ies Briefing

Institute for Employment Studies

Labour Market Statistics, January 2021

26 January 2021

This briefing note sets out analysis of the Labour Market Statistics published this morning. The analysis mainly draws on **Labour Force Survey** data, a household survey that collects official figures on employment, unemployment and economic inactivity. The most recent data cover September to November 2020 (so the period immediately before and during the second lockdown).

This is supplemented by analysis of **Pay As You Earn 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 December 2020. This month also sees the release of new **Alternative Claimant Count** data up to November 2020 – this provides useful estimates of flows into and out of claimant unemployment (which is the measure of those claiming benefits and required to look/ be available for work).

Summary

Today's figures suggest that the labour market had stopped deteriorating towards the end of last year and that the bottom may have been reached for the first part of the crisis. The figures are not as bad as some reporting today has suggested. However while the labour market appears to have stopped reversing, it could probably best be described as stuck in neutral – with very little sign of any sustained recovery.

The headline falls in employment and rises in unemployment mask a more stable picture in recent months – with employment levelling off towards the end of the year and unemployment growth appearing to be driven by an increase in the size of the labour force. Large rises in redundancies continue to reflect the impacts of the first lockdown, and we expect that these have now peaked and will start to fall from next month.

Looking at impacts by different groups, we see young people continuing to fare worse – but perhaps regaining some ground lost in more recent months and older workers starting to lose out more; and employment falling more for men than women. These different impacts likely primarily reflect occupational and sectoral factors – for example young people benefiting more from the easing of restrictions in the autumn, and women from increased public sector employment. We are also seeing some early signs of potential

increases in job insecurity, with marked increases in involuntary temporary and part-time work in today's data.

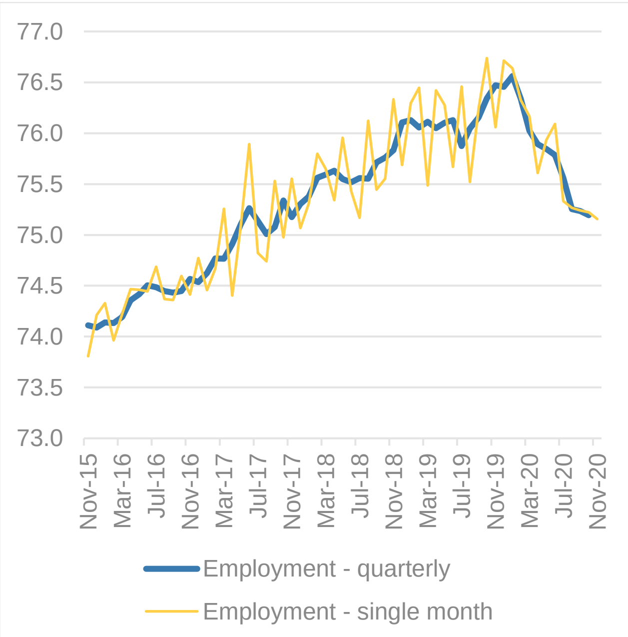
The second lockdown in November appears not to have led to any noticeable weakening in the labour market, but it has surely been a drag on the recovery – with signs that vacancies and hiring may have fallen back as restrictions were tightened.

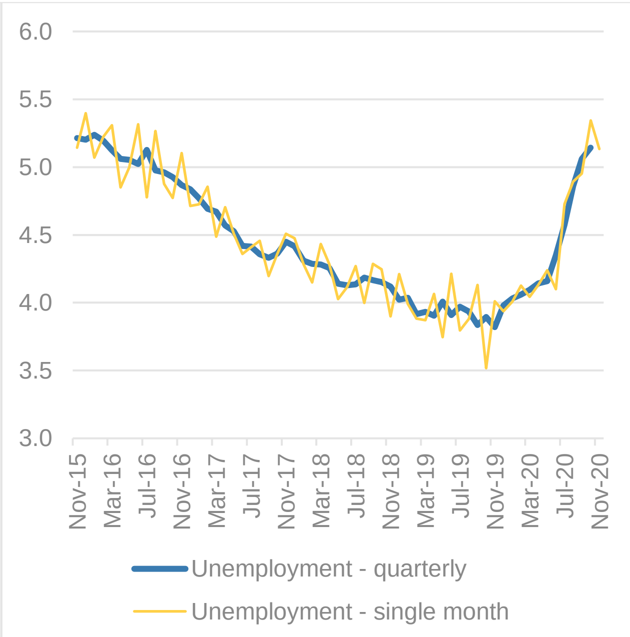
As with last month, today's figures could have been much worse and in some cases have been reported as if they were. But they also are showing very little sign of recovery and we know that the current third lockdown has led to increased temporary lay-offs, cuts in hours and falling vacancies. The signs are that we could be facing a prolonged period of weakness in the labour market, although we will likely see a strong bounce-back in the latter part of the year if we can suppress the virus and vaccines prove effective. In the meantime, a top priority for the coming Budget must be new measures to support new hiring, jobs growth and those most disadvantaged in the labour market.

There are signs that the labour market had stopped weakening towards the end of last year

Today's figures show a further decline in the employment rate over the last quarter (between June-August 2020 and September-November 2020), falling from 75.6% to 72.4%. This is now 1.4 percentage points below where it was on the eve of the pandemic. Unemployment has also risen sharply – up from 4.5% to 5.0% in the last three months. Figure 1 below shows quarterly employment and unemployment with the single-month estimates in yellow.

