



LABOUR
MARKET

OUTLOOK

VIEWS FROM
EMPLOYERS

Winter 2019-20

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 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

Winter 2019-20

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1 Foreword from the CIPD

Most employers are projecting a business-as-usual approach when it comes to recruitment and retention and pay expectations. This quarter's net employment balance – which measures the difference between the proportion of employers who expect to increase staff levels and those who expect to decrease staff levels in the first quarter of 2020 – has fallen from +22 to +21 over the past three months (Figure 1). This is consistent with official labour market data, which show that employment has increased sharply in recent months. Meanwhile, median basic pay award expectations for the year ahead remain stuck at 2%.

In terms of employment, there is some variation across the sectors. On the upside, there has been a further improvement in employment intentions in the public sector over the next few months, which may reflect the public service spending manifesto commitments over the recent past. Employer optimism in the public sector, which is at its highest level for over a decade according to the survey data, contrasts sharply with the trend over the past decade. Public sector employment saw a fall of more than 300,000 people between September 2009 and September 2019 according to the latest official data, which has been mirrored by the LMO survey data. As a result, the public sector's share of the workforce looks set to increase in line with the rest of the economy for the first time in over a decade. This should boost female employment prospects given the higher share of women employed by the public sector overall.

At the same time, there has been a clear deterioration in hiring intentions in some parts of the private sector over the next few months, especially in manufacturing. Nonetheless, taken together, these results make it more likely that the recent strong employment growth will continue in the first half of 2020.



Consistent with previous reports, the tightening labour market is making little difference to pay pressure, with median basic pay award expectations stuck at 2%. However, the mean basic pay expectations have risen to 3.1%, driven by expected increases of 3.5% in the private sector. Affordability remains the key factor behind the relatively sluggish growth in terms of median basic pay expectations, which is not surprising given the UK's persistent weak productivity growth.

Gerwyn Davies, CIPD Senior Labour Market Analyst

2 Foreword from the Adecco Group UK and Ireland

After a politically unsettled 2019, the first *Labour Market Outlook* of this year looks back over a quarter in which a general election took place and Brexit became a certainty. Despite an unsettled climate, most employers project it will be business as usual in the first months of the year and overall employment confidence about Q1 of this year decreased just one point on the previous quarter, from +22 to +21.

Ongoing high employment rates are making it more difficult for businesses to fill roles, with 38% of organisations saying they have been prevented from filling a permanent role in the last 12 months and 30% finding it more difficult to fill vacancies during the same period. The good news is that they're using a broad range of tactics to tackle recruitment challenges, including upskilling, apprenticeships, and hiring from more unconventional talent pools.

The most popular tactic to address recruitment challenges is to make greater efforts to hire from the local workforce (47%); and this is followed by widening recruitment efforts across the region or the UK (36%). 31% Thirty-one per cent are hiring people on temporary or fixed-term contracts to fill the gap, which may be part of a larger trend towards more flexible working relationships. It's really positive to find so many businesses upskilling and cross-skilling their workforces at this time, with 24% of employers saying that they have increased training investment in existing employees to help offset hard-to-fill vacancies.

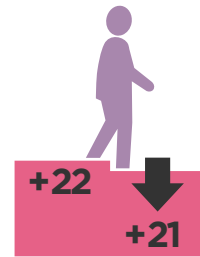
Another popular approach to tackling hard-to-fill vacancies is to hire more apprentices, which I am thrilled to see, being as I am a huge advocate of apprenticeships and the career opportunities which that they afford. 19% Nineteen per cent of all organisations, and 27% of large organisations, have offered more apprenticeships during the last 12 months. In what might appear as more of a trend in the post-Brexit climate, only 7% of employers report hiring non-UK nationals and just 15% said they have tried to recruit from the EU. Interestingly, 13% of organisations are looking to hire more mature employees and 9% more parent returners. The likely future challenges of hiring internationally brings a positive focus to the UK workforce and specifically to more diverse talent sources, which is a promising start to 2020.



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

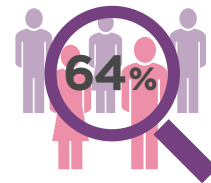
3 Key points

1 The net employment score – our measure of employment confidence over the next quarter – has decreased from +22 to +21. The score is highest in healthcare (+28), construction (+27) and the voluntary sector (+23).



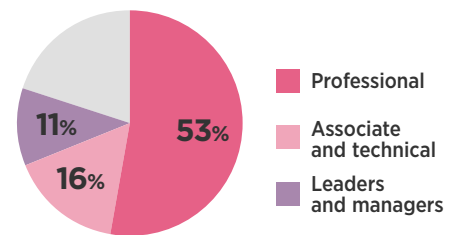
Net employment score

2 Among employers who currently have vacancies in their organisation, around two-thirds (64%) report that at least some of these vacancies are proving hard to fill.



Hard to fill vacancies

3 The greatest volume of permanent roles employers have been unable to fill during the past 12 months is in professional occupations (53%), followed by associate professional and technical occupations (16%) and managers, directors and senior officials (11%). A very small share of employers say they have been unable to fill lower-skilled roles such as elementary occupations (2%), administrative and secretarial occupations (2%) and process, plant and machine operatives (3%).



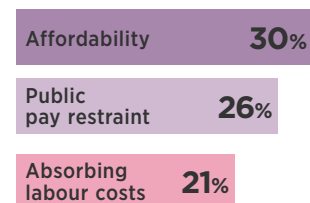
Permanent roles not filled

4 Median basic pay expectations in the 12 months to December 2020 are 2%. The expected median basic pay settlement among private sector employers planning to have a pay review is 2% compared with 1.5% in the public sector.



