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Labour markets in the time of Coronavirus: Measuring excess

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Abstract
Recessions are usually accompanied by some combination of job loss, hiring freezes, wage cuts or hours reductions. In a rapidly evolving economic crisis there is a need for timely information to assess labour market performance and develop strategies to address the problems that emerge. Household labour force surveys are not point-in-time data, but do offer the opportunity to analyse a broader range of outcomes not readily available in administrative data and over more frequent intervals than normally used. In what follows, the weekly information contained in the UK Labour Force Survey is tracked for several labour market outcomes from the first week of 2020 and onward as the Covid-19 crisis developed in spring 2020. The indicators are presented in "excess" form to gauge how far the incidence of a particular outcome differs from its weekly norm. These excess estimates can be regularly updated as new data arrive. It seems that the most common metrics of labour market performance, like unemployment or wage rates, show little departure from recent norms at the onset of the crisis. The initial margins of adjustment were instead around 7 million more workplace absences than usual, notable hours reductions in the order of 40% among the majority who carried on working, and an apparent stalling of hiring that had already begun several weeks before lockdown.

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Introduction

With few parallels in recent history it is hard to predict how exactly the coronavirus pandemic and the ensuing economic shock will manifest itself in the labour markets of the industrialised world, let alone in emerging economies. We do know that recessions are usually accompanied by some combination of job loss, hiring freezes, wage cuts or hours reductions (Gregg and Wadsworth 2011). The relative incidence of these facets typically varies from country to country, partly dependent on the country-specific institutions in place, (OECD 2017). Even within countries there will be shifts in incidence of these various features during the course of a recession, (Elsby, Smith and Wadsworth 2011) and indeed across recessions depending on the nature of the economic shock and its interaction with the institutions that hold sway at the time.

In a rapidly evolving economic crisis, the need for timely information to assess labour market performance and then develop strategies to address the problems that emerge is paramount. Household labour force surveys are not point-in-time data, but do offer the opportunity to analyse a broader range of outcomes not readily available in administrative data that allow a more comprehensive view of the labour market performance of an economy. Moreover, the presence of weekly data in these surveys facilitates a higher frequency analysis than is normally afforded the outcomes derived from such survey data. The UK Labour Force Survey, (LFS), is in the field all year round and while released to the public on a quarterly basis does contain information on the week in which the household was interviewed (the "reference week"). As such any labour market indicator can be estimated at weekly intervals and its course tracked throughout the calendar year

To see how the epidemic influenced the UK labour market at the onset of the crisis, the weekly data are presented in the "excess" form often used by epidemiologists and statisticians to gauge how far away from weekly norms the incidence of a particular outcome may be.[1] Presenting labour market data in this way also reveals any regular seasonal patterns in the data that are often overlooked by analysts.

The weeks in the graphs and Tables that follow run from 1 January, 8 January onward to the end of the calendar year. The first case of coronavirus in the UK was confirmed on 31 January 2020 (week 5). The first officially confirmed death in the UK from the virus was on 5 March (week 9). Partly in response to rapidly declining stock markets and commodity prices, the Bank of England cut interest rates from 0.75% to 0.25% on 11 March (week 10). Self-isolation recommendations were issued on 12 March (week 10) but the UK did not go officially into lockdown until 23 March 2020 (week 12). The government announced that it was to introduce a job furlough scheme alongside support to the self-employed on 20 March (week 12).[2]

In what follows we show that the most common metrics of labour market performance, unemployment rates and wages, show little departure from recent norms. Nor do layoffs or quits appear very different. But the labour market did react. The initial margins of adjustment were instead many more workplace absences, notable hours reductions in the order of 40% among the majority who carried on working, and an apparent stalling of hiring that had already begun several weeks before lockdown.

Measuring Excess

The commentary which follows looks at the weekly behaviour of several labour market outcomes extracted from the information in the LFS since 2015. Each graph follows the same style. The average weekly values for a given labour market indicator over the last five years is used as the norm. The

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[1] See, for example, the excess death numbers reported in the UK by the Office for National Statistics (ONS) https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/deaths

[2] The scheme was not officially opened until April 20, but claims back to 1 March were allowed.

distance from the line in any week t to the five-yearly average is one measure of the "excess" in a particular labour market outcome, Y_i.

$$Excess = Y_{it} - \bar{Y}_i$$

A value of zero indicates no difference from the weekly norm. Large positive excess values signal higher rates than the norm. Large negative values signal lower rates than the norm.

The average value for each indicator in any week is then plotted (dotted line) together with the five-yearly maximum and minimum values of the chosen indicator for the same week (grey shade). The equivalent 2020 weekly estimates (solid line) are then overlaid. The excess on the graphs is the difference between the solid and dotted lines. Any departure of the 2020 data outside the maxima/minima range can be considered a notable departure from the norm.[3]

The sum of the excess observed from a given starting week t[*] to any week in the future is an estimate of the cumulative total excess population.[4]

$$CExcess = \sum_{t=t^*}^{T} Y_{it} - \bar{Y}_i$$

One problem with such measures is that if the population is rising over time, as in the UK, then a norm based on historical averages will tend to be lower than the current count so that $Y_{it} > \bar{Y}_i$. To offset this, the outcomes we present are not counts of individuals but rates, Y_{it}/P_{it}, so netting out the effect of population change over time. Outcomes measured in percentages are perhaps less intuitive than cumulative counts of individuals, though can readily be converted into additional "person-weeks" (the sum of the number of associated people in each week) by multiplying the current grossed-up survey population by the estimated excess percentage. However, a large positive or negative cumulative total is indicative of sustained departure from the norm and hence worth noting.

It is also possible that some of the indicators may show signs of excess over the Covid-19 period but this reflects a bunching outcomes that might otherwise have taken place later in the year if the pandemic had not occurred. Layoffs, for example, may have been brought forward when they would have taken place ordinarily later in the year. If so, the cumulative excess measures taken over the Corona period will be over-estimates of the excess brought on by the crisis and there will be a dip in the labour market indicator *below* the weekly norm some time later in the year. The extent to which any layoffs, or quits, or any other indicator bunch prematurely can only be assessed as subsequent data is released.

The vertical line on the graphs shows the point at which the UK went into lockdown (week 12). The graphs currently run to week 13 (the last week of March 2020). The cumulative excess count is started at week 5, the week of the first officially confirmed Corona case in the UK.

