



LABOUR
MARKET

OUTLOOK

VIEWS FROM
EMPLOYERS

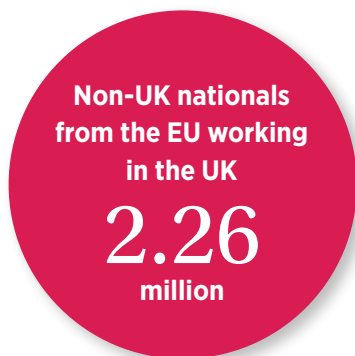
Winter 2016-17

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.

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Foreword from the CIPD



According to the latest data, the number of non-UK nationals from the EU working in the UK increased by 221,000 to 2.26 million in the 12 months to September 2016.

The quarterly CIPD *Labour Market Outlook* (LMO) provides a set of forward-looking labour market indicators, highlighting employers' recruitment, redundancy and pay intentions. This report also considers the impact of the National Living Wage since its introduction in April 2016 and the effect on employers of the UK's decision to leave the European Union. The survey is based on responses from 1,051 employers.

Employment

According to the report, the short-term employment outlook remains strong. 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 first quarter of 2017 – has increased to +23 from +22 over the past three months (Figure 1). Expectations have fallen slightly among services firms and in healthcare compared with three months ago. However, employment confidence has strengthened markedly in the manufacturing sector during the same period, which may reflect how the depreciation in sterling has supported foreign demand for UK exports in recent months.

Overall, the demand for labour is consistent with the official data,¹ which show that the number of vacancies in the UK economy remains well above historical average levels. Vacancies are concentrated in some low-skilled sectors such as wholesale and retail, accommodation and food services along with human health and social work² (see Table 2), all of which employ a large number of EU nationals. At the same time, official data suggest that employment growth has slowed sharply over recent months alongside early signs that the number of non-UK nationals from the EU working in the UK has slowed.³ According to the latest data, the number of non-UK nationals from the EU working in the UK increased by 221,000 to 2.26 million in the 12 months to September 2016. However, the quarterly increase shows an increase of just 30,000.⁴ Additionally, almost three in ten employers say that non-UK nationals from the European Union considered leaving their organisation in the six months to December 2016 according to this quarter's LMO survey data.

This implies that employers' increased difficulty with finding suitable candidates may have been

¹ ONS. (2017) *UK labour market: January 2017*. Newport. Available at: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/latest>

² ONS. (2017) *UK labour market: January 2017*. Newport. Available at <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/datasets/vacanciesbyindustryvacs02>

³ ONS. (2017) *UK labour market: January 2017*. Newport. Available at: <http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/latest>

⁴ Some caution should be attached to the interpretation of the figures, because the data is not seasonally adjusted.

concentrated in some services sub-sectors and may worsen in the years ahead. These difficulties will be the result of skills and labour shortages. In other words, the vacancies are also hard to fill for non-skill-related reasons, such as an insufficient number of applicants for the role or because there are specific issues related to the role such as anti-social hours or poor working conditions.

This is perhaps no surprise given the underlying trend in employment and unemployment and tentative signs of a fall in the growth in the number of non-UK nationals from the European Union in employment; who have tended to be associated with those sectors that report the highest number of vacancies, such as retail and accommodation and food services. It remains to be seen, therefore, whether employer expectations of employment growth will translate into higher employment levels given the potential issues of labour supply, and whether this might put further upward pressure on pay in the year ahead.

Pay

Indeed, the outlook for pay has improved modestly since the previous report, which is consistent with the modest improvement reported in the official data.⁵ According to the employers surveyed in this report, median basic pay expectations for the 12 months to December 2017 have increased to 1.5% from 1.1% in the previous report. The report suggests that inflation is the main

factor behind basic pay expectations edging up. However, the survey data also highlights the limited ability of many employers to respond to rising price inflation with more generous pay awards. As a result, it seems likely that real wage growth will be very low or negative in 2017.

The situation again highlights the need for more employers to focus on workplace productivity improvements in order to be able to afford more generous basic pay increases, especially against the backdrop of a further increase in the National Living Wage (NLW) in April. Indeed, it seems that the National Living Wage has provided a modest boost to earnings since its introduction, partly because many organisations have sought to maintain pay differentials between those directly affected by the new rate and their managers or supervisors. In addition, the NLW has acted as a catalyst for productivity improvements in some organisations, but fewer than the proportion who said they would offset the increase in wage costs through productivity improvements prior to the introduction of the policy.⁶ As a result, the main response from employers during the first six months of the National Living Wage was to absorb the cost.

EU nationals and Brexit

One driver of productivity growth is employers' ability to access appropriately skilled labour. And this report suggests that the challenge

facing employers in holding on to their staff has already begun, despite the fact that there is no immediate prospect of changes to government policy. Overall, almost one in three (29%) employers say that they have evidence that shows that EU nationals looked to leave their organisation and/or the UK as a result of the vote in 2016, and a similar proportion (27%) say that EU nationals are considering leaving their organisation and/or the UK in 2017. This is consistent with official data which shows that the growth in the number of EU nationals in employment has slowed sharply over the recent past.

In addition, it has been suggested that greater investment in skills and physical capital may increase as a result of a reduction in the supply of EU nationals. However, the survey data suggest that we have seen a modest fall in investment, despite the prospect of changes to the Government's immigration policy. In addition, it also seems that employers are keen to divert more effort towards recruiting more younger and older workers to offset the labour shortage problem rather than increase pay (Figure 20).

Overall, there is therefore some uncertainty about whether employers can offset the implied risk of a fall in the supply of EU nationals in the year ahead with a greater focus on recruiting UK nationals, without raising pay, against the backdrop of a strong demand for labour.

⁵ ONS. (2017) *UK labour market: January 2017*. Newport. Available at: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/latest>

⁶ CIPD/Resolution Foundation. (2016) *Weighing up the wage floor*. London: Chartered Institute of Personnel and Development. Available at: <https://www.cipd.co.uk/knowledge/fundamentals/people/pay/national-living-wage-report>

Foreword from The Adecco Group UK & Ireland

Much of the latter half of last year was spent wondering when and how the consequences of Britain's decision to leave the European Union (EU) would start to impact.

A consistent theme in reports and updates from a variety of stakeholders at the end of 2016 is that it is too early to tell – indeed, some believe that the ramifications of our decision to leave the EU will take decades, not years, to manifest themselves.

Yet the seismic decision that Britain took last year is beginning to show some impact in the labour market, and CIPD's *Labour Market Outlook* report in partnership with The Adecco Group, documents some of this early impact.

The report demonstrates that businesses are struggling to match the right vacancies with the right candidates, with labour and skills shortages caused by a drop in the supply of EU nationals.

With the vote to leave the European Union, our survey and official statistics have unearthed some data about EU nationals' desire to live and work in the UK. In the three months to December, almost one in three employers said that EU nationals were looking to leave their organisation as a direct result of Brexit, and growth in the number of EU nationals in employment has almost halved to just 30,000 in 2016's final quarter.

This phenomenon has also come at a difficult time, with demand for labour high and the report showing a near-record number of new vacancies, and with it a renewed focus on addressing the labour shortfall. Our latest *Labour Market Outlook* asked employers how they would respond to migration restrictions from the EU as a result of Brexit. In their responses, over a quarter (26%) said they would be willing to 'pay the difference' and absorb the extra cost of recruiting EU nationals. Retaining older workers, investing more in training, recruiting more apprentices and looking for UK-born graduates are also high up the list of potentially appealing options.

From The Adecco Group's perspective, the fact that some employers are beginning to look for solutions is encouraging, with investment in their workforce and in apprenticeships always something that we would recommend, especially in the face of inevitable changes to employers' access to EU migrants after the Brexit negotiations. It's important that employers face up early to the fact that they're likely to lose access to significant numbers of EU workers on current labour movement terms in the near future, and begin to take steps to mitigate this.

Given the events of the last year, it is unsurprising to see that Britain's exit from the European Union dominates our findings, but it wasn't

the only change to the labour market this year. The implementation of the Government's National Living Wage also had a significant effect, pushing up pay, while long-awaited productivity improvements also boosted employers' basic pay awards.

As we enter the new year, a step closer to Britain's exit from the EU, the message for UK business remains the same: staying one step ahead of regulatory changes is key to tackling the upcoming challenges, and the best way to do so is through labour market proactivity and investment in the future.