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

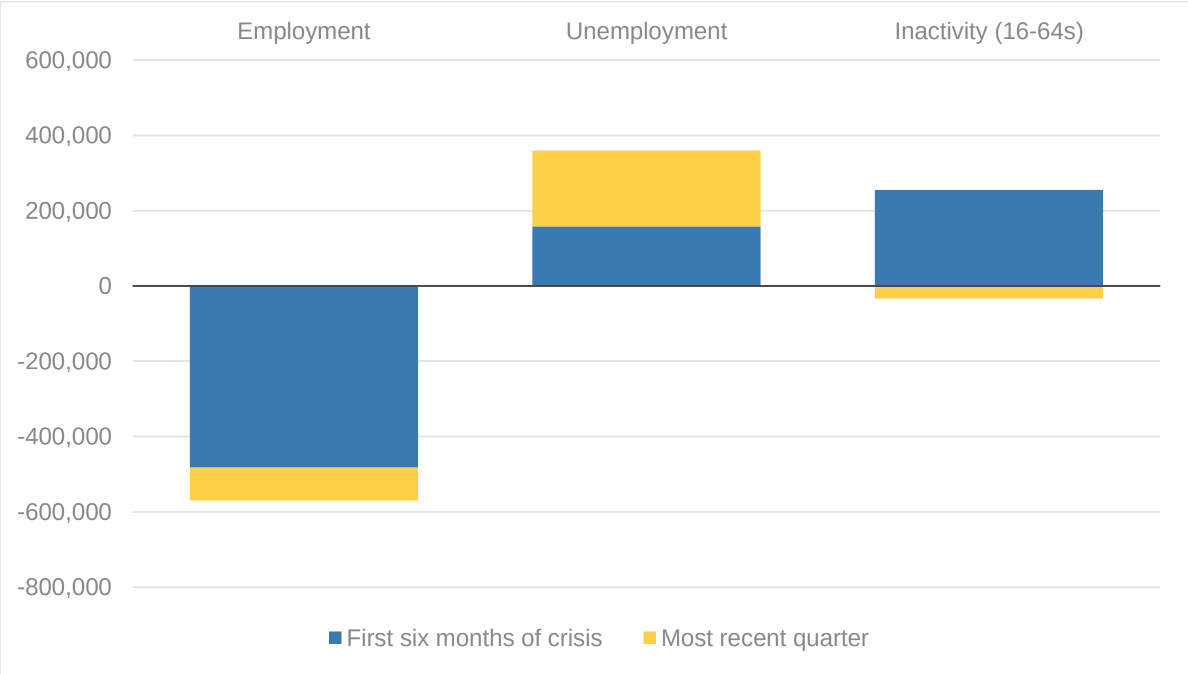




Source: Labour Force Survey

However, underneath these figures there are signs that falls in employment were easing towards the end of last year. Figure 2 shows how employment, unemployment and economic inactivity[1] have changed over the nine months from the start of the crisis. This shows that the vast majority (more than four fifths) of the 570 thousand fall in employment happened over the first six months of the crisis. The large rises in unemployment in the most recent quarter are therefore only partially explained by falling employment – with changing population estimates[2] and a slight fall in economic inactivity explaining the rest.

Figure 2: Changes in employment, unemployment and economic inactivity: first six months of the crisis (Dec-Feb to Jun-Aug 2020) and most recent quarter (Jun-Aug to Sep-Nov 2020)



Source: Labour Force Survey

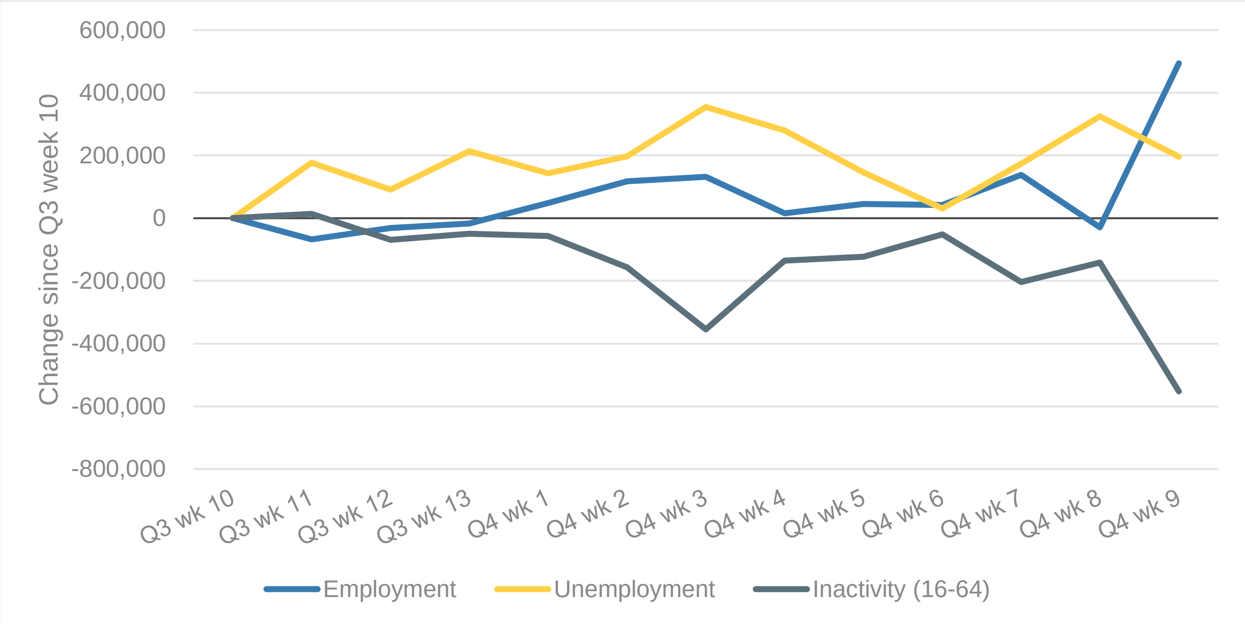
Looking more recently still, the ONS now publishes underlying weekly data from respondents to the Labour Force Survey. Figure 3 below therefore shows the changes in employment, unemployment and inactivity by week, between the first week of September (week commencing 31 August) and the last week of November (week commencing 30 November). These figures are quite volatile week-to-week, but do suggest that between September and November employment was broadly flat (possibly rising slightly), while

[1] Economic inactivity measures those people who are not in work and are either not looking and/ or not available for work.

[2] On the effects of population changes specifically, it is important to note that the Labour Force Survey does not itself estimate the population – instead, these figures are derived from mid-year estimates published each summer. It should be noted that current estimates do not take account of changes since the pandemic began and in particular higher emigration and reduced immigration. While this is unlikely to significantly effect headline labour market *rates*, they mean that changes in *levels* should be treated with caution. An [ONS blog published yesterday] explains these issues in more detail.

rises in unemployment largely reflected falls in economic inactivity – i.e. more people who were already out of work now starting to look for new jobs.

Figure 3: Change in employment, unemployment and economic inactivity over three months from start of September (Q3 week 10) to start of December (Q4 week 9)



Source: IES analysis of weekly Labour Force Survey X07

Separate data from HMRC on the number of payrolled employees, which runs up to December 2020, also suggests that falls in employment were slowing and may have stopped in recent months – with employee numbers levelling off at around 28.2 million between September and December.

It should be noted that overall, this HMRC data gives very different estimates to the Labour Force Survey on the impacts of the crisis – with the former estimating a fall in employees of 828 thousand since the pandemic began while the latter suggests that employee numbers have actually risen slightly (by 30 thousand). This article by the ONS explores the reasons for this difference, and in particular that around a quarter of a million LFS employees may be away from work without pay, and a likely smaller number of self-employed people now classify themselves as employees in the LFS. It is possible too that increased emigration may also be a factor, as explained in Footnote 2 above (with this being reflected in PAYE data but not in the employee levels in the LFS).

