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UK LABOUR MARKET HIT LESS BAD THAN EXPECTED (SO FAR)

Berenberg Macro Flash

Some good news, but hold off the cheers for now

The latest batch of UK labour market data are difficult to interpret and should be taken with a grain of salt. Unlike in the US, furloughed workers receiving support via the government's CJRS (Coronavirus Jobs Retention Scheme) are classed as employed. This distorts the data for unemployment and employment which do not show the expected deterioration although economic output contracted by 20.4% between March and April after the UK imposed its nationwide lockdown on 23 March to contain the COVID-19 pandemic. The monthly unemployment rate remained unchanged at 3.9% in April. Surprisingly, monthly employment even increased by 102k to 33.2million according to standard ONS data. Against the positive headlines, however, data on hours worked, vacancies, claimants and furloughed workers depicts a major deterioration in labour market activity.

Nevertheless, the data are, for now at least, better than anticipated and support some cautious optimism. With a lot of help from the government employment subsidy scheme, the core of the labour market remains protected from short-term acute shock from the pandemic. In time, the headline unemployment and employment data could deteriorate materially. Such indicators often lag trends in general economic activity. The risk of a massive wave of layoffs when the CJRS comes to an end in October looms large.

Further insights from the May jobs claims data and April labour market report:

- (1) The claimant count rate rose to 7.8% from 6.3% in April – the highest since February 1995 – Chart 1. *See below for more on how to interpret this statistic.*
- (2) Jobless claims hit 528.9k in May – while below the previous month's increase of 1032.7k, they remain far above the biggest ever pre-Covid monthly increase of 142.8k in February 2009.
- (3) While employment edged slightly higher, the number of hours worked dropped by 7.8% - Chart 2.
- (4) The number of job vacancies (the key measure of labour demand) collapsed to 476k, the lowest since May 2012, while the redundancy rate remained unchanged at 3.9% – Chart 3.
- (5) Wage growth excluding bonuses slowed to 1.7% on 3m/3m yoy basis from 2.7% in March.
- (6) Experimental data from HMRC and ONS suggests that employment declined by c163k between April and May – this is within the usual range of monthly volatility, however.

A note on the claimant count data

The claimant count data, which are published a month earlier than the main statistics in the labour market report, offer a more timely indicator of labour market performance. Keep in mind, however, that not everyone in the claimant count measure is actually unemployed. As part of its policy response to the pandemic, the government expanded its entitlement support and, hence, some people that now register as 'unemployed' according to the claimant count measure may not actually be unemployed but instead on reduced hours and earnings and thus receiving some kind of income support. While we should keep an eye on the claimant data in the months to come, as it may provide an early signal that the labour market has turned up, the data will likely overstate the total number of people that are made unemployed.

Policy is softening the blow

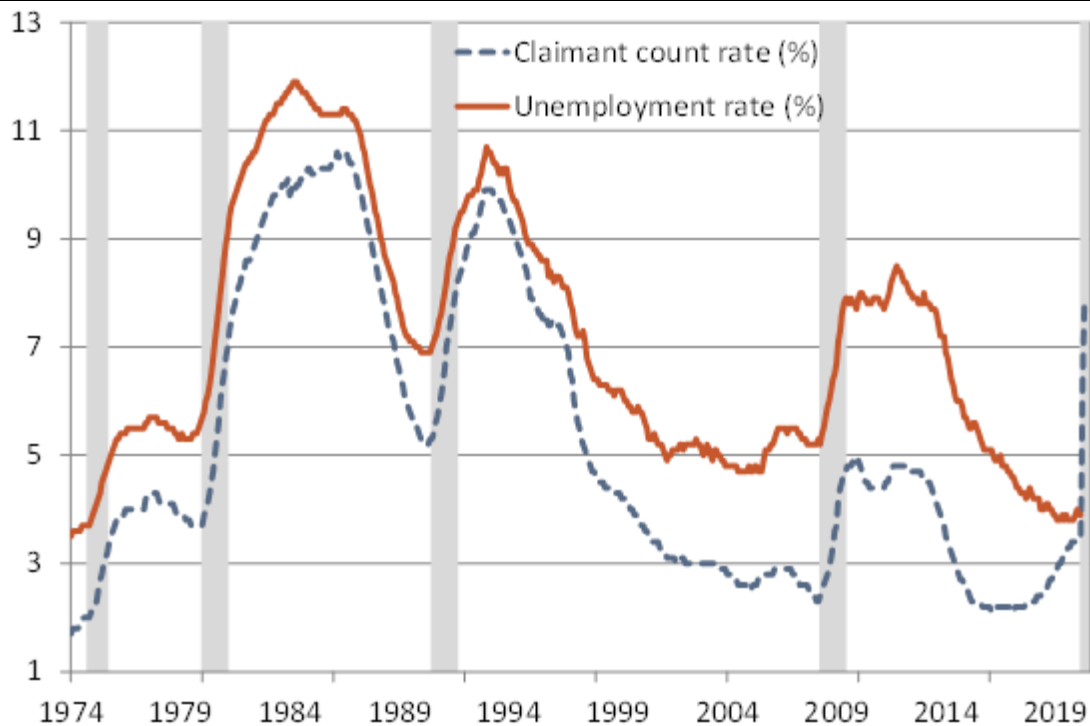
The CJRS seems to be working extremely well. Based on data up to 31 May, 8.7m furloughed workers are receiving wage subsidies through the scheme – equivalent to 24.2% of the Q4 2019 labour force size. In Table 1 we show the estimated percentage of workers by industry that are furloughed and receiving support through the CJRS. While the policy is softening the blow for workers that have fallen on hard times in all



