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UK: STABLE LABOUR MARKET AS ECONOMY EMERGES FROM LOCKDOWN

Berenberg Macro View

Still holding up

After the sharp drop in employment, hours and wage growth during the first wave of the pandemic in Spring 2020, the latest data continue to show that the labour UK market remained mostly stable through the now fading second (winter) wave of the pandemic. As part of a broader economic trend, the labour market estimates show that households and businesses are adapting better to pandemic-related restrictions the longer they go on.

The unemployment rate edged lower to 4.9% in February from 5.0% in March while the employment rate moved sideways (60.3%). As the key measure of labour demand, vacancies indicate that the labour market is about to turn up. After tracking economic activity through the pandemic – Chart 1, vacancies edged up slightly in March to 607k from 599k – although they remain well below pre-pandemic levels.

Summary of the March jobs claims data and February labour market report:

Furloughed workers in the UK who receive support via the government's Coronavirus Job Retention Scheme (CJRS) are classed as employed - unlike in the US. Due to the distortions from the CJRS, estimates of hours worked, claimants and furloughed workers provide a better guide to underlying labour market dynamics than headline unemployment and employment estimates.

1. The claimant count rate moved sideways at 7.3% in March (Chart 3). Jobless claims increased by just 10.1k after rising 67.3k in February.
2. Hours worked dipped further in February – reflecting the continued lockdown across the UK (0.8% mom after a 1.1% drop in January). Due to the still-high number of furloughed workers (19% of the workforce in mid-March according to the ONS – c6m workers), the number of hours worked remained 8.8% below the January 2020 peak - Chart 3.
3. Employment including furlough workers remained at a high level (32.4m) in the three months to February – down from 33.1m in January 2020.
4. The redundancy rate dropped sharply in February to 7.3% from 11.0% in January.

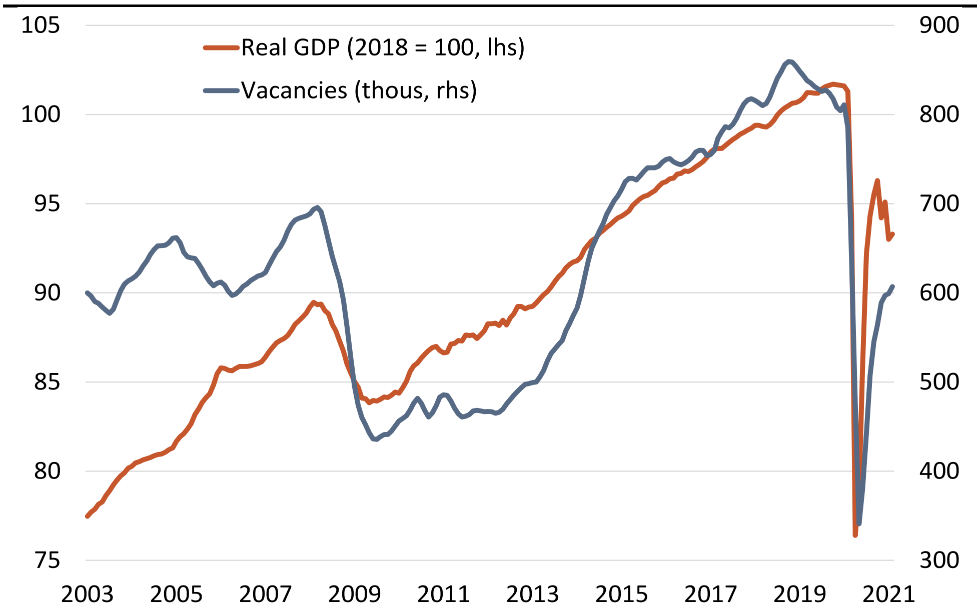
Headline data overstates pace of wage growth

Wage growth remained strong in February at 4.5% yoy after a 4.8% gain in January. However, the unusually robust headline number – relative to the underlying labour market – is largely due to compositional changes in the labour market. The ONS notes that '*average pay growth rates have been affected upwards by a fall in the number and proportion of lower-paid jobs compared with before the coronavirus (COVID-19) pandemic. Therefore, it is estimated the net impact of recent job losses is to increase the estimate of average pay by approximately 1.9% – suggesting an underlying wage growth of around 2.5% for total and regular pay.*'.

