CHAPTER 1: NORTHERN IRELAND LABOUR MARKET SUMMARY ANALYSIS

(A full Socio-Economic Analysis is available on request)

Introduction

1.1 This Chapter provides a summary analysis of Northern Ireland's labour market, in the context of a general socio-economic overview, and its strengths, weaknesses, opportunities and threats. The Labour Market Analysis will inform the strategy and priorities for the new Northern Ireland ESF programme 2007 - 2013. The analysis takes into account existing EU and UK employment and skills objectives, in particular the renewed Lisbon Strategy.

General Socio-Economic Overview

Introduction

1.2 Northern Ireland (NI) is a region of the United Kingdom (UK) that operates in an island economy sharing a land border with the Republic of Ireland (RoI). As a small open economy, NI cannot insulate itself from global economic developments. However, globalisation also presents a number of opportunities for firms to take advantage of new markets.

The Demography of NI

1.3 NI's population is currently estimated at just over 1.7 million. The rural population is estimated at 588,651 (35% of total population) and the urban population is 1,096,616, or 65% of the total population.

1.4 NI has a relatively youthful population, with 20.6% of the NI population aged less than 15 years compared with 18.0% of the UK population. Comparative figures for the EU25 indicate that, along with the RoI, NI has the highest percentage of the population aged under 15 years. This is well above the EU25 average of 16.2% of the population.

1.5 A more youthful population is one of the factors that acts to increase the dependency rate of the local economy. This situation is unlikely to continue in the future, with NI's high dependency ratio expected to decline from 2011 as the currently youthful population moves into the working age population. This future increased supply of labour should potentially impact positively on the economic growth of the region.

GVA in NI

1.6 Over the last decade, NI's Gross Value Added (GVA) has grown faster than any other region within the UK. Similarly, growth in NI's GVA per head has outperformed all other UK regions. The relatively higher growth rates during this time can be attributed to the fact that NI was spared many of the detrimental effects of the UK recession of the early 1990s. However, in the latter half of the period, NI's growth rates are much more in line with the UK. For example, the cumulative growth for NI and UK was 48.7% from 1996 to 2004.

1.7 Despite this higher than UK average GVA per head growth, the historic gap in regional performance continues to persist with only marginal convergence with the UK since 1990. In 1990, NI's GVA per head was 75 per cent of the UK. Currently NI's GVA per head lags behind the UK average by 20 per cent. Within a European context, NI's GVA per head also lags slightly behind the EU25 average. In 2002, GVA per head was 92.6% of the EU25 average. However, it is well below UK and RoI levels, which show GVA per head of 17.8% and 32.7% above the EU25 average respectively.

Productivity in NI

1.8 Productivity levels in NI, as measured by GVA per hour worked, are considerably lower than the UK average, with NI being the least productive region within the UK. Differences between NI and UK productivity rates partly reflect higher growth rates in hours worked and employee jobs, as well as differences in the composition of the local economy compared to other UK regions. NI continues to work longer hours on average and the gap between NI and the UK is widening. Despite the increased growth in total hours worked in NI, its productivity relative to the UK continues to fall, indicating that GVA in NI has not grown in proportion to the rise in the total workforce hours worked in the region. This suggests that the recent employment growth has been primarily in low value added sectors.

1.9 The large differential in productivity between NI and the UK can be explained by examining the four key drivers:

- Innovation levels in NI;
- Enterprise levels in NI;
- Skills levels in NI; and
- Investment and Infrastructure.

Innovation in NI (including R&D)

1.10 The resources devoted to Research and Development (R&D) within a region are an indicator of the degree of innovation in a region. In 2004 total expenditure on R&D in NI amounted to £272.7 million. Expenditure by the Higher Education sector accounted for the highest proportion of R&D expenditure, amounting to £136.1 million or 49.9% of total R&D expenditure. Expenditure by businesses amounted to £124.3 million or 45.6% of total R&D expenditure with the remainder accounted for by other government expenditure.

1.11 It is noted that the structure of NI business is an important factor in assessing its capacity to undertake R&D expenditure. The lack of financial capacity amongst many NI firms is a growing issue in taking forward R&D activities. In a tightening economic environment small businesses will be less likely to dedicate funding and resources to areas they may regard as non-essential, including R&D. This represents a particular challenge for NI, as the private economy consists of a large number of small and very small businesses.

