

SUMMER 2012



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LABOUR MARKET OUTLOOK

PART OF THE **CIPD OUTLOOK** SERIES

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Summary of key findings

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 1,004 HR professionals, many of whom are drawn from the CIPD's membership of more than 135,000 professionals.

The latest report shows that near-term employment prospects, which became positive in the first quarter of 2012, look set to remain positive into the third quarter. This quarter's net employment balance – which measures the difference between the proportion of employers who expect to increase staff levels over those who expect to decrease staff levels in the third quarter of 2012 – has decreased slightly to +5 from +6 in the spring 2012 report. The report's 12-month employment balance (+3) paints a less positive picture, perhaps reflecting the uncertainty in employers' minds about the state of the economy.

Private sector firms continue to drive much of the upturn in employment prospects, with the net employment balance improving to +26 in the three months to June 2012 from +25 in the previous report. In contrast, the number of people employed in the public sector will continue to fall (–36), which represents a modest deterioration compared with the previous quarter.

However, the report's findings suggest that the continued overall resilience of the labour market may owe more to employers' desire to hold on to key skills than confidence.

Fewer firms plan to make redundancies despite the latest official figures showing a fall of 0.7% in GDP, according to the ONS's preliminary estimate for Q2 2012. Almost a third of private sector firms say that they have maintained staff levels higher than is required by their level of output or service delivery in the 12 months to June 2012. The main reason for holding on to labour is to maintain the skills base within the organisation. This suggests that there is a significant degree of spare capacity within companies, which may partly explain why productivity levels are currently falling. However, with a number of firms reporting that they will be forced to make redundancies if demand does not pick up in the near to medium term, this situation may change.

Another factor in the continuing health of the labour market may be the participation by employers in the myriad government-supported employment and training programmes. As the most recent figures from the ONS *Labour Market Statistics* showed, the number of people on such programmes has increased by almost 50% during the last quarter.

Despite the modest recovery in employment growth, wage settlements look set to remain weak. Excluding bonuses, the average wage settlement has increased slightly to 1.6% from 1.5% during the past three months. Mirroring the official ONS pay data, the LMO report's pay projections have remained stubbornly low during the last year, and the latest LMO figures suggest that this situation will continue into 2013. Public sector organisations' predictions of average pay increases of 0.2% will continue to lag even further behind those in the private sector (2.5%) compared with the previous three months.

Recruitment and redundancy outlook

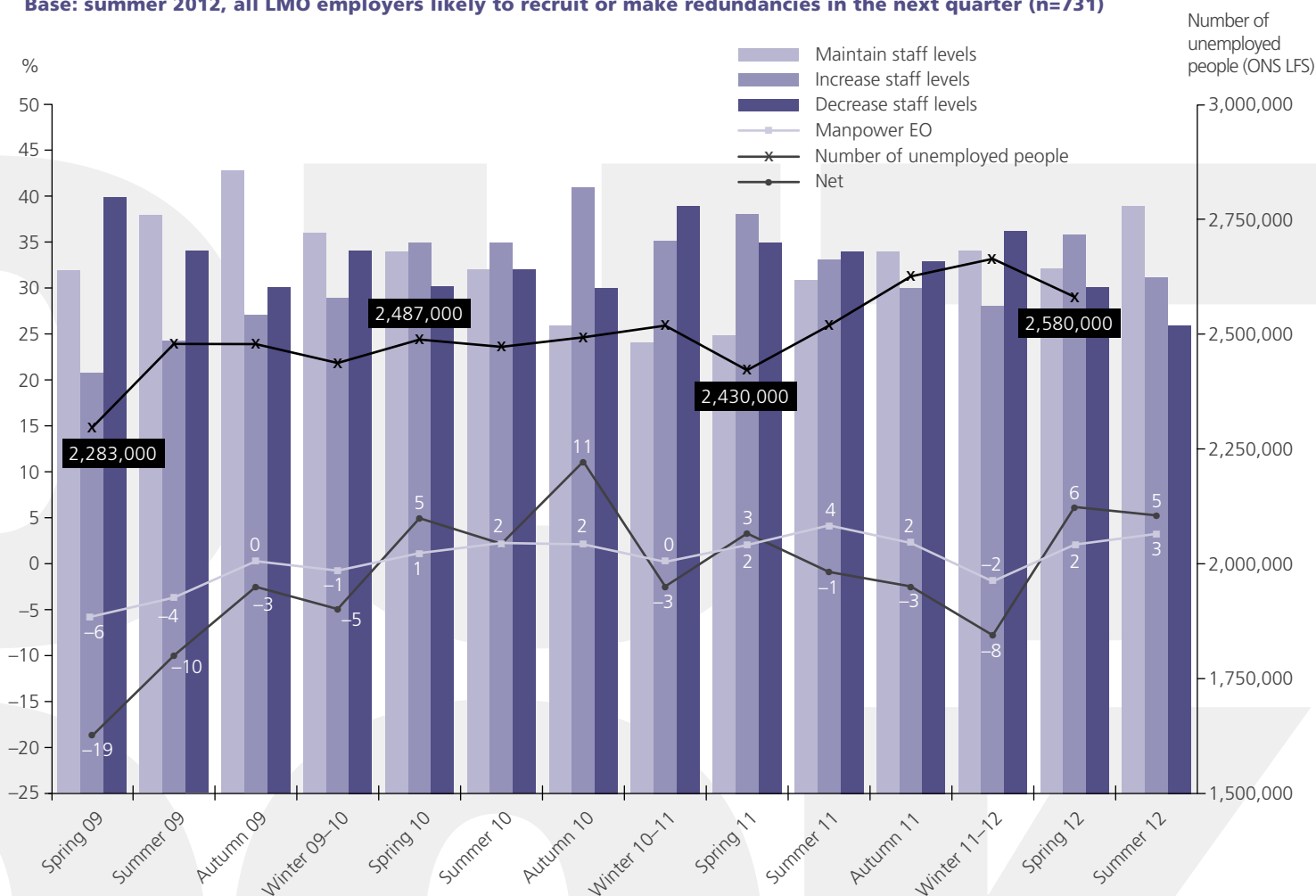
This section focuses on the recruitment and redundancy intentions of employers. The latest report suggests that employers will continue to shrug off the news that the UK economy shrank further into recession in the third quarter of 2012 by increasing staff levels in the third quarter.

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 second quarter of 2012 – has decreased to +5 from +6 in the spring 2012 survey (Figure 1). On the upside, the proportion of LMO employers who predict that they will decrease staff levels has continued to fall, down from 30% in the previous quarter to 26% in this quarter. On the downside, the proportion of LMO employers who predict an increase in staff levels has reduced to 31% in this quarter

Figure 1: Correlation between ONS LFS unemployment statistics and LMO data

Base: summer 2012, all LMO employers likely to recruit or make redundancies in the next quarter (n=731)



The ONS Labour Market Statistics look at the latest UK unemployment and employment statistics. The latest figures cover the three months to May 2012. The CIPD Labour Market Outlook indicator looks at recruitment and redundancy intentions. The latest figures relate to the third quarter of 2012. Manpower Employment Outlook indicator only looks at recruitment intentions. The latest figures also cover the third quarter of 2012.

from 36% in the spring 2012 report. However, the overall resilience in the labour market has been underpinned by a large increase in the proportion of employers who report that they will maintain staff levels in the third quarter of 2012.

