ies Briefing

Institute for Employment Studies

Labour Market Statistics, July 2020

16 July 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 11 June 2020.
- **Labour Force Survey data**. This is a household survey that collects official data on employment, unemployment and economic inactivity. Today's data cover the period March to May 2020, drawing on approximately 33 thousand interviews.
- **Pay As You Earn Real Time Information**. These are experimental statistics on employee levels and pay, covering the period to June 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.

The claimant count fell slightly in the month to June, but remains at its highest since 1994

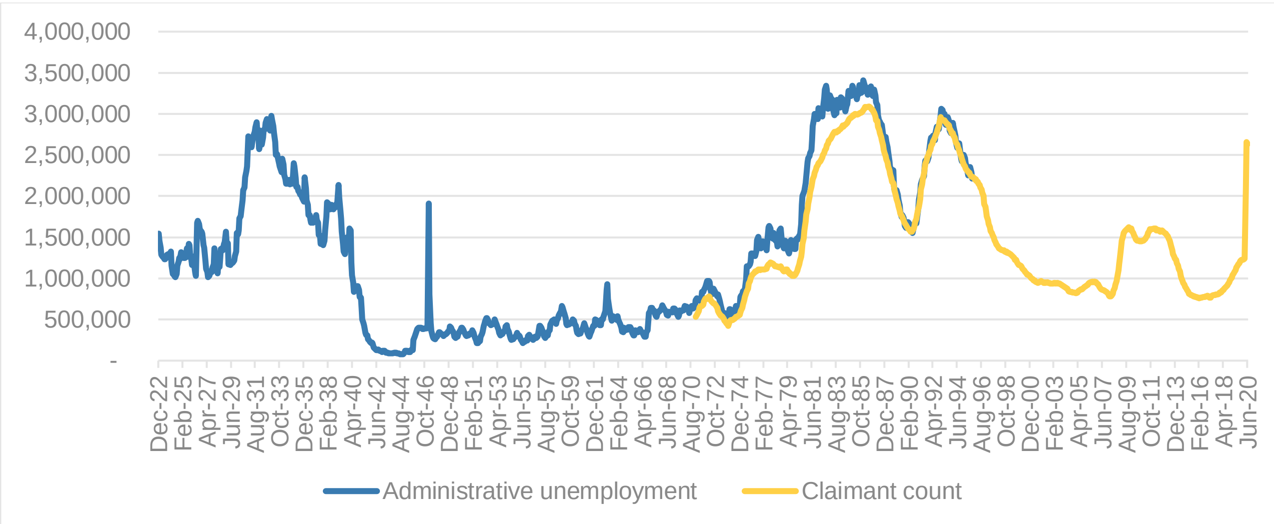
This month's release saw a significant downward revision in the claimant count estimate for May (from 2.80 to 2.66 million), and a slight fall in the month to June – of 28 thousand, to 2.63 million. This means that the claimant count has risen by 1.4 million (112%) since March and is at its highest since May 1994. The year-on-year increase in the claimant count also remains higher than at any previous point.

Separate 'Alternative Claimant Count' data published this morning by DWP suggest that the revision of last month's data is being driven by off-flows from benefit of those who had reported that they were already in work, and this is likely to explain the slight fall in June as well. This is corroborated by the fact that we know from DWP administrative data that there were over 400 thousand new individual claims to Universal Credit in the month to 11 June, while ONS data published today show that the number of people moving from unemployment into work has halved since the crisis began. Therefore the fall in the count is not being driven by either falling inflows to benefit or by increased outflows to work.

The most likely explanation for the increased flows out of the count for those recorded as 'in employment' is given by the Resolution Foundation[1] in a briefing note published this morning, namely that these were claimants eligible for either the Job Retention Scheme or self-employment support but who had not started receiving this support when they made their claims. The self-employment scheme seems like the most likely driver, as payments from this did not start until May 2020. The Resolution Foundation briefing note also concludes that just over half of the rise in the count between March and May 2020 may be accounted for by people in these circumstances or by those who were already out of work but not claiming Universal Credit.

Our view is that the claimant count remains valid as a measure of those who are claiming benefits and are treated in the benefits system as being unemployed (i.e. expected to look and be available for work), including those who have been temporarily laid off from work. The large majority of those on the claimant count are recorded as having no income from work, with 89% of the 1.4 million increase in the count since March explained by those not in work.[2] Therefore we consider that it remains useful to comment on the level of the claimant count and how it has changed over time. More detail on the differences between current measures of claimant and official unemployment is set out here.

Figure 1: Administrative unemployment and claimant count levels, 1922 to present



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

[1] Brewer, M., Gardiner, L. and Handscomb, K. (2020) *The truth will out: Understanding labour market statistics during the coronavirus crisis*, Resolution Foundation Briefing Note

