

Covid-19 and the impacts on those with low incomes

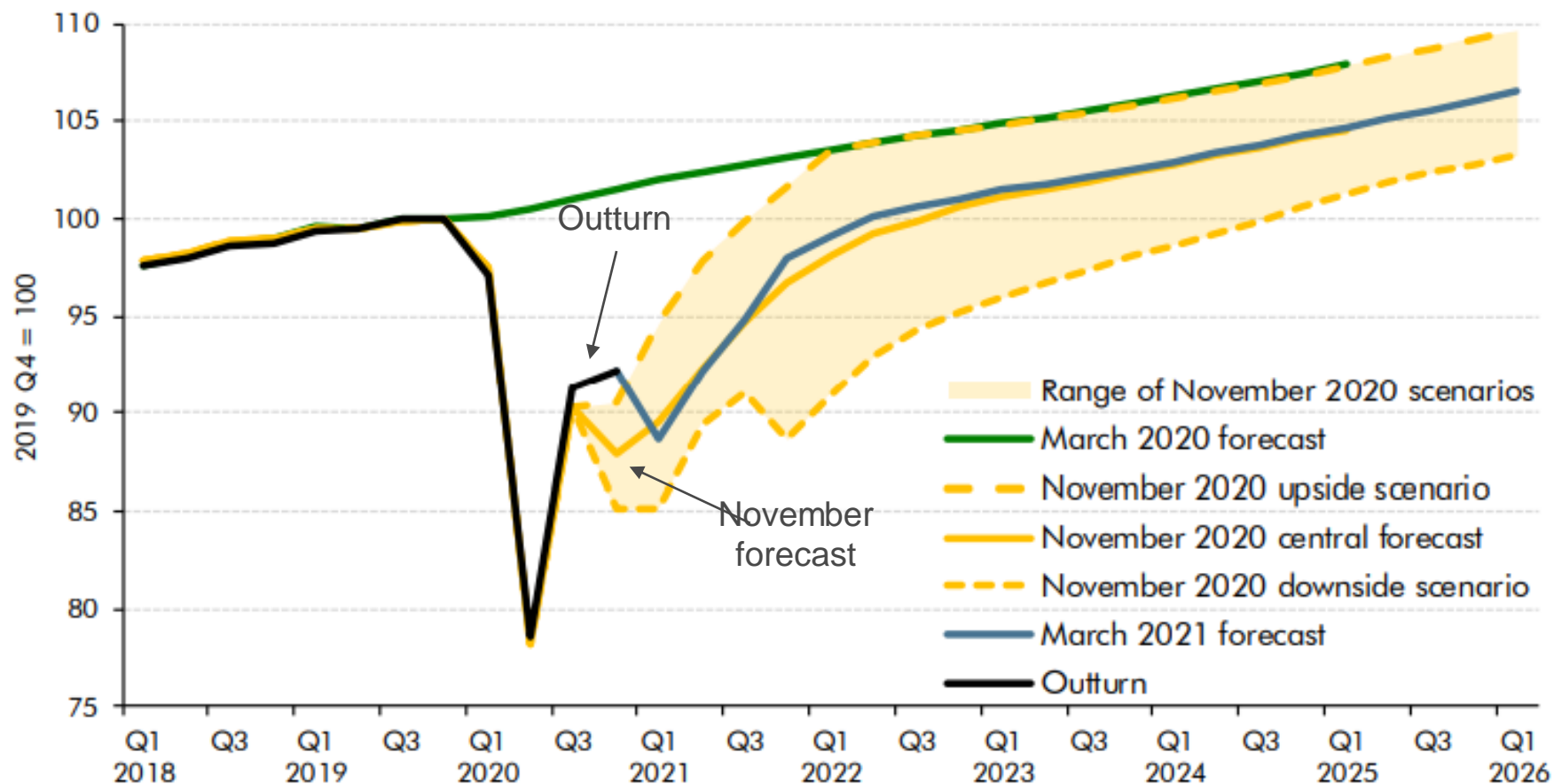
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This won't be a V-shaped recovery: we're in a deep recession, leaving a permanent 'scar'

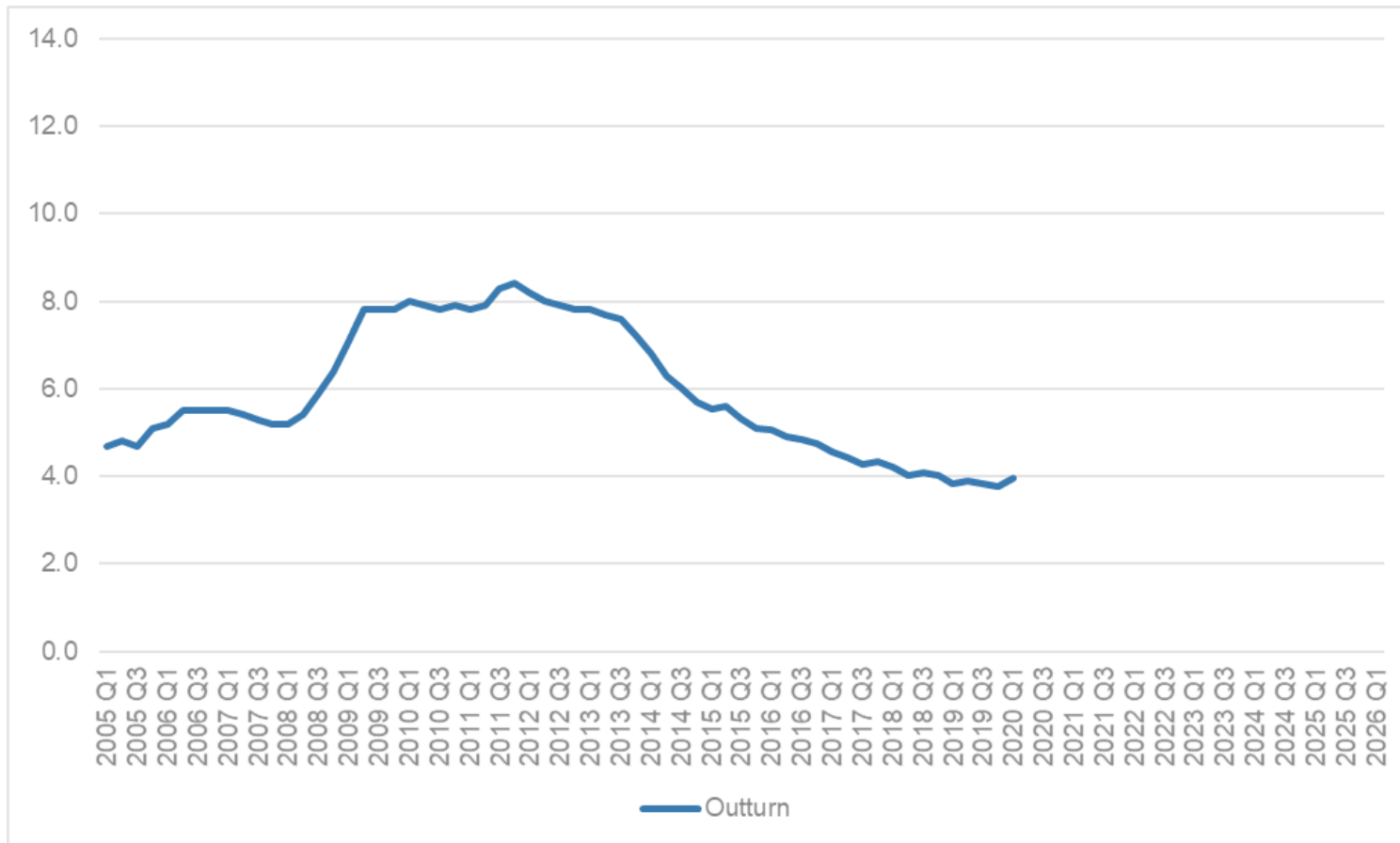
Chart 1.5: Real GDP: central forecast and scenarios



Source: ONS, OBR

However, things could have been far worse: We've averted an unemployment catastrophe

