On the slide

PETER WILLIAMS CONSIDERS THE LATEST ECONOMIC INDICATORS AND THE GLOOMY OUTLOOK FOR EMPLOYMENT.

Executive summary

- It has been a tough few months for the economy. After the credit crunch came falling house prices, a credit famine for both corporates and individuals, and the spectre of inflation, jolted back to life by rising food and commodity prices. And if all that wasn't enough, the latest bout of gloomy news centred on the prospect of rising unemployment. But how gloomy should we really be?

The latest statistics on employment from the Office for National Statistics (ONS) showed that the unemployment rate had risen, the employment rate had fallen and the inactivity rate was unchanged. The number of job vacancies was also down. And a final indicator that life is getting tough was the news that growth in average earnings, both excluding and including bonuses, had fallen.

The inevitable conclusion has been drawn that job prospects for British workers are on the slide. And John Philpott, chief economist at the Chartered Institute of Personnel and Development (CIPD), warned of worse to come.

"This is the weakest set of labour market data since the economic slowdown began," Philpott said. "Employment growth has ebbed to a trickle – indeed, employment has fallen in several regions of the country – while the rise in unemployment is gaining worrying momentum. The number of unemployed people claiming Jobseekers Allowance has risen every month since January – with each monthly increase greater than the last – and there are now more people in receipt of this welfare benefit than a year ago."

WIDENING IMPACT The CIPD reckons the impact of the economic slowdown is becoming more widespread. Nearly every sector of the economy posted fewer job vacancies in the three months to June. This is particularly evident in those parts of the private sector that until recently were major engines of job creation, such as shops, hotels and restaurants, finance and business services, and construction. And for the first time since the credit crunch struck, there are clear signs that redundancies are on the rise.

More details on the outlook for job can be found in the latest CIPD/KPMG/Ipsos MORI Labour Market Outlook survey (see *Box 1*). It concluded that the jobs situation would continue to deteriorate in the third quarter. By the end of the year it is likely that the level of employment will be falling across the country and unemployment rising fast as the number of people claiming Jobseekers Allowance climbs back toward a million for the first time this decade.

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The only piece of good news is that the pressure on employment looks likely to dampen down any wage-induced inflation. It's hard asking for a payrise if you don't have a job. As Philpott put it: "With the ONS figures showing that the worsening jobs situation is already having a dampening effect on growth in average earnings, the prospect of a pay-price spiral triggered by current sharply higher inflation seems remote. It nonetheless remains vital that employers and workers keep pay rises in check so as to minimise any further threat to jobs during the economic slowdown."

WHO SUFFERS? One interesting aspect of this focus on mounting job losses is the question of who looks likely to suffer most. Some claim it is youngsters who bear the brunt of the downturn, with the under-25s accounting for 25,000 of the 60,000 rise in unemployment shown by the official Labour Force Survey during the second quarter.

Geographically, the rise in unemployment has been fairly evenly spread across the country. However, lobby group The Age and Employment Network (TAEN) said older workers were likely to bear the brunt of the job downturn. It pointed out that the ONS figures showed a fall of 9,000 in the number of people aged 50 to pension age in employment, and 8,000 of them were women.

Perhaps these numbers should be seen in context. According to TAEN, the number of employed people aged 50 to state pension age dropped in the quarter from 6,605,000 in to 6,596,000, a fall of 0.14%. Chris Ball, chief executive of TAEN, said: "As we suspected, with the job market turning down and employers shedding staff, it appears to be older workers and particularly older women who are bearing the brunt of many lay-offs.

"Even though the age regulations mean that using an individual's age as the basis for selection for redundancy is likely to be unlawful, it is the way that many employers have traditionally tackled the task when they have needed to cut staff numbers."

Ball went on to warn employers that employment tribunals can award uncapped compensation in respect of any successful age

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discrimination claim. However, TAEN admitted it had not seen the explosion of claims that some employment lawyers and business organisations had been forecasting before the legislation came into force. Under employment law, any age-discriminatory features in the way individuals are selected for redundancy or in the redundancy payment schemes their employer has in place will be unlawful unless they can be objectively justified and are deemed proportionate.

DOWNBEAT ASSESSMENT The gloom over employment prospects appears to have infected large parts of the working population. One online survey of 4,000 people conducted for an online greeting card company claimed that "millions of Brits were bottling up job and financial worries"; three-quarters (75%) of those surveyed said they were worried about their finances, while more than a third (34%) were worried about losing their job. Whether that means they are more or less likely to trouble the greeting card industry was not revealed.

Mervyn King, the governor of the Bank of England, seemed as worried as those surveyed. When the Bank's latest inflation report was published, King gave a downbeat assessment of an economy where not only housing investment pointed to a "substantial slowdown" but the Bank's survey suggested that companies had scaled back their plans for capital investment. The Bank's central projection was for GDP to be broadly flat over the next year. That was markedly lower than the projection in May, reflecting a weaker prospect for both consumer and investment spending.

But is the gloom overdone? Following the increased unemployment figures there were more predictions that house repossessions would increase sharply. Commenting on the 24% rise in repossession orders in the past year announced by the government, Liberal Democrat shadow chancellor Vince Cable said: "These figures confirm the very worrying trend on actual repossessions which were published last week. The level of growth of repossession orders suggests that we are on track for a repossession crisis very similar to the early 1990s."

Borrowers struggling amid the credit crunch sent home repossessions to the highest level for 12 years in the first half of 2008, figures revealed. Lenders repossessed 18,900 homes after their owners failed to keep up with mortgage repayments, up 48% on the same period last year, the Council of Mortgage Lenders (CML) said. Those figures undoubtedly represent personal heartache for those involved, but the CML maintained that while both arrears and possessions had increased from their low base as expected, "the overwhelming majority of the UK's borrowers continue to pay their mortgages in full every month, and will continue to do so". The CML stuck by its forecast of 45,000 total possessions and 170,000 mortgages in arrears of more than three months by the end of the year and said the numbers were extremely small taken in the context of the 11.74 million mortgages in the UK.

When the Bank published its latest inflation report, King remarked rather poetically that, "It may still, just, be summer, but there is a feeling of chill in the economic air." As summer moves to autumn, the question for all of us is how cold will it actually get?

Box 1: Employer survey shows big dip in job prospects

The latest quarterly CIPD/KPMG Labour Market Outlook (LMO) survey of 1, 221 UK employers showed employment prospects weaker than at any time since the survey began in 2004, with recruitment activity falling and redundancies set to increase. The findings from the survey are seen as particularly worrying given that the third quarter is normally the most buoyant for recruitment, as it covers the September wave of recruitment activity.

Although the survey found that more than one in four (29%) employers expected to increase staff levels in the third quarter, this represented a sharp drop from 37% in the second quarter and was by far the lowest third-quarter LMO figure since 2004. The comparable third-quarter LMO survey figures are: 2004 (58%), 2005 (48%), 2006 (43%) and 2007 (38%). The number of employers planning redundancies increased from 22% to 27% between the second- and third-quarter LMO surveys.

Pay expectations remained modest despite higher price inflation. Employers carrying out staff pay reviews in the third quarter expected average increases of 3.7% (3.9% when bonus payments are included).

KPMG chief economist Andrew Smith said: "Companies are now reacting to deteriorating market conditions. With sales slowing and input costs rising – but scope to raise prices limited by weakening demand – finances are under pressure. It looks as if employment costs, the main area over which businesses retain control, are taking the strain, with employers seeking both to keep a lid on pay settlements and, in increasing numbers, planning for redundancies. The labour market is suddenly looking a lot less resilient."

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