Autumn 2012

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Labour Market Outlook

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Foreword

The quarterly CIPD *Labour Market Outlook* (LMO) report sponsored by SuccessFactors, an SAP Company, provides a set of forward-looking labour market indicators, highlighting employers' recruitment, redundancy and pay intentions. The survey is based on responses from 1,000 HR professionals, many of whom are drawn from the CIPD's membership of more than 135,000 professionals.

The latest LMO autumn report shows that the recent pattern of strong employment growth may continue in the fourth quarter of 2012. 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 – has increased to +7 from +5. This is the third consecutive quarter of projected growth, largely mirroring the official labour market statistics reported during Q2 and Q3 (Figures 2 and 3). The private sector employment balance has fallen to +18 from +28 compared with three months ago, whereas the public sector balance has improved from –36 to –17 during the same period.

The latest LMO autumn report shows that the recent pattern of strong employment growth may continue in the fourth quarter of 2012.

Indeed, the figures suggest that the slowing of public sector job losses in recent months is likely to continue during the fourth quarter of 2012. They also suggest that hiring in the public sector will continue to pick up during the same period in a continuation of recent trends (Figure 6). However, employment prospects remain weak in the public sector, especially in local and central government (–34).

Meanwhile, the pace of employment growth in the private sector may moderate, especially in the manufacturing sector, where the net employment balance for the manufacturing sector has fallen from +32 to +13 during the past three months. This is consistent with official GDP figures, which show that manufacturing output continues to lag behind the services sector. And business surveys suggest that output growth in manufacturing is likely to remain subdued in the near term.

As in the summer report, the results suggest that the recent strong growth in temporary and part-time employment is likely to continue to drive the employment upturn through the remainder of this year. Around a quarter of new employees will be hired on part-time hours this quarter. The rise in the prevalence of part-time work over the past couple of years is well documented. However, the recent spike in temporary employment, which saw temporary employees make up more than a third of the total rise in the number of employees in the three months to August 2012 (ONS 2012) is a less reported feature. Employers cite the wish to lower short-term costs, the uncertain economic outlook and fitting in with the business cycle

as the key reasons behind the shift to temporary employment. This is unsurprising against the backdrop of rising labour costs and falling productivity in recent months (ONS 2012) and the high levels of uncertainty still felt by many employers.

Consistent with these trends, almost a fifth (17%) of employers say they have increased their use of casual workers or employees on zero-hour contracts during the past year. Interestingly, public sector employers are more likely to report that they have increased their use of hiring temporary and casual workers or employees on zero-hour contracts in the 12 months to October. And the employment of both groups is higher than in the private sector. This may suggest that public sector employers are becoming more flexible in how they resource their organisations.

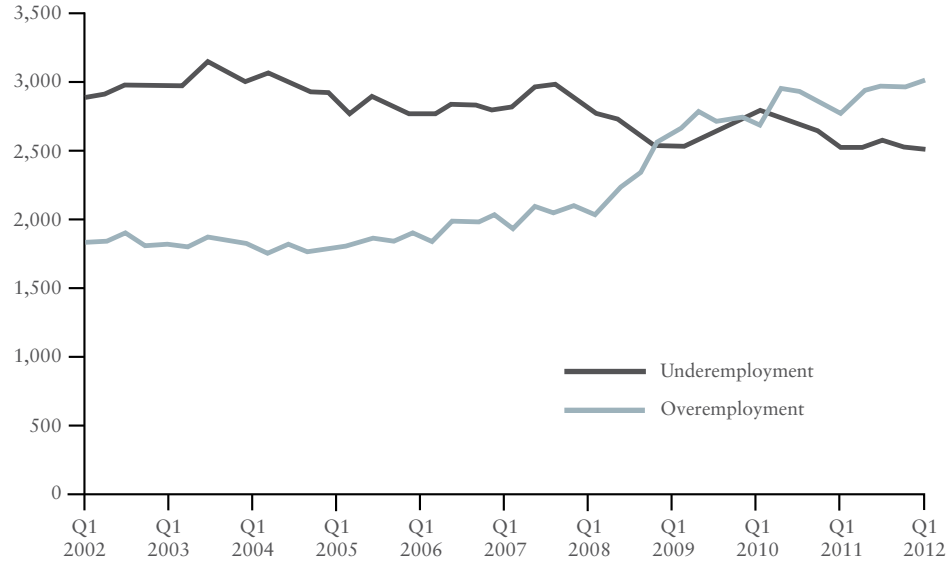
Looking ahead, around a fifth say that they plan to employ fewer agency workers in the 12 months to September 2013. These developments may also reflect, in part, employer concerns about the costs associated with the Agency Workers Directive.

Overall, the figures illustrate why underemployment[1] has risen sharply in recent years (Figure 1). The data suggests that the reduction in full-time, permanent work is forcing workers to take whatever opportunities they can, an increasing proportion of which are part-time, self-employed odd jobs or temporary placements in firms.

Given these trends and the accuracy of predictions made in previous LMO reports, the CIPD plans to research these developments in more depth in the next *Labour Market Outlook* winter report to provide a more detailed understanding of the functioning of the labour market.

Overall business confidence levels remain fairly mixed, but still point to a continuation of recent improvements to the UK economy. On the upside, more than three in five private sector companies (61%) say they are either confident or fairly confident about the growth prospects of their organisation. On the downside, around a quarter of private sector firms report that they are not confident about the growth prospects of their firm at all in the next year.

Figure 1: Underemployment and overemployment in the UK between 2002 and 2012



Source: ONS

[1] People in employment who are willing to work more hours because they either:

- want a job additional to their current job
- want a different job with longer hours
- want more hours in their current job
- they are available to start working longer hours within two weeks, and their current working week was under 48 hours (or 40 hours for those aged under 18).

1.7%

Basic pay award expectations for the next 12 months have edged up to 1.7% from 1.6% compared with the previous report.

In addition, the findings point to modest pay growth in the near to medium term. Basic pay award expectations for the next 12 months have edged up to 1.7% from 1.6% compared with the previous report. However, it is interesting to note that average basic pay award expectations in the public sector have risen to 0.6% from 0.2%, which may in part reflect the imminent ending of the two-year pay freeze for large parts of the public sector.

Pay expectations in the private sector have also edged up to 2.6% from 2.5%. Among those private sector firms predicting a pay rise in the next 12 months, the average forecast is 3.1%. Service firms are predicting a 3.2% average rise, which compares with a more modest rise of 2.5% in the manufacturing sector.

Overall, the results point to a continuation of the surprising strength of the UK jobs market in the immediate term. However, the downside is that this is likely to be supported by low pay growth and a disproportionately large share of part-time and temporary employment. The uncertainty about the future evolution of the UK economy and labour market is thus likely to be felt by employees and employers, which may affect the confidence levels of both groups in the future.

Recruitment and redundancy outlook

What is the short-term employment outlook?

The latest LMO autumn report shows that the recent pattern of strong employment growth may continue in the fourth quarter of 2012. 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 – has increased to +7 from +5. This is the third consecutive quarter of projected growth, largely mirroring the official labour market statistics reported during Q2 and Q3 (Figures 2 and 3). The private sector employment balance has fallen to +18 from +28 compared with three months ago, whereas the public sector balance has improved from –36 to –17 during the same period.

Indeed, the figures suggest that the slowing of public sector job losses in recent months is likely to continue during the fourth quarter of 2012. Employment prospects are particularly weak in local and central government (–34). Meanwhile, the pace of employment growth in the private sector may moderate, especially in the manufacturing sector, where the net employment balance for the manufacturing sector has fallen from +32 to +13 during the past three months (Table 1). This is consistent with official GDP figures, which show that manufacturing output continues to lag behind the services sector. And business surveys suggest that output growth in manufacturing is likely to remain subdued in the near term. For instance, the CIPS/Markit Purchasing Managers' Index Report for the UK manufacturing sector[2] showed that the UK manufacturing sector contracted in September as employment and production fell.

