

Caution prevails as employers prepare for an uncertain year

CONTENTS Permanent Recruitment / Temporary Recruitment / Labour Market Dashboard / Employer Dashboard / Agency Dashboard / Sector Prospects / Predictive model

REC-IHS Markit Predictive model



Expected unemployment rate for October–December 2016

Our nowcast model forecasts a decline in the Labour Force Survey measure of UK unemployment of 51 thousand in the three months to December. This would cause the unemployment rate to edge down from 4.8% to 4.7%.

More information about the predictive model can be found on page 10 of this report.

Confidence

Marginally, more respondents thought that economic conditions were worsening (31%) than thought they were improving (30%) in the three months to December. Employers in London were the most pessimistic, with 14% suggesting that conditions were a lot worse, compared to just 6% in the North and the South, excluding London. Just 17% of all respondents felt that there was a worsening of confidence in hiring and investment decisions.

Do you think economic conditions in the country as a whole are getting...

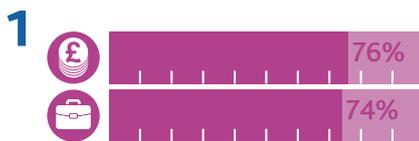


In view of the economic conditions, do you/does your organisation expect confidence in hiring and investment decisions to get...



Totals may not sum to 100% due to rounding.

Key Points from December Survey



Three quarters of employers (76%) state that UK economic conditions in 2017 will be more challenging than in 2016. But three quarters (74%) also think their business will perform better in 2017 than in 2016.



One in five employers (21%) plan to increase their number of permanent employees in the short term, down from 24% last month. A quarter (24%) plan to increase permanent headcount during the next year.



Health and social care and education are the only sectors that have seen demand for permanent staff increase month-on-month. Demand within health and social care is particularly high with a net balance of 26%.



One in three employers (34%) state that their organisation expects confidence in hiring and investment decisions to get better. This is down from 42% in the month before the referendum.



One in four large employers (employ 250+) (26%) made redundancies in the last year, compared to 15% of employers. A quarter (24%) of large employers have reduced hours, compared to 12% of respondents as a whole.



Half of all employers (50%) anticipate a shortage of candidates for permanent hire and 36% anticipate a shortage of suitably skilled candidates for temporary agency work.

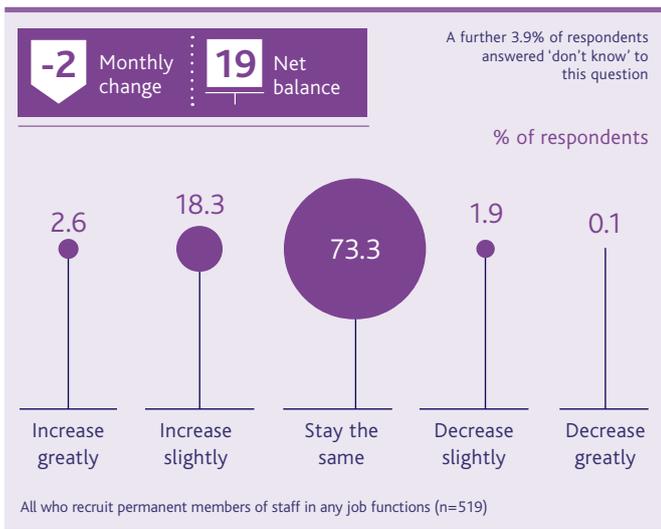
Throughout, figures based on fewer than 50 respondents are marked with an asterisk* Due to the small base size, these results should be considered indicative, rather than conclusive. Data were weighted to be representative of UK adults in employment by region, broad industry sector and public/private split. ComRes is a member of the British Polling Council and abides by its rules.

Permanent Recruitment

SHORT-TERM OUTLOOK

In the next 3 months, do you think the number of permanent workers in your organisation will increase or decrease?

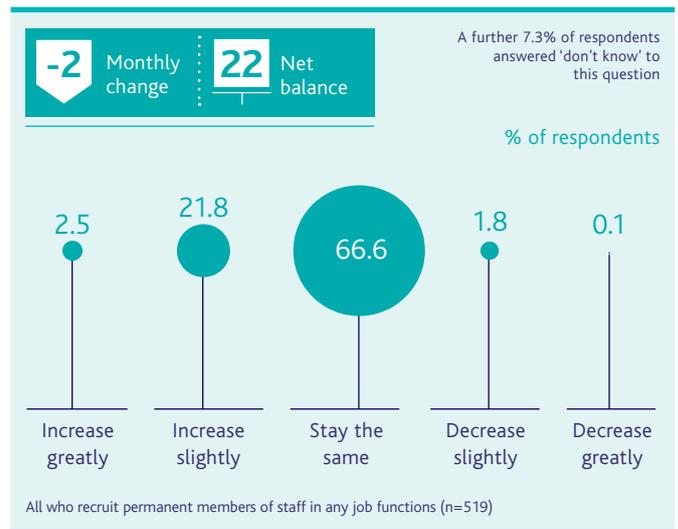
One in five employers (21%) plan to increase their number of permanent employees over the next quarter. This figure is three percentage points lower than reported last month. With just 2% planning any form of decrease of members of staff, competition for available talent within scarce skills areas will be intense.



MEDIUM-TERM OUTLOOK

In the next 4–12 months, do you think the number of permanent workers in your organisation will increase or decrease?

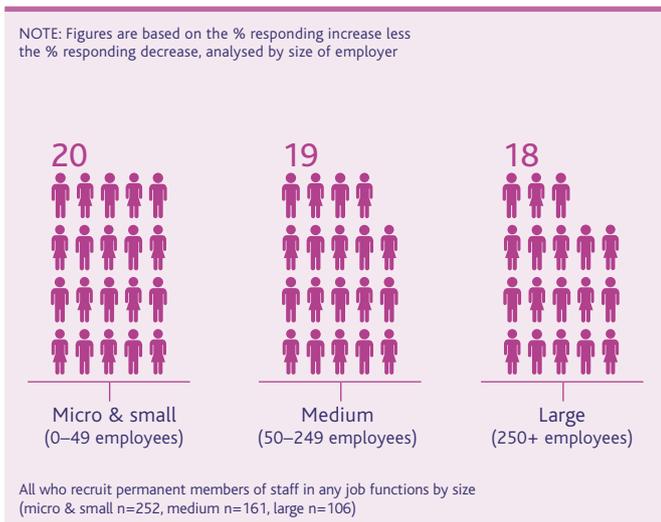
One in four employers (24%) plan to increase permanent headcount in the medium term. Regional variations were notable, however, with 34% of employers in London suggesting that they would be adding to their numbers whilst just 20% of employers in the South (excluding London) stated this. The proportion planning to lose headcount remained at just 2% this month.



