CIPD

Championing better work and working lives

LABOUR MARKET OUTLOOK

VIEWS FROM EMPLOYERS

Summer 2015

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 140,000 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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Foreword

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 931 employers, many of whom are drawn from the CIPD's membership of around 140,000 professionals.

The latest report shows that near-term employment prospects have risen modestly and lie well above the survey's historic average. This quarter's net employment balance – which measures the difference between the proportion of employers who expect to increase staff levels and those who expect to decrease staff levels in the third quarter of 2015 – has increased to +29 from +25 since the spring 2015 report (Figure 1).

Private sector firms continue to be driving much of the predicted growth in employment (+41), with employment growth in the services sector remaining robust (+42). However, consistent with other key survey indicators and output figures, employment confidence in the manufacturing and production sector has fallen to +40 from +51 since the spring 2015 report.

Somewhat surprisingly, the proportion of **employers** that report hard-to-fill vacancies has fallen modestly compared with six months ago. In addition, the proportion of hard-to-fill vacancies among those employers that say they have recruitment difficulties has also edged down during the same period. Less than a quarter of vacancies are proving hard to fill according to those employers that report such difficulties. This may be due to two key reasons.

Previous LMO reports have identified that employers continue to benefit from the increase in the supply of labour from migrants, older workers and ex-welfare claimants. However, the data contained in this report also suggest that employers are changing their resourcing strategies and putting greater effort into in-work progression and especially developing new young talent. The three most common responses to addressing hard-to-fill vacancies are upskilling, hiring apprentices and recruiting graduates. Indeed, the figures mirror the official statistics, which show that the number of students that find work within three months has risen to its highest level since the recession.

The tightening labour market is undoubtedly a key driver of this. However, it is also likely due to a recognition among a growing number of employers that they need to develop talent to limit the potential for future labour shortages and pay pressures. It may also partly explain why the level of churn in the jobs market still remains below pre-recession levels and why a smaller proportion of employers plan to raise wages to offset their recruitment difficulties compared with other responses such as upskilling and hiring apprentices.

Looking ahead, the average median basic pay award anticipated by employers in the 12 months to June 2016 is 2%, up from 1.8% in the previous report. Public sector organisations' predictions of **median** pay increases of 1% will continue to lag behind those in the private (2%) and voluntary sectors (1.5%). At the same time, **average** pay expectations have increased to 2.1% from 1.8%. On the upside, around a fifth of employers plan to raise basic pay by 3% or more.

Looking back, pay settlements have edged up modestly in the past year. The **median** basic pay increase among LMO employers in the 12 months to June 2015 was 2%, up from 1% in the previous report. At the same time, the **mean** basic pay award has increased from 1.5% to 1.9%.

However, the results only partly reflect the official statistics, which have pointed to stronger pay growth in recent months overall. This may be due to a combination of other underlying factors. These include the 3% increase in the National Minimum Wage (NMW) for people aged 21 and over in October 2014, a disproportionately large increase in full-time employment over the past 12 months and the growing concentration of sectors and occupations where there are skill or labour shortages.

Overall, the data suggest that the labour market will continue to strengthen in the third quarter of 2015 alongside modest growth in pay awards.

1 Recruitment and redundancy outlook

Near-term employment outlook

This section considers the recruitment and redundancy intentions of LMO employers in the third quarter of 2015. This latest report suggests that employment confidence has risen modestly since the spring 2015 report, and will remain strong in the three months to September 2015.

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 increased to +29 from +25 during the previous three months (Figure 1). Employment growth is likely to remain robust in the private sector (+41), up from +37 in the previous report. However, consistent with survey indicators and recent output figures for the services and manufacturing sectors, employment intentions have strengthened in the services sector to +42 from +31 and contracted in the manufacturing sector to +40 from +51.

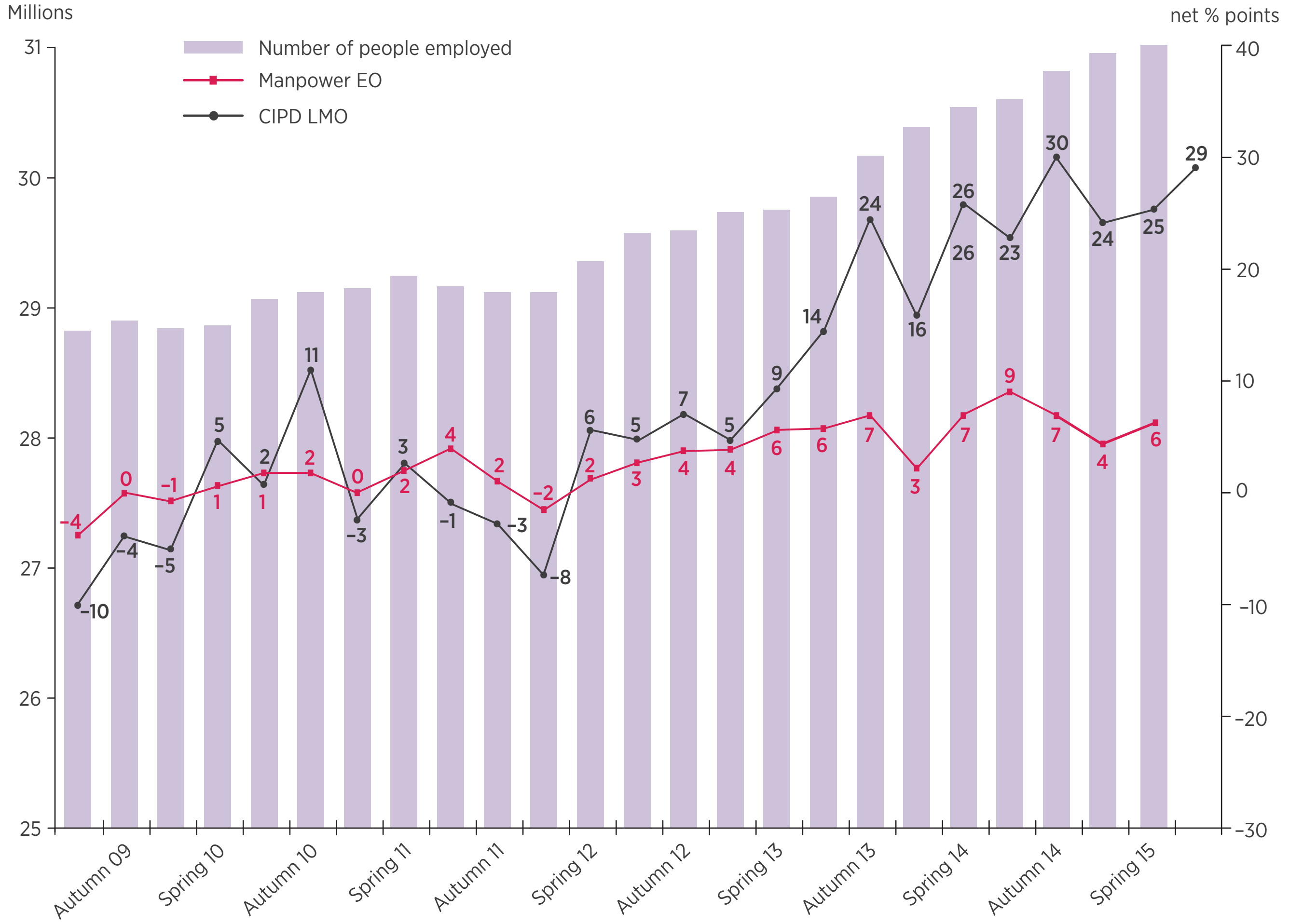
At the same time, public sector employment expectations have deteriorated to –12 from –7 but remain more positive than the post-recession average. Employment intentions are lowest among public administration and defence organisations (–29) (Table 1).

