CIPD
Championing better work and working lives

in partnership with

THE ADECCO GROUP

LABOUR MARKET OUTLOOK

VIEWS FROM EMPLOYERS

Summer 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 more than 145,000 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

Summer 2018

Contents

1
2
3
4
5
6
7

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 third quarter of 2018. The survey is based on responses from 2,001 employers.

Employment

According to the report, the demand for labour in Q3 2018 will remain robust. 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 +23 from +26 over the past three months (Figure 1). This is consistent with official labour market data[1], which shows that employment has increased sharply in recent months. The strength in labour demand growth is highest among transport (+38), construction firms (+38) and business services (+37). Looking at the regions, employment confidence is highest in London (+31) and the south-west of England (+30) and lowest in the north-east of England[2] (+10) and West Midlands (+13).

Labour supply

A potential consequence of strong employment growth is a tightening labour market. However, labour market tightness depends not only on employers' demand for labour but also on developments in labour supply, which the *Labour Market Outlook* also tracks closely. The survey data suggests that the continued strength in labour demand is feeding through to recruitment pressures for more employers, compared with previous LMO reports.[3]

On average, employers received a median of 20 applicants for the last low-skilled vacancy they tried to fill, compared with 24 applicants in summer 2017 and 25 applicants in autumn 2015. Similarly, the number of applicants for the last medium-skilled vacancy employers sought to fill has fallen to 10 from 19 in summer 2017 and 15 in autumn 2015. Meanwhile, a median number of six applicants applied for the most recent high-skilled vacancy employers sought to fill, compared with eight applicants in summer 2017 and eight applicants in autumn 2015. As a result, four in ten (40%) employers report that recruitment pressures have increased at their organisation owing to a combination of fewer applicants and less suitable applicants.

Such labour supply constraints are also reflected in the official data and in various economic forecasts. These show that the number of unemployed people per vacancy is 1.7, a record low, while the unemployment rate looks set to remain at a record low of 4.1% in 2019, according to the average of independent forecasts.[4]

This is perhaps no surprise given closer analysis of the official labour market data, which shows that the fall in the unemployment rate has been mirrored by a decrease in labour supply. One important determinant of labour supply in recent years has been the inflow of EU nationals. However, according to the latest official data, the number of EU-born workers in the UK increased by just 7,000 from Q1 2017 to Q1 2018, compared with an increase of 148,000 from Q1 2016 to Q1 2017.[5] This represents a fall of 95%. The fall in labour supply growth from EU-born workers coincides with a fall in the youth unemployment rate to a fourteen-year low and an overall fall in the population of young people over the past year.[6]

1
2
3
4
5
6
7

The sharp fall in the number of younger workers and EU nationals in employment has been offset in part by an increase of 240,000 50–64-year-olds in employment during the same period.

Nonetheless, the restraints on overall labour supply have meant that the prevalence of hard-to-fill vacancies continues to rise. The proportion of organisations that currently have vacancies and report recruitment difficulties has increased to around two-thirds (66%) from around six in ten organisations (61%) three months ago. At the same time, organisations with hard-to-fill vacancies report that two in five (40%) of their total vacancies are proving hard to fill, compared with one in three (30%) vacancies in the spring 2018 report.

Looking ahead, it is highly likely that labour will become even more constrained over the coming years, partly as a result of new migration restrictions on EU nationals that look set to be introduced in 2021. Employers therefore need to start making short-term and long-term plans on workforce development and enhanced investment in skills with some urgency.

Wages

One of the potential outcomes of the reduction in supply across most sectors of the economy is stronger wage growth. However, while the report points to stronger wage growth for many key staff and new hires, the survey data suggests that the outlook for wage growth remains relatively subdued for large parts of the UK workforce.

Median basic pay rise expectations in the 12 months to June 2019 are 2%, which is unchanged since the previous report. Meanwhile, mean basic pay rise expectations have ticked up to 2.2% from 2.1%. On the upside, just over half of employers that are currently facing recruitment difficulties report that they are raising starting salaries in response, for at least some roles. Meanwhile, retention pressures are forcing some organisations to raise wages, although many of these are restricted to key staff.

This is consistent with the official data, which shows that wages have started to weaken following a gradual increase over the past 12 months. According to the most recent official statistics, regular pay increased by 2.7% between March to May 2017 and March to May 2018, slightly lower than the growth rate between February to April 2017 and February to April 2018 (2.8%).[8]

Looking back over the pay trends in recent years, the LMO's pay projection has broadly mirrored the official data (Figure 14), which shows that earnings growth has remained subdued in recent years. This is despite predictions from many commentators and institutions that pay would accelerate. However, one of the limitations of the CIPD's basic pay award indicator is that it fails to capture the upward pressure in starting salaries that is reflected in this report. This partly explains why the official earnings data have been rising faster than the LMO median basic pay indicator over the past year.

Overall, it seems that the downward pressure of persistently weak productivity growth is dominating any upward pressure from labour and skill shortages. According to the most recent statistics, productivity fell by 0.4% in Q1 2018[9], which is constraining firms' ability to offer higher wages to their workers.

Some commentators have suggested that the composition of employment growth is one of the key causes of poor productivity growth, especially the perceived growth in low-skilled occupations and atypical employment. However, as official data shows, the share of people employed in high-skilled roles continues to rise compared with the proportion in medium- and low-skilled roles.[10] Meanwhile, the proportion of people in temporary employment in the UK (5.7%) has, if anything, ticked down over the recent past and is around half the OECD average (11.2%).[11] Overall, about 80% of the UK workforce are permanent employees, a proportion that has been broadly unchanged over the last 20 years.[12]

According to the CIPD, poor people management and development practices in the workplace are a more plausible explanation for the UK's low productivity growth. For example, evidence highlights a decline in workforce skills development[13], a relatively high proportion of UK workers that are not well matched with their current jobs[14] and a decline in the rate of technological diffusion.[15] These weaknesses could be at least partly overcome by an improvement in management quality in the UK, as the Bank of England's chief economist Andy Haldane has also argued.[16] This is consistent with recent literature which suggests that the way labour is managed explains almost a third of the variation in the productivity between firms.[17] The same report argues that various workforce productivity drivers, such as giving workers more autonomy to do their jobs and supportive line managers, have actually become less prevalent since 2006, when 'the economy would have benefited from them most'. In addition, survey data to be published shortly by the CIPD in relation to the National Living Wage will illustrate that many employers are seeking to offset the increase in labour costs by focusing on work intensification, rather than adding value. Given that Britain lies towards the top of the European league table according to a number of work intensity measures[18], the need for line managers to encourage working smarter rather than harder will be key to closing the alarming gap between the top performers and the long tail of companies that have sluggish productivity in the UK.

Looking beyond poor productivity, this quarter's *Labour Market Outlook* survey report also points to other factors that may be pushing down wage growth for some employers. These include various wage and non-wage costs, such as the National Living Wage, the Apprenticeship levy and the Government's auto-enrolment pension scheme. The uncertainty around future trading arrangements with the European Union also seems to be dampening wage growth for a minority of employers.