Median basic pay expectations

5 Affordability (30%), public sector pay restraint (26%) and absorbing labour costs (21%), such as the National Living Wage, are reported to be the key factors inhibiting higher wage growth.



Biggest inhibitors of wage growth

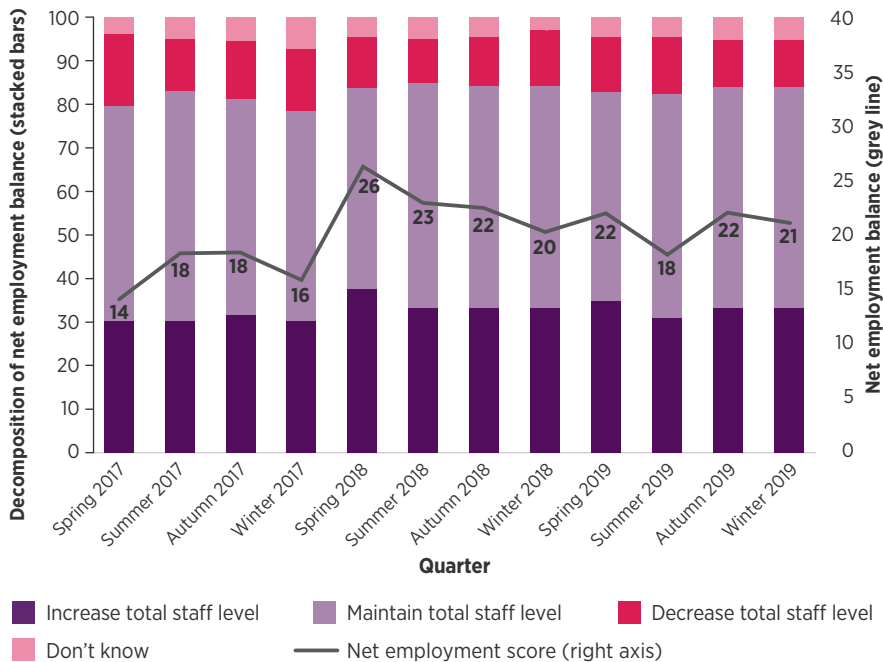
4 Recruitment and redundancy outlook

What is the short-term employment outlook?

This section focuses on the recruitment and redundancy intentions of employers in the first quarter of 2020. 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.

Consistent with official data, the score generated a positive score of +21, very similar to the +22 score in the autumn 2019 report. This is in line with a stable labour market and official data.

Figure 1: Breakdown of the net employment score over time

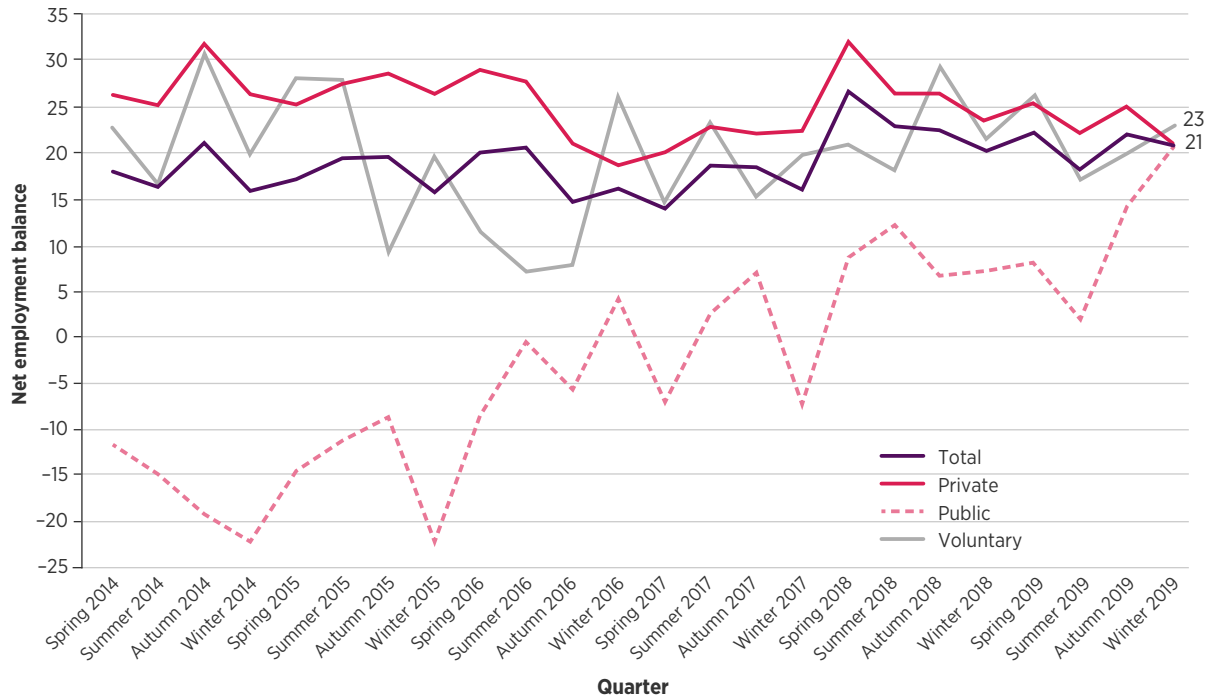


Base: winter 2019-20, all employers (n=1,024).

