

A Lesson From History

This article first appeared in the Welsh Economic Review Volume 4 Number 2, 1991

The Current UK Recession, the Timing of the Recovery and the likely effects on Wales.

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Introduction: Data problems.

Recent UK data have displayed some unmistakable signs of recovery, even though the consensus is that the economic upturn is initially likely to be weak. However, because of the inevitable data lag of about 4 to 5 months, and assuming that the latest data are reliable then the early stages of recovery are already well underway. So, although the official CSO data will not confirm the upturn until it is almost the boom period, the production sector could grow sharply in the first half of 1992.

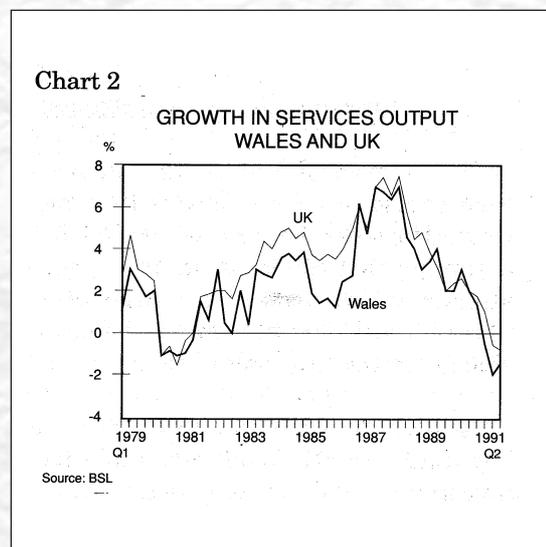
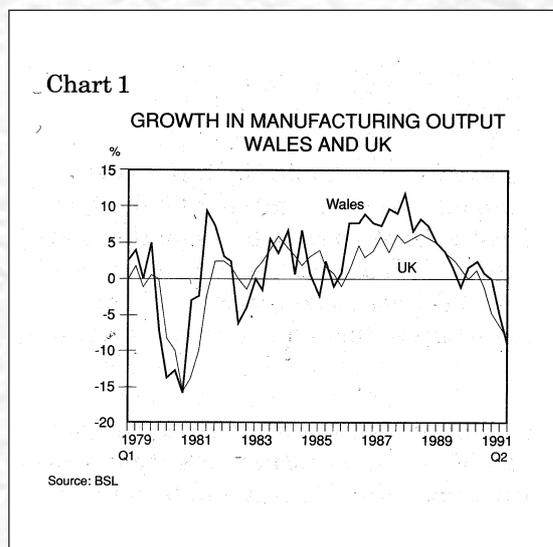
This lag between data and reality is even more pronounced in Wales because key data recently made available for the UK (e.g. manufacturing output and investment) will not become available until much later. Thus it will be difficult to discern the timing of the recovery in Wales from published data. Comparing the performance of the Welsh and UK economies during recent recessions may produce some useful insights.

Recent Recessions

The main point is that, although UK output has stopped declining, there is nothing automatic about the shape of the recovery. Economists talk of "V"-shaped recessions (i.e. rapid recovery), "U"-shaped (weak recovery) and "W"-shaped (early recovery followed by a further, small, recession).

A comparison of manufacturing growth in Wales and the UK since 1979 in Chart 1, shows some interesting patterns: (i) in the UK, recessions were normally "V"-shaped but often "W"-shaped in Wales. (ii) the recovery phase often began sooner in Wales than the UK. (iii) the peaks were higher and more sustained in Wales, which confirms the view that manufacturing growth was higher in Wales than the UK in the 1980s

Chart 2 contrasts service sector growth with manufacturing over the same period. (Services include both public and private sector services.) Other interesting issues are revealed: (iv) service sector recessions were much milder in both Wales and the UK. (v) there were only two recessions; one in 1980 and one this year. (vi) the current recession in services is no worse than in 1980.



A Service Sector Collapse?

There is a misapprehension in the financial press that the current recession has been dominated by the collapse of the service sector. The reality is that services, in output terms, have fared no worse in this recession compared with the last one. The main difference is that the manufacturing sector has not collapsed as badly as it did in 1980.

