The Health Foundation

THE ECONOMY 2030 INQUIRY
SHAPING A DECADE OF CHANGE

Begin again?

Assessing the permanent implications of Covid-19 for the UK's labour market

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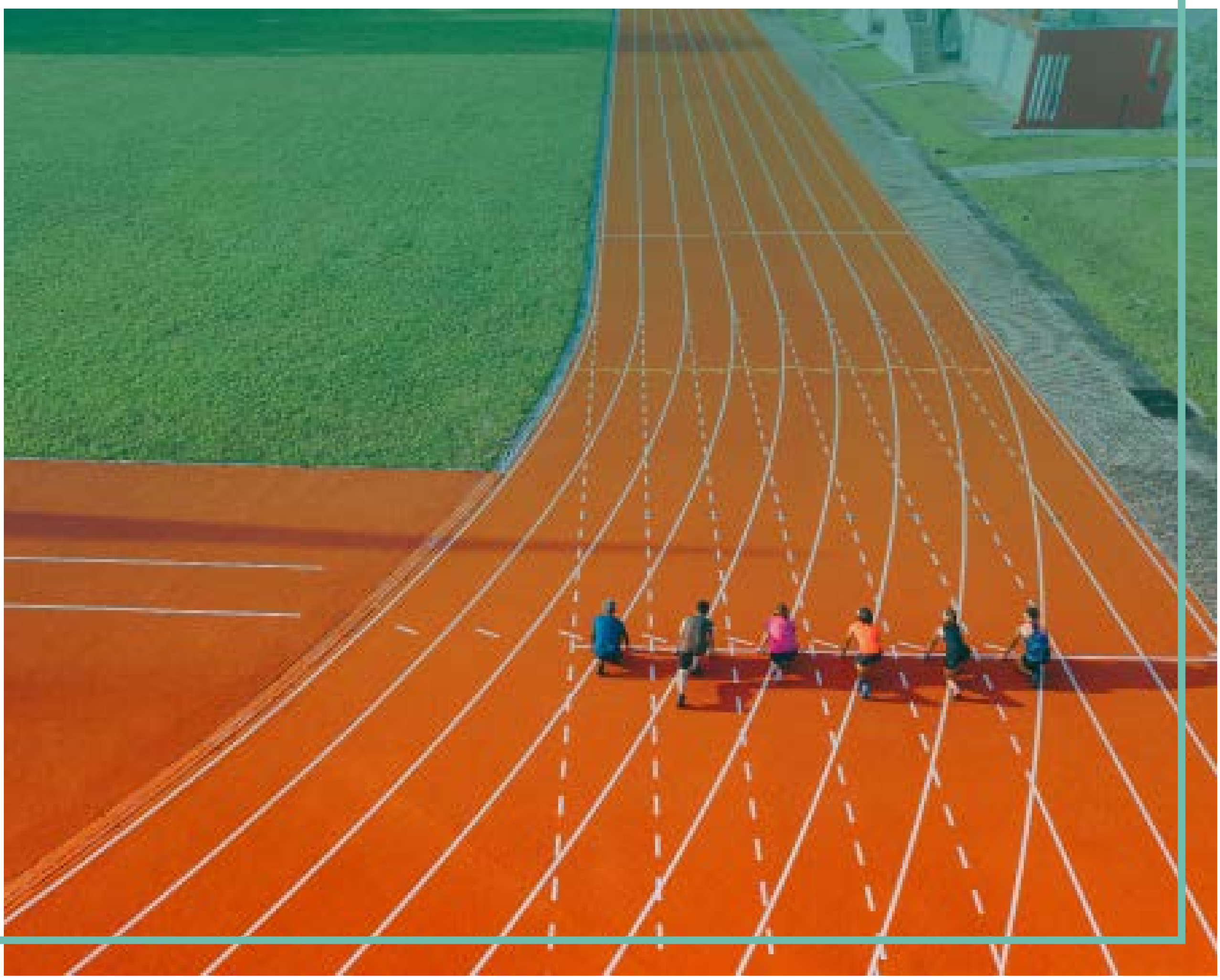
November 2021



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Funded by
Nuffield Foundation

Acknowledgements

The authors are grateful to the Nuffield Foundation and the Health Foundation for supporting this work. The authors thank Alex Beer, Torsten Bell, Andrew Eyles, Kathleen Henehan, Jack Leslie and Henry Overman for comments and discussion. However, all views and any errors remain the authors' own.

This research uses data from an online survey conducted by YouGov and funded by the Health Foundation. The figures presented from the online survey have been analysed independently by the Resolution Foundation. The views expressed here are not necessarily those of the Health Foundation or YouGov.

Citation

If you are using this document in your own writing, our preferred citation is:

M Brewer, C McCurdy and H Slaughter, *Begin again?: Assessing the permanent implications of Covid-19 for the UK's labour market,* The Economy 2030 Inquiry, May 2021

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The Economy 2030 Inquiry

The Economy 2030 Inquiry is a collaboration between the Resolution Foundation and the Centre for Economic Performance at the London School of Economics, funded by the Nuffield Foundation. The Inquiry's subject matter is the nature, scale, and context for the economic change facing the UK during the 2020s. Its goal is not just to describe the change that Covid-19, Brexit, the Net Zero transition and technology will bring, but to help the country and its policy makers better understand and navigate it against a backdrop of low productivity and high inequality. To achieve these aims the Inquiry is leading a two-year national conversation on the future of the UK economy, bridging rigorous research, public involvement and concrete proposals. The work of the Inquiry will be brought together in a final report in 2023 that will set out a renewed economic strategy for the UK to enable the country to successfully navigate the decade ahead, with proposals to drive strong, sustainable and equitable growth, and significant improvements to people's living standards and well-being.

The Nuffield Foundation

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Contents

Executive summary

Recessions leave lasting impacts on our labour market. But different recessions leave different legacies: the 1980s downturn left us with stubbornly high unemployment, while the financial crisis led to years of stagnant pay. The scale of the Covid-19 crisis, its cause, and the speed at which it hit, have all been different from previous crises. The highly unequal impact on different sectors, the scale of behavioural change – with reduced travel and the shift of spending online – and the very unusual policy response – including the Coronavirus Job Retention Scheme (JRS) – also mark this out as not just any old recession. So a keen focus on emerging developments, rather than history, may be the best guide to the labour market legacy of this crisis.

Moreover, Covid-19 has brought new challenges for the labour market – many of which could outlast the pandemic. Rather than leaving us with high unemployment, the falls in employment (albeit smaller than previous crises) have shown up in rising economic inactivity as some workers leave the labour force entirely. From remote working to changes in the size of different sectors, Covid-19 has also changed the way that we work. In this report, part of the Economy 2030 Inquiry, we consider the nature of these labour market developments with an eye on the longer-term changes, and the resulting challenges for policy makers over the rest of this decade.

Unemployment is far less of a post-pandemic challenge than expected

The Covid-19 crisis hit the UK labour market hard through 2020 and early 2021. However, the economic reopening has seen a swift recovery. Vacancies have boomed, with over 1 million vacancies each month since July. This means that, despite a higher unemployment rate, there are only 1.3 unemployed people per vacancy, the lowest level since records began in the early 2000s.

This hiring boom means we are not seeing the rise in unemployment and poor- quality work that has characterised most recessions. Although there is some sign that the share of workers aged 18-24 on zero-hours, temporary or agency contracts is beginning to rise, rates of these types of insecure work remain below pre-crisis levels. Moreover, the prospects for unemployment are far better than past recessions. Unemployment rose by 6, 4 and 3 percentage points respectively after the 1980s, 1990s and financial crisis recessions – but unemployment peaked at 5.2 per cent last winter, just 1.2 percentage points above its pre-crisis level, and as of Q3 2021 was just 4.3 per cent, compared to 4.0 per cent on the eve of the crisis. Additionally, long-term unemployment has been falling since the spring, and youth unemployment is now just below its pre-crisis level.

These staggering success stories are thanks in the large part to unprecedented government intervention, in the form of the Coronavirus Job Retention Scheme (JRS), which protected over 11 million jobs. The remaining uncertainty is by how much unemployment will rise this autumn as the JRS comes to an end. Official forecasts of the unemployment rate at the end of the JRS have improved significantly, falling from over 10 per cent in the summer of 2020 to around 5 per cent in the autumn of 2021 in large part because of (sometimes belated) decisions to extend the scheme until virus-related restrictions were largely lifted. A new survey of workers in the field in mid-October suggests that the overwhelming majority (88 per cent) of those furloughed in September are in work in October, with the remaining 12 per cent – corresponding to 136,000 people – out of work. This is the first direct evidence of furloughed workers' own experience after the JRS ended, and supports the idea that unemployment is expected to rise by only a small amount this autumn. We should not, therefore, downplay the success of the JRS in holding down unemployment during the worst recession for over 300 years, and one with its roots in the labour market.

This is not to say that policy makers should be complacent. One-in-20 (5 per cent) of those in work in October – and one-in-six (16 per cent) of those who had experienced furlough for at least six months during the crisis – fear for their jobs. Supply-chain pressures, weak household incomes and rising input prices will act as headwinds to the recovery this winter. In addition, the impact of the crisis remains unequal: the lowest-paid workers were over three times more likely to have experienced at least three months of furlough or worklessness over the past 20 months than the highest-paid workers (36 per cent for those in the bottom quarter of the pay distribution vs 10 per cent for those in the top). Labour market disruption over the past 20 months has also disproportionately affected the youngest and oldest workers, and ethnic minority workers.

The self-employed have also been hard-hit by the economic impacts of the pandemic. As a result, many have interpreted falling self-employment numbers in official surveys as a sign of self-employed people being not only more likely to stop working entirely, but also to leave self-employment for the safety of being an employee. But we find that there has been no increase in people saying that they have made the switch from self-employed to employee, suggesting that much of this fall represents changes in classification, rather than a genuine change in economic activity. Overall, the evidence suggests that high unemployment will not be the primary lasting challenge for the labour market post-pandemic. But another form of worklessness still may be, with economic inactivity rising after years of progress.

Participation has fallen more – and among different groups – than previous crises

The success of the JRS has been one factor in holding down the unemployment rate. But, crucially, not everyone who has lost their jobs has moved into unemployment.

The first year of the Covid-19 crisis led to a larger fall in labour market participation among working-age adults than any other crisis in the last four decades, in stark contrast to the long-run trend of rising participation prior to the pandemic. Although participation has begun to rise slightly in recent months, the fall remains larger than at comparable points in both the 1980s recession and the financial crisis, despite a smaller fall in employment. Overall, the number of people who are economically inactive – that is, not working or looking for work – has increased by 586,000 since the start of the crisis, of whom 364,000 are working-age. This is considerably larger than estimates of the number of migrants who left the UK during the pandemic, but has received far less attention in discussions of current reported labour shortages in some sectors. Rising inactivity on this scale matters not only for the individuals concerned, but also for the economy. Higher employment was a key contributor to what little income and GDP per capita growth we did see in the 2010s, and both the Bank of England and the Office for Budget Responsibility have suggested that at least some of the rise in inactivity could prove to be permanent, contributing to economic scarring in the longer term.

But this overall fall in participation hides a complex picture. There are two groups whose changes in participation have been both particularly large and distinct in this crisis. First, older working-age people (aged 45-64) have reduced their labour force participation during the pandemic. This is unusual: their participation rose during the financial crisis. Among 55-64-year-olds, for example, participation has fallen by 1.2 percentage points during the Covid-19 crisis, whereas it rose by 1.4 percentage points after the financial crisis. Moreover, although both men and women in their 50s have seen similarly large falls in participation during the pandemic, the Covid-19 crisis has been particularly bad for older women's employment relative to previous recessions. By the three months to August 2021, the employment rate of women in their 50s had fallen by 2.1 percentage points. This puts the trend of the past decade into reverse – in the decade prior to the crisis, adults aged over 50 accounted for 88 per cent of the increase in the labour force – and contrasts with rises in the 1990s recession and the financial crisis. If these older workers do not return to work as the economy rebounds, this reduction in labour supply could outlast the pandemic.

Second, there is a sharp gender divide to labour force participation among younger workers. Among adults aged 25-44, labour force participation among men has gone down by 1.1 percentage points, but it is up by 1.8 percentage points among women, particularly among mothers (almost three-quarters (74 per cent) of mothers of 0-3-year-olds were in the workforce in 2021, compared to around two-thirds (68 per cent) in 2019 and 2017). This means that women now make up almost 48 per cent of the workforce, up from 47 per cent in 2019, and 44 per cent in 1992. It also goes alongside a shift of about half a million women from working part-time to full-time since the pandemic began.

Some have put this down to the effect of homeworking, and we find some evidence of that, particularly among mothers: one-in-ten (13 per cent) coupled mothers said that remote working has enabled them to increase their labour supply, compared to 5 per cent of both coupled fathers and coupled women without children. But there are two other drivers of increased female participation, both of which continue pre-crisis trends. One is that, similar to the experience after the financial crisis, second earners have been increasing their labour supply in response to labour market disruption experienced by their partner. One-in-seven (15 per cent) of adults in couples whose partners were furloughed on less than full pay have entered the workforce or upped their working hours during the pandemic, compared to one-in-ten (9 per cent) of those whose partners were furloughed and received all their earnings. The second is the sectoral shifts over the last two years, which, on balance, have favoured female-heavy sectors – such as public administration, IT and communications, and professional and other services – at the expense of male-heavy ones, even allowing for the declines in hospitality and retail.

Some of the rise in inactivity could also be linked to specific features of this crisis: long Covid, or fear of the virus. Our survey suggests that around 600,000 adults have either left the workforce since the pandemic started, or are working fewer hours, for these reasons, with around half of those (260,000) expecting this to last for at least six months. The age profile is not particularly slanted to older workers: it is more reflective of the age profile of those currently reporting symptoms of long Covid, something that is skewed towards younger people and reflecting recent Covid-19 caseloads. The number of people who report being economically inactive because of long-term health reasons has risen since the start of the pandemic, but by only 150,000 (and the pre-pandemic trend had been upward too). Similarly, there has been little change overall in the number of people leaving the workforce each year for health reasons more broadly – suggesting that any exits from the workforce due to Covid-19 have been offset either by reductions in other health problems or by changes to work (such as remote working) supporting those with other conditions to remain in employment. Policy makers should nonetheless remain alert, as there are clearly risks that long Covid cases increase, or that the continuing presence of Covid-19 keeps those who are worried about the virus out of the labour force permanently.

The Covid-19 pandemic has led to big sectoral changes

The pandemic has not only changed the amount of work people are doing – it has changed the types of jobs being done in the economy too, and such change has been unusually rapid. From the very start of the crisis, the pandemic has been sectorally uneven, as lockdowns and social distancing restrictions closed customer-facing sectors like hospitality while demand ramped up in sectors like health and care. Although some of these trends have reversed rapidly as the economy has opened up, others may prove to be more permanent. As of October 2021, employee jobs in retail, hospitality and leisure combined remained 146,000 below pre-pandemic levels, even as overall employee jobs were higher than the start of 2020.

The scale of this reallocation of workers, and process by which it happens, are important. First, the speed of the recovery in the labour market this winter will depend on how efficiently vacancies can be filled. Second, a successful recovery for household living standards needs not just vacancies to be filled quickly, but also that the labour market efficiently sorts workers into roles where they can be most productive. We consider both of these, looking first at how the sectoral change has been achieved, and then at what that means for the match between workers and the jobs they are doing.

First, we find that it is not the case that sectoral reallocation has happened through workers moving from hard-hit industries to booming sectors. At the height of the crisis, the number of workers moving jobs each quarter fell to record lows. Even by Q3 2021, when job-to-job moves recovered to the highest level on record, just 43 per cent of job switchers moved to a new industry – the lowest since at least the early 2000s. There has also been little change in the share of workers who change sector within a given year, which has been stable at around 5 per cent of the workforce since 2014. This suggests that changes in the relative sizes of different sectors are happening primarily by new entrants to the labour market moving into growing sectors and people leaving shrinking sectors into unemployment or inactivity.

This meant that at the start of the crisis there was a substantial mismatch between the industries where jobseekers have most recently worked (largely the shrinking sectors, like leisure and hospitality) and those with available vacancies (particularly health and social care). But as the economy rapidly opened and hiring reached record levels over the summer, mismatch was no longer a problem as jobseekers were able to return to the previously hard-hit sectors. But policy makers should be alert to the risk that mismatch could become more of an issue in the longer term – especially because, in future, we will not be able to rely on a rapid economic reopening to resolve it. For example, there is little relationship between the industries where unemployed people are looking for work and the sectors with the highest number of vacancies: despite the hospitality sector having 151,000 vacancies in October, for example, unemployed respondents to our survey were no more likely to be looking for jobs there than in finance and real estate, which had just 62,000 vacancies.

As well as considering the speed of labour market adjustment, we are concerned about its quality. Here there are worrying early signs that, as sectors like hospitality and leisure have reopened, workers are moving into occupations that do not match their skill level. The share of workers who are in a higher-skilled job than a year earlier has fallen back to levels last seen in 2012, and moves into lower-skilled jobs have increased since before the pandemic, while the share of people who are over-educated compared to the average level of educational attainment for the occupation they are in has reached a record high. As the recovery continues to take hold and a wider range of opportunities become available, policy makers need to support workers to move into jobs that match their skills and experience; such reallocation could be a fairly easy way to boost productivity.

Workers expect the rapid increase in hybrid working to outlast the pandemic

The other unique change wrought by the pandemic has been the large-scale move of some parts of the workforce (mostly those in higher-paying occupations) to remote working. Our survey shows that workers expect the increase in hybrid work – with some hours in the office and some at home – to outlast the pandemic, but they expect that the share of workers who work exclusively from home to fall back to pre-pandemic levels by October 2022. But we also find that workers have got a taste for homeworking, and would ideally like to spend around one-tenth (8 per cent) more of their working hours at home than they were doing in October 2021.

Survey evidence also confirms that higher earners are still most likely to be working from home – and, as a result, those in higher-paid places, London, have the highest reported rates of homeworking. Although there are only small differences between ages, pay and geography in the fraction who expect to be working entirely from home next October (between 9 and 14 per cent of workers in different groups), there is considerable variation in workers' expectations of working in a hybrid manner: less than one-third of the lowest-paid (31 per cent) and oldest, aged 55-65 (32 per cent), workers expect to take part in this new working model, compared to almost two-thirds of Londoners (65 per cent) and the highest paid (66 per cent).

Remote working is also having an impact on people's work-life balance. Despite remote work enabling some parents (particularly mothers) to enter work, mothers are significantly less likely to expect to have a hybrid working pattern in the future than women without children (52 per cent vs 38 per cent). But this seems to reflect the constraints of their jobs rather than their preferences: given the chance, mothers would like to spend significantly more time working from home (and more so than other groups).

Overall, the accelerated move to hybrid working, amid wider variation in firm practices and worker preferences, may increase the volume of reallocation of workers as people renew their preferences about where they live and work. Educated professionals will have more options about where to live within, but not between, regions. And the proliferation of hybrid work, with workers in the office and city centres some of time, will likely not mean the end to cities' roles as the centre for production and basis for agglomeration. Finally, while many are focused on the change that hybrid working brings for higher earners who now have greater lifestyle choices, the more important lasting effect will be on low-paid workers who will need to find new jobs in new places as they respond to the demand of higher-paid workers.

Policy makers face a very different labour market recovery from previous crises

In this report, we have provided insights into how the labour market is evolving as we begin to emerge from the pandemic. It remains to be seen exactly which changes from the pandemic stay the course, but it is already clear that there are lasting changes on the horizon. The Covid-19 pandemic is very different from previous downturns, with larger (and more complex) falls in participation, a unique sectoral impact, and the emergence of new working models. As policy makers consider the challenges for the post-pandemic labour market – in combination with other challenges such as Brexit and the net zero transition – they will need to take the unique nature of the Covid-19 crisis into account.

Section 1

Introduction

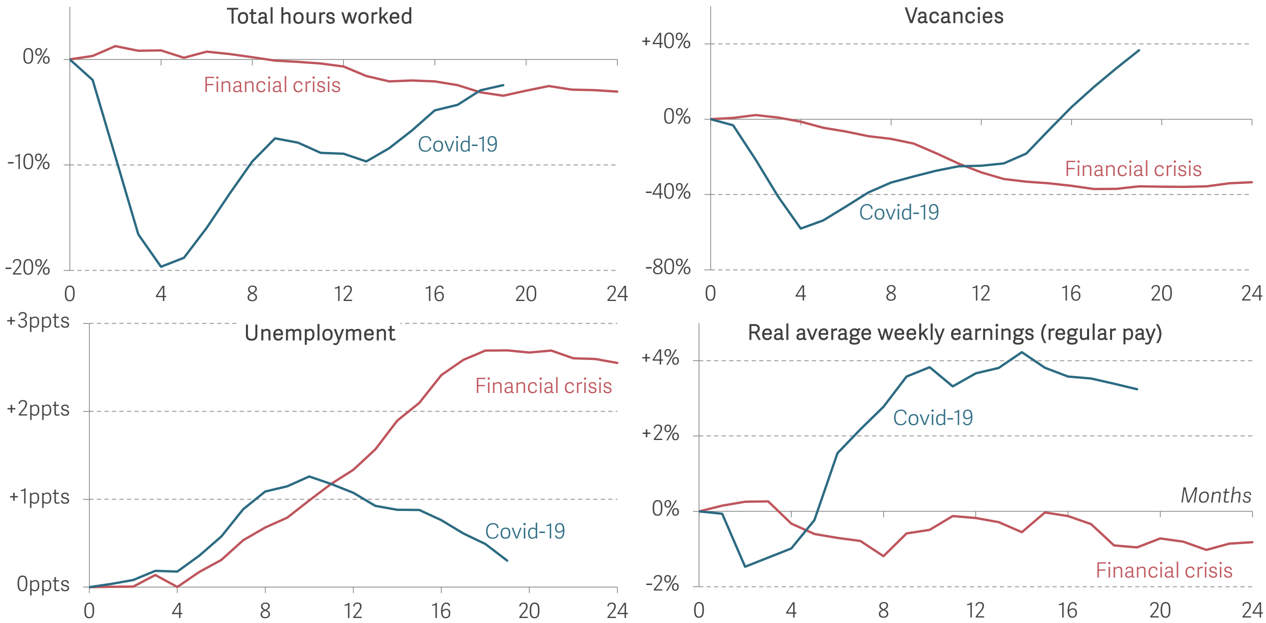
The Covid-19 crisis has not been a normal recession. From the scale of the impact, to the speed at which it hit, and the unprecedented policy response in the form of the Coronavirus Job Retention Scheme (JRS), the pandemic has been a shock to the labour market like no other.

In addition, the labour market consequences have also been unusual: recent economic downturns in the UK have been characterised by rising unemployment or stagnant pay growth, but, despite falls of up to 20 per cent in hours worked, the unemployment rate during this crisis has stayed remarkably steady, and earnings (at least on the headline measure) are higher than before the pandemic (Figure 1).

As the UK has emerged from lockdowns and economic restrictions, some of the pandemic changes to the economy have begun to reverse. The JRS has come to an end, employees who were working remotely during the height of the pandemic are beginning to return to the office, and hiring is booming in sectors like hospitality and leisure as businesses see their demand return. By September (the most recent official data, at the time of writing), the headline unemployment rate was just 4.3 per cent – only 0.3 percentage points above its pre-crisis level. The single-month rate (a timelier, albeit more volatile, measure) reached just 3.9 per cent – lower than on the eve of the pandemic. But the pandemic has brought some permanent changes to people's working lives. In combination with other drivers of change – such as the decarbonisation of the economy, and our new trading position outside the EU – the legacy of Covid-19 is likely to shape the labour market over the next decade and beyond.

FIGURE 1: **Despite big falls in hours worked, the rise in unemployment has been far lower than previous crises**

Change in hours worked, vacancies, unemployment, and real average weekly earnings (regular pay) since the start of the financial crisis and Covid-19 crisis: GB/UK



NOTES: The horizontal axes show the number of months since November-January 2008 (financial crisis) and December-February 2020 (Covid-19). Hours worked, vacancies and unemployment charts cover the UK; earnings chart covers Great Britain only.
SOURCE: Analysis of ONS, Labour market statistics.

