

STUC Labour Market Report

March 2016

1 Introduction

The January ONS labour market release for Scotland (covering period Sept-Nov 2015) was noteworthy in that it confirmed that the 16-64 employment rate had finally returned to its pre-recession peak of 74.9%. This appeared to justify the optimistic views of both the UK and Scottish Governments on the current state of the labour market.

Since the start of the recession in 2008, the STUC has sought to provide a broader account of labour market trends, drawing attention to trends in wages, working hours and job security. The information presented here does too an extent confirm the optimistic account presented by the UK and Scottish Governments; employment is high and significantly higher than would previously have been expected given the comparatively poor performance of GDP since 2008. Youth unemployment has fallen significantly from its recession induced peak.

However, our analysis of trends in unemployment, pay, full/part/self/under employment and job security suggest that the labour market continues to be a lower wage, less secure environment than it was pre-recession.

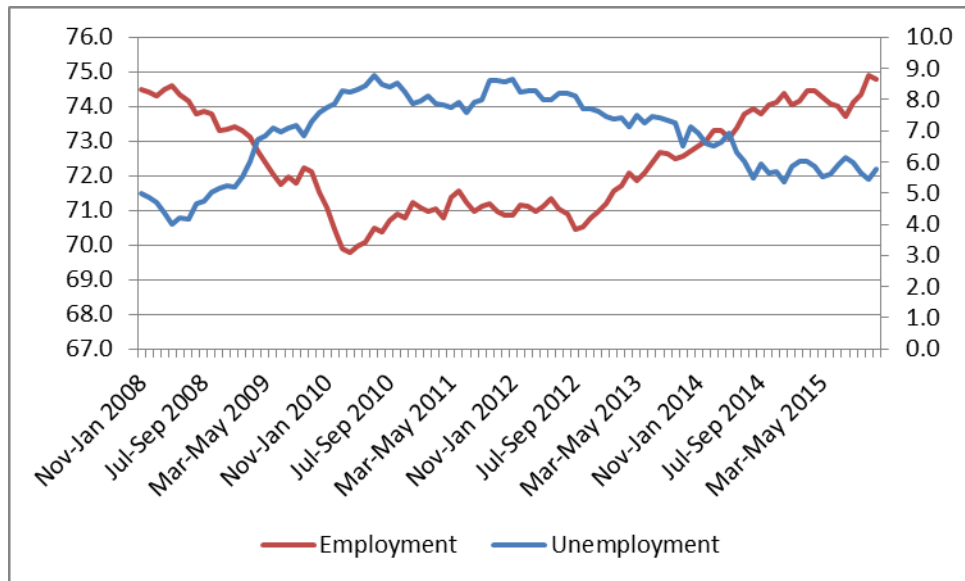
2 Overview

Headline measures

The latest labour market statistics¹ for Scotland published on 17 February 2016 cover the October-December 2015 period and confirm a fall in unemployment of 5,000 and an increase in employment of 22,000 on the previous three months. Although the employment rate dipped very slightly on the previous month's figures (from 74.9% to 74.8%) it is fair to regard the rate as now back its pre-recession peak. The employment level had done so as long ago as the Dec-Feb 2014 period.

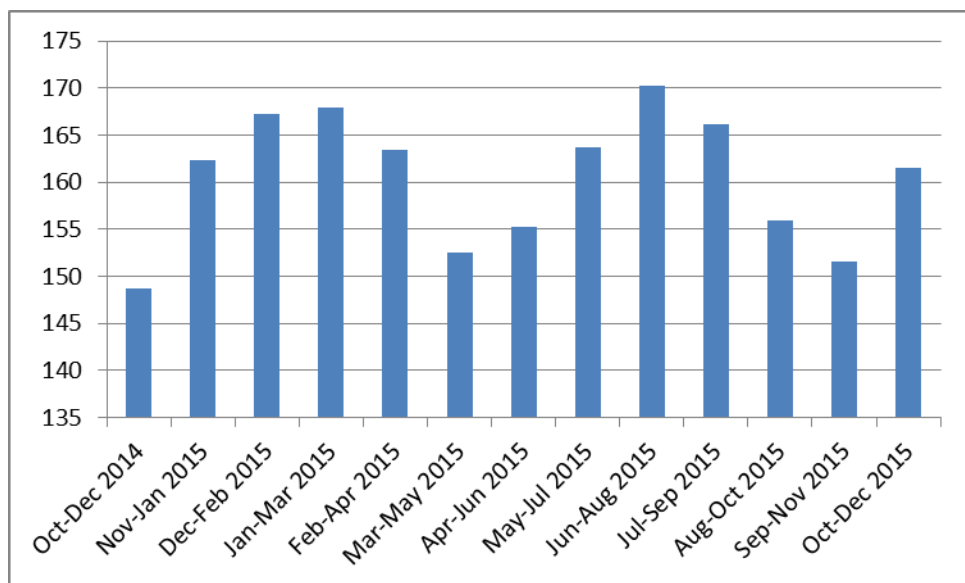
¹ ONS Regional Labour Market, Scotland, 17 February 2016

