

BULLETIN

Labour Market Assessment, 1997-98

Introduction

This *Bulletin* summarises the results of the Institute's latest labour market assessment including regional results. Full details are available in the *Review of the Economy and Employment* (see page 4). The present assessment presents a comprehensive overview of employment prospects across the UK. It also provides more detailed analysis of developments in a number of key sectors: Construction, Retailing, Transport, and Financial and Business Services. Special emphasis is given to the subject of labour market flexibility, highlighting some important new trends in non-standard contractual work patterns.

Continued sound economic performance

The UK economy has continued to perform well during 1997. Consumer spending, boosted by tax reductions introduced by the previous government as well as the windfall benefits from building society flotations, has led the way. However, investment expenditure, particularly in private housebuilding, is expected to remain a key positive element. The strength of the pound has restrained exports and encouraged imports but at the same time has moderated inflationary pressures.

Good prospects for the medium term

The growth in output for the economy as a whole, as measured by GDP, is expected to peak in 1997 at just over 3 per cent per annum. The growth rate is expected to slow in 1998, averaging just below 2 per cent by the turn of the century before picking up again towards the final year of the projection, 2006. This is supported by continuing strong trade performance in several key manufacturing sectors, despite the high rate for sterling.

Inflation under control

Inflation is expected to remain under control. The move towards greater independence for the Bank of England has probably strengthened confidence in the ability of the authorities to maintain their target of 2½ per cent per annum for the underlying rate of inflation.

Continuing tight control of public expenditure

The government is expected to stick to the already tightly constrained expenditure plans which, in large part, it inherited from the previous administration. This involves further reductions in the area of defence and only moderate increases in other areas, with health and education doing marginally better than other services funded by either central or local government.

In order to remain within the inflationary targets, some fiscal tightening is probably required, but given the commitments not to raise basic or top rates of income tax and not to extend VAT, emphasis must lie in other areas. Some changes to personal allowances and to mortgage interest relief seem likely and so are built into the forecast. Other changes include the 'windfall' tax and 'green taxes' on petrol. The consequence of these measures is that the PSBR is expected to be reduced to zero early in the new millennium.

Uncertainty over exchange rates

The balance of payments position depends crucially on the future path of the exchange rate. If it remains high, this reduces profitability, and subsequently output levels, in export sectors while encouraging imports. Some depreciation is expected in 1998 and 1999 but the uncertainty surrounding European Monetary Union could encourage some to keep faith with sterling, despite the fact that on many indicators it

appears over valued. On the assumptions adopted, the balance of payments remains in deficit throughout the forecast.

Labour market prospects remain good

Turning to the labour market, job prospects remain relatively bright. Employment in total increased by around 400 thousand in 1997 and further modest growth is expected over the next few years. Substantial increases are expected over the medium term, although most of the additional jobs are expected to be part-time. Over the last year or so, unemployment has fallen rather more sharply than employment has increased, in part due to the tightening up of the rules and regulations for claiming benefit, including the introduction of the job seekers allowance. This is expected to be a largely 'one off' effect and, in the absence of further reforms in this area, only modest reductions in unemployment levels are expected beyond 1997 as the pace of economic growth slows.

Changes in Labour Force, Employment and Unemployment, 1996-2006

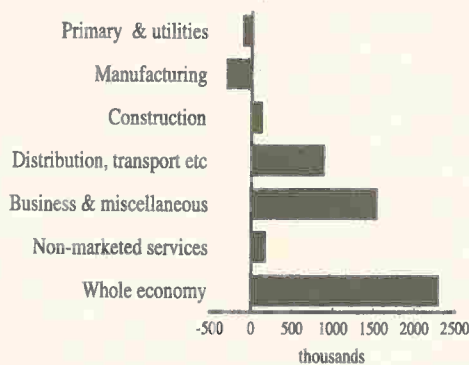


This picture could change if the new government presses forward with policies such as the 'New Deal' and 'Welfare to Work' in such a manner as to bear down significantly on unemployment benefit entitlements.

Changing structure of employment

The changing pattern of employment structure by sector remains a key feature of labour market developments. While some increases in employment have occurred in certain parts of manufacturing the overall picture remains one of steady job losses in primary, manufacturing, and utility sectors. Construction is expected to see a continuation of the modest cyclical upturn of 1997 into 1998, but the main job increases

Changes in Industrial Employment, 1996-2006

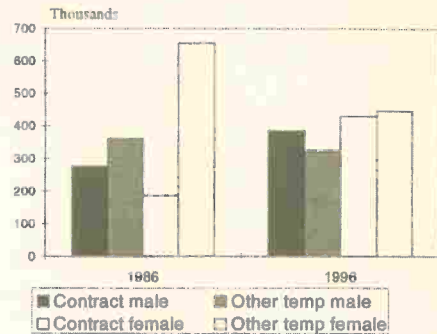


are in services. Even here, technological changes associated with IT are making significant inroads in many areas, with subsequent job losses. Retailing, banking, insurance and business services have all suffered in this respect. However, some growth is now occurring even in these areas. It is even more pronounced in sectors such as hotels and catering and various miscellaneous service activities.

Growth in part-time working and flexibility

As in recent years, the growth in employment is expected to continue to favour those looking for part-time work. The use of various forms of temporary employment contract is also expected to be a feature. Increasing trends in the use of temporary contractual arrangements are discussed in some detail in the *Review*.

Temporary Workforce in 1986 and 1996



Source: LFS, Spring, 1986 and 1996.

Changing working patterns have tended to benefit female (especially part-time) employment at the expense of jobs typically taken by males (working full-time). These trends are expected to continue to be accompanied by a shift towards other less permanent forms of employment contract, renewing concerns about the conflict between flexibility and job security.

