ies Briefing

Institute for Employment Studies

Labour Market Statistics, September 2020

15 September 2020

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

- **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 May to July 2020, so includes the first full month after the ending of lockdown.
- **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 13 August 2020.

Summary

Today's figures present a tale of two crises. On the one hand, the data show that as the initial public health crisis eased and lockdown ended, numbers off work due to furlough fell significantly in July, hours worked increased, and vacancies began to slowly recover. Nonetheless, as we have set out in previous briefings, the emergency lockdown also saw the numbers in paid work fall by around a million – with at least half a million vulnerable and insecure workers falling through the cracks of the government's support scheme.

However, today's data also show clearly a second, more lasting jobs crisis as we start to recover from recession – with redundancies rising by nearly a half in the last three months, the number of young people in work falling at its fastest since 2009, and the single-month estimate for unemployment rising significantly in July – driven in particular by more people who were previously discouraged from searching for work starting to look for new jobs.

The headline Labour Force Survey data shows employment holding up and hours starting to recover

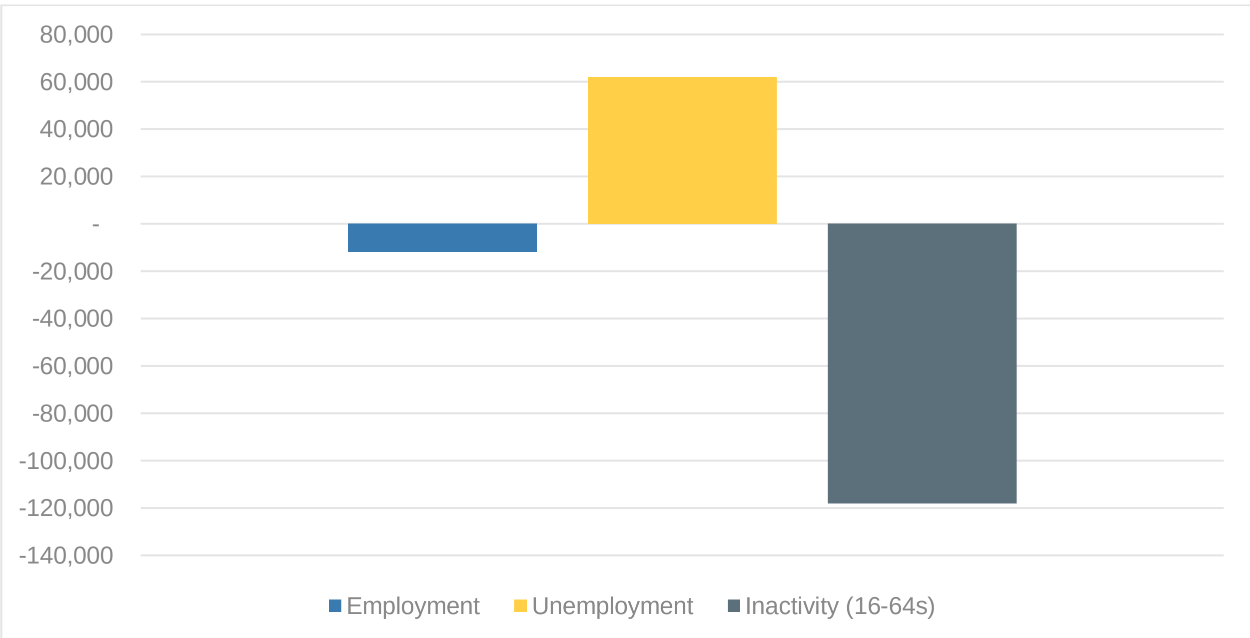
The headline employment figures today were very positive. The employment rate overall rose slightly on the quarter to 76.5%, close to the highest that it has ever been (although the level of employment was broadly flat, due to population changes).

This was aided by a large fall in economic inactivity (those not looking or not available for work), which dropped by 0.3 percentage points to 20.2% – the joint lowest figure ever recorded. This fall in inactivity reversed the increases seen during lockdown as many of those out of work stopped looking for jobs. Falling inactivity has also however fed through into rising unemployment, with the rate rising to 4.1% – still low by historic standards, but the highest figure since 2018.

However, the single month estimates suggest that unemployment has started to rise more quickly in recent months – with an estimate for July of 4.4% (which was 0.6 points higher than for June). This was again driven in particular by lower inactivity, although the employment rate for July ticked down to 76.3%). This likely signals further weakening in the coming months.

