CIPD
Championing better work and working lives

in partnership with

THE ADECCO GROUP

LABOUR MARKET OUTLOOK

VIEWS FROM EMPLOYERS

Summer 2020

The CIPD is the professional body for HR and people development. The registered charity champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has more than 150,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

Report

Labour Market Outlook

Summer 2020

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1 Foreword from the CIPD

The quarterly CIPD/The Adecco Group *Labour Market Outlook* aims to offer an early indication of future changes to the labour market around recruitment, redundancy and pay intentions. This quarter's survey is based on the views of more than 2,000 employers.

According to this latest report, the jobs market will continue to shrink in the next three months as the number of employers planning to make redundancies continues to exceed the number of employers planning to hire. The report's central net employment intentions figure has fallen to –8, the lowest figure since the survey was conducted using its current methods in the winter 2012/13 report. The figure, which measures the difference between the proportion of employers who expect to increase staff levels and those who expect to decrease staff levels, is down four points compared with the spring quarter. The modest fall in employment intentions is due to a further fall in confidence in the private sector (–13). In addition, while staffing levels look set to continue to increase (+13) in the public sector, this represents a modest fall compared with the spring quarter.

Redundancy intentions have increased since the last survey. Around a third (33%) of employers are planning to make redundancies in the three months to September 2020, up from 22% of employers in the spring report. This is mainly – but not entirely – due to a decrease in the proportion of LMO employers who cannot give an opinion on whether they will be making redundancies. The survey data also suggests that the redundancy activity will be broad-based, with IT, manufacturing and construction sectors the most likely to be affected.

Recruitment intentions have improved modestly since the spring quarter. However, they continue to lag well below the levels seen in previous years. As in the spring report, labour demand in the public sector appears to be only offsetting in part relatively weak demand in the private sector.

Economic uncertainty will continue to weigh down pay, with the survey showing basic pay expectations among employers for the 12 months to June 2021 at a record low of 1%. This is partly due to a relatively large proportion of private sector employers that plan to introduce wage freezes during the same period. And many others are unsure of their future intentions.

Gerwyn Davies, CIPD Senior Labour Market Analyst

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2 Foreword from The Adecco Group UK and Ireland

Never has timely data on employment and employer intentions been so important to businesses. This *Labour Market Outlook* for summer 2020, for which data collection was undertaken between 10 June and 9 July, offers a realistic forecast for the three months ahead. The headline number in this report shows that overall employment confidence has fallen to –8, a drop from –4 since the spring report. It now sits at the lowest level since we first published this index in spring 2014.

As businesses transition into recovery mode, there is more certainty in the report from employers compared with the figures in the spring LMO. A third (33%) of organisations expect to make redundancies in the next three months (up 11% from the spring quarter). It's important to note this increase is mainly due to a fall in the proportion of employers who couldn't say whether they'd be making redundancies at the time of the spring report, which clearly shows signs of a challenging jobs market.

Redundancy intentions have increased but there is also intention to recruit, which I hope is an indication that some businesses are reshaping for the future rather than shrinking. Forty-nine percent of employers are planning to recruit in the next three months (44% in the private sector). There are also more candidates applying for jobs, especially for highly skilled roles. This is aligned to a trend we've commented on elsewhere of people rethinking their careers and investing in reskilling during the lockdown period.

At the lower end of the pay scale there is interesting sentiment around the National Living Wage (NLW), with most employers advocating a freeze of the current rate until April 2021. Equally however, there is strong support for extending the NLW to 21–24-year-olds by 2024. Once the initial recovery phase is over, perhaps these changes will serve to create more opportunity for career starters, especially the class of 2020, who are entering the workforce at this uncertain time.

Alex Fleming, Country Head and President of Staffing and Solutions, The Adecco Group UK and Ireland

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3 Key points

Recruitment and redundancies

- The net employment intentions figure for Q3 2020 is –8. This is a fall from –4 in the previous quarter and is considerably worse than the +21 recorded in the winter. This is due to an increase in redundancy intentions, which has more than offset the increase in recruitment intentions. Over two-fifths (45%) of organisations surveyed said they will maintain total staff levels, while only 21% say recruitment and redundancies will increase staff levels. Meanwhile, 29% say their intention is to decrease staff levels, a rise of 7% from the spring survey.
- Employment confidence has fallen in all three sectors of the economy. The net employment balance for the private sector is –13, a decline from –9 in the spring report. Meanwhile the employment outlook in the voluntary sector has fallen 7 points from +4 to –3 during the same period. The net employment intentions for the public sector is +13 – slightly down from +15 from the spring quarter.
- There is a large variation across sectors in terms of the net employment score. Employment confidence is highest in healthcare (+30) and public administration (+13) and lowest in hospitality (–26), transport and storage (–24), and retail (–23). In terms of the nations and regions, confidence is highest in Wales (+12) and the north-east of England (+5) and lowest in the West Midlands (–23) and Scotland (–17).
- Recruitment intentions among UK employers surveyed have increased over the past quarter across all industries, but lie well below the levels seen in previous years. Nearly half (49%) of employers responding to the summer survey are planning to recruit in the second quarter of 2020 – up 9% from spring but down 17% from the winter 2019/20 quarter. Employment confidence has risen most sharply in manufacturing (+22) and administrative and support services (+18).
- Redundancy intentions have also increased over the quarter. A third (33%) of organisations expect to make some redundancies in the next three months, up 11% from the spring quarter, mainly due to a fall in the proportion of employers who said they don't know whether or not they would be making redundancies. According to the survey data, the average direct cost to employers of making redundancies is £11,125.

Pay

- Median basic pay increase expectations for the next 12 months are 1% – unchanged from the spring quarter. Median basic pay expectations in the private sector are expected to rise by 0.8%, compared with 0% three months earlier. Overall, 40% of private sector firms expect to freeze pay over the next 12 months.
- Meanwhile the median basic pay increase among public sector employers was 1.7%. For the voluntary/not-for-profit sector, median basic pay expectations have fallen to 1%, which compares with 2% in the spring quarter.
- Just over seven in ten (71%) employers surveyed intend to review wages in the next 12 months. Three in ten (29%) intend to postpone their next pay decision for over a year, down slightly from 33% in the spring quarter.

