CIPD

Championing better work and working lives

in partnership with

Adecco Group UK & Ireland

LABOUR MARKET OUTLOOK

VIEWS FROM EMPLOYERS

Summer 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 more than 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

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

Foreword from the CIPD

Most employers are projecting a steady as it goes and business as usual approach when it comes to recruitment and retention and on pay expectations. However, there has been a clear deterioration in hiring intentions over the next few months as a result of the Brexit vote. Significant minorities of employers are also signalling higher costs, greater recruitment difficulties and lower investment in the future as a result of Brexit.

These results make it more likely that post-Brexit economic forecasts of a marked downturn in the labour market in 2017, including a significant increase in unemployment, will prove to be right.

Some employers who employ migrants think some might leave the UK, but many think it is too early or hard to tell how the migrant workforce will react. Most but by no means all employers are offering information, support and reassurance, including helping some migrants apply for UK citizenship. Employers need more information on potential changes in employment law and regulations, including working time and the employment of agency workers.

Most employers appear to be coping with the National Living Wage without having to make cuts in hours, jobs or non-wage benefits. However, they are more likely to have taken a hit on profits – which is not sustainable in the longer term – rather than improving efficiency.

Structure of this report

This special *Labour Market Outlook* report is divided into three sections. The first looks at the impact of Brexit on the labour market and the workplace by drawing on a set of questions comparing a representative sample of employers who responded to the LMO survey immediately before the vote and a representative sample of employers who responded immediately after the vote. The second section sets out the usual LMO analysis of redundancy, recruitment and pay intentions and is directly comparable with previous LMO reports. The third section reports on the results from a set of questions on the impact of the National Living Wage (NLW).

Ian Brinkley
Interim Chief Economist, CIPD

Foreword from Adecco Group UK

This summer has seen a number of changes in the UK political and economic environment which have led to an air of uncertainty for businesses around the country. The majority of Britons voted in favour of leaving the European Union and in the aftermath, a new Prime Minister and new Government have been appointed to take the country forward.

Against this backdrop, the Adecco Group has partnered with the CIPD to produce the latest edition of the *Labour Market Outlook.*

This report offers the first opportunity to examine how the employment and recruitment market has responded to Brexit. It uniquely uses data collected both before and after the referendum result, thereby capturing any changes in businesses' plans.

The findings articulate a mixed picture. One in three employers expect costs to increase. At the same time, businesses are reducing investment in training and skills, thereby potentially reducing their ability to improve productivity. A significant number of employers are also unsure of how exposed they are to a potential exodus of EU workers. This, despite the fact that earlier this year our report with the Social Market Foundation on the potential impact of Brexit highlighted a significant reliance of UK employers on EU workers, with 1.6m EU workers currently working in the UK, making up 6% of all UK employees.

Access to the Single Market's skills, services and goods is in doubt, and no one knows exactly when Article 50 will be triggered and what the post-EU world will look like for the UK. While outwardly projecting 'business as usual,' one in three employers expect hiring to become harder in these uncertain times.

This economic uncertainty can undermine employers' confidence and therefore impact recruitment decisions and investments. But hiring freezes, reducing investment in training and development, and, in general, a wait-and-see approach will only make businesses more vulnerable to what the Article 50 negotiations may bring.

We believe this is an opportunity for leaders to focus on futureproofing their workforce. First, they need to understand the make-up of their workforce, how restrictions on migrant talent may affect them, and where they are strong and weak on skills.

The next step is to think about how to attract the right talent. This means labour force planning, investment in training, and considering why top candidates should choose one employer over other prospective employers. The Adecco Group is committed to be a partner for employers to gain insights and overcome these challenges.

Attracting the right talent includes foreign-born talent. Indeed, from a labour market perspective, the UK will need to ensure it remains competitive and open. As Adecco Group's annual Global Talent Competitiveness Index shows, openness is key for the attractiveness and competitiveness of a country and borders have lost much of their importance in the war for top talent. Whether engineers, finance experts, lawyers, doctors, construction workers or farm labourers, the best candidates are now highly mobile – and in high demand. This does not seem to be lost on UK employers. Nearly one in five say they are giving some of their migrant workforce help with applications to become UK citizens and the majority want information around employment law and regulations.

This report aims to provide readers with a clear overview of the impact that the decision to leave the EU is having on the UK labour market. More importantly, it reminds businesses of the role that training and investment can play in making them more competitive.

At Adecco Group, we will continue to focus on delivering best solutions for our Clients, our Candidates and our Associates and making our contribution to the UK economy.

John L Marshall III
CEO, Adecco Group UK & Ireland

1 The impact of Brexit on the labour market and the workplace

There has been much speculation about whether Brexit will adversely impact on employment, with employers becoming more cautious about recruitment and retention. There is also evidence of growing concern among employees – in a recent survey the CIPD[1] found that 36% of employers said their staff had expressed worries about job security and another 36% had expressed concerns about the right to work in the UK.

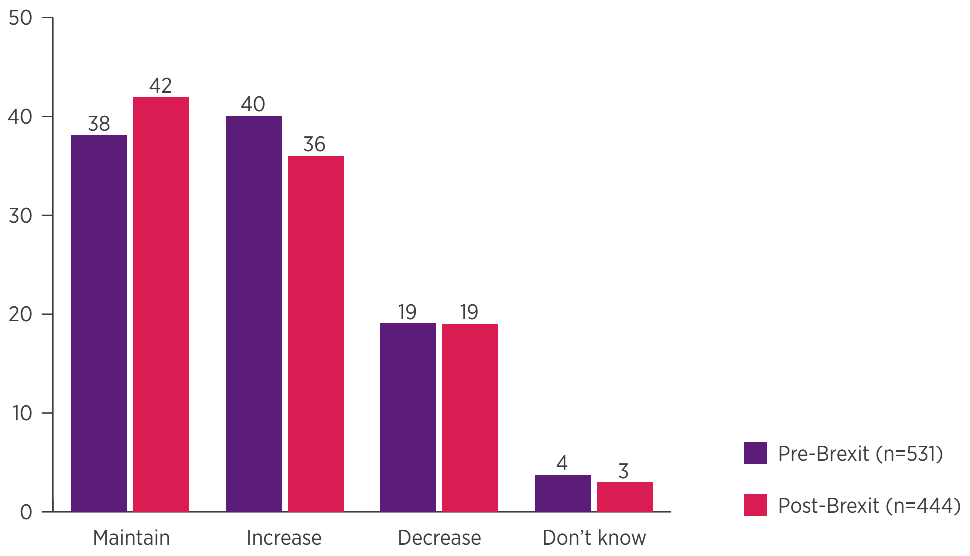
In this survey we explored how employers responded to the Brexit campaign and how it has impacted on their plans post-Brexit. Firstly, we asked a sample of employers post-Brexit about the impact it is likely to have on their future plans and what actions they are taking to respond to staff concerns. Secondly, we compare the responses of employers before the Brexit vote with the responses of employers after the Brexit vote to see if there has been a change in expectations about the future.[2]

The impact on employment

We first asked employers who responded before the Brexit decision was known what impact the campaign – when both sides were accused of exaggeration and being misleading – had had on recruitment intentions. The vast majority (76%) said that it had had none, with only 11% saying it had a large to moderate impact. Among those who said it had some impact, the majority said it had been a negative one (68%), but another 23% said it had had a positive impact. So while there does seem to have been a chilling effect on recruitment from the campaign, it has been a small one.

We then compared the responses from our pre-Brexit sample of employers and our post-Brexit sample of employers to see if recruitment and redundancy intentions had changed and whether or not this impacted on future staffing levels. We found a significant change for the worse, mainly driven by employers becoming more cautious about expanding their

Figure 1 Expected change in staffing levels over the next three months (%)



[1] http://www.cipd.co.uk/pressoffice/press-releases/brexit-pulse-survey-200716.aspx

[2] As the original survey was undertaken over a period which included some responses made after the result was known, we have filtered the original responses to these questions so we consider only pre-Brexit responses (n=726 compared with the full survey of n=1,050). We have boosted the sample of employers who responded post-Brexit so that we have enough responses to ensure we have more comparable sample sizes (n=628).

workforces. As a result, the net 'score' based on the difference between the share of employers expanding their workforce and the share of employers reducing their workforce dropped from +21 pre-Brexit to +17 post-Brexit. The fall was significantly sharper among private sector employers, with the post-Brexit employment balance declining to +25 from +39 pre-Brexit.

