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Northern Ireland's Economy and Labour Market

NIAR 557-2012

This paper provides a discussion of the Northern Ireland Economy and Labour Market. It includes consideration of economic growth, employment and unemployment and levels of economic activity.

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Key Points

- The labour market is an essential part of a nation's economy with two-thirds of GDP in the UK made up by the nations wage bill;
- During the early 20th Century Northern Ireland's economy was focused on a few business sectors – farming; linen and other textiles; and shipbuilding. As a result, its economy was not strong and missed out on several technological advances;
- Despite a high rate of growth after World War 2, Northern Ireland's economy suffered a setback following the 1970s oil crisis and the onset of the Troubles;
- NI's GDP and GVA have failed to converge with the UK average for over 90 years, with a significant gap developing;
- Since 2000 NI's GVA has been one of the lowest for the UK regions. One of the potential causes of this is NI's historically low level of productivity, which again shows little sign of convergence with the UK;
- Northern Ireland's Index of Production has met and exceeded in 2011 that of the UK, although this may be a result of the economic downturn that has affected the UK in general;
- Analysis of the NI Index of Services finds that this has fallen alongside the UK average, although since Q3 2009 the UK figure has begun to recover whilst the NI services have continued to decline;
- Alongside this, NI's unemployment rate has risen sharply in the last few years, although this is to be expected in the current economic situation, with the UK as a whole seeing a similar rise;
- Manufacturing has seen one of the biggest falls in employment in NI, with the sector employing 18.67% of the workforce in 1995 but only 10.71% in 2009;
- Manufacturing in general across the UK has been falling for a variety of reasons including the un-competitiveness of UK products in world markets and the increase in real income (income measured in terms of how much it can buy);
- Northern Ireland has a high level of economic inactivity in comparison to other UK regions, with 553,000 people economically inactive in March-May 2012;
- The Labour Market Bulletin 23 provided results for April to June 2010 and found that 517,960 people did not want to work, although the vast majority of this group was made up of those who were retired or were sick or disabled;
- 44,000 of those who were economically inactive stated they wanted work but were not looking for it;
- NI employee wages per hour are the lowest in the UK at a median figure of £11.29. The next highest is the North East at £11.41;

- Reasons for this lower level of wages include attraction of FDI industries that pay below the NI average wage and high wage differentials between the public and private sectors;
- Northern Ireland's labour market and its economy lag behind that of the UK as a whole and even when consideration is made of the distortion effect created by London and the South East of England and their large levels of industry, NI still does not match up to the UK average;
- Despite large gains made over the last decade NI is beginning to lose ground as a result of the ongoing recession. Although the Bank of England is predicting the UK will exit the recession in the 3rd quarter of 2012, predictions suggest NI's labour market will not begin to recover until the 2nd quarter of 2013, barring any other shocks to the economic system.

Executive Summary

Introduction

This paper provides a brief introduction to Labour Market economics and provides data on the current state of Northern Ireland's (NI) labour market (including on levels of employment, unemployment and economic inactivity).

Labour Market Economics

The Labour Market is an essential part of any nation's economy. In the UK:

> *Roughly two-thirds of…gross domestic product is accounted for by the nation's wage bill This fact alone means that the functioning of the labour market has enormous implications , both for its citizens' welfare and for the performance of the whole economy.*[1]

Demand and supply play a key role in the workings of the labour market (as with any market), although a multitude of other factors must be taken into consideration to create a clear picture of labour market workings. Workers, employers, trade unions and governments are but a few of the groups who have an interest in and an influence on, how the labour market operates.

The Northern Ireland Economy

During the early 20th Century, Northern Ireland's economy was focused on a few, narrow sectors (farming, linen and other textiles and shipbuilding). Birnie and Hitchens point out that during the early half of the century Northern Ireland was not strong economically

With the onset of the Oil Crisis in 1973, which saw a rapid rise in the oil price, NI's industries were badly hit, with energy and raw materials costs rising.   In addition, the early 1970's marked the beginning of the 'Troubles'.

For the period 1926 – 2010, NI's GDP and GVA have been significantly lower than the UK average and when considered against other UK regions it is still one of the lowest.

The Independent Review of Economic Policy found that NI's Productivity also lagged behind the UK average, and as a result NI wages were also lower than the UK average.

[1] Sawyer, M (edt.) The UK Economy, 16th Edition, Green, F Employment, wages and unemployment

Northern Ireland's Labour Market

The working age population for NI has risen steadily in line with general population trends since 1993. In 2010 the 16-64 age bracket made up 64% of the total population.

A large rise in employment occurred between 2006 and 2007 (from 763,000 to 792,000) with an even larger fall occurring between 2008 and 2009 (from 799,000 to 745,000). This occurs at around the same time the financial crisis began in 2007 and started to bite into employment across Europe and the UK.

The HM Treasury document "Rebalancing the Northern Ireland Economy" states that:

> *Over the past ten years, employment in Northern Ireland increased by 8.2 per cent compared to 1.4 per cent for the UK as a whole. This has been founded on low wages, generous investment grants, and to some extent post-Troubles normalisation.*

It goes on to state that:

> *Some aspects of the growth, including the recent retail and construction booms, are not sustainable.*

Employment in Northern Ireland's Main Industrial and Business Sectors

A number of industries have had some growth in employees between 1995-2009, with Real Estate and Business Activities showing a significant rise in its number of employees in the 1990s and into the early 2000s. However, when the housing market bubble burst, this sector lost 7,965 employee jobs between 2007 and 2009.

Manufacturing, one of the largest percentage employers in NI in 1995 had a massive drop in employment, going from 18.67% (1995) to 10.71% (2009). This is a drop of 29,687 employees (from 103,968 to 74,281).

The largest number of job losses occurred in the Services sector (which in Q1 2009 had 577,490 employees) with 11,250 jobs lost over the three year period. Not surprisingly, all industries lost 22,840 employees over the last three years.

Economic Activity and Inactivity

People aged 16 and over who are not in employment and are not unemployed according to the International Labour Organisations (ILO) definition are classified as economically inactive.

The economically active make up the majority of the NI working age population, although it should be noted that in 2012, the economically inactive consisted of 553,000 people in comparison to 862,000 active individuals.

Of the UK regions, NI has the highest rate of economic inactivity in 2012 at 27.3%, with the East region the lowest with 19.6%.

Rogers (2004) stated that:

> *…inactivity rates have remained almost constant through all the economic and labour market changes of the past 20 years. Although it could be argued that this stability is more apparent than real given the change in the nature and composition of inactivity, it is difficult to foresee any sharp reductions in levels of inactivity as things stand at present.*[2]

For the period 2004-2010 there is a limited level of variation amongst the rates, with economic activity ranging from 57% to 60% and inactivity ranging from 38% to 42%.

Northern Ireland Employee Wages

Northern Ireland full time hourly pay lags behind the UK median by a significant amount. Indeed in 2011, the NI hourly median FT wage was £11.29 an hour whilst for the UK it was £12.71.

Reasons for NIs lower wage rates include:

- Attraction of FDI industries that pay below the NI average wage;[3]
- High wage differentials between the public and private sector;[4] and
- Private sector businesses can only afford to pay what their margins allow.[5]

The Future of the NI Labour Market

NI's labour market is currently undergoing a period of decline, with the financial difficulties which started in 2007, the ensuing recession and the current double dip recession taking a toll on the economy and the labour market.

There are currently limited signs of a recovery.

Northern Ireland is expected to remain in recession, with negative growth for 2012 (-0.4%) and growth of 1.1% in 2013 currently being predicted (although this is a best case scenario).

However, it is not all doom and gloom – the Bank of England expects the UK to return to growth in the latter half of 2012[6] with output increasing from Q3 2012.

[2] DEL, Labour Market Bulletin 18, Rogers, D Economic Inactivity http://www.delni.gov.uk/lmb-2004.pdf
[3] HM Treasury , 2011 Rebalancing the NI Economy http://www.hm-treasury.gov.uk/consult_rebalancing_ni_economy.htm
[4] This is a very broad area, please see (DFP paper) at: http://tinyurl.com/bsl5844 for a concise and comprehensive discussion of the key issues
[5] Ulster Business Week, Magill, M (Oxford Economics), An honest wage? http://www.ulsterbusiness.com/articles/2012/02/08/an-honest-wage
[6] Bank of Ireland, Overview of the Inflation Report, August 2012

With employment recovery normally lagging behind output recovery by three quarters and peak employment only attained after another two quarters[7] it could be expected that (with the BoE's projections holding true) resurgence in the labour market in the UK would occur in Q2 of 2013.

The PWC Economic Outlook report found that the recovery here may not be as robust as that of the UK, with the construction industry facing poorer prospects, manufacturing output growth rates (as seen above) in decline, service sector output falling and employment gains offset by greater setbacks. In addition:

> *NI has so far lagged the rest of the UK (especially English local government) in terms of the pace of public spending cuts, which may dampen growth next year when the cuts impact further.*[8]

[7] International Monetary Fund, World Economic Growth April 2010 http://www.imf.org/external/pubs/ft/weo/2010/01/pdf/text.pdf

[8] PWC August 2012 Northern Ireland Economic Outlook

Contents

1 Introduction

This paper provides a brief introduction to Labour Market economics and provides data on the current state of Northern Ireland's (NI) labour market (including on levels of employment, unemployment and economic inactivity).

Please note, this paper has a companion paper – NIAR 556-2012 – which provides a comparison of NI key economic and labour statistics with European Union Member Nations and Regions.

In order to discuss the NI labour market it is necessary to provide a brief summary of the main features of a labour market and consider the Northern Ireland economy itself.

2 Labour Market Economics

The Labour Market is an essential part of any nation's economy. In the UK:

> *Roughly two-thirds of…gross domestic product is accounted for by the nation's wage bill This fact alone means that the functioning of the labour market has enormous implications , both for its citizens' welfare and for the performance of the whole economy.*[9]

Demand and supply play a key role in the workings of the labour market (as with any market), although a multitude of other factors must be taken into consideration to create a clear picture of labour market workings. Workers, employers, trade unions and governments are but a few of the groups who have an interest in and an influence on, how the labour market operates.

In addition, the labour market cannot be considered in isolation from the wider economy. Like other aspects of a country's economy a change in one part of the economy can impact on another, no matter how unrelated they appear to be.

