

Contents

Summary of key findings	3
1 Current economic and labour market indicators	5
2 Recruitment and redundancy outlook	11
3 Pay outlook	14
4 Medium-term employment and pay outlook	16
5 Focus: employers' views on the employability of school leavers	18
6 Research methodology	21
7 Respondent profile	22

Summary of key findings

Labour Market Outlook is based on a quarterly survey, usually of around 1,000 CIPD members (this quarter 1,435). The survey sample is representative of employers of all sizes, all sectors, and all regions and nations of the UK.*

Recruitment and redundancy outlook

- Forty-three per cent of employers will be recruiting additional staff this quarter. This continues the improvement in recruitment intentions since the trough recorded in autumn 2005. The improvement is particularly marked in private sector services, where overall 54% of employers intend to recruit additional staff this quarter.
- Twenty-three per cent of employers intend to make some staff redundant this quarter – slightly lower than in the spring quarter and similar to the figure recorded throughout 2005.
- Forty-one per cent of employers anticipate recruitment difficulties this quarter – that's more than in the spring. Concern about filling vacancies has increased in both manufacturing and private sector services (where half of employers surveyed expect to encounter recruitment problems) since the spring survey.
- Vacancies expected to be most difficult to fill are those for skilled trades-people (cited by 21% of employers), general/middle managers (21%), sales and customer services staff (14%) and senior managers and directors (13%).

Pay outlook

- Only 15% of employers intend to conduct a pay review this summer. The average expected pay increase resulting from pay reviews is 3%. Almost half (48%) of employers conducting pay reviews expect to offer pay increases of between 3% and 4%.

Medium-term employment and pay outlook

- Forty-two per cent of employers expect their staff numbers to be about the same by summer 2007. Sixteen per cent expect to be employing up to 2% more staff, while one in five expect staff numbers to rise by 2% or more.
- There is a 16% positive balance of employers expecting to employ more staff over those expecting to employ fewer in a year's time – an improvement on the 12% positive balance reported in the winter survey. However, public sector employers have very pessimistic employment expectations (recording a negative balance of 18%).
- Most employers expect pay rises to be relatively modest in the coming year. The average expected pay increase is 3.1%. Pay expectations are strongest in private sector services (with pay increases expected to average 3.3%) and weakest in the public sector (2.9%).

Employers' views on the employability of school leavers

- Forty-six per cent of employers surveyed recruit school leavers.
- The key attributes employers look for in school-leaver recruits are communication skills (40% of employers rank this in their top three required attributes), work ethic (39%) and personality (32%). These rank higher than literacy, numeracy and formal qualifications.
- The proportion of employers that consider the quality of school leavers to have deteriorated in the past five years (26%) is higher than the proportion that consider the quality to have improved (10%).
- Around half (52%) of employers report no difference in quality between male and female school leavers. However, the proportion rating females more highly than males (36%) greatly exceeds the proportion rating males more highly than females (3%).

- When asked what the education system might do to improve the employability of school leavers, half of the surveyed employers ranked 'improved interpersonal skills' in their top three suggestions. This was followed by 'greater efforts to encourage young people to take responsibility' (40%), 'improvements in communication skills' (38%), and 'better discipline' (32%). Employers are more likely to stress the need for improvement in such intangible skills than in literacy (28%), numeracy (22%) and IT skills (19%).
- The most common initiatives taken by employers to help school leavers make the transition to work are on-the-job training (cited by 86% of employers) and induction courses (83%). Just under half of employers surveyed (47%) offer apprenticeships. Around four in ten employers provide coaching and mentoring to school leavers, while one in five provide training in literacy and numeracy.

*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 is growing faster than recorded in the spring *Labour Market Outlook* and is now in line with its long-run trend rate.

The number of people in employment has continued to rise, though, with more people in the workforce, the employment rate is broadly stable. There has been a pick-up in recruitment activity, and the redundancy rate remains relatively low. But at a time of strong growth in the supply of labour, unemployment is still rising.

Wage pressure remains subdued in a somewhat looser labour market with still no sign that higher living costs are triggering bigger pay increases. However, with growth in labour productivity continuing to disappoint, there has been relatively little improvement in unit wage costs.

Output and demand

Since the previous *Labour Market Outlook*, the Office for National Statistics (ONS) has revised upward its estimate of output growth for the first quarter of 2006. Real GDP increased by 0.7% – the same quarterly

rate of growth as recorded in the fourth quarter of 2005, which was also revised upward. The ONS has also published its preliminary estimate of growth (0.8%) in the second quarter (Table 1). The year-on-year growth rate is estimated at 2.6% – bang on the long-term trend (2.5–2.75% per annum) and the best performance since 2004.

