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The new normal?

Changes in the structure of employment in Northern Ireland

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SUMMARY

The economic recovery that followed the 2008 financial crisis has now been in train for 10 years. Many headline economic indicators appear to suggest that such a recovery may be complete. However, on closer inspection, it does appear that structural changes over the course of that recovery have altered the nature of employment in Northern Ireland.

It is mistaken to see an economic recovery as an automatic rebound. The nature of any recovery in the labour market is linked to the policy context in which it took place. The decision of the UK government to pursue a programme of fiscal contraction changed the nature of the recovery and consequently the quality of it. Policy aimed at improving pay and conditions are key to delivering a more effective labour market recovery.

KEY POINTS

- Both the employment rate and the unemployment rate have fallen considerably since the highpoint of the recession.
- However, full-time employment has fallen as a percentage of total employment from 77% in 2009 to 74% in 2019.
- Additionally, in 2009, temporary employment accounted for 5.4% of employees, that has now increased to 7.1%.
- As of 2018, average weekly wages are still 1.1% below where they were in 2009
- The nature of the recovery in the labour market can be linked to the policy context in which it took place.

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Research for new economic policies

Introduction

The economic recovery that followed the 2008 financial crisis has now been in train for 10 years. Many economic indicators appear to show that such a recovery may be complete. However, on closer inspection, it does appear that structural changes in the makeup of employment pose a challenge for the narrative of a full economic recovery

Economic Recovery

Both the UK and Northern Ireland economies experienced a significant drop in output and a serious deterioration in labour market conditions in the aftermath of the 2008 financial crisis. Based on measures of output and employment, both economies are 10 years into the economic recovery which followed that financial crash.

In the second quarter of 2009, the UK economy began to grow again, following 6 quarters of negative growth. This is the point from which any recovery, such as it has been, began. The recovery began to lose pace in early 2012, but it received a boost from the impact of the Olympic Games in London. It was not until the second quarter of 2013, that UK GDP recovered to its pre-crisis output level. Even then, much of that growth was due to an increased population, and so GDP per capita became a more important measure of recovery. That did not find its pre-crisis level again until the second quarter of 2015, 6 years after the recovery began.

For Northern Ireland the pace of recovery has been more muted. There is no one definitive measure of output in Northern Ireland, but all available indicators suggest that the pace of recovery has been much slower. Regional Gross Value Added (GVA) for Northern Ireland indicates that pre-crisis output was reached in 2015. The Northern Ireland Composite Economic Index suggest that this level was reached in the second quarter of 2016, some three years after the UK as a whole. When GVA is adjusted for population growth, Northern Ireland only reached its pre-crisis peak last year.

Labour Market Recovery

In terms of the labour market, both Northern Ireland and the UK have added back the equivalent number of jobs lost during the crisis. The number of jobs hit a highpoint of 32.3 million at UK level and 878,000 in Northern Ireland, both recorded in the second quarter of 2008. This level of jobs was not achieved again at UK level until the first quarter of 2012. For Northern Ireland, the total number of jobs only reached its pre-crisis peak in the final quarter of 2018.

Looking at headline rates of employment and unemployment there has also been a significant improvement. Before the crisis the unemployment rate in Northern Ireland reached its lowest level, 3.6%, in the second quarter of 2007. That level was breached again in the first quarter of 2018. The UK reached its lowest pre-crisis level of unemployment in the third quarter of 2005 and this level was regained in the final quarter of 2016. The performance of the unemployment rate has been even better with pre-crisis peaks being reached in Northern Ireland in the first quarter of 2016 and Q3 of 2014 at UK level.

For Northern Ireland, any discussion of rates of employment and unemployment is incomplete without a discussion of economic inactivity. While rates of economic inactivity are at a record low in Northern Ireland (20.8% in the first quarter of 2019), the UK rate has also fallen substantially. This means that the gap in activity rates between the UK and Northern Ireland has remained quite stable throughout the last 10 years. However, general labour market conditions only affect a certain proportion of those economically inactive. The comparatively lower rate of economic inactivity in Northern Ireland long pre-dates the great financial crisis and so it is not expected that this gap could be dissolved in a general improvement in labour market conditions.

Back to Normal?