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[3] The minima and maxima shown in the graph effectively therefore take the place of sampling confidence interval in what follows

[4] Any weekly variation in estimates will, in part, be influenced in by both the sample populations and the grossing weights in any week which are, by construction around 1/13 the sample size of the regular quarterly survey. This lower weekly sample size, however, precludes much sectoral or demographic disaggregation of the outcome variables. While in a randomly sampled population the grossing weights in each week of any survey should be representative of the total population, in practice the grossed populations in the LFS from week to week are similar but not exact. Some caution therefore is needed when using grossing weights in this way.

Tables 1 to 4 give the weekly excess and cumulative excess estimates for these indicators. As the crisis continues these graphs and Tables can be extended to monitor labour market performance as it evolves. [5]

Labour Market Responses to an Economic Shock

Faced with an economic shock, firms can take a hit to profits or adjust their costs or both. To a firm, labour costs may be easier to adjust in the short run than capital costs, (buildings, land or machinery). Firms have the option to adjust their labour costs through changes in wages, changes in hours or changes in personnel. Workers have some influence on this adjustment through unions and their intrinsic worth to an employer. This means that mass layoffs of employees should usually be a last resort, but hiring, hours or wages may change as a first response to the shock. Self-employment and temporary working, in contrast, are more cyclical types of working, falling in bad times and rising in good, (see Gregg and Wadsworth (2011) for evidence from previous recessions) and so may be among the first types of working to decline in a downturn.

UK institutions also influence changes. For example, there are laws regulating the notice period for redundancies, but also there may be specific interventions from institutions during a crisis, such as a cuts in interest rates or taxes or job protection schemes. The Coronavirus Job Retention Scheme, in which the government initially paid 80% of the wages (up to a maximum of £2,500) of workers who were furloughed, is unique to this current crisis.

While the aphorism that no two recessions are the same still holds, the experience and analysis of the causes and aftermath of three large recessions in the past 40 years means we probably now know where to look and which indicators to track.
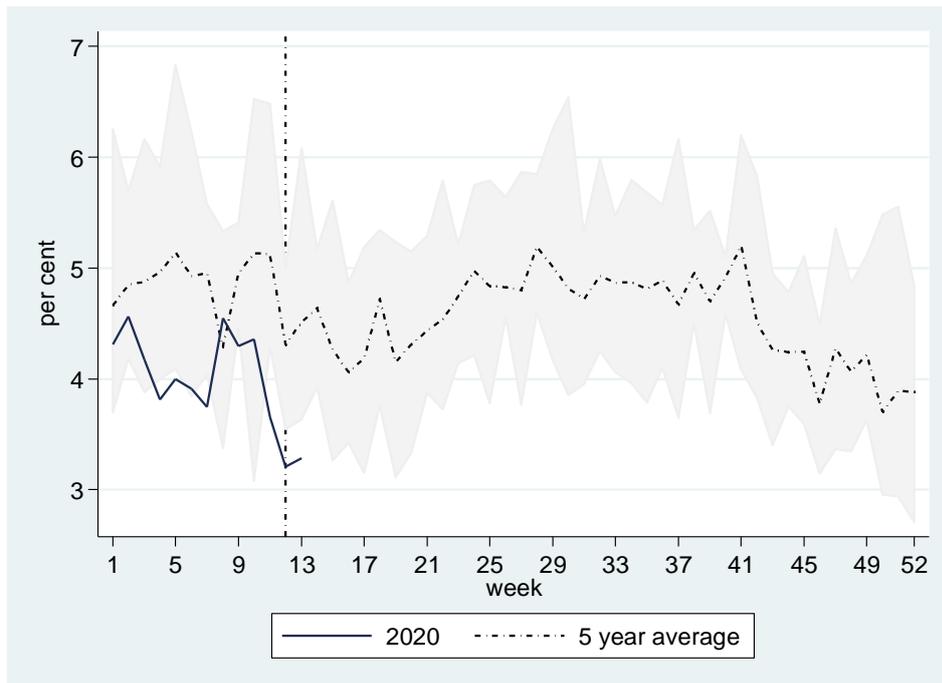
Unemployment and Employment

Starting with the most common metrics of labour market performance[6], it is apparent that not much can be observed in the UK over the first 13 weeks of 2020 that was unusual (see Figure 1). Overall, the UK labour market had been performing rather well prior to 2020, with the national unemployment rate around 4% to 5% and the employment rate reaching record highs. The seasonal pattern of unemployment over the course of a year is shown in Figure 1. Unemployment is typically lower in the weeks that run up to Christmas and higher immediately after. However, the weekly unemployment rate in the first 13 weeks of 2020 was well below the average of the past five years. The cumulative excess estimate in Table 1 duly gives a large negative number by week 13, confirming that unemployment was still well below expected between week 5 and the end of week 13.

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[5] The crisis brings its own problems for household surveys regarding response rates and ways of describing unfamiliar working arrangements. See the discussion in ONS (2020a). Single month LFS statistics are now published by ONS but not in comparison with previous years, (ONS 2020b).

[6] Estimated according to the ILO/OECD definition

Figure 1. UK Unemployment Rate by Week

Source: LFS author calculations

A similar pattern can be seen with the weekly employment rate (employment of the 16-64 year old population). Employment in the UK had been rising year on year for the last eight years before the crisis. Figure 2 shows the employment rate rising over the calendar year in this window, partly as a reflection of the near continuous growth in employment at this time. Prior to lockdown, the 2020 employment rate was generally above the preceding five year average. In the week before lockdown the employment rate starts to dip at a time when the average data line indicates a rise in employment would be expected at this point in the year. However, the size of this dip is so small that there is no obvious departure from previous norms at this stage.

