



Quarterly survey report
Winter 2006–07

A decorative graphic composed of numerous thin, parallel purple lines that curve and fan out from the left side of the page towards the right, creating a sense of movement and depth.

Labour market outlook

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Summary of key findings

Labour Market Outlook is based on a quarterly survey, usually of around 1,000 CIPD members (this quarter 1,369). This quarter's survey is also, for the first time, supplemented by observations drawn from two focus groups of CIPD members.

Recruitment and redundancy outlook

- Eighty-two per cent of employers surveyed will be recruiting staff this winter, up from 79% in the autumn quarter. Fifteen per cent of employers will be recruiting staff to HR roles.
- Forty-two per cent of employers surveyed intend to recruit additional staff (that is, over and above replacement recruitment) this quarter, the proportion having remained at a broadly steady level since spring 2006. While net recruitment intentions are strongest in private sector services, they have weakened slightly in the sector since the autumn survey (down from 56% to 52%). By contrast, there has been a quarterly rise in the proportion of employers in the manufacturing and production sector intending to recruit additional staff (up from 45% to 50%). Wales tops the regional recruitment intentions league at 44%.
- Forty-six per cent of employers surveyed anticipate recruitment difficulties this quarter, a higher proportion than the autumn figure (44%).
- There is an increase in the proportion of employers intending to make some staff redundant – up from 20% to 23% since the autumn. The increase is evident in all broad sectors of the economy, but especially in the public services, where 30% of employers intend to make some redundancies.

Pay outlook

- Sixty-one per cent of employers surveyed will conduct a pay review between now and the spring quarter. Eight in ten employers surveyed stated their expectations of staff pay increases as a result of reviews. Of these, around a third (32%) expect pay to rise on average by 3–3.5%. Only 13% expect

pay to rise on average by 4% or above.

- Average (mean) pay increase expectations are highest in private sector services (3.44%), followed by manufacturing and production (3.20%), the voluntary sector (3.04%) and the public services (2.79%).

Medium-term employment outlook

- Forty-three per cent of employers surveyed expect their staff numbers to be about the same by winter 2008. Ten per cent expect to be employing up to 2% more staff, with the same proportion expecting staff numbers to rise by 2% or more.
- There is a 17% positive balance of employers expecting to employ more staff over those expecting to employ fewer in a year's time – an improvement on the positive balance of 13% reported in the autumn 2006 survey and slightly above the 16% positive balance reported in the summer 2006 survey.
- Employers in the private services sector report a strong positive balance of 36%. The balance is also above average in the manufacturing and production sector (23%) and the voluntary sector (20%) but strongly negative in public sector services (–20%).

Management policies relating to employees' religious beliefs

- Although the vast majority of employers surveyed have a formal diversity policy, only one in three employers have an explicit policy on managing religious beliefs in the workplace.
- The proportion of employers surveyed with an explicit policy is far higher in the public sector (55%) than in the voluntary sector (31%), private sector services (30%) and especially manufacturing and production, where fewer than one in five employers (17%) have a policy.
- Three-quarters of employers with a policy support staff in taking time off for religious observance (15% of these providing time off in addition to employees' annual leave), though two-thirds also mention being confused about which faith days

their staff will be celebrating and how. Two-thirds support people in meeting the dress codes of their religion, and just under two-thirds (61%) provide staff with time or facilities for religious observance in the workplace.

- Only around one in ten employers with a policy impose restrictions on religious dress or jewellery. And this overall proportion is higher among employers in manufacturing (about one in four impose such restrictions), usually for reasons related to health and safety.
- Almost a quarter of employers surveyed (23%) report that they have introduced or changed their policy as a result of the 2003 Regulations outlawing direct or indirect employment discrimination on grounds of religion or belief. However, 'following best practice' and 'improving employment relations' are cited as being slightly more important drivers of change than fear of litigation or the Regulations; though there appears to be little impact on staff recruitment and retention. Only 3% cite practical difficulty in implementing their policy.
- Only 1% of respondents had faced an employment tribunal claim in the past three years related to alleged religious discrimination, with similarly small proportions reporting that they had been involved in disciplinary (1%) or grievance (3%) cases related to discrimination.

For details of the research methodology and the profile of employers surveyed, see Sections 6 and 7. All the quarterly reports and other CIPD surveys are available on our website (www.cipd.co.uk).

1 Current economic and labour market indicators

Overview

The economy continues to grow at or slightly above its sustainable trend rate. Consumer price inflation has risen well above target. At a time of strong growth, uncertainty about capacity constraints, and concern that higher price inflation expectations might result in higher wage inflation, the Monetary Policy Committee (MPC) has raised interest rates to 5.25%.

Overall, labour market conditions have remained broadly stable for the past year. The number of people in employment continues to rise but, with more people in the workforce, the trend in the employment rate is flat. Although the recent upward trend in unemployment may have started to go into reverse in the autumn and early winter of 2006, official statistics also indicate that the demand for employees (especially full-time permanent employees) may have weakened. As expected, the labour hoarding of 2005 enabled output to grow faster than employment in 2006. The resulting cyclical improvement in growth in labour productivity, combined with modest increases in earnings, led to a fall in the growth rate of unit labour costs.

