

Resolution Foundation

Sizing the UK 'Jobs Gap'

James Plunkett

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Introduction

The UK labour market has performed remarkably well in recent months given the weakness of GDP. UK politicians and commentators have noted rightly that overall levels of employment have now surpassed their pre-recession peak with 29.7 million people working in the UK, 160,000 more than in early 2008. Growth in employment also continues to be strong; for the year to Oct-Dec 2012, employment rose by 580,000, the fastest year of employment growth since 1989. This mismatch between output growth and job creation has so surprised economists that it has prompted discussion of a 'productivity puzzle' which remains largely unresolved.

Yet while the immediate performance of the UK jobs market has received much attention, less has been said about the path to recovery. This note therefore steps back to assess the road back toward fuller employment. It shows how long this road is, how hard the journey is likely to be, and how the recent employment recovery stands up against past recessions. The analysis gives a different take to the conventional wisdom, cautioning that, even now, a full recovery will be long and hard. The note is the first in a series of briefings from the Resolution Foundation charting the UK's progress towards a recovery in living standards.

The size of the UK jobs gap

The most comprehensive single measure of labour market conditions is the employment rate. It reflects the proportion of the population who are working. Unlike the employment level, the employment rate captures whether the economy is creating enough jobs for a growing population.¹ It also provides a fuller measure of economic performance than the unemployment rate by capturing the level of economic inactivity – that is, people who are not in employment and not looking for work.

We start by looking at employment among the population aged over 16 before turning to employment among 16-64 year olds. When considering the broad population aged 16 and over, it is clear that the UK jobs market recovery has a long way to go. While there are more people in work than there were four years ago, since 2008 the UK population aged 16 and over has grown by 1.7 million. By taking account of this population growth, we calculate the size of the UK 'jobs gap' since 2008: the gap between the number of jobs being created and the number that are needed to keep a steady proportion of the population employed.²

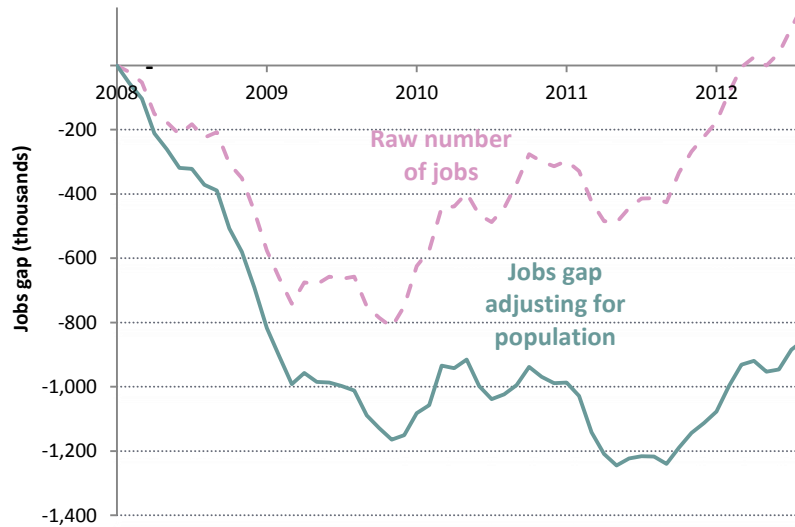
As Figure 1 shows, in the past four years a large jobs gap has opened up. Today, returning the UK to its pre-recession employment rate of 60.3 per cent from its rate of 58.7 per cent would require the creation of 850,000 new jobs.

¹ It is important to remember that there are good and bad reasons for the employment rate to fall; a rising education participation age, for example, will pull down the post-16 employment rate.

² We use the UK employment rate prior to the downturn in Mar-May 2008 of 60.3 per cent. Though relatively strong by historical standards, this rate was close to the average employment rate in the five years before 2008 of 60.1 per cent.

