



Quarterly survey report
Winter 2009–10

Labour Market Outlook



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Executive summary

The quarterly CIPD/KPMG *Labour Market Outlook* aims to offer an early indication of future changes to the labour market around recruitment, redundancy and pay intentions. The survey is based on a survey of more than 700 HR professionals, who are mainly drawn from the CIPD's membership of more than 135,000 HR professionals.

The latest report, based on a survey of 748 HR professionals, offers no sign that the provisional estimate that the UK economy is now out of recession is leading to better job prospects. In fact, the employment outlook for the first quarter of 2010 has worsened slightly since the November 2009 report, despite the recovery in economic growth. Compared with three months ago, recruitment and redundancy intentions have remained stable. However, those employers that are anticipating making redundancies in the next three months are expecting to cut a greater proportion of their workforce compared with the previous quarter.

The report's **net employment intentions**¹ balance captures the sum of this activity. The net balance fell to -5% for the first quarter of 2010, which compares with -3% for the final quarter of 2009. This is mainly due to a large fall in employment intentions in the public sector. In contrast, private sector companies look set to increase staffing levels for the first time since the start of the recession. However, the slight fall in the net balance may mask the true extent of forthcoming job losses given that employers expecting to make redundancies plan to cut on average 6.2% of their workforce, compared with a figure of 3.8% for the last quarter of 2009.

On balance, therefore, the employment outlook remains subdued and uncertain in spite of rising levels of optimism reported in other surveys of employment intentions. As observed in previous reports, the CIPD sees no near-term or medium-term prospect of the jobs market improving while unit wage costs continue to increase and productivity decreases. This backdrop will also continue to weigh down on pay, with the survey showing basic pay expectations among employers for the 12 months to December 2010 at a record low of 1.5%, again in spite of rising levels of optimism reported in other surveys of pay intentions.

Overall, therefore, the Chartered Institute of Personnel and Development remains of the view that 2010 will see a 'jobs light, pay tight' recovery.

We welcome feedback on this quarterly report. Please send your comments to g.davies@cipd.co.uk

¹ This represents the difference between the proportion of employers that intend to increase total staffing levels and those that intend to decrease total staffing levels in the first quarter of 2010.

Recruitment and redundancy outlook

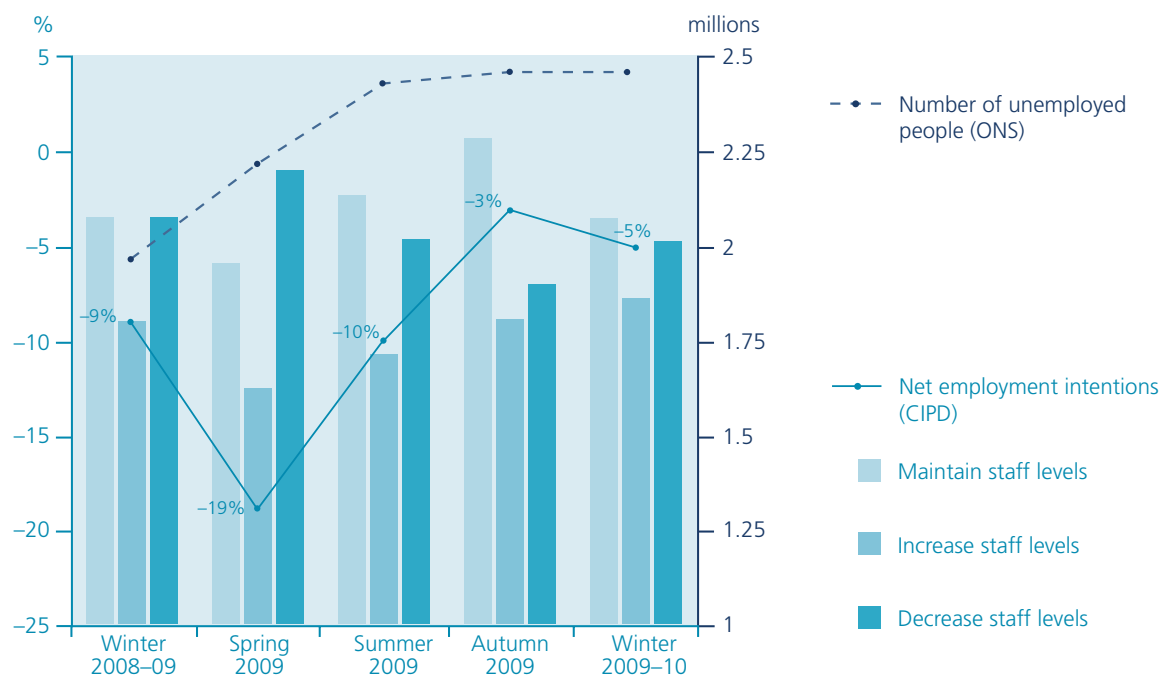
Following the previous two quarters, where the rate of decline in the jobs market looked set to fall sharply according to the *Labour Market Outlook*, the latest data points to further labour market adjustment in the first quarter of 2010. This quarter's survey's net employment intentions balance² for the whole economy is -5%, which is improved from -9% this time last year, but worse than the -3% recorded in the previous quarter. As Figure 1 illustrates, the net employment intentions balance provides an accurate forecast for the trends reported in the official *Labour Force Survey* data produced by the Office for National Statistics (ONS).

