10 Years Post Financial Crisis: Unemployment, Productivity, Wages and House Prices

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Introduction

The impacts of the financial crisis created increased unemployment, a slumped housing market, decreased consumer and business confidence, heightened food and fuel prices and lowered productivity. The real question and focus of this paper is; have the UK, and in particular focus for this report, Warwickshire fully recovered from the detrimental effects of the financial crash of 2008?

2007 saw the beginning of troubles regarding subprime mortgages and on September 13th the UK saw their first ever run on a British bank, whereby the fifth largest British mortgage lender, Northern Rock sought emergency funding from the Bank of England. In the weeks that followed multiple US investment banking firms saw their CEO's resign following losses including Citigroup and Merrill Lynch.

As a result, the Bank of England forecasted slower growth and higher inflation, supported by a cut in the interest rate for the first time since 2005. In light of this concern multiple banks and building societies in the UK withdrew 100% mortgages.

As 2008 began the reveal of more US firm losses lead to drastic falls in the stock markets. In the months that trailed the Royal Bank of Scotland and Barclays announced that they were undergoing financial struggle and house builder Persimmon stops future projects as house sales displayed a huge decline. During these struggles, the UK saw inflation rise to 3%, 1% above target and further falls in the stock market, with the FTSE 100 in London seeing a 7th straight week decline.

August 30th 2008, the Chancellor of the Exchequer, Alistair Darling announces that this is the worst economic crisis seen for 60 years teamed with UK slumped property sales and 10% lower house prices to the 12 months prior.

In the September the US companies, Fannie Mae and Freddie Mac, who sustain half of all US mortgages received world's largest ever financial bailout and the Lehman Brothers becomes the first major bank to file for bankruptcy since the financial crisis began.

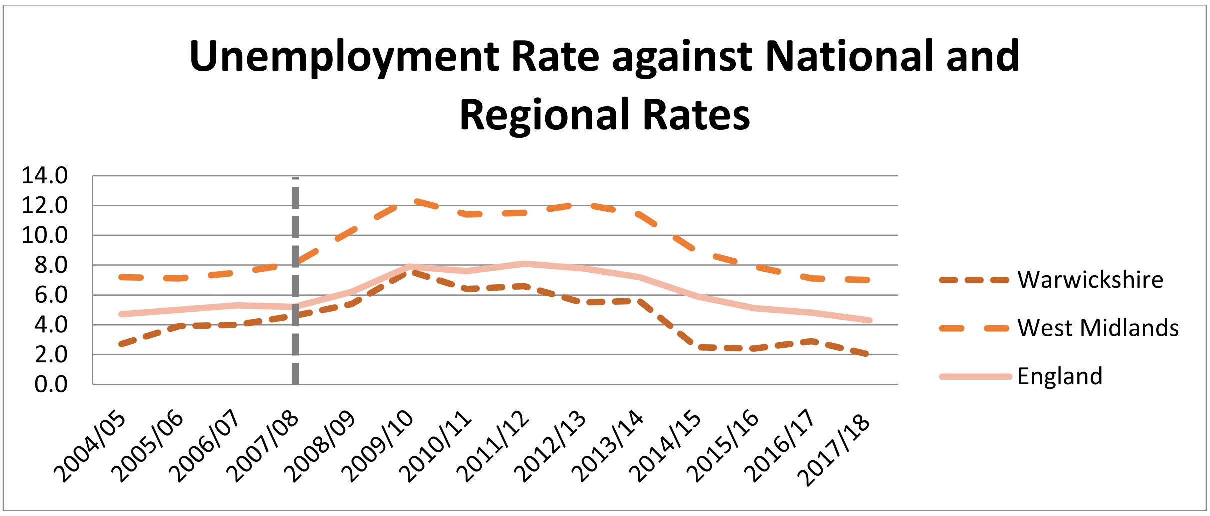
A report written by the International Monetary Fund on the global recovery since the financial crisis outlines their concerns for the advanced economies. They state "growth in most advanced economies is expected to decline to potential rates-well below the averages reached before the global financial crisis of a decade ago". The main drivers behind this are thought to be the increasingly apparent ageing population and low productivity growth which when partnered with seemingly high employment rates is being coined the 'productivity puzzle'.

To support this Valerie Cerra, the assistant director and division chief of the European and Middle Eastern Division in the IMF's Institute for Capacity Development, suggests that, in contrast to the popular business cycle theory, whereby recessions create temporary decreased output and then rebound to the original positions, instead a recession creates a more permanent output loss meaning that the economy never 'rebounds' to its previous position, but to a lower one.

Unemployment Rates

Productivity is based enormously on the quality and quantity of a regions labour force and was one of the key factors that influenced the UK's ability to bounce back. Currently Warwickshire is suffering from an incredibly tight labour market in which 85.4% of people who are economically inactive do not want a job at all.

Graph 1: Unemployment Rates Against National and Regional Rates 2004 – 2017/2018



In contrast to now, unemployment reached record high rates during 2009/10 between 2004-2017/18 as consumers lost confidence, inflation increased and businesses struggled to cope with the surrounding local and global economic conditions of 2008.

Warwickshire's unemployment rate reached 7.6%, just 0.3% below the national average, but 4.8% below the West Midlands rate. Not only did the unemployment rate reach a record high, but so did the number of people who were deemed unemployed, for every district and borough. A recession can also hint at structural unemployment, which Warwickshire seems to be defying with an ever low unemployment rate as of Q2 2018.

