



Overview of CIPD surveys

A BAROMETER OF HR TRENDS AND PROSPECTS 2010

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Findings from the 2009 surveys – a human capital checklist for UK plc

Table 1: Key human capital benchmarks
(UK averages)

Recruitment and staffing

Labour turnover	16%
Organisations making 10 or more staff redundant	26%
Organisations experiencing recruitment difficulties	81%
Organisations experiencing retention problems	69%

Reward management

Organisations with written reward strategy	26%
Organisations using individual pay rates/ranges/spot salaries	35%
Organisations using broadbands	24%
Organisations linking salary levels to market rates	36%
Employers with bonus or incentive plans	70%

Learning, training and development

Median training budget spend per employee	£220
Training days received per employee	6

Absence management

Absence	(3.3%, or 7.4 working days per employee)
Cost of absence	(£692 per employee per year)

Introduction

Throughout 2009 the Chartered Institute of Personnel and Development (CIPD) surveyed every changing aspect of the world of work.

This eighth annual people management and development barometer report is a compendium of individual surveys drawing out common themes and highlighting emerging trends. The summary of main findings (see key benchmarks, page 2) can be read as a baseline human capital report for UK plc.

Individual surveys looked at all the key issues facing HR practitioners:

- recruitment, retention and labour turnover
- reward management
- learning and development
- absence management
- employee attitudes
- HR outsourcing.

These surveys are regularly supplemented by background data obtained from the CIPD/KPMG quarterly Labour Market Outlook survey, a quarterly survey of CIPD members, and the CIPD quarterly Employee Outlook survey, a quarterly survey of a random sample of UK employees.

Our surveys are drawn from relatively large sample sizes (see individual sections of this report for details) and provide comprehensive coverage across all sectors and sizes of organisation. Each survey report is an invaluable source of benchmarking information for practitioners and policy-makers. Some surveys are accompanied by separate 'Reflections' reports in which experts and practitioners comment on various aspects of the survey findings.

This 'all in one place' compendium presents the main findings from each of our 2009 surveys and outlines the challenges facing HR practitioners in 2010.

Copies of the CIPD's survey reports can be obtained free from our website at: www.cipd.co.uk/surveys

Labour Market Outlook

Labour Market Outlook 2009

(Respondents: HR practitioners in 700+ UK organisations)

- The proportion of employers that expected staff levels to increase against those that expected them to decrease improved from –19% in the three months to June 2009 to –3% in the three months to December 2009.
- Average pay expectations fell to a record low of 1.5% in the three months to December 2009.
- Around a sixth of organisations had put in place reduced working hours' arrangements for at least some of their staff in the 12 months to September 2009. A similar proportion of employers said that they would be asking staff to work shorter hours in the 12 months to September 2010.

Recruitment and redundancy outlook

The survey's net employment intentions balance this quarter improved to –3% in autumn 2009, from –10% in summer 2009 and –19% in spring 2009. The employment outlook has gradually become more optimistic during 2009, particularly in the private services sector. In the three months to December 2009, the balance for the private sector, which had been in negative territory all year, rose to 0%. In contrast, the balance remained negative for the public sector (–13%).

On average, one in 12 (8%) LMO employers expected to recruit migrant workers each quarter in spite of the recession.

Working hours outlook

Around a sixth of organisations had put in place reduced working hours' arrangements for at least some of their staff in the 12 months to September 2009. A similar proportion of employers said they would be asking staff to work shorter hours 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.

Pay outlook

Average pay increase expectations (excluding bonuses, increments, overtime and performance-related pay) continued to fall during 2009. Expectations had fallen to 1.5% by the end of 2009, which was consistent across all sectors. Almost one in five organisations (16%) planned to freeze pay in the three months to December 2009. However, above-inflation pay rises had returned to the private sector by the end of 2009. Two in five private sector organisations were awarding pay rises of between 3% and 4% in the three months to December 2009. Over the same period, two in five employers in the public sector said they would be conducting a pay review for an amount less than 2%, compared with one in ten in the private sector.

Recruitment, retention and turnover

Recruitment, Retention and Turnover 2009

(Respondents: HR practitioners in 755 UK organisations)

- Eighty-one per cent of organisations reported difficulty in filling vacancies, down from 86% in the 2008 survey.
- The most frequently cited causes of recruitment difficulties were lack of specialist skills (73%) and insufficient experience (39%).
- Between 2008 and 2009, the proportion of organisations reporting retention difficulties decreased from 80% to 69%.
- Labour turnover for all UK employees averaged 16%, which was a decrease from 17% in 2008.

