



LABOUR
MARKET

OUTLOOK

VIEWS FROM
EMPLOYERS

Summer 2019

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Report

Labour Market Outlook

Summer 2019

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1 Foreword from the CIPD

It is clear from the survey data that most employers are broadly anticipating a business as usual approach to recruitment and retention despite the current levels of political uncertainty. Nonetheless, the survey data shows that there has been a slight deterioration in employment confidence, which is in line with the softening in employment growth according to the official data. It seems likely that the employment growth will continue to slow into the autumn due to a fall in employer demand and labour supply.

As the survey data shows, the number of applicants for low-skilled vacancies has shown a fall, which may be due at least in part to the fall in EU net migration. This should sound an alarm for low-skilled employers, many of whom are not preparing for the introduction of migration restrictions in 2021. By comparison, the supply of medium-skilled and high-skilled applicants has held up relatively well, which is partly attributable to the relatively high number of non-EU citizens that have come to the UK to live and work over the past year. The removal of the migration cap for key professions such as nurses has been key to easing recruitment difficulties for recruiters.

There is, however, brighter news on pay. Following the recent acceleration in earnings growth in the official data, which rose by 3.6% excluding bonuses in the three months to May compared with the same period last year, the survey data points to a continuation of this trend. Pay pressures seem particularly strong in certain sectors, such as construction, according to the data in this report. However, the challenge for all employers lies in boosting productivity growth in order to make more generous pay increases more affordable over the longer term.

Gerwyn Davies
Senior Labour Market Adviser

2 Foreword from the Adecco Group UK and Ireland

Thriving in times of uncertainty

Uncertainty prevails in the UK and this report shows that businesses expect to see a reduced level of labour demand across most sectors in Q3. Healthcare and business services stand out as areas of higher demand, and given recent political upheaval, it's no surprise that the public (-6) and voluntary (-9) sectors have experienced a significant decrease in employment confidence.

The good news is that the increase of non-EU workers has softened recruitment difficulties during these ambiguous times. This report shows fewer applicants for low-skilled roles than in spring 2019 and an unchanged number of applicants for medium- and high-skilled roles. Close to half (47%) of organisations say it's hard to tell, or that they do not know, whether forthcoming pay reviews will result in an increase or decrease, which seems to sum up the extent of the current uncertainty.

Quarter on quarter it's getting more difficult to find candidates and the skills gap is widening. Forty-one per cent of employers say it has become more difficult to fill vacancies in the past 12 months, and among these employers, 52% have increased starting salaries to try and attract the right candidates.

Over a quarter of employers (29%) have found that it has become more difficult to retain staff in the last 12 months. Retail (40%) and administrative and support services (40%) have felt retention pressure the most. Here, too, employers have increased salaries in response, with 56% saying they have done so.

Increasing salary is a short-term fix but to thrive through times of uncertainty, organisations need to think more creatively about their workforce. I believe the key is focusing on 'growing your own' through upskilling, expanding talent pools to non-traditional talent sources, and creating clear but flexible career pathways.

We do finally have a date for Brexit. Perhaps this clarity will spur businesses on to prepare for change on 31 October. With fears over limited access to talent in the future, it's time to address the skills gap in new and creative ways that will support both recruitment and retention.

**Alex Fleming, Country Head and President of Staffing and Solutions,
the Adecco Group UK and Ireland**

3 Executive summary

The quarterly CIPD *Labour Market Outlook* (LMO) provides a set of forward-looking labour market indicators, highlighting employers' recruitment, redundancy and pay intentions for the third quarter of 2019. The survey took place in June 2019 and is based on responses from 2,104 establishments.

Employment

Labour demand remains robust but will soften slightly in Q3 2019. 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 third quarter of 2019 – has decreased from +22 to +18 over the past three months (Figure 1). The strength in labour demand is highest among healthcare (+38) and business services (+34) organisations. Looking at the regions, employment confidence is highest in Wales (+29) and Scotland (+21) and lowest in the East Midlands (+7) and the east of England (+7).

Labour supply

A potential consequence of strong employment growth is a tightening labour market. However, labour market tightness depends not only on employers' demand for labour, but also on developments in labour supply, which the *Labour Market Outlook* tracks closely. The survey data suggests that the employment growth over the past year has led to fewer applicants for low-skilled roles. However, the number of applicants for medium- and high-skilled roles remains largely unchanged compared with the summer 2018 report.

On average, employers received a median number of 16 applicants for the last low-skilled vacancy they tried to fill compared with 20 applicants in the summer 2018 report. This may be due, at least in part, to the continued fall in EU net migration following the 2016 referendum. According to the Bank of England, a lack of EU migrant workers has exacerbated conditions in some low-skilled sectors, such as food processing, logistics and hospitality.¹

In comparison, the number of applications for medium-skilled jobs is unchanged from a year ago, with employers reporting ten applications per vacancy advertised. There was also little change in the supply of applicants for high-skilled jobs, with employers reporting they received a median number of five applications for the most recent high-skilled role they advertised for, compared with the six applications they reported receiving in the summer 2018 report.

However, there was some variation between London and the rest of the UK. Employers in London received ten applications for the last high-skilled vacancy they sought to fill compared with the all-survey average of five applicants per vacancy.