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4 Recruitment and redundancy outlook

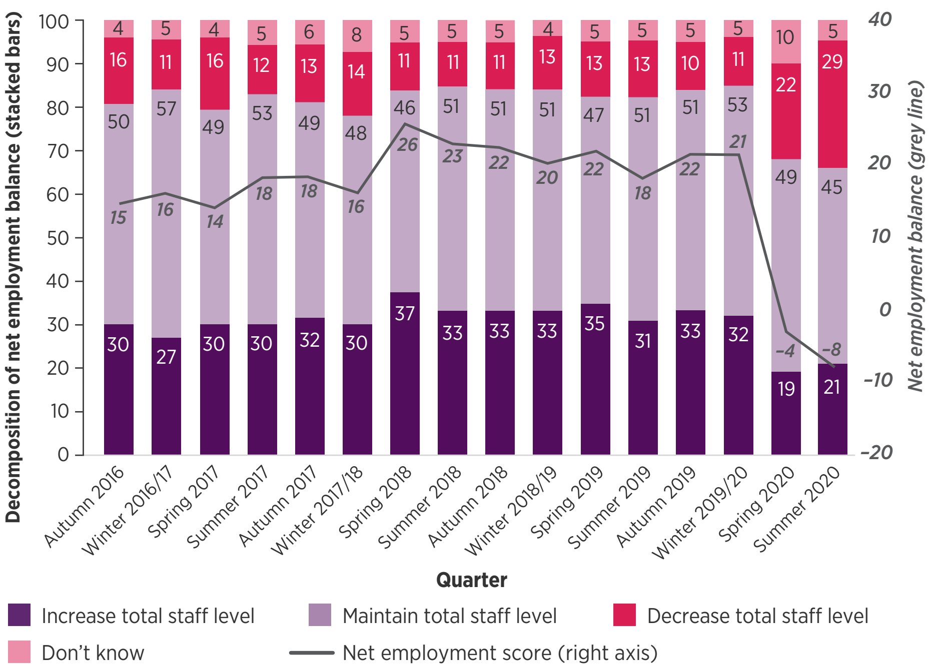
What is the short-term employment outlook?

This quarter's net employment balance figure for the whole economy, which measures the difference between the proportion of employers who expect to increase staff levels and those who expect to decrease staff levels, is –8. This is a fall from –4 in the previous quarter and is considerably worse than the +21 recorded in the winter. This is also the lowest net employment balance recorded since the current survey methodology was adopted.

When asked what the overall effect of recruitment and redundancies will be in this quarter of 2020, 45% of organisations surveyed said it will maintain total staff levels. Just over a fifth (21%) said recruitment and redundancies will increase staff levels. Meanwhile, 29% said their intention is to decrease staff levels – a rise of 7 percentage points from the spring survey.

The proportion of those who could not give an answer as to whether they plan to increase or decrease staff levels has decreased from 10% in the spring quarter to 5% in this report.

Figure 1: Decomposition of net employment balance over time



Base: summer 2020, all employers (n=2,009).

How to interpret Figure 1

The net employment balance is an indicator of employment confidence. It takes the difference between the proportion of employers who expect to increase staff levels and those who expect to decrease staff levels. Figure 1 contains the net employment balance over time to show how employment confidence has changed. It also shows what is responsible for this change, be it more firms increasing, decreasing, or maintaining staff levels.

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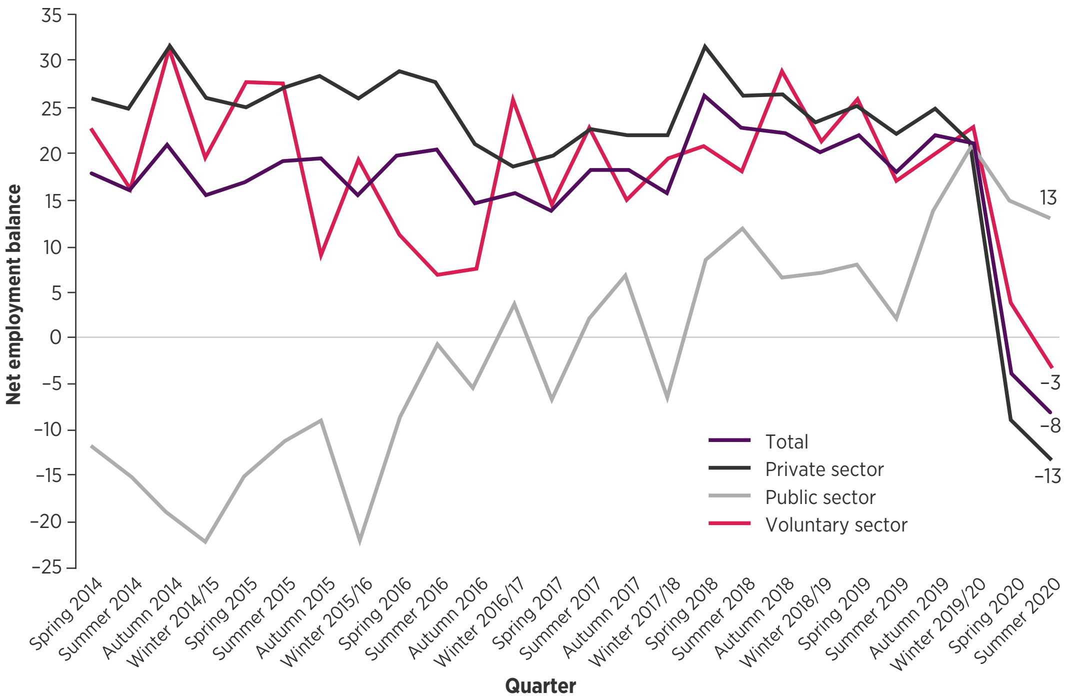
The slight fall in net employment intentions is due to a fall in confidence in both the private and voluntary sectors. The net employment balance for the private sector is –13, a decline from –9 in the spring report. A third (33%) of private sector employers say their intention is to decrease staff levels – up from 26% in the spring report. Meanwhile the employment outlook in the voluntary sector has fallen 7 points from +4 to –3 during the same period. The net employment intentions for the public sector is +13 – slightly down from +15 in the spring quarter.

Figure 2: Overall effect of increasing or decreasing staff over the next three months, by sector



Base: summer 2020, all employers (n=2,009; private n=1,369; public n=403; voluntary n=237).

