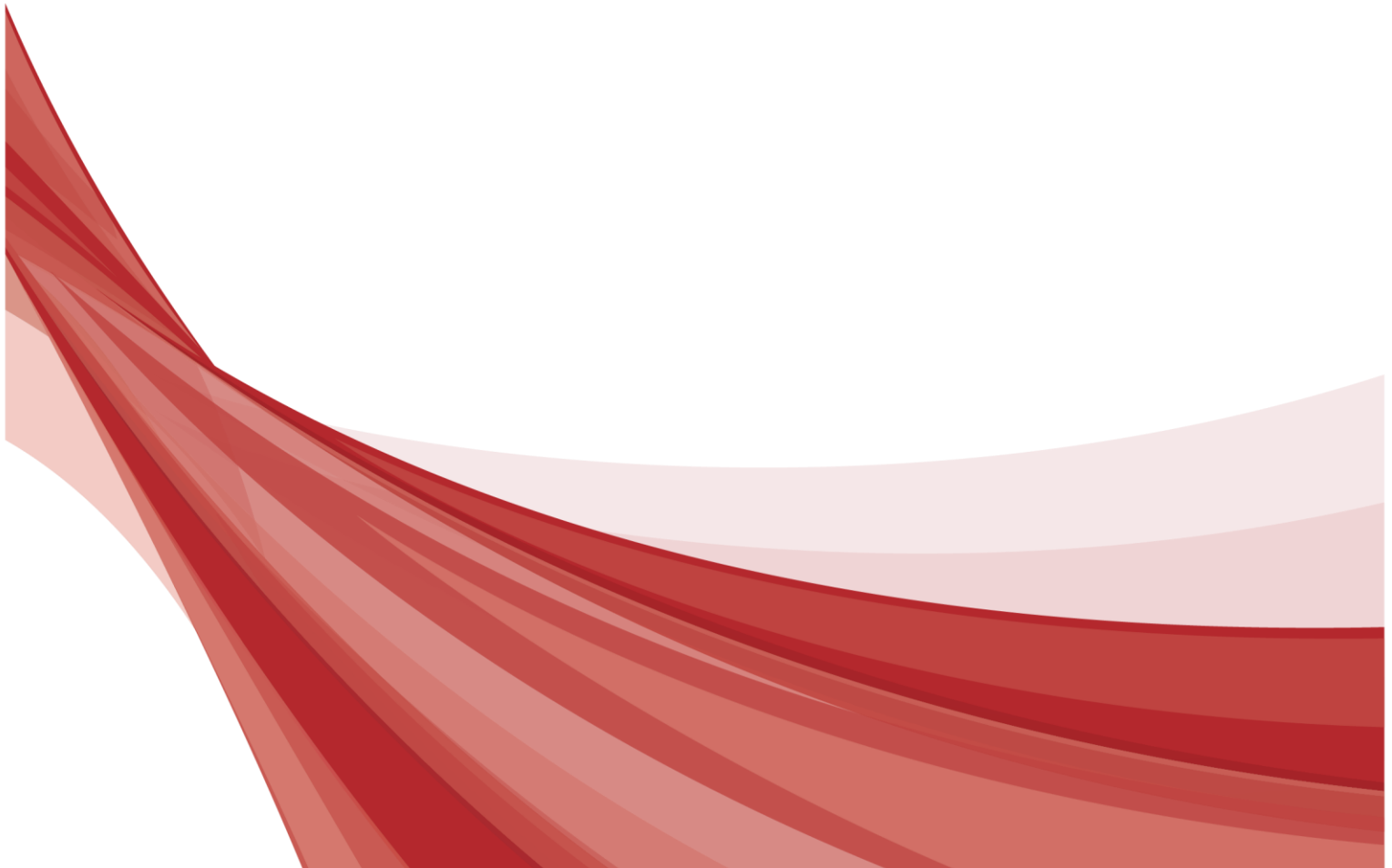


Taking the temperature of the South West economy

**A snap-shot of the regional economy following the vote to leave the
European Union**



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Section one

Introduction

The South West TUC campaigned to stay in the EU ahead of the referendum because we thought it was the best way to protect decent jobs and rights at work. But the British people made a clear choice. The priority now is to ensure that working people don't pay the price for the decision to leave the EU.