Non-EU workers have been an important determinant of labour supply for medium- and high-skilled occupations over the recent past. According to the latest official data that looks at employment levels by country of birth, non-EU citizens account for more than a third of the annual increase in employment of 364,000 in the UK. The number of non-EU citizens in the UK workforce increased by 123,000 between Q1 2018 and Q1 2019, the majority of whom would have been subject to a relatively high skill threshold. This compares with a *decrease* of 6,000 between March 2017 and March 2018 in the number of non-EU citizens in employment in the UK. This relatively sharp increase has been mainly driven by the recruitment of nurses and medical practitioners, following a relaxation to remove doctors and nurses from the Government's migration cap in June 2018. This is consistent with the survey data in this report, which shows that employment growth expectations and recruitment difficulties are highest in healthcare. In addition, the official data shows that health and social work activities accounted for almost a third of the employment growth between Q1 2018 and Q1 2019.

The figures may come as a surprise to analysts given that employment has increased so strongly during the past year,² with virtually all of the employment growth driven by medium- or high-skilled roles. However, it seems that the strong inflow of non-EU citizens into the UK workforce may have been an important determinant of increased labour supply.

The increase in labour supply from outside the EU may partly explain why the prevalence of hard-to-fill vacancies remains broadly unchanged compared with the summer 2018 report. The proportion of organisations that currently have vacancies and have difficulty filling those vacancies has edged up to 67% of employers from 66% during the same period last year.

Looking ahead, it is highly likely that low-skilled labour will become even more constrained in 18 months' time, when migration restrictions on EU nationals look set to be introduced.

¹ <https://www.bankofengland.co.uk/agents-summary/2019/2019-q1>

² www.nomisweb.co.uk/datasets/aps168/reports/employment-by-occupation?compare=K02000001

Wages

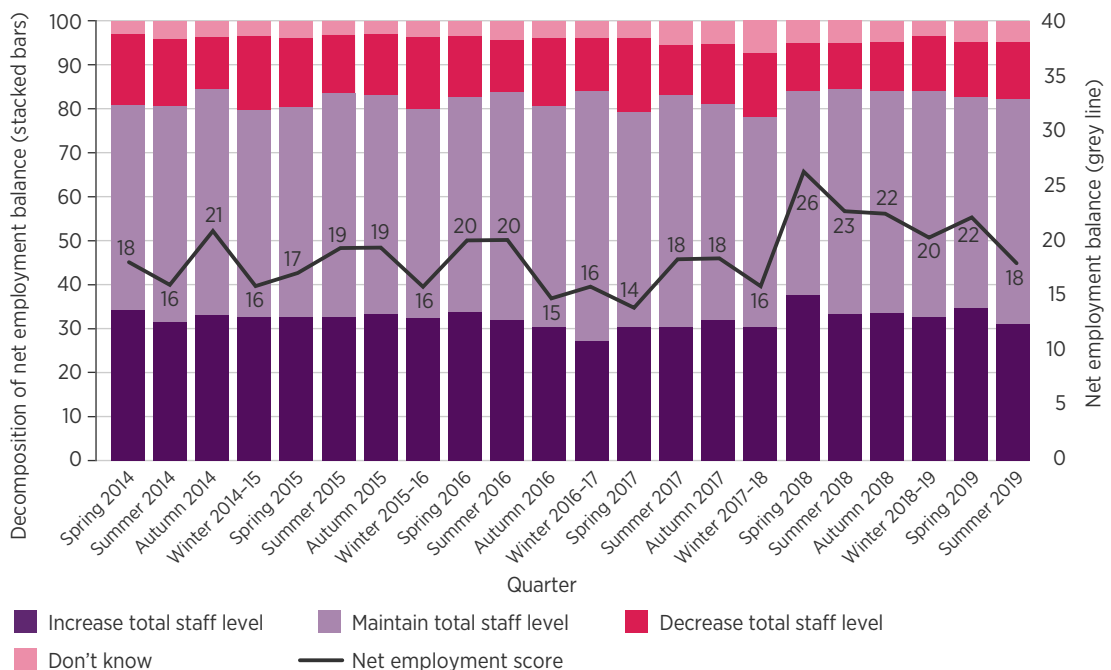
One of the potential outcomes of the fall in the number of applicants for vacancies is stronger wage growth. This report points to higher wage growth expectations in the private sector, with median basic pay expectations in the private sector increasing to 2.5% compared with 2% three months ago. At the same time, median basic pay expectations have risen to 1.5% from 1% in the public sector. In addition, significant minorities of employers in sectors such as construction, retail and hospitality are also signalling that rising recruitment and retention pressures are putting pressure on salaries for the majority of staff. It should also be noted that more than one in three (36%) employers expect their basic pay award to increase by at least 3% in the year ahead, which compares with 28% of employers in the same period last year. However, overall median basic pay expectations remain unchanged at 2%.

4 Recruitment and redundancy outlook

What is the short-term employment outlook?

This section focuses on the recruitment and redundancy intentions of employers in the third quarter of 2019. This latest report suggests that employment confidence has seen a modest fall but remains high compared with the measure’s historical average (Figure 1). This quarter’s net employment balance has decreased from +22 to +18. The fall in the net employment balance is entirely due to an increase in the number of employers planning to hold staff levels steady and a decrease in those planning to expand staff levels (Figure 1).