OUTLOOK BY EMPLOYER SIZE

Net balance of short-term expectations by employer size – permanent staff

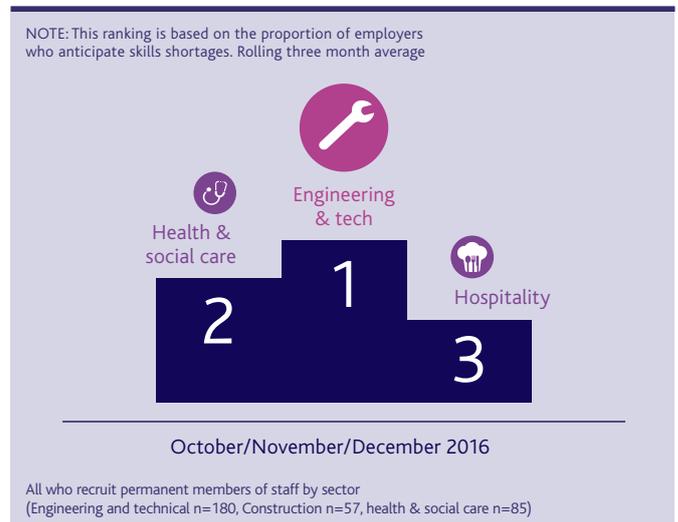
The net balance of large organisations (250+ employees) planning to hire permanent staff in the short term fell back 3 points in October–December, after increasing by 3 percentage points in the preceding rolling quarter. This move was driven by 4% of large employers suggesting that they would be reducing numbers slightly – twice the all-employer average planning any level of decrease in members of staff.



SKILLS SHORTAGES AND QUALITY OF HIRES

In which job functions do you expect to find a shortage of appropriate candidates for permanent roles this year?

The proportion of employers identifying at least one skill shortage function for permanent hire rose this quarter to half (50%) of all those surveyed. An anticipated shortage of hospitality workers returned to the top three areas of concern, along with Engineering/Technical and Health and Social Care.

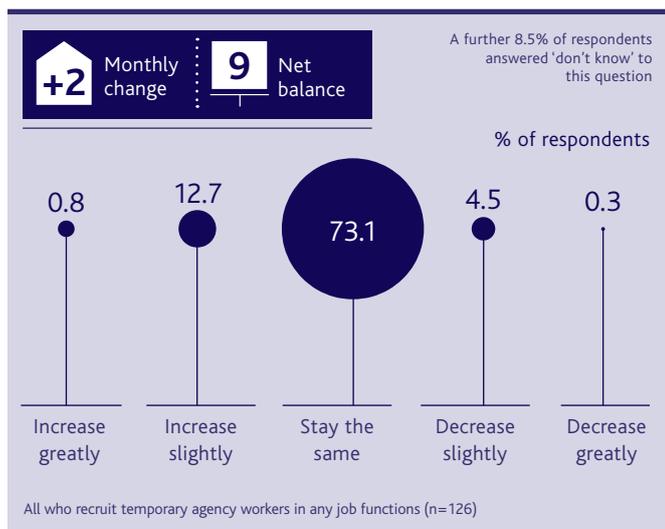


Temporary Recruitment

SHORT-TERM OUTLOOK

In the next 3 months, do you think the number of temporary agency workers in your organisation will increase or decrease?

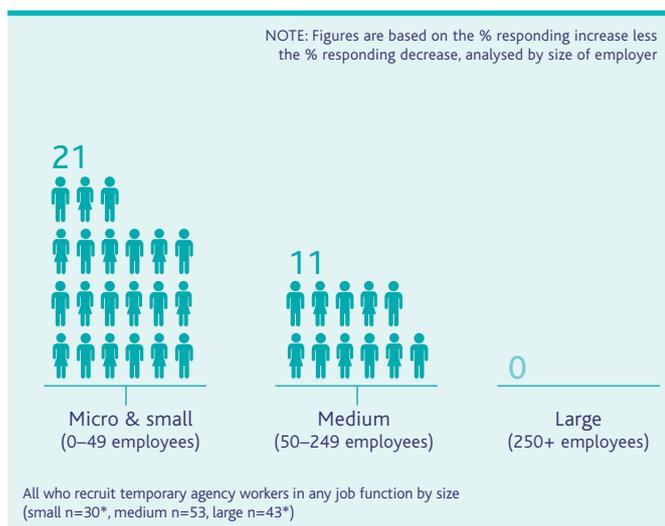
14% of employers plan to increase the number of agency workers in the next three months. Just 5% of UK employers are planning a reduction in agency headcount, down 3 points from the last report. However in the Midlands, 14% of hirers suggested that they would be reducing numbers. Additionally, a greater proportion of public sector (10%) than private sector (3%) employers suggested this – which is noteworthy in light of the Off-Payroll legislation due to take effect in the public sector from April.



OUTLOOK BY EMPLOYER SIZE

Net balance of short-term expectations by employer size – temporary agency staffing

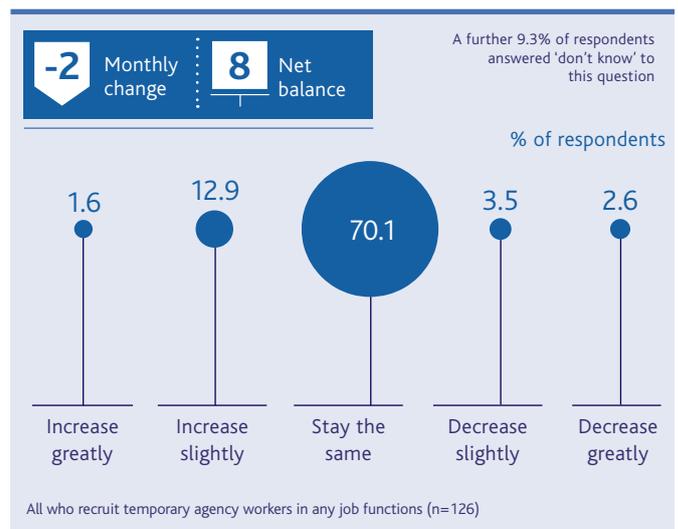
The balance of short-term agency hiring intentions (i.e. those planning increases versus decreases) continued to vary significantly by size of employer in October–December. Whilst 21% more micro and small employers planned to increase rather than decrease numbers in the short-term, there was an equal split of large employers intent on adding or losing headcount, bringing the net balance to 0%, which marks a 4% increase from the last rolling quarter.



MEDIUM-TERM OUTLOOK

In the next 4–12 months, do you think the number of temporary agency workers in your organisation will increase or decrease?

