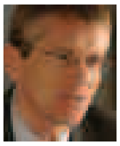
Another million on the dole



THE UNEMPLOYMENT FIGURE IS SET TO RISE TO 2.8 MILLION DURING THE COURSE OF THIS YEAR AND PEAK IN SPRING 2010. BUT A FLEXIBLE LABOUR MARKET AND EXPANSIONARY MACROECONOMIC POLICY WILL LIMIT FURTHER DAMAGE, AS **JOHN PHILPOTT** EXPLAINS.

Executive summary

- **A rise in redundancies represents only the tip of the iceberg when it comes to job losses. This is because of the greater use by employers of migrant workers in recent years, many of whom have been hired on short-term contracts, which has enhanced flexibility in the workforce. Evidence suggests that staffing adjustments began in spring 2008 and it looks unlikely that unemployment will return to its pre-recession figure until some time in 2013.**

We may have witnessed a lot of bad economic news in the past 12 months, with the economy starting to contract in the third quarter, but as far as the jobs market is concerned it has mostly been a phoney war. Only as the year drew to its close did the human casualties of our emerging recession start to come fully into view, with the toll of lost jobs now rising on an almost daily basis.

In this first truly global economic downturn, forecasting what will happen next is more difficult than usual. But whereas many economists are dependent on the vagaries of sophisticated econometric models, we at the Chartered Institute of Personnel and Development (CIPD) have the advantage of being able to consult employers on their recruitment and redundancy plans. What do these plans tell us about the likely outlook for jobs in the UK as we start 2009?

A SAD SURGE IN REDUNDANCIES At the beginning of 2008 the redundancy rate stood at just 4.4 redundancies per 1,000 employees but since then it has started to rise, reaching 6.1 in the three months to September (the latest period for which data are available at the time of writing).

The autumn 2008 CIPD/KPMG Labour Market Outlook survey, conducted by Ipsos MORI in mid to late September 2008, indicated that the redundancy rate would increase sharply into 2009. At that time of the survey one in four employers had contingency plans in place to make new or further redundancies in the following 12 months. A sudden increase in redundancy announcements in the final weeks of 2008 indicated that such plans were being implemented. But it is also likely that the evident dip in consumer and business confidence witnessed in late 2008 will mean that even more employers are now considering making staff redundant.

Unfortunately, statistically comparable redundancy figures are available only back to the mid-1990s, so we can't directly compare what's happening in the emerging recession with previous UK recessions. What we do know is that at the worst point in the early 1990s recession, one particular quarter saw as many as 400,000 people made redundant. The number subsequently dropped back and fell as the economy recovered. And for a decade to the mid-2000s redundancies fluctuated between 150,000 and 200,000 each quarter. From 2004 to early 2008 the number dropped further, fluctuating between 100,000 and 150,000 per quarter.

Our current expectation, based on available survey evidence and employer soundings, is that the number of redundancies will jump sharply in the early months of 2009, as employers take stock of the economic outlook. The period between New Year and Easter is likely to be the worst for redundancies since 1991.

THE PERIOD BETWEEN NEW YEAR AND EASTER IS LIKELY TO BE THE WORST FOR REDUNDANCIES SINCE 1991

MORE THAN 600,000 UK JOBS TO BE LOST IN 2009 Forecasting redundancies is complicated by the fact that in the UK's flexible labour market, employers have several alternative means of cutting staff levels. CIPD evidence indicates that staffing adjustments began in the spring of 2008, with cutbacks in recruitment activity and increased termination of short-term employment contracts. The latter tendency has been aided by employers' greater use of migrant workers in recent years, many of whom have been hired on short-term contracts and enhance workforce flexibility. A rise in redundancies therefore represents only the tip of the iceberg when it comes to job losses.

Official figures show that the number of people in employment started to fall in the second half of 2008. Because of a lag in publication of official data the full toll of 2008 job losses isn't yet known but is likely to be in the region of 150,000. However, whatever the final outturn for 2008, the CIPD's annual barometer forecast is that the UK economy will shed at least another 600,000 jobs in 2009.

Overall the 18-month period from the start of the recession until the end of 2009 will witness the loss of around three-quarters of a million jobs, equivalent to the net rise in employment in the preceding three years. Assuming the economy bottoms out in the second half of 2009, job losses are likely to continue into 2010, in all probability taking the final jobs toll to around one million.

