

LABOUR
MARKET

OUTLOOK

VIEWS FROM
EMPLOYERS

Winter 2020-21

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

Winter 2020-21

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1 Foreword from the CIPD

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

The latest report is the first CIPD/Adecco *Labour Market Outlook* report to signal positive employment prospects since the onset of the pandemic. This is being driven by greater optimism among private sector employers, a greater proportion of whom look set to increase their employment levels in the first quarter of 2021. Net employment intentions have risen in the private sector to +11 from –5 in the autumn 2020 quarter. This is largely down to a substantial drop in redundancies in the private sector, alongside tentative signs that companies are starting to hire again in some sectors such as finance and insurance, business services, and information and communication. The concentrated growth in recruitment activity is consistent with other official data¹ and other survey indicators.² This activity looks set to complement the continued expansion of public sector employment in the first quarter (+15). The results suggest that the great divide between the experience of public and private sector workers in recent quarters is now narrowing in a fairly dramatic fashion.

The sum of this activity is captured by the report's net employment balance, which sees a welcome return to positive growth for the first time in a year (+11). The Brexit free trade agreement, the extension of the Job Retention Scheme to the end of April and employer anticipation of a rapid economic recovery later this year may all be factors contributing to this increase in employer confidence. However, it should also be noted that there is considerably more uncertainty about the data than usual because of the sensitivity of employer confidence to changes to both social distancing limitations and the effectiveness of the vaccine programme, alongside any latent Brexit-related issues.

Nonetheless, the positive results imply that unemployment levels may undershoot the official forecasts³ and may even be close to peak, especially given the reported sharp fall in the stock of overseas workers. For instance, according to official data, the number of EU-born workers in the UK fell by 495,000 between January–March and July–September 2020. And while the accuracy of this data has been called into question by some experts,⁴ this trend has been captured in other surveys⁵ and academic literature.⁶ It is also likely that this trajectory will continue in the future due to the recent introduction of migration restrictions on EU workers. This is likely to curb labour market slack, as reflected by the small majority of firms who are still reporting recruitment difficulties (Figure 4).

The CIPD's view that unemployment may undershoot official forecasts is predicated on the economy not suffering any additional unexpected shocks. **More crucially, the CIPD believes there remains a risk of relapse if the Government does not extend the Job Retention Scheme to the end of June 2021.**

The story on wages is no less dramatic, with the divide between the pay prospects of public and private sector workers actually reversing itself. While overall basic pay award expectations remain at 1% in line with the previous quarter, median basic pay

¹ ONS. (2021) *Labour market overview, UK: January 2021*. London: Office for National Statistics.

² Bank of England. (2020) *Agents' summary of business conditions – 2020 Q4*. London: Bank of England.

³ The OBR expects unemployment to rise to a peak of 7.5% (2.6 million people) in the second quarter of 2021.

⁴ Sumption, M. (2021) *Where did all the migrants go? Migration data during the pandemic*. Oxford: The Migration Observatory.

⁵ Bank of England. (2020) – see note 2 above.

⁶ O'Connor, M. and Portes, J. (2021) *Estimating the UK population during the pandemic*. London: Economic Statistics Centre of Excellence.

expectations in the private sector have increased to 1.5% from 0% since the previous report. By contrast, median basic pay expectations in the public sector in the 12 months to January 2022 will be 0%, in contrast with 1.4% in the voluntary sector. This may be connected to the chancellor's autumn 2020 Spending Review,⁷ which set out a pay freeze for all those working in the public sector in 2021 apart from NHS doctors and nurses and low-paid staff.⁸



Overall therefore, the short-term jobs outlook looks more positive compared with the situation three months ago, which seems to be having a positive knock-on effect on the wage prospects of workers.

Gerwyn Davies, CIPD Senior Labour Market Analyst

2 Foreword from Adecco

As the vaccine rollout continues and the UK finds its way via the Brexit free trade agreement, it feels good to be able to share glimpses of hope. In the first *Labour Market Outlook* of 2021 we see that net employment intentions in the first quarter of 2021 are positive (+11), compared with -1 three months ago.

