



Institute for Fiscal Studies

Pre-release chapter

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The labour market during the pandemic

3. The labour market during the pandemic

Key findings

- 1 Although there were large rises in the proportion of people not working at least one hour a week in 2020, there was very little rise in unemployment and economic inactivity (where people have no job at all). By 2021Q1, 1.3 million more adults (aged 19–64) were not working at least an hour a week compared with 2019Q4, whereas only 0.3 million more adults were unemployed or economically inactive. The furlough scheme has kept unemployment from rising sharply during the pandemic.
- 2 Despite the large falls in the number of people working at least an hour a week, the number of households where no one was working has risen only modestly. This is particularly important for 19- to 24-year-olds, many of whom live with their parents. Even excluding full-time students who moved back home when universities and colleges shut, the share of 19- to 24-year-olds who lived with their parents rose from 45% in 2020Q1 to 50% in 2021Q1 – an increase of around 200,000 people. As a result, whilst the share of young adults who were not working rose by 10 percentage points by 2021Q1, the share living in a household where no one is working rose by just 1 percentage point – no more than the general population.
- 3 Looking at the (relatively small) increase in the number of households where no one has a job (i.e. all adults are unemployed or inactive), there are a number of groups where rises are more concerning: single-adult households without children (who by definition do not have a working partner to support them), and Pakistani and Bangladeshi people (who pre-pandemic were particularly likely to be

single-earner households). These groups had relatively high levels of poverty before the pandemic. The share of lone parents who were not working also rose sharply, though this reflected an increase in furlough rather than unemployment and inactivity.

- 4 People who continued to work through the pandemic experienced real earnings growth that was fairly similar to the immediate pre-pandemic years, and much higher than in the aftermath of the Great Recession. Real earnings growth has been supported by low measured inflation during the pandemic.
- 5 Average earnings growth during the pandemic has tended to be stronger for public sector workers and for workers with lower levels of education, the latter perhaps in part due to a significant rise in the National Living Wage in 2020. Conversely, there is some evidence that younger workers (aged 19–34) have seen weaker growth in earnings. This may be due to the lack of vacancies: those earlier on in their career are more likely to move employers more regularly and this is often a source of wage growth.

The previous chapter analysed the trends in household living standards up to the eve of the pandemic. As discussed in Chapter 2, we currently lack official income data covering the pandemic itself, and so this report uses a number of different sources to measure how households have fared, with a particular focus on the situation facing lower-income households. In this chapter, we focus on what is by far the main source of income for working-age families: the labour market.

The labour market has been disrupted in two broad ways during the pandemic. The first, and largest, disruption has been to employment. The temporary or permanent closure of businesses has led to a large number of workers being unable to do their usual job. Many have been put onto the furlough scheme, which at its peak in May 2020 was paying the wages of almost 9 million workers. But others have lost their job entirely and, given the reduced numbers of vacancies available throughout 2020 and into early 2021, they have found it harder to get back into work than they might have if they had been made redundant in more normal circumstances. In Section 3.1, we therefore investigate how trends in people not working (such as those who

are fully furloughed) have compared with trends in people without a job at all, and how different demographic groups have fared.

Not all changes in employment will have the same effect on household living standards. In particular, those households where, pre-pandemic, only one person was in paid work are much more likely to suffer poverty and financial or material hardship when that one person loses their job, than where there are two earners. It is therefore important to examine levels of household ‘worklessness’ as well as changes in individual employment outcomes. We examine this issue in Section 3.2.

The second dimension of labour market disruption is the earnings of those who have kept their job. Most obviously, the furlough scheme only covers up to 80% of earnings (though employers can choose to top that up). But even those who continue working can be affected too – by cuts to their hours, sluggish wage growth or a lack of job-to-job moves (which are often associated with pay rises). Section 3.3 therefore examines patterns in earnings growth over the pandemic.

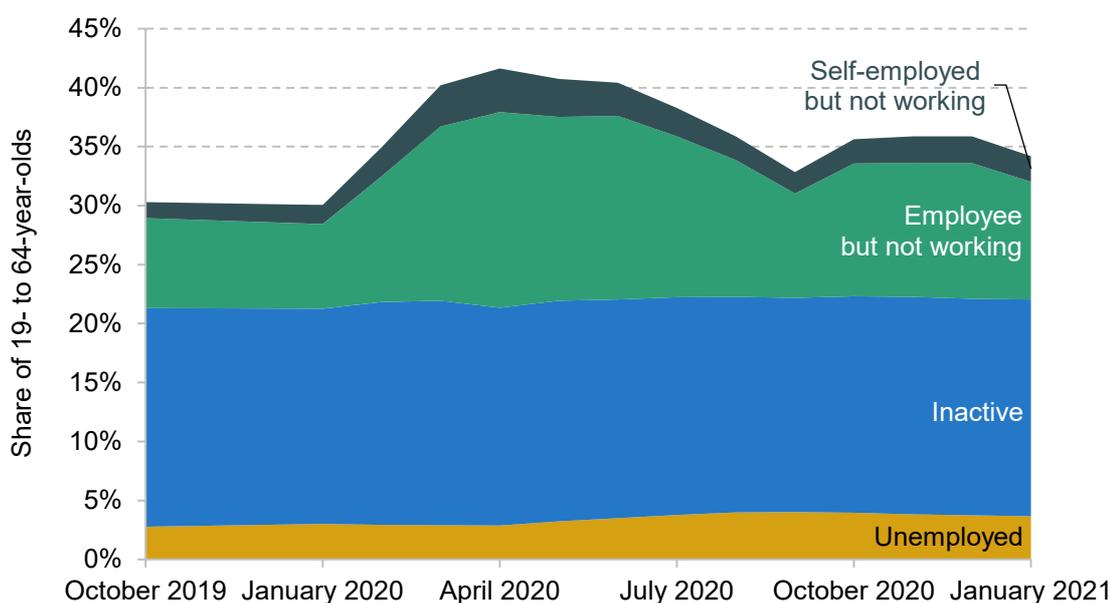
The chapter uses data from the Labour Force Survey, which is used by the Office for National Statistics (ONS) to calculate official employment statistics. It should be noted that, due to the pandemic, the ONS changed its methodology for contacting and surveying respondents, moving from an initial face-to-face interview to only undertaking telephone interviews. Alongside lower achieved sample sizes, the ONS found that this led to a lower likelihood of capturing renters compared with people who owned their own home, and therefore updated its weights to reflect the known housing tenure mix in the population. Our analysis uses these updated weights. However, given changes to survey methods and achieved samples since the start of the pandemic, there is inevitably more uncertainty about the exact changes in the labour market over the last year than there would be in normal times.

3.1 Changes in individuals’ employment

The COVID-19 pandemic led to a dramatic fall in economic activity in Spring 2020, which recovered over the summer before falling again in the second and third lockdowns. Figure 3.1 shows trends in employment status over the course of the pandemic, specifically highlighting the different ways in which people were not working during the pandemic. Looking at adults aged 19–64, 70% were employed (either as an employee or self-employed) and worked at least one hour per week in the week they were interviewed before the pandemic hit (2019Q4); therefore 30%

were not working at least one hour per week. Among working-age adults, 9% were employed or self-employed but temporarily not working because they were on holiday, off sick or on parental leave;¹ 3% were unemployed; and 19% were economically inactive, meaning that they were out of work and not searching for a job (because they were retired, studying, looking after family, long-term sick, or for other reasons).

Figure 3.1. Share of people not working over course of pandemic



Note: Includes people aged 19–64. Shows forward-looking three-month moving average. Data are available quarterly before January–March 2020 and monthly thereafter.

Source: Quarterly Labour Force Survey.

As the UK entered the first lockdown and entire sectors were ordered to close down, the share of adults who were an employee and working at least one hour per week fell by 9 percentage points (ppts), from 60% in 2019Q4 to 51% in 2020Q2. The furlough scheme prevented this fall in economic activity from turning into a rise in unemployment. Figure 3.1 shows that the share of adults who were

¹ We focus on the employment of adults aged 19 and over. As shown in Appendix Figure C.1, there has been an increase in the share of 17- and 18-year-olds in full-time education since the start of the pandemic, probably due to lower job vacancies. For those aged 19 and over, there has not been a statistically significant increase in participation in full-time education during the pandemic above pre-pandemic trends, so falls in economic activity reflect rises in furlough or unemployment.

employed but working zero hours rose by the same amount (9ppts or around 3.5 million employees²) over this period. Most, if not all, of this increase reflects people going on furlough, rather than people being off sick or self-isolating with COVID-19.³ In contrast, the share of the adult population unemployed in 2020Q2 remained steady at 3%, and the share of adults who were inactive also remained steady at around 18%.

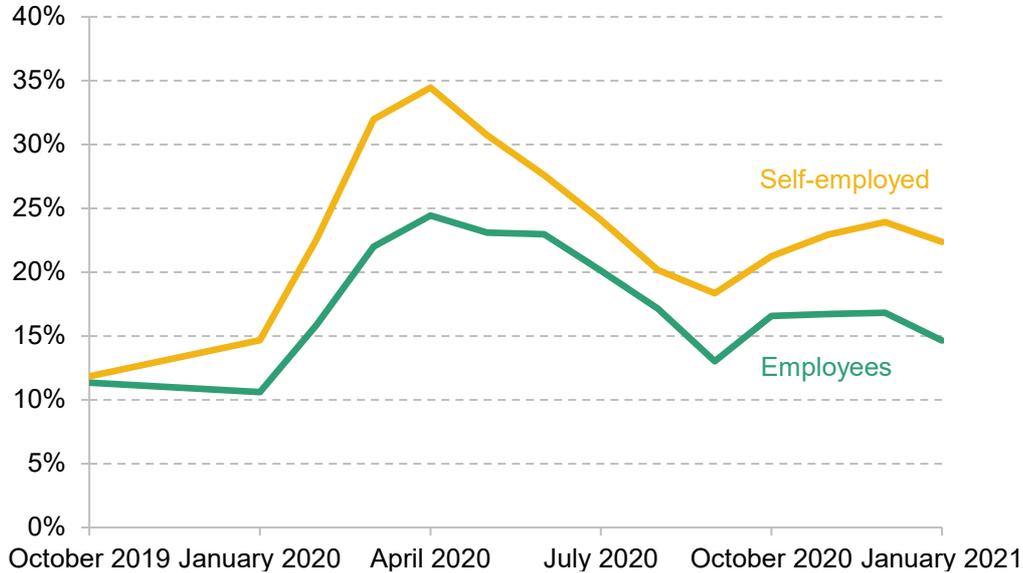
The pandemic hit the economic activity of the self-employed especially hard. Figure 3.2 shows that before the pandemic hit (2019Q4), 12% of self-employed workers aged 19–64 worked zero hours in the last week, a similar share to that of employees (11%). By 2020Q2, 34% of self-employed workers worked zero hours (900,000 more than pre-pandemic) compared with 24% of employees who were working zero hours.

