

COVID- 19 Labour Market Insights

January 2022 – Interim report

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Introduction

This interim COVID-19 Labour Market Insights report provides evidence on the emerging impact of the Omicron variant on Scotland's economy and labour market. A fuller report will be published in late January.

The icon on the right is used throughout the report, to indicate where more detail is available in the accompanying dashboard.



Current Measures

To limit the spread of the Omicron variant, the Scottish Government advised people to work from home where possible and introduced the following measures:

- Limits on the number of people attending large indoor events (excluding places of worship).
- Physical distancing (1m) in indoor leisure settings and table service reinstated where alcohol is served.

A £375 million business support package was announced in December 2021 to help mitigate the impact of temporary restrictions. Measures will be reviewed on 18th January. Full details available [here](#).

Summary of key points

The emergence of the Omicron variant and associated measures to limit the spread of the virus present a downside risk to the Scottish economy. Over the coming months, ongoing labour shortages may be exacerbated by an increase in the number of virus cases and associated staff absences. A shortage of workers, alongside supply chain challenges and inflationary pressures, has the potential to act as a 'headwind' on economic recovery.

Measures to limit the spread of Omicron have had an impact on business activity.

Hospitality, retail, and leisure businesses expected a busy trading period in December 2021. However, the reintroduction of restrictions has had a significant impact on these sectors. In December 2021, consumer spending on face-to-face services was subdued and footfall on Scottish high streets and retail centres declined. The UK Purchasing Managers' Index reported that service sector growth fell to a ten-month low following the reintroduction of restrictions. Businesses face challenges around rising virus case numbers, which has had an impact on staff absences due to sickness or isolation.

Labour shortages are likely to be compounded by significant staff absences

In addition to existing recruitment challenges, many businesses have faced rising absences due to illness and staff self-isolation. UK government scenarios suggest that up to 25% of staff could be absent from work over the coming months, as the number of infections increase. To help combat this, isolation rules have changed in Scotland.

The impact of the Omicron variant on the labour market is yet to be determined.

In December 2021, the Scottish Government

announced a £375 million business support package to help mitigate the impact of the temporary restrictions. This package of support reflects that businesses do not have access to schemes such as the Coronavirus Job Retention Scheme (CJRS), which closed in September 2021. Evidence suggests that support packages to date have been important in protecting jobs. There are early indications that 9 in 10 people in the UK who were supported by the CJRS in September were in work in October 2021.

Increased job postings and labour market participation remain a concern.

Job posting figures in Scotland were historically high in December 2021 (47,300) compared to previous years, indicating continued demand for staff. However, the number of postings decreased by 37% compared to November 2021, partly due to seasonal patterns in posting activity. The current supply of labour does not match demand with employers reporting a continued increase in demand for workers, yet the supply of both permanent and temporary workers has decreased. Reasons for this include restrictions associated with the pandemic, demographic challenges, lower migration partly due to Brexit, and higher levels of economic inactivity.

The operating context is challenging for employers and further headwinds are expected.

As a result of the challenges faced by businesses such as the uncertainty surrounding Omicron, supply chain issues, and inflation pressures, growth in private sector business activity in Scotland slowed in December. Scottish business confidence in future activity (next 12 months) remained steady, attributed to hopes of economic recovery.

Gross Domestic Product¹



Overall, Scotland's economy has been hit hard by COVID-19. The pandemic has led to the largest annual fall of Scottish GDP on record, an almost 10% decline in 2020 compared to 2019.

In quarter 3 of 2021, the Scottish economy grew by 1.0%. Generally, GDP performance has tracked lockdown restrictions, falling during periods of closure and reduced activity and rising during periods of easing.

At its lowest point in April 2020, monthly GDP fell to 22.8% below its pre-pandemic level in February 2020. Since then, GDP has largely recovered from this initial shock. However, the emergence of the Omicron variant has led to more economic uncertainty, and restrictions have been reintroduced to curtail the spread of the virus.

The Monthly GDP figure is a lagged indicator, the most recent provisional data reported an increase of 0.2 pp in October 2021, 0.4% below the pre-pandemic level in February 2020.

In the three months to October, GDP is estimated to have grown by 0.7% compared to the previous three-month period. This reflects a slowdown in growth during the fourth quarter of 2021.

Compared to the same quarter last year (July – September 2020), GDP in Scotland grew by 7.1%.

Output in the Services sector increased by 0.3% in October, with increases in over half of all Services subsectors.

Output in the Production sector grew by 1.0% in October. There was growth in three of the four subsectors, compared with a fall of 1.0% in the manufacturing subsector..

