

Regional public sector employment & latest survey results

March 2012

Background

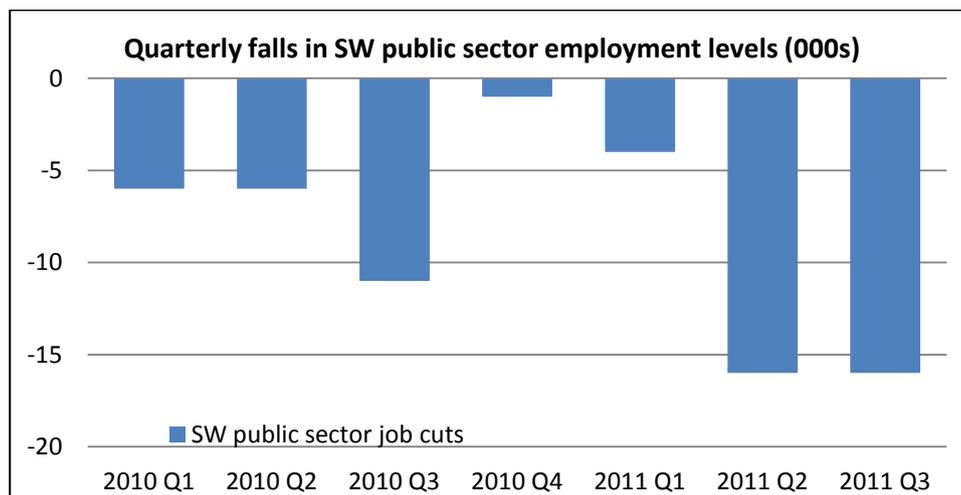
Public sector employment figures have been at the centre of a great deal of interest by commentators wishing to understand the labour market impact of the Coalition Government's austerity measures. The fiscal targets that the Government has set to the period 2015-16 will result in employment in the public sector falling. However, it is difficult to forecast the full extent of these job cuts, remembering that reductions in public expenditure will be achieved through means other than just adjusting employment levels.

Importantly, we also do not know what the geographical distribution of the job cuts will be. For many areas, this will be an important factor in how its economy performs over the short-to-medium term. We would expect those areas that have seen strong public sector growth over the last decade to experience greater declines, although we do not know what political pressures will play out.

The quarterly data release by the ONS allows a relatively frequent opportunity to understand the level and regional distribution of the cuts and, specifically, what is happening in the South West.

Public sector employment

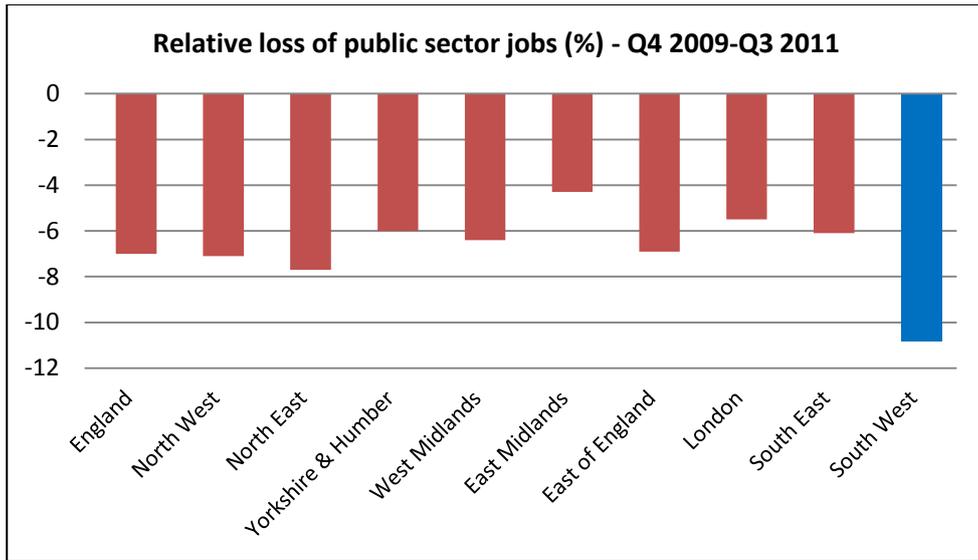
According to the latest figures – relating to Q3 2011 – the South West still appears to be suffering unfavourably in terms of relative public sector job cuts. Between June and September 2011, a further 16,000 jobs were lost in the region¹. This followed a similar loss of 16,000 in the preceding quarterly period (see below chart). Indeed, the pace of job losses appears to have quickened.