Resourcing strategies and objectives

Fifty-eight per cent of employers reported having a formal resourcing strategy. Three-quarters (76%) of respondents cited attracting and recruiting key staff to the organisation as the main objective of their resourcing activities. Achieving the organisation's strategic goals (63%) and meeting future skills requirements (48%) were the second and third most important resourcing objectives, according to survey participants.

Recruitment difficulties

Employers' recruitment intentions decreased, with four out of ten organisations saying they would be recruiting fewer people in 2009 than in 2008. However, a high proportion of these organisations still experienced recruitment difficulties (81%). The key reasons for recruitment difficulties, similar to last year, were a lack of necessary specialist skills in candidates (73%) and candidates having insufficient experience (39%). Appointing people who have the potential to grow, but who currently don't have all that's required, was still the most frequently used initiative to overcome recruitment difficulties (74%).

Initiatives having a positive impact on tackling recruitment difficulties included: providing additional training to allow internal staff to fill posts (75%); taking account of a broader range of qualities, such as personal skills, instead of qualifications, when considering candidates (71%); and, providing a realistic job preview (68%). Although 71% of organisations reported that increasing starting salaries or enhancing the benefits package was an effective way of overcoming recruitment difficulties, only 42% said they used this method in 2008.

Attracting and selecting candidates

Using the company's own corporate website (78%) has become the most popular method used to attract candidates. Recruitment agencies (76%) and local newspaper advertisements (70%) were other most commonly used methods. The most frequently used selection methods cited by respondents included competency-based interviews (69%) and interviews based on the contents of the CV/application form (68%). The average recruitment cost of filling a vacancy per employee fell by 15% to £4,000 in 2009. This figure increased to £6,125 for organisations that also calculated the associated labour turnover costs.

Resourcing in turbulent times

Half of the organisations surveyed said the recession would have a negative effect on next year's resourcing budget and activities. In response, organisations were thinking more creatively about how to deal with resourcing challenges. The most popular approaches adopted were: focusing more on retaining than recruiting talent (56%); investing more time and effort in the quality of candidate we hire (53%) and focusing on developing existing employees to take on greater responsibility and work (50%).

A majority (54%) of respondents said that, with fewer roles to fill, they have seen an increase in the number of unsuitable applicants.

Welfare-to-work initiatives

Jobcentre Plus was the most well known (99%) of current government initiatives to get people back into work, while 82% of employers said they had heard of Business Link and 80% had heard of Train to Gain. Local employment partnerships (53%) and skills brokers (47%) were less well known. However, only 20% believed Jobcentre Plus was good at meeting their organisation's resourcing needs. Only one in ten of the organisations we surveyed had signed up to a local employment partnership.

We asked employers whether they had recruited from any of the specific groups that government initiatives were targeted at. Seventy-three per cent of organisations said they had recruited lone parents and 66% had recruited people at or near retirement age. Seventy-one per cent of survey respondents said they would be more likely to hire people from these groups if they could offer work trials.

Diversity

Overall, just six out of ten organisations surveyed have a formal diversity strategy. Public service employers seem to be much more diversity aware. More than nine out of ten public sector respondents said their organisation adopted a strategic approach to diversity, compared with just 52% of organisations within private sector services. This year more employers said they were checking that the tests they use are valid, reliable and culture-free (47%) compared with last year.

Labour turnover

The labour turnover rate of 16% was slightly lower than last year (17%). The private sector continued to have the highest labour turnover rate (17%). The hotel, catering and leisure industry and call centres had the highest level of labour turnover (34%). However, the turnover rate in the hotel, catering and leisure industry had decreased by 7% since last year.

Sixty per cent of employers believed employees' departure from the organisation had a negative effect on business performance. For 2009 respondents, promotion outside of the organisation (50%) and changing career (49%) remained the most common causes of labour turnover. Twenty-six per cent of respondents made ten or more redundancies in 2008, an increase on the 22% during 2007.

Employee retention

The number of employers experiencing retention difficulties fell from 80% in the 12 months to January 2009 to 69% in the 12 months to January 2008. Respondents reported that managers and professionals were the most difficult to retain (30%). Just 7% of organisations said they had difficulty retaining senior managers and directors.

The most frequently cited actions taken by organisations to address retention included: increasing learning and development opportunities (47%); improving the induction process (45%); increasing pay (42%); and improving selection techniques (42%). Improving line management HR skills was reported to be an effective method of improving retention (72%); however only 39% of employers said they used this method.

