CIPD

Championing better work and working lives

LABOUR MARKET OUTLOOK

VIEWS FROM EMPLOYERS

Winter 2021–22

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 160,000 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.

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Report

Labour Market Outlook

Winter 2021–22

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1 Foreword from the CIPD

The quarterly CIPD *Labour Market Outlook* provides an early indication of future changes to the labour market around recruitment, redundancy and pay intentions. The findings are based on a survey of more than 1,000 employers.

The challenging conditions for employers are a simple question of supply and demand. Demand for staff is high, as evidenced through the record number of vacancies and the forward-looking indicators on recruitment intentions in this report. By contrast, the supply of candidates is severely restricted for several reasons.

First, the unemployment rate is low, meaning fewer people are available and looking for work. Second, there are simply fewer people in the labour market than before the pandemic. This is partly due to immigrants who returned to their home countries, but much of it is the early exit from the labour market by older workers. A third reason seen from this report is that employers are trying their hardest not to lose staff. The official redundancy rate is at a record low, and forward-looking redundancy intentions in this report are below pre-pandemic levels. Retention is as critical as recruitment in managing the workforce.

This report provides new insights into what employers are doing to boost recruitment and retention. Employers are certainly responding with the most obvious strategy, by raising wages. They are doing this for both new hires and the existing workforce. At 3%, this quarter's report sees the highest level of basic pay award expectations in the history of this series, which dates to winter 2012/13. It is important to note that this figure doesn't account for all the pay growth. For example, people also receive incremental progression, bonuses, and pay bumps when moving jobs. However, with the Bank of England forecasting inflation to reach an eye-watering 7.25% in April 2022,[1] most people will be looking at a real-terms pay cut in 2022. **The takeaway here is that pay awards will be big, but inflation will be bigger**.

Employers are looking beyond just pay to deal with staffing challenges by advertising more jobs as flexible and focusing on upskilling existing staff. They are also looking to improve employee wellbeing. Flexibility can open employment opportunities to people who might not otherwise consider roles, and upskilling current staff can reduce the need to recruit externally.

This is encouraging. There is no doubt that broadening recruitment strategies and improving people management and development practices to enhance job quality can help mitigate the challenges of a tight labour market, including reducing wage growth pressure.

However, the UK Government must also address skills policy failings to support greater employer investment. In particular, there is growing urgency around the need to reform the Apprenticeship Levy to reverse the falling number of apprenticeships going to young people and to make it possible for employers to use the levy for other forms of more flexible and cost-effective training for existing staff.

[1] Monetary Policy Committee. (2022) Monetary Policy Report: February 2022. London: Bank of England.

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It must also ensure that in taking steps to 'level up' growth across the UK, the necessary funding is available to help boost regional investment in skills, job creation and productivity. There is a pressing need to improve the local business support services typically available to SMEs, to encourage and enable many more businesses across regional economies to invest more in the technology, management capability and workforce development required to boost firm-level performance and improvements in real wages.

Ultimately, it is only economy-wide increases to productivity that will fund sustained pay growth and boost living standards over the long term.

Jonathan Boys, CIPD Labour Market Economist

2 Key points

- The net employment balance – which measures the difference between employers expecting to increase staff levels in the next three months and those expecting to decrease staff levels – remained steady at +37 after reaching +38 last quarter. This is one of the highest figures on record and is being driven largely by the private sector.
- Employers have responded to recruitment challenges by raising pay (48%), advertising more jobs as flexible (46%) and upskilling existing staff (44%).
- Almost half of employers (46%) have hard-to-fill vacancies. These are most common in healthcare (64%), public administration and other public sector (52%), and construction (51%).
- Very few employers (6%) plan to decrease staff levels over the next quarter. The proportion planning redundancies stands at 11%, compared with 10% last quarter and 16% before the pandemic. Retention is becoming as important as recruitment to manage the size of the workforce.
- Employers expect median basic pay awards to be 3%, the highest recorded since the report started in its current form in the winter 2012/13 report.