The labour market recovered over the summer as many restrictions were lifted. By September–November 2020, 67% of adults aged 19–64 were employed or self-employed and working. This share declined again as the UK went into the second and third lockdowns, to 64% in December 2020–February 2021, though the fall was much smaller than in the first lockdown. This is likely to reflect looser restrictions compared with the first lockdown and clearer guidelines on which businesses could remain open – for example, over 700,000 jobs in the construction sector were furloughed at the end of April 2020, compared with around 200,000 at the end of February 2021 (HM Revenue and Customs, 2021). It is also probable that businesses had adapted to operating under lockdown conditions. For example, fewer jobs were furloughed in the accommodation and food sector in the third lockdown than in the first, which is likely to reflect higher adoption of takeaway and delivery services (HM Revenue and Customs, 2021). In 2021Q1, around 1.3 million more people were not working compared with 2019Q4.

² HMRC data from July 2020 show that by the end of June 2020, 8.3 million employments had been furloughed for people aged 19–64. There are a number of potential reasons this exceeds our estimate of 3.5 million people. First, the HMRC figure is cumulative, rather than the number of furloughed employments at one point in time. Second, some people may continue to do some work despite being on furlough; a survey by Adams-Prassl et al. (2020) conducted in April–May 2020 found that two-thirds of furloughed employees continued to work at least one hour per week. Third, the HMRC figure refers to the number of jobs, which will be larger than the number of people since some hold multiple jobs. Finally, there may be measurement error in the Labour Force Survey.

³ The number of employees not working because their work was ‘interrupted by economic causes’ increased by around 2.6 million, and the number not working for ‘other reasons’ (which could include furlough) increased by around 2.1 million. The number on holiday fell by around 1.0 million and the number ‘off sick’ fell by around 75,000.

Figure 3.2. Share of workers working zero hours in the last week, over time and by employment status



Note: Includes people aged 19–64. Shows forward-looking three-month moving average. Data are available quarterly before January–March 2020 and monthly thereafter.

Source: Quarterly Labour Force Survey.

The share of working-age adults who were unemployed rose slightly over the pandemic from 2.8% in 2019Q4 to 3.7% in 2021Q1. In 2021Q1, around 350,000 more adults aged 19–64 were unemployed than before the pandemic. Trends in unemployment can be seen more clearly in Appendix Figure C.2, which shows the unemployment rate since the 1990s, defined as unemployment as a share of the 19- to 64-year-old labour force (i.e. excluding economically inactive people). The unemployment rate remained broadly stable at the start of the pandemic, at 3.5–3.6% in the first two quarters of 2020. But as the contributions that employers were required to make towards the furlough scheme gradually increased between July 2020 and October 2020, the unemployment rate rose, reaching 4.8% in August–October 2020.⁴ Since then, the unemployment rate for 19- to 64-year-olds has fallen slightly to 4.4% in 2021Q1. This is higher than before the pandemic, but still low by historical standards.

⁴ Employers were required to make National Insurance and pension contributions from July 2020, and to cover 10% and 20% of employee wages up to £2,500 a month in September and October 2020 respectively. Since October 2020, employers have no longer had to cover employee wages but have had to make National Insurance and pension contributions for furloughed staff.

Differences in individual employment outcomes across the population

The labour market impact of the pandemic has not been evenly felt. The concentration of the shock in low-wage service sectors, coupled with the fact that professional jobs could be more easily done from home, means that different types of workers have been differentially affected over the course of the pandemic.

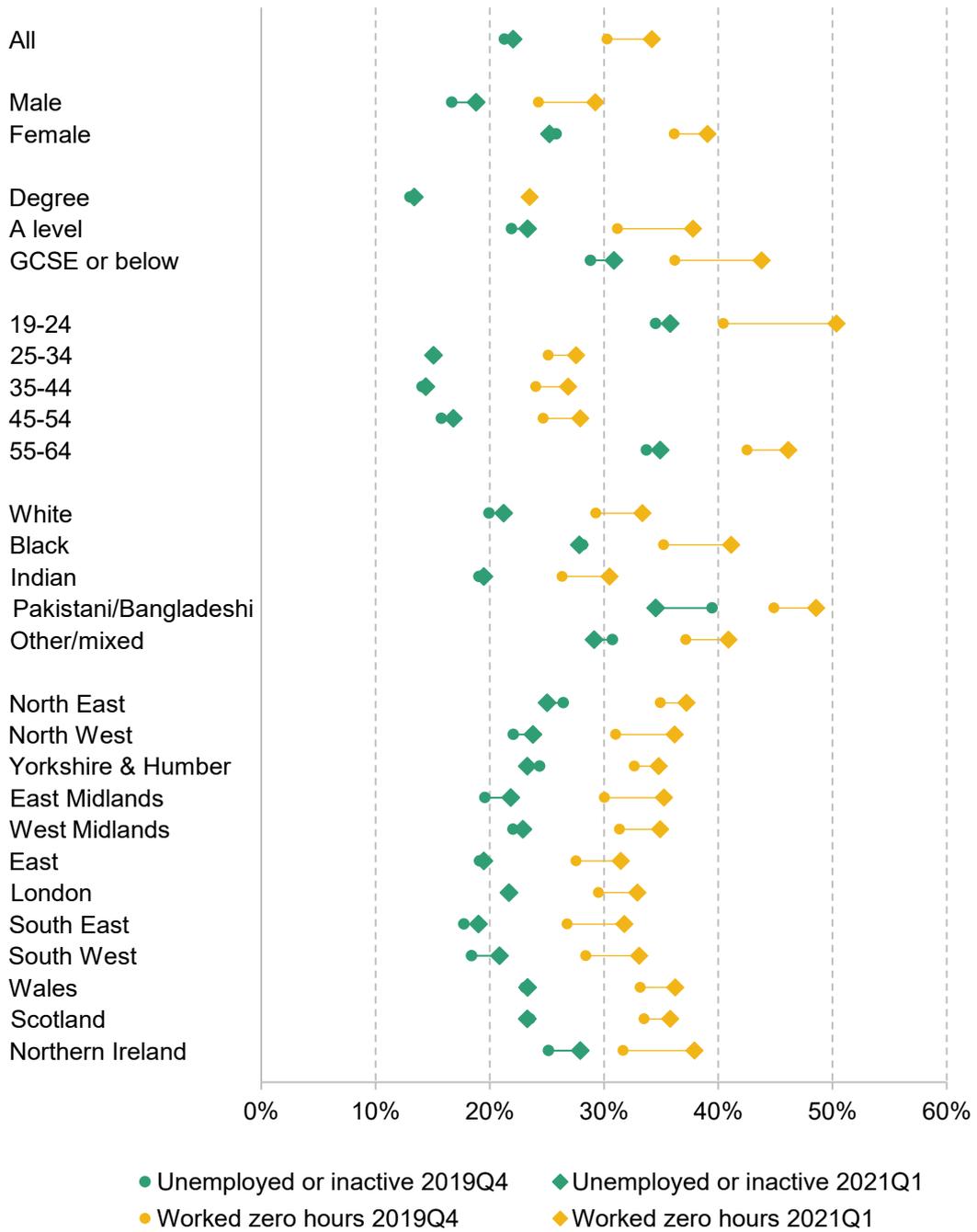
Figure 3.3 shows the share of people who were workless before the pandemic and in the latest data by demographic group. We consider two measures of worklessness: working zero hours in the last week (plotted in yellow) and being unemployed or economically inactive (plotted in green). The latter measure excludes those who were employed or self-employed but did not work any hours in the last week (who were therefore likely to have received support from the furlough or self-employment income support schemes).

Overall, the share of 19- to 64-year-old adults who did not work any hours in the last week rose by 4 percentage points over the course of the pandemic, from 30% in 2019Q4 to 34% in 2021Q1. Men saw a larger increase (5ppts) than women (3ppts). The increase was driven by those with at most A levels (7ppts) and GCSEs (8ppts). Those with degrees did not see an increase in the fraction not working any hours compared with 2019Q4.

The increase in the fraction not working any hours was larger for 19- to 24-year-olds (10ppts) than for older people. In 2021Q1, around 400,000 more 19- to 24-year-olds were not working any hours than in 2019Q4. As shown in Appendix Figure C.1, this is not driven by people staying on in full-time education, and instead reflects people becoming furloughed and becoming unemployed or otherwise inactive.

Less-educated people and younger adults were already less likely than average to be working before the pandemic hit, so the pandemic increased employment inequalities along these dimensions. The rise in the share not working any hours was also more pronounced among black people (6ppts), who were less likely to be working than white people prior to the pandemic.

Figure 3.3. Share not working, by demographic group and region, 2019Q4 and 2021Q1



Note: Includes people aged 19–64.

Source: Quarterly Labour Force Survey.

The share of 19- to 64-year-olds working zero hours per week increased in all regions of the UK. Whilst the HMRC data presented in Appendix Figure C.3 show slightly higher furlough rates in London (16%) than in the rest of the country (13–14%), this is not borne out by the data in the Labour Force Survey. One possible explanation is a higher prevalence of partial furlough, or of people working positive hours despite being on full furlough (Adams-Prassl et al., 2020), in London compared with other regions.

As discussed above, the fall in economic activity only translated into a relatively small increase in the number of people who were unemployed or economically inactive (i.e. had no job at all). Given that most furloughed employees continued to receive 80% of their earnings, and in many cases had the remainder topped up by their employers (Delestre et al., 2020), groups that saw large falls in the probability of working did not necessarily see proportionate falls in their earnings.

Indeed, Figure 3.3 shows that across most demographic groups, the share of adults aged 19–64 who were unemployed or inactive – and therefore received no earnings at all – rose by just 1 percentage point between 2019Q4 and 2021Q1. Differences by age and education remain, with younger and less-educated people doing worse, but these are much less pronounced than when looking at the share of people not working any hours. The increase in unemployment and inactivity is no larger among black people than among white people, and the share of Pakistanis and Bangladeshis who were unemployed or economically inactive actually fell, though only among women, and this change is not statistically significantly different from zero at conventional significance levels.

