

Employment in the UK: Covid-19 and future prospects

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Introducing Cambridge Econometrics

Cambridge Econometrics is an economic consultancy with offices in Cambridge, Brussels and Budapest. The Financial Times lists us as a leading management consultancy (2020) and our analysis and insights are used by clients around the world to inform policy decisions about pressing challenges to society.

We are experts in labour market and skills forecasting and analysis, with an international reputation for excellence. Cambridge Econometrics is trusted to produce the Working Futures series of employment and skills projections for the Department of Education – the official labour market projections for the UK and its regions. We provide:

- In-depth knowledge of key economic and labour market data sources
- Independent economic and labour market modelling, to help you better understand the challenges facing the economy and labour market, and their impacts.
- An evidence base to **inform strategic decisions on employment and skills issues**

Headline message: things are likely to get worse before they get better, but employment in some sectors is still expected to grow

- The numbers furloughed under the CJRS at the end of July have fallen significantly from peak levels and hours worked are starting to recover.
- Redundancies are rising, unemployment is edging up and is likely to continue to do so. Young people are emerging as one of the hardest hit groups.
- Looking ahead, employment is not expected to return to 2019 levels until 2024. However, the impact of Covid-19 differs by sector:
 - The accommodation and food services sectors are expected to be hardest hit, with employment not expected to return to 2019 levels in the medium term
 - Whereas employment in the health and social work sector in particular is expected to be positively affected. However, the increase in the health sector will reflect the on-going nature of the pandemic.
- The newly announced Job Support Scheme could help to limit future rises in unemployment, but it is far less generous than the CJRS and the likely level of take-up is unclear.

What this briefing will cover

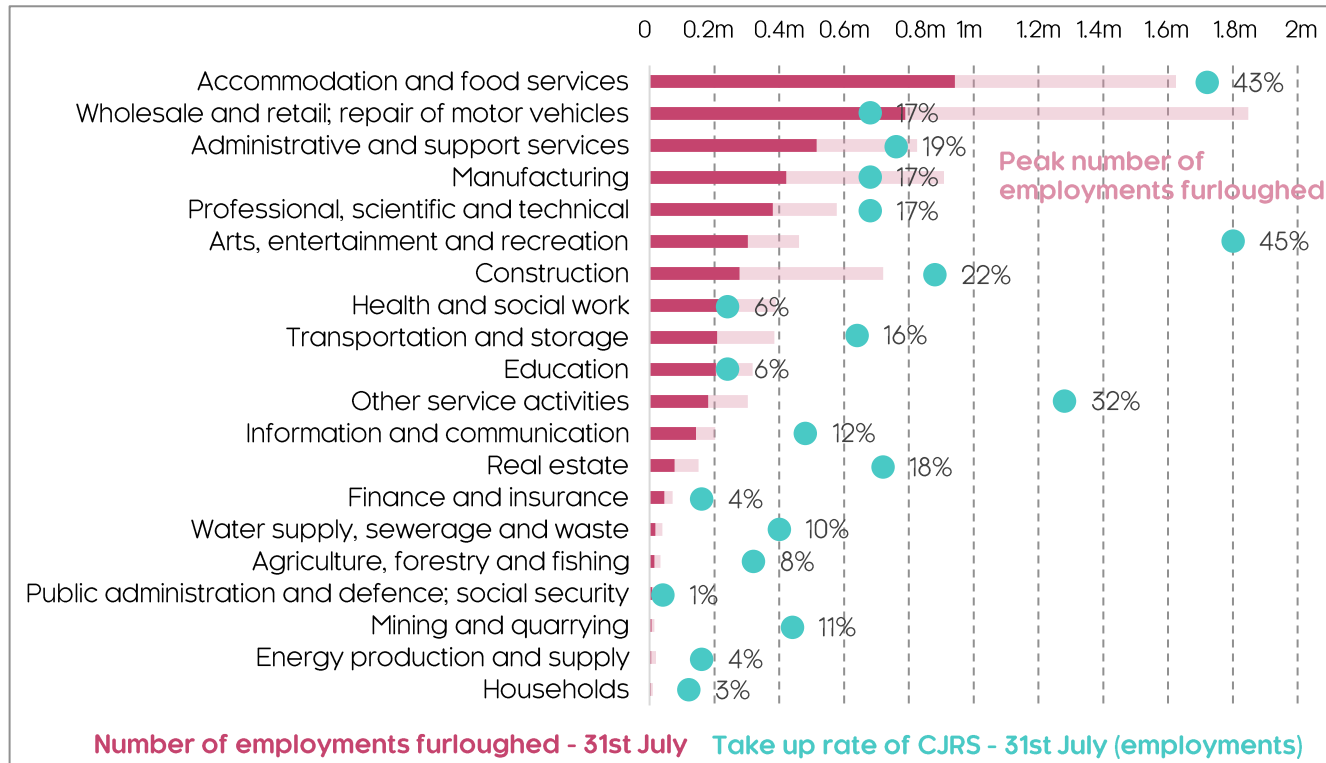
This briefing will look at the current situation in the UK labour market, including:

- Take-up of the Coronavirus Job Retention Scheme and Self-Employment Income Support Scheme.
- The impact of Covid-19 on employment, self-employment, hours worked and inactivity to date.

Before assessing its future prospects:

- By examining the outlook for employment up to 2024, in total and in key sectors of interest.

The number of employments furloughed under the Coronavirus Job Retention Scheme (CJRS) was 4.8 million on the 31st July 2020, down from a peak of 8.9 million in May 2020.



Source: HMRC Coronavirus Job Retention Scheme statistics.

Note: Figures for July are preliminary and are likely to be revised upwards in future releases.

The chart does not include figures for the SEISS.

Furloughing was highest in **Accommodation and food services**, at 31st July, with 942,000 employments*.

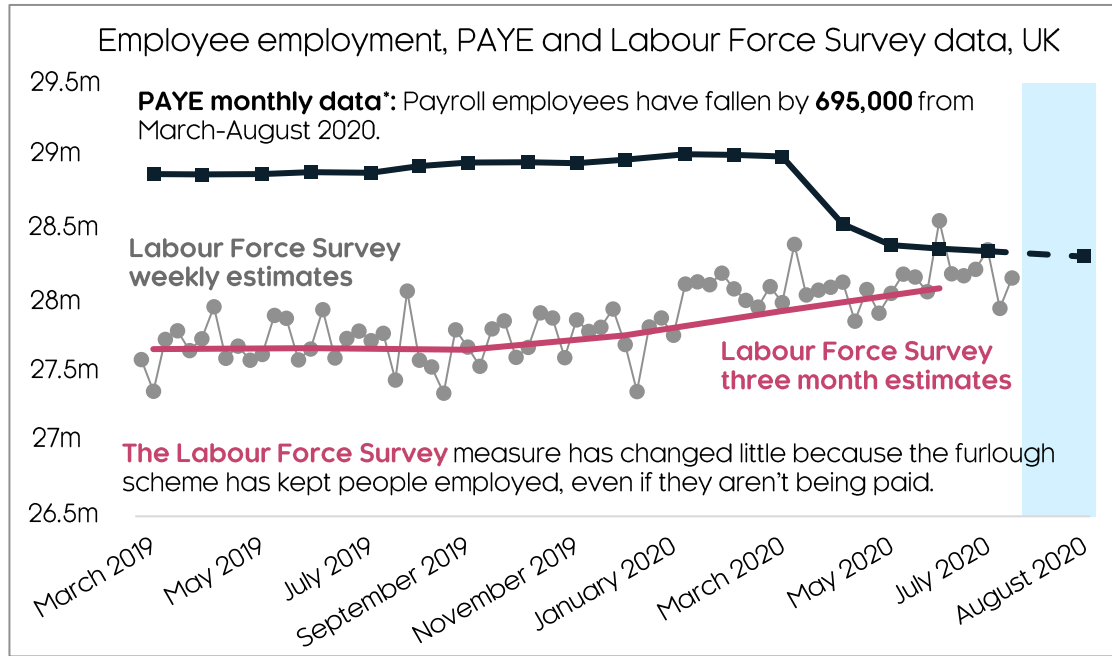
Furloughing in the **Wholesale and retail** sector peaked at 1.85 million employments - by 31 July, 789,000 jobs were furloughed in this sector.

The highest CJRS take-up rate at the 31st July was in the **Arts and recreation** sector, at 45% of employments. 58% of employers in this sector are using the scheme.

There were 2m claims against the **Self-Employment Income Support Scheme** (SEISS) in August, worth £5bn.