At first sight this might seem an odd result in the light of the strong employment figures that came out last month. However, the labour market figures are backward looking, the latest set comparing the three months to May with the previous three months. The survey is asking about employment intentions over the next three months from June–July onwards. As we show in the box below, the LMO responses are consistent with the reports collated by the Bank of England's regional agents. They also anticipate what an increasing number of forward-looking economic indicators and economic forecasts are telling us. As we also show in the box, the combined impact of the sharp slowdown in the economy in 2017 and more caution from employers is likely to see modest falls in employment and significantly higher unemployment next year.

Share of employers saying their workforce is likely to decrease

19%

The labour market in 2017

The latest employment figures show a remarkably resilient labour market, with strong job growth and falling unemployment comparing the three months to May 2016 with the previous three months. This is consistent with the business as usual in the face of uncertainty nature of our survey and that of the Bank of England's Agents' report.

The latest Bank of England's monthly survey by the Bank's Agents of businesses is consistent with our survey findings on relocation, investment and costs. The Bank's Agents noted that many businesses had not yet reformulated their business strategies in the light of the result and were adopting a business as usual approach in the short term. However, a third of respondents expected some negative impact as a result of Brexit.

The Treasury compiles a list of independent economic forecasts each month. Comparing the forecast made in June (pre-Brexit) with the forecasts made in July (post-Brexit) indicates a significant turnaround, with post-Brexit forecasts showing falling employment and rising unemployment in 2017, whereas the pre-Brexit forecast showed the opposite (see table).

The forecast fall in employment for 2017 is likely to be between 50,000 and 100,000, but this is in contrast to a gain of between 200,000 and 250,000 implied by the pre-Brexit forecast. Unemployment is expected to rise from 4.9% to 5.7%, roughly where it was in mid-2014.

Impact of Brexit on economic forecasts for the labour market for 2017 (%)

	Pre-Brexit (June 2016)	Post-Brexit (July 2016)
GDP growth	2.1	0.5
Employment growth	0.7	–0.2
Unemployment rate	4.9	5.7
Inflation (CPI)	1.9	1.3
Average earnings	3.2	2.3

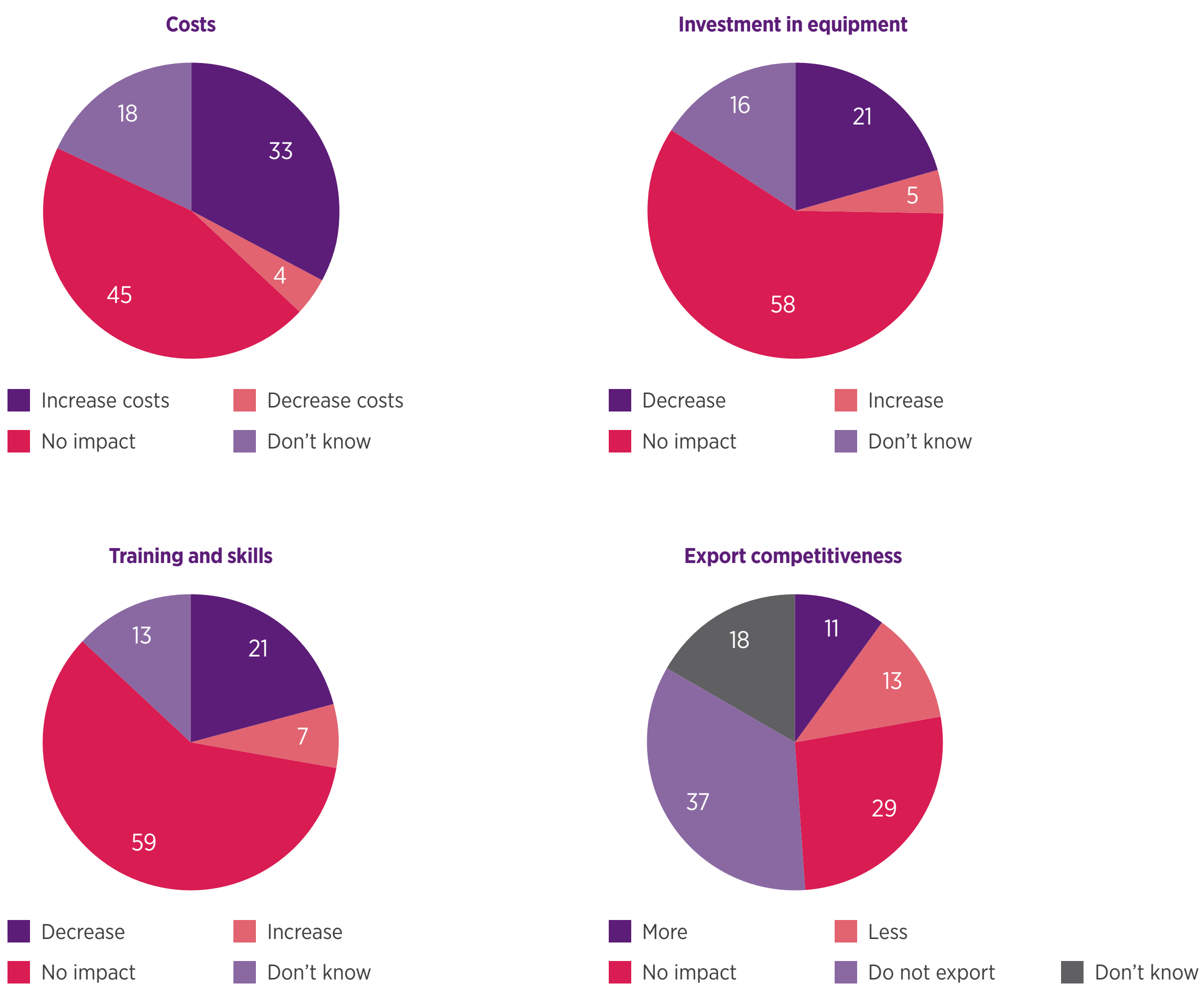
Notes: annual growth rates. CPI = Consumer Price Index. Average of forecasts published in June and July 2016.
Source: HMT https://www.gov.uk/government/collections/data-forecasts#2016

The impact of Brexit on costs, investment, training and exports

A significant minority of post-Brexit employers thought that the decision to leave would increase costs and induce cutbacks in investment in equipment and technology and in training and skills development. A much smaller number thought it would have some positive effects. So while 33% of organisations thought it would increase costs, just 4% thought it would decrease them. Similarly, 21% thought it would lead to a reduction in investment in equipment and technology and the same percentage thought it would cause cuts in training and skills development, while 5% and 7% respectively thought the opposite. This is worrying, as it is hard to generate productivity improvements without increased investment in both these areas. Hopes that the shock of Brexit might induce many firms to try to offset any adverse impacts such as increased costs by investing more – especially in training and skills development – are not as yet supported by the evidence.

The one area where we found little net impact was on exports. This question was not relevant to nearly 40% of employers because they do not export, and those that do were fairly evenly divided between those who thought Brexit would make them more competitive (11% of all employers) and those who thought it would make them less competitive (13% of all employers).

Figure 2 **Impact of Brexit on costs, investment, training and exports (%)**



We also asked whether employers were considering relocation as a result of Brexit. About three-quarters of employers (74%) said they had no plans, although this was slightly lower for the private sector at 70%. Relatively few employers were considering relocating all or some of their operations overseas (7%) or focusing future expansion outside the UK (9%). Nonetheless, nearly one employer in six was considering either relocating or cutting back on overseas expansion as a result of Brexit.

We cannot conclude for certain that there will be a net loss of business to the UK from relocation because we do not know if there will be an increase in foreign investment into the UK post-Brexit. It seems likely that the UK will experience some increase in net investment outflows as a result of Brexit in the short to medium term.