Figure 1: Decomposition of net employment balance over time



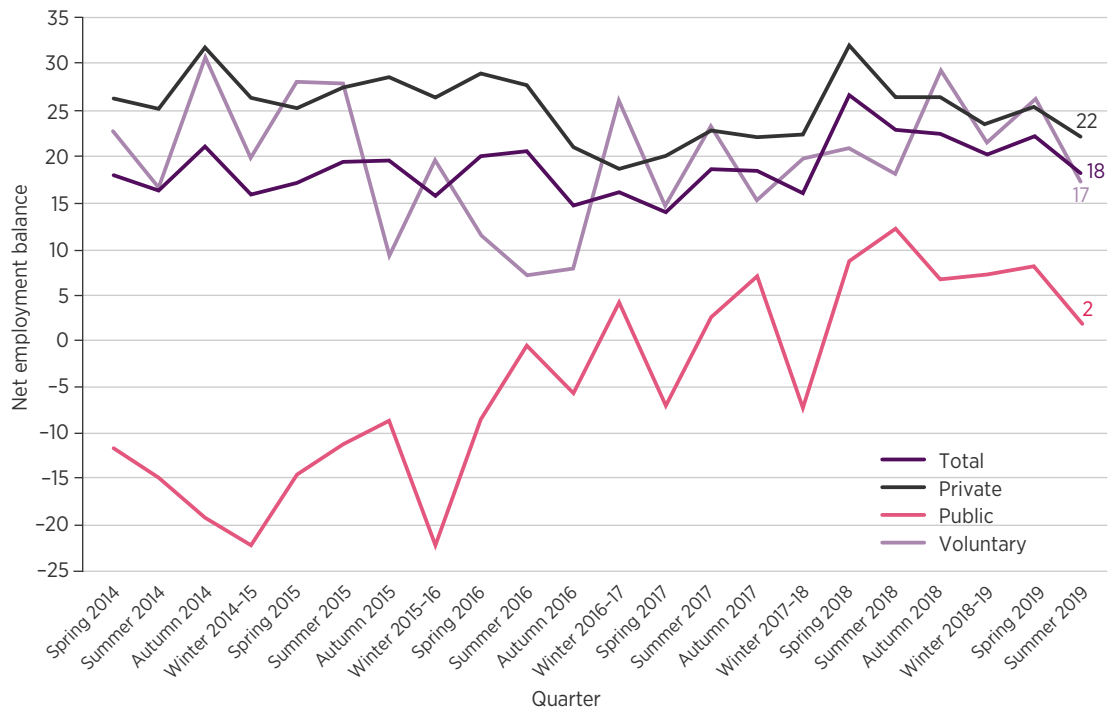
Base: summer 2019, all employers (n=2,104).

How to interpret Figure 1

The net employment balance is an indicator of employment confidence. It takes the difference between the proportion of employers who expect to increase staff levels and those who expect to decrease staff levels. Figure 1 contains the net employment balance over time to show how employment confidence has changed. It also shows what is responsible for this change, be it more firms increasing, decreasing, or maintaining staff levels.

The modest fall in employment intentions is reflected across all three broad sectors of the economy. As in previous reports, employment growth will be driven by the private sector, which has decreased from +25 to +22 since the previous quarter. Meanwhile, employment levels look set to increase in the public sector (+2) and in the voluntary sector (+17) during the same period (Figure 2).

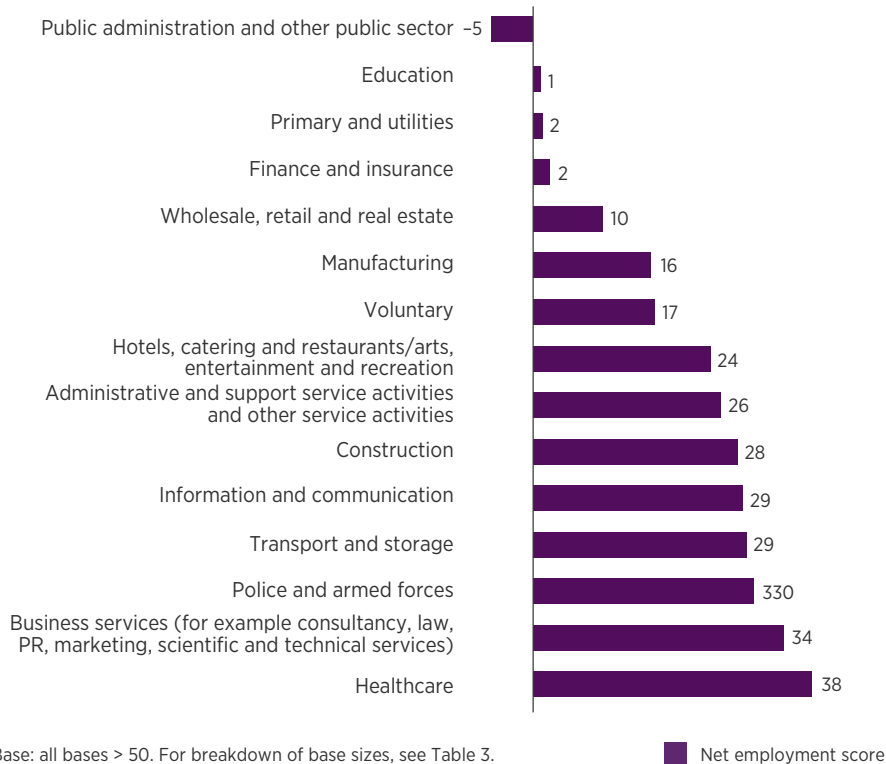
Figure 2: Overall effect of increasing or decreasing staff over the next three months, by business sector



Base: summer 2019, all employers (total n=2,104; private n=1,490; public n=449; voluntary n=165).

