CIPD
Championing better work and working lives

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THE ADECCO GROUP

LABOUR MARKET OUTLOOK

VIEWS FROM EMPLOYERS

Autumn 2018

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 150,000 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.

Report

Labour Market Outlook

Autumn 2018

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1 Foreword from the CIPD

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 fourth quarter of 2018. The survey is based on responses from 1,002 employers.

Labour demand

The employment outlook for Q4 2018 is broadly unchanged relative to expectations three months ago. 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 2018 – has decreased to +22 from +23 over the past three months (Figure 1). However, there is some variation across sectors. More employers expect employment to increase in services (+30) and healthcare (+29) organisations than in manufacturing (+15), public administration (+4) and education (+0).

Labour supply

The strength of labour demand continues to fuel recruitment and retention pressures for more employers compared with previous LMO reports.

The proportion of organisations that currently have vacancies and report recruitment difficulties has increased to around seven in ten (70%) employers, compared with approximately two-thirds (66%) of employers three months ago and around six in ten organisations (61%) six months ago. At the same time, organisations with hard-to-fill vacancies report that on average 43% of their total vacancies are proving hard to fill, compared with two in five (40%) vacancies in the summer 2018 report and around one in three (30%) vacancies in the spring 2018 report.

Meanwhile, retaining staff has become a bigger challenge for a higher share of employers over the past three months. Just over a third of LMO employers (34%) report that it has become more difficult to retain staff at their organisation over the past 12 months compared with just over a quarter (27%) of organisations in the summer 2018 report.

The survey data suggests the UK labour market is coming up against supply constraints. The latest official data show that the number of unemployed people per vacancy has fallen to 1.6 over the past three months alongside a further fall to the unemployment rate (4%) during the same period. This may be partly due to a fall in the number of people who are not UK-born participating in the UK labour market. The number of non-UK-born workers in employment in the UK fell by 58,000 in the 12 months to June 2018 compared with an increase of 263,000 in the 12 months to June 2017. This labour supply shock is largely driven by non-EU-born citizens. The number of non-EU-born workers in employment in the UK fell by 40,000 in the 12 months to June 2018 compared with an increase of 225,000 in the 12 months to June 2017.

The fall in labour supply growth from non-UK-born workers coincides with a very modest fall in the number of 18–24-year-olds in employment over the past year. In addition, the data is showing little sign that the fall in supply of non-UK labour is opening up new sources of domestic supply, which is reflected by the relatively few number of people of working age that are moving from inactivity into employment.

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The rise in recruitment and retention difficulties is likely to weigh on the productivity growth of organisations. Skill and non-skill shortage vacancies lead to higher workloads for other staff in the vast majority of organisations.[1] It also leads to difficulties meeting customer service objectives or a loss of business or orders in over four in ten organisations.

Wages

One of the potential outcomes of the rising recruitment pressures is stronger wage growth. However, while the report points to stronger wage growth for some staff and new hires, the outlook for wage growth remains unchanged for the rest of the workforce.

Median basic pay rise expectations in the 12 months to September 2019 are 2%, unchanged relative to expectations three months ago. However, expectations have risen among public sector employers from 1.5% to 2% during the same period.

Meanwhile, around half of employers that are currently facing recruitment difficulties and who say it has become more difficult to fill vacancies during the past 12 months report that they are raising starting salaries in response, at least for some roles. Meanwhile, a similar share of these organisations say that retention pressures are forcing them to raise wages.

The evidence thus suggests that some workers are benefitting from higher pay as a result of rising recruitment and retention pressures. In addition many workers on low wages have seen pay increases as a result of statutory minimum pay rates rising by more than average earnings. Both factors partly explain why basic pay awards have not risen as much as basic pay growth according to the official statistics over the recent past.[2]

However, it is unclear why the workforce as a whole is not benefitting from more generous basic pay awards given that the UK economy is as close to full employment as it has ever been. Part of the explanation may lie in weak productivity growth, while the survey data in this report also suggests that Brexit uncertainty is acting as a brake on basic pay growth for a small but growing proportion of employers.

Brexit and migration

In terms of the labour market implications of Brexit, the reduction in labour supply looks set to be constrained further by the introduction of migration restrictions on EU citizens, presumably in January 2021. It seems highly likely that the restrictions will affect low-skilled employers particularly hard, especially given the recent Migration Advisory Committee recommendation that there should be no formal low-skilled route for employers.

The survey data in this report suggests that the Youth Mobility Scheme, which has been proposed as a key solution to the recruitment needs for those who recruit lower-skilled workers, will not be sufficient for many employers. This is not surprising given the negative impact the age and time restrictions will have on the supply of EU migrants, especially given the buoyancy of some labour markets across the EU. In addition, CIPD research shows that employers would be anxious about hiring individuals who can stay for a period of up to two years because of the training investment that is often required for the role. The data suggest that the Youth Mobility Scheme needs to be made more flexible, perhaps by removing age restrictions and/or increasing the period they can stay by at least a year.

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[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/746493/ESS_2017_UK_Report_Controlled_v06.00.pdf

[2] http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/latest

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By comparison, it seems that employers support the Migration Advisory Committee's recommendation for the same immigration system to apply to both EU and non-EU citizens. This may be due in part to the series of recommendations the MAC has proposed that will make it easier to recruit non-EU migrants, such as lowering the skill threshold to include medium-skilled occupations. Another is the desire to see a simple system that includes just one set of immigration rules.

In the immediate term, the concern for the Government will be the relatively low proportion of employers that are aware of the EU Settlement Scheme, which effectively gives EU citizens the same rights and conditions as they currently enjoy under free movement.

Conclusion

Taking all the evidence together, the survey data point to continued recruitment and retention pressures, which will boost the earnings growth for some workers. However, weak productivity growth and continuing uncertainty over Brexit is likely to restrict the earnings growth for other workers in the coming months.

It is good news for workers and jobseekers that the labour market is operating at or close to full capacity. However, the downside is that rising skill and labour shortages will lead to higher workloads for some workers.

Employers and line managers therefore need to be challenged and encouraged to adopt more sophisticated HR and management practices such as high-performance working (HPW). It is curious that training, a key element of HPW, has not increased in response to a higher incidence of skill and non-skill shortage vacancies in recent years. Evidence from the *National employer skills survey 2017*[3] shows that fewer than one in ten (9%) employers can be regarded as HPW employers, which has negative implications for productivity growth and skills shortages.

One of the ways in which the Government can help to address this is to increase skills investment and seek to improve how skills are used at work through the National Productivity Investment Fund (NPIF) and the local implementation of the Government's industrial strategy. In particular, there is a need for better-quality local business support for small firms that focuses on improving people management capability to support improvements in job quality, investment in skills and workplace productivity.