Young people are still faring worst, but recent falls in employment have been greater for older workers

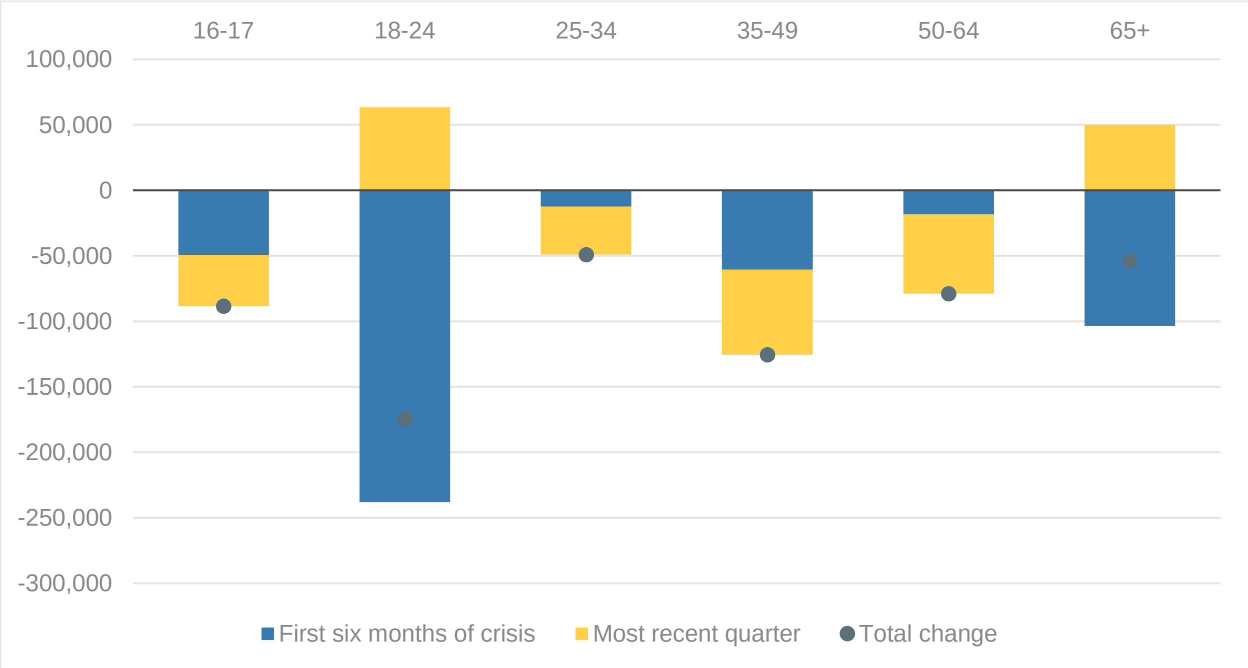
Figure 4 below sets out changes in employment levels by age, over the first six months of the crisis (blue) and the most recent quarter (yellow), with dots indicating the total fall. Overall young people have seen more pronounced employment impacts than other age groups, with nearly half (46%) of the total fall in employment among those aged 16-24.

As young people make up a relatively smaller share of the workforce overall, this means that employment for 18-24 year olds has fallen by 5% while for 16-17s it is down by a quarter (26%). Just one in six 16-17 year olds now have a job (17%) compared with one in four (24%) on the eve of the crisis.

However, the most recent quarterly data suggests that employment improved for those aged 18-24 in the autumn (September-November) – as it did for the very oldest workers – while employment fell for those aged 25-64. This is consistent too with our more detailed analysis published last month, which suggested that while young people were hit very hard by lockdown they were also more likely to return to work as restrictions were eased.

The recent falls for older workers, and particularly those aged 50-64, are more concerning and suggest that these groups benefited far less from improvements in the autumn.

Figure 4: Change in employment levels by age: first six months of the crisis (Dec-Feb to Jun-Aug 2020) and most recent quarter (Jun-Aug to Sep-Nov 2020)

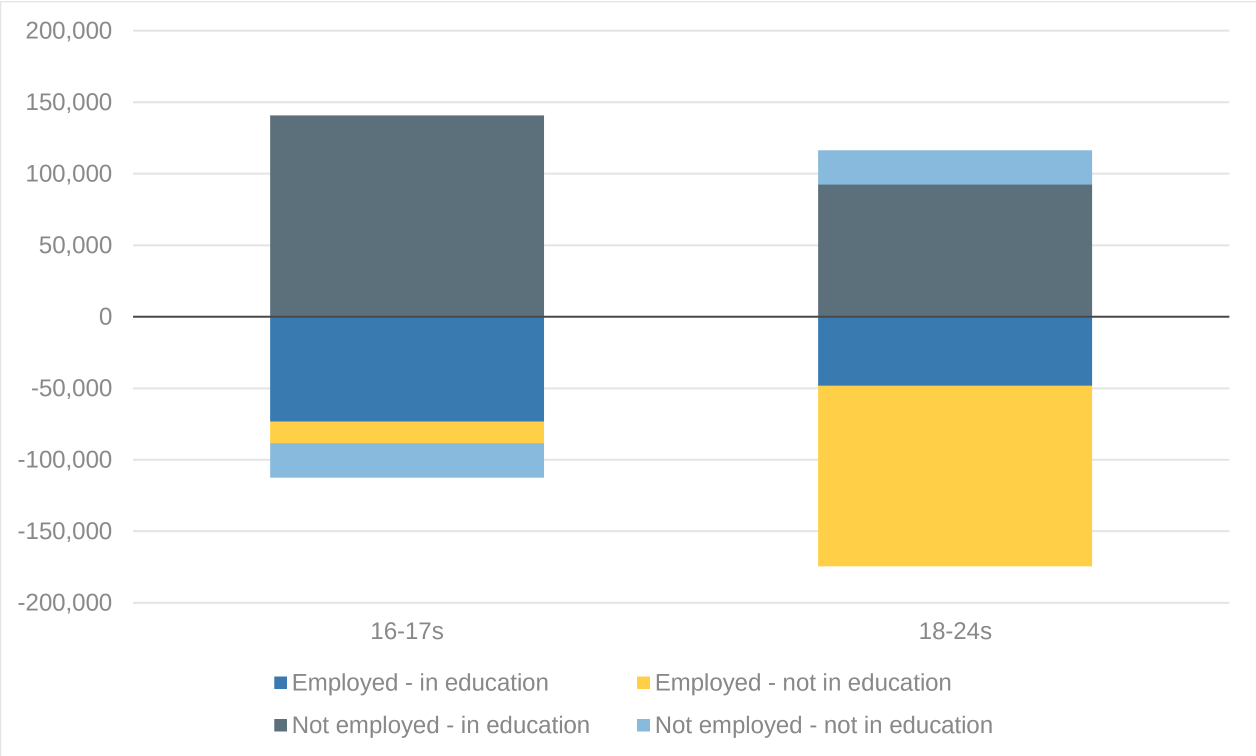


Source: Labour Force Survey

Figure 5 below shows that for the most part, as with previous months, falling youth employment has been offset by rising participation in full-time education. For 16-17 year olds, the number of people neither in full time education nor employment has actually fallen slightly, but this disguises big falls in the numbers of young people combining work and study – which will have implications for incomes, skills acquisition and future employment prospects.