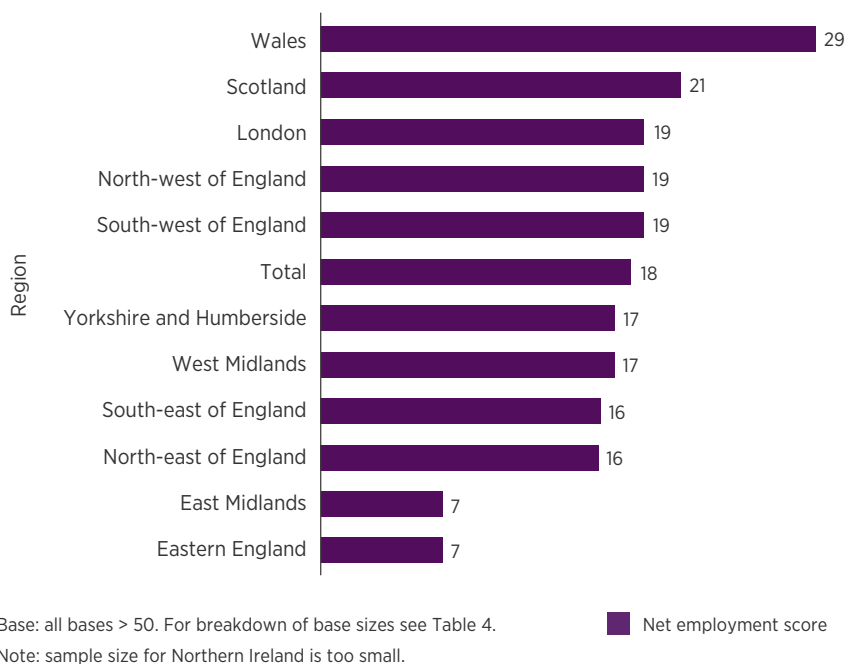
Employment confidence is broad-based across the sub-sectors (Figure 3). Consistent with recent LMO reports, employment confidence is highest in healthcare (+38).

Figure 3: Net employment score, by sector (%)



Looking across the different nations and regions of the UK (Figure 4), employment confidence is highest in Wales (+29) and Scotland (+21) and lowest in the East Midlands (+7) and the east of England (+7).

Figure 4: Net employment score, by region (%)



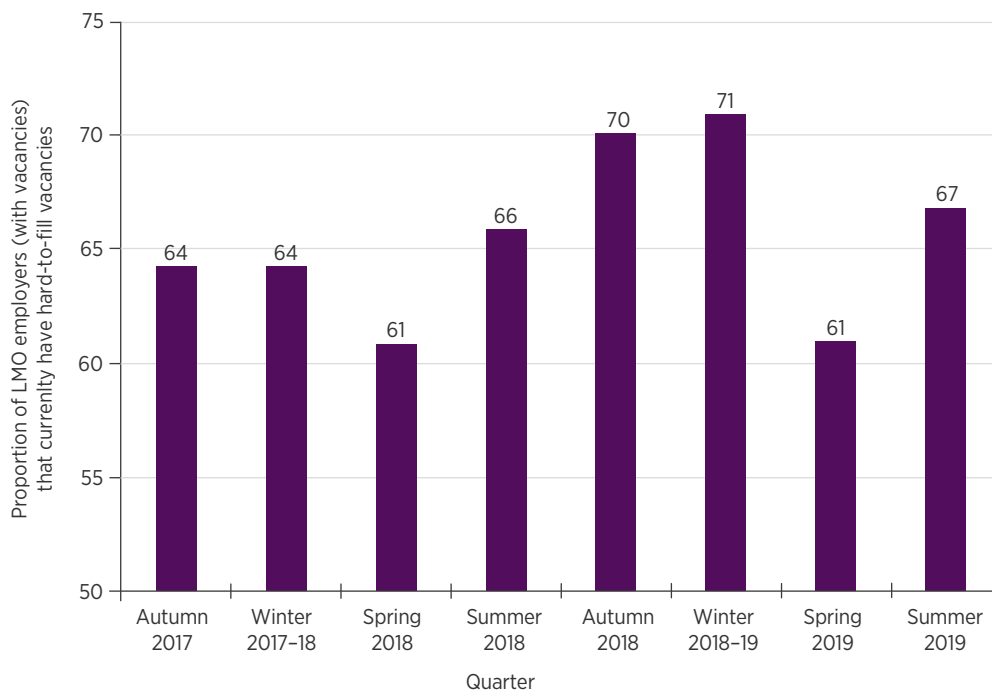
Permanent and temporary employment

Official data shows that the share of people in permanent employment has grown relatively sharply over the past two years. Consistent with this data, more than a quarter (27%) of organisations who have recruited staff on a permanent contract in the past six months say that the share of people employed under a permanent contract has grown over the past two years, compared with just over a tenth (13%) of organisations who say that they are employing a lower proportion of permanent workers. Around six in ten (59%) organisations who report that the share of people employed under a permanent contract has grown over the past two years say that they feel that permanent contracts are better for the candidate, whereas around one in three (36%) say that they offer permanent contracts to attract candidates.

