SMF Social Market Foundation

Net migration, unemployment and job vacancies

What will increasing unemployment and falling job vacancies mean for net migration by 2020?

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Summary

- Immigration is a hugely salient issue politically. Evidence suggests it was a key driver of the Leave vote in the referendum.
- Net migration to the UK has been high by historical standards. David Cameron promised to reduce migration to the tens of thousands, a target the Conservatives consistently failed to meet. Some commentators have suggested this failure contributed toward the Leave vote in the referendum and ultimately Cameron's resignation.
- Most economic projections suggest a difficult time for the UK in the wake of the Leave vote, leading to reduced economic output. This is likely to mean higher unemployment and lower job vacancies than would have been the case had the vote been to Remain.
- But unemployment and job vacancies are strongly correlated with net migration, and so this may also affect net migration levels.
- This means Theresa May could face an easier task in reducing net migration numbers than David Cameron did.
- We estimate net migration levels between 2016 and 2020 based on likely trends in unemployment and job vacancies.

We provide three forecasts of net migration levels between 2016 and 2020.

Forecast 1: our central forecast based on estimates of unemployment trends

- Net migration will be substantially lower than it would have been in the event of a Remain vote because of the UK's negative economic outlook. Net migration will fall to 162,000 by 2018 and 131,000 in 2020.
- Note that these forecasts don't take into account actual policy changes on migration – such as the possibility of stricter immigration rules in the event of leaving the EU. Instead they only consider how migration tends to fall when unemployment rises. If the Conservatives implement strict immigration policies these numbers could be much lower.

Forecast 2: based on a more pessimistic economic outlook where the UK leaves the Single Market entirely

- Under this forecast the falls in net migration are even greater, to 130,000 in 2018 and to 99,000 in 2020.
- Under this forecast the Conservatives would hit their net migration target in 2020.
- This would, however, come at a substantial economic cost.

Forecast 3: based on early post-referendum figures on the impact of the Leave vote on job vacancies

- Net migration could fall 58% by next year.
- The Conservatives would hit their net migration target even earlier, by 2019, but at a large economic cost.

Net migration, unemployment and job vacancies

Immigration has been a hugely salient topic in recent UK political debate. Surveys suggest it was one of the key predictors of voting intention in the EU referendum.[i]

Net migration to the UK has been high by historical standards in recent years, with 333,000 more people coming to the UK than leaving in 2015, up from 48,000 in 1997. David Cameron promised to reduce migration to the tens of thousands, a target the Conservatives consistently failed to meet. Some commentators have suggested this failure contributed toward the Leave vote in the referendum and ultimately Cameron's resignation.

In previous work we argued that the target was a mistake. Attempts to meet it by controlling non-EU migration led to significant damage to businesses, universities and families, without doing much to get the headline net migration figure down or to reassure voters concerned about immigration.

Yet Theresa May, the new PM, could face an easier task in reducing net migration numbers than Cameron did. Most economic projections suggest a difficult time for the UK in the wake of the Leave vote, leading to reduced economic output. This is likely to mean higher unemployment and lower job vacancies than would have been the case had the vote been to Remain.

We show below that both unemployment and job vacancies have been strongly correlated with net migration. As unemployment falls, or as job vacancies increase, net migration goes up; and as unemployment rises or job vacancies fall, net migration falls too. This is likely to be driven by a wide range of factors: relative employment prospects and wage differentials between the UK and other places a potential migrant could live, for example. Migration, unemployment and job vacancies may also interact with each other.

We are not able to account for all these complexities here. Instead we simply ask: could this correlation continue in the future? If it does, we show what this might mean for net migration in the years ahead.

