



Quarterly survey report
Summer 2010

Labour Market Outlook



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Executive summary

The quarterly CIPD/KPMG *Labour Market Outlook* aims to offer an early indication of future changes to the UK labour market around recruitment, redundancy and pay intentions. The survey is based on the responses of 598 HR professionals, who are mainly drawn from the CIPD's membership of more than 135,000 HR professionals. The latest report indicates that the employment recovery signalled in the spring quarter's report, which has been reflected in the official unemployment statistics in recent months, has eased over the past three months. Recruitment intentions are similar to their levels in the spring report, but redundancy intentions have picked up.

The report's **net employment intentions**¹ balance broadly captures the sum of this activity. The net balance fell to +2 for the third quarter of 2010, which compares with our +5 projection for the second quarter. As in the spring quarter, labour demand in the private sector is offsetting the sharp fall in demand in the public sector. However, the slight fall in the net balance may mask the true extent of forthcoming job losses in the third quarter of the year. While the number of employers planning to make redundancies is similar to that in the spring report, the proportion of the workforce that will be affected by these redundancy programmes has jumped by 50% in the past three months. This is being driven chiefly by public sector organisations, where redundancies will affect almost 8% of the workforce on average.

On balance, therefore, the CIPD, like the Office for Budget Responsibility (OBR), expects employment to remain stable in the coming months. However, the

medium-term employment outlook is likely to be weaker than the forecasts made by the OBR² (OBR 2010, p15). It expects employment to increase next year. The CIPD on the other hand believes that further rises in unemployment in the next two years remain a distinct possibility as the private sector recovery is offset by the 600,000 public sector job losses the Government expects over the next five years.

This backdrop will also continue to weigh down on pay, which remains subdued. The expected average pay settlement in the 12 months to June 2011 has fallen to 1.5%, down slightly from 1.6% in the spring report. This average figure has remained relatively unchanged over the past year, varying between just 1.5% and 1.6%, which has also been borne out in the official pay statistics. Further out, the CIPD also believes that the medium-term pay outlook is likely to be weaker than the forecasts made by the OBR, which expects wages and salaries to grow by 2.8% next year, and by 3.5% in 2012. The evidence from our members suggests that it will be some time yet before pay settlements rise consistently above 2% – especially against the backdrop of a two-year pay freeze on the substantial majority of public sector workers from 2011–13.

Overall, therefore, the Chartered Institute of Personnel and Development expects little upward pressure on pay settlements or the jobs market in the short to medium term.

We welcome feedback on this quarterly report. Please send your comments to g.davies@cipd.co.uk

¹ This represents the difference between the proportion of employers that intend to increase total staffing levels and those that intend to decrease total staffing levels in the third quarter of 2010.

² Office for Budget Responsibility. (2010) *Pre Budget Forecast*, June 2010.

Recruitment and redundancy outlook

Employment levels appear to have stabilised further this quarter, according to the *Labour Market Outlook* (LMO). This quarter's net employment balance for the whole economy – which measures the difference between the proportion of employers that expect recruitment and redundancies to increase staff levels and those that expect to decrease staff levels in the third quarter of 2010 – has fallen slightly to +2 from +5. As Figure 1 illustrates, the net employment intentions balance provides a fairly accurate forecast for the trends reported in the official Labour Force Survey data produced by the Official for National Statistics (ONS).

Private sector employment will continue to rise in the third quarter of 2010, albeit at a slower pace than the second quarter. The net employment intentions balance for the private sector has fallen from +29 to +19 over the past three months. This is comfortably above the level of +5 seen in the winter 2009/10 report. On the upside, employment growth will

be most buoyant in manufacturing (+48). On the downside, labour demand in the public sector remains weak. The net employment intentions balance for the public sector is –35, which is improved slightly from –43 in the spring 2010 report, but is worse than the winter 2009/10 (–31) and autumn 2009 (–13) reports. Again, as in the last quarter, the decline in employment prospects in the public sector is particularly evident in public administration and defence (–64), especially local government (–74).