5 Job vacancies

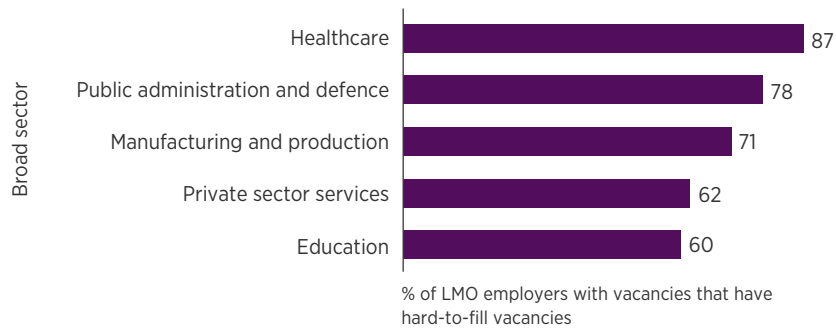
Against a backdrop of buoyant labour demand, it is no surprise that a majority of organisations who are currently hiring have hard-to-fill vacancies. Among employers who currently have vacancies in their organisation, more than two-thirds (67%) report that at least some of these vacancies are proving hard to fill. By comparison, a similar proportion (66%) of employers reported difficulties filling vacancies in their organisation during the same period in 2018 (Figure 5). Additionally, more than two-fifths (41%) of employers report that it has become more difficult to fill vacancies over the past year. Around 1 in 20 organisations (5%) say that it has become less difficult.

Figure 5: Proportion of organisations with current vacancies that have hard-to-fill vacancies (%)



Base: summer 2019, all employers (total n=2,104; private n=1,490; public n=449; voluntary n=165).

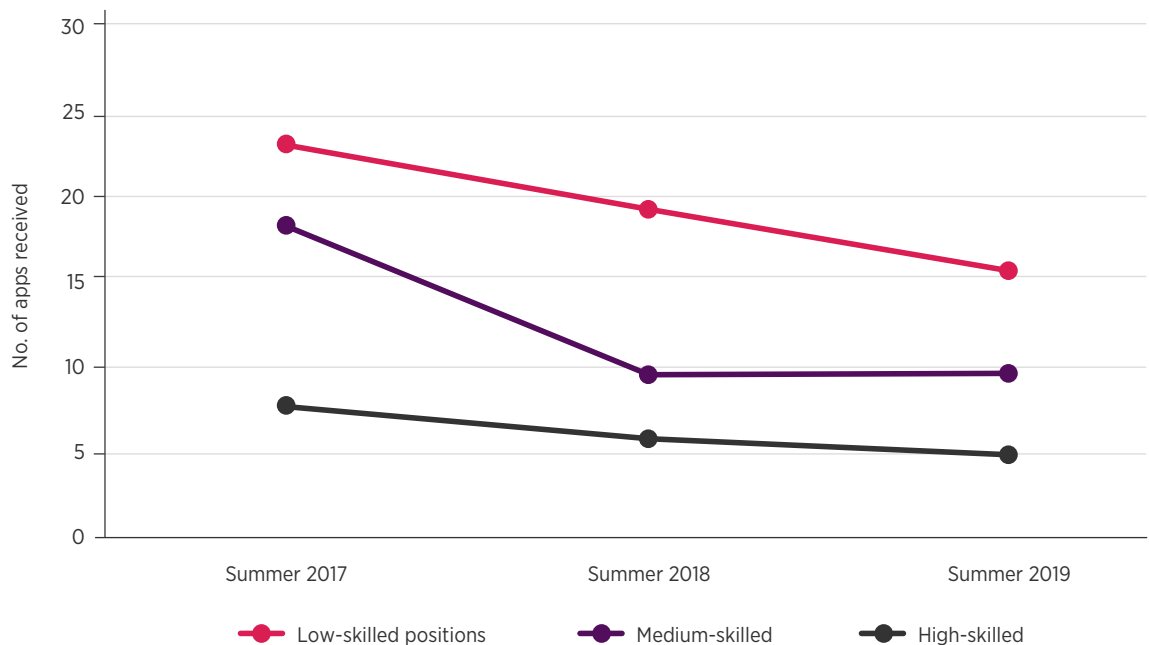
Figure 6: Proportion of organisations with current vacancies that have hard-to-fill vacancies, by broad sector group (%)



Base: summer 2019, all employers (education n=136; private sector services n=524; manufacturing and production n=166; public administration and defence n=102; healthcare n=101).

When looking at the **overall** population of employers, including those who have not reported any current vacancies, the share of organisations with hard-to-fill vacancies has fallen slightly to 36% from almost four in ten (39%) during the same period in 2018. Recruitment difficulties are most prevalent in healthcare (53%), IT (45%), construction (40%) and business services (40%).

Figure 7: Median number of applications received for most recently filled role, by skill level



Base: summer 2019, all employers (total n=2,104).

