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THE ADECCO GROUP

LABOUR MARKET OUTLOOK

VIEWS FROM EMPLOYERS

Spring 2019

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.

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Report

Labour Market Outlook

Spring 2019

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1 Foreword from the Adecco Group UK and Ireland

The Adecco Group has highlighted a skills-short market for some time. It is typically a difficult thing to quantify, but this latest Labour Market Outlook shines a strong light on the areas that businesses are struggling in.

It might be expected that businesses would struggle most with hiring senior candidates, those with the rarest, most valuable of skill sets, but the report shows that's not the case. In fact, more businesses are struggling to acquire quality entry-level talent than senior executives.

UK businesses seem to be most struggling with acquiring quality, experienced professionals with technical skills. This makes sense as these are the skills it's hardest to do without – you can't be a lawyer without knowledge of the law.

The most common response from the survey to tackling these recruitment challenges was upskilling existing employees; but conversations about upskilling should also be part of the recruitment process.

Candidates increasingly understand that it is their responsibility to mould their own careers, set their own goals and build their own skill sets to achieve upskilling. In the Adecco Group's recent Future-Proofing the Workforce report, 62% of respondents said that they were most responsible for the acquisition of new skills compared to just 22% who said employers were.

Successful internal training and promotion schemes can be highly valuable tools for attracting talent at all levels of business. Digital platforms, such as Glassdoor and LinkedIn, allow employees to advocate for the positive things companies do that used to be hidden behind closed doors.

UK employers should take advantage of this drive and interest in upskilling by creating internal pipelines of talent.

Increasing the salary package on offer to fill a job quickly is a perfectly acceptable short-term fix to skills shortages, but successful businesses need long-term solutions to flourish.

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

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2 Executive summary

The quarterly CIPD *Labour Market Outlook* (LMO) provides a set of forward-looking labour market indicators, highlighting employers' recruitment, redundancy and pay intentions. The survey is based on responses from 2,182 employers.

Labour demand

According to the survey data in this report, the recent strong growth in employment looks set to continue in the short term. The net employment balance[1] for Q2 2019 is +22, which is broadly consistent with previous quarters. Across industries, employment growth expectations are broad-based but are highest in business services (+38), construction (+36), healthcare (+31) and ICT (31%). Buoyant demand continues to cause recruitment and retention difficulties for many employers. Around two-fifths (41%) of employers say that it has become more difficult to fill vacancies during the past year. Meanwhile, around a third (33%) of employers say that it has become harder to retain staff.

Upskilling remains at the forefront of employers' responses to such difficulties. More than two in five (43%) employers say that they are upskilling existing employees to fill hard-to-recruit-for positions. Other popular responses to attract staff include improving the pay and benefits package and hiring more apprentices.

The latest official data from the Office for National Statistics (ONS) also suggests that employers are looking to broaden their approach to recruiting staff in light of a tightening labour market. It shows that employers have hired a relatively large proportion of older workers, women returners and people with disabilities during the past year. This is fairly consistent with the survey data in this report, which suggests that a small proportion are hiring more older workers and more people from disadvantaged groups and lowering recruitment standards in response to such difficulties (Figure 9).

Another feature about the composition of employment growth during the past year is that the vast majority of the additional jobs have been skilled, full-time and permanent, which could mean that employers are needing to offer more secure employment opportunities to attract staff as the competition for workers continues to grow.

Wages and salaries

Despite rising recruitment and retention pressures, median basic pay expectations in the 12 months to March 2020 remain at 2%, which is consistent with recent LMO reports. However, expectations have fallen back in the private sector from 2.5% to 2% since the previous report. At the same time, basic pay expectations have risen in the public sector from 1% to 1.5%.

The LMO pay indicator has diverged somewhat from the latest official average weekly earnings (AWE) measure, which shows that earnings (excluding bonuses) have increased by 3.4% over the past year. This can be partly explained by the limitation of basic pay settlements to capture the extent to which employers are offering higher pay to some key or new staff. As the survey data in this report indicates, of those employers reporting recruitment difficulties, over half of establishments have increased starting salaries. Yet, employers are almost as likely to say that they have raised salaries for the minority of vacancies only as they are to report a more generous offering for the majority of workers.

[1] The net employment balance is an indicator of employment confidence. It takes the difference between the proportion of employers who expect to increase staff levels and those who expect to decrease staff levels.

Employers report a very similar approach to reward in terms of retaining staff, which means that while some workers may be benefiting from a pay dividend as a result of the tightening job market, many will not.

Another factor behind rising average earnings is the composition of employment growth during the past year, which has been drawn from medium-skilled or high-skilled occupations according to official statistics.[2]

The results thus suggest that the recent strengthening in pay growth looks set to stall, unless the UK's productivity growth begins to strengthen appreciably.

3 Recruitment and redundancy outlook

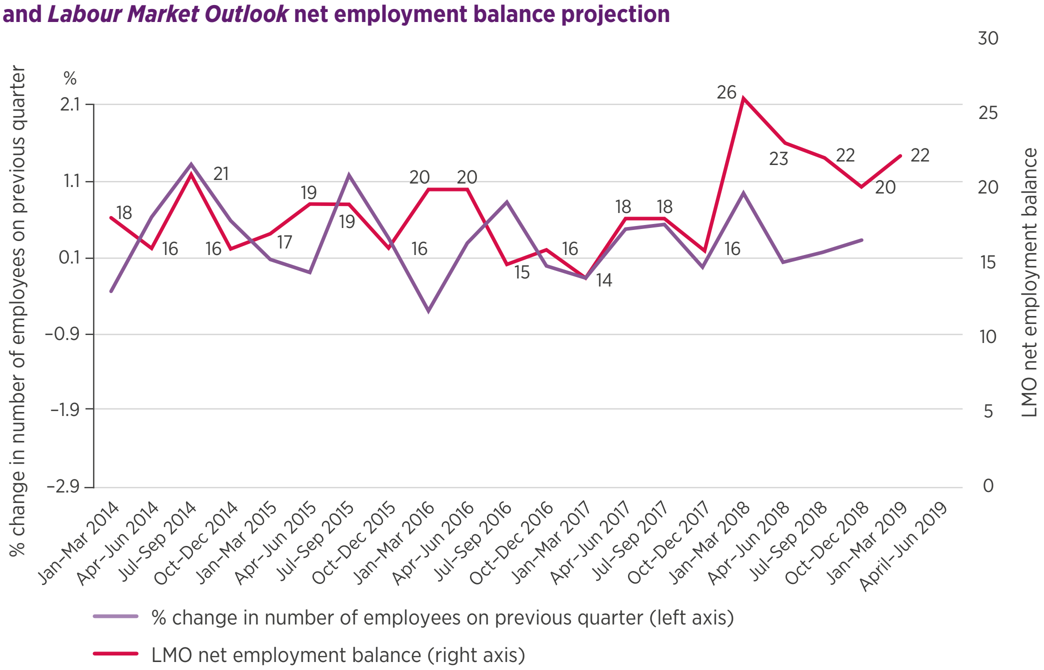
What is the short-term employment outlook?

