



Institute for Fiscal Studies

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Employment and the end of the furlough scheme



9. Employment and the end of the furlough scheme

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Key findings

- 1 The furlough scheme is ending at the end of September. At a gross cost of almost £70 billion since March 2020, it has meant that rises in unemployment and falls in headline employment have been considerably smaller than during the recession between 2008 and 2011, when there was a far larger fall in GDP. **Despite this success, significant challenges remain in the labour market.** These include additional job losses when the furlough scheme ends, low re-employment rates for those made redundant, and high levels of vacancies in some sectors.
- 2 The latest figures from HMRC show **1.6 million people were still furloughed in late July 2021**, and 900,000 of these were fully furloughed. The highest furlough rates remain in industries severely affected by social distancing rules, such as accommodation & food and arts & entertainment. Rates in these sectors should come down following the easing of COVID-related restrictions.
- 3 However, **around 1.1 million people furloughed in July were in industries less affected by the easing of restrictions.** For example, 110,000 employees remained furloughed in construction and 160,000 remained furloughed in manufacturing. These people are particularly at risk of job losses as the scheme winds down. Concerningly, **around half live in households without another working adult, and a third neither have a degree nor live with another working adult.** These people are susceptible to persistently low living standards should they be made unemployed.
- 4 **Despite the furlough scheme, around 200,000 people were made redundant per quarter between April 2020 and June 2021 (1 million in total)**, compared with only 110,000 per quarter in the year before the pandemic. We find that 56% of them found new employment within six months

of redundancy, down from 66% prior to the pandemic. However, **for Londoners, those aged 50+ and those without degrees, the chances of re-employment were much lower**, with six-month re-employment rates at 44%, 35% and 49% respectively. **This is concerning, since these groups are also disproportionately likely to still be furloughed.** This compounds concerns about these groups being particularly at risk of long-term unemployment.

- 5 **Trends affecting workers aged 60+ are especially worrying:** among those made redundant during the pandemic, 58% were not in, or searching for, work six months later, compared with just 38% among those made redundant in the three years prior to the pandemic. **There is a risk that older workers made unemployed after furlough may drop out of the labour force altogether.**
- 6 While the fall in the re-employment rate for redundant workers compared with pre-pandemic is worrying, it is worth noting that **the re-employment situation is not as bad as it was between 2007 and 2010**, when only 51% of redundant workers found re-employment within six months. Given the degree of economic disruption during the pandemic, rates of re-employment have remained remarkably high – even before the most recent relaxation of restrictions in July.
- 7 Concerns about unemployment are tempered by a **record number of vacancies, which reached 1,034,000 between June and August 2021.** There are a number of factors driving this, including: the furlough scheme discouraging job moves across firms; certain jobs becoming less attractive during the pandemic; and reductions in numbers of workers from the European Union. However, **there is mismatch between the regions and industries with high vacancy rates and those with high rates of current or potential unemployment.** This implies some need for ‘labour reallocation’, particularly towards the transport and retail sectors, and potentially across regions too.
- 8 **London appears hard-hit on multiple fronts.** Despite comprising 14% of all employees, Londoners comprised 19% of those furloughed in July 2021 and 16% of redundancies during the pandemic. Among those made redundant, just 44% of Londoners had found new work six months later, compared with 58% for those living in the rest of the UK. Finally, while the number of UK-wide vacancies in September 2021 was 24% higher than in September 2019, the equivalent figure for London was just 8%.

9 Young people who left full-time education during the pandemic initially struggled to find work. **Among those who left full-time education in Summer 2020, only 63% were in work 3–6 months later – down from 75% in 2019. However, 9–12 months after leaving education, their employment rates had risen substantially, falling back into line with those of pre-pandemic cohorts.** Given this recovery, coupled with the extensive pipeline of Kickstart jobs for young people, government resources and attention might be better focused on supporting other groups, such as older workers and those living in London.

9.1 Introduction

The Coronavirus Job Retention Scheme, more commonly known as the furlough scheme, is probably the highest-profile of all the government support schemes introduced during the COVID-19 pandemic. Announced in March 2020, the scheme was initially planned to run until June 2020. It has since been extended multiple times, but it will come to an end in September 2021. Under the scheme, private sector employers could furlough their employees, with the government paying 80% of pre-tax salary up to £2,500 per month. Prior to August 2020, employers could furlough employees at no cost to themselves. Since August 2020, there has been a cost to employers (which has risen significantly in Summer 2021 – see Table 9.4 later).

As shown in Figure 9.1, at its peak in early May 2020, 8.9 million people were furloughed. Take-up has since fluctuated, with a second peak emerging during the third nationwide lockdown in January 2021. Since then, there has been a gradual decline as public health restrictions on economic activity have been eased. The latest statistics from the end of July show 1.6 million still on furlough, 700,000 of whom were working part-time on ‘flexible furlough’ (HM Government, 2021a).

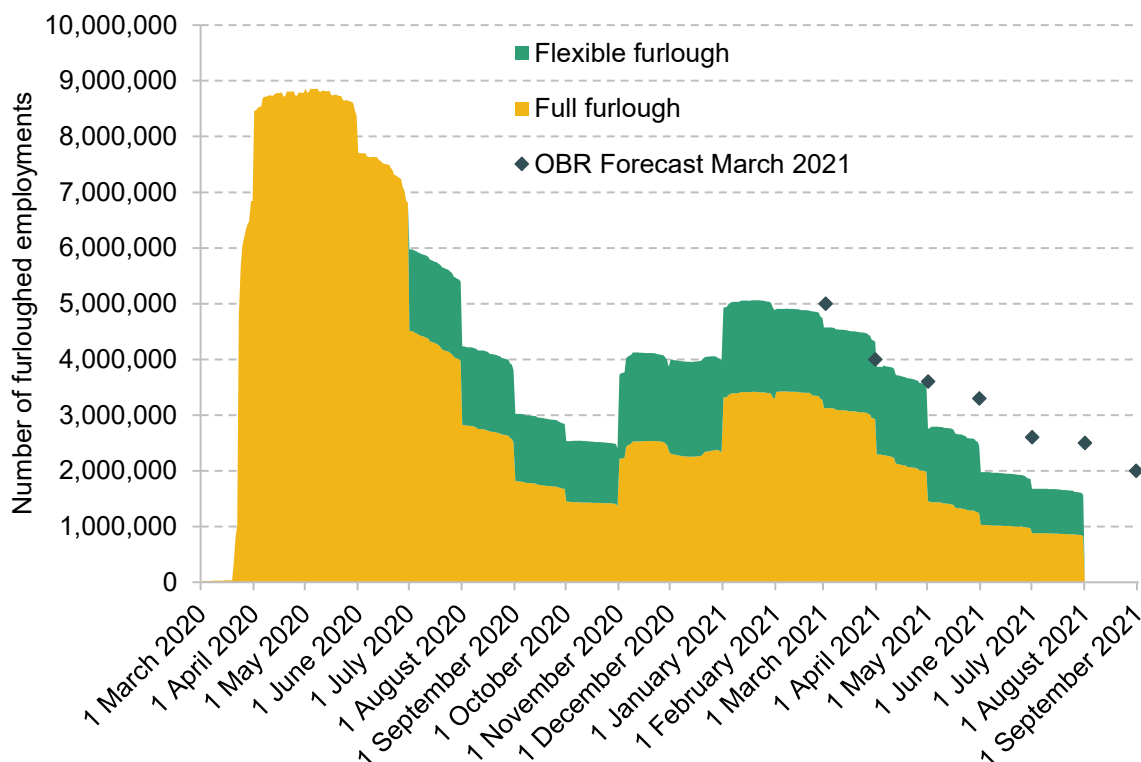
The huge numbers of people on the scheme (a total of 11.6 million employments have been furloughed at some point since March 2020) have meant that the cost to the exchequer has been enormous, with a total gross cost of £68.5 billion between March 2020 and mid August 2021 (HM Government, 2021a). The effectiveness of the scheme is most obviously seen in changes in the employment and unemployment rates during the pandemic, both of which were relatively muted compared with during the global financial crisis (GFC). For example, the unemployment rate rose from 3.8% in 2019Q4 to a peak (so far) of 5.2% in 2020Q4: significantly less than the peak of 8.5% during the GFC. Meanwhile the employment rate fell by around 1.9 percentage points from late 2019 to late 2020, considerably less than the 2.9 percentage point fall seen between 2008 and 2011. Both unemployment and employment have improved since the start of

this year, with ONS estimates of payrolled employees rising to 29.1 million in August 2021, up from 28.1 million in November 2020 (Office for National Statistics, 2021a). The furlough scheme can therefore be seen as a policy success, albeit one that had a gross cost of almost £70 billion.

It is unclear how the labour market will respond to the ending of the furlough scheme at the end of September, and whether there will be a large number of new jobseekers at that point. The latest independent forecasts, summarised by HM Treasury, predict an average unemployment rate of 5.3% at the end of 2021, with forecasts ranging between 4.5% and 5.8% (HM Government, 2021b). These forecasts all exceed the current (May–July 2021) unemployment rate of 4.6%.

