North Ayrshire Council

Socio-Economic Briefing

Summary Version

March 2018

Focus. Passion. Inspiration.

North Ayrshire Council
Comhairle Siorrachd Àir a Tuath

Introduction

Welcome to this, the fourth, North Ayrshire Council Socio-Economic Briefing. The summary edition introduces the global and national context followed by the key headline findings for each topic, then in-depth chapters. The headlines for six subject areas are presented in this edition:

1. Population and Deprivation
2. Labour Market
3. Employment, Business and the Social Economy
4. Progression of Young People
5. Household Income
6. Health and Disability

Socio-economic status depends on a combination of variables, including occupation, education, income, wealth and place of residence. The purpose of this briefing is to provide information and analysis across a range of socio-economic data available for North Ayrshire, giving context which could inform policy responses. The Office for National Statistics (ONS) supplies the majority of data. In order to place the North Ayrshire data in context, Scottish data are included as well as data for the three Ayrshire Council areas. Also some aggregated data is presented for a special grouping of other local authorities with which we share economic and geographic similarities. The grouping is referred to as the local authority 'family' and was originated by the Improvement Service. The family includes Glasgow city, Dundee city, Inverclyde, East Ayrshire, North Lanarkshire and West Dunbartonshire.

Global and National context

The current Scottish outlook

The latest Fraser of Allander Economic Commentary (December 2017) highlighted low Scottish economic growth in 2017 and at 0.5% was one third of the UK growth rate.

Fraser of Allander estimates suggest growth will pick up to 1.2% in 2018 rising to 1.4% in 2019 and 2020. However, levels of uncertainty are still high and the current low growth cycle is expected to continue. Scotland is expected to continue to lag the UK in the short to medium term. Official forecasts for the Scottish economy published by the Scottish Fiscal Commission (SFC) are substantially lower, suggesting a period of exceptionally weak growth for the next 5 years. Growth is projected to be below 1% each year to 2020/21 and only just above 1% by 2022/23.

Since the last Fraser of Allander report, the outlook has improved a little due to global demand conditions picking up across the board and the previously lackluster EU economy has also shown recent growth which will have helped exporters. Scottish GDP grew by 0.5% over the previous year - compared with growth of 1.4% for the UK as a whole. The Scottish labour market has however held up well as employment has risen 17,000 over the year and unemployment fell 10,000 over the last year, despite more recent signs of unemployment moving upwards in early 2018. Scottish unemployment (ILO measure) is currently forecast to rise to 5.3% in 2018 and 6.1% in 2019.

The value of sterling remains below its peak in November 2015 but has been stable over the past nine months, reflecting investors' perceptions that a lower real exchange rate will be required following the UK's EU withdrawal. Over the past year, a consequence of weaker sterling is that the higher import costs have boosted consumer prices and inflation has risen to 3.0%. When inflation exceeds wage growth (as it currently does) the result is lower disposable income and reduced consumer spending. Consumer spending drives 70% of the economy.

Looking in more detail at what the future might hold does identify some tentative positives in the near term outlook.

Activity in the Scottish private sector returned to expansionary territory in January 2018, following a contraction at the end of 2017. Broad-based expansions were observed in both employment and new orders. The Bank of Scotland Scottish PMI survey in January 2018 found higher staffing levels and improved demand conditions and this had fuelled stronger business confidence. Business optimism in the future was at a 3 year high.

The IHS Markit / CIPS UK Services Purchasing Managers Index fell slightly to 53 in January 2018 from 54 in the previous month and while the reading pointed to slightly weaker expansion in the service sector, business optimism was the strongest since March last year and the rate of job creation was at a four-month high. However, at the moment, consumer confidence is weak and people have been increasingly using savings to support consumption due to falling real wages. There is a clear disconnect between people's low levels of optimism and a resilient labour market with increasing employment.

The UK is believed by some economists to be close to full employment (the situation where everyone willing to work at the going wage rate is able to get a job) and competition for good quality staff means that employers have been increasingly willing to pay higher wages to attract the right people. Notably, Sheffield Hallam University estimate that almost one-third of the people on incapacity benefits in Britain should actually be working in a full-employment economy, and that the true jobless rate in some post-industrial areas reaches 17%. This analysis suggests we are not near full employment.

