JobsOutlook

January 2016

Jobs *transform* lives

Flexible working is becoming central to employers' hiring strategies

CONTENTS

REC-Markit Predictive model

Expected unemployment rate for October–December 2015

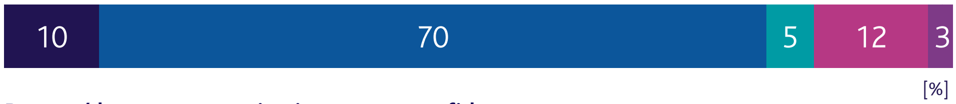
Our current nowcast is for a further fall in the Labour Force Survey measure of unemployment of 85 thousand in the three months to December, and for the unemployment rate to fall to 5.0% (from 5.1% presently).

More information about the predictive model can be found on page 9 of this report.

Confidence

Eight in ten employers believe that economic conditions are improving – slightly lower than the 82% that believed this to be the case in November. Whilst 15% of respondents feel conditions are worsening – notably higher than the 2015 low of 9% in September – an overall 97% feel that the outlook provides them with static or improved confidence levels upon which to make hiring and investment decisions.

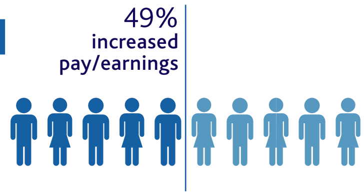
Do you think economic conditions in the country as a whole are getting ...



Do you/does your organisation expect confidence in hiring and investment decisions to get ...

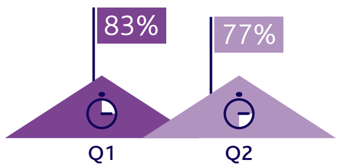
Key Points from December Survey

1



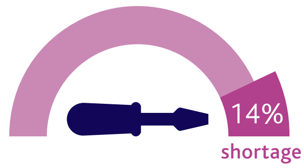
Almost half (49%) of employers increased pay/earnings during 2015

3



83% of employers plan to increase permanent headcount levels in Q1 2016, whilst 77% plan the same from Q2 onwards.

5



For the 13th consecutive month employers anticipate a shortage of technical/engineering skills to fill permanent roles (14%).

2

94% of employers were operating with no spare workforce capacity and felt they may have to add resource should demand increase.

4

For the fourth consecutive month, 99% of UK employers plan to hold or increase agency worker numbers over the next quarter. A 3-percentage point rise in those planning to increase numbers will notably intensify competition.

6

For the second month in a row, employers anticipate a shortage of construction workers to fill permanent roles (12%).

Recruitment & Employment Confederation

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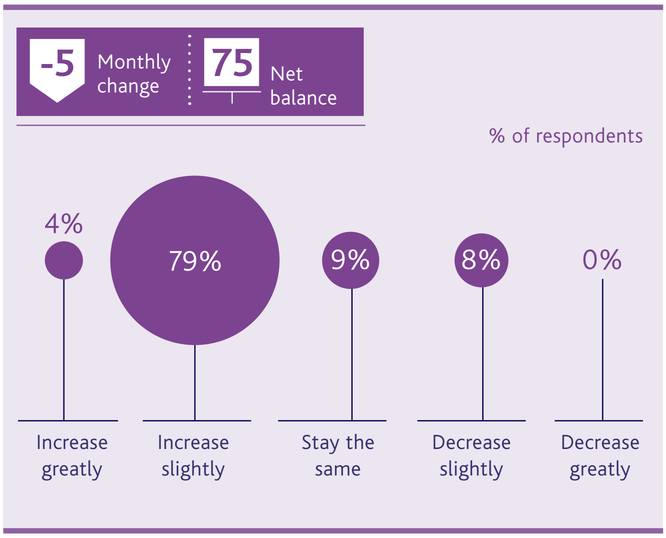
PermanentRecruitment

SHORT-TERM OUTLOOK

In the next 3 months, do you think that your organisation's permanent workforce will increase or decrease?

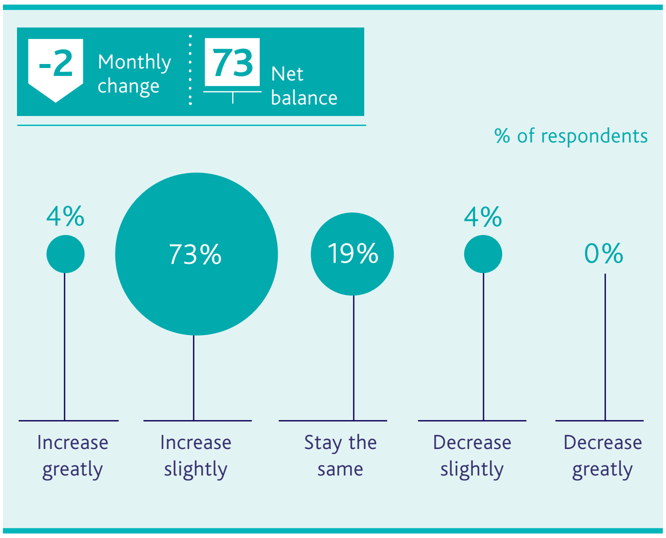
Whilst it is unclear how employers will respond to the introduction of the National Living Wage in April, 92% still plan to hold or increase permanent workforce levels over the next quarter. The 5 percentage point fall in the intent to hire over the next quarter broadly mirrors the 4 percentage point fall in December 2014. The 2 percentage point rise in the number planning a short-term reduction in permanent headcount is also similar to that from the end of 2015 (8% versus 7%).



MEDIUM-TERM OUTLOOK

In the next 4–12 months, do you think that your organisation's permanent workforce will increase or decrease?

