

# The impacts of the coronavirus crisis on the labour market

## Analysis of quarterly Labour Force Survey data

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### Summary

This paper sets out analysis of the impacts of the Covid-19 pandemic, using quarterly and longitudinal Labour Force Survey data covering the period to July to September 2020. It focuses in particular on: understanding which jobs and groups have been most likely to be away from work, working fewer hours, or to have left work; what is driving the growth in economic inactivity since the crisis began; and which sectors and occupations are shrinking and growing most strongly through the crisis.

#### We find that:

- 5.2 million workers one in six of the workforce were still away from work or working fewer hours at the end of September.
- While much attention has focused on furlough, 1.6 million people were working fewer hours than normal at the end of September – this is nearly three times higher than the fall in employment so far (of 570 thousand)
- There are clear sectoral and occupational differences in work disruption and recovery with 'shutdown' sectors inevitably most affected by the crisis, but skilled trades appearing to be better protected from job losses while those in the lowest skilled work have been at highest risk both of leaving work and having their jobs disrupted
- There are clear signs that jobs are being lost in relatively lower paying work and gained in higher paying work. Employment has fallen most strongly in food services, food manufacturing, residential care and construction.
- Food-related employment explains more than half of the fall in employment, while food manufacturing explains all of the fall in manufacturing jobs. Nearly three fifths of the fall in employment can be explained by declines in the lowest skilled, elementary occupations.
- Jobs growth is being driven by service industries and in particular public services, finance and technology. Relatively more highly skilled professional jobs in business and public services have increased by a quarter of a million.
- However while employment in health services has increased, employment of health professionals appears to have fallen slightly, suggesting that the increase is being driven by administrative and managerial roles, almost certainly in pandemic related jobs like NHS Test and Trace.
- While the clear shift from lower to higher skilled work could be seen in positive terms, there are some potentially worrying indications that this could widen inequalities in the labour market with in particular ethnic minority groups more likely to lose their jobs in shrinking sectors and occupations and less likely to gain jobs in growing ones.

- The very youngest and very oldest also appear to have seen the most significant impacts from the crisis. Young people have been the most likely to leave work or to have work disrupted throughout the crisis, but at the same time those young people affected during the first lockdown were more likely than other groups to return to normal working over the summer.
- Meanwhile workers aged over 50 who were away from work or working reduced hours were the least likely to move back into normal working after the first lockdown ended.
- The pandemic has seen sharp rises in economic inactivity, but this disguises different trends for different groups – with a long-running increase due to long-term ill health, particularly since the crisis began amongst older people; while inactivity has fallen for those looking after their family or home.
- The rise in inactivity for 'other' reasons appears to be being driven by the youngest and oldest, likely reflecting pandemic specific factors and with a majority wanting to work. In the coming months this will almost certainly feed through into rising unemployment.

Looking ahead, we are likely to still be in the foothills of the labour market impacts of this crisis, with much of the effects so far being muted through the support measures introduced to protect jobs, and much of the growth in employment reflecting emergency public spending to deal with the pandemic. However this analysis points to four potential priorities for our labour market response in 2021.

- 1. A far greater focus on how we support those who are likely to be most disadvantaged in the labour market and on narrowing inequalities between different groups – in particular for ethnic minority groups, disabled people, those with long term health conditions, older people and women.
- 2. To take more account of the impacts of the crisis on those in the lowest paid, least secure and lowest skilled work, and those seeing their hours reduced. This should include introducing the previously announced Job Support Scheme, to better support those working reduced hours but not fully furloughed; and improving access to employment support for those in low paid work.
- 3. More support those affected by the crisis to move into sectors and occupations that are growing, with in particular a greater focus on retraining support (which has been notable by its relative absence so far) and a greater targeting of this on those most at risk in the crisis.
- 4. Measures to support new hiring in the new year, as the Job Retention Scheme begins to wind down and pandemic-related public spending is scaled back. This should include measures to reduce hiring costs for employers, and potentially new hiring subsidies for taking on those who have previously been unemployed.

## **1** Introduction

This paper sets out analysis of the impacts of the Covid-19 pandemic on the UK labour market, using quarterly and longitudinal Labour Force Survey data.

Our monthly Labour Market Statistics briefing notes describe the headline labour market picture, with the <u>most recent analysis</u> (from November 2020) showing that so far this crisis has taken a significant toll – with official employment down by 570 thousand since the early part of the year, nearly four million people still away from their usual jobs, and disproportionate falls in employment for the self-employed, young people, disabled people and women working part-time.

This note builds on that analysis, by looking in more detail at what is driving changes in labour market participation and at which groups appear to be most affected so far. The analysis uses the Labour Force Survey, and so covers the period up to July to September 2020, i.e. after the end of the first lockdown restrictions but before the tightening of restrictions again from October.

**Section 2** begins by setting out how and for whom work was disrupted during the lockdown and recovery – looking at trends in the numbers away from work, working different hours or leaving work; and who returned to work as restrictions eased.

