CIPD

Championing better work and working lives

in partnership with

THE ADECCO GROUP

LABOUR MARKET OUTLOOK

VIEWS FROM EMPLOYERS

Autumn 2019

The CIPD is the professional body for HR and people development. The not-for-profit organisation 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 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

Autumn 2019

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1 Foreword from the CIPD

Commentators attempts to predict a high-water mark in employment have been succeeded by a labour market that has defied expectations. The main story in this quarter's *Labour Market Outlook* (LMO) is that employers continue to expect staff numbers to increase in the period immediately after the 31 October Brexit deadline. Employers are expecting a business as usual approach to staff resourcing. Orders still need to be filled and talent pipelines need to be planned.

Many are asking how employment has been so strong despite Brexit uncertainty. The most obvious response is that we have not yet left the EU. Another 'tentative explanation' for the strength of employment growth despite all the uncertainty has been offered by Gertjan Vlieghe of the Bank of England. Businesses may not be keen to spend money on costly investments such as buying specialist machinery because this is difficult to reverse. Employment decisions are less costly to reverse.[1] Staff levels can be run down, not necessarily through redundancies but through hiring freezes and natural churn. During the last downturn, unemployment thankfully grew less than anticipated. During the next downturn, which many expect will come sooner rather than later,[2] we might not be so lucky.

Constraints on public sector pay are being eased and this is evident in the survey data. Public sector employers are now more likely to raise starting salaries in response to recruitment difficulties and salaries in general in response to retention difficulties. The public sector/private sector gap between expected forward-looking pay awards has also narrowed.

Jonathan Boys, Labour Market Economist

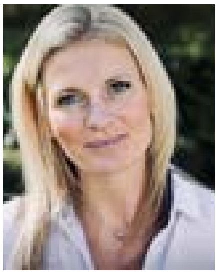
[1] Gertjan Vlieghe. (2019) *The economic outlook: fading global tailwinds, intensifying Brexit headwinds.*
[2] Resolution Foundation. (2019) *Recession ready? Assessing the UK's macroeconomic framework.*

2 Foreword from the Adecco Group UK and Ireland

As I write this foreword, the Government has just announced a General Election for 12 December and the UK has not exited the EU. Much has changed since I wrote the foreword for the summer edition of this report, when the date for Brexit had been set for 31 October 2019.

The clarity of a confirmed date for Brexit at the time of data collection has no doubt influenced the sentiment reflected in this autumn edition of the *Labour Market Outlook* report, which shows that employer confidence for Q4 has increased from +18 to +22. Construction (+38), administrative and other service activities (+30) and healthcare (+30) have the highest levels of confidence. Public administration and other public sector, is the only category with a negative score (–5).

The LMO's measure of employment confidence score has fluctuated between +15 and +22 since the June 2016 referendum and remains at its highest post-referendum level. With the Brexit deadline postponed once again, we might expect to see greater fluctuation by our Q1 2020 LMO. Although 86% of companies are planning pay reviews in the next 12 months, uncertainty about future access to the EU market influenced only 22% of companies' decisions to consider low pay rises below 2%. Businesses are playing a waiting game, steadying the ship while politics plays out.



In a tight employment market, intensified by the delayed Brexit negotiations, there is an opportunity to make use of the extra time to boost engagement and retention by turning attention towards internal mobility, career pathways and upskilling. We know from our own research that only 27% of employers feel they have enough information to start making post-Brexit recruitment decisions, but we can act now to improve retention.

Alex Fleming, Country Head and President of Staffing and Solutions, the Adecco Group UK and Ireland

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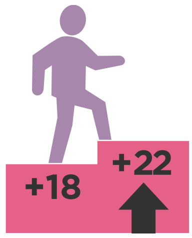
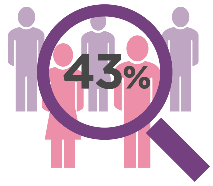
3 Key points

1 The net employment score – our measure of employment confidence over the next quarter – has increased from +18 to +22. The score is highest in construction (+38), administrative and support service activities and other service activities (+30) and healthcare (+30).



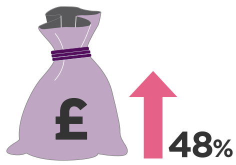
Net employment score increase

2 Many employers reported hiring difficulties as a result of a tight labour market. Just over two in five (43%) employers said it had become more difficult to fill vacancies in the past 12 months. Just 5% said it had become less difficult.