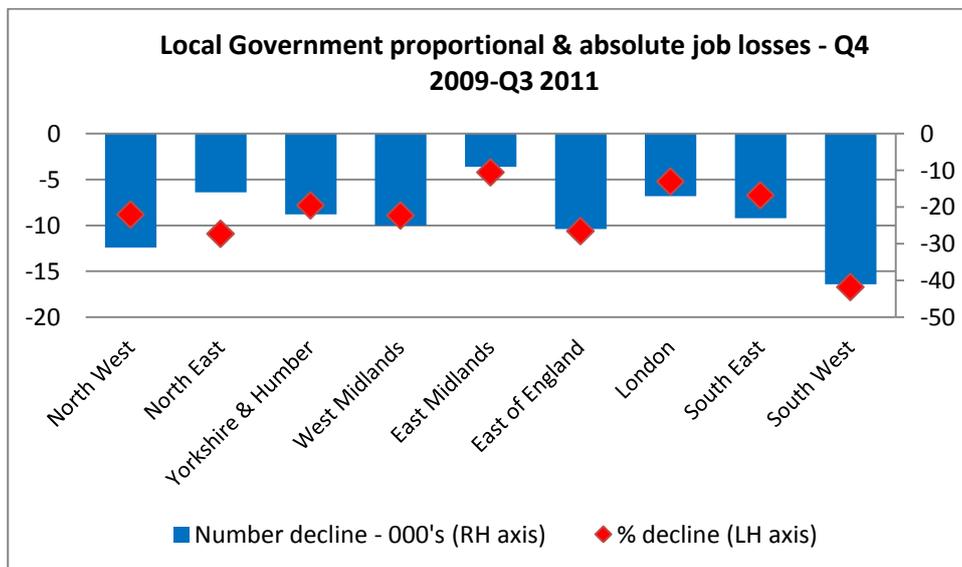
¹ These figures relate to net employment levels. Therefore the actual number of gross job losses will probably have been greater than this, but the employment levels will also encapsulate those jobs that have been created in the public sector during the same period.

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Overall, since the peak employment level at the end of 2009, the region has seen a reduction of 60,000 jobs in the public sector, representing a fall of 11%. This is by far the largest reduction of any region (see below chart). The region with the next largest fall has been the North East, similar to the South West in its relatively high reliance on the public sector (as measured by numbers employed as a proportion of total employment). According to the latest figures, the proportion of total South West employment in the public sector has dropped below 20% for the first time in a number of years – 19.6% compared to a peak of 22.2% (now matching the English average). The North East remains the highest at 25% - although also substantially below its own peak of 27.8%.