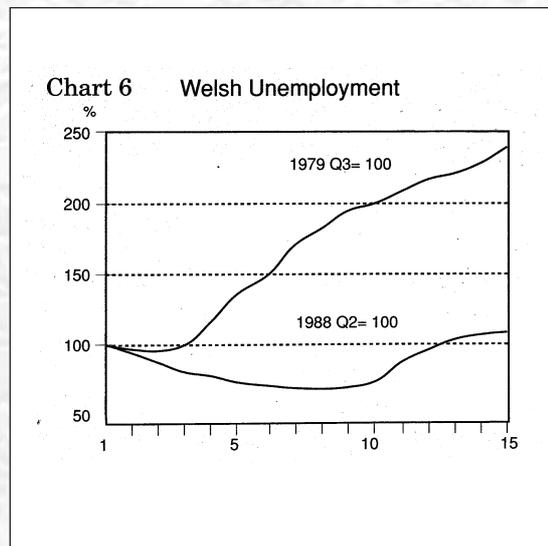
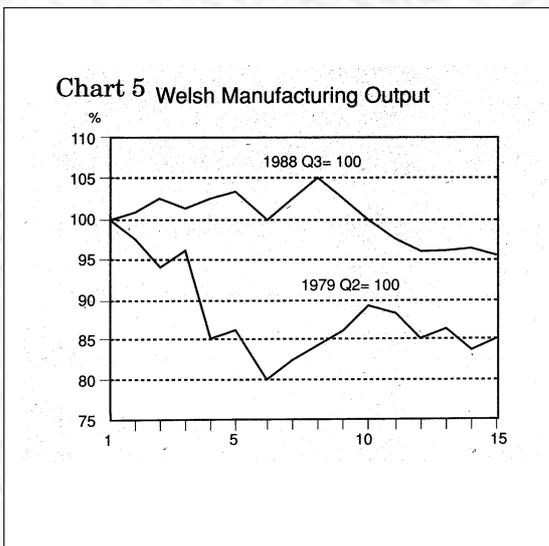
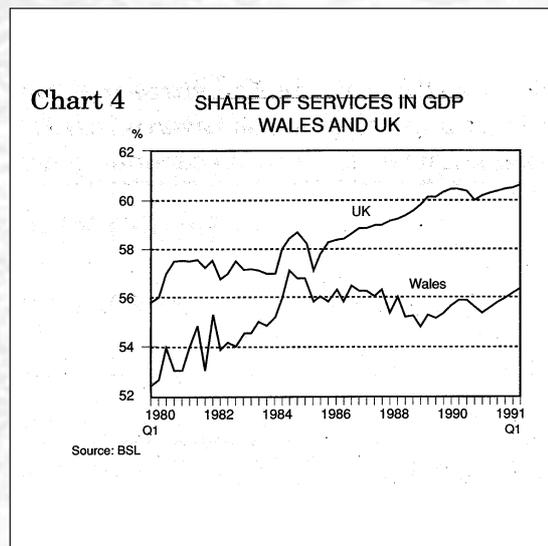
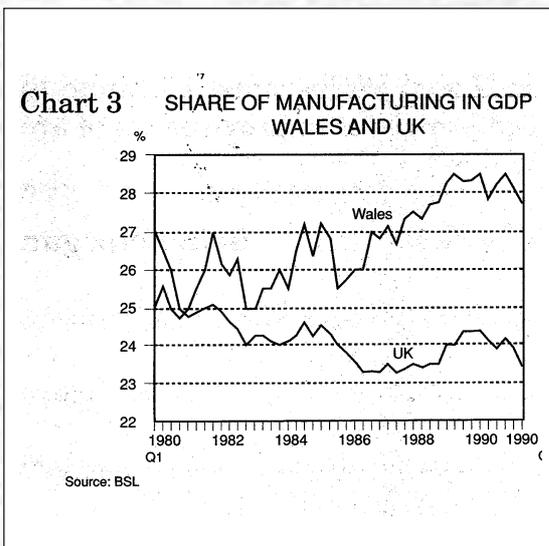
The service industries appear to have contracted more sharply during the current recession because services sector **employment** has fallen rapidly. This sector is now in a similar position to that of manufacturing a decade ago: under strong financial pressure to cut costs following a period of heavy investment and borrowing. In many service sectors, notably financial services and telecoms, this investment left companies carrying surplus manpower, just as manufacturing did after the 1970s investment boom. There is therefore great scope for higher productivity in the service sector of the economy - especially in the South East where much of the investment was concentrated.

Recessions Compared

The result was that, in 1979/81 manufacturing lost five times as many jobs as services but in 1989/91 job losses have been identical. This

contrast between the manufacturing and service sectors has important implication for the prospects for economic recovery in Wales. Charts 3 and 4 present trends in the share of manufacturing and services in GDP. They show that Wales has expanded its manufacturing base relative to the UK but that the service sector share, despite some recent growth, remains below the UK average.

These comparisons favour Wales in that manufacturing job losses will be much lower than in 1980 and a stronger manufacturing base in 1991 should enable Wales to out perform the UK.



Output and Unemployment = Quarterly response following onset of recession.

Similarly, the surge in productivity in the service sector is likely to adversely affect the UK economy more than Wales because the heavy investment programme in services is only now getting underway in Wales. However, this is likely to mean less take-up-of new employees in the service sector in Wales, as employers learn from the South East's experience, rather than widespread redundancies.

Conclusion

So, the recession is likely to be milder in Wales, recovery is probably underway, but official data will not confirm or deny this trend until well into 1992. Existing data, illustrated in Charts 5 & 6, show a much more resilient response by the Welsh economy in 1990/91 compared with 1979/80.

The one pessimistic note is that service sector employment growth in Wales, as opposed to output growth, will probably be less now than previously envisaged. Thus existing firms in both sectors need to be encouraged to invest at an early stage in the current economic cycle and Wales must continue to attract a major share of inward investment. Subject to these provisos there are good auguries for future economic growth in Wales.

Footnote: * The opinions expressed in this article are those of the author and do not necessarily represent the views of the WDA