Migration and unemployment

Figure 1 shows the relationship between net migration and unemployment over the past 25 years. At the start of the 1990s, high unemployment coincided with net migration turning negative (more people leaving than coming into the UK). As unemployment fell throughout the 90s, net migration increased. There was a jump in net migration in 2004, coinciding with EU enlargement, and a peak was reached of around 273,000 in 2007. Unemployment increased after 2008, and net migration had fallen to 177,000 by 2012. After this point, unemployment fell and net migration rose to new highs.
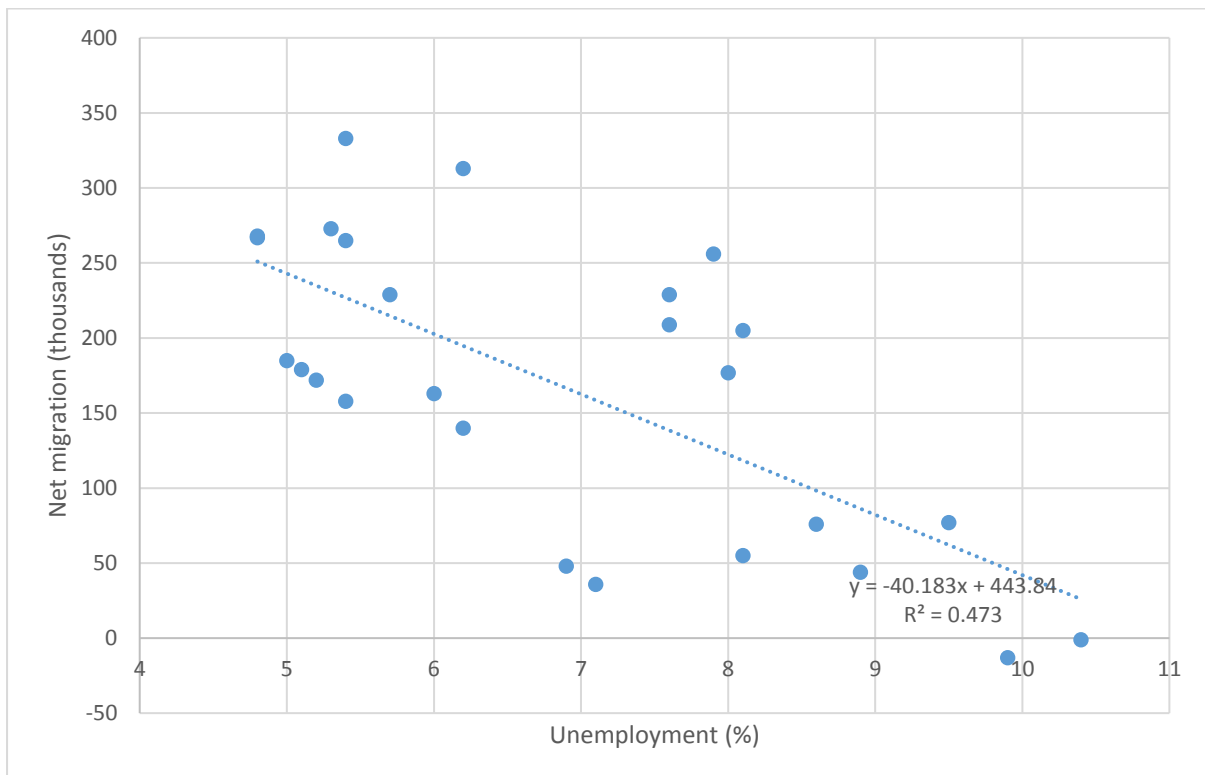
The relationship between net migration and unemployment is shown in a different way in Figure 2. The scatter plot shows years in which net migration was high tend to be those with low unemployment; and years in which net migration was low tend to be those with high unemployment. Net migration and unemployment are negatively correlated with each other: for each percentage point increase in unemployment, net migration decreases by an average of 40,183.