Figure 1: The UK jobs gap

Change in raw number of jobs and the 'jobs gap' since 2008, population aged 16 and over



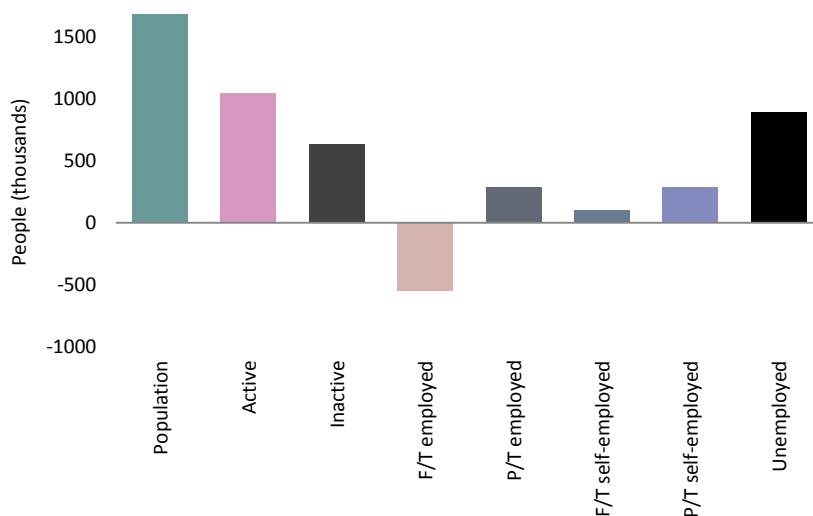
Notes: Number of jobs calculated from overall employment adjusted for the number of people working two or more jobs. Adjustment for population growth compares actual jobs growth to the number of jobs needed to hold the pre-recession employment rate constant.

Source: ONS (series MGRZ, YCBW)

Today's jobs gap of 850,000 jobs shows the true length of the road back to fuller employment. How is this picture affected by recent trends in working hours? The shift from full- to part-time work has been an important feature of recent UK labour market performance. While the number of people in employment has now passed its 2008 level, since 2008 full-time employment has fallen by 545,000, part-time employment has risen by 282,000 and part-time self-employment has risen by the same figure, 282,000. This marks an acceleration of longer running trends.

Figure 2: Changes in the labour market since 2008

Change in population, unemployment, inactivity and employment by category since mid 2008



Notes: Change from Mar-May 2008 to Oct-Dec 2012

Source: Resolution Foundation analysis, ONS

Does the rise of part-time work mean that working hours have performed worse than employment would suggest? Not as much as is commonly believed. Although there has been a shift from full-time to part-time work, both full-time and part-time workers are now working longer hours than they used to. The average full-time worker in Mar-May 2008 worked 37.1 hours a week, rising to 37.3 hours in Oct-Dec 2012. Over the same period the average working hours of a part-time worker rose from 15.6 hours to 15.9 hours. The result is that, despite a substantial shift from full-time to part-time work, overall average working hours have fallen only slightly in the past four years, from 32.0 in Mar-May 2008 to 31.9 in Oct-Dec 2012. Indeed, until Aug-Oct 2012, they had risen to 32.1.

As with employment, however, a recovery in the level of working hours has not been enough to keep pace with population growth. To quantify this shortfall, Annex A calculates the size of the hours gap. It shows that both the decline and recovery in working hours has been steeper than the decline and recovery in employment, reflecting the fact that employers are more able to vary working hours than employment. There is today a gap of around 31 million working hours in the UK economy.

The road back to fuller employment

How long will it take to close the jobs gap and return the UK to its pre-recession employment rate? The answer depends on the speed of job creation and the pace of population growth. Changes in the age profile of the population will also have an important effect. For the population aged over 16, the ONS currently projects population growth of around 340,000 a year from 2013 to 2020. This means that employment needs to rise by around 50,000 in each new set of quarterly data for the employment rate just to stand still.

To sketch out how the jobs recovery may in fact proceed we start by looking at the latest projections from the Office for Budgetary Responsibility. As with all projections, these contain considerable uncertainty, but they reflect the government's current view of the most likely pace of job creation. Figure 3 shows that under the OBR's latest projections the jobs gap will not have closed by the end of the forecast period in 2018. In fact, it is forecast to widen rather than narrow for the next two years and then to narrow only gradually from 2015. In 2018, ten years on from the start of the 2008 recession, the OBR's forecasts imply an outstanding jobs gap of 820,000 jobs.