The robust employment outlook remains more positive among SME employers (+53) than larger organisations (+20).

How to interpret Figure 1

Figure 1 displays the LMO's net employment balance (purple line) alongside Manpower's 'Net Employment Outlook' indicator (red line). The purple columns display the total number of people in employment according to the monthly ONS Labour Market Statistics time series data. The latest ONS figures cover the three months to May 2015.

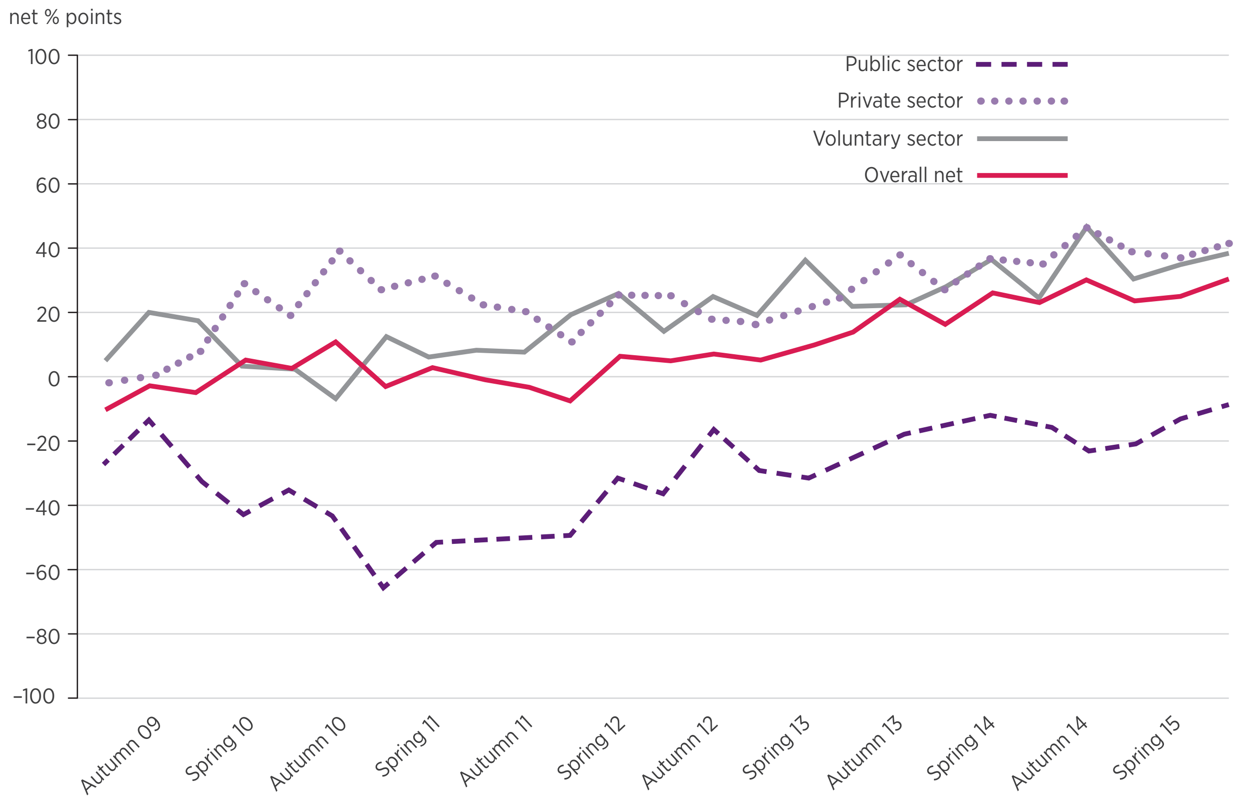
Figure 1 Correlation between LFS employment levels and LMO data[1] (%)



Base: Summer 2015, all LMO employers likely to recruit or make redundancies in the next quarter (n=590)

[1] Labour Force Survey data taken at quarterly intervals based on GB population aged 16+.
Spring (February – April), Summer (May – July), Autumn (September – November), Winter (November – January).

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

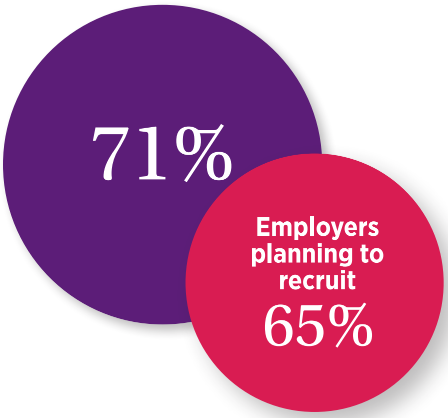


Base: Summer 2015, all likely to recruit or make redundancies in the next quarter
Overall (n=590), Private sector (n=316), Public sector (n=178) and Voluntary sector (n=96)

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

Sector	Summer 2015	Spring 2015	% point change
Private sector services (n=246)	+42	+31	+11
Manufacturing and production (n=59)	+40	+51	-11
Education (n=78)	+12	+6	+6
Public administration and defence (n=75)	-29	-23	-6
Healthcare (n=55)	+18	+17	+1

Base: Summer 2015, all likely to recruit or make redundancies in the next quarter