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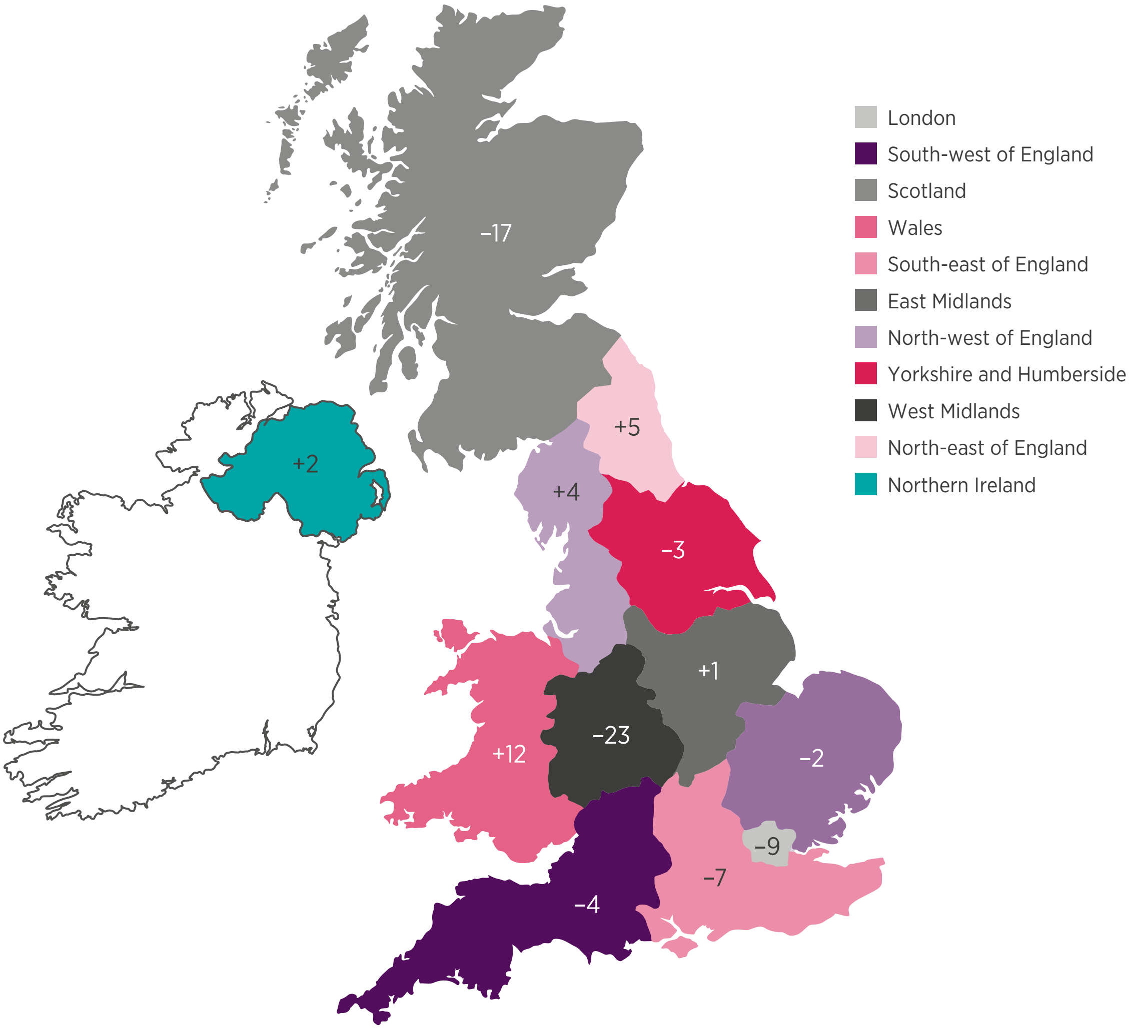
Regional and national trends

The employment intentions for the West Midlands is now –23, while the net balance for Scotland has reached a new low of –17, down from +6. By contrast, staffing levels look set to increase in Wales (+12) and the north-east of England (+5).

Figure 3: Net employment intentions for the three months to October 2020 (by nation and region)



Base: summer 2020, all employers north-east of England (n=64); north-west of England (n=160); Yorkshire and Humberside (n=116); West Midlands (n=132); East Midlands (n=99); south-west of England (n=124); south-east of England (n=298); Scotland (n=150); London (n=362); Wales (n=58).

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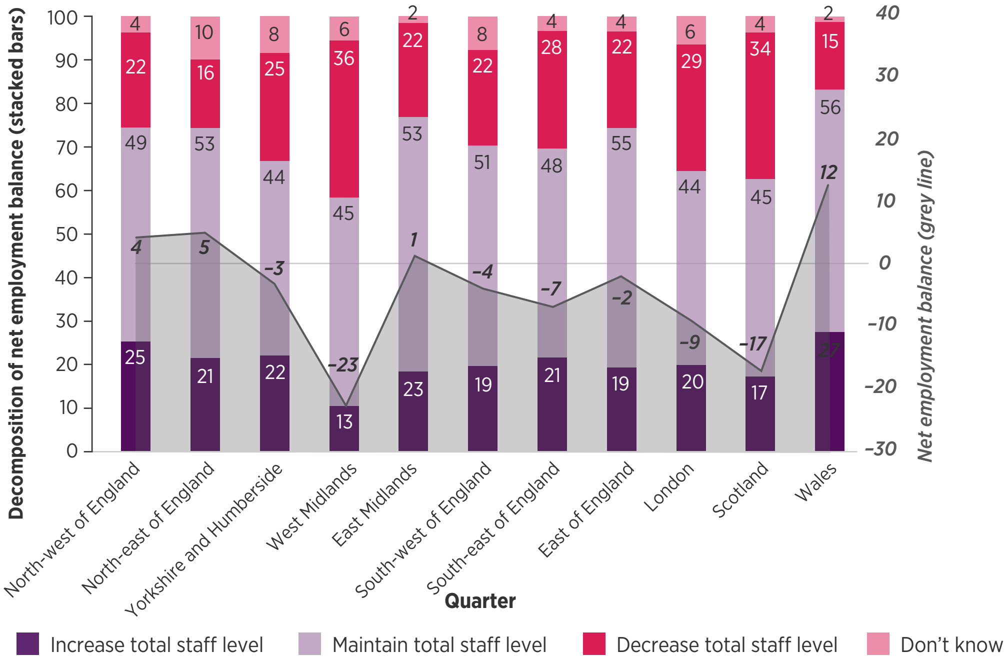
Figure 4: Overall effect of increasing or decreasing staff over the next three months, by region



Base: all bases > 50. For breakdown of base sizes, see Table 4.

Industry trends

In terms of industries, the fall in employment is expected to be particularly strong in hospitality (–26) and transport and storage (–24). In addition, the net employment balance for the wholesale, retail and real estate sector has fallen sharply to –23, down from –1 in the previous quarter. Meanwhile, some high-wage sectors in the private sector appear to be more resilient, especially finance and insurance (–1) and IT (–5). However, this is not true of all high-wage sectors, such as business services, which looks set to contract over the next three months (–16). This contrasts with healthcare, where employment levels look set to increase (+30), as well as public administration and other public sector (+13) in the third quarter of 2020.