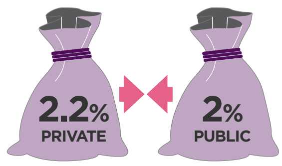
Difficulty filling vacancies

3 The majority of LMO employers (86%) are planning a pay review in the next 12 months to August 2020. Among these employers, nearly half (48%) predict a pay increase.



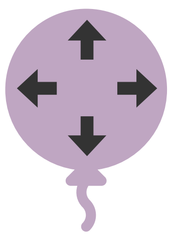
Predict a pay increase

4 The gap has narrowed for expected pay settlements between public and private sector. The expected median basic pay settlement among private sector employers planning to have a pay review is 2.2%. This compares with 2% in the public sector.



Pay settlement gap narrowing

5 Inflation remains the largest factor behind pay increases above 2% (47% of LMO employers), followed by market factors such as the going rate elsewhere (34%) and recruitment and retention pressures (31%).



Inflation largest factor behind pay increases above 2%

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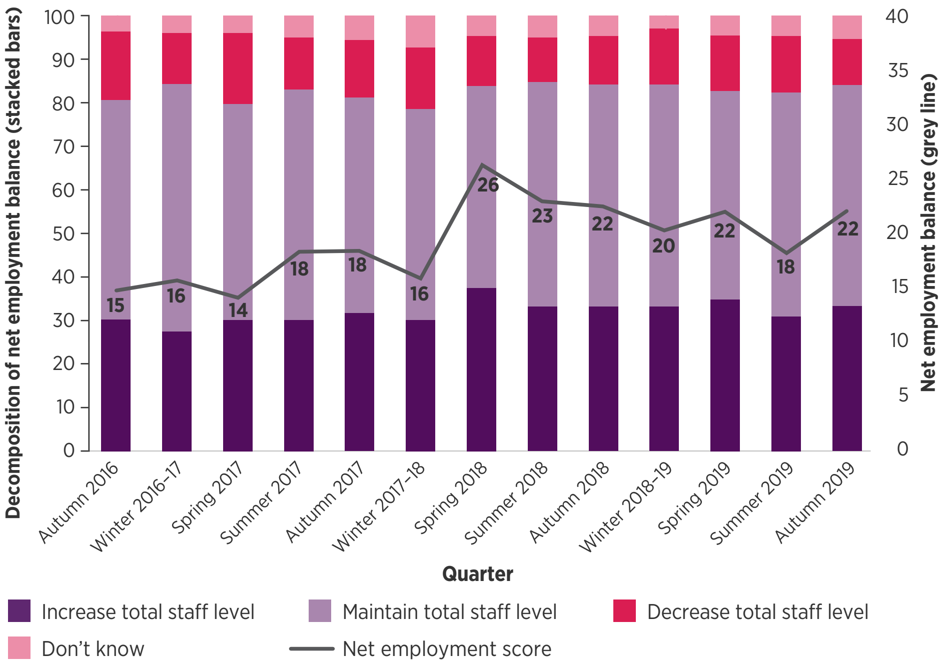
4 Recruitment and redundancy outlook

What is the short-term employment outlook?

This section focuses on the recruitment and redundancy intentions of employers in the fourth quarter of 2019. The net employment balance is our measure of employment confidence. It is the difference between the number of employers that are seeking to increase headcount and the number seeking to decrease headcount in the coming quarter. The score remains positive and has grown from +18 to +22 this quarter. The increase in the net employment score is driven by a larger proportion of employers saying that they will increase total staffing levels (Figure 1).

Figure 1: Decomposition of net employment balance over time



Base: Autumn 2019, all employers (n=1,016).

How to interpret Figure 1

The net employment balance is an indicator of employment confidence. It takes the difference between the proportion of employers who expect to increase staff levels and those who expect to decrease staff levels. Figure 1 contains the net employment balance over time to show how employment confidence has changed. It also shows what is responsible for this change, be it more firms increasing, decreasing, or maintaining staff levels.