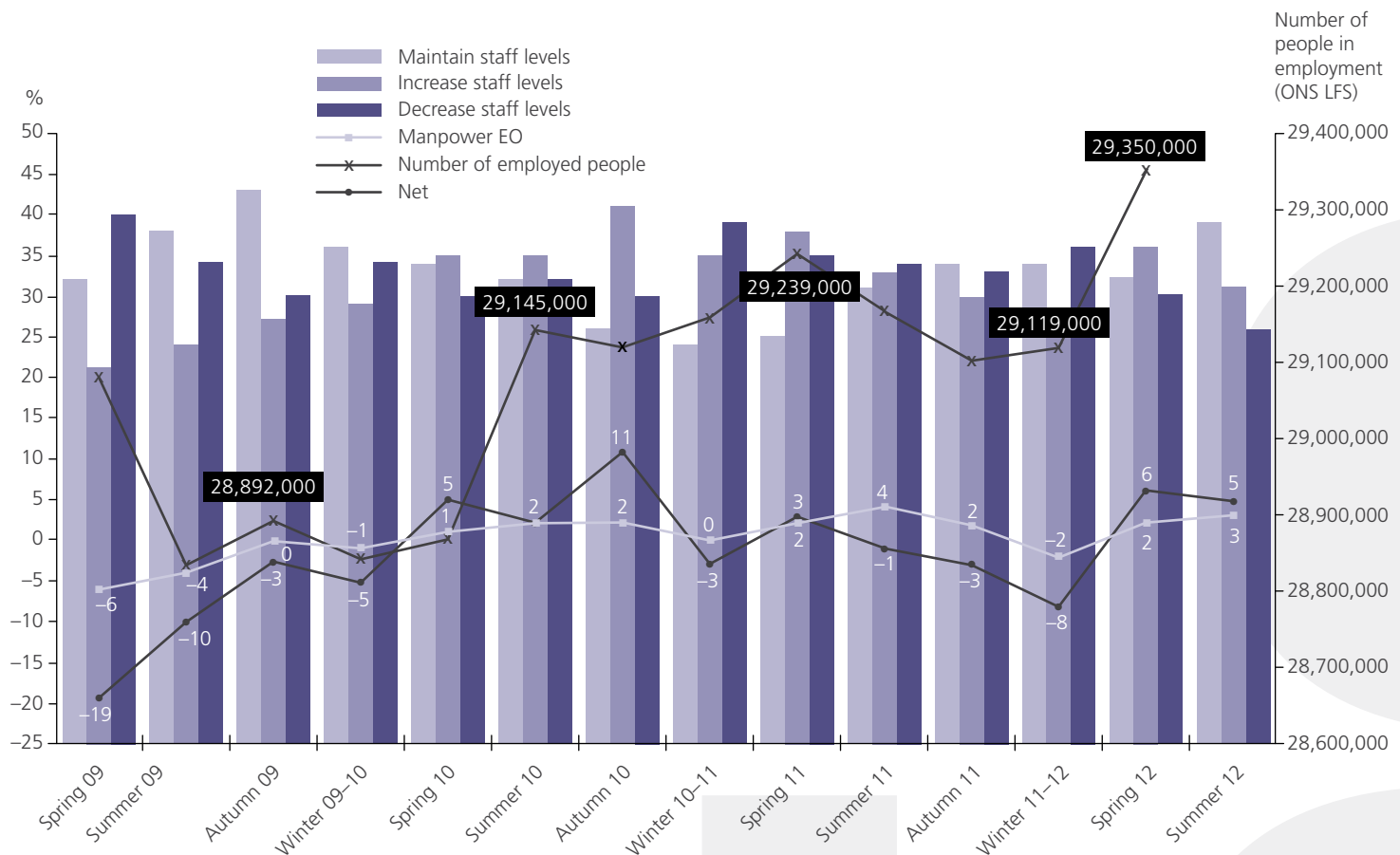
Accuracy of LMO predictors

The previous LMO forecast that employment prospects would improve in the early part of 2012. Reflecting these projections, unemployment has fallen and employment levels have risen in the three months to May 2012 according to official figures produced by the Office for National Statistics (ONS) (Figure 1). The latest Labour Force Survey

(LFS) measure of unemployment shows that unemployment currently stands at 8.1%, down 0.2% compared with the previous quarter. The total number of unemployed people decreased by 65,000 over the quarter to reach 2.58 million (Figure 1). Employment levels have also started to increase, with the latest official statistics showing an increase of 181,000 in the numbers in employment (Figure 2).

Figure 2: Correlation between ONS LFS employment levels and LMO data

Base: summer 2012, all LMO employers likely to recruit or make redundancies in the next quarter (n=731)



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Private sector firms are continuing to drive the upturn in employment prospects, with the net employment score increasing to +26 in this quarter from +25 in the spring report. This continued optimism within the private sector means that the net employment score is at its highest for private sector firms since spring 2011.

Employment prospects have especially improved in the manufacturing and production sector, up from +19 to +32 (Table 1). This is somewhat consistent with recent indicators, such as the Markit/CIPS Purchasing Managers' Index report for manufacturing, which showed that the pace of decline in the UK manufacturing sector eased in June. In contrast, employment prospects in the private services sector remain

Figure 3: Overall effect of recruiting new staff and/or making redundancies, next three months

Base: summer 2012, all likely to recruit or make redundancies in the next quarter

Overall (n=731), private sector (n=438), public sector (n=243) and voluntary sector (n=51)

