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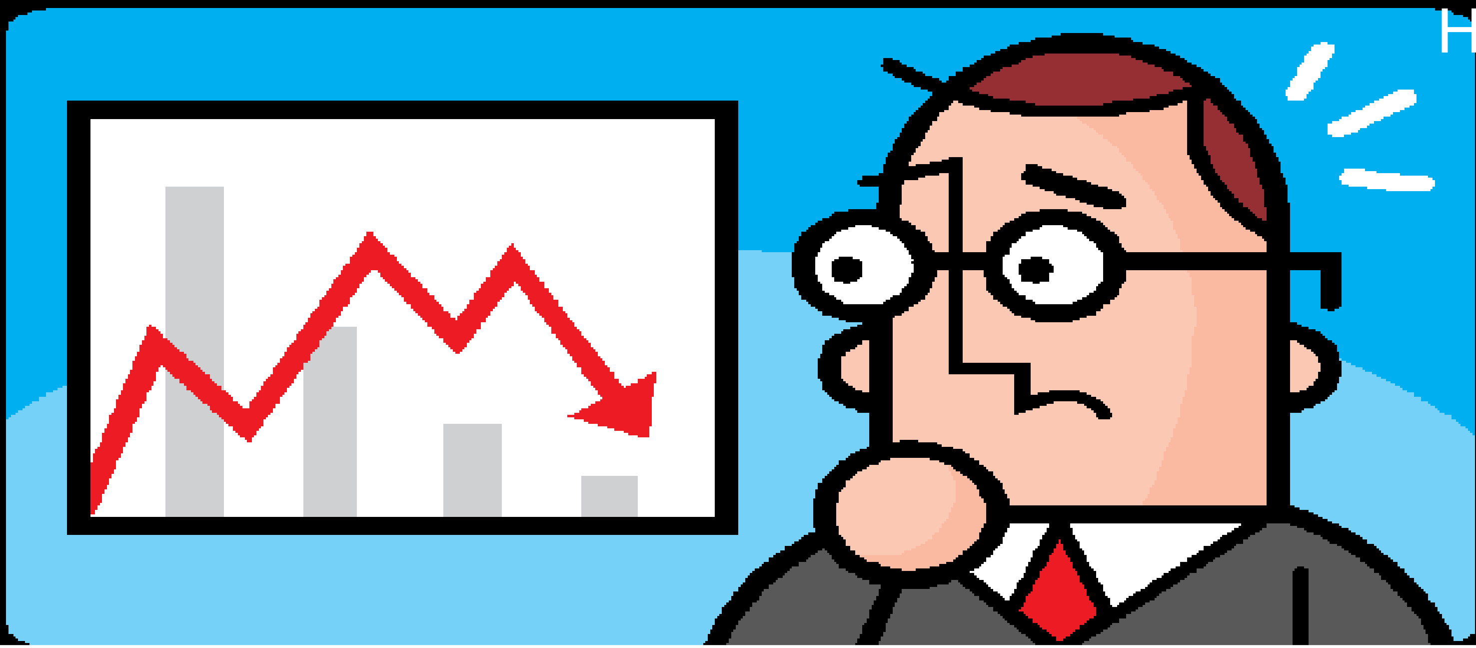
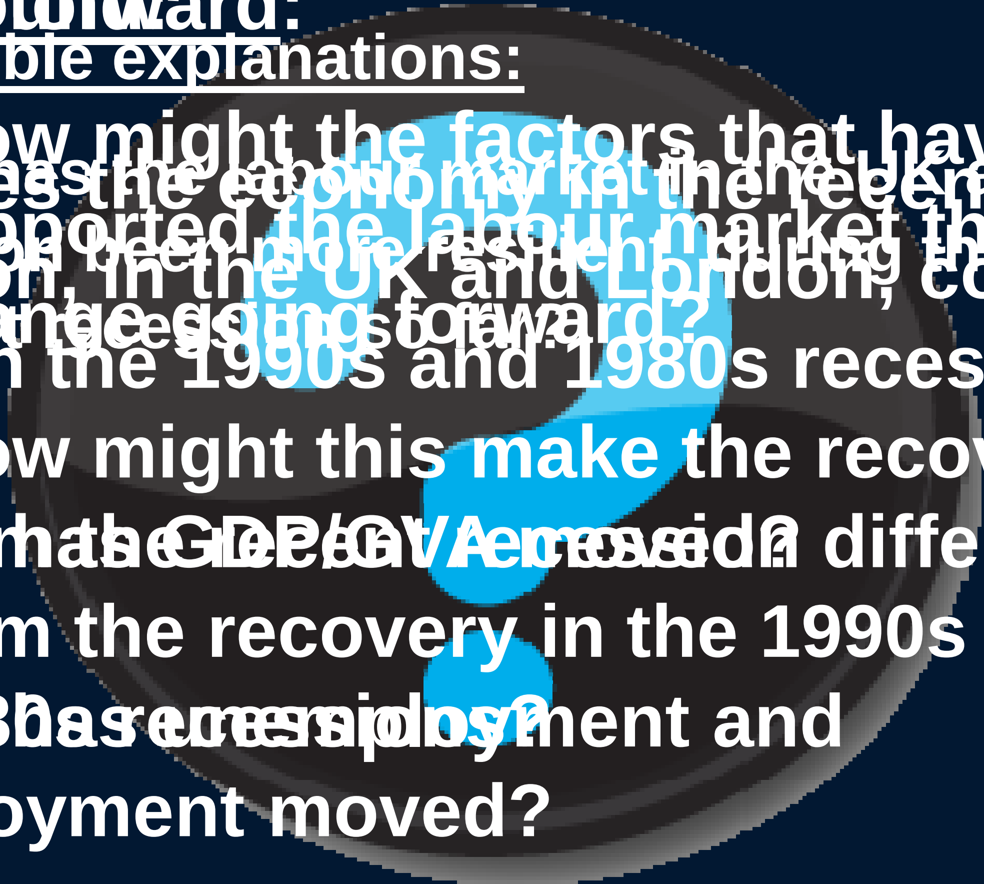
A summary explanation of London's labour market in the recent recession

Analysis by Melisa Wickham

Presented by Jonathan Hoffman



What the summary covers:



Background:

How does the economy in the recent recession, in the UK and London, compare to that in the 1990s and 1980s recessions?

- How has the GDP/GVA moved?
- How has unemployment and employment moved?

Possible explanations:

Why has the labour market in the UK and London been more resilient during the recent recession so far?

Looking forward:

- How might the factors that have supported the labour market thus far change going forward?
- How might this make the recovery from the recent recession different from the recovery in the 1990s and 1980s recessions?