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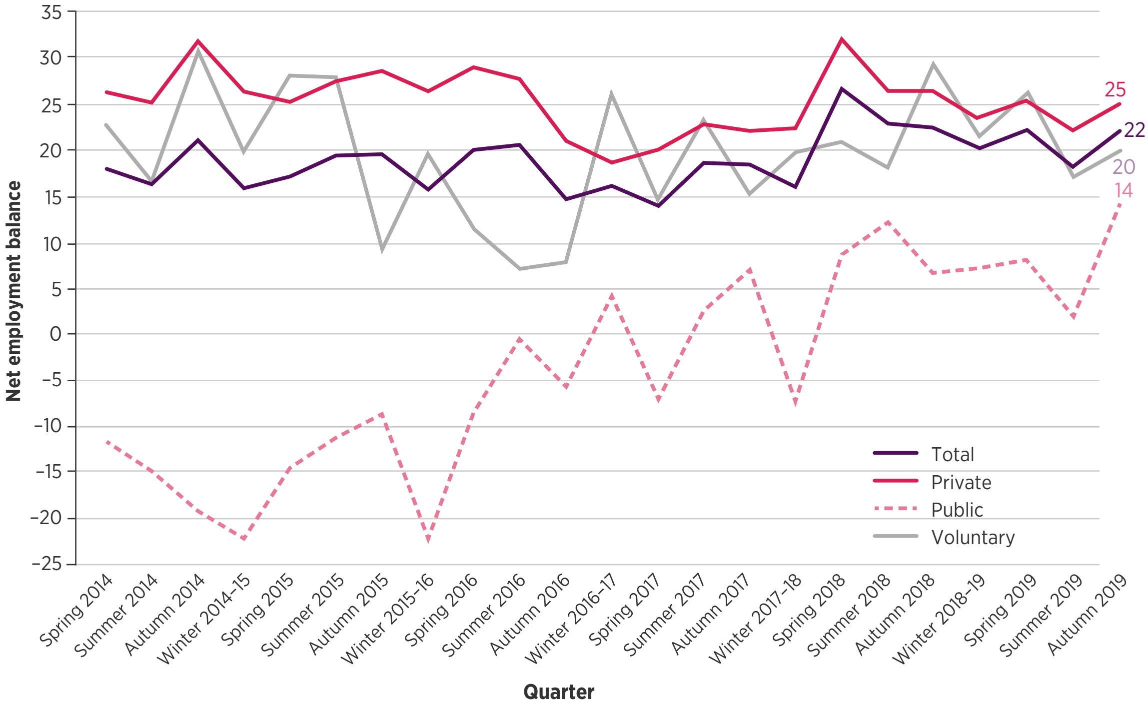
The uptick in the net employment score was broad based across the business sectors. The public sector registered the largest increase from +2 to +14 (Figure 2).