How to interpret Figure 1

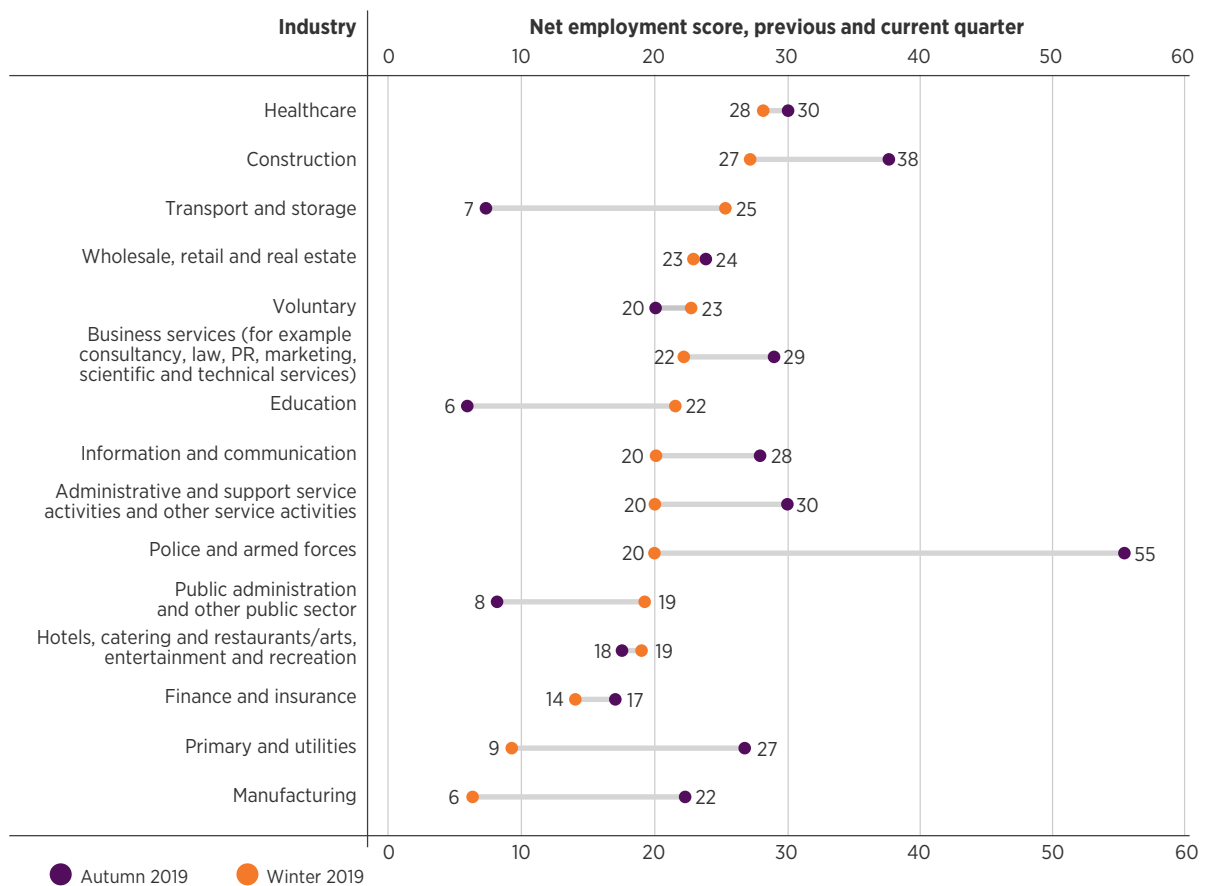
The net employment balance is an indicator of employment confidence. It takes the difference between the proportion of employers who expect to increase staff levels and those who expect to decrease staff levels. Figure 1 contains the net employment balance over time to show how employment confidence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

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



Base: winter 2019-20, all employers (total n=1,024; private n=763; public n=185; voluntary n=76).

Figure 3: Net employment score, by industry, previous and current quarter (%)



Base: all bases > 49. For breakdown of base sizes see Table 3.

Looking in more detail across sectors, the public sector has improved greatly, recording a net employment balance of +21 compared with +14 in the autumn 2019 report. The net balance for the public sector is at its highest level for over a decade. This reflects the slowing rate of job losses and quickening rate of job creation in the public sector in recent months according to the latest official data. Employment growth is projected to be strong across all parts of the public sector, including the NHS (+26), education (+22), the police and the armed forces (+20) and public administration (+20).¹ Employment prospects have also risen from +19 to +23 in the voluntary sector.

