ies Briefing

Institute for Employment Studies

Labour Market Statistics, February 2021

23 February 2021

This briefing note sets out analysis of the Labour Market Statistics published this morning. The analysis draws on **Labour Force Survey** data, a household survey that collects official figures on employment, unemployment and economic inactivity. The most recent data cover October to December 2020. This is supplemented by analysis of **Pay As You Earn (PAYE) Real Time Information** data, which reports on employee levels and pay; the **ONS Vacancy Survey**, which collects employer data on open vacancies; and administrative data from the benefits system on **Universal Credit claims** – all of which include data from January 2021, so the early part of the current lockdown.

Summary

The labour market remained weak as 2020 ended, with the Labour Force Survey measures of employment continuing to fall and unemployment up slightly. However the deterioration in the labour market has slowed significantly, and more timely payroll data suggests that employment may have started to grow through December and January.

Estimates for redundancies are now falling back towards more normal levels, although from very high peaks – with 500 thousand more job losses in 2020 than in 2019. Data on employment by sectors also shows employment now growing in health and care, and in administrative and support services (potentially driven by Test and Trace call centres and by contracted-out packaging and distribution).

However there is no room for complacency in today's figures, with signs that long-term unemployment is now on the rise – up by one third for young people in the last year alone – and significant increases in the number of people in involuntary temporary and part-time work. Data on employment for specific disadvantaged groups – disabled people, ethnic minorities, and older and younger workers – also suggests that progress in narrowing employment gaps has stalled and for some groups may now be going into reverse.

Employment for young people is particularly concerning, with new PAYE data on payrolled employees suggesting that falls in youth employment may have been greater than the LFS had suggested – with young people accounting for three fifths of the total fall in payroll employment – and that young people have benefited less from recent jobs growth than had previously been thought.

Newly published data on labour market flows – from both the LFS and PAYE – suggests that hiring remains well below pre crisis levels and is recovering only very slowly. While this is to be expected given the lockdown restrictions, ultimately any roadmap out of the crisis in the labour market will need to involve getting hiring up to substantially above where it was last year. So as we start to ease restrictions, more is likely to be needed to support safe hiring and jobs growth.

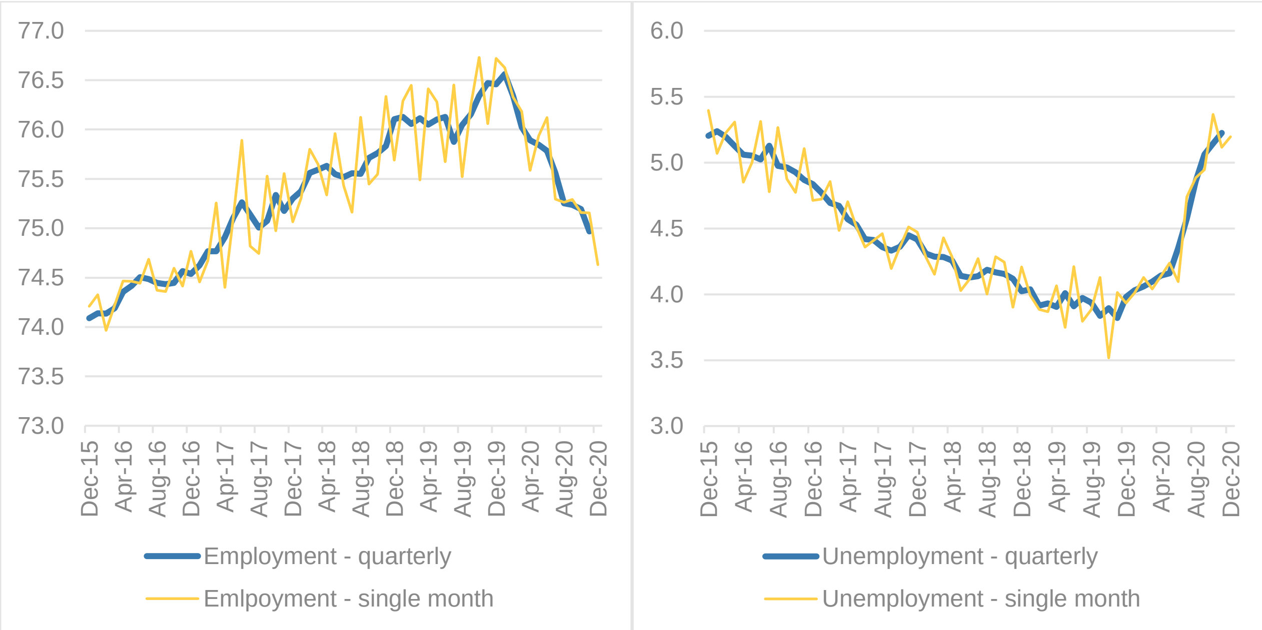
Looking ahead, our view is that next week's Budget needs to be a budget for jobs, and we set out in our budget submission in January eight areas for action. Today's figures reiterate the need in particular for measures to boost hiring; to support those most disadvantaged in the labour market; to improve progression, security and enforcement for those in low paid work; and to deliver on a meaningful Opportunity Guarantee for young people.

Finally, the ONS has emphasised again today that they are concerned about the reliability of using the LFS to report on changes in levels of employment, unemployment and inactivity. This is mainly because the LFS derives its population estimates from figures published each summer and which do not take account of population changes during the pandemic (and in particular higher emigration and reduced immigration). This is unlikely to significantly effect headline labour market *rates*, but means that changes in *levels* should be treated with caution (this ONS blog explains this in more detail). For this reason, where appropriate and possible we have used HMRC PAYE data for analysis of changes in levels of employment. This dataset only includes employees, but the ONS advises that it is currently more reliable than the LFS for reporting changes in levels.

The fall in employment has slowed, with signs of recovery in payroll data

The Labour Force Survey data released today shows that the employment rate has continued to fall back, to 75.0% - this is 1.5 percentage points below its pre crisis peak, and a decline of 0.4 points in the last quarter. This appears to have been dragged down in particular by weak data for December (as Figure 1 below shows), having stabilised slightly in previous months. However the rise in unemployment is showing signs of slowing down, with the headline rate reaching 5.1% - up by 0.4 points on the quarter but only 0.1 points higher than the figure published last month.

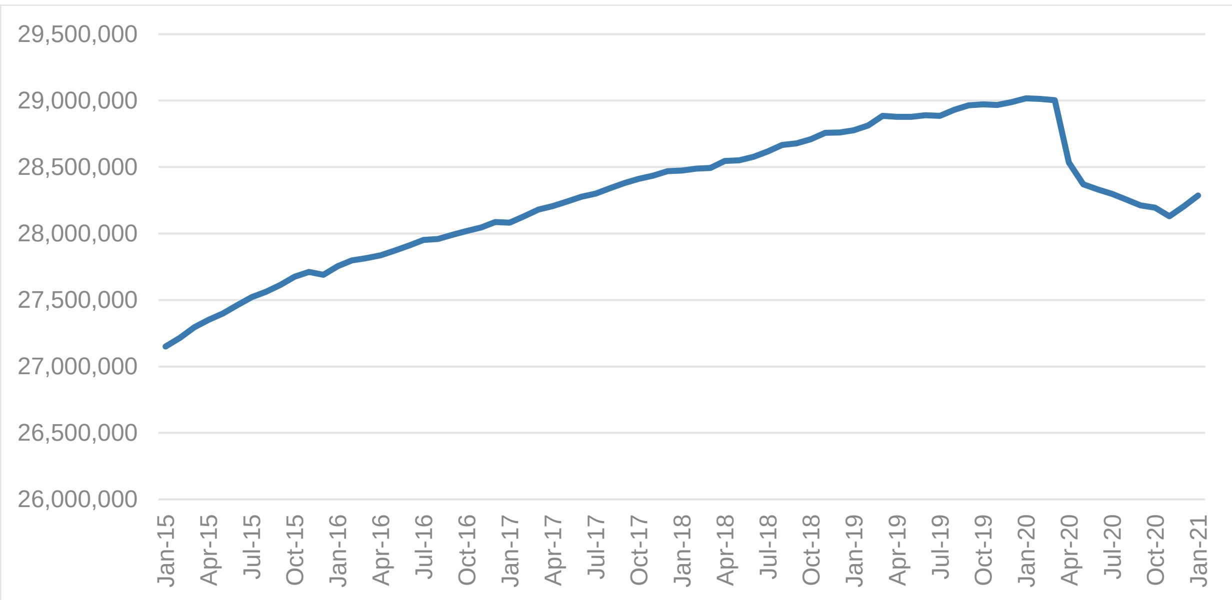
Figure 1: Employment and unemployment rates (16-64) – quarterly average with single-month estimates