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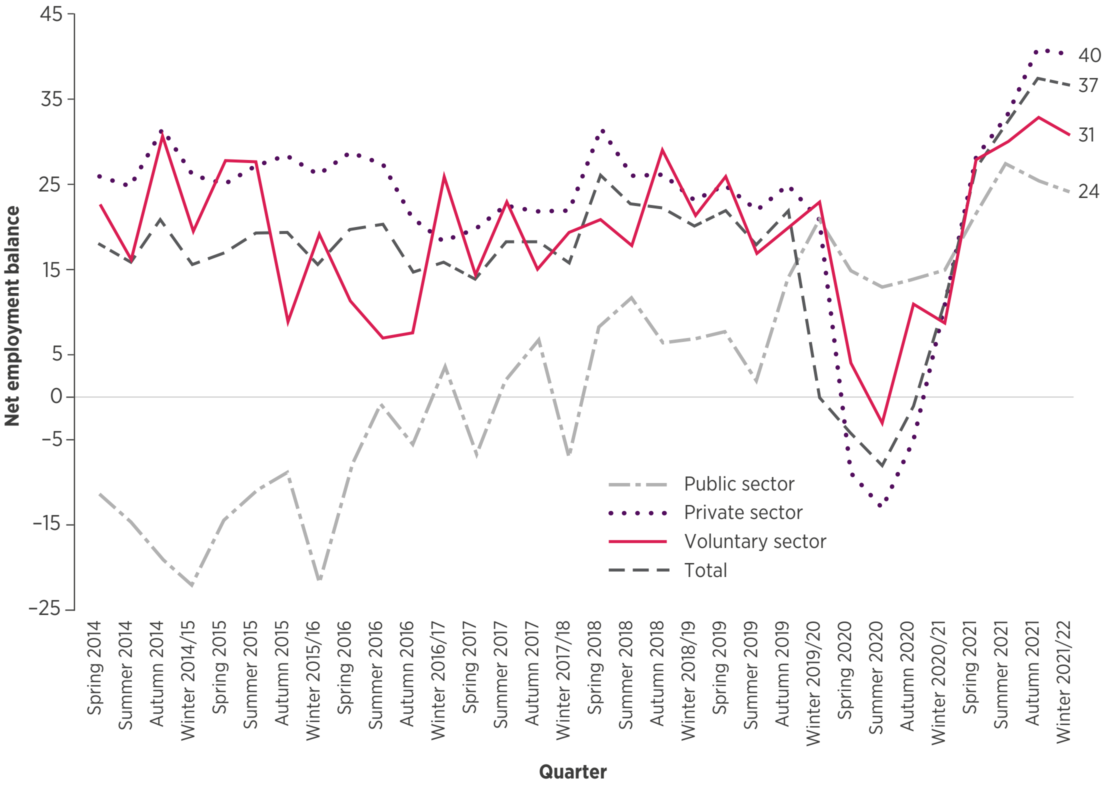
3 Recruitment and redundancy outlook

The net employment balance – which measures the difference between employers expecting to increase staff levels in the next three months and those expecting to decrease staff levels – remained steady at +37 after reaching +38 last quarter. This is the second highest since winter 2012/13, when the survey was first conducted using its current methods. Net employment intentions remain the strongest in the private sector at +40. Although lower in the voluntary (+31) and public sectors (+24), the figures are still positive, suggesting that the UK will continue to see employment gains across the board.

Figure 1: Net employment balance



Base: winter 2021/22, all employers (total: n=1,006; private: n=753; public: n=183; voluntary: n=70).

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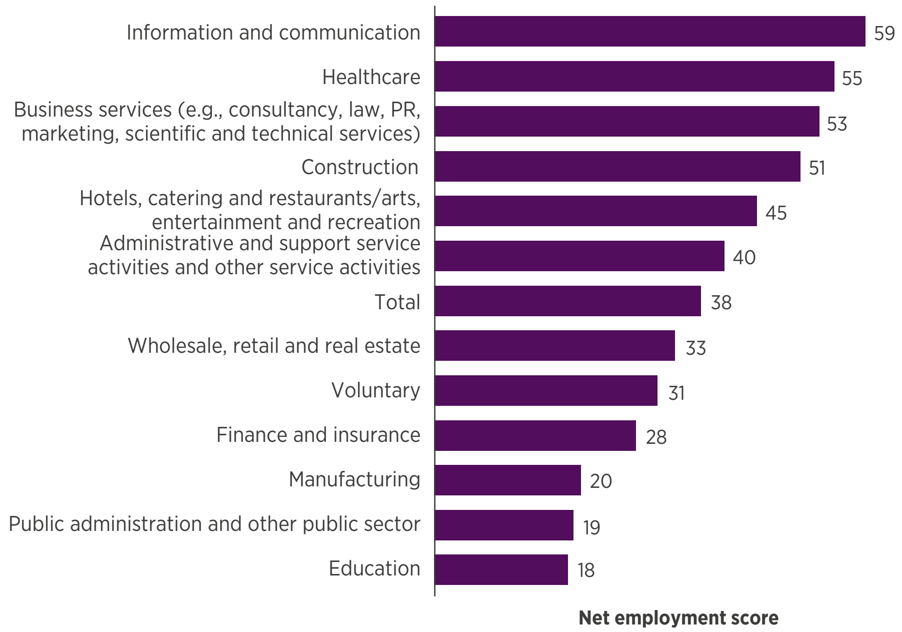
The positive net employment balance is being driven largely by employers looking to hire staff, with very few looking to decrease total staff levels (Figure 2). Employers are increasingly focusing on retention to achieve the size of workforce needed to meet demand.

Figure 2: Composition of employment intentions (%)

Base: winter 2021/22, all employers (n=1,006).