This forecasted rise in unemployment sits alongside additional concerns about unfilled vacancies. These have become widespread across certain sectors, such as food & accommodation and IT & digital services. They have also been particularly well documented for heavy goods vehicle drivers, since they have led to supply chain difficulties for many firms.

Figure 9.1. Number of employments furloughed, March 2020 to July 2021



Note: OBR forecasts from the March 2021 Economic and Fiscal Outlook are plotted for the last day of each month.

Source: HMRC furlough data, March 2020 to July 2021.

The main aim of this chapter is to set out some of the key challenges facing the labour market, particularly around employment, in the coming year. We examine how the current government policy responses face up to these challenges, and what options may be available to policymakers in light of these findings.

We start in Section 9.2 by examining the types of people who remained on the furlough scheme in July 2021 (the latest point at which data are available). To shed light on their prospects should they lose their job, we then analyse re-employment rates amongst employees who have already been made redundant during the pandemic. This includes an examination of the characteristics of the people who have lost their jobs already, as well as the types of people for whom it has been hardest to find new work. Our analysis suggests older workers may be a particular group of concern: we explore this in detail and discuss the extent to which government employment policies are sufficiently tailored to them.

We then consider in Section 9.3 how the number and type of job vacancies have changed over the last two years, and how these trends may be important for people finding new jobs. We explore potential reasons for the very high levels of vacancies seen in some sectors, such as transportation and hospitality.

In Section 9.4, we examine the prospects for young adults who have left education during COVID-19, focusing on those who left school or university in Summer 2020. We examine how difficult it has been for them to find work both 3–6 months and 9–12 months after graduation, as well as the characteristics of the jobs they have found. Section 9.5 concludes.

9.2 Who is affected by the end of the furlough scheme?

With the furlough scheme soon ending, some of those who were on furlough in Summer 2021 will lose their jobs. In order to examine the *type* of workers who appear most at risk, we examine the composition of those furloughed as of July 2021 (the latest data available). Table 9.1 shows the absolute number and the percentage of furloughed employees by industry, region, gender, age bracket, education group, and number of working adults in the household.

Note and source for Table 9.1

Note: Industry, region, gender and age categories are constructed using HMRC data, which are available up to July 2021. Education and household work status are constructed using the Labour Force Survey (LFS), since such disaggregation is unavailable in the HMRC data. We use LFS data for June 2021 (the latest available) to construct estimates of the composition of those employed/furloughed. We then apply these splits to the headline HMRC furlough number to infer the respective furlough rates/numbers.

Source: Authors' calculations using UK Quarterly Labour Force Survey 2021Q2 and HMRC Furlough Statistics July 2021.

Table 9.1. Furlough rates and composition, June/July 2021

Category	Furlough rate	Number furloughed	Composition of furloughed	Composition of employed
Overall	5%	1,560,000	100%	100%
By industry				
Agriculture, mining and utilities	2%	10,000	1%	2%
Construction	9%	110,000	7%	4%
Manufacturing	7%	160,000	10%	8%
Retail and transport	6%	340,000	22%	20%
Accommodation and food	15%	260,000	17%	6%
Professional and administrative	6%	400,000	26%	25%
Arts and entertainment	15%	70,000	4%	2%
Other (including public sector)	2%	200,000	13%	33%
By region				
London	8%	300,000	19%	14%
Rest of UK	5%	1,270,000	81%	86%
By gender				
Male	6%	820,000	53%	50%
Female	5%	730,000	47%	50%
By age				
18–24	5%	150,000	10%	11%
25–29	5%	150,000	10%	11%
30–39	5%	360,000	23%	24%
40–49	6%	340,000	22%	22%
50–59	5%	340,000	22%	22%
60+	7%	210,000	13%	10%
By education				
Without degree	7%	970,000	62%	51%
With degree	4%	590,000	38%	49%
By household work status				
In a h.h. with another working adult	5%	740,000	47%	55%
Only working adult in household	6%	830,000	53%	45%

Note and source: See previous page.

The aggregate furlough rate of 5% of employees in July 2021 masks considerable heterogeneity between groups. Unsurprisingly, furlough rates are much higher in some industries, particularly those hit hardest by lockdowns and other public health restrictions (Blundell et al., 2020). For example, 15% of those employed in accommodation & food and arts, entertainment & recreation were still furloughed in July 2021. Around 6% of those employed in professional and administrative industries were on furlough in July 2021 – similar to the economy-wide average. However, because these industries (which include scientific and technical industries, finance, business services and real estate) are such large employers, they represent a quarter of all people furloughed (400,000).

Around two-thirds of those on furlough do not have a degree, over half are the only working adult in their household, and just over a third neither have a degree nor live with another working adult. This is concerning, since these groups tend to be more vulnerable to economic shocks. Those without degrees have lower earnings (Blundell, Green and Jin, 2016), lower savings, less job market security (Clark and Postel-Vinay, 2009) and in the past have suffered higher unemployment rates during recessions, while those without additional earners in the household are less likely to have a second income stream to fall back on. Hence, if made redundant, these workers are at risk of persistently low living standards, particularly as the support provided by universal credit is considerably less generous than that provided by the furlough scheme (Cribb and Waters, 2021). This is compounded by the ending of the £20 per week universal credit uplift at the end of September 2021.

We also find that employees living in London and workers aged 60 and above are disproportionately likely to be furloughed, and have been throughout the pandemic. The high furlough rate amongst older workers is potentially troubling: if made redundant, many of these workers might never return to employment, as was the case during the 2008–09 recession in the United States (Coile and Levine, 2011).

Finally, we also find that in Summer 2021, young employees were no more likely to be furloughed than average. This represents a remarkable change compared with earlier in the pandemic. For example, in June 2020, 43% of 18- to 24-year-old employees were furloughed, compared with 26% of 45- to 54-year olds.

While useful in offering a comprehensive breakdown, Table 9.1 relies on data available only up to July 2021, and so does not account for the fact that many of those furloughed are in industries that have recently ‘opened up’, following the removal of most nationwide COVID-related restrictions on 19 July 2021. In particular, the accommodation & food and arts & entertainment industries are expected to bounce back strongly this year (Barclays Corporate, 2021).

Table 9.2. Furlough rates and composition of those furloughed, for those not working in industries most affected by COVID restrictions, June 2021

Category	Furlough rate	Number furloughed	Composition of furloughed	Composition of employed
Overall	4%	1,090,000	100%	100%
By industry				
Agriculture, mining and utilities	2%	10,000	1%	2%
Construction	9%	110,000	10%	5%
Manufacturing	7%	160,000	15%	9%
Retail and transport	6%	240,000	22%	17%
Professional and administrative	5%	370,000	34%	29%
Other (including public sector)	2%	200,000	18%	38%
By region				
London	5%	170,000	16%	13%
Rest of UK	4%	920,000	84%	87%
By gender				
Male	4%	490,000	45%	50%
Female	5%	600,000	55%	50%
By age				
18–24	5%	100,000	9%	9%
25–29	4%	130,000	12%	12%
30–39	3%	190,000	17%	25%
40–49	5%	280,000	26%	23%
50–59	4%	250,000	23%	23%
60+	7%	140,000	13%	8%
By education				
Without degree	6%	630,000	58%	48%
With degree	4%	460,000	42%	52%
By household work status				
In a h.h. with another working adult	4%	530,000	49%	56%
Only working adult in household	5%	560,000	51%	44%

Note and source: See next page.

Note and source for Table 9.2

Note: Industries that are most likely to benefit from the loosening of COVID-related restrictions are defined by Standard Industrial Classification (SIC) codes: accommodation/food (major SIC code: 9); arts/entertainment/recreation (18); air transport (51); travel/tour operators (79); non-food, non-pharmaceutical, and non-internet retail (minor SIC codes: 4719; 4730–4772; 4776–4789). These industries are therefore excluded from this analysis.

Source: Authors' calculations using UK Quarterly Labour Force Survey 2021Q2 and HMRC Furlough Statistics July 2021.

To take account of this, Table 9.2 presents the characteristics of furloughed workers after stripping out those industries that are most likely to recover.¹ Overall, these workers number around 0.5 million, leaving 1.1 million workers furloughed in industries less affected by the reopening. These workers warrant particular concern, since the fact their industries are less likely to have benefited from the reopening makes them particularly at risk of job loss following the end of the furlough scheme.

Even when we focus on this subgroup of workers, most of the patterns documented in Table 9.1 remain. In particular, almost 60% of furloughed employees in these industries do not have a degree, around half live in households without another working adult, and a third neither have a degree nor live with another working adult. They are also disproportionately likely to be older: around 13% of those furloughed in these industries are aged 60 or above, compared with 8% among the employed. We ought to be doubly concerned about these workers: not only are they more likely to be made redundant, they are also more likely to have persistently low living standards should they lose their job.

How have redundancies changed during the pandemic?

To shed further light on the likelihood of furloughed people being made redundant, we first document how redundancy rates have changed throughout the pandemic. Despite the furlough scheme helping to protect millions of jobs, redundancies ran at a much higher rate during the pandemic than during the decade preceding it, as evidenced by the sharp uptick in Figure 9.2. In the third and fourth quarters of 2020, redundancy rates per 1,000 employees increased to 11.3 and 11.7 respectively – around the same level as at the height of the GFC, and almost three times higher than pre-pandemic. In total, this implies that around 1 million employees have been made redundant during COVID: about 200,000 per quarter between 2020Q2 and 2021Q2. This is significantly higher than in 2019 – the year before the pandemic – when redundancies per quarter numbered around 110,000. However, it also shows that by 2021Q2, the redundancy rate had fallen back to less than 4 per 1,000 employees, below its 2019 level.