A sharp fall in redundancy intentions is also promising for the year ahead but we can't look at this figure in isolation. Given redundancy expectations from reports over the past 12 months, much damage has already been done and this remains a sensitive time with the hopes and careers of so many in the balance.

A large proportion of employers (28%) report that they plan to postpone pay reviews and almost 20% cannot give an answer to whether they intend to make any redundancies over the next quarter. Whether uncertainty is related to Brexit, or to the pandemic, employment and therefore jobs are still highly vulnerable to fluctuations in the wider economic environment.

We are in the midst of a radical transformation of working norms and locations. This quarter's report shows that net employment intention is strongest outside London and the south-east, with the north-west and south-west of England, East Midlands, and Yorkshire and Humberside reporting the most positive intent. While city centres will undoubtedly remain a draw for top talent, being within commuting distance of a top city firm may not be necessary in the future and we are perhaps seeing early indications of this.

The largely positive sentiment of the employment market at the beginning of 2021 is welcome following 12 months of non-stop turbulence, but we are far from stability. This climate serves as a reminder that opportunities for career starters and for young people are more important than ever. To make the positive intentions in this report a reality, employers must focus on the support infrastructure needed to provide positive employment destinations for young people, and to provide open recruitment and fair progression for those entering the workforce this year.



**Alex Fleming, Region President of Northern Europe,
Adecco Workforce Solutions**

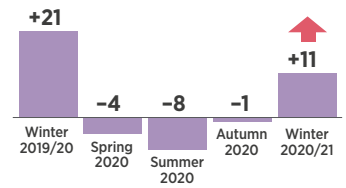
⁷ [Spending Review 2020 speech](#) by Chancellor Rishi Sunak, 25 November 2020.

⁸ 2.1 million public sector workers who earn below the median wage of £24,000 will be guaranteed a pay rise of at least £250.

3 Key points

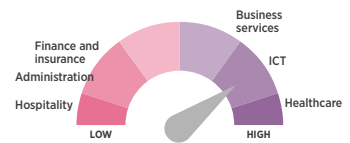
Recruitment and redundancies

- The net employment intentions figure for Q1 has risen to +11 from -1 last quarter. This is due to both a sharp fall in redundancy intentions, down from 30% to 20%, and a slight uptick in recruitment intentions. The improvement has been driven by the private sector (+11), which saw a 16 percentage point increase since the autumn report.



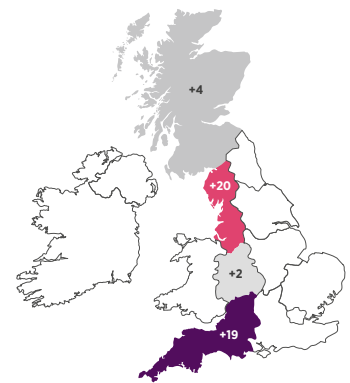
Net employment score recovery

- There is a large variation across sectors in terms of the net employment score. Employment confidence is highest in healthcare (+40), ICT (+30) and business services (+23). In contrast, net employment intentions remain subdued in hospitality (-6), finance and insurance (+2) and administration and support service activities (+2).



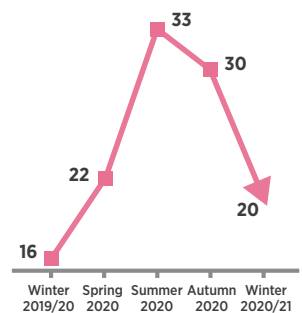
Employment confidence by sector

- In the nations and regions, employer confidence is highest in the north-west of England (+20) and in the south-west of England (+19). By contrast, the score for Scotland is +4 and +2 for the West Midlands.



Employer confidence in the nations and regions

- Mirroring the official data, recruitment intentions among UK employers surveyed have edged up since the last quarter. More than half (56%) of employers responding to the winter survey are planning to recruit in Q1 2021, up three percentage points from the autumn and seven percentage points from the summer. However, this is still down ten percentage points from the same quarter last year.