Conclusion

Taking all the evidence together, a reduction in labour supply, weak productivity and uncertainty over Brexit all point to sluggish wage growth and continued recruitment difficulties in the year ahead. Government policy can help alleviate some of these difficulties with two key announcements this autumn. First, the Chancellor can use the autumn statement to announce an increase in investment in skills development and utilisation through the National Productivity Investment Fund (NPIF) and the local implementation of the Government's industrial strategy. Evidence suggests that improvements in management capability and workforce productivity will not happen unless there is greater investment in nudging, encouraging and supporting firms, particularly small businesses, to raise their management game. CIPD research[19] suggests that the provision of high-quality HR support to small firms at a local level embedded through key partnerships such as Local Enterprise Partnerships, chambers of commerce and local authorities has the potential to reach large numbers of employers and make a material difference to owner manager confidence and capability and support productivity growth over time.[20]

1
2
3
4
5
6
7

The CIPD recommends that People Skills support hubs, which would provide a finite amount of free, high-quality HR support to small firms in order to boost their basic management capability and enhance job quality, are established across all Local Enterprise Partnerships (LEPs) in England at a total cost of £13 million a year, funded via the NPIF.

In addition, many low-skilled and medium-skilled employers will be very interested to see how rigidly the Government will apply its 'brightest and best' narrative to its post-Brexit immigration policy, which is also due this autumn. It is imperative that future immigration policy for EU migrants is fair, affordable and flexible, enabling employers to continue to recruit both low- and high-skilled EU migrants, given the rising recruitment difficulties for low- and medium-skilled roles. In particular, the CIPD recommends that the Government should be considering a labour shortage occupation list to ensure that there is a low-skilled migration route that is based on genuine employer need. Otherwise, recruitment difficulties will be exacerbated. Additionally, the introduction of migration restrictions will underline further the importance of the execution of the Industrial Strategy and the role of sector deals in getting to grips with the skill and resourcing needs of employers.

Gerwyn Davies, Senior Labour Market Adviser, CIPD

2 Foreword from The Adecco Group UK and Ireland

The UK is currently experiencing its lowest unemployment rate for more than 40 years. We've never had more people in work. Brexit is, however, on the horizon, and it will almost certainly cause disruptions to the UK workforce. If nothing else, Brexit will restrict the flow of international labour that the UK has come to rely on. Despite this, UK employers are still showing some of the highest recruitment intentions seen since the LMO began six years ago.

The result of this is a talent shortage and a more competitive marketplace; businesses must have a strategy if they want to succeed.

This latest LMO shows that four in ten (40%) UK employers have found it more difficult to fill their vacancies in the past year. This explains why, for those who do have vacancies, the hard-to-fill density of those vacancies has risen from 30% to 40% since the spring LMO. Additionally, more than one in four (27%) of employers have reported that it has become more difficult to retain staff.

Increasing salaries is the most obvious reaction to these challenges. A majority of employers for both of the cases above responded by increasing salaries for their vacancies.

The LMO has consistently told us that of those employers that are expecting pay awards to be 2% or more in the coming year, more than one in four are giving recruitment and retention issues as one of the reasons.

While increasing pay is an option for some employers, for others it just isn't feasible for a variety of reasons. Even when an employer can afford to raise pay, it still might not be the best choice to solve recruitment or retention concerns.

Your candidate market will often determine the most appropriate way to attract and keep talent. You need to understand your workforce and its culture. A recent study by Badenoch & Clark (part of The Adecco Group), 'Leading today's multigenerational workforce', suggests you should focus on training/growth opportunities and corporate social responsibility to attract younger workers, and flexible working and company reputation to appeal to older workers.

The top two solutions that organisations are using to recruit and retain staff are to upskill existing staff, or to employ a more diverse workforce. Both ideas have a lot of merit. Upskilling increases both retention and your brand reputation to attract new staff. The advantage of diversifying is similarly two-fold: it widens your talent pool, and McKinsey showed in 2015 that diversified companies were more successful.

Organisations should also check that they have a solid recruitment process, and that they are not losing candidates along the journey. Office Angels (part of The Adecco Group) found in 'When candidates call the shots' that more than 95% of job seekers want an application process that is simple and transparent.

Employers have a lot of options for managing recruitment and retention challenges, that don't involve increasing wages. They can streamline their current talent processes, engage their workforces, and leverage the full breadth of their employment package. A well thought-out and executed talent attraction strategy is key to overcoming current and future talent challenges.

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

1
2
3
4
5
6
7

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 third quarter of 2018. This latest report suggests that employment confidence remains robust.

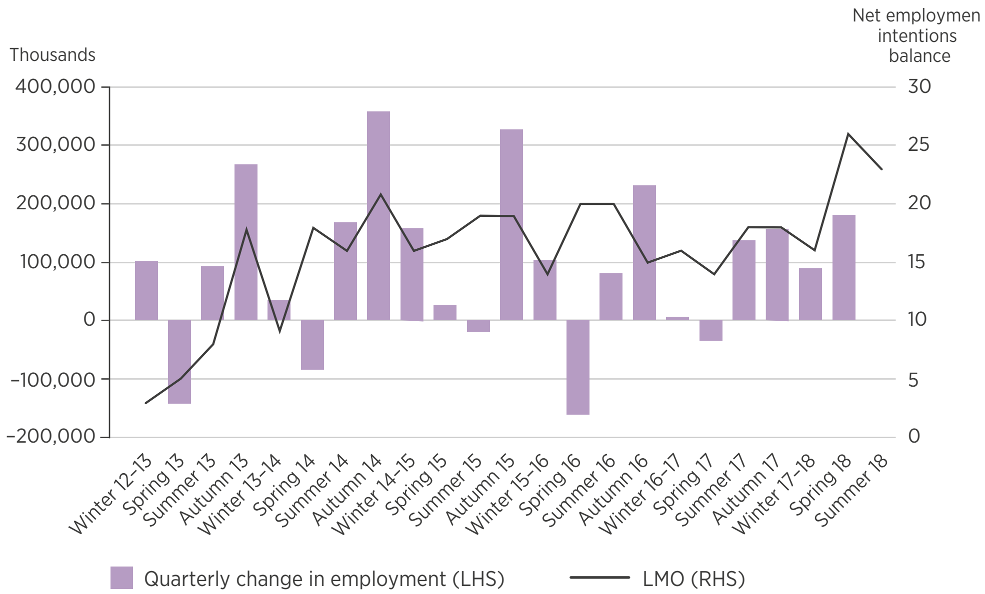
This quarter's net employment balance – which measures the difference between the proportion of employers who expect to increase staff levels and those who expect to decrease staff levels – has fallen marginally from +26 in spring 2018 to +23 in summer 2018 (Figure 1). This is the measure's second highest reading since it was introduced in winter 2012/13.

Employment confidence remains buoyant across much of the private sector (+26). Nonetheless, confidence in the services sector has fallen to +27 from +31 during the past 3 months. Employment intentions remain robust in the manufacturing sector, although they have fallen sharply during the past three months from +38 to +23.

At the same time, the employment outlook for public sector employers continues to improve. The net employment balance for the public sector has increased to +12 from +9 compared with the spring report. Employment prospects have also worsened modestly during the past quarter in the voluntary sector, down to +18 from +21.

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 September 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 March to May 2018.