The Productivity Puzzle

Productivity improvements are an important source of economic growth and rising living standards. UK productivity growth over the long term has been relatively weak. German productivity levels imply that workers could clock off on Thursday afternoon and still produce as much as British workers doing a full week's work. Policymakers are concerned about the UK's productivity lag in comparison with other G7 countries and some likely explanations of the gap include:

- In the recession firms decided that, rather than fire workers, they would keep them on and weather the storm, to avoid costly rehiring later. Employing the same number of people while producing less meant that output per hour fell.
- The government's post-crisis austerity programme actually deepened and lengthened Britain's post-crisis recession, causing public and private investment to fall further and real wages to decline more than they would otherwise have done, impacting directly on productivity.
- The ultra-low interest rates of the past decade have consequences for productivity. During the financial crisis lenders were pressured to show forbearance with businesses in difficulty and billions were pumped into the financial system (Quantitative Easing) to ease liquidity. This prevented the process of 'creative destruction' that normally happens in recession where weak companies go to the wall and are replaced by new higher-productivity rivals. The Bank of England estimate this cut productivity by 2%. Further, this may have also had an effect through 'creative inaction', where healthy companies coasted rather than invest in productivity-enhancing measures; when businesses expect long term access to ultra-low interest rates, there is little incentive to invest today when tomorrow will do.
- The UK's north-south divide. The Centre for Cities (2017) reported that the UK's recent weak productivity record was the result of a performance gap between London and the South East and other areas of Britain. The value of output per worker in the South East is 44% higher than in other parts of Britain, and seven per cent higher than Germany due to highly productive sectors and firms making up a larger share of jobs in the South East.
- Sectoral change – employment growth has tended to occur in low productivity sectors which has reduced the overall productivity growth figure.

- Some claim it's partly a measurement issue – that the actual picture is better than official data show, because gross domestic product in service-based economies is becoming harder to measure. This is, however, a statistical stretch and cannot explain the scale of the change.

Likely, it's some combination of all of the above. Intriguingly, the UK has just had the strongest two quarters of productivity growth since the recession of 2008; Output per hour rose 0.8% in Q4 following growth of 0.9% in Q3. The question is 'Will this continue?'

Starting salaries in Scotland have risen at the fastest rate for three years and there has been a sharp rise in the number of permanent jobs. Companies expect to increase pay by 3.1% in 2018, compared with 2.6% last year.

The Bank of Scotland's labour market barometer (January 2018), which captures various measures of activity in the jobs market such as demand for new staff continues to perform well-above its long-term average. These forward looking indicators suggests no immediate negatives in terms of employment levels or output, although Brexit and rising interest rates could present significant downside risks in the medium term. On the upside, business investment and exports are likely to be supported by the pickup in global growth and international tourism is expected to continue to do well because of the weaker pound.

Inflation rose above 3% late in 2017 and has stayed there, driven higher by the weak pound in the aftermath of the Brexit vote, but is now falling.

The Bank of England has been looking for signs of pay growth in order to justify raising interest rates from the lowest level in a decade from as early as May. The central bank said in February 2018 it may need to increase the cost of borrowing earlier and to a greater extent than previously expected to counteract stubbornly high inflation. It is expected that rates will rise from 0.5% to 1.0% by the year end.

Rise of the Robots?

A number of recent reports have speculated on what the impact of automation may be on the UK labour market (PwC 2017, Centre for Cities 2018, SCDI 2018). For example, PwC has estimated that up to 30% of roles within the UK could be subject to greater automation by the 2030s. More widely, PwC predict 38% job losses to automation in the United States in the next 15 years.

Technological advancements such as automation and artificial intelligence (AI) may impact different demographics, industry sectors and geographies in different ways and we need to ensure our businesses and communities are resilient to this and able to play a role in the future economy.

A recent report by SCDI highlights that what is clear from all studies in this realm is that many current jobs will either be replaced or changed fundamentally by automation. The report notes that the jobs most likely to be impacted by automation are those which involve administrative, clerical and production roles. This suggests that some manufacturing, transport and retail sectors (e.g. taxi drivers, lorry drivers, logistics/transport workers, retail staff and tellers) are likely to be impacted while occupations with high levels of human interaction are less likely to change. Moreover, it is estimated that those with basic levels of education are at greatest risk from automation.

The UK labour market is already seeing signs of a changing economy, with employment growth in Scotland being partly driven by a rise in self-employment; the ‘gig economy’ being the focus of a recent review on the future of work (Taylor Review 2017); and speculation over the ‘hollowing out’ of the labour market.

