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This quarterly TUC report provides an analysis of UK economic and labour market developments over the three months to February.

Summary

- The recovery remains unbalanced with business investment and net trade lagging expectations
- Improvements in headline employment measures mask concerning regional trends. Falls in real wages continue.
- Since the recession the composition of the UK jobs market has changed, with part-time and self-employed work now more common and higher proportions of people working in lower paid sectors.
- Post-2008 the economy has been marked by exceptionally weak productivity growth.
- While stronger demand is likely to reverse some of the UK's recent productivity falls, wider economic policy change is also likely to be necessary to deliver a better balanced and more productive recovery.

Economy

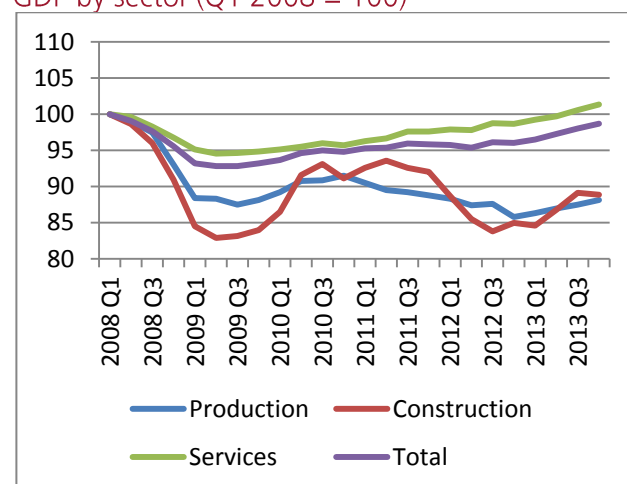
GDP

The economy grew by 0.7% in the fourth quarter of 2013. Overall growth in 2013 was 1.9%, the strongest outturn since 2007 but still well below the growth of 2.5-3.0% observed before the recession.

Growth has been stronger in the second half of the year and the economy now appears to have forward momentum heading into 2014. Many

forecasters are revising up their estimates for 2014.

GDP by sector (Q1 2008 = 100)

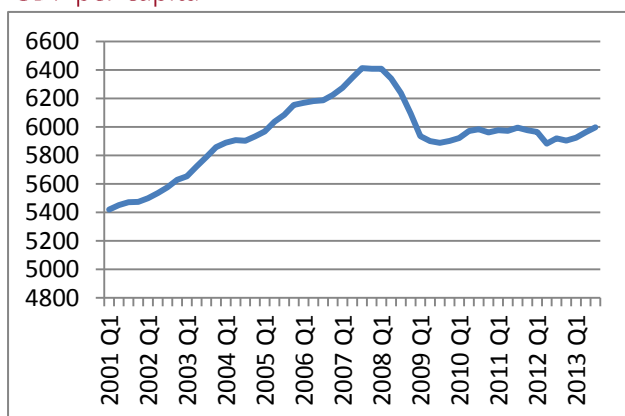


Whilst overall GDP is now just 1.3% below its pre-recession peak this masks large differences at the sector level. The service sector is now larger than it was in Q1 2008 whilst both the construction and production sectors are around 10% smaller.

The recovery also looks somewhat less impressive on a per capita basis. Whilst overall GDP is now once again approaching its pre-recession peak, this does not take account of population growth over the last five years. In terms on national income per head the gap from peak is now 6.5%. On current forecasts GDP per capita growth from 2008 until 2018 will have been around 0.0%.