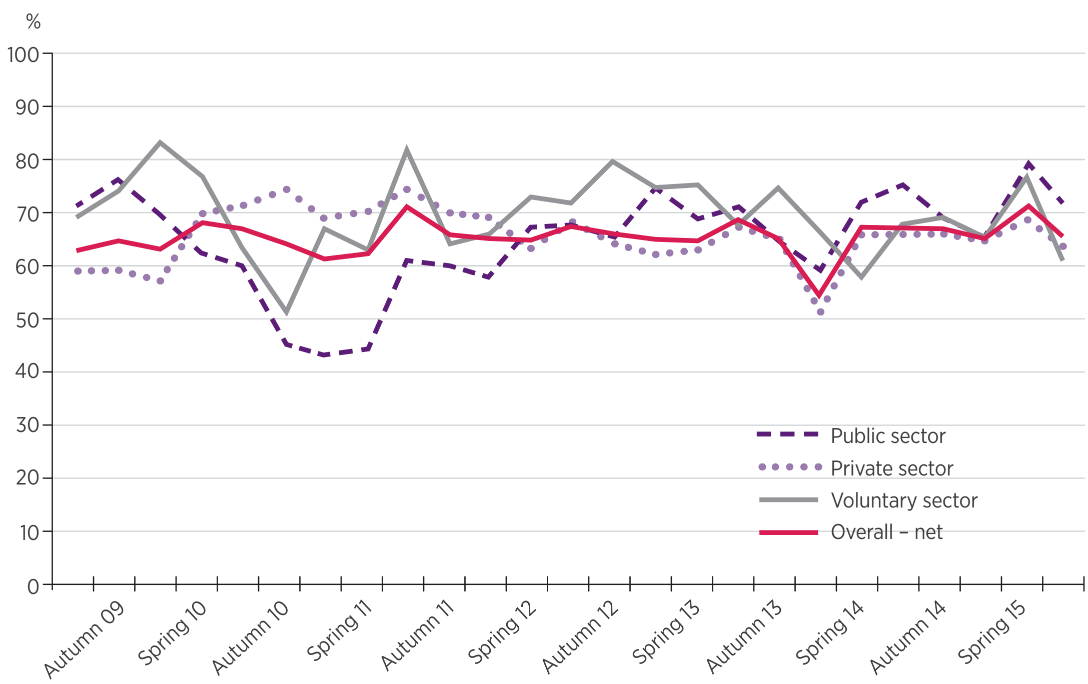


The proportion of employers planning to recruit has fallen to just under two-thirds (65%) from 71% since the last report.

Recruitment intentions for Q3

The proportion of employers planning to recruit has fallen to just under two-thirds (65%) from 71% since the last report. Hiring intentions have fallen modestly in both the public sector, down to 72% from 79%, and the private sector, where hiring intentions have decreased to 63% from 68% since the previous report. Recruitment intentions have fallen more sharply in the voluntary sector, where just 61% of employers plan to hire compared with 77% in the spring 2015 report. Recruitment intentions are strongest in healthcare (79%), education (70%) and services (65%).

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



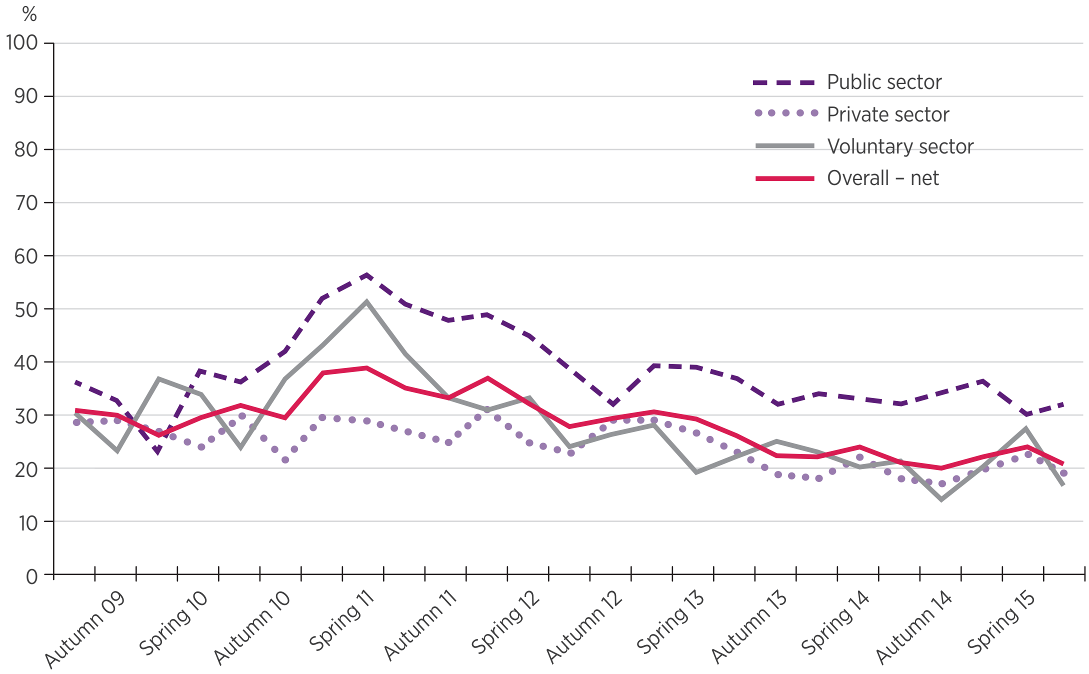
Base: Summer 2015, all LMO employers (n=930), Public sector (n=230), Private sector (n=549), Voluntary sector (n=151)

Redundancy intentions for Q3

The proportion of LMO employers expecting to make redundancies in Q3 of 2015 is broadly consistent with recent trends. Overall, one in five (21%) are planning to make redundancies in the three months to September 2015 (Figure 4). The proportion of organisations expecting to make redundancies is higher in the public sector (32%) than in the private sector (19%) and voluntary sector (16%).

Consistent with other findings, the proportion of employers in the services sector planning to make redundancies has fallen to 19% from 25%. Meanwhile, redundancy intentions remain above average in education (33%) and below average in healthcare (18%). As in previous reports, redundancy intentions are highest among public administration and defence employers, where almost half (45%) of organisations plan to make redundancies.

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



Base: Summer 2015, all LMO employers (n=930), Public sector (n=230), Private sector (n=549), Voluntary sector (n=151)

Employment levels over the past 12 months

One third (33%) of LMO employers state that overall employment levels at their organisation have increased in the past year. Employment growth is more concentrated in the private (37%) and voluntary (44%) sectors than in the public sector (17%).