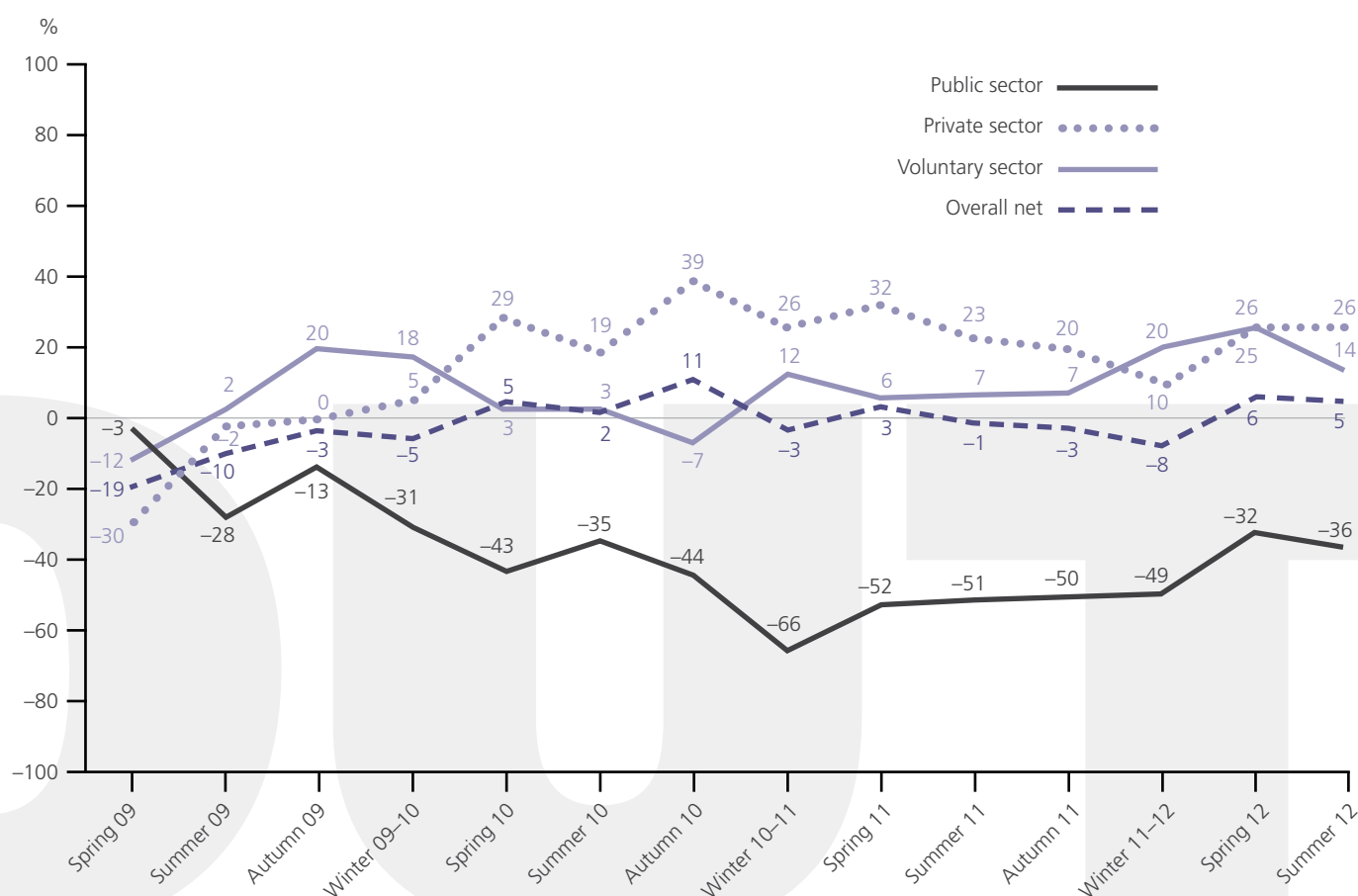


Table 1: Net employment intentions for the next three months, by industry

Base: summer 2012, all likely to recruit or make redundancies in the next quarter

Sector	Summer 2012	Spring 2012	% point change
Private sector services (n=327)	+21	+24	-3
Manufacturing and production (n=76)	+32	+19	+13
Education (n=72)	-10	-1	-9
Public administration and defence (n=70)	-51	-45	-6
Consultancy services (n=89)	+61	+29	+32

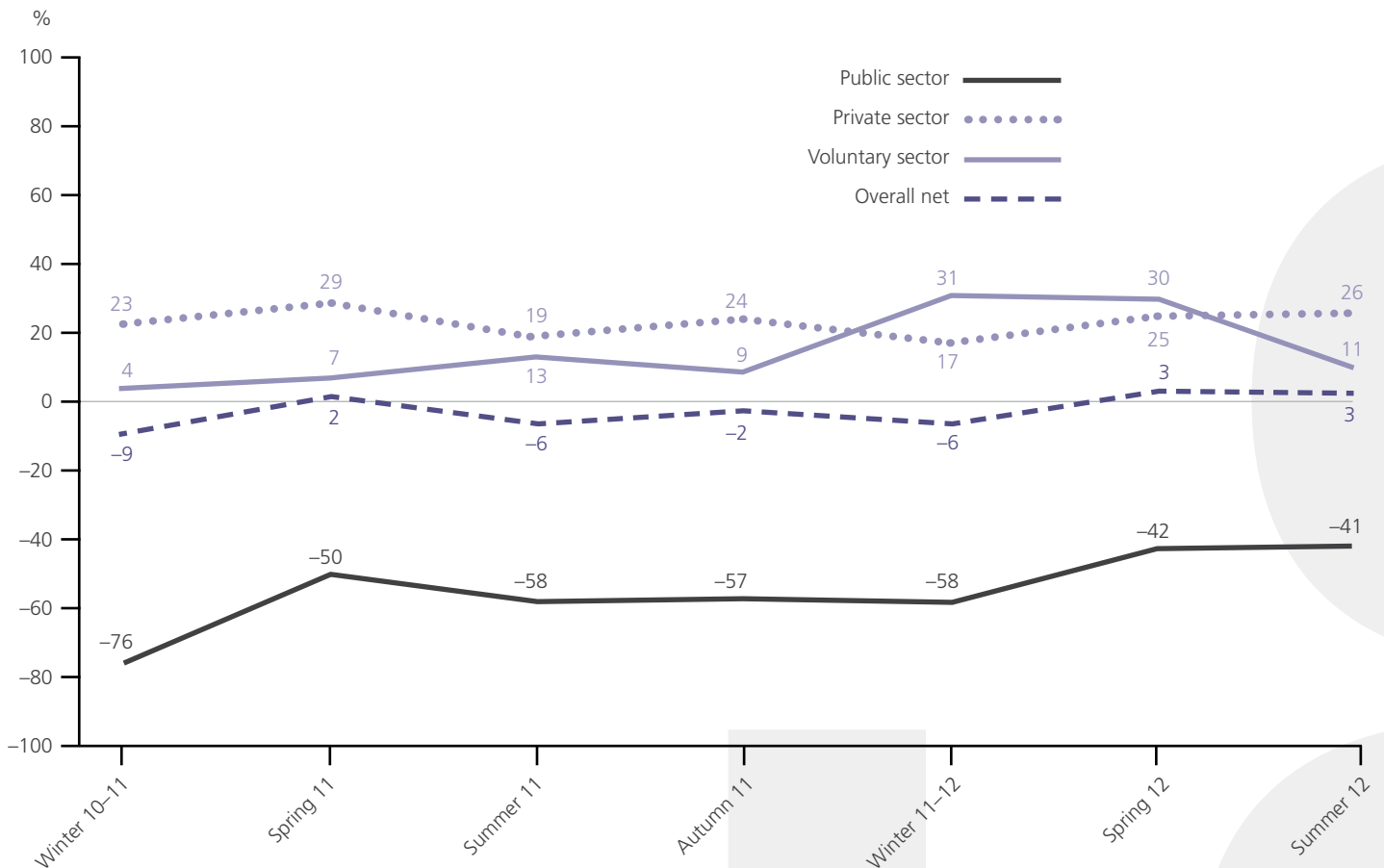
positive, but have fallen modestly from +24 in the previous report to +21 in this quarter. Meanwhile, the number of people employed in the public sector will continue to fall (-36). Most worryingly, NHS employers (-33) now seem equally pessimistic about their employment prospects as the rest of the public sector.

The employment outlook for the English regions continues to highlight a north-south divide, although the gap has narrowed since the previous report. The net employment balance in the north of England has improved to -11 from -17 in the previous quarter, but still lags behind the positive employment outlook in the south of England (+16) and

London (+12 down from +21 in the previous quarter). The combined London and south-east employment balance stands at +15. This is consistent with the official statistics, which continue to suggest that employment prospects in London and the south-east are better than in the rest of the country.