We expect a third (200,000 jobs) of the total fall in employment to be in the retail and hospitality sectors, followed by finance and business services (shedding 175,000 jobs) and manufacturing (down by 100,000).

A quarter of the net jobs lost (150,000) will be in London, with a further 100,000 lost in southeast England. The Midlands will shed 120,000 jobs. The remainder of the job losses will be split between northeast England (25,000), northwest England (70,000), Yorkshire and Humberside (35,000), southwest England (25,000), Wales (18,000), Scotland (60,000) and Northern Ireland (2,000).

UNEMPLOYMENT TO HIT AT LEAST 2.8 MILLION IN 2009 By the end of 2009 the unemployment rate will have risen to 9.3% (2.8 million people), which is 3.5 percentage points and one million above the autumn 2008 figure. We then expect the rate to peak at 9.6% (2.9 million) in the spring of 2010.

Our forecast is complicated by uncertainty over the behaviour of migrant workers during the economic recession. Migrants have become a more significant component of the UK workforce in recent years. If migrants leave the UK when they lose their job, this will to some extent alleviate the impact of job loss on UK unemployment figures. Similarly, if a depressed labour market attracts fewer migrants to the UK, this will dampen growth in labour supply when demand for labour falls, again alleviating the impact on unemployment.

Recent official figures, for example, show that, with a fast-weakening jobs market and a sharp drop in the value of the pound, the UK is losing its economic pulling power as far as eastern European migrants from the initial group of 2004 EU accession countries, especially Poland, are concerned. The number registering to work in the third quarter of 2008 was the lowest since the start of 2005 and well below the large inflows seen in 2006. However, the overall impact of migrant labour flows in the tens of thousands in a labour market of 30 million is difficult to gauge, particularly given current official data gaps. Moreover, the so-called "migrant worker safety valve effect" did not prevent unemployment from rising in 2008.

A FASTER JOBS RECOVERY IN PROSPECT? While the prospect of 2.8 million unemployed in 2009 is truly awful to contemplate, if this proves to be the full extent of the damage unemployment will peak at a lower rate than in the recessions of the early 1980s and early 1990s. The 1980s recession doubled the unemployment rate from around 5% to 11%. Eventual recovery saw the rate fall to 7% in 1990 before the subsequent recession pushed the rate back up to over 10% in 1993. However, with structural change, sensible employment policies and welfare-to-work measures having made the labour market more flexible in the intervening years, unemployment then dropped faster and further than before, reaching the pre-recession rate of 7% within just four years and finally bottoming out at 4.8% in 2004.

It is our expectation that this time around the combination of a flexible labour market and highly expansionary macroeconomic policy will enable the UK to travel on an even faster track back towards full employment, with unemployment returning to its pre-recession (that is, early 2008) rate by 2013. It is possible to paint a bleaker scenario, and many commentators do, but for the time being we remain – even if only relatively – optimistic.

THIS TIME AROUND THE COMBINATION OF A FLEXIBLE LABOUR MARKET AND HIGHLY EXPANSIONARY MACROECONOMIC POLICY WILL ENABLE THE UK TO TRAVEL ON AN EVEN FASTER TRACK BACK TOWARDS FULL EMPLOYMENT

The only thing that could seriously prevent this scenario is the government's chosen method of stimulating the economy in 2009. The chancellor is borrowing massively to finance his economic rescue plan. He, or whoever succeeds him, will therefore also have to raise taxes and trim growth in public spending for several years once the economy finally waves goodbye to the recession, simply to bring the national budget back into balance.

Come 2011 and employers and employees will see their national insurance contributions rise by 0.5%. Top earners will also pay more income tax, with those at the very top (the 400,000, or 1% of all earners, who earn more than £150,000 a year) hit with a new higher top tax rate of 45%. At the same time the rate of growth of public spending will drop from 1.8% per year to 1.2% per year. These measures will collectively apply a gentle brake on economic growth, thereby limiting the rate of employment growth during the recovery. In other words, although the chancellor's fiscal stimulus for 2009 should be enough to prevent unemployment from rising above three million, his need to finance the boost may do as much to slow medium-term jobs growth as it does to limit short-term job cuts.

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