Gerwyn Davies, Senior Labour Market Adviser, CIPD

[3] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/746493/ESS_2017_UK_Report_Controlled_v06.00.pdf

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2 Foreword from the Adecco Group UK and Ireland

Brexit continues to edge ever closer, but it does not seem to be dissuading Britain's labour market. Economic uncertainty usually causes employers to be more circumspect with their hiring decisions, and more cautious about investing in their workforce. There are only a few months before the UK is due to leave the European Union, but employers are still demonstrating high recruitment intentions.

In the history of the *Labour Market Outlook* (LMO) report, the only two editions with higher hiring intentions were the two immediately preceding this report.

Within this picture though is the fact that an increasing number of organisations are reporting both hiring and retention issues. The LMO showed that employers were struggling to fill roles back in the autumn 2017 report, so this would probably be an issue regardless of Britain's decision to exit the European Union, but a reduction in the flow of migrants has almost certainly exacerbated the situation.

Nearly three-quarters of employers who have vacancies say that some are challenging to fill. Where employers do have these tough roles, they account for more than two in every five on average. Sectors such as healthcare and manufacturing are often hardest hit, but the challenge is not really industry-specific, rather related to the kind of talent employers are trying to recruit.

Many IT occupations are hard to attract candidates to; in fact, this applies to any job role with a base of science, technology, engineering and maths (STEM) – this is simply because the UK does not have enough talent in these areas. Research by the Social Market Foundation (November 2016) found that the UK will face a shortfall of nearly half a million candidates with these skillsets by 2023. Candidates in these job roles will therefore be in an extremely strong position in the hiring market.

Employers have been slow to respond to the challenges presented in the current marketplace. This edition of the LMO has reported stronger wage growth for some staff and also for new hires. Nearly half of those who have faced recruitment challenges have responded by increasing salaries. Although overall wages are not increasing substantially, there is certainly a disconnect between what employers expect to pay and what candidates expect to earn in many parts of the market.

Anecdotal evidence from recruitment professionals at the Adecco Group shows that employers are routinely naive about the market when they start to make recruitment decisions. The Group frequently provides advice to potential employers on the current state of the market, helping clients realign their expectations.

Recent analysis of ONS data by the Resolution Foundation found that candidates moving roles can expect a pay premium of more than 10%, far above the 2% median expected by LMO respondents. Certain areas of the private sector are responding to market forces now – 30% are expecting wage growth of 3% or more at the next pay award, and the most common reason for this is the movement in market rates.

Many employers still believe they are in the stronger position, and can afford to take their time and cherry-pick the best talent. These employers have often struggled to then attract their desired talent, unless they are prepared to be flexible.

While wages are an important factor, it should also be noted that there are many other options that can be considered. Employers need to look to the entire employment package, and how they can use it to attract top candidates.

For in-demand candidates, a marginal increase in salary is often not the driving force behind wanting to move roles. Other factors, such as the opportunity for training or a more flexible working package, can also be strong motivators. Those employers with a straightforward hiring process will also fare better – candidates are less likely to accept long-running processes with multiple stages and a lack of feedback. As candidates have more opportunities, organisations need to be ready to make decisions on talent as it becomes available.

If this cannot be done, organisations can look to be flexible on their requirements. The Adecco Group's own research shows that employers are more likely to rate a candidate's future potential on attitude (91%) rather than qualifications (35%) (Adecco Group UK&I, *Unlocking Britain's Potential*).

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

3 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 fourth quarter of 2018. This latest report suggests that employment confidence has remained broadly consistent with the previous quarter, but has fallen modestly over the past six months.

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 – has shifted from +23 to +22 over the past three months (Figure 1).

The main difference between our 'headline' measure of employment growth derived from the LMO and that published by the ONS is that the LMO estimate is forward-looking, reflecting employers' estimates of what their employment levels will be in the three months to December 2018. Meanwhile, the ONS estimate taken from the Labour Force Survey is backward-looking, and assesses the quarterly change in the number of people in work. The latest quarterly period, as set out in Figure 1, is June to August 2018.

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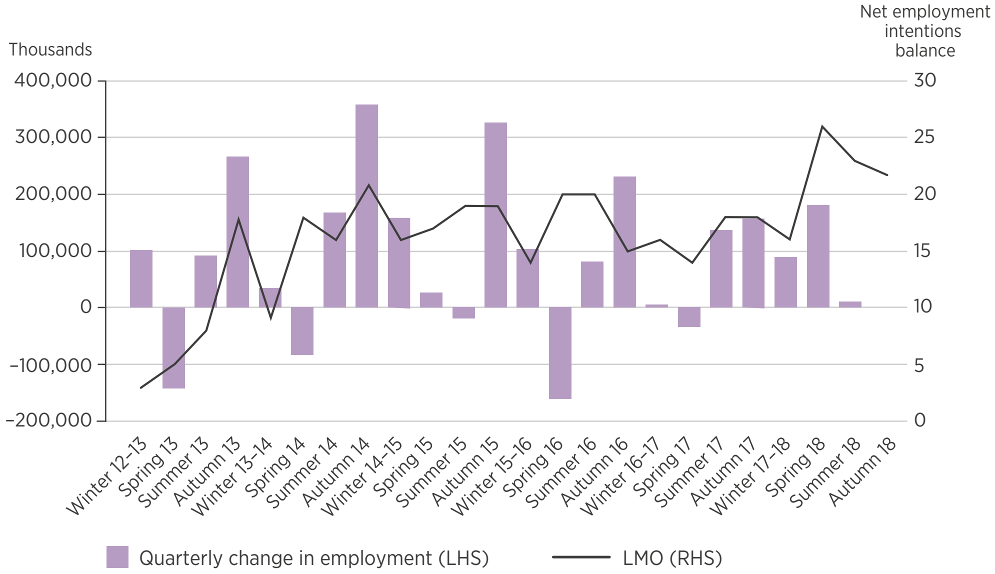
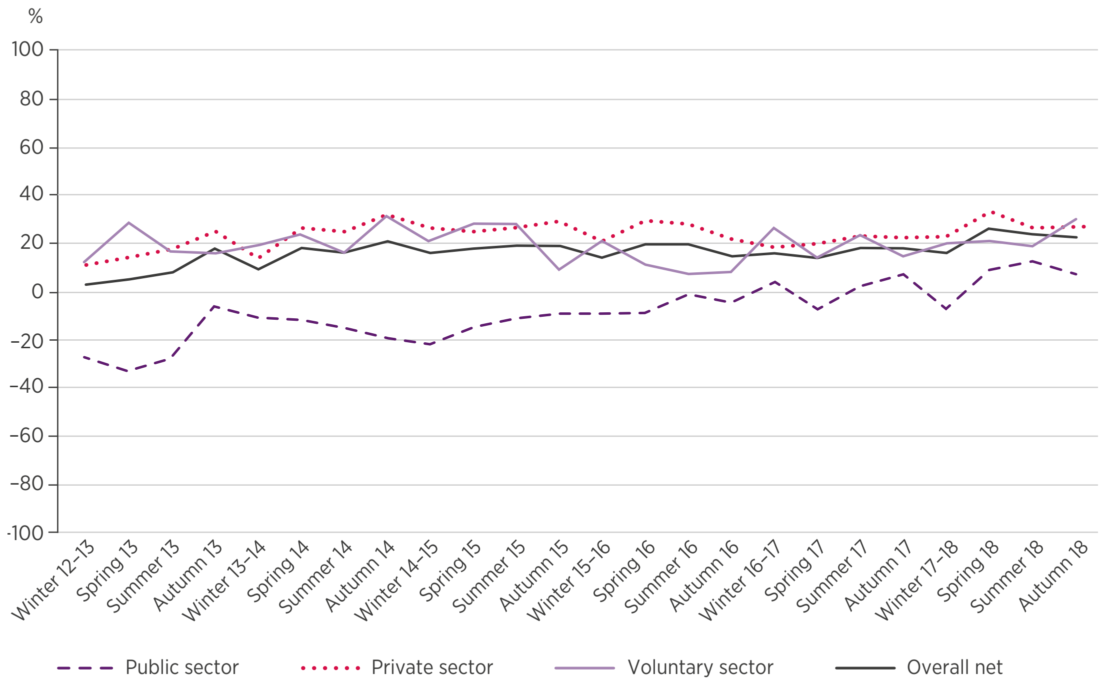
Figure 1: Relationship between official employment data (ONS) and LMO forecast (CIPD)