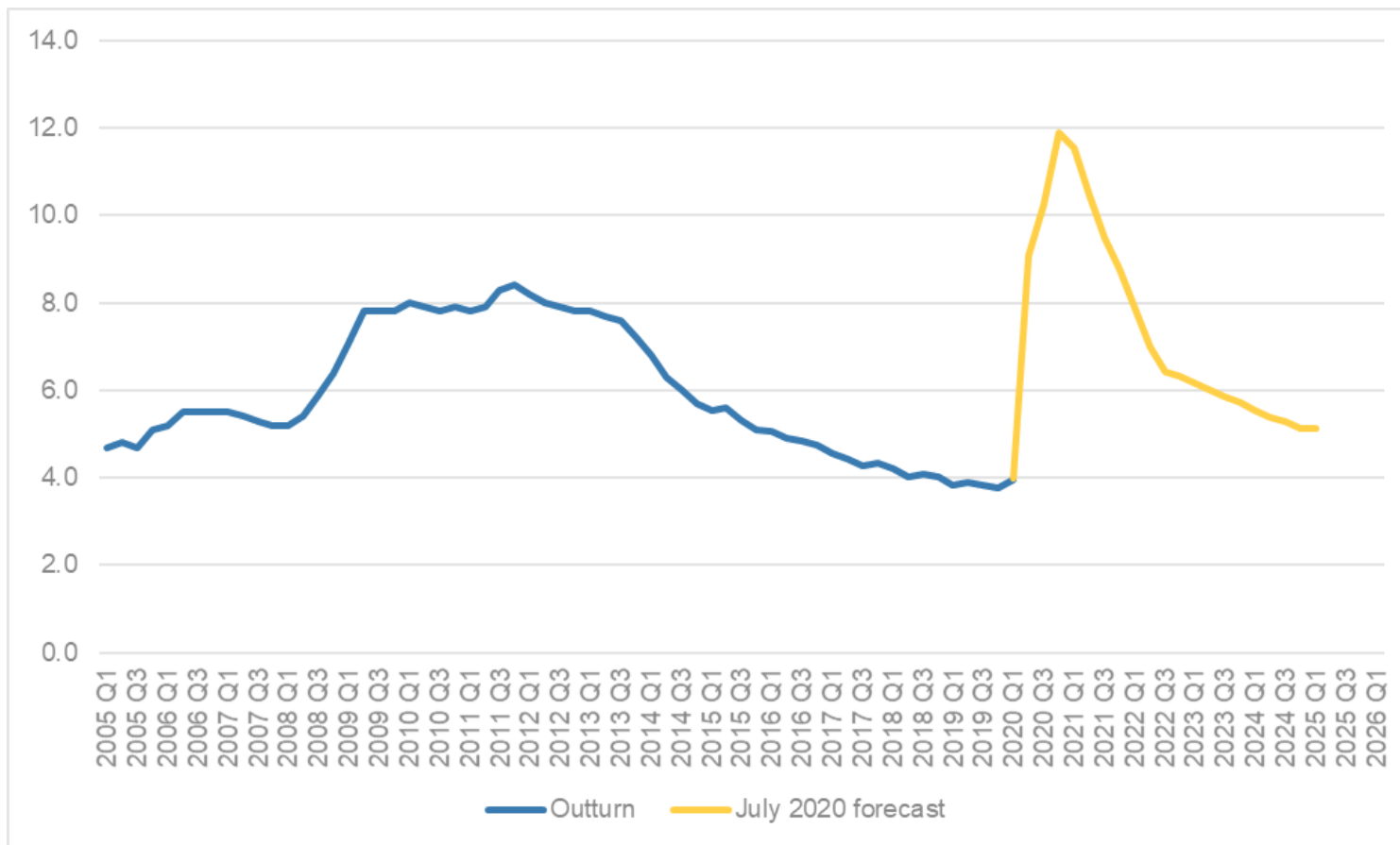
Unemployment rate forecasts and outturn



Source: Office for Budget Responsibility and Labour Force Survey

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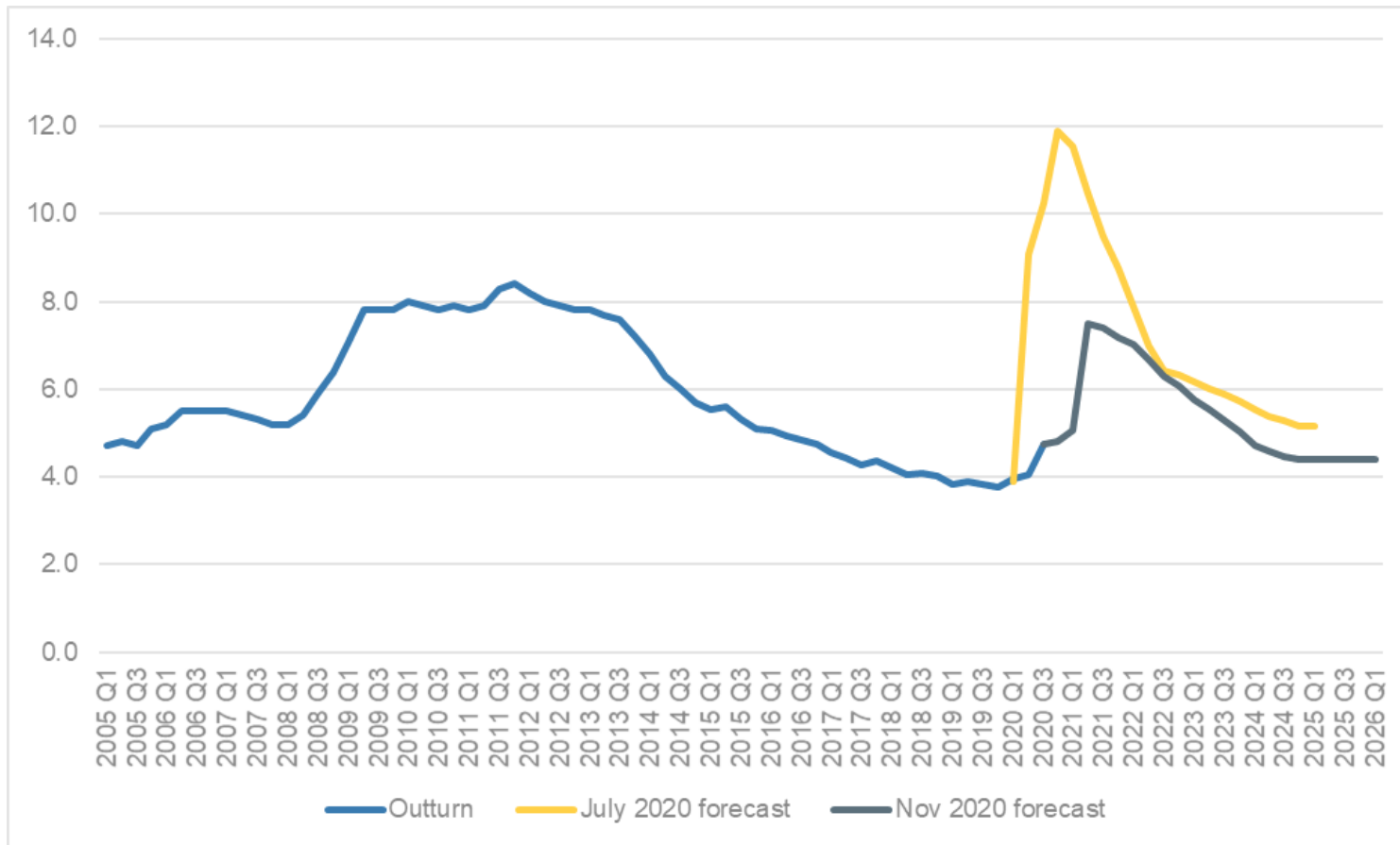
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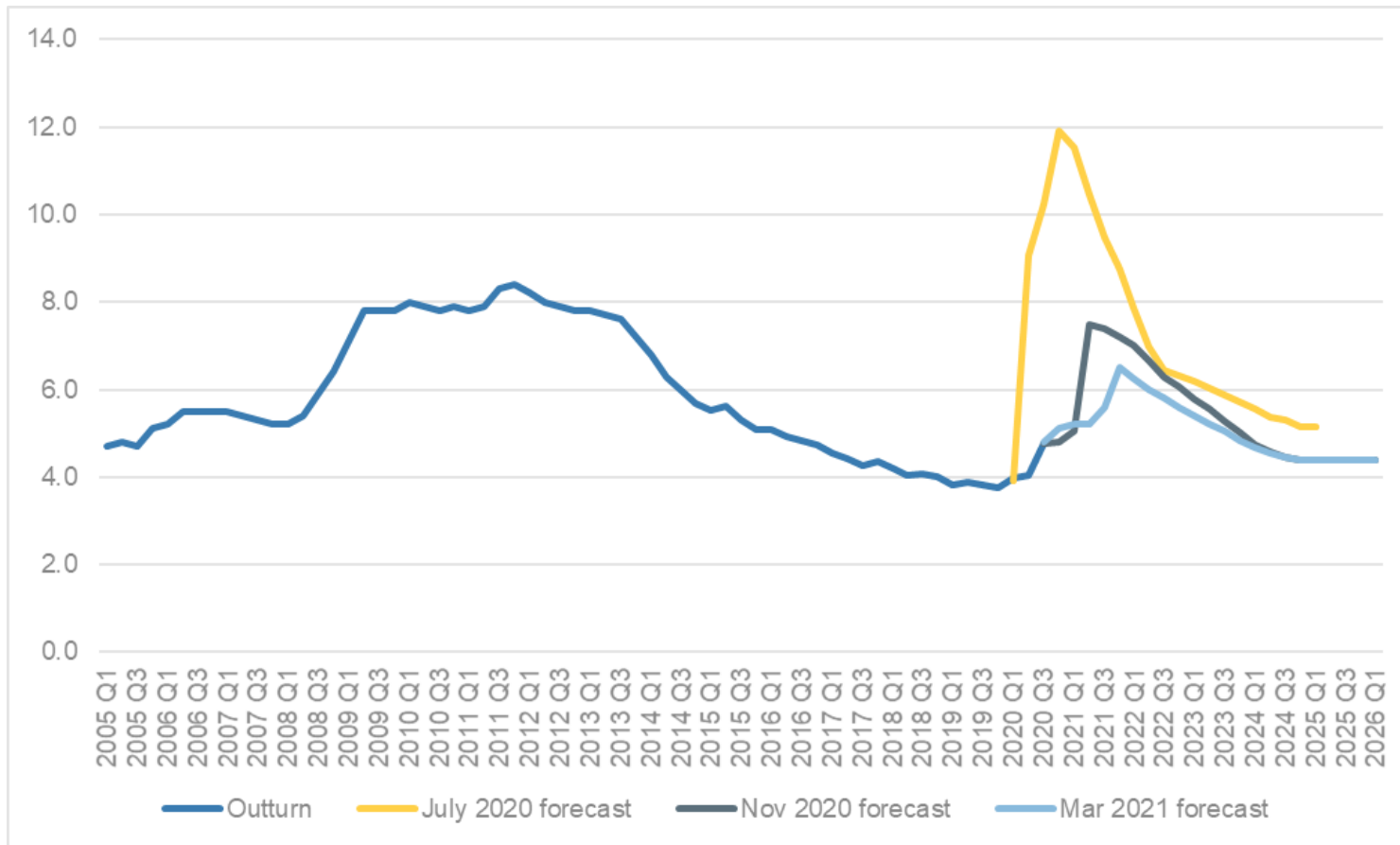
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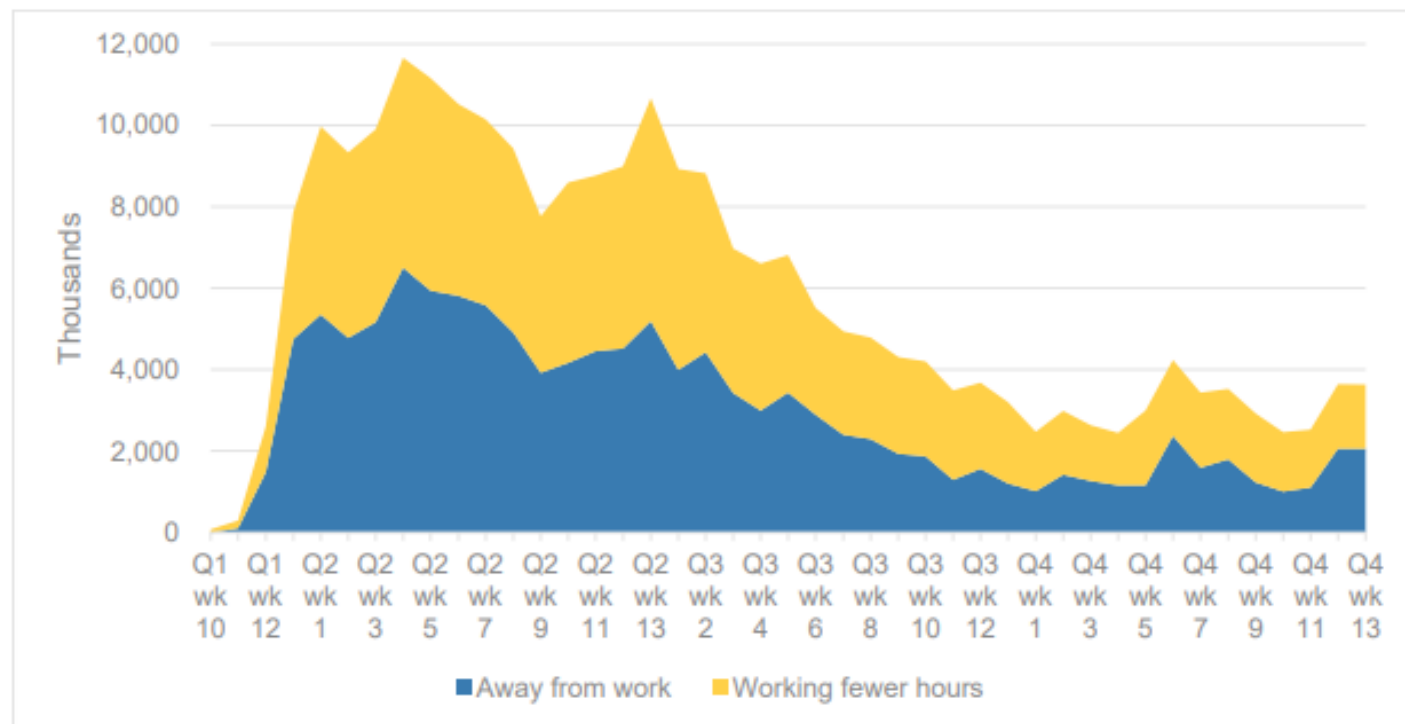
Unemployment rate forecasts and outturn



Source: Office for Budget Responsibility and Labour Force Survey

Aided by furlough and short-hours working – with at peak over 10m workers – one third of all – off work or on reduced hours

Figure 3: 'Excess' number of people not working normally by week, March to Dec 2020



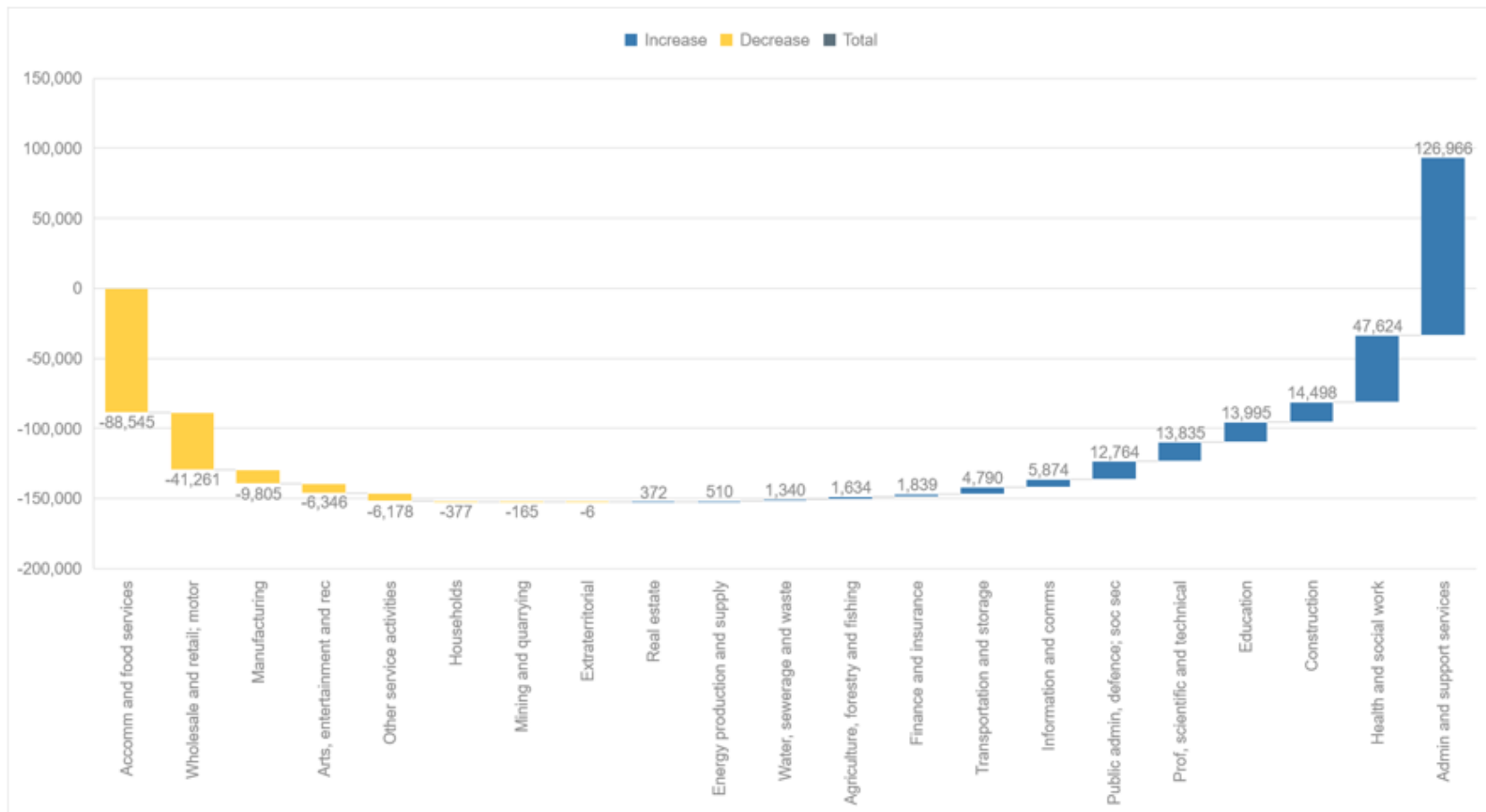
Source: IES analysis of weekly Labour Force Survey X07. The 'excess' is calculated as the difference between the number in the relevant reference week of 2020 and the number for the same reference week over the three years 2017-19. 'Working fewer hours' is limited to those doing so for economic reasons.