Looking forward, while there are signs of a pick-up in total recruitment activity, the latest CIPD/KPMG *Labour Market Outlook* survey indicates little change in the proportion of employers intending to increase total staff levels this winter. With demand for labour far from rampant relative to available supply, the survey also indicates that, contrary to some other survey evidence, higher living costs aren't set to trigger bigger pay increases.

However, compared with previous *Labour Market Outlook* surveys, a relatively high proportion of respondents (one in five) didn't state their pay expectations this quarter, perhaps indicating a bigger-than-usual degree of uncertainty in the pay outlook. Moreover, there is an increase this quarter in the proportion of employers expecting to experience recruitment difficulties, with some already finding it difficult to recruit employees with the kinds of attributes they're looking for, notwithstanding the greater availability of migrant labour. If this indicates deficiencies in the quality of available labour, quantitative measures of labour supply – such as economic activity and unemployment rates – may not be a fully accurate barometer of underlying wage pressure.

Output and demand

The Office for National Statistics' (ONS) preliminary estimate is that the UK economy grew at an above-trend rate of 0.8% in the final quarter of 2006 (Table 1) following growth of 0.7% in each of the previous three quarters. The year-on-year growth rate of real gross domestic product (GDP) to the final quarter is estimated at 2.7% (compared to a trend rate generally thought to be in the range 2.5–2.75% per annum).

The quarterly growth rate was sustained by the service sectors of the economy (the output of which expanded by 1.0). By contrast, manufacturing output was flat, while the mining and quarrying and electricity, gas and water supply industries saw output contract.

Table 1: UK economic growth to 4th quarter 2006

	GDP	Manufacturing	Total services
% change in Q4	0.8	0.0	1.0
% change in year to Q4	2.7	2.3	3.6

Source: ONS (preliminary estimates)

At the time of writing, full national accounts are available only for the period to the third quarter (Table 2).

Growth in household (that is, consumer) spending fell back from 0.9% to 0.4% in the quarter, as consumers cut their spending on electricity and gas, the price of which rose last year, and recreation and entertainments. Government current spending increased by 0.8%, while government investment increased by 3%. With the economy expanding and corporate profitability very healthy, business investment showed strong growth of 3.1% on the quarter and an increase of 8.2% over the year. But export growth was less than import growth, resulting in a quarterly rise in the net export deficit from £10.1 billion to £10.3 billion.

An inflation and tax squeeze on real household incomes combined with two quarter-point interest rate rises in August and November – taking the cost of borrowing to 5% – caused some concern that consumer spending might slow further towards the end of 2006. However, recent indicators show that the volume retail sales grew strongly in December (with Christmas period sales 3.7% higher than in 2005), although households were hit once more in January as interest rates were raised again (to 5.25%).

The current consensus view of economists is that a combination of consumer spending and business investment will continue to sustain economic growth at close to its trend rate in 2007, with a smaller contribution from government spending (as the Treasury tightens the purse strings) and exports (hampered by the strength of the pound on currency markets). This pattern will, in turn, favour output and employment in the consumer and business service sectors of the economy relative to manufacturing and the public sector.

Pessimists nonetheless remain worried about the possible impact of slower economic growth in the United States on world trade conditions – though encouraging fourth-quarter output and employment data may have assuaged some of the worst fears – and the continued risk that heavily indebted UK households may at some point make a sudden adjustment to their savings and spending behaviour, especially if interest rates are further increased and/or the housing market softens.

Inflation and interest rates

The January interest rate rise surprised most commentators – and was indeed a close call with only a 5–4 majority of members of the Bank of England's MPC voting in favour. But from the published minutes it appears that the main dividing line in the MPC was on the issue of the precise timing of the rise rather than the need for it (with perhaps only two members seriously questioning this).

In the context of strong economic growth, and with the extent of spare capacity in the economy uncertain, the catalyst for the rate rise seems to have been official price inflation figures for December. The annual rate of inflation, as measured by the Consumer Prices Index (CPI), rose from 2.7% to 3% on the previous month. The MPC aims to meet the Government-set target of a 2% CPI inflation rate (the Governor of the Bank of England being required to write a letter of explanation to the Chancellor if the CPI actual rate misses the target by more than +/-1%, a task avoided on this occasion by a mere whisker).

The MPC shares the view of most economists that CPI inflation will start to fall back to target this year, possibly quite sharply. The interest rate rises since last August will cool demand to a more sustainable rate, as will the strength of the pound, which will also lead

Table 2: UK expenditure, quarterly national accounts, 3rd quarter 2006

	GDP	Households	Investment	Government
% change in Q3	0.7	0.4	1.8	0.8
% change in year to Q3	2.9	2.1	4.9	2.1

Source: ONS

to lower imported inflation. In addition, with fuel and utility prices moderating, the effect of last year's surge in energy-fuelled inflation will drop out of the year-on-year CPI inflation figures.

What worries the MPC, however, is that the 2006 spike in inflation will alter people's inflation expectations and, in particular, result in higher pay rises, the cost impact of which would in turn trigger higher price inflation. This embryonic 'pay price spiral' would require still further interest rate rises to dampen expectations but in the process would mean slower economic growth and probably higher unemployment. Particularly disconcerting was a December jump in inflation from 3.9% to 4.4%, as measured by the Retail Prices Index (RPI), which takes account of various housing costs excluded from the CPI and is a common 'cost of living' benchmark in pay negotiations.