This paper will discuss a number of the influencing factors on the labour market such as NI's Gross Value Added (GVA), the index of production, economic activity and unemployment. It should be noted that as mentioned above a number of other factors can have a significant impact, such as the skills and qualifications of the indigenous workforce, the amount of Foreign Direct Investment (FDI) attracted to the region and extraneous economic and social factors (for example the ongoing Eurozone debt crisis and the slowdown of growth in Asian economies). These factors are not discussed in this paper as they would easily fill a textbook.

Initially, it is necessary to discuss the NI economy itself, with Section 3 including a brief consideration of the historical factors that have shaped the NI economy and labour market.

[9] Sawyer, M (edt.) The UK Economy, 16th Edition, Green, F Employment, wages and unemployment

3 The Northern Ireland Economy

During the early 20th Century, Northern Ireland's economy was focused on a few, narrow sectors (farming, linen and other textiles and shipbuilding). Birnie and Hitchens point out that during the early half of the century Northern Ireland was not strong economically:

> *It did not go through the 'second industrial revolution' (i.e. electrical engineering and chemicals from the 1880's onwards) and would in turn miss out on most of the third one which began in the post-Great Depression 1930s recovery, e.g. the development of cars and consumer goods manufacturing.*[10]

During the 1920s and 1930s, demand for NI's main exports fell, with the situation exacerbated by the large increase in the global capacity to supply these products as a result of massive expansion during World War 1.[11]

With the outbreak of World War 2 Northern Ireland saw a growth in its indigenous industries, with its GDP per capita rising from 55% of the UK average in 1938 to 67% in 1945.

With the post war boom, this growth continued, with inward investment resulting in NI producing a third of the UK output in man-made fibres. By the early 1970's, GDP per capita had risen again to around 75% of the UK average.

However, this was not to last. With the onset of the Oil Crisis in 1973, which saw a rapid rise in the oil price, NI's production of man-made fibres was badly hit, with energy and raw materials costs rising.[12]

In addition, the early 1970's marked the beginning of the 'Troubles'. Birnie and Hitchens (1999) found that this not only had a negative impact on foreign direct investment, local investment, tourism and labour mobility but cost the economy between 25,000 - 40,000 jobs.[13]

The figure below reproduces data published by Birnie and Hitchens regarding NI's GDP per capita.[14] GDP per capita provides a measure of a country's GDP per person and acts as a useful measure for comparison purposes. UK GDP per capita is used as a comparison point.

[10] Birnie, E and Hitchens, D 1999 Northern Ireland Economy: Performance, Prospects and Policy
[11] Ibid
[12] Ibid
[13] Ibid
[14] GDP per capita and GVA per capita are the accepted international measure of living standards and economic success

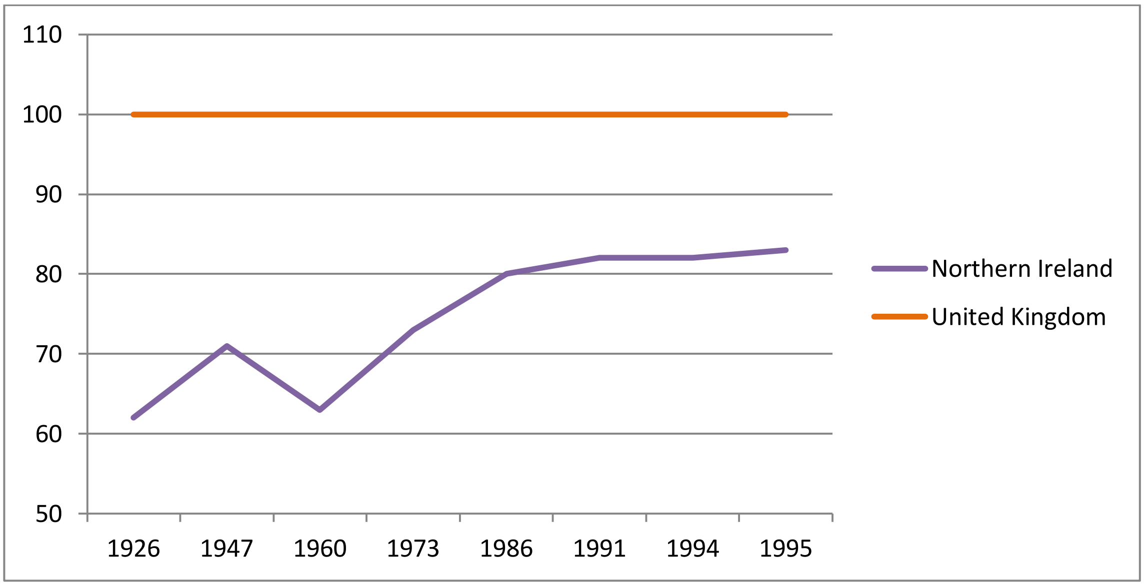

Figure 1: GDP per capita in Northern Ireland 1926-1995 (UK=100)[15]

As can be seen, NI'S GDP per capita is significantly lower than the UK's, although from the mid-1960s there is a sharp increase in growth, with this trend continuing right up to the mid-1990s. Indeed, NI GDP per capita grew from a low of 63% to a high of 83% of the UK average from 1960 – 1995. However, this trend was not to continue.

Figure 2 below provides a year on year comparison of GVA per capita from 2007-2010.

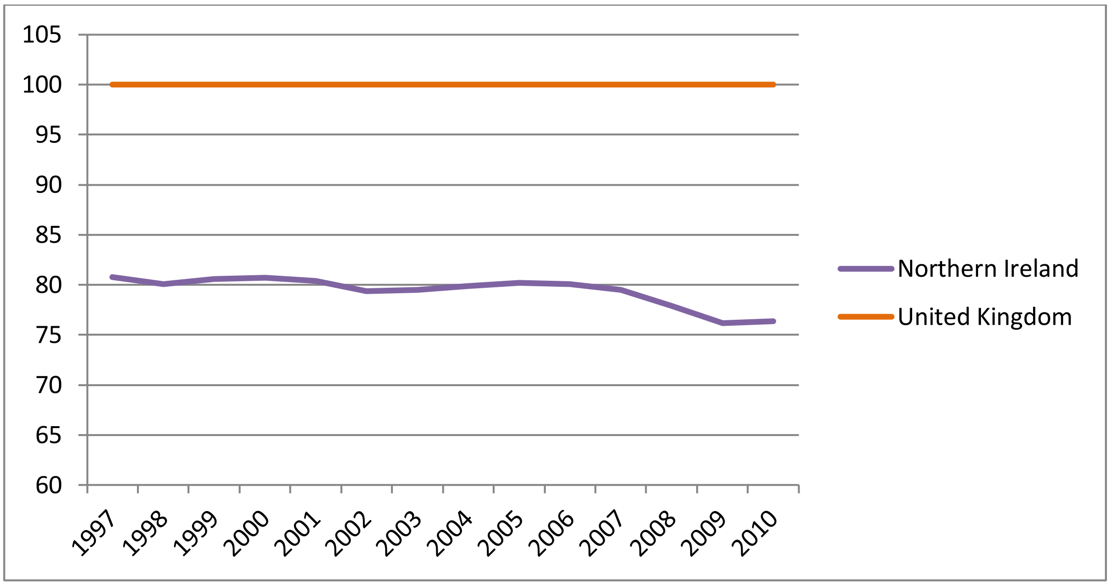

Figure 2: Northern Ireland GVA per capita 1997-2010[16] (UK=100)

Birnie and Hitchens, when discussing NI's GDP per capita in the 1990s, found that the:

[15] Birnie, E and Hitchens, D 1999 Northern Ireland Economy: Performance, Prospects and Policy

[16] ONS, GVA per head indices at current basic prices http://www.ons.gov.uk/ons/rel/regional-accounts/regional-gross-value-added--income-approach-/december-2010/rft-nuts2.xls

> *…data implies that part of the explanation for the comparatively low level of GDP per capita in NI is that the proportion of the population in work lies below the UK average.*[17]

This is discussed later in this paper (Section 6) when considering economic activity and inactivity.

It should be noted that Figure 1 uses GDP per capita and Figure 2 GVA per capita.

GVA was adopted as the regional measure in 1995 as it measures the contribution to the economy of each individual producer, industry or sector in a region or country and therefore produces a more accurate figure for regions. GDP is defined as the value of all goods and services produced less the value of any goods or services used in their creation and therefore is a measure of the entire economy rather than a part of it as with GVA.[18] Effectively: GVA + taxes on products - subsidies on products = GDP.

In 1997, GVA per capita had fallen to 80.8% with the general trend from this point on being a relatively steady fall, although this decline has been exacerbated by the financial crisis in 2007. The impact of the recession can be seen fairly clearly from 2007 on, with a drop in GVA from 80.1% in 2006 to a low of 76.2% in 2009.

In order to assess NI's progress it is necessary to compare its GVA to the other UK countries and regions. As with Figure 2, the UK indices will be held at a steady state of 100 for comparison purposes.

Figure 3 highlights the impact that London has on the UK economy. Their highest GVA index is 173% in 2009. Northern Ireland has a figure of 76.2% in this period. London's GVA is 97 percentage points higher than NI's. This reflects the concentration of industries (including high income financial services based in the City of London) in London.

