

Brexit and the Labour Market

Submission to the House of Lords Select Committee on Economic
Affairs

Chartered Institute of Personnel and Development (CIPD)

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Background

The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has 140,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

Our membership base is wide, with 60% of our members working in private sector services and manufacturing, 33% working in the public sector and 7% in the not-for-profit sector. In addition, 76% of the FTSE 100 companies have CIPD members at director level.

Public policy at the CIPD draws on our extensive research and thought leadership, practical advice and guidance, along with the experience and expertise of our diverse membership, to inform and shape debate, government policy and legislation for the benefit of employees and employers, to improve best practice in the workplace, to promote high standards of work and to represent the interests of our members at the highest level.

Introductory comments

The increase in the supply of non-UK nationals from the European Union in employment in recent years has coincided with strong demand for labour among employers, especially for low-skilled roles. This is reflected by a number of indicators including:

- the underlying trend in unemployment and employment
- a high number of vacancies which remain well above average historical levels
- high net migration figures which has been driven by immigration for work-related purposes; especially from southern and eastern European young migrants in recent years

However, the inflow of EU migrants has fallen sharply since the UK's decision to leave the European Union, while the employment indicators remain strong. The CIPD's recent examination of official data, and the CIPD's own survey data, suggests that this will lead to a concentration of labour shortages in those sectors that account for a relatively large share of vacancies and who employ a relatively large proportion of EU nationals.

This situation may unravel further if, as we expect, the growth in the number of EU nationals in employment in the UK continues to slow sharply or even fall; especially given the Government's stated aim to end free movement of labour.¹

Despite these concerns about labour shortages, the CIPD believes that the biggest danger and risk to the labour market in the future is with the loss of skilled labour, given that skilled EU migrants have more options and choices than unskilled labour, and the modest rise in the proportion of vacancies that are skilled shortage vacancies in recent years. Looking further ahead, the prospect of migration restrictions will hit organisations who perceive that they don't have enough legal expertise or financial resource to recruit from outside the European Union, including many SMEs.

It is highly uncertain what this means for pay prospects. On the one hand, there is a concern that productivity will be affected by the reduction in supply of EU workers given the tentative association the CIPD has found between employing EU migrants and higher levels of productivity. In addition, employers' first response is to widen the recruitment channels rather than raise skills investment or pay. However, on the other, it remains to be seen whether employers might be encouraged to raise pay if they struggle to find enough applicants; although our evidence tentatively suggests that some employers will simply leave their vacancies unfilled.

¹ HM Government (2017). *The United Kingdom's exit from and new partnership with the European Union*. London: HM Government. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589191/The_United_Kingdoms_exit_from_and_partnership_with_the_EU_Web.pdf

Executive summary

Potential impact of reduction in supply of EU migrants

- The UK labour market already seeing a sharp fall in the growth in the number of EU nationals in employment, which is leading to a concentration of labour shortages in key sectors of the UK economy that include retail, accommodation and food services and manufacturing
- Looking ahead, the CIPD is more concerned about the impact of a reduction in the supply of skilled labour given the modest rise in the number and proportion of skills shortage vacancies, the potential voluntary outflow of EU nationals and the prospect of migration restrictions which could hit SMEs particularly hard
- There is no optimum level of net migration due to fluctuations in labour demand

Impact of wages from control on migrants

- Employers are keen to explore widening recruitment channels rather than raise pay in response to migration restrictions. Pay prospects could be undermined by a reduction in supply of EU labour given tentative association between employing EU migrants and higher levels of productivity/skills investment. Hopes of a productivity boost through greater employment investment in skills is therefore questionable. At the same time, there is a strong indication that more employers are now looking to automate their processes
- Outlook for pay remains uncertain. It remains to be seen how employers will respond if their attempts to generate more interest from the domestic workforce proves unsuccessful

The case for a regional immigration policy

- Little support for a regional immigration policy exists among CIPD members; especially from those outside London
- It could be very difficult to administer from an employer's perspective; especially if they are given responsibility to effectively enforce any conditions

Extension of existing controls on EU migrants

- The Government could be underestimating the impact of voluntary outflows of EU migrants due to sterling depreciation, anti-migrant sentiment and economic recovery in European economies
- CIPD research shows that access to both skilled and unskilled labour is central to employers' ability to grow and compete. Future changes to immigration policy need to recognise this
- An overly bureaucratic future system will particularly harm the ability of SMEs to recruit overseas nationals where they have struggled to recruit from local labour markets

Our response

Q1. What level of net migration is necessary for the UK labour market to function effectively?

a. How reliant is the UK labour market on high, medium or low skilled migrant labour? What would be the impact of a reduced ability to source foreign workers on British businesses?

b. Which particular sectors or sub-sectors would be affected by controls on EU migration and further controls on non-EU migration?

