**How has the UK labour market changed over the past year?**

*Recessions typically have a substantial effect on jobs, work and pay. But this time, the UK labour market has behaved very differently. While overall unemployment has not changed much, factors such as work absences, hiring, job quitting and residential moves have all fallen dramatically.*

Recessions usually happen when people or firms stop demanding things. The coronavirus recession was not very different in this regard, even if the cause of the demand fall – the restrictions on mobility imposed to try to stop the spread of the virus – was very unusual. Faced with an economic shock, firms can take a hit to profits, adjust their costs, or both.

To a firm, labour costs may be easier to adjust than capital costs if the downturn is expected to be relatively short. For example, it may be more straightforward to release workers than to sell off land, property or machinery. Firms have the option to adjust their labour costs through changes in wages, changes in hours or changes in personnel (or a mixture of all three).

It is also possible that in a downturn some people may withdraw from the labour force and do other things (like staying on at school). This means that mass layoffs of employees should usually be a last resort, but hiring rates, hours or wages may change as a first response to the shock. Further, work a uniform activity. Self-employment and temporary working are more cyclical, typically falling in bad times and rising in good, and are often among the first types of working to decline in a downturn.

UK institutions also influence matters. There are laws regulating the notice period for redundancies, but there may also be specific interventions during a crisis, such as a cuts in interest rates or taxes or job protection schemes. The Coronavirus Job Retention Scheme, (furlough) – in which the government pays up to 80% of the wages of workers absent from work but still on the payroll – has never been tried before in the UK. Its presence is almost certainly a major influence on the various labour market outcomes tracked below.

**What can the latest data tell us?**

To assess what has gone on, we track several labour market outcomes extracted from the Labour Force Survey (LFS) ­– the survey used to estimate the official UK unemployment rate ­– over the course of the pandemic. Households are sampled in every week of the year. We compare the weekly value of each labour market indicator in the crisis period relative to the average weekly equivalent over the preceding five years (more details and discussion can be found in Wadsworth (2020)).

The vertical lines on the graphs show the point of the first registered coronavirus-related death (2020, week 5) and the week the UK first went into lockdown (2020, week 12). The light grey shading in the figures indicates the ‘usual’ range of each indicator in any week. Any 2020/21 outcome that lies outside this shading is interpreted as a significant departure from recent norms (highlighted in dark grey).

**Not much unemployment**

Using the most common metric of labour market performance (unemployment), not much can be observed over the whole of the pandemic that was unusual (Figure 1). Prior to 2020, the UK labour market had been performing rather well, with the national unemployment rate hovering around 4-5%. But the weekly unemployment rate in the first months of the Covid-19 crisis was well below the average of the past five years. Since then, it has risen, but not much above rates seen recently at the same point in the year. This is very unusual. Unemployment normally rises a lot in recessions. Even the youth unemployment rate, normally a harbinger of recessionary doom, is similarly unaffected.

**Figure 1. UK Unemployment**

|  |  |
| --- | --- |
| Total | **Youth (ages 16-24)** |
|  |  |

*Source: ONS*

**The employment mix may have changed**

While overall employment has not fallen much, there has been some change in working mix. The full-time employment share has risen over the downturn at the expense of part-time working and, to a lesser extent, self-employment. This suggests these latter forms of working have been hit harder in the downturn. The share of temporary working has changed little over the crisis.

**Figure 2: Employment mix**

|  |  |
| --- | --- |
| Full-Time Employees | Part-Time Employees |
|  |  |
| Self Employment | Temporary Working |
|  |  |

*Source: ONS*

**No pause in wage growth**

There has also not been any obvious reduction in wages. In the 2008-2011 downturn, there were notable wage freezes for many workers, which arguably mitigated the need for mass layoffs. Yet Figure 3 shows that average weekly wage levels (adjusted for inflation) appear to have grown strongly over the crisis.

**Figure 3: Average weekly wage levels (inflation adjusted)**



*Source: ONS*

**Sickness absence**

Interestingly, despite Covid-19, the weekly absence rate from work due to (self-reported) illness throughout 2020 and into 2021 was noticeably below average. Around 2% of the employed workforce are absent sick in a typical week, with fewer sickness absences in Christmas week and spring and summer, but more in the run up to Christmas and though the winter. Sickness absence in the year of the pandemic has been a near all-time low.

**Figure 4: Sickness absence**



*Source: ONS*

**Furlough in action**

Things start to look less than normal when we look at other possible margins of labour market adjustment. Look first at the percentage of workers who say they had a job but were away during the survey week. The weekly norms show large spikes around Christmas, Easter and the summer holiday season. But there is a notable departure from the normal level, beginning in week 10 of 2020 and increasing rapidly to around 24% of the employed working age population by week 16 (four weeks into lockdown). This then slowly falls back for the remainder of the crisis to approximately 10% – a level still way above the norm.

