Labour Market General Trends | August 2020

Moors Economics, August 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.

Key trends

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

The number of people employed in July in the UK is 730,000 lower when compared to March. Analysis of the flows suggest that the falls in May, June and July are mainly because of fewer people moving into pay-rolled employment.
The decrease in employment on the quarter was the largest quarterly decrease since May to July 2009.

Whilst employment is weakening, unemployment is largely unchanged because of the increase in economic inactivity, with people out of work but not currently looking for work. The relative flatness of the unemployment figures may seem surprising. However, to be unemployed someone has to say that they do not have a job and that they are currently actively seeking and available for work. However, whilst economic inactivity increased by 82,000 in the quarter (April-June), it is still 127,000 lower than one year previously.

Hours worked has continued to fall reaching record lows both on the year and on the quarter – falling by 18.4% between Jan-March 2020 to April-June 2020. A large number of people are estimated to be temporarily away from work, including furloughed workers; **approximately 7.5mn in June 2020 with over 3 million of these being away for three months or more.**

The youngest workers, oldest workers and those in manual or elementary occupations were most likely to be temporarily away from paid work during the Covid-19 pandemic.

- **Vacancies are showing some marginal increases** in the latest period, driven by the smaller businesses, some of which are reporting taking on additional staff to meet Covid-19 guidelines
- **The Claimant Count increased in July 2020, reaching 2.7mn**; this includes both those working with low income or hours and those who are not working
- **The number of people classified as self-employed fell by 238,000** during the April - June quarter, when compared to Jan-March, a record quarterly fall
- **Number of people on zero hours contracts has increased to over 1mn** – extending a long-term trend
- **Annual growth in earnings is estimated to have turned negative (-1.2% in nominal terms), or 2% in real terms**

Possible consequences of job retention scheme withdrawal

The Economics Observatory[1] has looked at a number of questions relating to what may happen to the UK labour market and wider economy. A recent paper considered what will happen next as the UK's job furlough scheme begins to come to an end in October 2020. Survey data from the Resolution Foundation has previously shown that workers in the UK that have been furloughed come disproportionately from the lower end of the earnings distribution.

Nearly one-third of workers in the lowest quintile (20%) of the earnings distribution had been furloughed or lost their jobs completely, compared with 10% in the highest quintile.

One consequence of this reliance of lower paid and younger workers on the UK's scheme is that initial estimates of the net budgetary costs of the CJRS per employee were over-estimated, having been assessed at earnings closer to the nationwide average.

The object of the job furlough schemes was to encourage employers to retain workers in employment for the duration of a pandemic that was expected to be of a relatively short duration. As a result, some countries, such as the UK, placed time limits on the planned length under which the furlough schemes could continue from the very start. However, some countries such as Denmark, Spain and the UK have been forced to extend the term limits of their schemes as the pandemic has continued to persist. Other countries, such as Germany, envisage at least part of the furlough scheme continuing for more than a year.

There is a dilemma for Governments. Ending the scheme too early will cause immediate job losses. Indeed, there are almost certain to be job losses at the end of these schemes as some 'zombie' enterprises are simply being kept afloat currently by the subsidy. But there is always a natural turnover of firms as demand shifts between sectors, and this underlying change in demand structure has been heightened by the pandemic.

The OECD has pointed out that the Covid-19 shock to the labour market is around five times the magnitude of the financial shock a decade ago. Projections of the underlying UK unemployment rate in the near future will depend on several factors including the possibility of a second wave of the virus and the other expected economic shock in early 2021
And that parallel in the UK context is another expected shock to the economy in early 2021 – namely the end of the transition to Brexit.