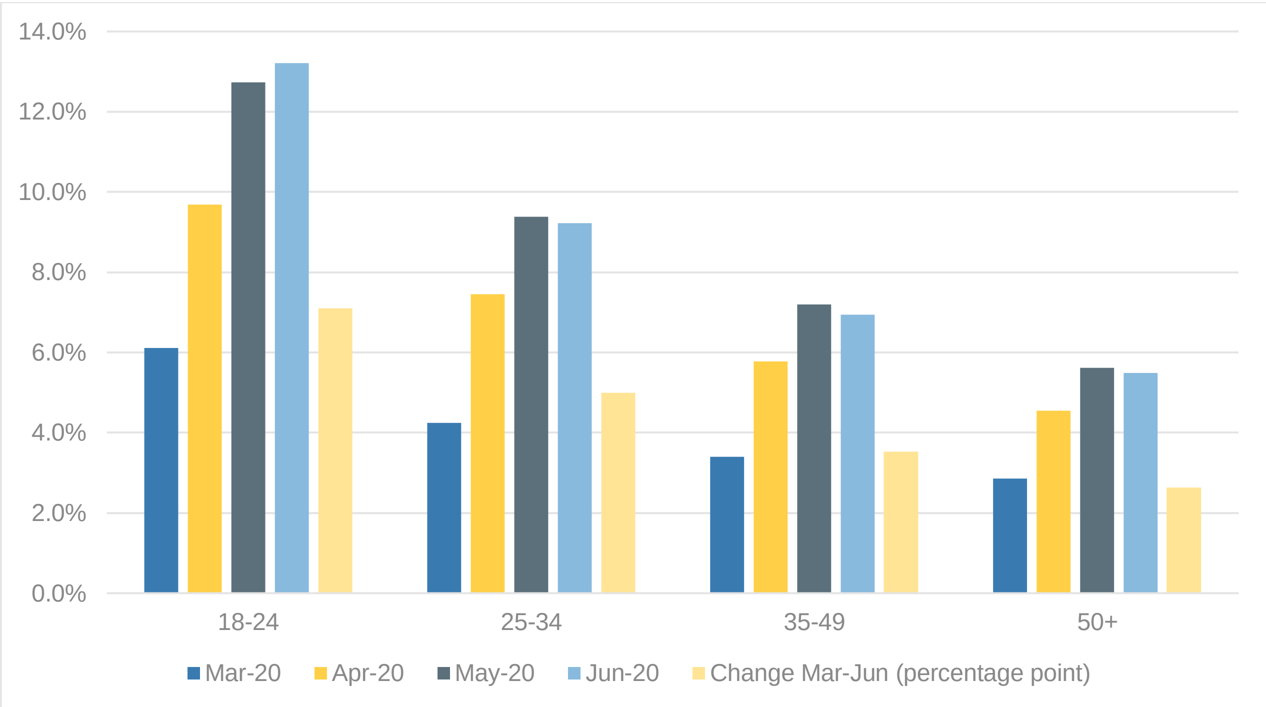
[2] Source: Stat Xplore. Single people earning less than £338/ month, and couples earning less than £541/ month, who are required to search for work are included in the claimant count. 14% of the those on the count and on UC are recorded as having earned income.

The claimant count has continued to rise for young people, while falling for other age groups

While the claimant count has edged down overall, Figure 2 below shows that it has continued to rise among young people (aged 18-24). This again reflects that the slight falls in the count are being driven by new claimants receiving other government income support (with young people less likely to be self-employed than other groups, and more likely to start new claims for benefit). Just over one in eight of the youth labour force (13.2%) are now claimant unemployed, an increase of 7 percentage points since April.

There are also worrying signs in the Labour Force Survey that young people are being harder hit by the crisis – with the number of young people not in full time education or employment increasing by 40 thousand over the last quarter, to 1.04 million. The proportion of young people neither in full-time education nor employment is now at its highest since early 2015.

