

Bulletin

Institute for Employment Research

LABOUR MARKET ASSESSMENT, 1996-97¹

Introduction

This *Bulletin* summarises the results of the Institute's latest labour market assessment. Full results are available in the *Review of the Economy and Employment* (see the box at the end of this *Bulletin* for further details). The present assessment presents a comprehensive overview of employment prospects across the UK and the regions. It also provides more detailed analysis of developments in two key sectors (Construction and Distribution) as well as highlighting some important new trends in non-standard contractual work patterns.

Good Macroeconomic Prospects

After slowing during 1995 and 1996, the UK economy is expected to grow more rapidly during 1997 as consumer expenditure responds to tax changes and as export markets show signs of recovery. Beyond the immediate short term, the economy is projected to attain a respectable rate of growth for GDP without incurring any significant costs in terms of faster inflation.

Acceleration in Rate of Growth of Output

Manufacturing output, which has recently shown signs of stagnating, following the previous quite rapid recovery from the recession of 1990/91, is expected to benefit from a slight improvement in the position of the main European economies. However, the world economy generally is only expected to grow at modest rates over the medium term, so the scope for further growth in exports depends upon maintaining competitiveness. Investment is also expected to

accelerate during 1997 and 1998 as companies respond to the continued recovery in demand for UK products. GDP is estimated to have risen by only around 2 per cent during 1996 but is projected to accelerate to 3 per cent in 1997. Over the longer term growth of around 2½ per cent per annum is expected to be sustainable.

Continuing Restraints on the Public Sector

Government expenditure is not expected to contribute significantly to the expansion of demand in the near future. Continued tight restraint on current expenditure is likely to keep the rate of growth below 1 per cent per annum over the period 1994-97, with only a modest acceleration beyond then. After the next general election some relaxation is therefore assumed, but whichever party forms the next government, they are expected to have little room for further relaxation on this front. Social capital formation is also expected to show no increase over the whole period, 1996-2001. Tax rates are assumed to remain more or less fixed in real terms. The one exception is the standard rate of income tax which is assumed to be reduced to 20 per cent by the year 2000. This may be less likely under a Labour administration but the negative effects of removing this stimulation to aggregate demand would almost certainly be offset by somewhat more rapid growth in public expenditure.

Improvement in the PSBR

The PSBR grew rapidly in the early 1990s, primarily driven by the high levels of payments to the unemployed and other benefit claimants. Some reduction in the size of the PSBR is expected towards the end of the millennium, as unemployment falls, but it is projected to remain above 1½ per cent of GDP.

¹ This Bulletin was prepared by Rob Wilson. It is based on material produced by various other individuals, including Geoff Briscoe, Anne Green, Kate Purcell and Jonathan Reynolds.

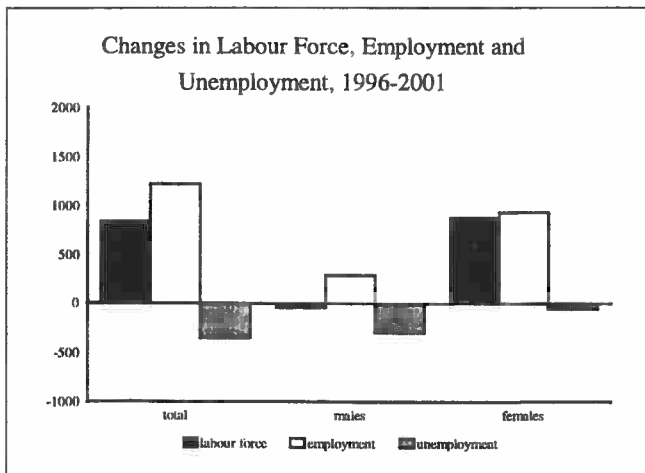


Balance of Payments Remains a Constraint

The balance of payments is also expected to act as a constraint on growth. Despite quite rapid increases in export volumes, the continued rising demand for imported products and services means that the balance of payments on current account remains just in deficit throughout the forecast.

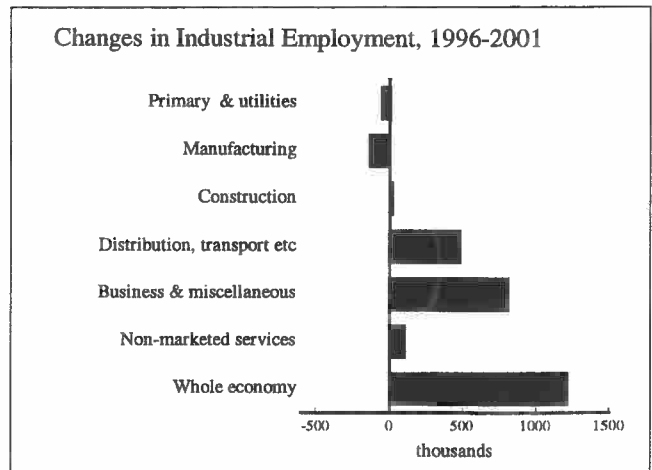
Further Declines in Unemployment

Claimant unemployment levels are expected to continue to decline but only at a very modest rate. Employment is projected to grow steadily but many of the additional jobs will be of a part-time nature. The labour force is forecast to rise, particularly reflecting the increasing participation of women in the formal economy. Trends towards earlier retirement and increased participation in full-time education offset this, especially for males.