Figure 2. Employment Rate
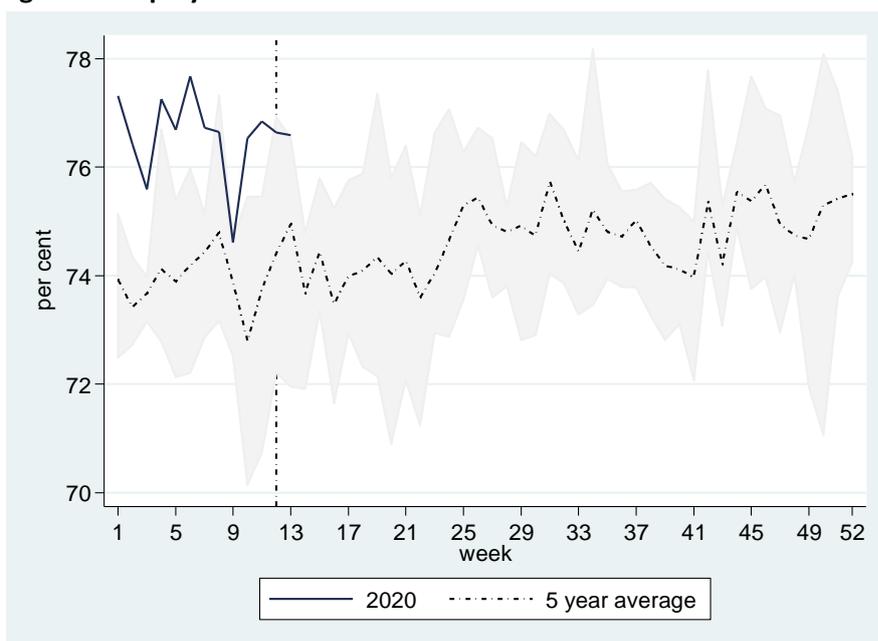
Source: LFS author calculations

Figure 3 shows the weekly absence rate from work due to self-reported illness. Around 2% of the employed workforce are absent sick in a typical week, with fewer sickness absences in Christmas week and spring and summer, but more in the run up to Christmas and though the winter. There is no indication that the first quarter of 2020 was very different from these norms. Indeed, absences due to illness during the first week of lockdown were somewhat lower than the norm for the equivalent week.

**Figure 3. Absence from Work Due to Illness**
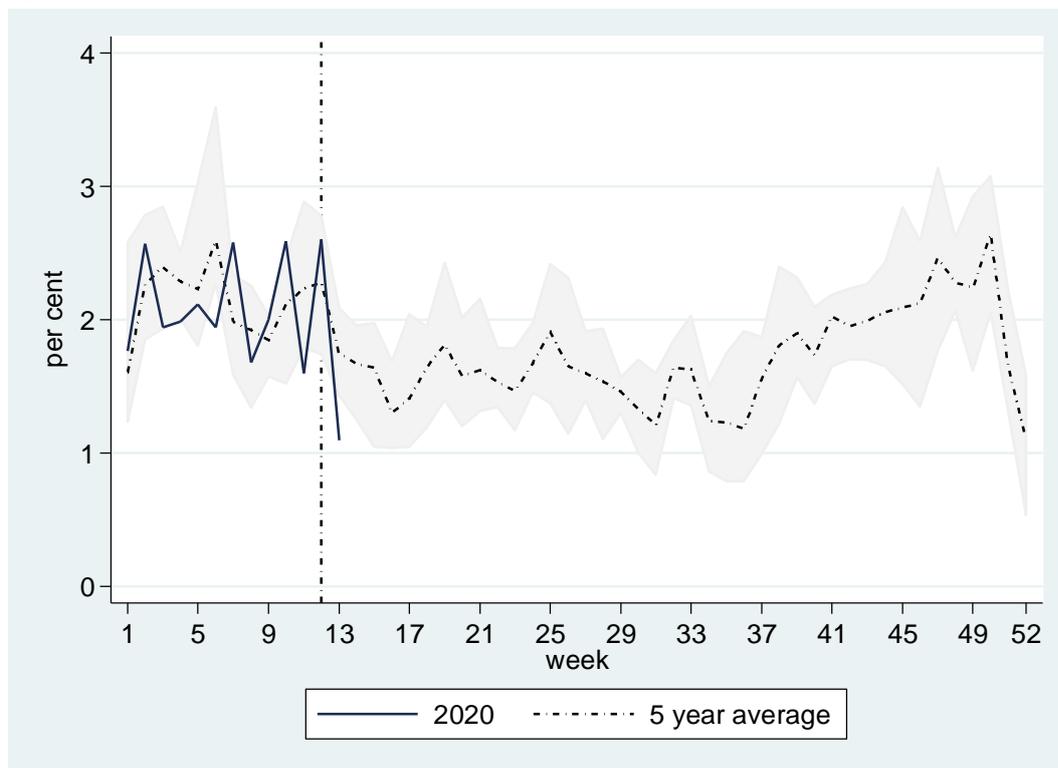
Other Margins

However, things start to look less than normal when we look at other possible margins of labour market adjustment. Figure 4 shows the percentage of workers who say they had a job but were away during the survey week. In the LFS, any individual recorded as away from work is also recorded as having zero hours of work in the survey week – but is still classified as in employment. The weekly norms show large spikes in away-from-works around Christmas, Easter and the summer holiday season. However, there is a notable departure from the norm in 2020 that begins in week 10 and increases rapidly to around 22% of the employed working age population by lockdown week 13. The Figure and Table 2 show that this is an excess of 14 percentage points on the weekly norm, around 4.5 million workers more than expected at that point in the year. [7] The UK government's furlough scheme announced in week 12 only compensated employers if their workforce remained at home. A similar scheme applied to the self-employed unable to work through the crisis. It may be that these features are reflected in Figure 4.

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[7] There were around 31.6 million working age individuals in work in spring 2020. 22% away from work is around 7 million and an excess of 14 points is around 4.5 million additional absences. The cumulative excess of 22 points is therefore around 7 million additional person-week absences.