Underlining the importance of business strategy, those employers that report adopting a 'premium quality' strategy are significantly more likely than those who use a 'standard or basic quality' strategy to have seen an increase in overall employment levels in the past year (38% compared with 27%).

Prevalence of temporary contracts

Official labour market statistics show that around 6% of the UK workforce is employed on a temporary contract, which is broadly consistent with the findings in this report. The median estimate for the proportion of people employed under a temporary contract per organisation in this report is 5%, compared with a mean estimate of 14%. On average, the proportion of temporary workers is especially prevalent among education (19%) and healthcare (17%) employers.

Employers' current priorities

Despite an improvement in the UK's relative economic performance over the past two years, cost management remains the most important priority for UK employers overall. The three biggest priorities for **private sector firms** are cost management (57%), market share growth (57%) and customer service improvements (47%).

Prevalence of vacancies

LMO employers report that they currently have 54 vacancies on average. Public sector employers report that they have 92 vacancies on average, compared with 49 vacancies in the private sector. The difference can largely be explained by the large size of some public sector employers. At the same time, the median number

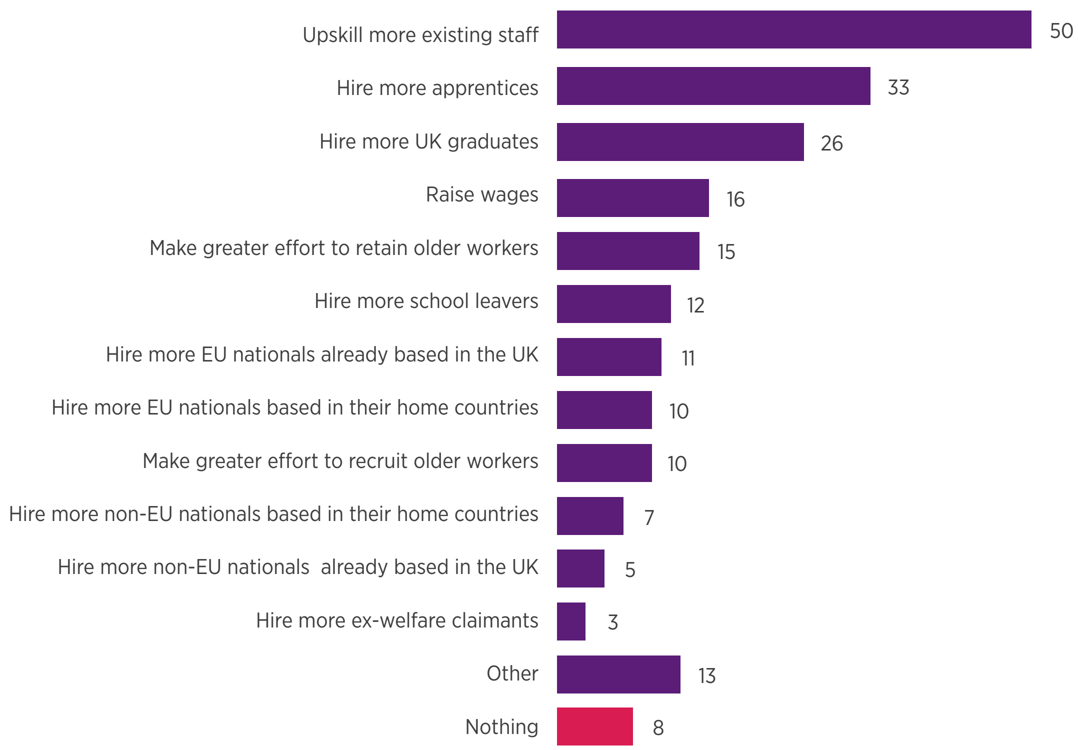
Figure 5 **Current priorities for organisations (%)**

Base: Summer 2015, all LMO employers (n=930) of current vacancies reported by LMO employers is 3, compared with 5 in the Winter 2014–15 report. Again, the difference between the median and mean figure can be largely attributed to the very large numbers reported by a few very large organisations. Employers in the private sector perceive that the median number of vacancies at their organisation is 3, compared with 18 in the public sector and 1 in the voluntary sector. The healthcare (50) and public administration (38) sectors report the highest median number of vacancies.

Hard-to-fill vacancies

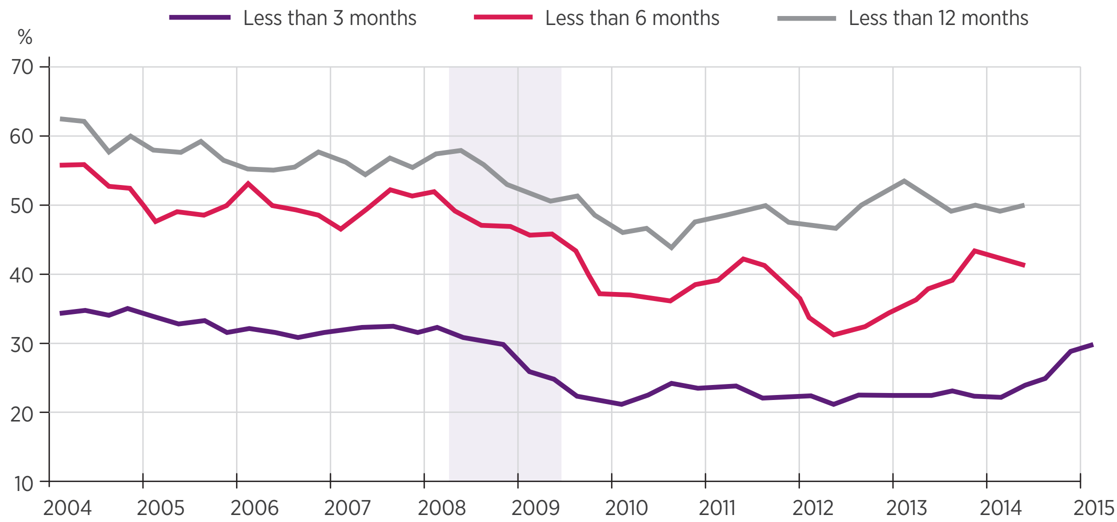
Despite unemployment falling to near historic lows, less than a quarter (23%) of vacancies are proving hard to fill, down from 28% in the Winter 2014–15 report. The proportion of hard-to-fill vacancies is modestly higher in the private sector (24%) than in the public and voluntary sectors (20%). The proportion of hard-to-fill vacancies is highest in the healthcare sector (34%). The most common responses to addressing hard-to-fill vacancies are upskilling existing staff (50%) and hiring more apprentices (33%) and UK graduates (26%). This is consistent with official figures, which show that the proportion of students that find employment within three months of leaving education has risen to its highest level since before the recession (Figure 7). Fewer than one in five (16%) employers say that they have raised wages to respond to their difficulties. In addition, reflecting the increasing number of restrictions on non-EU migrants, a modestly higher number of employers plan to hire EU migrants than plan to hire non-EU migrants to help offset recruitment difficulties.