[17] Birnie, E and Hitchens, D 1999 Northern Ireland Economy: Performance, Prospects and Policy
[18] ONS, The relationship between Gross Value Added (GVA) and Gross Domestic Product (GDP) http://www.ons.gov.uk/ons/guide-method/method-quality/specific/economy/national-accounts/gva/gross-value-added-and-gross-domestic-product.html

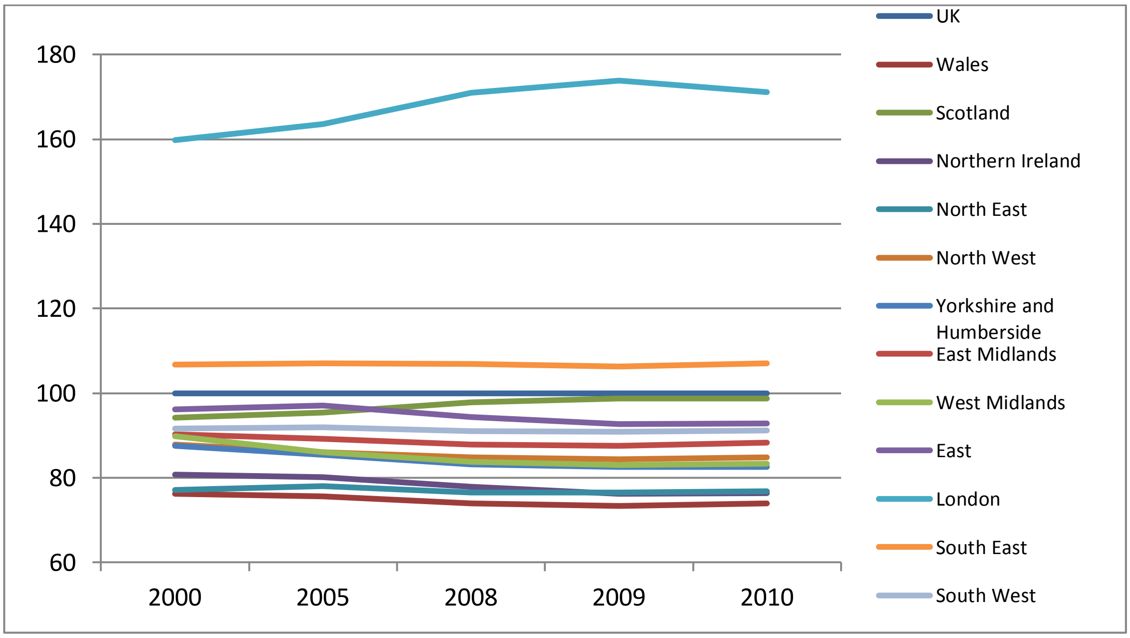

Figure 3: UK Regions GVA[19] UK=100

Figure 4 below removes London in order to provide a closer examination of the other UK regions. Please note, all other Indices remain the same and no changes have been made to the data in order to take London's removal from the figure into consideration. As such this Figure is for illustrative purposes only.

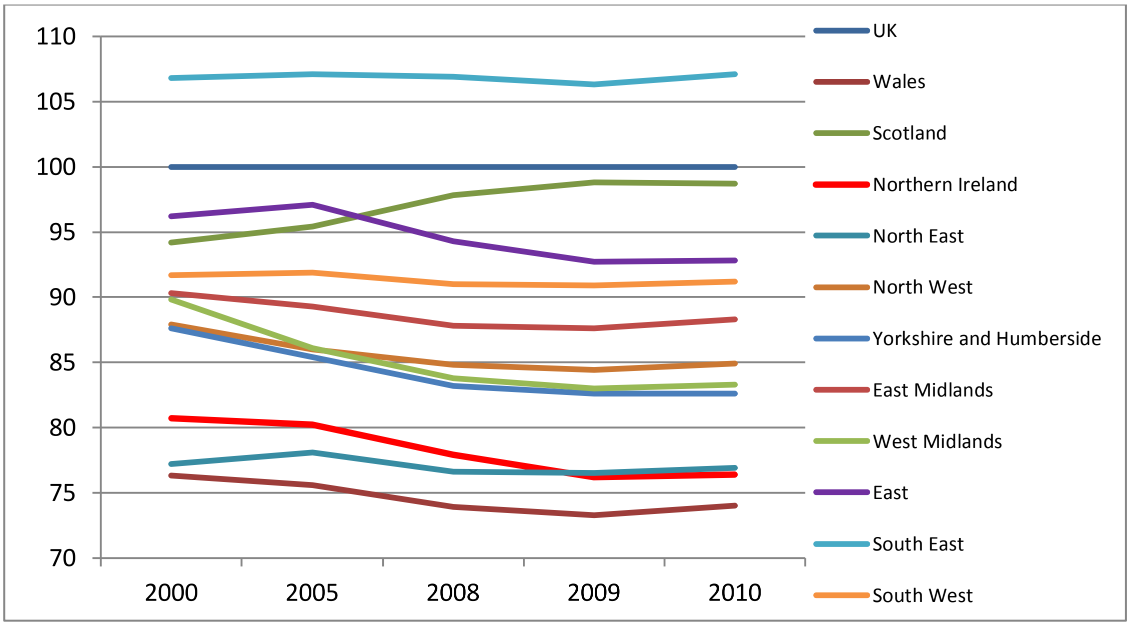

Figure 4: UK Regions GVA, less London[20] UK=100

[19] Office of National Statistics, Workplace Gross Value Added per head at basic prices, www.ons.gov.uk/.../regional-profiles---economy--may-2012.xls

[20] Ibid

With London removed, it can be seen that Northern Ireland has, for the ten year period shown, a consistently lower level of GVA than most of the other UK regions. Indeed, Northern Ireland, the North East and Wales all have consistently the lowest GVAs.

In addition, there is a significant gap between NI and the next highest GVA region, the West Midlands – at its lowest this gap is 5.9 percentage points and at its highest 9.1 percentage points.

In order to assess why NI's GVA is lower than the majority of UK regions, it is necessary to consider its productivity. As stated by the OECD productivity:

> *…measures how efficiently production inputs, such as labour and capital, are being used in an economy to produce a given level of output. Productivity is considered a key source of economic growth and competitiveness and, as such, is basic statistical information for many international comparisons and country performance assessments.*[21]

The Independent Review of Economic Policy (IREP) provided a graph showing NI's productivity.[22] As with Figures 1 and 2, the UK=100.

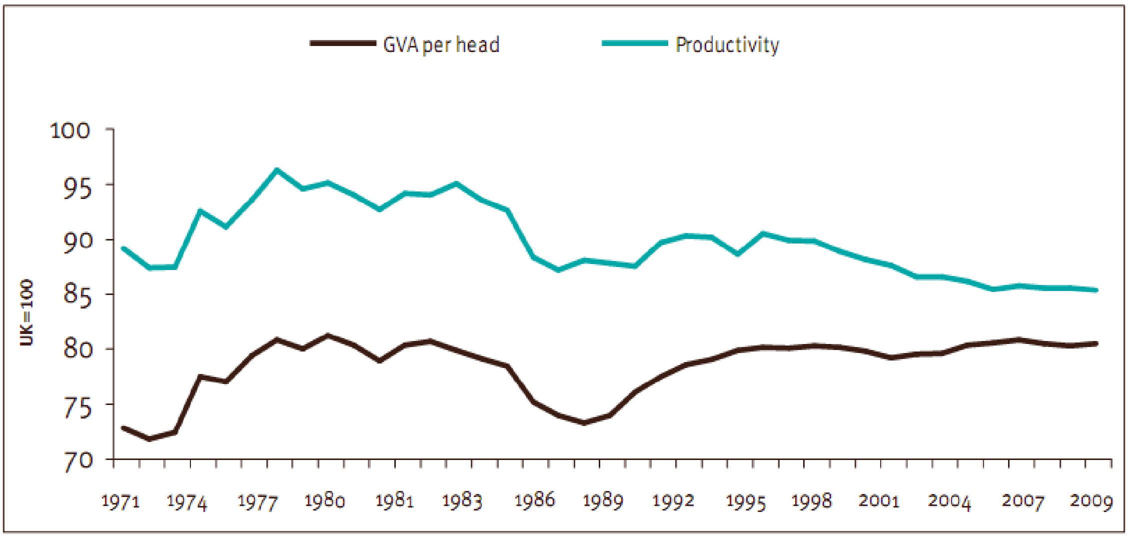

Figure 5: NI's Productivity (Relative to UK average)[23]

The IREP found that:[24]

- The long standing 'productivity gap' has shown little sign of convergence with the UK;
- Labour productivity has weakened since 1997 and the gap has widened;
- Since wages tend to reflect productivity, average wages in NI are also well below the rest of the UK (see Section 7 for further information on this);

[21] OECD, Defining and Measuring Productivity http://www.oecd.org/std/productivitystatistics/40526851.pdf
[22] Barnett R, September 2009, Independent Review of Economic Policy
[23] Barnett R, September 2009, Independent Review of Economic Policy – Productivity is measured by GVA per employee
[24] Ibid

- The productivity gap reflects both lower individual sectoral productivity compared to the UK average and also an over-representation in NI of low productivity sectors.

Figure 6 following provides a more detailed Index of Production (IOP) for NI and the UK since 2002.[25] The IOP provides information on the output of the Production Industries, Manufacturing Industries, Manufacturing Productivity and Market Trends. For the Production Industries equivalent UK figures are provided for comparison.[26]

As can be seen NI's IOP increased up until Q3 2008, well into the financial crisis. However, this is followed by a sharp fall and a somewhat bumpy recovery. By Q1 2012, annual growth had reached 2.2%.

Importantly, NI's IOP matched, and exceeded that of the UK in early 2008. It should be noted that this may be a result of the UK's Production falling as a whole due to the recession rather than an increase in NI production.

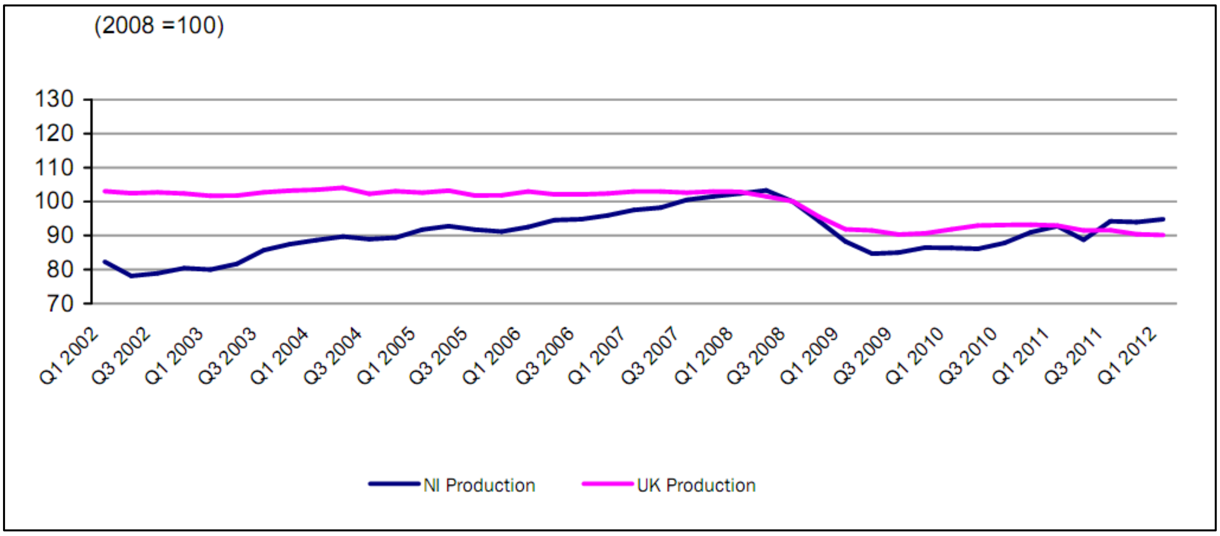

Figure 6: Index of Production in NI and the UK 2002 - 2012

The Northern Ireland Index of Services (NIIS) is designed to provide a general measure of changes in the output of the private sector service industries in Northern Ireland. In 2008 these private sector service industries accounted for 64% of regional Gross Value Added (GVA).