Figure 4. With Job but Not Working
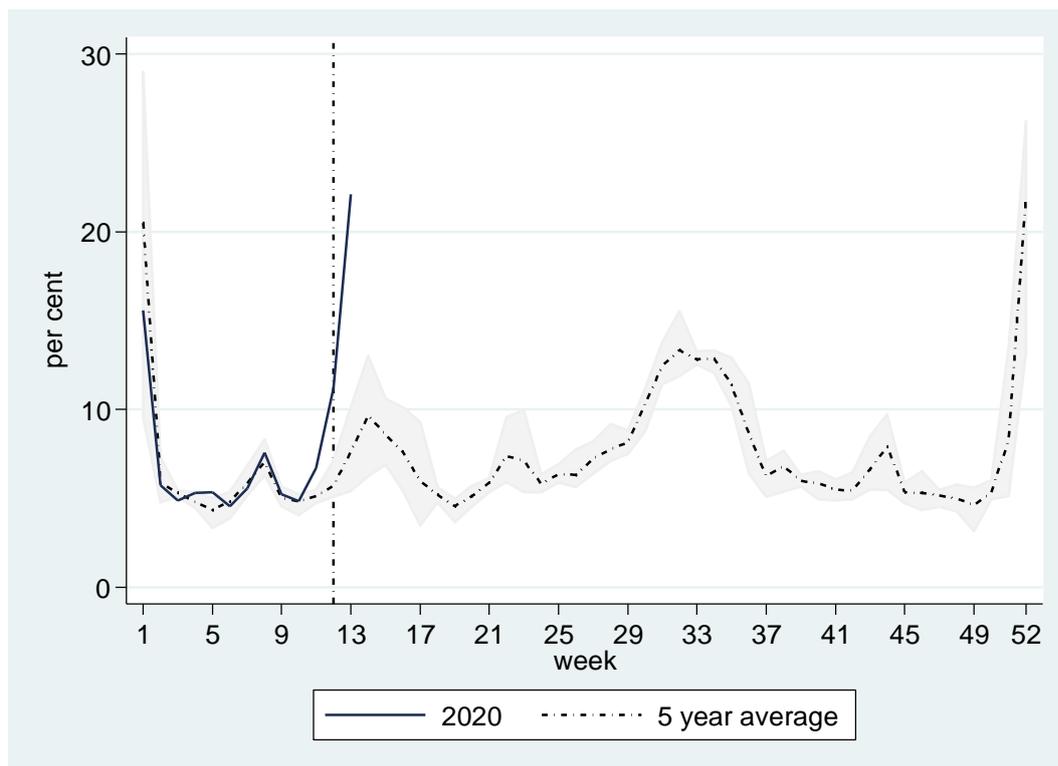
Source: LFS author calculations

Among the majority of employed still classified as in work and not away from the job, 48% reported working fewer hours than usual in lockdown week. However, since week 13 has included Easter in the past, 48% working fewer hours is not unprecedented at this point in the calendar.[8] In the same week, 17% of the employed worked more hours than usual, again not outside the norm for this time of the year, (See Figures A1 to A3 in the appendix and Table 1B).

The net result of all these changes is that the number of hours worked by the average (median) worker fell from the norm of 38 to 23 during week 13, a fall of 40%, (Figure 5A). Figure 5A shows average hours worked usually drops noticeably at Christmas, Easter and the summer holiday weeks, but the drop in week 13 and the smaller falls in weeks 10 and 11 are notable.

It is perhaps more intuitive to try to estimate the change in the total number of hours worked relative to the norm.[9] With 31.5 million people in work, multiplying this by the number of hours each person worked gives a weekly norm of around 1000 million person hours, (Figure 5B). There is a notable fall below this norm in week 13 of 2020. Total hours worked fell in week 13 to around 690 million, some 35% below the hours' totals in the weeks immediately before the crisis and some 25% below recent norms (Table 3). The cumulative excess total is some 140 million hours below the norm, since hours were generally above the norm before the onset of the crisis. This represents a considerable drop in output, albeit over a short period.

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[8] However Easter 2020 didn't arrive until week 15.
[9] Subject to the caveats discussed above regarding caution when calculating excess measures of an outcome like hours measured in levels - because of population growth over time and population grossing volatility in the survey data.
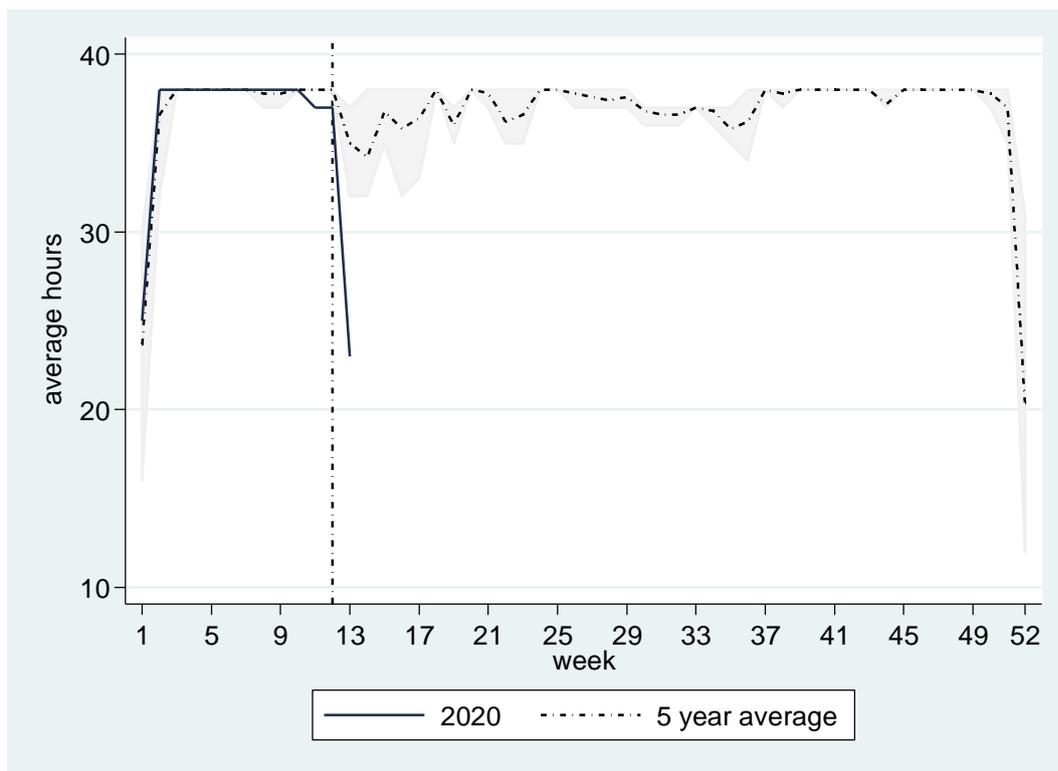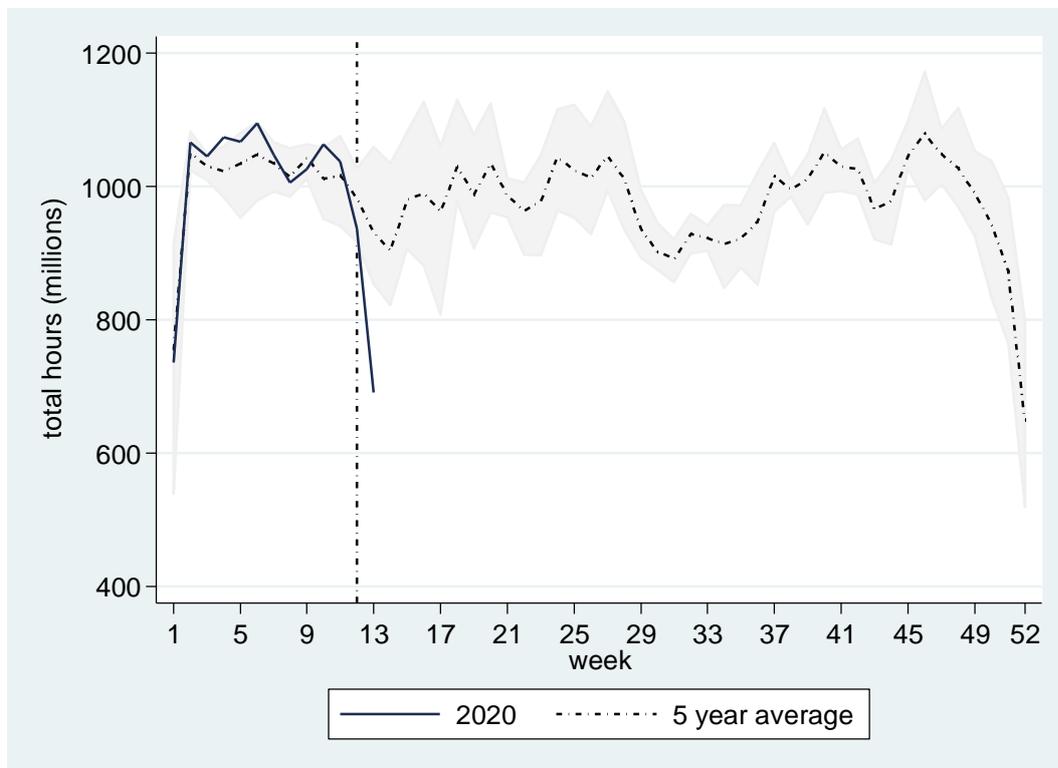
Figure 5A. Median Hours Worked

