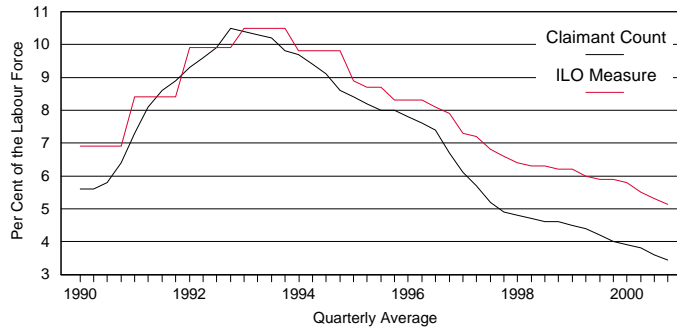


## Employment drops for first time in seven years

CLAIMANT COUNT AND LFS UNEMPLOYMENT



Total employment in the UK economy fell by 25,000 in the three months to the end of November. This is the first contraction in employment for several years and provides evidence that the labour market may be softening in the wake of an economic slowdown.

Despite this, the total number of people in work grew by 240,000 during the year and the rate of unemployment remained steady at 5.3% of the labour force over the past three months.

British businesses are facing a growing skills shortage according to the bi-annual Business in Britain report published by Lloyds TSB. The latest survey finds that 50 per cent of the 2,000 firms polled reported difficulties in recruiting sufficient skilled workers – compared with just 20% during the early 1990s. Labour demand is high but the active labour supply seems increasingly unable to meet the demands of potential employers. In the long run this will hamper economic growth and may cause an acceleration in wage demands and average earnings for those people in work. The ability of firms to do this depends in part on how profitable they are.

Businesses in the booming Thames Valley reported the highest percentage of recruitment problems of all regions in the UK at 60 per cent, followed by London on 58 per cent. Lloyds TSB said this was probably due to the strong demand by hi-tech and financial firms that are crowded into the South-east and the capital.

### UK ECONOMY AT A GLANCE

		1998	1999	2000	Latest
Real GDP at market prices	% annual change	2.6	2.2	3.0	2.9
Household Spending	% annual change	4.0	4.4	3.7	4.0
Base Interest Rates	Per cent	6.25	5.50	6.0	6.0
<b>Claimant Unemployment</b>	<b>% of labour force</b>	<b>4.7</b>	<b>4.3</b>	<b>3.7</b>	<b>3.6</b>
<b>Retail Price Inflation</b>	<b>(RPIX—% change)</b>	<b>2.7</b>	<b>2.3</b>	<b>2.1</b>	<b>2.0</b>

# Business and Industry Focus

The British steel industry has suffered more than its fair share of damaging job losses over the last twenty years. The oil crisis in 1973 meant that customers wanted materials that were cheaper and used less energy, such as plastic. In 1979 the industry employed more than 150,000 people – but in the early 1980s a global economic recession and the effects of a very strong exchange rate combined to cause thousands of job losses. By the end of 2000, Corus employed only 35,000 people. And there are fears for the long-term future of many of the UK's remaining steel plants including Llanwern in Wales and Redcar in Cleveland.

In recent years the steel sector has experienced a further fall in output and employment in the wake of sterling's surge in the world currency markets and the expansion of production in lower-cost countries inside and outside the European Union. The demand for British steel is also sensitive to fluctuations in demand and output in heavy engineering and motor vehicle production. Corus has been hit by a 18% fall in the demand for engineering steels since 1995. More manufactured products in the UK contain steel inputs produced in other countries. Corus has attempted to increase the share of their total output exported overseas. This figure has grown from 30% to 50% in recent years – but this has had the effect of increasing their exposure to the strong pound.

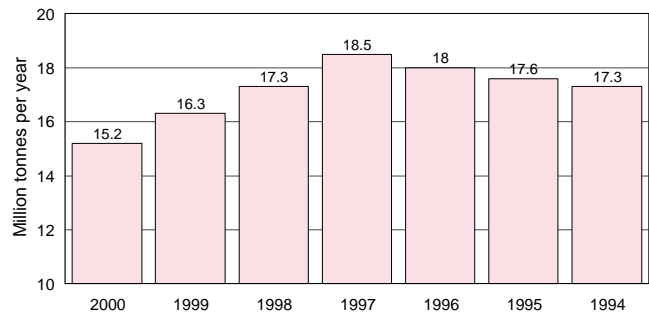
Last year British Steel merged with Hoogovens of the Netherlands to form CORUS ([www.corus.com](http://www.corus.com)). Since the merger last year Corus has cut their workforce by over 4,500 as the process of corporate restructuring has continued. 3,000 people are employed at Llanwern and 3,500 are in work at Redcar. A partial or total closure of either of these two plants would have a devastating impact on the local and regional economy. Both are areas where unemployment is already well above the national average. A collapse in male full-time employment in these towns would cause further job losses in the service sectors and would undoubtedly create significant levels of structural and long-term unemployment in the medium term.

