

Working Futures 2007 – 2017

Executive Summaries present the key findings of the research and policy analysis generated by the Research and Policy Directorate of the UK Commission for Employment and Skills. More detailed analytical results are presented in Evidence Reports and all outputs are accessible on the Research and Policy pages of the UK Commission's website www.ukces.org.uk

Executive Summary 2 December 2008

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To obtain copies of this document, contact:

UKCES 3 Callflex Business Park Golden Smithies Lane Wath-upon-Deerne South Yorkshire S63 7ER T +44 (0)1709 774 800 F +44 (0)1709 774 801	UKCES 28-30 Grosvenor Gardens London SW1W 0TT T +44 (0)207 881 8900 F +44 (0)207 259 1290
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Email: communications@ukces.org.uk
www.ukces.org.uk



Department for
Innovation, Universities & Skills

Background

Working Futures 2007-2017 is the third in a series of reports which provide a comprehensive review of the implications of technological change, changes in government policy and legislation, and changes in other economic and social drivers for the UK labour market.

It presents a detailed analysis by industry and geography of the changing demand for labour. The projections are set into an historical context in order to compare the outlook for the next decade or so with recent experience. Working Futures 2007-2017 is provided by the UK Commission for Employment and Skills on behalf of its partners in the project (LSC, DIUS and Regional Development Agencies).

The report fills an important gap. No other publication provides such a comprehensive picture of the UK labour market. Although a number of other public and private organisations produce reviews of economic conditions and develop short and medium-term forecasts, few are focused on the labour market, and none provides such a detailed analysis of prospects for occupations by industry and geographical/spatial area.

The analysis focuses upon the future patterns of demand for skills as measured by occupation. The prime focus here is on the national (UK) picture. However, a summary of the implications for the individual countries and English regions which make up the UK is also provided.

The future cannot be predicted with precision or certainty. Individuals and organisations all make plans for the future (even if it is simply that the future will be little different from the present and the recent past). In doing so, they adopt (implicitly at least) assumptions about what it might be like. Hence, the key question is not whether projections and forecasts need to be undertaken, but rather how this should be done. The rationale behind *Working Futures* is that a comprehensive, systematic, consistent and transparent set of projections provides useful information for all the participants in the labour market.

The case for a regular and systematic assessment of future skills needs has become increasingly well recognised. The need for such work has now been set

out in the European Council's conclusions on "Anticipating and matching labour market needs". All Member States have been charged with contributing to such assessment and anticipation of future skills requirements. The *Working Futures* series is a key element in the UK's response to this demand.

One of the rationales for producing forecasts is to provide some indication to policy makers and other labour market participants about likely developments in an uncertain world. The uncertainties facing the UK economy and labour market have been immense during the second half of 2008. When the *Working Futures* results were first commissioned there was some discussion of the possibility of a slowdown in the world and UK economies. By the time they were ready for publication, there had been a global financial crisis unprecedented in recent times, with a virtual collapse of some aspects of the financial system, and government interventions across the world intended to shore up the banking system and to restore confidence to financial markets.

In such circumstances producing robust economic and labour market projections is particularly difficult. The present results have been finalised at a time when the full implications of the crisis for world and UK economies remain far from clear, a situation that is likely to persist for some time. A significant impact on the real economy seems now to be inevitable, with a recession rather than just a slowdown being the most likely outcome.

The actual baseline macroeconomic forecast that underlies the present results was developed in the first half of 2008, before the extent of the economic slowdown became fully apparent. The forecast almost certainly underestimates the likely short term downturn that will affect certain parts of the economy.

Despite these uncertainties, the current projections can still be used to explore longer term developments in the demand for skills. Changing patterns of employment by occupation are largely dominated by longer-term trends rather than the cyclical position of the economy. The present results provide a plausible

picture of future developments in the structure of employment, assuming that the economy reverts reasonably quickly to its longer term growth path. However they will underestimate the effects of the slowdown on employment levels over the next 2-3 years.

It is also important to emphasise that the views presented here are not the only possible future. They represent a benchmark for debate and reflection. The detailed projections present a carefully considered view of what the future might look like, assuming that past patterns of behaviour and performance are continued over the longer term. Although any short-term downturn can be expected to impact on overall employment levels, previous experience suggests that longer term trends in the pattern of demand for skills (as measured by occupations) are soon re-established.

The results should be regarded as indicative of general trends and orders of magnitude and are not intended to be prescriptive. If policies and patterns of behaviour are changed then alternative futures might be achieved. Particular sectors and groups may consider alternative scenarios more realistic, but the results presented here raise questions about how such alternatives might be achieved. It is likely that this forecast underestimates the effects the downturn will have on certain areas of the economy, especially in the short term, and most notably perhaps in the banking and finance sector and in construction. Based on these results the economy is assumed to stage a reasonably prompt recovery and to settle down in the medium term to a pattern of modest growth, with only moderate rates of inflation. Measures of economic output such as *Gross Domestic Product (GDP)* and *Gross Value Added (GVA)* are projected to display long-term growth rates of just below 2½ per cent per annum.

