Labour Market Statistics, August 2020

11 August 2020

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

- **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 9 July 2020.
- **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 April to June 2020, and also today includes data on flows into and between employment, unemployment and economic inactivity.
- **Pay As You Earn Real Time Information**. These are experimental statistics on employee levels and pay, covering the period to July 2020. The statistics are drawn from data supplied by employers in PAYE returns. Where data are missing (which affects approximately 10% of cases in the most recent month being reported) values are imputed based on previous returns.

Summary

Today's figures largely cover the period of full lockdown (from March to June), alongside July data from employee payrolls and the vacancy survey. They show that the jobs market continued to weaken as the lockdown progressed, with further large falls in paid employment and self-employment and the number of people claiming unemployment-related benefits continuing to rise.

All told, there are likely to be around one million fewer people were in paid work by July than in March, with the number of paid employees down by three quarters of a million and the number of people with self-employed earnings down by around a quarter of a million. This is a virtually unprecedented reversal, but would have been far worse without the government's Job Retention Scheme and self-employment income support.

So far these falls have not fed through into the official measure of unemployment, for two reasons: first because many of those losing paid work are saying that they have jobs to go back to, and secondly because the official measure only counts those who were actively seeking a new job. Today's figures show that for the first time on record, during the lockdown more unemployed people moved into 'economic inactivity' than moved into work. (Nonetheless, data published today also showed that even in the depths of the crisis, on average more than half a million people started a new job each month.)

The impacts of the crisis are however very clear in working hours – with these continuing to fall over the most recent quarter, to their lowest since 1994. The last time that working hours were this low, there were 7.4 million fewer people in work. Today's data also shows that the numbers of people reporting that they are 'away' from work actually increased during June compared with May, which may well reflect more people taking advantage of the full furlough scheme so that they would eligible for the partial furlough available from July.

Looking beneath the headline measures there are worrying signs that younger people are being particularly hard hit, with the number of young people not in full-time education or employment rising to its highest since 2015, and nearly one in seven now claiming unemployment-related benefits – up from fewer than one in fifteen before the crisis began. People aged over 65 also appear to be facing significantly greater impacts than other age groups – which may lead to increased numbers moving into involuntary retirement.

In twenty local areas, more than one in eleven residents are on the claimant count – with this dominated by inner cities (particularly in London), ex-industrial areas and coastal towns. Many of these areas also had the highest levels of worklessness and faced the most significant disadvantages before the crisis began.

The one bright spot in today's figures is that the fall in vacancies appears to have bottomed out, with a significant bounce-back in notified vacancies in the single-month estimate for July. At 470 thousand this remains well below pre-crisis levels, and may reflect short-term recruitment into covid-related roles. However if it is sustained, then it would see vacancies return to broadly the levels that they were at during the recovery from the last recession.

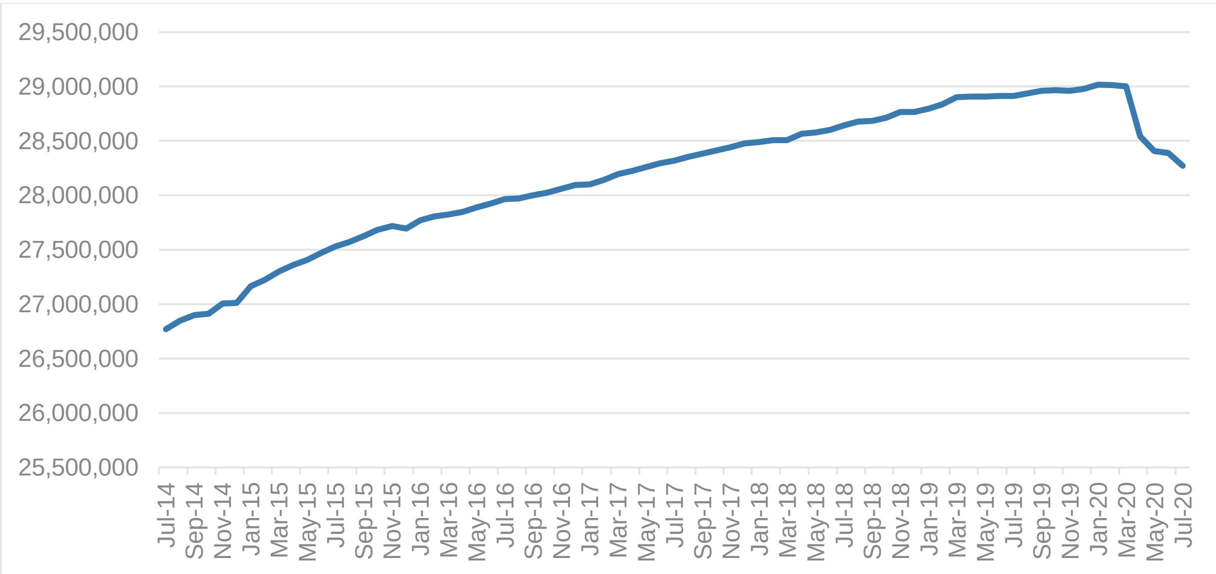
The recovery in vacancies in July gives some hope that the next couple of months may see things start to stabilise as the economy reopens, but at the same time the ongoing impacts of the crisis on demand – combined with the unwinding of government support – means that the labour market impacts are far from over. Many of those on furlough will likely come back to less secure work and shorter hours, while unemployment is also likely to rise further and faster. With the government's Spending Review due in the autumn, it may well be necessary for the Chancellor to consider further measures to reduce labour costs and support hiring.

The number of people in paid work has fallen by around a million since the crisis began

HMRC Pay As You Earn data suggests that the number of paid employees fell by 730 thousand between March and July 2020. Most of this decline happened between March and April, although the fall in the last month (of 115 thousand) was significantly higher than the decline recorded the month before. This is shown in Figure 1.

This decline is not reflected in the official measure of employment (covered later in the briefing) as it appears that many or most of those who have lost earnings still consider that they have jobs to return to. However these are workers who are not receiving financial support through the Job Retention Scheme, for example because they started after the cut-off for eligibility or because of irregular or short hours (explained in more detail in this blog by Jonathan Athow from the ONS).

