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Devon Labour Market

Quarterly Report – June 2023

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1. Introduction

This report outlines the local labour market in Devon as it stands in June 2023. It draws upon data from the previous quarter, and includes any sources released in this period that are annually updated. The purpose of the report is to provide an update on a full review of the Devon labour market provided by Wavehill for Devon County Council in the spring of 2022, which covers a wider range of indicators and baseline data. This updated report should therefore be reviewed alongside the full report.

1.1 Background and methods

This report has been produced by Wavehill on behalf of Devon County Council to provide assessment of and insight into the latest changes in the county's labour market. It is designed to share information with stakeholders and inform interventions. The report uses both commercial information (reproduced with permission) and public data from robust sources including Lightcast, the ONS, and central government departments. This evidence has then been analysed and interpreted by economists at Wavehill alongside the wider socio-economic context to construct a snapshot of the Devon labour market in June 2023.

The first part of the report reviews the contextual changes in both the national and global economy over the last quarter. The second part explores the shifts in the baseline for the key indicators in Devon updated since the last quarter. The final section outlines forecasts for the UK economy in the near future, with some interpretation of what these estimates might mean for the Devon labour market.

1.2 Caveats

The data in this report draws on the latest sources, though in many cases this information is already outdated; for instance, the Annual Population Survey was updated in April 2023, and provides information up to December 2022. Further, the most recent ONS data sources based on large surveys are often less robust than later updates, being treated as provisional in national statistics. This report uses these figures for its analysis, but it should be noted that subsequent updates may revise the figures described and have an impact on the conclusions drawn.

Relatedly, the lower the geographic levels considered in the statistics, the less robust they become, with broader confidence intervals. For instance, Exeter may have a confidence interval of 7% while Devon may be 3% for the same data variable. The data still provides a useful insight into the labour market and are the most practical sources available.

2. Context

Uncertainty has persisted in the global economy in the spring of 2023. Inflation continues to be significant, particularly in the UK where rates are proving sticky. While Europe has entered a recession the Euro has remained stronger than expected, helped by recent falls in energy prices.¹ The US stock market has been steadily improving over the last quarter despite concerns of contagion from the closure of several banks. The UK stock market tells a different story, however, despite rallying steadily after the mid-March declines, values have been stuttering. Despite this and external pressures the UK has narrowly avoided the forecasted recession, in part buoyed up by government energy cost support.²

Though inflation in the UK fell to 8.7% in April, this fall was smaller than expected by UK government and commentators and has remained at this level into May.³ In response to this persistently high inflation the Bank of England has raised the bank rate to 5%, which is putting continued pressure on businesses and households.⁴ The implications of this monetary policy tightening will be to reduce both consumer spending and business investment, which will result in slowing economic growth. Despite this pressure, employment rates remain high suggesting that any decline resulting from raised interest rates has not yet materialised.

Internationally some of new headwinds are emerging while others are abating. Commodity prices have stabilised following the disruption caused by the war in Ukraine.⁵ The Chinese economy though still seems to be struggling after an initial post-covid boom in demand,⁶ with comparatively weak growth and fears of a deflationary spiral becoming more acute. There has been increased global investment from Middle Eastern national wealth funds, providing liquidity but changing ownership structures.⁷ With the US not providing global finance in the same way it was 15 years ago, there are substantial shifts taking place within the global economy. Meanwhile the reshoring of supply chains is both creating opportunities but further disrupting existing structures. This complexity and change is making it difficult for UK industries to make decisions and these are likely to have implications for domestic labour markets. With foreign investment so low - worsened by the political atmosphere of the country, which has been a key contributor to the lack of confidence in Britain by the US in

¹ <https://www.economist.com/economy>

² <https://www.londonstockexchange.com/>

³ <https://www.ft.com/content/92448a30-3740-4ebd-98a9-27757fb3ced0>

⁴ <https://www.bankofengland.co.uk/>

⁵ <https://www.economist.com/briefing/2023/06/07/ukraines-counter-offensive-is-gathering-pace>

⁶ <https://www.economist.com/finance-and-economics/2023/06/01/why-chinas-government-might-struggle-to-revive-its-economy>

⁷ <https://www.ft.com/content/61f90ae3-ba6f-489e-8b6b-75062f5174ac>

particular⁸ - the UK Government has been looking to revitalise investment in domestic science and innovation from pension funds.⁹

The Composite Purchasing Managers Index (PMI) stood at 54 in May, a slight rise since the previous quarter, with the services sector (55.2) significantly outperforming manufacturing (47.1).¹⁰ Manufacturers have suffered from weak domestic market sentiment, lower new export orders and client destocking, which offset any benefits from supply chain improvements. More positively, however, average input prices fell for the first time in over 3 years in this quarter.

