ARTICLE

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The labour market in the 1980s, 1990s and 2008/09 recessions

SUMMARY

This article analyses and compares the movements in key labour market outcomes during the last three recessions and in the first six months of each recovery. These include: employment and jobs by industry and region, hours and wages, and unemployment and inactivity.

The recession in 2008/09 has been the deepest for several decades. Starting in the second quarter of 2008, Gross Domestic Product (GDP) fell for six consecutive quarters, recording a total peak to trough fall of 6.4 per cent. As output fell and spare capacity in the economy opened up, interest turned to how the recession was passing-through to the labour market. In particular, the extents to which employers have cut back on their workforces. ONS has produced several articles looking at the effects of the recession, with two, in May and November 2009 focusing on the labour market.

Growth in GDP returned in the final quarter of 2009, and according to latest Preliminary estimates, has been sustained through the first half of 2010. However, the end of the downturn in GDP does not necessarily result in instant improvements in the labour market. History shows that unemployment can continue to increase for many months after a recession has finished. This article aims to show how the paths of employment and other key labour market indicators during the recent recession and in the first six months of the recovery compare with experiences of previous recessions.

Although some of the causes of the last three UK recessions are similar, there are also important differences, meaning the resulting impact on the labour market may also be different. Therefore it is useful to briefly explain at the outset some of the key features of each of them.

1980s recession (January 1980 - March 1981)

In the 1980s the UK recession was part of a synchronised downturn across all the major economies. The doubling of oil prices in 1979, the second major oil price shock in the decade, generated significant inflation. The resulting policies to control this and reduce government borrowing, such as a major tightening in monetary policy and increases in taxes, pulled down on real disposable incomes and demand across the world.

1990s recession (July 1990 - September 1991)

Through the mid to late 1980s, strong economic growth caused high levels of inflation, peaking at over 10 per cent. Interest rates were increased to control this, and the pursuit of lower inflation eventually led to sterling joining the European Exchange Rate Mechanism. However, inflationary pressures resulting from German reunification diminished the scope to cut interest rates as the UK economy entered into recession, with rates reaching up to 15 per cent as the government tried to defend sterling's parity against the Deutschmark. High interest rates had a severe impact on the UK housing market, leading to a significant fall in prices, a surge in repossession and growing numbers trapped in negative equity. These factors and a doubling in the level of unemployment led to a large fall in domestic spending.

Figure 1
Annual percentage change in Gross Domestic Product¹ and LFS employment,² Q1 1979 to Q1 2010³

United Kingdom

Percentages, seasonally adjusted

Notes:

- 1 Gross Domestic Product (ABMI), chain volume measure, seasonally adjusted.
- 2 Employment level is for those aged 16 and over.
- 3 The shaded areas on the graph represent consecutive quarters of negative GDP growth.

Source: ONS Labour Force Survey and Quarterly National Accounts

Figure 2
Employment¹ levels from the start of recession for the 1980s, 1990s and 2008/09 recessions

United Kingdom

Employment index, seasonally adjusted

Notes:

- 1 Employment level is for those aged 16 and over.

Source: ONS Labour Force Survey

2008/09 recession (April 2008 - September 2009)

The latest recession came after a period of unparalleled stability in both the UK and global economies. However, the NICE (non-inflationary consistently expanding) decade masked growing international imbalances, which became manifest in very liquid financial markets and a world-wide credit boom, including the US sub-prime mortgage market. As massive losses in assets related to US sub-prime mortgages began to emerge, and uncertainty as to their exact size and location, the short-term money markets closed as financial institutions became hesitant to lend to each other. The sudden drying up of liquidity endangered the entire global banking system, which may have collapsed had it not been for large-

scale government interventions. Demand across the world then fell sharply, partly due to the hiatus in lending (credit crunch) and also as over-indebted households and businesses looked to rebuild their balance sheets.

The analysis presented in this article mainly focuses on the UK as a whole with a briefer analysis of the devolved countries of the UK and Government Office Regions within England. The article will show how employment has changed through each of the recessions, before looking at jobs across different industries. It will then show how hours and wages have altered, before finally looking at unemployment and inactivity. The term 'immediate recovery' is used throughout the article when commenting on the first six months of the recovery.