¹ These are: accommodation and food, arts and entertainment, air travel, tourism, and non-food, non-pharmaceutical, and non-internet retail.

Figure 9.2. Redundancy rate per thousand employees, 2007–21



Note: Shaded areas highlight periods of elevated redundancy rates, associated with the global financial crisis (GFC), the recession and its aftermath and with the COVID-19 pandemic.

Source: UK Quarterly Labour Force Survey, 2007Q2–2021Q2.

Compared with people made redundant in the three years prior, redundancies during the pandemic have been disproportionately borne by employees under the age of 30 or over the age of 60. Workers in London have also been particularly affected, with their contribution to overall redundancies rising from 12% to 16% (Table 9.3). Those working in professional and administrative jobs were also more likely to be made redundant, probably because office-based workers were particularly hit by COVID-related restrictions.

Redundancies during COVID were also more likely to be the result of employers cutting staff rather than going out of business. For instance, 18% of redundancies during COVID were the result of employers closing down, compared with 26% in the three years prior. This is perhaps unsurprising, given the government has invested significant resources in keeping businesses afloat during the pandemic.

Importantly, the high redundancy rates in late 2020 occurred alongside changes to the furlough scheme. When the furlough scheme was first introduced in March 2020, employers could furlough their employees at essentially no cost. The government would contribute 80% of employees' salaries, and cover their employer National Insurance contributions and default minimum employer's automatic enrolment pension contributions, and employers were not obliged to make any payment to furloughed employees. This likely explains why redundancy rates remained low and unchanged from the pre-pandemic period in the second quarter of 2020.

Table 9.3. Composition of those made redundant: global financial crisis (GFC), pre-COVID and COVID-19 pandemic

Category	GFC (2007Q4–2010Q1)	Pre-COVID (2017Q1–2019Q4)	COVID (2020Q2–2021Q2)
By industry			
Agriculture, mining and utilities	2%	2%	2%
Construction	12%	15%	9%
Manufacturing	16%	9%	8%
Retail and transport	20%	22%	24%
Accommodation and food	7%	5%	3%
Professional and administrative	26%	26%	33%
Public sector	13%	17%	15%
Arts and entertainment	2%	2%	2%
Other	2%	2%	4%
By region			
London	10%	12%	16%
Rest of UK	90%	88%	84%
By gender			
Male	65%	56%	55%
Female	35%	44%	45%
By age			
18–24	19%	12%	13%
25–29	13%	10%	13%
30–39	23%	22%	20%
40–49	22%	21%	21%
50–59	18%	26%	23%
60+	6%	9%	10%
By education			
Without degree	76%	60%	60%
With degree	24%	40%	40%
By household work status			
In a h.h. with another working adult	77%	72%	73%
Only working adult in household	23%	28%	27%

Source: UK Quarterly Labour Force Survey, 2007Q4–2021Q2.

Table 9.4. Monthly employer cost of keeping an employee, during and after furlough

	Date	Pay: £16,200 (35 hours p.w. on NLW)	Pay: £24,900 (median)	Pay: £37,800 (75 th percentile)
During furlough (fully furloughed, not working)	Mar – Jul 2020	£0	£0	£0
	Aug 2020 – Jun 2021	£110	£231	£412
	Jul 2021	£245	£439	£727
	Aug – Sept 2021	£380	£646	£1,042
After furlough (working)	After Sept 2021	£1,460	£2,306	£3,562

Note: Authors' calculations based on the 2021–22 tax and automatic enrolment system. NLW is National Living Wage. Median and 75th percentile earnings are based on 2019 ASHE annual pay. We consider employer costs to be wage/salary, employer National Insurance contributions and employer pension contributions. We assume that employers make minimum employer pension contributions. The Apprenticeship Levy, and any other costs of employment, are not considered.

However, this changed from August 2020, when employers were required to start paying National Insurance and pension contributions. The cost implications of this were not trivial: as Table 9.4 shows, this cost employers £231 per month for an employee earning £24,900 per year (the median pre-pandemic annual salary). As the financial burden of keeping on employees increased, redundancy rates spiked. They then fell sharply in quarters 1 and 2 of 2021, most likely because employers influenced by the change had already made their employees redundant. The fact that a previous reduction to the generosity of the furlough scheme coincided with such a marked change in the redundancy rate raises concerns about a similar thing happening once the furlough scheme ends.

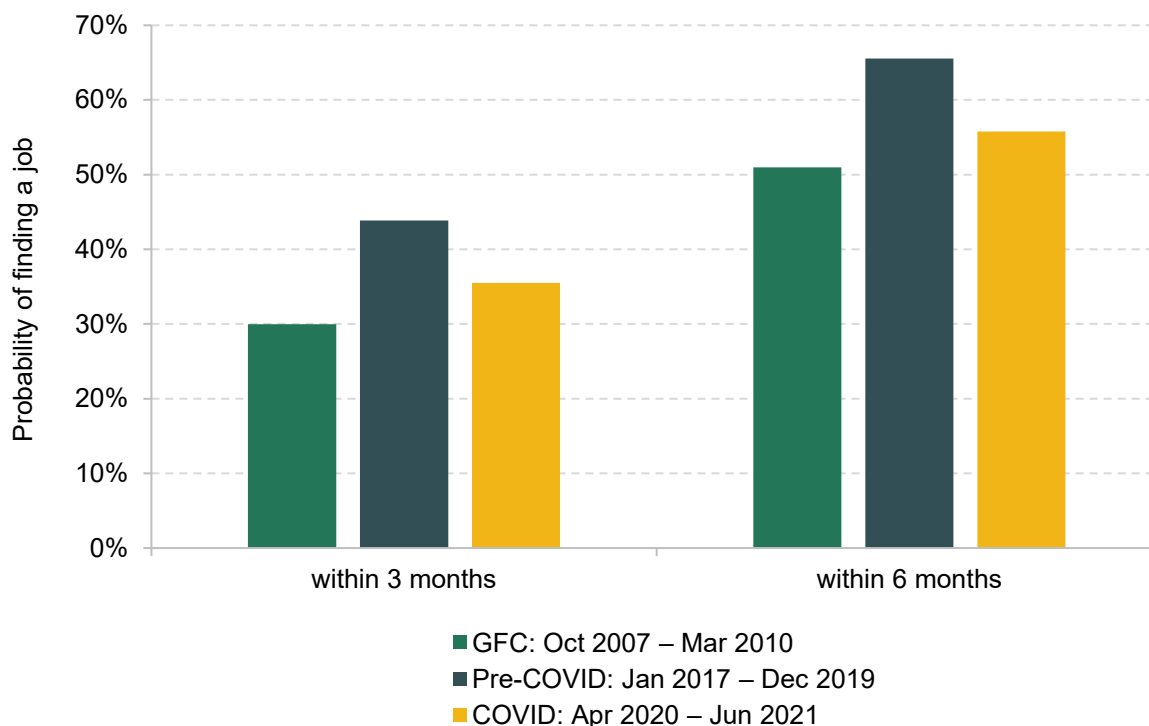
These concerns are heightened by the fact that, as the furlough scheme ends, the increase in financial cost of keeping an employee is much bigger than the previous increase in August 2020. As Table 9.4 shows, this cost has already increased since Q2 2021: in July 2021 and August 2021, employers were obliged to pay 10% and 20% of furloughed workers' salaries, respectively. This meant that for a worker earning £24,900 (the median), the monthly cost to their employer of keeping them on furlough increased from £231 in June 2021 to £439 in July and £646 in August. Once the scheme ends completely, the cost of keeping on a worker earning £24,900 per year will rise to £2,306 per month after September 2021. Of course, this rise in costs is counterbalanced by the employer getting work from the employee in return, which was not the case for those fully furloughed after the previous changes to the scheme.

How easily have those made redundant found new employment?

To examine the prospects of at-risk workers should they be made redundant, we examine the re-employment rates of employees who have already been made redundant during the pandemic. Figure 9.3 shows that employees who were made redundant between April 2020 and June 2021 have fared worse than those made redundant in the three years 2017–19. For instance, an employee made redundant since April 2020 had a 36% chance of finding a new job within three months of redundancy and a 56% chance of finding one within six months, compared with 44% and 66% before the pandemic. Though significantly lower, it is worth noting that the situation is not as bad as it was between 2007 and 2010, when the three- and six-month job re-employment rates for redundant employees were 30% and 51% respectively.

However, these aggregate figures mask considerably different prospects for different groups of employees. Figure 9.4 shows the proportion of redundant employees who have found new employment within six months, split by their characteristics. People with a degree who have been made redundant during the pandemic have fared comparatively well, with their re-employment rates broadly similar to the three years before (68%). This stands in sharp contrast to people made redundant without a degree, who only had a 49% probability of finding new employment within six months – down from 64% prior to the pandemic.

