



ECONOMICS TOPIC VIDEOS

Unemployment & Inflation in the UK Economy

AS Macroeconomics

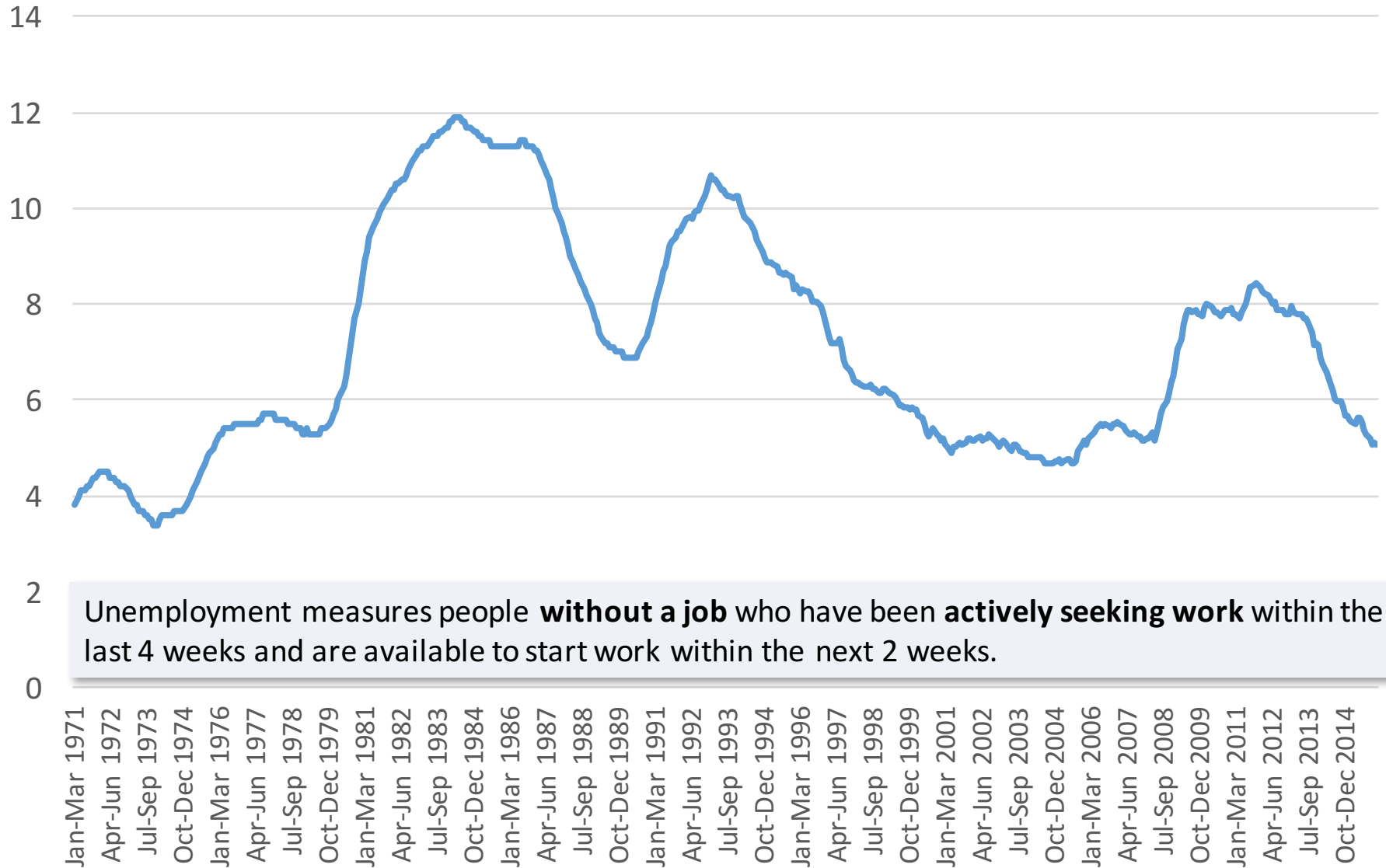
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Measuring Unemployment – Some Key Terms

Claimant Count (JSA)	The number of people officially claiming unemployment-related benefits – must be actively seeking work
Labour Force Survey (LFS)	All those actively seeking and available for work, whether or not they are claiming benefit
Long-Term unemployed	People unemployed for at least one year
Labour force	The number of people of working age who are able, available and willing to work
Full employment	When there enough unfilled job vacancies for all the unemployed to take work
Discouraged workers	People out of work for a long time who may give up on job search and effectively leave the labour market
Economically inactive	Those who are of working age but are neither in work nor actively seeking paid work
Employment rate	The percentage of the population of working age in full-time or part-time paid work
Unemployment rate	Percentage of the economically active population who are unemployed

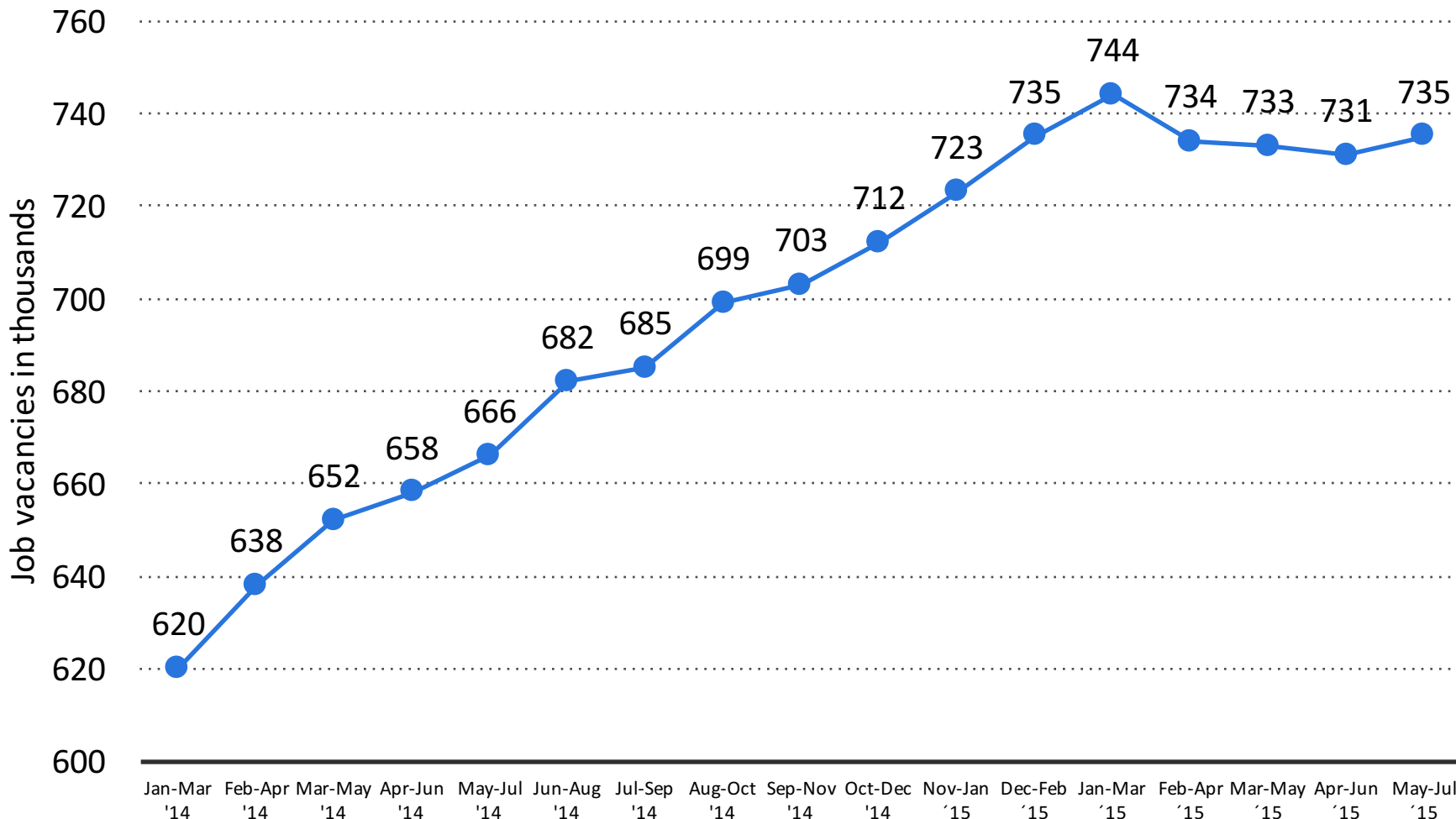
UK Unemployment Rate (Labour Force Survey)