Employment and GDP

Figure 1 shows the annual changes in GDP and employment from 1979 onwards with the shaded areas showing periods of recession. In the 1980s recession, GDP fell by 4.6 per cent over five quarters, in the 1990s it fell by 2.5 per cent over five quarters, and in 2008/09 it fell by 6.4 per cent over six quarters, the largest fall. However, changes in employment have not been the same, with the largest fall in the 1990s recession, at 3.4 per cent (910,000), while it only fell by 1.9 per cent (573,000) through the most recent recession. There was a 2.4 per cent fall (619,000) in the 1980s recession.

Figure 2 shows an employment index, which is the quarter on quarter change in the employment level since the start of each recession. The 1980s and 1990s recessions both lasted for five consecutive quarters but employment continued to fall for around three and a half years after the start of the 1980s recession, and for three years after the start of the 1990s recession. In the 1980s recession it took 32 quarters (8 years) for employment levels to reach that at the start of the recession, while it took 35 quarters (8 years and 9 months) for employment to fully recover after the 1990s recession. As shown, the recession has lasted longer in 2008/09 and employment levels have not fallen as much as in previous recessions. In the six months following the third quarter of 2009 (which was the final quarter of falling GDP), the employment level fell by a further 0.3 per cent. This is much smaller than in previous recessions, where

Table 1

Percentage change in Workforce Jobs¹ by industry² through each recession and first six months of recovery

United Kingdom	Percentage change, seasonally adjusted					
	1980s		1990s		2008/09	
	Recession	Recovery	Recession	Recovery	Recession	Recovery
All Jobs	-3.6	-1.1	-3.7	-0.6	-2.7	-0.3
Manufacturing	-11.2	-2.7	-9.7	-2.3	-10.7	-2.3
Construction	-3.4	-2.7	-10.9	-3.2	-8.9	-2.9
Service industries						
Wholesale & retail trade; repair of motor vehicles and motor cycles	-2.5	0.1	-2.4	0.3	-5.7	-1.9
Transport & storage	-3.0	-0.7	-2.8	-0.2	-2.4	-3.3
Accommodation & food service activities	0.8	-0.7	-4.2	-1.1	-3.5	-0.6
Information & communication	-5.4	-0.8	-4.4	-0.9	-4.9	-1.3
Financial & insurance activities	3.9	-0.6	-2.8	-2.1	-3.5	-3.9
Professional scientific & technical activities	-0.5	0.9	-1.9	0.2	1.6	2.3
Administrative & support service activities	-0.7	0.4	-2.1	0.5	-6.9	4.6
Public admin & defence; compulsory social security	-1.5	-0.8	1.5	0.0	0.4	-0.2
Education	-2.6	5.4	-1.1	0.3	4.9	-0.5
Human health & social work activities	3.9	-2.8	3.3	1.6	5.3	1.9
Total services	-0.9	0.0	-1.5	0.1	-1.3	0.0

Notes:

Source: ONS Workforce Jobs

- 1 Workforce Jobs figures are a measure of jobs rather than people. For example if a person holds two jobs, each job will be counted in the workforce jobs total. Estimates come from a variety of sources, and where possible from the employer rather than the individual.
- 2 Standard Industrial Classification 2007.

in the six months following the recession, employment levels fell by 1.2 per cent in both the 1980s and 1990s.

The number of jobs in the economy is an indicator of whether employers are cutting back on recruitment, which will impact on employment levels. Estimates of Workforce Jobs are taken mainly but not exclusively from surveys of employers. These differ from the Labour Force Survey (LFS), which provides the number of people in employment, with estimates based on individuals' responses. Individuals, who report themselves as being in employment, could have more than one job, so they may be recorded twice in the Workforce Jobs series. However, the trends in both series are similar so a comparison of Workforce Jobs with GDP and a Workforce Jobs index are not shown. As it is sometimes difficult for individuals to identify exactly what industry they work in, perhaps because companies may work in a variety of different industries, the Workforce Jobs series provide a better estimate than the LFS for industry information.