In this report, we assess where the UK labour market stands at the end of the JRS, the flagship labour market policy that has protected millions of jobs over the course of the pandemic, and what early signs tell us about the impact of the pandemic on the labour market over the next decade. Future reports in the Economy 2030 Inquiry will return to look in more detail at the sectoral reallocation and the geographical changes from working from home, and how the changes caused or catalysed by Covid-19 are combining with other structural changes happening over the rest of this decade.

To this end, this report is set out as follows:

- Section 2 considers the extent to which policy makers should be concerned about rises in unemployment following the end of the Job Retention Scheme;
- Section 3 explores the rise in economic inactivity since the start of the pandemic, the groups affected, and the prospects for permanent changes to labour supply;
- Section 4 looks at the longer-term consequences of the two key labour market changes since the start of the pandemic: sectoral reallocation and remote working;
- Section 5 concludes.

Section 2

The state of the UK labour market as the Job Retention Scheme comes to an end

The Covid-19 crisis had a huge impact on the labour market through 2020 and early 2021. But over the summer, the easing of restrictions on economic activity has supported a swift recovery. Vacancies hit record highs, and unemployment fell to 4.3 per cent ahead of the end of the Coronavirus Job Retention Scheme (JRS).

Past recessions have been characterised by rises in poor-quality work and high unemployment. Although there are some signs that insecure work has risen among 18-24-year-olds, the prospects for unemployment heading into the autumn are far better than expected. Thanks to successive extensions to the JRS, new survey evidence suggests that that nine-in-ten workers who were still furloughed in September have returned to their previous jobs – and official forecasters expect unemployment to peak at just 5.2 per cent at the end of this year.

The labour market is not yet out of the woods, though: in October, one-in-twenty workers expected to lose their job in the next three months, including one-in-six of those who had experienced being furloughed for more than six months during the crisis (but who were still in work in October). And the impact of the crisis has been very unequal, with labour market disruption having disproportionately affected the low paid, the youngest and oldest workers, and ethnic minority workers. But overall, the evidence suggests that rises in unemployment pose far less of a risk to the UK's post-pandemic labour market than previously feared.

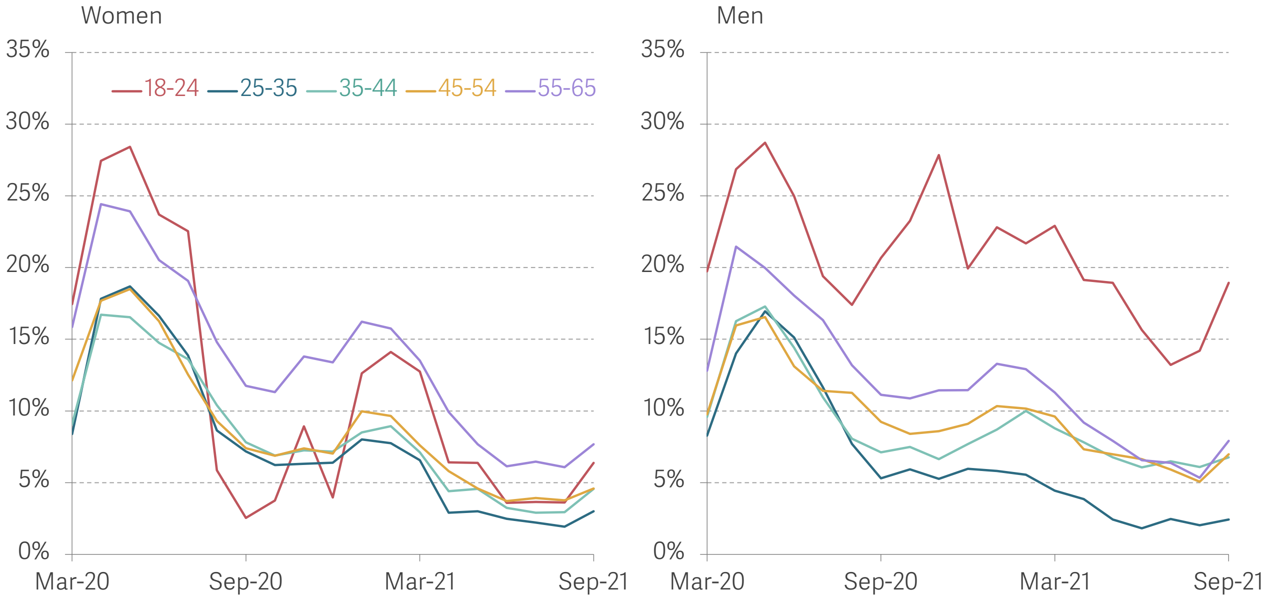
The labour market recovered quickly over the summer

In the early months of the Covid-19 pandemic, the labour market took a hit – albeit one much smaller than it could have been, thanks to the JRS. Lockdown and social distancing restrictions meant that hours worked fell by 20 per cent, but the number of payrolled employees fell by only 960,000 (3.3 per cent) between February and November 2020, and unemployment rose to 5.2 per cent in Q4 2020, up from 4.0 per cent before the crisis.

As the economy has reopened, the labour market has seen a swift recovery. Evidence from a new Resolution Foundation-YouGov survey
showed that the proportion of previously employed respondents that subsequently found themselves out of work (fully furloughed, unemployed or self-employed without work) fell markedly over the course of the crisis, with peaks and troughs broadly reflecting the periods of lockdown and reopening (see Figure 2).

FIGURE 2: **The share of previously employed workers who were fully furloughed, unemployed or self-employed without work fell in recent months**

Proportion of respondents who were in work in February 2020 but subsequently furloughed, unemployed or self-employed without work, by month and age-band: UK

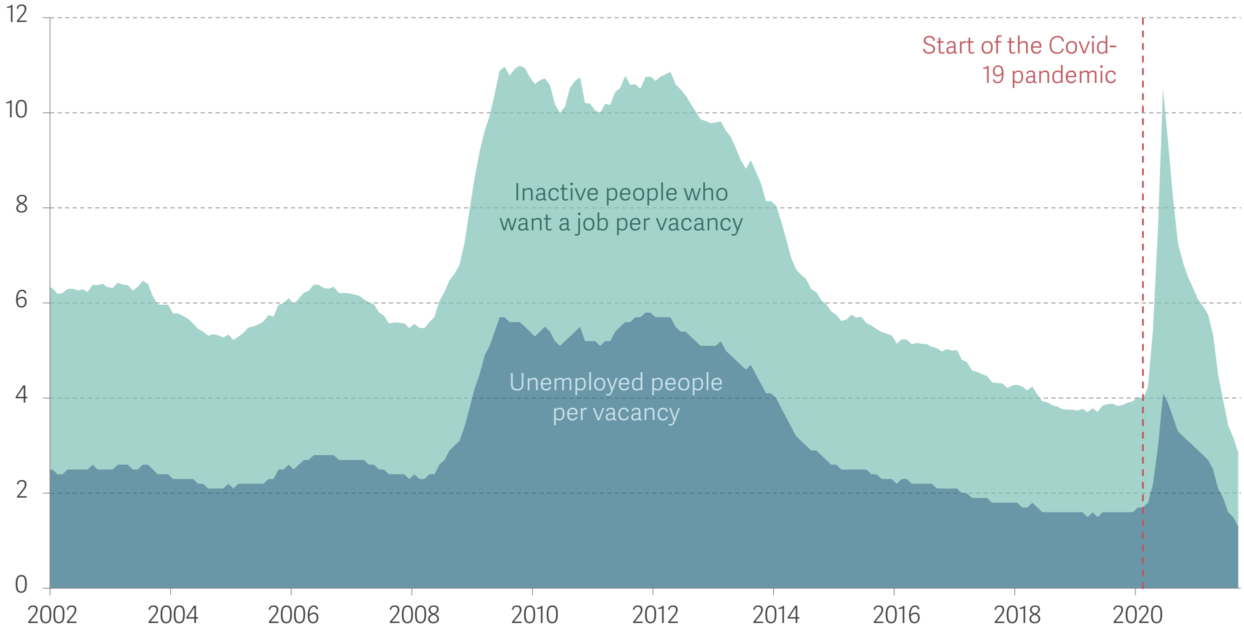


Note: Base = all 18-65-year-olds in employment in February 2020 (n=4,640). Sample sizes are as follows. Women: 18-24 = 99; 25-34 = 743; 35-44 = 634; 45-54 = 603; 55+ = 384. Men: 18-24 = 149; 25-34 = 485; 35-44 = 521; 45-54 = 597; 55-65 = 425. These figures have been analysed independently and are not the views of YouGov.
SOURCE: Analysis of YouGov, Adults aged 18-65 and the Coronavirus (Covid-19), October 2021 wave.

As restrictions began to ease over the summer, vacancies hit record highs, with over 1 million vacancies each month between July and October.
 This means that there are more opportunities for jobseekers than ever before: there were only 1.3 unemployed people per vacancy in September 2021, the lowest level since records began in the early 2000s (see Figure 3). There has also been a rise in the number of economically inactive people who say they would like a job but who were not looking for one (because, for example, they believed there were no jobs available), but taking them into account does not change our finding that the ratio of jobseekers to vacancies is at a record low.

FIGURE 3: **The number of jobseekers per vacancy is at a record low**

Number of unemployed people and inactive people who want a job per vacancy: UK



NOTES: Three-month averages, seasonally adjusted. The latest data point is July-September 2021.
SOURCE: ONS, Vacancies and unemployment; ONS, Labour market statistics.

What's more, record vacancies during the reopening have been matched by record hiring: over 2 million people moved into a new job in Q3 2021 as the economy renormalized, and flows into payrolled employment in October were at the highest level seen since at least the start of 2017 (when comparable records began).
 Some sectors have reported hiring shortages, but this is not an economy-wide problem: the time to fill a vacancy, which fell to very low levels at the weak point of the labour market when vacancies were scarce, has risen recently, but only to return to the pre-crisis level of 1.5 months.

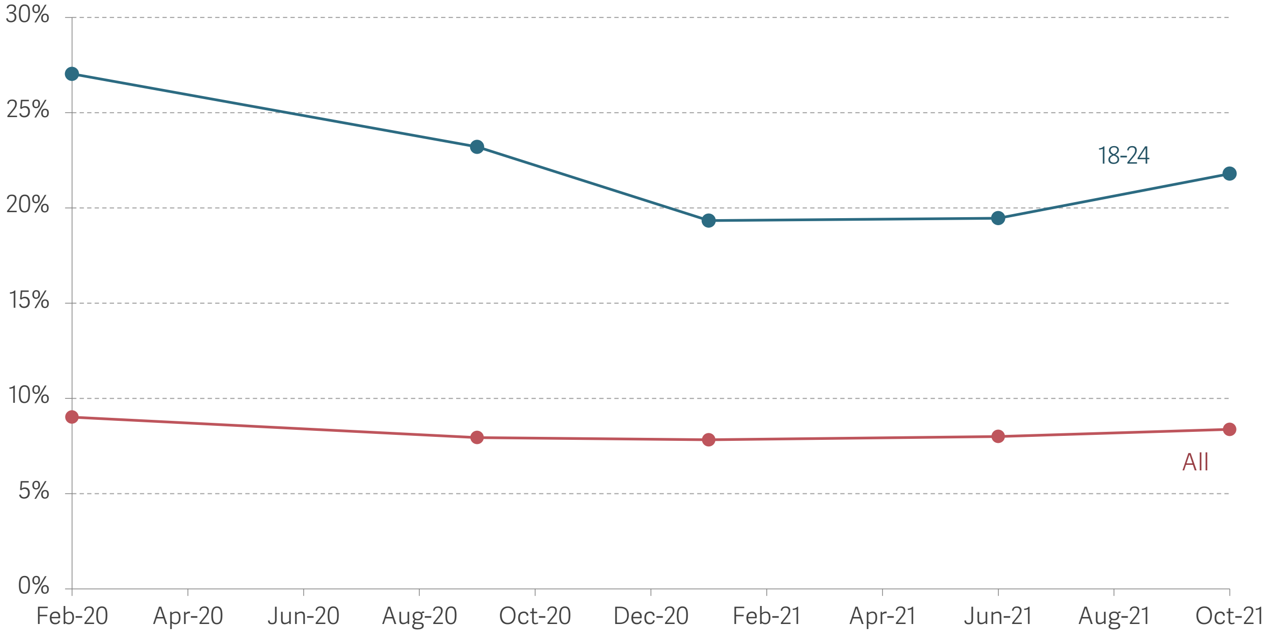
Past recessions led to rises in insecure work – and there are signs of this happening again

One of the lasting legacies of the financial crisis was a rise in the share of workers in atypical forms of work, such as zero-hours contracts and working for an agency. This was not just a feature of the weaker labour market in the immediate aftermath of the recession: on the eve of the Covid-19 pandemic, when the employment rate reached a record high, the number of people on zero-hours contracts also peaked.

Figure 4 shows the share of all working-age survey respondents, and that of 18-24-year-olds, on a temporary or zero-hours contract, or who worked for an agency between February 2020 and October 2021 (we use our own survey, rather than the Labour Force Survey (LFS), so as to provide an estimate for October 2021). As the pandemic hit, and those on insecure contracts were more likely to lose their jobs, there were fewer people in these forms of work, with particular falls among the younger age groups who were most likely to be on insecure contracts to begin with.

FIGURE 4: **Insecure work is beginning to rise among under-25s**

Proportion of 18-65-year-olds in employment who were on a temporary or zero-hours contract or who worked for an agency, by age: UK



NOTES: Base = all 18-65-year-olds in employment with valid responses for the multi-response question: 'Thinking about the last week... Which, if any, of the following applied to you?', except for the February 2020 data point (for which data was collected in January 2021), where the base is all 18-65-year-olds in employment with valid responses for the multi-response question: 'Thinking about all the paid work you did before the Coronavirus (COVID-19) outbreak started in the UK (i.e. the end of February 2020) ... Which, if any, of the following applied to you?'. Sample sizes for the 'all' line: February 2020 n=4,376; September 2020 n=4,210; January 2021 n=4,567; June 2021 n=4,505; October 2021 n=4,417. Sample sizes for the '18-24' line: February 2020 n=466; September 2020 n=345; January 2021 n=451; June 2021 n=380; October 2021 n=254. These figures have been analysed independently and are not the views of YouGov.
SOURCE: Analysis of YouGov, Adults aged 18-65 and the Coronavirus (Covid-19), various.

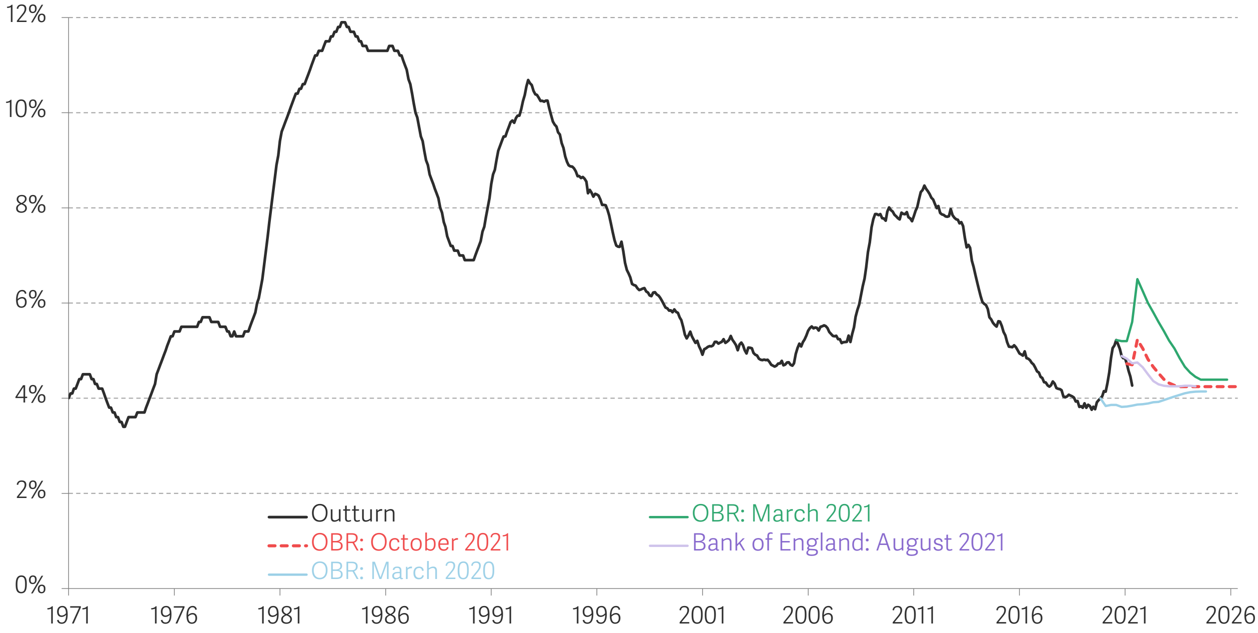
More recently, though, there are signs that the share of workers aged 18-24 on insecure contracts is beginning to rise. The rise so far is relatively small, and rates of insecure work remain below pre-crisis levels – but policy makers should keep a close eye on future trends, and be alert to the wider risk that this could rise post-pandemic, as employers seek to increase their own flexibility in times of uncertainty.

But fears of a large rise in unemployment have not come to pass

The big question for the autumn, however, has been the prospects for unemployment. Unemployment normally rises in economic downturns: the unemployment rate rose by 6 percentage points during the 1980s recession, 4 percentage points during that of the 1990s, and 3 percentage points after the financial crisis. Ahead of the JRS ending on 30 September, the UK's labour market was in a strong position in this respect, as Figure 5 shows. So far in the pandemic, the peak of unemployment has been just 5.2 per cent (in Q4 2020), only 1.2 percentage points above its pre-crisis level. More recently, the unemployment rate has been falling, reaching 4.3 per cent in the three months to September – and just 3.9 per cent in the single-month series (a timelier, albeit more volatile, measure), lower than its pre-crisis rate of 4.0 per cent.

FIGURE 5: **The OBR expects unemployment to peak this winter at just above 5 per cent, far lower than during previous crises**

Unemployment rate, age 16+, outturn and projections: UK



SOURCE: Analysis of ONS, Labour market statistics; OBR, Economic and Fiscal Outlook, various; Bank of England, Monetary Policy Report, November 2021.

And it is not just the headline unemployment measure that is recovering. The share of workers unemployed for more than six months has been falling since the spring. And after peaking in the summer of 2020, youth unemployment fell to 11.7 per cent in the three months to September – just below its pre-pandemic level (11.8 per cent).

Figure 5 also shows that this optimistic picture has been reflected in official forecasts. Last month, the Office for Budget Responsibility (OBR) forecasted unemployment to peak at 5.2 per cent in Q4 2021 immediately after the end of the JRS, down from a peak of 6.5 per cent that it forecast in March. Similarly, the Bank of England is also expecting only a small rise in unemployment this quarter.

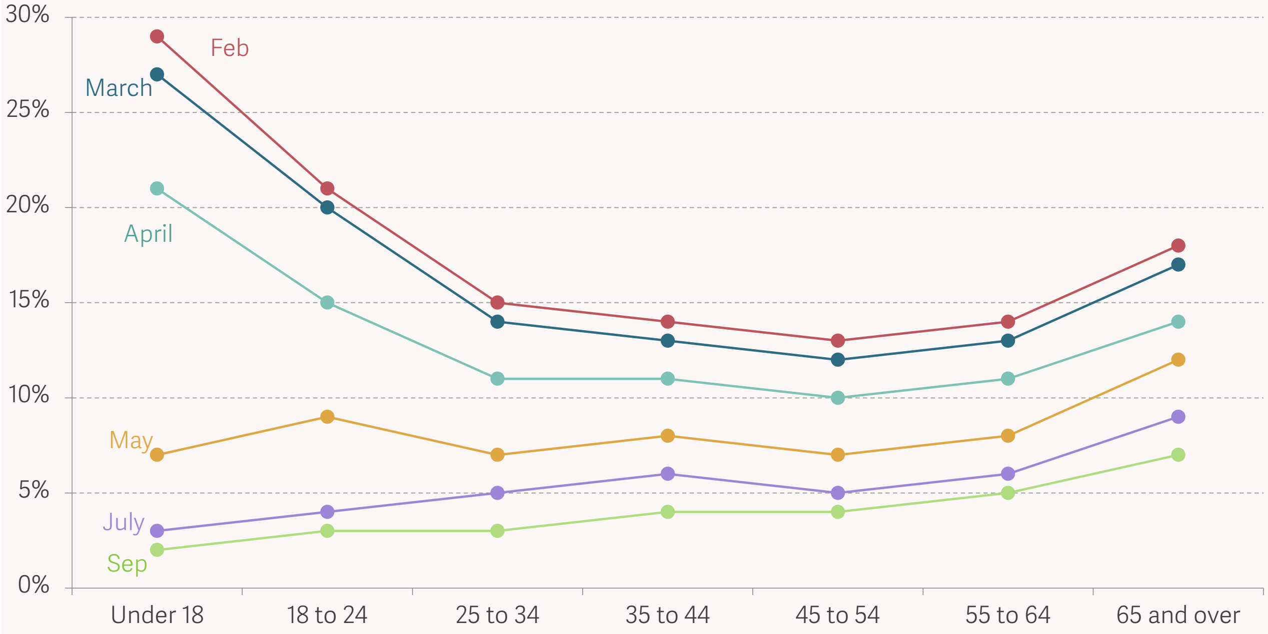
These improved forecasts reflect the positive set of labour market indicators recently, as described above. But a key uncertainty for all forecasters has been what would happen to the 1.1 million workers (about 4 per cent of the workforce) who were either fully or partially furloughed as the JRS closed at the end of September. There are now various indications, including new survey evidence from furloughed workers collected by us in the first half of October, that the impact on unemployment is small: we discuss these in Box 1.

BOX 1: **The end of furlough**

As the furlough scheme came to an end in September 2021, around 1.1 million workers were either fully or partially furloughed, with rates of furlough remaining very high in sectors such as passenger air transport (36 per cent) and travel agencies (35 per cent).

The number of workers on furlough had been falling since January 2021, and this fall had tilted the age profile of those remaining on furlough towards older workers (rather than being concentrated on younger workers, as was the case during 2020). Figure 6 shows that the share of employees aged 55-64 (5 per cent) and 65 and older (7 per cent) on furlough in September were both larger than any of the other age groups (between 2 and 4 per cent). This is worrying given that older workers tend to take longer to return to work than their younger counterparts, and they often return on lower pay.

FIGURE 6: **At the end of the furlough scheme, older workers were more likely to be furloughed than younger workers**



Proportion of employees furloughed, by age: UK, February 2021 to September 2021
SOURCE: Analysis of HMRC, Coronavirus Job Retention Scheme statistics: 4 November 2021.

Indirect evidence about what happened post-furlough is available from research by Indeed, that showed only a small increase in the proportion of workers who were urgently searching for a new job during October.[1] Additionally, across the whole economy, there was an increase of 160,000 payrolled employees between September and October, as a slight increase in outflows was more than matched by high inflows.[2] Positive evidence is also available from the ONS' Business Insights and Conditions Survey (BICS), which suggests that 3 per cent of furloughed workers left their employer voluntarily and only 3 per cent were made redundant.[3] Although the BICS study has proven to be an accurate guide to the number of furloughed employees throughout this crisis, this number is extremely low, and may reflect that the survey is completed by businesses, rather than employees.

We fielded a survey in October that asked adults about their current and previous labour market statuses. This is the first survey that we know of that asks employees themselves about their post-furlough labour market outcomes. Looking directly at respondents who were furloughed in September, the vast

1 J Kennedy, Indeed Job Search Survey October 2021: Minimal Uptick in Search Urgency after End of Furlough, Indeed, November 2021.
2 Office for National Statistics & HM Revenue & Customs, Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted, November 2021. For more discussion, see: G Thwaites, Two-and-a-half cheers for the UK's post-furlough labour market, Resolution Foundation, November 2021.
3 Office for National Statistics, Business insights and impact on the UK economy, November 2021.

majority (88 per cent) were in work in the first half of October, leaving 11 per cent who were not in work (3.4 per cent were unemployed, and a further 8.5 per cent were not active in the labour market); this is broadly consistent with a Bank of England/ NMG survey of households in September that showed around 10 per cent of furloughed respondents expected to lose their job at the end of the scheme.[4] Applied to the 1.1 million we know were furloughed at the end of September, then that would mean 136,000 of those furloughed in September were not working in the first half of October (with a small rise in unemployment of around 39,000, and a larger rise in inactivity of 97,000).