Overall, this analysis shows that while there has been a vast amount of economic disruption from the pandemic, the effects on the labour market are more nuanced. The furlough scheme means that – compared with other countries such as the United States where unemployment rose significantly – there have only been modest rises in the proportion of people who are formally separated from any employment relationship. Moreover, while there are very large differences in the rise in share of people who are employed but not working any hours between different demographic groups, the differences in the rise in share of people who are completely out of work are much smaller.

That is not to say that being employed but not working is an ideal situation. Many of these people will only be receiving 80% of their pre-pandemic pay, they will not

be gaining important skills and work experience, and they are more vulnerable to unemployment when the furlough scheme ends at the end of September 2021.

3.2 Family- and household-level employment

So far, we have considered the impact of COVID-19 on the labour market outcomes of individuals. But the impact on material living standards also depends on the extent to which other members of individuals' households are affected. For some people, individual employment changes will understate the effect of COVID-19 on their household incomes – for example, if they are married to people who are also badly hit by the pandemic. On the other hand, some people who lose work as a result of the pandemic will live with partners or other household members who are not directly affected, who can help support them when their own income goes down.

As in the previous section, we consider two measures of worklessness at the family or household level: whether no one worked any hours in the reference week, and whether no one had any job at all (i.e. all were unemployed or economically inactive). We start by using the broader measure of worklessness to discuss the difference between individual labour market outcomes and family- and household-level outcomes. We then examine how these results differ when we define worklessness only considering the unemployed and economically inactive.

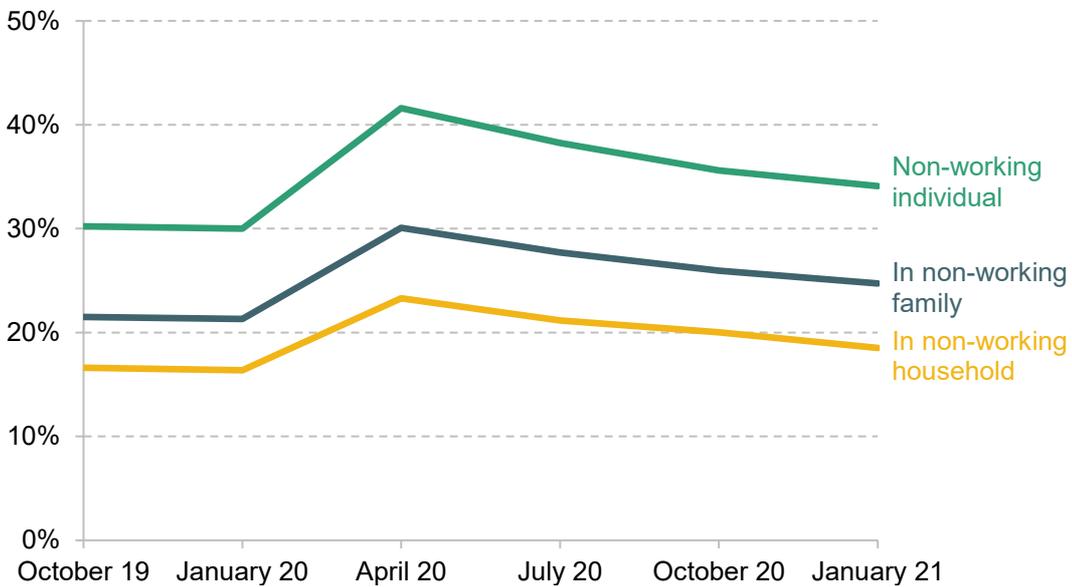
Figure 3.4 shows how the share of individuals aged 19–64 who were not working evolved over the pandemic, and compares this with the share of individuals who lived in families and households in which no one was working. In 2019Q4, 30% of adults aged 19–64 in the UK were unemployed, inactive or working zero hours – this corresponds to the sum of the areas in Figure 3.1 above. However, many of these people had partners who worked positive hours, so that only 22% of adults lived in non-working families.⁵ Further, some people lived in households with

⁵ We use 'families' to refer to 'benefit units', which are the level at which benefits are paid to people. A benefit unit can be either a single person or a couple, plus any dependent children of that single person or couple. People who live together who are related but in separate benefit units – for example, an adult child living with their parents, or two adult siblings living together – are counted as living in a 'multi-family household'.

multiple families – for example, in multigenerational households or flat-shares. Just 17% of adults lived in households in which no one worked.⁶

The figure shows that the fraction of adults living in a household where no one was working any hours rose (by 7ppts) by 2020Q2, but less than the fraction of adults who themselves were not working any hours (which rose by 11ppts by 2020Q2) implying that other working people in the household provided some support to people who were unable to work.

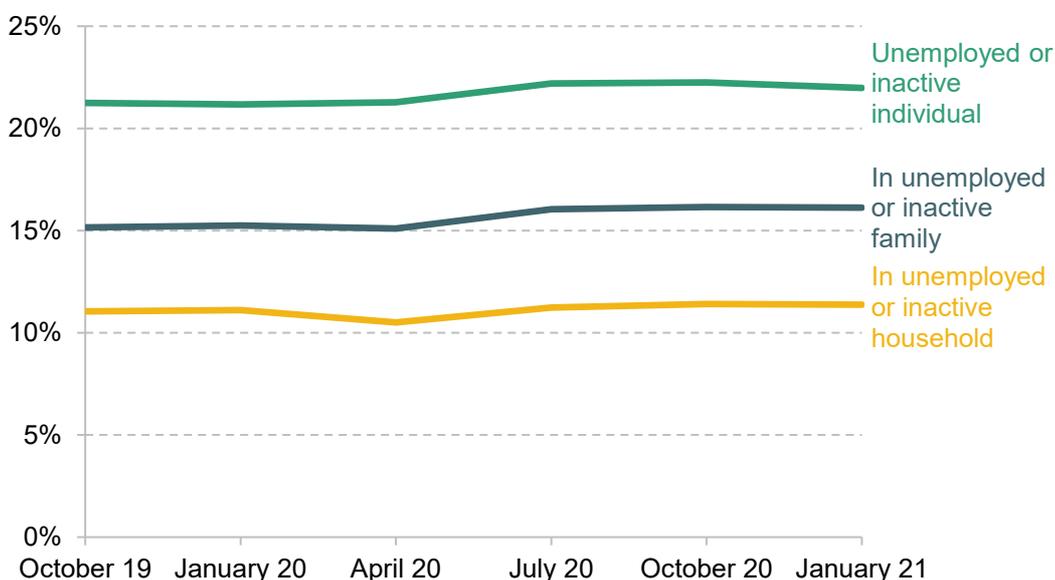
Figure 3.4. Trends in share not working over course of pandemic



Note: Includes people aged 19–64. Shows forward-looking three-month moving average. ‘Not working’ is defined as being unemployed, inactive, or employed or self-employed but working zero hours in the week of interview. A family is defined as the unit at which benefits are paid (a single person or a couple, plus any dependent children). A household is defined as a person or group of people living at the same address.

Source: Quarterly Labour Force Survey.

⁶ A household is defined as a person or group of people who live at the same address. The share of non-pensioners, including children, who lived in households in which no one worked was about the same at 16%.

Figure 3.5. Trends in share unemployed or inactive over course of pandemic

Note: Includes people aged 19–64. Shows forward-looking three-month moving average. A family is defined as the unit at which benefits are paid (a single person or a couple, plus any dependent children). A household is defined as a person or group of people living at the same address.

Source: Quarterly Labour Force Survey.

Figure 3.5 shows the equivalent trends in unemployment and economic inactivity – that is, people without any job at all. Before the pandemic hit, 21% of adults aged 19–64 had no job, 15% lived in families in which no one had a job and 11% lived in households in which no one had a job.

The rise in this measure of worklessness at the household level over the pandemic was smaller than the rise for individuals. The share of adults who were unemployed or inactive was 0.7ppts higher in 2021Q1 than in 2019Q4. In contrast, the share of people in households in which everyone was unemployed or inactive rose by just 0.3ppts. This implies that whilst 330,000 more people were unemployed or inactive in 2021Q1 than before the pandemic, there has been a smaller increase of 170,000 people who live in households where no one had a job. Among individuals who lost their jobs during the pandemic, many have therefore been protected against large falls in their living standards by the fact that they live in households with other working people.

The distinction between individual and household-level worklessness is especially important when thinking about the living standards of younger adults. As discussed

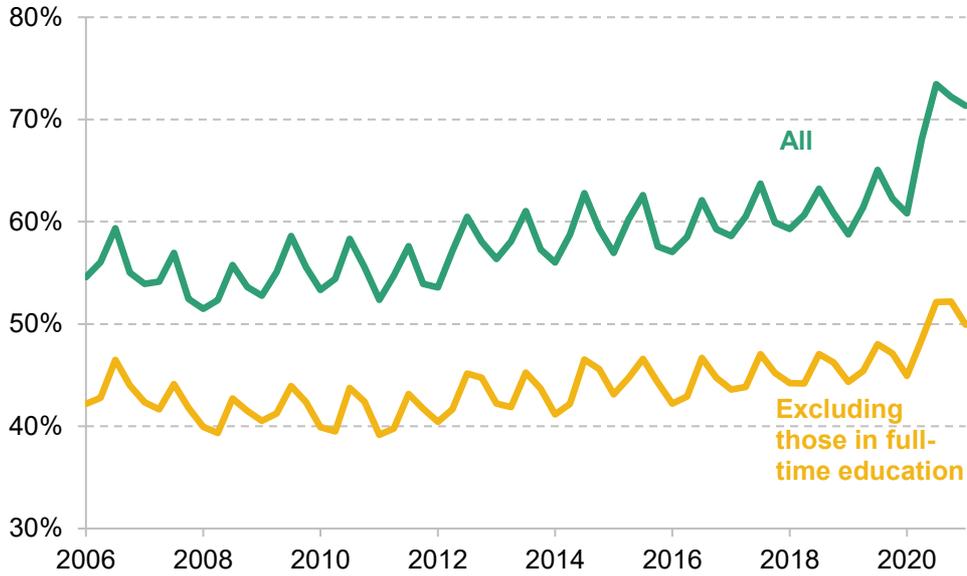
in the previous section, 19- to 24-year-olds suffered the largest labour market shock during the pandemic. But, as is shown in Figure 3.6, in 2020Q1, 61% of young adults lived with their parents, and a further 17% lived in a household with someone other than their partner or parents (for example, a flatmate). The share of 19- to 24-year-olds living with their parents increased over the pandemic, rising to 71% in 2021Q1. As the figure shows, this does not simply reflect students moving back home when universities and colleges shut down: the share of 19- to 24-year-olds not in full-time education who lived with their parents also rose, from 45% in 2020Q1 to 50% in 2021Q1 (around 200,000 people), higher than the level seen in the Great Recession.