Chart 1: Employment (16-64 years) and Unemployment (16+ years) rates (%), 2008 to Oct – Dec 2015, Scotland



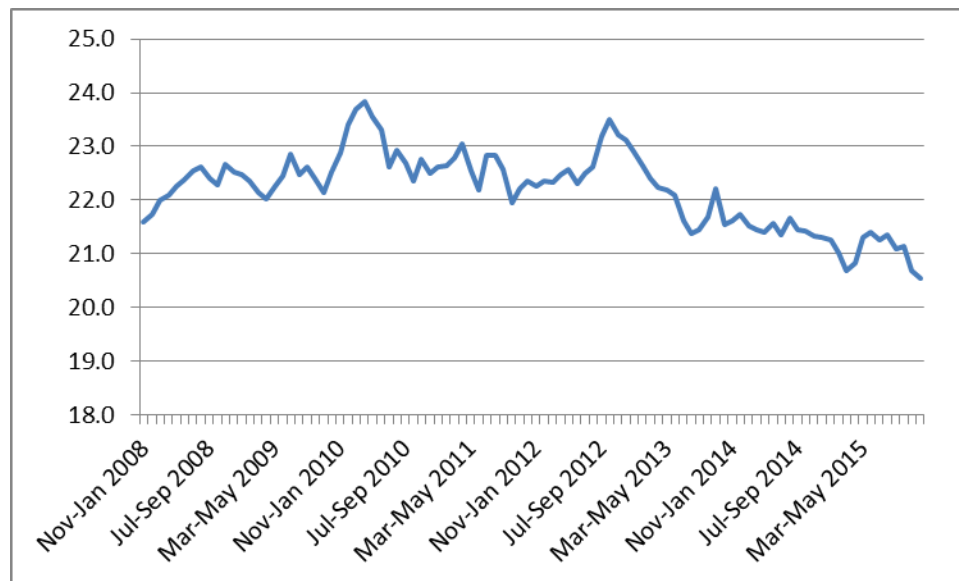
The story is not so positive with unemployment: the trajectory has been significantly more volatile but the rate remains 1.8% above the pre-recession trough of 4% achieved in the March-May 2008 period. The unemployment level is 55,000 or 51% higher). As the STUC has argued consistently over the past year, it is misleading for politicians to refer to “falling unemployment” in Scotland without appropriate clarification on the time frame to which they’re referring.

Chart 2: Unemployment level (000s), Oct-Dec 2014 to Oct-Dec 2015, Scotland



While unemployment has fluctuated at a high level over the past year, economic inactivity has continued to fall. With falling inactivity contributing to both higher employment and higher unemployment, a key test of the Scottish labour market's strength over the next year will be whether those leaving inactivity manage to find employment. If so, we should start to see unemployment begin to fall, and fall sustainably.