Manufacturing output increased by 0.5% (compared with a rise of 0.9% in the first quarter), while total service sector output increased by 1.0% (up from 0.7% in the first quarter, suggesting a recovery from a weak autumn and winter). The latest estimate for manufacturing is a little disappointing given that the sector appeared to be recovering strongly in the first quarter. The fact that manufacturing output has now expanded for two consecutive quarters is nonetheless a sign of greatly improved health in the sector. It's also possible that the second-quarter output estimate will be revised upward. However, the relative strength of the service sector apparent in the second quarter suggests that the degree of rebalancing of the overall pattern of economic growth between manufacturing and services observed at the start of the year may not be as marked as previously thought.

Table 1: UK economic growth, to 2nd quarter 2006

	GDP	Manufacturing	Total services
% change in Q2	0.8	0.5	1.0
% change in year to Q2	2.6	0.7	3.6

Source: ONS

Table 2: UK expenditure, quarterly national accounts, to 1st quarter 2006

	GDP	Households	Investment	Government
% change in Q1	0.7	0.3	1.4	0.1
% change in year to Q1	2.3	1.5	5.0	2.1

Source: ONS

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

Growth in household (that is, consumer) spending moderated to 0.3%, down from 0.8% in the fourth quarter. This partly reflects slower growth in households' disposable incomes due to a combination of higher living costs and modest pay rises. In addition, measures of consumer confidence remained flat – mirrored in a decision by households overall to save more rather than spend more of their available income (the savings ratio rose from 5.4% to 6%). However, there are some signs that consumer expenditure might have since recovered, with both retail sales and house prices on the rise. The volume of retail sales has been improving since the spring, rising by 2.1% in the three months April to June. Retail sales growth hasn't been faster than this for four years, though it's possible that the recent pick-up is the result of a temporary boost to spending related to the football World Cup.

Total investment, meanwhile, bounced back, with first-quarter growth of 1.4%. Faster growth in business investment helped offset a reduction in general government investment. Government spending overall made a relatively small contribution to economic growth in the first quarter (increasing by 0.1%) as did net exports (total exports rising by 6.5% and total imports by 5.9%). While export performance has generally improved over the past year, the improvement has been somewhat disappointing given the recent strong performance of the world economy, with the United States, Japan and, to a lesser extent, the eurozone, all registering healthy growth. And now that interest rates are rising in many economies, export prospects may diminish as several countries, notably the United States, enter a period of somewhat slower growth.

The prospect of more modest growth abroad has led many economists to reduce slightly their forecasts for

UK growth this year and next. The latest (July) average of forecasts of independent economists published monthly by HM Treasury points to annual growth in the UK economy of 2.4% in both 2006 and 2007.

Inflation and interest rates

The rate of inflation as measured by the Consumer Prices Index (CPI) reached 2.5% in June, having been at or below the 2% rate targeted by the Bank of England's Monetary Policy Committee (MPC) in the early months of the year.

As noted in the spring *Labour Market Outlook*, a rise in the CPI was to be expected because of the effect of higher gas and electricity prices. Yet, despite both this and the fact that the economy is again growing at trend, the MPC delayed a 0.25% increase in interest rates until August 2006 – one year after the last change. This latest increase to 4.75% was widely seen as a surprise move.

The MPC bases its monthly decisions on the outlook for inflation over a medium term of roughly two years. At the MPC's July meeting, the vote in favour of unchanged rates was unanimous. The minutes of that meeting show that factors that might necessitate a rate rise were balanced by factors that might have a dampening effect on economic growth, especially the possibility that higher energy prices could hit real incomes in consumer spending both in the UK and abroad. However, the minutes of the August meeting show that MPC members voted for the rate rise by a majority of 6–1.

Two, probably related, factors that played a part in delaying the rate rise are subdued wage pressure and a looser labour market (as measured by a change in the balance of labour supply and demand). There is still little evidence that higher fuel or utilities prices are triggering compensatory cost-of-living-related pay rises, possibly because employers have had access to a bigger pool of

available workers (see below, this section, and Section 3). However, pay analysts note that pay bargaining is likely to be affected by recent increases in the rate of inflation as measured by the Retail Prices Index (RPI). Between March and June, RPI inflation – which remains the most common cost-of-living benchmark used in UK wage-setting – rose from 2.4% to 3%. This may have played a part in August's rate rise decision. As the minutes of the MPC's August meeting note, inflation was likely to be rising in the period just before the majority of next year's pay settlements. The majority of MPC members thus judged that an early increase in interest rates would help offset this and reduce the risk that a sharper rise in rates would be needed later.