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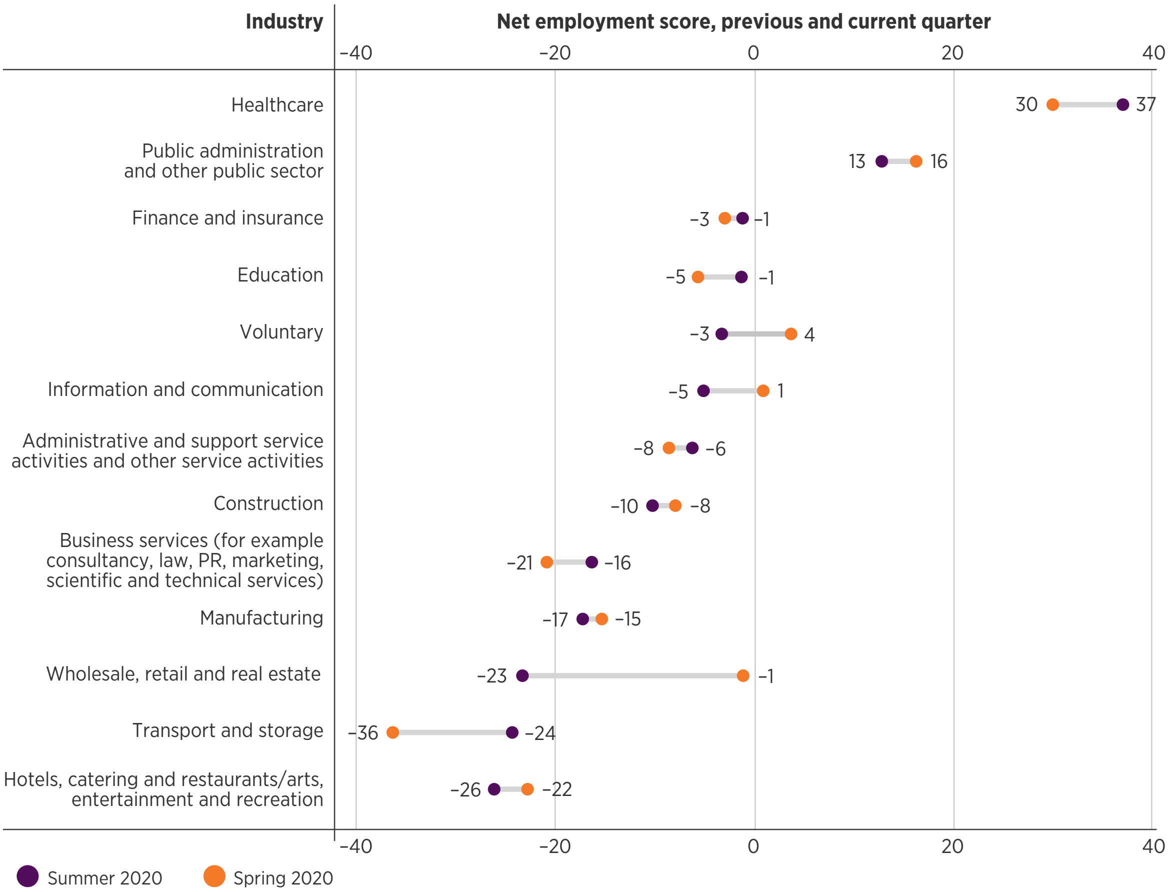
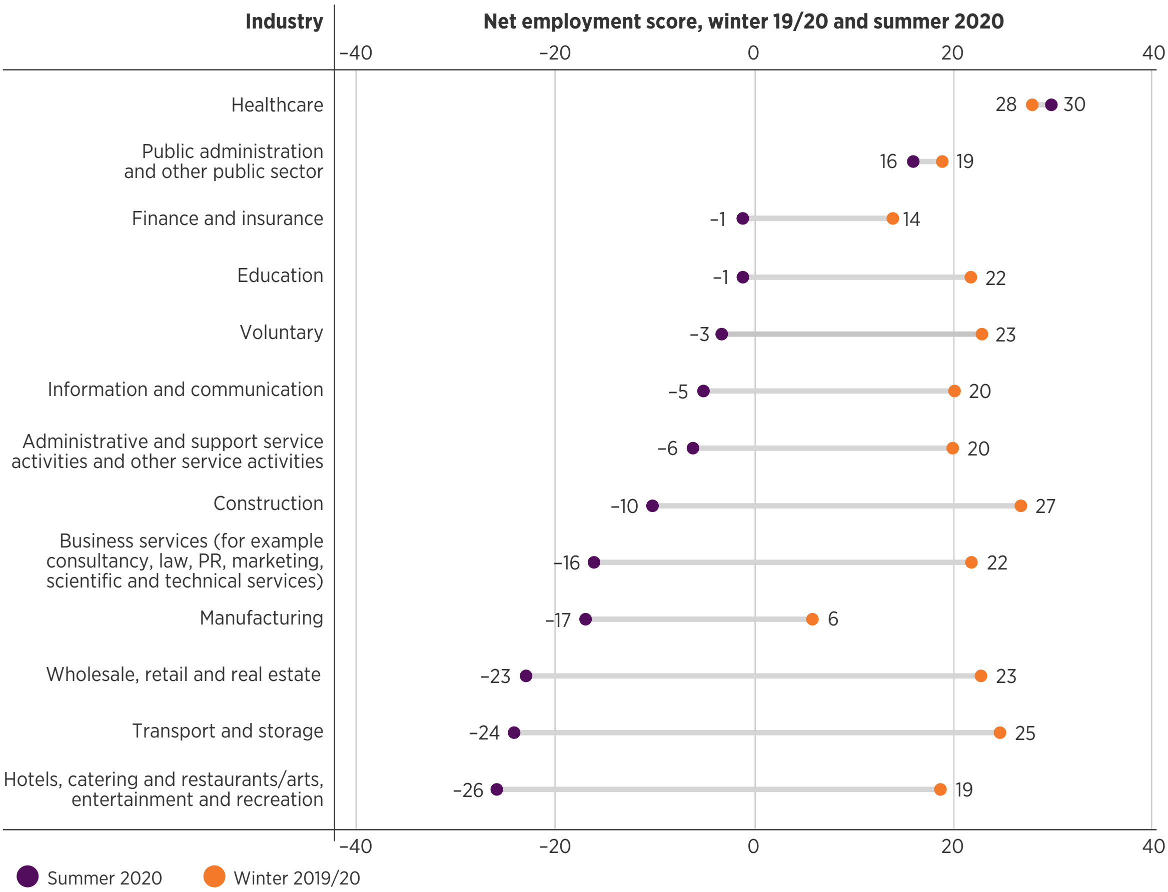
Figure 5: Net employment score, by industry, last and current quarter (%)



Base: all bases > 50. For breakdown of base sizes, see Table 3.

Note: the sample size is too small for primary and utilities and police and armed forces.

Figure 6: Net employment score, by industry, winter 2019/20 and summer 2020 (%)



Base: all bases > 50. For breakdown of base sizes, see Table 3.

Note: the sample size is too small for primary and utilities and police and armed forces.

Recruitment intentions

Despite the mixed industry trends, recruitment intentions generally among surveyed employers have risen over the past three months, following a sharp fall in the spring report. Nearly half of employers (49%) in this summer survey are planning to recruit in the next three months of 2020, up 9 percentage points from spring, but down 17 percentage points since the winter quarter. Recruitment intentions are therefore still lagging well below the levels seen in recent years.