While many young adults may not wish to live with their parents in an ideal world (and vice versa), the fact that many young adults have been living with their parents through the pandemic has helped to significantly shelter them from the income-reducing effects of being on furlough or not having a job. The left-hand panel of Figure 3.7 shows that whilst individual-level worklessness among 19- to 24-year-olds was 10ppts higher in 2021Q1 than in 2019Q4, the increase in household-level worklessness was just 1ppt. This implies that the shock to young adults' household incomes was much less severe than implied by their employment rates.

In contrast to young adults, most adults aged 25 and above typically live alone or in couples (and with dependent children if they have them). The right-hand panel of Figure 3.7 shows that for older adults, trends in individual-level worklessness were similar to trends in family- and household-level worklessness. The share of 25- to 64-year-olds who were not working any hours was 3ppts higher in the latest data than before the pandemic, and the share living in a household where no one was working any hours was 2ppts higher. Thus, whilst younger adults saw a larger increase in individual-level worklessness over the course of the pandemic than older adults, they actually saw a smaller increase in household-level worklessness.⁷

⁷ The 'family' line in Figure 3.7 lies close to the 'individual' line for 19- to 24-year-olds, because young adults tend to be single, but close to the 'household' line for 25- to 64-year-olds, who typically live only with their partner and children.

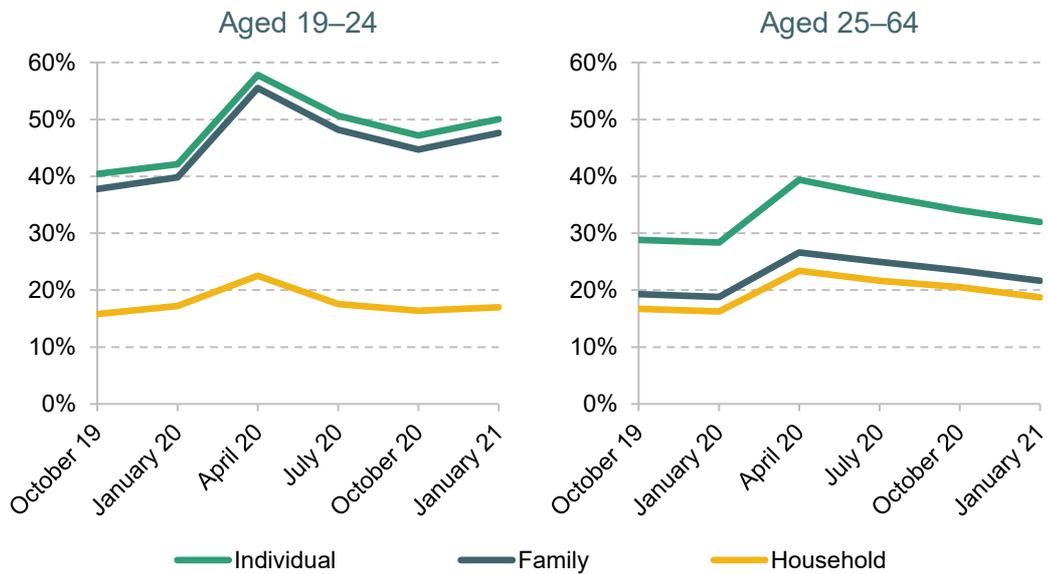
Figure 3.6. Trends in share of 19- to 24-year-olds living with their parents



Note: Shows forward-looking three-month moving average. Seasonal fluctuations reflect timing of school (and college and university) years.

Source: Quarterly Labour Force Survey.

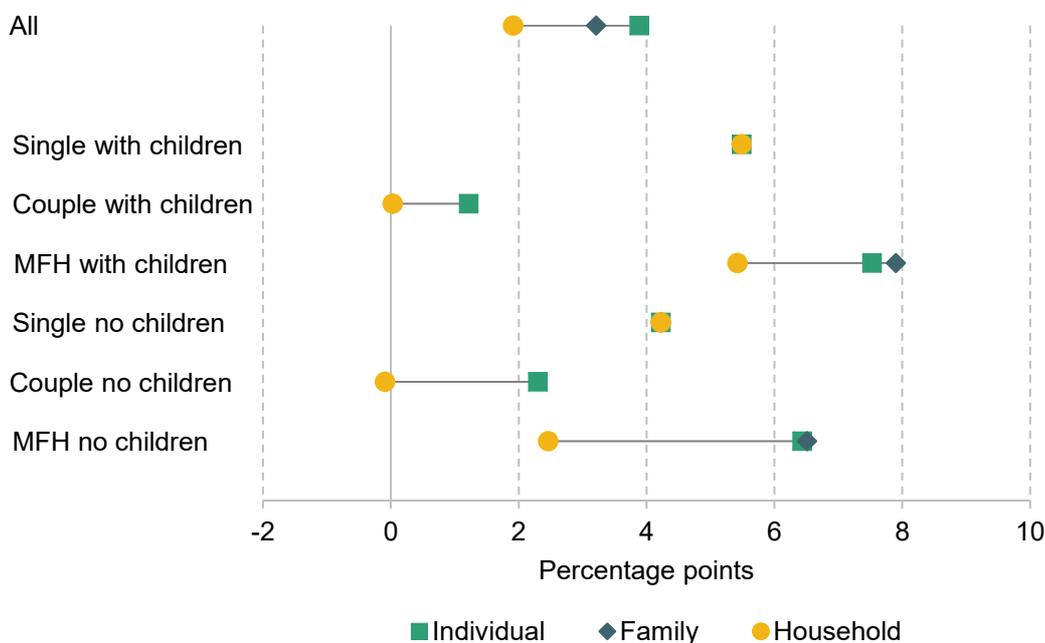
Figure 3.7. Trends in share working zero hours, by age group



Note: 'Working zero hours' is defined as being employed or self-employed but working zero hours in the week of interview. A family is defined as the unit at which benefits are paid (a single person or a couple, plus any dependent children). A household is defined as a person or group of people living at the same address.

Source: Quarterly Labour Force Survey.

Figure 3.8. Share working zero hours and in families/households working zero hours, by household composition: percentage point change from 2019Q4 to 2021Q1



Note: Includes people aged 19–64. ‘MFH’ refers to a ‘multi-family household’. Children are defined as those aged 0–16 or 17- to 18-year-olds in full-time education. ‘Working zero hours’ is defined as being employed or self-employed but working zero hours in the week of interview.

Source: Quarterly Labour Force Survey.

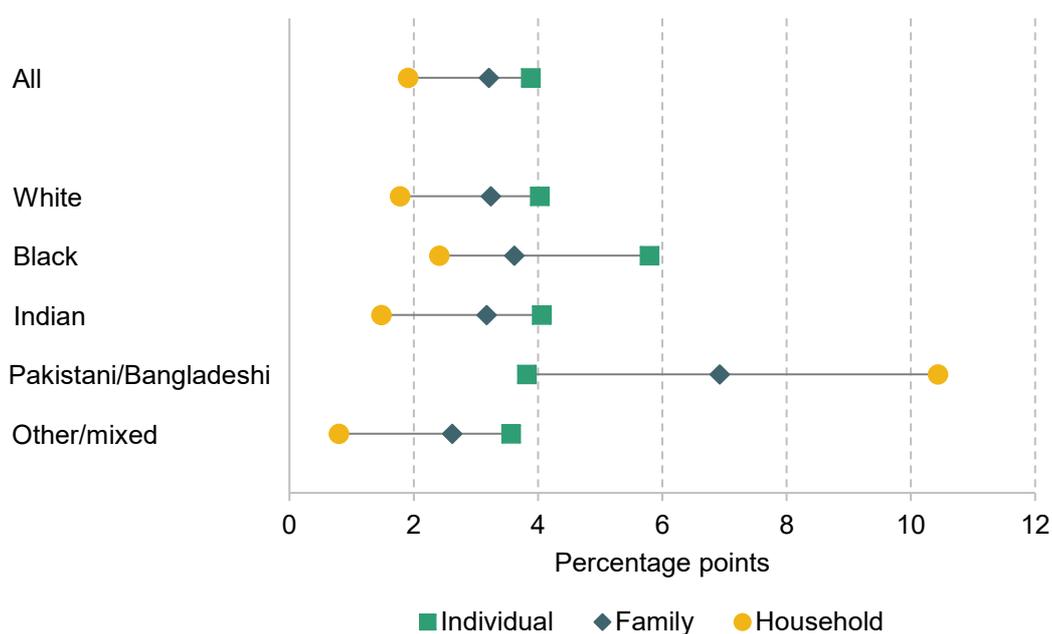
The ability of households to cushion the employment shocks of individuals also differs across household types. Figure 3.8 shows that between 2019Q4 and 2021Q1, the rise in worklessness was greater among single people than among people in couples. The share of lone parents who were not working any hours rose by 5.5ppts, compared with a rise of 1.2ppts among those in couples with children. However, most of the latter group had partners who continued to work, so that the share who lived in a non-working family remained the same as before the pandemic. A difference of 4.3ppts in individual-level worklessness between these two groups therefore translated into a difference of 5.5ppts in household-level worklessness, as lone parents had no other adults in their household to cushion them against losses in their earnings.

A similar pattern can be seen for people living alone and in couples without children. Those in couples without children saw a smaller rise in individual-level

worklessness than single people without children, and were further insured against falls in living standards by partners who remained in work. Those living in multi-family households (MFHs) – which include adult children living with their parents – saw large rises in individual-level worklessness, but much smaller rises in household-level worklessness.

The extent to which rises in individual worklessness result in rises in household-level worklessness also differs by ethnic group. Figure 3.9 shows that the share of white people who were not working any hours increased by 4ppts since the start of the pandemic, while the share living in a household where nobody was working any hours increased by 2ppts. The difference between these two figures provides a measure of the extent to which household members can help cushion individuals against employment shocks. As Figure 3.9 shows, this difference (of 2ppts) is similar for people of black, Indian and ‘other or mixed’ ethnicities.