Demand for labour

According to the Labour Force Survey (LFS) of households, there was a (seasonally adjusted) rise in total UK employment of 59,000 (to 28.89 million) in the three months ending in May 2006 (Table 3). The increase was in line with growth in population, leaving the employment rate (those in paid work as a proportion of the population) unchanged. The employment rate has been broadly flat throughout this decade.

Full-time employment accounted for all of the increase in the spring. But total hours worked fell by 0.2% to 924 million.

Eighty per cent of the additional people in work were women. And all the additional people in work were employees (the number of self-employed fell by 20,000). Temporary employees account for the bulk of these (80%), possibly indicating a degree of uncertainty on the part of employers about the outlook for business.

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 March 2006. This shows a quarterly increase of 52,000 jobs, 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 March, manufacturing shed 32,000 jobs (a drop of 0.9%). The distribution, hotels and restaurants sector added 4,000 jobs (0.1%), showing signs of recovery following a downturn in employment in the sector in 2005. The sectors with the fastest rates of job growth in the quarter were finance and business services (0.4%) and education, health and public administration (0.7%).

As for other labour demand indicators, official data show a modest pick-up in both vacancies and

Table 3: UK employment, LFS March – May 2006

	Employment ('000)	Employment rate (%)	Hours (million)
	28.89	74.6	924
% change in quarter	0.2	0.0	-0.1
% change in year	0.8	0.0	0.6

Source: ONS

Table 4: UK job vacancies and redundancies, October–December 2005

	Vacancies ('000)	Redundancies ('000)
	603	147
% change in quarter	2.2	4.1
% change in year	-2.0	14.1

Source: ONS

redundancies in the spring quarter (Table 4). This pattern is consistent with CIPD quarterly *Labour Market Outlook* survey findings for recruitment and redundancy intentions (see Section 2).

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 continues to grow strongly – by 150,000, or 0.5%, in the quarter to March to May and by 447,000, or 1.5%, in the year to that quarter. The rise in the supply of labour is due partly to population growth – driven in the main by increased immigration – and partly to entry to the labour market of more people who were previously economically inactive.

The number of economically inactive people of working age fell by 87,000 (to 7.84 million) during the year to March to May. One in four economically inactive people (2.05 million) state that they want a job, but this number fell by 13,000 in the year to the spring quarter. Factors underlying the fall in the economically inactive population include greater efforts by the Government to help Incapacity Benefit claimants back into the labour market. The number of economically inactive people classified by the LFS as ‘long-term sick’ fell by 72,000 (3.2%) in the year to the spring quarter.

Unemployment (seasonally adjusted) as measured by the LFS increased by 90,000 in the quarter and 224,000 over the year (to 5.4% of total labour supply), while the number of people unemployed and claiming Jobseekers’ Allowance (the claimant count) increased by 93,000 (to 3%) in the year to June.

Should we expect unemployment to stay higher?

As discussed in the previous *Labour Market Outlook*, the most likely explanation for the rise in unemployment during the past year is that a period of slightly weaker demand for labour coincided with a period of relatively strong growth in the supply of labour.

The discussion was sceptical of the suggestion that at least some of the rise was structural and thus likely to persist. For example, some commentators suggest that the demand for labour is being depressed as a result of direct or indirect hikes in the cost of employing people (principally the national minimum wage and other forms of red tape). Other commentators meanwhile posit that workers might be resisting the cut in real incomes caused by higher living costs, with higher unemployment needed to curb compensatory pay demands. However, neither the *Labour Market Outlook* surveys or other available evidence seem to support either of these structural unemployment stories, though (as discussed below) there is a further possibility that weaker-than-normal productivity growth could, if it persists, worsen the trade-off between inflation and unemployment.

It’s nonetheless possible that unemployment may remain higher than in recent years, even when the

Table 5: UK economic activity, unemployment and economic inactivity (working age), October – December 2005

	Economically active (million)	Unemployment (million)	Economically inactive (million)
	30.31	1.54	7.95
% change in quarter	0.2	7.5	0.7
% change in year	1.0	8.7	1.2

Source: ONS

effect of last year's 'pause' in labour demand has fully subsided. Firstly, assuming the Government persists and succeeds with its current welfare to work agenda and/or the pace of immigration is sustained, the labour market will experience a prolonged positive supply 'shock'. Although, as real wages and/or interest rate policy adjusts, this should eventually facilitate a welcome boost to output and employment, the exact period of adjustment is uncertain. Prolonged excess supply (as measured by unemployment) could therefore mean a looser labour market than observed at any time since the early 1990s.