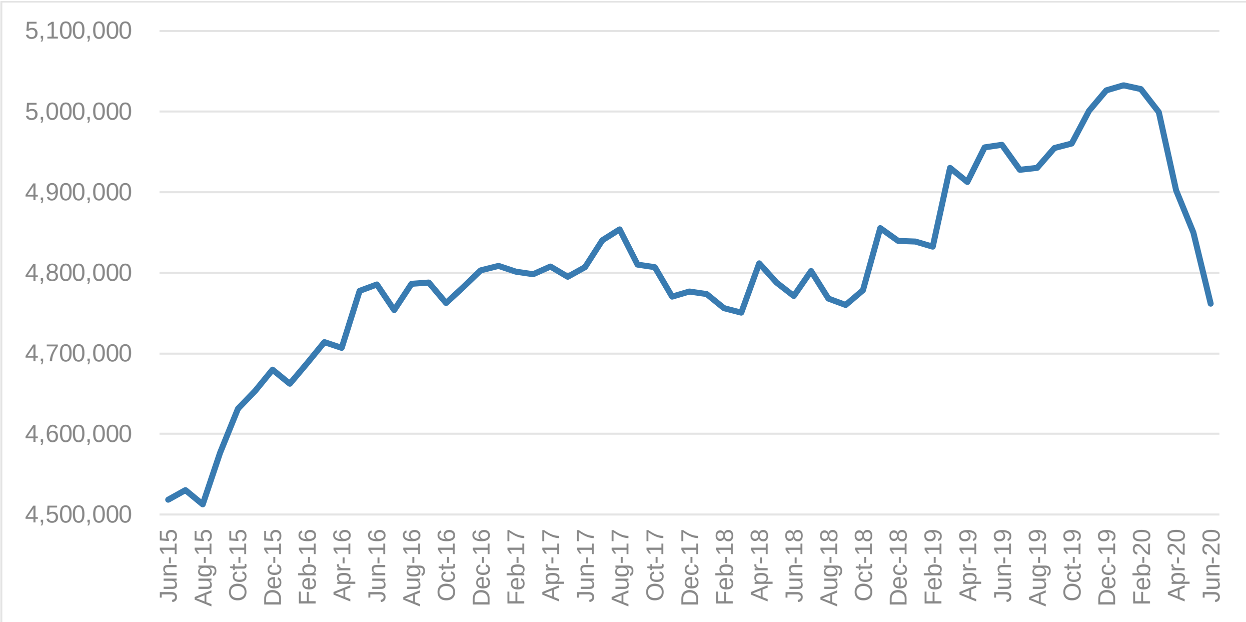
Figure 1: Employee numbers reported through Pay As You Earn data



Source: Real Time Information Pay As You Earn data

In addition to this, we have also seen a significant fall in the number of people self-employed (reported through the Labour Force Survey). Data to the end of June suggests that the number of people describing themselves as self-employed had fallen by 240 thousand, reversing all of the growth in self-employment since 2018 (Figure 2 below). Analysis of labour market flows data shows that this is being driven in particular by record numbers of people leaving self-employment – although the numbers entering self-employment have also fallen significantly (see Figure 3 below).

Figure 2: Number of people self-employed, Apr-Jun 2015 to Apr-Jun 2020



Source: Labour Force Survey

Figure 3: Quarterly flows into and out of self-employment

Source: IES analysis of Labour Force Survey flows data

It is important to note however that not all of these exits from self-employment are exits from work. In fact, **the net flow from being self-employed to being out of work was only around 50 thousand in the quarter** (with 170 thousand flowing out of work – mainly into 'economic inactivity' – offset by 129 thousand moving the other way). So most exits from self-employment were into 'employee' status – with a record flow of 250 thousand people doing so (offset by 160 thousand people going the other way – resulting in a net shift from self-employed to employee of 90 thousand).

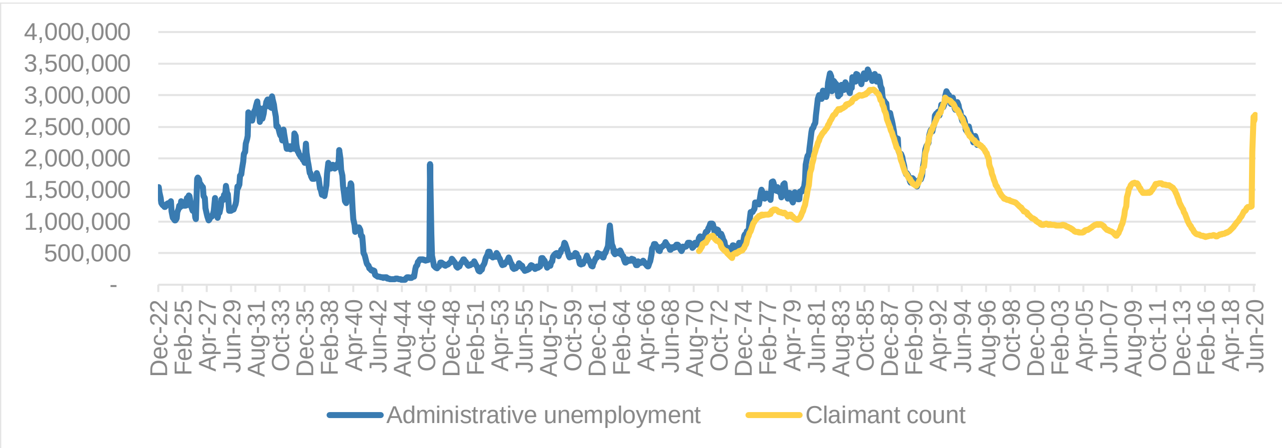
Combined with the fall in paid employees, this would suggest a net fall in employment of around 800 thousand. However in addition to this, the ONS estimates that there are approximately 230 thousand workers who are still describing themselves as self-employed but who reported that they were 'away' from their job or business and not eligible for the Self-Employed Income Support Scheme. This will include those with profits above £50,000 a year, many company directors and those who only recently became self-employed.

All told, this means that there are likely around one million fewer people in paid work now than before the crisis began.

Nearly 1.5 million more people are claiming benefits and being treated as unemployed

This month's claimant count data (to 9 July) saw a further rise in the number of people claiming Jobseeker's Allowance or Universal Credit and being treated as unemployed. The 95 thousand increase reverses the fall recorded last month, and means that the claimant count is now at its highest since March 1994.

Figure 4: Administrative unemployment and claimant count levels, 1922 to present



Source: IES analysis of Bank of England and Office for National Statistics data.