Employment intentions remain positive across the board but are particularly high in information and communication (+59), healthcare (+55), business services (+53) and construction (+51) (Figure 3).

Figure 3: Net employment balance, by industry



Base: Industries with base sizes less than 50 have been excluded. For breakdown of base sizes, see Table 3.

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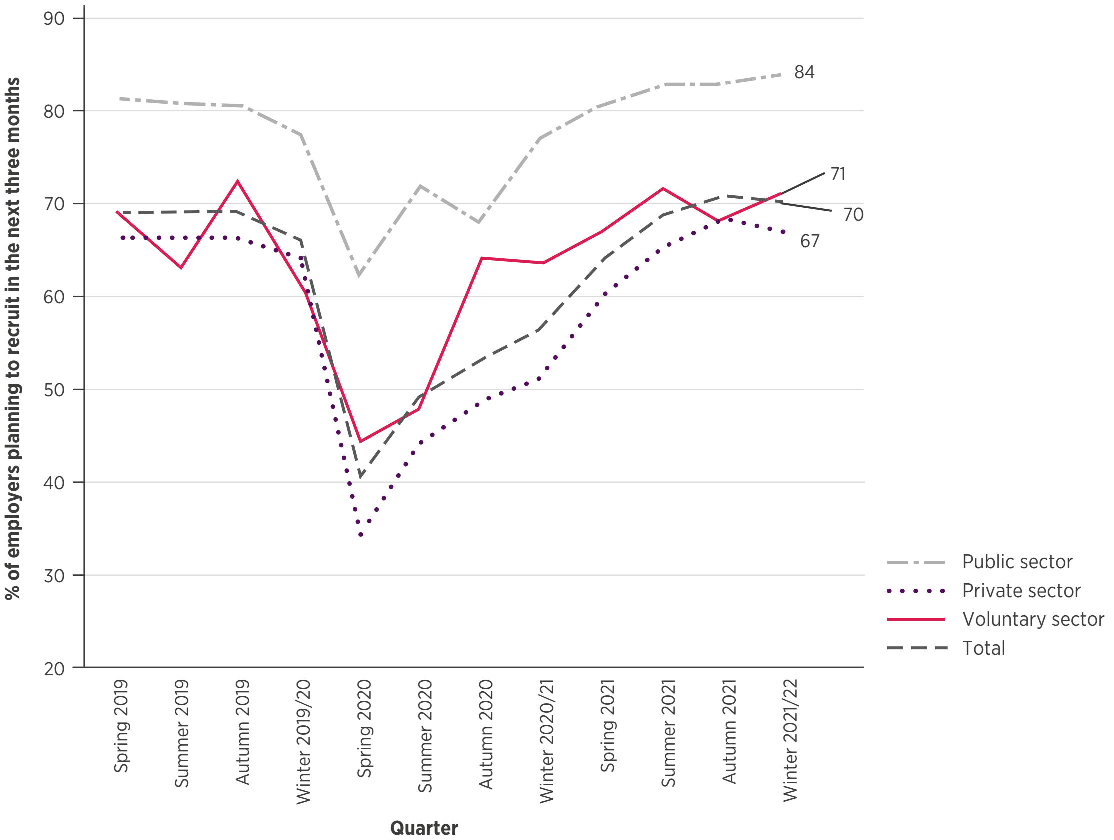
Recruitment

Although recruitment intentions have plateaued this quarter, they remain high, on par with pre-pandemic peak levels. Seven in ten employers (70%) surveyed indicated that they plan to recruit in the next three months (Figure 4). It is worth noting that on the eve of the pandemic the labour market was incredibly tight, with low unemployment and strong hiring intentions. The conditions today are similar to the conditions pre-pandemic.

Figure 4: Recruitment intentions, by broad sector (%)



Base: winter 2021/22, all employers (total: n=1,006; private: n=753; public: n=183; voluntary: n=70).

