ARTICLE

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Employment in the 2008–2009 recession

SUMMARY

After some 15 years of near continuous job growth, the employment rate in the UK in 2008 stood at around 75 per cent of the working age population, a level which was broadly in line with previous employment peaks observed in 1989, 1978 or 1968. In 2005, the (ILO-based) unemployment rate fell below 5 per cent for the first time since the 1970s. Since then, the UK has experienced the worst recession since World War 2 in terms of output lost and the full effects of this on the labour market may not have yet been felt. However the impact on the labour market so far has been rather surprising given the patterns observed both in previous recessions and the contemporaneous experience of other industrialised countries. This article aims to chart the performance of the labour market through the recession and to explain the surprising patterns that have emerged. It also tries to assess the prospects for the next few years.

Employment in the recession

This recession has seen a GDP fall of over 6 per cent, far worse than in the recessions of the 1990s or 1980s (see **Figure 1**). The recession, with a full six quarters of falling output, was both deeper and longer than the previous two. In the previous two recessions, the percentage fall in employment was broadly in line with the percentage fall in GDP (indeed the employment rate fall was somewhat larger than the percentage decline in GDP in the 1990s – **Figure 1**). Moreover in the previous two recessions, see **Figure 2**, the fall in employment was only halted some 12 to 14 quarters after the onset of recession. This is because typically GDP growth of 2 per cent per annum seems to be needed before employment starts to rise, because small rises in GDP are typically accounted for by productivity growth rather than employment growth. Employment remained below pre-recession levels for 18 months or so after the recovery in jobs has started.

However, the picture for this recession is strikingly different. Whilst the GDP fall has been markedly worse than past recessions, the loss of employment has been rather benign, with a smaller employment fall, amounting to just 2 per cent of the pre-recession workforce, and an earlier flattening of employment loss than in the past (**Figure 2**), limited to 900,000 jobs on the workforce series. This is notable, but could it be misleading?

One potential problem concerns the monitoring of recent migrants, mainly from the group of accession countries in

Eastern Europe, often called the A8. If the numbers of A8 workers in the UK were underestimated in the official employment numbers and A8 migrants returned home in large numbers in response to the recession, this could, conceivably, generate a smaller decline in employment in the official data. The employment numbers in **Figure 1** derive from the Labour Force Survey which surveys households. It is possible that recent migrants living in temporary accommodation on building sites or farms may often be missed. However there are a number of reasons to think immigration is not a major factor here.

The first is that there is an alternative data source which derives employment from employer rolls, the Workforce Jobs series, and this shows a similar pattern to that given by LFS employment data. The second point concerns the data available on migration. Whilst the numbers of new migrants fell back after 2006 and the number of returnees to the A8 countries has risen, the picture to the end of 2009 was of continuing but smaller net in-migration rather than a mass exodus. The third is a question of scale. The number of jobs saved so far relative to what might be expected by the drop in GDP, amounts to just over 1 million (4 per cent of employment). If however 1 million jobs had been lost, but obscured by immigration, the scale of hidden migration would have to have been huge. Moreover the recession would have to be centred on sectors that employ migrants and there is little evidence that this is the case. In short, it is unlikely that mis-

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

measurement of immigration underlies the smaller than expected fall in employment.

So if an estimated 1 million jobs appear to have been preserved, how it has happened? The first point to consider is how widespread across countries this pattern has been and whether it is related to institutional differences across countries. **Table 1** shows that countries like France and Canada have escaped relatively lightly from the recession with around a 3% fall in GDP and a similar rise in unemployment, in line with past norms. Whilst in the US, Spain and Ireland, the rise in unemployment exceeded the fall in output. However there are a large number of countries with smaller than expected employment falls. Many of these countries adopted a deliberate strategy to encourage short-time working rather than lose jobs.

Hence in Germany the government has supported a policy called 'Kurzarbeit', or short-time working. Firms that face a decrease in demand avoid shedding employees by cutting hours instead. If hours and wages are reduced by 10 per cent or more, the government pays 60 per cent of lost salaries. Similar employment subsidy schemes are operating in Italy, the Netherlands and Japan.

The UK is one of a smaller number of countries which have experienced relatively small employment losses without a deliberate government funded strategy of short hours working. Does this mean then that the putative flexible labour market in the UK is helping by creating adjustment in hours or wages instead of jobs? It is important to note that the low employment loss countries are far from obviously

those with flexible labour markets. The US is held to be the prime example of the flexible model and Ireland is also a relative less regulated country. Spain has strong labour protection but also has a large share of temporary jobs, which are weakly protected and have been very vulnerable in the downturn. By contrast Sweden, Italy, Germany and the Netherlands have relatively high employment protection levels. In short, there is no relationship between a countries degree of labour market flexibility and employment losses in this recession.