This rise is being driven by a combination of temporary lay-offs among those not eligible for other financial support, increased exits from work and labour market entrants taking longer to find work (particularly young people). Some of these factors were discussed in last month's briefing, alongside why we consider that the claimant count remains a valid a measure of those who are claiming benefits and are treated in the benefits system as being unemployed.

The claimant count has now increased by 1.45 million since March, which remains the largest year-on-year increase since the unemployment benefits system was established in 1920. The large majority of this increase – at least 1.3 million – is explained by people without earned income, with separate data published by DWP this morning suggesting that around 100 thousand (or 7%) is accounted for by people in work but with low earnings.[1]

The difference between this 1.3 million figure and the 1.0 million fall implied in HMRC and LFS data may be partly explained by non-working partners of new claimants who were previously not subject to conditions but are now being treated as unemployed (i.e. they were still out of work before the crisis), although population changes may also have made a modest contribution.

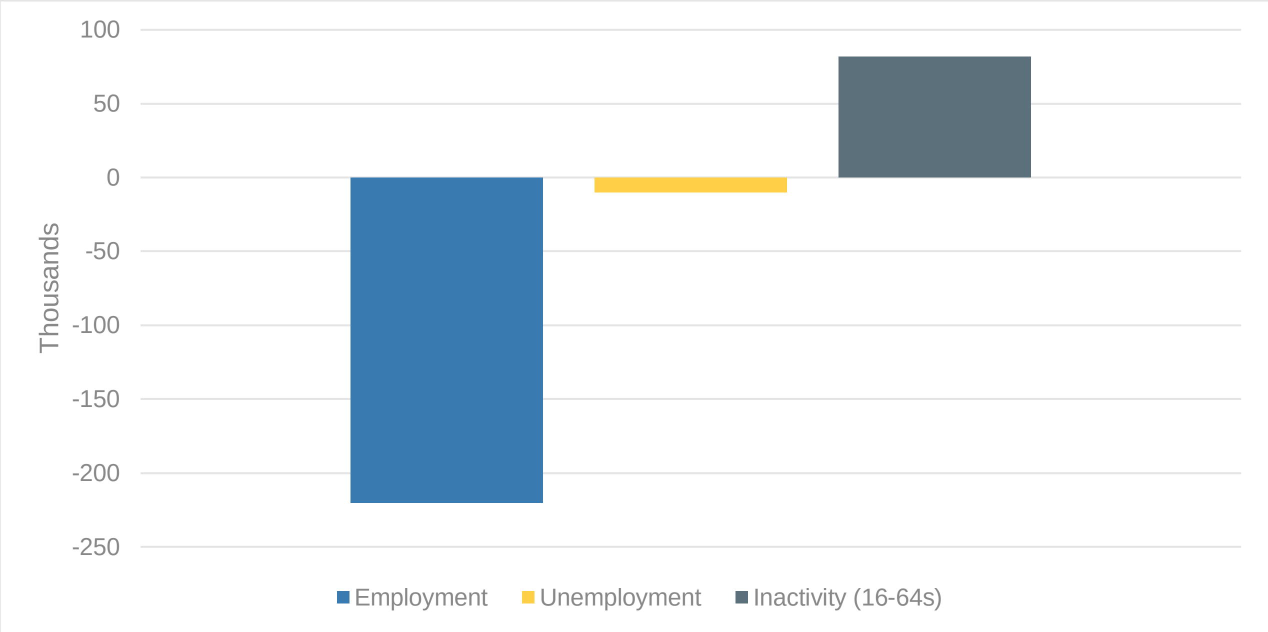
The Labour Force Survey is showing significant falls in hours, but employment impacts remain fairly subdued

As with last month, and as referenced above, the headline Labour Force Survey measures are still only showing muted impacts from the crisis. Figure 5 below shows that employment has now seen a marked fall – down by 230 thousand – but as set out above, this is being driven by large falls in the numbers self-employed, with employee numbers once again rising (in large part due to movements from self-employment).

Today's data also shows again that the falls in employment over the lockdown period fed through into 'economic inactivity' – i.e. people who are not looking and/ or not available for work – rather than unemployment. This is very likely to change as we start to get data from July onwards.

[1] Source: Stat Xplore. Single people earning less than £338/ month, and couples earning less than £541/ month, who are required to search for work are included in the claimant count. 14% of the those on the count and on UC are recorded as having earned income.

Figure 5 Changes in employment, unemployment and economic inactivity, Jan-Mar 2020 to Apr-Jun 2020

