KPMG cipd

Autumn 2009

Labour Market Outlook

FOCUS:

Productivity and performance

Labour Market Outlook

Contents

Executive summary

The latest *Labour Market Outlook* report, based on a survey of more than 700 HR professionals, offers encouraging signs that the rate of decline in the jobs market may slow further in the final quarter of 2009. However, while the survey suggests that the private sector will not cut employment for the first time in over a year, employment will fall in the public sector during the final quarter of 2009. The jobs market thus looks set to remain in recession until the new year.

These conclusions are drawn from the report's **net employment intentions**[1] balance, a survey measure of employers' recruitment and redundancy intentions, which remains in negative territory with a balance of –3%. This is improved from –10% three months ago and –19% six months ago. As predicted by the CIPD at the start of the year, the number of organisations making redundancies and the number of redundancies made within those organisations has gradually fallen back during the course of the year. This trend looks set to continue in the final quarter of 2009. However, there will be no recovery in hiring activity during this period, with recruitment intentions lagging well below the levels seen in previous years.

On balance, therefore, the employment outlook remains subdued. It also remains uncertain, since at the same time that companies' profits have decreased in the second quarter of 2009, unit wage costs have increased and productivity levels have fallen.

The near-term outlook for pay and working hours looks very weak by historic standards. Expectations about the next basic pay increase has fallen to a record low of 1.5%, down from 1.7% three months ago. Meanwhile, the fall in working hours this year looks set to continue in the 12 months to September 2010. The survey shows that around a sixth of organisations have put in place reduced working hours' arrangements for at least some of their staff during the past year. However, what is more significant is that a similar proportion of employers say that they will be asking staff to work shorter hours in the 12 months to September 2010.

Overall, the CIPD concludes if a jobs recovery takes place in the next year, it is likely to be a 'jobs light, pay tight' recovery.

[1] This is measured by the percentage points' difference of employers that intend to increase total staffing levels from those that intend to decrease total staffing levels in the three months from September 2009.

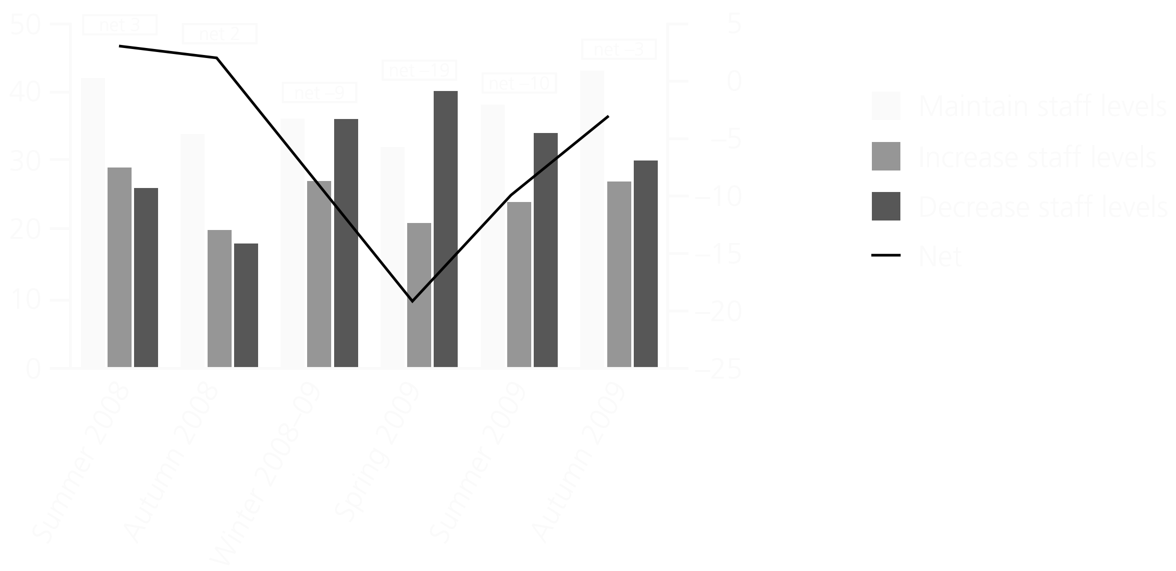
Recruitment and redundancy outlook

Employers' confidence has picked up considerably from the very low levels seen earlier in the year. The survey's net employment intentions balance this quarter has risen to –3, which is improved from –10 three months ago and –19 six months ago. The *Labour Market Outlook* (LMO) report's net employment intentions balance measures the difference between the proportion of employers that expect recruitment and/or redundancies to increase staff levels and those that expect to decrease staff levels in the three months to December 2009.

