CIPD
Championing better work and working lives

LABOUR MARKET

OUTLOOK

VIEWS FROM EMPLOYERS

Winter 2022–23

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 almost 160,000 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

Winter 2022–23

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1 Foreword from the CIPD

The quarterly CIPD *Labour Market Outlook* provides an early indication of future changes to the labour market around recruitment, redundancy and pay intentions. This quarter's findings are based on a survey of more than 2,000 employers.

We begin 2023 with headlines of strikes, high rates of inflation and rising interest rates, but few headlines on the labour market itself. Why? Because the labour market remains persistently tight – vacant jobs are plentiful but available workers are scarce. Our analysis shows that employment intentions continue to be positive, with little to suggest the labour market is cooling off. The net employment balance remains positive, exceeding pre-pandemic levels. Intentions to increase staffing are highest in healthcare, an industry in somewhat of a recruitment crisis. As we start the year, can health bosses find the right people for the job?

Recruitment struggles persist – over half of employers have hard-to-fill vacancies and a third anticipate significant problems in filling roles over the next six months. Our analysis shows skill shortage vacancies outnumber labour shortages, and those with degree-level or equivalent qualifications are highest in demand.

Many employers plan to raise pay to combat hard-to-fill vacancies. The majority say they'll do this by raising prices, rather than absorbing costs. The opposite was true 12 months ago, against a backdrop of lower but rising inflation at the time.

Expected pay awards have risen to 5% overall, the highest level since we started tracking in 2012, with the private sector reaching this level in the last quarter. With the highest levels of inflation seen in 40 years, this is more of an inevitability at this stage. Public sector pay award expectations stand at a measly 2%. In education and healthcare, two of the striking industries, hard-to-fill vacancies are being mitigated by employers increasing the duties of existing staff. These factors combined are driving the widescale striking we're seeing.

Read on for our latest labour market data and analysis on employers' recruitment, redundancy and pay intentions.

James Cockett, CIPD labour market economist

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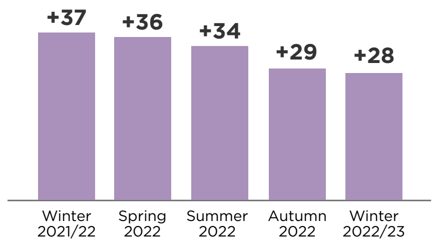
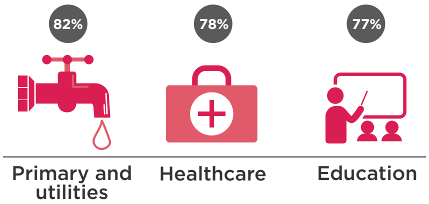
2 Key points

- The net employment balance – which measures the difference between employers expecting to increase staff levels and those expecting to decrease staff levels in the next three months – remained positive at +28, meaning that employers plan to increase staff numbers in the three months to March 2023. This continues to exceed pre-pandemic levels, pointing to strong employment intentions.



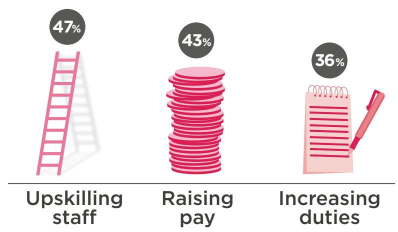
Net employment balance remains positive

- Fifty-seven per cent of all employers currently have hard-to-fill vacancies, and 29% anticipate significant problems in filling hard-to-fill vacancies over the next six months. Existing hard-to-fill vacancies are most common in primary and utilities (82%), healthcare (78%) and education (77%). Of employers with hard-to-fill vacancies, 40% had skills shortage vacancies, whereby applicants for advertised roles lack the technical skills required.



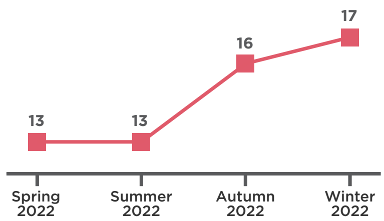
Industries with highest levels of hard-to-fill vacancies

- The top response to addressing hard-to-fill vacancies has been to upskill existing staff (47%), followed by raising pay (43%) and increasing the duties of existing staff (36%). Of those employers who have or plan to raise pay in response to hard-to-fill vacancies, 57% plan to achieve this by raising prices rather than lowering profits and absorbing costs (47%). The opposite was true 12 months ago.



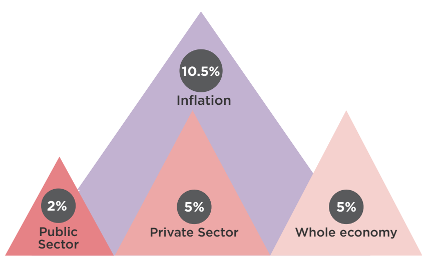
Top responses to hard-to-fill vacancies

- Redundancy intentions remain low but are increasing slightly. Seventeen per cent of employers are planning to make redundancies in the three months to March 2023. This is still down on pre-pandemic levels.



% of employers planning to make redundancies

- The median expected basic pay increase has risen from 4% to 5%, the highest since the time series started in 2012. Expected pay awards in the private sector remain at a median of 5%; however, public sector pay award expectations are at just 2%. Both are struggling to keep up with inflation.



Pay increases below inflation

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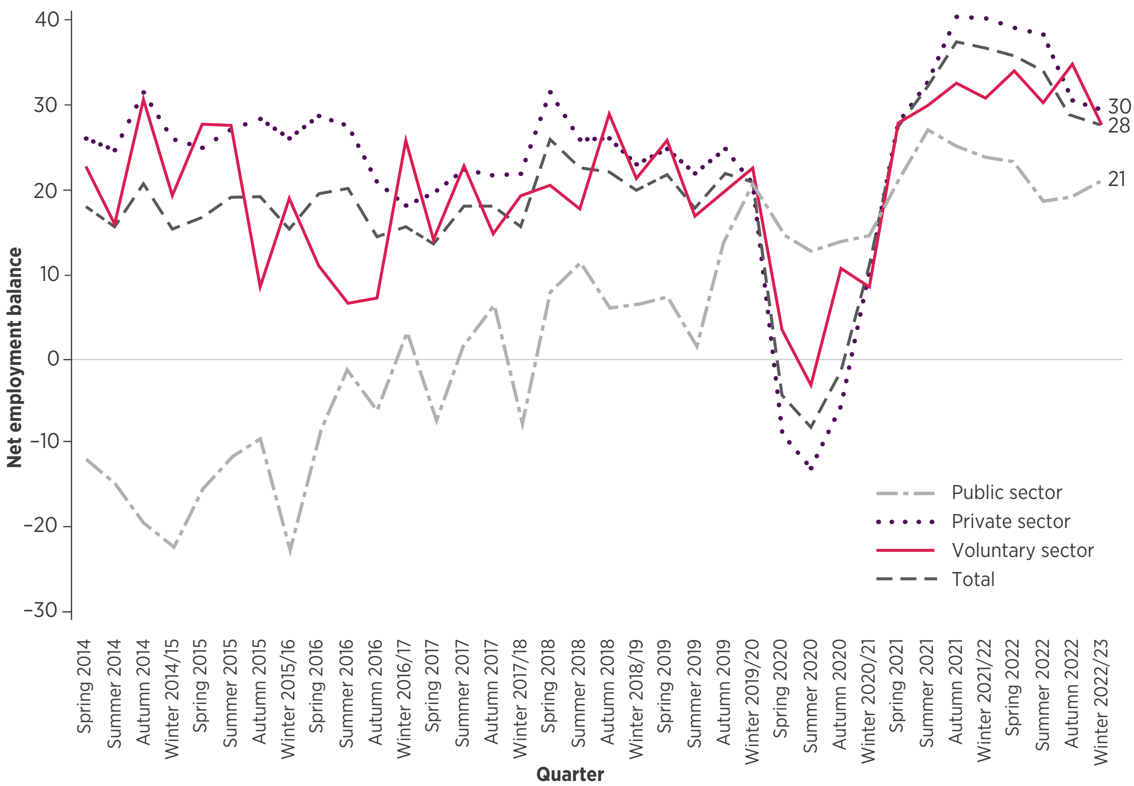
3 Recruitment and redundancy outlook

The net employment balance – which measures the difference between employers expecting to increase staff levels in the next three months and those expecting to decrease staff levels – remained steady at +28. This is still positive territory and high relative to the pre-pandemic time series. However, the net employment balance is starting to soften from its peak in autumn 2021. Net employment intentions are strongest in the private sector at +30. The voluntary (+28) and public sectors (+21) both have positive figures, suggesting that the UK will continue to see employment gains across the board.