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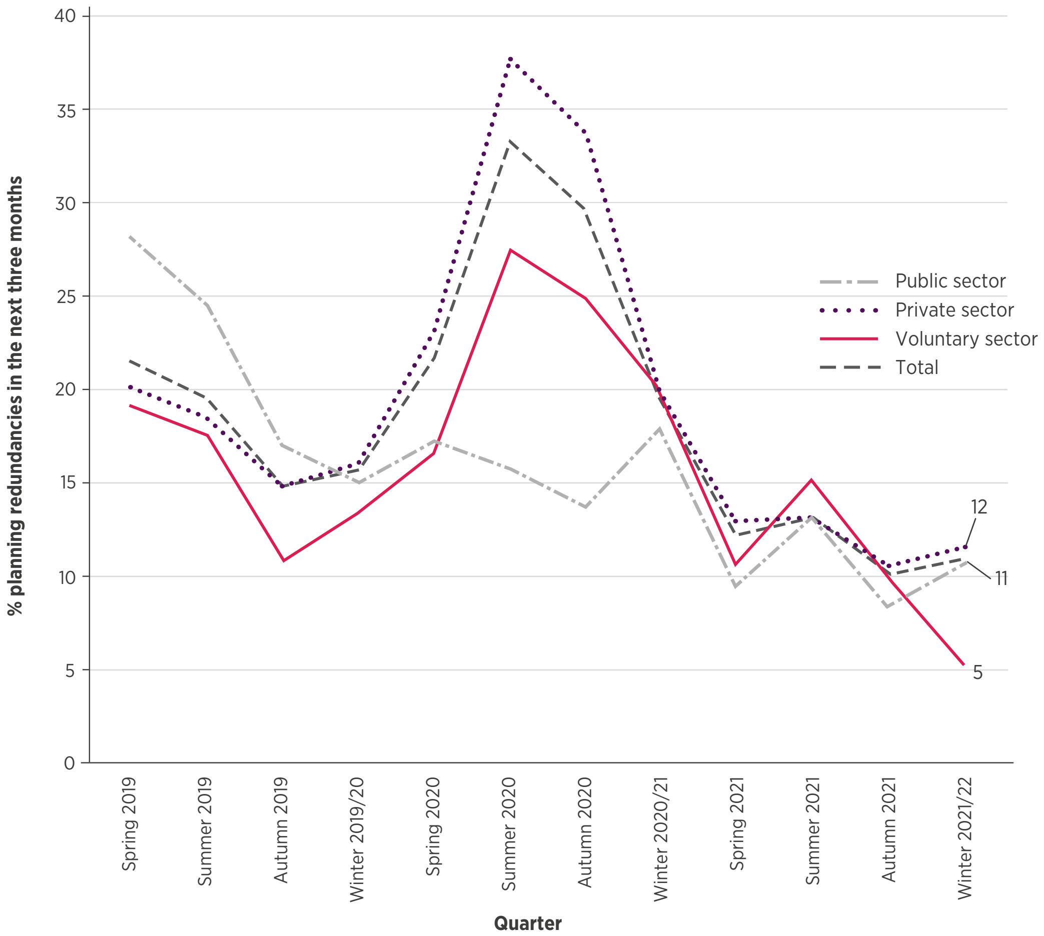
Redundancies

One in ten (11%) employers are planning to make redundancies in the three months to March 2022. A similarly small proportion (12%) are unsure whether they would. Redundancy intentions remain below pre-pandemic levels (Figure 5), providing further evidence of a 'great retention' taking place.

Figure 5: Redundancy intentions, by broad sector (%)

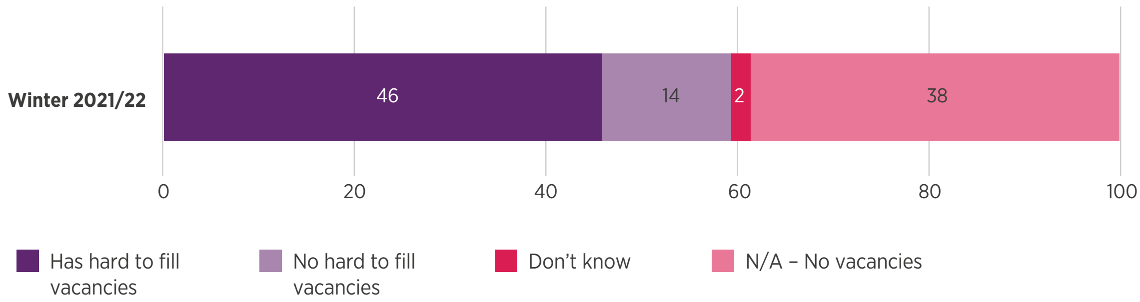


Base: winter 2021/22, all employers (total: n=1,006; private: n=753; public: n=183; voluntary: n=70).

4 Job vacancies

Almost half of employers (46%) have hard-to-fill vacancies (Figure 6), which is similar to the last quarter (47%). When looking only at employers with vacancies, this figure rises to three-quarters (75%). Hard-to-fill vacancies were reported by 53% of employers in the public sector, 45% in the private sector, and 41% in the voluntary sector.