Output in the Construction sector decreased by 3.4% in October 2021. Sectoral and regional variations in GDP are to be expected.



Recovery Scenarios

Despite recent growth in GDP and forecasts suggesting a return to pre-pandemic levels sooner than expected, the new Omicron variant of COVID-19 has brought about uncertainties and risks for economic recovery. In this section, we have drawn on published forecasts from the Scottish Fiscal Commission (SFC)², the Fraser of Allander institute³ and KPMG⁴ to provide an overview of recovery scenarios:

The SFC's December 2021 forecast suggests Scotland's economy could recover to pre-pandemic levels by **Q2 2022**. This forecast does not factor in the Omicron variant, however the SFC assume the effects of Omicron fit within their central assumptions.

In December 2021, The Fraser of Allander Institute's central scenario suggests a return to pre-pandemic output in Scotland by May 2022. This is one month later than predicted in September due to slower than predicted autumn growth.

KPMG's December 2021 UK forecast highlights uncertainties around economic outlook due to the Omicron variant. Their best case 'upside' scenario suggests the UK economy could reach pre-pandemic levels by **Q3 2022**.

Gross Domestic Product (GDP) is the standard measure of the size and health of a country's economy.

¹ Scottish Government. [GDP Monthly Estimate: September 2021](#) (November 2021)

² Scottish Fiscal Commission. [Scotland's Economic and Fiscal Forecasts](#). (December 2021)

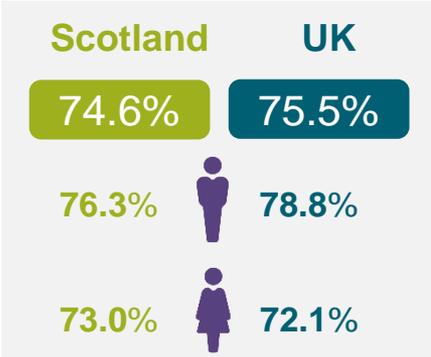
³ The Fraser of Allander Institute. [FAI Economic Commentary, Q4 2021](#) (December 2021).

⁴ KPMG. [UK Economic Outlook](#) (December 2021).

COVID-19 Labour Market Insights: **Headline Labour Market Indicators**

More information on the Labour Force Survey (LFS) is available [here](#). These figures do not yet reflect the impact of the Omicron variant.

Employment Rate (16-64)¹



The 16-64 employment rate remains high.

Compared to the same quarter of the previous year (August to October 2020), the employment rate in Scotland decreased by **0.2 ppts to 74.6%**.

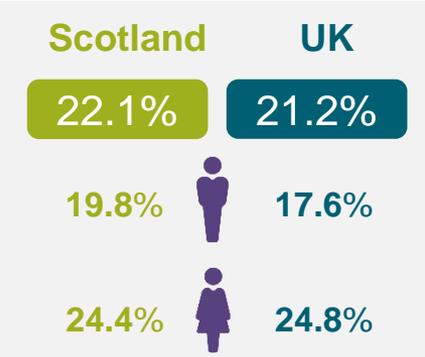
This equates to over 2.6 million employed people (aged 16+) in Scotland, a decrease of 9,000 compared to the same point last year (August to October 2020).



¹ ONS, Labour Force Survey (August to October 2008 to 2021, 14th December 2021).

² ONS, Labour Force Survey (August to October 2008 to 2021, 14th December 2021, not seasonally adjusted) *Figures

Economically Inactive (16-64)¹



Overall, there is an increase in levels of economic inactivity

Compared to the same quarter of the previous year (August to October 2020), the economic inactivity rate in Scotland increased by **0.3 ppts to 22.1%**.

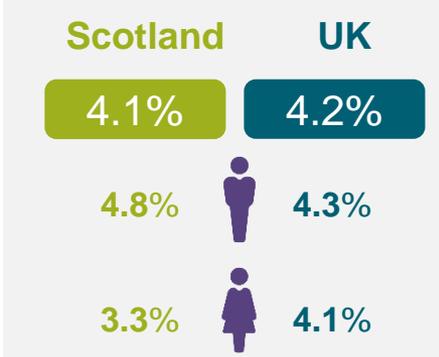
This equates to 758,000 economically inactive people in Scotland, an increase of 9,000 compared to the same point last year (August to October 2020).



are based on a small sample and should be treated with caution.