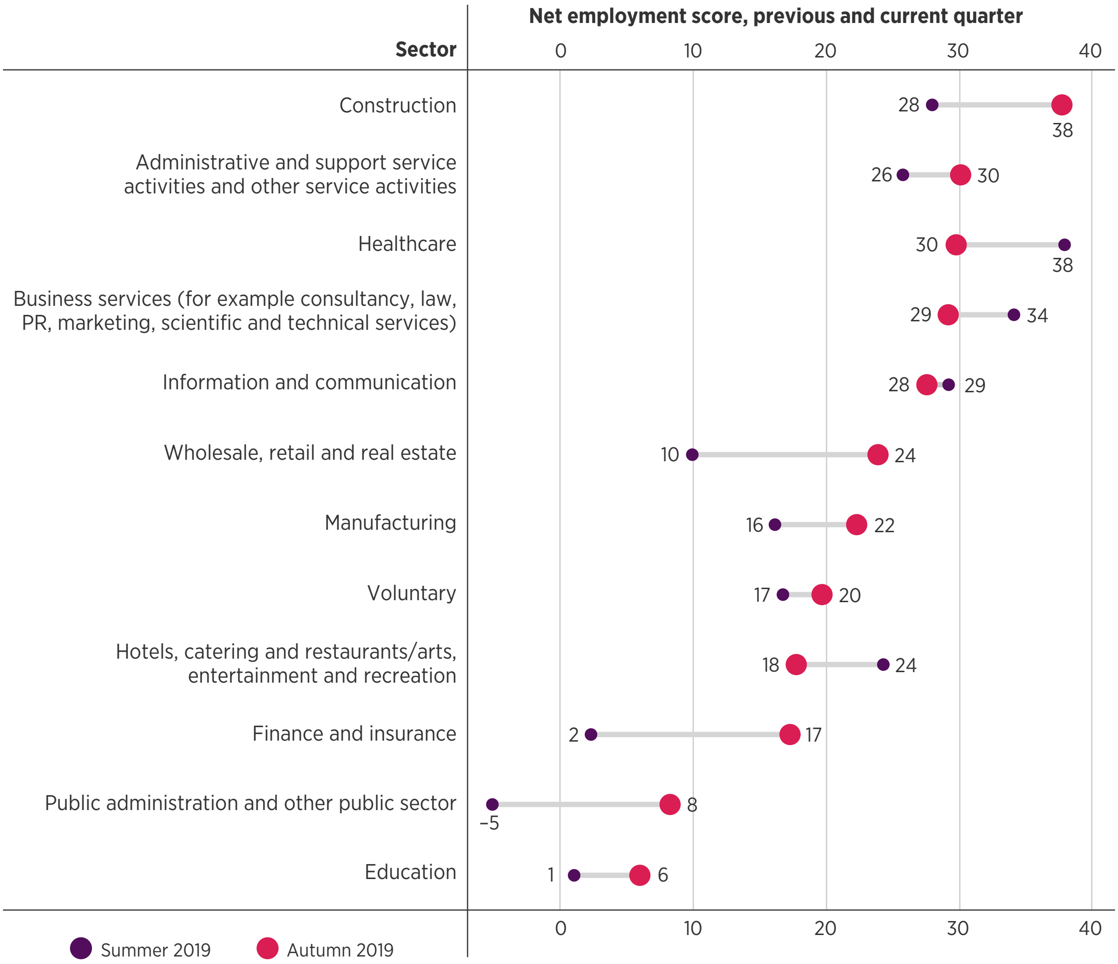
Figure 2: Overall effect of increasing or decreasing staff over the next three months, by business sector



Base: Autumn 2019, all employers (private n=761; public n=176; voluntary n=79).

Looking by industry, the net employment score is highest in construction (+38), administrative and support service activities and other service activities (+30) and healthcare (+30) (Figure 3).

Figure 3: Net employment score, by industry, last and current quarter (%)[3]



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

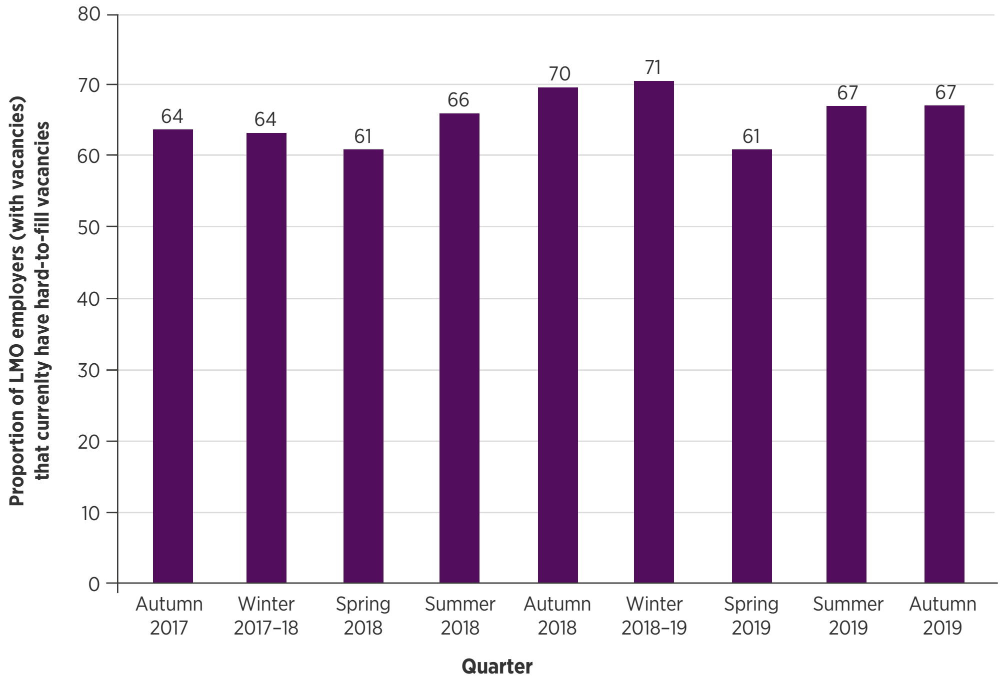
[3] Note: sample size too small for primary and utilities, transport and storage, and police and armed forces.