Table 1 shows the percentage change in Workforce Jobs by industry through each of the last three recessions and in the first six months of the immediate recovery. Industries containing less than 3 per cent of all jobs over the last thirty years are not shown. There were similar falls in the percentage of jobs lost in the recessions in the 1980s and 1990s, at 3.6 per cent (985,000) and 3.7 per cent (1.1 million jobs) respectively, while for the

most recent recession jobs fell by a lower 2.7 per cent (856,000 jobs). The fall in the number of jobs across all three recessions differs by industry. The largest falls were in manufacturing, at 11.2 per cent (733,000 jobs) in the 1980s, 9.7 per cent (474,000 jobs) in the 1990s and 10.7 per cent (311,000 jobs) in the most recent recession. However, in the 1990s recession, although the number of jobs lost was not as large as in manufacturing, the construction industry had the largest relative percentage fall in jobs, down 10.9 per cent (269,000 jobs).

Total jobs in the services industries have also fallen in all of the last three recessions, although the extent of the fall has differed across recessions and by specific industry. In the 1980s recession there was a fall in jobs of 0.9 per cent (158,000 jobs), in the 1990s recession the fall was 1.5 per cent (309,000 jobs) and in the recent recession the fall was 1.3 per cent (338,000 jobs). In each instance, the largest fall in jobs in the services industries was within wholesale and retail trades (including repair of motor vehicles and motor cycles).

However, despite the overall fall in jobs, some services industries have exhibited an increase in the number of jobs during periods of recession. In the 1980s recession, there were 3.9 per cent increases in both health and social work activities (79,000 jobs) and financial and insurance activities (34,000 jobs). In the 1990s recession, jobs in health and social work activities rose by 3.3 per cent (85,000 jobs). This industry also reported a rise in jobs during the most

recent recession, up 5.3 per cent (197,000 jobs). There was also an increase in jobs within education, up 4.9 per cent (127,000 jobs). Throughout the last three recessions, the industries that have typically reported an increase in jobs have been those based predominately in the public sector.

In the immediate recovery stage of a recession, defined as the six-month period after the final quarter of falling GDP, the number of jobs has continued to fall but to different extents in each period. In the six months following the 1980s recession the number of jobs fell by 1.1 per cent (301,000 jobs). In the immediate recovery from the 1990s recession there was a further fall in the number of jobs of 0.6 per cent (160,000 jobs). Whilst after the most recent recession jobs have fallen by 0.3 per cent (108,000 jobs).

In the manufacturing and construction industries the number of jobs has typically fallen between 2.3 per cent and 3.2 per cent during the immediate recovery, although this is a marked slowdown from some falls of over 10 per cent through the recession itself. In contrast, jobs falls across all service industries stopped, with there being no change in jobs in the six months following the 1980s and recent recessions, and a small increase of 0.1 per cent (12,000 jobs) following the 1990s recession. However, within the services sector some industries continued to experience a fall in jobs in the immediate recovery. For example, in the recent recession, there is a further fall in jobs in financial and insurance activities of 3.9 per cent (43,000 jobs).

Figure 3
Percentage point change in employment¹ through each recession and first six months of recovery

Notes:

Source: ONS Labour Force Survey and Quarterly National Accounts

1 Employment rate is for men aged 16–64 and women aged 16–59.

Variations in the impact of recessions on employment and jobs across industry groupings will also help to explain the regional impact as composition of output by industry differs from one part of the country to another. Workforce Jobs does not allow for analysis of total jobs by region and industry and so the LFS is the only source to show how employment by industry varies across the countries of the UK and the Government Office Regions within England. Based on the April to June

2008 quarter of the LFS, which was the first quarter of the recent recession:

- in Wales, Scotland, Northern Ireland and the North East, around 33 per cent (1 in 3) of employment is in the industries of public administration and defence, education and health and social work, while in London the same group accounts for 25 per cent (1 in 4)
- across London the manufacturing sector accounts for around 6 per cent

(1 in 16) of employment, while in both the West and East Midlands, the percentage of employment reliant on manufacturing is almost treble, at 16 per cent (1 in 6)

- in London, information and communication, financial and insurance activities and professional, scientific and technical activities account for 25 per cent (1 in 4) of employment. The same industries account for 16 per cent (1 in 16) of employment in the South East and East of England at 16 per cent (1 in 6) with all other parts of the UK at 13 per cent or lower