³ [Scottish Fiscal Commission Forecasts](#), December 2021

Unemployment Rate (16+)¹



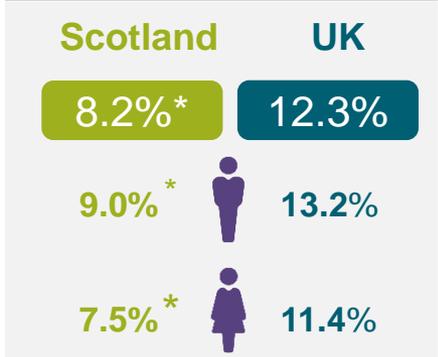
Unemployment remains low, forecast to peak at 4.9% in Q4 2021³.

Compared to the same quarter of the previous year (August to October 2020), unemployment in Scotland decreased by **0.2 ppts to 4.1%**.

This equates to 113,000 unemployed people in Scotland, a decrease of 6,000 compared to the same point last year (August to October 2020).



Youth Unemployment Rate²



Scotland's youth unemployment rate is decreasing

Compared to the same quarter of the previous year (August to October 2020), the youth unemployment rate in Scotland decreased by **1.7 ppts to 8.2%***.

This equates to 30,000* unemployed young people in Scotland, a decrease of 5,000 compared to the same point last year (August to October 2020).



Annual Population Survey: Economic Inactivity¹

Context

Scotland's unemployment rate (and the UK's) has not increased to the levels once forecast at the beginning of the pandemic. However, attention is increasingly turning to the 'economically inactive'.² Studies at UK level, such as by the Resolution Foundation, have found that **despite unemployment remaining lower than predicted, the employment rate has fallen with many of those who have lost work, including some furloughed workers, becoming economically inactive.**³



Based on Annual Population Survey data, Scotland's inactivity rate is 24.1% (826,700 people), the highest recorded since 2004/05. The Scottish economic inactivity rate has been higher than the UK average since 2015/16.



In 2020/21, more than half of the economically inactive in Scotland were either long-term sick (29.7%) or students (25.9%). In 2020/21, the number of economically inactive people who were students was at the highest level since 2004/05. Across the UK, commentators have observed that more people have enrolled into education during the pandemic.



In 2020/21, the **proportion of economically inactive people who wanted a job (18.9%)** was at the lowest point since 2004/05.



For those who wanted a job, the top three reasons for economic inactivity were: Long-term sick (31.5%), Other (23.5%), and Looking after family home (19.4%).

Data breakdowns



In 2020/21, the proportion of those economically inactive who wanted a job was lower in Scotland than all other regions of the UK except Northern Ireland. This is a change from previous years, where more economically inactive people in Scotland wanted a job compared to the UK average.



Around four in ten economically inactive people in Scotland were aged 50-64 (39.9%). The economic inactivity rate for this age group has decreased over time.

The economic inactivity rate for people 16-24 was 40.8% in 2020/21. The rate has been increasing since 2004/05, reaching its peak in 2019/20, with 41.2% of this age group being economically inactive.



Of the economically inactive people in Scotland in 2020/21, 57.4% were female and 42.6% were male. The economic inactivity rate for males has increased over time, whereas the rate for females has decreased. Analysis of 2020/21 economic inactivity data compared to previous years shows an increase in the number of males who are students and an increase in long term sickness for females.

¹ Unless otherwise stated, economic inactivity data on ² Resolution Foundation. [Begin again?](#) (November this page is from the Annual Population Survey (APS). 2021).

APS data analysis is for months July-June across ³ Resolution Foundation. [Post Furlough Blues.](#) years and provides a greater sample size for analysis (November 2021).

Equalities



The economic and social impacts of the COVID-19 pandemic have been unequal, exacerbating and widening existing inequalities. It is recognised that these impacts will continue to be experienced disproportionately by different groups.¹



The Scottish Government in its COVID Recovery Strategy outlines its vision and outcomes for Scotland's recovery.² The strategy aims to help those hardest hit by COVID by addressing the systematic inequalities worsened by the pandemic and by making progress towards a wellbeing economy.



Actions to achieve this will include upskilling and retraining opportunities for employees impacted by the pandemic and the transition to net zero, support for low income families most at risk of poverty, and mental health and wellbeing support for children and young people.

Equalities: Improving Data



It is critical that robust and comprehensive data on the characteristics of people are collected and used to inform recovery planning and government strategies.³

To continue to strengthen Scotland's evidence base, the Scottish Government launched the first phase of its Equality Data Improvement Programme (EDIP) in April 2021.⁴ This work will also support the review of the current Equality Evidence Strategy.