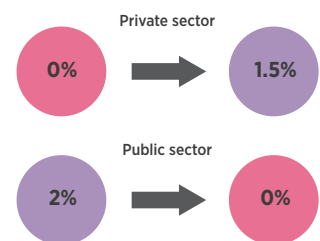


% of employers to make redundancies

- Redundancy intentions have fallen sharply over the quarter. A fifth (20%) of organisations expect to make some redundancies in the next three months, down ten percentage points from the autumn quarter. Redundancy intentions have fallen particularly steeply in the private sector – down from 34% in the autumn report to 20% in the current quarter.

Pay

- Median basic pay increase expectations for the next 12 months are at 1%, unchanged from the autumn quarter. Pay expectations in the private sector are at 1.5%, compared with 0% three months earlier.

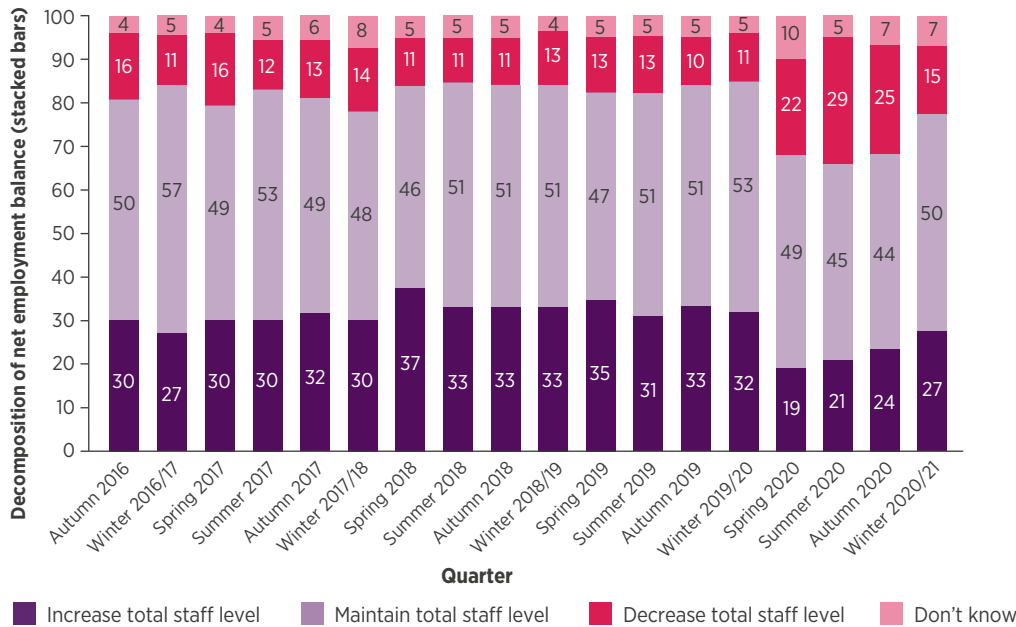


Pay trend reversal since last quarter

- By comparison, median basic pay expectations in the public sector in the next 12 months have fallen from 2% to 0% during the same period. This compares with 1.4% in the voluntary sector.