Figure 2: Estimated claimant unemployment rates by age, March-June 2020

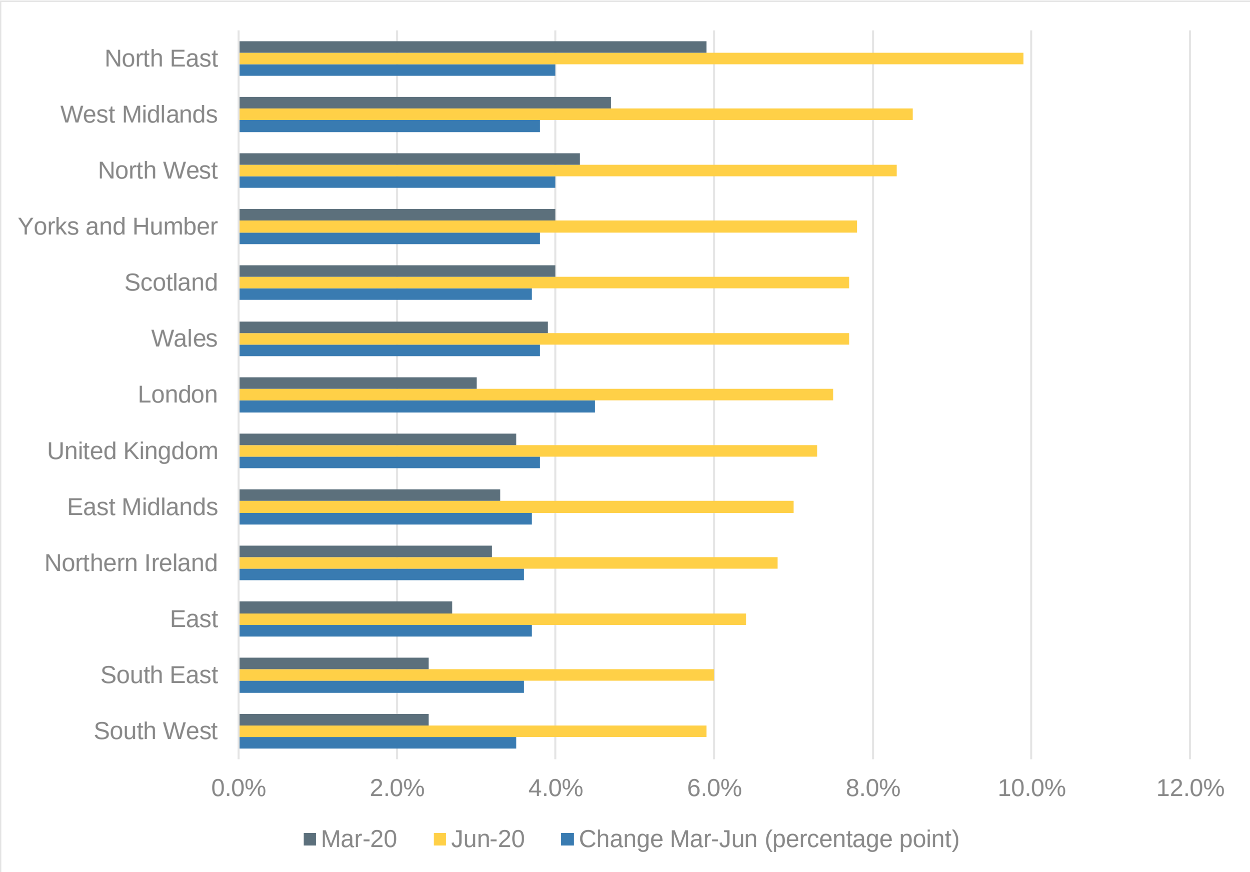


Source: IES analysis of NOMIS claimant count and ONS Labour Force Survey data

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

Figure 3 below illustrates that claimant count rates are highest in the North East (9.9%), West Midlands (8.5%) and North West (8.3%). The percentage point rises in unemployment however are now fairly consistent across regions, rising by on average 3.8 percentage points since March. The exception to this is London, where the rate has risen by 4.5 percentage points – going from having one of the lowest rates to being among the highest. London was the only English region to see an increase in the count between May and June (with Scotland also recording a small increase).

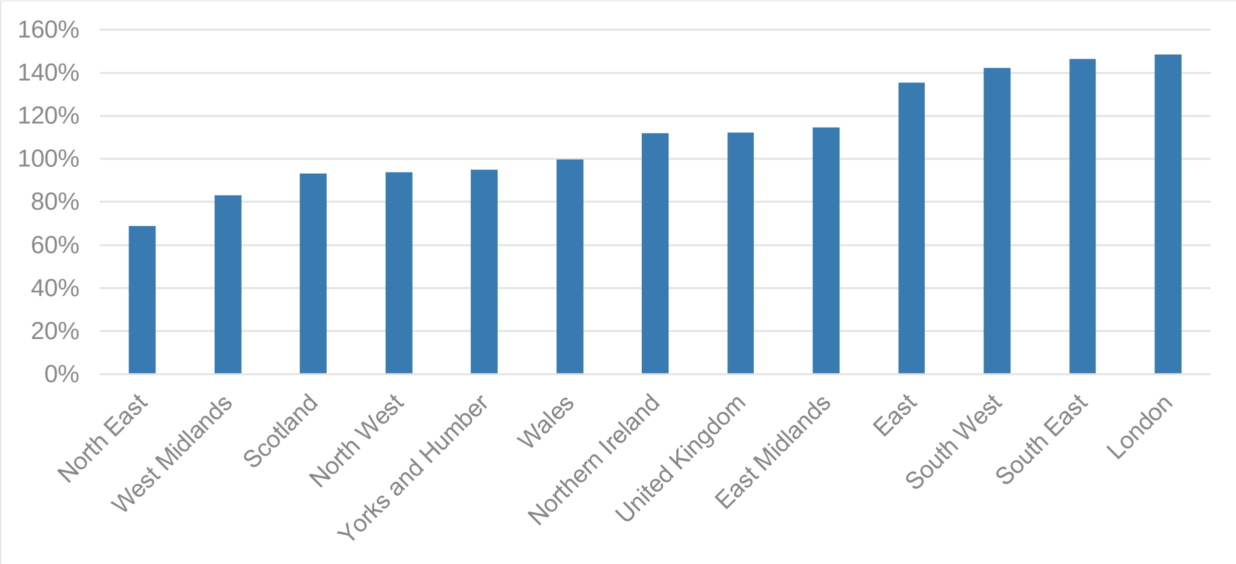
Figure 3: Claimant count rate by region or nation, March-June 2020



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 been greater in areas where unemployment rates were previously lower. As Figure 4 shows, claimant unemployment has risen by over 130% in the East, South East, South West and London, compared with 69% in the North East (albeit from a higher base).