There is, though, considerable uncertainty in today's jobs market. Some commentators are bullish about the prospects for a jobs-rich recovery. Indeed, Resolution Foundation research has shown that unemployment is now having a more chilling effect on real wages, suggesting that a recovery may continue to see relatively weak wage growth and relatively strong growth in employment.³ As Figure 2 shows, OBR projections have already fallen behind recent jobs market figures, reminding us that it is quite possible for an employment recovery to outperform projections.

How optimistic would a more bullish view of the jobs market allow us to be? To answer this question Figure 2 also shows the results of three other scenarios for the future pace of jobs creation:

- First, as an illustrative and extreme upper bound, we consider the recent pace of job creation: the 580,000 increase in employment from Oct-Dec 2011 to Oct-Dec 2012. Under a scenario in which this pace of job creation continued, the jobs gap would close at a rate of around 34,000 jobs a month, closing entirely by late 2014. This would, however, represent very strong growth by historical standards; only in the turbulent years of the late 1980s has job creation been maintained anywhere near this level for five years or more. As is well known, this jobs boom proved to be unsustainable. (See Annex B, Figure B3).
- Second, therefore, we consider a more plausible but still optimistic upper bound scenario, replicating the strongest five year period of job creation on record that was not soon followed by a recession: the years from Nov-Jan 1994 to Nov-Jan 1999.⁴ In this period, 356,000 jobs were

³ Gregg, P. and Machin, S. *What a drag: The chilling effect of unemployment on real wages*, Resolution Foundation, 2012

⁴ November 1993-January 1994 to November 1998-January 1999

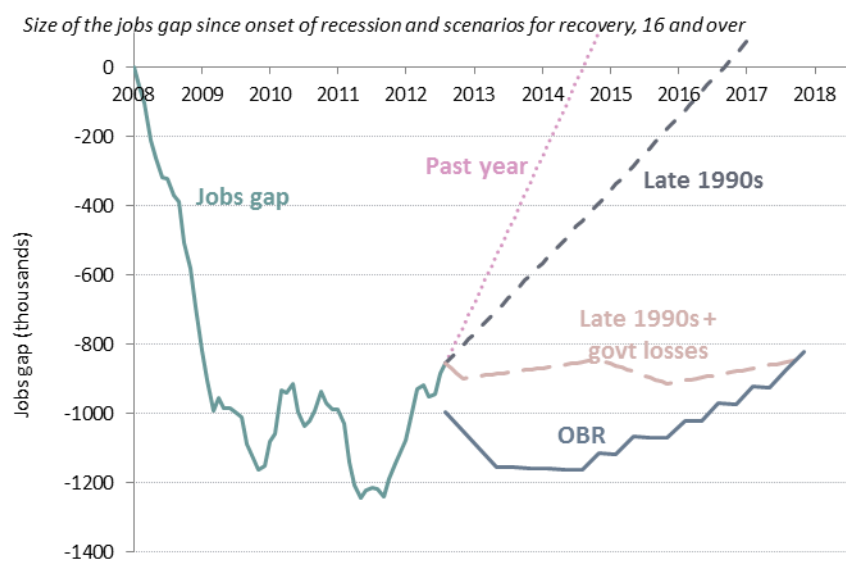
created on average each year. We scale up this growth to reflect an equivalent pace for today's population. This too is optimistic; in the five years to 1999, GDP growth averaged 3.5 per cent a year compared to the 2.2 per cent forecast by the OBR from 2012-2017. As Figure 3 shows, under this scenario, the UK jobs gap would close by late 2016.

While this second scenario is more plausible, it ignores current plans for reductions in public sector employment. Specifically, the OBR currently forecasts a decline in general government employment of 500,000 between 2012-13 and 2016-17.

- Third, therefore, we consider a scenario in which private sector jobs growth proceeds at an optimistic pace and government employment falls in line with projections. Historical data on public and private sector employment is limited by privatisations and reclassifications. We therefore apply the late 1990s pace of total employment growth to private sector employment from now to 2018 and combine this with the OBR's forecasts for government employment. In this scenario the jobs gap remains roughly flat, with overall employment growth barely keeping pace with population growth.

