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A nighttime photograph of the Glasgow Science Centre and the Glasgow Shipyard crane, reflected in the River Clyde. The scene is illuminated by city lights, creating a vibrant reflection on the water. The crane is a large, dark, lattice-structured structure, and the Science Centre is a modern building with a glass facade and illuminated windows.

Fraser of Allander Institute & Scottish Centre for Employment Research **Scottish Labour Market Trends**

Vol 2 No 4



The Fraser of Allander Institute (FAI) is an economic research institute with over 40 years of experience researching, analysing and commentating on the Scottish economy. The FAI undertakes a unique blend of cutting-edge academic research alongside applied commissioned economic consultancy in partnership with business, local and national government and the third sector.

The Scottish Centre for Employment Research (SCER) has an international reputation for high quality research and knowledge exchange on work and employment. SCER works collaboratively with academic, policy and practitioner stakeholders to generate high impact research that delivers shared benefit. The Centre has particular expertise in supporting workplace innovation, job quality and fair work, key priorities for Scotland.

Labour Market Trends – published every six months – is jointly produced by the FAI and SCER and aims to shed light on key developments in Scotland's labour market. Alongside a summary of recent trends and the outlook, the report also highlights longer trend developments and areas for discussion.

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Summary

Key Labour Market Indicators: July – September 2018

	Employment (16-64)	Unemployment (16+)	Inactivity (16-64)
Scotland	75.0	3.8	22.0
England	75.8	4.1	20.8
Wales	75.0	3.8	21.9
N.Ireland	68.5	4.1	28.5

Source: ONS, Labour Force Survey

Scotland's labour market continues to experience a period of historically low unemployment and near historically high employment.

This is a pattern reflected across the UK.

Among those in employment, the balance has shifted back toward growth in the number of employees with a recent fall in the number self-employed (in part, reversing a trend witnessed for over 10 years).

While these headline indicators suggest that the labour market is in good health, wider indicators give some cause for concern.

Much of the growth in employment since the global financial crisis is driven by increases in employment among those aged 65+.

The youth (16–24 year old) employment rate is lower now than it was in 2008. The same is true for those aged 35–49. Youth unemployment however, is at a record low. These missing element here which connects these two is the increase in youth economic inactivity over this period.

Economic activity is broad category which encompasses more (e.g. being in education) and less positive (e.g. being sick) outcomes and destinations for workers.

Scotland has the fourth lowest unemployment rate in the UK. In common with most other parts of the UK, our headline unemployment rate has fallen over the past year.

However Scotland was one of only two parts of the UK to register increases in economic inactivity over the past year, the other area was the South East of England.

Care must be taken in reading too much into small differences in aggregate labour market statistics across parts of the UK. The data are based on the Labour Force Survey, and smaller sample sizes for sub-national statistics mean that the confidence intervals around local, English region and devolved nation labour market statistics can be large.

Labour productivity growth remains weak. As a consequence earnings growth has remained weak too. Median real earnings (i.e. earnings after adjusting for inflation) growth has been – at best – barely positive over the last few years.

The weakness of earnings and overall growth in the economy are reflected in the consumer confidence index for Scotland where consumers appear to be pessimistic about the outlook, and indeed more pessimistic than consumers elsewhere in the UK.

Fraser of Allander Institute &
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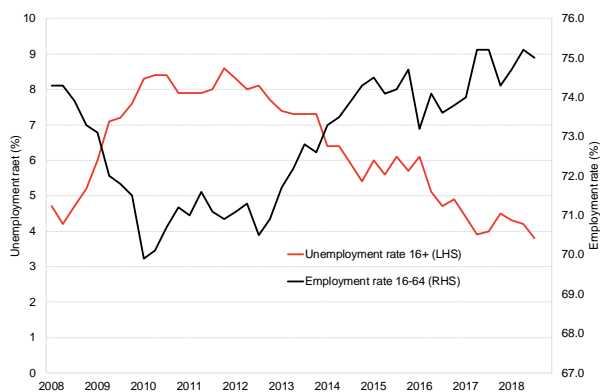
Overview and Analysis

