Championing better work and working lives

# LABOUR MARKET OUTLOOK

VIEWS FROM EMPLOYERS

*Spring 2016*

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.

# Contents



# Acknowledgements

The *Labour Market Outlook* is administered by YouGov and we are grateful to Ian Neale and Laura Piggott at YouGov for advice on the use of the survey data in this report. The CIPD is also grateful to all the respondents who gave their time to contribute to this survey.

Any errors that remain are entirely the CIPD's responsibility.

# Foreword

The quarterly CIPD *Labour Market Outlook* (LMO) provides a set of forward-looking labour market indicators, highlighting employers' recruitment, redundancy and pay intentions. The survey is based on responses from 1,014 employers, many of whom are drawn from the CIPD's membership of around 140,000 professionals.

The latest report shows that basic pay expectations remain subdued with no sign of any wage growth. The median basic pay award expected from March 2016 to March 2017 is an increase of 1.7%, slightly below the median award of 2% made in the previous 12 months. This latter figure is broadly consistent with the most recent headline official pay statistics, which show that basic pay growth rose by 1.8% in the 12 months to February 2016 (ONS 2016).

The report suggests that a combination of government policies are putting downward pressure on basic pay growth for a growing proportion of employers. Just over a fifth of employers who won't be able to award a pay increase of 2% or more say this is due to the introduction of the National Living Wage (NLW). Other current and anticipated cost increases that are acting as a drag on pay growth are the rolling out of the auto-enrolment pensions scheme, increases in the National Minimum Wage and other labour costs such as National Insurance contributions. Employers with a contracted-out salary-related pension scheme have to pay more contributions from April 2016. Additionally, the introduction of the apprenticeship levy in April 2017 will add more cost to the payroll of larger employers.

Affordability, however, is the factor most often mentioned as restraining pay growth together with controls on public sector pay growth, which is itself a form of affordability constraint for public sector organisations.

At the same time, the National Minimum Wage and the National Living Wage are pushing up overall wage growth in some organisations. Around three in ten employers report that the National Living Wage will help raise basic pay at their organisation by 2% or more, which may be partly explained by some employers' desire to maintain pay differentials.

Meanwhile, the report shows that short-term employment prospects remain positive. This quarter's net employment balance – which measures the difference between the proportion of employers who expect to increase staff levels and those who expect to decrease staff levels in the second quarter of 2016 – has increased to +28 from +21 since the winter 2015/16 report (Figure 1). This suggests there is still a good proportion of employers that remain optimistic of being able to increase employment despite recent official employment statistics which suggest that the pace of strong employment growth may be softening. The next few months will tell whether this employment slowdown is the start of a longer-term trend or whether it is a temporary easing before jobs growth is maintained.

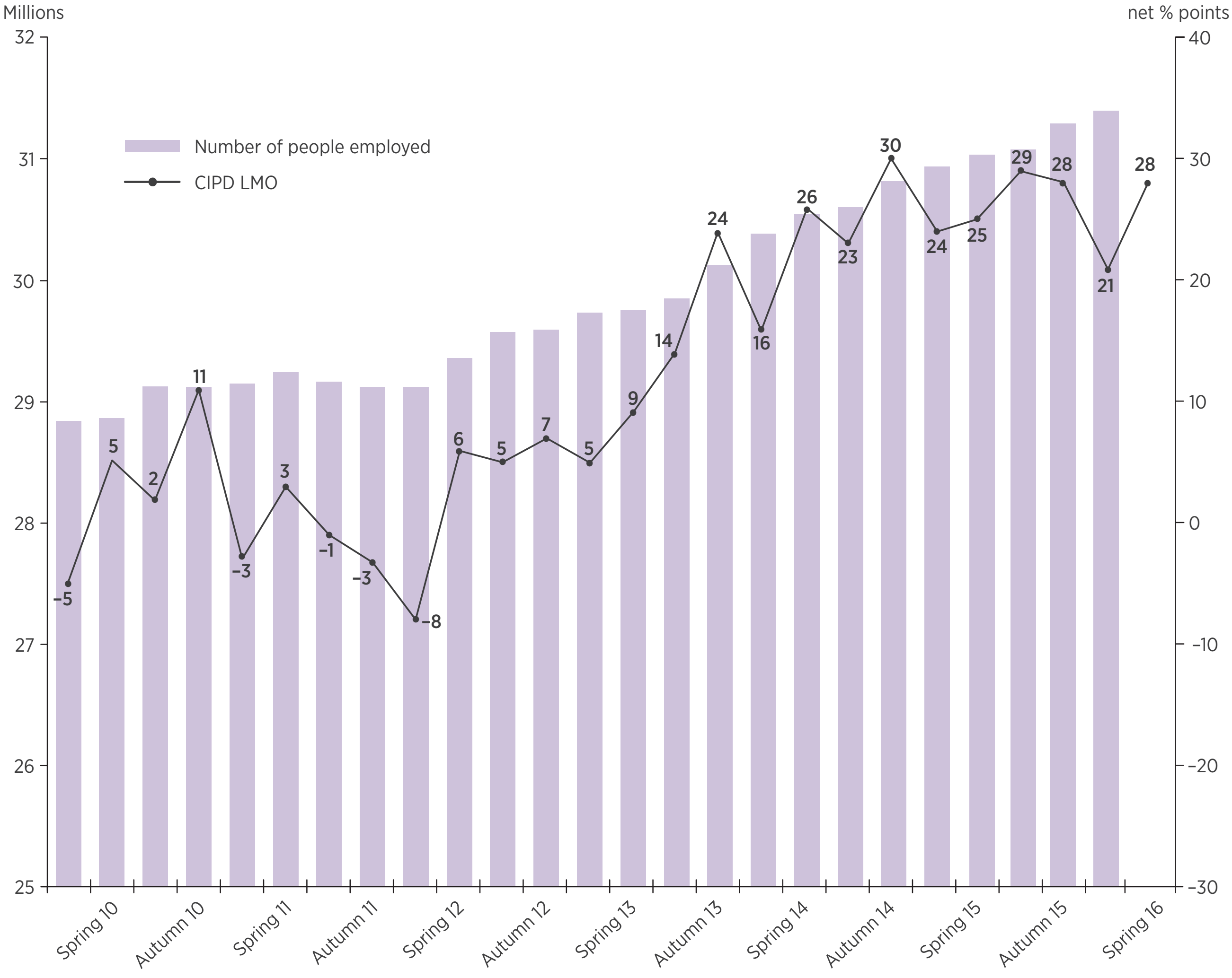
Overall, the results suggest that there is little sign of wages picking up in the near term. However, employment growth remains robust according to LMO employers. As explained in previous reports, the strong employment and weak pay projections may be partly explained by strong labour supply and weak productivity growth.