The Index of Services covers the following business sectors:

- Wholesale, retail, repair, accommodation and food service;
- Transport, storage, information and communication;
- Business services and finance; and
- Other services (includes education, arts, entertainment and health).

[25] Department of Enterprise, Trade and Investment, Index of Production Statistical Bulletin Q1 2012 http://www.detini.gov.uk/iop_q1_2012_statistical_bulletin.pdf

[26] DETI, The Northern Ireland Index of Production http://www.detini.gov.uk/deti-stats-index/stats-surveys/stats-index-of-production.htm

Figure 7 following provides a comparison of NI and UK services since 2002.

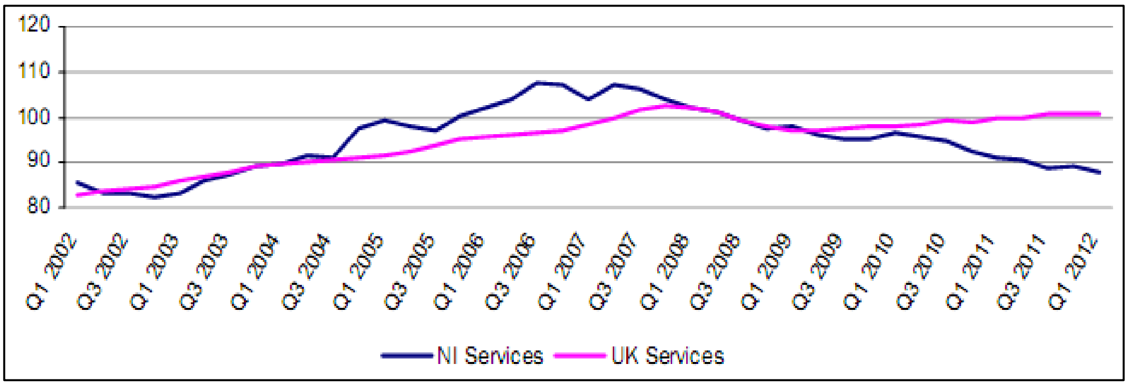

Figure 7: Index of NI and UK Services 2002-2012[27]

As stated in DFP's Index of Services bulletin for Quarter 1 2012:

> *Provisional results from the Index of Services for the first quarter of 2012 show that output in NI fell by 1.6% over the quarter, compared with an increase of 0.1% reported in the UK as a whole. This is the seventh period of decline reported by the Northern Ireland Index in the past eight quarters, whilst the UK have experienced only two periods of decline in the same time period.*[28]

The decline in the NI Service industry began before that of the UK, with the first shock occurring between Q3 2006 and Q1 2007. A brief recovery followed but since Q3 2007 NI has had a declining Service industry.

The most recent Purchasing Managers Index (PMI) produced by Ulster Bank shows that for the month of July there was slow down in the fall in private sector business activity. Whilst still a fall this may be signal a potential return to growth, although this will only become apparent in the weeks and months ahead.[29]

GVA and productivity all have an impact on the labour market of a nation both effecting and reflecting changes within it. The next section of the paper will discuss NI's labour market in detail, providing an overview of its main trends over the last two decades and the impact the recession has had on it over the last five years.

4 Northern Ireland's Labour Market

The following section of the paper provides detailed figures and tables on key statistics for Northern Ireland.

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[27] Department of Finance and Personnel, Statistics Bulletin 18 July 2012, Northern Ireland Index of Services – Quarter 1 2012 http://www.detini.gov.uk/ios_q1_2012_statistical_bulletin_-_dfp.pdf

[28] Ibid

[29] Ulster Bank,13 August 2012 Northern Ireland PMI http://www.ulsterbankcapitalmarkets.com/Handlers/docstream.ashx?doc_id=1936

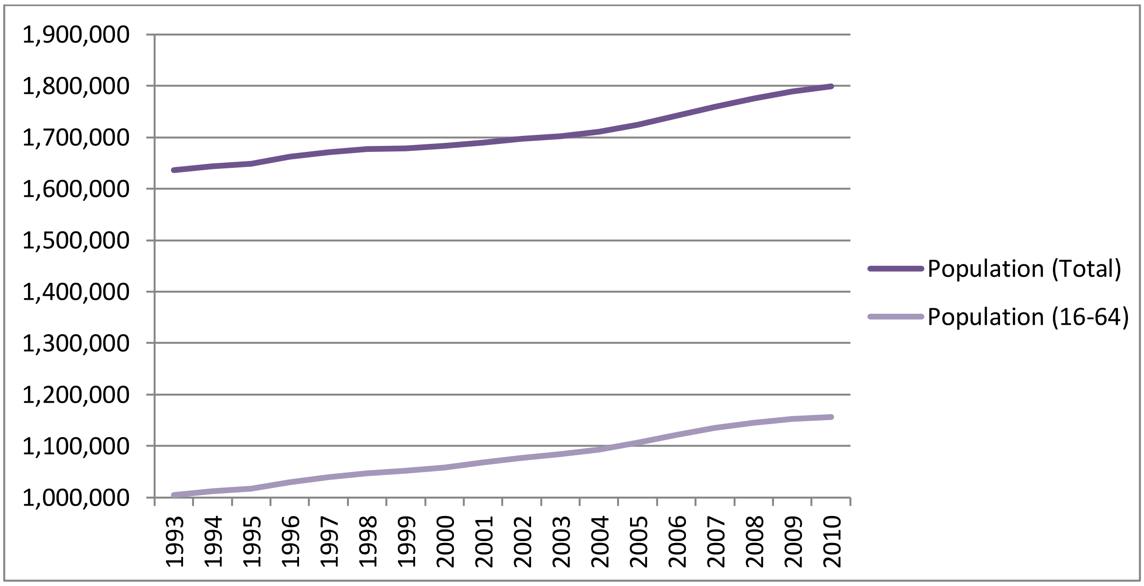

Figure 8: Northern Ireland total population and working age population (1993-2010)[30]

The figure above details the total population of Northern Ireland against the working age population (16-64). As can be seen the working age population for NI has increased steadily in line with general population trends since 1993. In 2010 the 16-64 age bracket made up 64% of the total population.

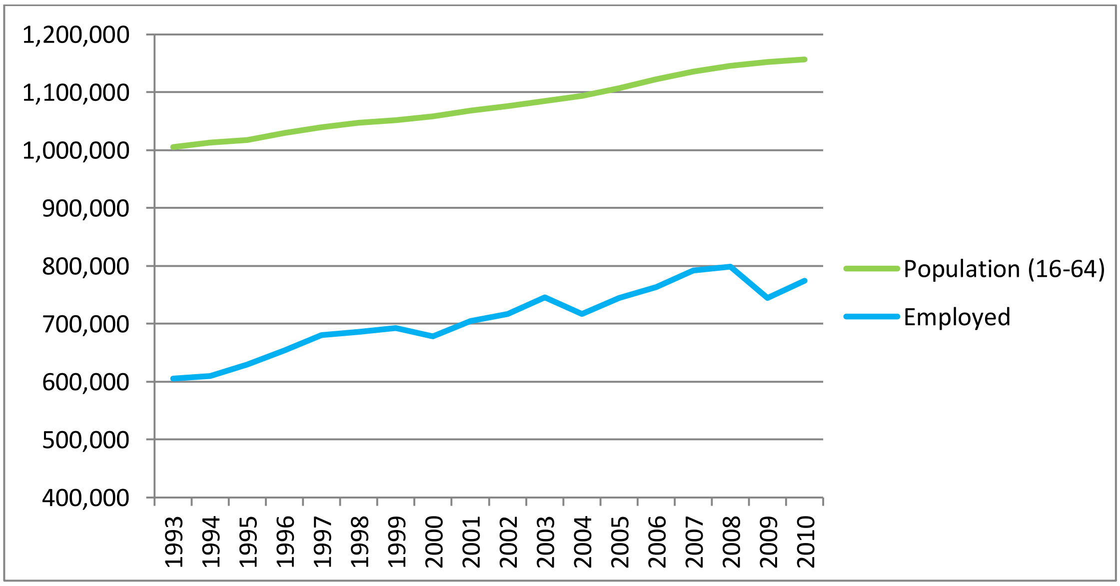

Figure 9: Working age population and employment (1993-2010)[31]

Figure 9 compares the working age population with the number of individuals employed. Whilst the population figure grows relatively steadily, the employed line fluctuates often, with a number of peaks and troughs throughout the seventeen year period. A large rise in employment occurs between 2006 and 2007 (from 763,000 to

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[30] ONS, Beaumont, J Social Trends 41, Population

[31] ONS, Beaumont, J Social Trends 41, Population and DETI, Labour Force Survey Key Data Historical Series http://www.detini.gov.uk/deti-stats-index/stats-surveys.htm

792,000) with an even larger fall occurring between 2008 and 2009 (from 799,000 to 745,000). This occurs at around the same time the financial crisis which began in 2007 began to bite into employment across Europe and the UK.

Figure 10 below display's the unemployment rate for Northern Ireland for 1993 – 2012 for the period March to May in each year.