This section focuses on the recruitment and redundancy intentions of LMO employers in the second quarter of 2019. This latest report suggests that employment confidence remains high compared with the measure's historical average (Figure 1). This quarter's net employment balance has increased from +20 to +22 (Figure 1).

How to interpret Figure 1

The red line represents the LMO net employment outlook, which indicates how employers feel employment levels will change over the next three months. The purple line represents the ONS quarterly change in employees to show what actually happened to the number of employees in the labour market.

Figure 1: Relationship between quarterly increase in number of employees (Labour Force Survey) and *Labour Market Outlook* net employment balance projection



Base: Spring 2019, all employers (n=2,182).

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

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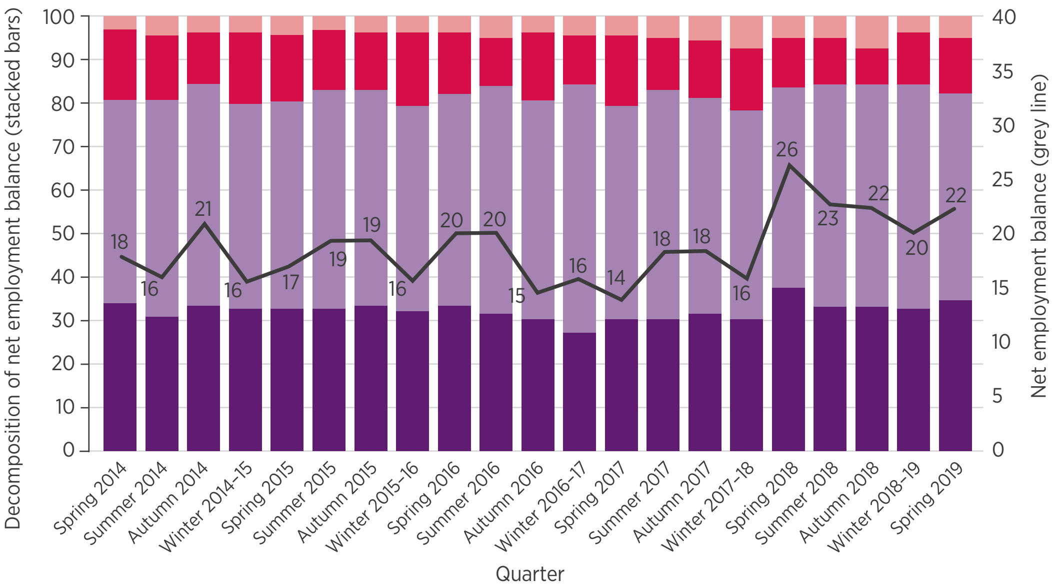
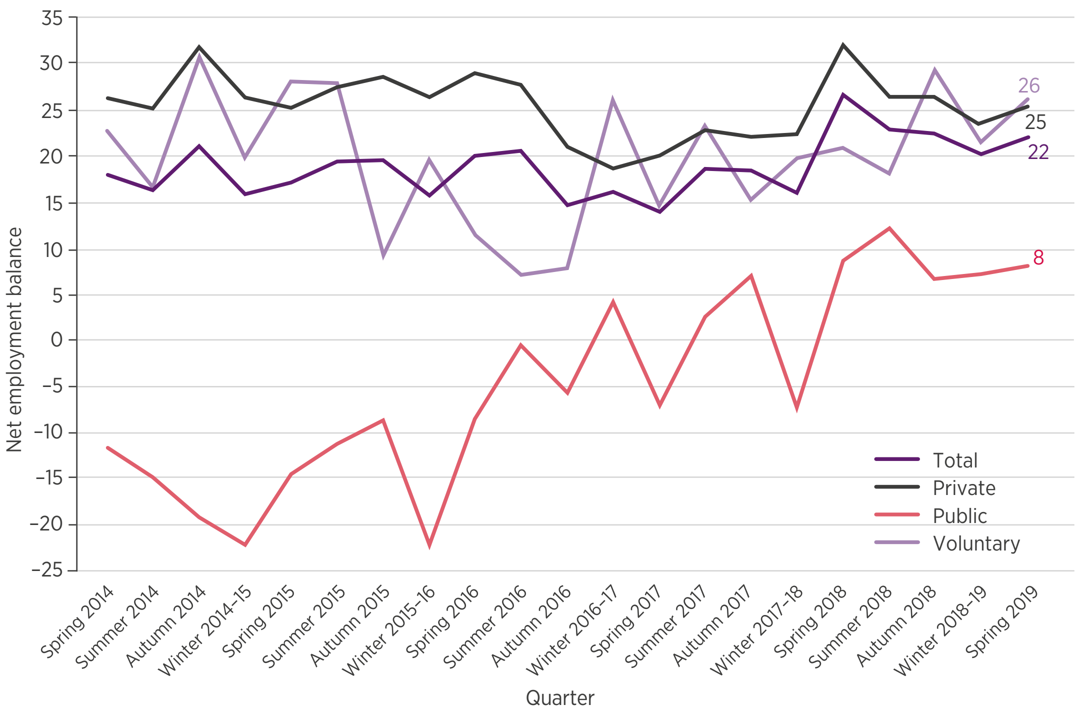
Figure 2: Decomposition of net employment balance over time



Base: Spring 2019, all employers (n=2,182).

The results suggest that any employment growth will continue to be driven by the private sector, which has increased from +22 to +25 since the previous quarter. In addition, employment levels look set to increase in the public sector (+8) and in the voluntary sector (+26) during the same period (Figure 3).

Figure 3: Overall effect of increasing or decreasing staff over the next three months, by business sector



Base: Spring 2019, all employers (total n=2,182; private n=1,659; public n=328; voluntary n=195).