A related theoretical possibility is that the rate of frictional unemployment may rise as welfare to work measures more vigorously target individuals at greatest disadvantage in the labour market (such as those on sickness-related benefits who, according to previous *Labour Market Outlook* surveys, face various recruitment barriers). This would happen if people typically requiring longer periods of job search or job matching were to comprise a greater proportion of the total pool of unemployed.

Pay, productivity and unit wage costs

As well as higher unemployment, another manifestation of the looser labour market conditions experienced of late has been an overall moderation in underlying wage pressure (Table 6).

In the three months to May, average earnings, excluding bonus payments, were rising at an annual rate of 3.8%. While the average rise outpaced price inflation, it was

well below the 4.5% consistent with the MPC's 2% CPI inflation target and lower than the rate recorded during the same period in 2005. But it is worth noting that the easing in wage pressure is due entirely to a sharp deceleration in the rate of earnings growth in the public sector (down from 4.8% to 3%), which may reflect the policy effect of tougher constraint on public sector pay settlements. The latest CIPD quarterly survey findings indicate that the trend towards relatively low pay increases in the public sector is set to continue in the coming months.

By contrast, the rate of private sector earnings growth has started to rise again (up to 4% per annum by the spring). This could indicate that underlying pay pressures are starting to mount in the market sectors of the economy. Even so, the rate of increase is still relatively modest and there's still little evidence to suggest that higher fuel and utility prices are having noticeable second-round wage effects – the latest CIPD quarterly survey finds no obvious sign that such effects are imminent.

Earnings are not the only component of unit labour costs. For much of 2005, moderation in earnings growth was unable to prevent a rise in unit labour costs because of deterioration in labour productivity growth. As anticipated in the previous *Labour Market Outlook*, productivity has since started to recover and the rate of growth of unit labour costs has started to fall (Table 7 on page 10). However, the improvement is somewhat less strong than anticipated. Moreover, with recruitment activity starting to pick up and the

Table 6: Growth in UK average earnings, December 2005

	Whole economy (%)	Private sector (%)	Public sector (%)
December 2004	4.5	4.4	4.7
December 2005	3.8	3.7	4.1

Source: ONS

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	1.2	2.0	1.9
2004 Q3	2.2	2.8	1.2
2005 Q3	1.2	1.0	2.8
2006 Q3	1.5	1.8	2.1

Source: ONS

redundancy rate still low, there's little to suggest an imminent surge in productivity (leastways when measured by output per worker).

This is a potentially worrying outcome since it might result in a rise in structural unemployment. Although it's too early to come to a firm conclusion, continued relatively poor growth in productivity at a time when the economy is once again growing at its trend rate might indicate that the UK's long-run trend rate of growth of labour productivity (generally thought to be around 2% per annum) has fallen. If so, workers might have to adapt to a lower affordable rate of pay increases in order to keep unit wage growth in check and prevent deterioration in the trade-off between inflation and unemployment.

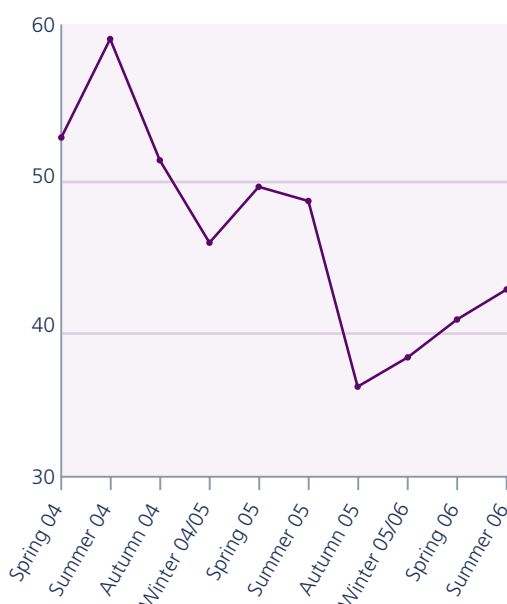
2 Recruitment and redundancy outlook

Net recruitment and employment levels

Four in five employers (80%) responding to the survey intend to recruit staff in the summer quarter (June to August 2006). Forty-three per cent of those recruiting will be recruiting additional staff (that is, over and above replacement recruitment). This continues the improvement in recruitment intentions since the trough recorded in autumn 2005 (Figure 1). Net recruitment intentions are relatively strong in five regions (Table 8): London (49%), East Midlands (49%), East Anglia (41%), south-east England (41%) and Wales (40%), pointing to something of a north-south divide.

