

# Labour Market General Trends | September 2020

Moors Economics, October 2020

This paper highlights some aspects and general trends of the labour market as the impact of Covid-19 develops and provides an overview of recent analytical pieces.

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## UK Labour Market - Key trends

The ONS' monthly labour market overview provides a useful source for overall trends in a Covid-19 context. The latest release in [October 2020](#) illustrates the following key trends:



### Employment/ Unemployment

**Estimates from June to August 2020 indicate decreasing employment and increasing unemployment rate, but these figures have not shifted significantly.**

**Employment rate was 75.6% for all people** - 0.3 percentage points down both on the year and on the quarter (102,000 fewer people employed than a year earlier and 153,000 fewer than the previous quarter). Early estimates for September 2020 suggest the number of payroll employees has fallen by 673,000 since March.

**Unemployment rate was 4.5% for all people** - 0.6 p.p. higher than a year earlier and 0.7 p.p. higher than the previous quarter. An estimated 1.52mn people were unemployed - 209,000 more than a year earlier and 138,000 more than the previous quarter. Unemployment rate for men has increased more quickly than for women.

**Redundancies increased by 113,000 on the year, and a record 114,000 on the quarter, to 227,000.** The annual increase was the largest since 2009. The expectation is redundancies will continue to rise with the unwinding of Government support schemes and prospect of further social and economic restrictions.

**The Claimant count** increased in September, reaching 2.7mn; this includes both those working with low income or hours and those not working.



### Hours worked

**The total number of hours worked however has seen a bounce back from previous historical lows.** While still low, as a gradual flow of people return to work, it has been showing signs of strong recovery with a record quarterly increase of 20 mn hours, or 2.3% on the previous quarter.



### Vacancies

**After a record low in previous quarter, there was an estimated record quarterly increase in vacancies of 144,000 to 488,000 in July to September 2020.** We would view this as a bounce back rather than long-term trend. Vacancies in the UK remain below the pre pandemic levels.

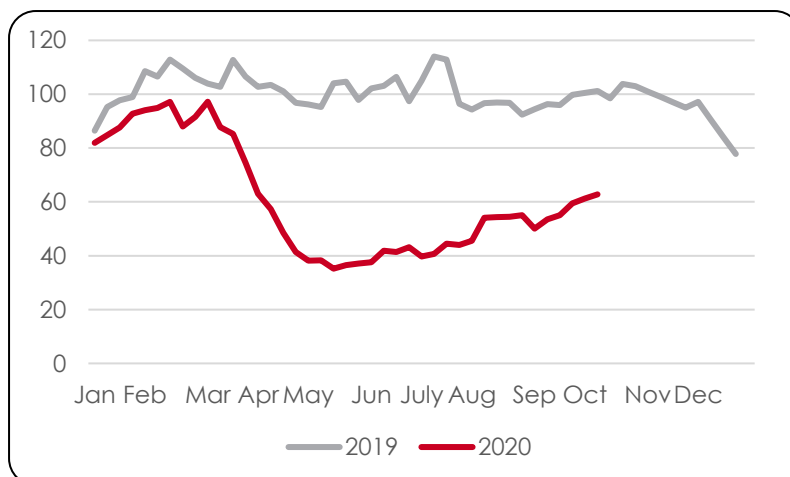


Figure 1. **Total online job adverts – UK (\*100).** Adzuna analysis - ONS

## Impact on business experience

### Homeworking

According to the [latest Business Impact of Coronavirus \(Covid-19\) Survey](#), **nearly a fifth (19%) of businesses intend to use increased homeworking as a permanent business model in the future**. These intentions were particularly prevalent in sectors such as education (encapsulating only private businesses only), ICT and professional and technical activities. Unsurprisingly, the intention is much lower in activities that require direct customer service (i.e. accommodation and food services) and/or physical presence (construction).