Hours of work

We can also explore whether adjustment is falling on hours or wages rather than employment. **Figure 3** gives the annual change in employment across the last three recessions (as in Figure 1) and adds the change in total hours worked. It is typical in recessions for total hours to fall faster than employment as overtime working is cut, some workers are placed on short time working and people move into part-time work when they struggle to find full-time jobs. The difference between the fall in total hours and employment then reflects what is happening to average hours. The figure makes clear that hours have fallen in this recession but the picture is less marked than in the last two recessions, especially the 1980s recession when the government did subsidise short time working in many major manufacturing plants. So in the 1990s recession and this one average hours amongst workers have fallen by around 2

Table 1
Percentage change in GDP and unemployment across selected countries, 2008–09 recession

	Q1 2008–Q2 2009 percentage change in GDP	Q1 2008–Q4 2009 percentage point change in unemployment
Countries with small employment fall relative to decline in GDP		
UK	-5.9	2.7
Sweden	-6.1	2.9
Countries with small employment fall relative to GDP and with employment subsidies		
Italy	-6.5	1.8
Germany	-6.3	-0.1
Netherlands	-5.8	1.2
Japan	-7.1	1.3
Countries with similar employment and GDP falls		
France	-3.1	2.4
Countries with larger employment falls than GDP		
US	-3.5	5.0
Spain	-4.3	9.7
Ireland	-9.6	8.2
Countries with little GDP fall		
Australia	1.5	1.5

Source: OECD (2009)

per cent but in the 1980s this peaked at 4 per cent with the policy of short time working.

Figure 4 tracks the long-term trend in part-time working in the UK. Part-time working rose from around 16 per cent of employment in 1980 (excluding students) to 22 per cent in 1995, after which it has been broadly stable. The share of part-time working has risen during this recession, consistent with the fall in hours. However this pattern is not unique to this recession. Similar or sharper rises in the share of part-time work can be found during the last two

recessions, which tend to stabilise when employment recovers to before-recession levels. Since output fell much faster than employment or hours worked, then productivity also fell sharply. This contrasts with the US where productivity levels were maintained by aggressive job cuts. So in contrast again with previous recessions, the lack of jobs being lost in the UK allied to relatively small hours reductions means that productivity has fallen (**Figure 5**).

One explanation for differential employment and productivity performance

in this recession, is that the shock of the recession hit sectors with different capital intensities or productivity differentials by differing amounts across countries. A high productivity, high capital intensity sector subject to a negative shock is likely to experience a sharper fall in output than employment. **Table 2** indicates that, in the UK, the manufacturing sector, once again experienced the sharpest percentage fall in employment over the latest and indeed over previous recessions, (in contrast to the financial sector, the source of the recession). Since high productivity manufacturing experienced the largest employment loss, it is unlikely that the simple shock to a high productivity story explains much of what we have observed in the UK.

Any fall in productivity will put upward pressure on firm costs and reduce demand, other things equal, unless offset by an adjustment of wages. Over the last fifty years, productivity growth has allowed real wages to grow by around 2 per cent a year, on average. Squeezing *real* wage costs during a recession is not as straightforward as it seems, as pointed out by Keynes, since prices also tend to fall during downturns so offsetting any *nominal* wage moderation. Furthermore, wages are a major driver of consumer spending and squeezing the earnings of consumers makes stabilising output harder. **Figure 6** shows the patterns for real wage growth including and excluding the impact of mortgage interest rates and thus aims to capture the growth of real wages from the perspective of firms (excluding mortgage rates) and

Figure 3
Annual percentage change in total actual hours worked¹ and employment,² Q1 1979 to Q1 2010³

United Kingdom
 Percentages, seasonally adjusted

Notes:

- 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.