Looking further ahead, the employment balance score for the UK in the 12 months to June 2013 has remained static at +3. The scores have remained broadly unchanged in the public sector (-42) and in the private sector (+25).

Figure 4: Overall effect of recruiting new staff and/or making redundancies for next 12 months
Base: summer 2012, all likely to recruit or make redundancies in the next 12 months
Overall (n=731), private sector (n=438), public sector (n=243) and voluntary sector (n=51)



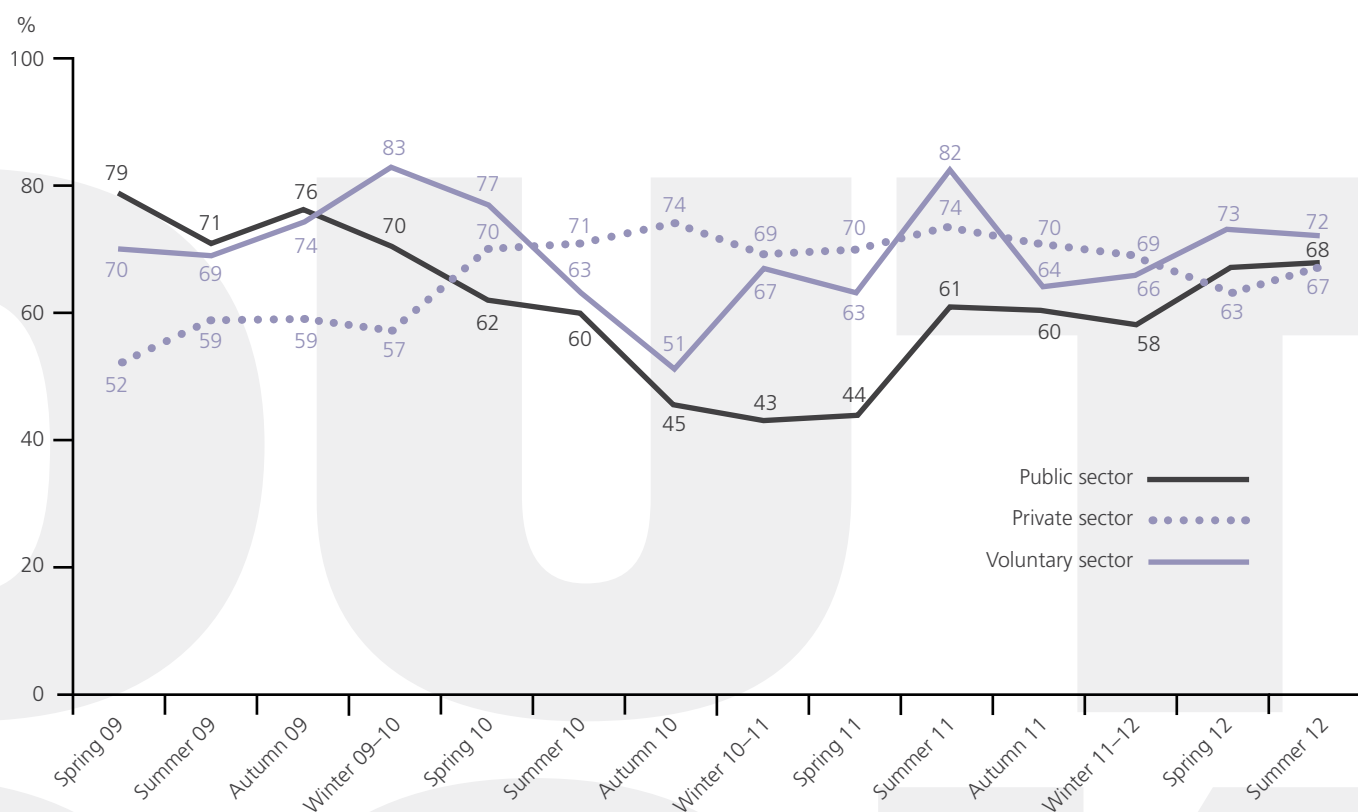
Recruitment intentions

Recruitment intentions among LMO employers have increased slightly since the spring 2012 report. Just over two-thirds of employers (67%) plan to hire this quarter. Hiring intentions for the next three months are strongest in the wholesale and retail trade (77%), healthcare (73%) and business services (72%) sectors.

Of those LMO employers planning to recruit staff in the next three months, 74% reported that new recruits will be employed on full-time contracts and 26% on a part-time basis.

Figure 5: Recruitment intentions, by sector

Base: summer 2012, all LMO employers, public n=310, private n=624, voluntary n=68



Employment of temporary workers

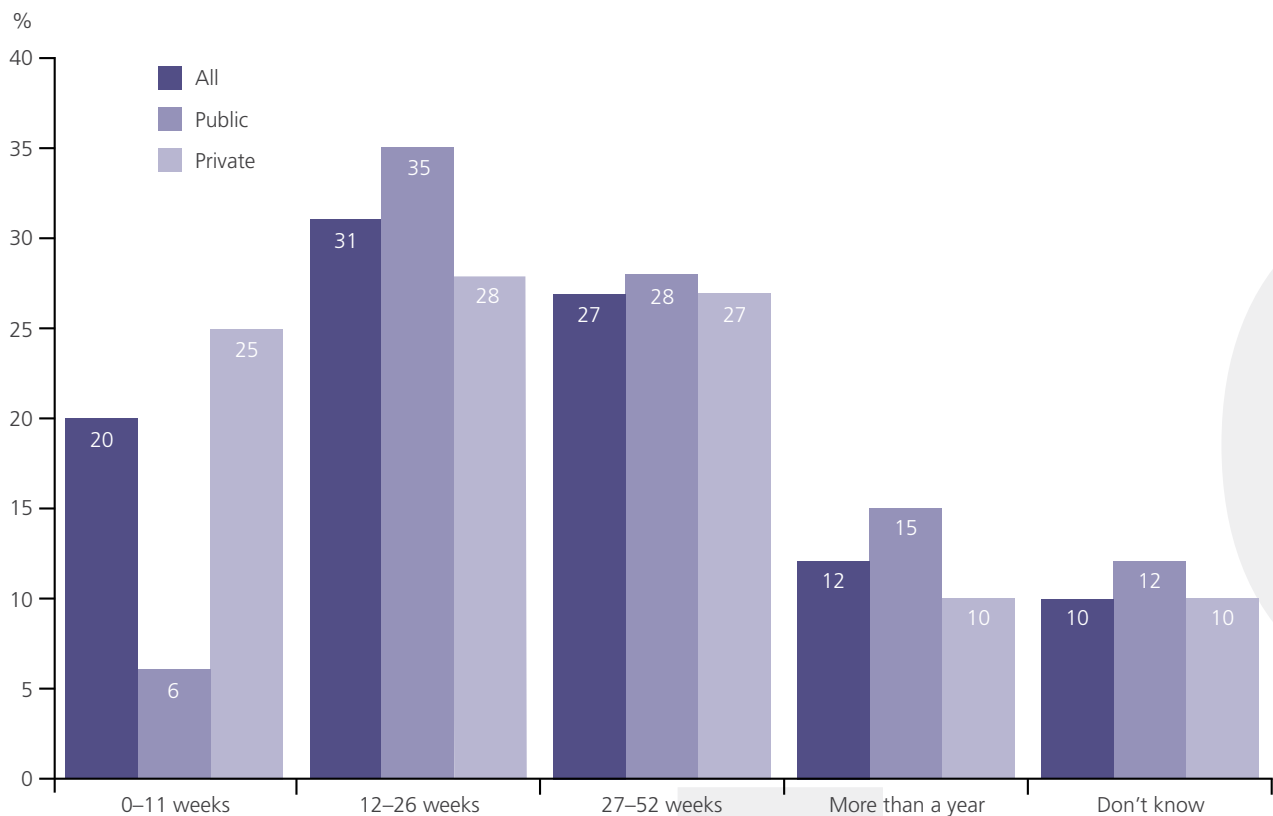
The use of temporary workers is also high, with 78% of employers reporting that they currently employ temporary workers. Just under three-quarters (74%) of private sector firms employ temporary workers. Manufacturing and production companies (86%) are more likely to employ temporary workers than the services sector (72%) and the public sector (85%).