Unemployment rate (per cent of the labour force)



Unemployment measures people **without a job** who have been **actively seeking work** within the last 4 weeks and are available to start work within the next 2 weeks.

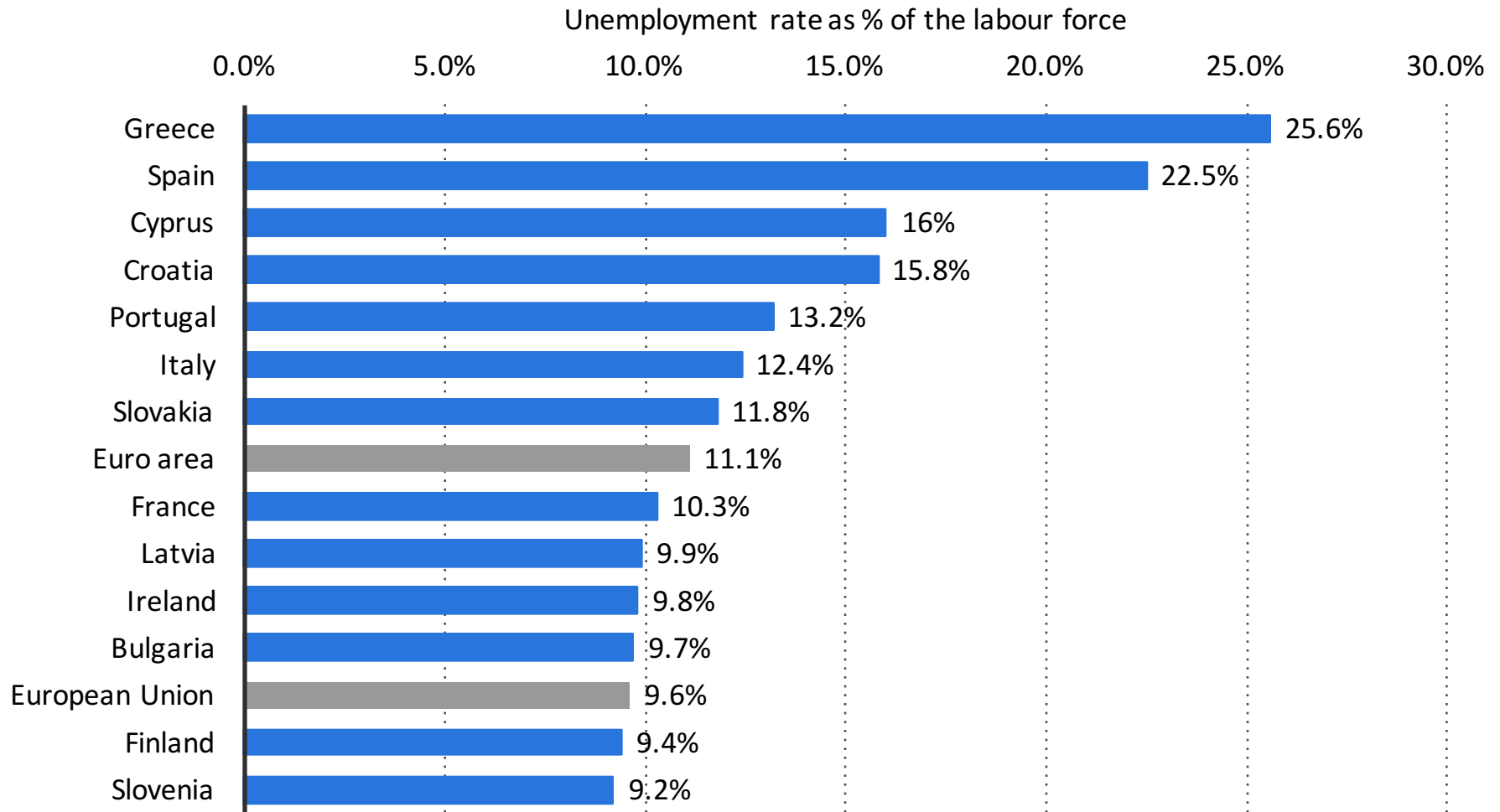
Unfilled Job Vacancies in the UK Labour Market



The chart shows the number of **registered unfilled job vacancies** – this is often used as a guide to the strength of labour demand in the economy

Highest Unemployment Rates among EU Countries

Source: Eurostat, May 2015



Greece and Spain have the highest rates of adult unemployment in the EU. Youth unemployment greatly exceeds the average adult rate.