How bad could it have been?

- GDP fell by 9.9% in 2020 – largest fall on record
- Payrolled employment fell by 800k – likely largest since early 1990s...
- ... But ‘just’ a 2.7% fall
- If employment had followed GDP, it would have fallen by **2.9 million**
- This crisis will almost certainly lead to the lowest post-recession peak in unemployment since 1975 (when output fell by 2%)

Payrolled employment is now growing, although this is driven by pandemic jobs

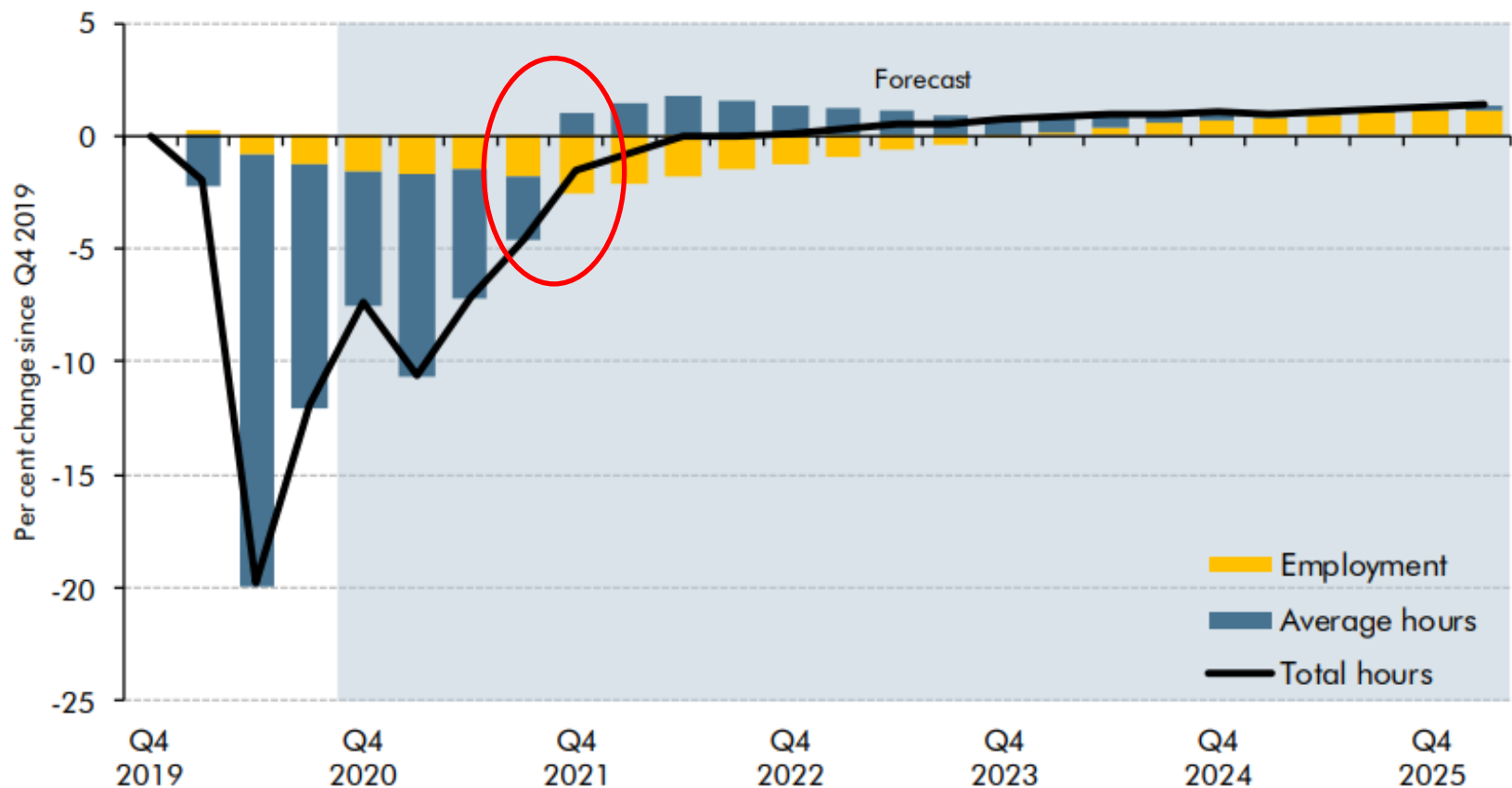
Change in payrolled employment by industry – Nov 2020 to Jan 2021



Source: IES analysis of PAYE Real Time Information

And I think unemployment may well peak lower – if we can stay on the ‘roadmap’

Chart 2.13: Contributions of employment and average hours to total hours growth



Source: ONS, OBR

The policy response – government has announced a lot of measures already

Apprenticeships levy flexibilities

Doubling of ICP Work Coaches Kickstart

This is a lot... much of it welcome

But how does it stack up for individuals, employers, delivery and local partners?

Lifetime Skills Guarantee

Apprenticeship hiring subsidy

Find a Job/ Job Help service

Shared Prosperity Fund

Digital Bootcamps

But... even if we've avoided the worst, I think we will need more to repair the damage

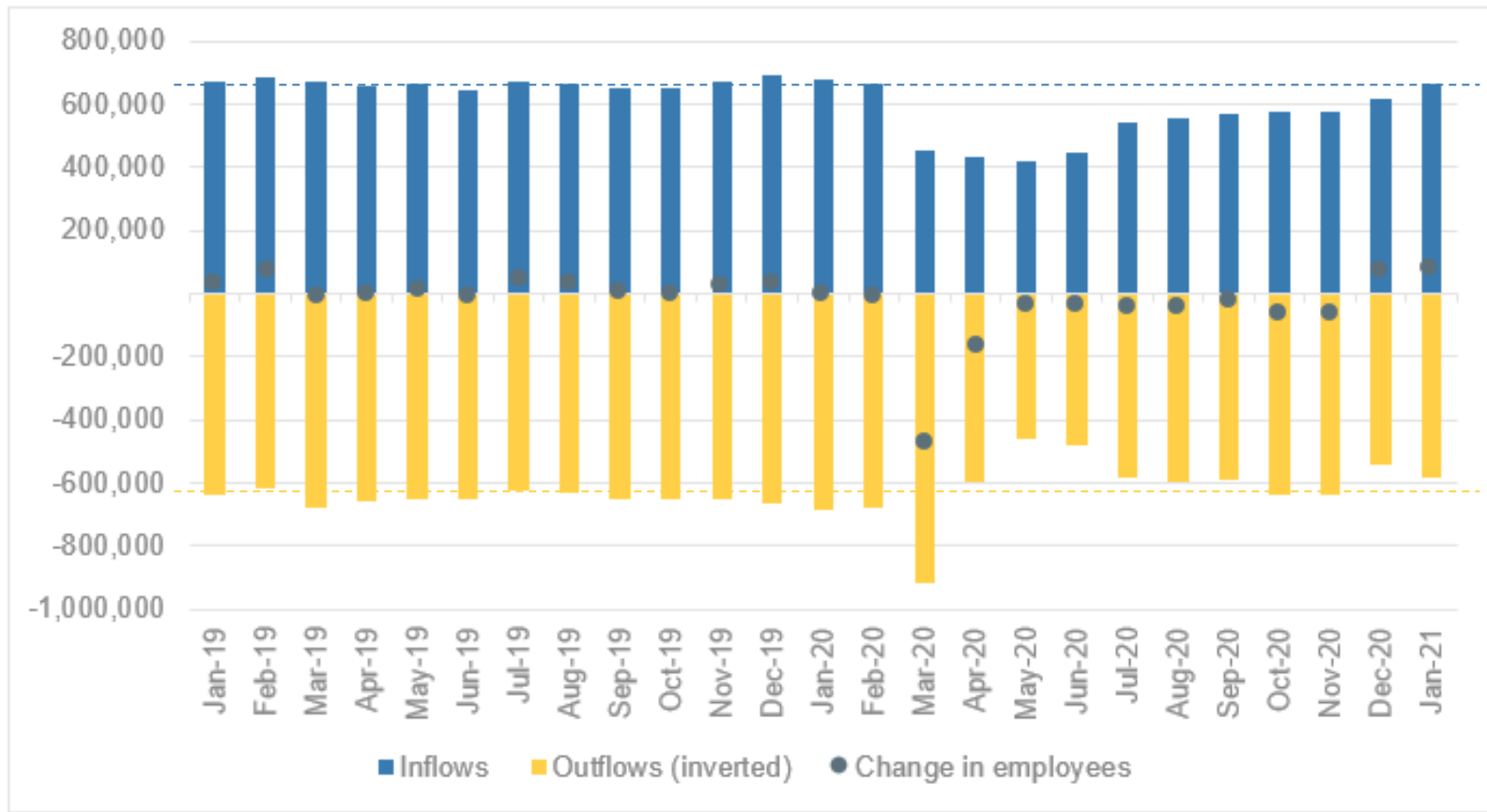
1. Getting hiring going again
2. Supporting job creation
3. Tackling long-term unemployment
4. Addressing widening inequalities – particularly for young people, low paid and ethnic minority groups
5. Addressing job insecurity and underemployment
6. Patching up the safety net

1. Hiring – rather than firing – is the biggest challenge we face in recovery

- Ultimately the only way out of the labour market crisis is to boost hiring
- Needs to be well above recent years to make up lost ground
- Expectation (gamble) is for a big bounce-back as economy reopens
- But it didn't happen last summer, due to huge spare capacity and uncertainty...
- ... And this summer has similar risks – especially with Brexit
- Overall I'm more optimist than pessimist – but this was the time to give the labour market some help, through incentives or via cuts to non-wage labour costs

This illustrates the point (employee flows)

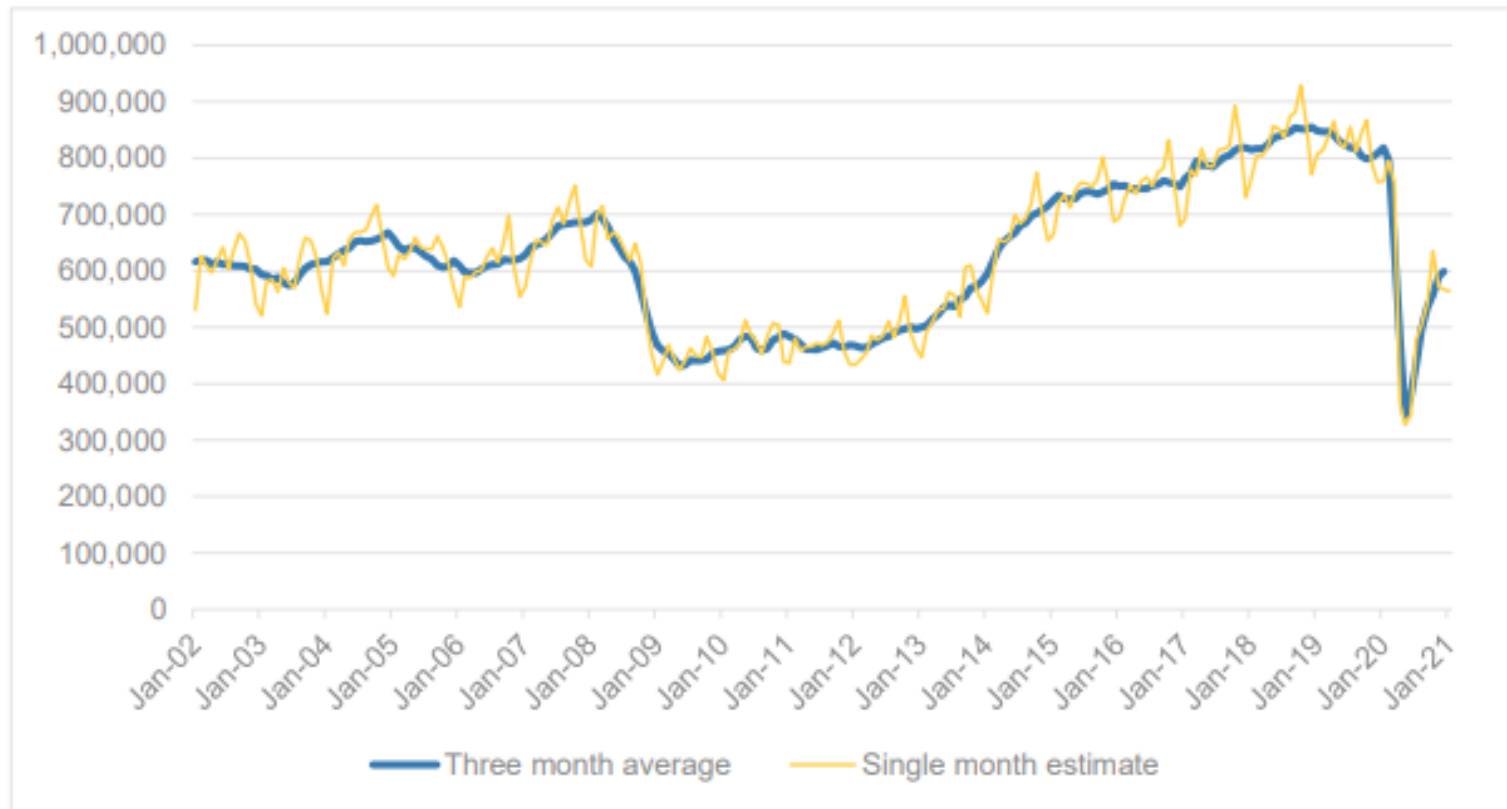
Figure 15: Flows into and out of PAYE payrolled employment, two years to January 2021