This is the furlough scheme in action. The UK government’s scheme only compensates employers if their workforce remains at home. A similar scheme applies to the self-employed unable to work through the crisis. Over the duration of the pandemic, there were around 132 million additional person-week absences – 31.5 million employed multiplied by the cumulative percentage of additional absences (418%). This equates to the entire UK workforce doing nothing for four weeks and one day.

**Figure 5: Absent from work but retained job**



*Source: ONS*

**Fewer hours**

The overall shock to output is made larger because, among the majority of employed in work and not away from their job, many reported working fewer hours than usual over the first six months of the crisis. Since August, however, hours worked look closer to normal, perhaps as everyone adjusts to ‘the new normal’. In a typical week, the entire workforce puts in around 1,000 million person hours of work. The seasonal fluctuations around this norm are apparent in Figure 6, with lower hours in the summer months and Christmas. But the graph suggests that there have been around 3,800 million fewer hours worked since the crisis began. This is equivalent to the entire workforce doing nothing for three weeks and four days. Added to workplace absences, this equates to eight weeks of lost output (about 15%).

**Figure 6: Seasonal hours worked (millions)**

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*Source: ONS*

**Nobody is hiring**

Employers can also save on costs by restricting hiring during a downturn. Indeed, hiring fell noticeably throughout the crisis. The graph shows that usually between 0.5-1% of the workforce is newly hired in any week, with relatively fewer hires in spring, and autumn being the main hiring period (around 300,000 people a week). For younger adults, between 1-4% of the workforce are in a new job in any week. Over the first six months of the crisis, hiring stalled significantly and remained below average thereafter. So, the pandemic has compromised this typical feature of labour market change severely.

**Figure 7: Hires**

|  |  |
| --- | --- |
| Total Hires | Youth (16-24) Hires |
|  |  |

*Source: ONS*

**There have been layoffs**

With hiring stalled, employers might have adjusted their workforce costs enough without the need for further changes. This may indeed have been so for the first five months of the crisis (until the initial furlough scheme began to unwind). It is at this stage that the weekly pattern of redundancies (layoffs) in the working age population begins to rise. At their peak, redundancies were around 30,000 a week – 0.1% of the total workforce. This is clearly bad for those laid off, but still quite small as a proportion of the workforce and not as severe as the 2008 downturn, let alone the 1980s crash.

Not all of these layoffs will end up in unemployment. Notice periods effectively give people time to find alternative employment. But with hiring also significantly down, we might expect unemployment to have risen as a result. Yet the rise in redundancies does not seem to have filtered into significant rises in unemployment.

**Figure 8: Layoffs and quits**

|  |  |
| --- | --- |
| Layoffs | Quits |
|  |  |

*Source: ONS*

**But nobody is leaving**

One additional finding is that the number of people who leave their jobs voluntarily has fallen substantially. While layoffs show little seasonal pattern through the year, quits are typically higher in autumn (when hiring is also at its highest). But with hiring stalled there has been much less incentive for workers to quit and find new work. In this sense, the UK labour market is much less dynamic than it was before.

**Nobody is moving house either**

Often house moves accompany job moves – either new jobs or promotions. As Figure 9 shows, fewer new jobs and promotions is consistent with a significant fall in the weekly share of individuals moving house (in the last month) relative to recent norms.

**Figure 9:** **House moves**



*Source: ONS*

**What have we learned?**

The coronavirus recession is different. Typical metrics of labour market performance were not noticeably affected over much of the pandemic in the UK. Instead, the crisis is marked by higher absences from work, a large rise in short-time working and hiring freezes, rather than wage cuts and mass layoffs. The furlough scheme and associated government interventions almost certainly underpin much of what we see and are likely to continue shore up the viability of many businesses, providing support to the labour market.

A recession caused by restrictions on mobility has had most effect on the labour market features most reliant on mobility, namely work absences, hiring, job quitting and residential moves. The labour market is much less dynamic than in normal times and this matters for the furthering of a healthy labour market. Should this unlock if and when the pandemic subsides, there should be little long-term damage. But if things persist there could be more serious consequences.

**Where can I find out more?**

ONS (2020a), “Coronavirus and the Effect on Labour Market Statistics”,

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/coronavirusandtheeffectsonuklabourmarketstatistics/2020-05-06> , Office for National Statistics

ONS (2020b), “Single Month and Weekly Labour Force Survey Estimates”, <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/singlemonthlabourforcesurveyestimates/latest> , Office for National Statistics

ONS (2020c) , “Coronavirus Infection Survey”,

<https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/conditionsanddiseases/bulletins/coronaviruscovid19infectionsurveypilot/13november2020#glossary>

Wadsworth, J., (2020), “Labour Markets in the Time of Coronavirus: Measuring Excess”, IZA Discussion Paper No. 13529, <https://www.iza.org/publications/dp/13529/labour-markets-in-the-time-of-coronavirus-measuring-excess>

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