Number 2 – October 2013

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

Summary

- *Despite the recent pick up, growth has been weak and rebalancing is not occurring. There has been very little progress on deficit reduction.*

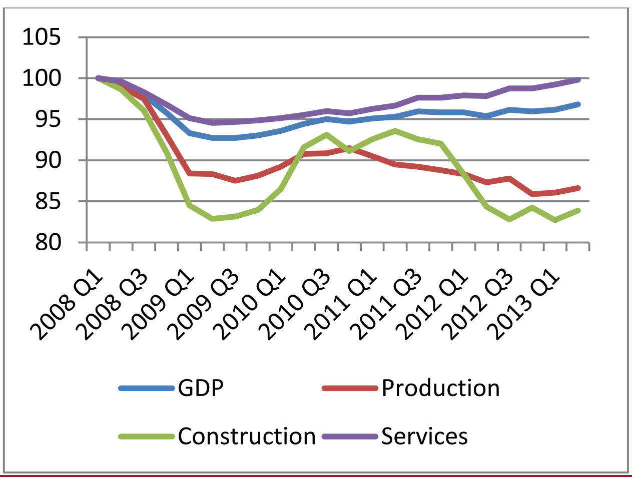
- *The labour market statistics continue the story of recent months: rising employment and stagnating earnings.*

- *Employment and unemployment performance between June 2010 – June 2013 has been less impressive than is often presumed.*

Economy

GDP

GDP by sector



Despite stronger growth in the second quarter of 2013, the recovery remains far from secure. GDP remains around 3.0% below its pre-recession peak but there is substantial variation at the sector level. Service sector output has now almost regained its 2008 level whilst industrial production and construction output both remain around 15% below their previous peaks.

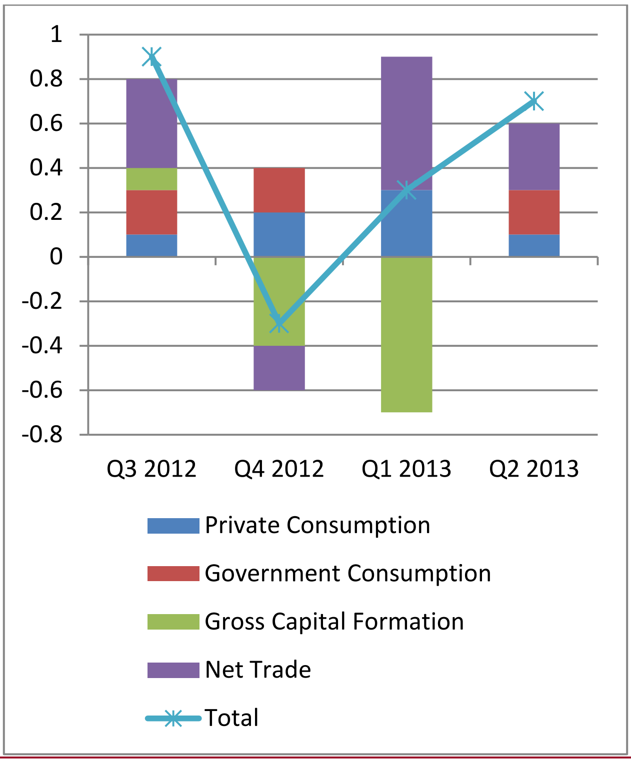
As can be seen in the chart, production output fell heavily in 2008/09 and has never really recovered whilst construction output enjoyed a strong bounce back in late 2009/early 2010 before falling away again in 2012.

The much hoped for 'rebalancing' of the economy shows no signs of occurring at the sector level, if anything the economy is more unbalanced sectorally in mid-2013 than it was on the eve of the crisis.

On current growth forecast it will be late 2014 before the economy is back to 2008 levels of GDP, making this a slower recovery than in the 1990s, the 1980s, the 1970s or even the 1930s.

The recovery to date has come in two phases, between mid 2009 and late 2010 (when policy was still supportive) the economy grew by around 2.5%, in the two and half years since growth has been around 2.0% as fiscal tightening has slowed the recovery.

