

de Poel – the number one procurer
of temporary agency labour in the UK

Labour Market Outlook

Quarter 1 - 2011



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Summary

de Poel have looked at the quarterly CIPD/KPMG Labour Market Outlook (LMO) that provides a set of forward-looking labour market indicators, highlighting employers' recruitment, redundancy, migration and pay intentions. The survey is based on 759 HR professionals, who are mainly drawn from the CIPD's membership of more than 135,000 HR professionals.

The latest report indicates that the employment recovery that took place in 2010 may not be sustained in 2011. The report's net employment intentions¹ balance, which looks at employment intentions for the first quarter of 2011, is negative for the first time in a year, decreasing to -3 from +11 compared with the previous three months. This follows the publication of the latest set of official labour market statistics in January 2011, which showed a quarterly increase of 49,000 in the number of unemployed people and an increase of 89,000 in the number of economically inactive.

As indicated in previous reports, the private sector is continuing to grow (+26), but at a slower pace than in previous quarters. However, employment intentions in the public sector, which have been in negative territory over the previous 12 months, have fallen further to -66 from -44 in the autumn report. Further, more than half of public sector organisations plan to make redundancies in the first quarter of 2011, with the average redundancy programme amounting to cuts of almost 13% of the workforce. Overall, the average redundancy programme across the whole of the UK economy will mean cuts of almost one in ten workers (9%).

This backdrop makes the report less optimistic than the Office for Budget Responsibility, an independent body that is charged with making economic and jobs growth forecasts, which believes that the total number of people in work will be 100,000 higher at the end of 2011 than at the end of 2010. They also believe that unemployment will peak at 8.0% in 2011. By contrast, we believe that unemployment may continue to rise into 2012 on the basis of our survey evidence.

Our view is underlined by the report's medium-term balance, which looks at employment intentions in the 12 months to December 2011. It has fallen to -9 from +1 over the past three months.

The more sombre backdrop looks set to weigh on pay in 2011. The expected average pay settlement in the 12 months to November 2011 has fallen to 1.3% from 1.5% over the past three months.

Recruitment, retention and redundancy outlook

Employment prospects have worsened during the past three months. After three consecutive quarters of projected employment growth, which has been reflected in the official labour market statistics (Figures 1 and 2), the first quarter of 2011 may see a fall in employment. In particular, 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 first quarter of 2011– has fallen to –3.