Table 1: UK labour market, July - September 2018

	Employment (16-64)	Unemployment (16+)	Inactivity (16-64)
Scotland	75.0	3.8	22.0
Quarterly Change	-0.2	-0.4	0.6
Annual Change	-0.2	-0.2	0.4
UK	75.5	4.1	21.2
Quarterly Change	0.0	0.1	0.0
Annual Change	0.5	-0.2	-0.4

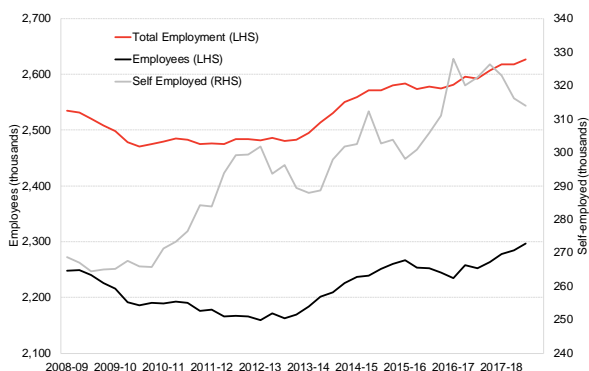
Source: ONS, Labour Force Survey (LFS)

Chart 1: Scottish employment & unemployment rate 2008 – September 2018



Source: ONS, LFS

Chart 2: Scottish employment & self-employment up to July 2017 - June 2018



Source: ONS, APS

Introduction

Scotland’s headline unemployment rate is now 3.8%, its lowest recorded rate, and now has an employment rate of 75% - not far off of its record high. These robust labour market statistics are in line with performance of the aggregate UK labour market, which has a marginally higher unemployment rate and employment rate.

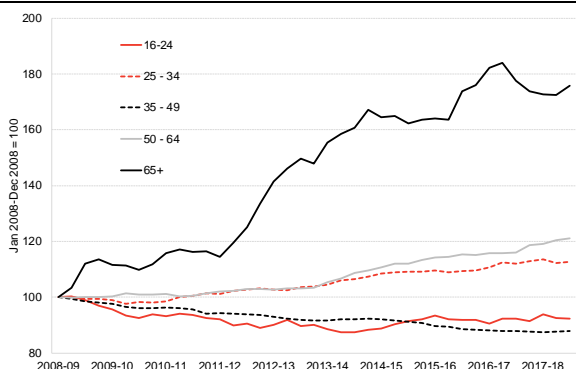
In the UK as a whole economic inactivity has dropped by 0.4% points over the past year, compared to a rise of 0.4%-points in Scotland. Economic inactivity is a broad category which encompasses more (e.g. being in education) and less positive (e.g. being sick) outcomes and destinations for workers.

Looking in more detail at the data, the largest increase in economic activity over the last year has been amongst those aged 16—24 (which is up 1.9% points to 34.4%). Some of this is likely to reflect increases in student numbers.

Across the entire population, 12,000 more people are economically inactive this year than last. This is driven by increases in the number of students (+15,000) and those undertaking family caring responsibilities (+18,000). Offsetting these rises we have seen some reductions in the number of people economically inactive due to retirement (-10,000) and temporary sickness (-6,000).

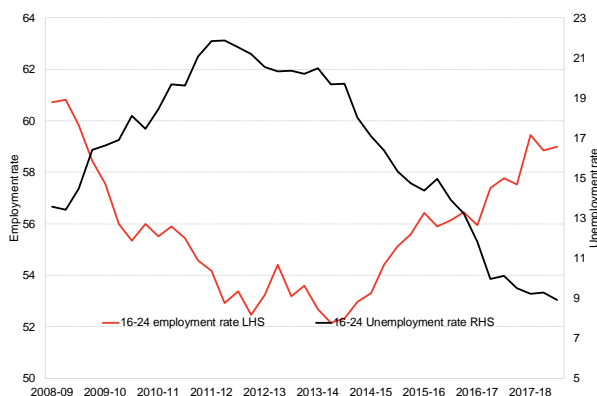
In contrast to much of the past couple of years, the balance of employment in Scotland between self-employment and employee jobs appears to be shifting back towards employees. This suggests that the substantial rises in self-employment witnessed since the Great Recession may have eased somewhat.