Base: autumn 2018, all employers (n=1,002)

Figure 2: Overall effect of recruiting new staff and/or making redundancies next three months, by business sector (%)



Base: autumn 2018, all employers (total n=1,002; private n=647; public n=296; voluntary n=59)

Consistent with the summer 2018 report, employment confidence remains high among services firms (+30) and continues to strengthen among healthcare employers compared with the previous report (up to +29 from +19). In contrast, employment growth prospects have fallen to +15 from +23 in manufacturing and to +4 from +16 in public administration and defence during the same period. In addition, the survey data point to sluggish employment growth among education employers (+0).

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Table 1: Net employment intentions for the next three months, by sector

Sector	Autumn 18	Summer 18	% point change
Public administration and defence (n=103)	+4	+16	–12
Healthcare (n=87)	+29	+19	+10
Education (n=174)	0	+7	–7
Private sector services (n=437)	+30	+27	+3
Manufacturing (n=81)	+15	+23	-8

Base: autumn 2018, all employers (n=1,002)

What are the recruitment intentions for the forthcoming quarter?

Recruitment intentions among LMO employers remain broadly consistent with previous reports. Overall, seven in ten (71%) organisations state that their organisation is planning to recruit employees in the three months to December 2018, including eight in ten (80%) public sector employers. Meanwhile, around two-thirds (67%) of private sector firms and three-quarters (78%) of voluntary sector employers plan to hire during the same period. In terms of sub-sectors, recruitment intentions have strengthened in healthcare since the previous report, rising from 77% to 89%.

What is the outlook for redundancies in the fourth quarter of 2018?

The proportion of LMO employers expecting to make redundancies in Q4 2018 remains very low, which is fairly consistent with previous reports. Overall, almost a fifth of organisations (18%) are planning to make redundancies in the next three months, compared with a fifth (20%) of employers in the summer 2018 report. That is also consistent with official data, which shows that the number of redundancies in the UK is extremely low by historical standards.[4] Consistent with the brighter outlook in the public sector, the proportion of public sector organisations planning to make redundancies in the next quarter has fallen to 18% from 25% during the past three months. Compared with the previous report, the proportion of private sector firms (19%) planning job cuts remains unchanged, while the share of voluntary sector employers has fallen modestly to just over one in ten (11%) employers from just over one in five employers (21%) in the summer report.

4 Job vacancies

How prevalent are hard-to-fill vacancies?

Against the backdrop of buoyant demand for labour, it is no surprise that the proportion of organisations reporting recruitment difficulties continues to increase (Figure 3). Among employers who currently have vacancies in their organisation, seven in ten (70%) report that at least some of these vacancies are proving hard to fill, higher than in the summer 2018 (66%), spring 2018 (61%) and spring 2017 (56%) reports.

When looking at the overall population of employers, including those who have not reported any current vacancies, across the sub-sectors, the incidence of hard-to-fill vacancies is highest among healthcare (53%) and public administration and defence (51%) (Figure 4), in contrast to private services, where the share was 37%.

[4] www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/latest

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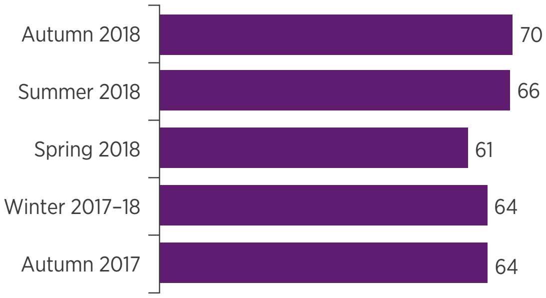
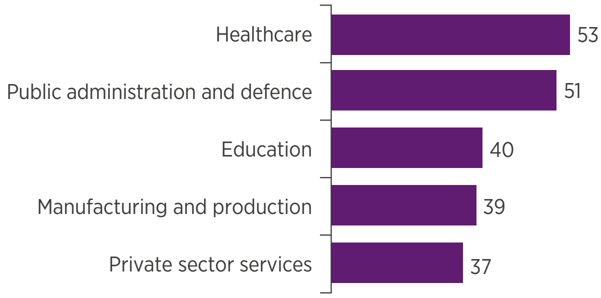
Figure 3: Proportion of organisations with current vacancies who have hard-to-fill vacancies (%)



Base: autumn 2018, all employers who currently have vacancies (n=582)

Figure 4: Proportion of all organisations who have hard-to-fill vacancies, by sector (%)



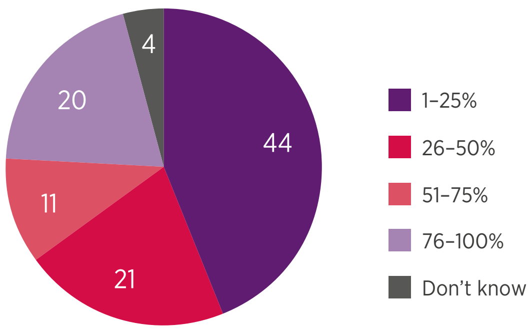
Base: autumn 2018, all employers [healthcare (n=87); public administration and defence (n=103); education (n=174); manufacturing and production (n=142); private sector services (n=437)]

What is the density of hard-to-fill vacancies among those organisations that have hard-to-fill vacancies?

