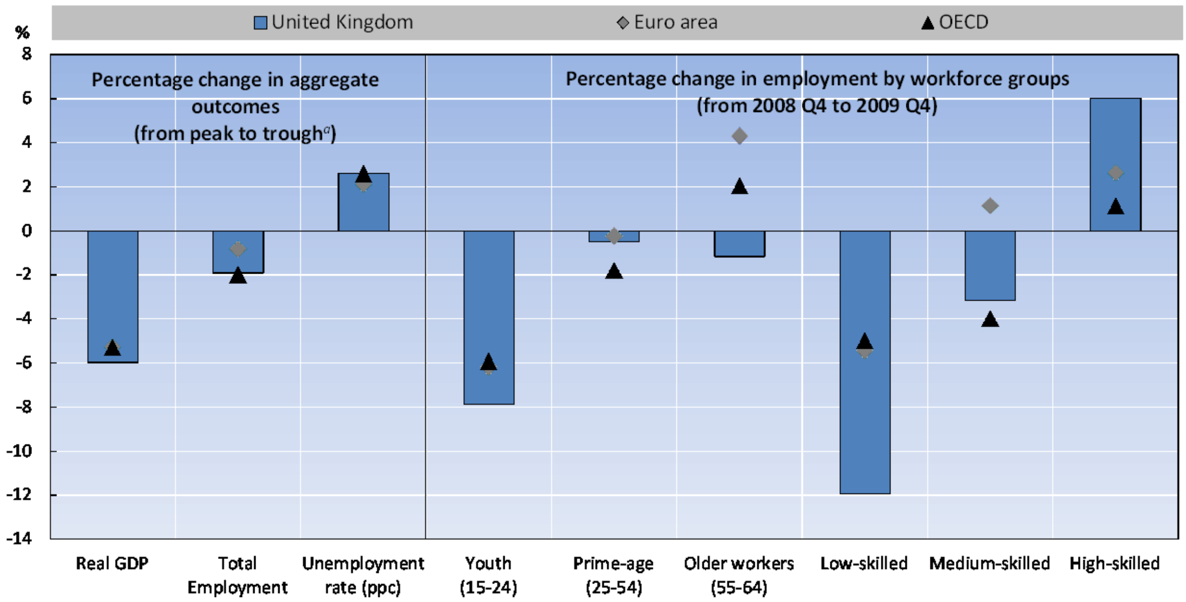
Employment Outlook 2010 – How does the UNITED KINGDOM compare?

The global economic crisis hit the UK economy and its labour market hard. The UK unemployment rate (ILO definition) rose by 2.8 percentage points since December 2007 to reach 7.9% in March 2010, an increase that is similar to the average rise for the OECD area (Figure 1). The recent upsurge in unemployment has been much sharper in several other countries where the banking and housing sectors also suffered strong reversals, in particular, Spain, Ireland and the United States. By contrast, joblessness increased by only around 1 percentage point in Italy and Japan, and not at all in Germany.

Figure 1. Labour market outcomes of the United Kingdom during the current downturn



ppc: percentage-point change.

a. Peaks and troughs are determined using real GDP series in levels.

Source : OECD Main Economic indicators Database and OECD calculations based on the European Union Labour Force Survey (EULFS) for the European countries and from national sources for the employment by workforce groups.

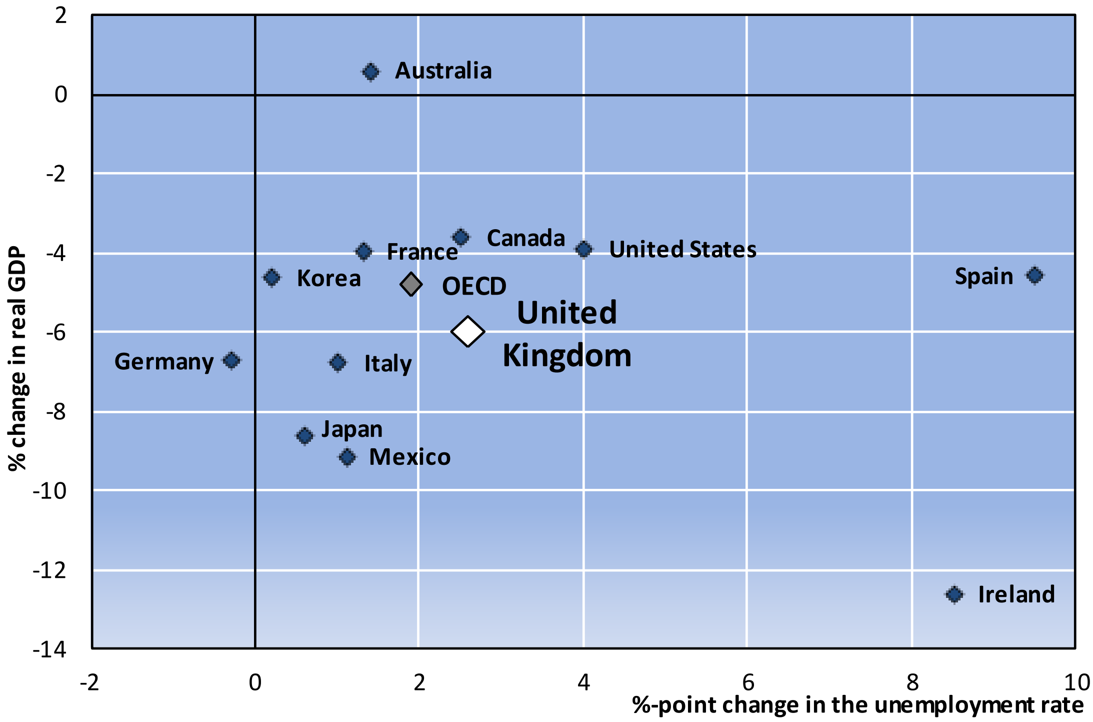
Youth and low skilled workers have been particularly affected by the deteriorating labour market in the United Kingdom. Employment fell by 8% for the 15-24 year olds during 2009, compared with a drop of under 1% for workers aged 25 and over (Figure 1). Employment losses have also been concentrated among the low-skilled and medium-skilled workers. Even before the recession, 14% of 15-24 year olds in the UK were neither in employment nor in education or training (NEET), against 11% on average in the OECD area. The NEET youth population has increased significantly during the crisis and many of those in this group are at high risk of social exclusion. Recent reforms (notably the *Education and Skills Bill* and the *Flexible New Deal*) have the potential to help disadvantage youth to get better skills and more effective job-search support.