As seen in the spring report, the increases in employment levels will be particularly strong in manufacturing and production (+40) and private sector services (+15), particularly the IT sector (+42) and consultancy services (+38). The largest falls are expected in education (–51), healthcare (–42) and public administration and defence (–64).

There are also stark differences at the regional level. The highest net employment balance is seen

Figure 1: Overall effect of recruitment and redundancies

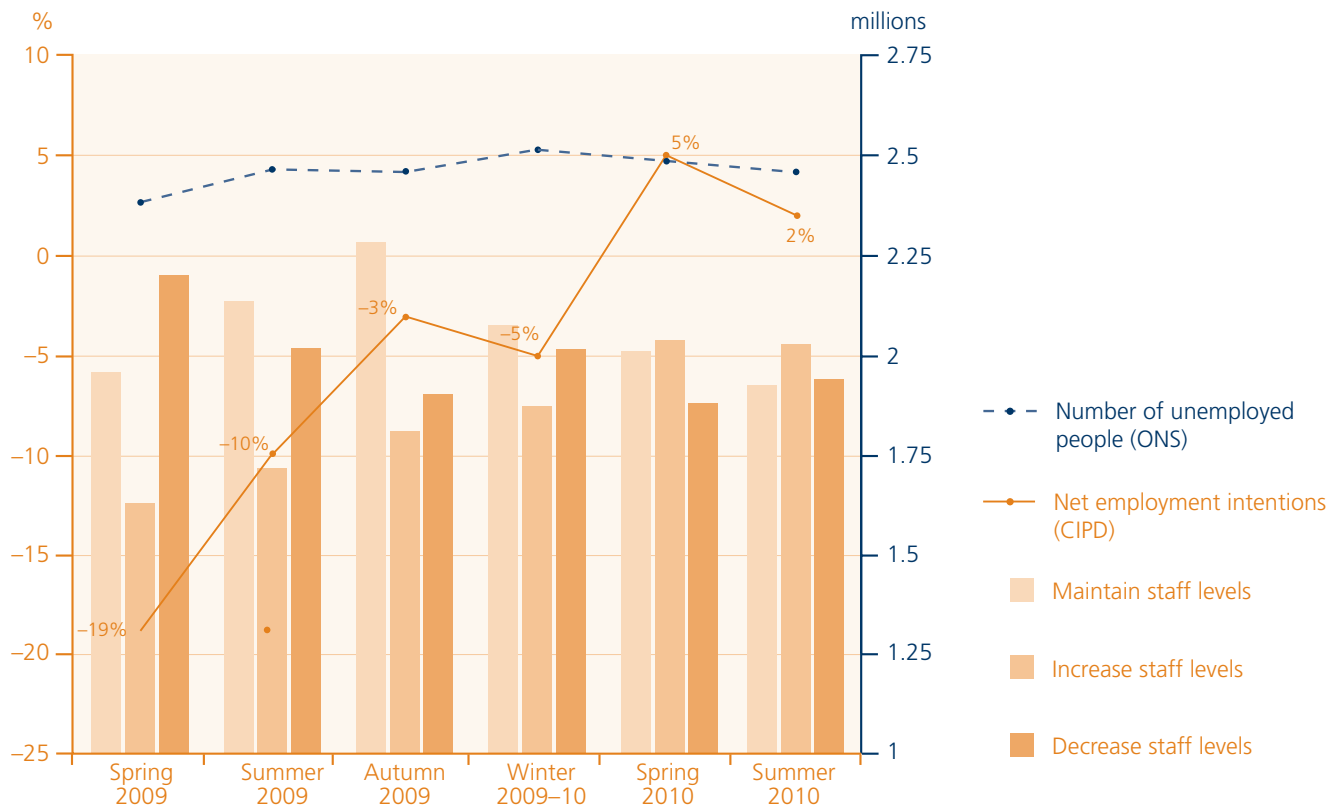
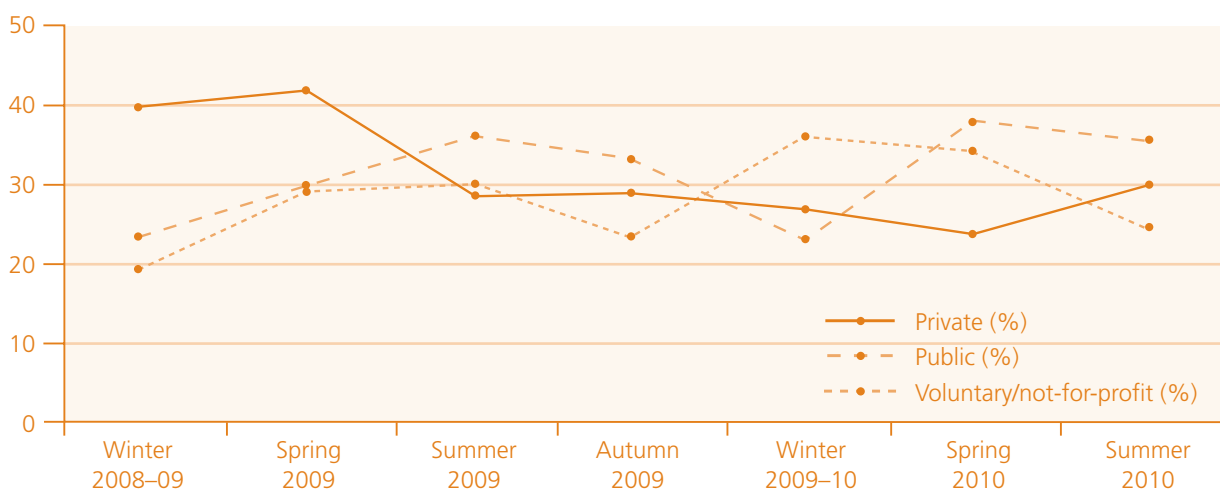