Source: Labour Force Survey

As with last month's analysis, today's figures show that the vast majority of the fall in employment happened in the early part of the crisis. This is borne out in particular by the payroll data from HMRC, which as noted the ONS considers to be a more reliable indicator of employment levels. Figure 2 below shows that on this measure, employee jobs rose by 156 thousand between November and January to 28.29 million – regaining just over one sixth of the total fall in employment since the crisis began.

Figure 2: Total number of payrolled employees

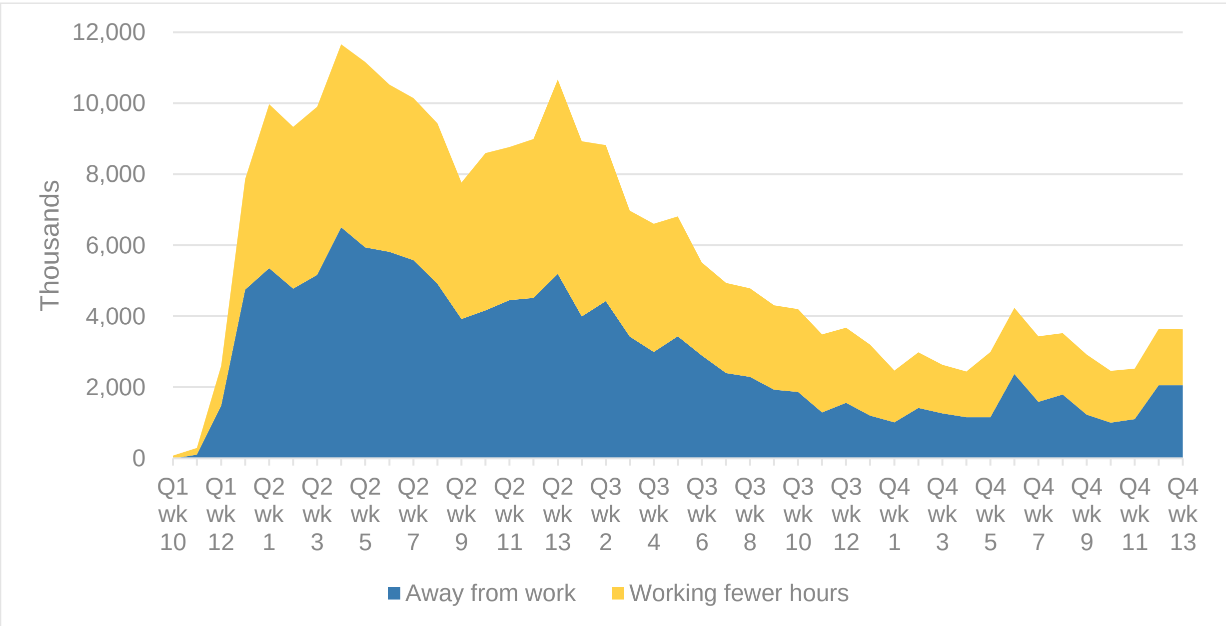


Source: HMRC Pay As You Earn data

Furlough extension (and some labour market flexibility) helped minimise impacts from tighter restrictions

These data suggest only very modest impacts on the labour market from the second lockdown in November and restrictions over December, with early signs that the full lockdown in January may also have had muted impacts so far. This has undoubtedly been aided by the extension of the Job Retention Scheme, where take-up increased from around 2.5 million at the end of October to 3.9 million at the end of December (of which three fifths were people on 'full furlough' and so working no hours)[1]. We see a similar trend in the Labour Force Survey data published today, with the 'excess' number of people reporting as being either away from a job or working fewer hours than usual[2] increasing from a low of around 2.6 million in October to 3.4 million in November before falling back slightly to around 3.1 million in December. This is shown in Figure 3 below. This also suggests that roughly similar numbers of people are staying in work on shorter hours as are being temporarily furloughed.

Figure 3: 'Excess' number of people not working normally by week, March to Dec 2020



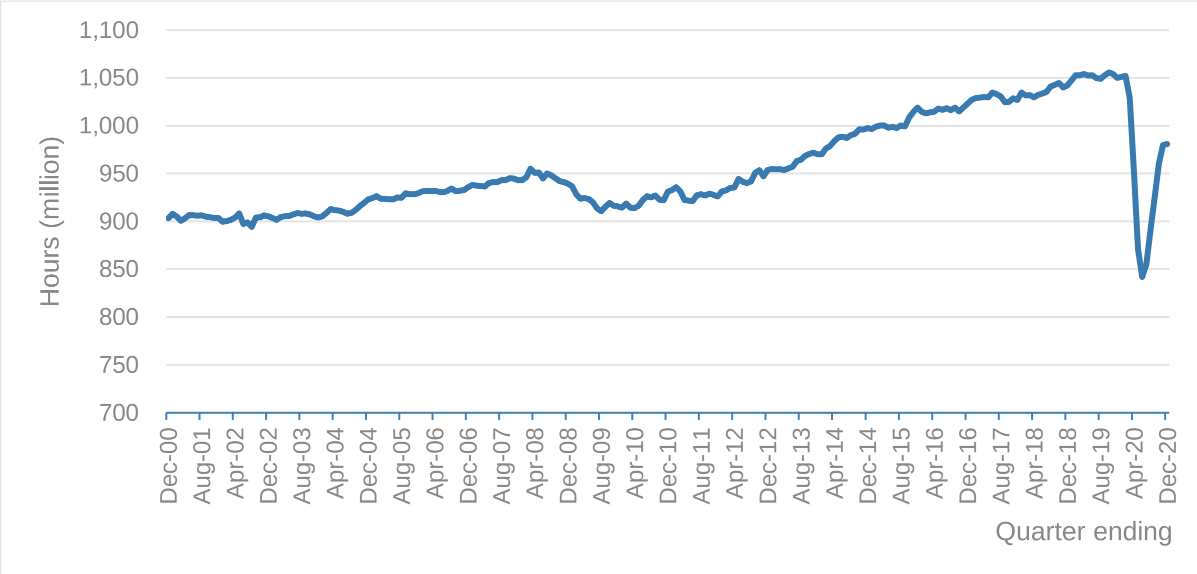
Source: IES analysis of weekly Labour Force Survey X07. The 'excess' is calculated as the difference between the number in the relevant reference week of 2020 and the number for the same reference week over the three years 2017-19. 'Working fewer hours' is limited to those doing so for economic reasons.