Figure 1: Correlation between ONS unemployment statistics and LMO data

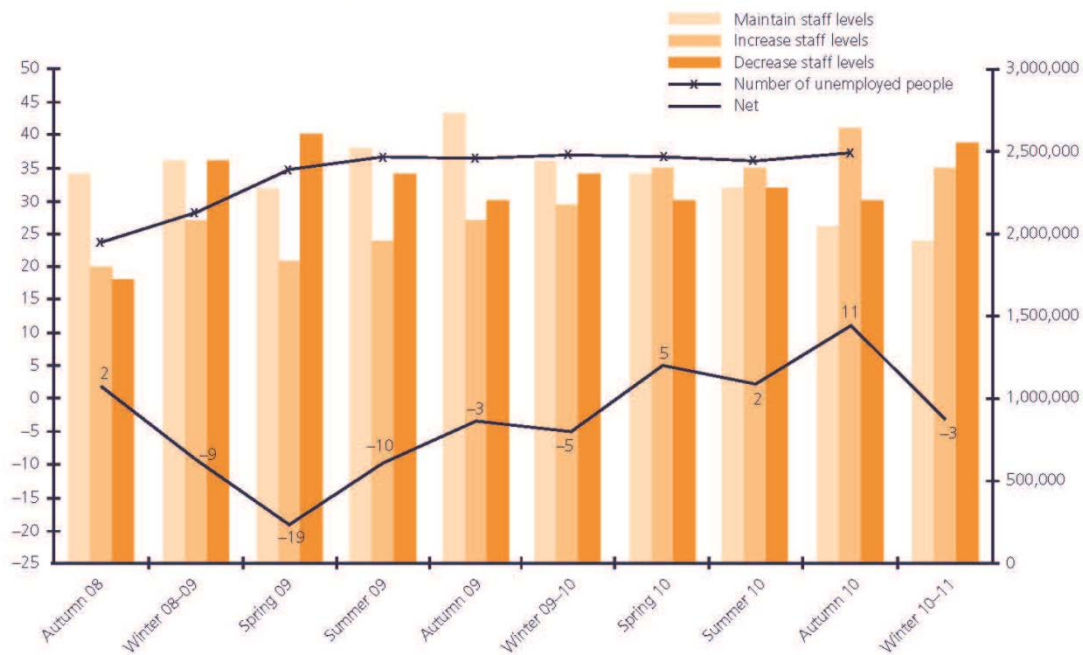
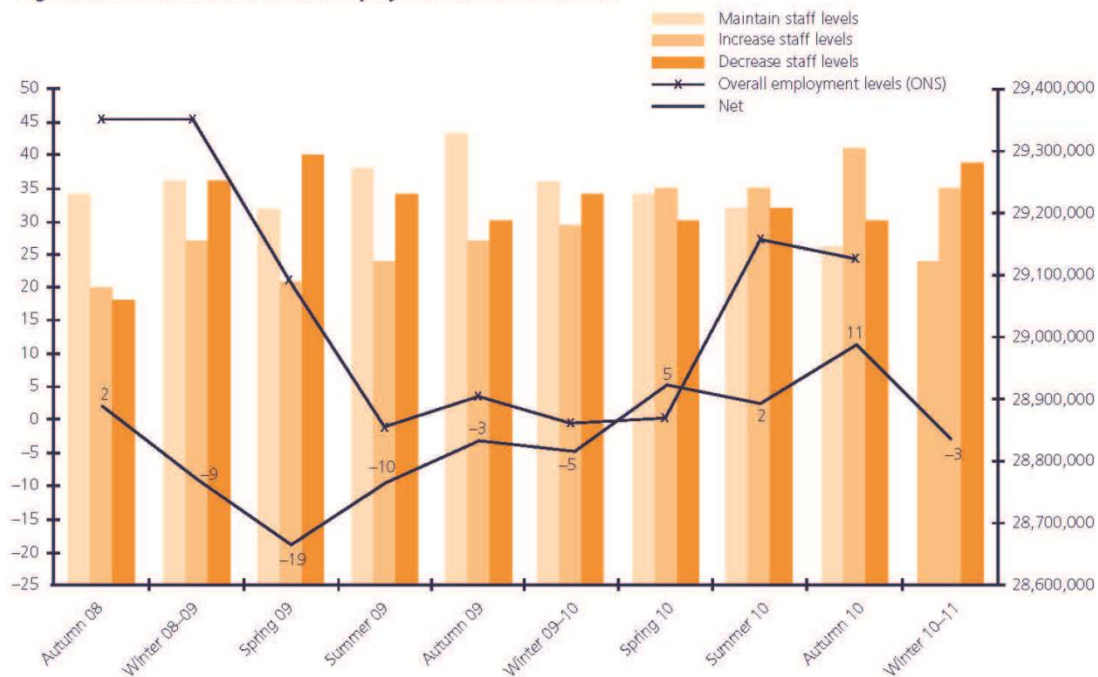