Considering the variations in employment by industry across the UK and the impact on jobs across the industries, **Figure 3** shows the percentage point change in employment rates over the recession and for the first six months of the recovery for the countries of the UK and the Government Office Regions within England. The employment rate is used as it shows employment relative to the population, and therefore removes the effect of differences in population levels across each area. For the UK as a whole, there was a 2.3 percentage point fall in the employment rate, from 74.8 per cent in January to March 2008, the final quarter before the recession, to 72.5 per cent in July to September 2009, the final quarter of the recession. Across the UK, the largest falls in employment rates were in Northern Ireland, at 3.6 percentage points, followed by the West Midlands, at 3.3

Figure 4
Annual percentage change in total actual hours worked¹ and employment,² Q1 1979 to Q1 2010³

Notes:

Source: ONS Labour Force Survey

- 1 Total actual weekly hours worked in main and second job, including paid and unpaid overtime.
- 2 Employment level is for those aged 16 and over.
- 3 The shaded areas on the graph represent consecutive quarters of negative GDP growth.

Notes:

- 1 Total actual weekly hours worked include paid and unpaid overtime, Q1 1979 to Q1 2010.
- 2 Average actual weekly worked, Q2 1992 to Q1 2010.
- 3 The shaded areas on the graph represent consecutive quarters of negative GDP growth.

Source: ONS Labour Force Survey

percentage points and the South West, at 3.2 percentage points. For the first six months of the recovery, both Northern Ireland and the West Midlands have seen increases in employment rates, up 1.6 percentage points and 0.6 percentage points respectively. There was also an increase of 0.6 percentage points in the employment rate in the North East in the first six months of the recovery.

Hours and wages

In an economic downturn changes in employment levels may be partly influenced by movements in hours and wages. For instance, businesses can use hours worked to vary their labour input without varying the numbers employed. Controlling wage growth (including pay freezes or pay cuts) is also a way for firms to control costs without reducing employment. **Figure 4** shows the annual change in total hours worked and employment from 1979 onwards. As expected, mainly through falls in employment, total hours have fallen through recessions. However, the fall in hours has typically been faster, suggesting that employers have cut back on overtime or offered fewer hours to employees as a way of reducing labour inputs as well as through reduced employment.

Through the 1980s recession, total hours fell by 5.3 per cent, compared to the fall in employment of 2.4 per cent. In the 1990s recession, the gap between the two falls was smaller, with total hours falling by 5.2 per cent, and employment by 3.4 per cent. Whilst in the recent recession total hours fell by 4.1 per cent compared to an employment fall of 1.9 per cent. Following the two earlier recessions total hours continued to fall for around two years, reflecting the same patterns shown in the employment series. It was only when the

recovery was well underway that total hours started to rise, reflecting not just an increase in employment but also as employers offer more overtime and longer working hours to their workforce.

Another point that is notable in **Figure 4** is that before 1998, the annual change in total hours worked followed quite strictly the annual change in employment. However since 1995, until the most recent recession, while annual employment growth has been hovering around 1 per cent, the annual change in total hours worked is more volatile. This is best explained by **Figure 5** which shows total hours worked since 1979 (left-hand side scale) and average hours worked since 1992 (right-hand scale), the earliest point a consistent series is available. Despite a strong economy at the time, average hours have been falling since 1998 coinciding with rules imposing a Working Time Directive. This policy, aimed to limit the maximum length of the working week, helps to partly explain the fall in average hours. Other explanations include the shift to more flexible working and policies promoting work-life balance. The downward trend in average hours levelled off from around 2004, but average hours began to fall again through the recent recession through lower overtime and shorter working weeks, and also reflecting decreases in full-time working and increases in part-time working.

Figure 6 shows average *real* wage growth, which is nominal wage growth adjusted for inflation, and is an indicator of changes in the purchasing power of wages. Inflation adjustments are made using the Retail Price Index (RPI), both including and excluding mortgage interest payments. Inflation is an important consideration in negotiating wage settlements as employees

are concerned with protecting the real value of their pay. These considerations are likely to be more acute in times of high inflation.

Inflation was high through the 1980s recession reaching a peak of over 20 per cent in the summer of 1980. The cause was mainly cost-push, a result of strong increases in energy (oil) prices and a doubling in the rate of VAT to 15 per cent. Wage-price spirals result when high inflation is passed through into wage settlements, which then by increasing costs, push up prices even further. Nominal annual wage growth also reached levels of over 20 per cent in the recession.

