Monthly Labour Market Report

Llywodraeth Cymru
Welsh Government

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Welcome

The Monthly Labour Market Report from the Learning and Skills Observatory Wales (LSO) aims to provide the main headlines on the Welsh labour market and is based on the latest data available.

This month's issue puts the spotlight on **Skills, Growth and Productivity.**

This report was produced by the Centre for Economic and Social Inclusion (known as *Inclusion*), commissioned by Welsh Government to blend Wales's available labour market information (LMI) (from the various sources) and produce a monthly analysis. Whilst the report is owned by Welsh Government it is not validated in terms of its specific content or interpretation.

Inclusion has an unrivalled understanding of the labour market based on over 28 years of experience of working with the range of stakeholders involved in delivering employment and skills services. We collect and analyse both national and local labour market data through our well developed Local Labour Market Information System, conduct research on employment and skills issues at the local level, run events that bring together policymakers and providers in the skills and employment sector, and produce weekly e-briefings that summarise what is new in employment and skills for our subscribers.

We currently supply monthly employment and skills data to the Greater London Authority, as well as providing labour market tools and analysis for Greater Manchester.

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Latest labour market trends

Employment

Employment data from the Labour Force Survey (LFS) – estimates published by the Office for National Statistics (ONS) obtained from a large sample quarterly rolling survey of households – show that Wales performed less well in percentage terms than all the other UK nations and all of the English regions in the rolling quarter April to June 2014 and in absolute terms outperformed only South West England.

The (seasonally adjusted) Labour Force Survey estimate of the number of people aged 16 and over in employment in Wales fell by 12,000 (-0.9%) compared to the previous quarter (January to March 2014) to a total of 1.357 million. The quarterly net fall in employment in Wales is comprised mainly of a fall in the number of women in employment. Male employment fell by 4,000 (-0.6%) to 709,000 while female employment fell by 8,000 (-1.2%) to 648,000.

The total quarterly fall in employment in Wales contrasts with a corresponding increase in total UK employment of 167,000 (+0.5%). In contrast to the fall in Wales, employment increased by 159,000 (+0.6%) in England, by 9,000 (+0.4%) in Scotland and by 11,000 (+1.4%) in Northern Ireland. The net increase in England comprised an increase in employment in the North East (10,000, +0.9%), the North West (3,000, +0.1%), Yorkshire and Humberside (7,000, +0.3%), the East Midlands (38,000, +1.8%), the West Midlands (6,000, +0.2%), London (67,000, +1.6%), the South East (42,000, +1.0%) and a decrease in employment in the East of England (-1,000, -0.0%) and the South West (-14,000, -0.5%).

The working age employment rate for Wales (i.e. the proportion of the population aged 16-64 in employment) fell by 0.9 percentage points in the quarter to 69.1%. This compares with an increase of 0.4 percentage points in England, 0.6 percentage points in Northern Ireland and an unchanged rate in Scotland. The employment rate in Wales is 3.9 percentage points lower than the UK average (73.0%) and lower than the employment rate in both England (73.3%) and Scotland (73.5%) but higher than the rate in Northern Ireland (68.4%).

In keeping with recent quarterly data releases the ONS commented as follows on the latest quarterly fall in employment in Wales:

“The latest estimates for Wales have been below the record high levels recorded toward the end of last year and start of this year. The large decrease in employment has been accompanied by a large increase in inactivity, rather than unemployment. With the exception of Wales, all other regions of the UK are either showing general increases in employment rates over recent periods, or are fairly flat, increasing over the last year.”

Unemployment and economic inactivity

The number of people in Wales who are unemployed on the International Labour Organisation (ILO) Labour Force Survey definition fell by 3,000 to 97,000 between the quarters January to March 2014 and April to June 2014. Total unemployment also fell by 123,000 in England, by 2,000 in Scotland and by 4,000 in Northern Ireland.

The quarterly fall in unemployment in Wales occurred despite the corresponding fall of in the number of people in employment because of an offsetting decrease of 15,000 (-1.0%) in the number of people active in the labour market. The number of unemployed men fell by 2,000 (-3.8%) to 60,000 while the number of unemployed women fell by less than a thousand (0.9%) to 38,000.