[1] Source: Coronavirus Job Retention Scheme statistics: January 2021 https://www.gov.uk/government/statistics/coronavirus-job-retention-scheme-statistics-january-2021

[2] The 'excess' is defined as the additional number of people reporting as being away from work or working fewer hours than usual due to economic factors in the given reference week, compared with the average for the same reference week in the previous three years.

The combined impacts of lower employment but also increased numbers away from work or on short hours can be most clearly seen in data for the total number of hours worked in the economy. This is shown in Figure 4 below, which illustrates both the depth of the initial crisis (when hours fell by one fifth overall) but also how far we still need to go in order to return to pre-crisis levels – with total hours worked ending the year 7% below where they were at the start.

Figure 4: Total hours worked



Source: Labour Force Survey

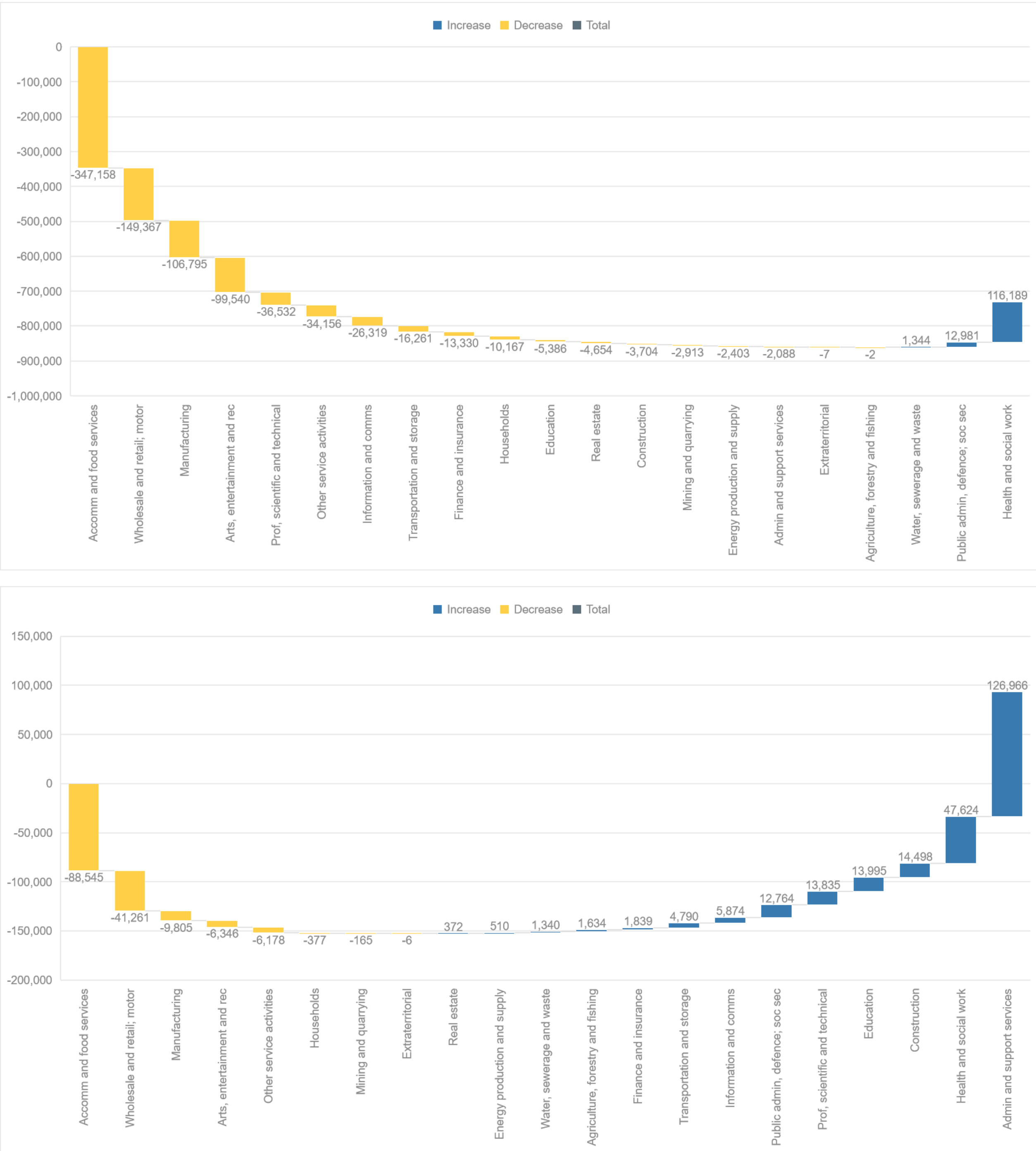
Employment falls were driven by shutdown sectors, but jobs are growing in service industries and health

Looking at impacts by sector, today's data reiterates that much of the fall in employment since the crisis began is explained by the impacts of social distancing – particularly on hospitality, retail and the arts. Because the ONS are recommending using PAYE data rather than the LFS to analyse changes in levels of employment, we have set out below changes in employee numbers by sector from this source. The top panel shows the total changes in employment between February 2020 and January 2021, while the bottom panel shows the change over the most recent three months (so from October to January).

This shows that nearly half (48%) of the total fall in employment has been in accommodation and food services, with a further 20% in wholesale and retail and 14% in arts and recreation. The significant falls in manufacturing appear to be driven by food manufacturing (set out in our analysis of occupational and sectoral impacts of the crisis published in December), so again is likely explained by social distancing restrictions. Note that the hospitality and culture sectors are relatively small, so these falls in employment have made a big impact – with both around one sixth smaller than they were before the crisis began.

The data for the most recent three months shows that while hospitality and retail are continuing to see falls, recent employee growth is being driven by a large increase in administrative and support services. This division includes contracted-out work in call centres, administrative services, and packaging and logistics – so may well reflect a combination of NHS Test and Trace call centres and job growth related to online sales. Employment has also grown in health and social work.

Figure 5: Changes in payrolled employment by industry – between February 2020 and January 2021 (top panel) and over most recent three months (Nov-Jan) (bottom panel)



Source: IES analysis of PAYE Real Time Information

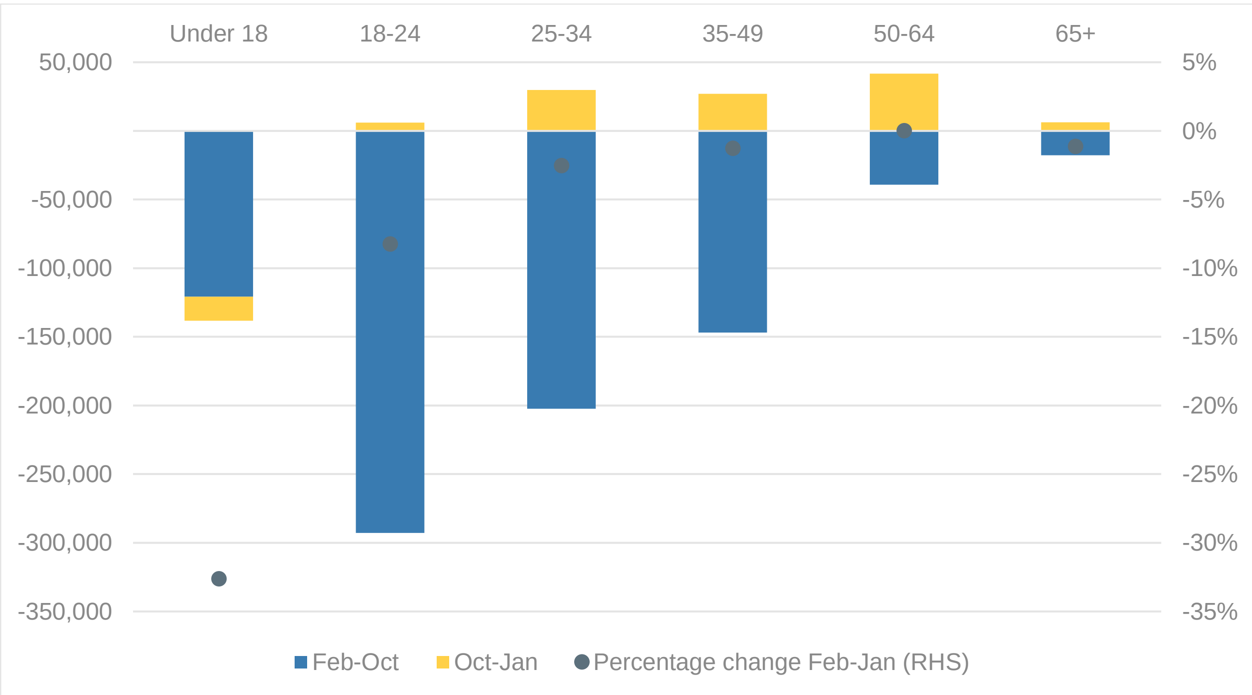
Young people are still faring worst, with new PAYE data suggesting a slower recovery than thought