GDP By Expenditure



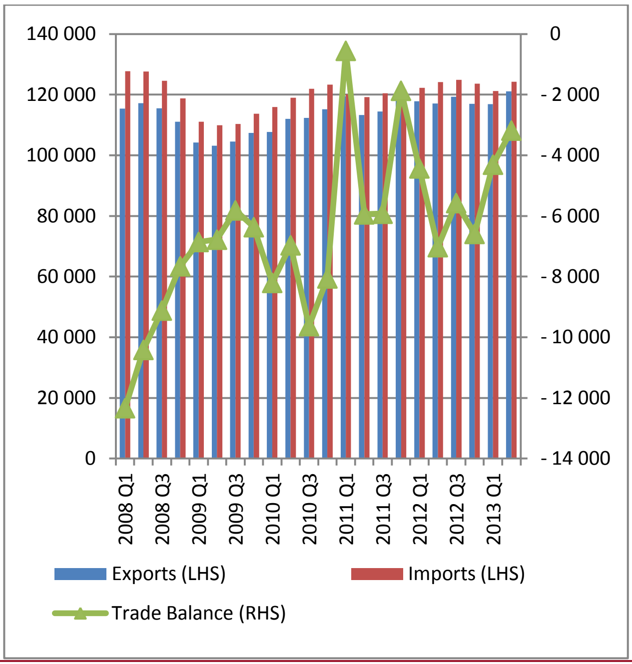
Looking at GDP by expenditure the picture is once again of an economy that is failing to rebalance. The Government initially hoped that growth would be driven by net trade and increasing exports. However over the past year private consumption was a much bigger driving of growth than the government anticipated.

In the latest OBR forecasts exports and business investment are set to provide around one third of all growth in the next 4 years, as opposed to an initial forecast of two thirds.

Not only is growth now forecast to be much weaker than previously anticipated, the composition of that growth is now very different.

Rebalancing

Imports, exports and trade balance

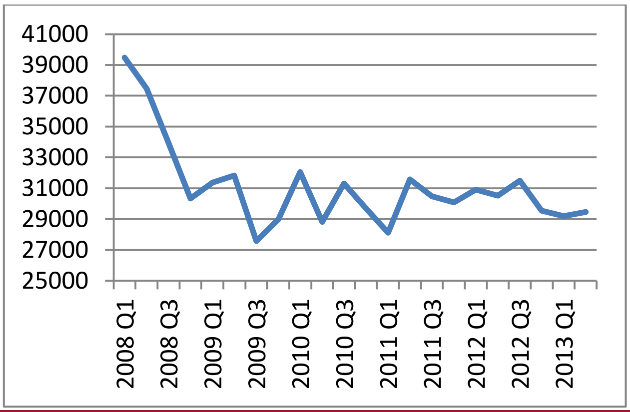


The trade deficit is roughly half the size that it was in early 2008. UK exports are up around 5% since Q1 2008, whilst imports are down almost 3%. This suggests that around one third of the improvement in the trade balance is down to a weakness of domestic demand (and hence consumers and business buying less foreign goods) than an improvement in the UK's trading performance. It is noticeable that the big improvement in the trade balance came during the depths of the recession, as imports fell sharply.

Since early 2011 the trade balance has worsened with imports rising around 0.4% and exports only growing by 1.2%. The impact of the Eurocrisis has certainly hit UK exports with the Eurozone being our single largest trading partner. However other European countries have managed to growth their exports through this period (not just Germany but also Spain and Italy) suggesting that to simply blame Europe for our trade balance misses the point.

The latest monthly figures show a further fall in the trade balance.

Business investment



Private business investment was supposed to be a large driver of the recovery; the initial OBR forecast saw growth of around 10% in 2011 and 2012. The Chancellor's entire theory of 'expansionary fiscal contraction' was premised on the idea that deficit reduction would provide a boost to business capital spending.

This has sadly not been the case. Whilst private business investment has increased since late 2009 it remains well below its pre-recession level.

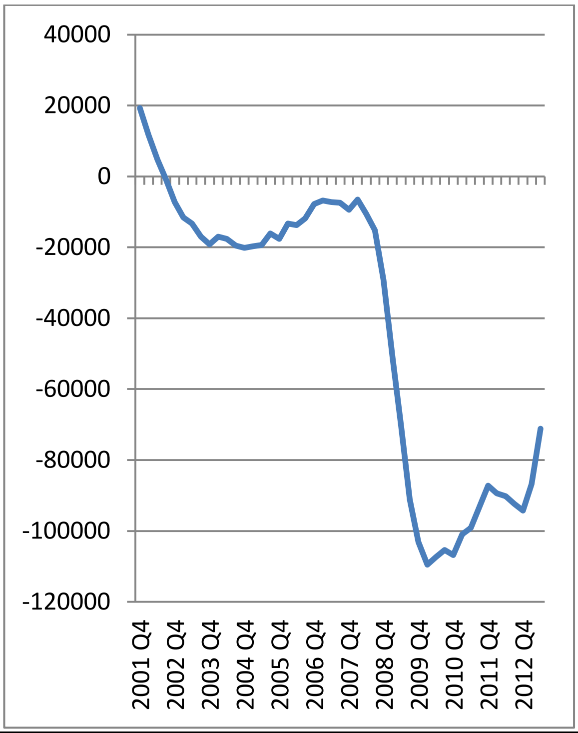
Various theories have been offered to explain this lacklustre performance – from tight credit conditions to a lack of animal spirits. The simplest explanation though is the poor state of the economy; given weak domestic and external demand it is entirely understandable why business would be cautious about investing in the future.

