CIPD
Championing better work and working lives

in partnership with

Adecco

LABOUR MARKET OUTLOOK

VIEWS FROM EMPLOYERS

Spring 2021

The CIPD is the professional body for HR and people development. The registered charity champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has more than 150,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

Report

Labour Market Outlook

Spring 2021

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1 Foreword from the CIPD

The quarterly CIPD/Adecco *Labour Market Outlook* aims to offer an early indication of future changes to the labour market around recruitment, redundancy and pay intentions. The survey is based on a survey of more than 1,000 employers.

The latest quarterly CIPD/The Adecco Group *Labour Market Outlook* survey finds much optimism among employers about short-term employment prospects. The survey indicates that the overall anticipated demand for labour strengthened considerably between the winter and spring quarters. This was due to both a fall in expected redundancies and an increase in recruitment activity.

The report's net employment intentions balance, which looks at employment intentions for the second quarter of 2021, has risen sharply to +27 from +11 in the winter quarter. Indeed, employment intentions are stronger than at any time since the winter 2012/13 report when this measure was introduced. Employer optimism is evident across all three major sectors of the UK economy, including the private sector (+28), voluntary sector (+28) and the public sector (+22). This contrasts with the global financial crisis recovery, which saw sharp falls in public sector employment levels partly offset by strong employment growth in the private sector. Indeed, employer optimism about staffing levels is positive in all sub-sectors (Figure 3) of the economy, which points to a strong and broad-based employment recovery in the short term. The news will provide some reassurance to policy-makers ahead of the closure of the furlough scheme in September.

The survey data thus suggests that the unemployment rate may be close to peak, especially given the reported fall in the supply of overseas workers. The latest official labour market statistics highlight a dramatic fall, in particular, in the number of EU-born citizens in employment. The figures, which are based on new data using payroll employees and Migrant Worker Scan data, reveal that the stock of EU-born workers in the UK fell by 7.4% between October–December 2019 and October–December 2020.[1] The CIPD's view is predicated on the economy not suffering any additional unexpected shocks, such as a delay in restrictions being lifted.

At the same time, despite the evident optimism in this quarter's survey, it remains likely that such strong employment growth will soften during the course of 2021 as the aftermath of the pandemic continues to be felt throughout the economy and as the surge in demand of labour caused by the easing of restrictions in certain sectors levels off.

Nonetheless, a new challenge for some employers may emerge in the shape of skill or labour shortages, which is also due to the recent fall in supply of overseas workers and the recent introduction of migration restrictions. This is likely to start to feed through into recruitment difficulties for many organisations seeking both skilled and unskilled labour. Employers in sectors that have disproportionately relied on EU migrant workers over the last decade, in particular, are likely to need to think more creatively about their workforce planning and talent pipelines to ensure that they can continue to access and develop key skills. Specifically, there needs to be a mix of attracting new and diverse talent, upskilling

[1] ONS. *Labour market overview, UK Statistical bulletins*, Office for National Statistics.

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existing staff and a renewed focus on job quality. Some commentators have suggested the move to hybrid and remote working can help broaden access to talent based overseas. However, this option will be closed for the vast majority of employers given the disproportionate number of EU workers that are employed in labour-intensive sectors such as food processing, hospitality and social care. In addition, employers that use remote workers based overseas will require significant tax and legal expertise.

The story on wages is also positive, pointing to a relative jump in basic pay for staff, especially private sector workers. Employment confidence is therefore reflected in pay award expectations, although it should be borne in mind that they are modest by historic standards.

Overall basic pay award expectations have risen to 2% from 1% compared with the previous report. Median basic pay expectations in the private sector have increased to 2% from 1.5% since the previous report. By comparison, median basic pay expectations in the public sector in the 12 months to April 2022 will be 0.9%, up from 0% in the previous report. The data points to the re-emergence of a two-speed pay market between public and private sector workers, as occurred in the aftermath of the last financial crisis, which could re-open tensions between trade unions and government. And while ministers should take care to ensure that public sector workers are given a fair deal that does not harm staff morale or add to recruitment and retention pressures, it is important to bear in mind that the lowest-paid workers are currently far more likely to be private sector than public sector employees in the UK.