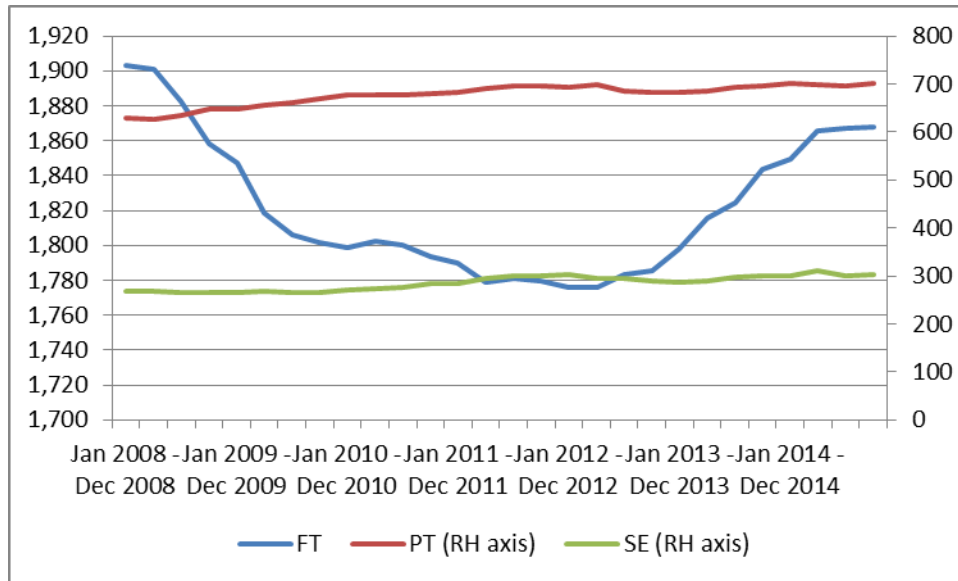
Chart 3: Economic Inactivity (16-64 years), 2008 to Oct-Dec 2015, Scotland



Underlying trends

The STUC believes that the headline measures discussed above do not reveal sufficient information to allow for a fuller understanding of how people experience the labour market in real time. The employment rate has returned to historic highs but full-time and employee jobs remain below pre-recession levels and underemployment significantly higher. Nominal wage growth is weak and real wage growth reliant on very weak inflation. Self-employment has grown steadily and significantly; by 12% since 2008.

Chart 4: full-time, part-time and self-employed jobs, 2008 to Sept 2015



Over the year to September 2015 (the most recent available figures), full-time employment was still down 1.8% on its pre-recession peak while there had been a 12% increase in part-time jobs.

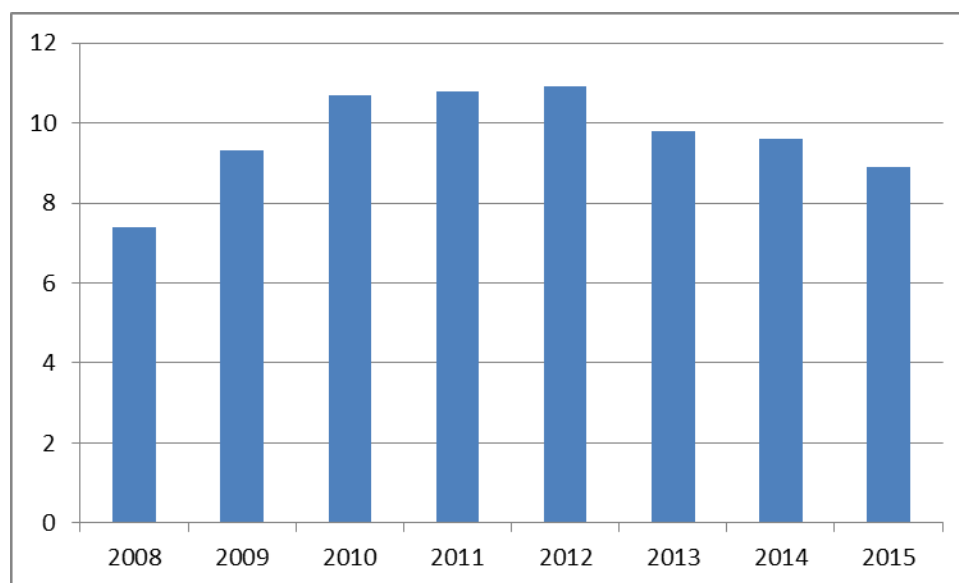
Chart 5: Employee and Self-employed jobs (000s), 2008 – Sept 2015, Scotland



Employee jobs are only now close to achieving pre-recession peak while self-employed jobs are 12% higher. The increase in self-employment, and the ways in which the characteristics of the new cohort of self-employed may differ from the stock of self-employed people, is poorly understood in Scotland. However, survey evidence across the UK indicates that newly self-employed workers are likely to be earning less money and working less hours.

The steady decline in the underemployment rate from its 2012 continued through 2015 but remains 1.5% (42,000 workers) higher than in 2008.