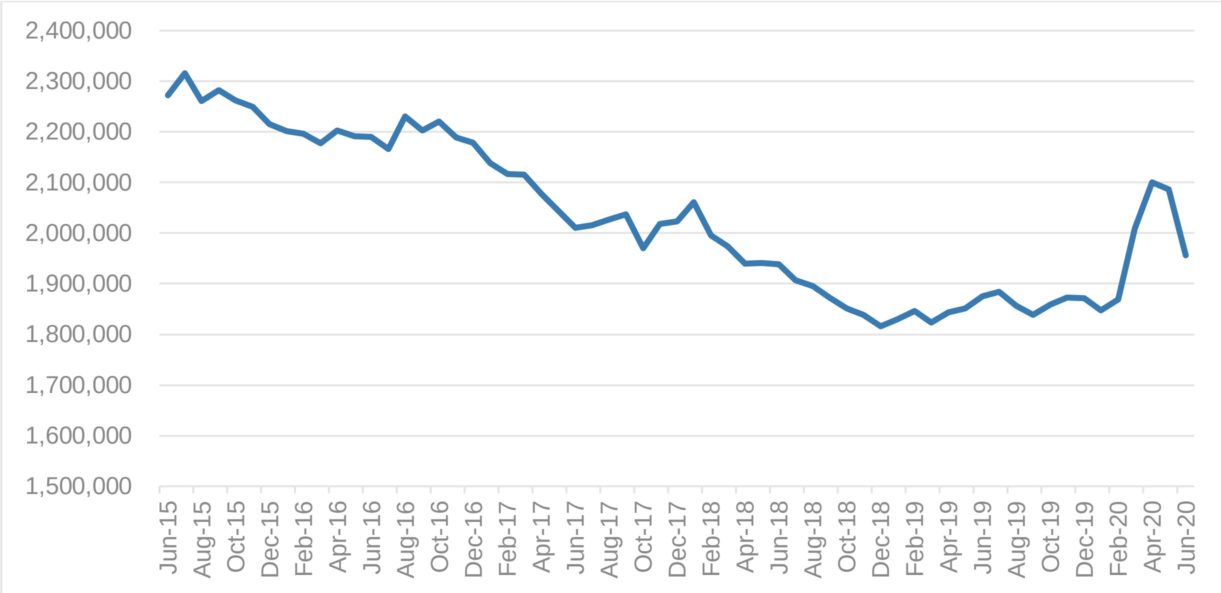
Figure 1 below shows the quarterly changes in the levels of employment, unemployment and inactivity, and so illustrates the shift from inactivity into unemployment. Figure 2 overleaf then shows that the number of people reporting that they are economically inactive but want a job is now falling back towards pre-crisis levels.

Figure 1: Changes in employment, unemployment and economic inactivity, Feb-Apr 2020 to May-Jul 2020



Source: Labour Force Survey

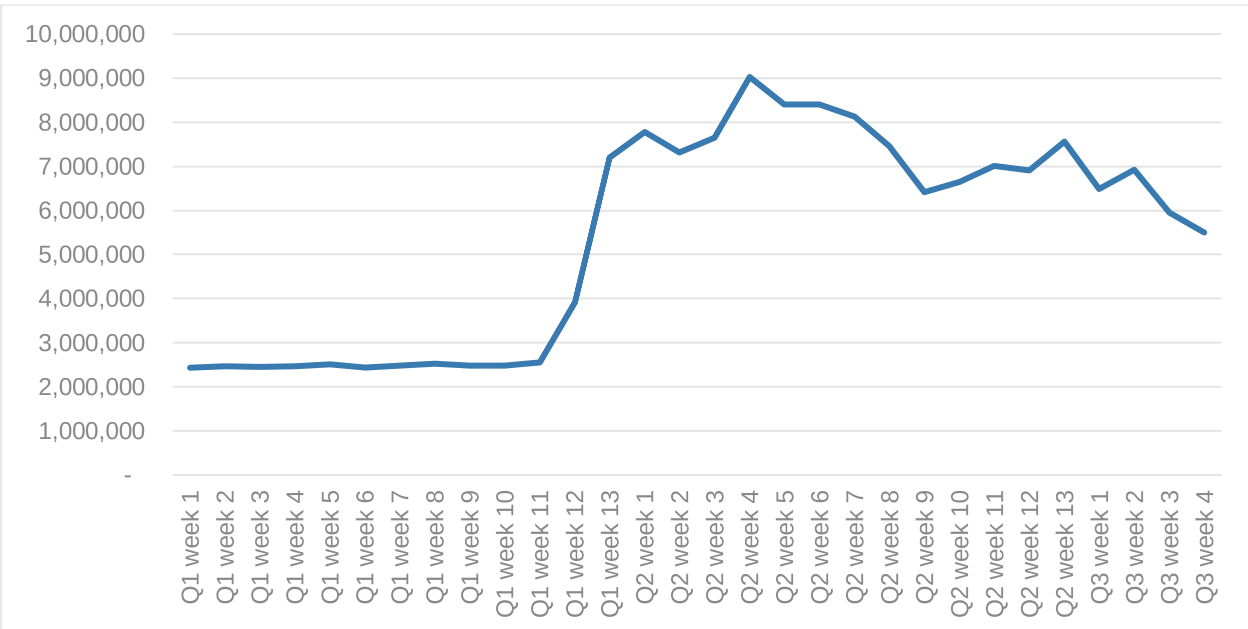
Figure 2: Number of people economically inactive who want a job