**Figure 5B. Total hours worked**

Source: LFS author calculations

Hiring

In addition, it seems that hiring fell noticeably. Figure 6 plots the proportion of employees who have been in new jobs for 1 month or less as a proxy for the hiring rate. The graph shows that there are usually between 2% to 4% of the workforce is newly-hired or starting a new job in any week, with relatively fewer hires in spring, and autumn being the main hiring period. However, it is again apparent that hiring rates in the early spring of 2020 were some 1.5 percentage points below seasonal norms in lockdown week, and also in the weeks leading up to the lockdown. In short, hiring stalled in this period. Cumulative hires were some 9.6 percentage points lower than usual by the end of week 13 (Table 4). This is around 3 million fewer hiring than might be expected.[10]

Figure 6. New Hires
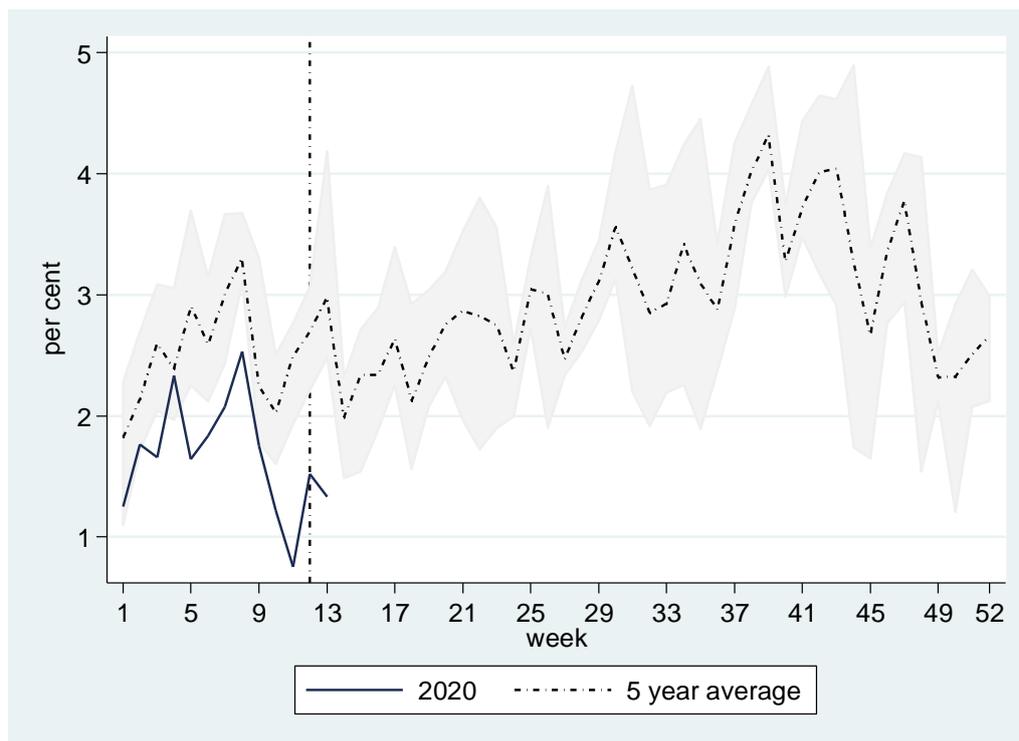
With hiring stalled there is little evidence of job loss above and beyond recent seasonal norms at this point in the year. Figure 7 shows the weekly pattern of the share of redundancies (layoffs) in the working age population over time and Figure 8 shows quits.[11] While layoffs show little seasonal pattern through the year, quits are noticeably higher in autumn (when hiring is also at its highest). Neither graph, however, shows much departure from recent norms at this stage in 2020.