Overall, despite the welcome jump in pay expectations, it remains to be seen whether the pay award increases will be able to match any increases in the cost of living caused by higher inflation. The Bank of England's most recent forecast suggests that inflation will increase to 2.3% by Q2 2022.[2] Looking ahead, a combination of mounting recruitment difficulties and higher cost of living may soon make pay inflation a greater concern to the Bank of England.

Taken together, the short-term jobs and pay outlook is more positive compared with the situation three months ago and closely reflects the levels of employer optimism about jobs and pay reported before the pandemic.

Gerwyn Davies, CIPD Senior Labour Market Analyst

[2] Monetary Policy Committee. (2021) *Monetary Policy Report*. London: Bank of England.

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2 Foreword from Adecco

A different and unfamiliar course of economic recovery is unfolding as we enter the spring quarter of 2021. The path into the future is unknown; however, the good news in this quarter's *Labour Market Outlook* is that all the indicators of recovery are positive.

Most employers responding to our spring 2021 survey told us they have increased intentions to recruit (64% plan to do so this quarter) and far fewer (only 12%), compared with the previous 12 months, plan to make any redundancies.

Most promising is that the sectors which suffered so badly during the pandemic have some of the highest employment intentions. It's encouraging to see hotels, catering, restaurants, arts, entertainment and recreation declare ambitious intentions to recruit.

The net employment intentions balance across all sectors is a strong +27, the highest level since winter 2013. Although the outlook is buoyant, the disruption of Brexit paired with the lingering threat of COVID-19 means that we cannot expect recovery to go smoothly, so we must all be committed to levelling up and building back better.

Making the future work for everyone, and especially for those who are looking to enter or re-enter the world of work, requires a collective effort from schools, colleges, universities and employers. This takes the form of skills development and improving access to opportunity. We know that talent is everywhere, but that opportunity isn't. This time of regrowth can be used to level up organisation-wide hiring and development with inclusion and social mobility front of mind.

I hope that the optimism expressed in this report can be channelled into purpose-led organisational agendas that will strengthen employers in the face of challenges during recovery. As this report highlights, migration restrictions and a potential pay gap between public and private sector employees may pose setbacks along the way. A purpose-led business that is more innovative, values a healthy work–life balance, provides upskilling and reskilling opportunities and does what's right for everyone, will be more resilient in the critical months ahead.

Alex Fleming, Region President of Northern Europe at Adecco

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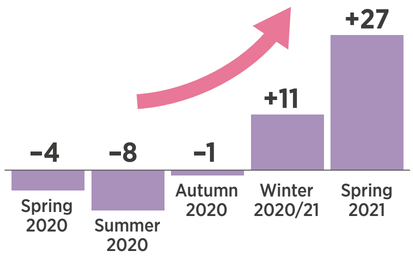
3 Key points

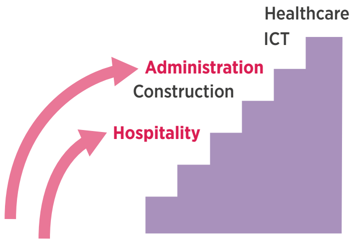
Recruitment and redundancies

- The net employment intentions figure for Q2 has risen sharply to +27 from +11 in the winter 2020/21 report. This is due to both a halving of redundancy intentions, down from 20% to 12%, and a rise in recruitment intentions. The improvement has again been driven by the private sector, which saw an 18 percentage point increase since the last quarter.



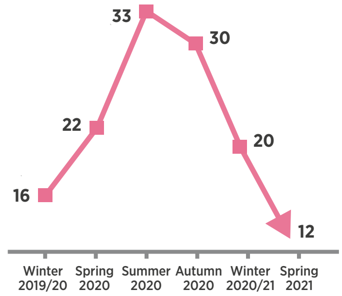
Net employment score recovery

- Healthcare (+54) and ICT (+37) have continued to increase in employment confidence, retaining the top spots among the sectors. But the biggest climbers this quarter are administration and support services, which jumped from +2 last quarter to +33, and hospitality from –6 to +29.