The fact that the jump in the RPI occurred ahead of the busy winter pay round was probably enough to persuade a majority on the MPC that a pre-emptive interest rate rise was needed in January to counter any rise in inflationary expectations. The minority, by contrast, presumably thought a 'wait and see' approach was preferable, given the alternative risk that a rate rise might damage consumer and business confidence. It remains to be seen whether the January increase will prove to have been a well-judged 'shot across the bows' to pay bargainers or will amount to overkill. Either way, much will depend on the actual state of the labour market and the pay bargaining context in the early months of 2007.

Demand for labour

According to the Labour Force Survey (LFS) of households conducted by the ONS, there was a (seasonally adjusted) rise in total UK employment of 14,000 (to just over 29 million) in the three months ending in November 2006 (the latest figures available at the time of writing, Table 3). But the underlying trend in the employment rate (the proportion of the population in paid work) remains flat.

The quarterly rise in employment masks a 52,000 fall in employee numbers – the overall rise is explained by more people in self-employment (up 49,000) plus more being supported on government schemes (up 22,000). The number of full-time employees in fact fell by 105,000 on the quarter. Moreover, within a substantial quarterly rise in the number of temporary employees (35,000), there was an unusually large increase (26,000) in the number moving into temporary jobs because they couldn't find permanent jobs.

Data based on the alternative ONS measure of employment – the Workforce Jobs series, obtained from a survey of employers – is at the time of writing available only for the period up to September 2006. This shows a quarterly increase of 54,000 jobs (0.2%), slightly lower than the increase in the previous quarter.

The Workforce Jobs series is considered a more accurate barometer of changes in employment by sector. In the quarter to September, manufacturing shed 2,000 jobs (a drop of 0.1%). The distribution, hotels and restaurants sector shed 5,000 jobs (–0.1%). The sector with the fastest rates of job growth was finance and business services, which added 29,000 jobs (0.5%).

Table 3: UK employment, LFS, June–August 2006

	Employment ('000)	Employment rate (%)	Hours (million)
	29.02	74.6	926
% change in quarter	0.0	–0.1	–0.5
% change in year	1.0	0.0	0.4

Source: ONS

As for other labour demand indicators, official data show a fall in vacancies and a rise in redundancies in the quarter (Table 4).

Labour supply

The supply of labour available to employers is measured by the economically active population, with unemployment providing the best indication of the amount of unused labour. Part of the economically inactive population of working age might also be considered a potential, but not immediately available, source of labour (Table 5).

The economically active population was static in the September–November quarter, though up by 414,000 (1.4%) in the year to that quarter. Unemployment (seasonally adjusted), as measured by the LFS, fell by 29,000 (to 5.5% of total labour supply), while the number of people unemployed and claiming Jobseekers' Allowance (the claimant count) fell by 5,500 (to 943,000, a rate of 3%) in December. But the number of economically inactive people of working age increased by 74,000 (to 7.85 million) during the quarter, including 40,000 more who, though inactive, say they want a job.

As discussed in previous *Labour Market Outlook* reports, before last November unemployment had been on a rising trend on both the LFS and claimant count measures. However, any suggestion drawn from this that the recent falls indicate a tighter labour market should for the time being be treated with caution. Looked at in the round, the latest available figures indicate that the demand for labour isn't strengthening greatly relative to the supply of labour, with demand for employees, and especially full-time permanent employees, showing signs of weakness.

Pay, productivity and unit wage costs

On the face of things, conditions in the labour market towards the end of 2006 therefore appear conducive to moderate pay settlements. And, consistent with this, the annual rate of average pay growth (including and excluding bonuses) remained stable in the period to November 2006 (Table 6). But with pay settlements tending to track the rise in RPI inflation, it remains possible that growth in regular pay (that is, excluding bonuses) will at some point soon approach the 4.5% limit consistent with the Government's target for CPI inflation.

Table 4: UK job vacancies and redundancies, September–November 2006

	Vacancies ('000)	Redundancies ('000)
	601	136
% change in quarter	−0.4	0.7
% change in year	0.7	−2.6

Source: ONS

Table 5: UK economic activity, unemployment and economic inactivity (working age, WA) September–November 2006

	Economically active (million)	Unemployment (million)	Economically inactive (million)
	30.70	1.67	7.85
% change in quarter	0.0	−1.7	1.0
% change in year	1.4	9.1	−1.1

Source: ONS

Table 6: Growth in UK average earnings (excluding bonuses), November 2006

	Whole economy (%)	Private sector (%)	Public sector (%)
November 2005	3.8	3.8	4.1
November 2006	3.7	3.9	3.1

Source: ONS

There is, of course, no ‘iron rule’ that requires pay settlements to match the RPI – labour market factors should be the key determinant. But it is worrying that leading pay analyst Incomes Data Services (IDS) found that the median level of pay settlements rose from 3.1% to 3.5% in the three months to January, higher than at any time since September 2001. Moreover, IDS notes that a significant number of the 65 January deals it reports on were settled before publication of the December 2006 RPI, which could put further upward pressure on subsequent settlements (notwithstanding that around a third of the observed settlements formed part of longer-term pay deals with a degree of indexation to the RPI already built in).