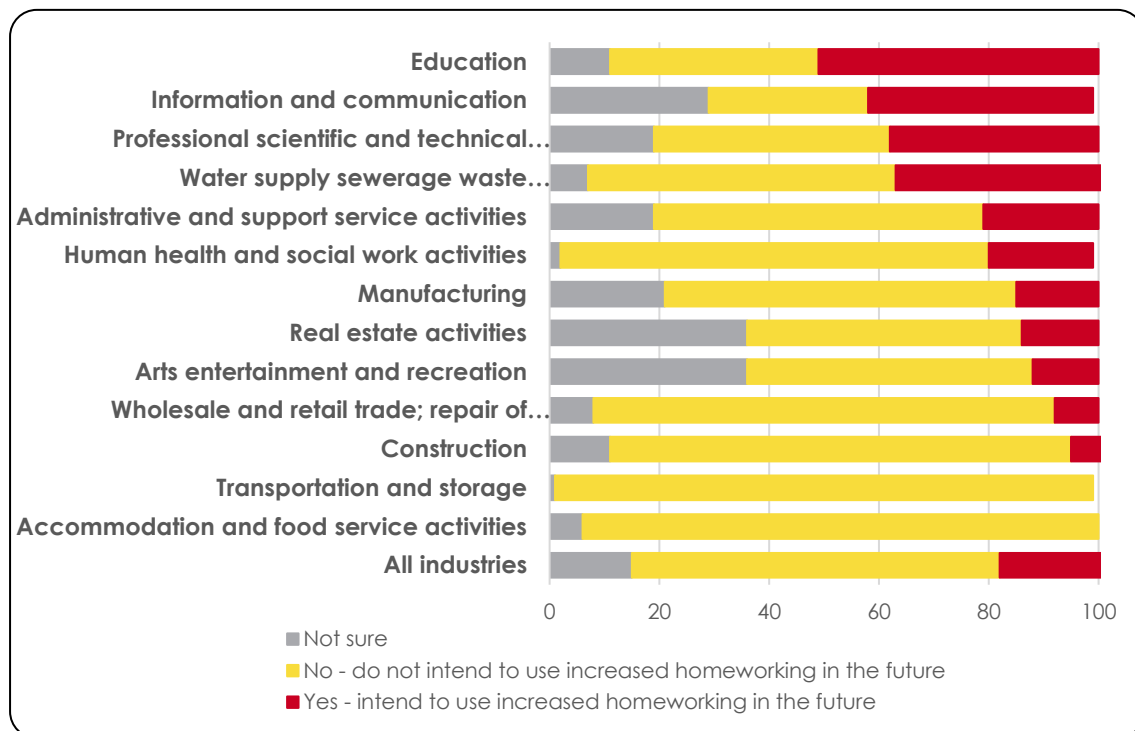


Figure 2. **Proportion of businesses who intend to use increased homeworking as a permanent business model in the future.** Business Impact of Coronavirus (Covid-19) Survey

### Profits

For the first time, businesses were asked about the effect that the outbreak had on their profits over the last two weeks, compared to what is normally expected for this time of year.

Of businesses currently trading across all industries who responded to the survey:

- **43% experienced a decrease in profits** compared with what is normally expected for this time of year
- **34% experienced no impact on profits**
- **7% experienced an increase in profits** compared with what is normally expected for this time of year

In terms of sector breakdown, again, unsurprisingly the accommodation and food service activities industry and the arts, entertainment and recreation industry had the highest percentages of businesses experiencing a decrease in profits, at 61% and 58% respectively – as shown in the below chart.