Chart 3: Employment rates by age up to July 2017 - June 2018



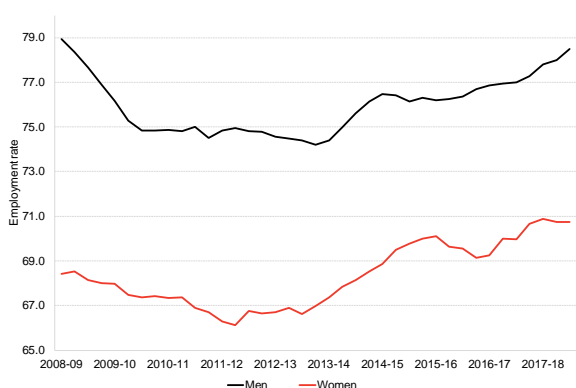
Source: ONS, APS

Chart 4: Youth (16-24) employment and unemployment up to July 2017 - June 2018



Source: ONS, APS

Chart 7: Employment by gender up to July 2017 - June 2018



Source: ONS, LFS

Labour market outcomes by age and gender

The robust headline employment data for Scotland reflect further pick up in the employment rate of older workers (aged 65+).

Meanwhile the employment rate for younger workers 16—24 as well as those aged 35—49 remains lower than a decade ago.

Thus while much is made of the substantial reduction in youth (16—24 year old) unemployment in Scotland over the decade this should not be confused with improvements in the employment of this age group.

Instead, what appears to have happened is that 16—24 year olds were more likely to be economically inactive, largely as a result of engagement with education and training.

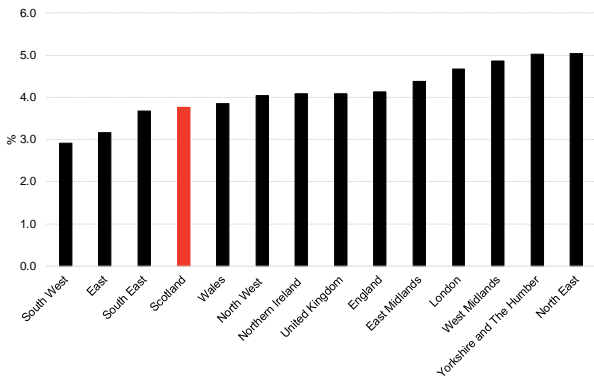
If this education and training is a stepping stone to employment, this is of course to be welcomed.

The recent improvements in the employment rate of this age cohort suggest that this investment in training, particularly in an otherwise tight labour market, may be beginning to feed through to greater employment rates.

The gender gap in employment has closed a little over the past decade in Scotland, however the gap remains and efforts to close this gap continue to be the focus of policy. While much of the recent focus has been on gender pay gaps, the broader issue of differences in participation rates by gender remain.

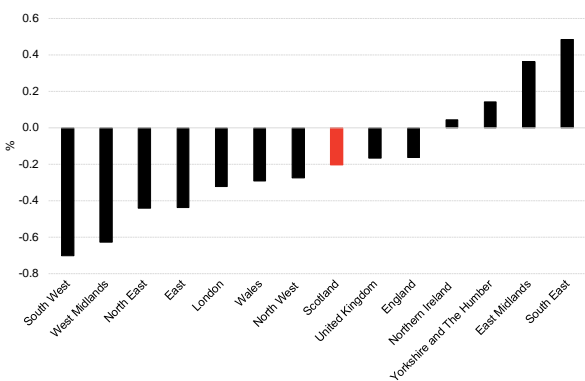
Scotland’s labour market is performing, on headline indicators at least, well by both historic standards and also by comparison to elsewhere in the UK.

Chart 6: Unemployment rate by different part of the UK July - September 2018



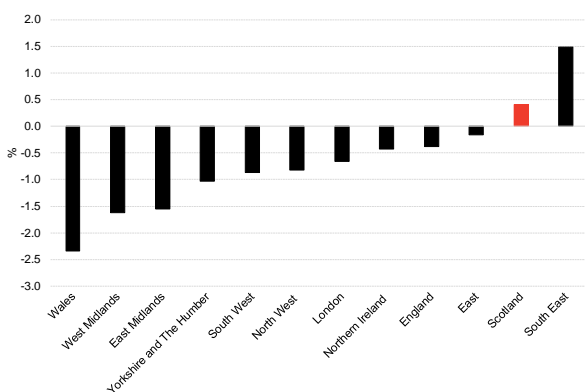
Source: ONS, LFS

Chart 7: Annual change in unemployment rate across UK July - September 2018



Source: ONS, LFS

Chart 8: Annual change in inactivity rate across UK July - September 2018



Source: ONS, LFS

The unemployment rate in Scotland is the fourth lowest in the UK, behind the South East, South West and East of England.