# 1 Recruitment and redundancy outlook

### What is the short-term employment outlook?

This section focuses on the recruitment and redundancy intentions of LMO employers in the second quarter of 2016. This latest report suggests that employment confidence will remain strong over the next three months, despite other survey indicators suggesting a softening in employment growth (Bank of England 2016). This quarter's

**Figure 1** **Correlation between LFS employment levels and LMO data**




Base: Spring 2016, all employers planning to recruit or make redundancies in Q2 2016 (n=732)

**How to interpret Figure 1**

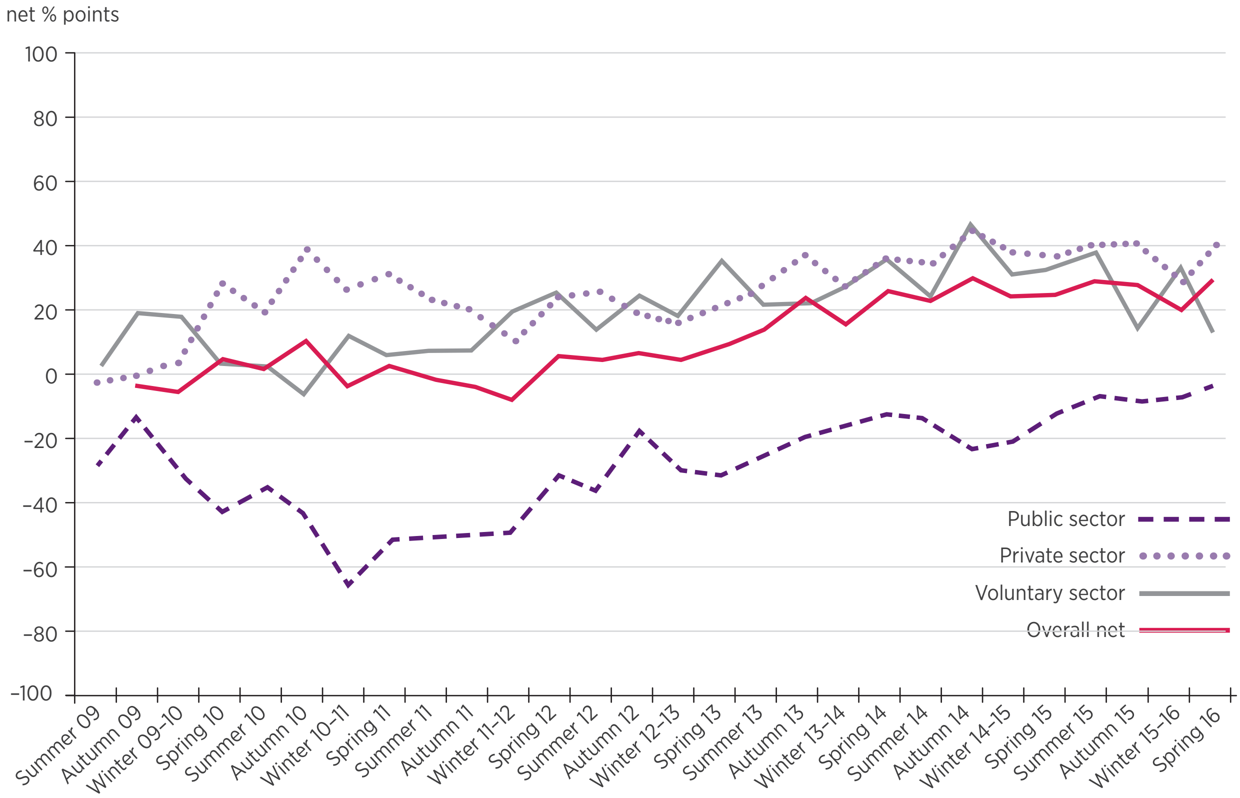
Figure 1 displays the LMO's net employment balance (black line). The purple columns display the total number of people in employment according to the monthly ONS Labour Market Statistics time series data. The latest ONS figures cover the three months to February 2016.

1 Labour Force Survey data taken at quarterly intervals based on GB population aged 16+. Spring (February–April), Summer (May–July), Autumn (September–November), Winter (November–January).

net employment balance – which measures the difference between the proportion of employers who expect to increase staff levels in Q2 2016 and those who expect to decrease staff levels – has risen to +28 from +21 since the LMO winter 2015/16 report (most of this increase is due to seasonal variation).

Employment confidence has risen across both the private and public sectors. At a sectoral level, it is perhaps no surprise that employment confidence is highest in the service sector (+42) given the recent solid output growth figures. However, it is a surprise that employment intentions are strong in manufacturing and production (+31) given the slowing of output growth in manufacturing and production. In addition, falls in public sector employment levels look set to be more modest in the near term (–5). Indeed, employment confidence has risen especially in public administration and defence; up from –43 to –24.

**Figure 2** **Overall effect of recruitment and redundancy intentions in the three months to June 2016, by sector**




Base: Spring 2016, all employers planning to recruit or make redundancies in Q2 2016 (n=732), private sector (n=453), public sector (n=203), voluntary (n=76)

***Table 1:*** **Overall effect of recruitment and redundancy intentions in Q2 2016, by sector**

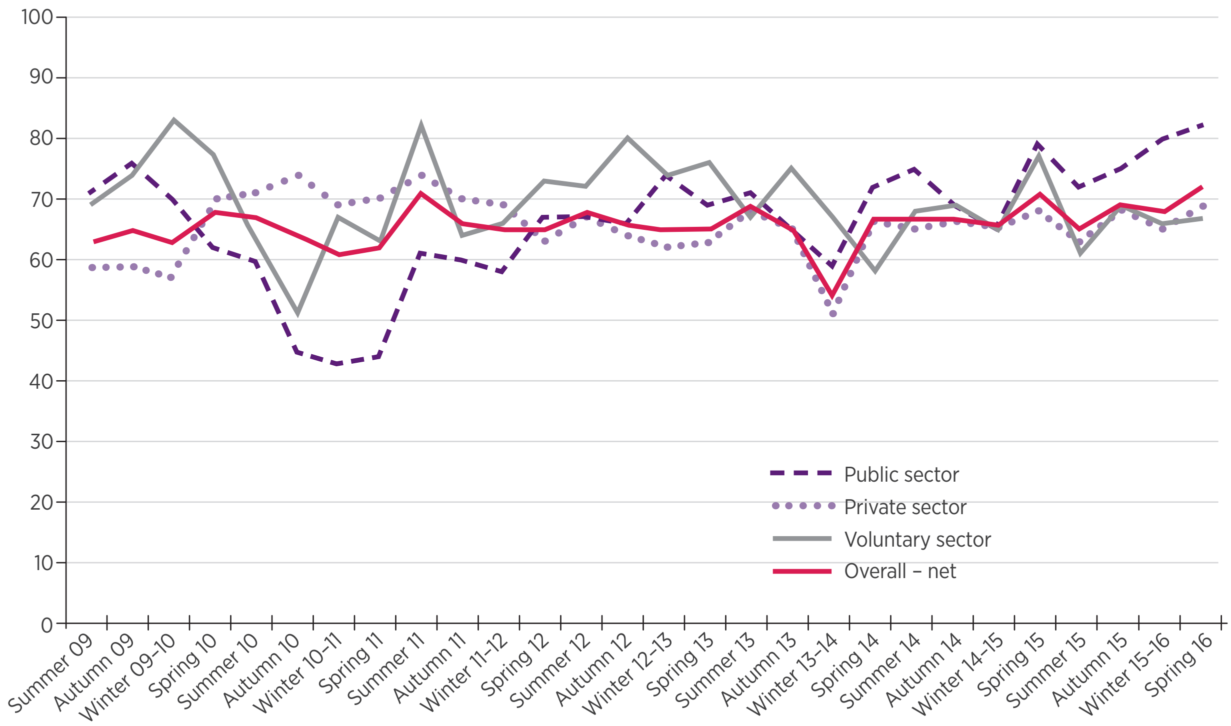
| Sector | Spring 2016 | Winter 2015–16 | % point change |
|---|---|---|---|
| Private sector services (n=328) | +42 | +30 | +12 |
| Manufacturing and production (n=92) | +31 | +28 | +3 |
| Education (n=99) | +3 | +14 | –11 |
| Public administration and defence (n=88) | -24 | -43 | +19 |
| Healthcare (n=68) | +28 | +34 | –6 |

Base: Spring 2016, all employers planning to recruit or make redundancies in Q2 2016 (n=732)

## Q2 2016 recruitment intentions

The proportion of employers that plan to hire staff in Q2 2016 has increased modestly since the previous report. Almost three-quarters (72%) of employers plan to hire staff in Q2 2016. Reflecting that larger organisations are more likely to be public sector organisations, more than four-fifths (82%) of public sector employers plan to hire staff during the same period, compared with more than two-thirds of private sector employers (69%) and voluntary sector employers (67%).

