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UK: ANOTHER POSITIVE LABOUR MARKET SURPRISE

Berenberg Macro View

Policy still working well: Thanks to aggressive fiscal support, the UK labour market has consistently beaten expectations since the pandemic hit the UK in February 2020. Latest data for November showed that the CJRS (Coronavirus Jobs Retention Scheme) continued to encourage firms to retain their staff despite weakening aggregate demand following the re-imposition of lockdowns across the country. The ONS estimates that the official unemployment rate increased by just 0.1ppt mom to 5.0% in November even though real GDP was around 9% below its January 2020 peak (consensus expected 5.1%). It compares to a pre-pandemic rate of 3.9%. Despite the increased economic drag from the elevated virus-related restrictions, rising expectations for a strong recovery from spring onwards lifted potential labour demand (job vacancies) during the month.

The statistics that matter: Current estimates of the UK unemployment rate should be taken with some caution. Unlike in the US, furloughed workers in the UK who receive support via the government's furlough scheme are classed as employed. Due to the distortions from the CJRS, estimates of hours worked, vacancies, claimants and furloughed workers provide better insight into the underlying state of the labour market – see below. Such data point to a sizeable employment correction once the CJRS ends on 30 April 2021 before rising labour demand can support a sustained employment recovery thereafter.

Summary of the December jobs claims data and November labour market report:

1. The claimant count rate edged up to 7.4% in December from 7.3% in November (Chart 1). Jobless claims increased by 7.0k in December after rising by 38.1k in November.
2. Hours worked rose by 2.1% mom in November. However, due to the still-high number of furloughed workers (16% of the workforce in the period 16 to 29 November), the number of hours worked remained 6.8% below the January 2020 peak - Chart 2. Employment remained at a high level (32.5m) in the three months to November – down just 400k from a year earlier.
3. The number of job vacancies edged higher to 578k from 552k in October and up from a low of 343k in May. In a sign of the pain to come, the redundancy rate increased further to 14.2% from 13.3% in November – Chart 3.

Do not over-interpret the sharp rise in wage growth

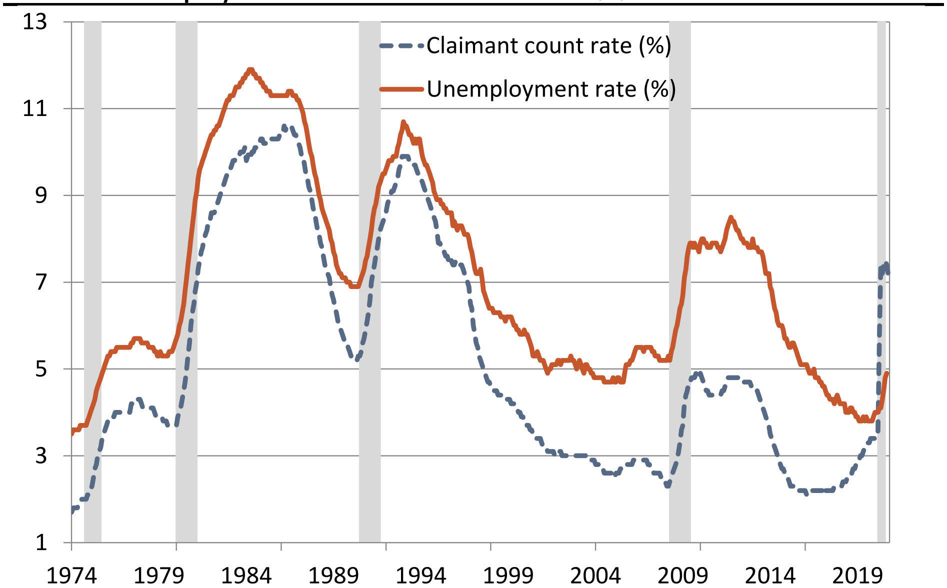
Wage growth slumped badly from 3.0% yoy in January to -0.1% in June during the first wave of the pandemic. Despite the increased virus risks in November, wages accelerated to 3.2% yoy in December from 2.8% in November. However, part of the positive wage story reflects compositional changes in the labour market. The ONS notes that '*current average pay growth rates are being impacted upwards by a fall in the number and proportion of lower-paid jobs compared with before the coronavirus (Covid-19) pandemic; it is estimated that underlying wage growth – if the effect of this change in profile of jobs is removed – is likely to be under 2%.*' As employment in the low paid jobs lost during the pandemic recovers in H2 2021 and beyond, it may have the opposite effect and weigh on growth in headline wages.