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industries, some proportion of the furloughed workers will end up unemployed in time, especially in services industries like retail and travel where demand will remain structurally lower after the pandemic has run its course. Still, from a macroeconomic perspective, in context of the massive shock, the policy serves two important purposes: 1) it helps to contain the short term damage by limiting the rise in unemployment (most workers will, after all, return to their jobs in time; and 2) it helps to spread out the cost of the rise in unemployment by delaying the time at which workers are made redundant – those workers also get more time to find an alternative job at current pay.

Chart 1: Unemployment and claimant count rate (%)

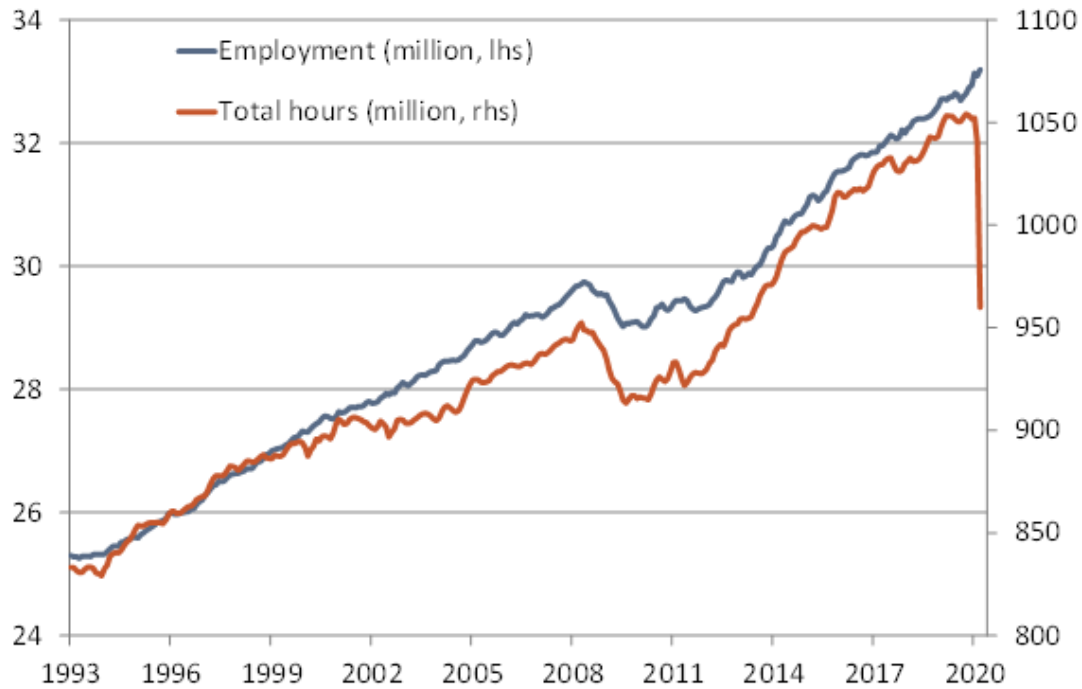


Monthly data. Unemployment rate based on three month rate apart from final month. Source: ONS.