*Figure 3* **Recruitment intentions, by sector (%)**

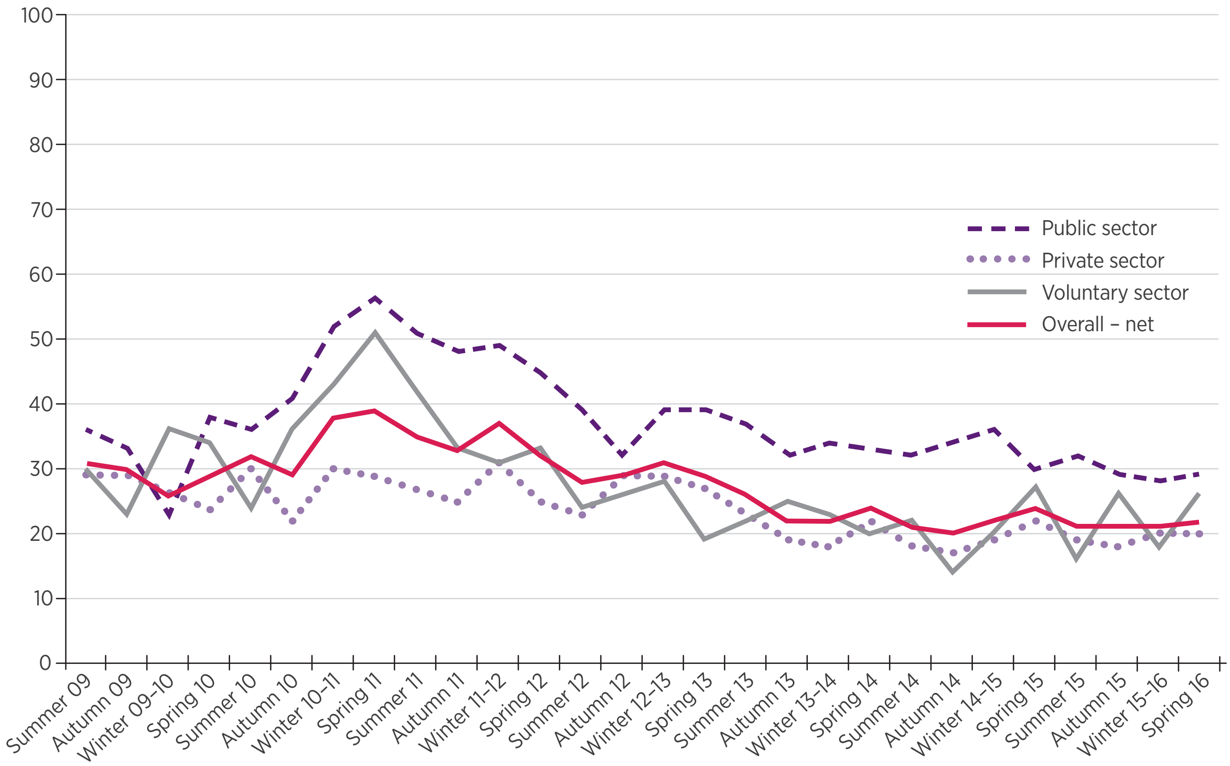



Base: Spring 2016, all employers (n=1,014), private sector (n=737), public sector (n=212), voluntary sector (n=65)

## Q2 2016 redundancy intentions

At the same time, redundancy intentions remain very low by the survey's historical average. Around one in five employers (22%) plan to carry out redundancies in the second quarter of 2016. It is perhaps no surprise that redundancy intentions are highest in the public sector (29%), compared with the voluntary sector (26%) and the private sector (20%).

*Figure 4* **Q2 2016 redundancy intentions (%)**

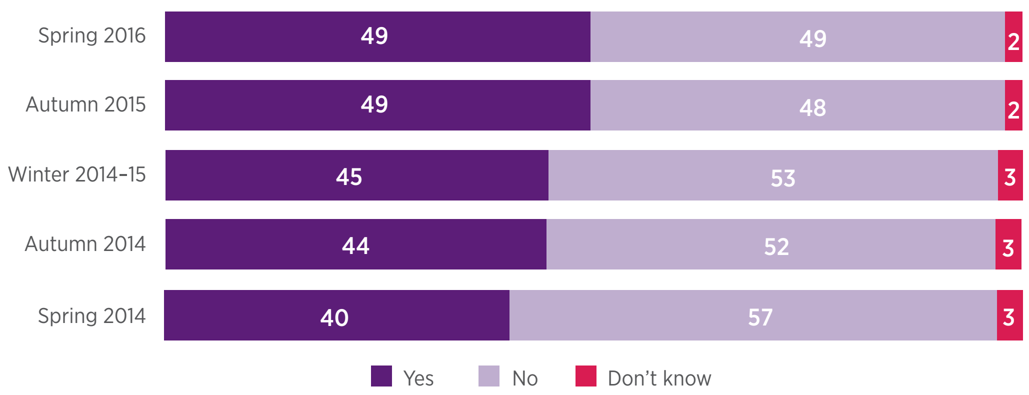



Base: Spring 2016, all employers (n=1,014), private sector (n=737), public sector (n=212), voluntary sector (n=65)

*Table 2:* **Is your organisation planning to make any redundancies during the next THREE months? (%)**

| Sector | Spring 2016 | Winter 2015–16 | % point change |
|---|---|---|---|
| Public administration and defence (n=100) | 50 | 47 | +3 |
| Education (n=119) | 20 | 16 | +4 |
| Private sector services (n=494) | 21 | 16 | +5 |
| Healthcare (n=69) | 11 | 13 | –2 |
| Manufacturing and production (n=137) | 17 | 25 | –8 |

**Figure 5** Proportion of organisations reporting recruitment difficulties (%)



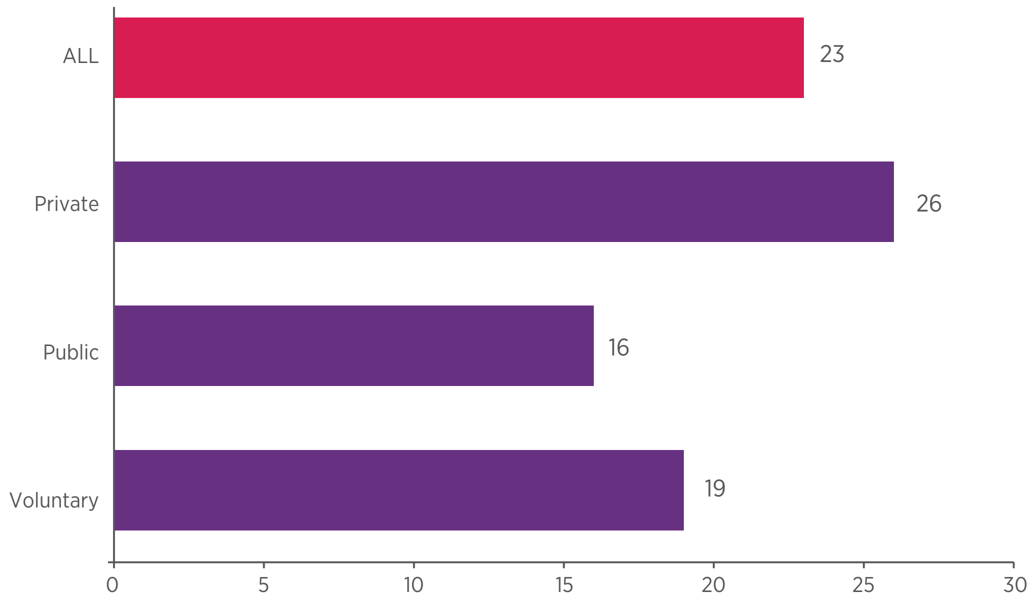

Base: Spring 2016, all employers (n=1,014)

## Recruitment pressures rising

This report shows that recruitment difficulties have risen gradually over the past two years. Overall, around half (49%) of employers report that they are having difficulty filling vacancies, compared with 40% during the same period in 2014. These difficulties are more prevalent in the public sector (65%) than in the private sector (45%) and voluntary sector (39%). Again, this is mainly due to the larger size of public sector organisation on average. Hiring difficulties are highest in healthcare (80%) and public administration (61%).