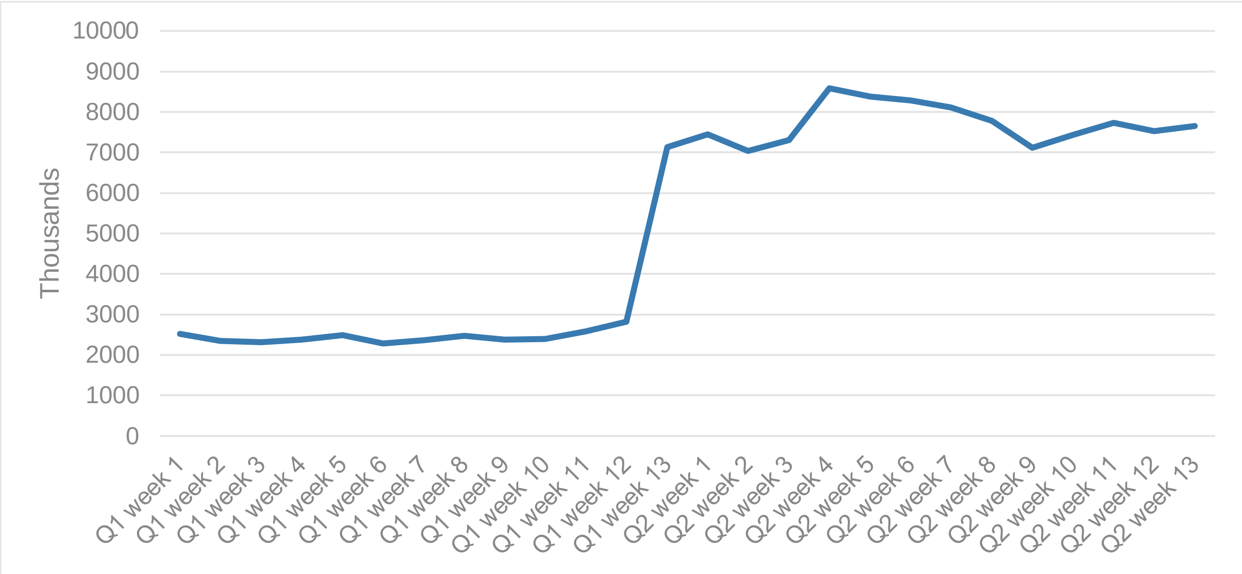


Source: Labour Force Survey

The reason for these muted impacts is that the government's Job Retention Scheme (and Self-Employed Income Support) has been successful in ensuring that people remain 'in employment' even if they are not currently working. The ONS has again published data today showing week-by-week responses to the Labour Force Survey that illustrates this, and is reproduced below. The number of people temporarily away from work – but still counted as employed – increased from on average 2.4 million before the crisis to 8.8 million at the end of April, so a rise of 6.4 million. This includes those on the JRS, SEISS, and those reporting that they are away from work but not earning.

Last month we reported a gradual reduction in these figures, to 7.0 million at the end of May, however the numbers away increased again during June – reaching 7.7 million at the end of the month. It is well plausible that this increase reflected increasing use of the JRS by employers during June, in order to maximise the numbers who completed a furlough period in time to be eligible for the 'partial furlough' that began in July.

Figure 6: Number of people employed but temporarily away from work, by week

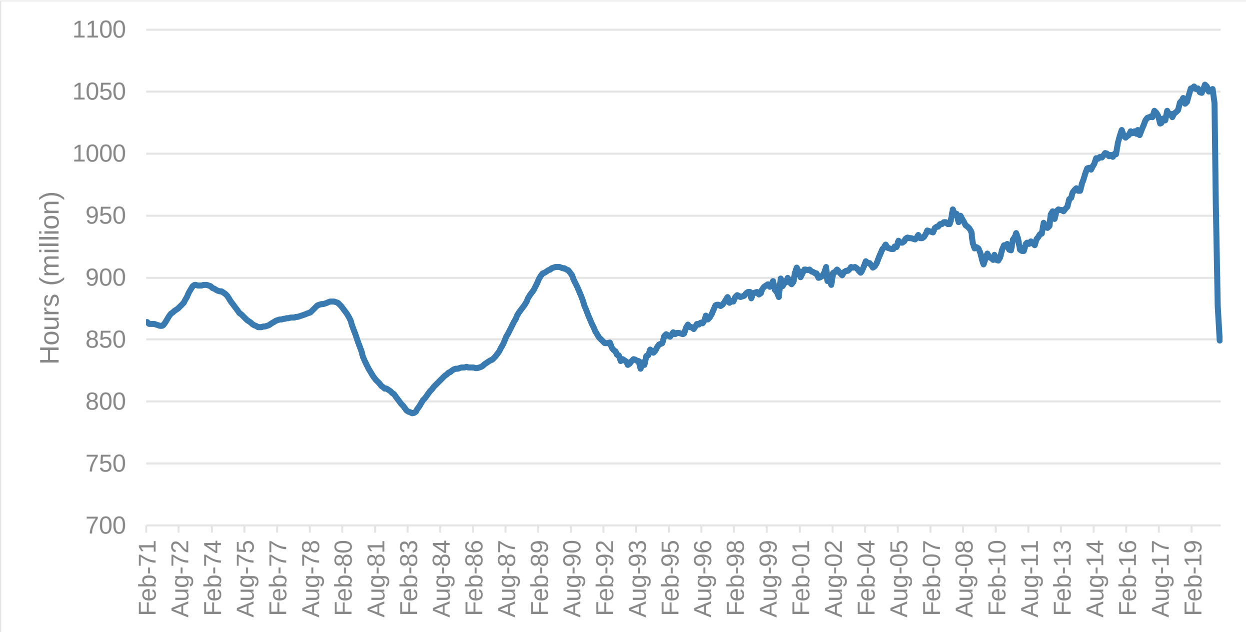


Source: Labour Force Survey

Where the Labour Force Survey shows significant impacts, unsurprisingly, is in hours worked – where we can see the combined effect of furloughs and falls in employment. Figure 7 below illustrates this, showing that the total number of hours worked in the economy fell again in the last month and is now at its lowest since September-November 1994. To give an indication of the scale of that decline, at that time there were 7.4 million fewer people in work than there are now.

The average number of hours per worker have also fallen again, to a new low of 25.8 hours per work – down by a quarter on the pre-crisis average. This has again fed through into falling pay, even with the 80% salary replacement paid through the furlough scheme, with total pay in real terms down by 2.0% on a year ago (the largest fall since February-April 2012).

Figure 7: Total actual hours worked



Source: Labour Force Survey

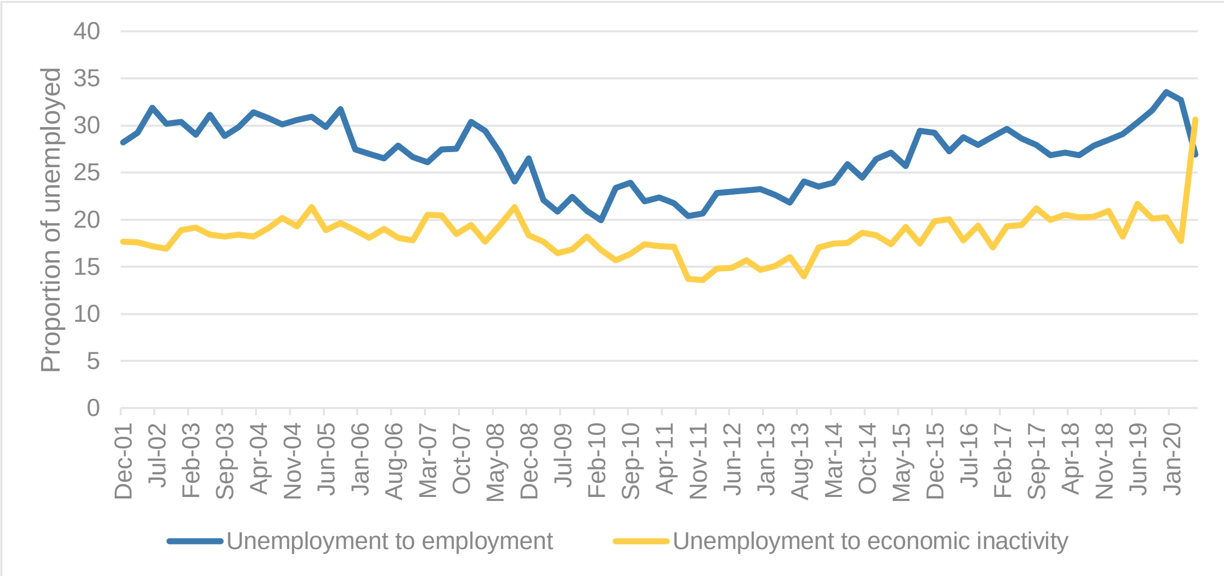
For the first time on record, more unemployed people moved into 'inactivity' than moved into work