Among 18-24 year olds the number not in full-time education or employment has crept up (by more this month than last), with rises in education participation not enough to offset large falls in employment both inside and outside of education. Again, fewer people combining work and study will have longer-term implications.

Figure 5: Change in employment and education participation among young people, Dec-Feb 2020 to Sep-Nov 2020



Source: Labour Force Survey

Recent falls in employment have been among men – with full time work for women rising strongly

Overall, the fall in employment since the crisis began has been roughly twice as great for men as for women – falling by 390 thousand (2.2%) for men compared with 180 thousand (1.2%) for women. Men have been particularly affected by falling self-employment and part-time work, while women have seen significant growth in full-time employee work – which is now at comfortably its highest ever level (8.8 million) and is 300 thousand higher than when the crisis began.

As with last month, over the last quarter all of the fall in employment has been among men, although the overall fall is lower than that reported last month (80 thousand compared with 150 thousand). This is set out in Figure 6 below. Full time employee numbers have increased slightly for men, but not enough to offset large falls in part-time work and self-employment; while for women strong growth in full-time employee work continues to offset declines in other forms of employment.

These trends for women likely reflect more second earners increase their hours in response to a partner losing their job or income (as we have seen in previous crises); as well as occupational and sectoral factors – with women more likely to work in public sector and health care jobs, where employment has been growing strongly (and where some part-time workers may also be increasing their hours).

Figure 6: Quarterly change in employment types by gender, Jun-Aug 2020 to Sep-Nov 2020

Source: Labour Force Survey

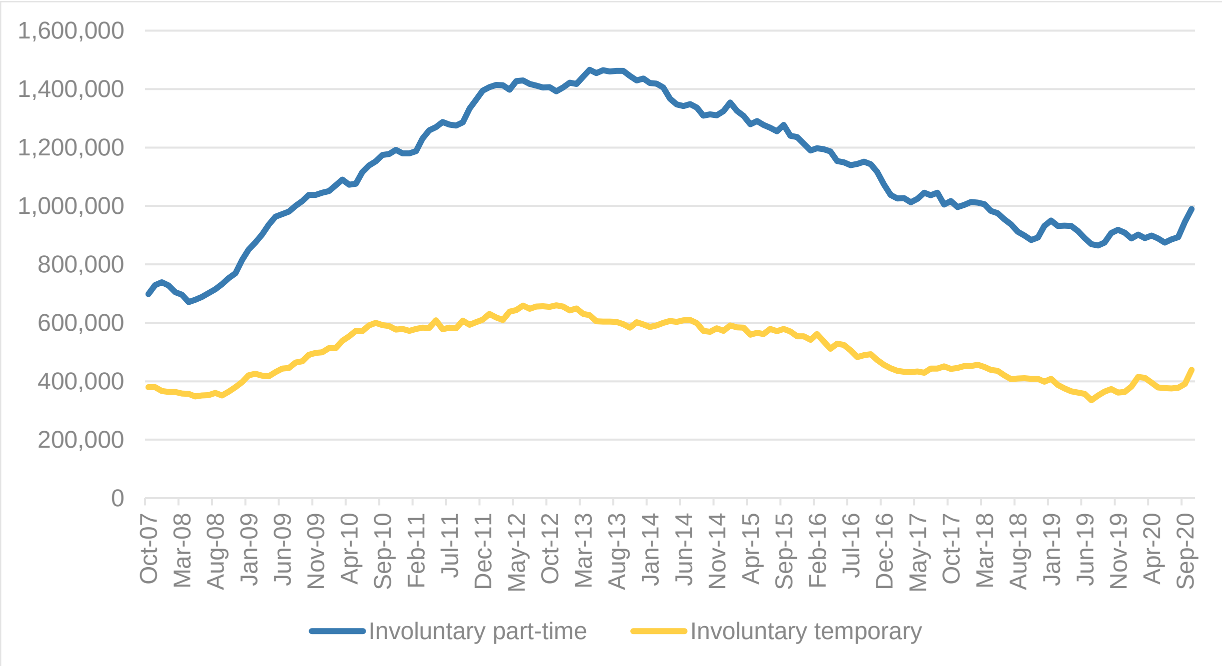
Are there early signs of a worsening in job security and increase in 'second choice' jobs?

While part-time work is falling overall, there were potential signs today that a growing number of people are in 'second choice' part-time or temporary work – which are important indicators of increased competition in the labour market and could also be early warning signs of greater risks of job insecurity and low pay in the recovery.

Figure 7 below shows the number of workers in part-time and/ or temporary work because they could not find full-time or permanent jobs. The number of involuntary part-time workers has increased by 100 thousand since the start of the crisis (to 990 thousand) and is at its highest rate since 2016. Involuntary temporary work is up by 50 thousand to 440 thousand (so a similar rate of growth in recent months). Figure 7 also illustrates that both of these measures increased significantly in the last recession but had been falling over recent years.

Increased employment insecurity is likely to be a particular risk for lower paid workers, and our Laid Low report published on Friday set out how the crisis has disproportionately affected those in low pay – with this group more than twice has likely to have lost their jobs and significantly more likely to have been temporarily laid off or seen their hours reduced.

Figure 7: People in part-time work because they couldn't find a full-time job, or temporary work because they couldn't find permanent



Source: Labour Force Survey

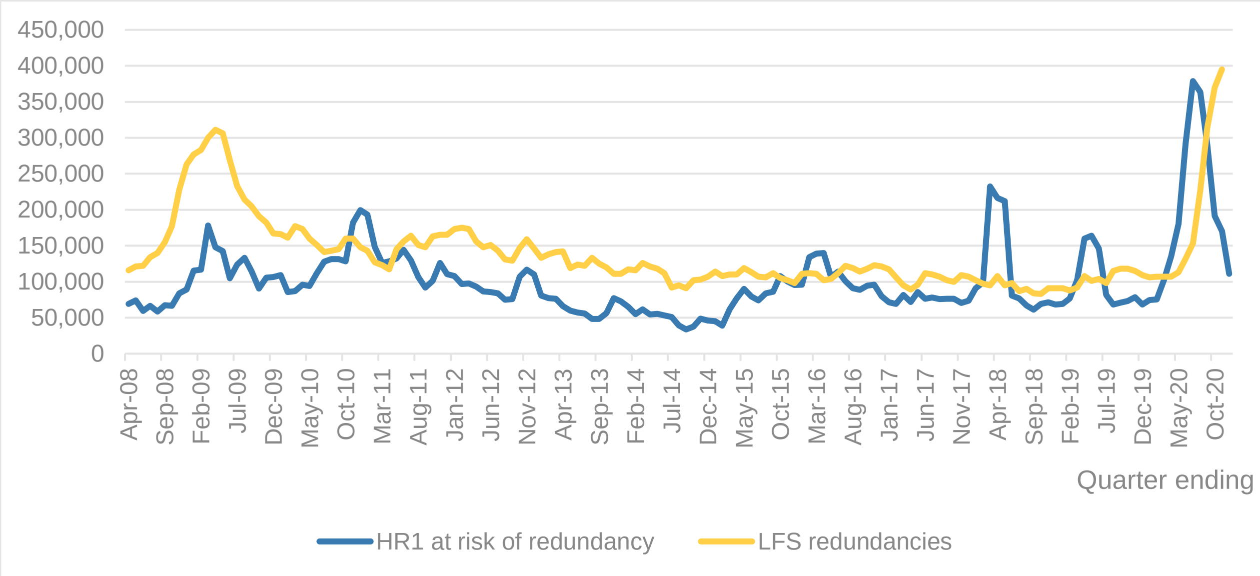
Redundancies creep up again, but have almost certainly peaked and should fall back from next month