Of course, opportunities will be created and these may be in higher skilled occupations through the shift to automation/AI but it is unclear whether the extent of this paradigm shift will lead to a smaller employment base overall. If it does, then we may face a re-run of the de-industrialisation problems originating in the 1970’s and 80’s. The key implication here is that our skills and education infrastructure needs to swiftly anticipate what skills will be needed in the new economy and equip people for the new jobs in advance, as well as supporting businesses to adapt. Acting *after* the fact would involve dealing with a large cohort of long-term unemployed and that can take decades and be very costly on many levels.

Whilst we cannot predict the future, we know that jobs are changing and the impact this will have on inclusive growth and levels of regional inequality is of paramount importance to a post-industrial economy like North Ayrshire.

Local context - a fragile economy but with some progress

For ten years North Ayrshire's population has been static while Scotland's grew 5%. The expectation is one of slow population decline in future, which will constrain economic growth through a reduction in total demand unless in-migration increases or out-migration reduces.

The latest employment figures show that North Ayrshire has almost recovered the ground lost during the recession and the current employment rate is 8% higher than its recessionary low point and only 2% below its all-time (15-year) high. The numbers of local businesses are growing, job density and total jobs rising (although from a relatively low base). Private sector GVA has increased and is healthy compared to other areas (private sector GVA data excludes the public sector, parts of the financial sector and agriculture).

Wages have increased since last year and now compare well with the national average and, while the gender pay gap is typical of the national picture, women's earnings have been growing relatively quickly. While men's pay has shown signs of stagnation, women's pay has increased, partly due to women working longer hours and taking more full-time positions. Earnings data show some positive trends but we know that the challenge of in-work poverty is significant. For those not in the labour market, however, the experience has not been so good – incomes are being pressed by inflated prices and frozen benefit levels, which fuels income inequality and makes inclusive growth a greater challenge.

Child poverty has nudged lower although only marginally and we still have the 2nd highest rate in Scotland – this can adversely affect outcomes in educational achievement, employment and health over the long term.

The numbers of people on out-of-work benefits has continued to decrease and the claimant count has been moving upwards since the start of 2018 and unemployment remains a key weakness of the local economy. Those with poor health are particularly disadvantaged in terms of employment chances. Unemployment at national level is also rising.

Employment and productivity locally has risen but Brexit's medium-term effects, which will become clear in the next year, will determine the future path. A quarter of Scotland's jobs come from non-Scottish owned businesses so the downside risk to jobs and growth are significant.

Young people continue to progress well, with higher than average participation in full-time further education and a low non-participation rate. Overall the proportion in positive destinations is close to the Scottish rate. There are reducing numbers of young people in the claimant count and, although the future may see (gently) rising unemployment, there has been clear success in helping young people progress and sustain employment.

Overall, the latest socio-economic picture is a relatively positive one with evidence of progress across the board, although a significant note of caution must be sounded with regards to the medium term economic outlook.

Headlines

Population and Deprivation

North Ayrshire's population has been static for the last ten years but a future decrease of 9% is projected to 2037. Currently (2016) our population is 135,890. Depopulation is viewed as a key driver of decline and a marker of a weak economy.

The reduction in the working age population is a clear challenge. Numbers of older people 65+ years have increased unevenly across localities. Arran and the North Coast have populations distinctly skewed towards older people.

27.4% of North Ayrshire's 186 datazones are in the 15% most deprived in Scotland (an increase of 1.7 percentage points on the previous SIMD) and 6.5% of datazones are in the 5% most deprived (a decrease of 0.2 percentage points).

Irvine continues to have the highest number of datazones in the 15% most deprived at 19 (up 3 since 2012) followed by the Three Towns with 18 (down one). Garnock Valley and Kilwinning have seven and six datazones respectively in the 15% most deprived. For the first time one datazone in the North Coast (within Largs) is in the 10% most deprived in Scotland.

Labour market

Progress in reducing unemployment and closing the gap to the national figure has been positive and evidence suggests that while the North Ayrshire rate has decreased in 2017, nationally rates have plateaued and evidence suggests some areas now have rising rates. Three main measures of unemployment exist, all with pros and cons (representativeness, survey sampling error and definition issues). Out-of-work benefits is the widest measure and is favoured by the Council but has been recently discontinued and needs replaced - the next issue will tackle this.

The widest measure of unemployment (claimants of any out-of-work benefit) shows a more positive comparison than the narrow measure of claimant count. On this preferred measure, we have lower unemployment than West Dunbartonshire, Inverclyde and Glasgow city. This wider unemployment measure evidences progress in addressing youth unemployment and 'catching-up' with the LA family.

