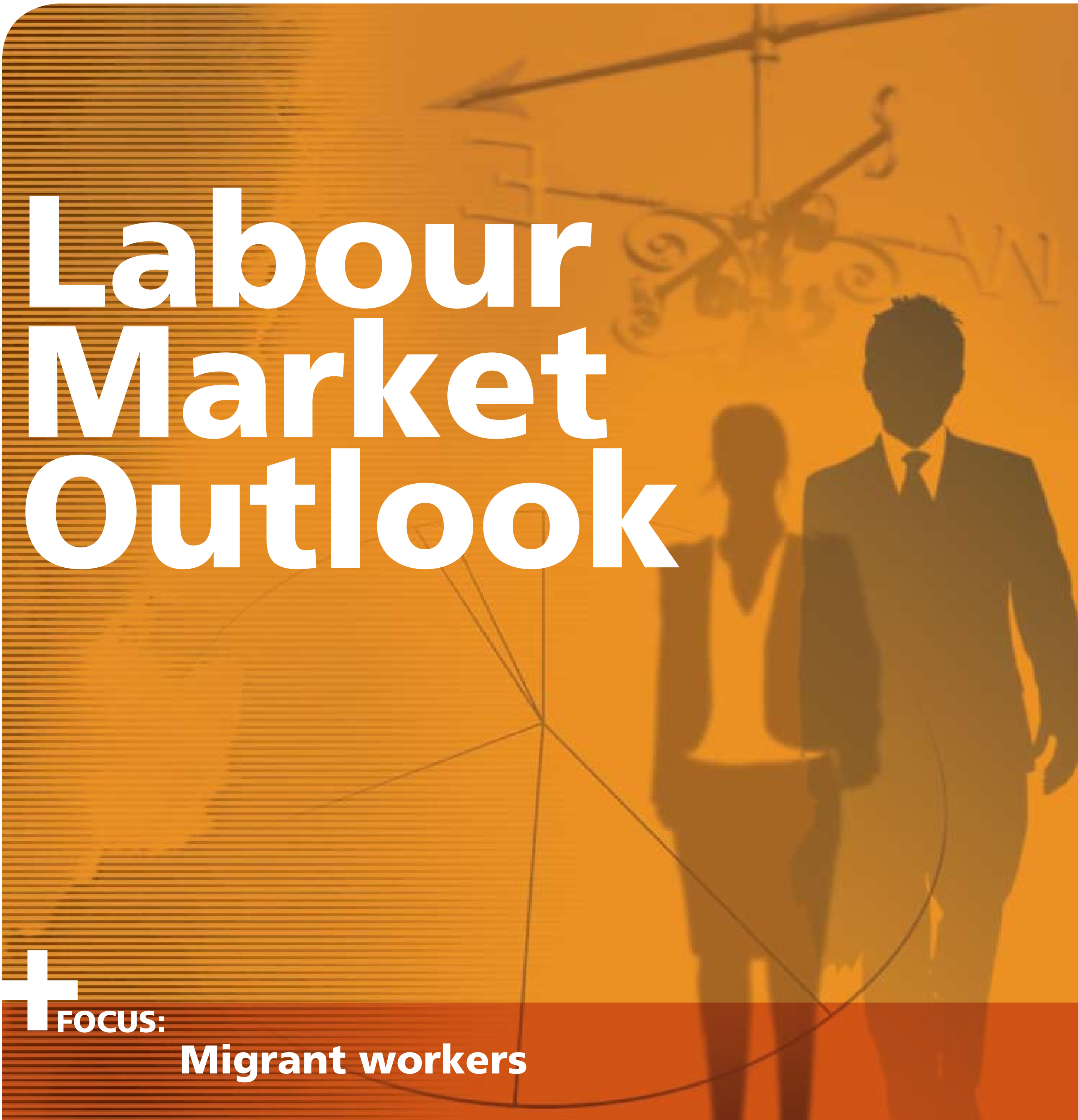
KPMG cipd

Quarterly survey report
Summer 2009



Labour Market Outlook

FOCUS:
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Labour Market Outlook

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The jobs market

The jobs market is still shrinking, but the rate of decline is showing signs of levelling off, according to the CIPD/ KPMG *Labour Market Outlook* (LMO), a national survey of more than 900 HR professionals.

The report shows a clear improvement in **net employment intentions**.[1] Although it remains in the red, at –10, it is still 9 percentage points higher than the last quarter, when it plummeted to a record low of –19 (see Figure 1). This quarter sees net employment intentions return to levels seen in the winter 2008/09 LMO survey. In a dramatic reversal of fortunes, the private sector is staging a jobs recovery, with net employment intentions rising from –30 to just –2. This is largely down to a substantial drop in redundancies, although there are tentative signs that companies are starting to hire again in some sectors, such as the hotels, catering and leisure and retail sectors. In contrast, net employment intentions in the public sector have plummeted from –3 to –28, suggesting that anticipation of cuts in public spending after the elections is already having a significant impact on behaviour. The jobs outlook looks particularly depressing in local government and higher education. The finding has implications for young people given that public sector organisations are far more likely to recruit young people and provide government-led schemes such as apprenticeships.