Figure 1: UK net migration and unemployment over the past 25 years
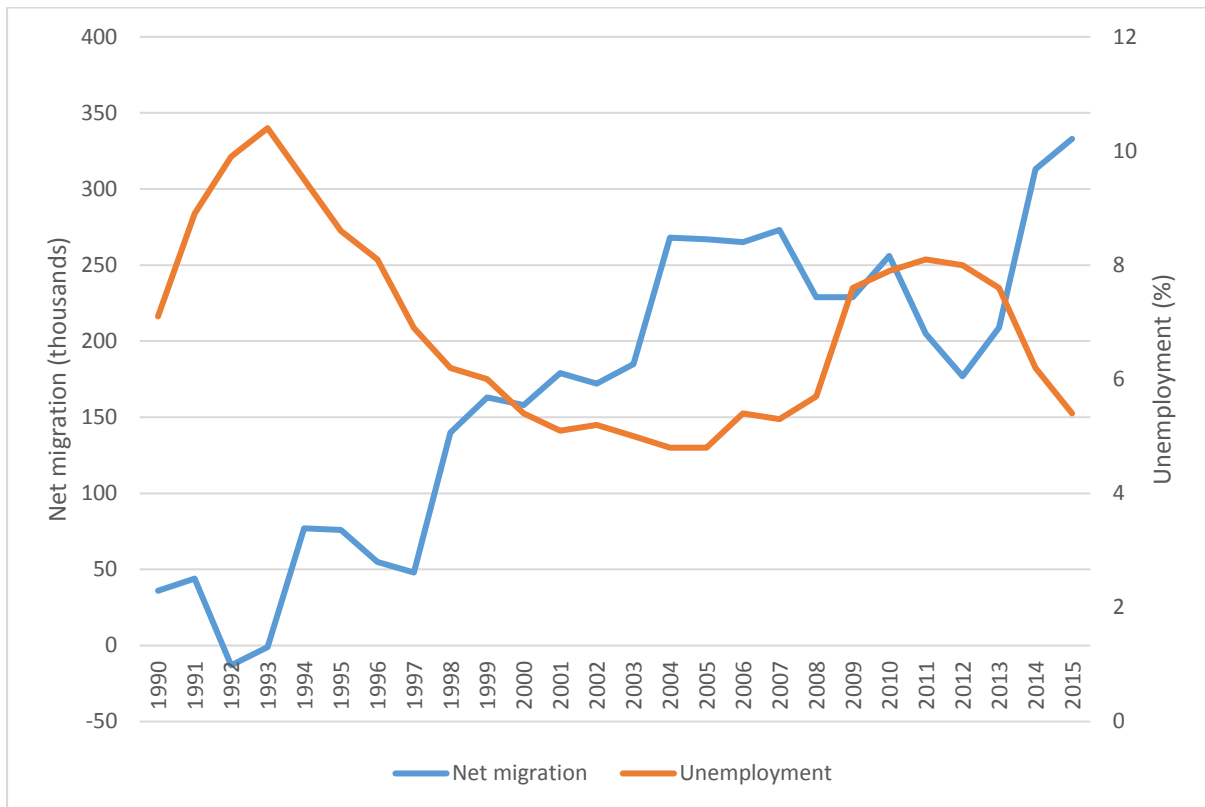
Sources: ONS Labour Market Statistics; ONS LTIM

Figure 2: Scatter plot of UK net migration and unemployment

y = -40.183x + 443.84
R² = 0.473

Sources: ONS Labour Market Statistics; ONS LTIM

What are the implications of this for net migration in the years ahead? Clearly the relationship between migration and unemployment is complex: each may cause changes in the other, and there may be third factors that affect both at the same time. However, here we simply ask: if the negative correlation between the two continues to hold, what does this mean for net migration?

Figure 3 shows three forecasts of net migration up to 2020. The first is based on the latest ONS National Population Projection data, calculated before the referendum was announced (in 2014). We use this as a 'baseline' to demonstrate what would have been likely to happen if the referendum had not taken place.

The second uses the Treasury's estimate for changes to unemployment in the event of a Leave vote. Its estimate is that unemployment will be 1.6% higher than it would have otherwise been by 2018.[ii] This estimate is similar to the central estimates made by other organisations: the OECD, for instance, predicts a 1.5% increase in unemployment.[iii] We assume this unemployment effect is phased in gradually in 2016 and 2017, and that is remains the same in 2019 and 2020.