Figure 6 Employer responses to hard-to-fill vacancies (%)



Base: Summer LMO, all employers with hard-to-fill vacancies (n=302)

Figure 7 **Proportion of students entering the labour market who find work (ages 16–24), by the length of transition into employment, four-quarter moving average (%)**



Source: Labour Force Survey (ONS)

Labour turnover

The average labour turnover rate among LMO employers is 8%. The extent of churn is higher in the public sector (10%) than in the private sector (8%) and voluntary sector (5%). Some caution should be attached to these figures due to a modest proportion of employers that were unable to identify the turnover figure.

2 Pay outlook

Pay award expectations in the 12 months to June 2016

Excluding bonuses, the expected median basic pay settlement among those LMO employers planning a pay review in the 12 months to June 2016 has increased to 2% from 1.8% over the past three months. Consistent with recent LMO reports, median pay increase expectations are higher in the private sector (2%) than in the public (1%) and voluntary (1.5%) sectors.

As in previous LMO reports, the median total pay expectation among LMO employers is 2%. At the same time, the mean total expectation has increased to 2.3% from 1.9% compared with the spring 2015 LMO report.

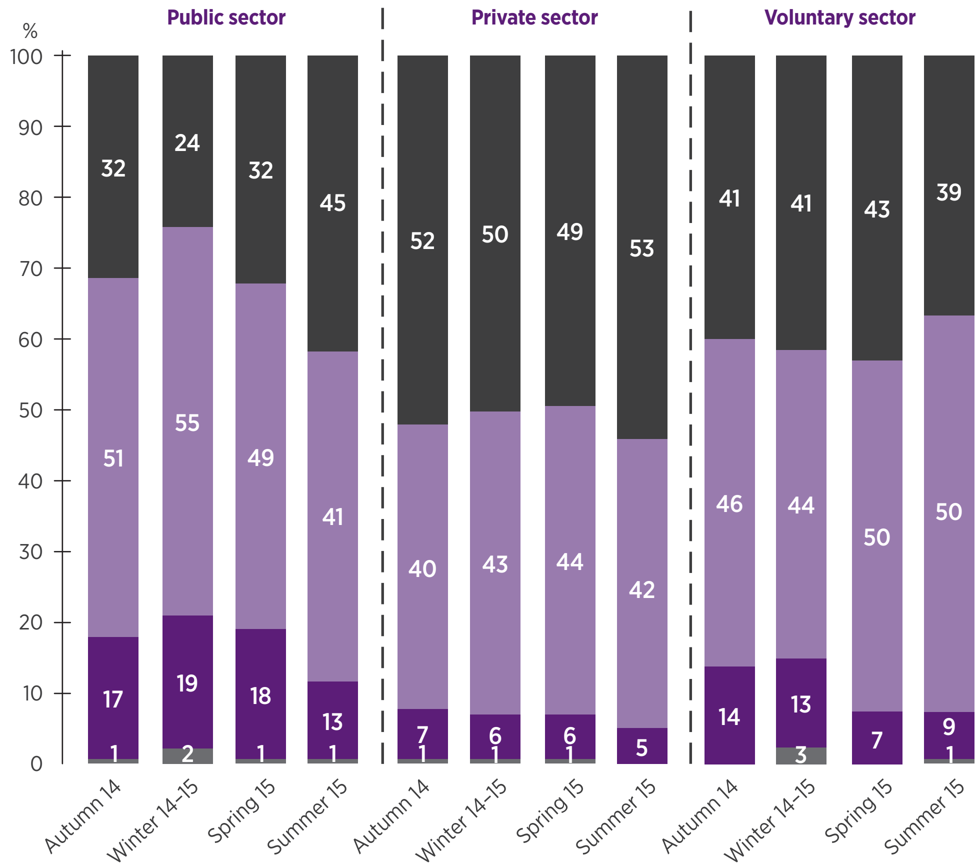
Figure 8 Average predicted annual *basic* pay awards (median), by sector (%)

Base: Summer 2015, all LMO employers planning to have a pay review before May 2016
Overall (n=383), Private sector (n=192), Public sector (n=116) and Voluntary sector (n=75)

In addition, the *average* basic pay settlement excluding bonuses, the report's less preferred measure, has increased to 2.1% from 1.8%. However, some caution should be added to the figures because around half (51%) of employers have not given replies as they are unsure about the outcome of their pay awards.

Public sector organisations remain significantly more likely than firms to report that their organisation will have a pay freeze. More than one in ten (13%) public sector employers plan to freeze pay in the 12 months to June 2016 compared with just one in twenty (5%) companies (Figure 9).

Figure 9 Likelihood of a *basic* pay increase, decrease or pay freeze, by sector in the next 12 months



Base: Summer 2015, all LMO employers who are not postponing a pay settlement
Overall (n=785), Private sector (n=458), Public sector (n=203) and Voluntary sector (n=124)

