JOBS AUDIT

The trend in UK redundancies

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The start of 2013 has seen a spate of high profile redundancies in several sectors of the economy, notably in retailing where several big name chains have been forced out of business or had to shed staff. But as this Jobs Audit finds by looking at the trend in UK redundancies before, during and after the recession, redundancies are not a straight forward barometer of the state of the economy.

The trend in redundancies

Table 1 shows the level of redundancies in the UK in each quarter between January-December 2008 and September-November 2012, corresponding to the period since the start of the financial crisis. The total of 3.41 million people made redundant during that period – a figure which will by now have exceeded 3.5 million - is equivalent to over 13 % of employees in work at the start of the recession. In other words, approximately 1 in 7 employees in spring 2008 will have subsequently directly experienced redundancy (setting aside the likelihood that some of these people may have been made redundant more than once during that period).

Table 1 UK redundancies 2008-2012 (seasonally adjusted)

	2008	***2009***	***2010***	***2011***	***2012***	***Total***
Jan-Mar	120,000	299,000	176,000	123,000	172,000	
Apr-Jun	121,000	267,000	151,000	154,000	150,000	
Jul-Sep	155,000	205,000	145,000	147,000	128,000	
Oct-Dec	263,000	166,000	147,000	164,000	158,000*	
Total	659,000	937,000	619,000	588,000	608,000	3,411,000

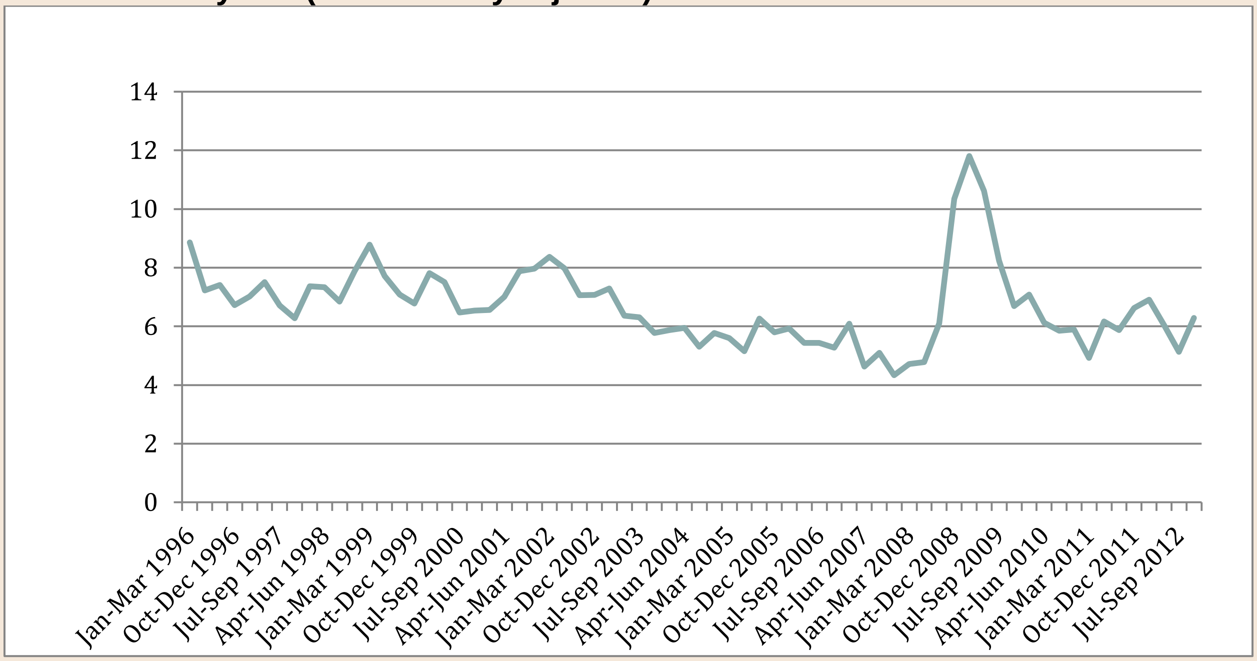
Note: * 2012 figure Sep-Nov

Source: Office for National Statistics

Redundancies are a normal feature of a dynamic labour market and not necessarily the result of recession or a flat lining economy. Redundancies may instead be a symptom of competition and structural change which brings bad news for those directly affected but also benefits for the consumer and economy overall. It is important to appreciate, for example, that 2.8 million people were made redundant in the five years before the start of the financial crisis, with the difference between the number of redundancies in the pre and post-recession periods entirely due to a big shake out of workers in the depth of the recession in late 2008 and early 2009.

Indeed, although the rate of redundancy in the past five years has generally been higher than the previous five years, redundancy rates during most of the recession have been below those seen in the late 1990s and early 2000s when the economy was enjoying a healthy rate of growth. Remarkably therefore the total number of people made redundant since the start of the deepest and longest economic crisis since the 1930s is exactly the same as the number made redundant in the five years to 2003.

UK redundancy rate (% seasonally adjusted) 1996-2012



Source: Office for National Statistics

Note: The redundancy rate is the ratio of the redundancy level for the given quarter to the number of employees in the previous quarter, multiplied by 1,000.

The Office for National Statistics consistent time series of redundancies does not stretch back beyond the mid-1990s but what is evident from the available data is a break in the redundancy trend from around 2002 (figure 1).

