

## **Box B: Job boom or job bust? The effect of the pandemic on actual and measured job and employment growth.**

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### **Introduction and background**

Normal life was put on hold for many during the lockdowns in 2020 and 2021 as society focused on addressing the health crisis. In the labour market, many fewer people started a new job ('hires') and, partly due to the use of the Coronavirus Job Retention Scheme, some people stayed longer in work than they would in 'normal' times. Their job 'separation' was delayed. Other parts of society saw a similar stalling in 'normal' turnover. Fewer people moved into new homes and/or households either in the United Kingdom or abroad with consequent disruption to trends in housing and internal and international migration.

So, as the health crisis subsided, this stalling of 'normal' turnover left behind a major imbalance of resources. All sorts of people and things were in the wrong place. In many cases this misallocation of resources was wrongly considered to be a 'shortage' – an absolute lack of people to do a job – as in the case of lorry drivers as the economy re-opened. But in a relatively short period this disequilibrium unwound and there is now little discussion of a permanent 'shortage'. Where did all the lorry drivers come from?

Not only that, but the pandemic caused many people to reconsider where the 'right place' was. Their experience during the pandemic and also changes in their household and community situation caused them to reconsider their priorities. It caused behavioural changes to their plans, hopes and expectations for the future.

### **What is the best way to measure these developments? And how and when can we judge if disequilibrium has returned to a new 'normal'?**

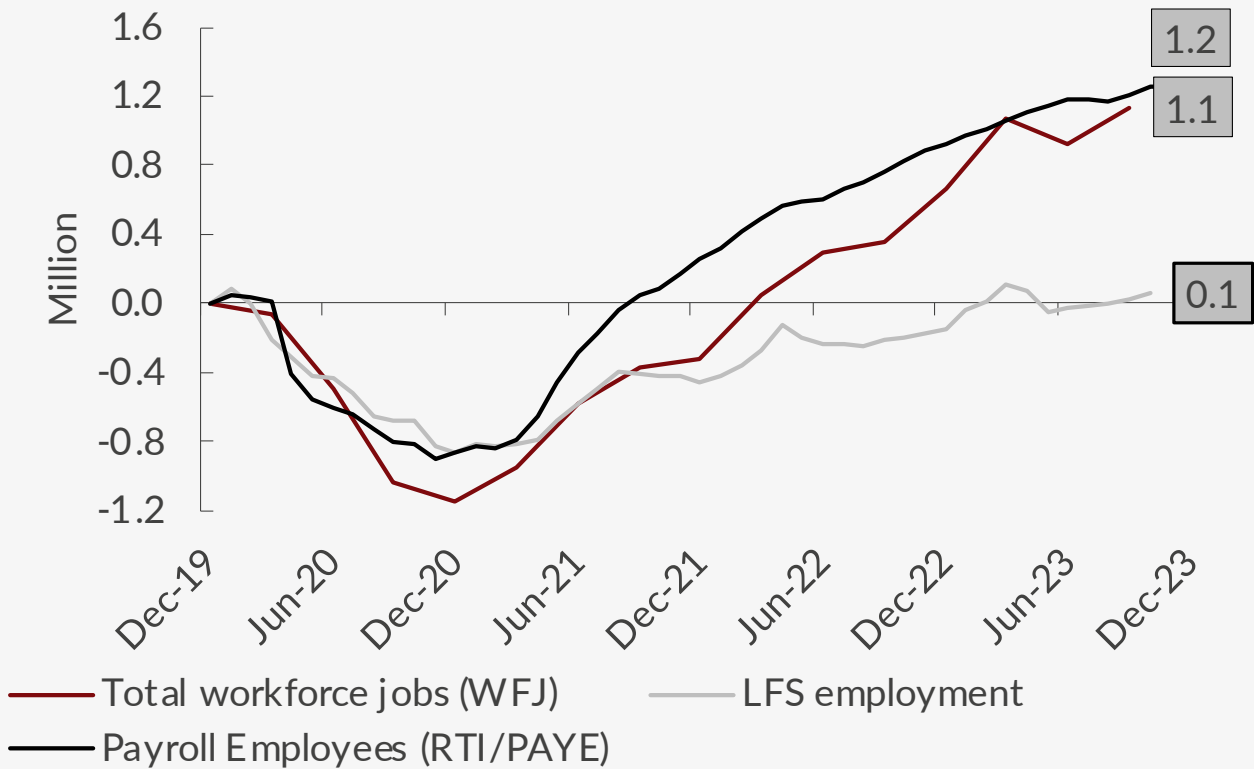
As different parts of the job market have been affected differently by the pandemic, the ability to measure what is happening is also made more difficult. The tools used to measure developments – the statistics – are themselves affected by the disruption to normal life on top of their different strengths and weaknesses. Perhaps even more important, different statistics provide different perspectives on the situation. And these different perspectives have been affected differently by the disruption of the pandemic.