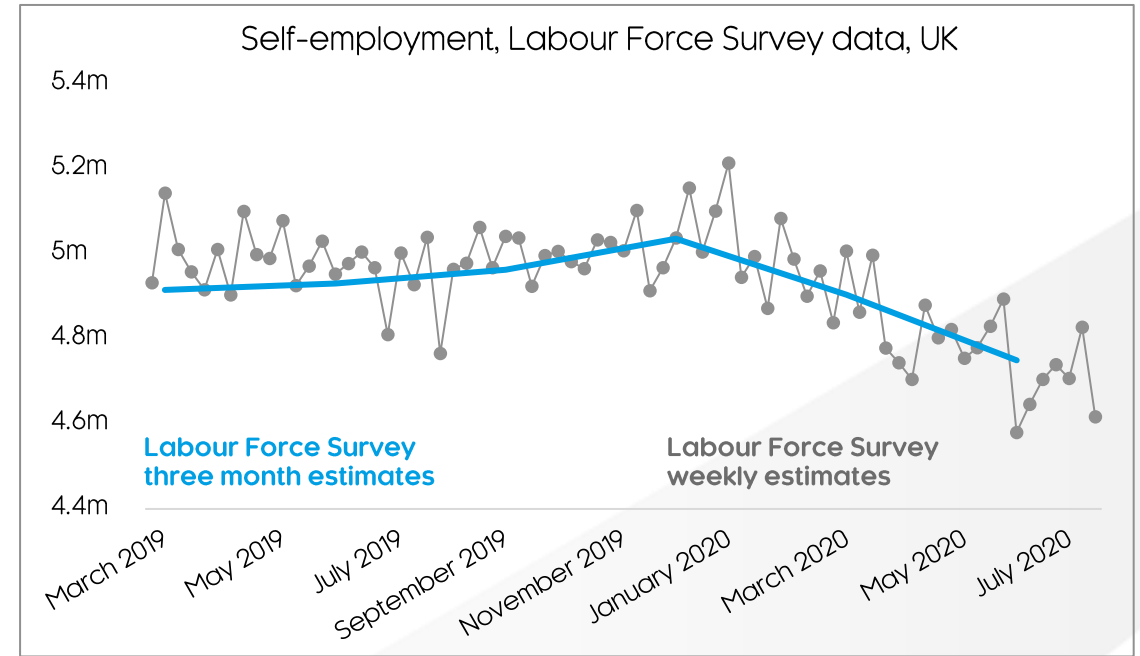
*An employment is defined as anyone who meets the CRJS criteria, which includes office holders (such as company directors) as well as those generally considered to be employees. Those working for more than one employer may be counted more than once: an employee with two jobs at two employers will be counted twice if both jobs are furloughed.

The Job Retention Scheme has so far prevented a huge fall in employment, but there are signs that the labour market is weakening.



Source: Office for National Statistics.

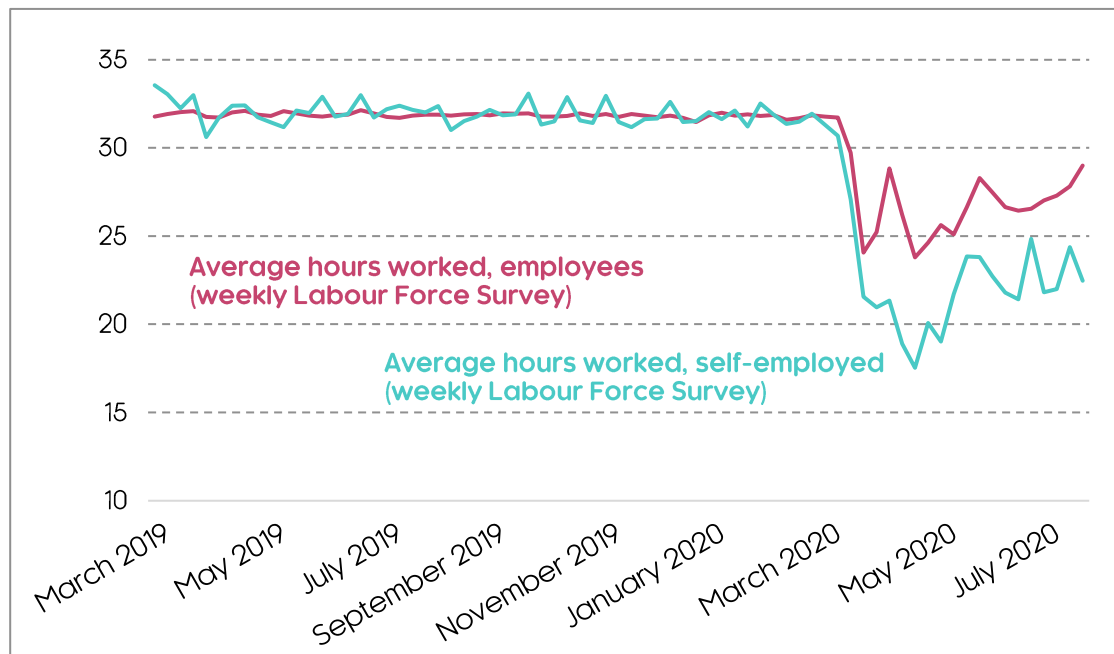
The number of 18-24 year olds in employment fell by a record 146,000 over the last quarter, offset by increases in employment for those aged 25-64.