Overall 395 thousand people were made redundant between September and November, the highest redundancy level and rate (14.2 per 1,000 employees) since this survey measure began in 1995. The rate was highest for those aged 25-34 (16.2 per thousand), with rates similar at other ages (of between 12.8 and 14.4 per thousand).

However, as we have reported previously, these impacts continue to reflect the fallout from the first lockdown rather than any more recent deterioration in the labour market. Figure 8 below compares actual redundancies with employer notifications to the Insolvency Service of plans to make lay-offs (which is a legal requirement where more than 20 redundancies are planned in a single establishment). This shows that recent peaks are the delayed impact of very high notification levels during summer 2020 (we explore this in more detail in our On Notice briefing paper from September).

HR1 notifications have fallen back in recent months, with just 111 thousand jobs notified as being at risk of redundancy in the final quarter of 2020 and just 23 thousand in the single month of December (although both of these figures remain above pre-crisis levels).

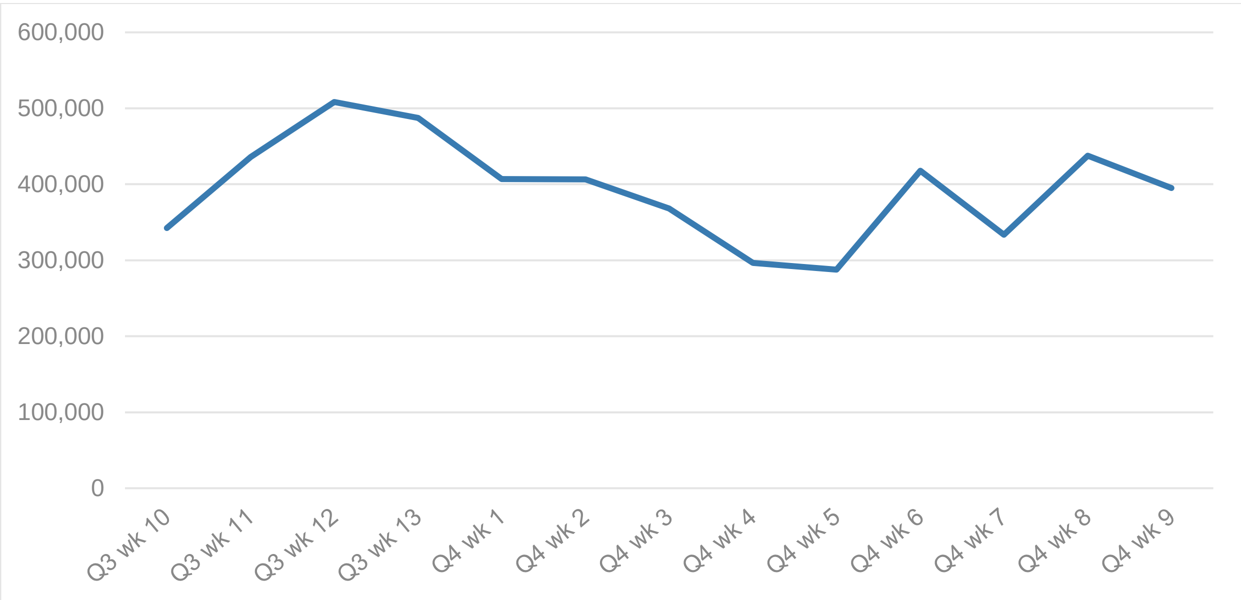
Figure 8: Quarterly number of employees notified as at risk of redundancy (HR1 forms) and reporting having been made redundant (Labour Force Survey)



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

Furthermore, looking at the number of people each week reporting in the Labour Force Survey that they were made redundant in the previous quarter, we can see that redundancies have fallen back from their highest peaks in September – of around 500 thousand – to 400 thousand in November. Nonetheless, again, these figures remain stubbornly high compared with the pre-crisis trend (of on average around 100 thousand).

Figure 9: Whether made redundant in previous three months – weekly responses from start of September (Q3 week 10) to early December (Q4 week 9)



Source: Weekly Labour Force Survey X07

All told, then, we will almost certainly see redundancies fall back in next month's figures although they may not fall as sharply as the HR1 data has. It is likely that we remain on course for the total of 650 thousand redundancies over the second half of 2020, that we forecast in our On Notice report.

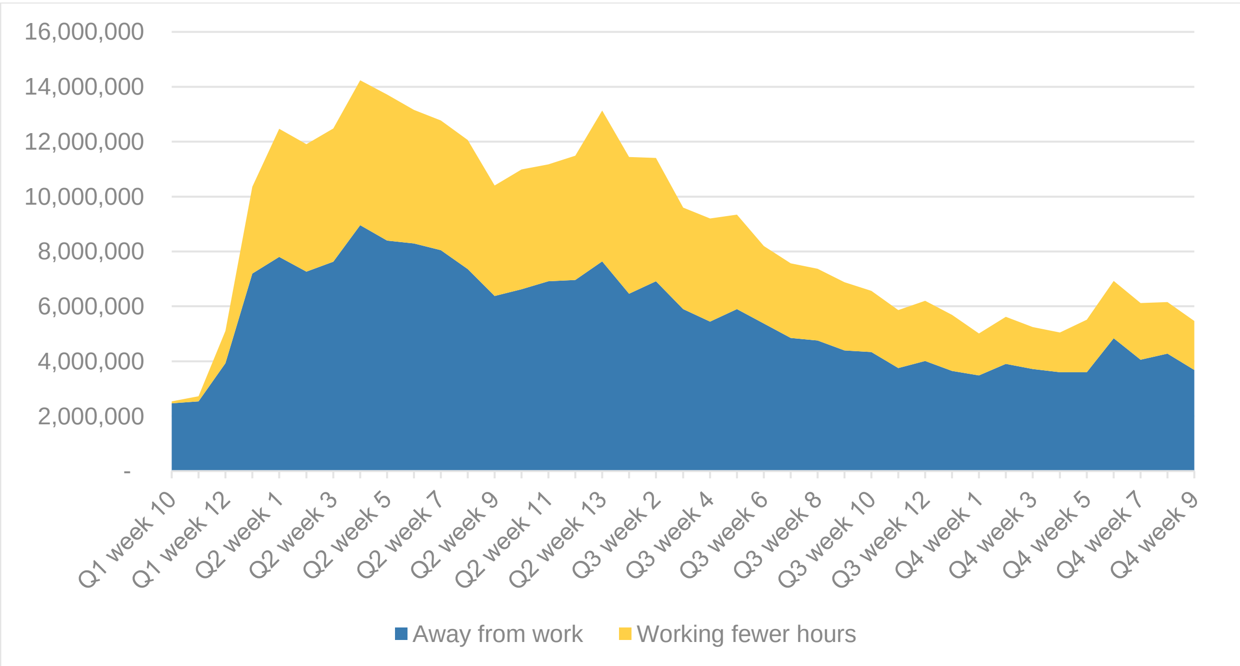
Lockdown 2 impacts appear modest, but did lead to more work disruption and may have affected hiring

