



---

THE ADECCO GROUP

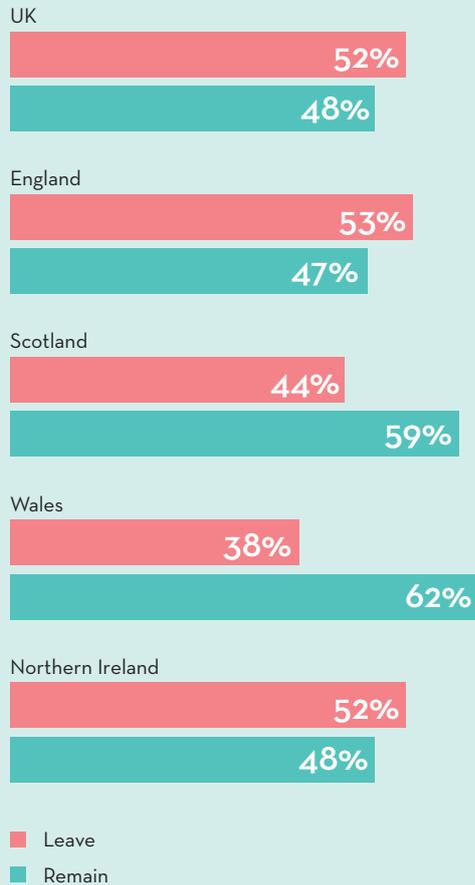
# The facts about Brexit

February 2017

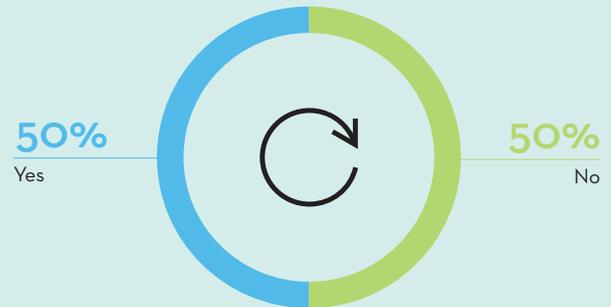
[adeccogroupuk.co.uk](http://adeccogroupuk.co.uk)

# Scottish Independence

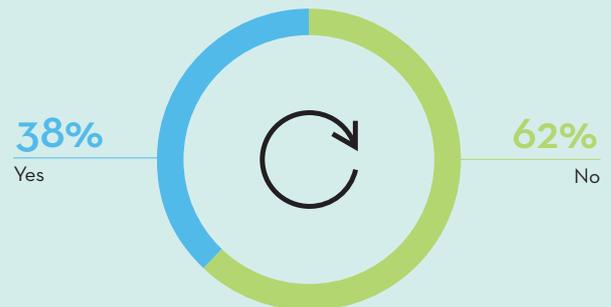
## UK Regions Brexit results



## Should Scotland be an independent country (Jan 2017)



## Independence result 2016



The decision to exit the European Union continued to cause friction between the nations in the United Kingdom during February, specifically north of the border where calls for a second referendum on Scottish Independence intensified.

Scotland was the most heavily in favour of remaining in the EU of all the regions with nearly two-thirds (62%) of voters wanting to stay part of the EU. This has fuelled calls for the country to deal with the EU directly

A cross-party Scottish parliamentary committee concluded that the country depends on young migrants to expand its workforce and population. "The committee believes...that there are acute risks to Scotland of a loss of the existing EU migrants or a decline in future migration," it said, citing evidence of the importance of EU migrants to a range of economic sectors. The committee suggested that Scotland should seek its own deal, as part of Brexit, to control immigration into the country.

This need is directly at odds with British Prime Minister's stated aims of reducing immigration.

With this in mind a recent poll by Ipsos Mori found that half of Scots would vote for independence from the rest of the UK if a vote were held today. This

was 2% higher than six months ago but very different from the result of the referendum that has already been held.

Although an independent Scottish government would have the right to deal with the EU the country would not be automatically be accepted into the Union. The European Commission confirmed that Scotland would have to formally apply, but conceded that the application could be fast-tracked as Scotland already complies with EU rules and regulations.