Figure 2: Correlation between ONS employment statistics and LMO

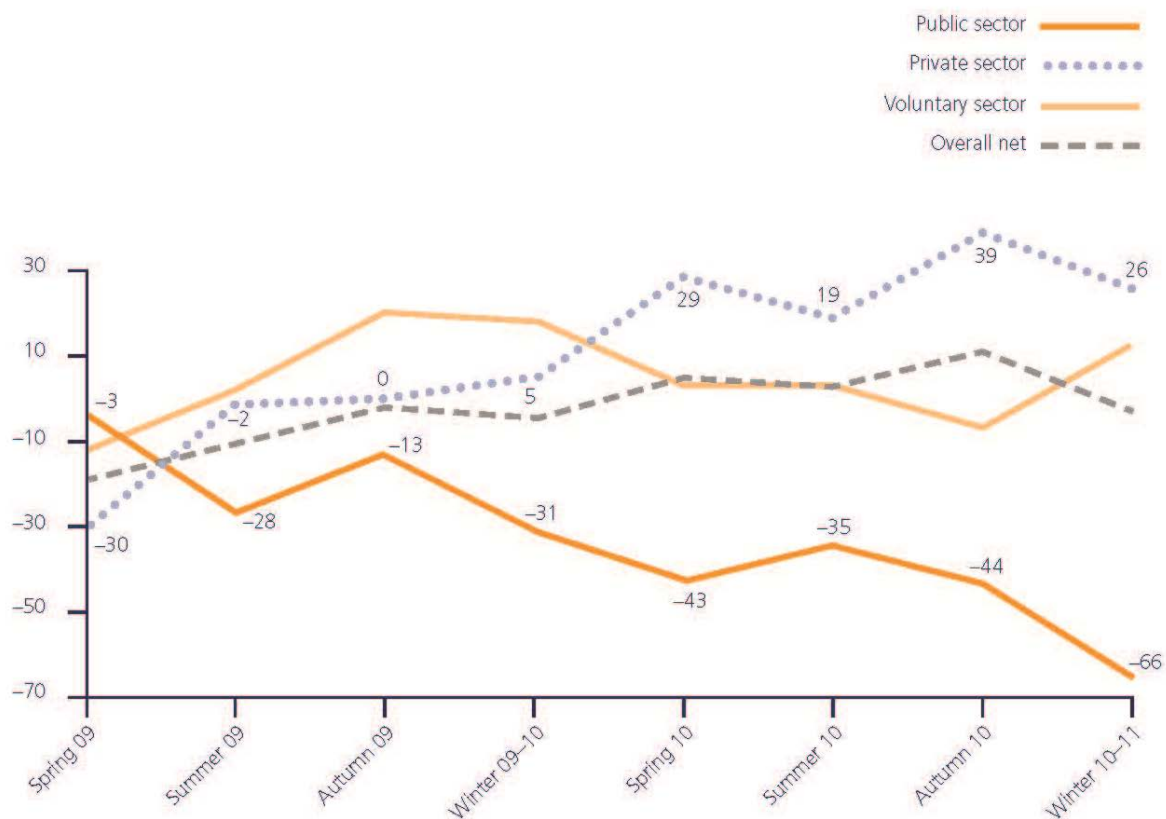


On the upside, the private sector will continue to generate new jobs in the first quarter of 2011 (+26), with growth evenly spread across the private sector, apart from the hotels, catering and leisure sector (-14). Manufacturing (+20) and private sector services (+20) will provide the majority of new jobs, which is consistent with the Bank of England's Agents' Summary of Business Conditions January 2011 report. It reports that 'employment intentions in both manufacturing and services pointed to a modest pace of job creation in the private sector in the next six months'. de Poel believe that the overall employment outlook in the private sector compares favourably with the market in Winter 2010 (+5) and pre-recession forecasts.

Nevertheless, near-term employment growth in the private sector is likely to be modestly weaker than the previous quarter according to our survey, possibly because of the potential impact of last autumn's Comprehensive Spending Review and the introduction of the VAT increase in January 2011.

On the downside, employment prospects in the public sector have fallen to their lowest level since 2004 (Figure 3). Local government (-90), central government (-76) and NHS employers (-72) are most likely to experience falls in employment levels in the first quarter of 2011. According to the data, we believe that employment will continue to rise robustly in London (+19), but fall in the Midlands (-25).

Figure 3: Overall effect of recruiting new staff and/or making redundancies by sector



The survey also suggests that employment will continue to fall over the next 12 months, with this quarter's net employment balance falling to -9 from -3. Again, employment prospects in the public sector weigh on this figure, with more than three-quarters (76%) of public sector respondents reporting that they will be employing fewer staff in December 2011.

Recruitment intentions down for the third quarter in a row

In a continuation of recent trends, the survey shows a modest fall in recruitment intentions. Just under three in five (61%) UK employers expect to recruit in the coming three months, compared with 64% in the spring quarter and 67% in the summer quarter. Almost seven in ten private sector companies (69%) and voluntary sector organisations (67%) plan to recruit in the first quarter of 2010. By contrast, just over two in five (43%) public sector organisations have hiring intentions during that same period.

