An International Perspective on the UK - Labour Market Performance

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Abstract

This note sets recent movements in UK economic statistics in an international context, this edition will focus on recent labour market statistics. It is part of a new series of quarterly publications each with a different focus, which aim to support the understanding of the UK economy by drawing international comparisons. They use a wide range of data, including information produced by other organisations on an internationally comparable basis.

Key findings

- The UK experienced a bigger fall in real Gross Domestic Product (GDP) during the 2008-2009 economic downturn than most other major economies, and has seen slower than average growth since the trough.
- In view of the weakness in GDP since 2008, the UK labour market has been more resilient than expected relative to other G7 economies.
- Productivity growth in the UK slowed markedly following the economic downturn, whereas before 2007 the trend in productivity had been similar to that of the US.
- Labour markets in the UK are generally recognised as being more flexible than in other major European economies, but less flexible than the US.
- Pre-downturn, UK real wage growth was the strongest in the G7. Post-downturn, the UK has experienced the largest fall in real wage growth among this group of countries.
- The labour market adjustment following the economic downturn in the UK has been most evident in the response of wages, whereas the response in the US has been more evident in employment.

Introduction

This article sets recent movements in UK economic statistics in an international context. It is part of a new series of quarterly publications which aim to support the understanding of the UK economy by drawing international comparisons. These articles use a wide range of data, including information produced by other organisations on an internationally comparable basis.
Labour market performance is the focus of this article, assessing how developments in the UK compare with those of other countries since the 2008-09 economic downturn. The specific focus will be on employment and unemployment, real wage growth and labour market flexibility. The data used are from the Organisation for Economic Co-operation and Development (OECD), which use information provided by ONS and Eurostat to calculate data series for the UK. The UK's quarterly GDP growth profile is the same as that published by ONS, but there are methodological differences in some of the other UK series. This stems from adjustments made to ONS data in order to make the international data more comparable across countries for unemployment and employment. This analysis will focus on comparisons of the UK with other G7 economies (US, Japan, Germany, France, Italy and Canada) and also with EU economies in aggregate.

Notes

1. The unemployment rate for the UK published by Eurostat is based on the population aged 16-64, but the unemployment rate for the UK published by the Office for National Statistics is based on those aged 16 and over. There are other minor definitional differences.

2. The employment rate for the UK published by Eurostat is based on the population aged 15-64, but the employment rate for the UK published by the Office for National Statistics is based on those aged 16-64.

Gross domestic product (GDP)

Prior to the economic downturn, the UK displayed comparatively strong growth in real GDP. The UK's average quarterly growth rate between 2000 and 2007, as shown in Table 1, was 0.8%. This is higher than that of the OECD average, higher than the respective EU and euro area averages, and the highest of the G7 economies. Following the global financial shock, GDP in the UK fell by 7.2% between Q1 2008 and Q2 2009; this was the joint-second largest peak-to-trough fall among G7 economies. This is bigger than the fall in GDP in the G7 economies on average, and bigger than in the European Union.

The UK’s growth in the period following the recession has been slower than in other major economies. Only Italy and France have had lower average quarterly growth rates than the UK between Q1 2010 and Q3 2013. Average growth in the UK has also been slightly lower than that of the OECD total, in contrast to the faster UK growth of the period up to 2007.
Table 1: Quarterly GDP growth, average %change on the previous quarter, GDP growth peak-to-trough in 2008-09 and peak-to-latest-quarter growth

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<tr>
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<td>-0.4</td>
<td>0.5</td>
<td>-4.9</td>
<td>3.6</td>
</tr>
</tbody>
</table>

Table notes:
1. There are currently 34 members of the OECD: Australia, Austria Belgium, Canada, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom and United States.
2. Source: Organisation for Economic Co-operation and Development (OECD)

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The comparison of the UK with the European Union (EU) and euro area averages shows that growth in the euro area has been slightly lower than that of the wider European Union since 2010. However, both have been lower than that of the UK.

The depth of the UK’s downturn, combined with the weakness of growth since the recovery, has resulted in the UK lagging behind many other economies in returning to its pre-downturn peak. GDP for the UK in Q3 2013 was 2.0% below its pre-downturn peak in Q1 2008. (Latest figures show that this shortfall was reduced to 1.3% following publication of figures for GDP in Q4 2013, but figures for this period are not yet available for most other countries.) In comparison, for the G7 as whole, GDP in Q3 2013 was 2.8% above its pre-downturn peak, with the US and Canada now around 6% higher.
GDP in both the EU and the euro area lies below the respective pre-downturn peaks, by 2.2% and 2.9% respectively, reflecting weakness in Italy and some of the smaller economies.