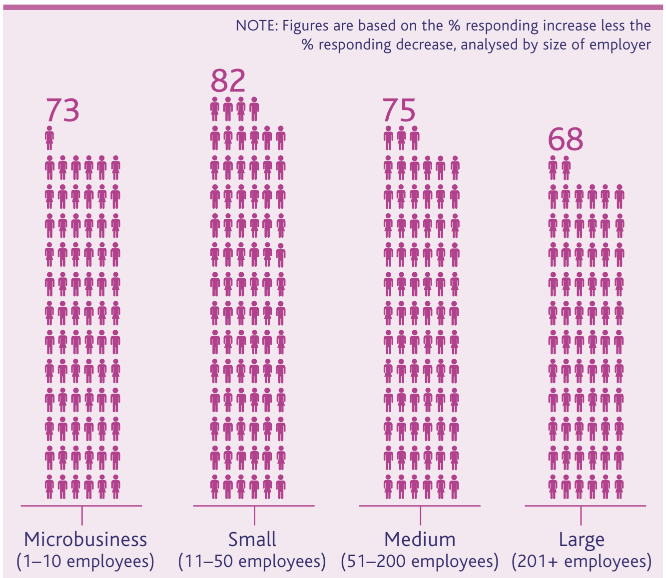
From April 2016 onwards, employer confidence in increasing or maintaining permanent resource levels is even more buoyant, with 96% stating this to be the case in December 2015. For the 77% who plan to add to numbers (and those who need to recruit to maintain levels), the fact that just 4% plan any form of release of workers into the availability pool, and that unemployment is at its lowest level since before the downturn, will intensify competition for available skills.



OUTLOOK BY EMPLOYER SIZE

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

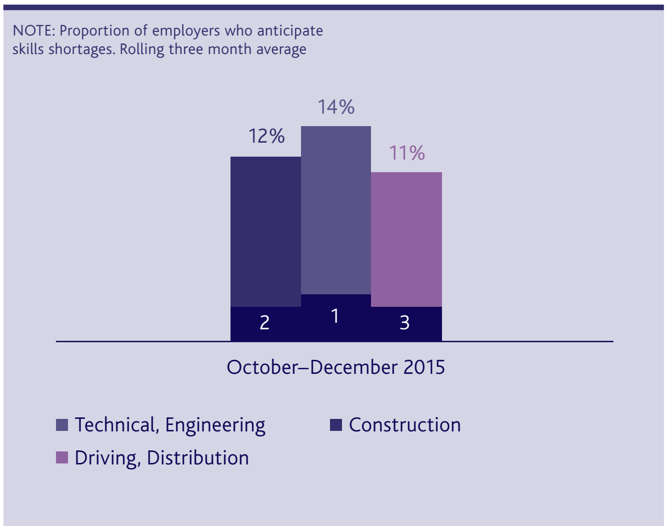
Whilst there was a downward shift in short-term permanent hiring intentions across all business sizes in December, the end of year position is broadly similar to that at the end of 2014 – with the exception of small businesses, where the net balance grew from 72% to 82%. The change in intent of micro-businesses is stark: in December 2013, just 29% of hirers registered a short-term intent to hire.



SKILLS SHORTAGES AND QUALITY OF HIRES

Where do you expect to see a shortage of workers this year?

With an anticipated shortage throughout 2016 of both permanent and agency technical and engineering workers being employers' primary concern – as it frequently was throughout 2015 – it is clear that the lack of availability of workers in these areas is presenting a significant challenge to UK plc. Concern over the ongoing sufficient availability of construction workers has, within the second half of 2015, also been regularly highlighted.

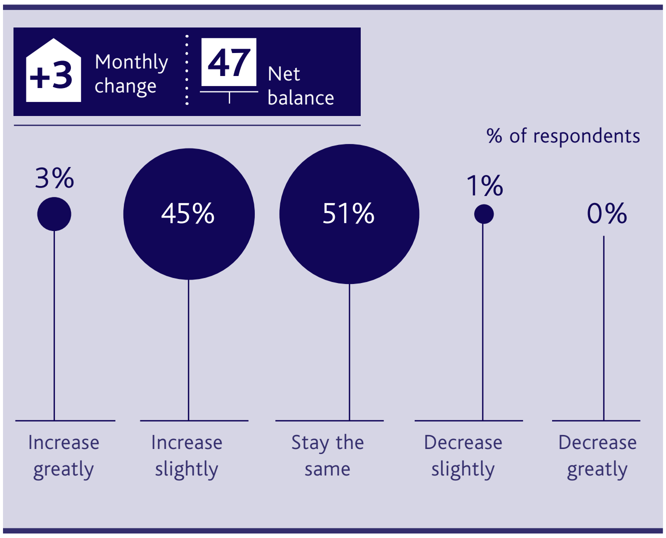


TemporaryRecruitment

SHORT-TERM OUTLOOK

In the next 3 months, do you think that your organisation's use of agency workers will increase or decrease?

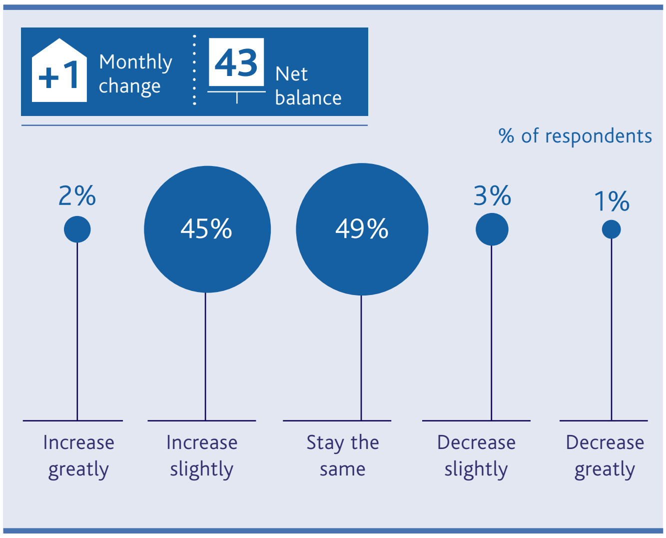
A remarkable 99% of employers plan to hold existing agency worker levels (51%) or increase them (48%) in Q1 2016. There has even been a 3-percentage point increase in the latter. Considering only 1% of employers plan to reduce permanent hiring, and the fact that the positive net balance of intent to increase the agency worker headcount in December 2015 was 7 percentage points higher than a year earlier, there may be potential of a short-term shift from permanent to non-permanent hiring ahead of April 2016.



MEDIUM-TERM OUTLOOK

In the next 4–12 months, do you think that your organisation's use of agency workers will increase or decrease?

