THE ADECCO GROUP

Financial Services

Q1 2017

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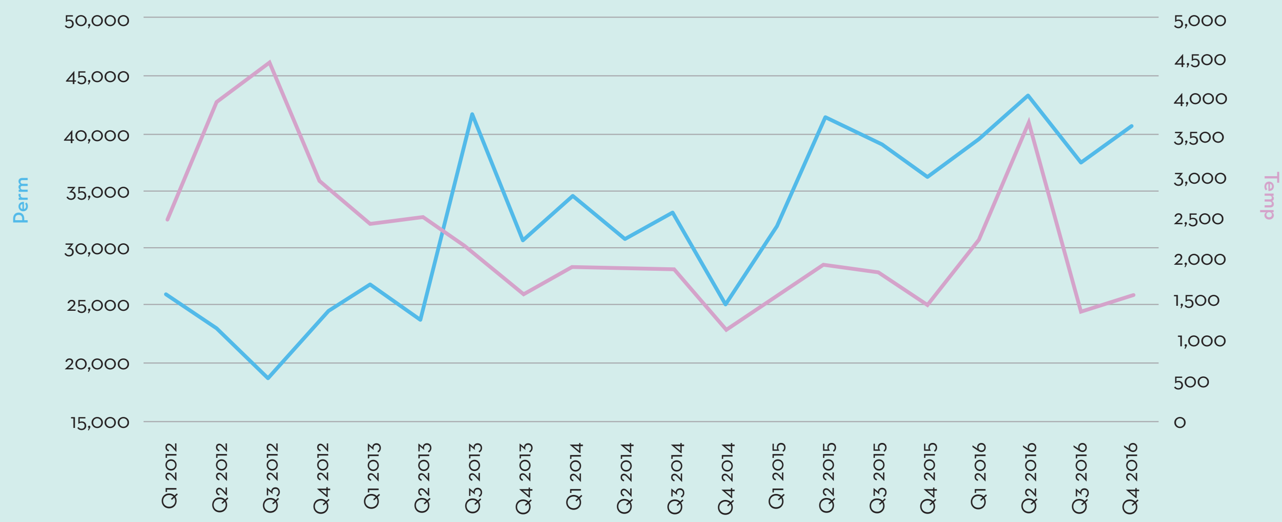
Financial services recruitment

Financial Services demand for talent
(Source: Burning Glass)



Confidence returns?

The end of 2016 potentially saw a measure of confidence return to the UK financial services sector as demand rose across both perm and temporary markets. Stronger growth on the permanent side suggests clients have shaken off a certain amount of the Brexit worries and decided to get on with business.

With uncertainty still abound across the UK, financial services companies may have just decided they can't afford to delay hiring decisions any longer and, in many cases, deal with the outcomes as and when the materialise.

The final quarter of 2016 saw vacancies increase for both temp and perm, in both cases compared to the year before and the previous quarter.

Although the first quarter is not complete there are indications from January thus far, again overall the market is stronger than a year ago with 8.90% more financial sector roles being advertised. The boom was restricted to the permanent market however which has seen 30% more roles than in January 2016 whilst non-permanent roles have actually fallen, by 9.4%.

London salaries dragging down the rest

Such an increase in vacancies would historically fuel an increase in salaries, simple supply and demand. This has not been the case in recent years, which is why the UK is engaged so widely in a conversation about productivity. It is also not the case here where average advertised salaries in Q4 2016 were 8.9% lower than they were the year before.

While advertised salaries are not 100% correlated with actual earnings they do demonstrate lower buying power within the industry.

The Association of Professional Staffing Companies (APSCO) found that the median advertised salaries across all professional sectors was 2.8% lower than a year before (November 2015 vs November 2016).

"There is no doubt that parts of the UK jobs market has suffered in the months following Brexit – and our data demonstrates that employers continue to take a far more cautious approach to hiring" said Ann Swain, APSCo Chief Executive.

London does appear to be acting as a drag on these figures, rather unusually but perhaps not surprising given the potential dangers Brexit has for the sector. In January 2017 advertised salaries in London were 14% lower than a year ago.

Similarly, whilst London and the South East remain the dominant recruitment market in the sector they account for slightly less than they did a year ago.

In Q4 2015 60% of all financial services vacancies were in the two regions, a year later that figure was below 57%. This may just be natural variation but it could also be a sign of something darker.

What this means

Most businesses see peak demand for talent in January and given how supressed demand was during 2016 it is unsurprising that they let off a little steam at the start of 2017 but the industry is definitely demonstrating far less ability to meet pay demands than in previous years. A far better idea of this will be seen during bonus season that comes in the first quarter of the year.

The fall in salaries may also be a better indicator of future confidence than vacancies as the Financial Services Survey, from the CBI and PwC, reported the Q4 2016 saw a fourth consecutive quarter of falling optimism, the longest since the financial crisis of 2008.

If the financial services sector is going to keep demonstrating a falling ability to pay candidates then it may start to lose them to other more exciting/better pay sectors – namely the technology industry, which doesn't have the same Brexit worries.

Relocation intentions

> "I don't believe that the financial centre of Europe will leave the City of London. There are all sorts of reasons why I think the UK will continue to be the financial lungs for Europe."
>
> Jes Staley, CEO, Barclays.

The financial services sector continued to report that is was considering moving at least part of its operations to mainland Europe (depending on the outcome of Brexit negotiations).

A report for the Association for Financial Markets in Europe (AFME) by PwC suggested that due to the complex and lengthy process of transformation programmes that large banks must begin their planning for Brexit now.