The major steel producers are now in Asia with a market share of 39% at 330 million tons. The 15 European Union countries produce 163 million tons, a 19% market share with North America at 135 millions tons representing a 16% market share. Mainland China is the main international steel producer in the global economy. China produced 124 million tonnes of steel last year. The United States and Japan are the other key producers in the world. In 1999, the UK was ranked only 12<sup>th</sup> in the international league table of steel producing countries.

In 2000 global steel output increased by 7% amounting to a record 843 million tonnes of crude steel. However production in the European Union was fairly flat. There is a widespread acceptance that the European Steel industry suffers from excess capacity and that some plant closures are inevitable as European producers seek to control costs and increase efficiency.

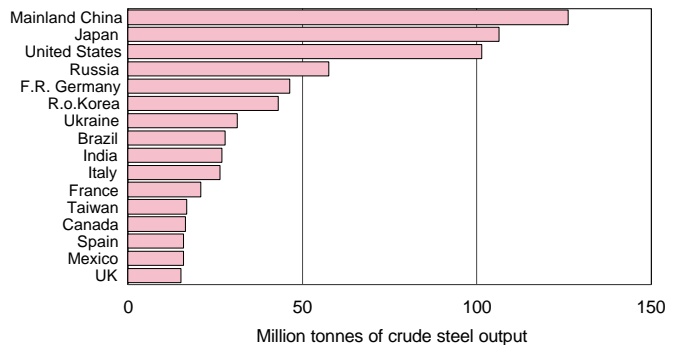
## JOB LOSSES LIKELY IN THE BRITISH STEEL SECTOR

UK CRUDE STEEL PRODUCTION

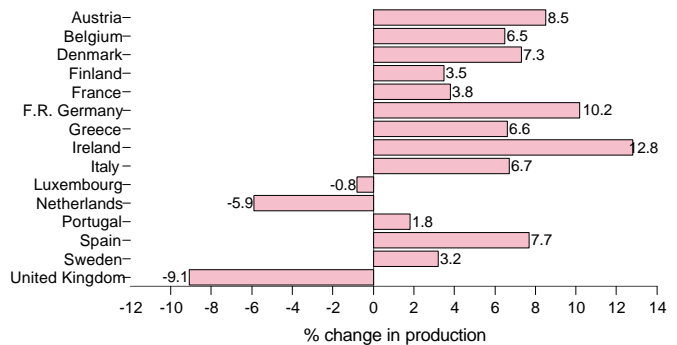


Source: International Iron and Steel Institute

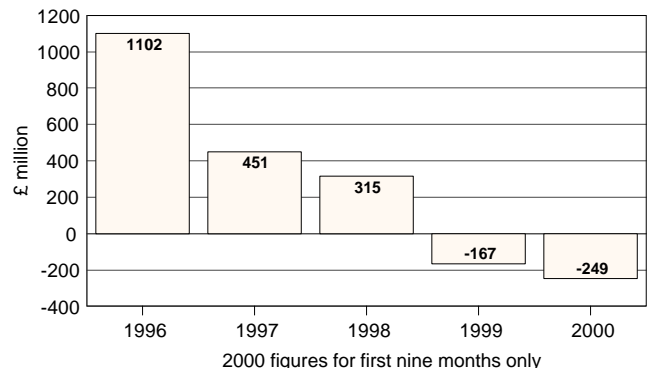
GLOBAL STEEL PRODUCTION IN 2000



EUROPEAN STEEL OUTPUT IN 2000



LOSSES MAY LEAD TO 6,000 JOBS CUT



2000 figures for first nine months only

2000 saw the lowest average inflation since 1976

Underlying inflation in the UK averaged 2.1% last year – the lowest annual average since records were started in 1976. The Monetary Policy Committee inherited an RPIX inflation rate of 2.5% when the Bank of England was made independent in May 1997. Since then, RPIX inflation (Headline inflation minus mortgage interest payments) has moved in a very narrow range with the lowest rate being 1.9% (April and August 2000) and the highest figure being 3.2% (May 1998).