The slight fall in net employment intentions, which measures the difference between the proportion of employers that expect recruitment and redundancies to increase staff levels and those that expect to decrease staff levels in the first quarter of 2010, is due to a dramatic slump in confidence in the public sector. The net balance for the public sector is now -31%, down from -13% in the previous quarter. The fall in employment in the public sector looks set to be particularly marked in public administration and defence (-62%).

This contrasts with the private sector, where staffing levels look set to increase for the first time since the start of the recession (+5%). The rise in employment will be particularly strong in private sector services (+12%), which includes sectors such as tourism and leisure, IT, retail, consultancy and finance. This contrasts with manufacturing and production, where employment looks set to continue to fall (-4%), in spite of the 0.4% increase in manufacturing output recorded in the fourth quarter of 2009 according to the provisional estimate.

The disparity between the confidence levels of SMEs and larger organisations has also widened. The net employment intentions figure for SMEs is now +29%, while the net balance for larger employers (500+ employees) has reached a new low of -27%. This is partly due to the fact that public sector organisations tend to be larger than private sector companies. However, the high number of private sector companies that plan to outsource jobs in 2010 suggests that this is not the only reason.

Figure 1: Overall effect of recruitment and redundancies



² This represents the difference between the proportion of employers that intend to increase total staffing levels and those that intend to decrease total staffing levels in the first quarter of 2010.

However, such positive developments in the private sector mask the fact that where firms are planning to make redundancies, on average they are expecting to cut a larger proportion of their workforce compared with the previous quarter. Employers expecting to make redundancies in the next three months plan to cut on average 6.2% of their workforce, compared with a figure of 3.8% for the previous quarter.

Among those organisations that plan to carry out redundancies, employment looks set to fall most sharply in manufacturing companies (10%). Employment will see a more modest fall in education and health, where employers plan to lay off only 1% of the workforce. In addition, a third (33%) of employers

have contingency measures in place to make more or new redundancies over the next 12 months, up from 28% in the previous quarter. Half of public administration and defence employers (50%) have such contingency plans.

The review of past activity shows that more than a third (36%) of employers have decreased their staff levels, while a similar proportion has maintained them (37%) since the November report. This is broadly in line with the prediction made last quarter and the official statistics, which have shown more modest rises in unemployment recently. Almost one in five (19%) employers plan to increase their staff levels, which continues the growth observed over the last two quarters.

Redundancy outlook

Around a quarter (26%) of employers are planning to make redundancies in the three months to April, down from 30% in the previous quarter. However, the outlook remains uncertain, with one in five (20%) unsure about whether they will be carrying out redundancies, up by 8% compared with the November report.

A third (36%) of voluntary/not-for-profit organisations are planning to carry out redundancies in the first quarter of 2010. This compares with more than a quarter of private sector companies (27%) and slightly fewer public sector organisations (23%). Interestingly, redundancy intentions are highest in the education

sector (38%), one of the few areas that looks set to be protected from future public spending cuts. Redundancy intentions are also high in manufacturing and production (34%), but low in private sector services (24%), healthcare (25%) and public administration and defence (22%).

Over the past year, employers have made 4.5% of the workforce redundant, up from 2% in the November 2009 report. The largest proportions are 8% in the manufacturing and production sector and 11% in energy and water supply.

