

# Overview of the labour market

Inevitably current interest in the Scottish labour market continues to focus on the trends and patterns in the unemployment figures and again in this issue we note recent changes in Scottish labour market trends. However, realisation that unemployment levels have not risen to anticipated levels or as sharply as in previous recessions prompts a reconsideration of the how the 'flexible' labour market has adjusted in the recession.

The CBI (Employment Trends in 2009) noted most firms have either made or are planning changes to working patterns most notably more flexible working, reducing overtime, making less use of agency workers and cutting shifts and, to a lesser extent implementing short term working and increased use of fixed term contracts. The CIPD/KPMG Labour Market Outlook survey (2009) reported some 17% had implemented reduced hours programmes and were planning to ask staff to work shorter hours in 2010. Both the CBI and CIPD surveys in 2009 noted a reduction in spend on training in 2009. The CBI reported approximately 44% of respondents were reducing their spend on training; whilst the CIPD noted median spend on training per employee declined from £300 in 2008 to £220 in 2009.

However, the OECD (Employment Outlook) has been more cautious as to the benefits of flexible employment in terms of whether employees are any better prepared to withstand a period of weak labour demand than in previous recessions. As Myers (2009) comments 'the apparent limited adjustment in labour input during the latter stages of 2008 was surprising given ....assumptions that the UK's labour market had increased in flexibility over the past two decades', although Myers notes later evidence suggests labour input adjustment gathered pace by the middle of 2009 (Myers, M. 2009. The impact of the economic downturn on productivity growth. Economic & Labour Market Review vol.3 no. 6 June 2009).

Labour Force survey evidence, for the UK, indicates that average hours worked for full time employees fell from an average of 37.1 (Sept-Nov 2007) to 36.5 hours (Jun-August 2009) and average hours for part-time employees declined from an average of 15.7 (Sept-Nov 2008) to 15.3 hours (June-August 2009).

The CBI (Employment Trends in 2009) noted that more than half of respondents planned a pay freeze in their next review; the CIPD (Labour Market Outlook 2009) noted some 16% planned to implement a pay freeze in the three months to December 2009. Data from the Monthly Wages and

Salaries Survey for the UK reported that earnings growth for the whole economy for the year to April 2008 was 3.9%, this declined to 3.4% per annum in January 2009 and reached a low of 1.8% per annum in September 2009 (Jenkins, J. & Leaker, D. The Labour market across the UK in the current recession. Economic & Labour Market Review. Vol. 4 no. 1 Jan 2010). Data from the Scottish Chambers' Business Survey (see the Review of Surveys Section) noted that both the percentages increasing pay and average pay increases were at historic low levels in 2009.

The increasing recognition of the likelihood of widespread job losses in the public sector prompts a consideration of the trends in public sector employment; one estimate is that Local Government faces having to lose some 3,000 jobs, initially by early retirement and other voluntary schemes, in the next financial year (Sunday Herald 31.01.2010), although this figure is likely to rise through 2010.

The latest available data, Q3 2009, indicates 573,800 employed in the Scottish public sector (excluding the those employed by RBS and Lloyds who have been reclassified as UK wide public corporations), of which 44.6% were employed in local government (excluding police and fire services) and 26.5% in the NHS. The numbers employed (full time equivalents) in Scottish local authorities (Q3 2009) are as follows: 56,000 teachers (62,600 headcount), 36,400 other education staff (50,500 headcount); 43,600 in social work (54,500 headcount); 23,800 in police and related services (24,700 headcount); 5,700 in fire services (5,800 headcount) and 85,500 other staff (106,500 headcount).

**Table 1: Total public sector employment in Scotland (headcount Q3 2009)**

	Headcount %
Total Local Government (ex Police & fire NHS)	44.6%
Public Sector Financial Institutions	26.5%
UK Government Departments	6.3%
Police and Related Services	5.4%
UK wide public bodies	4.0%
Devolved public bodies	4.0%
Scottish Government Core, Agencies and Non Ministerial Departments	3.3%
Armed Forces	2.9%
Fire and Related Services	1.9%
Scottish Parliamentary Corporate Body	1.0%
	0.1%

A recent CRESC Working Paper (Centre for Research on socio-Cultural Change, Working Paper No. 75, December 2009. The Open University) argues that 'the boundaries between public and private (sector) employment are blurred' (CRECS December 2009:17). Recently, as the Public Sector Employment in Scotland: Statistics for 3rd Quarter 2009 notes, staff have been transferred from Local

**Table 2: Headline indicators of Scottish and UK labour market, October – December 2009**

October-December 2009		Scotland	Change on quarter	Change on year	United Kingdom	Change on quarter	Change on year
Employment*	Level (000s)	2,492	-8	-41	28,905	-12	-428
	Rate (%)	73.5	-0.4	-1.8	72.4	-0.1	-1.7
Unemployment**	Level (000s)	206	10	65	2,457	-3	448
	Rate (%)	7.6	0.4	2.4	7.8	0.0	1.4
Activity*	Level (000s)	2,697	2	24	31,363	-15	20
	Rate (%)	79.8	-0.1	0.1	78.7	-0.2	-0.5
Inactivity***	Level (000s)	652	3	-3	8,077	72	241
	Rate (%)	20.2	0.1	-0.1	21.3	0.2	0.5

Source: Labour Market Statistics (First Release), Scotland and UK, February 2010

\* Levels are for those aged 16+, while rates are for those of working age (16-59/64)

\*\* Levels and rates are for those aged 16+, rates are proportion of economically active.