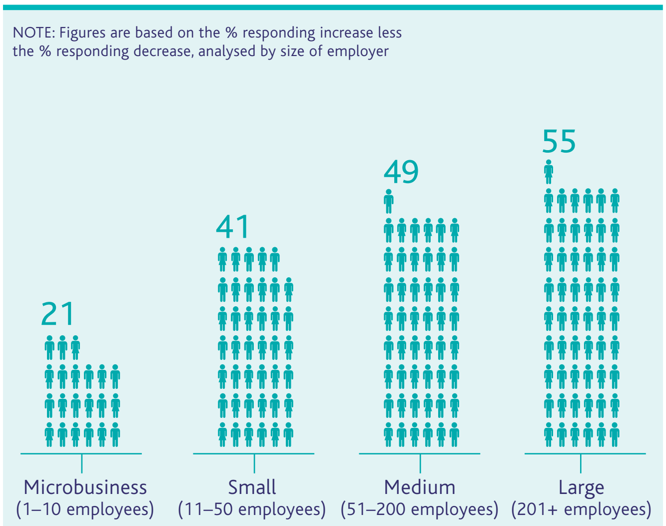
A gradual shift in intention away from holding to increasing agency worker headcount in the medium-term was registered in December. Whilst the overall positive net balance (43%) is at a similar level to December 2014 (42%), it is notably higher than the net balance of three in ten (31%) in December 2013.



OUTLOOK BY EMPLOYER SIZE

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

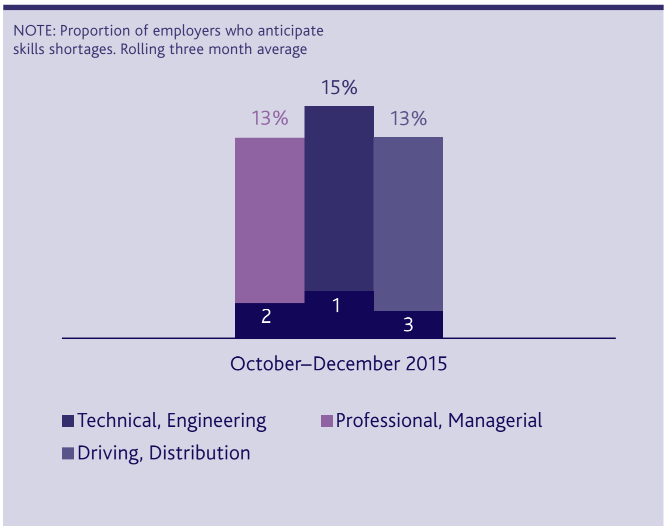
The most notable year-on-year change in sentiment can be seen in the largest employer cohort. This December 55% of large employers planned to increase temporary hiring, compared with just 39% in December 2014. Considering this group's 7 percentage point month-on-month net balance downturn in permanent hiring sentiment, this may suggest that this employer group is actively deploying a non-permanent hiring strategy.



SKILLS SHORTAGES AND QUALITY OF HIRES

Where do you expect to see a shortage of workers this year?

Whilst the seasonal retail boom that normally drives need for temporary drivers has passed, it is interesting to note an ongoing concern over the sufficient availability of contingent logistics workers. When coupled with the additional concern registered in December over the availability of their permanent counterparts, competition for available workers in this skills group – alongside technical and engineering workers – will be fierce.

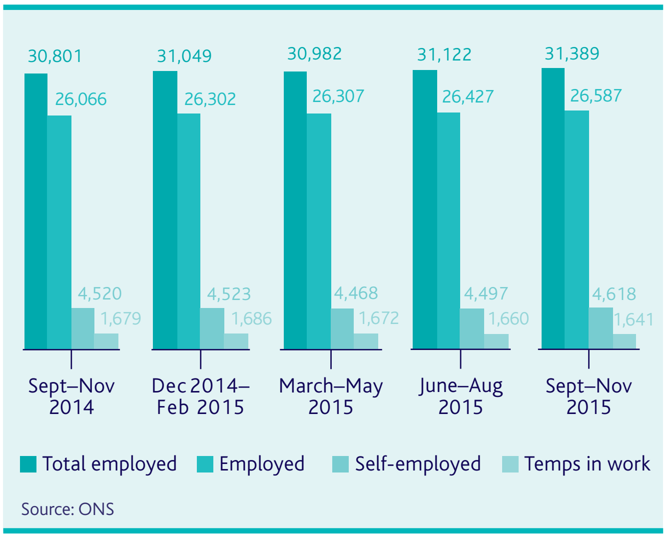


LabourMarket**Dashboard**

TOTAL EMPLOYMENT – PERMANENT AND TEMPORARY

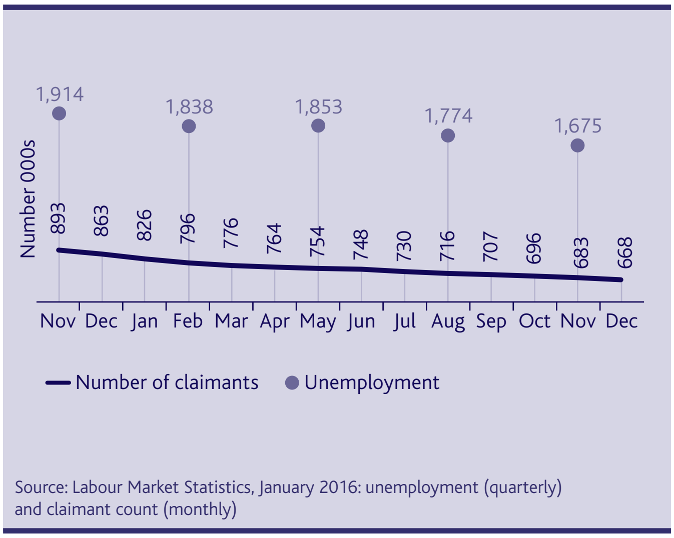
The total UK workforce rose by a notable 267,000 between June–August and September–November 2015, and was up by 588,000 against the previous year. Of this, self-employment contributed 45% (121,000) of the net quarterly increase. Vacancy levels rose by 13,000 against the previous quarter and were up 46,000 against the previous year. At 765,000, this is the highest level recorded since records began in 2001.