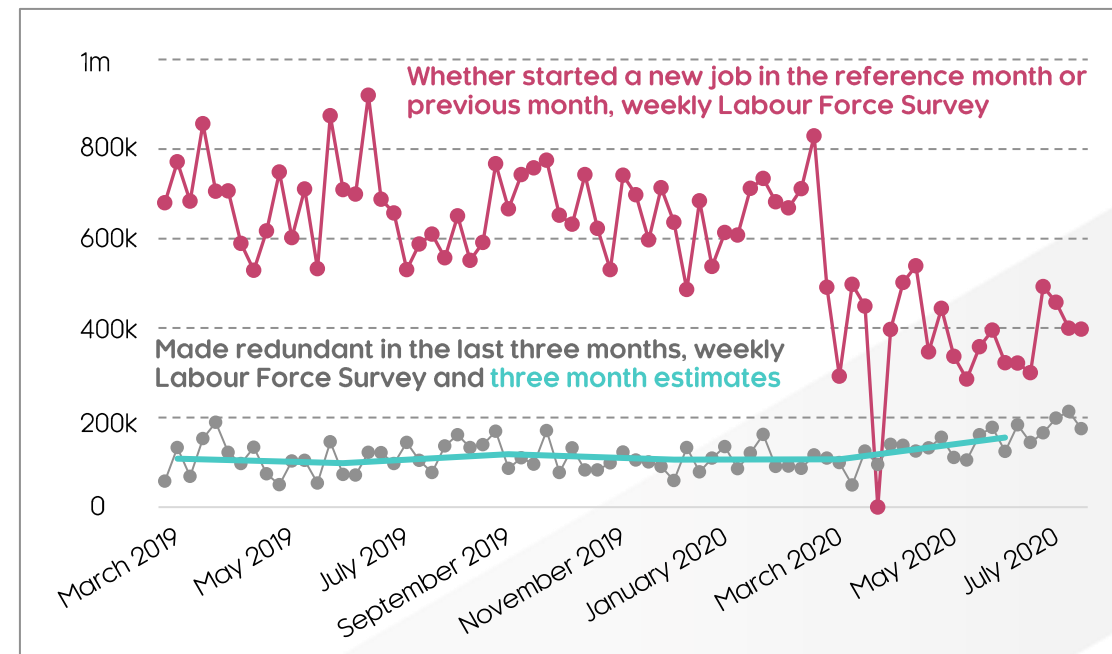
Source: Office for National Statistics.

Self-employment fell by 154,000 in May-July 2020, compared to the previous quarter. However, this is partly due to individuals reclassifying themselves as employees, even if they have not changed jobs.

Average hours worked have fallen sharply, particularly for the self-employed. There has been a marked decline in the number of people starting a new job and there were 156,000 redundancies in May-July 2020, up 48,000 on the quarter.