John L. Marshall

CEO, The Adecco Group UK & Ireland

1 Recruitment and redundancy outlook

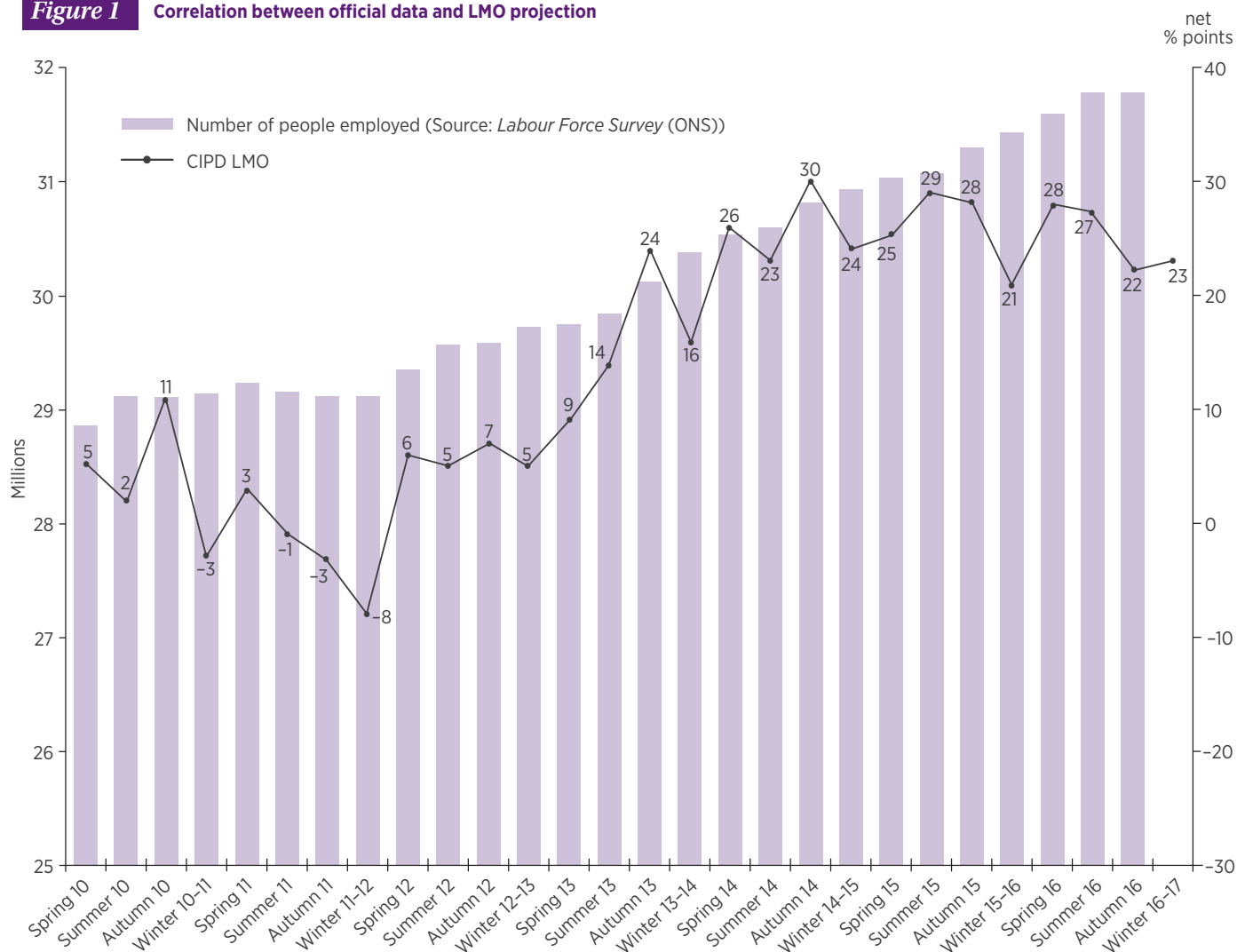
What is the short-term employment outlook?

This section focuses on the recruitment and redundancy intentions of LMO employers in the first quarter of 2017. This latest

report suggests that employment confidence will remain strong over the next three months. This quarter's net employment balance - which measures the difference between the proportion of employers who expect

to increase staff levels in the first quarter of 2017 and those who expect to decrease staff levels - has risen to +23 from +22 since the LMO autumn 2016 report.

Figure 1 Correlation between official data and LMO projection



Base: All employers who are planning to recruit and/or make employees redundant in the next three months (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 December 2016.

The demand for labour thus remains robust, although there is some volatility across sectors. It is perhaps no surprise that employment confidence is highest in the manufacturing and production sector (+53) given that the indicators of manufacturing activity have recovered strongly in recent months. Consistent with previous reports, employment confidence remains strong in services, education and healthcare (Table 1).

However, employment levels look set to decrease in public administration and defence.

First quarter 2017 recruitment intentions

The proportion of employers that plan to hire staff in the first quarter of 2017 is broadly consistent with recent LMO reports. Overall, almost seven in ten (68%) employers plan to hire staff in the first quarter of 2017. Recruitment

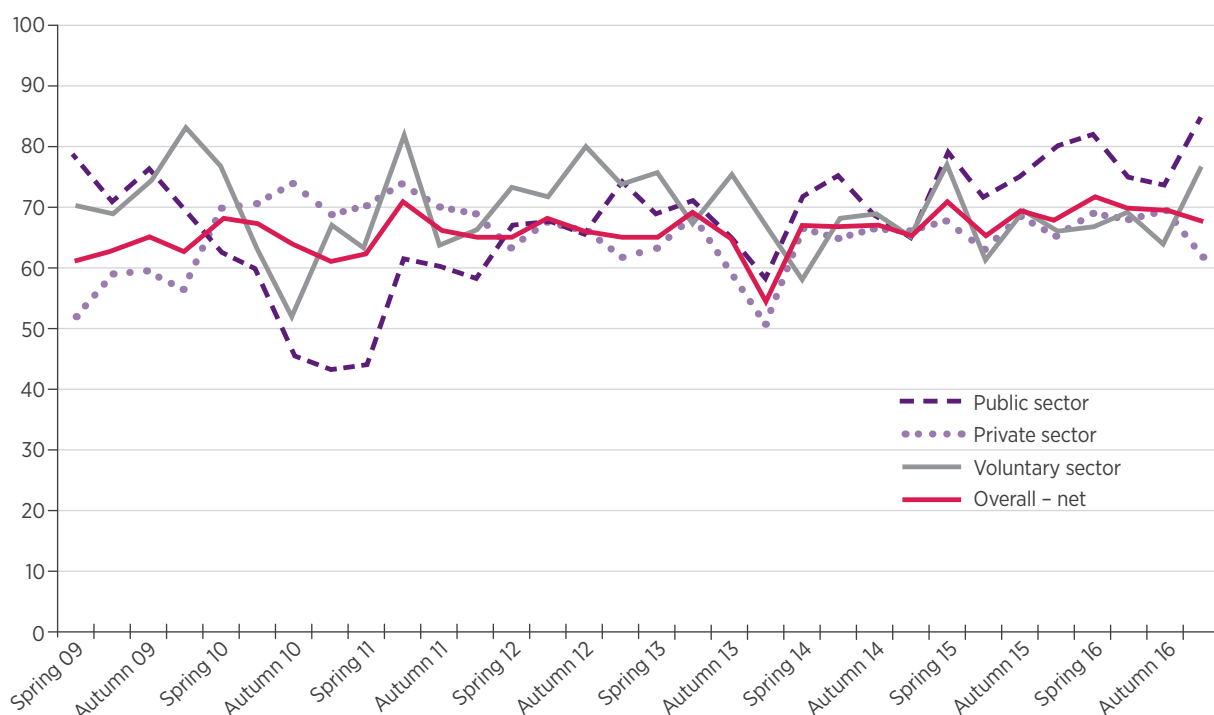
intentions are highest in the public sector (85%), which compares with more than three-quarters of voluntary sector employers (77%). However, the increased recruitment activity in the public and voluntary sectors is offset by the fall in the private sector. Less than two-thirds of private sector employers (62%) plan to hire this quarter compared with seven in ten (70%) employers three months ago.

Table 1: Overall effect of recruitment and redundancy intentions in Q1 2017, by sector

Sector	Winter 2016-17	Autumn 2016	% point change
Private sector services (n=274)	+25	+27	-2
Manufacturing and production (n=97)	+53	+32	+21
Education (n=54)	+23	+22	+1
Public administration and defence (n=32)	-18	-21	+3
Healthcare (n=40)	+18	+26	-8

Base: All employers who are planning to recruit and/or make employees redundant in the next three months (n=617)

Figure 2 First quarter 2017 recruitment intentions, by sector (%)

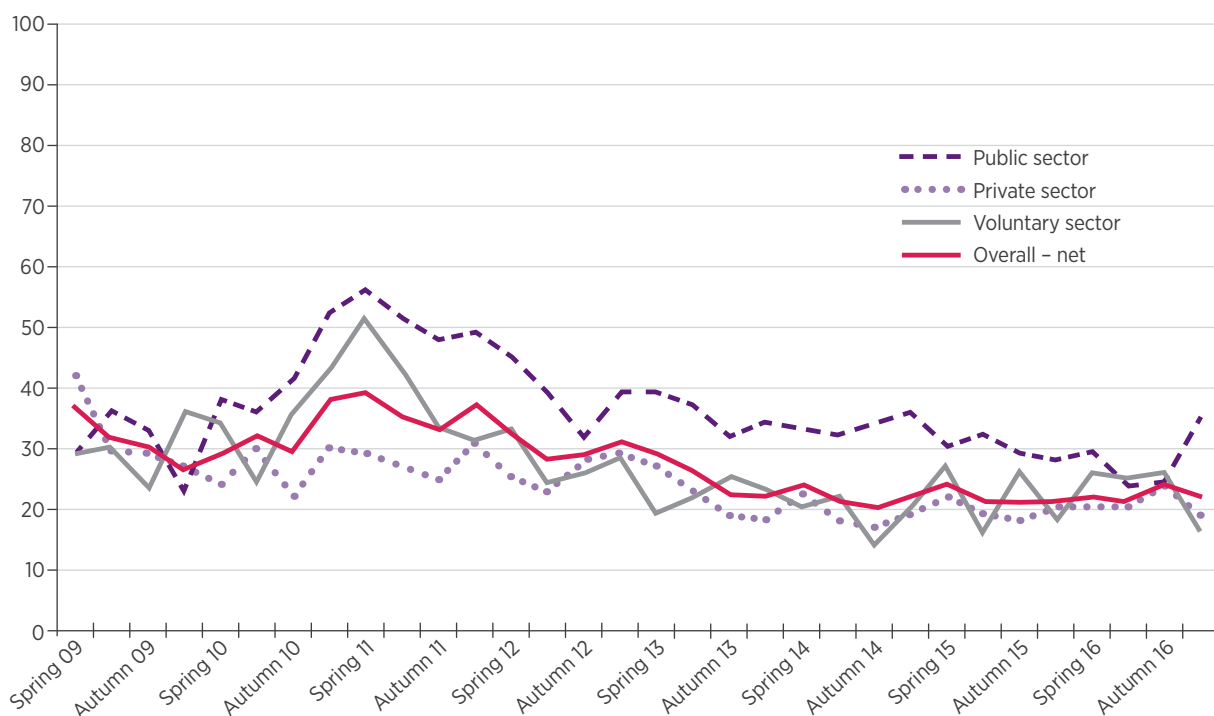


Base: All employers (n=1,050; private: n=771; public: n=111; voluntary: n=168)

First quarter 2017 redundancy intentions

At the same time, redundancy intentions are broadly similar to recent reports. Over a fifth of employers (22%) plan to carry out redundancies this quarter, down from 24% in the autumn report. However, unlike the previous report, there is some volatility across sectors. The prevalence of redundancy intentions is much higher in the public sector (35%) than in the voluntary sector (16%) and private sector (19%).