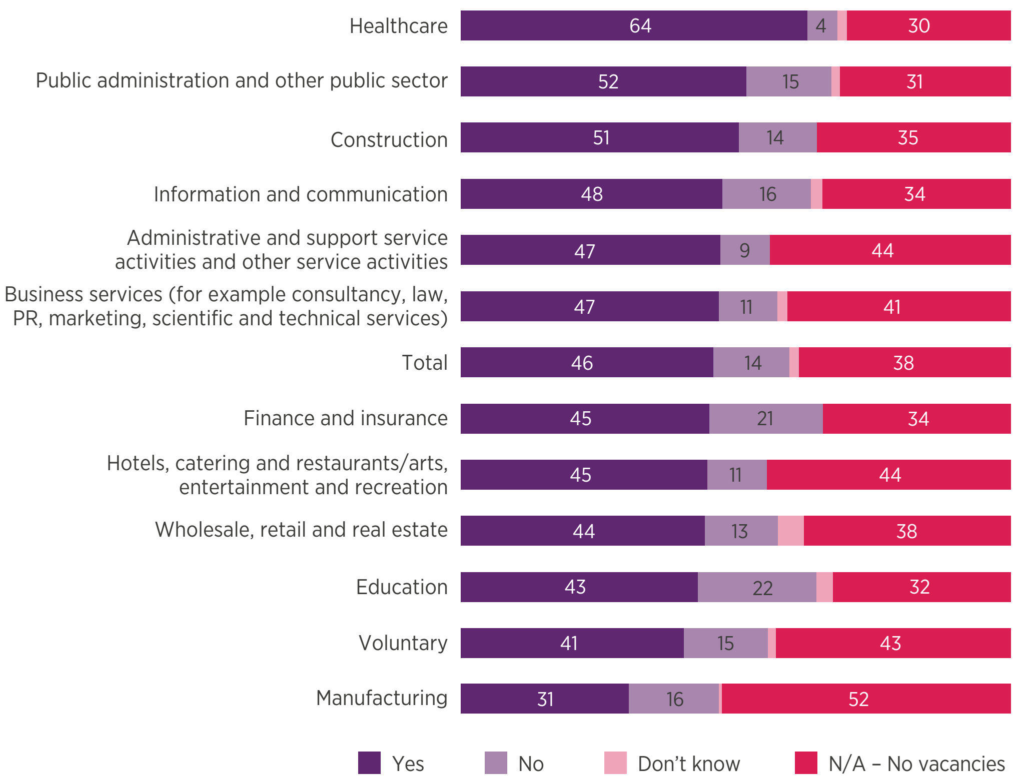
Figure 6: Employers with hard-to-fill vacancies (%)



Base: winter 2021/22, all employers (n=1,006).

Hard-to-fill vacancies are most common in healthcare (64%), public administration and other public sector (52%), and construction (51%) (Figure 7).

Figure 7: Employers with hard-to-fill vacancies, by industry (%)



Base: Industries with base sizes less than 50 have been excluded. For breakdown of base sizes, see Table 3.

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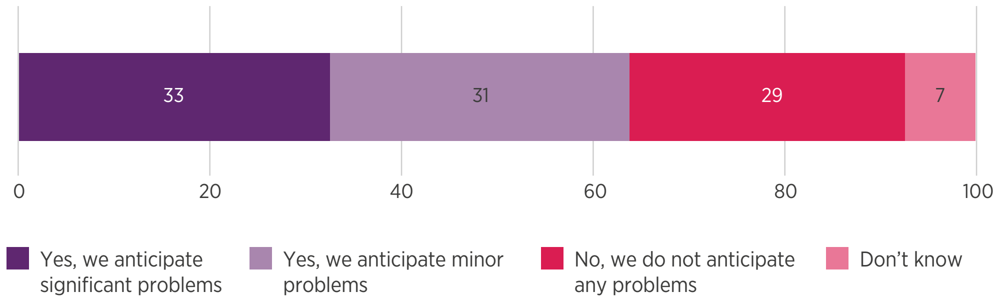
Looking forward, almost two-thirds of employers (64%) anticipate problems filling vacancies over the next six months and one third (33%) expect these problems to be significant (Figure 8).

Figure 8: Over the next six months, does your organisation anticipate problems filling vacancies? (%)