Over the past year we have seen small falls in the unemployment rate across most of the UK, with more substantial falls in the South West and the West Midlands, and some larger increases in unemployment in the East Midlands and the South East.

Caution is needed in comparing sub-national unemployment rate data given the large confidence intervals around these estimates.

For example, the unemployment rate in Scotland is estimated at 3.8%, this has a 95% confidence interval of +/- 0.7% points. This means that we can be 95% confidence that the 'true' unemployment rate in Scotland lies between 3.1% and 4.5%.

The South West of England currently has the lowest unemployment rate of any part of the UK at 2.9%. This again though has a confidence interval around this central estimate, in this case of +/- 0.5 % points meaning. Thus we can be reasonably confident that the 'true' value lies between 2.4% and 3.4%.

There is clearly some overlap between the credible intervals of Scotland and the South West, and so while the central estimate for each is different, caution is needed given sampling uncertainty about making too much of these differences.

For comparison, the confidence interval for the UK unemployment rate is +/- 0.2% points. This is a result of the larger sample of households which are sampled at the national level, reducing the statistical sampling variability. Pressure exists to improve the sample sizes for these regional estimates, to narrow the confidence intervals.

Chart 9: Scottish GVA per hour 2016 Q1 – 2018 Q2

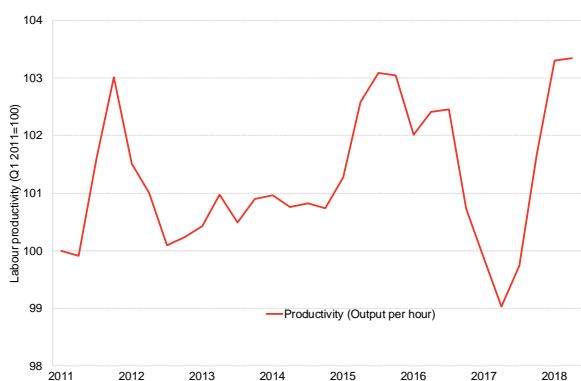


Source: ONS, Scottish Government

Given the apparent health of the labour market reflected in the headline data, the continued weaknesses in earnings growth remain a challenge. Understanding this requires us to look at productivity, and specifically labour productivity (output per hour worked).

Much has been written about the weakness of productivity growth in the UK in the aftermath of the financial crisis. Many hypothesis have been formulated and tested, yet little appears to be changing in the headline data.

Chart 10: Scottish GVA per hour, 2011 - 2018

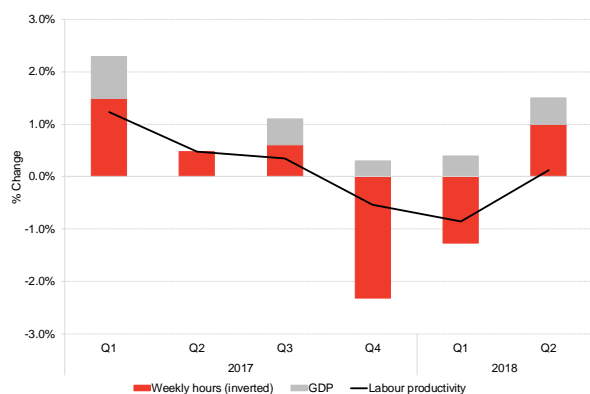


Source: ONS, APS

In Scotland, while there has been some improvement in ‘catching up’ with the UK over the last decade, this reflects more the failure of UK productivity growth than any particularly strong growth in productivity in Scotland.

The last few quarters have produced better rates of productivity growth, but these have the effect of returning Scotland to levels of productivity experienced periodically since 2011.