Figure 3 First quarter 2017 redundancy intentions, by sector (%)



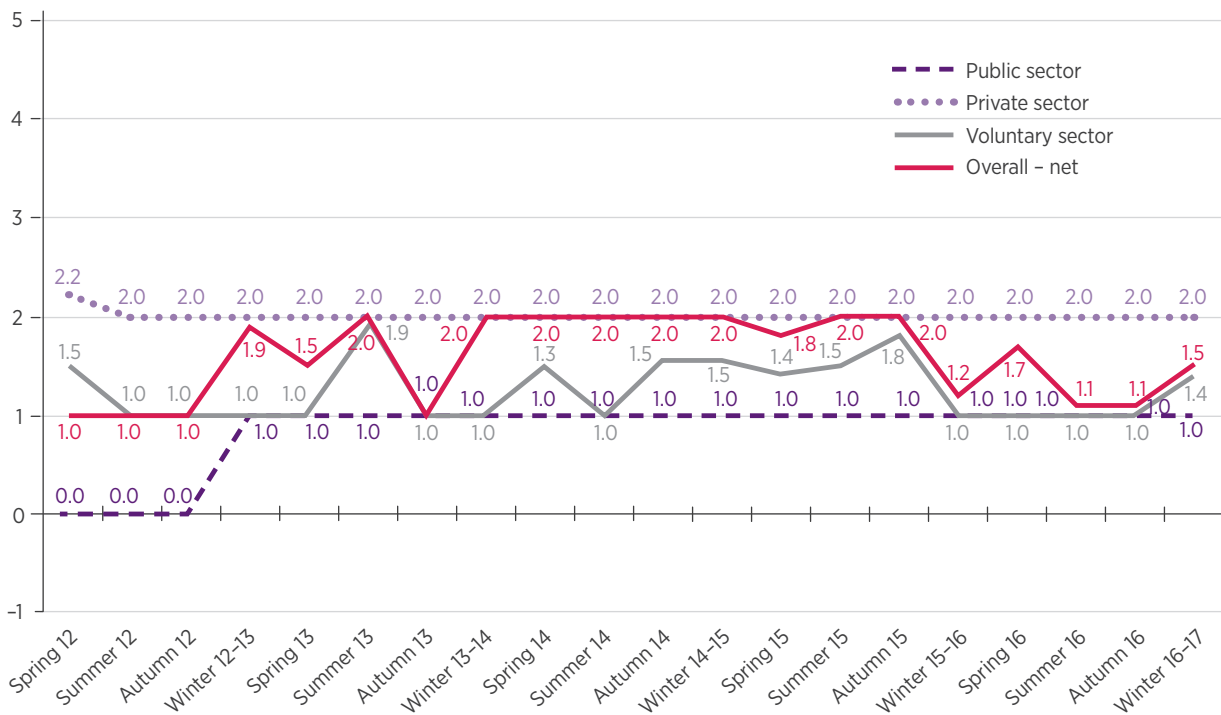
Base: All employers (n=1,051; private: n=772; public: n=111; voluntary: n=168)

2 Pay outlook

Median pay expectations (excluding bonuses) in the 12 months to December 2017 have risen to 1.5% from 1.1% compared with the previous report. There is some variation across sectors. Median basic pay expectations are higher in

manufacturing and production (2%) and services (2%) than in the public sector (1%) and voluntary sector (1.4%). Meanwhile, the mean basic pay expectations during the same period are 1.6%, unchanged since the previous report.

Figure 4 Median basic pay expectations, by sector (%)



Base: All employers who report an expected increase, decrease or pay freeze in the next 12 months (n=455; private: n=302; public: n=63; voluntary: n=90)

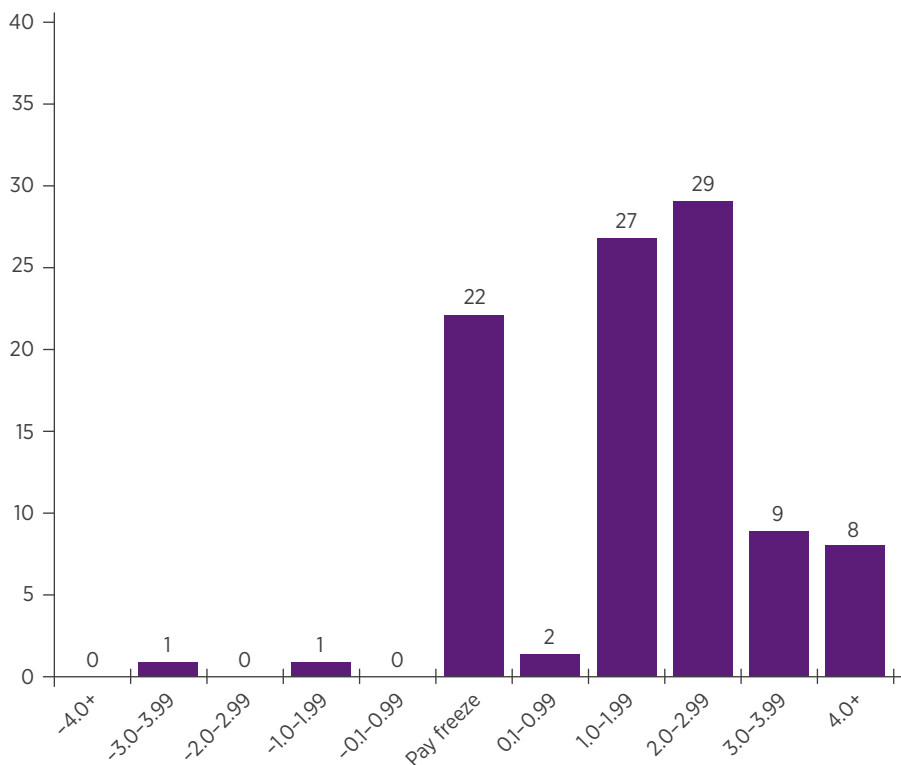
In addition, there is considerable variation within sectors. More than one in four (26%) services firms report that they plan to increase pay by 3% or more in the year ahead compared with almost one in five (18%) who plan to freeze pay. Meanwhile, around one in six (16%) manufacturing and production employers say that they plan to raise pay by more than 3% during the same period, compared with almost one in four (23%) who intend to freeze pay.

Overall, the majority of employers' basic pay expectations are clustered between 1% and 3% (Figure 5). More than a quarter of employers (27%) expect to award a basic pay increase of 1-1.99% in the 12 months to December 2017 and a similar share (29%) expect basic pay to increase by 2-2.99% in their organisation. At the same time, the proportion of employers that expect to freeze pay in the year ahead has increased to 22% from 19% since the previous report.



More than one in four (26%) services firms report that they plan to increase pay by 3% or more in the year ahead compared with almost one in five (18%) who plan to freeze pay.

Figure 5 Distribution of median basic pay award expectations (%)



Base: All employers who report an expected increase, decrease or pay freeze in the next 12 months (n=455)



Other factors that are putting upward pressure on pay include the movement in market rates (31%), recruitment and retention issues (30%) and affordability (26%).

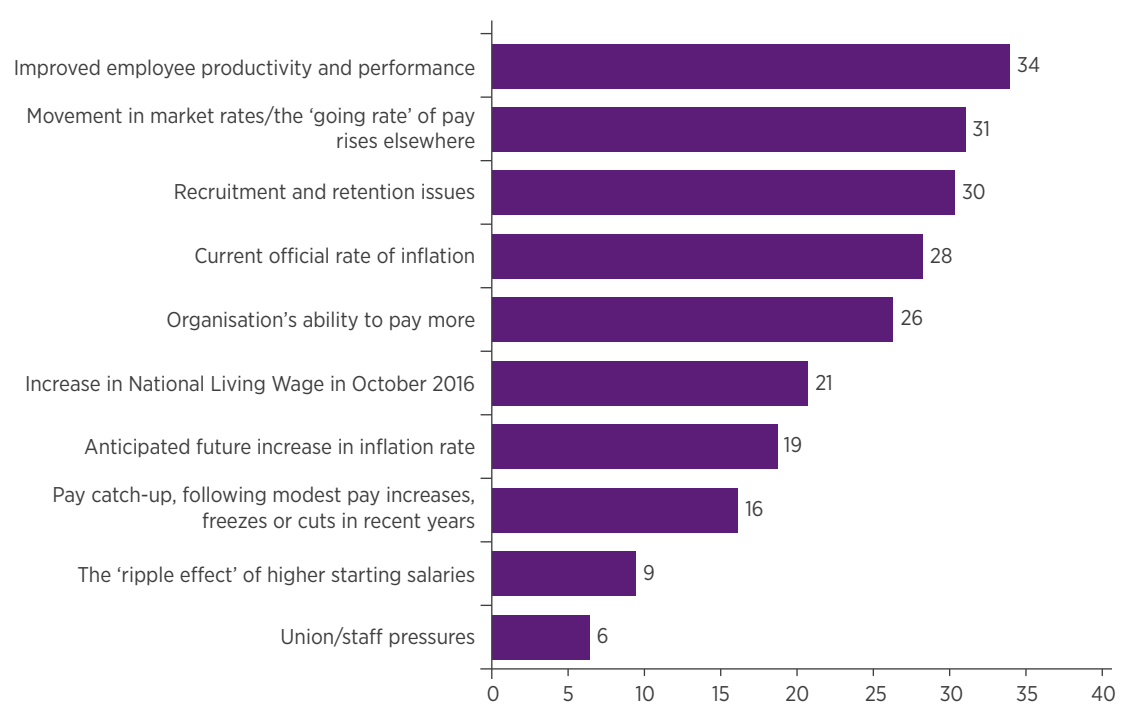
Sharply rising price inflation seems to be putting pressure on some employers to improve pay. The share of employers that say that the current rate of inflation is a key factor behind their decision to award a basic pay increase of 2% or more has risen to over a quarter of employers (28%) compared with less than one in five employers (17%) in the previous report. At the same time, almost one in five employers (19%) say that expectations of higher price inflation is also putting upward pressure on basic pay expectations, up from 14%.