Figure 2: Redundancy intentions by business sector

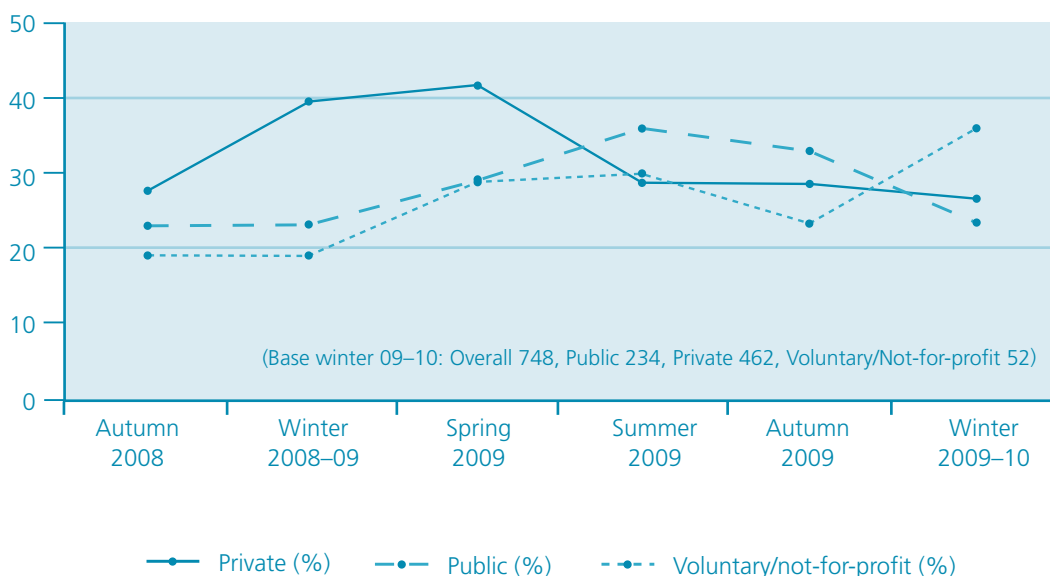
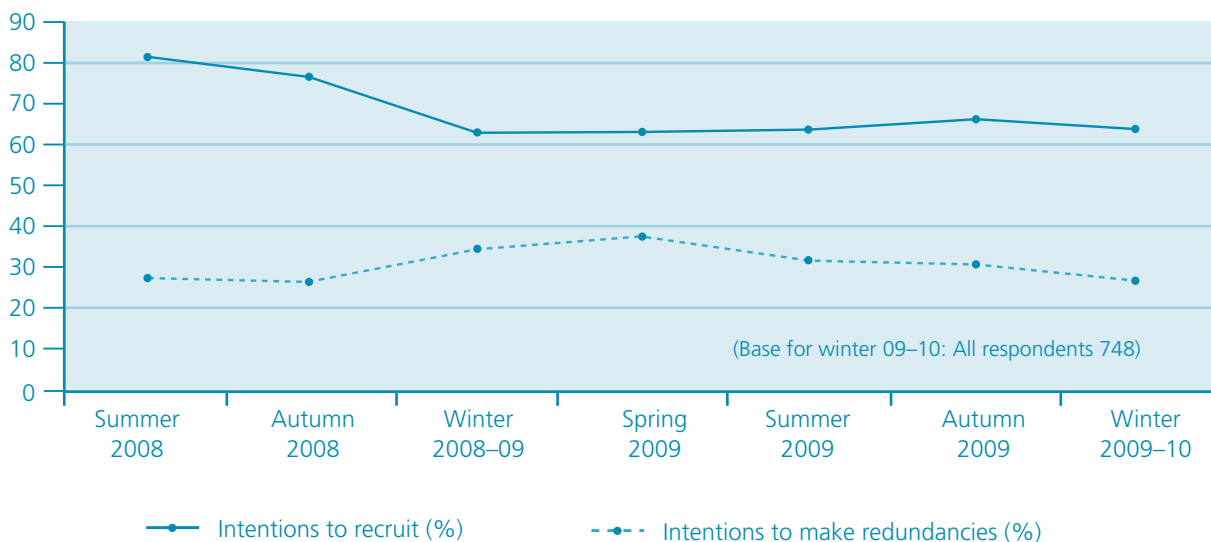