Confidence remains strong in the private services sector and the net employment balance stands at +20, showing employment is forecast to grow in the fourth quarter of 2012 (Table 1). This is in line with the recently released ONS UK GDP figures that showed that the UK economy officially came out of its double-dip recession and that the service sector grew by 1.3% after suffering a 0.1% contraction in the previous quarter.[3]

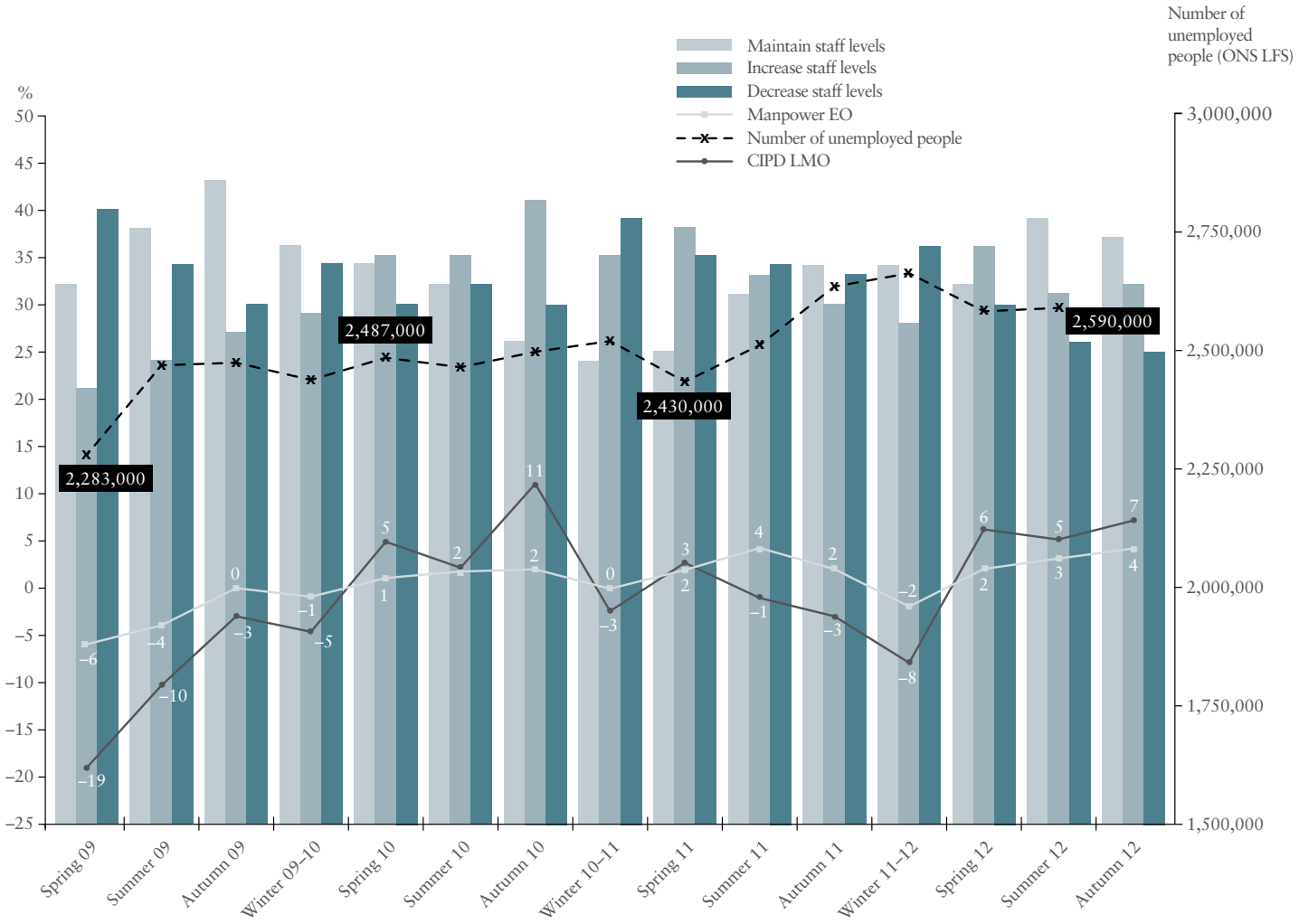
[2] Purchasing Managers Index Report for Manufacturing, CIPS/Markit (October 2012).
[3] http://www.ons.gov.uk/ons/rel/gva/gross-domestic-product--preliminary-estimate/q3-2012/stb-gross-domestic-product-preliminary-estimate--q3-2012.html

Figures 2 and 3 display the LMO net employment intentions time series alongside the equivalent figure from the quarterly *Manpower Employment Outlook* report (the light blue line). The latest figures relate to the fourth quarter of 2012.

The dotted line displays the official unemployment and employment levels reported in the monthly ONS *Labour Market Statistics* report. The latest figures cover the three months to August 2012.

Figure 2: Correlation between LFS unemployment statistics[4] and LMO data

Base: Autumn 2012, all LMO employers likely to recruit or make redundancies in the next quarter (n=741)

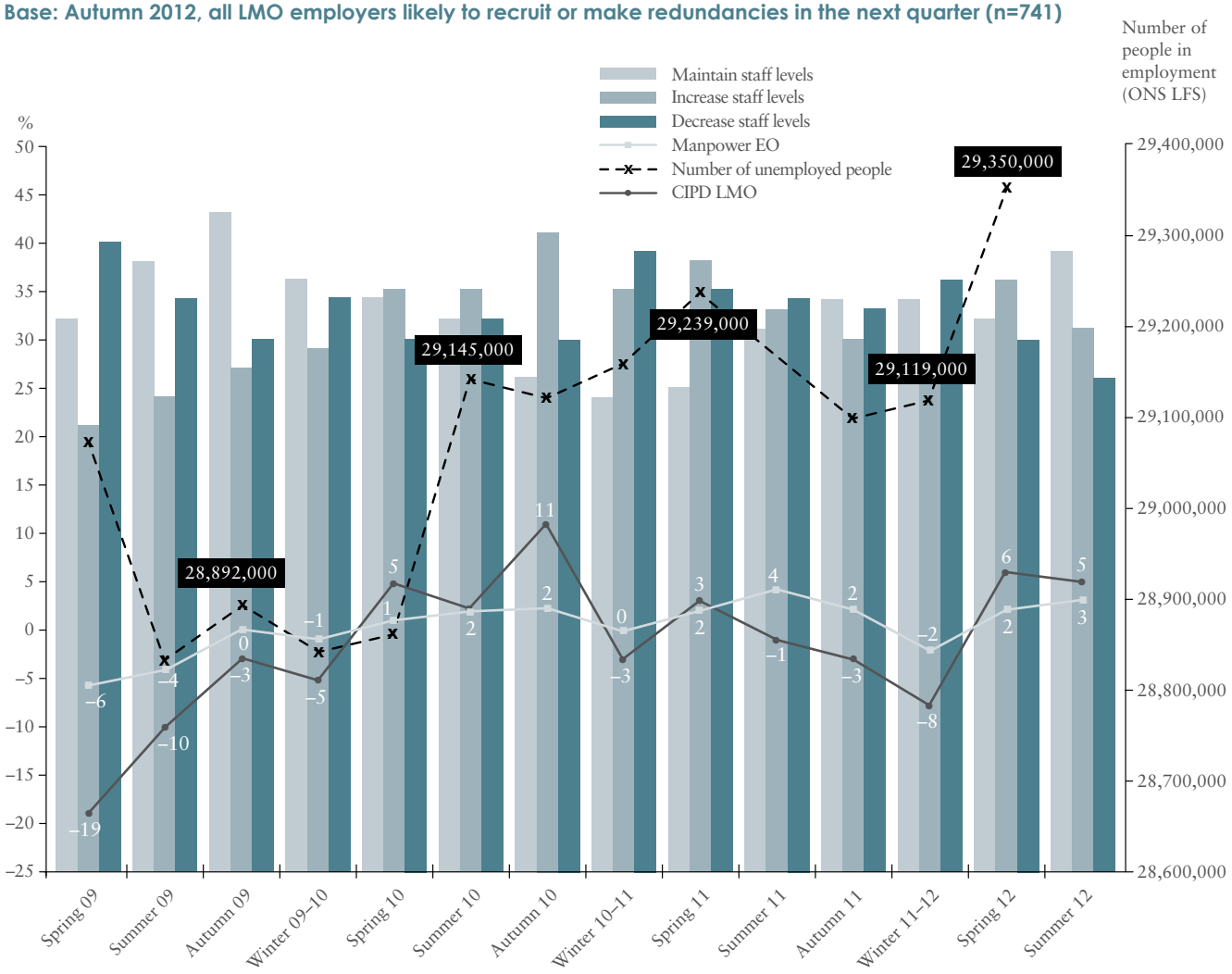


[4] Labour Force Survey data taken at quarterly intervals based on GB population aged 16+.
Spring (March–May), Summer (June–August), Autumn (September–November), Winter (December–February).

Please note the latest employment figure is taken from the ONS estimates for three months to August 2012, and can be measured against the three-month *Labour Market Outlook* projection made in May 2012.

Figure 3: Correlation between LFS employment levels and LMO data[5]

Base: Autumn 2012, all LMO employers likely to recruit or make redundancies in the next quarter (n=741)



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

Please note the latest employment figure is taken from the ONS estimates for three months to August 2012, and can be measured against the three-month *Labour Market Outlook* projection made in May 2012.