Productivity improvements and the National Living Wage are other key factors that are boosting employers' basic pay awards. This is consistent with other survey data in this report, which suggests that the impact of the National Living Wage has

rippled to workers beyond those directly affected by the policy (Figure 12). Other factors that are putting upward pressure on pay include the movement in market rates (31%), recruitment and retention issues (30%) and affordability (26%).

The potential impact of higher inflation on basic pay awards is underlined by the proportion of employers that say they will raise pay if inflation rises to 2.5–3%. Around a quarter (26%) of employers say they would increase pay compared with around three in ten (31%) who wouldn't. In addition, more than a third (36%) of manufacturing and production employers say they would respond with higher pay. However, more than two in five (43%) employers say it is too hard or too early to tell.

Figure 6 Key reasons behind basic pay expectations of 2% or more (%)



Base: All employers who expect their organisation's basic pay will increase by 2% or more (n=224)

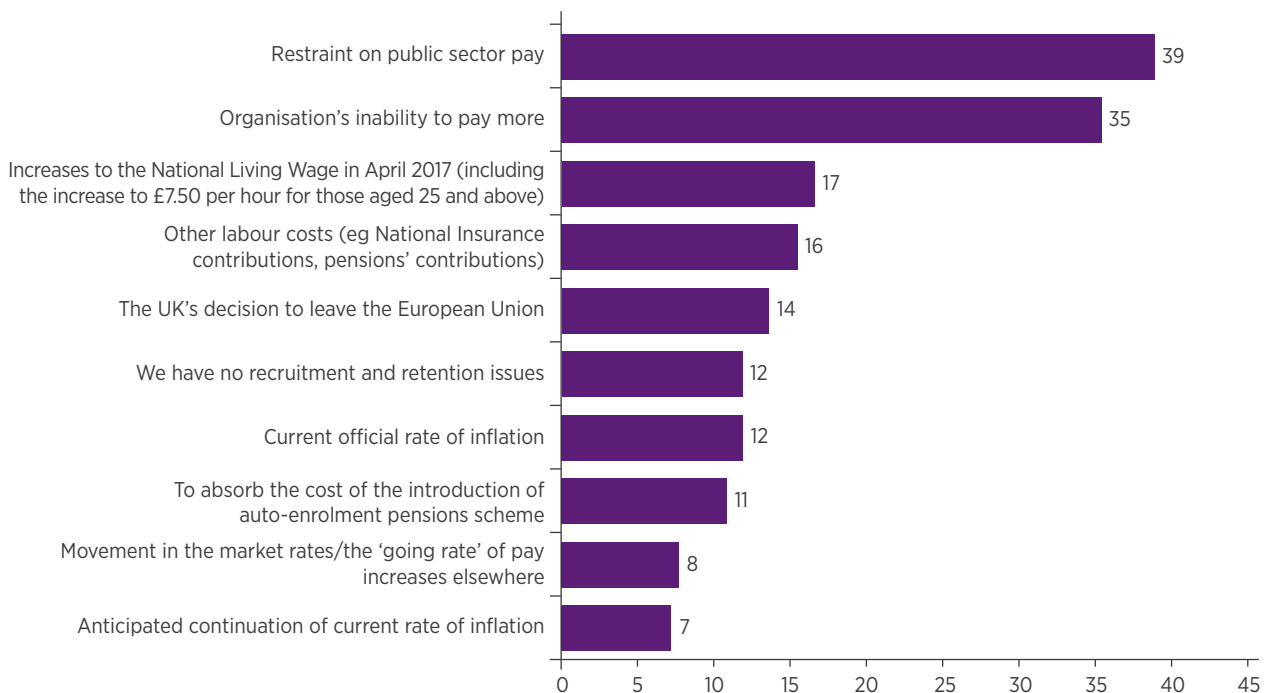
At the same time, public sector pay restraint (39%) and affordability (35%) are the two most important factors that are limiting basic pay award increases to less than 2%. However, reflecting the challenges that some employers face in raising productivity, some employers say that the National Living Wage will put downward pressure on their pay awards. It is perhaps no surprise that almost a third of services firms, which include some of the sectors that are most affected by the

National Living Wage such as retail and hospitality, say that the National Living Wage is acting as a brake on basic pay growth. Overall, almost one in five (17%) employers say that the National Living Wage will drive down basic pay award increases to below 2%.



Public sector pay restraint (39%) and affordability (35%) are the two most important factors that are limiting basic pay award increases to less than 2%.

Figure 7 Key reasons behind basic pay expectations of less than 2% (%)



Base: All employers who expect their organisation's basic pay will increase by less than 2%, be frozen, or decrease (n=231)

Pay awards over the past year

Almost seven in ten (67%) employers report that they made a pay award in the 12 months to December 2016. The median basic pay growth during this period was 1.8%, which is broadly consistent with the official labour market data. Consistent with previous reports, the median basic pay award was higher in the private sector (2%) than in the public sector (1%) and voluntary sector (1.2%).

Impact of the National Living Wage

Since its introduction in April 2016, the National Living Wage (NLW) for those aged 25 and over has continued to generate debate about its ongoing impact on employers. This section therefore considers how employers have responded to the NLW, around eight months after its introduction.

Impact on wage bill

Around half (48%) of employers reported that the NLW has increased their wage bill, with around one in

ten employers (12%) reporting it has affected them 'to a large extent.' This echoes previous research,⁷ which suggested that a similar proportion (54%) of employers would have to increase their salary bill as a result of the National Living Wage. However, reflecting the large impact it will have on some low-paid industries, almost two in five (39%) large private sector employers report that the National Living Wage has affected them to some or a large extent (Figure 9). It is also more likely to affect large firms (62%) than SMEs (39%).

Figure 8 Proportion of employers that report that the NLW has affected their wage bill (%)

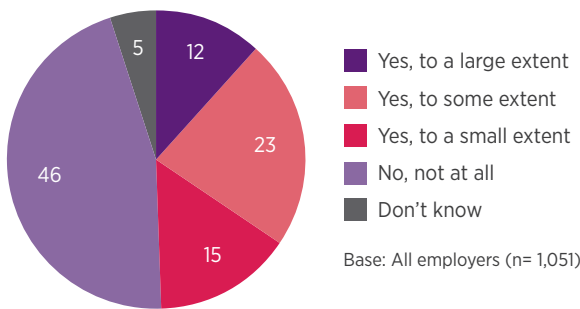
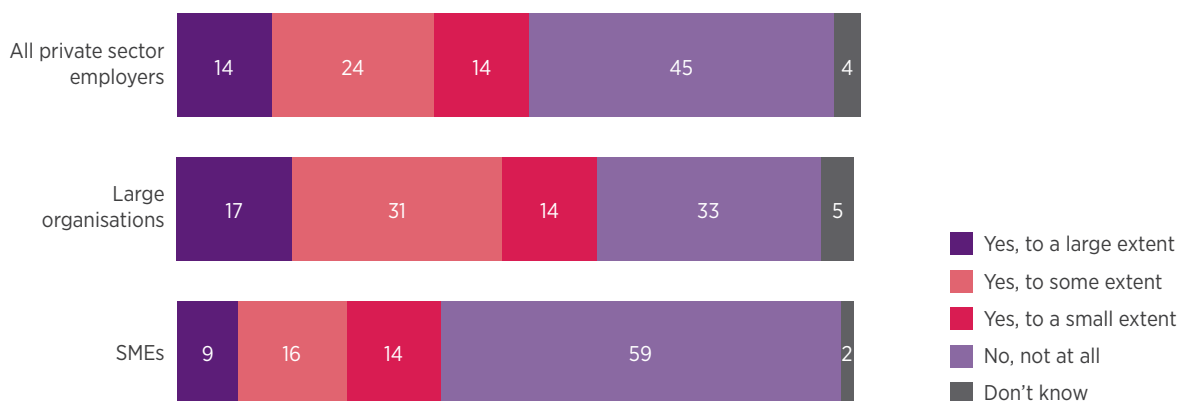


Figure 9 Proportion of private sector employers that report that the NLW has affected their wage bill (%)



⁷ CIPD/Resolution Foundation. (2016) *Weighing up the wage floor*. London: Chartered Institute of Personnel and Development. Available at: <https://www.cipd.co.uk/knowledge/fundamentals/people/pay/national-living-wage-report>

Responses to the NLW

Given a range of possible responses, the primary reaction employers have made is to take lower profits or absorb the cost. Around a third (33%) of employers who are affected by the National Living Wage report that this is one of their (up to) three main responses to the NLW’s introduction. Almost half of smaller employers (48%) have reacted in this way compared with around a