Part of the reason why a relatively high fraction of those furloughed in September were in work in October is that some had already found another job: estimates from past surveys we have fielded during the pandemic show that around 15 per cent of workers on furlough since June 2021 were already working in another job (i.e. they were on furlough with one employer and working for another).

But the more important reason is that post-furlough outcomes vary considerably between partially and fully furloughed workers. Regression analysis shows that, even after controlling for age, education, industry group and pre-crisis pay, those furloughed in September had worse outcomes in October than those employed normally in September, with furloughed workers six times more likely to be out of work than those employed normally. This result is being driven entirely by fully furloughed workers, with partially furloughed workers – who comprised 44 per cent of the total on furlough at the end of September – no more likely than those employed normally in September to have lost their job in October.

For the labour market as a whole, the impact of ending the JRS seems to be small, chiefly reflecting the (sensible) decision taken by the Chancellor in March to continue the JRS well after all restrictions on economic activity had been lifted (after repeated unhelpful prevarication on this issue in 2020). But we should not overlook that the end of the JRS scheme will have led to redundancies for some, with any move out of work coinciding with the cut to core levels of Universal Credit by £20 a week.

4 Reported in: Bank of England, Monetary Policy Report, November 2021.

Of course, workers furloughed in September are not the only potential source of rises in unemployment in the autumn: struggling firms may have made other parts of their workforce redundant, for example, and the end of the Self-Employment Income Support Scheme may have pushed formerly self-employed workers into job-seeking. But in line with expectations (Figure 5), our survey does not show a big rise in unemployment: it suggests that the rate of unemployment among working-age adults was just 0.5 percentage points higher in mid-October than it was in August 2021. As a rough estimate, this is equivalent to around 170,000 more people searching for work.[5]

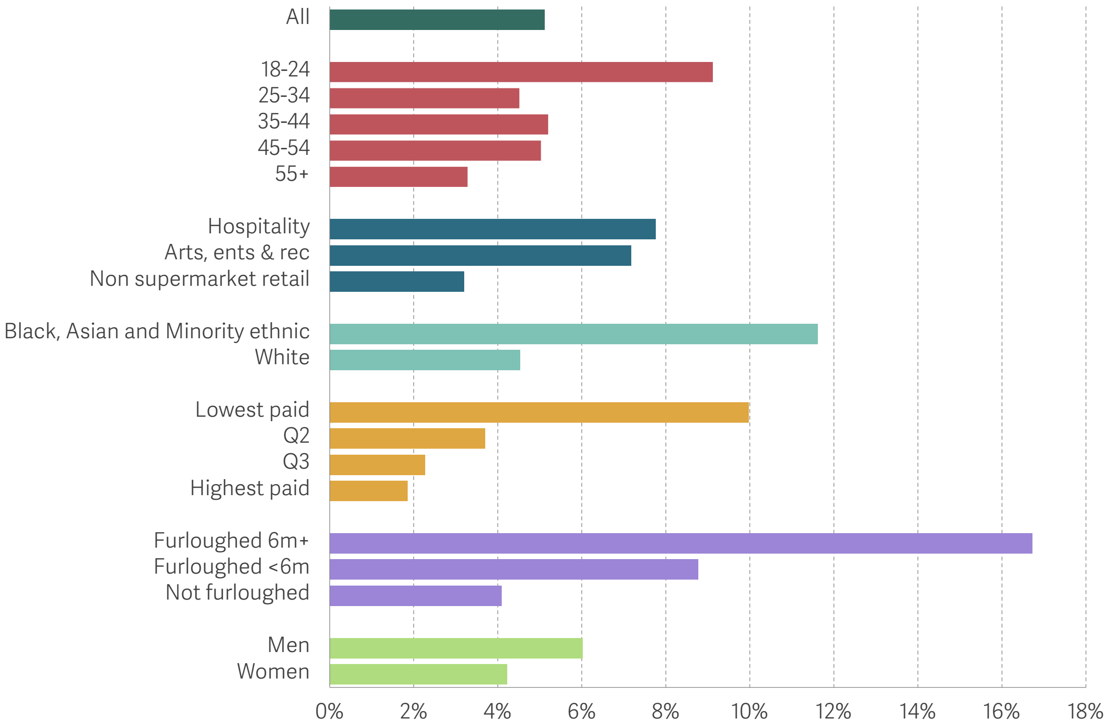
Formerly-furloughed workers are more likely to expect to lose their jobs

Policy makers should not be complacent about unemployment, though. In October, one-in-20 workers who responded to our survey (5 per cent) feared for their jobs (Figure 7). Unsurprisingly, younger workers, low-paid workers and those in certain sectors were more likely to think their job would not last than others; this reflects the nature of work in those sectors and the higher fraction of short-term or insecure work. But the fraction expecting to lose their job was also far higher among formerly furloughed workers: among those employed in October, one-in-six (16 per cent) workers who had spent more than six months on furlough over the course of the scheme (but who were working normally in October) expected to lose their job in the following three months. This suggests that, while the number of workers losing their jobs at the end of the JRS has been relatively small, previously-furloughed workers remain more at risk than others of future job losses.

5 This calculation assumes that the 16+ unemployment rate rises from its June-August rate of 4.5 per cent to 5.0 per cent, with no change in the size of the economically active population.

FIGURE 7: **One-in-twenty workers in October expected to lose their job by the end of 2021**

Proportion of 18-65-year-olds employed in October 2021 who expect to lose their job in the next three months: UK, data collected 14-24 October



NOTES: Base = all adults aged 18-65 who were employed in October 2021 (n = 4,476). Base by categories: 18-24 n=486; 25-34 n=1163; 35-44 n=1055; 45-54 n=1100; 55+ n=672; Hospitality n=144; Arts, ents & rec n=146; Non supermarket retail n=194; Black, Asian and Minority ethnic n=355; White n=3957; Lowest paid n=804; Q2 n=810; Q3 n=809; Highest paid n=721; Furloughed 6m+ n=80; Furloughed <6m n=764; Not Furloughed n=3631; Men n=2227; Women n=2249. Due to low sample size we are unable to further disaggregate ethnicities categorised under 'Black, Asian and minority ethnic'. These figures have been analysed independently and are not the views of YouGov.
SOURCE: Analysis of YouGov, Adults aged 18-65 and the Coronavirus (Covid-19), October 2021 wave.

Much of the fall in self-employment represents reclassification, rather than a change in economic activity

Self-employment appears to have fallen since the start of the Covid-19 pandemic: estimates from the LFS are that 762,000 fewer people are self-employed since the start of the pandemic, with around three-fifths (61 per cent) of those who have left self-employment each quarter from Q2 2020 moving into an employee job.[6]

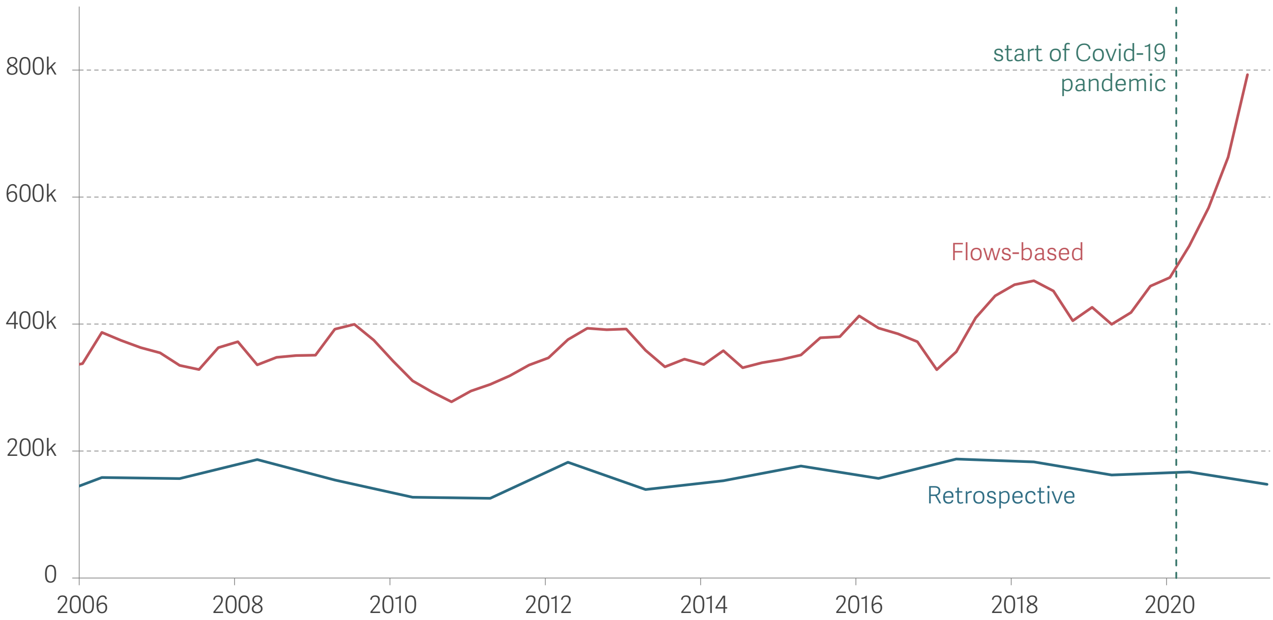
There are good reasons why the pandemic might have prompted people to switch from being self-employed to being an employee. First, the crisis threw into sharp relief the

6 Office for National Statistics, X02: Labour Force Survey Flows estimates, November 2021.

risks of self-employment compared to being an employee.[7] Second, even though the Chancellor announced the Self-Employment Income Support Scheme as something intended to mirror the JRS, he said that the grants came with a quid pro quo of higher taxes on self-employment after the crisis.[8] Additionally, recent changes to tax regulations appear to be encouraging some people to register as employees rather than self-employed, resulting in some genuine changes in status.[9]

FIGURE 8: **Observed moves from self-employment to employee jobs are largely down to reclassification**

Number of 16-70-year-olds who were self-employed a year ago and are now in an employee job, by measure: UK



NOTES: Data points for the retrospective measure cover April-June of each year and the latest data point covers Q2 2021. Data points for the flows-based measure are quarterly rolling averages and the latest data point covers the four quarters to Q1 2021. The flows-based measure is based on the five-quarter longitudinal LFS which has not yet been reweighted by the ONS with the latest weighting methodology and the retrospective measure is based on the quarterly LFS (but the trends look very similar when the retrospective measure is constructed in the five-quarter longitudinal LFS). Start of the Covid-19 pandemic = February 2020.
SOURCE: Analysis of ONS, Labour Force Survey; ONS, Labour Force Survey Five-Quarter Longitudinal Datasets.

Overall, however, the fall in self-employed people that we have seen so far in the LFS does not seem to reflect a major change in the sort of activity that workers are actually engaging in. In Figure 8, we compare two ways that the LFS measures the share of last

7 As of September 2021, self-employed workers' incomes and profits were still below pre-crisis levels, despite recovery in the wider economy and among employees. See: R Blackburn, S Machin & M Ventura, Covid-19 and the self-employed - 18 months into the crisis, Centre for Economic Performance, November 2021.
8 T Bell & H Slaughter, Crystal balls vs rear-view mirrors: The UK labour market after coronavirus, Resolution Foundation, April 2020; HM Treasury, Chancellor's statement on coronavirus (COVID-19), March 2020.
9 See, for example: IPSE, Taking stock: Assessing the impact of IR35 reforms in the private sector, accessed November 2021.

year's self-employed cohort who are now in an employee job. The flows-based measure – which looks at the number of people who said that they were self-employed in their first LFS interview but in an employee job when interviewed a year later – has risen sharply since the pandemic hit. But the share of people who simultaneously recall being self-employed a year ago and say that they are now in an employee job has barely changed since the start of the crisis.[10] (This reinforces findings from the ONS that the number of people who had switched status from self-employed to employed and said that they had changed jobs had not increased from pre-pandemic levels.[11]) This suggests that the way people think about the activity they are doing is changing. This could be, for example, because those who paid themselves through PAYE, and so could furlough themselves if their business was affected by the crisis, started to perceive themselves as employed.

But the impacts of the Covid-19 pandemic remain unequal

Low levels of unemployment and strong demand for vacancies do not mean, though, that we can ignore that impact that the pandemic has had on the labour market. As has been shown by our detailed reports on the labour market since the pandemic began, those that have been hit by the labour market shock have tended to have been in lower-paid or more precarious labour market positions.[12] As Figure 9 shows, experience of labour market disruption during the pandemic – which we characterise as three or more months of any of unemployment, absence of work for self-employed, or full-furlough – was disproportionately experienced by workers in certain sectors, by younger (and to some extent, older) workers, by the low paid, and by ethnic minority groups.[13]

This section has shown that, while there has been widespread disruption to the labour market over the past 20 months disproportionately affecting the youngest and oldest workers, the low-paid and those in precarious employment situations, high unemployment, thankfully, will not be the primary lasting challenge for the labour market post-pandemic. However, unemployment is not the only destination for those who lose their job: the other possibility is economic inactivity and in the next section, we consider economic inactivity (and its converse – labour force participation) in more detail.

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10 We note that each of these measures has its own caveats, which mean that even before the pandemic the flows-based measure was twice as high as the retrospective measure. We therefore focus on the recent diversion between the two rather than the absolute levels.

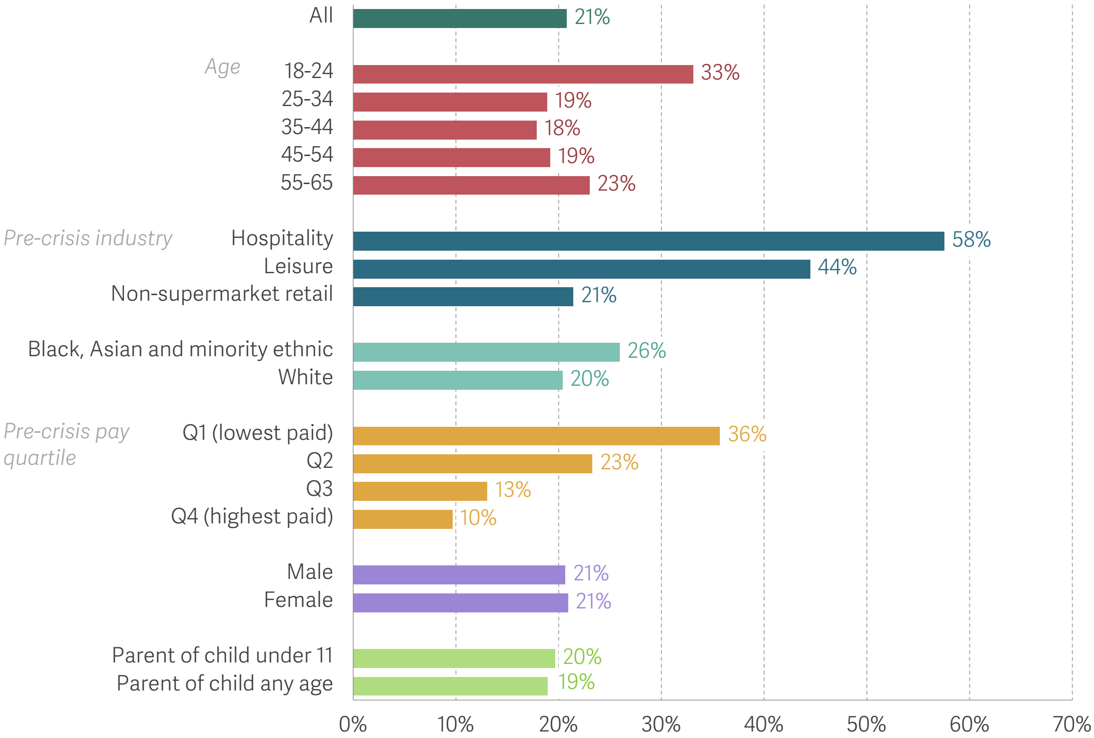
11 D Leaker, Painting the full picture: What our statistics tell us about the labour market, National Statistical, January 2021.

12 See, for example: N Cominetti, L Gardiner & H Slaughter, The Full Monty: Facing up to the challenge of the coronavirus labour market crisis, Resolution Foundation, June 2020; N Cominetti et al., Long Covid in the labour market: The impact on the labour market of Covid-19 a year into the crisis, and how to secure a strong recovery, Resolution Foundation, February 2021; N Cominetti, C McCurdy & H Slaughter, Low Pay Britain 2021, June 2021; and K Handscomb, K Henehan & L Try, The Living Standards Audit 2021, Resolution Foundation, July 2021.

13 The survey was not large enough to report results for specific ethnic minority groups.

FIGURE 9: **Since February 2020, one-in-five workers employed before the onset of Covid-19 experienced a period of unemployment, full furlough or being self-employed without work for three or more months**

Proportion of respondents who were in work during February 2020 but subsequently went on to experience three months or more of unemployment, full furlough or being self-employed without work: UK, data collected 14-24 October 2021



NOTES: Base = all adults aged 18-65 who were employed in February 2020 (n = 4,640). Base by categories: 18-24 = 248; 25-34 = 1,228; 35-44 = 1,155; 45-54 = 1,200; 55+ = 809; Leisure = 171; Hospitality = 148; Non-supermarket retail = 115; Black, Asian and minority ethnic = 343; White = 4,118; Q1 (lowest paid) = 718; Q2 = 935; Q3 = 928; Q4 (highest paid) = 890; Male = 2,177; Female = 2,463; Parent of child under 11 = 1,017; Parent of child any age = 2,224. We use the shorthand 'leisure' to refer to the industry 'arts, entertainment and recreation'. Due to low sample size we are unable to further disaggregate ethnicities categorised under 'Black, Asian and minority ethnic'. These figures have been analysed independently and are not the views of YouGov.
SOURCE: Analysis of YouGov, Adults aged 18-65 and the Coronavirus (Covid-19), October 2021 wave.

Section 3

The implications of Covid-19 for labour force participation and inactivity

The last section showed that unemployment is not expected to rise dramatically, as had been feared earlier in the crisis. But the employment rate has, nonetheless, fallen, with many of those who have lost work becoming economically inactive, with an additional 364,000 working-age inactive, and 586,000 overall. The resulting fall in labour force participation has been sharper than previous crises, and has begun to reverse the trend of the past decade. This could have a lasting impact on the labour market, leading to scarring that affects those individuals' future living standards, and our potential future growth rates.

This overall fall in participation hides a complex picture, however. Older people – particularly women – have been more likely to leave the labour force than in previous crises, with by participation down by 1.2 percentage points among 55-64-year-olds since mid-2019. In younger age groups, there is a sharp gender divide to labour force participation: among adults aged 25-44, labour force participation among men has gone down by 1.1 percentage points, but it is up by 1.8 percentage points among women, particularly among mothers. Women now make up almost 48 per cent of the workforce, up from 47 per cent in 2019, and 44 per cent in 1992. In part, this reflects the sectoral shifts over the last two years, which, on balance, have favoured female-heavy sectors at the expense of male-heavy ones, even allowing for the declines in hospitality and retail. But it is also driven by the need for women to work more to make up for household income shocks, and enabled by the greater ease of combining work with family commitments that comes with remote working. Finally, 600,000 working-age adults say that they are working less because of long Covid or fear of the virus – with around half of those saying they do not expect to up their working hours within the next six months. But there has been little change in the number of people leaving the workforce each year for health reasons more broadly – suggesting that any exits from the workforce due to Covid-19 have been offset either by reductions in other health problems or by changes to work (such as remote working) supporting those with other conditions to remain in employment.

Employment falls during the pandemic have shown up in rising inactivity

The success of the JRS has been one factor in holding down the unemployment rate. But not all people who leave their jobs become unemployed: the alternative is to leave the labour force entirely by moving into inactivity.[14]

Since the crisis began, the number of working-age people (aged 16-64) in employment has fallen by 541,000, but unemployment has hardly changed, rising by only 83,000 among this age group: instead, inactivity has risen by 364,000 (while inactivity among all age groups has risen by 586,000).[15] In particular, the first year of the Covid-19 crisis led to a larger fall in labour market participation among working-age adults than any other crisis in the last four decades (see Figure 10). Participation among 16-64-year-olds fell by 0.6 percentage points in the first year of the Covid-19 crisis, compared to 0.5 percentage points in the 1990s recession and rises of 0.2 percentage points at similar points in each of the 1980s recession and the financial crisis. Not only is this comparable to the worst recession of the past 40 years, but it also turns the pre-crisis trend on its head: participation rose by 3.4 percentage points (to 79.8 per cent) in the decade prior to the pandemic.[16] While it is now beginning to level off, the fall in participation has not been given enough attention: it is higher, for example, than some estimates of the number of migrants who have left the UK during the pandemic,[17] a factor which has been cited as a cause of the labour shortages that businesses in some sectors have been reporting.[18]

14 Economic inactivity is defined by the ONS as 'people not in employment who have not been seeking work within the last 4 weeks and/or are unable to start work within the next 2 weeks'. See: Office for National Statistics, Economic inactivity, accessed November 2021. The labour force participation rate is the proportion of people who are economically ***active*** – that is, those who are either in employment or unemployed (i.e. actively seeking and available for work).

15 Among all adults aged 16+, the number of people in employment has fallen by 550,000 and the number of unemployed people has risen by 83,000,. The ONS has published alternative measures of employment, unemployment and inactivity using a different imputation methodology, which alters the headline inactivity and employment rates slightly. Figure 10 presents the headline measures; however, the figures using alternative imputation would not change the conclusions we come to in this report. For more details, see: Office for National Statistics, Labour Force Survey: alternative imputation during the coronavirus (COVID-19) pandemic, November 2021.

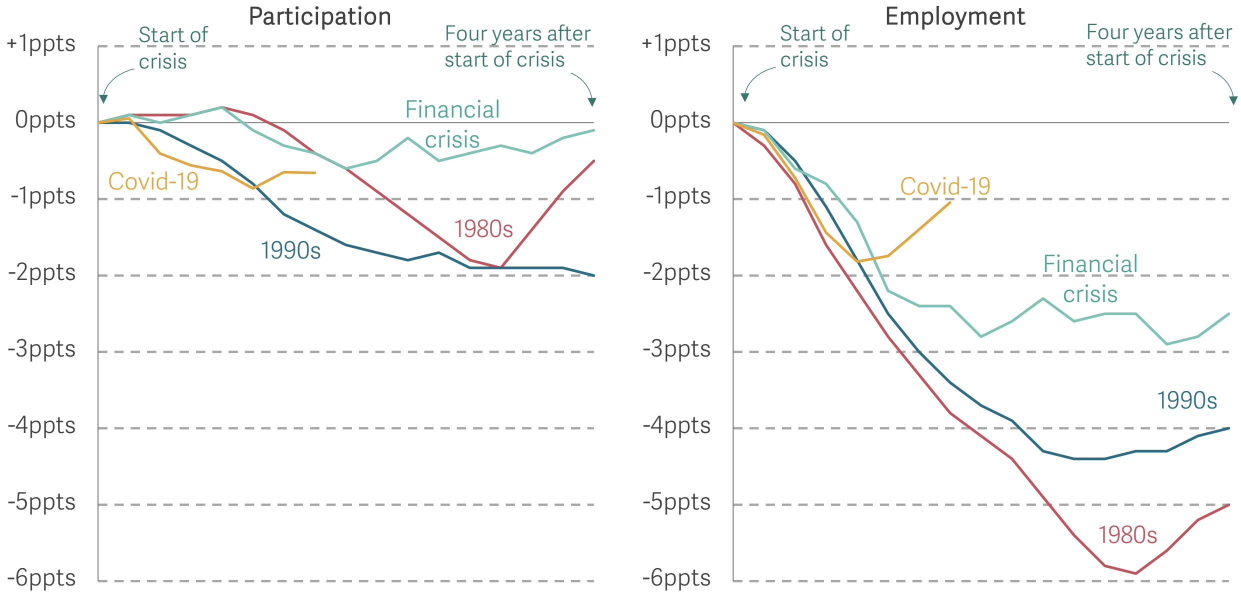
16 Compares December-February 2010 with December-February 2020. See: Office for National Statistics, A01: Summary of labour market statistics, November 2021.

17 For example, see: G Thwaites, Migration during the pandemic: Have 1.3 million migrants really left the country?, Resolution Foundation, March 2021. The latest assessment from the OBR is that net migration changes since the pandemic began have reduced the population by 170,000: see Office for Budget Responsibility, Economic and Fiscal Outlook, October 2021.