Reward management

Reward Management 2009

(respondents: reward managers in 520 organisations)

- The two most popular ways to manage pay structures were individual pay rates, ranges and spot salaries (used by 35% of organisations) and broadbanding (24%). Two-thirds of respondents said they considered a variety of factors, sometimes called a combination approach, including individual performance and length of service when determining employees' pay progression.
- Employers generally had an integrated reward budget combining provision for pay progression with annual pay awards. Keeping pace with inflation (cited by 44% of respondents to the survey), organisational performance (53%) and movement in market rates or the going rate of pay awards elsewhere (27%) were the main determinants of pay awards.
- More than nine in ten public sector employers offered final salary schemes in the 12 months to January 2009, compared with around one in three (36%) private sector services employers and around half of manufacturing employers (50%).

Strategic reward

Just over a quarter (26%) of respondents reported having a reward strategy in the 12 months to January 2009, which was down from one-third for the previous year. A further 24% planned to create one in 2009. A 'total rewards' approach had been adopted by one-fifth of the sample, while a further 22% planned to take this approach up in 2009.

Base pay

Overall, the most common approaches to managing base pay in 2009 included using individual pay rates/ranges/spot rates (35%) and broadbanding (24%). The most important methods used for setting salary levels were using market rates (not using a job evaluation database), market rates (supported by a job evaluation database) and an ability to pay (17%).

The key factors influencing the size of the annual pay review in 2009 included ability to pay (cited by 57% of respondents), inflation (53%) and movement in market rates (35%).

Variable pay

Short-term, cash-based bonus and incentive schemes were widespread in the private sectors in the 12 months to January 2009, with most firms operating more than one scheme. The most common types were individual-based plans (61%), followed by ones driven by business results, such as profit (56%).

Just over two-fifths of those organisations with bonus or incentive arrangements were planning to change their bonus or incentive arrangements in 2009, while one in ten planned to introduce another bonus scheme. A further one in ten reported they would be introducing a bonus scheme for the first time.

Around one-third of all respondents used recognition, such as employee of the month schemes; while just under one-fifth used non-cash incentive schemes. Private sector service employers were more likely to use both arrangements, while the public sector was more likely to opt for a recognition scheme.

Equal pay

Around half of employers carried out, or planned to carry out, an equal pay review in 2009.

Pensions and benefits

Virtually all employers (95%) had a pension plan for their employees. The most common types of arrangement included final salary schemes, group personal pensions and stakeholder pensions with an employer contribution. The survey showed that outside the public and voluntary sectors, most final salary pension schemes are now closed to new entrants, while a growing proportion are closed to future accrual as well.

Around one in five employers (17%) planned to amend their existing pension arrangements in 2009. Private sector services' firms (24%) were also the most likely to be considering making changes, followed by manufacturing firms (15%), public sector employers (12%) and voluntary sector organisations (9%).

Just under one-fifth of employers planned changes to their pension arrangements in 2009, with the most popular options being to introduce salary-sacrifice arrangements, increase employer contributions and increase employee contributions.

Other common benefits provided to all employees irrespective of grade include training and development, 25 days' or more paid leave (excluding bank holidays) and free tea, coffee and cold drinks.

HR rewards

HR professionals earned on average £30,489 in 2009, a slight decrease from last year (£30,720). HR professionals in the manufacturing sector earned 8% above the 'all sector average'. However, private services sector directors in HR on average earned 26% more than those at the same level in manufacturing.

Learning and development

Learning and Development 2009

(Respondents: 859 learning, training and development managers)

- Seventy per cent of organisations surveyed had a specific training budget for the next 12 months, a decrease of 7% from 2008.
- The median training spend by organisations per employee was £220, substantially less than last year (£300). However, employees received an average of six days' training in 2009, compared with five days' training in 2008.
- More than two-thirds (86%) of organisations surveyed undertake coaching activities

Current and future trends in learning and development

The greatest changes in learning and training methods that have occurred over the last two years are the introduction of new programmes to develop the role of line managers (61%) and efforts to develop a learning and development culture across organisations (50%).

In all, 47% of learning, training and development professionals believed coaching by line managers to be one of the most effective learning and development practices.

Although only 7% of respondents deem e-learning to be one of the most effective learning and development practices, 42% reported they have actually used it more in the last two years.

Looking to the future, almost two-thirds (65%) anticipated that learning and development activity would become more closely integrated with business strategy and 60% felt there would be a greater emphasis on the evaluation of training effectiveness.

Employee skills

- There has been an increase in interest among employers in the Government's Train to Gain skills funding. In all, 47% of respondents reported they have already made use of, or have considered using, the Train to Gain service (compared with 39% in 2008).

- Interpersonal (79%) and communication skills (74%) were viewed as most important when recruiting new employees. Although 60% of respondents continued to feel that new employees are lacking in these skills, the figure has improved slightly from last year (66%).