The labour market in the UK remains tight even with the pressures outlined above, and there are indications of business confidence rising. Despite calls from the Bank of England and Government to keep wage rises down to avoid inflation spiralling a persistent shortage of labour supply and increasing earnings in the private sector are fuelling wage level rises (as shown in figure 2.1 below).¹¹ Industrial action has continued in the last quarter, with cost of living worries contributing to enduring demands for higher pay, particularly in the public sector and among healthcare and education workers. Although some progress and agreements with trade unions have been made, strikes have continued to cause disruptions. Interestingly however, consumer confidence in the UK is continuing to rise, up by 3 points in May to -27. While this is a clear improvement on this January's low of -45, consumer confidence is still a long way below positive, and the -8 levels in mid to late 2021 before cost pressures became so significant.

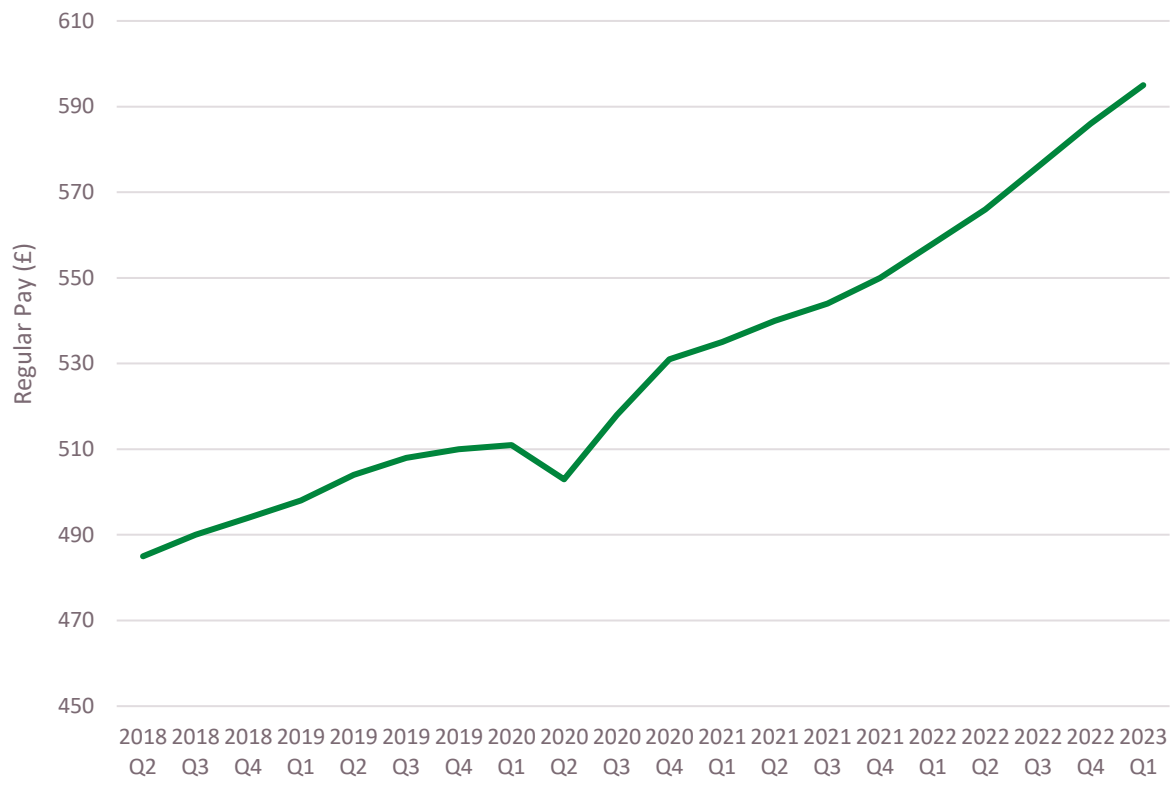
⁸ <https://www.ft.com/content/cbfc939d-3790-436b-b73c-0213479b049d>

⁹ <https://www.ft.com/content/8639ccab-ec49-4cd4-a01b-06b87bd9e485>

¹⁰ <https://tradingeconomics.com/united-kingdom/indicators>

¹¹ <https://www.economist.com/britain/2023/06/14/wage-growth-inflation-and-more-place-britains-central-bank-in-a-spot>

Figure 2.1: Regular earnings (£) (seasonally adjusted)



Source: ONS

3. Devon Baseline

The following section outlines that key indicators for Devon's labour market that have been updated since the previous quarter, alongside description of these changes.