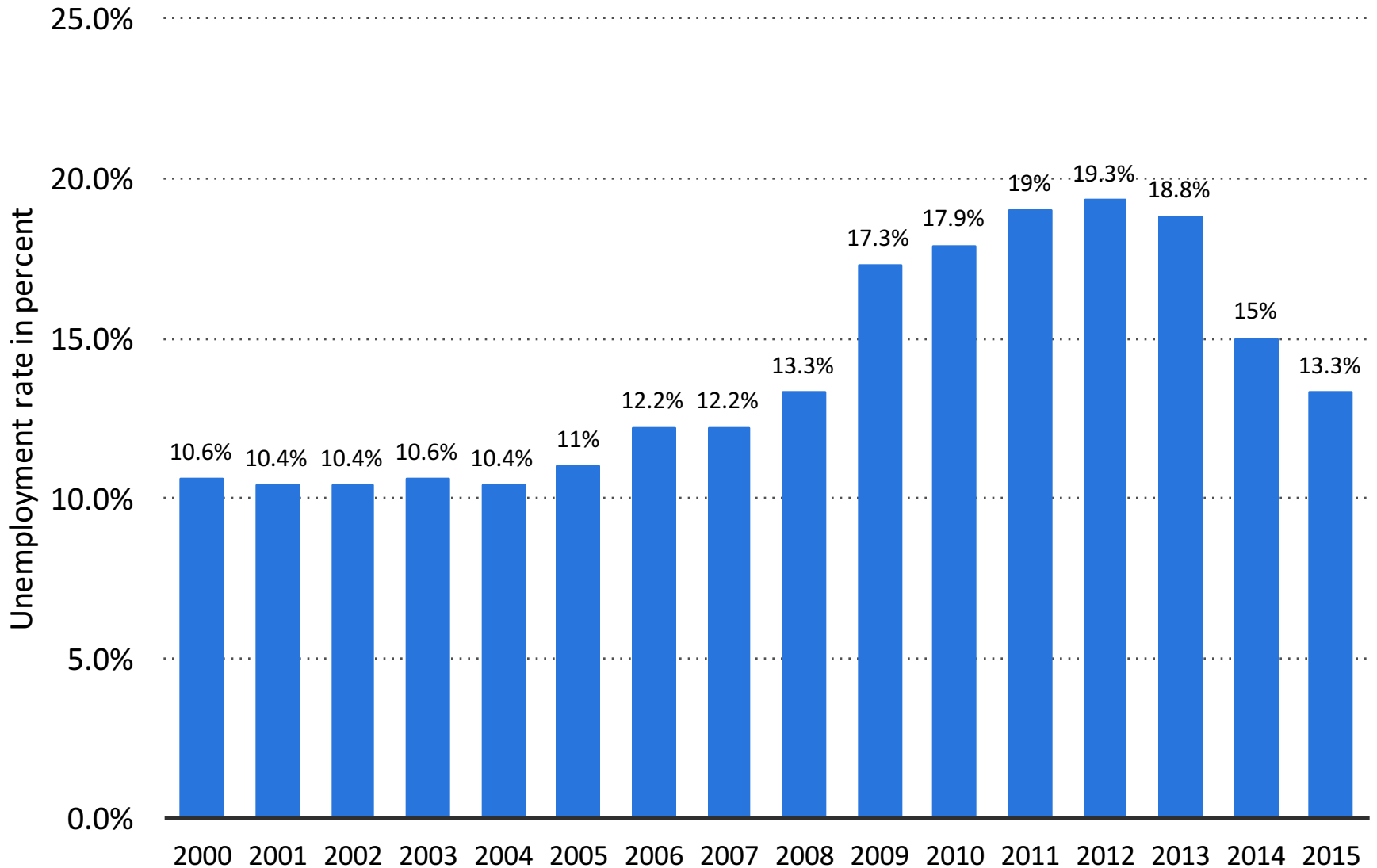
Regional Unemployment Rates in the UK (July 2015)



Youth Unemployment Rate in the UK

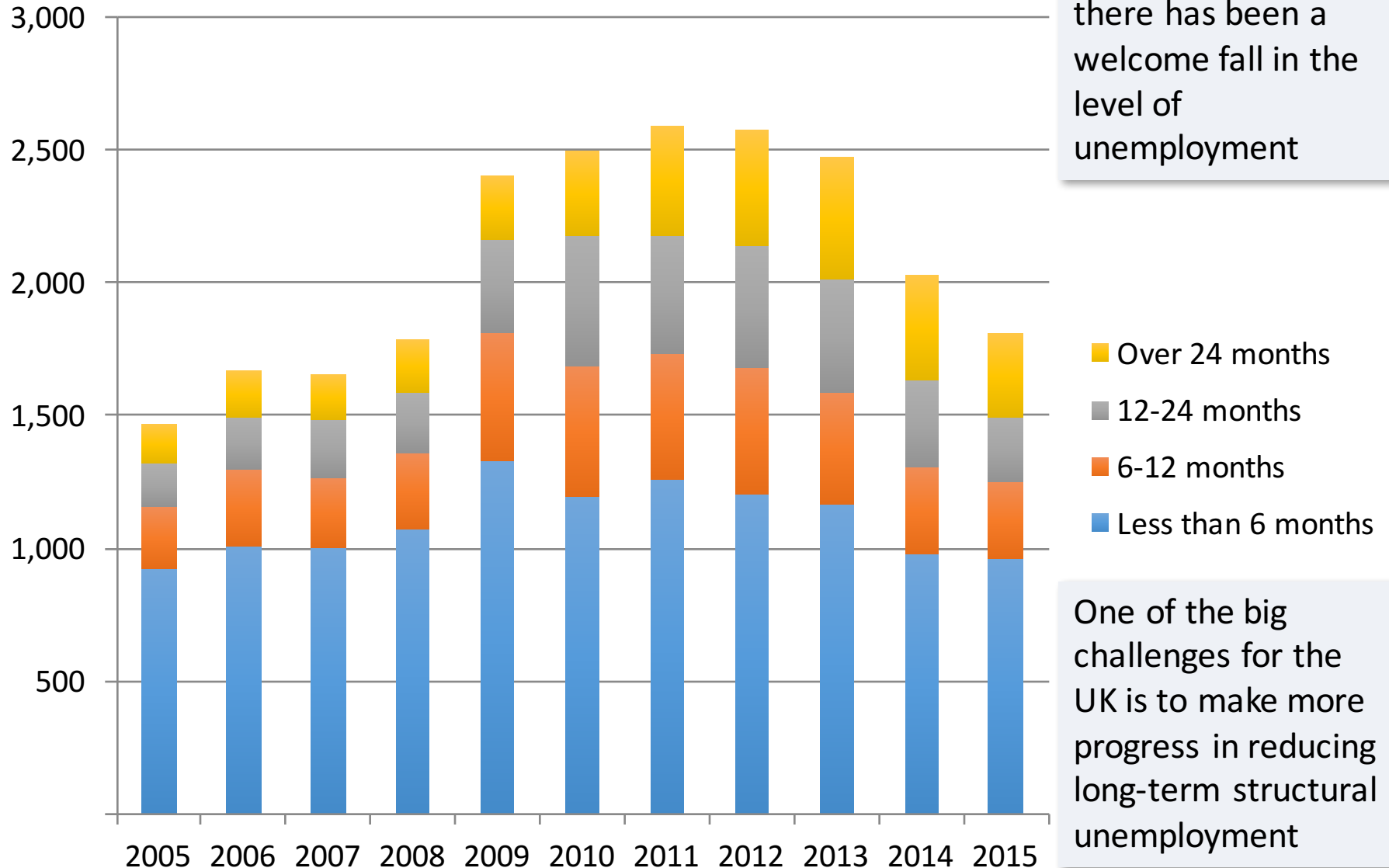
Youth unemployment rate (18-24 years old)