Even prior to the vote, Britain suffered the largest fall in wages of any developed country except Greece following the financial crisis. It's clear that working people cannot afford another hit to their wages and their jobs.

We want a strong regional economy that creates and maintains decent well-paid jobs for everyone. We believe this will be harder outside the EU but our priority is to represent working people and to campaign to protect their interests.

We want to see the government take pre-emptive action to stop any economic showdown, calm any uncertainty and ensure that jobs, pay and rights are protected in the process of a British exit.

Statistics from the Office of National Statistics show eight per cent of jobs in the region – that's around 250,000 people – are dependent on EU exports. This includes some of the largest engineering companies in the UK, such as Rolls Royce and British Aerospace, major automotive business with Honda in Swindon, key financial and business services, food and drink production, creative industries and the critical tourism sector.

Of these jobs, 65,000 are in distribution, transport, hotels and restaurants, 39,000 in the professional and support service sector, 23,000 in production, 8,000 in finance and insurance, and 7,000 in information and communication.

Wages in the South West already lag behind the rest of the country with average weekly pay at £410 compared to £442 for England. Regional statistics, however, mask massive differences from Torbay at £303 to Swindon at £490.

This report sets out to take the temperature of the post-Brexit South West economy and understand the emerging impacts on working people. It is too early to tell the full impact of Brexit; this will only be known after the UK formally leaves the EU and faces whatever trading relationship is established.

This briefing contains analysis of national and regional data, and includes the first post-referendum insights from the South West TUC's panel of trade union convenors working at major private sector employers across the region. This panel is made up of senior volunteer union reps and officers who have responsibility for negotiations with employers for a significant number of staff, often across a number of unions and sites. They are an invaluable source of real grassroots intelligence

about the impacts of wider economic and market changes on employees at some of the Region's biggest companies.

Trade union representatives and officers are constantly engaged with key changes in workplaces. They negotiate pay deals, work changes and redundancies. They are involved with training and learning at work, health and safety and future planning. Most importantly their job is to give voice to the members they represent – some 500,000 workers in the South West. They are often the first to spot trends in the industries they cover and are a useful source of information about the way the economy is going.

The South West TUC plans to use this network over the coming months to track how the regional economy is doing from their perspective.

Section two

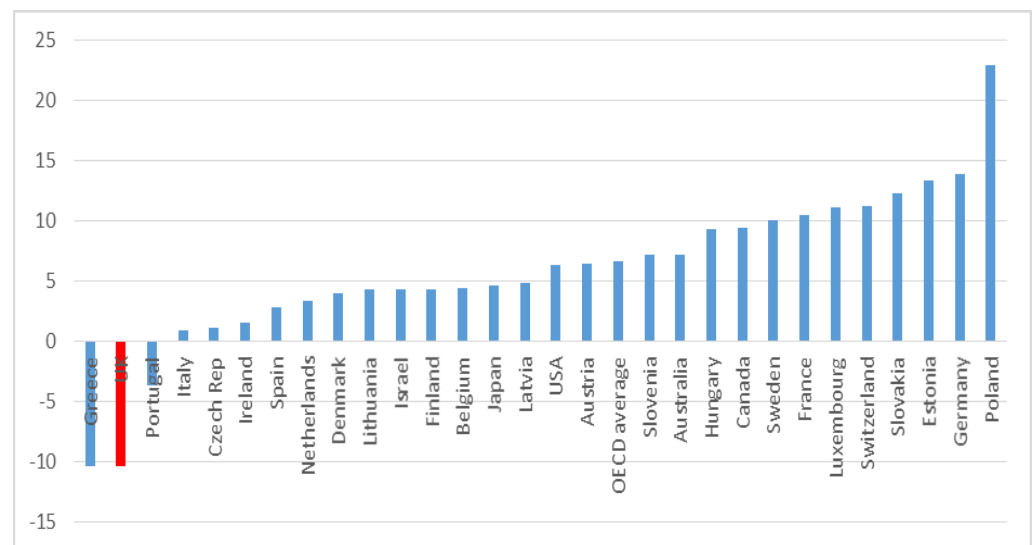
The South West before Brexit: a fragile recovery

This section looks at how workers’ pay and employment prospects were faring before the 23rd June to give a baseline from which to assess the impact of Brexit.