Total employment, employed and self-employed



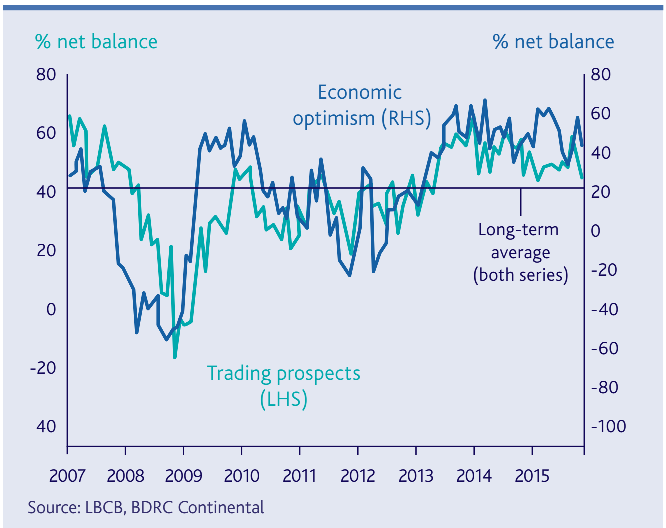
UNEMPLOYMENT AND CLAIMANT NUMBERS

Unemployment fell to 5.1% in September–November 2015, down from 5.3% in the previous quarter and 5.8% in the same period last year. This compared to an EU average of 9.1% in November and 5% registered in the US in both November and December. Youth unemployment rose slightly against the previous rolling quarter to 13.7%, but this remains significantly lower than the 16.9% recorded in September–November 2014.



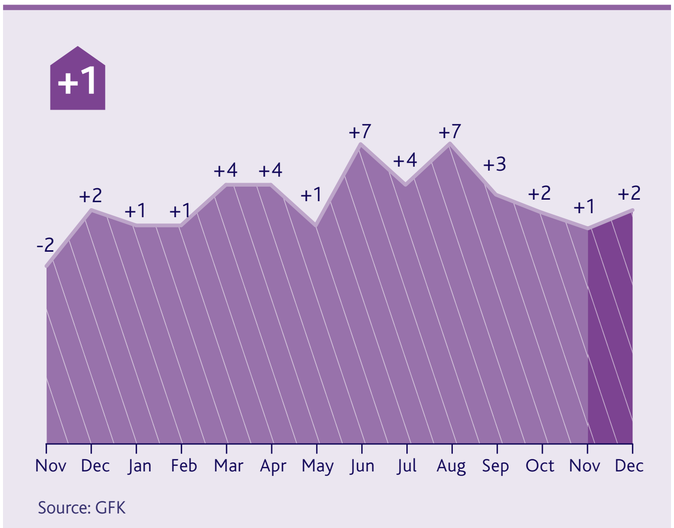
LLOYDS BUSINESS BAROMETER

December saw a 10 point fall in Lloyds's Business Barometer to +45%, led by a 14 point drop in the net balance for economic prospects and a 6 point fall in the net balance for trading prospects. Whilst both registered a significant downward shift, the indices remain above their respective long-term averages. The only sector to buck the trend, by showing an improvement in confidence, was consumer services. From a regional perspective, employers in the Midlands and the South registered the biggest falls in overall sentiment.



CONSUMER CONFIDENCE INDEX

The GfK UK Consumer Confidence Index increased by one point in December to +2 – and averaged +3 across 2015. Of additional importance, this is the first time, since the Barometer started in 1974, that the Index remained positive for the entire calendar year. The year-end position was also notably higher than the -4 registered a year earlier.

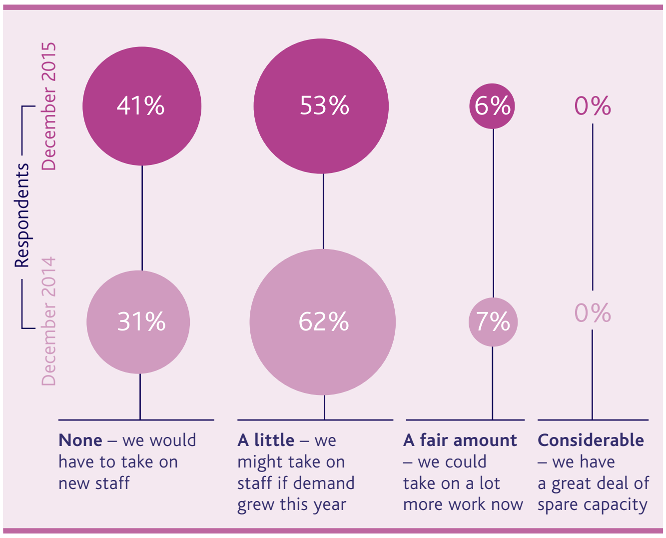


Employer**Dashboard**

WORKFORCE CAPACITY

How much capacity is there in your business to take on more work?

With the imminent introduction of the National Living Wage and other new employment legislation, the costs associated with current and future resource are duly under consideration by a significant number of employers. With resource capacity tightening in December – leaving 94% of UK employers with certain or a potential need to add headcount if demand for their services increases – this barometer will be a particularly useful indicator of UK plc.'s response to legislative change in the run up to April 2016.

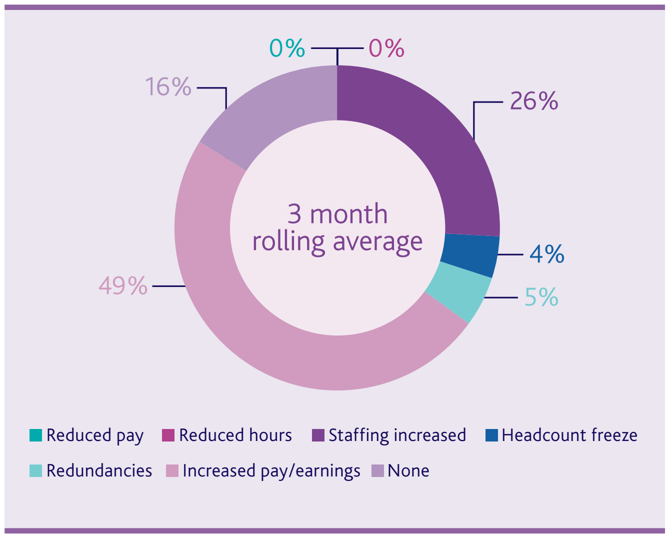


WORKFORCE PLANNING

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

Whilst instances of reducing pay and/or reducing hours were virtually eradicated in 2015, the need to action headcount freezes and redundancies still prevailed – with just under one in ten employers taking such actions during the year. Over a quarter (26%) added headcount, however, and around a half (49%) were able to increase pay/earnings.