The balance shows that the employment outlook looks more optimistic in the private and voluntary sectors than the public sector. The balance for the voluntary/not-for-profit sector is +20%, 0% for the private sector and –13% for the public sector. The manufacturing and production sector (–21%) is still bearing the brunt of the economic crisis in the private sector. In the public sector, public administration and defence employees are the worst off (–18%). There is growth, however, in the private services sector (+4%). This follows the latest Office for National Statistics (ONS) data, which reveals that the net rate of return for service companies in the second quarter of 2009 increased to 15.6% compared with an average for 2008 of 15.4%.[2]

The figures also show that SMEs (+18%) are more optimistic than large organisations, that is, those that employ more than 500 people (–18%). As Figure 2 shows, hiring intentions will remain subdued in the near term, with two-thirds (65%) of employers planning to recruit during the final quarter of 2009.

Figure 1: Overall effect of recruitment and redundancies



[2] http://www.statistics.gov.uk/pdfdir/prof1009.pdf

Figure 2: Redundancies versus recruitment
(Base for autumn 09: all respondents 708)

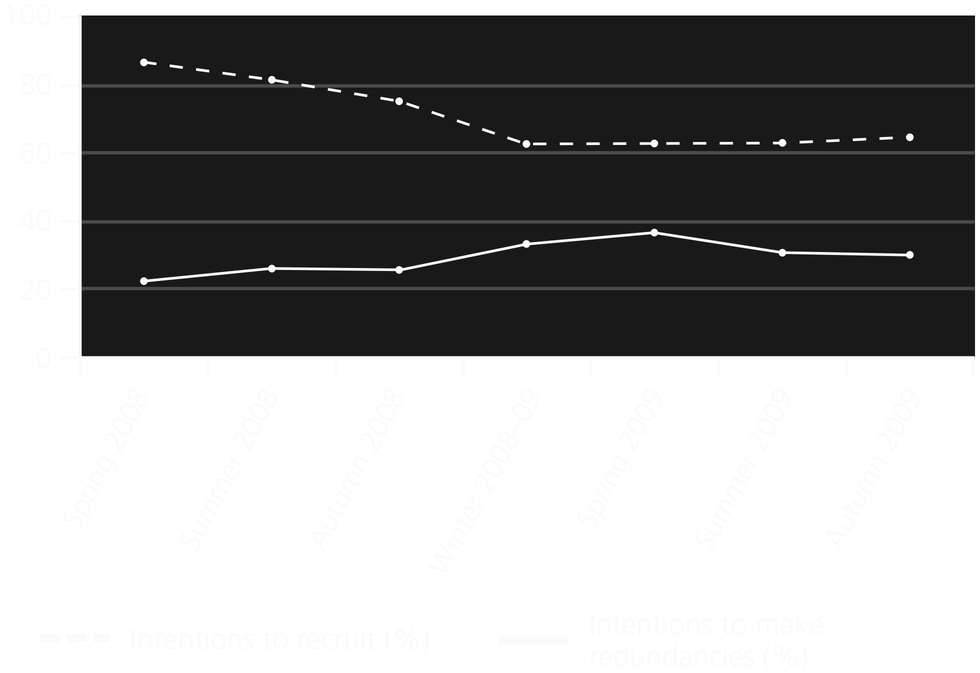
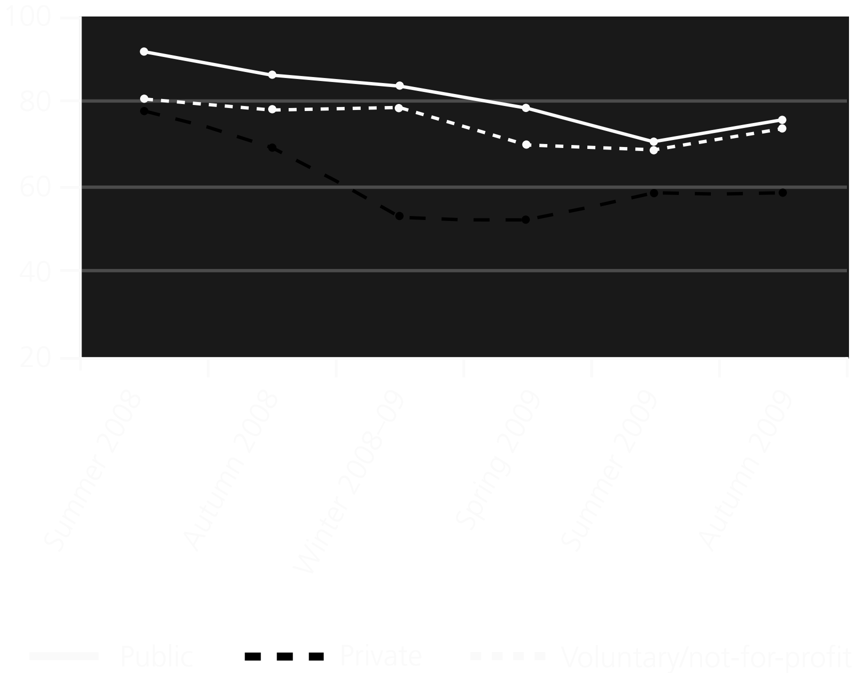


Figure 3: Recruitment intentions by business sector
(Base for autumn 09: overall 708, public 222, private 437, voluntary/not-for-profit 50)



Regional trends

This quarter, recruitment intentions are highest in Scotland (71%) and in the south of England (70%), especially in the London area (77%). Hiring intentions are lowest in the north of England (56%) and the Midlands (54%).