The impact of deciding to expand in the UK rather than overseas is more ambiguous. While it has the advantage of boosting domestic UK investment and employment, it may be sub-optimal in terms of business development. In other words, some businesses may be investing in the UK not because it is the ideal location for their business needs, but because an overseas location has now become too risky.

Table 1: **Proportion of employers considering relocating some or all of their current operations outside of the UK as a result of Brexit (%)**

	All	Private sector	Public sector	Voluntary
Yes, we are considering or have decided to relocate all of our operations outside of the UK.	2	2	1	0
Yes, we are considering or have decided to relocate some of our operations outside of the UK.	5	6	3	0
No, we have no plans to relocate any of our current operations outside of the UK, but are likely to concentrate any future expansion of the business outside of the UK.	9	11	3	10
No, we have no plans to relocate any of our current or future operations outside of the UK.	74	70	85	84
Don't know	10	11	9	7

Base: All: 618; private sector: 451; public sector: 130; voluntary sector: 37

Table 2: **Countries most frequently cited by employers considering relocating some or all of their operations outside the UK (%)**

France	20
Germany	16
The Republic of Ireland	15
Poland	7
Spain	5
Italy	5
Another country in the EU	6
Another country outside the EU	7
Somewhere but have not decided on which country yet	5
Don't know/it's too soon to say	4

Base: All companies considering relocating some or all of their operations outside the UK: 99

The impact on the migrant workforce and the employer response

Against this background we focused on the migrant workforce. Just over 60% of employers said they employ some migrants. For just over a quarter of employers (26%), migrants account for less than 5% of the workforce, for another 17% migrants make up between 5% and 10% of the workforce, and a further 13% said they make up between 11% and 20%. Only 4% said that more than half of their workforce is made up of migrants. However, nearly a third (31%) of employers were unable to say what proportion of their workforce is made up of migrants.

There has been a great deal of concern that migrants in the UK might be considering either leaving their current organisation or leaving the UK altogether as a result of uncertainties and concerns about their future employment status and media reports of an increased incidence of anti-migrant and racist abuse.

Overall, just under one-fifth of employers (17%) who said they employ some migrants also said they thought some of their workforce are considering leaving their organisation as a result of Brexit. Just under 40% said they are not, although this fell to just under 30% when asked whether they are considering leaving the UK. Many employers either do not know or think it is too early to say, and this uncertainty is especially high when employers were asked whether some might leave the UK as a result of Brexit.

We then asked employers whether it would be harder or easier to recruit EU migrants as a result of Brexit over the next 12 months. A large share (40%) said it would make it harder, with only 2% saying it would be easier. Nearly 30% said they did not know and another 30% said they did not intend to recruit migrants over the next 12 months. The same question for non-EU migrants showed employers were anticipating significantly less of a negative impact, with just over a fifth of employers (21%) saying it would make recruitment harder and 10% saying it would make recruitment easier. However, there were also high levels of uncertainty – nearly 30% of employers did not know what the impact would be on the recruitment of EU migrants and 40% of employers did not know what the impact would be on non-EU migrant recruitment.

We then asked about organisational responses. Nearly a third of employers said they had taken no action because they were not aware of any workforce anxieties. Of the remainder, about 46% had taken action, and 27% had not, and another 28% said it was too early to tell. Employers who took some actions were most likely to rely on email or line managers to deal with workforce anxieties, followed by Q&A sessions with senior managers and formal briefings, and promotion of helplines such as employee assistance programmes.

Public sector organisations were more likely to use email and also more formal methods such as Q&As and briefings. Nearly one in five employers (17%) said they were giving some of their migrant workforce help with applications to become UK citizens, and this increased to 27% for public sector organisations (note, however, that the sample size is smaller than usual, with 57 responses from public

Figure 3 Employer perception of migrant reactions to Brexit (%)

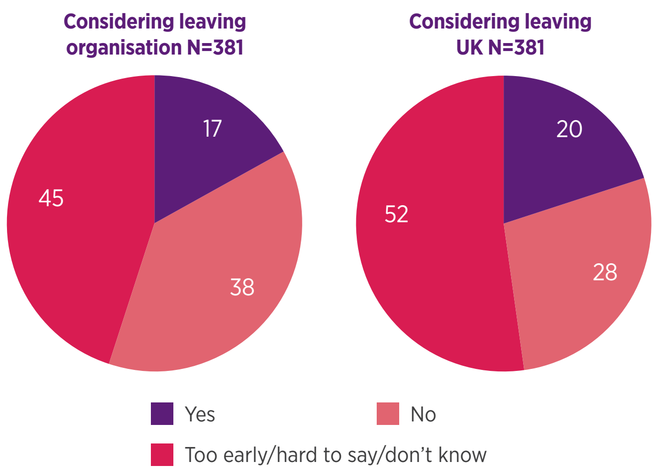
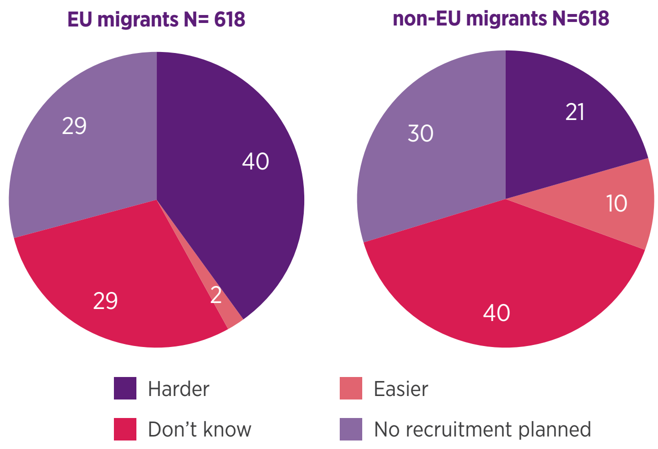


Figure 4 Impact of Brexit on the recruitment of migrants (%)



sector organisations surveyed and 111 private sector organisations).

Employers were asked what information they most needed to assist them in supporting their workforce. Over 40% said employment law and regulations or in other areas such as working time or the employment of agency workers. Around 30% identified access to the single market and migration policy, although not surprisingly private sector organisations were more interested in the single market and public sector organisations in migration policy. However, relatively few organisations cited moving workers across national boundaries within organisations. A fifth said none of these or some other issue, perhaps reflecting more specific and specialist concerns.

Figure 5 Employer actions to meet migrant workforce concerns (N=192) (%)