Lloyd's of London Chief Executive Inga Beale has already confirmed that the firm will be setting up a subsidiary inside the EU post-Brexit. Citigroup is also in talks with German financial regulator BaFin regarding approval to move some of its equity and interest-rate derivatives traders to Frankfurt.

"We are evaluating our options as negotiations between the EU and UK continue," Edwina Frawley-Gangahar, a Citigroup spokeswoman, said in an e-mailed statement. "Considerable uncertainty remains over the nature of the UK's eventual exit from the EU, and therefore we have not taken any decisions at this point. London is, and will remain, our EMEA headquarters and a global hub for many of our businesses."

This follows similar comments from other financial services companies during January 2016 including HSBC, JP Morgan and UBS. Douglas Flint, Group Chairman of HSBC, specifically warned that it is clarity around Brexit that is required to safeguard London based roles.

"Nobody wants to push the button," Flint added. "The best outcome for everybody is the preservation of the status quo insofar as possible."

This uncertainty has also caused Goldman Sachs to postpone a plan to move more of its global operations and IT activities to a new £350m headquarters in London. CEO Lloyd Blankfein said that they were 'slowing down the decision to avoid moving the business twice'. He also said that New York is 'already a bit of a gainer' from Brexit.

Mr Blankfein also warned that the Prime Minister would need to protect London's status or jobs would be lost to both Paris and Frankfurt. Xavier Rolet, Chief Executive of the London Stock Exchange believes London could lose more than 200,000 if a clear plan is not articulated. He compared the London market to a 'jenga tower' saying removing one piece could have a large impact.

The Case for Paris

It has generally been seen that if financial services jobs were to leave London they would head to either Frankfurt or Paris. The last few months has seen the French capital start making overtures towards those who may be interested. In fact, they are starting roadshows in England from the start of February for this purpose.

Europlace, the lobbygroup for the French capital, believes that decisions will be taken within the first semester of 2017 as institutions accelerate their thinking.

Paris suggests it is already the top location in mainland Europe for interest-rate swaps with £115bn daily (compared to £964bn in the UK). As a larger city than Frankfurt (and Dublin) it also has the better infrastructure to support a large sector as well as the social scene that senior bankers would enjoy.

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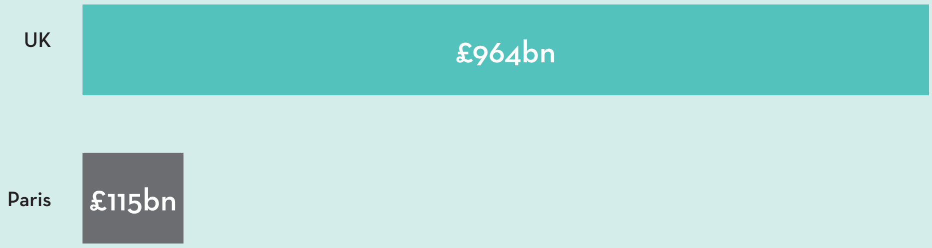
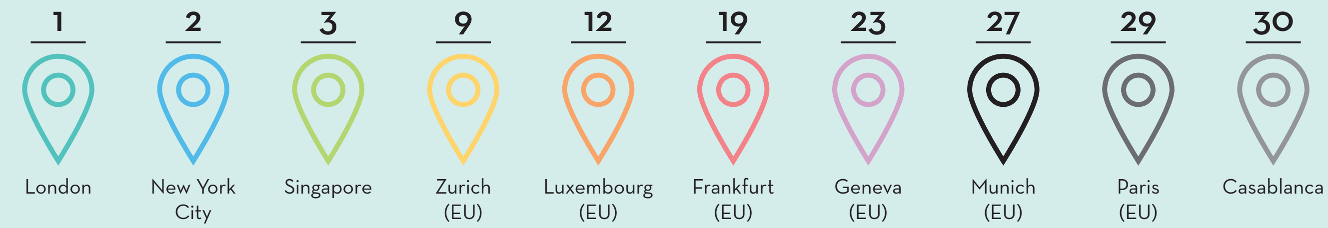


Global Financial Centres Index
(September 2016)



Another asset in its eyes is that French corporations are typically based in Paris, whereas German ones are sprayed around their country.

The French labour market however could prove to be a problem as strict laws could restrict the working week for a sector that values long hours. These same laws may also impact flexibility with employers less able to increase or reduce the workforce at the same rate. Europlace is currently lobbying for these to be relaxed.

The country may generally be perceived as hostile to financial companies too; it ranks 29th in the Global Financial Centres Index, only one spot above Casablanca.

Looking on the Bright Side

Barclays Chief Executive Jes Staley is one who believes everything will be fine for London: "I don't believe that the financial centre of Europe will leave the City of London. There are all sorts of reasons why I think the UK will continue to be the financial lungs for Europe."

UBS has also demonstrated a vote of confidence in the British capital by suggesting it is not planning to change its London footprint any time soon.

The sector's professional body TheCityUK seems to have accepted a certain amount of change is coming as it marked a shift away from demands to retain the passporting system currently in place. A two-page document published in January suggested a bespoke bilateral deal that would still allow for cross-border trading of stocks but might not eventually encompass all financial instruments and products.

It may even be said that they are now firm advocates as the group actively points out the ways in which EU membership has proved to be a "straitjacket" in terms of global trade, holding Britain back from building relationships with non-EU nations.

What this means

Many large institutions are doing nothing other than scenario planning as they would for a whole range of possible plans right now. They may well look to relocate some functions to the European mainland just as a matter of safety over the next 12 months. This does not mean that London will lose its workforce overnight or even see it reduce significantly – there is also the possibility that some European based financial companies may locate some of their operations in the UK in order to access what it still one of the largest financial hubs in the world.