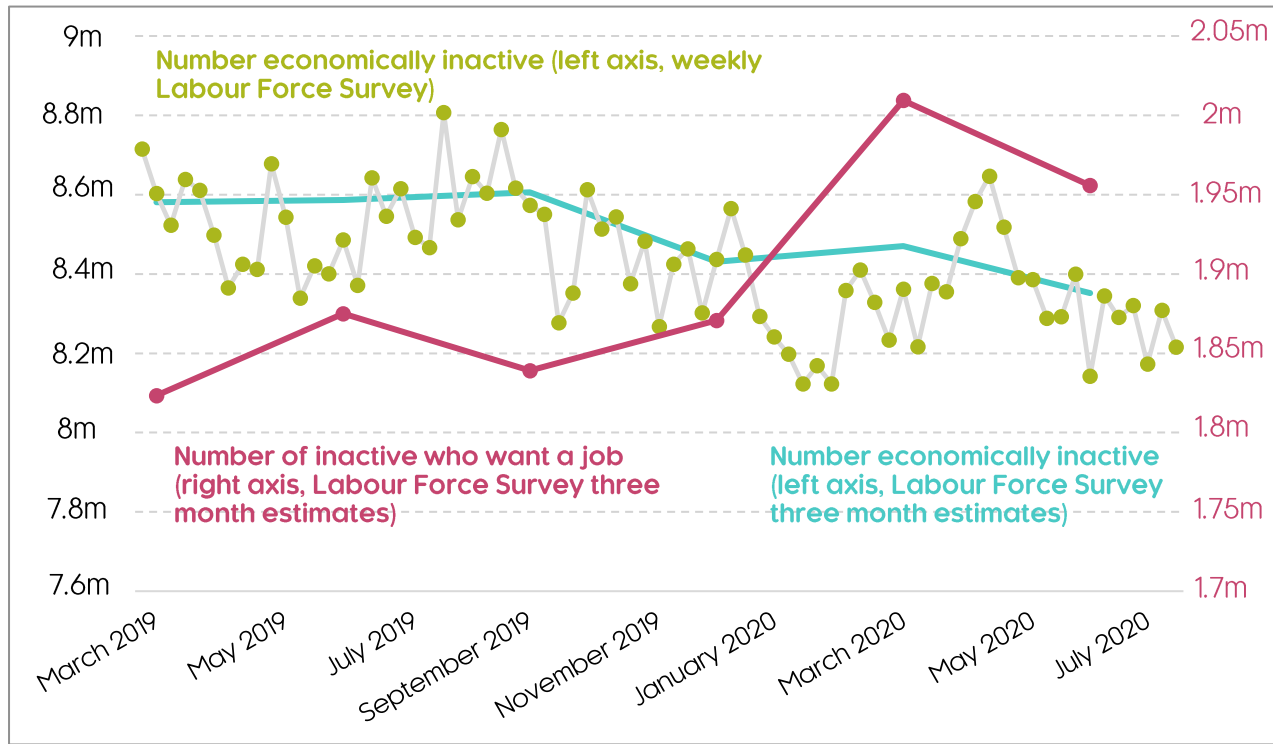
Source: Office for National Statistics.



Source: Office for National Statistics.

Given the impact of the Job Retention Scheme, hours worked gives a useful indicator of how much work is actually being done. The self-employed were hit hardest at the start of the crisis, but hours worked for both employees and the self-employed are increasing.

Unemployment has risen, as more people who are economically inactive or temporarily away from their job look for work.



Source: Office for National Statistics.

The unemployment rate in May-July 2020 was 4.1%, 0.2 percentage points higher on the quarter and equivalent to an extra 62,000 people.

However, this is offset by falling inactivity levels amongst groups with potential to look for work; and a fall in those temporarily away from work, who aren't being paid.