\*\*\* Levels and rates for those of working age (16-59/64)

**Table 3: Employee jobs by industry, Scotland, September 2009**

SIC 2003 Section	All jobs (seasonally adjusted)	All jobs	Agriculture, Forestry and Fishing	Mining Energy and Water Supplies Industries	Manufacturing Industries	Construction	Distribution etc, transport etc, finance and business services	Education, health, public admin and other services
	A-O	A,B	C,E	D	F	H-K	L-O	
Sep 05	2,373	2,373	32	37	232	129	1,102	842
Mar 06	2,376	2,368	31	36	224	135	1,094	848
Sep 06	2,361	2,360	33	38	224	138	1,085	841
Mar 07	2,380	2,371	34	41	222	145	1,082	847
Sep 07	2,389	2,389	33	43	222	139	1,108	844
Dec 07	2,391	2,400	25	42	220	139	1,127	847
Mar 08	2,392	2,382	28	42	218	137	1,109	849
Jun 08	2,396	2,396	35	42	216	136	1,114	853
Sep 08	2,389	2,387	35	41	216	138	1,104	852
Dec 08	2,374	2,385	33	41	212	140	1,103	856
Mar 09	2,362	2,354	37	40	206	139	1,075	858
Jun 09	2,340	2,339	29	41	203	130	1,075	861
Sep 09	2,332	2,331	27	40	203	127	1,070	864

Government employment to a privately contracted organisation or charity, yet continue to perform the same roles within Local Government. There is more evidence of councils planning efficiency savings/cuts affecting a range of services currently provided/supported by the voluntary sector. Currently Scottish Voluntary Sector employees approximately 129,000 (83,500 FTEs) and it is estimated that 47% of income is spend on salaries.

## Recent trends and statistics

Comparable figures on the labour market<sup>1</sup> between Scotland and the United Kingdom in the quarter October – December 2009 are summarised in Table 2. Labour Force Survey (LFS) data show that in the quarter to December 2009 the level of employment in Scotland fell by 8 thousand, to 2,492 thousand. Over the year to December 2009, employment in Scotland fell by 41 thousand. For the same period, UK employment fell by 428 thousand. The Scottish employment rate – those in employment as a percentage of the working age population – was 73.5 per cent, down 1.8 per cent compared to one year earlier. For the same period the UK employment rate was 72.4 per cent, down 1.7 per cent compared to one year earlier.

In considering employment, activity and unemployment rates it is important to remember the bases and relationships of these figures. LFS data is provided for: (1) all aged 16 and over and (2) for all aged 59/64. The first measure (all aged 16 and over) leads to higher numbers in employment, in the total economically active and economically inactive – but reduces the economic activity rates and unemployment rates, but at the same time increases the economically inactive rate. Conversely the second measure (all aged 16 to 59/64) leads to lower numbers economically active, in employment and economically inactive – but leads to a higher economically active, employment and unemployment rates but lower economically inactive rates.

The relationships between employment, unemployment, totally economically active and inactive are important in appreciating changing levels of employment and unemployment, and changes in the employment rates should be seen in conjunction with changes in the activity rates. If people leave employment and become unemployed (but are still economically active) the unemployment rate increases, but the economically active rate remains unchanged. However, if people leave employment and do not seek employment, as seems to be an emerging pattern, they are categorised as economically inactive, as such the unemployment rate remains unchanged whilst the activity and inactivity rates change.

Table 2 shows that for Scotland the preferred International Labour Organisation (ILO) measure of unemployment rose significantly to 206 thousand, between October - December 2009, or by 65 thousand over the year<sup>2</sup>. The ILO

unemployment rate rose in the three months to December 2009 and now stands at 7.6 per cent. This represents a 0.4 per cent rise over the last quarter and a 2.4 per cent rise relative to the same period a year earlier. The comparable ILO unemployment rate for the UK stands at 7.8 per cent, and is up 0.0 per cent over the most recent quarter, and up 1.4 per cent over the year.