Source: Office for National Statistics



Duration of LFS Unemployment in the UK economy

Total unemployment, seasonally adjusted

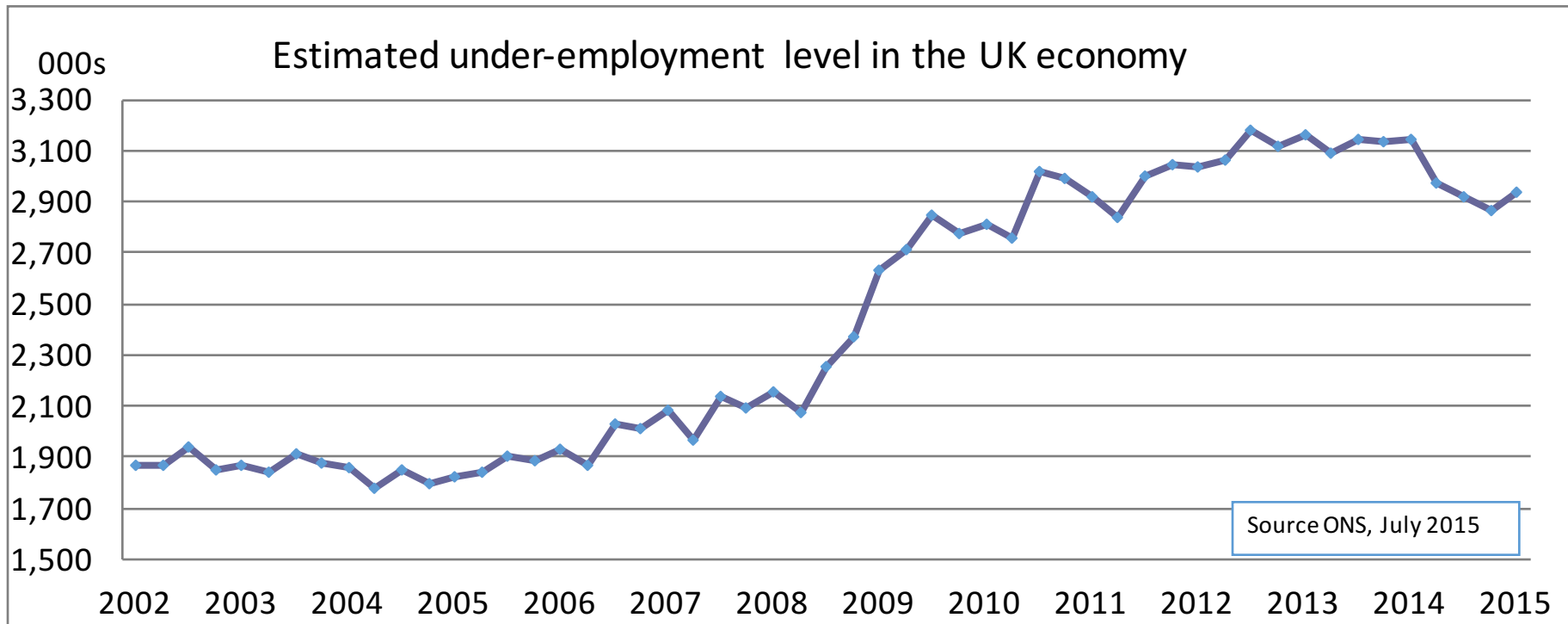


Under-Employment

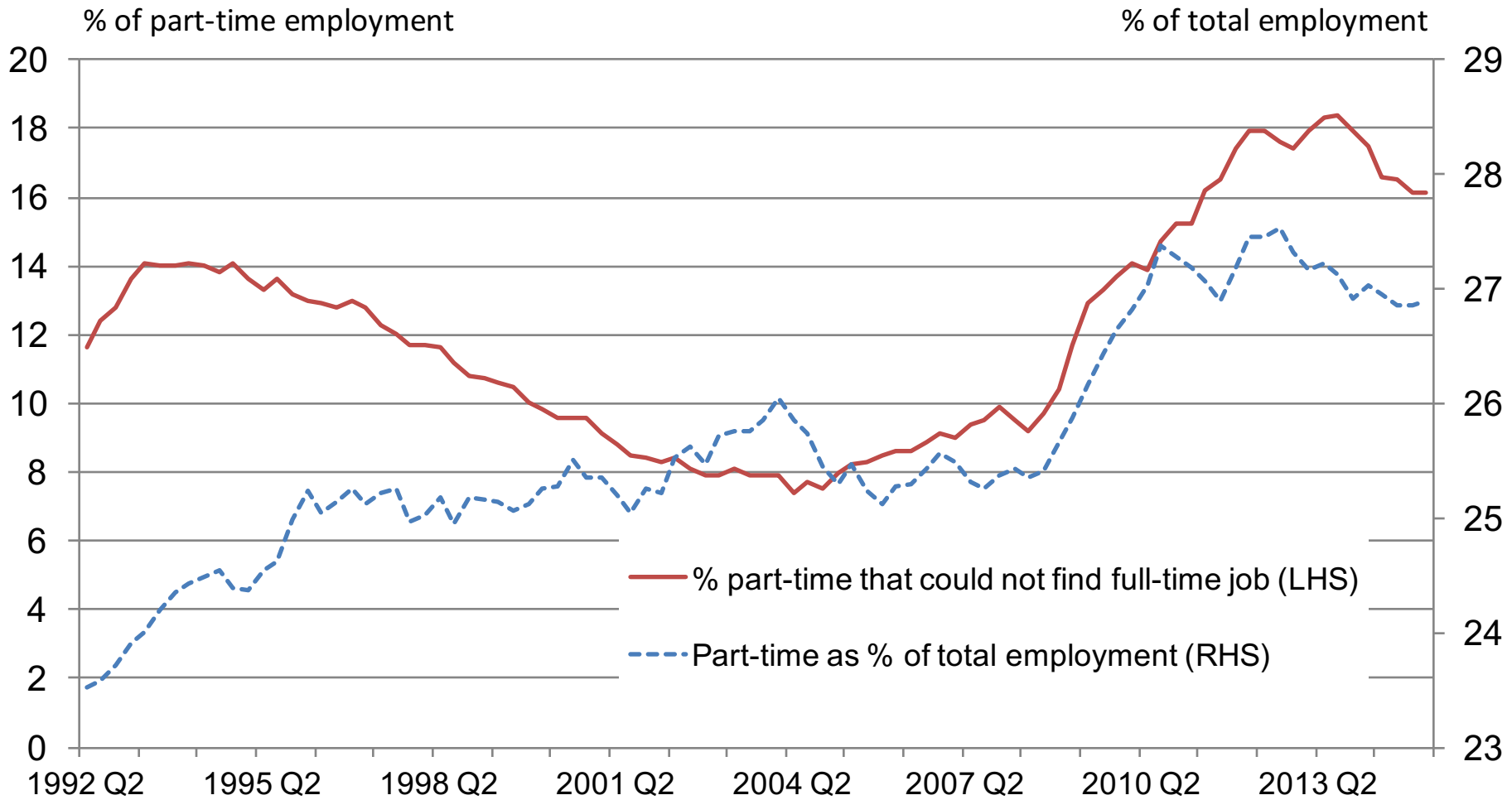
Under-employment occurs when people are counted as

1. Looking for an additional job or actively searching for a new job with longer hours to replace their current (main) job
2. They want to work longer hours in their current job

Under-employment can be rising even though unemployment is declining



The Rise of Part-Time Employment in the UK



Source: Office for National Statistics

A key feature of the UK economy in recent years has been a rise in part-time employment. By 2015 over a quarter of people worked part-time.