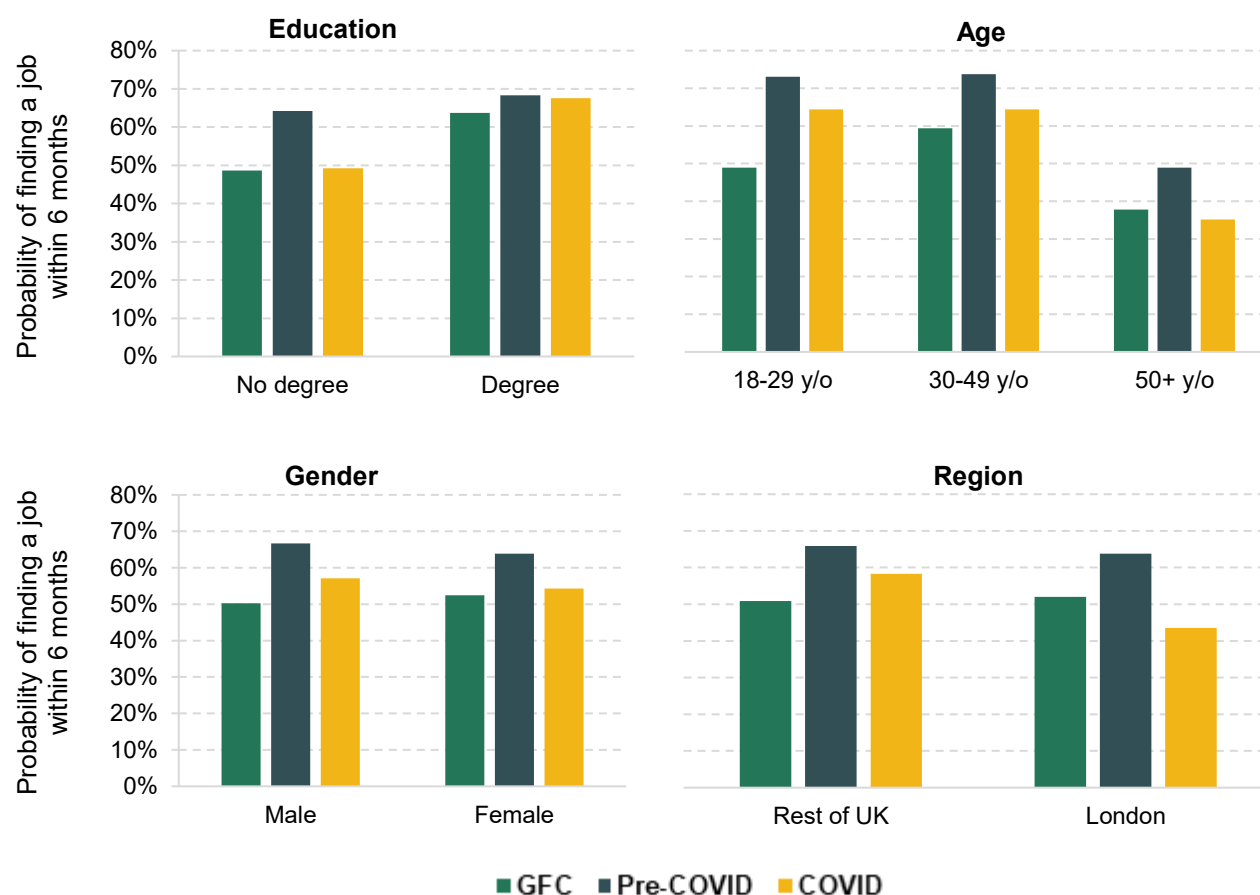
Figure 9.3. Re-employment rates amongst those made redundant



Note: Re-employment is measured as either finding a new employee job or starting working as a self-employed worker after having been made redundant.

Source: Quarterly and Longitudinal Labour Force Surveys, 2007Q4–2021Q2.

Figure 9.4. Six-month re-employment rates for redundant employees, by education, age, gender and region



Note: Re-employment is measured as either finding a new employee job or starting working as a self-employed worker after having been made redundant.

Source: UK Longitudinal Labour Force Survey, 2007Q4–2021Q2.

There are not major differences between the re-employment rates of men and women. However, those living in London fared comparatively worse during the pandemic: they are 15 percentage points less likely to have found a job within six months after being made redundant than those living in the rest of the UK (44% versus 58%). The pandemic era also reveals a striking age profile: workers aged 18–29 and 30–49 had a 64% probability of re-finding employment after redundancy, compared with just 35% for over-50s. While older workers generally have a harder time re-finding employment after redundancy, the discrepancy between groups was much larger during COVID than it was both before COVID and during the global financial crisis.

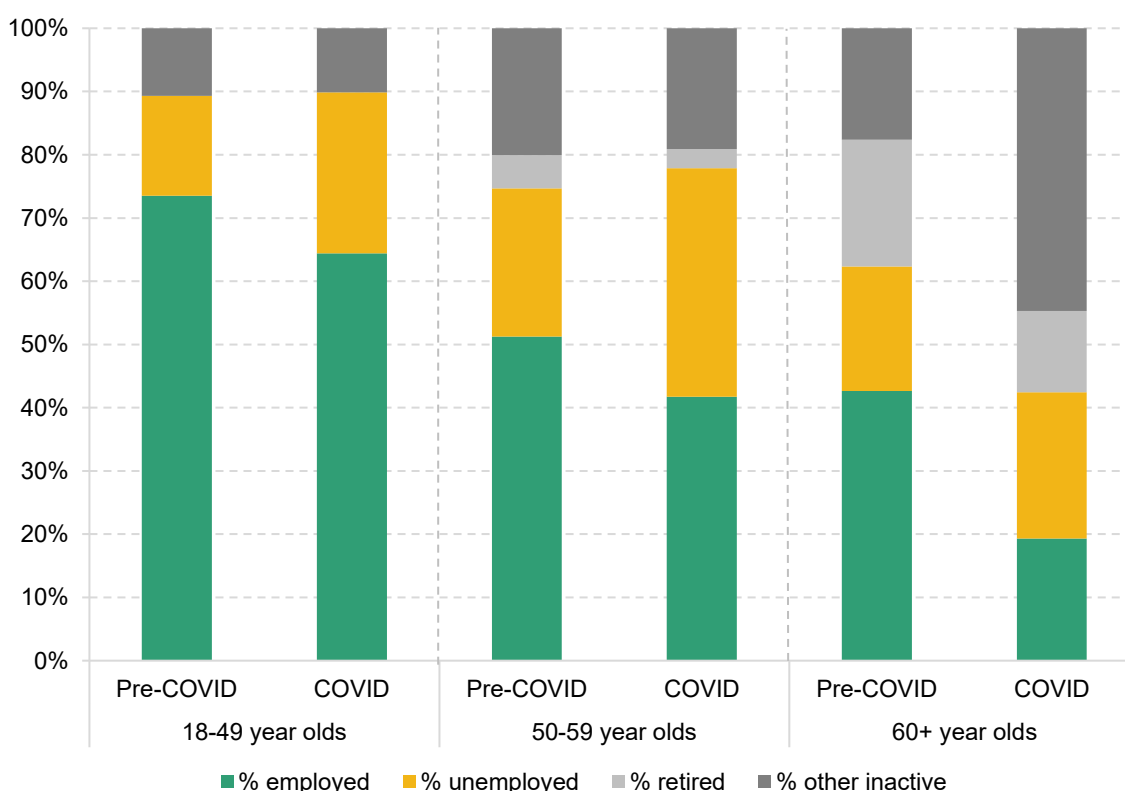
This compounds the concerns documented earlier that older people, those without a degree and those living in London are disproportionately at risk of redundancy in the coming months, due to their higher rates of furlough. Figure 9.4 shows that, among those who have already been made

redundant during the pandemic, these groups also appear to be less able to find new employment, and hence are particularly at risk of longer-term unemployment.

How easily have older employees made redundant found new employment?

Figure 9.5 focuses on older employees in particular, examining the six-month transitions amongst those made redundant. We compare those made redundant during the pandemic with those made redundant in the three years prior to the pandemic (2017–19), and separate out 50- to 59-year-olds and those aged 60+. We also show data for 18- to 49-year-olds as a comparison point.

Figure 9.5. Economic activity of older employees made redundant, within six months of losing job



Note: Pre-COVID period is January 2017 to December 2019. COVID period is April 2020 to June 2021.

Source: UK Quarterly Labour Force Survey, 2017Q1–2021Q2.

Overall, we see that during COVID, all age groups are less likely to be employed six months after being made redundant than prior to the pandemic, mirroring the findings of Figure 9.4. However, employees aged 60 and over are not only less likely to find new employment during the pandemic, but they are also more likely to be economically inactive (i.e. neither in paid work nor searching for work, represented by the combined shades of grey in Figure 9.5). Taking these

bars together ('retired' and 'other inactive'), 58% of redundant employees aged 60+ were economically inactive six months after being made redundant during the pandemic, compared with just 38% before the pandemic. Many of these employees may be exiting the labour force altogether. In comparison, there has been no change in transitions towards inactivity for redundant employees aged 18–49 and 50–59, compared with before the pandemic.