Source: Labour Force Survey

These generally positive headline figures were reported in spite of around two million people appearing to have left 'furlough' during July. Figure 3 sets out the estimated number of people that were away from work but that had a job to go back to, based on survey respondents in each week to the end of July 2020. This shows a fall during July from 7.6 million to 5.5 million.

Figure 3: Number of people employed but temporarily away from work, by week



Source: Labour Force Survey

Pre-crisis, on average 2.5 million people were away from a job at any point in time (for example due to sick leave or maternity leave), so the number of 'extra' people reporting as being away due to the crisis fell from five million to three million in the month of July alone. Note that a smaller number than this would have been on the Job Retention Scheme, as this figure includes the self-employed and those away from work but not eligible for/ receiving support through the JRS.

With more people returning to work, total hours worked and the average hours per worker both increased from the figures reported last month. However, the recovery in hours appears to have been a lot lower so far than the increase in the number of people back working (with less than 10% of the fall in hours being regained so far). This could well point to significant numbers of people coming back to work on shorter hours, or a larger share of the new employment created during the crisis being in part-time work.[1] Similar trends happened in the recovery from the last recession, with greater impacts being felt on working hours than on employment levels – if this is repeated this time then it will have implications for household incomes and living standards (not least as the benefits system provides far less support now than it did last time) but may mean that the eventual increases in unemployment *could* turn out to be lower than many commentators have so far suggested (ourselves included).

The last month has also seen continued recovery in earnings – supported by the Job Retention Scheme in particular – with regular pay back to pre-crisis levels and total pay only slightly lower. Real earnings however (i.e. taking account of inflation) remain around 1.5% below where they were in January-March.

Vacancies have continued their slow recovery as the economy has reopened

Today's figures also show a continued recovery in vacancies, as reported through the ONS Vacancy Survey. This reports an average of 435 thousand vacancies in the three months June to August, driven in particular by smaller firms and with just over half coming from a combination of health, transport and storage, retail and hospitality (although the latter two industries remain well below pre-crisis levels). While this recovery is welcome, it remains slow – with the single month estimate for July standing at 500 thousand, and signs that vacancies may be plateauing at around three fifths of where they were before the crisis began.

[1] It is not yet possible to see these impacts in the levels of part-time employment overall, which may be because this is based on the usual rather than actual hours worked – and many of those returning to work may be working less than their usual hours.

Figure 4: Job vacancies

Source: ONS Vacancy Survey.

Despite this, lockdown saw record rises in those claiming benefits and being treated as unemployed

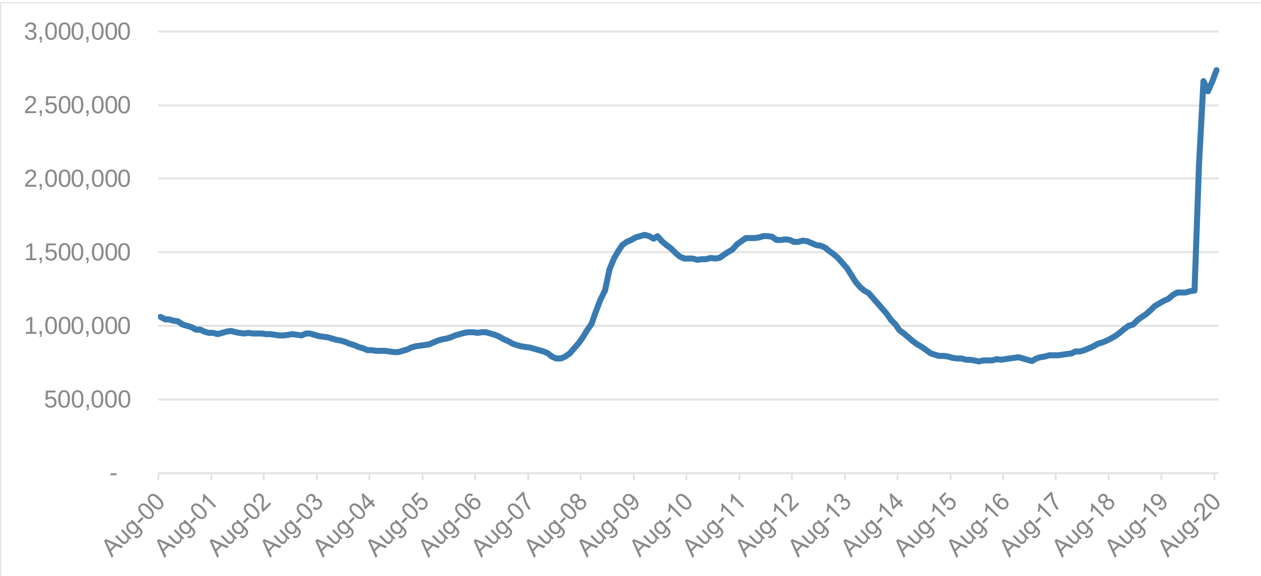
While the headline labour market data is showing that the impacts of lockdown could have been a lot worse, today's figures nonetheless reiterate that the first phase of the crisis led to significant increases in the numbers not in paid work. This is most clearly illustrated in the claimant count, which measures all of those claiming benefits, out of work[2] and being treated as unemployed.