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GDP per capita

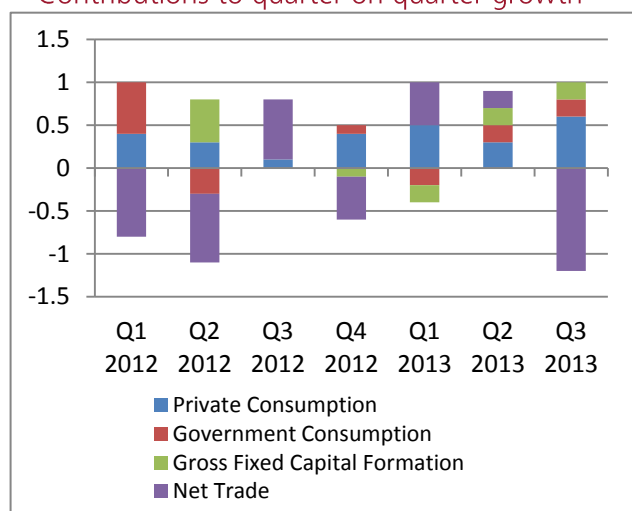


Rebalancing

The recovery remains unbalanced. So far it has been driven by household spending and both business investment and net trade have lagged expectations.

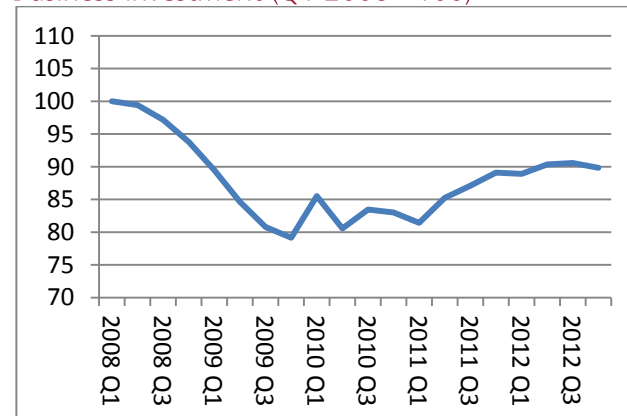
In the OBR forecasts of June 2010, around two thirds of all growth over the following five years was supposed to come from improving trade performance and rising business investment. In the most recent forecast that has been cut to under 20.0%.

Contributions to quarter on quarter growth



Business investment remains around 10% below its pre-recession level, despite some improvement in 2011 and early 2012.

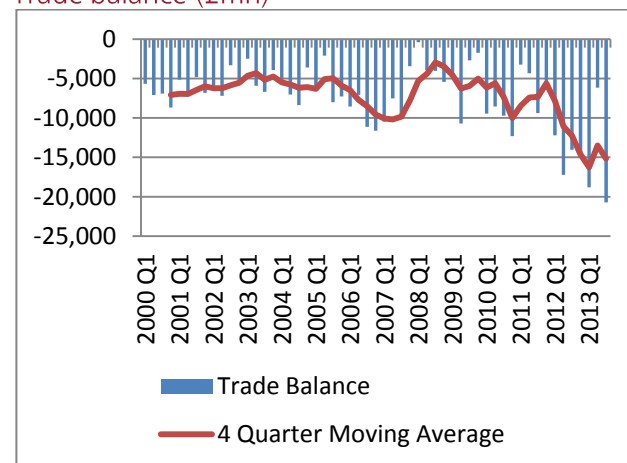
Business Investment (Q1 2008 = 100)



The trade balance (exports minus imports) improved during 2008 and 2009 as weak domestic demand reduced imports but has widened since.

This has been driven by both strong imports as consumption picks up and a poor export performance – much of which is related to the ongoing weakness in the Eurozone.

Trade balance (£mn)

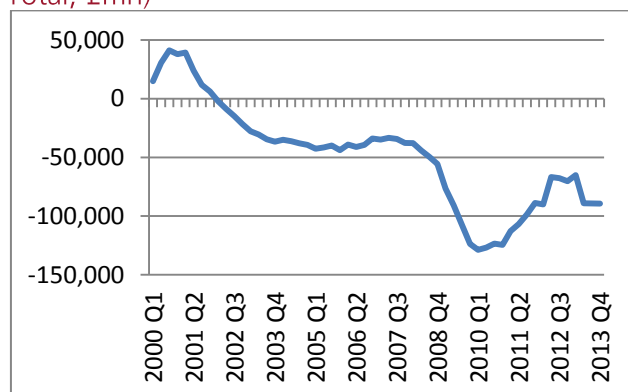


Public borrowing has fallen from almost £150bn annually in 2008/09 to around £90bn.