1. Determining an optimum level of net migration will be determined by the level of demand and the amount of available labour from the domestic workforce in theory. However, to set a net migration target that adequately answers the central question as to how many migrants are needed to meet the needs of the labour market is impossible given the fluctuations and unpredictable nature of demand and amount of labour supply from the UK workforce in practice.
2. However, there is no doubt that the influx of EU migrants that have come to live and work in the UK has helped the labour market function effectively. Labour demand in recent years has been very strong, especially for low-skilled roles; and this has coincided with an influx of EU nationals that have come to live and work in the UK. It is perhaps no surprise, therefore, that a disproportionately high number of EU nationals that have come to the UK to live and work in recent years are employed in low-wage industries. As the latest official data illustrates, more than a quarter of EU

national are either employed in elementary occupations or as process, plant and machine operatives (Figure 1).

Figure 1: Number and percentage of EU27 nationals in employment aged 16 years and over by occupation nationals; July 2015 to June 2016

	EU27 ²	
	Count (thousands)	%
Managers, Directors And Senior Officials	130	4.0
Professional Occupations	318	5.1
Associate Professional And Technical Occupations	214	4.8
Administrative And Secretarial Occupations	140	4.2
Skilled Trades Occupations	249	7.5
Caring, Leisure And Other Service Occupations	167	5.8
Sales And Customer Service Occupations	108	4.5
Process, Plant And Machine Operatives	258	12.8
Elementary Occupations	483	14.3
Total	2,065	6.6

Source: Labour Force Survey (ONS)

3. However, while the underlying trend in unemployment, employment and vacancies remains positive, it seems that the UK's decision to leave the European Union has had a discernible impact on the attraction of the UK to live and work for non-UK nationals from the European Economic Area (EEA). According to the most recent official data, the number of non-UK nationals from the EEA in employment in the UK grew by 60, 000 per quarter in the 12 months to June 2017.² However, there was barely no growth in the six months to December 2017. The CIPD's examination of the official data against the backdrop of strong labour demand points to the concentration of labour shortages. This is because around 45% of the vacancies,

² ONS (2017). UK labour market: February 2017. Newport. Available at: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/feb2017>

which remain well above historical average levels, are concentrated in sectors such as retail, accommodation and food stuff and healthcare (Figure 2). At the same time, over half of non-UK nationals from the EEA are employed in these sectors (Figure 3). Complemented by the recent CIPD survey of more than 1, 0000 employers which shows a continuation of the strong demand for labour and difficulty filling vacancies with local applicants (Figure 4), the evidence tentatively suggests that labour shortages are increasing in a concentrated number of sectors.

4. The CIPD, however, is keen to make the distinction between concentrated labour shortages and widespread skills shortages that are reported in other business surveys. As the most authoritative data on skills illustrates, just eight per cent of organisation reported difficulty filling vacancies.³ However, as the same survey shows, skills shortages are affecting a growing number and proportion of vacancies. The proportion of vacancies that are skills-shortage-vacancies increased to 23% in 2015 from 16% in 2011. In addition, the density of skills shortage vacancies is higher than 30% among professionals and skilled trades according to the same survey.
5. Indeed, while the CIPD has highlighted concerns about labour shortage recently, we believe that the biggest danger and risk for the labour market in the future is with skilled labour. Skilled EU migrants have more options and choices than unskilled labour. The voluntary movements in flows could be especially important in the short to medium-term as presumably actual controls could not be introduced until the UK has formally left the EU. The Government's tone and messaging will, therefore, matter a lot; especially against the backdrop of the depreciation in sterling and the economic recovery in many European economies. Looking further ahead, it is also worth considering that the EU has offered employers an important safety valve for organisations that cannot find skilled labour from the UK and perceive that they don't have enough legal expertise or financial resource to recruit from outside the European Union. The introduction of migration restrictions will, thus, bear down on SMEs in particular.