Chart 6: Underemployment rate (%), Scotland, 2008-2015

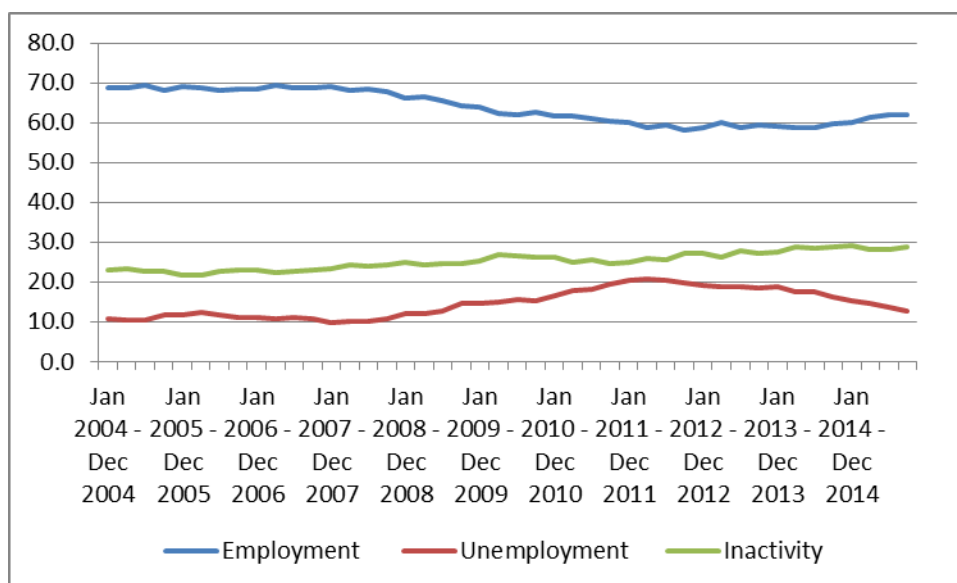


Youth unemployment

The position of young people in the labour market has significantly improved over the year to September 2015 as unemployment has fallen and employment increased.

However, youth employment remains lower than pre-recession and unemployment somewhat higher: the current 18-24 employment rate of 62% is around 6% below the average for 2007/08 and the current unemployment rate of 12.8 some 2% higher than in the pre-recession period. Unemployment isn't as high as might be expected given the employment rate gap because inactivity – now at 28.9% - is some 5-6% higher than in 2007-08. This probably reflects the fact that more young people are in full-time education or training but, again, the statistics do not allow for a definitive conclusion.

Chart 7: Employment, unemployment and inactivity rates (%), 18-24 years, Scotland



Wages

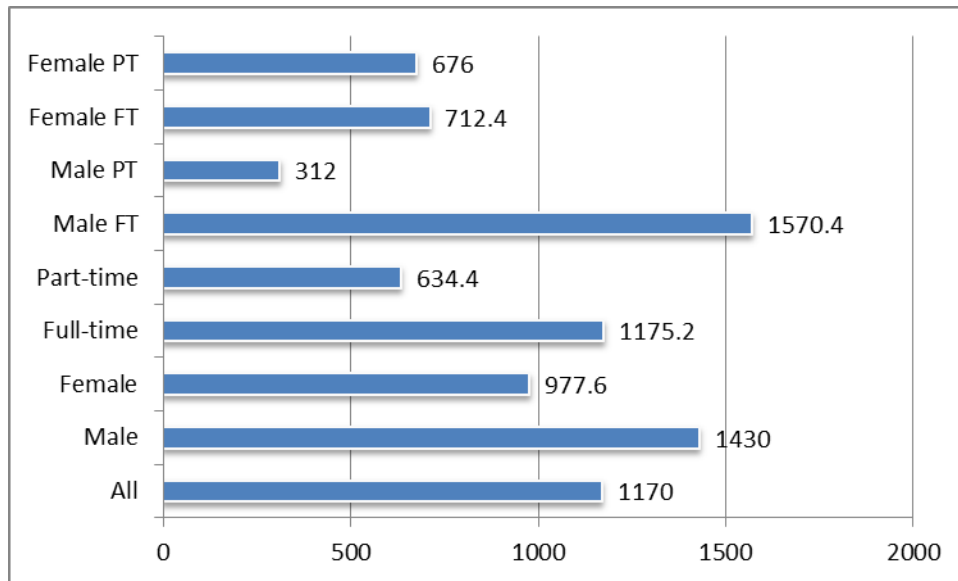
A major concern this year is that the reasonably strong growth in real wages through late 2014-early 2015 seems to have dissipated. Indeed, the relatively modest real wage growth that was achieved through 2015 was largely attributable to inflation falling significantly below the 2% target. Nominal wage growth continues to grow at or around 2% (UK figures as no up to date Scottish figures are available) despite falling unemployment².

