

BULLETIN

Labour Market Assessment, 1998/99

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 hospitality and tourism.

Economic slowdown

The UK economy slowed significantly during 1998. Consumer spending, together with some deterioration in net exports, has led the way. However, investment expenditure, particularly by the manufacturing sector, is expected to reinforce this in 1999. The continuing strength of the pound has reduced exports and encouraged imports but at the same time has moderated inflationary pressures.

The growth in output for the economy as a whole, as measured by GDP, is estimated to have peaked in 1997 at around 3 $\frac{1}{2}$ per cent per annum. The growth rate in 1998 fell to 2 $\frac{3}{4}$ per cent and is expected to decline to only about $\frac{1}{2}$ per cent in 1999. However, the economy as a whole is expected to avoid a recession as such although declining output levels are expected in some sectors before picking up again in 2001.

No relaxation in the fight against inflation

Inflation is expected to remain under control, the slowdown in the economy serving to further reduce inflationary pressures. 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 2 $\frac{1}{2}$ per cent per annum for the underlying rate of inflation. However, the expected depreciation in sterling will boost inflation in the medium-term.

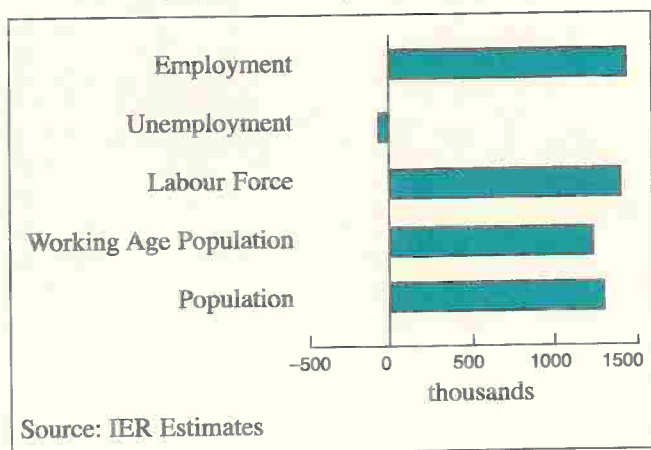
The government is expected to stick to the already quite tightly constrained expenditure plans which, in large part, it inherited from the previous administration. This involves further reductions in the area of defence and only moderate increases in other areas, with health and education doing marginally better than other services funded by either central or local government. The consequence of these measures is that the Public Sector Net Cash Requirement (PSNCR) is expected to remain in surplus.

Uncertain prospects for the world economy

The external environment is expected to remain uncertain. Recession in Japan and continuing turmoil in many other Far Eastern economies has caused problems for most developed economies. However, prospects for the US economy remain quite stable and the overall prospects are for a relatively modest downturn in the world economy as a whole.

The UK current account balance of payments position has deteriorated because of the exchange rate. 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.

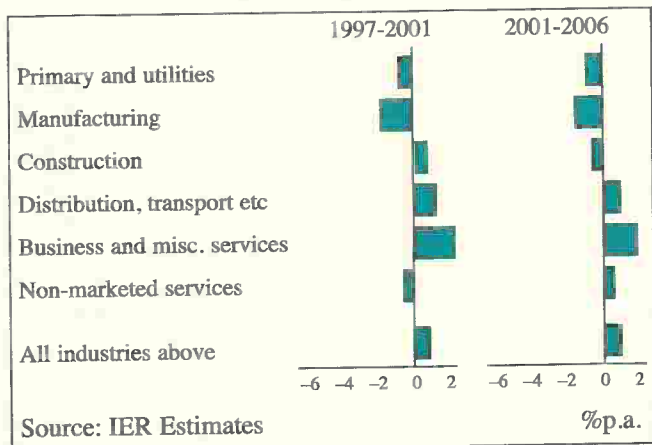
Figure 1: Change in Labour Force, Employment, Unemployment and Population, 1997-2006



Job prospects uncertain

Employment in total increased by around 300 thousand in 1998 and further modest growth is expected over the next few years (see Figure 1). However, the slowdown in the economy is expected to be reflected in rising unemployment levels in the short-term. Substantial job losses have already arisen in many parts of manufacturing (see Figure 2). Further declines are expected in construction and elsewhere in 1999. Some increases are expected over the medium-term in other sectors, although most of the additional jobs are expected to be part-time. Policies such as the 'New Deal' and 'Welfare to Work' are expected to moderate the impact of the downturn on unemployment, operating in such a manner as to bear down significantly on unemployment benefit entitlements.

Figure 2: UK Employment Growth by Broad Industrial Sector, 1997-2006



Continued shift in favour of services

The changing pattern of employment structure remains a key feature of labour market developments (see Figure 2). While some increases in employment have occurred in certain parts of manufacturing in recent years the overall

picture remains one of steady job losses in primary, manufacturing and utility sectors. Construction is expected to suffer disproportionately in the short to medium-term. The main job increases are in services. Even here, technological changes associated with information technology 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 expected in these areas over the medium-term. This trend is even more pronounced in sectors such as hotels and catering and various miscellaneous service activities.