Enterprise in NI

1.12 The Global Entrepreneurship Monitor (GEM) provides a measure on entrepreneurial activity within a global context. Despite entrepreneurial activity in NI increasing, it still remains lower than in the UK. Within an international context, comparisons with the participating countries from the EU highlights that entrepreneurial activity in NI is higher than a number of EU member states, i.e., Belgium and the Netherlands. In an EU context, NI ranks alongside Finland and Italy in terms of entrepreneurial activity.

1.13 Over the past three years, GEM research has highlighted that female entrepreneurship in NI compares unfavourably to other UK regions, Ireland and almost the entire GEM participating countries in the developed world. An estimated 14,500 women are starting or running a new business in NI (GEM 2005). This equates to approximately 2.8% of the female adult population. This compares to 35,500 male entrepreneurs (6.9% of the male population). Hence women are two and a half times less likely to be entrepreneurs.

Skills in NI

1.14 Skills are recognised as a vital factor in the achievement of higher rates of productivity growth. Lower productivity rates in NI are reflected in lower skills levels, demonstrated through lower levels of on-job training. More detail on skills is provided later in the summary.

Investment and Infrastructure in NI

1.15 The role of infrastructure in promoting competitiveness and economic growth within a region is well recognised and is heightened in a country like NI, which lies on the periphery of the European Union. Poor infrastructure leads to traffic congestion, reduced productivity and increased costs, as well as discouraging inward investment from firms outside the region.

1.16 NI has an underdeveloped motorway network relative to the EU member states. NI ranks alongside Ireland, Luxembourg and Estonia in terms of motorway network. However, when making comparisons of motorway provisions, it is important to bear in mind other factors that influence motorway provision, such as population densities.

Income and Earnings in NI

1.17 Income per head in NI is substantially lower than the UK average. This reflects NI's lower rates of economic activity and employment and its higher dependency rates relative to the UK. Gross household disposable income in NI is the 2nd lowest of all the UK regions, after the North East, and is 14% lower than the UK average.

1.18 NI's median gross weekly earnings are around 89% of the UK average for all employees. Comparable figures for the other UK regions indicate that, with the exception of the North East, NI's median gross weekly earnings was the lowest ranking of the UK regions. However, over the period 2005-2006, there has been a three percentage point reduction in the earnings gap between the UK and NI.

Environment

1.19 NI has a rich and varied natural heritage, which includes habitats and species of international, national and local significance. NI has low levels of atmospheric pollution relative to other parts of the UK. It has a low concentration in sulphur dioxide and nitrogen dioxide emissions. The greatest concentrations of sulphur dioxide are in regions where manufacturing industries are more common. One of the main sources of nitrogen dioxide is road traffic, hence higher concentrations are found in heavily congested areas or major road networks.

North/South Co-operation

1.20 The two economies on the island of Ireland face common external threats from globalisation, which, by working together, can be overcome. Northern Ireland can have a relative advantage by being part of a strong UK economy and by maximising the trading opportunities within the island of Ireland. The proximity to the RoI and its position within the Eurozone means that many of Northern Ireland businesses are already trading successfully with their neighbours. The British and Irish Governments have placed a renewed focus on increased North South cooperation, which will deliver mutual benefits, particularly around the areas of trade and investment, energy, telecommunications, R&D and skills. However, we also need to acknowledge that in areas such as Foreign Direct Investment (FDI), for example, the RoI is in fact a competitor region.

NI Labour Market Analysis

Employment in NI

1.21 NI has experienced a period of sustained growth in terms of employee's jobs. From March 1990 to March 2005, employee jobs in NI have increased by 30% compared to just over 9% for the UK as a whole. Much of this increase is reflective of growth in the services sector and the construction sector - increases of 46.7% and 27.7% respectively for NI compared with increases of 23.8% and 3.8% respectively for the UK. The latest working age employment rate is estimated at 70.2%, which ranks the 2nd lowest amongst the UK regions, and 4.4 percentage points below the UK average of 74.6%.

1.22 Within an international context, latest figures indicate that the NI employment rate compares favourably with the EU25 and EU15. Using harmonised employment rates, based on a population aged between 15 – 64 years for both males and females for EU countries[2], NI's employment rate is currently 66.6%. This is below the UK employment rate of 71.9% and the RoI's rate of 68.8%, but 2.9 percentage points higher than the average EU25 employment rate (63.7%) and 1.5 percentage points above the EU15 rate (65.1%).