Figure 6 below sets out changes in payrolled employee levels by age since the start of the crisis. This again uses PAYE data rather than the LFS. We have shown the changes separately for the most recent three months (yellow) and the prior eight months (blue) to give a clearer indication of recent trends. The percentage changes by age group are shown as grey dots (right hand scale).

These figures show a much more pronounced impact on young people than was previously reported in the LFS – with under 25s accounting for three fifths (59%) of the total fall in employment compared with just under half (46%) on the LFS measure. Those aged 25-34 also account for a far greater share of the total fall (24% compared with 9% on the LFS measure) while older workers appear to be faring much better on the PAYE data (virtually unchanged, compared with a fall of 170 thousand in the LFS). It is important to note however that not all of these differences will be explained by the measurement issues set out earlier in this note – the PAYE data also excludes the self-employed, which we know has fallen significantly and is on average an older workforce.

Looking at percentage changes, the number of employees aged under 18 has fallen by a third in just the last year, while the number of 18-24s in work is down by 8%. Changes for other age groups are all 2.5% or lower.

Figure 6: Change in payrolled employees by age: first eight months of the crisis (Feb-Oct 2020) and most recent quarter (Oct 2020-Jan 2021)



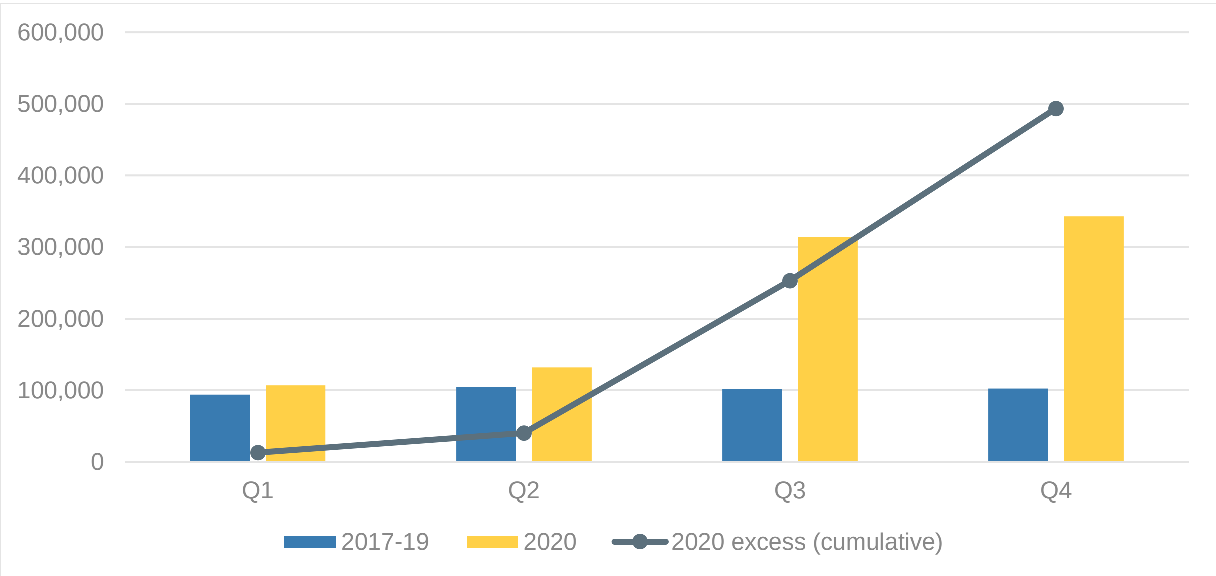
Source: PAYE Real Time Information

The graph above also suggests that older workers have benefited more from recent growth in employee numbers than younger workers, which again appears to contradict earlier LFS data which suggested that young people had seen stronger jobs growth as restrictions had eased. If this is the case, then it suggests that the position for young people may have been (even) worse than we had previously thought – with very little sign that recent growth is helping to make up for the huge falls in employment seen earlier in the crisis.

Redundancies are now falling back, but half a million more people lost their jobs in 2020 than in 2019

The LFS data published today suggests that in all, 896 thousand people were made redundant in 2020 – nearly half a million higher than the same figure for 2019 (of 402 thousand). This more-than doubling of redundancies was almost all felt in the second half of the year, where in total there were an estimated 657 thousand redundancies – in line with the number that we forecast in our On Notice briefing paper four months ago (which predicted 650 thousand).

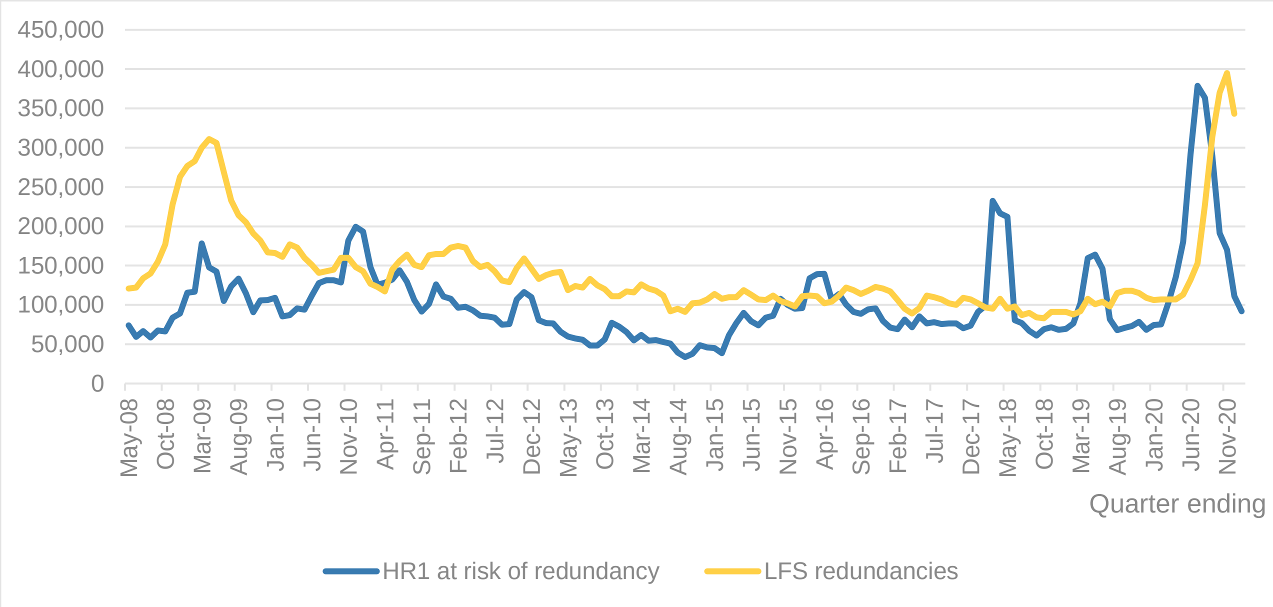
Figure 7: Quarterly number of people made redundant in previous three months, 2019 compared with 2020, with cumulative 'excess' redundancies in 2020 calendar year