The headline analysis above suggests that any impacts on the labour market from the second lockdown in November were modest – at worst slowing the recovery in employment rather than leading to further falls. Looking in more detail at work disruption, benefit claims and hiring we see a similar picture.

First on work disruption, Figure 10 shows the number of people who either reported being temporarily away from work or working fewer hours than usual (due to economic reasons) between March and November. After very large declines between late June (14 million) and late October (5 million), numbers increased by over a million during early November before falling back again later in the month.

By the start of December this total had reached 5.5 million – with 3.7 million away from work and 1.8 million on reduced hours. In 'normal' times around 2.5 million people would be away from work and fewer than 100 thousand on reduced hours for economic reasons – so the LFS data suggests that most of the 'excess' impact of the crisis was being felt through lower hours rather than full furlough by the end of last year.

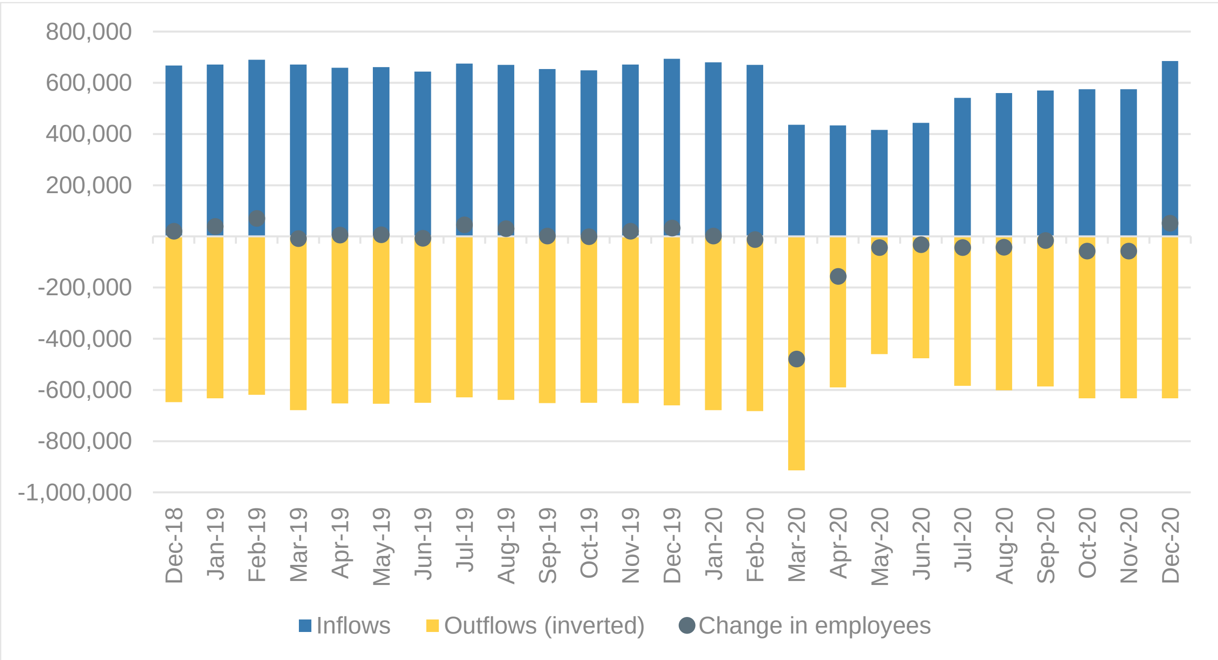
Figure 10: Number of people not working normally by week, March to November 2020



Source: IES analysis of weekly Labour Force Survey X07

On hiring, evidence from different sources is more mixed. Data on flows into and out of PAYE employment, set out in Figure 11 below, suggests that if anything hiring picked up in December – with nearly 700 thousand people starting new payrolled employment (which would be back up to pre-crisis levels). Outflows from PAYE employment were unchanged on recent months and again in line with pre-crisis trends. However, it should be noted that these figures can be subject to significant revision – with our report last month describing an almost identical increase in flows for November which has been subsequently revised down by 100 thousand. At the very least, though, this does not suggest any significant deterioration from the second lockdown.