5 Job vacancies

Hard-to-fill vacancies

Sixty-seven per cent of organisations who are currently hiring have hard-to-fill vacancies. This has remained stable and is less than the same quarter of last year (Figure 4).

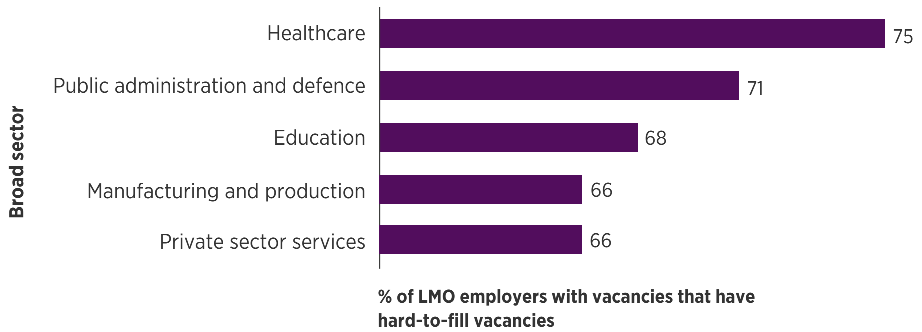
Figure 4: Proportion of organisations with current vacancies that have hard-to-fill vacancies (%)



Base: autumn 2019, all employers with vacancies (n=607).

Employers in public-sector-dominated industries record the highest incidence of hard-to-fill vacancies, with 75% of hiring healthcare employers struggling to fill roles (Figure 5).

Figure 5: Proportion of organisations with current vacancies that have hard-to-fill vacancies (%)



Base: autumn 2019, all employers with vacancies (education n=66; private sector services n=288; manufacturing and production n=100; public administration and defence n=48; healthcare n=53).

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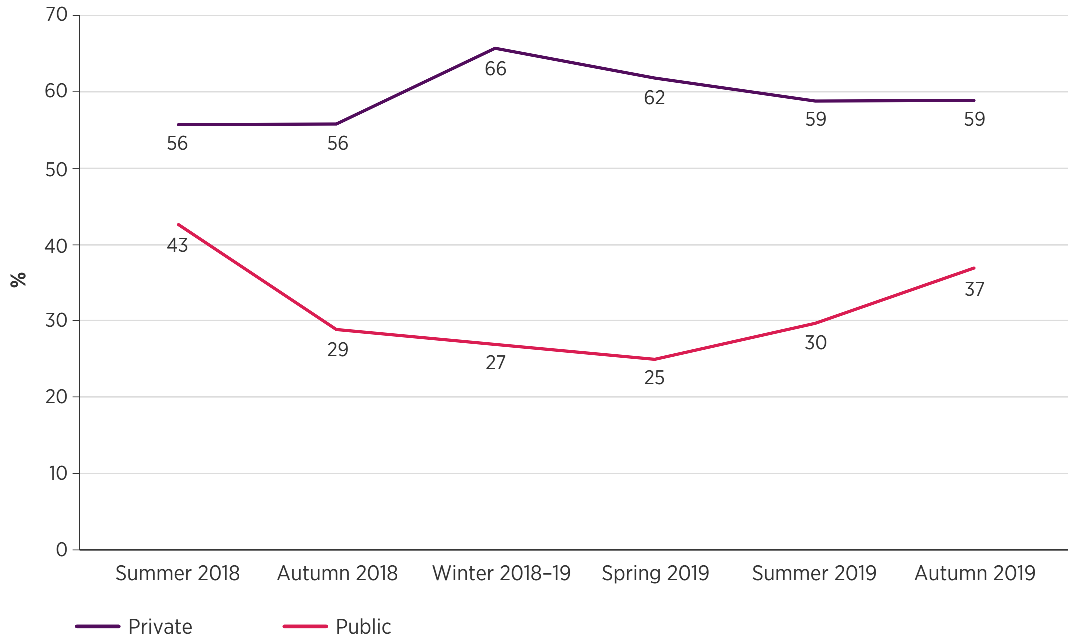
Response to recruitment and retention difficulties