On average, organisations with hard-to-fill vacancies report that over two in five (43%) of their total vacancies are proving hard to fill, which is higher than in the summer 2018 (40%) and spring 2018 (30%) reports. The density of recruitment difficulties is also higher in the private sector (45%) than in the public sector (34%). This implies that while fewer organisations in the private sector have hard-to-fill vacancies, those that do have issues experience them more intensively than the public sector.

Although the share of employers with fewer than 250 employees are less likely than large organisations to report recruitment difficulties, the density of hard-to-fill vacancies is much higher among small and medium-sized organisations. On average, small and medium-sized organisations that report recruitment difficulties say that almost two-thirds (62%) of their vacancies are hard to fill compared with just over a third (35%) among large organisations.

Figure 5: Proportion of total vacancies proving hard to fill among employers with hard-to-fill vacancies (%)



Base: autumn 2018, all employers who have hard-to-fill vacancies (n=403)

How are recruitment pressures changing?

Over two in five of all LMO employers (44%) report that it has become more difficult to fill vacancies at their organisation during the past 12 months. Meanwhile, almost half (48%) of establishments say there has not been any change, and just 4% report that it has become less difficult. The share of employers reporting rising recruitment pressures is higher in the public sector (56%) than in the private sector (41%).

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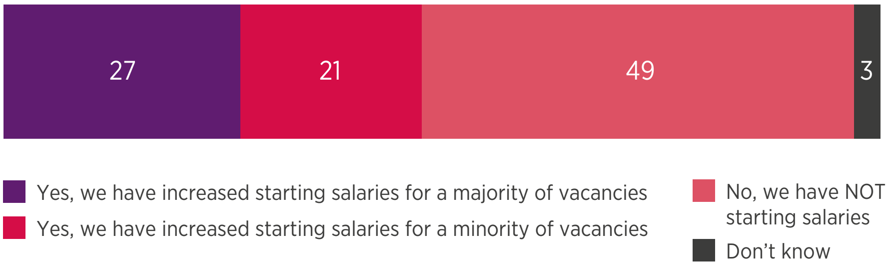
In response, around half of organisations (48%) that have experienced increased difficulty filling vacancies during the past 12 months report that they have increased starting salaries. Just over a quarter (27%) have done so for a majority of vacancies, and just over a fifth (21%) for a minority of vacancies. Looking at the broader sectors, organisations in the private sector (56%) are much more likely to have increased starting salaries than those in the public sector (29%).

Figure 6: Changes in starting salaries as a result of increased difficulty filling vacancies during the past 12 months (%)



Base: autumn 2018, all employers who report it has become more difficult to fill vacancies during the past 12 months (n=435)

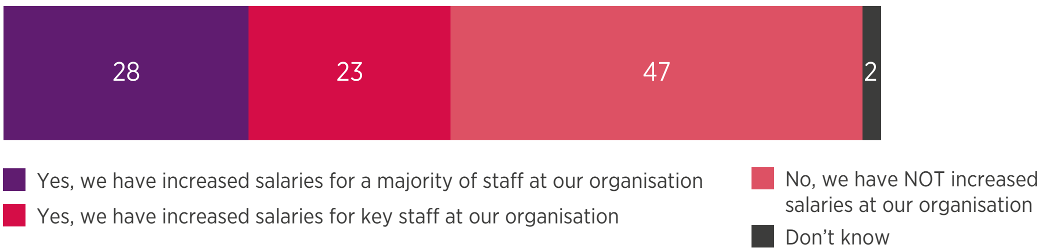
How are retention pressures changing?

In addition, just over a third of LMO employers (34%) report that it has become more difficult to retain staff at their organisation over the past 12 months compared with just over a quarter (27%) of organisations in the previous report. Just over one in twenty (7%) establishments say it has become less difficult, while the majority (56%) say there has been no change.

Among organisations that have experienced increased difficulty retaining staff over the past 12 months, one in two (51%) have increased salaries in some capacity. Just over a quarter (28%) have increased salaries for a majority of staff, while 23% have done so for their key staff.

Consistent with changes to starting salaries, employers in the private sector (59%) are much more likely than those in the public sector (32%) to have increased salaries for existing staff in response to heightened recruitment pressures.

Figure 7: Changes in salaries as a result of increased difficulty retaining staff during the past 12 months (%)



Base: autumn 2018, all employers who report it has become more difficult to retain staff during the past 12 months (n=334)

5 Pay outlook

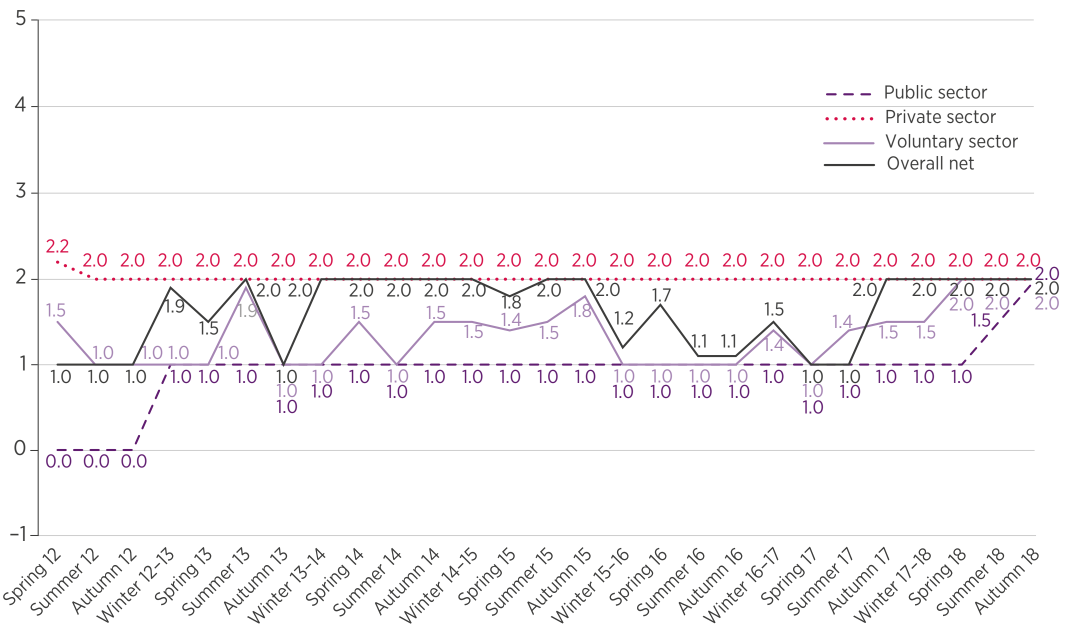
What is likely to happen to wage inflation in the next 12 months?