Throughout 2000 underlying inflation has stayed within the range 1.9% - 2.2% - by recent historical standards this is a remarkably narrow band of fluctuation for UK inflation. The Bank of England is required to keep RPIX inflation at 2.5% plus or minus 1%. Without the 14% rise in retail petrol and oil prices last year, it is conceivable that the Governor of the Bank of England might have been forced to write an open letter to the Chancellor explaining the reasons for an inflation undershoot.

One reason why inflation has remained so low is the strength of the pound against other currencies. This had dampened export demand and reduced the inflationary impact of the rise in global oil prices (which are measured in US dollars).

**Goods and Services**

High street inflation has been virtually absent from the domestic economy for many months now. In December the annual rate of goods price inflation remained below 1%. The service sector was experiencing 4% price inflation at the start of 2000, but in recent months we have seen this figure decline.

**Inflation and Deflation**

Although average inflation has stayed very low, within the overall retail price index there are wide differences in price trends. This reflects the fact that changing demand and supply conditions will always cause some changes in relative prices over time. Inflation remains above 5% in categories such as cigarettes (heavily taxed), retail petrol prices (still affected by the sharp rise in global oil prices earlier on in the year) and also services such as canteen meals and housing repairs.

In contrast consumers are enjoying substantial falls in prices for audio visual equipment (down 15% in the year to December 2000), the prices of new vehicles and clothing and footwear.

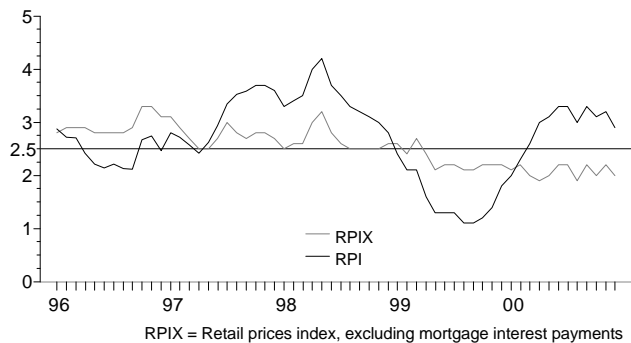
**Retail Price Inflation in 2000**

**HARMONISED INDEX OF CONSUMER PRICES**

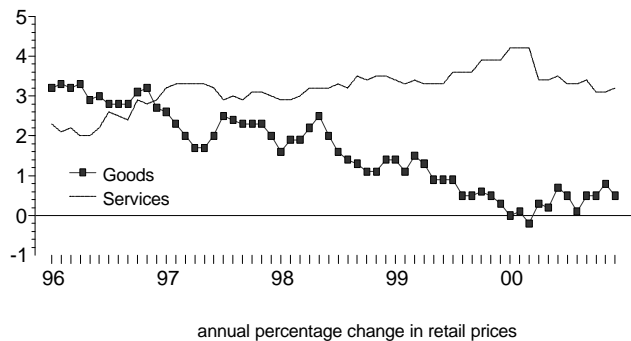


**INFLATION STAYS WELL WITHIN TARGET**

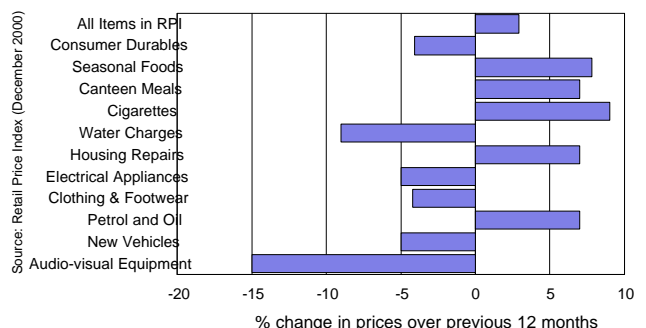
Percentage increase in price on a year earlier