Warwickshire presently has the lowest unemployment rate it has experienced year on year, with only 1.7% of the population who are labelled unemployed, as mentioned in the labour market bulletin. Similarly, of the period shown (2004-2017/18) both England and the West Midlands also demonstrate record low unemployment rates, showing the effects of economic growth as we put the recession 10 years behind us, contributing to Warwickshire's vibrant economic growth and success.

This does however not come without its challenges. Record low unemployment rates imply that there is a significantly smaller pool of labour, and with local businesses common issue being recruitment difficulties. This suggests that Warwickshire has now picked up the labour slack from the recession, and the labour market is extremely tight, with the 1.7% unemployment pointing towards the long term unemployed.

Gig Economy

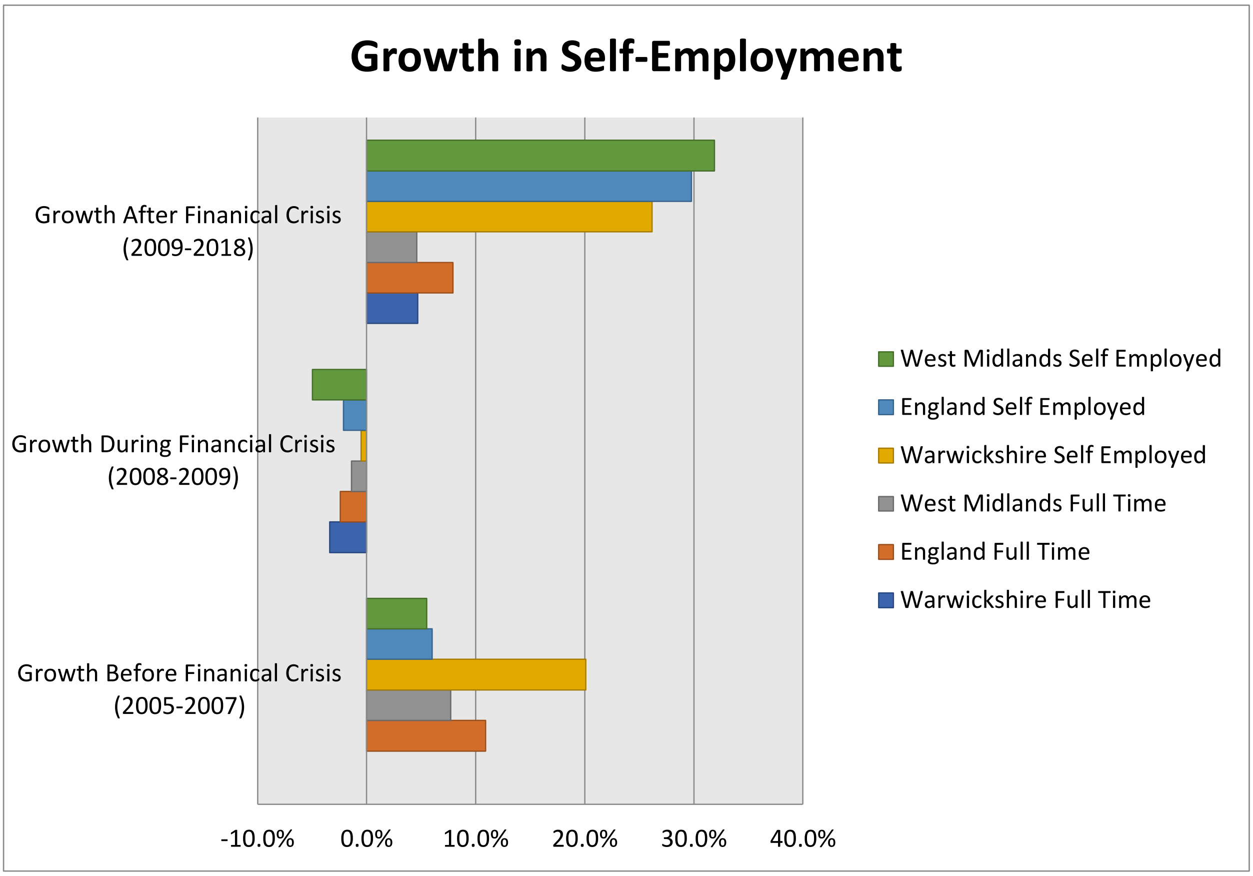
The gig economy comes from the free market and has been increasingly popular since the financial crisis. It is characterised by short-term contracts or freelance work whereby an individual gets paid for every 'gig' rather than the traditional contracted wage.

The employees in this economy are currently considered self-employed and have the ultimate level of flexibility. On the other hand, they are not entitled to the same employee rights that those in traditional 'full-time' employment are ie. Sick pay and annual leave. Deliveroo, Airbnb and Uber are some perfect successful examples.

This economy in particular can contribute to the lack of earnings growth seen and give rise to the 'productivity puzzle' mentioned earlier. Furthermore, advertising for these roles tend to be less prominent due to the nature of the economy, which could contribute to the fall in the number of job advertisements seen throughout Warwickshire in more recent years, but also this quarter, as mentioned earlier.

The exact size of this labour market phenomenon is uncertain as gig economy workers are considered 'self-employed', however, using the measure 'self-employed' covers more than just gig economy workers. This indicator, whilst not conclusive of the size of the gig economy can give us an idea of its popularity and growth.

Graph 2: Growth of those considered 'self-employed' Before, During and After the Financial Crisis 2005-2018



There are over 4 million people in the United Kingdom considered ‘self-employed’, compared with just over 1 million fewer in 2005. In Warwickshire, ‘Self-employed’ currently represents 48,700 employees, compared with 32,300 during 2005 and has risen by 5,900 in the past year. In contrast the number of people in full time work has fallen by 9,000 from 2017-2018, despite seeing a total growth of 2,000 people from 2005-2018.