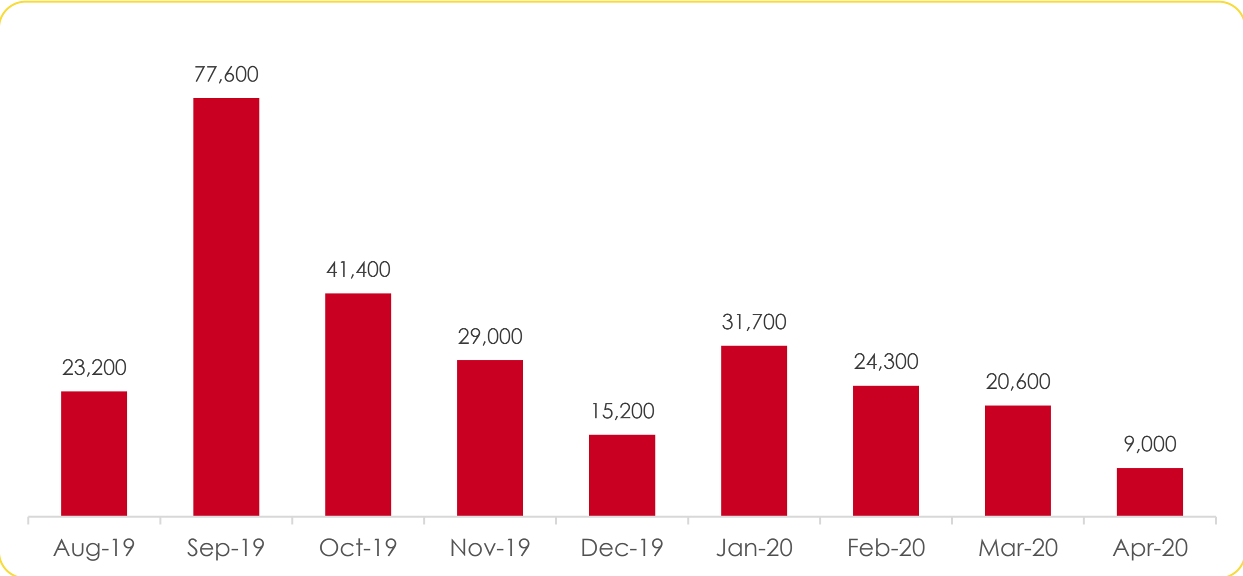
Impact on apprenticeships

The Economics Observatory has also looked at the impact on apprenticeships and their future after Covid-19. It notes that apprenticeships combination of on-the-job and additional off-the-job training has made it particularly vulnerable during the current crisis. A survey of firms currently employing apprentices reveals that, on average, only 40% of apprenticeships are continuing as normal with the rest facing learning disruptions or being furloughed or made redundant. Training providers are also under great financial strain.
This raises the fear that even as the crisis subsides, there will be fewer apprenticeships on offer and fewer providers to deliver them. A decline in apprenticeships remains likely: evidence from past experiences suggests that apprenticeships fall during economic downturns, particularly among young people – it is pro-cyclical.

[1] A collective initiative by the economic research community to answer questions from policy-makers and the public about the economics of the Covid-19 crisis and recovery

Unfortunately, official statistics on apprenticeship interruptions are not available, which makes it impossible, at this stage, to draw a complete picture of the impact of Covid-19 on current apprenticeships.
The fall in revenue that has been experienced by providers is exacerbated by the reported fall in new apprenticeships starts: a more recent survey of 80 providers by the Association of Employment and Learning Providers finds that about 60% of employers with which they normally work have stopped all new apprenticeship starts since the outbreak of the pandemic. This is backed by preliminary reporting that apprenticeship starts from the beginning of the lockdown have fallen sharply – as shown in the below chart. Many providers are scaling down their activities accordingly, with some voicing concerns that they may go out of business. The chart shows apprenticeship starts for all ages and levels.

Chart: Apprenticeship programme starts



Source: Apprenticeships and trainees: June 2020

Overall, available evidence is not conclusive and only the publication of complete official statistics will reveal the actual impact on apprenticeship provisions. Yet some indications are clear: a significant number of apprentices are out of work after being furloughed or made redundant, a higher proportion than among other workers. What will happen to these apprentices?

Overall, the suggestion is that, even if the Covid-19 outbreak comes to an end, firms are likely to reduce their apprenticeship provision. Without any additional policy intervention, it is quite likely that over the next year at least, fewer apprenticeships will be available, particularly for young people. This is bad news, as it will come at a time when apprenticeships will be particularly needed to retrain workers who lose their jobs.

Impact on young people joining the market

Finally, the Economics Observatory also looked at the prospects for young people joining the labour market at this current time. As could be expected, evidence from previous economic downturns suggests that young people leaving full-time education during recession are going to find it much harder to secure employment and even harder to enter well-paid occupations.

For the UK, research shows that young people starting their careers in a downturn experience a reduction in real hourly pay of around 6% one year after leaving education, and that their wages do not recover for up to six years. This is often known as the 'scarring' effect of unemployment.

Some simulations show that two years after leaving full-time education, both graduate and non-graduate leavers will be 20% less likely to be in employment than their immediate predecessors. But four years down the line, a large gap emerges: graduate employment will be lower by 8%, while the employment rate of school leavers with intermediate or low qualifications could be almost 30% or 40% lower, respectively.

Average wages for those in employment might suffer as well. The analysis predicts that two years since entering the labour market, graduates will see their wages cut by 8%, while low qualified non-graduates could see a reduction of about 13%. These estimates are based on the experience of leavers from full-time education after previous recessions (such as the 2008/09 recession). There is much we can learn from previous experiences, but we also need to be wary of possible differences that may make these predictions more uncertain.

As well as the size of the increase in unemployment being larger this time around, we would expect the effects of this recession to be different because it will affect different sectors of the economy. The last recession hit banking and finance first and hardest. In contrast, the Covid-19 lockdown has hit sectors such as non-food retail, transport and hospitality.

These sectors are the main point of labour market entry for many young people with low levels of educational qualification. Thus, it is quite possible that this recession will further exacerbate differences between graduate and non-graduate school leavers.