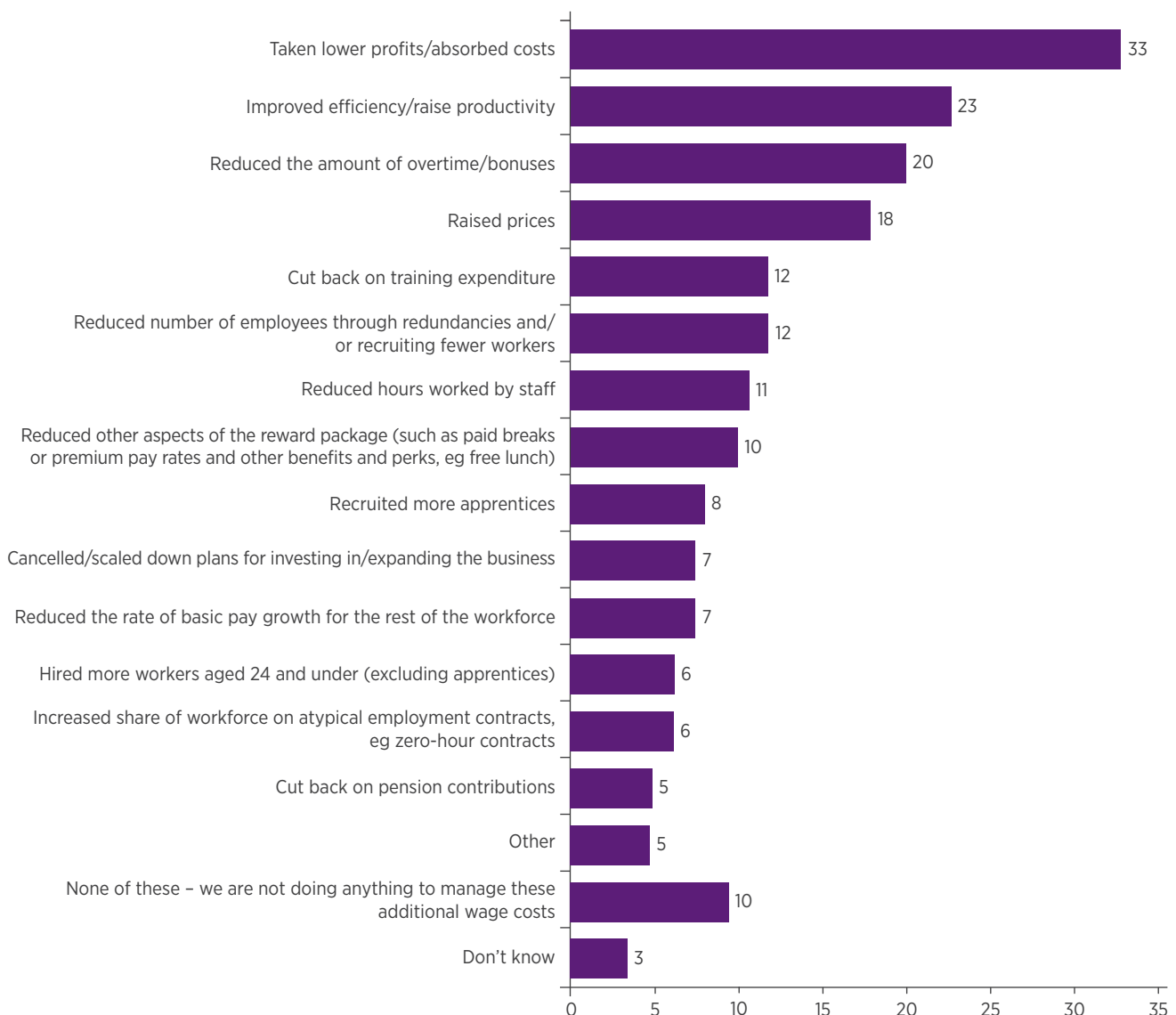
quarter (26%) of larger organisations (250+ employees), which suggests that bigger organisations have more options available.

At the same time, almost a quarter (23%) of employers report that they have raised productivity and efficiency within their businesses. However, this is fewer than the three in ten employers who reported that they expected to offset the

increase in labour costs by raising productivity or efficiency before the introduction of the policy.⁸ The most popular practices used by employers to improve productivity are work redesign (39%) and job design (17%).

It also seems that employers have opted to reduce wage costs by looking at other considerations, rather than making redundancies. Around one in five (20%) employers

Figure 10 Employer responses to the introduction of the National Living Wage (%)



⁸ CIPD/Resolution Foundation. (2016) *Weighing up the wage floor*. London: Chartered Institute of Personnel and Development. Available at: <https://www.cipd.co.uk/knowledge/fundamentals/people/pay/national-living-wage-report>

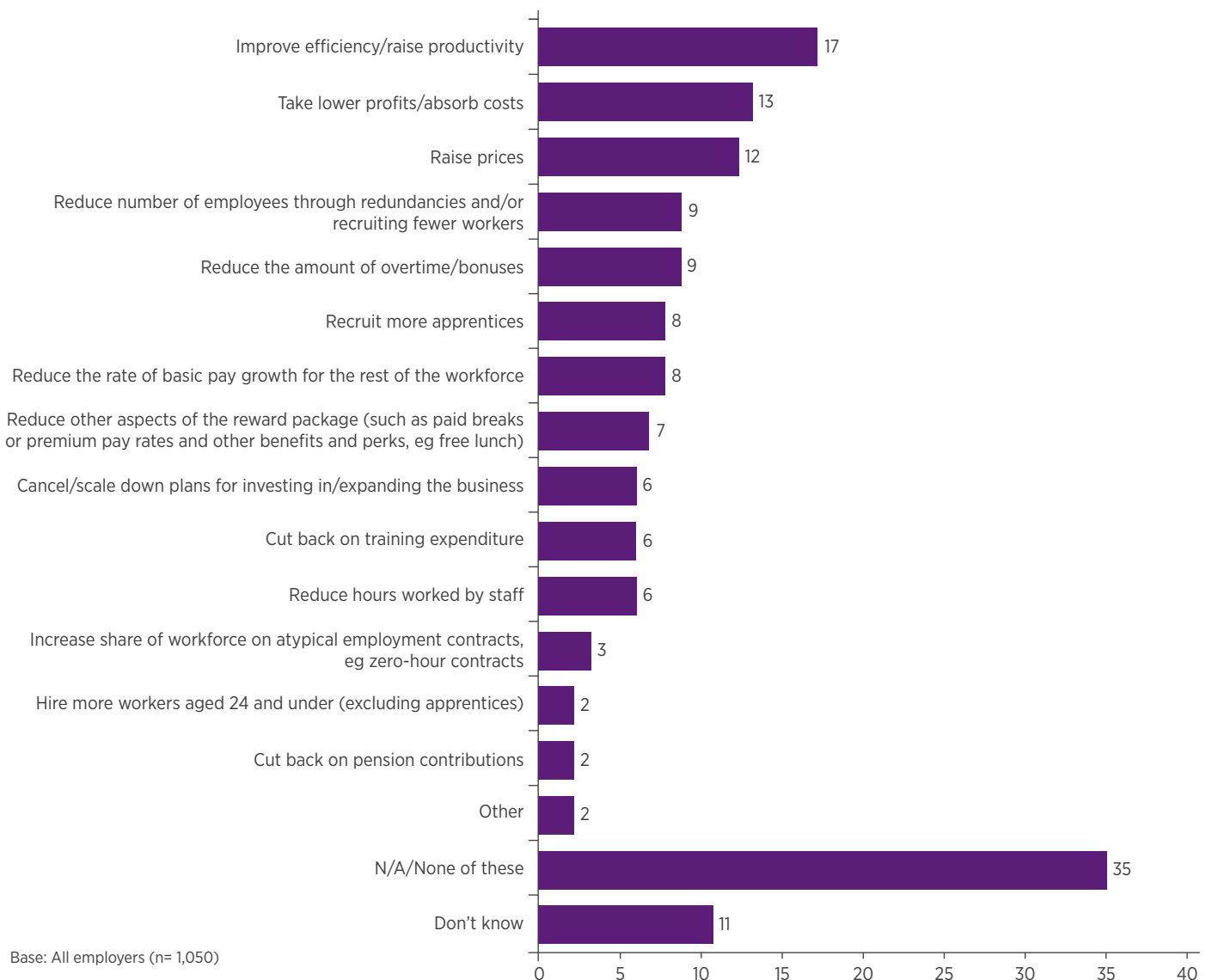
say they have cut overtime and bonuses, compared with around one in ten employers (12%) who say that they have reduced the size of the workforce. Employers have also sought to cut costs by cutting back on training expenditure (12%), reducing working hours (11%) and reducing other aspects of the reward package, such as paid breaks or premium pay rates and other benefits such as free lunches (10%).

Additionally, it seems that the National Living Wage is contributing to the current sharp increase in price inflation. Almost one in five (18%) employers say they have had to raise prices in response to the National Living Wage (Figure 10), a figure which rises to more than one in five (22%) private sector firms.

Looking ahead to the increase to the National Living Wage in April

2017, especially the increase from £7.20 to £7.50 per hour for those aged 25 and above, the three most popular reactions from employers are increasing productivity or efficiency (17%), accepting lower profits or absorb costs (13%) and raising prices (12%). However, perhaps reflecting the uncertainty among some employers about how they will respond to the increase, more than a tenth of employers (11%) were unable to

Figure 11 Employers' anticipated response to the National Living Wage increase in April 2017 (%)



identify how they would respond to the increase to the NLW from April. Other popular responses include reducing bonuses or overtime (9%), job cuts (9%), reducing the basic pay increase for the rest of the workforce (8%) and recruiting more apprentices (8%). More than a third of employers (35%) reported that the National Minimum Wage does not apply to them.