The third forecast uses the Treasury's estimate for unemployment in the event of a severe shock following a Leave vote. This estimate is that unemployment will be 2.4% higher than it would have otherwise been by 2018. The severe shock estimate assumes that there is more uncertainty and financial market volatility than for the first estimate, based on a scenario in which the UK leaves the Single Market altogether and defaults to WTO membership. With the severe shock estimate the level of financial market volatility is assumed to be around half that seen during the 2008 and 2009 financial crisis.[iv]

Figure 3 shows that, under the 'baseline' forecast, net migration would have fallen gradually from its 2015 peak of 333,0000 to around 200,000 by 2020. Under the main post-referendum forecast, however, net migration would be substantially lower, falling to 162,000 by 2018 and 131,000 in 2020. Under the severe shock forecast the falls are even greater, to 130,000 in 2018 and to 99,000 in 2020.

Note that these forecasts don't take into account actual policy changes on migration – such as the possibility of stricter immigration rules in the event of leaving the EU – but instead just consider how migration tends to fall when unemployment rises. In the severe shock scenario the Conservatives would meet their net migration target after all without having to change immigration policy, simply because of changes to unemployment.

Figure 3: Estimates of net migration based on projections of changes to unemployment
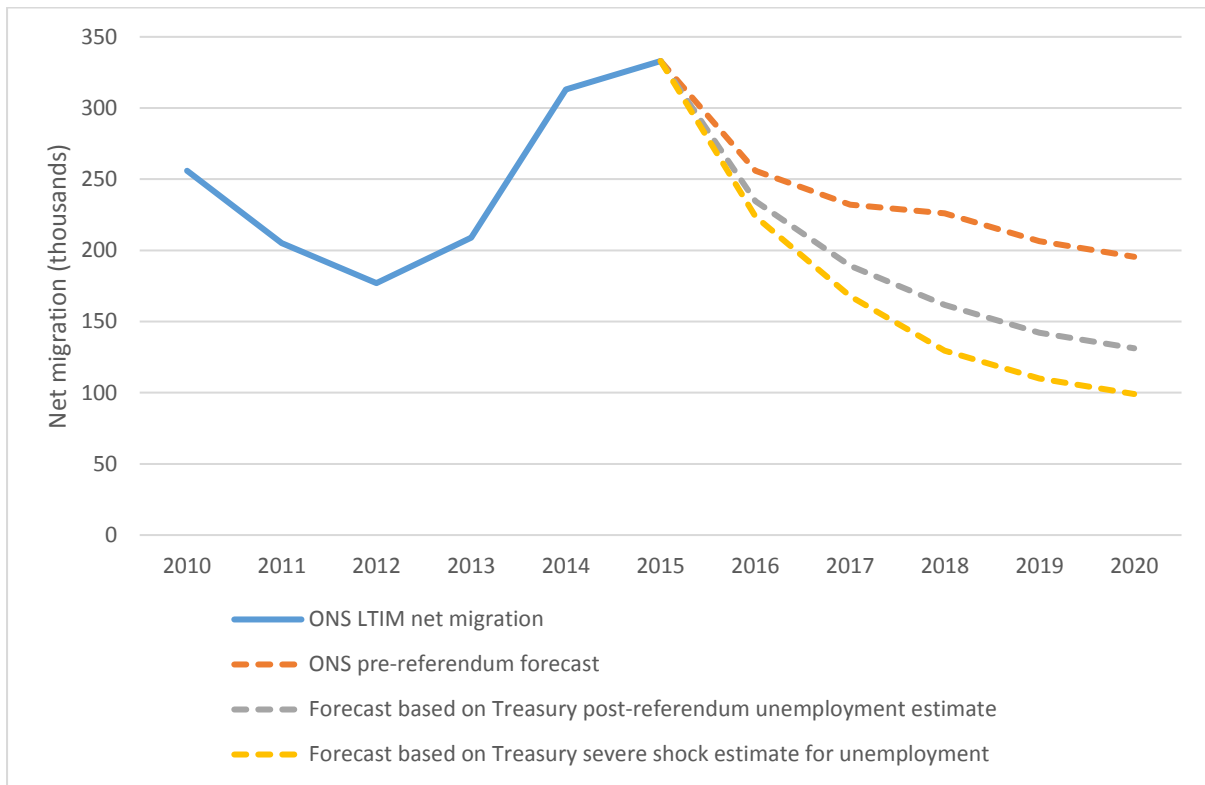