General Labour Market Prospects

Despite the short-term uncertainties in both the world and domestic economies, a more optimistic picture is projected for the labour market over the longer term to 2017:

Employment is projected to continue to rise over the decade as a whole, driven by a significant increase in population levels. The long-term rate of employment growth (jobs) is expected to be just under ½ a per cent per annum, resulting in almost 2 million additional jobs over the decade.

- The majority of the additional jobs are expected to be taken by *men*; although women are also expected to benefit. Men are projected to take up an increasing share of employment in many parts of the economy previously dominated by women;
- The *working age population* and the *workforce* are projected to rise significantly;

- Labour market participation rates, defined as those economically active (i.e. those in employment or actively searching for work) expressed as a percentage of the working age population (aged 16+), are projected to fall slightly (reflecting the overall aging of the population and declining trends for males offset by some increases amongst females);
- Over a decade as a whole, the level of *claimant unemployment* is expected to remain stable, although some increases in the short term are now inevitable;
- On an ILO basis (i.e. those actively searching for work), the unemployment rate is around twice as high as the claimant measure, but this is projected to follow a similar profile over time to reach around 6 per cent by 2017;
- Over this longer term period, for most people, unemployment will remain a transitory experience, although a minority will continue to suffer long term unemployment.

Sectoral Prospects

Changing patterns of employment by sector are largely dominated by longer-term trends in the demand for goods and services. While the slowdown in the economy is likely to disrupt these trends in the short-term, the results from the current set of projections can still be used as a useful guide to longer term developments. In some sectors the effect of the slowdown on employment levels over the next 2-3 years will be underestimated. This is likely to affect certain parts of the banking and financial system as well as construction and some other sectors. For most others, the results for 2007-2017 present a plausible picture of future developments, assuming that the coming slowdown is relatively speedily overcome.

Projections of output by sector

The prospects for growth in output up to 2017 in the 6 broad sectors identified in the analysis are as follows:

- *Primary & utilities* is projected to see only modest output growth over the decade. This obscures sharp declines for *mining & quarrying*, offset by somewhat better prospects for *electricity, gas & water*, and in *agriculture, etc.*;
- *Manufacturing* output growth is projected to average just below 1½ per cent per annum. There is faster growth in some technology and R&D-related industries, such as parts of *chemicals* and *engineering*, but other sectors such as *textiles, clothing* and *metals & metal goods*, etc. are expected to perform much less strongly, reflecting continuing intense international competition;
- *Construction* is projected to exhibit modest growth, over the medium to long-term, despite the immediate uncertainties in the housing market, due to strong demand for major infrastructure projects. Output growth is projected to

average around 2 per cent per annum;

- *Distribution, transport, etc.* includes a diverse range of industries. *Transport & communications* output is projected to grow most rapidly, by around 3½ per cent per annum. *Communications* is the sub-sector displaying the strongest growth per cent per annum. Output in *distribution, retailing*, and in *hotels & restaurants* is forecast to grow by around 2½ and 2 per cent per annum, respectively;
- *Business and other services: Business services* (which includes *computing services*) is likely to be hit hard by the fall-out from the credit crunch and other factors. Despite this it is projected to grow by around 3 per cent per annum over the longer term, much slower than in the recent past. Within this broad sector *Financial services* are hit hardest. *Other services* are also expected to see slower rates of growth in output;

- *Non-marketed services* comprise public administration and defence, as well as health and education services. Output in *Public admin & defence* is projected to increase by about 2 per cent per annum and Education services by a similar amount. *Health & social work* are also expected to see somewhat more rapid growth at around 2½ per cent per annum.

Projections of employment by sector

Employment prospects to 2017 also depend upon how rapidly productivity rises in each broad sector. While productivity growth is a key element in maintaining competitiveness and reducing costs, it also has a direct impact on employment levels. All else being equal, increases in productivity imply fewer people employed.

