UK jobs: Turbulence lies ahead despite recent recovery

Things are looking up in the UK jobs market, though the remaining months of 2021 are likely to be turbulent. Unemployment is likely to rise again as wage support ends, though assuming the four-week delay to ending restrictions isn't extended further, the spike is likely to be more muted than it might have been had furlough ended earlier

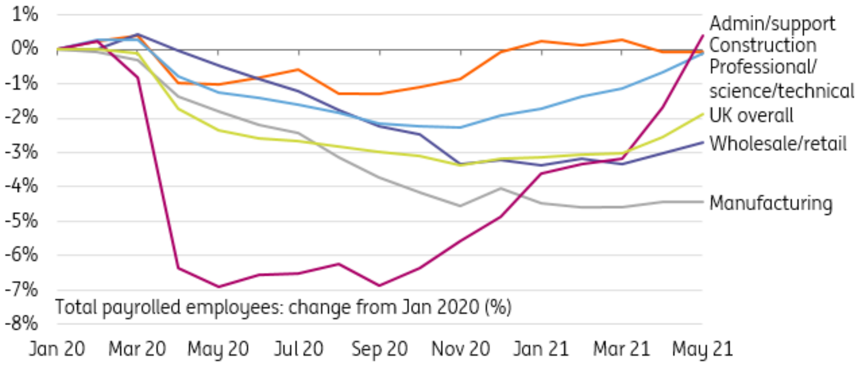
A Job Centre in Cambridge, UK

Source: Shutterstock

The UK jobs market has regained some poise through the first through months of 2021. The furlough scheme has helped stabilise the situation in stressed sectors – and indeed the experimental payroll data indicates that the decline in hospitality/recreation roles may have finally bottomed out. Meanwhile there has been a gradual recovery in other, lesser affected areas, as the chart below shows.

In fact despite the lockdowns through the first quarter, the unemployment rate has gradually ticked lower, hitting 4.7% in the Feb-April period. Indeed looking at the weekly version of the data, the average jobless rate was down at 4.5% in the latest six weeks of figures.

Outside of hospitality, many sectors are seeing a gradual recovery in hiring



Source: ONS PAYE data

But this relative calm is unlikely to last and the remaining months of 2021 are likely to be turbulent for the UK jobs market. Unemployment is set to rise come the end of the furlough scheme in September, though many forecasters, including ourselves, now believe the spike will be considerably less pronounced than it might have been had support ended earlier.

Will the delay to the ending of restrictions make a difference here? Really this depends on whether there is still a reasonable gap between the remaining restrictions easing – allowing large event venues, among other things, to reopen – and the end of wage subsidies. A short extension to the furlough scheme may be needed if the four-week delay to ending restrictions needs to be extended further.

One of the lessons from last autumn was that firms will take action weeks before the formal end of support, if they believe they won't be able to viably support workers back to their role. Redundancies peaked in mid-September 2020, six weeks or so before the 31 October when wage support was originally slated to end.

The better news is that the hardest-hit sectors appear to be in the early stages of recovery. Job adverts in the hospitality sector are now well above pre-virus levels. While this isn't the same as saying employment has returned to where it was before the pandemic, it does suggest some of the past employment losses we've seen over recent months could be quickly reversed over coming months. This is one of the reasons why we think the overall UK jobs market will be quicker to return to pre-virus levels of employment than after past recessions/crisis, and indeed unemployment may be falling again by the turn of the year.

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