It should be noted that none of these scenarios could be called pessimistic. Even our third scenario takes a relatively positive view of the medium-term outlook for private sector employment. The lowest forecast we present is that of the OBR. More recent independent forecasts from the Institute for Fiscal Studies suggest that the OBR understates public sector job losses between 2010-11 and 2017-18 by as much as 300,000.⁵

Figure 3: Paths of the employment recovery



Notes: See Figure 1. Scenarios project forwards (a) ONS projected rate of population growth and ongoing jobs growth at the rate seen in the year from Oct-Dec 2011 to Oct-Dec 2012, (b) a repeat of the employment growth seen in the five years from Nov-Jan 1994 to Nov-Jan 1999, (c) a repeat of late 1990s employment growth in the private sector coupled with current OBR projections for public sector job losses, and (d) December 2012 OBR forecast for employment rate.

Source: ONS (series MGRZ, YCBW and ONS population projections by age)

These scenarios bring home how far the UK jobs market recovery still has to run. Figure 4 shows what this challenge looks like for the private sector. For the jobs gap to close, new private sector jobs will need to fill both the jobs gap and the forthcoming gap in public sector employment. If, for example, the jobs gap were to close by late 2016 as it does in our second scenario, the private sector would need to create

⁵ p.175, Crawford et al, Public spending and Pay, Chapter 6 of Emmerson et al (eds.) IFS Green Budget 2013, Institute for Fiscal Studies, London (2013)

around 2 million additional jobs by 2016-17. This equates to a sustained pace of job creation of around 490,000 jobs a year or 41,000 a month over a four year period.

As Figure 4 shows, the government currently expects private sector jobs growth to proceed at roughly half this pace. That is, the private sector is projected to create more than enough jobs to offset declining government employment but not nearly enough to move decisively back towards fuller employment. This does not take into account latest estimates from the IFS which suggest deeper public sector job losses than forecast by the OBR. These would translate into public sector job losses of around 700,000 between 2012-13 and 2016-17 and would require 2.2 million new jobs from the private sector in order to close the jobs gap by late 2016.

Figure 4: Government expectations for private sector jobs growth



Notes: OBR projections are for financial year

Source: Resolution Foundation analysis, Office for Budgetary Responsibility Economy Supplementary (Table 1.4 and 1.10 (equivalent to LFS employment rate, all aged 16 and over (ONS series MGSR))

Demographic change and population growth

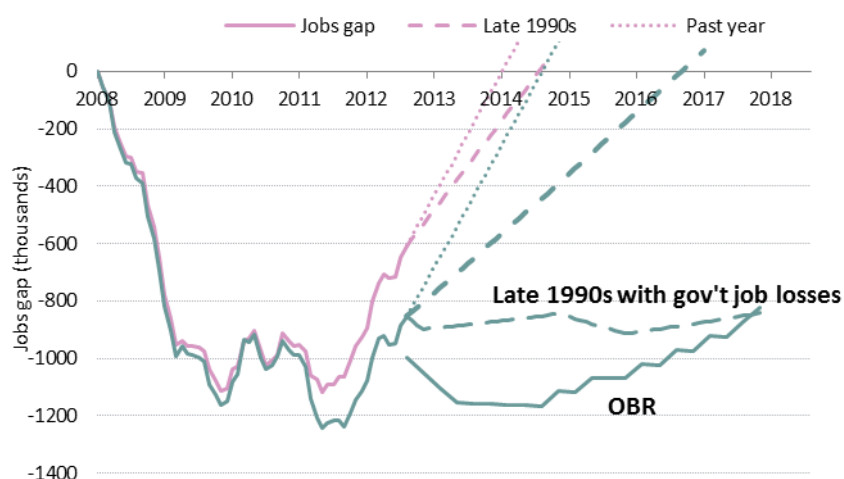
Why does this analysis paint a much tougher picture than the conventional wisdom of a robust jobs market recovery? In part, because public debate has too often focused on restoring the employment level or reducing the unemployment rate. Both of these measures are important and there are good reasons to be concerned about them. But they also set the bar for recovery too low. More substantively, major demographic changes will make recovery harder in the coming decade.

