Labour Market General Trends | September 2020

Moors Economics, September 2020

This paper highlights general trends of the UK labour market and signposts to recent analytical pieces.

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Key trends

The ONS' monthly labour market overview provides a useful source for overall trends in a Covid-19 context. The latest release in September 2020 illustrates the following key trends in the UK labour market:

The number of people employed in July in the UK is 695,000 lower when compared to March. Looking more closely at the change in employment over the quarter by age group shows that those aged 16-24 decreased by 156,000 **(with a record decrease of 146,000 for those aged 18 to 24 years). Unemployment has also increased for young people.**

Whilst redundancies are still historically low, both the quarterly and annual changes are the largest seen since 2009. The number of people who are estimated to be temporarily away from work (including furloughed workers) has fallen over the quarter (May-July), **but it was still more than 5 million in July, with over 2.5 million of these being away for three months or more.** There were also around 250,000 people away from work across the UK because of the pandemic and receiving no pay in July 2020.

The total number of hours worked is still low by historical standards, but as a gradual flow of people return to work it has been showing some tentative signs of recovery. Over the year, total actual weekly hours worked in the UK decreased by 183.8 million to 866.0 million hours in the three months to July 2020 – fall of 17.5%.

Over the same period, average actual weekly hours fell by 5.8 hours to 26.3 hours (encapsulating full and part time workers). **The accommodation and food service activities sector saw the biggest annual fall in average actual weekly hours, down by 15.4 hours to 13.5 hours per week** (again, the figures reflecting that a large proportion of the workforce in the sector work part-time and/or at weekends). When looking across all sectors, no sector has reached its pre-lockdown level in terms of average number of hours worked.

There is increasing evidence that young people in the workforce are being hit hard by the continuing economic fallout of the pandemic. Those sectors which have traditionally been strong employers of young people have been amongst the hardest hit.

- **Vacancies did increase in the latest period, driven by the smaller businesses, some of which are reporting taking on additional staff to meet coronavirus (Covid-19) guidelines.** Vacancies in the UK in June to August 2020 were at an estimated 434,000 – almost 30% higher than the record low in the quarter April-June 2020. **However, there were still 383,000 fewer vacancies across the UK when compared to the same period in 2019**
- **The Claimant Count increased in August 2020, reaching 2.7 million**; this includes both those working with low income or hours and those who are not working. However, some of this reflects the inclusion of those claiming Universal Credit – reflected in the fact that the claimant count has increased by 1.5 million since March alone
- Both inflows and outflows from payrolled employment fell below their pre Covid-19 levels in recent months – **suggesting a reduced level of 'dynamism' or 'churn' in the labour market**
- **Annual growth in earnings is estimated to be negative 1% - translating to a fall of 1.8% in real terms.** The rate of growth has been slowing since April to June 2019, when it stood at 4.0% for total pay, the highest nominal pay growth rates since 2008. It had slowed to 2.9% in December 2019 to February 2020 immediately prior to the Covid-19, **but since then it has slowed sharply before stabilising in May to July 2020.**
- On a sector basis, negative growth was seen in the construction sector (minus 7.5%); the wholesaling, retailing, hotels and restaurants sector (minus 3.2%); and the manufacturing sector (minus 1.7%).

Estimating the potential impact on redundancies of Covid-19

Using a Freedom of Information request, the Institute of Employment Studies (IES) has produced a briefing note that sets data from employers planning 20 or more redundancies (HR1 notifications) alongside historic estimates of actual redundancies in order to estimate the potential path of job losses later in 2020. HR1 data has some limitations because it only captures planned redundancies of more than 20 employees – hence it will not capture smaller levels of redundancies in businesses, and it also relies on businesses to be compliant in terms of reporting the redundancies in planning stage i.e. before they actually occur.

The IES analysis finds that redundancy notifications by employers are running at more than double the levels seen in the 2008/9 recession. Part of this rise may be explained by increased compliance with HR1 reporting requirements, but the vast majority is a consequence of the covid-19 pandemic and its economic impacts.

The central IES estimate is that a scenario of 450,000 redundancies may occur in the third quarter of 2020 – significantly higher than the quarterly peak in the last recession. This modelled scenario also forecasts that a further 200,000 redundancies could follow in the fourth quarter 2020.

However, the only real other source of redundancy data is produced through the quarterly Labour Force Survey – which asks respondents whether they had been made redundant over the survey period. This is then 'grossed up' to the whole workforce to estimate the actual level of redundancies. Because this is based on a sample of surveys, this data is associated with confidence intervals.