There were large variations in real earnings growth over the 1980s recession. Nominal wages adjusted with RPI inflation excluding mortgage interest payments grew by just 0.1 per cent in the Spring of 1980, but growth peaked at 8.3 per cent in the Autumn of 1980. Tight monetary policy aimed at controlling inflation, such as an increase in interest rates, meant that real earnings growth including mortgage interest payments were lower across the whole period.

In the 1990s recession, inflation and wage growth were much lower than that during the 1980s recession, but still at relatively high levels compared with more recent times. Going into the 1990s recession, nominal wage growth was around 10 per cent, with inflation around 11 per cent (including mortgage interest payments). At the time interest rates were also at relatively high levels as monetary policy was tightened to bring down inflation. Therefore for the first few months of the recession, because of the higher cost of mortgage interest payments, real earnings growth including these was negative.

Interest rates fell through the recession but remained above 10 per cent, resulting in inflation falling to 4.1 per cent (including mortgage interest) and 5.7 per cent (excluding mortgage interest) in September 1991. Nominal annual wage growth also fell but not as fast as inflation, to 7.4 per cent in September 1991. Falling interest rates lowered the cost of mortgage interest payments, meaning that after the first three quarters of the recession, real earnings growth (including mortgage interest) was higher than real earnings growth (excluding mortgage interest), standing at 3.3 per cent and 1.7 per cent respectively in September 1991.

After sterling's exit from the European Exchange Rate mechanism in 1992 and up until the start of the most recent downturn, the UK enjoyed a period of unprecedented

Figure 6

Annual percentage change in real earnings growth adjusted by (i) RPI all items and (ii) RPI excluding mortgage interest payments, January 1979 to March 2010¹

Great Britain

Percentages, seasonally adjusted

Notes:

Source: ONS Retail Price Index and Monthly Wages and Salaries Survey

1 The shaded areas on the graph represent consecutive quarters of negative GDP growth.

low and stable inflation. Between 1993 and the end of 2007, inflation averaged around 2.5 per cent reaching a high of 3.9 per cent and a low of 1.5 per cent. This long period of low inflation, coinciding with the move to inflation targeting and independence in monetary policy as well as benefiting from the strong tail winds provided by the emergence of China and other low cost producers into global trade, has been tagged as the 'Great Moderation'. The stability of inflation meant that interest rates remained at low levels compared with the previous two decades, averaging around 5 per cent from 1993 to the end of 2007. With little change in both series, annual nominal wage growth has also been stable since the last recession, and with low inflation and interest rates, is also much lower than the previous twenty years.

Therefore, and in contrast to the previous two recessions, the most recent downturn did not start with a sharp tightening in monetary policy to curb excessive inflation. In the month before the start of the recession, RPI inflation was 3.8 per cent (including mortgage interest) and 3.5 per cent (excluding mortgage interest) compared with nominal annual wage growth of 4.0 per cent. This meant that in real terms, using both inflation measures, real earnings growth was modest. As the recession started, and up until the end of 2008, the pick up in inflation resulting from an increase in energy prices combined with a slowdown in nominal wage growth as the labour market weakened resulted in a fall in real wages – which may have been one factor helping to minimise the reduction in jobs.

In 2009 inflation on both measures started to fall as the previous year's increases in commodity and energy prices either dropped out of the annual calculation or were reversed as demand fell in the global recession. To avoid the onset of debt-deflation, the Bank of England cut interest rates aggressively from the onset of the recession to just 0.5 per cent in the second quarter of 2009, where rates have remained ever since.

The fall in the Bank of England base rate has been, on average, passed through to UK mortgage rates. Note, however, that not all mortgage rates track the base rate, for example those on fixed-rate terms. Increases over the last thirty years in the number of owner-occupiers with mortgages means there is more significance in looking at annual real earnings growth with and without interest mortgage payments than in previous recessions. Although it is worth noting that the percentage of households with mortgages are not uniform across the many population groups, with those most vulnerable such as the young and lower skilled, less likely to have access to mortgage finance. The fall in interest rates meant that the rate of RPI inflation (including mortgage interest) went negative, falling to -1.6 per cent in the summer of 2009. The RPI inflation rate excluding mortgage interest was also low at 1.0 per cent. Low inflation meant that, despite the slowdown in annual earnings growth, real earnings grew over this period, especially when using the RPI inflation measure including mortgage interest payments. Low inflation may also have been a factor in suppressing

nominal wage growth as the impact on real wages would be lower.