4 Recruitment and redundancy outlook

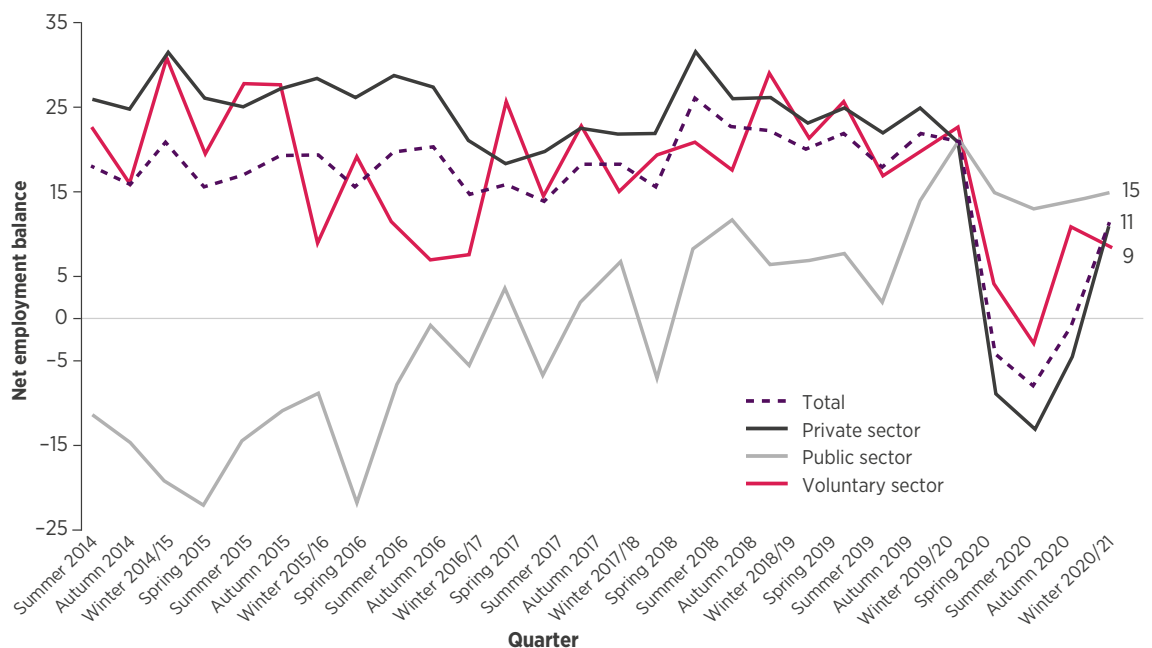
Figure 1: Decomposition of net employment balance over time



Base: winter 2020-21, all employers (n=2,006).

Following three successive quarters when employment levels looked set to fall according to the *Labour Market Outlook*, the latest data point to an expansion in the labour market in the first quarter of 2021. This quarter's net employment intentions balance, which measures the difference between the proportion of employers that expect to increase staff levels over those that expect to decrease staff levels in the first quarter of 2021, is now +11. This compares with -1 in autumn 2020, -8 in summer 2020 and -4 in spring 2020.

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

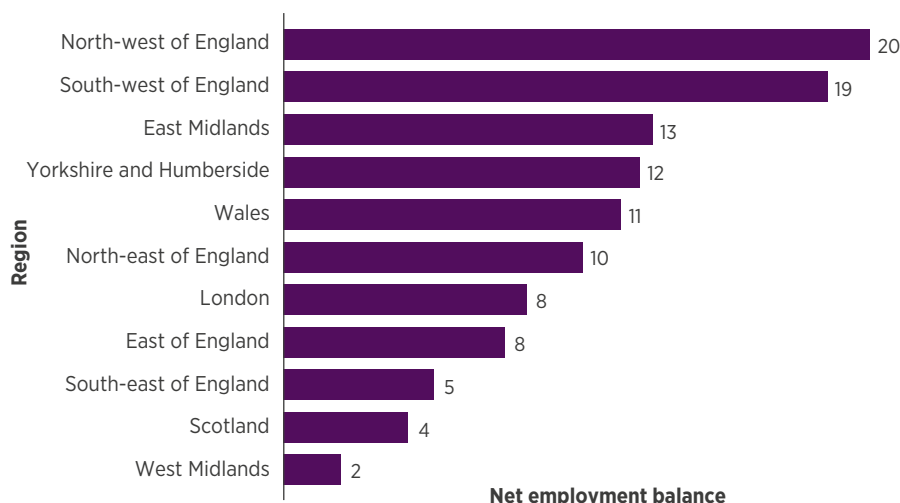


Base: winter 2020-21, all employers (n=2,006; private: n=1,415; public: n=414; voluntary: n=177).

The rise in net employment intentions is largely driven by private sector growth. The net balance for the private sector has increased to +11 from -5 in the previous quarter. The increases in employment will be particularly strong in healthcare (+40), ICT (+30) and business services (+23). In contrast, net employment intentions remain subdued in hospitality (-6), finance and insurance (+2), and administration and support service activities (+2). Interestingly, the net employment intentions figure is positive for all three sectors of the economy for the first time since the onset of the pandemic. The net employment intentions for the public sector is +15, which compares with +11 for the private sector and +9 for the voluntary sector.