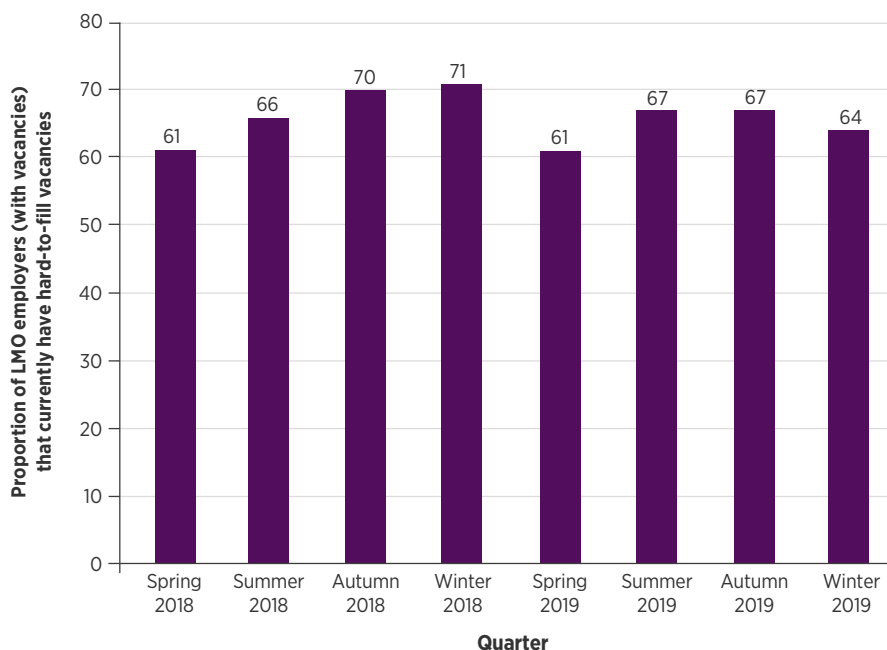
In terms of the private sector, the net employment score has fallen from +25 to +21 over the past three months. This includes a significant fall in the net balance for the manufacturing sector, albeit the score is still positive, from +22 in autumn 2019 to +6 in winter 2019–20. Overall, employment growth prospects are most buoyant in healthcare (+28), construction (+27) and the voluntary sector (+23).

5 Job vacancies

Hard-to-fill vacancies

Against the backdrop of buoyant demand for labour, it is no surprise that many organisations are having difficulty filling vacancies. Among employers who currently have vacancies in their organisation, around two-thirds (64%) report that at least some of these vacancies are proving hard to fill, slightly lower than in the autumn 2019 (67%) and summer 2019 (67%) reports. The share of employers with recruitment difficulties is higher in the public sector (65%) and private sector (65%) than in the voluntary sector (53%). On average, organisations with hard-to-fill vacancies report that two in five (40%) of their total vacancies are proving hard to fill, which is broadly consistent with recent reports.

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

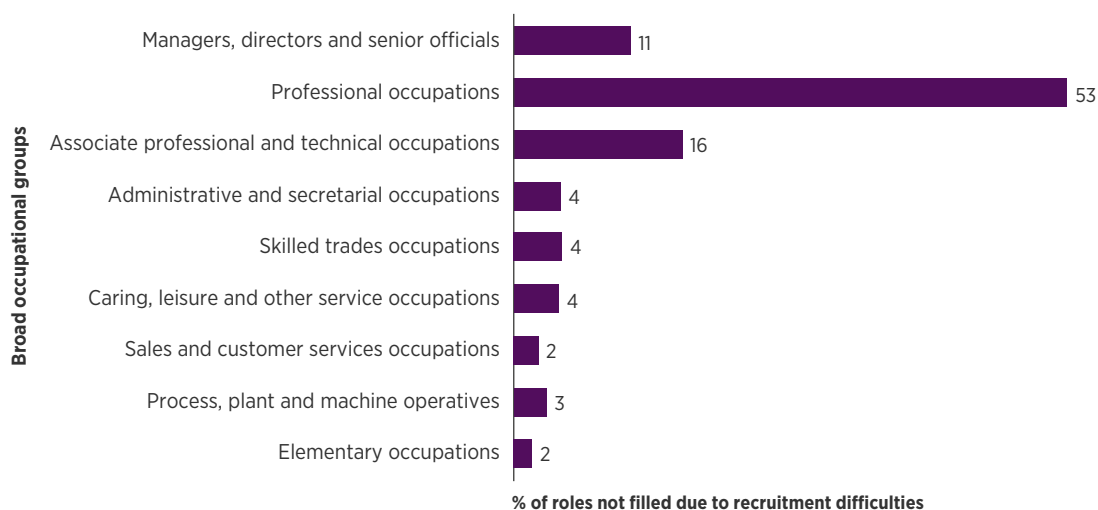


Base: winter 2019–20, all employers with vacancies (n=1,024).

¹ Please note the categories have been modified slightly to reflect the public sector employment figures more accurately.

Almost four in ten (38%) employers reported that recruitment difficulties had left them unable to fill a vacancy for a permanent role during the previous 12 months. The share of organisations reporting this is much higher in the public sector (55%) than in the private (36%) or voluntary sector (26%).

Figure 5: Roles not filled in the past 12 months due to recruitment difficulties, by broad occupational group (%)