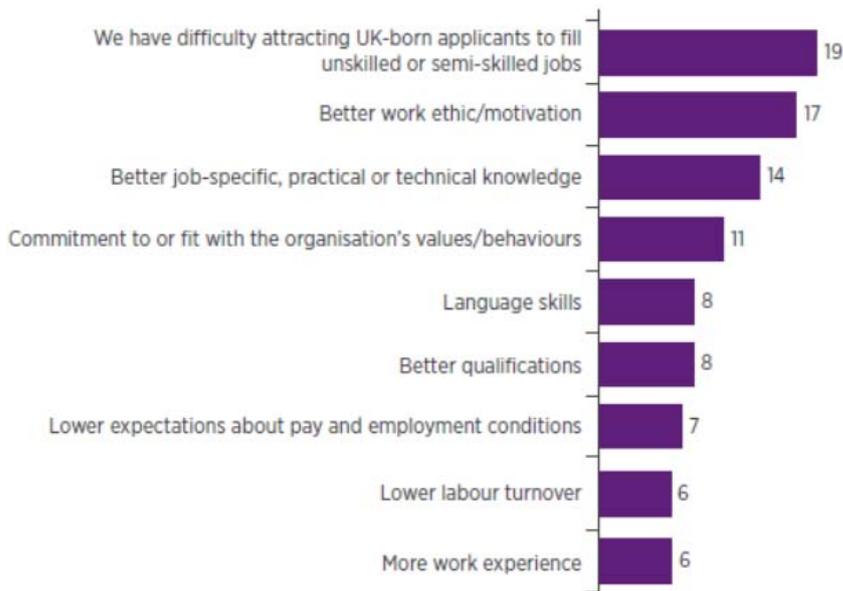
³ UKCES (2015). *Employer Skills Survey: 2016 results*. London: UKCES. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/525444/UKCESS_2015_Report_for_web_May_.pdf

Figure 2: Industries with the highest number of vacancies

Wholesale and retail trade; repair of motor vehicles and motor cycles	138
Human health and social work activities	118
Accommodation and food service activities	84
Manufacturing	52
Other industries	356
All vacancies	748

Source: Labour Force Survey, January 2017 (ONS)

Figure 3: Reasons for employing EU migrants:



Source: CIPD Labour Market Outlook, Winter 2017

- It, therefore, seems likely that low-wage industries will be more affected than high-wage industries by a reduced ability to source foreign workers, at least in the short-term. The qualitative research that we have carried out as part of our more in-depth report on EU immigration policy, due to report in May this year, suggests that high-wage industries will absorb the potential additional costs and bureaucracy that will

be associated with recruiting EEA migrants in the future. At the same time, the same evidence shows early signs that some low-wage industries are already exploring how to use other recruitment channels in order to maximise the potential of groups whose potential has not been maximised because of the ready supply of EU nationals. Or as one of the participants, a representative of a FTSE 250 company at one of the focus groups, put it: “our organisation has become lazy in our recruitment practices”. As a result, the organisation is now looking to target various groups such as ex-offenders, women returners and older workers.

