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THE LABOUR MARKET CONTINUES TO DETERIORATE

The latest ONS data covers the period between March to May 2020 – a period covering the most restrictive part of the lockdown that was introduced in the second half of March. The impact of COVID-19 on the labour market is becoming more pronounced, but the change in headline labour market indicators is still small. Why is this happening? Several reasons are discussed below.

How the ONS treats workers that have been furloughed under the Job Retention Scheme (JRS) has a clear impact on the headline figures. Furloughed employees are still “in employment” but working zero hours. Given the large number of jobs that have been furloughed (over 9 million), this is the main reason why we haven’t yet seen large movements in the headline employment and unemployment figures – and those still paint the picture of high employment.

Furthermore, in June the ONS has identified almost half a million people who seem to have fallen outside the JRS. They consider themselves as having a job, but are temporarily away from work because of the pandemic and are not being paid at all. The ONS has taken the approach to classify them as employed too.

There are other indicators that point to the severe impact the pandemic is having on the UK labour market. ONS experimental data shows that 649,000 people have left company payrolls between March and June, with vacancies falling to their lowest level since records began in 2001, hours worked continuing to fall, and pay is slowing further.

It is reasonable to expect changes in the ONS labour market headline figures to feed through in the coming months – particularly as the JRS is wound down. The Office for Budget Responsibility (OBR) expects the unemployment rate to peak at 12% in Q4 2020 under their July central scenario. However, in a scenario where the economy recovers faster than expected then unemployment peaks at over 9% in Q3 2020. In a more pessimistic scenario, the OBR expects unemployment to peak at 13% in Q1 2021.

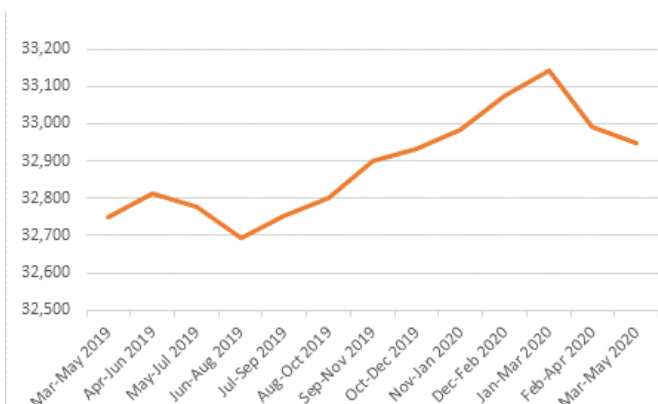
Against this backdrop, flattening the unemployment curve is critical. The Government’s support measures such as the JRS have helped to keep many people in work and businesses running. But as they wind down in the coming months there

may be a need for more direct support, including grants and extending business rates relief. Prevention is always better than cure.

Largest annual decrease in hours worked and vacancies drop to the lowest level since records began...

- ONS estimates that between March and May, total actual weekly hours worked decreased by 16.7% which is the largest annual decrease since estimates began in 1971. The ONS are treating furloughed employees as still being “in employment” but working zero hours. Hence this is a decent indicator of the extent of labour market activity in the three months to May.
- In the three months to June 2020, the number of vacancies also dropped significantly, by 463,000 on the quarter, which represents a 58.1% drop on the three months to March. Vacancies now stand at 333,000, the lowest level since the Vacancy Survey began in April to June 2001.

Exhibit 1 Employment (000s)



Source: ONS July 2020 labour market statistics

Headline figures	Rate	Number (000s)	Change on quarter (% change)	Change on year (% change)
Employment* (ILO)	76.4%	32,948	-126,000 (-0.4%)	+199,000 (+0.6%)
Unemployment** (ILO)	3.9%	1,347	-17,000 (-1.2%)	+55,000 (+4.3%)
Youth unemployment (16-24)	12.2%	540	+27,000 (+5.2%)	+20,000 (+3.8%)

Source: ONS July 2020 labour market statistics, March to May 2020 data *Rate for those aged 16-64 **Rate for those aged 16 and over

- Experimental Pay As You Earn (PAYE) data shows that in June the number of employees in the UK on payrolls was down by 649,000 compared with March 2020. This figure is not believed to be capturing between 450k and 500k people who identified themselves as being employed, but temporarily away from their jobs because of the pandemic, but who were receiving no pay.
- Official employment is weakening and fell by 126,000 in the three months to May 2020, compared with the previous quarter, and was 199,000 higher than during the same period a year earlier. The employment rate decreased by 0.2% points to stand at 76.4%.
- Male employment fell by 100,000 on the quarter, and female employment by 26,000. On the year, male employment decreased by 35,000, while female employment rose by 233,000.
- The number of employees increased by 97,000 in the three months to May, while the number of self-employed fell significantly by 178,000 on the quarter. Also the number of people working part-time decreased strongly by 163,000 on the quarter. These are also indications that the labour market is deteriorating.

