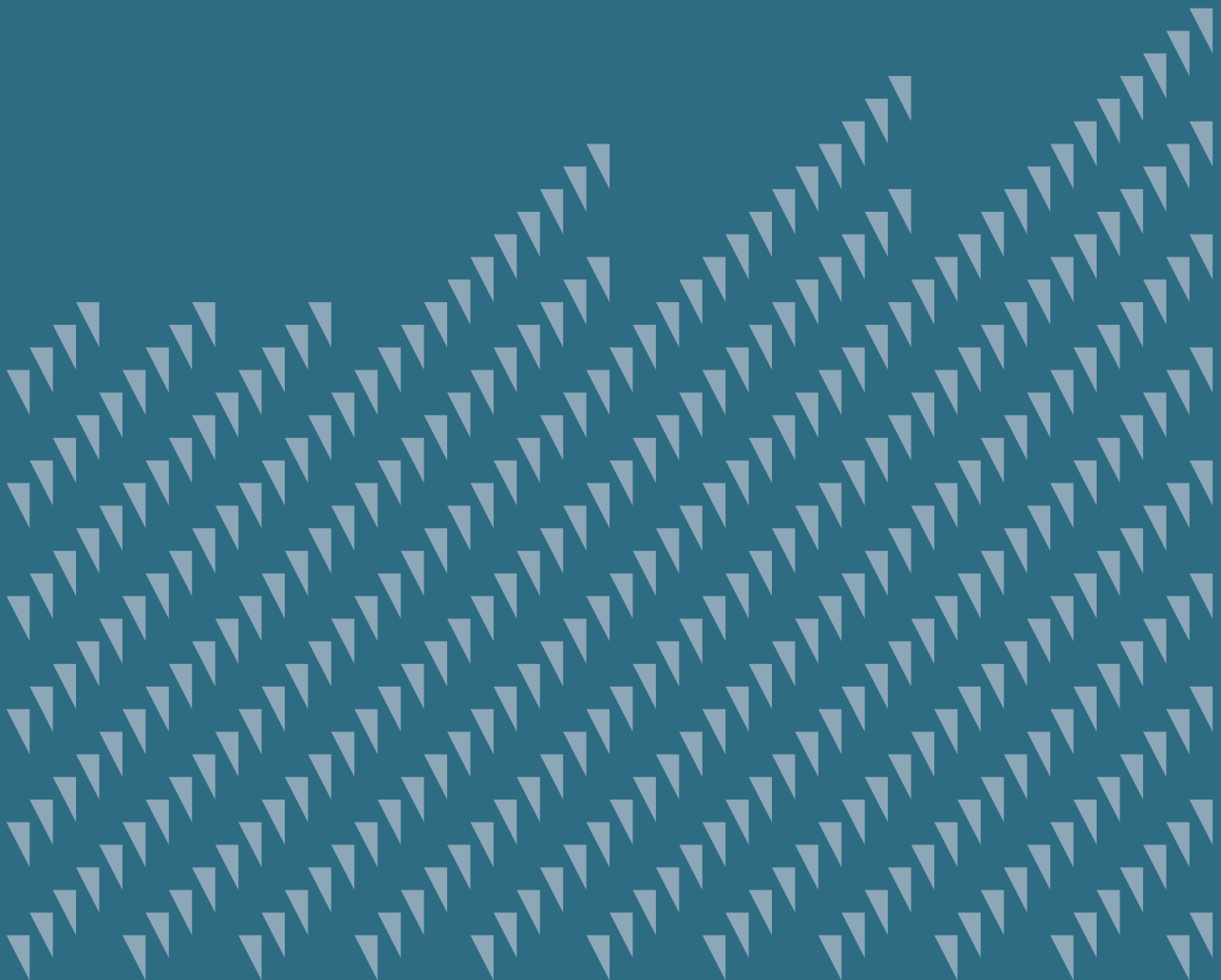


The truth will out

Understanding labour market statistics
during the coronavirus crisis

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Summary

Labour market statistics matter. In normal times, they offer a snapshot on how household living standards are faring, and in recessions they also provide a key measure of how serious a crisis we face. Because the current coronavirus crisis is rooted in the labour market, even more attention is being paid to these statistics than usual. And this will only intensify through the rest of 2020 as we enter a new phase of the crisis. Labour market statistics matter crucially for policy makers, who will need to decide if enough action has already been taken to avoid lasting high unemployment as the Coronavirus Job Retention Scheme (JRS) is phased out. In particular, policy makers will rely on understanding whether the nine million workers who at some point have been furloughed eventually return to work or face redundancy.

As a result, more attention than usual is being paid to the UK's official labour market data, and measures of unemployment in particular, which are published monthly by the Office for National Statistics (ONS). But the most recent releases have presented what seems at first glance to be a confusing picture. For example, in the June 2020 release, the official estimate of the unemployment rate for April hardly budged from that in the previous month, and yet the Claimant Count measure of unemployment, based on receipt of various out-of-work benefits, increased by a record monthly change of one million in April to reach 2.3 million (and then further in May to reach 2.8 million). Media coverage and politicians have focused on this huge Claimant Count increase, despite its apparent inconsistencies with other available data.

The conclusion of our analysis, presented in this briefing note, is that the particular nature of the lockdown period and the policy response to it mean that neither of these measures is a reliable guide to the true level of unemployment.

The Claimant Count measure of unemployment is currently overstating the level of and changes in those genuinely unemployed and claiming unemployment-related benefits, for two reasons. First, the crisis occurred in the middle of the roll-out of Universal Credit (UC), and has dramatically increased the pace of that roll-out by precipitating changes in circumstances that necessitate a new benefit claim. Despite efforts to ensure consistency over time, the replacement of legacy benefits by UC leads to more people being captured in the Claimant Count. This includes those who would have previously only claimed Child Tax Credits and Housing Benefit, and claimants awaiting a health assessment. Department for Work and Pensions (DWP) data suggest that these definitional changes pushed up the Claimant Count by around half a million between 2013 and the beginning of this year – a period of time in which the Claimant Count was rising, while unemployment numbers continued to fall.

Second, and more importantly, the easing of the usual work-search conditions and contact between claimants and work coaches between March and June means that many new UC recipients have not had their work status accurately updated as quickly as they otherwise would. This is particularly important in light of the JRS, with previous qualitative work suggesting that some furloughed workers made an out-of-work UC claim that would have placed them in the Claimant Count, before they knew they were furloughed. In the absence of regular work coach contact, these people will only be removed from the Claimant Count when Pay As You Earn (PAYE) information has fed through to DWP's systems. This can take a couple of months, so we might expect furloughed workers within the initial Claimant Count surge to move elsewhere in the UC statistics in the June data (released in July). There is a similar story for self-employed claimants receiving Self-Employed Income Support Scheme (SEISS) grants (which will be reported to DWP as income for UC purposes, and so affect this group's inclusion in the Claimant Count) in late May and June.

Analysis of timely longitudinal survey data suggests that at least 27 per cent (400,000), and likely many more, of the 1.6 million Claimant Count rise between March and May is accounted for by those still working, furloughed workers, or SEISS recipients. While some of these people will ultimately be thought of as unemployed, it is far from clear that all should be right now. Having also excluded those who were out of work pre-coronavirus but have newly claimed UC (for example, due to a change in a partner's income), we estimate that only 45 per cent of the recent Claimant Count rise (700,000 claimants) relates to those newly out of work and not receiving other government support via the JRS or SEISS.

The effects we have described have put upward pressure on the Claimant Count. Some of this will unwind in the coming months, but the extent of that unwinding is far from clear. This makes it very hard to understand whether future changes in the Claimant Count reflect the wider economy. The Claimant Count has returned to the centre of political and economic debates just as its usefulness has been limited (further). It should not be considered a good measure of unemployment at the present time.

In contrast to the overestimate provided by the Claimant Count, the International Labour Organisation (ILO) measure of unemployment in April will have underestimated any increase in unemployment. The ILO unemployment measure classifies a person without a job as unemployed if they are out of work, actively looking for work, and available to start; if not, then they are classed as economically inactive. It is now clear that, because of the nature of the hard lockdown period in the first few months of the crisis and the collapse in vacancies it caused, many people who did not have a job during April, or who lost self-employed work, did not make an effort to look for new work. This is reflected in

the fact that while unemployment did not budge, economic inactivity rose by 425,000 in the month to April, driven by those inactive for reasons other than the usual ones, and those who say they want a job. This effect should reduce as the lockdown eases. So the official measure of unemployment understates its current level, and may overstate any worsening in the true level of unemployment.

Because of these two points, it would be more sensible to use the employment rate, rather than either of these currently inaccurate measures of unemployment, as the key indicator of the state of the labour market. Here, the monthly ONS release provides two estimates on the number of people in employment, one based on the Labour Force Survey (LFS, which can be split into employees and the self-employed) and one from PAYE real-time data (which only captures employees). However, the particular nature of the lockdown period, combined with the policy response (in the form of the JRS), means that neither of these measures is currently a reliable guide to the amount of productive work being done.

This is because the crisis has led to a very large rise in the number of people who report that they have a job (either as an employee or self-employed), but have not actually done any work in the reference week – from around 7 per cent of employees in the seven weeks before lockdown to just under three-in-ten in the five weeks after lockdown began. Some of these will be employees furloughed on the JRS, and so will still be receiving some earnings, but not all (for example, some people off sick or self-isolating will not be eligible for Statutory Sick Pay). Estimates of the employment rate from the LFS include all workers who are not actually doing any work (whether or not they are being paid), while estimates from the PAYE data include those not working but being paid, but not those still employed but lacking either work or pay. That is why the latter fell by 450,000 in the month to April, while the LFS estimate of employee numbers remained flat. The PAYE data therefore represents a decent and timely measure of those receiving employee earnings, and will be very useful for understanding the impact of the withdrawal of the JRS from August onwards.