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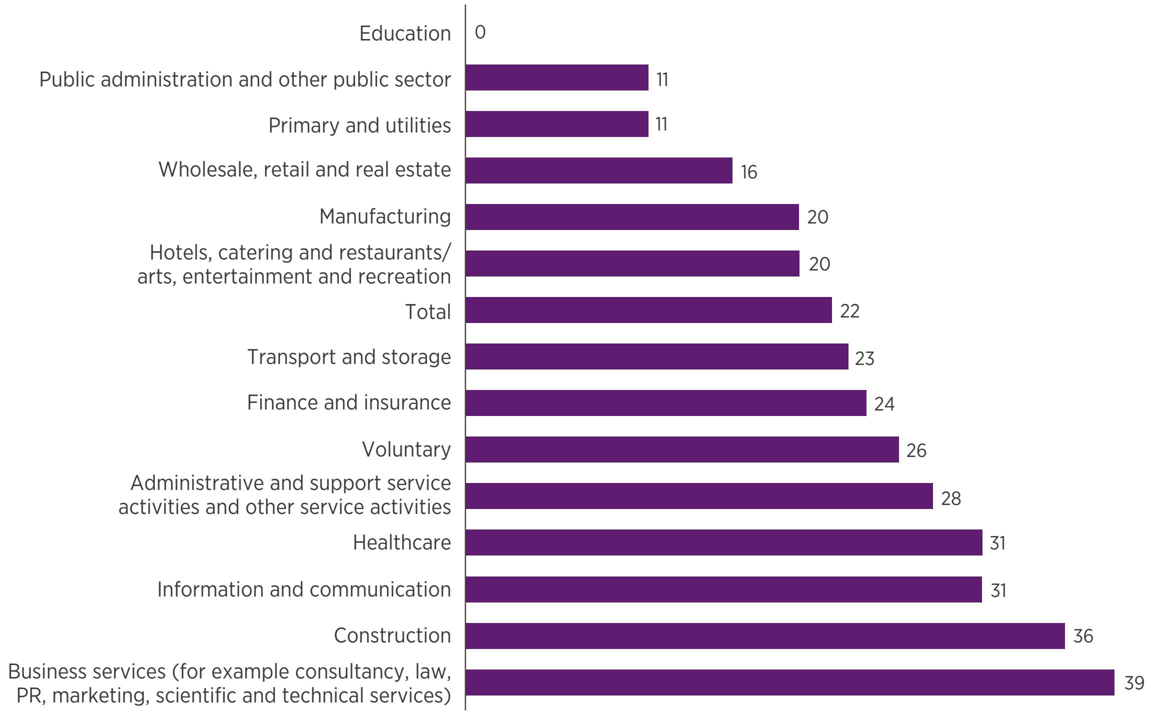
Employment confidence appears to be fairly broad-based across sectors (Figure 4). Among the LMO employers who responded to the survey, employment confidence is highest in business services (+39), construction (+36), healthcare (+31) and ICT (31%).

Figure 4: Net employment score, by sector (%)

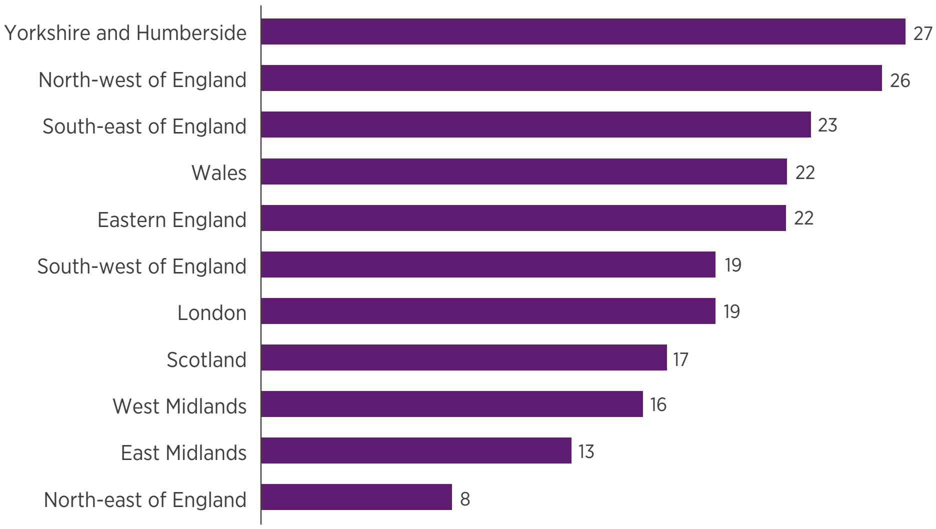


Base: All bases > 50. For breakdown of base sizes see Table 3.

Net employment score

Looking across the different nations and regions of the UK (Figure 5), employment confidence is highest in Yorkshire and Humberside (+27) and the north-west of England (+26) and lowest in the East Midlands (+13) and the north-east of England (+8).

Figure 5: Net employment score, by region (%)



Base: All bases > 50. For breakdown of base sizes see Table 3.

Net employment score

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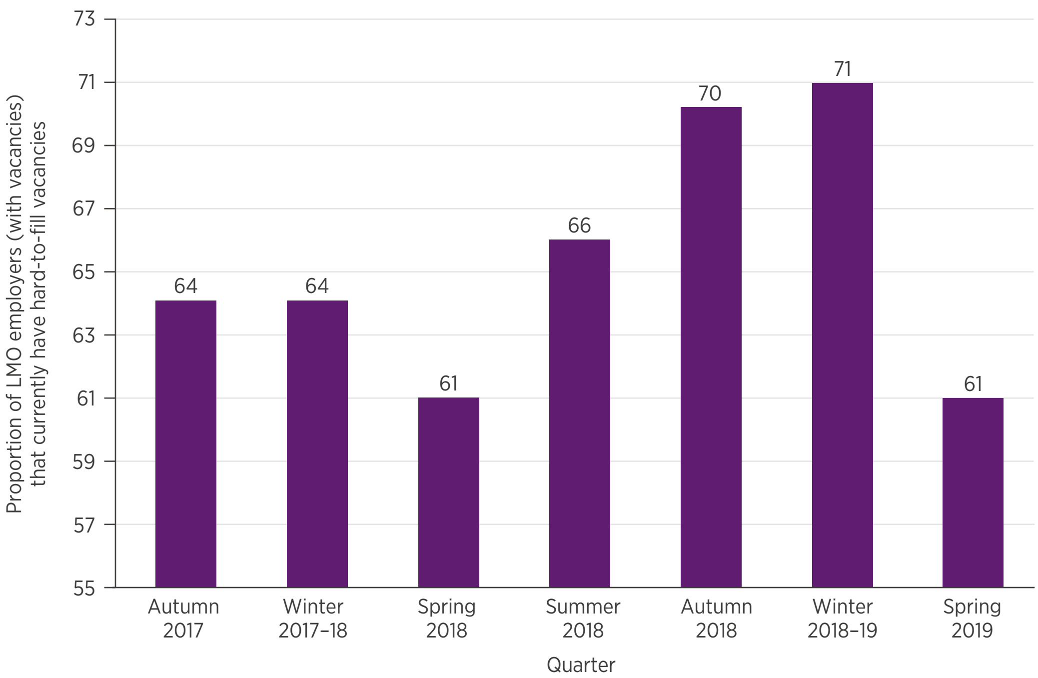
4 Job vacancies

Against the backdrop of a buoyant demand for labour, it is no surprise that a majority of organisations who are currently hiring have hard-to-fill vacancies. Among employers who currently have vacancies in their organisation, three in five (61%) report that at least some of these vacancies are proving hard to fill. By comparison, the same proportion (61%) of employers reported that they were currently having difficulty filling vacancies in their organisation during the same period in 2018 (Figure 6). Additionally, more than two fifths (41%) of employers report that it has become more difficult to fill vacancies over the past year. Around one in twenty organisations (6%) say that it has become less difficult.