A fifth (20%) of employers report that they employ temporary workers for a period of less than 12 weeks (Figure

6). Interestingly, more than a quarter of employers in the construction industry and the hotels, catering and leisure industries say they employ temporary workers for a period of less than 12 weeks. Temporary workers are more typically employed for periods of 12–26 weeks (31%) and 27–52 weeks (27%).

Figure 6: Average temporary workers' length of service

Base: summer 2012, all LMO employers who employ temporary workers, all (n=780), public (n=265), private (n=461)



Entry-level employment

Around one in three (36%) LMO employers expect there to be fewer entry-level jobs at their organisation in ten years' time. A further 45% do not think they will have fewer entry-level jobs and 17% do not know if this will be the case. LMO employers in the public sector are significantly more likely than their private sector counterparts to say that the number of entry-level positions will fall over the next ten years. Half (50%) of public organisations report this, compared with 31% of private sector organisations.

LMO employers predict that HR and administrative roles will be most affected. The top five occupations predicted to have fewer entry-level jobs are:

- human resources – 47% of employers reporting this
- secretaries, personal assistants, administrative assistants and office support – 44%
- management/executives – 39%
- accounting/finance staff – 38%
- IT staff – 26%.

Employers in public administration and defence (67%) and the NHS (42%) are most likely to report that there will be fewer entry-level jobs at their organisation in the next ten years. Meanwhile, a majority of public sector employers say that they will be taking on fewer entry-level managers, PAs or secretaries and HR professionals.

Redundancy intentions

Mirroring the official statistics, the proportion of LMO employers planning to make redundancies in the three months to September 2012 has continued to decrease, falling to 28% from 32% in the previous three months. The proportion of public sector employers planning to make redundancies has fallen again to 39% from 45% in the previous report, the second consecutive quarter where redundancy intentions have fallen.

In contrast, the proportion of private sector services firms that plan to make redundancies has fallen again to 23% from 25% in the previous quarter. Similarly, the number of voluntary sector organisations planning redundancies has also decreased (24% from 33%).

Figure 7: Redundancy intentions, by business sector

Base: summer 2012, all LMO employers, public (n=310), private (n=624), voluntary (n=68)

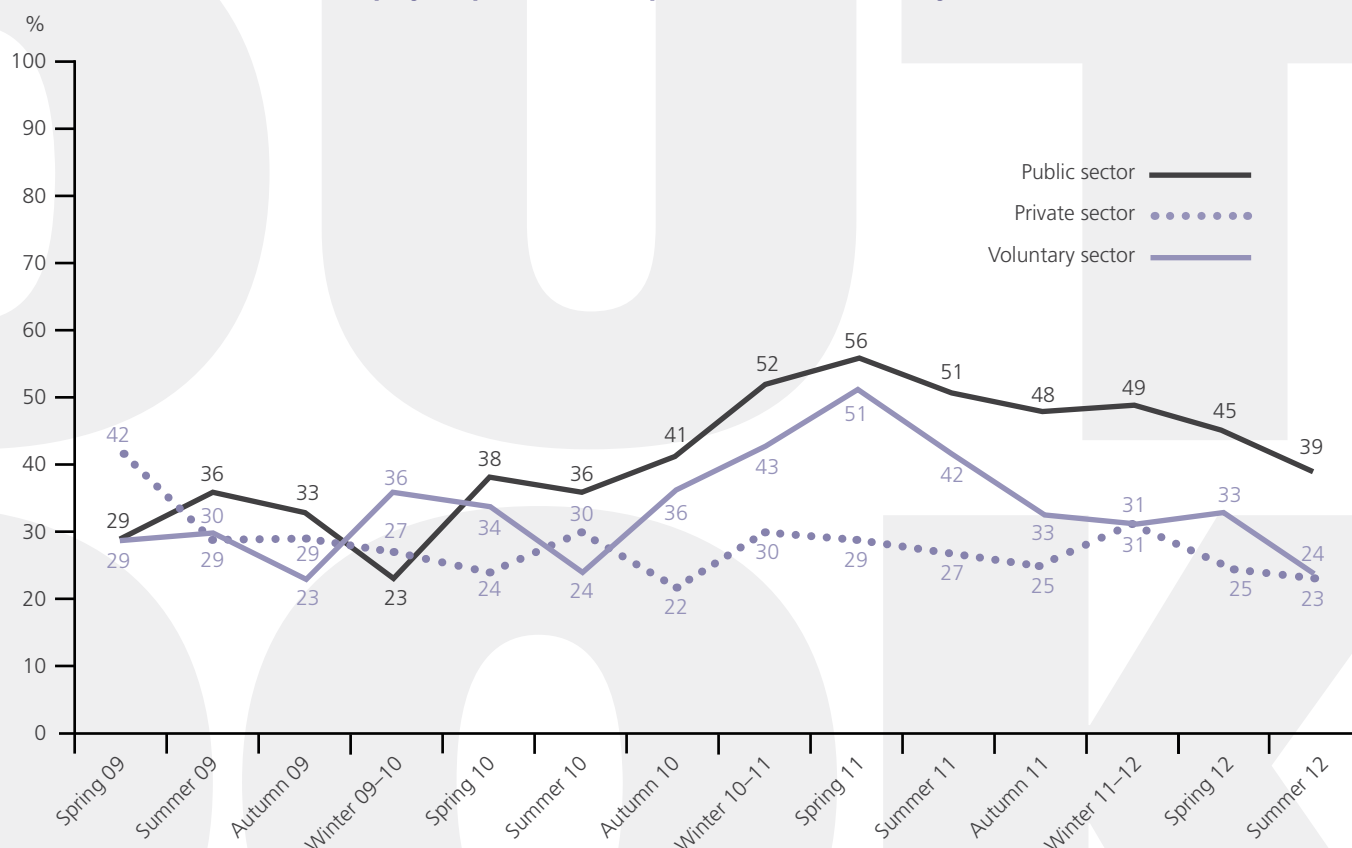


Table 2: Redundancy intentions, by industry (%)

Sector	Summer 2012	Spring 2012	% change
Public administration and defence (n=92)	49	58	-9
Manufacturing and production (n=140)	23	26	-3
Education (n=104)	26	30	-4
Private sector services (n=574)	24	25	-1
Healthcare (n=94)	27	39	-12
Voluntary and not-for-profit (n=113)	25	29	-4

Working hours and output

Just under a third of LMO employers (32%) have reduced their working hours for some staff over the past five years. On average, those LMO employers that have reduced hours report that 19% of their workforce has been affected by a reduction in working hours.