The number of employers making large cuts to the workforce is falling too. Employers making redundancies in the next three months are now laying off an average of 4% of their workforce, which is down 2.5 percentage points compared with the last quarter. Encouragingly, a third of employers planning to make redundancies over the next three months indicated that it would only affect less than 0.5% of their workforce. Further, the number of organisations planning to recruit migrant workers has fallen by more than two-thirds compared with 2005, which may create further opportunities for UK-born workers.

However, there are still grave causes for concern. The most recent unemployment figures show the largest quarterly rise in unemployment on record. And while the report shows that the number of organisations recruiting migrant workers has dropped dramatically alongside an improvement in the net employment intentions figure, the results still suggest that the hiring outlook for firms will remain muted for some time yet. With this in mind, the prospects for the hundreds of thousands of young people entering the jobs market this summer look bleak. As the report also shows, few employers will be looking to recruit school-leavers aged 16–18, a large proportion of whom will add to the growing number of UK-born unemployed. It seems highly probable, therefore, that unemployment will reach 3.2 million in spring 2010 based on the report's findings. The worry is whether it will stop there, or continue to rise as the new government seeks to tackle public debt by making necessary cuts to public spending.

[1] *This is measured by the difference of employers who intend to increase total staffing levels from those who intend to decrease total staffing levels in the three months from June 2009.*

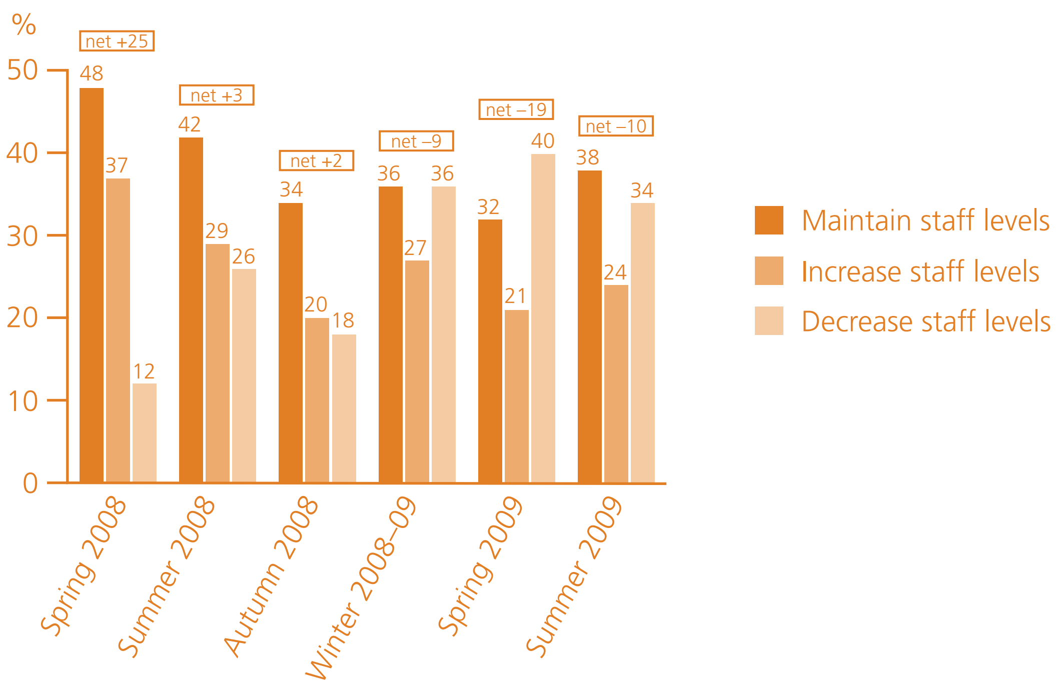
Recruitment and redundancy outlook

Recruitment and redundancy intentions

The net employment intentions figure this quarter remains negative at –10. The *Labour Market Outlook* report's headline net employment intentions figure measures the difference between the proportion of employers who expect recruitment and/or redundancies to increase total staff levels and those who expect this to decrease total staff levels. Therefore, a figure above zero shows that the overall effect of recruitment and redundancies will be to increase staff levels. Having fallen to –10 in the winter quarter, the spring quarter showed another record low of –19 in net employment intentions. However, net employment intentions are back at –10 this quarter.

A quarter (24%) plan to increase total staff numbers, two in five (38%) intend to maintain their staff levels, while 34% expect a decrease. These figures mask the dramatic change that has taken place in the private and public sectors. While net employment intentions in the private sector have risen from –30 to just –2, net employment intentions have fallen from –3 to –28 in the public sector. Employers in consultancy services, retail, IT and healthcare (including the NHS) will see staffing levels increase in the third quarter of 2009. In contrast, the workforce looks set to shrink in the majority of sectors; most notably public administration (-52%), construction (-33%), education (-28%), transport and communications (-27%) and hotels, catering and leisure (-25%).