Source: Labour Force Survey. 'Excess' redundancies is the cumulative total of the difference between the number of people made redundant in 2020 compared with 2019

We were able to estimate the path of redundancies in the second half of the year by using more timely data on employer notifications of planned redundancies to the Insolvency Service. Actual redundancies tend to follow a similar, but lagged, trend to these 'HR1' figures. As Figure 8 below shows, the LFS estimate of redundancies is now starting to fall back (yellow line), and the HR1 data suggests that these may return to something close to pre-crisis levels over the next four to five months.

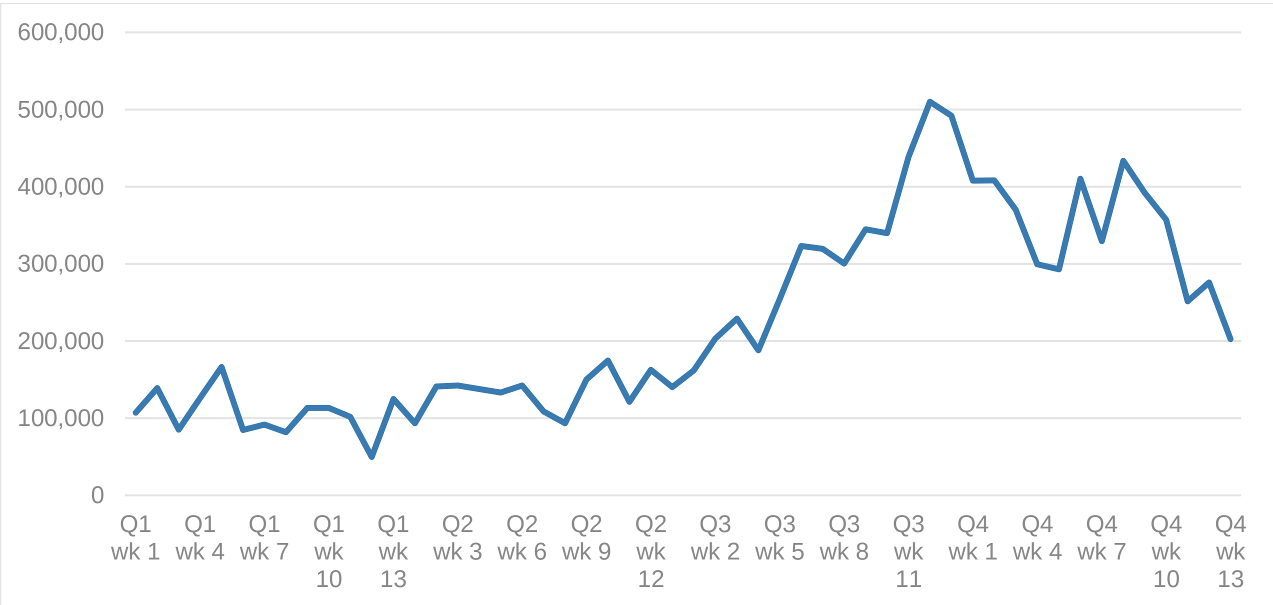
Figure 8: Quarterly number of employees notified as at risk of redundancy (HR1 forms) and reporting having been made redundant (Labour Force Survey)



Source: IES analysis of Insolvency Service and Labour Force Survey data

The weekly Labour Force Survey data, to the end of December, also bears this out – with numbers reporting as having been redundant falling by a half between the early weeks of October and the end of the year (Figure 9). Nonetheless, this would still be around double the pre-crisis trend.

Figure 9: Whether made redundant in previous three months – weekly responses, January to December 2020



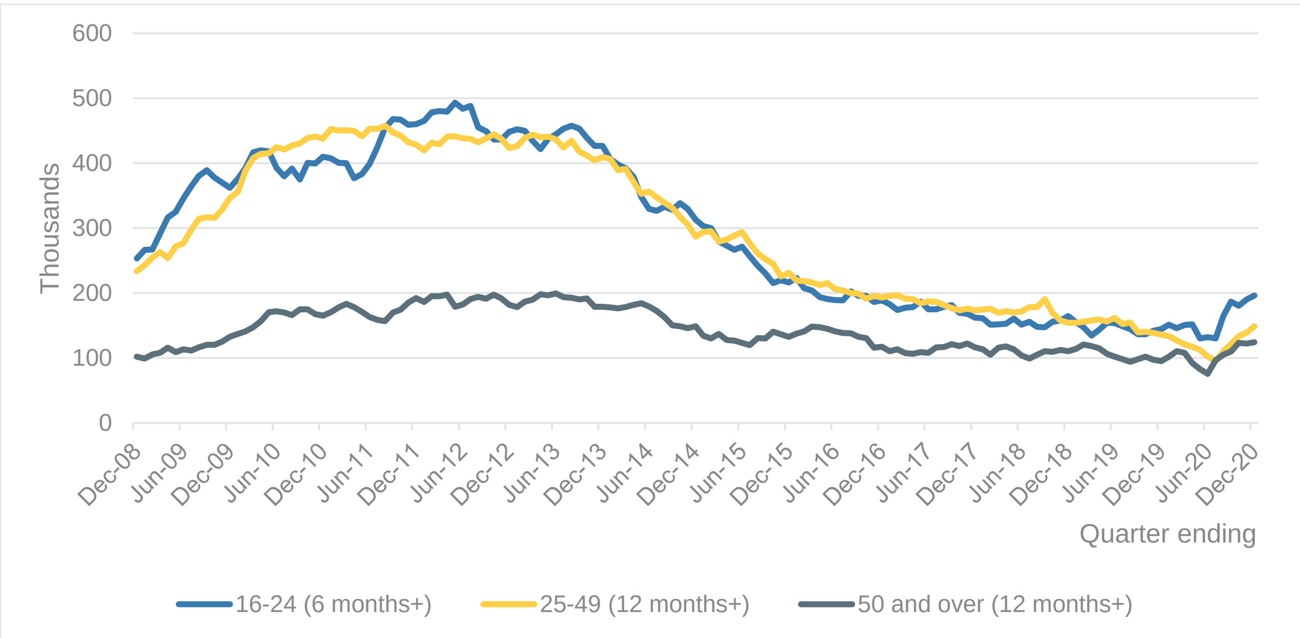
Source: Weekly Labour Force Survey X07

Long-term unemployment is rising sharply – while employment ‘gaps’ appear to have stopped narrowing

Of far more concern in today’s data, however, are the signs that long-term unemployment is starting to grow significantly – set out in Figure 10 below. For young people, where we define this as being unemployed for six months or more, the increases are most stark – up by one third over the last year to nearly 200 thousand. However we are seeing growth across older ages too (where we define it as unemployment of twelve months or more).

