State of Play

30 September 2021

Our Investment Specialist, Simon Durling, shares his thoughts in our latest update. Has the most expensive employment support scheme in the UK's history been worth the enormous cost or has it simply papered over the cracks caused by the pandemic?

The UK furlough scheme comes to an end

The Coronavirus Job Retention Scheme (JRS) was launched in the spring of 2020, paying up to 80% of people's wages up to a maximum of £2,500 per month with separate arrangements to support the self-employed - protecting over 12 million jobs. When the furlough scheme was implemented I imagine even the Chancellor of the Exchequer, Rishi Sunak, and his team couldn't have dreamt of how successful the intervention would be in maintaining the link between employee and their employers, and keeping peak unemployment well below the gloomy forecast initially predicted by the Bank of England and other economists. Unemployment peaked last autumn at 5.2% and has been falling gradually ever since. The JRS has supported a gradual return to work as the economy has begun to recover, avoiding mass unemployment risked by a premature end to the scheme.

The latest Office for National Statistics (ONS) data shows that the number of employees on the furlough scheme fell to around 1.4 million in late-August, with 40% of these (around 600,000) fully furloughed. The Resolution Foundation says that while the majority of these workers should return to their previous jobs – particularly those on partial furlough as they are already back working – this would still leave hundreds of thousands more workers needing to find new jobs in October. Dan Tomlinson, Senior Economist at the Resolution Foundation, said: 'After 18 months in which it has supported over

12 million jobs across the UK, the UK Government's Job Retention Scheme is finally set to close next week. The furlough scheme has been a living standards lifeline during the pandemic. The fact that 1.4 million employees were still on the scheme just one month before it closes shows that our labour market is still far from full health. The end of furlough is set to prompt a testing period in the labour market as even more people, particularly older workers, look for new jobs.'

Any further rises in unemployment are likely to be uneven depending on which sector of the economy they represent. Age factors are also very important. Initially when the furlough scheme launched the largest proportion of employees on furlough were in the younger age groups. As time has passed and workers have gradually returned to work, often called back by their employers, and incentivised to do so by the tapering of support in the last couple of months, those aged over 55 have become by far the biggest share of those fully furloughed. It is easy to conclude that when the support is withdrawn this week unemployment will rise sharply. However, there are many moving parts to the economic recovery which have surprised the experts. In particular are those made redundant but who choose to become inactive. Many aged over 55 continue to work well into retirement either to remain active or to top up any pension income they receive, or both. One consequence of the pandemic is to force thousands of older workers to stay at home, often shielding to avoid infection and survive on a lower income, albeit softened by the furlough contribution. Staying at home and managing on a reduced income for many has unlocked the realisation that they can live comfortably without doing the extra work, more often than not, part-time. This unexpected experience has provided the confidence to make a more permanent commitment to fully retire thus reducing the pool of workers and contributing to the reduced unemployment numbers being recorded.

Petrol pumps run dry

Last month's data released by the ONS showed that vacancies hit one million for the first time since records began. In certain sectors the shortages of applicants for vacancies is acute, none more so than haulage drivers. The last week has highlighted this shortage as information released to the media indicated the shortage of drivers would cause disruption to fuel deliveries to some petrol stations. As with the supermarket shortages at the start of lockdowns, the media coverage has prompted long queues for fuel causing petrol pumps to run dry - turning a shortage into a crisis. Whilst the UK Government asked people to fill up as normal, panic has set in creating long traffic jams in and around petrol stations. Whilst there is plenty of fuel, the shortage of drivers to deliver the fuel has prompted the latest crisis. The sector has struggled to recruit enough drivers for many years with Brexit exacerbating the problem as many foreign drivers decided to return closer to home to get work, with the Road Haulage Association claiming that the UK is estimated to be short of more than 100,000 lorry drivers - causing problems for a range of industries, including food suppliers and supermarkets, and now fuel deliveries. The Annual Population Survey produced by the ONS estimates that there were 16,000 fewer European Union nationals working as heavy goods vehicle drivers in the year ending March 2021, than in the previous year. Whilst the UK Government has said that the army are on standby and they have extended driver licenses that were due to expire in the next couple of months into next year, the recent problems are predicted to ease as many fill up their fuel tanks and the demand slows back to somewhere near normal.

Market update

Governor of the Bank of England, Andrew Bailey, speaking at the Society of Professional Economists on Monday (27 September), said that interest rates may need to increase next year in order to prevent the current higher inflation levels becoming permanent. He also said that every member of the Monetary Policy Committee was ready to raise rates before Christmas if required. These comments along with the latest inflation figures has prompted a sharp rise in UK 10 Year Government bonds over the last month to above 1% for the first time in over two years.

Yields in the UK have risen in the last 12 months by 0.8% and by 0.4% in just the last four weeks. This comes off the back of the comments made after the Federal Reserve meeting last week articulating a similar story about rates in the next 12 months. Markets are anticipating increases in interest rates much earlier than first thought as central banks respond to the threat of higher long-term inflation causing bond prices to fall as yields rise.

Share prices for oil companies have risen sharply over the last week triggered by a rise in oil prices above $80 per barrel for the first time in three years. A combination of factors including the weather-related challenges faced in the US have worried markets along with production curbs and the global economic recovery rebounding quicker than anticipated.

Find out more!

Listen **here** to our latest Market Views from Stefano Amato, Head of Multi Asset Solutions UK, as he shares his thoughts on the main themes dominating markets.

Note: Data as at 28 September 2021.

Important Information