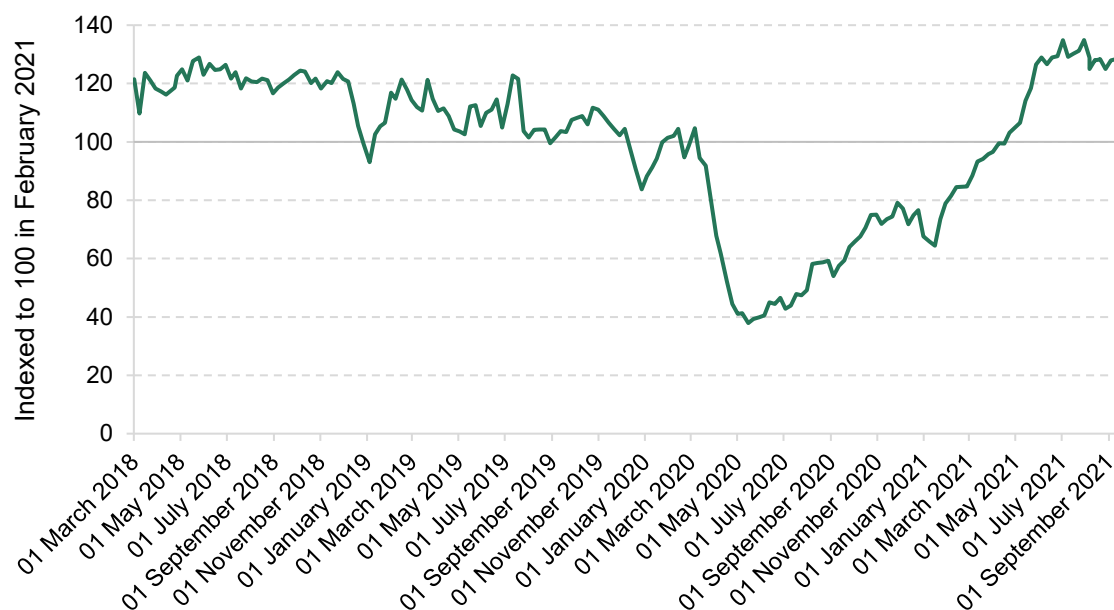
At present, the government has several schemes to help unemployed employees find jobs. For older workers, the most relevant is the 'Restart' scheme, which provides tailored support for universal credit claimants who have been out of work for 12–18 months. However, since it has no specific age mandate, there is a risk that it is insufficiently tailored to the specific needs of older workers. For example, older people might be less willing to retrain, since they have less time left in the labour market to reap dividends from this investment. Also, the scheme does not target the specific problem presented by workers aged 60+: the transition to inactivity. Since these people are not searching for jobs, they are unable to claim universal credit or new-style jobseeker's allowance, and hence are not eligible for the Restart scheme. Given this, one potential change would be to make the Restart scheme available to all people out of work, not just those on universal credit or new-style jobseeker's allowance.

Finally, since Restart is only targeted at those out of work for at least 12 months, this would mean that older workers who lost their jobs as the furlough scheme ended could only become eligible for Restart at the start of October 2022. At this point, their appetite for labour market re-entry may have diminished, and they may have lost valuable skills that would make their re-entry easier. Given these shortcomings, the government ought to consider more targeted advice to older workers earlier in their spell of unemployment, to mitigate the risk of them leaving the labour market altogether.

9.3 The recovery in vacancies and the prospects for re-employment

Until recently, the re-employment rates of those who were made redundant were not helped by low demand from employers for new workers. This is shown in Figure 9.6, which shows the average number of online job adverts, indexed to 100 in February 2020. The number of vacancies fell by more than 60% from early February 2020 to May 2020. This is corroborated by the ONS Vacancy Survey, which finds a similar fall – from 800,000 open vacancies at the end of 2019 to only 340,000 in the second quarter of 2020 (Office for National Statistics, 2021b). This fall was much larger, and sharper, than that seen in 2008 during and after the financial crisis.

Figure 9.6. UK online job adverts, 2018–21, indexed to 100 in February 2020



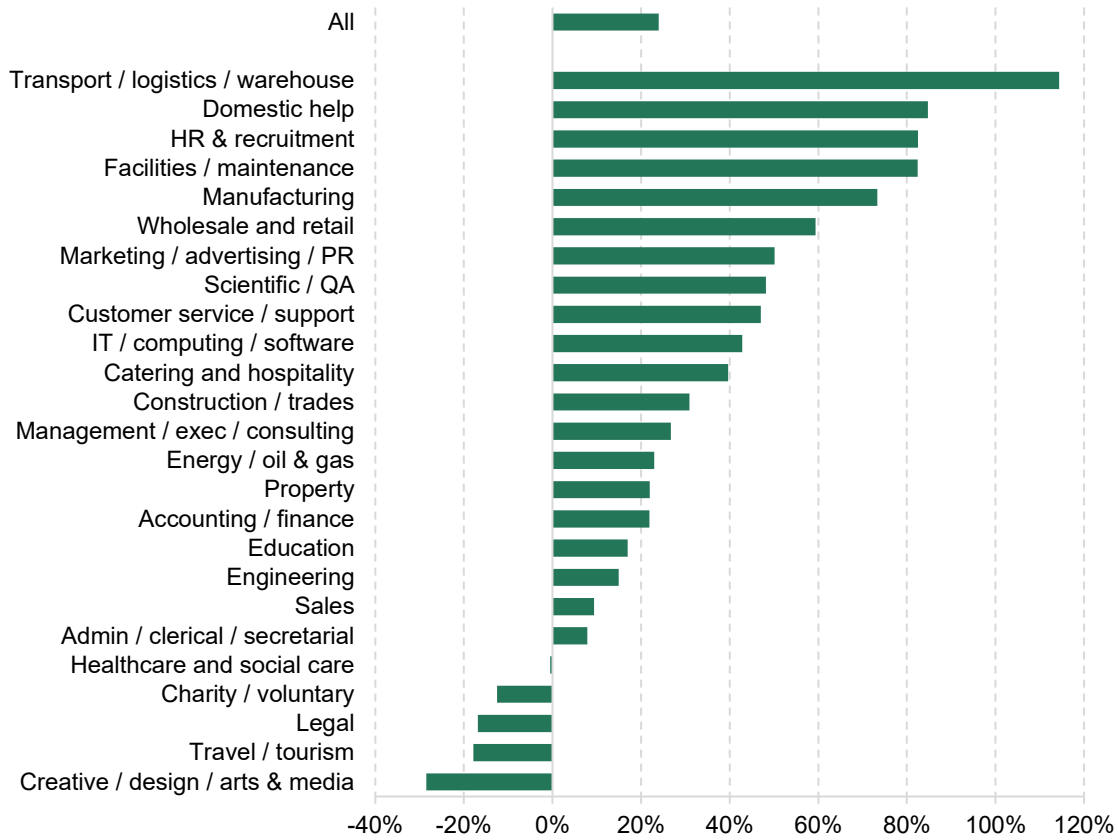
Source: ONS online job advert estimates, from Adzuna.

However, since the second quarter of 2020, the number of online job adverts has bounced back dramatically: by June 2021, the average number of job adverts was 25–30% above the level seen in February 2020. Again, this is corroborated by the ONS Vacancy Survey, which reported a record average of 1,034,000 vacancies between June and August 2021 (Office for National Statistics, 2021b).

To assess how the current profile of vacancies compares with that before the pandemic, Figure 9.7 shows the growth in online job adverts between mid September 2019 and mid September 2021. We use the same months as comparison points to account for any seasonality in employers' hiring decisions. The graph shows remarkable heterogeneity across industries. The biggest rise has been in 'transport/logistics/warehouse' with 114% growth, and domestic help (85%). There are very high growth rates in other large sectors, including wholesale and retail (59%) and catering and hospitality (40%), which were both severely affected by lockdowns and social distancing but have since bounced back strongly. In comparison, the number of online job adverts in late August for creative, legal, and the charity or voluntary sector are all at least 10% lower than their levels in 2019.

There is also substantial heterogeneity in vacancies across regions (Figure 9.8). The largest growth in vacancies has been in the North East (71% growth compared with September 2019), East Midlands (44%) and Yorkshire and Humberside (38%). In comparison, South East England and Northern Ireland (12% growth) and particularly London (8%) stand out as areas with low growth in comparison with the national average.