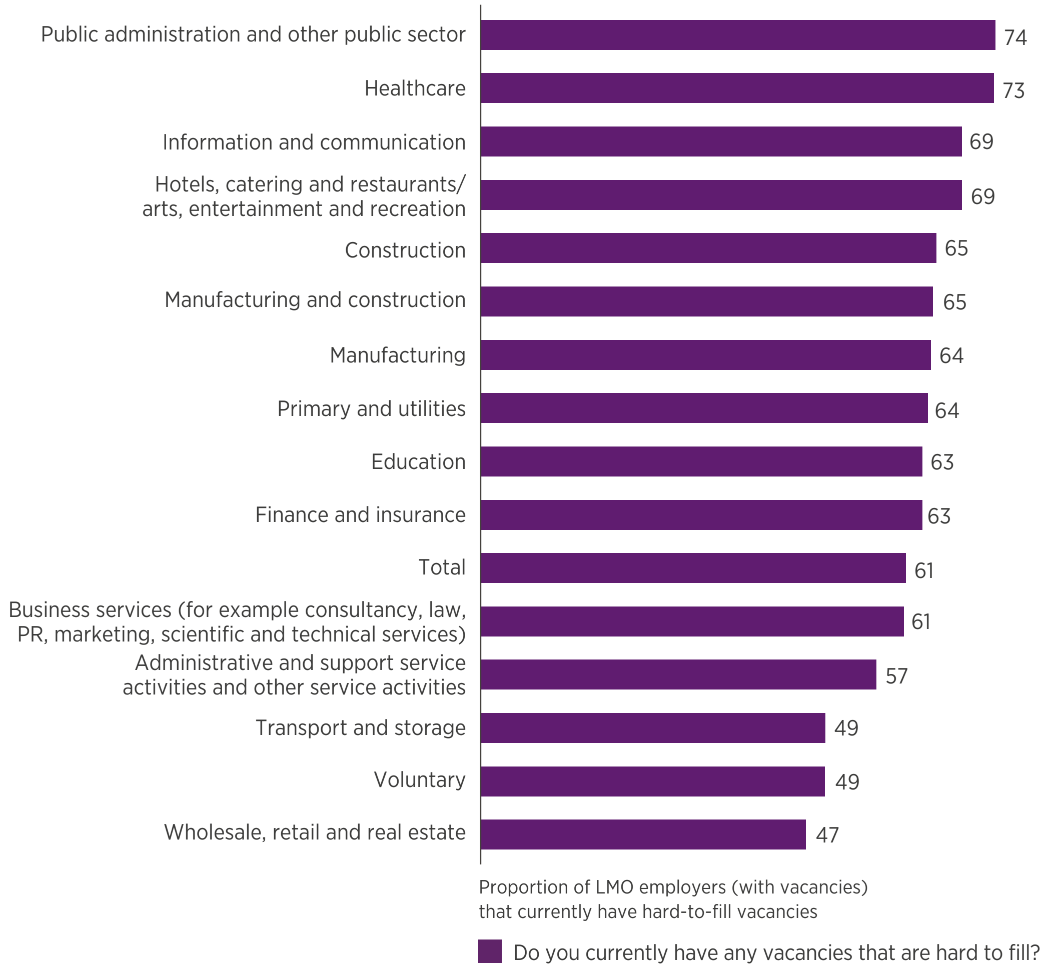
Figure 6: Proportion of organisations with current vacancies that have hard-to-fill vacancies (%)



Base: Spring 2019, all employers who currently have vacancies (n=1,237).

Hard-to-fill vacancies are most prevalent in public administration and defence (74%) and healthcare (73%) and ICT (69%) (Figure 7). Looking at the broader sectors, recruitment difficulties are higher in the public sector (72%) than in the private sector (59%) and voluntary sector (49%).

Figure 7: Proportion of organisations with current vacancies that have hard-to-fill vacancies (%)



What proportion of vacancies are hard-to-fill?

On average, organisations with hard-to-fill vacancies report that nearly four in ten of their total vacancies (39%) are proving hard to fill. This is higher than the incidence of recruitment difficulties reported in the spring 2018 survey, where three in ten of all vacancies (30%) were hard to fill among those organisations that experienced recruitment difficulties.

Overall, employers whose organisations are facing hard-to-fill vacancies report that on average around two-thirds (64%) are skill shortage vacancies – vacancies which are proving difficult to fill because of the establishment not being able to find applicants with the appropriate skills, qualifications or experience.

By occupation, the incidence of skill shortage vacancies among employers is particularly prevalent among professional occupations (for example scientists, engineers, IT business analysts, and so on), where half (50%) of employers say that applicants do not have the required level of skills, qualifications or experience. Meanwhile, around three in ten establishments (28%) say they are having difficulty filling positions for associate professional and technical occupations (for example science/engineering technicians, architectural technicians, and so on).

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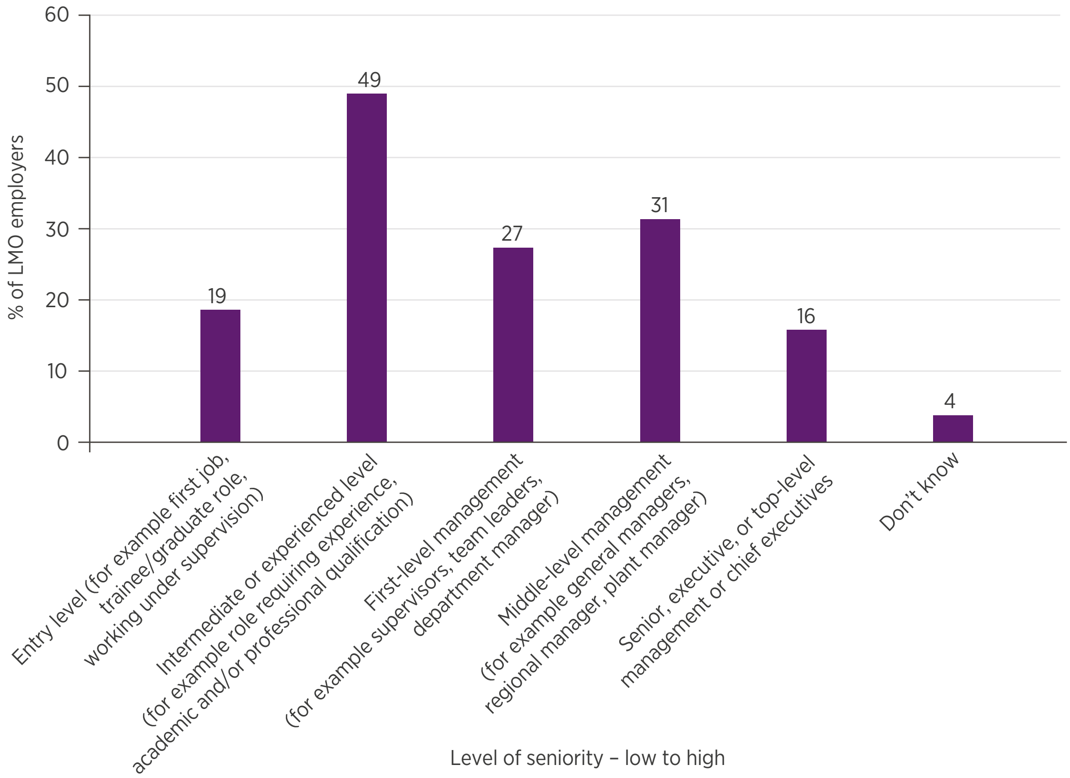
In addition, almost a quarter (23%) of employers report challenges recruiting managers, directors and senior officials and a similar proportion report similar difficulties for filling skilled trades vacancies (20%). Meanwhile, fewer employers report difficulties finding staff for administrative and secretarial (7%), process, plant and machine (7%) or elementary (5%) occupations. This is perhaps no surprise given that all of the employment growth during the past year has come from medium-skilled or high-skilled roles.[3]