Figure 3.9. Share working zero hours and in families/households working zero hours, by ethnicity: percentage point change from 2019Q4 to 2021Q1



Note: Includes people aged 19–64. ‘Working zero hours’ is defined as being employed or self-employed but working zero hours in the week of interview.

Source: Quarterly Labour Force Survey.

However, for Pakistani and Bangladeshi people, the figures are reversed: the share of individuals not working any hours increased by 4ppts over the pandemic, but the share living in households where nobody was working any hours increased by 10ppts. This is because prior to the pandemic (in 2019Q4), 67% of Pakistani and Bangladeshi adults lived in households in which at least one, but not all, adults worked, compared with 24–35% of adults from other ethnic groups, reflecting low employment rates among Pakistani and Bangladeshi women and higher rates of intergenerational households (Platt and Warwick, 2020). For non-workers living in these types of households, the pandemic would not have affected their individual-level employment status. However, those whose partners or other household members lose work over the pandemic will experience an increase in household-level worklessness. As a result, whilst people from Pakistani and Bangladeshi backgrounds saw a similar increase in individual-level worklessness to white people, they saw a much larger increase in household-level worklessness.

The increase in household-level worklessness among lone parents and Pakistani and Bangladeshi people over the pandemic is particularly concerning given high levels of vulnerability among these groups pre-pandemic. Table 3.1 shows that before the pandemic hit, nearly one in three lone parents were unemployed or inactive, and nearly half of those in lone-parent households (including children) lived in relative poverty. The share of Pakistani and Bangladeshi people living in workless households was not particularly high pre-pandemic (owing to relatively high male employment rates), but low female employment rates, relatively low earnings of those in work, and relatively large families meant that half of Pakistani and Bangladeshi people lived in relative poverty (measured after deducting housing costs). The loss of earnings over the pandemic, and the likely loss of future earnings – due to lost work experience and a higher chance of unemployment when the furlough scheme ends – are likely to increase inequalities along these dimensions.

As discussed above, the furlough scheme helped protect households where people lost work but remained in employment against large falls in their earnings. Figure 3.10 compares the rise in the share of adults living in households where nobody was working any hours between 2019Q4 and 2021Q1 with the rise in the share of adults living in households in which everyone was unemployed or economically inactive (who therefore did not receive any income from work).⁸ It shows that relative

⁸ The corresponding figures for children are given in Appendix Figure C.4.

patterns across subgroups using this second measure are broadly similar to the patterns using the first measure described above, though the increases are much smaller across the board. Lone parents are a notable exception: whilst a large share of lone parents were furloughed in 2021Q1, they did not see a rise in unemployment and inactivity, and so fared no worse than the general population on the second measure.⁹

Those with low levels of education (GCSEs or below) fared badly on both measures. Young adults aged 19–24 fared relatively well on both measures – despite seeing the largest individual-level increases in worklessness – and actually saw a fall in household-level unemployment and inactivity (reflecting the fact that over the pandemic many have moved in with their parents, who are unlikely to have lost their jobs). Adults of Pakistani and Bangladeshi ethnicity also saw relatively large rises in household-level unemployment and inactivity.

To conclude, increases in household-level worklessness over the pandemic have been much smaller than increases in individual-level worklessness, whether or not furloughed employees are included. This means that individuals who lost their jobs or were furloughed are likely to have been to some extent sheltered from falls in their living standards by other household members. This is particularly true for young people aged 19–24, many of whom already lived with their parents before the pandemic, and many of whom moved in with their parents over the course of the pandemic. In contrast, the ability of household members to ‘insure’ individuals against labour market shocks is lower among people of black and Pakistani or Bangladeshi ethnicity, who are both more likely to have been poor prior to the pandemic and more likely to have been living in single-earner households.

⁹ The share unemployed or inactive fell very slightly, but the change is not statistically significant.

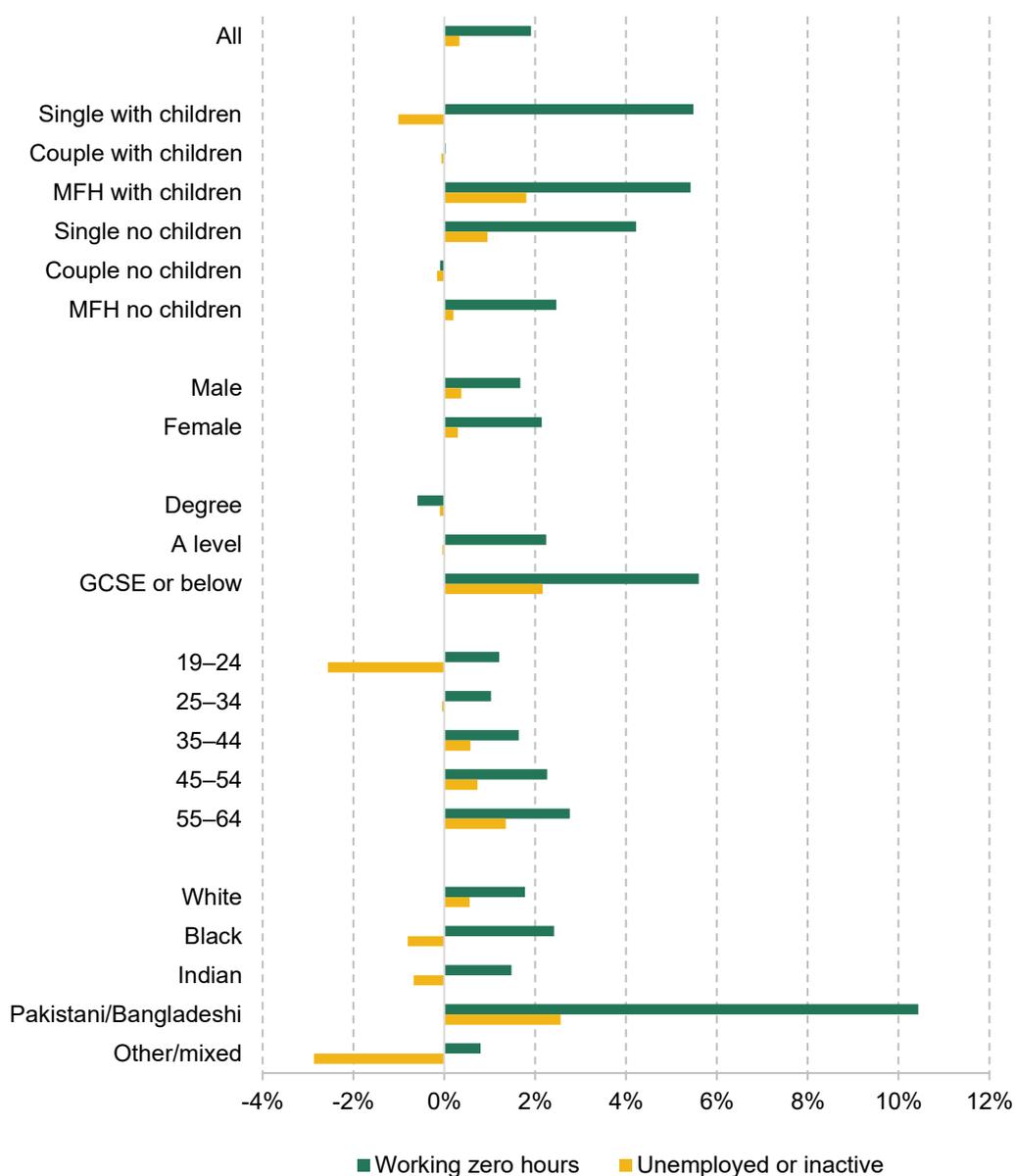
Table 3.1. Household characteristics of non-pensioners pre-pandemic, by household composition and ethnicity

	% workless adults	% adults in workless households	% children in workless households	Relative AHC poverty rate
All	21%	11%	11%	23%
<i>Household composition</i>				
Single with children	30%	30%	32%	47%
Couple with children	13%	3%	4%	23%
MFH with children	28%	5%	7%	27%
Single no children	27%	27%	-	33%
Couple no children	19%	11%	-	13%
MFH no children	26%	9%	-	17%
<i>Ethnicity</i>				
White	20%	11%	10%	20%
Black	28%	16%	19%	41%
Indian	19%	5%	4%	23%
Pakistani/Bangladeshi	39%	9%	12%	50%
Mixed/other	31%	16%	15%	36%

Note: Excludes those aged 65 and over. 'Workless' is defined as unemployed or economically inactive. Poverty rates are calculated using 2017–18 to 2019–20 FRS data; other figures use 2019Q4 LFS data. Children are defined as those aged 0–16 or 17- to 18-year-olds in full-time education. 'MFH' refers to a 'multi-family household'.

Source: Quarterly Labour Force Survey and Family Resources Survey.

Figure 3.10. Share of adults living in households working zero hours and households in which everyone is unemployed or inactive: percentage point change from 2019Q4 to 2021Q1



Note: Includes people aged 19–64. ‘MFH’ refers to a ‘multi-family household’. Children are defined as those aged 0–16 or 17- to 18-year-olds in full-time education. ‘Working zero hours’ is defined as being employed or self-employed but working zero hours in the week of interview.

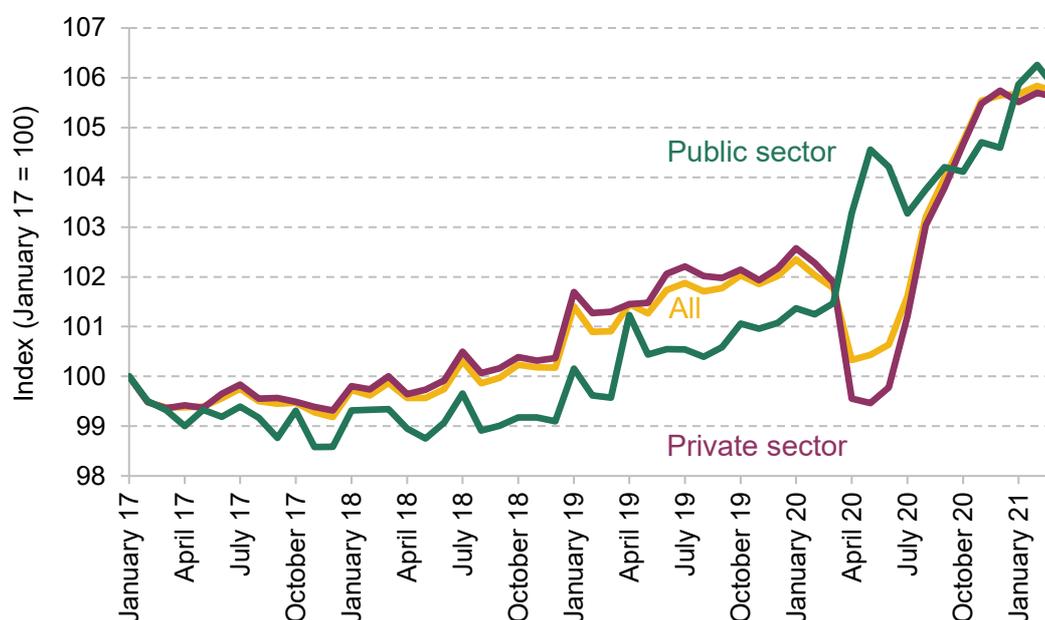
Source: Quarterly Labour Force Survey.