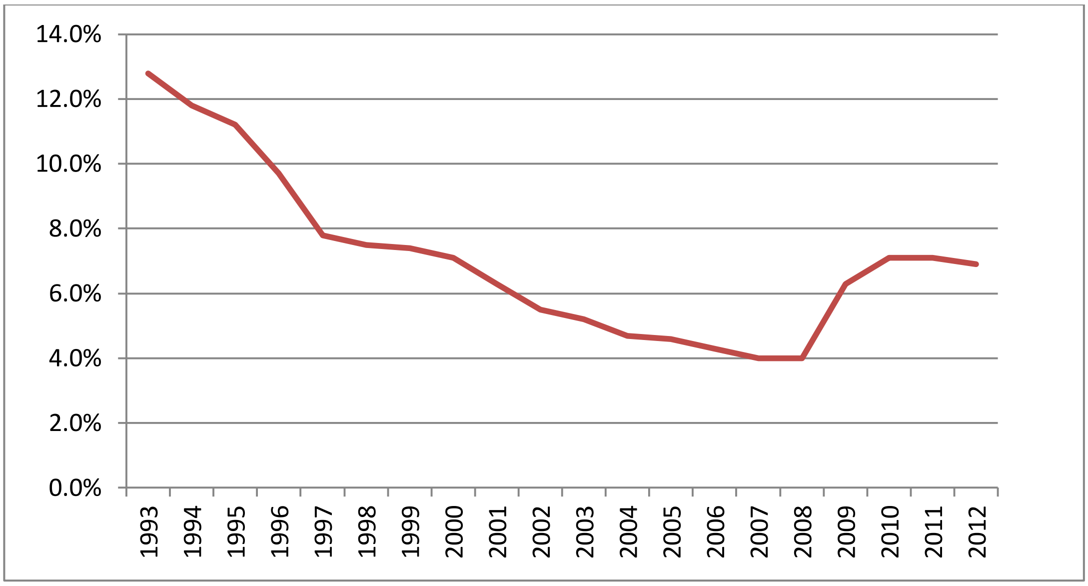

Figure 10: Northern Ireland Unemployment Rate 1993-2012[32] (March to May)

Figure 10 reflects the drop in employment seen in Figure 9. Throughout the 1990's unemployment drops consistently, going from a high of 12.8% in 1993 to a low of 4% in 2007. Following the onset of the recession and the subsequent difficulties in a number of NI's industries, unemployment began to rise, reaching 7.1% in 2010.

In 2012 the unemployment rate drops slightly to 6.9%.

The UK has gone back into recession at the start of 2012 (creating a "double dip" recession) and there is little sign of a return to growth at the time of writing - the most recently published economic data shows that the recession had deepened and UK manufacturing figures (the Purchasing Managers Index) published on the 1st August 2012 were down significantly, weakening hopes that the UK would return to growth in the third quarter of 2012.[33]

This will, inevitably, have an impact on the Northern Ireland economy and the region's labour market, with the downturn likely to continue, the PWC Economic Outlook suggests that the NI Claimant Count will continue to rise into 2013.[34]

It should be noted that the HM Treasury document "Rebalancing the Northern Ireland Economy" states that:

32 DETI, Labour Force Survey Key Data Historical Series http://www.detini.gov.uk/deti-stats-index/stats-surveys.htm
33 The Guardian, UK manufacturing figures deal hammer blow to recovery hopes, 01 August 2012, http://www.guardian.co.uk/business/2012/aug/01/uk-manufacturing-figures-blow-to-recovery
34 PWC Northern Ireland Economic Outlook August 2012

Over the past ten years, employment in Northern Ireland increased by 8.2 per cent compared to 1.4 per cent for the UK as a whole. This has been founded on low wages, generous investment grants, and to some extent post-Troubles normalisation.[35]

It goes on to state that:

Some aspects of the growth, including the recent retail and construction booms, are not sustainable.

This has been the case in NI, with these industries having gone into decline over the last five years. Indeed, the decline in the construction industry across the UK has been one of the main contributors to the double dip recession. For NI, construction has seen workloads and employment fall over the last two quarters, with both expected to fall in the next twelve months.[36]

The Figure below details the workloads[37] for the UK regions in construction.

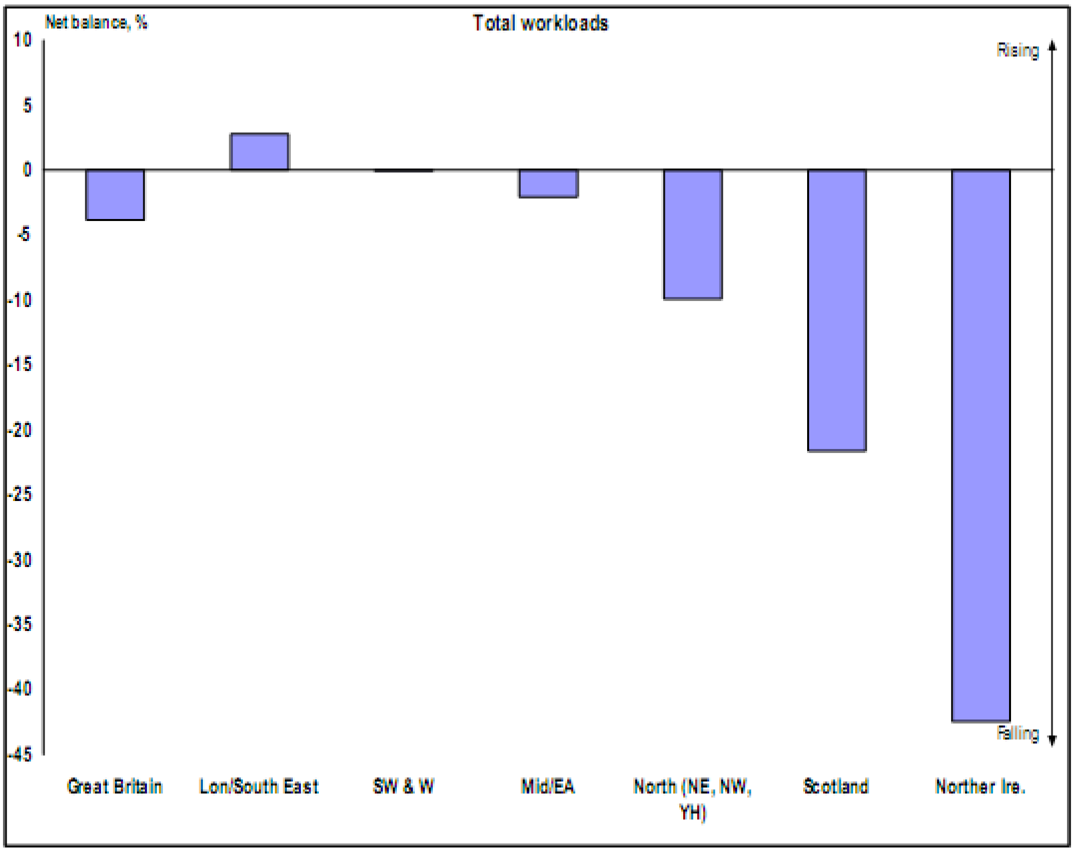

Figure 11: Regional total workloads

[35]HM Treasury, March 2011 Rebalancing the Northern Ireland Economy http://www.hm-treasury.gov.uk/d/rebalancing_the_northern_ireland_economy_consultation.pdf

[36] RICS, UK Construction Market Survey Q2 2012 http://www.rics.org/site/download_feed.aspx?fileID=12231&fileExtension=PDF

[37] Workloads are sourced via a survey of Quantity Surveyors who tend to see construction work at an early stage in the process - Ibid

As can be seen NI's construction workload is the lowest of the regions, with a net balance of -42%. This low level of workload is reflected in the future employment expectations.[38]

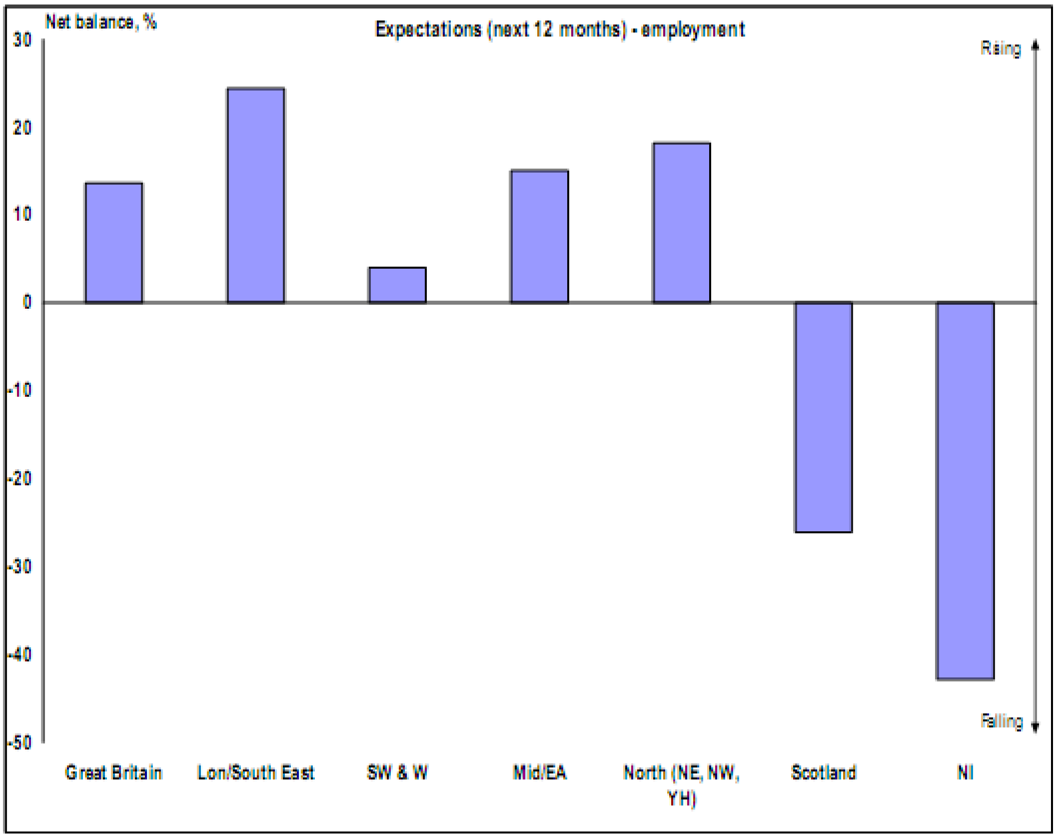

Figure 12: Regional employment expectations in construction

The next section of the paper will discuss employment in NI's main industrial and business sectors in more detail.

5 Employment in Northern Irelands Main Industrial and Business Sectors

This section of the paper provides a summary of the main industries in Northern Ireland, their contribution to the regional economy and the number of people they employ.