The Rise of Zero Hours Contracts in the UK Economy

Total
(thousands)

Zero Hours Contracts do not guarantee a minimum number of working hours each week

% of people
in work



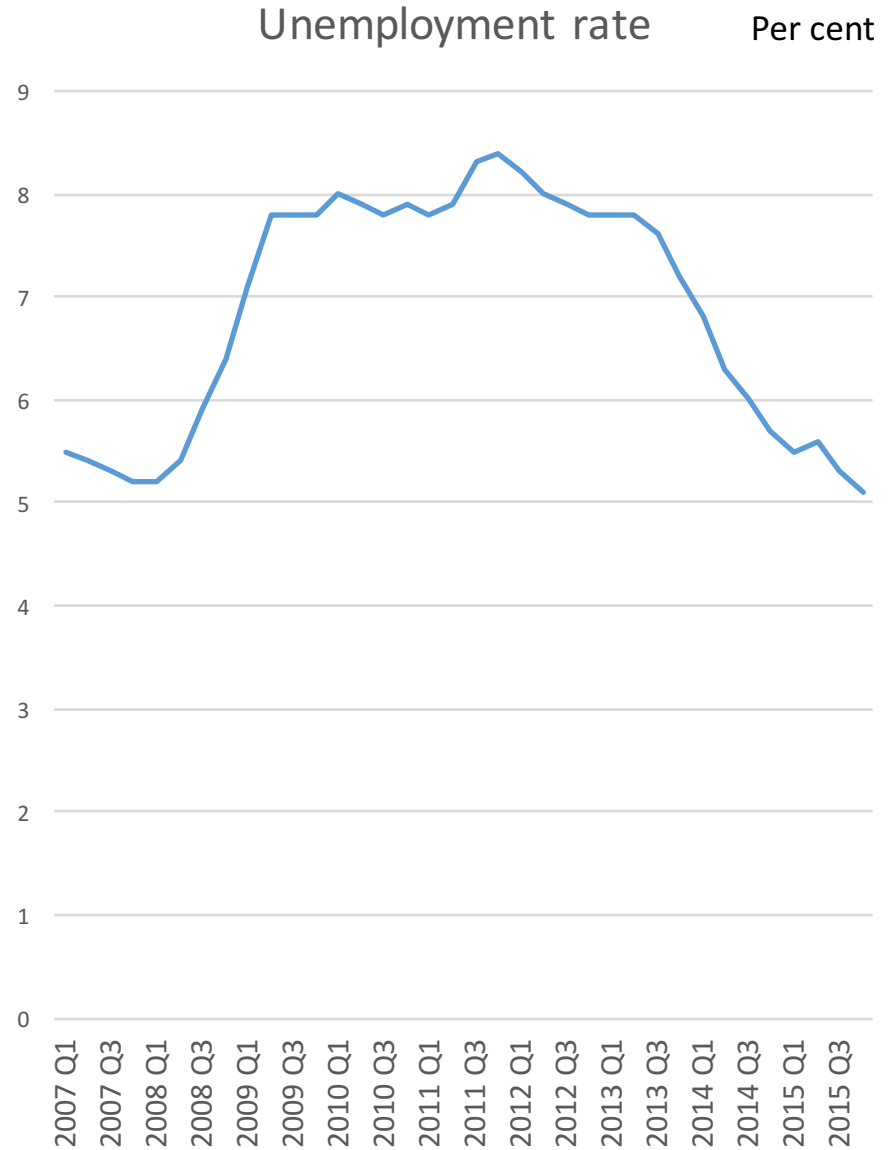
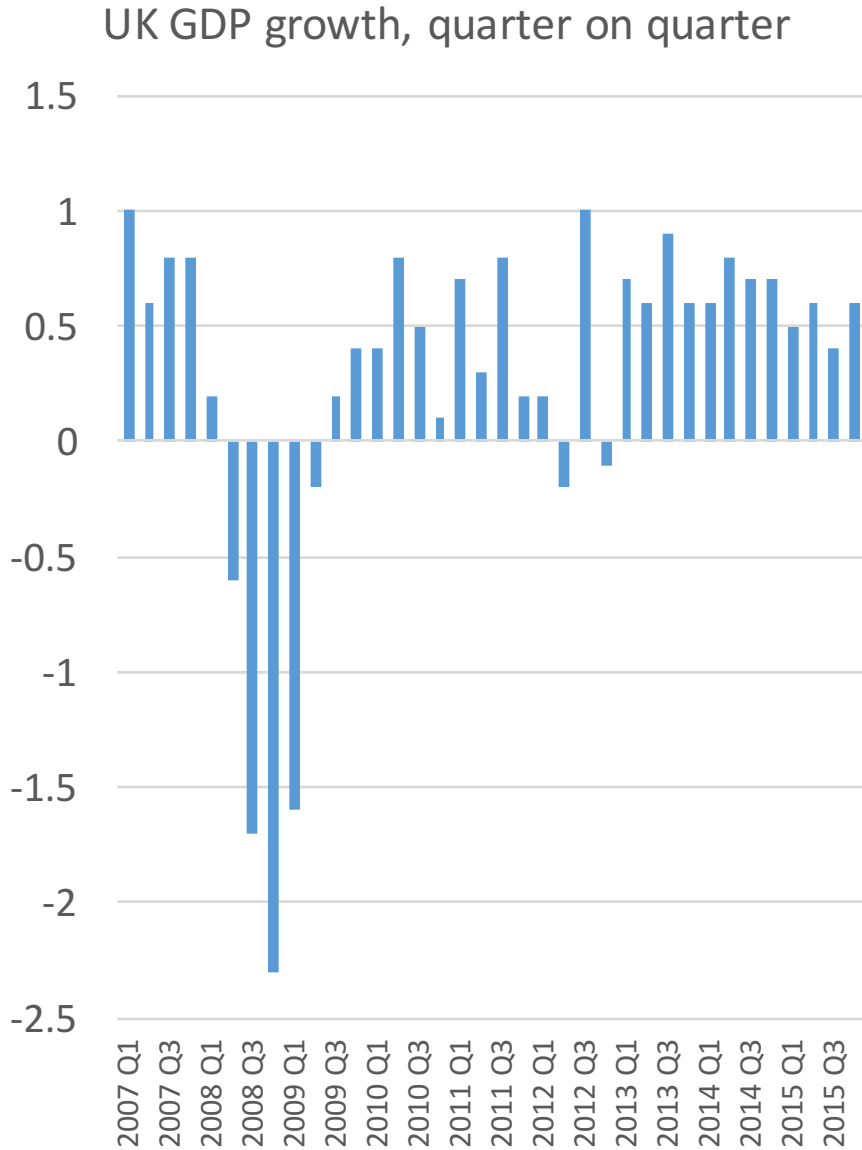
- People on “zero-hours contracts” are more likely to be young, part time, women, or in full-time education when compared with other people in employment.
- On average, someone on a “zero-hours contract” usually works 26 hours a week

■ In employment on a zero hours contract (thousands)

— Percentage of people in employment on a zero hours contract

UK Economic Growth and Unemployment

Source: ONS



Budget 2016 – Policies to Stimulate Jobs?