- The development of management and leadership skills (81%) was seen as most important in meeting business objectives in the next two years. Sixty-seven per cent of respondents also felt that both strong commercial awareness and business acumen were important.

Talent management

The proportion of respondents stating that they undertake talent management activities fell sharply from 51% in 2008 to 36% in 2009. However, the level of uptake varied greatly according to organisational size.

The most widely used talent management activities were in-house development programmes (88%) and coaching (86%). These were regarded as being effective by 35% and 50% of respondents respectively – the top two most effective activities. The least popular activities were external secondments and action learning sets, with around a third of organisations saying that they were not used at all.

The main methods for evaluating talent management practices was through feedback from line managers (48%), the retention of those identified as ‘high potential’ (48%) and feedback from employees involved in talent management initiatives (45%).

The top enabler of effective talent management was clear commitment and support from the leadership team. The biggest barriers were the time and cost associated with setting up and running talent management schemes, pressures of work and resistance from line managers to attend programmes.

Coaching

Over two-thirds (69%) of learning, training and development professionals said they used coaching within their organisations.

Coaching appears to have forged closer links with management development over the past year. Fifty-five per cent of respondents agreed that coaching was part of management development initiatives in their organisation, an increase of 8% on the last survey. Despite this, only 25% of respondents agreed that coaching was the predominant management style within their organisation.

While coaching may not be seen as a particularly formal process (only 36% said that in-depth training is provided to coaches), it was viewed positively by many. Fifty-seven per cent agreed that coaching was encouraged, and 62% felt that coaching was seen primarily as a positive development opportunity rather than a remedial intervention.

Economic influences on learning and development

Unsurprisingly, only 11% of respondents felt that the economic circumstances facing their organisation in the past 12 months have improved. Forty per cent reported facing similar circumstances to last year, while almost half stated that their economic/funding situation has worsened (46%).

However, the worsening economic situation does not appear to have impacted as severely on the funds available to learning and development teams as might be expected. Around half (51%) of respondents felt that funds for learning and development have stayed the same for the past year, with around a third (32%) saying that these funds have decreased.

Many respondents remain fairly optimistic about the future, with just under half (45%) agreeing that learning and development funds would remain the same in the next 12 months.

Encouragingly, 76% agreed that ‘learning and development in my organisation was seen as an important part of business improvement’.

Absence management

Absence Management 2009 (respondents: 642 HR practitioners)

- The average level of absence was 3.3%, or 7.4 working days per employee.
- The average reported cost of absence was £692 per employee per year.

The average level of employee absence has fallen to 7.4 days per employee per year from eight days per employee per year in the previous year. This is the lowest level of employee absence recorded by the CIPD's Absence Management survey since it began in 2000.

The average level of absence remained highest in the public sector at 9.7 days per employee per year, a very slight drop from the previous year's figure of 9.8 days per employee per year.

Non-profit organisations recorded the next highest level of absence at 9.4 days per employee per year; the only sector to record an increase in absence levels from last year's 8.5 days.

Employee absence levels in the manufacturing and production sector fell to 6.5 days per employee per year compared with 7.2 days for the previous 12 months.

Private sector services organisations also recorded a drop in the average level of absence from 7.2 days per employee per year to 6.4 days.

Costs

The average cost of absence per employee per year was £692, which was a slight increase from the previous year's figure of £666.

The annual cost of absence was highest in the public sector, averaging £784 per employee per year. However, this represented a reduction from the previous year's figure of £906 per employee per year.

Manufacturing and production employers recorded the next highest cost at £754 per employee per year, a slight fall from the figure for the year before of £759.

Absence costs among non-profit organisations also fell slightly to £698 from £741 per employee per year.

Private services organisations recorded the lowest annual absence costs, averaging £666 compared with the previous year's figure of £663.

Causes of absence

Minor illnesses such as colds, flu and stomach upsets were by some way the main cause of short-term absence for both manual and non-manual workers.

Among manual workers the next most significant cause of short-term absence was musculoskeletal conditions, such as neck strains and repetitive strain injury, followed by back pain and stress.

Stress was the second biggest cause of short-term absence for non-manual workers, followed by musculoskeletal conditions, home and family responsibilities and back pain. Employers rated acute medical conditions, back pain, musculoskeletal conditions and stress as the top four causes of long-term absence among manual employees.

Stress was the number one cause of long-term absence among non-manual employees, followed by acute medical conditions, mental ill-health, such as clinical depression and anxiety, and musculoskeletal conditions.

Employee Outlook

Employee Outlook 2009 (respondents: 2,000 employees)

Job satisfaction

- The net satisfaction score for employees' job satisfaction fell from a high of +46 in the spring *Employee Outlook* to +37 in the autumn *Employee Outlook*.