Figure 4: Overall effect of recruiting new staff and/or making redundancies next three months

Base: Autumn 2012, all likely to recruit or make redundancies in the next quarter
Overall (n=741), private sector (n=450), public sector (n=235) and voluntary sector (n=56)

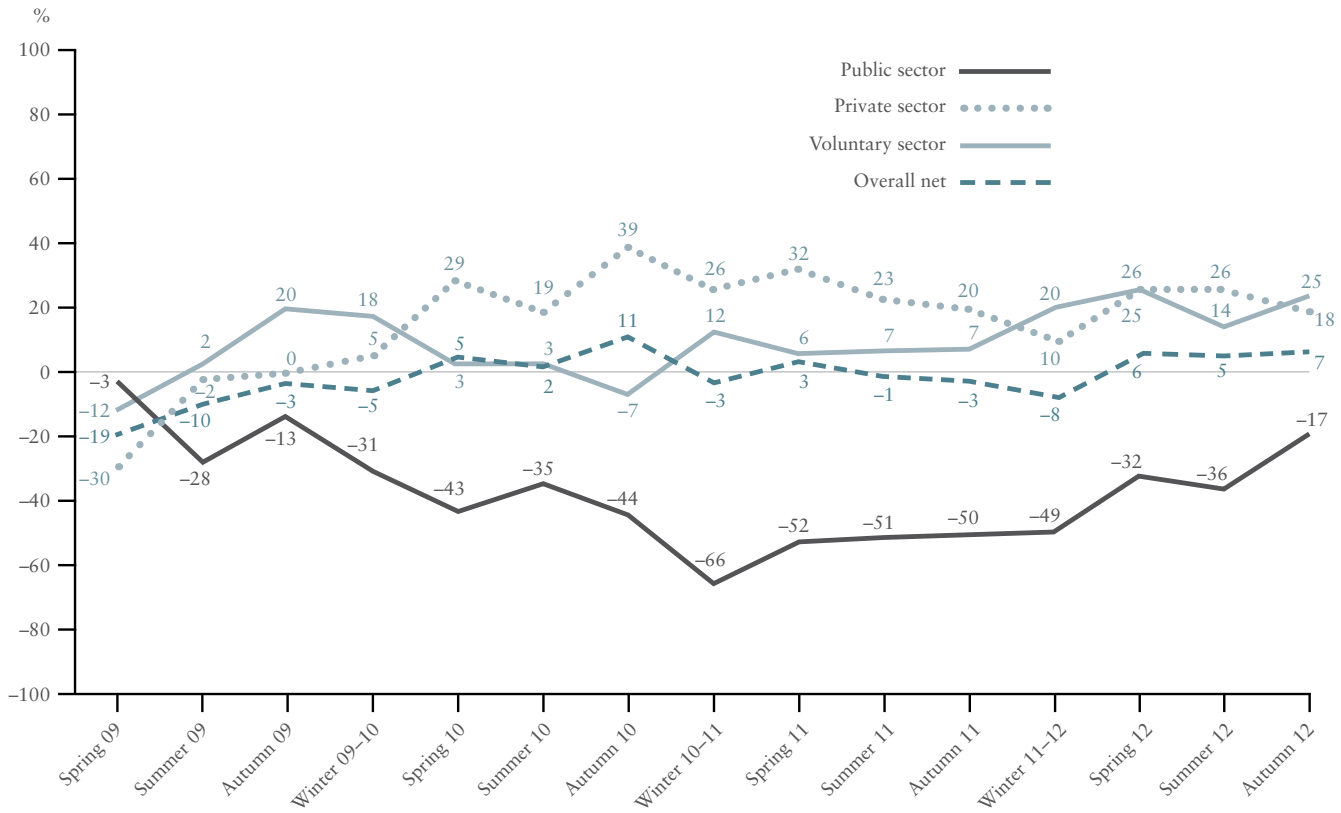


Table 1: Net employment intentions for the next three months by industry
Base: Autumn 2012, all likely to recruit or make redundancies in the next quarter

Sector	Autumn 2012	Summer 2012	% point change
Private sector services (n=414)	+20	+21	–1
Manufacturing and production (n=107)	+13	+32	–19
Healthcare (n=54)	–12	–24	+12
Public administration and defence (n=127)	–34	–51	+17
Consultancy services (n=89)	+61	+61	0

The results also point to a narrowing of the north–south divide in the employment prospects of organisations in the next three months. The net employment balance in the north of England has improved to –5 from –11 in the previous quarter, but still lags behind the positive employment outlook in the south of England (+18). The results are still broadly consistent with official ONS figures, which continue to show a gap between the employment prospects of regions in the south of England and those in the north.

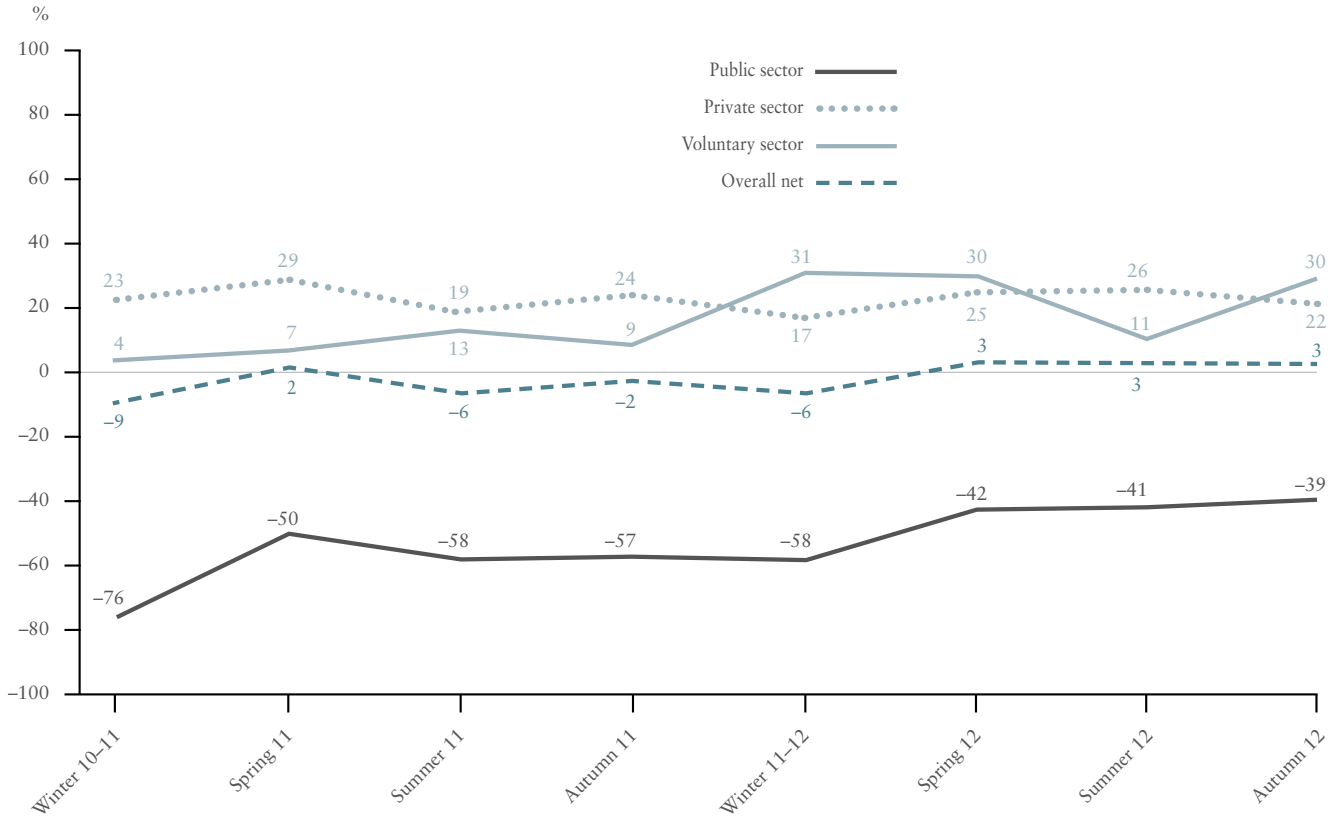
Looking further ahead, the employment balance score for the UK in the 12 months to June 2013 has remained static at +3. The 12-month private sector balance has declined to +22 from +25. Meanwhile, the public sector employment balance has improved modestly to –39 from –42.

+3

Looking further ahead, the employment balance score for the UK in the 12 months to June 2013 has remained static at +3.

Figure 5: Overall effect of recruiting new staff and/or making redundancies for next 12 months

Base: Autumn 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)



66%

Two-thirds of employers (66%) plan to hire this quarter.

Are public sector employers hiring again?