The 1990s and early 2000s was a period of considerable and ongoing organizational restructuring. Employers began to take advantage of rapid information and communication technology as well as responding to globalization by locating or offshoring more activity overseas. This began during the early 1990s recession – giving rise to the phenomenon known as ‘over-sacking, which saw UK employment in percentage terms contract by more than GDP – and was followed by the managerial vogue for ‘downsizing’.

At the time there was much discussion of the possibility that an elevated redundancy rate in the range of 7% to 8% per quarter would be the norm even in good economic times. However, while the pace of economic growth actually moderated somewhat in the 2000s, 2002 marked the start of a downward shift in the redundancy rate to the range of 4% to 6%. And although the shock of deep recession in 2008-9 triggered a sharp spike in redundancies, the redundancy rate has subsequently fallen back and at present shows no sign of rising substantially above the pre-recession rate despite prolonged economic stagnation and the impact of large scale job cuts in the public sector.

The observation that what might be called the UK’s ‘normal’ (i.e. core underlying) redundancy rate fell well before the recession is significant. It suggests that the lower than expected level of redundancies in recent years, which is often partly attributed to more cooperative employment relations and pay restraint triggered by the financial crisis, labour hoarding by employers, or ‘zombie’ companies kept alive by very low interest rates since 2009, is in fact symptomatic of a longer term structural change in the economic and business climate.

There are several possible reasons for the structural decline in the redundancy rate. These include:

Following the period of widespread restructuring in the 1990s and early 2000s organisations may have established optimal staffing and skill levels, reducing the need to engage in constant radical business surgery and placing greater emphasis on keeping hold of skilled workers;

Increased use of flexible labour - temporary agency workers or self-employed contractors – so that short-term adjustments to staffing levels can be made without affecting core permanent employees, albeit according to the most recent Workplace Employment Relations Survey there has been little change in the use of such flexible labour since 2004;

Improved employee rights and better redundancy terms, making it more difficult and more expensive to make staff redundant;

A rising share of employment in labour intensive service sector organisations with lower normal rates of redundancy, especially those providing personalized services of a kind less susceptible to technological change or offshoring;

A structural break, also at around 2002 as identified in a number or recent articles by economists Paul Gregg and Steve Machin, in the trend rate of growth in real earnings, which has reducing pressure on organisations to cut labour costs or introduce more capital intensive production methods.

Whatever the precise cause or combination of causes of the fall in the normal redundancy rate some of these factors are also likely to be related to the fall in labour productivity since the start of the recession. Insofar as the so-called ‘productivity puzzle’ is at least partly a reflection of underlying structural weakness in the UK economy rather than merely a symptom of deficient demand, the fall in the normal rate of redundancy might also indicate that the current productivity malaise is not merely a consequence of the financial crisis and resulting major recession but has its roots in economic developments prior to the crisis. It therefore looks as though the UK economy was becoming somewhat less dynamic before the post-recession productivity slump, which bodes ill for medium term growth prospects.

The incidence of redundancies since 2008

Of all those people made redundant in the past five years 2.16 million (63.3%) are men and 1.25 million (36.7%) women (table 2a and b). For both men and women 2009 was the peak year for redundancies, although in terms of share in total redundancies 2011 and 2012 have been the two worst years for women.

Table 2a UK redundancies 2008-2012, Men, seasonally adjusted

	2008	***2009***	***2010***	***2011***	***2012***	***Total***
Jan-Mar	84,000	196,000	117,000	79,000	108,000	
Apr-Jun	70,000	180,000	102,000	86,000	86,000	
Jul-Sep	90,000	135,000	89,000	82,000	77,000	
Oct-Dec	181,000	114,000	91,000	93,000	101,000	
Total	425,000	625,000	399,000	340,000	372,000	2,161,000
As % all redundancies	64%	67%	65%	58%	61%	63%

Table 2b UK redundancies 2008-2012, Women, seasonally adjusted

	2008	***2009***	***2010***	***2011***	***2012***	***Total***
Jan-Mar	36,000	103,000	59,000	44,000	63,000	
Apr-Jun	52,000	87,000	49,000	69,000	64,000	
Jul-Sep	65,000	70,000	56,000	65,000	52,000	
Oct-Dec	82,000	52,000	56,000	72,000	57,000	
Total	235,000	312,000	220,000	250,000	236,000	1,253,000
As % all redundancies	36%	33%	35%	42%	39%	37%

Source: Office for National Statistics

This latter outcome is likely to reflect change since 2008 in the incidence of redundancies by industrial sector. The share of services in total redundancies has increased from well below a third to just over a quarter. This is mainly due to a sharp increase in the share of redundancies in public administration, education and health which increased from 8% to 25% between 2009 and 2011, before falling back to 16% in 2012.

Table 3 Share of total redundancies by broad sector, q3 2007-q3 2012, not seasonally adjusted

	2007	*2008*	*2009*	*2010*	*2011*	*2012*
1.Manufacturing	26.2%	16.2%	19.2%	12.6%	10.2%	13.2%
2.Construction	8.6%	20.7%	18.5%	12.1%	12.2%	9.0%
3.Total Services	64.4%	61.0%	61.3%	73.7%	74.9%	76.0%
(of which public administration, health and education)	10.8%	7.8%	7.9%	20.1%	25.6%	16.5%

Note: 1+2+3 does not sum to 100% because redundancies not classified by sector are not included

Source: Office for National Statistics