In **section 3** we focus in more detail on trends in 'economic inactivity', which has risen sharply in this crisis but also seen significant changes in its composition.

Finally in **section 4**, we look at those sectors and occupations that are so far being hardest hit by the crisis but also those areas where employment is growing.

We would welcome feedback from readers on the content and structure of this report, as well as any analysis which users would want to see in future briefings. If you have any feedback then please do email us at <u>askies@employment-studies.co.uk</u>

## 2 Work disruption and leaving work

Employment has fallen by over half a million (570 thousand) since this crisis began, but even this has been dwarfed by the increase in the number of people still in work but either away from their job or working fewer hours than usual. This section begins by setting out analysis of those who have had their jobs disrupted in these ways, before then exploring the characteristics of those who have left work during the crisis.

#### 2.1 Those away from work or working reduced hours

Figure 2.1 shows the proportion of workers reporting that they were either away from their usual job or not working their usual hours, from the start of March to the end of September. At the beginning of March, one in twenty workers (5%) reported that they were temporarily away from their job or business, while one per cent were working fewer hours than they usually worked. Following the start of the first lockdown, the proportion of workers reporting that they were not working normally rose to one third (34%), comprising nearly a quarter of the workforce (23%) reporting being temporarily away from work and one in nine (11%) working fewer hours than normal.



Figure 2.1 Proportion of workers not 'working normally', UK, March-Sept 2020

Source: IES analysis of quarterly Labour Force Survey

The sharp increase in those 'away' from work reflects the impact of the Coronavirus Job Retention Scheme in protecting jobs through the crisis. However it striking that nearly half as many people again saw hours reduced during the lockdown but continued working.

The proportion temporarily away from work fell gradually from mid-April through to late August, while the numbers working shorter hours was more volatile – initially falling, then peaking again in late June, before falling through August. The end of the summer and reopening of schools coincided with sharper falls in the numbers with disrupted work, driven in particular by fewer people reporting being away from their jobs.

Analysis of the longitudinal Labour Force Survey, which links responses across periods of time, finds that three fifths (58%) of those who were not working normally in the period April-June 2020 had returned to working normally in July-September. Nonetheless, there remained one in six of the workforce (16%), or 5.2 million workers, not working normally at the end of September – with the proportion away from work just under double pre-crisis levels (3.6 million) and the proportion with reduced hours nearly five times higher (at 1.6 million). So while employment overall has fallen by 570 thousand, nearly three times as many people were in work but working reduced hours as a result of the crisis.

#### 2.2 Disruption by sectors

Figure 2.2 shows the sectors with the highest proportions of 'disrupted employment' and shows that there have been strong sectoral patterns. Unsurprisingly, the proportion was highest in accommodation and food services, with around six in ten workers temporarily away or working fewer hours between April and July (although this is lower than HMRC data, which suggested that 73% of the workforce were on furlough at the end of June).



Figure 2.2 Proportion of workers not 'working normally' by sector, UK, March-Sept 2020



In arts, entertainment and recreation, and in 'other services' (which includes personal services such as hair and beauty) well over half were not working normally in June (58% and 56% respectively). Interestingly, in the education sector between 40 and 50% of the workforce were not working normally, in particular as a result of working fewer hours than normal. Around one in five education workers reported fewer hours from April to July, while one in four reported being temporarily away from work. The trend in manufacturing was close to the overall average, but this is likely to have evened out large differences within the sector.

Using the longitudinal Labour Force Survey, it is possible to examine across sectors the likelihood of workers flowing from 'normal' hours to either being away from work or having their hours reduced. Figure 2.3 sets this out, showing that the proportions of workers moving from normal to disrupted work between January-March 2020 and April-June 2020 were often far greater than the changes in the levels set out in Figure 2.2 above.

For example, 80 per cent of workers in accommodation and food services moved from normal to disrupted work between the first and second quarters of 2020 – with 72 per cent away from work. Three fifths of those in arts, entertainment and recreation, or in 'other services', moved from normal to disrupted work. This analysis also shows clearly the far larger impact on working hours in the education sector (as well as larger impacts on hours in wider public administration/ defence, and in finance and insurance).





Source: IES analysis of longitudinal Labour Force Survey Q1-Q2 2020

Figure 2.4 below then sets out for those who were not working normally during the second quarter of the year, whether they had returned to work, were away from work or working reduced hours by the third quarter (i.e. the July-September period). This again uses the longitudinal LFS. Perhaps unsurprisingly, those in the education sector or in arts and entertainment were the most likely to still be either away from work or working reduced hours in July-September (with 55% and 53% respectively doing so). In all other sectors, over half of those who were not working normally in the first lockdown were back working normally over July-September – although rates of return were relatively low for accommodation and food services (52%) and for administration and support services (54%). Notably, over two thirds (69%) of those not working normally in retail had returned to their usual work and hours in the following quarter after lockdown ended.