Even though economic growth has resumed in the United Kingdom and most other advanced economies, the *OECD Employment Outlook 2010* indicates that **the economic recovery will be too muted to result in strong job creation and that unemployment is likely to recede only slowly**. As a result, the UK unemployment rate is expected to remain at nearly 8% at the end of 2011. In this context, governments should place a high priority on trying to encourage employers to step up hiring. Unfortunately, most governments have very little room to apply additional monetary or fiscal stimulus, the conventional tools for boosting aggregate demand and hiring when labour market slack is high. Policy makers face a daunting twin challenge to reduce high unemployment while tackling unprecedented fiscal deficits.

Considering that GDP fell by 6%, the increase in unemployment in the United Kingdom is smaller than would have been predicted based on historical experience. For example, the unemployment rate rose nearly as sharply in the 1990-91 recession even though GDP fell by less than half as much. Even larger decreases in GDP during the current recession translated into smaller increases in unemployment in Germany, Japan and a number of other OECD countries, than in the UK (Figure 2). At the other extreme, Spanish and US employers responded to smaller falls in output by aggressively shedding workers.

Figure 2. How sharply unemployment rose was only partly determined by how much GDP fell

Change from peak to trough[a,b]



a. Australia did not have a recession in the 2008-09 period but is shown for comparison purposes over the period 2008 Q3 to 2009 Q2.

b. Peaks and troughs are determined using real GDP series in levels.

Source : OECD Main Economic Indicators Database.

Effective re-employment assistance has prevented an even sharper increase in UK joblessness and should be reinforced even in the current context of fiscal consolidation. One of the reasons the UK labour market has weathered the recession relatively well is that unemployed job seekers have been better able than their counterparts in past recessions to find new jobs. This probably reflects the progressive improvement of the activation strategy – the combination of income support, job-search requirements and effective re-employment services – in force in the UK. The introduction of the Flexible New Deal (FND) in October 2009 has been useful in the context of the recession because it puts an increased focus on screening skills at an early stage of the unemployment spell, targeting the low-skilled unemployed who are likely to face greater challenges in finding employment. Moreover, OECD analysis suggests that the expanded use of private contractors to provide re-employment assistance under the FND is likely to increase cost-effectiveness.

The new Budget – released in June this year – encompasses a number of measures that should help improve the matching process between job seekers to job vacancies. Reforms to the benefit system will make employment more attractive for those workers with low earnings potential. At the same time, the cut in employer contributions at the bottom end of the wage ladder should enhance employment opportunities for this workforce group. This notwithstanding, the UK public employment service (Job Centre +) is under severe strain. While the number of job-seekers registered with the Job Centre + increased by more than 75% between 2007 and 2009, staff increased by less than 5% over the same period. While the large fiscal deficit makes it essential to focus on cost-effective programmes and target the most disadvantaged groups, labour market policies should remain adequately funded. In this context, it may also be of concern that the new Budget ends funding for two crisis measures, namely, the *Future Jobs Fund* and the *Six Month Offer*.

OECD Employment Outlook 2010 is available to journalists on the **password-protected** website or on request from the **Media Relations Division**. For further comment on the United Kingdom, journalists are invited to contact Stefano Scarpetta (tel: +33 1 45 24 19 88 or e-mail: stefano.scarpetta@oecd.org) or Paul Swaim (tel: +33 1 45 24 19 77 e-mail: paul.swaim@oecd.org) from the OECD Employment Analysis and Policy Division. For further information: www.oecd.org/els/employment/outlook.