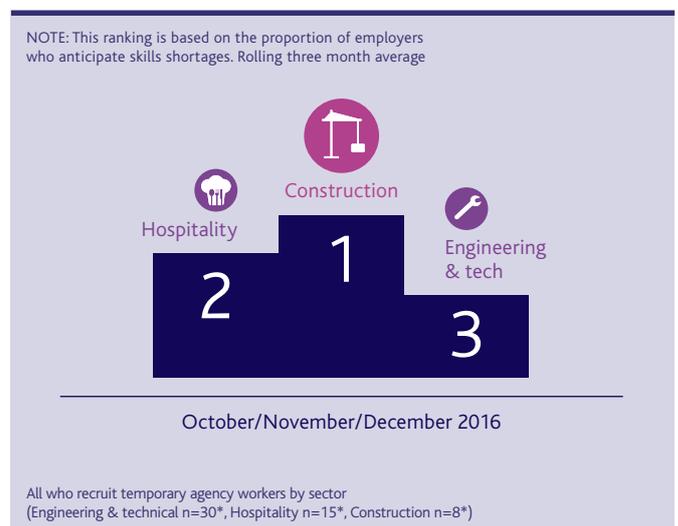
Whilst the overall balance of medium-term agency worker hiring intentions was down 2 percentage points in the three months to December, 15% of all employers still intend to increase numbers. Whilst 6% of all employers reported that they plan to reduce numbers, 15% of Midlands' employers suggested that they would decrease numbers, as did 10% of the largest organisations (250+ employees). Additionally 7% of public sector employers highlighted that they would be reducing numbers greatly.



SKILLS SHORTAGES AND QUALITY OF HIRES

In which job functions do you expect to find a shortage of appropriate candidates for temporary agency worker roles this year?

Over one third (36%) of UK hirers expect a shortage of candidates in at least one skill set for temporary agency worker roles. This is up from 19% who expressed similar concern just two rolling quarters earlier. Construction continues to top the agency worker skills areas of concern, alongside Hospitality and Engineering/Technical.

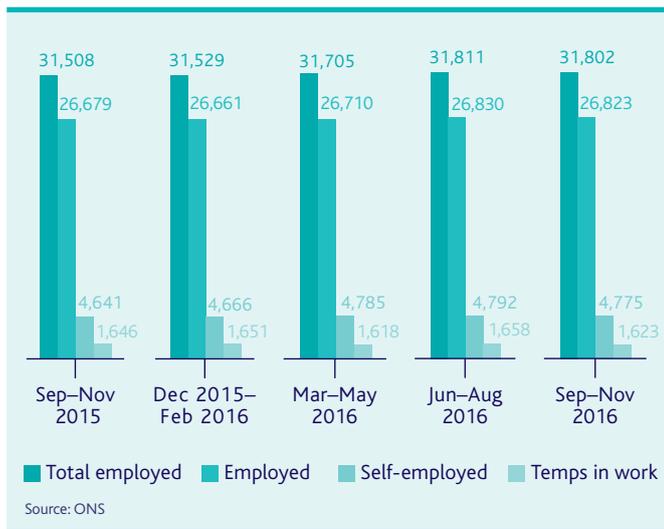


LabourMarketDashboard

TOTAL EMPLOYMENT – PERMANENT AND TEMPORARY

The size of the UK workforce fell slightly for the second consecutive rolling quarter – down 9,000 in September–November when compared to August–October. Year-on-year, however, it increased by 294,000 (0.9%). At 4,775,000, there were 17,000 fewer self-employed, quarter-on-quarter. This figure was underpinned by 49,000 fewer self-employed working full-time, partially offset by an increase of 31,000 working part-time. When compared to the same period last year, however, there were 133,000 more self-employed in the workforce.

Total employment, employed and self-employed



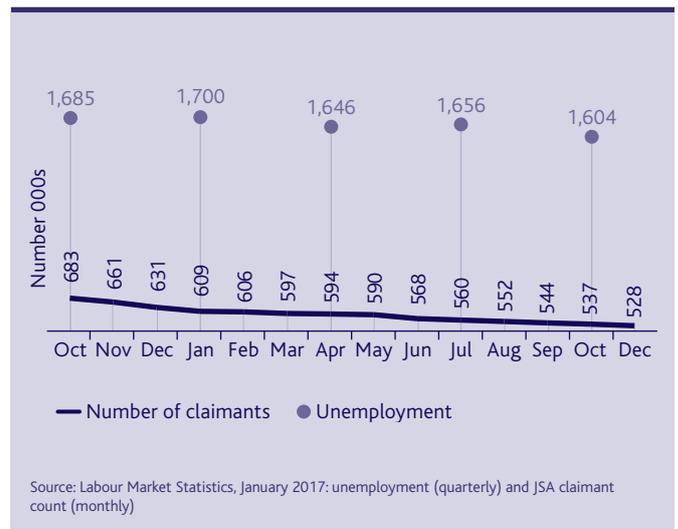
LLOYDS BUSINESS BAROMETER

Business confidence, an average of economic optimism and employers' views on their own business prospects, increased by 7 points in December to 39%. This was the strongest level since March, when it was 43%, and considerably higher than the 6% recorded in June. The rise in the overall index was led by a rebound in economic optimism (after the post US election downturn in November), which surged 16 points to 30%. Companies' own business prospects fell 3 points to 47%.



UNEMPLOYMENT AND CLAIMANT NUMBERS

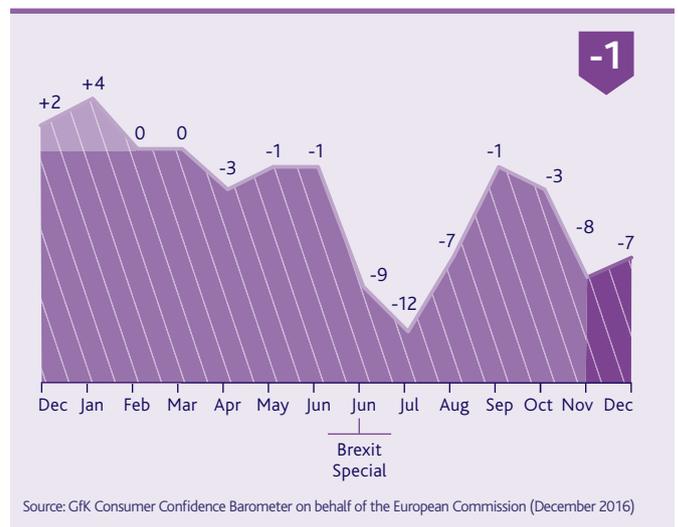
Unemployment fell by 52,000 to 1,604,000 in September–November, when compared to June–August, and was 81,000 lower than the same period last year. The figure for those that had been out of work for up to six months (959,000) was 22,000 higher than last year, however. Youth unemployment fell to 12.7%, from 13.1% last quarter and 13.7% a year earlier. Amongst 16–17 year olds, it remained much higher at 26.0%, but was counterbalanced by an 11.1% rate amongst 18–24 year olds.