Pay and incomes

The most notable feature of the UK economy for workers has been the prolonged pay freeze, with workers in the UK suffering the largest fall in wages following the recession of any developed economy other than Greece.¹

Change in real wages, 2007-2015



Source: TUC analysis of OECD data.

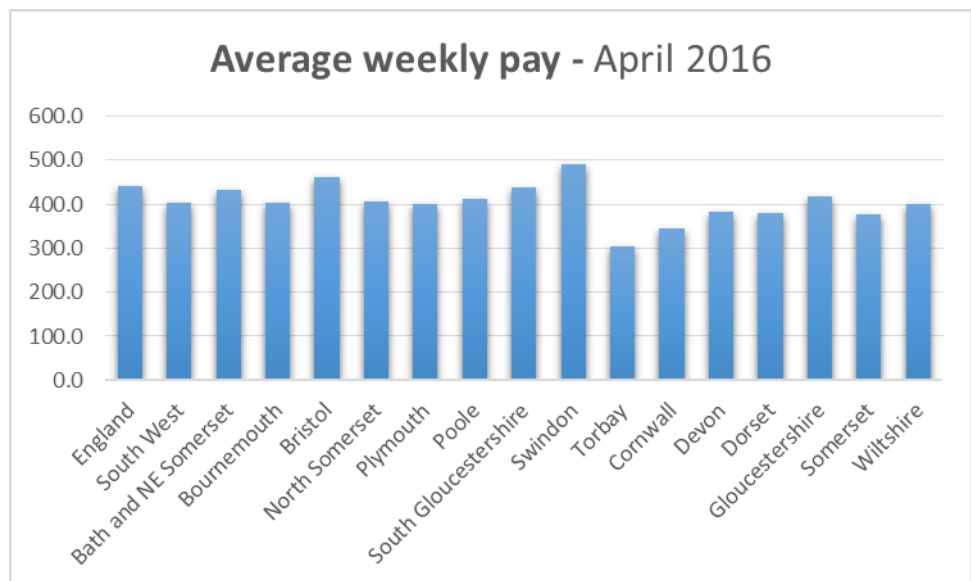
Pay has kept ahead of inflation in 2016 so far but growth has been weak. The latest figures show real weekly pay still £20 below its pre-recession peak.² That’s helped lead to a situation where annual household incomes for people of working age are still £900 below their pre-recession (2007/08) level, despite a welcome recovery for older people.

Source: ONS ASHE weekly gross median pay based on workplace

¹ TUC analysis of OECD data.

² Regular pay for June 2016, adjusted by CPI.

Longer term: what kind of deal



Productivity and growth

Weak pay growth has accompanied poor productivity and unbalanced growth across the economy. Prior to the referendum the South West economy was growing but slow by historical standards.

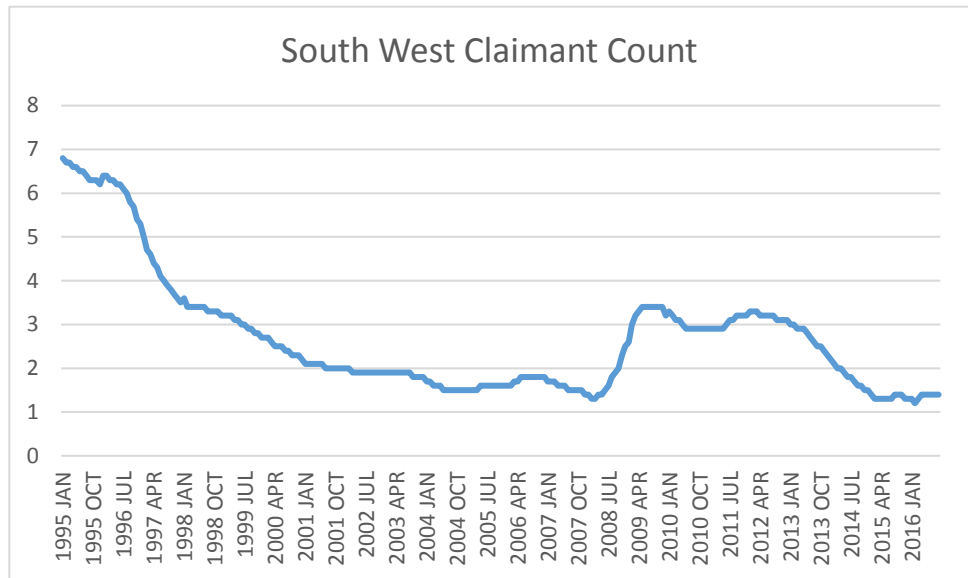
Business West's survey of almost 1,000 businesses taken just before the referendum found the South West economy was showing signs of slowing after a positive start to the year. The survey of companies in the West of England, Gloucestershire, Swindon and Wiltshire in May and June found that:

- Domestic orders decreased by two points to 37%
- International orders dropped four points to 35%.
- Just over a quarter of firms (27%) planned to take on new staff in the next three months, which was unchanged on the quarter, and recruitment intentions fell one point to 31%.
- All major indicators were below levels seen this time last year.
- Two thirds of businesses said they felt confident about the year ahead.

The South West was experiencing record employment rates going into the Brexit vote. 80.3% of people in the South West are economically active compared to 78.5% of the UK³. The employment rate of 76% in August 2016 showed a 1.1% fall over the previous three months.⁴ The rate of reduction in unemployment has slowed in recent months, suggesting that the UK could have been reaching the end of a cyclical recovery.

³ Nomis Labour Market Profile June-August 2016

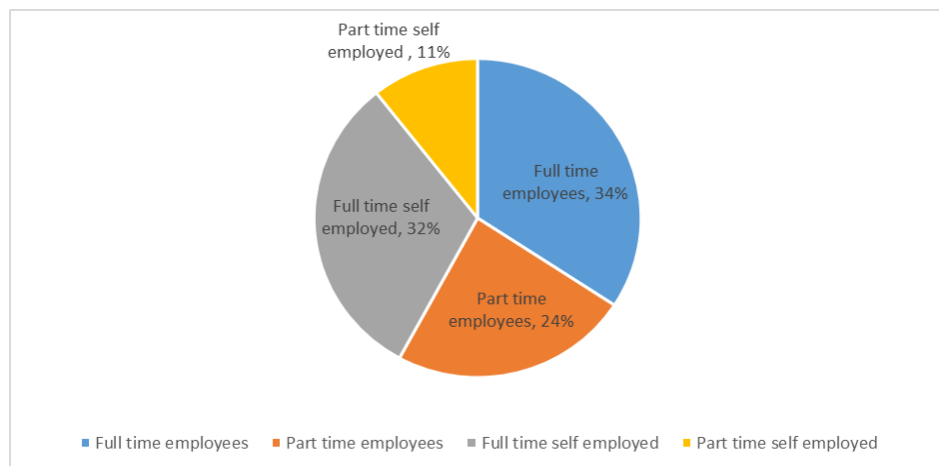
⁴ ONS Regional labour market statistics, October 2016



Source: Labour Market Statistics, October 2016

High employment rates are welcome, but there remain signs that weak pay growth is underpinned by an increase in insecure forms of working, with nearly two thirds of the employment growth over the past 12 months in either part time work or self-employment. The South West has the lowest number of hours worked at 31.3 per week confirming the high proportion of part-time jobs in the region.

Share of total growth in employment, April-June 2015 – April-June 2016



Source: Labour Market Statistics August 2016

In 2014/15, self-employed earnings were still a massive 24 per cent below their pre-crisis peak, with the gap with employee earnings widening so that, in 2014/15, the self-employed earned over £8,000 less a year than employees.⁵

⁵ Family Resources Survey: financial year 2014/15 Table 7.1: Median gross earnings of employees and the self-employed, 2004/05 to 2014/15, United Kingdom (2014/15 prices)¹

Longer term: what kind of deal

The rise in self-employment has been particularly prevalent in certain industries such as parcel delivery, taxis and construction. The recent report by Bristol Citizens Advice highlights the impact of bogus self-employment with drivers facing excessive hours, financial risk and non-payment of wages.⁶

⁶ *None of the freedom, all of the risk* Bristol Citizens Advice, November 2016

Section three

Brexit impact: too soon to tell

The short answer to the question ‘What is the economic impact of Brexit?’ is ‘It’s too early to tell’. While many are looking at the current data for confirmation of their prior assumptions, whether positive or negative, as yet we have little reliable evidence of the impact of the vote. Economic data will take some time to provide clarity and the uncertainty over the terms of Brexit will inevitably confuse matters.