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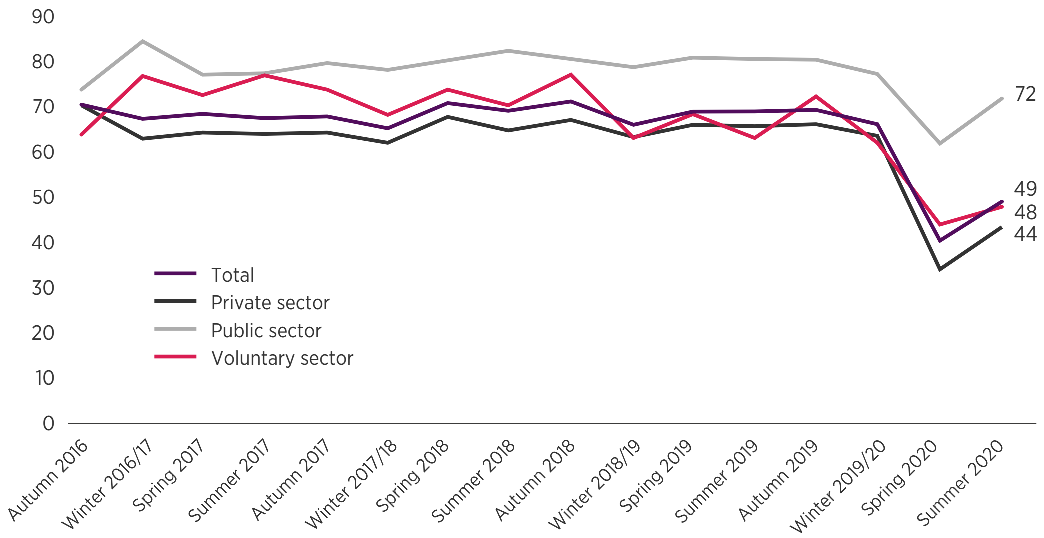
Figure 7: Recruitment intentions time series (%)



Base: summer 2020, all employers (n=2,009; private n=1,369; public n=403; voluntary n=237).

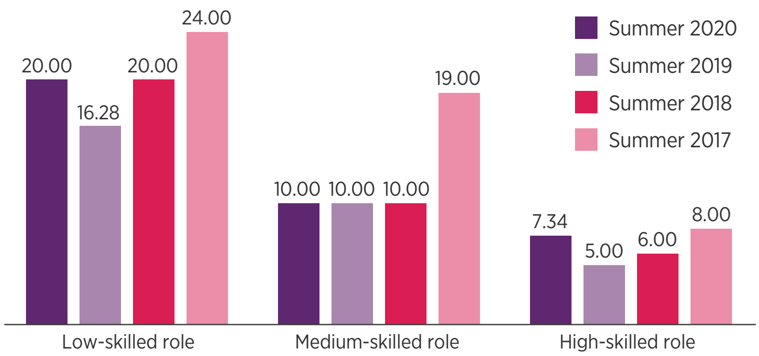
Recruitment in business sectors

As expected, recruitment intentions in the private sector (44%) will continue to lag behind the public sector in the three months to September, despite an improvement since the spring report (34%). Meanwhile, 72% of public sector employers plan to hire during the same period, up from 62%. In addition, 48% of voluntary sector respondents are planning to recruit, which represents an increase of four percentage points from the last quarter.

Labour demand varies widely across the business sectors. Recruitment intentions are lowest among hospitality (26%), transport and storage (33%) and business services (36%). Meanwhile, hiring intentions are highest in healthcare (80%), public administration (70%) and education (62%). Compared with the spring quarter, recruitment confidence has risen most sharply in manufacturing, up 22 percentage points and administrative and support services, up 18 percentage points.

Nearly half (46%) of employers report that their organisation has recruited for roles since March 2020. This is largely driven by those in the public sector (71%), who are significantly more likely to report this than the private (41%) or the voluntary (47%) sectors.

Figure 8: Number of applicants per vacancy (%)



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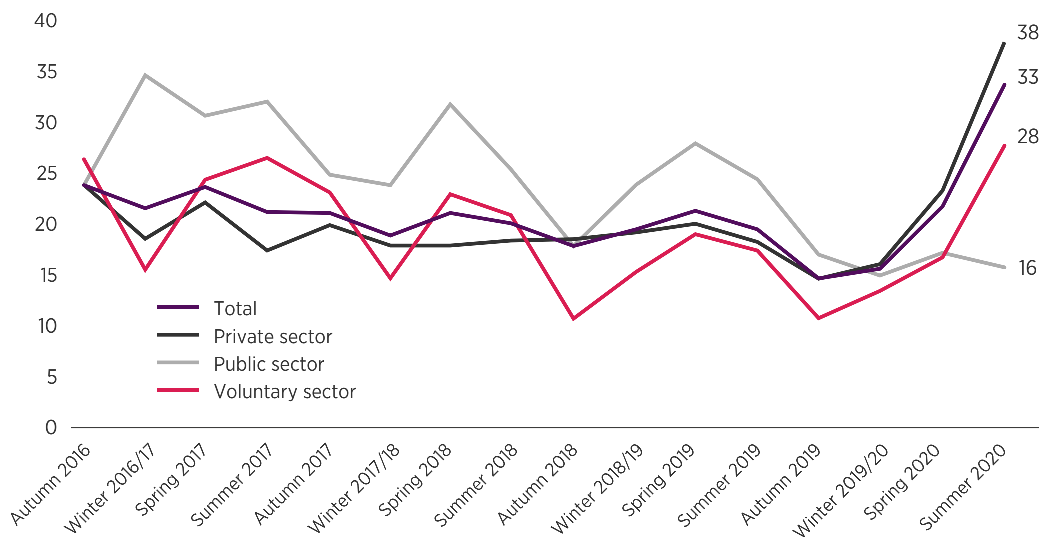
Employers received a median number of 20 applicants for the last low-skilled vacancy they tried to fill compared with 16 applicants in the summer 2019 report. The supply of applicants for high-skilled jobs has also increased during the same period, up from five to seven applicants. However, the number of applicants for medium-skilled roles is unchanged (ten applicants).[1]

Redundancy intentions

Redundancy intentions have increased significantly over the quarter. A third (33%) of organisations expect to make some redundancies in the next three months, up 11 percentage points from the spring quarter.

This is in part because there has been a decrease in the proportion of LMO employers who say they cannot give an opinion on whether they will be making redundancies. Among organisations surveyed, 17% said they do not know if they will be making redundancies in the next three months, down from 25% in the spring quarter.

Figure 9: Redundancy intentions time series (%)



Base: summer 2020, all employers (n=2,009; private n=1,369; public n=403; voluntary n=237).

Slowdown starts to bite private and voluntary sectors

Just under two-fifths (38%) of private sector firms report they intend to make job cuts in the next three months, an increase from 23% in the spring. For the voluntary sector, this stands at 28%, a significant increase of 11 percentage points. By comparison, 16% of public sector employers plan job cuts over the next quarter, which is broadly consistent with the spring quarter. Redundancy intentions are highest in the information and communication (48%), manufacturing and construction (44%), transport and storage (43%), and hospitality (36%) sectors.