Attitudes towards management

- Confidence in the senior management team has fallen during the year and the proportion of employees agreeing they are consulted about important decisions has also fallen. Confidence in senior management was particularly low among public sector employees.

Employee well-being and work-life balance

The number of employees that felt under excessive pressure at work increased during the course of the year. The recession does not appear to have had much impact on people's work-life balance during 2009, with over half of employees satisfied with their work-life balance. Just over a third agreed or strongly agreed that their organisation provided support to help them manage their work-life balance. These figures have remained fairly static between the first *Employee Outlook* survey in May and the most recent survey published in November.

Impact of the recession on employees and employers

More than four-fifths of employees said their organisation had been affected by the recession by autumn 2009. Almost one in three (29%) employees responding to the autumn *Employee Outlook* reported that redundancies have taken place in their organisation. There has been an increase in the number of employees reporting pay and recruitment freezes and cutbacks in training over the year.

There has been a slight reduction in the number of people who thought it likely or very likely that they could lose their job as a result of the recession over the year to autumn 2009. However, the proportion of public sector employees now concerned about losing their jobs has almost doubled to 12% between spring and autumn.

UK employees responding to the autumn *Employee Outlook* were twice as likely to say their standard of living had worsened in the past six months as they were to say that it had improved. Almost a third (28%) said their standard of living had worsened, compared with 14% who said it had improved. Workers aged over 55 were most likely to report a worsening in their standard of living.

Job-seeking

The autumn *Employee Outlook* showed that a quarter of UK workers were looking for a new job, a figure that has remained stable over the year. For those who had moved organisation during 2009, the incentive was not always financial, with 37% receiving more money and 32% receiving less. However, the number of employees looking to change jobs in the next year increased from just over a third (34%) in the spring to two-fifths (40%) by the autumn.

Outlook 2010 – a radar check for HR

Economic and labour market outlook

The CIPD, in the face of some scepticism, correctly warned that 2008 would be the UK's worst year for jobs in a decade. It was. Following the onset of recession that year, few doubted our subsequent forecast that 2009 would be the worst year for jobs in almost two decades. We were right about that too, even though things were not quite as bad as anticipated.

We expect 2010, by contrast, to be a better year for jobs as the economy recovers from recession, but still a very difficult one with unemployment continuing to rise until at least the summer and below-inflation pay increases for most people in work.

The recession and jobs: could have been much worse

Our forecast at the end of 2008 was that in the 18-month period from the start of the recession until the end of 2009 the UK economy would shed around three-quarters of a million jobs, equivalent to the net rise in employment in the preceding three years.

The actual toll looks like being around half a million jobs (it won't be possible to confirm the final outcome until official figures for the period are published in the New Year). Moreover, our forecast was based on the assumption that the recession would be shallower and shorter than it turned out to be and roughly in line with the recessions of the early 1980s and early 1990s. As is now known, however, the UK economy in fact suffered the deepest and longest recession since the Second World War, with output shrinking by almost 6% over the course of six consecutive quarters.

Consequently, the loss of jobs since spring 2008 (around 2% of employment, or half a million jobs), while clearly substantial, is much less than would have been expected on the basis of previous experience. This represents a much lower 'job distress ratio' – the fall in employment relative to the output – than in the recessions of the 1980s and 1990s. Had previous UK experience been repeated, it is likely that roughly half a million more jobs would have been lost during the recession.

A 'shared pain' recession

The better than expected outcome is primarily explained by an unusually rapid easing in the rate at which people were being made redundant. As we accurately forecast a year ago, the number of redundancies peaked at 300,000 in the first quarter of 2009, making it the worst quarter for redundancies since 1991. What we hadn't anticipated, however, was the size of the subsequent drop in redundancies to around 200,000 by the third quarter (our forecast was for redundancies of still above 250,000 at that time).

This welcome outcome in part reflects the impact of fiscal and monetary policy that has prevented fewer businesses from going bust than would otherwise have occurred and added to public sector employment during the recession (in the year to September 2009 public sector employment increased by 290,000, though the scale of increase is exaggerated by the transfer of staff of the Royal Bank of Scotland and Lloyds Banking Group into the measured public sector workforce). But in addition, the pain of labour market adjustment to the recession has been shared somewhat more evenly across the workforce in the form of reduced hours and, especially, pay freezes or pay cuts rather than falling entirely on job losses.

Whether this reflects an active decision by employers to retain workers to protect investments in skills, or to keep employees engaged (that is, 'on side') with their employer, or simply because of a broader recognition of the substantial up-front financial costs associated with redundancies is unclear. Either way, this form of adjustment is far more economically and socially beneficial than loss of jobs.