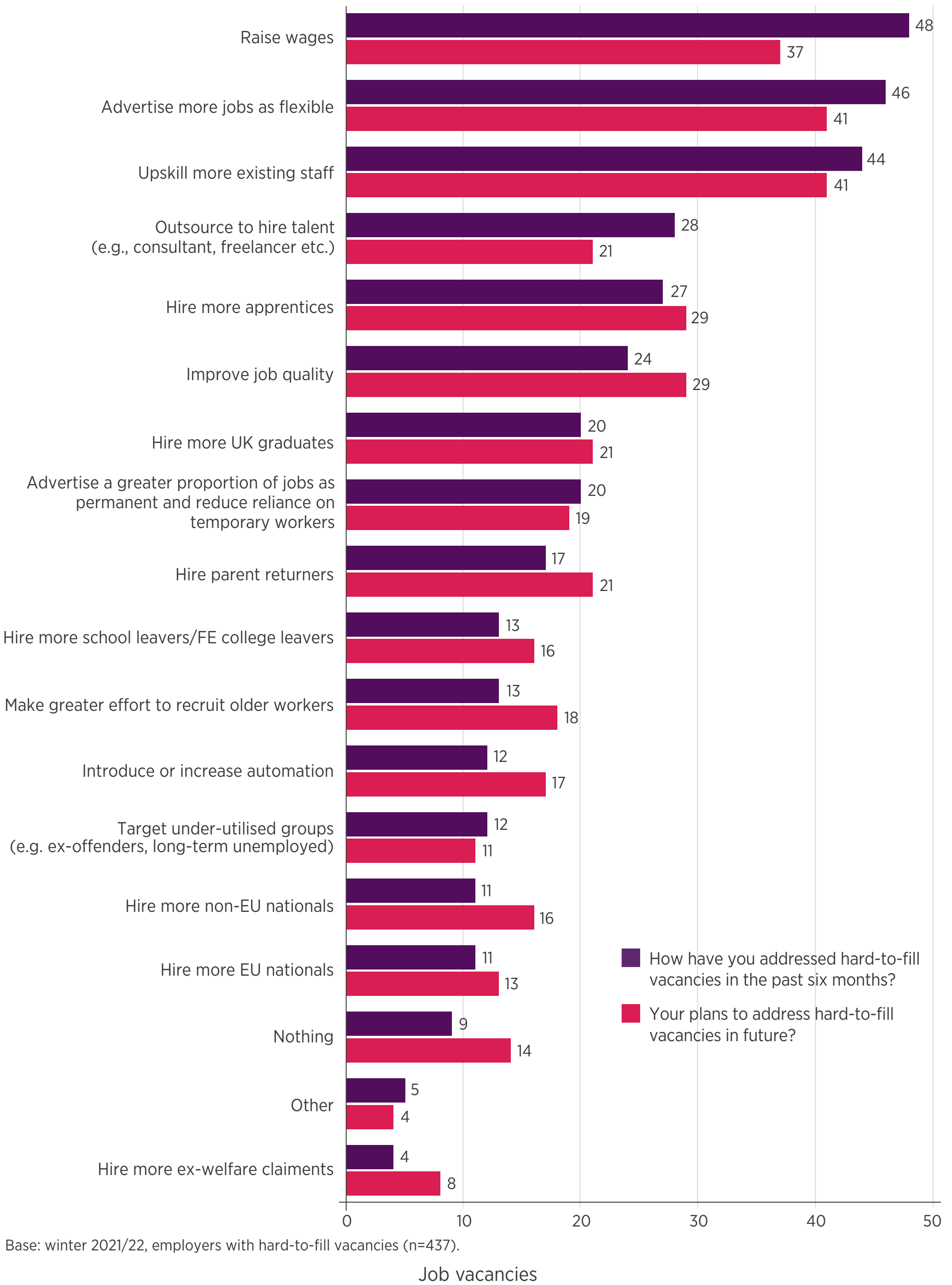


Base: winter 2021/22, all employers (n=1,006).

Employer responses to recruitment difficulties

In all, 48% of employers with hard-to-fill vacancies indicated that they had raised wages in response in the previous six months. Looking forward, 37% of employers with hard-to-fill vacancies indicated that they would respond by raising wages in the future. Other popular strategies include advertising more jobs as flexible, which 46% of employers with hard-to-fill vacancies have done in the previous six months, and upskilling existing staff, which 44% of employers have implemented (Figure 9).

Figure 9: Employer actions to alleviate hard-to-fill vacancies, past response and future plans (%)