Before the financial crisis from 2005-2007, Warwickshire saw a 20.1% growth rate in this category, significantly higher than that of the West Midlands (5.5%) and England (6.0%). During the financial crisis those who are were considered both full time employees and self-employed saw negative growth rates, as to be expected, with Warwickshire seeing a growth rate of -0.5% in those self-employed and -3.4% in full time employees.

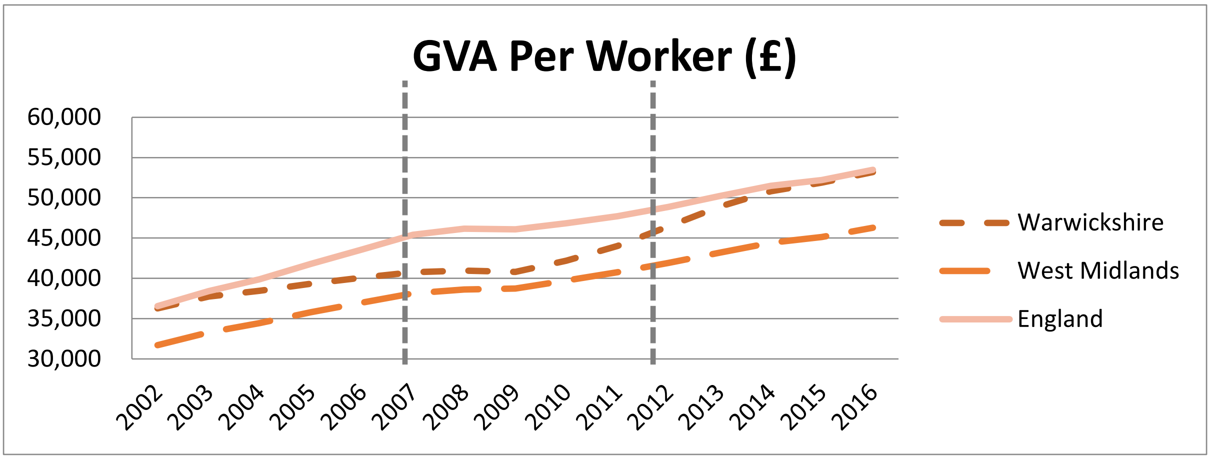
After the financial crisis, Warwickshire has experienced a lower growth rate than that seen regionally and nationally, but still over double the growth rate before the financial crisis, emphasising the strength of the self-employed. Interestingly, those considered full time employees rose by only 4.7% countywide, 7.9% nationally and 4.6% regionally, much lower than those who are self-employed, insinuating the ever growing presence of gig economy workers since 2008.

Whilst this can hint at the growth of the gig economy, it also not uncommon during times of redundancy, which was prevalent in the financial crisis supported by the increased unemployment rate, for individuals to set up and start their own businesses, labelling them too ‘self-employed’. This could be a further reason why the self-employment rate has seen the growth it has, post financial crisis.

Productivity

GVA per worker is a measure of the productivity that provides a direct comparison between the level of economic output and the direct labour input.