The poor state of business investment, especially when coupled with the government's own cuts to its capital spending, provide cause for concern. Weak investment not only reduces demand in the short term but may also have a serious impact on growth and productivity in the future.

Taken together the trade performance and the level of business investment once again show no signs of economic rebalancing.

The deficit

Surplus on current nudget (4 Quarter rolling amount)



Deficit reduction is the core stated purpose of the government. Measuring the success of deficit reduction policies, even in their own terms, is no longer straight forward. The picture is now distorted by the impact of QE on the public finances and various one off factors such as the treatment of the Royal Mail Pension Fund, the Special Liquidity Scheme and the sale of various nationalised banks.

The Government's preferred measure is the structural deficit, but this can only be estimated not measured and the official estimates are only produced twice a year.

The most straightforward measure of the deficit is the surplus on the current budget, which excludes capital spending and most one off factors. The chart above uses a four quarter rolling average to show the surplus or deficit on the current budget over the previous year.

As can be seen the deficit widened sustainably in 2008 and 2009, closed somewhat in 2011 and then widened again in 2012. There has been some improvement in recent months as growth has picked up, however measured against the initial OBR forecasts, deficit reduction remains well off track.

The main factor explaining the much slower than anticipated reduction of the deficit has been a weakness of tax receipts. Slower growth has meant lower incomes and profits and consequently lower tax income for the government.

Labour market

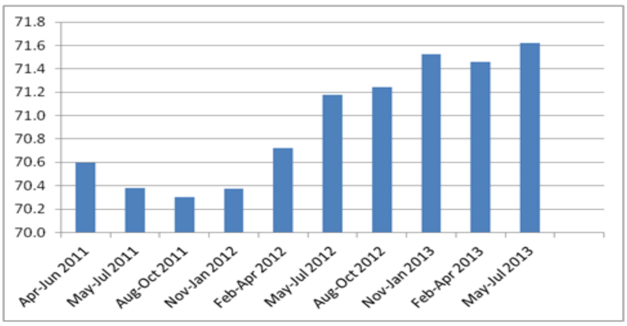
The story in the labour market in recent months has been rising employment and stagnating earnings. While there have been some encouraging signs overall the jobs market is still characterised by serious weaknesses. Youth unemployment, long-term unemployment, and involuntary part-time work all remain stubbornly high and those in work continue to see the real value of their wages fall.

Employment and unemployment

The most recent labour market statistics cover the three months from May to July 2013, and most comparisons in this analysis are with the data from February to April 2013.

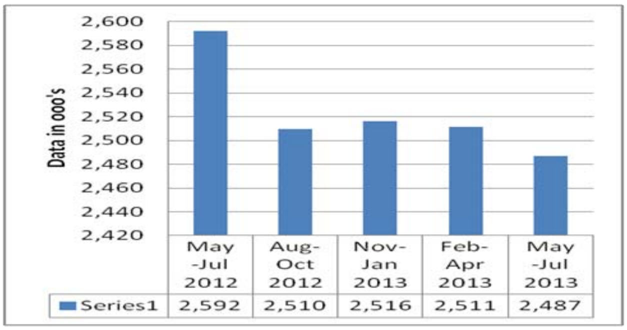
If we look at everyone over 16, there are 29.84m people in employment, an increase of 80,000 on the quarter; the employment levels are again the highest ever recorded. However, if we look at working age people the number in employment has increased more slowly, and the working age population has been growing too; so the improvement in the working age employment rate has been much less impressive than the increase in the overall employment level. In fact, the improvement in the employment rate mainly took place in 2012; this year it has pretty much flat-lined.