Source: HMRC PAYE Real Time Information

And we can see the same in the headline vacancy data

Figure 16: Vacancies – quarterly and single-month estimates



Source: ONS Vacancy Survey

2. Supporting job creation

- One good way to support hiring would be through measures to support short-term job creation
- Three areas stand out:
 - Social care – in crisis, and repeated broken promises for a longer term plan
 - Buildings and energy efficiency, EV charging infrastructure – supports Net Zero and creates jobs everywhere
 - Local services – to support renewal and recovery
- Not only were these missing – the budget pencilled in further future cuts to public services

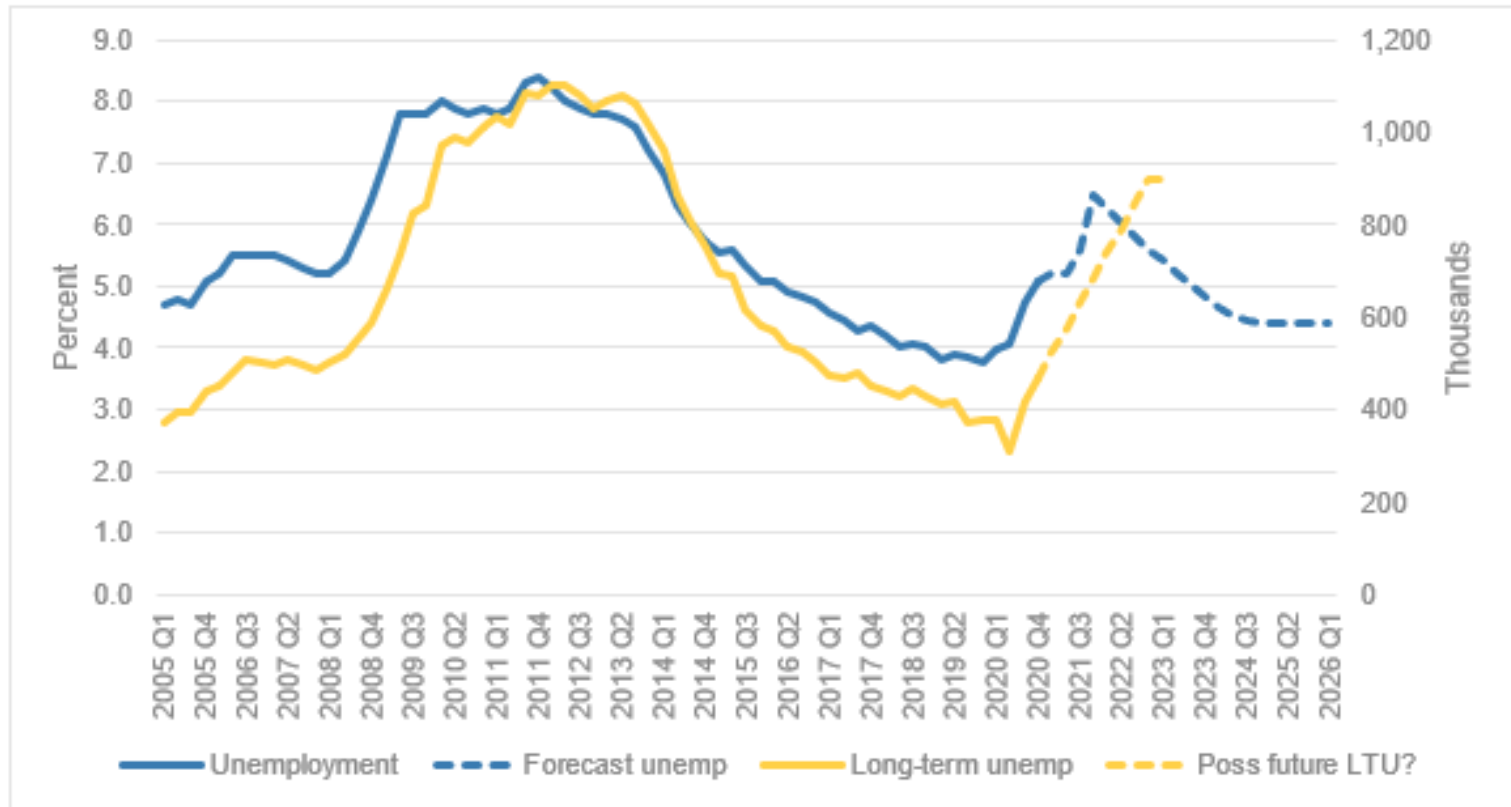
Further £3bn in cuts implied for each of next four years

Table 3.17: Changes in departmental resource spending since March and November 2020

	£ billion					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
March 2020 forecast						
Limits	343.0	365.2	380.0	396.0	413.0	
Assumed underspend	-3.2	-3.9	-4.1	-4.3	-4.4	
Actual spending	339.8	361.3	375.9	391.8	408.6	
November 2020 forecast						
Limits	468.0	411.2	369.1	383.6	400.0	417.3
Assumed underspend	-12.0	-6.1	-3.5	-3.6	-3.7	-3.9
Actual spending	456.0	405.1	365.6	380.1	396.3	413.4
March 2021 forecast						
Limits	465.0	421.0	365.7	380.7	396.5	413.4
Assumed underspend	-19.9	-7.5	-3.3	-3.4	-3.5	-3.7
Actual spending	445.0	413.6	362.4	377.3	393.0	409.7
Change since March						
Limits	122.0	55.9	-14.3	-15.3	-16.5	
Assumed underspend	-16.7	-3.6	0.8	0.8	0.9	
Actual spending	105.2	52.3	-13.5	-14.5	-15.6	
Change since November						
Limits	-3.1	9.9	-3.3	-2.9	-3.5	-3.9
Assumed underspend	-7.9	-1.4	0.2	0.1	0.2	0.2
Actual spending	-11.0	8.5	-3.2	-2.8	-3.3	-3.7

3. Long-term unemployment – likely to more than double to around 900k in 2022

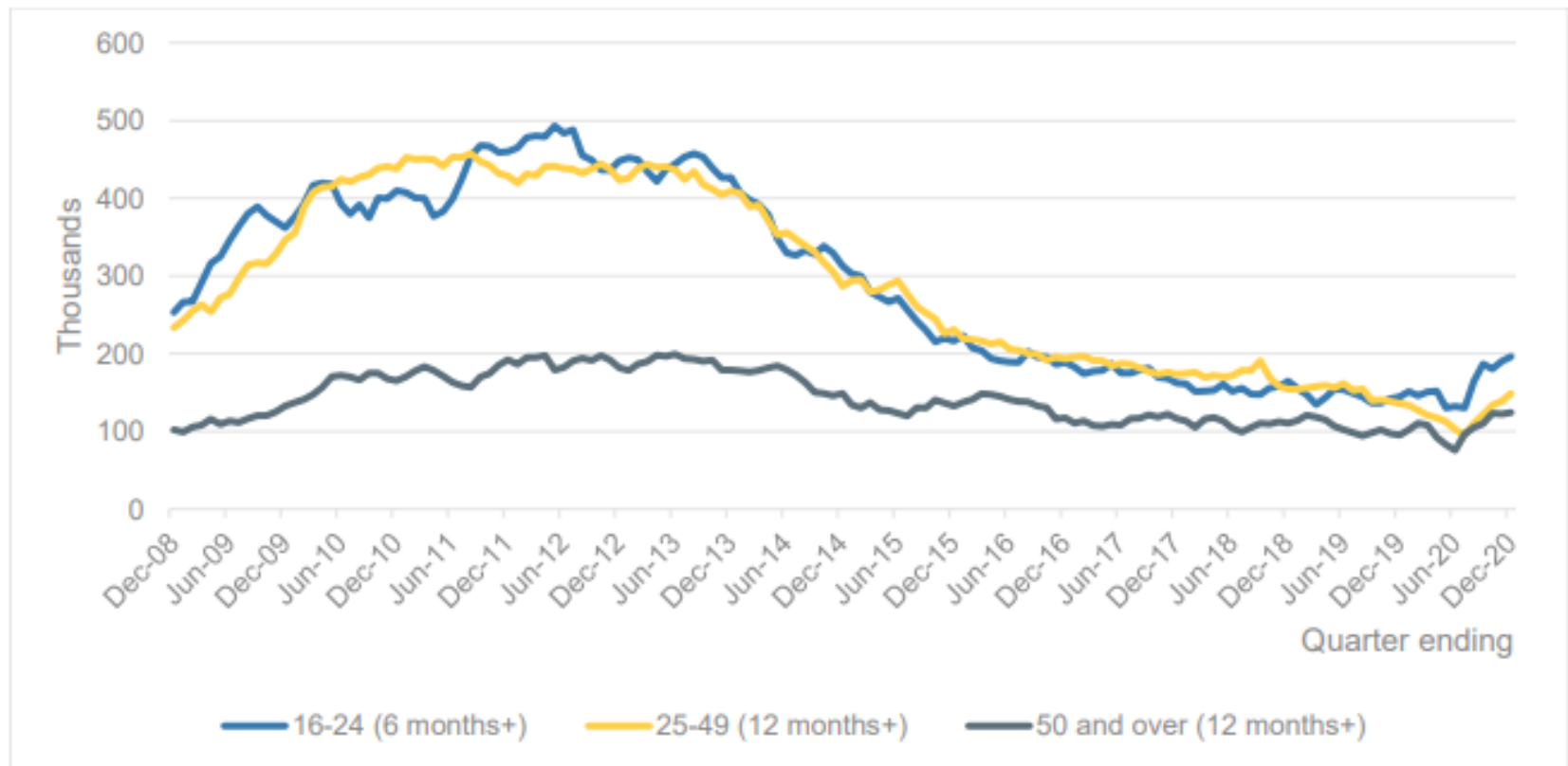
Unemployment rate outturn and forecast (left hand scale) and long-term unemployment outturn and scenario (right hand scale)



Source: IES analysis of Office for Budget Responsibility and Labour Force Survey

Already rising for young people – a particular and long-term risk

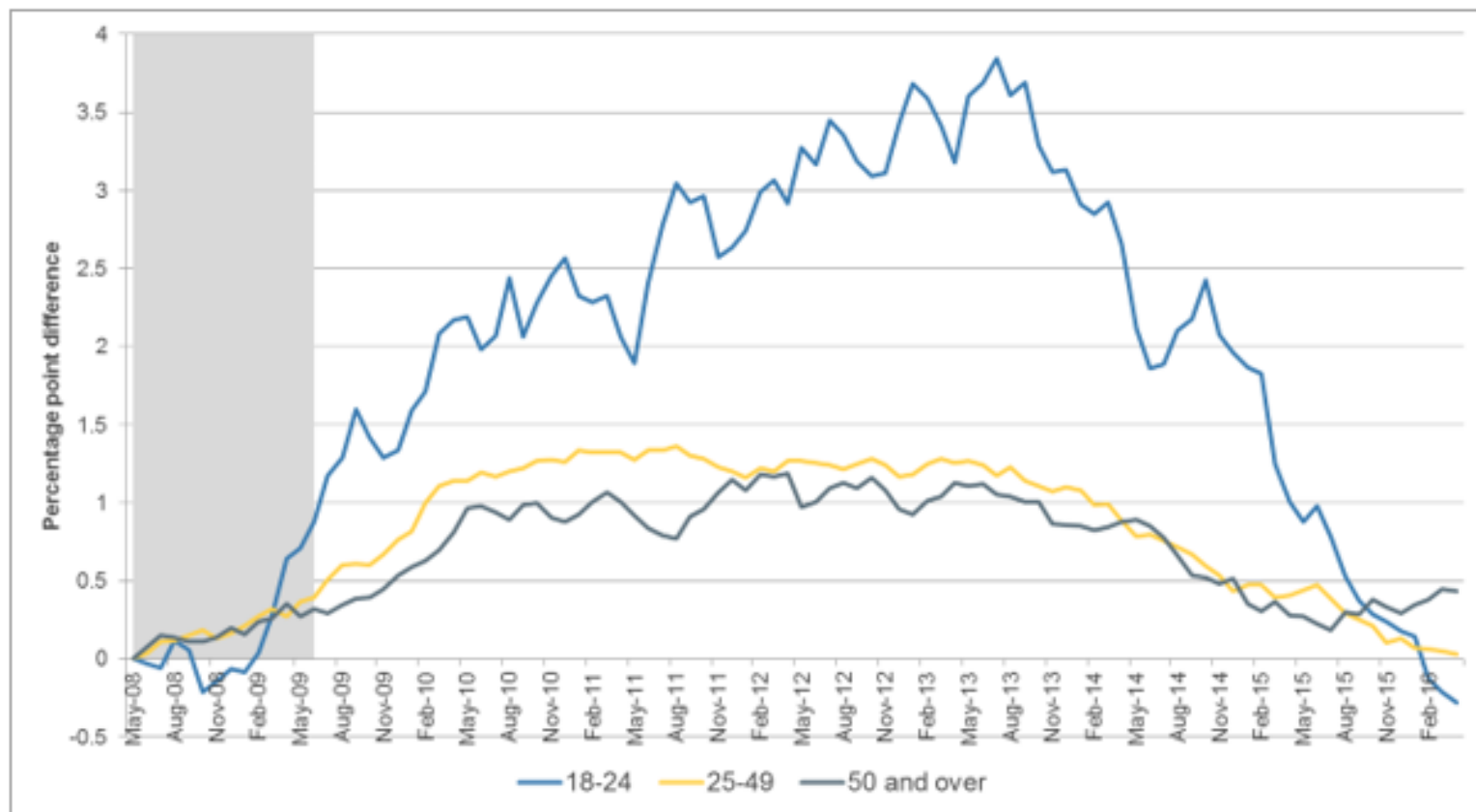
Figure 10: Long-term unemployment by age



Source: Labour Force Survey. Long-term unemployment is defined as unemployment of more than six months for young people, or more than twelve months for those aged 25 and over.