Migrant worker trends

As in the last quarter, one in 12 (8%) LMO employers expect to recruit migrant workers over the next three months. Migrant workers will primarily be recruited in the public sector, with 14% of organisations planning to recruit them, compared with only 6% in the private sector and 4% in the voluntary/not-for-profit sector. Around a third (35%) of NHS employers plan to recruit migrant workers in the three months to December 2009.

Redundancies

Redundancy intentions for the next quarter remain higher in the public sector than the private and voluntary sectors. Despite this, redundancy intentions are highest in the manufacturing and production sector, where 42% of employers are planning to lay off an average 4% of their workforce. As the latest ONS data shows, the net rate of return for manufacturing companies in the second quarter of 2009 has fallen to 6.7%, which compares to an average for 2008 of 9.2%.[3] But at the same time as profits have fallen, wage costs have risen for manufacturing companies. Manufacturing unit wage costs in the second quarter of 2009 grew by 6.2% compared with the same quarter a year ago. The construction industry looks set to be the worst hit though, with around two-thirds of employers planning to lay off, on average, 8% of their workforce. In the voluntary sector, redundancy intentions have dropped 7 points this quarter to 23% of organisations.

We also asked this quarter what alternative measures or incentives employers are using to avoid redundancies. Around two in five organisations have introduced a recruitment freeze and pay freeze, while a similar proportion have terminated temporary or agency workers' contracts.

Working hours

Given the fall in the number of hours worked this year, we asked what proportion of organisations have introduced reduced working hours' arrangements in the 12 months to September 2009, and whether shorter working hours would remain at their current levels in the 12 months to September 2010.

The results show that 16% of organisations have reduced working hours for at least some of their workers during the past year. What is more significant, however, is how few organisations plan to remove these arrangements in the year ahead. Around 5% of organisations have plans to remove working hours' reduction arrangements, which is offset by a similar proportion of organisations that plan to introduce or extend new reduced working hours' arrangements in the 12 months to September 2010. The trend is more pronounced in the private sector, where around one in five employers had reduced working hours in the 12 months to September 2009.

HR staff

The employment outlook for HR staff has also largely stabilised during the past six months, with 10% of LMO employers now planning to recruit additional HR staff in the coming quarter, up 2 percentage points from last quarter. Eight per cent of employers are planning to make HR staff redundant, down 1 percentage point. However, 13% of public sector employers are still planning to make HR staff redundant, an increase of 2 points from the summer quarter.

[3] http://www.statistics.gov.uk/pdfdir/prof1009.pdf

Figure 4: Redundancy intentions by business sector
(Base for autumn 09: overall 708, public 222, private 437, voluntary/not-for-profit 50)