Employment Rate



Unemployment on the International Labour Organisation measure fell by 24,000 on the quarter to 2.49m, and the unemployment rate fell by 0.1% to 7.7%. While the unemployment level has fallen the reduction over the year has been marginal from 2.51m to 2.49m.

Unemployment Rate



The Public Sector Employment (2nd Quarter) data shows that the UK's public sector workforce continued to decrease by 34,000 to 5.67m. Employment in the National Health Service fell by 21,000 between the first and second quarter of this year and NHS employment is now at its lowest level since the third quarter of 2008.

Within the total workforce the number of unemployed men increased by 15,000, and the male unemployment rate increased by 0.1% to 8.3%. The fall in unemployment in the latest data was as a result of a 39,000 fall in female unemployment, accompanied by a fall in the rate by 0.3% to 7.0%.

The employment level for men, at 15.95m, is similar to pre-recession levels, while for women there has been a small increase. The number of men working part-time has increased by 297,000 over the same period (Jan- March 2008). The latest data shows that almost a third of men who were working part-time were doing so as they could not find a full- time job. The corresponding figure for women is 13%. Between Jan- March 2008 to May - July 2013 the total numbers working part-time as they could not find a full-time job has more than doubled from 701,000 to 1.45m. This illustrates the scale of underemployment. In addition to part-time workers seeking full-time jobs there is also an increasing number of people who would like to work additional hours in their current job (although they may not want to work full-time, and may not be in part-time employment).

TUC analysis of official figures shows that unemployment is actually far higher once wider measures of joblessness are included. A further 2.26m people in the UK want a job but are not classified as unemployed. Total unemployment (called U5 unemployment in the US) is 4.78m in the UK. U6 unemployment, another measure of unemployment in the US that includes part-time workers who want more hours in their current jobs, known as underemployment in the UK, is currently 6.2m in the UK. The TUC believes that wider forms of unemployment should be given the same level of importance in the UK as they are across the Atlantic.

Youth unemployment and long term unemployment

Despite the employment growth there has been no improvement in long-term unemployment and youth unemployment. With long term unemployment, 899,000 people have been unemployed for over one year; there has been little change over the quarter and the year. The number unemployed over two years is currently at 469,000; this is an increase of 11,000 over the quarter and 27,000 from a year earlier.

Youth unemployment is close to the one million mark and in the last quarter youth unemployment rose by 9,000. Over a third (33%) of 18-24 year olds have been out of work for over 12 months.

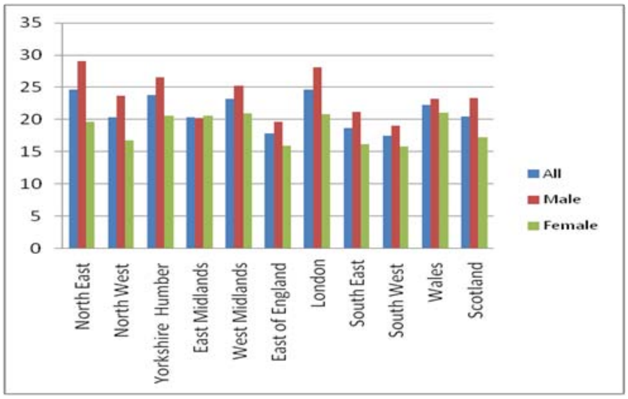
Employment among younger people has still not returned to the pre-recession peak, even though the number of people aged between 16 and 64 has risen by more than 700,000.

The table below displays youth unemployment rates by region. This shows a very mixed picture with the rates in the regions, the North East, Yorkshire and Humber, West Midlands and London well above the national average. The data also gives a gender breakdown, which shows male youth unemployment is higher than female rates in all regions with the exception of the East Midlands, with unemployment rates of over 25% for the North East, Yorkshire and Humber, West Midlands and London.

Youth unemployment rates by region April 2012-March 2013

	All	Male	Female
North East	24.7	29.0	19.6
North West	20.4	23.7	16.8
Yorkshire & Humber	23.8	26.6	20.6
East Midlands	20.4	20.2	20.6
West Midlands	23.2	25.2	21.0
East of England	17.9	19.6	16.0
London	24.7	28.1	20.8
South East	18.7	21.2	16.2
South West	17.5	19.0	15.8
Wales	22.2	23.2	21.1
Scotland	20.5	23.3	17.3

Youth Unemployment Rates by region April 2012- March 2013



At the other end of the age scale, the most recent labour market statistics show the number of people in work who are aged 65 and over is still increasing and is beyond the one million mark. This is partly through increased proportions of older people staying in work and also because of an increase in the number of people in this age group in the population. This is a long term trend which has not been affected by the recession.

