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 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 compared to that in the 1990s and 1980s recessions?

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

And in the 1990s it fell by 2.5% over 5 quarters
This is equal to a steady rate of decline of 2.0% a year

In 2008, GDP fell by 6.4% over 6 quarters
This is equal to a steady rate of decline of 3.7% a year

Source: ONS, GDP chained volume measure, constant 2006
But the **claimant count** rate has not risen as much in the 2008 recession as it did in the 1990s and 1980s recessions:

![Graph showing percentage point change from UK output peak in UK claimant count rate](image)

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:

Percentage change in UK employee jobs from UK output peak

Quarter from UK GDP peak

Source: WFJ, ONS
London Background
Like the UK, **London’s GVA** also fell faster in the 2008 recession than in the 1990s recession:

- **1990s**: London’s output fell by 6.2% over 9 quarters in the 1990s recession.
- **2008**: London’s output has fallen by 6.1% over 6 quarters in the recent recession.

This is equal to a steady rate of decline of 4.1% a year.

And has fallen by 6.1% over 6 quarters in the recent 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:

The claimant count rate in London has risen by 1.7 percentage points so far in this recession and by 4.1 percentage points in the 1980s recession. But by the same time in the 1990s, it had risen by 6.5 percentage points.

*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:

Has fallen by 3.5% so far in this recession

Source: WFJ, Nomis
## Background summary:

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

\(^1\) 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:

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

Have workers accepted larger pay cuts/smaller pay rises to reduce their risks of unemployment?
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
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), ONS
Strong corporate profitability and low rate of business failures

Actual business failures

Compared to the rise in the 1980s and 1990s recessions and given the fall in GDP, the rise in company liquidations has been modest during the 2008 recession.

Contributing factors:
• Bank of England’s monetary policy, and
• Government policy

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.

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........

Source: Workforce Jobs, ONS
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:

- Reduced relative wages
- Strong corporate profitability and low business failures
- Lower economic structural change
Factors that may slow any improvement in the labour market as the economy grows:

- Reduced working hours
- Labour market structural change
- Reductions in public sector employment
For a more detailed examination and explanations see the main report: ‘Working Paper 44: London’s labour market in the recent recession’ by GLA Economics:
http://www.london.gov.uk/publication/working-paper-44-londons-labour-market-recent-recession
ANY QUESTIONS