Good progress has been made in reducing claimant count unemployment among young people and, although unemployment does remain high, North Ayrshire now has a reduced concentration of unemployment in the 16-24 age group. 79% of unemployed claimants are in the older age groups (25-49 and 50+). This measure has reduced reliability due to the transition to UC and this will considered in the next issue.

The International Labour Organisation's preferred measure (ILO model-based unemployment) looks less positive. The current rate for North Ayrshire is the highest in Scotland.

Men continue to work more hours than women but have experienced lower pay growth than women.

Hours worked in North Ayrshire have reduced by 2.2 hours per week in the ten years since the recession.

The gender pay gap in North Ayrshire is 8%, very similar to the national average. The female employment rate locally is 63% compared to 71% nationally.

Employment

Full-time jobs have been sustained well and losses of part-time positions in recent years have now been reversed. Total employment is 42,000 (up 4% since last year) and our job density has risen to 0.57.

Manufacturing, construction, retail and business admin are proportionately more significant than observed nationally. Health and social work, motor trades and professional/technical services employment is relatively under-represented. North Ayrshire has a similar sized service sector as nationally.

Manufacturing employment is up 10% in 5 years and professional and technical employment is up 23%.

North Ayrshire has more people in low paid sectors/positions than elsewhere e.g. elementary positions and process and plant operatives.

Current figures show managerial and professional positions make up less of the total compared with Scotland.

Business Base

There has been positive change in job density locally and nationally over ten years although this remains a key challenge in terms of achieving inclusive growth.

The vast majority of local employers (8 in 9) are a micro-business employing less than 10 people.

There has been a reduction in public administration and education sector employment over the last 6 years although increased health and social care jobs more than compensated for this reduction.

Gross value added has been growing over the longer term, and evidence points to a continued improvement, shared across most other local authority areas. GVA compares well (up 7% since last year) although business expenditure on research and development remains low compared to the national picture (£88 per North Ayrshire employee versus £419 at Scotland level).

Progressions for young people

North Ayrshire performs comparatively well for progressions.   90.3% of young people are participating compared to 91.21% nationally

Using the new Scottish Government participation measure we have performed better than the Scottish average, with non-participation of 16-19 year olds at 3.0% against 3.7% for Scotland.

The sustainability of positive school attainment outcomes is good and we are above the national average in literacy and numeracy.

Household Income

North Ayrshire households have an average total income of £31,226, 14% less than the Scottish average. The latest data (from ONS regional accounts) suggest households in North Ayrshire have on average £15,327 to spend after tax and other deductions. This means we are 16% worse off than average and have a ranking of 29th of 32 local authorities.

Income deprivation in North Ayrshire is a problem that has grown over the long term, affecting increasing numbers of people and North Ayrshire currently has the second highest level of child poverty in Scotland.

However, for those in work, earnings have been rising. North Ayrshire's workers earnings are 11th highest of 32 local authorities. Ten years ago the picture was different as North Ayrshire was 28th.

The income inequality ratio (between highest income and lowest income areas) has risen from 3.1 to 4.3 in the last two years.

Health and Disability

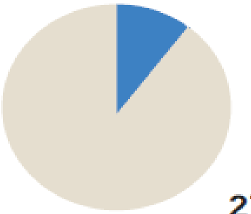
Male life expectancy in North Ayrshire is 0.6 years lower than the national average and female life expectancy 0.1 year lower. Men in deprived areas die 7.5 years earlier than other males. For women the figure is 3.9 years.

People's self-assessed general health show North Ayrshire to have the lowest level of people in good health and the second highest proportion reporting poor health (equal with Glasgow).

People claiming health related benefits make up 11% of the working age population compared to 8.7 nationally, meaning we have 26% more health claimants per head. 58% of claims had been ongoing for at least 5 years. The most common problem was psychiatric disorders at 36% of claimants. General musculoskeletal problems made up 21% of cases and 9% had localised musculoskeletal issues.

Less than half of those with health conditions are economically active compared to 75% for North Ayrshire as a whole. Health conditions almost halve the likelihood of being employed and people with mental health conditions are least likely to be in employment (30%).