The risk to jobs and growth

Members of our panel of union convenors and officers were chosen because they represent a significant cross-section of the South West economy. Officers who are constantly visiting a range of businesses to represent their members know the main issues at hand and see trends as they emerge.

Unsurprisingly at this early stage, in response to our first set of questions, the majority of reps said it was too early to tell what the impact is. This is partly due to the fact large firms plan several years in advance, so any changes would impact further down the line.

Around a quarter of our panel expect more redundancies to be declared and have seen a fall in vacancies as employers hold back or delay investment. The overall tone of the survey, so soon after the referendum, reveals workers are wary about what will happen to their jobs in the future.

The mixed picture is evident when equal numbers of the panel felt employers would both invest and scale back.

While relatively confident of their jobs in the short-term, many are worried – especially those working for the big engineering firms – their jobs will be relocated abroad to fill the skills gaps that are appearing in the UK.

Conversely, if their jobs stay in the UK, they fear their pay and working conditions could suffer as the UK economy embraces zero-hours contracts.

Skill shortages and migrant labour

The referendum vote has left EU citizens uncertain of their future status within the UK. It has also left employers unsure of how they will meet future labour needs.

Three quarters of our panel reported that migrant workers felt less secure in their jobs. One rep said there had been an increase in racist attacks as a result of the Brexit vote. “It’s become acceptable to be outspoken against migrant workers,” he said.

Longer term: what kind of deal

Comments included: "Workers from the EU are worried for their prospects. They no longer feel secure working here." "All workers feel less secure. Brexit hasn't made them feel more secure!" "Most EU workers are from an agency so they don't feel that secure." "They are worried about what's going to happen because no-one will give them a clear answer." "They're worried about their jobs." "People from other European countries feel insecure. They fear it rather than experience it." And "They feel less secure and will continue to do so until the terms of Brexit are sorted out".

Panel members with responsibility for care workers highlighted the on-going shortages in the sector and concerns over the impact of Brexit. One reported that some EU workers were returning home after the vote and spoke of the pressure from family members in the host country hearing reports that Britain was now unsafe. Another explained: "Private carers find it hard to recruit staff because the jobs are so low paid and, when they do recruit people, not all are trained adequately. There is a skills shortage in trained carers, especially those trained to cope with dementia. Many of these gaps are filled by migrant workers."

Three quarters of our panel said there are skills shortages in the workplaces they cover. Panel members spoke of skills shortages in engineering being filled by migrant workers (from the EU and India) on short-term contracts but, as these contracts end, there was the fear they may return to their home country rather than stay on in the UK in the current economic and political climate.

The skills shortages tend to be for highly-skilled workers it is hard to replace in areas such as stress engineering, load analysis and engine fitting. One panel member spoke of the added pressure that will come once the Hinkley Point construction project gets underway. In transport, lorry and bus drivers are in short supply.

In manufacturing, reps told us skills shortages were the result of a lack of investment in training ("It's beginning to bite," one said).

Some reps reported their employers were working alongside unionlearn to attempt to fill the gaps by training staff and encouraging adult apprenticeships.

In retail, there is a shortage of skilled butchers in slaughterhouses.

The civil service is also experiencing skills shortages because government departments pay less than equivalent jobs in the private sector. Experienced workers have lost their jobs due to government cuts, and employers are struggling to replace them.

Workers' rights and relations

One rep covering transport and distribution reported a number of recent cases where employers were seeking to get drivers to work six long days, one day off amidst confusion over domestic and EU regulations.

Section four

Reliance on the EU

While uncertainty about a future trade deal may damage the economy in the medium term, the long term prospects for jobs and pay depend on the terms on which British companies are able to trade with Europe and the rest of the world.

At present, Britain's membership of the single market brings a number of benefits to UK businesses in terms of their ability to trade. These include:

- Membership of a customs union, with no tariffs on goods moving between EU member states;
- A common tariff applied to goods entering from outside the EU;
- Common regulatory standards and restrictions on non-tariff barriers to trade;
- Co-operation on customs administration processes;
- Harmonised rules on intellectual property arrangements; and
- Rules to facilitate the free movement of services, including the EU's financial services 'passport' allowing firms to provide services across the EU without the need for further authorisations.

