The UK labour market data is not so rosy when we consider export sector industries

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The latest headline labour market figures are positive: unemployment is down to 5.8% and pay is increasing well above inflation. However, scratching beneath the surface reveals a diversity of experience and does not provide a great deal of reassurance that the economy can continue to grow at the rate we observed last year, writes **Geraint Johnes**. *For instance, average pay has fallen in a number of sectors while the biggest increase was in financial and insurance activities (at 6.1%).*

The first release of labour market statistics of the new year offers the opportunity to evaluate prospects for the year ahead. On the surface, at least, the statistics are encouraging. The unemployment rate is down to 5.8%, and pay is increasing at 1.7% – now well ahead of price inflation (which has fallen to 0.5%). This certainly represents much better news on the labour market than we had become used to hearing until quite recently. Average statistics have a way of concealing diversity of experience, though, and if we scratch beneath the surface we find quite pronounced disparities across sectors.

Data on employment in each industry show large gains in several sectors over the year to the third quarter of 2014. Employment rose by more than 6.5% and by more than 100,000 in each of the following industries: transport and storage; accommodation and food services; professional, scientific and technical services; and administrative support and advice. There were also large gains in agriculture, forestry and fishing and in arts, entertainment and recreation. Meanwhile, employment fell in public administration and defence (by 1.2% or 19,000), and grew only slowly in manufacturing (1.6%), construction (1.9), education (0.6), and some other smaller sectors.

The detailed data on pay increases by industry show considerable variation across sectors. In arts, entertainment and recreation, average pay fell by 3.5% in the year to November 2014. Average pay fell in several other sectors, including textiles, leather and clothing (-2.6), chemicals and man-made fibres (-2.6%) and wholesale trade (-1.8%). In retail trade and repairs, on the other hand, average pay rose by 5.2%. The biggest increases, however, were in financial and insurance activities (6.1%) and administrative and support service activities (6.4%). In the case of finance, in particular, this resurgence follows a period in the doldrums – between April 2013 and April 2014, pay had declined by 11.5% in that sector. So in some measure the current spurt is a matter of catch-up.

Overall, these data highlight two salient features of the recovery. First, domestic consumption has been increasing, fuelling buoyancy in retail and hospitality sectors. Data on consumer expenditure show a 5% year on year growth, way ahead of income growth. Secondly, at least in terms of the pay statistics, the financial sector has made a comeback. The picture is not so rosy when we come to consider industries that are typically thought of as forming the export sector. This raises concern about how sustainable this recovery might be. Amongst our trading partners, we know that the US is growing well, but in Europe the scenario is considerably less favourable.

Taken in the round, the labour market data provide some very welcome respite, but not a great deal of reassurance that the economy can continue to grow at the rate we observed last year, and not a great deal of evidence of rebalancing in favour of industries that promise export-led growth.

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About the Author

Geraint Johnes is Director of The Work Foundation and Professor of Economics at Lancaster University. He tweets from @geraintjohnes.