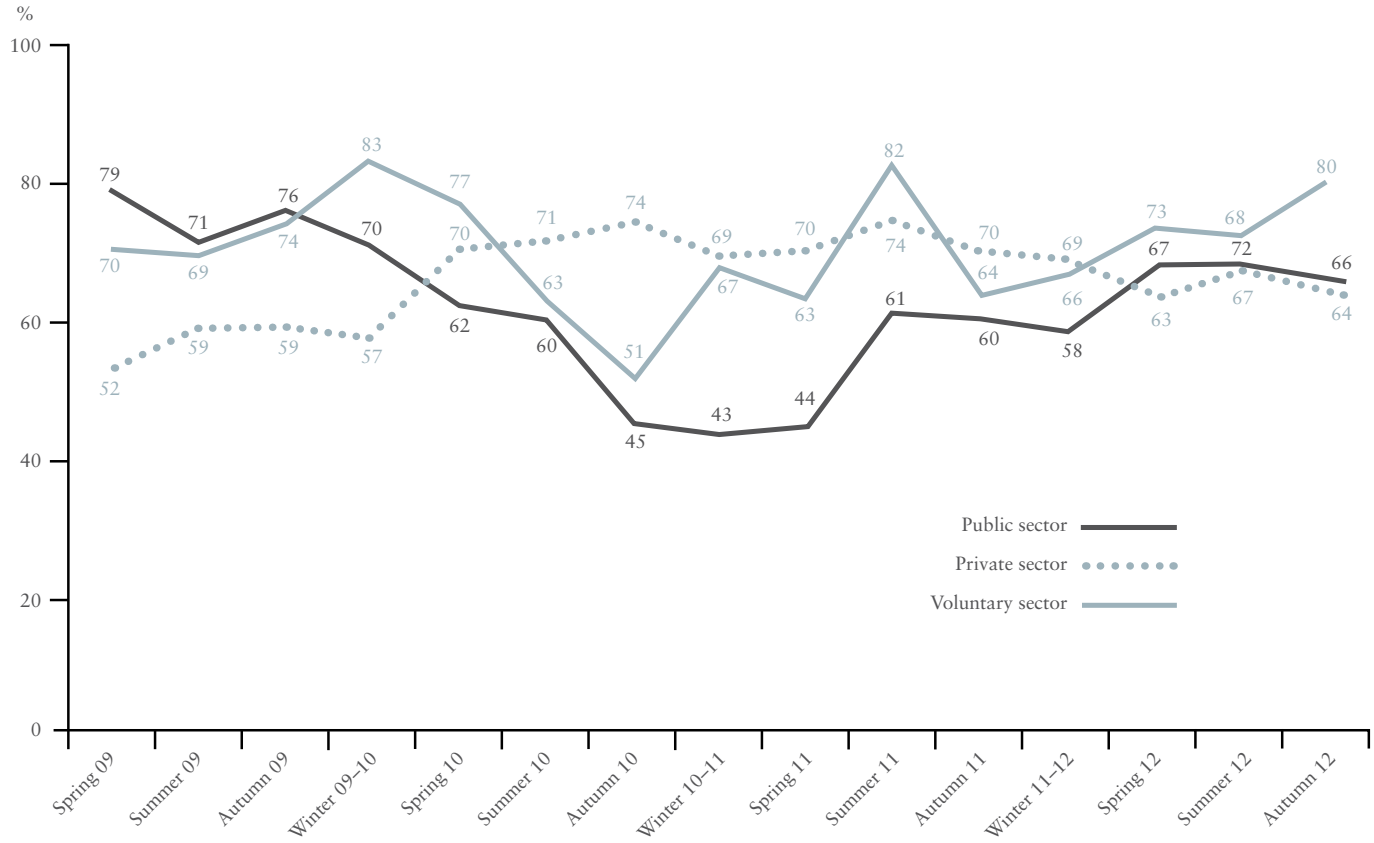
Recruitment intentions among LMO employers have remained broadly stable since the summer 2012 report. Two-thirds of employers (66%) plan to hire this quarter. Hiring intentions are slightly higher in the public sector (66%) than the private sector (64%), which is a dramatic turnaround compared with the same period in 2010 when around three-quarters of private sector firms were hiring compared with less than half of public sector employers. Recruitment intentions are strongest in the voluntary and not-for-profit (82%) and the financial and insurance (71%) sectors for the next three months.

What proportion of new employees will be part-time?

Of those LMO employers planning to recruit staff in the next three months, more than three-quarters (76%) reported that new recruits would be employed on full-time contracts and 24% on a part-time basis. The rise in the prevalence of part-time work over the past couple of years thus looks set to continue through the remainder of the year, but at a slower pace.

Figure 6: Recruitment intentions by sector

Base: Autumn 2012, all LMO employers, public (n=309), private (n=622), voluntary (n=69)



Has the recent recession increased the use of casual and temporary workers?

Nearly two-thirds (65%) of LMO employers employ casual workers[6] /workers on zero-hour contracts. The use of casual workers is significantly higher in the public sector (76%) than in the private sector (59%).

Over the past 12 months, just under a third of LMO employers (32%) have hired casual workers/workers on zero-hour contracts. The use of casual workers is higher in the public sector (36%) than in the private sector (28%) and is particularly high in the voluntary sector (51%) and healthcare (46%). Among those employers that have hired casual workers or workers on zero-hour contracts in the past 12 months, almost a quarter have recruited administrative staff (24%) on such contracts. Labourers, accounting/ finance staff and care/social workers are also frequently hired by employers on casual or zero-hour contracts. LMO employers identified customer service/front-of-house staff, youth workers and drivers in the 'other' category.

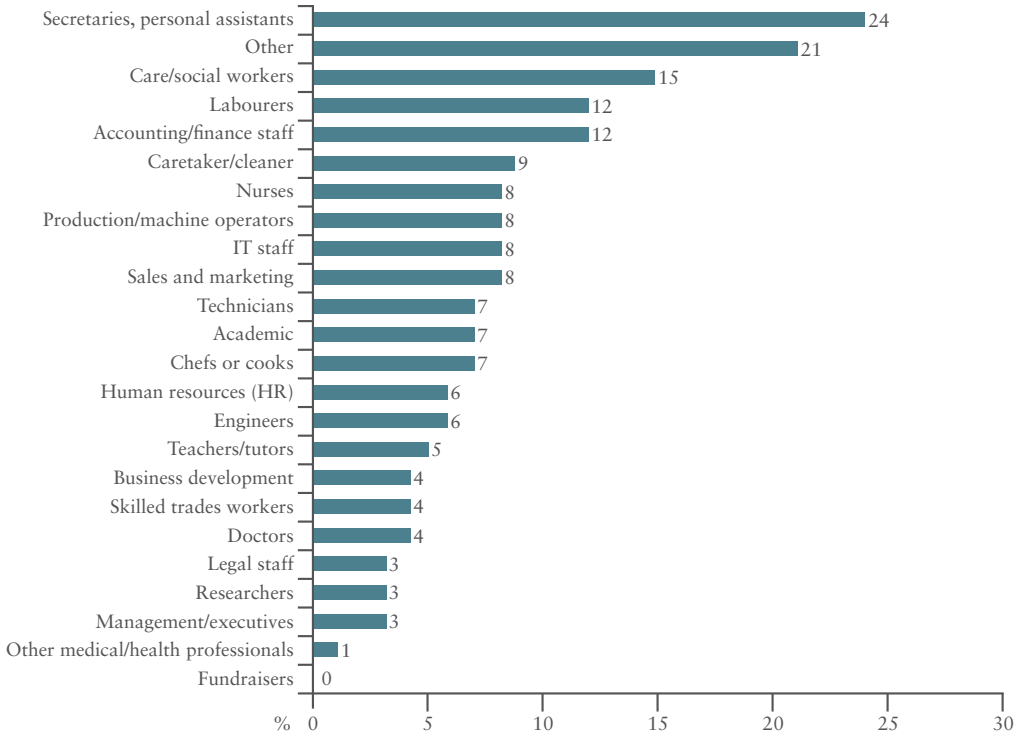
Table 2: Recruitment intentions by sector

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

Sector	Autumn 2012	Summer 2012	% point change
Manufacturing and production (n=143)	66%	58%	+8
Voluntary and not-for-profit (n=55)	82%	71%	+11
Private sector services (n=571)	64%	70%	–6
Public administration and defence (n=157)	70%	67%	+3
Healthcare (n=76)	67%	73%	–6
Finance, insurance and real estate (n=92)	71%	71%	0

Figure 7: Occupations casual workers were hired to fill

Base: Autumn 2012, all LMO employers who hired casual workers in the last 12 months (n=324)



[6] Casual workers are defined as workers who are part of the permanent workforce but also supply services on an irregular or flexible basis, often to meet a fluctuating demand for work.

Has the use of temporary workers increased during the past year?

The majority of LMO employers (83%) also employ temporary workers or workers on fixed-term contracts, with the use of temporary workers more prevalent in the public sector (86%) than in the private sector (82%).

More than a quarter of employers (27%) who employ workers on temporary or fixed-term contracts report that the proportion of temporary workers had increased in the 12 months to October. Nearly half (49%) reported that the proportion had stayed the same and 16% that the proportion of their workforce that were on temporary contracts had decreased (Figure 8). Public sector organisations are more likely to have increased their use of temporary workers. Almost a third (30%) of public sector employers who already employ temporary workers report such an increase compared with a quarter (25%) of private sector firms.