Employment confidence by sector

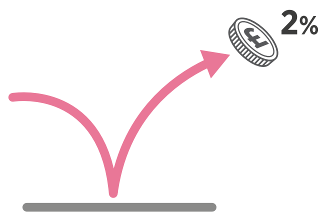
- Redundancy intentions have continued to fall over the quarter. Just over a tenth (12%) of organisations expect to make job cuts in the next three months, down from 20% the previous quarter. The fall takes redundancy intentions to below pre-pandemic levels (16%) for the first time.



% of employers to make redundancies

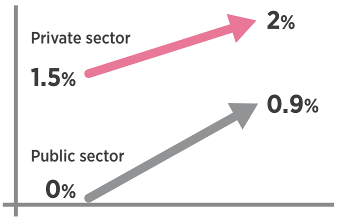
Pay

- Median basic pay expectations have bounced back to pre-pandemic levels at 2%, having stayed at 1% over the past four quarters.



Overall median basic pay expectations

- While the pay outlook for both the private and public sectors has improved, the picture is looking brighter for private sector workers. The median basic pay award in the 12 months to March 2022 will be 2% compared with 0.9% in the public sector.



Pay outlook in the private and public sectors

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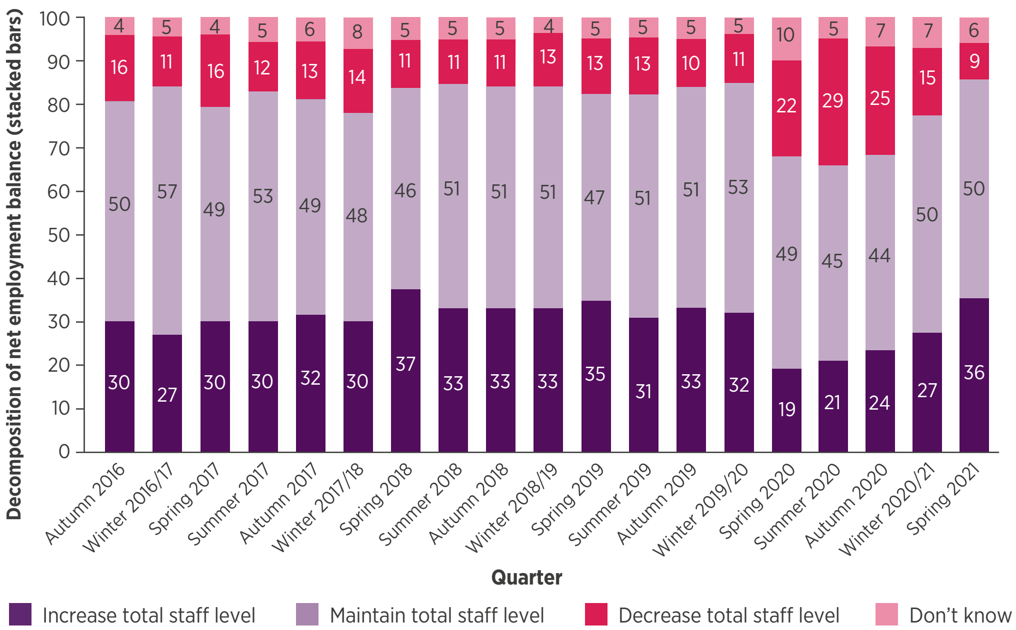
4 Recruitment and redundancy outlook

Overall, employment levels appear to have improved this quarter according to the *Labour Market Outlook* (LMO). For the second consecutive quarter, this quarter's net employment balance, which measures the difference between the proportion of employers that expect recruitment and redundancies to increase staff levels and those that expect to decrease staff levels in the second quarter of 2021, is in positive territory and has risen to +27 from +11.