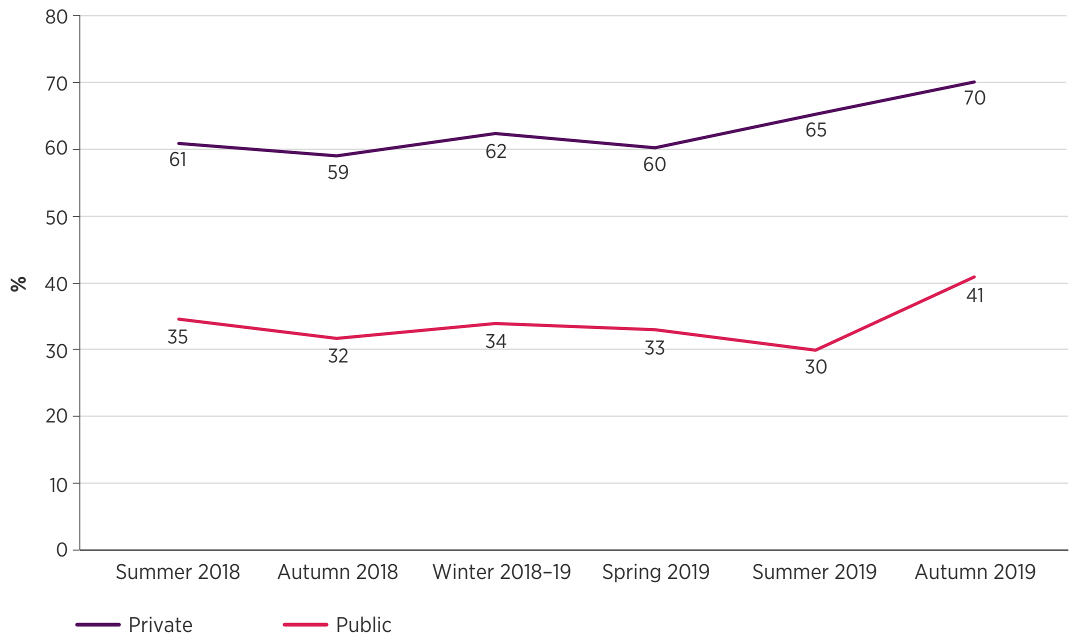
Just over two in five (43%) employers say it has become more difficult to fill vacancies in the past 12 months and 5% say it has become less difficult. More public sector employers are raising starting salaries in response to recruitment pressure (Figure 6).

Figure 6: Proportion of employers raising starting salaries in response to recruitment difficulties (%)



Base: autumn 2019, (public n=99; private n=289).

Figure 7: Proportion of employers raising salaries in response to retention difficulties (%)



Base: autumn 2019, (public n=73; private n=224).

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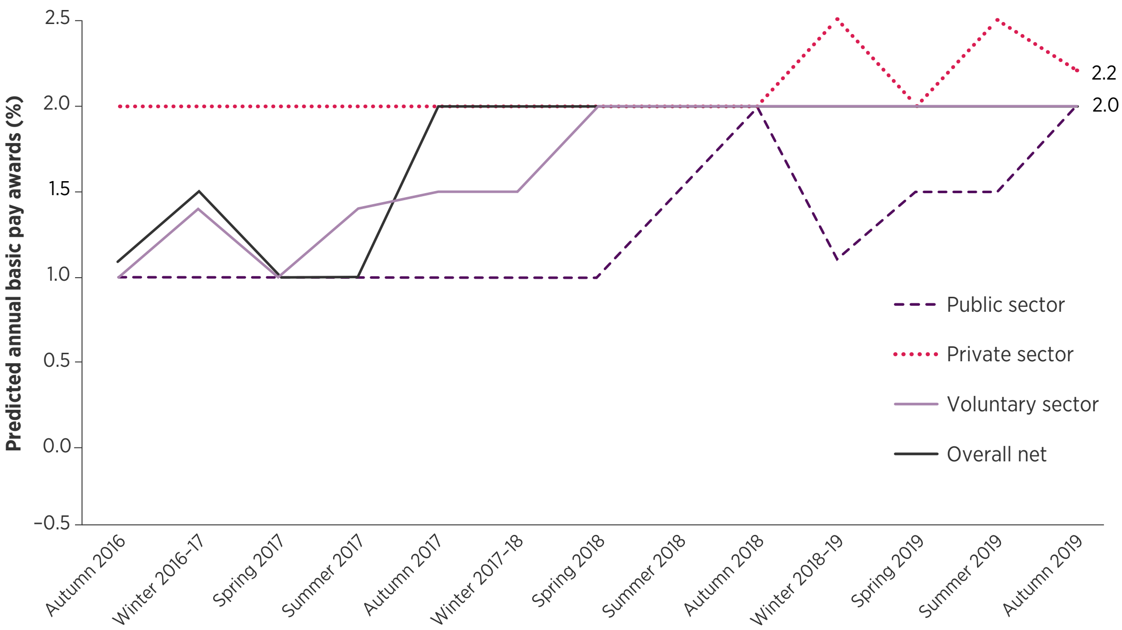
6 Pay outlook