Source: ONS Labour Force Survey

Figure 4
Part-time share of employment excluding students, 1975 to 2009

Source: Labour Force Survey (authors' calculations)

Figure 5
Productivity¹ levels from the start of the recession for the early 1980s, 1990s and 2008/09 recessions

Notes:

Source: ONS Labour Force Survey and Quarterly National Accounts

1 Output per hour worked.

Table 2
Trends in the nature of work

	Percentage change				
	1979–83	1983–90	1990–93	1993–2007	Q2 2008–Q4 2009
Employment	–7.3	15	–6.3	15.6	–2.9
Manufacturing	–21.5	–5.6	–16.7	–27.8	–9.7
Finance	3.7	45.4	–1.5	51.7	–4.3
Construction	–9.2	35.2	–20.6	18.9	–8.2
Retail, Hospitality	–3.9	20.7	–3.6	12.8	–3.9
Public Admin.	0.0	13.8	1.5	21.9	3.5

Source: ONS Workforce Jobs (authors' calculations)

consumers (including mortgage rates). In all three recessions, both prices and wage growth slowed sharply but in the previous recessions real consumer wages rose quite markedly as prices fell earlier and faster than wages. Real wage costs to producers (excluding the impact of mortgage interest rates) also rose rapidly in the early part of 1980s recession but rather more modestly in the 1990s. Both recessions saw a flat period or slightly falling wage costs for around 2 years after the recession had finished. This time, the dramatic reduction in wage

growth has resulted in real wage cost falls to firms of the order of 1 per cent or so, whilst real consumer wages have continued to grow, maintaining demand. This gap between consumer wage growth and that faced by producers will have been even more marked by the 2 per cent cut in VAT rates. This will have undoubtedly helped firms cope with cash flow and to survive the recession.

To understand what has been happening in preserving jobs through the recession it is worth considering what we know

about firm's workforce strategies. Staff are valuable to firms, they have firm specific knowledge and productive experience, so losing valuable staff knowledge is costly, particularly if it will be needed again in the near future (see Geroski and Gregg, 1997, on the evidence for this over the 1990s recession). So firms will hold labour where possible through a recession preferring to take short term hits on profitability. However, if a firm is in deep financial trouble, such longer term planning is overridden and the firm will instead take emergency measures to cut costs and improve cash flow. This means job cuts, as dramatic wage cuts are difficult to implement quickly. So a large part of the story of employment through the recession is shaped by the extent to which firms are in a battle for survival rather than adjusting to lower demand.

Figure 7 looks at profitability through the latest recession as a guide to the potential for further job shedding. In the 1990s recession profitability was already being squeezed ahead of the recession proper, as interest rates were set high to bear down on inflation. By contrast this time, profits were much higher immediately prior to the recession. This means that the immediate pressure on firms to cut jobs in order to survive was lower. Since then, profitability held up well through the recession and rose as a share of GDP. This is in part due to lower interest rates making financing debt easier; partly due to the fall in the exchange rate, unlike in the 1990s when membership of the ERM precluded devaluation; partly due to falls in real wages and partly due to the maintenance of spending in the economy.

It seems that the explanation of how Britain got away with a smaller fall in employment in 2008–09 is because of firms strong financial position at the start of the recession and the smaller financial squeeze on firms in this recession compared to previous ones. This in turn has been driven by three factors. Firstly, policies aimed at assisting the banking system, cutting interest rates and the large government deficit created a strong stimulus. Secondly, the flexibility of workers in allowing real falls in wage costs to firms, aided by low interest rates which sustained real wage growth for consumers. Finally, firms holding on to valuable labour, whilst facing the pressure on profits and the severity of the financial crisis. However, firms are now, as always, considering their medium term needs for labour. The recession means that firms have under-used labour at the

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.

Figure 7

Net rate of return on capital (profit rate) and Gross Operating Surplus as share of GDP, Q1 1989 to Q1 2010¹

United Kingdom

Percentages, seasonally adjusted

Notes:

Source: ONS Profitability of UK companies and Quarterly National Accounts

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

Figure 8

Working age¹ employment rates by sex, Q1 1971 to Q1 2010²

United Kingdom

Percentages, seasonally adjusted

Notes:

Source: ONS Labour Force Survey

1 Working age includes men aged 16 to 64 and women aged 16 to 59.

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

moment and this will allow growth without extra jobs in the next 18 months or so.

However, if demand continues to be weak then job shedding will continue on a slow but sustained basis. Employment took eight to nine years to get back to before-recession levels after the last two recessions. This time it might be less if a second wave of job shedding is avoided.

Employment across major population groups

The overall picture for employment has been surprisingly good but whilst job shedding has been less common than before, firms have still frozen recruitment and vacancies have become scarcer. This does not involve the loss of experienced staff and so natural wastage is a relatively costless way of reducing staff. This creates acute problems for those trying to enter the labour market, especially for the young where employment falls have been sharp but unemployment has been muted a little by increased numbers staying on in full-time education. Older workers have also seen greater employment falls than most in previous recessions, through widespread use of early retirement or retirement on health grounds. This is notably absent in this recession with little fall in employment among workers over 50 and employment has risen among those over normal retirement age. So the impact of any downturn is likely to vary across sections of the population, industries and parts of the country.