18 See, for example: BBC News, Staff shortages could last two years, says CBI, September 2021.

FIGURE 10: **Working-age participation has fallen faster than in previous crises**

Percentage point change in labour force participation and employment rates among 16-64-year-olds, in the four years after the start of recent economic crises: UK



NOTES: Periods shown date from Q1 1980 (1980s crisis), Q2 1990 (1990s crisis), Q1 2008 (financial crisis) and Q4 2019 (Covid-19).
SOURCE: Analysis of ONS, Labour market statistics.

And, although falls in participation have since stalled, the participation rate remains 0.7 percentage points below its pre-pandemic level. This is despite a lower fall in employment than recent crises, as the right-hand panel of Figure 10 shows (although the relatively small fall in employment during the pandemic masks a far larger fall in the number of people doing any work, thanks to the JRS).

This fall in participation may be a temporary break for some people, but others may leave the workforce permanently – and this would lead to a longer-term macroeconomic hit (see Box 2). This would be worrying, given that higher employment was a key contributor to what little household income and GDP per capita growth we did experience in the 2010s.[19]

19 A Corlett et al., The Living Standards Audit 2019, Resolution Foundation, July 2019.

BOX 2: **Official forecasters are concerned about the scarring effects of reduced labour supply**

The OBR was considering the level of economic inactivity in its assessment of by how much the pandemic has reduced potential GDP – the extent of 'scarring' done to the economy. Its latest assessment is that declines in labour force participation are responsible for 0.3 percentage points of the 2 per cent scarring that it now expects.[20] It says that it expects the observed decline in participation among older workers to be permanent, and that there will further declines driven by the health consequences of the pandemic (which we discuss later in this section). But it notes the possibility that home working could allow more people with caring responsibilities to participate in the labour market.

The Bank of England has said that its central estimate is for much of the fall in participation during the pandemic to be temporary, although it notes a risk that Covid-19 accelerates the trend of declining labour force participation.[21] It expects participation among older age groups to recover, being driven (in its view) by perceived health risks. It also thinks that the increased participation of women is likely to be permanent. On the other hand, it acknowledges that participation among young people could remain subdued, and that the pandemic has led to some workers to "re-evaluate their priorities", which could lead to some to retire early.

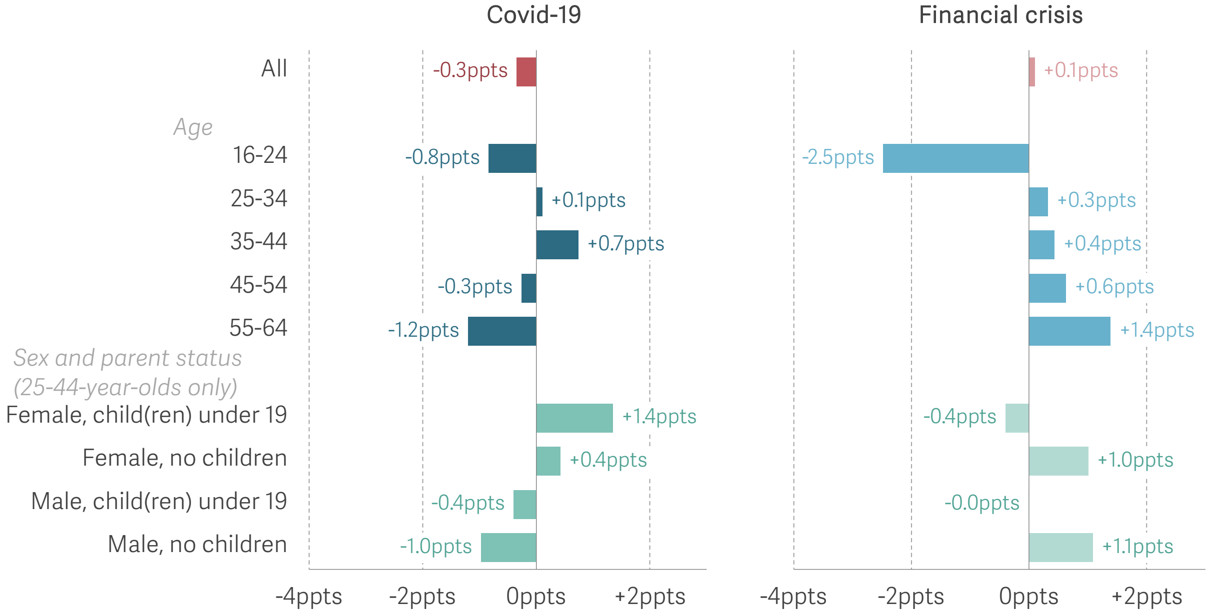
The youngest and oldest workers have seen the biggest falls in participation, but women overall have seen participation rates rise

Figure 11 takes a closer look at how participation rates have changed for different groups of working-age adults, and how these compare to the experience after the financial crisis.[22] (In Box 3, we explore how the UK compares to other countries in this respect.)

20 Paragraph 2.33 of Office for Budget Responsibility, Economic and Fiscal Outlook, October 2021.
21 See p47 of: Bank of England, Monetary Policy Report, November 2021.
22 For further discussion of the changes in activities for different reasons, see Box 1 of: J Leslie et al., The Uncertainty Principle: Previewing the decisions to be taken at the Autumn Budget and Spending Review 2021, Resolution Foundation, October 2021.

FIGURE 11: **The youngest and oldest workers, and men without children, have seen the biggest falls in participation**

Percentage point change in labour force participation rates among 16-64-year-olds, in the two years since the start of the Covid-19 crisis and the financial crisis: UK



NOTES: The Covid-19 panel compares the three months to August 2019 with the three months to August 2021, and the financial crisis panel compares the three months to August 2007 with the three months to August 2009.
SOURCE: Analysis of ONS, Labour Force Survey.

Figure 11 shows that the overall fall in participation hides a complex picture. First, it shows that the fall is concentrated among the youngest and oldest workers: the fall in the participation rate during the Covid-19 crisis among 16-24-year-olds has been more than twice as high as the overall participation fall, and that of 55-64-year-olds has been more than three times the average. By contrast, labour force participation is up among 25-44-year-olds. Second, labour force participation among women has risen (among those both with and without children) while it has fallen among men: this continues the pre-crisis trend of increasing female labour force participation, and means that women now make up almost 48 per cent of the workforce, up from 47 per cent in 2019, and 44 per cent in 1992.[23] In what follows, we first discuss the changes among younger and older workers, before coming on to the differences between men and women.

23 Office for National Statistics, A01: Summary of labour market statistics, November 2021.

BOX 3: International comparisons of participation

The labour market impacts of the Covid-19 pandemic have differed substantially between countries. Not only does each country's labour market have a different sectoral and demographic make-up and a wide range of existing institutions, but there were a wide range of policy responses to the crisis, in terms of both stringency of restrictions and available support measures.

The international evidence suggests that the UK is not unique in seeing falls in labour force participation. The European Central Bank (ECB) finds that the trend among both the Euro area and an aggregated group of other advanced economies was a sharp fall in participation as the pandemic hit, followed by a gradual recovery.[24] Overall, the International Labour Organization estimates that out of a total global employment loss of 114 million, almost three-quarters (71 per cent) moved into inactivity, with the remainder becoming unemployed.[25]

Where the UK does stand out, on the other hand, is in how the impacts have differed between men and women. Figure 14 shows that British women's participation has risen since the onset of the pandemic; globally, however, women's participation has fallen – and by more than that of men. In fact, out of 19 countries presented by the World Economic Forum, the UK is one of only two where women's participation actually rose between the start of the pandemic and Q3 2020.[26] In some countries, including the US, schools took longer than they did in the UK to reopen, something that has pushed primary caregivers (who are more likely to be women) out of the workforce.[27] Additionally, the variation in the changes in the female participation rate could reflect the fact that the economic drivers differ between countries. Globally, for example, the disproportionate hit to women is linked to the fact that they are over-represented in sectors like hospitality and leisure that have been hardest hit by the crisis;[28] in the UK, though, there is little relationship between the sectors where women work and those that have seen job losses during the pandemic.[29]

24 The 'other advanced economies' group comprises Australia, Canada, Denmark, Switzerland, Japan, New Zealand, Norway, Sweden, the United Kingdom and the United States. See: European Central Bank, Economic Bulletin Issue 7: Update on economic, financial and monetary developments, November 2021; J Doleschel & A Manu, Scarring effects of the COVID-19 pandemic on the global economy – reviewing recent evidence, European Central Bank, November 2021.
25 International Labour Organization, ILO Monitor: COVID-19 and the world of work (seventh edition), January 2021.
26 The other one was Iceland, where women's participation rose very marginally, and men's participation saw a larger rise. See: World Economic Forum, Global Gender Gap Report 2021: Impact of the COVID-19 pandemic on economic gender gaps, March 2021.
27 S Djankov, T Trumbic & E Zhang, The gender gap and COVID-19: Evidence from eight advanced economies, VoxEU, December 2020.
28 S Djankov, T Trumbic & E Zhang, The gender gap and COVID-19: Evidence from eight advanced economies, VoxEU, December 2020.
29 H Slaughter, Labour Market Outlook Q2 2021, Resolution Foundation, June 2021.

Younger adults are riding out the recession in full-time education, but the first part of the pandemic also saw a fall in the proportion of students who were also in paid work

Comparing the two panels of Figure 11 makes clear that younger workers leaving the labour force during a recession is a pattern seen in past crises.[30] In addition, the shutdown of sectors like hospitality and much of retail has also led to falls in the number of people working while studying.[31] This means that the fall in inactivity among students is likely to be temporary, and not too much of a concern for policy makers[32] – and, indeed, students' employment began to recover over the summer thanks to the economic reopening.[33]

Older workers have reduced their labour force participation, in contrast to the experience of the past decade

Figure 11 shows that older people (aged 45-64) have reduced their labour force participation during the pandemic.[34] This is very different from the experience after the financial crisis, when their participation rose; it is also different from the experience of the decade prior to the pandemic, when those aged over 50 accounted for 88 per cent of the increase in the total labour force.[35] And this is worrying because, even in normal economic times, older workers tend to have worse outcomes when they lose their job: they are more likely to leave the workforce entirely, as well as taking longer to find a new job and risking substantial pay cuts when they do.[36]

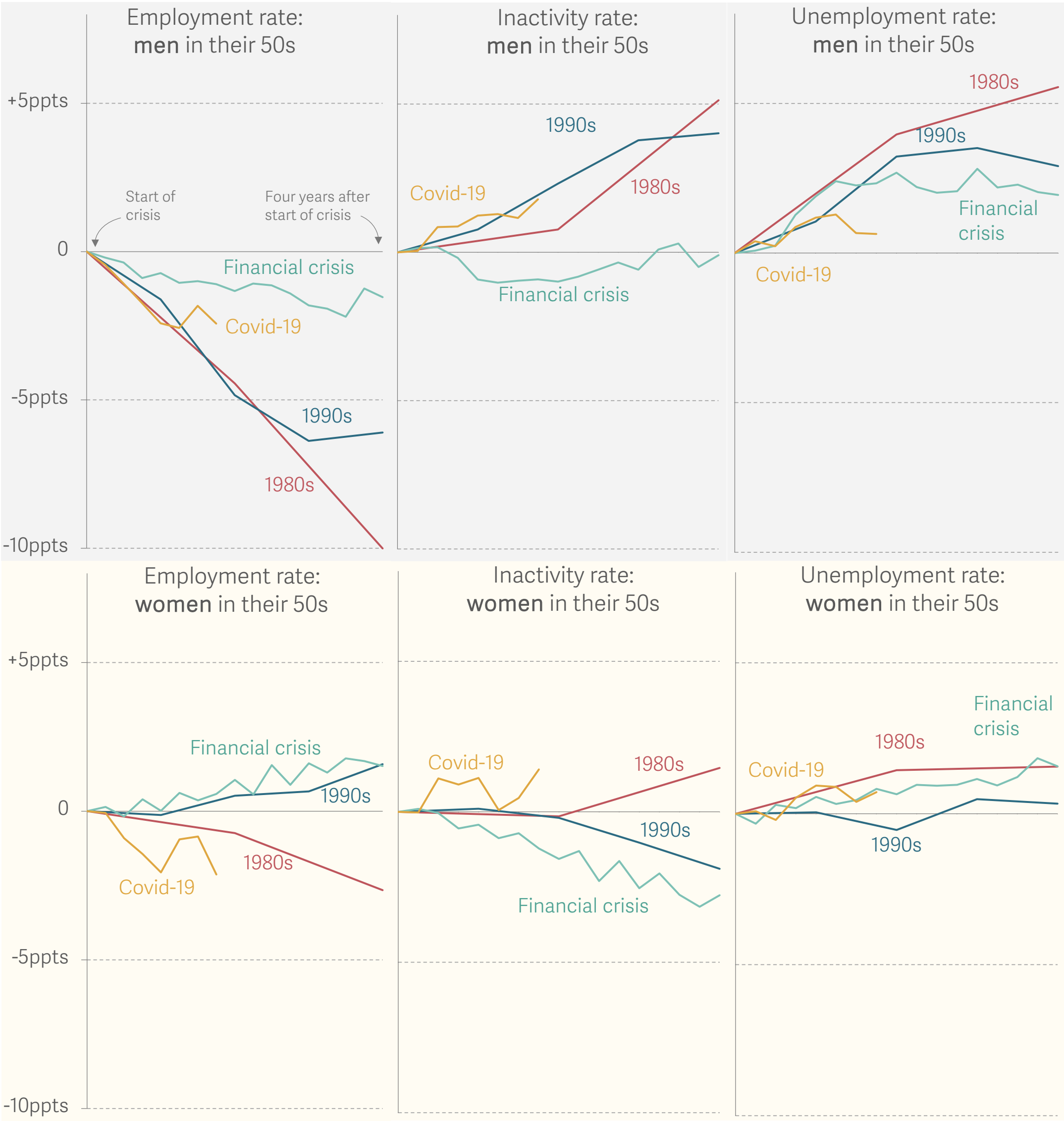
Figure 12 extends the comparison in Figure 11 to show how employment has fallen, and unemployment and activity risen, for both men and women in their 50s during the Covid-19 crisis and the previous three recessions.[37] The labour market outcomes for older men in the pandemic are broadly in line with previous crises, but those for older women have been worse. Historically, women in this age group have been only marginally affected by economic downturns, with employment rates rising, even, through the financial crisis and the 1990s recession, for example. But in the pandemic, women in their

30 See: S Clarke, Growing pains: The impact of leaving education during a recession on earnings and employment, Resolution Foundation, May 2019; K Henehan, Class of 2020: Education leavers in the current crisis, Resolution Foundation, May 2020.
31 K Henehan et al., An intergenerational audit for the UK: 2021, Resolution Foundation, October 2021.
32 See Box 1 of: J Leslie et al., The Uncertainty Principle: Previewing the decisions to be taken at the Autumn Budget and Spending Review 2021, Resolution Foundation, October 2021.
33 Office for National Statistics, A06 SA: Educational status and labour market status for people aged from 16 to 24 (seasonally adjusted), November 2021.
34 Figure 7 showed that, in September, the risk of furlough rose with age, and we showed in June that the over-45s were more likely than other age groups to have been furloughed for long periods of time. See: K Handscomb, K Henehan & L Try, The Living Standards Audit 2021, Resolution Foundation, July 2021.
35 Office for National Statistics, A01: Summary of labour market statistics, November 2021.
36 N Cominetti, A U-shaped crisis: The impact of the Covid-19 crisis on older workers, Resolution Foundation, April 2021.
37 We look only at those aged 50-59 as the state pension age was 60 for women in the 1980s and 1990s crises. A version of this chart first appeared in: N Cominetti, A U-shaped crisis: The impact of the Covid-19 crisis on older workers, Resolution Foundation, April 2021.

50s saw employment fall by 2.1 percentage points (to 73.8 per cent), unemployment rise by 0.7 percentage points (to 2.4 per cent), and inactivity rise by 1.4 percentage points (to 23.8 per cent).

FIGURE 12: **The Covid-19 crisis has been worse for older women's employment than any recent recession**

Percentage point change in employment, inactivity and unemployment rates among men and women in their 50s, in the four years after the start of recent economic crises: UK

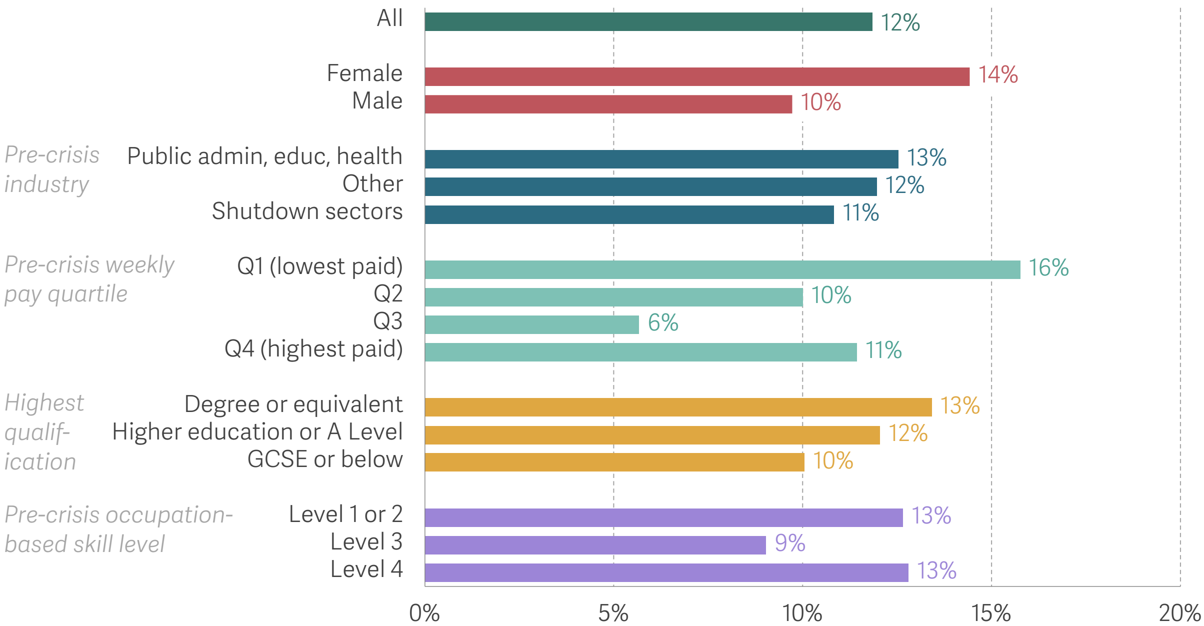


NOTES: Charts show four years from the start of each period. Periods covering the 1980s and 1990s do not perfectly align with the start of those downturns due to data availability. Periods shown date from 1979 full year (1980s crisis), 1990 full year (1990s crisis), Q1 2008 (financial crisis) and Q4 2019 (Covid-19). The employment and inactivity rates are expressed as a proportion of the population; the unemployment rate is expressed as a proportion of the economically inactive, i.e. those that are either employed or unemployed. The latest data point covers July-August 2021.
SOURCE: Analysis of ONS, Labour Force Survey.

In Figure 13, we look at which groups of older workers in our survey have been most likely to leave employment since the start of the pandemic. Older women employed before the pandemic have been slightly more likely to leave employment (14 per cent) than older men (10 per cent). But the figure also shows that leaving the labour force does not seem to be concentrated in any particular group. In particular – and unlike the incidence of employment disruption generally – it is not concentrated among those in the hardest-hit sectors, nor is it found among those with lower skills.[38] Indeed, it is workers in the public sector that have had the biggest risk of moving out of work. (We will come on to discuss workers explicitly leaving the workforce for health reasons at the end of this section.)

FIGURE 13: **Among older workers, women and the low paid have been most likely to leave employment**

Proportion of 55-65-year-olds in work in February 2020 who were unemployed or economically inactive in October 2021, by selected characteristics: UK, data collected 14-24 October 2021



NOTES: Base = all 55-65-year-olds in employment in February 2020 (n=804). Sample sizes by category: female n=381; male n=423; public admin, educ, health n=298; other n=359; shutdown sectors n=139; Q1 (lowest paid) n=163; Q2 n=163; Q3 n=124; Q4 (highest paid) n=145; degree or equivalent n=382; higher education or A level n=134; GCSE or below n=267; Level 1 or 2 n=315; Level 3 n=161; Level 4 n=250. 'Shutdown sectors' refers to hospitality, leisure (arts, entertainment and recreation), non-food retail, personal services, construction and manufacturing. See footnote 58 for further detail on how we derive skill levels. These figures have been analysed independently and are not the views of YouGov.
SOURCE: Analysis of YouGov, Adults aged 18-65 and the Coronavirus (Covid-19), October 2021 wave.

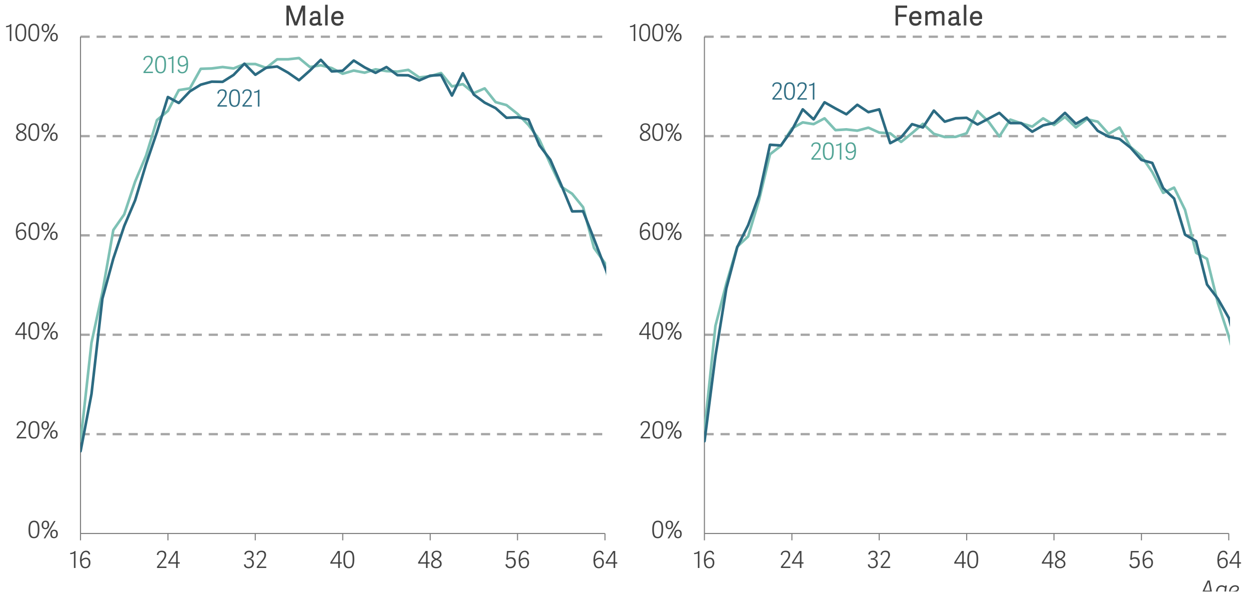
38 We derive pre-crisis occupations from respondents' job titles in February 2020, which they reported through a free-text response to the question: 'Thinking back to your working status earlier last year before the Coronavirus (COVID-19) outbreak started in the UK (i.e. the end of February 2020) … What was your job title? If you had multiple jobs, enter the one that related to your main job.' To do this, we use the coding index provided in: Office for National Statistics, SOC2010 Volume 2: The structure and coding index, accessed November 2021, and the 'LMI for All' API provided by the Department for Education (see: http://api.lmiforall.org.uk). We then categorise these occupations into skill levels using Table 1 of: Office for National Statistics, SOC2010 Volume 1: Structure and descriptions of unit groups, accessed November 2021, which provides more details on the skill classification. Broadly, Levels 1 and 2 refer to occupations that require a general education (with Level 2 requiring a longer period of work-related training or experience than Level 1), Level 3 refers to occupations that normally require post-compulsory education but not to degree level, and Level 4 refers to occupations that normally require a degree or equivalent work experience.