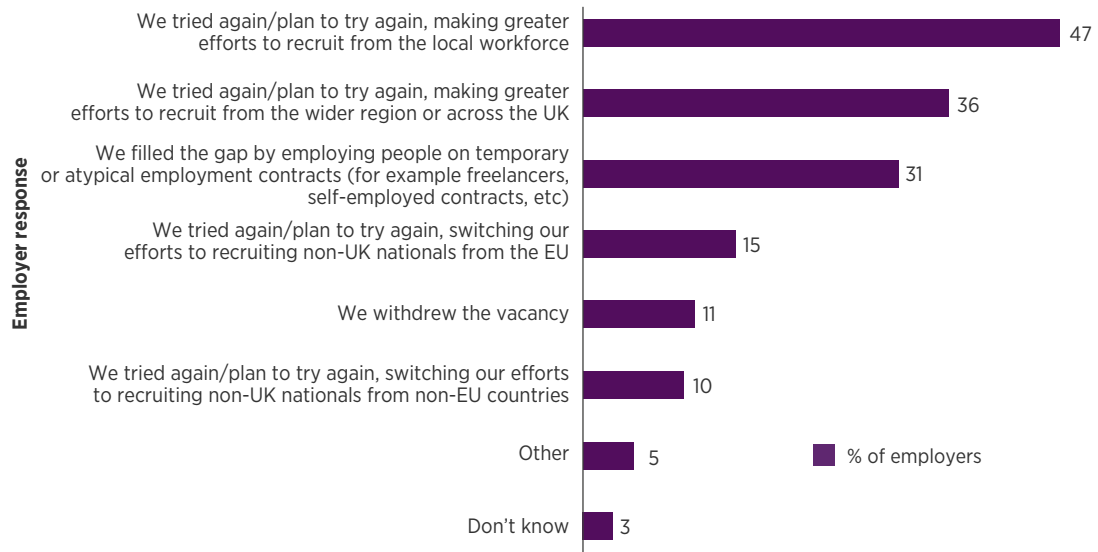


Base: winter 2019–20, all employers prevented from filling a permanent role due to recruitment difficulties during the past 12 months (n=391)

Figure 5 illustrates how recruitment difficulties differ for each major occupational group. Employers report the greatest volume of permanent roles they have been unable to fill lies in professional occupations (53%), followed by associate professional and technical occupations (16%) and managers, directors and senior officials (11%). By comparison, relatively few employers have experienced hiring difficulties for low-skilled or unskilled roles. The most prevalent permanent roles employers have been unable to fill are in healthcare, engineering, teaching and IT.

Employers' response to such difficulties has been to make greater efforts to recruit from the UK workforce. Almost half (47%) of organisations report making greater efforts to recruit from the local workforce compared with just over a third (36%) who have widened their search to the local region or across the UK. Around a third (31%) of employers have filled the gap by employing temporary workers or those on atypical employment contracts. Relatively few organisations have turned to migrant labour from overseas, including 15% of organisations who made efforts to recruit from within the EU and one in ten (10%) who looked outside the EU.

Figure 6: Actions taken to address inability to fill permanent roles (%)



Base: winter 2019-20, all employers prevented from filling a permanent role due to recruitment difficulties during the past 12 months (n=391).

What have organisations done to address recruitment difficulties in the last two years?

The vast majority of organisations are currently taking steps to tackle recruitment difficulties. As Figure 7 illustrates, increasing investment in skills remains at the forefront of many organisations’ approaches to tackling recruitment difficulties. Around a quarter (24%) of employers say that they increased training investment to help offset hard-to-fill vacancies. Private sector organisations (25%) are significantly more likely than public sector organisations (16%) to be planning to upskill existing staff to address hard-to-fill vacancies. The second most popular employer response has been to hire more apprentices (19%), where again there is some variation across sectors. More than a quarter (27%) of large organisations have offered more apprenticeships compared with around one in ten (9%) of all employers, which suggests that the apprenticeship levy is acting as a catalyst for more activity among large organisations. Meanwhile, almost three in ten (29%) public sector employers report that they have offered more apprenticeships during the last two years. Additionally, other popular measures include improving the brand of the organisation (17%), introducing or improving a workforce planning strategy (16%) and improving employment conditions (15%). Only 7% of employers report hiring non-UK nationals, which is lower than the share of employers who say they have sought to hire more older workers (13%) and parent returners (9%).

Figure 7: Measures employers have adopted to improve recruitment and retention during the past two years (%)



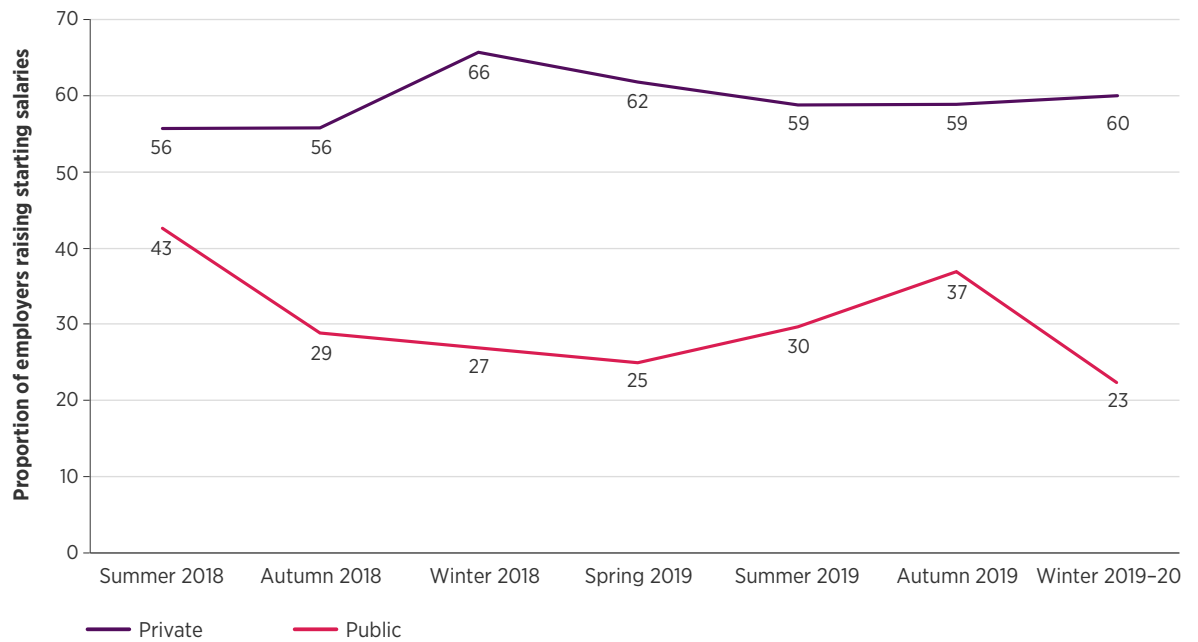
Base: winter 2019-20, all employers (n=1,024).