Hard to tell; it will depend on our organisation performance/Don't know

Increase

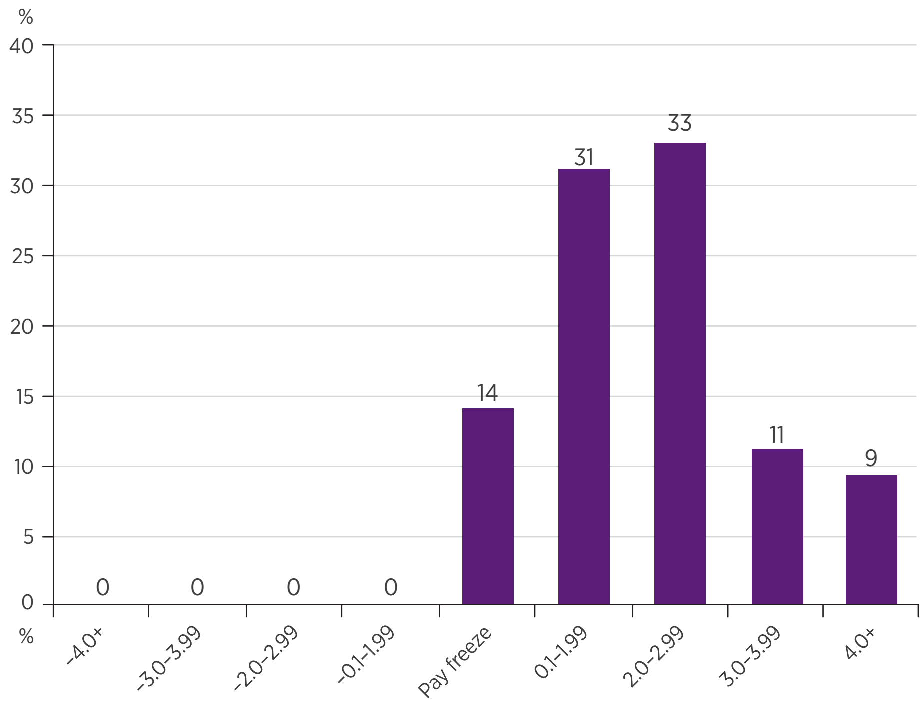
We will have a pay freeze

Decrease

Against the backdrop of stronger pay growth in certain sectors such as construction and finance according to the official statistics, the proportion of employers that plan to award a pay increase of 3% or above has remained broadly consistent during the previous 12 months. Overall, one in five employers expect to give a basic pay increase of 3% or above in their next pay awards. A third of employers plan to increase pay by 2–2.99%, while a similar proportion (31%) report that there will be an increase of 0.1–1.99%.

Overall, one in five employers expect to give a basic pay increase of 3% or above in their next pay awards.

Figure 10 Distribution of forward-looking basic pay settlements (%)



Base: Summer 2015, all LMO employers who predict either an increase, decrease or freeze in average basic pay (n=383)

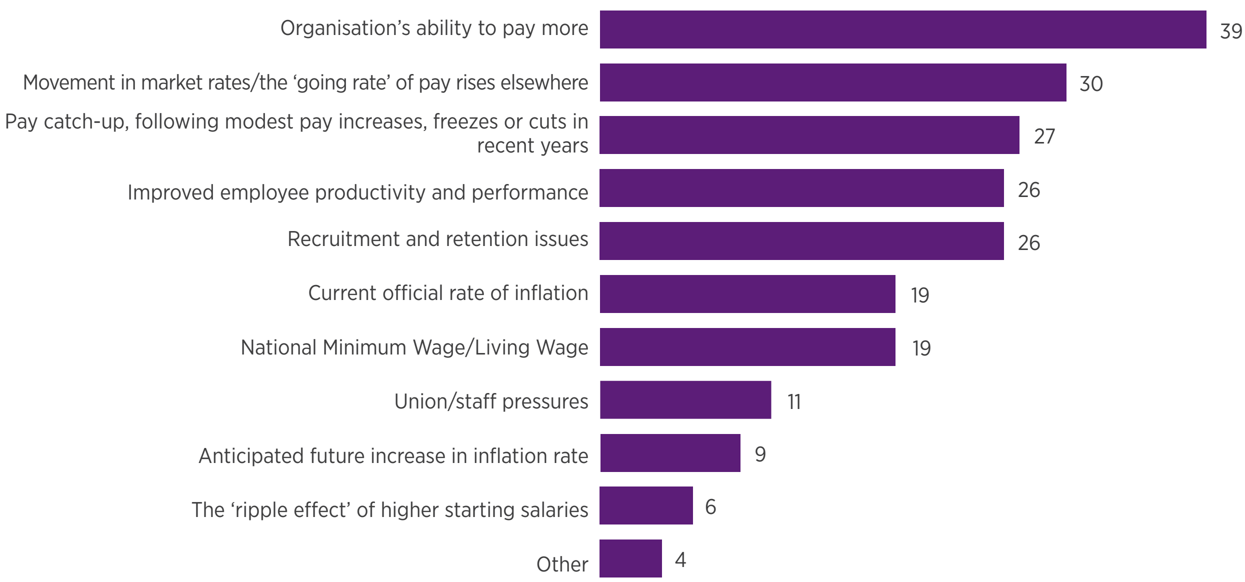
The key reasons behind employers' decision to award 2% or more in their pay awards are an organisation's ability to pay more (39%) and a movement in market rates (30%).

Drivers underlying the pay increases

The key reasons behind employers' decision to award 2% or more in their pay awards are an organisation's ability to pay more (39%) and a movement in market rates (30%). Other reasons include pay catch-up (27%) to reflect previous pay freezes and below-inflationary pressures, employee productivity and performance (26%) and recruitment and retention issues (26%).

Pay restraint in the public sector remains the most significant reason why employers cannot match the inflation rate of 2% in their pay award. In addition, one third (33%) of employers cite affordability.

Figure 11 Causes of increase in average basic pay by 2% or more (%)



Base: Summer 2015, all LMO employers who think that average basic pay will increase by 2% or more (n=194)

Figure 12 Factors restricting organisations' ability to match the inflation rate target of 2% (%)

Base: Spring 2015, all private sector LMO employers who think that average basic pay will increase by less than 2% (n=89)

Figure 13 Factors restricting organisations' ability to match the inflation rate target of 2% (private sector only) (%)

Base: Summer 2015, all private sector LMO employers who think that average basic pay will increase by less than 2% (n=52)