3.1 Demographics

The Devon population continues to age with an increase of 0.3 percentage points in the proportion of the population who are over 65 between 2020 and 2021 to 25.9%.¹² By contrast, the proportion of the population who were 15 or younger fell from 16.3% to 15.8%. This reflects 3,000 more people moving into the over 65 category and 3,700 less young people in the <15 category. The working age population in Devon has increased by 0.2 percentage points in 2021 to 58.3%, though this is still an erosion of the 60% a decade ago. In the UK the working age population increased from 62.4% in 2020 to 62.9% in 2021.

2021 saw a substantial reduction in the growth in the Devon population compared to the last decade. The population increased by 3,700 in 2021, down from 8,300 in 2020 and an average of 6,700 in the preceding ten years. The last time population increases in Devon were this low was in the aftermath of the financial crisis in 2008, which is reflective of the higher-than-average house prices in the county. The decline in 2021 is likely to also increase higher mortality rates following Covid-19.

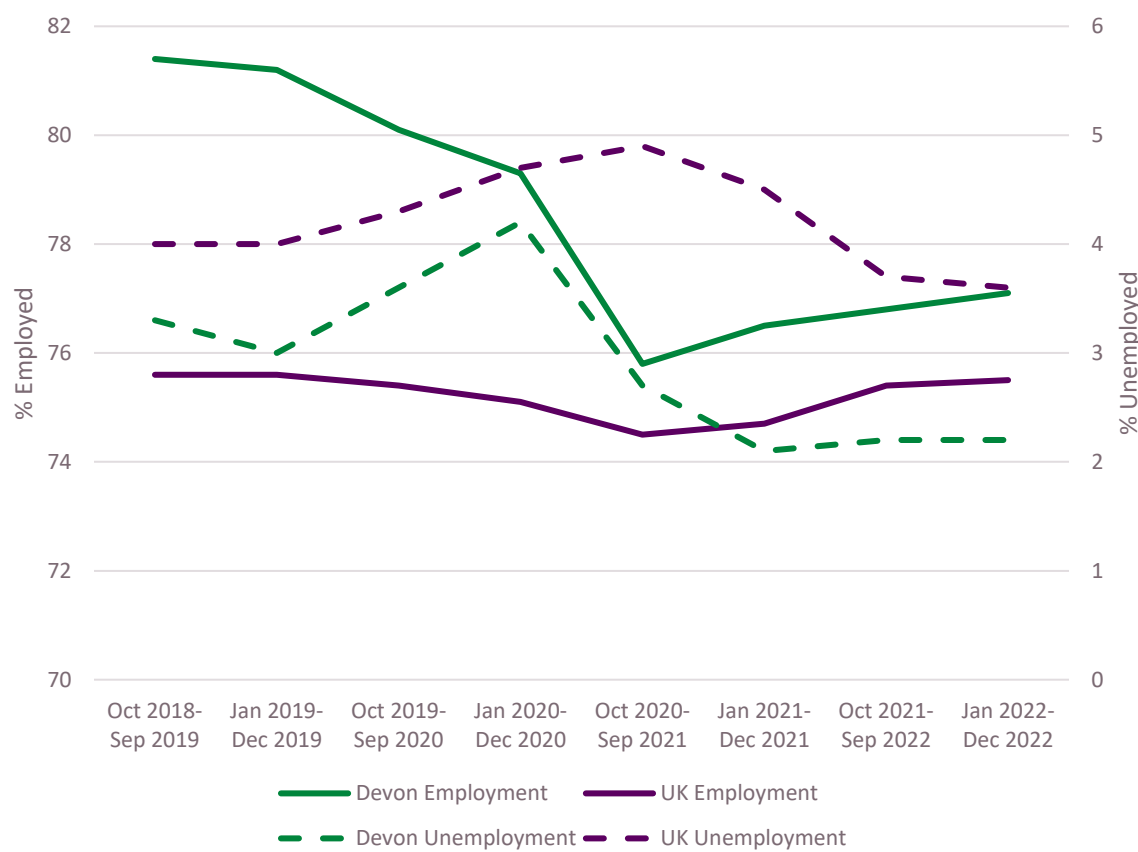
3.2 Employment

Data from the Labour Force Survey indicates that Devon's employment rate rose slightly since the previous quarter, from 76.8% in September 2022 to 77.1% in December.