Women under 40, particularly those with children, have increased labour force participation

While falling participation among people in their 50s is roughly equal between men and women, a very different pattern is happening among 25-44-year-olds, where there is a sharp gender divide. Figure 14 expands on Figure 11 by showing the gender differences in detail across working-age adults. Men in this age group have tended to reduce their labour supply during the crisis, in large part because they have been at particularly high risk of losing their jobs (with some leaving the labour force rather than searching for a new job).[39] On the other hand, women in their late 20s and 30s have increased their labour force participation since the start of the pandemic. Labour force participation among 25-44-year-old men has gone down by 1.1 percentage points, but it is up by 1.8 percentage points among women in this age group.

FIGURE 14: **Participation among women in their 20s and 30s has risen during the pandemic**

Labour force participation rate of 16-64-year-olds in the six months to August, by age and sex: UK



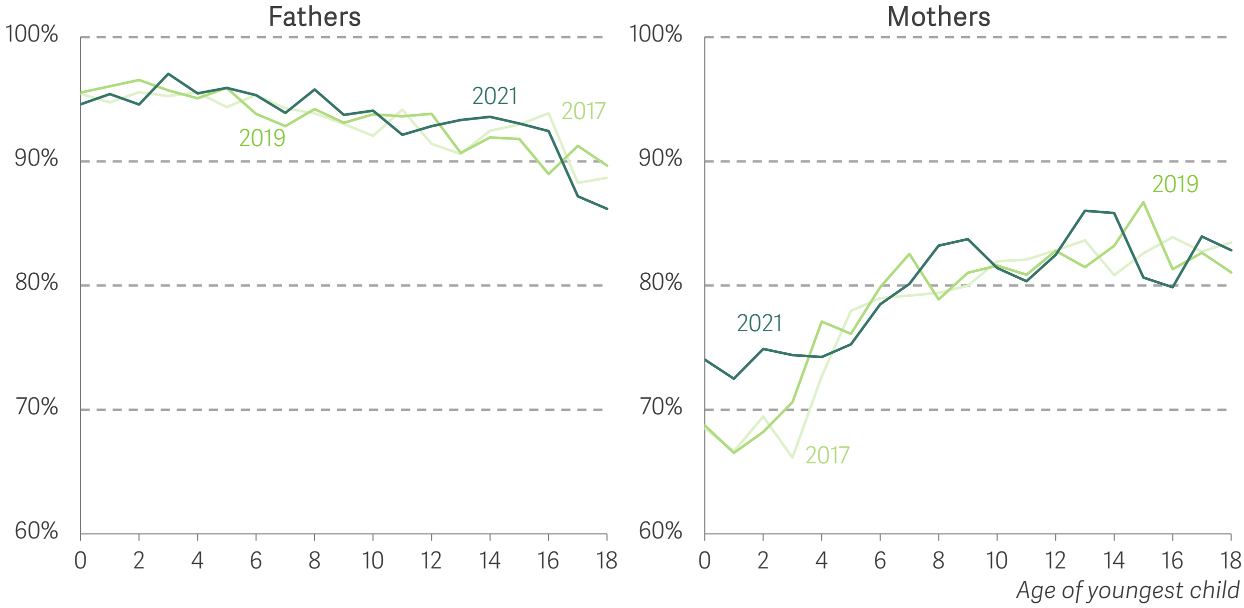
SOURCE: Analysis of ONS, Labour Force Survey.

39 There is little link overall between the sectors with more job losses and those that are male- or female-dominated, but 25-34-year-old men are traditionally more likely to work in sectors that have been particularly hard-hit by the pandemic, putting them at greater risk of job losses. See: H Slaughter, Labour Market Outlook Q2 2021, Resolution Foundation, June 2021, and: The Economist, In Britain, young women got more work during the pandemic, October 2021. Younger men have, however, been ***less*** likely than women of the same age to leave the labour force if they do lose their job, including when we control for other factors such as the types of jobs they were previously doing. (Source: Analysis of ONS, Labour Force Survey.)

The rise in participation has been particularly marked among parents: Figure 15 takes a closer look at the changes in participation among parents by the age of their youngest child, showing that there has been a particularly large rise among mothers of very young children since 2019. Almost three-quarters (74 per cent) of mothers of 0-3-year-olds were in the workforce in 2021, compared to around two-thirds (68 per cent) in 2019 and 2017.

FIGURE 15: **Mothers of young children have entered the workforce during the pandemic**

Labour force participation rate of parents, by age of youngest child and sex: UK, March to August 2017, 2019 and 2021



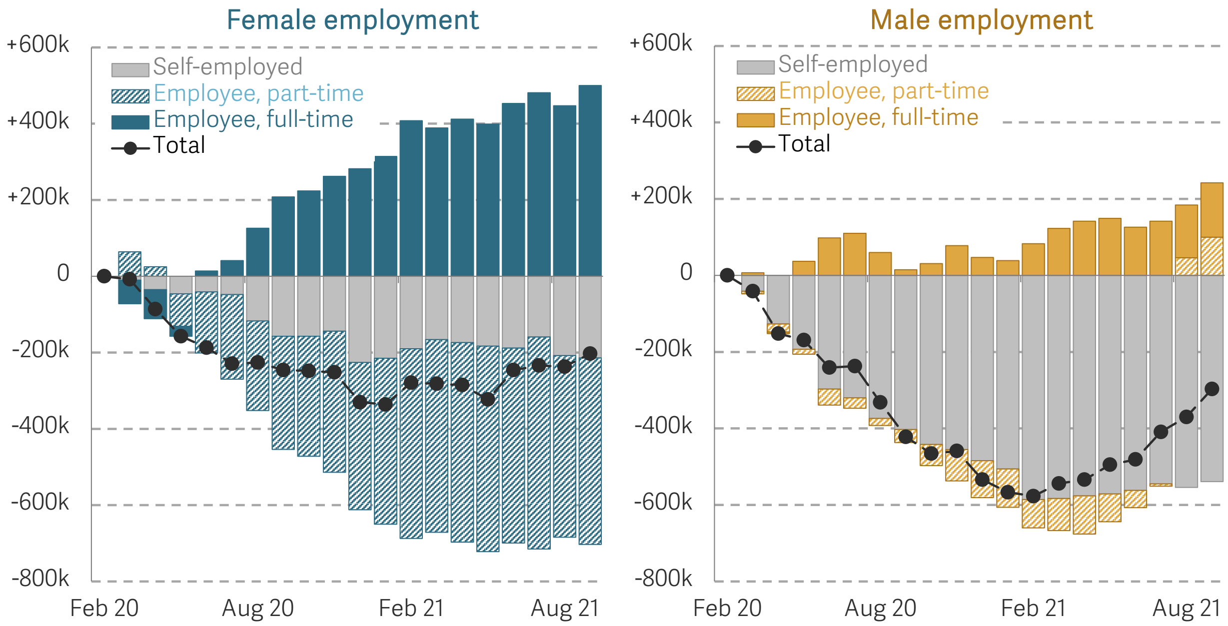
SOURCE: Analysis of ONS, Labour Force Survey.

This rise in female labour force participation, particularly among mothers, is part of a broader increase in labour supply: since the pandemic began, there are about half a million more women working full-time, and a similar number fewer working part-time (see Figure 16).[40]

40 Note that the net fall in the number of employed women in Figure 16 is not inconsistent with the rise in labour force participation rates in Figure 11: the UK population has reduced over the past two years.

FIGURE 16: **Women have also shifted from part-time to full-time working in the pandemic**

Cumulative change in employment since February 2020 by sex and employment type: UK



SOURCE: Analysis of ONS, Labour Force Survey.

We can identify three reasons behind the rise in female labour force participation. Two are related to factors that existed before the pandemic: first, female employment has benefited from ongoing changes to the structure of the economy that are tending to favour female-heavy sectors; second; more women are working thanks to a response typically seen in downturns when secondary earners work more when the primary earner loses work or pay. But the third is new to the Covid-19 crisis, and is about how remote working has made labour force participation easier for workers, especially women, to balance work and family commitments. We discuss those in turn below.

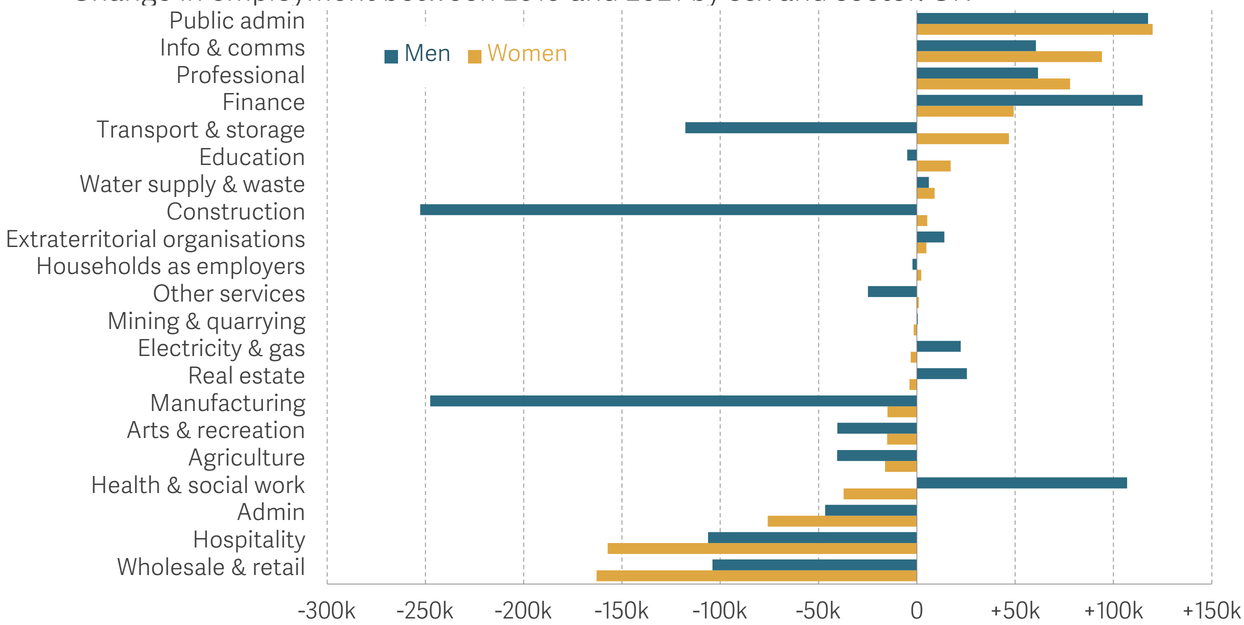
Sectoral changes to the economy continue to favour female-heavy sectors

One of the reasons why women's employment and labour force participation has held up has been changes in the sectoral mix of employment that have tended to favour women at the expense of men. As shown in Figure 17, since 2019 there have been rises in the number of women working in sectors like public administration, IT and communications, and professional and other services, and these have partially offset the reduced number of women working in hospitality and retail. By contrast, although there are also more men working in the public sector, and particularly finance, these rises are considerably smaller number than the drop in the number of men working in construction and manufacturing since 2019. In fact, sectoral changes explain the majority (81 per cent) of the rise since

2019 in the share of workers that are women; the remaining 19 per cent of the rise in the share of workers that are women is explained by increasing shares of workers being women within individual sectors (notably in transport and storage, information and communications, and manufacturing).[41]

FIGURE 17: **For women, more office jobs have helped offset the fall in hospitality and retail**

Change in employment between 2019 and 2021 by sex and sector: UK



NOTES: This chart shows the change in employment between the 2019 calendar year average and the Q1-Q2 2021 average.
SOURCE: Analysis of ONS, Labour Force Survey.

The added worker impact has increased labour supply for some

One push behind the increased labour supply is traditionally referred to as the 'added worker' effect: we saw this happen after the financial crisis, when elevated unemployment and stagnating earnings pushed some second earners – who are more likely to be women – to enter the workforce or increase their hours to make up for the lost income.[42] As Figure 18 shows, we can see some evidence of the same phenomenon in this crisis, as in people whose partner faced an income hit during this crisis were somewhat more likely to increase their labour supply than those whose partner's earnings were not reduced. For example, 15 per cent of people whose partners were

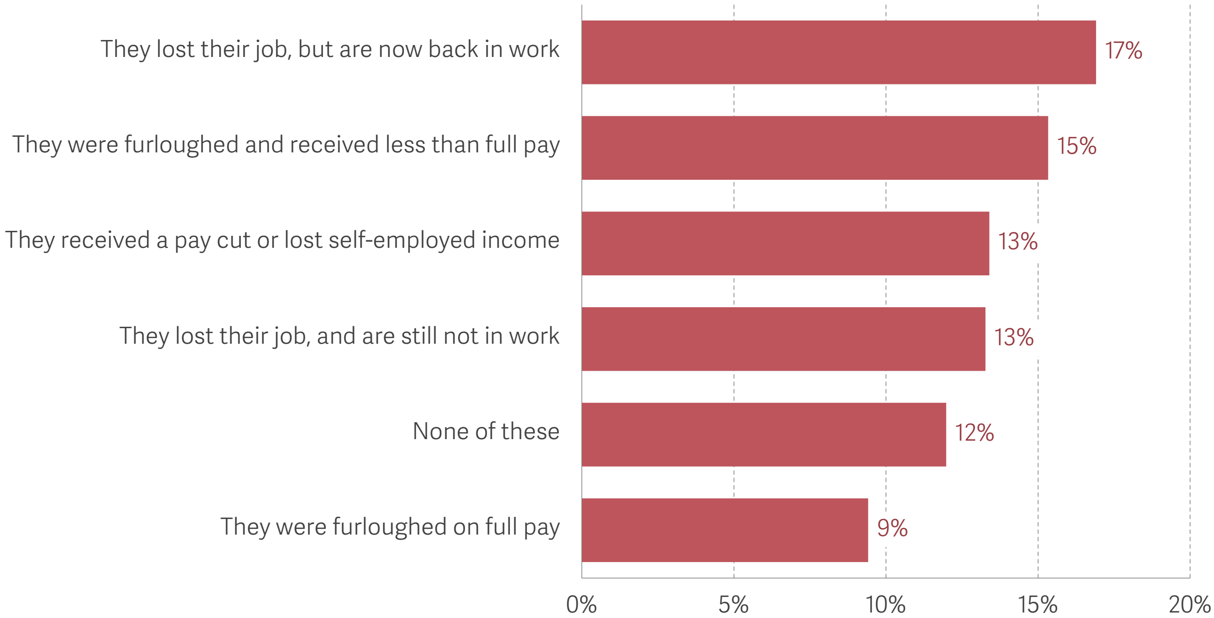
41 We conducted a shift-share analysis of the change in the share of workers who are women between 2019 and 2021, using data at the sectoral level from the Labour Force Survey. Transport and storage, information and communications, and manufacturing are the three sectors where the rise in the share of workers that are women, when weighted by each sector's importance to total employment, are the largest.

42 T Bell & L Gardiner, Feel poor, work more: Explaining the UK's record employment, Resolution Foundation, November 2019.

furloughed and received less than full pay were working more in October 2021 than they were pre-crisis, compared to 9 per cent of those whose partner was furloughed on full pay.

FIGURE 18: **People whose partners experienced an income hit were more likely to enter the workforce than those whose partners maintained their earnings**

Proportion of working-age adults living with a partner who increased their labour supply between February 2020 and October 2021, by change in partner's employment status: UK, data collected 14-24 October 2021



NOTES: Base = all adults aged 18-65 who were living with a partner in October 2021. Sample sizes are as follows: they lost their job, but are now back in work n=133; they were furloughed and received less than full pay n=264; they received a pay cut or lost self-employed income n=186; they lost their job, and are still not in work n=60; none of these n=2,640; they were furloughed on full pay n=184. Question wording: 'Which, if any, of the following changes have occurred to your partner's job since the start of the Coronavirus pandemic?'. Increased labour supply refers to entering the workforce between February 2020 and October 2021 or increasing working hours between February 2020 and Q3 2021. These figures have been analysed independently and are not the views of YouGov.
SOURCE: Analysis of YouGov, Adults aged 18-65 and the Coronavirus (Covid-19), October 2021 wave.

Remote working has helped some parents to better manage work and family commitments

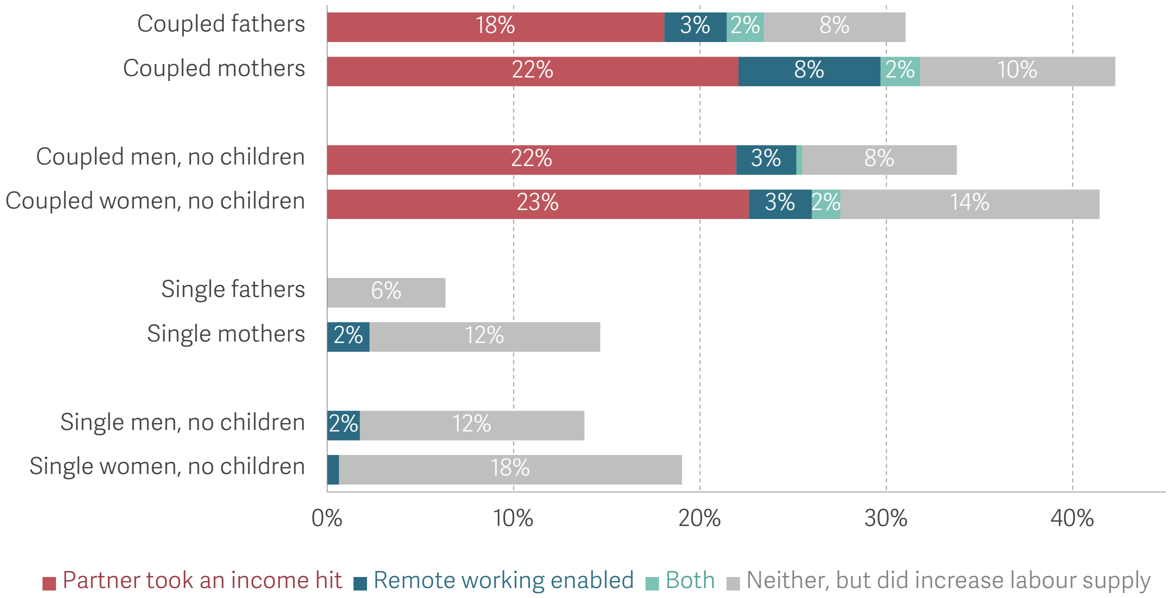
Finally, the ability to work remotely – which we discuss in detail in Section 4 – does seem to have made it easier to balance work and caring responsibilities, helping primary caregivers (who are disproportionately female) to enter the workforce.[43] Figure 19, which focuses on adults aged 25-44, shows that one-in-ten coupled mothers (10 per cent) said that remote working had allowed them to enter work or increase their hours since February 2020, twice the rate of coupled fathers (one-in-twenty, 5 per cent). These

43 This is also discussed in Bank of England, Monetary Policy Report, August 2021; Office for Budget Responsibility, Economic and Fiscal Outlook, October 2021.

compare to just 5 per cent and 3 per cent of women and men (respectively) without children.[44] We are not able to compare this to the proportion encouraged into work by the added worker effect, but the survey did show that there was little difference in the share of people among coupled mothers and fathers who had increased their labour supply and whose partner had taken an income hit (between 23 and 25 per cent of each group).

FIGURE 19: **One-in-ten coupled mothers had been able to increase her labour supply due to remote working**

Proportion of adults aged 25-44 who have entered work or increased their working hours since February 2020, by whether living as a couple and whether a parent: UK, data collected 14-24 October



NOTES: Base = all adults aged 25-44. Sample sizes are as follows: coupled fathers n=301; coupled mothers n=502; coupled men, no children n=300; coupled women, no children n=451; single fathers n=64; single mothers n=127; single men, no children n=402; single women, no children n=469. 'Partner took an income hit' refers to people whose partner lost their job during the crisis (even if now back in work), took a pay cut or lost self-employed income, or were furloughed on less than full pay. 'Remote working enabled' refers to people who agreed with either of the statements 'The ability to work remotely has meant that I have been able to increase my paid working hours compared to before the coronavirus pandemic' or 'The ability to work remotely has meant that I have been able to enter the workforce, when I would have been unable to otherwise'. Parent status is defined with respect to children under 18 only. These figures have been analysed independently and are not the views of YouGov.
SOURCE: Analysis of YouGov, Adults aged 18-65 and the Coronavirus (Covid-19), October 2021 wave.

So it seems that both the added worker impact and remote working have contributed to the increase in women's labour force participation on top of sectoral changes in the

44 We limit this analysis to adults aged 25-44 to provide a better comparison between parents and non-parents. Non-parents are more likely to be in the very youngest and oldest age groups than parents, meaning that comparing all non-parents with parents may conflate other factors affecting younger and older workers (for example, that they are more likely to work in some of the sectors hit hardest by the pandemic). We also discuss this issue briefly in: H Slaughter, Labour Market Outlook Q2 2021, Resolution Foundation, June 2021.

economy that have favoured female-heavy sectors. Although the added worker impact is usually thought of as being temporary – in that, once the main earner has found a new job, the couple can return to their previous preferred working patterns – the rise in remote working could well be permanent (and we discuss this more in Section 4). As such, it is possible that it could lead to a permanent step-up in the labour force participation of women. It is worth bearing in mind, however, that an emerging gender divide in remote working could risk inhibiting women's career progression if employers favour those who are present in the office.[45] As we have recommended before, policy makers and employers alike should support working parents, no matter their gender, to balance work and childcare without detriment to their longer-term career prospects.[46]

600,000 adults are working less because of long Covid or fear of the virus

Some of the rise in inactivity could be linked to specific features of this crisis: long Covid, or fear of the virus. Our survey of working-age adults suggests that around 600,000 adults aged 18-65 have either left the workforce or are working fewer hours because of either long Covid or fear of the virus (1.5 per cent, see Figure 20).[47] Furthermore, around half of those (0.7 per cent of all 18-65-year-olds, or 260,000) do not expect to increase their working time within the next six months. Although this may appear to represent a relatively small proportion of the overall workforce (and not all of these workers have stopped working entirely), this fall in labour supply is nonetheless material.

Surprisingly, our survey suggests that 55-65-year-olds are no more likely to have left the workforce because of the physical effects of the virus than other age groups. This chimes with previous Resolution Foundation research from autumn 2020 that found that older workers were less fearful of catching the virus at work than younger workers – a finding that was explained by the fact that older workers are less likely to work in the riskiest workplaces.[48] Instead, it is the youngest workers (aged 18-24) who are the most likely to say that long Covid is affecting their work. This matches the latest estimates of the overall prevalence of long Covid, which rose substantially among 17-24-year-olds in September, reflecting the caseload of the Covid-19 in recent months.[49]

45 For example, Monetary Policy Committee member Catherine Mann has suggested that, if women are more likely to work from home in the longer term, then they could miss out on opportunities for career progression. See: M Sweney, Women working from home risk being caught in a 'she-cession', The Guardian, November 2021.
46 H Slaughter, Labour Market Outlook Q2 2021, Resolution Foundation, June 2021.
47 The estimated numbers of people in this and the following paragraph have been grossed up from the percentages shown in Figure 20 using ONS mid-year population estimates for 2020 by single year of age. See: Office for National Statistics, Estimates of the population for the UK, England and Wales, Scotland and Northern Ireland, June 2021.
48 L Judge & H Slaughter, Failed safe? Enforcing workplace health and safety in the age of Covid-19, Resolution Foundation, November 2020.
49 Office for National Statistics, Prevalence of ongoing symptoms following coronavirus (Covid-19) infection in the UK, November 2021.