...while the impact on unemployment is masked by rising inactivity rates

- Experimental data showed that UK claims for benefits have dropped slightly in June and now stands at 2.6 million. However, enhancements to Universal Credit as part of the UK government's response to the coronavirus mean that an increasing number of people are eligible for support while still employed. Consequently, changes are not due wholly to changes in the number of people who are unemployed.
- Official data show that in the three months to May 2020 unemployment decreased by 17,000 and stood at 1.34 million. On a year-on-year basis, the number of unemployed people increased by 55,000. The

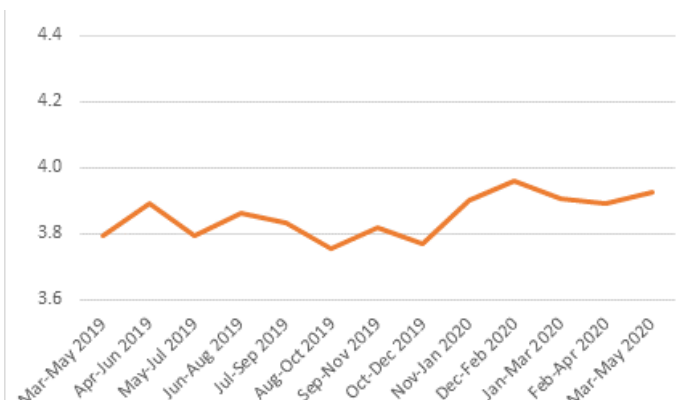
unemployment rate stood at 3.9%, unchanged on the previous quarter.

- The number of those registered as economically inactive (not available and/or not looking for work) increased significantly by 92,000 compared with the previous quarter, but decreased by 157,000 on a year earlier.
- Those who are economically inactive and who want a job increased by a record 257,000 on the year and a record 253,000 on the quarter, suggesting that many people who want employment are not currently looking for work (and hence are not classified as unemployed).

Pay growth has slowed sharply, with further declines looming

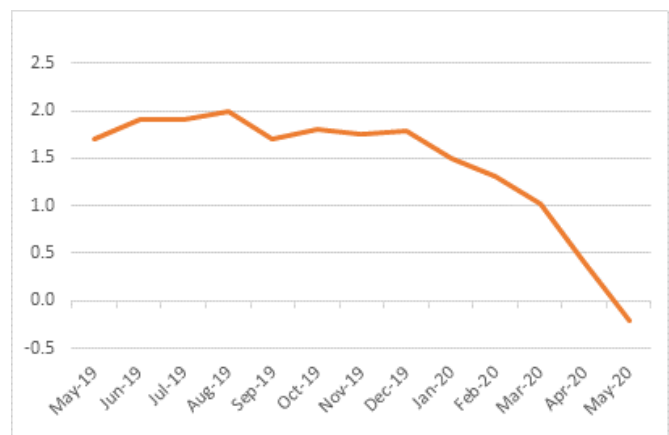
- Nominal regular pay growth (excl. bonuses and before adjusting for inflation) was 0.7% on the year in the three months to May 2020 (on the less volatile three-month rolling basis), down by 1.0% point on April 2020. This reflects the fact that many employees have been furloughed and moved into the JRS which only pays wages at 80% of normal levels. Pay growth has been slowing for 10 consecutive months since its last peak (3.9% in June/July 2019). On the single month rolling basis nominal regular pay growth was 0.0% – up by 0.1% points on April 2020.
- In the three months to May, nominal regular pay growth slowed in the private sector (down by 1.3% points to 0.0% on the year, and increased by 0.3% points in the public sector to 3.8% on the year.
- Across the different sectors, nominal annual regular pay growth was strongest in finance (+1.7% - down by 0.5% points) and services (+1.4% - down by 0.8% points), followed by manufacturing (-1.6% - down by

Exhibit 2 Unemployment (%)