Figure 4: Percentage increases in claimant unemployment by region, March-June 2020

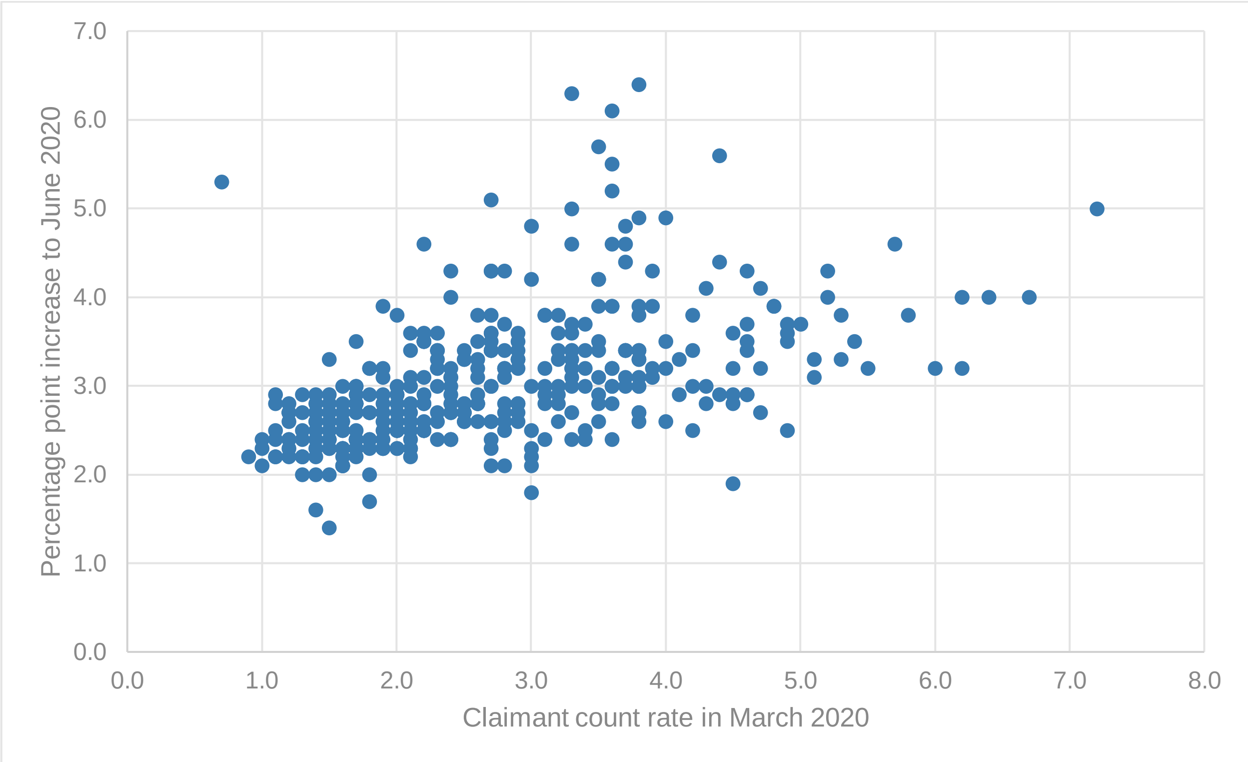


Source: IES analysis of NOMIS claimant count data

Looking at local authority level data, there is a positive but 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 5 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, and these are nearly all London Boroughs – Haringey, Newham, Brent, Waltham Forest, Barking and Dagenham, Ealing, Enfield and Redbridge (the Isles of Scilly has also seen its rate increase by more than 5 percentage points, from 0.7% - the top left-hand point on the graph).

Figure 5: 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	12.2	7.2	5.0	70.7
Birmingham	West Midlands	10.7	6.7	4.0	59.5
Wolverhampton	West Midlands	10.4	6.4	4.0	62.6
Thanet	South East	10.3	5.7	4.6	81.0
Middlesbrough	North East	10.2	6.2	4.0	64.3
Haringey	London	10.2	3.8	6.4	169.1
Barking and Dagenham	London	10.0	4.4	5.6	129.7
Brent	London	9.7	3.6	6.1	172.1
Kingston upon Hull	Yorks and Humber	9.6	5.8	3.8	65.0
Newham	London	9.6	3.3	6.3	191.2

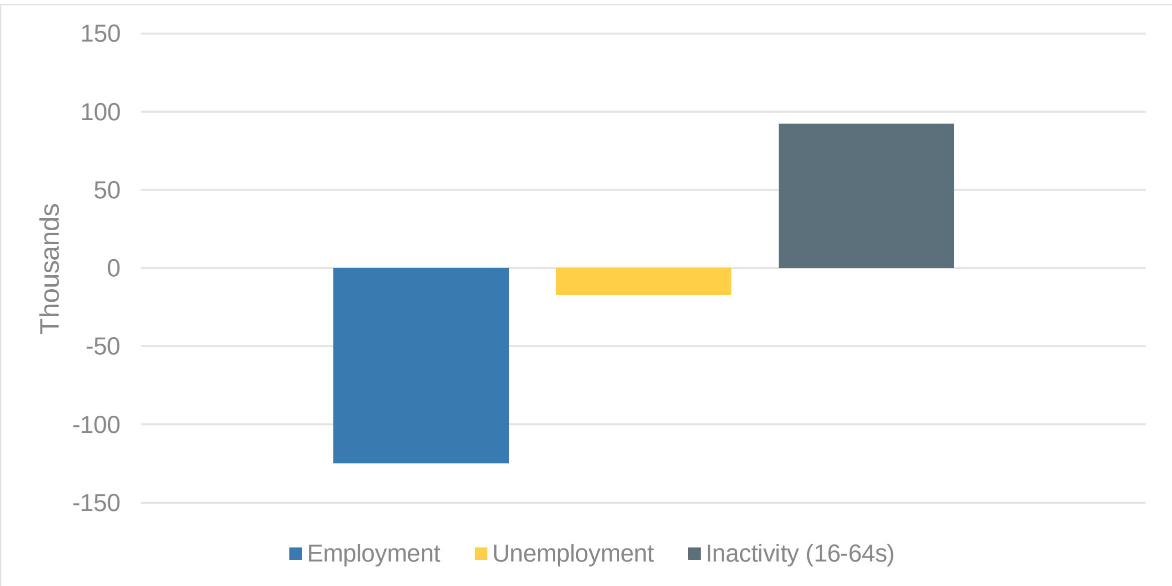
Oldham	North West	9.5	5.2	4.3	83.3
South Tyneside	North East	9.4	6.2	3.2	51.4
Hartlepool	North East	9.2	6.0	3.2	53.1
Bradford	Yorks and Humber	9.2	5.2	4.0	78.4
Waltham Forest	London	9.2	3.5	5.7	166.9
Sandwell	West Midlands	9.1	5.3	3.8	73.0
Ealing	London	9.1	3.6	5.5	150.9