The Office for National Statistics (ONS) provides three headline statistics on the job/employment market. Of the two official statistics that provide estimates, one does so from an individual perspective – Labour Force Survey (LFS) employment – and the other from a business/firm perspective – Workforce Jobs (WFJ), which at its core (the Employee Jobs estimate) is based on the Short-Term Employment Survey (STES) of private-sector firms and the Quarterly Public-Sector Employment Survey (QPSES).

The third (experimental) measure is the Real-Time Information/Pay As You Earn (RTI/PAYE) employee estimates which is a by-product from the tax system. So, although it is more of a census than the other two estimates, it is a census of the people it measures. Not everyone. Self employment and employees not covered by PAYE are the main areas not included in the estimates. Also, as it is a by-product of the tax system, the RTI/PAYE system suffers from a substantial degree of missing values each month as information on new jobs (hires) and separations do not get to the tax system in time to feed into the estimates. Therefore, imputation to compensate for these missing values is required, which is either confirmed or revised in the months and years that follow as the information comes in. Little information of the extent of this imputation is available or whether it varies over time. But when the RTI/PAYE was set up, 20 per cent was the figure mentioned for imputation. The crisis caused measurement problems for all three of the main job market measures. But perhaps the biggest uncertainty is about the sampling frames – the overall population of individuals or firms - from which both the individual-based (LFS) and firm-based (WFJ) survey samples were drawn.

The nature of the crisis and other recent developments has had a differential effect on the different measures. The estimates, projections, and composition of the overall population – the LFS source – have been much more affected by the crisis than the overall measure of the number of businesses in the economy (the Inter-Departmental Business Register (IDBR)) - the WFJ source. So, in the annual IDBR review (DBT, 2023) there is no mention of measurement problems associated with the pandemic. Whereas the LFS was completely reweighted because of identified problems with population estimates and the relationship with LFS estimates (ONS, 2022). Unfortunately, the LFS reweighting seems to introduce a discontinuity. From mid-2021 it seems to have broken the link between business-based job (WFJ and RTI/PAYE) and population-based (LFS) estimates. This would seem to imply that the LFS reweighting made LFS-based estimates less accurate, and that more reliance should be given to business-based estimates.

In summary, if the WFJ estimate is used to provide the overall picture, there are likely to be around one million more jobs than at the start of the pandemic instead of an LFS-based picture of employment stagnating since mid-2021 and even now only just attaining pre-recession levels (figure B1). Workforce Jobs have also, on a comparable basis (employees only), grown faster than the other business-based estimate (RTI/PAYE). Workforce Employee Jobs are up by 1.8 million compared to the RTI/PAYE estimate of 1.2 million, while total Workforce Jobs are up by 1.1 million, with the difference due to the inclusion of self-employment jobs in the more complete WFJ estimate. Self-employment is down significantly during this period, one of the major features of the labour market in the crisis.

**Figure B1** Change in employment since December 2019

Source: ONS.

However, such uncertainty about what statistics to use and what they mean is unsustainable. It needs to be resolved. Particular attention needs to be paid to the estimates and projections of population and not just how the LFS sample is drawn from this sample frame. In addition, the standard reconciliation between LFS and WFJ estimates needs to be restored as soon as possible. On RTI/PAYE employee estimates further review of the effect of imputation on revisions is needed, especially to consider its usefulness as a leading indicator given the large amount of imputation.