Jacqueline Minor, Head of Representation for the European Commission in the UK, did point out that there are a number of official candidate countries already engaged in the process of membership even though Scotland may be able to move faster.

The application process is also likely to include adopting the Euro as currency, something the Scottish National Party has repeatedly rejected.

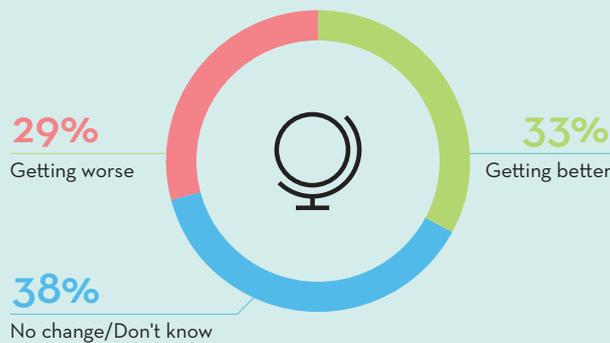
### What this means

Regardless of the outcome resurrecting the independence question in Scotland will increase levels of uncertainty in the short-term, even if a referendum is not called. Increased uncertainty is likely to mean less investment in the workforce, especially in permanent roles.

# Uncertainty in the recruitment market

## How are economic conditions in the UK faring

(Source: REC Jobs Outlook)



According to research published by the Recruitment and Employment Confederation (REC) 'Political and economic uncertainty' is the top challenge faced by one in three businesses (36%) in the UK.

Kevin Green, REC Chief Executive, said "employers are eyeing the road ahead with trepidation".

There is even uncertainty over how things are going with in the economy at the moment with similar numbers of respondents believing that economic conditions are improving (33%) and getting worse (29%).

Continuing the subject of confusion, The European Commission upgraded the UK's growth forecast to 1.5%, from 1% in November, following in the footsteps of the Bank of England.

At the same time research from the MIT Sloan School of Management has said that the impact of Brexit could be four times worse than previously expected. More than half of business leaders already think it is having an impact on their company according to Ipsos Mori's 'Captains of Industry' poll. Only 11% think it has been positive.

Looking further into the future the survey continues to reflect uncertainty with 45% believing this will still be worse but nearly one-third (32%) suggesting the situation will be more positive in five years' time.

Paul Drechsler, President of the Confederation of British Industry (CBI), talked of a "Pandora's box of economic consequences" if the UK exited the EU without an agreement on trade with the bloc. Charles-Edouard Bouée, the Chief Executive of Roland Berger, also suggested that investors were underestimating the complexity of the situation and warned against investing in the UK. He did point out, however, that uncertainty is not just a singularly Brexit, or even European, problem but something the world is grappling with at the moment.

## Negotiations

Part of the reason for the continued confusion is that nothing is yet known about how negotiations might proceed. Even to the extend the Civil Service is not ready to negotiate it due to a lack of skills and resources, according to a former head, Lord Kerslake.

Comments from both the Austrian Chancellor, Christian Kern, and French Senate suggest that the EU should seek to ensure the UK is not better off once it has withdrawn.

"A member of a club must have better conditions than somebody who isn't a member of this club - our British friends must be aware that nothing else can come out of these negotiations," Mr Kern said. "Everything else would be a capitulation by Europe."

Even after negotiations have been concluded uncertainty may still exist as UK banks will need 12-18 additional months in order to finalise transitional arrangements, according to the Bank of England's new deputy governor, Charlotte Hogg.

## Labour Market

Uncertainty and confusion can also be seen in labour market statistics.

According to the Office for National Statistics (ONS) job creation slowed in the final quarter of 2016, to the slowest in 18 months. At the same time the REC is reporting a 17-month high in demand for staff.

"Employers are crying out for people to fill vacancies," REC Chief Executive Kevin Green said.

In this instance it is possible for these two seemingly contradictory statements to be true. It is possible that companies may be interested in hiring staff but unable to find the skills they require. According to research conducted by the Chartered Institute of Personnel and Development (CIPD) and The Adecco Group UK&I 14% of employers reporting skills shortages will respond by leaving the position unfilled.

If this is true, then the natural way for the market to respond would be increased wage growth in the near future as employers start to compete for increasingly scarce talent. As it turns out that is exactly what the REC is reporting, the fastest rise in permanent starting salaries for nine months.