Intentions are also relatively strong among smaller employers with fewer than 50 staff (Table 9) and in private sector services, where, overall, 54% of employers intend to recruit additional staff this quarter (Figure 2 on page 12). By contrast, only around one in five public service employers intend to hire additional staff.

Figure 1: Net recruitment intentions



Public sector employers also stand out when it comes to planned redundancies (Table 10 on page 12). One in three plan redundancies, compared with 23% for employers as a whole (the latter figure is slightly lower than recorded in the spring survey). Moreover, whereas the planned rate of public sector redundancies is unchanged, the rate has fallen in all the other main sectors. The budgetary squeeze and efficiency drive

Table 8 Net recruitment intentions, by region, summer 2006

Region	%
London	49
East Midlands	49
South-east of England	41
East of England	41
Wales	40
Scotland	38
Yorkshire and Humberside	37
Northern Ireland	36
North-east of England	36
South-west of England	33
North-west of England	32
West Midlands	32

Table 9: Net recruitment intentions, by employer size

Number of employees	%
Less than 25	64
25-49	56
50-99	53
100-249	51
250-499	46
500 or more	32

Figure 2: Net recruitment intentions, by sector,



affecting many public sector organisations is now well documented and already causing a slowdown in the pace of net job creation in the sector (according to the ONS, by March 2006 the annual rate of growth of public sector employment had fallen to 0.4% , compared with 1.1% in the private sector).

Table 10: Employers expecting to make some employees redundant, summer 2006

	%
Manufacturing and production	22
Voluntary sector	17
Private sector services	20
Public services	33
All	23

Table 11 combines net recruitment intentions and redundancy expectations to indicate how proposed recruitment and redundancy is likely to affect employment levels. Fifty-eight per cent of employers expect to either maintain staff levels or to increase them by less than 2% – unchanged from the spring survey. But there has been a rise from 11% to 14% in the proportion of employers expecting to increase staffing levels by more than 4% .

Recruitment difficulties

Forty-six per cent of employers anticipate recruitment difficulties (Table 12). This is an increase on the previous survey finding (41%), though it's unclear whether this reflects the anticipated increase in recruitment or some deterioration in the quality of the available labour supply. Concern about filling vacancies has increased in both manufacturing and private sector services (where half of respondent employers expect to encounter recruitment problems) since the spring survey.

Table 11: Effect of planned recruitment on staff numbers, summer 2006

Effect	%
Maintain current staff numbers	39
Increase by 0-2%	19
Increase by 2-4%	10
Increase by more than 4%	14
Offset by a higher number of redundancies by 0-2%	7
Offset by a higher number of redundancies by 2-4%	4
Offset by a higher number of redundancies by more than 4%	5

Table 12: Employers expecting recruitment difficulties, winter 2006

	%
Manufacturing and production	44
Voluntary sector	44
Private sector services	50
Public services	40
All	46

Vacancies expected to be the most difficult to fill are those for skilled trades-people (cited by 21% of employers), general/middle managers (21%), sales and customer services staff (14%) and senior managers and directors (13%).

3 Pay outlook

Expected scale of pay rises

Only 15% of employers intend to conduct a pay review this summer. The next flurry of pay reviews will occur in the winter months (involving nearly four in ten employers).

Almost half (48%) of employers conducting summer pay reviews expect to offer pay increases of between 3% and 4% (Table 13). The average expected pay increase resulting from pay reviews is 3%. The average is highest in private sector services (3.18%), followed by manufacturing (3.13%), the voluntary/hot-for-profit sector (2.88%) and the public sector (2.69%). Directors and professional staff are the occupational groups most likely to receive a pay rise of 4% or above (Table 14).

Table 13: Expected impact of next pay review

Change	%
Increase by up to 1%	3
1% to less than 2%	2
2% to less than 3%	31
3% to less than 4%	48
4% to less than 5%	8
Increase by 5% or more	5
Uncertain	3

Factors affecting pay increases

The factors cited as the most important labour market influences on expected pay increases are higher costs of living (cited by 28% of employers) and the need to retain skilled staff (23%). In addition, 35% of employers reckon that the need to keep up with pay inflation will be a key factor at the time of their next pay review (Table 15).