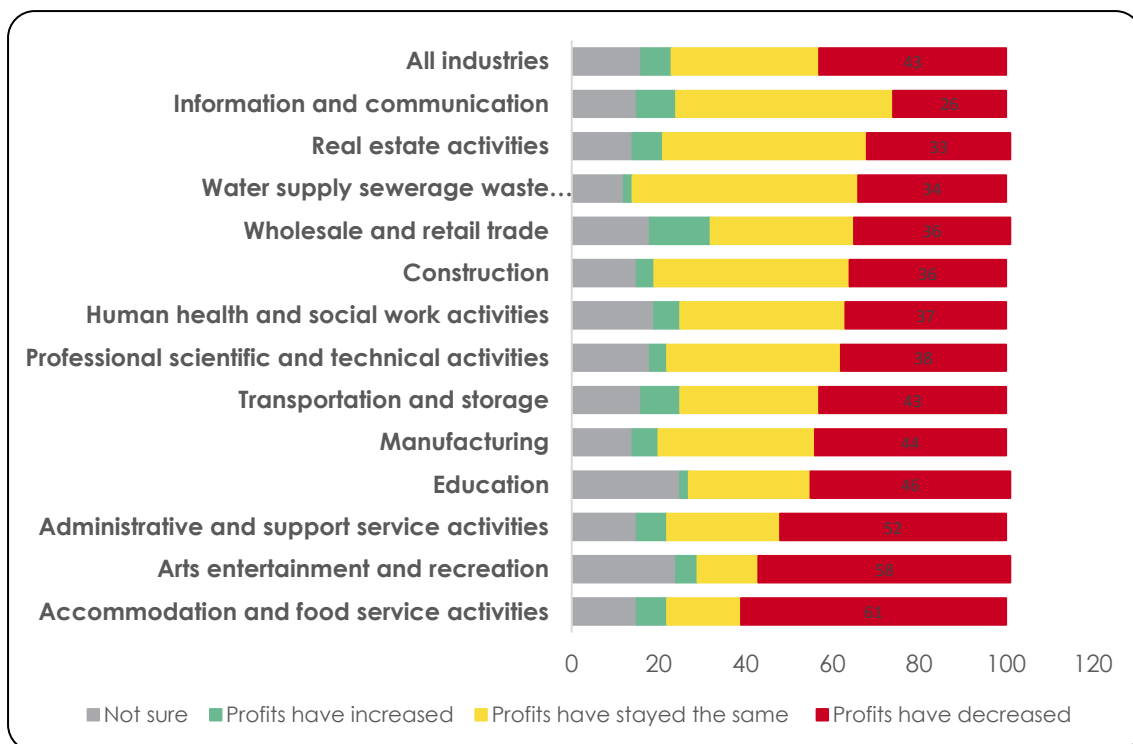


Figure 3. **Business profit expectations (period 7 September to 20 September 2020).**  
Business Impact of Coronavirus (Covid-19) Survey

## Covid-19 and older workers

The Institute of Fiscal Studies has released [research](#) looking at the impact of the pandemic on older workers. The briefing note used data from the English Longitudinal Study of Ageing (ELSA) Covid-19 study to examine how the work activity of older individuals has been affected by the pandemic, how older workers' concerns about their job security vary with their individual characteristics, and how retirement plans have already been affected by the crisis. The data were collected in June–July 2020, from a sample of nearly 6,000 individuals in their 50s and older.

- Many workers have seen their employment disrupted by the pandemic, and older workers are no exception. Nearly one in four employees aged 54 and over, who were working before the crisis, were on furlough in June–July, while among those still working, one in five were working fewer hours. Among the self-employed aged 54 and over, a third were not working, and among those who were working only one in five reported they could carry on their work as normal.
- A significant minority of older people working immediately before the crisis are now retired: 6% of those aged 66–70 and 11% of those aged 71 and older. While some may have been planning to retire around this time anyway, this was not true of half of those surveyed, and it is evidence that the current crisis has already caused some older workers to alter their retirement plans.
- Concerns about job security are prevalent and not restricted to those who are on paid or unpaid leave. Among those in employment, 18% were somewhat worried about their job security, while 5% were very or extremely worried.
- One in eight (13%) of older workers have changed their retirement plans as a result of the pandemic, with 8% planning to retire later and 5% planning to retire earlier. This shows that timing of retirement is an important means of adjusting to financial shocks for some older workers, but it also illustrates how disruptive this crisis has been to major life plans.