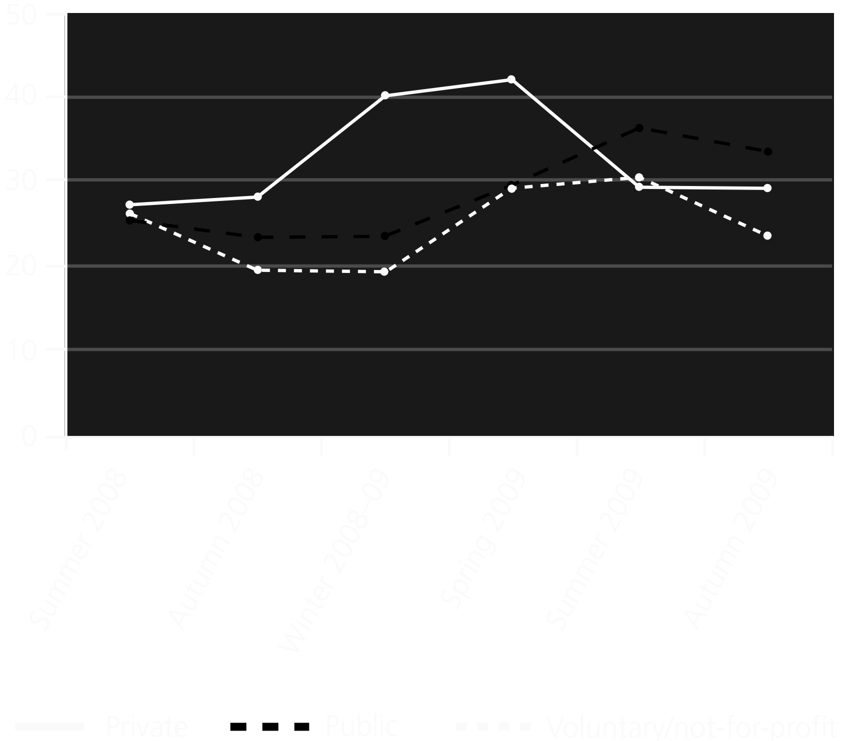
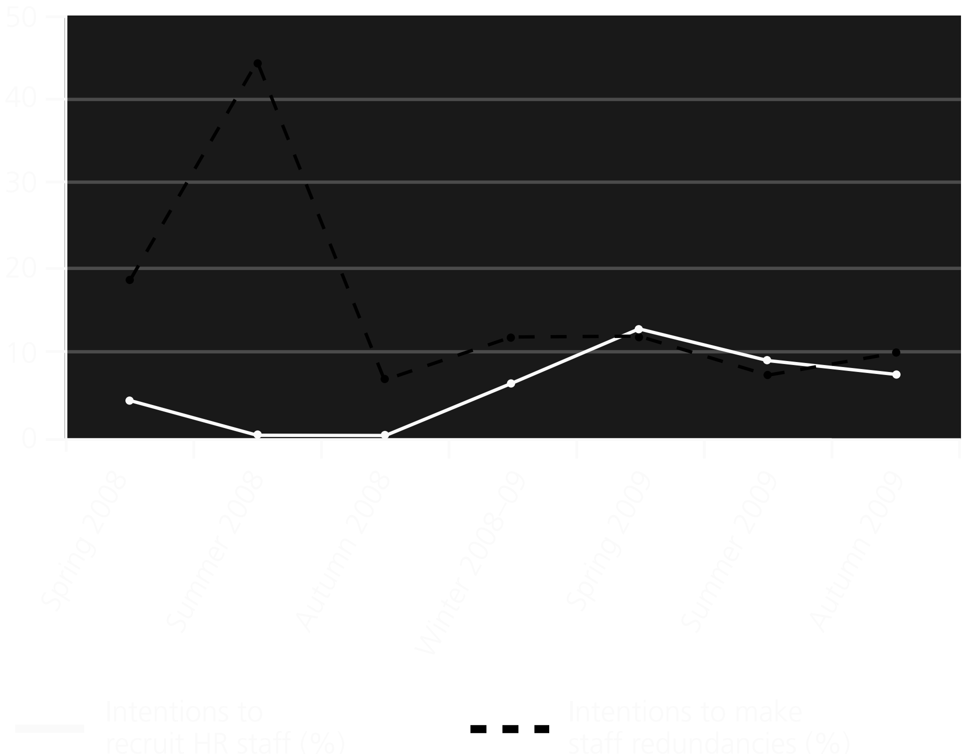


Figure 5: HR staff redundancies versus recruitment
(Base for autumn 09: all respondents 708)