Puzzlingly, the IDS findings are at odds with employers’ pay intentions as reported in this latest *Labour Market Outlook* survey (see Section 3). However, aside from acknowledging that actual settlements carry more weight than surveys of pay intentions, it’s also important to note an unusual degree of uncertainty about the outlook for pay in the current survey findings.

Earnings aren’t the only component of unit labour costs. As anticipated in previous *Labour Market Outlook* reports, the labour hoarding observed in 2005 – which resulted in a marked dip in growth in labour productivity – meant that employers were able to expand output in 2006 without adding greatly to staffing levels. The result was a cyclical recovery in productivity growth last year which, combined with modest growth in earnings, led to a reduction in the growth rate of unit labour costs (Table 7).

Table 7: Annual growth in UK productivity and unit wage costs, 3rd quarter 2003–2006

	Output per worker (%)	Output per hour (%)	Unit wage costs (%)
2003 Q3	1.7	2.3	2.2
2004 Q3	2.2	3.0	0.7
2005 Q3	0.7	0.3	2.7
2006 Q3	2.3	2.8	1.9

Source: ONS

2 Recruitment and redundancy outlook

Recruitment activity and net change in staffing levels

More than four in every five employers (82%) responding to the survey intended to recruit staff this winter (that is, in the quarter following the survey), up from 79% in the autumn quarter. The proportion is similar across all major employment sectors. Fifteen per cent of employers will be recruiting staff to HR roles.

Forty-two per cent of employers surveyed intend to recruit additional staff this quarter (Figure 1). The chart registers changes in net recruitment (namely, that which is over and above replacement recruitment and raises an employer's staffing levels). The *Labour Market Outlook* measure of net recruitment is thus a proxy for quarterly changes in employers' overall demand for labour, which as Figure 1 shows, has grown at a fairly steady rate since spring 2006.

The two *Labour Market Outlook* focus groups help to emphasise the importance of distinguishing between total (or gross) recruitment and net change in staffing levels. Many employers are facing high rates of labour turnover for some or all categories of staff and are therefore having to constantly deal with recruitment and retention pressures, even when their total workforce isn't expanding. Similarly, some employers are engaged in workforce restructuring by way of simultaneous recruitment and redundancy, which leaves overall staffing levels unchanged.

This helps explain why at times we see an apparently puzzling difference between the findings of surveys that monitor employers' recruitment activity and observed trends in the overall level of employment. Comparison with independent recruitment surveys and official ONS employment data indicates that the *Labour Market Outlook* figure for total recruitment intentions reflects that of other surveys – pointing to increased recruitment activity – while the *Labour Market*

Outlook figure for net recruitment reflects the trend in employment levels as identified by the ONS data.

Figure 1: Net recruitment intentions

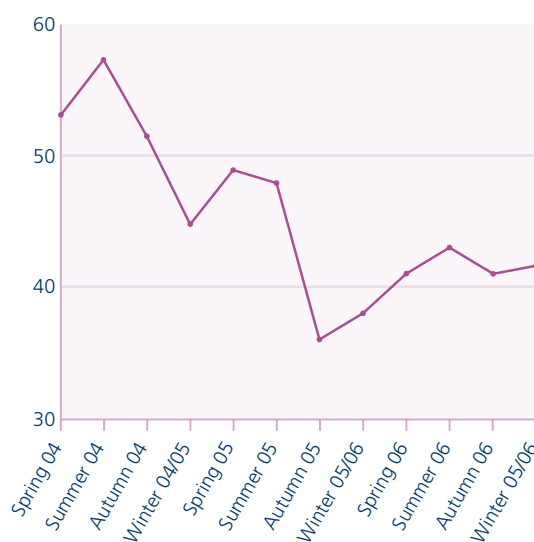


Table 8 shows that the three regions with the highest rates of net recruitment intentions this quarter are Wales (44%), Yorkshire and Humberside (41%) and London (39%). This is the first time for more than a year that London hasn't topped the net recruitment intentions league table, both London and south-east England registering falls in reported net recruitment intentions.

Net recruitment intentions are also relatively strong among small and medium-sized businesses (Table 9) and in private sector services where, overall, 52% of employers intend to recruit additional staff this quarter (Figure 2). However, while net recruitment intentions are strongest in private sector services, they have weakened slightly in this sector since the autumn

Table 8: Net recruitment intentions, by region, winter 2007*

	%
Scotland	39
Wales	44
Northern Ireland	34
North-west of England	36
North-east of England	39
Yorkshire and Humberside	41
West Midlands	34
East Midlands	31
East of England	32
London	39
South-east of England	25
South-west of England	28