Figure 2: Redundancy intentions by business sector (%)



(Base for spring 2010: Overall 787, Public 157, Private 512, Voluntary/not-for-profit 118)

in London (+15) and the Midlands (+13), while it is substantially lower in the north of England (-10) and Scotland (-35). These variations reinforce the CIPD's view that a two-speed jobs market is likely to emerge from the current economic and political situation, as discussed in previous reports.

Continuing the trend seen in recent reports, there are disparities in the net employment balance between SMEs and larger organisations. The net employment balance figure for SMEs (1-249 employees) remains high at +39, compared with +43 and +29 recorded in the previous two quarters. Meanwhile the figure for larger employers (500+ employees) is -16. This is partly due to the fact that public sector organisations tend to be larger than private sector companies. However, the relatively high number of private sector companies that plan to offshore jobs in 2010 suggests that this is not the only reason.

Table 1: Proportion of organisations planning to make redundancies in the next three months (%)

	Summer 2010	Spring 2010	% difference
Manufacturing and production (128)	23	22	+1
Private sector services (267)	32	23	+9
Healthcare (43)	28	27	+1
Voluntary and not-for-profit sectors (65)	30	35	-5
Education (29)	45	51	-6
Public administration and defence (66)	36	46	-10

Base: (Summer 2010) in brackets

Recruitment intentions stabilise

Following an increase in recruitment intentions in the spring report, this quarter's findings show that the proportion of organisations planning to recruit in the next three months has stabilised. Two-thirds (67%) of organisations expect to recruit in the coming three months, compared with 68% in the spring report and 63% in the winter report.

Recruitment intentions within the sectors have also remained stable since the spring report. Seven in ten (71%) private sector companies are planning to recruit in the next three months, while six in ten plan to do so in the public (60%) and voluntary (63%) sectors. One in eight organisations (12%) plan to create green jobs over the next year.

Four in five (80%) new recruits are expected to be full-time workers, which is broadly in line with the current composition of the labour market. However, three in ten (31%) new recruits are expected to be temporary, which is far higher than the current make-up of the jobs market.

The survey also reveals that school-leavers and graduates will have a difficult task finding employment. In the third quarter of 2010, just 14% of organisations plan to recruit school-leavers aged 16, while 28% plan to recruit school-leavers aged 18. Less than half (47%) plan to recruit graduates. These findings are remarkably similar to those reported in the summer 2009 report. In the light of a recent survey by the Association of Graduate Recruiters, which found that the number of applications per vacancy had risen to a record high of 68.8 this year (Association of Graduate Recruiters 2010), the findings suggest that the employment barriers facing young people may be even greater this year than last year.