Unemployment in NI

1.23 From Spring 1995 to Spring 2005 there has been a significant decrease in the number of people unemployed in NI from 77,000 to 36,000. This decrease has continued to 34,000 (Apr-Jun 2006) representing an unemployment rate of 5.4% for males and 2.8% for females with the total unemployment rate for NI being 4.2%. NI currently has the second lowest rate of unemployment within the UK. Within a wider context, NI's unemployment rate is significantly below the EU25 average of 8.0% and the EU15 average of 7.4%.

1.24 Long-term unemployment has declined considerably in NI. The long-term unemployment rate fell from 61.3% in spring 1995 to 43.5% in spring 2005. The most recent data available shows a further decrease in the long-term unemployment rate (33.5% of unemployed persons are long-term unemployed). However, a similar trend has been experienced across the UK so NI's relative position has altered little over the last decade. In an international context, NI had a lower long-term unemployment rate than the EU25 and a similar rate to the EU15.

The Economically Active in NI

1.25 NI has the lowest economically active rate of all the UK regions (73.4%). The majority (79.6%) of employee jobs within NI are in services (mainly wholesale & retail trade, and health & social work), with 12.3% in manufacturing and 5.6% in construction (at June 2006). NI has a substantial number of employee jobs in the defence sector (public administration & defence (9%)). Due to the developments in the peace process many of these defence sector jobs and related services are in decline. This scenario is unique to NI due to its previous history. The agricultural and fishing sector has also been very

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[2] This differs from the working age rates defined previously normally quoted for NI and the UK, which take account of both school leaving and state pension ages.

important to NI, providing almost 2% of all employee jobs (although 76% of these were part-time).

The Economically Inactive in NI

1.26 Economic inactivity remains a persistent problem in the labour market. The working age economic inactivity rate for NI is 26.6%. This is significantly higher than the UK average rate (21%). Within an international context, NI's inactivity rate is lower than the EU average (2005 Q3) by 3 percentage points.

Employment Gap – People with disabilities and health conditions

1.27 Almost 113,000 people in NI are on Incapacity Benefit. This equates to approximately 11% of the working age population. Many Incapacity Benefit recipients have been on benefits for an extended time with 55% of those who claimed in 2006 claiming for four or more years.

Employment Gap – Lone Parents

1.28 The lone parent employment rate in NI currently stands at 43.5%, compared to 47% in 2000. While 27,000 lone parents are at present in employment, the lone parent employment rate still lags significantly behind the overall employment rate.

Employment Gap – Older workers

1.29 The employment rate of older workers has fluctuated over the past few years. In 2005 the employment rate for those aged 50 to State Pension age was 60.6%. In the longer term the employment rate of older workers will become more important, particularly as the existing workforce ages, as the equalised state pension age is phased in for females and as the state pension age increases from 65 to 68 years.

Employment Gap – Young people

1.30 The employment rate for young people (16 to 19) is around 55% for those who are not in full-time education or training. Approximately 10% of 16-18 year olds are classified as Not in Employment, Education or Training (NEET).

Employment Gap – Women

1.31 The female employment rate is roughly 10 percentage points lower than the male employment rate at 65.1%. Working patterns between males and females in NI are very different with a greater proportion of females (37%) working part-time compared with males (7%).

Employment Gap – People with low qualifications

1.32 Many of the unqualified are unemployed or inactive, and their lack of qualifications places them at a disadvantage in the labour market. In Spring 2005, the employment rate for those with no qualifications was 47%, which was significantly lower that the overall NI employment rate.

Employment Gap – Geographic Areas of Worklessness

1.33 The East of NI and the Outer Belfast area both have higher employment rates with an average of approximately 73%. Belfast and the North region rates are lagging around 4 percentage points behind these areas. The West and South of NI have a rate similar to the Northern Irish average (67.5%).

Skills and Employability in Northern Ireland

Educational Attainment in NI

1.34 Skills is recognised as a vital factor in the achievement of higher rates of productivity growth. Substantial variations in educational achievement at school and university exist across NI, although in most cases a strong performance at 16 is carried through to the percentage of the population with a degree or equivalent.

1.35 NI has consistently been amongst the best regions in the UK in terms of educational performance at GCSE and A-level. Within an international context, key results from a major international survey[3] of student achievement published by the Office of National Statistics shows that the proficiency in mathematical, reading and scientific literacy of 15 year olds in NI compares favourably with that of young people of the same age in other countries.