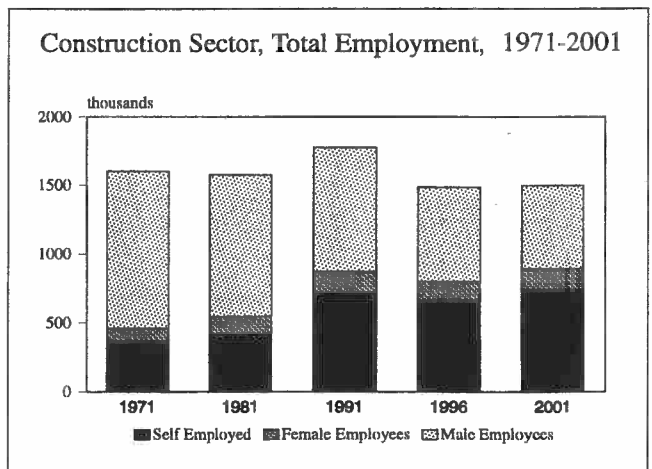
Varying Prospects by Sector

The industrial structure of employment is expected to shift further away from primary and manufacturing industries and towards the service sector, notably those parts connected with tourism and leisure and those providing business services. Some service industries, however, have lost significant numbers of jobs in recent years, as productivity changes, consequent upon technological change and intense international competition have taken effect. This has been especially the case in insurance, banking and finance. Nevertheless, some recovery of employment in this area is now expected but they are unlikely to reach the heights achieved in the late 1980s.



Key Sectors 1: Construction

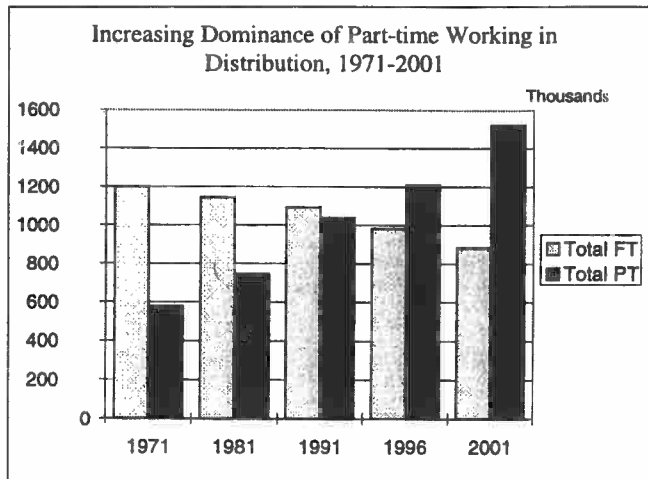
In this year's *Review*, two sectors have been chosen for more detailed analysis. The first of these, construction, was especially hard hit by the recession of the early 1990s, being a prime casualty of the collapse in the property market. Recovery here remains fragile. Some leading indicators suggest a pick up but the prospects for employment growth are modest. The *Review* explores the situation in this sector in greater depth, focusing on issues related to training requirements over the medium term and the effects of new legislation on self employment trends in the sector.



Key Sectors 2: Distribution

The second sector chosen for closer examination is retail and wholesale distribution. Operators in this sector are now more optimistic about prospects for this sector than for many years. However, the pressures to reduce costs remain strong and further restructuring is expected. More jobs are projected but mostly of a part-time nature. The factors influencing trends in this sector are examined in greater depth in the *Review*. This includes a detailed

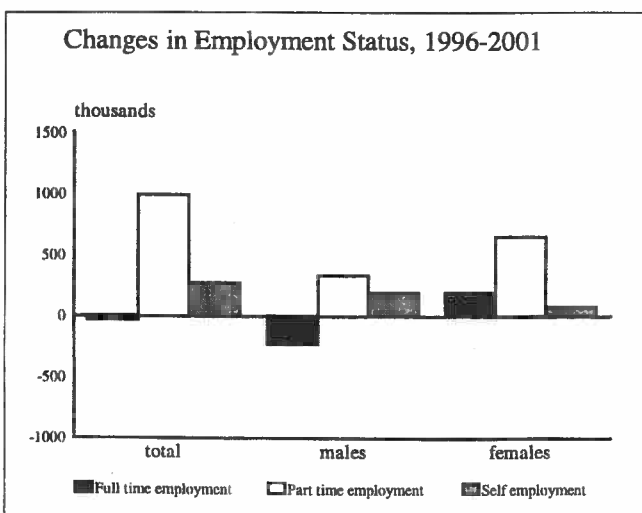
assessment of how the restructuring of the sector is influencing its demand for labour and, in particular, leading to increased requirements for more flexible work patterns including part-time work. However, it is also argued that this may pose problems in terms of maintaining standards of service.