This is consistent with the most recent set of official employment statistics, which showed that temporary employees made up more than a third of the total rise in the number of employees in the three months to August 2012 (ONS 2012). By contrast, the proportion of casual workers in the workforce has remained broadly unchanged during the past year.

Figure 8: Changes in the proportion of workforce made up by temporary and casual workers

Base: Autumn 2012, all LMO employers who employ casual workers (n=645) or temporary workers (n=832)

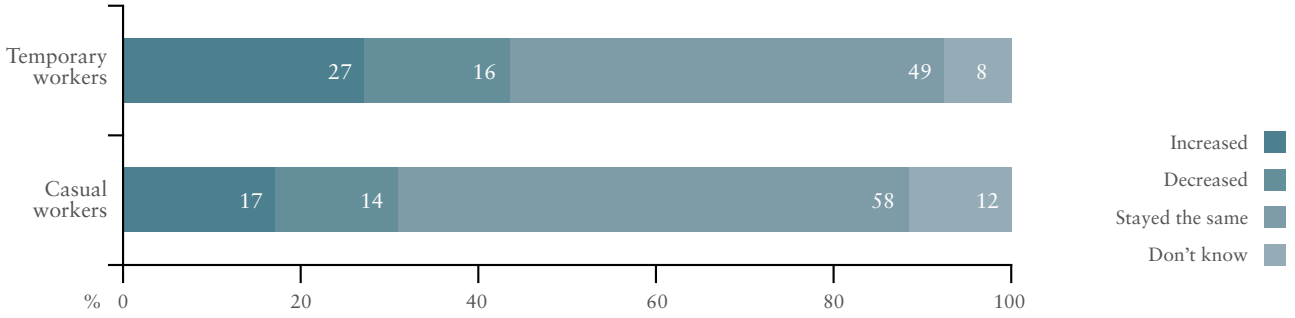
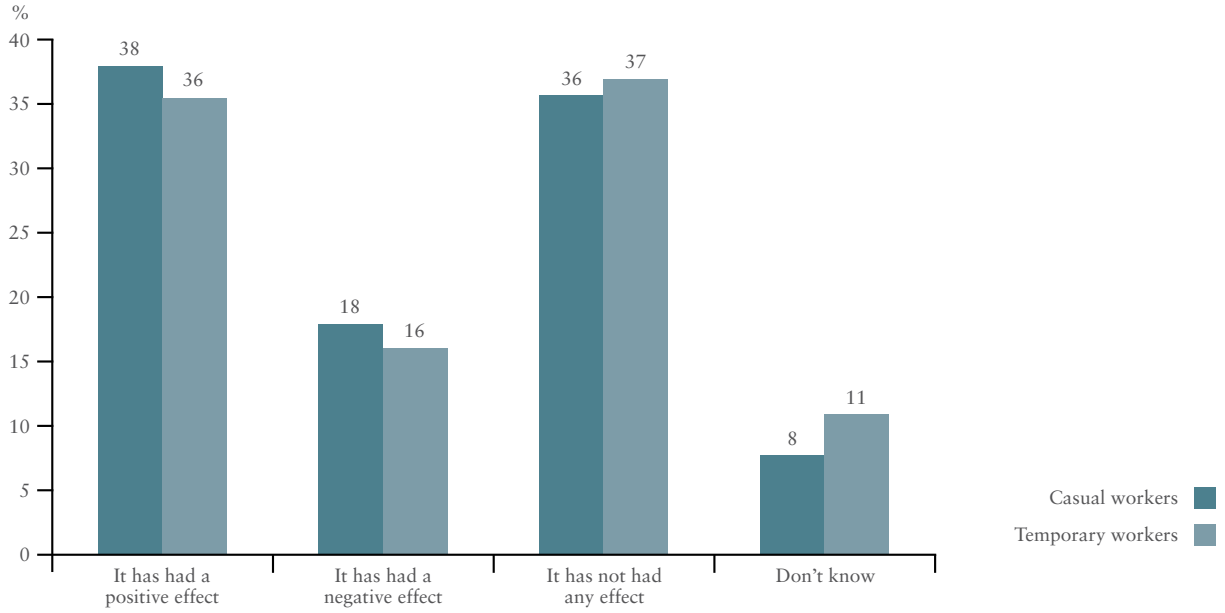


Figure 9: Impact on productivity of increased use of casual workers

Base: Autumn 2012, all LMO employers who employ casual workers and their proportion has increased (n=110) and those who employ temporary workers and their proportion has increased (n=225)



Why is the use of temporary workers becoming more prevalent?

Reflecting the uncertainty still felt by many employers, more than a third of employers (37%) report that they have increased the use of temporary workers due to the uncertain economic environment. Other popular reasons for using the temporary worker model include increasingly fitting employers' business cycles (30%) and the drive to lower short-term costs (25%). This is unsurprising given that labour productivity fell by 1.1% between the first and second quarters of 2012 while whole economy unit labour costs increased by 0.3% during the same period (ONS 2012), in a continuation of recent trends.

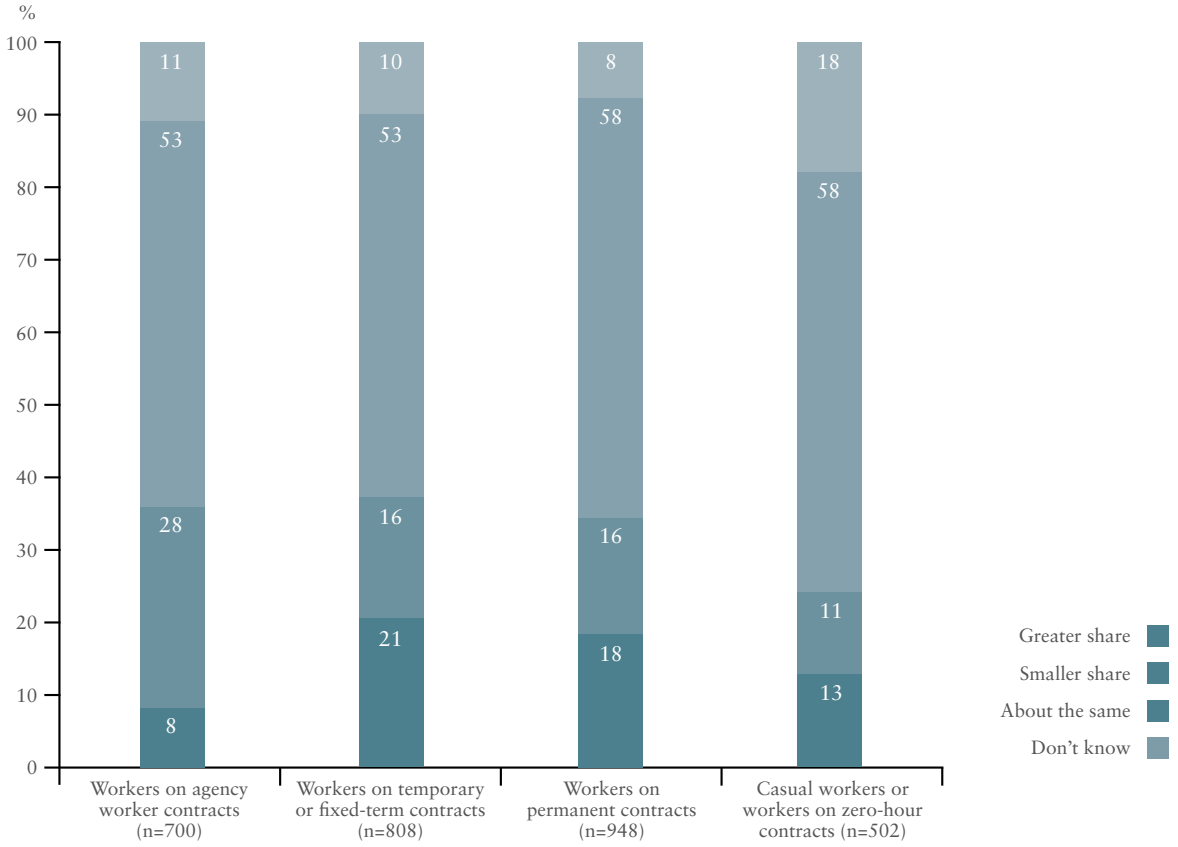
On balance, more employers report that the shift to employing more casual workers/workers on zero-hour contracts and temporary workers has had a positive impact on productivity. Almost four out of ten (38%) employers report that hiring casual workers has led to higher levels of productivity compared with a fifth who say that it is having a negative effect. Meanwhile, more than a quarter (36%) of employers who have increased the proportion of workers on temporary contracts say that productivity has improved compared with 16% who say it has had a negative impact.

How will the workforce change over the next 12 months?

The majority of organisations forecasted that there will be little change in their workforces over the next 12 months. Nevertheless, the most significant change may see employers reduce their use of agency workers, with more than a quarter (28%) of organisations looking to reduce the proportion of their workforce that are agency workers.