Figure 1: Net employment balance



Base: winter 2022/23, all employers (total: n=2,012; private: n=1,502; public: n=363; voluntary: n=147).

In a continuation of the trend seen in previous quarters, the positive net employment balance is being driven largely by employers looking to hire staff (38%), with very few looking to decrease total staff levels (10%). This is unchanged from the last quarter (see Figure 2).

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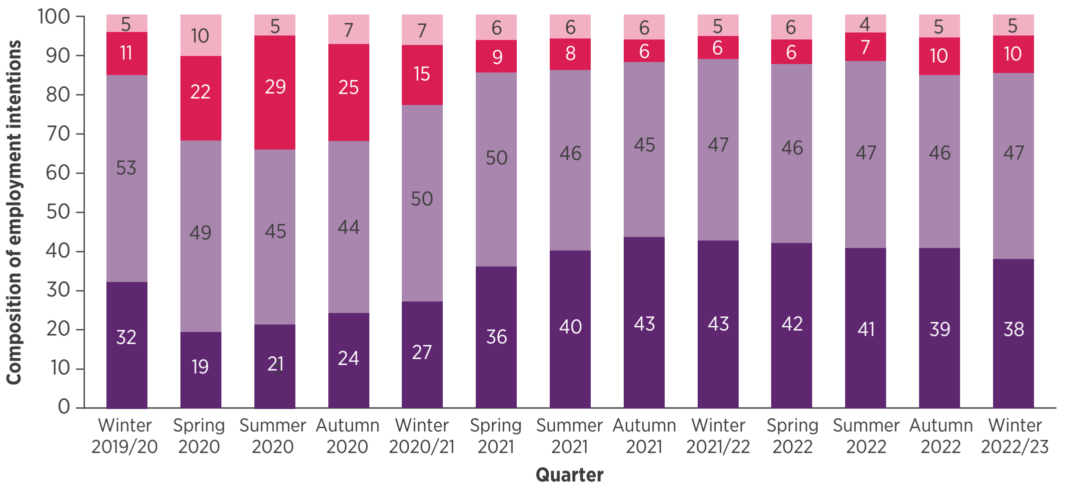
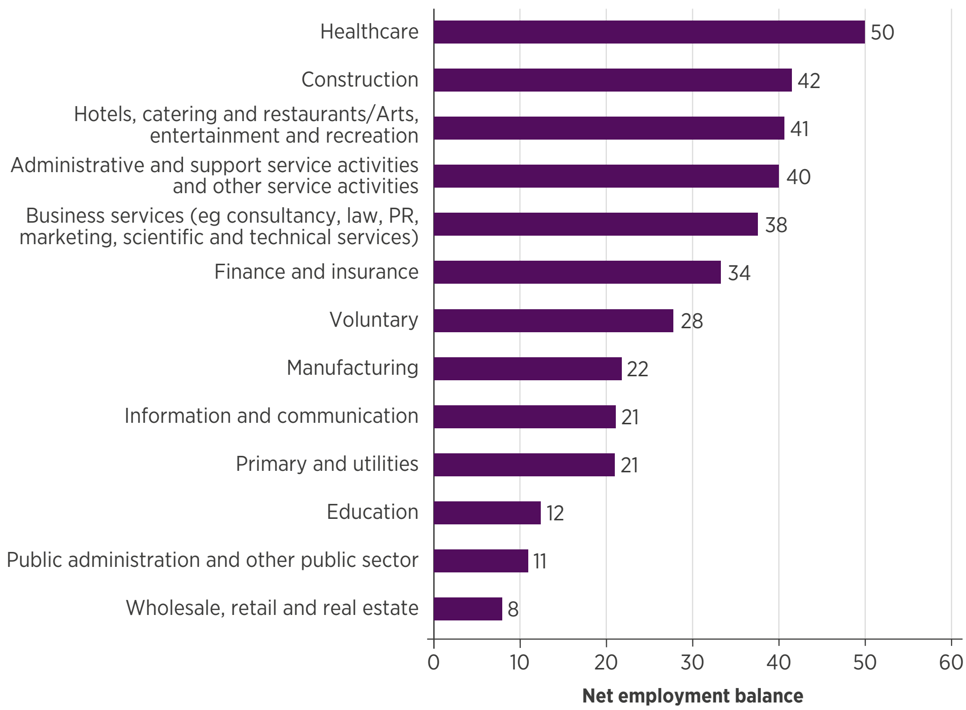
Figure 2: Composition of employment intentions (%)



Base: winter 2022/23, all employers (n=2,012).

Employment intentions continue to remain positive across all industries (see Figure 3). Healthcare now stands out as the industry with the highest net employment balance (+50). This is driven by the 56% of healthcare employers who plan to increase their total staff level. On the flip side, the picture is less positive for IT, with the net employment balance falling from +44 in the previous quarter to +21 in the three months to March. This coincides with a high number of tech companies announcing large-scale redundancies over the last few months.[1]

Figure 3: Net employment balance, by industry



Base: industries with base sizes of less than 50 have been excluded. For a breakdown of base sizes, see Table 3.

[1] Cave, D. (2023) Layoff alternatives called for as tech sector redundancies hit 200,000. *HR Magazine*. 24 January

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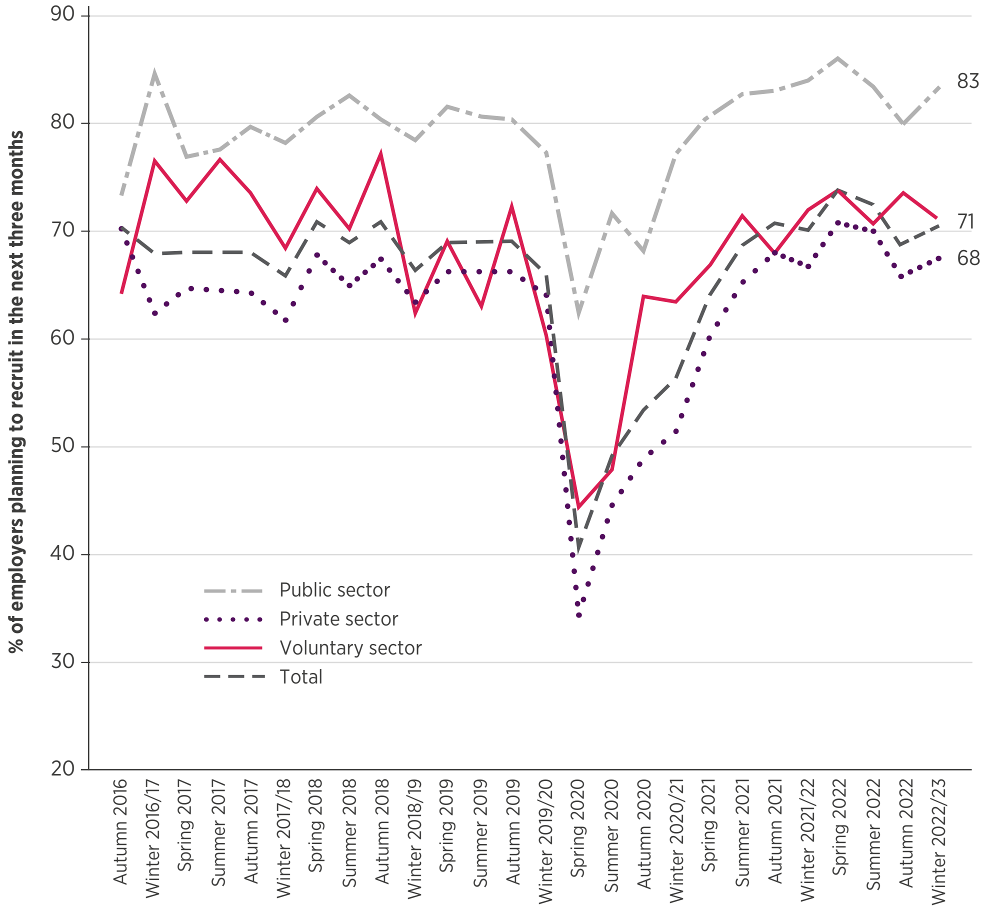
Recruitment

Recruitment intentions are above pre-pandemic levels. Seven out of 10 (71%) employers surveyed indicated that they plan to recruit in the next three months (see Figure 4). Recruitment intentions remain highest in the public sector (83%), followed by the voluntary sector (71%) and the private sector (68%) (see Figure 4). The gap between the public sector and the other broad categories has persisted since the pandemic.

