

National Assembly for Wales

The long-term impacts of recession May 2010

This research paper provides an overview of the most recent and two previous recessions in Wales and the UK, based on economic and labour market indicators. It uses these data series to highlight and quantify the long-term impacts of previous recessions.



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Summary

This paper seeks to quantify periods of economic and labour market decline and recovery in Wales and the UK for the previous recessions ¹ of 1979 to 1981 and 1990 to 1991 as well as the most recent recession.

The causes of the recessions are not explored whilst forecasts for the economy and labour market are neither made nor implied.

Gross Domestic Product (GDP)

- The estimated decline in UK GDP ² (an estimate of total economic activity within a given region) during the recent recession was **similar** to the decline after 1979 and more than **twice** that of after 1990; and
- In the 1980s, pre-recession levels of UK GDP were not regained until **four years** after the start of the recession. The period in the 1990s was **three years**.

Unemployment (claimant count)

- In the 1980s, economic growth returned in Q (Quarter) 2 1981, but the claimant counts ³ (of those receiving unemployment related benefits) in Wales and the UK climbed until 1986. The claimant count in Wales and the UK did not return to pre-recession levels **prior** to the onset of the recession in 1990;
- In the 1990s, UK growth returned in Q4 1991, but the claimant counts in Wales and the UK rose until December 1992. Pre-recession levels in Wales and the UK were reached in 1997, **six and a half years** after the start of the recession; and
- From the start of the most recent recession, claimant count in Wales increased faster than in previous recessions. However, it remains **below** those recorded at an equivalent time since the start of these recessions.

Employment (employee jobs)

- After the recession of 1979 to 1981, pre-recession employment levels were not reached in the UK or Wales **prior** to the onset of the next recession in 1990;
- In the 1990s, pre-recession levels of employment were not regained in the UK for some **seven years**. The equivalent figure for Wales was **eight years**; and
- Since the most recent recession started, employment has reduced by 3.5 per cent in the UK and 3.7 per cent in Wales. However, the number of employee jobs is **above** those at an equivalent time since the start of previous recessions.

The economy and labour markets of Wales and the UK have taken a number of years to recover from the impacts of previous recessions.

¹ An economy is generally defined as being in recession if it has been contracting for two or more successive quarters.

² Comparable figures are not available for Wales. See the technical annex for further details.

³ Quarterly data for the broader measure of ILO unemployment is not available for Wales until 1992.

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The long-term impacts of recession

1. Introduction

The aim of this paper is to provide an overview of how the most recent and previous recessions have impacted upon the economy and labour markets of Wales and the UK. There is a particular focus on the impacts on the economy that can continue a number of years after the technical end of a recession. A recession is at a technical end when growth in UK Gross Domestic Product (GDP) has resumed.

The causes of the recessions are not explored and forecasts for the economy and labour market are neither made nor implied.

Recessions have different causes, characteristics and consequences, but three main stages can be identified:

1. Quarter-on-quarter declines in economic output;
2. Growth sufficient to enable the economy to reach the same level of output as achieved prior to the recession; and
3. Growth that enables economic output to exceed that which was achieved prior to the recession.

The labour market usually deteriorates rapidly during the first stage, before recovering during subsequent stages. However, the time needed for employment and unemployment to return to levels at or close to those achieved prior to the recession is usually substantial.

This paper provides data on decline and recovery for the UK recessions of Q(Quarter)3 1979 to Q1 1981, Q3 1990 to Q3 1991 and Q2 2008 to Q3 2009. ⁴ Quarterly figures for change in GDP for Wales are not available (see technical annex).

⁴ As per GDP figures for Q4 2009 released by the Office for National Statistics in February 2010.

2. Recessions in Wales and the UK

Q3 1979 – Q1 1981

The total peak to trough decline in UK Gross Domestic Product (GDP) was 6.2 percentage points. Claimant count in the UK peaked at over three million people (10.6 per cent of the workforce) in 1986. The highest level for Wales was some 170,000 people (13.3 per cent).⁵

Q3 1990 – Q3 1991

The total peak to trough decline in UK GDP was 2.6 percentage points. Claimant count in the UK peaked at just below three million (9.9 per cent) in 1992. The highest level in Wales was some 133,000 people (10.1 per cent).