Table 15: Influences on pay increases

Labour market influences	%
Higher costs of living	28
To improve retention of skilled staff	23
To improve recruitment of skilled staff	5
Individual demands	3
Wider factors	
To keep up with pay inflation	35
Pay review set by management	31
Pay review bargained with trade union bargaining	23
Increased business confidence	2

Table 14: Expected impact of next pay review, by job type

Change	(%) Directors	(%) Professional	(%) Skilled trade	(%) Clerical	(%) Manual
Increase by up to 1%	4	2	5	3	5
1% to less than 2%	1	1	1	1	1
2% to less than 3%	20	22	17	23	17
3% to less than 4%	32	33	27	36	27
4% to less than 5%	6	6	3	5	3
Increase by 5% or more	9	6	3	3	3
Uncertain	4	3	3	3	3

Other employment costs

Aside from pay set by management or bargaining, employers report that they expect recruitment costs (35%) and pension provision (26%) to have the biggest impact on their total employment costs this spring, broadly in line with the results of previous CIPD quarterly surveys (Table 16).

Table 16: Biggest impact on employment costs, summer 2006

Factor	% citing this as having biggest impact
Recruitment costs	35
Pensions	26
Training cost	10
National minimum wage	10
Sick pay	7
Other staff benefits	6
Flexible working arrangements	5
National Insurance Contributions	3

4 Medium-term employment and pay outlook

The CIPD quarterly survey asks employers how they expect staffing levels and pay to change in the next 12 months as well as in the next quarter. While this should not be read as a forecast of what will happen, it nonetheless reflects employers' general mood or sentiment about the economy and the labour market at the time of each survey.

Expectations of changes in employment in the coming year

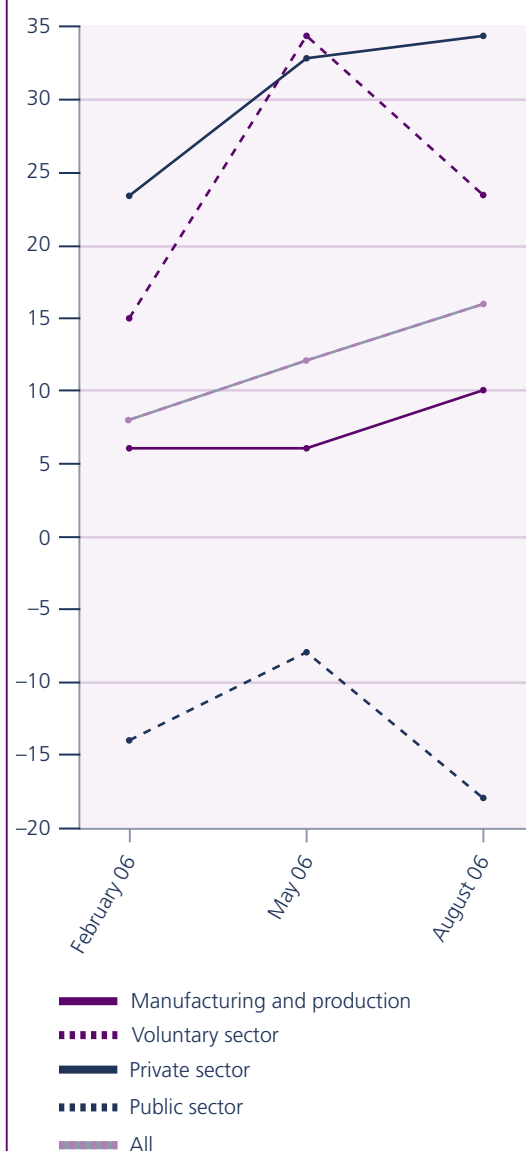
Forty-two per cent of employers expect their staff numbers to be about the same by summer 2007. Sixteen per cent expect to be employing up to 2% more staff, while one in five expect staff numbers to rise by 2% or more (Table 17).

Table 17: Expected total number of employees in 12 months' time

Change	%
About the same	42
Lower by 0-2%	8
Lower by 2-4%	6
Lower by more than 4%	7
Higher by 0-2%	16
Higher by 2-4%	9
Higher by more than 4%	12

There is a 16% positive balance of employers expecting to employ more staff over those expecting to employ fewer in a year's time – an improvement on the 12% positive balance reported in the winter survey (Figure 3). However, public sector employers have very pessimistic employment expectations (recording a negative balance of 18%). Larger employers are far more pessimistic than smaller and, especially, medium-sized employers (Table 18).

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



By region, employers are most optimistic in Northern Ireland, London and the East Midlands and most pessimistic in the north-east of England and the West Midlands (Table 19).

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

Number of employees	%
Less than 25	27
25-49	25
50-99	35
100-249	28
250-499	17
500 or more	-2

Table 20: Anticipated changes in average pay in the next 12 months

Change	%
Increase by up to 1%	3
1% to less than 2%	2
2% to less than 3%	27
3% to less than 4%	46
4% to less than 5%	11
Increase by 5% or more	9
Uncertain	23

Expectations of average pay rises expected in the coming year

Most employers expect pay rises to be relatively modest in the coming year (Table 20). The average expected pay increase is 3.1%. Pay expectations are strongest in private sector services (with pay increases expected to average 3.3%) and weakest in the public sector (2.9%).