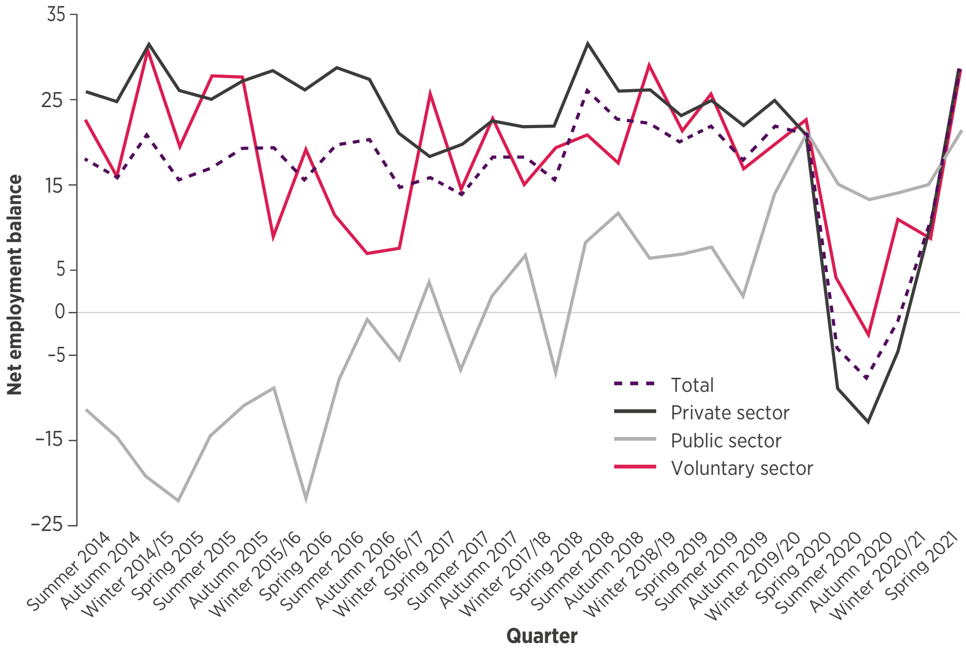
Figure 1: Decomposition of net employment balance over time



Base: spring 2021, all employers (n=1,045).

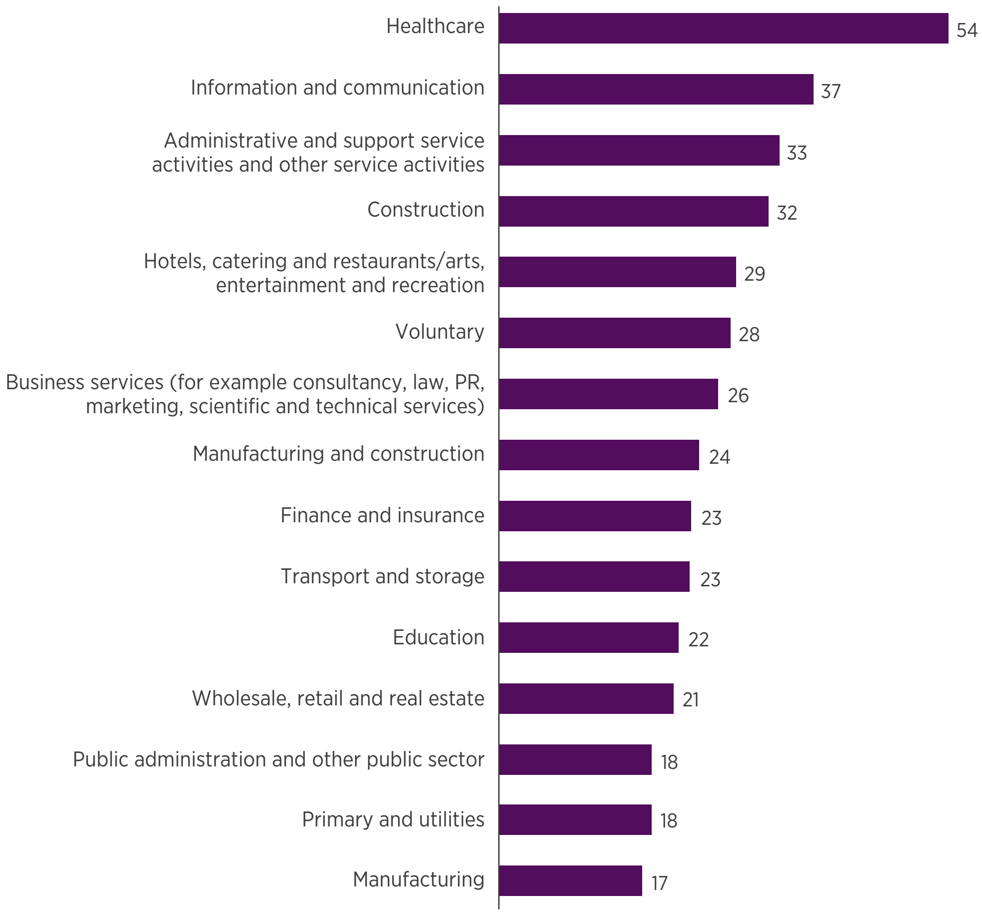
The rise in relative optimism is being driven by all three broad sectors, most notably the private sector, where the net employment balance has increased to +28 from +11. By comparison, the net employment balance for the voluntary sector is +28 and +22 for the public sector.