- The *primary & utilities* sector (which includes *agriculture, etc* and *mining & quarrying; electricity, gas & water*) is expected to continue to experience significant job losses in the next decade of around 2 per cent per annum (around 110 thousand jobs in total);

- Long-term decline in employment in *manufacturing* is expected to continue, with a loss of over 400 thousand jobs between 2007 and 2017 (a rate of change of around 1½ per cent per annum). *Textiles & clothing* displays one of the largest job losses but there are significant declines in many other industries as well;
- *Construction* is projected to benefit from positive features such as the public expenditure on projects such as the 2012 Olympics, but it will be hard hit by the fall-out from the credit crunch. Over the longer term, employment is projected to increase slightly by 170 thousand jobs between 2007 and 2017 (just under 1 per cent per annum);
- Employment in *distribution, transport* etc, is projected to increase by over half a million jobs between 2007 and 2017 (just over ½ per cent per annum), with most of the growth accounted for by jobs in *distribution, retailing* and *hotels and restaurants*.

- *Business & other services* is expected to see around 1.3 million additional jobs by 2017 (a rate of growth of just under 1½ per cent per annum). *Other business services* (which includes *computing services*) is expected to see the fastest growth;
- Employment in *non-marketed services* is expected to increase by around half a million between 2007 and 2017 (just over a ½ per cent per annum). Within this broad grouping, most of the projected employment growth is accounted for by *education* and, most especially, in *health & social work*. *Public administration & defence* is forecast to see a slight fall in employment.

Changes in Occupational Structure

Projections of employment by occupation

Changing patterns of employment by occupation are largely dominated by longer-term trends rather than the cyclical position of the economy. The results from the current set of projections can therefore be used as a robust guide to likely future developments in the structure of employment, even though the effect of the slowdown on employment levels over the next 2-3 years may be underestimated.

The results take full account of the latest information on changing patterns of occupational employment structure from the Labour Force Survey and other sources. These results suggest some changes in likely prospects for the next ten years compared to previous projections, but the main trends are very similar to those identified in earlier *Working Futures* reports.

In general, there is a much slower pace of change in occupational employment structure expected between 2007 and 2017 than was the case over the previous two decades.

The groups that are expected to show the most significant increases in employment over the next decade (2007-2017) are higher level occupations such as:

- *managers & senior officials* (+872 thousand, 1.7 per cent per annum);
- *professional* occupations (+643 thousand, 1.5 per cent per annum);
- *associate professional & technical* occupations (+654 thousand, 1.4 per cent per annum);

Personal service occupations and *Sales & customer service* occupations are the other main beneficiaries of employment growth, with projected increases of 443 thousand (1.7 per cent per annum) and 104 thousand (0.4 per cent per annum), respectively.

Administrative, clerical & secretarial occupations are projected to see significant further job losses of around 400 thousand jobs (-1.1 per cent per annum), although this category will still employ over 3 million people in 2017.

Declining employment levels are projected for:

- *skilled trades* occupations (-226 thousand, -0.7 per cent per annum);
- *machine & transport operatives* (some -117 thousand, -0.5 per cent per annum);

In general, these patterns are similar to those in *Working Futures 2004-2014*.

There are however, a few notable differences. The main changes compared to the previous projections are as follows.

Faster growth is now indicated for:

- *managers*, some *professional* and many *associate professional* occupations;
- *protective service occupations* and *culture/media/sports* occupations;
- *caring personal service* occupations.

More rapid declines than previously measured in Working Futures 2004-2014 are projected for:

- *administrative, clerical & secretarial* occupations;
- *skilled manual & electrical trades*;
- *other skilled trades*.

Elementary occupations are now projected to see a much less rapid rate of job loss as the service sector in particular generates more such jobs. This polarisation of demand for skills, with growth at both top and bottom ends of the skills spectrum, appears to be an increasingly common feature across developed economies.

On the other hand, the continued restructuring of the retail and distribution sectors appears to be leading to a much less optimistic picture for many lower level sales occupations.

Replacement Demand

The projections summarised above focus on the net growth (or decline) in occupational employment. Such estimates provide a useful indication of likely 'winners' and 'losers' from employment change. This has traditionally been referred to as *expansion demand*, although for some occupations it can be negative.

However, employers will often need to replace those workers who leave due to retirement, career moves, or related reasons. Such *replacement demand* can easily outweigh any losses resulting from structural changes.

For all occupations together, replacement demand is about 6 times larger than the net changes projected between 2007 and 2017. Over the decade there is expected to be a net requirement of about 13½ million job openings. Retirements are the principal component in this estimate. This excludes job openings created by people transferring from one occupation to another (some of which will be filled by similar means) or other outflows.

Two broad groups of occupations with different patterns of expansion and replacement demand are identifiable. For some groups, positive replacement demand outweighs negative expansion demand. This applies, for example, to *administrative, clerical, secretarial & related occupations; skilled metal & electrical trades; and process, plant and machine operatives.*

For many others, expected retirements will add to positive expansion demand to create even higher net requirements for new entrants. This applies, for example, to *corporate managers; teaching & research professionals; health & social welfare associate professionals; business & public service associate professionals; caring personal services; and customer service occupations.*