Note:

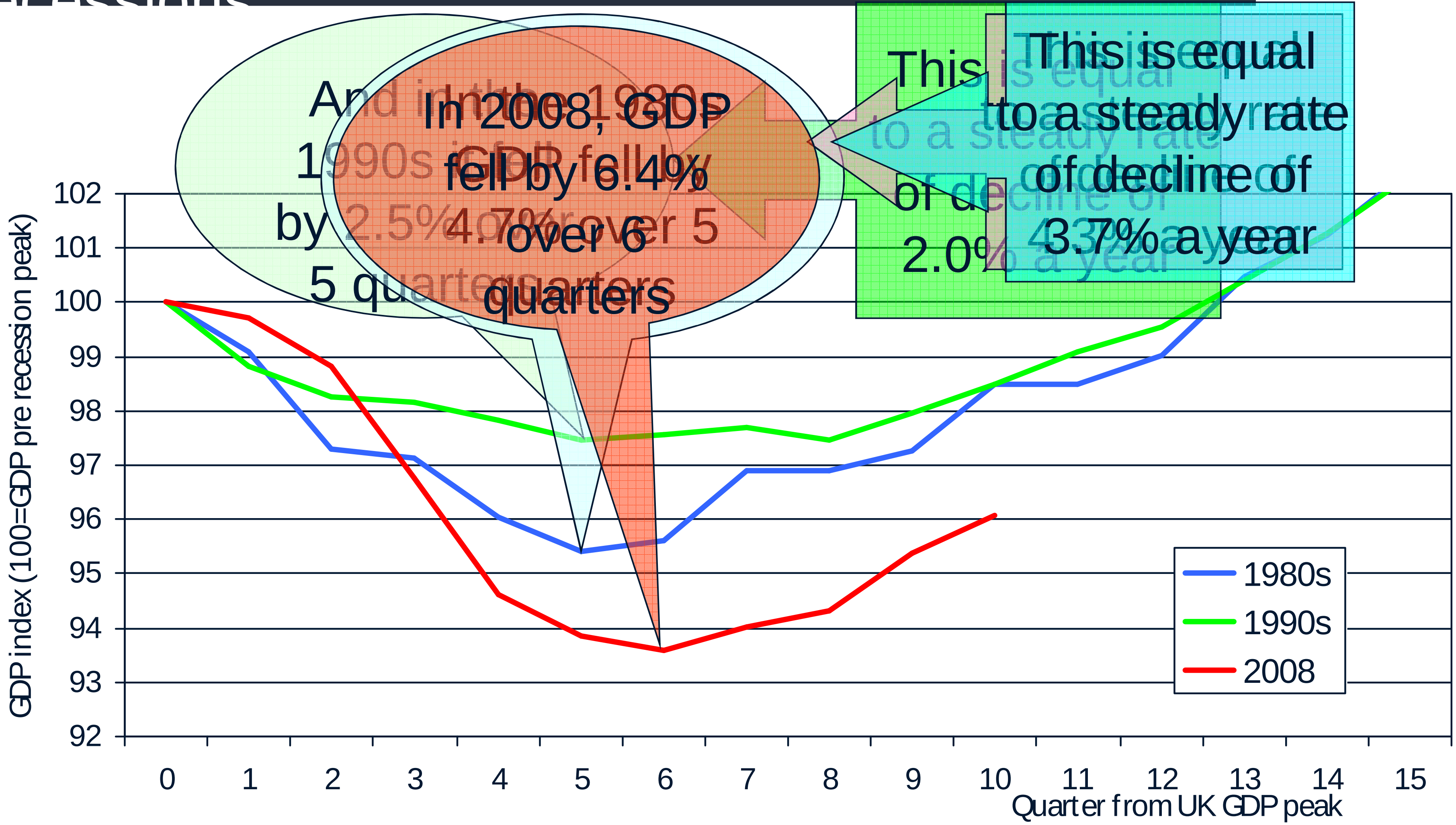
- It is not presumed that the full impact of the 2008 recession on the labour market has necessarily been experienced yet.

- For a more detailed examination and explanations see the main report: *'Working Paper 44: London's labour market in the recent recession'*, GLA Economics: http://www.london.gov.uk/publication/working-paper-44-londons-labour-market-recent-recession

BACKGROUND

UK Background

UK GDP fell faster, and further, in the 2008 recession than in the 1990s and 1980s recessions:



Source: ONS, GDP chained volume measure, constant 2006

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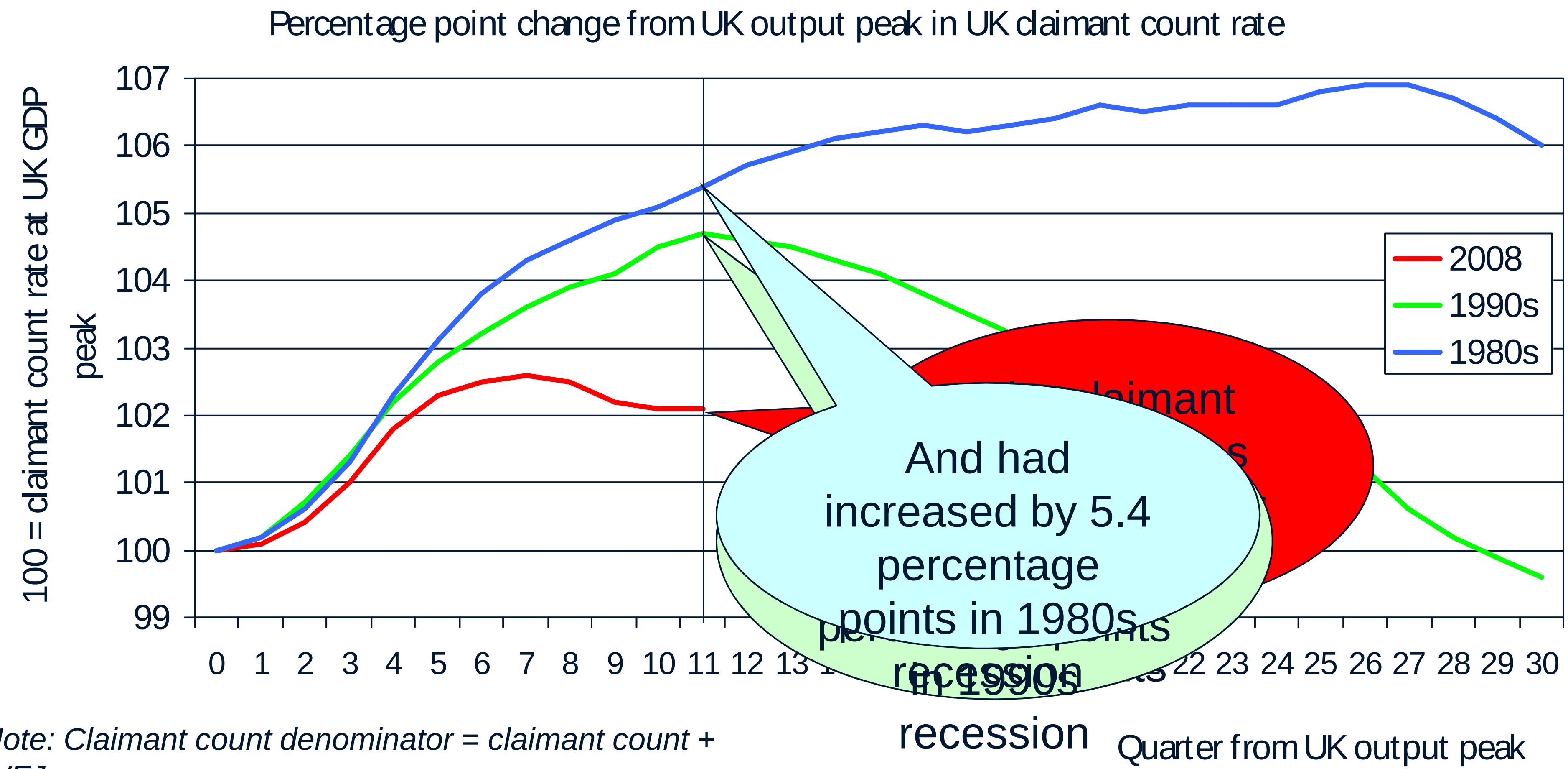
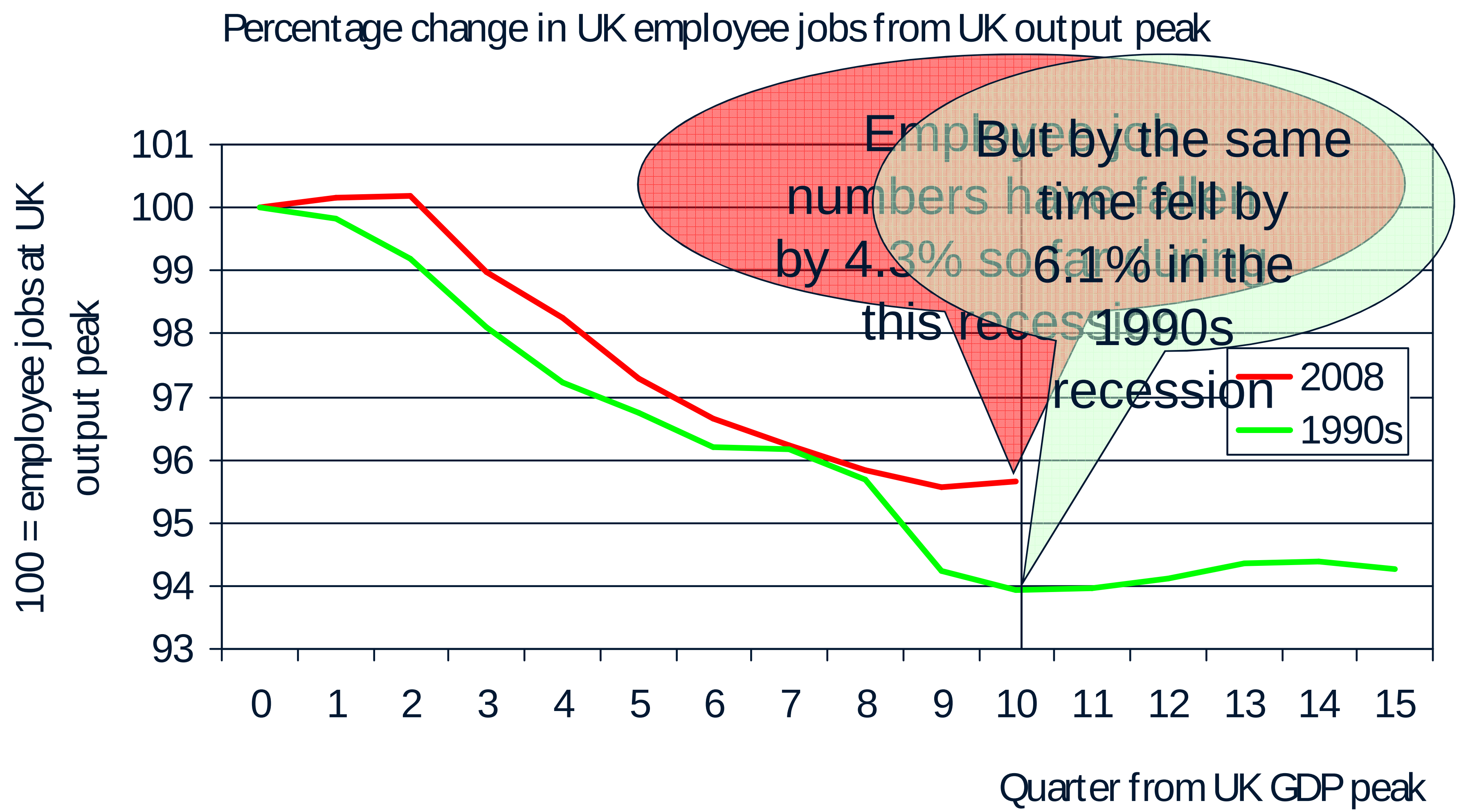
But the **claimant count** rate has not risen as much in the 2008 recession as it did in the 1990s and 1980s recessions:



Note: Claimant count denominator = claimant count + WFJ

Source: ONS

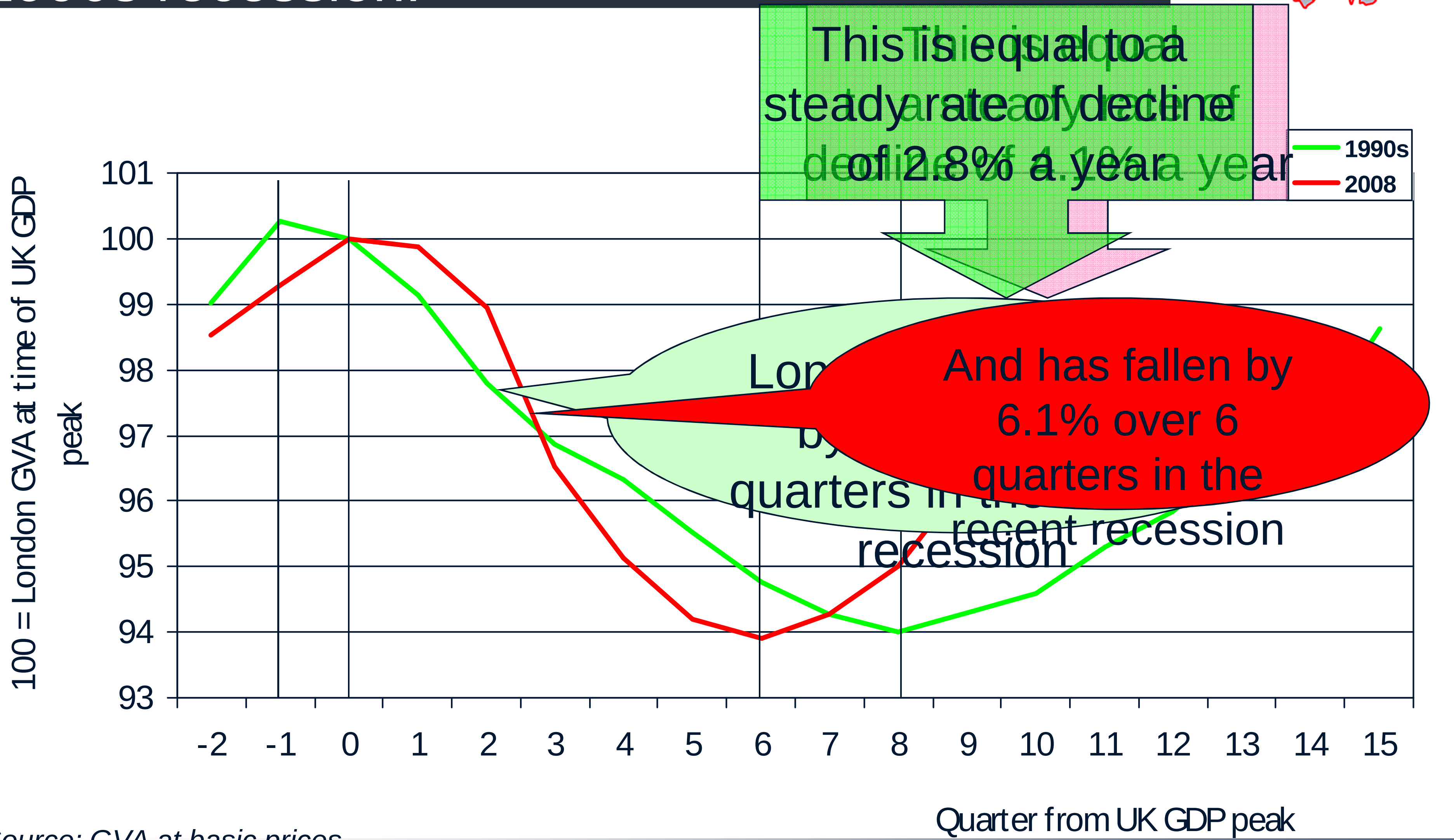
Employee jobs have also not fallen by as much in the 2008 recession as they did in the 1990s recession:



Source: WFJ, ONS

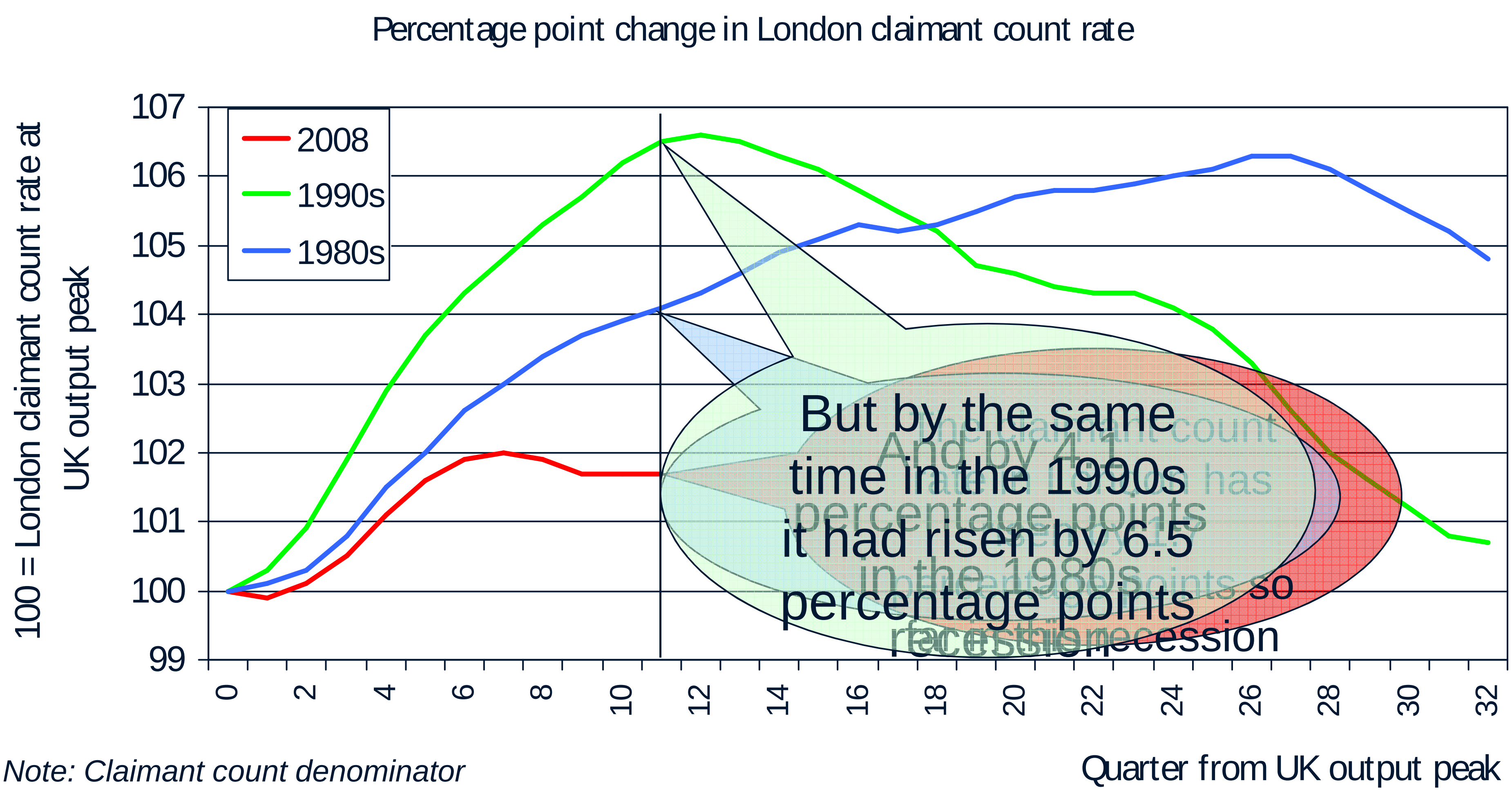
London Background

Like the UK, **London's GVA** also fell faster in the 2008 recession than in the 1990s recession:



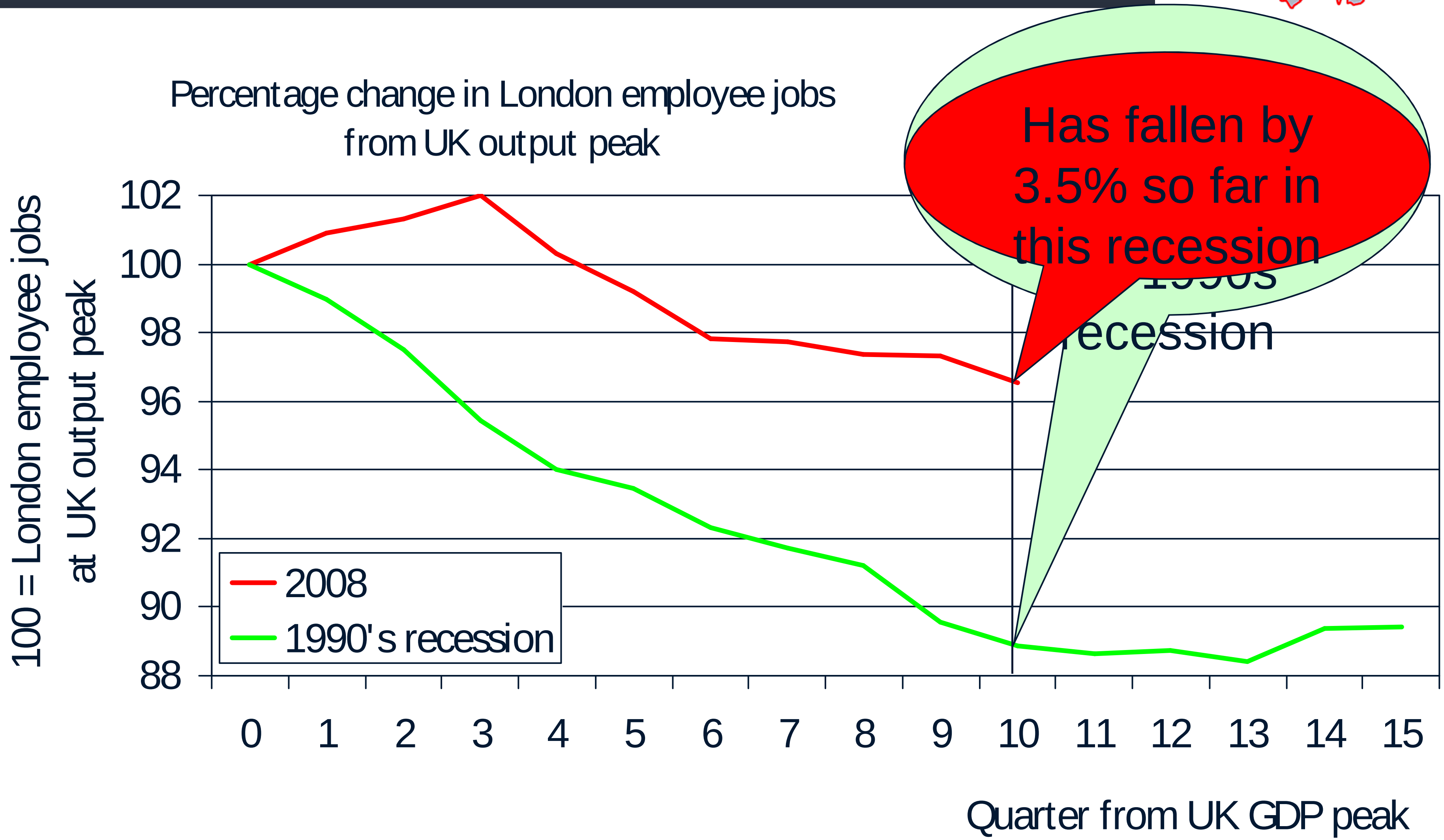
Source: GVA at basic prices, constant 2005 prices, Experian

And like the UK, the **claimant count** has not risen as much in the 2008 recession as it did in the 1990s and 1980s recessions:



Note: Claimant count denominator = claimant count + WFJ
Source: ONS

Employee jobs have also not fallen by as much in the 2008 recession as they did in the 1990s recession:



Source: WFJ, Nomis

Background summary:

		London	UK
Peak-to-trough output decline (%)[1]	2008	6.1	6.4
	1990s	6.2	2.5
	1980s	-	4.6
Constant annual growth rate (over peak-to-	2008	-4.1	-4.3
	1990s	-2.8	-2.0
	1980s	-	-3.7
Percentage point change in claimant count	2008	1.7	2.1
	1990s	6.5	4.7
	1980s	4.1	5.4
Change in employee jobs numbers (%)[3]	2008	-3.5	-4.3
	1990s	-11.1	-6.1
	1980s	-	-

[1] London figures are derived from Experian's regional GVA estimates. UK figures are derived from ONS GDP estimates.
[2] From UK output peak to eleven quarters after.
[3] For UK output peak to ten quarters after.

Why?