Notes

1. Equal with Italy and after Japan (9.2%).

Employment

In most G7 economies - apart from Italy and France - the employment rate was around 70% of the workforce prior to the 2008-09 economic downturn (see Table 2). The UK's employment rate was one of the highest among G7 economies, standing at 71.8% in Q4 2007. It then fell to 69.4% by Q4 2011, but has since increased to 70.6% in Q2 2013. This pattern of a fall in the employment rate by Q4 2009, followed by a gradual increase, is common to Canada, France, Japan and the US among the G7. The largest employment rate percentage point fall in the G7 between Q4 2007 and Q4 2009 was experienced by the US (5 points), followed by Canada (2.4 points) and the UK (2.2 points).

Germany actually experienced a rise in its employment rate between 2007 and 2009, and its rate of 73.3% in Q2 2013 was the highest in the G7. The US in contrast has suffered a fall of more than 4 points over the period since 2007. Employment rates have increased since 2009 in all G7 economies apart from Italy. Of the five G7 economies with employment rates of around 70% pre-downturn, the US is the only one whose rate remains below 70%.

Table 2: Employment rate, total employment as a proportion of the workforce aged 15 to 64 years' old

<table>
<thead>
<tr>
<th></th>
<th>Canada</th>
<th>France</th>
<th>Germany</th>
<th>Italy</th>
<th>Japan</th>
<th>UK</th>
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<td>64.7</td>
<td>69.4</td>
<td>58.8</td>
<td>70.9</td>
<td>71.8</td>
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<tr>
<td>Q4 2009</td>
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<td>57.1</td>
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<tr>
<td>Q4 2011</td>
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<td>63.8</td>
<td>73.1</td>
<td>56.8</td>
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<tr>
<td>Q2 2013</td>
<td>72.6</td>
<td>64</td>
<td>73.3</td>
<td>55.6</td>
<td>71.5</td>
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<td>67.3</td>
</tr>
</tbody>
</table>

Table notes:
1. Source: Organisation for Economic Co-operation and Development (OECD)

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Unemployment

The quarterly unemployment rate in the UK averaged 5.1% over the 33 quarters to Q1 2008. This was broadly comparable to the United States, and lower than most other G7 economies. The rate of unemployment in all G7 countries increased during 2008 and 2009, although the increase in German unemployment was small (see Figure 1). The UK's unemployment rate increased from 5.1% in Q1 2008 to a peak of 8.3% in Q4 2011, a larger increase than most G7 economies other than the US. Unemployment rates in France and Italy, which had been higher than the UK prior to 2008, had risen to 10.9% and 12.3% respectively by Q3 2013.

Figure 1: Harmonised unemployment rates in the G7 nations from Q1 2000 to Q3 2013

Notes:
1. Source: Organisation for Economic Co-operation and Development (OECD)
2. The G7 nations include Canada, France, Germany, Italy, Japan, United Kingdom and United States

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The US unemployment rate, which had been equal to the UK rate of 5.3% in Q2 2008, rose considerably faster and reached 9.9% in Q4 2009, but has since fallen back and is now lower than in the UK. Japan and Germany have displayed markedly different trends. Japanese unemployment peaked at the relatively low rate of 5.4% in Q3 2009 and has fallen since to 4% in Q3 2013. German unemployment was 11.4% in early 2005 and has been on a broad downward trend since then. Despite a small increase in 2009, this trend has culminated in Germany reporting an unemployment rate of 5.3% in Q3 2013, supported by some recovery in output and perhaps the impact of earlier labour market reforms.
Productivity

Productivity, measured as output per unit of labour, incorporates the trends seen in both GDP and employment. The recent economic downturn has affected the G7 countries in different ways. Figure 2 shows output per employed person for each G7 country indexed to 2001.

In the period between 2000 and 2007, it is possible to identify three broad productivity country groupings: a high growth group which includes the United States and United Kingdom, a group including France, Germany, Japan and Canada, where productivity grew more slowly; and Italy, where productivity has been broadly flat, perhaps falling slightly.

Figure 2: Labour productivity (output per employed person) in the G7 nations from 2000-2012

Notes:
1. Source: Organisation for Economic Co-operation and Development (OECD)
2. The G7 nations include Canada, France, Germany, Italy, Japan, United Kingdom and United States

Download chart

The UK has displayed a sharp break from its pre-crisis trend, with a sharp fall in productivity during 2008 and 2009, and little subsequent recovery. UK productivity increased on average by 2.2% annually between 2000 and 2007, but fell at an annual average rate of 0.6% from 2008 onwards.