Main corporation tax rate - currently 20% - to fall to 17% by 2020

The threshold at which people pay 40% income tax will rise from £42,385 now to £45,000 in April 2017

Annual threshold for 100% tax relief on business rates for small firms to rise

New rail lines to get green light, including Cross Rail 2 in London and the HS3 link between Manchester and Leeds

Tolls on Severn River crossings between England and Wales to be halved by 2018

Getting UK Unemployment Down Below 5%

Requires sustained real economic growth – reducing cyclical volatility

Requires more balanced growth e.g. between the regions

Policies need to make work and education investment pay

A flexible labour market helps absorb external economic shocks

Re-skilling the workforce in a fast-changing labour market

Effective policies focus on the underlying causes



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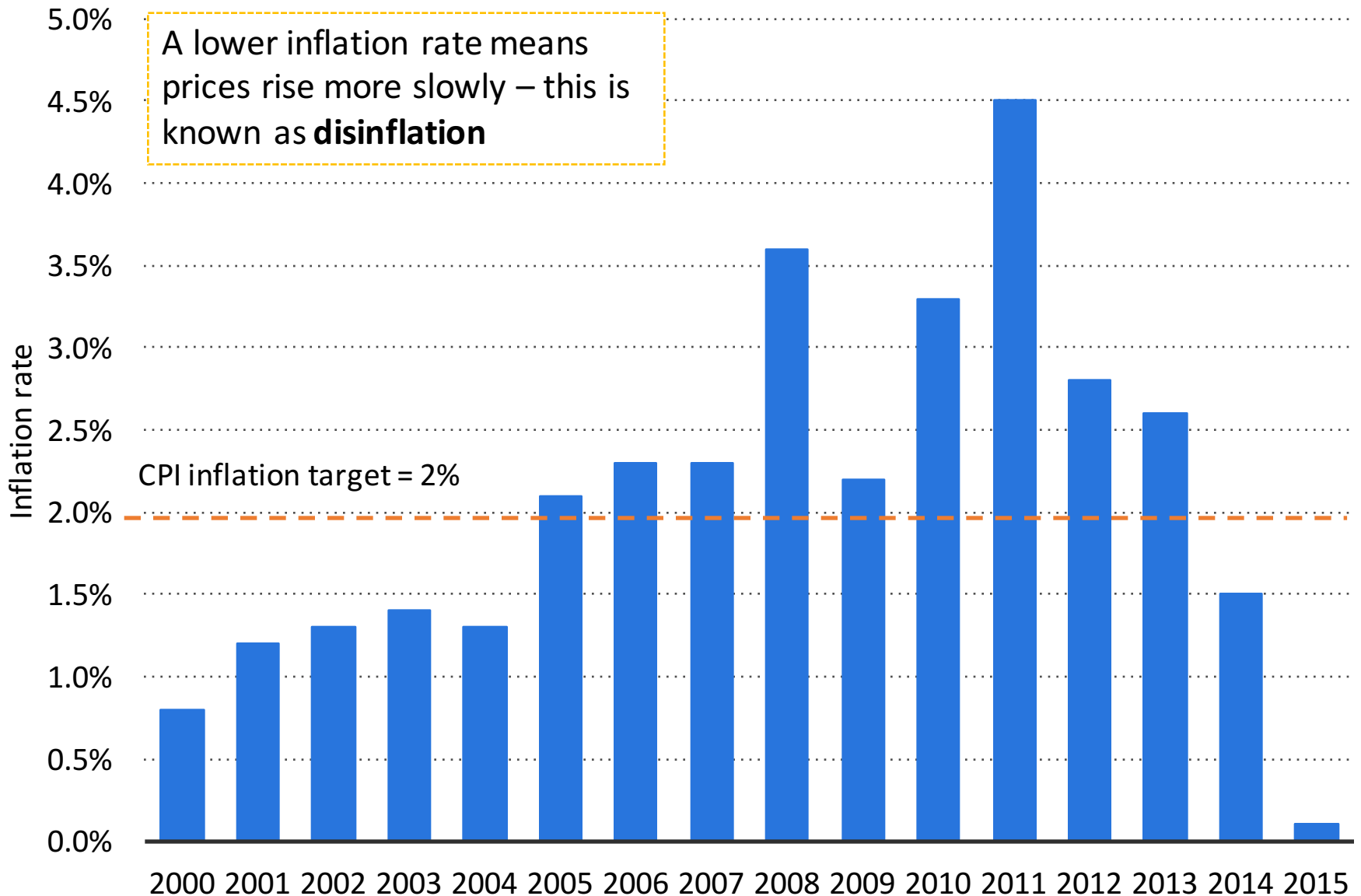
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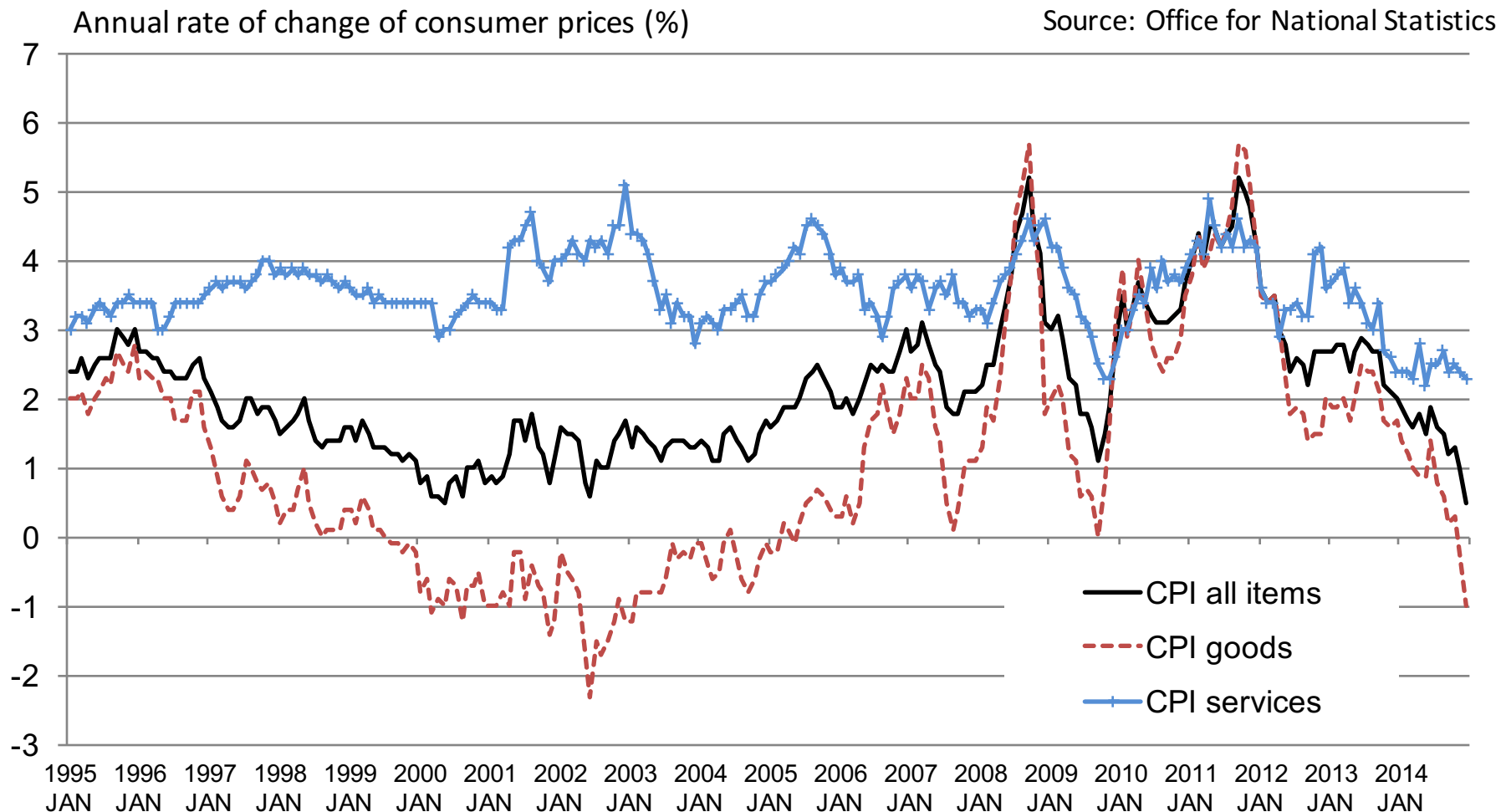
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Inflation Rate in the UK Economy in Recent Years