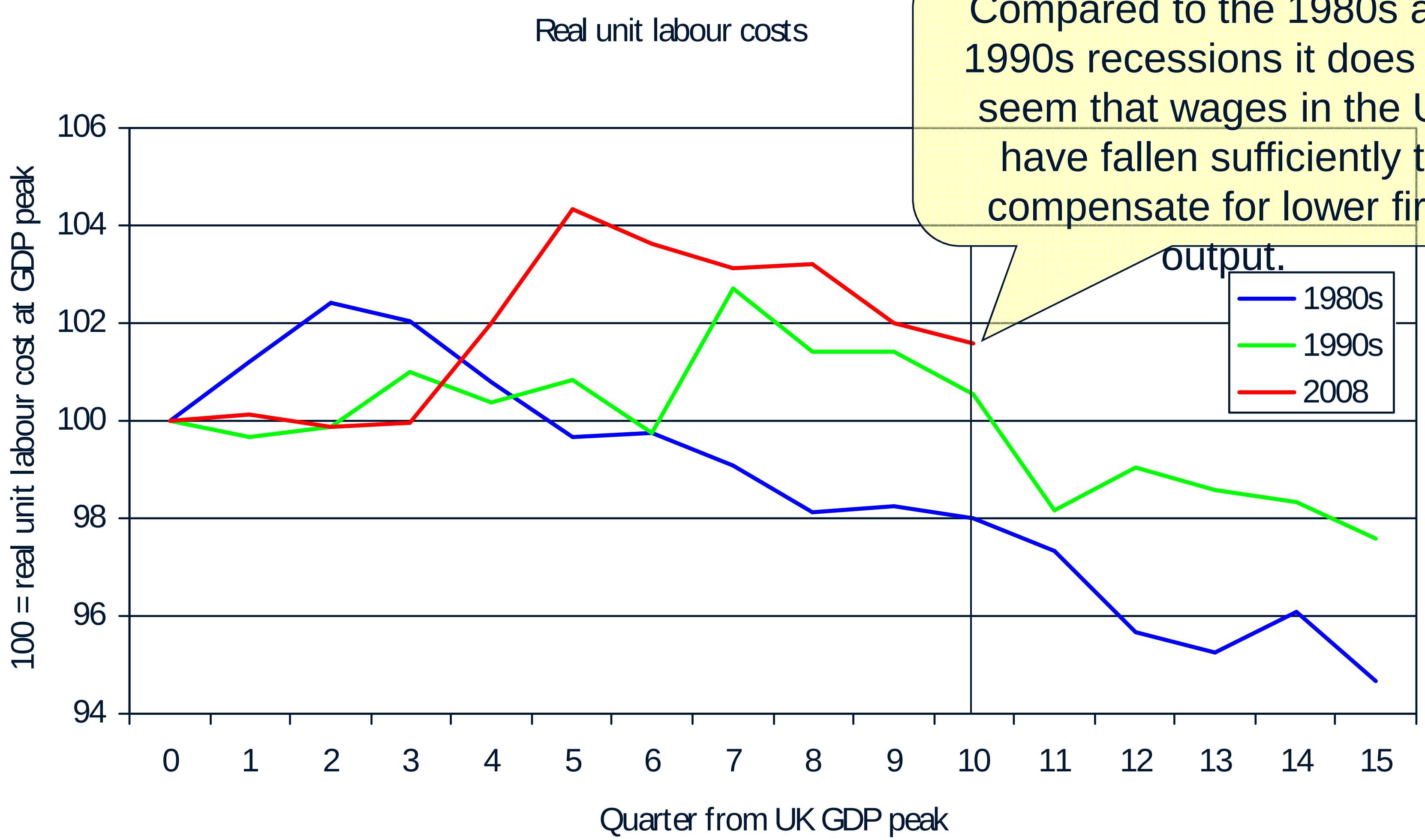
Summary of analysis of possible explanations:

Possible explanations	Likely contribution to labour market strength during the 2008 recession so far
1. Reduction in relative wages	High
2. Strong corporate profitability and low rate of business failures	High
3. Growth in the public sector	High
4. Labour market structural change	Medium
5. Reduction in working hours	Medium
6. Less economic structural change	Medium
7. Measurement error	Low

Reduction in relative wages

Have workers accepted larger pay cuts/smaller pay rises to reduce their risks of unemployment?

Reduction in relative wages

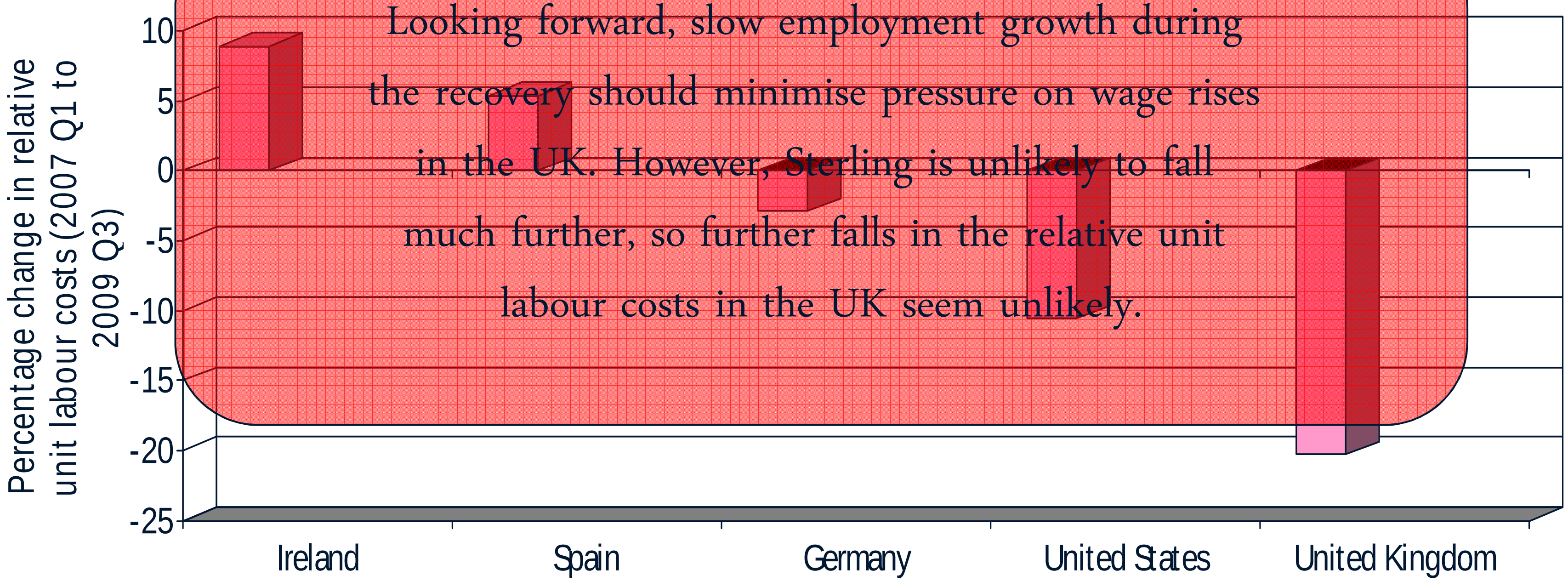


Compared to the 1980s and 1990s recessions it does not seem that wages in the UK have fallen sufficiently to compensate for lower firm output.

Source: ONS (ROYJ, MGRN, MGRZ, ABML), GLA Economics calculation

However..........