¹³ This slight upward trend observed was reflected in almost all districts, with only Mid Devon experiencing a fall in the employment rate of 1 percentage point over this period and suggests that there may be some capacity coming back into the labour supply. Unemployment in Devon has remained steady at 2.2% over the last quarter, which is below the national average of 3.6%. While the national unemployment rate was still falling, it is likely that Devon is at full employment with the remaining 2.2% around the rate to account for movement of jobs.

¹² UK Population, ONS, 2023

¹³ Labour Force Survey, ONS, 2023

Figure 3.1: Employment and unemployment rates in Devon and the UK



Data from the Claimant Count shows that the number of unemployed people claiming out of work benefits or universal credit in Devon rose from 9,570 claimants in January 2023 to 9,830 in March of this year.¹⁴ Claimants as a proportion of economically active residents remained the same between January and March, however, reflecting the slight rise in the number of economically active residents in Devon over this period (of 0.3 percentage points). Between March and May of this year, the number of claimants fell by 625, a fall reflected in the data for the UK as a whole in this period.

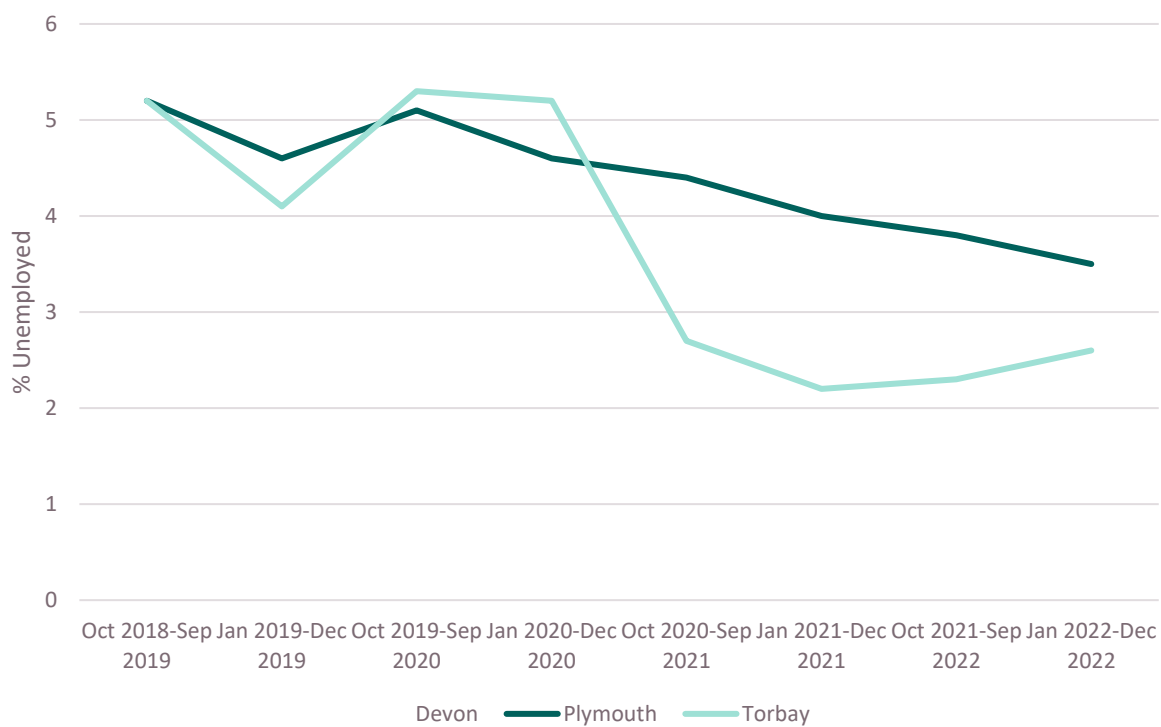
When compared with Plymouth and Torbay, Devon has both a lower unemployment rate and proportion of claimants within the economically active population. At a district level, the only data available for the latest quarter was for East Devon, Mid Devon and Exeter. East Devon and Mid Devon showed a rise in claimant count unemployment over the last quarter of 0.3 percentage points and 0.2 percentage points respectively, while Exeter experienced a fall of -0.3 percentage points.