3.3 Trends in employees' earnings

We now turn to understanding how earnings have changed for those who have stayed in work. Typically, we are interested in 'real' – i.e. inflation-adjusted – earnings, since this measures the purchasing power of people's earnings. But measuring inflation during the crisis – when many goods and services have been unavailable – is difficult, and the standard inflation measures are likely to be less indicative of the cost of maintaining a particular standard of living than usual (Blundell et al., 2020); moreover, the impact of the change in prices may differ for higher- and lower-income families (Brewer and Patrick, 2021). Given the lack of alternative approaches, we use the CPIH inflation index in this section but note that 'real' earnings may provide less of a guide to living standards in 2020–21 than in previous years. Because of a lack of recent high-quality data on the earnings of self-employed workers, in this section we restrict our attention to employees' earnings.

Several factors are likely to have affected real earnings growth during the pandemic. First and most obviously, a significant part of the economy has been subject to a big fall in labour demand and heightened uncertainty, both of which are likely to push wages (or wage growth) down. Second, measured inflation has been low (0.8% in 2020–21 – though since then it has risen to 2.1% in May 2021), and given that (as we discuss later) *nominal* wage cuts are fairly unusual, this tends to limit how far real earnings can fall. Third, the National Living Wage has continued to rise (a nominal 6.2% increase in April 2020 and a further 2.2% in April 2021), increasing wages for employees with low hourly pay.

Typically, the timeliest measure of earnings growth in the UK is the average weekly earnings (AWE) series, which measures mean employee earnings across the whole economy. Workers who are furloughed are included, and their actual pay – which will be lower than usual if not topped up by their employer – is measured. An index of the recent history of this series (in real terms) is shown in Figure 3.11. It shows a dramatic one-month decline in private sector earnings between March and April 2020, only to be undone by an even bigger increase from June to November of that year. Conversely, public sector earnings spiked in the spring of 2020 – perhaps reflecting substantial overtime pay in the NHS – before growing solidly for the rest of the year. Taken at face value, these statistics would imply that real earnings growth since the beginning of the crisis has been stronger than at any point since the early 2000s.

Figure 3.11. Index of real average weekly earnings (January 2017 = 100)

Note: Using CPI plus mortgage interest payments up to 2019–20, then CPIH. 'All' shows the 'whole economy' series.

Source: Authors' calculations using Office for National Statistics (2021b).

However, this sort of statistic is a very unreliable guide to actual living standards, either now or in the future. There are two things going on. First, as shown in the previous sections, job loss has been concentrated at the bottom of the earnings distribution, among the young, the less educated, and those working in lower-paid industries such as retail and hospitality. These changes actually act to push up measured average earnings among those who stay in work, even if no worker actually receives a pay rise. This likely accounts for much of the dramatic increase in average earnings observed in the latter half of 2020. Indeed, the Office for National Statistics (2021a) estimates that the compositional change in the workforce in terms of occupation, full-time status and age of the employee increased annual wage growth by 1.9ppts in the year to February 2021.

Second, pushing in the opposite direction is the large number of people furloughed, who, if they are not on flexible furlough or do not receive an employer top-up, see their pre-tax earnings fall by (at least) 20%. This likely accounts for the sharp drop in average earnings observed in April 2020 and some of the increase in the latter part of the year as workers were brought back from furlough. These pay declines do of course represent a real hit to workers' living standards rather than a statistical

artefact. However, for most people, spells on furlough have been relatively short, and most of the remaining workers on furlough are expected to return to work as the economy reopens (Bank of England, 2021a). Thus, it is likely to be a short-term period of pain rather than an indication of a long-run decline in income.

Ideally, we would have a measure of ‘underlying’ earnings growth – i.e. the change in earnings that an average worker might be able to command in the market if they were working. We cannot directly measure this because we do not observe earnings for those who are out of work. Instead, we use the longitudinal Labour Force Survey data to analyse earnings growth among workers who meet the following two conditions:

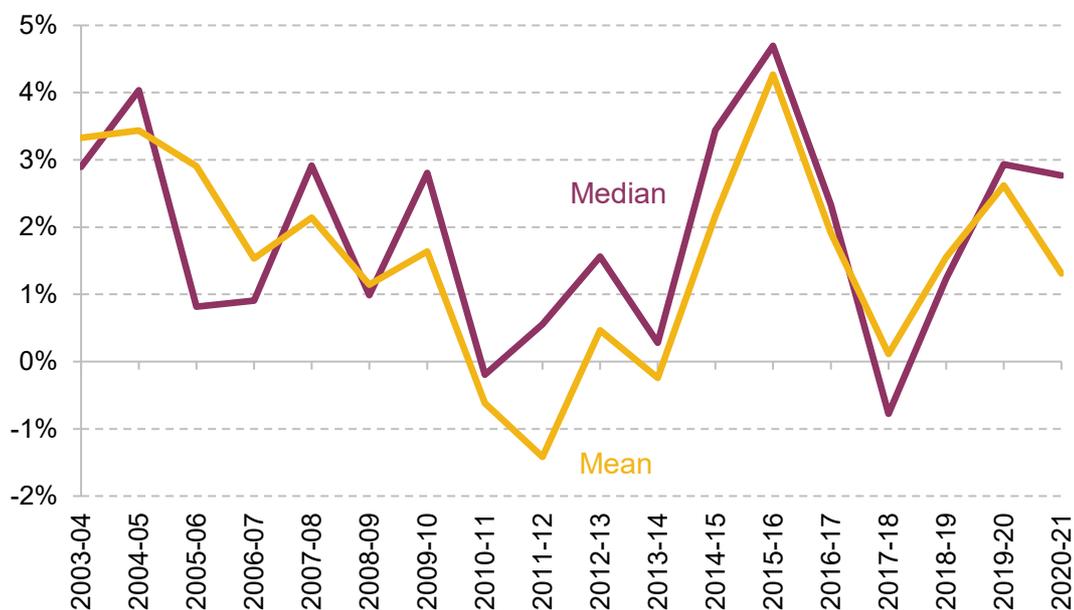
- in an employee job working at least one hour per week at one point in time;
- in an employee job working at least one hour per week one year later.

For simplicity, we refer to this group as the ‘continuously employed’, though note that some may have spent some time out of work over the year we analyse; we require only that we observe them working as an employee at the beginning and end of a one-year period. Restricting our attention to people working at least one hour per week ensures that the results are not affected by those who are fully furloughed.¹⁰ The restriction to those who are in work at the start and end of a year gives us some protection against our estimates being affected by a changing composition of the workforce in the pandemic. It could be, however, that those who stopped working because of the pandemic would have had a different *growth* in earnings than those who kept working. Similarly, it might be that the pandemic affects the LFS *sample*, by changing who responds to the survey (and we do find some evidence of this¹¹). Below we discuss some checks on this possibility and provide evidence that it has fairly little impact on our results.

¹⁰ This analysis *will* be affected by anyone who is partially furloughed. This should have only a small effect – on average, about 18% of furloughed jobs have been partially furloughed, and naturally those who are partially furloughed will have earnings closer to their normal earnings than those who are fully furloughed. It is worth noting that average hours among the continuously employed fell by 3½% from 2019–20 to 2020–21 (in pre-pandemic years, average hours among continuously employed workers tend to fall by about 1% from one year to the next). Presumably, part of this decline is a consequence of partial furlough, but perhaps also partly due to declines in hours among those who are not furloughed at all.

¹¹ In particular, among 16- to 64-year-olds who remain in the sample for a whole year, the share with a degree is several percentage points higher for those who were sampled during the pandemic than for those who were sampled entirely before it. This is not explained by general rises in the level of education: the share with degrees in the repeated cross-sectional LFS does not grow nearly as fast in the run-up to the pandemic.

Figure 3.12. Real earnings growth among ‘continuously employed’ employees – those working at least one hour per week in the year shown and one year earlier



Note: Sample is those observed working as an employee with positive hours and earnings in wave 1 and wave 5 of the LFS. Earnings are Winsorised (capped) at the 99th percentile within year. Earnings are deflated with the HBAI before-housing-costs deflator up to 2019–20, then CPIH. We do not include anyone surveyed in March 2020, because they would fall into the 2019–20 financial year but may have been affected by the pandemic.

Source: Authors' calculations using the Labour Force Survey.

Figure 3.12 shows growth in median and mean real earnings among the continuously employed. The financial year shown is the *end* of the year period that we follow them, i.e. 2020–21 shows the growth in average earnings among those who we observe in work at some point in 2020–21 and one year earlier. Prior to the pandemic, the patterns in mean earnings growth are very similar to those seen in AWE, except growth among the continuously employed was about 1–1½ppts higher. We would expect growth to be stronger for the continuously employed because, as an individual stays in work, they accumulate experience, which tends to increase their pay. For that reason, the precise *level* of these growth rates is of less interest than how growth post-pandemic compares with that seen pre-pandemic.

Growth in real mean and median earnings in 2020–21 among the continuously employed was 1.3% and 2.8% respectively. This is comparable to that seen in the two or three years immediately before the pandemic, and clearly stronger than growth from 2010–11 to 2013–14, but weaker than that seen in 2014–15 and 2015–

16. Consistent with these results, the Bank of England (2021b), following a different approach, found that underlying pay growth in the three months to April 2021 was close to pre-pandemic levels.

As discussed above, it could be that those who stopped working or stopped responding to the LFS because of the pandemic – and thus are not in our sample – would have had a different growth in earnings from those who kept working. We test this hypothesis by reweighting the data in each year to have a consistent age–education distribution.¹² This procedure raises mean earnings growth in 2020–21 by about 0.2ppts. This is in part a consequence of the pandemic causing younger people – who, as we shall see shortly, tend to have faster earnings growth – to stop working. While 0.2ppts is not an entirely trivial amount, this exercise suggests that the changing composition of the continuously employed is not significantly affecting our results.

