

Understanding and interpreting labour market statistics in a dynamic environment

[A recent publication by the Resolution Foundation](#) is useful in setting out some of the difficulties in interpreting labour market information during this volatile and dynamic Covid-19 environment. For anyone interpreting statistics within the Dorset LEP area, the factors highlighted will be important.

It notes that labour market statistics matter crucially for policy makers to avoid lasting high unemployment as the Coronavirus Job Retention Scheme (JRS) is phased out. In particular, policy makers will need to understand whether those workers that have been furloughed are eventually returning to work or face redundancy.

More attention is being paid to the UK's official labour market data, and measures of unemployment in particular, which are published monthly by the Office for National Statistics (ONS). But recent releases have presented what seems at first glance a confusing picture. For example, in the June 2020 release, the official estimate of the unemployment rate for April hardly budged from that March when the economic impact began to be felt. In contrast, the Claimant Count measure of unemployment, based on receipt of various out-of-work benefits, increased by a record monthly change of one million in the UK in April to reach 2.3mn (and then further in May to reach 2.8 million). It fell slightly to 2.6mn in June.

The difficulty is that the nature of the lockdown period and the policy response to it means that neither of the typical unemployment measures are currently a reliable guide to the true level of unemployment.

The Claimant Count measure of unemployment is currently overstating the level of those genuinely unemployed and claiming unemployment-related benefits

There are two main reasons: Changes in Universal Credit and delays in work status update

- First, the crisis occurred in the middle of the roll-out of Universal Credit (UC), and has dramatically increased the pace of that roll-out by precipitating changes in circumstances that necessitate a new benefit claim. Despite efforts to ensure consistency over time, the replacement of legacy benefits by UC leads to more people being captured in the Claimant Count. This includes those who would have previously only claimed Child Tax Credits and Housing Benefit, and claimants awaiting a health assessment. Department for Work and Pensions (DWP) data suggest that these definitional changes pushed up the Claimant Count by around half a million between 2013 and the beginning of this year – a period of time in which the Claimant Count was rising, while unemployment numbers continued to fall.
- Second, the easing of the usual work-search conditions and contact between claimants and work coaches between March and June means that many new UC recipients have not had their work status accurately updated as quickly as they otherwise would. This is particularly important in light of the Job Retention Scheme, with previous qualitative work suggesting that some furloughed workers made an out-of-work UC claim that would have placed them in the Claimant Count, before they knew they were furloughed. In the absence of regular work coach contact, these people will only be removed from the Claimant Count when Pay As You Earn (PAYE) information has fed through to DWP's systems. This can take a couple of months, so we might

expect furloughed workers within the initial Claimant Count surge to move elsewhere. There is a similar story for self-employed claimants receiving Self-Employed Income Support Scheme (SEISS) grants (which will be reported to DWP as income for UC purposes, and so affect this group's inclusion in the Claimant Count) in late May and June.

Analysis of longitudinal survey data suggests that at least 27% (c400,000), and likely many more, of the 1.6 million Claimant Count rise between March and May is accounted for by those still working, furloughed workers, or SEISS recipients. While some of these people will ultimately be thought of as unemployed, it is far from clear that all should be right now. Having also excluded those who were out of work pre-coronavirus but have newly claimed UC (for example, due to a change in a partner's income), the Resolution Foundation estimates that only 45% of the recent Claimant Count rise (700,000 claimants) relates to those newly out of work and not receiving other government support via the JRS or SEISS.

Some of this will unwind in the coming months. This makes it very hard to understand whether future changes in the Claimant Count reflect the wider economy. However, it should not be considered a good measure of unemployment at the present time.