... and last time round, these impacts were huge, delayed and prolonged

Percentage point change in long-term unemployment rates by age following the 2008/9 recession



Source: IES analysis of Labour Force Survey

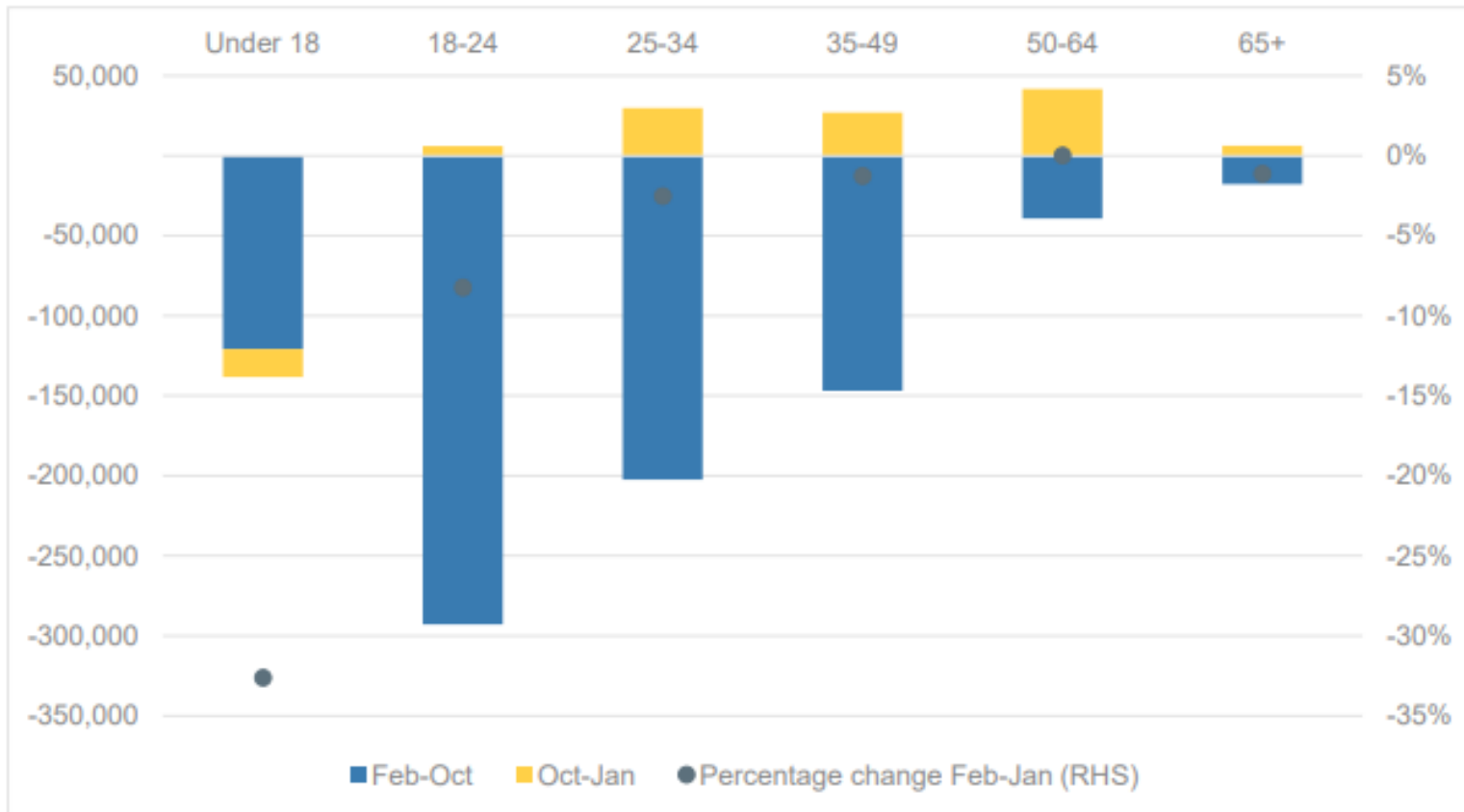
Restart will make a big difference and is welcome

- But it may not be enough on its own, especially not this year
- We think that demand will outstrip supply through until spring 2022 (at the earliest)
- And one year is too long to wait for young people
- We and many others have called for a meaningful jobs and training guarantee for young people in particular

4. Tackling disadvantage – some lowlights

Age – three fifths of fall is young people

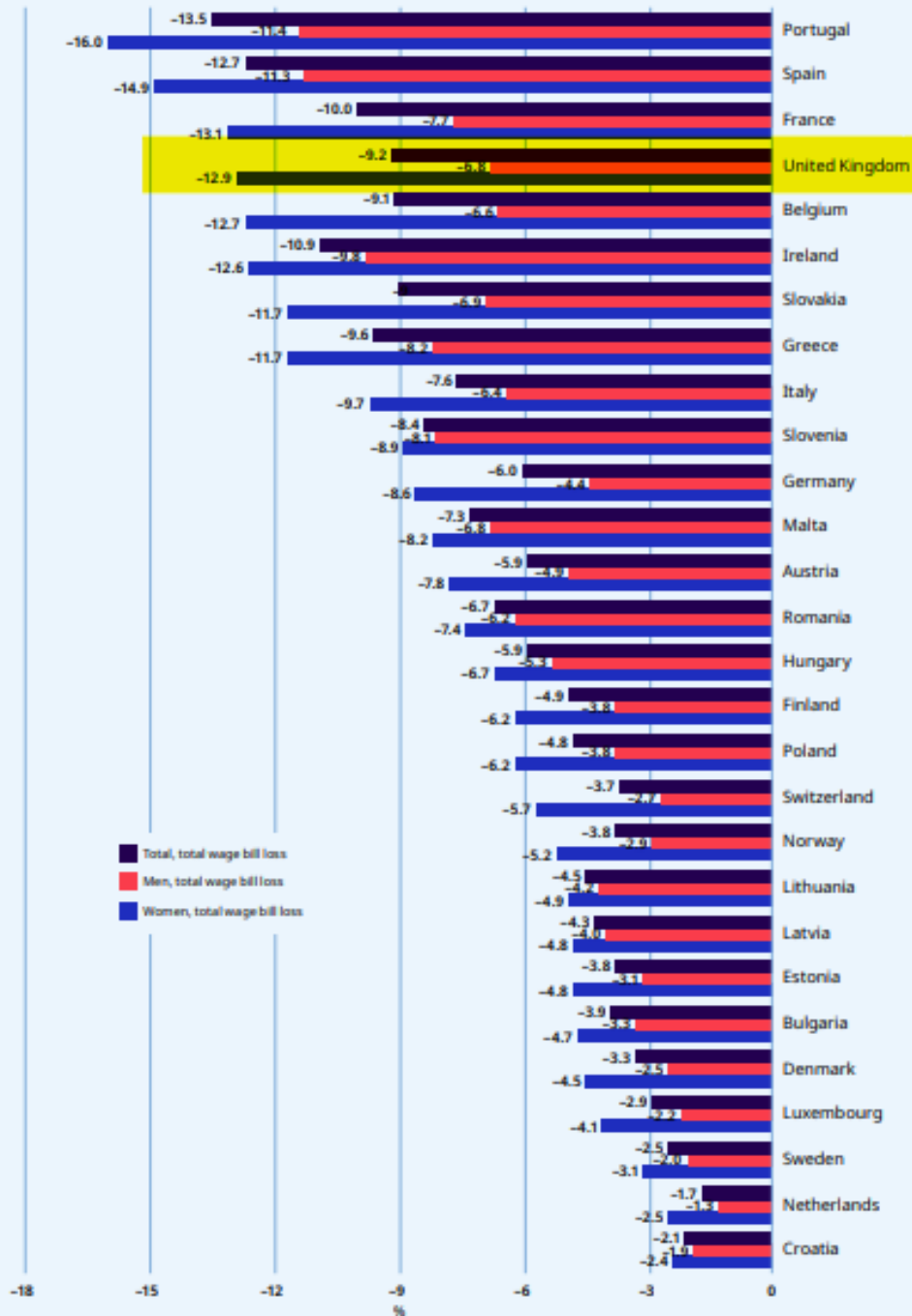
Figure 6: Change in payrolled employees by age: first eight months of the crisis (Feb-Oct 2020) and most recent quarter (Oct 2020-Jan 2021)



Source: PAYE Real Time Information

Gender: While employment impacts have been similar, our analysis for the ILO found a bigger difference in wage bill losses between men and women in the UK than anywhere else in Europe...

► Figure 4.2 Total wage bill losses, by country and by gender, selected European countries, between first and second quarters of 2020 (percentage)



And our work with Gingerbread illustrates how single parents in particular lost out