This month's figures (to 13 August) show the claimant count ticking up again following a slight fall earlier in the summer. At 2.74 million, the claimant count is at its highest level since January 1994 and has recorded the fastest annual rise since the creation of unemployment benefits in 1920. As we explained last month, his rise is likely 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). It is likely that it is these earlier increases in worklessness that we are now seeing feed through into higher unemployment from previous economic inactivity.

[2] Although there are around 270 thousand people on the claimant count who are in very low paid work, i.e. around 10% of the total.

However, part of the increase since March is likely also explained by non-working partners of new claimants who were *already out of work* but not being treated as unemployed. This and other factors were explored in more detail by the Resolution Foundation in their briefing in June.[3]

Figure 5: Claimant count level



Source: Office for National Statistics

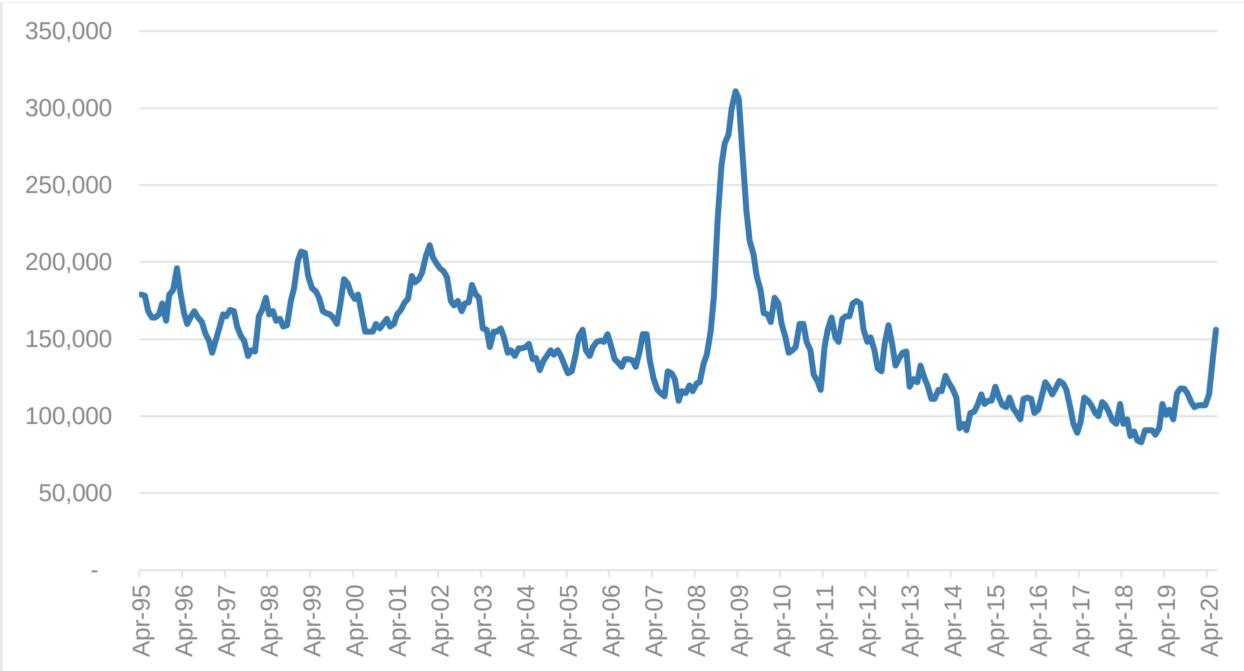
There are signs of the trouble ahead – with redundancies rising sharply

However, while overall the impact on the labour market of the lockdown could have been a lot worse, there are a number of warning signs in today's figures that suggest that we will be facing a significant and lasting labour market crisis over the coming years.