#### 2.3 Occupations

Conducting the same analysis by occupational groups shows that work disruption was most pronounced for those working in skilled trades, caring and leisure, and in the lowest skilled elementary jobs, as Figure 2.5 shows. Fewer than half of people working normally in those occupation groups in the first quarter of 2020 were still working normally during lockdown. Within these groups, hours reductions were more common for those in skilled trades and in caring, leisure and other occupations. Disruption to work was far less common for those in higher skilled occupations, with more than two thirds of those who

Source: IES analysis of longitudinal Labour Force Survey Q1-Q2 2020

were working normally as managers, directors and senior officials, or in professional or associate professional roles, were still working normally in the second quarter of 2020.





Looking beneath this, at the two digit occupational level, there are even starker divergences. Less than a quarter (23%) of those in leisure, travel and related occupations who were working normally in January to March were still working normally in April to June; while one third (34%) of those in textile, printing and other skilled trades (which includes chefs and cooks) were still working normally. At the same time around two fifths were still working normally in elementary administrative occupations (42%); culture, media and sport (43%); and skilled construction roles (43%). At the other end of the occupational distribution, more than three quarters of those working in scientific research, engineering and technology professionals (80%); protective service occupations (76%) and health professionals (75%) were working normally in both the first and second quarters of the year.

Looking at returns to work between the second and the third quarters, at the one-digit occupational level the rates of return were fairly similar. As Figure 2.6 shows, for nearly all occupational groups between 55 and 65 per cent of those who were not working normally in the April-June period were back working normally between July and September. The exception to this was in caring, leisure and other occupations where just over half (51%) of those who were not working normally in the second quarter were still not doing so over the subsequent three months.

Source: IES analysis of longitudinal Labour Force Survey Q1-Q2 2020

At the two-digit level, this was driven in particular by lower rates of return for those in culture media and sport (43%); while rates of return were also low for those in health and social care roles (46%), leisure travel and related occupations (49%), personal care (49%), teaching and other educational jobs (49%) and in secretarial work (50%).



Figure 2.6 Employment circumstance in Q3 2020 of those not working normally in Q2, by occupation

#### 2.4 Disruption for different groups

Consistent with HMRC administrative data on the Job Retention Scheme, rates of disruption were far greater for the youngest and oldest workers – namely those aged 16-19 or aged 60 and over – as shown in Figure 2.7.

Looking across the months of April to September, rates of work disruption fell fairly consistently for young people after lockdown ended, while falling less slowly for other age groups – to the point where in August and September those aged 20-24 were more likely than others to be working normally. In September however, rates fell sharply across all ages.

Source: IES analysis of longitudinal Labour Force Survey Q1-Q2 2020



Figure 2.7 Proportion of employees not 'working normally' by age, UK, Mar-Sept 2020

Analysis of longitudinal data for the second and third quarters of 2020 further emphasises the point that young people who had been away from work or working fewer hours during lockdown were relatively more likely to be back to working their usual hours over July to September. This is set out in Figure 2.8 below. Overall, two thirds (68%) of young people not working normally in the second quarter were doing so in the subsequent three months. However for workers aged over 50, nearly half (47%) of those who were not working normally in the second quarter were still disrupted in the third – with the highest rates of being away from work and of working reduced hours (31% and 22% respectively).





Looking at variations by ethnicity, there were relatively few differences by ethnic group in the likelihoods of having had work disrupted. Workers from Mixed or Black backgrounds were slightly more likely than White workers to have been temporarily away from work or working reduced hours, with Asian workers overall less likely to not be working normally. Within the overall Asian population, workers from Pakistani backgrounds were more likely than White workers to have not been working normally, while from Indian, Chinese and other Asian backgrounds were less likely than White workers to have not been working normally.

However, disabled workers were significantly more likely than non-disabled workers to have been temporarily away from work or working fewer hours during lockdown. In April and May, just over two fifths of disabled workers were not working normally compared with one in three of their non-disabled peers, and even by September the rates were 22 per cent and 16 per cent respectively. Longitudinal analysis also finds that disabled people were less likely to have returned to working normally in the third quarter of the year (54% having done so, compared with 59% of non-disabled people).

Finally, analysis by qualification levels shows a strong correlation between highest qualification and likelihood of working normally through the pandemic. This is unsurprising given the patterns by occupation set out above. Overall, two thirds of those with a degree level qualification or equivalent who were working normally in the first quarter of the year were still working normally during lockdown, compared to just 45% of those with no qualifications. Just one in six (17%) of workers with a degree were temporarily out of

Source: IES analysis of longitudinal Labour Force Survey Q1-Q2 2020

work, compared to 44% of those with no qualifications and 32-33% of those with a highest qualification at GCSE or A Level.





Source: IES analysis of longitudinal Labour Force Survey Q1-Q2 2020

#### 2.5 Those leaving work

While the most significant changes in the labour market during this crisis have been in the numbers of people away from work or who have had their hours reduced, we have also seen the largest fall in employment since 2009. Our November briefing on the Labour Market Statistics sets out that this was driven by very high flows out of work during the early part of the crisis, and over the summer by a combination of this plus weak hiring. In this section, we have focused in particular at what drove exits from work between the first and second quarters of the year, again drawing on longitudinal data from the LFS.