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[10] 31.4 million employed multiplied by the 9.6 percentage point cumulative excess in Table 4.
[11] In the LFS redundancies (voluntary and involuntary) are observed within a 3-month window, so these estimates are effectively 3 month moving averages and hence somewhat lagging indicators. A quit is anyone who left work because of resignation, health, retirement, for education purposes, family reasons or other.
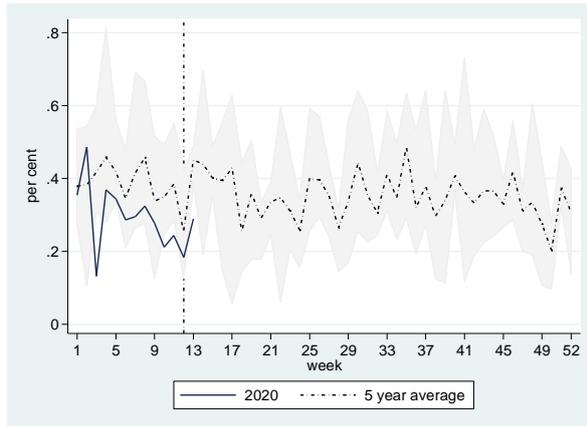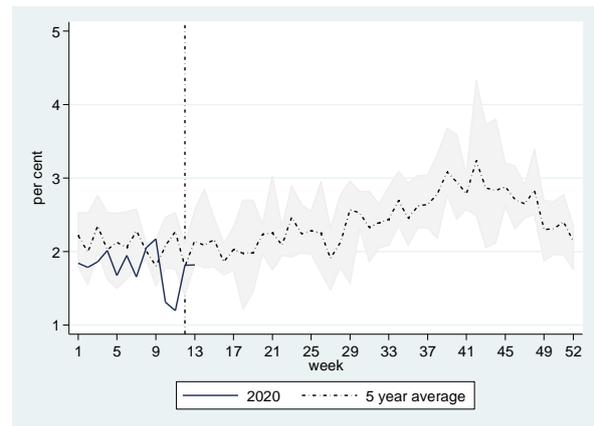
Figure 7. Layoffs

Figure 8. Quits

The other possible margin of adjustment is wages. During the last recession, nominal wage freezes and real wage cuts, were the principle form of adjustment in the UK labour market, (Costa and Machin 2016) which arguably arrested inflows into unemployment. Any impact of the current crisis on wages is not yet apparent as Figure 9 shows. Real weekly wage levels (nominal wage deflated by consumer prices) in the UK were broadly in line with recent trends. While a sharp fall in real wages can be seen around week 13, it is not outside the range seen in the past five years for the time of year.[12]

Figure 9. Real Wage Levels by Week
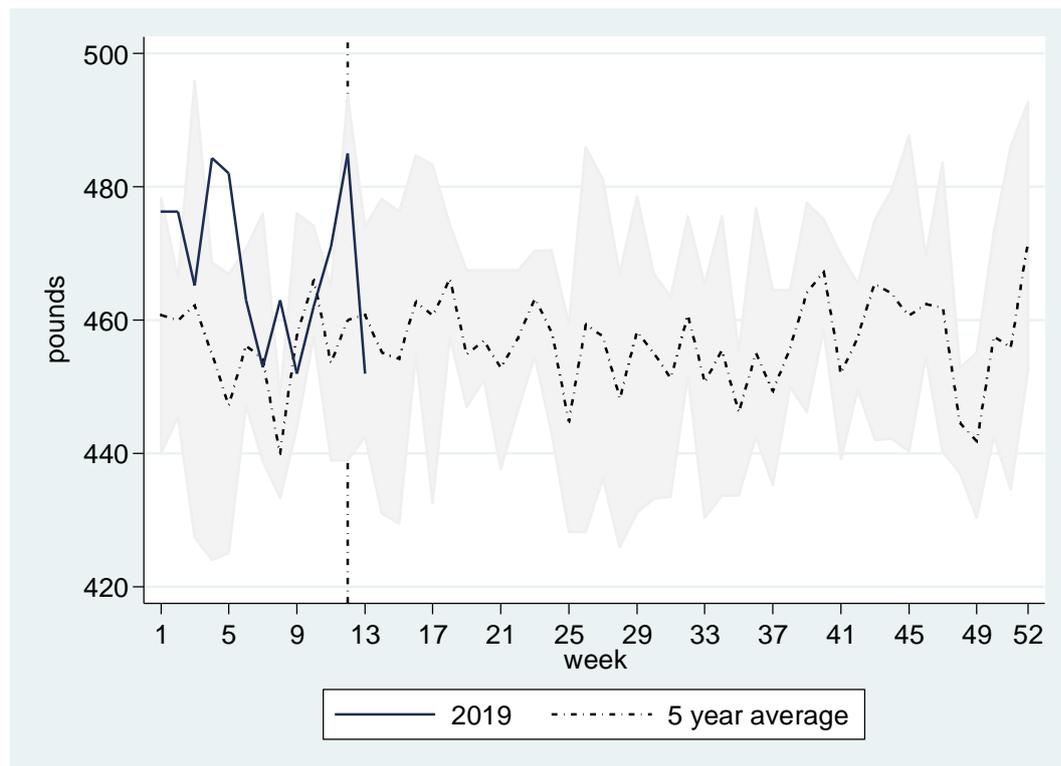
Source: LFS author calculations

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[12] Nominal wage and wages deflated by producer prices graphs show a similar pattern.

Conclusions

In a rapidly evolving economic crisis, the need for timely information to assess labour market performance and then develop strategies to address the problems that emerge is paramount. Household labour force surveys are not point-in-time data but do offer the opportunity to analyse a range of outcomes not readily available in administrative data that allow a broader view of labour market performance. The presence of weekly data in these surveys facilitates a higher frequency analysis than is normally afforded. It is clear from the analysis above that the typical metrics of labour market performance were not noticeably affected during the early stage of the coronavirus crisis in the UK. Instead the onset of the crisis was marked by noticeably higher absences from work, a large rise in short-time working and hiring freezes rather than wage cuts and mass layoffs. It could be helpful for economists and policy analysts to return to these indicators as the crisis develops.[13]

References

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[13] The graphs will be updated in the State of Working Britain blog as new data arrive.

Table 1. Excess and Cumulative Excess Estimates of Unemployment, Employment and Wages, 2020

	Unemployment Rate			Employment Rate			Real Weekly Wage		
Week	%	% point Excess	Cumulative Excess	%	% point Excess	Cumulative Excess	£	£ Excess	Cumulative Excess
1	4.3	-0.4		77.3	3.4		476	15	
2	4.6	-0.3		76.4	3.0		476	16	
3	4.2	-0.7		75.6	1.9		465	3	
4	3.8	-1.2		77.3	3.1		484	30	
5	4.0	-1.1	-1.1	76.7	2.8	2.8	482	35	35
6	3.9	-1.0	-2.2	77.7	3.5	6.3	462	7	42
7	3.7	-1.2	-3.4	76.7	2.3	8.6	452	-1	40
8	4.5	0.3	-3.1	76.6	1.8	10.4	462	23	63
9	4.3	-0.7	-3.8	74.6	0.7	11.2	452	-6	58
10	4.4	-0.8	-4.5	76.5	3.7	14.9	462	-4	55
11	3.7	-1.5	-6.0	76.8	3.1	18.0	471	17	71
12	3.2	-1.1	-7.1	76.6	2.2	20.2	485	25	96
13	3.3	-1.2	-8.3	76.6	1.6	21.9	452	-9	87