To gain a complete insight into the amount of productive work actually being done, we need to turn to additional indicators published by the ONS. These include the average and total hours worked in a week by those who are in employment (average hours fell by 23 per cent between early March and the last week in April), and the proportion of workers employed and not temporarily away from work. These measures indicate levels of employment for those actively having work to do, and should be elevated in ONS publications and made as timely as possible.

Our recommendation to users of these labour market statistics is to recognise the misleading nature of both common ways of measuring unemployment at present, in

terms of both levels and changes, and focus on other measures wherever possible. That said, given that we expect the Claimant Count to be 'corrected' downwards in the coming months, a further Claimant Count rise in the autumn should be a cause for concern, perhaps indicating a second wave of job losses as the JRS ends.

The change in the level of productive employment is a more useful labour market barometer at this time, but neither the employment rate in the LFS nor the number of paid employees in the PAYE data provides a complete picture of it. On this basis, we recommend that users monitor some of the additional indicators published by the ONS, such as the average and total hours actually worked by those in employment.

We also recommend that the ONS:

- Goes to more effort to explain the apparently contradictory findings in its own labour market releases, and provides a more detailed commentary discussing the implications, and reliability, of the different statistics contained within it (including those produced by others). As part of this, it could consider standardising the time period that the different statistics relate to.
- In the short run, splits estimates of total employment from the LFS into those who did and did not do any work in the reference week.

How the labour market fares through the next phase of the coronavirus crisis will determine the impact on household living standards. Policy makers and commentators need a clear, consistent and accurate picture of what is going on if they are to respond appropriately. Ensuring that our labour market statistics provide this picture as best they can, and that users have the information and guidance to interpret them correctly, should therefore be a priority.

As the coronavirus crisis is rooted in the labour market, it is crucial that we have timely, accurate information on key labour market statistics

The initial impact of the coronavirus crisis on the UK economy was seen primarily in the labour market, with several sectors of the economy fully shut down and others heavily affected by the lockdown and social distancing.¹

Because of this, a great deal of attention is being paid to the UK's official labour market statistics, and especially the Labour Market Overview and accompanying releases published monthly by the Office for National Statistics (ONS).² These should provide a

¹ For details, see: N Cominetti, L Gardiner & H Slaughter, *The Full Monty: Facing up to the challenge of the coronavirus labour market crisis*, Resolution Foundation, June 2020.

² This [page](#) collects the latest and all previous releases.

near real-time assessment of the state of different sectors of the economy, an indication of how the crisis is affecting household earnings (the key component of living standards), and a guide to the scale of job losses in the crisis so far.

However, not all is well. The most recent releases have presented what seems at first glance to be a confusing set of statistics. For example, in the June release, the official estimate of the unemployment rate for April hardly budged from that in the previous month, and yet the Claimant Count measure of unemployment based on receipt of various out-of-work benefits rose by 83 per cent over the same period (this note was written before the ONS' July release).³ A large amount of attention from both media outlets⁴ and politicians⁵ has focused on the big headlines – particularly the Claimant Count increase – despite the apparent contradictions and inconsistencies within the overall set of statistics.

This is worrying. It is vital that the public and policy makers understand how the labour market is performing. We are about to enter a new, critical phase of the crisis during the summer and autumn. Policy makers will need to decide soon whether further measures are needed to avoid a damaging recession. There is much uncertainty about what will happen as the Coronavirus Job Retention Scheme (JRS) is phased out, and huge interest in knowing how many of the roughly nine million workers who at some point have been furloughed eventually return to work or face redundancy. And, in the midst of the deepest and fastest fall in GDP for decades, there is a need to monitor the level and distribution of household earnings, the key determinant of living standards.

This note shows what the inconsistencies between the different elements of the ONS' labour market release are (these elements are summarised in Box 1). It then sets out a number of their drivers, and provides recommendations to both the ONS and to users of these high-profile statistical releases. We do this by analysing the published statistics themselves, some of the microdata on which they are based, and the April and May waves of the Understanding Society dataset. We have focused our investigations on levels and changes over the latest couple of months. However, we present conclusions – including advice on how to interpret future statistics – that are relevant to all available data.

³ See: Office for National Statistics, [Labour market overview, UK: June 2020](#), June 2020.

⁴ For example, see: BBC, [Coronavirus: Job cuts warning as 600,000 roles go in lockdown](#), June 2020.

⁵ For example, see: H Stewart, [Labour: unemployment could go 'way beyond anything we've experienced'](#), The Guardian, July 2020.

BOX 1: Components of the ONS' monthly labour market release

The ONS labour market release includes data on labour market status from at least three different sources (as well as information on job vacancies, taken from the Vacancy Survey, and Average Weekly Earnings taken from the Monthly Wages and Salaries Survey). These are:

- The Labour Force Survey (LFS). This is a household survey run by the ONS and administered to about 40,000 households each quarter.⁶ Households are asked to report members' economic status in a reference week, with the precise definitions and classifications in line with guidelines issued by the International Labour Organisation (ILO – see Box 2, below). For this reason, the measure of unemployment derived from the LFS is known as the ILO measure of unemployment. Households also report how many hours of paid work they actually did in the reference week (and a wide range of other information, including employee earnings for a portion of the sample). The main estimates are presented over a three-month period, but the ONS does publish single-month estimates, and during the current pandemic has also made (experimental⁷) weekly estimates available.⁸ These will, obviously, be subject to more sampling error than the three-month estimates. Headline statistics are published approximately a month and a half after the end of the latest reference month, with 'microdata' available to researchers shortly after.
- Experimental data from Pay As You Earn (PAYE) Real Time Information (RTI).⁹ This comes from information provided to HM Revenue and Customs (HMRC) by employers about the earnings paid to their employees. This provides estimates of the number of employees and amount of earnings in each month. The methodology distributes pay received across the earnings period (typically a week or month), and then aggregates this daily data by calendar month. Although the most up-to-date ('flash') estimates are not based on a complete set of data, the revisions to this data have so far been negligible. These flash estimates are published a couple of weeks after the end of the reference month.

⁶ Office for National Statistics, [Labour Force Survey \(LFS\) QMI](#), January 2015.

⁷ Experimental statistics are still in the development phase and do not meet the rigorous quality standards of 'National Statistics'. See: Office for National Statistics, [Guide to Experimental Statistics: Frequently asked questions about statistics in development](#), February 2016.

⁸ For example, see: Office for National Statistics, [Single-month and weekly Labour Force Survey estimates: June 2020](#), June 2020.

⁹ For the latest publication, see: Office for National Statistics, [Earnings and employment from Pay As You Earn Real Time Information, UK: June 2020](#), June 2020.

- The Claimant Count measure of unemployment, which comes from information collected by the Department for Work and Pensions (DWP) on how many people are receiving a benefit intended for the unemployed. Estimates are available for the second Thursday each month. With the introduction of Universal Credit (UC), the Claimant Count includes all claimants in receipt of Jobseeker's Allowance (JSA), and Universal Credit claimants who are deemed to be in the group who are required to be 'searching for work' as a result of receiving benefits (we discuss this later). These statistics are published around one month after the reference date.
- As that description makes clear, the three sources have different reference dates. This, of course, is easy to correct for, but such corrections do not eliminate the apparent inconsistencies.

The two data series on unemployment are painting very different pictures

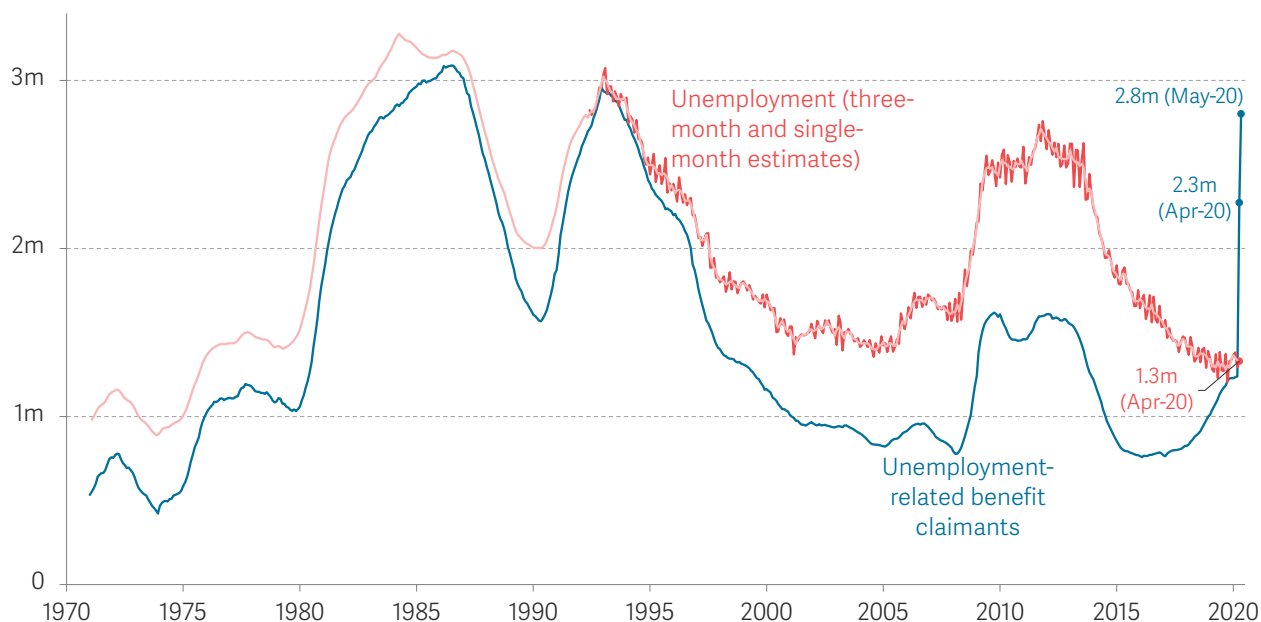
The June labour market statistics release reported that the number of unemployed people (aged 16 and over, assessed by the LFS using the ILO measure – see Box 2, below, for details) rose by just 34,000 in April to reach 1.3 million according to the monthly estimates (and that there were actually 8,000 fewer people unemployed in the February to April period than during January to March). This left both the monthly and three-month headline unemployment rates stable at 3.9 per cent.