Figure 8 starts by looking at one of the most striking changes in employment over

Figure 9
Working-age¹ employment rate for vulnerable groups,² Q1 2003 to Q1 2010³

Percentages, seasonally adjusted

Notes:

- 1 Working age includes men aged 16 to 64 and women aged 16 to 59.
- 2 United Kingdom, except for deprived areas series which is for Great Britain.
- 3 The shaded areas on the graph represent consecutive quarters of negative GDP growth
- 4 Deprived areas cover the 1250 most deprived wards in Great Britain.
- 5 Lone parents are people of working age caring for a dependent child (a child aged under 16 and those aged 16 to 18 who are never married and in full-time education), who do not have a partner that is a member of the same household.
- 6 Ethnic minorities are those who classify themselves to an ethnic background that is non-white.
- 7 The lowest qualified are those who have not obtained a minimum of a C grade at GCSE or equivalent.
- 8 Disabled includes people who are DDA disabled only and people who are both DDA disabled and work-limiting disabled.

Source: ONS Labour Force Survey

Figure 10
Workforce Jobs levels¹ from the start of the 2008/09 recession by major industrial groups²

United Kingdom

Workforce Jobs index, seasonally adjusted (Q1 2008 = 100)

Notes:

- 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 Based on the 2003 Standard Industrial Classification (SIC).

Source: ONS Workforce Jobs

the last thirty years. Employment pattern by gender have profoundly shifted with male employment rates falling sharply during and just after recessions and failing to get back to previous levels in the following recovery. So in the 1970s over 90 per cent of men were in work, the recovery after the 1980s recession saw a peak of 83 per cent and after the 1990s recession 79 per cent. Whilst in contrast female employment rates have fallen little in recessions and grown strongly in the following recoveries. An

employment gap of 35 percentage points in the mid-1970s is now just 6 percentage points, with once again the recession hitting men harder. It is highly likely that employment rates by gender will equalise in the recovery that hopefully follows this recession.

This recession has also shown substantial variation in its impacts across groups with low employment rates, who are often considered vulnerable to downturns. The most deprived wards in the UK and the

lowest educated have seen much larger falls in employment through the recession. Employment of the lowest educated had stabilised at 60 per cent through the long period of growth prior to the recession but has fallen by 4 percentage points, almost double the national average, in the recession. Employment in the most deprived wards has also fallen by twice the national average. But employment rates for ethnic minorities have fallen in line with the national trend, they suffered far more

Figure 11

Workforce Jobs levels¹ from the start of the 2008/09 recession by major service sector industrial groups²

United Kingdom

Workforce Jobs index, seasonally adjusted (Q1 2008 = 100)

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 Based on the 2003 Standard Industrial Classification (SIC).

in past recessions, and for lone parents and those with long-term limiting illnesses or disabilities employment rates have been broadly stable (see **Figure 9**).

An alternative way of exploring variation in the impact of the recession is by industry. **Figure 10** shows employment indexed for the beginning of the recession and tracked across major industry groupings. It shows clearly how manufacturing and construction have been hardest hit with 8 to 10 per cent of employment lost compared to services at under 2 per cent. However, the picture within the large service sector shows considerable variation (**Figure 11**) with mainly public services of education, health and administration showing 4 per cent employment growth whilst the large finance, transport and retail sectors all showing around 4 per cent job losses. These are still well below construction and manufacturing as proportionate declines but they account for most of the total jobs lost.

Conclusion

This recession has been remarkable for its depth and duration but also for the relatively low loss of employment, at least so far. The relatively low levels of redundancies seem to reflect a combination of three saving influences. First, employers entered the recession in good financial shape and this has helped avoid the same level of crisis job shedding that occurs when firms get into deep financial trouble. Further, employers have not used early retirement and the like as a form of easier job shedding. Second, the rapid reduction in interest rates, rescuing the banks and the fiscal stimulus from the government have helped maintain firms cash flow and avoid a more serious employment meltdown. Third, workers accepted nominal wage moderation very early in this recession, compensated by lower overall levels of unemployment and higher average chances of returning to work, even though this may entail a part-time job and lower wages. To

put it bluntly the system as a whole has worked well. The cost has been huge on the public finances and in terms of productivity which will be hitting cost competitiveness looking forward. Whether this good news will be fully sustained in the next phase where the recession hits the public sector and employers assess their longer term employment needs for the recovery, is less than clear.

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