Of those that had reduced working hours for some staff over the previous five years, almost half of LMO employers (46%) report that those staff have not had their hours restored to pre-recession levels. A further 28% have returned hours to previous levels for some staff, but not for all: less than one in five (18%) have restored hours to pre-recession levels for all of those who had hours reduced.

LMO employers in the public sector are significantly more likely to report that they have not yet restored hours back to previous levels for any of those who had hours reduced. Around six out of ten (59%) public sector organisations report this compared with 39% of private sector organisations.

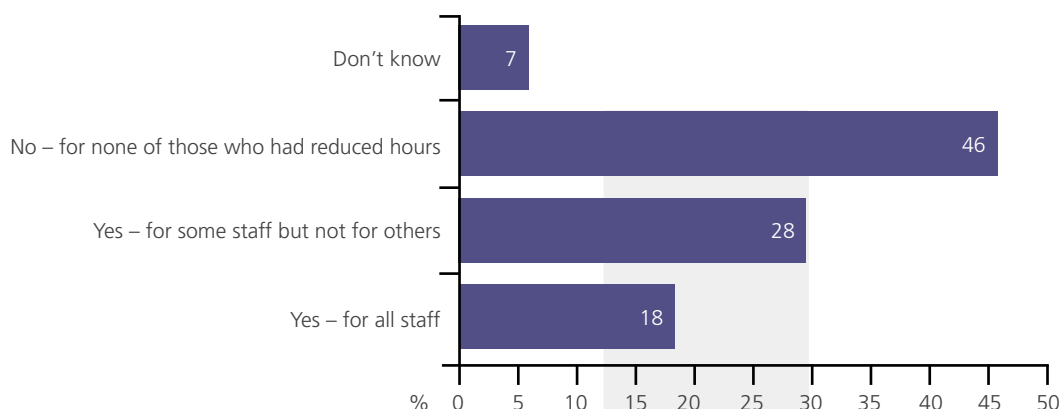
Output and service delivery

LMO employers were asked by how much they would be able to increase output/service delivery without increasing their current staff levels. One in five LMO employers (20%) reports that they would be unable to increase output/service delivery at all without increasing their current staff levels. A further 43% feel they would be able to increase output/service delivery a little (less than 5%) and 26% feel they could increase output/service delivery by between 5% and 10%.

More than a quarter (29%) of public sector organisations report they would not be able to increase output at all without increasing staff levels, significantly higher than the 15% of private sector organisations who report this. Firms in the services sector (16%) are more likely to report this than manufacturers (11%). Meanwhile, in the 12 months to June 2012, almost a third of private sector firms (31%) maintained staff levels that were higher than the level of output/service delivery. Manufacturing and production firms (43%) are more likely to report this than services companies (28%).

Figure 8: Have working hours been restored to pre-recession levels?

Base: summer 2012, all who reduced working hours for some staff (n=323)



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Figure 9: Reasons for operating with staff levels higher than output/service delivery requires

Base: summer 2012, all who had maintained staff levels higher than was required (n=279)

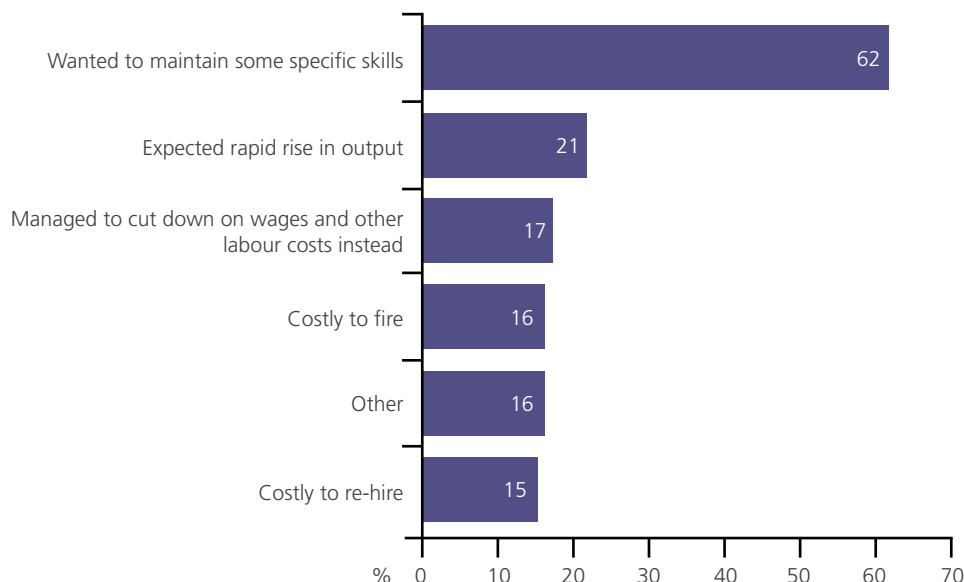
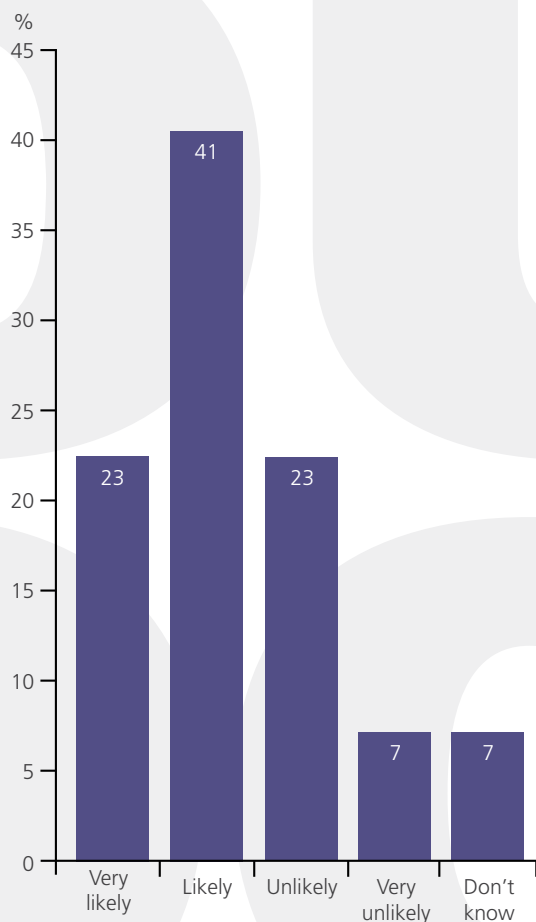


Figure 10: Likelihood of cutting back on excess labour if output/service delivery does not recover

Base: summer 2012, all who had maintained staff levels higher than was required (n=279)



The amount of spare capacity thus appears to be greater in the manufacturing and production sector than the services sector, which is consistent with official output statistics. According to the ONS's GDP preliminary estimate for Q2 2012, output of the production industries decreased by 1.3% in Q2 2012 compared with Q1 2012, which follows a decrease of 0.5% between Q4 2011 and Q1 2012. Meanwhile, output of the service industries decreased by 0.1% in Q2 2012 compared with Q1 2012. This followed an increase of 0.2% between Q4 2011 and Q1 2012.