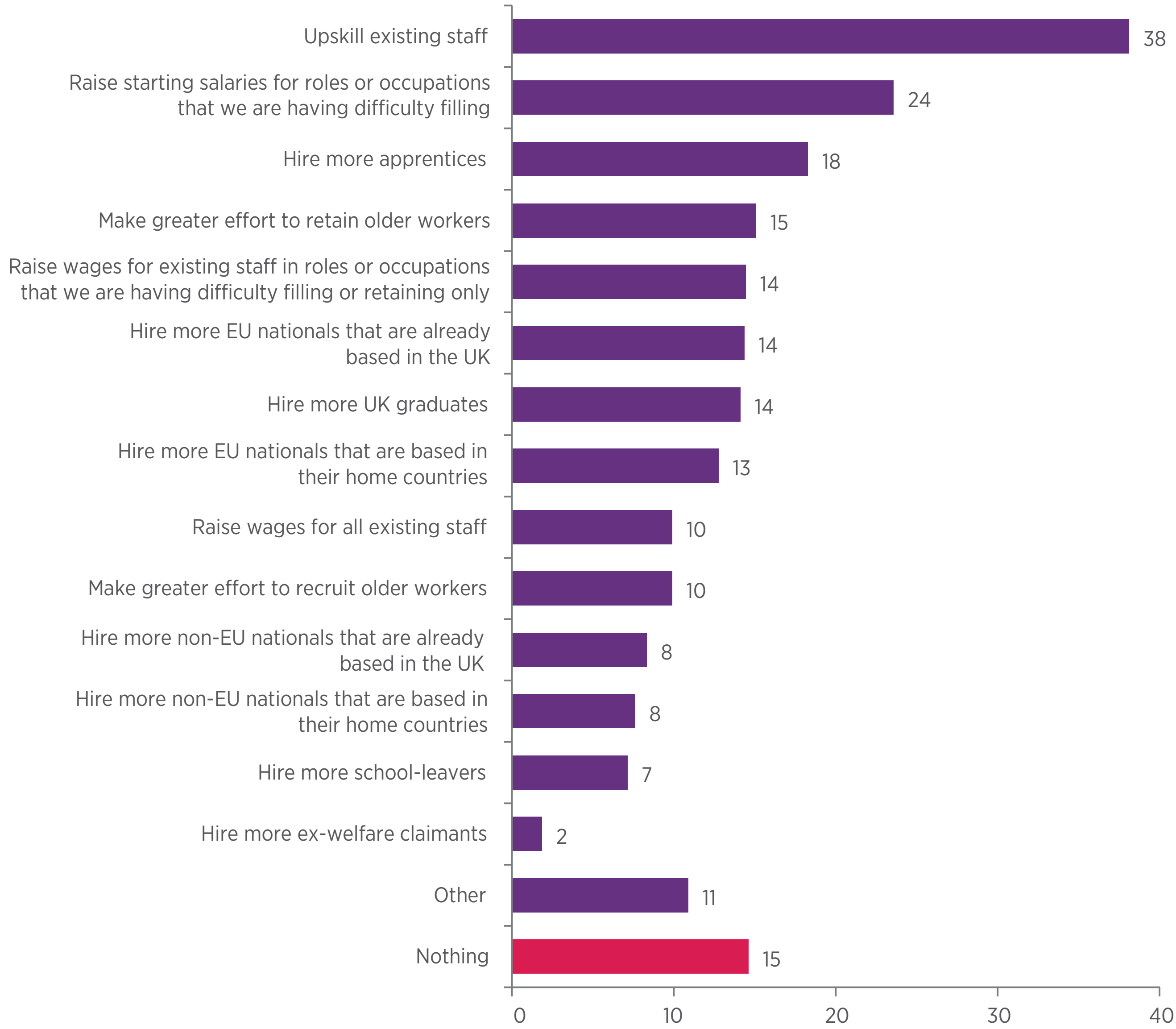
On average, just under a quarter (23%) of all vacancies are difficult to fill among those organisations that are experiencing hiring difficulties. The proportion of vacancies that are hard to fill is highest in the private sector (26%).

**Figure 6** Proportion of vacancies that are hard to fill among employers reporting recruitment difficulties (%)




Base: Spring 2016, all employers reporting hard-to-fill vacancies (n=464), private sector (n=287), public sector (n=139), voluntary sector (n=38)

**Figure 7** **Employer responses to hard-to-fill vacancies (%)**




Base: Spring 2016, all employers reporting hard-to-fill vacancies (n=464), private sector (n=287), public sector (n=139), voluntary sector (n=38)

## Employers' response to recruitment difficulties

Consistent with recent LMO reports, upskilling staff is the most popular response to recruitment difficulties among LMO employers. Other popular responses include raising starting salaries for occupations that employers are having difficulty recruiting for (24%) and hiring apprentices (18%). Employers seem just as likely to recruit EU migrants from their home country as recruit from those that are already based in the UK.

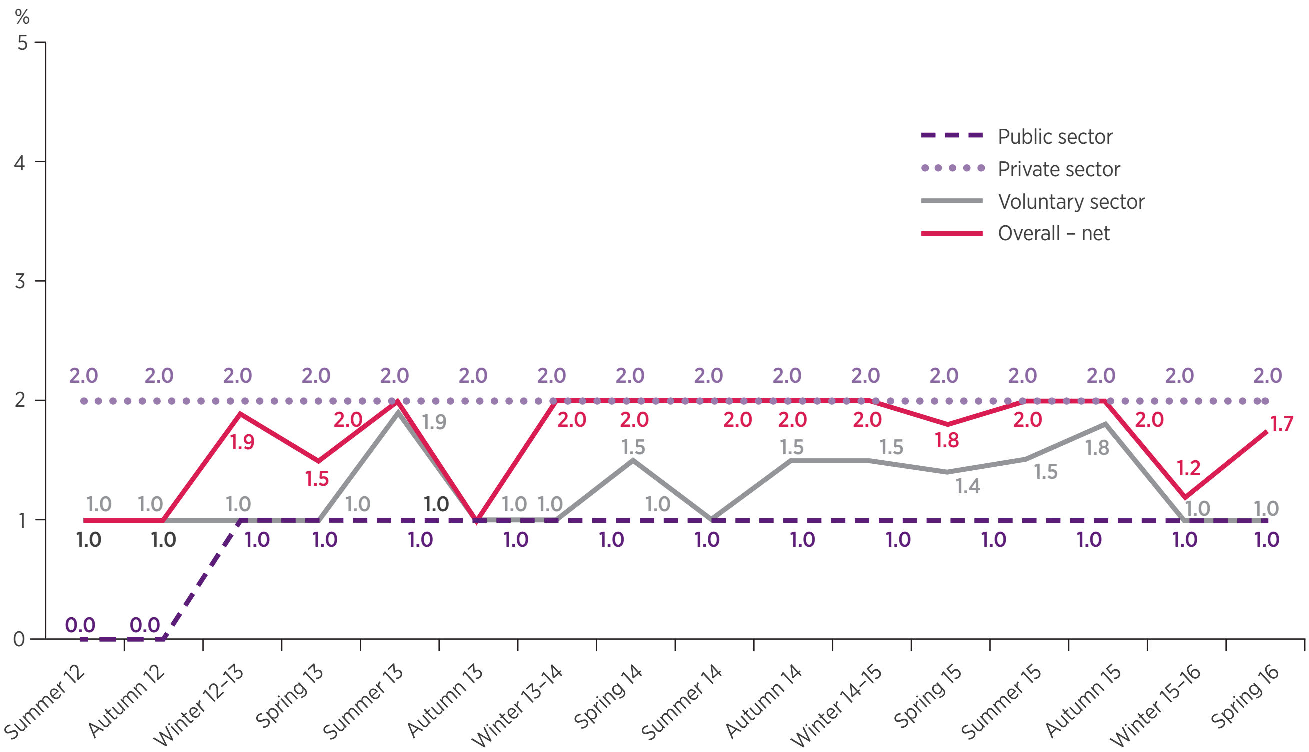
# 3 Pay outlook

The median pay change (excluding bonuses) in the 12 months to March 2017 has increased to 1.7% from 1.2% compared with the previous report. This is broadly consistent with recent LMO reports and the most recent headline official pay statistics. These show that basic pay growth fell modestly to 1.8% in the 12 months to February 2016 (ONS). They are also consistent with other survey indicators, such as Xpert HR, who reported that the average wage settlements are1.7%. This picture of stability and modest pay growth (Figure 1) has led some commentators to conclude that the UK economy may herald '*a new norm wage growth of 2%*' (Blanchflower and Machin 2016).