The headline number has been distorted by a variety of special factors but appears (in terms of the current budget) to be improving.

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Public Sector Net Borrowing (Rolling Four Quarter Total, £mn)



Labour market

The headline news from the latest labour market data is that employment is up while unemployment, under-employment, youth and long-term unemployment are all down.

While there is no doubt that this is all good news, there are still concerns about whether the recovery is being shared in all areas of the UK and about the continuing fall in real wages. The latest data shows that total and regular pay rose by 0.9% over the year compared to inflation of 2.0% (CPI) over the same period.

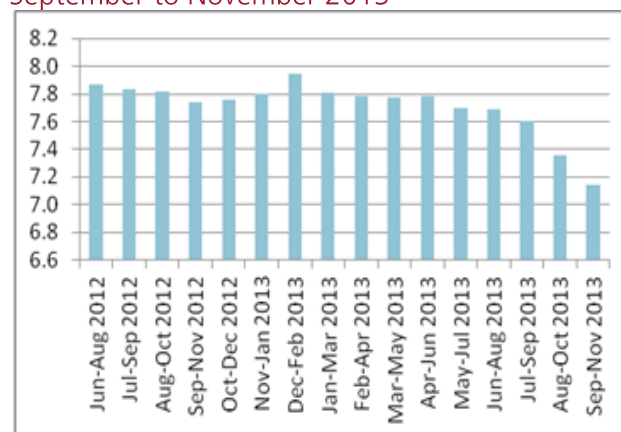
Employment and unemployment

The most recent labour market statistics cover the three months from September to November, and most comparisons are with the data from June to August 2013.

The employment rate as well as the employment level increased. The employment rate rose to 70.1% and number of people in employment to above the 30 million mark at 30.2 million. The unemployment rate fell by 0.5 percentage points, and the number of unemployed workers by 167,000.

The chart below shows that between June-August 2012 and 2013 the unemployment rate hovered between 7.9 and 7.7%. In July-September it fell to 7.6%, then 7.4% and then to the current 7.1% rate. Unemployment is still well above pre-crisis levels but is heading in a better direction.

Unemployment rates from June-August 2012 to September to November 2013



Long term unemployment for all workers showed a fall in the last quarter. The numbers unemployed for over a year stood at 839,000, a fall of 61,000 over the quarter and 53,000 from a year earlier. Of this group 449,000 people have been unemployed for over two years. This is a fall of 18,000 over the quarter; however this is still 14,000 higher than a year ago.

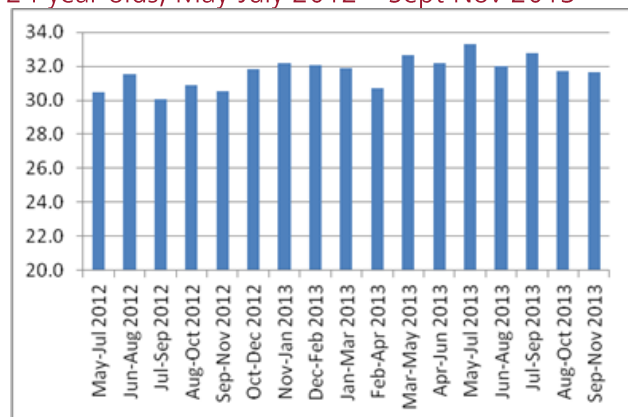
Men benefited slightly more than women from the quarterly increase in employment and fall in unemployment. The male employment rate increased by a large 0.7 percentage points to 77.2%, and the unemployment rate fell by 0.6 percentage points to 7.5%. The female employment rate increased by 0.3 percentage points to 67.1%, and the unemployment rate fell by 0.4 percentage points to 6.7%.