Figure 3: Redundancies versus recruitment



Outsourcing outlook

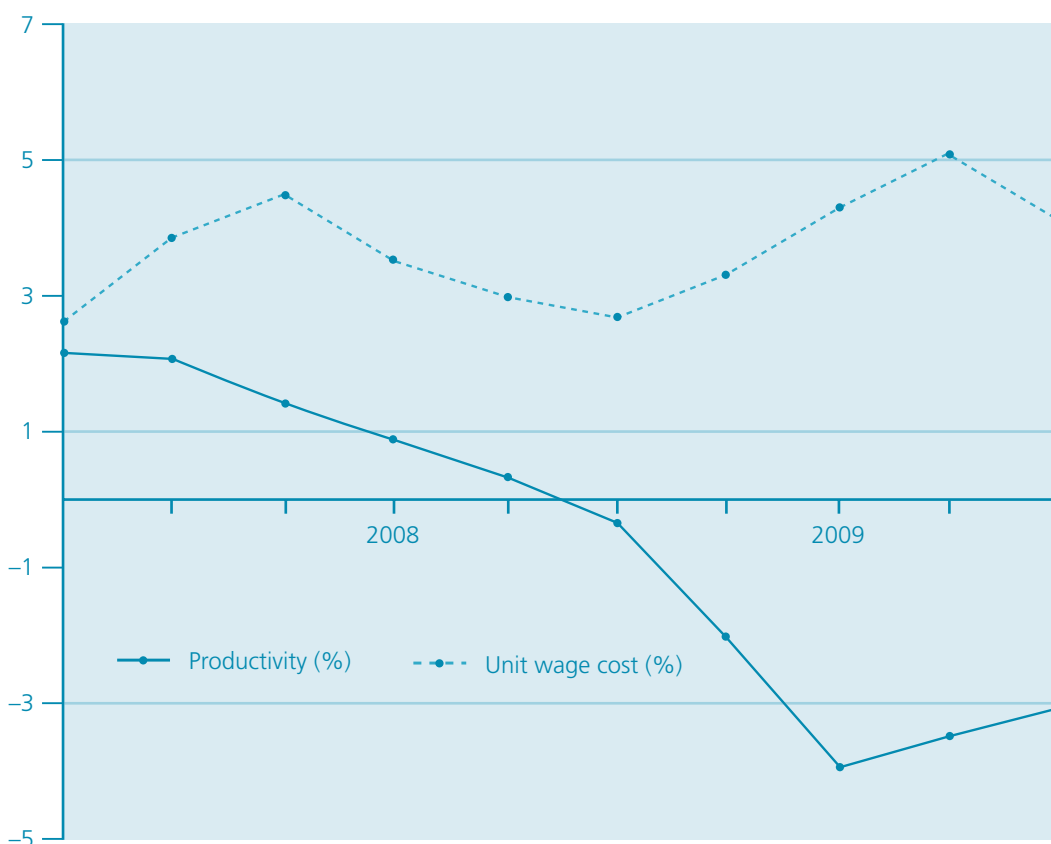
According to the most recent official statistics,³ unit wage costs rose by 4.1% across the whole economy compared with the same quarter a year earlier in the third quarter of 2009. This follows a 5.1% annual rise in unit wage costs in the previous quarter. Meanwhile, output per worker and productivity fell by 1.6% and 3.1% respectively compared with the same quarter a year earlier.

With this in mind, this quarter's report seeks to find out how many organisations are planning to outsource jobs abroad, and how many of these are planning to carry out redundancies at the same time. Ten per cent of private sector companies plan to outsource jobs abroad in the next 12 months. Among those companies, almost half (44%) of IT companies plan to relocate jobs to other countries, while almost one in five (17%) manufacturing companies plan to outsource employment abroad.

Among employers planning to outsource jobs overseas, more than half plan to relocate UK jobs to India, which is unsurprising given that IT has become such a key driver of economic growth in India. Meanwhile, more than a third (37%) plan to shift jobs to eastern Europe. Large organisations are twice as likely to relocate jobs as small organisations. Some insight into the reasons why organisations outsource is provided by the CIPD's *HR Outsourcing survey (2009)*. It shows that the top drivers behind the switch to outsourcing include access to skills and knowledge (71%), quality (64%) and cost reduction (61%).

Those organisations that are planning to outsource jobs to other parts of the world in the next 12 months are also more likely to make redundancies (37%) compared with those who are not (26%). Firms looking to relocate jobs overseas are also more likely to be planning deeper cuts to their UK workforce (16%) compared with the survey average (6%).

Figure 4: Productivity and unit wage costs



³ ONS. (2009) *Statistical Bulletin: Productivity Q3 2009*. London: Office for National Statistics.

Recruitment outlook

Recruitment intentions for the whole economy have remained broadly unchanged during the past year, with almost two-thirds (63%) of employers planning to recruit in the first quarter of 2010, the same as in the November report. More than four-fifths (83%) of voluntary/not-for-profit employers will be hiring staff in the three months to April 2010, compared with 70% of public sector organisations and fewer than 60% of private sector companies.

Overall, around four-fifths (82%) of new recruits will be in full-time employment. This figure rises to 90% in the private sector, while three-quarters (75%) of new recruits in the public sector will be in full-time employment. At the same time, around one in five (21%) new recruits in the public sector will be in part-time employment, compared with around one in ten in the private sector (9%). With the number of people in part-time employment recently hitting a record high, and the number of people in full-time employment falling sharply, the figures offer a glimpse of future developments. However, the main reason behind the shift to part-time employment continues to be employers' desire to hold on to existing staff while managing wage costs.

Regional trends

Seven in ten employers will be creating new positions in the Midlands (71%), compared with only 46% in Scotland. However, among those planning to recruit, the biggest proportion of full-time new positions will be found in the south of England (73%) and especially London (76%).