This has therefore been much more of a 'shared pain recession' than those suffered in previous decades. Even so the casualties have been significant. For example, while the recession was triggered in the finance sector, as in most previous recessions it is the real economy, and manufacturing in particular, that suffered most. The number of manufacturing jobs fell by almost 8% in the year to September 2009 and construction jobs by 8.2%. This compares with job losses of 3.2% in finance and business services and 2% in distribution, hotels and restaurants.

Consequently, blue-collar workers have borne the brunt of the recession, which has had a particular impact on male employment. By autumn 2009 there were 400,000 fewer men in work than a year earlier (a fall of 2.5%). The equivalent figure for women is 31,000 (0.3%). The fact that job retention has been preferred to mass redundancies has also meant that more of the adjustment to the recession has taken the form of reduced hiring or recruitment freezes. While this is good news for incumbent staff who keep their jobs, it makes life especially tough for people looking for work, especially young entrants to the jobs market. This explains why the rise in youth unemployment is such a dominant feature of this recession – the number of jobless 16–24-year-olds reaching a record level of close to 1 million by autumn 2009.

Pay moderation

A considerable amount of attention has been placed on the fall in hours worked during the recession. The CIPD/KPMG *Labour Market Outlook* survey, for example, finds that one in seven employers reduced the working hours of at least some of their staff in the year to autumn 2009. In the 18 months to the third quarter of 2009, there was a 4% fall in the total number of hours being worked in the economy each week (double the fall employment). But the really big labour market story of this recession has been pay moderation.

We only partly anticipated this in our forecast for 2009. A year ago average earnings were increasing at the rate of more than 3.5% per annum. We expected the rate of increase to moderate to between 2% and 2.5% during the course of the year, a forecast widely considered as on the low side when we made it. In the event, earnings growth slipped further still to just 1.8% in September, with the fall driven mainly by pay moderation in manufacturing and most other parts of the private sector (public sector pay growth remained above 3% until September).

A number of factors account for this: the rise in unemployment, which increased job insecurity; weakness in the value of sterling, which increased non-labour production costs and made employers more resolute to bear down on wage costs; and either a greater willingness on the part of workers to trade off pay rises against job cuts or sheer powerlessness in the face of such cuts.

Relative price stability may also have helped by cushioning the impact of pay freezes or cuts on real living standards. During the course of the first three quarters of 2009, inflation on the Consumer Prices Index (CPI) measure fell to around 1% while the Retail Prices Index (RPI) – still used as the principle cost of living benchmark in pay settlements – registered an overall fall in the price level (that is, deflation).

A sting in the tail? The overhang from 'under-sacking'

The degree to which such pay flexibility is a symptom of greater relative employer power in a nowadays lightly unionised private sector, or instead a sign that employers and staff are together setting pay in the light of some form of shared vision, is a moot issue. Available evidence is unclear. According to the annual CIPD/YouGov employee pay survey, almost half of UK employees experienced either a pay freeze (41%) or a pay cut (5%) in 2009. But approaching two-thirds of employees expressed dissatisfaction with this. The CIPD's quarterly Employee Outlook surveys meanwhile suggest that most employees have adopted a 'grin and bear it' attitude during the recession, although stoicism has waned slightly over time.

What is evident, however, is that the employers (or leastways organisations and their owners or shareholders) as well as employees have shared the pain of recession in the form of a reduced profit share. The consequence of retaining staff – which in aggregate has resulted in employment falling by only around two-thirds of the fall in output – has been a slump in labour productivity (output per worker). UK labour productivity was almost 4% lower in the second quarter of 2009 than a year earlier. The fall in productivity in turn increased the cost of labour relative to prices employers received for their products and services by almost 6% compared with a year earlier, in spite of the moderation in staff pay, thereby eating into profits.

This outcome is in marked contrast to what happened in the 1990s recession. Then employers cut staff very heavily, indeed by more than the contraction in the output of the economy (a tendency at the time dubbed ‘over-sacking’). This was good for productivity and profits but not such good news for unemployment (and, incidentally, akin to what has happened in the United States economy in this recession).

Extending the metaphor it might be said that the noughties recession witnessed a marked degree of ‘under-sacking’. However, while this is welcome from the point of view of employees, it means that the UK economy is emerging from the recession with a low-productivity overhang. The most obvious potential consequence of this is that it might delay the start of a sustained pick-up in recruitment activity once the economic recovery is under way (see below). But it may also indicate that there will be a sting in the tail of the recession for the labour market in the form of either a renewed burst of redundancies in 2010 and/or a continued squeeze on workers’ real living standards.