First, today's figures see an alarming rise in the number of people reporting having been made redundant in the previous three months. This is shown in Figure 6 below. The estimated number of redundancies between May and July was 156 thousand, a rise of 46% on the figure of 107 thousand reported for February to April. Redundancies are now at their highest since October 2012, and as this is likely to rise significantly in the coming months. In our [briefing on redundancies published yesterday](), we estimated that redundancies are likely to reach around 450 thousand a quarter before the end of the year.

[3] Mike Brewer, Laura Gardiner & Karl Handscomb (2020) *The truth will out: Understanding labour market statistics during the coronavirus crisis*, Resolution Foundation, July 2020

Figure 6: Redundancies



Source: Labour Force Survey

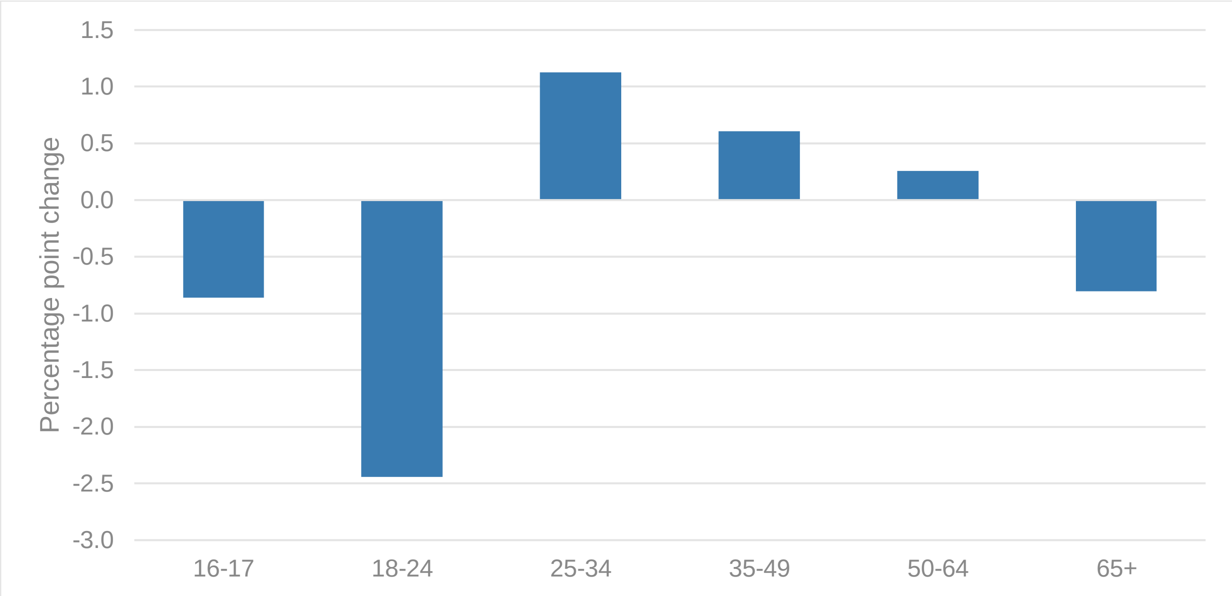
Young people in particular appear to be bearing the brunt of the crisis

The second major warning sign in today's figures is the impacts of the crisis on different age groups. Figure 7 illustrates that young people in particular have seen precipitous falls in employment in the last three months alone, with the employment rate for those aged 18-24 falling by 2.5 percentage points (from 63.5 to 61.0%). The level of youth employment is now at its lowest since 2013, and the quarterly fall of 155 thousand is the fastest since 2009.

The graph below shows that the very oldest have also seen a fall in employment – likely reflecting the fact that they are also more likely to be in less secure work. However those aged between 25 and 64 have seen employment rates rise in the last three months.

The impacts of labour market crises tend to be felt by young people first, as they suffer most from slow-downs in hiring, are more likely to be out-competed for jobs by increased competition, and can be at greater risk of leaving work when firms downsize. It is likely that a combination of all of these things are now happening.