Despite the upward pressure reported by employers in terms of starting salaries and improving pay for at least some staff, an acceleration in pay rates won't be experienced by all workers. Employers' median average basic pay award expectations in the 12 months to September 2019 are unchanged at 2% for the fifth successive quarter, including in manufacturing and production (2%) and services (2%). However, basic pay award expectations have risen to 2% from 1.5% in the public sector compared with three months ago – perhaps a consequence of the lifting of the public sector pay cap in large parts of the public sector.

These results are also consistent with the backward-looking data in this report, which indicates that the median basic pay award among employers that have conducted a pay review to date in 2018 is also 2%.

Additionally, the report's *mean* average basic pay expectations indicator (the report's less preferred measure) shows that basic pay expectations have fallen to 2% compared with 2.2% over the past three months.

Figure 8: Average predicted annual *basic* pay awards (median), by business sector



Base: autumn 2018, all employers who report an expected increase, decrease or pay freeze in the next 12 months (total n=501; private n=289; public n=179; voluntary n=33)

The main difference between our 'headline' measure of earnings growth derived from the LMO and that published by the ONS is that the LMO estimate is forward-looking, reflecting employers' estimates of what their next basic pay award change will be. Meanwhile, the ONS estimate is backward-looking, reflecting employers' estimates of how much they had paid to employees in wages and salaries, including non-basic pay elements such as overtime. The ONS measure is also sensitive to changes in total hours worked and in the composition of the workforce.

Figure 9: Relationship between LMO data and the ONS estimate of growth in average weekly earnings (AWE) (%)

Sources: Monthly Wages and Salaries Survey, Office for National Statistics; *Labour Market Outlook* Survey, CIPD and the Adecco Group

In practice, the LMO estimate of future wage growth has tended to be a good guide to the actual increase in earnings as measured by the ONS (see Figure 9).

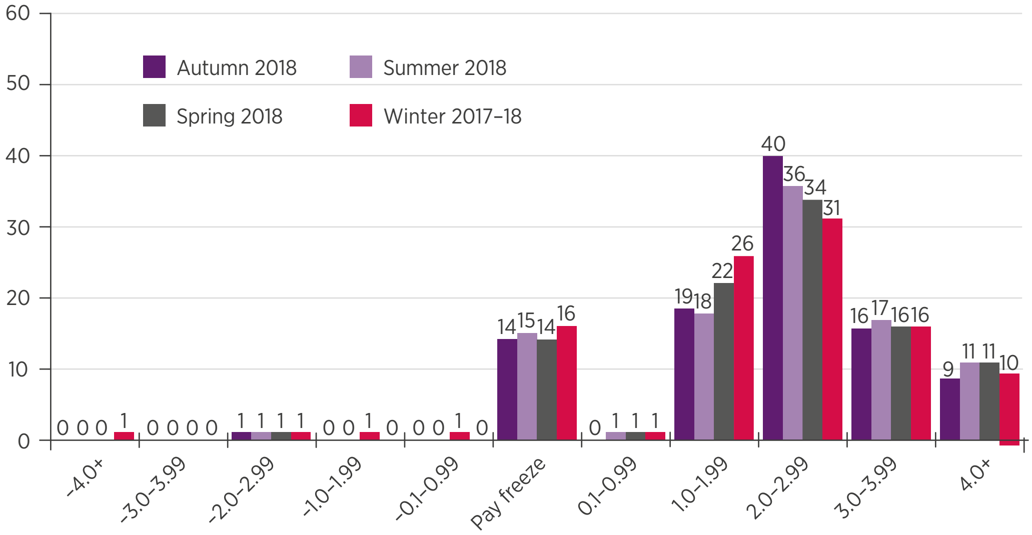
Looking ahead, around half (49%) of the LMO employers that are planning to make a pay decision in the next 12 months expect basic pay to increase at their organisation compared with around four in ten (44%) employers three months ago. One in ten (8%) intend to freeze pay, which is unchanged relative to expectations three months ago.

Some care should be taken not to over-extrapolate from the survey data given that more than four in ten (41%) employers report that it is too hard to tell how pay will change in the next 12 months.

Looking at the distribution of pay awards, there has been a modest increase in the proportion of LMO employers who anticipate a basic pay increase of between 2% and 2.99% in the 12 months to September 2019. Four in ten (40%) employers expect a basic pay award of between 2% and 2.99% over the next 12 months, compared with just over a third (36%) three months ago. This has been driven by the higher share of public sector employers who report this, which has increased from a fifth (20%) in the winter report to over two-fifths (45%) in this report.

Meanwhile, around a fifth (19%) of employers plan to give a basic pay increase of between 1% and 1.99% in the 12 months to September 2019 among those employers that can specify what their basic pay expectations are. Additionally, around one in six (16%) employers expect basic pay to increase by between 3% and 3.99%, while around one in ten (9%) employers anticipate basic pay to increase by 4% or more during the same period.

Figure 10: Distribution of forward-looking basic pay settlements (%)



Base: autumn 2018, all employers who report an expected increase, decrease or pay freeze in the next 12 months (total n=501; private n=289; public n=179; voluntary n=33)

What are the key factors behind employers' basic pay decisions?

LMO employers report that inflation (48%) and the going rate of pay elsewhere (41%) are the key factors behind their decision to match or better the Bank of England's inflation rate target of 2% in their basic pay award. However, the share of organisations who cite recruitment and retention pressures has increased to over one in three (34%) employers from just over a quarter (26%) three months ago. In addition, just under a fifth (18%) of LMO employers cite other cost increases, such as increases in the National Living Wage (Figure 11).

Figure 11: Top causes for increase in average basic pay by 2% or more (%)

Base: autumn 2018, all employers who expect their organisation's basic pay will increase by 2% or more (n=320)

Among LMO employers who predict that average basic pay will increase at their organisation by *less* than 2%, or not increase at all, affordability has emerged as the most significant reason. Almost half of organisations cite this is a brake on basic pay growth (47%) compared with just over a third (35%) of employers three months ago. Meanwhile, the share of employers that cite public sector restraint has decreased marginally to just over a third (34%) from just under four in ten (37%) employers three months ago. Just under three in ten (28%) LMO employers who predict that pay will increase by less than 2% report that the current levels of uncertainty about future access to the EU market will weigh on basic pay growth compared with around one in five (19%) employers in the summer 2018 report.