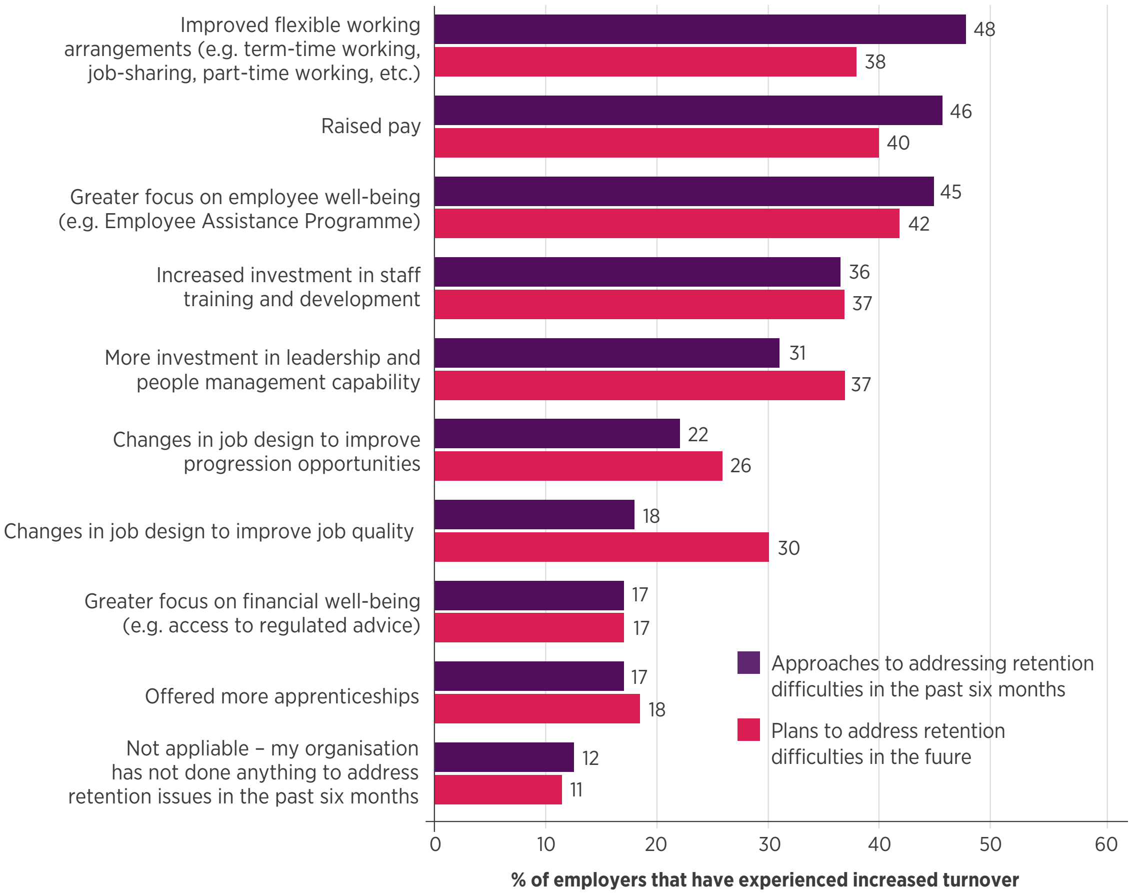


Base: winter 2021/22, employers with hard-to-fill vacancies (n=437).

Employer responses to retention difficulties

Two-fifths of employers (41%) reported increased staff turnover or difficulty with retaining employees over the last six months. Popular responses to retention difficulties include focusing on working practices such as improved flexible working arrangements, implemented by almost half (48%) of employers with retention difficulties in the last six months. Raising the pay of the incumbent workforce was also a popular option (46%), as was focusing more on employee wellbeing (45%) (Figure 10).

Figure 10: Employer responses to retention difficulties, past response and future plans (%)



Base: winter 2021/22, employers with retention difficulties (n=381).

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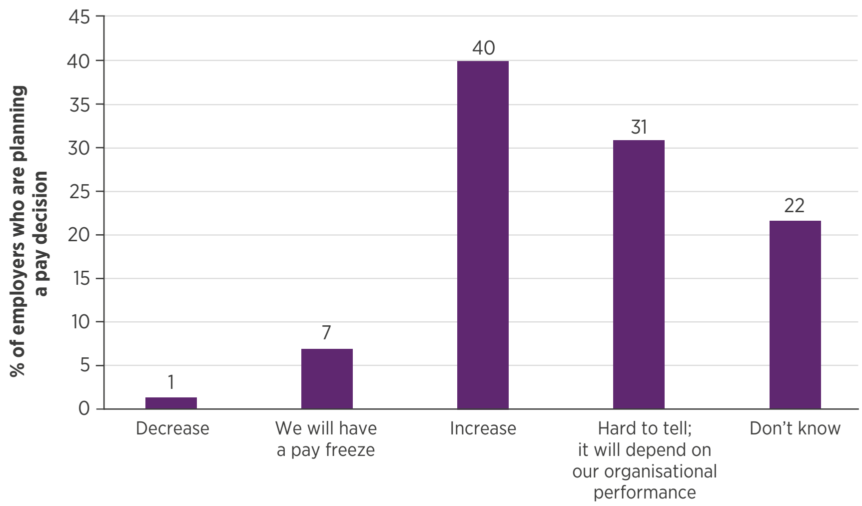
5 Pay outlook

Of those employers planning a pay review, an increase is the most popular option at 40%. However, just under a third (31%) think it is hard to tell, and around a fifth (22%) do not know. Seven per cent expect a pay freeze and only 1% expect a decrease (Figure 11).

Figure 11: Employers' expected direction of pay award (%)