The analysis also considers the number of applications employers received for the last low-skilled, medium-skilled and high-skilled vacancy they filled. Overall, the survey data indicates that the supply of labour is more constrained compared with previous years. This is important because labour supply can act as a brake on employment growth alongside overall labour demand.

Where employers last filled a low-skilled vacancy, they received a median number of 16 applicants for that role. This compares with 20 applicants in the summer 2018 report and 24 applicants in the summer 2017 report.

However, employers report that the number of applications they received for medium-skilled roles is unchanged compared with the summer 2018 report. On average, employers received a median number of ten applications for the last medium-skilled role that was advertised.

Additionally, employers received a median number of five applications for the most recent high-skilled role they advertised for, which is again lower than the six applications they reported receiving in the summer 2018 report. However, there was some variation between London and the rest of the UK. Employers in London received ten applications for the last high-skilled vacancy they sought to fill compared with the all-survey average of five applicants per vacancy. In addition, the number of applicants per vacancy rose in healthcare from four to five.

Non-EU workers have been an important determinant of labour supply for medium- and high-skilled occupations over the recent past. According to the latest official data that looks at employment levels by country of birth, non-EU citizens account for more than a third of the annual increase in employment of 364,000 in the UK. The number of non-EU citizens in the UK workforce increased by 123,000 between Q1 2018 and Q1 2019, the majority of whom would have been subject to a relatively high skill threshold. This compares with a decrease of 6,000 between March 2017 and March 2018 in the number of non-EU citizens in employment in the UK. This relatively sharp increase has been mainly driven by the recruitment of nurses and medical practitioners, following a relaxation to remove doctors and nurses from the Government's migration cap in June 2018. The official data shows that nurses and medical practitioners account for almost 40% of Tier 2 certificates of sponsorship. Overall, virtually all of the employment growth has been driven by medium- or high-skilled roles during the same period.

In addition, the number of non-UK-born citizens from the EU has increased by 58,000 during the same period. Non-UK-born citizens therefore account for over half of the overall increase in employment during the past 12 months.³

Recruitment pressures

Despite the strong inflow of non-EU citizens into the UK labour market, more than four in ten (41%) employers say that it has become more difficult to hire over the past year. Just 1 in 20 (5%) employers say that it has become less difficult. Rising recruitment pressures are particularly prevalent in healthcare (55%).

³ www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/employmentbycountryofbirthandnationalityemp06

However, there is some variation across sectors in terms of the cause of hiring difficulties. More than four in ten (42%) public sector employers say that their rising recruitment pressures are due to fewer applications, compared with around a quarter (23%) who say that applicants are less suitable. The proportion of employers reporting receiving fewer applications is highest in healthcare (43%).

In contrast, more than four in ten (42%) firms attribute their rising recruitment difficulties to a higher share of unsuitable candidates. Meanwhile, just under three in ten (29%) report that their difficulties are due to fewer applicants.

To alleviate their recruitment difficulties, more than half of employers (52%) that report rising recruitment difficulties have increased starting salaries for at least some staff. Over a quarter of organisations (27%) have increased salaries for the majority of vacancies in response to recruitment pressures, while a similar proportion (25%) say that they have increased wages for a minority of vacancies only.

Organisations in the private sector (59%) are much more likely to have increased starting salaries than those in the public (30%) and voluntary (33%) sectors. In terms of sub-sectors, the proportion of employers that have raised starting salaries in response to increased recruitment difficulties is highest in the manufacturing and construction sectors (70%). Around a third of firms in retail (36%) and business services (33%), construction (32%) and hospitality (32%) have raised salaries for the majority of staff in their organisation.

Retention pressures

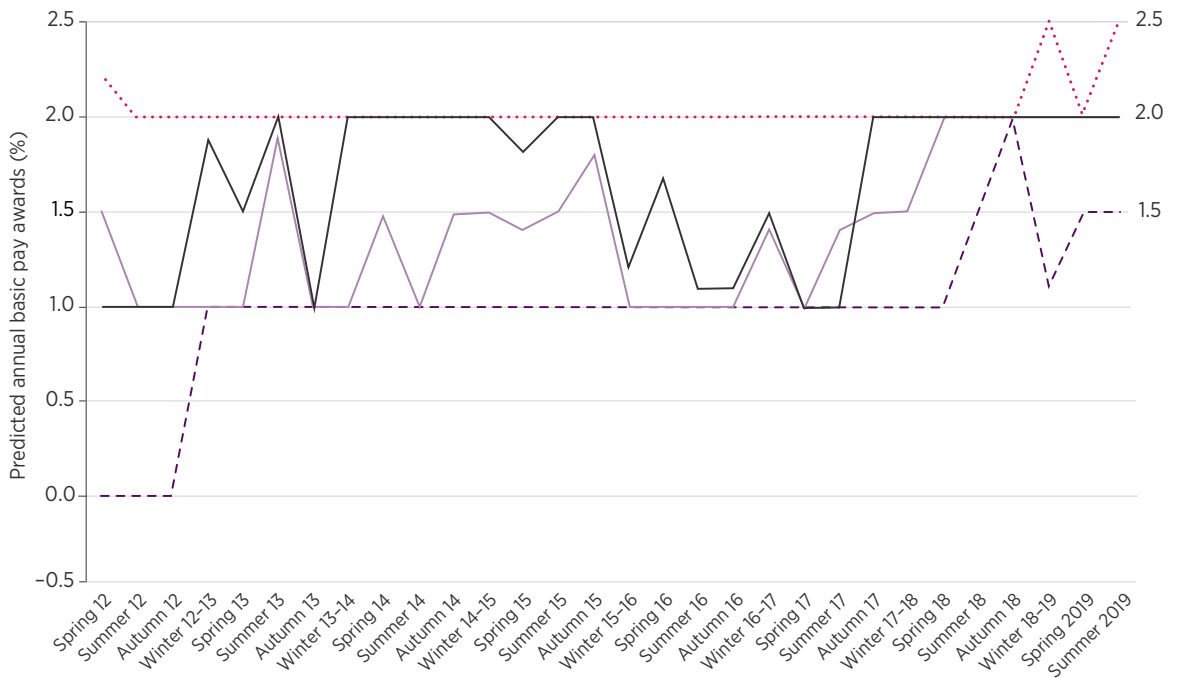
A similar proportion (29%) of employers report that it has become more difficult to retain staff at their organisation over the past 12 months compared with the summer 2018 report, where just over a quarter (26%) of organisations reported rising retention pressures. Almost one in ten (9%) say that it has become less difficult, while the majority (56%) say that there has been no change. Retention pressures are highest in retail (40%) and administrative and support services (40%). Among organisations that have experienced increased difficulty recruiting staff over the past 12 months, around a third (33%) have increased salaries.