Figure 1: Overall effect of recruitment and redundancies



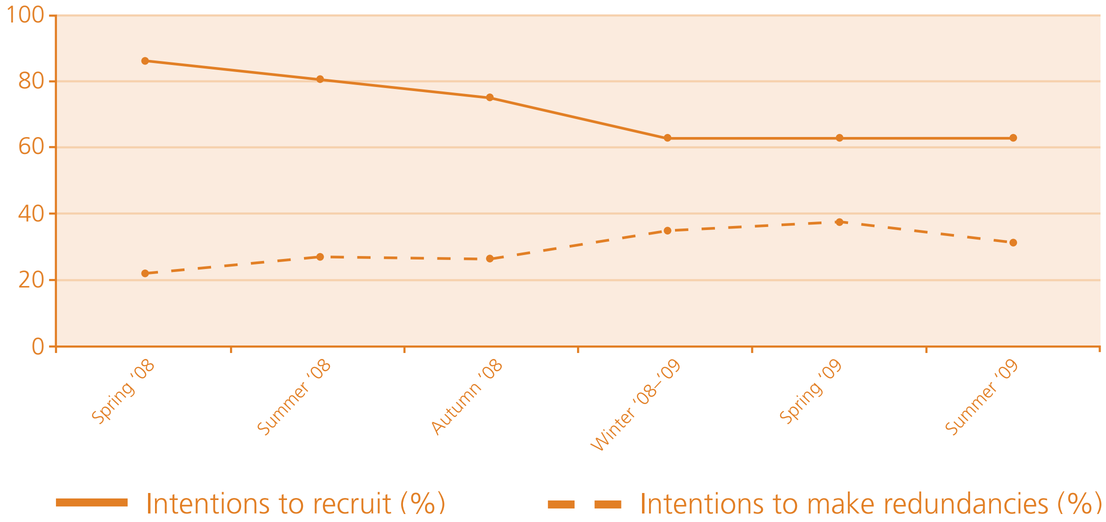
As Figure 2 shows, intentions to recruit remain unchanged over the quarter, with almost two-thirds (63%) of employers planning to recruit over the next three months. This represents the third consecutive survey where recruitment intentions have remained unchanged at a record low level. However, intentions to make redundancies have dropped 6 percentage points from last quarter, from 37% to 31%.

We also asked in this quarter whether or when employers might expect a pick-up in recruitment. One in five (18%) organisations say they haven't experienced a drop in recruitment, while 15% say they don't expect an upturn in the next 12 months.

Seventeen per cent of employers believe that hiring will increase in the next six months, while a further 26% believe that it will pick up in the next six to twelve months.

Figure 2: Redundancies versus recruitment

Base for summer '09: all respondents 923

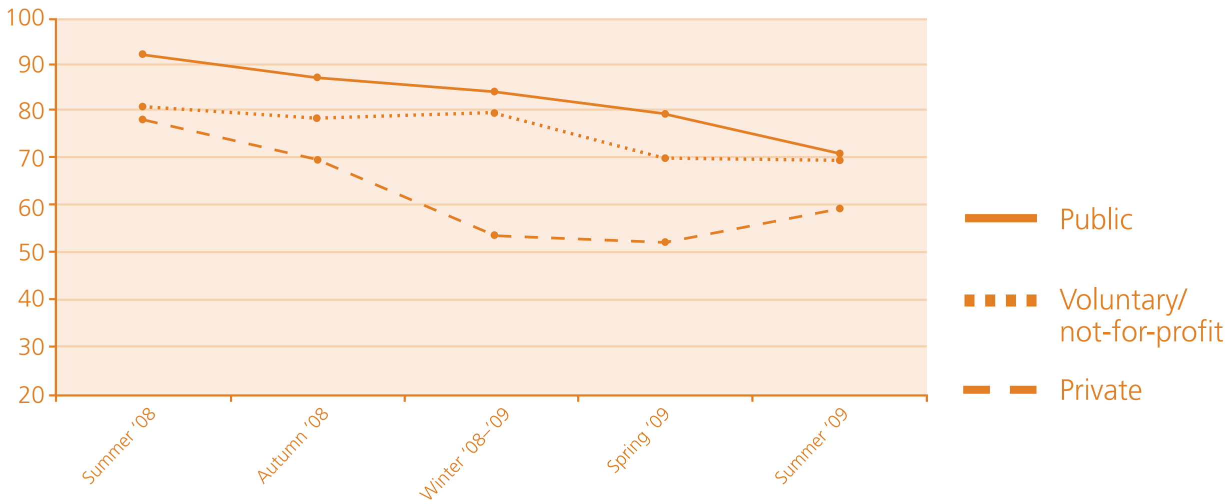


Firms show more appetite for recruiting

Recruitment intentions have risen among employers in the private sector for the first time since the start of the recession, with recruitment intentions up 7 percentage points to 59% compared with the last quarter. However, recruitment intentions among public sector organisations show a fall of similar magnitude, down 8 percentage points since the last quarter, to 71%.