Figure 11: Flows into and out of PAYE payrolled employment, 2018-2020

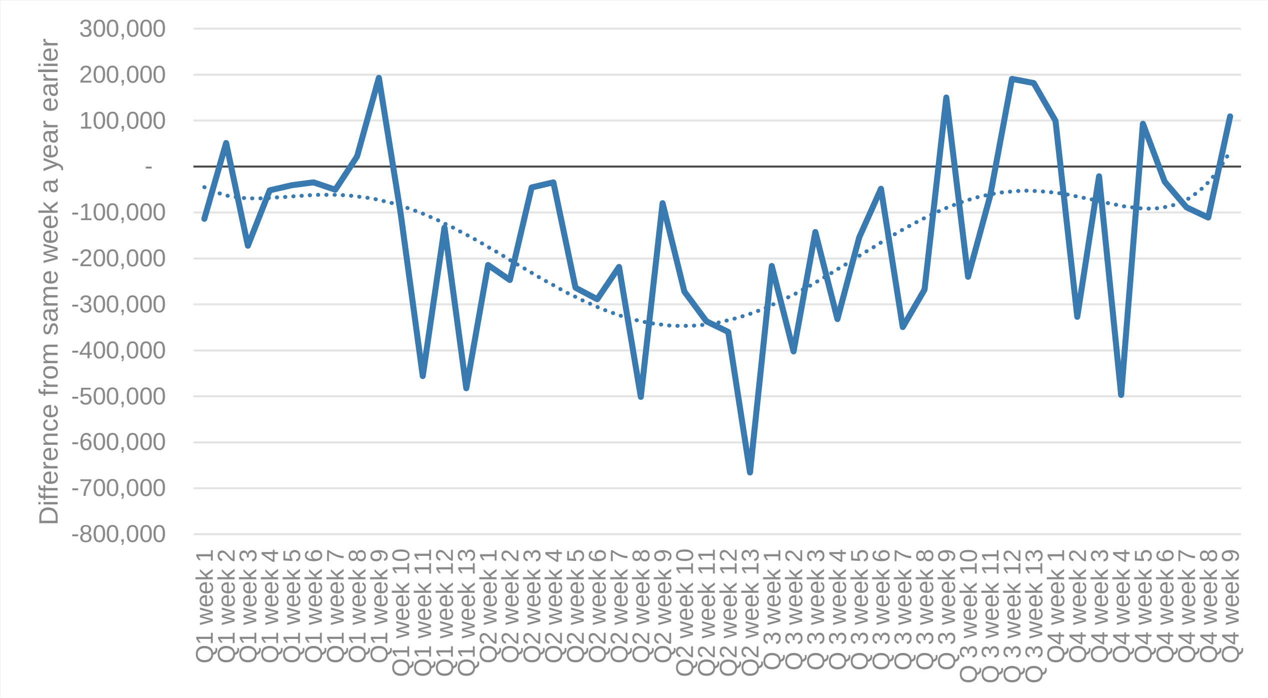


Source: HMRC PAYE Real Time Information

Analysis of weekly data from the Labour Force Survey, however, does suggest that hiring may have slowed in November. Figure 12 below shows the change in the number of people reporting that they had either just started a job or were just about to start a job between each week of 2020 and the equivalent week in 2019. The trend line suggests that job starts were a bit lower than a year previously in the early part of 2020, then fell significantly though all of Quarter 2 (April-June, i.e. full lockdown) before gradually recovering in the summer and then appearing to plateau through October and November.

This appears to suggest that while hiring had begun to recover, it had not got back up to pre-crisis levels and was weakening again as the second lockdown hit.

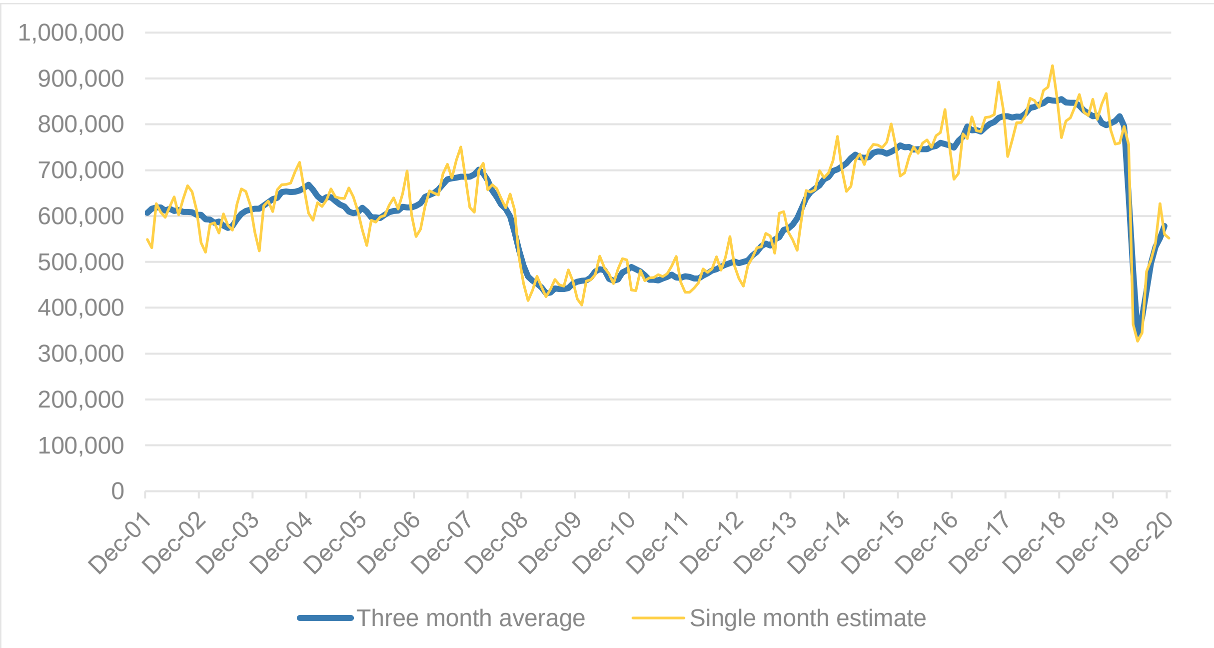
Figure 12: Change in number of people who started a new job in reference week or are waiting to start one, January-November 2020 compared with same week in previous year



Source: IES analysis of weekly Labour Force Survey X07

This trend is also somewhat confirmed in vacancy statistics, which as Figure 13 below shows, had begun to recover sharply through the summer and autumn but dipped back again in the single month of December – and overall remain at levels last seen in 2013.

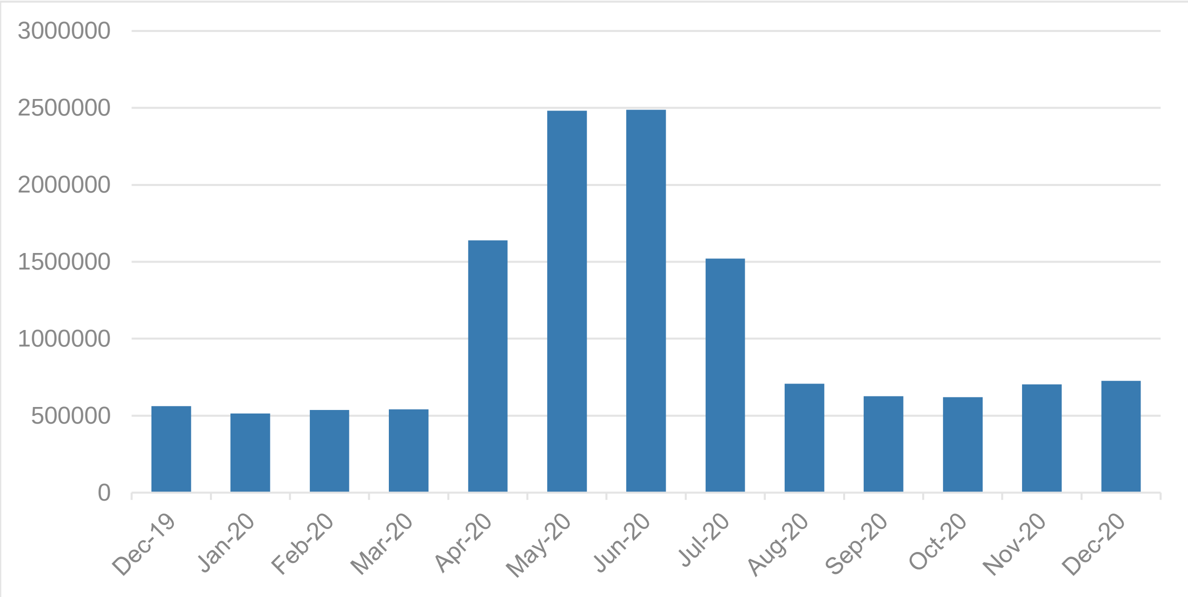
Figure 13: Vacancies – quarterly and single-month estimates



Source: ONS Vacancy Survey

There are no signs however that the second lockdown has led to any increase in benefit claims. Figure 14 below uses Universal Credit claims with a duration of less than three months as a proxy for new claimants, and this suggests that any increases in new claims in November and December remained limited. Nonetheless, new claims are still running around a quarter higher than the same time last year.