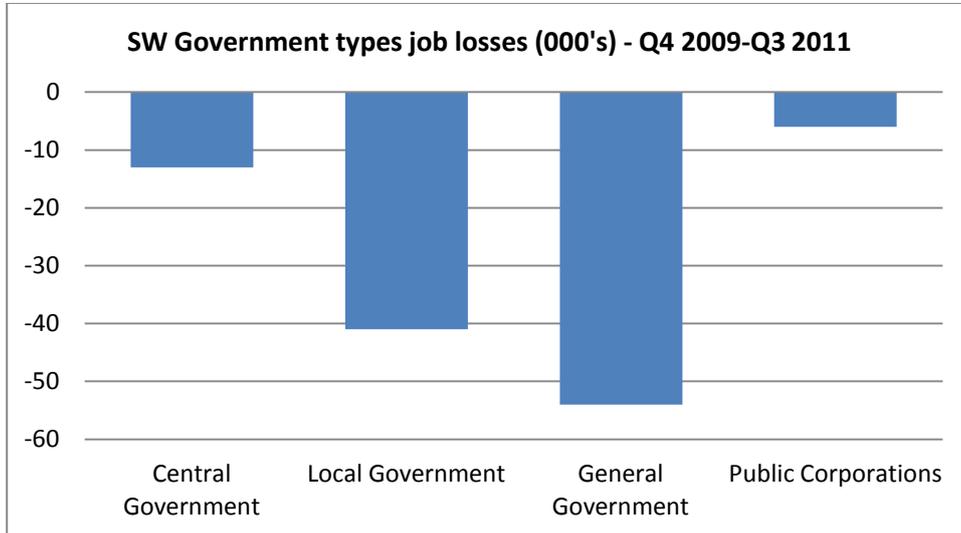


The greatest number of public sector job losses in the region continues to occur in Local Government. Since the peak at the end of 2009, employment levels in Local Government have fallen by 41,000 in the region. Proportionally, employment is now just over 83% of its peak and the SW continues to experience the greatest absolute and relative falls in Local Government employment (see below chart). This represents a substantial readjustment by councils and police authorities, reflecting the significant budgetary pressures they have been placed under.



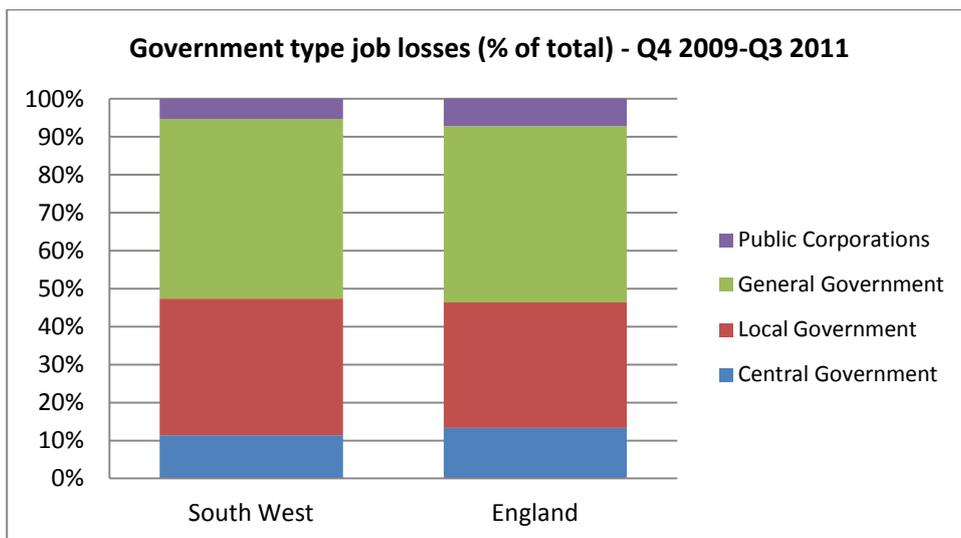
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The difference between the proportional and absolute change in the North East is due to the size of its Local Government – relatively few job losses still represents a significant proportional reduction because fewer people are employed by local councils (the North East mostly has a small number of larger unitary authorities).



The above chart shows that the greatest number of jobs in the region has been lost in either the Local or General Government sectors (i.e. Government Agencies). Relatively fewer jobs have been lost in Central (which includes the NHS and armed forces) and Public Corporations (the part-nationalised banks). In the former case, this perhaps reflects that any Central Government adjustment still needs to work through, or that it hasn't necessarily yet 'practiced what it preached'. In the latter case, it simply reflects lower levels of employment – with most part-nationalised banks headquartered in London.

Largely though, in terms of which areas of Government are being affected, the experience in the South West broadly matches what is taking place in the rest of the country (see below chart comparing it to the national average as a proportion of total public sector job losses).