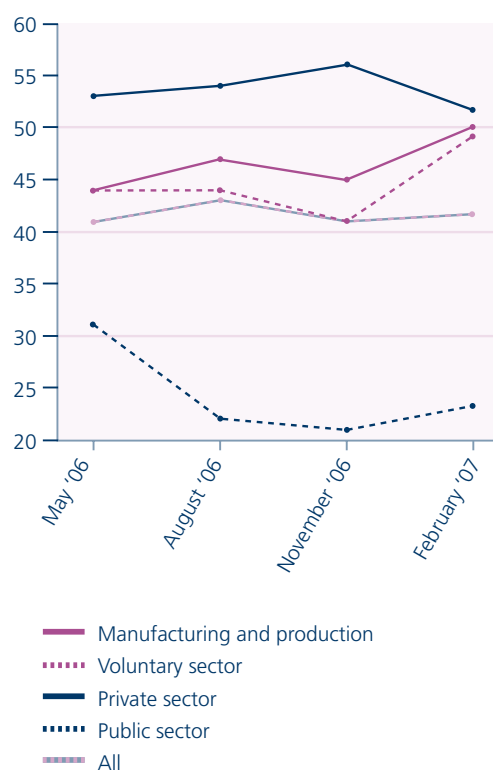
survey (down from 56%). By contrast, there has been a quarterly rise in the proportion of employers in the manufacturing and production sector intending to recruit additional staff (up from 45% to 50%).

There is an increase in the proportion of employers intending to make some staff redundant – up from 20% to 23% since the autumn (Table 10). The increase is evident in all broad sectors of the economy, but especially in the public services, where 30%

Table 9: Net recruitment intentions, by employer size, winter 2007

Number of employees	%
1–9	70
10–49	59
50–99	63
100–499	49
500–999	33
1,000–4,999	33
5,000–9,999	22
10,000–20,000	22
More than 20,000	21

Figure 2: Net recruitment intentions, by sector, winter 2007



of employers intend to make some redundancies. The efficiency drive affecting many public sector organisations seems to have brought to a halt the ongoing rise in public employment witnessed in the first half of the decade (according to the ONS, public sector employment fell by 0.1% in the year to September 2006 – a net reduction of 5,000 jobs – compared with a rise of 1.0% – 222,000 jobs – in the private sector).

Table 10: Percentage of employers expecting to make some employees redundant, by sector, winter 2007

	%
Manufacturing and production	21
Voluntary sector	24
Private sector services	21
Public services	30
All	23

Table 11: Effect of planned recruitment and redundancy on staff numbers, winter 2007

Effect	%
Maintain current staff numbers	44
Increase by 0–2%	19
Increase by 2–4%	11
Increase by more than 4%	12
Offset by a higher number of redundancies by 0–2%	7
Offset by a higher number of redundancies by 2–4%	3
Offset by a higher number of redundancies by more than 4%	4

Table 11 combines net recruitment intentions and redundancy expectations to indicate how proposed recruitment and redundancy is likely to affect employment levels. Almost two-thirds (63%) of employers surveyed expect to either maintain staff levels or increase these by less than 2%.

Recruitment difficulties

Forty-six per cent of employers surveyed anticipate recruitment difficulties this quarter, slightly higher than the autumn figure (44%). Since the last quarter, the figure has increased in all sectors except the voluntary sector (Table 12). Professional and managerial staff, skilled trade staff and sales and customer services staff are cited as the most difficult to recruit.

‘We’re struggling at the moment and having to go to headhunters, so you double your costs straight away.’

‘There’s a reluctance for the average British employee to change jobs ... and do things that they don’t particularly like. There’s more willingness among eastern Europeans to do these jobs.’

‘We’ve hired a lot of people from Europe ... Spanish, Italian, Dutch, to fill skills gaps.’

As the quotes above show, some employers in the *Labour Market Outlook* focus groups noted an increased tendency to look to migrant workers to fill vacancies. Others mentioned that, for any given level of recruitment, they were finding it difficult to recruit employees with the kinds of attributes they were looking for, which was putting upward pressure on recruitment costs because of the necessity to use more specialist recruitment channels. If this indicates deficiencies in the quality of available labour, quantitative measures of labour supply – such as economic activity and unemployment rates – may not be a fully accurate barometer of underlying wage pressure.

Table 12: Percentage of employers expecting recruitment difficulties, by sector, winter 2007

	%
Manufacturing and production	51
Voluntary sector	42
Private sector services	48
Public services	48
All	46

3 Pay outlook

Expected scale of pay rises

Sixty-one per cent of employers surveyed will conduct a pay review between now and the spring quarter. Eight in ten employers surveyed stated their expectations of staff pay increases as a result of reviews. Of these, around a third (32%) expect pay to rise on average by 3–3.5% (Table 13).

Only 13% expect pay to rise on average by 4% or more – a surprisingly low proportion given recent evidence of upward pressure on pay settlements at the start of the winter pay round. However, compared with previous *Labour Market Outlook* surveys, a relatively high proportion of respondents (around one in five) didn't state their pay expectations this quarter, perhaps indicating a bigger-than-usual degree of uncertainty in the pay outlook. This uncertainty is compounded by the findings in the *Labour Market Outlook* focus groups. Although participants confirmed the survey findings with regard to the likely level of settlements,

the importance of the RPI as a determining factor was also emphasised.

As one focus group participant put it: 'If you get a rise in keeping with inflation, at least you've kept up with the general rate.'

In the survey, average stated (mean) pay increase expectations are highest in private sector services (3.44%), followed by manufacturing and production (3.20%), the voluntary sector (3.04%) and the public services (2.79%).