The ILO unemployment rate in Wales fell by 0.1 percentage points to 6.7% in the quarter. The UK average rate of ILO unemployment fell by 0.4 percentage points to 6.4%. The unemployment rate in Wales was higher than in England (6.3%) and Scotland (6.4%) but equal to that in Northern Ireland (6.7%). Within England, the North East (9.4%), the North West (7.0%), Yorkshire and Humberside (7.8%), the West Midlands (7.7%), and London (7.2%) had a higher unemployment rate than Wales. South East England (4.4%), the East of England (5.0%) and South West England (5.3%) had the lowest unemployment rates.

The administrative count of people unemployed and claiming Jobseeker's Allowance (JSA) is somewhat lower (56,400 in Wales in July 2014, a JSA claimant count rate of 4.0%) than ILO unemployment because non-JSA claimant jobseekers are excluded. The number of JSA claimants in Wales decreased by 1,400 between June and July 2014. However care should be taken in interpreting change in the claimant count since this can be influenced by changes to the benefit system as well as underlying change in the labour market.

The number of economically inactive people of working age in Wales increased by 18,000 (+3.8%) between the quarters January to March 2014 and April to June 2014. As the LMI scorecard shows the working age rate of economic inactivity in Wales (25.7%) is 3.8 percentage points higher than the UK average (21.9%).

Within the UK nations and regions only Northern Ireland (26.6%) had a higher inactivity rate than Wales in the quarter April to June 2014. The lowest inactivity rates are in the East of England (19.3%), the South West (19.5%) and the South East (19.7%).

LMI scorecard

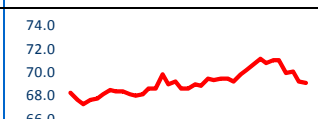
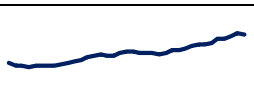
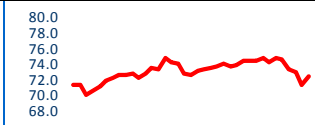
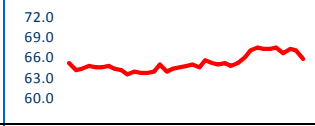
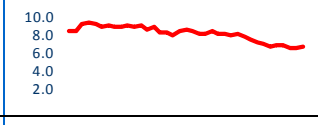
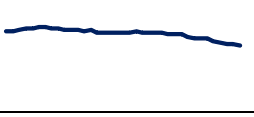
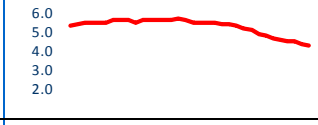
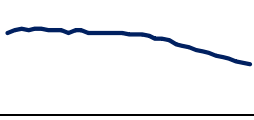
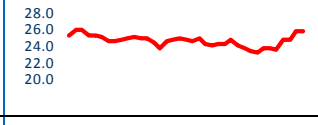
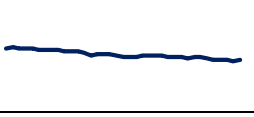
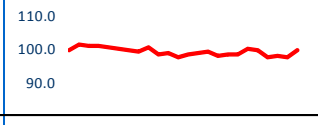
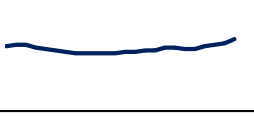
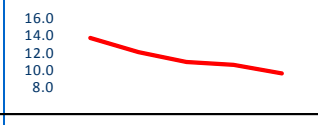
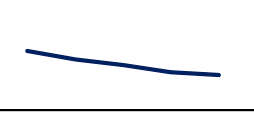
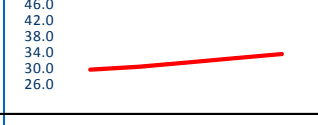
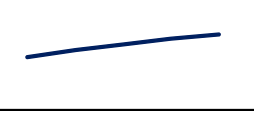
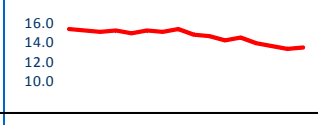
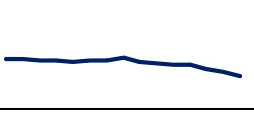
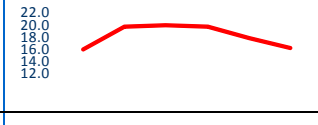
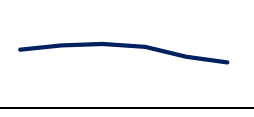
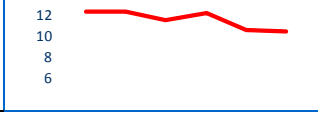
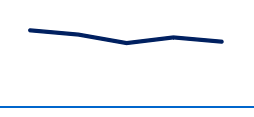
The scorecard presents recent trends and figures for a number of core labour market indicators, using a variety of different sources:

	Source
Working age employment rate	1
Working age male employment rate	1
Working age female employment rate	1
ILO unemployment rate 16+	1
Claimant count as a proportion of the working age population	2
Working age economic inactivity	1
Index of workforce jobs	3
Proportion of the working age population with no qualifications	4
Proportion of the working age population qualified to NQF4+	4
Proportion of the working age population who claim out of work benefits	5
Children living in workless households	6
Proportion of 16–18 year olds who are not in employment, education or training	7

1	LFS, ONS: subject to sampling variability and should be used with caution
2	Claimant count seasonally adjusted, NOMIS: trends can be affected by changes to benefit rules
3	Employer surveys, household surveys and administrative sources, ONS
4	Annual Population Survey/Annual Local LFS, ONS. Data is subject to sampling variability and should be used with caution.
5	Department for Work and Pensions, NOMIS
6	Household LFS, ONS: subject to sampling variability and should be used with caution
7	Source: ONS, Higher Education Statistics Agency, Welsh Government Lifelong Learning Wales Record, Pupil Level Annual School Census, Annual Population Survey.

LMI Scorecard

August 2014

		Wales		Difference between Wales and National (latest figures): Better / Worse	NATIONAL (UK or GB depending on indicator)	
		Trend (Three to four years)	Latest result & trend		Latest result & trend	Trend (Three to four years)
Supply of Labour	Working age employment rate (%)		69.1% ↓	-3.9 Charts cover: Apr - Jun 11 to Apr - Jun 14	73.0% ↑	
	Working age male employment rate (%)		72.5% ↓	-5.5 Charts cover: Apr - Jun 11 to Apr - Jun 14	78.0% ↑	
	Working age female employment rate (%)		65.7% →	-2.3 Charts cover: Apr - Jun 11 to Apr - Jun 14	68.0% ↑	
	ILO Unemployment rate 16+ (%)		6.7% ↓	0.3 Charts cover: Apr - Jun 11 to Apr - Jun 14	6.4% ↓	
	Claimant Count as a proportion of the workforce, seasonally adjusted (%)		4.0% ↓	1.0 Charts cover: July 11 to July 14	3.0% ↓	
	Working age economic inactivity (%)		25.7% ↑	3.8 Charts cover: Apr - Jun 11 to Apr - Jun 14	21.9% ↓	
Demand	Index of workforce jobs. 2008 Q1=100		103.0% ↑	0.0 Charts cover: 2008 Q1 to 2014 Q1	103.0% ↑	
Skill gaps	Proportion of the working age population with no qualifications (%)		9.7% ↓	1.0 Charts cover: Year to Dec 09 to year to Dec 13	8.7% ↓	
	Proportion of the working age population qualified to NQF4+ (%)		33.6% ↑	-4.0 Charts cover: Year to Dec 09 to year to Dec 13	37.6% ↑	
Worklessness & NEETS	Proportion of the working age population who claim out of work benefits		13.5% ↓	2.9 Charts cover: May 10 to Feb 14	10.6% ↓	
	Children living in workless households (%)		16.1% ↓	2.9 Charts cover: Oct-Dec 2008 to Oct-Dec 2013	13.3% ↓	
	Proportion of 16-18 year olds who are NEET (%)		10% ↓	2 Charts cover: 2008 to 2013	8% England ↓	

Skills, Growth and Productivity

Introduction

Workforce skills have long been accepted as a driver of economic growth and a key component in assisting the rebalancing of the economy as demand continues to shift towards knowledge-based industries and employment.