## Potential effects of Brexit on non-UK key workers

In May the ONS [produced some statistics which shed some interesting light on the composition of the 'key worker' workforce](#) – obviously relevant in these Covid-19 and post-Brexit times. The key findings to highlight are that roughly a third of the UK workforce are engaged in what it defines as key worker occupations and industries<sup>1</sup>.

Similar to the total UK workforce, 10% of key workers were non-British nationals, with EU and non-EU nationals making up 6% and 4%, respectively. When looking at this by country of birth instead of nationality, around 18% of key workers were born outside of the UK; 6% of key workers were EU-born and 11% were non-EU-born, including many who would have likely obtained British citizenship since moving to the UK.

The largest number of key workers worked in health and social care (3.2 million), of which 12% were non-British nationals with an equal split between EU and non-EU nationals.

Looking at the change over time from 2012 to 2019, the number of non-British nationals employed in key worker occupations and industries had grown (from 826,300 in 2012 to 1,097,100 in 2019); this was mainly driven by a steady increase in EU nationals working in health and social care (from 100,200 in 2012 to 192,300 in 2019).

The proportion of workers in the Dorset authorities who were defined by the ONS as key workers is shown in the below table. The breakdown reflects the local authority restructure before the local government reorganisation in the area.

	Percentage of total workforce defined as key workers
Bournemouth	33.0
Poole	36.4
Christchurch	38.3
East Dorset	30.8
North Dorset	30.1
West Dorset	32.7
Purbeck	31.7
Weymouth and Portland	34.4

The data is useful because it provides an indication of potential risk if the post Brexit environment leads to individuals choosing to leave the UK, or a slowdown of in-migration – as already experienced from EU countries.

## The evolving UK productivity picture through the Covid-19 pandemic – an early meta-analysis

Whilst the economic impact of the pandemic has been on preserving businesses and jobs, it is worth remembering that leading into the outbreak, many of the Government's main economic policies focused on improving productivity. The focus for the UK Industrial Strategy and the Local Industrial Strategies across England had a core focus on improving the UK's productivity performance, and the significant variations across the country.

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<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/articles/coronavirusandkeyworkersintheuk/2020-05-15>

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The impact of the Covid-19 outbreak on productivity remains volatile and dynamic, and while too early to fully understand the implications of the significant economic 'dislocation' taking place – whether it will be a short-term 'adjustment' or leading to more 'structural' effects, we take a look at two key indicators – jobs and hours worked for some early insight.

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Labour productivity tends to be measured using either '**jobs**' or '**hours**' as the denominator. Therefore, understanding the impact on these two measurements would be indicative of the potential effects on productivity:

- **In terms of jobs and employment**, the Government support schemes (e.g. Coronavirus Job Retention Scheme (CJRS) and Self-Employment Income Support Scheme (SEISS)) have acted as a safety net alleviating the worst effects on unemployment. As a result, and as shown earlier, the numbers in employment/unemployment have not significantly shifted.
- **In terms of hours worked** – the labour market 'shock' was immediate and significant. Between February to April 20 and May to July 20, total actual weekly hours worked in the UK decreased by 94 million – a decrease of 10%.

Over the year, total actual weekly hours worked in the UK decreased by 183 million to 866 million hours in the three months to July 2020. Over the same period, average actual weekly hours fell by 5.8 hours to 26.3 hours. Therefore, the adjustment in hours worked has more closely matched the fall in output and this sharp drop in hours is clearly illustrated below.