Redundancy intentions increase

While recruitment intentions remain stable, the proportion of employers intending to make redundancies has increased for the second quarter in succession, returning to levels last seen a year ago. A third of employers (32%) expect to cut jobs during the next three months, up from 29% in the spring quarter and 26% in the winter quarter.

The survey findings reveal that public sector organisations are most likely to be making redundancies, a reflection of the prospect of substantial budget cuts in the public sector. Over a third of public sector employers (36%) are planning to make redundancies during the next three months, compared with a similar percentage in the spring quarter (38%). The number of private sector companies making redundancies over the next three months has risen from 24% in the spring quarter to 30%, while the percentage in the voluntary sector has fallen from 34% to 24%.

Redundancy intentions are highest in local government (63%) and education (45%). Manufacturing and production employers are least likely to make redundancies (23%), in line with the spring survey findings and well below the trends reported during the recession. Redundancy intentions are highest in the north of England (35%), London (28%), the south-east of England (42%) and Scotland (38%).

Those organisations that are planning to make redundancies expect to make 5.5% of their workforce redundant on average, up from 3.6% in the spring report. This is, however, still lower than the 6.2% average recorded in the winter report. This figure varies considerably by sector, with organisations in the public sector expecting redundancies to account for 7.8% of their workforce, up from 3.1% in the spring report. The proportion has also increased among private sector companies to 4.7% from 4.2% three months ago. Only 2.6% of the workforce will be made redundant among those voluntary sector organisations that have redundancy programmes in the third quarter of 2010.

The cost of making employees redundant appears to vary widely from organisation to organisation. However, the findings show one clear pattern: that it costs more, on average, for public sector organisations to make someone redundant than in private sector organisations. The higher cost may reflect that the average job tenure is higher in the public sector. In the public sector, 23% of organisations say the average cost is more than £17,500, with just one in ten having an average cost of less than £5,000. In contrast, only 14% of private sector employers say the average cost is more than £17,500. Three in ten report an average cost of less than £5,000.

Migration and offshoring outlook

Demand for migrant workers has increased in line with improvements in the UK labour market during the past year. About one in six (17%) intend to recruit migrant workers in the third quarter of 2010, which is above the previous peak of 15% recorded three months ago. Employers in the education and healthcare sectors are most likely to hire migrant labour (27% in each sector).

One in five (21%) employers surveyed has recruited migrant workers in the past three months, which, although lower than the proportion in the spring report (25%), shows that actual recruitment of migrant workers exceeded intentions in the last quarter. In particular, employers in the education sector are more likely than those in other sectors to have recruited migrants in the second quarter (41%).

Almost two in five (37%) of these workers are recruited from outside the European Economic Area (EEA). More than half of migrant workers hired by the financial sector come from outside the EEA. This suggests that the introduction of an annual limit on the number of non-EU skilled workers admitted into the UK to live and work will potentially have a large impact on those employers that recruit talent from outside Europe.

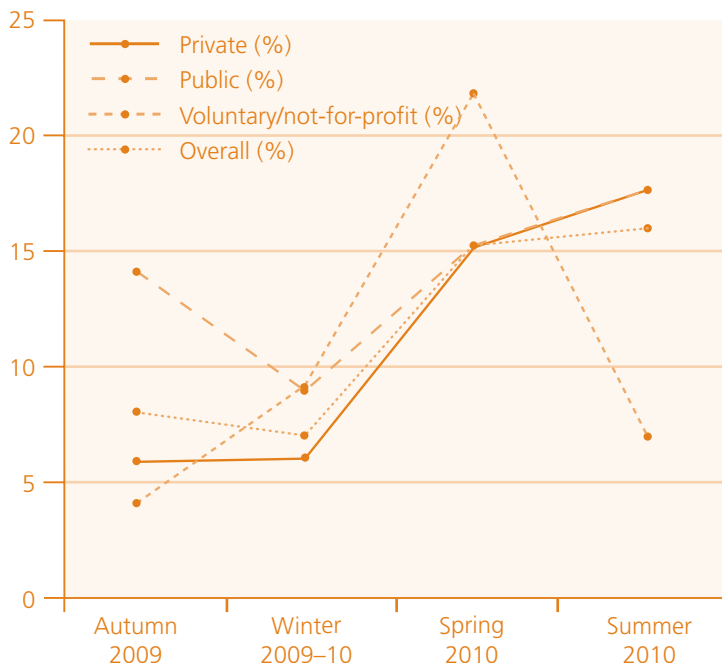
As found in previous surveys, more than one in five (21%) employers say they recruit migrant workers to fill engineering vacancies. Other roles that migrant workers are commonly recruited for are accounting/finance (18%), IT (18%), doctors (14%) and nurses (13%).

