and unemployment now falling, there is a clear economic as well as social case for doing far more to support those who are economically inactive to return to the labour market and then to take up work – in particular a greater focus on measures to support those with long-term health conditions to stay in and return to work, and to support parents with flexible and affordable childcare. Employers will need to do more too, particularly by designing jobs and recruiting to them in ways that will enable students, older people, those with health conditions and parents to take them up.

Figure 7: Reasons for economic inactivity



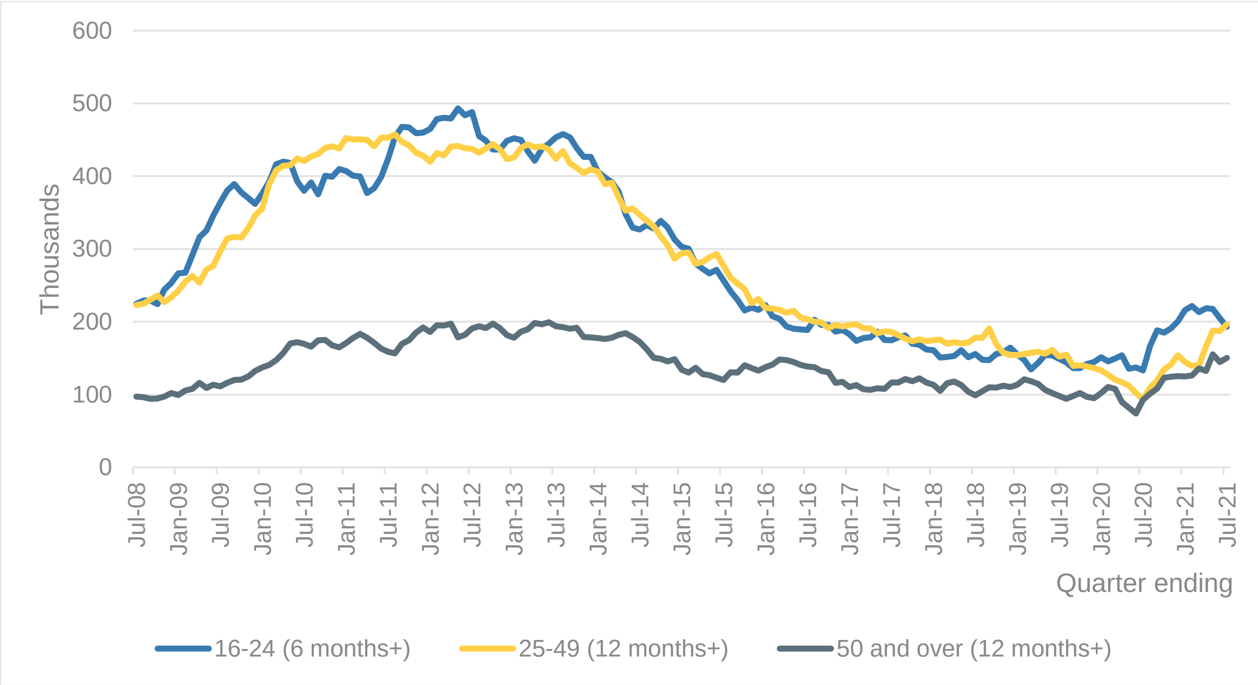
Source: Labour Force Survey

Long-term unemployment appears to be levelling off – far earlier than after previous crises

In more positive news, today's figures for long-term unemployment are very similar to those published last month, and so confirm that long-term unemployment may be at or near its peak (and may even be starting to fall for young people). We define long-term unemployment as more than twelve months of unemployment for those aged over 25, and more than six months for those aged 16-24. Figure 8 below shows that this has fallen back to around 30% above pre-crisis levels for young people, while it is around 40-50% higher for older people. During the last recession, long-term unemployment more than doubled on pre-crisis levels and did so two to three years after the recession ended.

We had anticipated that long-term unemployment would continue to rise during the autumn and peak early next year, as the impact of last autumn's job losses continued to feed through. If it doesn't do so, then this will largely reflect the strength of the recovery in the last few months and that many of those who are actively looking for work have been able to find new jobs before reaching long-term unemployment.