Positive outlook

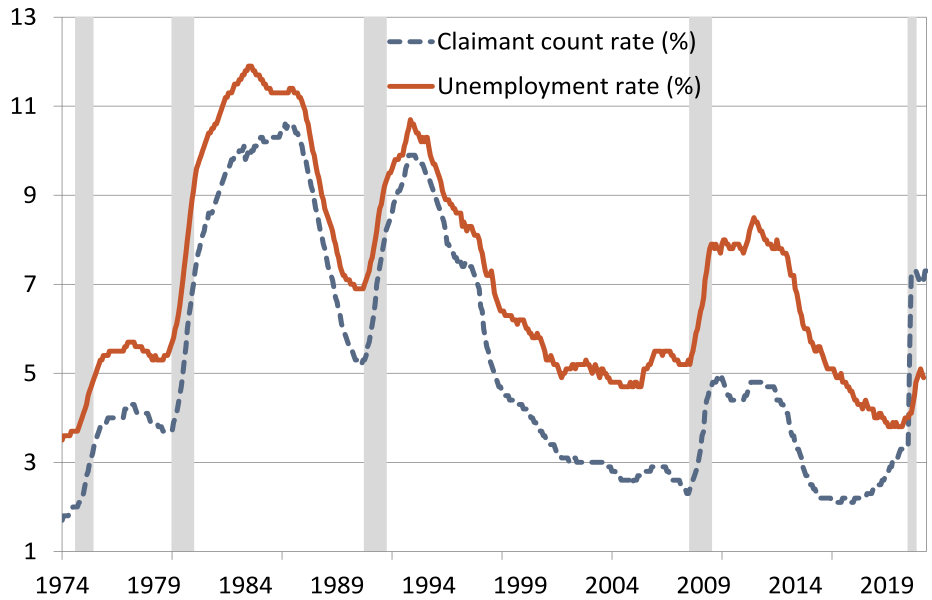
The UK is at the early stage of a robust consumer-driven recovery that should gain significant momentum through the summer. A rapid vaccination rollout and low SARS-CoV-2 case numbers underpin the hope that all restrictions can be eased in England by 21 June as currently planned. Stronger domestic demand and rising confidence will support a recovery in employment and rising wage growth. Although we project a modest rise in unemployment in the coming months due to losses associated with permanent shifts in demand (such as for traditional in store retail), this should be offset over time by more jobs in high growth sectors of the economy such as personal services and logistics. We expect the unemployment rate to peak at 5.8% in H2 2021, coinciding with the end of CJRS on 30 September 2021, before declining thereafter. We look for the unemployment rate to fall to 4.3% by end-2022 – just above the pre-pandemic low of 3.8%. In light of continued upside surprises to the employment numbers, the risks to our unemployment forecast are positively skewed.

Chart 1: Real GDP versus vacancies



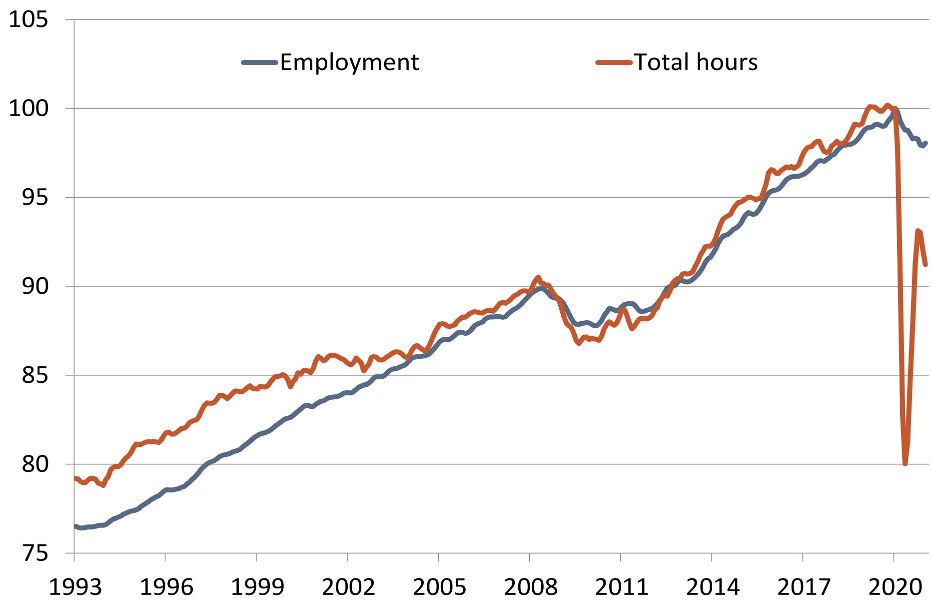
Monthly data. Three month average until 2020. Source: ONS

Chart 2: Unemployment and claimant count rate (%)



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

Chart 3: Employment and hours worked



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

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