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



Base: winter 2022/23, all employers (total: n=2,012; private: n=1,502; public: n=363; voluntary: n=147).

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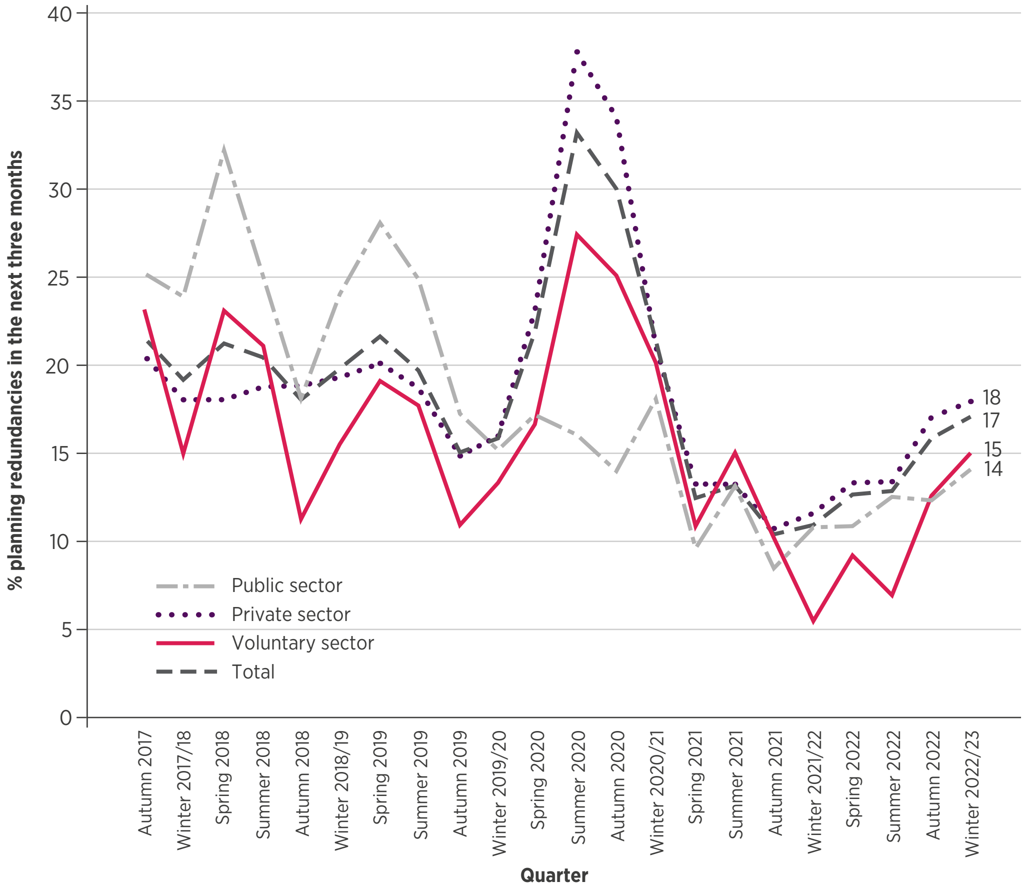
Redundancies

Redundancy intentions remain low, below pre-pandemic norms, but have been increasing slightly in the last several quarters. Only 17% of employers are planning to make redundancies in the three months to March 2023 (see Figure 5).

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



Base: winter 2022/23, all employers (total: n=2,012; private: n=1,502; public: n=363; voluntary: n=147).

Further reading and practical guidance

- **CIPD | Recruitment and induction**
  Guidance on good-practice recruitment and induction processes, from work placements and internships to internal recruitment and secondments.
- **CIPD | A guide to inclusive recruitment for employers**
  A step-by-step guide for employers to ensure fair processes are set up to attract a more diverse talent pool.
- **CIPD | Operating in tough economic times**
  Key considerations and resources to help steer your organisation through difficult conditions.
- **CIPD | Guide on managing the redundancy process**
  Essential advice for employers on managing the redundancy process, including how to assess whether redundancy is necessary.

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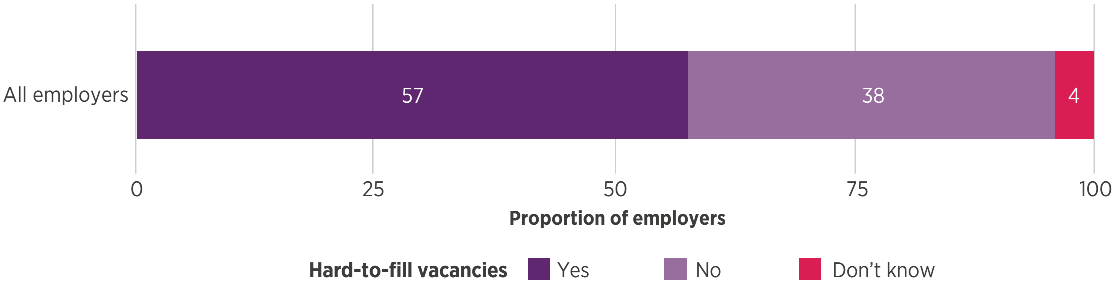
4 Job vacancies

Over half of employers (57%) have hard-to-fill vacancies (see Figure 6),[2] with fewer than one in 20 (4%) unsure.

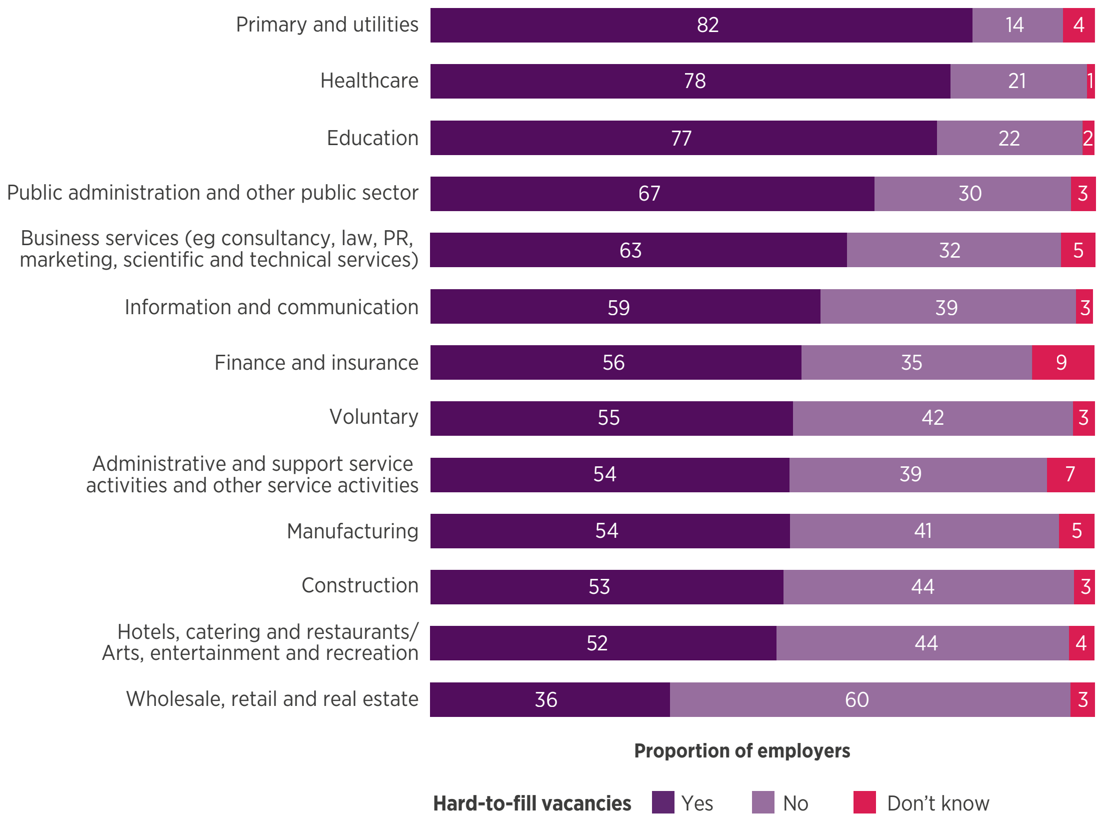
Figure 6: Employers with hard-to-fill vacancies (%)



Base: winter 2022/23, all employers (n=2,012).