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



Sources: Labour Force Survey, the Office for National Statistics (ONS) and *Labour Market Outlook*, CIPD and The Adecco Group.
Base: summer 2018, all employers (n=2,001)

1
2
3
4
5
6
7

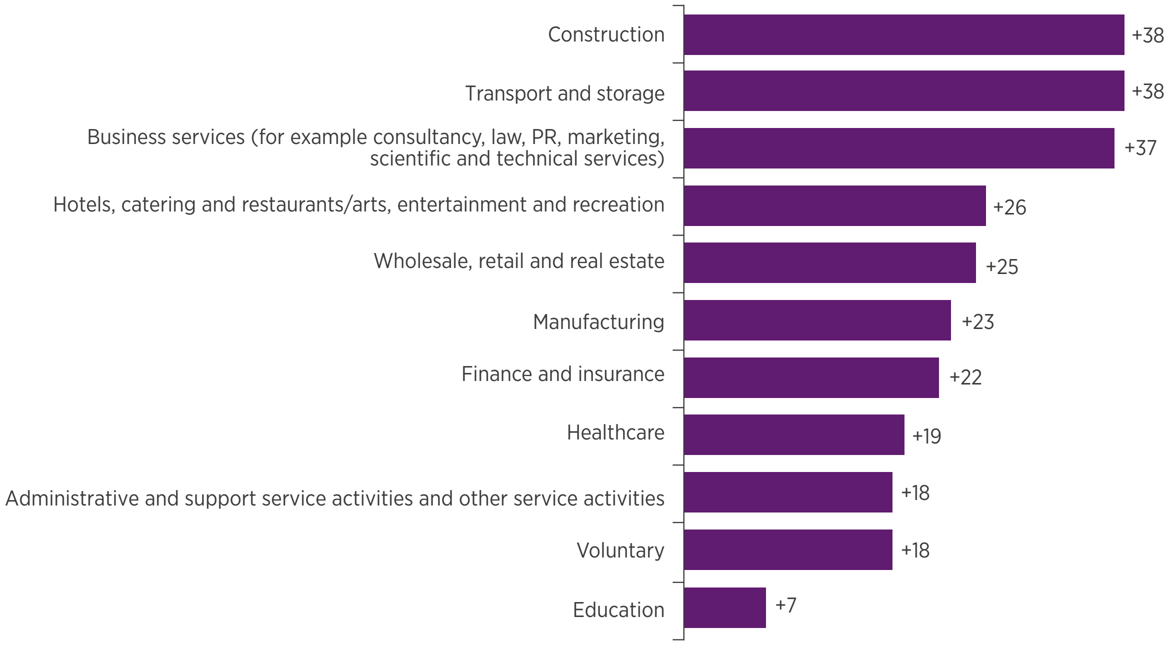
Table 1: Net employment intentions for the next three months, by combined sector

Sector	Summer 18	Spring 18	% point change
Public administration and defence (n=84)	+16	+16	0
Healthcare (n=132)	+19	+20	–1
Education (n=155)	+7	–5	+12
Private sector services (n=1,016)	+27	+31	–4
Manufacturing (n=179)	+23	+38	–15

Base: Summer 2018, all employers (n=2,001)
*Note: Sample size is under n=100

Looking at the sub-sectors, employment confidence is highest in the construction (+38), transport (+38) and business services (+37) sectors (Figure 2). Meanwhile, employment confidence is lowest in the healthcare (+19), administrative and support services (+18), voluntary (+18) and education (+7) sectors. Employment intentions remain robust in the manufacturing sector, although they have fallen sharply during the past three months from +38 to +23.

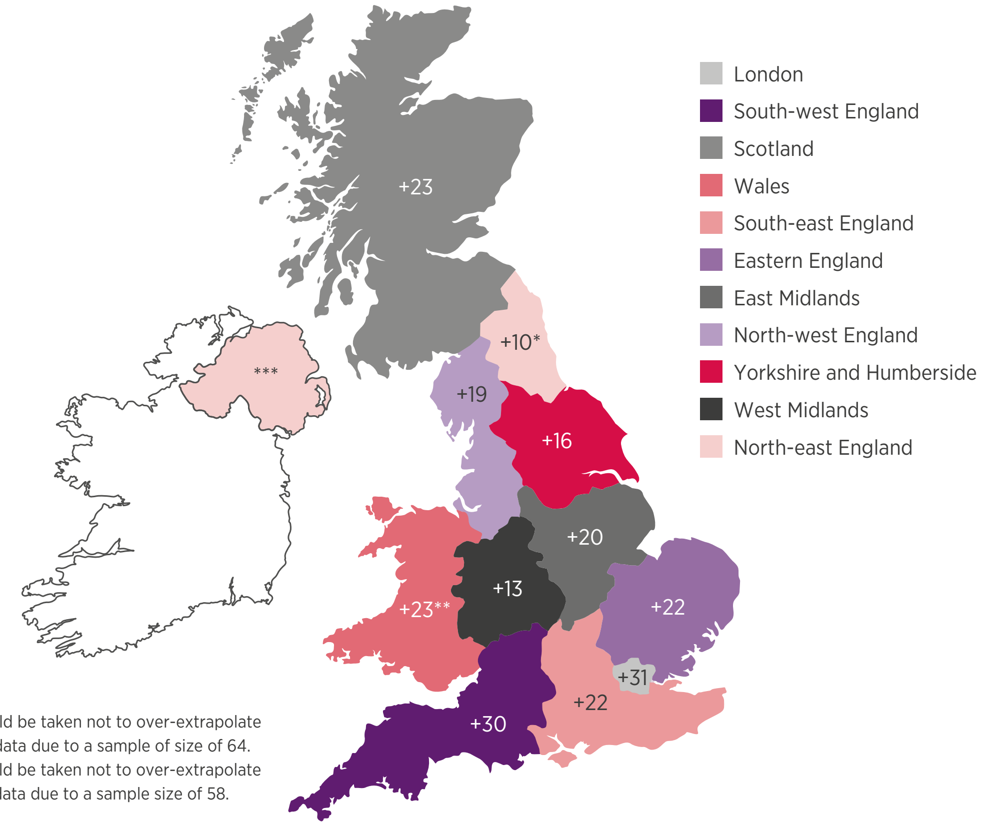
Figure 2: Net employment intentions for the next three months, by sector (%)



Base: summer 2018, all employers [manufacturing (n=179); construction (n=101); education (n=155); healthcare (n=132); wholesale, retail and real estate (n=128); finance and insurance (n=156); business services (n=240); hotels, catering and restaurants/arts, entertainment and recreation (n=132); administrative and support service activities and other service activities (n=180); voluntary (n=278); transport and storage (n=60)]

Looking across the nations and regions of the UK, overall employment confidence is highest in London (+31) and the south-west of England (+30) and lowest in the north-east of England (+10), and the West Midlands (+13).

Figure 3: Net employment intentions for the three months to September 2018 (by nation and region)



* Care should be taken not to over-extrapolate from the data due to a sample of size of 64.
** Care should be taken not to over-extrapolate from the data due to a sample size of 58.

Base: summer 2018, all employers [London (n=362); Eastern England (n=89); Wales (n=58); Scotland (n=150); south-east of England (n=84); south-west of England (n=124); East Midlands (n=99); West Midlands (n=132); Yorkshire and Humberside (n=116); north-east of England (n=64); north-west of England (n=160)]. ***Data for Northern Ireland could not be recorded due to a small sample size (15).

What are the recruitment intentions for the forthcoming quarter?

Recruitment intentions among LMO employers are broadly consistent with recent trends. Overall, around seven in ten (69%) organisations state that their organisation is planning to recruit employees in the next three months. Four in five (83%) public sector employers plan to recruit employees in the three months to September 2018, compared with almost two-thirds (65%) of private sector firms and seven in ten (70%) voluntary sector employers. Recruitment intentions are strongest in the public administration (84%), healthcare (77%) and education (78%) sectors. Meanwhile, recruitment intentions are strongest in London (76%) and eastern England (70%), and lowest in the East Midlands (60%) and north-east of England (61%). Care should be taken not to over-extrapolate from the data due to a sample of size of 64.