Graph 3: GVA Per Worker (£) 2000-2016

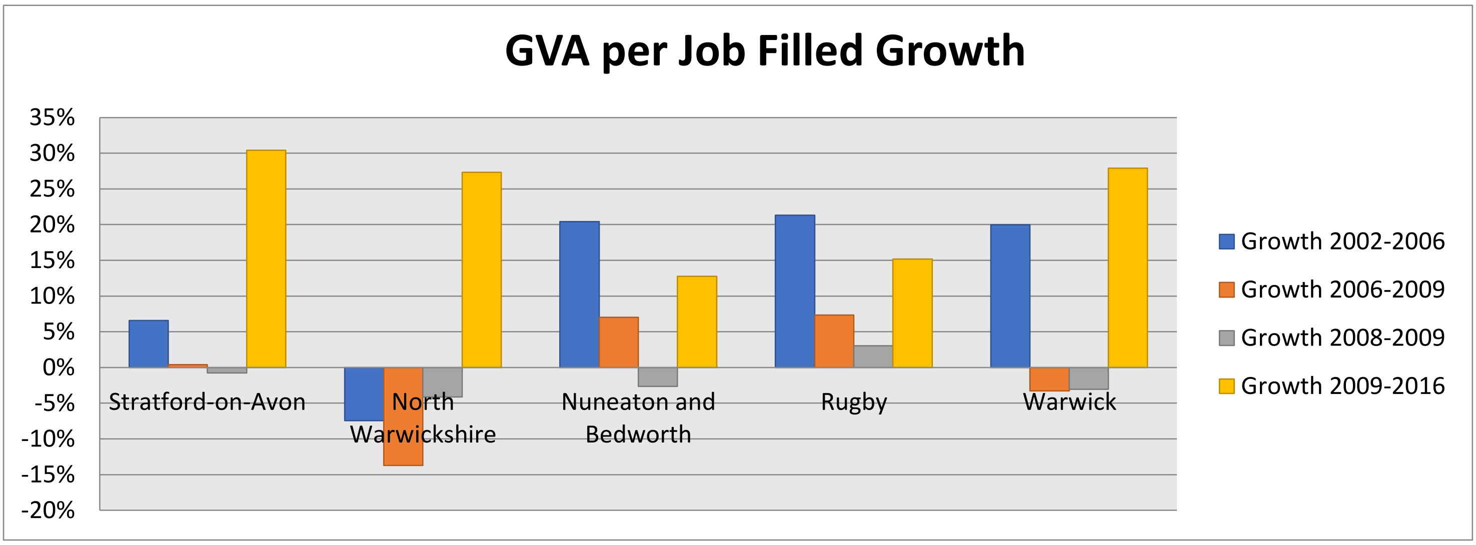


The above graph shows the GVA per worker at national, regional and county level highlighting the time period immediately before, during and after the financial crisis. It is evident that productivity during this time remained relatively stagnant and flat. From 2008-2009, in the thick of the financial crisis, both England and Warwickshire saw negative growth of -0.2% and -0.4% respectively, with the West Midlands seeing extremely low growth at 0.2%. In the years prior, 2002-2007, all three areas showed strong productivity with England seeing a 24.2% growth to £35,398 in 2007 and Warwickshire's GVA per worker being higher than that of the surrounding region at £40,757 but with a lower productivity growth rate of 12.3%, in comparison to 20.2%.

In the years that followed the financial crisis, from 2009-2016, Warwickshire showed an incredibly strong recovery, seeing its productivity grow by 30.4%. This is almost double the national rate and over 10 percentage points higher than the regional average rates, which have seen 16.1% and 19.6% growth over the same time period. Warwickshire's productivity in 2016 stood at £53,209, which was near equal with England (£53,474) and above that of the West Midlands (£46,298).

Warwickshire defies Valerie Cerra's suggested theory that output will not return to what it previously was after a damaging recession, having shown a near doubled growth rate post financial crisis. In contrast, the West Midlands and England support the theory as their growth is half of what it used to be before the financial crisis of 2008.

Graph 4: GVA per Job Filled Growth 2002-2016 by District & Borough



Graph 4 breaks down Warwickshire's buoyant growth into the 5 districts and boroughs. Rugby stood to be the only local authority within the county that saw growth from 2008-2009, also defying the national trend showing a 3%. To follow this, Rugby showed the strongest growth before the financial crisis at 21% from 2002-2006, and the strongest growth in the period surrounding the crash at 7.4%. However, Stratford-On-Avon has shown the strongest post financial crash 'come back' in terms of productivity growing 30.4% from 2009-2016 to the second highest figure of £54,190, above the national, regional and county average.

Nuneaton & Bedworth and Rugby are the only two of the Districts and Boroughs that have not returned to their pre financial crash growth showing respectively, 7% and 6% lower growth in the period 2009-2016. In spite of this Rugby has seen the largest increase in productivity over the entire period of 62.8% equalling a GVA per worker of £46,226, a mere £70 below the West Midlands figure.

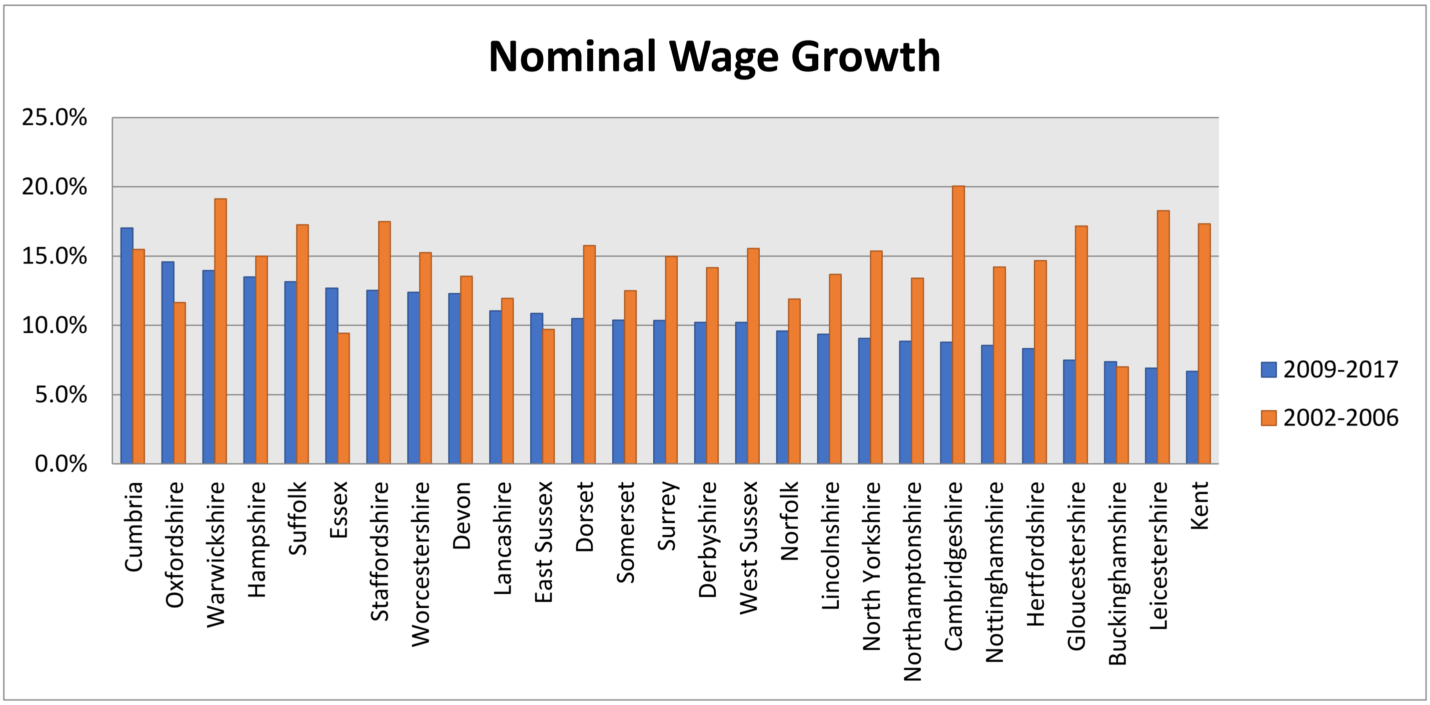
In addition, North Warwickshire has seen its growth move from negative before the financial crisis, which then doubled in the surrounding period of 2006-2009 to -13.7%, to the third largest productivity growth in the county, with an above regional average figure of £50,673.