Figure 2: Overall effect of increasing or decreasing staff over the next three months, by sector



Base: spring 2021, all employers (n=1,045; private: n=756; public: n=211; voluntary: n=78).

Figure 3: Net employment balance, by industry



Base: all bases > 50. For breakdown of base sizes, see Table 3.

The sectoral figures make equally dramatic reading, with all sectors reporting relatively strong employment growth. The net employment balance is highest in the healthcare (+54), ICT (+37) and administration and support services (+33) sectors. Indeed, employment growth is in positive territory for all sectors of the economy for the first time since the onset of the pandemic.

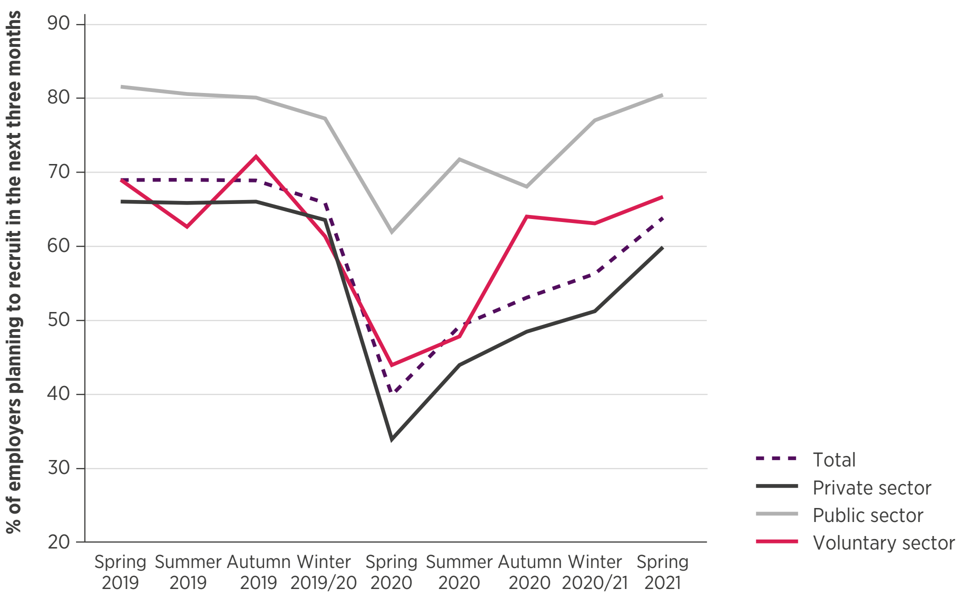
Recruitment growth gathering pace

Mirroring the official statistics,[3] this quarter's findings provide further evidence that the UK recruitment market may be picking up, with recruitment intentions reaching their highest levels since the winter 2019/20 report. Following an increase in recruitment intentions in the autumn 2020 and winter 2020/21 reports, this quarter's findings show that the proportion of organisations planning to recruit in the three months to June 2021 has risen again to 64%. This is up eight percentage points from the winter and up 11 percentage points from the autumn. This is also down two percentage points from the winter 2019/20 report, the last report to be published before the onset of the pandemic.