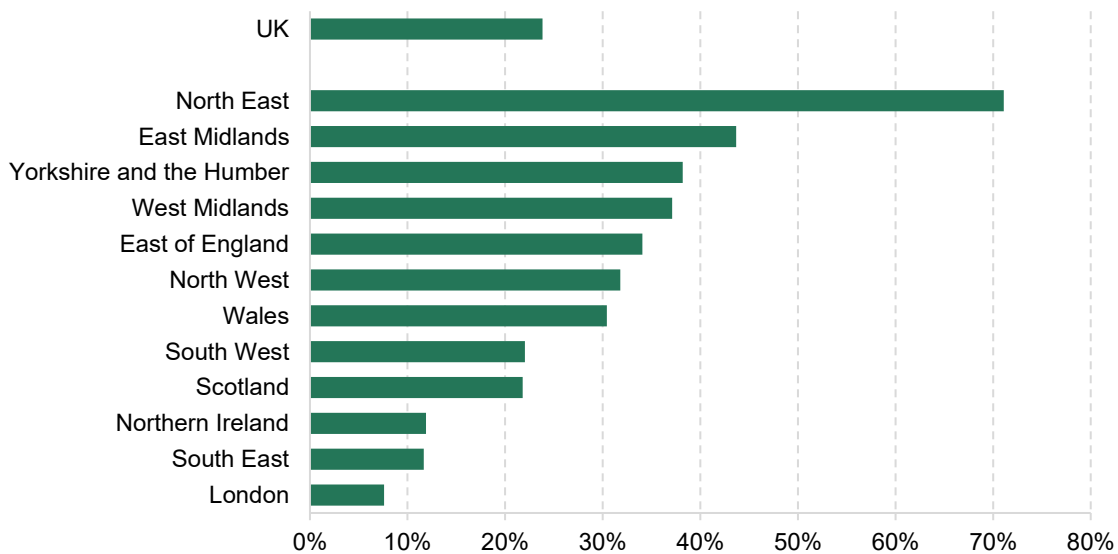
Figure 9.7. Growth in online job adverts between mid-September 2019 and mid-September 2021, by industry



Note: These industries are based on Adzuna ‘categories’ and do not reflect SIC categories.

Source: ONS online job advert estimates, from Adzuna.

Figure 9.8. Growth in online job adverts between mid September 2019 and mid September 2021, by region



Source: ONS online job advert estimates, from Adzuna.

Potential drivers of high levels of vacancies

These headline figures provide some concrete statistics behind widespread news reports of large numbers of unfilled vacancies in particular sectors, especially road transport (which have reportedly been causing supply chain issues) and food and accommodation.² Though it is difficult to provide general reasons behind the large growth in vacancies – since many are caused by occupation- or industry-specific problems – we nonetheless identify three potential drivers, and discuss the extent to which they apply to different industries.

One possibility is that the furlough scheme has been ‘freezing’ the labour market in a way that is discouraging workers from moving from their old jobs to new opportunities. This would explain why some industries, such as food and accommodation, have simultaneously high furlough rates and levels of vacancies. With the increased employer contributions needed to keep furloughed people furloughed in July and August, and the ending of the scheme in September, this channel is unlikely to be important during the autumn and winter.

A second possible reason is that some industries – in particular, food and accommodation – may have become considerably less attractive for workers during the pandemic. As the supply of workers willing to work in an industry falls, this should push up the market wage for these jobs. However, if firms are slow to react, they might continue to try to hire at pre-pandemic wages – leading to a shortage of workers willing to take these jobs and many unfilled vacancies. If this is the case, in the long run, wages should rise to compensate for the (perceived or real) disadvantages of working in these sectors, incentivising workers to fill these jobs. Alternatively, some of these jobs might never re-emerge.

Third, there has been a reduction in the overseas-born population during the pandemic due to a combination of lost jobs, being furloughed, and a desire to be closer to family during a difficult time. Thwaites (2021) estimates that around half a million migrants left the UK between the first and third quarters of 2020 – about 5% of the migrants in the UK. A large proportion of these are likely to be from the European Union. In addition, changes to immigration rules due to Brexit mean that it is considerably harder for many EU citizens to come to the UK to work since January 2021. This effectively amounts to a reduction in labour supply, which may have helped drive the current spike in vacancies.

There is some suggestive evidence that this last factor may be important in explaining some, but not all, of the current patterns. Table 9.5 shows the vacancy growth between June–August 2019 and the same months in 2021, by industry. It also shows the proportion of employees in 2019 working in these industries who were born in current EU member states. On average, 8% of

² See, for example, <https://www.bbc.co.uk/news/uk-wales-58341916> and <https://www.bbc.co.uk/news/57810729>.

employees in 2019 were born in the EU. However, in a number of key industries with high vacancy growth, the proportion is much higher. For example, in 2019, 15% of accommodation and food services workers were born in the EU, as well as 10% of those working in administrative and support services. In addition, many of the industries with relatively low vacancy growth – such as finance and insurance – had average, or lower than average, proportions of employees from the EU prior to the pandemic. Though there are exceptions to the pattern, this analysis nonetheless suggests that reductions in the number of people from the EU could be contributing to higher vacancy rates in certain sectors. As above, wages in these sectors could rise in order to attract sufficient workers or, alternatively, some of these jobs might never re-emerge.

Table 9.5. Vacancy growth (2019–21) and fraction of employees born in European Union, 2019, by industry

Industry	Vacancy growth (June–August 2019 to June–August 2021)	Share of employees born in EU, 2019
Overall	25%	8%
Construction	48%	7%
Administrative and support	44%	10%
Accommodation and food	41%	15%
Manufacturing	39%	11%
Information and communications	38%	8%
Transport and storage	31%	11%
Arts, entertainment, recreation	30%	5%
Public administration	26%	3%
Health	20%	6%
Professional and scientific	20%	9%
Education	14%	6%
Finance and insurance	9%	8%
Wholesale and retail	4%	9%

Note: Small industries excluded due to low sample size in the LFS. Sorted by vacancy growth 2019 to 2021.

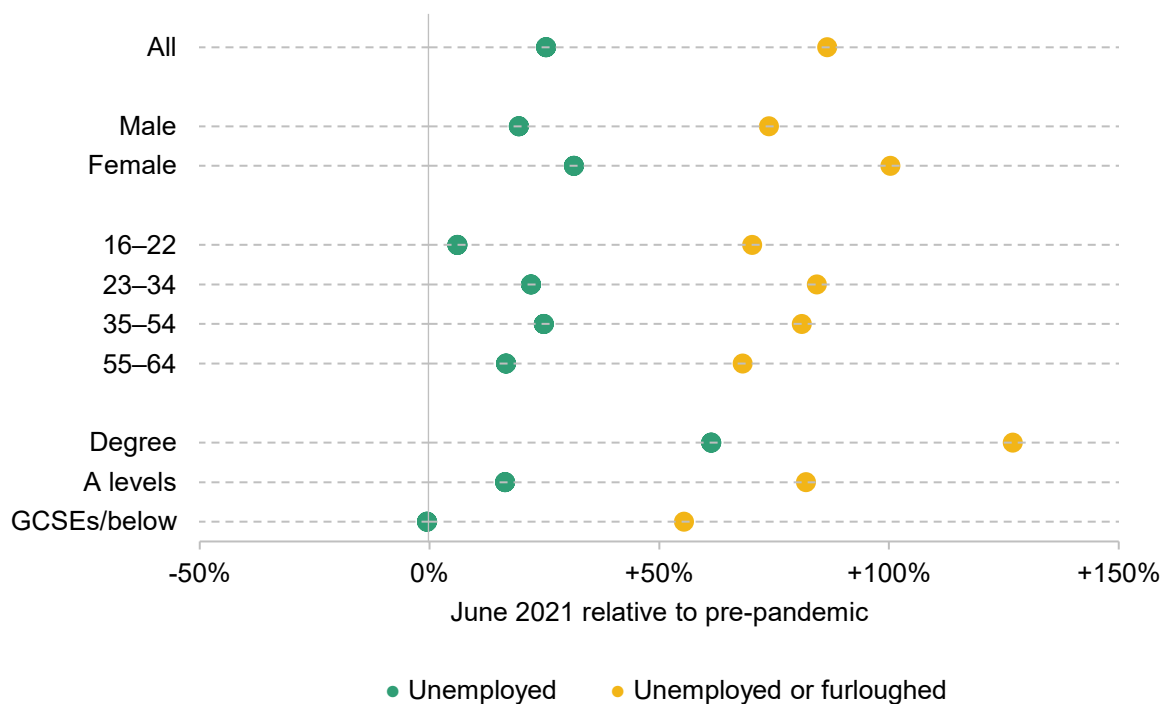
Source: Authors' calculations using ONS Vacancy Survey and Labour Force Survey 2019.

To what extent do high vacancies allay concerns about unemployment?

On the face of it, high vacancies appear to lessen the threat of unemployment once the furlough scheme ends. However, a key issue will be whether the vacancies are in jobs that are suitable, in terms of skills and locations, for jobseekers. To examine this issue, Costa Dias et al. (2021) construct measures of ‘opportunities’, which count both vacancies in one’s own occupation and area, and vacancies in other occupations weighted by the frequency with which people have transitioned towards them in the past. For example, a retail store worker could potentially search for work as a delivery driver as well as another retail post, whereas they are less likely to get a new job as an accountant or teacher. Differences in the ease of transition are accounted for by the weights.

With this measure in hand, Costa Dias et al. then compare how the number of opportunities compares with the number unemployed or furloughed across different sectors and demographics. This comparison offers a helpful indication as to whether current vacancies are sufficient for the potential number of jobseekers that might be looking for them.

Figure 9.9. Unemployed or furloughed workers per opportunity in June 2021, relative to pre-pandemic, by demographic group



Note: Shows the number of unemployed or furloughed workers who would usually compete for the same jobs as workers in each demographic group, divided by the new job opportunities for workers in that group, relative to June 2019.

Source: Adzuna vacancy data and Labour Force Survey. Reproduced from figure 4.4 in Costa Dias et al. (2021).