5 National and regional trends

Figure 3: Net employment balance, by region



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

The figures for the nations and regions of the UK make equally dramatic reading. The net employment balance is highest in the north-west of England (+20) and in the south-west of England (+19). By contrast, the balance for Scotland is +4 and +2 for the West Midlands.

Recruitment growth gathering pace

This quarter's findings provide further evidence that the UK recruitment market may be picking up, with recruitment intentions reaching their highest levels since the winter 2019-20 report. Overall, more than half of employers (56%) intend to recruit in the first quarter of 2021. This is up three percentage points from the autumn and seven percentage points from the summer, though still down ten percentage points from the same quarter last year.

While recruitment intentions in the private sector (51%) continue to lag behind the public sector (77%), hiring in both the private and public sectors looks set to accelerate modestly compared with the previous quarter. Recruitment intentions are highest in healthcare (80%), public administration and defence (78%) and ICT (67%). However, hiring intentions remain subdued in the hospitality (36%), construction (44%), administration and support service activities (45%), and manufacturing (49%) sectors. Almost two-thirds of voluntary sector respondents (63%) are planning to recruit, which is consistent with the last quarter (64%).

How prevalent are hard-to-fill vacancies?

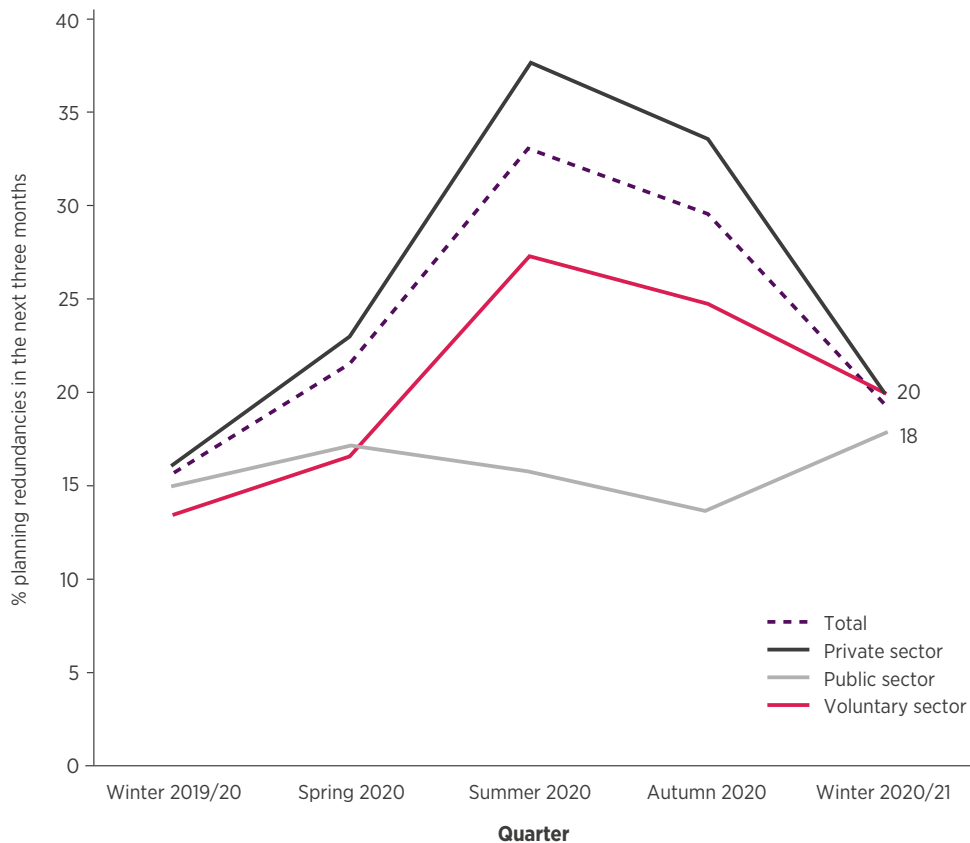
The report also shows that the pandemic has had some impact on labour and skill shortages. More than half (57%) of organisations have vacancies that are hard to fill, down seven percentage points from the same quarter last year (64%). Recruitment difficulties are slightly higher in the public sector (62%) than the private sector (56%) and are most prevalent in healthcare (75%).