Table 19: Balance of medium-term employment expectations, by region

	%
Northern Ireland	27
London	22
East Midlands	22
South-east of England	16
Scotland	7
South-west of England	5
Wales	4
Yorkshire and Humberside	3
East of England	1
North-west of England	0
West Midlands	-8
North-east of England	-13

5 Focus: employers' views on the employability of school leavers

August is exam results time for thousands of GCSE and A-level students. The grades achieved will help determine their future education and training options, immediate employment prospects and long-term career choices. But for many years publication of the exam results has coincided with vigorous public debate about exam standards and the employability of school leavers.

Pass rates are rising – in 2005 the proportion of school students attaining A–C grades at GCSE rose above 60% for the first time and record numbers are achieving A grades at A levels. However, some critics suggest that this is because exams are getting easier, a charge firmly rejected by the Government and the educational establishment. Employers, meanwhile, often express concern about the employability of many school leavers. Discussion sometimes refers to deficient basic skills, especially literacy and numeracy – fewer than half (44%) of school leavers in 2005 achieved five GCSEs at A–C grades that included English and Maths. But employers also refer to a lack of broader employability skills, such as the ability to communicate or to work collaboratively.

Employer concern isn't necessarily a sign that rising exam rates are misleading or that the standard of school leavers is actually deteriorating. With a growing proportion of young people leaving school for further or higher education, it's quite possible that employers looking to recruit school leavers are simply left with the least able or least qualified to choose from. While this obviously indicates the need to enhance the qualifications of the latter, it may not mean that standards are getting worse.

Similarly, it may be that schools are getting better at enabling young people to gain academic and vocational qualifications but are still failing to equip them with broader employability skills. And it's also possible that the education system is succeeding well in raising the supply of young people with both formal skills and

employability skills but not keeping up with ongoing shifts in the quantitative or qualitative demand for skills. For example, in an increasingly knowledge- and service-based economy, demand is not growing for technical skills but there's a demand for softer, personal 'high touch' skills.

In order to obtain some initial insights into issues such as these, this quarter's *Labour Market Outlook* survey asked employers what they wanted from school leavers, how they thought the employability of school leavers was changing, what the education system might do to improve the quality of school leavers, and what employers themselves were doing to ease the transition from school to work.

What do employers want from school leavers?

Just under half (46%) of employers responding to the survey recruit school leavers in the 16–19 age range. The propensity to recruit is highest in the public sector (51%) and lowest in the voluntary/not-for-profit sector (34%). And it rises with organisational size (61% of employers with 500 or more staff hire school leavers, double the proportion of employers with fewer than 50 staff).

Employers that do recruit school leavers were asked to rank in order of importance the various attributes (covering basic skills, formal qualifications, and broader employability skills) they look for when recruiting (Table 21).

The key attributes employers look for in school-leaver recruits are communication skills (40% of employers rank this in their top three required attributes), work ethic (39%) and personality (32%). These rank higher than literacy (26%), numeracy (22%) and formal qualifications (25%).

On the face of things, employers generally place more emphasis on employability skills than basic

Table 21: What employers want from school leavers

	% employers citing in top 3 factors
Communication skills	40
Work ethic	39
Personality	32
Literacy	26
Customer service awareness	26
Relevant qualifications	26
Qualifications	25
Work experience	23
Numeracy	22
Teamwork ability	21
Personal presentation	20
Extracurricular activity	10
School/college attended	8
Listening skills	8
Other	2

skills or formal qualifications, but it may be that the latter are considered essential though in themselves insufficient to ensure that a school leaver will make a good employee (one in three employers surveyed who recruit school leavers set a minimum entry level of qualifications). Moreover, there isn't a simple ranking with employability skills at the top and formal skills at the bottom. For example, literacy and numeracy rank above teamwork ability and personal presentation.

Almost two-thirds of employers (64%) report no change in the quality of school leavers during the past five years. One in ten consider quality to have improved, citing improvements in qualifications and a more mature attitude to work. However, a higher proportion of employers (26%) indicate that quality has deteriorated, pointing to problems related to listening skills, numeracy, and attitudes to work.

Exam results show that girls are generally performing better at school than boys, while it's often asserted that girls are generally better equipped in broader employability skills. Employers surveyed were thus

asked to rate the quality of male and female school leavers. Around half (52%) of employers report no difference in quality. But the proportion rating females more highly than males (36%) greatly exceeds the proportion rating males more highly than females (3%).

