CIPD
Championing better work and working lives

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THE ADECCO GROUP

LABOUR MARKET OUTLOOK

VIEWS FROM EMPLOYERS

Autumn 2017

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.

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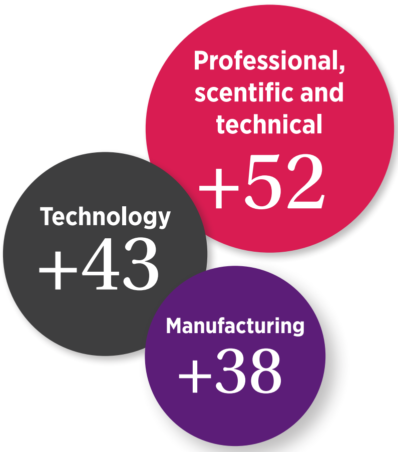


The strength in labour demand is greatest in the technology (+43) manufacturing (+38) and professional, scientific and technical sub-sectors, which is again consistent with the sharp increase in manufacturing output in the third quarter according to official preliminary estimates.

The quarterly CIPD *Labour Market Outlook* (LMO) provides a set of forward-looking labour market indicators highlighting employers' recruitment, redundancy and pay intentions for the fourth quarter of 2017 onwards. The survey is based on responses from 2,007 employers.

Labour demand

According to the report, demand for labour 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 – has decreased to +26 from +27 over the past three months (Figure 1), which is well above the survey's historical average. This is consistent with recent LMO reports and official labour market data,[1] which show that employment has continued to grow strongly. The strength in labour demand is greatest in the technology (+43) manufacturing (+38) and professional, scientific and technical sub-sectors, which is again consistent with the sharp increase in manufacturing output in the third quarter according to official preliminary estimates. There is also some variation by region. Employment confidence is highest in the East Midlands (+38) and the south-west of England (+51). Meanwhile, employment prospects are less buoyant in Scotland (+23) and London (+22).[2]

Looking ahead, despite the evident optimism in this quarter's survey, it seems likely that the strong growth in employment over the past year will ease during the course of 2018. This is due in part to the impact of continued slower economic growth, the uncertainties associated with Brexit and the prospect of further interest rate rises.

Labour supply

Overall, the survey data suggests that the continued strength in labour demand has not increased recruitment pressures for employers during the past six months, despite unemployment having fallen further since. In addition, the report's findings show that just 15% of all vacancies are skills shortage vacancies. Skills shortage vacancies are more prevalent in the public sector (18%) than in the private sector (13%). In addition, around one in three (29%) of employers with current vacancies report it to be from skill shortages, suggesting pay pressure is unlikely to come from a lack of skills in the labour market.

This is broadly consistent with recent research which shows that employers received an average (median) 24 applicants for the last low-skilled vacancy they tried to fill, compared with 19 applicants for the last medium-skilled vacancy and six applicants for the last

[1] ONS. (2017) *UK labour market: October 2017*. Available at: www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/latest [Accessed 18 October 2017].

[2] Care should be taken not to over-extrapolate from these figures due to some sample sizes of between 50 and 100.

[3] CIPD/The Adecco Group. (2017) *Labour market outlook: summer*. Available at: www.cipd.co.uk/Images/lmo-summer17-survey-report_tcm18-26710.pdf [Accessed 31 October 2017].

high-skilled vacancy according to recent research.[3] Nearly half of the applicants were deemed suitable across all types of vacancy. As the official data suggests, the recent growth in labour demand has been matched by additional sources of labour supply over the past year, especially from EU nationals, older workers and welfare claimants.[4]

Pay growth

The autumn 2017 *Labour Market Outlook* survey suggests that wage growth expectations for the year ahead have strengthened modestly over the past three months, but remain subdued. Median basic pay expectations in the 12 months to September 2018 are 2%, up from 1% growth in the previous LMO report. Consistent with the trend in recent reports, the report's median average basic pay increase expectations in the private sector (2%) and public sector (1%) are unchanged compared with the summer 2017 report. This is consistent with official data, which show that basic wage growth has settled at 1.8–2.2%.[5]

The survey data in this report point to factors that may partly explain the continuation of subdued wage growth in the official data. These include weak wage pressure from staff, limited skills shortages and low productivity. For instance, almost two in five private sector firms say they are under no pressure to increase wages for their staff along with over a third (36%) of firms who report that they are either under some or significant pressure to raise wages for certain roles only. And the most common reason given by private sector employers (23%) for the lack of pressure is a recognition among workers that the business cannot afford more generous pay increases, underlining the productivity challenge many firms face. According to the most recent official data, productivity has fallen for the second consecutive quarter.[6]

Conversely, the share of public sector organisations that are under pressure to increase wages is much higher than in the private sector, which may partly reflect the recent debate about the scrapping of the public sector pay cap. Almost three fifths (59%) of public sector establishments say they are under some or significant pressure to raise wages for the majority of the workforce. In addition, a quarter (25%) of public sector organisations say that they are under some or significant pressures to raise wages for certain roles. However, it should be noted that public sector pay is unable to respond as flexibly to the state of the labour market as the private sector because public sector pay awards are set by government and can cover a number of years.

Additionally, there are some parts of the private sector that are reporting pay pressures, especially in construction where almost four in ten (38%) employers say that they are under some or significant pressure to increase earnings for the majority of the workforce.

Taken together, the survey data provide further evidence that productivity has a far more significant bearing on pay growth than the tightness of the labour market. As we have seen, the gradual tightening in the labour market over the past two years has not led to greater upward pressure on earnings growth. In contrast, the relationship between lacklustre productivity growth and wage growth remains strong (Annex 1).

It remains to be seen therefore whether employers will be able to meet even modestly higher pay expectations if productivity improvements fail to materialise between now and the time of their next basic pay award. Additionally, the clustering of pay awards in the first half of next year imply that any boost to earnings growth will not happen until next year.

Taking all the evidence together, the report's findings point to wage growth remaining subdued for the rest of the year and rising modestly during the course of 2018.

[4] ONS. (2017) *UK labour market: October 2017*. Available at: www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/latest [Accessed 18 October 2017].

[5] ONS. (2017) *UK labour market: October 2017*. Available at: www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/latest [Accessed 18 October 2017].

[6] ONS. (2017) *Labour productivity: April to June 2017*. Available at: www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/bulletins/labourproductivity/apriltojune2017 [Accessed 18 October 2017].

Foreword from The Adecco Group UK and Ireland

The CIPD/The Adecco Group *Labour Market Outlook* (LMO), autumn 2017 report presents something of a mixed picture for labour and pay across the UK. While strong labour demand might stand out in the findings, and wage growth expectations seem to have risen (amongst the 55% of respondents who can actually foresee pay changes in their organisation), we must be mindful that subtleties in the results do in fact point to the emergence of a multi-tiered economy.

How a business experiences the current UK labour market is being heavily affected by a range of different factors, including variances in region, sector and company size. All these factors influence an organisation's experience of skills shortages, Brexit, and other external pressures. This all adds up to a multi-tiered economy.

The LMO reveals that employment confidence is significantly lower in London (+22) than it is in the Midlands (+31) or the south-west of England (+51). It also shows that employers in the public sector (83%) are experiencing some form of pressure from their workforce to raise wages, compared with only 59% in the private sector and 60% in the voluntary sector – this is likely to be a consequence of the Government's recent changes to the public sector pay cap.

This complex and fluctuating background means it's more important than ever that employers understand their unique place in the market and how it affects their current and future talent requirements. Focusing on retaining employees and recruiting talent to fill gaps is key for businesses to ensure they can seize strategic opportunities as they arise. Talent mapping is becoming an increasingly important part of any employment strategy to prepare for Brexit and manage the impact of the vastly multi-tiered economy on their operations.

The LMO reveals that 44% of companies that have hard-to-fill vacancies are planning to upskill employees to resolve this challenge. A business needs a thorough understanding of individual marketplaces to ensure that upskilling efforts are in line with skills requirements.

The report also identifies differing wage increase and pay expectations of candidates, depending on their job role and skillset – further evidence of a multi-tiered economy. It's important for employers to understand the candidates in their individual sector, as some are acutely aware of the value of their skillsets (and may leave if they are not recognised), while others may prioritise job security in the current market, understanding that some employers are currently restricted from offering further wage increases. So, it may not be appropriate in this market to apply a blanket percentage salary rise to all employees.

The LMO shows that the labour market is strong, but we are continuing to see complexities emerge out of ongoing uncertainties, so the current economy is anything but standard. In this environment, expert regional and sector insights into the labour market will be key for businesses to get the most out of their workforce.