The number of young people unemployed fell by 39,000 to 920,000. However youth unemployment remains high and continues to be a significant challenge. In particular long-term youth unemployment remains a real concern. Research has shown the scarring impacts that long periods of unemployment can have on young people's lives.

Around a third of unemployed 18-24 year olds have been unemployed for over a year. There has also only been a negligible change in long term youth unemployment, which hit the 30% back in May – July 2012.

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Unemployment rate for 12 months and over, 18-24 year olds, May-July 2012 – Sept-Nov 2013



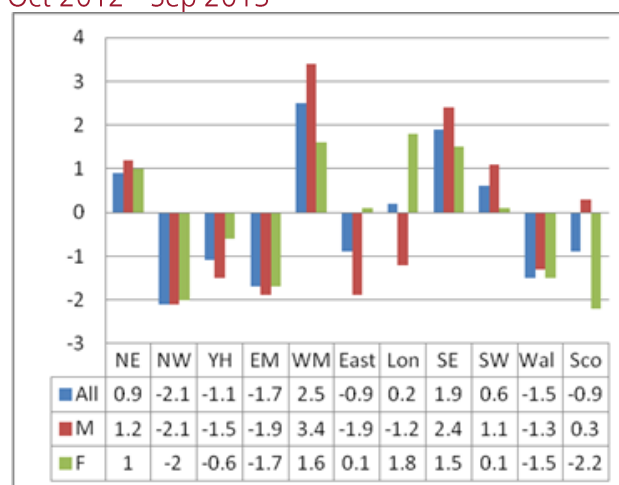
The national picture conceals some wide differences in the regional and national youth unemployment rates. The North East, Yorkshire and Humber, West Midlands and London have youth unemployment rates well above the national average. The data also shows that youth male unemployment rates are higher than youth female rates in all areas of the UK.

Youth unemployment by regions/nations, Oct 2012 - Sep 2013

	All	Male	Female
North East (NE)	26.7	30.2	22.6
North West (NW)	20.4	23.6	16.9
Yorkshire & Humber (Y&H)	23.2	26.1	19.9
East Midlands (EM)	20.1	21.1	18.9
West Midlands (WM)	24.3	27.5	20.8
East of England (East)	17.9	19.5	16.0
London (Lon)	24.5	26.2	22.5
South East (SE)	17.8	19.8	15.8
South West (SW)	17.1	19.8	14.2
Wales (Wale)	22.5	24.8	20.0
Scotland (Scot)	20.3	23.3	17.0

Comparing this data with the same period last year shows that youth unemployment has moved in different directions in different areas. While youth unemployment fell in the North West, Yorkshire and Humber, East Midlands, East of England, Wales and Scotland it rose in the North East, West Midlands, London, South East and the South West. The North East, West Midlands and London, which already had high youth unemployment rates, have subsequently have had further rises.

Change in youth unemployment rates in regions/nations between Oct 2011 - Sep 2012 to Oct 2012 - Sep 2013



The unemployment rate has fallen in every nation and region of the UK except the South West, and Northern Ireland where it remains unchanged. The North East continues to have the highest unemployment, with one in ten economically active adults unemployed in this region. The West Midlands, Yorkshire and Humber, and London all have unemployment rates of over 8 %.

Regional/national unemployment rates

Sept-Nov 2013	Unemployment Rate (16+)
North East	10.3
Yorkshire & Humber	8.4
West Midlands	8.1
London	8.1
North West	7.9
Northern Ireland	7.3
England	7.2
Wales	7.2
Great Britain	7.1
United Kingdom	7.1
South West	6.8
East Midlands	6.4
Scotland	6.4
East of England	5.7
South East	5.3

The impact of recovery is also being felt very unevenly. The latest TUC economic report shows that since the 2010 election 780,000 more people are in work across the UK and the

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likelihood of having a job has also increased (up by one percentage point). Despite this national increase, people's chances of having a job have fallen in four English regions: the West Midlands (down 0.8 percentage points); the North West (down 0.7); the North East (down 0.6); and the South West (down 0.1).