Source: IES analysis of NOMIS claimant count data

The Labour Force Survey is showing significant falls in hours, but so far muted impacts on employment

As with last month, the labour market impacts of the crisis are not yet feeding through significantly into apparent in the headline measures of employment, unemployment and inactivity. As Figure 6 below shows, employment on the LFS measure has now recorded a fall over the quarter of 125 thousand, which has led to the employment rate falling by 0.3 percentage points to 76.4%. However this has fed through entirely into a rise in ‘economic inactivity’ – so those not looking and/ or not available for work – rather than into unemployment. This is explored in more detail later in the briefing.

Figure 6 Quarterly changes in employment, unemployment and economic inactivity

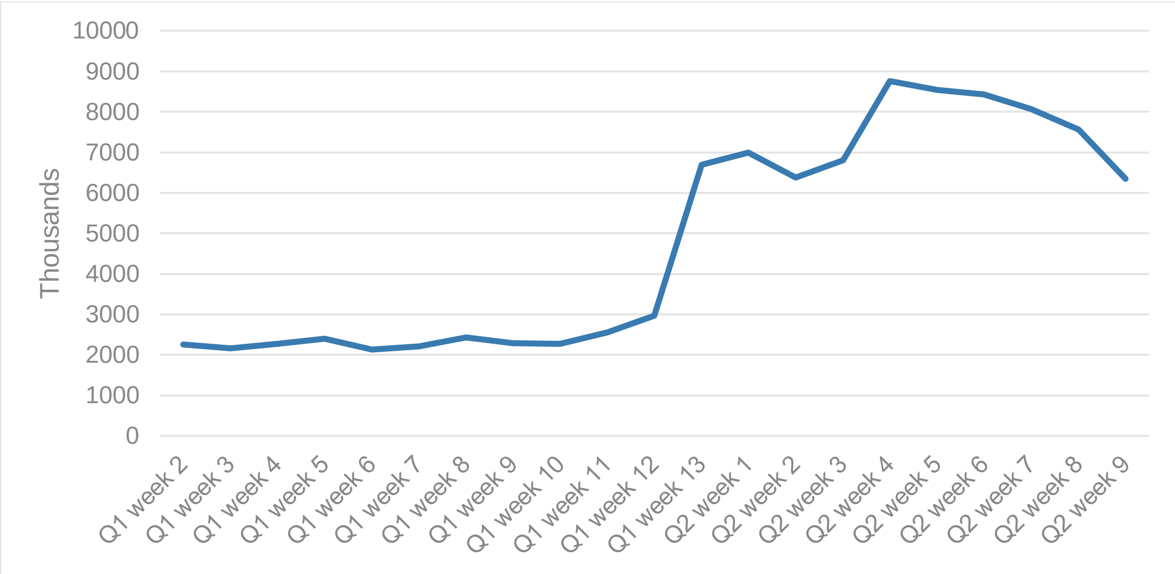


Source: Labour Force Survey

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. This is best illustrated in Figure 7 below, which shows that the number of people temporarily away from work – but still counted as employed – increased from two million before the crisis to 8.8 million at the end of April. It now appears to be falling back, reaching 6.3 million at the end of May. This gradual reduction does not appear to have fed through into falls in employment in the weekly LFS data, suggesting that this reflects people returning to work (rather than leaving it).

Our more detailed analysis of the LFS data for the February-April quarter, published on Monday, suggests that low paid employees are particularly likely to have been temporarily laid off in this way – with two in five of the low paid temporarily away from work, double the rate for other employees[3].