Figure 8: Most difficult positions to fill (%)



Base: All organisations with hard-to-fill vacancies (n=757).

In terms of levels of seniority, employers with hard-to-fill vacancies indicate that intermediate or experienced level roles are proving most difficult to fill (49%), followed by middle-level management (31%) and first-level management (27%) roles (Figure 8). Employers seem to be having less difficulty finding candidates with the necessary skills or experience for senior, executive, or top-level management (16%) or entry-level (19%) roles.

Organisational response to hard-to-fill vacancies

The vast majority of organisations are currently taking steps to tackle recruitment difficulties (Figure 9). Upskilling remains at the forefront of organisations' approaches to tackling recruitment difficulties. More than two in five (43%) employers are currently upskilling existing staff to help offset hard-to-fill vacancies. Meanwhile, almost three in ten (29%) employers are currently raising wages, while almost a quarter (23%) of employers report that they are hiring more apprentices. In addition, almost a fifth (19%) of establishments are hiring from overseas to offset their current difficulties.

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

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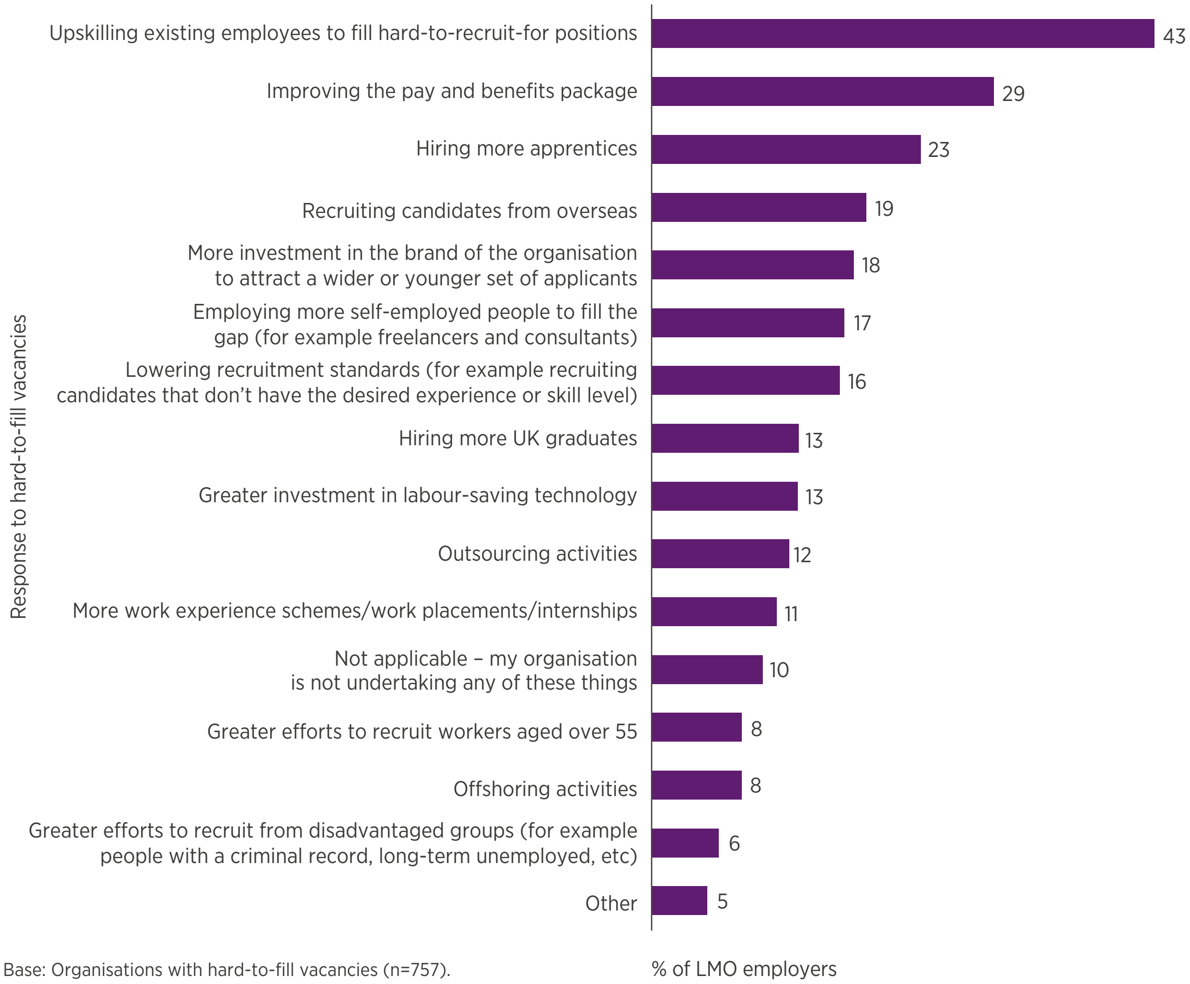
The findings also suggest that a relatively small proportion of employers have changed their recruitment practice in response to a tightening labour market. For instance, the most recent official data suggest that more than 70% of the employment growth during the past year has come from workers aged 50 and above. This survey suggests that almost one in ten (8%) employers say they are taking on more older workers while a similar proportion (6%) say that they are targeting individuals from disadvantaged groups. Overall, around one in seven (16%) employers say that they are lowering their recruitment standards.