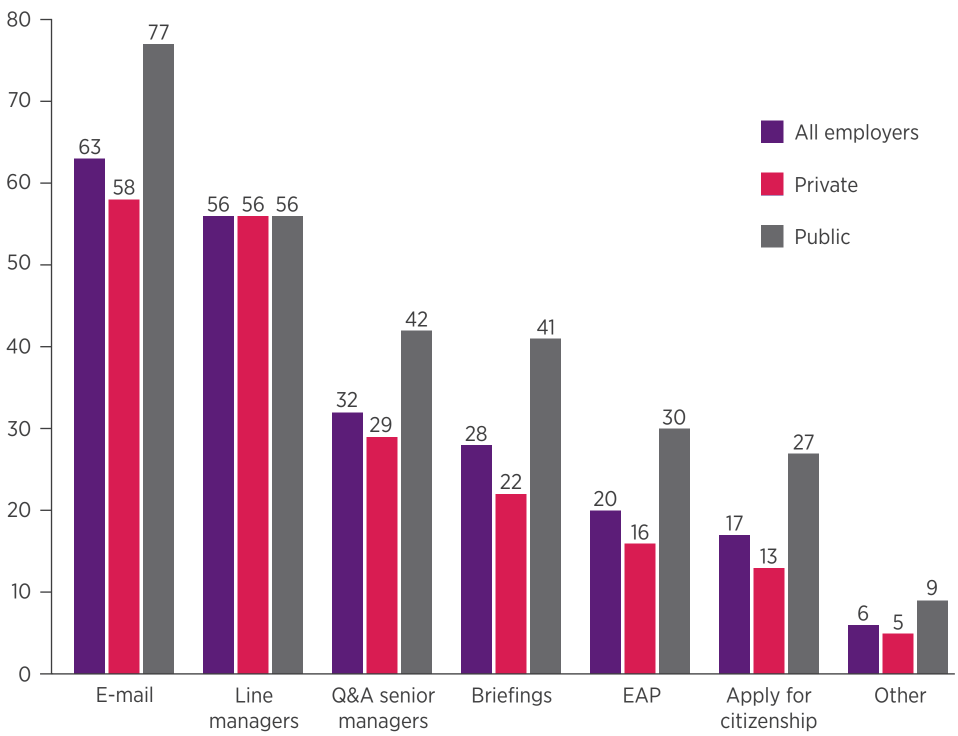
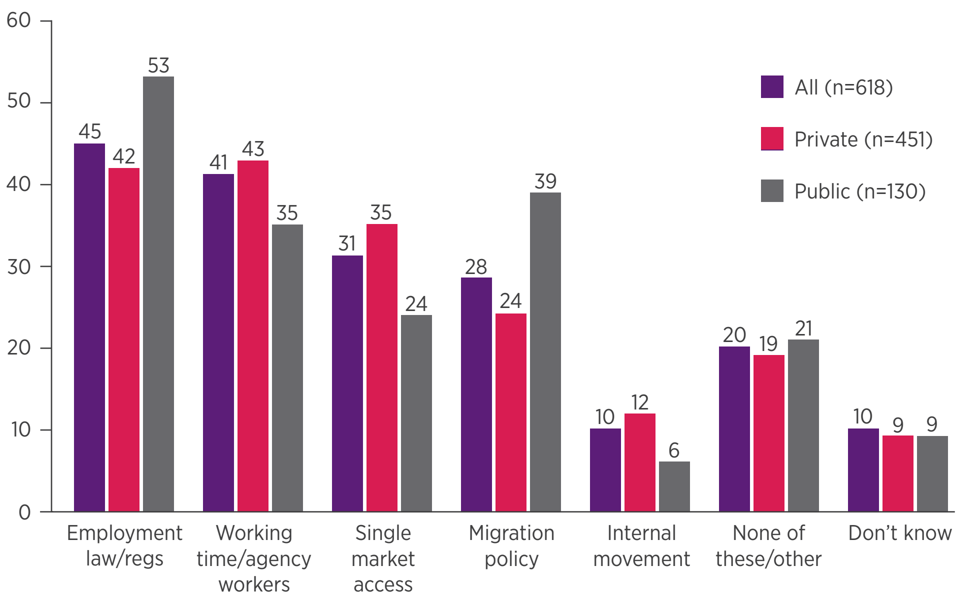


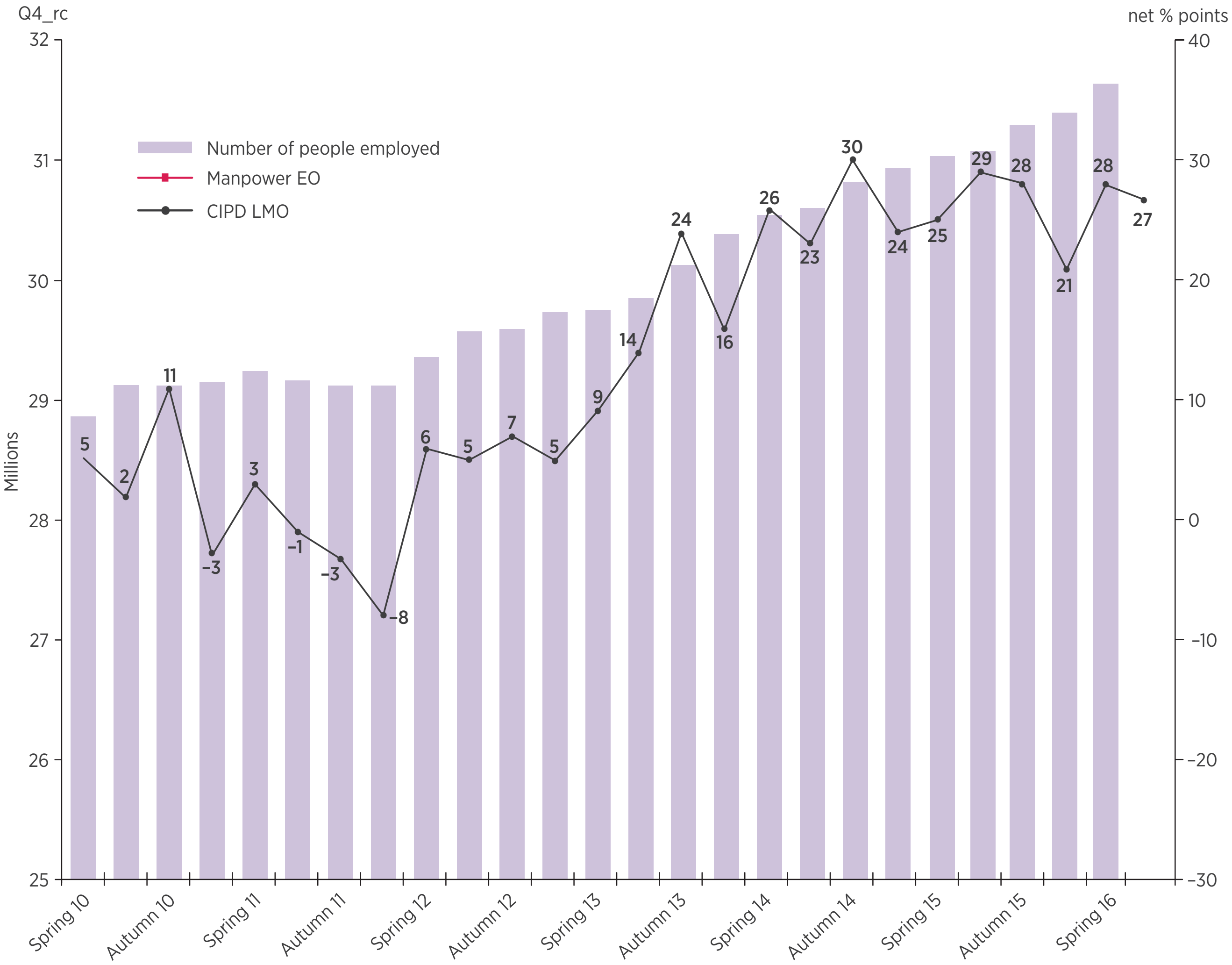
Figure 6 Issues employers (post-Brexit) would like more information on (%)



2 Recruitment, redundancy and pay intentions

This section focuses on recruitment, redundancy and pay intentions of respondents to the LMO survey over the next three months, including both pre- and post-Brexit responses, and is therefore directly comparable with previous LMO surveys. The net employment balance – the difference between employers who say they expect to increase staff and the share of employers who say they will decrease staff – generated a positive

Figure 7 **Net employment balance spring 2009 to summer 2016**



Q4_rc: Thinking about the next THREE months – what will be the overall effect of recruiting new staff and/or making redundancies?

Base: All employers who are planning to recruit and/or make employees redundant in the next three months (Total n=764)