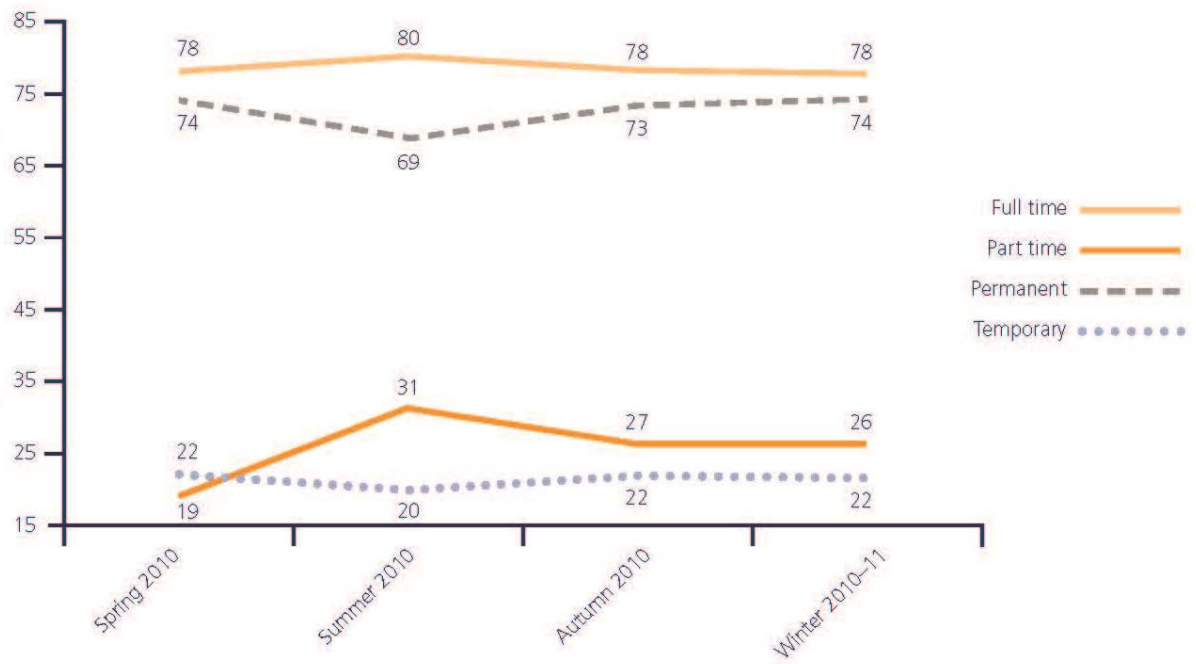
Consistent with the previous two quarters, around four in five (78%) new recruits are expected to be full-time workers, while just over one in five (22%) will be hired on a part-time contract. More than one in four (26%) new recruits will be hired on a temporary contract. This phenomenon is particularly evident in the public sector, where more than four in ten (42%) recruits will be part-time workers.

Figure 4: Recruitment intentions by business sector
(Base winter 10–11: overall 759, public 238, private 468, voluntary/not-for-profit 53)



Figure 5: Employment terms

(Base: All recruiting winter 10-11: overall 463, public 103, private 325, voluntary/not-for-profit 35)



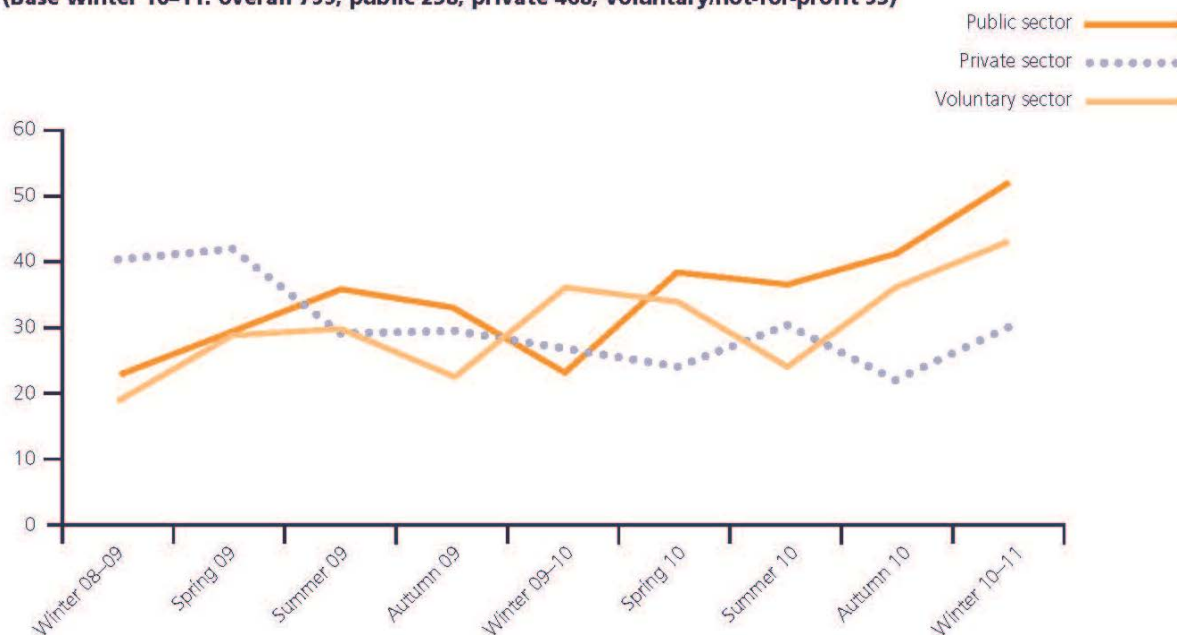
Redundancy intentions increase for all sectors