CONSUMER CONFIDENCE INDEX

Pre-EU Referendum poll

September's recovery from the post-referendum slump evaporated as the year closed: the index ended the year at -7 for December. While consumers remained relatively confident about their personal financial situation, sentiment towards the general economic situation for the UK collapsed. At -26, the measure for the General UK Economic Situation during the last 12 months was 21 points lower than December 2015, whilst expectations for the UK's economic prospects over the next 12 months (-23) was 17 points lower.

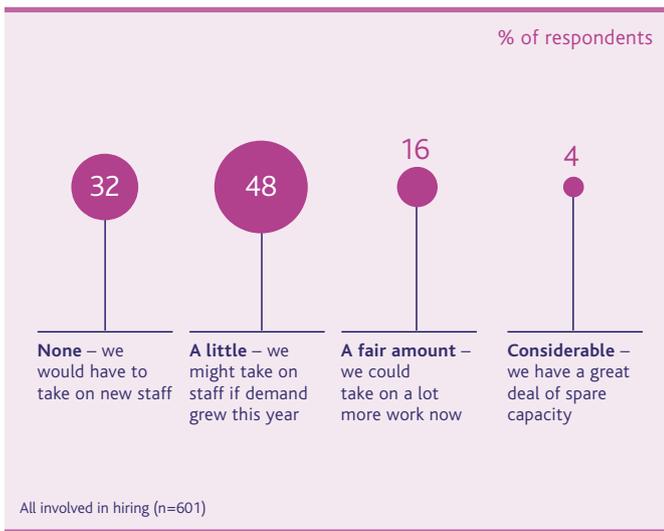


EmployerDashboard

WORKFORCE CAPACITY

How much capacity is there in your organisation to take on more work without creating more jobs?

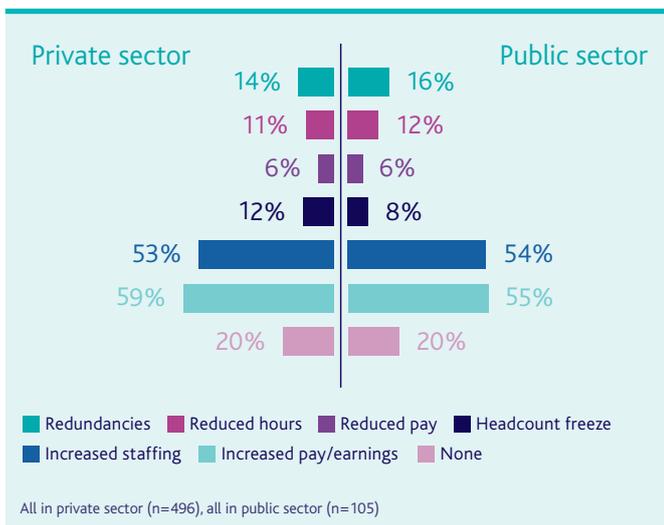
Whilst one third (32%) of all UK hirers surveyed in October–December highlighted that they had absolutely no spare capacity within their organisations to take on more work, there was significant variation by size of employer. The situation was most acute amongst the smallest enterprises (0–49 employees) where 38% reported having no surplus capacity, whilst just 23% of large enterprises (250+ employees) said this.



WORKFORCE PLANNING BY SECTOR

Public and private sector workforce planning activities over the year to October–December were broadly similar. The most significant changes occurred within the public sector, where the proportion of employers reducing hours increased from 9% to 12% since the last rolling quarter. Instances of headcount freezes in the public sector reduced slightly from 10% to 9%.

3 month rolling average to December 2016

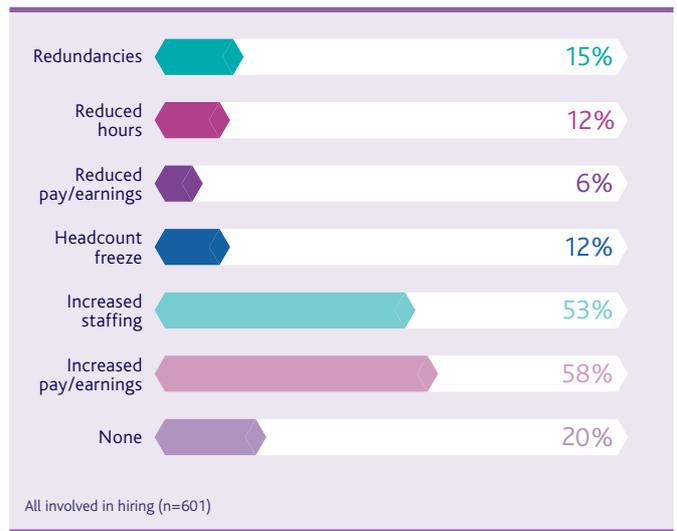


WORKFORCE PLANNING

What changes have you made to your workforce in the past year?

Almost six in ten (58%) employers increased pay/earnings in the last 12 months. Notably, this was reported by 65% of respondents in December. However, 15% of employers made redundancies, as noted by 26% of large (250+) employers. Additionally, a quarter (24%) of large employers reduced hours (compared to 12% of all respondents) and 11% reduced pay/earnings (compared to an all-UK 6%).

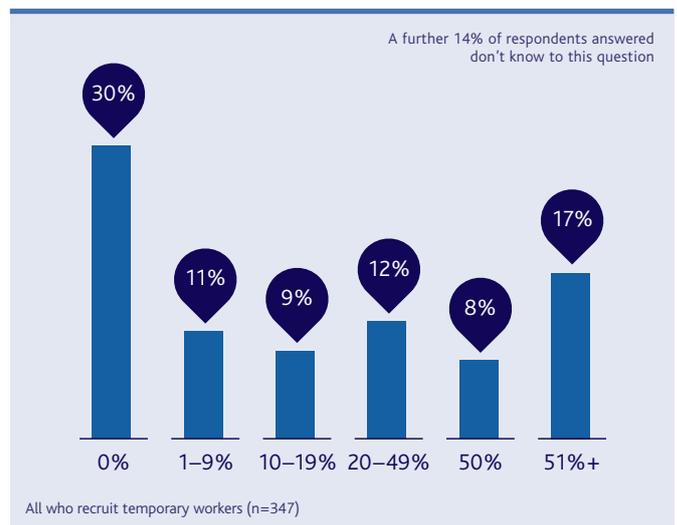
Workforce changes made in the last year
3 month rolling average to December 2016



TEMPORARY TO PERMANENT

What percentage of the temporary workers you use go on to become permanent members of your staff each year?