Redundancy intentions show sharp fall

While recruitment intentions have ticked up, the proportion of employers intending to make redundancies has fallen by a third. A fifth of employers (20%) expect to cut jobs during the next three months, down from 30% in the previous quarter. Indeed, redundancy intentions have fallen more steeply in the private sector than at any point since the start of the pandemic, down from 34% in the autumn report to 20% in the current quarter.

Redundancy intentions remain elevated among hospitality (27%) and finance and insurance (25%) employers. By contrast, the number of business services firms (13%) planning to make redundancies has more than halved in the past three months. The volume of these redundancy intentions represents on average 15% of the workforce, which represents a decrease of one percentage point compared with the autumn report. Additionally, the proportion of those who cannot give an answer as to whether they intend to make redundancies has grown by two percentage points (19%), suggesting there is still a high level of uncertainty among some employers.

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



Base: winter 2020-21, all employers (n=2,006; private: n=1,415; public: n=414; voluntary: n=177).

Redundancy practice

When asked about the redundancy process for selecting employees, the most popular measures include a policy or framework to ensure a fair process (58%), employee representation from a trade union or colleagues (53%), and a process that allows employees to challenge the decision (49%). In addition, almost half of employers ensure that HR has final oversight of redundancy decisions, while more than a third (35%) of employers say that they provide independent advice for employees.

The survey also shows that employers are adopting a variety of measures to help support the redundancy process. Key tactics include the provision of guidance to managers to ensure a fair and transparent redundancy process (58%), inclusion and diversity training for managers (45%), and strict sanctions for managers who are found to have discriminated against employees in the redundancy process (34%).

6 Pay outlook

Expected scale of organisational pay reviews

Around seven in ten (72%) employers surveyed intend to review their wages over the next 12 months. More than a quarter (27%) of employers surveyed intend to review wages between January and March 2021. A quarter (25%) expects this to be between April and June 2021. However, the proportion of employers that plan to postpone carrying out a pay review in the next year remains high (28%). This is particularly prevalent in the hospitality (46%) and business services (33%) sectors.

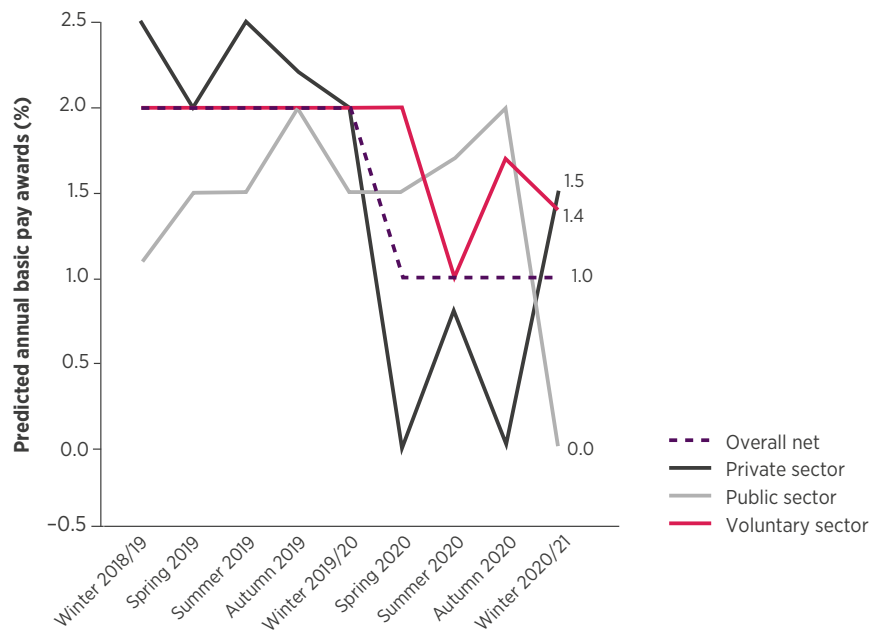
Continuing the trend from previous reports, pay settlements look set to remain subdued in 2021. Employers say that the median basic pay increase in their organisation (excluding bonuses) will be 1%, which remains unchanged from the autumn quarter.