275,000 jobs linked to EU exports

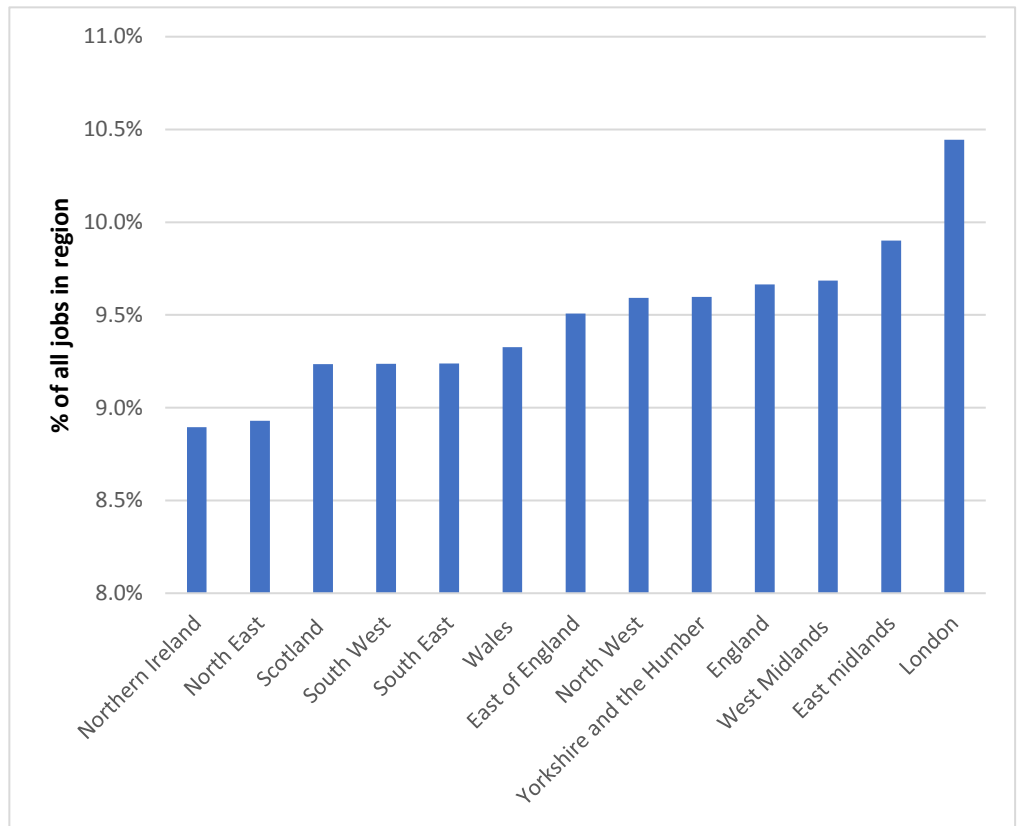
Nationally the EU accounts for 44% of all exports from the UK⁷. In total this has been calculated to support 3.3 million jobs – 275,000 in the South West,⁸ which are now vulnerable to changes in trade arrangements with Europe.

The South West TUC estimates that at least around one in ten jobs in the South West is currently linked to EU exports.

⁷ See ONS [UK Balance of payments](#) and [Balance of payments](#)

⁸ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/509499/Number_of_regional_jobs_linked_to_EU_exports.pdf