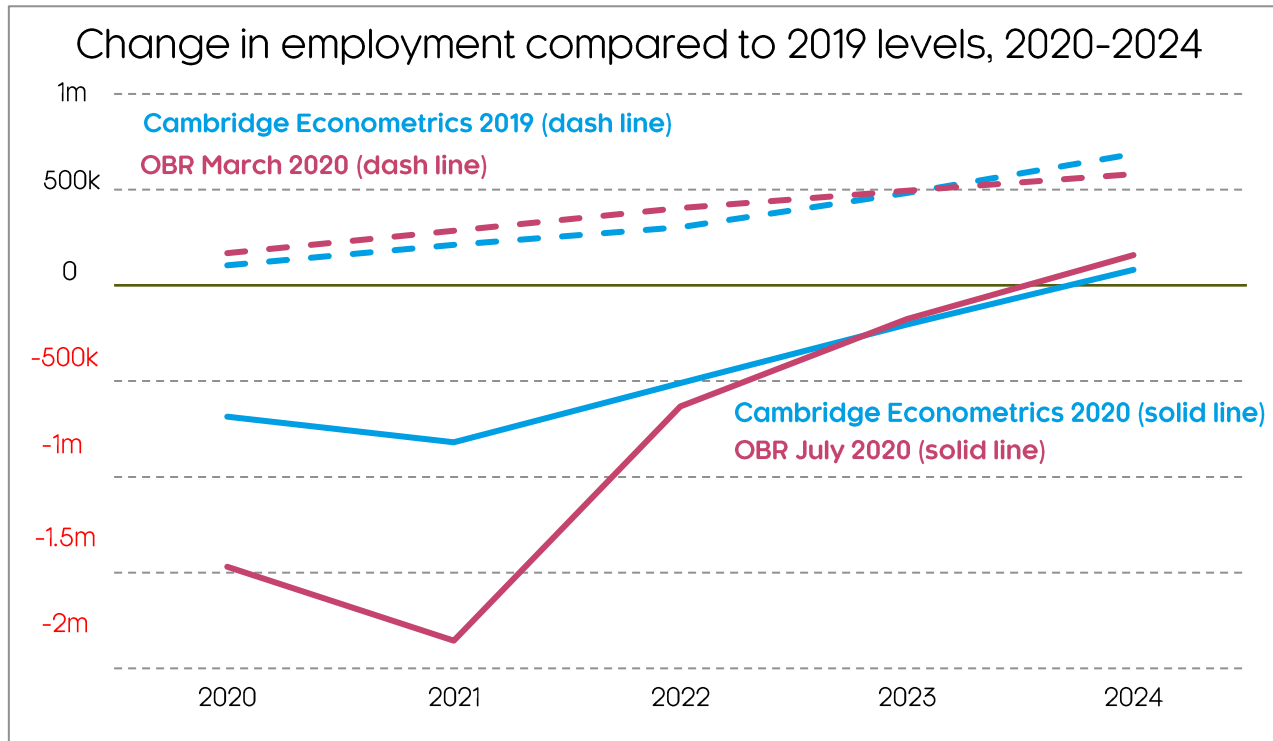
The number of economically inactive people who want a job fell by around 54,000 in May-July 2020, compared to the previous quarter.

Although significant uncertainty remains, **the outlook for jobs is challenging.**

- Public health measures are likely to continue to restrict consumption and production.
 - Social distancing requirements will force businesses to operate with fewer staff
 - Households whose income is unaffected may be unwilling or unable to spend
 - In others, household income may have fallen sharply because of job losses.
- Uncertainty and the fall in demand likely to dampen investment.
- The global nature of the crisis also likely to reduce UK exports.

This adds up to tough times for economic growth and jobs over the next few years.

Total employment is not expected to return to 2019 levels until 2024



Source: Cambridge Econometrics and the Office for Budget Responsibility

Cambridge Econometrics' pre-Covid outlook for employment was in-line with the OBR March 2020 forecast.

However, we expect a shallower impact on employment in 2020-21 than the OBR did in July, as a result of the CJRS and other measures.

The accommodation and food services sector is expected to see the largest fall in employment, alongside engineering, manufacturing and finance.

Percentage change in employment compared to 2019 levels, by sector

	2020	2021	2022	2023	2024
Agriculture	-2%	-4%	-4%	-5%	-4%
Mining and quarrying	-3%	-2%	-6%	-9%	-11%
Food drink and tobacco	0%	1%	0%	0%	0%
Engineering	-7%	-8%	-9%	-10%	-10%
Rest of manufacturing	-7%	-8%	-10%	-11%	-11%
Electricity and gas	-3%	-4%	-5%	-6%	-7%
Water and sewerage	-1%	-2%	-3%	-3%	-3%
Construction	-1%	0%	1%	4%	5%
Wholesale and retail trade	-1%	-2%	-3%	-2%	-2%
Transport and storage	-4%	-4%	-3%	-3%	-2%
Accommodation and food	-16%	-21%	-20%	-17%	-12%
Media	-1%	-2%	-2%	-1%	-1%
Information technology	-2%	9%	5%	8%	11%
Finance and insurance	-3%	-8%	-8%	-8%	-8%
Real estate	-2%	-4%	-1%	0%	1%
Professional services	0%	-1%	0%	1%	2%
Support services	-1%	0%	1%	2%	2%
Public administration and defence	3%	5%	4%	6%	5%
Education	-5%	-10%	-5%	-3%	-2%
Health and social work	9%	12%	15%	16%	17%
Arts and entertainment	-2%	-3%	-1%	-2%	-1%
Other services sector	-3%	-3%	-6%	-10%	-10%

Employment is also expected to fall in the agriculture and mining sectors and in education.