Source: Office for National Statistics



CPI Inflation in the UK over the last 20 Years

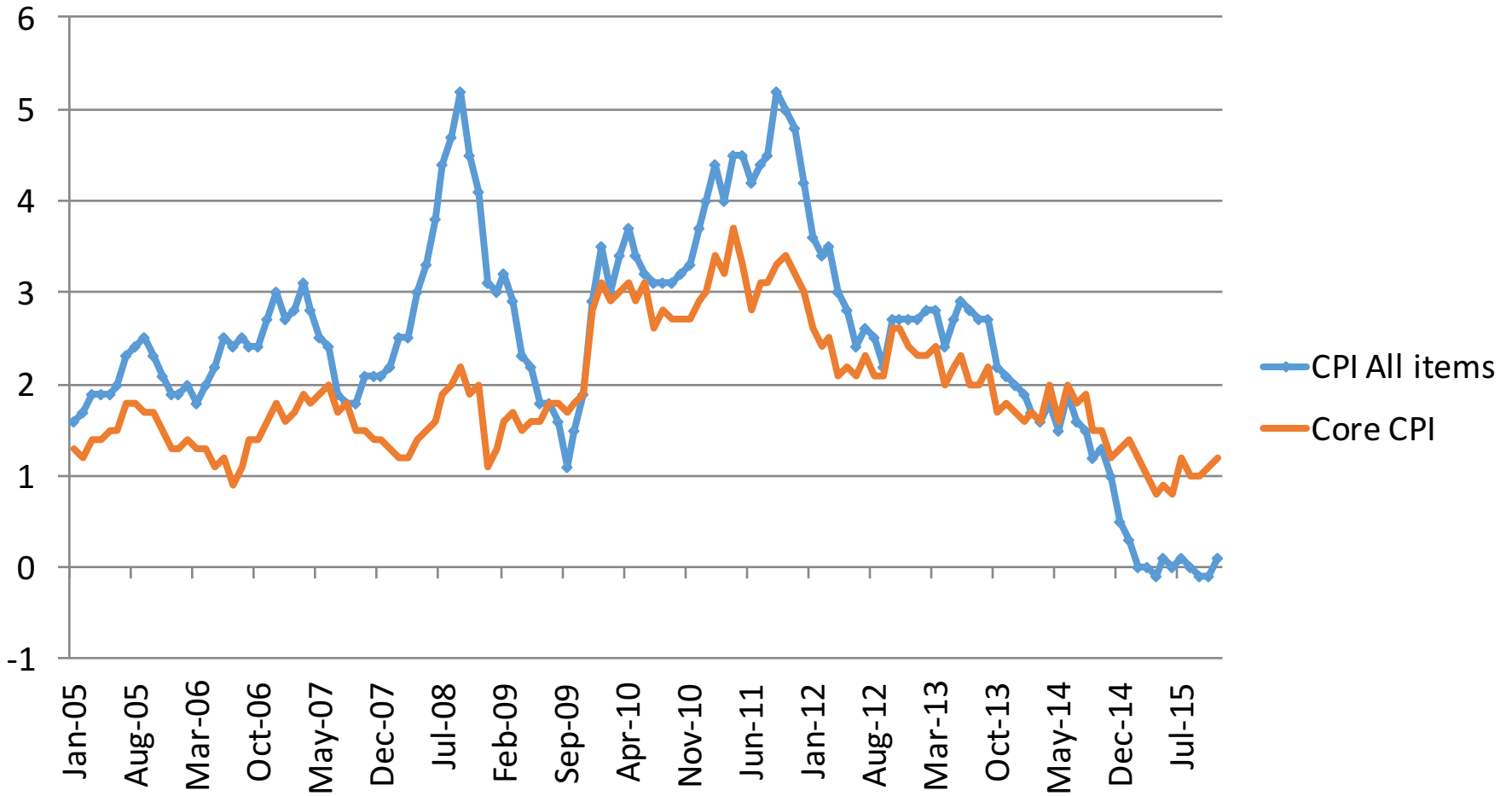


The inflation rate for goods such as clothing and computing equipment has been, on average, lower than for service such as insurance and education

CPI and Core Inflation in the UK In Recent Years

Annual rate of change of consumer prices (%)