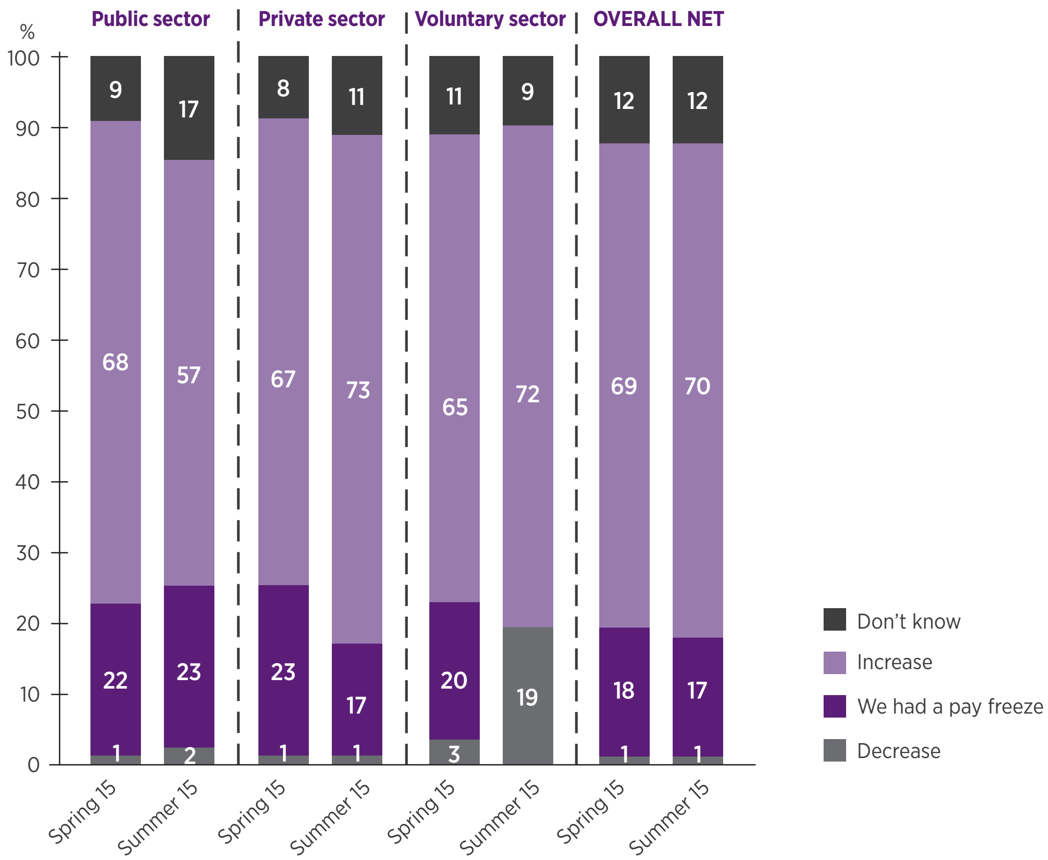
Pay settlements over the past year

Around seven in ten employers (71%) report that their organisation has conducted a basic pay review during the past 12 months. Meanwhile, one quarter (24%) say they did not carry out a pay review in the 12 months to June 2015 and 4% are unsure.

The **median** basic pay increase among LMO employers in the 12 months to June 2015 was 2%, up from 1% in the previous report. At the same time, the **mean** basic pay award has increased from 1.5% to 1.9%. The increase has been driven by the proportion of employers that awarded a basic pay increase of 3% or more, which has gradually risen over the recent past. Almost a quarter of employers (23%) report an increase of 3% or more, compared with 15% of LMO employers six months ago (Figure 15). Nevertheless, the most common basic pay award arrangements remain 2–2.99% (32%) and 0.1–1.99% (25%).

Overall, the results only partly reflect the official statistics, which have pointed to stronger pay growth in recent months. However, wage growth may be supported by other underlying drivers of growth. These include the 3% increase in the

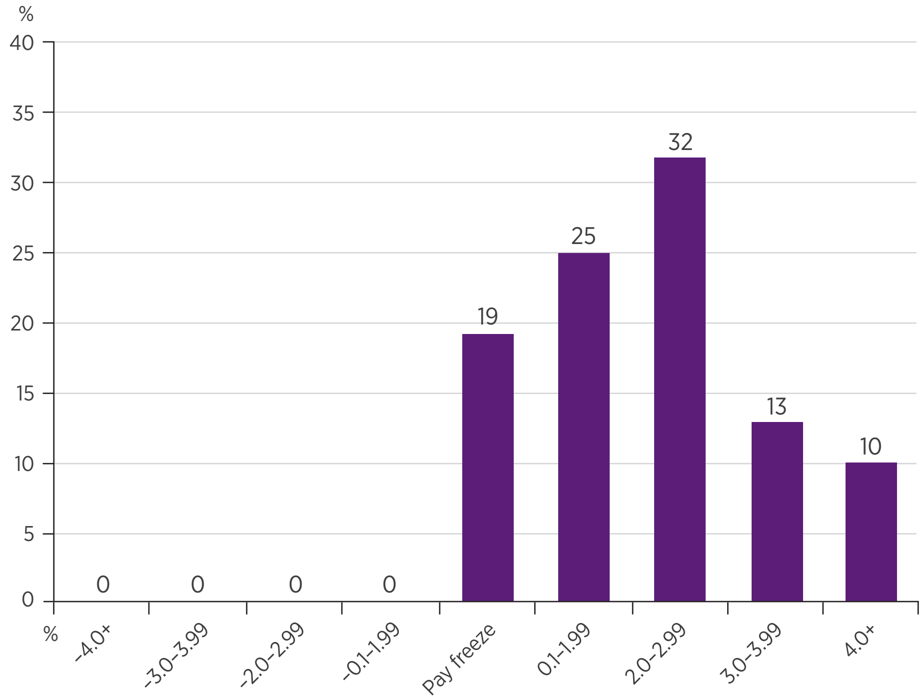
Figure 14 Basic pay change as a result of pay reviews over the past 12 months (%)



Base: Summer 2015, all LMO employers whose organisations have conducted a pay review in the past 12 months
Overall (n=622), Private sector (n=385), Public sector (n=136) and Voluntary sector (n=101)

National Minimum Wage (NMW) for people aged 21 and over, which affected around 1.4 million workers. In addition, firms are increasingly hiring new workers from other firms, although job-to-job flows remain below pre-recession levels, which may explain why fewer than one in five are raising salaries to respond to recruitment difficulties. Additionally, average earnings may be boosted by the compositional effects of the labour market over the past year, especially the million extra people working full-time compared with an increase of around 100,000 in the number of people working part-time.