Long-term unemployment takes time to build up, as its growth is mainly driven by the volume of inflows to unemployment six or twelve months previously – so rises tend to happen later and persist longer than the initial economic shock from a recession. We are therefore certain to see long-term unemployment continue to grow through the course of this year. The government’s Restart programme, alongside Kickstart jobs for young people, are the main means by which this is intended to be addressed – however Restart will take time to build up (with our analysis suggesting that demand for places is likely to outstrip supply until around spring of next year), while Kickstart is due to end in December. So more is likely to be needed both to bring forward support and to extend access to Kickstart into future years.

Figure 10: Long-term unemployment by age

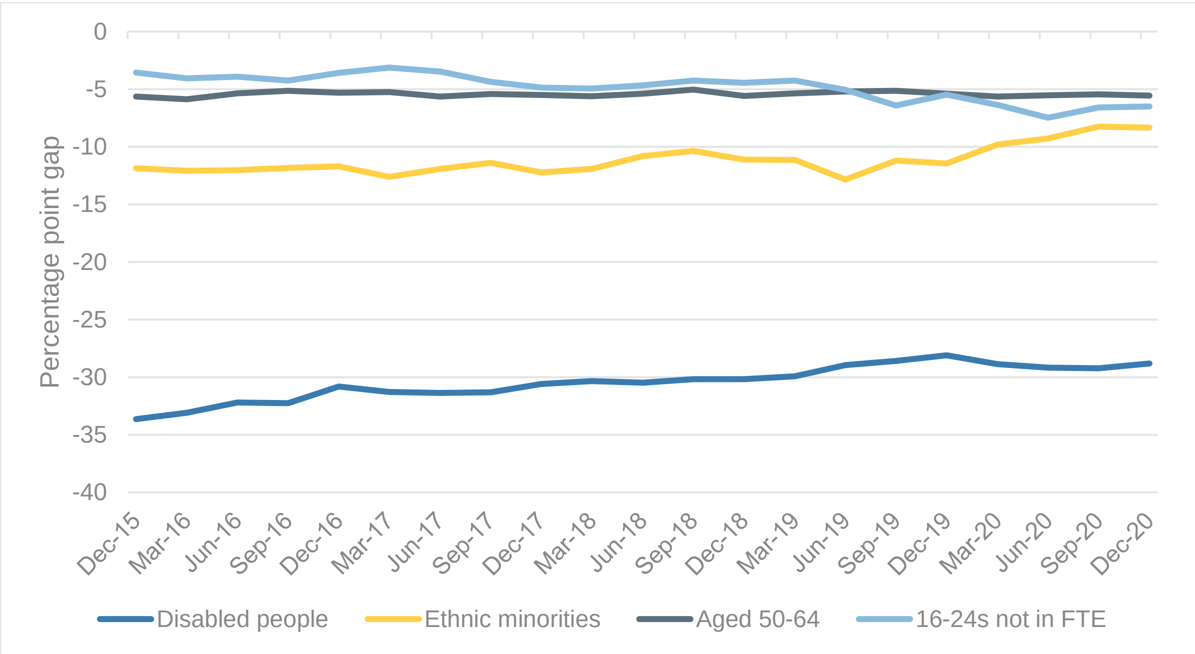


Source: Labour Force Survey. Long-term unemployment is defined as unemployment of more than six months for young people, or more than twelve months for those aged 25 and over.

There are also signs today that progress in addressing labour market inequalities may be starting to slow – with new data on employment for disabled people and ethnic minority groups, and regular monthly data on younger and older workers, showing that the ‘gaps’ in employment rates between these groups and the rest of the working age population have stopped narrowing and in some cases may be widening. This is shown in Figure 11 below. For disabled people, the employment rate gap now stands at 29 percentage points, having narrowed by more than five percentage points (to 28 points) over the five years before the crisis. For young people outside of full-time education, the employment gap is widening (and has reached 6.5 points) while for those aged 50-64 the gap has been broadly flat over the last five years (with employment growth for women offsetting falls for men).

On ethnic minority groups, the picture is less clear cut. The overall employment rate gap continued to narrow over the last year (from 11.5 to 8.3 percentage points) but has widened for Black people (from 10.0 to 12.2 percentage points) while it has narrowed for others. Our analysis for Youth Futures Foundation and Blagrave Trust, released last week and looking at the impacts of the crisis on young people specifically, also suggests that younger Black and Asian people have been significantly more affected by the crisis – with falls in employment four times and three times greater respectively than for White people, with employment gaps widening as a result.

Figure 11: Employment rate 'gaps' for disabled people, ethnic minority groups, those aged 50-64, and young people not in full time education; 2015 to 2020



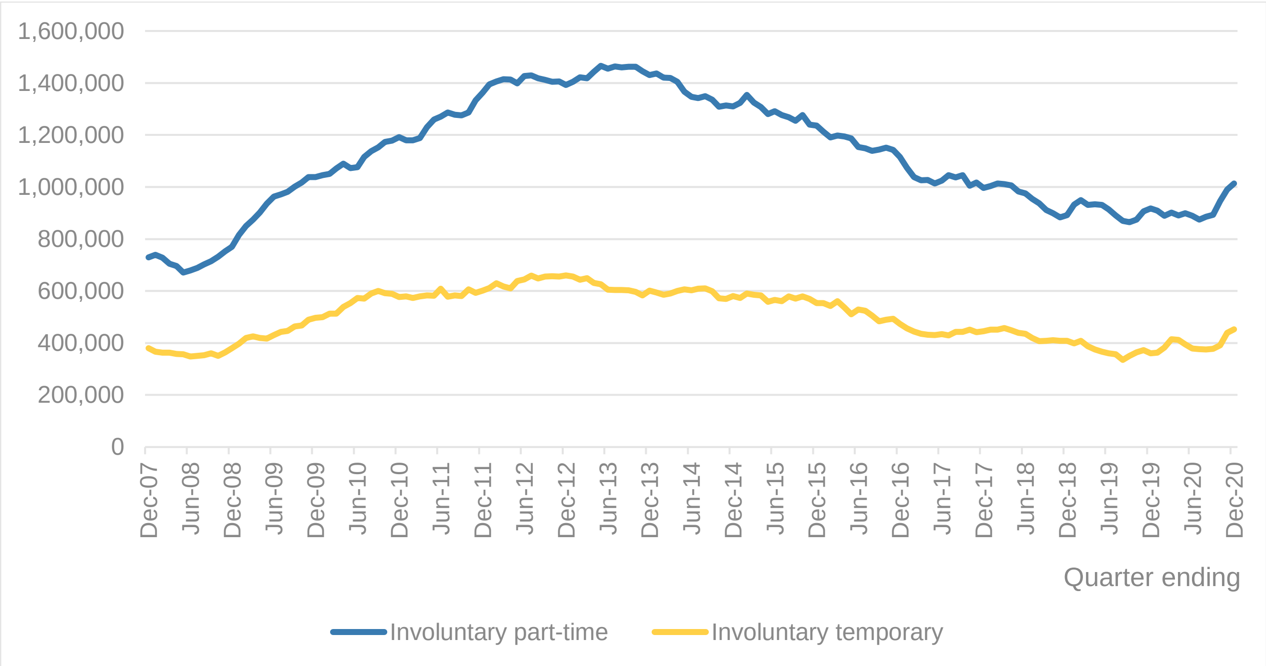
Source: IES analysis of Labour Force Survey. Gaps are calculated as the percentage point difference in employment rates between the rate for the disadvantaged group and the rate for the overall 16-64 population excluding that group.

There are also continued warning signs of a worsening in job security and an increase in 'second choice' jobs

As with last month, today's figures also suggest further increases in the number of people in 'second choice' part-time or temporary work. Figure 12 below illustrates this, showing the number of workers in part-time and/ or temporary work because they could not find full-time or permanent jobs. Combined, these have increased by 190 thousand (or 15%) over the last year.