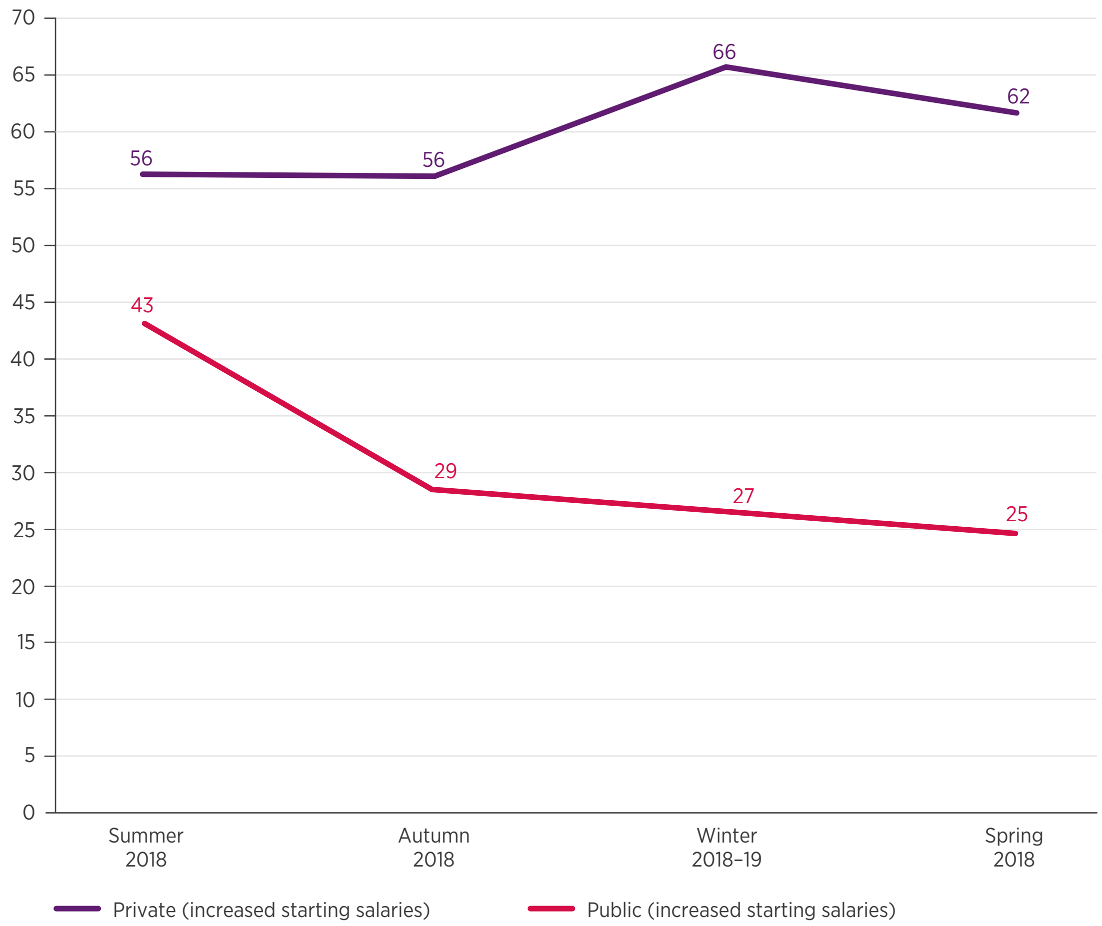
Figure 9: Organisation response to hard-to-fill vacancies (%)



Base: Organisations with hard-to-fill vacancies (n=757).

To alleviate their recruitment difficulties, more than half of employers (53%) have increased starting salaries for at least a minority of vacancies. Over a quarter of organisations (28%) have increased salaries for the majority of vacancies in response to recruitment pressures, while a similar proportion (25%) say that they have increased wages for a minority of vacancies only. However, more than four in ten (43%) employers have still not made any increases in starting salaries. In the private sector, the proportion of employers raising starting salaries has fallen from 66% to 62% during the past three months. Meanwhile, the proportion of public sector employers that have raised starting salaries in response to recruitment difficulties continues to decline (Figure 10). A quarter of employers (25%) say that they have raised starting salaries in response to recruitment difficulties, which is down from 43% in summer 2018.

Figure 10: Proportion of employers raising starting salaries in response to recruitment difficulties (%)



Base: Recruitment has become more difficult (raise starting salaries) (public n=159; private n=593).

How are retention pressures changing?

A third of employers (33%) assert that it has become more difficult to retain staff at their organisation over the past 12 months, which is broadly consistent with previous reports. Employers in the public sector are significantly more likely than those in the private sector to report it has become more difficult to retain staff (42% compared with 32%) during the past 12 months.

Among organisations that have had increasing difficulty retaining staff over the past 12 months, over half (54%) have increased salaries in some capacity. However, almost as many employers say that they have increased salaries for key staff at the organisation (25%) as the proportion that say they have raised salaries for the majority of staff (29%) to improve retention rates.

Employers in the public sector are significantly less likely to have increased salaries than those in the private sector (33% compared with 60%) (Figure 11).

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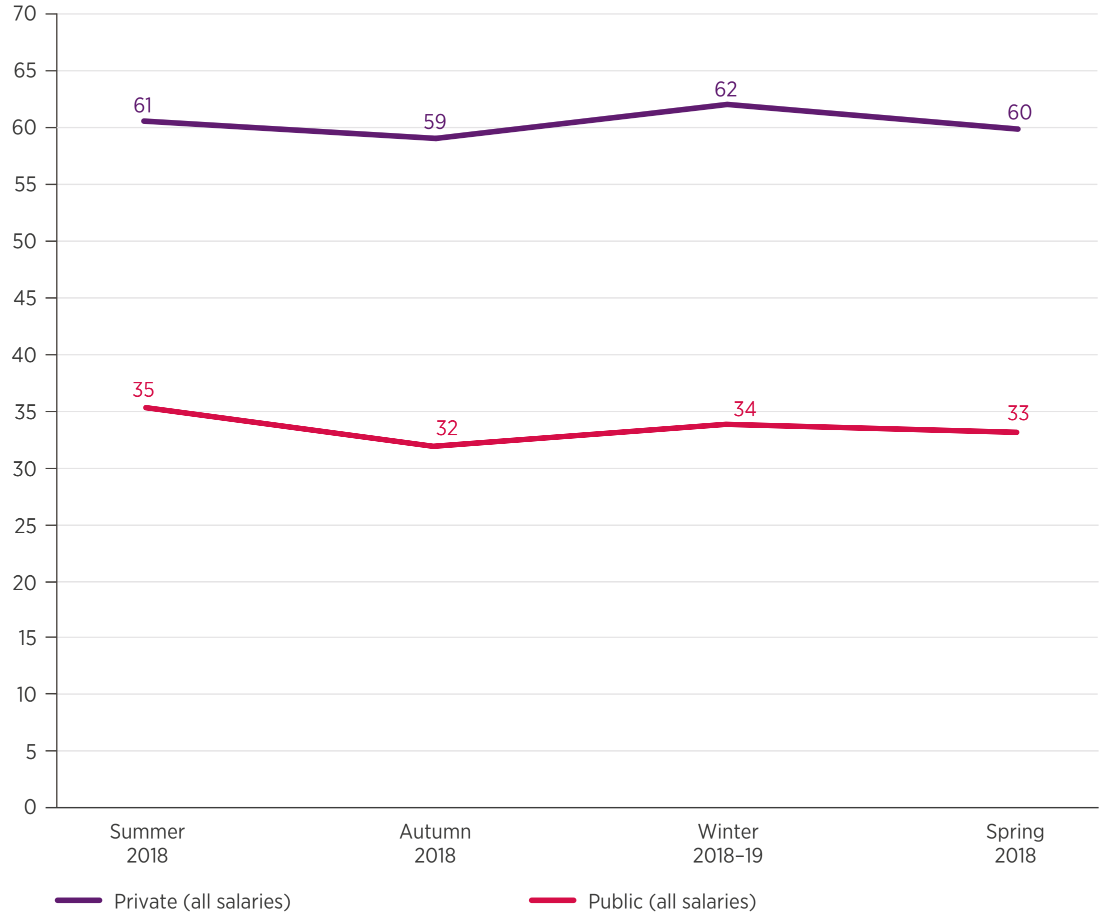
Figure 11: Proportion of employers raising salaries in response to retention difficulties (%)