Chart 11: Scottish hours worked, GDP and labour productivity 2017 Q1 – 2018 Q2



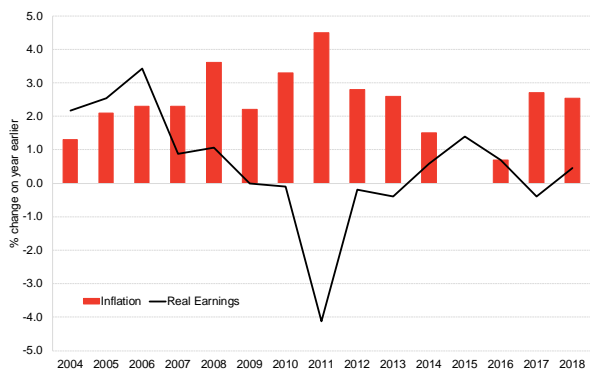
Source: ONS, APS

The pre-financial crisis trend of sustained improvements in productivity are no longer what we’re seeing in the data. Instead, there appear to be temporary periods of more rapid productivity growth eroded with weaker growth in output and stronger growth of hours worked.

This likely reflects the lack of business confidence as reflected in business investment data. With heightened policy uncertainty businesses appear to be in ‘wait and see’ mode holding off on substantial business investments.

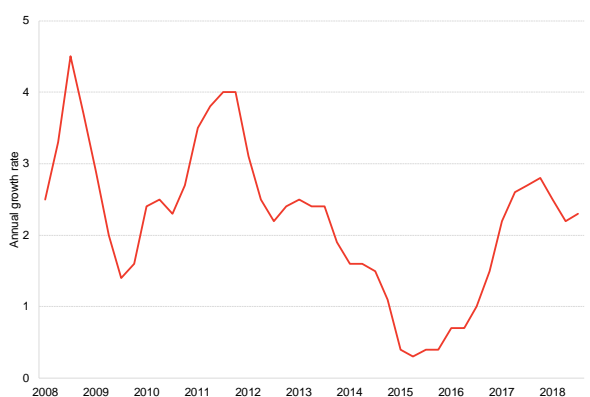
The effect of this is greater reliance on changes in hiring to meet changes in demand for goods and services, as a result of deferring investment in productivity improving technologies.

Chart 15: Median real earnings in Scotland and UK CPI inflation 2004 - 2018



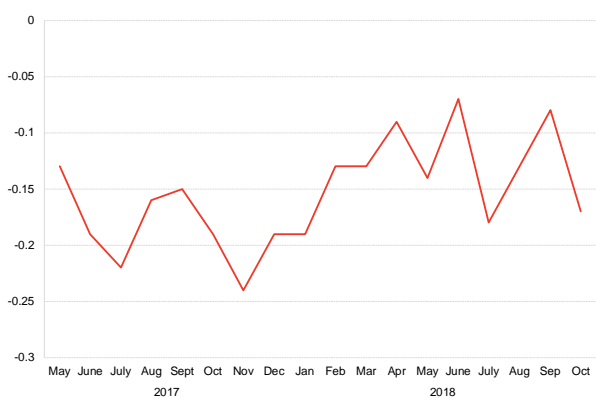
Source: ONS, ASHE

Chart 16: Consumer price index 2008 - 2018



Source: ONS

Chart 17: Consumer confidence in Scotland May 2017 - Oct 2018



Source: Scottish Government

Earnings and consumer confidence

Failure to realise sustained improvements in labour productivity make sustained improvements in real wage growth difficult for firms to justify.

This has meant that much of the economy has not seen real wages growth by very much, if at all, over the past decade.

Indeed, the only period of meaningful real wage growth over the past decade occurred as a result of low (below target) inflation rather than faster wage growth.

Heightened uncertainty, twinned with the weakness in productivity and real earnings growth means that consumers in Scotland are pessimistic about the economic outlook.

They are also more pessimistic about the economic outlook than consumers in the UK as a whole (-0.1 for UK, -0.17 for Scotland).

Of course, given this, many consumers may be holding off on spending, or paying down debt, which is not helping retail sales or wider economic growth.

The latest retail sales data for Scotland reflect this weakness in consumer confidence with both the value and the volume of retail sales growth considerably lower than in the rest of Great Britain.

In 2018 Q3, Scottish retail sales increased in volume terms by 0.4% (1.2% in GB) relative to 2018 Q2. Compared to the same point last year, retail sales in Scotland are up only 1.3% in volume terms compared to 3.4% for GB as a whole.

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