FIGURE 20: **600,000 adults are working less because of long Covid or fear of the virus**

Proportion of working-age adults employed in February 2020 who had stopped working or were working fewer hours by October 2021 for Covid-19-related reasons: UK, data collected 14-24 October 2021

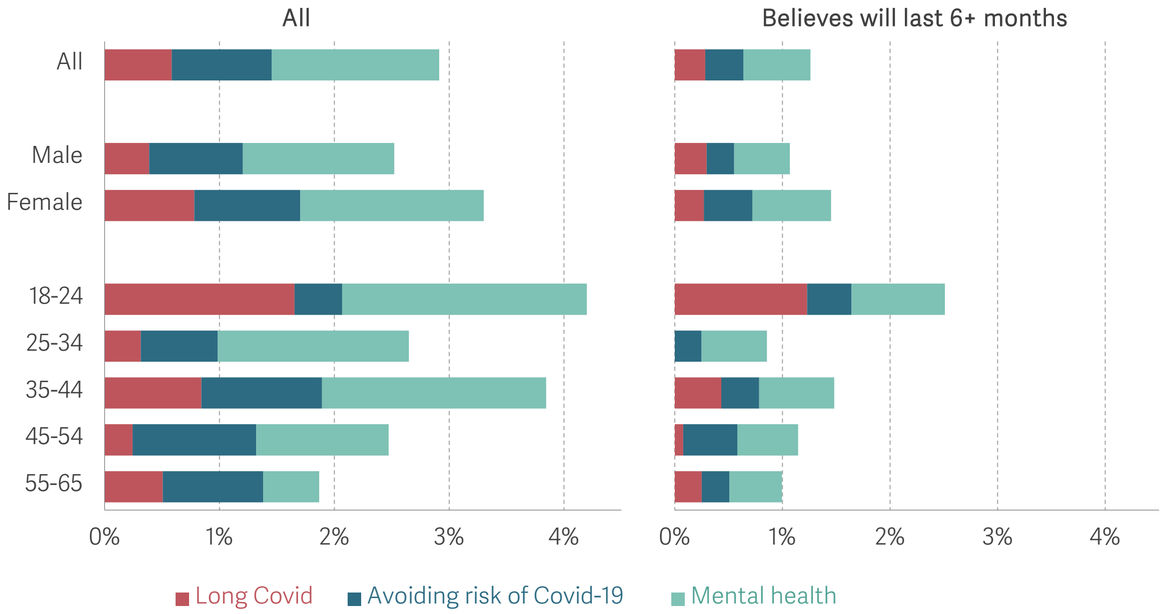


Figure 20 also shows that a further 1.5 per cent of 18-65-year-olds – equivalent to 600,000 adults – report that they are working less than before the Covid-19 pandemic because of poor mental health, with 260,000 of those believing that they will not increase their working time within the next six months. This is most common among 18-24-year-olds: 2.1 per cent (120,000 people) are working less due to their mental health, while 0.9 per cent (50,000) expect to be doing so for at least another six months. As previous Resolution Foundation research has shown, young people's mental health has deteriorated more sharply than other age groups since the start of the pandemic (from a starting point of worse mental health before the crisis).[50] In late May, under-25s were more pessimistic about their future mental health than other age groups, and also more concerned about their mental health affecting their prospects in the labour market.[51] Figure 20 suggests that for some, these concerns were well-founded.

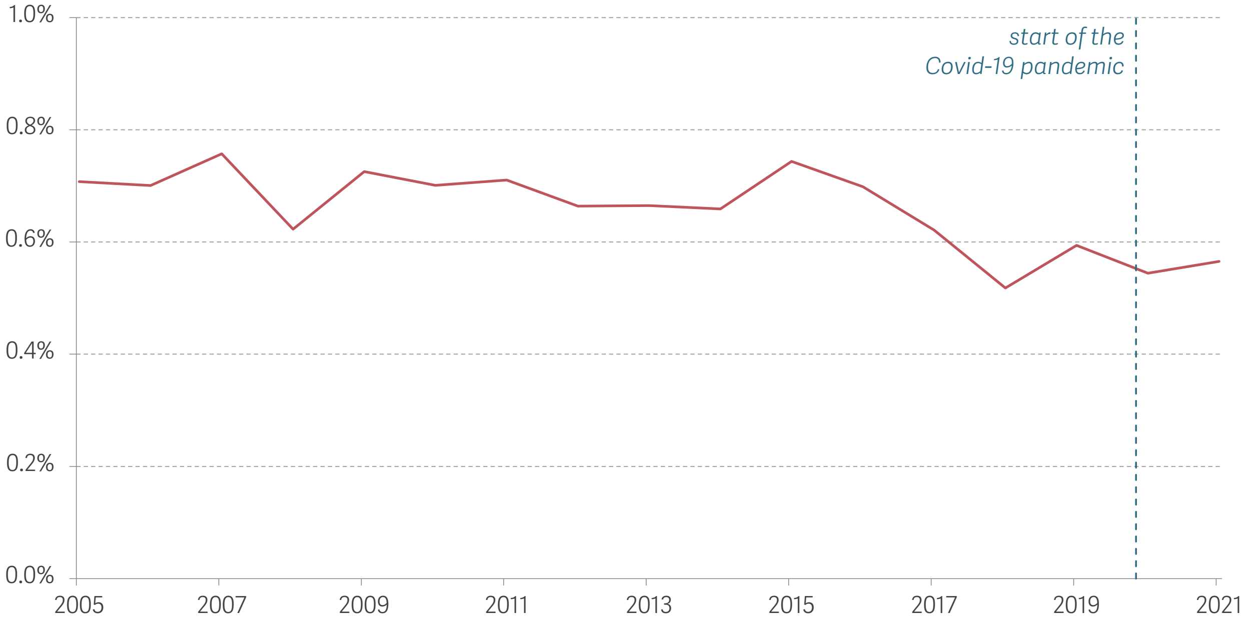
In the latest official data – in which the latest data point covers July-September 2021, more timely than the data shown in Figure 21 – the number of people who are economically inactive for health reasons has risen, and now stands about 150,000 higher than just before the pandemic hit.[52] On the other hand, economic inactivity because of

50 R Sehmi & H Slaughter, Double trouble: Exploring the labour market and mental health impact of Covid-19 on young people, Resolution Foundation, May 2021.
51 R Sehmi, Out of the woods? Young people's mental health and labour market status as the economy reopens, Resolution Foundation, July 2021.
52 Office for National Statistics, Employment in the UK, November 2021.

ill health was rising before the crisis.[53] And Figure 21 shows that, by Q2 2021, there had been little change in the number of people leaving the workforce each year for health reasons more broadly. This may suggest that any increase in non-participation due to the health impacts of Covid-19 has been offset by reductions in other health problems. Alternatively, moves to remote working may have helped to support people with other health conditions to remain in work.[54] Finally, it could be that many of those with long Covid remain employed, but are on sick leave; there is, of course, a risk that they could subsequently leave the labour force.

FIGURE 21: **The share of people reducing their labour supply for health reasons has barely changed**

Proportion of adults aged 16-64 who were economically active a year earlier who had left the labour force or reduced their working hours from full-time to part-time because of health reasons: UK



NOTES: This chart measures the share of people who were either (1) economically active a year ago, but now inactive and say it is because of health reasons, or (2) were working full time a year ago, but now working part time and say the reason for working part time is linked to health reasons. Health reasons need not be the primary reason for inactivity or working part time.
SOURCE: Analysis of ONS, Labour Force Survey.

Policy makers should remain cautious, however (and, of course, both health and economic policy should aim to support those living with long Covid). With an estimated 1.0 million people aged 17-69 reporting long Covid symptoms in early October (the

53 Office for National Statistics, A01: Summary of labour market statistics, November 2021. See also: L Gardiner & D Gaffney, Retention deficit: A new approach to boosting employment for people with health problems and disabilities, Resolution Foundation, June 2016.
54 For further discussion, particularly in the context of older workers, see: S O'Connor, Covid retirees show work-from-home revolution has not benefited everyone, Financial Times, November 2021.

available data category that best matches our usual definition of 'working age'), long Covid is not a niche problem: policy makers should be alert to the impacts on the labour market in the medium term, whether through its physical impacts, fear of the virus, or the enduring effects of the way that 2020 worsened many people's mental health.[55]

This section has shown that, overall, there are risks that recent reductions in labour force participation could outlast the pandemic due to older workers retiring early, even as more younger women have entered the workforce. But it also highlights that within the overall fall in participation, there is a great deal of churn, with women under 40 seeing higher labour force participation rates, and men seeing considerably lower rates. The next section considers changes in the jobs people are doing, and the location from which they do their jobs.

55 See: Office for National Statistics, Prevalence of ongoing symptoms following coronavirus (Covid-19) infection in the UK, November 2021.

Section 4

Changes to the type of work people are doing

Even among those who are still employed, the pandemic has wrought huge changes to many people's working lives. In this section, we focus on two of those: the sectoral reallocation, and the rise of working from home.

First, we show that the significant sectoral reallocation through the pandemic – that took place as sectors like hospitality and leisure shrunk, while parts of the public sector grew – did not take place through increased job-to-job moves to different industries. Instead, those new entrants to employment during the pandemic took up jobs in different sectors from those that left work during the crisis. But even as new entrants (particularly younger women, as the previous section showed) found new jobs in growing sectors, those that lost their jobs faced a mismatch between the sectors where they had recent experience and those where there were vacancies. This sectoral mismatch has resolved somewhat thanks to the reopening of the economy in 2021, but there are signs that other forms of mismatch are a problem: more workers than ever are over-educated for their jobs, and jobseekers are not looking in the sectors with the most vacancies.

Second, it looks highly likely that hybrid work, but not full-time remote working, will outlast the pandemic, albeit skewed to higher-paid workers. A higher proportion of Londoners working remotely some of the time could mean structural economic change for the capital. But although hybrid working has opened up lifestyle changes for professionals, the longer lasting impact will be disruption to lower earners in jobs serving homeworkers who may need to find new jobs in new areas as demand shifts.

The pandemic has not only changed the amount of work people are doing – it has also changed the types of jobs people are doing, and the way that work is organised. Some of the changes caused or catalysed by the Covid-19 pandemic have partially reversed, but others may be permanent.

Here, we provide an initial assessment of where the UK labour market stands with respect to the industries that people are working in, and for remote working. Future reports in the Economy 2030 Inquiry will look in more depth at what Covid-19 means for how firms in different sectors of the economy, and at how the pandemic has altered the economic geography of the UK; and how the changes caused or catalysed by Covid-19 are combining with other structural changes happening over the rest of this decade through the decarbonisation of the economy, and our new trading arrangement with the EU.

The pandemic has seen considerable fluctuation in the sizes of sectors but reallocation has not taken place through job-to-job moves

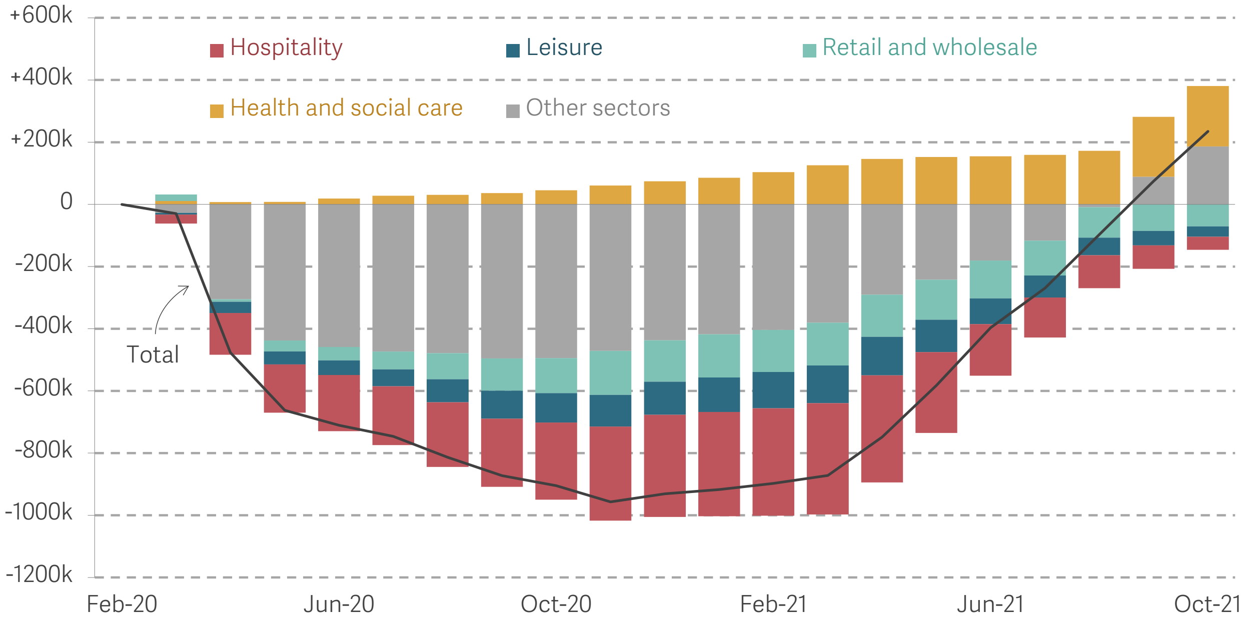
From the very start of the crisis, the impact of the pandemic on the economy has been very sectorally uneven, as lockdowns and social distancing restrictions closed customer-facing sectors like hospitality while demand ramped up in sectors like health and care.[56] As the economy has reopened, opportunities in the hardest-hit sectors have begun to recover and, with lots of firms recruiting at once, some sectors have struggled to recruit.[57] As of October 2021, though, employee jobs in retail, hospitality and leisure combined remained 146,000 lower than pre-pandemic levels, even as overall employee jobs were higher than the start of 2020 (see Figure 22). Of course, some of these changes could have happened without Covid, and sectors like retail, where the decline of the high street was a long-standing trend going into the pandemic, may never see the number of jobs recover to pre-pandemic levels.[58]

As Figure 22 shows, there has clearly been a net movement of workers over the past year and a half from struggling sectors to growing sectors. And it is important to think about the process by which this happens, not just to improve our understanding of the current recovery but also to learn lessons for future economic change. First, vacancies aren't filled instantly or frictionlessly, and the speed of recovery in the labour market this winter will depend on how efficiently vacancies can be filled. Second, a successful recovery is not just about filling vacancies quickly, but also needs the labour market to efficiently sort workers into roles where they can be most productive.

56 See, for example: N Cominetti, L Gardiner & H Slaughter, The Full Monty: Facing up to the challenge of the coronavirus labour market crisis, Resolution Foundation, June 2020.
57 T Bell et al., Understanding the labour market: pandemic not pandemonium: The labour market is normalising, not overheating, Resolution Foundation, June 2021.
58 T Bell & H Slaughter, Crystal balls vs rear-view mirrors: The UK labour market after coronavirus, Resolution Foundation, April 2020.

FIGURE 22: **Employee jobs in leisure and hospitality remain below pre-crisis levels**

Change in the number of employee jobs since February 2020, by industry: UK



SOURCE: Analysis of ONS/HMRC, Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted.

We consider these below, looking first at how the sectoral change has been achieved, and then at what that means for the match between workers and the jobs they are doing.

Sectoral reallocation has not taken place through job-to-job moves

The sort of reallocation implied by Figure 22 can happen either by workers moving jobs from one sector to another, or by some workers losing their jobs in shrinking sectors while different workers take up new jobs in growing sectors.

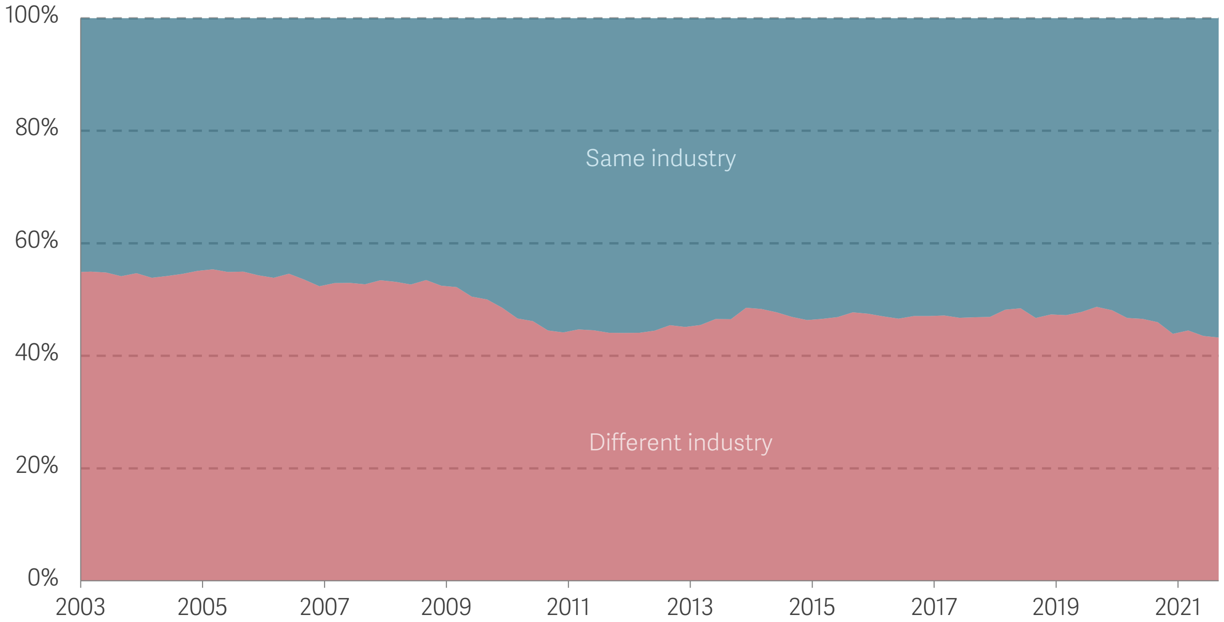
We find that the reallocation has not been delivered through job-to-job moves – that is, those moving directly between jobs from one quarter to the next. At the start of the crisis, very few job-to-job moves were happening at all, likely reflecting both a fall in worker confidence as well as opportunities drying up. As the economy has reopened, and vacancies and hiring rates have surpassed their previous highs, job-to-job moves, too, reached record levels in Q3 2021 – but even among those who have been moving jobs, there has not been a rise in reallocation between sectors.[59] In fact, the share of job-to-job movers going to a different industry has fallen slightly since the pandemic hit and fell to a record low of 43 per cent in the year to Q3 2021 (see Figure 23). This trend of greater (sectoral) stability among those who do move jobs is similar to what happened after the

59 G Thwaites, Two-and-a-half cheers for the UK's post-furlough labour market, Resolution Foundation, November 2021.

financial crisis: between 2008 and 2011, the share of job-to-job movers who switched industries fell from 53 per cent to 44 per cent, and never fully recovered to pre-financial crisis levels.[60]

FIGURE 23: **During the pandemic, a smaller proportion of job-to-job moves were to a different industry**

Proportion of total job to job moves to the same or different industry, workers aged 16-69: UK



NOTES: Base = all job-to-job moves (people who moved jobs between one quarter and the next). 'Industry' here refers to Standard Industrial Classification sections. Four-quarter rolling averages shown. The latest data point is the year to Q3 2021.
SOURCE: Analysis of ONS, Labour market flows.

It could still be possible for workers to be moving between sectors relatively quickly, just not directly from one quarter to the next – and, thanks to a pick-up in the number of moves taking place, in the year to Q3 2021 the absolute number of job-to-job moves to a different sector was almost back to pre-crisis levels. But Figure 24 shows additionally that there has been no increase in the share of workers who are currently in a different industry from the one they were in a year earlier (this can be thought of as a looser definition of a 'job-to-job move' that allows people to spend time out of work between jobs). Among those workers who change firms, the share who had moved sectors has picked up slightly in 2021 (by 2 percentage points, to reach 55 per cent) after remaining flat in 2020, but still remains 2 percentage points lower than in 2015.

60 A future Economy 2030 report (which can be found at https://economy2030.resolutionfoundation.org/reports/) will be investigating this sort of labour market dynamism in much more detail.

FIGURE 24: **There has been little change in the share of workers moving industries each year**

Proportion of all workers, and proportion of workers who moved firms, who were working in a different industry than a year earlier: UK

NOTES: Base = all adults in employment in the current quarter and 12 months ago ('all workers' line); all adults in employment in the current quarter and 12 months ago who are employed by a different firm than a year earlier ('workers who moved firms' line). Data points cover April-June of each year. Dashed lines reflect changes in the Standard Industrial Classification and what constitutes a move between industries.
SOURCE: Analysis of ONS, Labour Force Survey.

Figure 24 makes clear that the pandemic-induced sectoral reallocation has not taken place through movements of the existing workforce into new sectors. And this is an important lesson for future labour market shocks: even such large-scale sector shifts as Figure 22 showed have not been delivered through workers moving directly between industries.

Sectoral mismatch between vacancies and unemployed people peaked during lockdown, but has since fallen

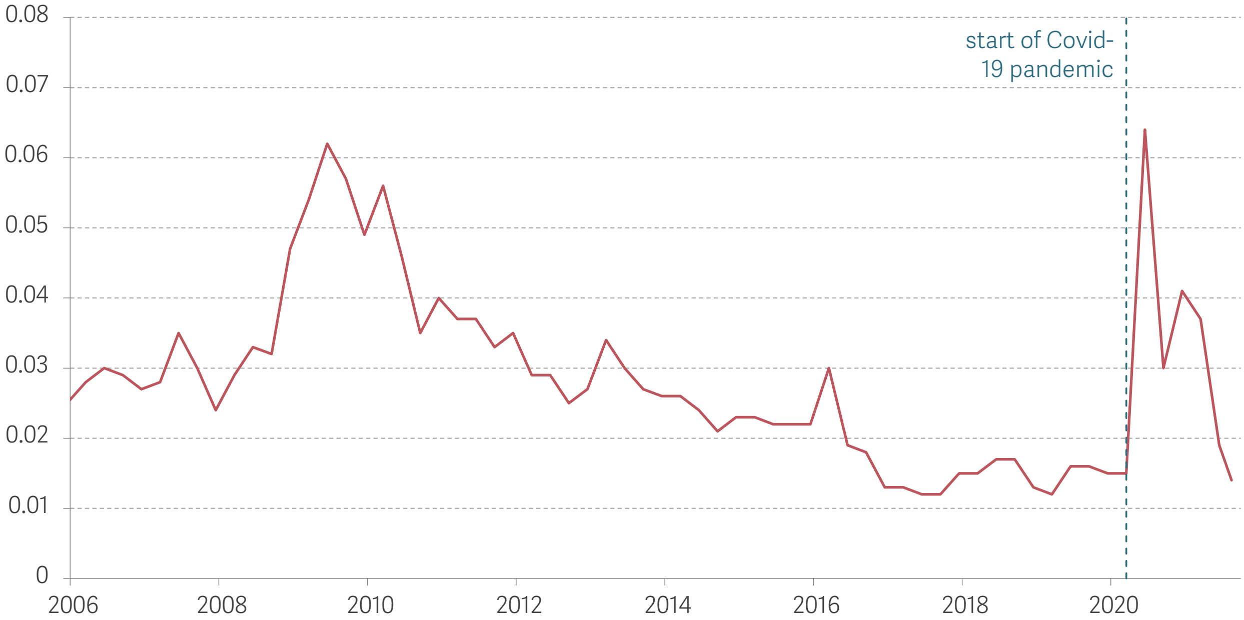
The only remaining explanation for the considerable sectoral changes is that they have taken place through people entering employment in different sectors from those previously occupied by people who have left the workforce.

The previous section showed that some groups have been able to increase their employment during the crisis, particularly younger women, who have found new jobs in growing sectors. On the other hand, those that lost their jobs have disproportionately come from the struggling sectors, like hospitality and leisure – and early in the crisis, these unemployed workers faced a substantial mismatch between the sectors where they had recent experience and those where there were vacancies.

Figure 25 shows one way in which this manifested earlier in the crisis, showing a measure of mismatch between job seekers and vacancies.[61] In Q2 2020, sectors relying on face-to-face contact or where workers could not work from home made many redundancies and as-good-as stopped hiring. As a result, the high rates of unemployment of workers previously in sectors like hospitality and leisure, along with a collapse in vacancies in those same sectors, led to considerable discrepancies between the most recent industry of unemployed people and available job openings.

FIGURE 25: **Sectoral mismatch between job seekers and vacancies rose at the start of the crisis**

Index of sectoral mismatch: UK



NOTES: Latest data point is June-August 2021. See footnote 81 for further details.
SOURCE: Bank of England, Monetary Policy Report, November 2021.