These data therefore suggest that underlying pay growth since the recession has been reasonable if unremarkable. In many ways, this might seem like a very good outcome for a year that saw the biggest ever recorded decline in GDP, and perhaps reflects the unusual nature of the recession and the limited increase in unemployment. But here the Great Recession provides a cautionary tale. While earnings growth during the Great Recession itself (2008–09 and 2009–10) was perfectly respectable, the recession’s effects were merely delayed rather than avoided: even among continuously employed workers, real pay was flat or falling for several years in the aftermath of the recession (2010–11 to 2013–14). This delay in effects on pay may relate to ‘downward nominal wage rigidities’ – employers can struggle to cut nominal pay, and so may freeze it instead and allow real pay to be eroded by inflation. But it takes time for this process to work through – especially if inflation is low. In 2020–21, inflation as measured by the CPIH index was just 0.8%, leaving limited scope for nominal wage freezes to have much effect on real wages. In fact, as shown in Appendix Figure C.5, *nominal* mean earnings growth in 2020–21 among continuously employed workers was very similar to that seen in the aftermath of the Great Recession. If the fundamental prospects for

¹² Specifically, we pool together data on the continuously employed from 2017–18 to 2019–20 and calculate the joint distribution of age (in four categories) and education (in three categories) over this pre-pandemic period. Then, in each year, we reweight the data such that the joint age–education distribution matches that pre-pandemic average. We choose age and education to reweight because there have been significant differences in the likelihood of furlough or job loss across these groups.

wages have been weakened by the crisis, the impact on real pay may not be fully felt for some time.

We now study the extent to which the reasonable earnings growth among continuously employed workers as a whole may be masking differences between different types of workers. Table 3.2 shows earnings growth for different groups of workers, both in 2020–21 and the average of the three previous years, when overall earnings growth was similar to that seen in 2020–21. Groups for whom earnings growth during the pandemic is statistically significantly different from that seen before the pandemic are indicated with asterisks.

Table 3.2. Real growth in mean earnings among ‘continuously employed’ employees

	2017–18 to 2019–20	2020–21	Difference
Male	1.2%	0.5%	–0.7ppts
Female	1.8%	2.7%	0.9ppts
Higher education	1.0%	0.3%	–0.7ppts
A levels	2.2%	2.2%	–0.1ppts
GCSEs or below	1.6%	5.4%	3.7ppts**
Private sector	1.8%	0.7%	–1.1ppts
Public sector	0.4%	2.7%	2.4ppts*
Aged 19–34	5.7%	2.9%	–2.8ppts
Aged 35+	–0.7%	0.5%	1.1ppts
All	1.4%	1.3%	–0.1ppts

Note: See Figure 3.12. ‘A levels’ and ‘GCSEs or below’ include people with equivalent qualifications. Workers aged 16–18 are not included in the age-related rows (to facilitate easier comparison with the previous sections), but are included elsewhere. * indicates statistical significance at the 10% level; ** indicates statistical significance at the 5% level.

Source: Authors’ calculations using the Labour Force Survey.

There are three groups worth highlighting. First, those with GCSEs or below seem to have seen faster pay growth than the rest of the population – perhaps reflecting the sizeable increase in the National Living Wage in April 2020. This suggests that while this group have been more likely to be furloughed or lose their job, for those who have been able to keep working the picture has been considerably more positive. Second, public sector workers saw faster pay rises than in the private sector. This may reflect both more overtime pay in the NHS, and the greater degree of short-run sensitivity of private sector wages to economic conditions. Third, it seems that younger workers may have seen a slowdown in pay growth, though this result is not statistically significant due to a small sample of younger workers. This slowdown may be due to the lack of vacancies: those earlier on in their career are more likely to move employers more regularly and this is often a source of wage growth. These patterns are qualitatively unchanged if we do the reweighting exercise discussed above (differences by education and sector are a little more pronounced, and differences by age a little less so). Appendix Table C.1 is the equivalent table using the reweighted data.

Focusing on continuously employed workers, as we have done, has enabled us to avoid some of the important difficulties in measurement arising from furlough and compositional changes to the workforce – but it does prevent us from examining changes in earnings for new entrants (those who move from unemployment or inactivity to employment).¹³ Nonetheless, continuously employed workers make up a significant fraction (67%¹⁴) of pre-pandemic employees and so are worth studying. It appears that, at least so far, the pandemic has not had a very big effect on earnings growth on average for those who have been able to keep their job. This has been broadly true for major demographic subgroups, though growth has been somewhat stronger for lower-educated workers and for public sector workers, and a little weaker for younger workers. But – just as with unemployment – it is entirely

¹³ If one simply looks at average earnings among those who were not working a year before, 2020–21 looks like a very strong year relative to pre-pandemic years. However, this statistic is subject to a compositional effect of its own – the kind of job openings that have been available since the start of the pandemic, and the kind of people likely to get those jobs, are quite unlike those pre-pandemic. For example, we find that those starting work in 2020–21 are several years older on average than those starting work in 2019–20. This makes it rather difficult to understand trends in wages for new entrants.

¹⁴ That is, of those who were employees when sampled by the LFS in 2019–20, 67% were still employees one year later and worked a positive number of hours at both points in time. In the few years prior to the pandemic, the equivalent figure averaged 76%.

possible that the impacts of the pandemic have been postponed, rather than prevented.

3.4 Conclusion

Overall, given the huge changes to the economy and the labour market in 2020–21, it may be considered remarkable how little change there was in many labour market indicators. While there were large increases in the proportion of people not working, the existence of the furlough scheme means that the proportion of people unemployed or inactive, and therefore completely without a job, has risen only modestly. Of course, this may change in the autumn of 2021, when the furlough scheme comes to an end and when unemployment is expected to rise. And of course, many people on the furlough scheme will only be receiving 80% of their pre-pandemic gross pay, so they will have felt a hit to their incomes even though they are still paid through the furlough scheme.

In order to understand the potential implications for household living standards, however, it is important to go beyond the individual-level employment statistics and examine whether this has led to many households no longer having any workers in them. Household worklessness is a very strong predictor of being in income poverty, and rises in it would therefore be very concerning. Our analysis is somewhat reassuring for those concerned about income poverty caused by worklessness. The fraction of households where no one is working at least an hour a week rose much less than the fraction of individuals not working at least an hour a week, as most working-age people live in a household with more than one worker. And there was only a very modest rise in the fraction of households where no adults had a job at all. Looking at the household level in particular does lessen some concerns over the immediate material living standards of 19- to 24-year-olds. Although they were particularly likely to be furloughed, most of them still live with parents who work, and some more have moved back in with their parents. While this may not be an ideal situation, it means that there was very little change in the number of 19- to 24-year-olds in a household where no one was working; an increase would have been particularly concerning regarding their current standard of living.

Despite this positive outlook in general, people living in single-earner households who were furloughed or lost their job entirely do not have the benefit of the support provided by another household member's earnings. Indeed, we have seen more

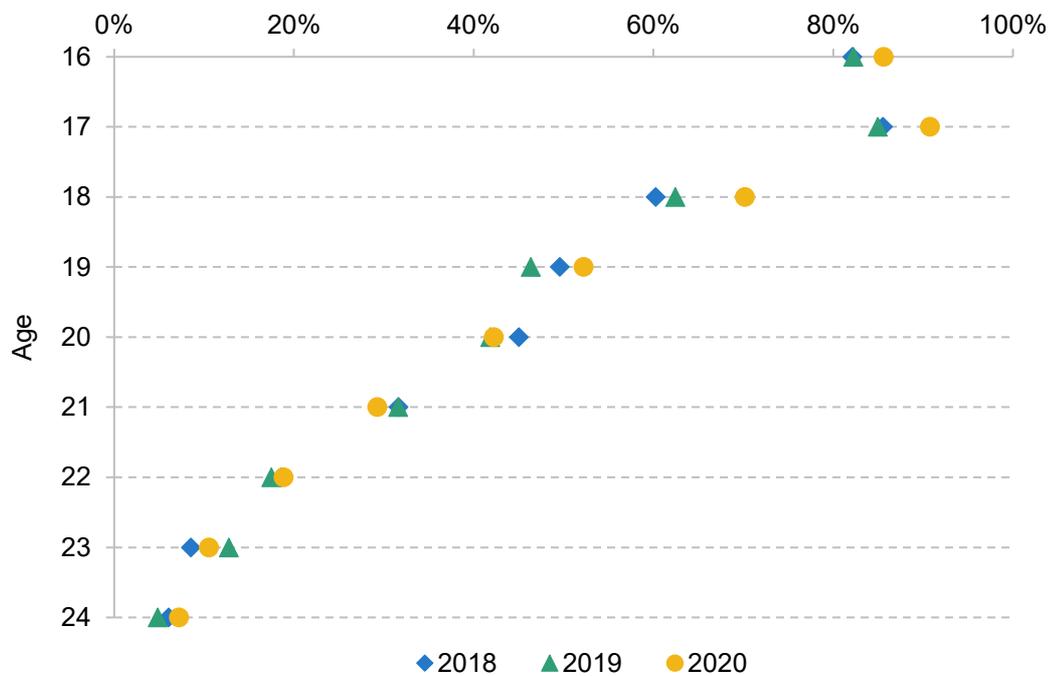
concerning rises in household worklessness among single-adult households, with and without children, and among Pakistani and Bangladeshi people, where households are particularly likely to only have had one earner pre-pandemic. These households had relatively high levels of poverty before the pandemic, and so the pandemic is likely to have increased inequalities along these dimensions.

Finally, as people are brought out of furlough during the summer and autumn of 2021, concern may turn to the pay of employees, rather than just their employment probabilities. Based on our analysis of ‘continuously employed’ workers, it looks as if real earnings growth in the pandemic was similar to that in the immediate pre-pandemic years, supported by low measured inflation. In so far as we can detect differences by demographic groups, it looks as if public sector workers and those with lower levels of education saw faster growth than others. There is also some evidence that younger workers (aged 19–34) have seen weaker earnings growth than older workers compared with pre-pandemic. It will be particularly important to monitor the earnings growth of this younger group in the years to come, particularly because many people in this group have, or will soon have, young children, and therefore there may be consequences for the incomes of families with children and for child poverty if there continues to be poor earnings growth for younger adults.