Figure 5: Recruitment intentions by business sector

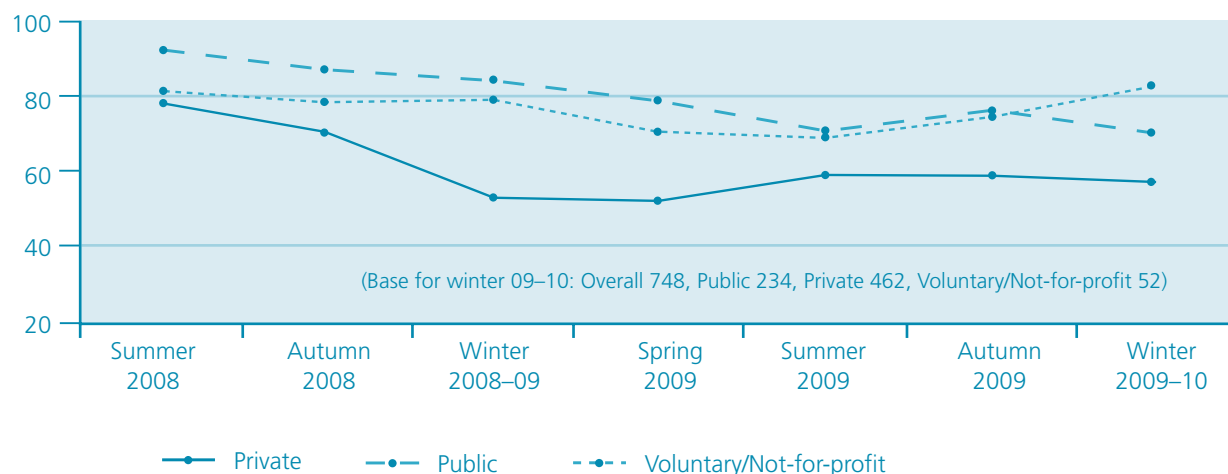
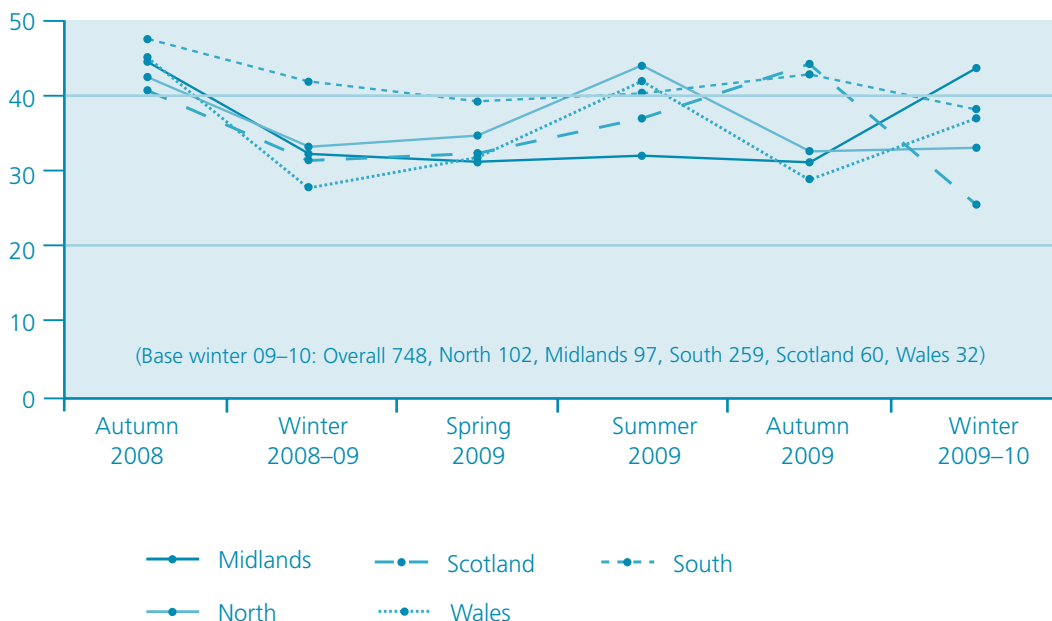