More recently, however, sectoral mismatch has fallen back to pre-crisis levels. As the economy has reopened, and vacancies in previously-shutdown sectors like hospitality have boomed, the stock of unemployed people is once again a good match for the available job openings. This is good news for the immediate future for the labour market, and can also be seen in the raw data: the reopening phase has been characterised not

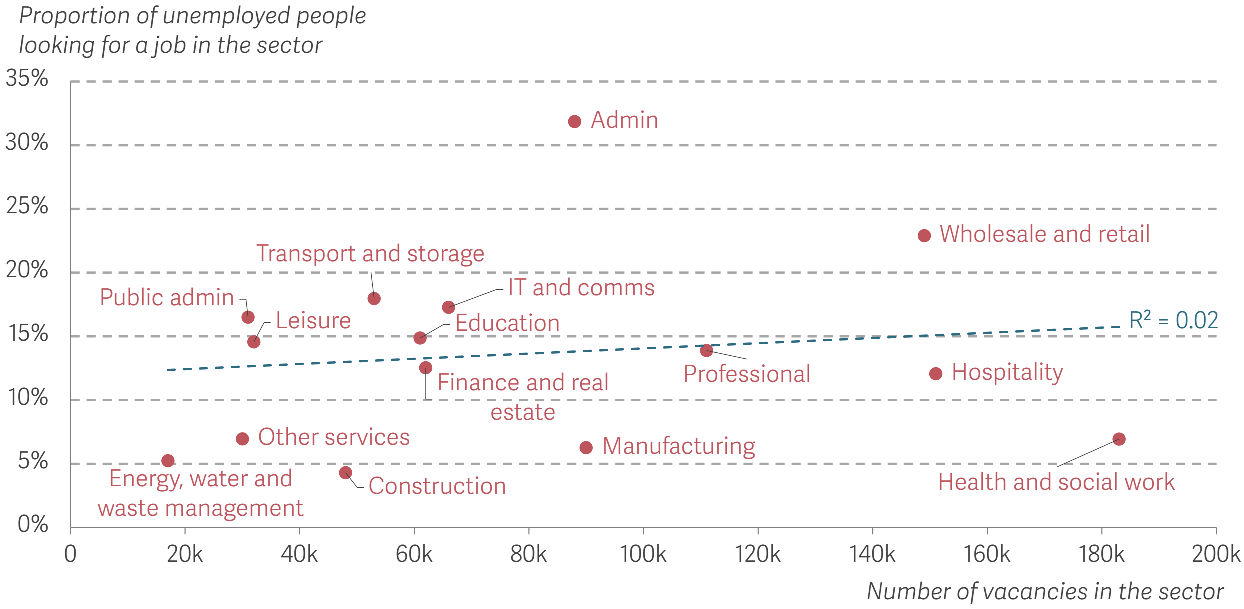
61 The measure is based on sectoral deviations in the vacancy-unemployment share, defined with respect to the industry of last job for unemployed people. It also adjusts for the fact that different sectors have different matching efficiencies. It was calculated by the Bank of England (see: Bank of England, Monetary Policy Report, November 2021) following the approach set out in: A Şahin et al., Mismatch unemployment, American Economic Review 104(11), November 2014. We also calculated an alternative measure, which does not adjust for differential matching efficiencies between sectors, as defined in: R Jackman & S Roper, Structural unemployment, Oxford Bulletin of Economics and Statistics 49(1), February 1987. The trend is very similar to that shown in Figure, so we do not present that measure here.

only by record vacancies, but also by record numbers of people moving into work.[62] But policy makers should bear in mind that not all sectoral mismatch will be so easy to resolve: the rapid fall in mismatch this year happened only thanks to the huge economic reopening; after the financial crisis, mismatch declined much more slowly.

Policy makers should also be alert to the risk that mismatch, and resulting slowdowns in productivity, could become more of an issue in the longer term. One signal of potential matching frictions to come is presented in Figure 26. It shows that there is little relationship between the industries where unemployed survey respondents are looking for work and the sectors with the highest number of vacancies. It also suggests that recent labour shortages in sectors like hospitality, as well as longer-standing high vacancy rates in health and social care, are unlikely to resolve soon. Despite the hospitality sector having 151,000 vacancies in October, for example, unemployed people in our survey were no more likely to be looking for jobs there than in finance and real estate, which had just 62,000 vacancies.

FIGURE 26: **There is no relationship between where vacancies are and where jobseekers are focusing their search**

Number of unemployed people looking for jobs per vacancy, by sector: UK, October 2021



NOTES: Base for 'proportion of unemployed people looking for a job in the sector' = all 18-65-year-olds who were unemployed in October 2021 (n=175). Question wording: 'You previously said that you were looking for a new job. Which, if any, of the following sectors are you looking in? (Please select all that apply)'. Respondents could give more than one sector. These figures have been analysed independently and are not the views of YouGov.
SOURCE: Analysis of YouGov, Adults aged 18-65 and the Coronavirus (Covid-19), October 2021 wave; ONS, Vacancies by industry.

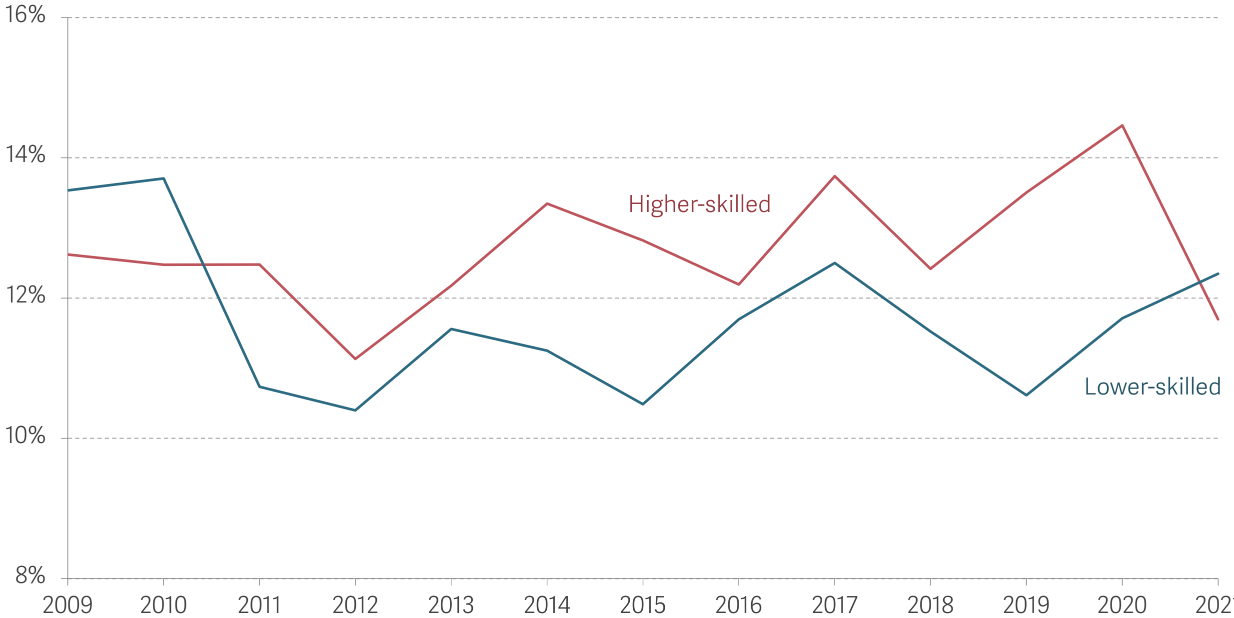
62 The average time to fill a vacancy has been rising recently, indicating that employers are having greater difficulties finding workers, but this is rising from what was a very low level in 2010, and in Q3 2021 had essentially returned to its pre-crisis level of 1.5 months. See: G Thwaites, Two-and-a-half cheers for the UK's post-furlough labour market, Resolution Foundation, November 2021.

There are signs of occupational 'downgrading'

Mismatch between different industries, then, does not appear to be holding back workers from finding new jobs. But that does not necessarily mean that they are finding jobs that are a good fit: there are signs that workers are struggling to find jobs that match their skills and experience. Figure 27 shows, for example, that fewer workers are progressing in the labour market than we would expect in normal times. The share of workers who are doing a higher-skilled job than a year earlier has fallen back to 11.7 per cent, the lowest since 2012; at the same time, moves into lower-skilled jobs have increased somewhat since the pandemic struck, up from 10.6 per cent in 2019 to 12.3 per cent in 2021.[63] This is the first time that occupational 'downgrading' has exceeded 'upgrading' since 2010.

FIGURE 27: **There has been a fall in people moving into higher-skilled occupations**

Proportion of adults who are in a higher- or lower-skilled occupation than a year earlier: UK



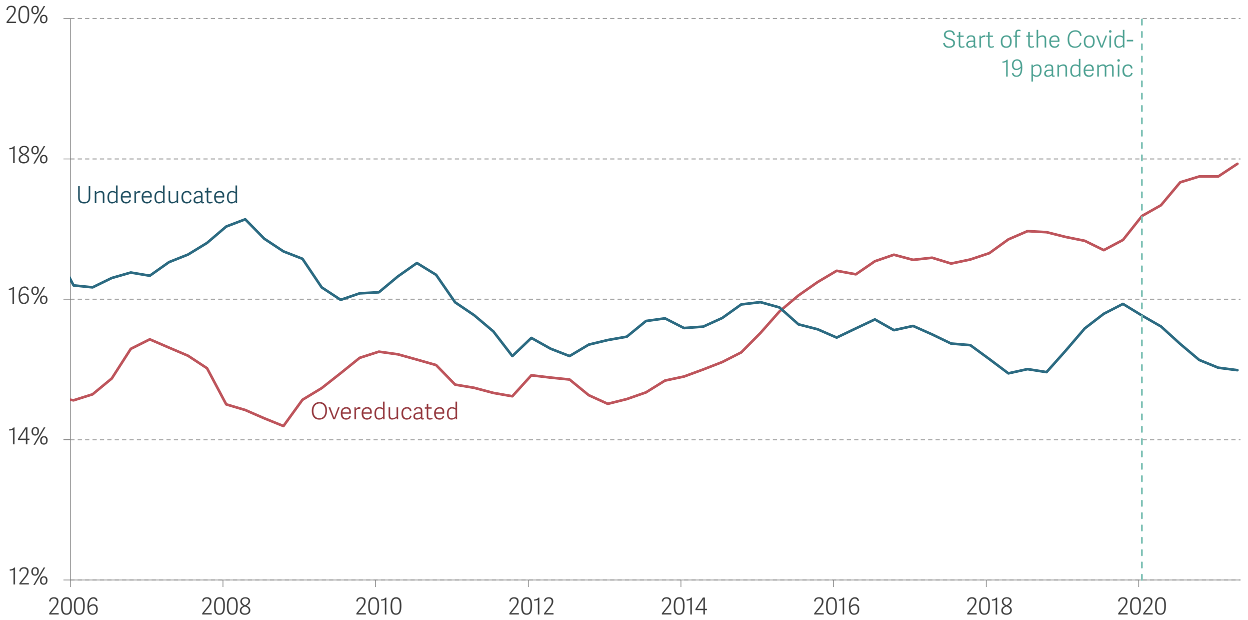
NOTES: Base = all adults in employment in the current quarter and 12 months ago. Data points cover April-June of each year. Based on respondents' stated occupation now and a year earlier and so may be subject to recall error. Occupations are categorised into skill levels using Table 1 of: Office for National Statistics, SOC2010 Volume 1: Structure and descriptions of unit groups, accessed November 2021, which provides more details on the skill classification.
SOURCE: Analysis of ONS, Labour Force Survey.

63 These measures use the looser definition of a job-to-job move (as also used in Figure 24) by comparing the occupation that a worker was doing a year ago to what they are doing now, irrespective of whether they spent any time out of work in between. Occupations are categorised into skill levels using Table 1 of: Office for National Statistics, SOC2010 Volume 1: Structure and descriptions of unit groups, accessed November 2021, which provides more details on the skill classification. Broadly, Levels 1 and 2 refer to occupations that require a general education (with Level 2 requiring a longer period of work-related training or experience than Level 1), Level 3 refers to occupations that normally require post-compulsory education but not to degree level, and Level 4 refers to occupations that normally require a degree or equivalent work experience.

Similarly, the share of workers who are deemed to be overeducated for the job they are in has reached a record high in the latest data (and the share who are undereducated has fallen since the pandemic began).[64] This is precisely what we would expect to find after a significant labour market shock has forced many workers to find new roles. The share of overeducated workers was rising before the pandemic – and recent increases in education participation may mean that some of this increase is compositional – but it suggests that the UK could see productivity gains if these overeducated workers could reallocate to jobs where their skills could be put to better use. As the recovery continues to take hold and a wider range of opportunities become available, policy makers need to support workers to move into jobs that match their skills and experience.

FIGURE 28: **More people than ever are overeducated for their current job**

Proportion of working adults who are under- or overeducated for the occupation they are in (four-quarter rolling averages): UK



NOTES: Based on three-digit SOC codes. Latest data point covers the year to Q2 2021. This analysis is based on the methodology in: Office for National Statistics, Analysis of the UK labour market - estimates of skills mismatch using measures of over and under education, March 2016 (see footnote 84 for further details).
SOURCE: RF analysis of ONS, Labour Force Survey.

64 We follow the methodology used in: Office for National Statistics, Analysis of the UK labour market – estimates of skills mismatch using measures of over and undereducation: 2015, March 2016, which classes workers as overeducated (undereducated) if their highest qualification level is greater than one standard deviation above (below) the average educational attainment level for their occupation.

Workers expect the increase in hybrid work to outlast the pandemic

For many office workers, the pandemic has turbocharged the pre-existing trend towards more homeworking.[65] The lasting impact of this change could lead to lifestyle change for professionals, as well as allowing more parents to combine work with family demands – as we discussed in Section 3. But it has more significant implications for those (low earners) providing services for workers, as demand shifts from city centres to suburbs and workers in retail and hospitality are forced to respond to these new working patterns. As we have shown earlier in this section, these sectors have struggled to return to pre-pandemic employee job levels, and the shift to more homeworking could further speed up trends like the death of the high street, something we will return to in future reports.

In the remainder of this section, we use our survey results to explore workers' expectations for the future of homeworking, and consider how remote working could drive change in ways of living and working. Given that our survey was an opt-in online survey that could overstate levels of homeworking (and Box 4 discusses how our estimates of working from home compare to what is known from other sources – including from the point of view of businesses), we focus on the relative differences in the share of respondents working from home. But the trends revealed by our survey – and particularly the differences between groups and over time – are still instructive of what the post-pandemic world might look like.

BOX 4: **Other estimates of the incidence of remote and hybrid working**

Data collected from employees through ONS' Opinions and Lifestyle Survey suggests that, in the first half of October 2021, 15 per cent of workers worked entirely remotely (the lowest level since the ONS started collecting this data when the pandemic began), 54 per cent commuted to work, and 16 per cent worked hybridly (the highest level since the ONS started collecting this data when the pandemic began) (with 15 per cent doing something else).[66] Data collected from firms in the first half of October comes up with similar estimates: 13 per cent remote working, 17 per cent hybrid working, and 60 per cent were using a designated workplace (with 9 per cent doing something else).[67] These data sources also show that working some of the time from home is especially likely to be found in certain sectors: information and communication; professional, scientific and technical activities;

65 H Slaughter & T Bell, Crystal balls vs rear-view mirrors: The UK labour market after coronavirus, Resolution Foundation, April 2020.
66 Office for National Statistics, Coronavirus (COVID-19) latest insights: Work, 18 November 2021.
67 Office for National Statistics, Business Insights and Conditions Survey, Wave 42.

education (which includes universities); real estate activities; and administrative and support service activities. Some form of homeworking is also more common among workers with higher education and higher earnings.

Survey evidence collected from firms by the University of Nottingham and the Bank of England estimated that 27 per cent of hours were worked from home in September 2021, and that the proportion of hours worked from home has been falling through 2021. Looking forward, the same research reported that firms expect around 20 per cent of hours to be done from home in 2022, a three-fold increase relative to before the pandemic.[68] The Bank of England also reported that firms reported that they expected 35 per cent of their full-time workers to work at least 1 day a week from home, corresponding to about 20 per cent of hours worked.[69] Other researchers agree that between 20-30 per cent of work will eventually be done from home.[70] Obviously, workers attitudes to home working depends in part on the quality of the space they have at home. Research undertaken in summer and autumn 2020 found that those aged 18-34 were the most likely to say that working from home was bad for their health and wellbeing, although it's possible this work may have conflated the impact of the full lockdown as well as the impact of homeworking.[71]

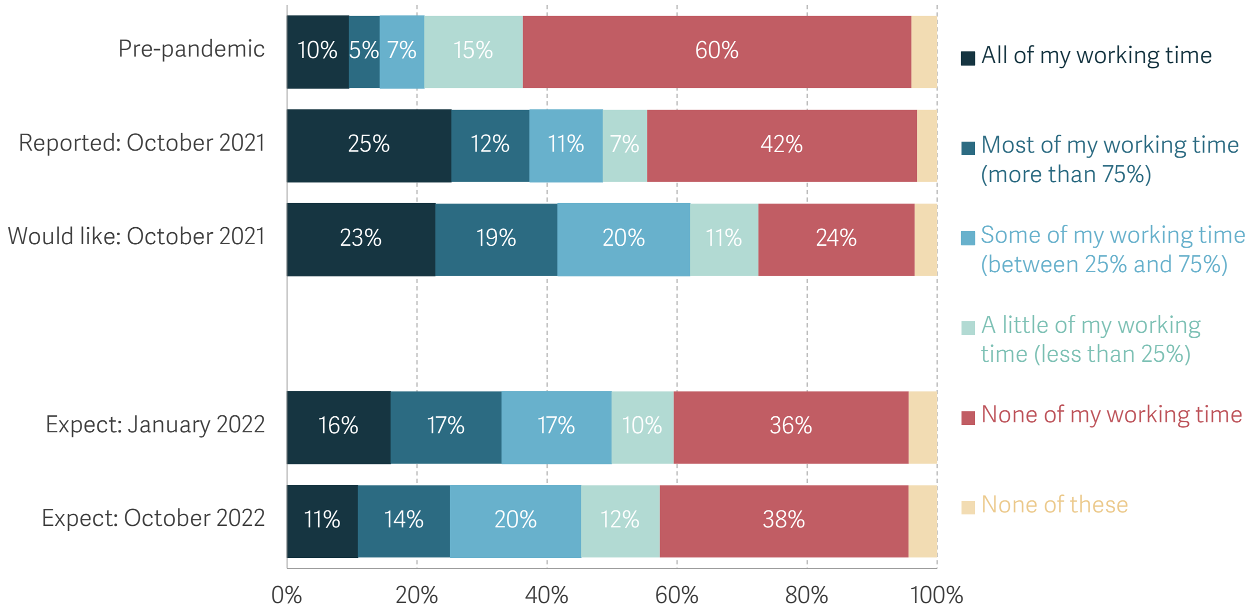
Figure 29 gives an overview of how the pandemic altered homeworking, and of how much homeworking workers would ideally like to do. Our survey shows that homeworking remains well above pre-pandemic levels: 55 per cent of respondent workers reported some homeworking (any of the blue or turquoise bars) in October compared to 36 per cent of workers pre-pandemic (with Box 4 making clear that this is a higher estimate of homeworking than that provided by other sources).[72] We also estimate that the share of hours worked from home by respondents in October 2021 (43 per cent) was more than twice pre-pandemic levels (19 per cent).[73] However, on average, survey respondents would like to spend even less time in the office: if they had their own way, workers would

68 L Anayi et al., Covid-19 and structural change, VoxEU, 28 October 2021.
69 Bank of England, Monetary Policy Report, November 2021.
70 M Draca et al., Remote work and the post-pandemic UK labour market, CAGE Research Centre Policy Briefing, May 2021.
71 Royal Society for Public Health, Disparity Begins at Home: How home working is impacting the public's health, February 2021
72 Some studies cited in Box 4 use those working for more than a day a week from home among full-time workers as the definition of a remote or hybrid worker. The equivalent in our survey could be those spending at least 25 per cent of the time working from home (which excludes someone doing one day out of five at home); this has risen from 22 per cent to 48 per cent.
73 We approximate the reported time spent working from home using our banded responses about how much time was worked from home. If a working respondent answered that they spent more than 75 per cent of their time working from home we assign that they spent 80 per cent at home (four working days). For those that responded spending 25 per cent to 75 per cent of their time working from home, we assigned their total time working from home to be 50 per cent. For those who said they spent less than 25 per cent of time working from home we approximated that they spent one-day working from home (20 per cent of their working time). Using these estimates we have used our survey to estimate both the share of (total) hours done from home and the total hours worked from home over different time periods.

ideally like to shift an additional 8 per cent of their (total) working time from the office to home, compared to what they were doing in October 2021.[74]

FIGURE 29: **Workers expect the increase in hybrid work to outlast the pandemic, and would like to spend more time homeworking than they are able to at present**

Working-age adults' reported time spent for working from home, actual, preference and expectation: UK, data collected 14-24 October 2021



NOTES: Base is all adults age 18 to 65 who reported whether they spent time working from home pre-pandemic (n=4640), in October 2021 or future expectations (for any of the latter n=4539). These figures have been analysed independently and are not the views of YouGov.
SOURCE: Analysis of YouGov, adults age 18-65 and the Coronavirus (COVID-19), October 2021 wave.

We also asked respondents how much homeworking they expected to do in October 2022. We find that workers expect to spend 7 per cent less of their (total) working time at home compared to what they did in October 2021. This fall is explained by two offsetting trends: the fraction of workers who always work from home is expected to fall considerably from 25 to 11 per cent of workers – which effectively returns it to its pre-pandemic level – and the fraction of workers who never work from home is expected to fall slightly from 42 to 38 per cent, as shown in Figure 29. This means that the future trend is one of hybrid working, where workers split their time between the office and home: our

74 Research in May 2021 reported similar results, with over 70 per cent of UK employees reporting that they wanted to work from home for at least two days a week, with 18 per cent wanting not to work from home, and 10 per cent wanting one day a week. That work also said that the trend during the first few months of 2021 being towards a desire for more WFH. See: N Bloom, P Mizen & S Taneja, Returning to the office will be hard, VoxEU, 15 June 2021.

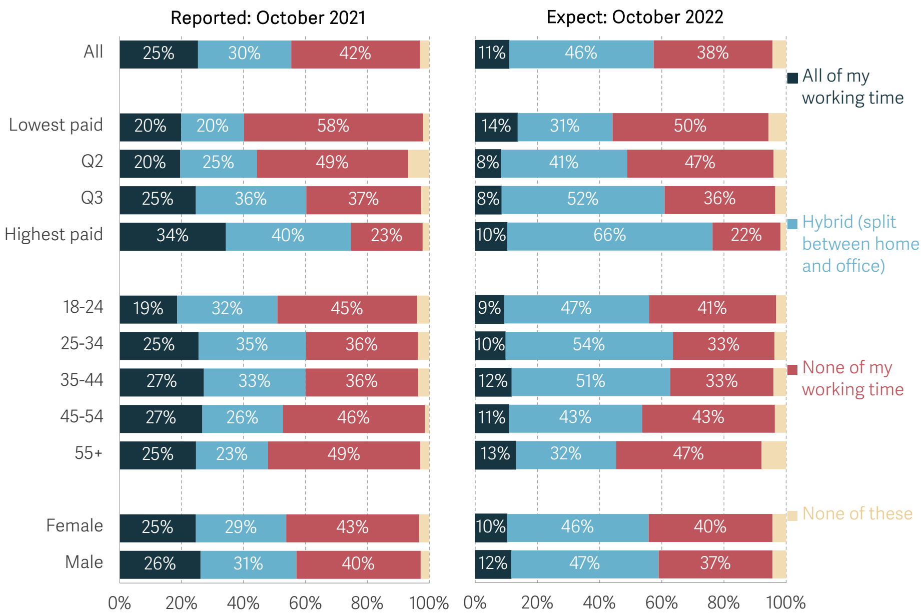
survey suggests that the share of workers working hybridly is expected to increase by 16 percentage points over the next 12 months. We next explore what this future of hybrid, not full-time, remote work might look like and mean.

Hybrid working plans are most pronounced for the highest-paid workers, particularly those living in inner London boroughs

Our survey confirms (see Figure 30) previous work that higher earners are most likely to be working from home.[75] Around three-quarters of the respondents who were in the highest-paying quartile were homeworking in October 2021 (40 per cent hybrid, and 34 per cent exclusively at home) compared to half of the lowest-paid workers.

FIGURE 30: **There is considerable variation in hybrid working plans, particularly skewed to higher-paid workers**

Working-age adults' reported time spent for working from home, actual and expectation, by different personal characteristics: UK, data collected 14-24 October 2021



NOTES: Base is all adults age 18 to 65 who reported whether they spent time working from home in October 2021 or expected to in October 2022 (n=4539). Base by sub-groups are: Lowest paid n=645; Q2 n=887; Q3 n=905; Highest paid n=853; 18-24 n=271; 25-34 n=1235; 35-44 n=1127; 45-54 n=1174; 65+ n=732; Female n=2409; Male n=2130These figures have been analysed independently and are not the views of YouGov.
SOURCE: Analysis of YouGov, adults age 18-65 and the Coronavirus (COVID-19), October 2021 wave.