Appendix C.

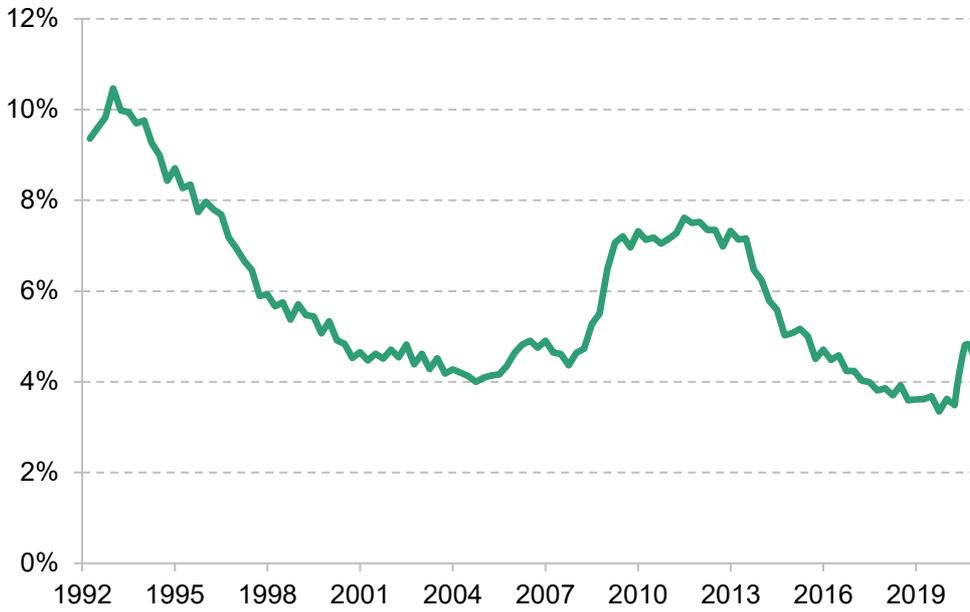
Supplementary figures and table for Chapter 3

Figure C.1. Share of young people in full-time education in October–December, by age and year



Source: Quarterly Labour Force Survey.

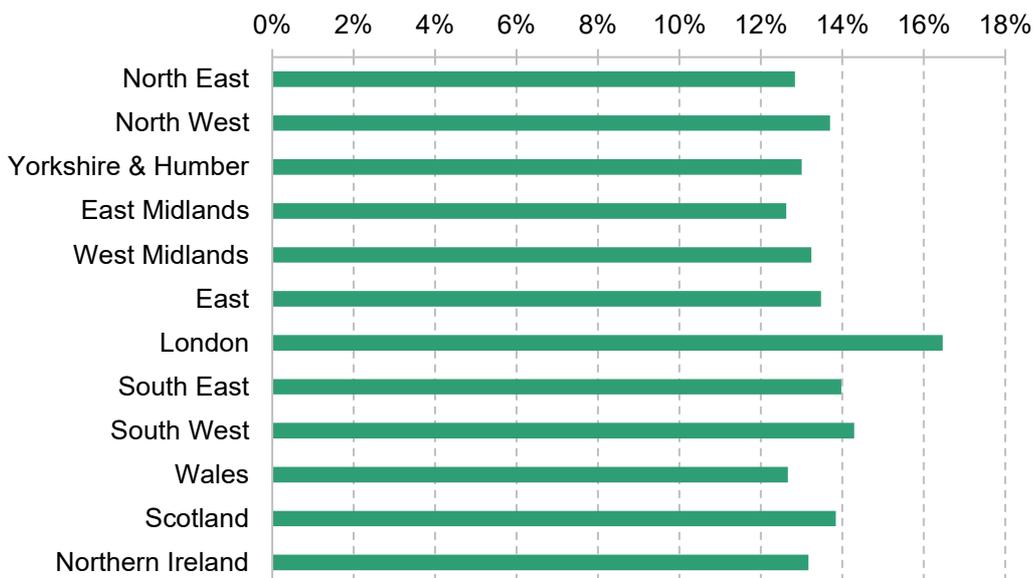
Figure C.2. Trends in unemployment rate



Note: Includes people aged 19–64. Shows forward-looking three-month moving average. Data are available quarterly before January–March 2020 and monthly thereafter.

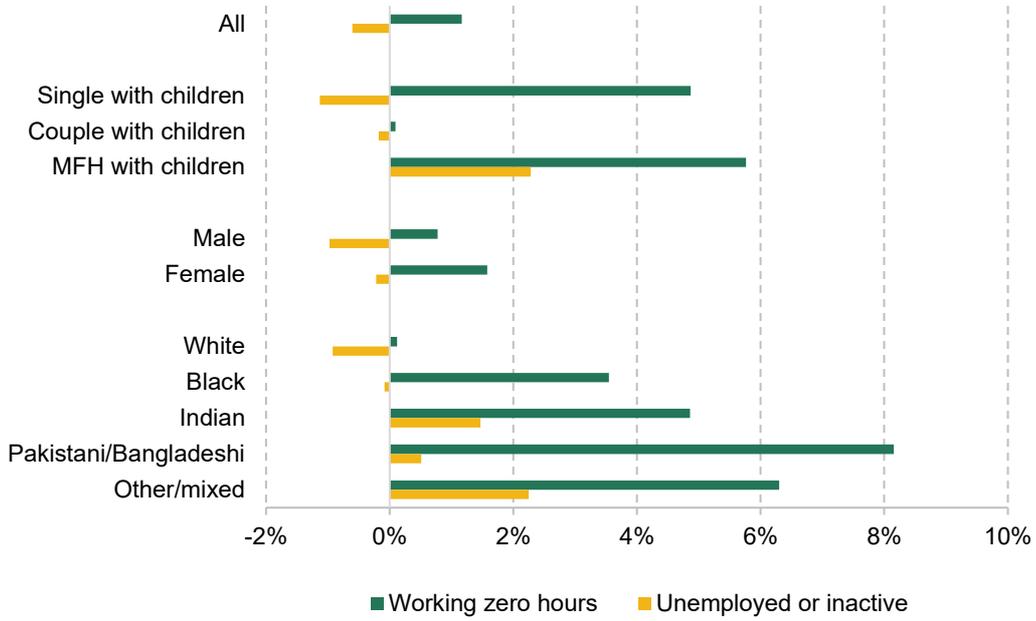
Source: Quarterly Labour Force Survey.

Figure C.3. Take-up rate of furlough at 31 March 2021, by region



Source: HMRC, Coronavirus Job Retention Scheme statistics and PAYE Real Time Information.

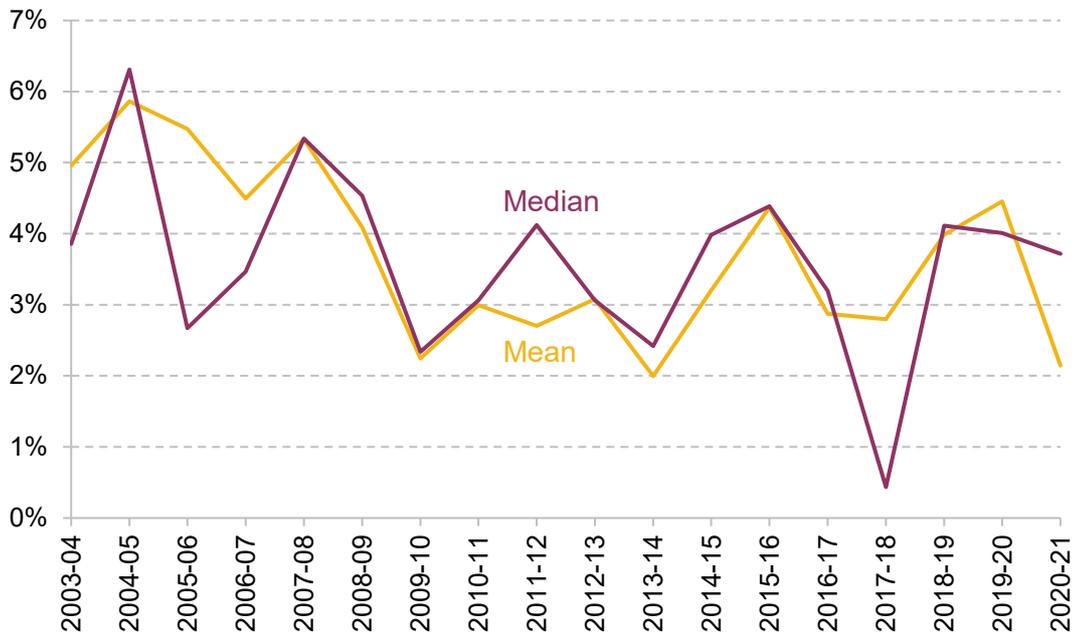
Figure C.4. Share of children living in households working zero hours and households in which everyone is unemployed or inactive: percentage point change from 2019Q4 to 2021Q1



Note: Children includes those aged 0–16 and 17- to 18-year-olds in full-time education. 'MFH' refers to a 'multi-family household'. 'Working zero hours' is defined as being employed or self-employed but working zero hours in the week of interview.

Source: Quarterly Labour Force Survey.

Figure C.5. Nominal earnings growth among ‘continuously employed’ employees – those working at least one hour per week in the year shown and one year earlier



Note: Sample is those observed working as an employee with positive hours and earnings in wave 1 and wave 5 of the LFS. Earnings are Winsorised (capped) at the 99th percentile within year. We do not include anyone surveyed in March 2020, because they would fall into the 2019–20 financial year but may have been affected by the pandemic.

Source: Authors' calculations using the Labour Force Survey.

Table C.1. Real growth in mean earnings among ‘continuously employed’ employees with reweighted data

	2017–18 to 2019–20	2020–21	Difference
Male	1.2%	0.8%	–0.4ppts
Female	1.8%	2.8%	1.0ppts
Higher education	1.0%	0.2%	–0.8ppts
A levels	2.2%	2.0%	–0.2ppts
GCSEs or below	1.6%	5.6%	3.9ppts**
Private sector	1.8%	1.0%	–0.8ppts
Public sector	0.3%	3.1%	2.8ppts**
Aged 19–34	5.7%	3.3%	–2.4ppts
Aged 35+	–0.7%	0.6%	1.3ppts*
All	1.4%	1.5%	0.1ppts

Note and source: See Table 3.2 in the main text. Data are reweighted by age and education as described in the text.

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