Composition of jobs

The overall number of people in work is now higher than in 2008 however the composition of the workforce looks very different.

The rise in employment of 280,000 in this quarter consisted of a rise in both employee jobs and full time jobs, with around 80% of the new jobs full time.

Quarterly change in employment

Employment Type	Numbers
Employee Jobs	+160,000
Self-Employed jobs	+147,000
Full time jobs	+ 222,000
Part time jobs	+ 59,000

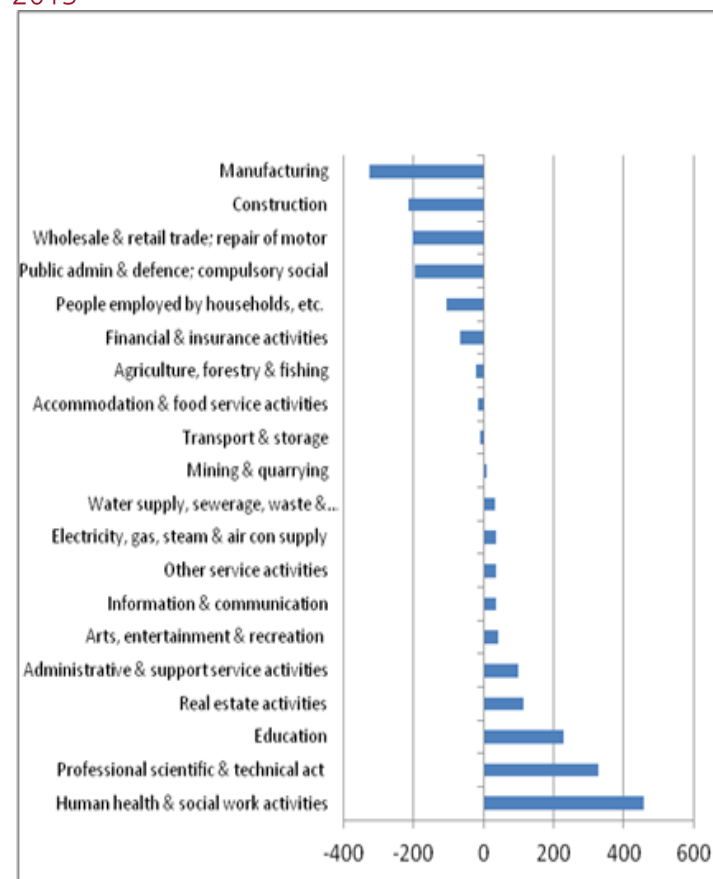
However, comparing early 2008 with 2013 shows that since the recession there has been a large rise in self-employment (up 486,600) against a much smaller increase in the number of employees (up 135,000). In January 2008 13.1% of all workers were self-employed compared to 14.4% in the most recent data.

There has also been a big shift in full-time versus part-time working. Since January 2008 the number of people working full-time has risen by 63,000 whilst the number working part-time has grown by 588,000. Despite a wider recovery in the jobs market, there are still 141,000 fewer employees working full-time than there were in early 2008. Full time employees represented 64.3% of all those in work in January 2008 and represent only 62.5% today.

The sectors in which people work have changed too. The chart below uses the workforce jobs measure to show change in employment by industry between Q1 2008 and Q3 2013. Compared to pre-recession levels manufacturing employment has dropped by 325,000 whilst the

number working in human health & social work activities has grown by 457,000.