This month's spotlight is on the extent to which skills influences economic growth. It focuses on the benefits to individuals of developing their own skills, highlighting the benefits and improved prospects of people with both higher level skills, and also those with the essential skills required for employability in the current labour market.

A broad consensus

There is a broad consensus that developing skills in the workforce has a positive effect on economic development and growth. The 2008 International Labour Conference reached the following conclusions on skills development:

> 'skills development can be an important tool for reducing poverty and exclusion and enhancing competitiveness and employability. It is increasingly clear that the vicious circle of inadequate education, poor training, low-productivity jobs and low wages traps the working poor and excludes young persons and workers from participating in economic growth. The conclusions seek to engender instead a virtuous circle in which improving the quality and availability of education and training for women and men fuels the innovation, investment, technological change, enterprise development, economic diversification and competitiveness that economies need to accelerate the creation of more but also better jobs and thereby improve social cohesion.'

International Labour Office, 2008

This view is echoed in the Welsh Government's Policy Statement on Skills,

> 'skills have a major impact on both the economic and social well-being of Wales as a substantial policy area devolved to the Welsh Government. Together with policy action to support the employability of individuals, skills provide a strong lever for tackling poverty and strengthening the creation of jobs and growth.'

However, measuring the impacts of economic drivers such as skills are not easily quantifiable (the UK Commission for Employment and Skills includes skills within what it refers to as 'intangible assets'), so the evidence base for such an analysis is fairly small, limited to a number of specific research studies or surveys that have attempted to correlate the development of skills with changes in growth and productivity.

What is the evidence?

UKCES produced a report in 2011 on the impact on economic performance of 'intangible assets', in response to the fact that current measurements of productivity do not fully account for variations in performance. They grouped intangible assets into three main categories:

- Economic Competences - such as brand equity which would include advertising and marketing expenditures. This category includes firm specific resources, including human capital (investments in training) and organisational structure (management).
- Innovative Property - this includes both scientific R&D and non-scientific R&D. Non-scientific R&D includes research in social sciences and humanities, mineral exploration, new motion

picture films and other forms of entertainment, new architectural and engineering design and new product development in financial industries.

- Digitised information - this is often measured as IT capital, composed of software as well as databases.

Existing studies at the macro level suggest intangible assets make a significant contribution to productivity growth and micro level studies suggest intangible assets help to explain difference in performance between firms.

Because intangible assets are embedded in knowledge workers, and as such are difficult to disentangle from firms' human capital, the UKCES research developed measures of intangible assets for UK firms based on the labour input of workers in high skilled organisations, R&D and IT related occupations. These measures are then used to assess how firms employ intangible assets to increase productivity and raise economic performance.

In conclusion, the research estimated that of average annual productivity growth in the UK of 3.49% between 2003 and 2006, the contribution of intangible assets was 0.33%, around 9.5% of the total. The association between R&D intangible assets and productivity is positive in many sectors, but appears particularly strong in mining, quarrying, and high technology manufacturing. IT capital provides a significant and positive contribution across all sectors, while organisation capital has a significant and positive contribution in nearly all sectors. In more mature, low technology manufacturing sectors, organisational capital is particularly important, illustrating these sectors' reliance on achieving performance increases through process innovation rather than technological innovation.

The Higher Education Sector

A 2013 BIS research study into the economic impact of graduates found that 'the empirical literature typically finds a positive relationship between education and GDP growth'. The study involved a growth accounting analysis, which indicated that graduate skills accumulation accounted for roughly a fifth of GDP growth in the UK from 1982 to 2005. This approach restricts the estimated impact to the direct productivity enhancement from graduates and excludes any wider impacts or externalities to HE which may raise the productivity in the rest of the economy.

Further econometric analysis indicated that a 1% increase in the share of the workforce with a university degree raises the level of long run productivity by 0.2-0.5%. With the share of the UK workforce with a university education having increased by 57% between 1994 and 2005, their estimates suggest this will have raised UK long-run productivity by 11-28%. This means that at least one-third of the 34% increase in labour productivity between 1994 and 2005 can be attributed to the accumulation of graduate skills in the labour force.

Vocational Education

A 2014 research study by the European Centre for the Development of Vocational Training investigated the macroeconomic benefits of vocational education and training (VET). The study focused on Denmark, Germany, France, the Netherlands, Sweden and the UK, which have very different VET systems and thus permitted some comparative analysis of the macroeconomic benefits according to the type of VET system in place in the different countries.

