north east england

Skills North East
The Regional Skills Partnership

EMPLOYMENT AND SKILLS ISSUES IN THE NORTH EAST

A REPORT BY TWRI FOR SKILLS NORTH EAST – THE REGIONAL SKILLS PARTNERSHIP

EXECUTIVE SUMMARY

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EXECUTIVE SUMMARY: EMPLOYMENT AND SKILLS ISSUES FACING THE REGION

Employment Demand-Side

E1: Employment growth has been slow over the long-term - but accelerated since 2002/03. Employment growth has been slow in the 1990s[1]. In the five years from 2000/01, however, employment has grown by over 35,000 (3%).

- Employment has grown overall due to expansion of public services (up 47,000). Private sector employment has actually fallen by about 12,000 (nearly 2%). As always, manufacturing has shed the bulk of the jobs, but more rapidly than in the mid-1990s (down 58,000; -28%) since 2000/01. Transport & Communication has also shed jobs.
- The biggest growth in private sector employment [and the second-largest growth overall] has been in construction (up 23,000; +32%). Finance & Business Services employment grew by 12,000. [Both of these big expansions of private sector employment have been greatly assisted by low interest rates stimulating demand for building and the associated financial services -Ed.]
- This growth in demand for employment has helped to raise employment rates for most age groups (with benefits for incomes and other social positives).
- Employment growth will have helped skills retention. It will also have helped more people to retain more up-to-date work experience. Employment rates have risen particularly for the over-50s – which should have helped to retain experience and tacit knowledge better than in previous decades. These are indirect benefits to the skills pool.

E2: A growing stock of businesses from a small base.

- The North East has an exceptionally small number of businesses[2] in relation to population (about 40% below the UK average). The reasons for this include; lower incomes (creating about 20% lower consumer demand), a relatively large public sector (providing about an extra 3-5% jobs outside the market sector) and a relatively large average firm[3] size. These reasons are quite apart from the supply-side constraints such as the smaller pool of managerial experience (about 5 percentage points[4]) and the much lower amount of housing wealth (for collateral).
- Nevertheless, since 2002 the stock of VAT registered businesses has grown faster than in the UK. This faster business growth may be due to faster growth of housing wealth (collateral) and/or the faster growth of employment (supporting a higher level of consumer demand). This growth of businesses will have expanded the pool of people with experience of running small businesses [- a positive feedback].
- Certainly, business growth is not due to faster business start-ups; these have actually fallen. Rather, business survival rates have improved substantially since the mid-1990s (partly helped by the environment of economic stability) (§4.1.2). Higher business survival rates have probably been more helpful, than high business start-ups could have been, for the creation of (successful) business skills.

E3: Low levels of productivity (GVA per employed person). The North East has low levels of productivity, around one sixth below the UK average.
NE productivity growth has been quite slow since about 2000; this may reflect the expansion of the public services – which has broadly been achieved with higher employment levels with low measured improvement in productivity.

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[1] NE employment grew only 3% over nine years from 1992 to 2001 (LFS).
[2] Registered for VAT (46,000 firms when it "should have" nearer 70,000 based on the UK)..
[3] At least establishment size (31.5% of employees worked at establishments with 200+; 30.4% in Great Britain).
[4] Managerial & professional employment is about 22.6% in the NE, but 28.1% in Great Britain.

Adjusting for the lower price level in the NE, this gap has been estimated to be much less marked[5]. Moreover, broadly, productivity is respectable for much of manufacturing (the 'modern' parts).
Low productivity across most market services is the main drag on NE productivity. This partly reflects the mix of lower value service *industries*[6] but also the lower value *activities* within service industries, notably in financial services.

Skills Demand-Side

S1: Low Demand for higher-level skills

- The proportion of jobs which are **managerial or professional** (22.6%) is 5.5 percentage points – about a fifth - lower than in England (28.1%)(§4.2.2). This gap has, however, **narrowed slightly** (by 0.2pp) from 5.7 percentage points in 2000-01[7]. Moreover the gap for managers has narrowed markedly from 4.1 to 3.0 percentage points.
- For **professionals**, however, (despite huge NHS expansion) the **gap has widened** from 1.6 to 2.5 percentage points; presumably due to slower growth in the NE than nationally in business and professional services.
- The private sector's low demand for high-level skills appears to be **a major constraint** on the retention of highly qualified people in the NE region. Without faster growth of demand for high-level skills in the NE, it is predictable that highly qualified people will leave.
- Nevertheless, the growth of the proportion of jobs which are managerial or professional (up by 2.3 percentage points from 20% in 2000/01) suggests these are growing by very roughly a quarter per decade.