Figure 7: Number of people employed but temporarily away from work, by week



Source: Labour Force Survey

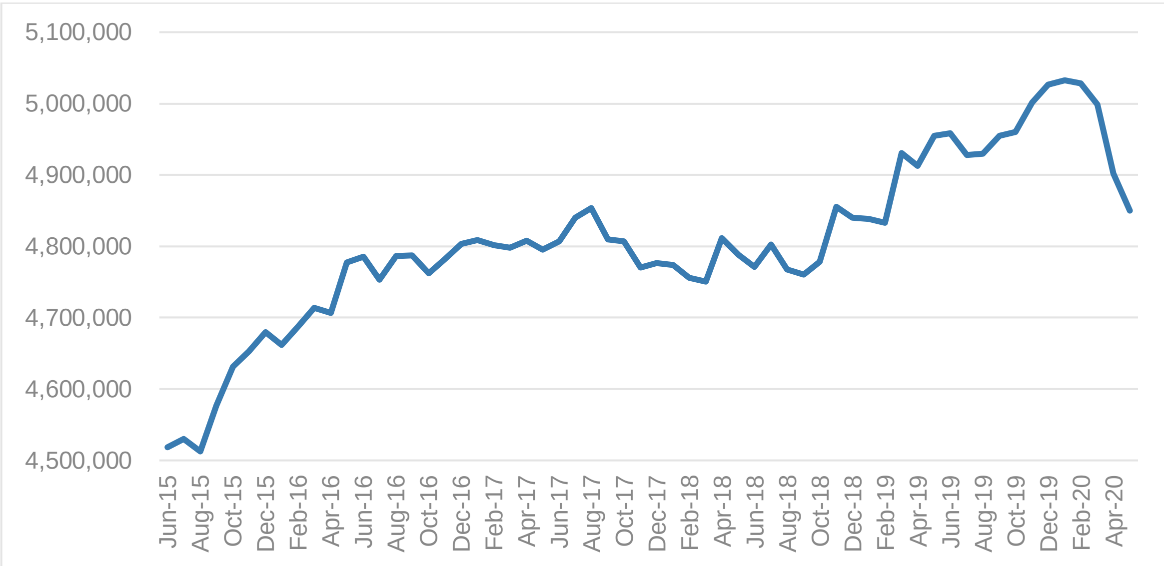
As with last month, this has also fed through into far lower working hours – with the total number of hours worked in the economy falling to their lowest since 1997, and the average number of hours per worker falling to their lowest on record (down by one sixth on the quarter, to 26.6 hours per worker). 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 1.3% on a year ago.

[3] Papoutsaki, D. and Wilson, T. (2020) *Covid-19 and the low paid: Early analysis of Labour Force Survey*; IES and Standard Life Foundation. Available at: https://www.employment-studies.co.uk/resource/covid-19-and-low-paid-early-analysis-labour-force-survey

Self-employment has fallen by 180 thousand on the quarter

While employment overall in the Labour Force Survey has fallen by 125 thousand, the number of people stating that they are employees has actually risen while those reporting that they are self-employed has fallen by 180 thousand. This is a significant fall, as Figure 8 shows, and will understate the fall in the numbers with self-employed earnings – as those who report that they have a business to return to will continue to be recorded as being 'employed'.

Figure 8: Number of people self-employed, Mar-May 2019 to Feb-Apr 2020



Source: Labour Force Survey

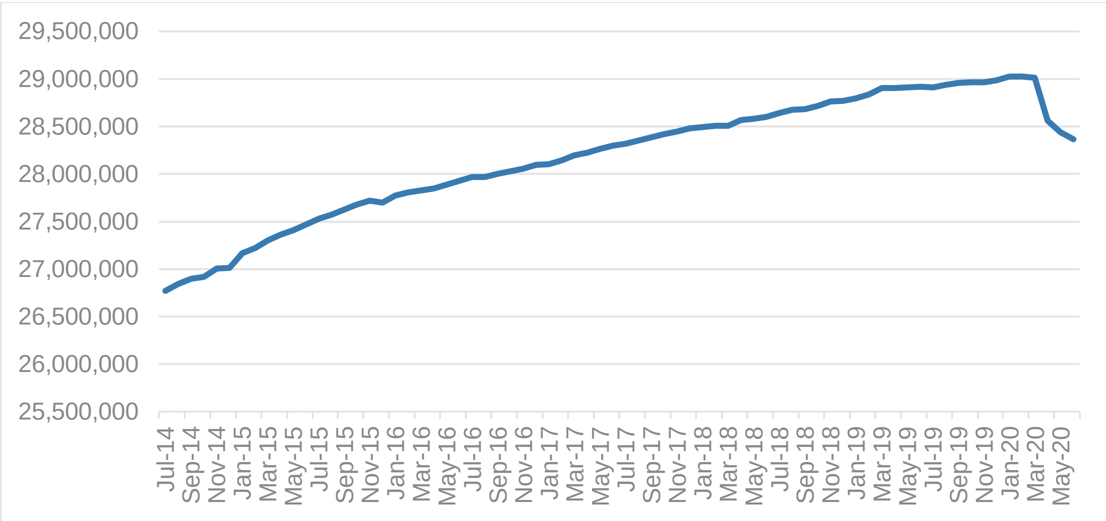
While the number of paid employees has already fallen by 650 thousand

Figure 9 below sets out the latest estimates of employees being paid through the Pay As You Earn system up until June 2020. This shows that even while official measures of employee numbers showed a slight rise in the three months to the end of May, the number of employees being paid has fallen by 650 thousand between March and June.

The main reason for these large differences appears to be people who are still 'employed' but have been temporarily laid off and are either not eligible for support through the Job Retention Scheme (for example because they started after the cut-off for eligibility), or for whom employers have not made claims (for example because of their irregular or short hours).

All told, looking across these employee data, self-employment and the claimant count, today's figures suggest that the number of people not working or earning has increased by at least a million already since the crisis began.