Longer term: what kind of deal



Proportion of jobs in each region that are EU export dependent⁹

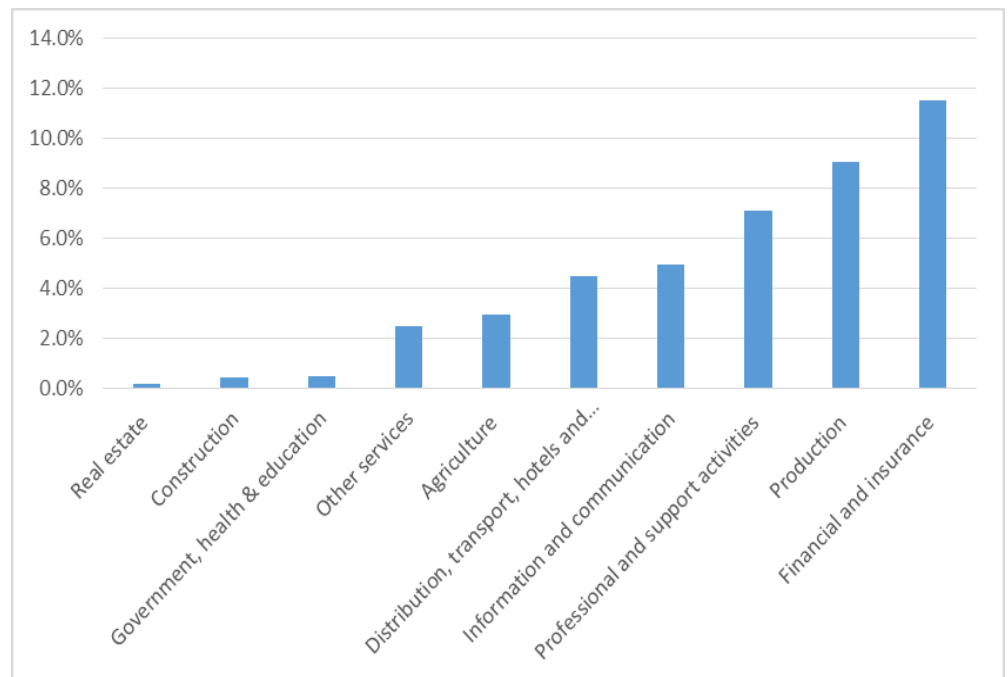
Source: ONS workforce jobs by region and industry, HMT Number of regional jobs related to EU exports,

The sectors most reliant on exports are financial and insurance services, where EU exports account for more than ten per cent of demand for products. Financial and insurance firms are well represented in the South West especially in Bristol, Bournemouth and Poole, Gloucestershire and Swindon.

Production – including manufacturing – EU exports account for just less than ten per cent. Professional and support services, information and communication, and distribution, transport, hotels and restaurants all see EU exports account for more than ten per cent of demand.

⁹ [ONS UK workforce jobs by region and industry](#)

EU Export dependent industries (% of demand for products) ¹⁰



Source: ONS supply and use tables, ONS UK balance of payments taking export as percentage of final demand multiplied by percentage of national exports to EU

This does not tell us about the size of each of these sectors, and therefore the impact on jobs of any change in trading relations. If we look at the number of people directly employed in each of the five most export dependent sectors, the largest employer is distribution, transport, hotels and restaurants (8.8 million jobs), followed by professional and support services (5.9 million) then production (3.1 million), information and communication services (1.3 million) and finally finance and insurance activities (1.1 million jobs).

The distribution of these jobs varies around the UK. This analysis has removed the transport, distribution and hotel jobs that rely on tourism, and are not subject to EU trade negotiations. It shows that while professional and support services (such as cleaning services, private security provision and call centres) dominate EU export dependent jobs in each region, in every region except London, there are more EU export dependent jobs in manufacturing than in financial services.

In numbers of jobs in the South West this is 23,000 in production, 8,000 in financial services, 7,000 in information and communication and 39,000 in professional and support services.

¹⁰ [ONS Input output supply and use tables](#)

Longer term: what kind of deal

Proportion of EU export dependent jobs in each sector by region

	% Financial	% Information and communication	% distribution, transport, hotels and restaurants	% production	% Professional and support services
North east	2%	2%	26%	11%	14%
North west	3%	3%	27%	11%	16%
Yorkshire and the Humber	3%	3%	27%	12%	15%
East Midlands	2%	2%	27%	13%	18%
West Midlands	2%	3%	28%	13%	15%
East of England	2%	4%	27%	9%	19%
London	7%	8%	23%	3%	23%
South east	3%	5%	26%	7%	18%
South west	3%	3%	26%	9%	16%
Wales	2%	2%	24%	13%	12%
Scotland	3%	3%	26%	11%	15%
Northern Ireland	3%	3%	27%	11%	11%

Source: ONS workforce by region and industry, HMT Number of regional jobs linked to EU exports.

The reliance on EU export dependent production jobs in regions has clear implications for a government that wants to rebalance economic growth within the UK. Between 2010 and 2015, overall jobs grew in London at twice the rate of the rest of the UK. While the financial services sector is clearly important in producing jobs at a national level, it helps contribute to the imbalance of jobs and growth across the country.

Care

There are some 155,000 people working for around 2,200 providers of adult social care in the South West. This is expected to increase by 18% by 2025.¹¹ The region has the highest proportion of elderly population and care is a key sector. Shortages of care workers is a critical issue with a 30% turnover rate and rising creating approximately 9,000 vacancies at any one time. Turnover rates are lower for those paid more.