How are recruitment pressures changing?

Three in ten LMO employers (30%) report that it has become more difficult to fill vacancies at their organisation during the past 12 months. Almost half (59%) of establishments say there has not been any change, and just 5% report that it has become less difficult. The share of employers reporting rising recruitment pressures is highest in healthcare (41%), construction (41%) and public administration (38%).

Response to recruitment and retention difficulties

Figure 8: Proportion of employers raising starting salaries in response to recruitment difficulties (%)



Base: winter 2019-20 (public n=80; private n=237).

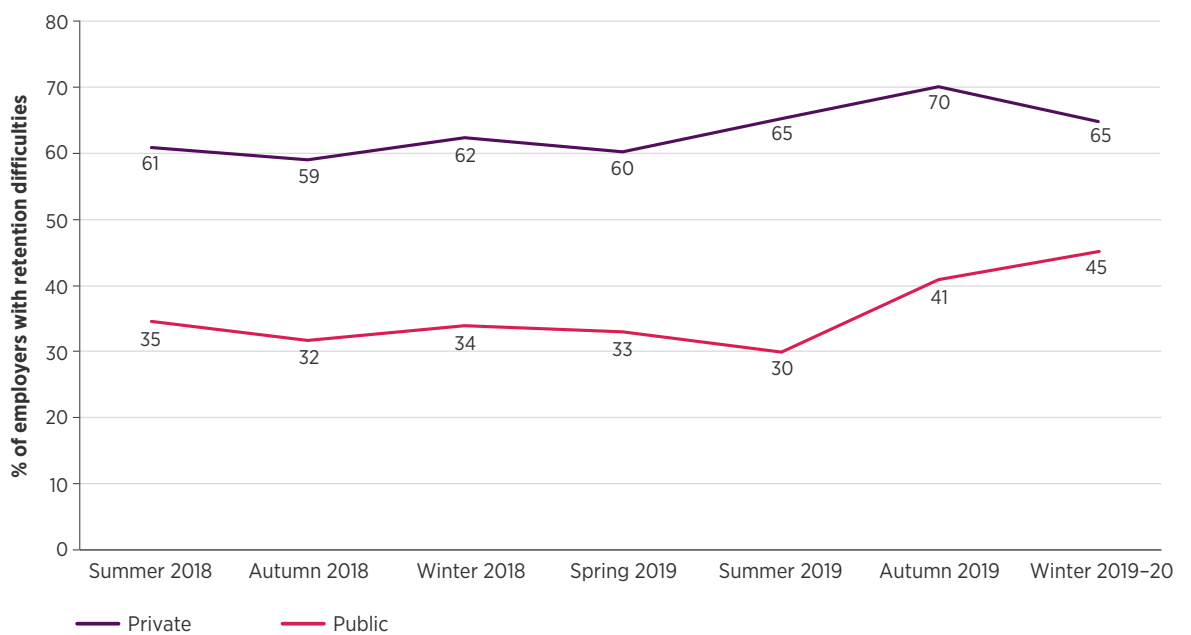
Just over half (51%) of organisations that have experienced increased difficulty filling vacancies during the past 12 months have increased starting salaries in response. Just over a quarter (26%) have done so for a majority of vacancies, and a similar proportion (25%) have done so for a minority of vacancies. Organisations in the private sector (60%) are much more likely to have increased starting salaries than those in the public (23%) and voluntary (42%) sectors.

Meanwhile, just three in ten LMO employers (30%) report that it has become more difficult to retain staff at their organisation over the past 12 months. Almost one in ten (8%) say it has become less difficult, while the majority say there has been no change (59%).

Among organisations that have experienced increased difficulty retaining staff over the past 12 months, just over half (58%) have increased salaries. Of those organisations that have responded by raising wages, a third (33%) have increased salaries for a majority of staff, while a quarter (25%) of establishments have raised wages for key staff only.

Employers in the private sector (65%) are much more likely than those in the public (45%) or voluntary (24%) sectors to have increased salaries for existing staff in response to heightened retention pressures.

Figure 9: Proportion of employers raising salaries in response to retention difficulties (%)



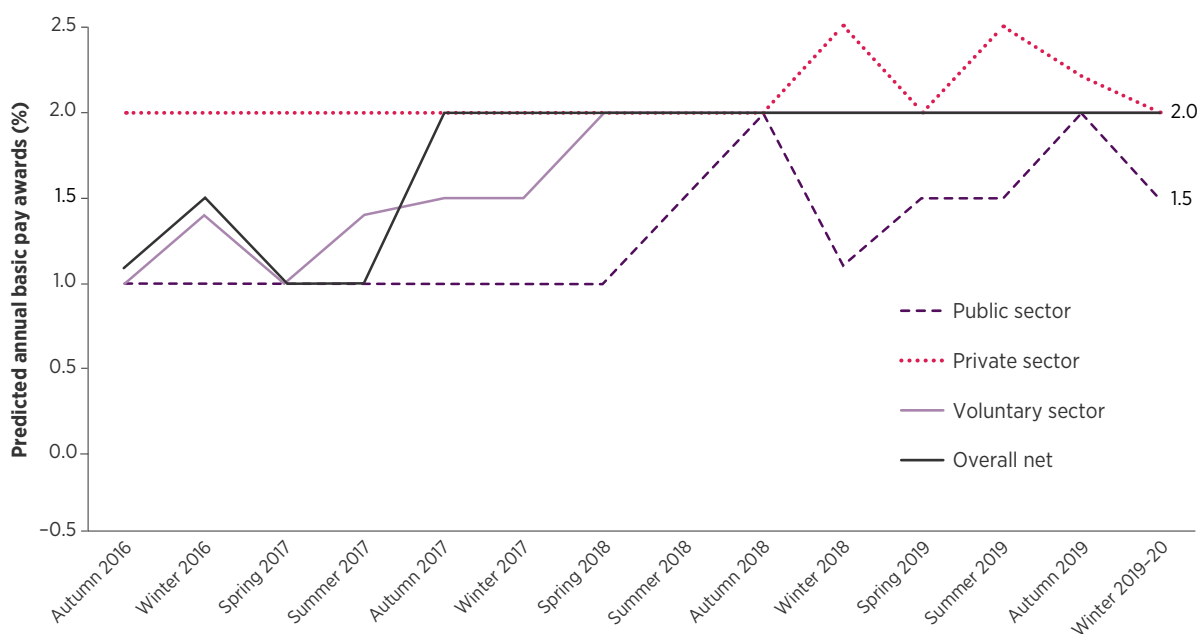
Base: winter 2019-20 (public n=73; private n=191).