Alex Fleming
President of General Staffing,
The Adecco Group UK and Ireland

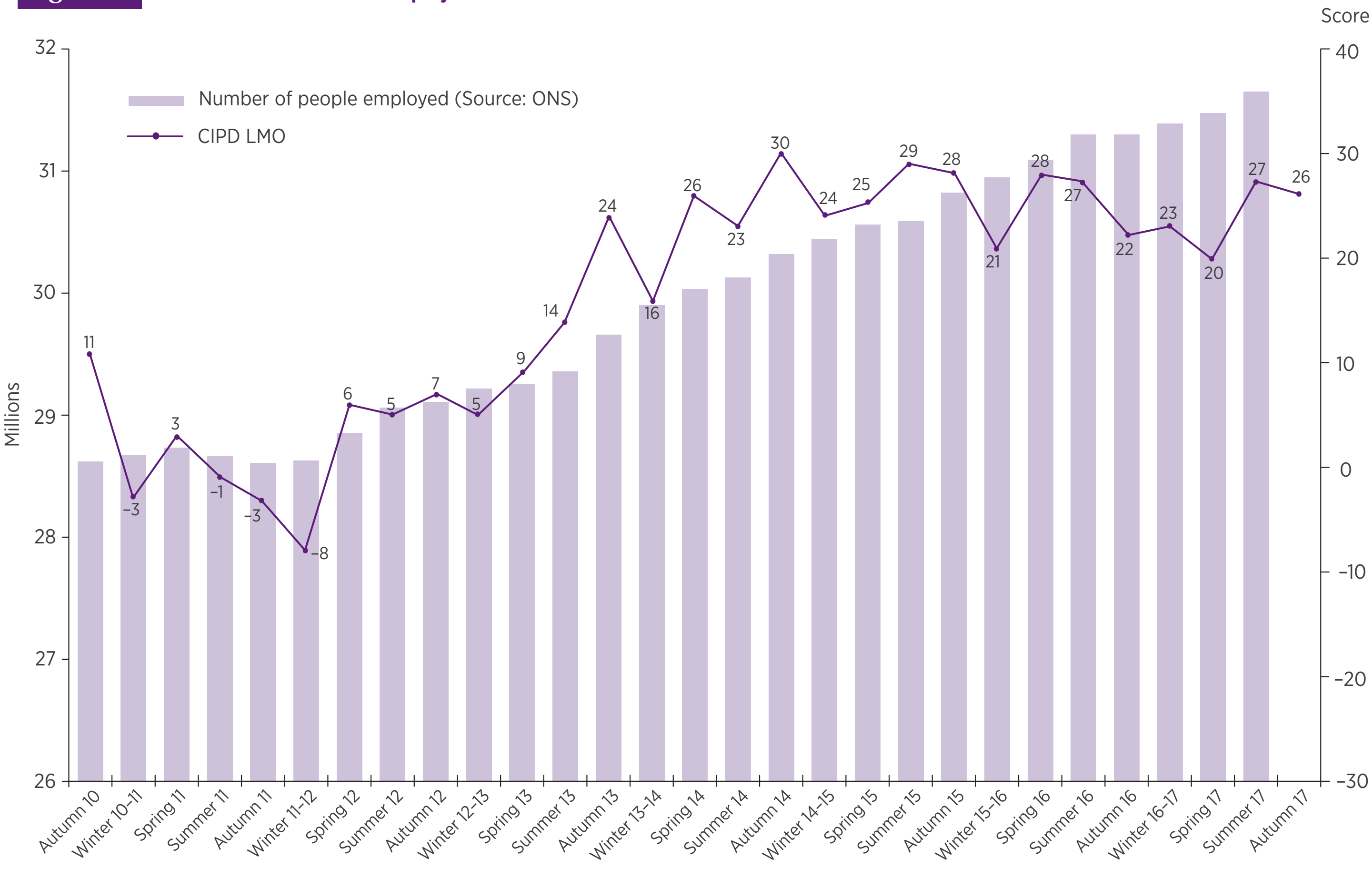
1 Recruitment and redundancy outlook

What is the short-term employment outlook?

This section focuses on the recruitment and redundancy intentions of LMO employers in the fourth quarter of 2017. This latest report suggests that employment growth looks set to remain strong for the rest of the year.

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 remained broadly stable, standing at +26 compared with +27 in summer 2017 (Figure 1).

Figure 1 Correlation between LFS employment levels[7] and LMO data



Base: autumn 2017, all employers planning to recruit and/or make employees redundant in the next three months (n=1,325)

How to interpret Figure 1

Figure 1 displays the LMO net employment indicator time series data since spring 2009 (the purple line).

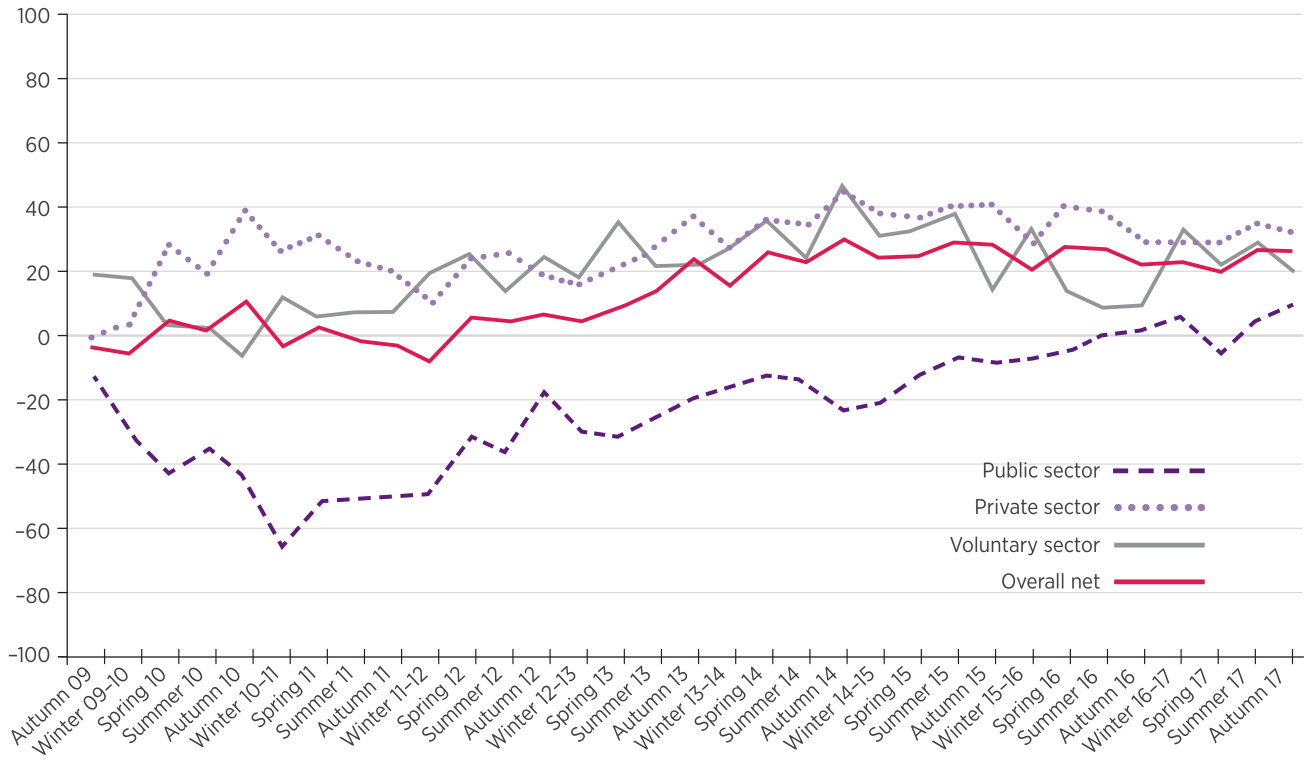
The columns display the trends in official ONS employment levels. The LMO net employment outlook is a forward-looking indicator of how employers feel employment levels will change over the next three months. The corresponding ONS employment level is added to replicate this timeframe and show what actually happened to unemployment and employment over the same time period.

[7] Labour Force Survey data taken at quarterly intervals based on GB population aged 16+. Winter (November–January), autumn (August–October), summer (May–July), spring (February–April).

Employment confidence remains high across much of the private sector. Overall, the net employment score for the private sector is +32. Employment prospects are more buoyant in manufacturing (+38) compared with private sector services (+29). Employment optimism is highest in the technology (43+) and the professional, scientific and technical (+52) sub-sectors. Meanwhile, the net employment balance for the public sector has increased to +10, from +5 since the previous report. Additionally, employment prospects in the voluntary sector continue to fluctuate, falling to +20 from +29 in the previous report. Looking at the sub-sectors in more detail, employment prospects have improved significantly over the past three months in the healthcare sector (+31 from +12) and the education sector (+21 from +5) (Table 1).

Looking across different nations and regions of the UK, employment confidence is highest in the East Midlands (+38) and the south-west of England (+51). Meanwhile, employment prospects are less buoyant in Scotland (+23) and London (+22).