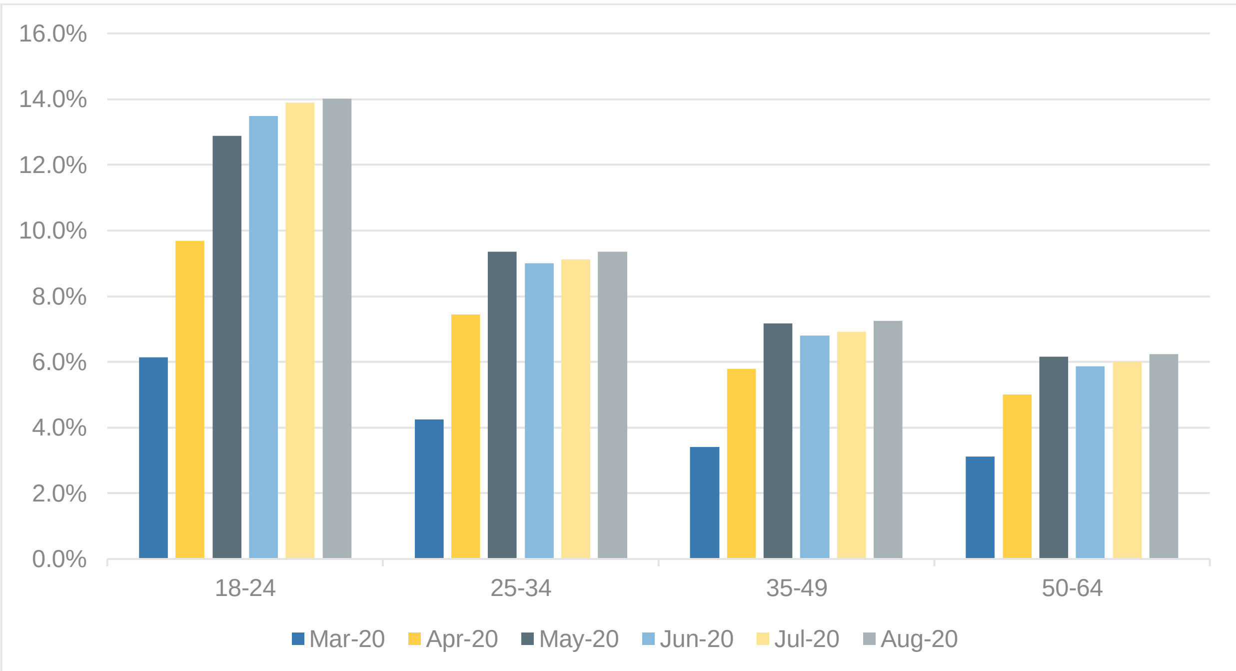
Figure 7: Change in employment rates by age, Feb-Apr 2020 to May-July 2020



Source: IES analysis of Labour Force Survey

These different impacts by age are also reflected again in the claimant count data. Figure 8 below shows that now one in seven of all 18-24 year olds (14.0%) are on the claimant count, a rise of more than 125% on pre-crisis levels. However, rates have doubled in every age group, and in the last month these have ticked up for all groups.

Figure 8: Estimated claimant unemployment rates by age, March-July 2020



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

However while the headline fall in employment is concerning, it has not fed through into a significant rise in unemployment – which is up by just 35 thousand. The reason for this is that the large fall in employment has been accompanied by an almost equally large rise in the number of young people in full-time education – which is up by 120 thousand on the quarter. This likely reflects young people increasingly seeking shelter in education rather than entering the labour market, and means that overall the number of young people neither in full-time education nor in employment is broadly flat on the quarter.

While we can take some comfort from this the evidence from previous downturns suggests that this is likely to only provide temporary respite and that we should expect to see youth unemployment rise further in the coming months.

Finally – this crisis is affecting all areas but those most disadvantaged before remain most disadvantaged now

Finally, as with previous months we have set out below analysis of changes in the claimant count by region and by local authority area. As noted earlier in the briefing, the claimant count is far from perfect as a measure of labour market impacts, but it provides timely data, it is a decent reflection of rises in non-working claimants, and it is a useful source for comparing impacts between groups and areas.