Almost three-quarters (73%) of migrants recruited in the past three months were already UK-based. Just over a quarter (27%) was recruited directly from overseas, out of which a quarter (25%) came through the intra-company transfer scheme.

Just 6% plan to offshore UK jobs to other parts of the world over the 12 months to June 2011, which is similar to that in the winter 2009/10 report. Almost one in ten (9%) private sector companies plan to offshore jobs in the 12 months to June 2011 (9%). Among those companies, four in ten IT companies plan to relocate jobs to other countries while almost a fifth (19%) of financial, insurance and real estate companies plan to offshore jobs in the 12 months to June 2011.

Of those planning to offshore UK jobs, two-thirds (65%) intend to offshore to India, a third to China (36%) and three in ten to eastern Europe (29%). The most common functions outsourced by employers include call centres (55%), IT (51%), and finance (49%).

Figure 3: Proportion of organisations planning to recruit migrant workers* during the next three months (%)



Skills outlook

The improvement in the labour market in recent months has contributed to a modest increase in the proportion of employers reporting hard-to-fill vacancies. Almost half (45%) of employers have vacancies that are hard to fill, a slight increase of four percentage points since the winter 2009/10 report. Of those employers that have vacancies that are difficult to fill, engineering (21%), IT (18%) and accountants/finance professionals (18%) are the most difficult to fill – which is consistent with the findings reported in the 'Migration outlook' section and the most recent *National Employers Skills Survey for England 2009*⁴ (UKCES, 2010, pp20-23). Despite this, public sector employers are more likely to report hard-to-fill

vacancies than those in the private sector, with 55% of these employers saying they have such vacancies. Nurses and doctors remain the most difficult posts to fill in the public sector. Two-thirds of local government employers that have difficulty filling vacancies have problems filling social worker positions.

Employers were also asked to review the extent to which employment skill levels have improved or deteriorated among graduates and school-leavers. A quarter (25%) say the 'drive to achieve' has improved among graduates, while one in five report improvements in technical skills and communication/interpersonal skills.

Figure 4: Graduates' skill levels over the past five years

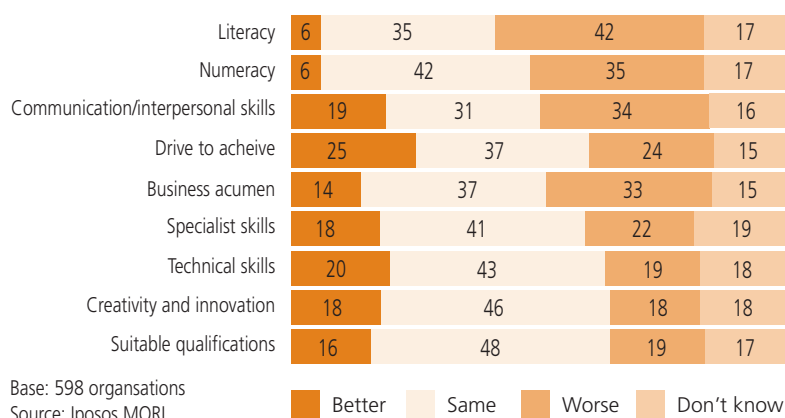
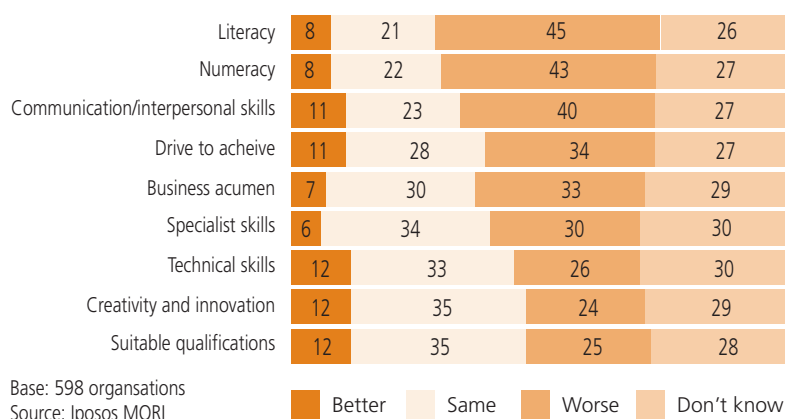