[38] Ibid

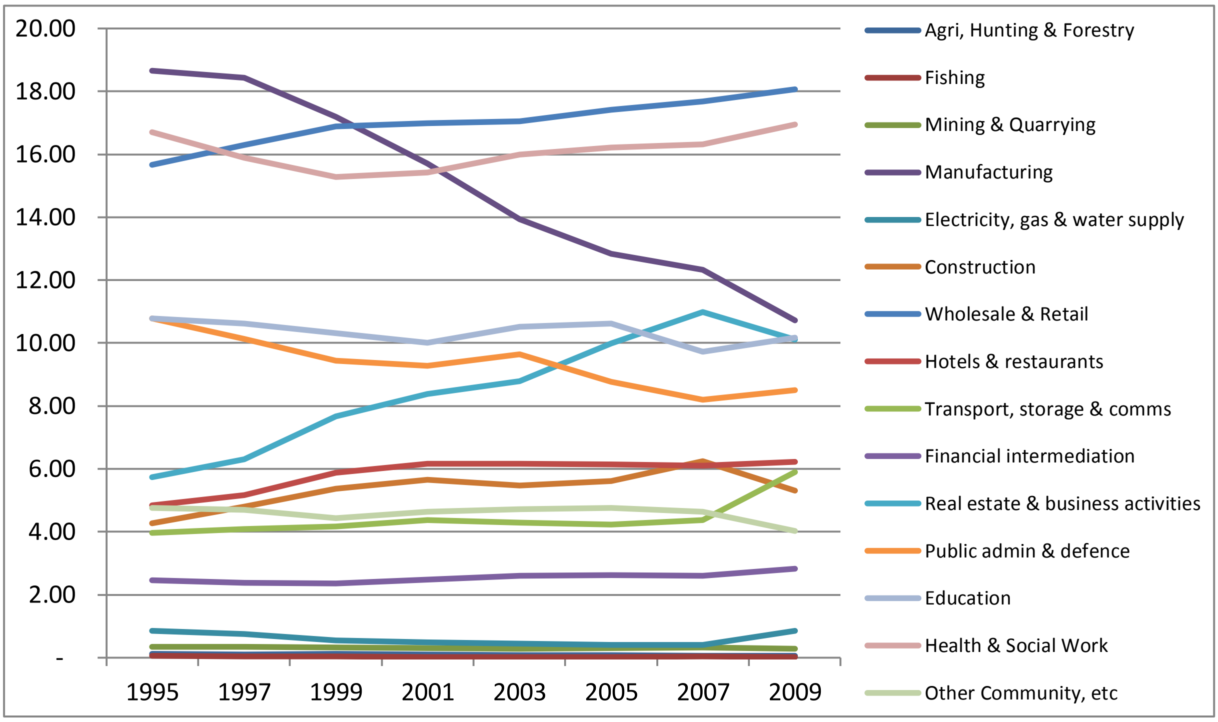

Figure 13: Northern Ireland Industry Employee Jobs 1995 - 2009[39]

Figure 13 above shows the main industries in Northern Ireland from 1995 – 2009 (please note, Appendix 1 provides the table on which the Figure is based and includes the numbers of employees in each business sector).

As can be seen, a number of industries have had some growth in employees over the fourteen year period shown, with Real Estate and Business Activities showing a significant rise in its number of employees in the 1990s and into the early 2000s.

However, and somewhat unsurprisingly, this has a slight drop between 2007 and 2009 when the housing market bubble burst. Whilst this is just a percentage point drop of 0.88% in terms of the total jobs in Northern Ireland, it equate to a loss of 7,965 employee jobs in this business sector between 2007 and 2009.

Other sectors such as Health and Social Work and Wholesale and Retail show a steady growth in the 2000s. Indeed, the numbers of wholesale and retail employees have grown from 87,317 in 1995 to 125,309 in 2009.

However, Manufacturing, the largest percentage employer in NI in 1995 has a massive drop in employment, going from 18.67% to 10.71%. This is a drop of 29,687 employees (from 103,968 to 74,281).

Figure 14 below details the quarterly employment of the main business sectors in Northern Ireland. It should be noted that this Figure shows the broad sectors within the NI economy, rather than specific industries as in Figure 11.

[39] Department of Enterprise, Trade and Investment, Census Section, The Census of Employment

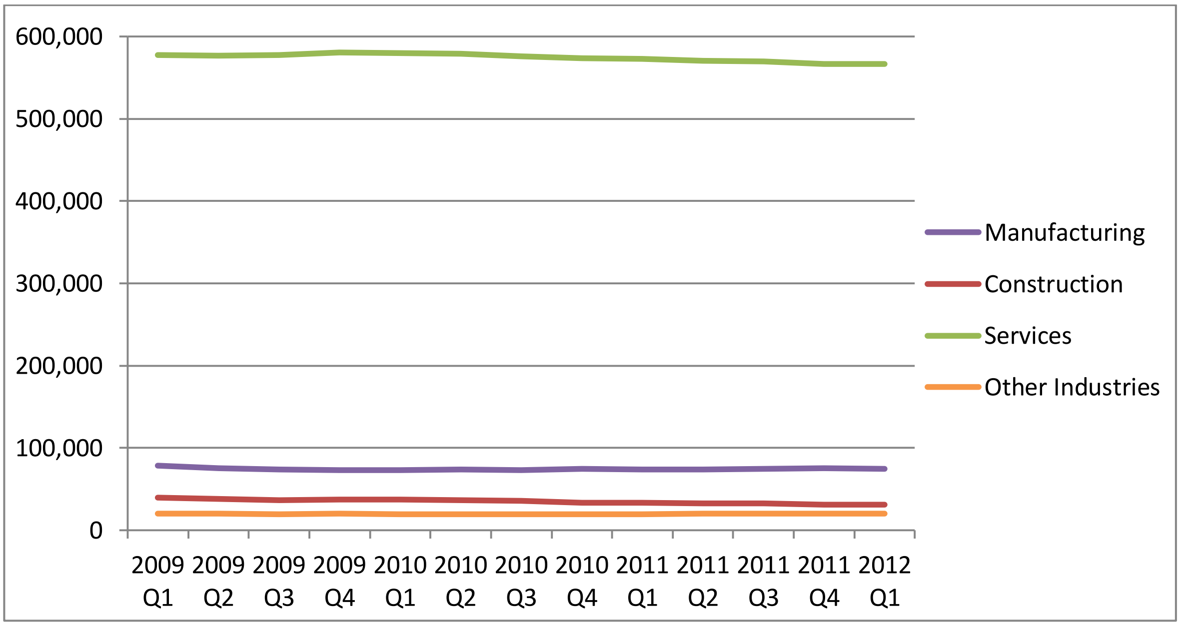

Figure 14: Northern Ireland Employee Jobs Quarterly from 2009-2012[40]

Clearly, the Services industry is the main source of employment in NI although it has had a fall in the number of people employed in the sector.

Throughout the period Q1 2009 to Q1 2012, Manufacturing has continued to decline. The largest fall in manufacturing employment was between Q1 2009 and Q2 2009, where manufacturing lost 2,700 jobs. It should be noted however, that the total job losses over the three-year period were 3,710.

The fall in the number of employees within the manufacturing sector has occurred across the UK - Harvey and Jowsey (2007) found that manufacturing has declined across the UK as a result of:[41]

- **The increase in real income:** As real income[42] has increased individuals have shifted their spending to goods with a high income elasticity of demand (effectively as real income increases the demand for goods also rises, with the goods wanted determined by living standards. As such in the West items with high elasticity of demand include cars, central-heating and personal services, whereas items such as potatoes, eggs and soap have a low income elasticity of demand);
- **Uncompetitiveness of UK products in world markets:** This has largely occurred due to the higher wage costs in the UK – whilst the UK has a relatively flexible Labour Market, it cannot compete with the wage rates paid in developing countries where large scale manufacturing has shifted to in order to take advantage of economies of scale; and

[40] Department of Enterprise, Trade and Investment, Census Section, The Census of Employment
[41] Harvey, J and Jowsey E, 2007 Modern Economics Palgrave McMillian pg 250
[42] Real Income is income measured in terms of how much it can buy

- **Other factors:** These include technical advances and increased mechanisation – manufacturers are able to replace human labour with that of machines and technology.

This situation has been further exacerbated by the continuing financial difficulties and the double dip recession.

The largest number of job losses occurred in the Services sector (which in Q1 2009 had 577,490 employees) with 11,250 jobs lost over the three year period. Indeed, the only category to come out in 2012 with a net gain was the "other industries" category with 290 additional jobs. Not surprisingly, all industries lost 22,840 employees over the last three years.

6 Economic Activity and Inactivity

It is also useful to consider the region's economic activity and inactivity.

People aged 16 and over who are not in employment and are not unemployed are, according to the ILO definition, classified as economically inactive.[43] It should be noted that this includes those aged over 65 and as such includes people who have retired.

It is important to consider economic inactivity as it identifies a:

> *…group* [that] *is not currently adding directly to economic output*[44]

In addition, it also:

> *…tends to be associated with deprivation and social exclusion – so it matters at an individual, a household, and at a community level.*[45]

It should be noted that economic inactivity is not necessarily a bad thing, as it includes groups such as students who, whilst not currently economically active, can be expected to add to economic output in the future.

Figure 15 provides a comparison of NIs economic activity and inactivity rates.

[43] Department of Employment and Learning, Labour Market Bulletin 23
[44] DEL, Labour Market Bulletin 18, Rogers, D Economic Inactivity http://www.delni.gov.uk/lmb-2004.pdf
[45] Ibid

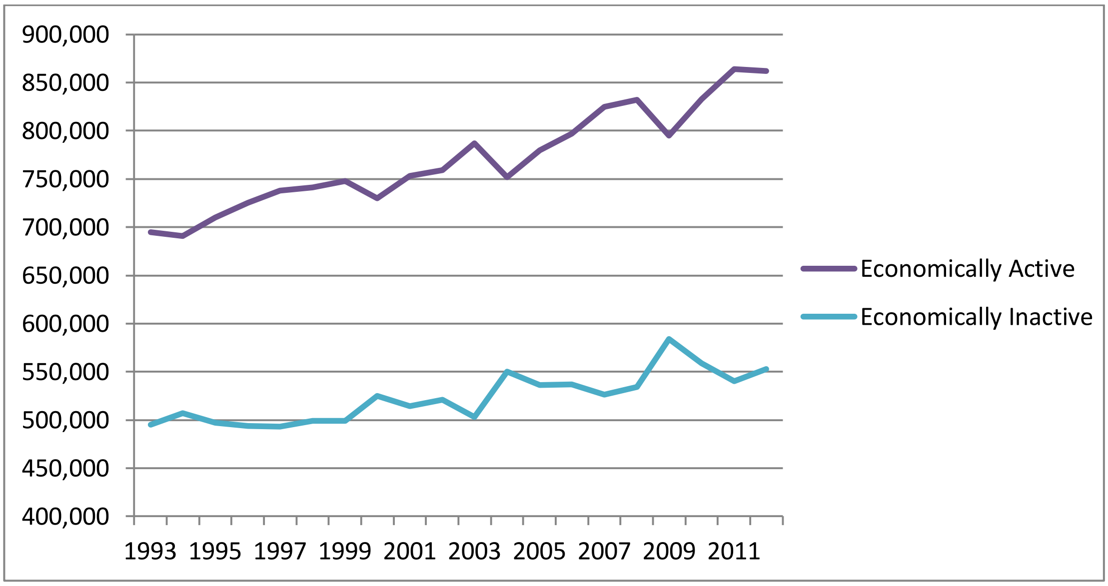

Figure 15: Economic Activity and Inactivity (Q2, 1993-2012)[46]

The economically active make up the majority of the NI working age population, although it should be noted that in 2012, the economically inactive consisted of 553,000 people in comparison to 862,000 active individuals.