Figure 14: Universal Credit claimants with a duration of less than three months on benefit



Source: DWP Stat-XPlore

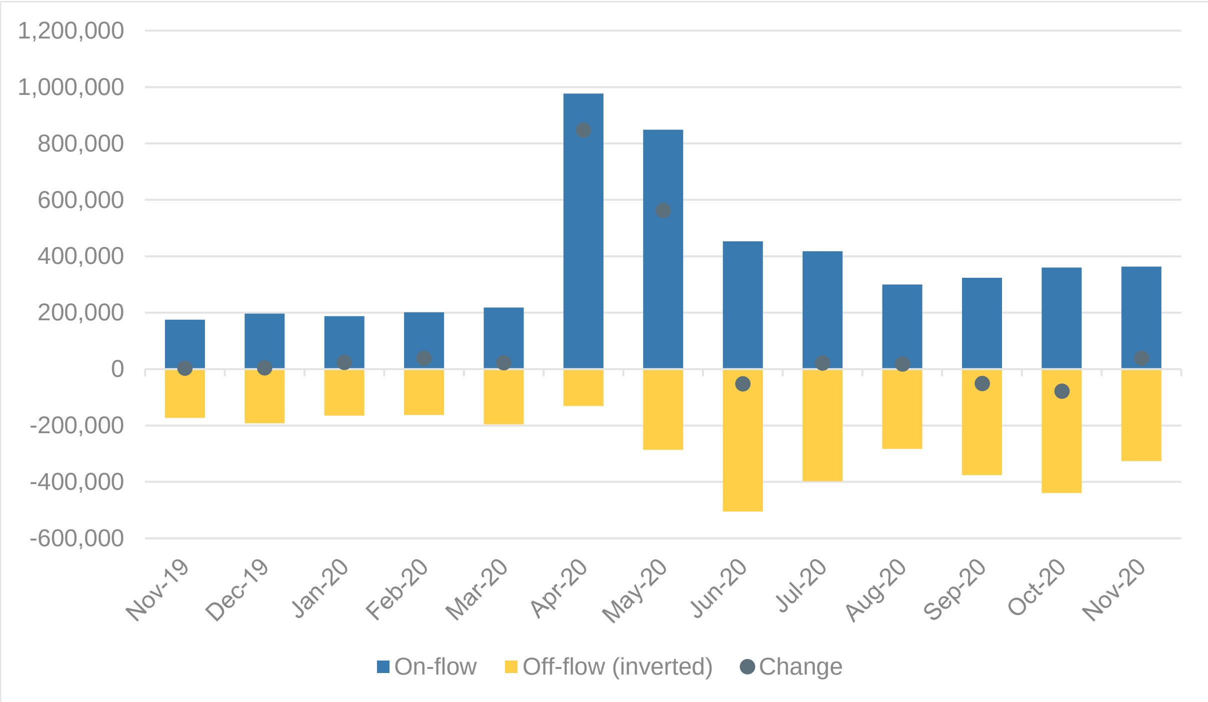
On-flows to claimant unemployment remain very high – with off-flows barely keeping up

Finally, today sees the publication of new quarterly data for the 'Alternative Claimant Count'. This is an administrative dataset measuring those who are claiming benefits and treated as unemployed (i.e. required to look for or be available for work). The dataset was introduced in order to better reconcile Universal Credit claimant data with data from legacy benefits, but it is particularly useful now as the only data that measures the number of people flowing into and out of claimant unemployment.

Figure 15 below shows on-flows and off-flows to claimant unemployment over the last year, restricted to those in the UC Searching for Work group or on Jobseeker's Allowance. This shows the sheer scale of the impacts of the first lockdown, with nearly one million people becoming newly claimant unemployed in April 2020 alone and off-flows collapsing. In more recent months, on-flows have dropped back but remain very high – with more than twice as many people becoming claimant unemployed in November 2020 as a year previously (363 thousand compared with 175 thousand).

Off-flows have also increased, although they dropped back slightly during the November lockdown (to 326 thousand, compared with 172 thousand a year previously). This means that off-flows are just about keeping pace with on-flows, but they need to increase significantly if they are to start to undo the damage from the early part of the crisis.

Figure 15: Flows into and out of claimant unemployment – Universal Credit Searching for Work Group and Jobseeker's Allowance only



Source: DWP Stat-XPlore

Conclusions and implications

Today's figures overall suggest that the labour market had stopped deteriorating towards the end of last year and that the bottom may have been reached for the first part of the crisis. Men appear to be faring worse than women on employment overall, and young people worse than older workers – although more recent data presents a slightly more mixed picture.

Our more detailed analysis of Labour Force Survey data published last month shows that these different impacts likely reflect in particular the occupational and sectoral nature of the crisis – with job losses more pronounced in lower skilled and lower paid work, and often higher skilled jobs and better paid work faring far better, particularly in the public sector. There were signs in today's figures too of potentially increased insecurity, driven by involuntary part-time and temporary work.

The second lockdown in November appears not to have had any significant negative impacts on the labour market, but it does appear to have stifled what recovery we were seeing in the summer and early autumn as social distancing restrictions were eased.

Today's figures only cover the period to November/ December, and we know that the January full lockdown has led to significant increases in temporary lay-offs, reduced working hours and further falls in vacancies. As our Laid Low report last week set out, we expect that these impacts will be most pronounced for low paid workers, who had already borne the brunt of the crisis last year – and so supporting those on low incomes and in low paid work should be a top priority.

So looking ahead, as we start to plan for a gradual easing of restrictions from the Spring, our view is that the March Budget will need to prioritise measures to support a jobs recovery and to tackle rising worklessness and unemployment. In our view this will need to include measures to boost hiring; to improve employment support for the most disadvantaged (in particular for older people, disabled people and those with health conditions; to improve job security and prospects for low paid workers; and to deliver a meaningful employment or training guarantee for young people.

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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