Skills & Education within the Workforce

1.36 While educational attainment has been relatively high in NI, this has not always translated into the labour market. NI compares reasonably well in terms of the proportion of the working age adults with a high level of qualifications at levels 2 and 3. However, NI has a disproportionately high level of NI working age persons with no qualifications.

1.37 Poor educational achievement amongst the older parts of the workforce and migration from NI are likely to be significant factors in explaining this performance. For example, it is estimated that 9% of full-time students who studied in NI in 2004 left after graduation while

[3] Organisation for Economic Co-operation and Development (OCED) organises the Programme for International Student Assessment (PISA). The results from this survey were taken from data collected in 2003. The survey is carried out in 41 countries using standardised methodology to enable internationally comparable results.

65% of those who studied in GB did not return but entered employment outside NI. On average, nearly 30% of NI domiciled students moved away from NI to take their university course.

1.38 The percentage of NI employees receiving job related training is consistently lower than the UK average and all the other UK countries. In spring 2000 NI had the lowest rate of 10.7% with a UK average of 16.1%. This increased in spring 2005 to 12.8% for NI while the UK average increased to 18.3%.

Skills Gaps Among the Existing Workforce

1.39 The same proportion of employers (13%) in both the private sector and the public sector reported a skills gap among some of their existing staff. This perception varied between employers of different sizes as well as across various locations. For example, only 11% of smaller employers (those with 1-4 employees) reported a skills gap compared to 22% of larger employers (50+ employees).

1.40 Overall, 36% of employers said that their staff needed to improve their knowledge of IT. This gap was felt most acutely by employers in the administrative and secretarial occupations, where 54% reported a skills gap. Reasons cited by employers for the lack of full proficiency among staff included lack of experience (42%), the introduction of new technology (28%) and new skills needed for the development of new products (27%).

1.41 The main measure taken by employers to overcome skills gaps was to provide extra training and development (67% of all groups). However, in 15% of cases, no measures were taken to improve the skills of staff.

Conclusion

1.42 NI has a number of strengths, weaknesses, opportunities and threats, which are summarised below. This presents information on the main intervention needs for the NI economy.

1.43 The main challenges for the Northern Ireland Administration are therefore to improve upon innovation and enterprise levels, build on the current infrastructure, increase the employment rate for all groups in the labour market, reduce the high numbers of economically inactive and improve the skill and qualifications levels of existing employees as well as those seeking to enter employment, whether young people or those who are unemployed.

1.44 EU funding should be prioritised towards improving the four key drivers of productivity, which will enable NI to become a more productive region and to close the large differential that exists between NI and the UK. Funding should also concentrate upon addressing the relatively high long-term unemployment rate and the persistent problem of economic inactivity (considering Incapacity Benefit recipients in particular) as well as a number of employment gaps in the NI Labour Market (lone parents, older workers, young people, women and those with low qualifications).

Summary SWOT Analysis

Strengths	Weaknesses
• Growing labour force pool of working age population. • Good performance of GVA and GVA per head. • Period of sustained growth in employment. • Low rate of unemployment. • Inflow of young & well educated cadre of young people in workforce.	• One of the most deprived areas of the UK. • Least productive region within UK. • Low resources devoted to R&D. • Low entrepreneurial activity, particularly amongst females. • Lower levels of on-job training. • Low working age employment rate. • Relatively high Long Term Unemployment (LTU). • Low economically active rate and high percentage of part-time jobs. • Persistent problem of economic inactivity. • Over-reliance on benefits. • High proportions of workers with no qualifications. • Skills gap in public and private sector
Opportunities	**Threats**
• From recent developments in the NI peace process. • Based on an increased labour pool as the currently youthful population moves into the working age population. • Relating to relatively higher levels of HERD. • To market NI as a vibrant tourism destination. • From promoting the rich and varied natural heritage in NI. • For maximising the trading opportunities within the island of Ireland. • To attract foreign direct investment by being able to provide a pool of employees educated at graduate level.	• Increased low cost competition from opening up of EU. • Ongoing political instability. • Gender segregation of entrepreneurship. • Need to address structural adjustments arising from peace process. • Failure to deal with relatively high inactivity levels. • Changing demographics (fresh pool of increasingly young working age population & keeping older people in work). • Need to create sufficient numbers of jobs & to have a labour force with appropriate skill. • Gender segregation of occupational and industrial sectors. • Reluctance of employers to provide training to employees.