With the UK population aged over 64 growing twice as fast as the population aged 16-64, part of the jobs gap is accounted for by an ageing society.

Figure 5 shows that growth in the population aged over 64 accounts for just over one quarter of the jobs gap that has opened up since 2008. These demographic changes are also forecast to continue, meaning that the 'working age' jobs gap is set to close more quickly than the jobs gap for the wider population. Replicating the jobs growth of the last year would see the jobs gap among 16-64 year olds close at the start of 2014 while emulating the success of the late 1990s would see the jobs gap close by mid-2014. (OBR projections and data for private and public sector employment are not available for the 16-64 year old group.)

Figure 5: Closing the jobs gap in an ageing population

*Size of the jobs gap since onset of recession and scenarios for recovery, 16-64 vs. 16 and over
(Green lines show equivalent jobs gap for population aged 16 and over)*



Notes: See Figure 2.

Source: Resolution Foundation analysis, ONS (MGSR, LF24)

It could be argued that an ageing society cannot therefore expect a return to the employment rates of the past and that the employment rate among 16-64 year olds is a fairer metric of labour market performance. Certainly much depends on how the UK responds to the ageing challenge, including through reforms like the raising of the state pension age (SPA) and default retirement age (DRA). Yet it could also be argued that recovering the UK's pre-recession employment rate is under-ambitious. The UK lags leading countries on employment and there is a strong case for trying to improve this performance, not least by raising the female employment rate to international benchmarks. From an economic perspective, the challenge we face is to run fast into the headwinds of an ageing population.

It is also important to address the significance of migration. High levels of net migration in the past decade increased population growth and so might be seen as a causal factor in today's significant jobs gap. Empirically speaking, this depends on the employment rate among migrant populations. In fact, recent migrant populations from the A8 accession states have had high employment rates—over 80 per cent for 16-64 year olds—boosting the UK average. More importantly, though, while there is some substitution effect between employment in migrant and native populations, the overlap is small. This means there is little weight in the intuitive argument that the employment rate can be boosted by reducing population growth through migration controls. Employment is not a zero sum game.

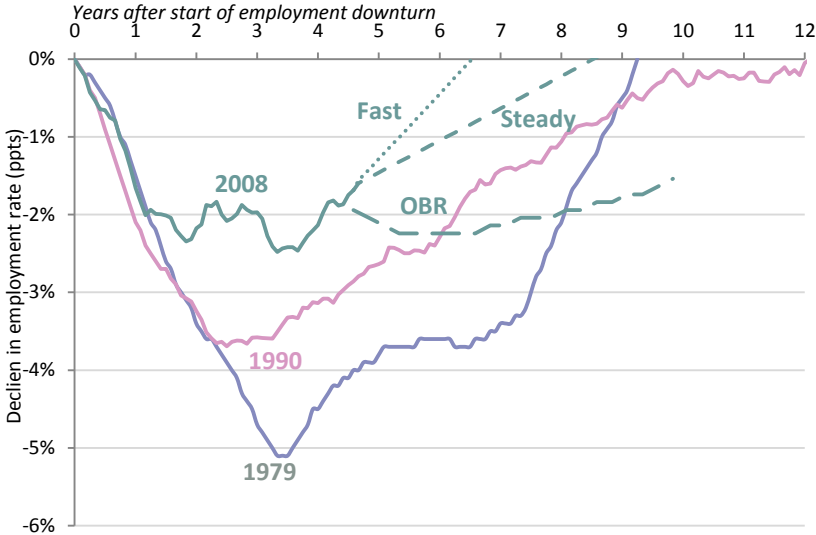
Measuring up against past recessions

Finally, how does today's employment recovery compare with the UK's performance after previous recessions? The UK labour market has seen significant structural changes in recent decades, not least in terms of its make up by sector, gender and age, as well as the extent of active labour market policy. This means that things will be different this time around. While there has been much analysis of the relative decline in output in different recessions, the employment rate has been looked at in less detail. Figure 6 compares the path of employment after the early 1980s and early 1990s downturns with the path of employment since 2008. For comparability over time we focus on the percentage point decline in the employment rate and the subsequent path to recovery.