In October–December, the proportion of employers who make no temporary to permanent worker transfers increased by 2 percentage points to 30%. The figure was 47% for the smallest employers (0–49 employees), 19% for mid-sized employers (50–249 employees) and 10% for large organisations (250+ employees). In contrast, 25% of employers transfer half or more temporary workers to permanent status.

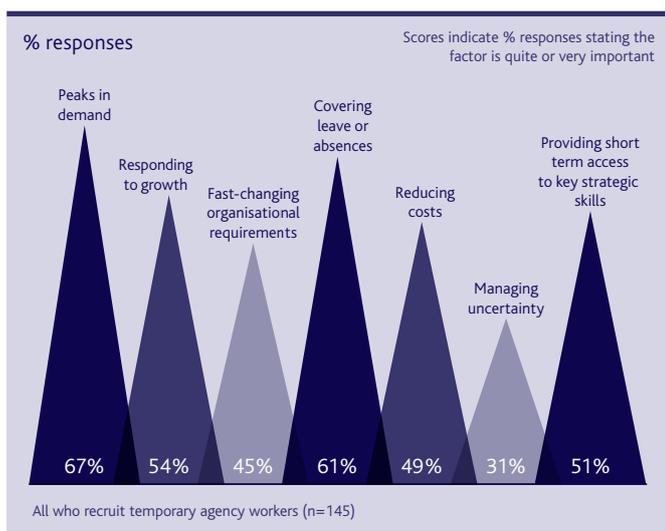


AgencyDashboard

IMPORTANCE OF AGENCY WORKERS TO EMPLOYERS

How important would you say that temporary agency workers are for your organisation in terms of the following?

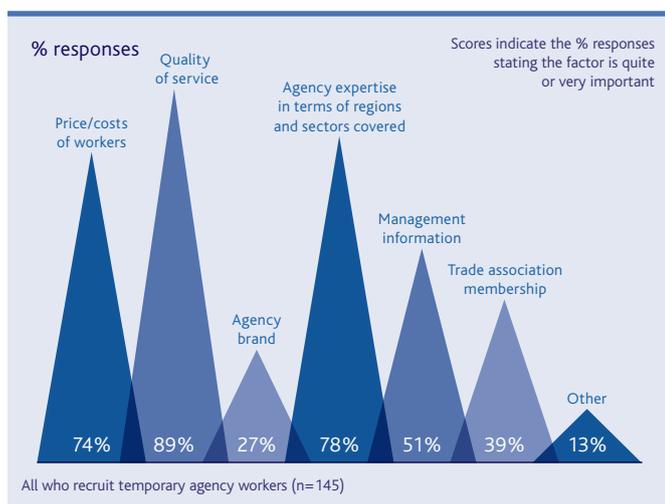
Agency workers' importance in covering leave/absences rose 8 percentage points to 61% whilst their use to meet peaks in demand rose from 63% to 67%. Also of note was the rise in the importance of agency workers to respond to growth, from 50% to 54%, and to provide short-term access to key strategic skills, now at 51% (+4 points).



CRITERIA USED BY EMPLOYERS TO SELECT AGENCIES

How important or otherwise are each of the following factors to you when it comes to choosing and using a recruitment agency to source temporary agency workers?

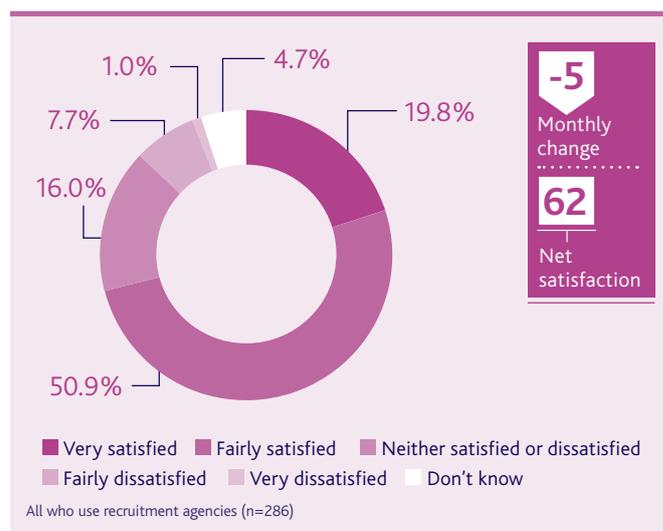
Nearly half (47%) of large organisations (250+ employees) state agency image as important when selecting a recruitment partner, compared to just 15% of small employers (0-49 employees). A higher proportion of Midlands' employers (67% versus a 51% all average) deemed the provision of management information important.



EMPLOYER SATISFACTION WITH AGENCIES USED IN LAST 2 YEARS

How satisfied are you overall with the recruitment agencies you have used in the last 2 years?

In October-December, seven in ten (71%) employers expressed satisfaction with the recruitment agencies they had used in the last two years. The largest employers (250+ employees) remained the most satisfied, with 82% saying they were either very or fairly satisfied. Just 64% of small employers (0-49 employees) stated the same.

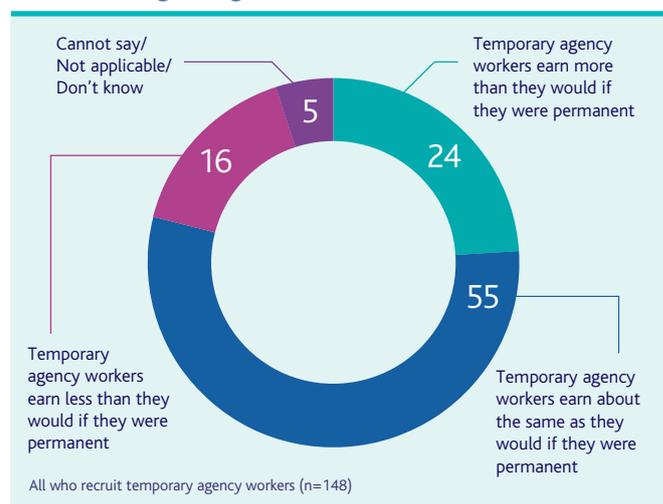


AGENCY WORKER PAY RATES

In terms of temporary agency workers' pay rates, would you say that:

One in four (24%) employers believed that temporary agency worker pay rates were higher than those of their permanent counterparts, when surveyed in October-December. Just 16% believed that agency rates were lower. This remains double the rate that believed this to be the case when surveyed in June-August (8%).

