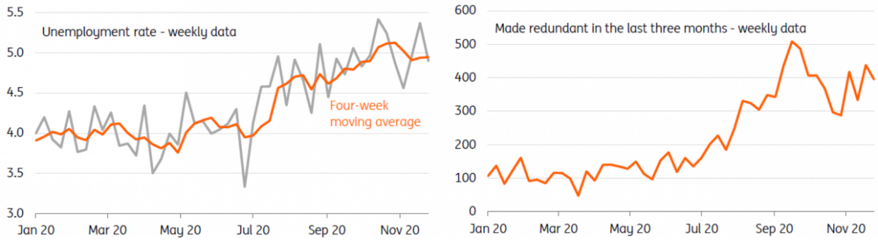
UK unemployment set for further rise in 2021

The UK jobs market stabilised towards the end of 2020 after months of turbulence. But with the furlough scheme due to end in April, there's a risk we see the jobless rate rise towards the 6-7% region if support is removed before all sectors have fully reopened. Higher costs/trade barriers that have arisen from the new UK-EU deal will also add pressure on hiring

The latest UK data offers hope that the jobs market stabilised towards the end of 2020, after a turbulent autumn. Unemployment rose through September and October ahead of the originally planned end-date for the furlough scheme. While the policy was ultimately extended, redundancies rose and peaked in September as firms cut their workforce in anticipation of reduced wage subsidies.

That translated into a rise in the unemployment rate to between 5-5.5% at the end of October/start of November, according to the new weekly data. That's up from just below 4% before the pandemic.

Unemployment rose ahead of the original furlough scheme end-date



Source: ONS experimental weekly data

The better news is that real-time payrolls data tentatively suggests that employment has since stabilised, after consistent month-on-month falls. While businesses in the hardest-hit sectors are reporting financial difficulties (roughly half of hospitality firms have less than three months of cash reserves, according to ONS survey data), the extended furlough scheme appears to be succeeding in limiting job losses so far.

However, the scheme is currently due to expire in April. The question is whether the policy is extended further, given that aspects of the current lockdown are likely to last longer, or whether the government reverts to offering subsidies only where staff are brought back on a part-time basis (in other words, no longer supporting staff who cannot work at all).

The risk is that we will see a further rise in unemployment, if support is tapered before the hardest hit sectors are allowed to open. The fact that there were still over a million workers 'fully furloughed' back in October when the scheme was originally slated to end, shows that there is a large pool of workers who have not been able to work at all due to the ongoing restrictions.

The disruption stemming from the new UK-EU deal will also inevitably put pressure on jobs as businesses continue to grapple with the permanent increase in costs and trade barriers. While there is plenty of uncertainty, it's not inconceivable that the unemployment rate could reach the 6-7% region later this year.

Author

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Disclaimer