The results confirm that the UK has seen a surprisingly shallow decline in employment since 2008, all the more surprising given the relatively deep fall economic output. (Annex B, Figure B4). However, while the recent decline in employment has been shallow, the path to an employment recovery now looks set to be longer than in either the early 1980s or 1990s. Only an unprecedentedly fast and sustained period of

employment growth will leave us with fewer lost years for the labour market this time around. Indeed, the only recent example of a recovery this rapid was the late 1980s jobs boom, which soon proved unsustainable. As things stand today, the government currently expects the jobs recovery to proceed at a pace that, although optimistic when compared to latest independent forecasts, will still result in this being the longest sustained dip in labour market performance in recent decades.

Figure 6: Employment performance in past recessions, 16 and over



Notes: For scenario details see Figure 5.

Source: Resolution Foundation analysis, ONS (series MGSR)

Conclusion

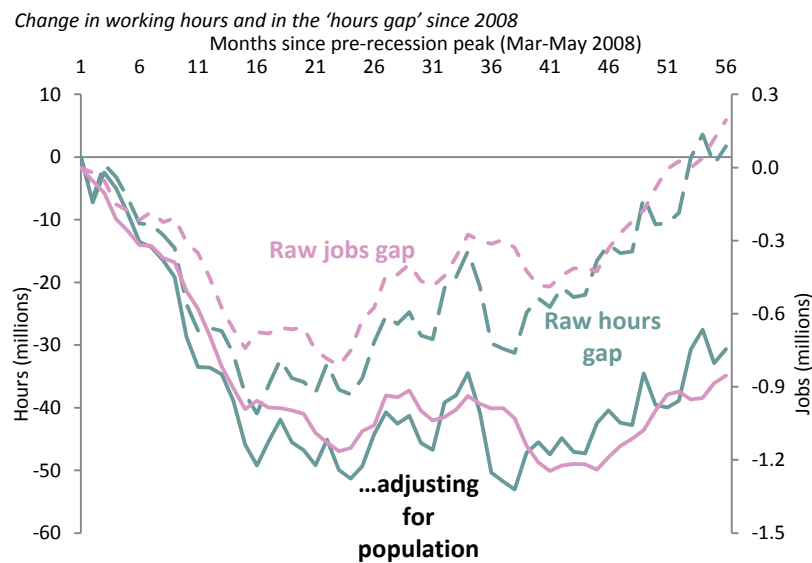
The UK’s recent employment performance would be strong in any context and in the context of flat GDP it is remarkable. Yet record levels of employment tell us little about the UK’s progress back towards a higher employment rate, the more important measure economically speaking. On the basis of the employment rate, the most comprehensive single measure of jobs market performance, the UK employment recovery still has a long way to run. The UK currently needs to close a jobs gap of 850,000 jobs before we are back to where we were in 2008. The scale of this challenge owes something to our ageing population, a strong headwind pushing against employment growth.

Even under optimistic scenarios, closing the jobs gap will take several years. Of course now, more than ever, there are deep uncertainties about the future pace of job creation. Yet against a baseline of the scenarios presented in this note, the risks are very much on the downside; none of the scenarios presented here could be called pessimistic and indeed, on current government projections, the jobs market is destined to fall well short of a recovery within the forecast period. More recent independent projections for public sector job losses are even more pessimistic. For all that the job market has outperformed expectations, the road back towards fuller employment still looks long and hard.

Annex A: Is the hours gap bigger than the jobs gap?

Figure A1 shows the hours gap: the deficit of total working hours in the economy compared to the number needed to restore the pre-recession level of 'hours worked per person'. This interpretation of the hours gap does not take account the number of hours people would like to work – this would be a much larger figure – but simply the number of hours needed to restore pre-recession hours of work per person in the population. The decline and recovery in working hours have been steeper than the decline and recovery in employment, reflecting the fact that employers can more easily vary working hours than employment. This might be seen as a relatively healthy sign in the labour market, as employers have adjusted, in both recession and recovery, by flexing working hours.