Labour market outlook

Unemployment probably edged higher in December and January as the economic hit from ongoing lockdowns forced firms to further reduce employee headcount. We estimate that the unemployment rate will peak at 7.2% in Q2 2020 once the CJRS ends. We project that the unemployment rate will fall to 4.4% by end 2022, only modestly above its pre-pandemic low. The continued string of better-than-expected labour market data suggest the risks to this call are positively skewed. The income support to furloughed workers underpins underlying domestic demand and can strengthen the recovery in spending once the current lockdown ends.

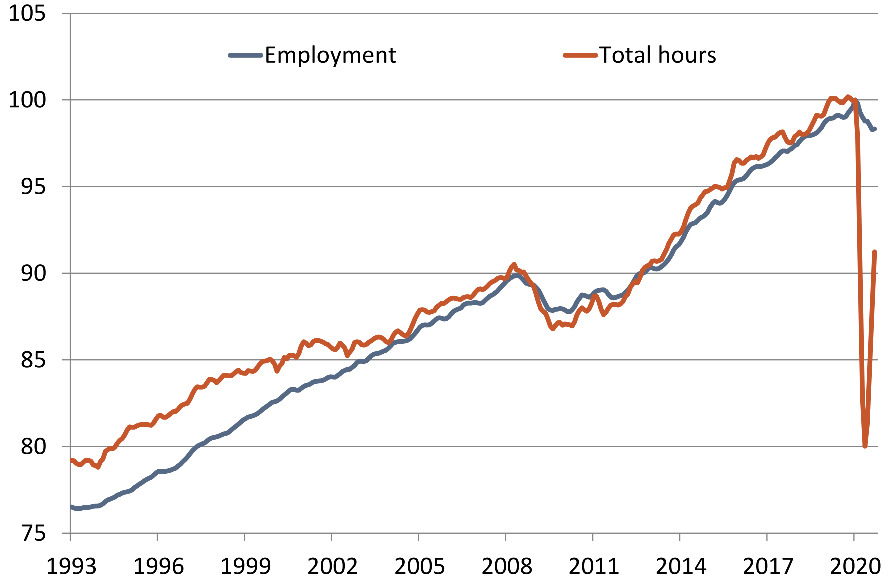
After extending the CJRS twice already, Chancellor Rishi Sunak may announce a further extension with tapered support through summer 2021. That would limit the likely spike in unemployment once the scheme ends, and speed up the recovery.

Chart 1: Unemployment and claimant count rate (%)



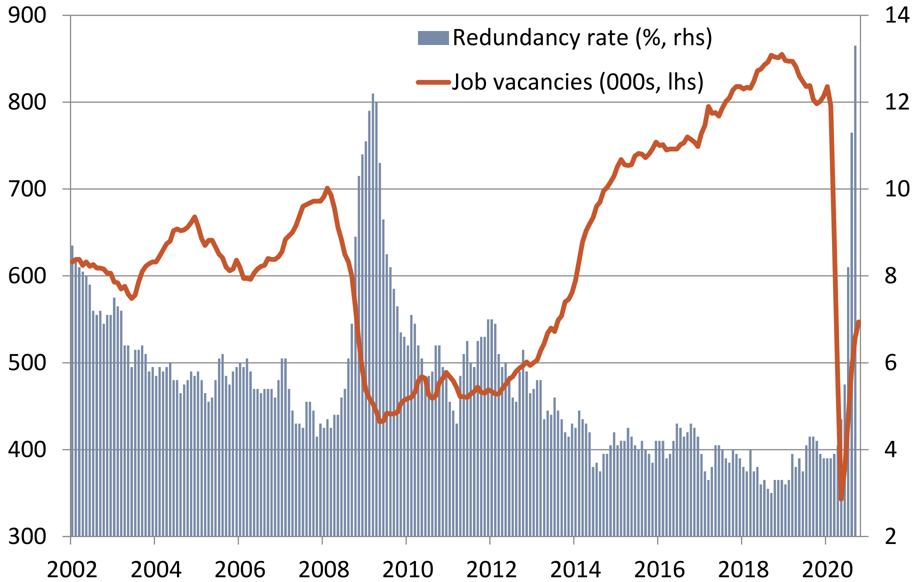
Monthly data. Unemployment rate based on three month rate apart from final month. Source: ONS.

Chart 2: Employment and hours worked



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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