Factors affecting pay increases

The most important labour market influences on expected pay increases are higher costs of living (cited by 30% of employers) and the need to retain skilled staff (24%). In addition, 35% of employers think the need to keep up with pay inflation will be a key factor at the time of their next pay review (Table 14).

Table 13: Expected impact of next pay review, winter 2007

Effect	%
Increase by less than 1%	1
1% to less than 2%	2
2% to less than 3%	23
3% to less than 3.5%	32
3.5% to less than 4%	8
4% to less than 4.5%	7
4.5% to less than 5%	1
5% to less than 5.5%	4
5.5% to less than 6%	0
6% or more	1
Don't know/unstated	21

Table 14: Influences on pay increases, winter 2007

Labour market influences	%
Higher costs of living	30
To improve retention of skilled staff	24
To improve recruitment of skilled staff	5
Individual demands	4
Wider factors	
To keep up with pay inflation	35
Pay review set by management	33
Pay review bargained with trade union bargaining	26
Increased business confidence	3

Other employment costs

Aside from pay set by management or bargaining, employers report that they expect recruitment costs (35%) and pension provision (27%) to have the biggest impact on their total employment costs this spring, which is in line with the results of previous *Labour Market Outlook* surveys (Table 15).

Table 15: Biggest impact on employment costs, winter 2007

Factor	% saying biggest impact
Recruitment costs	37
Pensions	22
Training costs	9
National minimum wage	7
Sick pay	7
Other staff benefits	6
Flexible working arrangements	5
National Insurance Contributions	3

4 Medium-term employment and pay outlook

The *Labour Market Outlook* surveys ask employers how they expect staffing levels and pay to change in the next 12 months as well as in the next quarter. While this shouldn't be read as a forecast of what will happen, it nonetheless reflects employers' general mood or feeling about the economy and the labour market at the time of each survey.

Expectations of changes in employment in the coming year

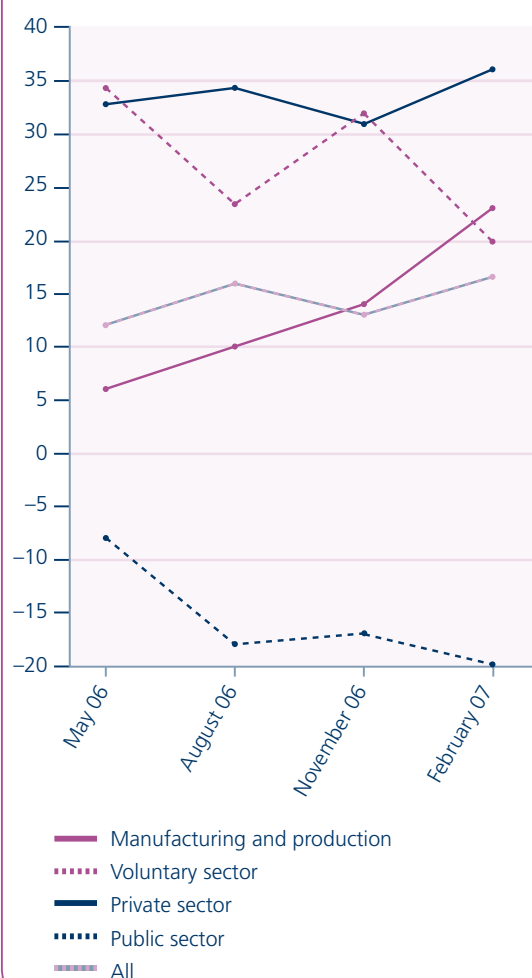
Forty-three per cent of employers surveyed expect their staff numbers to be about the same by winter 2008. Ten per cent expect to be employing up to 2% more staff, with the same proportion expecting staff numbers to rise by 2% or more (Table 16).

There is a 17% positive balance of employers expecting to employ more staff over those expecting to employ fewer in a year's time – an improvement on the positive balance of 13% reported in the autumn 2006 survey and slightly above the 16% positive balance reported in the summer 2006 survey (Figure 3). Employers in the private services sector report a strong positive balance of 36%. The balance is also above average in the manufacturing and production sector (23%) and the voluntary sector (20%) but strongly negative in public sector services (-20%).

Table 16: Expected total number of employees in 12 months' time

Change	%
About the same	43
Lower by 0–1.99%	10
Lower by 2–4%	4
Lower by more than 4%	6
Higher by 0–1.99%	15
Higher by 2–4%	10
Higher by more than 4%	12

Figure 3: Balance of medium-term employment expectations, by sector



Larger employers are more likely than smaller and medium-sized employers to expect to be employing fewer staff (Table 17). By region, employers are more likely to expect to have more staff in Yorkshire and Humberside (an 18% positive balance), the north-west of England (17%), Scotland (16%) and Northern Ireland (14%, Table 18).