Hard-to-fill vacancies are most common in primary and utilities (82%), healthcare (78%) and education (77%) (see Figure 7).

Figure 7: Employers with hard-to-fill vacancies, by industry (%)



Base: industries with a base size of less than 50 have been excluded. For a breakdown of base sizes, see Table 3.

[2] Note: responses to the questions on hard-to-fill vacancies are not comparable with previous quarters due to the rephrasing of the question.

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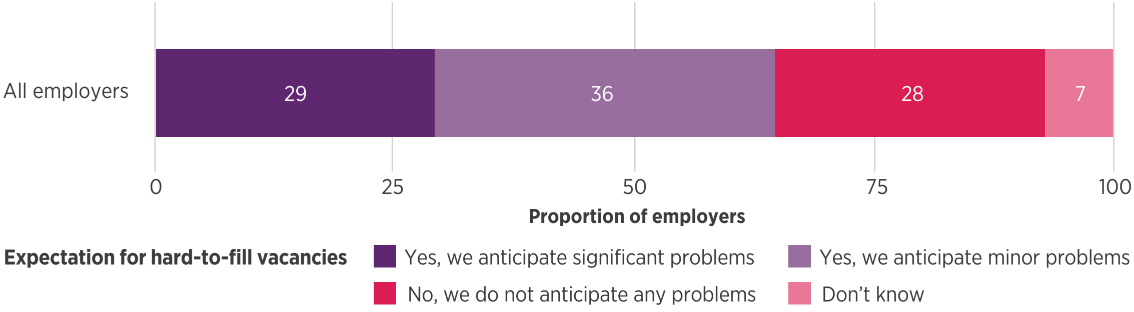
In the next six months, 29% of all employers anticipate significant problems in filling hard-to-fill vacancies, with a further 36% anticipating minor problems (see Figure 8).

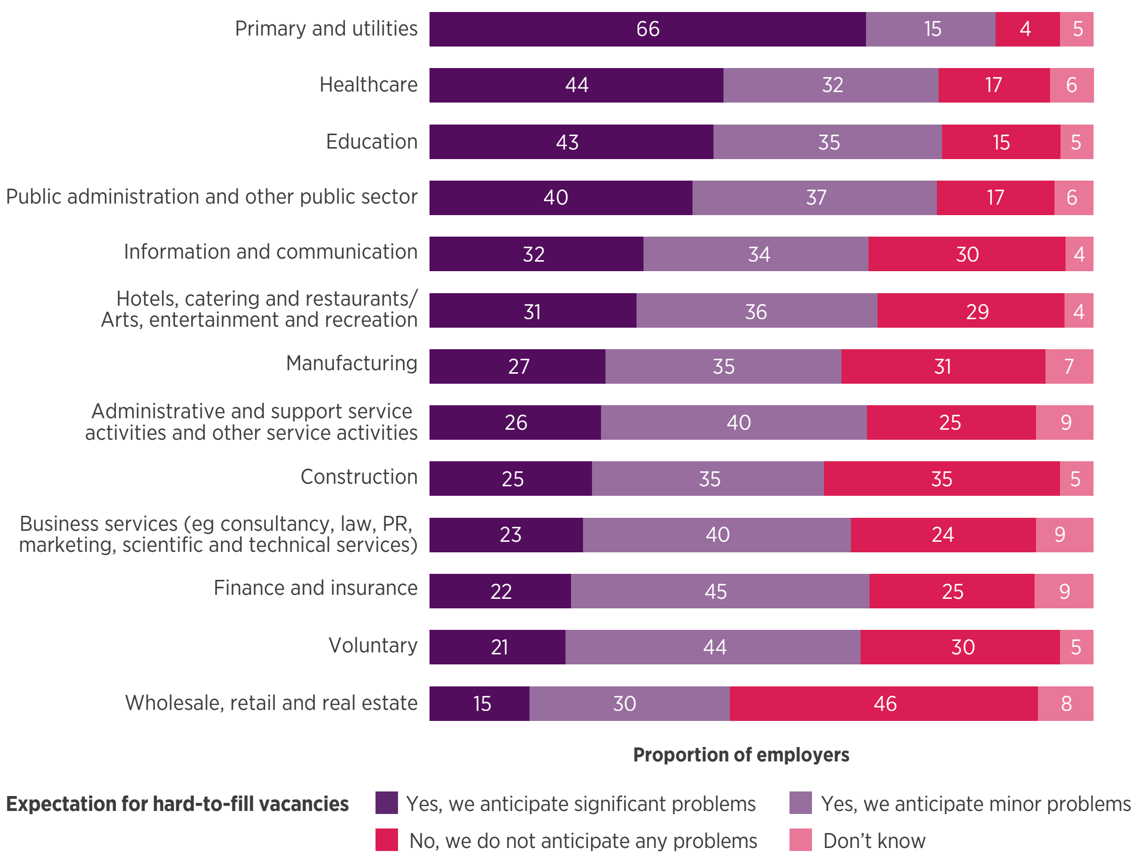
Figure 8: Expectation for hard-to-fill vacancies in the next six months (%)



Base: winter 2022/23, all employers (n=2,012).

Figure 9 shows the expectation for hard-to-fill vacancies in the next six months by industry. This almost directly corresponds to Figure 8 on the current level of employers with hard-to-fill vacancies. Primary and utilities, however, stands out as the industry that is anticipating notable future difficulties, with 66% of employers anticipating significant problems in the next six months. Healthcare (44%), education (43%) and the public administration and other public sector (40%) are all anticipating significant problems in their hard-to-fill vacancies in the next six months.

Figure 9: Employers' planned response to hard-to-fill vacancies (%)



Base: industries with a base size of less than 50 have been excluded. For a breakdown of base sizes, see Table 3.

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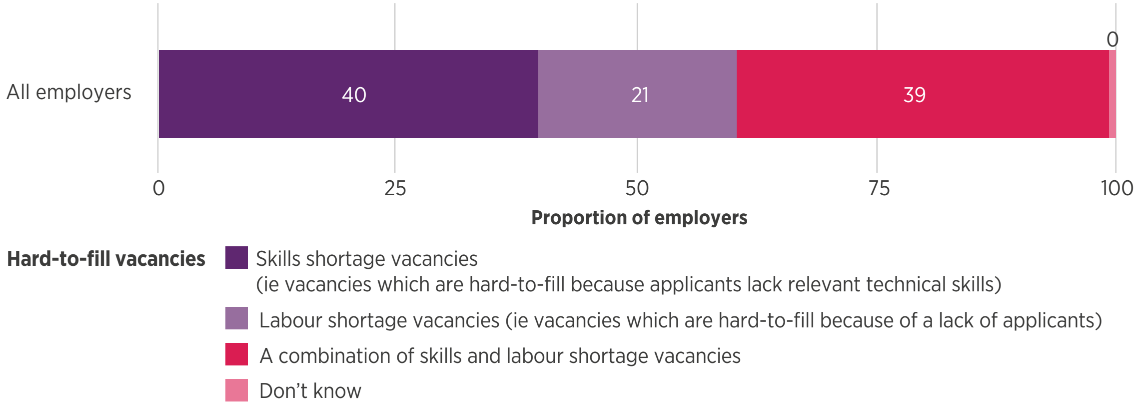
Of employers with hard-to-fill vacancies, 40% had skills shortage vacancies, whereby applicants for advertised roles lack the technical skills required. Twenty-one per cent had labour shortage vacancies, whereby there were a lack of applicants for hard-to-fill roles. Many employers also had a combination of skills and labour shortage vacancies (39%).