Figure 9: Employee numbers reported through Pay As You Earn data



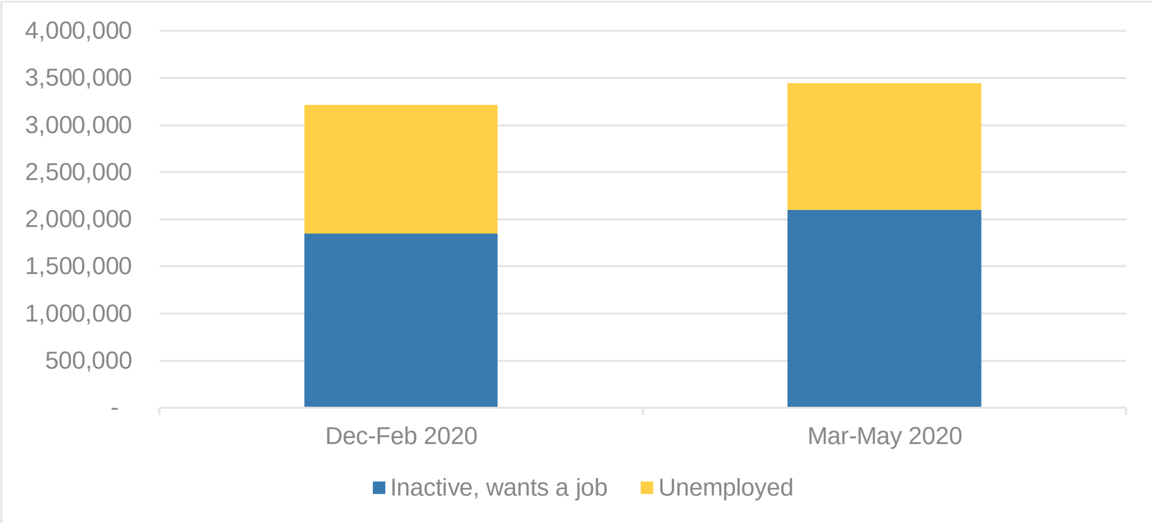
Source: Real Time Information Pay As You Earn data

There are now 600 thousand more people who are either unemployed or are out of work and want a job

While the headline measure of unemployment has not changed, the number of people reporting that they 'want a job' but are not actively seeking/ available for one has increased by a record amount – up by 250 thousand on the quarter, to 2.10 million. This suggests that these large rises in inactivity will feed through into increases in the headline measure of unemployment in the months ahead.

As Figure 10 below shows, the number of people who are either unemployed or are economically inactive but want a job has reached 3.45 million – its highest level since early 2018.

Figure 10: Number of people either unemployed or economically inactive and who want to work

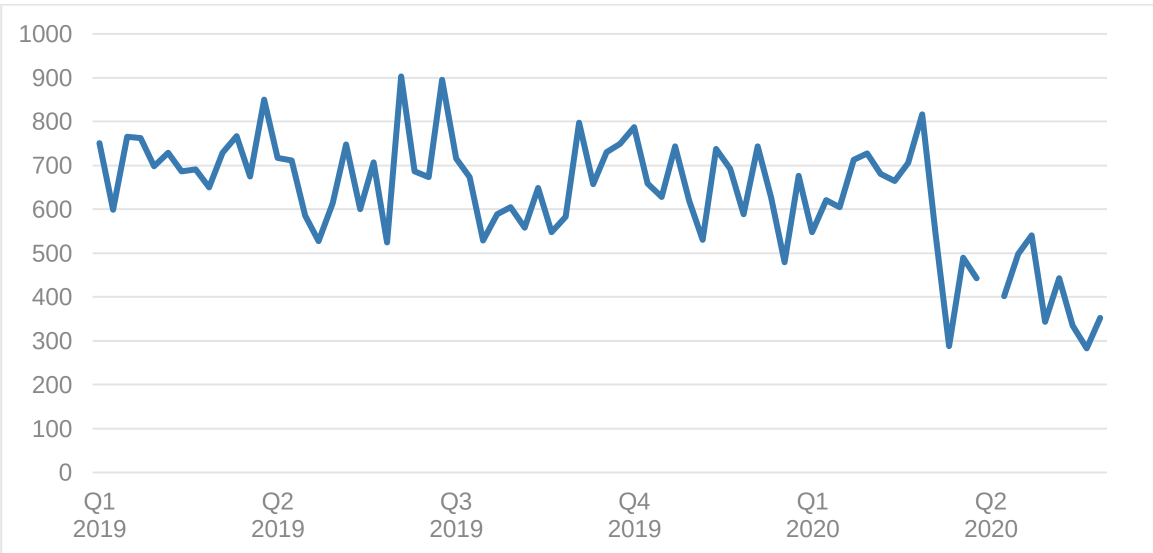


Source: IES analysis of Labour Force Survey data.

Both vacancies and hiring have collapsed

Finally, today's data confirm that the labour market remains stagnant with very weak prospects for future employment growth. ONS has today published data on the number of people starting new jobs in the reference (current) or previous month of being surveyed, which show that this fell from an average of 670 thousand before the crisis to an average of 400 thousand since (a fall of 45%). These data run to the end of May, but unsurprisingly were showing little signs of improvement as lockdown continued.