How high will unemployment go?

The better than expected employment impact of the recession is mirrored by what has happened to unemployment. As the Organisation for Economic Co-operation and Development (OECD) noted in its 2009 annual Employment Outlook, since the start of the global economic meltdown UK unemployment has risen by no more than the average for the world’s developed countries. This is in marked contrast to economies such as Spain, Ireland and the United States, which have experienced larger-scale job loss from a similar scale of financial sector and housing market collapse.

By the autumn of 2009 UK unemployment had reached just under 2.5 million on the official International Labour Organization (ILO) survey-based measure obtained from the quarterly Labour Force Survey – up from around 1.6 million at the onset of recession – while in November 2009 the number of people unemployed and claiming Jobseeker’s Allowance (JSA) stood at 1.63 million. Now that the recession is over, for how much longer and how much higher will unemployment continue to rise?

Survey evidence drawn from employers compiled by the CIPD (and reported in the CIPD/KPMG quarterly *Labour Market Outlook* reports) suggests that the pace of deterioration in job prospects started to slow in the summer months and continued to slow into the autumn. This pattern was subsequently confirmed by official labour market statistics, which showed that by the autumn the rise in unemployment was more of a crawl than a rush. Indeed, the JSA count actually fell by 6,300 in November.

The improvement was aided not only by fewer redundancies – which stemmed the flow into unemployment – but also by a surprise increase in employment, which helped the outflow. Overall employment started growing in the autumn, with growth in part-time jobs offsetting continued reductions in full-time jobs. The result was a sharp rise in involuntary part-time working (by autumn 2009 a record figure of more than 1 million people said they were working part-time because they were unable to find a full-time job), but this nonetheless provided a useful alternative to the JSA dole queue, which the Government says is 400,000 smaller than it had expected earlier in the year.

Moreover, the Government, in the Treasury's 2009 pre-Budget report (PBR), published in December, broke with Whitehall tradition and forecast that the JSA count would peak at 1.75 million in 2010, which translates into around 2.55 million on the ILO measure. This suggests that unemployment is already close to its peak.

Our expectation at the start of 2009 was that ILO unemployment would reach 2.8 million by the end of the year on its way to a peak of 2.9 million in mid-2010. Indeed, when the recession deepened significantly in the early months of 2009 we increased this forecast to 3.2 million. However, while we are extremely pleased that this forecast has proved too pessimistic, we are not yet convinced that the peak in unemployment will be as low as the Treasury and some other independent forecasters currently predict.

Our baseline forecast is that unemployment will peak at 2.8 million in the summer of 2010. This is based on an expectation that there will be a sting in the tail of the recession with a winter rise in redundancies as employers assess prospects for the economy in the coming year and decide that there will be a need to raise productivity and reduce unit labour costs. We also expect the increase in employment seen in autumn 2009 to abate given that much of this is likely to represent a temporary surge in recruitment as employers found it necessary to end strict recruitment freezes implemented during the recession.

The baseline forecast assumes that the economy recovers in line with current market expectations and that the rate of growth in average earnings picks up to no more than 2% per annum. Given the likelihood of a rise in price inflation to at least 3% in 2010, this in turn implies a squeeze on real pay. This could be difficult to deliver following a recession during which many private sector employees have experienced pay freezes or pay cuts against a background of price deflation on the RPI inflation measure. The 2009 CIPD employee earnings survey, for example, finds a median expectation amongst private sector employees of a 3% increase in earnings in 2010. The equivalent figure for the public sector is 2%, though with the PBR signalling a 1% cap on public sector pay increases for two years from 2011, public sector unions may be in no mood to accept restraint.

A slower than expected recovery or stronger earnings growth would threaten to raise peak unemployment to at least 3 million. We also assume that the effect of measures necessary to reduce the Government's record fiscal deficit have no negative impact on the labour market in 2010. Public sector employment is therefore likely to remain broadly stable in the short run, with the main impact of efficiency savings and real cuts in public spending not being felt until 2011 onwards. Similarly, we assume that employers will not alter their demand for labour in anticipation of the 1% hike in employers' National Insurance Contributions (NICs) due in April 2011.

On these assumptions the fiscal squeeze impacts on the speed of the jobs recovery after the peak in unemployment rather than the peak itself. If instead the employers were to anticipate the rise in NICs and/or government were to seek a more immediate reduction in the fiscal deficit – which might be the case if the Conservatives gain power at the General Election due in the first half of 2010 – unemployment might peak at a higher rate than we currently expect.