How to interpret Figure 1

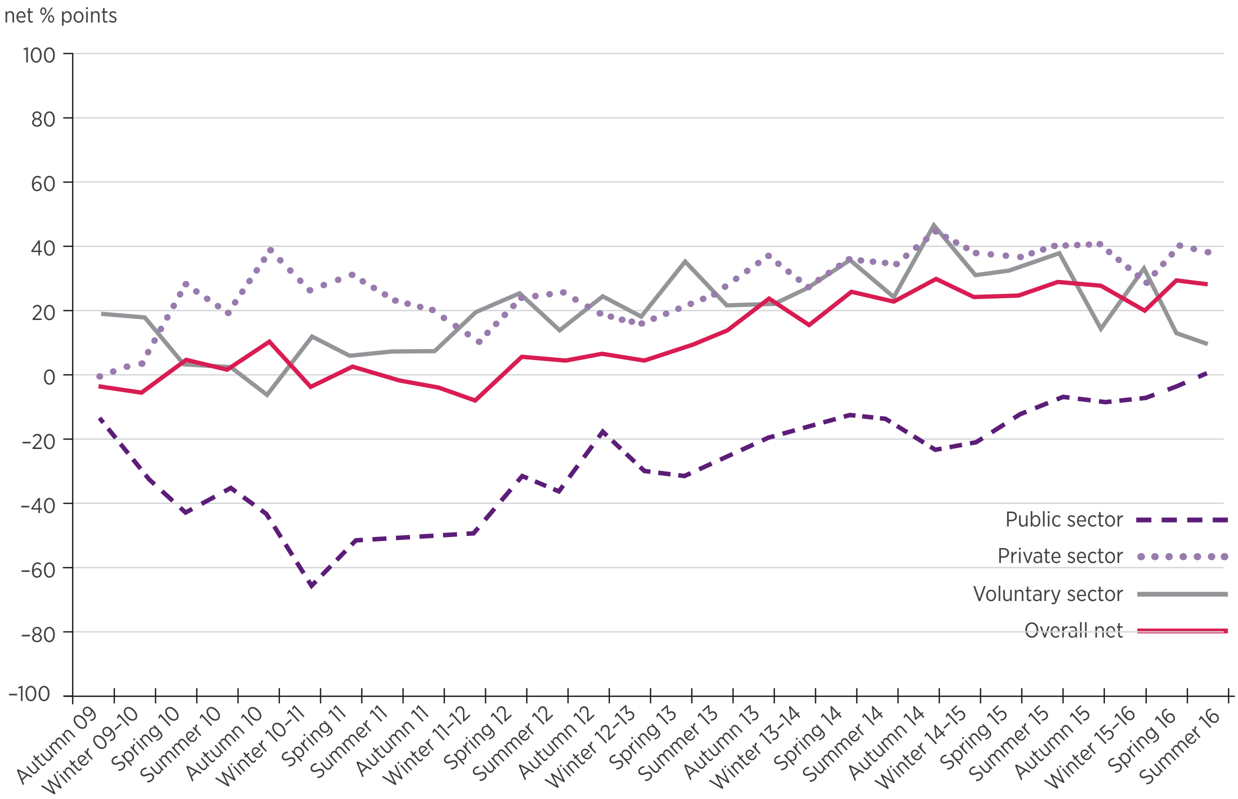
Figure 1 displays the LMO's net employment balance (black line). The purple columns display the total number of people in employment according to the monthly ONS Labour Market Statistics time series data. The latest ONS figures cover the three months to May 2016.

score of +27, very similar to the score in spring 2016 and not significantly different from the score in summer 2015. This is in line with a fairly stable overall labour market.

Looking in more detail across sectors, private sector services is a little down compared with the spring 2016 results and, in line with previous surveys, the public sector has improved, recording net employment balances of +40 and zero respectively compared with +42 and –5 in the previous survey. This reflects the slowing rate of job loss in parts of the public sector. However, there has been a significant fall in the net balance for manufacturing and production, albeit the score is still positive, from +31 in spring 2016 to +23 in summer 2016. This is consistent with forward-looking indicators of less buoyant activity in these sectors.

The majority of employers say they intend to recruit, but the share is slightly down from 72% in spring

Figure 8 **Net employment balance by major sector, spring 2009 to summer 2016 (%)**



Base: Summer 2016, all employers planning to recruit or make redundancies in Q3 2016 (n=754), private sector (n=494), public sector (n=176), voluntary (n=94)

Table 3: **Net employment balance summer 2016, by major sector**

Sector	Summer 2016	Spring 2016	% point change
Private sector services (n=363)	+40	+42	–2
Manufacturing and production (n=107)	+23	+31	–8
Education (n=76)	+6	+3	+3
Public administration and defence (n=89)	-7	-24	+17
Healthcare (n=58)	+30	+28	+2

Base: Summer 2016, all employers planning to recruit or make redundancies in Q3 2016 (n=754)

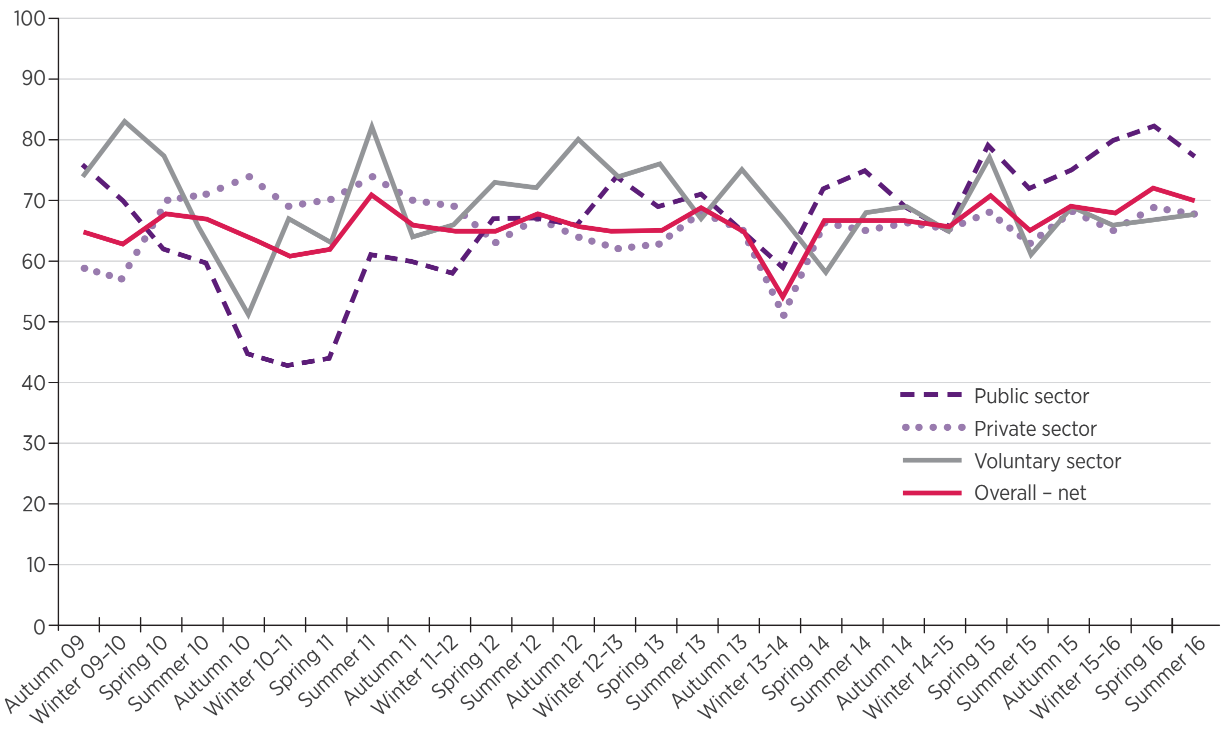
Employers intending to recruit

70%

The majority of employers say they intend to recruit, but the share is slightly down from 72% in spring 2016 to 70% in summer 2016.

2016 to 70% in summer 2016. This is almost entirely driven by somewhat weaker intentions among public sector employers (down from 82% in spring 2016 to 75% in summer 2016). A consistent finding from previous surveys has been that more public sector organisations say they intend to hire than private sector organisations. Apart from a marked but short-lived dip between summer 2013 and summer 2014, the overall and private sector indicators of recruitment intentions have been fairly stable since summer 2010. The public sector has seen steady improvement since the low point of summer 2010–11, when just over 40% of public sector organisations said they would be recruiting.