Figure 3: Recruitment intentions by business sector

Base summer '09: Overall 923, Public 289, Private 569, Voluntary/not-for-profit 65

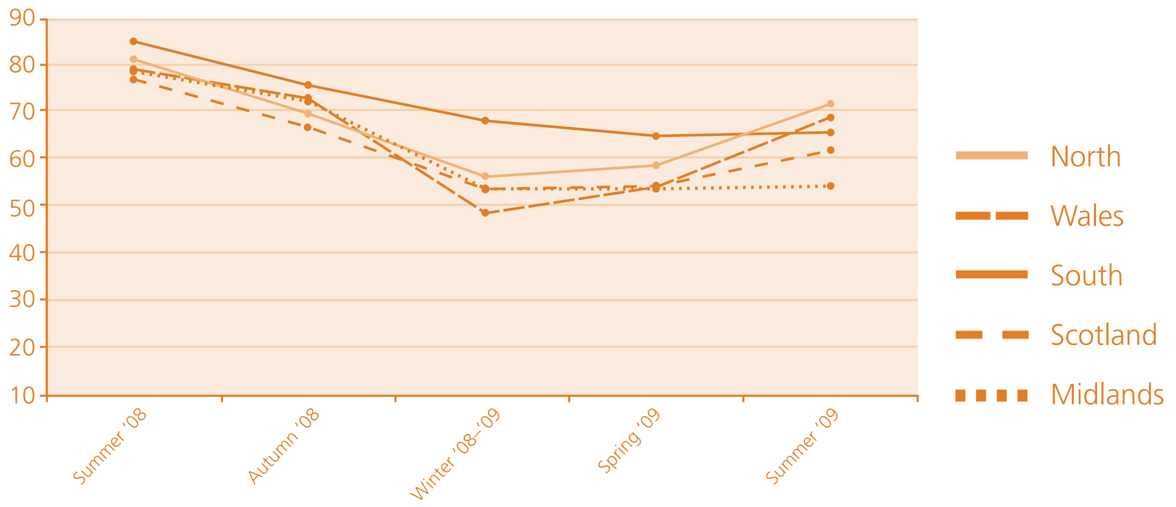


Regional trends

The regions most likely to hire staff in the next three months are in the north of England. Almost three-quarters (72%) of employers are planning to recruit, particularly in the north-east of England (82%). Next in line are employers in London (75%), Wales (69%) and employers in the south of England (66%). Lagging behind are Scotland (62%) and the Midlands (54%), with only two in five (41%) employers planning to recruit in the West Midlands area.

Figure 4: Recruitment intentions by regions

Base summer '09: Overall 923, North 122, Midlands 96, South 321, Scotland 335, Wales 18



Young people: a split generation

It has been frequently observed that young people have been affected most by the current recession. However, the recession is affecting and will continue to affect some groups of young people more than others. As we found in our spring report, around half of employers plan to recruit graduates compared with just one in six who plan to recruit school-leavers aged 16–18. Therefore, while assessing the prospects for specific groups of potential employees, this report also seeks to find out why employers are reluctant to employ large swathes of young people.

This report found that employers are most likely to recruit 19–24-year-olds (63%) and older workers (60%). However, employers are less likely to recruit the long-term unemployed (29%) and 16–18-year-olds (24%). The figures also reveal that a greater proportion of public sector organisations plan to recruit from within these groups and hire apprentices. This has important implications for public policy given that many public sector organisations look set to reduce the size of their workforces in the future.

Public sector organisations (50%) are around three times more likely to recruit the long-term unemployed than private sector organisations (17%). Twice as many public sector organisations (35%) will be recruiting 16–18-year-olds than the private sector (18%). The public sector is also more likely to recruit young people. Almost three-quarters of employers (73%) will be recruiting 19–24-year-olds compared with 57% in the private sector in the next three months.

Of those employers that are recruiting, almost a quarter are recruiting apprentices (23%) and 13% of organisations are recruiting interns. In a similar vein, public sector organisations (37%) are twice as likely to take on apprentices as firms and voluntary organisations.

The main barriers to recruiting young people (aged 16–24) are lack of experience (72%) and the availability of more suitable candidates (65%). A third of employers say that young people have poor soft skills or poor attitude (31%). The most important selection criteria for recruiting 16–24-year-olds are communication skills (54%), relevance of qualifications to the workplace (41%) and work ethic (39%).

Redundancies

In a significant shift, more public sector and voluntary sector organisations are now planning to make redundancies than private sector employers. The shift is particularly marked in the public sector, where redundancy intentions have risen to more than a third (36%) of employers, an increase of 7 percentage points over the quarter. Redundancy intentions are particularly high in local government (56%) and further and higher education (47%).

Thirteen per cent of public sector organisations say that their redundancy programmes will reduce the workforce by more than 10%. The cuts will be particularly large in central government (34%) and in education (16%). The perception that public sector organisations are immune to the recession therefore looks set to be dispelled in the coming months.

Redundancy intentions in the private sector are highest in construction (45%), hotels, catering and leisure (42%) and finance (40%). Figures for the retail and manufacturing sectors are in line with the survey's average figure. However, the proportion of the workforce being made redundant will remain highest in the financial, manufacturing and construction sectors.