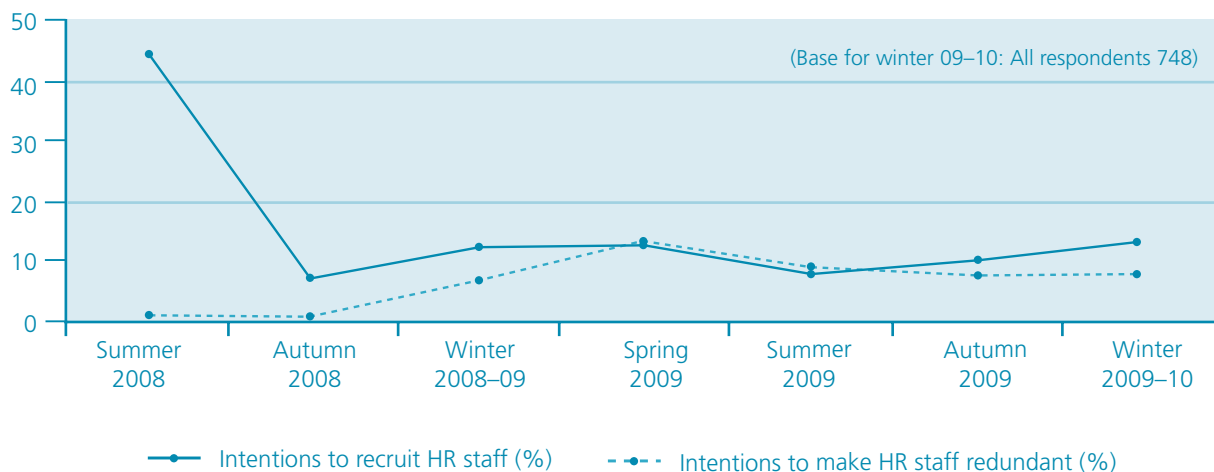
Figure 6: Recruitment intentions by regions



HR staff

Jobs prospects for HR staff have improved since the previous quarter. Thirteen per cent of employers intend to recruit additional HR staff, up 3% from the previous quarter. At the same time, 5% of employers intend to make them redundant, down 3% from three months ago. Hiring will be more buoyant in the private (14%) and voluntary/not-for-profit sectors (14%). The fall in public sector employment intentions reflects the fact that fewer (10%) public sector organisations intend to recruit HR staff in the first quarter of 2010.

Figure 7: HR staff redundancies versus recruitment



Migration and skills outlook

The recession has not depressed demand for migrant labour in recent months in spite of the recession. As reported in the Bank of England's quarterly inflation report (November 2009), overall net migration flows have probably remained positive during the recession.

Around one in five (19%) employers has recruited migrant workers in the past three months, with public sector employers more likely to hire migrant workers than private sector employers. More than a third of healthcare (37%) and further and higher education organisations (39%) recruited migrant labour in the three months to December 2009, particularly highly skilled migrant workers. Among

those employers that recruited migrant labour, more than three-quarters of healthcare (77%) and further and higher education (73%) organisations primarily hired highly skilled migrant workers when recruiting migrant labour. More than three-quarters of healthcare and education organisations (76%) are also more likely to report vacancies that are hard-to-fill vacancies than average (55%)

The survey results also show that employers recruited more low-skilled migrant workers than they expected. This may suggest that migrant workers are more likely to accept low-skilled work, in spite of a deterioration in job prospects for UK nationals.

Table 1: Proportion of organisations that have recruited migrant workers* in the past three months (%)

Sector	All (748)	Private (462)	Public (234)	Voluntary/not-for-profit (52)
Yes	19	15	24	25
No	71	81	52	70
Don't know	10	4	23	5
Not stated	1	0	1	0

* By migrant workers, we mean non-British nationals who work on either a temporary or permanent basis.

Table 2: Proportion of organisations that have recruited highly skilled/skilled/low-skilled workers

	Summer 09	Winter 09	Difference
	Which of the following groups of migrant workers will you be hiring this summer? <i>Base: all planning to recruit migrant workers in the next three months (73)</i>	Were the migrant workers you recruited in the past three months: <i>Base: all who recruited migrant workers (139)</i>	% points
Highly skilled workers	43	36	-7
Skilled workers	28	22	-6
Low-skilled/unskilled workers	25	34	+9
Don't know	5	8	+3

However, only 7% are planning to recruit migrant labour in the three months to April 2010. The reduction may partly reflect the sharp fall in employment intentions in the public sector, which continues to hire a greater proportion of migrant workers. It may also reflect the fact that there is less certainty around hiring decisions for low-skilled appointments. Over half (54%) of those recruiting migrant workers in the next three months currently have vacancies that are hard to fill. Four in ten (42%) of those that are expecting to recruit migrant workers in the next three months are also planning to make redundancies over the same period.

Table 3: Proportion of organisations that plan to recruit migrant workers during the next three months (%)

Sector	All (748)	Private (462)	Public (234)	Voluntary/not-for-profit (52)
Yes	7	6	9	9
No	68	74	56	63
Don't know	24	20	33	28
Not stated	1	0	1	0

* By migrant workers, we mean non-British nationals who work on either a temporary or permanent basis.