Private sector employment – recent data

We have therefore established that the pace of public sector employment in the region has appeared to have quickened in the latter part of 2011. Of course, the Government's objective is that the private sector will grow sufficiently to absorb some of these job losses. This forms a central part of the objective of rebalancing the economy away from its dependency on public sector employment, particularly in some areas of the country.

To that end, the latest data appears to provide some reassurance as job creation in the private sector has picked up, although this data is not seasonally adjusted (it will therefore encapsulate some of the pre-xmas hiring by employers) and appears quite a volatile time series. With this in mind, the data suggests that private sector employment rose by 46,000 in the third quarter of 2011. It stands at 25,000 below its peak in Q2 2008, but nearly 100,000 above its 'trough' in Q1 2010.

Since public sector employment in the region peaked at the end of 2009, we have already seen that it has fallen by 60,000. During this same period, private sector employment has risen by 86,000 (remembering our above caution about the volatility of the estimates).

Therefore it appears to be some reassurance that the private sector is beginning to take up some of the slack from the public sector. The question though is whether public sector job cuts will continue at the same pace as experienced in the latter part of 2011. Our feeling is that it may continue into 2012 and then slow, primarily due to many local authorities having 'front loaded' job cuts in their budgetary planning.

Private Sector employment – survey results

Following on from the above, it is therefore important to understand whether this apparent momentum in private sector job creation can be maintained. An interesting new source has become available – the English Business Survey (EBS) published by BIS² – which helps shed some light. The findings of this survey should be analysed in conjunction with other 'future intention' surveys such as the Purchasing Managers Index to gain a rounded view of possible future trends.

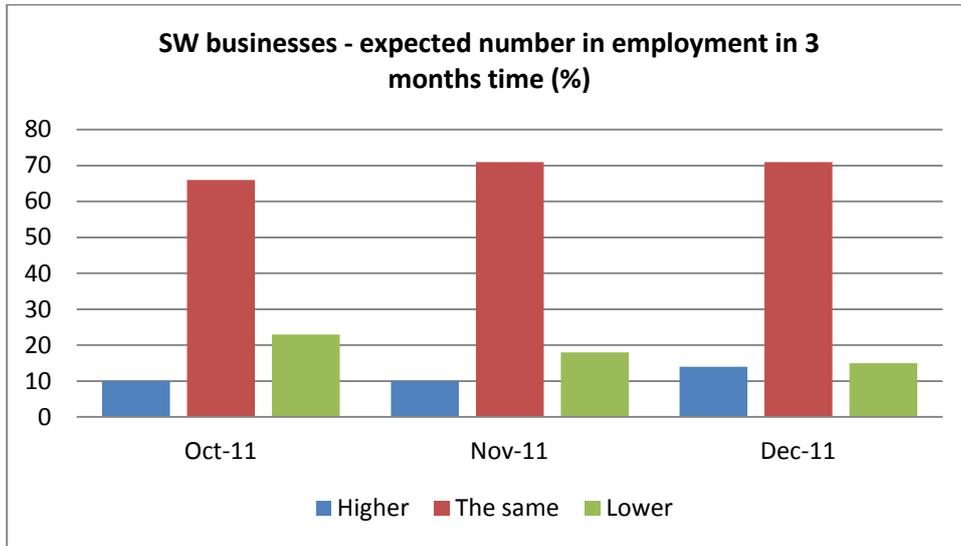
Generally, both the EBS and the PMI, indicate that employers in the region expect that job numbers will not grow strongly over the immediate period³ but they also may not strongly decline. In the latest EBS survey, results for December 2011 show that the majority (71%) of those 410 South West businesses surveyed expected their employment levels to remain the same (hardly surprising given it asks respondents to only look forward by 3 months), with only 14% saying it would be higher.

² <http://www.bis.gov.uk/analysis/statistics/sub-national-statistics/ebsurvey>

³ Whilst the PMI asks respondents of their employment intentions for the next 12 months, the EBS has a much shorter time frame – asking of employment intentions 3 months forward.