The fall in the finance and insurance sector is due to a combination of Brexit effects and Covid effects.

Employment is expected to grow in Health and social work, public administration and defence and information technology.

However, comparing the 2019 and 2020 projections helps to isolate the impact of Covid-19 from existing, underlying trends.

Net percentage change in employment compared to 2019 levels, by sector – 2020 vs 2019 projections

	2020	2021	2022	2023	2024
Agriculture	-1%	-1%	-1%	-1%	0%
Mining and quarrying	-3%	-3%	-3%	-3%	-2%
Food drink and tobacco	-1%	-1%	-1%	-1%	0%
Engineering	-7%	-7%	-6%	-6%	-5%
Rest of manufacturing	-6%	-6%	-5%	-5%	-4%
Electricity and gas	-2%	-3%	-4%	-4%	-5%
Water and sewerage	0%	0%	0%	0%	0%
Construction	-1%	-1%	0%	0%	0%
Wholesale and retail trade	-2%	-2%	-3%	-2%	-2%
Transport and storage	-3%	-3%	-2%	-3%	-3%
Accommodation and food	-14%	-20%	-19%	-18%	-14%
Media	-1%	-1%	-2%	-1%	-1%
Information technology	-6%	1%	-7%	-6%	-5%
Finance and insurance	0%	-5%	-4%	-4%	-4%
Real estate	-3%	-6%	-4%	-3%	-3%
Professional services	-2%	-4%	-3%	-3%	-3%
Support services	-2%	-2%	-2%	-2%	-2%
Public administration and defence	2%	3%	3%	4%	4%
Education	-5%	-10%	-5%	-3%	-3%
Health and social work	8%	10%	13%	13%	13%
Arts and entertainment	-4%	-5%	-3%	-3%	-3%
Other services sector	-1%	1%	-2%	-5%	-5%

Most of the employment fall in the accommodation and food services, engineering and manufacturing sectors is as a result of Covid-19.

Employment in information technology is growing overall, but at a slower pace than it otherwise would have because of Covid-19.

Most of the employment growth in health and public administration reflects increased activity in response to Covid-19.

Things are likely to get worse before they get better, but employment in some sectors is still expected to grow.

- The numbers furloughed under the CJRS at the end of July have fallen significantly from peak levels in most sectors. Hours worked are starting to recover for both employees and the self-employed.
- However, employment is likely to be lower than the official figures suggest* and a significant number of furloughed jobs may no longer exist. Redundancies are rising and unemployment is edging up, as those who are inactive or away from work begin to seek employment. Young people are emerging as one of the hardest hit groups.
- Looking ahead, employment is not expected to return to 2019 levels until 2024. However, the impact of Covid-19 differs by sector:
 - The accommodation and food services sectors are expected to be hardest hit, with employment not expected to return to 2019 levels in the medium term
 - Whereas employment in the health and social work sector in particular is expected to be positively affected.
- The newly announced Job Support Scheme could help to limit future rises in unemployment, but it is far less generous than the CJRS and the likely level of take-up is unclear.

*For further discussion of this, see the latest blog from our Senior Advisor, Andrew Sentence:

<https://www.camecon.com/blog/uk-unemployment-is-over-2-million-and-rising/>

How we can help

Using our tools, knowledge and experience, we can help you to understand what's happening in the labour market and the impact that Covid-19 is having. The kinds of scenarios we are discussing with clients include:

- What is likely impact of continued restrictions and how does this differ by industry and in different parts of the country?
- Will the crisis increase the adoption of automation and what impact might this have?
- Will there be permanent changes to the structure of the economy?
- What might the implications be for young people in the labour market?
- **Talk to us** about your concerns:
 - If you'd like a call back to talk through the issues please [request a call back](#).
 - For more information, please visit our website: <https://www.camecon.com>

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