While recruitment intentions in the private sector (60%) continue to lag behind the public sector (81%), hiring in the private sector looks set to accelerate compared with the previous quarter (51%). Recruitment intentions are highest in public administration and defence (79%), healthcare (73%) and ICT (67%).

However, the most striking aspect of the data is the sharp increase in hiring intentions among the worst-affected sectors. Over two-thirds (66%) of hospitality firms plan to recruit in the second quarter of 2021, up from 36% in the winter quarter. Meanwhile, the proportion of construction firms with recruitment intentions has increased to 59% from 44% during the same period, while hiring intentions among administration and support service activities' employers have jumped from 45% to 63%. More than two-thirds of voluntary sector respondents (67%) are planning to recruit, which is consistent with recent reports.

Figure 4: Recruitment intentions, by broad sector (%)



Base: spring 2021, all employers (n=1,045; private: n=756; public: n=211; voluntary: n=78).

[3] ONS. *Labour market overview, UK: March 2021*, Office for National Statistics.

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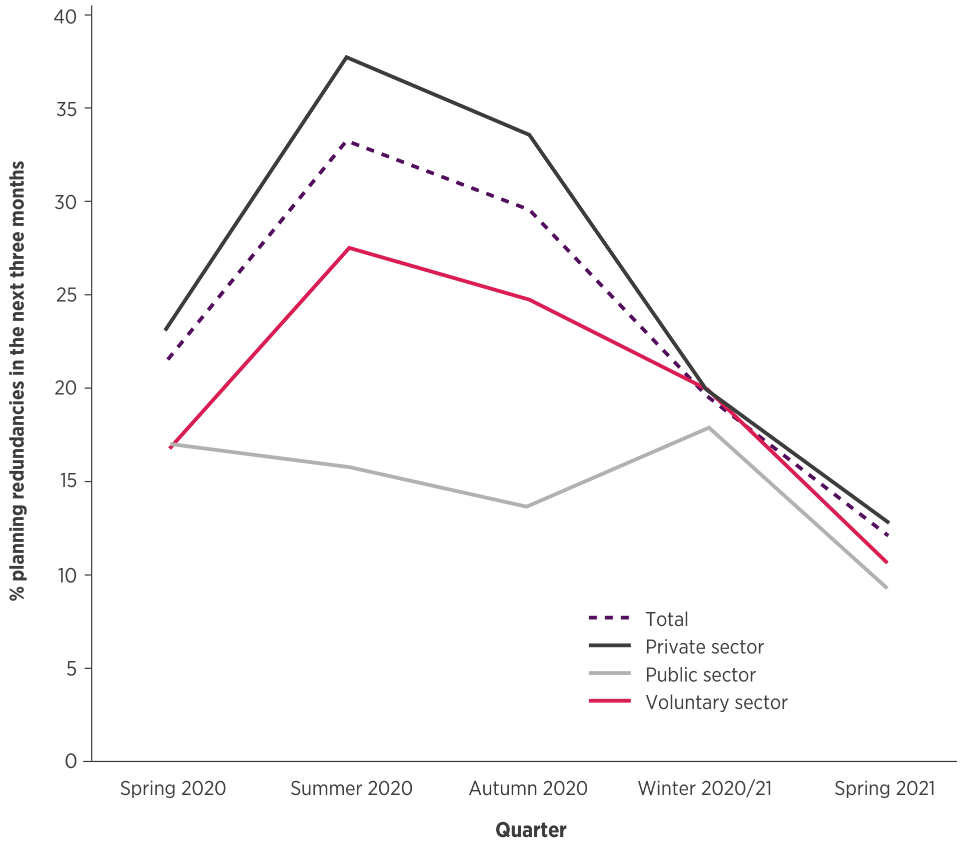
Redundancy intentions show further sharp fall

While recruitment intentions have ticked up, the proportion of employers intending to make redundancies continues to fall. Just over a tenth (12%) expect to cut jobs during the next three months, down from 20% in the previous quarter. The fall is consistent across all three major sectors of the UK economy. Indeed, redundancy intentions have fallen below pre-pandemic levels (Figure 5).

