Low UK unemployment rate masks challenges ahead

While the UK unemployment rate has stayed close to its all-time low, there is a growing risk that the jobless figures deteriorate over the summer as a combination of social distancing constraints and adjustments to the Job Retention scheme push firms towards making permanent changes to their operating models

Source: Shutterstock

The Job Retention scheme has successfully kept unemployment low

In stark contrast to the sharp increase in US unemployment since the start of the pandemic, the UK unemployment rate is still pretty much where it was at the turn of the year. The latest figures covering the period between February and April show that the jobless rate was 3.9%, essentially unchanged from its low of 3.8% at the turn of the year.

This is a little surprising, particularly in light of the sharp rise in Universal Credit (unemployment support) we saw through April when the lockdown was in full swing. In fact the claimant count measure, which runs slightly ahead of the rest of the jobs data, shows the unemployment rate hit 7.8% in May. But importantly this includes workers who were still technically employed, but that were eligible for extra support.

The government's Job Retention (furlough) scheme and equivalent package for self-employed workers was broadly successful in avoiding layoffs through the midst of the lockdown. And in the official unemployment statistics, these workers still classify as employed, albeit many were registered as temporarily working no hours.

Growing risks of summer redundancies

Nevertheless, the stability in the unemployment rate masks some broader weakness in other parts of the jobs report. Job vacancies have plunged, almost back to levels seen in the financial crisis. Meanwhile some experimental statistics, based on payroll data, showed around a 600,000 fall in the number of people being paid since March.

There is also growing concern about where unemployment is headed over the summer months. The government's Job Retention scheme is set to be adjusted over the summer, with firms required to make a greater contribution to the wage costs of those workers who are furloughed.

With social distancing rules likely to make it difficult for some firms to operate profitably during the reopening phase, there is a risk that some companies begin to make more permanent changes to their operations, and are forced to resort to redundancies.

The risks are perhaps particularly acute for the likes of hospitality and retail. These are sectors that have made greater usage of the furlough scheme through the lockdown phase, and are also some of the industries that have typically led the recovery in jobs through previous downturns. These sectors also typically have lower levels of average pay - which again highlights that those at the lower end of the income scale are likely to be hardest hit.

> The growing risk of unemployment notching higher over the summer emphasises that the economy is unlikely to return to its pre-virus size for quite some time. We expect a £150 billion quantitative easing expansion from the Bank of England this week.

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