Warwickshire has seen the highest productivity growth of all of the counties within the United Kingdom, and are now able to produce the same amount of work, in 8.2 hours less than what they were able to in 2009. Further to this, the aforementioned 'productivity puzzle' demonstrated by England's relatively stagnant productivity, is being defied across Warwickshire as productivity continues to outperform the region and nation.

Earnings

Wages and productivity throughout economic theory are said to be linked; if there is a rise in productivity (or output per worker) wages assumingly should rise in line and vice versa. However, with the mentioned record low unemployment rate, the supply of labour could mean wages are being kept suppressed by businesses.

Graph 4: Nominal Annual Resident Based Earnings Growth Rates for 2002-2006 and 2009-2017



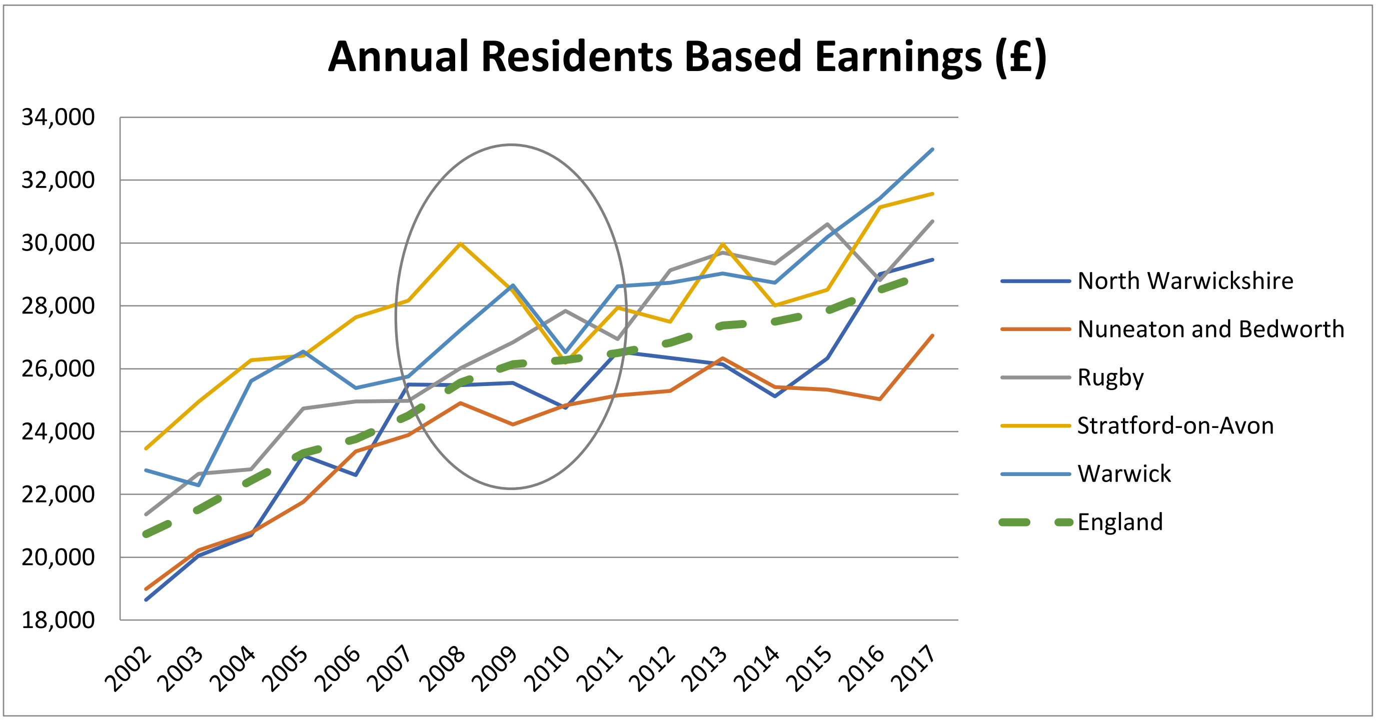
Given Warwickshire's impressive productivity growth despite the surrounding trends, it is encouraging to see Warwickshire has experienced the third largest nominal wage growth from 2009-2017 amongst all other England local authority areas, with only Cumbria and Oxfordshire above. Warwickshire's current wage stands at £30,419, above the national and regional averages. During the financial crisis period, from 2006-2009, resident earnings remained marginally higher yet mostly similar with average national earnings and are now 4% higher.

However, similarly to the majority of the UK's counties, it has not yet returned to the same rate growth it achieved between 2002 and 2006, where Warwickshire showed the second largest growth, below Nottinghamshire, at 19.1%.

Graph 5, as seen below, shows 4 of the 5 districts and boroughs currently have higher residential earnings than the national average of £29,085, and Nuneaton & Bedworth, who remain just below, have seen the largest nominal increase of all the areas, including England from 2016-2017 of an almost 5% increase.