Pay differentials

Among those employers who say the NLW has increased their wage bill, around a quarter (27%) have maintained the pay differentials between those who are directly affected by the National Living Wage and their managers or supervisors, while almost

one in ten (9%) say that differentials have increased. However, this is more than offset by almost half (46%) of employers that say pay differentials have decreased. Almost one in five (19%) employers either don't know or have yet to carry out their pay review.

Because of this year's increase in the National Living Wage in April 2017 from £7.20 to £7.50, bringing everyone up to a new wage floor would result in staff who had been earning the NLW and those who may have previously been paid up to 30p more per hour finding themselves on the same wage.

As a result, it seems that a greater share of employers are planning to

offset the negative consequences this might have on progression and employee engagement by maintaining the pay differentials between those earning the National Living Wage and their manager or supervisor. Almost three in ten employers (29%) say that they plan to maintain the differentials and almost one in ten (8%) employers plan to increase them. At the same time, around 40% of employers plan to squeeze them. This is broadly consistent with recent research, which suggests that the National Living Wage has boosted pay for around a quarter of all UK employees aged 25 or older because the policy's impact has rippled beyond those immediately affected.⁹

Figure 12 Proportion of employers affected by the NLW who have maintained pay differentials (%)

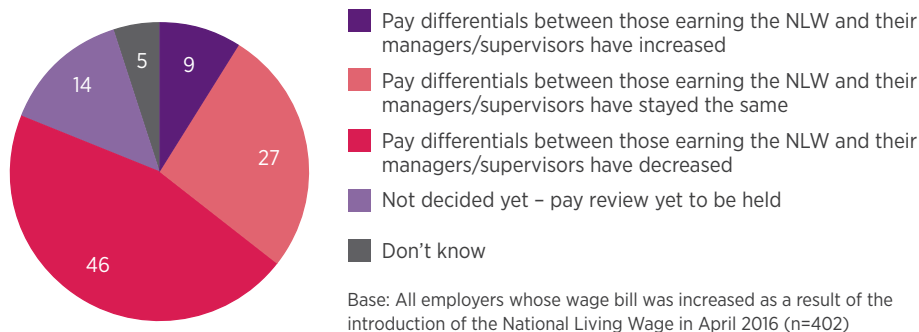
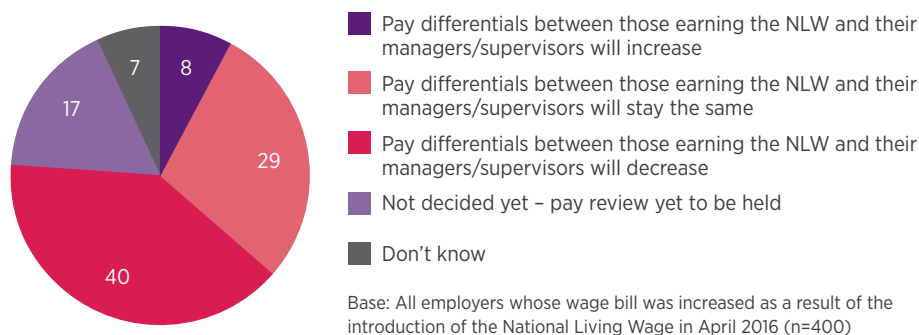


Figure 13 Employers' likely response to the National Living Wage increase in April 2017 (%)



⁹ Low Pay Commission. (2016) *National Minimum Wage: Low Pay Commission autumn 2016 report*. London. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/575634/10583-LPC-National_Living_Wage_WEB.pdf

3 Brexit outlook

Impact on costs

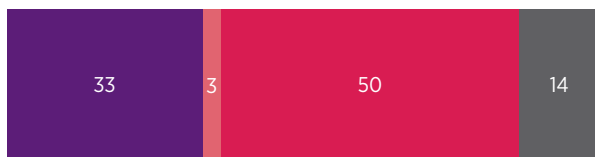
It seems that the UK's decision to leave the European Union has made little or no difference to around half (50%) of organisations in the second half of 2016. However, around a third (33%) say that their costs have increased, compared with just 3% who report a reduction in their costs. It is perhaps no surprise that around

four in ten (37%) private sector firms say that costs have increased at their organisation, including almost half of manufacturing and production firms (47%). This is very consistent with the predictions made in previous reports about the predictions employers made about the cost implications of the UK's decision to leave the European Union.

Implications for export demand

At the same time, the survey data suggest that the UK's decision to leave the European Union has provided a marginal boost to export demand. More than a quarter of employers (28%) say that Brexit has improved the competitiveness of their products abroad. However, perhaps reflecting the increase in costs as a result of the depreciation in sterling, this is offset by the fact that around a quarter (24%) of exporting firms say that Brexit has made their products less competitive. Around a quarter (27%) say that it has made little or no difference.

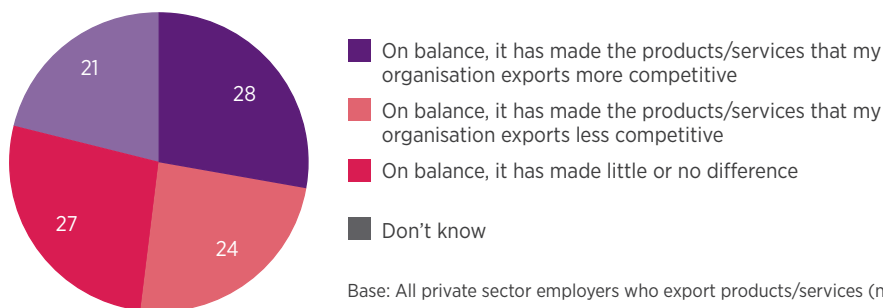
Figure 14 Employer perceptions about cost implications of vote to leave the EU (%)



- On balance, it has increased my organisation's costs
- On balance, it has reduced my organisation's costs
- On balance, it has made little or no difference
- Don't know

Base: All employers (n=1,051)

Figure 15 Private sector employer perceptions about impact of EU vote on competitiveness (%)



- On balance, it has made the products/services that my organisation exports more competitive
- On balance, it has made the products/services that my organisation exports less competitive
- On balance, it has made little or no difference
- Don't know

Base: All private sector employers who export products/services (n=425)

Investment in human and physical capital

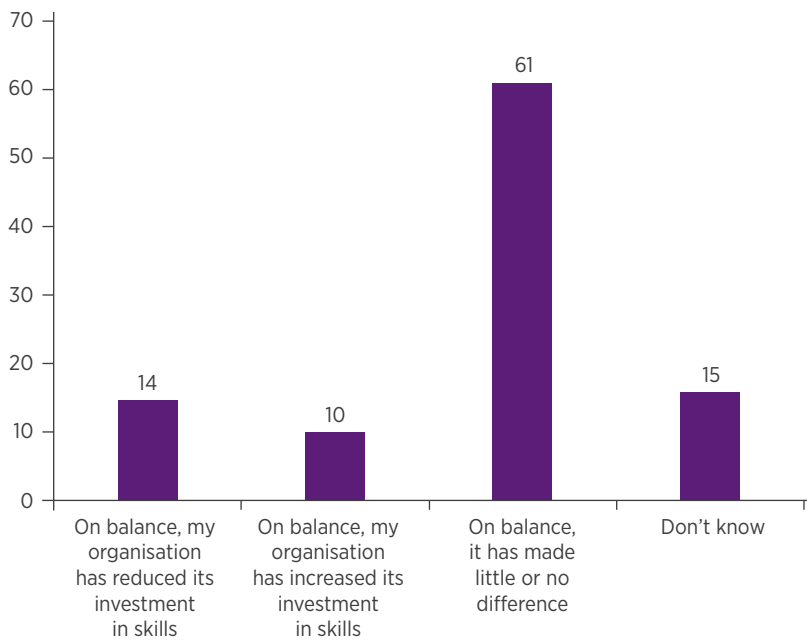
The survey data suggests that the referendum decision has led to a modest drag on investment in skills in the second half of 2016. One in ten (10%) say they have increased investment in skills, compared with

14% who report that they have cut their training investment. Almost two-thirds (61%) say that the decision to leave the EU has made little or no difference to levels of investment.

The survey data also imply that the Brexit decision has led to a modest

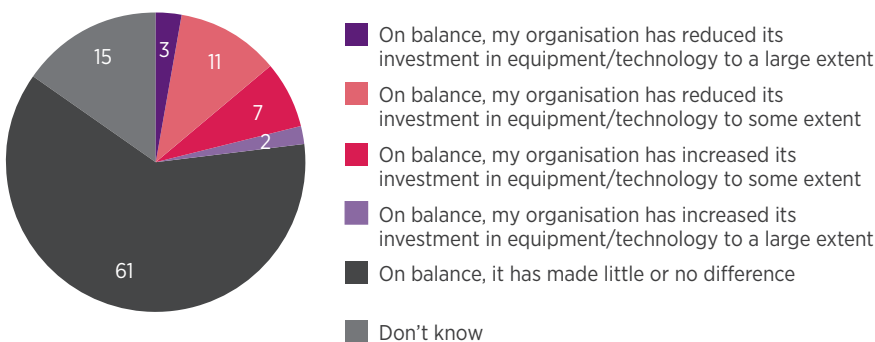
reduction in spend on physical capital, such as capital machinery or technology. Fourteen per cent of employers said that they had cut investment, compared with one in ten (10%) employers who said that they had increased it. Consistent with the predictions made in previous reports, almost two-thirds (61%) of employers said that the vote to leave the EU will make little or no difference to their investment in equipment and technology during the same period.