Small and medium-sized organisations (those with fewer than 250 employees) have a higher median pay expectation (2%) than larger organisations (1%), which is at least partly because few public sector organisations have fewer than 250 employees.

Additionally, employers with a premium quality service strategy are also likely to anticipate higher pay increases (median increase of 2%) than employers with a basic or standard approach to quality (median increase of 1%).

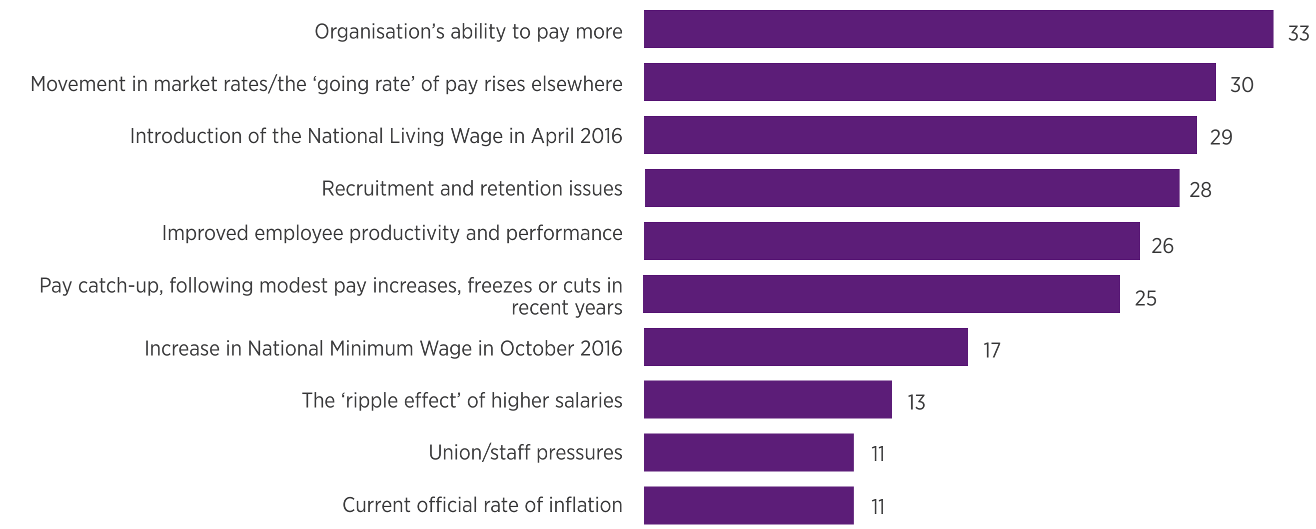
**Figure 8** Median basic pay expectations, by sector (%)




Base: Spring 2016, all employers who can predict their next basic pay award (n=463), private sector (n=310), public sector (n=124), voluntary sector (n=30)

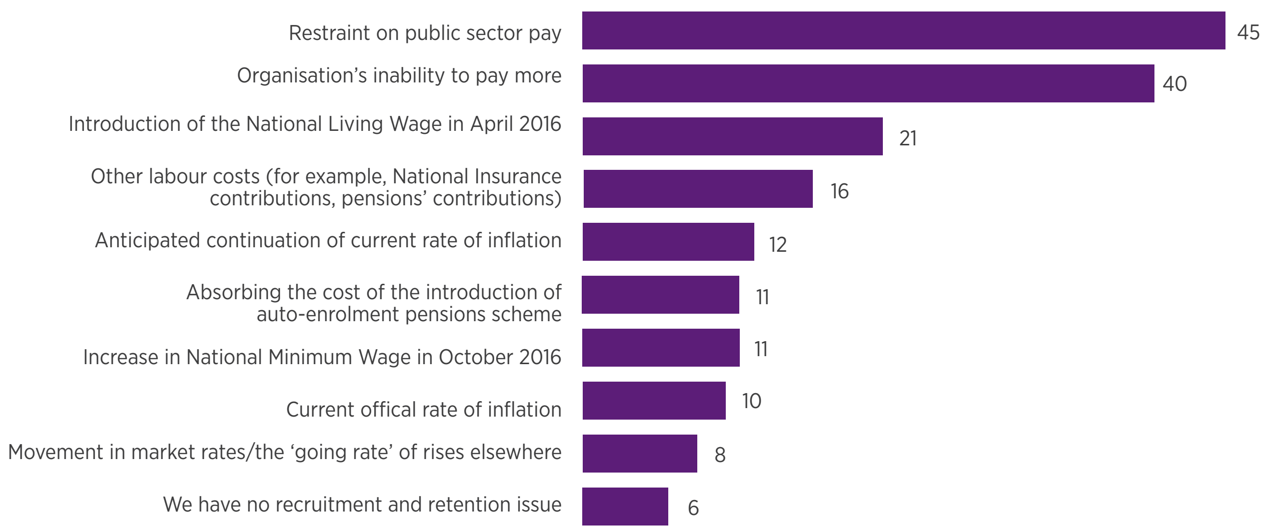
Around half of employers (50%) who can predict their next pay award plan to give a basic pay award of 2% or more. A broad range of factors underpin these expectations. Affordability (33%), a movement in market rates (30%) and recruitment and retention issues (28%) are the most important factors underpinning these expectations. In addition however, almost three in ten (29%) employers in this category cite the National Living Wage. This may be partly explained by recent research which suggests that a fifth of employers planned to maintain their pay differentials as a result of the introduction of the National Living Wage (CIPD and Resolution Foundation 2016).

***Figure 9*** **Key reasons behind basic pay increases of 2% or more (%)**




Base: All employers who expect their basic pay award to increase by more than 2% (n=231)