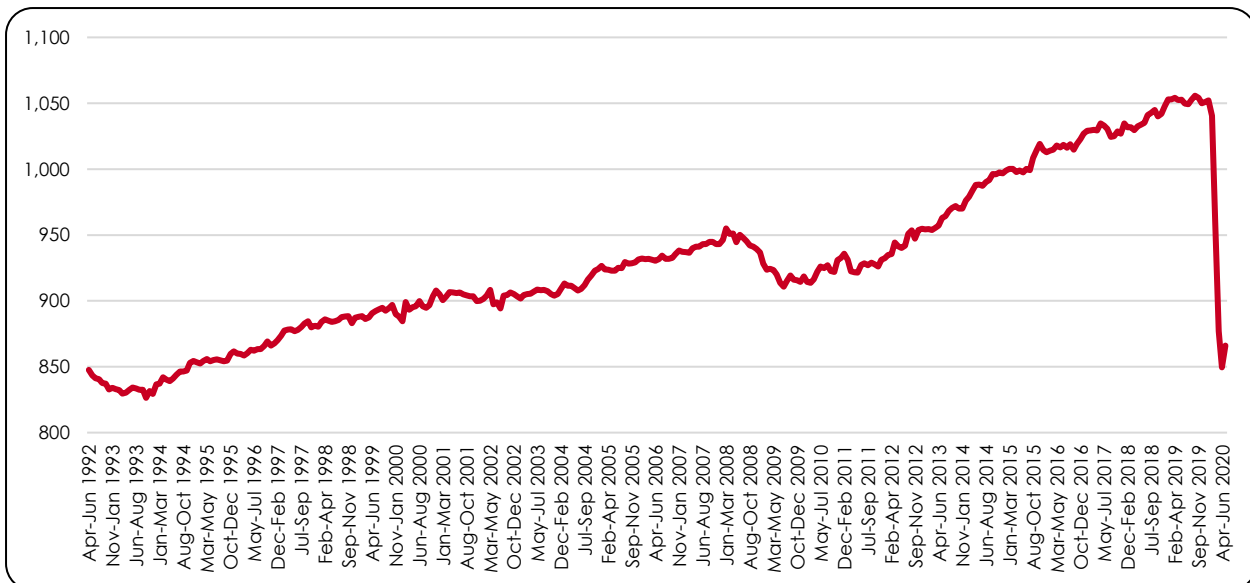


Figure 4. UK total actual weekly hours worked (people aged 16+). ONS Labour Force Survey

Therefore, the broad conclusion that could be inferred from the above data is that over the past six months it is likely that labour productivity as measured by GVA/GDP per job will have fallen sharply – simply as a mathematical result of the numerator (output) falling much more sharply than the denominator (number of jobs). In comparison, the impact on labour productivity as measured on a 'per hour' basis, may not be as marked in a statistical sense.

However, what is unknown is how productive those hours that were worked were. Given that the majority of the workforce – particularly in the early part of lockdown – were working from home, the impact of large-scale homeworking has not yet been looked at from a productivity perspective.

Despite this volatility, the ONS has continued to produce its quarterly ‘flash estimates’<sup>2</sup>. Importantly, this now includes the initial estimate of UK productivity in the period April to June 2020 i.e. the first quarter significantly impacted by Covid-19. As indicated above, the ONS data does reinforce the above argument. Whilst labour productivity for Quarter 2 – as measured by output per hour – fell by 2.5% when compared to the previous quarter, when measured by output per worker it fell by 19.9% - the steepest fall on record. As noted, this is steeper than that observed for output per hour because of the impact of the furlough scheme that retains employees as workers even though they work zero hours.

Measured on an annual basis, the declines are more significant and perhaps cause greatest concern given the declines have largely reversed any improvements in labour productivity generated over the previous few years. When compared with the same quarter in the previous year (Quarter 2 2019), output per hour fell by 3.0% while output per worker fell by 22%, again reflecting the impact of furloughing.

Due to the impact of furloughing, the ONS is currently arguing that output per hour is to be considered the headline measure of labour productivity. The ONS have stated that output per worker estimates that exclude furloughed workers will be added in future releases of labour productivity.