Regional variations

In this quarter the employment rate fell in the North West, West Midlands, South West and Wales; the West Midlands saw the largest fall of 0.8%.

The unemployment rate rose in the North East, North West, West Midlands and Scotland; the North West saw the largest increase of 0.4% rising to 8.3%, this is not too far behind the West Midlands at 9.8% and the North East at 10.4%.

Regional employment and unemployment rates

	Employment		Unemployment	
	Aged 16+	Aged 16-64	Aged 16+	Aged 16+
	Level	Rate	Level	Rate
North East	1,170	67.2	136	10.4
North West	3,151	68.7	285	8.3
Yorkshire & Humber	2,508	70.6	245	8.9
East Midlands	2,119	71.5	168	7.4
West Midlands	2,461	69.1	267	9.8
East of England	2,923	75.4	211	6.7
London	3,953	70.5	359	8.3
South East	4,309	76	267	5.8
South West	2,530	73.9	167	6.2
England	25,124	71.8	2,105	7.7
Wales	1,365	69.3	118	8
Scotland	2,536	72.4	203	7.4
Northern Ireland	811	67.5	60	6.9

Change in regional employment and unemployment rates over the last quarter

	Employment		Unemployment	
Change since Feb to April 2013	Aged 16+	Aged 16-64	Aged 16+	Aged 16+
	Level	Rate	Level	Rate
North East	11	0.6	5	0.3
North West	-32	-1	13	0.4
Yorkshire & Humber	0	0.2	1	0
East Midlands	7	0.5	-11	-0.5
West Midlands	-29	-0.8	7	0.3
East of England	24	0.9	3	0
London	15	0.3	-7	-0.2
South East	89	1.3	-29	-0.7
South West	-20	-0.7	-1	0
England	65	0.2	-19	-0.1
Wales	1	-0.1	-7	-0.4
Scotland	6	0.2	10	0.3
Northern Ireland	8	0.4	-8	-0.9

Across the UK there is evidence of rising job opportunities. There were 531,000 job vacancies over the June to August 2013 period, up 7,000 from March to May 2013. The number of unemployed people per vacancy fell from 4.9 to 4.6; this is however still substantially higher than the pre-recession norm of about 2.5.

For May to July 2013, 121,000 people had become redundant in the three months before the Labour Force Survey interviews, down 20,000 from February to April 2013.

Earnings growth and pay settlements

The final sign of weakness in the labour market is the continuing decline in real wages. Between June and July average weekly earnings (total pay) fell slightly, from £475 to £474. This is the third successive fall, a sequence that has never happened before in this series of figures, which goes back to 2000. This is because of the fall in bonus pay (as bonuses were delayed to avoid the 50% tax rate) however even if we look at regular pay (excluding bonuses) the annual rate of increase has fallen, from 1.1 to 1.0 per cent.

In cash terms, average weekly regular pay has essentially been frozen for four months:

	Weekly Earnings (£)	Change year on year (%, 3 month average)
Jan-13	442	1.3
Feb-13	443	1
Mar-13	444	0.8
Apr-13	447	0.9
May-13	446	1
Jun-13	447	1.1
Jul-13	447	1

Recent analysis by the TUC revealed that in the last five years UK workers have suffered a huge squeeze in their incomes, with average pay falling by 6.3 per cent in real terms; this is a real terms loss of £30.30 in the pay packets of employees working a 40 hour week.

Labour productivity has fallen considerably since the recession. Output per worker is now 19% below the rest of the G7, the widest gap since the mid 1990s.

The TUC's economic report in February warned that the UK risked becoming a 'lower wage, low productivity economy'. A low pay economy, with low productivity, low exports and low investment is not a good basis on which to compete in the post-recession world. Our concern remains that our recovery continues to take us in the wrong direction.