Figure 8: Long-term unemployment by age



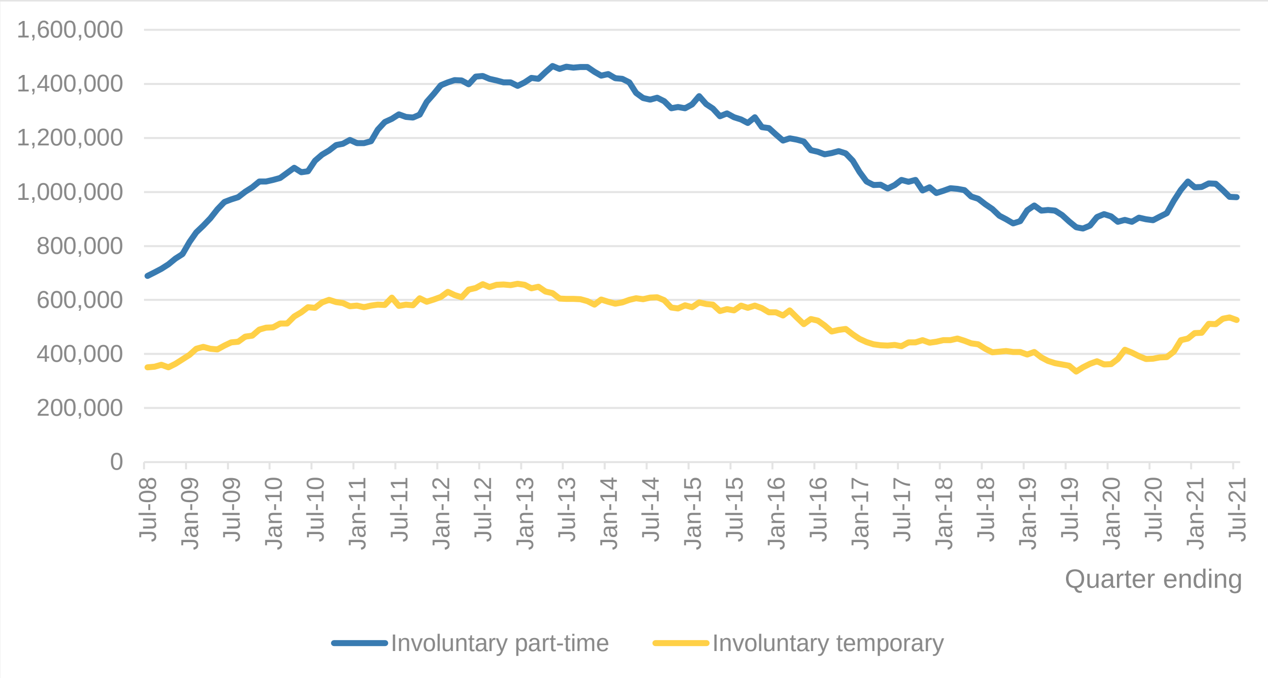
Source: Labour Force Survey. Long-term unemployment is defined as unemployment of more than six months for young people, or more than twelve months for those aged 25 and over.

Despite strong vacancies and falling part-time work, involuntary temporary and part-time work remains high

Somewhat surprisingly, given the very high levels of vacancies and apparent tightness of the labour market, there do not yet appear to be any signs of the number of people in 'involuntary' temporary work falling back (i.e. those who want but can't find a permanent job). At the same time, even though part-time employment has fallen overall, the number in part-time work who want a full-time job remains well above pre-crisis levels. In all, one third of all temporary employees want a permanent job (compared with a quarter before the crisis), while one in eight part-time workers want full-time work (compared with one in ten pre-crisis).

Figure 9 below shows the levels of involuntary temporary and part-time work, and these remain below the levels reached in the last crisis and may well start to edge down in the coming months. But as we said last month, this may suggest that some employers are still uncertain about the strength and duration of the recovery, and it may also reflect some employers not being willing or able to offer the hours and security that workers want – which in turn may be contributing to higher levels of turnover and vacancies in the economy.