## What this means

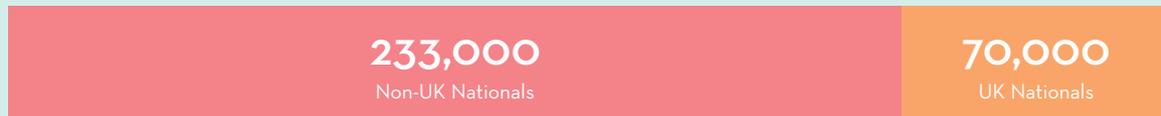
The UK recruitment market is unlikely to experience high levels of certainty for some time to come. What we have seen since the referendum is a decision to just accept the situation and continue making employment decisions as necessary but without large scale, long-term investment. The labour market still appears to be feeling positive, but there will be questions going forward such as whether it is positive enough to invest in wage increases and has access to enough skills.

# The post-Brexit workforce

## Employment Growth Q4 2016 vs Q4 2015

(Source: ONS)

Total: 303,000



## To the best of your knowledge, in which of the following ways, if any, would your organisation respond if it became harder to recruit EU nationals in the future?

(Source: CIPD/The Adecco Group UK&I Labour Market Outlook)



Although unemployment remained unchanged at 4.8% during the last quarter there is no ignoring the fact that non-UK nationals were responsible for the majority of employment over the last year. However, these figures also fell by 19,000 during the final quarter of Q4, showing just a suggestion that the UK might not be able to rely on this source for much longer.

Research from the New Economics Foundation suggests that if all current non-UK nationals were to stop working for a day it would cost the UK £328m, or 4% of Gross Domestic Product (GDP).

### Lower Demand from EU Nationals

LinkedIn has reported that the number of EU-27 nationals with a degree looking for work in the UK fell by 18% in the months following the referendum. In addition, UCAS has reported that applications from EU nationals to study in the UK have fallen by 7% this year, Cambridge University has reported an even larger fall - 14%.

Sorana Vieru, National Union of Students Vice President said of the figures: "The seven per cent decline in applications of students from the EU after the referendum result should be seen as a warning that studying in the UK is a considerably less attractive option than it was 12 months ago."

Although the reciprocal might also be true as Maastricht University, in the Netherlands, also reported a fall, of 6% despite a 35% increase over 5 years and the far lower tuition fees.

"The figures offer further evidence that Brexit has had a discernible impact on the allure of the UK as a place to live and work," said Gerwyn Davies, the CIPD's Labour Market Adviser.

"Employers in sectors that employ relatively large numbers of EU nationals, which also account for a sizeable proportion of vacancies, are likely to come under further recruitment pressures if, as we expect, this trend continues," he said.

### Losing Existing Employees

Employers also understand the risk that they might lose existing staff members. The Labour Market Outlook report produced by the CIPD in partnership with The Adecco Group UK&I found that one in four (27%) had evidence that EU nationals they employed were considering leaving their current role or even the country.

These feelings were particularly high within the education and healthcare sectors where nearly half of employers were worried about staff leaving. Interestingly large global companies are actually showing signs of using their existing workforce to help plug gaps with numbers of intra-company transfer visas increasing by 3% in the six months since the referendum.

### What this means

Current demand in the recruitment market suggests that the prospect of a smaller talent pool is not currently a significant consideration for many employers. One in three employers told The Adecco Group/CIPD's Labour Market Outlook that it would not affect their organisation.

In fact, according to City and Guilds more than two-fifths of employers (42%) feel that they actually expect Brexit to have a positive effect on recruitment. Kirstie Donnelly, Managing Director of City and Guilds, said that the results were heartening in a time of great uncertainty in the UK economy.

"Of course, we still don't know what is going to happen, but it's encouraging to see optimism among employers," she said.

"I hope this means that more and more employers are planning to harness 'home-grown skills' thanks to the Government's drive to increase the number of apprenticeships in the UK."

The worry is that all this may yet come home to roost if companies are hit by problems they were not expecting but could have foreseen. One in four employers (27%) told the LMO that they do not know what proportion of their workforce is made up of EU nationals - unless they know how could they be confident or not about future recruitment issues.