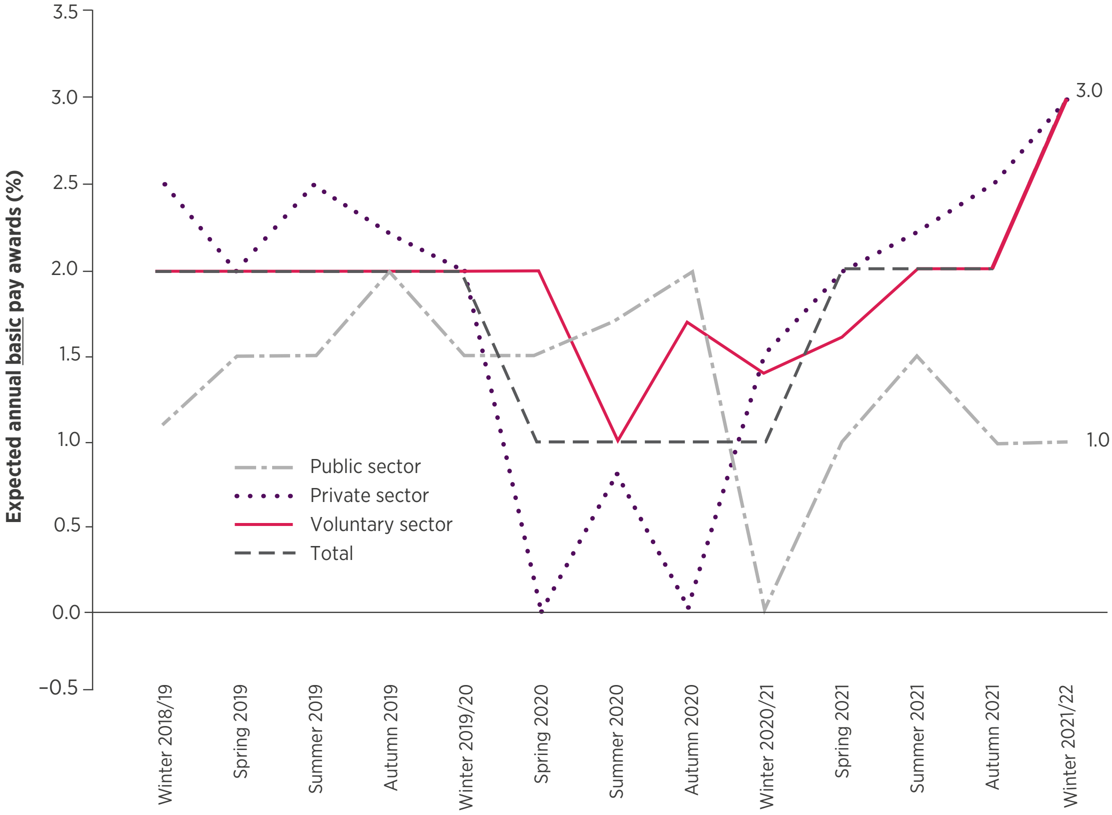
Base: winter 2021/22, all employers planning a pay review in the next 12 months (n=849).

The median expected basic pay increase stands at 3% in total, and 3% for the private and voluntary[2] sectors. Only in the public sector is relative pay restraint expected. Although all these awards are below inflation, which the Bank of England expects to peak at over 7% in 2022, these pay awards are still the highest we have seen in the current *Labour Market Outlook* series, which goes back to 2012.

The average basic pay award covered in this analysis is only one pay component. Many people will also benefit from incremental progression, bonuses, or a pay bump when switching jobs. For this reason, growth in median earnings is likely to be higher than this metric suggests.

[2] Caution: voluntary sector base below 50 (n=36) and so data is indicative only.

Figure 12: Median basic pay increase expectations – median employer



Base: winter 2021/22, all employers expecting and able to estimate a pay award (n=396; private: n=287; public: n=73; voluntary: n=36). This base size for the voluntary sector is small and therefore indicative only.

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6 Survey method

All figures, unless otherwise stated, are from YouGov Plc. The total sample size was 1,006 senior HR professionals and decision-makers in the UK. Fieldwork was undertaken between 6 and 30 January 2022. The survey was carried out online. The figures have been weighted and are representative of UK employment by organisation size and sector.

Weighting

Rim weighting is applied using targets on size and sector drawn from the BEIS *Business Population Estimates for the UK and Regions 2021*. 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	160
10–49	182
50–99	72
100–249	94
250–499	107
500–999	70
1,000 or more	321
Total	**1,006**

Table 2: Breakdown of sample, by sector

Sector	Count
Private sector	753
Public sector	183
Third/voluntary sector	70
Total	**1,006**

Table 3: Breakdown of sample, by industry

Industry	Count
Voluntary	70
Manufacturing and production	**159**
Manufacturing	90
Construction	54
Primary and utilities	15
Education	**110**
Healthcare	**71**
Private sector services	**523**
Wholesale, retail and real estate	70
Transport and storage	34
Information and communication	54
Finance and insurance	93
Business services (for example consultancy, law, PR, marketing, scientific and technical services)	111
Hotels, catering and restaurants/Arts, entertainment and recreation	66
Public administration and other public sector	67
Administrative and support service activities and other service activities	95
Police and armed forces	6
Total	**1,006**

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Table 4: Breakdown of sample, by region

Region	Count
North-east of England	21
East Midlands	44
West Midlands	54
Scotland	74
London	151
South-west of England	66
Eastern England	52
Wales	34
South-east of England	138
North-west of England	64
Yorkshire and Humberside	50
Northern Ireland	22
Channel Islands	1
Operations in all of the UK	235

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