Figure 11: Number of people starting a new job in the current or previous month

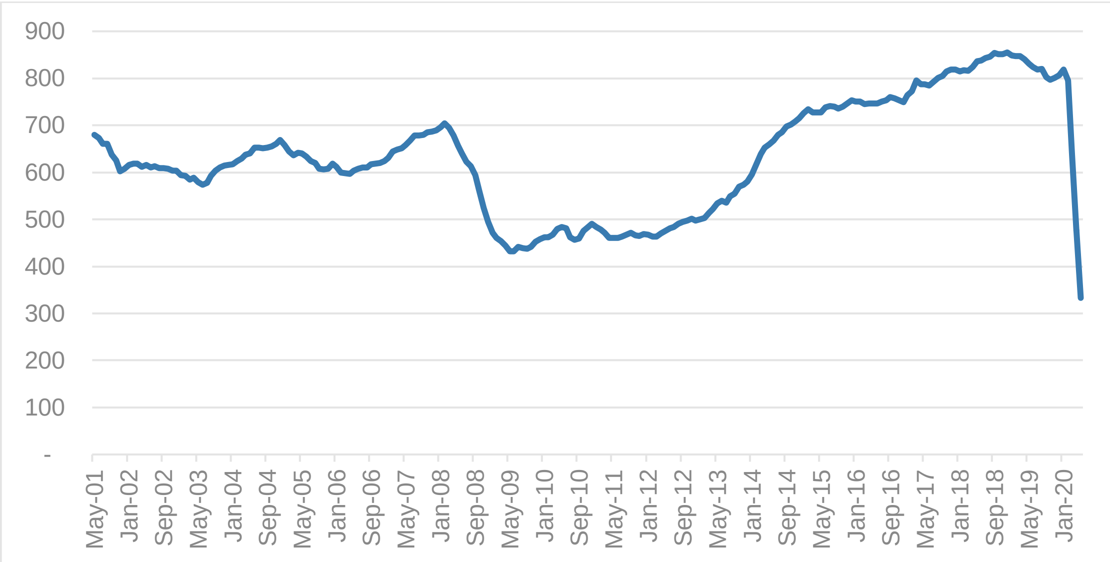


Source: Labour Force Survey

More timely data from the ONS Vacancy Survey show that vacancies continued to fall through May and June, and are in line with our with our [estimates of vacancy numbers using real-time data supplied by Adzuna](). The official data are set out below, showing vacancies falling by three fifths in the three months to June 2020, to 330 thousand. This is now the lowest level of vacancies in the twenty years that the survey has been running, and we estimate that the figure for July may be slightly lower still (approximately 310 thousand).

This incredibly weak hiring market means that a rapid recovery remains very unlikely, and further rises in unemployment and falls in employment look to be inevitable.

Figure 12: Job vacancies



Source: IES analysis of ONS Vacancy Survey.

Conclusions and implications

Today's labour market data continue to present a somewhat confusing picture of the impacts of the crisis over recent months. However they clearly show that the jobs market continued to weaken during the lockdown, and that there are so far very few signs of any recovery.

Even with the government's emergency measures to protect jobs and incomes, it appears that paid employment fell by at least a million between March and June, with 650 thousand fewer paid employees and likely a similar number of people who had previously had earnings from self-employment. This is also reflected in the changes to the claimant count since March – with an overall rise of 1.4 million, of whom 1.25 million are recorded as not having income from work. The recent downward revision and slight fall in the count appears to reflect claimants receiving other government income support, rather than increased off-flows into work.

Impacts on the headline measures of employment, unemployment and economic inactivity remain fairly muted, but there are emerging signs now that employment is starting to fall and that this will feed through into rising unemployment in the months ahead. The large rise in those who are economically inactive but want to work is particularly concerning, with the number of people either unemployed or who want a job now approaching 3.5 million.

Today's figures for young people are particularly concerning, showing both an increase in the number of young people who are not in full-time education or employment, and a further rise in the numbers on the claimant count – even while the number of older claimants has fallen. Just over one in eight of the youth labour force are now on the claimant count, double the rate for older people.

Looking at the impacts across areas, the rises in claimant count rates are now fairly even across places, reflecting the broad based nature of the crisis – with many areas with weaker labour markets likely insulated to some extent by having a greater reliance on public sector, health and social services jobs. However those areas with higher claimant count rates before the crisis still have the highest rates – particularly among coastal and ex-industrial areas – while many London boroughs have seen very significant, negative impacts.

Our detailed analysis of last month's data, published on Monday, suggested that low paid workers have so far borne the brunt of the crisis – being twice as likely to have been temporarily laid off from work and also having seen significant falls in employment already. So there are some more positive signs in today's figures that some of those who were previously furloughed had started to leave furlough and return to work and that this had not yet fed through into any falls employment. However 6.4 million workers remain away from their jobs, which has translated into sharp falls in hours worked and smaller declines in real pay.

Perhaps of most concern in today's figures however is that hiring appears to have collapsed – with new job starts falling by nearly a half since the crisis began, very low off-flows from the claimant count for those out of work, and vacancies down by three fifths. Our more recent analysis of online vacancy data suggests that this is unlikely to improve in June. It appears that a combination of continued employer uncertainty and significant spare capacity within firms as workers come back from furlough has led to a stagnant hiring market.

This reduced hiring means that the economy has very little room to absorb the impacts from any increase in job losses in the summer, and is bad news for those currently out of work or looking to enter the labour market (particularly young people). This all reiterates that the government will need to act fast to implement its plan for jobs – and with job losses very likely through the autumn and winter, if hiring doesn't start to bounce back soon then we may yet need more measures to stimulate new hiring.

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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