Sources: Author's calculations based on ONS LTIM, ONS National Population Projections, and HM Treasury analysis of the impact of leaving the EU

Migration and job vacancies

Net migration is also strongly correlated with the number of UK job vacancies. When the number of job vacancies increases, net migration tends to increase too; and when job vacancies decrease, net migration also tends to fall. Figure 4 shows an increase in both migration and vacancies in the mid-2000s; a fall in migration with a sharper fall in vacancies following 2008; and a marked increase in both net migration and job vacancies from 2012.

Figure 5 shows the same relationship but using a scatter plot. Periods (sixth month periods in this case) in which there were many job vacancies were also periods in which net migration was high. It shows that, on average, a 100,000 increase in job vacancies was accompanied by an increase of 31,830 in net migration.

Figure 4: Net migration and total job vacancies
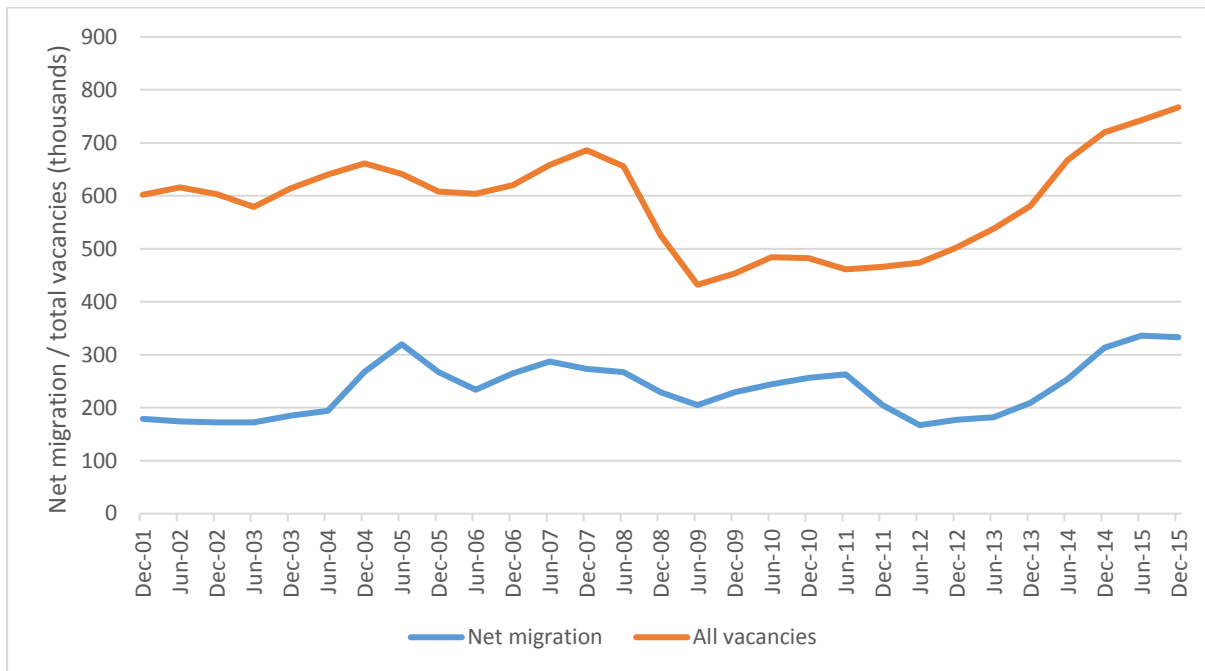
Sources: ONS LTIM estimates; ONS Vacancy Survey