Skills retention is the most significant reason for such labour hoarding (Figure 9); especially in the private sector, where two-thirds (66%) cite maintaining specific skills as the main reason for holding on to workers.

It appears that those organisations that report that staff levels do not match with output might be forced to make redundancies in the short to medium term if the economy does not recover relatively quickly. Almost two-thirds of organisations (63%) feel that it is very likely or likely that they will have to cut back on excess labour if output/service delivery does not recover in the next quarter or year. A further 30% would be able to cope with staff levels as they are and not make staff cuts. Seven per cent of LMO employers do not know.

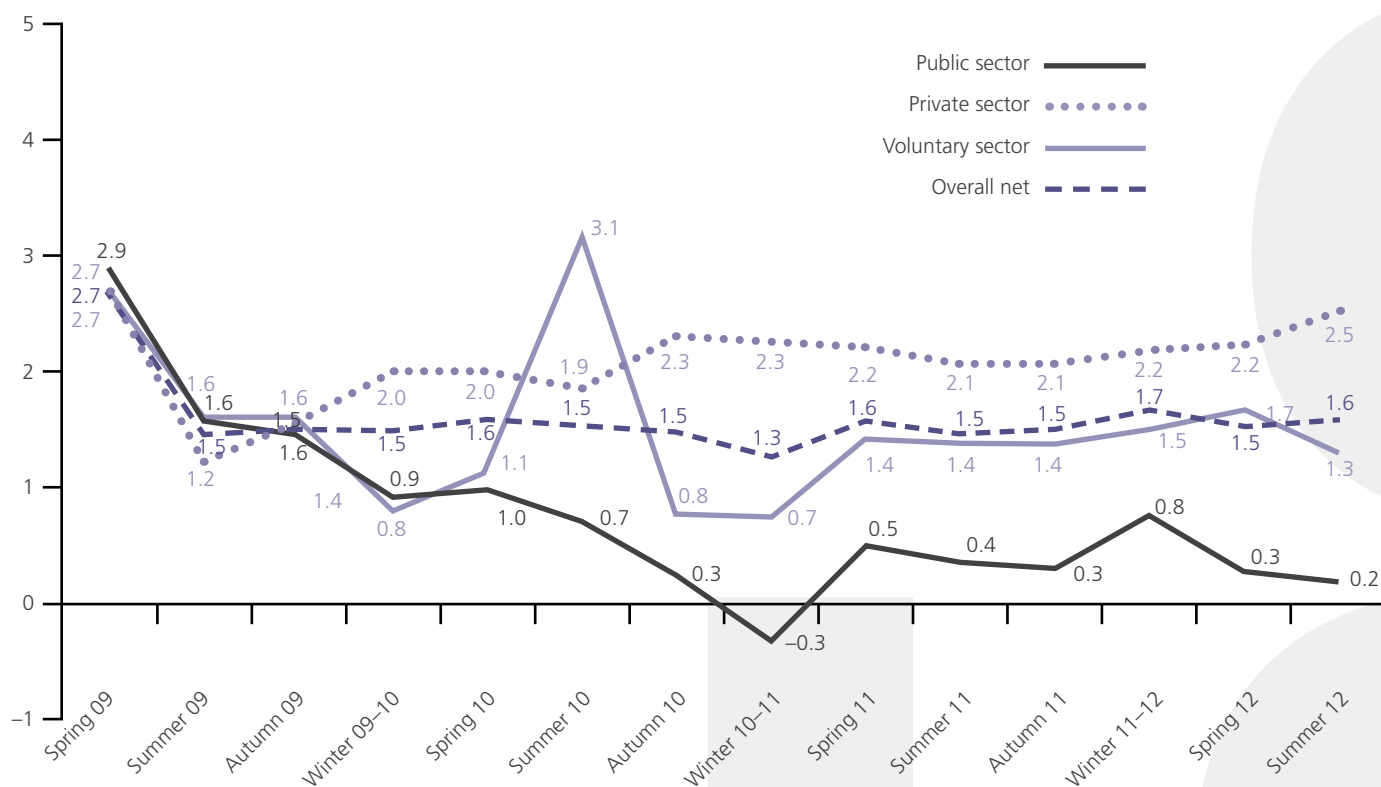
Pay outlook

Excluding bonuses, the expected mean basic pay settlement among those LMO employers that are planning a pay review in the 12 months to May 2013 is 1.6%. This is broadly unchanged from the spring 2012 report. Mirroring the official pay data, the LMO report's pay projections have remained stable during the past year. The latest LMO figures suggest that this situation will continue for the remainder of the year. Public sector organisations' predictions of average basic pay awards of 0.2% will continue to lag further behind those organisations in the private sector (2.5%).

This quarter has seen a sharp increase in the proportion of public sector organisations predicting that their average basic pay will increase in the 12 months to May 2013. The proportion of public sector organisations forecasting that pay will increase has increased from 16% to 26% during the past three months. It appears that there is more clarity around pay decisions in the public sector, with a much lower proportion of public sector organisations reporting that it is hard to tell or they don't know what their average pay decision will be (13% in this quarter compared with 38% in spring 2012).