¹⁴ Claimant Count, ONS, June 2023

Figure 3.2: Claimants as a proportion of economically active residents

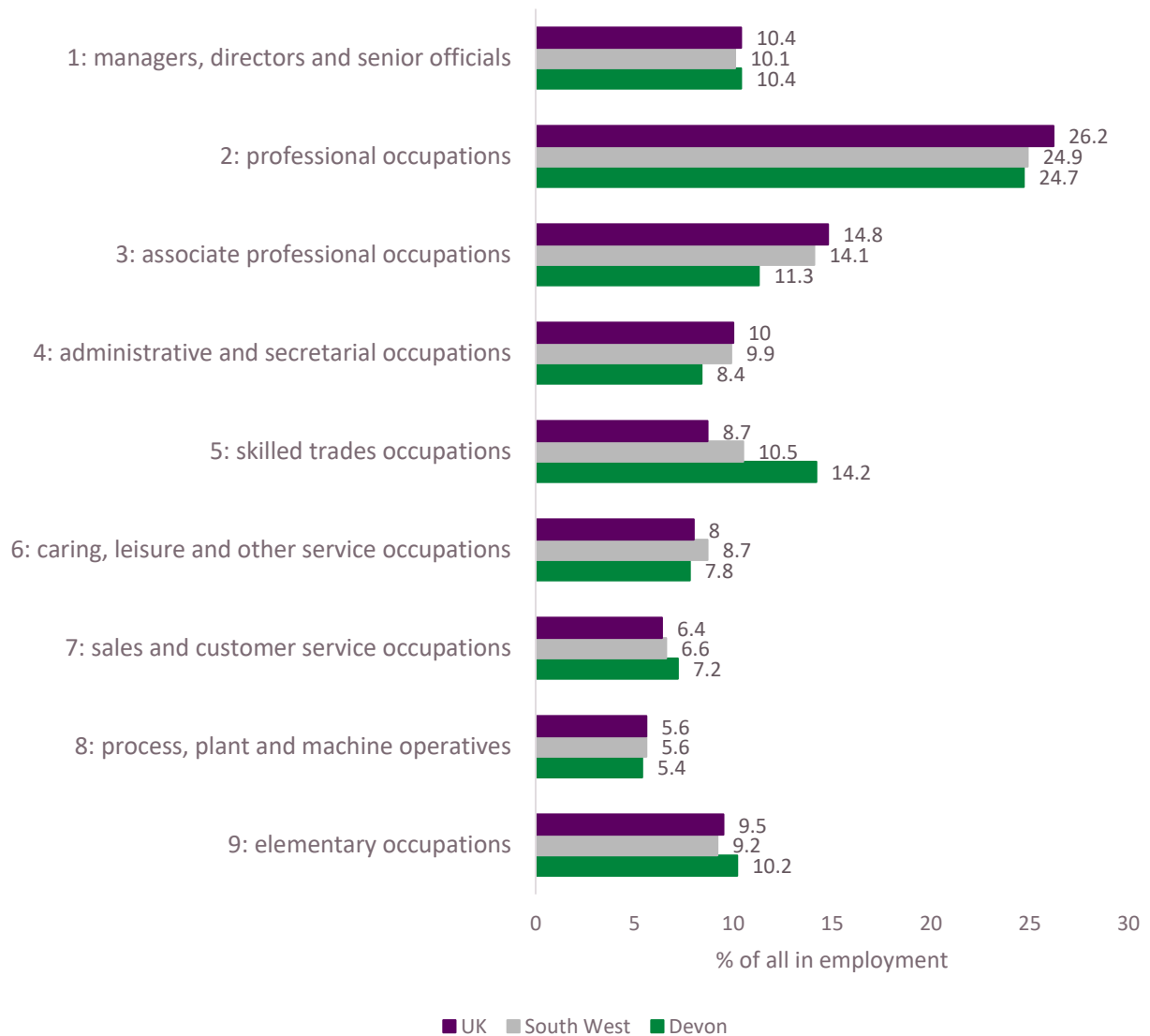


Figure 3.3: Unemployment rates in Devon, Plymouth and Torbay



Occupations of workers in Devon differ slightly from national and regional figures. Devon’s proportion of workers in skilled trades, sales and customer service, and elementary occupations are higher than regional and national figures. Conversely, numbers are lower for occupations in professional, associate professional, and administrative and secretarial categories. There was some quarterly change in these figures between Q3 and Q4 of 2022, the most notable of which were a 0.8 percentage point fall in sales and customer service employees and a 0.6 percentage point rise for skilled trades occupations..