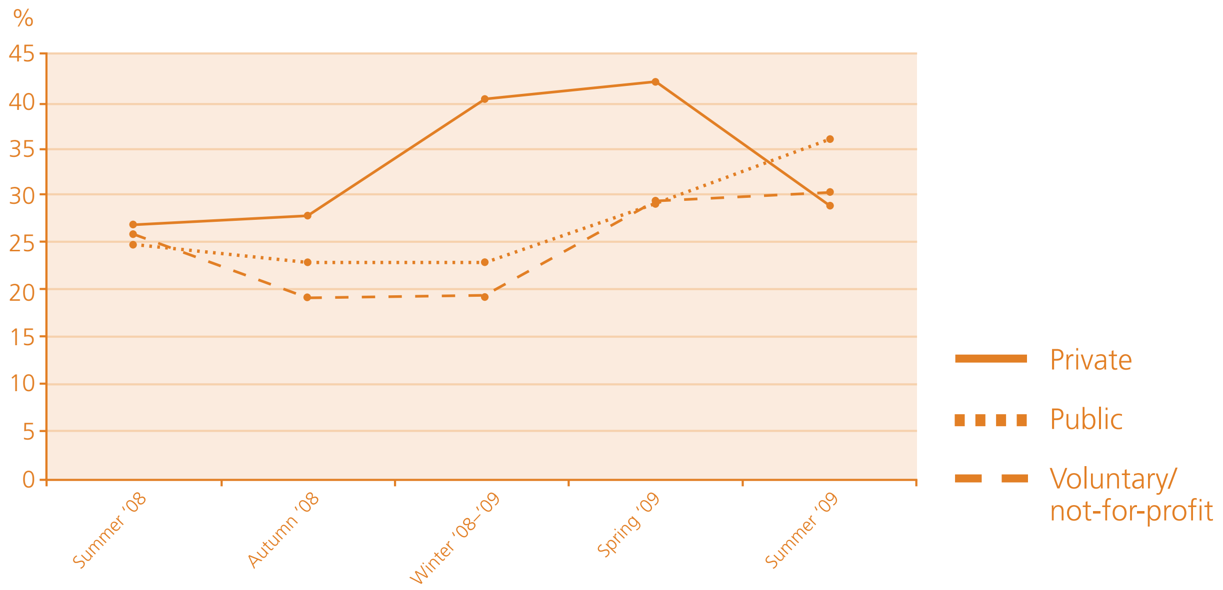
Fewer organisations are making plans to cut jobs compared with the previous quarter. Three in ten employers surveyed say they have contingency plans for redundancies over the next 12 months, a decline from four in ten recorded in the spring and winter surveys. Interestingly, around a quarter of firms in the private sector say they do not have enough people to cope with the economic upturn if and when it happens, compared with 17% of public sector employers.

HR staff not spared from redundancies

The jobs outlook for HR professionals remains consistent with overall trends, with public sector redundancies rising sharply compared with the previous report. The proportion of public sector employers planning to make HR staff redundant has risen to 15%, with redundancy activity particularly high in further and higher education (27%) and local government (20%). Overall this quarter will see 8% of organisations recruit additional HR staff and 9% of organisations make HR staff redundant.

Figure 5: Redundancies by sector

Base summer '09: Overall 923, Public 289, Private 569, Voluntary/not-for-profit 65



Pay outlook

Only 15% of employers will conduct a pay review during this quarter, which compares with almost one in three last quarter (32%). With recent UK inflation figures showing that the Consumer Prices Index dipped to 1.8%, it is interesting to note that average pay increase expectations (excluding bonuses) have dropped below the rate of inflation for the first time, to 1.7%. It is also interesting to see that more than a quarter of organisations (26%) say that senior management and the executive board will forgo the increase.

Indeed, the number of private sector firms that plan to defer their pay review until the next financial review, or cancel it altogether, is one of the most striking findings of the report. Ten per cent of firms are postponing their pay review decision until later in the year, while around one in five employers (19%) will not be conducting a pay review until the next financial year. This is particularly prevalent in the construction industry (36%) and in consultancy services (24%).

Of those planning a pay review, three in ten (30%) are planning a pay increase *excluding* bonuses, increments and overtime, and performance-related pay, whereas only 2% will decrease it. A quarter (27%) say that it is hard to tell what the pay review will look like and that it will depend on the organisation's performance. A further third (32%) state that they simply do not yet know the extent of their next pay review, which perhaps reflects the fact that this is the quietest quarter for conducting pay reviews.

Half of employers conducting a pay review say that pay *including bonuses* will increase, while 3% expect it to fall. There are differences across sectors, with twice as many public sector employers increasing wages *excluding* bonuses (44%) as those in the private sector (22%). *Including* bonuses, three in five (61%) public sector employers planning a pay review expect to increase pay, compared with half (48%) of private sector ones.

Private sector employers' pay expectations this quarter are higher than in the public sector. Private sector employers expect their average pay to increase by 1.75%, compared with 1.64% in the public sector and 1.65% in the voluntary sector. In the spring quarter, larger pay rises were expected in the public and voluntary sectors than in the private sector.

Figure 6: Basic pay review excluding bonuses

Focus:

Migrant workers

This quarter's LMO survey focuses on employers' recruitment and use of migrant workers. The report compares the proportion of employers that are planning to hire migrant workers in the third quarter of 2009 with the corresponding results from a similar LMO survey in 2005. The report also seeks to find out how successful employers have been with their requests to recruit migrant workers via the points-based system.

Short-term hiring intentions

Only 8% of employers plan to recruit migrant workers in the third quarter of 2009. This represents a drop of more than two-thirds compared with the autumn 2005 CIPD LMO report, where 27% of employers said that they were planning to hire migrant workers in the following three months.