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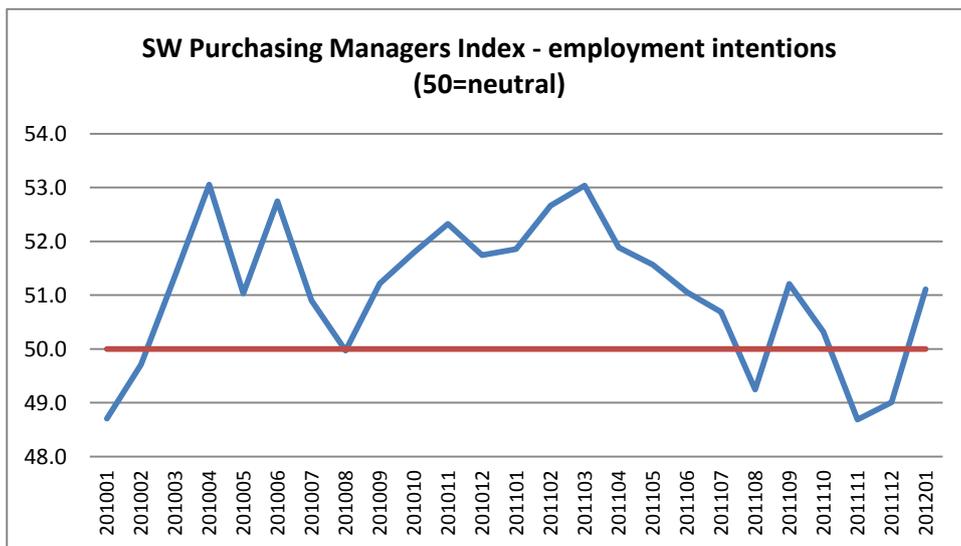
Positively, the proportion of businesses who expect their employment levels to be lower over the next 3 months has improved since the survey commenced in October 2011 (see below chart).



Source: (English Business Survey – BIS)

The EBS also asks a question about whether businesses feel their workforce is being fully utilised. This is a useful question because it could indicate any potential output gap that may exist. According to the latest results, 59% of respondents felt their workforce was used at a satisfactory level. However, 27% felt they were overstretched. This suggests that even though those businesses may be working at full capacity – in terms of labour utilisation – they still do not feel they can increase employment due to tight margins and affordability issues.

The findings of the EBS broadly correspond to those in the PMI. The employment intentions of SW businesses have turned marginally positive (a score above 50) in the latest month's data (see below). Largely, though, the results are neutral – we would want to see the indicator remain healthily above 50 for some time to be confident of any sustained recovery in the labour market.



Source: (Purchasing Managers Index – Markit Economics)

Nevertheless, we feel that the data and survey results shows indicate a slight thawing in the labour market in the last month or so, reinforced by other sources. For example, the Recruitment and Employment Confederation said that its members (recruitment agencies) were able to place more people into permanent positions during February. Its monthly index of permanent staff placements – again, readings above 50 indicate growth – rose for the second month running to 53.2 from 51.2 in January. Overall demand for staff rose at the quickest pace in four months.

Conclusion

The latest public sector job estimates for the latter part of 2011 show that the South West is experiencing its share of the pain associated with the austerity cuts. The pace of these job cuts quickened during 2011, particularly led by a relatively large adjustment in Local Government. As with any structural economic adjustment that occurs quickly, some areas that were previously heavily reliant on the public sector will suffer greatly. A 10% fall from the peak does represent an adjustment akin to the structural changes we have historically seen in other industries.

We would expect the job losses to continue during 2012, beginning to ease during the latter part of the year. It will be interesting to see whether the announcements made in the Budget will indicate any loosening of the fiscal position of the Government (given that, of late, the public borrowing figures have been better than expected).

Nevertheless, the published and survey data seems to suggest that there has been positive news from the private sector – particularly over the last couple of months. The last quarter's ONS data estimates that private sector job creation was positive, and information from various surveys pitch the mood between 'neutral' and 'marginally positive'. It is hoped that this continues, helping the private sector absorb some of the public sector job losses that will continue for some time yet.

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Contacts

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