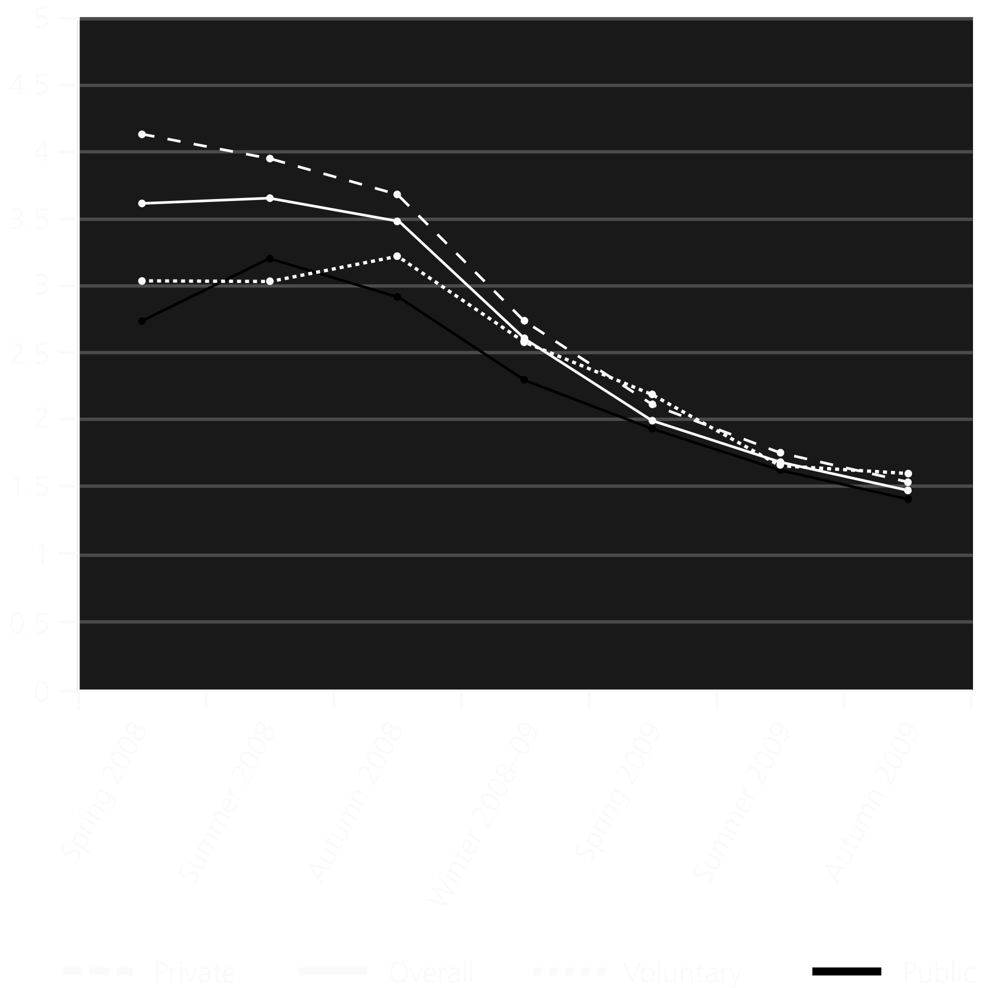
Pay outlook

The average pay increase (excluding bonuses, increments, overtime and performance-related pay) has fallen from 1.7% to 1.5% during the past three months. As Figure 6 indicates, the 1.5% average pay increase is consistent across all sectors. Almost one in five organisations (16%) plan to freeze pay following their next pay review. However, it is interesting to note that above-inflation pay rises are returning to the private sector. Of those firms that are planning pay increases, more than one in four will be awarding pay rises of between 3% and 4%. Two in five employers in the public sector will conduct a pay review for an amount less than 2%, compared with one in ten in the private sector.

The weakness in pay growth is mirrored by the number of organisations that are going to cut bonuses and pay drift, which includes overtime and commission payments, in the 12 months to September 2010. While around a quarter of employers (27%) plan to reduce bonus payments in the 12 months to September 2010, one in ten employers will cut them completely. A third (34%) of organisations will reduce overtime payments.

This trend does not extend to pensions, however, with 8% of employers planning to increase their contributions towards their occupational pension schemes in the 12 months to September 2010. This is particularly true of the public sector, where 14%

Figure 6: Basic pay review excluding bonuses (Base 493)



of employers plan to increase their contributions. Meanwhile, just 5% of all employers look set to reduce them, and 1% plan to cut them completely.

Around a quarter of employers (26%) plan to trim their training budgets, particularly in the public sector where around a third of organisations plan to make cuts. Nevertheless, 14% of organisations actually plan to increase training spend, especially in the private sector where 17% of firms plan to increase training spend. This could be interpreted as another sign that some firms are preparing for the possibility of an economic upturn.

Measuring the gender pay gap

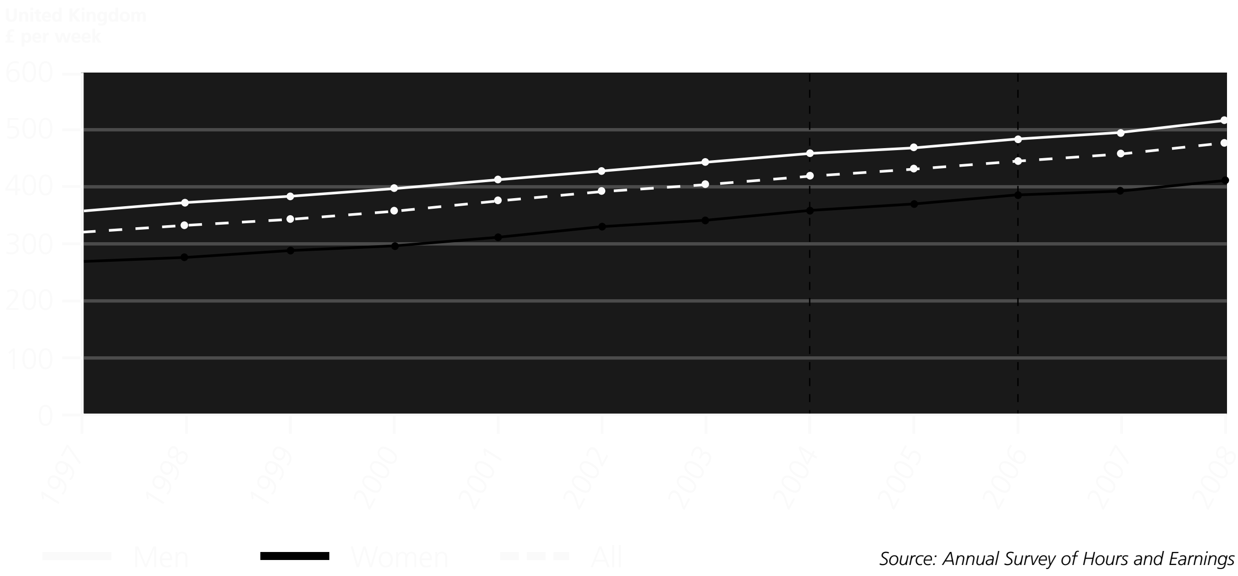
Since the introduction of the Equal Pay Act in 1970, the gender pay gap has almost halved. However, contrary to the long-run trend, the gender pay gap (as measured by the median hourly pay excluding overtime of full-time employees) widened between 2007 and 2008. In the most recent *Annual Survey of Hours and Earnings* (ASHE), produced by the Office for National Statistics, the gap between women's median hourly pay and men's was 12.8% in 2008 (Figure 7), compared with a gap of 12.5% recorded in April 2007, when it was at its lowest since records began. In a bid to further reduce this difference, the Government is introducing provisions via the Equality Bill to force private and third sector organisations to regularly publish information on their gender pay gap. Initially the provisions will be voluntary, but the Government reserves the right to enforce reporting if it thinks progress is not sufficient.