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

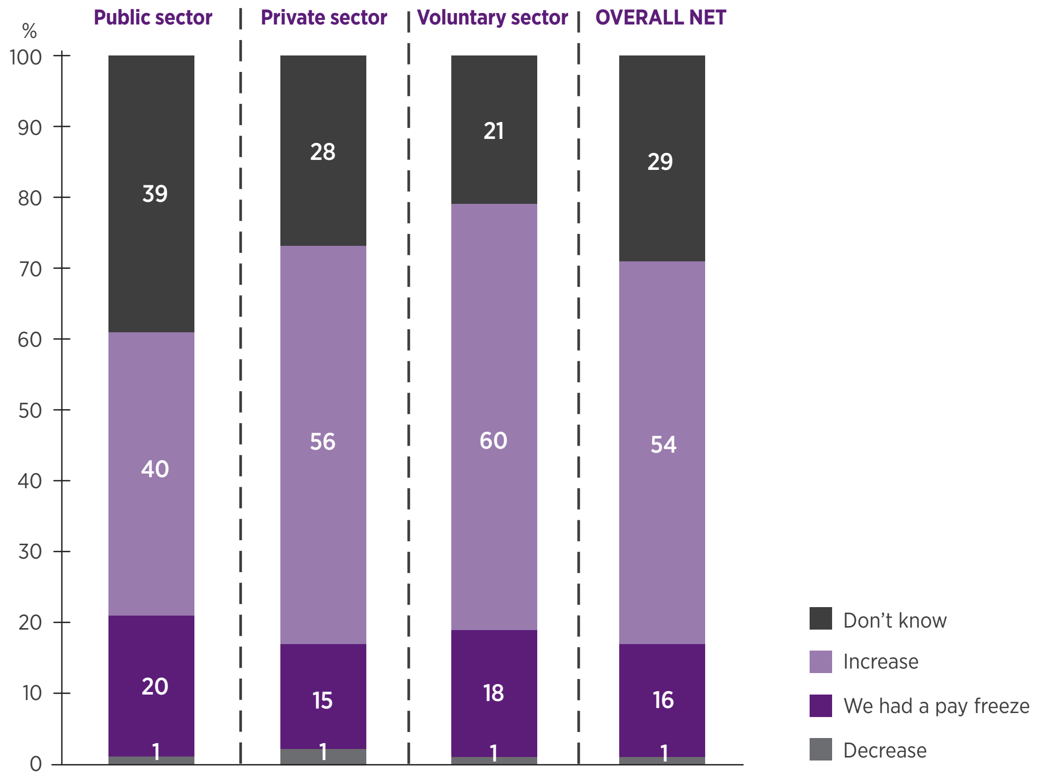


Base: Summer 2015, all LMO employers who report a change in average basic pay, including those who had a pay freeze (n=550)

How has total pay changed as a result of pay reviews over the past 12 months?

Among LMO employers whose organisations conducted a pay review over the past 12 months, the majority (54%) report that there was an overall increase in total pay. This is lower than the proportion who state that there was a basic pay increase at their organisation in the past year (70%). However, this can be attributed not to more organisations having decreased total pay, but to a higher proportion of employers who do not know how total pay has changed at their organisation in the past year. Consistent with reports of change in basic pay, 16% of employers state that there was a freeze in total pay in the past 12 months. Only a very small proportion (1%) say there was a decrease in total pay at their organisation.

Figure 16 **Total pay change as a result of pay reviews over the past 12 months**



Base: Summer 2015, all LMO employers whose organisations have conducted a pay
Overall (n=620), Private sector (n=384), Public sector (n=136) and Voluntary sector (n=101)

Sample and method

Respondent profile

Table 2: **Breakdown of the sample, by sector (%)**

Sector	Summer 2015	Spring 2015	Winter 2014–15	Autumn 2014	Summer 2014	Spring 2014	Winter 2013–14
Private	73	73	73	73	73	73	73
Public	21	21	21	21	21	21	21
Voluntary	6	6	6	6	6	6	6
N	**931**	**1,013**	**1,003**	**1,089**	**1,026**	**1,026**	**935**

Table 3: **Breakdown of the sample, by number of employees in organisation (%)**

	Summer 2015	Spring 2015	Winter 2014–15	Autumn 2014	Summer 2014	Spring 2014	Winter 2013–14
2–9	14	14	14	14	14	14	14
10–49	14	14	14	14	14	14	14
50–99	6	6	6	6	6	6	6
100–249	7	7	7	7	7	12	15
250–499	8	8	9	10	8	8	9
500–999	6	6	7	8	7	6	6
1,000–4,999	8	8	15	18	6	14	12
5,000–9,999	7	7	8	8	9	7	7
10,000–19,999	5	5	4	4	4	4	4
20,000 or more	15	15	15	13	17	14	13
N	**931**	**1,013**	**1,003**	**1,089**	**1,026**	**1,026**	**935**

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

	Summer 2015	Spring 2015	Winter 2014–15	Autumn 2014	Summer 2014	Spring 2014	Winter 2013–14
MANUFACTURING AND PRODUCTION	**15**	**15**	**15**	**15**	**15**	**15**	**15**
Agriculture, forestry and fishing	0	0	0	0	1	1	1
Manufacturing	9	9	9	9	9	9	9
Construction	4	4	4	4	4	4	4
Mining and extraction	1	1	1	1	0	0	0
Energy and water supply	1	1	1	1	2	1	1
EDUCATION	**6**	**6**	**6**	**6**	**6**	**6**	**6**
Primary and secondary schools	3	3	3	3	3	3	3
Further and higher education	3	3	3	3	4	4	3
HEALTHCARE	**11**	**11**	**11**	**11**	**11**	**11**	**11**
NHS	7	7	7	7	7	7	6
Other private healthcare	5	5	5	5	4	4	5
PRIVATE SECTOR SERVICES	**52**	**52**	**52**	**52**	**52**	**52**	**52**
Hotels, catering and leisure	8	8	8	8	8	8	8
IT industry	2	2	2	2	2	2	3
Transport and storage	4	4	4	4	4	4	4
Consultancy services	3	3	3	3	2	2	2
Finance, insurance and real estate	5	5	5	5	5	5	5
Wholesale and retail trade	4	4	4	4	2	2	8
Other business services	9	9	9	9	–	–	2
Information and communication	1	1	1	1	1	1	1
Retail	12	12	12	12	14	14	8
Professional, scientific and technical	3	3	3	3	3	3	4
Admin and support service activities	1	1	1	1	9	9	8
PUBLIC ADMINISTRATION AND DEFENCE	**9**	**9**	**9**	**9**	**9**	**9**	**9**
Public administration – central government	3	3	3	3	3	3	3
Public administration – local government, including fire services	5	5	5	5	4	4	4
Armed forces	1	1	1	1	1	1	1
Quango	0	0	0	0	0	0	0

Survey method

The fieldwork for the LMO survey is managed by YouGov Plc. This survey has been conducted using the bespoke YouGov online system, administered to members of the YouGov Plc GB panel who have agreed to take part in surveys and the CIPD membership.

The survey is based on responses from 931 HR professionals and employers. All respondents have HR responsibility within their organisation, which may or may not be their sole and primary function within their organisation. 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. Each member of the CIPD sample is invited to complete the survey. Respondents are given three weeks to reply and reminder emails are sent to boost response rates (subject to the CIPD's re-contact policy).

Weighting

The quarterly LMO survey is sampled from the CIPD membership and through the YouGov panel of HR professionals. 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 *the Business Population Estimates for the UK and regions 2012* (available at: https://www.gov.uk/government/statistics/business-population-estimates-for-the-uk-and-regions-2012).

The delivered sample is drawn from across all business sizes and in total 568 unweighted responses were received from small and medium enterprises (SMEs) and 363 from HR professionals within large employers (250+ employees). A very small number of HR consultants (4) took part in the survey.

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