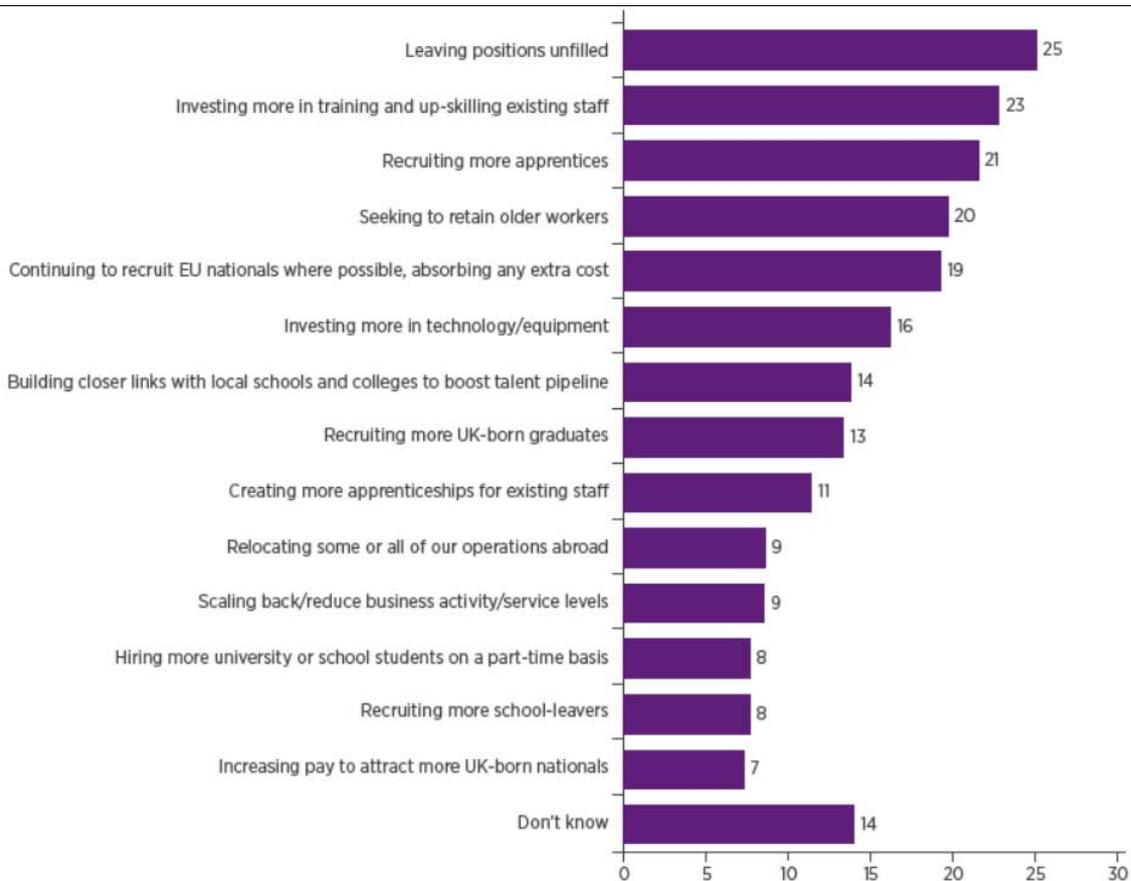
7. We could therefore have a scenario in which we have winners and losers; especially among employers in low-wage industries. According to recent survey CIPD data, around a quarter of employers that employ EEA nationals what proportion of the workforce they make up and therefore have little idea of the composition of the roles they are employed in.⁴ As a result, it seems inevitable that some low-wage employers and SMEs will simply have to leave their vacancies unfilled, which will have wider implications on output growth for the whole economy.

⁴ CIPD/Adecco Group (2017). Labour Market Outlook: Winter 2017. London. Available at: https://www.cipd.co.uk/knowledge/work/trends/labour-market-outlook?utm_crt=lmo

Q2. What would be the impact on wages, in different sectors, of controls on EU migration and further controls on non-EU migration? What evidence is there of the impact on wages of the level of immigration (from EU and non-EU countries) to date?

8. One of the ways employers might ease their recruitment difficulties is to raise pay. However, our quantitative evidence suggests that employers will be looking to explore a wide range of alternative options in response to skills and/or labour shortages before they raise pay and/or employment conditions. As our most recent Labour Market Outlook report highlights, raising pay is the least likely course of action in response to labour shortages (Figure 4).

Figure 4: Employer responses to labour shortages



Source: Labour Market Outlook Winter 2017 (CIPD/Adecco Group)