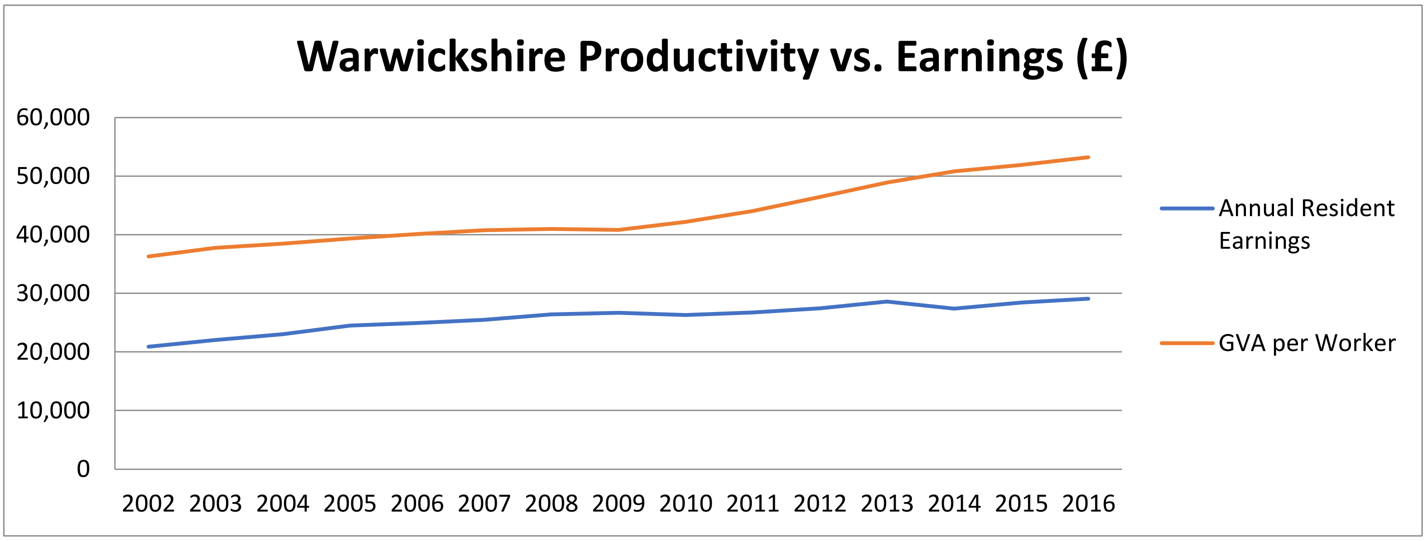
Highlighted is that all areas, minus Nuneaton & Bedworth and Rugby, saw a dip in their wages from 2009-2010, following the financial crisis, despite the pick-up in productivity around this time. This was a trend followed by Warwickshire and the West Midlands.

Graph 5: Annual Resident Based Earnings (£) by District and Borough against National Figures



In spite of the reassuring wage growth after the financial crisis, when compared with productivity growth, as shown in graph 6, it is clear to see that productivity is increasing at a rate that is much above that of earnings, with gap slowly growing wider.

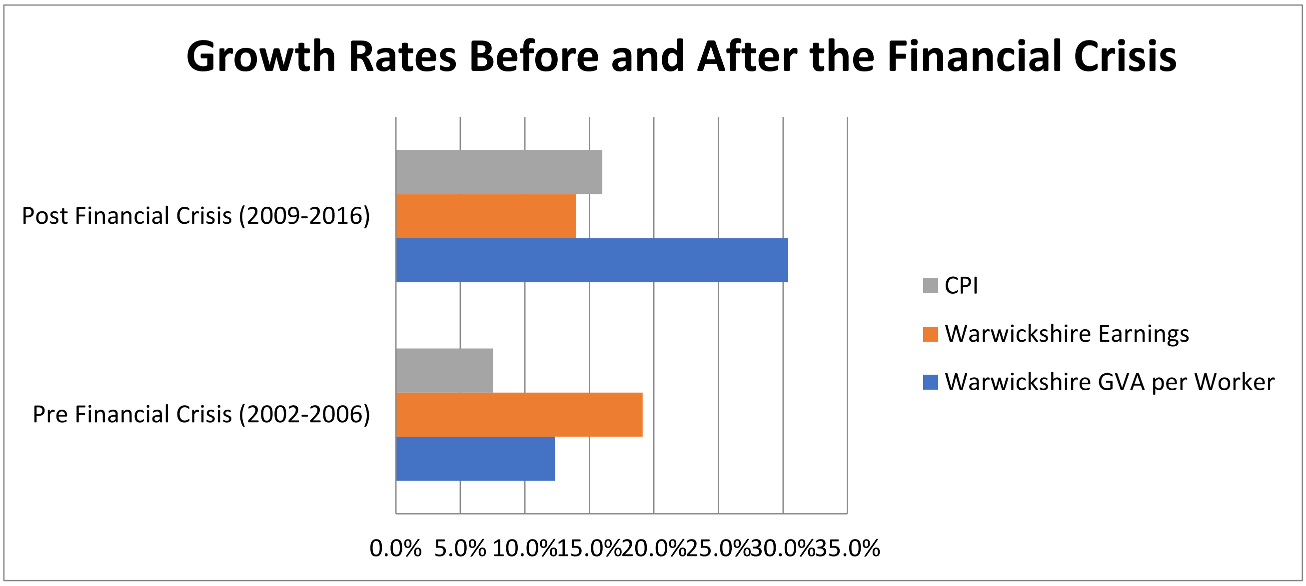
Graph 6: Productivity vs. Earnings 2002-2016



This trend is also a national one and shows that whilst wages are rising, they are not rising in line with productivity of which the gap began to widen more drastically after 2009, just after the financial crisis. From 2009-2016, Warwickshire's productivity rose by 30.4%, whereby its wages only rose by 8.86%.