According to the survey, the first quarter of 2011 may see a rise in redundancies across all sectors of the economy, which is in line with the increase in the number of redundancy-related calls the CIPD received to its legal helpline in the final quarter of 2010.

The number of organisations planning to make redundancies has risen to its highest level (38%) since 2004. More than half (52%) of public sector employers intend to make redundancies in the first three months of 2011, which include around three-quarters (77%) of local government employers and just over half of central government departments (52%). More than a third (36%) of NHS employers will also be making redundancies during that same period. The number of private sector companies reporting that they planned to make redundancies in the first quarter of 2011 rose to three in ten (30%) from 22% in the autumn report and from 27% in the corresponding winter 2009–10 report. By region, redundancy intentions are highest in the Midlands (40%).

Further, almost one in ten (9%) workers will be made redundant among those organisations that are planning cuts to the workforce, the highest figure since the winter 2009–10. The reductions are particularly severe in the public sector, where around one in eight (13%) employees will be made redundant. Twelve per cent of those organisations that are making redundancies in the first quarter of 2011 intend to make cuts of between 20% and 50% to their workforce.

Figure 6: Redundancy intentions by business sector (% yes)
(Base Winter 10–11: overall 759, public 238, private 468, voluntary/not-for-profit 53)



On average, around three in five (61%) redundancies will be compulsory. However, compulsory redundancies in the public sector will affect around a third of staff (36%), compared with around four in five private sector companies (80%) and voluntary sector organisations (83%).

The average cost of making an employee redundant also highlights some interesting differences. The average figure for the public sector (£29,400) is more than four times that of the private sector (£7,800). The average cost of making somebody redundant in the NHS is

£37,300, possibly because of the restructuring changes announced by the Government and the disproportionate impact this will have on managers and senior managers. The average cost of making an employee redundant across the whole of the economy is just over £13,000 per redundancy, a figure which falls to £5,800 for the voluntary sector.

Impact of government policy on employment levels

Almost three-quarters (73%) of public sector employers and around one in ten (13%) private sector employers report that they will employ fewer staff as a result of the Comprehensive Spending Review (CSR) in the 12 months to December 2011. Interestingly, more than a third (38%) of construction companies say that it will have a negative effect on employment levels in their organisation. Overall, a third (33%) of employers report that they plan to employ fewer staff as a result of the Government's Comprehensive Spending Review.

Meanwhile, only 4% of private sector companies said that they would be looking to employ staff as a result of the Coalition Government's decision to cut corporation tax during the same period. Financial, insurance and real estate firms (7%) and wholesale and retail companies (7%) report that they will increase employment levels due to the tax change. By comparison, around one in ten (13%) private sector companies report that they will be looking to recruit fewer staff as a result of the Government's decision to raise VAT from 17.5% to 20% in January 2011. This follows research from the Federation of Master Builders, which reports that the construction industry will lose 11,400 jobs as a direct result of the VAT increase. Meanwhile, the British Retail Consortium has claimed that the VAT rise will lead to the loss of 193,000 jobs in the retail sector by 2014/15.