Figure 9 **Share of employers intending to recruit over next three months (%)**



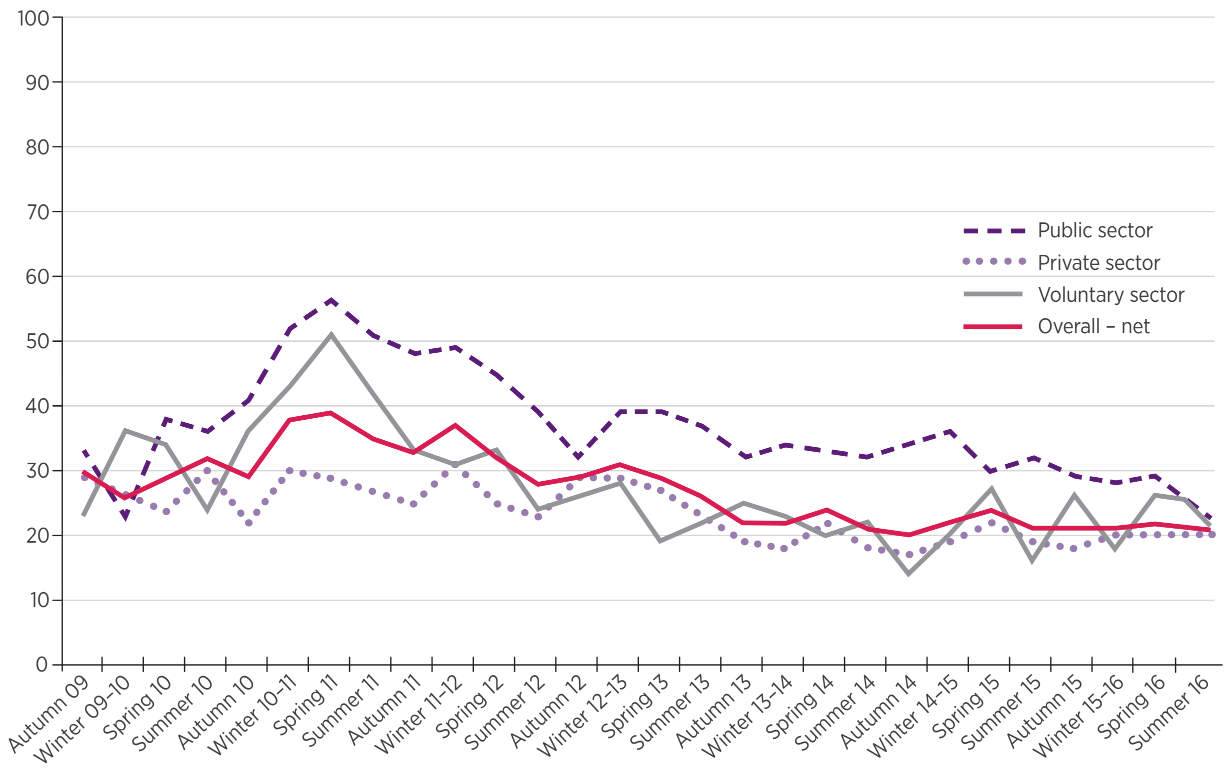
Base: Summer 2016, all employers (n=1,050), private sector (n=689), public sector (n=233), voluntary sector (n=128)

Redundancy intentions

As recent surveys have shown, about one-fifth of organisations said they were planning some redundancies over the next three months. This compares with just under a quarter in summer 2015. The underlying improvement is driven by the public sector, where about a quarter of organisations said they would be making redundancies compared with nearly a third a year ago.

Looking in more detail at major sectors, there was an increase over the spring 2016 survey in the share of organisations reporting planned redundancies in manufacturing and production (from 17% in spring 2016 to 24% in summer 2016). There were also increases in the share of organisations reporting planned redundancies in education and healthcare over the spring quarter, but these were more than offset by a marked decline in public administration.

Figure 10 **Share of employers intending to make redundancies over next three months, spring 2009 to summer 2016 (%)**



Base: Summer 2016, all employers (n=1,050), private sector (n=639), public sector (n=233), voluntary sector (n=128)

Table 4: **Share of employers intending to make redundancies in next three months, summer 2016 (%)**

Sector	Summer 2016	Spring 2016	% point change
Public administration and defence (n=104)	32	50	–18
Education (n=111)	23	20	+3
Private sector services (n=504)	19	21	–2
Healthcare (n=74)	16	11	+5
Manufacturing and production (n=150)	24	17	+7

Pay award intentions

The planned median basic pay increase over the 12 months to June 2017 is 1.1%, significantly less than the 1.7% planned in spring 2016 and the 2% planned in summer 2015. We should, however, be careful about over-interpreting this result. The survey has shown remarkable underlying consistency over time, with median pay increases at 2% in the private sector and 1% in the public sector for most of the past five years, with greater volatility in the voluntary sector. This is also true for the summer 2016 survey. The apparent shift appears more to do with an increase in uncertainty among employers who in the previous survey said they expected to pay more than 2% and are now reporting they cannot give a precise figure. We do not therefore think it is safe to conclude yet that there is an underlying overall weakening in pay expectations.

We look in more detail at what employers who said they expect to pay more than 2% and those who said they expect to pay less than 2% or impose a pay freeze or pay cut said were the most important factors behind those decisions. Note that this analysis is confined just to those employers who said they could give a figure for expected changes in basic pay over the next 12 months.

Employers who thought they would offer 2% or more were more likely to cite the ability to pay more and the need to remain competitive against pay rises elsewhere than in the previous survey, but significantly less likely to cite the introduction of the National Living Wage in April 2016 (down from 29% to 15%). It may be that a significant number of employers have already made adjustments to pay to accommodate the rise in the National Living Wage.

At the other end of the scale, employers who said they would offer less than 2% or impose a pay freeze or cut showed little change in the factors they thought were most important, with public sector pay restraint the obvious factor for public sector organisations and inability to pay the most important for about 40% of all organisations (46% private, 27% public). The importance of the National Living Wage has also dropped somewhat, from 21% to 16%.

Table 5: **Why pay awards are being made above and below 2%, summer 2016 (%)**

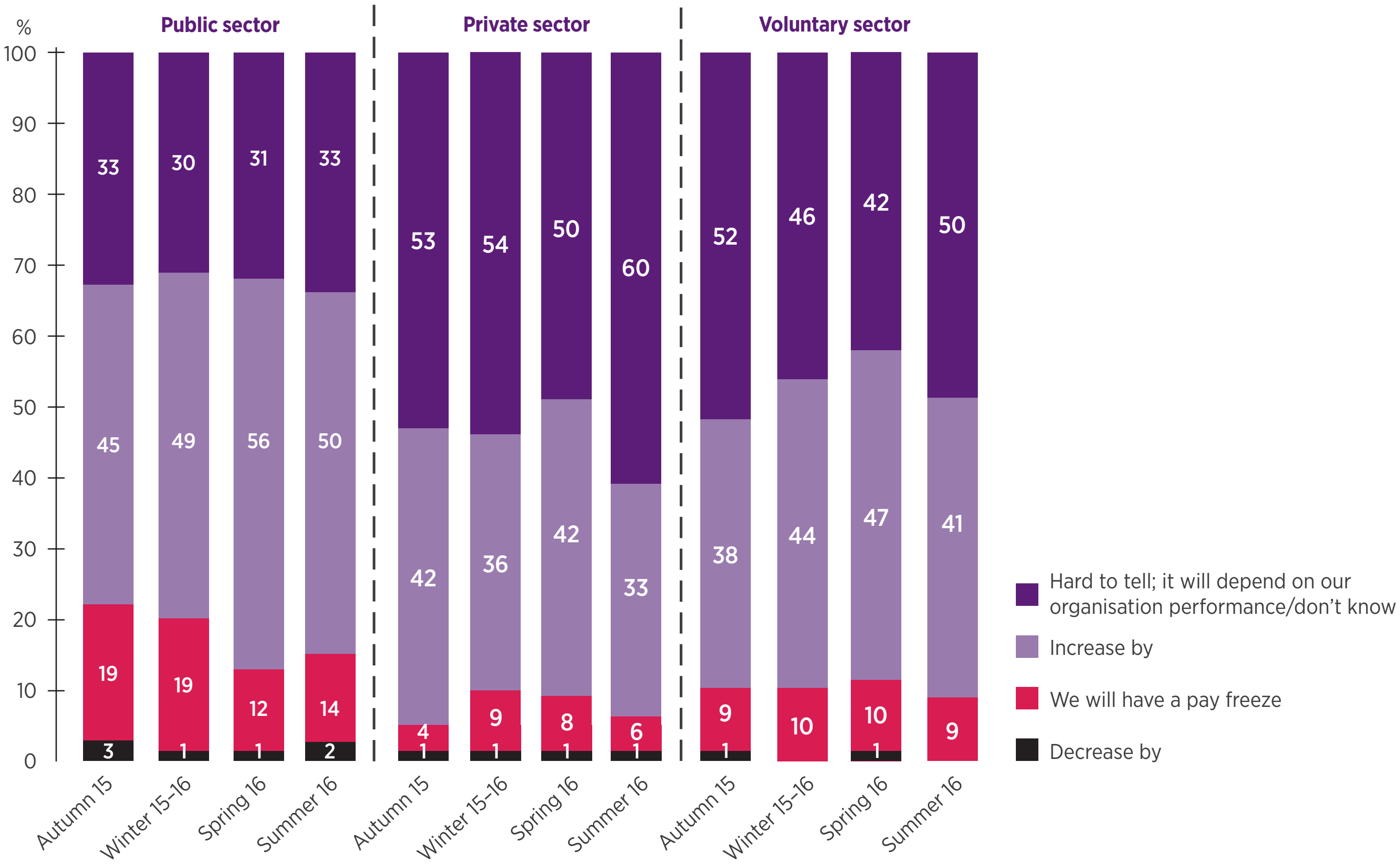
Pay more than 2%		Pay below 2%, freeze or cut	
Ability to pay	40	Restraint on public sector pay	42
Pay rises elsewhere	37	Inability to pay	39
Recruitment and retention	28	National Living Wage	16
Improved productivity and performance	27	Other non-wage labour costs	15
Pay catch-up	23	Pension auto-enrolment	12
Increase in NMW in October 2016	17	Increase in NMW October 2016	12
Current rate of inflation	16	Wage movement elsewhere	9
Increase in NLW in April 2016	15	Apprenticeship levy	8
Anticipated rate of inflation	15	Anticipated rate of inflation	7
Ripple effect of higher salaries	11	Current rate of inflation	7