The US has largely maintained its strong productivity growth performance throughout the financial crisis and its aftermath. This results from the sharp fall in employment seen as firms reacted to the reduction in demand by reducing their workforce. In the US, productivity grew by 1.9% between 2007 and 2009, whereas it fell by between 2.0% and 5.3% in the remaining G7 countries, and by
5.0% in the UK. Apart from Italy, the UK has experienced the weakest recovery in productivity between 2009 and 2012.

**Labour market flexibility**

An important influence on a country’s response to changes in demand and output is the flexibility of its labour market. Qualitative analysis by the World Economic Forum (WEF) identifies the UK has having the 5th most efficient labour market (out of 148 countries\(^1\)), compared with the United States (4th), Canada (7th), Germany (41st), France (71st) and Italy (137th). The measure considers flexibility in wage determination, hiring & firing and redundancy costs among other labour market factors.

Within the WEF research, the UK scores relatively well within the G7 on the ‘flexibility in wage determination’ criterion, ranked 12th, with only Japan ranked higher in the G7 (11th). The other G7 countries compare less favourably against this criterion: US 29th, Canada 30th, France 75th, Germany 141st and Italy 142nd. This could affect wage growth post-financial shock, which will be covered in this article.

Other sources point to the different degrees of labour market flexibility within the G7: the OECD ranked the United States as having the least strict labour market protection in 2008, followed by Canada and United Kingdom, with the European countries having more strict employment protection. The World Bank’s Employing Workers data also suggests that the UK labour market is broadly similar to Japan in its restrictiveness for employers, but slightly more restrictive than Canada and the United States.

Greater labour market flexibility helps an economy to respond to changes in demand and output by enabling wages and employment to adjust more easily. Both higher unemployment and lower wage growth may be seen in flexible economies in response to weakening demand. Following the 2008-09 economic downturn, the former has occurred in the United States and the latter in the United Kingdom.

**Notes**

1. Singapore is ranked highest based upon this criterion.

**Real wages**

Measures of real wages take account of the effect of price inflation. If a worker’s earnings are unchanged, rising prices mean that real wages are falling and the same income will therefore buy a smaller quantity of goods and services than before. Figures 3A and 3B use consumer prices inflation to calculate real wage growth across the G7; 3A focuses on the pre-crisis period and 3B focuses on the economic downturn and post-crisis phase\(^1\).

Figure 3A shows that the UK experienced consistently positive real wage growth prior to the 2008-09 economic downturn, resulting in cumulative UK real wage growth between 1999 and
2007 of 19%, the highest in the G7. There was also notable real wage growth in France (11%),
Canada (10%), and the United States (9%), with Japan (-5.6%), Germany (1.2%), and Italy (5%)
experiencing smaller increases.

**Figure 3A: Real wage growth in the G7 nations, from 2000-2007**

![Real wage growth in the G7 nations, from 2000-2007](chart.png)

**Notes:**
1. Source: Organisation for Economic Co-operation and Development (OECD)
2. The G7 nations include Canada, France, Germany, Italy, Japan, United Kingdom and United States

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Figure 3B shows real wages in the UK falling markedly since 2007, by a cumulative 6.1% - the
biggest fall in the G7. At the same time, real wage growth was mainly positive for Canada (4%),
France (2.8%) and Germany (3.1%).
These trends once again point to differing economic conditions across the G7 countries. The notable fall in real wages for the UK compared with the US suggests that the labour market adjustment following the downturn has perhaps taken place more on the wages side for the UK – with nominal wage growth being less than the rate of inflation – and on the employment side for the US, with a notable increase in the unemployment rate. The picture of labour market adjustment in the other G7 countries varies considerably, with Japan showing little change in the pattern of falling real wages from that prior to the downturn, while France and Germany have both experienced rising real wages since 2008.

Notes

1. Real wages are defined here as average annual wages per full-time and full-year equivalent employee in the total economy, adjusted for all items consumer prices.

Conclusion

GDP in the UK underwent the joint-second largest contraction of the G7 economies during the 2008-09 economic downturn. Despite this, the UK labour market was relatively resilient in comparison with many other G7 countries, with UK unemployment remaining around the G7
average. The relative weakness of output in the UK relative to employment has resulted in a sharp fall in productivity in 2008 and 2009 followed by a period of stagnation. The trend in UK productivity growth has therefore shifted from one of strong increases, similar to the United States, to one comparable with slower productivity growth countries such as Germany, France, and Canada. Unemployment in the United States increased markedly from 2008 onwards, while the increase in the United Kingdom was far more modest. On the other hand, real wages in the UK have fallen steadily since 2008, and by more than in most other G7 economies.

Background notes

1. Details of the policy governing the release of new data are available by visiting www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html or from the Media Relations Office email: media.relations@ons.gsi.gov.uk

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