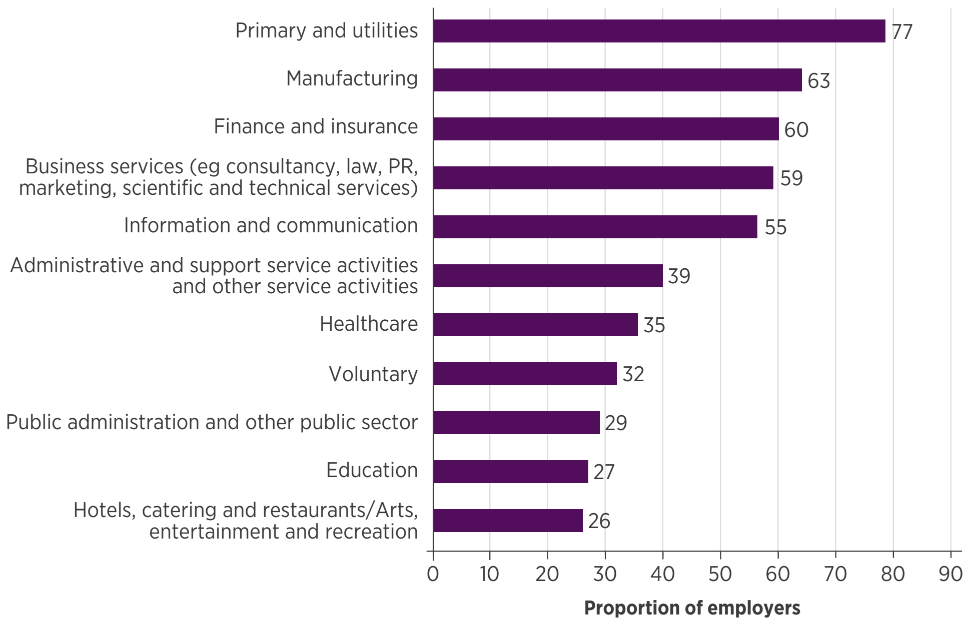
Figure 10: Type of vacancies in hard-to-fill roles (%)



Base: winter 2022/23, all employers with hard-to-fill vacancies (n=1,133).

Skills shortage vacancies among employers with hard-to-fill vacancies were most common in primary and utilities (77%), with approximately six in ten employers facing the same issue in manufacturing, finance and insurance, business services and IT.

Figure 11: Skills shortage vacancies of employers with hard-to-fill roles (%)



Base: industries with hard-to-fill vacancies, that have a base size of less than 50, have been excluded. For a breakdown of base sizes, see Table 3.

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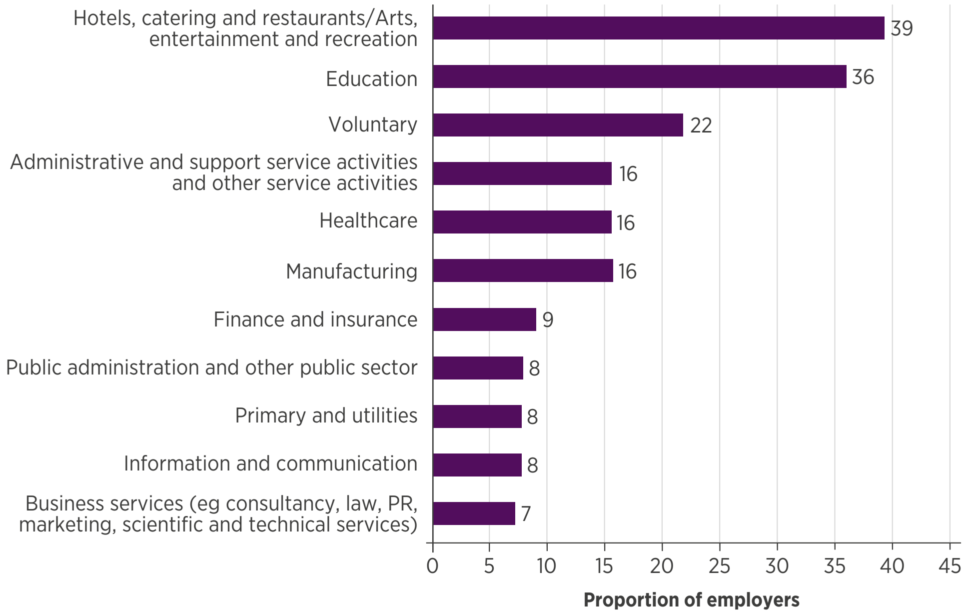
Labour shortage vacancies were most prevalent in hospitality (39%) and education (36%). Labour shortages in education are likely to be a story of two halves. Teacher training levels, in particular those in secondary education, are falling remarkably short of expectations, leading to a stark lack of new entrants into the profession.[3] In higher education, a fall in the number of EU staff is contributing to labour shortages in the industry.[4]

Figure 12: Labour shortage vacancies of employers with hard-to-fill roles (%)



Base: industries with hard-to-fill vacancies, that have a base size of less than 50, have been excluded. For a breakdown of base sizes, see Table 3.

In the latest questionnaire we asked what qualification levels are expected in employers' hard-to-fill roles. Just over a quarter of employers said they required employees with the lowest level of qualifications (entry-level/no qualifications). A similar proportion of employers have indicated a preference for employees with GCSE, A level or higher degree qualifications (and their equivalents). There is a clear demand for skilled graduates/those with graduate-level qualifications (including higher-level apprentices), as almost half of employers with hard-to-fill vacancies require employees at this level.

Approximately one in two employers with hard-to-fill roles in primary and utilities (54%) and hospitality (48%) require employees with entry-level/no qualifications.

Almost three-quarters of employers with hard-to-fill roles in IT (73%) require employees with degree-level qualifications or equivalent.

[3] Staton, B. (2022) Failure to meet teacher training targets set to hit English schools. *Financial Times*. 1 December

[4] Mantle, R. (2023) Higher Education Staff Statistics: UK, 2021/22. *HESA*. 17 January

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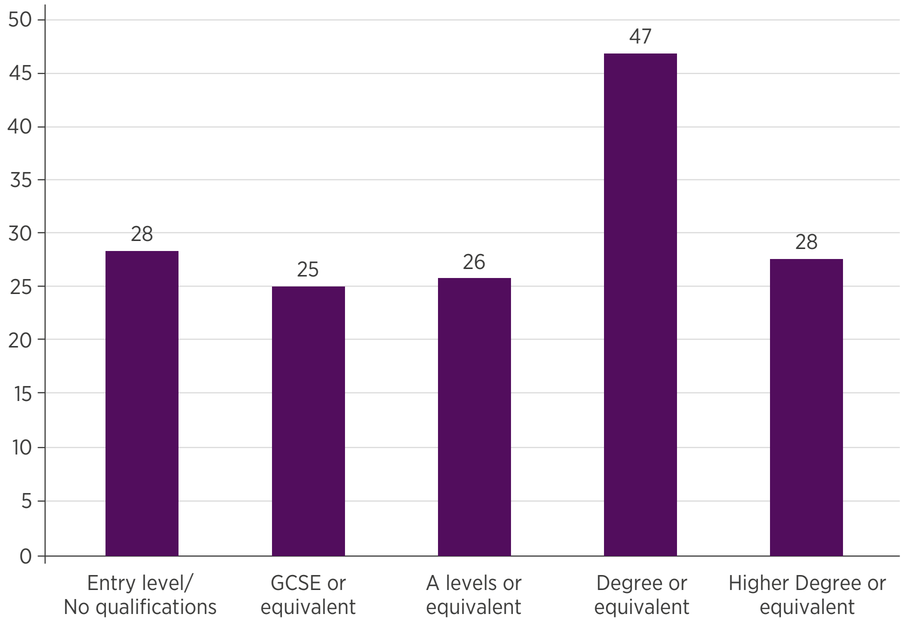
Figure 13: Qualification level expected in hard-to-fill roles (%)



Base: winter 2022/23, all employers with hard-to-fill vacancies (n=1,133).

Employer responses to hard-to-fill vacancies

The top response to hard-to-fill vacancies has been to upskill existing staff (47%), followed by raising pay (43%). However, fewer employers plan to raise wages in the future in response to hard-to-fill vacancies (32%) (see Figure 14).

Education and healthcare are two industries with the highest level of hard-to-fill vacancies. In response, employers in these industries have increased the duties of existing staff (43% and 40% respectively), above the level for all employers. There is no surprise then that the strikes of late have not only centred around pay but also the working conditions and high workload within these industries.