Figure 9: 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



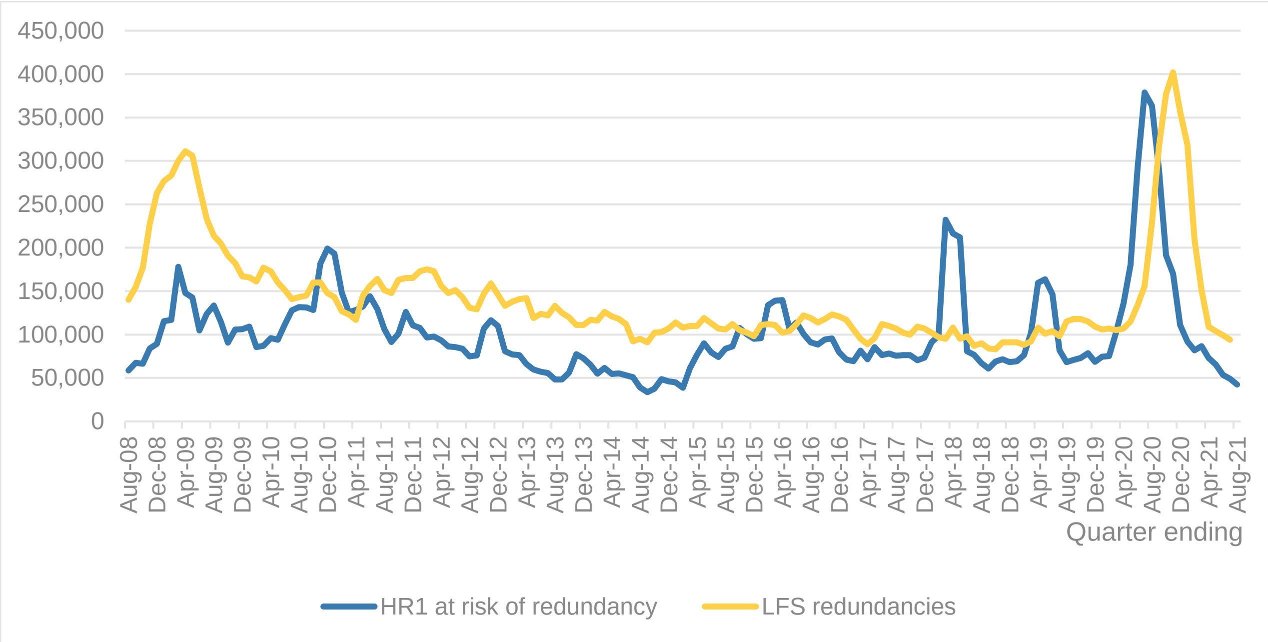
Source: Labour Force Survey

Redundancies remain at pre-crisis levels and still show no signs of increasing

The latest redundancy figures are set out below. As in previous briefings, Figure 10 shows the estimated 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; then Figure 11 shows the estimated weekly figures up to the end of July. As with last month, redundancies continue to plumb the levels reached before the crisis began and show no signs of any increase as the end of furlough approaches. Real time online searches for information about redundancies (via Google Trends) are also below pre-crisis levels.