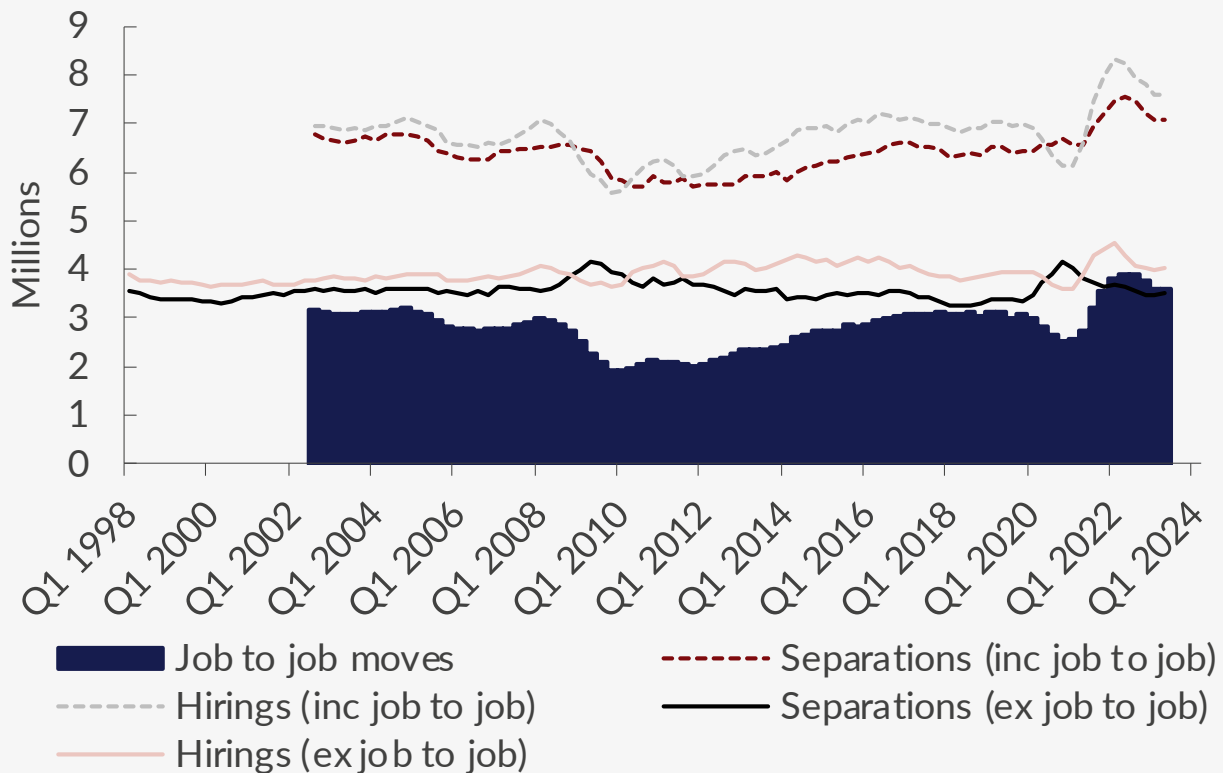
### From roundabout back to roller-coaster

If, as argued here, WFJ provides the most accurate picture of the job market, the strong job growth it is currently signifying would seem to be at odds with some other recent labour market developments that have been interpreted as a softening of the labour market. The chief signs of softening are that vacancy and hiring numbers have slowed and the number of out of work benefits has begun increasing again.

A major factor that might help to resolve this conundrum – which is also evident in the United States – is the unwinding of the labour market disequilibrium caused by the stalling of turnover during the pandemic. In ‘normal’ times around 7 million people per year take up a new job – ‘hires’ – but in the year to the first quarter of 2021 there were only 6.1 million. Within a year ‘hires’ had soared to 8.3 million – a record high – and although it has fallen back (around 7 ½ million in the latest, LFS-based, information) it is still likely to be well above ‘normal’ levels. Firms had to advertise record vacancies to achieve these record hires.

