UK DATA RESPONSE

Labour Market (Jun./Jul.)

The lull before the storm

- The cracks evident in the latest batch of labour market data are likely to soon turn into a chasm with the unemployment rate rising from 3.9% to around 7.0% by mid-2021.

- The 220,000 q/q (0.7%) fall in employment in Q2 (consensus -288,000) was nowhere near as big as the drop in GDP that was probably as large as 23% q/q. That reflects the success of the government’s job furlough scheme which we estimate supported about 7 million workers in Q2. (See here.) And the 300,000 rise in inactivity meant that the ILO unemployment rate stood at 3.9% in June, no higher than in February. This “discouraged worker effect” is not surprising given the lack of available job openings. While vacancies edged up in June, they are still 55% below pre-virus levels.

- But these headline figures are a three-month average, so they do not fully capture the drop in employment. Weekly data show that employment fell by 455,000 (1.4%) between the start of February and the end of June. (See Chart 1.)

- And the other labour market indicators were pretty dreadful. The headline rate of annual earnings growth including bonuses eased from -0.3% in May to -1.2% in June (consensus -1.1%). Excluding bonuses, headline earnings growth fell from +0.7% to -0.2%. The claimant count measure of unemployment (which measures the number of people claiming unemployment benefit) rose by a further 94,400 in July. The cumulative increase since the trough in February now stands at 1.45m, more than the 1.1m rise seen after the GFC. That pushed the claimant count unemployment rate up from 7.2% in June to 7.5% in July.

- What’s more, HMRC PAYE employment data, which is derived from company payroll tax records, showed that employment fell by 114,000 in July compared to June and has now fallen by a cumulative 730,000 (2.5%) since March. Admittedly, this may overstate the fall in employment since it does not include those people who are temporarily away from work and who are not being paid. These people are still classed as employed in the headline LFS statistics. Even so, the question now is whether those people return to work in the coming months or become unemployed.

- Finally, average hours worked picked up by 0.4% m/m in June, consistent with some employees having left the furlough scheme and returning to work. Even so, average hours are still 19% below their pre-virus levels.

- Overall, with further rises in unemployment in the coming months but inevitable as the furlough scheme unwinds, this is just the lull before the storm. We think that 1.5 million jobs will be lost in total, meaning that the 1.4% fall in employment seen so far will develop into a 5% fall by November, and the unemployment rate will peak at 7% in mid-2021 and remain above its pre-pandemic level of 4% for several years. This is a key reason to think that the recovery in the UK will be slow going.

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Chart 1: Employment (000s)

Sources: Refinitiv, ONS

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