Table 2. Excess and Cumulative Excess Estimates of Work Absence and Hours Changes, 2020

	% Away From Work			% Working Fewer Hours			% Working More Hours		
Week	%	% point Excess	Cumulative Excess	%	% point Excess	Cumulative Excess	£	£ Excess	Cumulative Excess
1	16	-3		50	-3		12	0	
2	6	-0		25	-5		21	2	
3	5	-0		24	-1		21	1	
4	5	0		24	0		21	0	
5	5	1	1	23	0	0	21	0	0
6	5	-0	1	23	-1	-1	21	0	0
7	6	-0	0	25	1	1	22	1	1
8	8	1	1	25	0	1	21	0	1
9	5	0	1	24	-1	-0	22	1	3
10	5	0	1	25	2	2	22	-0	3
11	7	2	3	25	2	5	24	2	5
12	11	5	8	31	7	12	22	1	5
13	22	14	23	48	13	25	17	-1	4

Table 3. Excess and Cumulative Excess Estimates of Median and Total Hours, 2020

	Median Hours			Total Hours		
Week	%	Excess	Cumulative Excess	%	Excess	Cumulative Excess
1	25	1		736	-18	
2	38	0		1067	16	
3	38	0		1045	15	
4	38	0		1074	51	
5	38	0	0	1067	33	33

6	38	0	0	1095	46	79
7	38	0	0	1047	13	92
8	38	0	0	1006	-9	84
9	38	0	0	1026	-18	66
10	38	0	0	1063	52	118
11	37	-1	-1	1037	21	138
12	37	-1	-2	937	-45	94
13	23	-12	-14	691	-240	-146

Table 4 Excess and Cumulative Excess Estimates of Hiring, Layoffs and Quits, 2020

	% Hired			% Laid Off			% Quit		
Week	%	Excess	Cumulative Excess	%	Excess	Cumulative Excess	%	Excess	Cumulative Excess
1	1.3	-0.8		0.7	-0.4		1.8	-0.4	
2	1.8	-0.4		0.9	-0.1		1.8	-0.2	
3	1.7	-0.9		0.7	-0.4		1.9	-0.5	
4	2.3	-0.1		1.1	0.0		2.0	-0.0	
5	1.6	-1.3	-1.3	0.9	-0.2	-0.2	1.7	-0.5	-0.5
6	1.8	-0.8	-2.0	0.7	-0.4	-0.6	1.9	-0.1	-0.6
7	2.1	-0.9	-2.9	0.9	-0.0	-0.7	1.7	-0.6	-1.2
8	2.5	-0.8	-3.7	0.8	-0.2	-0.8	2.1	0.0	-1.1
9	1.8	-0.5	-4.2	0.9	-0.0	-0.8	2.2	0.4	-0.8
10	1.2	-0.8	-5.0	0.7	-0.2	-1.0	1.3	-0.8	-1.5
11	0.8	-1.7	-6.8	0.5	-0.4	-1.4	1.2	-1.1	-2.6
12	1.5	-1.2	-7.9	0.6	-0.2	-1.7	1.8	0.0	-2.6
13	1.3	-1.6	-9.6	0.7	-0.2	-1.8	1.8	-0.3	-2.9

Figure A1. In Work and Working Fewer Hours
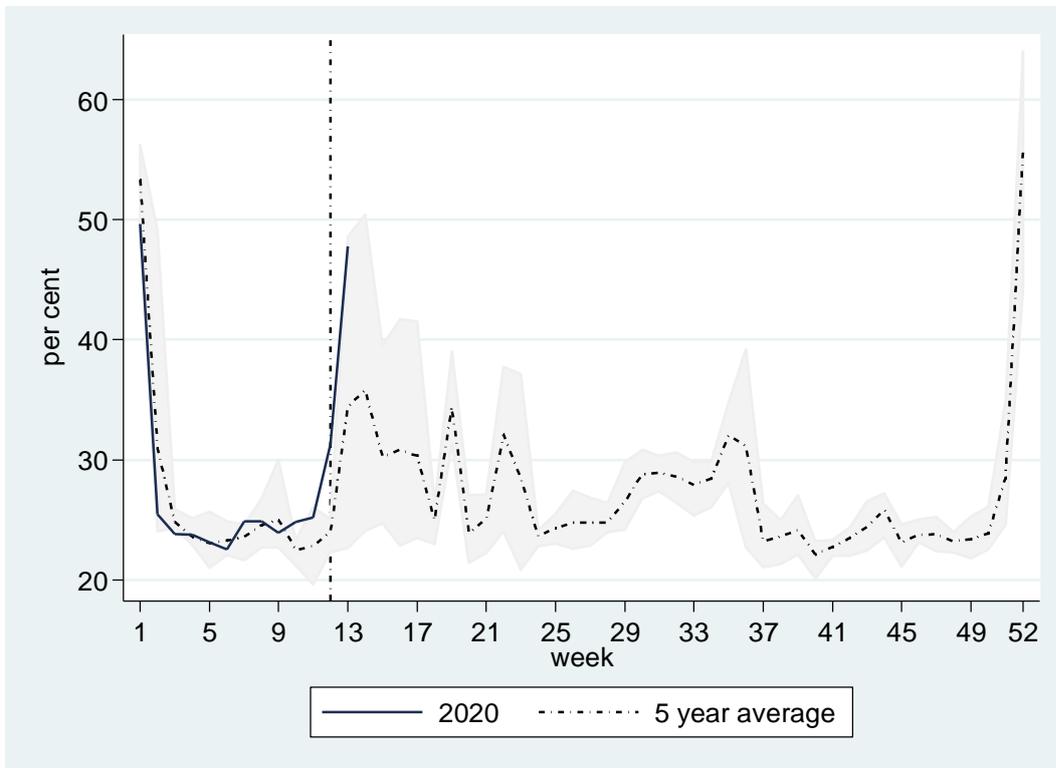