Skills outlook

The report also shows that the recession has had little impact on labour and skills shortages. Two in five organisations (41%) have vacancies that are hard to fill. More than half of these vacancies are skills-related (52%). The other main reason for such difficulties is a lack of relevant experience (48%). Of those employers that have vacancies that are hard to fill, engineering posts are the most difficult to fill (27%).

This is consistent with the most recent *National Employers Skills Survey* (2007), which reports that SEMTA, the Science, Engineering and Manufacturing Technologies Alliance, has a higher proportion of organisations reporting skill shortage vacancies (SSVs) than other sector skills councils:

'Skills shortages are most likely to occur when employers are looking to recruit into skilled trades and professional occupations. The high levels of

Skilled Shortage Vacancies experienced by employers represented by e-skills and SEMTA can be largely attributed to problems recruiting professionals and skilled trades-people respectively.'

However, recruitment difficulties are actually higher in the public sector (55%) than the private sector (34%). Public sector employers report that vacancies in nursing (13%), social work (12%), doctors (11%) and teachers (8%) are hard to fill.

Looking ahead, we also asked employers responding to the survey what would happen if the economy returns to trend growth. In this situation, the proportion of organisations that would have difficulty filling vacancies falls to around one in four (28%). In addition, almost four in ten (38%) predict that they would have difficulty retaining talent if the economy were to return to trend growth.

Pay outlook

Continuing the trend from previous reports, pay intentions have fallen further in the previous quarter. HR professionals say that the **average basic pay increase** in their organisation (excluding bonuses, increments, overtime and performance-related pay) at the next pay award will be 1.5% on average. Private sector pay will rise by 2% while public sector employees should expect to receive an average basic pay increase of just 0.9% at their next pay award.

The report's forecast continues to remain at the lower end of the range of pay intention surveys. However, while our predictions remain broadly consistent with the official *Labour Force Survey* data provided by the Office for National Statistics, our prediction in the November report that basic pay would rise by 1.5% lies above the 1.1% rise in regular pay (excluding bonuses) reported in the most recent official data.

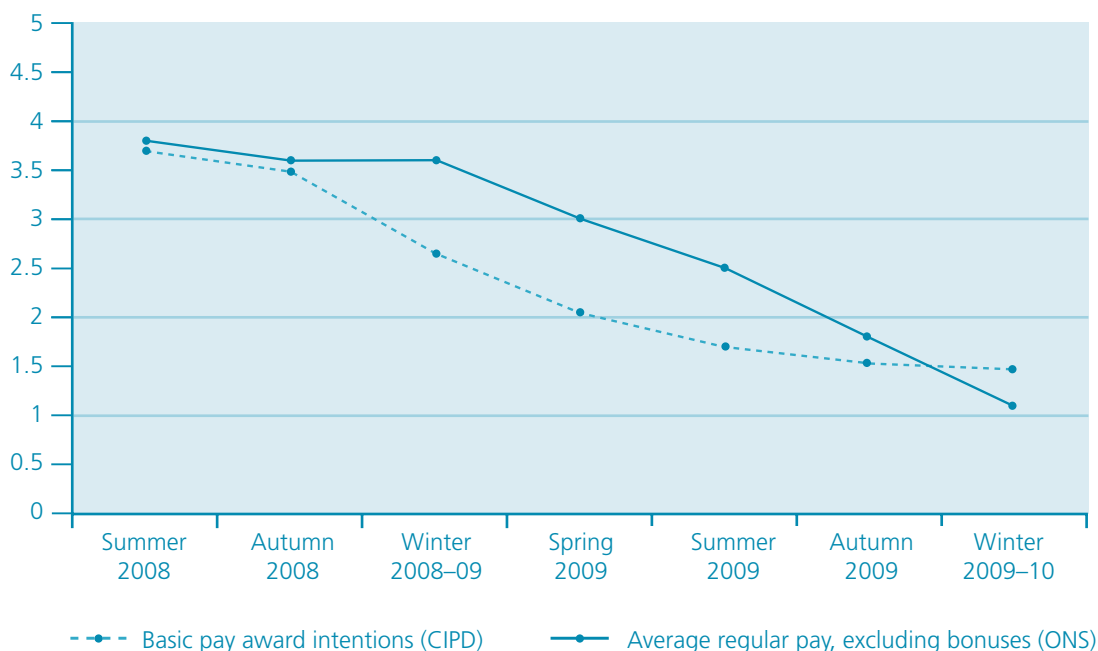
In line with improved job prospects for private sector workers, the pay awards for private sector employees will also receive a modest boost in 2010. Private sector employees will get an average basic pay increase of 2%, compared with 0.9% awards for public sector workers and 0.8% for voluntary/not-for-profit employees. However, unlike the recruitment and redundancy intentions figures, the pay data should be treated with a degree of caution because more than a third (38%) of employers cannot

specify the outcome of their next pay award. In addition, the figures do not include the annual increments that are enjoyed by a greater proportion of public sector staff.