By contrast, the Claimant Count measure of unemployment-related benefit recipients increased by around one million in April to reach 2.3 million, and then rose by another half a million in May, reaching 2.8 million. The March-to-April increase was the largest monthly change in the Claimant Count on record. These two measures of unemployment are shown in Figure 1.

These estimates are very different indeed. As we show, we think this is because the particular circumstances of the lockdown have introduced discontinuities in both series that mean that neither is very useful as a labour market indicator at this time.

FIGURE 1: The Claimant Count measure of unemployment has surged to near-record levels

Unemployment and unemployment-related benefit claimants, Labour Force Survey compared to Claimant Count: UK



NOTES: The Claimant Count is not the same as total unemployment. The measure includes all claimants subject to work-search requirements, which may include some employed claimants on low hours or earnings. Data is seasonally adjusted.

SOURCE: ONS, Labour Market Statistics.

Changes in the Claimant Count paint a misleading picture during this crisis

Traditionally, the Claimant Count measure of unemployment simply counts the number of people receiving the main unemployment benefits. As it comes from administrative data, there should be no inaccuracies each month due to sampling error. But the Claimant Count does depend on policy focused towards social security benefits at any point in time. For example, the growing divergence between the Claimant Count and the ILO unemployment measure from the mid-1990s onwards, shown in Figure 1, can be explained by the introduction of JSA and of greater requirements on claimants to prepare and look for work.¹⁰

More recently, the definition of the Claimant Count has shifted markedly on the basis of the gradual replacement of JSA with Universal Credit, which combines (income-based) JSA with five other benefits into a single payment for those both in and out of work. As a result, the Claimant Count has switched from simply measuring the JSA caseload, to counting those on JSA plus those on UC deemed to be in equivalent or

¹⁰ For a detailed discussion, see Box 1 in: T Phillips, *Falling through the cracks: The widening gap between unemployment and benefit statistics*, Resolution Foundation, January 2018.

similar circumstances to those who would have been on JSA: the 'searching for work' conditionality group. Data (covering Great Britain only) suggests that around one-tenth of the March-to-May increase in the Claimant Count has been driven by growth in the JSA caseload (the National Insurance contribution-based element of which continues alongside UC, hence the potential for rises), with the remainder coming from UC.¹¹ And there has been a similarly sized increase in UC claimants not included in the Claimant Count, mainly those in work.¹² So a first point to note is that the Claimant Count is bigger than just UC, and UC is (much) bigger than just the Claimant Count.

That being said, this slow transition to UC from 2013 onwards is the driver of the more recent pattern of convergence shown in Figure 1, with the Claimant Count rising while the ILO unemployment number has continued to fall. This is because UC has purposefully introduced changes to benefit eligibility and work-search conditionality that have effectively expanded the group included in the Claimant Count.¹³ There are now several new groups of people receiving UC who are included in the 'searching for work' conditionality group but who would not have appeared in the Claimant Count under the legacy system. The most important ones are:

- People who under the legacy benefits system would only have received Child Tax Credits or Housing Benefit. The Office for Budget Responsibility (OBR) has previously estimated that this equates to around 300,000 additional 'searching for work' claimants once UC is fully rolled out, compared to the full legacy system.¹⁴
- Those waiting for the conclusion of an assessment for health-related support, who would previously have received Employment and Support Allowance in the 'assessment phase'. The OBR estimates that this group is around 200,000 claimants in steady state.¹⁵ Given individuals in this group by definition have a 'fit note' setting out that they are too ill or sick to work (and may well not be subject to any conditionality after their work capability assessment), their inclusion in the Claimant Count seems ill-placed.
- Some UC claimants not deemed to be 'gainfully' self-employed, who therefore do not have the (now suspended) 'minimum income floor' applied to them and are subject to work-search requirements.¹⁶ There is no information on the size of this group.

¹¹ We use GB data because UK Claimant Count data is not available at this level of detail. It shows an increase in the Claimant Count of 1.4 million between March and May, 126,000 of which reflects a rising JSA caseload, and 1.3 million of which reflects growth in the UC 'searching for work' group.

¹² Alongside the increase of 1.3 million in UC's 'searching for work' group between March and May, there has been an increase of one million in the number of UC claimants in other conditionality groups, mainly in-work claimants. In-work UC claimants are analogous to tax credit recipients; however, tax credit statistics are not available on a timely basis so we cannot estimate the net total change to the overall number of in-work benefit recipients.

¹³ For more details, see: A Powell, [Universal Credit and the Claimant Count](#), House of Commons Library, January 2010.

¹⁴ Office for Budget Responsibility, [Welfare Trends Report](#), January 2018.

¹⁵ Office for Budget Responsibility, [Welfare Trends Report](#), January 2018.

¹⁶ Office for Budget Responsibility, [Welfare Trends Report](#), January 2018.

- Some out-of-work partners who would not have been expected to look for work in the legacy system, and who living in families with combined earnings under a given threshold.¹⁷

In addition, UC, by design, increases the incentives for claimants to earn small amounts of money, thereby improving the financial incentives to move into work. In contrast, tax credits claimants have to work a set number of hours to receive support, and although those with below-JSA earnings can claim JSA, pound-for-pound benefit withdrawal provides no incentive to do so. This is pertinent because those earning under the standard allowance in UC (until recently, this was equivalent to JSA rates) are counted within the Claimant Count and subject to work-search requirements. So, to the extent that UC incentivises people to work at very low levels of earnings more than the legacy system did, this will put upward pressure on the Claimant Count.

Quantifying these groups is difficult, but the DWP attempts to do so in an 'Alternative Claimant Count' that is published on a quarterly basis. This estimates the number of (non-JSA) claimants of legacy benefits who would be within the 'searching for work' group were they on UC.¹⁸ No data for the coronavirus period is available yet, but the reduction in this group over time suggests that the factors discussed above may have pushed up the Claimant Count by around half a million since 2013.¹⁹

Importantly, this slow-burn upward pressure on the Claimant Count has been ramped up in recent months. The crisis has accelerated the 'natural' migration of claimants from legacy benefits to UC, either because changes in circumstances (such as job loss) have prompted a new or different benefit claim, or because the £20 per week boost to UC (discussed below) has increased the incentive to move onto it for some.²⁰ The total UC caseload in Great Britain increased by 75 per cent (2.3 million) in the two months to May 2020, having grown by only 66 per cent in the year before that. It is not possible to estimate the extent to which this 'accelerated migration' effect has pushed up on the Claimant Count in the past couple of months, but it appears likely to be material.²¹

If we were only in the midst of another normal recession, then these reasons alone would give us pause for thought when interpreting changes in the Claimant Count, and lead us to expect increases to be higher than they would have been in a world without UC. But

¹⁷ This 'administrative earnings threshold' is not routinely published by the Government, but the amount was stated as £350 per month in the following Freedom of Information request response: www.whatdotheyknow.com/request/uc_intensive_work_search_and_lig#incoming-743734, accessed 13 July 2020.

¹⁸ Department for Work and Pensions, [Alternative Claimant Count statistics](#), April 2020.

¹⁹ In 2013 at the start of the UC roll-out, the number of these 'additional's' was around 750,000, as of February 2020 it stands at 264,000. It is – due to a lack of a complete counterfactual – impossible to know if these individuals are actually reflected in the increase in the UC 'searching for work' group and therefore the Claimant Count, but it seems likely.

²⁰ See Box 2 in: T Bell, M Brewer, L Gardiner, K Handscomb & D Tomlinson, [Next steps to support family incomes in the face of the coronavirus crisis](#), Resolution Foundation, March 2020.

²¹ The Alternative Claimant Count statistics, discussed above, are released quarterly and not currently available for the coronavirus period. A significant fall in the 'additional's' group in the next publication on 16 July would suggest that some of these migration-to-UC effects are pushing up on the Claimant Count.

the nature of the coronavirus crisis means there are additional reasons why the rise in the Claimant Count is currently overstating the truth.

First, the decision to increase UC's standard allowance by £20 per week from April 2020 has expanded the group of low earners who are subject to full work-search conditionality, and therefore included in the Claimant Count. This effect is likely to be small, though, with only around 1 per cent of all employees earning between £75 and £95 per week (these are the counterfactual and actual UC standard allowances for a single adult aged 25 and over) during February-April 2020.²²

Much more importantly, the DWP suspended all work-search conditions and contact between claimants and work coaches during the early months of the coronavirus crisis.²³ This means that the UC system has had less up-to-date information on claimants' employment and earnings than it would otherwise have had.²⁴ This particularly matters at this time because of the existence of the JRS. In previous research, we spoke to several new UC claimants who had applied to UC after they had been told to stop working, but before they had been told that they were going to be put on the JRS (we also spoke to working claimants who applied purely because of the publicity surrounding UC and the uncertainty surrounding their job).²⁵ Many of these claimants will have been assigned to the 'searching for work' conditionality group upon application. Furlough payments (and other earnings) will be reflected in the PAYE information that the DWP receives from HMRC, and will change claimants' conditionality group assignment, but this could take up to eight weeks from when the initial claim is made, and longer if claimants experience an earnings gap before furlough pay comes through.²⁶ With the initial surge in UC claims having happened in April, it will not be until the June count date that UC's conditionality groups accurately reflect furlough pay (and other earnings) for the majority of this first wave of claimants.