Figure A1: The hours gap

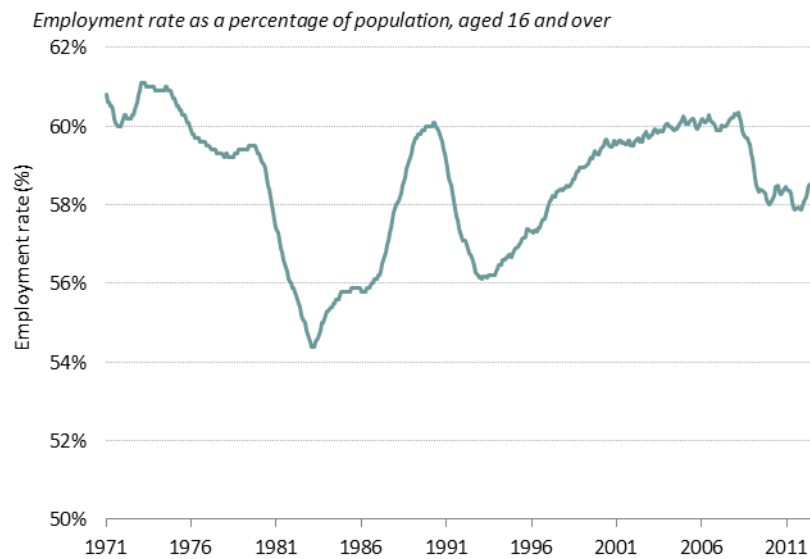


Notes: 'Hours gap' measures the deficit of working hours in the economy compared to the number of working hours needed to maintain pre-recession levels of working hours per person. growth compares actual jobs growth to the number of jobs needed to hold the pre-recession employment rate constant.

Source: Resolution Foundation analysis, ONS (series YBUS and derived population variable)

Annex B: Additional materials

Figure B1: Long-term trends in the employment rate



Notes: Population aged 16 and over in employment as a proportion of population aged 16 and over

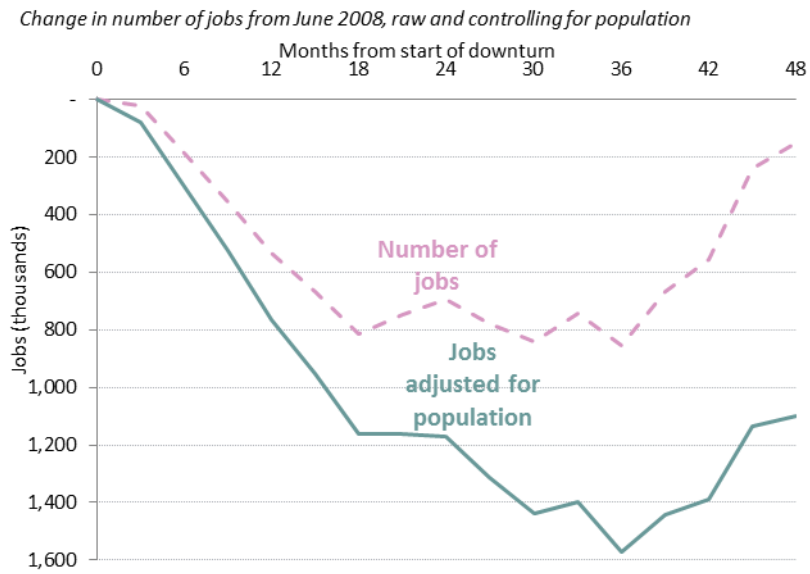
Source: Resolution Foundation analysis, ONS (series MGSR)

B2: Comparing jobs and employment

The analysis in the above note focuses on overall employment, the most regularly published measure of performance in the labour market. We use this data so that we can track closely the size of the UK jobs gaps over the coming months. To take account of people working two or more jobs, we add the number of people working two or more jobs to the overall total of people in employment. This slightly underestimates the number of jobs in the UK economy because it does not additionally account for people working three or more jobs, though this is likely to be a small number.