Source: IER

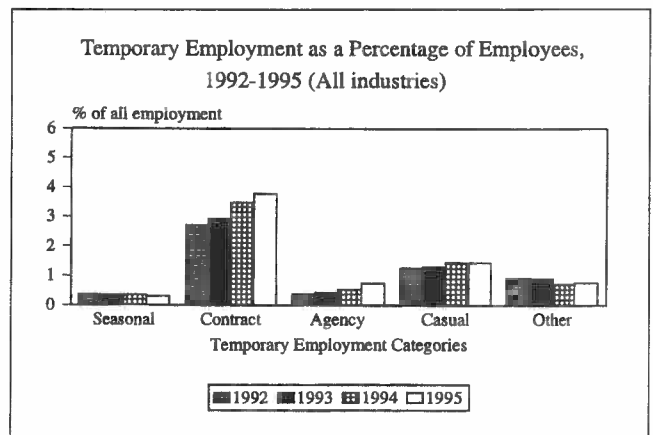
Good Job Prospects for Women

The shift of employment from primary and manufacturing industries to services has 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 the year 2001 and beyond, along with a shift towards other less permanent forms of employment contract.



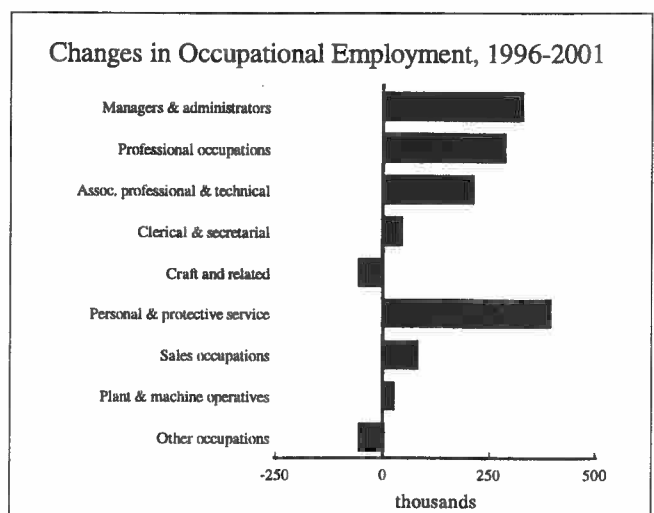
Increasing Importance of Non-standard Contractual Arrangements

The quantitative analysis of such trends in the Review is complemented by a more in-depth look at the factors influencing contractual relationships between employers and employees, including a detailed examination of contingent (non-permanent) employment trends.



Continuing Change in Skill Requirements

As the economy develops, the need for skills changes. This has been reflected throughout the post-war era by slow but steady shifts in the occupational structure of employment. The general shifts in favour of white collar, non-manual jobs, especially those of a managerial and professional nature is expected to continue. In contrast, the manual, blue collar skills, typically associated with manufacturing, will become less in demand.

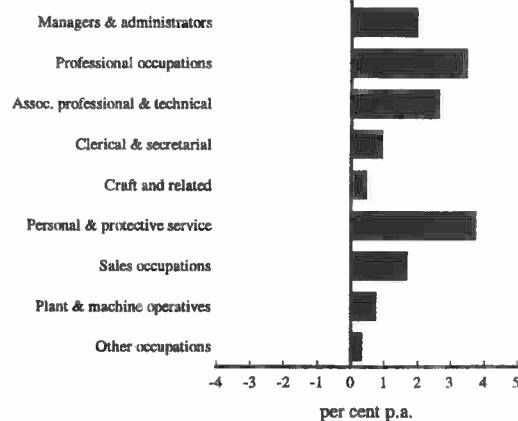


Regional Prospects

The patterns of employment change vary across different parts of the UK. All southern regions, with the exception of Greater London, record greater than average employment growth. Among the northern regions, only Yorkshire and Humberside exceeds the average. East Anglia is expected to record the fastest employment growth rate and Northern Ireland the slowest.

Although all regions benefit from a decline in unemployment, the projected rates for 2001 differ markedly with over 8 per cent of the labour force without paid work in the North and Northern Ireland and less than 5 per cent in East Anglia; the South East excluding Greater London, and the South West.

Changes in Occupational Employment, 1996-2001
in East Anglia: Fastest Growing Region in the UK



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.

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

Review of the Economy and Employment: Labour Market Assessment 1996/97

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