Figure 12: Top factors restricting organisations' ability to match the inflation rate target of 2% (%)

Base: autumn 2018, all employers who expect their organisation's basic pay will increase by less than 2%, be frozen, or decrease (n=182)

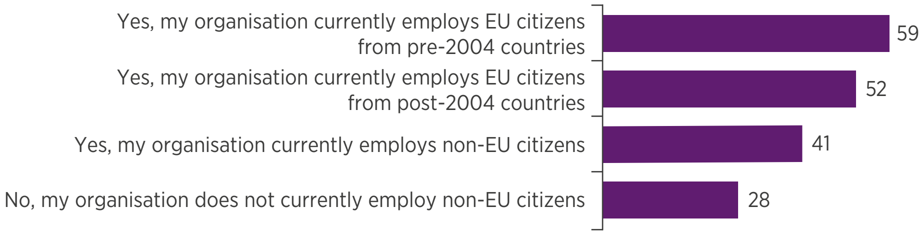
6 Migration and Brexit outlook

Employment of EU and non-EU nationals

Overall, more than seven in ten (72%) organisations currently employ at least one member of staff from an EU or non-EU country. The survey data suggest that almost six in ten (59%) employers employ EU citizens from pre-2004 countries, such as France and Germany, compared with just over half (52%) of employers that employ EU citizens from post-2004 countries, such as Poland and Lithuania. Around four in ten (41%) employers employ non-EU citizens.

The share of organisations that employ EU citizens is especially high in the public sector. Around two-thirds (64%) of public sector organisations employ non-UK nationals from pre-2004 countries compared with a similar proportion (62%) that employ them from post-2004 countries. By comparison, around half (49%) of private sector organisations employ EU citizens from post-2004 countries and around six in ten (58%) firms employ EU citizens from pre-2004 countries. In addition, around half (51%) of public sector establishments employ non-EU citizens, compared with just under four in ten (38%) private sector firms. This is because public sector organisations are, on average, larger, and large organisations are more likely to employ migrants than small organisations.

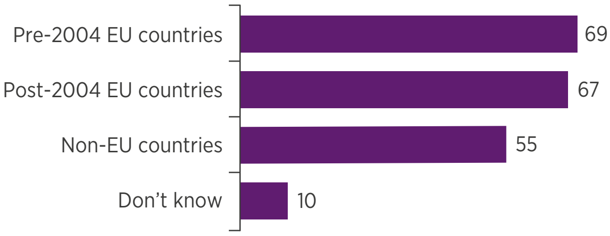
Figure 13: Share of organisations that employ non-UK citizens (%)



Base: autumn 2018, all employers (n=1,002)

More than two-thirds (69%) of employers who plan to recruit non-UK citizens in the next three months say they will hire EU citizens from pre-2004 countries and a similar proportion (67%) say that they will hire from post-2004 countries. By comparison, just over half (55%) of these establishments say that they will recruit non-EU citizens.

Figure 14: Proportion of employers planning to hire non-UK citizens (%)



Base: autumn 2018, all employers planning to recruit non-UK citizens (n=239)

Impact of the EU referendum decision on EU citizens

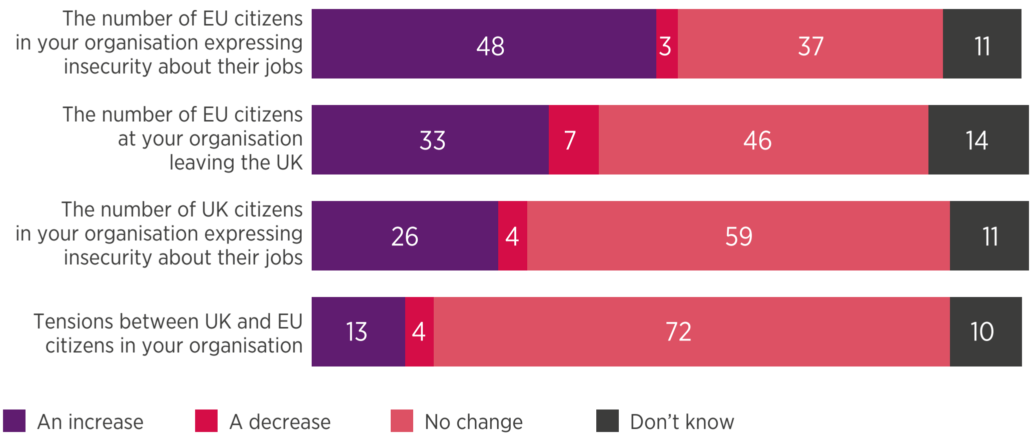
The survey data also shows that around a third (33%) of employers that employ EU citizens believe that the UK's decision to leave the European Union has led to an increase in the number of EU citizens at their organisation leaving the UK. At the same time, a much smaller proportion (7%) of employers report that the decision to leave the European Union is having the opposite effect. Almost half (46%) of organisations say that it has made no difference.

A significant proportion of employers that employ EU citizens (48%) believe that Brexit has led to an increase in the number of EU citizens expressing job insecurity compared with just under four in ten (37%) employers who believe that it has made little difference. Employer perceptions that job insecurity has increased among EU citizens are higher in the public sector (58%) than in the private sector (45%).

In addition, perhaps reflecting the political uncertainty that has surrounded the negotiation process between the UK and the EU, a significant minority of employers that employ EU citizens say that Brexit has also led to UK citizens expressing higher levels of job insecurity. Over a quarter of employers (26%) believe that there has been an increase in the number of UK citizens who are concerned about their jobs as a result of Brexit.

The one area where we found relatively little impact relates to any perceived tensions between UK and EU workers. Just over one in ten (13%) employers that employ EU citizens report that the UK's decision to leave the EU has increased tension between the groups, compared with almost three-quarters (72%) of employers who say that it has made no difference.

Figure 15: Impact of Brexit on job security and employee relations (%)



Base: autumn 2018, all employers who employ EU citizens (n=636)

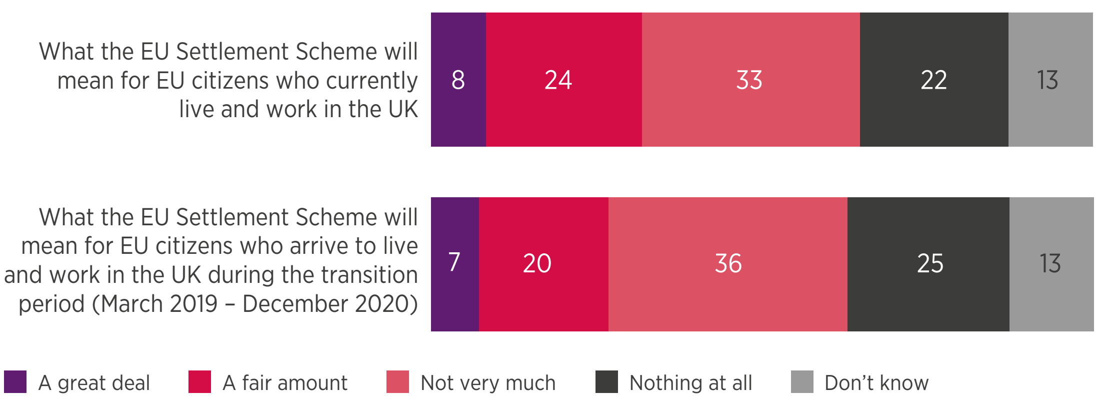
Awareness of the EU Settlement Scheme

Perceptions that job insecurity has increased according to some employers may be partly explained by the relatively low levels of awareness among employers about the Government's EU Settlement Scheme. The EU Settlement Scheme allows all EU citizens to remain in the UK with the same rights as they currently enjoy under free movement, provided that they obtain a 'settled status' or 'pre-settled status' document.