The volume of these redundancy intentions represents on average 15% of the workforce, which is broadly consistent with previous reports. Additionally, the proportion of those who cannot give an answer as to whether they intend to make redundancies or not has decreased by three percentage points (16%), suggesting that there is slightly less uncertainty among employers than in the recent past.

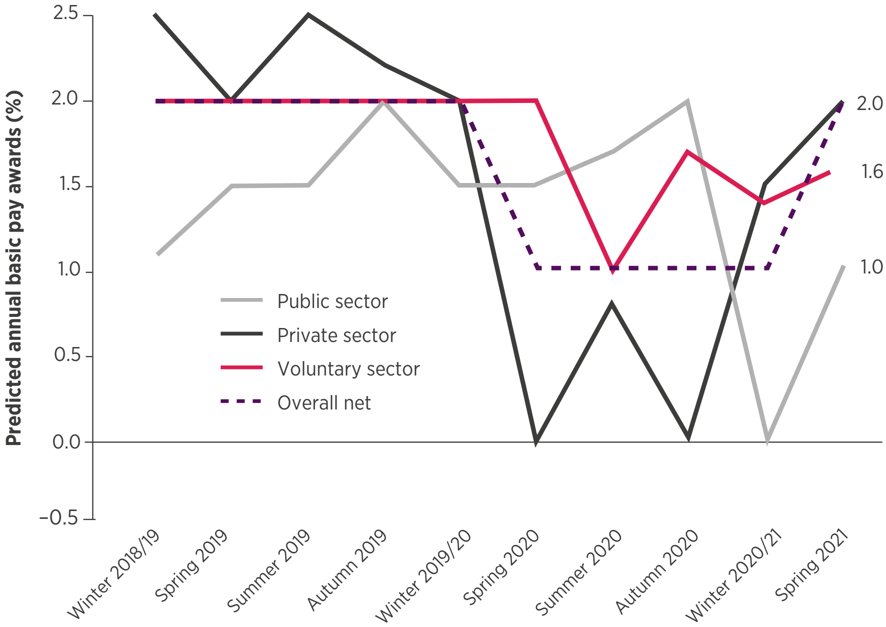
Figure 5: Redundancy intentions, by broad sector (%)



Base: spring 2021, all employers (n=1,045; private: n=756; public: n=211; voluntary: n=78).

5 Pay outlook

Figure 6: Employers' median basic pay expectations, by business sector



Base: spring 2021, all employers (n=1,045; private: n=756; public: n=211; voluntary: n=78).

Expected scale of organisational pay reviews

More than three-quarters (77%) of employers surveyed intend to review their wages over the next 12 months. Around three in ten (29%) employers surveyed intend to review wages between April and June 2021. Just over a fifth (22%) expect this to be between January and March 2022. However, the proportion of employers that plan to postpone carrying out a pay review in the next year remains relatively high (24%).

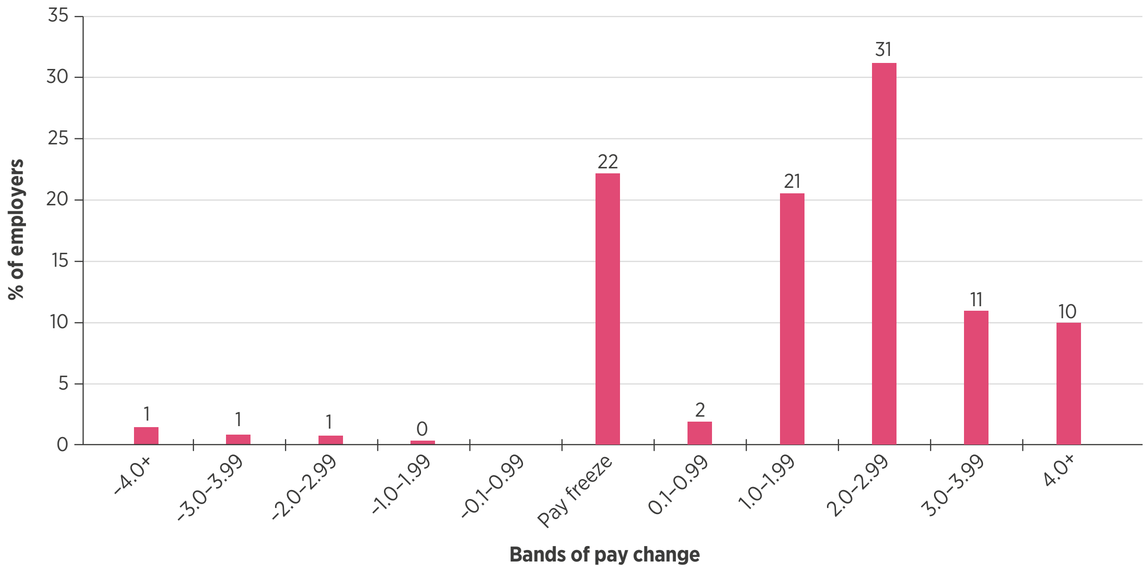
In a break with the trend in previous reports, pay settlements look set to increase relatively sharply in the 12 months to March 2022. Employers say that the median basic pay increase in their organisation (excluding bonuses) will be 2%, up from 1% in the winter 2020/21 quarter. Pay settlements therefore look set to return to pre-pandemic levels.