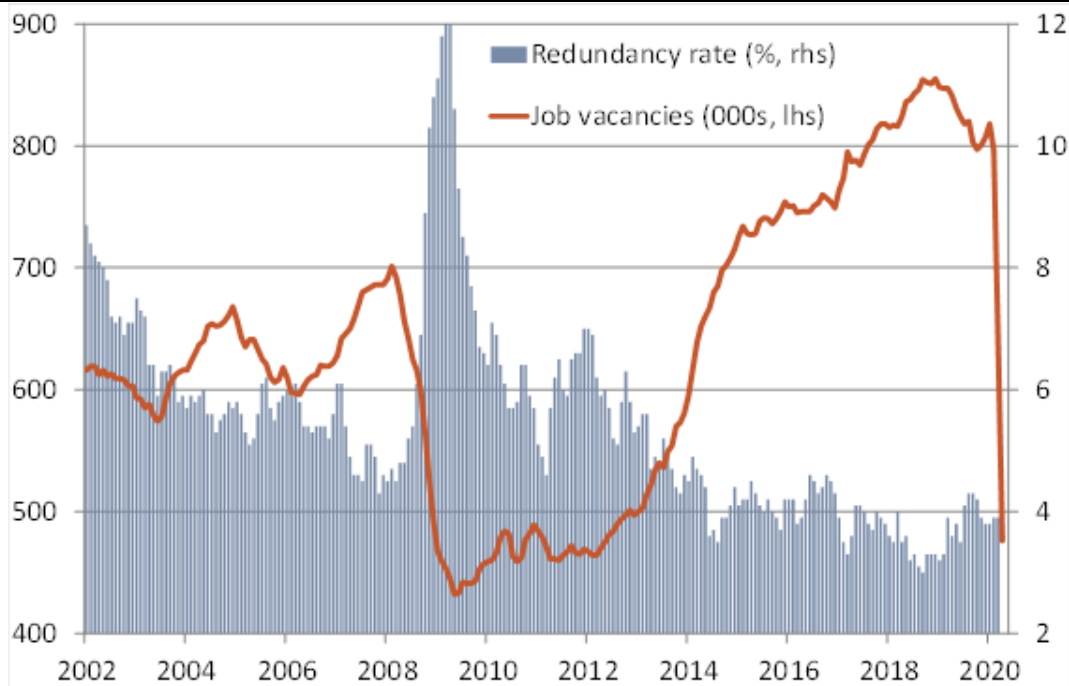
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Chart 2: Employment and hours works



Monthly data. Three month moving average apart from 2020 data which shows monthly estimates.
Source: ONS.

Chart 3: Redundancies and job vacancies



Monthly data. The redundancy rate is the ratio of the redundancy level for the given quarter to the seasonally adjusted number of employees in the previous quarter, multiplied by 1,000. Source: ONS.



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Table 1: UK Coronavirus Job Retention Scheme data

Sector	Total number of employments furloughed	% 2019 Q4 sector workforce jobs	% 2019 Q4 total workforce jobs
Agriculture, forestry & fishing	31,300	7.6	0.1
Mining, quarrying & utilities	12,900	22.2	0.0
Manufacturing	831,000	30.8	2.3
Energy Production	16,300	10.6	0.0
Waste and Recycling	36,300	15.1	0.1
Construction	679,600	29.4	1.9
Wholesale and retail; repair of motor vehicles	1,609,800	31.9	4.5
Transport & storage (inc postal)	303,300	16.7	0.8
Accommodation & food services	1,403,300	56.0	3.9
Information & communication	168,000	11.0	0.5
Finance & insurance	62,800	5.6	0.2
Property	128,500	19.5	0.4
Professional, scientific & technical	495,800	15.4	1.4
Business administration and support services	644,800	21.0	1.8
Public administration & defence	4,400	0.3	0.0
Education	213,400	7.2	0.6
Health	332,000	7.4	0.9
Arts, entertainment, recreation and other services	357,000	34.8	1.0
Other	1,365,400	---	3.8
Total	8,695,900		24.2

Estimates of the number claims made to the Coronavirus Job Retention Scheme to HMRC by 31 May 2020. Source: ONS, HMRC CJRS and PAYE Real Time Information data and Inter-Departmental Business Register

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