Figure 16 depicts the level of economic activity in the other UK regions for March – May 2012. As can be clearly seen, Northern Ireland has the lowest level of economic activity for any of the regions.

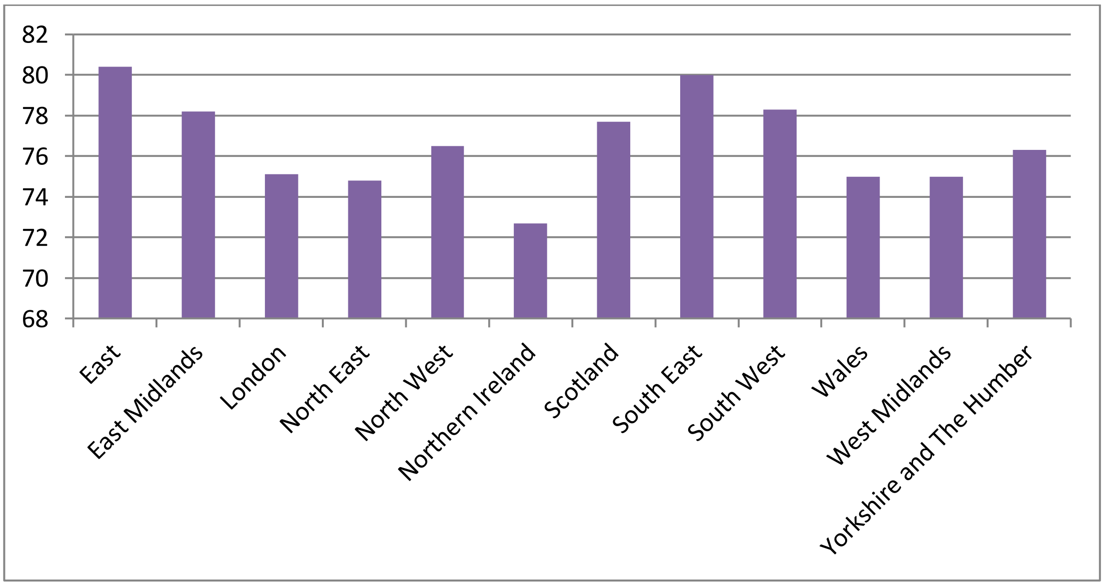

Figure 16: UK Regions Economic Activity[47]

[46] NOMIS, Official Labour Market Statistics, Employment Activity and Inactivity
[47] Ibid

Figure 17 compares the UK regions level of economic inactivity. As can be expected from Figure 16, NI has the highest rate of economic inactivity at 27.3%, with the East region the lowest with 19.6%.

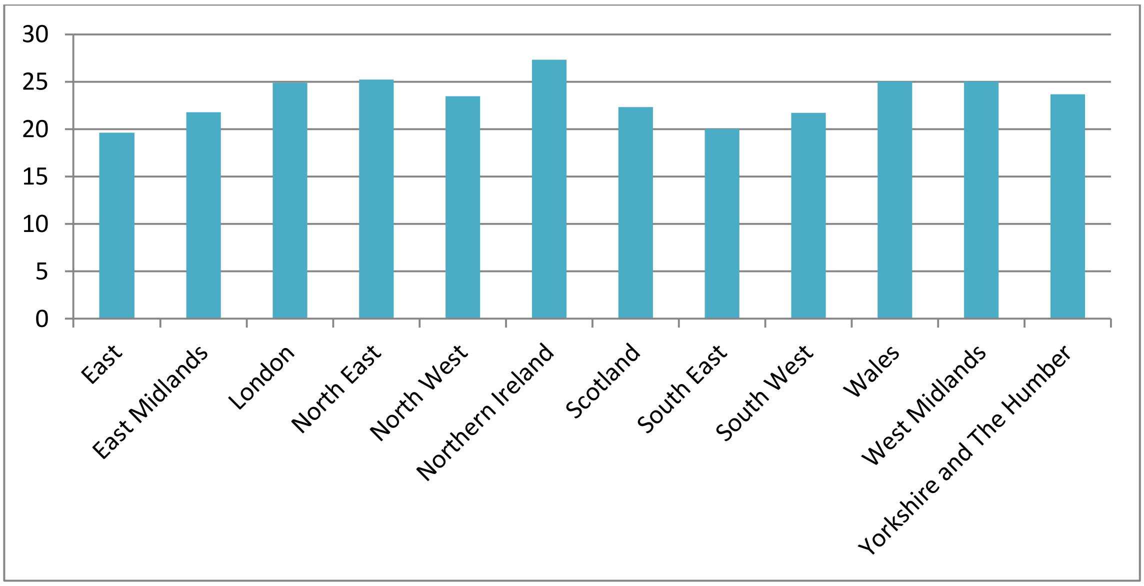

Figure 17: UK Regions Economic Inactivity[48]

6.1 Reasons for Economic Inactivity

It should be noted that there are two types of economic inactivity: Those who do not want a job, and who in the most recent DEL Labour Market Bulletin (March 2011) made up 92% of the economically inactive; and those who do want a job but fail to satisfy the ILO unemployment requirement for active job-search (8%).

Economic inactivity can occur for a number of reasons, although one of the most prevalent reasons cited is *'not wanting to work'*. The Labour Market Bulletin 23 provided results for April to June 2010, with 517,960 stating they did not want to work. Reasons cited for this were:[49]

- They were retired (**262,000**);
- They were sick or disabled (**89,000**);
- They were a student (**90,000**);
- Family and home reasons, such as looking after the family home (over **60,000 –** it should be noted that women made up the vast majority of this group at 60,000. The sample of men in this category was considered too small to provide a reliable estimate); and
- Others that comprise approximately **16,960** individuals.

[48] Ibid
[49] Department for Employment and Learning, Labour Market Bulletin 23

As can be seen, those who were retired make up the majority of the economically inactive.

44,000 people in this same period stated they did want a job but were not looking for work. Reasons cited include:

- Sick or disabled (17,000);
- Family and Home (15,000); and
- Other (12,000).

Rogers (2004) stated that:

> *…inactivity rates have remained almost constant through all the economic and labour market changes of the past 20 years. Although it could be argued that this stability is more apparent than real given the change in the nature and composition of inactivity, it is difficult to foresee any sharp reductions in levels of inactivity as things stand at present.*[50]

Roger's contention carries through, with Table 1 below showing the level of economic activity and inactivity amongst the 16+ population.

Table 1: Economic activity and inactivity amongst the 16+ population (%)[51]

Year	% Economically Active	% Economically Inactive
2004	57	41
2005	58	40
2006	59	39
2007	60	38
2008	60	38
2009	57	42
2010	59	39

As can be seen there is a limited level of variation amongst the rates, with economic activity ranging from 57% to 60% and inactivity ranging from 38% to 42%.

7 Northern Ireland Employee Wages

Wages are determined by a number of factors, including:

- Demand and Supply - as determined by the price of the product being produced; the price of substitute or complementary factors; and the productivity of labour;
- Workers attitudes;

[50] DEL, Labour Market Bulletin 18, Rogers, D Economic Inactivity http://www.delni.gov.uk/lmb-2004.pdf

[51] NISRA Midyear population estimates and NOMIS, Official Labour Market Statistics, Employment Activity and Inactivity – calculations carried out by the author

- Imperfect competition in the product and labour markets;
- The strength of any relevant trade union; and
- Government intervention (such as the imposition of a minimum wage).

Figure 18 below shows the hourly rate for all full time workers in Northern Ireland in comparison to the UK.

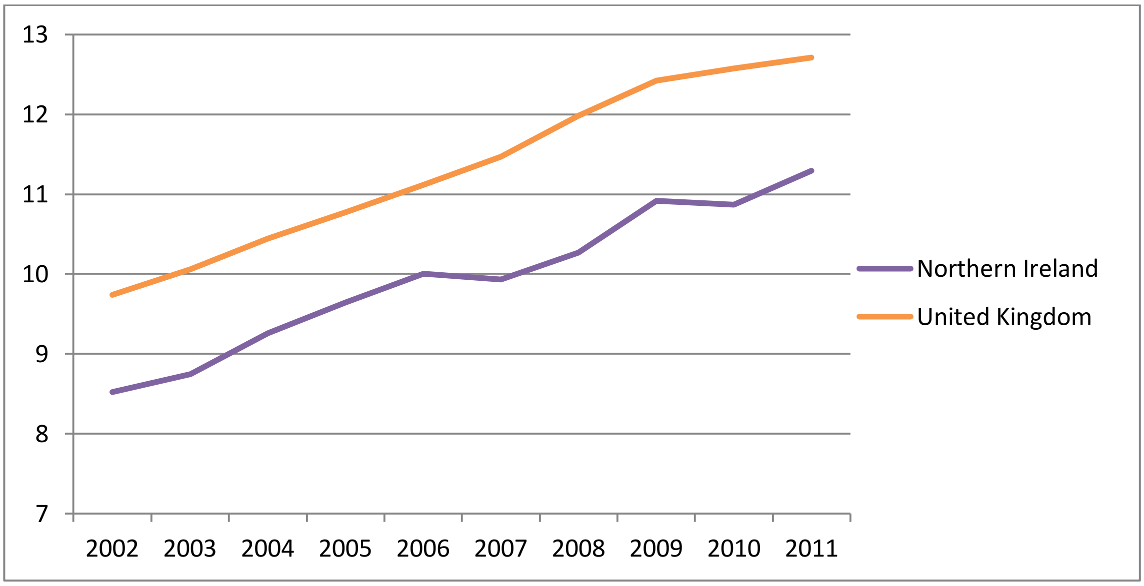

Figure 18: Hourly Pay for All Full Time Workers (£)[52]

As can be seen above, Northern Ireland full time hourly pay lags behind the UK median by a significant amount. Indeed in 2011, the NI hourly median FT wage was £11.29 an hour whilst for the UK it was £12.71.