Unemployment and inactivity

Not all businesses, facing lower demand in a recession, will be able to fully insulate employment by adjusting hours and wages. This means an increase in unemployment. However, not everyone who loses their job automatically becomes unemployed, as some individuals become economically inactive. The difference between the two categories is that individuals are unemployed if they are looking and available for work, while those not available or not seeking work are classed as inactive.

Figure 7 shows the unemployment rate for individuals aged 16 and over. **Figure 8** shows the inactivity rate for individuals below state pension age since 1979 but only shows the range of inactivity rates from 14 per cent to 24 per cent, so visually the changes may look bigger than they are. Restricting inactivity rates to those below state pension age removes many individuals who are not looking for work because of retirement, and therefore less likely to re-enter the labour market, whether there is a recession or not. The falls in employment through the recessions described earlier reflect immediate increases in unemployment through each of the recessions, although not so immediate increases in inactivity.

Immediately before the 1980s recession, in the final quarter of 1979, the unemployment rate was 5.5 per cent (1.47 million) having hovered around this rate since the mid 1970s. The onset of

Figure 7
Unemployment rate,¹ Q1 1979 to Q1 2010

Notes:

Source: ONS Labour Force Survey

- 1 Unemployment rate is for those aged 16 and over
- 2 The shaded areas on the graph represent consecutive quarters of negative GDP growth.

Figure 8
Inactivity rates¹ including² and excluding³ students⁴

Notes:

Source: ONS Labour Force Survey

- 1 Inactivity rates are for men aged 16 to 64 and women aged 16 to 59.
- 2 All individuals, Q1 1971 to Q4 2009.
- 3 Excluding students, Q2 1993 to Q1 2010.
- 4 The shaded areas on the graph represent consecutive quarters of negative GDP growth.

recession saw an immediate increase in the unemployment rate, rising to 8.9 per cent (2.4 million), and the number unemployed increasing by 932,000. As explained earlier, the end of the recession does not necessarily signal an immediate improvement in labour market performance. Unemployment rates continued to increase after the 1980s recession, reaching a peak of 11.9 per cent (3.27 million) in the summer of 1984, and more than double that before the start of the recession. Unemployment rates and levels decreased slightly over the next few years, before falling more sharply from 1987 until the start of the 1990s recession, although they never returned to the level before the start of the 1980s recession.

In the quarter before the start of the 1990s recession, the unemployment rate was 6.9 per cent (2 million) which was 1.4 percentage points higher than the rate before the 1980s recession. By the final quarter of the recession the unemployment

rate had increased to 9.2 per cent (2.62 million) reflecting an increase of 622,000 in the number unemployed. The rise in unemployment through the 1990s recession was not as large as during the previous recession, although the peak to trough fall in GDP was also less severe and unemployment was higher before the start of the recession. After the end of the recession unemployment continued to rise, reaching a peak rate of 10.6 per cent (3 million) in the first quarter of 1993. This again shows that the total impact of the 1990s recession on unemployment was smaller than the 1980s recession.

Since 1993 unemployment rates and levels have been in general decline, reaching a low of 4.7 per cent (1.41 million) in 2004. These also happen to be lower than the level and rate before the start of the 1980s recession. After this there was a slight increase, so in the quarter immediately before the recession started the

unemployment rate stood at 5.2 per cent (1.62 million). Unemployment through the 2008/09 recession increased by 2.6 percentage points to reach 7.8 per cent (2.46 million) in the final quarter of the recession, reflecting an increase of 842,000 people.

During the actual recession period the rise in the unemployment rate in the most recent recession was greater than that in the 1990s but less than that experienced in the 1980s. In the two earlier recessions unemployment continued to rise after GDP had started to increase, while in the latest recession unemployment appears to have stabilised much faster.

Inactivity rates do not fluctuate as much as employment and unemployment rates, varying by around 4 percentage points in the last 30 years, between a low of 19.3 per cent and a high of 23.2 per cent. There are various reasons for an individual to be inactive, with the main reasons being study, looking after the family or home and long-term sick. Some individuals are also inactive because they do not want work, or believe there are no jobs available.