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



Base: autumn 2017, all employers planning to recruit and/or make employees redundant in the next three months (total: n=1,325; private: n=944; public: n=215; voluntary: n=166)

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

Sector	Autumn 2017	Summer 2017	% point change
Private sector services (n=663)	+29	+37	–8
Manufacturing and production (n=201)	+37	+33	+4
Education (n=103)	+21	+5	+16
Public administration and defence (n=97)	–4	+3	–7
Healthcare (n=89)	+31	+12	+19

Base: autumn 2017, all employers planning to recruit and/or make employees redundant in the next three months

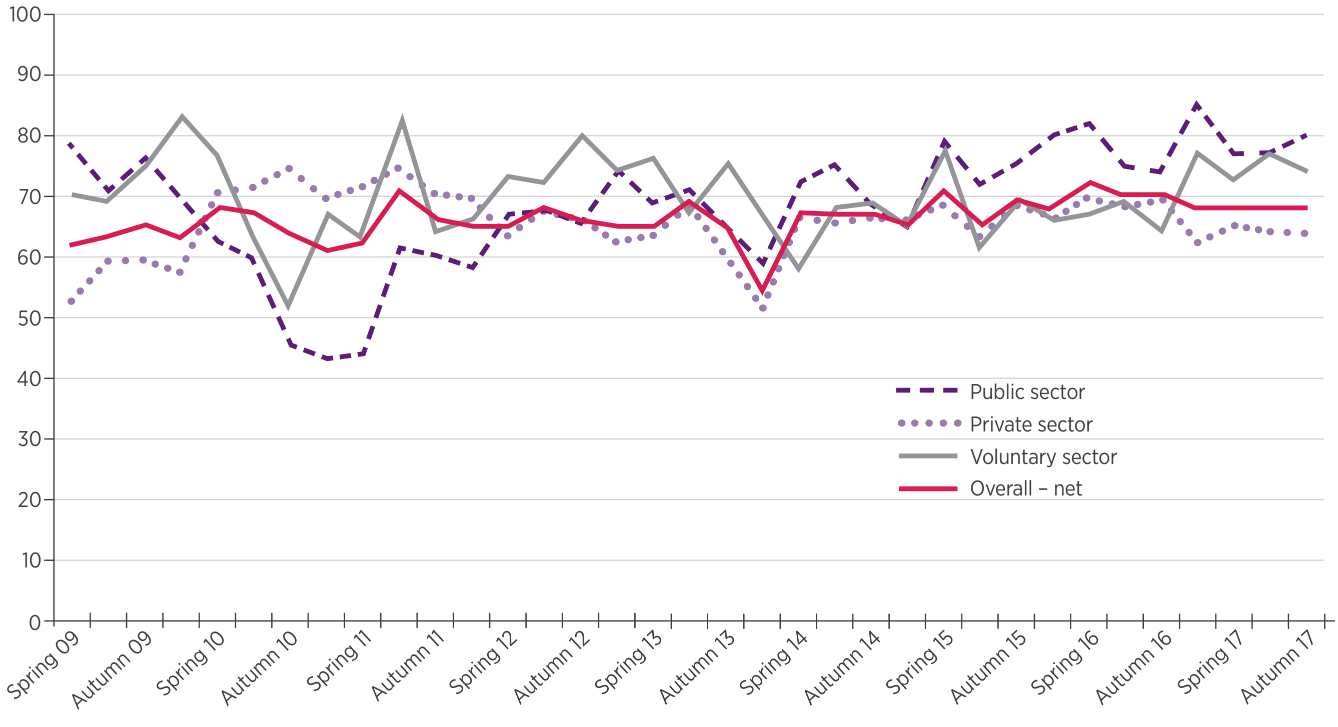
What are the recruitment intentions for the forthcoming quarter?

Recruitment intentions among LMO employers are broadly consistent with recent trends. Just over two-thirds (68%) of organisations state that their organisation is planning to recruit employees in the three months to December 2017 (Figure 3). Eight out of ten (80%) public sector employers – mainly those with a large workforce – plan to recruit employees during the same period, compared with almost two-thirds (64%) of private sector firms and three-quarters (74%) of voluntary sector employers.

Recruitment intentions are strongest in the healthcare (81%) and the public administration and defence sectors (82%) (Table 2). Around four-fifths of large employers (82%) plan to recruit employees in the three months to September 2017, compared with around half (47%) of SMEs.

While recruitment intentions across regions is largely similar, London LMO employers reported stronger recruitment intentions in the three months to September 2017 (72%) than those in the north (62%) or south (63%) of England.

Figure 3 **Recruitment intentions, by business sector (%)**



Base: autumn 2017, all employers (total: n=2,007; private: n=1,501; public: n=277; voluntary: n=229)

Table 2: **Recruitment intentions, by industry (%)**

Sector	Autumn 2017	Summer 2017	% point change
Public administration and defence (n=114)	82	72	+10
Healthcare (n=112)	81	80	+1
Education (n=148)	69	73	+4
Public sector services (n=1,074)	64	64	0
Manufacturing and production (n=322)	62	62	0

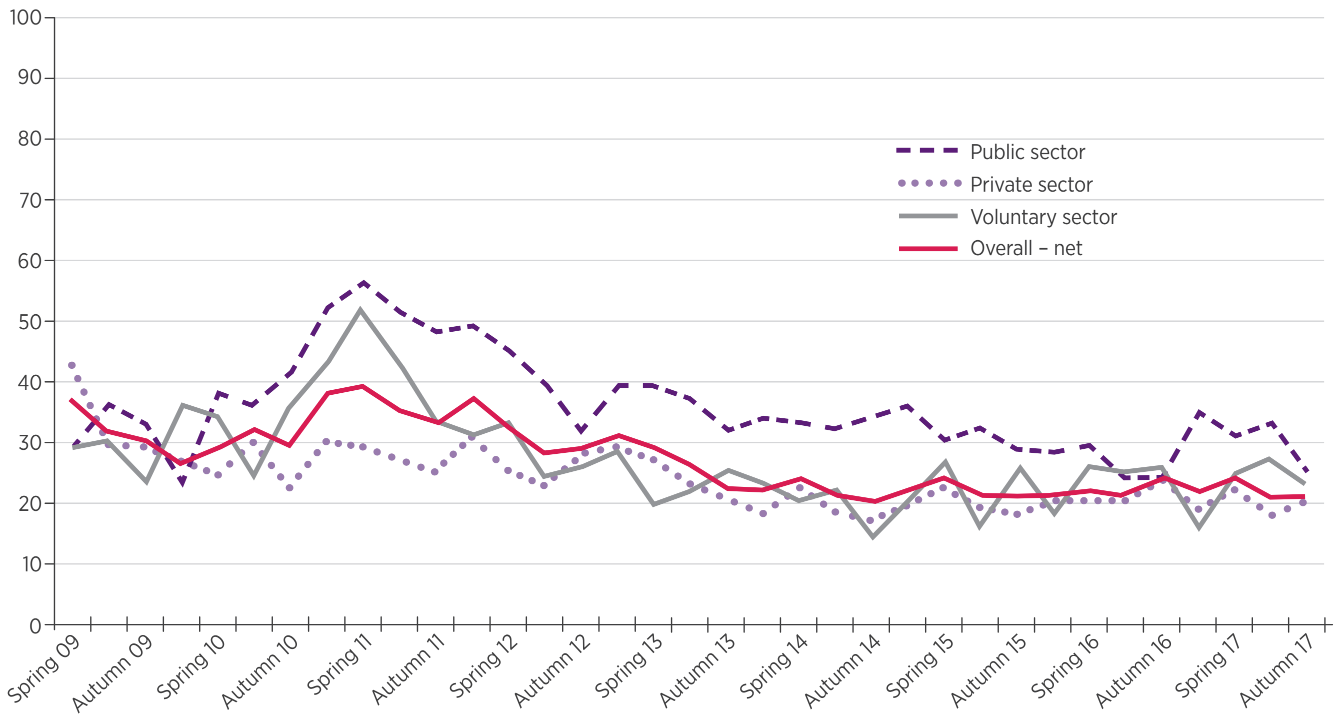
Base: autumn 2017, all employers

What is the outlook for redundancies in the fourth quarter of 2017?

The proportion of LMO employers expecting to make redundancies in the fourth quarter of 2017 is more modest, consistent with recent reports (Figure 4). Overall, just over a fifth of organisations (21%) are planning to make redundancies over the next three months. The proportion of public sector organisations (25%) planning to make redundancies during the same period is slightly higher than in the private sector (20%). Almost a quarter (23%) of voluntary sector organisations plan to make redundancies in the fourth quarter of 2017.

Looking at the sub-sectors in more detail, redundancy intentions in the three months to December 2017 are highest among public administration and defence employers (37%). Redundancy intentions in the education sector have continued to ease since the spring and summer 2017 reports: down to 16% from 23% in the summer report and 35% in spring. Additionally, redundancy intentions in the healthcare sector have fallen to 17% from 27% during the past three months.

Figure 4 **Redundancy intentions, by business sector (%)**



Base: autumn 2017, all employers (total: n=2,007; private: n=1,501; public: n=277; voluntary: n=229)

Table 3: **Redundancy intentions, by industry (%)**

Sector	Autumn 2017	Summer 2017	% point change
Public administration and defence (n=114)	37	39	–2
Education (n=148)	16	23	–7
Public sector services (n=1,074)	20	15	+5
Healthcare (n=112)	17	27	–10
Manufacturing and production (n=322)	22	26	–4

Base: autumn 2017, all employers

2 Job vacancies

How many vacancies do UK organisations currently have?

The median number of current vacancies reported by LMO employers is ten,[8] which is consistent with the figure recorded in the spring 2017 report.

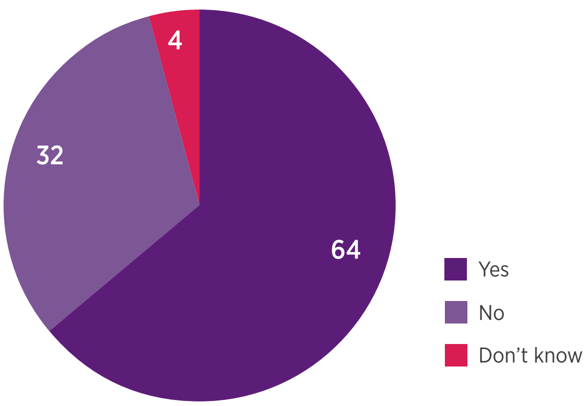
How prevalent are hard-to-fill vacancies?[9]

Among employers who currently have vacancies in their organisation, two-thirds (64%) report that at least some of these vacancies are proving hard to fill. Employers in the public sector (79%) are more likely than those in the private and voluntary sectors (60%) to report hard-to-fill vacancies. Recruitment difficulties are highest in healthcare (81%) and public administration and defence (81%).