What is likely to happen to wages in the next 12 months?

Median basic pay expectations in the 12 months to August 2020 are 2%. The public sector continues an upward trend from 1.5% last quarter to 2% this quarter, while the private sector has seen expectations move down from 2.5% last quarter to 2.2% this quarter, narrowing the gap between the sectors (Figure 8). Just over a third (34%) of employers say it is hard to tell what will happen to pay.

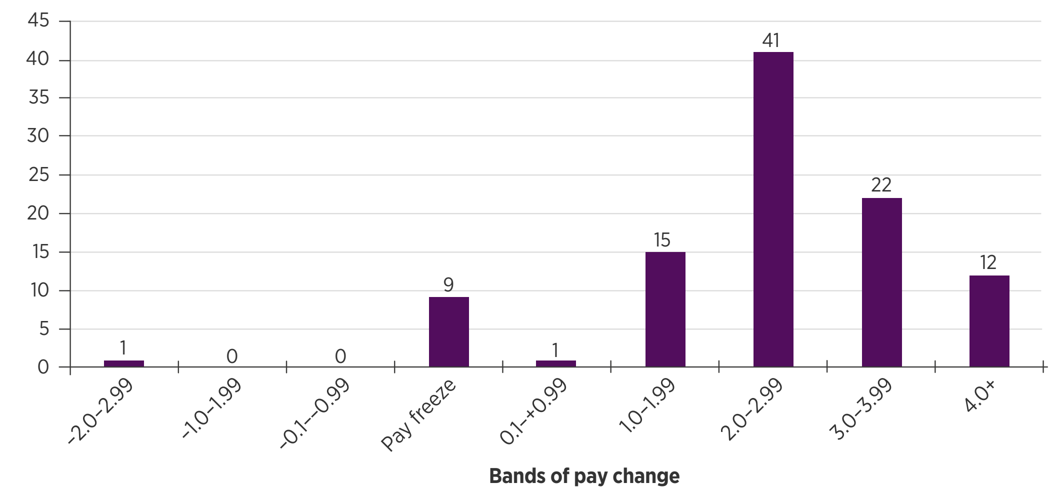
Figure 8: Employers' predicted annual basic pay awards (median employer), by business sector



Base: autumn 2019, all employers who report an expected increase, decrease or pay freeze in the next 12 months (total n=463; private n=319; public n=101; voluntary n=43).

Continuing the pattern of previous reports in the series, forward-looking basic pay settlements are centred around 2–3% (Figure 9).

Figure 9: Distribution of forward-looking basic pay settlements, autumn 2019 (%)