The ONS also re-started publication of its labour market flows time series, which estimates the number of people moving between labour market statuses. The headline measures showed significant falls in job-to-job moves and in job entry from unemployment and inactivity – which fell from a combined 1.78 million to 1.58 million over the quarter. However while these falls are significant, it could also be argued that they are relatively low given the extent of the lockdown during April to June. So even during the full lockdown, on average over half a million people still started a new job each month.

The data also shows the extent of the shift from employment and unemployment into economic inactivity – with 1.04 million people flowing into economic inactivity over the quarter (compared to an average of 800 thousand per quarter over the previous year) and a net positive flow (after accounting for those leaving inactivity) of 75 thousand. Both of these figures were the highest since this dataset began in 2001.

This flow into inactivity has been driven in particular by people exiting unemployment – i.e. stopping looking for work. As Figure 8 below illustrates, for the first time ever more people exited unemployment for inactivity than did so for work. This was particularly driven by a record increase in the proportion leaving for inactivity, although the proportion leaving to employment fell to the lowest since April-June 2018.

Figure 8: Quarterly flows from unemployment into employment and economic inactivity



Source: Labour Force Survey flows data

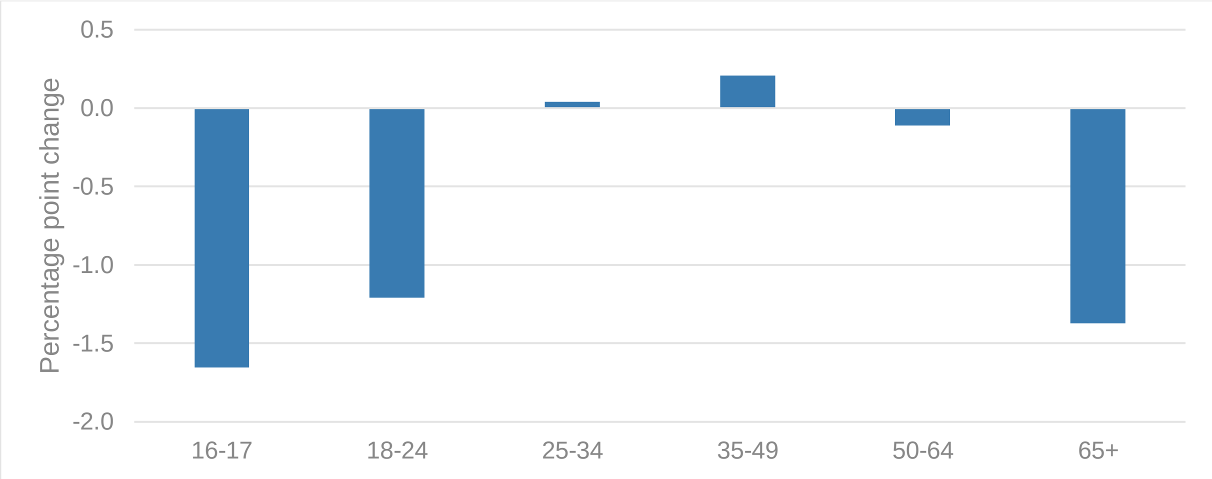
The youngest and oldest appear to be seeing the most significant impacts

Labour Force Survey data by age is so far showing very little signs of negative impacts for different population groups, which in part likely reflects the fact that the impacts overall in the LFS have been subdued. ONS published quarterly data today on both employment of disabled people and ethnic minority groups, and both showed the ‘gaps’ in employment rates narrowing over the year (when compared with non-disabled and white people respectively).

However there do appear to be tentative signs in the LFS data that the very youngest and very oldest workers are seeing more significant impacts, with their employment rates falling while the rates for those aged 25-64 have stayed broadly the same. This is shown in Figure 9 below. There may be different factors explaining these trends – in particular a slowdown in hiring affecting young people, and involuntary early retirement among older workers.

The last month has also seen a further increase in the number of young people not in full time education nor employment – rising to 1.06 million, or one in six of all young people (15.4%). As with last month’s figures, this is the highest level since 2015.

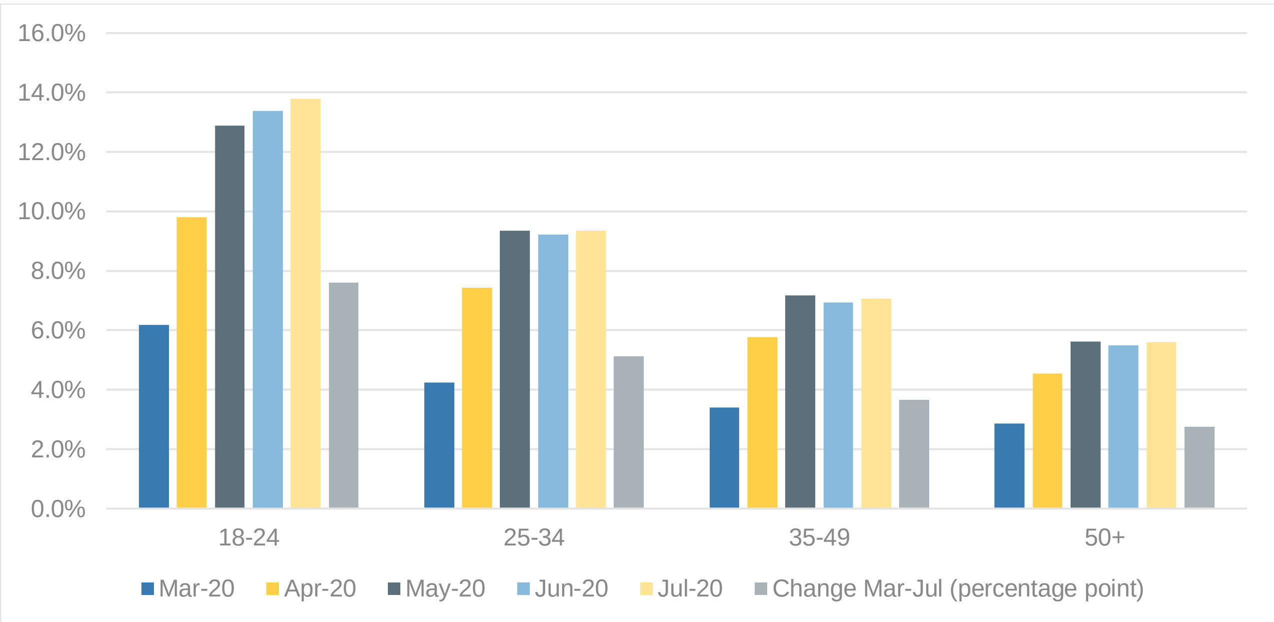
Figure 9: Change in employment rates by age, Jan-Mar 2020 to Apr-Jun 2020