The LFS data estimates that redundancies increased by 58,000 on the year and 48,000 on the quarter to 156,000. This represented the largest annual and quarterly increases seen since 2009. While this is the highest level since September to November 2012, the level remains well below that seen during the 2008 downturn.

As stated, the LFS data only estimates the number of redundancies experienced to date. Based on the analysis by IES of the historical relationship between HR1 and LFS data, it presents a range of forecast scenarios with regards to the trajectory of redundancies. The central scenario takes as a starting point that actual redundancies will be 1.2 times higher than the HR1 notified redundancies. Actual redundancies will also lag HR1 notifications by two months.

The IES accepts that the scenario of 650,000 redundancies is highly uncertain around the scale and timing of redundancies. Much will depend on what policy levers remain in place – namely whether the Coronavirus Job Retention Scheme (furloughing) and Self-Employment Income Support Scheme (SEISS) remain in place in some form.

However, the IES analysis does conclude the scale of redundancies could be highly significant in historical terms. There is a structural element to the story. A proportion of the redundancies may reflect a restructuring process which is either as a result of, or accelerated by, the pandemic).

This does not necessarily mean that it will directly translate to a commensurate increase in unemployment, or necessarily lead to mass employment – many people do tend to find alternative employment and much will depend on whether demand in less effected sectors/businesses can soak up some of the excess labour supply.

All of this remains highly uncertain, even if the probability of an increasing amount of redundancies and unemployment is high.

Impact of coronavirus income support scheme – an age element

In response to the coronavirus pandemic, the Government introduced three policies to directly protect household incomes: the coronavirus Job Retention Scheme (JRS), the self-employment income support scheme (SEISS), and a significant boost to social security benefits. A briefing note produced by the Resolution Foundation looks at how that financial support has been distributed across people from different age groups during the first months of the crisis.

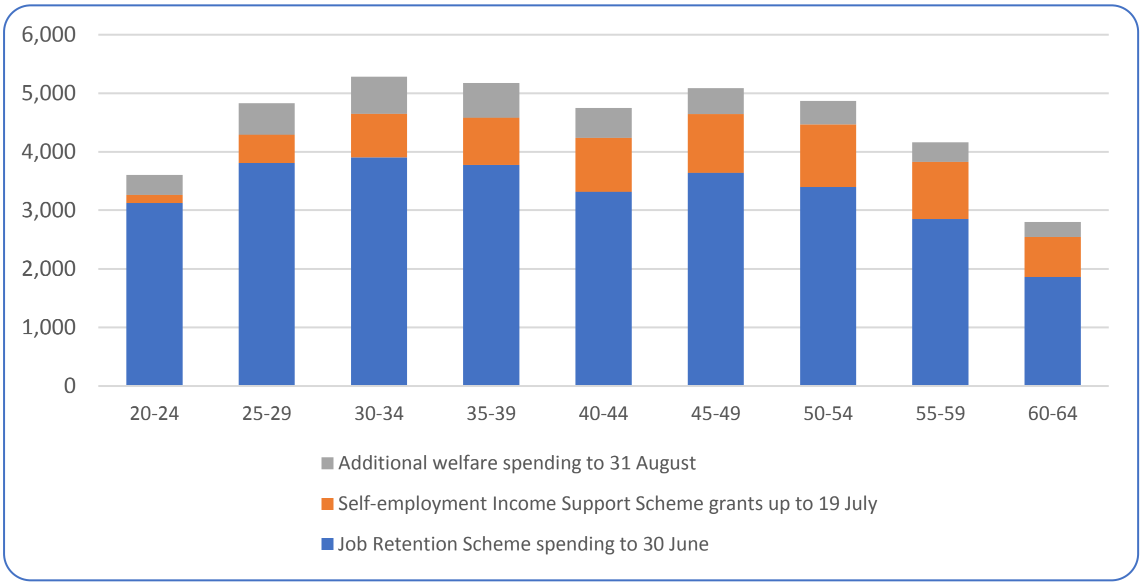
The analysis has found that those in their early 20s are most likely to have been furloughed on the JRS, with a fifth of all employees on the JRS under the age of 25. The beneficiaries of the temporary boost to Universal Credit and Working Tax Credits (WTC), along with the permanent increase in the Local Housing Allowance (LHA), are most common among those in their early 30s. Older workers are the most likely to have received support via the SEISS, with recipients most likely to be found among those aged 50 to 55.