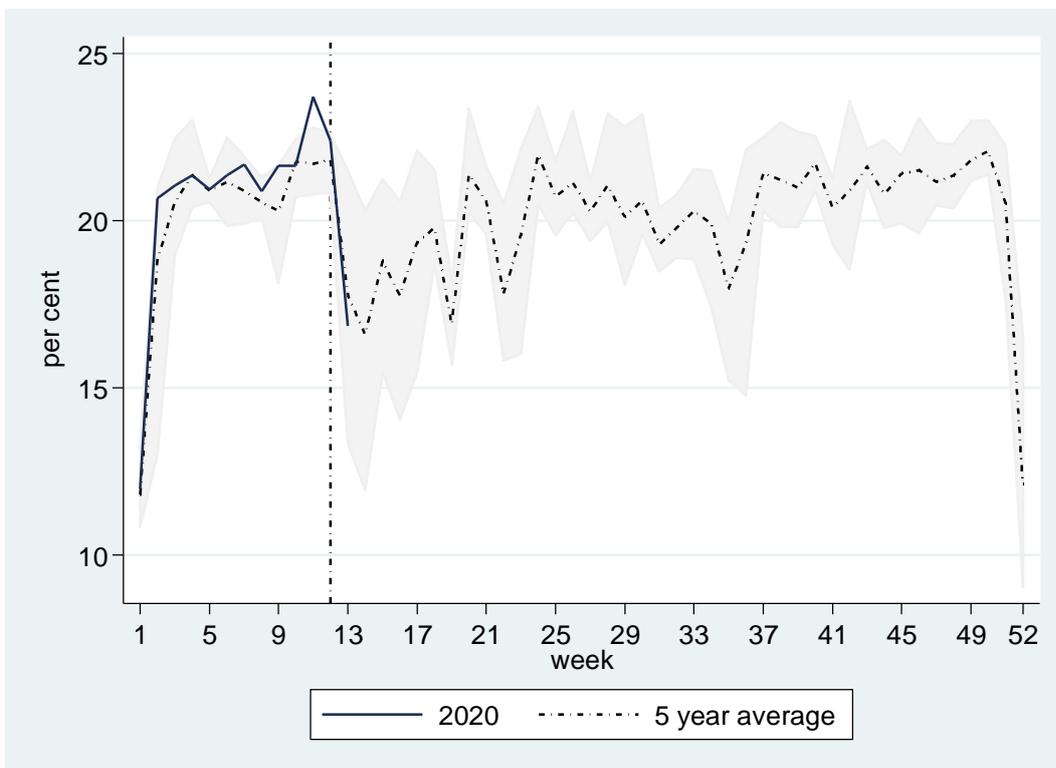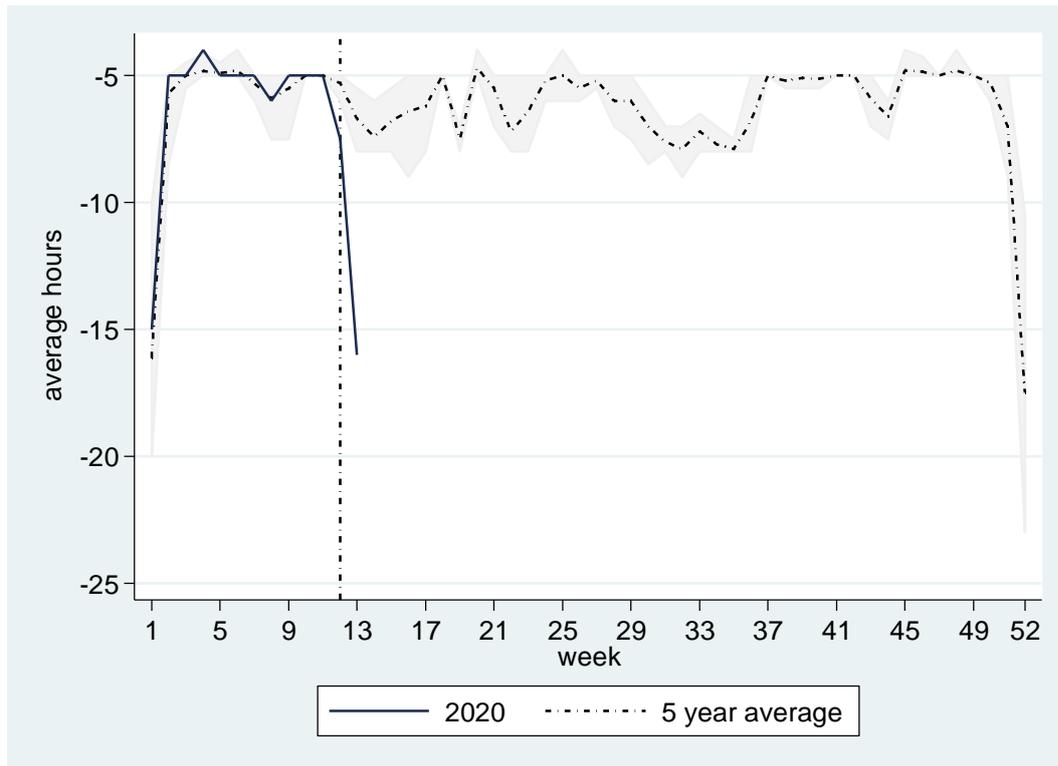**Figure A2. In Work and Working More Hours**

Figure A3. Median Fewer Hours of those Working Fewer Hours

Data Appendix

All data used in this paper are taken from the UK Labour Force Survey 2020 q1 and the Annual Population Survey for 2015-2019

The variable definitions (and names of the LFS variables) used are as follows:

Unemployment Rate: % of the labour force aged 16-64 who are not in work in the survey week and actively looking for work on ILO/OECD definition (*inecaca*)

Employment Rate: % of the labour force aged 16-64 who are in work in the survey week on ILO/OECD definition (*inecaca*)

Real Weekly Wage: Gross weekly wage (*Grsswk*) deflated by Retail Prices Index for month in which the survey takes place

Ill: % absent from work due to illness in survey week (*illwrk=1*)

Away: % of employed who report being in work but away from workplace (*jbaway*) in survey week

Fewer: % of working employed (*wrking=1*) who report fewer hours than usual (*tothrs<totus*)

Fewer Hours: difference between usual working hours (with overtime if applicable) and actual hours worked in survey week (*totus-tothrs if Fewer=1*)

More: % of working employed (*wrking=1*) who report fewer hours than usual (*tothrs>totus*)

Hired: Job tenure of 1 month or less derived using difference between interview date and length of job tenure (*refwkm, refwkyr, conmpy, consey and conmon*)

Layoff: Individual dismissed, made redundant, taken voluntary redundancy or temporary job ended in last three months (**redylft3**)

Quit: anyone who left work because of resignation, health, retirement, for education purposes, family reasons or other (**redylft3**)

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