As with previous examples, it is possible that this variation in regional wages may be a result of London's high level of wages skewing the data. Figure 17 below shows the hourly pay for full time workers in all the UK regions.

[52] ONS annual survey of hours and earnings - resident analysis

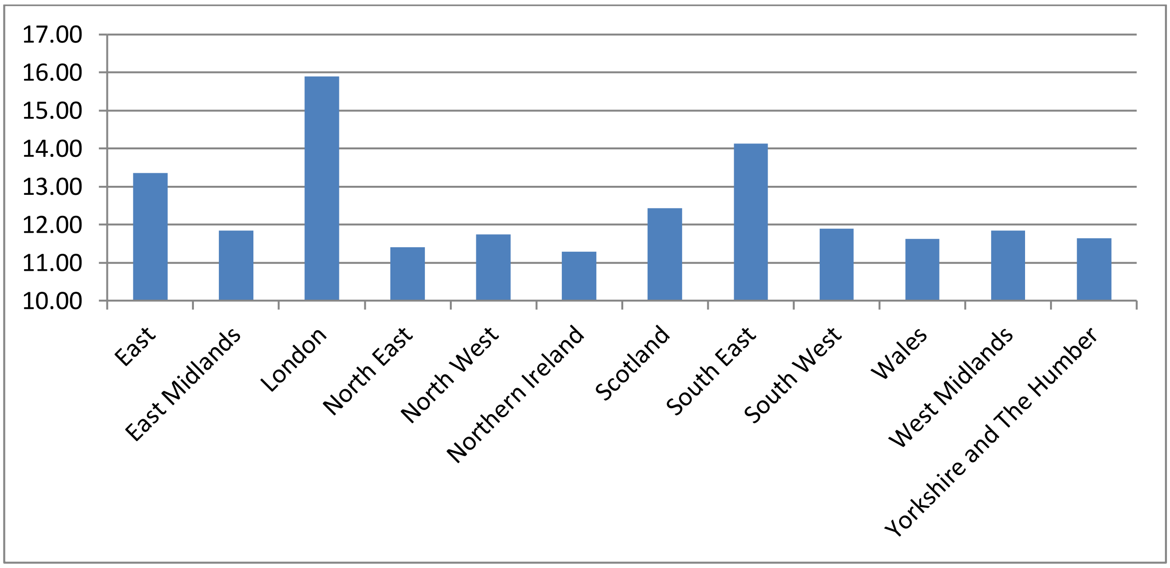

Figure 19: Hourly pay for all full time workers – UK Regions 2011[53]

As can be seen, Northern Ireland still has the lowest wage rate (£11.29). The North East has the second lowest median wage at £11.41. In all, full time wages across the UK regions range from £11.29 (Northern Ireland) to £15.89 in London.

Unsurprisingly the South East has the second highest wage level at £14.13.

Reasons for Nis' lower wage rates include:

- Attraction of FDI industries that pay below the NI average wage;[54]
- High wage differentials between the public and private sector;[55]
- Private sector businesses can only afford to pay what their margins allow, and the current structure of Northern Ireland business against the backdrop of a global economic slowdown has not been conducive to significant wage increases in the private sector;[56]and
- Much of Northern Ireland's private sector output is associated with relatively 'low value added' activity which in turn can only support low wage employment.[57]

The IREP report states that the lower wage rate can have some advantages in attracting in foreign direct investment (FDI) as the region has a more competitive wage than other UK regions. Indeed the IREP found that the NI wage rate has proven *attractive for labour intensive service sectors* such as call centres. However:

> *The types of firms which choose locations based on cost tend to be in lower value sectors. Moreover, they typically are less embedded in the region,*

[53] ONS annual survey of hours and earnings - resident analysis [2011]
[54] HM Treasury , 2011 Rebalancing the NI Economy http://www.hm-treasury.gov.uk/consult_rebalancing_ni_economy.htm
[55] This is a very broad area, please see (DFP paper) at: http://tinyurl.com/bsl5844 for a concise and comprehensive discussion of the key issues
[56] Ulster Business Week, Magill, M (Oxford Economics), An honest wage? http://www.ulsterbusiness.com/articles/2012/02/08/an-honest-wage
[57] Ibid

> *particularly compared to other investments that rely more heavily on value added factors such as access to skilled labour, research/innovation facilities and infrastructure.*[58]

Indeed, Birnie and Hitchens stated in 1999 that:

> *It would be short-sighted to rely on further reductions in Northern Ireland's relative level of labour costs* [including wage rates] *as a strategy to improve competitiveness.*[59]

8 The Future of the NI Labour Market

As has been seen in this paper, NI's labour market is currently undergoing a period of decline, with the financial difficulties which started in 2007, the ensuing recession and the current double dip recession taking a toll on the economy and the labour market.

Unfortunately, there are currently limited signs of a recovery. Indeed, whilst the Bank of England (BoE) expects a recovery to begin in the third quarter of 2012 it is also predicting zero growth for the year as a whole.

Northern Ireland is also expected to remain in recession, with negative growth for 2012 (-0.4%) and growth of 1.1% in 2013 currently being predicted (although this is a best case scenario).[60] The Purchasing Managers Index has also shown a downturn in orders within major industries and business sectors which will further exacerbate the issue.

This will have a negative impact on the NI labour market, with already struggling businesses facing tougher times. The PWC Economic Outlook for August 2012 estimates that NI's claimant count will rise from 62,900 in 2012 to 65,500 in 2013, although this figure is subject to a large degree of unpredictability as a result of ongoing Welfare Reform which could see a large number of people added to the Jobseekers Register (indeed, the recent Northern Bank Quarterly Sectoral Forecast estimated that based on UK pilot schemes 20,000 people could be added to the unemployment register, pushing unemployment up to 10%[61]).

It should be noted that whilst the current economic situation is bleak, further issues can be seen on the horizon that may have a further negative impact on the UK and NI economies. These include:

- A triple dip recession could occur if the Eurozone faces a Greek exit or a Spanish sovereign debt crisis;[62]

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[58] Barnett, R, September 2009, Independent Review of Economic Policy
[59] Birnie and Hitchens, 1999, Northern Ireland Economy: Performance, Prospects, Policy
[60] PWC August 2012 Northern Ireland Economic Outlook
[61] Northern Bank, Oxford Economics, Quarterly Sectoral Forecasts Quarter 3 2012 http://www.northernbank.co.uk/SiteCollectionDocuments/economic/2012/quarterly-sectoral-forecast-q3-2012.pdf
[62] Ibid

- Global food prices are expected to rise as a result of poor (and some cases failed) crops in North America. This could push up the cost of living thereby impacting on retailers and households; and
- The impact of the euro-area debt crisis, together with the fiscal consolidation and tight credit conditions at home, is likely to continue to weigh on demand.[63]

However, it is not all doom and gloom – the Bank of England expects the UK to return to growth in the latter half of 2012[64] with output increasing from Q3 2012.

With employment recovery normally lagging behind output recovery by three quarters and peak employment only attained after another two quarters[65] it could be expected that (with the BoE's projections holding true) resurgence in the labour market in the UK would occur in Q2 of 2013.

It should be noted, however, that a recent study by the Chartered Institute of Personnel and Development (CIPD)[66]found that a third of private sector employers had kept on more staff than they needed in order to retain skills but that two-thirds of these employers would have to cut staff if economic growth does not pick up.

For Northern Ireland the PWC Economic Outlook report found that the recovery here may not be as good as that of the UK, with the construction industry facing poorer prospects, manufacturing output growth rates (as seen above) in decline, service sector output falling and employment gains offset by greater setbacks. In addition:

> *NI has so far lagged the rest of the UK (especially English local government) in terms of the pace of public spending cuts, which may dampen growth next year when the cuts impact further.*[67]

All of this suggests that the labour markets in NI and the UK are still experiencing difficulties and whilst there are some signs of potential growth and recovery, factors such as the EU fiscal debt crisis and potential economic difficulties in the USA and Asia could all have further, negative impacts here.

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[63] Bank of England, Overview of the Inflation Report August 2012 http://www.bankofengland.co.uk/publications/Pages/inflationreport/infrep.aspx

[64] Ibid - see chart 1

[65] International Monetary Fund, World Economic Growth April 2010 http://www.imf.org/external/pubs/ft/weo/2010/01/pdf/text.pdf

[66] BBC News, 13 August 2012, Employers face 'make-or-break' time, says CIPD http://www.bbc.co.uk/news/business-19236030

[67] PWC August 2012 Northern Ireland Economic Outlook

Appendix 1: Northern Ireland Industry Employee Jobs 1995 – 2009 (%)

Sector	1995	1997	1999	2001	2003	2005	2007	2009
Agri, Hunting & Forestry	0.11	0.10	0.11	0.10	0.07	0.07	0.06	0.05
Fishing	0.05	0.04	0.03	0.02	0.02	0.02	0.03	0.02
Mining & Quarrying	0.35	0.33	0.33	0.29	0.29	0.30	0.32	0.27
Manufacturing	18.67	18.43	17.19	15.71	13.95	12.84	12.33	10.71
Electricity, gas & water supply	0.86	0.74	0.54	0.48	0.44	0.40	0.39	0.84
Construction	4.26	4.81	5.38	5.66	5.47	5.61	6.24	5.30
Wholesale & Retail	15.68	16.30	16.88	16.98	17.05	17.41	17.68	18.07
Hotels & restaurants	4.83	5.17	5.87	6.16	6.16	6.15	6.11	6.22
Transport, storage & comms	3.97	4.08	4.18	4.37	4.29	4.22	4.37	5.89
Financial intermediation	2.47	2.37	2.36	2.48	2.60	2.63	2.59	2.82
Real estate & business activities	5.74	6.30	7.66	8.39	8.79	9.98	10.99	10.11
Public admin & defence	10.79	10.13	9.45	9.27	9.64	8.78	8.20	8.50
Education	10.78	10.61	10.31	10.02	10.53	10.63	9.73	10.18
Health & Social Work	16.70	15.89	15.27	15.42	16.00	16.22	16.32	16.96
Other Community, etc	4.76	4.69	4.44	4.64	4.71	4.75	4.64	4.02
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00