Skills for Care calculates the sector is 86% British with 8% EU workers and 6% non-EU. Polish workers make up the largest non-British group followed by those from the Philippines and Romania.

¹¹ Skills for Care, The adult social care sector and workforce in South West 2016

Agriculture

The performance of the agricultural sector, food and drink production are critical to the South West economy. Agriculture faces the greatest impact from Brexit given its reliance on EU grants and migrant labour.

There are some 8,800 agricultural businesses in the South West employing some 27,300 workers.¹² Unions representing farm workers have seen changes in recent years including:

- Abolition of the Agricultural Wages Board
- Rise in the use of Gang Masters and migrant workers
- Rise in skill levels for core jobs on farms

Recruiting foreign seasonal workers has been a practice for many years in farming. The Seasonal Agricultural Scheme was narrowed to cover only workers from Bulgaria and Romania and this was abolished when they were granted equal status as EU Citizens. Prior to the closure of the scheme more than 22,000 people from Bulgaria and Romania were allowed to work on farms. When restrictions were lifted in 2012 workers were permitted to seek employment elsewhere and farmers reported a shortage.

According to *Farmers Weekly* EU-born workers account for 65% of the agricultural workforce but some 29% of growers experienced problems recruiting enough labour in 2015, according to an NFU survey, and some 66% expect reductions in labour availability by 2018, with 43% anticipating labour shortages.¹³

Even before the referendum farmers were pressing for a return to a seasonal agricultural scheme to allow recruitment from outside the EU. Options after Brexit will include a new seasonal scheme or a new visa regime. Recent research by Oxford's Migration Observatory for the *Financial Times* found 96% of EU workers currently employed in agriculture would fail current UK visa requirements. Whatever the arrangements, unions will demand effective and strong enforcement of labour standards. Restrictions that tie workers to farms risk making them more vulnerable to exploitation.

¹² House of Commons Report Brexit's effect on agriculture and fisheries in South West England October 2016

¹³ [Farmers Weekly May 2016](#)

Section five

Conclusions and recommendations

The South West economy was far from strong before the decision to leave the European Union. The living standards of working age households have still not recovered to their pre-recession levels, fuelled by the largest fall in wages of any developed country except Greece. Weak productivity and unbalanced growth mean action was needed to achieve the growth that could support higher living standards well before the decision to leave the EU.

The South West economy includes a wide spectrum of wage levels and productivity performance. Much of the region remains blighted by low pay despite high housing and other living costs. The fragmented structure of economic development bodies has not been able to address these challenges.

The Brexit vote will make the challenge of boosting living standards for ordinary working people harder. While action by the Bank of England may have helped the economy recover from the initial shock of the vote, uncertainty over our future trading arrangements has the potential to hit jobs, growth and pay. Although the initial shock of the decision to leave the EU may have faded, it is clear that we are entering a period of 'phoney war' ahead of Britain's actual departure from the EU.

In the long term however, it is the type of deal the country negotiates with the rest of the EU that will make the difference to working people's jobs and pay. While the South West TUC believes it is important we protect jobs right across the economy, this analysis shows it will be vital to protect manufacturing jobs if regional inequalities are not to grow.

None of the risks presented here are inevitable. The government can act to make sure that Brexit does not disproportionately hit ordinary working people.

To make sure working people don't pay the price of Brexit, the government must:

- Reassure the lowest paid workers that they understand the pressure on their living standards and achieve a £10 an hour national minimum wage
- Take immediate action on infrastructure spending to boost future British productivity, and provide the confidence British business needs to invest. Government should bring together Local Enterprise Partnerships with social partners - including trade unions - prioritise infrastructure priorities and start building the hundreds of thousands of homes the South West desperately needs.
- Use public procurement to support South West business and good jobs

For the longer term:

- Set out the government's policy on leaving the EU, and their priorities for negotiations.
- Guarantee an opportunity for a regional conversation about the real trade-offs and priorities for the South West that involves both business and unions.

The government also needs to act to address the long standing weaknesses of the economy, and prepare Britain life outside the EU.

Keep taking the temperature

We plan to keep asking our panel of union convenors and officers how they see the trends in the South West economy and labour market. If you want to be part of this process or receive future updates please let us know at southwest@tuc.org.uk



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