Cost of redundancies

According to the survey data in this report, the mean direct cost (excluding other costs) to employers of making redundancies is £11,125. However, there is a large variation across sectors, with the average cost in the public sector (£19,821) higher than the private sector (£10,628). Some caution should be attached to the figures, however, given that a quarter of employers could not provide a figure for the average cost of making redundancies.

1 Some caution should be applied in interpreting this data because some survey respondents won't have recruited since the onset of the pandemic.

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Employer response to COVID-19

The survey also amply highlights evidence that suggests employers have explored a variety of options to stave off or minimise redundancies in response to the current pandemic. More than four in ten (42%) employers say they have resorted to recruitment freezes. The proportion of organisations adopting a recruitment freeze is significantly higher for the private sector (47%) than the public sector (22%), especially in hospitality (65%), business services (54%) and IT (52%).

It also seems that many employers are exercising similar wage flexibility as the previous recession of 2008/09, which should help preserve some jobs. Pay cuts (18%), bonus cuts (26%) and freezing or delaying pay increases (33%) are all tactics that employers have used in response to the current pandemic. Pay cuts are more prevalent in the construction (44%), business services (30%) and hospitality (29%) sectors.

Other responses employers have used include introducing new or more flexible working arrangements (38%), cuts to training budgets (23%), temporary lay-offs through the Job Retention Scheme (54%), and terminating agency or temporary worker contracts (32%). In addition, almost a quarter (23%) of employers have used short-time working – a temporary measure to maintain employment where redundancies would otherwise have taken place – to avoid making redundancies. This initiative appeals more to private sector employers (24%) than those in the public sector (18%).

Additionally, more than two-thirds of employers have extended homeworking significantly across their workforce (69%), especially in the public administration and other public sector (85%), business services (84%), information and communication (81%), and education (71%) sectors. As expected, fewer employers in the hospitality (46%) and transport and storage (53%) sectors have extended homeworking across their workforce.

5 Pay outlook

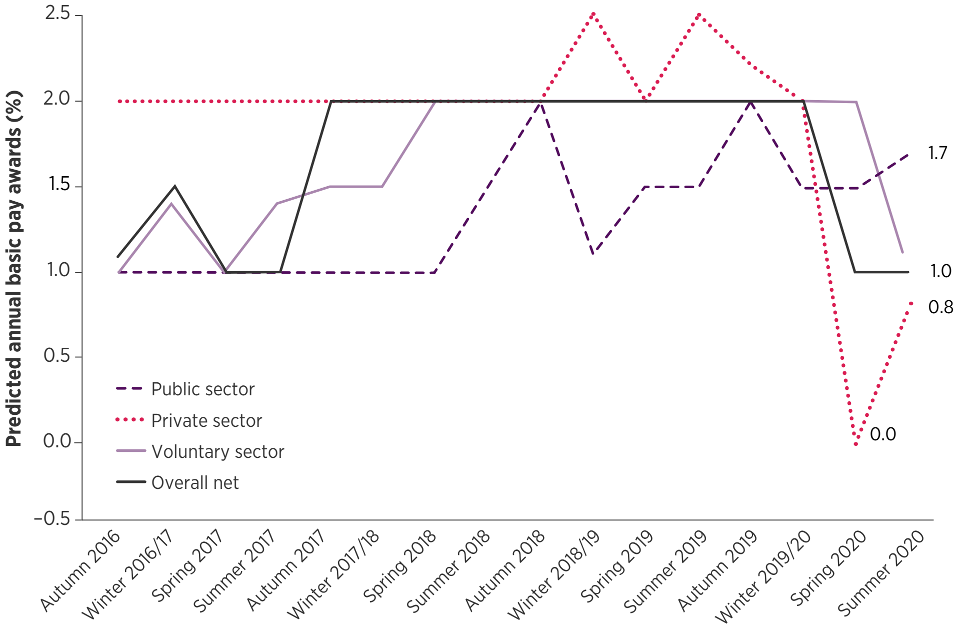
Expected scale of organisational pay reviews

Around seven in ten (71%) employers surveyed intend to review their wages over the next 12 months, with 14% of employers expecting this to be between June and August 2020. However, 29% say they have no intention of carrying out a pay review over the next 12 months, which is broadly consistent with the spring quarter (33%).

In line with the spring report, pay intentions among those employers that plan to carry out a pay review in the 12 months to June 2021 remain low by historical standards. Overall, employers say that the median basic pay increase in their organisation will be 1%, which is unchanged from the spring quarter. Basic pay (excluding bonuses, increments, overtime and performance-related pay) in the private sector is expected to rise by 0.8%, while public sector employees should expect to receive a median increase of 1.7% at their next pay award. In addition, median basic pay expectations have fallen to 1% in the voluntary/not-for-profit sector, which compares with 2% in the spring quarter.

This pay data should be treated with a degree of caution because 60% of employers that plan to carry out a pay review over the next 12 months cannot yet specify the outcome of their next pay award.

Figure 10: Median employers' predicted annual basic pay awards (median employer), by business sector

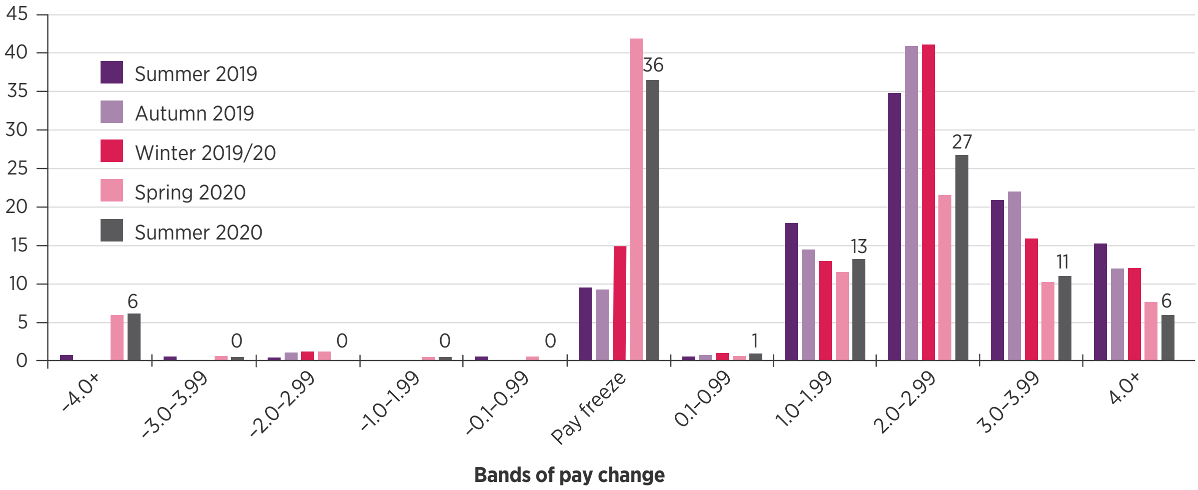


Base: summer 2020, all employers who report an expected increase, decrease or pay freeze in the next 12 months (total n=575; private n=317; public n=174; voluntary n=84).