6 Pay outlook

Pay award intentions

The planned median basic pay increase over the 12 months to December 2020 is 2%, which is consistent with previous reports. The survey has shown remarkable underlying consistency over time, with overall median pay increases around 2%. Basic pay growth expectations are higher in the private sector (2%) than in the public sector (1.5%). At the same time, mean basic pay expectations have risen to 3.1%, driven by expected increases of 3.5% in the private sector. The explanation behind the gap between the median and mean figures is that a small proportion of private sector employers expect to give very generous pay award increases in the 12 months to December 2020.

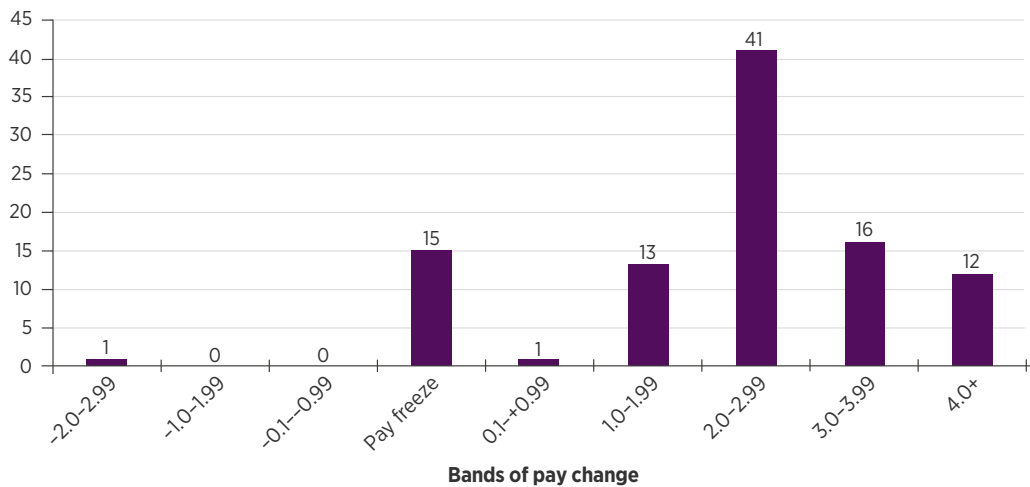
Figure 10: Median expected average basic pay change with pay freeze included



Base: winter 2019-20, all employers who report an expected increase, decrease or pay freeze in the next 12 months (total n=459; private n=324; public n=98; voluntary n=37).

Looking at the distribution of pay awards, more than four in ten (41%) employers anticipate a basic pay increase of 2-2.99% in the 12 months to December 2020, which is consistent with median basic pay expectations of 2%. Meanwhile, more than a quarter (28%) of employers expect awarding a basic pay increase of 3% or more, while 15% expect a pay freeze.

Figure 11: Distribution of forward-looking basic pay settlements, winter 2019-20 (%)



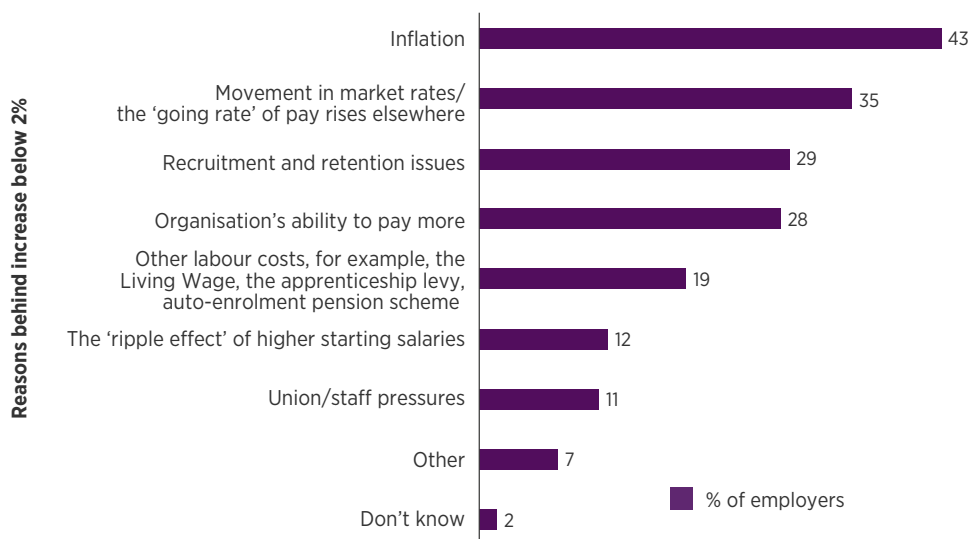
Base: winter 2019-20, all employers who report an expected increase, decrease or pay freeze in the next 12 months (n=459).