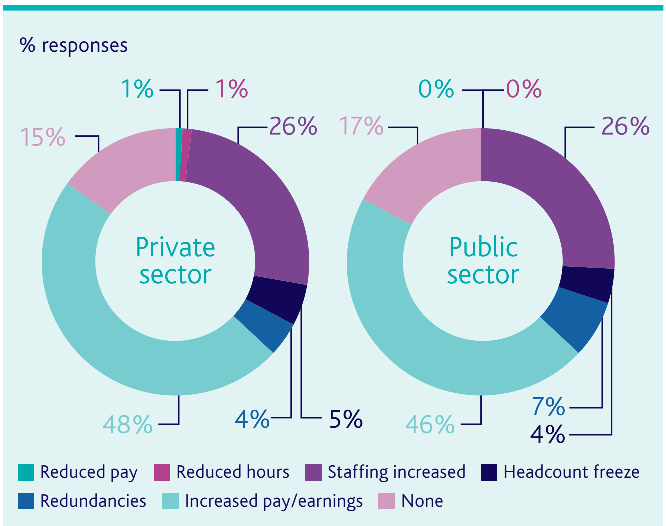
Workforce changes made in the last year
3 month rolling average to December 2015



WORKFORCE PLANNING BY SECTOR

After several years of notable differences between actions taken by the private and public sectors, their respective charts have now become almost indistinguishable. The only remaining differences are that a very small proportion of private sector employers enacted pay and/or hours reductions during the last year, whilst instances of redundancies remained higher in the public sector (amongst 7% of employers).

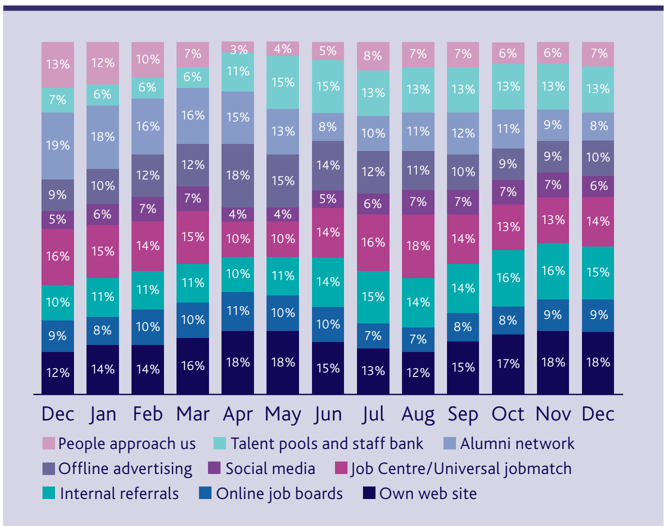
3 month rolling average to December 2015



RECRUITMENT CHANNELS USED OTHER THAN AGENCY

When considering what has changed in employers' use of recruitment channels to source temporary workers (other than agencies) over the course of 2015, the most changes have been made to employers' internal recruitment protocols. As the ability to access talent via direct approaches and alumni have declined, employers have been building their referral capabilities and talent banks/pools and strengthening their own website capabilities.

Recruitment channels used for temporary staffing
as at December 2015

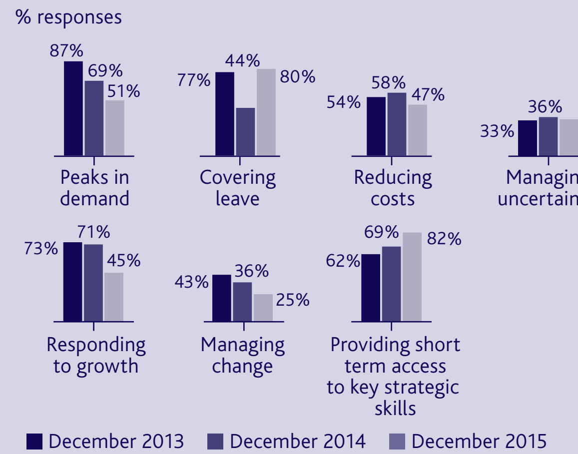


AgencyDashboard

IMPORTANCE OF AGENCIES TO EMPLOYERS

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

Far from being a cost efficiency measure – registered as important by less than half (47%) of employers – it is the ability to gain short-term access to key strategic skills that is cited as being of key importance when considering the use of agency labour. When considered against the notable drop-off in their use to respond to growth and meet peaks in demand, the rise in the use of agency workers to access key skills suggests a broader, more considered decision and/or need to utilise contingent workers on an ongoing basis.

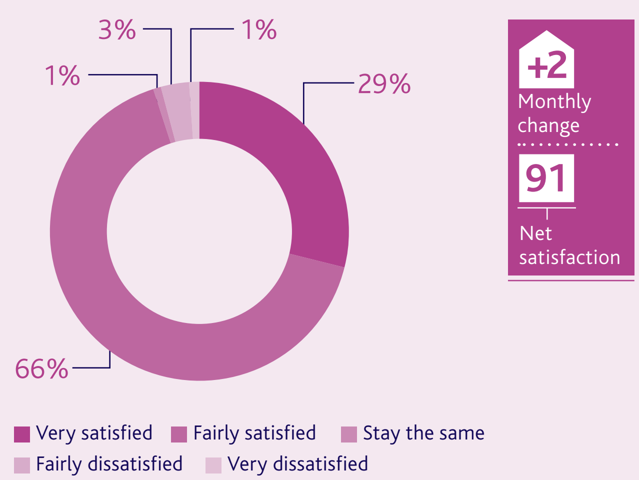


Scores indicate % responses stating the factor is quite or very important

EMPLOYER SATISFACTION WITH AGENCIES USED IN LAST 2 YEARS

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

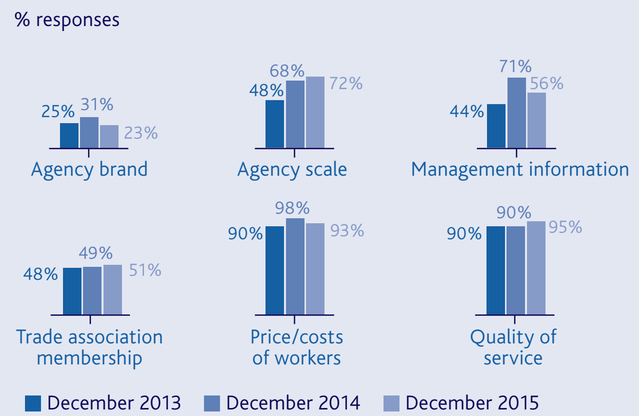
At a time when demands upon agencies have been at their most acute since before the downturn, a 2-percentage point rise (to 95% of employers), in just one month, in satisfaction with the service provided over the last two years is notable. The fact that just 1% of employers hold a neutral opinion adds further significance to this measure of positive sentiment.