Proportion of organisations that plan to make redundancies in the first quarter of 2011 (%) by business sector

Base: (Autumn 2010) in brackets

	Winter 2010-11	Autumn 2010	% difference
Manufacturing and production (108)	34	17	+17
Private sector services (392)	31	28	+3
Healthcare (58)	38	43	-5
Voluntary and not-for-profit sectors (42)	40	35	+5
Education (40)	30	43	-13
Public administration and defence (119)	63	28	+35

Migration and offshoring outlook

Despite the overall decline in employment prospects, the number of employers that plan to recruit migrants has risen to over a fifth (22%) of employers from 17%. Around two-fifths of education (35%) and healthcare employers (40%) plan to recruit migrant workers in the first quarter of 2011. However, this may understate demand, given that our projections for recruiting migrant workers have consistently been lower than had been anticipated (Figure 7).

The most common roles migrant workers are needed for include IT professionals (18%), accountants/finance professionals (17%) and engineers (16%).

Figure 7: Proportion of organisations that plan to recruit migrant workers in the first quarter of 2011 (% yes)
(Base winter 10–11: overall 759, public 238, private 468, voluntary/not-for-profit 53)

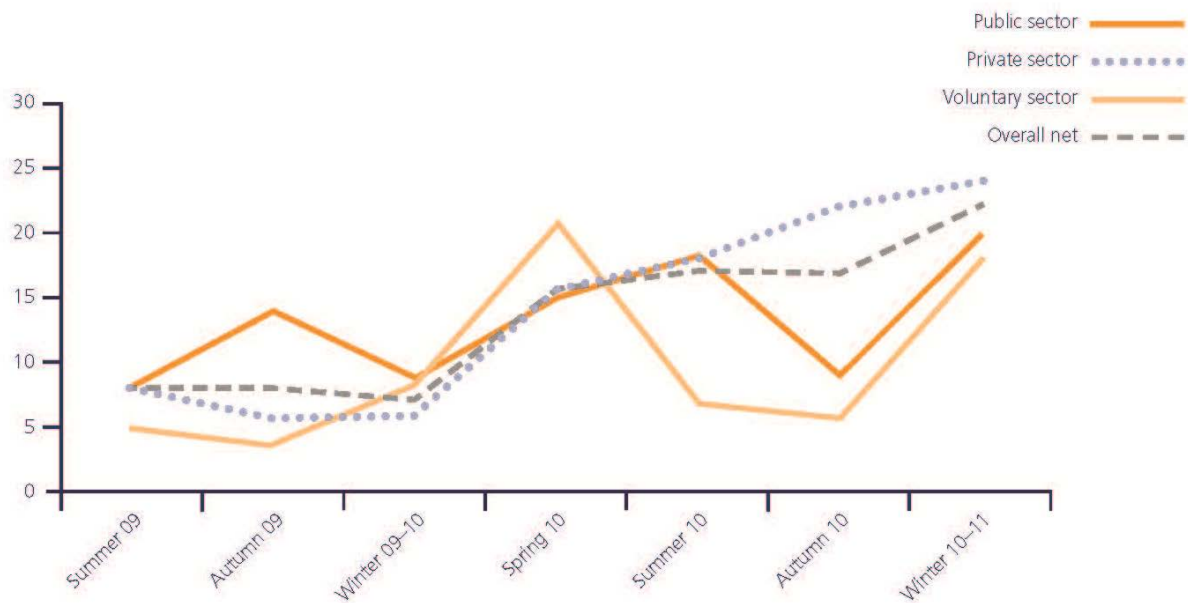


Figure 8: Intentions to recruit migrant workers vs. actual recruitment for that quarter (%)
(Base winter 10–11: overall 759)



Figure 9: Roles that migrant workers are recruited for (%)

		Private	Public	Voluntary
IT	18	21	10	16
Accounts/finance	17	18	16	6
Engineering	16	15	24	3
Doctor	10	2	35	8
Care worker	7	3	6	59
Nursing	6	3	11	14
Retail manager or assistant	5	7	-	5
Chefs or cooks	5	4	9	2
Sales and marketing	5	7	-	-
Biochemist	4	2	7	5
Legal	4	3	7	2
Pharmacist	3	3	3	-
Therapist	2	-	9	-
Social worker	2	-	6	-
Teacher	1	1	5	-
Psychologist	1	-	6	-
Other	48	50	46	32

Source: Ipsos MORI

Base: (245) All having plans to recruit migrant workers, fieldwork dates: 29 November – 21 December 2010

When asked about the contribution non-EU workers make to their organisations, nearly two-thirds (63%) believe non-EU workers have a positive impact on productivity levels, while 2% believe that the impact is negative. Public sector employers are more likely to report productivity improvements (66%) than private sector employers (50%). One in six (17%) employers believe they have been restricted from recruiting as a result of the temporary cap on non-EU migrant workers. Again, the public sector is more likely to say that the cap has had a bigger impact on them than the private sector – in particular, NHS (36%) and education (21%) employers. Equally, a quarter of employers have been prevented from recruiting non-EU workers during that same period.