There are similar issues for self-employed UC claimants, although here it is not the lack of up-to-date information on earnings that is the issue, but the fact that the Self-Employment Income Support Scheme (SEISS) only started to pay out support from the end of May. Many new self-employed UC claimants expecting SEISS grants but not currently working will therefore have (to some extent rightly, given their lack of income)

²² Source: RF analysis of ONS, Labour Force Survey.

²³ See: Department for Work and Pensions, [DWP's response to coronavirus \(COVID-19\)](#), May 2020.

²⁴ Although claimants are required to update their UC claim with any changes of circumstance, it seems unlikely that all claimants will be doing this accurately all of the time, especially given reported levels of fraud and error under Universal Credit. See: Department for Work and Pensions, [Fraud and error in the benefit system](#), May 2020.

²⁵ M Brewer & K Handscomb, [This time is different – Universal Credit's first recession: Assessing the welfare system and its effect on living standards during the coronavirus epidemic](#), Resolution Foundation, May 2020.

²⁶ If a claimant makes a claim just after their last pay date, then PAYE earnings information will only be available in the UC system one month into the claim. If the claimant's assessment period ends shortly after the count date for that month's statistics, the claimant's earnings will only be reflected in the conditionality group they appear in, and therefore the estimate of the Claimant Count, two months after the initial claim. This is not a problem unique to UC: the issue is arguably worse under JSA, where there is no automated feed of PAYE earnings data to ensure only those eligible continue to receive benefit, in the absence of regular claimant-work coach contact.

joined the 'searching for work' conditionality group. After grants are paid, the UC system will then be reliant on these individuals reporting their SEISS payment accurately and on time in order for their conditionality group to be updated at the end of their assessment period (and for the correct amount of UC to be paid). This means that many self-employed UC claimants may be reclassified out of the Claimant Count from now through to August.²⁷

As Jobcentre Plus offices re-open, work coaches should be able to reallocate claimants based on their actual circumstances, including furloughed workers and SEISS grant recipients, more quickly than set out above. However, this depends on work coach capacity, and it seems unlikely that the DWP will be able to see all claimants on a regular basis until more work coaches are hired over the summer.

Timely survey data confirms that many current workers, furloughed workers and self-employed grant recipients are appearing in the Claimant Count

To understand the extent to which the issues discussed above may be distorting the Claimant Count, we can compare the distribution of new Universal Credit claimants by work status and other circumstances in the recent (May) coronavirus wave of the longitudinal Understanding Society survey, with the distribution of the increase in the UC caseload between the Claimant Count and other conditionality groups in the DWP's statistics. Our analysis is shown in Figure 2. This comparison is not like for like – as well as small geographical and timing discrepancies, the Understanding Society data reflects benefit inflows, whereas the Universal Credit statistics reflect changes in stocks. However, given that the number of UC starts in recent months matches very closely to the change in the UC caseload (implying few off-flows),²⁸ it serves as an indicative guide.

The first thing we note from this analysis is that, according to the Understanding Society data, more than three-fifths (61 per cent) of new UC claimants are either working, receiving furlough pay, or receiving (or expecting to receive) an SEISS grant (with many in this category likely to also be bringing in earned income, given the grant is available to self-employed people who have suffered any income hit, however small).²⁹ This compares to only 45 per cent of the increase in UC claimant numbers coming from

²⁷ Despite SEISS grants being lumpy and not occurring every month, they will continue to affect some claimants' UC receipt (and conditionality group) in the months after they are received, due to 'surplus earnings' rules. This means that the Claimant Count is not likely to adjust back up again to the same extent as it adjusts down to reflect SEISS grant receipt. See: S Adam, H Miller & T Waters, *Income protection for the self-employed and employees during the coronavirus crisis*, Institute for Fiscal Studies, April 2020.

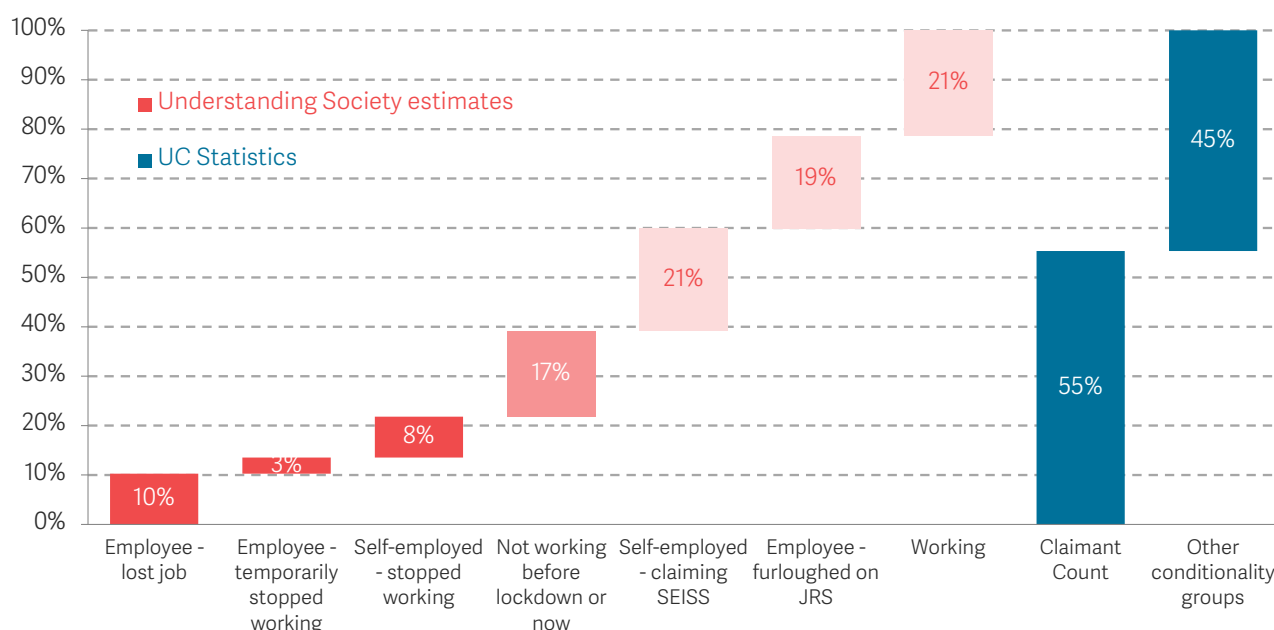
²⁸ There were 1.2 million starts to UC in April 2020 across Great Britain, exactly in line with the 1.2 million increase in UC's stock of claimants between March and April. This apparent lack of UC off-flows is likely partly for administrative reasons relating to a lack of the adviser contact during lockdown, discussed above, that would normally capture changes in circumstances leading someone to leave Universal Credit.

²⁹ Our findings here are similar to those in: B Baumberg Geiger et al., *Claiming but Connected to Work*, University of Salford, June 2020.

outside the Claimant Count. Taking into account the increase in JSA claimants, too, this suggests that at least around a quarter (27 per cent) of the Claimant Count rise across the UK (equivalent to around 400,000 claimants) relates to people who are still working, furloughed employees or self-employed people with SEISS grants.³⁰ While some of these people will ultimately be thought of as unemployed, it is far from clear that all should be right now.

FIGURE 2: The proportion of new UC claims we would expect to be looking for work is much lower than the Claimant Count suggests

Estimated circumstances of new UC claimants in Understanding Society, and increase in persons on Universal Credit by conditionality group: GB/UK



NOTES: UC statistics do not include Northern Ireland. Estimate from Understanding Society are calculated are based on respondents who were process of making a claim, or had successfully claimed UC by May. Employment status derived based on answers on employment situation, and number of hours worked, before lockdown and in latest week, and whether furloughed or applied to SEISS.
SOURCE: RF analysis of ISER, Understanding Society; DWP, Stat Xplore.

And the true number in this category may well be higher still. Figure 2 also shows that, according to Understanding Society data, 17 per cent of new UC claimants were not working either before or after they claimed UC. There will be various reasons why these people have claimed UC in recent months. As well as UC’s increased publicity and the accelerated ‘natural’ migration from legacy benefits, discussed above, it is likely that

³⁰ We arrive at this estimate as follows: 16 per cent (the different between the 61 per cent of new claimants in these groups and the 45 per cent of the UC increase that sits outside the Claimant Count) / 55 per cent (the proportion of the UC increase that is within the Claimant Count) * 1.4 million (the 1.6 million Claimant Count increase across the UK, less the 9 per cent of this coming from a rise in JSA claimants) = 416,000 claimants. We make no assumptions about those in the out-of-work groups shown in Figure 2 being in non-working conditionality groups outside the ‘searching for work’ groups, on the basis that any new health-related claimants would still be in their assessment phase and therefore classified as ‘searching for work’ and within the Claimant Count. This approach ignores any new non-working claimants in other conditionality groups for other reasons, such as caring.

some have claimed in response to a partner's job loss or earnings falls. If these partners are still in work and earning above an 'administrative earnings threshold',³¹ the individuals in question will have been placed in one of UC's in-work groups with their partner, rather than in the 'searching for work' group that determines the Claimant Count.³² This would suggest that a greater proportion (than the 27 per cent estimated above) of those assigned to the Claimant Count are still in work, furloughed, or have applied for an SEISS grant.