Meanwhile, just over half (56%) of firms in the services sector say they have hard-to-fill vacancies. Across regions, hard-to-fill vacancy density varies greatly, ranging from more than seven in ten (71%) employers in the east Midlands to less than half (43%) of Scottish employers.[10] There was little change in the proportion of establishments that report hard-to-fill vacancies compared with six months ago. Among employers who currently have vacancies in their organisation, two-thirds (64%) report that at least some of these vacancies are proving hard to fill compared with 56% of establishments six months ago. These difficulties will be the result of skills and labour shortages. In other words, the vacancies are also hard to fill for non-skill-related reasons, such as an insufficient number of applicants for the role or because there are specific issues related to the role, such as anti-social hours or poor working conditions.

On average, organisations with hard-to-fill vacancies report that more than a third of their total vacancies (38%) are proving hard to fill, compared with just over half (51%) of total vacancies in the spring 2017 report. Although the public and private sectors overall report the same proportion, in the manufacturing and production sector this figure rises to 45%.

Figure 5 Proportion of vacancies that are hard to fill among those organisations that have recruitment difficulties (%)



Base: autumn 2017, all employers who currently have vacancies (n=1,095)

To what extent are organisations experiencing skill-shortage vacancies?

Among organisations facing hard-to-fill vacancies, around half (48%) of these vacancies are due to employers not being able to find staff with the right skills to do the job. In the manufacturing and production sector, 55% of hard-to-fill vacancies are related to a skills shortage, telling a consistent story with the increased overall incidence of hard-to-fill vacancies seen in the sector.

Overall, the report's findings show that the density of skill-shortage vacancies (i.e. the proportion of vacancies which employers were struggling to fill because of skill shortages in the available labour market) is 15%. Skill-shortage vacancies are more prevalent in the public sector (18%) than in the private sector (13%). This is broadly consistent with the government's latest

[8] Median, excluding those with 0 vacancies.

[9] Vacancies which are proving difficult to fill, as defined by the establishment (from the question: 'Are any of these vacancies proving hard to fill?')

[10] Care should be taken not to over-extrapolate from the data because of sample sizes of between 50 and 100.

statistics,[11] which show that 23 per cent of vacancies were skill-shortage vacancies. In addition, around one in three (29%) of employers with current vacancies report it to be from skill shortages, suggesting pay pressure is unlikely to come from a lack of skills in the labour market.

How are organisations responding to hard-to-fill vacancies?

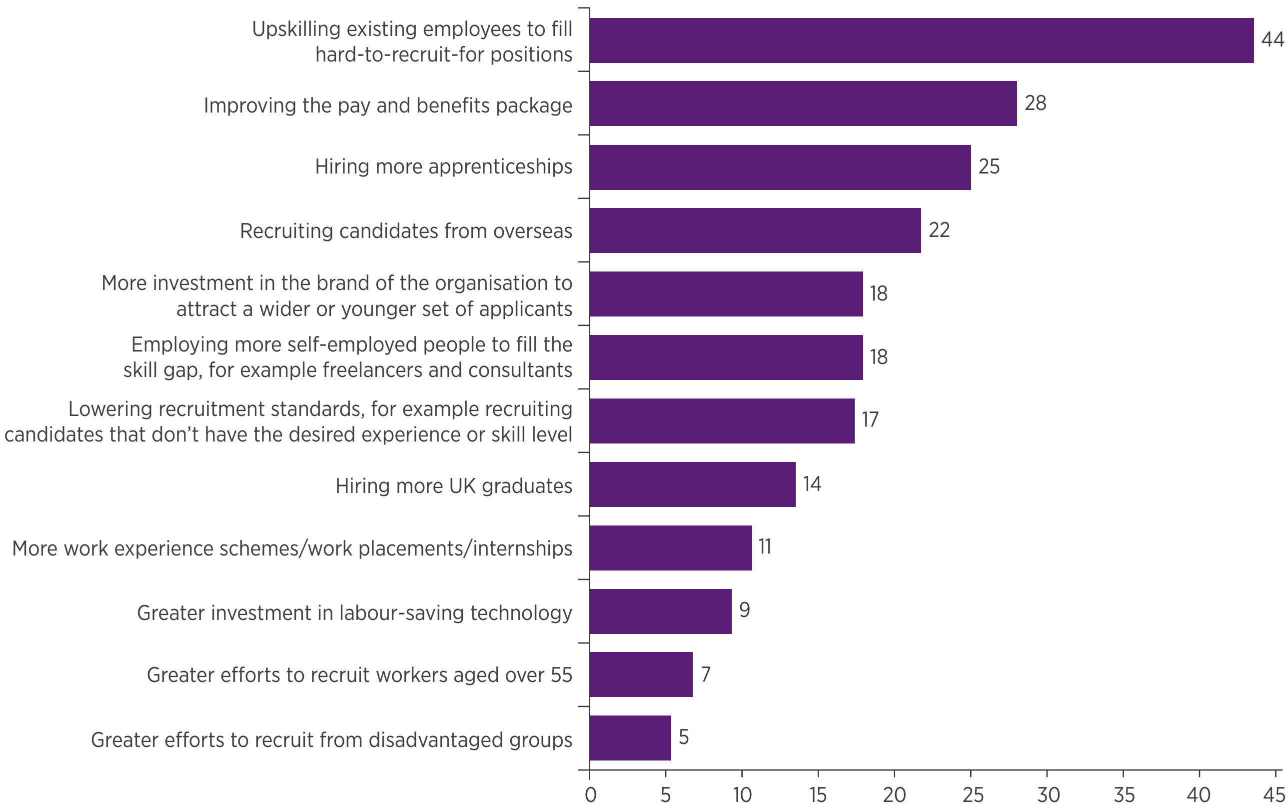
The most popular response to difficulties associated with hard-to-fill vacancies is through upskilling existing employees to fill these positions (44%). Other popular measures include improving the pay and benefits package (28%) and hiring more apprentices (25%). Apprenticeships are a more popular option than hiring more UK graduates (14%) or internships/work experience schemes/placements (11%).

The extent to which employers plan to recruit apprentices to help manage hard-to-fill vacancies differs between regions. Thirty-four per cent of employers in the north of England plan to recruit more apprenticeships. This is in contrast to 19% of London employers planning to do this.

At the same time, apprenticeships are particularly prevalent among manufacturing firms (46%), especially compared with services' companies (23%).

Looking at the size of organisation in more detail, around one in seven SMEs (14%) say that they are not taking any action to address recruitment difficulties. Insights into the people management challenges faced by SMEs are provided in a recent CIPD report[12], which suggests that many do not have access to the advice and support that can help them address these challenges.

Figure 6 How organisations with hard-to-fill vacancies are responding to these difficulties (%)



Base: autumn 2017, all employers who currently have hard-to-fill vacancies (n=691)

[11] UKCES. (2015) *Employer Skills Survey 2015: UK Results*. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/525444/UKCESS_2015_Report_for_web__May_.pdf

[12] CIPD. (2017) *People Skills: Building ambition and HR capability in small firms*. Available at: https://www.cipd.co.uk/knowledge/strategy/hr/hr-capability-small-firms [Accessed: 9 November 2017]