Through the 1980s recession, inactivity rates were fairly stable showing only a slight fall from 21.6 per cent (7.15 million) to 21.4 per cent (7.12 million). Inactivity rates increased following the recession, reaching a peak of 23.2 per cent (7.82 million) in the summer of 1983, with most of the increase accounted by males.

One of the key changes in the inactive series over the last three decades is the shift from women moving into the labour market, becoming either employed or unemployed, whilst more men have moved out of the labour market into inactivity. The main shift happened between 1983 and the start of the 1990s recession, with inactivity rates for women falling from 36.1 per cent to 27.9 per cent, with many moving into part-time employment. This fall meant that going into the 1990s recession, inactivity rates for all individuals, at 19.3 per cent (6.73 million), were at their lowest for 30 years. This rate subsequently increased to stand at 20.2 per cent (7.05 million) by the final quarter of the recession – a reflection of fewer jobs being available. Inactivity rates increased for both men and women, with the increase slightly greater for men. Following the recession the inactivity rate continued to increase, reaching a peak of 22.0 per cent (7.68 million) in 1994.

Another key change in inactivity patterns has been the increase, since 1997, for study reasons. This coincides with policies aimed at increasing participation

in higher education, including a large expansion in the number of universities. In 1998 there were 329,000 people starting a degree, which increased by over 100,000 over the next decade. This impact is clear when looking at inactivity rates excluding students as shown in Figure 8. Information on the reason for inactivity is only available consistently from 1993, and so the series excluding students is shown from then.

In 1993, students accounted for around 1 in 5 of all inactive individuals, and around the start of the most recent recession, this had increased to 1 in 4. Therefore, whilst the inactivity rate for all individuals remained fairly constant, the rate once students were removed fell from 18.0 per cent (6.03 million), to 16.6 per cent (5.92 million) in the final quarter before the start of the recession. Over the recent recession inactivity rates for all individuals increased by 0.2 percentage points (144,000), from 20.9 per cent (7.86 million) in the quarter before the recession, to 21.1 per cent (8.01 million) in the final quarter of the recession.

Students are the most important factor in accounting for this increase. During the recent recession the number of inactive for study reasons grew by 224,000. As such, the inactivity rate excluding students actually fell from 16.6 per cent (5.92

million) to 16.3 per cent (5.81 million), reflecting a fall of 113,000. There were also increases in those inactive because of long-term sickness (20,000) and discouraged workers (32,000), with the latter consisting of people who are inactive because they believe there are no jobs available. These increases were offset by a fall in individuals looking after the family or home (39,000), temporary sick (12,000), those retired (22,000) and inactive for other reasons (58,000), resulting in the overall increase of 144,000.

In the first six months of the recovery inactivity rates have increased by 0.4 percentage points (160,000), to stand at 21.5 per cent (8.17 million) in the first quarter of 2010. Again, growing numbers of students account for the majority of the rise (up 105,000). There were also smaller increases across the other reasons for inactivity, except for discouraged workers, which in the immediate recovery fell by 8,000, from 73,000 to 65,000.

Conclusion

With output and expenditure falling in a recession businesses would be expected to react to surplus capacity by reducing their workforces. However, the pass-through from falling GDP to labour market outcomes is not simply predictable, as evidenced by the rather different patterns

between falling GDP and employment over the last three recessions.

The recessions of the early 1980s and early 1990s both predominately resulted from the contraction in monetary policy aimed at bringing down high inflation. In this respect the latest recession has been different, inflation has remained at relatively low levels, at least by historical standards, and monetary policy has been loosened aggressively. Instead, the recent recession reflects the downswing in a credit cycle, where lenders tighten the accessibility of finance and households and businesses look to pay down the indebtedness incurred during the upswing of the cycle.

The evidence on employment, jobs and unemployment all suggest the labour market has been more resilient this time around. Lower interest rates have removed some of the cash-flow constraints on businesses, and lower inflation has made it easier for firms to restrict wage growth without putting too much downward pressure on real wages. The rise in part-time at the expense of full-time jobs also reflects that employment may have been protected somewhat by a greater adjustment in hours worked than in previous downturns.

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