The Office for National Statistics also publishes a less regular but more direct measure of the number of jobs in the economy. Figure 5 shows the shape and size of the jobs gap on the basis of this data. The results are slightly higher than our findings from employment data above, with a jobs gap of 1.1 million having opened up by June 2012, when these data are last available, compared to 920,000 in June 2012 under our main calculation. This suggests that our approach based on employment data may give a somewhat optimistic picture of the overall jobs gap.

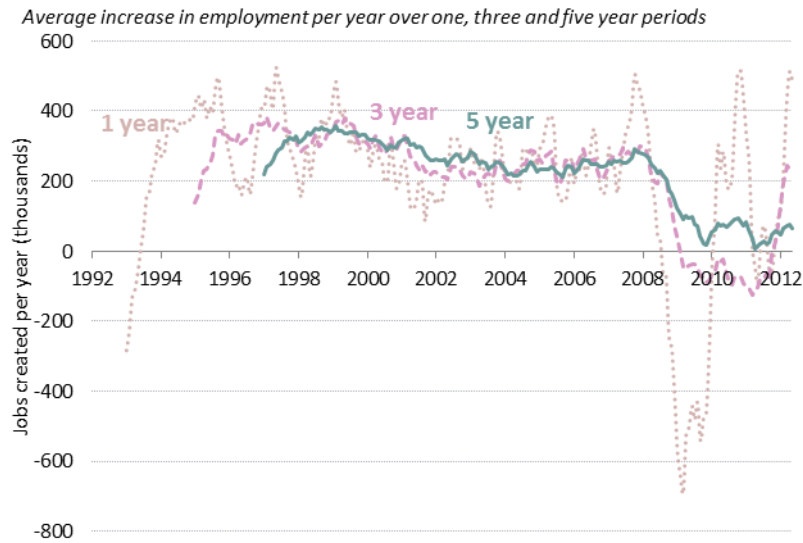
Figure B2: The changing number of jobs



Notes: Total workforce jobs. Jobs data is only published quarterly so change in number of jobs is measured from June 2008. Population adjustment is carried out using population variable for population aged 16 and over derived from ONS monthly employment statistics.

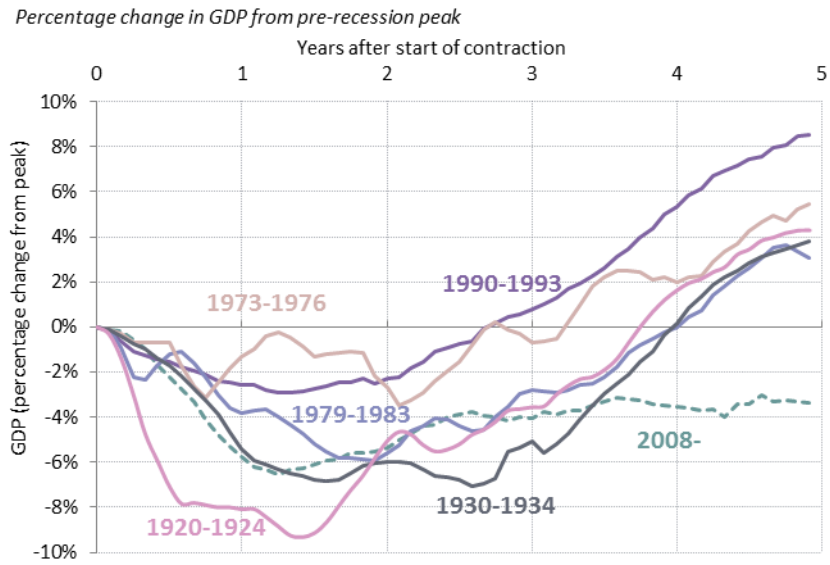
Source: Resolution Foundation analysis, ONS (series DYDC and population data)

Figure B3: The sustainable pace of job creation



Source: Resolution Foundation analysis, ONS (series MGRZ, YCBW)

Figure B4: Comparing the depths of recessions



Source: National Institute of Social and Economic Research

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- engaging with policy makers and stakeholders to influence decision-making and bring about change.

For more information on this Briefing Note contact:

James Plunkett, Director of Policy and Development
James.plunkett@resolutionfoundation.org
020 3372 2956