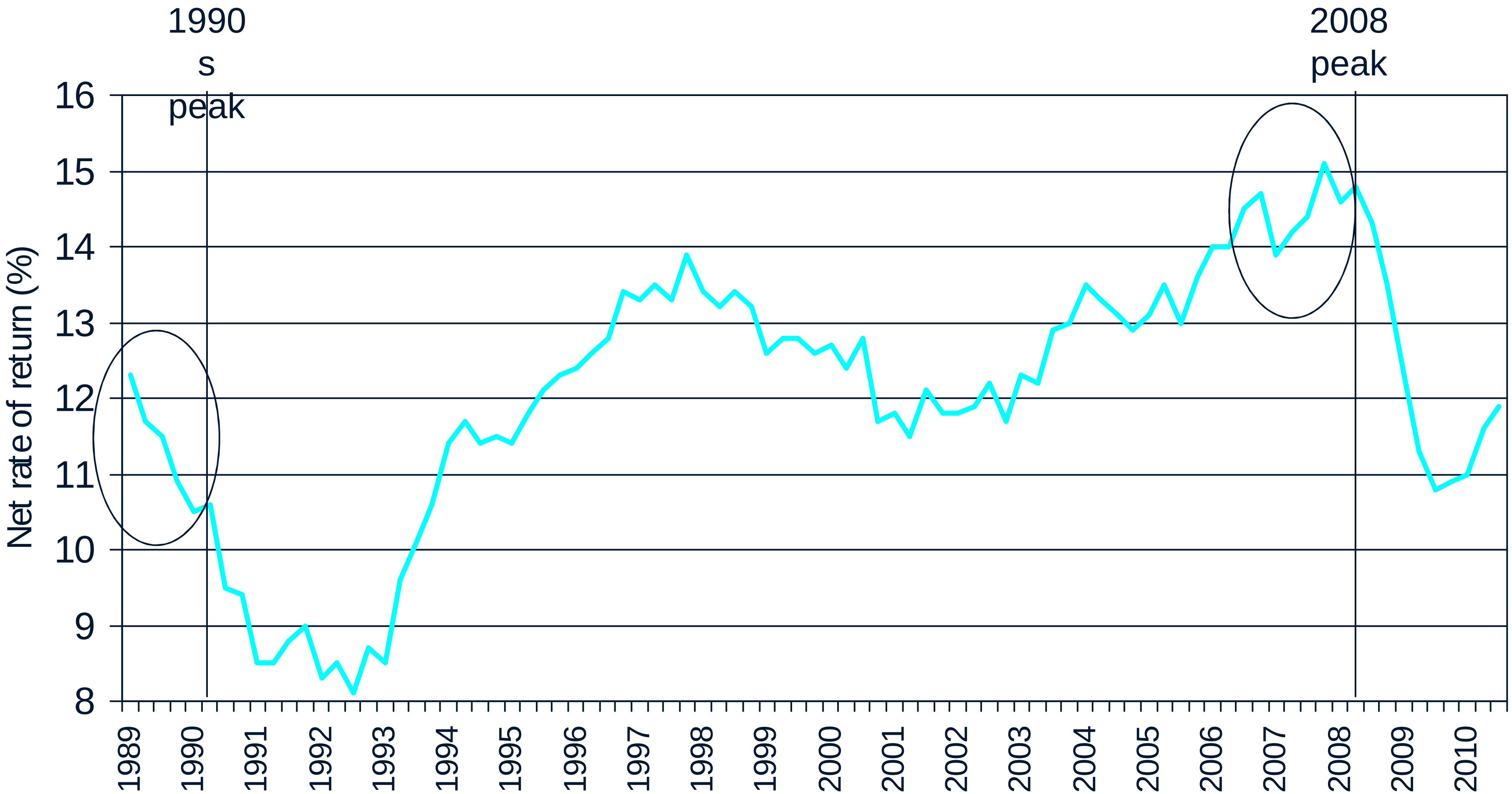
Looking forward, slow employment growth during the recovery should minimise pressure on wage rises in the UK. However, Sterling is unlikely to fall much further, so further falls in the relative unit labour costs in the UK seem unlikely.



Source: IMF

Strong corporate profitability and low rate of business failures

Strong corporate profitability and low rate of business failures



Source: PSNFC net rate of return (%, SA),

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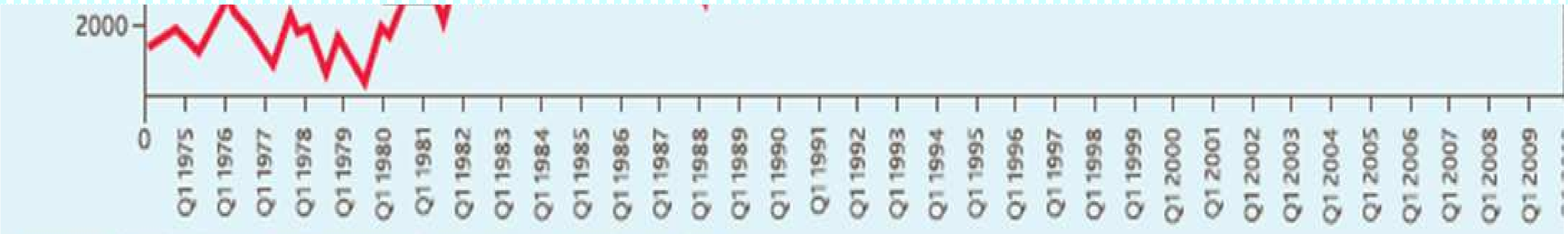
Actual business failures

Compared to the rise in the 1980s and 1990s recessions
and given the fall in GDP, the rise in company

Looking forward:

•Government support is gradually being withdrawn and this could make future liquidations a risk, however

•Forecast low real interest rates in the near term should continue to support business survival.