Table 17: Balance of medium-term employment expectations, by employer size

Number of employees	%
1–9	24
10–49	32
50–99	31
100–499	31
500–999	8
1,000–4,999	-2
5,000–9,999	-20
10,000–20,000	-18
More than 20,000	-17

Table 18: Balance of medium-term employment expectations, by region

	%
Scotland	16
Wales	6
Northern Ireland	14
North-west of England	17
North-east of England	0
Yorkshire and Humberside	18
West Midlands	11
East Midlands	2
East of England	2
London	10
South-east of England	-4
South-west of England	6

5 Focus: management policies relating to employees' religious beliefs

The issue of how employers should treat the expression of religious belief in the workplace and respond to the various practical issues raised by accommodating employees in observance of their religious practice has come to the fore in recent years as Britain has become both a more overtly multi-faith and secular society. Many employers therefore have to manage staff with a greater diversity of religious beliefs as well as, and often alongside, staff with little or no religious belief.

The legal context within which employers cope with this issue changed in December 2003 when Regulations outlawing discrimination in matters related to employment and training on grounds of religion and belief were introduced in the UK in order to meet the terms of an EU Directive on equal treatment. A legal claim can now be brought against an employer deemed to have discriminated either directly or indirectly against a person because of their religion or belief. An early example of a successful employment tribunal claim came in 2005, when a Muslim employee was awarded compensation after first being suspended without pay by his employer, and subsequently being dismissed, after taking a period of unpaid leave to attend a pilgrimage to Mecca.

But the broader complexity surrounding the treatment of faith in the workplace emerged late last year when public debate was sparked by the decision of British Airways (BA) to suspend a check-in worker for displaying a Crucifix on a necklace, contrary to the then company

policy stating that any religious jewellery should be worn under employees' uniforms. The policy was deemed by some as anti-Christian since it didn't extend to Sikh turbans or the Muslim hijab. BA subsequently reviewed and changed its policy to enable religious symbols to be worn as lapel pins while also allowing some flexibility for individuals to wear a symbol of faith on a chain. Other similar controversies in recent times include whether a female Muslim support teacher should have been allowed to wear her veil in the classroom.

In the light of the 'cross and veil' debate, and in what are still early days in terms of registering the impact of the 2003 Regulations, respondents to this quarter's *Labour Market Outlook* survey were asked about their policies relating to employees' religious beliefs and whether these have a positive impact on staff recruitment and retention. The results suggest that recent stories about conflict between employers and employees don't reflect the largely positive story that this report tells. For instance, only one in ten organisations impose restrictions on religious dress or jewellery, with many of these driven by health and safety regulations in the manufacturing sector.

Incidence and drivers of employer policy on religion in the workplace

Although the vast majority of employers surveyed have a formal diversity policy, only one in three employers have an explicit policy on managing religious beliefs in the workplace (Table 19). The majority therefore, insofar as

Table 19: Percentage of employers with a policy on diversity and/or religion in the workplace

	Manufacturing and production	Voluntary sector	Private sector services	Public sector	All
Diversity policy	67	80	73	95	78
Religion/belief policy	17	31	30	55	33

they have a procedure for dealing with religious issues in the workplace, do so as part of a broader policy, a point emphasised by two *Labour Market Outlook* focus group participants:

‘We have a group "mutual respect in the workplace" policy which covers religion in it. It’s a very loose policy.’

‘We have a general equality policy ... we would have something in there that would help us resolve any issue on religion.’

The incidence of an explicit policy is far higher in the public sector (55%) than in either the voluntary sector (31%), private sector services (30%) or (especially) manufacturing and production, where fewer than one in five employers (17%) have a policy.

Almost one in four employers surveyed (23%) report that they’ve introduced or changed their policy as a result of the 2003 Regulations (Table 20). Thirteen per cent intend to change their policy in the next two years, mainly to update practice in line with the Regulations. However, legislation is not the only driver of change. Indeed, following best practice and improving employee relations are cited as being slightly more important factors.

Just under one in five (17%) employers cite fear of litigation as a driver. Yet, interestingly, only 1% of respondents had faced an employment tribunal claim in the past three years related to alleged religious discrimination, with similarly small proportions reporting that they’d been involved in disciplinary (1%) or grievance (3%) cases related to discrimination. But it was suggested in one of the *Labour Market Outlook*

focus group meetings that lawyers are increasingly trying to introduce religion into cases of litigation where it’s not really a factor:

‘The legal profession play dirty and chuck religion in anyway.’

Of those with a policy, almost half include a definition of what constitutes a religion or belief, though one in three are also confused by the question of definition, a problem that emerged in the *Labour Market Outlook* focus groups:

‘We get out the legislation and see how it [a “religion”] is defined.’

‘Rastafarians – are they an ethnic group? Are they a religious group? Scientology – is that a religion or a belief?’

ACAS guidance lists 15 religions or beliefs it considers to be covered by the Regulations (a stated belief being required to demonstrate a degree of seriousness and cohesion). In addition to major religious beliefs, the guidance lists atheists, humanists, druids, pagans and wiccans. However, the Regulations are amended by the Equalities Act 2006, explicitly extending coverage to non-believers (meaning that people can’t be discriminated against for not holding a religious belief).

Incidence of specific management practices covering religion in the workplace

To observe how employers deal with the issues raised by employees’ religious belief and observance, employers with a policy were asked whether they operate a range of different practices (Table 21).