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

The proportion of LMO employers expecting to make redundancies in Q3 2018 is fairly consistent with recent reports. Overall, a fifth of organisations (20%) are planning to make redundancies over the next three months. The proportion of organisations planning to make redundancies remains lower in the private sector (19%) than in the voluntary sector (21%) and public sector (25%).

Looking at the sectors in more detail, redundancy intentions in the next three months are lower in the private services sector (17%) than in the public administration (30%), education (26%) and manufacturing (23%) sectors. Across the regions, redundancy intentions are highest in the north-east of England (31%) and north-west of England (26%) and lowest in Scotland (13%) and Yorkshire and Humberside (13%).

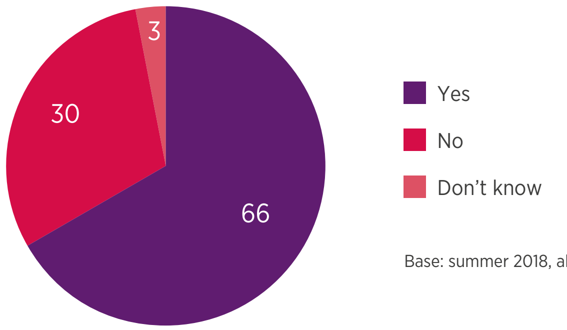
1
2
3
4
5
6
7

4 Job vacancies

How prevalent are hard-to-fill vacancies?

Against the backdrop of buoyant demand for labour, it is no surprise that many organisations are having difficulty filling vacancies. Among employers who currently have vacancies in their organisation, two-thirds (66%) report that at least some of these vacancies are proving hard to fill, higher than in the spring 2018 (61%) and spring 2017 (56%) reports. The share of employers with recruitment difficulties is higher in the public sector (70%) than in the private sector (66%) and voluntary sector (57%).

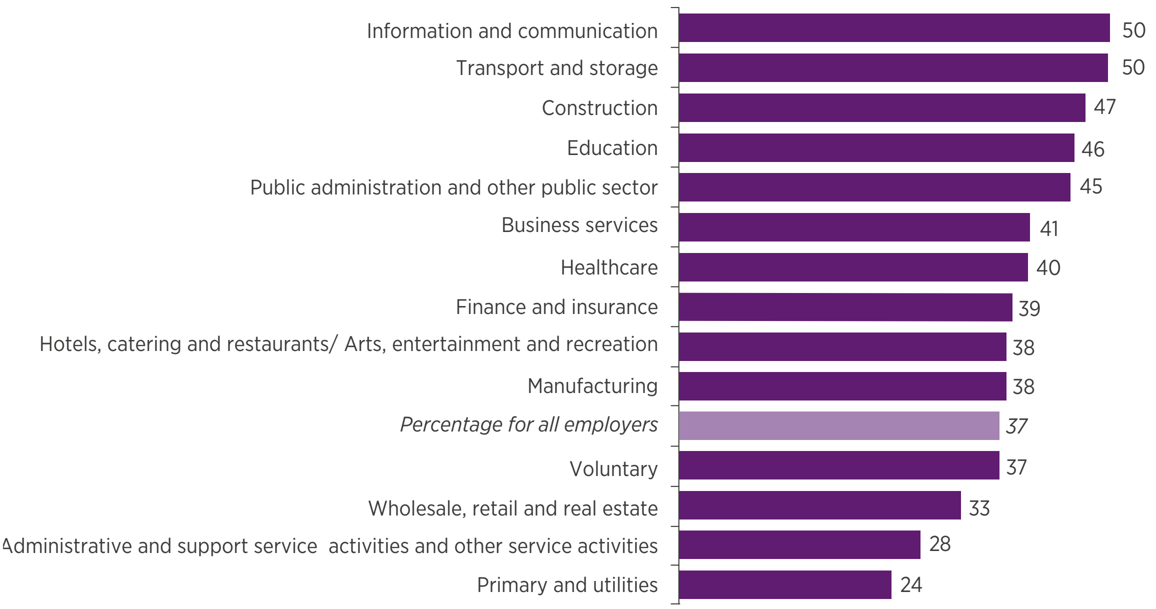
Figure 4 : Proportion of organisations with current vacancies who have hard-to-fill vacancies (%)



Base: summer 2018, all employers who currently have vacancies (n=1,038)

When looking at the overall population of employers, including those who have not reported any current vacancies, the share of establishments with hard-to-fill vacancies has risen to almost two in five employers (39%) from over one in three employers (36%) in the spring report. Around half of employers in the IT (50%), transport and storage (50%) and construction (47%) sectors say that they are currently experiencing recruitment difficulties. Meanwhile, recruitment difficulties are most prevalent in the north-west of England (49%) and the south-east of England (41%) and least common in Wales (28%) and the East Midlands (30%).

Figure 5: Proportion of all organisations that have hard-to-fill vacancies – by sector (%)



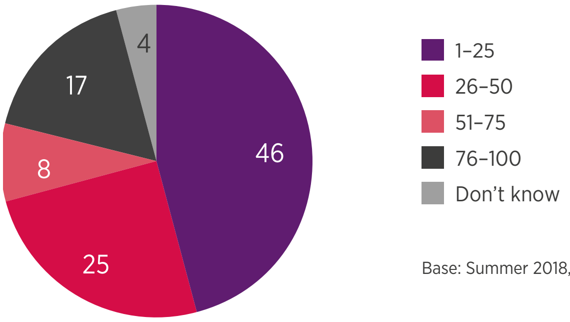
Base: summer 2018, all employers [information and communication (n=120); transport and storage (n=60); construction (n=101); education (n=155); public administration and other public sector (n=73); business services (n=240); healthcare (n=132); finance and insurance (n=156); hotels, catering and restaurants/arts, entertainment and recreation (n=132); manufacturing (n=179); voluntary (n=278); wholesale, retail and real estate (n=128); administrative and support service activities and other service activities (n=180); primary and utilities (n=56)]

1
2
3
4
5
6
7

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 two in five (40%) of their total vacancies are proving hard to fill, which is higher than the density of recruitment difficulties reported in the spring 2018 report (30%). The density of recruitment difficulties is higher in the private sector (43%) than in the public sector (33%).

Figure 6 : Proportion of total vacancies proving hard to fill among employers with hard-to-fill vacancies (%)

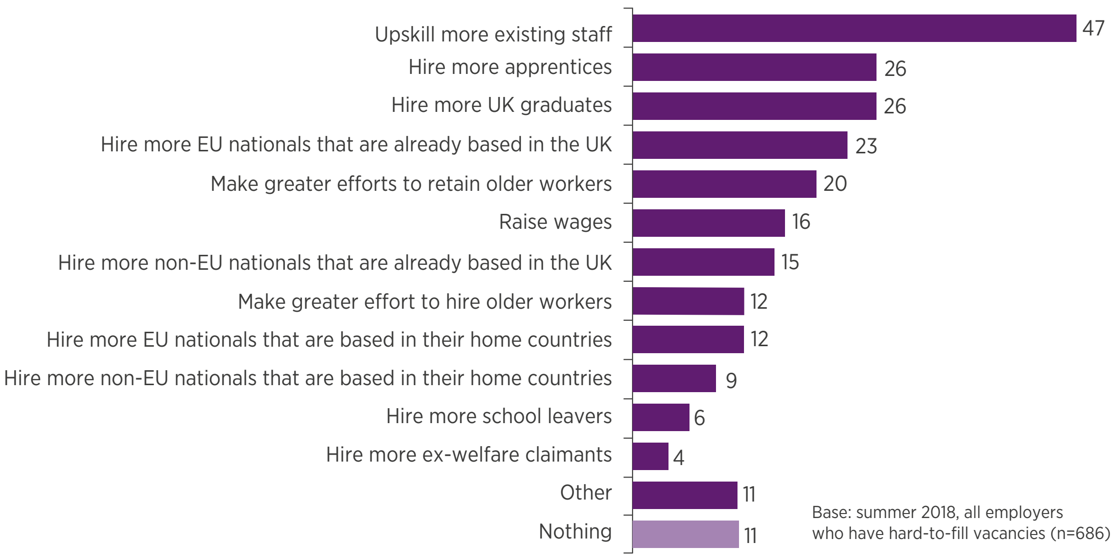


Base: Summer 2018, all employers who have hard-to-fill vacancies (n=686)

What are organisations doing to address the issue of hard-to-fill vacancies?