Q2 2008 – Q3 2009

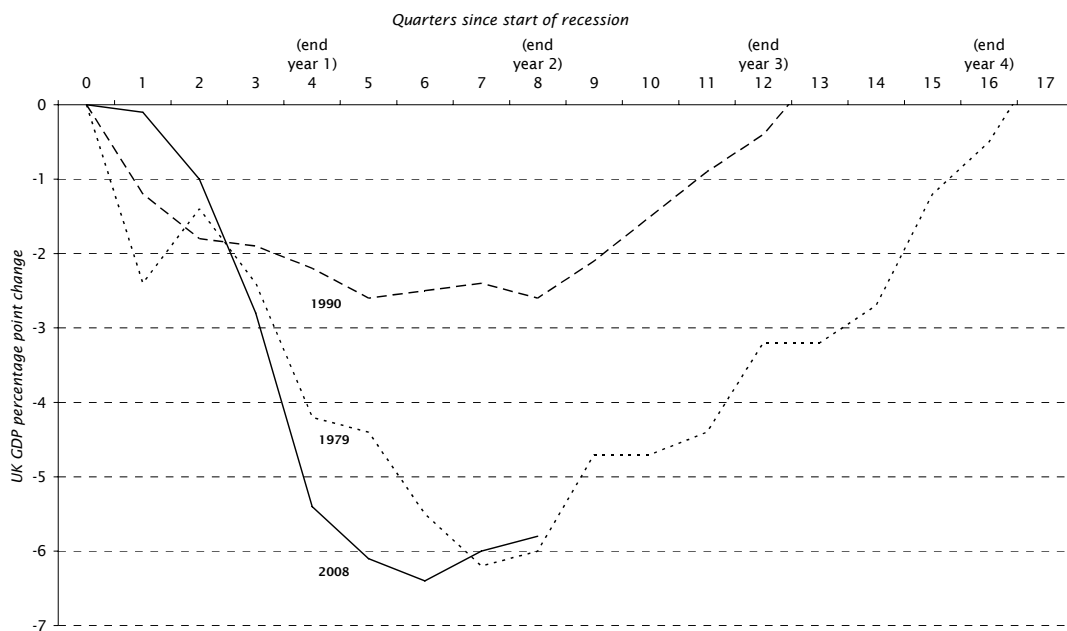
The UK entered recession in the second quarter of 2008. By the third quarter of 2009, UK GDP had declined by some 6.4 percentage points, although estimates may be subject to future revisions by the Office for National Statistics (ONS). Estimates released in April 2010 state that the economy grew by 0.4 percentage points in Q4 2009 and 0.2 percentage points in Q1 2010, meaning that the technical end of the recession was in Q3 2009.

In March 2010, the claimant count for the UK stood at 1.54 million people (4.8 per cent) and 75,700 people (5.3 per cent) in Wales. These numbers were almost double those at the start of the recession, but had declined between October 2009 and March 2010.

⁵ Claimant count data is the primary source of unemployment data used in this paper as full quarterly data for the broader and more accurate measure of International Labour Organisation (ILO) unemployment is **not available until 1992** for Wales.

3. Gross Domestic Product (GDP) ⁶

Figure 3.1: Percentage point changes in UK GDP since start of recessions

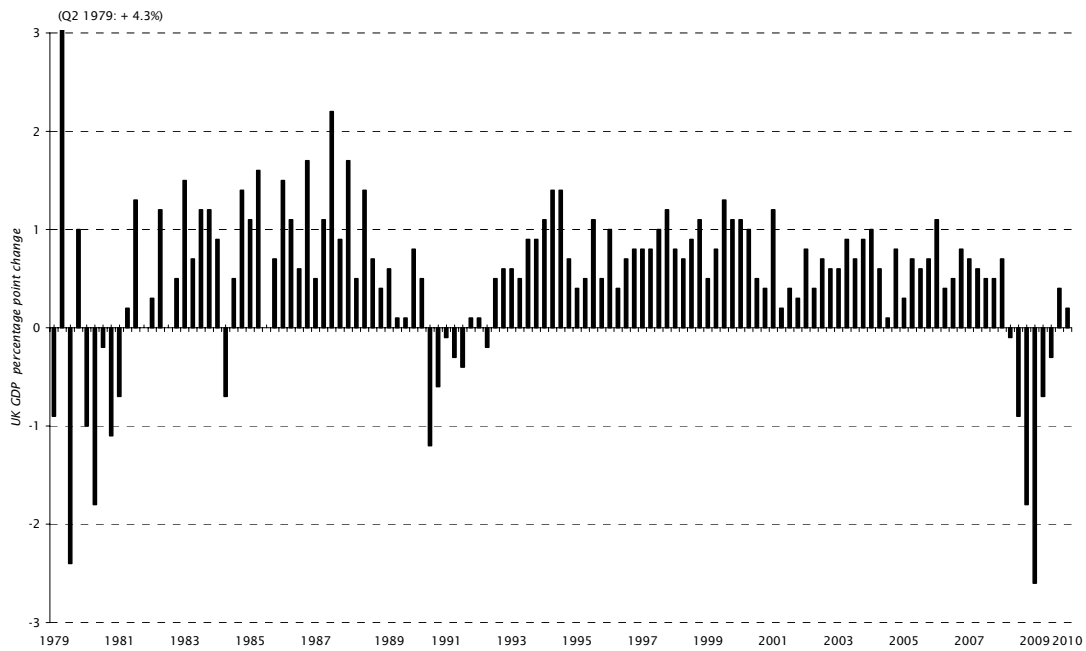


Source: [ONS](#)

- **1979 onwards:** The depth of the fall in GDP meant that the pre-recession level was not reached until Q3 1983, some **four years** from the start of the recession in Q3 1979.
- **1990 onwards:** From the start of the 1990s recession in Q3 1990, pre-recession levels of GDP were not regained for a further **three years** until Q3 1993.
- **2008 onwards:** The estimated decline in GDP during the most recent recession was steep. At minus some 6.4 percentage points, the peak to trough fall is over twice that of the 1990s and broadly equivalent to that experienced in the deep downturn of the early 1980s.

⁶ Comparable GDP figures are **not available for Wales**. See the technical annex for further details.

Figure 3.2: Quarterly percentage point change in UK GDP



Source: [ONS](#)

- According to GDP statistics released by the Office for National Statistics in April 2010, the UK economy grew by 0.4 percentage points during the final quarter of 2009 and 0.2 percentage points in the first quarter of 2010.
- The most recent recession saw UK GDP fall for **six** successive quarters, compared to five during the 1990s. Between 1979 and 1981, GDP fell in seven out of nine quarters. Five of these were successive (see technical annex).