Fifteen per cent of private sector firms plan to offshore UK jobs to other parts of the world over the next 12 months. Of those planning to offshore UK jobs, the majority (71%) intend to offshore to India, 35% to Europe and 22% to China. The functions employers most commonly expect to offshore include IT (39%), call centres (25%), finance (23%), HR (23%) and customer services (23%).

Figure 10: Offshoring destinations (%)

		Private	Public	Voluntary
India	71	71	89	–
China	22	23	–	–
Western Europe	19	20	9	–
Eastern Europe	16	17	–	–
Middle East	12	12	2	20
South Africa	7	6	–	80
Asia	6	6	–	–
North America	6	7	–	–
Rest of Africa	4	4	–	46
South/Central America	1	1	–	–

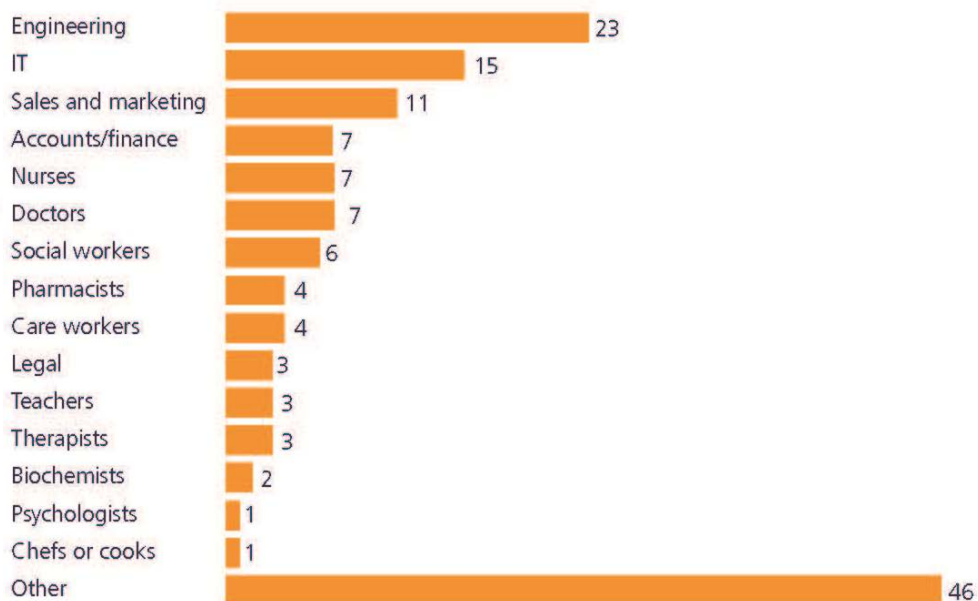
Source: Ipsos MORI

Base: (79) All having plans to offshore jobs, fieldwork dates: 29 November – 21 December 2010

Skills outlook

Around two in five employers (43%) have vacancies that are hard to fill. Employers have greatest difficulty filling engineering (23%) and IT (15%) roles. Almost half of public sector organisations have difficulty filling doctor (46%) and nursing (43%) vacancies.

Figure 11: Proportion of hard-to-fill vacancies (%)



Source: Ipsos MORI

Base: All having vacancies that are hard to fill (326), fieldwork dates: 29 November – 21 December 2010

Pay outlook

The expected mean basic pay settlement (excluding bonuses) in the 12 months to December 2011 is 1.3%, a fall of 0.2% compared with the autumn report. Continuing the trends from previous quarters over the past year, the mean pay award in the private sector is expected to be 2.3%, unchanged from the previous quarter. However, pay settlements in the public sector have fallen further to -0.33%.

Figure 12: Average pay awards (mean %) by sector