CRITERIA USED BY EMPLOYERS TO SELECT AGENCIES

How important to you are the following factors when it comes to choosing and using a recruitment agency to cover temporary positions?

With the importance to employers of an agency's scale overtaking interest in their ability to provide management information as a key selection criterion – relegating the perception of brand to the criterion of least importance – the significance of this shift is notable. As competition for skills intensifies, an agency's depth of capability (within a geographical region and/or skill set – or just through sheer size) now cannot be underestimated.

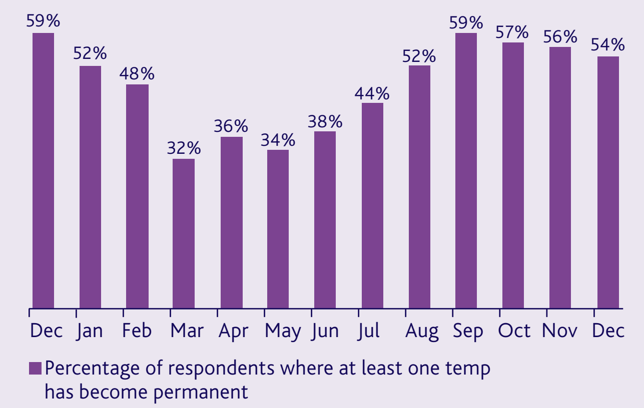


Scores indicate the % responses stating the factor is quite or very important.

TEMPORARY TO PERMANENT

In what proportion of hiring organisations do temporary workers go on to take permanent roles?

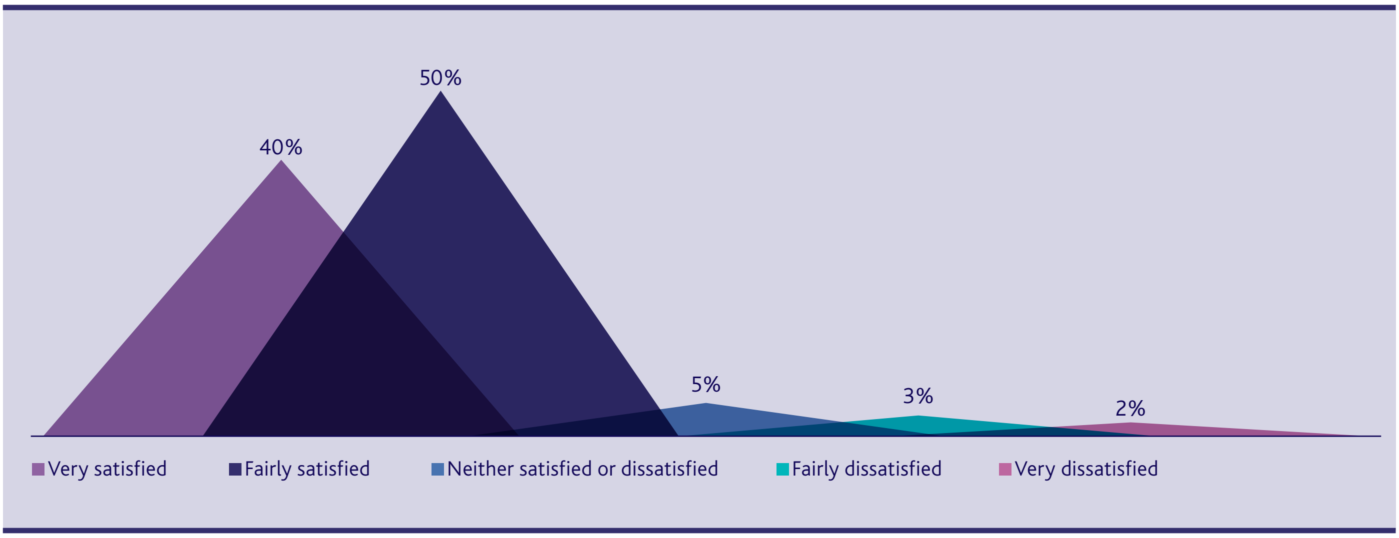
With the practice of moving temporary workers to permanent status ebbing and flowing throughout 2015 – rather than, historically, it being consistently the case within nine in ten employers – the year ended with just over half stating that they had made such a transition within the last year. This was, however, notably higher than the figure of around one third of employers expressing that this was the case in Q2 2015.