Base: all employers who think their basic pay award will increase by more than 2% (n=180) and those who expect it to be less than 2% (n=234) over the next 12 months

Many employers find it hard to say what their basic pay award will be over the next 12 months, especially in the private sector, where nearly 60% said it was hard to know because it depended on organisational performance or said they did not know. This compares with 50% in the spring 2016 survey. In contrast, public sector organisations were much more likely to be able to predict future pay growth, with just 33% saying it was hard to know or they did not know what their basic pay award would be. This is not significantly different from the spring 2016 survey result.

When we look just at those employers who were able to put a number to their expected pay award, just under 20% said they would be implementing a pay freeze. A similar share said they would be giving awards of more than 3%. Just over 25% said they were likely to give pay awards of between 2% and 3%, and just under 30% awards

Figure 11 Likely pay rises, freezes and cuts, by major sector, summer 2016 (%)



Base: Spring 2016, all employers that expect a pay decision in the 12 months to March 2017 (n=909), private sector (n=593), public sector (n=201), voluntary sector (n=115) of between 1% and 2%. Pay awards in the 0% to 1% bracket are rare, as are pay cuts.

As previous LMOs have pointed out, when the survey asked employers about the pay awards they had made over the past 12 months, the distribution of pay in the backward-looking awards (where we would expect high levels of accuracy) and the distribution of pay in the forward-looking awards (where we know there is a lot of uncertainty) is very similar. This implies that the forward-looking results are a reasonably good predictor of how pay is going to be distributed, notwithstanding the unusually high levels of uncertainty in this pay round .

Table 6: **Distribution of pay awards – backward- and forward-looking settlements in summer 2016 (%)**

Pay awards summer 2016	**Backward-looking (last 12 months)** (employers who reviewed pay)	**Forward-looking (next 12 months)** (employers able to predict)
Increase 3% or more	22	19
Increase 2–3%	25	26
Increase 1–2%	28	33
Increase 0–1%	2	3
Pay freeze	19	18
Pay cut	1	1

Note: backward-looking n= 676, employers who made an award; forward-looking n=414, employers who could predict an award

3 The National Living Wage

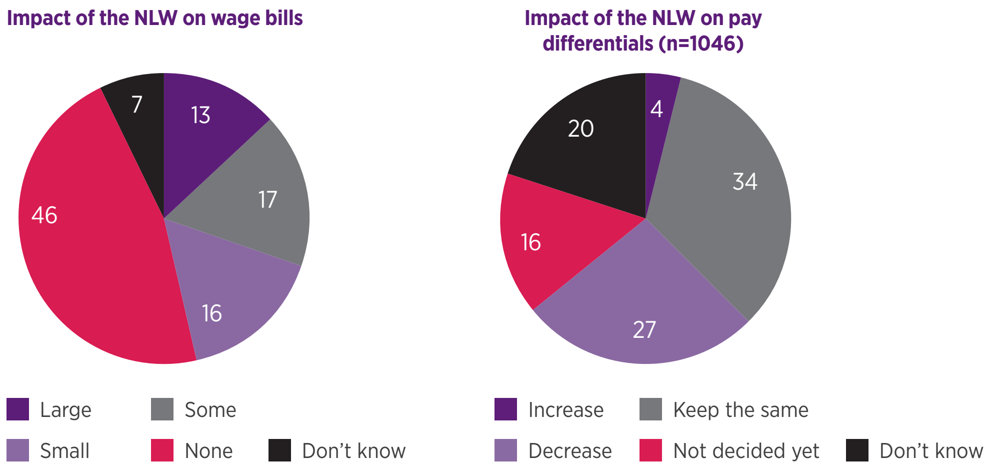
Although the NLW has declined in importance as a general factor in driving basic pay both up and down over the next 12 months, it has still had a considerable impact on current wage bills. Moreover, there still remain a significant minority of employers – especially in the low-pay private sector industries – for whom it is a continued important factor over the next year. The survey looked at the impact of the NLW on wage bills and what actions employers had taken to mitigate those impacts.

Nearly half of all employers reported that the NLW had had some impact on their wage bill. Around one in seven (13%) said it had had a large impact and another 17% said it had had some impact. A further 16% said it impacted to a small extent. These results do not vary greatly between the public and private sectors.

National minimum wages can cause a ‘ripple' effect whereby an increase in the wages of the lowest paid pushes up wages of supervisors and more skilled workers in order to sustain differentials. They can also cause compression of differentials as employers try to mitigate the overall impact on the wage bill by increasing the wages of those paid above the NLW by less than those on the NLW. We found evidence for both effects from the recent increase in the NLW, with 34% of employers saying they had kept differentials the same and 27% saying they had decreased differentials. However, significant minorities had either not decided at the time of the survey or did not know the impact on differentials.

Employers who said it had some impact were then asked to select the three most important from a list of options. Previous studies of the minimum wage and much of the estimates about the impact of the Living Wage have suggested that employers will either absorb the costs, increase productivity (especially in the face of a big increase), pass the costs on through higher prices, or reduce costs elsewhere by reducing hours and non-wage benefits or cutting back on investment.[3] There has been significant concern expressed at the potential employment impact of the National Living Wage, which increased the minimum wage significantly in April 2016 and is likely to exceed average earnings growth next year.

Figure 12 Impact of NLW on wage bills and wage differentials



Base: all employers (n=1,050) summer 2016

[3] http://www.niesr.ac.uk/media/press-release-impact-national-minimum-wage-productivity-business-performance-and-employment#.V5TUrI-cHfA

The LMO survey shows that the commonest response was to take a hit on costs or profits by absorbing the increase (36%), followed by improving efficiency and raising productivity (24%). Businesses have otherwise embraced a variety of options, none of which has been adopted by more than a relatively small share of organisations. About 13% said they had increased prices. A small number of organisations said they cut back on investment (8%).

Hours and some premium payments had been cut back, with 14% cutting overtime and 10% reducing basic hours. Reducing other aspects of the reward package or reducing basic pay for the rest of the workforce was selected by less than 10% of organisations.