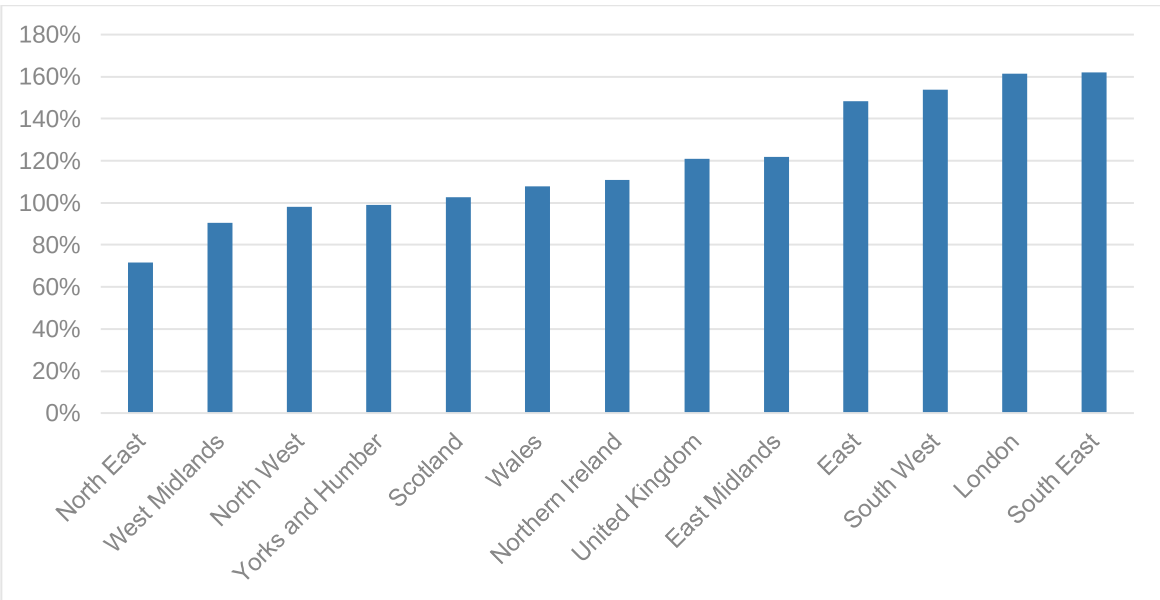
Figure 9 below tells a similar story on UK regions and nations to previous months, with claimant rates highest in those areas that had the highest rates before the crisis, and all regions seeing growth of around four percentage points. The exception to this is London, where the claimant count has continued to grow more strongly – likely reflecting its exposure to shutdown sectors, and a high incidence of self-employment and less secure work.

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 10 shows, claimant unemployment has risen by 150% or more in the South East, South West and London, compared with around 70% in the North East. So while those regions with a higher claimant count before the crisis still have the highest rates now, the gap between regions has narrowed somewhat.

Figure 9: Claimant count rate (workplace-based) by region or nation, March-July 2020

Source: IES analysis of NOMIS claimant count data

Figure 10: Percentage increases in claimant unemployment by region, March-July 2020



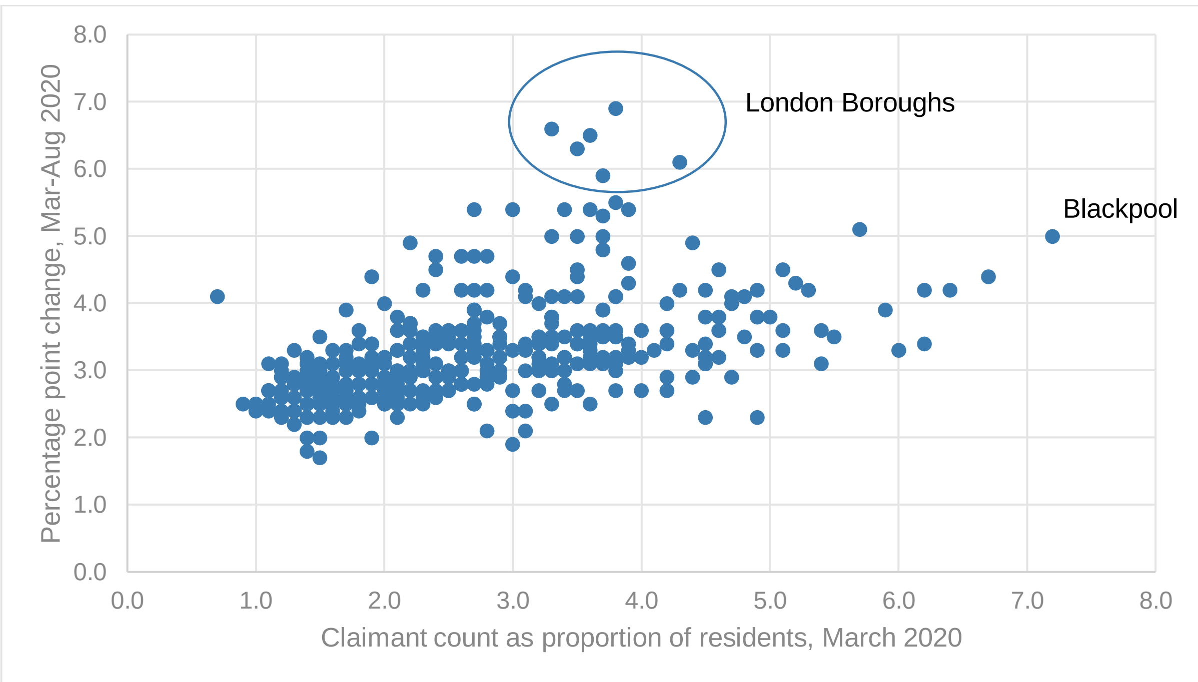
Source: IES analysis of NOMIS claimant count data

Looking beneath this data to local authority level further illustrates this. As Figure 11 below shows, where each local authority is a blue dot, the vast majority of areas have seen increases in their claimant unemployment rates of between 2 and 4 percentage points (the y axis) since March (the x axis). In all, more than four fifths of areas are in this range. Within this there is a fairly weak correlation between the claimant rate before the crisis and the growth since – i.e. areas with higher rates have seen slightly larger increases – but this correlation has got slightly weaker in the last month.