6 Pay outlook

What is likely to happen to wages in the next 12 months?

According to the survey data, employers' median basic pay increase expectations in the 12 months to June 2020 are 2%, which is consistent with recent reports. However, median basic pay expectations in the private sector have increased to 2.5% compared with 2% three months ago. In addition, basic pay award expectations have risen to 1.5% from 1% in the public sector compared with three months ago (Figure 8).

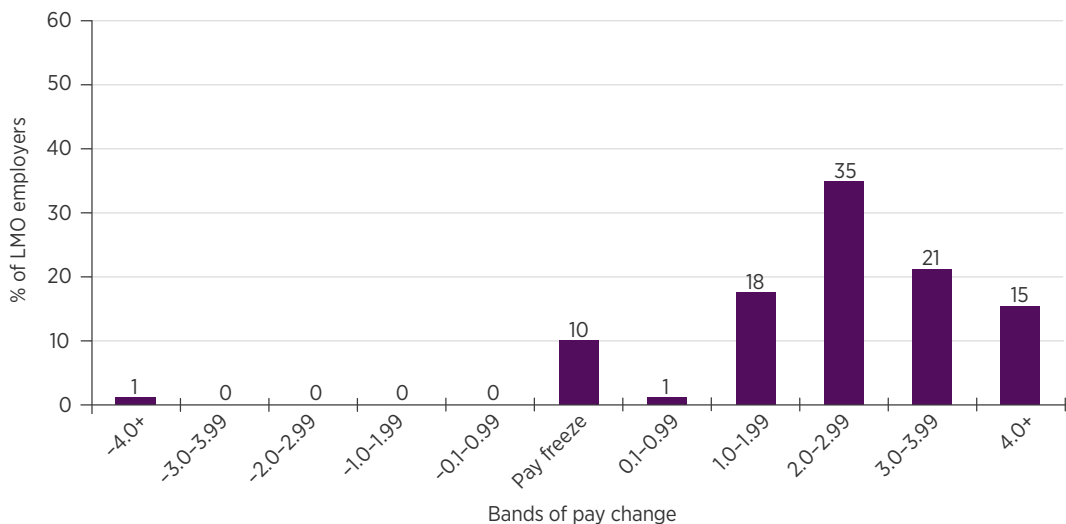
Figure 8: Employers' predicted annual basic pay awards (median employer), by business sector



Base: summer 2019, all employers who report an expected increase, decrease or pay freeze in the next 12 months (total n=2,104; private n=1,490; public n=449; voluntary n=165).

Looking at the distribution of pay awards, around a third (35%) of employers anticipate a basic pay increase of between 2% and 2.99%, which remains consistent with previous reports. However, the share of employers that expect basic pay to increase by 3% or more has increased compared with the same period last year. More than one in three (36%) employers expect their basic pay award to increase by at least 3% in the year ahead, which compares with 28% of employers in the same period last year. Additionally, almost a fifth of organisations plan to give a basic pay increase of between 1% and 1.99% in the 12 months to June 2020.