*In contrast to the overestimate provided by the Claimant Count, the International Labour Organisation (ILO) measure of unemployment in April will have underestimated any increase in unemployment. The ILO unemployment measure **classifies a person without a job as unemployed if they are out of work, actively looking for work, and available to start; if not, then they are classed as economically inactive.***

Because of the nature of the hard lockdown period in the first few months of the crisis and the collapse in vacancies it caused many people who did not have a job during April, or who lost self-employed work, did not start looking for work. This is reflected in the fact that while **unemployment did not budge, economic inactivity rose by 425,000 in the month to April**, driven by those inactive for reasons other than the usual ones, and those who say they want a job. This effect should reduce as the lockdown eases.

So the official measure of unemployment understates its current level, and may overstate any worsening in the true level of unemployment.

It would therefore be more sensible to use the employment rate, rather than either of these measures of unemployment, as the key indicator of the state of the labour market.

Employment rate statistics

The monthly ONS release provides two estimates on the number of people in employment at a regional and national level. Unfortunately, the employment rate derived through the Labour Force Survey at a local authority/local enterprise partnership level is only updated on a quarterly basis. PAYE real-time data is not currently available at a local authority level:

- **Labour Force Survey** (LFS, which can be split into employees and the self-employed) and
- **PAYE** real-time data (which only captures employees).

However, the particular nature of the lockdown period, combined with the policy response (in the form of the JRS), means that neither of these measures is currently a reliable guide to the amount of productive work being done.

This is because the crisis has led to a very large rise in the number of people who report that they have a job (either as an employee or self-employed), but have not actually done any work in the reference week – from around 7% of employees in the seven weeks before lockdown in March to just under 30% in the five weeks after lockdown began.

Estimates of the employment rate from the LFS include all workers who are not actually doing any work (whether or not they are being paid), while estimates from the PAYE data include those not working but being paid, but not those still employed but lacking either work or pay. That is why the latter fell by 450,000 in the month to April, while the LFS estimate of employee numbers remained flat. **The PAYE data therefore represents a decent and timely measure of those receiving employee earnings** and will be useful for understanding the impact of the withdrawal of the JRS from August onwards.

To gain a complete insight into the amount of productive work actually being done, it is useful to also turn to additional indicators published by the ONS. These include the **average and total hours worked in a week by those who are in employment** fell by 16.7% between 2019 and 2020 (March-May quarter), and the **proportion of workers employed and not temporarily away from work**. These measures indicate levels of employment for those actively having work to do.

Therefore, the Resolution Foundation's recommendation to users of these labour market statistics is to recognise the misleading nature of both common ways of measuring unemployment at present, in terms of both levels and changes, and focus on other measures wherever possible. We will include all these measures in the DLEP monthly labour market dashboard.

That said, there is an expectation that the Claimant Count will be 'corrected' downwards in the coming months. If there is a further Claimant Count rise in the autumn this should be a cause for concern, perhaps indicating a second wave of job losses as the JRS ends.

Vacancies statistics

Another area of focus for labour market statistics in the current Covid-19 environment relates to vacancy data. This data is getting attention because it is the closest 'real-time indicator' of labour demand. Consequently, the ONS have developed experimental statistics¹ that use online job adverts as a proxy for labour demand. These are currently being released on a weekly basis. This data is undoubtedly useful. However, there are a few main points to consider when interpreting this data:

- The data differs from the existing measure of vacancies which have traditionally been captured through the ONS Vacancy Survey. The Vacancy Survey is a statutory, monthly survey of businesses – using the ONS' Inter-Departmental Business Register (IDBR) as a sampling frame.
- Importantly, the number of job adverts being posted is not a direct measure of labour force demand i.e. they will not necessarily capture jobs recruited informally, through recruitment agencies etc. They should be considered a proxy measure and will probably understate the demand for certain jobs e.g. casual work.
- The ONS data is sourced from Adzuna which is an online job search engine that collates information from thousands of different sources in the UK. The Dorset LEP also source vacancy data through a different supplier – Labour Insight by Burning Glass. The two sources will not necessarily be comparable i.e. through different collection methods, definitions etc.

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<https://www.ons.gov.uk/economy/economicoutputandproductivity/output/datasets/onlinejobadvertestimates>