



Amicus Summary of Chancellor's Pre-Budget Report

Introduction

A Pre-Budget Report (PBR) is delivered by the Chancellor to the House of Commons in the autumn. It provides a progress report on what has been achieved so far, gives an update of the state of the economy and public finances, and sets out the direction of Government policy in the run up to the spring Budget.

Economic Growth

In March the Chancellors budget forecast predicted that the UK's Gross Domestic Product (GDP) would grow between 3 and 3.5 % in 2005. This figure has now been revised down to 1.75%.

Three main factors are responsible for this economic downturn:

- Large increases in gas & oil prices
- Slow economic growth in the Eurozone (key UK export market)
- Increase in interest rates reducing consumption.

The Confederation of British Industry (CBI) had cut its 2005 growth forecast ahead of the pre-Budget report. It revised its estimate for UK gross domestic product to 1.7% for the year, after previously cutting its forecast to 1.9% in August.

Independent forecasters surveyed by the Treasury predict the economy will grow by 1.8% this year, and only 2.2% next year. These forecasts are shared by leading international economic bodies, including the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD) and the World Bank.

Manufacturing

The March Budget predicted that the manufacturing output would grow by between 1.5 and 2 per cent. Instead, the sector slumped towards recession and overall is expected to contract by about 0.5 per cent according to the latest independent forecasts. The Budget forecast for 2006 of manufacturing output growth of 1.75 to 2.25 per cent looks unattainable.

Manufacturing has lost over 100,000 jobs in the past twelve months. With output only expected to grow modestly in 2006 we expect job losses of between 10 and 15,000 a month to continue well into 2006.

These losses are of concern as manufacturing generates 20% of the UK's GDP, employs 14% of the UK's entire workforce and accounts for £150 billion in exports.

To address this decline Amicus is calling for:

- Stronger protection for employees facing redundancy
- A more transparent and long-term public procurement policy
- Greater investment from Government and employers in skills and training.

Taxation

Amicus welcomes the Chancellors announcement of an increase in taxation of North Sea oil companies. This will facilitate the continuation of the freeze on main road fuel duties, allowing manufacturing costs some stability in response to the continued volatility in oil prices.

Employment

There is undoubtedly an economic downturn which is having a direct effect on manufacturing jobs. Despite the losses referred to above latest figures show that total employment went up by nearly 350,000 in the year to July-September 2005, with almost all the increase in permanent and full time employee jobs. These increases were largely in the service sector and lower paid jobs.

Inflation and Wages

The Chancellor will be concerned that, calls will be made for increasing wage demands in the short term as a result of the short-term hike in inflation caused by high energy prices, this may trigger more interest rate rises.

As the Government has little control over private sector wage setting, pressure is being applied to the public sector.

Amicus believes that:

- There is no sign whatsoever that wages or non-energy prices are responding to a short term rise in energy costs: settlements are stable and non-energy prices have been falling since the summer, down to 1.7 per cent within the Consumer Price Index (CPI).
- The CPI is not the best basis for wage negotiation in the public sector. Wage settlements in the private sector use the Retail Price Index (RPI)

as a better measure of the cost of living. The RPI includes housing costs but the CPI does not;

- There is no sign public sector earnings are running out of control. Public sector earnings are now coming into line with the private sector after a period of catch-up. Since 2000 public sector earnings have increased by 26 per cent compared with 23 per cent in the private service sector.

The gap between the CPI and RPI measures of inflation is at present quite small (latest figures for October show CPI inflation at 2.3 per cent, RPI at 2.5 per cent). But in the recent past, the gap has been much bigger, up to 1.5 percentage points, depending on changes in housing costs.

Skills and Training

Coinciding with the PBR the 'Leitch Review' of skills was released.

The Report finds that, despite improvements, the UK has much further to go:

- over a third of adults of working age in the UK do not have a basic school-leaving qualification;
- five million adults have no qualifications at all; and
- one in six adults do not have the literacy skills expected of an 11 year old and half do not have these levels of functional numeracy.

In highlighting the importance of the report the Chancellor said, "To become world leaders in any sector we must become world leaders in education. All of us know that as global restructuring moves mass production to other areas, the UK's future success will be founded upon high levels of skills. I thank Lord Leitch for this work. With these conclusions a national debate will lead to decisions about our vocational training goals for the future."

The Chancellor also announced the expansion of the National Employer Training Programme.

Global competition, technological change and shifts in the demographic mix of the workforce mean that every effort must be made to improve and retain skills within the UK manufacturing workforce. A recent report commissioned by the Engineering Employers Federation showed that over 73% of employers cite a skills shortage as being a major factor in lack of productivity.

Amicus welcomes this commitment to improving the skills base of the UK workforce, providing it is supported with the necessary resources both from the Government and industry.

Research and Development

Current figures suggest that the UK trails behind Japan, North America, Germany and France in terms of its spending on research and development

(as a percentage of its Gross Domestic Product). Amicus believes that policies need to be implemented to ensure that the right business environment exists to support research and development and innovation.

In his speech to the CBI on 28th November the Chancellor committed to increasing development spending.

This was reinforced in the Pre-Budget Report when the Chancellor announced that the Government had considered the findings of the 'Cox Review of Creativity in Business' and would be taking forward a review of the Research & Development tax credit system.

Amicus welcomes this commitment providing it is suitably implemented.