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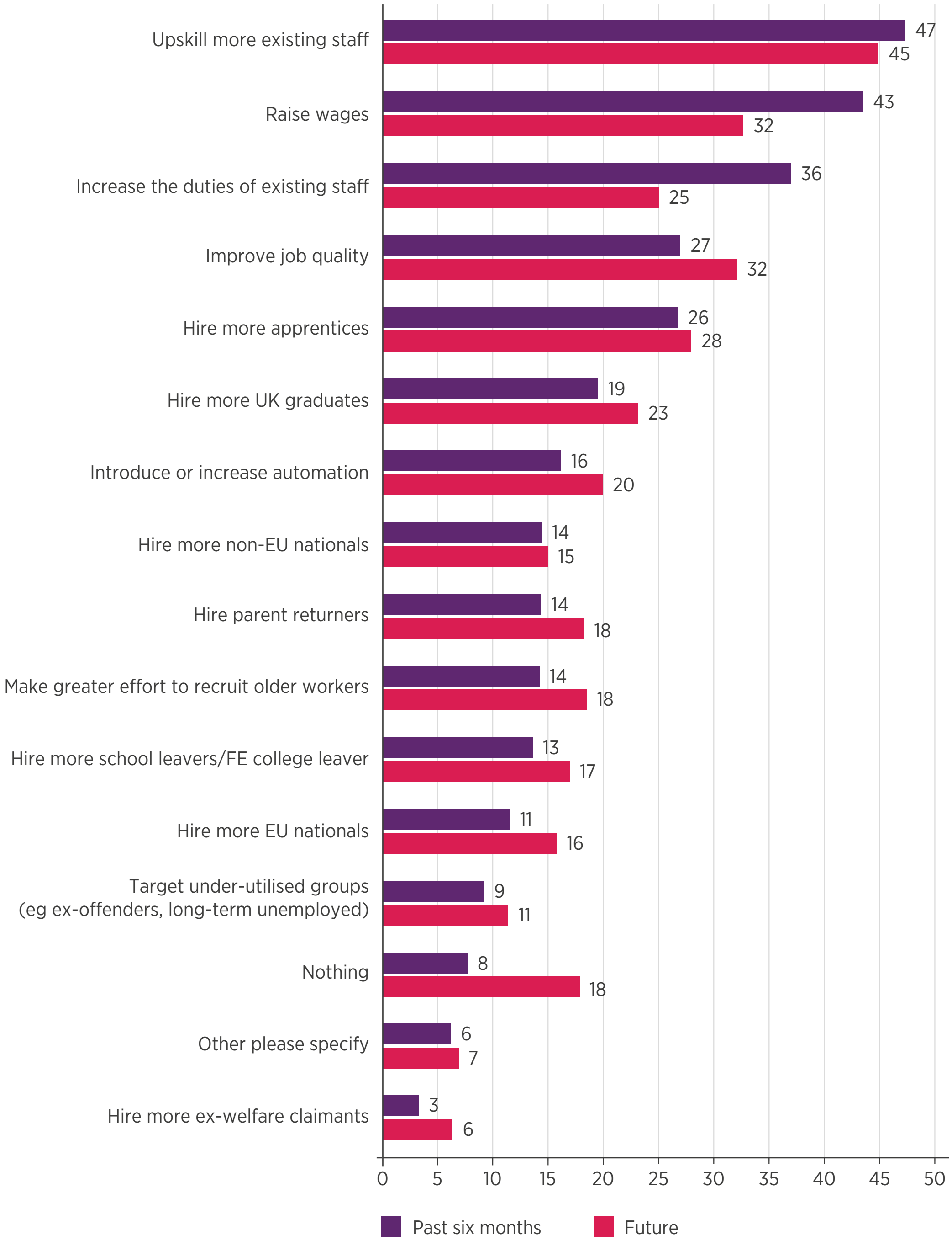
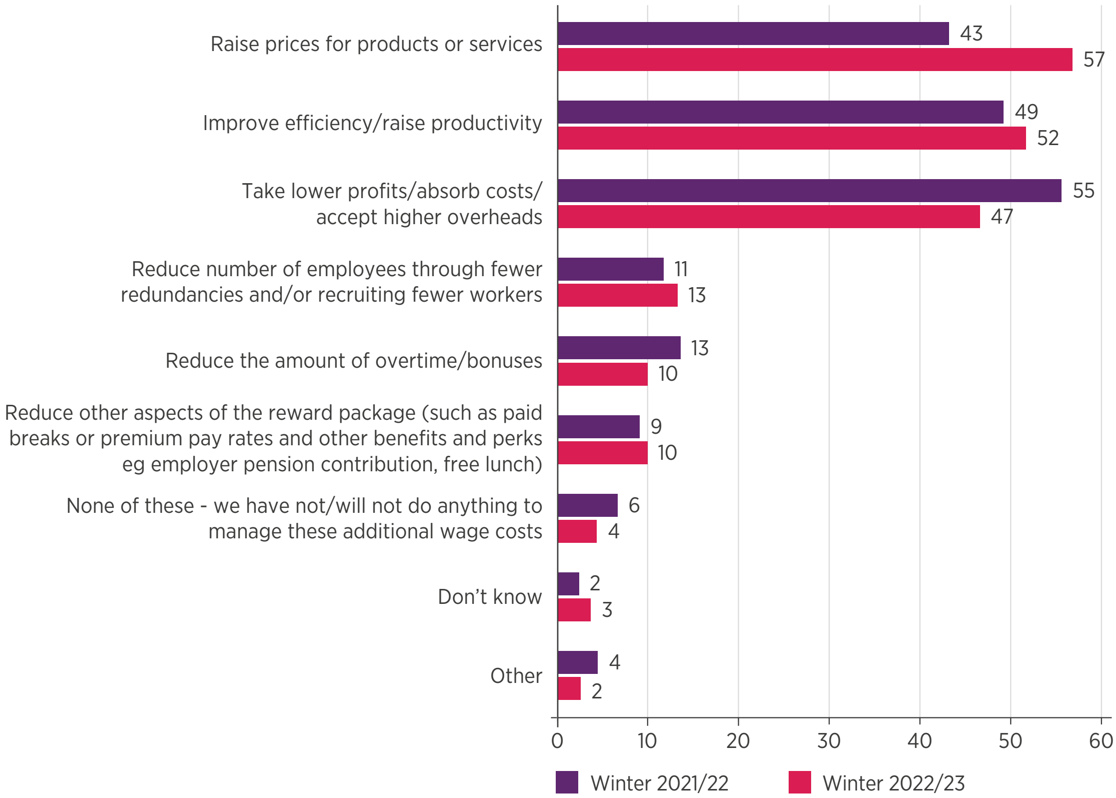
Figure 14: Employers' planned response to hard-to-fill vacancies (%)



Base: winter 2022/23, all employers with hard-to-fill vacancies (n=1,133).

The way employers are managing additional wage costs has changed from this time last year. Of the organisations who have raised wages over the past six months or plan to raise wages in response to having hard-to-fill vacancies, 57% plan to raise prices for their products or services. This is compared with 43% last year. In the winter 2021/22 LMO, employers were most likely to take lower profits and absorb these additional costs and overheads (55%). This has fallen to 47% in this quarter's data. Taken together this suggests inflation will likely become more embedded in the economy and firms are either unwilling (or unable) to finance the wage rises internally.

Figure 15: Employers' plans to address higher wages (%)



Base: winter 2021/22 (n=228) and winter 2022/23 (n=557), employers who have raised wages over the past six months or plan to raise wages in response to having hard-to-fill vacancies.

Employer hiring intentions of groups with barriers to work

In the last three years, around six in 10 employers hired someone aged 50–64 (63%) or someone with an ethnic minority background (59%). Fifty-two per cent of employers also hired someone aged 19–24 with few or no qualifications.

Many employers plan to continue to hire from these groups in the next three years; however, they also appear more receptive to hiring those who are returning to the workplace after having time out of the labour market (36%). This is for reasons other than having a child – for example, because of other caring responsibilities or a health condition. This is important given rising inactivity as a result of a health condition.

A higher level of employers also plan to hire people with a history of long-term unemployment (23%), carers (20%), war veterans (21%), refugees (16%) and ex-offenders (12%), than have done so in the past three years. Despite this, 29% of employers don't know whether they plan to hire from any of the listed groups in the next three years.