The pay outlook for private sector workers over the coming 12 months is brighter than the outlook for public sector workers. The median basic pay award in the private sector in the 12 months to March 2022 will be 2%, which compares with 1.5% in the winter 2020/21 quarter. By comparison, basic pay expectations in the public sector have increased from 0% to 0.9% during the same period.

Overall, among those who report an expected increase, decrease or pay freeze in the next 12 months, the proportion of employers predicting a pay freeze is 22%, roughly half the proportion of employers that were planning to introduce wage freezes in the winter 2020/21 quarter (41%). The fall in the share of organisations intending to freeze pay is particularly acute among private sector firms, down from 37% in the winter quarter to 16% in the current spring report.

We also asked survey respondents whether they had made a basic pay award decision in 2021. And consistent with the other survey data, the median basic pay award since the start of 2021 was also 2%. The median basic pay award was 2% across the private, public and voluntary sectors. However, with half (50%) of organisations reporting that they have not conducted a pay review in 2021, considerable caution needs to be applied when interpreting this data.

Figure 7: Distribution of forward-looking pay changes (%)



Base: spring 2021, all employers who report an expected increase, decrease or pay freeze in the next 12 months (n=425).

6 Survey method

All figures, unless otherwise stated, are from YouGov Plc. The total sample size was 1,045 senior HR professionals and decision-makers in the UK. Fieldwork was undertaken during 2–18 April. The survey was carried out online. The figures have been weighted and are representative of UK employment by organisation size and sector.

Weighting

Rim weighting is applied using targets on size and sector drawn from the *Business Population Estimates for the UK and Regions 2019*. The following tables contain unweighted counts.

Table 1: Breakdown of the sample, by number of employees in the organisation

Employer size band	Count
2–9	184
10–49	205
50–99	81
100–249	103
250–499	92
500–999	69
1,000 or more	311
Total	**1,045**

Table 2: Breakdown of sample, by sector

Sector	Count
Private sector	756
Public sector	211
Third/voluntary sector	78
Total	**1,045**

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Table 3: Breakdown of sample, by industry

Industry	Count
Voluntary	78
Manufacturing and production	**153**
Manufacturing	82
Construction	52
Primary and utilities	19
Education	**117**
Healthcare	**67**
Private sector services	**540**
Wholesale, retail and real estate	115
Transport and storage	34
Information and communication	51
Finance and insurance	66
Business services (for example consultancy, law, PR, marketing, scientific and technical services)	107
Hotels, catering and restaurants/Arts, entertainment and recreation	70
Administrative and support service activities and other service activities	97
Public administration and defence	**81**
Police and armed forces	15
Total	**1,045**

Table 4: Breakdown of sample, by region

Region	Count
North-east of England	31
East Midlands	65
West Midlands	57
Scotland	68
London	169
South-west of England	83
East of England	52
Wales	32
South-east of England	133
North-west of England	73
Yorkshire and Humberside	63
Northern Ireland	13

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