A majority of employers (55%) say that they either know very little or nothing at all about what the new compulsory scheme will mean for EU citizens. By comparison, almost a quarter (24%) of employers say that they know a fair amount about this while fewer than one in ten (8%) say that they know a great deal about it.

Additionally, more than six in ten (61%) employers say they don't know anything or very much about what the EU Settlement Scheme means for those EU citizens that arrive during the transitional period, which at the time of writing is March 2019 – December 2020.

Figure 16: Employer awareness of the EU Settlement Scheme (%)



Base: autumn 2018, all employers (n=1,002)

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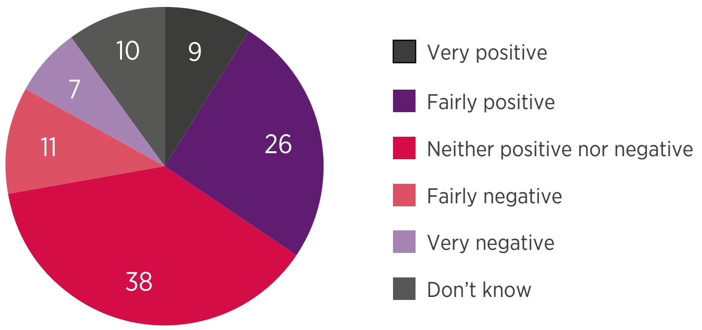
We also asked employers what impact the EU Settlement Scheme might have on their ability to recruit and retain EU citizens once a detailed explanation of what the scheme includes was given. On balance, employers believe that the EU Settlement Scheme will improve their ability to recruit and retain EU citizens, which underlines the importance of raising awareness of the scheme among employers and EU citizens. More than a third (35%) report that it would be either positive or fairly positive, compared with just under one in five employers (18%) who say that it would have a fairly or very negative impact. Around four in ten (38%) employers believe that it would make no difference.

Figure 17: Employer perceptions of potential impact of EU Settlement Scheme on recruitment and retention of EU citizens (%)



Base: autumn 2018, all employers (n=1,002)

Since the previous LMO report was published, the Migration Advisory Committee (MAC) has published its recommendations on what a post-Brexit immigration system should look like from 2021.[5] The MAC has recommended that there should be no formal low-skilled route for EU or non-EU citizens, arguing that a Youth Mobility Scheme (YMS) for EU citizens and the family migration route would provide sufficient labour supply from 2021. The current YMS scheme allows citizens aged between 18 and 30 from countries such as Australia, New Zealand and a few other countries to live and work in the UK for a period of up to two years at any skill level without employer sponsorship.

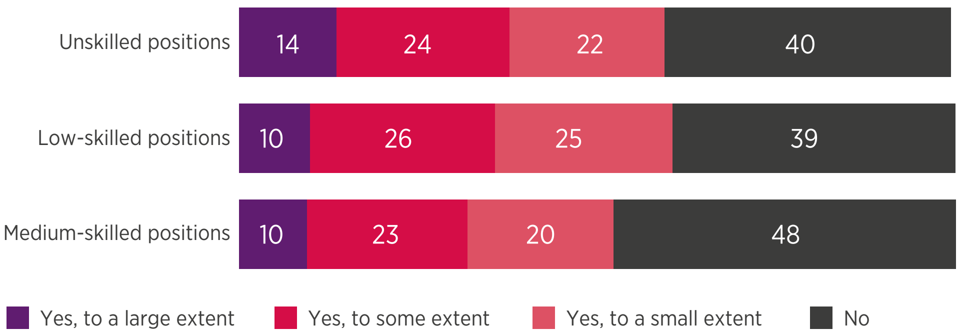
However, when the scheme was explained to employers that currently employ EU citizens, a significant minority of employers said that the scheme would be insufficient to meet their recruitment needs across low- and medium-skill levels. Around one in ten (10%) employers that currently employ EU citizens say that the YMS would meet labour demand for medium-skilled positions to a large extent compared with around half (48%) of employers who say categorically that it would not meet demand. In addition, around one in five (20%) organisations say that it would only meet their needs to a small extent and a similar proportion (23%) report that it would meet demand to some extent.

Employer perceptions of the scheme's potential impact on low-skilled employment is broadly similar. Only one in ten (10%) employers that currently employ EU citizens say that the YMS would meet their recruitment needs for low-skilled roles to a large extent compared with around four in ten (39%) employers who report categorically that it would not meet demand. In addition, around one in four (25%) organisations say that it would meet their needs only to a small extent and a similar proportion (26%) report that it would meet demand to some extent.

[5] www.gov.uk/government/publications/migration-advisory-committee-mac-report-eea-migration

In terms of the impact on unskilled roles such as cleaners and fruit pickers, employers seem equally concerned. Around one in seven (14%) employers say that the YMS would meet their recruitment needs for unskilled roles to a large extent compared with four in ten (40%) employers who report categorically that it would not meet demand. In addition, around one in five (22%) organisations say that it would meet their needs only to a small extent and a similar proportion (24%) report that it would meet demand to some extent.

Figure 18: Ability of Youth Mobility Scheme to meet recruitment needs (%)



Base: autumn 2018, all employers excluding those who selected 'don't know' (unskilled n=684; low-skilled n=694; medium-skilled n=698)

The MAC also recommended that the same immigration system should apply to both EU and non-EU citizens. Almost two-thirds (61%) of employers agree with this approach. However, almost a quarter (24%) of establishments believe that preferential treatment should be given to EU citizens, compared with just 3% who say that preference should be given to non-EU citizens.

The survey also asked employers who employ non-EU citizens about their experience of using the current points-based system; the results point to a wide range of concerns. Around a third (33%) of employers that say that the administrative burden of the Points Based System is too great, a concern that was also highlighted by the Migration Advisory Committee in its report. For instance, the MAC suggested a review of the Resident Labour Market Test (RLMT), which currently requires employers to advertise posts before they can recruit a non-EU worker.

It seems a significant minority (26%) of employers who say that the salary threshold is too high will be disappointed by the MAC's recommendation that the current salary threshold of £30,000 should not be raised beyond its current level. Around one in seven (15%) employers regard the skill threshold for recruiting non-EU citizens (NQF Level 6, which is equivalent to a graduate role) as a key concern.