#### 2.5.1 Exits from work by sector

As would be expected, flows out of work between the first and second quarter were highest for the accommodation and food services industry, with 7 per cent of the workforce leaving work in that quarter alone. Most of those leaving work moved into 'economic inactivity' rather than unemployment, meaning that they were not looking for work and/or not available for work. This was most likely people who were laid off rather than furloughed, but who may have expected to return to work once restrictions were eased. Flows out of work were very low from public administration and defence and from finance and insurance activities. In nearly all cases, flows into economic inactivity were greater than those into unemployment.



Figure 2.10 Flows out of employment by destination and industry, Q1 to Q2 2020

In the subsequent quarter, flows out of work were at a similar level again (3.1%), with again the highest rates being in accommodation and food services – at 7.5 per cent. However, as Figure 2.11 shows, flows from work were also very high in the third quarter of 2020 for retail (at 4.9%) and for arts, entertainment and recreation (4.6%). Education outflows were also significantly higher, at 3.7 per cent, although this likely reflects exits due to retirement coinciding with the end of the school year.

Whilst flows to economic inactivity remained higher than flows to unemployment, the latter made up a larger share in the third quarter than it had done during lockdown.

Source: IES analysis of longitudinal Labour Force Survey Q1-Q2 2020



Figure 2.11 Flows out of employment by destination and industry, Q2 to Q3 2020

#### 2.5.2 Exits by occupation

At the 1-digit occupation level, those in the lowest occupational groups were most likely to move out of work during the early part of the crisis – with one in twenty (5%) of those in elementary roles leaving work between the first and second quarters of the year. A similar proportion (4.4%) of those in sales and customer service roles also left their jobs, although with a far higher likelihood of moving into economic inactivity rather than unemployment. Interestingly, those in skilled trades were among the least likely to leave work, even though section 2.3 above showed that they were among the most likely to have had work disrupted – likely reflecting high take-up of furlough support in construction and manufacturing, and in hospitality for chefs/cooks.

At the 2-digit occupational level, outflows from employment were above four per cent in the following occupations: elementary administrative occupations; sales occupations; textile, printing and other skilled trades; transport and mobile operatives; culture, media and sport; and leisure, travel and related occupations.

Source: IES analysis of longitudinal Labour Force Survey Q1-Q2 2020



Figure 2.12 Flows out of employment by destination and occupation, Q1 to Q2 2020

Looking at movements out of work between the second and third quarters, Figure 2.13 shows a far less clear correlation by broad occupational group. The July-September period saw an acceleration in job exits for elementary roles (rising from 5.0 to 6.7%) and in sales and customer service jobs (rising from 4.4 to 6.0%). Across all other occupation groups, outflows from work ran at between 2.1 and 3.4 per cent.

Taken together, this occupational analysis tells a similar story to the sectoral picture set out above – with accommodation and food services hit hard, growing impacts on retail through the summer, and lower falls than may have been expected for skilled trades like construction and manufacturing as a result of furlough support. Overall however, those in the lowest skilled work have seen the most significant impacts on employment.

Source: IES analysis of longitudinal Labour Force Survey Q1-Q2 2020



Figure 2.13 Flows out of employment by destination and occupation, Q2 to Q3 2020

Those in lower skilled work are more likely to be in temporary employment, and Figure 2.14 below illustrates that the crisis has seen greater impacts on employment for temporary than permanent staff. Those in non-permanent work are always far more likely to leave work than those in permanent jobs (with more than 8% doing so between the first and second quarters of last year, compared with less than 2% of those in permanent jobs), but the pandemic has seen rates of exit increase to one in nine (11%) during the second quarter of 2020 and to one in seven (14%) during the third quarter.

Those leaving temporary jobs are also generally more likely to move into unemployment than those leaving permanent work (with the high rates of inactivity among temporary workers leaving in the summer likely largely explained by student jobs ending).

Source: IES analysis of longitudinal Labour Force Survey Q1-Q2 2020



Figure 2.14 Flows out of employment by destination and contract status

Source: IES analysis of longitudinal Labour Force Survey Q1-Q2 2019, Q1-Q2 2020 & Q2-Q3 2020

#### 2.5.3 Flows out of work by age

Consistent with the analysis set out in section 2.4 above, increases in flows out of work have been most pronounced for young people – as Figure 2.15 illustrates. Almost eight per cent of young workers left work during the second quarter of 2020, compared with less than five per cent in the same period the previous year. Increases between the first and second quarter were far less pronounced for other age groups.

In the third quarter, rates of exit remained highest for young people with seven per cent leaving work in the quarter. However, it is notable that outflows from work improved slightly for young people while they continued to deteriorate for those aged between 25 and 49.