Spotlight on Care Experienced Young People

The challenges faced by many care experienced children, young people and adults have been further heightened by the economic and social impacts of the pandemic.^{5, 6} For example, many young people reported changes and disruption to the support they receive, and for many, support services stopped altogether.⁵

During the COVID-19 pandemic, those experiencing poverty, insecure housing and homelessness faced increasing challenges in accessing support.⁵ Many of the care experienced people who engaged with Who Cares? Scotland during this time were on zero-hour contracts, reliant on benefits and subject to Universal Credit sanctions.⁷

Many care experienced young people experienced isolation and increased loneliness as a result of living alone during

lockdown periods, impacting on their mental health and emotional wellbeing.^{8, 9}

The closure of schools and educational settings led to a loss of education for care experienced young people, coupled with increased anxiety about returning to school.⁹ Further, the closures meant parents and carers had to teach their children from home or in care settings, resulting in added pressure on potentially vulnerable care experienced parents to home school with limited resources.⁷

During the pandemic, existing issues of digital exclusion and disadvantage worsened for many care experienced young people. CELSIS emphasise that digital inclusion is essential for all areas of care leaver's lives including meeting basic needs and accessing training, education and employment.⁸

¹ Scottish Government. [Programme for Government 2021-22](#). (Sept 2021).

² Scottish Government. [COVID Recovery Strategy: for a fairer future](#). (Oct 2021).

³ Equality and Human Rights Commission.

[Covid-19 – impact on Scotland's businesses, workers and the economy](#). (June 2020).

⁴ Scottish Government. [Equality Data Improvement Programme](#). (July 2021).

⁵ Barnardo's. [Devalued](#). (Aug 2020).

⁶ Scottish Government. [COVID-19: Impact on children, young people and families](#). (Nov 2020).

⁷ Who Cares? Scotland. [Impact of COVID-19 guidance](#). (April 2020).

⁸ CELSIS. [The Digital Divide](#). (Jan 2021).

⁹ MCR Pathways. [Lockdown Survey](#). (July 2020).

Labour Shortages

Context

Across Scotland, labour shortages continue to be a challenge for many employers and may be exacerbated by staff absences due to illness and self-isolation. Insight suggests shortages may be more acute in sectors such as Hospitality, Food Processing and Agriculture, Construction and Transport. Challenges are also more persistent in rural areas. The full impact of the Omicron variant on the labour market is yet to be determined.

Labour shortages are multi-faceted and addressing labour supply will require a concerted effort across talent attraction, upskilling and reskilling, and reducing economic inactivity.

Labour Demand



According to the Royal Bank of Scotland (RBS) Report on Jobs, hiring activity across Scotland rose at a slower pace in November 2021.¹ Recruiters reported a rise in both permanent and temporary staff appointments during November. However, the **availability of candidates for both permanent and temporary roles continued to decline**. Employers attributed this decline to COVID-19, a strong demand for staff, and Brexit. Subsequently, **permanent starters' salaries rose at the fastest rate on record** in November. The rate of increase in temporary wages was slower than the peak in August but remained among the fastest on record.



During November 2021, there was a further **increase in workforce numbers in Scottish firms**.² Companies took on additional staff to accommodate greater activity requirements and a strong pipeline of new work. The rate of job creation was the slowest since April, but still amongst the fastest and sharpest on record.



Between the 15th to 28th November 2021, **38.3% of businesses reported experiencing a shortage of workers**.³ This increased to 51.2% of businesses in the Health and Social work sector, and 50.0% in the Arts, Entertainment and Recreation sector. As a result of labour shortages, 65.3% of businesses reported staff working increased hours, and 38.7% have been unable to meet demands.

Scottish Government: Business Insights and Conditions Survey (BICS) Scotland Estimates⁴

44.3%

Businesses reported vacancies were more difficult to fill compared with normal expectations for this time of year.

The sectors with the highest shares of businesses reporting hard to fill vacancies were:

58.6%

Transport and Storage

52.3%

Construction

¹ RBS. [Report on Jobs](#). (December 2021).

² RBS. [PMI](#) (December 2021).

³ Scottish Government [BICS Scotland Estimates, Data to Wave 44](#). (December 2021).

⁴ Scottish Government. [BICS Scotland Estimates](#).

[Data to Wave 44](#). (December 2021).

Labour Shortages

Supply of people

The outlook for the Scottish economy and labour market continues to be positive with strong signs of recovery. However, labour shortages combined with supply chain challenges and inflationary pressures have the potential to act as a 'headwind' on economic growth.

The Resolution Foundation highlighted there has been a large sectoral reallocation of workers from the hardest hit sectors, to sectors experiencing growth.¹ However, this reallocation is not due to job-to-job moves between sectors. Instead, this change is reportedly due to new entrants to the labour market taking up roles in growing sectors, whereas some workers leaving shrinking sectors may have moved into unemployment or economic inactivity.