These measures are important indicators of increased competition in the labour market and potential warning signs of greater job insecurity and low pay in the recovery. With the risks of mass unemployment now receding, it is increasingly likely that we may see more of the impacts of this crisis on working hours, pay and security – strengthening the case for doing more to improve job quality, support progression and address one-sided flexibility in the labour market. Our Laid Low report, published in January, sets out in more detail how these issues could be addressed in future.

Figure 12: 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

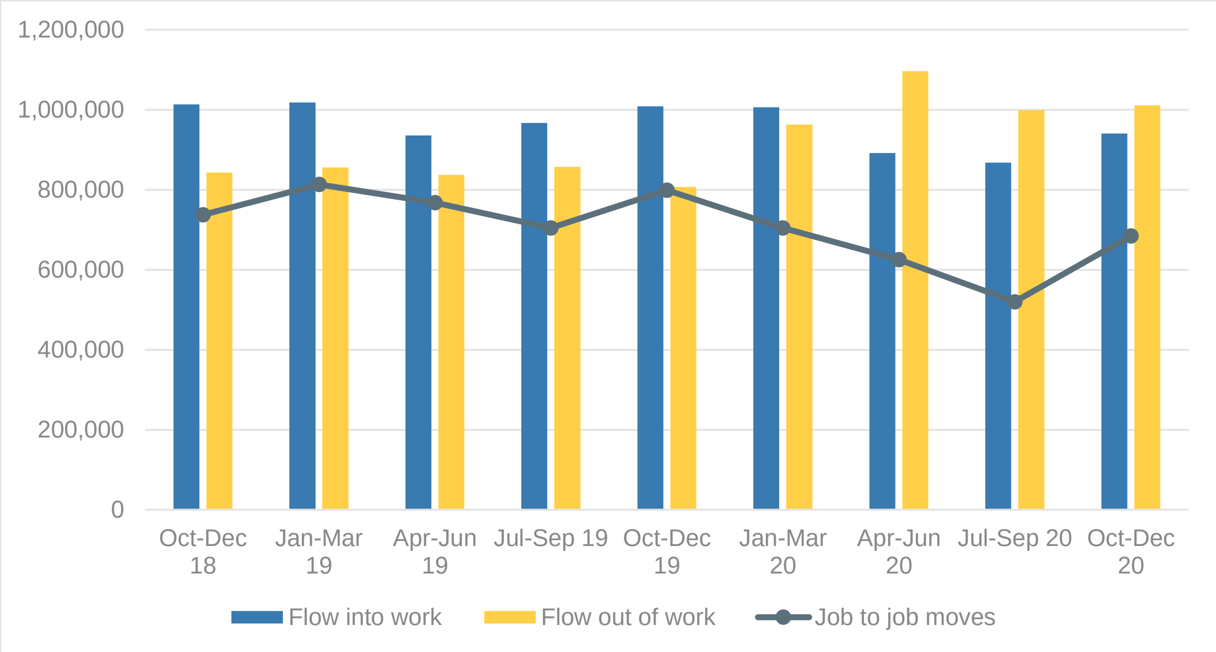


Source: Labour Force Survey

There are welcome signs of recovery in hiring and job moves – but they need to improve further still

Today's data release also includes quarterly LFS estimates of labour market 'flows' into work, out of work and between jobs. These are presented in Figure 13 below. The figures suggest a further improvement in flows into work in the final quarter of year, with hiring recovering compared with the depths of the crisis but still around 7% below the same time last year. Job exits also remain below where they were during the first lockdown, but are significantly elevated compared with more 'normal' times – around one quarter higher than the same period last year. As a result, employment continued to fall overall. Interestingly, the last quarter also saw an uptick in job-to-job moves, although these again remain below pre-crisis levels.

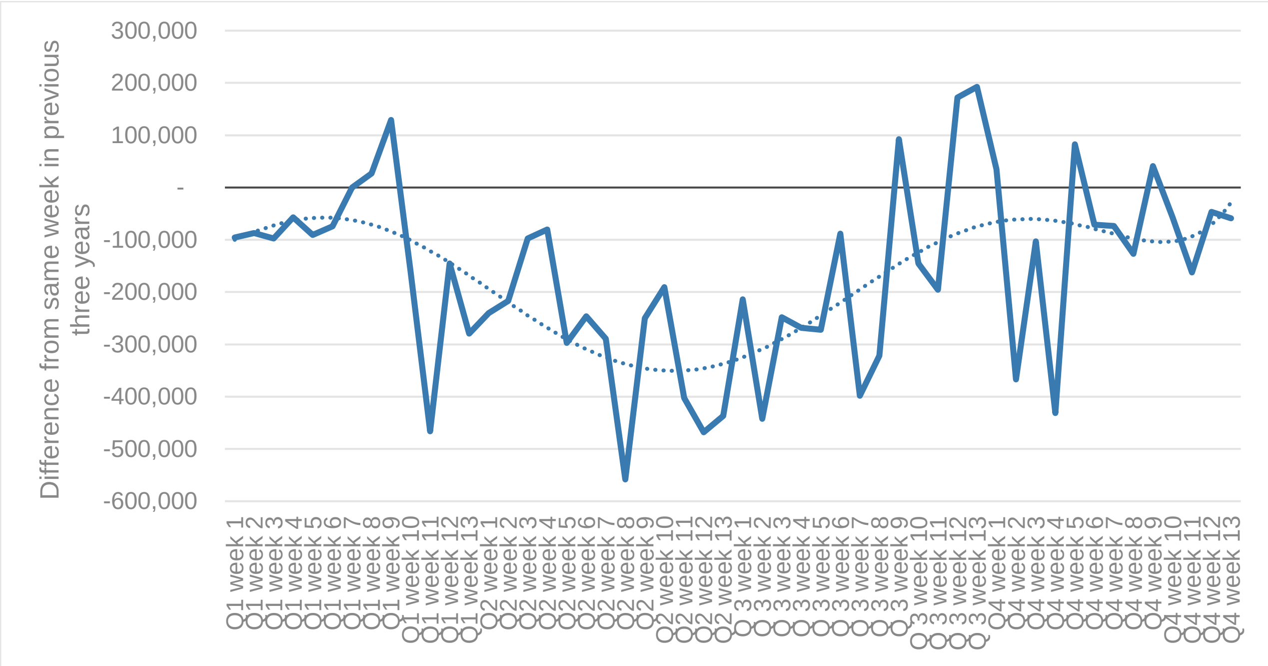
Figure 13: Quarterly flows into work, out of work and job-to-job moves, 2018-2020



Source: Longitudinal Labour Force Survey

A similar picture is evident in more timely – but noisy – weekly data from the Labour Force Survey, showing the number of people who reported that they had recently started a new job or were about to do so. This is used in Figure 14 below, showing the difference between figures for 2020 and the average of the same week over the previous three years. This shows both the recovery in job starts since the depths of last spring, but also that hiring remained subdued through November and December – likely reflecting the impacts of the second lockdown and social distancing.