This quarter's *Labour Market Outlook* finds that fewer than one in five private sector organisations (18%) currently measure their gender pay gap. Unsurprisingly the figure is higher in the public sector (51%), where employers have a duty to show that they are tackling pay discrimination under the 2006 Equality Act. Larger organisations are also more likely to measure their gender pay gap than smaller ones.

Those who do collect this information are most likely to do so because it provides useful insight and benchmarking data (60%) and to inform pay reviews before they take place (43%). Nearly two-thirds of employers say they don't collect the information because they think it's unnecessary (62%), underlining the point that cost is not necessarily the only or greatest barrier to measuring and closing the pay gap. In the public sector, where monitoring is enforced, two in five (43%) collect the information to 'tick the box to say they have completed an equal pay audit'.

Employers who measure their gender pay gap say that on average it costs £5,100 to do so, a figure 52 times higher than the Government's estimate. Interestingly, the average cost is highest in the public sector (£7,000), where HR managers have the greatest experience of conducting audits. This figure includes external costs such as the use of consultants and the cost of their own time collating the data, but excludes costs associated with rectifying pay gaps.

Figure 7: Median gross weekly earnings of full-time employees:* by gender, April 1997 to April 2008



Source: Annual Survey of Hours and Earnings

Notes:
*Full-time employees on adult rates whose pay for the survey period was unaffected by absence.
Broken vertical lines represent discontinuities in 2004 and 2006 ASHE results.

Source: http://www.statistics.gov.uk/elmr/03_09/downloads/ELMR_Mar09.pdf (p.25)

Focus:

Productivity and performance

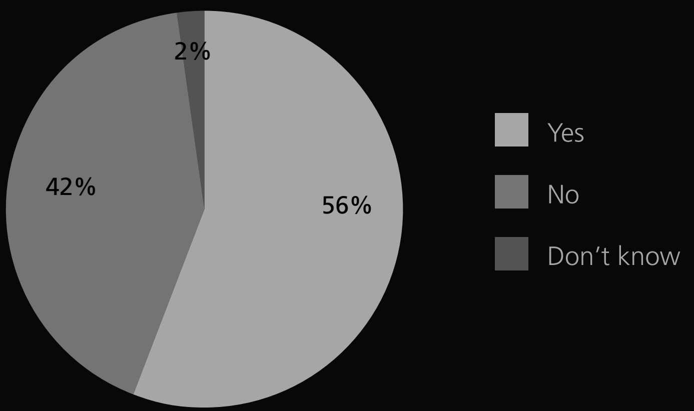
Productivity is one of the key indicators of how well economies and organisations perform. While it has been said that UK productivity levels lag behind those of international competitors, recent data shows this gap is narrowing much faster than previously thought.[4] The latest ONS international productivity data reveals that GDP per worker grew faster in the UK than the G7 average between 1991 and 2007.

However, productivity per employee per hour has fallen since the start of the recession. With this in mind, this quarter's *Labour Market Outlook* report seeks to investigate how many organisations measure productivity and how successful various HR practices are in improving productivity.

Who measures productivity?

Around three in five LMO employers surveyed (56%) say they measure productivity, whereas 42% of employers say that they don't. Given that measuring productivity in the public sector is more complex, it is perhaps unsurprising that this practice is much more common among private sector employers (65%), particularly in the manufacturing sector (70%). In contrast, fewer than half of public or voluntary sector employers (both 43%) measure productivity. Employers in the north of England (64%) and the Midlands (61%) are more likely to measure productivity compared with colleagues in the south (41%), partly because there is a smaller manufacturing base in the south.

Figure 8: Proportion of organisations that measure productivity



Base: All respondents (708). Fieldwork dates 2–22 September 2009
Source: Ipsos MORI

Table 1: Proportion of organisations that measure productivity and performance

	Private (437)	Public (222)	Voluntary/not-for-profit (50)
Yes	65	43	43
No	34	55	49
Not stated	1	2	8

4 http://www.statistics.gov.uk/pdfdir/icpnr0209.pdf

Figure 9: How do you measure productivity?