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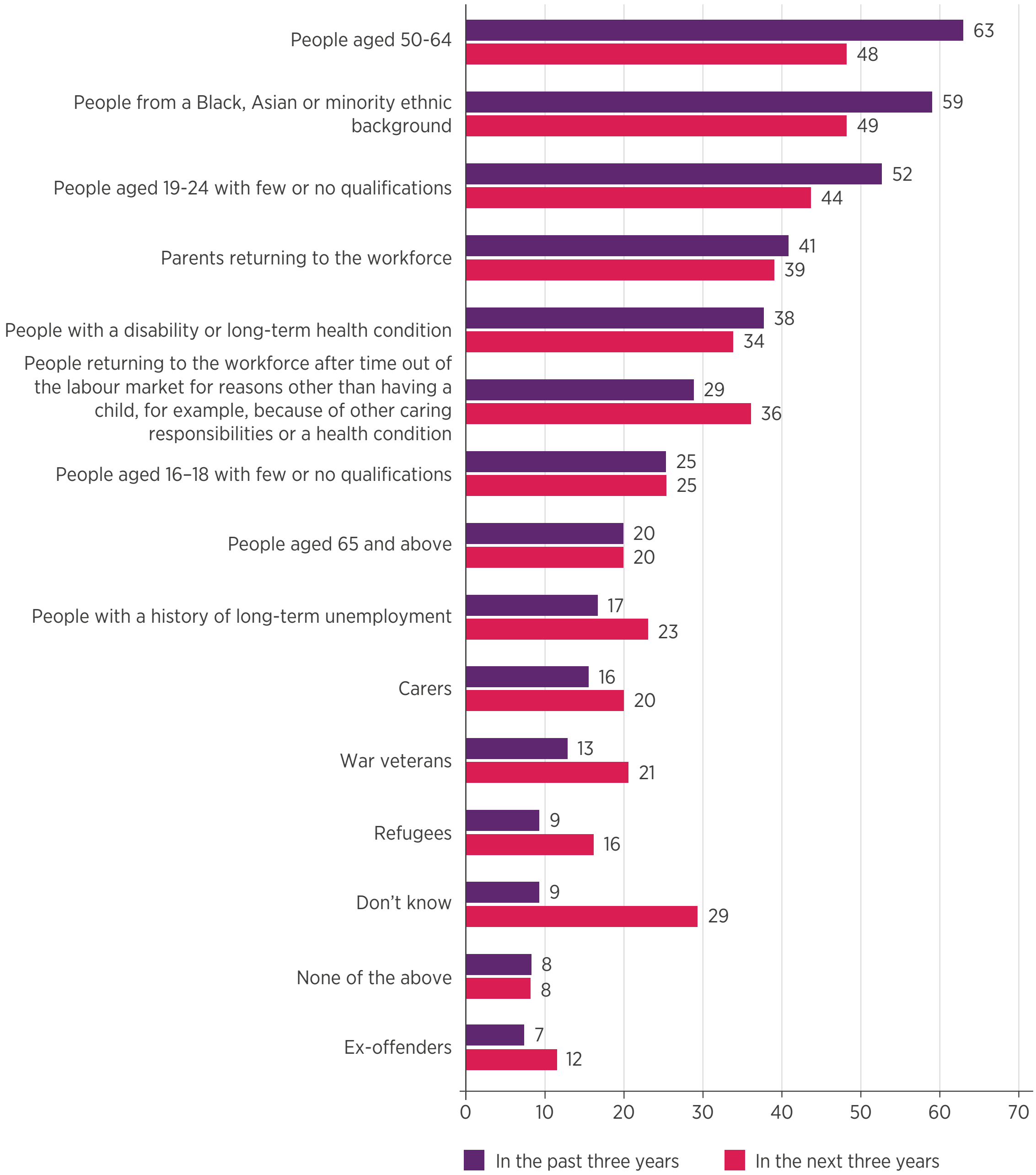
Figure 16: Employers' hiring intentions of groups with barriers to work (%)



Base: winter 2022/23, all employers (n=2,012).

Further reading and practical guidance

- **CIPD | Resourcing and talent planning report**
  Trend analysis and benchmarking data on recruitment, workforce planning and retention.

- **CIPD | Employer views on skills policy in the UK**
  An analysis of the effectiveness of the skills system and whether it meets current and future needs.

- **CIPD | Employers' guide to youth employment and UK training programmes**
  Advice for organisations seeking to help young people access employment and training opportunities.

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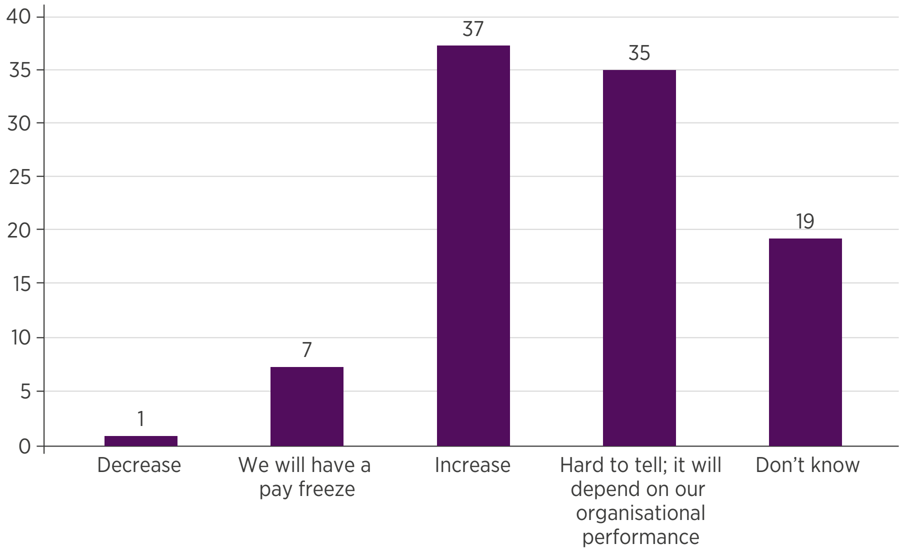
5 Pay outlook

Of those employers planning a pay review, an increase in pay is the most common response at 37%. A similar proportion (35%) think it is hard to tell (dependent on organisational performance), and one in five (19%) do not know. Seven per cent expect a pay freeze and only 1% expect a decrease (see Figure 17).

Figure 17: Employers' expected direction of pay award (%)



Base: winter 2022/23, all employers planning a pay review in the next 12 months (n=1,714).

The median expected basic pay increase stands at 5% for all employers, the highest overall net figure in the LMO's current time series dating back to 2012. This is up from 4% in the previous quarter. Expected pay awards in both the private sector and voluntary sector also stand at 5%, with the remaining at the same level as the previous quarter. The figure for the public sector has fallen to 2%, down from 3% in the previous quarter (see Figure 18). Both are stark in comparison with the current rate of CPI inflation, which stands at 10.5%.[5]

It should be noted that the average basic pay award covered in this analysis is only one pay component. Many people will also benefit from incremental progression, bonuses, or a pay bump when switching jobs. For this reason, growth in median earnings is likely to be higher than this metric suggests.