{About a quarter of jobs in the NE require graduate-level (NVQ4) skills, whereas in London and the SE about 30-35% of jobs are at this level. This level of skills demand is significantly below the output flow of young people from higher education (which is about two-fifths of the age-cohort).

Labour Market Adjustment to Demand

A1: Market **adjustment to the marked increase in demand for employment has mainly been ("successfully")** through making use of unused labour and increasing the labour supply at low cost – the first three of the identifiable effects (below):

- The **unemployment** rate **fell by almost a third** from 2000 to 2004 (down 2.6 percentage points) from 8.5% to 5.9%. Since 2004, however, overall unemployment has risen slightly (up 0.3 percentage points). This may reflect the expansion of labour supply (and some consequent displacement). Since 2004, unemployment rates have risen more than overall for the younger age groups (16-24s).
- **Increased economic activity rates**[8] – higher employment levels have encouraged more people from the Population of Working Age (PWA)[9] to enter the labour market. The economic activity rate has risen by 1.2 percentage points since 2000 – adding nearly 20,000 people to labour supply - particularly women but also amongst the over-50s.
- **In-migration, notably from abroad.** The international labour migration from the new EU countries has helped to meet labour shortages, overwhelmingly in low-paid occupations and industries. This has probably been particularly important for the construction industry (because of its rapid growth) but also in hospitality etc.. This is a new phenomenon. Since 2004 this at least coincides with the rise in unemployment rates for the under 25s; young people (in particular) appear to have faced the bulk of the competition from this new source. Domestic migration (with the Rest of UK) has also turned positive since 2002.

[5] Julian Gough Northern Economic Review (2006).
[6] Essentially Distribution and Transport & Communications rather than Finance & Business Services.
[7] The previous report noted "managerial and professional occupations …increased proportionately…[but] not as much as elsewhere in the country."
[8] Economic Activity Rates (EARs) are also called 'participation rates'.
[9] PWA means aged 16-59/64.

- **Slightly faster earnings growth** than nationally, by two percentage points over the five years since 2001 (NE up 21.5%) – although the reasons for this are open to debate – and may well be explained by sectoral and occupational change[10].
- **Skill shortages** overall remain at reasonably low levels (§5.2)[11]. There are, however, substantial differences at sector (SSC) level. Skills shortages appear (2005) highest for professional services, miscellaneous services, transport and (particularly) communications.[12] Transport equipment was another problem sector (presumably the motor industry rather than shipbuilding/offshore). A number of manufacturing industries also reported high vacancy rates.

Labour Supply-Side

L1: Generally, the supply of labour has been increasing adequately to meet higher employment demand.

L2: One potential issue is the **ageing** of the working age population.
The **population of working age is ageing markedly**; from **2004-14** the population aged 16-44 will fall by over 50,000 (about 5%) whilst the **45-64s will rise by over 60,000 (a rise of almost 10%)**[13]. If the employment rates for people aged 50-retirement age continue to rise more rapidly than for other groups, the profile of people in work will age even more markedly.
Caution: These projections take no account of the (recent[14]) higher retention of young people nor of the post-2004 international in-migration of young adults – both of which could significantly ameliorate the decline of younger workers.

Net migration has been positive for the NE since 2002[15] (with the Rest of UK) and since 2004 for international migration. This is a marked change from the net out-migration of the past two decades.

Much **better retention of young people**. The NE is **no longer losing** more **young working age people** (aged 20-29) than it gains of 15-19s. This is a marked (+4,000) improvement from the position in 2001 (when it lost a net 3,300 15-29 year olds)[domestic migration only]. This improvement has been mainly through lower gross outflows. This is probably the result of overall improved employment growth – and thus chances of getting a job - in the region.[16]

Economic activity rates are still low by national standards – offering **more potential to expand the labour supply**. The overall[17] economic activity rate would need to rise by 3 percentage points (from 75.2%, or about 50,000 people) to match England & Wales (E&W). This is a simple indicator of the