9. It is important to point out that there are many limitations to these options in specific sectors and occupations. For instance, recent interviews with employers in various sectors point to a potential mismatch between under-utilised groups, such as women returners and older workers, and the physical and anti-social hours demands of vacancies in construction, warehouses and accommodation and food services. At the same time, other sectors such as social care have budgetary restrictions.
10. Further, it is true that it remains uncertain as to how employers will respond. For instance, if employers' attempts to recruit from other groups prove successful, and there are fewer EU migrants to absorb the slack, some employers may be forced to look at the reservation wage (the wage that would persuade local jobseekers to accept the job) in order to stimulate more interest.
11. Another way of offsetting the fall in EU migrant labour and raise pay for workers in the medium to long-term is to increase employer investment in training. Recent CIPD evidence is a bit mixed on this, with employers signalling both a modest fall in training expenditure post-Brexit and signalling greater willingness to invest in UK citizens at the same time.⁵
12. However, a more in-depth CIPD study found that firms who employed migrants were also more likely to invest in schemes for young people, although, as the report makes clear, this may be a size effect. Nonetheless, the report found no negative link between training effort and employing migrants.⁶
13. Therefore, it seems unlikely that reducing migration will have a big impact on training effort of itself, especially among firms who under-invest or do not employ migrants, so the question then must be what *additional* effort the Government is going to make to encourage more training in the post Brexit future.
14. Another possible solution for employers is to automate their processes, especially against the backdrop of the increased costs of the National Living Wage, which make technology more attractive to firms than labour.

⁵ CIPD/Adecco Group (2017). *Labour Market Outlook: Autumn 2016*. London. Available at: https://www.cipd.co.uk/knowledge/work/trends/labour-market-outlook?utm_crt=lmo

⁶ CIPD (2014). *The Growth of EU labour: assessing the impact on the UK labour market*. London. Available at:

<http://www2.cipd.co.uk/publicpolicy/policy-reports/growth-eu-labour.aspx>

15. Indeed, the proportion of employers that report that they plan to automate their processes in response to the prospect of reduced labour supply is high (Figure 4). This is consistent with the quantitative evidence we have gathered to date.
16. Overall, the CIPD has picked up very little evidence of employer appetite to raise wages and does not see wages rising in response to the potential reduction in supply of EU migrants. Indeed, we may actually see pay awards come under pressure in some organisations given the tentative relationship the CIPD found between employing EU nationals and productivity levels in the same study.⁷

Q4. Is there a case for regional variation in immigration policy?

17. Initial soundings amongst our members suggest that a regional immigration policy will cause extra bureaucracy and confusion for employers; especially for those who have operations across the country. The CIPD believes that any new EU immigration policy should be as simple, light-touch, cost-effective and fair as possible. The issue of fairness across the whole of the UK was identified as a big concern in one of the focus groups we ran in the north of England, given their expectation that restrictions would be eased for London, in particular.
18. It is also difficult to see how such a system could be administered without some difficulty for both employers and the Government. Comparisons have been drawn with Australia and Canada, but both these countries have a strong history of federal and regional government that covers a much larger land mass. It also seems likely that the responsibility to 'police' the regional system would fall on employers, which would effectively add more regulation and bureaucracy for employers alongside the new national migration restrictions.

Q5. How successful have policies to control the level of migration from non-EU countries been? Are any changes required if these controls are extended to migrants from EU countries?

19. The Government has been successful in controlling the level of migration from non-EU countries, especially by raising the skills and/or salary threshold for non-UK nationals outside the EU in recent years. However, it is worth pointing out that it

⁷ Ibid



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may be dangerous to draw too many comparisons between the recent experience of non-EU immigration policy and future EU immigration policy because the Government does not have full control over flows. In other words, EU nationals may be voting with their feet even before any change has been made. As the CIPD has recently reported, around a quarter of employers say that they have evidence that staff considered leaving their organisation and/or the UK in the second half of 2016. In addition, a similar proportion say that they have evidence that EU nationals are thinking about quitting their organisation and/or the UK in 2017.⁸

20. As a result, while the CIPD's submission has focused on labour shortages, the biggest danger for the labour market would be with skilled labour; which has more options and choices than unskilled labour, especially against the backdrop of an economic recovery in many European economies. The EU has offered employers an important safety valve for organisations, especially SMEs, who don't have the expertise or finance to recruit non-EU nationals. It is important, therefore, that any attempt to introduce a similar system for EU migrants should be considered very carefully; especially given the tentative signs that growth in the number of EEA nationals in employment has sharpened slowly in recent months.

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⁸ CIPD/Adecco Group (2017). Labour Market Outlook: Winter 2017. London. Available at: https://www.cipd.co.uk/knowledge/work/trends/labour-market-outlook?utm_crt=lmo