Importantly, Costa Dias et al. find that the number of unemployed workers per opportunity *increased* in most sectors, including retail staff, administrative workers and IT professionals. This implies that, despite the high level of vacancies, workers made redundant in these industries after furlough will find it *harder* to find a job than before the pandemic – due to increased competition for jobs. While there are important exceptions to this trend – such as road transport drivers and bar staff – this analysis ultimately dampens the initially optimistic outlook of record vacancies.

Costa Dias et al. (2021) also find evidence of heterogeneity in competition for new job opportunities amongst different demographic groups. As shown in Figure 9.9 (reproduced from figure 4.4 in their paper), competition looks higher for women than for men, and for middle-aged people compared with those younger or older than them – a rare piece of (relatively) good news for older workers. The graph also shows that opportunities look better for those without degrees, as there are relatively fewer potential jobseekers per potential vacancy.

In summary, these findings have important implications for the results documented in Section 9.2. On the one hand, the fact that opportunities look better for those without degrees and older workers partially offsets concerns that these people appear at greater risk of unemployment following the ending of furlough. On the other hand, the fact that London has exhibited the lowest vacancy growth of any region compounds concerns about the prospects of longer-term unemployment in the capital. Londoners have been hit on multiple fronts: they are more likely to be furloughed, have endured higher rates of redundancy, have been less likely to re-find employment when made redundant, and – as this section has shown – live in a region with the lowest growth in vacancies.

9.4 How has COVID affected the labour market prospects of recent graduates?³

How easily did those who left full-time education in 2020 find jobs?

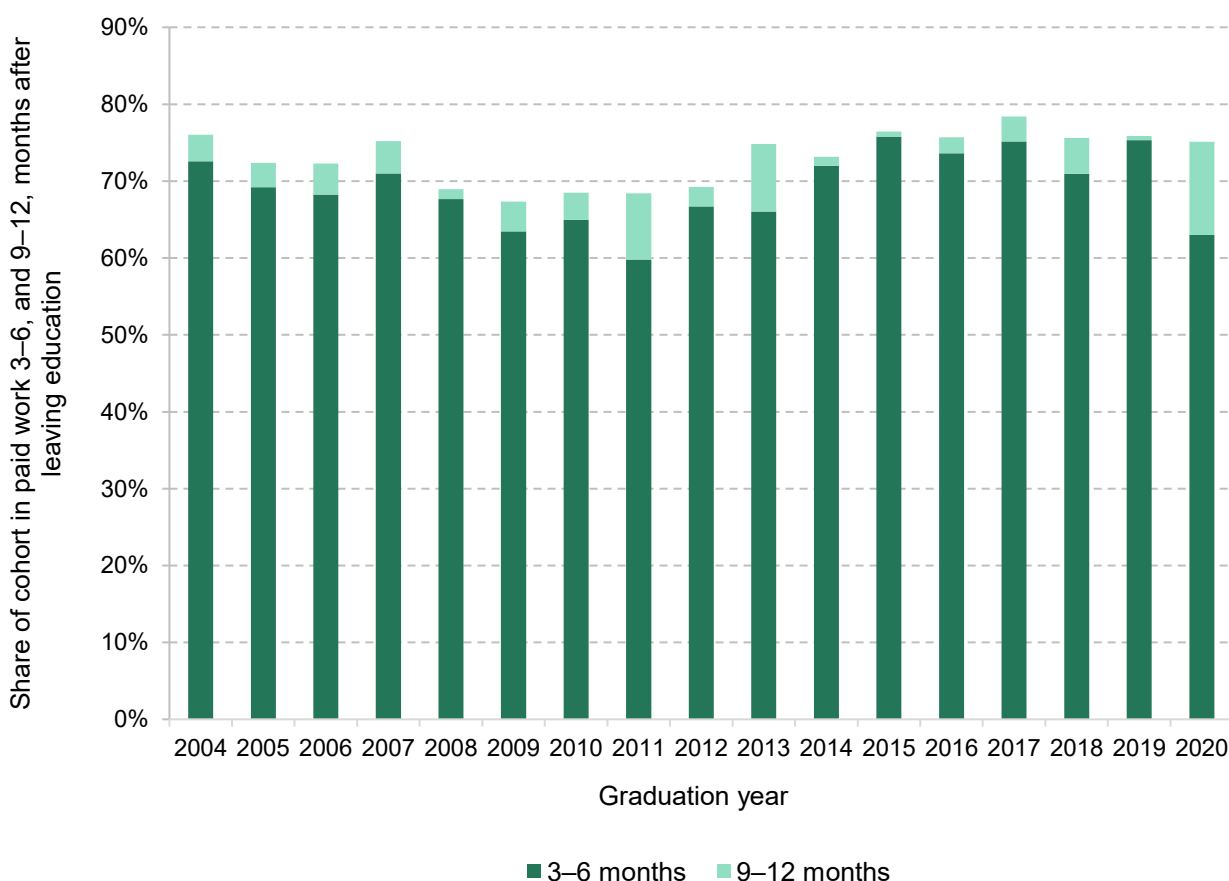
Each year, hundreds of thousands of young adults leave education and enter the labour market. The experiences of those who left education during the pandemic are particularly important to understand. First, the tail end of their education was significantly disrupted, as a result of school closures, distance learning and exam cancellations. Second, a substantial body of literature shows that leaving education during a recession has persistently negative impacts on employment rates and earnings. This has been shown in the UK (Burgess et al., 2003; Cribb,

³ Throughout this section, ‘graduation’ refers to leaving school (including a sixth form college) or university (including a further education college for people aged 19+) – unless stated otherwise.

Hood and Joyce, 2017), the US (Altonji, Kahn and Speer, 2016) and Norway (Liu, Salvanes and Sørensen, 2016), among other countries. Though every recession is different, there is a risk of the COVID-19 downturn inflicting long-lasting harm to the employment prospects of young adults.

To understand the challenges facing young adults who left education during the pandemic, we focus predominantly on the cohort that graduated in Summer 2020. While another cohort graduated during COVID in Summer 2021, we do not have Labour Force Survey (LFS) data beyond June 2021, and so cannot similarly infer their post-graduation employment rates. However, we bring in our vacancy analysis to discuss the extent to which the experiences of those who graduated in 2021 might be similar to or different from those of people graduating in 2020.

Figure 9.10. Employment rate of education leavers, 3–6 months and 9–12 months after leaving education, 2004–20



Note: Employment includes both employees and the self-employed. ‘Graduation’ refers to leaving school (including a sixth form college) or university (including a further education college for people aged 19+).

Source: Quarterly Labour Force Survey, 2004Q4–2020Q4 and 2005Q2–2021Q2.

Figure 9.10 shows, for different summer-graduating cohorts, the share of young adults who were in paid work 3–6 months⁴ and 9–12 months⁵ after leaving full-time education. The experiences of the 2020 cohort are striking: 3–6 months after leaving education, only 63% were in paid work – down from 75% in 2019. The fall was particularly pronounced for university graduates, who saw their employment rates 3–6 months after leaving education fall from 80% to 62%. These experiences are perhaps unsurprising, given the low number of vacancies between October and December 2020 documented in Section 9.3.

Of course, things have changed markedly since then, with redundancies returning to pre-pandemic levels and headline vacancies reaching record highs. These improvements in the labour market led to a drastic change in the experiences of the ‘2020 cohort’: 9–12 months after they left education, 75% were in paid work – broadly the same as for the cohorts that left education in the years immediately before the pandemic. Overall, this improvement in employment rates for people who left education in 2020 is encouraging, as it allays concerns about them suffering from a protracted lack of employment opportunities.

What type of jobs did those who left full-time education in 2020 find?

However, while employment rates improved throughout early 2021 for people who recently left education, there remain concerns about the *type* of jobs that they found. Figure 9.11 shows, for people in paid work 9–12 months after leaving full-time education, the percentage working part-time (less than 30 hours per week), the percentage working in partially skilled or unskilled occupations, and the percentage with the same job that they held during school or university. All of these get at different measures of ‘job quality’, since unskilled work is usually less well paid, part-time work is generally less well paid and offers less chance for on-the-job training, and jobs that students or pupils are able to get while studying are also likely to be less well paid and may not require their recently acquired skills.