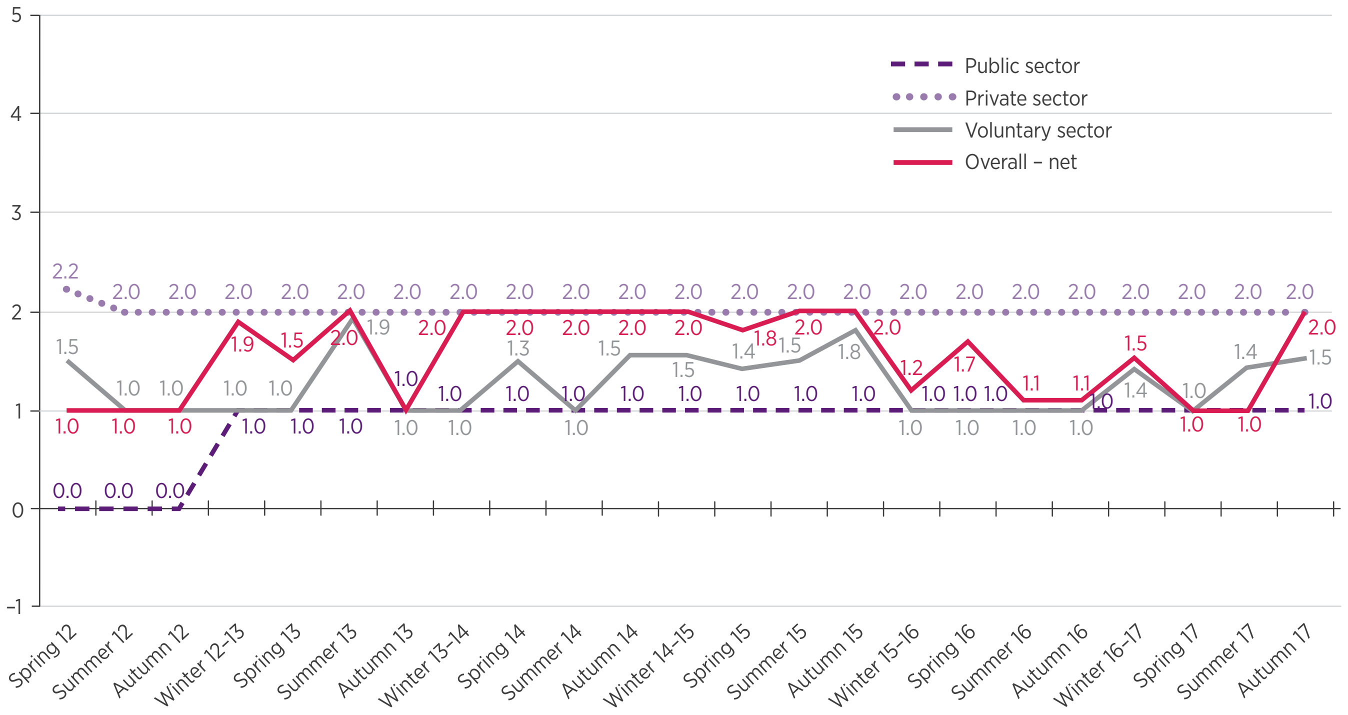
3 Pay outlook

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

Employers' median basic pay increase expectations in the 12 months to August 2018 are 2%, up from 1% in the summer 2017 report. However, consistent with findings from previous reports, median average basic pay increase expectations are higher in the private sector (2%) than in the public (1%) and voluntary (1.5%) sectors (Figure 7). The data imply a clustering of pay awards of 1% in the public sector and 2% in the private sector, which explains why the overall median basic pay measure has increased more sharply than the sectoral data, which remain unchanged since the summer 2017 report. In other words, the shape of the distribution of basic pay awards means that the median basic pay projection is much more likely to be 1% or 2% given the concentration of pay awards. In this report, we focus on the median because that is the data value at which 50% of basic pay awards are above it and 50% of pay awards are below it. We use the median measure because the distribution of basic pay awards can be skewed by a high proportion of pay awards at the upper or lower end of the basic pay award distribution.

There is little variation across the sub-sectors within firms. Median basic pay expectations are 2% among manufacturing and services firms.

Figure 7 **Average predicted annual *basic* pay awards (median), by sector (%)**



Base: autumn 2017, all employers who report an expected increase, decrease or pay freeze in the next 12 months (total: n=911; private: n=614; public: n=167; voluntary: n=130)

Almost half (46%) of LMO employers who are planning to make a pay decision in the next 12 months expect basic pay to increase at their organisation during that time frame, compared with almost one in ten who expect no increase (8%).

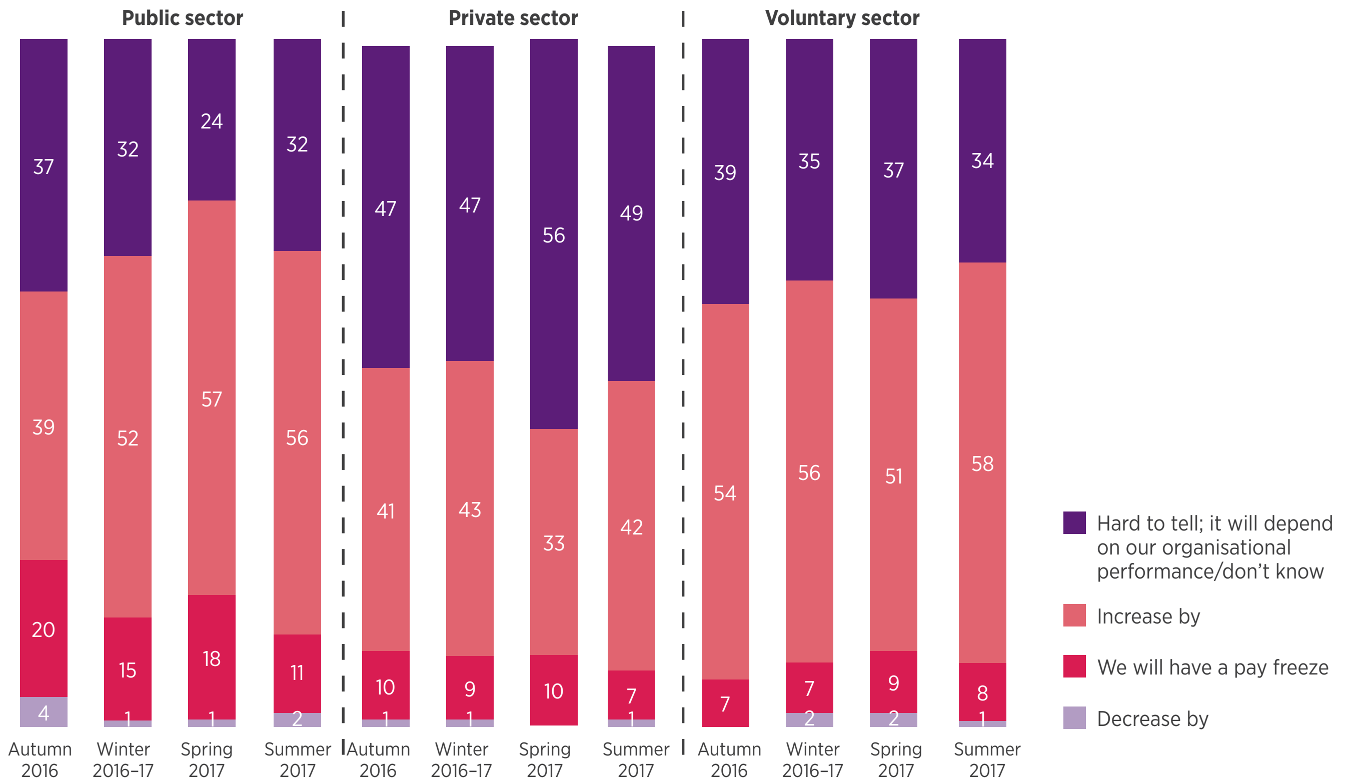
Given the recent speculation and announcements from the Government around adopting a more flexible approach to pay in the public sector, it is perhaps no surprise that a lower proportion of public sector employers report that they expect a pay freeze over the year to come (Figure 8).

In addition, around one in seven (14%) of employers in the north of England are also more likely to report they will have a pay freeze in the next 12 months compared with just one in twenty establishments in the south of England (5%).

However, close to half (45%) of employers report that they do not know how their organisation's basic pay will be affected by the next pay decision, or that it is too hard to tell and will depend on their organisational performance, so some care should be taken with the data.

Almost a third (31%) of LMO employers anticipate a basic pay increase of between 2% and 2.99%, an increase from the 22% who reported this in summer 2017.

Figure 8 Likelihood of a *basic* pay increase, decrease or pay freeze, by business sector (%)

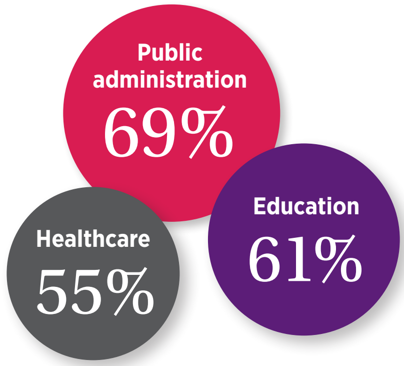


Base: autumn 2017, all employers who expect a pay decision in the next 12 months (total: n=1,691; private: n=1,243; public: n=246; voluntary: n=202)

Meanwhile, three in ten (30%) establishments plan to give a basic pay increase of 1–1.99% in the year ahead, whereas just over one in ten employers expect basic pay to increase by 3–3.99% (11%). One in ten (10%) employers anticipate basic pay rising by 4% or more in the 12 months to August 2018.

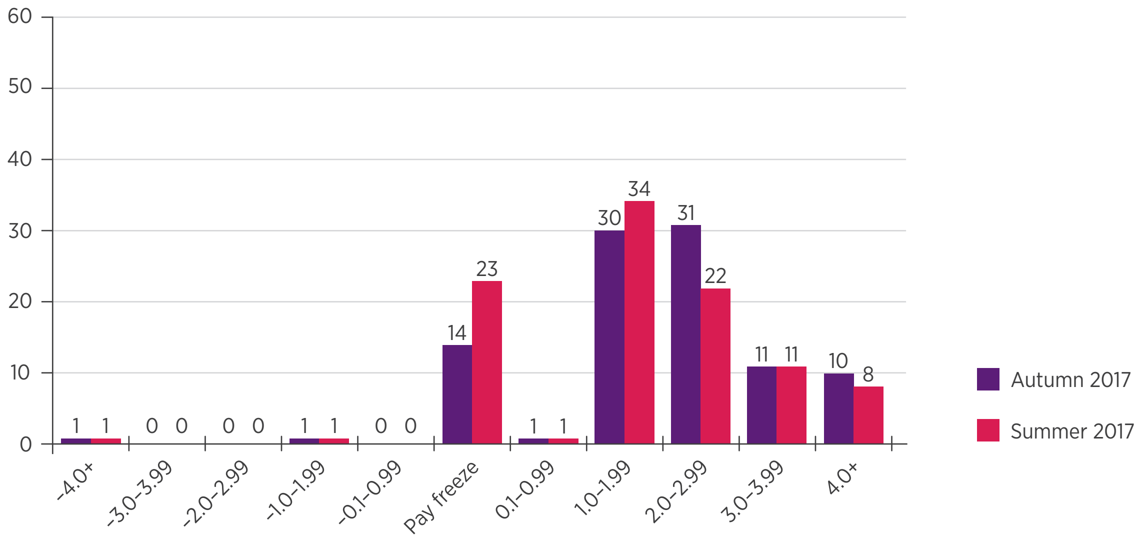
Employers expect pay increases of between 2% and 2.99% more often in the manufacturing and production sector (43%) and the private sector services sector (39%) than in the public administration and defence (10%), education (17%) and healthcare (12%) sectors.