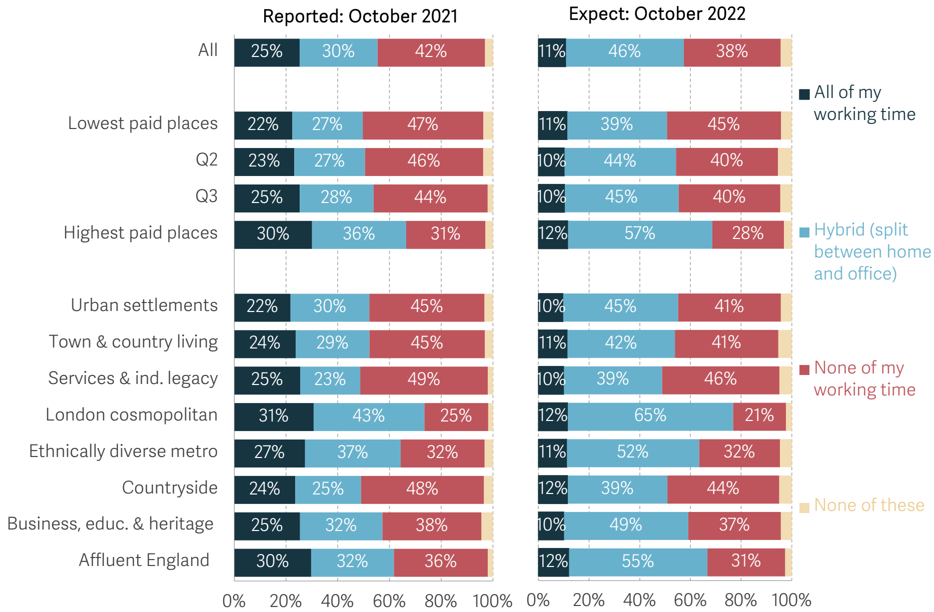
Figure 31 breaks down reported and expected time spent working from home, this time by different geographic groupings. The tendency of the highest-paid people to work

75 Evidence from the first lockdown comes from: L Gardiner & H Slaughter, The effects of the coronavirus crisis on workers: Flash findings from the Resolution Foundation's coronavirus survey, Resolution Foundation, May 2020. See Box 4 for more recent estimates.

from home is very evident in the fact that respondents living in the higher-paid parts of London, particularly the 'London cosmopolitan' ONS supergroup area, have very high reported rates of homeworking (74 per cent of workers).[76]

FIGURE 31: **Londoners have high rates of reported and expected hybrid working**

Working-age adults' reported time spent for working from home, actual and expectation, by different geographies: UK, data collected 14-24 October 2021



NOTES: Base is all adults age 18 to 65 who reported whether they spent time working from home in October 2021 or expected to in October 2022 (n=4539). Base by sub-groups are: Highest paid places n=1153; Urban settlements n=664; Town & country living n=749; Services & industrial legacy n=610; London cosmopolitan n=198; Ethnically diverse metro n=378; Countryside n=641; Business, educ. & heritage n=777; Affluent England n=522. This chart uses ONS Supergroup Classifications and uses ONS weekly pay figures by local authority to create pay quartiles by place. These figures have been analysed independently and are not the views of YouGov.
SOURCE: Analysis of ONS, Annual Survey of Hours and Earnings; ONS, 2011 residential-based area classification – Supergroup Classifications; YouGov, adults age 18-65 and the Coronavirus (COVID-19), October 2021 wave.

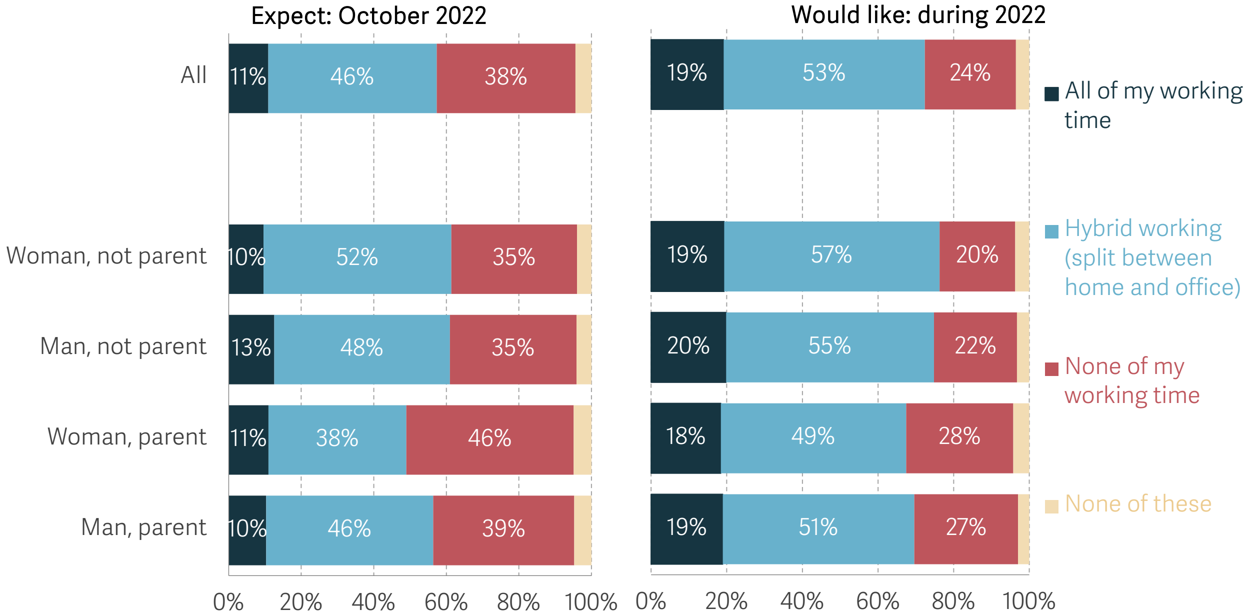
Looking at the expected change in homeworking for sub-groups (by comparing the two panels of Figure 30, and the two panels Figure 31) reveals two important findings. First, there isn't a substantial variation in the share of workers who expect to be working from home full-time in October 2022 (it lies between 9 and 14 per cent for all the sub-groups we considered). Second, in contrast, there is considerable variation in expectations for hybrid working: less than one-third of the lowest-paid (31 per cent) and oldest (32 per cent among whose aged 55 or over) workers expect to have a hybrid working model,

76 The ONS Supergroup Classification assigns local authorities together into eight supergroups which are assigned together based on the general characteristics of the local authorities including industries of employment, overcrowding of households, qualifications, median ages and population densities. The 'London cosmopolitan' group refers to 4.2 per cent of the UK population located within 12 Inner London boroughs characterised by very high population density, a relatively low median age, higher non-White ethnic group representation than the UK as a whole, and employees who are more likely to work in professional services.

compared to almost two-thirds of those in the London cosmopolitan (65 per cent) boroughs and the highest-paid workers (66 per cent). And these higher shares of hybrid working patterns in London could mean lasting economic change for the capital.[77] As previous Resolution Foundation work has highlighted, the proliferation of homeworking could mean reduced demand in city centres for the types of service sector jobs done by low-paid workers; we will return to this in future reports.[78]

FIGURE 32: **Women with children have the greatest unmet desire to work from home**

Working-age adults' reported time spent working from home, expectation and preference, by selected personal characteristics: UK, data collected 14-24 October 2021



NOTES: Base is all adults age 18 to 65 who reported whether they expect to be working from home in October 2022 or expect to be working from home in 2022. Base by sub-groups are: Woman, not parent n=1271; Man, not parent n=1138; Woman, parent n=1138; Man, parent n=992. These figures have been analysed independently and are not the views of YouGov.
SOURCE: Analysis of YouGov, adults age 18-65 and the Coronavirus (COVID-19), October 2021 wave.

As we showed in Section 3 of this report, remote working has allowed some mothers to enter the labour force or work more hours. In fact, Figure 32 shows that, on average, women with children expect a hybrid working pattern to feature considerably less (38 per cent) than women without children (52 per cent) (and these differences hold if we restrict our analysis to women aged 25-45). Correspondingly, the right-hand panel of Figure 32

77 It is worth highlighting that in 2008 many expected London to be hollowed out by the financial crisis, a prediction that failed to materialise. See: H Overman, How did London get away with it? VoxEU, 29 March 2011.
78 See: C McCurdy, Levelling up and down Britain: How the labour market recovery varies across the country, Resolution Foundation, August 2021. An early attempt to trace out the implications of homeworking for different parts of the UK is: G De Fraja, J Matheson & J Rockey, Zoomshock: The Geography and Local Labour Market Consequences of Working from Home, Covid Economics, Issue 64, January 2021; this uses pre-pandemic data that assess the ease with which someone can work from home, rather than actual data on who was homeworking during the pandemic.

illustrates that working mothers are the group where the gap between expected and desired homeworking is greatest. Around half (49 per cent) of mothers expect to work from home at least some of the time, but around two-thirds (67 per cent) of working mothers would like some homeworking in 2022.[79] This suggests that if mothers' desire for homeworking were met, then this could lead to further increases in labour force participation or hours worked. Remote work has enabled people to search for new jobs and jobs in different parts of the country – but it has also led to increased working hours

Remote working also links to other changes in the labour market – like the reallocation of workers across the country and jobs market. Research from McKinsey has shown that workers are more willing to change job as a result of remote work.[80] And previous Resolution Foundation work has indicated that the pandemic has precipitated some shift in housing demand away from city centres to less-densely populated areas, partly because Covid-19, particularly during lockdowns, reduced the appeal of living cities, and increased demand for one's own space, but also because homeworking has allowed more options about where one chooses to live.[81]

Our most recent survey provides some evidence that remote working has opened up options for professionals to change jobs and locations. Figure 33 shows that around 7 per cent of respondents report that they were looking for work in areas of the country or further away from their home than they would have pre-pandemic because of the ability to work remotely. A further 6 per cent of adults reported that being able to work remotely has allowed them to look for different jobs. On the one hand, these responses suggest that the accelerated shift to homeworking could aid the reallocation of workers into their preferred jobs, as people renew where they live and work on the basis of a shaken-up world. However, the fact that most people expect full remote working to fall back to pre-pandemic levels (as shown in Figure 29) suggest that it is wrong to declare the death of distance. What seems most realistic is that the new hybrid working pattern will give workers more options about where to live within their current region – allowing them to have a longer commute for fewer days, for example, but not allowing moves to other parts of the country entirely. But, given that workers expect to spend some time in the office – which tend to be in urban centres – this will not mean the death of city and the agglomerations cities bring.

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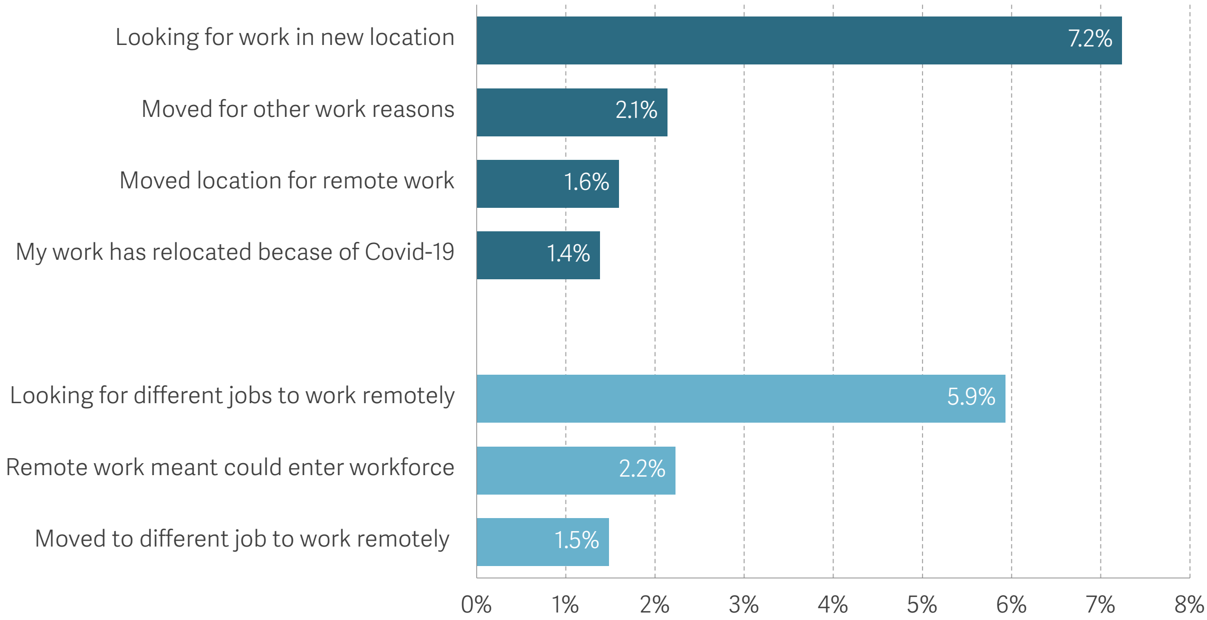
79 This reflects that, compared to other groups, women with children are less likely to work in sectors – like ICT and finance – that have high shares of workers working remotely, and particularly likely to work in sectors, like early years education, that have low reported rates of homeworking.

80 McKinsey Global Institute, The future of work after COVID-19, February 2021.

81 L Judge & C Pacitti, Housing Outlook Q2 2021: The impact of Covid-19 on housing demand across the UK, Resolution Foundation, May 2021.

FIGURE 33: **The ability to work remotely enabled people to search more broadly for work**

Reported changes to work and location as a result of being able to work remotely during the pandemic: UK, data collected 14-24 October 2021



NOTES: Base = all adults age 18 to 65 (n=6100). These figures have been analysed independently and are not the views of YouGov.
SOURCE: Analysis of YouGov, adults age 18-65 and the Coronavirus (COVID-19), October 2021 wave.

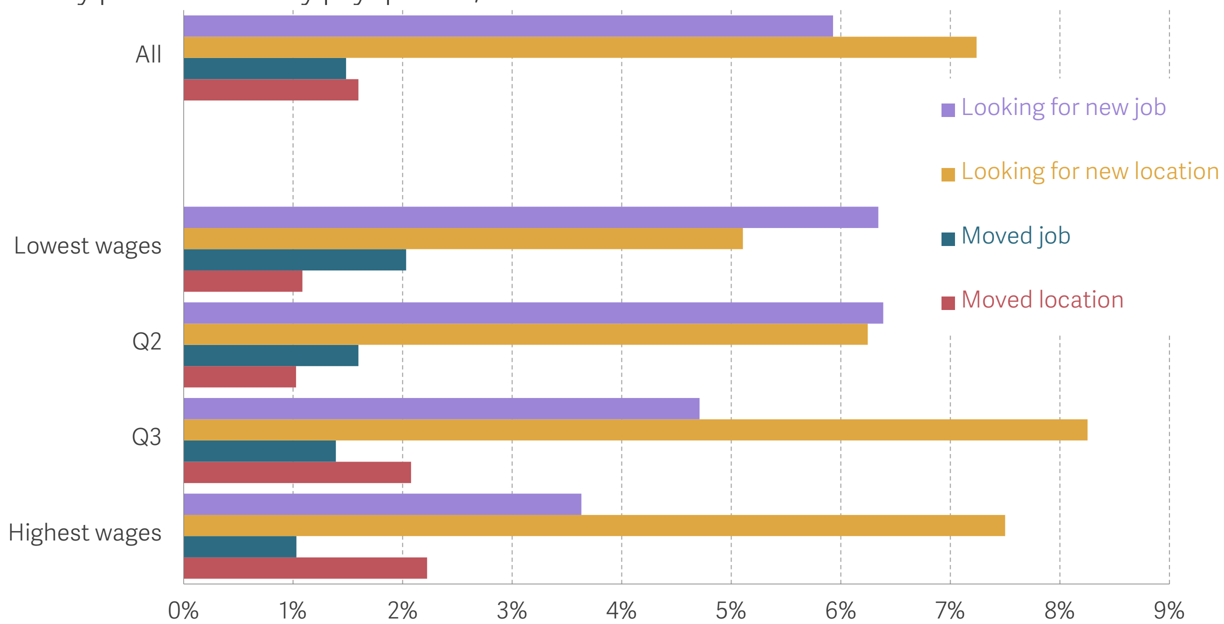
Figure 34 shows that workers in the top half of pay distribution are more likely to say that remote work has enabled them to look for work in new locations, and those in the bottom half of the pay distribution are more likely to say that remote work is an enabler to look for different jobs. Almost twice the proportion of the lowest-paid workers say that they have either moved job (2 per cent) or are looking for a new job (6.3 per cent) compared to the highest-paid (1 per cent and 3.6 per cent respectively), but this likely reflects that there is more job churn at the bottom end of the pay spectrum.

However, Figure 35 shows that survey respondents also expressed some concern about the negative impact of remote working on the number of hours worked: almost 9 per cent said that remote work had increased the hours they worked but not increased their pay. These findings are consistent with other results that have shown remote working means longer hours.[82]

82 M Gibbs, F Mengel & C Siemroth, Work from Home & Productivity: Evidence from Personnel & Analytics Data on IT Professionals, Becker Friedman Institute, July 2021.

FIGURE 34: **Workers in the top half of the pay distribution are more likely than lower-paid workers to have been able to move house, or look for work in different locations, thanks to remote working**

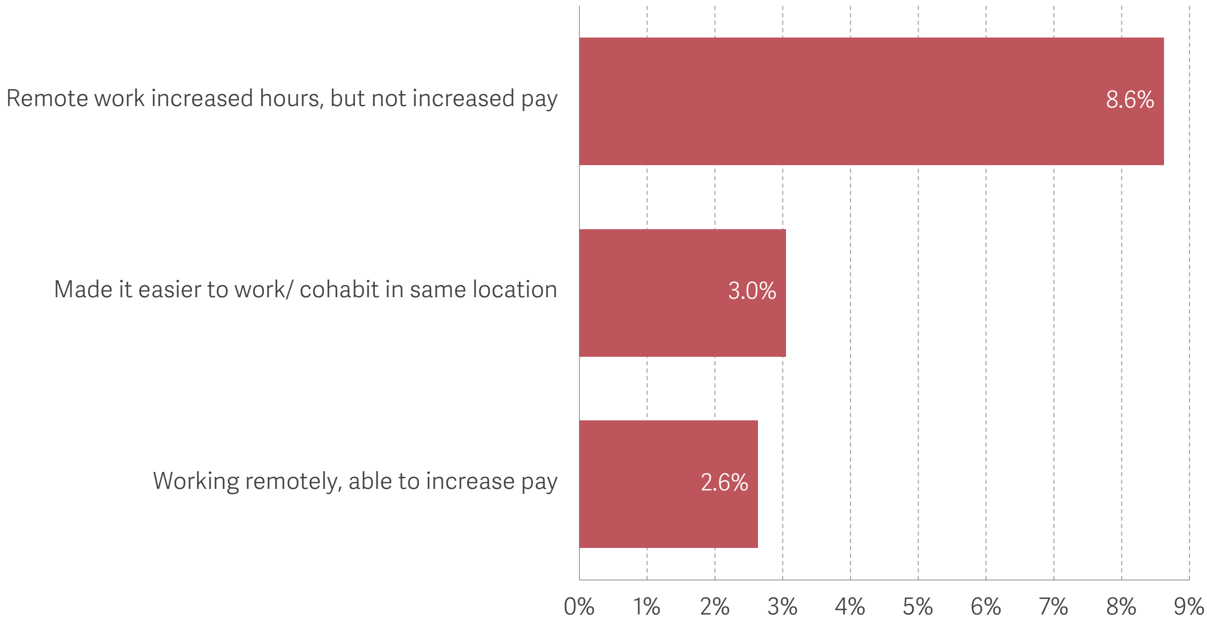
Reported changes to work and location as a result of being able to work remotely: UK, by pre-crisis weekly pay quartile, data collected 14-24 October 2021



NOTES: Base = all adults age 18 to 65 (n=6100). Base by sub-groups are: Lowest wages n=718; Q2 n=935; Q3 n=928; Highest wages n=890. These figures have been analysed independently and are not the views of YouGov.
SOURCE: Analysis of YouGov, adults age 18-65 and the Coronavirus (COVID-19), October 2021 wave.

FIGURE 35: **Remote working has increased workers' hours**

Reported changes to work life as a result of being able to work remotely during coronavirus: UK, data collected 14-24 October 2021



NOTES: Base = all adults age 18 to 65 (n=6,100). These figures have been analysed independently and are not the views of YouGov.
SOURCE: Analysis of YouGov, adults age 18-65 and the Coronavirus (COVID-19), October 2021 wave.

We have shown so far that remote work has brought an increase in hours worked. But, we have not considered what more homeworking means for overall productivity at work. The Bank of England said recently that:

> *"Many of those working from home during the pandemic reported lower productivity in surveys, although this might have also reflected issues specific to the pandemic such as caring responsibilities and initial adaptation to new working practices."*

This view was informed by research that suggested that homeworking was more likely to lead to productivity gains when it was voluntary rather than enforced, and in fact the Bank's final assessment was that working from home could boost potential productivity by around 0.5 per cent to 0.7 per cent.[83] The impact on productivity is not settled, though, and is something we will return to in future work.

The clearest finding on remote work, then, is that hybrid working patterns, where people split their time between the office and the home, are here to stay, but that we should expect full-time remote working to return to pre-pandemic levels. And, although many are focused on the lifestyle changes that hybrid working will enable for the educated professionals, the more significant reallocation will be lower earners working to service the needs of commuters who will need to find new jobs in new places.

83 Bank of England, Monetary Policy Report, November 2021. See also: J Lewis, A Šiško & M Tanaka, Covid-19 briefing: working from home and worker productivity, Bank Underground, 2 July 2021. We noted in Footnote 64 the fear that WFH could end up harming careers, and leading to greater gender gaps if it was something that women relied on more than men.

Section 5

Conclusion

Recessions leave lasting impacts on our labour market. But different recessions leave different legacies: the 1980s downturn left us with stubbornly high unemployment, while the financial crisis led to years of stagnant pay. The scale of the Covid-19 crisis, its cause, and the speed at which it hit, have all been different from previous recessions. The highly unequal impact on different sectors, the scale of behavioural change – with reduced travel and the shift of spending online – and the very unusual policy response – including the Coronavirus Job Retention Scheme (JRS) – also mark this out as not just any old recession. So a keen focus on emerging developments, rather than history, may be the best guide to the labour market legacy of this crisis.

In this report, we have provided insights into how the labour market is evolving as we begin to emerge from the pandemic. It remains to be seen exactly which changes from the pandemic stay the course, but it is already clear that there are lasting changes on the horizon.

First, we have shown that fears of rising unemployment at the end of the JRS have, thankfully, been largely unfounded. Instead, participation has taken a hit – particularly through younger and older workers leaving the labour force. There is also a considerable gender divide: this crisis has been worse than previous ones for older women's employment (although men have been hit hard, too), but among adults aged under 40, men's participation has fallen while women's participation has risen. There is a risk that a return to the pre-pandemic trend of rising employment among older women will rely on waiting for the next, post-Covid-19 cohort.

Second, the labour market is still in flux, and it is too soon to say which sectors will be winners and losers in the longer term (we will return to the impacts on different sectors and firms, and to spatial inequalities in Covid's impacts, in future work). But the frictions and mismatch that have already emerged from the pandemic means that the impacts of the Covid-19 crisis will hit productivity, at least in the short run.

Finally, although the pandemic-induced experiment in full-time homeworking looks set to end, hybrid working models are expected to stay, particularly in parts of London. Too many people are focused on the lifestyle changes for professionals; the longer-lasting impact of homeworking will be disruption for lower earners, who need to find new jobs in new places as demand shifts.

Reports published as part of The Economy 2030 Inquiry to-date

All publications are available on the Inquiry's website.

1. The UK's decisive decade: The launch report of The Economy 2030 Inquiry
2. Levelling up and down Britain: How the labour market recovery varies across the country
3. Work experiences: Changes in the subjective experience of work
4. The Carbon Crunch: Turning targets into delivery
5. Trading places: Brexit and the path to longer-term improvements in living standards
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The Inquiry is a collaboration between the Resolution Foundation and the Centre for Economic Performance at the London School of Economics. It is funded by the Nuffield Foundation.

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