The vast majority of organisations are currently taking steps to tackle recruitment difficulties. As Figure 7 illustrates, upskilling remains at the forefront of organisations' approaches to tackling recruitment difficulties. Almost half (47%) of employers say that they plan to upskill existing staff to help offset hard-to-fill vacancies. Private sector organisations (52%) are significantly more likely than public sector organisations (38%) to be planning to upskill existing staff to address hard-to-fill vacancies. Other popular employer responses include hiring more apprentices (26%), recruiting more UK graduates (26%) and taking on more EU nationals that are already based in the UK (23%). It is surprising that fewer than one in six (16%) employers say they plan to raise wages, given the tightening labour market. This figure has remained broadly consistent over the recent past. Additionally, more than a fifth (21%) of London employers report that they are seeking to attract more older workers to ease their recruitment difficulties compared with the survey average of just over one in ten (12%) employers.

Figure 7: Employer responses to recruitment difficulties (%)



Base: summer 2018, all employers who have hard-to-fill vacancies (n=686)

1
2
3
4
5
6
7

Are organisations receiving suitable applicants for job vacancies?

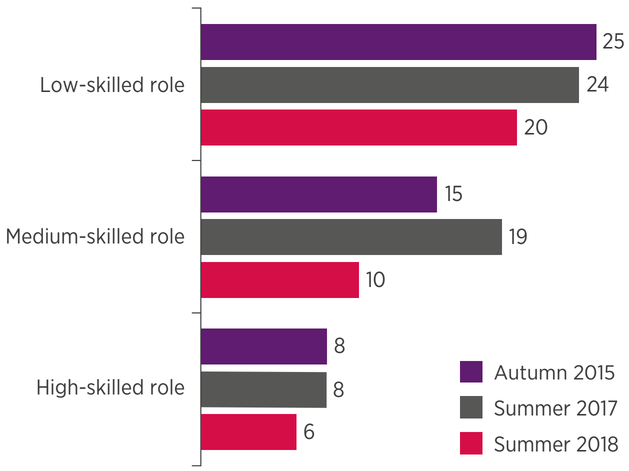
The report also considers the number of applications employers received for the last low-skilled, medium-skilled and high-skilled vacancy they filled. The survey data indicates that the supply of labour is more constrained compared with previous years, especially for low- and medium-skilled occupations.

Where employers last filled a low-skilled vacancy, they received a median number of 20 applicants[21] for that role. This compares with 24 applicants in the summer 2017 report and 25 applicants in the autumn 2015 report.

Meanwhile, employers report a similar decrease in the number of applications they received for medium-skilled roles compared with the summer 2017 and autumn 2015 reports. On average, employers received a median number of 19 applications in summer 2017 and 15 applications in autumn 2015, compared with just 10 in summer 2018.

At the same time, employers received a median number of six applications for the most recent high-skilled role they advertised for, which is again lower than the eight applications they reported receiving in the summer 2017 and autumn 2015 reports. However, there was some variation across regions. Employers in London received 10 applications for the last high-skilled vacancy they sought to fill, while Scottish employers also benefited from a greater supply of applicants (8) than the survey average.

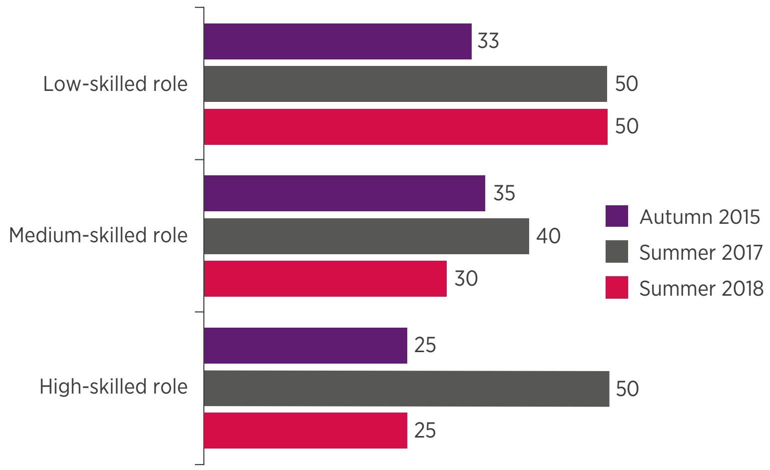
Figure 8: Median number of applicants received for most recently filled role



Base: summer 2018, all employers who have had a vacancy
[low-skilled (n=534); medium-skilled (n=787); high-skilled (n=889)]

Overall, four in ten applicants were deemed suitable by LMO employers, marginally lower than in the summer 2017 report where 43% of applicants were regarded as suitable. The share of applicants reported to be suitable is higher for low-skilled roles (50%) than for medium-skilled roles (30%) and high-skilled roles (25%).

Figure 9: Median percentage of applicants who were suitable for the role (%)



Base: summer 2018, all employers who had at least one applicant for a vacancy
[low-skilled (n=487); medium-skilled (n=723); high-skilled (n=811)]

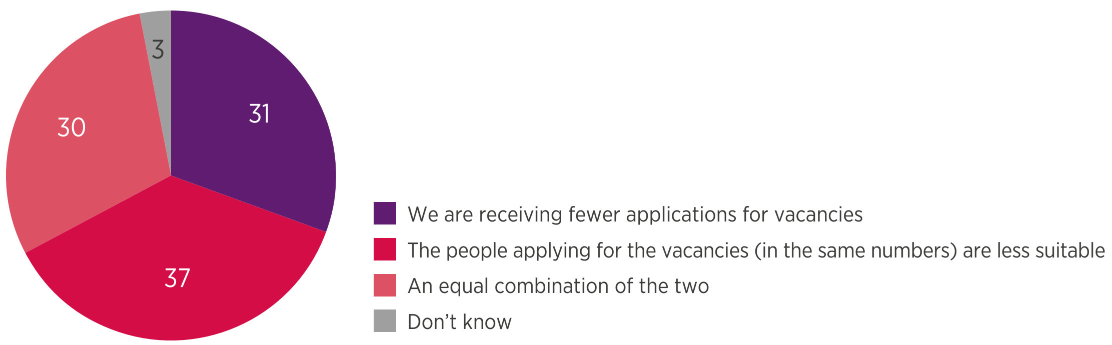
How are recruitment pressures changing?