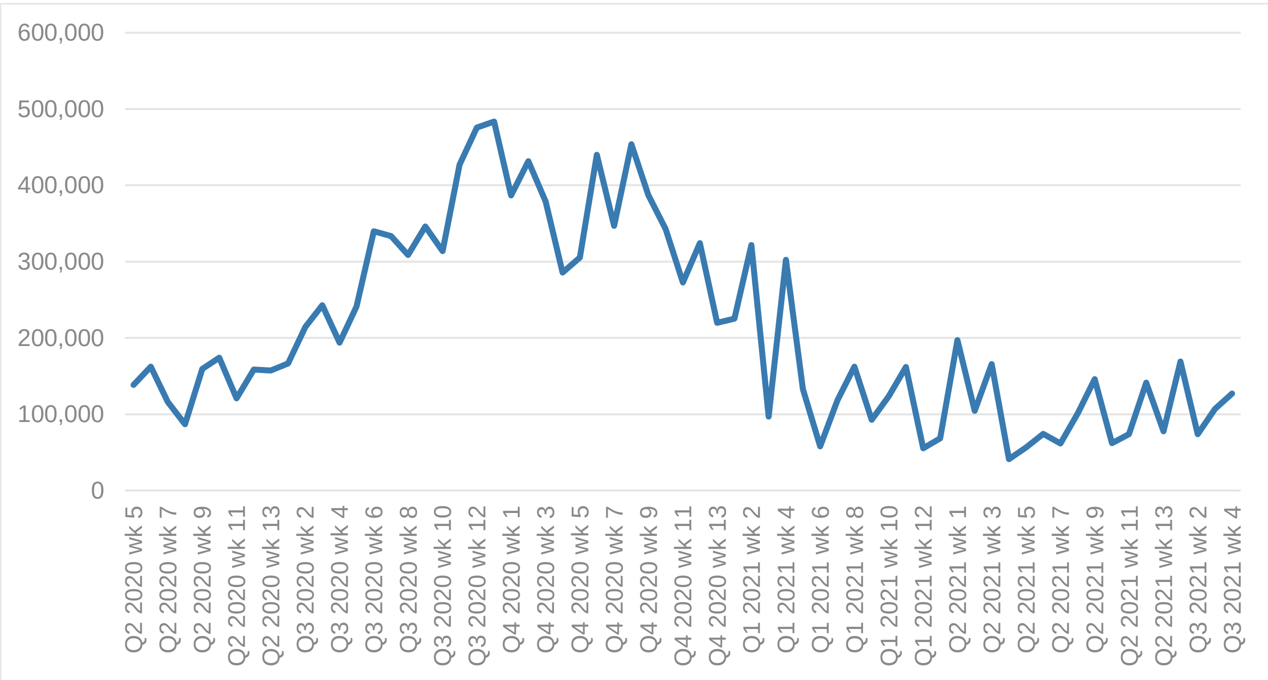
It remains the case that the end of furlough may lead to a spike in redundancies, as many of the jobs at risk may have been covered in HR1 notifications filed last year or may be made in exercises below the threshold for notification (20 redundancies in a single establishment). But there is so far no evidence of any impending increase, while numbers on full furlough continue to decline (albeit gradually).

Figure 10: 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 11: Whether made redundant in previous three months – weekly responses, May 2020 to July 2021