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[10] For example faster growth of managers and professionals combined with faster decline of manufacturing.
Caution: Faster earnings growth might also reflect the public service expansion (being in better-paid jobs and this sector having a larger share of total employment.)
There is no evidence of the overall upward employment demand pressure (across the labour market) raising earnings significantly faster than in GB.
These ASHE data are also subject to a degree of sampling error, as well as overall upward employment demand pressure (across the labour market).
[11] TWRI suspects that skill shortages have increased since 2000/01, but NESS data start only in 2003.
[12] LSC National Employer Skills Survey, 2005. Presumably the shortages in communications are for engineers (but this needs corroboration).
[13] ONS 2004-based population projections (as published in 2006).
Caution: these projections are due to revision in 2007, especially in the light of new work on international migration.
[14] Recent here means 2005 and 2006.
[15] Domestic migration was positive in net terms in the year to mid-2003.
[16] Out-migration might have also fallen for the negative reason that house price gaps have become un-bridgeable for some potential out-migrants (particularly those young people wishing to leave the NE for middle and lower earning jobs).
Theoretically, faster growth of post-graduate education in the NE than in the UK could also have lead to more retention of young people in the NE than in the past.
[17] For People of Working Age (16-59/64).

potential labour supply. There is still scope to raise activity amongst women (1.8pp to match E&W) and especially over 50s[18] (8.1 percentage points from 64.8% to match EW). Men's economic activity rates would have to rise by 4 percentage points (from 79.1%) to match E&W. Moreover about a quarter of inactive people of working age say they would like a job (which suggests potential additional labour supply of about 80,000 people) – which could allow the employment rate to rise by about 5 percentage points (to over 75%).

Incapacity Benefit numbers have been reduced by 8%, but with **unclear effects on labour supply.**
The above potential release of labour supply is, however, possibly constrained by much higher permanent sickness amongst the NE inactive population.
Nevertheless, numbers on Incapacity Benefit have fallen in the NE by 12,500 since 2001 (down 8%), whilst they have risen slightly in England & Wales (up 2%).
It is not clear, however, whether people who left Incapacity Benefit have gone into the labour market; they could, for example, go onto another benefit or into retirement.

Low employment rates (under 70%) suggest the greatest potential for employment growth in most of the poorer Districts; Middlesbrough, Hartlepool, Redcar & Cleveland, Easington, Sedgefield, Teesdale, South Tyneside and Sunderland.[19]

Skills Supply-Side

Qualification-levels have risen markedly more quickly than nationally at NVQ2 (up 3 percentage points) but not at the highest levels.

The NE has a number of weaknesses in the supply of skills:
S1: Lower proportions of people with high-level (graduate) qualifications.

- The gap at NVQ4+ (graduate-level) is big at about five percentage points (about 21% of People of Working Age; England is about 26%) (§6.2.1).
- Moreover the proportion of PWA with NVQ4s rose slightly less quickly than in England (up about 2.7 and 2.8 percentage points since 2001/02).
- This supply constraint may have held down employment growth of professionals which was significantly slower than nationally - but it has not prevented the region's rapid growth of managerial employment (§4.2.2).

S2: Low participation in education after 16. The gap[20] at age 17 in participation in full-time education actually widened between 2002 and 2004 from 5 to 7 percentage points (with participation stuck at 53%).
[This may well have been one of the negative effects of the overall employment growth in the NE – distracting some 17 year olds from study.]

S3: Below Average academic performance. The NE is below the English average for academic performance, particularly after Key Stage 2. The gaps have, however, generally narrowed over recent years.

- Nevertheless, poor academic performance limits the potential for the NE to raise qualification levels, particularly at the higher levels.
- Low performance at A/AS level limits the potential numbers who can enter higher education (where the average point score was practically 75 in the NE, but over 80 in England).

S4: Low participation in Higher Education.
Acceptances for Higher Education are 36.0% of the NE age cohort, which is over nine percentage points lower than in England (45.4%).

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[18] Strictly 50 to retirement age.
[19] The universities in Newcastle and Durham City distort (depress) this indicator (due to students who are not in employment). This is why TWRI excludes them from the conclusion. There will also be an effect in Sunderland and Middlesbrough – but this is likely to be smaller due to higher proportions of students being in employment.
[20] Gap with England.

S5: Poor Basic Skills
There remain higher levels of people with low levels of basic literacy, numeracy and ICT skills.
This constrains productivity currently.
In the longer-term, it also threatens the employability of this significant section of the workforce.

Overall, the North East needs to strengthen its private sector to continue expanding overall employment, up-grading its school-level academic performance, participation in education after 16 and entry to Higher Education.
Some emerging specific skills issues need to be monitored and responses made where necessary.