Figure 9: Distribution of forward-looking basic pay settlements, summer 2019 (%)

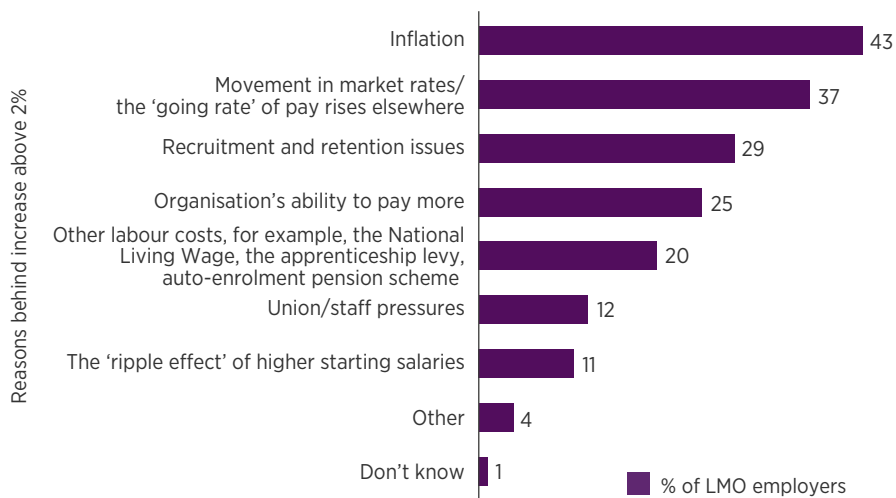


Base: summer 2019, all employers who report an expected increase, decrease or pay freeze in the next 12 months (total n=926).

What are the factors behind employers' basic pay decisions?

Employers report that inflation (43%) and the going rate of pay elsewhere (37%) are the key factors behind their ability to at least match the Bank of England's inflation rate target of 2% in their basic pay award. Other key reasons include recruitment and retention pressures (29%) and affordability (25%) (Figure 10).

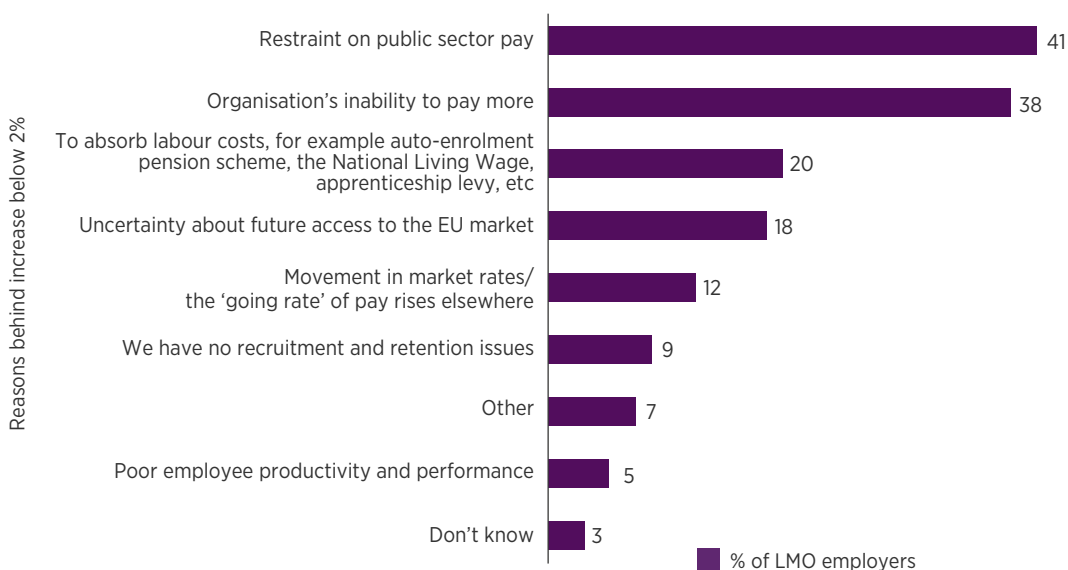
Figure 10: Top reasons for increase in average basic pay by 2% or more (%)



Base: summer 2019, all employers who expect their organisation's basic pay will increase by 2% or more (n=639).

Among employers who predict that average basic pay will increase at their organisation by less than 2%, or not increase at all, restraint on public sector pay (41%) and affordability (38%) are the key reasons (Figure 11).

Figure 11: Top reasons for increase in basic pay below 2% (%)



Base: summer 2019, all employers who expect their organisation's basic pay will increase by less than 2% (n=287).

7 Survey method

Weighting

Rim weighting is applied using targets on size and sector drawn from the *Business Population Estimates for the UK and Regions 2018*. The following tables contain unweighted counts.

Table 1: Breakdown of the sample, by number of employees in organisation

Employer size band	Count
2-9	333
10-49	390
50-99	163
100-249	221
250-499	171
500-999	149
1,000 or more	677
Total	2,104

Table 2: Breakdown of sample, by sector

Sector	Count
Private sector	1,490
Public sector	449
Third/voluntary sector	165
Total	2,104

Table 3: Breakdown of sample, by industry

Industry	Count
Voluntary	165
Manufacturing and production	325
Manufacturing	176
Construction	101
Primary and utilities	48
Education	225
Healthcare	171
Private sector services	1,009
Wholesale, retail and real estate	143
Transport and storage	59
Information and communication	103
Finance and insurance	166
Business services (eg consultancy, law, PR, marketing, scientific and technical services)	209
Hotels, catering and restaurants/Arts, entertainment and recreation	134
Administrative and support service activities and other service activities	195
Public administration and defence	209
Public administration and other public sector	183
Police and armed forces	26
Total	2,104

Table 4: Breakdown of sample, by region

Region	Count
North-east of England	73
East Midlands	130
West Midlands	135
Scotland	150
London	333
South-west of England	169
East of England	100
Wales	68
South-east of England	254
North-west of England	191
Yorkshire and Humberside	114
Northern Ireland	23



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