The majority of employers in public administration (69%), education (61%) and healthcare (55%) expect to see basic pay increases of between 1% and 1.99% over the next year, which is not expected to match inflation.



The majority of employers in public administration (69%), education (61%) and healthcare (55%) expect to see basic pay increases of between 1% and 1.99% over the next year, which is not expected to match inflation.

Figure 9 **Distribution of forward-looking basic pay settlements (%)**



Base: all employers who report an expected increase, decrease or pay freeze in the next 12 months (autumn: n=911; summer: n=436)

What are the key factors behind employers' pay decisions?

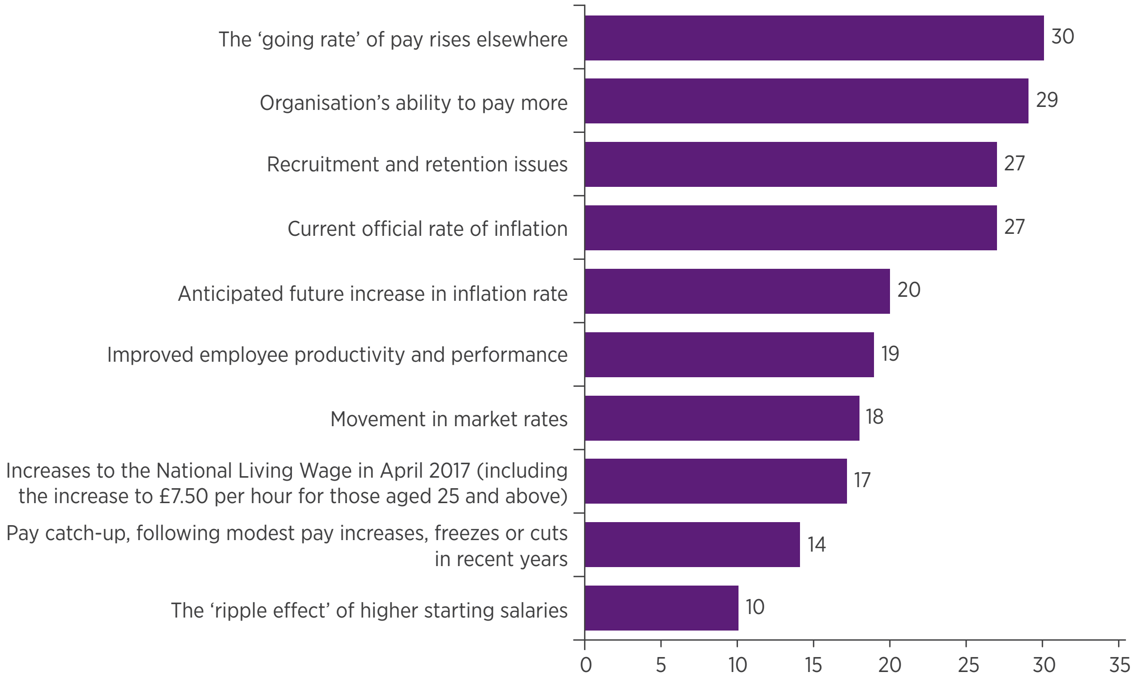
LMO employers reported that the going rate of pay elsewhere and their ability to pay more are the key factors behind their capacity to meet or exceed the Bank of England's inflation target of 2%.

It also seems that external labour market and economic conditions are putting upward pressure on pay in a greater number of establishments when compared with the previous report. The proportion of employers that cite the current rate of inflation (27%) and anticipated rate of inflation (20%) is greater than in the summer 2017 report (25% and 16%, respectively).

In the south of England, where the greatest proportion of employers expected a pay increase of between 2% and 2.99%, over a third of employers cited recruitment and retention issues and the rate of pay rises elsewhere as reasons why employers anticipate this increase in basic pay.

LMO employers who employ 250 employees or more are more likely than small establishments to highlight recruitment and retention as a reason

Figure 10 **Top ten reasons for increase in average basic pay by 2% or more (%)**

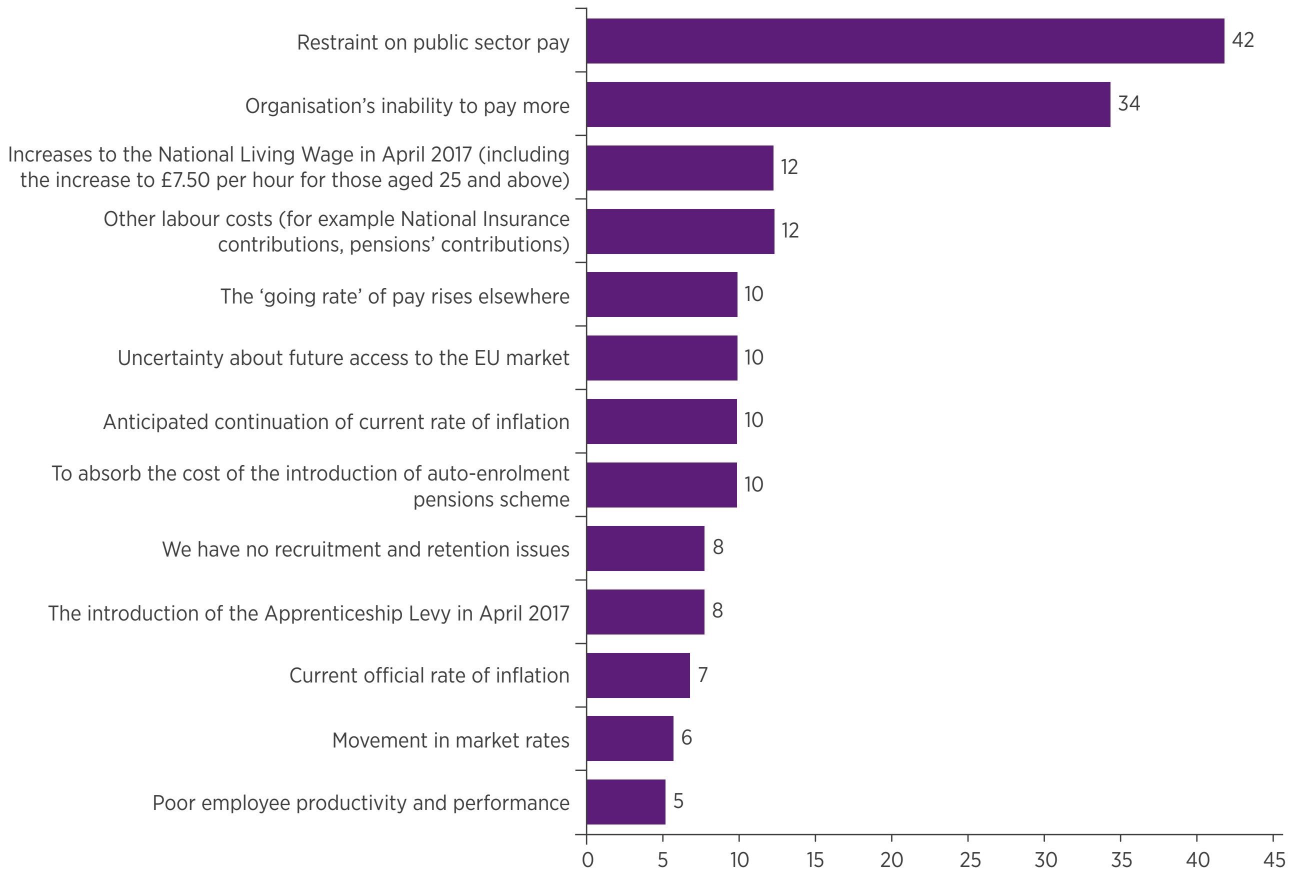


Base: autumn 2017, all employers who expect their organisation's basic pay will increase by 2% or more (n=500) for predicting pay increases – with 32% of large organisations reporting this compared with 21% of small organisations. In contrast, smaller organisations are more likely to simply focus on their ability to pay more as the main factor behind any pay rises of 2% or more.

Among LMO employers who predict that average basic pay will increase at their organisation by *less* than 2%, or not increase at all, over four in ten employers (42%) say that the key reason why they cannot match the inflation target (and the current rate of inflation) is restraint on public sector pay.

The other key reason is affordability (34%). Additionally, around one in ten employers (10%) say that uncertainty about the UK's future trading arrangement with the European Union is acting as a brake on basic pay growth in their organisation.