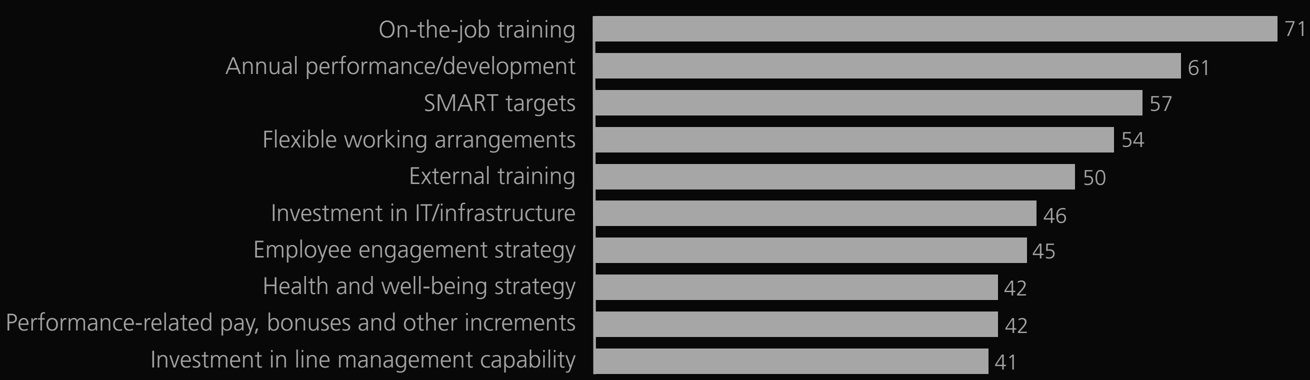
Base: All respondents who measure productivity (399). Fieldwork dates 2–22 September 2009
Source: Ipsos MORI

UK organisations use a variety of means for measuring productivity and performance. Only three in ten (30%) employers measure productivity via output per worker, which is often described as the main official productivity measure. Of the other options presented to measure productivity and performance, three in five (60%) employers say that they measure productivity or performance through customer satisfaction/feedback, while around half (54%) monitor hours worked/timesheets. A similar proportion (47%) use revenue and sales per employee, while a third use profitability/margin per employee (32%). Private sector employers are more likely to monitor hours worked/timesheets or measure revenue/sales per employee (both 58%). The public sector is more likely to mention customer satisfaction/feedback as the most preferred option.

Measures used to improve productivity

Encouragingly, more than nine in ten employers use each of the measures identified by the CIPD as key components of a high-performance working organisation, which include effective reward and learning practices. Seven in ten (71%) organisations cite on-the-job training as a successful measure in improving productivity. However, only 42% believe that performance-related pay is successful, which is interesting given that the fall in productivity since the start of the recession has mirrored the fall in earnings growth.

Figure 10: How successful are the following measures in improving productivity?



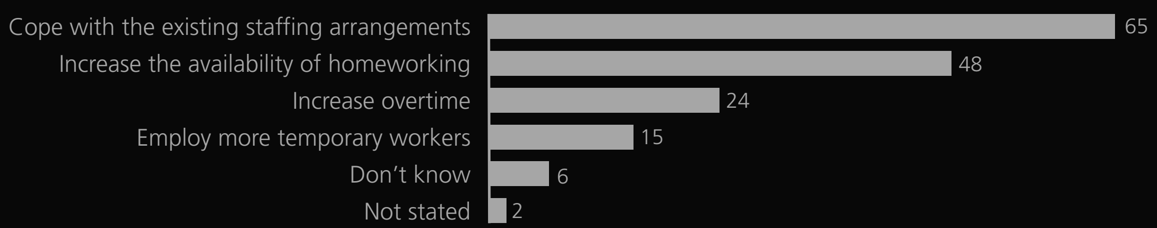
Base: All respondents who measure productivity (399). Fieldwork dates 2–22 September 2009
Source: Ipsos MORI

Employers' readiness for a swine flu pandemic

With the number of swine flu cases expected to rise during the autumn, it is interesting to note that employers would prefer to make better use of existing staffing arrangements rather than hire more staff. Two-thirds (65%) of employers surveyed say their existing staffing arrangements are unlikely to be changed if absence levels increase due to swine flu. Half (48%) will increase the availability of homeworking, while 15% will employ more temporary workers – particularly in the public sector, where one in five employers say that they will employ more temporary workers.

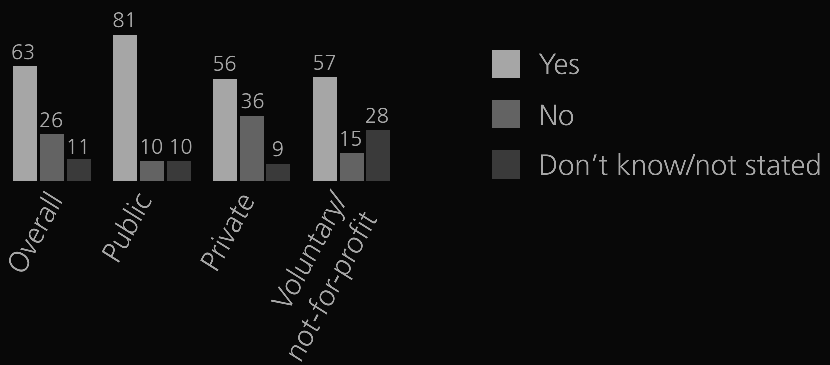
Three in five (63%) employers surveyed have a swine flu contingency plan. In a further sign that the public sector might be better prepared for a potential crisis, it is striking that four in five (81%) public sector employers have a flu contingency plan in place compared with just 56% of private sector employers. The most popular preventative measures used by organisations to try to manage the swine flu outbreak include signage about hygiene, leaflets/briefings and anti-bacterial gels or sanitisers. These are each cited by around two-thirds of employers.