Figure 3.4: Employment by occupation: Devon, the South West, UK (Dec 2022)

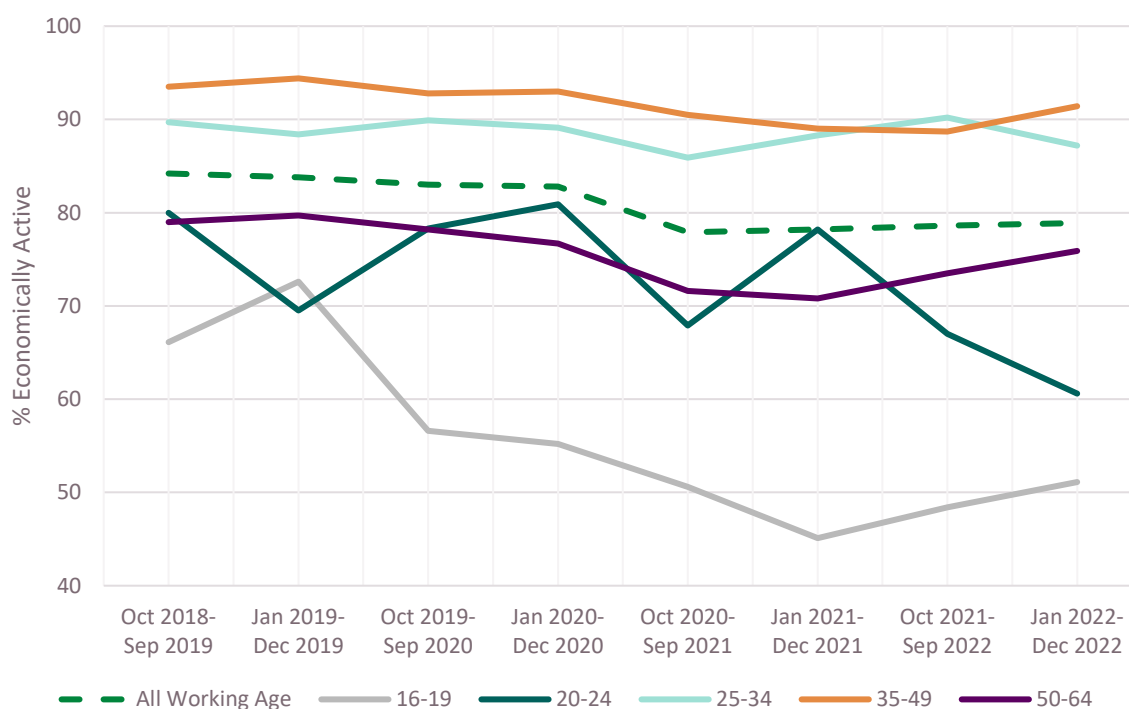


3.3 Economic Activity

Economic activity in Devon among the whole working population has marginally increased in the last quarter, rising from 78.6% to 78.9% between September and December 2022. Economic activity appears to be slowly recovering to the pre-covid rate of 83.8%, therefore, and in the last quarter Devon exceeded the UK's average of 78.3%. This excess is not as significant as Devon's position in relation to the UK before covid, however – in December 2019, Devon's economic activity rate was 5% higher than the UK average¹⁵.

Economic activity over the last quarter varied greatly by age. Significant falls in economic activity were witnessed in the young working population between 20-34 in the last quarter. For 20-24 year olds, economic activity fell by 6.4% to 60.6 in the last quarter, and for 25-34 year olds the rate fell by 3% to 87.2. This may have been a result of seasonal fluctuations in activity, with activity rising over spring and summer and so falling as a result between September-December. For the older population, however, economic activity increased. Those aged between 35-49 experienced an increase from 88.7% to 91.4% in the last quarter, and for 50-64 year olds figures rose from 73.5% to 75.9%. While this trend is positive, neither age category has returned to pre-pandemic levels of activity. For both age categories, however, this trend was stronger in Devon than in the UK as a whole, where levels remained the same for 50-64 year olds and only increased by 0.1% for those between 35-49. Rising levels of activity among the population over 35 may be a result of movement of economically active individuals into Devon at this age.