Figure 11 **Top ten factors restricting organisations' ability to match the inflation rate target of 2% (%)**



Base: autumn 2017, all employers who expect their organisation's basic pay will increase by less than 2%, be frozen, or decrease (n=411)

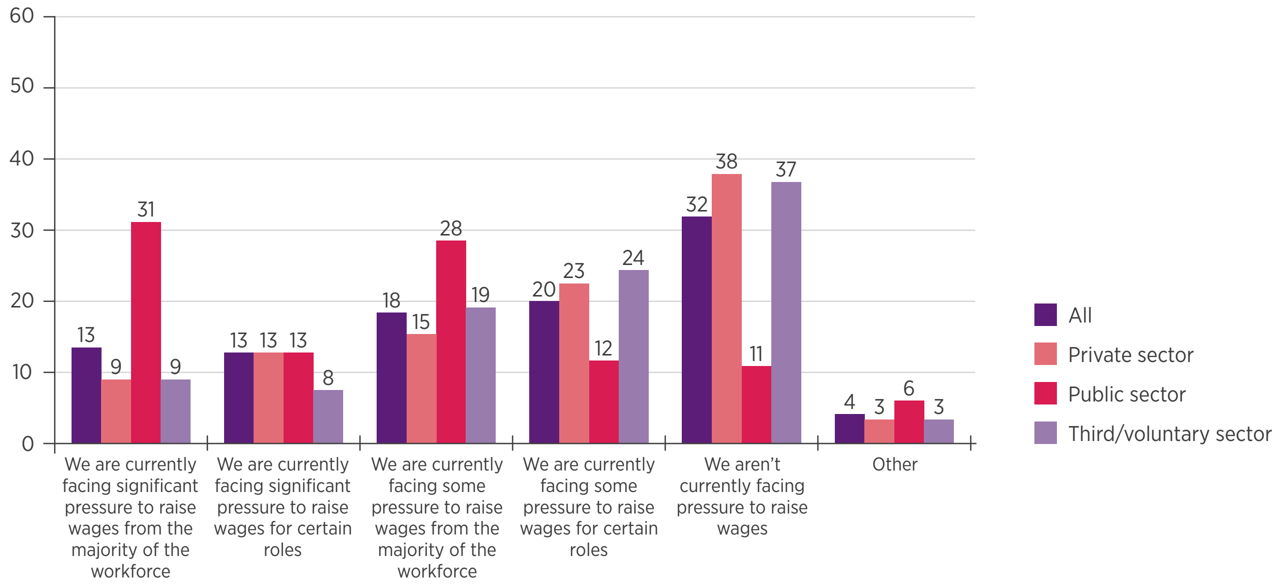
4 Wage pressures

How much pressure are employers under to raise wages?

Average weekly earnings for employees in Great Britain in real terms (that is, adjusted for price inflation) fell by 0.4% excluding bonuses, when compared with a year earlier. It is perhaps surprising to note that around a third (32%) of LMO employers report that they aren't under any pressure to increase wages from their workforce at all, including almost two in five private sector establishments (38%). Employers in retail (42%), administrative and support services (43%), and professional, scientific and technical (40%) are the most likely sub-sectors to report that they are under no pressure to raise wages at their organisation. In addition, over a third (36%) of firms say they are either under some or significant pressure to raise wages for certain roles. Around one in ten (11%) public sector employers report that they are under no pressure to raise wages from their workforce at their organisation.

Conversely, the share of public sector organisations that are under pressure to increase wages is much higher than in the private sector, which may partly reflect the recent debate about the scrapping of the public sector pay cap. Almost three fifths (59%) of public sector establishments say they are under some or significant pressure to raise wages for the majority of the workforce. In addition, a quarter (25%) of public sector organisations say that they are under some or significant pressures to raise wages for certain

Figure 12 Level of pressure that employers are under to increase wages (%)



Base: autumn 2017, all employers (n=2,007), private sector (n=1,501), public sector (n=277), voluntary sector (n=229) roles. However, it should be noted that public sector pay is unable to respond as flexibly to the state of the labour market as the private sector because public sector pay awards are set by government and can cover a number of years.

Additionally, there are some parts of the private sector that are reporting pay pressures, especially in construction where almost four in ten (38%) employers say that they are under some or significant pressure to increase earnings for the majority of the workforce.[13]

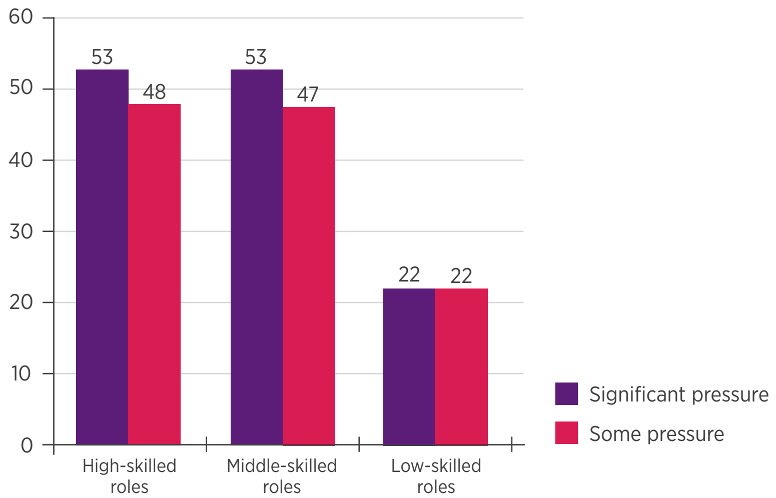
Perhaps reflecting the recent debate about the scrapping of the public sector pay cap, wage demands are higher in the public sector. For instance, almost a third (31%) of public sector employers say that they are coming under significant pressure to raise wages, compared with around one in ten (9%) private sector and voluntary sector employers.

Where employers report that they are under pressure to increase wages from certain roles within the workforce, this pressure is equally likely to be from highly skilled or middle-skilled roles but much less likely to be coming from those in low-skilled roles (Figure 13).

In addition, low-wage employers are more likely (41%) than medium-wage

Low-wage employers are more likely (41%) than medium-wage organisations (28%) to report that they are not currently facing wage pressures.

Figure 13 **Whether employers are under pressure from highly skilled, middle-skilled or low-skilled roles to increase wages (%)**



Base: autumn 2017, all employers under significant pressure to increase wages from certain roles (n=222) or under some pressure to increase wages from certain roles (n=426)

[13] Care should be taken not to over-extrapolate from the data to a sample size of 91 employers.

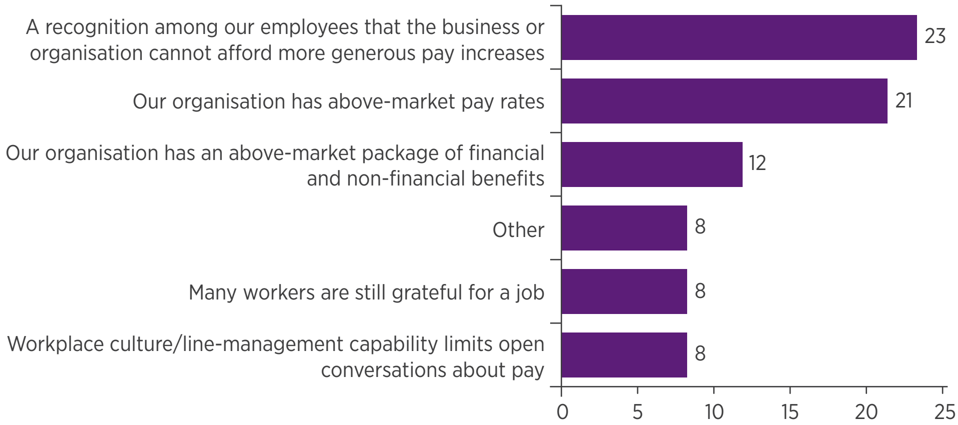
organisations (28%) to report that they are not currently facing wage pressures. More than one in five (21%) medium-wage organisations report that they are facing 'some pressure' from the majority of the workforce compared with over one in ten (13%) low-wage and high-wage (14%) establishments.

Around a third (32%) of LMO employers report that they aren't under any pressure to increase wages from their workforce. Of those employers that aren't currently experiencing pressure, around a quarter (23%) report that this is because of recognition from employees that the organisation can't afford more generous pay increases. This is more prevalent among smaller organisations that employ fewer than 250 employees (29%) than large organisations (14%). Meanwhile, around a fifth (21%) believe that one of the key reasons for not experiencing pay pressure from workers is because they pay above the market rates.

From a regional perspective, a higher proportion of employers in the north of England say they aren't facing pressure to raise wages (35%), compared with around a quarter (26%) of London employers.[14] Over a quarter (30%) of employers in the north of England cite that there is a recognition from their employees that the organisation can't afford more generous pay increases, compared with around one in seven (14%) London employers.

At the same time, almost a fifth (18%) of employers in the north of England say that they are under significant pressure to increase pay from the majority of the workforce, compared with one in ten (10%) London employers, though it should be noted that this could be because of sample size effects.

Figure 14 **Reasons given as to why employers don't feel under any pressure to increase wages (%)**



Base: autumn 2017, all employers not under any pressure to increase wages (n=736)

[14] Care should be taken not to over-extrapolate from the figures because of sample sizes of between 90 and 100 employers.

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 members of the YouGov Plc UK panel who have agreed to take part in surveys.

The survey is based on responses from 2,007 senior HR professionals and 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 September and 3 October 2017.