The initial estimates of both the ‘per job’ and ‘per hour’ measurements are shown in the below chart – illustrating the difference in the two measures over the period since March.

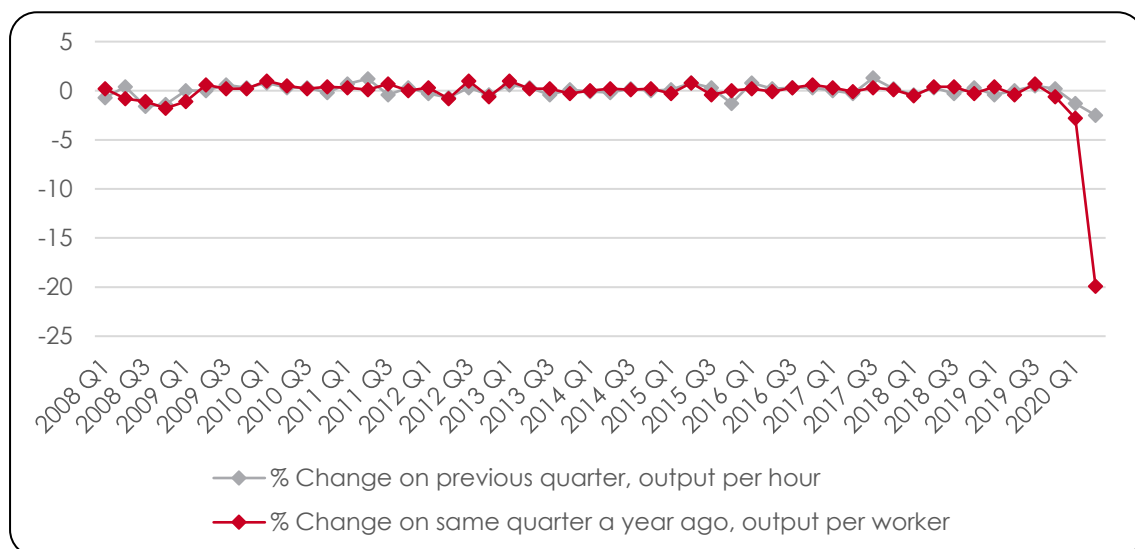


Figure 5. **UK Output per worker and per hour.** Flash Labour Productivity estimate - ONS

For the first time, the ONS has also produced estimates of labour productivity on industry level – covering the period from April to June 20. These estimates – which are subject to revision – show that every sector in the economy saw a quarter-on-quarter fall in output per hour. Construction saw the largest fall of 11.4% and manufacturing saw the smallest at 0.3%.

<sup>2</sup>

<https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/articles/gdpandthelabourmarket/apriltojune2020>

The fall in output per hour in construction was driven by a fall in output of 35% for the sector, which was a more significant fall than the 26.6% drop in the number of hours. The second largest fall was seen in services, which saw output fall by 19.9% - faster fall than the 17.9% fall in hours. These changes resulted in a 2.5% decrease in output per hour.

The results on a wide sector level mask much larger changes in the constituent industries. By far the most significant fall in output per hour was in the hotels and catering industry – as expected given the particular impact on that sector. The second largest fall was in transport equipment manufacturing (particularly aerospace).

	Output per hour (growth %)	GVA (growth %)	Hours Worked (growth %)
<b>Whole economy</b>	-2.5	-20.4	-18.4
<b>Non-manufacturing production</b>	-0.5	-6.8	-6.4
<b>Manufacturing</b>	-0.3	-20.2	-19.9
<b>Construction</b>	-11.4	-35	-26.6
<b>Services</b>	-2.5	-19.9	-17.9

Source: Flash Labour Productivity estimate - ONS

The big question in relation to productivity and Covid-19 is whether the declines experienced to date are temporary or represent structural changes. The context here, as noted in our [previous research](#), has been subdued productivity growth in many developed economies over the past decade – the ‘productivity puzzle’. It has taken many years to recover the lost ground in the aftermath of the financial crisis and the hope is that same experience will not repeat in a post Covid-19 environment.