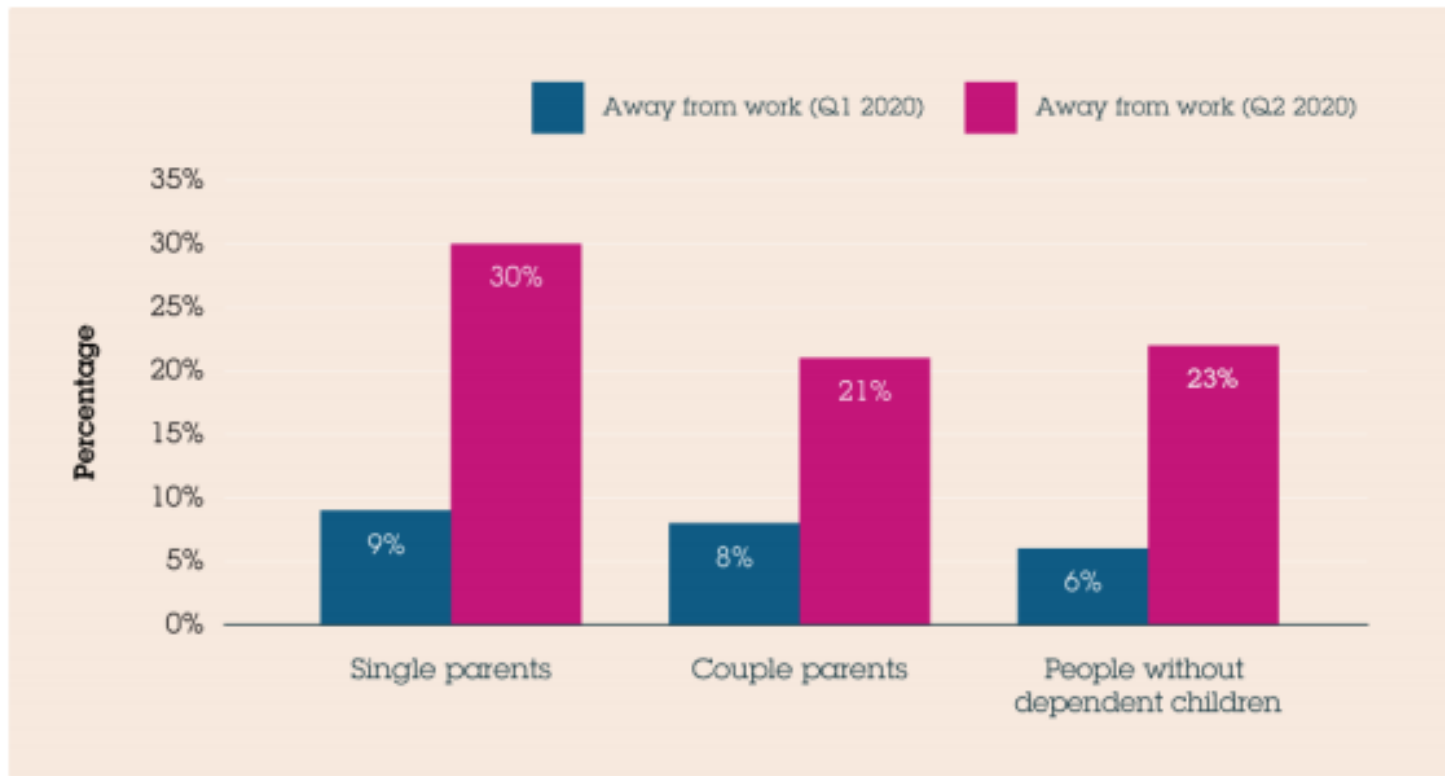


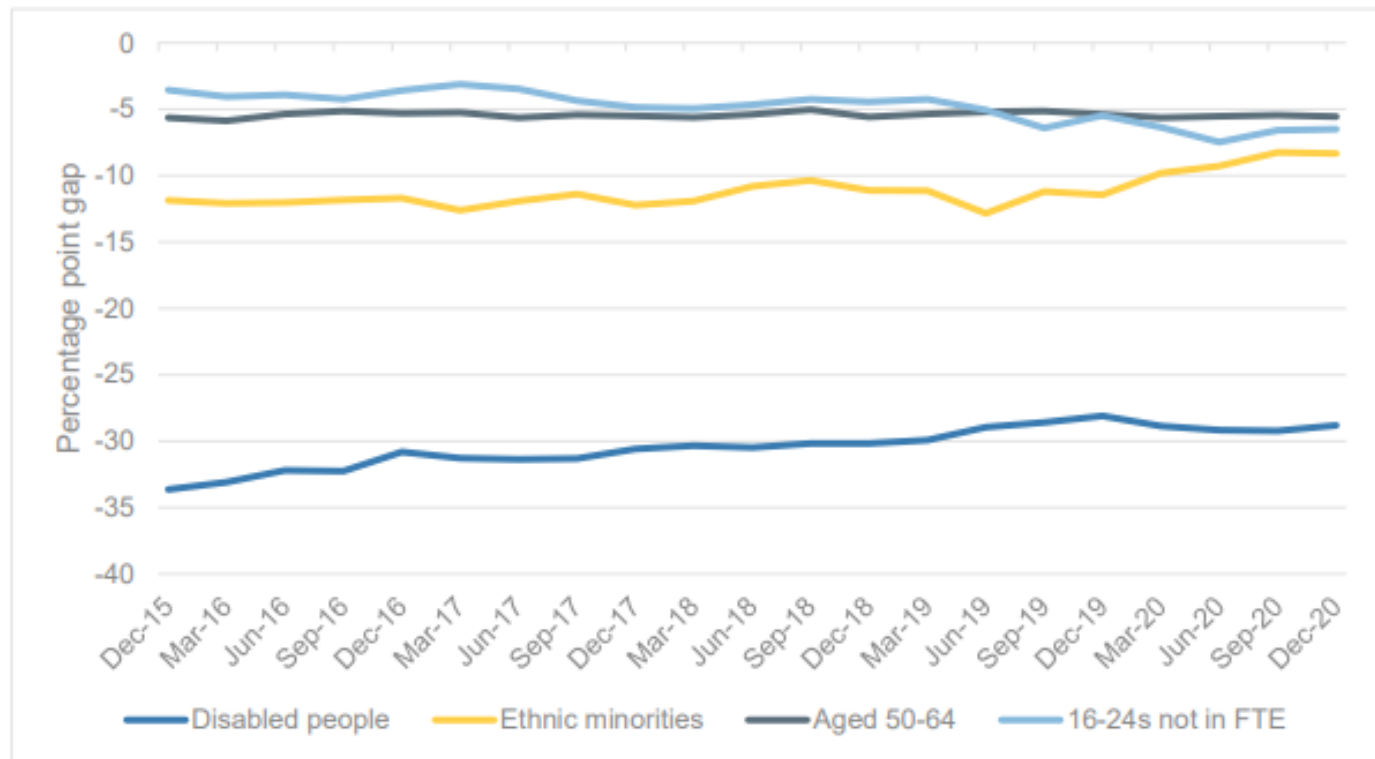
Figure 4:
Proportion of employees who are away from work during the reference week, by family type and quarter

Source: Labour Force Survey, January – June 2020

Base: Individuals aged 16-24 who were not defined as 'critical workers'

Disadvantaged groups: signs that progress on narrowing employment gaps has stalled...

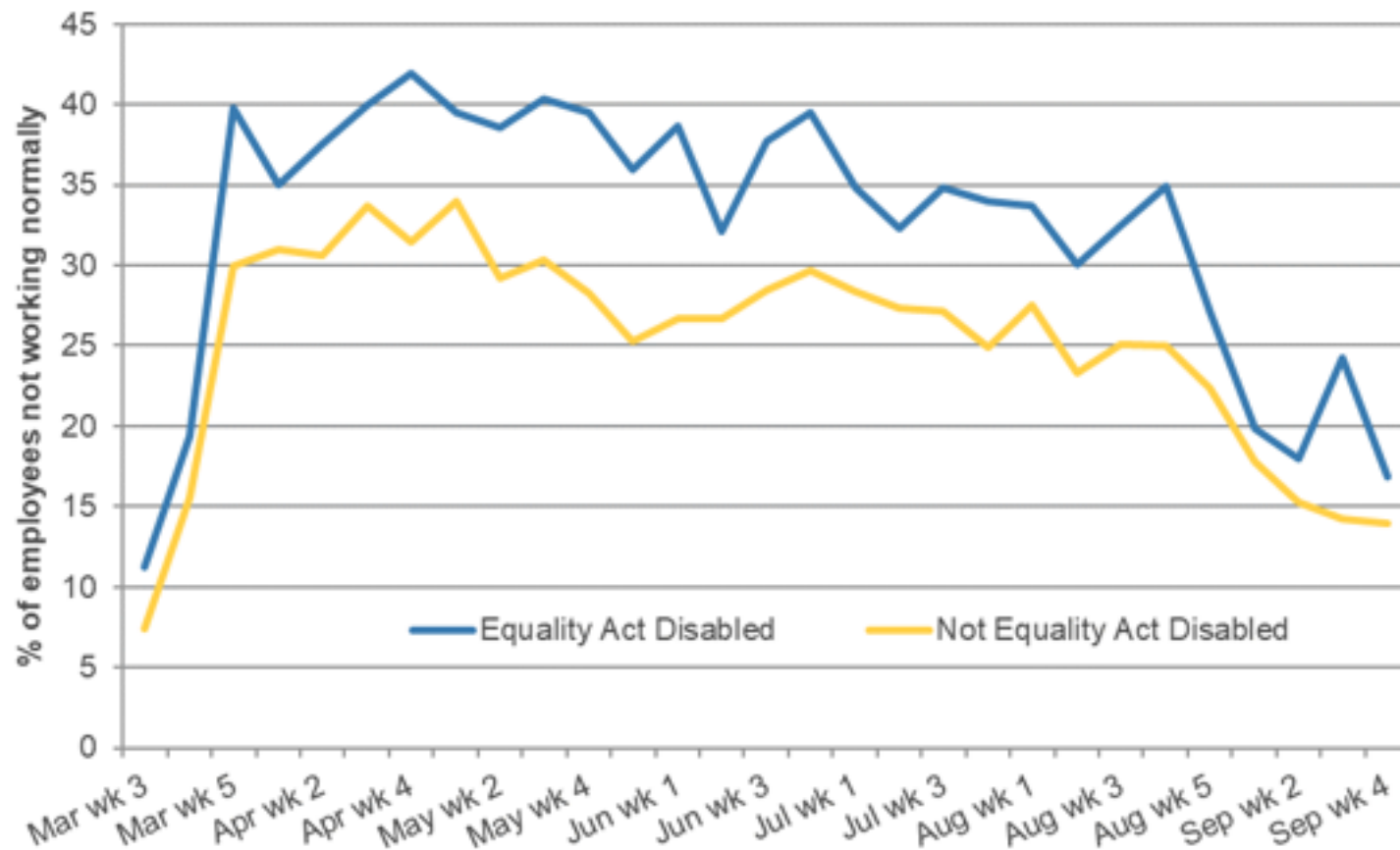
Figure 11: Employment rate 'gaps' for disabled people, ethnic minority groups, those aged 50-64, and young people not in full time education; 2015 to 2020



Source: IES analysis of Labour Force Survey. Gaps are calculated as the percentage point difference in employment rates between the rate for the disadvantaged group and the rate for the overall 16-64 population excluding that group.

With disabled people far more likely to have been 'away' from work during peak crisis

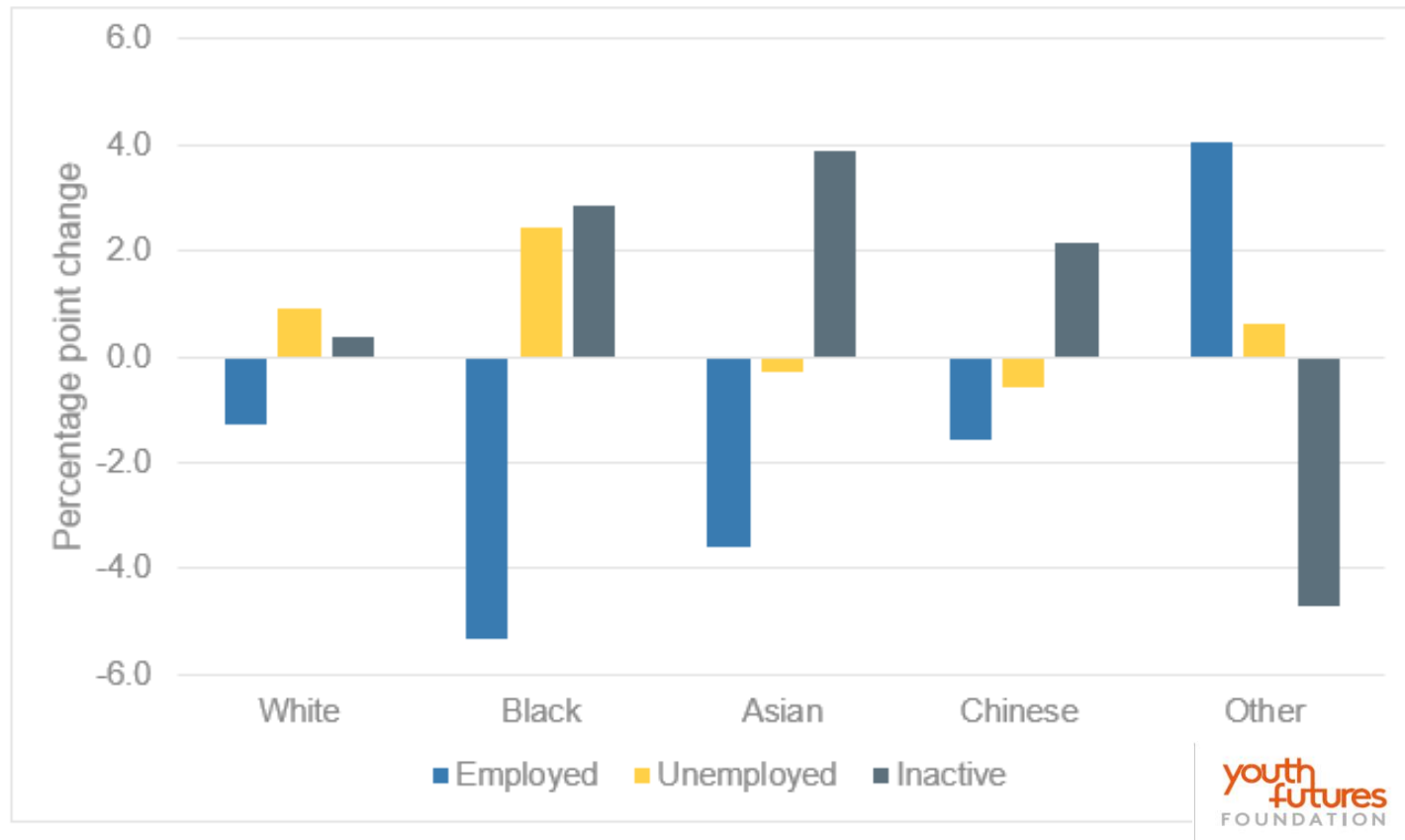
Proportion of employees temp. away/working fewer hours by disability