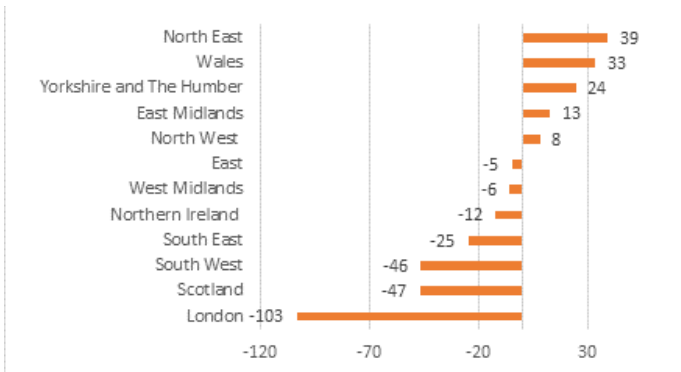
Source: ONS July 2020 labour market statistics

Exhibit 3 Real regular pay growth (%)



Source: ONS July 2020 labour market statistics

Exhibit 4 Employment change by regions & nations (000s)



Source: ONS July 2020 labour market statistics, shown as quarter on quarter changes

1.6% points), wholesaling, retailing & hospitality (-2.1% - down by 2.1% points) and construction (-5.4% - down by 3.6% points).

- Real regular pay (excl. bonuses and adjusting for CPIH inflation) decreased by -0.2% on a year ago (on the less volatile three-month rolling basis) – down by 0.6% points on April 2020. On the single month rolling basis real regular pay stood at -0.7% - up by 0.2% points on April 2020.

Employment in the regions saw a mixed picture...

In the last quarter employment growth was strongest in the North East and Wales.

- In the three months to May 2020, employment increased in the North East (+39,000), Wales (+33,000), Yorkshire and The Humber (+24,000), and the East Midlands (+13,000) as compared to the quarter from December to February.

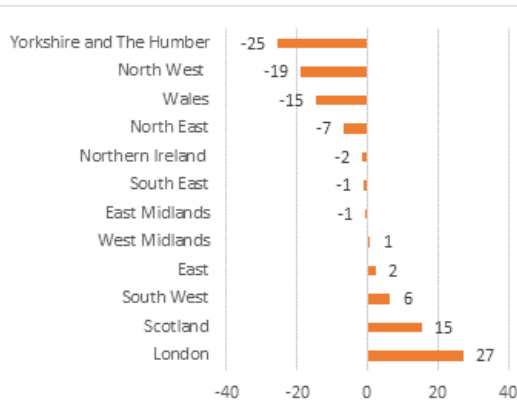
- Employment remained broadly unchanged in the West Midlands (-6,000), the East (-5,000) and the North West (+8,000).
- Employment decreased in London (-103,000), Scotland (-47,000), the South West (-46,000), the South East (-25,000) and Northern Ireland (-12,000).

... as well as unemployment

- In the three months to May 2020, unemployment increased in London (+27,000) and in Scotland (+15,000).
- Unemployment remained broadly unchanged in the North East (-7,000), Northern Ireland (-2,000), the South East (-1,000), the East Midlands (-1,000), the West Midlands (+1,000) and the South West (+6,000).
- Unemployment decreased in Yorkshire and The Humber (-25,000), the North West (-19,000) and in Wales (-15,000).
- However, as with the headline data, the employment and unemployment data across the regions and nations is likely not reflective of labour market conditions at present.

The next labour market update will be published on **11th August 2020**.

Exhibit 5 Unemployment change by regions & nations (000s)



Source: ONS July 2020 labour market statistics

For further information or a copy in large text format, please contact:

Anna Koch
Senior Policy Adviser
T: 44 (0)20 7395 8107
E: anna.koch@cbi.org.uk

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ABOUT THE SPONSOR

“Covid-19 has had a negative impact on the recruitment industry as a whole and while some sectors such as logistics, medical and IT have maintained demand, others like hospitality have suffered. However, while recruitment figures have been predictably low, the decline in opportunities has slowly started to level off and increasing numbers of jobs are being advertised. These last few months have been used to innovate our approach to recruitment and embrace what will become the new normal.”

Carmen Watson, Chairperson, Pertemps Ltd

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For further information about Pertemps Network Group, please contact:

Kevin Cooke
Head of PR and Communications
T: 01676 525250
E: Kevin.Cooke@pertemps.co.uk
W: <http://www.pertemps.co.uk/>