What is expected is that the economic disruption from the combined effects of Covid-19 and Brexit will complicate the Government's ‘levelling up’ agenda<sup>3</sup>. This could have significant potential implications for areas such as Dorset.

## Foresight – experts on life beyond Covid-19

Over 350 experts have shared their thoughts on the implications of the Covid-19 pandemic over the next 2-5 years in [‘Life beyond Covid-19: What are the experts concerned about?’](#) These views included the potential impact on the labour market and skills development. It is also important to note that this Foresight work simply represents people's views, they are not (or could) necessarily be evidenced yet. This work simply flags up some of the major issues and concerns that a prolonged pandemic may have on different aspects of society. Whilst many of these issues are now well-versed in mainstream media commentary, the relevant concerns in this foresight work are briefly highlighted below.

## Unemployment and precarious work

In terms of work and employment, one of the major concerns related to the expected higher levels of unemployment in the next few years, with fewer permanent jobs and more people in precarious work (such as temporary roles, fixed-term contracts, zero hours contracts or ‘gig’ work). There is a consensus that young people entering the workforce and those closest to retirement age might be at greatest risk of unemployment and precarious work.

<sup>3</sup> <https://www.ifs.org.uk/publications/15056>



Some experts have noted the likelihood of increasing gender and regional disparities. They also suggested that an insecure job market may leave people at greater risk of exploitation and workplace discrimination. Overall, there are concerns that much of the progress that has been made in making the workplace fairer and reducing pay gaps could be undone in the next few years without adequate policies to prevent a backslide.

## Education

In terms of the impact on education, the responses fell into two broad categories: impact on early years and impact on secondary and higher education. In terms of early years, experts expressed concern that children who were unable to attend nurseries or primary schools during the COVID-19 outbreak may have missed developmental milestones.

They suggest that being isolated from peers and not receiving formal education may mean delays in numeracy and literacy for children with the risk of that delay following them throughout their life.

Particular concerns were raised for children in deprived households where caregivers may have had less time or fewer resources to support their child's education. Some responses note that children in homes with English as a second language may experience delays in English language development. Furthermore, experts question what the long-term effects of being isolated from peers will be on children's social and emotional skills.

Experts also raise concerns about attainment gaps (where some groups underperform compared to their peers). They suggest that young people living in more deprived areas/households have had less access to educational equipment and resources during school closures. This is likely to lead to a widening of pre-existing attainment gaps. Without measures to close the attainment gap, young people are likely to experience greater disadvantage for the rest of their lives. Experts also predict that a widening attainment gap could result in fewer young people from disadvantaged backgrounds going to university.

## Commissioned research on the impact of Covid-19 school and nursery closures

As highlighted in the [previous month's 'general trends' paper](#), in June, the [Education Endowment Foundation](#) published a rapid evidence assessment which concluded starkly that school closures will have reversed a decade's progress in closing the disadvantage gap. However, the unprecedented circumstances of Covid-19 mean the evidence base remains limited. Therefore, three new studies have been commissioned to help address that evidence gap, and we will be keeping an eye out for the findings of these studies:

- An early robust estimate of the change in the disadvantage gap pre- and post-lockdown, as well as analysing strategies associated with mitigating a widening gap, focused on pupils in Years 2 to 6 in 145 primary schools.
- An assessment of the extent to which Key Stage 1 pupils' attainment in reading and maths has been impacted by school closures, and particularly the effect on disadvantaged pupils. 158 schools will provide detailed information on the types of support individual pupils are receiving this year
- An assessment the impact of lockdown on the school readiness of new Reception children across England and their educational attainment and socio-emotional wellbeing over their first year of education.