Overall, among those who report an expected increase, decrease or pay freeze in the next 12 months, the proportion of employers predicting a pay freeze is 36%, down from 42% in the spring quarter. This is largely driven by private sector employers (40%), who are significantly more likely than public sector employers (28%) to report a freeze.

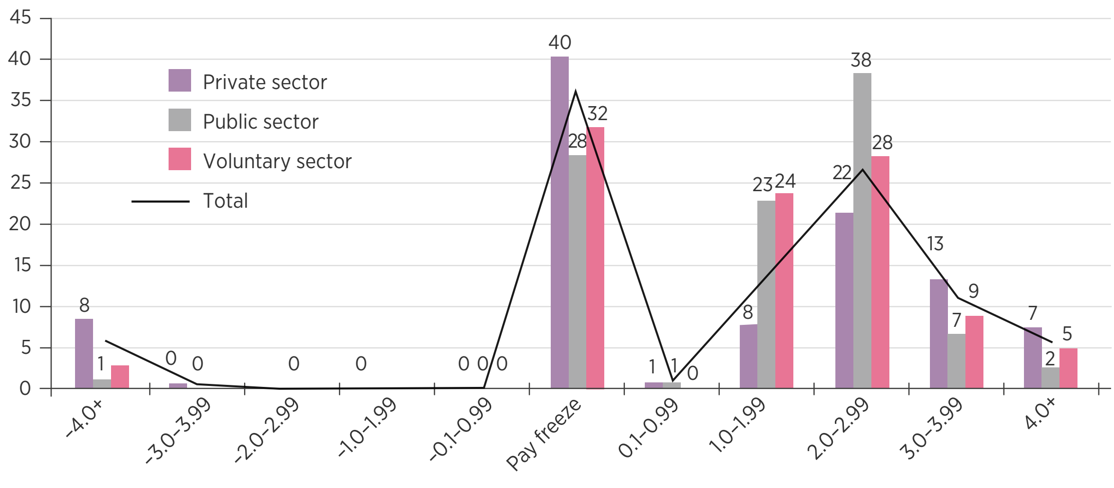
Nonetheless, over four in ten (44%) LMO employers surveyed expect their next pay reviews (excluding bonuses) to be 2% or more.

Figure 11: Distribution of forward-looking basic pay changes, summer 2020 (%)



Base: summer 2020, all employers who report an expected increase, decrease or pay freeze in the next 12 months (total n=575).

Figure 12: Distribution of forward-looking basic pay changes, summer 2020 by sector (%)



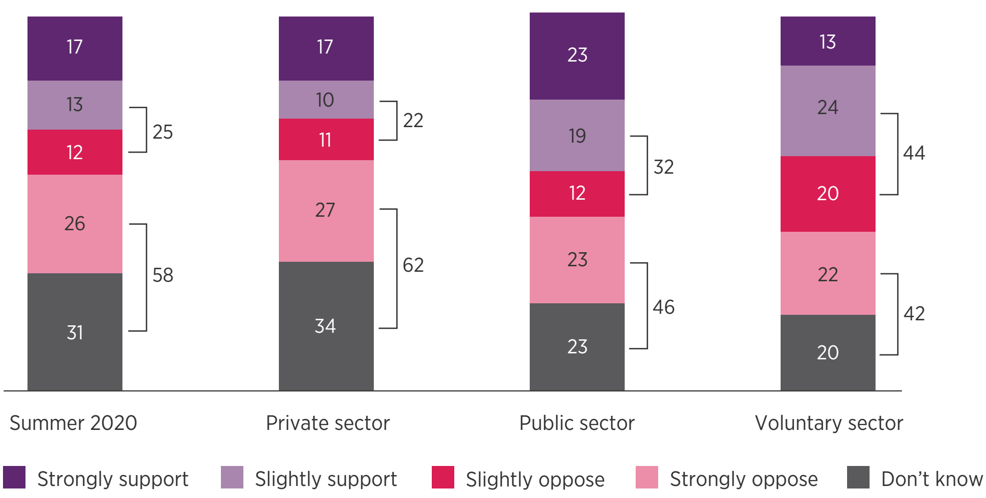
Base: summer 2020, all employers who report an expected increase, decrease or pay freeze in the next 12 months (total n=575; private sector n=317; public sector n=174; voluntary sector n=84).

Changes to the National Living Wage

Looking ahead to the next change in the National Living Wage (NLW) – expected in April 2021 – the majority of employers say they would support freezing the NLW at its current rate. Just under six in ten (58%) employers support the NLW being frozen at its current (adult) rate in April 2021. Appeal for the freeze is much higher in the private sector (62%) than the public (46%) or voluntary (42%) sectors. The policy would be particularly popular in transport and storage (69%), manufacturing and construction (67%), administrative and support service activities (65%), and hospitality (64%).

By comparison, a quarter of employers would not support a freeze, including just over a fifth (22%) of private sector employers.

Figure 13: Support for NLW freeze at current rate (%)



Base: summer 2020, all employers (total=2,009; private sector n=1,369; public sector n=403; voluntary sector n=237).

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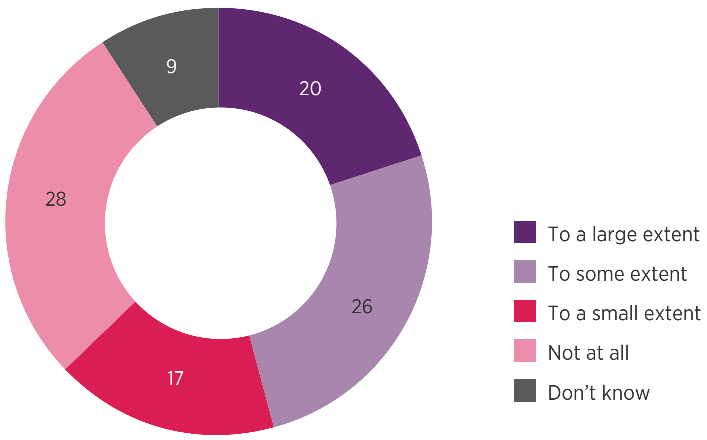
On the evidence of this quarter's survey, employers are much more supportive of the government policy to extend the NLW adult rate to 21–24-year-olds by 2024. Just over two-thirds (67%) of employers support the introduction of this policy, with little variation across sectors.

Impact of National Living Wage on organisations

Just under two-thirds (63%) of those employees who had been employed by their organisation since the introduction of the NLW in 2016 reported that it has had an effect on their wage bill.

When asked how large the impact has been, a fifth reported they have been affected to a large extent. Around a quarter (26%) predict they have been affected to 'some extent' and 17% to a 'small extent'. Meanwhile, 28% of employers say that the NLW has not had an effect on their wage bill, with a remaining 9% answering 'don't know'.