What are the factors behind employers’ basic pay decisions?

We look in more detail at what employers who said they expect to pay more than 2% and those who said they expect to pay less than 2% or impose a pay freeze or pay cut said were the most important factors behind those decisions. Note that this analysis is confined just to those employers who said they could give a figure for expected changes in basic pay over the next 12 months.

Employers report that inflation (43%) and the movement in market rates (35%) are the key factors behind their ability to at least match the Bank of England inflation rate target of 2% in their basic pay award. Other key reasons include recruitment and retention pressures (29%), affordability (28%) and other labour costs (19%), which include the National Living Wage.

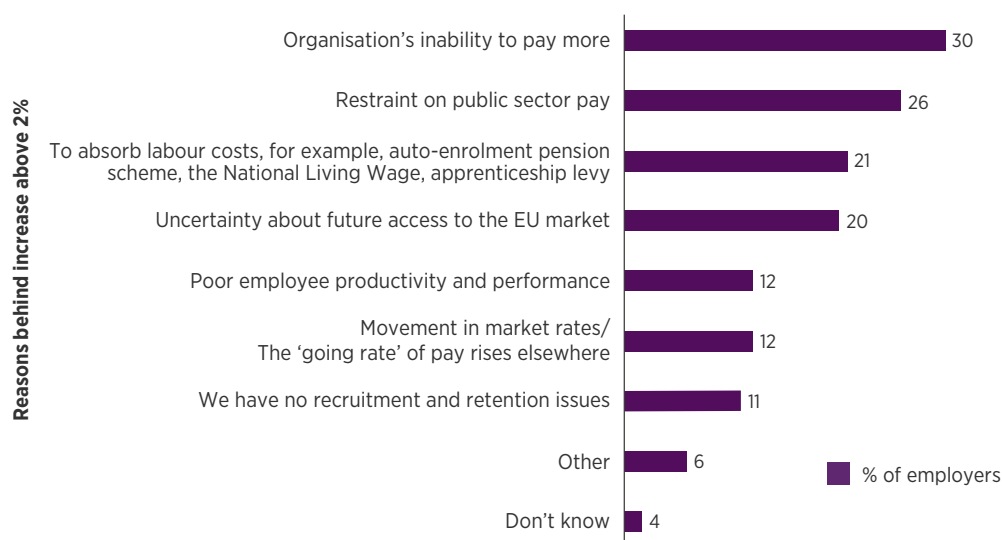
Figure 12: Top reasons for increase in average basic pay by 2% or more (%)



Base: winter 2019-20, all employers who expect their organisation’s basic pay will increase by 2% or more (n=319).

At the other end of the scale, employers who said they would offer less than 2% or impose a pay freeze or cut showed little change in the factors they thought were most important. Affordability (30%), public sector pay restraint (26%) and absorbing labour costs (21%), such as the National Living Wage, are reported to be the key factors inhibiting higher wage growth.

Figure 13: Top reasons for increase in basic pay below 2%



Base: winter 2019–20, all employers who expect their organisation's basic pay will increase by less than 2% (n=140).

7 Survey methodology

All figures, unless otherwise stated, are from YouGov Plc. The total sample was 1,024 senior HR professionals and decision-makers in the UK. Fieldwork was undertaken between 3 and 24 December 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 | 160 |
| 10–49 | 194 |
| 50–99 | 83 |
| 100–249 | 101 |
| 250–499 | 83 |
| 500–999 | 68 |
| 1,000 or more | 335 |
| Total | 1,024 |

Table 2: Breakdown of sample, by sector

| Sector | Count |
|------------------------|--------------|
| Private sector | 763 |
| Public sector | 185 |
| Third/voluntary sector | 76 |
| Total | 1,024 |

Table 3: Breakdown of sample, by industry

| Industry | Count |
|---|--------------|
| Voluntary | 76 |
| Manufacturing | 85 |
| Construction | 51 |
| Primary and utilities | 20 |
| Education | 112 |
| Healthcare | 79 |
| Wholesale, retail and real estate | 69 |
| Transport and storage | 30 |
| Information and communication | 49 |
| Finance and insurance | 113 |
| Business services (eg consultancy, law, PR, marketing, scientific and technical services) | 125 |
| Hotels, catering and restaurants/Arts, entertainment and recreation | 60 |
| Administrative and support service activities and other service activities | 90 |
| Police and armed forces | 5 |
| Public administration and other public sector | 60 |
| Total | 1,024 |

Table 4: Breakdown of sample, by region

| Region | Count |
|--------------------------|-------|
| North-east of England | 30 |
| East Midlands | 53 |
| West Midlands | 67 |
| Scotland | 49 |
| London | 178 |
| South-west of England | 66 |
| East of England | 50 |
| Wales | 41 |
| South-east of England | 148 |
| North-west of England | 74 |
| Yorkshire and Humberside | 53 |
| Northern Ireland | 12 |



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Incorporated by Royal Charter
Registered as a charity in England and Wales (1079797)
Scotland (SC045154) and Ireland (20100827)

Issued: February 2020 Reference: 7987 © CIPD 2020