The period following the contraction of the economy post-2008 is referred to as the

Figure 1 Full-time workers as a percentage of all workers Northern Ireland 2009-19

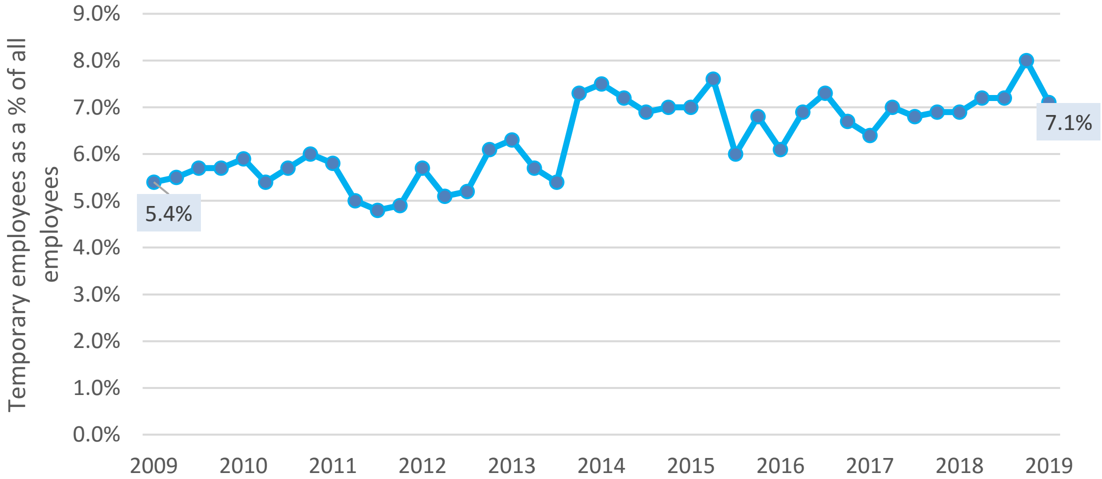
Source: Labour Force Survey

recovery'. Basically put, economic output stopped reducing in size and the labour market stopped shedding workers. Given the details of output and employment outlined in the previous section, it is reasonable to suggest that the Northern Ireland economy and labour market have recovered.

However, the term recovery can be misused in this context if the understanding is that, in recovery, the economy retrieves that which it has lost. In other words, that the economy has returned to where it was before the financial crisis. This assumption is quite mistaken, and particularly so with regard to the labour market. Whilst the number of jobs and rates of employment and unemployment would suggest the economy has returned to where it was in 2008, a quick glance at the more detailed statistics shows a more complex picture.

If we look at the forms of employment Figure 1 shows that, among all workers, the proportion of full-time workers has dropped from over 77% in 2009 to just over 74% in 2009. This does not represent a further entrenchment of a pre-crisis trend and in fact the percentage of full-time workers as a percentage of all workers was 77% in 1995

Figure 2 Temporary employees as a percentage of all employees Northern Ireland 2009-19



Source: Labour Force Survey

when the current Labour Force Survey began. There has been some variation in those years and even in the during the 2014-16 period, the rate improved somewhat. Nevertheless, the recovery has resulted in a much smaller share of the workforce engaged in full-time employment.

This trend and the consequent increase in part-time employment are not suboptimal outcomes in and of themselves. The problem is that part-time jobs in Northern Ireland tend to offer less security, are lower paid, and have little opportunities for skills development or career progression (Wilson, 2017). This is also a problem with temporary employment.

As figure 2 shows, the proportion of employees that are now on temporary contracts has increased from 5.4% in 2009 to 7.1% in 2019. The percentage of temporary employees has been more volatile over the history of the Labour Force Survey and so it may well be that the current level could abate somewhat in the near future. However, the upward trend in temporary employment in recent years has been more consistent and sustained than it has been in the past.

Policy Implications

While the UK economy may have reached and exceeded its 2008 position, government spending is in a very different position. In Northern Ireland, this means that, in real terms, day to day public spending is lower now than it was in 2010. By 2019/20 day to day spending will have decreased to £9.5bn in real terms and will still be £600m below where it was in 2010. Even if forthcoming budgets are more expansionary than currently planned, it will take some time before 2010 levels of government spending are reached again (Mac Flynn, 2017).

The number of jobs and the proportion of the population employed has recovered, yet Northern Ireland's labour market is not back to where it was before the crisis. These changes in the structure of employment have occurred alongside a stagnation in wages and earnings. The annual rate of growth in weekly pay averaged 0.2% in the 10 years since 2008 and as of 2018, wages are still 1.1% below where they were in 2009. These changes have implications for a number of areas of public policy.

What all of this means is that an economic 'recovery' is not best thought of as an automatic rebound. The policy space in which a recovery occurs matters. The UK government adopted a strategy of fiscal consolidation in the years following the financial crisis. A retrenchment of public investment was also met with a retrenchment of private or business investment which has also contributed the slower recovery in per capita GDP identified in the first section (Smietanka, Bloom & Mizen, 2018).

Additionally, the focus of government policy in areas such a welfare reform has been on increasing the quantity of jobs in the economy and overall levels of employment over the period of recovery. There has been little if any attention paid to the quality of employment that was created over this period. In this sense the labour market recovery is incomplete and government policies would be better targeted toward improving job quality as well as quantity.

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