Finally, the darker bars on the left-hand side of Figure 2 show that only around one-fifth of new UC claims in Understanding Society have recently lost jobs or self-employed work (without other government support). Adding in the increase in JSA claims (and assuming very low Claimant Count off-flows, on the basis of evidence up to April, discussed above), this suggests that only 45 per cent of the Claimant Count increase between March and May, or around 700,000 claimants, actually represents newly unemployed individuals.

Overall, then, the Claimant Count had become a poor barometer for unemployment, and had fallen out of favour for that reason, in the run up to this crisis. But its timely nature – as well, perhaps, as the huge increases it is recording – means that it has returned to the centre of policy and economic debates. Unfortunately, these large increases are because the old issues with the Claimant Count have become more important, and major new issues have come along. This has led to the inclusion of substantial numbers of people who would not normally be thought of as unemployed, not least furloughed workers. Some of these should unwind relatively quickly as furlough and SEISS payments register in the system, but we cannot quantify the size of this unwinding, and other issues will endure. As a result, the Claimant Count is not a useful indicator of unemployment levels or changes at the present time.

But nor is the ILO measure of unemployment a helpful indicator right now, with economic inactivity instead absorbing worklessness

As we reported above, the LFS single-month series for April showed only a small rise of 34,000 in unemployment, according to the ILO measure. However, there was a more marked change in a different group that is out of work – the economically inactive. Economic inactivity showed a rise of around 425,000 in April, or around 300,000 among 16-64-year-olds. The statistical distinction between unemployment and inactivity is crucial here, and we set it out further in Box 2.

³¹ This 'administrative earnings threshold' is not routinely published by the Government, but the amount was stated as £350 per month in the following Freedom of Information request response: www.whatdotheyknow.com/request/uc_intensive_work_search_and_lig#incoming-743734, accessed 13 July 2020.

³² Equivalently, their partner's earnings may have prevented them from claiming income-based JSA in the legacy system.

BOX 2: Definitions of employment, unemployment and inactivity

The UK's official labour market statistics follow a widely accepted framework – used by the International Labour Organisation – that is based on concepts of labour supply and demand. The three main labour market states are as follows:

- Employment consists of people aged 16 years and over who did one hour or more of paid work over the course of a given week, or who had a job that they were temporarily away from. The largest two categories within employment are employees paid a wage by an employer, and self-employed people who work on their own account. There are also two minor categories (unpaid family workers and people on government-supported employment and training programmes), who in recent years have accounted for less than 1 per cent of all people in employment.
- Unemployment consists of people aged 16 and over who are without a job, have been actively seeking work in the past four weeks and are available to start work in the next two weeks, or who have found a job and are waiting to start in the next two weeks.
- Economic inactivity consists of people aged 16 and over who do not have a job and who are not unemployed. The main economically inactive groups are students, people looking after the family and home, those long-term sick and disabled, those temporarily sick and disabled, retired people and discouraged workers.

Our hypothesis is that some of the people who are no longer working and have contributed to the rise in inactivity in April 2020 would, in normal times, instead be counted as unemployed.³³ And, given the circumstances in the UK in late March and April 2020, we find it entirely plausible that a newly redundant employee would have made little or no effort to look for work. We say this for several reasons. First, there was clear government advice to work from home where possible and to avoid public transport. Second, there was also a collapse in hiring, as shown by data on vacancies (and the highly sectorally concentrated nature of the shock means that taking a new job would be more likely than usual to require a move to a different sector).³⁴ Equally, if a

³³ Indeed, it should be noted that short-run forecasts for the economy by the OBR and the Bank of England tend to hold economic inactivity as broadly fixed, and so inactivity increases such as we are seeing at present can be thought of as equivalent to unemployment in these.

³⁴ For details, see: N Cominetti, L Gardiner & H Slaughter, *The Full Monty: Facing up to the challenge of the coronavirus labour market crisis*, Resolution Foundation, June 2020.

self-employed worker had seen her business stopped by the lockdown, it is plausible that she might hang on and wait for the lockdown to be lifted, rather than look for work in a different area. Additionally, and relevant to both categories of worker, as we mentioned above the DWP suspended all forms of conditionality in the social security system as lockdown hit. This meant that claimants did not have to look for work as a condition of receiving UC or JSA during April.

Evidence to support this hypothesis is provided in Figure 3, which shows economic inactivity and two (overlapping) sub-categories within it (necessarily based on three-month estimates, rather than the more fine-grained monthly ones discussed above). It shows that the increase in economic inactivity appears to have been driven entirely by rises in those stating they want a job, as well as those failing to classify themselves into any of the 'traditional' reasons for inactivity (such as study, retirement, sickness or caring).³⁵ What we don't know is whether this is driven by an increase in inflows into these groups from other labour market statuses, or by a reduction in outflows.

FIGURE 3: **Economic inactivity has risen sharply for 'other' reasons, and among those who want a job**

Economic inactivity among 16+ year olds and selected sub-categories: UK



NOTES: The two sub-categories of economic activity shown are not mutually exclusive; in other words, economically inactive people can be both inactive for 'other' reasons, and can want a job. We exclude all the 'main' categories of economic inactivity. These are: student, looking after family / home, temporary sick, long-term sick, discouraged workers, and retired.

SOURCE: ONS, Labour Market Statistics.

³⁵ These two groups are not mutually exclusive, so economically inactive people can be recorded in both.

We would normally expect something like this to happen during downturns or recessions: the phenomenon is known as the ‘discouraged worker effect’, referring to a tendency, when the labour market grows weaker, for some unemployed people to stop looking for work, on the grounds that jobs will be harder to find.³⁶ But the lockdown made this response much more acute than in a normal economic slowdown. The implication is that we should pay attention not to the unemployment rate, but to the sum of the unemployment and inactivity rate. Of course, we could just as easily track the employment rate.³⁷ Unfortunately, as we discuss next in this note, we do not have a perfect measure of the employment rate, with the crisis distorting both the employment rate as measured by the LFS, and that provided by PAYE (which additionally excludes the self-employed).

The LFS suggests little change in the number of employees in work since the crisis started, but PAYE data report a fall of around 450,000 in the number of employees getting paid

To count the number of employees in work (note that we turn to self-employment later),³⁸ we can draw on data either from the LFS or from PAYE systems. In April, the PAYE data showed a fall in the number of paid employees of around 450,000 from the March level (an implied fall in the headline 16-64-year-old employment rate of 1 percentage point, all else equal³⁹), but the LFS series showed little change, with an increase of around 50,000 between the four weeks in April and the four weeks immediately before in the unadjusted series that we compare unadjusted PAYE data to. This is shown in Figure 4 (note that the two series show different levels, but, as the ONS explains, this is to be expected given slightly different coverage).⁴⁰

³⁶ See: E Gould, [The unemployment rate is not the right measure to make economic policy decisions around the coronavirus-driven recession](#), Economic Policy Institute, March 2020.

³⁷ This is set out very clearly by E Gould, [The unemployment rate is not the right measure to make economic policy decisions around the coronavirus-driven recession](#), Economic Policy Institute, March 2020.

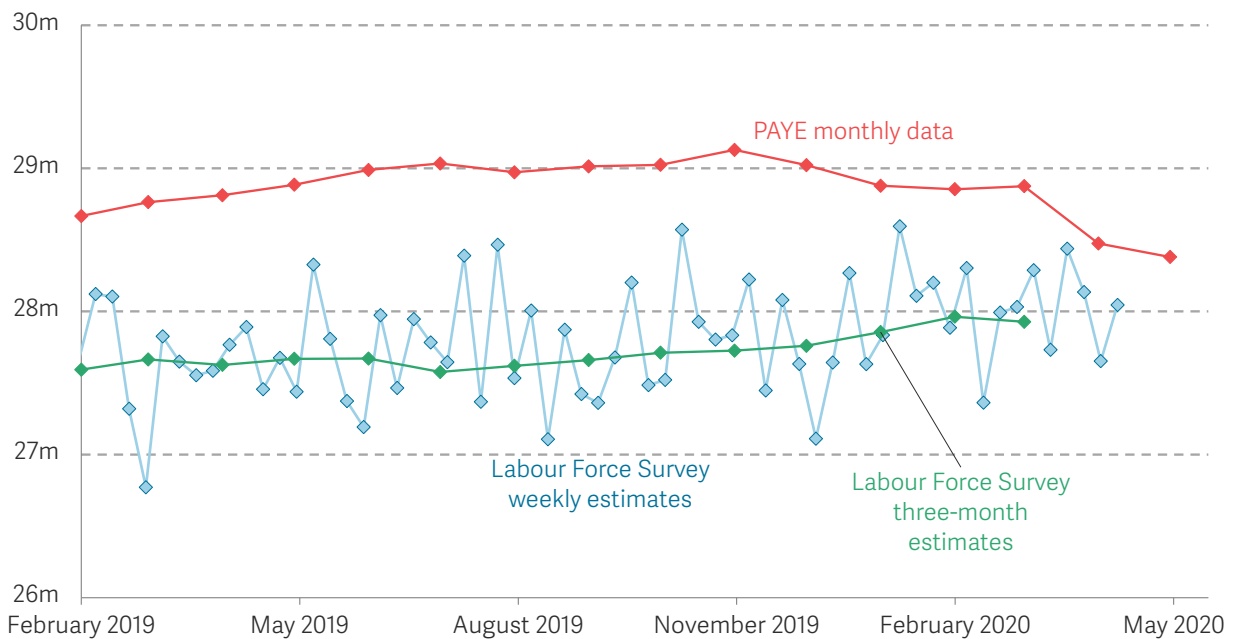
³⁸ Two other groups count as employed in the LFS data according to ILO definitions: unpaid family workers and those on government-supported employment and training programmes (see Box 2). We do not focus on them in this briefing note.