Source: IES analysis of Labour Force Survey

These different impacts by age are also reflected in the claimant count data. Figure 10 below shows that the proportion of young people on the claimant count has continued to rise, and is now at close to one in seven of all 18-24 year olds (13.8%). This compares with around one in fifteen before the crisis began. The claimant count has risen by 125% for young people, which is higher than for any other age group, although across the age distribution the numbers have either nearly doubled or more than doubled.

Figure 10: Estimated claimant unemployment rates by age, March-July 2020

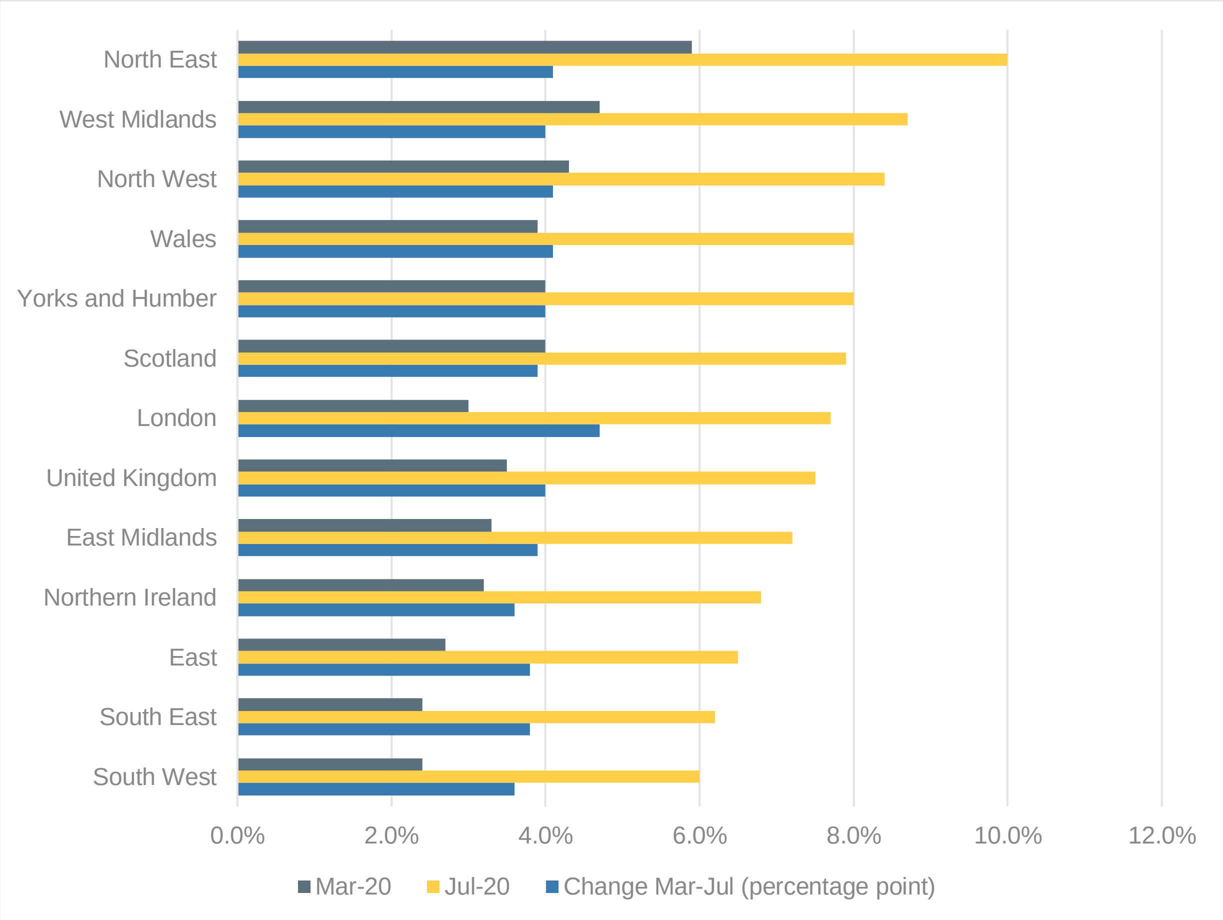


Source: IES analysis of NOMIS claimant count and ONS Labour Force Survey data

The claimant count is generally higher in more disadvantaged areas, but has risen fastest in the south

Figure 11below illustrates that claimant count rates are highest in the North East (10.0%), West Midlands (8.7%) and North West (8.4%) – as was the case before the crisis. The percentage point rises in unemployment however remain fairly consistent across regions, rising by on average 4.0 percentage points since March. The exception to this is London, where the rate has risen by 4.7 percentage points – going from having one of the lowest rates to being among the highest.