Changes in Employment Status, 1996-2006



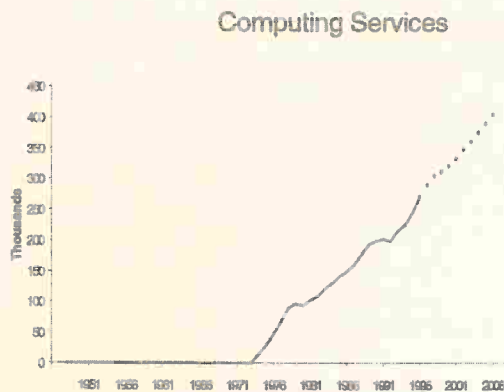
Detailed sectoral case studies

Following on from last year's *Review*, more detailed case studies of the prospects for individual sectors highlight the key issues more starkly. The most recent trends in **Construction** are re-examined. Especially hard hit by the recession of the early 1990s, recovery here remains patchy and prospects remain clouded by the possible impact of tax changes on self-employment; nevertheless some signs of skill shortages are appearing.

In **retail distribution** pressures to reduce costs remain strong and further restructuring is expected. More jobs are projected but mostly of a part-time nature. This is posing a dilemma in the face of demands for better quality of service.

Attention is also paid to the **Transport** sector, an area of central concern to the new government. Previous lack of commitment to training and recruitment difficulties in the bus and coach industry are contrasted with a more positive attitude in the air transport sector. The question of whether or not the sector is doing enough in the training field to meet the aspirations associated with the new government's change in direction in Transport Policy is raised.

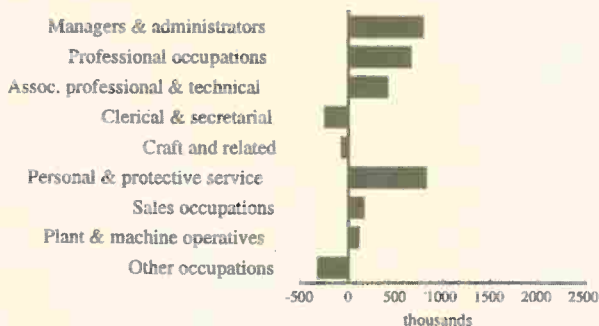
Business and Financial Services, which is one of the sectors being most affected by the IT revolution, is expected to see further substantial structural change over the next few years. Despite this, the sector remains one of the most optimistic in terms of overall job prospects, especially for Computing Services.



Education and training requirements: focus on replacement demands

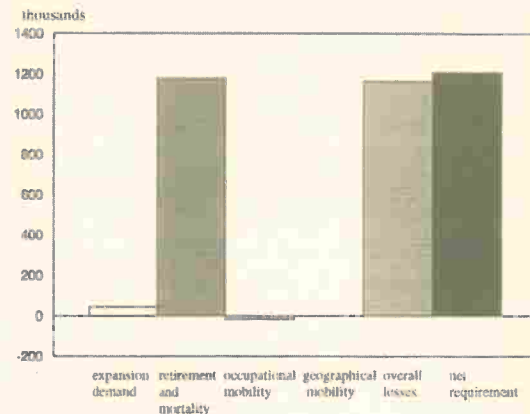
With regard to the demand for skills, the main increases are expected for those in well qualified professional and managerial occupations, together with a range of personal service skills. Further job losses are expected for craft and skilled manual and other unskilled manual occupations.

Changes in Occupational Employment, 1996-2006



However, declining employment levels do not mean that there will not be significant demand for new entrants into such categories. Estimates of the replacement demand to cover losses due to retirement etc. for such occupations (which include clerical and secretarial workers, as well as many traditional blue collar occupations) confirm that there will continue to be a need to educate and train significant numbers for such jobs well into the millennium.

Typical Estimates of Replacement Demand, Clerical Occupations, UK, 1996-2006



Source: IER estimates based on Labour Force Survey (1996) and other data.

Regional prospects

The *Review* is rounded off by an assessment of the prospects for different regions within the UK. As well as summarising the results of the Institute's latest projections, this chapter takes the opportunity to examine regional developments from a long-term perspective as we approach the new millennium. As far as the projections of employment are concerned, the South and Eastern regions are expected to continue to out-perform the North and West.

Total Employment Change by Region, 1996-2006

Region	1996	2006	1996-2006	1996-2006	1996-2006
	Thousands				
Greater London	3641	3897	256	7.0	0.7
Rest of South East	4728	5275	547	11.6	1.1
East Anglia	944	1059	116	12.2	1.1
South West	2136	2429	293	13.7	1.3
West Midlands	2313	2501	188	8.1	0.8
East Midlands	1772	1969	197	11.1	1.0
Yorks & Humbs	2157	2346	189	8.8	0.8
North West	2635	2830	195	7.4	0.7
North	1198	1280	82	6.8	0.7
Wales	1126	1195	69	6.1	0.6
Scotland	2200	2312	112	5.1	0.5
Northern Ireland	650	695	45	6.9	0.6
United Kingdom	25500	27788	2288	9.0	0.8

Source: IER estimates.

The full results of the Institute's latest assessment, including detailed tabulations and colour graphics, can be found in the

Review of the Economy and Employment

Labour Market Assessment 1997/98

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What are the implications of all this for your local area?

LEFM

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LEFM is a very user-friendly PC-based tool for producing local economic analysis and projections linked to national level forecasts such as those presented in this Bulletin. LEFM draws on CE/IER's combined expertise in sectoral and labour market analysis at European, national and regional levels in order to produce a comprehensive, consistent and coherent picture of the possible futures facing your locality. LEFM is provided with a base forecast calibrated to local conditions, allowing users to produce their own scenarios. It also includes comprehensive historical databanks providing consistent and comparable data at a detailed level for the local area, the region and the UK.

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