Figure 5: School leavers' skill levels over the past five years



⁴ UKCES. (2010) *National Employers Skills Survey for England 2009: Key findings report.*

Literacy and numeracy are the skill areas employers most see as having declined. More than a third of employers that have recruited graduates over the past five years have reported that literacy and numeracy standards have worsened. A worrying picture emerges with only 6% feeling that these skills have improved compared with 42% and 35% respectively who say they have worsened.

This is also consistent with the *National Employer Skills Survey for England 2009*⁵ report, which states that:

'Another notable rise is in the skills-shortage vacancies attributed to poor literacy and numeracy: literacy was mentioned in connection with 30 per cent of skill-shortage vacancies in 2009 compared with 22 per cent in 2007, and numeracy in connection with 29 per cent in 2009 compared with 18 per cent in 2007' (UKCES 2010, p24).

The perception among employers of school-leavers' skill levels shows a similar pattern. On average, the balance of employers who feel that their skills have worsened over the past five years is more than those who feel they have improved. Overall, employer perceptions of skills among school-leavers are worse than among graduates.

Pay outlook

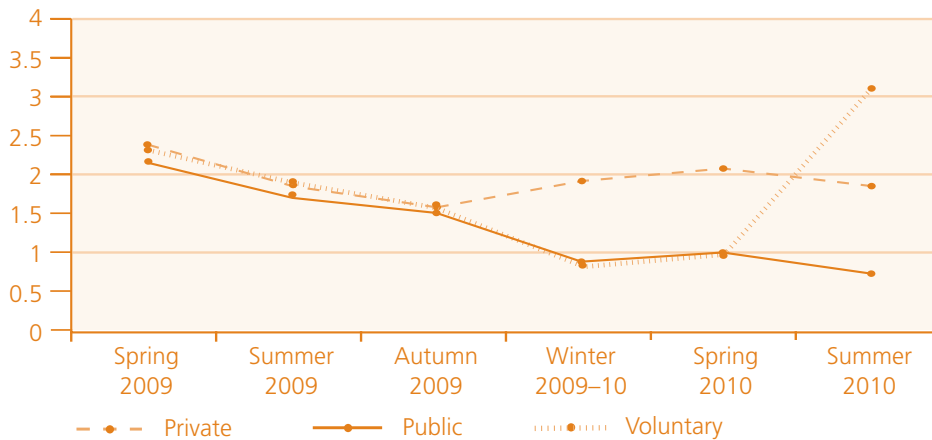
Continuing the trend from surveys over the last year, pay settlements look set to remain subdued in the 12 months to June 2011. The expected mean basic pay settlement (excluding bonuses) over this period is 1.5%, down slightly from 1.6% last quarter. This average figure has remained relatively unchanged over the past four quarters, varying between just 1.5% and 1.6%. These figures are broadly in line with official Office for National Statistics data provided in the *Labour Force Survey*.

More than four in five (84%) LMO employers are planning a pay review in the next year. Of these, a third (33%) are expecting to increase pay, while one in five (20%) plan to introduce a pay freeze, up from 9% in the spring quarter. Three in ten (30%) say the outcome of their next pay review will depend on organisational performance.