***Figure 10*** **Key reasons behind basic pay increases of less than 2% (%)**



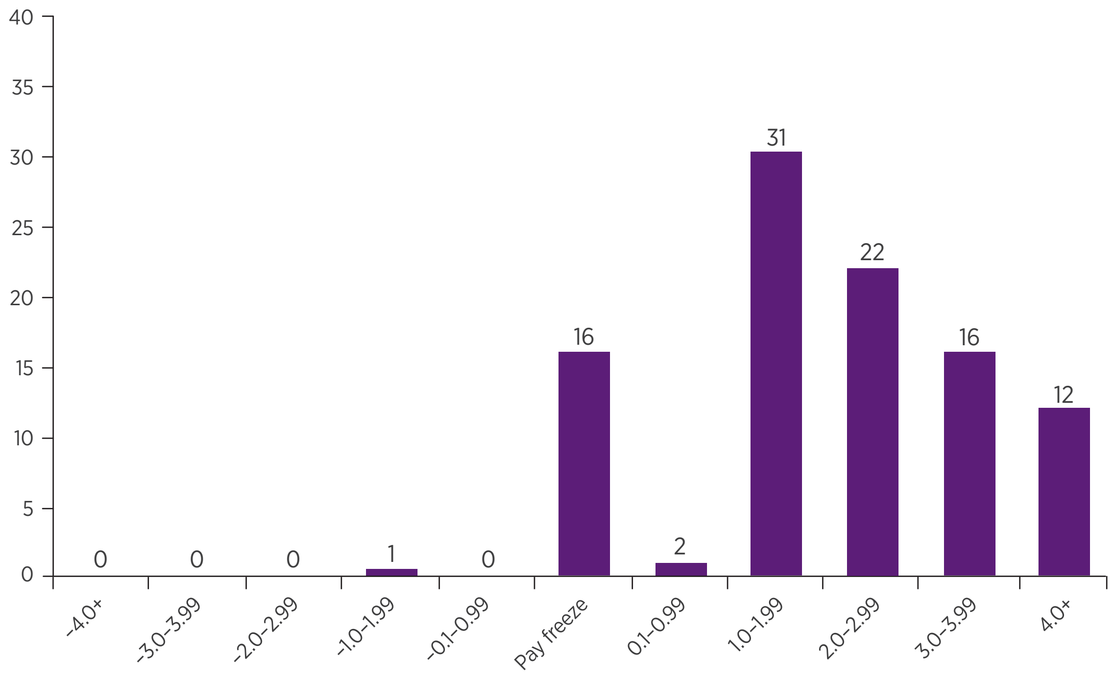

Base: All employers who expect their basic pay award to increase by less than 2% (n=232)

At the same time, the rise in wage costs as a result of the introduction of the National Living Wage is likely to have a dampening effect on basic pay growth in some organisations. More than one in five employers (21%) cite the National Living Wage as a reason for weak pay growth. Sixteen percent say that other labour costs, such as National Insurance contributions (employers with a contracted-out salary-related pension scheme have to pay more from April 2016), are weighing down on basic pay. In addition, just over one in ten (11%) employers say that the rolling out of the Government's auto-enrolment pension scheme will have a negative impact on basic pay growth at their organisation. Indeed, the NLW also increases employers' pensions contributions because a greater proportion of employees will become eligible for auto-enrolment because they will meet the £10,000 threshold for becoming eligible for auto-enrolment. In addition, employer contributions may also increase because they are based on a percentage of a higher salary.

**Employers citing the National Living Wage as a reason for weak pay growth**

**21%**

***Figure 11*** **Distribution of forward-looking basic pay settlements (%)**



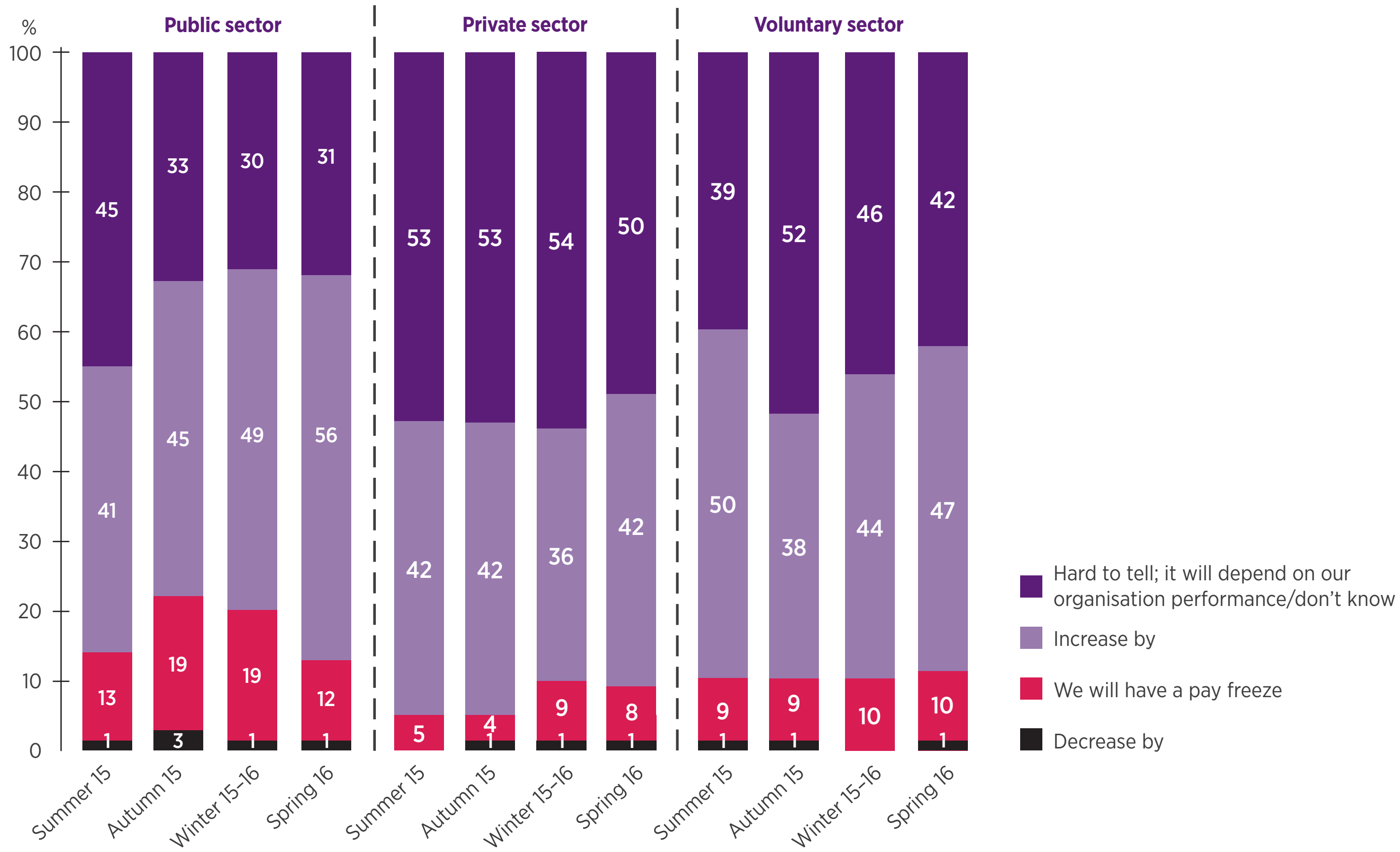

Base: Spring 2016, all employers who can predict their next basic pay award (n=463), private sector (n=310), public sector (n=124), voluntary sector (n=30)

The distribution of basic pay awards shows a significant variation across organisations. There is a clustering of pay awards among organisations that plan to give a basic pay award of 1–1.99% (31%) and 2–2.99% (22%). Perhaps reflecting the desire to pay above the current inflation rate, just 2% of organisations intend to increase their basic pay by 0.01–0.99%. Over a quarter of employers (28%) intend to award a basic pay increase of 3% or more.

Almost nine in ten employers (87%) are planning to make their next pay decision in the 12 months from March 2016. When asked about their expectations for these forthcoming pay decisions, around four in ten (45%) employers don't know the size of the pay increase or say it is hard to tell at this stage as it may depend on organisational performance. Very few employers (1%) expect to cut pay and a further 9% expect a pay freeze, which leaves 42% expecting a pay increase.

Public sector employers are more likely than employers in the private or voluntary sectors to feel they are in a position where they can predict the likely direction of their next pay decision (see Figure 12).