Figure 16 Employers' investment in skills following the vote to leave the EU (%)



Base: All employers (n=1,048)

Figure 17 Employers' investment in physical capital following the vote to leave the EU (%)



Base: All employers (n=1,047)

Implications for labour supply growth

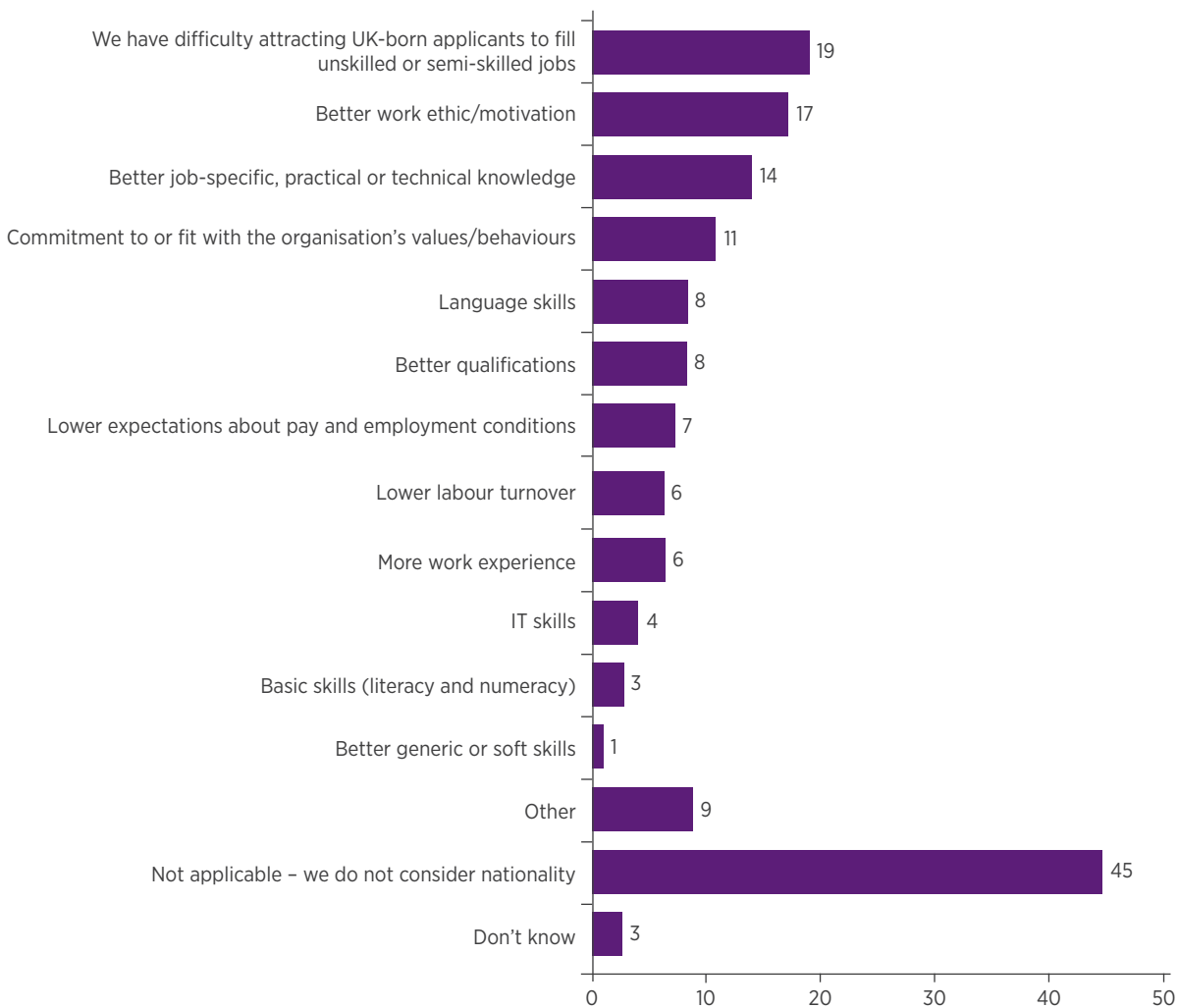
About two-thirds (66%) of those surveyed said they currently employ EU nationals. The proportion is higher among public sector organisations (77%) than in the private sector (62%) and the voluntary sector (68%). The median proportion of EU nationals in the workforce is 10%. However, more than a quarter (27%) of employers that employ EU nationals report that

they do not know how many they employ, which suggests that some organisations could be left with resourcing difficulties in the future.

When asked to identify reasons why they employ EU nationals, almost half (45%) of employers do not consider nationality when making hiring decisions. However, almost a fifth (19%) say that they struggle to attract UK-born applicants to fill unskilled

or semi-skilled jobs, suggesting that labour shortages are driving some employers' decisions to employ EU nationals. Meanwhile, almost a fifth (17%) of employers say that EU nationals have a better work ethic and are more motivated. Only 7% said that they hire EU nationals because of lower expectations about pay and employment conditions.

Figure 18 Reasons for employing EU nationals (%)



Base: All employers of EU nationals in the UK (n=525)

Employer responses to labour shortages

It is perhaps no surprise that around half (49%) of employers report that they are taking action to offset the risk of labour shortages given that vacancies are well above their historical average rates and are concentrated in low-skilled sectors (Table 2) that employ a large number of non-UK nationals from the European Union. Over half

(56%) of the 2.26 million non-UK nationals from the European Union are employed in either wholesale and retail, health and social work, accommodation and food services, construction and manufacturing (Figure 19).

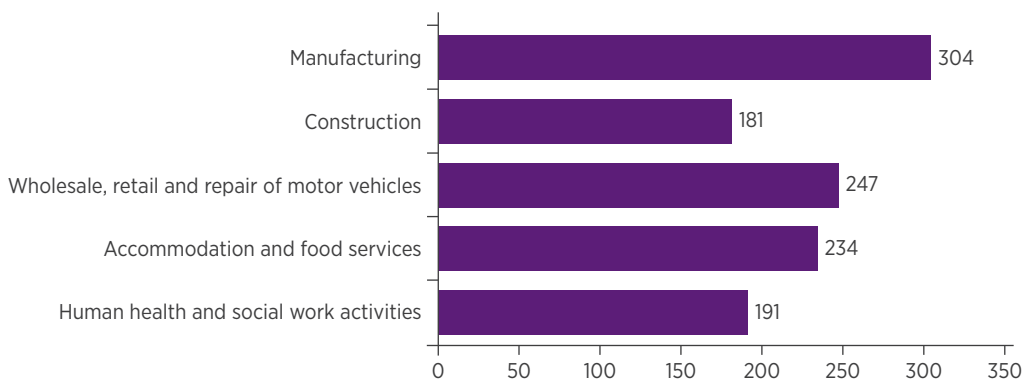
The most common response to labour shortages is to leave the position unfilled, which is perhaps no surprise given the underlying trend

Table 2: Industries with the highest number of vacancies

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

Source: *Labour Force Survey, January 2017* (ONS)

Figure 19 Number of non-UK nationals from the European Union in employment aged 16 years and over, by industry (1,000s)



Source: *Labour Force Survey, November 2017* (ONS)



Around a quarter (23%) say that they are currently investing more in skills alongside around a fifth (21%) who say that they will recruit more apprentices.

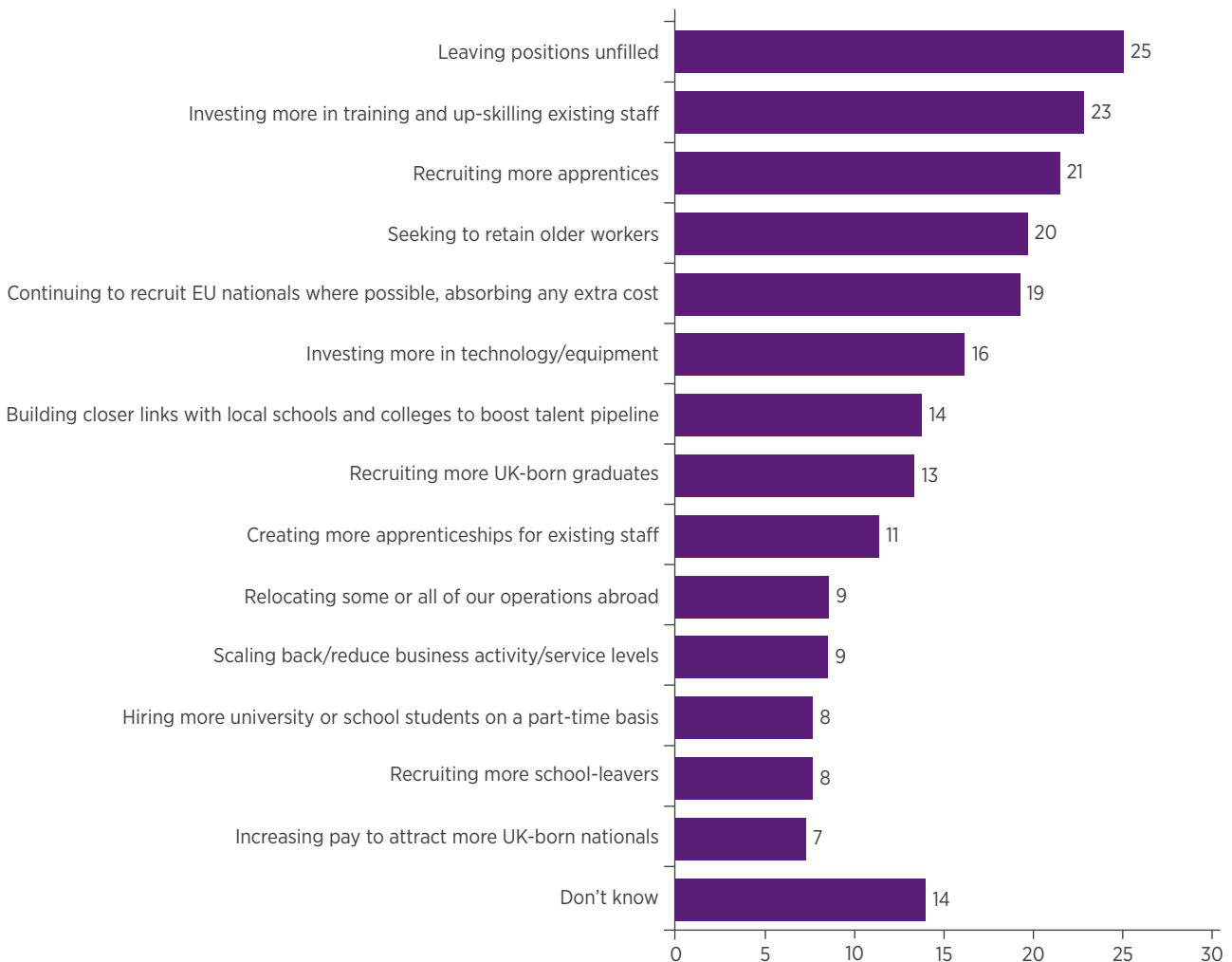
in employment and unemployment, the abrupt slowing in employment growth and the near-record high number of vacancies. In addition, it seems that employers are looking to invest in the skills of their workforce rather than raise pay. Around a quarter (23%) say that they are currently investing more in skills alongside around a fifth (21%) who say that they will recruit more apprentices. By contrast, just 7% of employers say that they are raising

pay to attract more local applicants. Other popular responses include the retention of older workers (20%), continuing to recruit EU migrant workers (19%) and investing more in equipment and technology (16%).