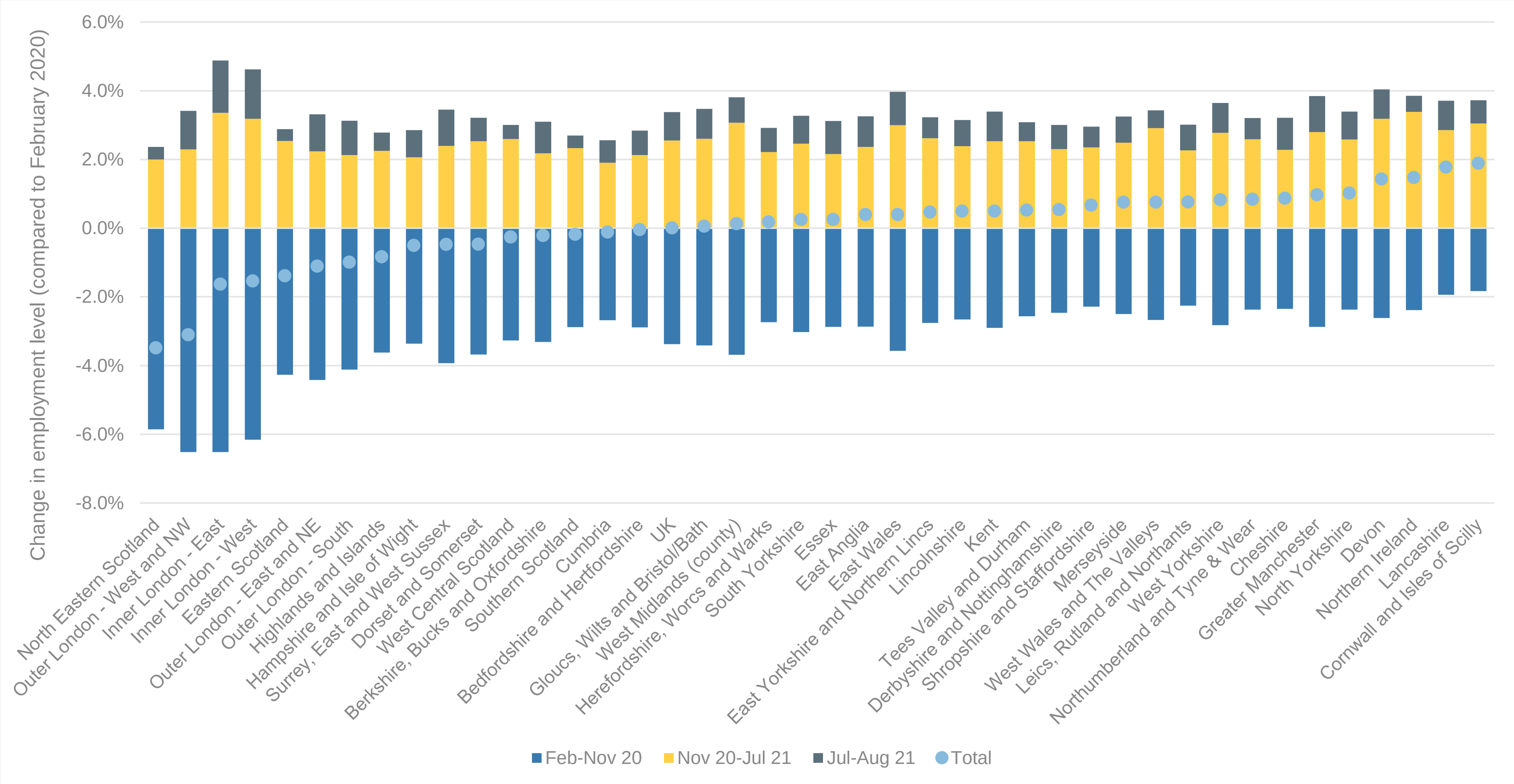
Source: Weekly Labour Force Survey X07

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

Finally, Figure 12 below shows changes in PAYE employee jobs for sub-regions (NUTS 2 areas) across the UK. As noted at the start of the briefing, we believe that PAYE data should be treated with caution as a measure of overall employment, but it does provide granular data for regions and local areas and so is useful in highlighting trends between places. The graph below illustrates the change in PAYE employee employment by sub-region during the crisis (blue), recovery (yellow) and most recent month (black). The light blue dot shows the total change.

The graph shows that North and West London (i.e. the area that includes Heathrow) and North East Scotland (Aberdeen and Aberdeenshire, i.e. including off-shore oil and gas) continue to lag well behind other areas in the jobs recovery. More broadly, virtually all areas below the national average recovery are in London, the South East and Scotland. At the other end, pretty much everywhere else has seen growth – but with more rural areas appearing to grow most strongly. These trends appear to be driven in particular by the depth of the crises (the blue bars) and less so by the strengths of the recoveries (which appear to have been fairly broad based).

Figure 12 Percentage change in payrolled employees by NUTS 2 geography, Feb to Nov 2020, Nov 2020 to Jul 2021, and Jul to Aug 2021



Source: IES analysis of HMRC PAYE data

Conclusion

Today's figures show that the labour market recovery is continuing to gain momentum. However labour supply is struggling to keep up with demand, meaning that the biggest risk that we are facing in the months ahead is not enough workers rather than not enough jobs.

In our view, as we have said in previous briefings, the top priority now needs to be to do more to support those outside the labour market to get (back) in – and in particular those with health conditions, parents and students. This will require greater joining up between public services that reach these groups (including health, education and childcare); investment in more specialist support, particularly around occupational health and work; and more effective support to then prepare for and take up jobs. Many employers too will also need to do more on job design, recruitment and in-work training than they may have been used to in the past.

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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