3 month rolling average to December 2016



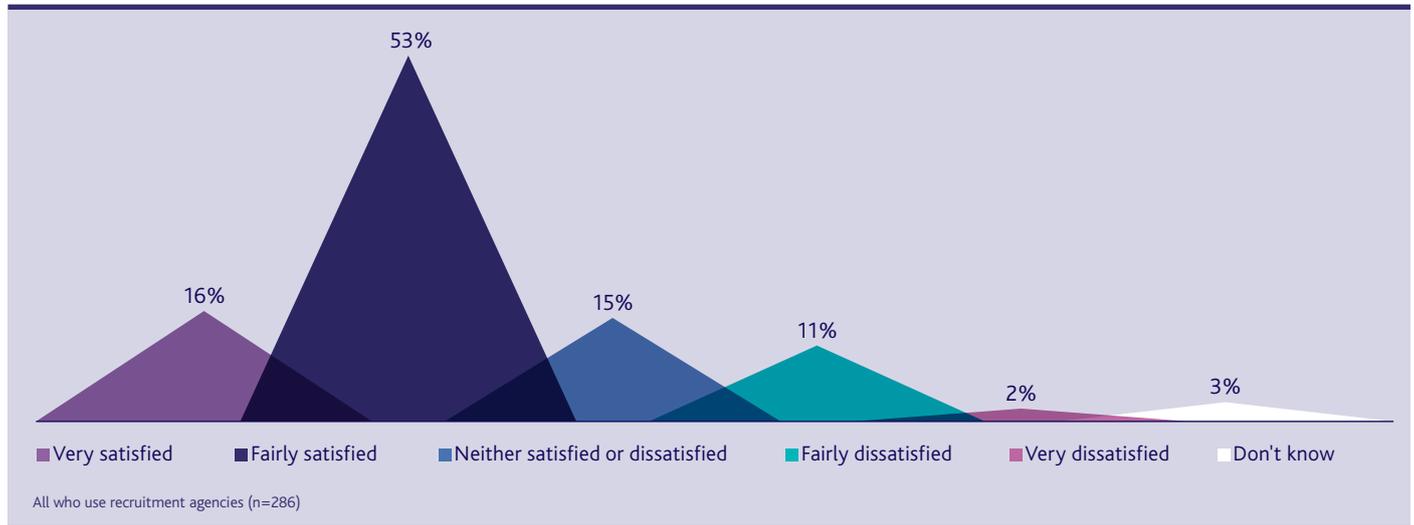
AgencyDashboard

SATISFACTION WITH CANDIDATES

How satisfied or dissatisfied are you with the quality of candidates presented to you by your recruitment agencies?

Seven in ten (69%) respondents across the UK expressed satisfaction with the candidates presented by recruitment agencies when surveyed in October–December. Regional variances include 74% of employers in the South (excluding London) expressing satisfaction, compared to

just 64% of organisations in the Midlands. As the proportion of hirers expressing concern over the sufficient availability of agency worker candidates continues to increase (to 36%), satisfaction levels will continue to be challenged.

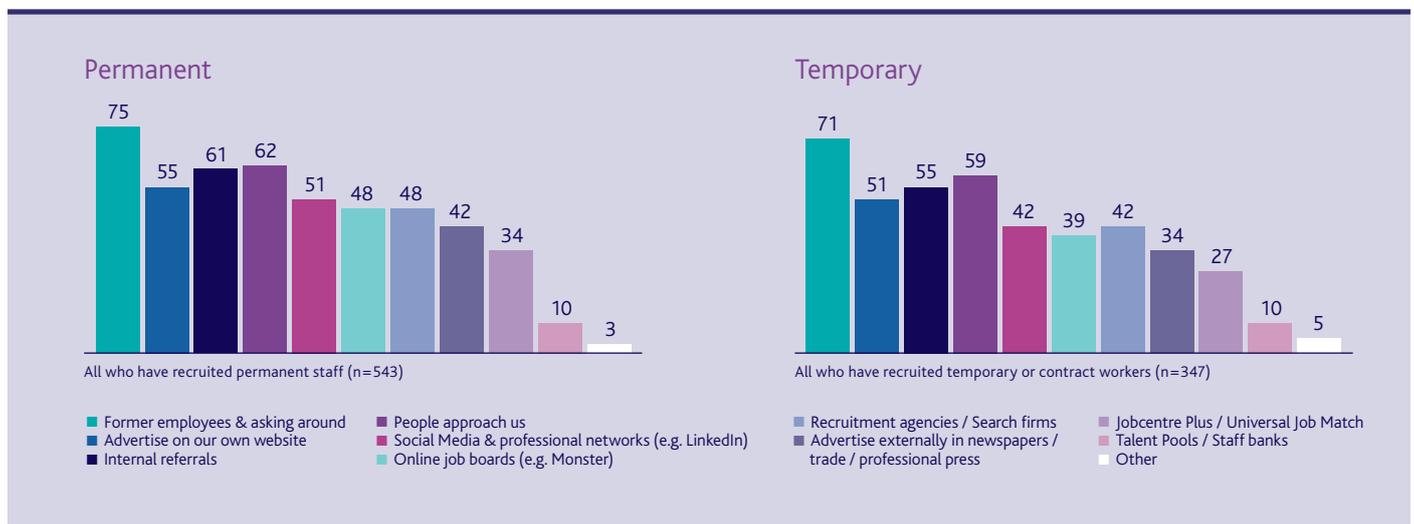


RECRUITMENT CHANNELS USED

In which of the following ways, if any, does your organisation recruit permanent members of staff and temporary or contract workers?

With the proportion of hirers expressing concern over the sufficient availability of temporary and contract workers continuing to rise, it is unsurprising to see use of internal referrals remained high (55%). Six percentage points more employers (71%) were also accessing their alumni and/or asking around for potential candidates. Potentially more surprising in times of heightened candidate shortage is the increased number of employers receiving direct approaches from temporary/contract workers, up 6 points this quarter.

Hirers saying they use job boards to source contingent workers also increased by a notable 5 percentage points this month whilst 3 percentage points more employers advertised in the press/trade and/or advertised within Jobcentre Plus/on Universal Job Match. More employers (+4 points) also advertised temporary/contract jobs on their own website than the previous rolling quarter.



Recruitment channels used for temporary staffing as of December 2016

SectorProspects

The Sector Prospects page provides relevant information specific to occupational groups. Follow these graphs each month to watch them grow and find out how demand within your occupational group is evolving.