³⁹ Note that the PAYE data covers all age groups rather than just 16-64-year-olds.

⁴⁰ The two series are not identical in their coverage but they have shown similar trends in recent years. One should not usually put much weight on a single-month estimate of the change in employment from the LFS. However, single-month estimates from the PAYE data – as we would expect from the larger samples provided by administrative data – show a similarly low level of volatility to the three-month estimates from the LFS. This fact, plus the fact that the PAYE data showed a further fall in paid employees in May, leads us to conclude that the April PAYE figure is reliable. See: Office for National Statistics, [New methods for monthly earnings and employment estimates from Pay As You Earn Real Time Information \(PAYE RTI\) data: December 2019](#), December 2019.

FIGURE 4: PAYE data show a fall in paid employees, whereas the weekly Labour Force Survey shows no change in employees in employment

Employee employment, PAYE and Labour Force Survey data: UK



NOTES: PAYE and weekly estimates are non-seasonally adjusted; three-month estimates are. Estimates are plotted at the centre of the time period they cover.

SOURCE: ONS, Labour Market Statistics.

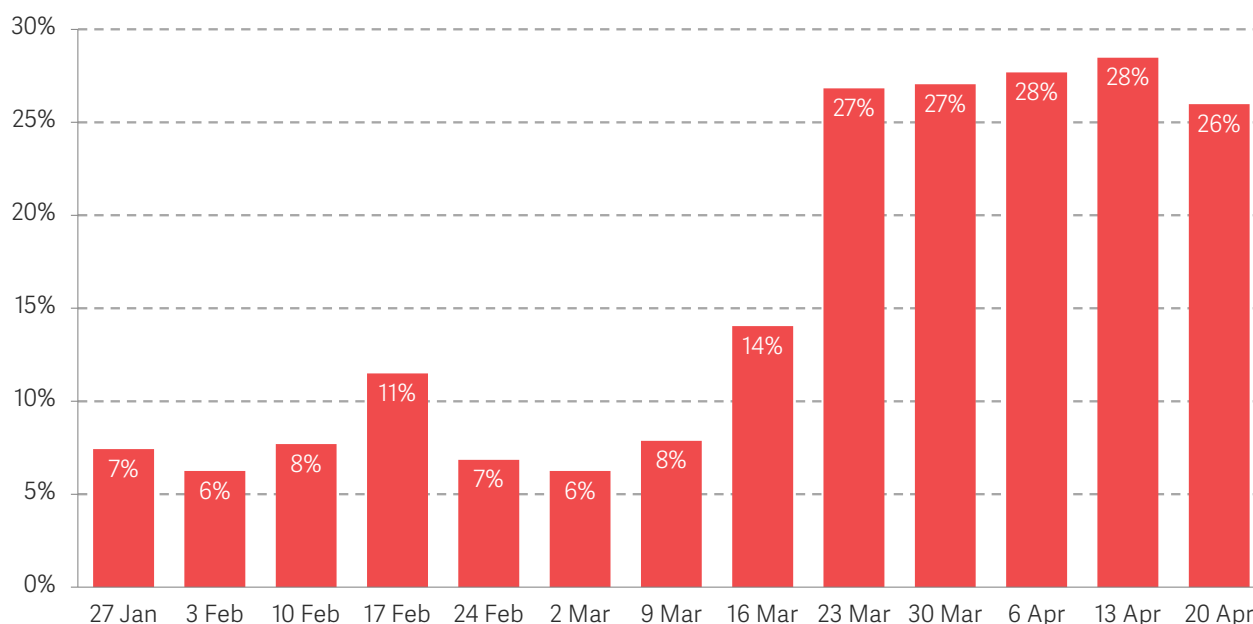
This is because not all of those in employment are getting paid, and more importantly, a large minority in employment are not currently doing any work

If both the PAYE and the LFS series are correct, then it implies there has been a rise in the number of employees in work, but not getting paid.

Unfortunately, neither dataset provides enough information to determine whether this is actually the case. But this hypothesis does seem highly likely given what we know about employers' initial response to the lockdown in March and April, and given the series in Figure 5, which shows a dramatic rise in the fraction of employees who are in employment but not working any hours. Before lockdown, about 7 per cent of employees in a normal week reported that they did no work: this includes people on flexible hours contracts who have no work scheduled that week, as well as those who are away from work through sickness, or who are on leave (note, for example, the blip up during the February school half-term week). But the fraction of employees who did not actually do any work rose considerably after the full lockdown was announced, on 23 March, to just under 30 per cent, or around 7.5 million employees. This was one of the key labour market changes of the early months of this crisis.

FIGURE 5: There has been a sharp rise in those classified as employees but working no hours since lockdown began

Proportion of employees in work but working no hours, by week survey conducted: UK, 2020



NOTES: Excludes those employees who did not know their working hours.

SOURCE: RF analysis ONS, Labour Force Survey.

Some people in this situation, of course, will have been formally furloughed under the JRS and, in this case, they will be receiving some earnings. The LFS did not ask workers whether they were on the JRS in April (and nor can it be used to clarify whether those not working any hours in the reference week for other reasons received any pay for that time or not⁴¹). HMRC data (in Figure 6) shows that just under 5 million employees had been registered on the JRS at some point up to 27 April, although others may have been told by their employer that they were not required to work and would be furloughed, but had not yet been registered on the JRS with HMRC.⁴²

The difference between these JRS numbers, and the roughly 7.5 million employees not working any hours in an average week over the first five weeks after lockdown began, suggests that the latter group will also consist of groups other than furloughed employees. This will include those off sick or self-isolating, employees looking after children off school, and perhaps some employees who had been offered a job but not started yet.⁴³ Some in these groups (as well as employees who would subsequently end

⁴¹ Although hours and employment status questions in the LFS refer to the reference week in question, earnings questions refer to "the last time you were paid". This means that there are no records with an earnings value of £0.

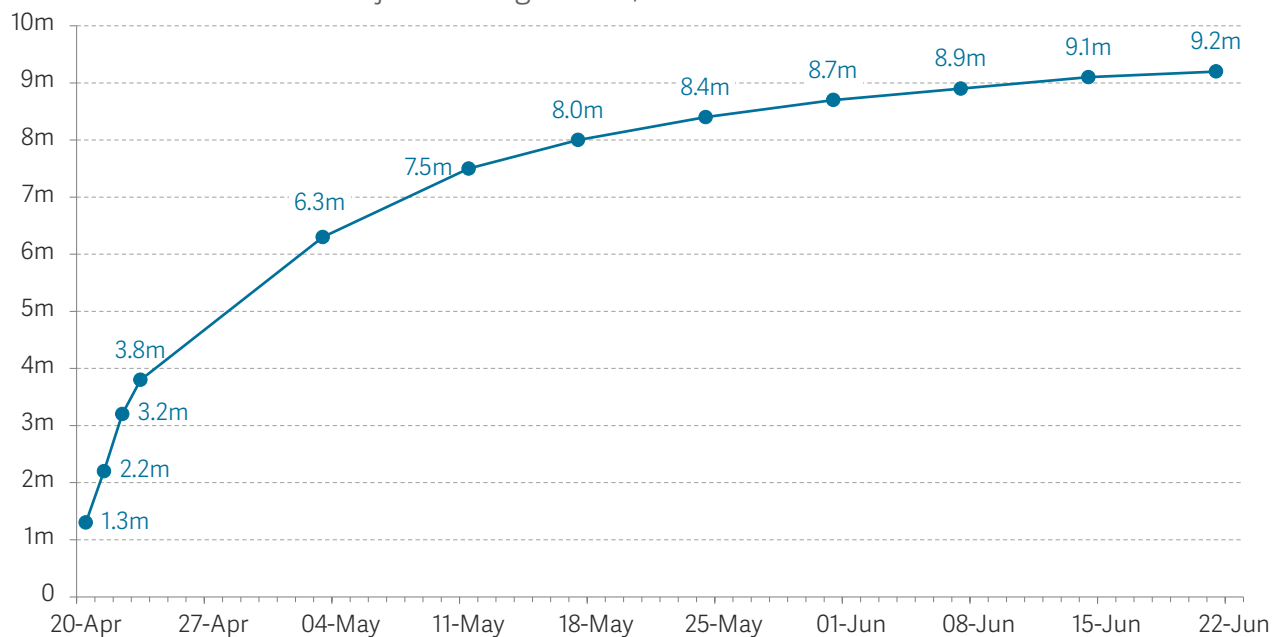
⁴² The JRS was only opened for employers to register employees a few days before the last week that was covered by LFS data at the time of the June release.

⁴³ The Institute for Employment Studies has suggested that some of the fall in PAYE employees could be accounted for by people who were due to start a job just before the lockdown, but whose start date has been delayed. This group might count themselves as having a job that they're away from, meaning that they count as employed in the survey data. See: T Wilson, [What's going on with the unemployment data?](#), Institute for Employment Studies, June 2020.

up on the JRS but had not yet been registered by employers) will be likely to have not received any pay during April, for example, if they earn too little to be eligible for Statutory Sick Pay. This is likely to explain the discrepancy in the short-run changes in the LFS data (which measures employment status regardless of whether hours have been worked or pay received for that period) and PAYE data (which only counts employees paid for the period in question).