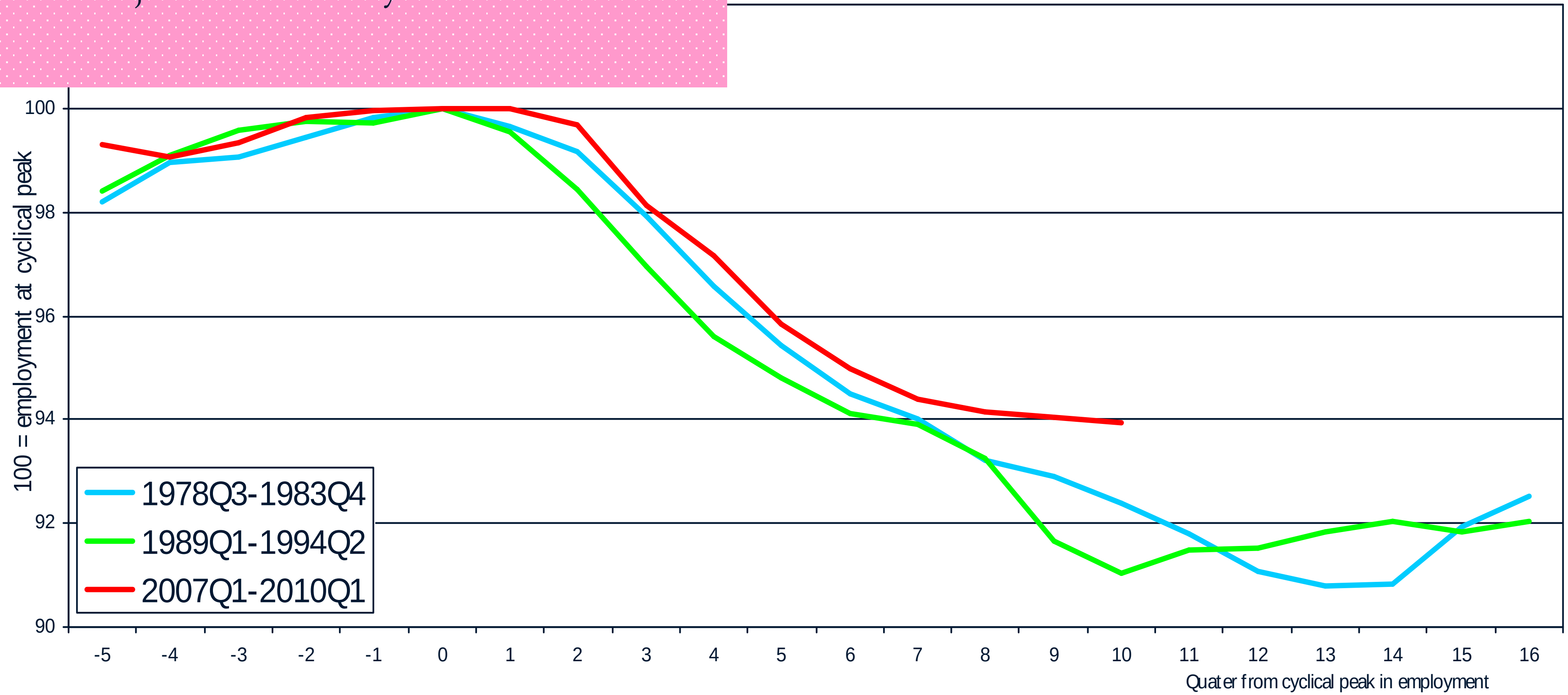


Source: cebr calculations and forecasts based on BERR insolvency data

Note: Historic business failures are based on data for compulsory liquidations, creditors' voluntary liquidations, administrative receiverships, administrative orders and company voluntary arrangements from The Insolvency Service

Exclude jobs in public administration, defence, education, health and social work from the total number of jobs in the economy……..

public administration & defence,



Source: Workforce Jobs, ONS

Growth in public sector

However, a lot of this increase is due to the incorporation of financial institutions (e.g. Lloyds) into the public sector

There has been a large rise since the recession

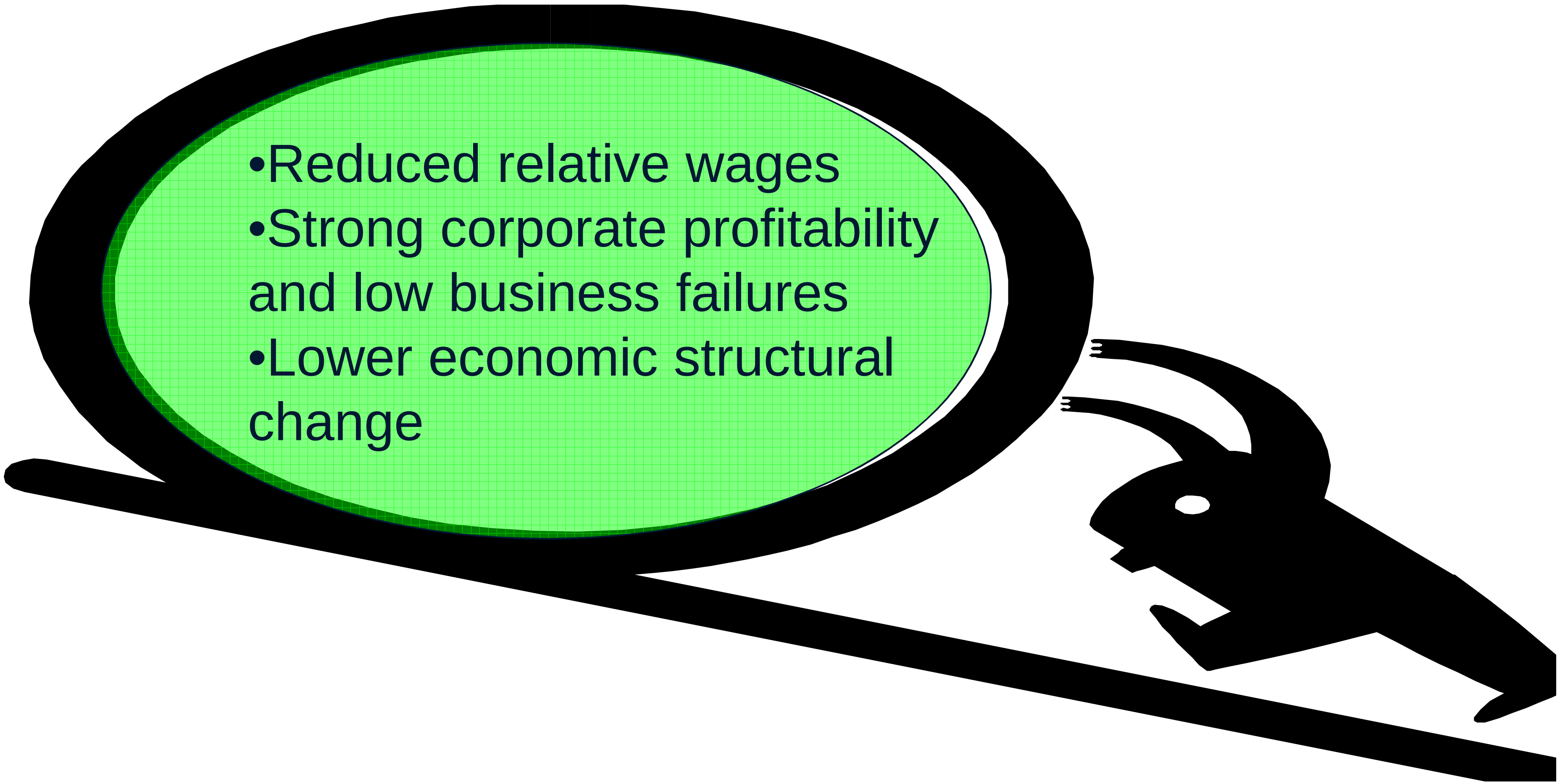
Looking forward, the OBR estimates that public sector employment will fall by around 400,000 by 2015/16. This means that public sector employment will contract at a similar compound rate over the next 5 years as the private sector experienced between 2008 and 2010.

Note: 'Other public sector' includes financial corporations. In the timeframe above, RBoS and Lloyds were included in the 3rd quarter from UK output peak (2008 Q4). Northern Rock was included prior to the GDP peak.

Source: ONS

Factors that are likely to support the labour market further as the economy grows:

Looking forward summary



Factors that may slow any improvement in the labour market as the economy grows:

END

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ANY QUESTIONS