Figure 11: How will your organisation try to sustain productivity if absence levels increase due to swine flu?



Base: All respondents (708). Fieldwork dates 2–22 September 2009
Source: Ipsos MORI

Figure 12: Does your organisation have a pandemic flu contingency plan?



Base: Overall (708), Private (437), Public (222), Voluntary/not-for-profit (50). Fieldwork dates 2–22 September 2009
Source: Ipsos MORI

Research methodology

The online survey went out to a range of CIPD members, and 708 usable returns were received, giving a response rate of 5%. Respondents answered a series of questions on employment issues, from 1–22 September 2009.

Data for spring, summer and autumn 2009 are weighted on the size of organisation, sector of the organisation and industry, according to the LMO membership profile. Comparisons with previous quarters should therefore be made with caution.

The responses were collated and compiled by Ipsos MORI. To provide more detail, the results were then re-analysed by the size of the company, sector of business, region and type of business.

The *Labour Market Outlook* survey was prepared at Ipsos MORI by Oliver Wright, Mark Tsagli and Diane Thebaudeau.

Respondent profile

Table 2: Respondents by business sector

	Winter 08/09	Spring 09	Summer 09	**Autumn 09**
Private	67	62	62	**62**
Public	22	31	31	31
Voluntary/not-for-profit	11	7	7	7
Don't know/not stated	0	0	n/a	n/a

Table 3: Respondents by business type

	Winter 08/09	Spring 09	Summer 09	**Autumn 09**
MANUFACTURING AND PRODUCTION	**22**	**14**	**15**	**14**
Agriculture, forestry and fishing	0	0	*	0
Manufacturing	16	9	10	9
Construction	2	2	3	2
Mining and extraction	1	0	*	0
Energy and water supply	2	1	1	1
EDUCATION	**3**	**5**	**6**	**5**
Primary and secondary schools	0	1	1	2
Further and higher education	3	4	5	3
HEALTHCARE	**6**	**8**	**8**	**8**
NHS	5	6	5	6
Other private healthcare	2	1	3	1
VOLUNTARY AND NOT-FOR-PROFIT SECTORS	**8**	**6**	**n/a**	**5**
PRIVATE SECTOR SERVICES	**38**	**52**	**54**	**52**
Hotels, catering and leisure	3	2	2	2
IT industry	3	3	4	3
Transport and communications (including media)	3	4	4	4
Consultancy services	3	14	15	14
Finance, insurance and real estate	7	9	10	10
Wholesale and retail trade	5	6	7	6
Other business services	11	12	13	12
PUBLIC ADMINISTRATION AND DEFENCE	**10**	**16**	**17**	**16**
Public administration – central government	4	7	7	5
Public administration – local government, including fire services	6	8	9	9
Armed forces	1	1	1	1
Quango	n/a	n/a	n/a	1
Not stated	11	*	1	n/a

Table 4: Region/nation to which response relates

	Winter 08/09	Spring 09	Summer 09	**Autumn 09**
North	**15**	**11**	**13**	**15**
North-west of England	8	6	4	7
North-east of England	3	1	5	2
Yorkshire and Humberside	4	5	4	6
Midlands	11	15	10	12
West Midlands	4	4	5	3
East Midlands	**3**	**5**	**3**	**5**
Eastern England	4	6	2	4
South	29	33	35	36
London	**12**	**13**	**14**	**17**
South-west of England	5	7	8	7
South-east of England	12	13	13	12
Scotland	**10**	**8**	**36**	**32**
Wales	**5**	**2**	**2**	**2**
Northern Ireland	**4**	**n/a**	*****	**0**
Channel Islands	**1**	**0**	*****	**1**
All of UK	18	25	0	0
Other	n/a	n/a	n/a	n/a
Not stated	8	7	3	1

Table 5: Respondents by employer size

Number of employees	Winter 08/09	Spring 09	Summer 09	**Autumn 09**
1–9	3	13	15	15
10–49	8	6	7	7
50–99	13	5	6	6
100–249	20	10	13	12
250–499	15	8	8	9
500–999	11	9	10	10
1,000–4,999	14	19	21	21
5,000–9,999	6	10	11	11
10,000–19,999	3	7	8	8
20,000 or more	6	13	0	0
Don't know/not stated	0	n/a	n/a	0

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