However, initially overall job growth (net change) took some time to pick up. The reason is the share of hires taken up by job-to-job moves has risen while the share of hires taken up by moves from worklessness (both inactivity and unemployment) to work fell. (That said, moves from worklessness to work are also at historic highs.) The ‘roundabout’ of job-to-job moves does not add to overall employment. A vacancy is filled but by someone already in a job. So, a gap appears elsewhere and is likely to spark another vacancy. This ‘roundabout’ from job to job seems to be slowing with more vacancies being filled by jobless people and firms reporting fewer labour ‘shortages.’ So, vacancies and hires are falling back whilst employment is continuing to grow rapidly.

**Figure B2** Hirings and separations



Source: Labour Force Survey.

Notes: Rolling four-quarter total. Age 16-64. Not seasonally adjusted.

The job market has also been affected by similar pandemic-induced trends in population – particularly international migration. Using issues of National Insurance Numbers (NINOs) as a rough indicator, there was initially a major stalling of turnover. In the decade before the pandemic, NINOs issued varied between 600 and 800 thousand. Whereas in the year to the first quarter of 2021, it had fallen to less than ¼ million. As society re-opened this rose rapidly to 1.1 million in early 2023 but had fallen back to 800 thousand in the third quarter. Not all this volatility is due to the pandemic. For example, the Ukrainian war has seen a (temporary) surge in NINOs issued to Ukrainians. Also, there are signs of changes in migration policy that are likely to have been a significant factor in the record job ‘hires.’ One of the major factors in the growth in net migration has been that resident migrants are remaining in the UK longer. Extensions of temporary visas – many for work – have risen from less than 200 thousand in 2016 to nearly 700 thousand in the latest year.

Unfortunately, these new and changing demographic trends make it more difficult to interpret the jobs market using the LFS. Even if the statistical and sampling problems are resolved, the sampling frame – UK population estimates – from which the sample is drawn is very uncertain. And it is likely to take some time and require a lot of effort to get a clearer and more certain picture of the number and composition of the population.

Finally, not all societal and policy changes have led to the increase in ‘hires.’ Generally, the record hires have been taken up by people not on out-of-work benefits, both job-to-job moves and the workless who move directly into work. But, if anything, the success of people moving from welfare to work has worsened since 2015. This was a reversal of previous trends with out-of-work benefits falling from over 5 million to 3 ½ million between 1999 and 2015 despite the 2008 recession. Since 2015 out-of-work benefits have risen and are now back above 5 million again. And this reversal started before the pandemic with, for example, claimant unemployment rising ½ million in 3 years from February 2017. With fewer people moving into work from welfare, the increased duration of benefits has driven the rise. And so, amongst the total population who are without work the share taken up by people on benefits for a very long time has increased substantially.

In conclusion, having successfully identified previously in Wells (2002) that the second quarter of 2022 would be when Workforce Jobs would pass the pre-pandemic peak, this box sets out that there has been very rapid growth of over one million jobs in the following five quarters, continuing the United Kingdom’s record as a ‘successful employment performer’. At the time, there were similar trends in LFS employment, and the expectation was also of continued rapid growth. But then it came to a sudden stop, and it is only in the last few months that LFS employment has reached its pre-pandemic peak. Here it is suggested that the trends in Workforce Jobs are more accurate and that the stagnation in LFS employment was largely due to statistical measurement problems, with the effect of the reweighting seemingly playing a major role. But major statistical uncertainties remain and need to be resolved.

Although the United Kingdom has continued to be a strong job generator the nature of the people who are taking up the jobs has changed since around 2015. After a long period of ‘levelling up’ when the employment rates of the most disadvantaged in the labour market increased disproportionately and out-of-work benefits fell substantially, these trends have now been reversed. A major factor during the crisis was the unwinding of the disequilibrium caused by the lockdowns. This led to the ‘roundabout’ of record job-to-job moves which sparked record vacancies and ‘hires’ but did not contribute to job growth. What did contribute to job growth was the moves from the workless who were not on benefits into work. A large component of this seems to be due to a change in recruitment policy/strategy, with many of the jobs being taken up by resident migrants whose initial temporary visas were extended. By contrast, despite the strong job growth, fewer people are moving from welfare to work. And so, despite record jobs the United Kingdom also has record numbers on out-of-work benefits.

## References

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