Yet, the current report reveals some large variations across the sectors and regions. Forty-one per cent of employers in the hotels, catering and leisure sector will be recruiting migrant workers in the next three months. Meanwhile, more than one in five employers in the education sector and in the NHS will be recruiting migrant workers in the same period. More than one in five (22%) employers in the east of England will be hiring migrant workers during the third quarter to meet the seasonal demand for labour.

Origins

However, employers are still recruiting workers across the globe in proportionate numbers to those recorded in 2005. Around 46% of employers say they currently recruit from A8 accession countries, 45% say they recruit from outside the EU, and 41% recruit from the old EU. The recruitment of non-UK nationals is particularly high in the wholesale and retail trades and the transport and communications sectors, where around nine in ten employers employ migrant labour, particularly from the EU. Around two in three NHS employers (62%) recruit from overseas, but are more likely to recruit workers from outside the EU. Four in ten local government employers recruit overseas workers.

Four in five (82%) migrant recruits are on permanent contracts, compared with 17% who are on temporary contracts. Interestingly, around 30% of migrant workers are employed on temporary contracts in the public sector compared with 15% in the private sector. Eighty-four per cent of migrant workers in the NHS are on temporary contracts.

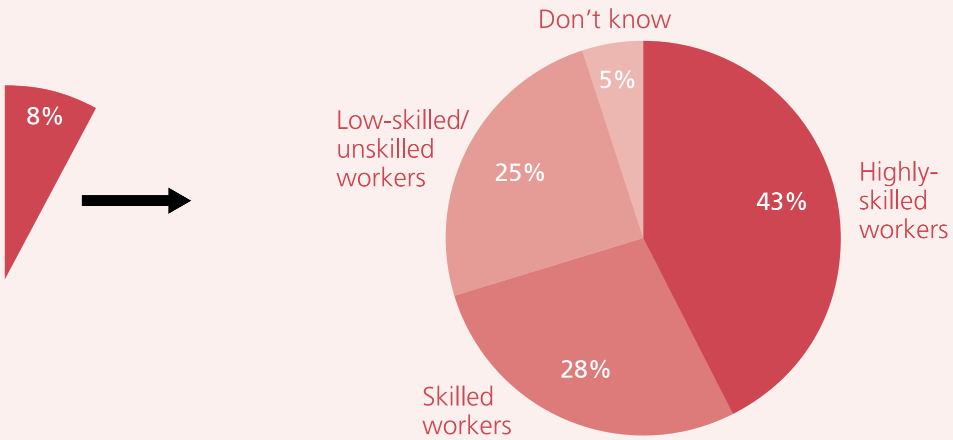
Highly-skilled workers most preferred

Of the employers expecting to recruit migrants this summer, 43% say they will be recruiting for highly-skilled positions. Three in ten (28%) will be filling vacancies with skilled workers, with a quarter using low-skilled/unskilled workers.

Figure 7

a) Will you be recruiting migrant workers* in the next three months?

b) Which of the following groups of migrant worker will you be hiring this summer?



Base (a) all respondents (923)
Base (b) 73: All who will be recruiting migrant workers in the next three months. Fieldwork dates 8 June–29 July 2009.

***By migrant workers, we mean non-British nationals who work on either a temporary or permanent basis.**

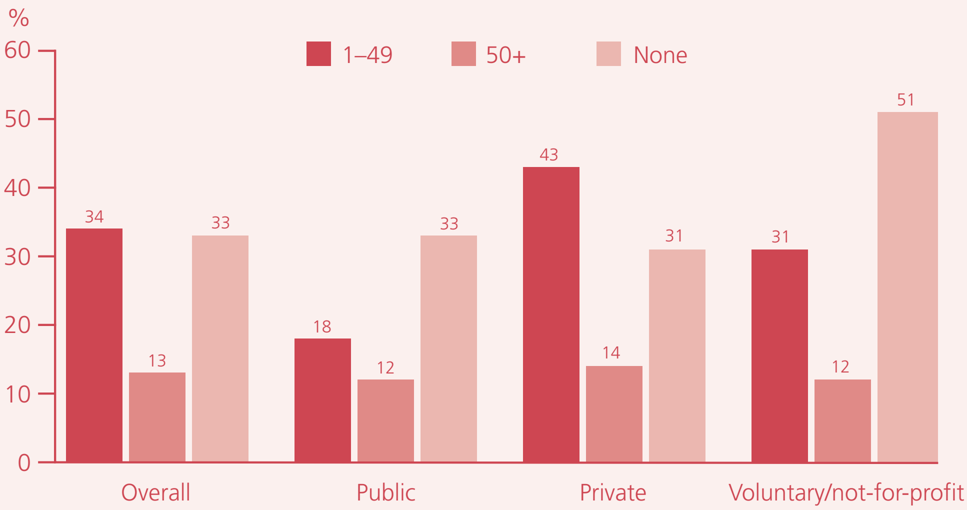
Source: Ipsos MORI

The use of migrant workers

A third of employers surveyed (34%) say they currently employ up to 50 migrant workers. Only one in eight employers (13%) employs more than 50 migrant workers. A third (33%) say they employ no migrant workers at all. The survey finds that migrants are less likely to be recruited by SMEs than larger organisations. Half (50%) of SMEs say they recruit migrants, which compares with four in five companies with more than 500 staff. Meanwhile, more than four in five employers use migrant workers in London. Use of migrant labour is lowest in Yorkshire and Humberside, where around a half of employers employ migrant workers.