There is increasing concern around the supply of available workers to fill vacancies. While the impact of the end of the furlough scheme is still to be fully determined, early indications suggest that for the UK overall, 9 in 10 people supported by the CJRS in September were in work in October 2021.²

Economic commentators agree that while the furlough scheme curtailed mass unemployment, levels of labour market participation remain a concern.

Sector Spotlight: Hospitality

To curb the spread of the omicron variant, restrictions on mixing and physical distancing were reintroduced in late December 2021. These restrictions, coupled with the rules around self isolation, have had a significant impact on the hospitality industry and have compounded existing labour shortages in Scotland.

In the UK, 40% of hospitality businesses reported a shortage of workers in late November 2021, the highest figure of any industry.¹

There are still a high number of vacancies in the hospitality sector. From August to September 2021, 30% of hospitality businesses said vacancies were more difficult to fill than normal, compared to 13% across all industries.²

It has been suggested that these labour shortages have been primarily driven by COVID-19 and Brexit.

CIPD research found that the key reason behind recruitment difficulties in hospitality was that the industry does not attract enough UK applicants.³

It was also reported that the main cause behind the lack of applicants is the perception that hospitality offers low pay while requiring high effort.³ This situation has been worsened by the pandemic, due to a perceived lack of job security in hospitality compared with other sectors.

These recruitment difficulties and labour shortages have forced many UK and Scottish businesses to close or operate on a part-time basis. Between March 2020 and May 2021, an average of 670 UK hospitality businesses closed permanently every month.⁴

In response to labour shortages, employers have indicated plans to upskill existing staff, hire more apprentices, and raise wages.⁵

¹ Resolution Foundation, [Begin Again?](#) (November 2021)

² Resolution Foundation, [Post-Furlough Blues](#) (November 2021)

³ ONS, [Business Insights and Conditions Survey](#) (December 2021).

⁴ ONS, [Hospitality businesses are most likely to be struggling to fill](#)

[vacancies](#) (November 2021).

⁵ CIPD, [Addressing Skills and Labour Shortages Post-Brexit](#) (October 2021).

⁶ UK Hospitality, [Future Shock Issue Nine: COVID and Beyond](#) (July

2021).

⁷ CIPD, [Addressing Skills and Labour Shortages Post-Brexit](#) (October

2021).

SDS Support

We are working with Scottish Government & partners to co-create and develop rapid and responsive actions as part of a systemic response.



Insight & Intelligence:
Informing a systemic response to the labour market crisis



Responsive Career Services:
Universal and targeted services to support individuals affected



Apprenticeships Plan:
Protecting apprentices, creating opportunity, stimulating demand and supporting recovery

Support for Individuals

Career Information, Advice and Guidance

We have enhanced our service offers to individuals whose employment, learning or training has been affected by the pandemic, both online and through our dedicated helpline.

Employment and Redundancy support

We've partnered with local councils to promote four areas of local support: Financial support; Employability; Wellbeing support; Medium to long-term support and advice.

Green Jobs Workforce Academy

The Green Jobs Workforce Academy can help people take a greener approach to their careers, from accessing training and learning new skills to finding a new job.

Pathway Apprenticeships

Created with learning providers and employers, providing a one-off short-term response supporting young people facing limited opportunities.

National Transition Training Fund

Phase 2 of the National Transition Training Fund invests £20million in a series of sectoral projects offering upskilling and reskilling opportunities focused on key and growth sectors.

My World of Work Job Hub

Helping employers advertise opportunities through the SDS's careers website.

Online Learning Portal

Helping people develop their skills with free online courses from training providers.

Support for Businesses

Find Business Support

Enterprise and Skills agencies aligned offer to Scottish businesses and workers.



PACE

Scottish Government's PACE service can support employers and employees facing redundancy.

Adopt an Apprentice

Provides a £5,000 grant to support a redundant Modern or Graduate Apprentice to continue their apprenticeship.

Skills for Growth

Advice for businesses on developing skills within teams or managing change – up to 2 days free consultancy.

Digital Catalyst Fund

Support for businesses and employees to fast-track advanced digital technology skills. *Available from January.*

Flexible Workforce Development Fund

Administered by the Scottish Funding Council, apprenticeship Levy-payers or SMEs can access up to £15,000 to create tailored training programmes.

The logo for Skills Development Scotland is located in the top left corner. It consists of a white rectangular box with a decorative, scalloped right edge. Inside the box, the text "Skills Development Scotland" is written in a dark blue, sans-serif font, stacked in three lines. To the left of the text, there is a vertical line of ten small, dark blue dots.

Skills
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