Source: Labour Force Survey

With recent work showing the Black and Asian young people particularly hard hit

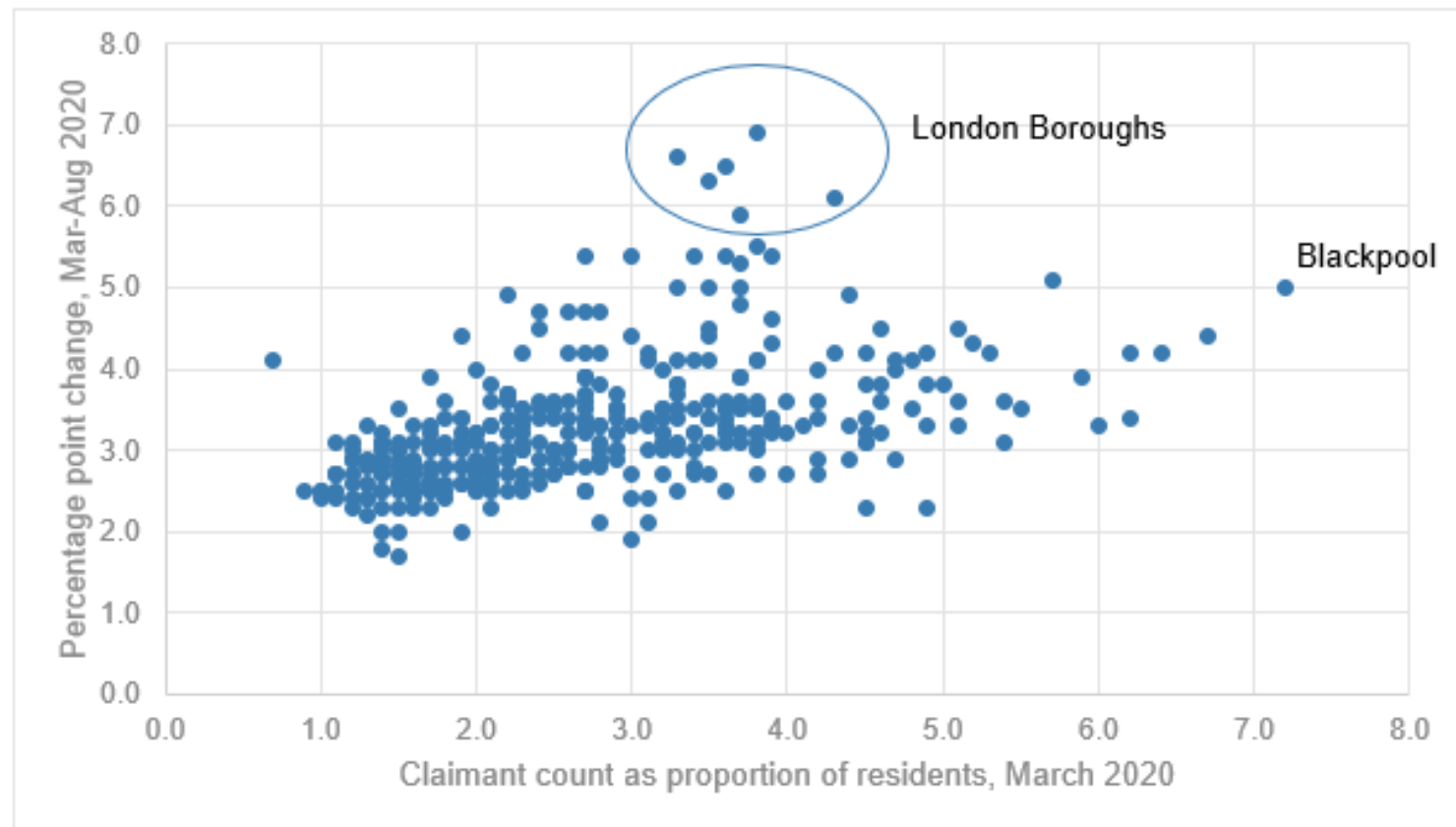
Percentage point change in employment, unemployment and economic inactivity for young people by ethnicity, pre-crisis and during crisis



Source: Quarterly Labour Force Survey, cross-sectional population weights used. The Pre-crisis period covers the average of the 2nd and 3rd quarters of years 2015-2019 and the crisis period covers the 2nd and 3rd quarters of 2020.

Place: Rises in the claimant count have been pretty similar across areas...

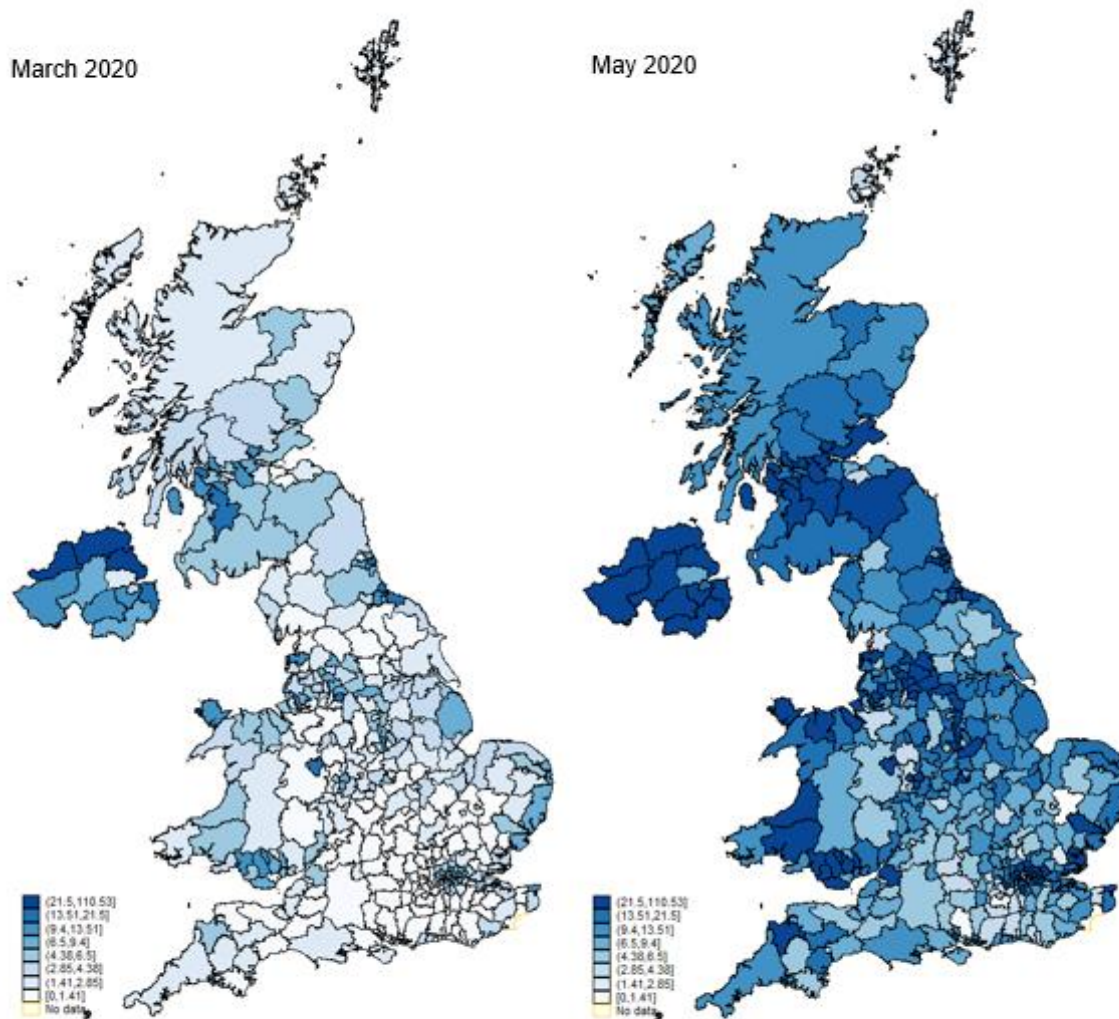
Percentage point change in claimant count as proportion of residents, by rate in March 2020



Source: IES analysis of NOMIS claimant count data

But – looking at claimants per vacancy, inner city, ex-industrial and coastal areas fared worse

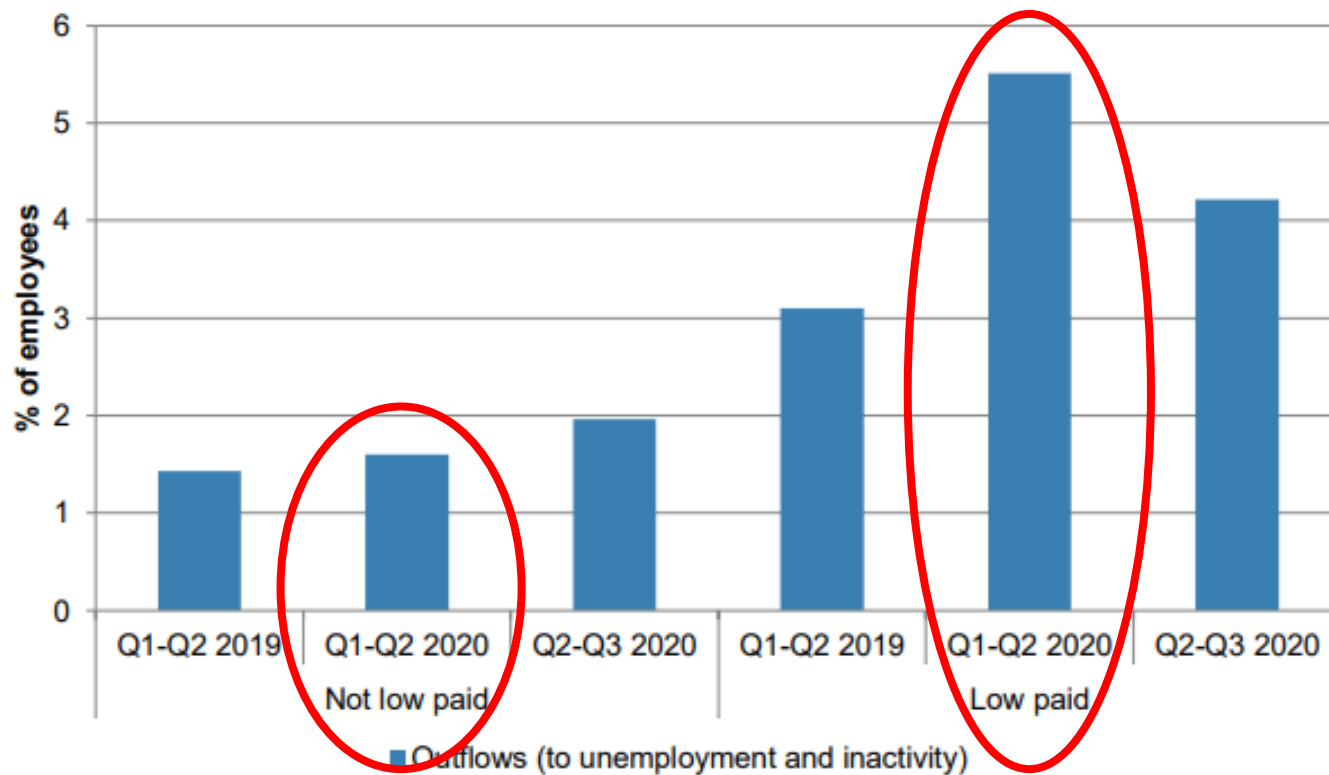
Claimant unemployed per vacancy by local authority



Source: Institute for Employment Studies analysis of Adzuna vacancy data

5. A crisis for the low paid – more than 3x more likely to have lost their jobs in the crisis

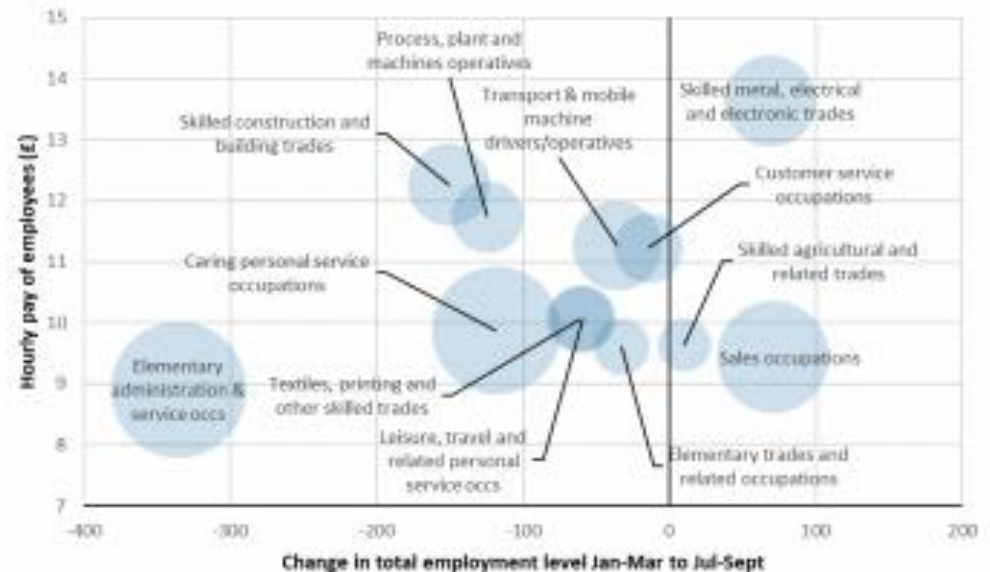
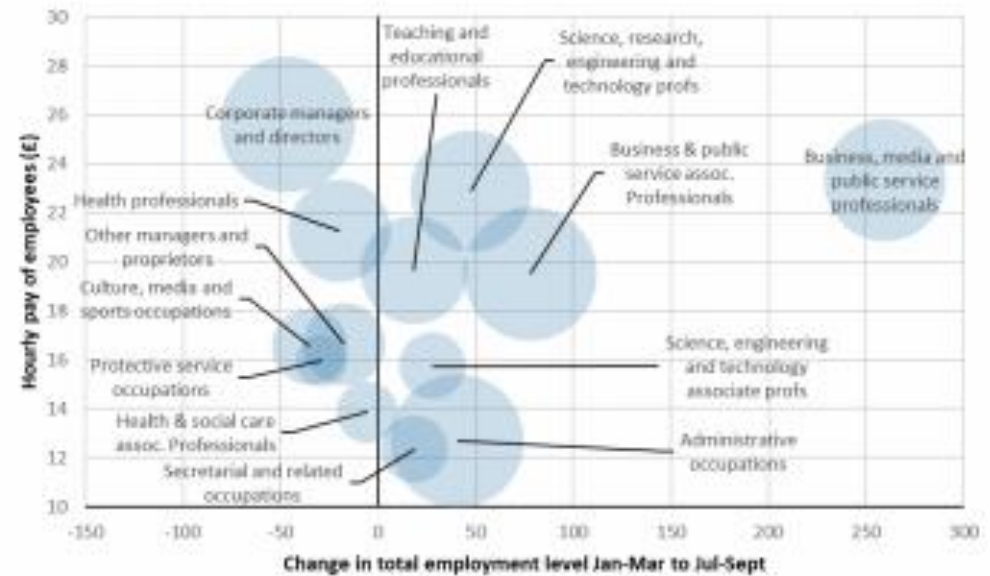
Figure 2.4 Flows out of employment by pay level Q1 to Q2 and Q2 to Q3