Figure 2.15 Flows out of employment by age group and destination

Source: IES analysis of longitudinal Labour Force Survey Q1-Q2 2019, Q1-Q2 2020 & Q2-Q3 2020

## **3 Trends in economic inactivity**

The impacts of the crisis on unemployment have so far been relatively muted, with less than half of the fall in employment translating into higher unemployment, and just over half feeding through into 'economic inactivity' – that is, people not available and/or not looking for work. This section looks in more detail at what is driving those changes.

People can report being economically inactive for a range of reasons – being retired, a student, looking after family or home, having long-term ill health, being temporarily ill or being inactive for other reasons. The total level of economic inactivity among those aged under 65 has been between 8.4 and 8.7 million for all of the last two years.

Most of those who are economically inactive do not want to work, with typically around 1.7 million (less than one in four) wanting to do so. However as Figure 3.1 shows, the crisis saw a dramatic increase in this figure, to 2.1 million – before falling back to 1.8 million between July and September (as unemployment rose). Moving in the opposite direction was the (smaller) number of people who were inactive but seeking work – declining from around 285k at the start of the year to 235k by the third quarter. Reasons for these changes are explored in more detail below.



Figure 3.1 Inactivity levels by whether seeking work or would like employment

Source: IES analysis of quarterly Labour Force Survey

#### 3.1 Rising inactivity due to long-term ill health

Even before this crisis began, there had been a worrying rise in the number of people reporting that they were economically inactive due to long-term ill health. This stood at 2.34 million in the first quarter of 2020, with a quarter of all working age economic inactivity being due to long-term ill health. By the third quarter of this year, there were 2.43 million people economically inactive for this reason. Of these, around 500 thousand are reported as wanting to work – although this has fallen back in the pandemic, from 600 thousand in the first quarter of the year.



Figure 3.2 Inactive due to long term ill health by inactivity status

Source: IES analysis of quarterly Labour Force Survey

The significant increases in economic inactivity due to ill health reflects in particular changing age profiles. Focusing on those who do not want to work, increases during 2019 were explained by steady rises among 16-24 year olds and those aged over 50 - i.e. those closer to entering and leaving the labour market. During the pandemic however, the rises are being driven by older workers – where those not available and not wanting to work due to ill health has risen by over 100 thousand, compared with just over 50 thousand for those aged 25-49 and no change for younger people. Figure 3.3 below sets this out.



Figure 3.3: Economically inactive due to long-term ill health, not seeking work and not wanting to work

The increases also appear to be being driven by white people, where economic inactivity due to long-term ill health has risen by nearly 200 thousand (and is unchanged for those from ethnic minority groups).

## 3.2 Falling inactivity amongst those looking after family or home

At the same time that inactivity has risen due to long-term ill health, there has been a decrease in the number economically inactive because they are looking after their family or home. This has been most notable this year, with inactivity for this reason stable at 2 million for much of 2019 before falling to 1.8 million in the spring and now 1.7 million for the July to September period.

Again, most of those inactive due to family and home responsibilities do not want to work, and the number who do want to work has declined slightly in the pandemic. By July to September, around 400 thousand were either seeking or wanted in future to work, as Figure 3.4 sets out.





Again focusing in on those who are not seeking or do not want to work, Figure 3.5 shows that much of the fall since the end of 2019 has been driven by 25-49 year olds (falling by nearly 150 thousand since October-December 2019). However there have been significant falls across all age groups, with the number of people aged 16-24 in this group virtually halving since the start of 2019.

The graph below does make clear that this downward trend has pre-dated the pandemic, and likely reflects increased participation in the labour market due to long-running demographic changes – particularly with more women in work and more women having children later. However the fall during the pandemic may also reflect people (re)entering the labour market due to a reduction in a partner's earnings (as has happened in previous recessions).



Figure 3.5 Inactive due to looking after family and home and not seeking and would not like work, by age

#### 3.3 Economic inactivity for 'other' reasons

The effect of the pandemic on economic inactivity is most striking in the number of people giving an 'other' reason for being economically inactive. In usual times, around 400 thousand people state other reasons for inactivity. However by April to June this had risen to 700 thousand, and in July to September was at 600 thousand. As Figure 3.6 shows, this increase is almost entirely explained by people who wanted to work or were actively seeking work.



Figure 3.6 Economic inactivity for 'other' reasons by inactivity status

Looking at changes by age, in Figure 3.7 below we have focused on those who would like to work, as the largest category within the 'other' group and the category that has explained most of the growth since the crisis. This shows increases across all age groups, with around half of those who want to work and are inactive for other reasons aged between 25 and 59. However in percentage terms, the largest increases are for those aged under 20 and over 60 – with under-20s seeing nearly a seven-fold rise between the first and second quarter, and over-60s nearly trebling.

These increases cannot easily be explained by people stating that they are not looking for work because of a lack of jobs, as this would be picked up as inactivity due to being a 'discouraged worker'. Instead, it is likely that it reflects reasons very specific to this pandemic – for the very youngest, likely that their usual sectors were shut down and/ or that they could not safely travel to work; and for the very oldest it may reflect people not being able to work due to shielding.