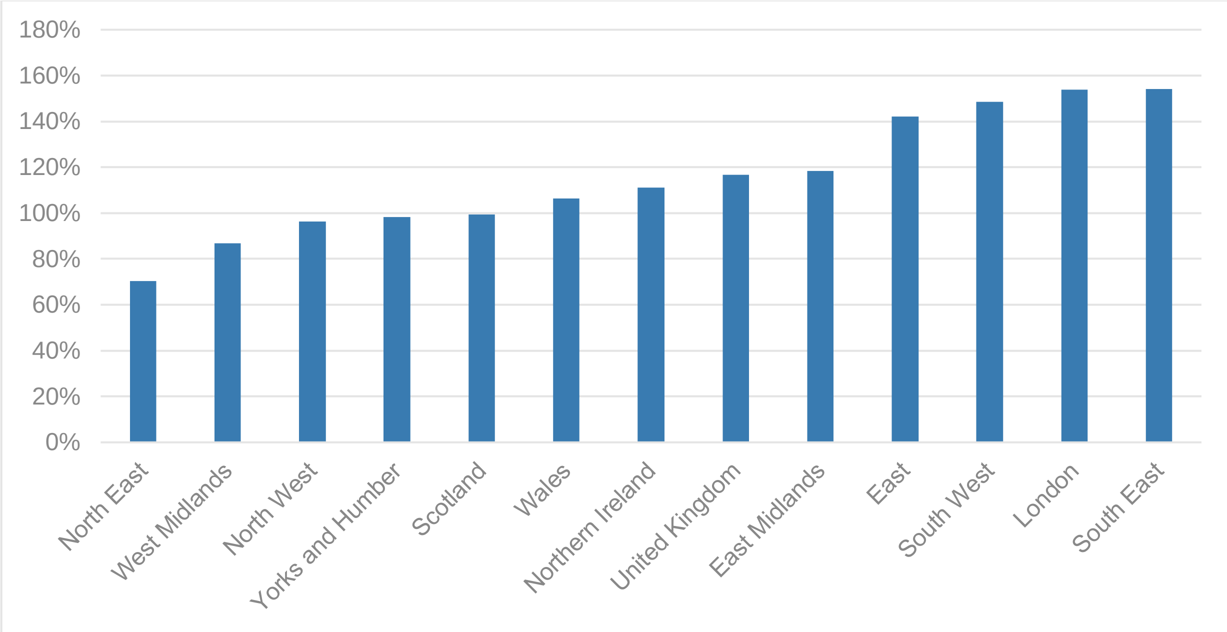
Figure 11: Claimant count rate by region or nation, March-July 2020



Source: IES analysis of NOMIS claimant count data

The fact that unemployment rates have increased by similar amounts between regions also means that as with last month, the percentage rise in unemployment has generally been greater in areas where unemployment rates were previously lower. As Figure 12 shows, claimant unemployment has risen by 150% or more in the South East, South West and London, compared with 70% in the North East (albeit from a higher base).

Figure 12: Percentage increases in claimant unemployment by region, March-July 2020



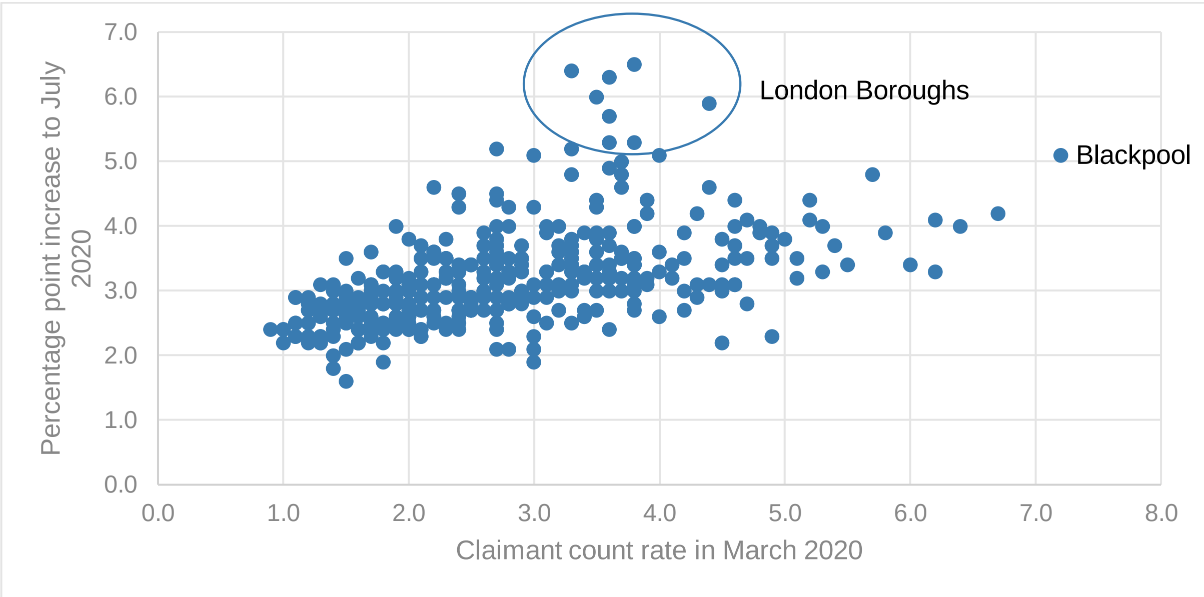
Source: IES analysis of NOMIS claimant count data

Looking at local authority level data, there is a positive but still relatively weak correlation between the claimant count rate in March and the percentage point increase in the rate since then. In other words, areas that had higher claimant count rates have generally seen larger per capita increases during the crisis. However the correlation is not particularly strong, which likely reflects that this has been a broad-based crisis with many relatively more disadvantaged areas being somewhat protected by their greater reliance on public sector jobs (and in particular jobs in health and social services).

Figure 13 sets this out in more detail, plotting pre-crisis claimant rates and the percentage point change in the rates since the crisis for each local authority area. A number of local authorities stand out as having had increases of 5 percentage points or more, comprising eleven London Boroughs[2] plus Slough, Luton and Blackpool.

[2] Haringey, Newham, Brent, Waltham Forest, Barking and Dagenham, Ealing, Enfield, Hackney, Redbridge, Lewisham and Hounslow

Figure 13: Percentage point change claimant count rate, by claimant count rate in March 2020



Source: IES analysis of NOMIS claimant count data

Looking at individual local authorities, those areas with the highest claimant count rates are now dominated by London boroughs, coastal towns, ex-industrial areas and some inner cities. Table 1 below illustrates this, showing areas where more at least one in eleven working age adults (9%) are on the claimant count.