***Figure 12*** **Likelihood of a basic pay increase, decrease or pay freeze, by sector, in the 12 months to March 2017 (%)**



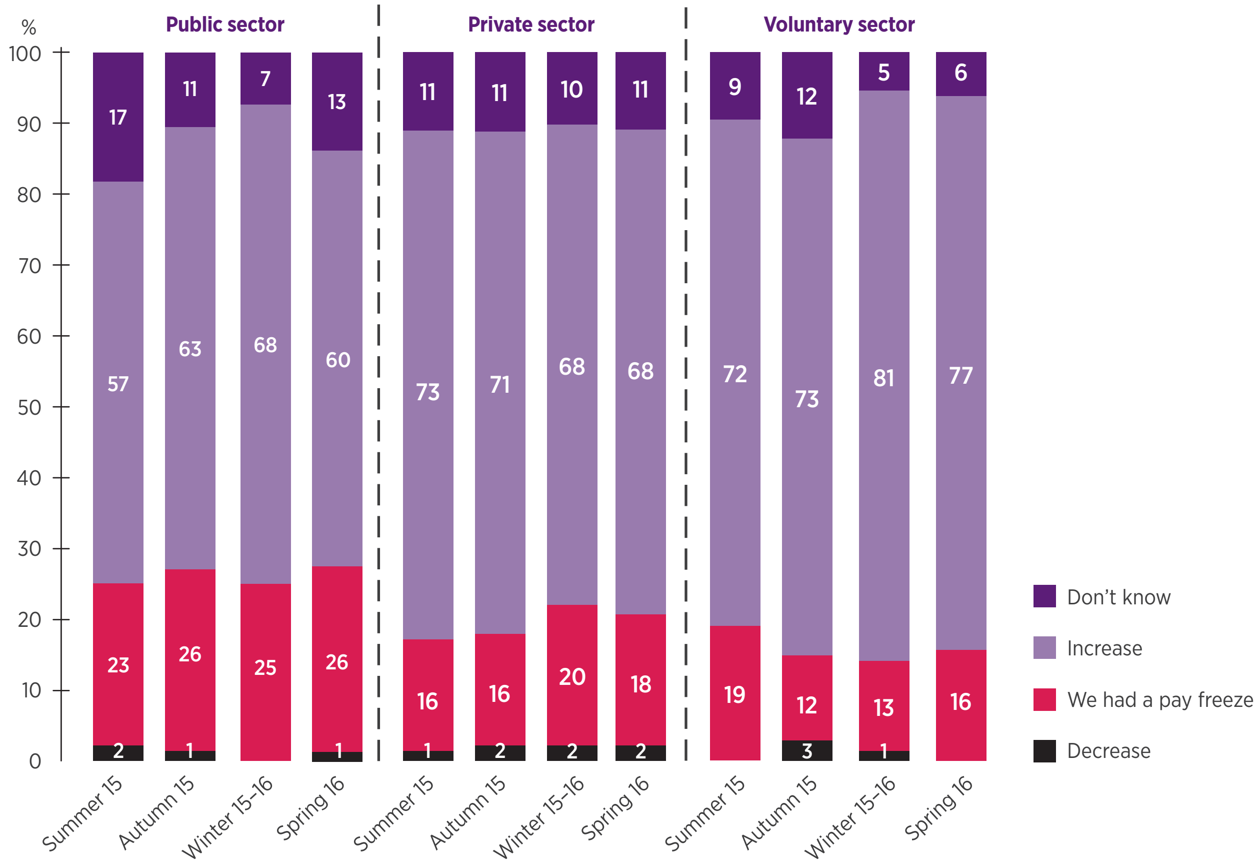

Base: Spring 2016, all employers that expect a pay decision in the 12 months to March 2017 (n=847), private sector (n=563), public sector (n=202), voluntary sector (n=82)

## Pay awards over the past year

The median basic pay award in the 12 months to March 2016 is 2%. Consistent with previous reports, the median basic pay award was higher in the private sector (2%) than in the voluntary sector (1.4%) and public sector (1%).

More than two-thirds (68%) of employers have conducted a pay review within the last year. Of these, 67% increased pay, 19% froze pay, 1% cut pay and 12% could not specify an outcome. Public sector employers remain more likely to have frozen pay than employers in the private or voluntary sectors (see Figure 13).

**Figure 13** Basic pay change as a result of pay reviews over the past 12 months (%)




Base: Spring 2016, all employers who conducted a pay review in the 12 months to March 2016 (n=661), private sector (n=469), public sector (n=122), voluntary sector (n=70)

**Employers that froze pay**

**25%**

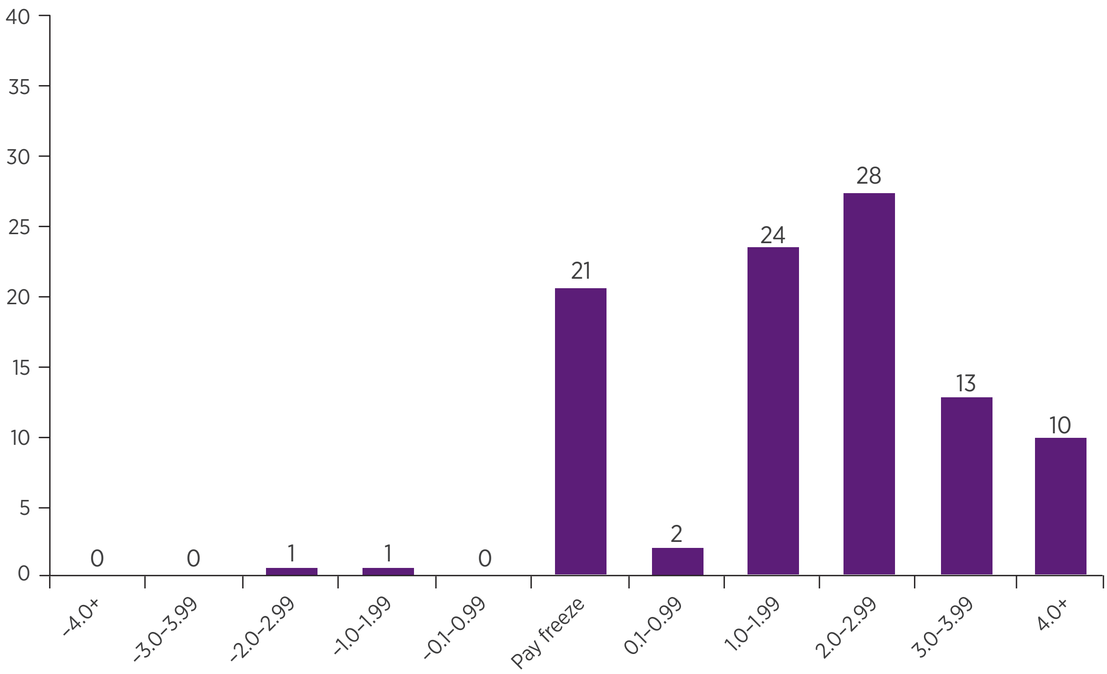
**Employers that plan to freeze pay**

**16%**

The distribution of basic pay awards shows a similar pattern to the pay award intentions of employers. It also shows a clustering of pay awards among organisations that gave a basic pay award of 1–1.99% (24%) and 2–2.99% (28%). Perhaps reflecting the desire to pay above the current inflation rate, just 2% of organisations intended to increase their basic pay by 0.01–0.99%. The main difference between the indicators is the higher proportion of employers that froze pay (25%) compared with just 16% that plan to freeze pay.

Employers are split in approximately equal proportions between those who increased pay by 2% or more – the current inflation target – and those who increased pay by less. Among employers who increased pay by 2% or more, the most common drivers mentioned are an ability to pay more (40%), improved performance and productivity (28%), pay catch-up (26%) and a movement in market rates (25%).