FIGURE 6: Many of those employed but not working in April would have been furloughed under the Job Retention Scheme

Cumulative number of jobs furloughed: UK, 2020



SOURCE: HMRC.

Our analysis so far has focused on employees. To complete the employment picture, we need to consider what has happened to the self-employed. Box 3 does this, showing that this group looks to have experienced the same phenomenon of a rise in those in employment but working no hours, indeed, to a greater extent. Alongside this, and unlike among employees, there has been a fall in those recording their headline labour market status as self-employed in the LFS, showing that the crisis has initially hit the self-employed hard.

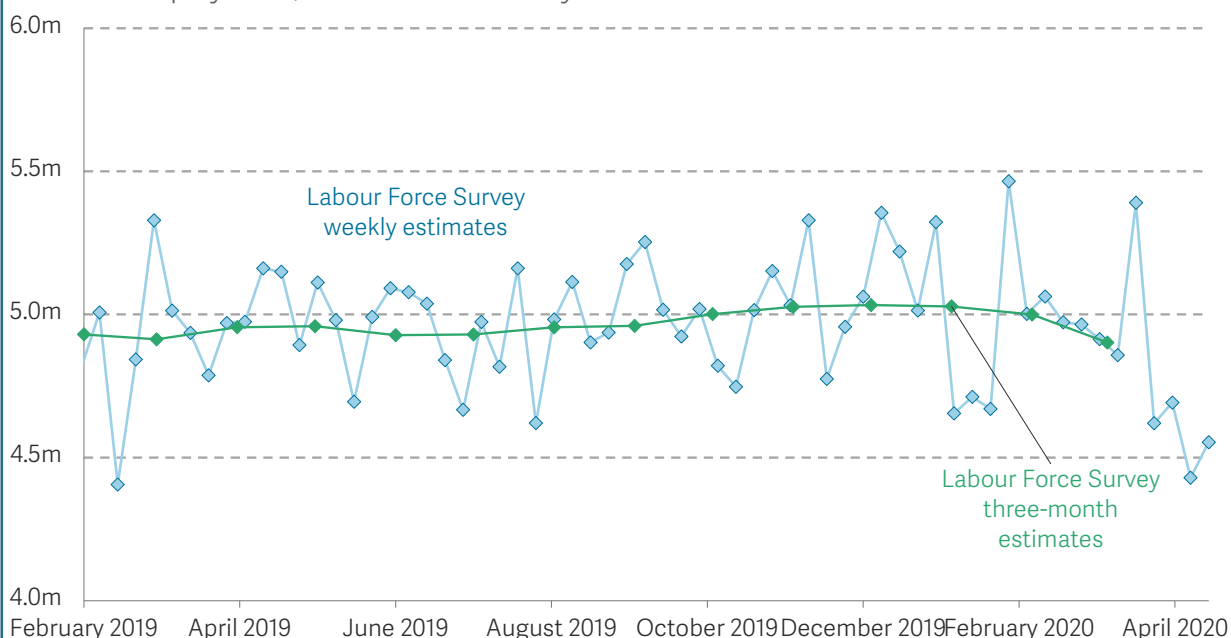
BOX 3: The self-employed have been hit hard by the crisis so far

The only source of data in the ONS’s monthly release that tells us about the self-employed is the LFS, and the weekly estimates show that average self-employment in April was around 450,000 lower in the four reference

weeks in April compared to the four reference weeks immediately before in the unadjusted series, with the headline (seasonally adjusted) three-month series also showing a slight fall (Figure 7).

FIGURE 7: Self-employment has fallen since February 2020

Self-employment, Labour Force Survey data: UK



NOTES: Weekly estimates are non-seasonally adjusted; three-month estimates are. Estimates are plotted at the centre of the time period they cover.

SOURCE: ONS, Labour Market Statistics.

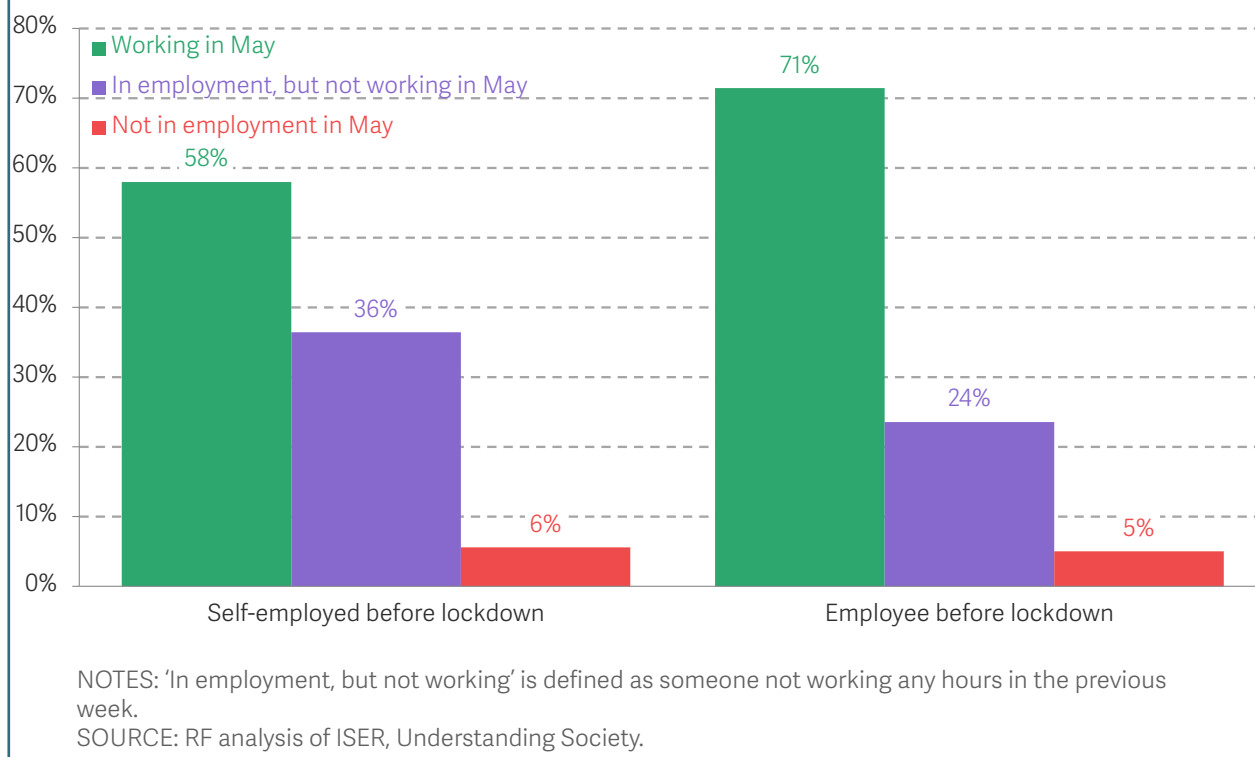
In line with this, data from Understanding Society (Figure 8) suggests that the self-employed were hit harder by the initial impact of the crisis than employees were. Only 58 per cent of workers self-employed in February were doing any work in May, compared to 71 per cent of those who

were employees before the crisis. Of course, this outcome will partly be explained by sectoral differences between self-employed workers and employees,⁴⁴ but it is nonetheless striking.

⁴⁴ For a discussion of the extent to which the highly sector-specific nature of the current crisis is driving its effects in the labour market, see: N Cominetti, L Gardiner & H Slaughter, *The Full Monty: Facing up to the challenge of the coronavirus labour market crisis*, Resolution Foundation, June 2020.

FIGURE 8: Early evidence is that the self-employed were harder hit than employees

Employment status of 16-64-year-olds in May Understanding Society data by whether self-employed or employee before lockdown: UK



Bringing this self-employed story together with the employee one, the LFS single-month estimates (which are seasonally adjusted) show an overall fall in employment of 430,000 between March and April 2020, with the 16-64-year-old employment rate falling from 76.7 per cent to 75.9 per cent. But as we have discussed, this obscures a growing group of 'no-hours workers', some of whom are also 'no-pay' workers.

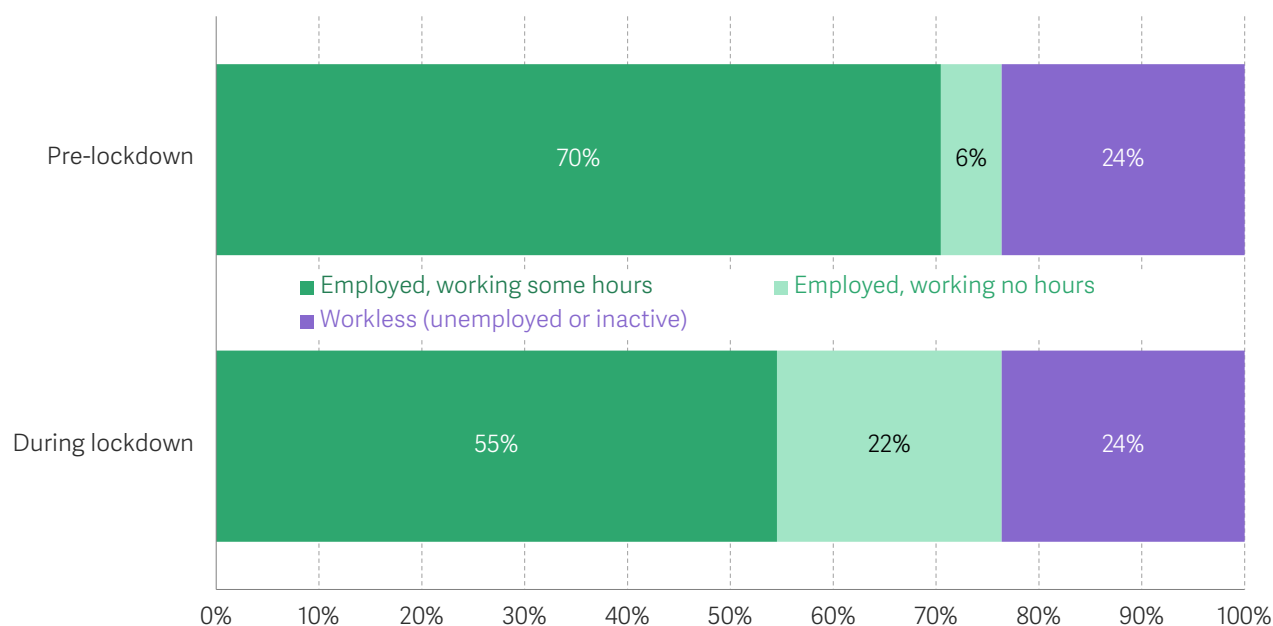
The rise in 'no-hours workers' makes average hours a particularly useful indicator right now