This is particularly worrying given that real wages aren't yet close to recovering pre-recession levels. The gross wages of the median Scottish worker are £1170 lower than if wages had kept pace with CPI inflation since 2009³:

² Slowing UK Wage Growth, Blanchflower and Machin, February 2016

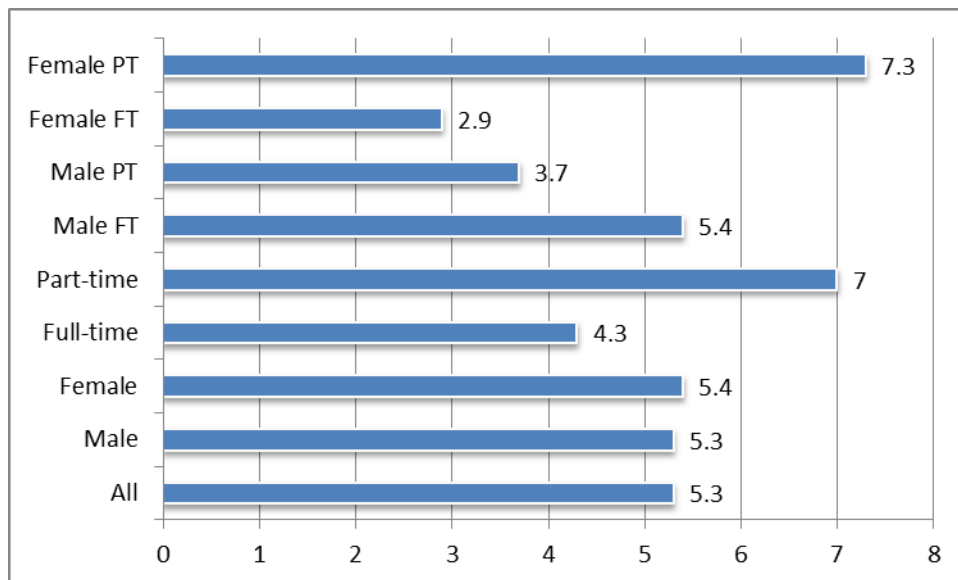
³ STUC analysis of ONS Annual Survey of Hours and Earnings, Provisional figures for 2015, published November 2015

Chart 8: Annual loss (£) due to wages not keeping pace with CPI inflation since 2009



The percentage loss is greater for part-time workers and worst for female part-time workers who include the lowest paid workers in the labour market.

Chart 9: Weekly loss (%) due to wages not keeping pace with CPI inflation since 2009



The collapse in wages is even more apparent when considered by occupation. Nominal losses are generally much more acute for those in the lowest earning sectors with some high earning occupations having benefitted from real terms increases:

Table 1: Median weekly pay by occupation – gross (£)

| Occupation | 2009 | 2015 | % change | £ change |
|------------------------------------|-------------|-------------|-----------------|-----------------|
| Median - all workers | 384.5 | 424.4 | 10.4 | 39.9 |
| manager and senior officials | 654.5 | 706.5 | 7.9 | 52 |
| corporate managers | 689.9 | 766.6 | 11.1 | 76.7 |
| financial institution managers | 722.8 | 1036 | 43.3 | 313.2 |
| health professionals | 884 | 827.4 | -6.4 | -56.6 |
| admin and secretarial | 323.5 | 348.9 | 7.9 | 25.4 |
| caring personal services | 249 | 271.4 | 9.0 | 22.4 |
| childcare and related services | 209 | 229.4 | 9.8 | 20.4 |
| sales and customer services | 183 | 226.1 | 23.6 | 43.1 |
| elementary occupations | 224.6 | 233 | 3.7 | 8.4 |
| elementary and service occupations | 137.3 | 152.8 | 11.3 | 15.5 |

These disparities are even more acute when the earnings of those in the highest paying deciles of the highest paying sectors are compared to those in the lowest earning deciles of the lowest earning sectors:

Table 2: Median weekly pay by occupation and income decile – gross (£)

| Top decile | 2009 | 2015 | % change | £ change |
|-------------------------------|-------------|-------------|-----------------|-----------------|
| managers and senior officials | 1357 | 1609.5 | 18.6 | 252.5 |
| corporate managers | 1402 | 1706.8 | 21.7 | 304.8 |
| Bottom decile | | | | |
| admin and secretarial | 155.9 | 150 | -3.8 | -5.9 |
| childcare | 96.4 | 95.5 | -0.9 | -0.9 |
| elementary occupations | 70.9 | 67.4 | -4.9 | -3.5 |

3 Scotland's full-time employment deficit

The STUC has developed this estimate of 'Scotland's full time employment deficit ' in response to a political debate narrowly focused on headline ONS statistics which we do not believe reflect the true state of the Scottish labour market as experienced by real people in real time. For instance the growth in part-time employment and underemployment, key features of the labour market over the period since 2008, are often ignored by policymakers and the media.

This estimate is derived from three key categories of people in the labour market:

- Those identified as unemployed (ILO measure);
- Those identified as 'underemployed'; and,
- Those identified as economically inactive but wanting to work.

Where appropriate we have adjusted for recent improvements in the labour market and for the current proportion of full-time work in the economy. This has resulted in a figure we believe is conservative and robust.

1 Unemployment

The latest unemployment figure for Scotland from the January 2016 ONS Regional release is 152,000.

In calculating Scotland's full-time employment deficit, the STUC has adjusted this figure to reflect the proportion of full-time jobs in the economy. The latest breakdown of full-time, part-time and temporary employment in Scotland confirms that 73% (1,868,000) of all those in jobs (2,575,000) were working full-time and 27% (702,000) part-time. The ONS release also confirms that 3.9% (101,000) of all workers were working part-time because they 'could not find a full-time job'.

Therefore, in estimating the number of people currently recorded as unemployed who would wish to work in full-time employment; the STUC has used a figure for unemployment that is only 76.9% (73% of unemployed workers plus the 3.9% of part-time workers unable to find a full-time job) of the total:

110,960

2 Economically inactive – want a job

The latest ONS release for Scotland estimates that of the 757,000 people of working age recorded as economically inactive in September 2015, 176,000 wanted a job. These people do not currently show up in measures of ILO or claimant count unemployment. People are identified as inactive if they want to work but have not been seeking work in the last 4 weeks or want a job and are seeking work but not able to start in the next 2 weeks.

However, this figure represents an average over the year to September 2015. Therefore in making this calculation the STUC has reduced the 176,000 by 6.7% in line with the overall fall in economic inactivity over the period to September-November 2015 (the latest figure for overall working age economic inactivity is 706,000; a fall of 6.7% or 51,000 on the year to September 2015) to give a figure of 155,811.

Recognising that not all those moving into work will desire full-time work, we have only used 73% of this figure to control for the number of people in this category who are likely to want to work full-time. This gives us a figure of:

113,742

It is of course important to acknowledge that many people currently identified as 'economically inactive but wanting a job' will require support and assistance to return to employment.

3 Underemployment

The latest reliable estimate for underemployment in Scotland was published by the Scottish Government in November 2015. Underemployment is defined as those people in work but a) wanting another job in addition to their current job(s); b) wanting another job with more hours instead of their current job(s) or c) wanting to increase the total number of hours worked in their current job(s). ***It does not include those who are currently working in temporary jobs who desire a full-time permanent position.***

The Scottish Government estimates that there were 230,000 people underemployed in the year to September 2015. Reflecting the improvement in the Scottish labour market since, the STUC has reduced this figure in line with the general fall in unemployment of 2.6% (unemployment was 156,000 in August-October 2014, falling to 152,000 in August-October 2015, the latest available figure). Therefore the total for underemployment is the 230,000 figure is reduced by 2.6%:

224,020

4 Final estimate

The STUC's estimate of Scotland's full-time employment deficit is as follows:

| | |
|--|-----------------------|
| People currently unemployed | <u>110,960</u> |
| People currently inactive but who want a job | <u>113,742</u> |
| People currently underemployed | <u>224,020</u> |
| <u>Total</u> | <u>448,722</u> |

This represents a rate of **15.2%** (the denominator, as with unemployment, is all those currently economically active – 2,782,000 – ***plus*** the 176,000 economically inactive people who want a job thereby giving a final denominator of 2,958,000). The current unemployment rate is 5.4%.

STUC
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