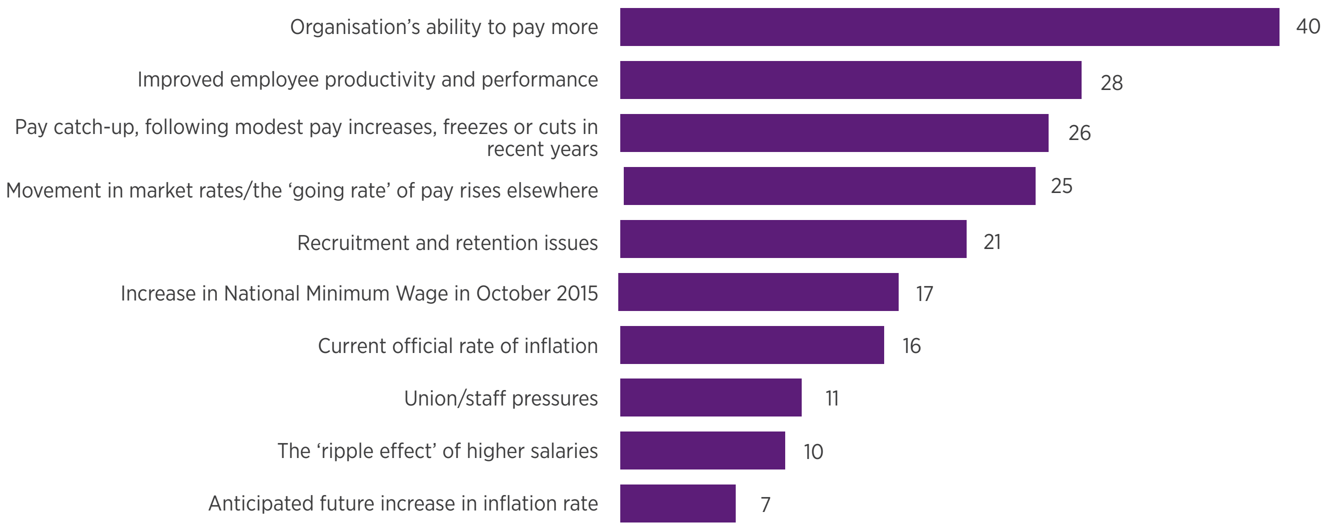
*Figure 14* **Distribution of backward-looking basic pay settlements (%)**




Base: Spring 2016, all employers who conducted a pay review in the 12 months to March 2016 (n=661), private sector (n=469), public sector (n=122), voluntary sector (n=70)

In contrast, affordability remains the dominant reason for pay increases of less than 2%, mentioned by 39% of all employers and 42% of private sector employers (see Figure 16). Imposed pay restraint is the reason given by 80% of public sector employers who didn't pay 2% or more.

**Figure 15** Key factors behind basic pay increase of 2% or more (%)




Base: Spring 2016, all employers that awarded a basic pay increase of 2% or more (n=276)

**Figure 16** Key factors behind basic pay increase of less than 2% (%)


Base: Spring 2016, all employers that awarded a basic pay increase of less than 2% (n=306)

# Sample and method

## Respondent profile

*Table 3:* **Breakdown of the sample, by sector (%)**

| Sector | Spring 2016 | Winter 2015–16 | Autumn 2015 | Summer 2015 | Spring 2015 | Winter 2014–15 | Autumn 2014 | Summer 2014 |
|---|---|---|---|---|---|---|---|---|
| Private | 73 | 73 | 73 | 73 | 73 | 73 | 73 | 73 |
| Public | 21 | 21 | 21 | 21 | 21 | 21 | 21 | 21 |
| Voluntary | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| **N** | 1,014 | 1,007 | 1,037 | 931 | 1,013 | 1,003 | 1,089 | 1,026 |

*Table 4:* **Breakdown of the sample, by number of employees in organisation (%)**

| | Spring 2016 | Winter 2015–16 | Autumn 2015 | Summer 2015 | Spring 2015 | Winter 2014–15 | Autumn 2014 | Summer 2014 |
|---|---|---|---|---|---|---|---|---|
| 2–9 | 14 | 14 | 14 | 14 | 14 | 14 | 14 | 14 |
| 10–49 | 14 | 14 | 14 | 14 | 14 | 14 | 14 | 14 |
| 50–99 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| 100–249 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 |
| 250–499 | 8 | 8 | 9 | 9 | 8 | 9 | 10 | 8 |
| 500–999 | 6 | 8 | 8 | 5 | 6 | 7 | 8 | 7 |
| 1,000–4,999 | 16 | 17 | 17 | 16 | 18 | 15 | 18 | 15 |
| 5,000–9,999 | 7 | 9 | 7 | 8 | 7 | 8 | 8 | 7 |
| 10,000–19,999 | 5 | 5 | 5 | 5 | 5 | 4 | 4 | 4 |
| 20,000 or more | 16 | 12 | 14 | 15 | 15 | 15 | 13 | 17 |
| **N** | 1,014 | 1,007 | 1,037 | 931 | 1,013 | 1,003 | 1,089 | 1,026 |

*Table 5:* **Breakdown of the sample, by industry (%)**

| | Spring 2016 | Winter 2015–16 | Autumn 2015 | Summer 2015 | Spring 2015 | Winter 2014–15 | Autumn 2014 | Summer 2014 |
|---|---|---|---|---|---|---|---|---|
| **MANUFACTURING AND PRODUCTION** | **15** | **15** | **15** | **15** | **15** | **15** | **15** | **15** |
| Agriculture, forestry and fishing | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Manufacturing | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 |
| Construction | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Mining and extraction | 1 | 0 | 0 | 1 | 1 | 1 | 1 | 0 |
| Energy and water supply | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 2 |
| **EDUCATION** | **6** | **6** | **6** | **6** | **6** | **6** | **6** | **6** |
| Primary and secondary schools | 4 | 3 | 4 | 3 | 3 | 3 | 3 | 3 |
| Further and higher education | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 4 |
| **HEALTHCARE** | **11** | **11** | **11** | **11** | **11** | **11** | **11** | **11** |
| NHS | 7 | 6 | 7 | 7 | 7 | 7 | 7 | 7 |
| Other private healthcare | 4 | 5 | 4 | 5 | 5 | 5 | 5 | 4 |
| **PRIVATE SECTOR SERVICES** | **52** | **52** | **52** | **52** | **52** | **52** | **52** | **52** |
| Hotels, catering and leisure | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 |
| IT industry | 3 | 2 | 3 | 2 | 2 | 2 | 2 | 2 |
| Transport and storage | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Consultancy services | 2 | 2 | 3 | 3 | 3 | 3 | 3 | 2 |
| Finance, insurance and real estate | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Wholesale and retail trade | 2 | 2 | 3 | 3 | 3 | 3 | 3 | 2 |
| Information and communication | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Retail | 15 | 14 | 13 | 12 | 12 | 12 | 12 | 14 |
| Professional, scientific and technical | 4 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Admin and support service activities | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 |
| **PUBLIC ADMINISTRATION AND DEFENCE** | **9** | **9** | **9** | **9** | **9** | **9** | **9** | **9** |
| Public administration – central government | 3 | 4 | 3 | 3 | 3 | 3 | 3 | 3 |
| Public administration – local government, including fire services | 5 | 4 | 5 | 5 | 5 | 5 | 5 | 4 |
| Armed forces | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Quango | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

## Survey method

The fieldwork for the LMO survey is managed by YouGov Plc. This survey has been conducted using the bespoke YouGov online system, administered to members of the YouGov Plc GB panel who have agreed to take part in surveys and the CIPD membership.

The survey is based on responses from 1,014 HR professionals and employers between 18 March and 8 April 2016. All respondents have HR responsibility within their organisation, which may or may not be their sole and primary function within their organisation. The sample is targeted to senior business leaders of senior officer level and above.

An email was sent to each respondent from the YouGov sample, who are selected at random from the base sample according to the sample definition, inviting them to take part in the survey and providing a link to the survey. Each member of the CIPD sample is invited to complete the survey. Respondents are given three weeks to reply and reminder emails are sent to boost response rates (subject to the CIPD's re-contact policy).

## Weighting

The quarterly LMO survey is sampled from the CIPD membership and through the YouGov panel of HR professionals. The data is weighted to be representative of the UK public and private sector business population by size of employer and sector. Rim weighting is applied using targets drawn from the *Business Population Estimates for the UK and Regions 2012* (available at: www. gov. uk/government/statistics/ businesspopulation-estimates-for-the-uk-andregions-2012). The delivered sample is drawn from across all business sizes and in total 535 unweighted responses were received from small and medium enterprises (SMEs) and 479 from HR professionals within large employers (250+ employees).

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