Figure 8: How many migrant workers, if any, does your organisation currently employ?

Base: Overall (923), Private (569), Public (289), Voluntary/not-for-profit (65). Fieldwork dates 8 June–29 July.
Source: Ipsos MORI



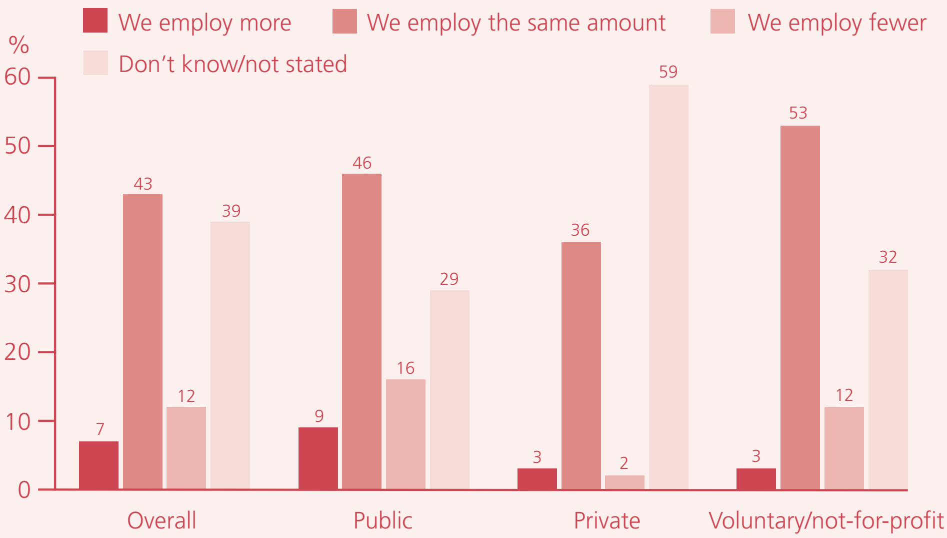
Hiring trends over the past year

Employers who employ migrant workers were asked to compare their current migrant numbers against numbers in the past 12 months. Only seven per cent state an overall increase over the year. Two in five (43%) say numbers are still the same as the previous year, with one in eight (12%) saying they now employ fewer.

Unsurprisingly employers in the private sector are more likely to have reduced migrant headcounts over the past 12 months. One in six (16%) say they employ fewer, compared with 2% in the public sector and 12% in the voluntary sector.

Figure 9: How does the number of migrant workers you employ compare with the same time last year?

Base: Overall (923), Private (569), Public (289), Voluntary/not-for-profit (65). Fieldwork dates 8 June–29 July.
Source: Ipsos MORI



Half (47%) of SME employers (1–249 employees) have maintained their migrant workforce over the year, compared with two in five (39%) of larger organisations (500+).

Reasons for employing migrants

There is some evidence that employers surveyed turn to migrant workers to ease difficulties in filling jobs with British workers. More than a quarter (27%) of employers say they recruit migrants to fill jobs for which it proves difficult to find British workers.

This view is held more strongly in the private sector. Three in ten (32%) firms turn to migrants because they find it difficult to fill vacancies with British workers. More than two-thirds of employers in hotels, catering and leisure and more than half in transport and communications, both of whom will see staffing levels decrease in the coming months, have difficulty finding UK nationals to fill the role. Forty-three per cent of NHS employers and 28% of education bodies give the same reason for recruiting migrant workers.

The same sectors feature among the 14% of employers that recruit migrants because they are hard-working and reliable. Seventy-nine per cent of employers in the hotel, catering and leisure industry, 33% of manufacturing companies and 29% of transport and communications employers share this view.

Opinion is divided among employers as to whether they recruit migrants due to superior experience and qualifications over migrant workers. Public sector organisations are more likely to agree with the statement, particularly among education bodies, where the net agreement[2] is +8, local government (+7) and the NHS (+4). This belief is not shared by employers in private sector services[3], particularly in the wholesale and retail sector, where the net agreement is –42.

The survey finds scant evidence of employers giving British workers priority over migrants in employment. Thirty per cent of employers disagree they have made more UK-born workers redundant as a proportion of the workforce than migrants, compared with 8% who state that they have. Meanwhile, (25%) of employers surveyed disagree that the recession has resulted in their organisation recruiting British workers, rather than migrant workers, which compares with 5% who agree with the statement.

Points-based system

The spring LMO survey explored employer usage of the points-based system for recruiting migrants. One in five employers surveyed then said they had used the system, with 78% successful in the majority of their applications. This quarter, employers were presented with the various tiers of the points-based system to assess how successful they have been on specific job applications. The results reveal that employers' requests for recruiting permanent, highly-skilled and skilled migrant workers, drawn from Tiers One and Two respectively, have been generally successful.