Source: Office for National Statistics

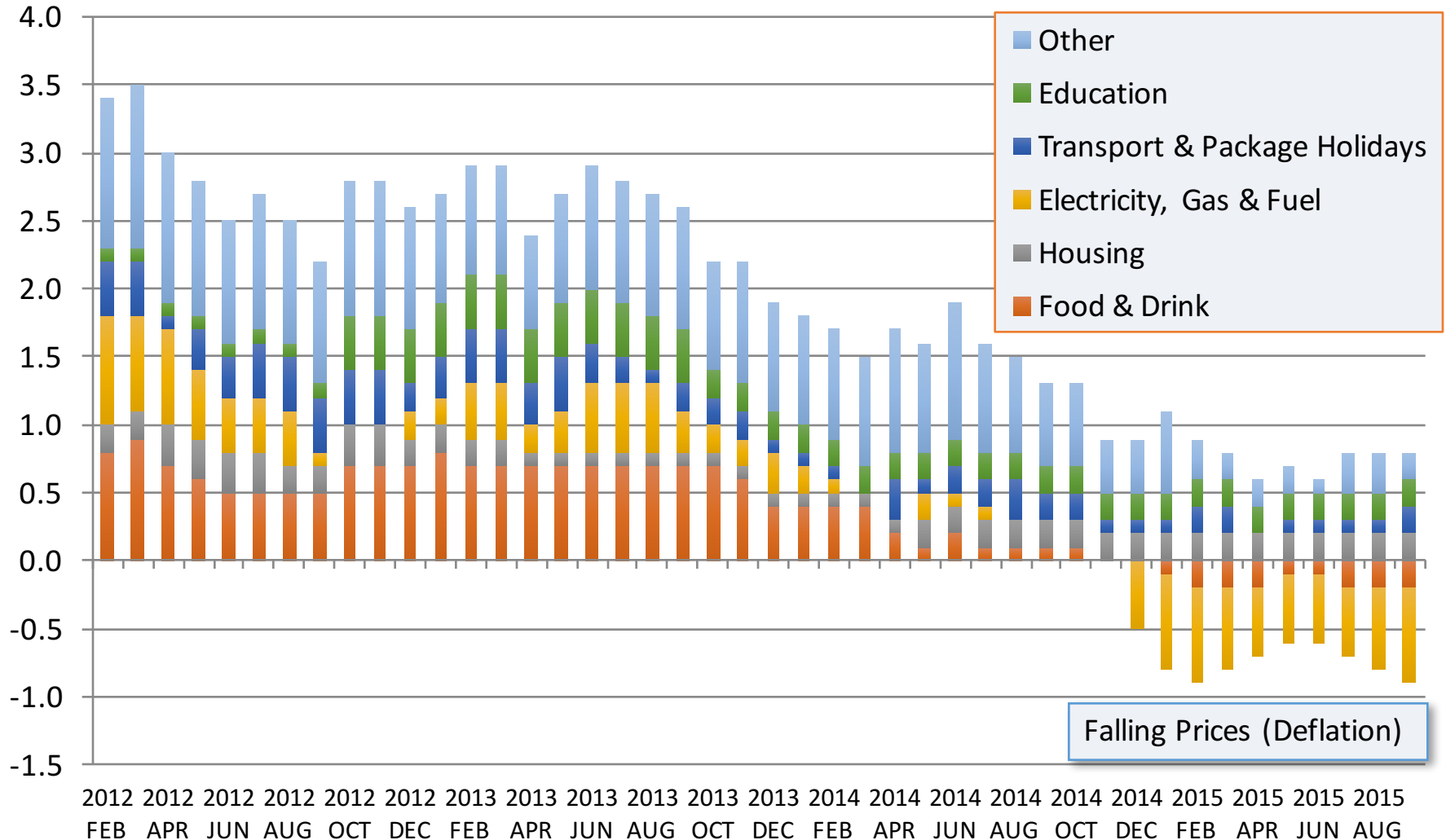


CPI All Items: Percentage change over 12 months

Core CPI: Excludes energy, food, alcohol & tobacco

Contributions to CPI Inflation in the UK

Annual rate of change of consumer prices (%)



Falling Prices (Deflation)

Why is the rate of inflation in the UK so low?



Falling global commodity prices including oil

Slow wage growth in the labour market

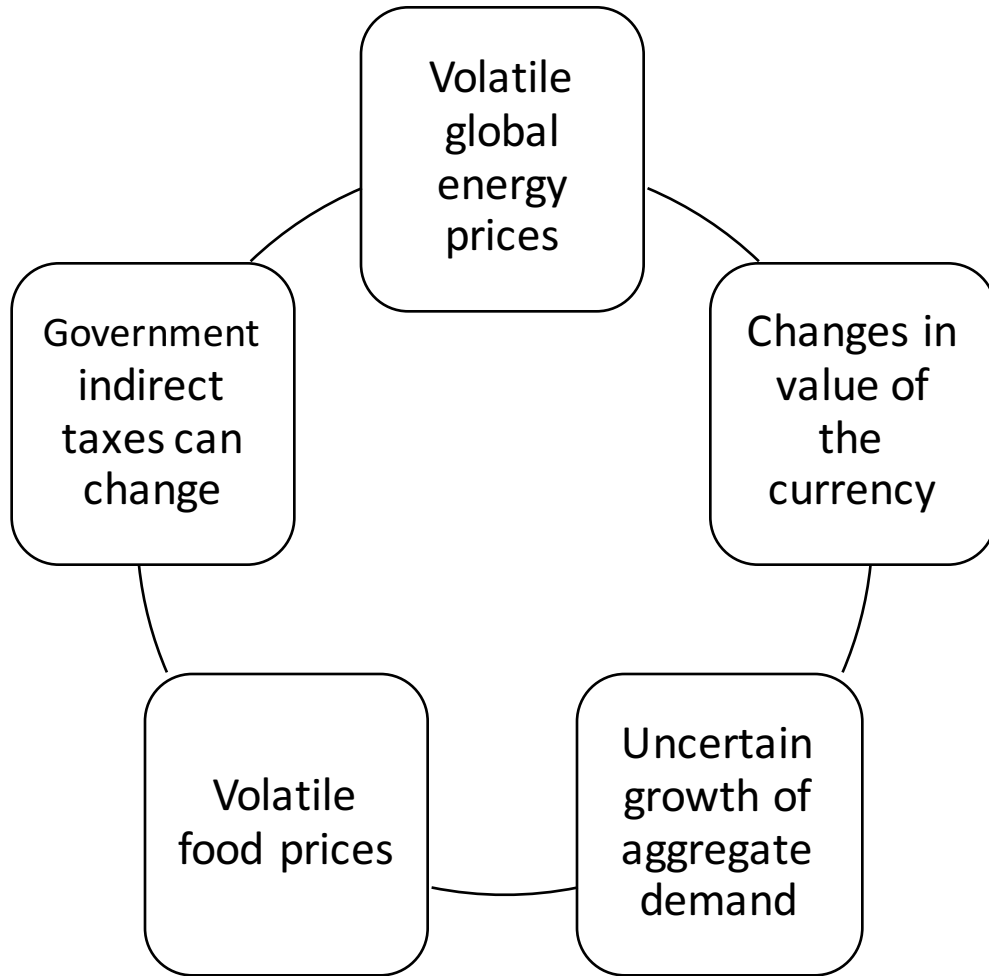
Falling food prices

Continued price deflation in technology products

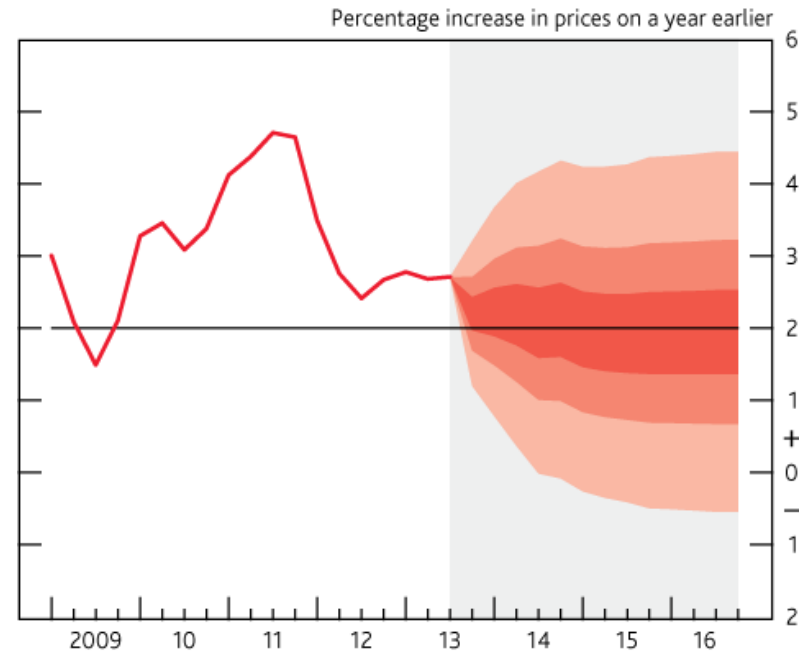
Slower economic growth – falling towards 2%

Still some spare capacity on the supply-side

Why is inflation difficult to forecast accurately?



Forecast inflation for UK (source: BoE)



The chart shows the UK CPI inflation forecast published by the Bank of England. The **probability fan chart** for inflation indicates the range of probabilities for inflation in the forecast period.



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