While the cohort of people who left education in 2019 seem a natural comparison group, there is a concern that their 9–12-month post-education experiences may have been affected by the early wave of the pandemic. Given this, the 2018 cohort may represent the safest comparison. Compared with this group, those who left education in 2020 were 8 percentage points more likely to have held on to the same job (39% versus 31%). In addition, the percentage of education-leavers working in full-time, skilled, new jobs fell from 40% to 36%, although there were also falls in this measure prior to the pandemic, between 2014 and 2019. This point

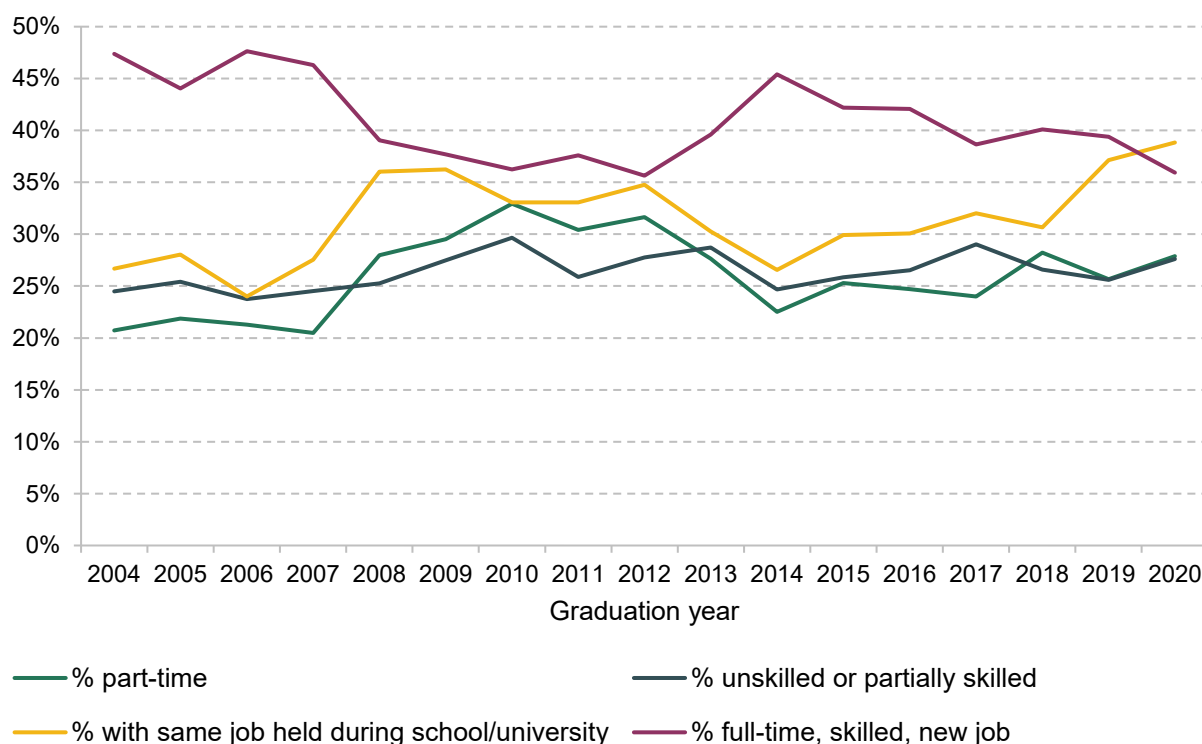
⁴ We measure 3–6-month experiences using Q4 data, which cover October to December. To identify those who graduated the previous summer, we condition on people under the age of 25 who are the same age as the age at which they left full-time education.

⁵ We measure 9–12-month experiences using Q2 data of the following year, which cover April to June. To identify those who graduated the previous summer, we condition on people under the age of 25 who are the same age as or one year older than the age at which they left full-time education.

notwithstanding, Figure 9.11 suggests that the jobs that were attained by the 2020-graduating cohort were on average of slightly worse quality than those attained by the cohorts before, and more similar to the ones attained by those who graduated during and shortly after the global financial crisis. This could have negative implications for both their take-home pay and the amount of on-the-job training they are likely to be receiving, and therefore their career progression in the future.

This summer (2021), there has been another cohort of young people graduating into the labour market. While we do not have LFS data beyond June 2021 for these people – and hence cannot observe their transition into the labour force – there are several reasons to think that their experiences will be different from those of the 2020 cohort. Most importantly, there are much higher rates of vacancies, meaning they are less likely to struggle to find jobs in the 3–6 months after leaving education. For school leavers, this is likely reinforced by the fact that record numbers of 18-year-olds opted to go to university this summer rather than enter the labour force. In September 2021, 272,500 18-year-olds are heading for university – a 7% increase on 2020 (BBC News, 2021).

Figure 9.11. Job characteristics of graduates (school and university leavers) in paid work, 9–12 months after leaving education



Note: Part-time defined as working fewer than 30 hours in a usual week. Unskilled or partially skilled based on Registrar General’s social class. Percentage who have the same job as held during school or university is based on reporting the same employer for at least a year.

Source: Quarterly Labour Force Survey, 2005Q2–2021Q2.

Policy response

Concerned about prospects for young people struggling to find work, the government has launched the ‘Kickstart’ scheme. Launched in September 2020 and running until December 2021, it is very similar to the Labour government’s ‘Future Jobs Fund’ introduced during the Great Recession in 2009. While it was swiftly scrapped by the coalition government, a subsequent evaluation suggested this programme was successful in helping young people find jobs (Department for Work and Pensions, 2012).

Kickstart subsidises the hiring of young people (aged 16–24) on universal credit. To be eligible, employers must declare that the Kickstart job is a new job and that they will consider making it permanent. The programme covers 100% of the age-relevant National Minimum Wage for 25 hours a week for six months, as well as associated employer National Insurance contributions and automatic enrolment pension contributions. Employers also receive a one-off payment of £1,500 to support the job (which could include supporting training costs). As of 31 August 2021, 63,000 people had started Kickstart jobs, and over 2,500 were starting one each week (HM Government, 2021c). Over 155,000 job placements have been approved and made available through the scheme (Hansard, 2021). The government should consider extending eligibility to those young people who are not on universal credit but are on contributory out-of-work benefits (new-style jobseeker’s allowance and new-style employment and support allowance).

Another policy that predominantly targets younger workers is the lump-sum payments made to incentivise employers to take on new apprentices. These payments were increased to £3,000 per new apprentice between April and September 2021, up from between £1,500 and £2,000 before then. In addition, the ‘lifetime skills guarantee’ was announced in Autumn 2020; this provided full funding for Level 3 (A-level-equivalent) college courses for people without equivalent qualifications.

Given the extensive support already available to younger workers, coupled with record numbers of vacancies (at least in many occupations), there is a strong case that any additional government resources that are made available might be more effectively targeted at other groups. As outlined in Section 9.2, older workers appear in particular need of support, given their high furlough rates, low re-employment rates and increasing transition towards inactivity.

With this being said, the fact that a lower proportion of recent graduates are working in new, skilled, full-time jobs does represent a cause for concern. This is especially so given the degree of mismatch between opportunities and potential jobseekers highlighted in Section 9.3, which presents a case for policies focused on retraining to help people move sectors or on encouraging firms to provide jobs that include training. At present, recent graduates are less likely to be receiving training, given the decreasing proportion in full-time, new jobs. To combat this, the

government ought to consider continuing the incentive payments to encourage apprenticeships, which are currently set to end at the end of September.

9.5 Conclusion

The furlough scheme has meant that, while millions of people have been away from their jobs during the pandemic, the falls in employment and rises in unemployment have been relatively muted compared with during and after the 2008 financial crisis. With the scheme now ending, many forecasters expect a rise in unemployment between now and the end of 2021 – albeit a small one compared with historical recessions. Rather than the sheer number of people at risk of unemployment, the key concern for the months ahead is that the types of people whose jobs are most at risk are those particularly likely to find a period of unemployment difficult. Almost 60% of those who appear to be most at risk – because they were still on furlough in July 2021 in industries less likely to have benefited from lockdown easing – have lower (non-university) levels of education, and just over half (52%) are the only working adult in their household and are therefore less likely to have a financial cushion to support them. Many of them will rely on universal credit at least for a while, at a point where the ‘£20 per week uplift’ is also being ended.

These workers’ prospects are not helped by the fact that, during the pandemic, people made redundant have typically found it harder to re-find employment than during the three years before. This is especially the case for those without a degree, those living in London, and those aged 50 and over. The fact that these groups are also disproportionately likely to be furloughed raises concerns about the prospects of longer-term unemployment, at least for some groups. Workers over 60 present an additional concern: their increased transition towards economic inactivity. There is a risk of some of these people leaving the labour force altogether, with consequences for both the health of the economy and the welfare of these individuals, both now and through retirement.

Of course, many jobseekers will benefit from the increased vacancy rates that have been seen in Spring and Summer 2021. Candidate explanations for this spike in vacancies include the furlough scheme ‘freezing’ the reallocation of labour, some jobs becoming less attractive during the pandemic, and reductions in the numbers of EU nationals working in the UK. While high vacancies typically allay concerns about unemployment, the industries with the highest number of vacancies are not the ones with the highest numbers of unemployed or furloughed workers (who face risks of unemployment in the future). To address this mismatch, sectoral or geographical labour reallocation policies may be needed in the coming years. In particular, given the high rates of furlough, lower re-employment rates following redundancy and lower rates of vacancies, London might be a particularly important place to focus resources to help jobseekers.

The experiences of those who left full-time education in Summer 2020 are mixed. On the one hand, the proportion in work 3–6 months after graduating fell to the lowest level in nearly 10 years, while the jobs secured by those in employment looked, on average, to be of slightly lower quality than prior to the pandemic. On the other hand, their prospects looked much better 9–12 months after graduation (i.e. in 2021Q2), with employment rates for this group broadly returning to pre-pandemic levels. Given there are currently record numbers of vacancies, coupled with an extensive pipeline of jobs provided by the Kickstart programme, government resources might be better targeted at other groups, such as older workers, those living in London, and those in industries at risk of unemployment following the end of furlough.

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