Figure X: Economic activity by age



¹⁵ Annual Population Survey, ONS, December 2023

3.4 Sector Structure

While there have been few substantial shifts in the core industry structures of Devon by employment since the initial report as these take time to change. However, the latest data from the Business Register and Employment Survey does suggest that 5,000 jobs have been added in accommodation and food service activities.¹⁶ While there was a net loss of -2,000 jobs in the same sector in 2020 on 2019 following the pandemic, the indication is that this has been recovered. This has shifted the sector in Devon to accounting for 11% of all employment, up from 10% in 2020.

The health sector has also reportedly added jobs in 2021 compared to 2020, increasing by 3,000 (though the scale of the sector means that this has only increased the proportion of all employment by 0.3 percentage points). The BRES data does suggest that there has been a tightening of construction jobs, with a 0.5 percentage point decrease as a proportion of all jobs, down to 5.7% in 2021. The caveats outlined above should be considered though when interpreting these figures.

3.5 Job Density

There has been very little change in the availability of jobs in Devon, Plymouth and Torbay since the initial study.¹⁷ Job density has remained at 0.89 in Devon, 0.80 in Plymouth and 0.74 in Torbay. At a district level however, there have been some changes. 2020 saw a reduction in the job density in Exeter to 1.14 from 1.22 in 2019, likely as a result of the changed working patterns from those who had commuted into the city prior to the pandemic. In 2021 the job density increased back up 1.23. Similarly in North Devon, the job density returned to near its pre pandemic level at 0.98. Job density in Torridge and Mid Devon however fell in 2021, from 0.81 to 0.74 in Torridge and from 0.71 to 0.65 in Mid Devon. The implications of remote and flexible working are likely to be affecting some of these districts.

3.6 Vacancies

Data from Lightcast shows a 24% increase in unique job postings in the last quarter, a substantial change when compared with the fall in unique postings reported in the previous quarterly update.¹⁸ Data across Devon's local authorities varies considerably, however; job postings in West Devon and South Hams rose by 49% and 53% respectively, whereas in North Devon and Torridge postings rose by a more modest 20% and 15% respectively. These district-level trends align in part with those seen over the last year (since May 2022), with the exception of Teignbridge and Mid Devon which experienced the highest increases in job postings over this year-long period though a slower rate of job postings in the last quarter.

¹⁶ Business Register and Employment Survey, ONS, 2021

¹⁷ Job Density, ONS, 2021

¹⁸ Job Postings, Lightcast, June 2023

Devon's job postings trends differed from that of the UK as a whole in the last quarter, which experienced a sharp decline in postings between March-April before numbers rebounded to just below March levels in April-May, resulting in a small fall of 0.2% over the whole quarter.

Job postings trends in Plymouth were almost as substantial as that of Devon, with a rise of 17% in the last quarter to the highest number in 5 years (~3,800 unique postings). Torbay has experienced a similarly large rise recently, up by 41% since March of this year, with postings rising by ~300 in the last month.

Advertised wage trends in Devon from these advertised jobs appear to be continuing to rise, likely due to the cost of living pressures translating into upward earnings. In the last year, advertised wages have risen by 11% from May 2022 to June 2023. By contrast, advertised wage trends in the UK have risen much more steadily over this period, at approximately 4%. This suggests a greater upward wage pressure in Devon than the rest of the UK average. Job posting intensity has risen from 2:1 to 3:1 this quarter compared with last quarter. This implies that recruiters are more frequently advertising roles, suggesting that the labour market has become tighter alongside the growing vacancies over the last quarter.

Almost all occupations (with the notable exception of health professionals) showed an increase in unique vacancy postings over the last year, as indicated in Table 3.1. Not counting the substantial rise in skilled agricultural and related trades which only contains a small number of postings, demand rose the most for workers in construction and building trades. This rise was more substantial in than that of the last quarterly update (+54% in Q1 vs +125% in Q2), suggesting that the sector continues to face high levels of and a shortage of skills in Devon. There was also a substantial rise in demand for managerial roles both over the past year and past quarter. Demand for science, engineering and technology professionals, culture, media and sports occupations, machine operatives and administrative occupations all also rose over both the last year and the last quarter. No occupations experienced declines in posted vacancies over the last quarter.