Change in workforce jobs (000s) Q1 2008 to Q3 2013



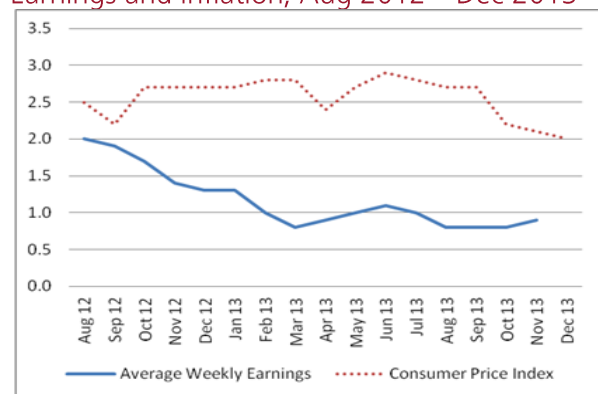
Finally, previous TUC analysis on *The UK's Low Pay Recovery* shows that of the rise in employee jobs since 2010, 77 per cent were in low-paid industries.

Pay

Wage growth continues to lag behind inflation and the better labour market data is not translating in to rising wages.

Average weekly earnings, regular and total pay were just 0.9 per cent higher than 12 months previously. Even when using the government's preferred measure the Consumer Price Index the living standards gap is significant. Household budgets are yet to benefit from recent economic improvements. Real wages have now been falling since late 2009 which is the longest squeeze since modern records began in 1964.

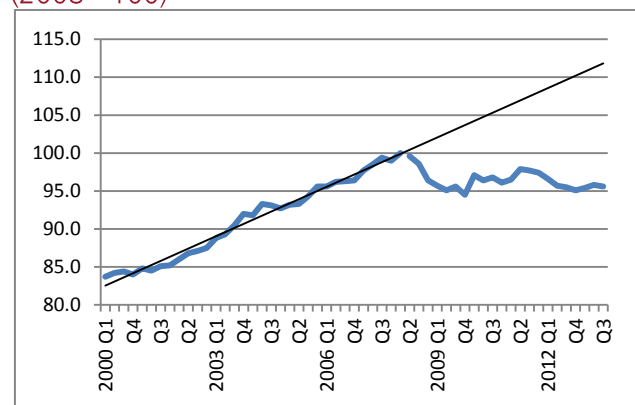
Earnings and inflation, Aug 2012 – Dec 2013



Spotlight feature: productivity

Post-2008 the economy has been marked by exceptionally weak productivity growth.

Output per hour worked & pre-recession trend (2008 = 100)



Output per hour worked has fallen by almost 5.0% in the past five years and is some 15% below its pre-recession trend.

While output remains below its 2008 level, employment (and hours worked) have both reached new highs. This trend seems likely to have continued into the fourth quarter of 2013 with output growth of 0.8% on the quarter and growth in hours worked above 1.0%.

In 2008 and 2009 many economists expected unemployment to rise by far more than it did. Despite a much more severe recession than in the early 1990s or early 1980, unemployment rose (proportionately) much less than many feared.

Given this some expected that any pickup in growth would see weak job growth. The logic was that employers had reacted to a downturn in demand by cutting wages and hours rather than staff and so once the upturn came they could simply increase hours and get more output from their existing workforce rather than hiring new people.

However, and again contrary to expectations, the recovery over the past year has been employment intense. This is what economists have called the productivity puzzle – output is still 1.4 per cent below its peak but the number of people in work is higher.

Broadly put there are two distinct ways this could be explained – either people have all generally become less productive at their jobs over the last five years or there has been some sort of change in the composition of the labour market (which may or may not be reversed as demand in the economy grows).

As noted earlier, while more people are in work, they are more likely to be in lower productivity jobs than in they were in 2008. For example, while the number of people in work is up by 600,000 since the start of 2008, the number of people in employed in manufacturing (a high productivity sector) is down by more than 300,000. There are no doubt also other factors at work alongside compositional change – weak bank lending, poor business investment and the decline of high productivity sectors such as offshore oil and gas.

A jobs intensive recovery in output is better than stagnating output and rising unemployment (the pattern in 2011 and early 2012), but unless there is a pick-up in productivity growth soon then the UK risks much slower growth, and lower living standards, in the future. Stronger demand is likely to reverse some of the UK's recent productivity falls, wider economic policy change is also likely to be necessary to deliver a better balanced and more productive recovery.