The charts show the net figure for predicted change in numbers over time: the difference between the proportion predicting an increase and the proportion predicting a decrease in numbers in that job function over the next three months. The figures in the arrows show the change in this net figure from the previous rolling quarter.

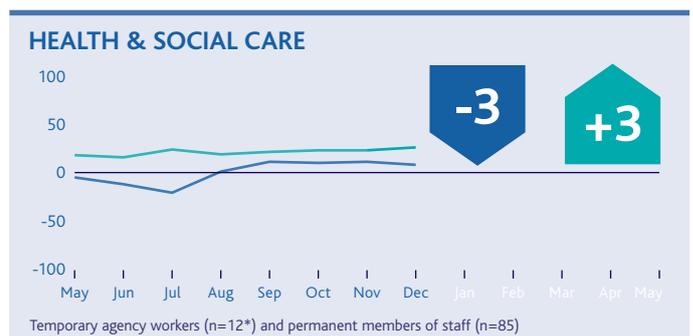
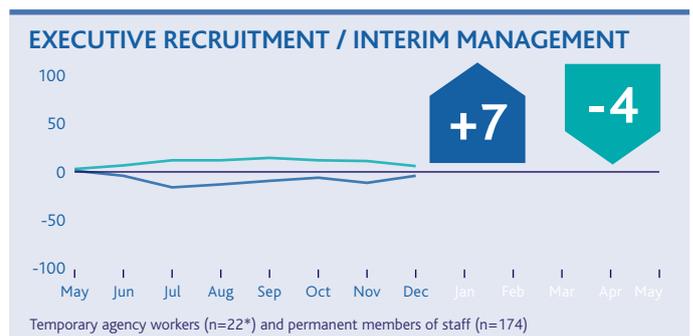
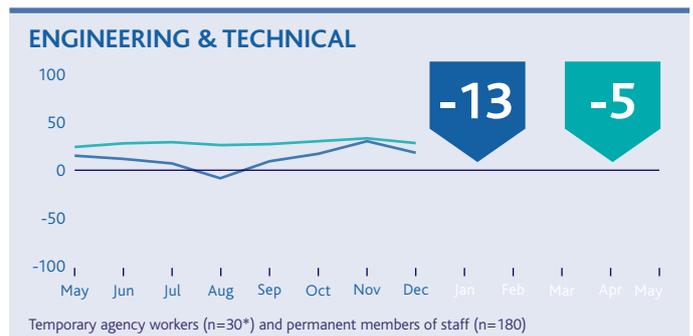
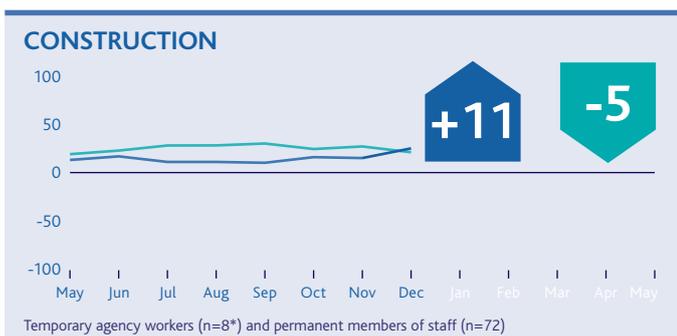
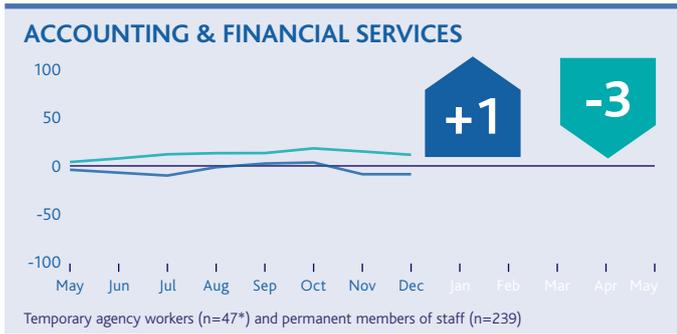
WHICH JOB FUNCTIONS IN YOUR ORGANISATION, IF ANY, DO YOU THINK WILL SEE AN INCREASE OR DECREASE OF PERMANENT MEMBERS OF STAFF AND TEMPORARY AGENCY WORKERS IN THE NEXT 3 MONTHS?

19% more employers stated that they would increase permanent headcount over the next quarter than decrease it. Looking at agency workers, 9% more employers stated that they would increase than decrease numbers.

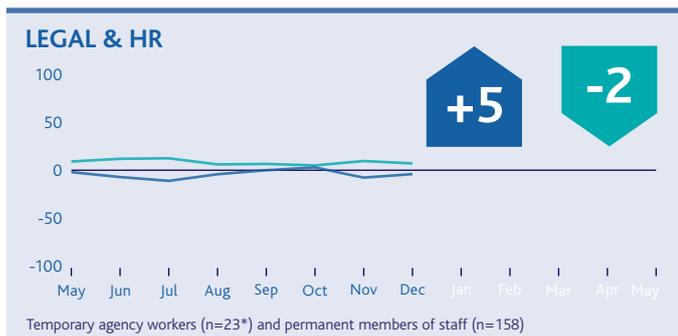
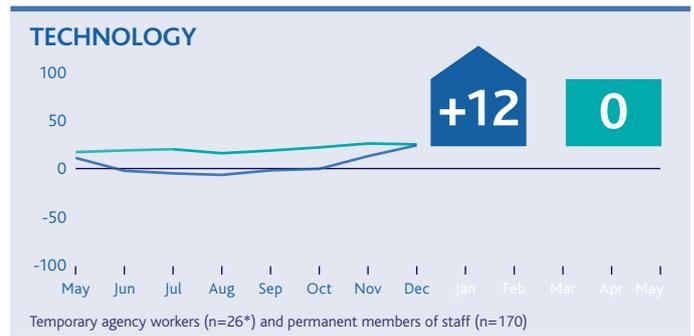
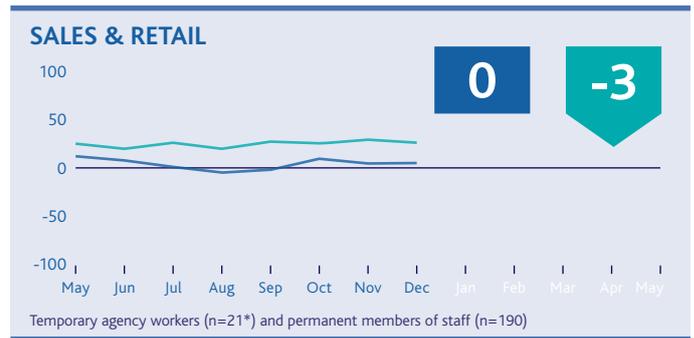
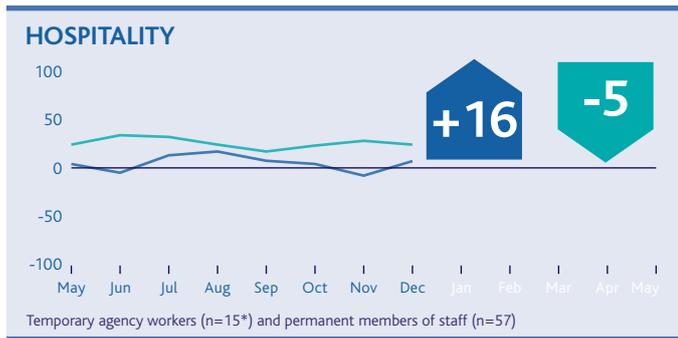
The only skills area where the balance of demand grew this quarter was Health & Social Care, up three points from the previous quarter to +26%. Whilst diminishing, demand remained high in Engineering/Technical (-5 points to +28%). Marketing, Media & Creative and Sales & Retail are also seeing high demand, at +25% and +26% respectively. Technology also remained at +26% this quarter.