None of the patterns the Resolution Foundation uncover is driven by an explicit age rule in any of the three programmes. Instead, the pattern of beneficiaries reflect a mixture of the nature of the initial shock to economic activity caused by the UK's response to the pandemic, and the historical design of the social security system. For example, the fact that the JRS has helped so many young people reflects the fact that the initial shock to the labour market was heavily skewed towards the retail, hospitality and leisure sectors. These are all areas in which young people were disproportionately likely to work pre-Covid. However, overall spending on the Job Retention Scheme is more equal by age, because younger furloughed workers tend to earn less than other workers.

Similarly, the slanting of support paid under the SEISS to older self-employed workers reflects the older age profile of the self-employed workforce. Eligibility within this scheme has differed for the different age groups. Among younger workers, the lack of eligibility for the SEISS is more likely to reflect that they are new to self-employment; among older self-employed workers, lack of eligibility is more likely to reflect that incomes are over £50,000 or that people receive payments via dividends. Less than 5% of the spending in the SEISS has gone to those aged under 25.

The total spend to date over the three policy responses is set out in the below chart – reflecting the data in the summer 2020, albeit for slightly different timeframes for each programme of support.

Chart 1: Total estimated costs of Government coronavirus support measures – by age band



Source: Resolution Foundation

School closures and the 'attainment gap'

The Education Endowment Fund has produced a rapid assessment examining the potential impact of school closures on the attainment gap between disadvantaged students and the wider population. This analysis aims to inform the potential impact of school closures due to Covid-19.

Whilst the research recognises that it will need further 'slow time' analysis – potentially some years down the line – it does provide some headline findings which may be of concern. The headline findings – which are broadly intuitive - are:

- School closures are likely to reverse progress made to narrow the gap in the last decade
- Supporting effective remote learning will mitigate the extent to which the gap widens
- Sustained support will be needed to help disadvantaged pupils catch up. Importantly – given the current context - there is a risk that high levels of absence after schools formally reopen poses a particular risk for disadvantaged pupils. This relates to early evidence that around one-in-twenty children in England are out of school due to issues linked to the pandemic and lockdown – this included many with special needs or emotional problems.

Key skills gaps remain as businesses plan for recovery

Open University have published their Business Barometer 2020 report looking at how the pandemic has affected skills shortages.
This report as many others published recently highlights that the lowest paid and lowest skilled are the most affected by the economic fallout and suffering the greatest job losses. In addition, that business have invested more in training and upskilling over the past months despite the increase in free labour force available.

With the number of job candidates growing as a result of COVID-19 disruption, the assumption would be that employers would find it easier to fill their skills gaps from a significantly larger pool of available talent. Instead, around three in five senior leaders report that they still cannot get the skills they require. Employers report a sharp increase in spending to find, secure and develop the skills they most need: a £1.7 billion increase since last year on recruitment fees, increased salaries, temporary staff, and training to upskill those hired at a lower level, at a total cost of £6.1 billion. Three in five (61%) organisations say that they are not as agile as they need to be because of shortfalls in their skills.

The skills that were in short supply before the crisis began have become increasingly sought after. Digital skills, for example, have now become essential as organisations are have had to make a huge leap in their use of technology while there has been no corresponding increase in the number of people with these skills. **Adaptability and ability to learn, together with transferrable and digital skills, are priorities** for large numbers of organisations who want their workforces to be ready for whatever the future holds.

Imagining the post-Covid workplace

As the Government has once again urged people to work from home, a number of thought pieces have emerged discussing the office or workplace of the future.
Many jobs that were previously inconceivable for remote working have now adapted to the new realities.
A recent survey of 4,500 people conducted by Zurich Insurance found that more than half of employees (59%) want to work from home for most of the week– an almost six-fold rise since the start of lockdown – and just 10 per cent had this working pattern prior to the coronavirus pandemic.

Employers have also started embracing the benefits of home working and the opportunities to access a wider pool of talent. A CIPD report found that home working is set to more than double compared to pre-pandemic levels once the crisis is over, leading to a long-term shift in how people work. There are also reports that people work more and are more productive when they work from home. There is the acknowledgement however that the home office is not a one fit all solution with large proportions of workers reporting working from home has negatively affected their mental health.

The future holds many questions in relation to the physical spaces we will be working in: what would be the fate of open-plan offices and shared working spaces?
This fantastic animated BBC visual depicts what it might look like for someone going to work five years from now. Food for thought.