What the education system needs to do

When asked what the education system might do to improve the employability of school leavers, half of respondent employers ranked improved interpersonal skills in their top three suggestions (Table 22). This was followed by greater efforts to encourage young people to take responsibility (40%), improvements in communication skills (38%), and better discipline (32%). Employers are more likely to stress the need for improvement in such intangible skills than in literacy (28%), numeracy (22%) and IT skills (19%).

As with the questions on required attributes, this doesn't necessarily mean that the latter skills are relatively less important but, instead, that, however well schools are doing in equipping young people in formal skills, there is still a substantial 'employability

Table 22: What should schools do to improve school-leaver quality?

	% employers citing in top 3 factors
Interpersonal skills	49
Taking responsibility	40
Communication	38
Discipline	32
Literacy	28
Initiative	26
Teamworking	24
Numeracy	22
Customer services	22
IT skills	19
Financial education	9
Leadership skills	9
Typing	7
Other	2

gap' that the education system is failing to close (though it might also be argued that lack of some of these personal skills owes much to poor upbringing or social background, matters that need to be addressed in the family or with the help of wider economic and social policies).

How employers ease the transition from school to work

It's sometimes said that employers should do more to offer guidance to school leavers about the kinds of skills they're looking for and perhaps be more proactive in helping young people enter the workplace. Given the existence of an employability gap, employers surveyed were asked what they themselves were doing to help close it by easing the transition from school to work (Table 23).

The most common transition initiatives taken by employers are on-the-job training (cited by 86% of employers) and induction courses (83%). Just under half of employers surveyed (47%) offer

apprenticeships. Around four in ten employers provide coaching and mentoring to school leavers. Initiatives of this kind might reasonably be expected to be taken by employers as part of their overall investment in staff development. But one in five employers also report that they have to provide training in literacy and numeracy – which could be seen as remedial investment to address deficiencies in basic schooling.

Table 23: What should schools do to improve school-leaver quality?

	% employers citing in top 3 factors
On-the-job training	86
Induction training	83
Work experience	73
Study leave	50
Apprenticeships	47
Vocational training	44
Coaching and mentoring	43
Core skills training	33
Career advice and counselling	26
Training grant allowance	23
Interview skills	22
Literacy training	21
Numeracy training	19
Business awareness training	18
Other	3

6 Research methodology

In total, 8,000 questionnaires were sent out to a range of CIPD members, and 1,435 usable returns were obtained – a response rate of 17.9%. Respondents answered a series of questions on employment issues relating in the main to the winter of 2006. In particular, the questionnaire was concerned with recruitment, redundancies, pay expectations and recruitment of school leavers.

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, business sector, region, and type of business. 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 the *Labour Market Outlook* might be developed. These should be sent to: j.philpott@cipd.co.uk

7 Respondent profile

Table 24: Respondents, by business type

Business type	%
Agriculture and forestry	-
Chemicals, oils and pharmaceuticals	2
Construction	3
Energy and water	1
Engineering and electronics	4
Food, drink and tobacco	4
General manufacturing	4
Mining and quarrying	-
Paper and printing	1
Textiles	-
Other manufacturing	4
Professional services	9
Finance, insurance, real estate	6
Hotel, catering, leisure	4
IT services	3
Call centres	1
Media (broadcasting/publishing)	1
Retail, wholesale	6
Transport, distribution, storage	4
Communications	1
Other private services	9
Care services	3
Charity services	4
Housing association	4
Other voluntary	2
Local government	5
Central government	4
Education	5
NHS	5
Other public services	5

In order to make better use of the survey data by business type (Table 24), the data were recoded into four broader categories (Table 25).

Table 25: Shorter business type/sector list

Business type	%
Manufacturing and production	23
Private sector services	42
Public sector	23
Voluntary sector	12

Table 26: Respondents, by employee size bands

	%
Less than 25	9
25-49	5
50-99	10
100-249	25
250-499	13
500 or more	39

Table 27: Region/nation to which response relates

	%
South-east of England	12
North-west of England	9
London	8
South-west of England	8
Scotland	6
West Midlands	6
East Midlands	4
Yorkshire and Humberside	4
Wales	4
East of England	3
North-east of England	3
Northern Ireland	3
Whole of UK	31

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Chartered Institute
of Personnel and
Development

151 The Broadway London SW19 1JQ
Tel: 020 8612 6200 Fax: 020 8612 6201
Email: cipd@cipd.co.uk Website: www.cipd.co.uk
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