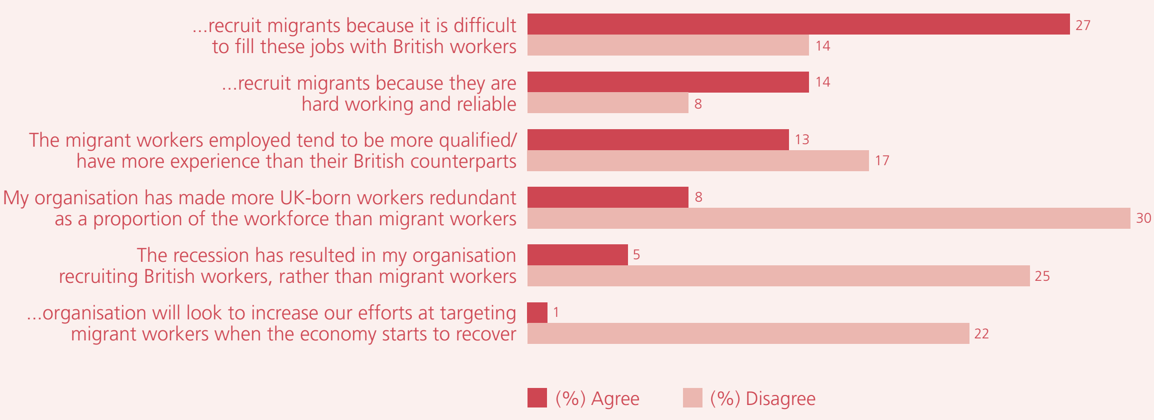
Table 1: Success rate of applications

Base: All respondents (923)

	Requests approved	Requests rejected
Tier 1 (highly-skilled)	81	2
Tier 2 (shortage occupation route)	64	2
Tier 2 (intra-company transfer scheme)	40	3
Tier 2 (Employer sponsor)	28	4
Total	**213**	**11**

Figure 10: Thinking about your own experience of recruiting migrant workers, to what extent do you agree or disagree with the following statements? (%)

Base: All respondents (923) **Source: Ipsos MORI**



[2] The net agreement is calculated by subtracting the proportion of organisations that agree with the statement from the proportion of organisations that disagree with the statement.

[3] Hotels, catering and leisure, IT, transport and communications including media, consultancy services, finance, insurance and real estate, wholesale and retail trade.

Research methodology

The online survey went out to a range of CIPD members, and 923 usable returns were received, giving a response rate of 7.7%. Respondents answered a series of questions on employment issues, relating in the main to the summer of 2009, from 8 June–29 July 2009.

Data for the spring and summer 2009 quarters is 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.

Respondent profile

Table 2: Respondents by business sector (%)

	Spring 08	Winter 08/09	Spring 09	**Summer 09**
Private	56	67	62	62
Public	33	22	31	31
Voluntary/not-for-profit	9	11	7	7
Don't know/not stated	2	0	0	n/a

Table 3: Respondents by business type (%)

	Spring 08	Winter 08/09	Spring 09	**Summer 09**
Manufacturing and production	21	22	14	**15**
Agriculture, forestry and fishing	1	0	0	*
Manufacturing	14	16	9	10
Construction	3	2	2	3
Mining and extraction	1	1	0	*
Energy and water supply	2	2	1	1
Education	7	3	5	**6**
Primary and secondary schools	1	0	1	1
Further and higher education	6	3	4	5
Healthcare	6	6	8	8
NHS	4	5	6	5
Other private healthcare	3	2	1	3
Voluntary and not-for-profit sectors	3	8	6	**n/a**
Private sector services	37	38	52	**54**
Hotels, catering and leisure	4	3	2	2
IT industry	2	3	3	4
Transport and communications (including media)	2	3	4	4
Consultancy services	7	3	14	15
Finance, insurance and real estate	7	7	9	10
Wholesale and retail trade	6	5	6	7
Other business services	11	11	12	13
Public administration and defence	18	10	16	**17**
Public administration – central government	6	4	7	7
Public administration – local government, including fire services	11	6	8	9
Armed forces	1	1	1	1
Not stated	11	11	*	1

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

	Spring 08	Winter 08/09	Spring 09	**Summer 09**
North	18	15	11	**13**
North-west of England	11	8	6	4
North-east of England	4	3	1	5
Yorkshire and Humberside	6	4	5	4
Midlands	16	11	15	**10**
West Midlands	7	4	4	5
East Midlands	6	3	5	3
Eastern England	5	4	6	2
South	37	29	33	**35**
London	16	12	13	14
South-west of England	9	5	7	8
South-east of England	15	12	13	13
Scotland	17	10	8	**36**
Wales	9	5	2	**2**
Northern Ireland	7	4	n/a	*****
Channel Islands	n/a	1	0	*****
All of UK	1	18	25	0
Other	n/a	n/a	n/a	n/a
Not stated	4	8	7	3

Table 5: Respondents by employer size (%)

Number of employees	Spring 08	Winter 08/09	Spring 09	**Summer 09**
1–9	4	3	13	15
10–49	7	8	6	7
50–99	8	13	5	6
100–249	n/a	20	10	13
250–499	n/a	15	8	8
500–999	11	11	9	10
1,000–4,999	18	14	19	21
5,000–9,999	8	6	10	11
10,000–19,999	4	3	7	8
20,000 or more	7	6	13	0
Don't know/not stated	1	0	n/a	n/a

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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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