Table 1: Local authorities where at least one in eleven working age adults are on the claimant count

Local authority	Region	Proportion of 16-64 population			Change (percentage)
		June 2020	March 2020	Change (percentage point)	
Blackpool	North West	7.2	12.3	5.1	72.1
Birmingham	West Midlands	6.7	10.9	4.2	62.4
Thanet	South East	5.7	10.5	4.8	85.5
Wolverhampton	West Midlands	6.4	10.4	4.0	64.0
Middlesbrough	North East	6.2	10.3	4.1	65.9
Haringey	London	3.8	10.3	6.5	170.9
Barking and Dagenham	London	4.4	10.3	5.9	135.9
Brent	London	3.6	9.9	6.3	175.9
Hull	Yorks and Humber	5.8	9.7	3.9	66.7
Newham	London	3.3	9.7	6.4	192.7
Oldham	North West	5.2	9.6	4.4	86.1
South Tyneside	North East	6.2	9.5	3.3	53.3
Waltham Forest	London	3.5	9.5	6.0	173.2

Hartlepool	North East	6.0	9.4	3.4	55.4
Bradford	Yorks and Humber	5.2	9.3	4.1	80.5
Sandwell	West Midlands	5.3	9.3	4.0	76.2
Ealing	London	3.6	9.3	5.7	155.0
Burnley	North West	5.4	9.1	3.7	67.5
Hackney	London	3.8	9.1	5.3	139.5
Lewisham	London	4.0	9.1	5.1	129.7
Manchester	North West	4.6	9.0	4.4	95.9
Croydon	London	4.4	9.0	4.6	104.8

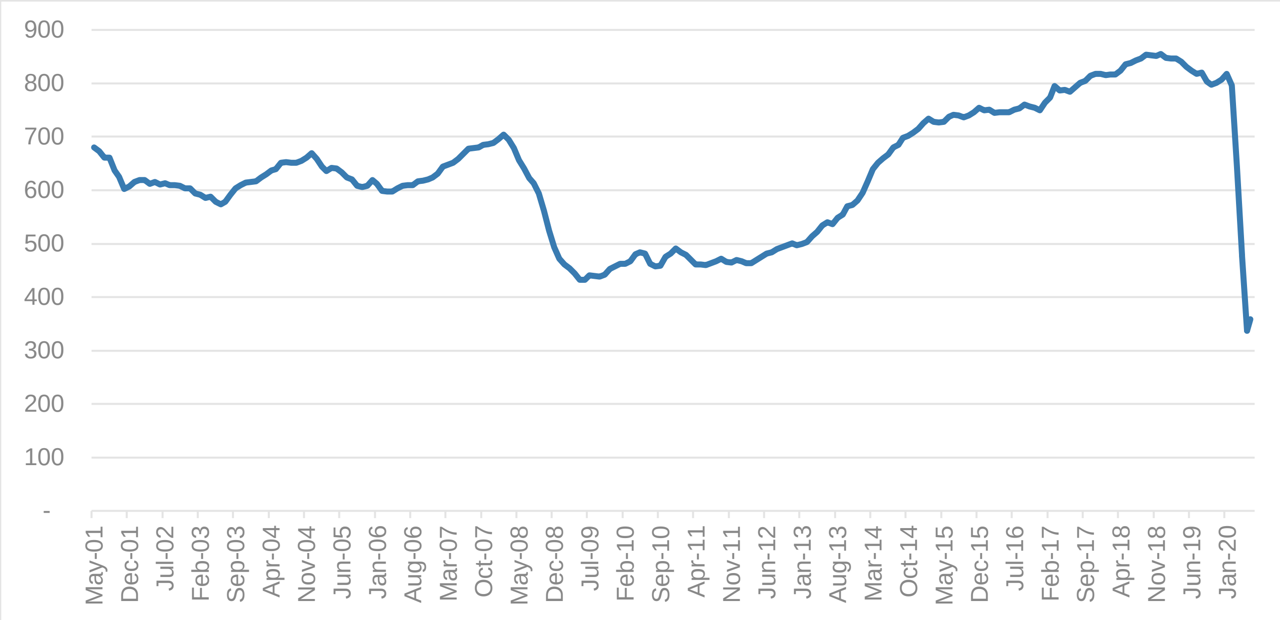
Source: IES analysis of NOMIS claimant count data

Vacancies have shown tentative signs of recovery, but redundancies have also ticked up

Finally, today's data shows a very slight recovery in the number of vacancies recorded through the ONS Vacancy Survey. This reports an average of 370 thousand in the three months from May-July, compared with an average of 337 thousand reported last month. However underneath this, the single-month estimate for July itself is more positive still – reporting around 470 thousand vacancies in the economy. This is being driven particularly by smaller employers, including in the public sector, professional services and hospitality – and likely reflects covid-related recruitment as lockdown has eased (for example to support businesses to reopen and prepare). If this recovery is sustained, then it would see vacancies returning to the sorts of levels that they were at in the aftermath of the last crisis.

However today's figures have also seen a worrying rise in redundancies, up to 134 thousand in the quarter to June, from 107 thousand in the quarter to March. This is now the highest level since February to April 2013 and will likely rise further as the various support measures start to unwind.

Figure 14: Job vacancies



Source: ONS Vacancy Survey.

Conclusions and implications

Today's data continue to send some conflicting messages on the state of the labour market during the crisis. However it does appear that paid employment fell by around one million during the lockdown – an unprecedented fall, but one that could have been far worse without the Job Retention Scheme and support for the self-employed.

These impacts are starting to feed through into the headline labour force survey measures, and suggest in particular that young people and the oldest workers are being most significantly affected. As with last month, the impacts across areas are fairly consistent, reflecting the broad based nature of the crisis. However those areas with weaker labour markets before the crisis appear likely to face the most significant challenges in the recovery – particularly in inner city, ex-industrial and coastal areas – while London boroughs in particular have been hit hard, reflecting their reliance on private sector jobs, the visitor economy and office-based work.

The recovery in vacancies in July gives some hope that the next couple of months may see things start to stabilise as the economy reopens, but at the same time the ongoing impacts of the crisis on demand – combined with the unwinding of government support – means that the labour market impacts are far from over. Many of those on furlough will likely come back to less secure work and shorter hours, while unemployment is also likely to rise further and faster. With the government's Spending Review due in the autumn, it may well be necessary for the Chancellor to consider further measures to reduce labour costs and support hiring.

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