When looking at the anticipated demand for temporary agency workers, the net balance of forecast demand increased within most skill sets. Conversely, the balance of demand for Office Professionals fell into negative territory this quarter (-6 points to -3).

Engineering/Technical saw a notable heavy fall in the net balance of demand for temporary agency workers – by 13 points to +18%. This remains significantly above the all-skills average.

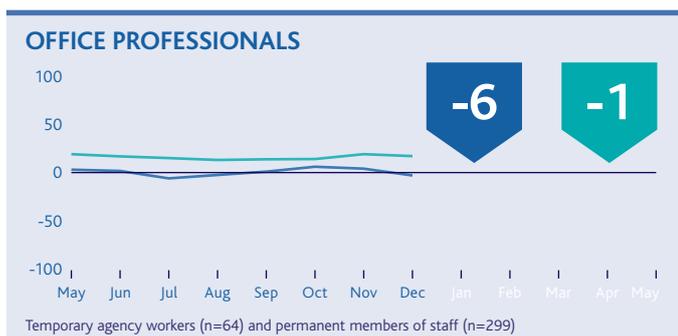
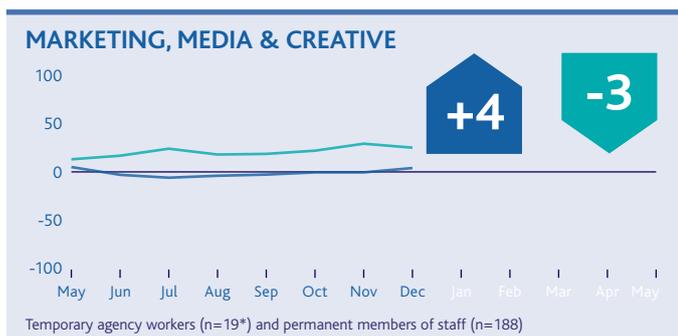


SectorProspects



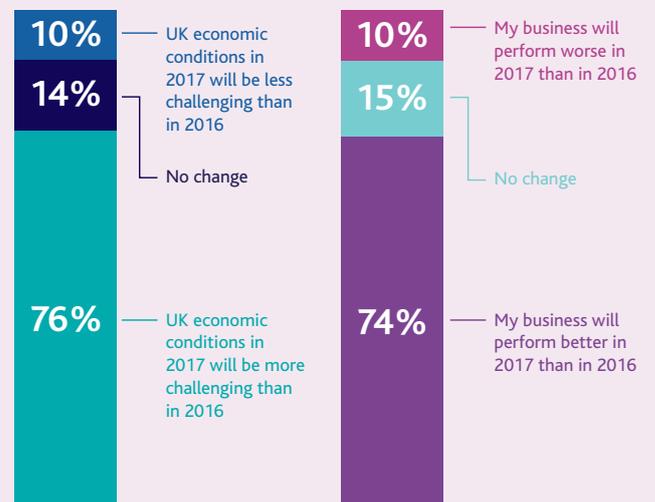
■ Temporary
■ Permanent

The charts show the month on month increase/decrease in sector prospects using the most recent three months rolling average values, against a zero base.



Businesses are self-confident despite anticipating a challenging 2017

When asked which statement comes closest to their opinion, three quarters (76%) of employers think economic conditions will be more challenging in 2017 than 2016. 14% believe there will be no change and only one in ten (10%) think economic conditions will be less challenging this year. However three quarters (74%) of those surveyed state their business will perform better in 2017 than 2016, with 15% predicting no change and one in ten (10%) predicting a worse performance. This suggests that employers are confident in their own ability to perform well during uncertainty but still feel cautious about the economic environment.



Totals may not sum to 100% due to rounding.

REC-IHS Markit Predictive model

UNEMPLOYMENT RATE FORECAST TO FALL TO 4.7%

The REC and IHS Markit have developed a model to 'nowcast' the UK's headline unemployment rate.

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The nowcast model forecasts a decline in the Labour Force Survey measure of UK unemployment of 51 thousand in the three months to December. This would cause the unemployment rate to edge down from 4.8% to 4.7%. The Office for National Statistics (ONS) will publish this data on 15 February 2017.

The model predicts a fourth successive reduction in unemployment, with a fall of 52 thousand reported by the ONS in the three months to November. As shown in the chart, the model has generally provided reliable signals in official unemployment data.

Methodology

The model draws on a range of official, survey and internet search data, which are available on a more timely basis than our target variable. This includes:

- REC's JobsOutlook survey data on employers' expectations for short-term staffing requirements

- KPMG/REC Report on Jobs survey measures of permanent placements and temporary billings
- IHS Markit PMI data, in the form of the composite employment and output indices covering the manufacturing, services and construction sectors
- IHS Markit's Household Finance Index measures of workplace activity and job security
- The European Commission consumer survey measure of unemployment expectations
- Google internet search patterns for terms which we believe give useful signals on the health of the labour market
- ONS measures of claimant count joblessness and vacancies

We have created a single-variable model that provides an overview of underlying conditions in the labour market. We used principal component analysis to extract common factors from our dataset, which we could then weight to create what we call our "Labour Market Tracker". To produce our nowcasts, we combine the Labour Market Tracker with a weighted average of single-variable models to guide our prediction for the three-month change in unemployment.

CHART 1: TRACKER MODEL HISTORY



CHART 2: THREE MONTH UNEMPLOYMENT CHANGE



Data sources: IHS Markit, REC, KPMG, ONS, European Commission, Google.

