

UK: Jobs challenge mounts as new restrictions loom

UK unemployment is unfortunately set to rise further on the combined impact of fresh Covid-19 restrictions and the end of the original furlough scheme. That's likely to put renewed pressure on the Bank of England to add stimulus at its November meeting



Unemployment is rising

With new Covid-19 restrictions across the UK, there can be little doubt that challenges facing the jobs market are mounting.

The latest labour market figures continue to show further signs of strain. While the unemployment rate remained pretty low at 4.5% for the three months to August, there are clear questions (as highlighted by the ONS this month) as to how useful this metric is at the moment. Instead, we need to look at the more real-time data from payrolls, which shows that there were still roughly 670,000 fewer employees than before lockdown in March.

Unfortunately, things are unlikely to improve in the near-term, and the combined impact of renewed business closures and the end of the original furlough scheme is likely to push the unemployment rate considerably higher into year-end.

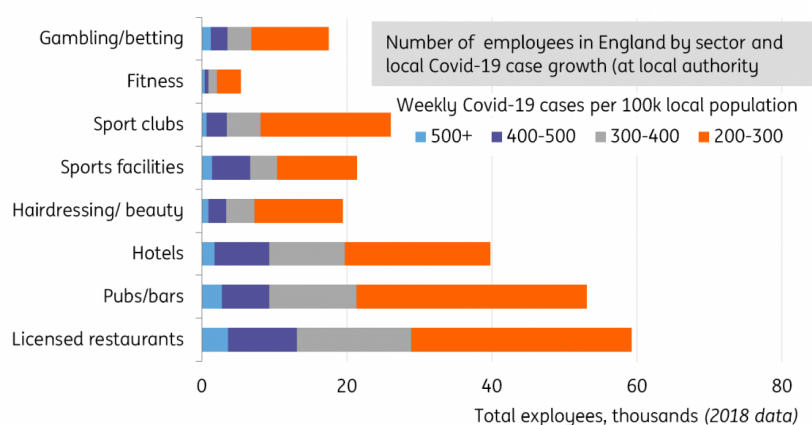
Revived furlough scheme will help

That said, the government's recent announcement that it will essentially revive the furlough scheme for businesses forced to re-close will help mitigate this increase to some extent.

Our rough-and-ready calculations, based on 2018 local employment data, indicate that perhaps around 40,000 jobs in the Liverpool City Region (the first in England to see closures) could be affected either fully or partially by the new restrictions. Looking more widely across England, we think there are around 180,000 employees in the directly affected sectors (shown in the chart below), in areas with weekly Covid-19 case growth in excess of 200 per 100k people, and therefore potentially more at risk of moving into the 'very high' category over coming weeks and months. This doesn't include the large chunk of jobs that will have been hit by the latest closures across Scotland.

Around 180,000 jobs in Covid-19 hotspots* in sectors affected by new restrictions

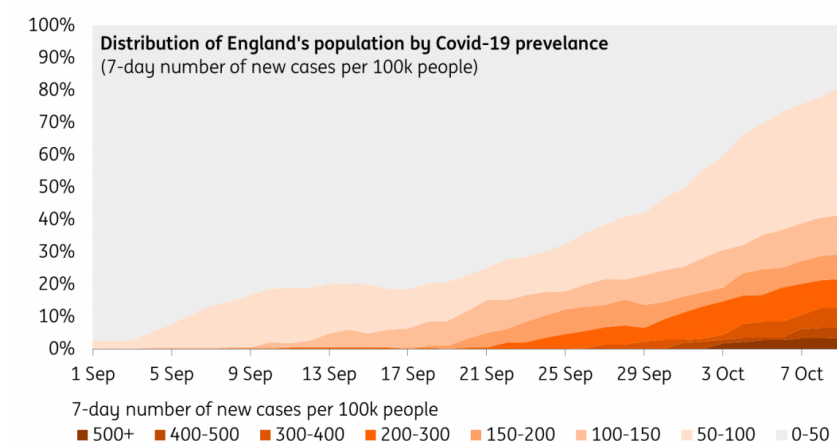
(*Local areas with > 200 weekly cases per 100k people)



Source: Macrobond, ONS, ING calculations

Covid-19 cases are weekly totals as a proportion of 2019 English local authority populations. Employment figures are from the 2018 ONS Business Register and Employment Survey.

Breakdown of UK population by local Covid-19 prevalence



Source: Macrobond, ONS, ING calculations

Of course those numbers only tell a small part of the story. There will be businesses that aren't formally required to close, but that are hit indirectly (think hospitality suppliers). And even outside of the Covid-19 hotspots, we're likely to see the recovery in consumer spending falter over coming weeks, either as a result of some of the other restrictions (eg limits on household mixing) or out of renewed caution as the virus spreads. That's likely to put renewed pressure on hiring plans across the UK, which based on vacancy data, have been revived to some extent over the summer months.

The latest resurgence in the virus may also prompt firms to take a more conservative approach when looking at how many employees to bring back from furlough. The new Job Support Scheme, which replaces the original furlough programme, is less generous to employers than its predecessor. At the moment there isn't much visibility on how many employees are still benefitting from the existing Job Retention Scheme, although surveys imply it could still be around 2-3 million workers.

Putting all of this together, we think we are likely to see the unemployment rate rise towards 9-10% over the winter. This will put additional pressure on the Bank of England to add stimulus, and we expect another round of QE at the November meeting.

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