[5] Payne, C. (2022) Consumer price inflation, UK: December 2022. *Office for National Statistics*. 18 January

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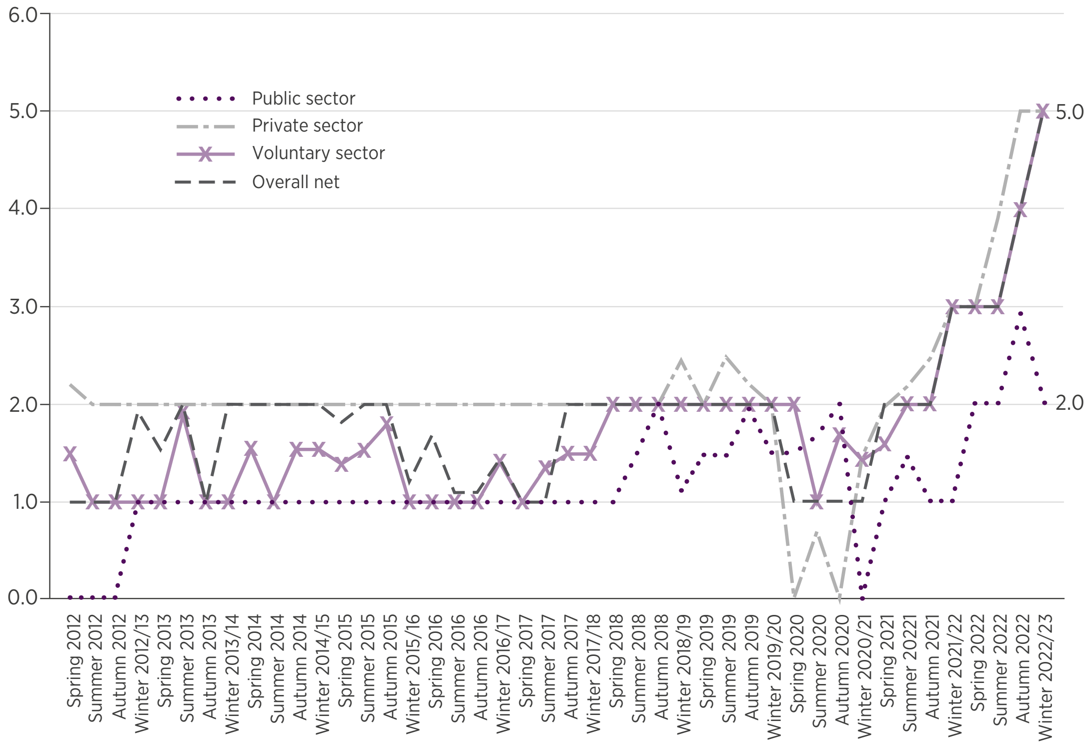
Figure 18: Median basic pay increase expectations – median employer



Base: winter 2022/23, all employers expecting and able to estimate a pay award (n=786; private: n=582; public: n=130; voluntary: n=74).

One year ago, 35% of employers said they plan to raise pay in order to better recruit and retain staff. Now half (48%) of employers plan to do so, as the jostle for talent continues. A third (32%) of organisations last year were not planning to change their pay and benefits to recruit and retain staff; this has now fallen to just one in five employers (22%).

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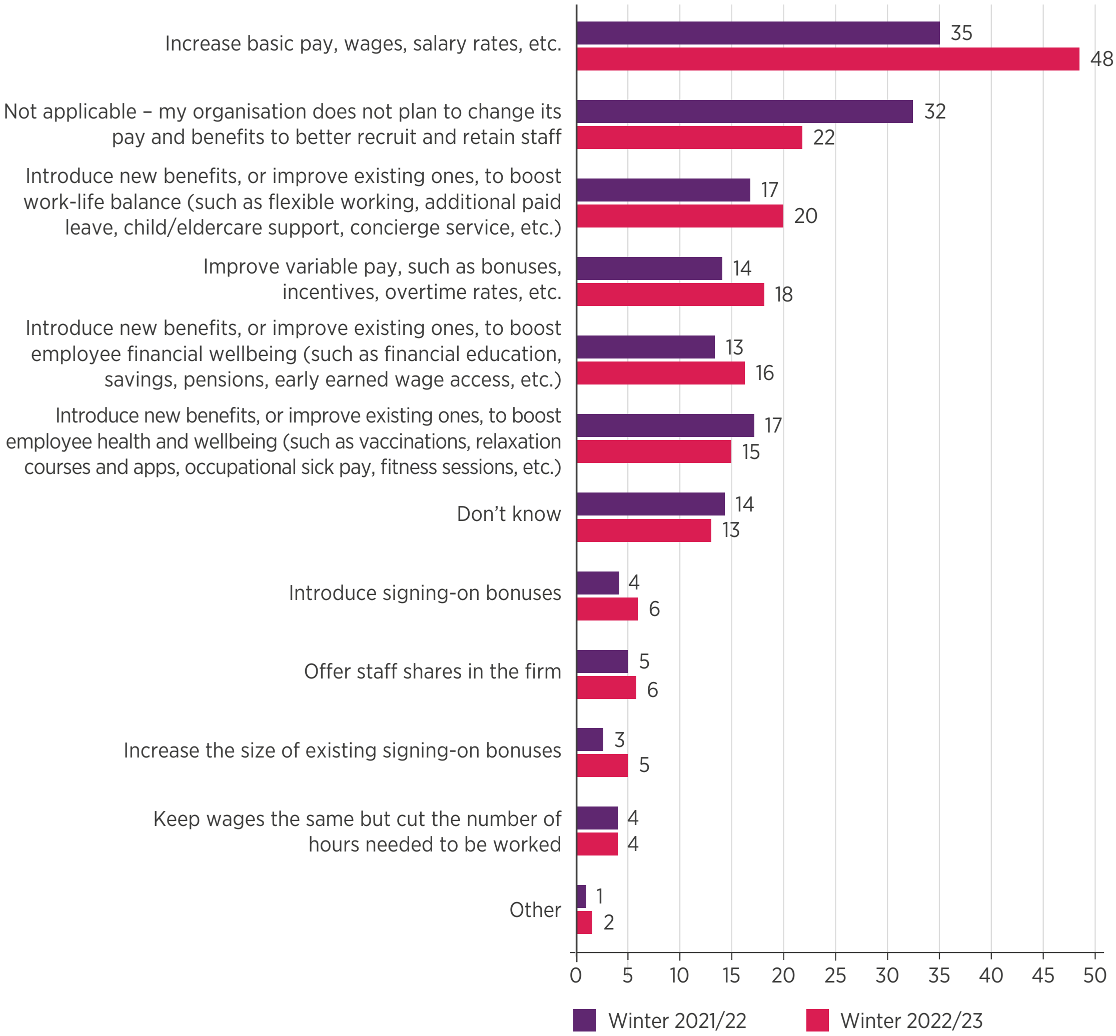
Figure 19: Planned actions with regards to pay and benefits to better recruit and retain staff in the next 12 months (%)



Base: winter 2021/22 (n=1,006) and winter 2022/23 (n=2,012), all employers.

Since the start of 2022, 15% of all employers report that the number of staff either reducing their contributions to the workplace pension scheme, or opting out entirely, has increased. By contrast, 45% of all respondents report there has been no change, 5% say that the proportion has fallen, with the rest (34%) unable to say. Part of the increase in workers either opting out of pension saving, or reducing their contributions, is probably linked to the rise in the cost-of-living since last year.

Further reading and practical guidance

- CIPD | **Employee financial wellbeing: A practical guide**
  Guidance for HR practitioners and employers to support their employees' financial wellbeing.
- CIPD | **Employee pay**
  Resources on the fundamentals of employee reward and pay, its structure and progression, the UK's minimum wage, bonuses and incentives, and employee attitudes to pay.
- CIPD | **Employee benefits**
  Resources to help you develop your employee benefits to support your organisation's business goals.
- CIPD | **Strategic reward and total reward**
  A factsheet examining the design and development of a reward strategy, plus guidance on the principles to consider.

6 Survey method

All figures, unless otherwise stated, are from YouGov Plc. The total sample size was 2,012 senior HR professionals and decision-makers in the UK. Fieldwork was undertaken between 3 January and 25 January 2023. The survey was conducted 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 *BEIS Business Population Estimates for the UK and Regions 2022*. 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	363
10–49	393
50–99	157
100–249	206
250–499	192
500–999	163
1,000 or more	538

Table 2: Breakdown of sample, by sector

Sector	Count
Private sector	1,502
Public sector	363
Third/voluntary sector	147

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Table 3: Breakdown of sample, by industry

Industry	Count	Count with Hard-to-fill vacancies
Manufacturing	176	91
Construction	100	48
Primary and utilities	71	58
Education	211	154
Healthcare	154	118
Wholesale, retail and real estate	129	42
Transport and storage	49	24
Information and communication	138	72
Finance and insurance	162	86
Business services (eg consultancy, law, PR, marketing, scientific and technical services)	256	145
Hotels, catering and restaurants/Arts, entertainment and recreation	105	51
Administrative and support service activities and other service activities	177	86
Public administration and other public sector	118	73
Police and armed forces	19	13
Voluntary	19	72

Table 4: Breakdown of sample, by region

Region	Count
Scotland	116
Wales	70
Northern Ireland	28
Northwest England	155
Northeast England	52
Yorkshire and Humberside	130
West Midlands	130
East Midlands	97
Eastern England	98
London	349
Southwest England	121
Southeast England	222
All of the UK	444

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