In addition, around a fifth (20%) of employers say that the cost of existing procedures is too high. These costs currently include visas, an Immigration Skills Surcharge for every non-EU national they employ and an Immigration Health Surcharge.

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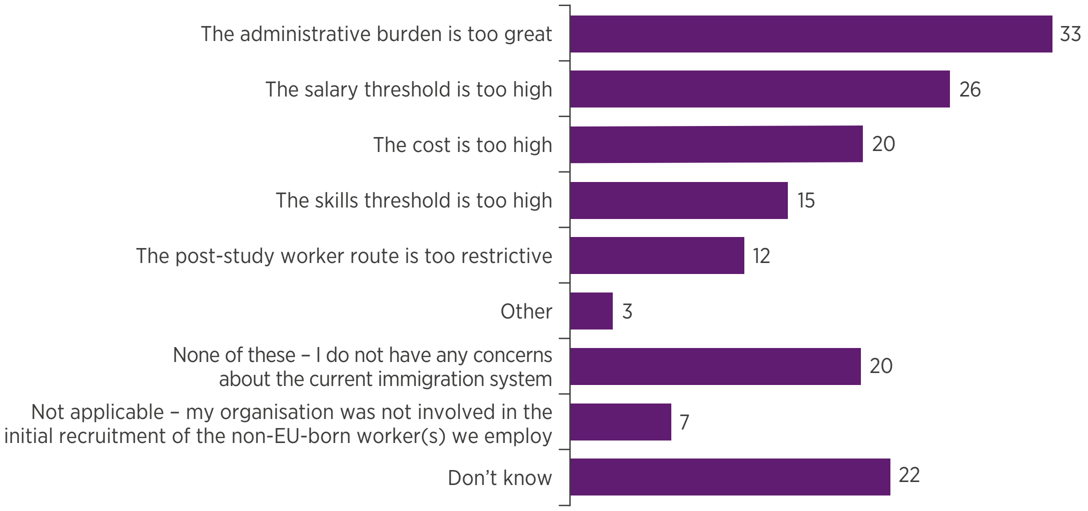
Figure 19: Employers' main concerns about the current points-based system (%)



Base: autumn 2018, all employers who employ non-EU citizens (n=384)

Preparing for a no-deal scenario

We also asked employers whether their organisation had a contingency plan in place for the possibility that no Brexit agreement is reached. Just under a fifth (19%) of employers have a plan in place and around a quarter (24%) of organisations plan to develop one over the coming months. However, almost four in ten (37%) organisations say that they either don't have one or don't plan to put one in place. Additionally, one in five (20%) employers say that they don't know whether they will put a contingency plan in place by March 2019.

7 Survey method

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

The survey is based on responses from 1,002 HR professionals and senior decision-makers. 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. The survey was carried out online and fieldwork was undertaken between 7 September and 28 September 2018.

Weighting

The quarterly LMO survey is sampled from the YouGov panel of senior decision-makers from UK businesses. 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 2016*.

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The delivered sample is drawn across all business sizes and in total 524 unweighted responses were received from small establishments (1–249 employees) and 478 from large employers (250+ employees). Additionally, the sample comprises 647 private sector employers, 296 public sector employers and 59 voluntary sector employers.

Table 2: Breakdown of the sample, by number of employees in organisation (%)

	Autumn 2018	Summer 2018	Spring 2017–18	Winter 2017–18	Autumn 2017	Summer 2017	Spring 2017	Winter 2016–17	Autumn 2016	Summer 2016
2–9	14	14	14	14	14	14	14	14	14	14
10–49	14	14	14	14	14	14	14	14	14	14
50–99	6	6	6	6	6	6	6	6	6	6
100–249	7	7	7	7	7	7	7	7	7	7
250–499	12	12	10	10	10	15	10	10	9	8
500–999	9	12	10	9	9	7	10	10	7	8
1,000 or more	38	35	40	40	40	37	40	39	41	43
N	**1,002**	**2,001**	**1,008**	**2,066**	**2,007**	**1,139**	**1,060**	**1,051**	**1,024**	**1,050**

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

	Autumn 2018	Summer 2018	Spring 2018	Winter 2017–18	Autumn 2017	Summer 2017	Spring 2017	Winter 2016–17	Autumn 2016	Summer 2016
Private	73	73	73	73	73	73	73	73	73	73
Public	21	21	21	21	21	21	21	21	21	21
Voluntary	6	6	6	6	6	6	6	6	6	6
N	**1,002**	**2,001**	**1,008**	**2,066**	**2,007**	**1,139**	**1,060**	**1,051**	**1,024**	**1,050**

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

	Autumn 2018	Summer 2018	Spring 2018	Winter 2017–18	Autumn 2017	Summer 2017	Spring 2017	Winter 2016–17	Autumn 2016	Summer 2016
MANUFACTURING AND PRODUCTION	**16**	**16**	**16**	**16**	**15**	**15**	**15**	**15**	**15**	**15**
Agriculture, forestry and fishing	1	1	1	1	1	1	1	1	1	1
Manufacturing	8	8	8	8	9	9	9	9	9	9
Construction	6	6	6	6	4	4	4	4	4	4
Mining and extraction	0	0	0	1	1	0	0	0	0	0
Energy and water supply	1	1	1	2	1	1	1	1	1	1
EDUCATION	**11**	**9**	**8**	**8**	**6**	**6**	**6**	**6**	**7**	**7**
HEALTHCARE	**10**	**11**	**12**	**11**	**11**	**11**	**12**	**12**	**12**	**11**
PRIVATE SECTOR SERVICES	**54**	**54**	**54**	**54**	**52**	**52**	**52**	**52**	**52**	**52**
Hotels, catering and leisure	9	9	9	8	8	8	8	8	8	8
Transport and storage	4	4	4	4	4	4	4	4	4	4
Finance, insurance	3	3	3	3	5	5	5	5	5	5
Information and communication	4	4	4	4	1	1	1	1	1	1
Wholesale, retail and real estate	16	16	16	16	16	16	16	16	17	17
Business services (for example consultancy, law, PR, marketing, scientific and technical services)	8	8	8	8	7	8	8	8	8	8
Administrative and support service activities and other business services	11	11	11	11	9	9	9	9	9	9
PUBLIC ADMINISTRATION AND DEFENCE	**9**	**9**	**9**	**10**	**9**	**9**	**9**	**9**	**9**	**9**
Public administration	6	6	7	8	8	7	7	8	8	8
Armed forces/police	1	1	1	2	0	1	2	1	1	1
N	**1,002**	**2,001**	**1,008**	**2,066**	**2,007**	**1,139**	**1,060**	**1,051**	**1,024**	**1,050**

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