A quarter (24%) of LMO employers are planning to have a pay review this quarter, with a further four in ten (38%) planning to conduct their pay review between March and May. One in seven (15%) are postponing their decision. Among those planning a pay review in the next year, just over a third of UK employers (35%) will award an increase in the next 12 months, while one in seven (14%) plan to introduce a pay freeze. However, the number of organisations that will introduce such freezes may be higher due to the number of employers that cannot specify the exact outcome of their next pay reviews. Pay freezes in 2010 are significantly more likely to happen in the public or voluntary sectors (19%) than the private sector (11%). Only 2% will decrease their employees' average basic pay.

The average pay award has increased for seven in ten (70%) public sector organisations, compared with only a quarter (27%) of private sector employers during the past year or so. Around two-thirds of private sector employers froze pay in the 12 months to December 2009. The average basic pay award for private sector employees was 0.5%, compared with a 1.4% increase for public sector organisations and a 0.8% increase for not-for-profit/voluntary employees.

Figure 8: Basic pay award intentions (excluding bonuses) (%)



Research methodology

The online survey went out to a range of CIPD members and 748 usable returns were received, giving a response rate of 5%. Respondents answered a series of questions on employment issues from 26 November – 17 December 2009.

Data for spring, summer, autumn and winter 2009 are weighted on the size of organisation, sector of the organisation and industry, according to the LMO membership profile. Comparisons with previous quarters should therefore be made with caution.

The responses were collated and compiled by Ipsos MORI.

To provide more detail, the results were then re-analysed by the size of the company, sector of business, region and type of business.

The *Labour Market Outlook* survey is written by Gerwyn Davies, CIPD Public Policy Adviser.

Respondent profile

Table 4: Respondents by business sector (%)

	Spring 09	Summer 09	Autumn 09	Winter 09–10 ⁴
Private	62	62	62	62
Public	31	31	31	31
Voluntary/not-for-profit	7	7	7	7

⁴ Profile data in quarters is weighted on sector, industry and organisational size.

Table 5: Respondents by business type (%)

	Spring 09	Summer 09	Autumn 09	Winter 09–10
MANUFACTURING AND PRODUCTION	14	15	14	14
Agriculture, forestry and fishing	*	*	*	*
Manufacturing	9	10	9	9
Construction	2	3	2	2
Mining and extraction	*	*	*	*
Energy and water supply	1	1	1	1
EDUCATION	5	6	5	5
Primary and secondary schools	1	1	2	1
Further and higher education	4	5	3	5
HEALTHCARE	8	8	8	8
NHS	6	5	6	6
Other private healthcare	1	3	1	1
VOLUNTARY AND NOT-FOR-PROFIT SECTORS	6	n/a	5	5
PRIVATE SECTOR SERVICES	52	54	52	52
Hotels, catering and leisure	2	2	2	2
IT industry	3	4	3	3
Transport and communications (including media)	4	4	4	4
Consultancy services	14	15	14	14
Finance, insurance and real estate	9	10	10	10
Wholesale and retail trade	6	7	6	6
Other business services	12	13	12	12
PUBLIC ADMINISTRATION AND DEFENCE	16	17	16	16
Public administration – central government	7	7	5	4
Public administration – local government, including fire services	8	9	9	11
Armed forces	1	1	1	*
Quango	n/a	n/a	1	1
Not stated	*	1	n/a	n/a

Table 6: Region/nation to which response relates (%)

	Spring 09	Summer 09	Autumn 09	Winter 09–10
North	11	13	15	14
North-west of England	6	4	7	5
North-east of England	1	5	2	4
Yorkshire and Humberside	5	4	6	4
Midlands	15	10	12	13
West Midlands	4	5	3	4
East Midlands	5	3	5	4
Eastern England	6	2	4	5
South	33	35	36	35
London	13	14	17	16
South-west of England	7	8	7	7
South-east of England	13	13	12	11
Scotland	8	36	32	8
Wales	2	2	2	4
Northern Ireland	n/a	*	0	0
Channel Islands	0	*	1	*
All of UK	25	0	0	24
Other	7	3	1	2
Not stated	3	4	8	7

Table 7: Respondents by employer size (%)

	Spring 09	Summer 09	Autumn 09	Winter 09–10
Number of employees				
1–9	13	15	15	15
10–49	6	7	7	7
50–99	5	6	6	6
100–249	10	13	12	14
250–499	8	8	9	7
500–999	9	10	10	10
1,000–4,999	19	21	21	21
5,000–9,999	10	11	11	11
10,000–19,999	7	8	8	8
20,000 or more	13	0	0	0

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