Recruiting and retaining EU nationals

The survey data also suggest that a fall in the supply of EU nationals may heighten recruitment difficulties in the year ahead. Among employers

Figure 20 Employer responses to labour shortages (%)



Base: All employers who indicate that their organisation is undertaking an activity to offset labour shortages (n=494)

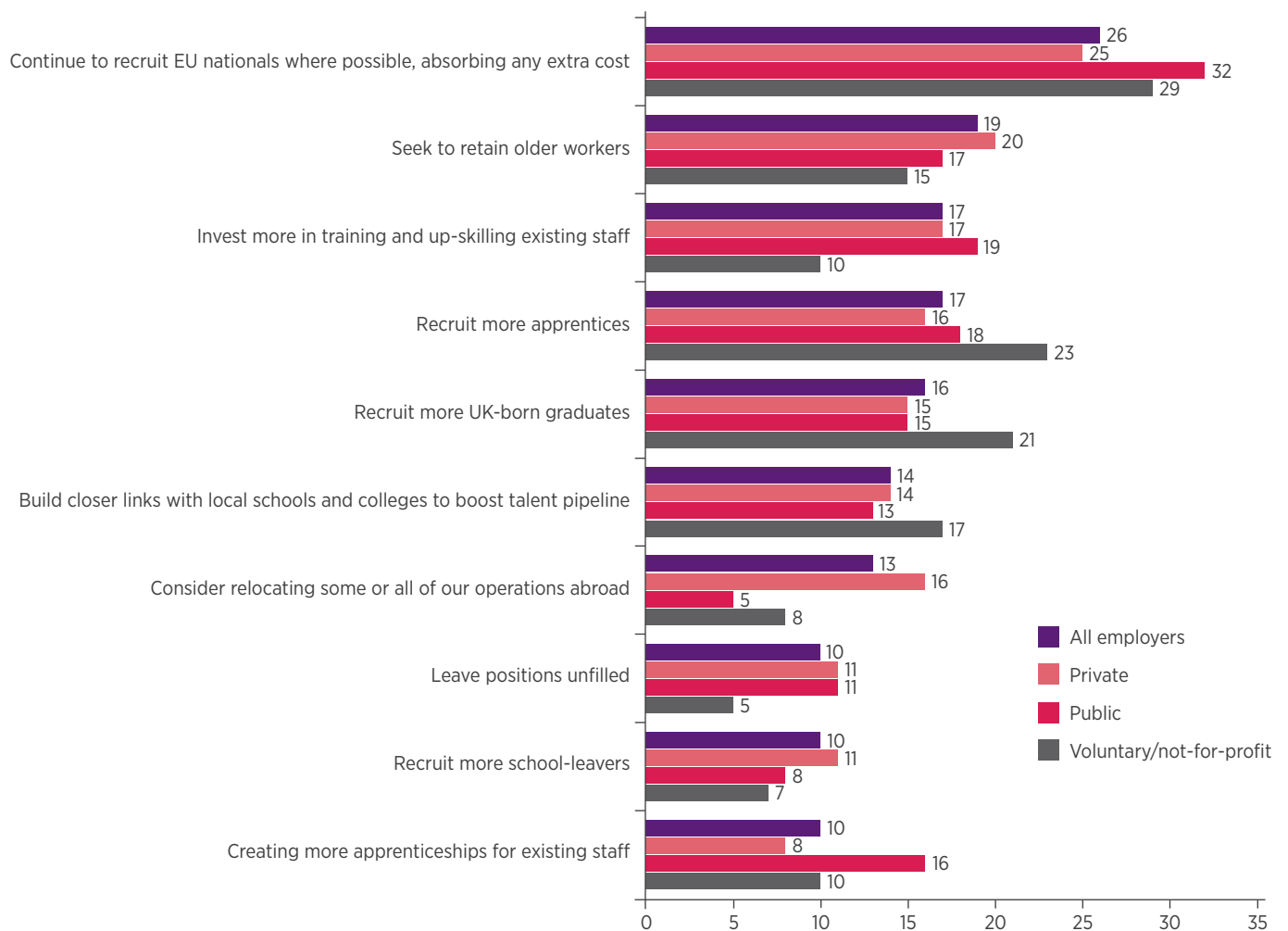
that employ EU nationals, around three in ten (29%) claim that EU nationals were considering leaving the organisation in the second half of 2016. Retention may be a bigger challenge in the public sector, where around four in ten (42%) employers report this, including almost half (49%) of healthcare employers. Looking ahead, a similar proportion report that retention difficulties will continue, with a similar proportion (27%) of employers able

to cite evidence that EU nationals are considering leaving their organisation and/or the UK in 2017.

Faced with the prospect of changes to EU immigration policy, around a quarter (26%) of employers say that they would simply absorb any extra cost from employing EU nationals. The range of potential outcomes also include diverting more effort towards retaining older workers (19%), increasing skills investment (17%)

and hiring more apprentices (17%). This is perhaps no surprise given the forthcoming introduction of the apprenticeship levy in April 2017. Additionally, over one in ten (13%) organisations say that they are likely to relocate some or all their operations abroad.

Figure 21 Employers' anticipated response to migration restrictions (%)



Base: All employers who will be affected by changes to government immigration policy in some way (n=582; private: n=430; public: n=75; voluntary: n=77)

Sample and method

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 1,051 HR professionals and employers between 2 and 23 December 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 on size and sector drawn from the Business Population Estimates for the UK and Regions 2012 (available at: <https://www.gov.uk/government/statistics/business-population-estimates-for-the-uk-and-regions-2012>). The delivered sample is drawn from across all business sizes and in total 747 unweighted responses were received from small and medium enterprises (SMEs) and 304 from HR professionals within large employers (250+ employees).

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

	Winter 2016–17	Autumn 2016	Summer 2016	Spring 2016	Winter 2015–16	Autumn 2015
MANUFACTURING AND PRODUCTION	15	15	15	15	15	15
Agriculture, forestry and fishing	1	1	1	1	1	0
Manufacturing	9	9	9	9	9	9
Construction	4	4	4	4	4	4
Mining and extraction	0	0	0	1	0	0
Energy and water supply	1	1	1	1	1	1
EDUCATION	6	6	6	6	6	6
Primary and secondary schools	3	3	4	4	3	4
Further and higher education	3	4	3	3	3	3
HEALTHCARE	11	11	11	11	11	11
NHS	8	7	7	7	6	7
Other private healthcare	4	5	4	4	5	4
PRIVATE SECTOR SERVICES	52	52	52	52	52	52
Hotels, catering and leisure	8	8	8	8	8	8
IT industry	2	2	2	3	2	3
Transport and storage	4	4	4	4	4	4
Consultancy services	3	2	3	2	2	3
Finance, insurance and real estate	5	5	5	5	5	5
Wholesale and retail trade	3	3	2	2	2	3
Information and communication	1	1	1	1	1	1
Retail	14	14	15	15	14	13
Professional, scientific and technical	3	4	3	4	3	3
Administrative and support service activities and other business services	9	9	9	9	9	9
PUBLIC ADMINISTRATION AND DEFENCE	9	9	9	9	9	9
Public administration – central government	4	4	4	3	4	3
Public administration – local government, including fire services	4	4	4	5	4	5
Armed forces	1	1	1	1	1	1
Quango	0	0	0	0	0	0

Table 4: Breakdown of the sample, by sector (%)

	Winter 2016-17	Autumn 2016	Summer 2016	Spring 2016	Winter 2015-16	Autumn 2015	Summer 2015
Private	73	73	73	73	73	73	73
Public	21	21	21	21	21	21	21
Voluntary	6	6	6	6	6	6	6
N	1,051	1,024	1,050	1,014	1,007	1,037	931

Table 5: Breakdown of the sample, by number of employees in organisation (%)

	Winter 2016-17	Autumn 2016	Summer 2016	Spring 2016	Winter 2015-16	Autumn 2015	Summer 2015
2-9	14	14	14	14	14	14	14
10-49	14	14	14	14	14	14	14
50-99	6	6	6	6	6	6	6
100-249	7	7	7	7	7	7	7
250-499	10	9	8	8	8	9	9
500-999	10	7	8	6	8	8	5
1,000-4,999	15	18	17	16	17	17	16
5,000-9,999	7	6	6	7	9	7	8
10,000-19,999	5	4	6	5	5	5	5
20,000 or more	12	13	14	16	12	14	15
N	1,051	1,024	1,050	1,014	1,007	1,037	931



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