Two in five LMO employers (40%) report that it has become more difficult to fill vacancies at their organisation during the past 12 months. Almost half (47%) of establishments say there has not been any change, and just five percent report that it has become less difficult. The share of employers reporting rising recruitment pressures is highest in the healthcare sector (50%). Among employers who report an increase in difficulty filling vacancies, a similar proportion of employers cite less suitable candidates (37%) as the share that report receiving fewer applications for vacancies (31%) is the main factor behind such pressures. Around one in three (30%) say that it is due to a combination of these factors.

More than two in five (41%) private sector employers report that their organisation is experiencing rising recruitment pressures primarily because candidates are less suitable, compared with just over a quarter (26%) of public sector organisations that report this.

Meanwhile, at the sub-sector level, almost half (46%) of employers in the education sector say that their recruitment difficulties are mainly attributable to receiving fewer applicants.

Figure 10: Causes for increased difficulty filling vacancies during the past 12 months (%)



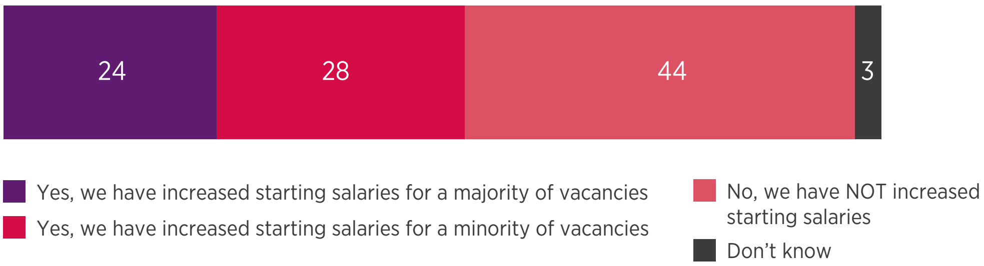
Base: summer 2018, all employers who report it has become more difficult to fill vacancies during the past 12 months (n=715)

1
2
3
4
5
6
7

Roughly one in two organisations (53%) that have experienced increased difficulty filling vacancies during the past 12 months have increased starting salaries in response. A quarter (24%) have done so for a majority of vacancies, and just over a quarter (28%) have done so for a minority of vacancies.

Organisations in the private sector (56%) are much more likely to have increased starting salaries than those in the public (43%) and voluntary (41%) sectors. Further, seven in ten (70%) have raised starting salaries in response to increased recruitment difficulties in the manufacturing and construction sectors.

Figure 11: Changes in starting salaries as a result of increased difficulty filling vacancies during the past 12 months (%)



Base: summer 2018, all employers who report it has become more difficult to fill vacancies during the past 12 months (n=715)

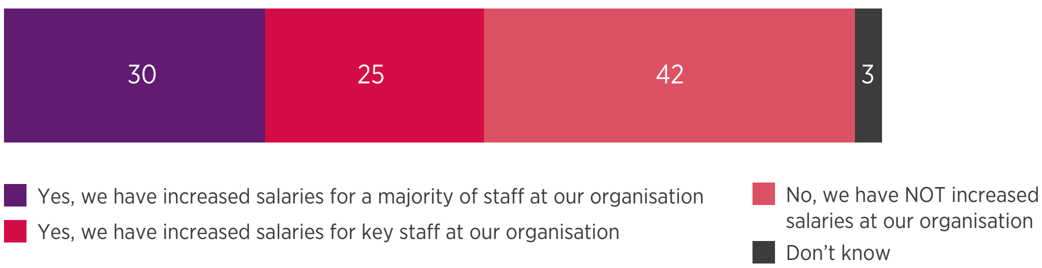
How are retention pressures changing?

Just over a quarter of LMO employers (27%) report that it has become more difficult to retain staff at their organisation over the past 12 months. Almost one in ten (9%) say it has become less difficult, while the majority say there has been no change (57%). Overall, the survey findings are broadly consistent across the various sectors.

Among organisations that have experienced increased difficulty retaining staff over the past 12 months, just over half (55%) have increased salaries. Of those organisations that have responded by raising wages, nearly a third (30%) have increased salaries for a majority of staff, while a quarter (25%) of establishments have raised wages for key staff only.

Employers in the private sector (61%) are much more likely than those in the public (35%) or voluntary (47%) sectors to have increased salaries for existing staff in response to heightened retention pressures.

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



Base: summer 2018, all employers who report it has become more difficult to retain staff during the past 12 months (n=462)

1
2
3
4
5
6
7

5 Pay outlook

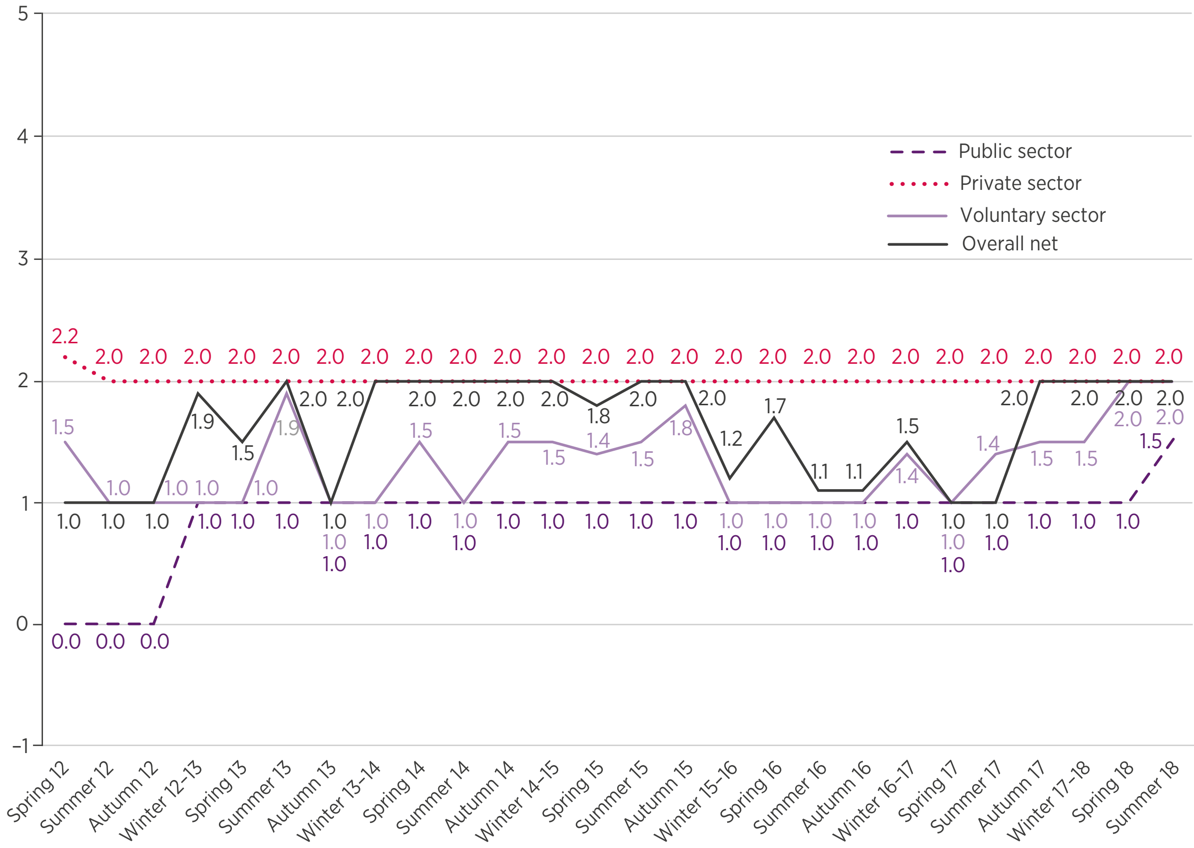
What is likely to happen to wage inflation in the next 12 months?
According to the survey data, employers' median basic pay increase expectations in the 12 months to June 2019 are 2%. Consistent with findings from previous reports, median basic pay increase expectations are 2% in the private and voluntary sectors. However, basic pay award expectations have risen to 1.5% from 1% in the public sector compared with three months ago. This may reflect the speculation and various speeches from the Chancellor of the Exchequer about the public sector pay cap being lifted in parts of the public sector. However, it remains the case that pay is still constrained by budgets and new awards will not apply to local government or those outside the scope of the Review Bodies.