Figure 14: Increases on wage bill as a result of the NLW (%)



Base: summer 2020, all employees who have been employed at their current organisation since 2016 (total=1,561)

However, there are clear sectoral differences. Employers in the retail (80%), hospitality (73%) and health and social care (69%) sectors were most likely to report that the higher wage floor has had an impact on them. However, perhaps reflecting the extent to which the wage floor has risen in recent years, other sectors have been equally affected, such as education (69%).

Additionally, while one in five employers say they have been affected to a large extent by the NLW, that proportion rises to around one in three in retail (34%) and hospitality (34%). This contrasts with the business services (4%), construction (8%) and finance and insurance (9%) sectors, where only a small minority of organisations report the NLW having a large impact.

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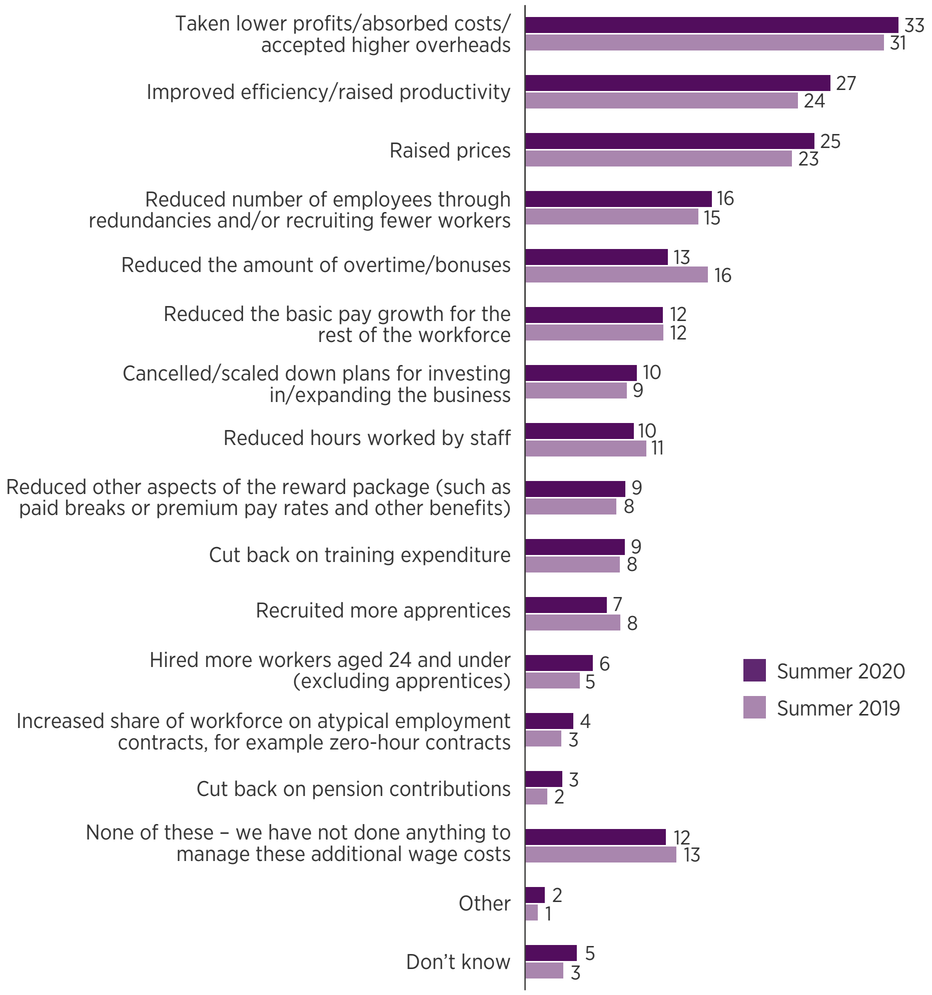
Figure 15: Methods of managing additional wage costs (%)



Base: summer 2020, all employers who have seen their wage bill increase due to the NLW (n=874).

The survey also asked employers who responded that they had been affected by the NLW, how they have coped with the higher wage bill. Employers were given a list of potential responses and permitted to pick up to three which constituted their main reactions. In line with the trend reported in previous surveys, the most popular ways of managing the additional costs have been taking lower profits, improving productivity and raising prices.

One in three (33%) of those organisations that have been affected by the new higher wage floor have absorbed the cost in response to the introduction of and subsequent increases to the NLW – the most common response across the survey. This represents an increase of two percentage points compared with the summer 2019 report.

According to the survey data, the second most popular response among employers has been to raise productivity; this is cited by 27% of employers. However, as per previous evidence and perhaps reflecting the greater resources and expertise they have to seek to make productivity improvements or efficiencies, larger organisations (29%) are more likely to report this than smaller organisations (23%).

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A similar share of employers (25%) have passed the cost of the NLW on to consumers through higher prices. Smaller organisations (30%) are again more likely to have used this option, compared with 22% of large organisations.

Additionally, the survey data suggest that the NLW has only had a modest impact on employment levels – 16% of organisations say that they have reduced the number of employees through redundancies and/or recruiting fewer workers in response. However, reductions in employment levels are more likely in construction (23%) and retail (22%).

6 Survey method

All figures, unless otherwise stated, are from YouGov Plc. The total sample was 2,009 senior HR professionals and decision-makers in the UK. Fieldwork was undertaken between 10 June and 9 July 2020. The survey was carried out online. The figures have been weighted and are representative of UK organisations by size, sector and industry.

Weighting

Rim weighting is applied using targets on size and sector drawn from the *Business Population Estimates for the UK and Regions 2019*. The following tables contain unweighted counts.

Table 1: Breakdown of the sample, by number of employees in the organisation

Employer size band	Count
2–9	415
10–49	417
50–99	170
100–249	210
250–499	165
500–999	124
1,000 or more	508
Total	**2,009**

Table 2: Breakdown of sample, by sector

Sector	Count
Private sector	1,369
Public sector	403
Third/voluntary sector	237
Total	**2,009**

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Table 3: Breakdown of sample, by industry

Industry	Count
Voluntary	**237**
Manufacturing and production	**242**
Manufacturing	156
Construction	86
Primary and utilities	42
Education	**222**
Healthcare	**150**
Private sector services	**953**
Wholesale, retail and real estate	136
Transport and storage	54
Information and communication	99
Finance and insurance	145
Business services (for example consultancy, law, PR, marketing, scientific and technical services)	228
Hotels, catering and restaurants/Arts, entertainment and recreation	121
Administrative and support service activities and other service activities	170
Public administration and defence	**133**
Police and armed forces	30
Total	**2,009**

Table 4: Breakdown of sample, by region

Region	Count
North-east of England	58
East Midlands	107
West Midlands	97
Scotland	123
London	358
South-west of England	154
East of England	105
Wales	69
South-east of England	240
North-west of England	151
Yorkshire and Humberside	125
Northern Ireland	30

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