Figure 10: Forecasted changes in workforce by employment contract

Base: Autumn 2012, all LMO employers who employ these groups



Will redundancy expectations improve in the near term?

Mirroring the official statistics, the proportion of employers planning to make redundancies will be broadly flat in the fourth quarter compared with the previous quarter. The proportion of public sector employers planning to make redundancies in the next three months has fallen again to 32% from 39% in the previous report. This is the third consecutive quarter where redundancy intentions have fallen in the public sector. By contrast, the proportion of private sector services firms that plan to make redundancies has increased to 29% from 24% in the previous quarter.

Employers in the public administration and defence sector, which includes central government and local government employers primarily, are again the most likely to make redundancies in the third quarter of 2012 (45%). Redundancy pressures are also high in the finance, insurance and real estate sector (43%).

Figure 11: Redundancy intentions by sector

Base: Autumn 2012, all LMO employers, public (n=309), private (n=622), voluntary (n=69)

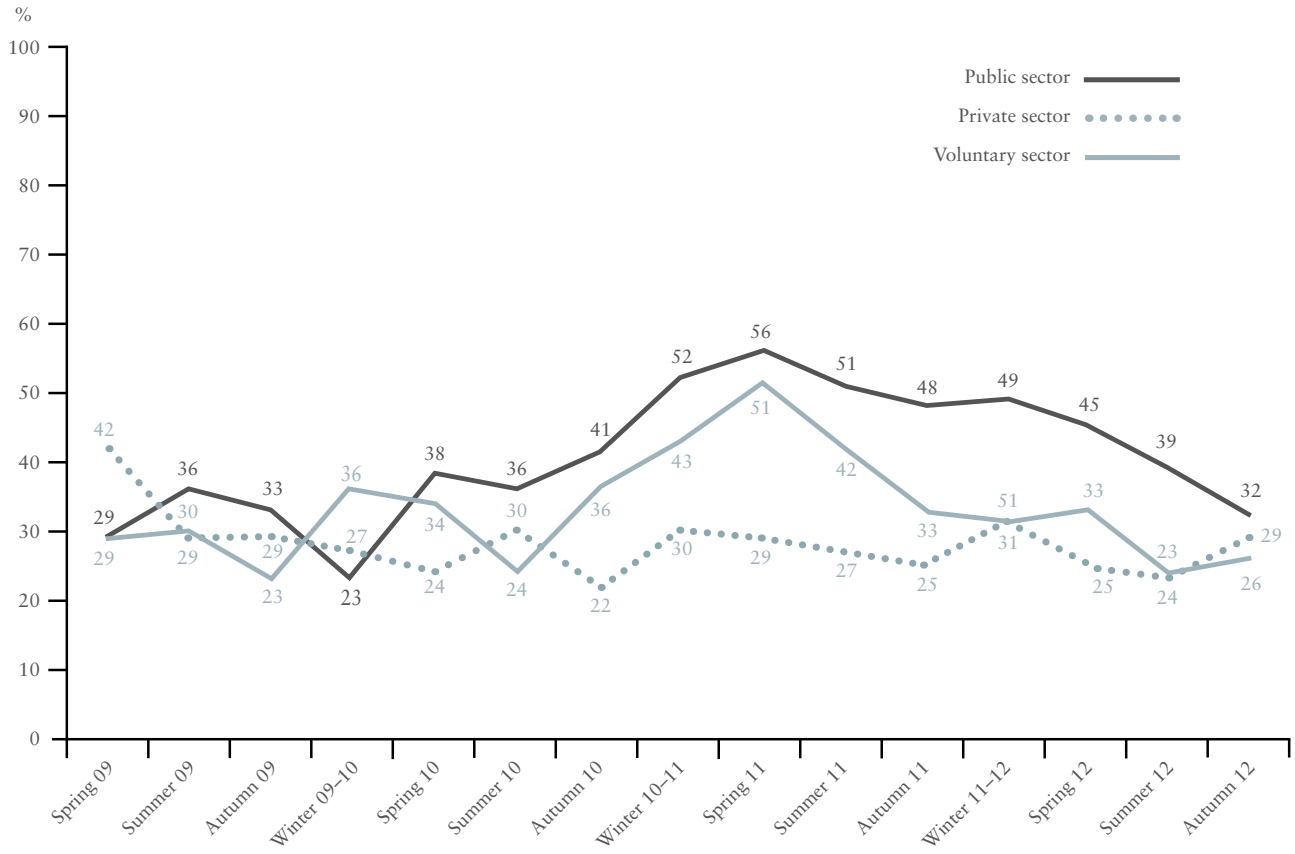


Table 3: Redundancy intentions by industry

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

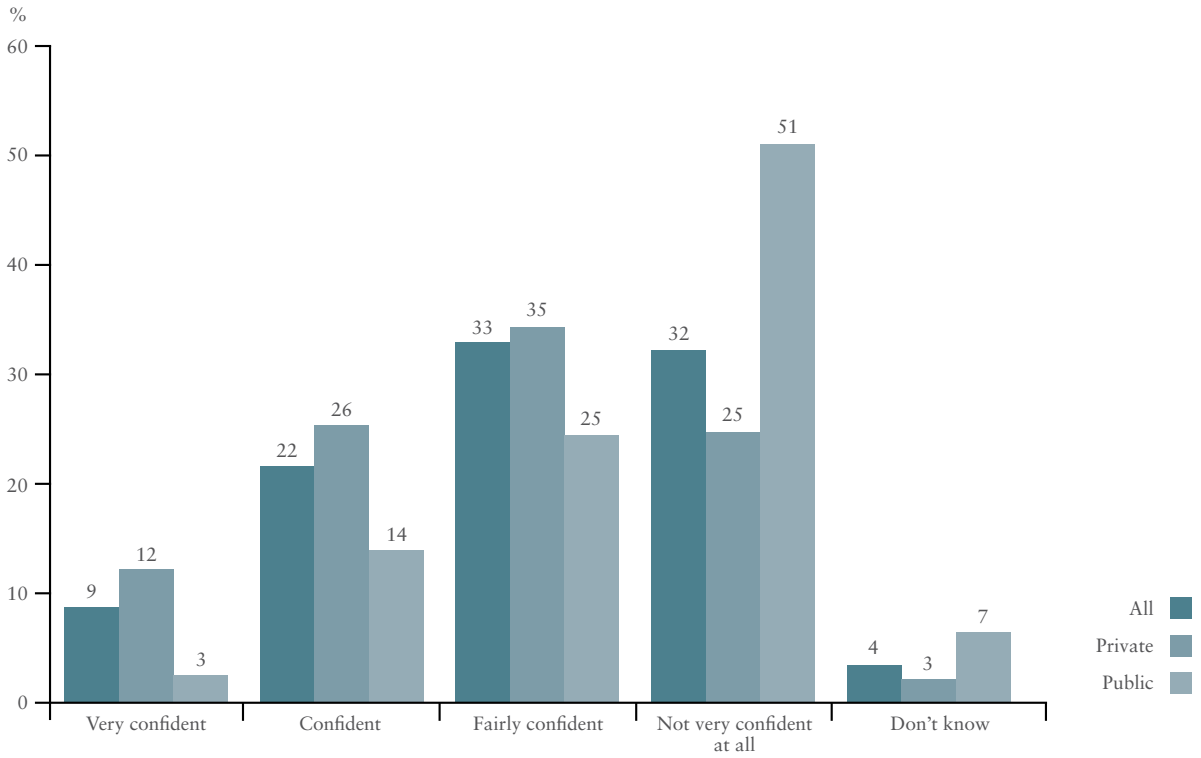
Sector	Autumn 2012	Spring 2012	% point change
Public administration and defence (n=157)	45%	58%	–13
Manufacturing and production (n=143)	30%	26%	+4
Finance, insurance and real estate (n=92)	43%	37%	+6
Private sector services (n=571)	29%	25%	+4
Healthcare (n=76)	14%	39%	–25
Voluntary not-for-profit (n=55)	30%	29%	+1

How confident do organisations feel about the year ahead?

Overall business confidence levels remain fairly mixed, but still point to a recovery. On the upside, more than three in five private sector companies (61%) say they are either confident or fairly confident about the growth prospects of their organisation. More than half (52%) of wholesale and retail employers are confident about their growth prospects. On the downside, around a quarter of private sector firms are not confident about the growth prospects of their organisation at all in the next year, especially those in the manufacturing sector (Figure 12).

