



## Regional Economic Development : Local Economy Briefing 13

### **Local Labour Market**

In the first half of 2016, the Dorset labour market remained buoyant, adding jobs, cutting unemployment and contributing to growth.

By the end of the period, however, there were concerns that a turning point was at hand. As yet, there is only a little anecdotal evidence to support that view but the 'mood music' of events and policy is changing.

With the local economy already slowing in early 2016, the UK referendum decision to leave the EU hit business confidence by increasing uncertainty. This has encouraged a pause in hiring intentions. It is not yet clear how temporary this reaction might be.

Against this background, this Briefing considers the recent progress and prospects of the local labour market.

#### **The Evidence**

In the second quarter of 2016 (April-June), the UK employment and unemployment rates were 74.5% and 4.9% respectively. In both cases, these were historically positive ratios (in turn, high and low). The figures for SW and SE England were even 'better'. SW employment and unemployment rates were 77.7% and 4.0% respectively whilst SE rates were 78.3% and 3.7%. Meanwhile, the structure of the labour market is slowly changing. In the year to March 2016, the part-time element of total SW employment was up to 30% whilst the self-employed element was 17%.

It is fair to conclude that Southern England has no real problem employing its people. Indeed, many of the issues in local labour economics are ones of comparative 'success' rather than 'failure'. Local businesses often report that finding and matching replacement and development skills for current and future job requirements in a tight labour market is an important constraint on growth. This is especially so amongst the more dynamic, high growth and high value companies. Questions of access and affordability on the supply side of the labour market are the concern rather than aspects of demand.



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The following table shows the latest breakdown of SW employment by sector. The overall figures and trends (+0.5% increase in all jobs) hide a wide range of experience (see third column). Over the last year, there has been strong growth (more than 5%) in primary agriculture, some utilities, accommodation and food, transport & storage, and leisure services. In contrast, there have been significant falls (more than -5%) in primary mining, information and communications services, and finance and business (especially real estate) services. The concern, here, is that job creation has been net negative in industries with higher productivity, such as manufacturing, and financial and professional services. This is not favourable for future growth prospects.

### SW Employment March 2016 (All jobs 2.942 million)

Category	Jobs ('000)	% share	Chg	Category	Jobs ('000)	% share	Chg
Primary	61	2.1	+	Info+Comms	88	3.0	-
Manufacturing	235	8.0	-	Finan+real est	147	5.0	-
Utilities	29	1.0	+	Prof+admin	457	15.5	-
Construction	206	7.0	-	Public	770	26.2	-
Distribution	523	17.8	-	Leisure plus	95	3.2	+
Accom+Food	244	8.3	+	Other Servs	70	2.4	+

Source: ONS

Publicly available labour data at a Dorset level is sparse, but nonetheless interesting. The most up to date figures are the claimant count levels and rates, as shown in the next table below. These numbers are incredibly low and little changed from a year ago. They may be losing their analytical value in a local market where workers have low incentives to sign on rather than pursue other means of support (e.g. self or informal employment).

### Dorset & Neighbouring Claimant Counts July 2016

place	claimants	% rate	place	claimants	% rate
Bournemouth	1299	1.0	HoSW LEP	9419	0.9
Poole	656	0.7	Sw+Wilts LEP	3056	0.7
Dorset County	1260	0.5	Solent LEP	6701	na
Dorset LEP	3215	0.7	England	437366	1.3

Source: ONS

Of more structural use are the local figures within the county for the year to March 2016. These are summarised in the next table and, generally, show 'good' labour numbers across the patch.



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There are two main points to highlight here:

First, areas with high rates of retired population need to be interpreted carefully: e.g. East Dorset's very low unemployment rate and high manufacturing share reflects its active age groups.

Second, the contrast between Bournemouth (lower employment, higher unemployment, fewer 'top' occupations, less manufacturing and more services) and most other parts of Dorset is noteworthy.

### Dorset Labour Data (Local Authority areas) Year to March 2016

% Shares	Dorset	East Dorset	Christchurch	Bournemouth	Poole
Employment	78.1	81.2	83.6	72.3	78.0
Unemployment	4.1	2.9	3.3	5.0	3.6
'Top' occupations	42.5	43.2	39.8	43.2	43.7
Manufacturing	11.2	13.6	12.9	2.1	12.2
Services	81.6	77.7	81.7	94.0	82.3

Source: ONS – data refers to economically engaged age groups in each area. "top" refers to the three highest classifications, e.g. management/professional

Finally, recent business surveys<sup>1</sup>, featuring Dorset and/or its hinterland, suggest some hiatus in hiring since the EU referendum. It is too early to judge whether this is a turning point and a new era of deteriorating labour markets is at hand. That is the main risk, however, as we approach a winter of increased economic uncertainty for many industries.

### The Future

Because the labour market is already tight, there is little scope for the 'heady' increases in jobs experienced in recent years to continue. Indeed, it can only do so if there is a much stronger increase in productivity which fuels significant change in the outlook for demand and supply. It seems more likely that the labour market is about to ease, reflecting downward pressure on growth from a loss of business confidence and heightened uncertainty. To offset this trend, a positive response is required, in terms of a more investment-led and productivity-driven economy that favours sustainable labour market development in the medium term.

Most forecasters, across the range of private and public sources - City firms,

<sup>1</sup> Such as BCC, ICAEW, PMI



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economics consultancies, and international agencies - are now indicating a rise in the LFS UK unemployment rate to about 5.5% over the next 18 months. According to the Treasury's latest (August) monthly compilation, the average forecast for 2017 is 5.6% (within a range of 4.8% to 6.6%) in an economy with slower growth (+0.7% 2017) and higher inflation (CPI +2.5%).

Faced with this sort of outlook, UK policy makers will be in a quandary:

The Bank of England seems inclined to keep monetary policy loose for fear of recession but its primary target is still to maintain inflation at about 2% per annum. It will tolerate an overshoot on the upside if it is temporary and modest but it will need to anticipate any possible surge or longer-term trend beyond that. Backed by the desire of savers and investors desire for a 'better' functioning financial system, there could be growing inflationary pressure on the Bank to raise interest rates significantly (perhaps towards a base rate of 2-3% - still historically low) in the years ahead.

The Treasury is already under pressure to loosen fiscal austerity in advance of BREXIT negotiations on future trade and market relationships with Europe and elsewhere. Decisions about significant infrastructure developments (power stations, railways and runways) and housing plans are imminent and many are now saying there is no better time than now "to borrow to invest" with such low interest rates on gilts.

It is remarkable how the mood has shifted so quickly on the policy front this summer. Those of us who have been promulgating a tighter money/looser fiscal stance for the last few years may yet be vindicated. Nevertheless, the danger is that further delay in moving to an appropriate policy stance threatens greater cyclical volatility.

Against this background, local labour markets are likely to be less robust and companies more circumspect in their hiring. We have had several years of strong employment growth fuelled by immigration, structural changes and increased labour flexibility. It will be interesting to see how these elements evolve in a changing macroeconomic environment. Demand for a high skilled, high value workforce will remain strong. Being able to attract the right skills will stay paramount. More generally, however, the local labour market may start to loosen in the period ahead.

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