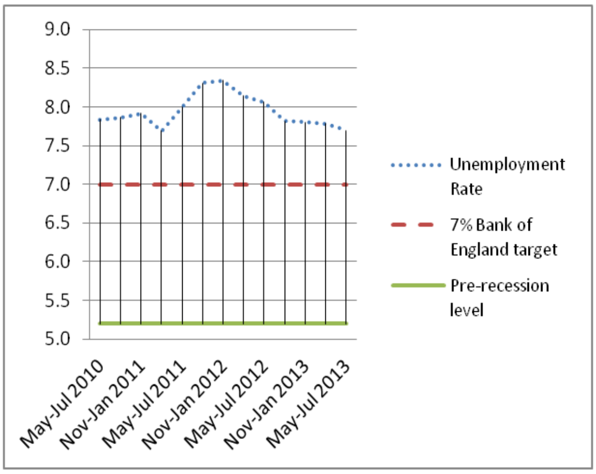
Spotlight Feature

Employment and unemployment from June 2010- June 2013

In recent months the government has been keen to promote our apparent jobs market success, as a result of employment reaching record levels. But despite rising employment levels there are still more people out of work than there were in June 2010 and employment rates remain well below pre-recession levels. This points to a flaw in the government's analysis: measuring labour market strength by the number of people in work, rather than by the employment rate, fails to take account of the impacts that rising state pension ages and population increases have had on the number of economically active adults. The employment rate of 71.6 % is still 1.4 percentage points below pre-recession level.

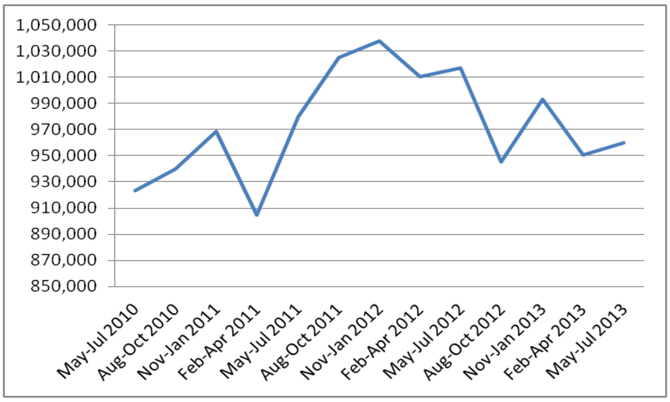
The unemployment rate has not improved significantly, as the graph shows over the time period this has fallen from 7.8 to 7.7; there is some way to go to hit the Bank of England's 7 per cent target and a significant way to go to hit pre-recession levels.

Unemployment Rate June 2010 - June 2013



Youth unemployment levels still remain high at just under one million, and are higher than in June 2010.

Youth unemployment rate June 2010 - June 2013



Long term unemployment (over 12 months and over 2 years) is also higher than in June 2010.

The composition of employment also gives cause for concern. Employee jobs as a whole are below their pre-recession levels. Since June 2010 of the 718,000 increase in employment almost a third has been in self- employment (29%), even though only 14% of workers are self-employed. Of the increase in self- employment 60% of the increase has been in part-time self-employment. The TUC fears this rise in self-employment could be masking the true extent of unemployment as people previously in work 'go freelance', start their own very small scale businesses or are forced into false self-employment, rather than signing on.

Over the same period the levels of under employment have also increased.

	June 2010	June 2013	Increase
Involuntary temporary work	568,000	607,000	39,000
Involuntary part – time work	1,100,000	1,447,000	337,000

Average Weekly Earnings, RPI & Real Wages

The extent of the squeeze in living standards since 2010 can be seen vividly in the above graph, real wages have fallen consecutively since June 2010. UK workers' wage squeeze is the longest since the 1870s.

The House of Commons library figures show that with a 5.5 per cent reduction in average hourly wages since mid-2010, adjusted for inflation, UK workers have suffered one of the sharpest falls in their real pay in the EU, lower than some eurozone crisis hit countries.

In addition a recent report by the TUC showed that close to eighty per cent of net job creation since June 2010 has taken place in industries where the average wage is less than £7.95 an hour. While a low paid job may be better than unemployment poorer employment prospects still leaves households struggling with little money to spend in order to aid the recovery. This ongoing shift towards a labour market which characterised by increasing levels of low wage jobs is worrying, and risks damaging our economic prospects in the long run.

By focusing only on the headline level of employment and on the creation of new private sector jobs the government is presenting a misleading picture of the jobs market, as this measure does not accurately reflect our wider labour market health.

Has employment and unemployment performance between June 2010-2013 really been a success story? In reality the picture is less rosy than some seem to believe:

- The employment rate is still 1.4% below its pre-recession level of 73%.
- There are more people out of work than there were at the 2010 election.
- Underemployment remains at record levels.
- Youth unemployment levels and long-term unemployment remain stubbornly high.
- UK workers continue to face an unprecedented wage squeeze.

We will only be able to call a true labour market recovery as these trends start to turn around.