Across regions and sectors, the only significant difference is that median basic pay expectations are higher in Scotland (3%) than in the rest of the UK where median basic pay expectations are 2%.

The data is 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 in 2018 is also 2%.

The report's *average* basic pay expectations indicator (the report's less preferred measure) shows that basic pay expectations have risen modestly to 2.2% from 2.1% in the spring 18 report.

Figure 13: Median basic pay award expectations



Base: summer 2018, all employers who report an expected increase, decrease or pay freeze in the next 12 months (total n=856; private n=597; public n=115; voluntary n=144)

1
2
3
4
5
6
7

Figure 14: 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

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. In addition, whereas the LMO probably measures the size of the general wage increase, or the increase in the size of the pay bill that employers expect to pay, the ONS estimate could in addition change because of changes to the composition of the workforce or a rise or fall in the total number of hours worked.

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 14).

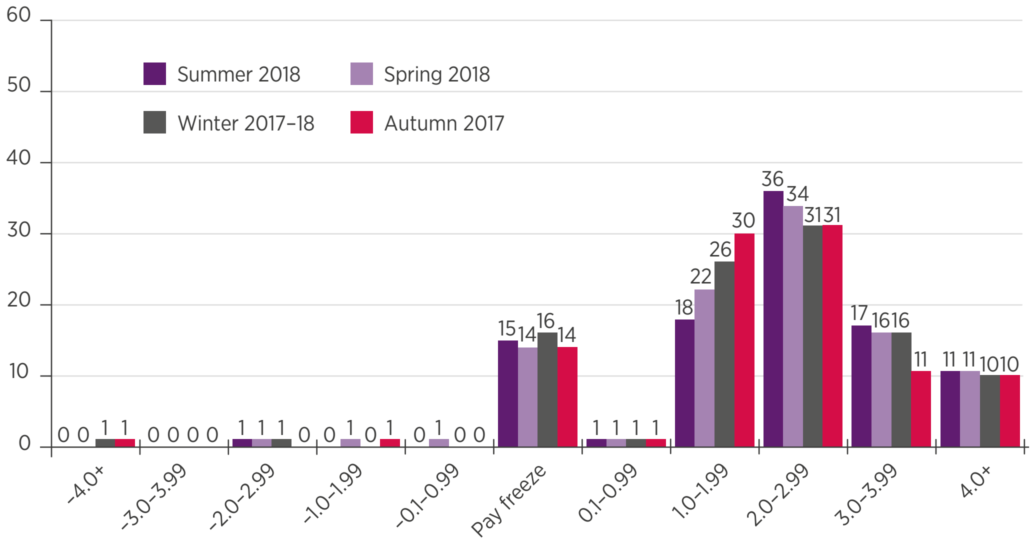
Looking ahead, just over two in five (44%) employers who are planning to make a pay decision in the next 12 months expect basic pay to increase at their organisation during that timeframe, compared with one in ten who intend to freeze pay (8%). Some care should be taken not to over-extrapolate from the survey data given that almost a third (32%) of 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, almost a third (36%) of employers anticipate a basic pay increase of between 2 and 2.99%. Meanwhile, around a fifth (18%) of employers plan to give a basic pay increase of between 1 and 1.99% in the 12 months to June 2019. Additionally, around one in six (17%) employers expect basic pay to increase by between 3 and 3.99%, while around one in ten (11%) employers anticipate basic pay rising by four percent or more during the same period. Perhaps reflecting the recent commentary about the public sector cap coming to an end, the proportion of public sector employers that

1
2
3
4
5
6
7

expect a basic pay award of 2% or more has risen to almost four in ten (39%) employers from almost a quarter (23%).

Figure 15: Distribution of forward-looking basic pay settlements (%)



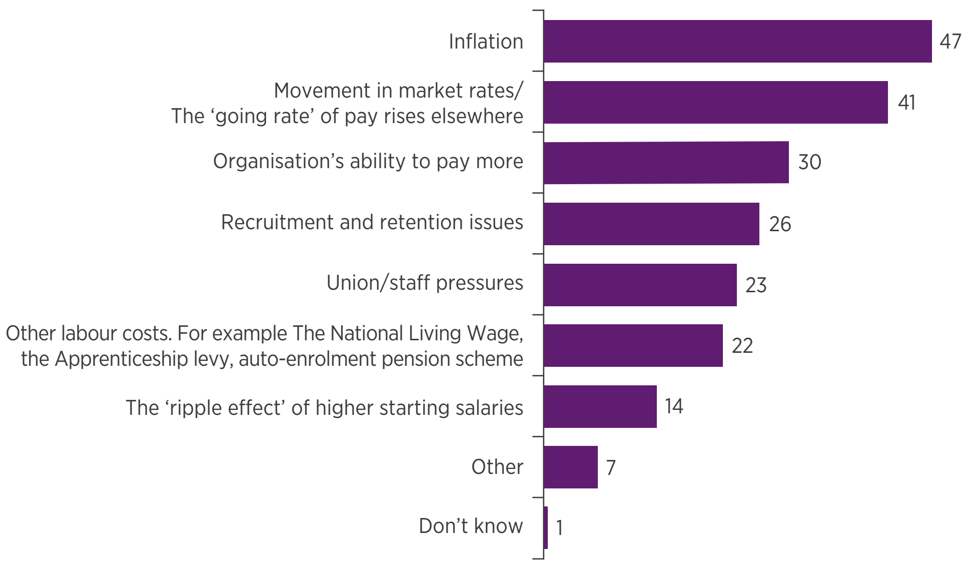
Base: summer 2018, all employers who report an expected increase, decrease or pay freeze in the next 12 months (total n=856; private n=597; public n=115; voluntary n=144)

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

LMO employers report that inflation (47%) and the going rate of pay elsewhere (41%) are the key factors behind their ability to at least match the Bank of England's inflation rate target of 2% in their basic pay award.

Other key reasons include an ability to pay more (30%), recruitment and retention pressures (26%), union/staff pressure (23%) and other labour costs (22%) (figure 16).