Weighting

The quarterly LMO survey is sampled from the YouGov panel of senior decision-makers from UK businesses. The data is weighted to be representative of the UK public and private sector business population by size of employer and sector. Rim weighting is applied using targets on size and sector drawn from *Business Population Estimates for the UK and Regions 2016*.[15]

The delivered sample is drawn across all business sizes and in total 1,105 unweighted responses were received from small and medium enterprises (SMEs) and 861 from large employers (250+ employees).

The mindset categories

Organisations' past and future mindsets were categorised according to responses to the following LMO questions, asked in the summer 2015 survey and repeated in autumn 2017.

Past mindset

All organisations where the respondent had been employed for over two years were asked: 'Which ONE of the following statements best describes the experience of your organisation over the past two years?' Five choices were presented:

- *'We were in survival mode for a long time and have not been able to invest in major improvements to the business'* – we label organisations that chose this response as 'survivors'.
- *'We are a leaner business now because we took cost out during the recession and the productivity of our workers has improved as a result'* – 'cost-cutters'.
- *'We have continued to invest in equipment, technology and people and have increased our productivity significantly'* – 'balanced investors'.
- *'We have continued to invest in equipment and technology but we haven't invested enough in staff to maximise the value of this investment'* – 'capital-focused investors'.
- *'We have continued to invest in our people, but we need to invest more in equipment and technology to see real productivity improvements'* – 'people-focused investors'.

Future mindset

All respondents were asked: 'Looking ahead to the next two years, which ONE of the following statements best describes your expectations about your organisation's future plans?' Five choices were presented:

- *'We are performing well and we don't see the need for major change and lots of investment'* – we label organisations that chose this response as 'high-performers'.
- *'We are not performing well, but we don't have the financial resources or confidence to invest in equipment, technology and people'* – 'finance-constrained'.
- *'We are not performing well, but don't have the skills or ambition to invest in equipment, technology and people'* – 'ambition-constrained'.
- *'We will now be able to make the investments in people we haven't been able to do in the last few years'* – 'making up ground – people'.
- *'We will now be able to make the investments in equipment and technology we haven't been able to do in the last few years'* – 'making up ground – capital'.

The pattern of responses between the summer 2015 and autumn 2017 surveys is not directly comparable because, in the 2015 survey, respondents were allowed to state 'don't know' to both the past and the future mindset questions, whereas, in the 2017 survey, respondents were required to choose a statement.

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[15] www.gov.uk/government/statistics/business-population-estimates-2016

Sample

Table 4: **Respondent profile**

Variable	Unweighted n	Weighted %
Size		
2–49	787	28
50–249	343	13
250+	877	59
Sector		
Public	277	21
Private	1501	73
Voluntary	229	6

Table 5: **Breakdown of the sample sector (%)**

Sector	**Autumn 2017**	Summer 2017	Spring 2017	Winter 2016–17	Autumn 2016	Summer 2016	Spring 2016	Winter 2015–16
Private	73	73	73	73	73	73	73	73
Public	21	21	21	21	21	21	21	21
Voluntary	6	6	6	6	6	6	6	6
N	**2,007**	**1,139**	**1,060**	**1,051**	**1,024**	**1,050**	**1,014**	**1,007**

Table 6: **Breakdown of the sample by number of employees in organisation (%)**

	Autumn 2017	Summer 2017	Spring 2017	Winter 2016–17	Autumn 2016	Summer 2016	Spring 2016	Winter 2015–16
2 to 9	14	14	14	14	14	14	14	14
10 to 49	14	14	14	14	14	14	14	14
50 to 99	6	6	6	6	6	6	6	6
100 to 249	7	7	7	7	7	7	7	7
250 to 499	10	15	10	10	9	8	8	8
500 to 999	9	7	10	10	7	8	6	8
1,000 or more	40	37	40	39	41	43	44	43
N	**2,007**	**1,139**	**1,060**	**1,051**	**1,024**	**1,050**	**1,014**	**1,007**

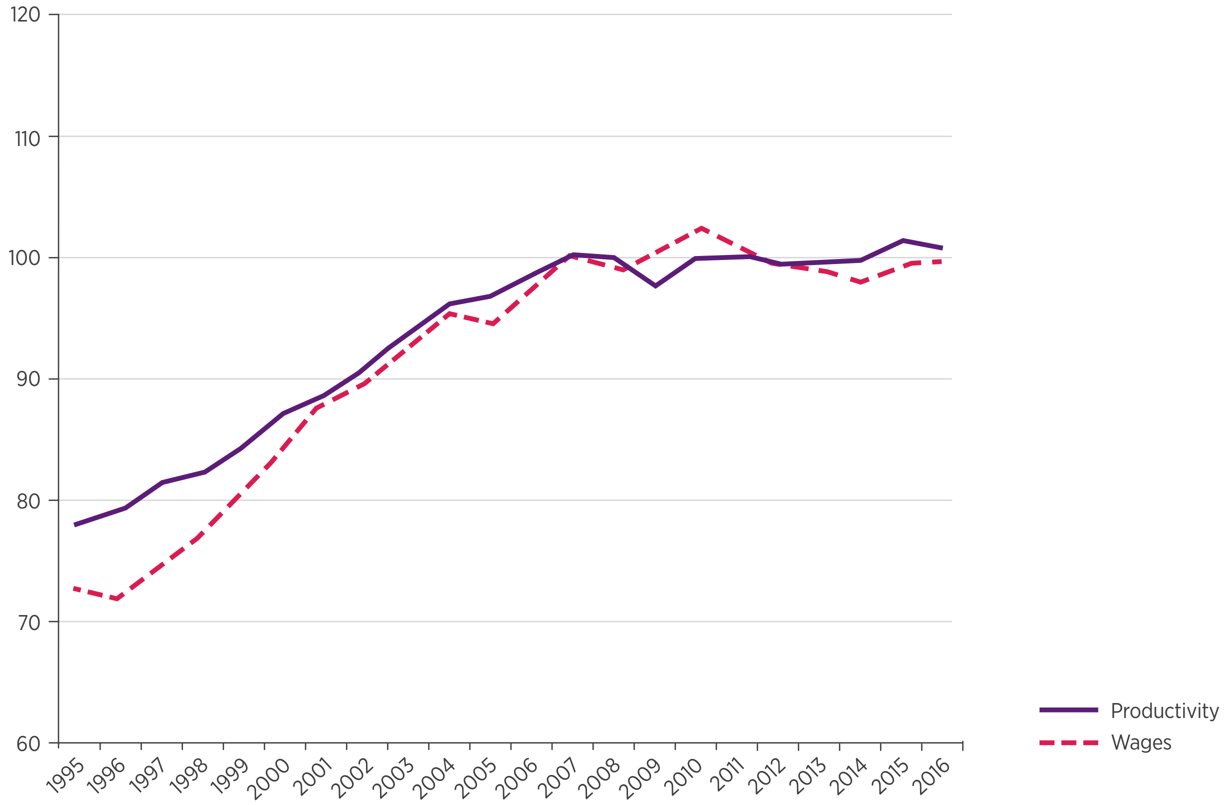
Table 7: **Breakdown of the sample by industry (%)**

	Autumn 2017	Summer 2017	Spring 2017	Winter 2016–17	Autumn 2016	Summer 2016	Spring 2016	Winter 2015–16
MANUFACTURING AND PRODUCTION	**15**	**15**	**15**	**15**	**15**	**15**	**15**	**15**
Agriculture, forestry and fishing	1	1	1	1	1	1	1	1
Manufacturing	9	9	9	9	9	9	9	9
Construction	4	4	4	4	4	4	4	4
Mining and extraction	1	0	0	0	0	0	1	0
Energy and water supply	1	1	1	1	1	1	1	1
EDUCATION	**6**	**6**	**6**	**6**	**6**	**6**	**6**	**6**
Primary and secondary schools	3	4	3	3	3	4	4	3
Further and higher education	4	3	3	3	4	3	3	3
HEALTHCARE	**11**	**11**	**11**	**11**	**11**	**11**	**11**	**11**
NHS	8	7	8	8	7	7	7	6
Other private healthcare	4	4	4	4	5	4	4	5
PRIVATE SECTOR SERVICES	**52**	**52**	**52**	**52**	**52**	**52**	**52**	**52**
Hotels, catering and leisure	8	8	8	8	8	8	8	8
IT industry	1	2	2	2	2	2	3	2
Transport and storage	4	4	4	4	4	4	4	4
Consultancy services	3	3	3	3	2	3	2	2
Finance, insurance and real estate	5	5	5	5	5	5	5	5
Wholesale and retail trade	3	3	2	3	3	2	2	2
Information and communication	1	1	1	1	1	1	1	1
Retail	13	14	14	14	14	15	15	14
Professional, scientific and technical	3	3	3	3	4	3	4	3
Admin and support service activities	9	9	9	9	9	9	9	9
PUBLIC ADMINISTRATION AND DEFENCE	**9**	**9**	**9**	**9**	**9**	**9**	**9**	**9**
Public administration – central government	3	3	3	4	4	4	3	4
Public administration – local government, including fire services	5	5	4	4	4	4	5	4
Armed forces	0	1	1	1	1	1	1	1
Quango	0	0	1	0	0	0	0	0
N	**2,007**	**1,139**	**1,060**	**1,051**	**1,024**	**1,050**	**1,014**	**1,007**

Annex 1

Figure 15 **Relationship between productivity growth and wage growth**

Read GDP per hour and real hourly wage



Source: Estimates based on OECD Annual National Accounts (OECD)

CIPD

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