Figure 5: Scatter plot of net migration and job vacancies
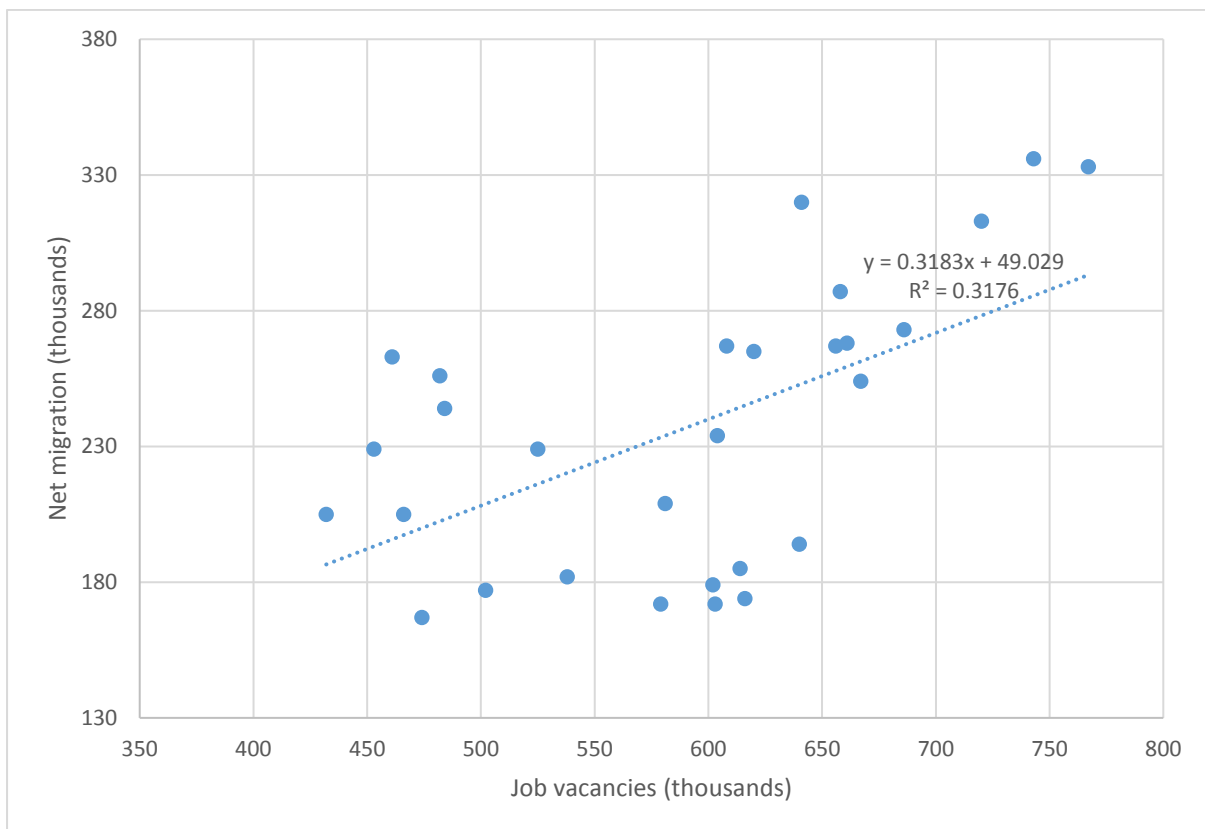
Sources: ONS LTIM estimates; ONS Vacancy Survey

Figure 6: Job openings advertised online before and after the referendum

Job openings

Openings advertised online
On CEB TalentNeuron tool (million)

- 2015
- 2016

|	2015	2016
14-22 Jun	1.49	1.47
23 Jun-4 Jul	1.55	0.82

Source: CEB TalentNeuron

Source: FT/CEB TalentNeuron

What does this mean for net migration over the coming years? We have very little precise information on what the effect of the Leave vote will be on job vacancies, but initial figures from the Financial Times show a very steep fall in job openings advertised online in the week following the referendum. The FT's figures are based on a different measure to the ONS figures shown above, but job openings on 14th – 22nd June 2016 were broadly comparable with the previous year. Yet the following week, the 23rd June – 4th July, saw a very sharp fall, with job openings down 47% compared with a year earlier (see Figure 6).