Figure 16: Main factors behind employers' ability to award basic pay increases of 2% or more (%)

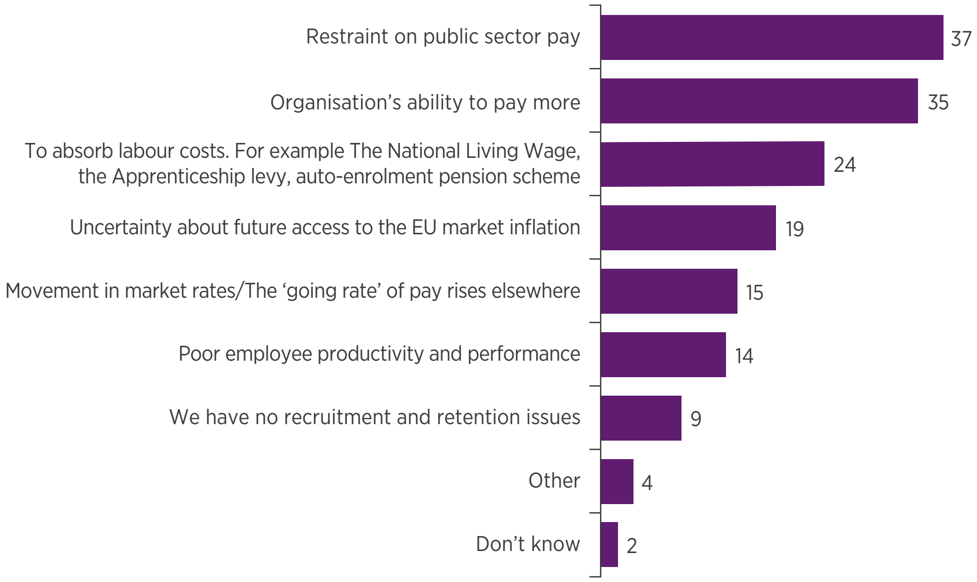


Base: summer 2018, all employers who expect their organisation's basic pay will increase by 2% or more (n=573)

Among employers who predict that average basic pay will increase at their organisation by *less* than 2%, or not increase at all, restraint on public sector pay (37%) and an inability to pay (35%) are cited as the key reasons.

A quarter (24%) of employers report that absorbing wage and non-wage costs is a factor in them restricting pay increases. Additionally, a fifth (19%) of employers who predict pay increases of less than 2% cite uncertainty around the UK's future access to the EU market as a factor restricting pay increases.

Figure 17: Main factors behind employers' inability to match the inflation rate target of 2% in their basic pay awards (%)



Base: summer 2018, all employers who expect their organisation's basic pay will increase by less than 2%, be frozen, or decrease (n=282)

6 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 2,001 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 11 June and 2 July 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

1
2
3
4
5
6
7

targets on size and sector drawn from the *Business Population Estimates for the UK and Regions 2016*.

The delivered sample is drawn across all business sizes and in total 1,327 unweighted responses were received from small establishments (1–249 employees) and 674 from large employers (250+ employees). Additionally, the sample comprises 1,494 private sector employers, 229 public sector employers and 278 voluntary sector employers.

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

	Summer 2018	Spring 2018	Winter 2017–18	Autumn 2017	Summer 2017	Spring 2017	Winter 2016–17	Autumn 2016	Summer 2016	Spring 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	10	10	10	15	10	10	9	8	8
500–999	12	10	9	9	7	10	10	7	8	6
1,000 or more	35	40	40	40	37	40	39	41	43	44
N	**2,001**	**1,008**	**2,066**	**2,007**	**1,139**	**1,060**	**1,051**	**1,024**	**1,050**	**1,014**

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

	Summer 2018	Spring 2018	Winter 2017–18	Autumn 2017	Summer 2017	Spring 2017	Winter 2016–17	Autumn 2016	Summer 2016	Spring 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	**2,001**	**1,008**	**2,066**	**2,007**	**1,139**	**1,060**	**1,051**	**1,024**	**1,050**	**1,014**

1
2
3
4
5
6
7

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

	Summer 2018	Spring 2018	Winter 2017–18	Autumn 2017	Summer 2017	Spring 2017	Winter 2016–17	Autumn 2016	Summer 2016	Spring 2016
MANUFACTURING AND PRODUCTION	**15**	**16**	**16**	**15**	**15**	**15**	**15**	**15**	**15**	**15**
Agriculture, forestry and fishing	0	1	1	1	1	1	1	1	1	1
Manufacturing	7	8	8	9	9	9	9	9	9	9
Construction	6	6	6	4	4	4	4	4	4	4
Mining and extraction	0	1	0	1	0	0	0	0	0	1
Energy and water supply	2	1	2	1	1	1	1	1	1	1
EDUCATION	**9**	**8**	**8**	**7**	**6**	**6**	**6**	**7**	**7**	**7**
HEALTHCARE	**10**	**12**	**11**	**12**	**11**	**12**	**12**	**12**	**11**	**11**
PRIVATE SECTOR SERVICES	**51**	**54**	**54**	**52**	**52**	**52**	**52**	**52**	**52**	**52**
Hotels, catering and leisure	8	9	8	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	5	5	5	5	5	5	5
Information and communication	4	4	4	1	1	1	1	1	1	1
Wholesale, retail and real estate	15	16	16	16	16	16	17	17	17	17
Business services (for example consultancy, law, PR, marketing, scientific and technical services)	7	8	8	7	8	8	8	8	8	9
Administrative and support service activities and other business services	10	11	11	9	9	9	9	9	9	9
PUBLIC ADMINISTRATION AND DEFENCE	**9**	**9**	**10**	**9**	**9**	**9**	**9**	**9**	**9**	**9**
Public administration	8	7	8	8	8	7	8	8	8	8
Armed forces/police	1	1	2	0	1	2	1	1	1	1
N	**2,001**	**1,008**	**2,066**	**2,007**	**1,139**	**1,060**	**1,051**	**1,024**	**1,050**	**1,014**

1
2
3
4
5
6
7

7 Endnotes

[1] ONS. (2018) *UK labour market: July 2018*. Available at: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/latest [Accessed 20 July 2018].

[2] Care should be taken not to over-extrapolate from this data due to a sample size of 64 employers.

[3] CIPD. (2017) *Labour Market Outlook: summer 2017*. Available at: https://www.cipd.co.uk/Images/lmo-summer17-survey-report_tcm18-26710.pdf [Accessed 20 July 2018].

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

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/726262/Forecomp_July_2018.pdf

[5] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/latest

[6] www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/bulletins/migrationstatisticsquarterlyreport/february2018

[7] https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/datasets/unemploymentbyageanddurationnotseasonallyadjustedunem01nsa

[8] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/latest

[9] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/bulletins/labourproductivity/januarytomarch2018

[10] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/allinemploymentbyoccupationemp08

[11] http://www.oecd.org/els/emp/employment-outlook-statistical-annex.htm

[12] https://www.cipd.co.uk/Images/to-gig-or-not-to-gig_2017-stories-from-the-modern-economy_tcm18-18955.pdf

[13] Francis, G, Felstead, A, Gallie, D, Inanc, H and Jewson, N (2016) The declining volume of workers' training in Britain. *British Journal of Industrial Relations*. 54: 422–448. doi:10.1111/bjir.12130

[14] OECD (2015) *Skill Mismatch and Public Policy in OECD Countries*. Organisation for Economic Cooperation and Development.

[15] https://doi.org/10.1787/5jrql2q2jj7b-en.

[16] https://www.bankofengland.co.uk/speech/2017/productivity-puzzles

[17] https://www.cardiff.ac.uk/__data/assets/pdf_file/0010/1229833/1_Productivity_at_Work_Minireport_Final_edit_2.pdf

[18] ibid

[19] CIPD. (2017) *People Skills: Building ambition and HR capability in small UK firms*. Available at: https://www.cipd.co.uk/knowledge/strategy/hr/hr-capability-small-firms [Accessed 20 July 2018].

[20] ibid

[21] This is the median figure.

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

Incorporated by Royal Charter
Registered as a charity in England and Wales (1079797)
Scotland (SC045154) and Ireland (20100827)