SATISFACTION WITH CANDIDATES

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

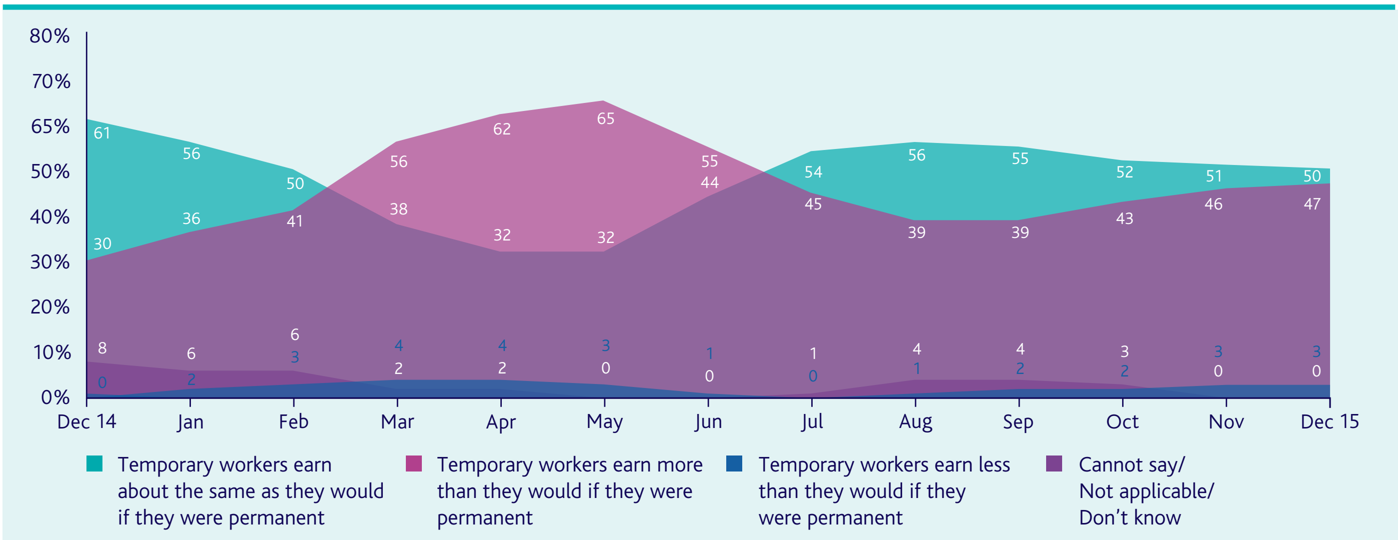
Of note in December, an additional 4% of employers stated that they were very satisfied with the candidates presented to them by their agencies – raising the figure to four in ten. Conversely, just 5% of employers expressed any form of dissatisfaction. With a comparable figure holding a neutral opinion, this left nine in ten employers satisfied with the candidates that are sourced on their behalf.



AGENCY WORKER PAY RATES

How do agency pay rates compare to permanent worker pay rates?

As the year closes, opinion is fairly evenly split over whether agency workers earn more (47%) or the same (50%) as their permanent counterparts. Either way, the fact that just 3% believe that they earn less than those in fixed employment reinforces the fact, as all other indicators suggest, that UK plc.'s use of agency labour has become far more strategic – and provides evidence of a belief that it is paying parity or above to the contingent workers it deploys.



3 month rolling average to December 2015

Sector**Prospects**

WHICH SECTORS ARE LIKELY TO SEE THE GREATEST DEMAND FOR AGENCY AND PERMANENT STAFF OVER THE NEXT 3 MONTHS?

As the national discussion continues into the causes and effects of the 'recruitment crisis' taking place in schools, it is unsurprising that anticipated demand for both permanent and agency workers in education is so high. In the case of the latter, demand is at its highest level since the zero-base was set in January 2012.

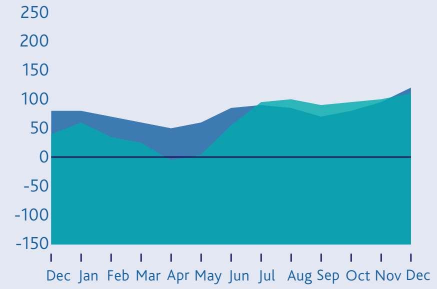
With demand moving sharply in the opposite direction for industrial workers, both permanent and agency, in December, it may be worth considering to what extent this is as a consequence of the enhanced labour costs associated with implementation of the National Living Wage in April that many employers in this sector will face.

Two other barometers to watch intently over the next few months are those indicating anticipated demand for permanent and agency medical staff. With the NHS agency pay caps now in place, and scheduled to ratchet down further in February and April 2016, it will be interesting to see whether the government ruling delivers its intended consequences – to encourage a shift away from agency working towards greater uptake of permanent (substantive) posts.

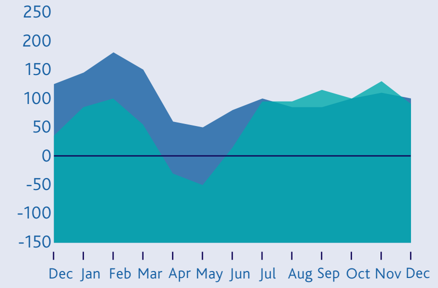
In the first month of the ruling's existence, demand for permanent staff fell 30 points, whilst anticipated need for agency workers over the next quarter fell by just 5 points. The likely driver of subsequent shifts in these two indicators will be workers' decisions as to whether they will accept their wage cap element of the price cap, and how, where and for whom they will work as a consequence.