Figure 3.7 Inactive due to other reasons who were not seeking work but would like to work, by age

#### 3.4 Economic inactivity among students

Finally, Figure 3.8 below sets out trends in the number of people inactive due to being a student, and whether they were actively seeking or wanted to work. Most students are young people, and the pandemic has seen the number of young people in education rise even while employment has fallen (with the rise in education offsetting the fall in employment).

Student numbers overall were down slightly in early 2020 compared with early 2019, reflecting a slightly smaller population of young people. However, it is noticeable that while student numbers fell sharply between the second and third quarters of 2019, as young people left education and entered the labour market, there was no similar fall in 2020 – with young people staying away from work.

Also notable is an increase in the number of inactive students who were seeking or wanted to work – rising by over a hundred thousand between the first and second quarter of 2020, to nearly 500 thousand.



Figure 3.8 Inactive students by inactivity status

## **4** Sectoral and occupational changes

The final part of this report looks at changes in employment patterns by sector and occupation. While the overall employment level fell by around 1.5 per cent between the first and third quarters of the year, we know that this crisis has had quite pronounced sectoral impacts. So we explore these below, looking both at where employment has been declining but also where it has grown.

#### 4.1 Growing and shrinking sectors

At a broad sectoral level, there were large falls in employment in accommodation and food services, and manufacturing, between the first and third quarters this year, but large increases in employment in financial services, and public administration.

Looking at a more detailed level, Figure 4.1 shows the industry divisions (2-digit Standard Industrial Classification (SIC)) that have experienced the largest increases and decreases. The sectors with the largest increases are all among the service sectors, with public administration leading the way with an increase of just over 100,000, while health and social work sectors, finance and insurance, and architectural and engineering professional services each saw increases of around 50,000. In percentage terms, the largest increases among these sectors were in scientific research and development (25%), insurance (23%), and financial services excluding insurance (9%).

Looking at the shrinking sectors, food and beverage services experienced by far the largest fall, of just over 200,000, followed by building construction and residential care activities, with falls of around 100,000. There were also large falls in employment in food manufacturing and specialised construction activities. In percentage terms, food manufacturing experienced the largest fall, of 23 per cent, followed by food and beverage services (15%), creative arts and entertainment (11%) and building construction (11%), while the fall in the retail trade was below the overall average, at just 1.0 per cent, although in numerical terms the decrease was large due to the size of the retail sector.

#### Figure 4.1 Industry divisions with larges increases/decreases in employment, UK, Q1 to Q3



Source: IES analysis of quarterly Labour Force Survey JM19-JS20

Opportunities in growing sectors, and the jobs shed in shrinking sectors, have not been distributed evenly across all workers. Employment of women in the 10 sectors with the largest decreases fell by nearly 10 per cent, compared with a fall of just over five per cent for men, while among the top 10 growing sectors there were more opportunities for men, with their employment level increasing by six per cent compared with five per cent for women.

Workers from Asian, Black and other ethnic origins were much more likely to lose their jobs from shrinking sectors, and much less likely to take up opportunities in growing sectors, than workers from White or Mixed backgrounds. Among the top 10 shrinking sectors, employment among Black workers fell by 12 per cent, compared with falls of six per cent and five per cent respectively among White and Mixed workers, while the falls were even large among those from Asian (19%) and other ethnic origins (36%). A similar pattern emerges when looking at opportunities in the top 10 growing sectors, with employment of people from Mixed backgrounds increasing by 19 per cent, and employment of White people increasing by six per cent, compared with the overall increase of five per cent, while there were falls in employment among those from Black (5% fall) and other ethnic background (10% fall), and a below average increase among Asian workers (2% increase).

There were only minor differences by age, and although the youngest and oldest workers were most likely to be temporarily away from work or working fewer hours during

lockdown, their employment levels in the shrinking sectors fell by less than prime aged workers (25-49 year olds).

However, there were more stark differences by highest qualification level, with graduates faring best in the crisis. Among shrinking sectors, the employment level of graduates (those with first degrees or equivalent or higher qualifications) actually increased slightly, by one per cent, while there were large falls in employment for those with no qualifications (17% fall), GCSEs (12%) and HE qualifications below degree level (13%). Among growing sectors, the increase in employment for graduates was seven per cent, and there were above average increases in employment for those whose highest qualification was A-levels or equivalent (8% increase) and those with no formal qualifications (6% increase).

#### 4.1.1 How employment by sector is changing

Figure 4.2 shows the relationship between recent employment change and the mean hourly pay levels for employees for the top-level sectors, with the size of sectors indicated by the size of the bubbles. There is a broad linear relationship between the two indicators – sectors with low hourly pay levels tended to experience falls in employment, while those with high pay levels tended to have seen employment levels rise since the start of the year. There are no sectors towards the bottom right (relatively low pay but growing) or top left (relatively high pay but shrinking) of the figure.