Base: Retention has become more difficult (raise salaries) (public n=129; private n=467).

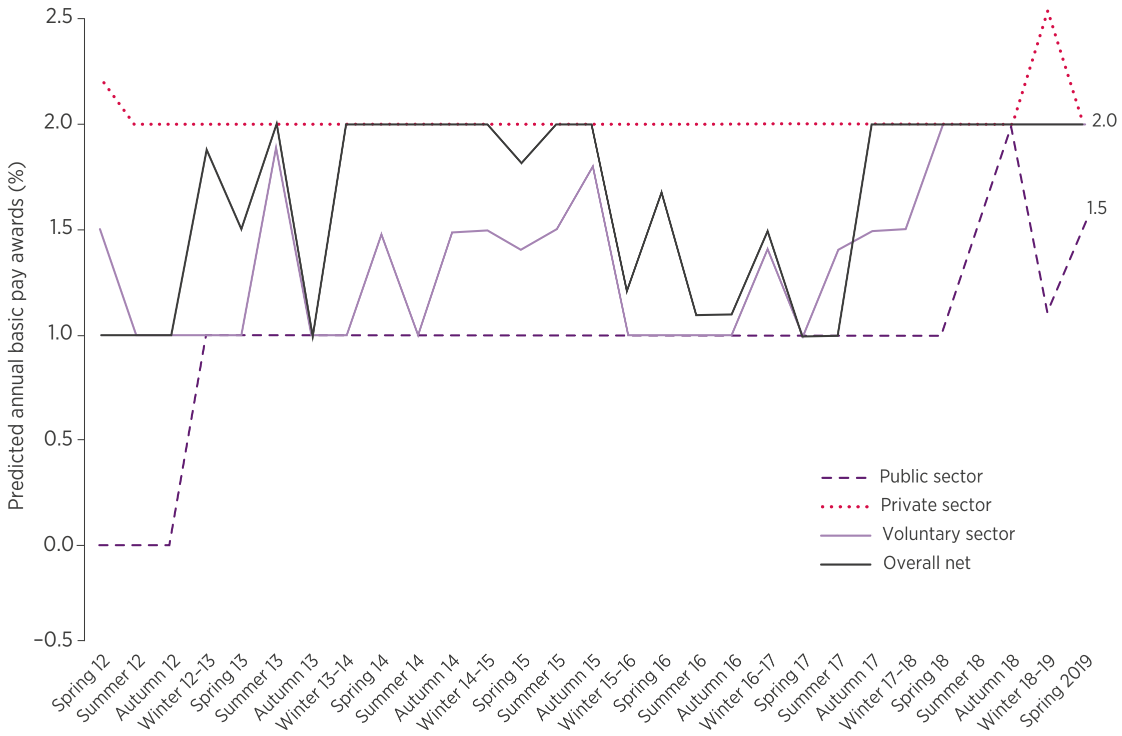
5 Pay outlook

What is likely to happen to wages in the next 12 months?

Median basic pay expectations in the 12 months to March 2020 are 2%, which is consistent with recent LMO reports. However, expectations have fallen back in the private sector from 2.5% to 2% since the previous report. At the same time, basic pay expectations have risen in the public sector from 1% to 1.5% (Figure 12). Looking at the sub-sectors, median basic pay award expectations are higher in the manufacturing sector (2.4%) than in the services sector (2%).

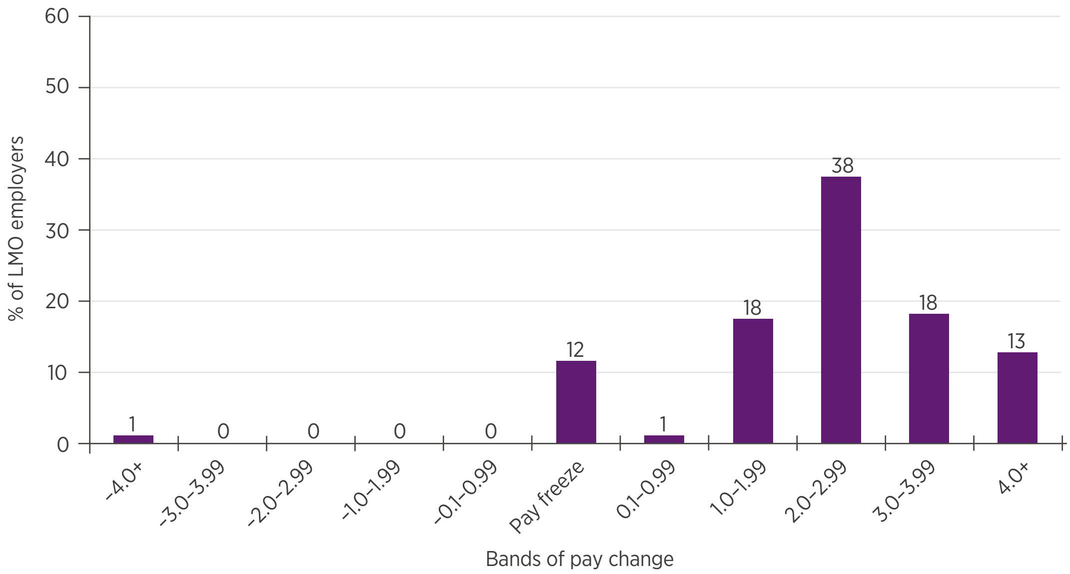
Despite the modest fall in the share of organisations that are unable to predict their next basic pay awards, around three in ten (29%) of organisations still do not know what their next basic pay award will be, so some care should be taken not to make too much of this.