The economically active workforce includes those individuals actively seeking employment and those currently in employment (i.e. self-employed, government employed, unpaid family workers and those on training programmes). Table 2 shows that the level of the economically active rose by 0.4 per cent between October - December 2009. There were 2,697 thousand economically active people in Scotland during October – December 2009. This comprised 2,4921 thousand in employment and 206 thousand ILO unemployed. The level for those of working age but economically inactive rose in the last quarter, up 0.1 per cent on the previous quarter to 652 thousand people. This indicates a decrease of -0.1 per cent in the number of people of working age economically inactive over the last year.

The most recent (seasonally adjusted) figure for Jobseekers allowance claimants in Scotland stood at 136.2 thousand in December 2009, up 36.7 thousand or 36.9% over the year. The claimant count rate in December 2009 stood at 4.9 per cent. This is up 1.3 per cent over the year. The UK claimant count rate in December 2009 was 5.0 per cent, but level over the year.

Unemployment data at the Scottish constituency level for December 2009 is available in a SPICe Briefing, with more recent figures available 17th February 2010.

The most recent figures for the number of employee jobs by industrial activity are detailed in Table 3. Employee job figures are a measure of jobs rather than people. Total seasonally adjusted employee jobs for the quarter ending September 2009 (the latest available figures) stood at 2,332 thousand. The number of jobs in the manufacturing industry has levelled out and remains at 203 thousand, and down 13 thousand against the same quarter one year earlier. The number of jobs in the service industry fell by 5,000 over the last quarter to 1,070 thousand, and there are now 34 thousand fewer jobs in the service industry than the same period ending a year earlier.

Table 4 provides some limited indications of the experience of unemployment in terms of claimant count by age and duration. Over the year the claimant count has risen by 33.0% (for the 18 – 24 age group by 31.0%, 25 – 49 age group by 33.1% and for the 50+ by 34.0%). The latest figures suggest that 18,600 have been claiming benefit for more than a year, up 10,000 over the year (up 116.7%), 7,300 18 – 24 year olds have now been claiming benefit for over 6 months and up to 12 months.

**Table 4: Claimant count by age and duration (computerised claims only) Numbers and percentage change over year to January 2010**

	<b>All computerised claims</b>	<b>Up to 6 months</b>	<b>Over 6 and up to 12 months</b>	<b>All over 12 months</b>
All 16+ numbers	144,900	97,500	28,000	18,600
All 16+ % change over year	33.0	15.6	77.4	116.7
All 18 – 24 change in numbers (%) over year	9,700 (31.0%)	4,600 (16.9%)	3,900 (114.6%)	1,100 (301.3%)
All 25- 49 change in numbers (%) over year	19,600 (33.1%)	6,500 (14.9%)	6,500 (68.4%)	5,800
All 50 and over change in numbers (%) over year	5,600 (34.0%)	1,700 (14.1%)	1,800 (63.3%)	2,200 (108.8%)

## Outlook

In the year to December 2009 the total in employment fell by 41,000 and unemployment rose by 65,000 to 206,000 but the numbers economically inactive fell by 3,000 over the year. In 2010 and 2011 the scale of job losses in finance and the public sector will become clearer. A new government committed to a more rapid reduction in the fiscal deficit might lead to unemployment rising to higher than expected levels as might the 1% increase in employers' national insurance contributions scheduled for April 2011.

Pay restraint policies seem inevitable, but at this stage it is uncertain as to how widely such restraint will be accepted in the new climate of much more awareness as to pay and remuneration packages for senior executives in both the public and private sectors. As the recent report of the National Equality Panel notes 'Inequalities in earnings and income are high in Britain, both compared with other industrialised countries, and compared to thirty years ago.' (An Anatomy of Economic Inequality in the UK, Government Equalities Office. 2010). The report noted 'Income inequality in Britain has remained much higher than in the 1960s and 1970s; and on some measures it is the highest in last 50 years'. Such inequalities may well hinder efforts to introduce a period of pay restraint.

The employment landscape will change over the next few years, employment levels in the public sector are likely to decline, but the demand for services will remain high. More people will seek to work past retirement age as pension arrangements are perceived to be inadequate, but this trend will impact on measures to reduce youth

unemployment. Differing patterns of migration will impact on the longer term Scottish problem, that of an aging workforce.

## Endnotes:

<sup>1</sup>The Census 2001-consistent population figures at local authority level were released in February 2003. This has allowed the production of interim regional LFS estimates. The population data only cover the periods up to mid-2001. The data presented here are taken mainly from Labour Market Statistics, May 2008 and are consistent with the updated LFS data available on NOMIS from Summer 2004. Labour Market Statistics continue to report data for Scotland at the quarterly level, so this will continue to form the basis of our analysis of movements in the labour market between quarters.

<sup>2</sup>The Labour Force Survey definition of ILO unemployment takes precedence over the claimant count measure. ILO unemployment is much less sensitive to changes in the regulations governing unemployment benefit, and conforms to a widely accepted standard to allow for more meaningful cross-country comparisons.

Cliff Lockyer  
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