In addition whilst nominal wages have risen, the argument of real wages, which considers the purchasing power of an individual's earnings, has reportedly seen minimal if not negative growth since the financial crash.

Graph 7: Rates of Growth Before and After the Financial Crisis for Earnings, Productivity and CPI



Graph 7 shows that earnings and productivity in Warwickshire grew faster before the financial crisis than after, but more importantly it sees the shift in CPI growth from the weakest from 2002-2006 to the strongest of the three indicators from 2009-2016. As CPI has outstripped the growth of wages, this shows a fall in real wages, also a national and regional phenomenon.

CPI in the period following the financial crisis rose by 16% nationally, where Warwickshire wages only rose by 14%. In spite of this, CPI saw a 0.9% from 2015-2016 and a 3% growth from 2016-2017, in comparison wages saw a 2.2% growth followed by 4.7% growth for the same years respectively. This shows that in more recent years wages are starting to grow more rapidly than the CPI and if this continues could show a growth in real wages that the county and national economy need to drive economic growth, productivity and well-being.

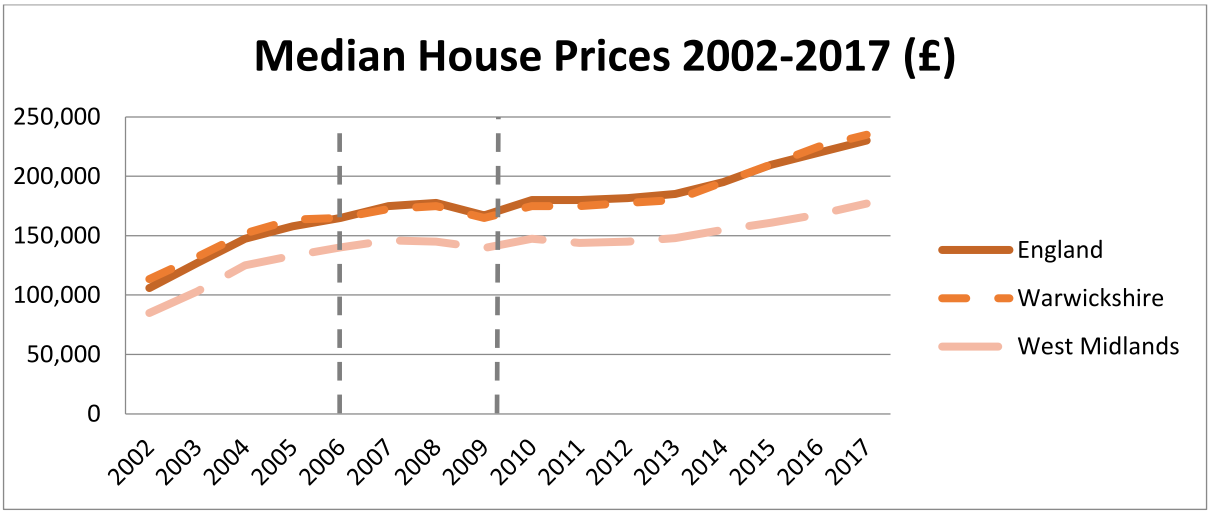
In terms of wages, it is clear to see that Warwickshire's real wages have suffered since the financial crisis with CPI growth exceeding that of nominal wage growth. However, Warwickshire's economy and wage growth suggests that it is recovering with strength in comparison to other counties.

House Prices

The lending of sub-prime mortgages was a key element in the cause of the collapse of the housing market in United States, rippling through to the rest of the world kick starting what is known as the financial crisis during 2008.

In the US house prices saw their peak in 2006 followed by a decline to all-time lows during 2012.

Graph 8: Median House Prices Nationally, Regionally and County Wide from 2002-2017 (£)



Graph 8 shows how England, the West Midlands and Warwickshire's median house prices were affected by the financial crisis during 2008 and the surrounding effects of the US housing market bubble. During 2006, house market prices had reached their peak in all three areas and had shown rapid growth with England's house prices having grown 56% from 2002-2006. Similarly the West Midlands saw 64.7% growth and Warwickshire saw its lowest growth at 45.4%, in spite of this Warwickshire initially had higher house prices than the national median, yet both reached and equalised at £165,000 during 2006.