This analysis showed a stable long-run relationship and a weaker short-run relationship between skills and average labour productivity (ALP), and provides considerable evidence of a positive relationship between upper-intermediate vocational skills[1] and relative ALP performance, especially in production sectors. This positive relationship is found to occur primarily in countries where apprenticeships are common and is stronger when vocational skills are broadly defined to include uncertified skills acquired through employer-provided training.

In those countries where the effect of VET on productivity is stronger – i.e. those with a tradition of apprenticeship in VET (Denmark, Germany, and the Netherlands) – various types of qualification, general and vocational, obtained at various levels, appear to complement each other, in that there is a noticeable increase in the productivity of low-skilled labour.. In the remaining countries (including the UK) higher academic skills tend to be more important for increasing productivity than VET, but the effect of academic education is reinforced by skills acquired through continuing training at work.

Skills and growth of businesses

Research conducted by NESTA in 2012 found that even during the recent recessionary period, as many as 6.6% of firms with 10 or more employees could be classed as 'high-growth firms' (HGFs) according to the standard OECD definition of this term i.e. they achieved average annual growth rates in employment of at least 20% over a three-year period.

Their research also highlighted two key characteristics of fast-growing firms - youthfulness and innovativeness. Relatively young firms aged five years or less were over-represented among HGFs while rapid firm growth was also found to be closely linked to prior investments in innovation and in the development of innovation-related skills and capabilities. The links between firm growth and innovation-related skills and capabilities raised a number of questions about the impact of skills in general on firm growth, which the research went on to address:

- How do fast-growing firms differ from slower-growing firms in terms of product strategy and other elements of business strategy?
- How much does rapid firm growth depend on prior training of firms' own employees?
- Are fast-growing firms heavy trainers of their own employees or do they tend to rely on external recruitment to meet their skill needs?
- Do their commitments to employee training change as their experience of rapid growth is prolonged?
- Is there any evidence that firm growth is restricted by the presence of skill-related external recruitment difficulties or internal skill gaps among their existing workers?

Their analysis drew on matched data from the National Employers Skill Surveys (NESS) and the Business Structure Database (BSD) to examine the impact of workforce skills on firm growth and the means by which fast-growing firms seek to meet their skill requirements. Their main findings were:

[1] The authors define 'upper intermediate vocational' level qualifications as equating to short-cycle higher education or, in some countries, technician-level education. Generally, these qualifications would be at the equivalent of level 4 of the UK's National Qualifications Framework.

- Firm growth in both employment and sales is significantly positively related to the deployment of 'high-end' product strategies which typically rest on innovation leadership, supplying premium quality products and the ability to compete effectively without resort to low prices.
- Such product strategies are skill-intensive. In seeking to meet their skill requirements, fast-growing firms clearly engage in substantial training of their employees as well as searching for skilled workers on the open market. Estimates show that firm growth is significantly positively related to prior investment in training in the case of rapid growth in employment.
- There were strong positive links between training provision and firm growth in both employment and sales.
- There were surprisingly high levels of training at a late stage of a rapid growth period. It was surmised that the costs of training are outweighed by the pressing need for fast-growing firms to develop new skills and competences in order to deal with the problems and challenges that are part and parcel of rapid expansion. The ability to identify skill updating needs and take steps to meet them through training may well facilitate continued firm growth.
- Firms that were growing fast in terms of employment were more likely to encounter skills-related recruitment difficulties than were slower-growing firms, simply because they had more vacancies to fill. However, fast-growing firms' heavy investments in training appear to help them surmount such problems rather than be held back by them. Firm growth also does not appear to be hindered by internal skill gaps (defined as lack of full proficiency) among existing employees.

Summary

In summary, the available research shows clear links between the development of skills and economic growth. Although difficult to measure, the available estimates show significant contributions to both GVA and productivity growth in terms of higher level, graduate skills, vocational education and training and intangible assets associated with research and development and ICT.

Furthermore, the evidence is clear that firms who invest heavily in developing the skills of their own workforce are more likely to achieve higher rates of growth, both in terms of sales and the number of people they employ.

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