These initial findings may well be driven by uncertainty surrounding the referendum result, and could be temporary. But what if they are a sign of things to come? What would this mean for net migration?

Figure 7 shows that these figures on job vacancies imply a very sharp fall in net migration. By the end of 2016 net migration would be just 141,000, down from 333,000 in 2015 – a reduction of 58%. The Conservatives would hit their net migration target in 2019, with migration falling to just 81,000 in 2020.

Figure 7: Estimates of net migration based on early figures on job vacancies
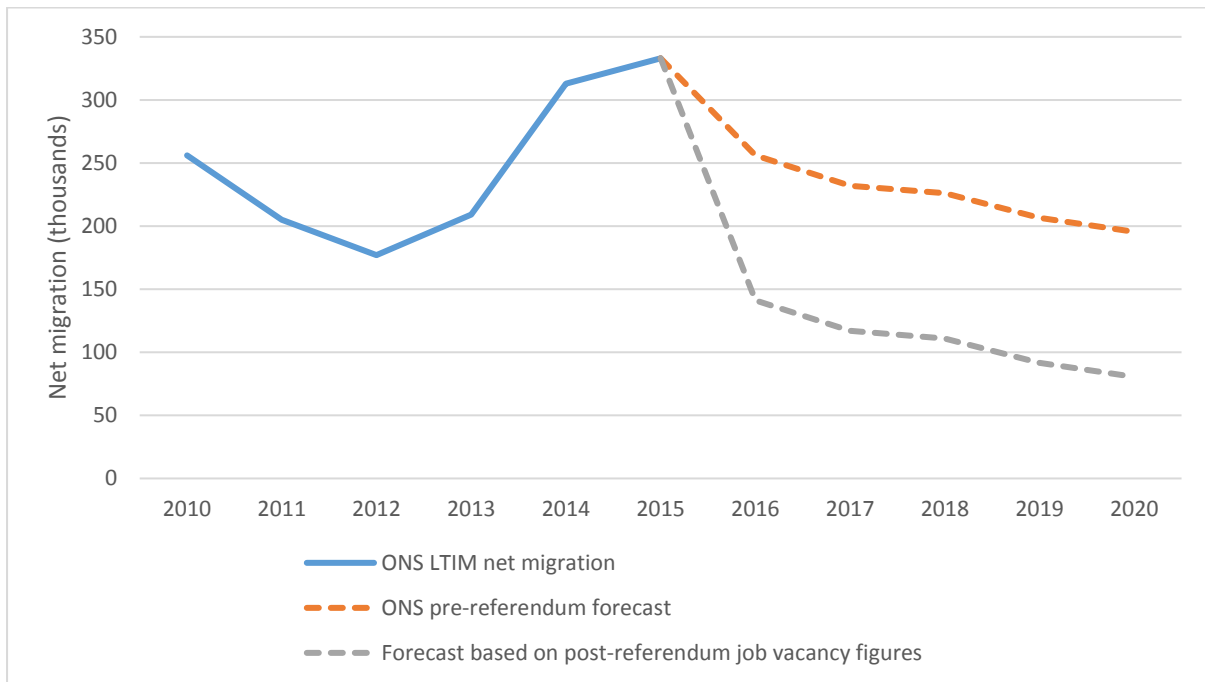
Sources: Author's calculations based on ONS LTIM, ONS National Population Projections, and FT/CEB TalentNeuron analysis of job vacancies

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https://www.chathamhouse.org/sites/files/chathamhouse/publications/research/20151209Euroscepticism GoodwinMilazzo.pdf
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