The accommodation and food sector stands out as having the lowest average pay levels and the largest fall in employment. Falls in some shutdown sectors have been relatively muted so far, likely reflecting the effectiveness of the Job Retention Scheme in protecting jobs in retail and the arts. However construction and manufacturing have both seen sizable falls, with manufacturing entirely explained by food manufacture (as set out in Figure 4.1 above.

In the top right of the figure, financial services has experienced the largest increase in employment and has the highest average pay levels, slightly above the information and communication sector which also experienced an increase in employment, and the professional, scientific and technical activities sector is also high pay/high growth, and larger than both financial services, and information and communication. Many sectors are clustered in the middle of the figure, indicating average pay levels and relatively small changes in overall employment levels. Figure 4.3 focuses in on the top right quadrant and looks at the more detailed industrial divisions (2-digit SIC) that have high pay and have been growing. A few production and construction sectors appear in the figure, alongside the financial, professional and public sector services, although these are relatively small in employment terms.



Figure 4.2 Industry sectors by employment change Q1 to Q3 and mean hourly pay, UK

Note: size of bubble is proportional to the Q3 employment level in the sector

Source: IES analysis of quarterly Labour Force Survey JM19-JS20





#### 4.2 Growing and shrinking occupations

The occupational groups that have experienced the largest increases and decreases in employment between the first and third quarters of this year are shown in Figure 4.4. High level occupations in business, media and public service have seen the largest increases, with around 260,000 more professional workers, and 80,000 more associate professional workers, while there have also been large increases among high level science and technical occupations and also some intermediate skilled occupations in metal, electrical and electronic trades, administration, and sales. In percentage terms, among these occupations the increase was largest for business etc professionals, at 14 per cent, followed by skilled metal etc. trade, at six per cent, and lowest among administrative occupations, at 1.6 per cent.

The largest numerical fall in employment was among elementary administration and service occupations, reflecting the result presented above that there was a large fall among the lowest paid workers. The number of these workers decreased by 335,000 since the first quarter, representing a decrease of 12 per cent, although there were larger percentage decreases among skilled construction workers (14% fall) and process, plant and machine operatives (15% fall). The large fall among textiles, printing and other trades reflects the presence of food preparation and hospitality trades, such as chefs and cooks, in this occupational group, who have been particularly affected by lockdown.

## Figure 4.4 Occupational sub-major groups with largest increases/decreases in employment, UK, Q1 to Q3

Business, media & public service profs Business & public service associate profs Sales occupations Skilled metal, electrical and electronic trades Science, research, eng & tech profs Administrative occupations Science, eng & tech associate profs Leisure, travel & related personal service occs Textiles, printing and other skilled trades Caring personal service occupations Process, plant and machines operatives Skilled construction and building trades Elementary administration & service occs



Source: IES analysis of quarterly Labour Force Survey JM19-JS20

The increase in employment in the occupations with the largest increase was more marked among women than among men (increases of 5.4% and 4.3% respectively), while

the decrease in employment among the shrinking occupations was slightly lower among women than among men. This contrast with the findings by sector, where women benefited less in the growing sectors and suffered more in shrinking sectors.

However looking at differences by ethnicity, patterns for occupations are similar to those for sectors. Employment of workers from BAME backgrounds in the growing occupations increased by 1.2 per cent, compared with an increase of 5.3 in White workers, while among the shrinking sectors, employment of workers from BAME backgrounds fell by 18 per cent compared with a fall on nine per cent for White workers.

The patterns by age were varied, with young workers aged 16 to 24 experiencing an above average increase in employment in growing occupations (5.7%) but an above average decrease in employment in the shrinking ones (15%).

Graduates experienced the largest increase in employment among growing occupations, and the smallest decrease in employment among the shrinking occupations. There were decreases in employment for the lowest qualified among the growing occupations, with the number of workers with no qualifications falling by seven per cent, and the number of workers with other qualifications below GCSE level falling by 10 per cent.

#### 4.2.1 How employment by occupation is changing

The relationship between recent employment change and average hourly pay of employees for the occupational sub-major groups is shown in Figure 4.5, with the occupational groups in managerial, professional, associate professional and administrative & secretarial occupations shown in the top panel, and the groups in the other occupational major groups shown in the bottom panel.

There have been some decreases in employment among managerial, professional and associate professional occupations, with the largest fall in employment among corporate managers and directors (the sub-major group with the highest average pay) and falls among health professionals and associate professionals. The fall in employment in health professions contrasts with the growth in employment in the health sector set out in Figure 4.3 above – suggesting that this is being driven by employment in non-clinical roles. It could for example be explained by a growth in administrative and managerial roles, both of which have seen employment increasing and which would be consistent with the huge scaling up of the NHS Test and Trace service over the summer.

Both secretarial and sales jobs have seen increases in employment – the former despite long-running declines, and the latter in spite of the impact of the crisis on the retail sector. It seems that the shift to digital and home shopping has created more jobs than have so far been lost on the high street, although this may well change in the coming months as the Job Retention Scheme begins to wind up.