A further complicating factor is the effect on unemployment of government policy measures targeted at the unemployed. These include measures targeted primarily at the almost 1 million jobless 16–24-year-olds, notably the youth Job Guarantee for those out of work for more than six months. This will start to come into effect at the start of 2010, with the Government aiming to create around 150,000 temporary jobs – mostly in the local authority and voluntary sectors – to take young people off the dole. It is possible that such measures might limit the peak in measured unemployment to below our forecast level of 2.8 million. However, given the precise impact of such measures are difficult to determine, we have made no allowance for this in our forecast.

How strong a jobs recovery?

Also uncertain is the speed at which unemployment will fall from its eventual peak. In principle Britain's flexible labour market has not only helped save jobs during the recession but also has the potential to enable a more rapid fall in unemployment than experienced following the recessions of the 1980s and 1990s. By comparison with previous recoveries, the labour market exhibits fewer structural problems of the kind that would threaten to trigger inflationary wage pressure well before unemployment returns to pre-recession levels.

However, to realise this potential the economy will need to sustain a strong recovery in demand for labour. What are the prospects for this?

There is a lot of debate at present of the likely shape of the economic recovery. Some economists reckon there will be a 'V-shaped' recovery – with the economy bouncing back very strongly having slumped previously, the bottom of the V being roughly how things stood at the likely trough of the recession this autumn. Others talk of a 'W-shaped' recovery – that is, the return to growth is not sustained and the economy dips back into recession – or an 'L-shaped' recovery, which implies that the recovery will be sustained but at a very moderate pace. But this alphabet of possibilities refers only to the recovery in output, not employment, the latter being dependent on the make-up of the output recovery.

Employment growth is nowadays overwhelmingly driven by the strength of demand for services. This will remain muted in an economy of heavily indebted consumers, credit-constrained businesses and a government sector struggling to finance a record budget deficit looking to cut spending and raise tax revenues. The best we can hope for is a sustained export-led economic recovery base on a solid improvement in global economic conditions and, in particular, a robust return of business confidence. Unfortunately, however, an export-led recovery will be a mainly manufacturing-based recovery, which, while good for the overall balance of the economy, will not generate so many jobs.

In addition, given the possibility that the UK economy may have suffered a permanent hit to productive capacity as a consequence of the recession – primarily as a result of extremely weak business investment in physical capital – there is a risk that the economy will experience a constraint on its ability to sustain non-inflationary growth at the pre-recession rate of unemployment for reasons unrelated to the functioning of the labour market.

In view of this, one can posit three possible scenarios for the jobs recovery:

- A jobs-lined recovery: a strong and sustained rebound in global demand and investment, enabling employers to take advantage of Britain's flexible labour market to create jobs, resulting in a strong and early rise in employment and a return to the pre-recession rate of unemployment by the end of 2012.
- A jobs-light recovery: a modest sustained economic recovery sufficient only to enable a gradual increase in net job creation, with recruitment only slightly exceeding redundancies, continued high unemployment and no prospect of a return to the pre-recession rate of unemployment before 2015 at the earliest.

- A jobs-loss recovery: a weak and uncertain economic recovery, marked by continued fear of a double-dip recession, with cutbacks in recruitment, a renewed bout of redundancies as employers find it increasingly difficult to hold onto staff retained during the initial recession, unemployment continuing to rise well beyond 2010 to a peak of at least 3.5 million and no prospect of a return to the pre-recession rate of unemployment for at least a decade.

Although there is more optimism about the state of the labour market than was evident a year ago, the consensus of current opinion seems to favour a medium-term outlook in line with the jobs-light recovery scenario.

In the PBR, for example, the Treasury reckons there will still be 1.5 million people claiming Jobseeker's Allowance at the end of 2012, which can be translated into around 2.3 million on the wider ILO measure of unemployment. This is 700,000 more than the pre-recession level of unemployment even after what the Treasury forecasts will be three years of healthy economic recovery.

This kind of forecast implies that unemployment will probably remain above 2 million for the first half of the next decade, even on what may prove to be an optimistic forecast for economic growth. Unemployment at this level will also act as a tough constraint on pay rises, which are unlikely to outstrip price inflation for some considerable time. 'Jobs-light/pay-tight' might thus be a better description of the recovery that awaits the UK in the next few years.

A jobs-light/pay-tight recovery will present a considerable challenge to HR professionals in the task of securing employee engagement during what is likely to be a very difficult period for the workplace. The benign employment relations of the long noughties boom may have just about survived the worst ravages of the noughties recession, but they face a severe test in the coming decade as private sector employers seek to contain wage costs and public sector employers cope with the consequences of fast-shrinking budgets and mass job-downsizing.

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