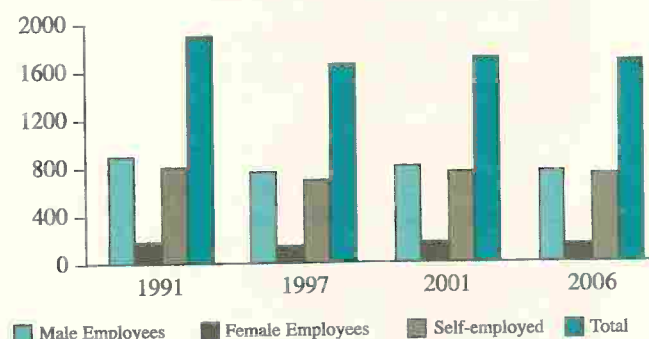
Figure 3: Changes in Employment Status, 1997-2006



Part time jobs increasing

As in recent years the growth in employment is expected to continue to favour those looking for part-time work (see Figure 3). The number of full time jobs is not expected to increase significantly. Self employment numbers are also unlikely to continue to rise due to changes in the rules and regulations relating to self employment status in sectors such as construction.

Figure 4: Construction Sector Total Employment 1991-2006

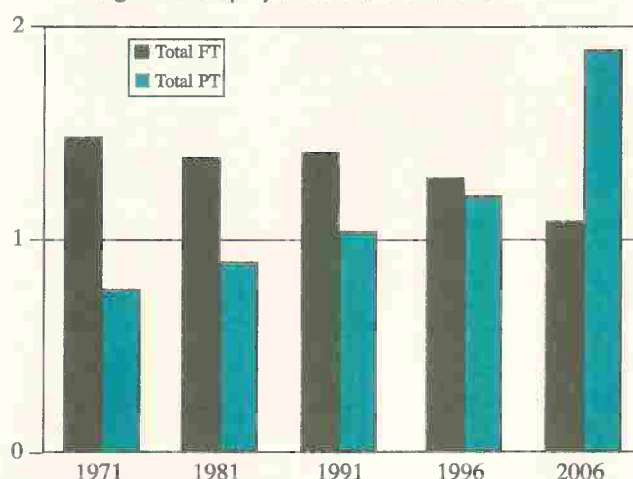


Source: IER estimates.

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 has remained patchy and immediate prospects remain clouded by the possible impact of further slowdown (see Figure 4). Chapter 2 of the *Review* discusses attempts to

raise productivity in this sector as well as the impact of policy initiatives such as the European Union Working Time Directive.

Figure 5: Employment in the Retail Sector



Source: IER estimates.

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 (see Figure 5). This is posing a dilemma in the face of demands for better quality of service. Chapter 3 of the *Review* presents a number of different scenarios which might unfold for this sector and examines their implications for employment and training.

The **transport** sector remains an area of central concern to the government. Employment is expected to show modest growth over the medium-term, concentrated amongst part-time workers and the self employed. Problems of recruitment and retention are likely to be the main factors influencing training activity. Chapter 4 of the *Review* contrasts the different problems facing the main industries in this sector.

Hospitality and tourism accounts for around 1½ million jobs in the UK. The medium prospects are for this to increase further, although most of the additional jobs are likely to be of a part-time nature. A significant part of employment in this sector remains of a casual/temporary type. Chapter 5 of the *Review* highlights the main changes which are expected to affect this sector over the next 5-10 years.

Figure 6: UK Occupational Employment, 1997-2006

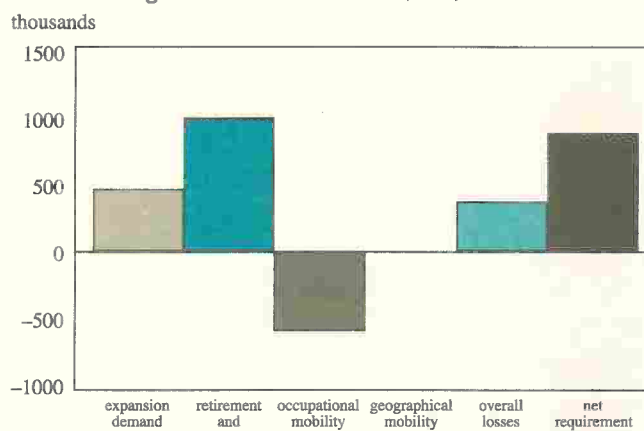


Source: IER estimates.

Changing demand for skills

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 (see Figure 6). Further job losses are expected for craft and skilled manual and other unskilled manual occupations linked to the downturn in manufacturing. However, declining employment levels do not mean that there will not be any need for new entrants into such categories. Estimates of the replacement demand to cover losses due to retirement etc., for all occupations confirm that there will continue to be a need to educate and train significant numbers for such jobs well into the millennium (see Figure 7). These issues are discussed in detail in Chapter 1.

Figure 7: Replacement Demand Estimates Corporate Managers and Administrators, UK, 1997-2006



Source: IER estimates based on Labour Force Survey (1997) and other data.

Regional prospects

The *Review* is rounded off in Chapter 6 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 assess the renewed policy interest in regional planning and related issues. The need for basic skills in achieving competitiveness at a local level is emphasised.

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 1998/99

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For details contact Rosalie Larsen: Tel: 01203 524127 or Fax: 01203 524241

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



This is the purpose of the **LOCAL ECONOMY FORECASTING MODEL** (LEFM[©]) developed by IER in collaboration with Cambridge Econometrics.

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.

For further details contact **Rob Wilson** at IER: Tel: 01203 523530 or Fax: 01203 524241

Email: R.A.Wilson@csv.warwick.ac.uk

A recent study at the Institute for Employment Research (IER) compared the transitions people make between paid work, unemployment and periods spent outside the labour force. The results of this important study are available in:

Labour Markets in Transition: Britain and Germany Compared

By **Peter Elias** (IER) and **Viktor Steiner** (ZEW, Germany)

Available from: Anglo German Foundation for the Study of Industrial Society, 17 Bloomsbury Square,
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