Employment has fallen most among occupations with intermediate and lower skills, most notably in elementary administrative and service jobs – which is the lowest paid occupational group and accounts for more than half of the total fall in employment. Caring and personal services have also seen a significant fall – of more than 100 thousand and

driven by falling employment in residential care – despite the increased focus on the social care workforce during this crisis.





Source: IES analysis of quarterly Labour Force Survey JM19-JS20

## 5 Conclusions

The coronavirus crisis has already taken a significant toll on the labour market, with over half a million fewer people in work than before the pandemic and more than five million workers still either away from work or working reduced hours at the end of September.

The analysis presented in this report shows that around one third of those still in work but not working normally are working fewer hours than normal, rather than fully furloughed. We find clear sectoral and occupational biases both in work disruption and in the pace of the recovery – with 'shutdown' sectors like hospitality, retail and the arts inevitably most affected by the crisis, but skilled trades appearing to be better protected from job losses, and the lowest skilled at highest risks both of leaving work and having their jobs disrupted.

In line with other analyses, we find that the very youngest and the very oldest saw the most significant impacts of this crisis. However by looking at flows into and out of disrupted work, we also see that young people who were away from work were more likely to return to normal working after the first lockdown ended than other age groups, although younger people in work also remained far more likely to leave work entirely. Workers aged over 50 who were away from work or working reduced hours were the least likely to move back into normal working in the third quarter of the year.

The analysis also finds that rising economic inactivity during the pandemic disguises different trends for different groups – with a long-running increase in inactivity due to long-term ill health, particularly since the crisis began amongst older people; while inactivity has fallen for those looking after their family or home. The rise in inactivity for 'other' reasons appears to be being driven by the youngest and oldest people, likely reflecting pandemic specific factors, and with a majority wanting to work. In the coming months this will almost certainly feed through into rising unemployment, even if the labour market position stops deteriorating.

Looking at trends in sectors and occupations, there are clear signs that jobs are being lost in relatively lower paying work and gained in higher paying work. Jobs growth is being driven by service industries and in particular public services, finance and technology. Meanwhile employment has fallen most strongly in food services, food manufacturing (which explains all of the decline in manufacturing overall), residential care and construction.

We identify a clear shift from lower to higher skilled (and lower to higher paying) work through the crisis. However while this could be seen in positive terms, there are some potentially worrying indications that this could widen inequalities in the labour market – with in particular ethnic minority groups more likely to lose their jobs in shrinking sectors and occupations and less likely to gain jobs in growing ones. Women also are more affected by shrinking sectors, but fare relatively better when looking at declining and growing occupations.

Looking ahead, we are likely to still be in the foothills of the labour market impacts of this crisis, with much of the effects so far being muted through the support measures introduced to protect jobs and much of the growth in employment reflecting emergency public spending to deal with the pandemic. Employment will continue to fall through 2021 and unemployment will rise, although the latest official forecasts suggest that the peak of unemployment will be lower than had been feared in the summer. Four things in particular stand out from this analysis for our future labour market response:

First, we need a far greater focus on how we support those who are likely to be most disadvantaged in the labour market and in particular on narrowing inequalities. There are clear signs that those from ethnic minority groups, disabled people, those with long term health conditions, older people and women are all being disproportionately affected on one or more of the indicators set out in this report. So far, much of the response has been on building our employment services' capacity to deal with fast-rising unemployment – in the new year we need a far greater focus on narrowing inequalities and addressing disadvantage.

Secondly, our response needs to take more account of the impacts of the crisis on those in the lowest paid, least secure and lowest skilled work. The jobs impact is being concentrated here so far, and our analysis shows that the number of people working reduced hours is nearly three times greater than fall in employment. However, support only begins when people leave work and find themselves on benefit and out of work. Improving support for low paid workers – including access to support while on furlough – needs to have a far greater focus next year. The government should also look to reintroduce its Job Support Scheme, to better support workers who have seen hours cut but are not fully furloughed.

Thirdly, much more is needed to support those affected by the crisis to move into growing jobs which are often higher paid and higher skilled. Central to this should be meaningful investment in retraining, including workplace training, targeted at those most affected by the crisis and geared towards labour market opportunities. Investment in labour market training has so far been notable by its relative absence in this crisis, particularly given the precipitous falls in Apprenticeship starts which in recent years have been the main channel for channelling employer and public investment in workplace skills.

**Finally, there is likely to be a pressing need for more measures to support new hiring in the new year**, as the Job Retention Scheme begins to wind down and pandemic-related public spending is scaled back. This will become more pressing still if we are unable to secure a decent trade deal before our departure from the European Union. Reducing hiring costs for employers, and/ or introducing hiring subsidies for taking on those out of work, should be a top priority for the spring Budget.

As we set out in the Introduction, we would welcome feedback from readers on the content and structure of this report, as well as any analysis which users would want to see in future briefings. If you have any feedback then please do email us at <u>askies@employment-studies.co.uk</u>