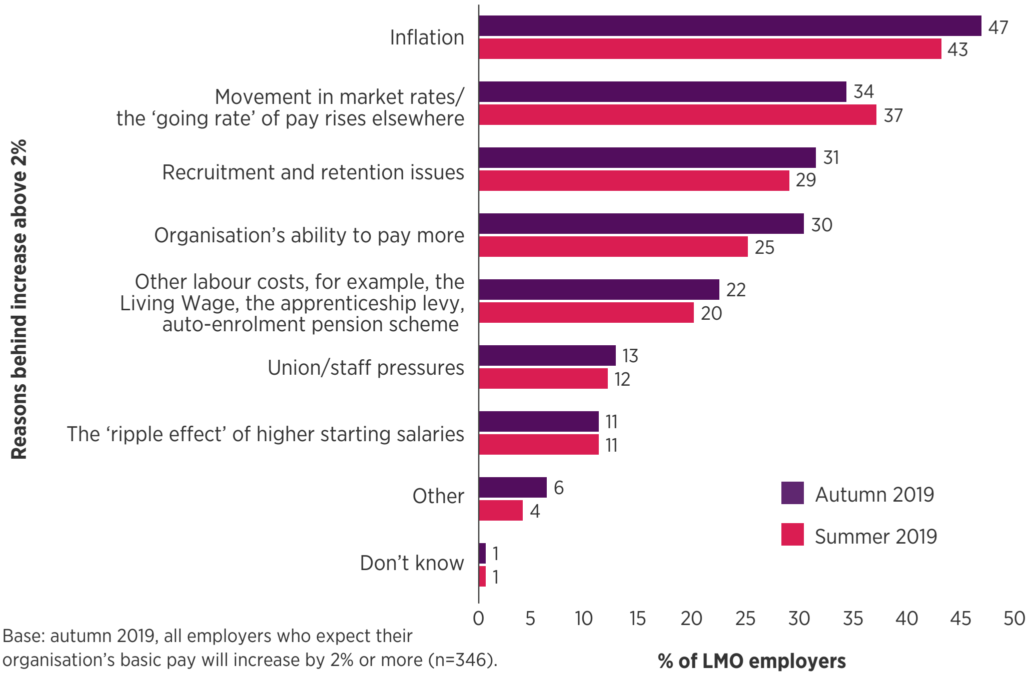


Base: autumn 2019, all employers who report an expected increase, decrease or pay freeze in the next 12 months (total n=463).

What are the factors behind employers' basic pay decisions?

Inflation remains the largest factor behind pay increases above 2% (47% of LMO employers), followed by market factors/the 'going rate' elsewhere (34%) and recruitment and retention pressures (31%) (Figure 10).

Figure 10: Top reasons for increase in average basic pay by 2% or more (%)



Base: autumn 2019, all employers who expect their organisation's basic pay will increase by 2% or more (n=346).

The organisation's inability to pay is the top reason for expecting pay awards below 2% (37% of LMO employers). Uncertainty about future access to the EU market remains a factor for just over a fifth (22%) of organisations (Figure 11).

Figure 11: Top reasons for increase in basic pay below 2% (%)

Base: autumn 2019, all employers who expect their organisation's basic pay will increase by less than 2% (n=117).

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7 Survey method

All figures, unless otherwise stated, are from YouGov Plc. The total sample was 1,016 senior HR professionals and decision-makers in the UK. Fieldwork was undertaken between 6 and 27 September 2019. The survey was carried out online. The figures have been weighted and are representative of UK business by size, sector and industry.

Weighting

Rim weighting is applied using targets on size and sector drawn from the *Business Population Estimates for the UK and Regions 2018*. The following tables contain unweighted counts.

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

Employer size band	Count
2–9	175
10–49	190
50–99	81
100–249	93
250–499	99
500–999	83
1,000 or more	295
Total	**1,016**

Table 2: Breakdown of sample, by sector

Sector	Count
Private sector	761
Public sector	176
Third/voluntary sector	79
Total	**1,016**

Table 3: Breakdown of sample, by industry

Industry	Count
Voluntary	79
Manufacturing and production	164
Manufacturing	92
Construction	54
Primary and utilities	18
Education	106
Healthcare	71
Private sector services	525
Wholesale, retail and real estate	65
Transport and storage	25
Information and communication	56
Finance and insurance	88
Business services (eg consultancy, law, PR, marketing, scientific and technical services)	119
Hotels, catering and restaurants/Arts, entertainment and recreation	73
Administrative and support service activities and other service activities	99
Public administration and defence	60
Police and armed forces	11
Total	**1,016**

Table 4: Breakdown of sample, by region

Region	Count
North-east of England	31
East Midlands	60
West Midlands	66
Scotland	58
London	186
South-west of England	62
East of England	48
Wales	36
South-east of England	122
North-west of England	88
Yorkshire and Humberside	49
Northern Ireland	9

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