Figure 11: Average predicted annual pay awards (mean), by sector

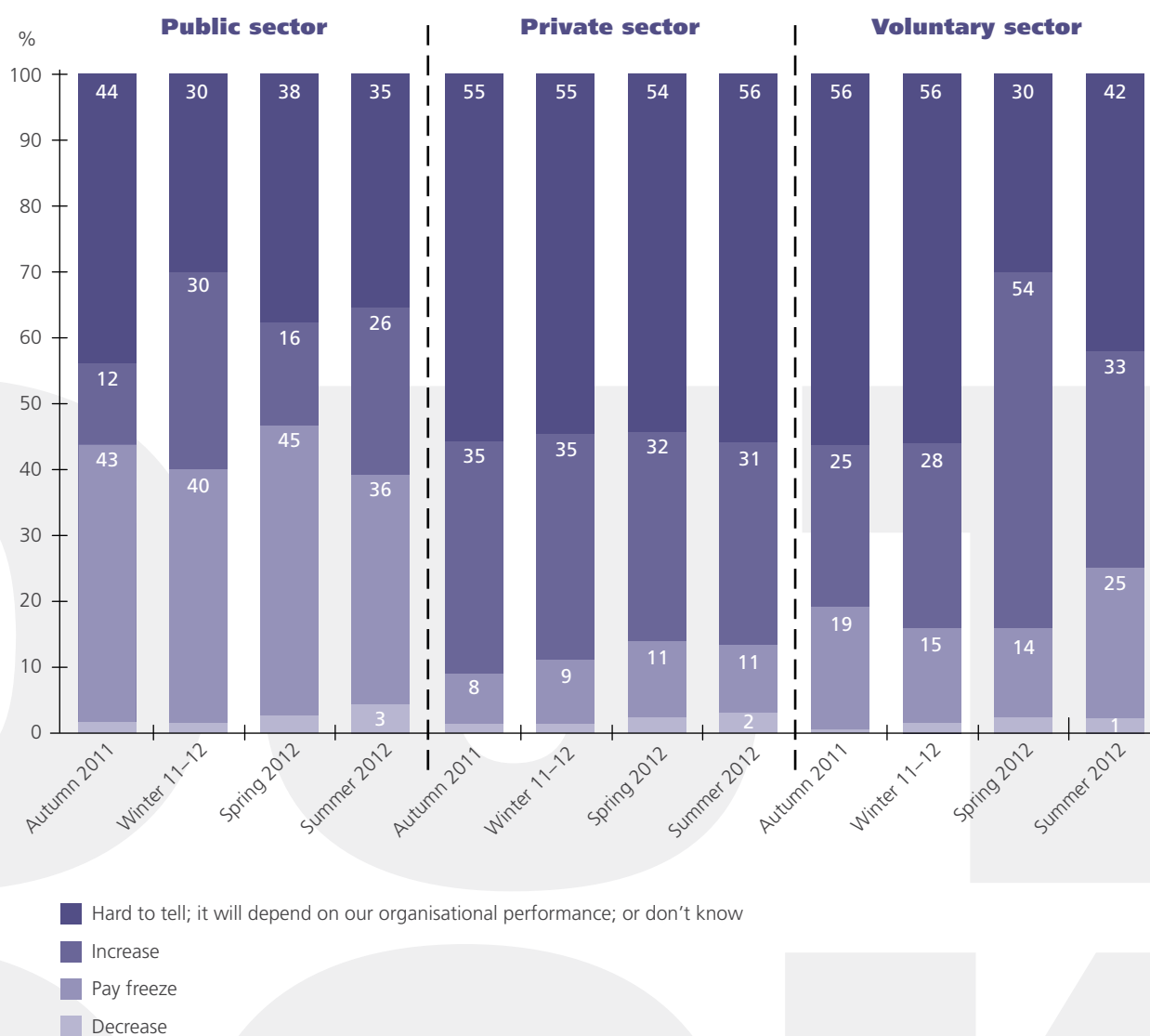
Base: summer 2012, all LMO employers planning to have a pay review before May 2013 (all n=431, public n=156, private n=242, voluntary n=32)



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Figure 12: Likelihood of a pay increase, decrease or pay freeze

Base: summer 2012, all LMO employers who are not postponing a pay settlement (public n=156, private n=242, voluntary n=32)



References

MANPOWER GROUP. (2009–2012) *Manpower Employment Outlook Survey UK*. Uxbridge: Manpower Group.

MARKIT ECONOMICS and CHARTERED INSTITUTE OF PURCHASING AND SUPPLY. (2012) *Markit/CIPS UK Manufacturing PMI*. London: Markit Group.

OFFICE FOR NATIONAL STATISTICS. (2009–2012) *Labour Market Statistics*. Statistical bulletin. London: Office for National Statistics.

Research methodology

On behalf of the CIPD, YouGov undertook this quarterly tracking study looking into the views of senior HR professionals.

HR professionals were defined as currently working in the roles below and are referred to through the report as LMO employers:

- Director
- Senior executive/group role
- Head of functional area
- HR business partner
- Manager
- Senior officer
- Consultant.

The survey was conducted online using the following sample sources:

- a sample from the CIPD membership consisting of approximately 135,000 members
- YouGov panel of 1,500 senior HR professionals
- an open survey advertised through the CIPD magazine *People Management* and a weekly newsletter.

Fieldwork was carried out between 8 and 29 June 2012 and is weighted to be representative of industry in the UK in relation to organisation, size, sector and type of business.

The findings are primarily analysed by sector and type of business. Where patterns emerge, the findings are further analysed by the size of company and region.

Within the report net scores have been used to display results. Net scores are calculated by subtracting the percentage of respondents who say something positive from the percentage who say something negative. They measure the strength of the direction of feeling and therefore give a more accurate assessment than simply agreement scores.

Respondent profile

(Data are weighted by sector, organisation size and industry)

Table 13: Breakdown of the sample by sector (%)

	Summer 12	Spring 12	Winter 11–12	Autumn 11
Private	62	62	62	62
Public	31	31	31	31
Voluntary/not-for-profit	7	7	7	7

Table 14: Breakdown of the sample by number of employees in organisation (%)

Number of employees	Summer 12	Spring 12	Winter 11–12	Autumn 11
2–9	13	13	13	13
10–49	6	6	6	6
50–99	5	5	5	5
100–249	12	11	11	11
250–499	7	7	7	8
500–999	9	9	9	9
1,000–4,999	18	19	19	19
5,000–9,999	10	10	10	10
10,000–19,999	7	7	7	7
20,000 or more	13	13	13	13

Table 15: Breakdown of the sample by region (%)

	Summer 12	Spring 12	Winter 11–12	Autumn 11
North	16	16	16	14
North-west of England	7	7	7	7
North-east of England	3	3	3	4
Yorkshire and Humberside	5	6	6	4
Midlands	15	12	12	13
West Midlands	5	4	4	5
East Midlands	6	4	4	5
Eastern England	4	4	4	4
South	35	30	30	33
London	18	14	14	15
South-west of England	7	4	4	7
South-east of England	10	12	12	11
Scotland	8	8	8	6
Wales	4	3	3	3
Northern Ireland	1	2	2	2
Channel Islands	0	0	0	0
All of UK	20	27	27	28

Table 16: Breakdown of the sample by industry (%)

	Summer 11	Spring 11	Winter 11–12	Autumn 11
MANUFACTURING AND PRODUCTION	14	14	14	14
Agriculture, forestry and fishing	0	0	0	0
Manufacturing	10	9	10	9
Construction	3	3	3	3
Mining and extraction	1	1	1	0
Energy and water supply	1	1	1	1
EDUCATION	5	5	5	5
Primary and secondary schools	2	2	2	2
Further and higher education	3	3	3	3
HEALTHCARE	8	8	8	8
NHS	6	6	6	6
Other private healthcare	1	2	1	2
VOLUNTARY AND NOT-FOR-PROFIT SECTORS	6	5	6	6
PRIVATE SECTOR SERVICES	52	52	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	15	14	15	14
Finance, insurance and real estate	9	9	9	9
Wholesale and retail trade	7	6	7	6
Other business services	12	12	12	12
PUBLIC ADMINISTRATION AND DEFENCE	16	16	16	16
Public administration – central government	5	5	3	6
Public administration – local government, including fire services	8	8	10	7
Armed forces	1	2	1	2
Quango	1	1	1	1

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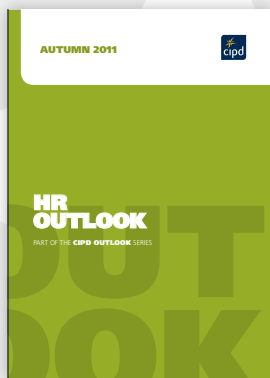
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