Figure 12: Average predicted annual basic pay awards (median), by business sector



Base: Spring 2019, all employers who report an expected increase, decrease or pay freeze in the next 12 months (total n=992; private n=703; public n=181; voluntary n=108).

Figure 13: Distribution of forward-looking basic pay settlements – spring 2019 (%)



Base: Spring 2019, all employers who report an expected increase, decrease or pay freeze in the next 12 months (total n=992).

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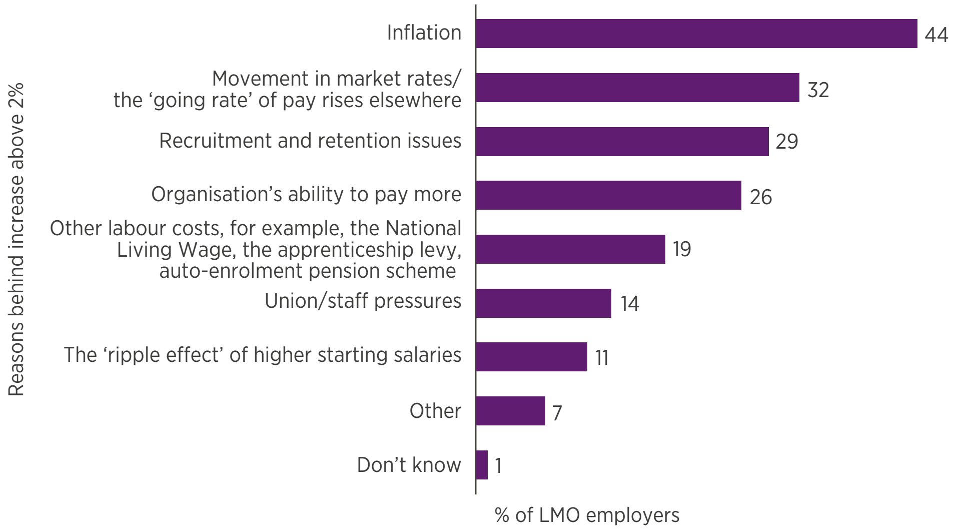
What are the key factors behind employers' basic pay decisions?

According to the survey data, inflation continues to put upward pressure on pay for some organisations. The proportion of employers that cite inflation as a reason for a basic pay award of 2% or more remains elevated (42%) compared with three months ago (44%) (see Figure 14). Meanwhile, the proportion of organisations that say that the going rate of pay elsewhere has been an influence fell from just four in ten (38%) employers to 32% of employers.

In addition, the proportion of organisations that cite recruitment and retention pressures has fallen from around one in three employers (34%) to almost three in ten employers (29%).

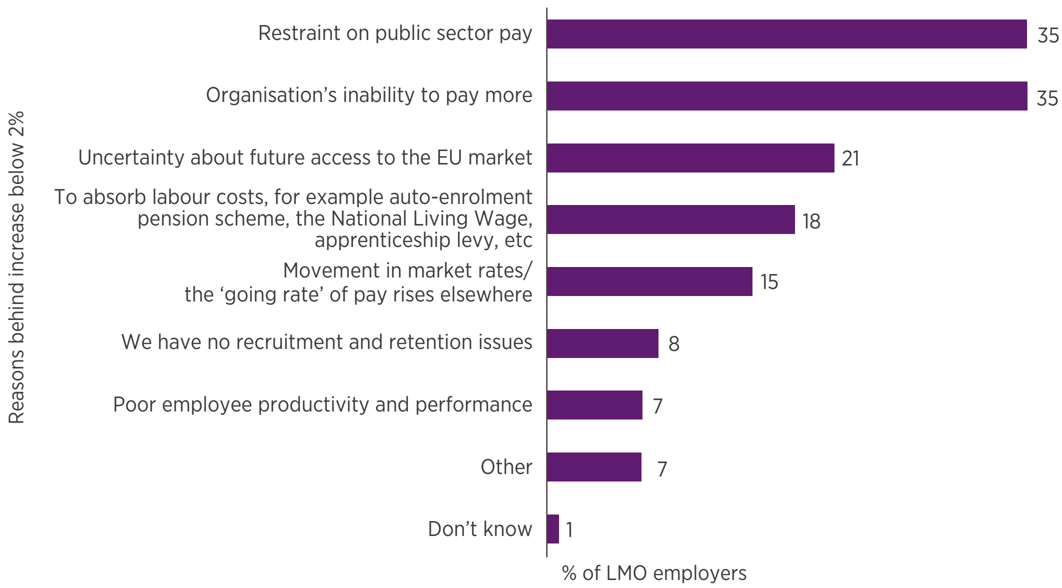
Figure 14: Top causes for increase in average basic pay by 2% or more (%)



Base: Spring 2019, all employers who expect their organisation's basic pay will increase by 2% or more (n=687).

Among employers who predict that average basic pay will increase at their organisation by less than 2%, or not increase at all, the three most popular reasons are restraint on public sector pay (35%), affordability (35%) and uncertainty around the UK's future access to the EU market (21%).

Figure 15: Top factors restricting organisations' ability to match the inflation rate target of 2% (%)



Base: Spring 2019, all employers who expect their organisation's basic pay will increase by less than 2% (n=304).

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6 Survey method

All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,182 senior HR professionals and decision-makers in the UK. Fieldwork was undertaken between 21 March and 18 April 2019. The survey was carried out online. The figures have been weighted and are representative of UK business by size, sector and industry.

Weighting

Rim weighting is applied using targets on size and sector drawn from the *Business Population Estimates for the UK and Regions 2016*. The following tables contain unweighted counts.

Table 1: Breakdown of the sample, by number of employees in organisation

Employer size band	Count
2–9	449
10–49	485
50–99	181
100–249	229
250–499	170
500–999	123
1,000 or more	545
Total	**2,182**

Table 2: Breakdown of sample, by sector

Sector	Count
Private sector	1,659
Public sector	328
Third/voluntary sector	195
Total	**2,182**

Table 3: Breakdown of sample, by industry

Industry	Count
Voluntary	195
Manufacturing and production	371
Manufacturing	192
Construction	129
Primary and utilities	50
Education	209
Healthcare	145
Private sector services	1,127
Wholesale, retail and real estate	143
Transport and storage	58
Information and communication	134
Finance and insurance	175
Business services (eg consultancy, law, PR, marketing, scientific and technical services)	257
Hotels, catering and restaurants/Arts, entertainment and recreation	152
Administrative and support service activities and other service activities	208
Public administration and defence	135
Public administration and other public sector	120
Police and armed forces	15
Total	**2,182**

Table 4: Breakdown of sample, by region

Region	Count
North-east of England	63
East Midlands	114
West Midlands	149
Scotland	140
London	365
South-west of England	154
Eastern England	105
Wales	62
South-east of England	304
North-west of England	167
Yorkshire and Humberside	134
Northern Ireland	18

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