In line with the recruitment and redundancy patterns, the pay outlook in the private sector is more promising than in the public sector. The mean pay award in the private sector is expected to be 1.9%, which compares with 0.7% in the public sector, down from 1% in the spring report. The mean award in the voluntary sector has risen to 3.1%, a figure that should be viewed with caution given the small base size.

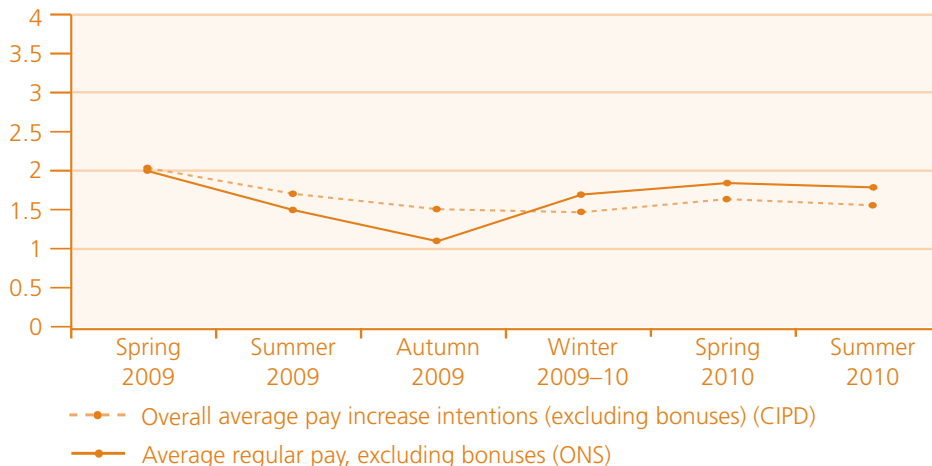
On the upside, pay settlements are most buoyant among private sector services employers (2.7%); in particular consultancy services (3.9%) and finance, insurance and real estate (3.3%). However, on the downside, two in five public sector organisations are now planning pay freezes at their next pay review. Only 11% are planning to freeze pay in the private sector.

Figure 6: Basic pay settlements (mean %), by sector



Base: Those who are planning a pay review in the next 12 months (256)

Figure 7: Basic pay settlements (mean %)



Research methodology

The online survey went out to a range of CIPD members, and 598 usable returns were received, giving a response rate of 5%. Respondents answered a series of questions on employment issues, from 1–23 June 2010.

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

The responses were collated and compiled by Ipsos MORI.

To provide more detail, the results were then reanalysed by the size of the company, sector of business, region and type of business.

The *Labour Market Outlook* survey is written by Gerwyn Davies.

Respondent profile

Table 2: Respondents by business sector (%)

	Spring 09	Winter 09–10	Spring 10	Summer 10
Private	62	62	62	62
Public	31	31	31	31
Voluntary/not-for-profit	7	7	7	7

Table 3: Respondents by business type (%)

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

Table 4: Region/nation to which response relates (%)

	Spring 09	Winter 09–10	Spring 10	Summer 10
North	15	14	12	13
North-west of England	7	5	5	6
North-east of England	2	4	2	2
Yorkshire and Humberside	6	4	4	5
Midlands	12	13	13	12
West Midlands	3	4	4	5
East Midlands	5	4	4	4
Eastern England	4	5	5	3
South	36	35	30	33
London	17	16	13	11
South-west of England	7	7	6	7
South-east of England	12	11	11	16
Scotland	32	8	7	6
Wales	2	4	3	2
Northern Ireland	0	0	2	0
Channel Islands	1	*	1	*
All of UK	0	24	32	33
Not stated	4	8	7	n/a

Table 5: Respondents by employer size (%)

	Spring 09	Winter 09–10	Spring 10	Summer 10
Number of employees				
1–9	15	15	13	13
10–49	7	7	6	6
50–99	6	6	5	5
100–249	12	14	13	13
250–499	9	7	5	5
500–999	10	10	9	9
1,000–4,999	21	21	19	19
5,000–9,999	11	11	10	10
10,000–19,999	8	8	7	7
20,000 or more	0	0	13	13

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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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