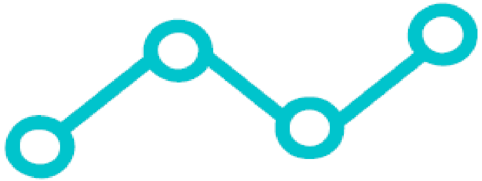
Population and Deprivation



Current population is 135,890
But projected to fall 9% by 2037

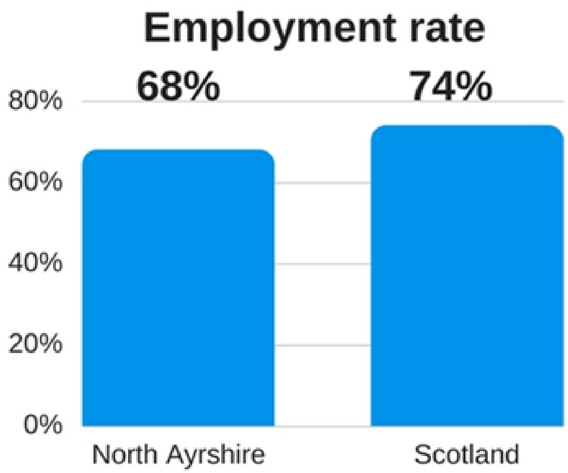
27% of North Ayrshire is deprived
(51 of 186 datazones)

Income deprivation has increased the most



Over 65s increasing
Working age and under 18s reducing
Arran and North Coast have the oldest populations
Irvine and Kilwinning have the youngest

Labour Market



3.8% claim JSA/UC
14.2% claim out-of-work benefits
...but the trend is now upwards

21% of claimant count made up of under 25s

£563.10 full-time pay (gross median weekly wage)

35% are qualified to NVQ4+
Scotland figure is 44%

Employment and Business

26,500 full-time jobs

14,500 part-time jobs

36% work in high skilled occupations

Job density 0.57
76% service sector jobs

8 out of 9 businesses employ less than 10 people

Total business turnover £3.4bn
£46,539 Gross Value Added per head (excl public sector)

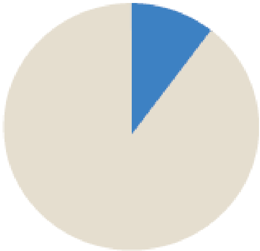
26% public sector jobs

Young People

16-19 year olds:
15.7% in employment
(Scotland=18.1%)
73.3% in education
(Scotland=71.1%)

63% of 18-24s are employed

21% of JSA/UC claimants are 16-24



90% participation rate of 16-19 year olds (Scotland = 91%)

79% attainment in Literacy at level 5
68% attainment in Numeracy at level 5

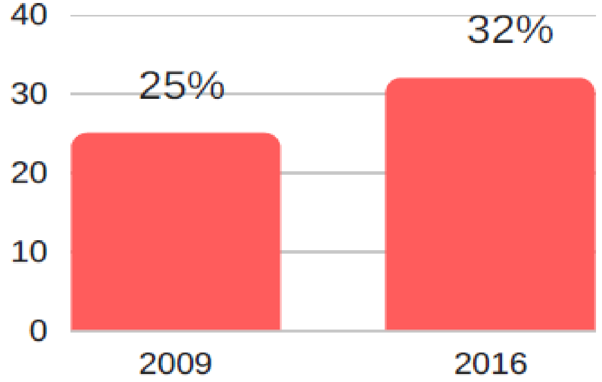
Income

The North Coast has average incomes 37% higher than in the Three Towns, that's £10,000pa

Average Gross Household Income is £31,000 and disposable household income £15,327

Full time workers earnings are £563pw (gross median)

% North Ayrshire datazones that are income deprived



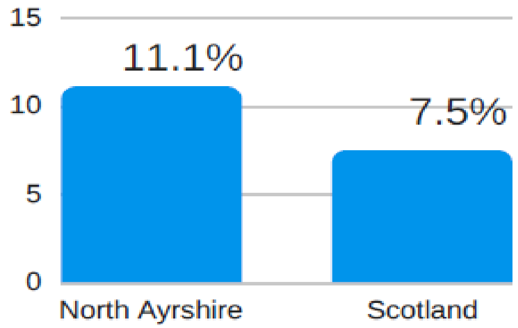
£57,100 vs £12,508
Average household income in wealthiest and poorest North Ayrshire datazones

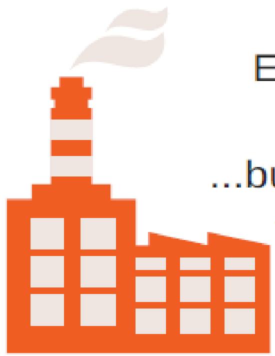
Health and Disability

11.0% of working age people claim ESA/IB (Scotland = 8.7%)

58% claiming for 5+ years

% saying general health is bad





Employment rate **68%** in North Ayrshire...

...but **39%** for those with long term health conditions

A full version of the briefing is available on request.

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Comhairle Siorrachd Àir a Tuath