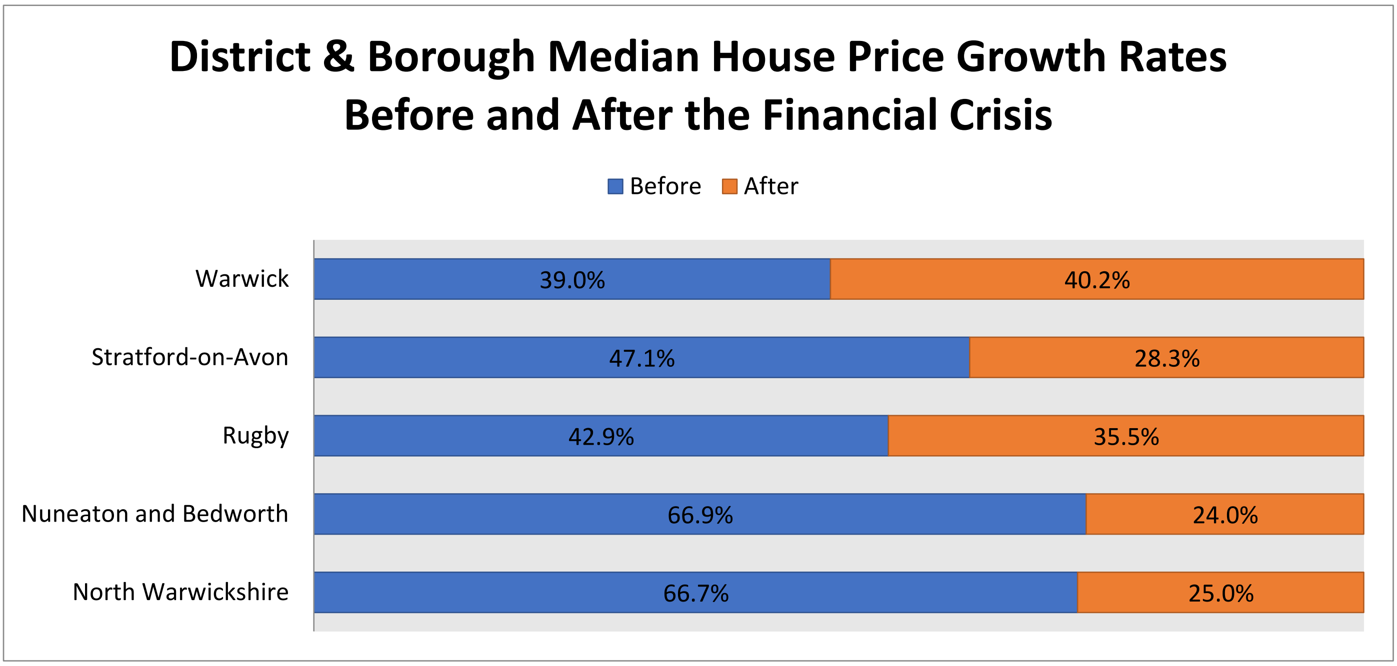
Dissimilarly to the US however house prices continued to rise until 2009, where they saw their first and only drop. In Warwickshire house prices fell by roughly £10,000, more drastically than the fall of £5,500 in the West Midlands. As a result of a fall in house prices, this lead to a lack of consumer confidence as they see, in the majority case, their biggest asset fall in value. Resultantly, consumer spending falls and economic growth becomes restricted, all contributing to the recession of 2008.

As with the other indicators the growth of house prices was stronger for all three areas before that of the financial crisis, with Warwickshire seeing the closest 'rebound' to its original rate with only 9% lower growth than from 2002-2006.

The above mentioned decrease in real wages is also felt as the growth rate for house prices over the entire time period, 2002-2017, is double that of the growth rate in nominal wages. As expected, the growth rate before the financial crisis is significantly higher than after, with

North Warwickshire and Nuneaton and Bedworth seeing an over doubling in their growth rate and only Warwick whose growth rate is marginally better than before the crash, at 1.2% higher as shown on graph 8.

Graph 9: Median House Price Growth Rates Before (2002-2006) and After (2009-2017) the Financial Crisis by District and Borough



Stratford-On-Avon, with the median house price being £295,000, is £65,000 more than the national average and £60,000 more than the Warwickshire median average, making this the most expensive in the county, followed by Warwick district (£285,000). This was however, also the case during 2002, where Stratford's median house price was £149,600, £41,950 above the national average, followed again by Warwick (£133,500). Rugby has remained the closest to the national trend in terms of price and growth rate.

The subdued growth rates that the county has faced in terms of house prices have their silver linings. Although asset owners won't see the value of their property flourish quite as prevalently as before, for a lot of first time buyers and those with smaller incomes, the slowing of the growth rate has its benefits. If the growth rates were to continue at the same rate as before the financial crisis, housing would become increasingly more unaffordable; this is already one of the nation's key issues.

Summary

Record low unemployment, 3rd largest wage growth and unparalleled productivity combined with a compressed house prices due to increased supply paints an extremely vibrant and buoyant economy.

Table 1: Summary of Key Findings

	Growth Before Financial Crisis	Growth After Financial Crisis	Latest Figure
Unemployment Rate Warwickshire	-	-	1.7%
Unemployment Rate National Average	-	-	4.3%
Productivity Warwickshire	12.3%	30.4%	£53,209
Productivity National Average	24.2%	16.1%	£53,474
Wages Warwickshire	19.1%	14%	£30,419
Wages National Average	14.6%	10.7%	£29,085
House Prices Warwickshire	45.4%	36.4%	£235,000
House Prices National Average	56%	37.7%	£230,000

When delved into further, the increase in consumer price inflation, tightened labour market and subsistent real wages suggest that although Warwickshire's economy is doing well, and better than most, the financial crisis has caused an enormous hindrance on its ability to bounce back, supporting Valerie Cerra's statement after all. The strong presence of the gig economy, which has grown significantly since the financial crisis demonstrates the increasing complexity of the current labour force, and can assist in understand why wage and productivity growth has been subdued in recent years, despite record low unemployment and employment rates.

Furthermore, the increasing levels of debt combined with ongoing austerity suggest that the United Kingdom as a whole, are still suffering the hangover of the crisis of 08'.

In addition, Charles Kindleberger, an economic historian suggested that recessions/financial crisis occur every 10 years or so. When looking back on the great depressions/crisis we see one in the 70's, 80's, 90's... and the final recession being exactly 10 years ago. This suggests the economy is due another recession regardless of the ongoing economic occurrences that surround the UK. However, still feeling the effects of the last downturn could it be the UK's leave from the EU that pushes the UK into another crisis, right on time.