**SERVICE SECTOR INFLATION IS EDGING LOWER**



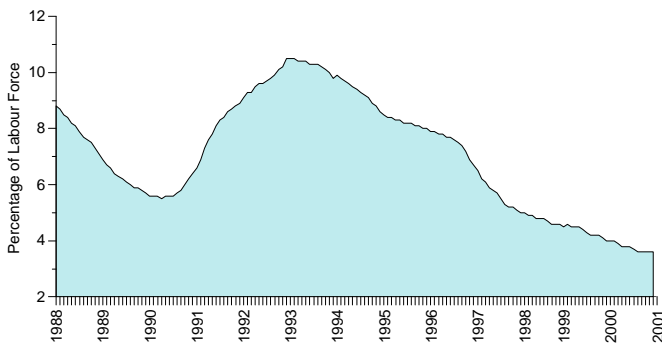
**INFLATION AND DEFLATION IN THE UK**



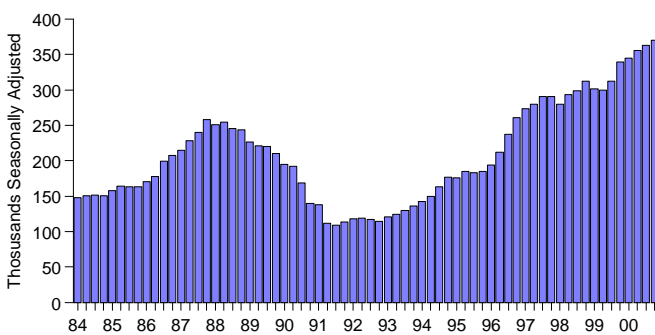
Source: Retail Price Index (December 2000)

# THE WEEK IN REVIEW

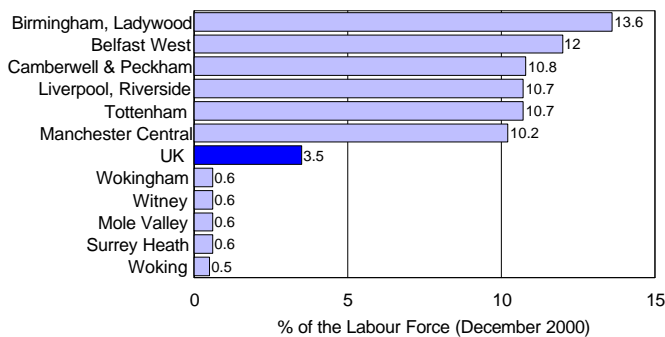
## CLAIMANT COUNT UNEMPLOYMENT SINCE 1988



## STOCK OF UNFILLED JOB VACANCIES



## UNEMPLOYMENT BY CONSTITUENCY



## A Selection of the Week's Main Business News

The skills shortage problem coincides with the sustained fall in UK unemployment over recent years. Many businesses are complaining that expansion plans are being constrained by a "skills gap" throughout the economy. The nature of structural unemployment is that the skills and experience offered by the unemployed do not always match those required in industries looking to take on more workers. This mismatch results from occupational immobility of labour and is a cause of market failure since scarce labour resources are being wasted when they remain unemployed.

### Job Vacancies

Labour market data released for December 2000 show that the stock of unfilled job vacancies at Job Centres increased to 374,500 (up 700 on the previous month). This figure is 27,000 higher than a year earlier and provides hard evidence that it is becoming harder to fill existing job vacancies. A normal rule of thumb is that the number of vacancies registered with the Employment Service is only one third of the job openings available throughout the economy at any moment in time. This suggests that there perhaps up to one million job vacancies available for those unemployed or economically inactive to fill.

### Full-employment in some towns

The end of year employment data is a good opportunity to focus on those towns and cities where full-employment has (in reality) already been reached. Woking is the parliamentary constituency with the lowest recorded rate of unemployment. Just 0.5% of the labour force is registered as out of work.

## RECOMMENDED WEB SITES

**Inomics—Economics Directory**  
[www.inomics.com/query/dir](http://www.inomics.com/query/dir)

**New Economics Foundation**  
[www.neweconomics.org/](http://www.neweconomics.org/)

**World Resources Institute**  
[www.wri.org/](http://www.wri.org/)

**Tutor2u Economics [www.tutor2u.net](http://www.tutor2u.net)**  
 Tutor2u Economics is a resource for students and teachers. There are hundreds of pages of revision notes, links and a Discussion Forum. Visit the site and improve your grades

## NEXT WEEK'S ECONOMICS BRIEFING

**Measuring the Quality of Life**

**CBI Quarterly Industrial Trends Survey**

**2001 Social Trends Annual Survey**

**Weekly Briefing**

The Economics Briefing is written by Geoff Riley, Head of Economics and Politics at Eton College