Figure 14: Change in number of people who started a new job in reference week or are waiting to start one, January-December 2020 compared with same week in previous year



Source: IES analysis of weekly Labour Force Survey X07

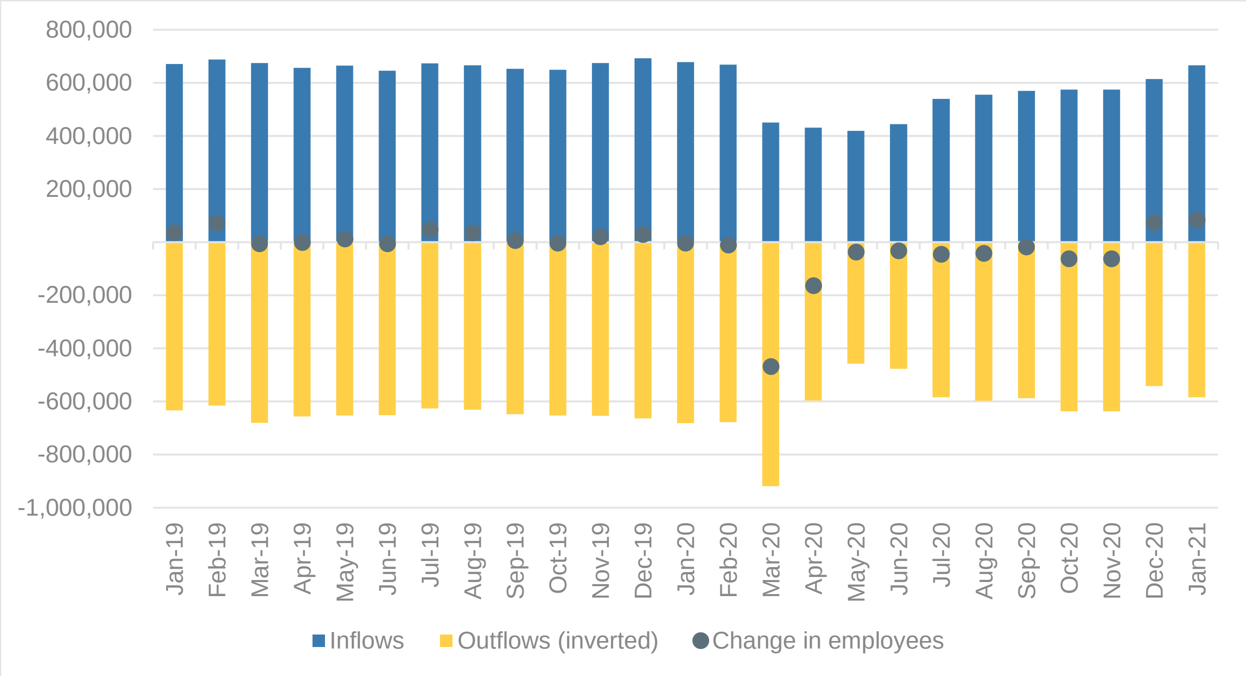
There are only limited signs of the labour market weakening further in January

PAYE data on labour market flows also shows that inflows to work are still relatively subdued, although it suggests that exits from work are well below pre crisis levels. This is shown in Figure 15. However it is also striking that the provisional figures for January 2021 suggest very high flows into payrolled employment (broadly the same as the same month in 2020) and relatively low out-flows. These figures can be subject to revision, but do suggest that the third lockdown may have had only a limited impact so far on the labour market.

This potentially limited impact is also reiterated by claimant count data for January (which is the measure of those who are claiming benefits and are required both to look for and be available for work), which was unchanged between December and January at 2.65 million. The single-month estimates for vacancies also showed little change between December and January, with the quarterly average edging up slightly to 600 thousand. However as Figure 16 shows, this remains around one quarter lower than pre-crisis.

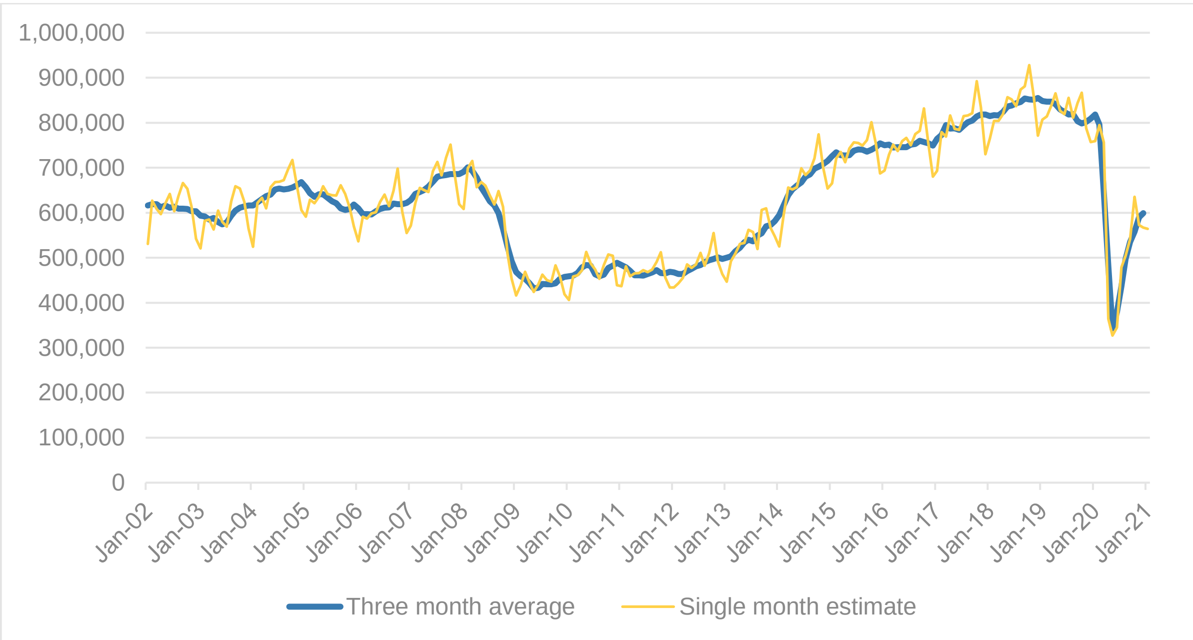
While this is all broadly welcome, and suggests that hiring is slowly recovering and the third lockdown has not led to further deterioration, we of course need hiring to increase to significantly above pre-crisis levels in order to start to reduce unemployment again, and in particular to arrest and reverse the growth in long-term unemployment.

Figure 15: Flows into and out of PAYE payrolled employment, two years to January 2021



Source: HMRC PAYE Real Time Information

Figure 16: Vacancies – quarterly and single-month estimates



Source: ONS Vacancy Survey

Conclusions and implications

Overall, today's figures show a continued weak labour market, but one where things clearly could have been far worse. Unemployment ended the year lower than many of us had feared it would be in the late summer, while employment has held up pretty well through a combination of significant government support and adjustments by employers and workers. There are some signs too of slow recovery, particularly in recent PAYE data.

However there is no room for complacency in these figures, and plenty here that will give the Chancellor pause for thought as he finalises his Budget for next week. Furlough support will clearly need to be extended further, with at least two million jobs likely to be at risk even after restrictions start to ease in March.

There are clear warning signs too today on long-term unemployment, labour market disadvantage, job insecurity and hiring. Existing measures like Restart and Kickstart are welcome, but are not likely to be enough on their own. In our Budget submission in early January we set out eight priorities for action in delivering a budget for jobs. Today's figures reiterate in particular the need for:

- More support to boost hiring, by raising the threshold at which employers start paying National Insurance;
- More and better targeted employment support for those most disadvantaged in the labour market – particularly those with health conditions, disabled people, older workers and ethnic minority groups;
- Measures to improve job quality, security and progression – through better employment support for those in low-paid work and significant improvements in enforcement of rights at work; and
- Delivering on an Opportunity Guarantee for young people – by extending Kickstart, and committing that all young people will be offered a decent job or training place before they reach long-term unemployment

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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