Temporary
Permanent

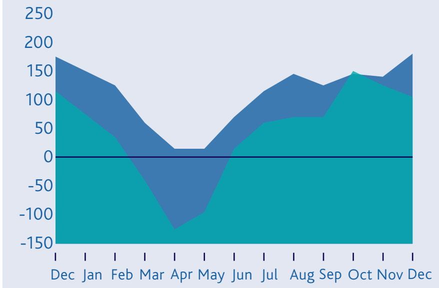
EDUCATION



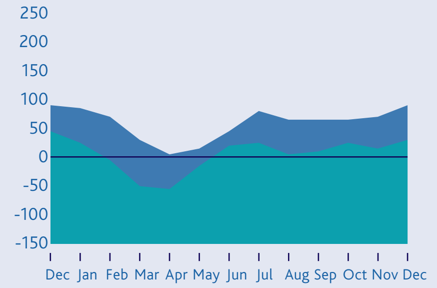
ENGINEERING



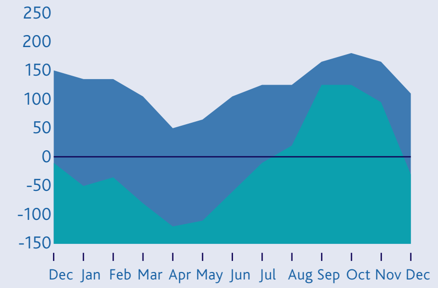
FINANCE



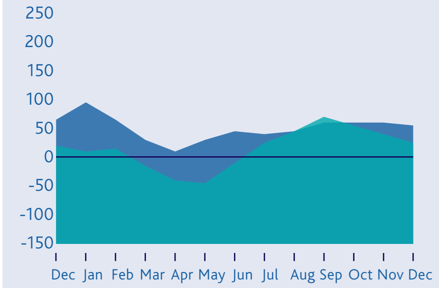
HOSPITALITY



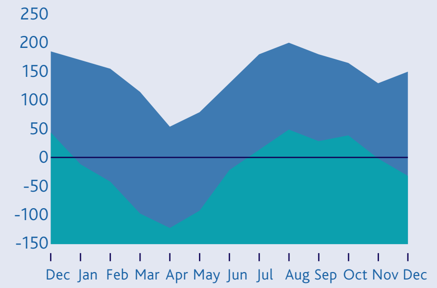
INDUSTRIAL



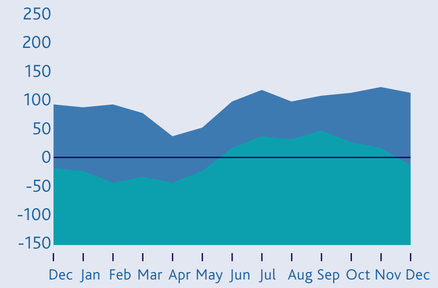
MEDICAL



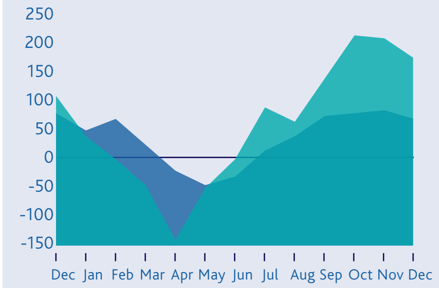
OFFICE



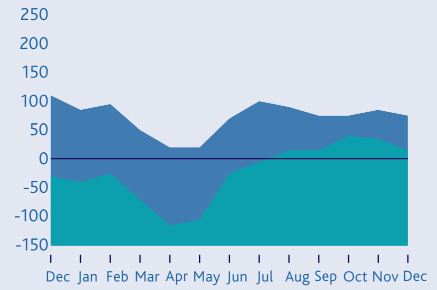
PROFESSIONAL



SALES



TECHNOLOGY



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 set in January 2012.

REC-Markit**Predictive model**

UNEMPLOYMENT SET TO FALL FURTHER IN THREE MONTHS TO DECEMBER

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

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

Our current nowcast is for a further fall in the Labour Force Survey measure of unemployment of 85 thousand in the three months to December, and for the unemployment rate to fall to 5.0% (from 5.1% presently). The Office for National Statistics (ONS) will publish these statistics on 17 February 2016.

The latest nowcast points to a fifth successive decline in unemployment, following the falls of 99 thousand, 110 thousand and 103 thousand reported in the past three official data bulletins.

As shown in the chart, the model has generally provided a reliable signal in pre-empting shifts in the official data over the past two-and-a-half years.

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
- Markit PMI data, in the form of the composite employment and output indices covering the manufacturing, services and construction sectors
- 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.

'Lower' and 'upper' lines in the chart below represent the bounds of a 70% confidence interval around our nowcasts for unemployment changes since July 2013.

CHART 1: TRACKER MODEL HISTORY

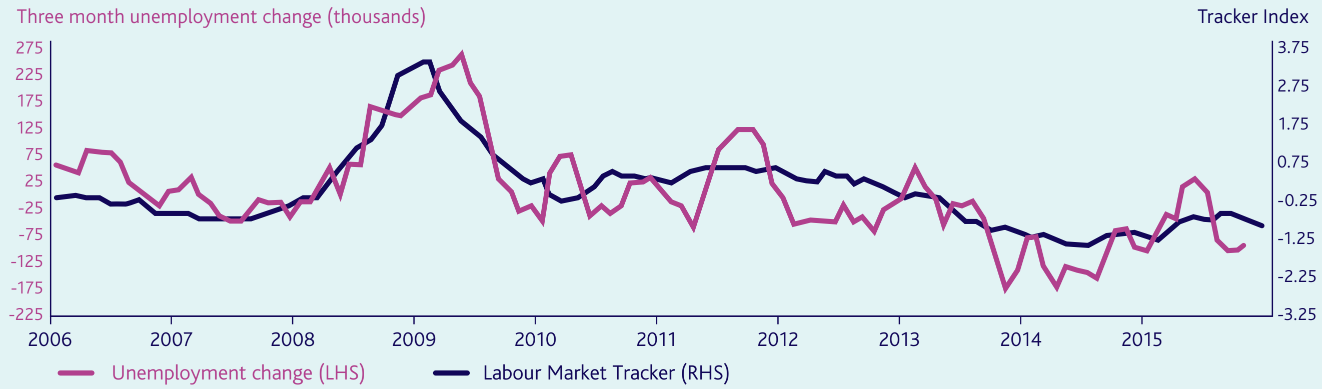
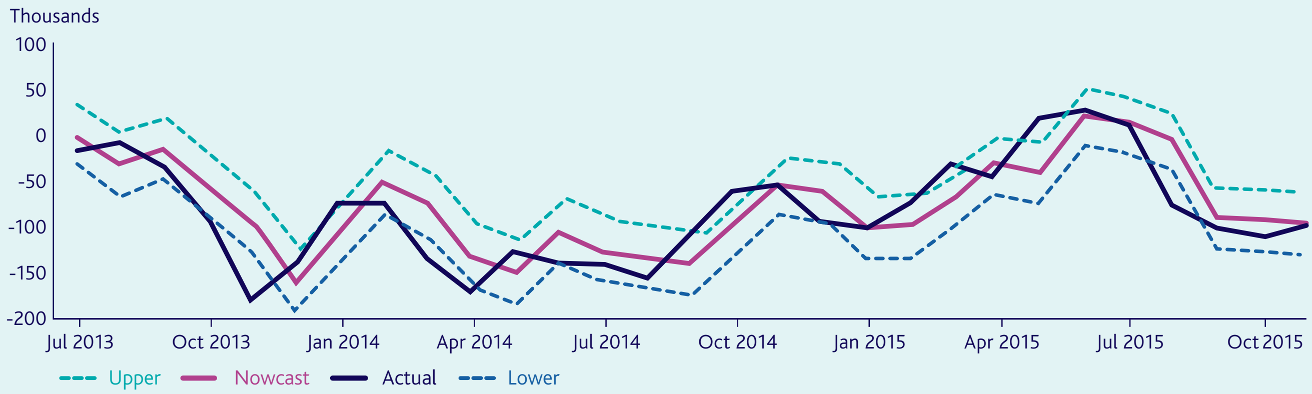


CHART 2: THREE MONTH UNEMPLOYMENT CHANGE



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