Three-quarters support staff in taking time off for religious observance (in 15% of cases providing time off in addition to employees’ annual leave), though two-thirds also mention being confused about which faith days their staff will be celebrating and how. Two-thirds support people in meeting the dress codes of their religion. Just under two-thirds (61%) provide staff with time or facilities for religious observance in the workplace. The *Labour Market Outlook* focus groups pointed out that this is easier for larger organisations than small ones.

Table 20: Drivers of introduction of/change to 'religion/belief in workplace' policies

	%
Legislation	23
Fear of litigation	17
Maintaining employer brand	15
Improving employment relations	25
Following best practice	25
Increased demand from employees	12

Table 17: Employer practices relating to religion/belief in the workplace

	(Percentage of respondents)				
	Manufacturing and production	Voluntary sector	Private sector services	Public sector	All
All special time off	69	82	74	81	76
Time off in addition to annual leave	21	20	20	13	14
Provide time/facilities in workplace for religious observance	38	69	56	78	61
Allow staff to meet religious dress codes	51	64	61	74	65
Provide for different dietary requirements	26	44	43	58	61
Support religious networks in workplace	23	40	27	50	38
Impose restrictions on religious dress	26	9	14	13	13
Impose restrictions on wearing of religious jewellery	26	–	7	8	9

A smaller proportion of employers provide for different dietary requirements of workers in relation to religious observance (46%), while only 38% support the existence of religious networks in the workplace. Some in the *Labour Market Outlook* focus groups suggested it was detrimental to creating a communal workplace:

'We have such a diverse workforce, we have to be very, very active in providing a working environment that celebrates all kinds of things. We have all the different prayer rooms ... celebrate all the different festivals. The issue that we've had to try to overcome is that the different cultures tend to move together ... and we want people to mingle so that people understand and respect each other.'

Hardly any (3%) respondents cite practical difficulty in implementing these practices. Indeed, none of the participants in the *Labour Market Outlook* focus groups had encountered serious difficulty. The main challenge they face as HR practitioners is to raise awareness of the various issues related to religion and belief in the workplace, particularly on the part of line managers.

The vast majority of employers with a policy apply it in order to accommodate employees' religious beliefs or observance. Only around one in ten impose restrictions on the wearing of religious dress or jewellery (usually because of a broader dress or uniform policy). And this overall proportion is higher in manufacturing (a quarter of these employers impose such restrictions), usually for reasons related to health and safety.

The impact of specific management practices covering religion in the workplace

The impact of practices covering religion in the workplace appears to convey little benefit in terms of a positive impact on staff recruitment and retention (Table 22). Any benefit that does arise is most evident with regard to supporting staff in taking time off (which can be seen as being an issue of work-life balance) and providing time or facilities for religious observance in the workplace.

Table 22: Employers who say their practices have a positive impact on staff recruitment and retention outcome

	Manufacturing and production	Voluntary sector	Private sector services	Public sector	All
All special time off	7	11	11	25	14
Provide time/facilities in workplace for religious observance	6	11	9	28	13
Allow staff to meet religious dress codes	4	8	3	17	7
Provide for different dietary requirements	3	7	5	21	9
Support religious networks In workplace	4	5	3	21	9

6 Research methodology

In total, 6,000 questionnaires were sent out to a range of CIPD members, and 1,369 usable returns were received – a response rate of 22.8%. Respondents answered a series of questions on employment issues relating in the main to the winter of 2006/7. In particular, the questionnaire was concerned with workplace practices relating to employees' religion or belief.

The responses were collated and compiled by Plus Four Market Research Limited. To provide more detail, the results were then re-analysed by size of company, and business sector, region and type. Plus Four Market Research Limited was also commissioned to undertake a qualitative study among CIPD members. Two focus group meetings were held in London and Manchester on 16 and 29 January 2007 respectively.

The *Labour Market Outlook* survey report is prepared at the CIPD by John Philpott and Gerwyn Davies.

The CIPD would welcome comments on this report and ideas and suggestions for how *Labour Market Outlook* might be developed. These should be sent to j.philpott@cipd.co.uk

7 Respondent profile

Table 23: Respondents, by business type

Business type	%
Agriculture and forestry	–
Construction	2
Energy and water	1
Mining and quarrying	–
Manufacturing	13
Finance, insurance, real estate	5
Hotel, catering, leisure	3
IT services	3
Retail, wholesale	5
Communications	2
Consultancy services	9
Other private services	9
Local government	9
Central government	6
Education	8
NHS	6
Other public services	9

In order to make better use of the survey data by business type (Table 23), the data were recoded into sector categories (Table 24) and by employment size (Table 25) and region/nation (Table 26).

Table 24: Sector list

Business type	%
Manufacturing and production	16
Private sector services	36
Public sector services	31
Voluntary sector	8

Table 25: Respondents, by employee size bands

Number of employees	%
1–9	6
10–49	9
50–99	10
100–499	30
500–999	12
1,000–4,999	16
5,000–9,999	7
10,000–20,000	4
More than 20,000	6

Table 26: Region/nation to which response relates

	%
Scotland	10
Wales	5
Northern Ireland	4
North-west of England	9
North-east of England	4
Yorkshire and Humberside	4
West Midlands	5
East Midlands	3
East of England	2
London	8
South-east of England	9
South-west of England	6
Whole of UK	32

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