Figure 12: Confidence in the growth prospects of organisations by sector

Base: Autumn 2012, all (n=1,000), private (n=622), public (n=309)



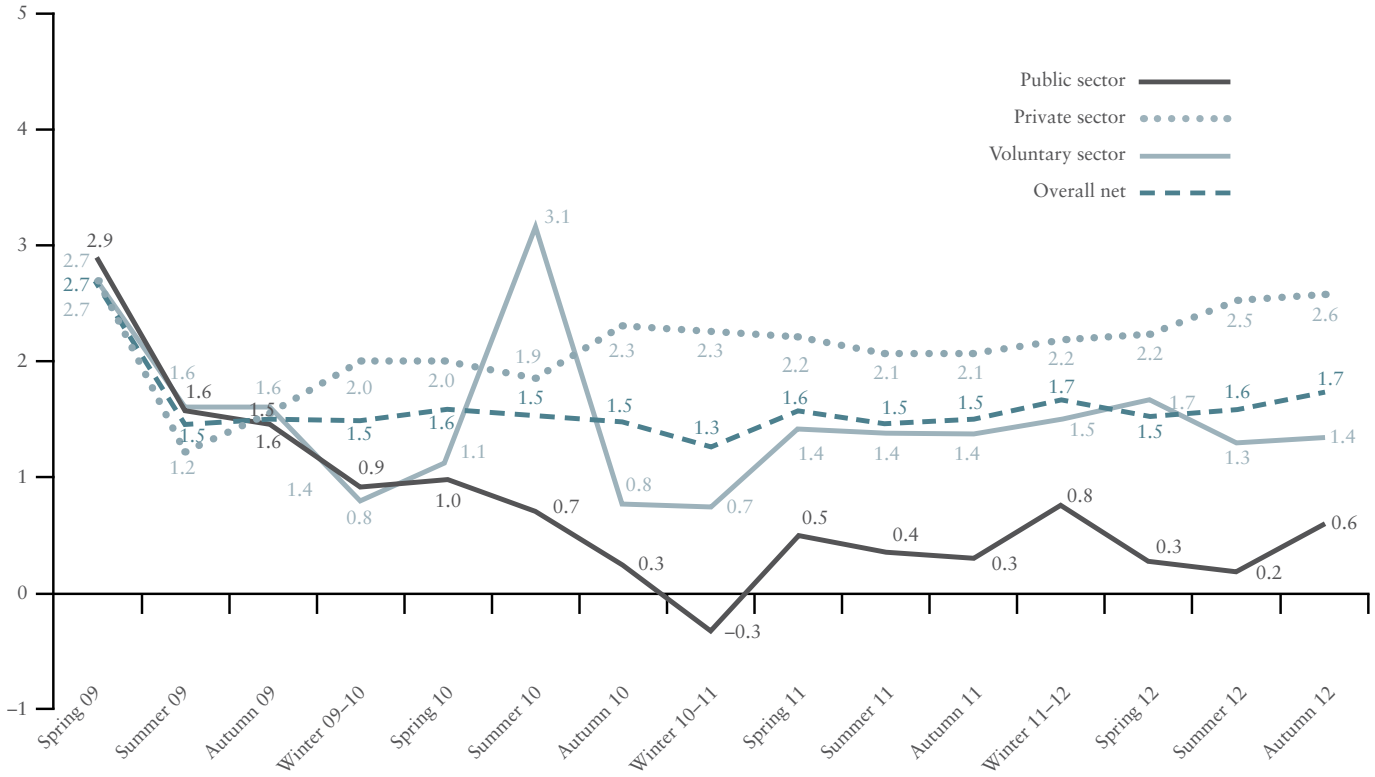
Pay outlook

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

Excluding bonuses, the expected mean basic pay settlement among those LMO employers that are planning a pay review in the 12 months to September 2013 is 1.7%. This has increased slightly from the summer report and is the second successive quarter of projected pay growth. Mirroring the official pay data, the LMO report's pay expectations have remained stable during the past year, and 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 0.6% will continue to lag behind those organisations in the private (2.6%) sector. However, it is interesting to note that average basic pay award expectations in the public sector have risen to 0.6% from 0.2%, which may in part reflect the end of the two-year pay freeze for large parts of the public sector.

Figure 13: Average predicted annual pay awards (mean) by sector

Base: Autumn 2012, all LMO employers planning to have a pay review before August 2013 (all n=387, public n=147, private n=208, voluntary n=32)

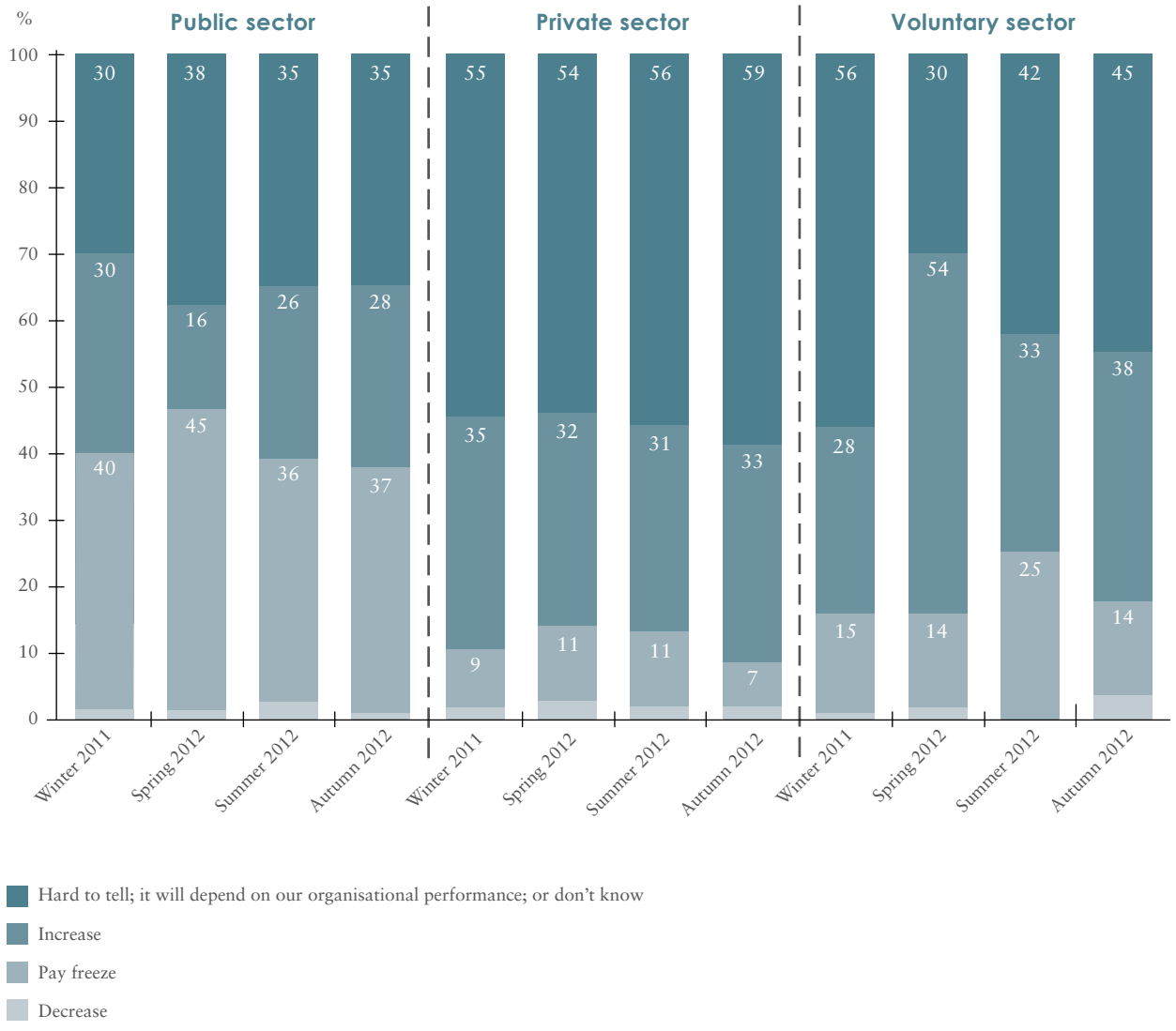


Among those employers predicting a pay increase in the next 12 months, the average forecast is 2.6%. The average pay increase in the private sector, excluding those employers that are planning a pay freeze, is 3.1%. Within the private sector, service firms are predicting a 3.2% average rise compared with a 2.5% increase in the manufacturing and production sectors.

This quarter has seen a reduction in the proportion of private sector organisations that are predicting a pay freeze in the 12 months to September 2013, down from 11% to 7% in this survey. There is still a significant proportion of private sector employers (59%) who are unable to say how their average pay will change; it is hard to tell because it will depend on performance or they don't know. The proportion of public sector organisations forecasting that pay will increase has increased slightly from 26% to 28%.

Figure 14: Likelihood of a pay increase, decrease or pay freeze

Base: Autumn 2012, all LMO employers who are not postponing a pay settlement (public n=229, private n=529, voluntary n=61)



Skills outlook

Are employers finding it more difficult to fill vacancies?