In short, so far the crisis has led to pretty similar per capita increases in claimant count across areas. Thislikely 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).

Nonetheless, a number of local authorities stand out as having had increases of 5 percentage points or more, which now comprises fourteen London Boroughs[4] plus Slough, Thanet, Luton and Blackpool.

Figure 11: Percentage point change in claimant count as proportion of residents, by rate in March 2020



Source: IES analysis of NOMIS claimant count data

Looking at individual local authorities, as with last month those areas with the highest claimant count rates are now dominated by London boroughs, coastal towns, ex-industrial

[4] Haringey, Newham, Brent, Waltham Forest, Barking and Dagenham, Ealing, Hackney, Lewisham, Redbridge, Hounslow, Enfield, Greenwich, Tower Hamlets and Lambeth

areas and some inner cities. Table 1 below illustrates this, showing areas where 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)
		March 2020	August 2020	Change (percentage point)	
Blackpool	North West	7.2	12.2	5.0	69%
Birmingham	West Mids	6.7	11.1	4.4	66%
Thanet	South East	5.7	10.8	5.1	89%
Haringey	London	3.8	10.7	6.9	182%
Wolverhampton	West Mids	6.4	10.6	4.2	66%
Middlesbrough	North East	6.2	10.4	4.2	68%
Barking and Dagenham	London	4.3	10.4	6.1	142%
Brent	London	3.6	10.1	6.5	181%
Newham	London	3.3	9.9	6.6	200%
Kingston upon Hull, City of	Yorks and Humber	5.9	9.8	3.9	66%
Waltham Forest	London	3.5	9.8	6.3	180%
South Tyneside	North East	6.2	9.6	3.4	55%
Oldham	North West	5.1	9.6	4.5	88%
Ealing	London	3.7	9.6	5.9	159%
Bradford	Yorks and Humber	5.2	9.5	4.3	83%
Sandwell	West Mids	5.3	9.5	4.2	79%
Hartlepool	North East	6.0	9.3	3.3	55%
Hackney	London	3.8	9.3	5.5	145%
Lewisham	London	3.9	9.3	5.4	138%
Croydon	London	4.4	9.3	4.9	111%
Manchester	North West	4.6	9.1	4.5	98%
Hastings	South East	4.9	9.1	4.2	86%
Burnley	North West	5.4	9.0	3.6	67%
Enfield	London	3.6	9.0	5.4	150%
Hounslow	London	3.7	9.0	5.3	143%
North Ayrshire	Scotland	5.5	9.0	3.5	64%

Source: IES analysis of NOMIS claimant count data

Conclusions and implications

The data released today shows that the impact of the lockdown could have been a lot worse, and that at least two million workers have managed to return to work with virtually no impact so far on the overall level of employment. Vacancies have started to recover – albeit with a long way still to go – and employment is holding up in particular for those aged over 25. Nonetheless, the early stages of the crisis have led to a record rise in the numbers claiming benefits and being treated as unemployed, and this appears now to be feeding through into the headline unemployment figures.

There are also further warning signs that the impacts of the recession are starting to appear and will likely get worse in the coming months. Redundancies have risen sharply and will almost certainly rise faster in the autumn; youth employment is falling as more young people shelter in education; and there appear to be indications that hours are recovering less quickly than employment.

This pressure on employment levels, hours and earnings is only going to continue given ongoing weak demand and uncertainty, and the fact that around three million people were still to return to their jobs at the end of July. However, today's figures suggest that it is possible that we may see more of the labour market impact manifesting itself in lower working hours than in lower levels of employment (at least compared with what the data was suggesting a few months ago). Either way however, this will lead to lower household incomes and living standards.

Looking ahead, and with the government's Spending Review due in the autumn, we would suggest that there would be a strong case for further action to:

- Boost employment demand by reducing employer National Insurance;
- Support those out of work to find new work – in particular by quickly implementing the Plan for Jobs);
- Help those firms that are most disrupted by the crisis but otherwise viable to keep workers on, for example through a targeted wage subsidy;
- Invest in measures to support returns to work for disadvantaged groups – particularly older people, those with health conditions, and those living in poorer areas; and
- Support the incomes of low-income households – by keeping the £20 increase in Universal Credit, and ideally by further increasing housing and childcare support in the short term.

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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