Source: Longitudinal LFS Q1-Q3 2019 and Q1-Q3 2020

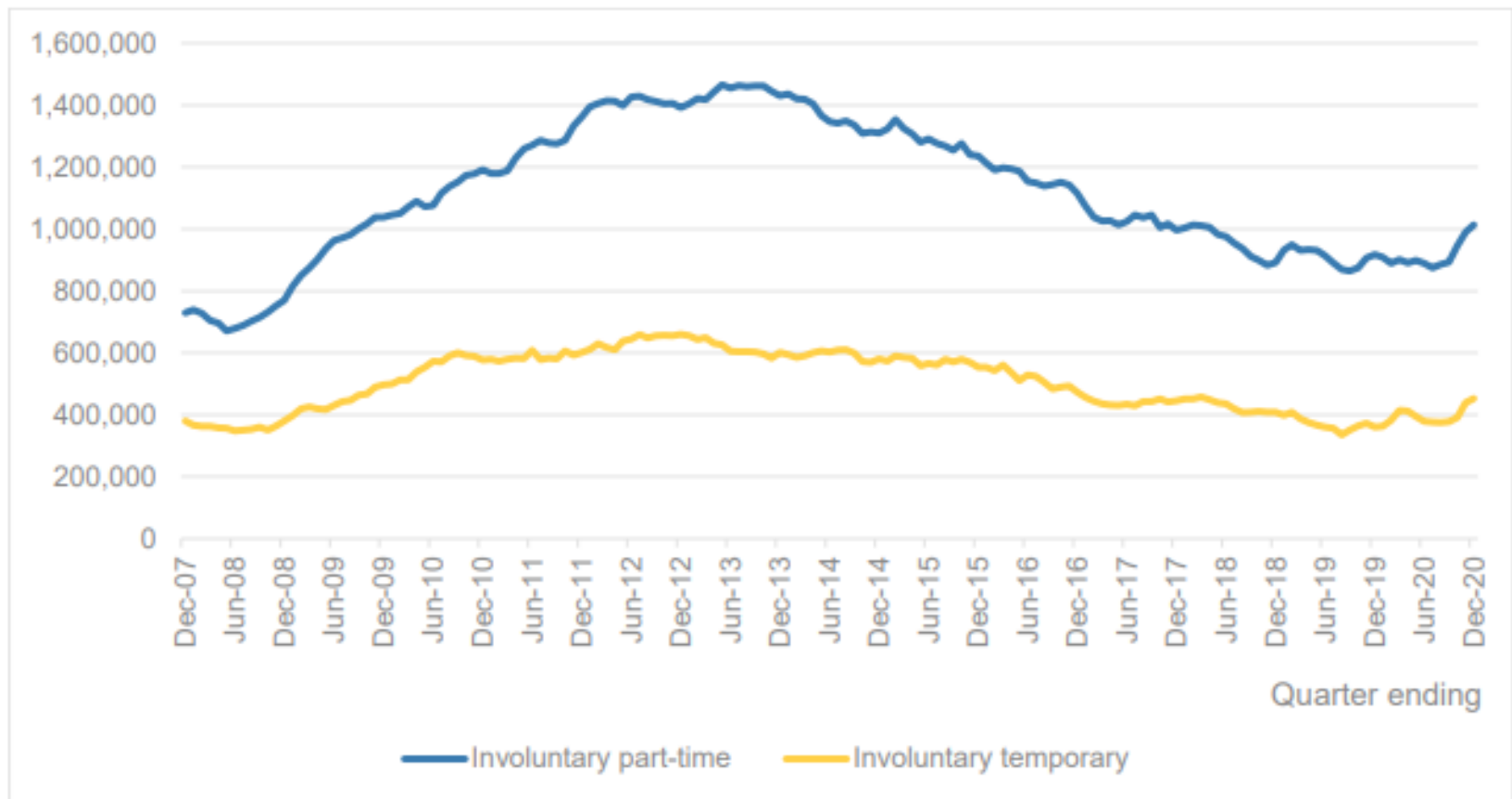
Employment falling in low paid work, while it is rising in better paid – risking growing polarisation

Figure 4.5 Occupational sub-major groups by employment change Q1 to Q3 & mean hourly pay, UK



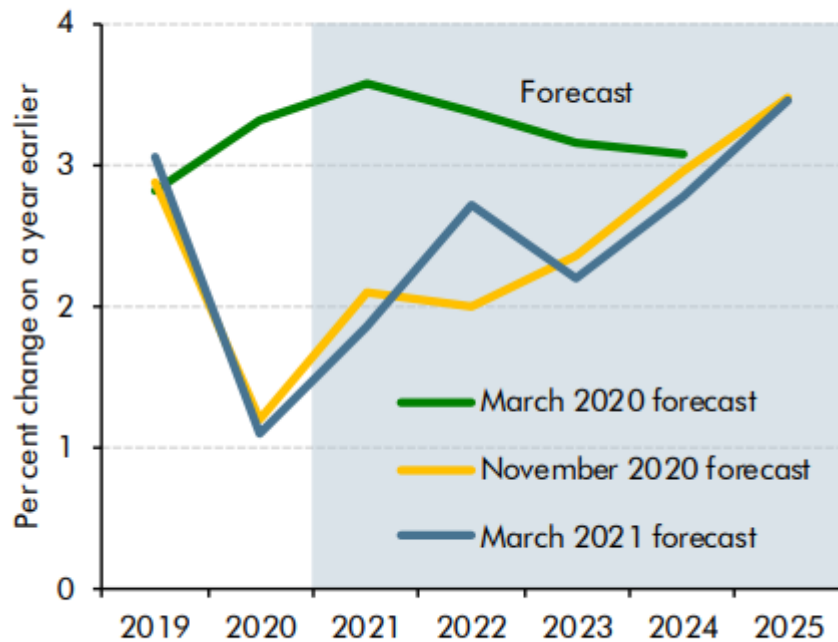
And signs that involuntary temporary and part-time work is on the rise again...

Figure 12: People in part-time work because they couldn't find a full-time job, or temporary work because they couldn't find a permanent one



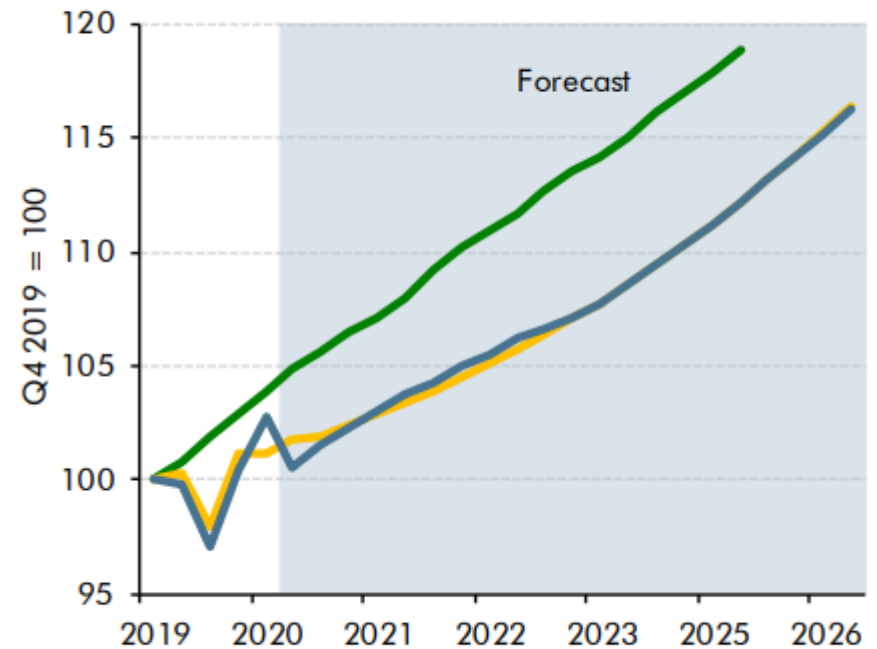
While more broadly, the prospects for earnings growth are poor

Chart 2.16: Average earnings growth



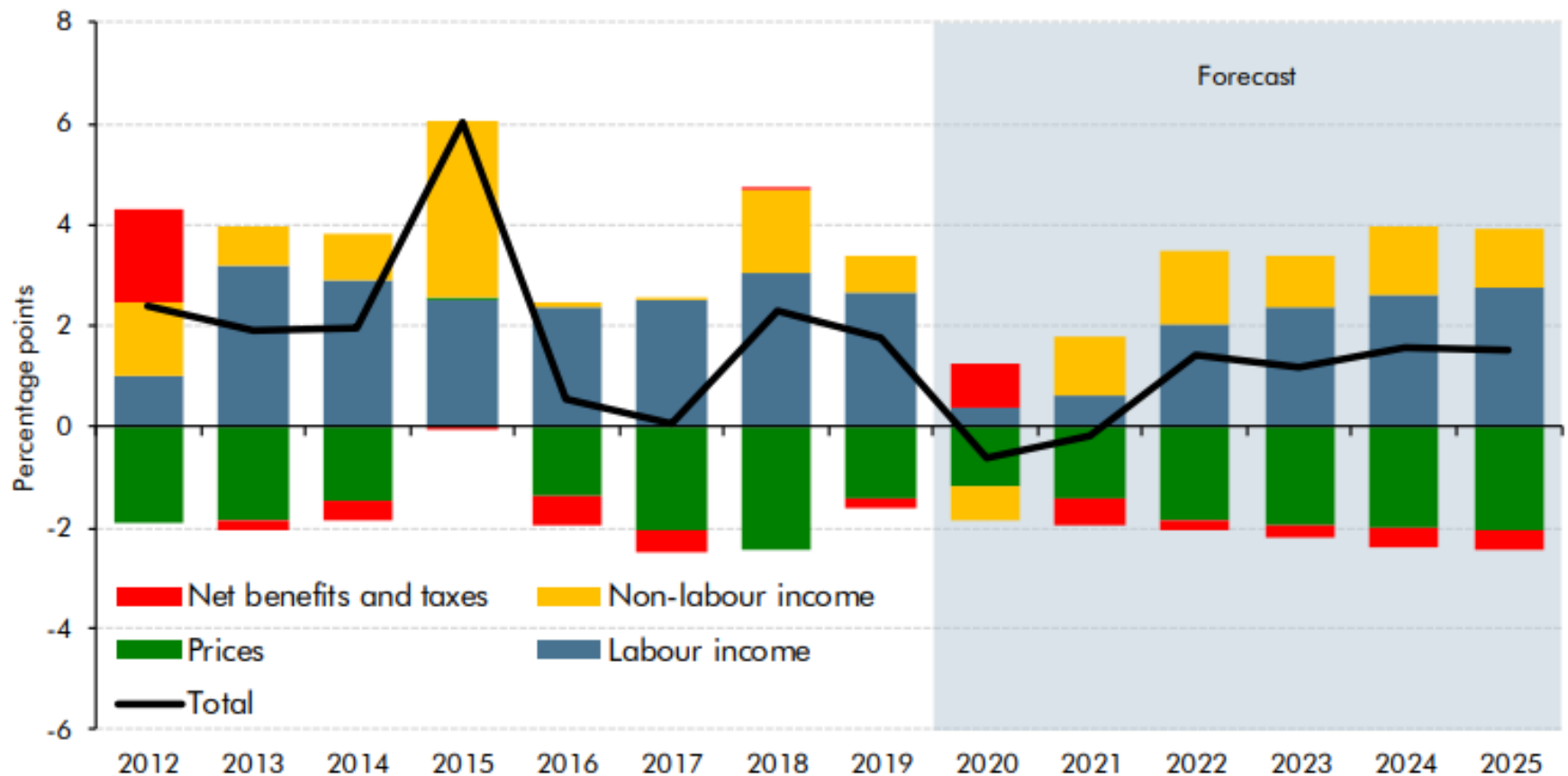
Source: ONS, OBR

Chart 2.17: Average earnings level



And recession plus weak recovery will mean a further squeeze on income growth

Chart 2.21: Contributions to real household income growth



Source: ONS, OBR

6. Finally, we need to patch up the safety net

- There is no justification for cutting UC in September – this needs to stay in place for the long term
- But it's only part of the challenge – we also need to:
 - Extend and improve Statutory Sick Pay
 - Widen access to Test and Trace Support Payment
 - Suspend the Benefit Cap – already doubled to £170k (£100k of these lone parent families) – effectively clawing back the £20 uplift; and about to get a lot worse
 - Reform and improve support for low income renters

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