With vacancies edging up during the past year (ONS 2012), a similar proportion of employers are reporting difficulty with filling vacancies compared with the same period last year. Forty-one per cent of LMO employers currently have vacancies that they are finding hard to fill, which is similar to the 42% reported in the autumn 2011 report.

Consistent with previous reports, vacancies in engineering (17%), IT staff (13%) and management (14%) are cited as the most difficult to fill. However, it is important to note that the most popular response among LMO employers is 'other' roles (Figure 15). This figure shows that employers also have difficulty filling project manager, driver, scientist and consultant roles.

Large employers have more difficulty around recruitment, with 48% reporting they have hard-to-fill vacancies compared with 28% of SMEs. Recruitment difficulties are also higher within organisations that are intending to recruit migrant workers in the next three months, with half (51%) of employers reporting difficulties compared with a third (33%) of those not intending to recruit migrant workers.

Where LMO employers have vacancies that are hard to fill, on average organisations estimate that more than a third (36%) of these are due to skills shortages.

Figure 15: Vacancies that are hard to fill

Base: Autumn 2012, employers with vacancies that are hard to fill (n=405) **Only responses over 5% listed*

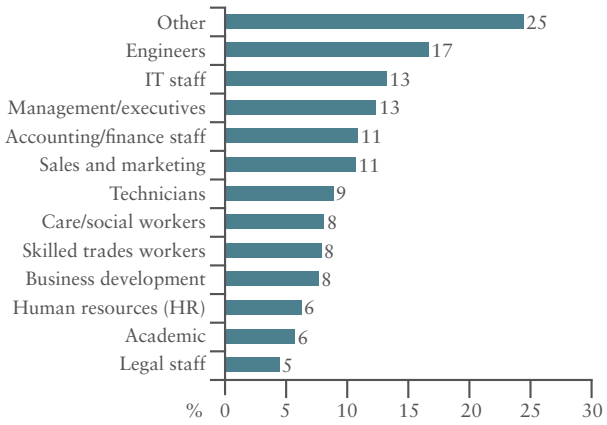


Figure 16: Vacancies that are hard to fill (other responses)

Offshoring outlook

How many employers plan to offshore jobs in the next 12 months?

The proportion of LMO employers intending to offshore UK jobs to other parts of the world has remained broadly stable since the previous report (8%).

Firms in consultancy services and finance, insurance and real estate (both 14%) are most likely to be planning to offshore jobs in the next 12 months. Mirroring the trends reported in previous reports, India remains the most likely destination to offshore jobs to (Figure 18).

What roles are likely to be offshored in the next 12 months?

Also consistent with previous reports, the functions most likely to be offshored are IT (38%) and finance and accounts (36%) among those firms that plan to offshore jobs. However, the number of firms planning to offshore HR operations (31%) and call centre operations (21%) has increased compared with previous reports.

Figure 17: Proportion planning to offshore in the next 12 months

Base: Autumn 2012, all LMO employers (n=1,000)

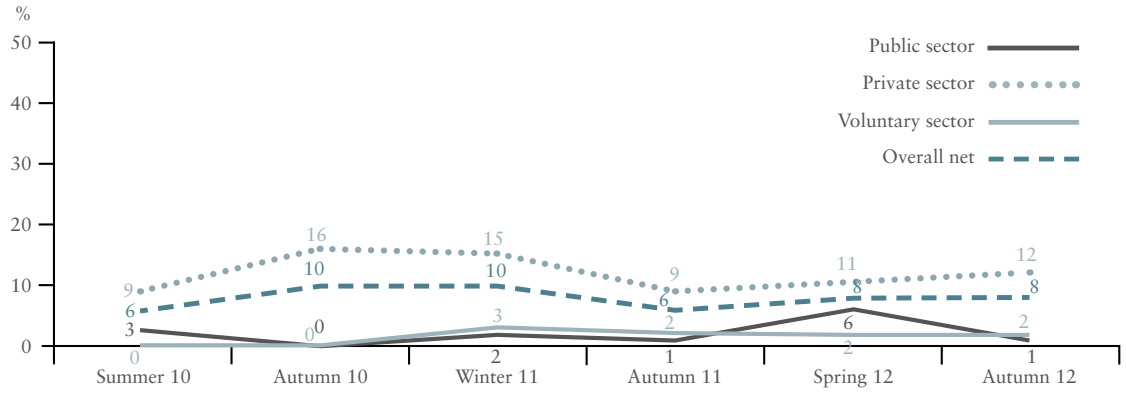
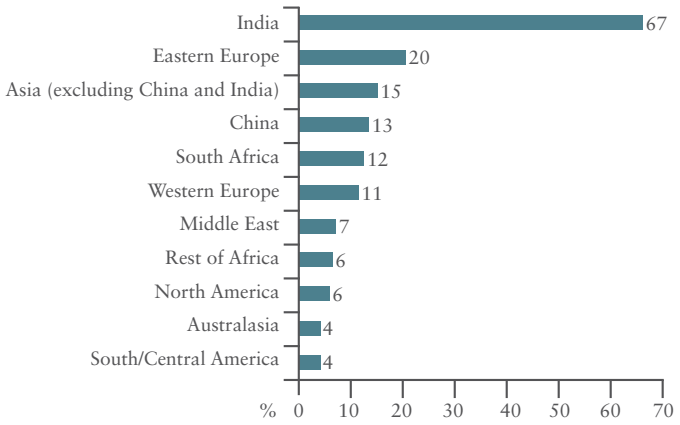


Figure 18: Parts of the world jobs are intended to be offshored to

Base: Autumn 2012, all LMO employers intending to offshore jobs (n=79)



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Respondent profile

Data are weighted by sector, organisation, size and industry.

Table 4: Breakdown of the sample by sector (%)

Sector	Autumn 2012	Summer 2012	Spring 2012	Winter 2011–12	Autumn 2011
Private	**62**	62	62	62	62
Public	**31**	31	31	31	31
Voluntary/not-for-profit	**7**	7	7	7	7

Table 5: Breakdown of the sample by organisation size (%)

Number of employees	Autumn 2012	Summer 2012	Spring 2012	Winter 2011–12	Autumn 2011
2–9	**13**	13	13	13	13
10–49	**6**	6	6	6	6
50–99	**5**	5	5	5	5
100–249	**12**	12	12	12	12
250–499	**7**	7	7	7	7
500–999	**9**	9	9	9	9
1,000–4,999	**18**	18	18	18	18
5,000–9,999	**10**	10	10	10	10
10,000–19,999	**7**	7	7	7	7
20,000 or more	**13**	13	13	13	13

Table 6: Breakdown of the sample by industry (%)

Number of employees	Autumn 2012	Summer 2012	Spring 2012	Winter 2011–12	Autumn 2011
Manufacturing and production	*14*	*14*	*14*	*14*	*14*
Agriculture, forestry and fishing	0	0	0	0	0
Manufacturing	10	10	9	10	9
Construction	3	3	3	3	3
Mining and extraction	1	1	1	1	0
Energy and water supply	1	1	1	1	1
Education	*5*	*5*	*5*	*5*	*5*
Primary and secondary schools	2	2	2	2	2
Further and higher education	3	3	3	3	3
Healthcare		*8*	*8*	*8*	*8*
NHS	7	6	6	6	6
Other private health care	1	1	2	1	2
Voluntary and not-for-profit sectors	*6*	*6*	*5*	*6*	*6*
Private sector services	*52*	*52*	*52*	*52*	*52*
Hotels, catering and leisure	2	2	2	2	2
IT industry	3	3	4	3	3
Transport and communications (including media)	4	4	4	4	4
Consultancy services	15	15	14	15	14
Finance, insurance and real estate	9	9	9	9	9
Wholesale and retail trade	7	7	6	7	6
Other business services	12	12	12	12	12
Public administration and defence	*16*	*16*	*16*	*16*	*16*
Public administration – central government	4	5	5	3	5
Public administration – local government, including fire services	9	8	8	10	7
Armed forces	1	1	2	1	2
Quango	1	1	1	1	1

Table 6: Breakdown of the sample by region to which LMO employers' answers apply

Number of employees	Autumn 2012	Summer 2012	Spring 2012	Winter 2011–12	Autumn 2011
North	*13*	*16*	*16*	*16*	*14*
North-west of England	6	7	7	7	7
North-east of England	2	3	3	3	4
Yorkshire and Humberside	5	5	6	6	4
Midlands	*13*	*15*	*12*	*12*	*13*
West Midlands	4	5	4	4	5
East Midlands	4	6	4	4	5
Eastern England	4	4	4	4	4
South	*37*	*35*	*30*	*30*	*33*
London	17	18	14	14	15
South-west of England	7	7	4	4	7
South-east of England	13	10	12	12	11
Scotland	*4*	*8*	*8*	*8*	*6*
Wales	*4*	*4*	*3*	*3*	*3*
Northern Ireland	*2*	*1*	*2*	*2*	*2*
Channel Islands	*0*	*0*	*0*	*0*	*0*
All of UK	27	20	27	27	28

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