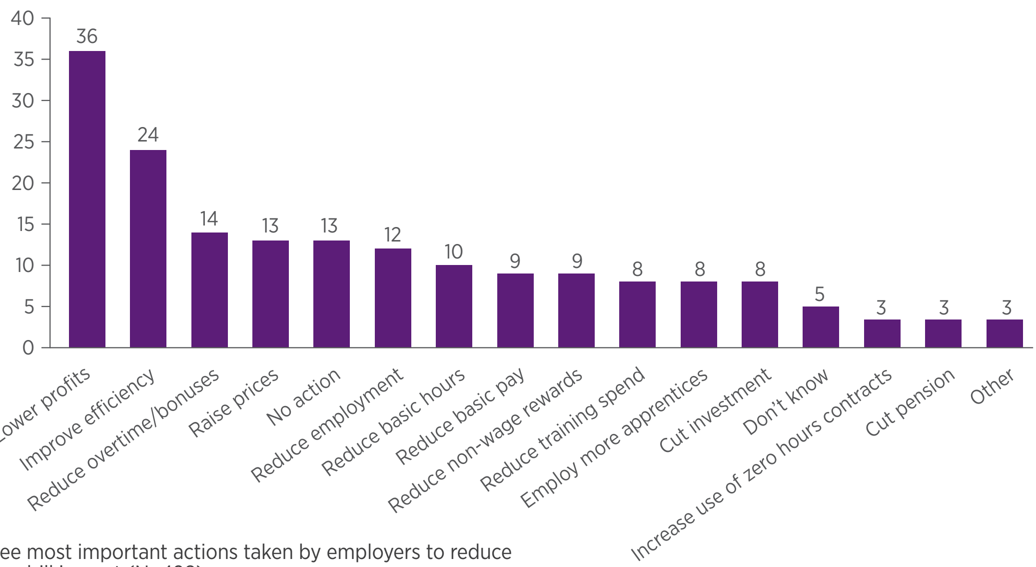
Relatively small shares of employers (12%) had cut back on employment. Although the NLW does not apply to employees under 25, relatively few organisations said it had induced them to hire more young people. About 9% said they had cut back on training, but 8% said they had taken on more apprentices.

It is of course not possible to say from these results what the aggregate impact on the labour market will be – for example, the total number of jobs or hours worked being lost as a result of the National Living Wage or whether there will be longer-term knock-on impacts from reduced profitability. There may also be trade-offs – for example, improved efficiency may mean fewer jobs in some organisations, although it will help boost employment in the economy as a whole. However, on the face of it, the adverse impacts appear to be limited to a relatively small share of organisations.

These results compare pretty well with a joint survey by the CIPD and the Resolution Foundation published in November 2015, which asked employers to try and anticipate the impact of the NLW. The main differences are that the share of employers who said they would cope by taking lower profits and absorbing the cost is higher in the 2016 survey and the share of employers who said they would improve efficiency is lower. In the November 2015 survey about 22% of employers said they would absorb the cost, whereas the summer 2016 survey showed 36% of employers actually did. In the November 2015 survey the most common response that employers anticipated making was to increase efficiency (30%), but in summer 2016 the share of employers citing this response was pushed into second place and the share was somewhat less (24%).

We should expect some differences between survey responses made before and after the first increase in the NLW. However, the new survey result reinforces the conclusion of the 2015 survey that improving workplace productivity remains an urgent priority. Employers may have absorbed the cost so far by taking a hit on profits, but this process is not sustainable, especially if cost pressures are rising from other sources (see the section above on the impact of Brexit). A significant increase in the share of employers saying they are dealing with the increase in the Living Wage by improving efficiency will be required if future adverse consequences of NLW increases are to be minimised.

Figure 13 **How employers are responding to increased wage bills from the NLW (%)**



Three most important actions taken by employers to reduce wage-bill impact (N=498)

Conclusions

The LMO confirms a significant amount of short-term stability – most employers are projecting a steady as it goes and business as usual approach when it comes to recruitment and retention and on pay expectations.

There is, however, a higher than usual degree of uncertainty, much of which seems to be associated with the implications of Brexit. The pre-Brexit campaign itself had a small chilling impact on recruitment intentions, but employers have become somewhat more cautious about their hiring intentions post-Brexit. Moreover, significant minorities of employers are signalling adverse impacts on costs and investment (but not exports). Many of those who employ migrants anticipate greater difficulties in future recruitment.

Some employers are aware of significant concerns among the migrant workforce which might lead to some quitting the UK. Some are offering information, support and reassurance through a variety of methods, including helping some migrants apply for UK citizenship. Employers need most help in understanding any changes in employment law and regulations, including working time and the employment of agency workers.

Most employers appear to be coping with the National Living Wage without having to make cuts in hours, jobs or non-wage benefits. How they are coping is more of a concern – more are taking a hit on profits rather than increasing efficiency, and the former is not sustainable over the longer term.

A recurrent theme of the CIPD in recent years has been the need to improve workplace productivity. It is therefore a matter of concern that the share of firms coping with the NLW through greater efficiency is significantly lower than we had anticipated from last year's survey. Moreover, a significant minority of firms appear to be considering cutting back on training and skills development as a result of Brexit, the opposite of what will be required if a significant reduction in future supplies of skilled labour from overseas is not to constrain future growth.

The survey clearly shows there is considerable uncertainty among employers about the likely impact of Brexit, how the migrant workforce is reacting, and what the implications might be. As the UK's likely trade relationships and policy position on labour market legislation and regulation – especially around the future employment of foreign nationals – becomes clearer, we will be in a better position to assess the full implications, both good and bad, of Brexit for the longer term.

Background to the survey

Respondent profile

Table 7: **Breakdown of the sample, by sector (%)**

Sector	Summer 2016	Spring 2016	Winter 2015–16	Autumn 2015	Summer 2015	Spring 2015	Winter 2014–15	Autumn 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	1,050	1,014	1,007	1,037	931	1,013	1,003	1,089

Table 8: **Breakdown of the sample, by number of employees in organisation (%)**

	Summer 2016	Spring 2016	Winter 2015–16	Autumn 2015	Summer 2015	Spring 2015	Winter 2014–15	Autumn 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	8	9	9	8	9	10
500–999	8	6	8	8	5	6	7	8
1,000–4,999	17	16	17	17	16	18	15	18
5,000–9,999	6	7	9	7	8	7	8	8
10,000–19,999	6	5	5	5	5	5	4	4
20,000 or more	14	16	12	14	15	15	15	13
N	1,050	1,014	1,007	1,037	931	1,013	1,003	1,089

Table 9: **Breakdown of the sample, by industry (%)**

	Summer 2016	Spring 2016	Winter 2015–16	Autumn 2015	Summer 2015	Spring 2015	Winter 2014–15	Autumn 2014
MANUFACTURING AND PRODUCTION	15	**15**	**15**	**15**	**15**	**15**	**15**	**15**
Agriculture, forestry and fishing	1	1	1	0	0	0	0	0
Manufacturing	9	9	9	9	9	9	9	9
Construction	4	4	4	4	4	4	4	4
Mining and extraction	0	1	0	0	1	1	1	1
Energy and water supply	1	1	1	1	1	1	1	1
EDUCATION	**6**	**6**	**6**	**6**	**6**	**6**	**6**	**6**
Primary and secondary schools	4	4	3	4	3	3	3	3
Further and higher education	3	3	3	3	3	3	3	3
HEALTHCARE	**11**	**11**	**11**	**11**	**11**	**11**	**11**	**11**
NHS	7	7	6	7	7	7	7	7
Other private healthcare	4	4	5	4	5	5	5	5
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	2	3	2	3	2	2	2	2
Transport and storage	4	4	4	4	4	4	4	4
Consultancy services	3	2	2	3	3	3	3	3
Finance, insurance and real estate	5	5	5	5	5	5	5	5
Wholesale and retail trade	2	2	2	3	4	4	4	4
Information and communication	1	1	1	1	1	1	1	1
Retail	15	15	14	13	12	12	12	12
Professional, scientific and technical	3	4	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	4	3	4	3	3	3	3	3
Public administration – local government, including fire services	4	5	4	5	5	5	5	5
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 1,050 HR professionals and employers carried out between 10 June and 3 July. The pre-Brexit sample is 726 HR professionals and employers interviewed between 10-23 June. The post-Brexit sample consists of 618 HR professionals and employers interviewed between 8-17 July. 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 527 unweighted responses were received from small and medium enterprises (SMEs) and 523 from HR professionals within large employers (250+ employees).

CIPD
Chartered Institute of Personnel and Development
151 The Broadway London SW19 1JQ United Kingdom
T +44 (0)20 8612 6200 **F** +44 (0)20 8612 6201
E cipd@cipd.co.uk **W** cipd.co.uk

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