Table 3.1: Percentage change in unique postings by occupation (yearly and quarterly changes)

SOC	Occupation	% Change (Jun 2022-May 2023)	% Change (Feb 2023-May 2023)
11	Corporate Managers and Directors	65%	53%
12	Other Managers and Proprietors	48%	16%
21	Science, Research, Engineering and Technology Professionals	40%	34%
22	Health Professionals	-2%	11%
23	Teaching and Educational Professionals	31%	31%
24	Business, Media and Public Service Professionals	47%	34%
31	Science, Engineering and Technology Associate Professionals	74%	55%
32	Health and Social Care Associate Professionals	14%	7%
33	Protective Service Occupations	90%	18%
34	Culture, Media and Sports Occupations	57%	102%
35	Business and Public Service Associate Professionals	23%	29%
41	Administrative Occupations	53%	40%
42	Secretarial and Related Occupations	30%	1%
51	Skilled Agricultural and Related Trades	289%	75%
52	Skilled Metal, Electrical and Electronic Trades	61%	12%
53	Skilled Construction and Building Trades	125%	6%
54	Textiles, Printing and Other Skilled Trades	40%	43%
61	Caring Personal Service Occupations	9%	24%
62	Leisure, Travel and Related Personal Service Occupations	34%	40%
71	Sales Occupations	37%	13%
72	Customer Service Occupations	23%	85%
81	Process, Plant and Machine Operatives	21%	9%
82	Transport and Mobile Machine Drivers and Operatives	49%	52%
91	Elementary Trades and Related Occupations	59%	18%
92	Elementary Administration and Service Occupations	34%	42%

3.7 NEET and Education

Proportions of young people (16 and 17) not in education, employment or training (NEET) have remained constant in Devon between 2021 and 2022 at 5%, or 3.4% if those who are not known are excluded. There were however, -0.8 percentage points fewer young people in education (82.7%) in 2022 and a 1 percentage point shift from full time education to apprenticeships (6.8% of 16- and 17-year-olds were now undertaking apprenticeships). With more young people entering the workforce or apprenticeships this may be helping to respond to some of the labour market shortages.

4. Outlook

Two potential trajectories for growth have been identified by PWC forecasting the next few quarters of the UK's economic outlook.¹⁹ The first of these forecasts is that growth will remain close to 0% but economic normality will begin to return steadily, with inflation coming down and policy becoming less uncertain. The second prediction is that economic damage from the geopolitical instability of recent years will be prolonged by ongoing inflation – particularly in wages, food and services – and continuing industrial action. Nominal wage growth is forecast to continue on an upward trajectory until the end of July 2023, reaching a high of 6.4% before falling back to 2.6% by January 2024.²⁰ If inflation persists despite the rising interest rates, this will create more and more economic risk, as well as the levels of inflation continuing to erode standard of living.

Alongside inflated living costs, with the Bank of England base interest rate now at 5% many households' will face substantially reduced disposable income resulting in reductions in consumer spending. This could impact various parts of the Devon economy directly, including leisure and tourism sectors but also indirectly should this trigger a recession which is likely to affect most businesses. Increasing interest rates on mortgages in particular are likely to hit the construction industry, an important sector in Devon's labour market, and sales within the housing market are already slowing,²¹ even if house prices are remaining stubborn.²² Higher prices throughout supply chains and increased borrowing costs are likely to impact businesses across all sectors, as will reduced demand nationally. These impacts might begin to reduce the tightness of the labour market as demand for vacancies eases, potentially furthered by cost of living concerns and higher wage offers encouraging re-entry into the labour market of those who are economically inactive.

There are suggestions that economic inactivity rates will continue to increase until the end of 2023 which if reflected in Devon would increase the proportion of those out of the labour market by 0.4 percentage points (to 21.3% in Q4 2023).²³ Forecasts for national unemployment have been reduced by the Bank of England and suggest that it will peak at 4.5% in Q2 2026.²⁴ If this increase was reflected in Devon's labour market it would account for a rise to over 4% for the same period, pushing ~7,000 people out of work. .

¹⁹ UK Economic Outlook, PWC, 2023,

<https://www.pwc.co.uk/services/economics/insights/uk-economic-outlook.html>

²⁰ <https://tradingeconomics.com/united-kingdom/wage-growth>

²¹ UK monthly property transactions commentary, National Statistics, HMRC, June 2023

²² <https://www.ft.com/content/6db248a3-ff08-496a-8178-07c2429f547b>

²³ The Economy Forecasts: Labour Market, OBR, 2023, <https://obr.uk/forecasts-in-depth/the-economy-forecast/labour-market/#participation>

²⁴ Monetary Policy Committee Report, Bank of England, May 2023

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