We will duck the philosophical question of whether someone who does not do any work should even be thought of as employed. But the very large rise in this group means that the headline employment rate (which ignores whether any work is done) is less useful than it is in normal economic times. A more helpful way of thinking about the labour market is shown in Figure 9, which splits the fraction who are employed into those who do and do not actually work some hours in the reference week (capturing both the self-employed and employees). Although, for the reasons we mentioned above (including sick leave, annual leave, and so on), there are always some people employed but not working

in any week, we estimate that, in the five weeks after lockdown began, this labour market state contained almost as many working-age adults as the number formally out of work.⁴⁵

FIGURE 9: In April, there were almost as many people employed but not working as there were not employed

Stylised estimate of 16-64-year-old population by labour market status, by week survey conducted: UK, February-April 2020



NOTES: Estimates for employment and worklessness are drawn from the headline February-April data in the Labour Market Statistics publication. Those in employment are then split by whether they are working any hours or not, based on the data in Figure 5 (but in this instance for all those in employment rather than just employees), for the first seven weeks of the quarter (for the 'pre-lockdown' estimate) and the last five weeks of the quarter (for the 'during lockdown' estimate).

SOURCE: RF analysis of ONS, Labour Market Statistics; ONS, Labour Force Survey.

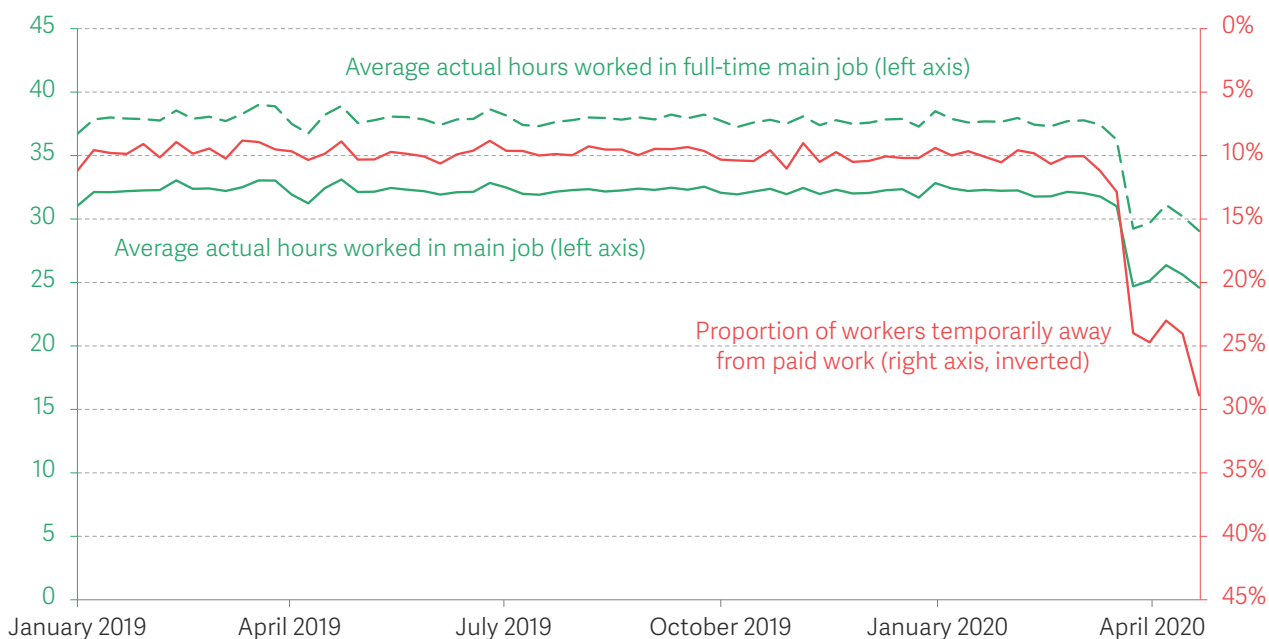
If we are monitoring labour market statistics because of a concern with how household living standards are affected, then it is reassuring that many of the people who are employed but not working were, in April, receiving earnings supported by the JRS. Because of this, it may be sensible to track the employment rate (alongside PAYE data on the number of employees being paid). However, if our concern is to monitor the productive capacity of the UK economy, then the employment rate including those who are not actually working is clearly overstating the amount of work being done. Fortunately, the ONS also publishes estimates of the average hours worked among those who say that they are employed, and we show these in Figure 10. Average hours worked

⁴⁵ This finding is not unique to the LFS but is also seen in the April sweep of the Understanding Society data, which gives the same estimate of just over one-fifth of working-age adults being 'employed' but not working any hours.

by those in employment fell by 7 hours from early March to the last week in April, a fall of 23 per cent. This provides a far more accurate impression of the amount of work being done than the employment rate.

FIGURE 10: Average hours have fallen, with more people temporarily away from paid work

Average actual hours worked and proportion of workers away from work: UK



NOTES: Being 'temporarily away from paid work' is captured in a separate LFS question to average hours worked. We show both series, which (unsurprisingly) show very similar trends. This data is seasonally adjusted.

SOURCE: ONS, Labour Force Survey weekly estimates.

In sum, then, we suggest a greater focus on measures of average and total hours worked by those formally classified as in work – alongside headline labour market status measures – for the duration of the lockdown and reopening phase of this crisis.

Conclusions and recommendations

The monthly labour market assessment provided by the ONS should be an invaluable guide to the state of different sectors of the economy, and provide an early indication of how the crisis is affecting household earnings, which is the key component of living standards. However, some recent releases have presented statistics, particularly on unemployment, that can seem confusing, or even inconsistent. This is a concern at this time because the coronavirus crisis is rooted in the labour market, and policy makers need accurate information on what is happening within it if they are to respond effectively as the economy reopens.

In this note, we have set out how these apparent inconsistencies can be attributed to important features of the crisis, and the way that these have interacted with aspects of the data sources.

We conclude that neither of the common measures of unemployment is a useful guide at present:

- The differing trajectories of the Claimant Count and the unemployment rate in the run up to this crisis explain why the former had fallen out of favour already, as it has become a poor barometer for unemployment. But the Claimant Count has suddenly returned to the centre of policy and economic debates, partly because of the huge increases. Unfortunately, these large increases reflect both the old issues with the Claimant Count becoming more important, and major new issues coming along. Changes to Jobcentre Plus activities and major new income-support policies during the lockdown have created new challenges for the Claimant Count. This has led to the inclusion of substantial numbers of people who would not normally be thought of as unemployed, not least furloughed workers. Some of this should unwind relatively quickly as furlough and SEISS payments register in the system, but we cannot quantify the size of this unwinding, and other issues will endure. As a result, the Claimant Count is not a useful indicator of unemployment levels or changes at the present time.
- Increases in the ILO measure of unemployment, on the other hand, look to have been damped down by rises in economic activity, because people have not been looking for work during lockdown (and the benefit system has not required them to).

The problems with both of these unemployment indicators will take time to unwind. So, we recommend that labour market statistics users focus on indicators other than these unemployment measures in the near future (although, as a timely indicator, a future Claimant Count rise in the autumn should be cause for concern in relation to the impacts of JRS withdrawal).

One alternative is therefore to focus on employment. There are (smaller) challenges with this data. Estimates of the employment rate from the LFS include all workers who are not actually doing any work (whether or not they are being paid), and estimates from the PAYE data on paid employees capture those who are paid but not working. These groups have grown markedly in recent months due to furloughing, sickness absence and increased childcare responsibilities. These measures can be still informative – and the PAYE data, being timely, will be particularly useful for understanding the impact of the phase-out of the JRS – but should be complemented by a focus on the level of productive employment. For this purpose, we recommend that labour market statistics

users focus in the coming months on the average and total hours actually worked by those in employment, and the proportion of workers temporarily away from work.

We also have recommendations for the ONS as a data producer:

- The ONS should be praised for its willingness to draw on different sources of data to help illuminate key labour market trends. But it should go to more effort to explain the apparently contradictory findings in its own labour market release, and provide a more detailed commentary discussing the implications, and reliability, of the different statistics within it (including those produced by others). As part of this, the ONS could consider standardising the time period that the different statistics relate to.
- In the short run, the ONS should consider splitting out the LFS-based estimates of employment – both the headline three-month measures and the experimental weekly statistics – into those who did and did not do any work in the reference week.

Understanding how the labour market fares through the next phase of the coronavirus crisis is crucial if policy makers are to effectively support the economy and protect household living standards. A clear, consistent and accurate picture of the labour market is needed, and providing that picture – and the guidance to interpret it correctly – should be a priority.

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