In a reversal of recent trends, the pay outlook for private sector workers over the coming 12 months is brighter than the outlook for public sector workers. The median basic pay award in the private sector in the 12 months to January 2022 will be 1.5%, which compares with 0% in the autumn quarter. By comparison, basic pay expectations in the public sector have fallen from 2% to 0% during the same period. This may be connected to the chancellor's autumn 2020 Spending Review,⁹ which set out a pay freeze for all those working in the public sector in 2021 apart from NHS doctors and nurses and low-paid staff.¹⁰ Meanwhile, median basic pay expectations in the voluntary/not-for-profit sector are 1.4%. These figures should, however, be viewed with caution as more than half (52%) of employers are uncertain about the outcome of their next pay review.

⁹ [Spending Review 2020 speech](#) by Chancellor Rishi Sunak, 25 November 2020.

¹⁰ 2.1 million public sector workers who earn below the median wage of £24,000 will be guaranteed a pay rise of at least £250.

Figure 5: Employers' median basic pay expectations, by business sector

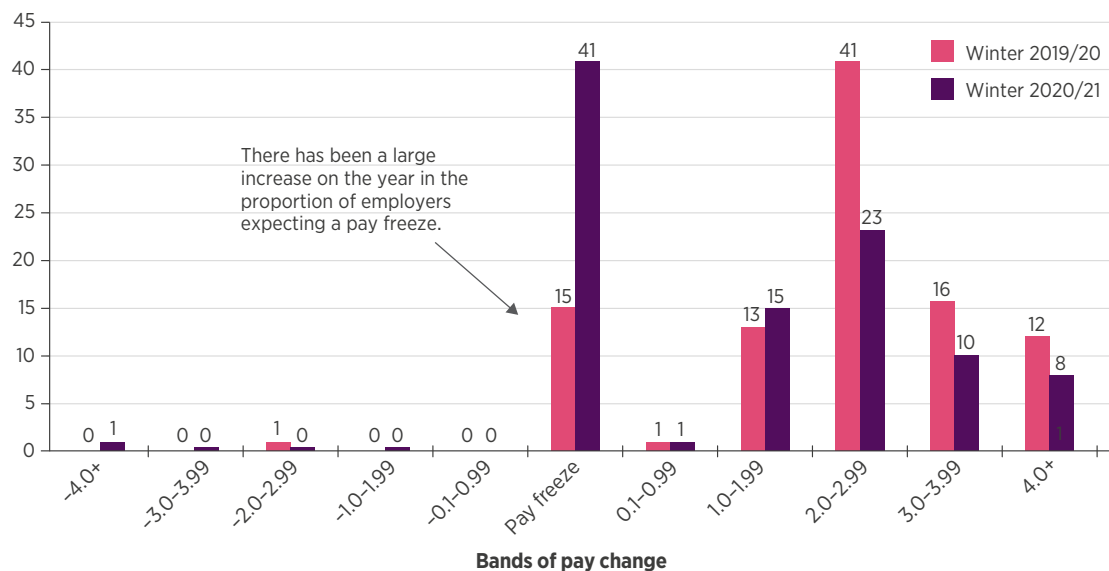


Base: winter 2020-21, all employers (n=2,006; private: n=1,415; public: n=414; voluntary: n=177).

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 41%, in line with the autumn quarter (41%). In a reversal of recent trends, this is largely driven by public sector employers (62%), who are significantly more likely than private sector employers (37%) to report a freeze.

Meanwhile, more than half (58%) of organisations say that they carried out a pay review in 2020, while more than a third (36%) were able to report that they did not conduct a pay review last year. Among those that carried out a pay review in 2020, the median basic pay increase was 2%. The median basic pay award for private sector employees was 2%, which compares with a 2% increase for public sector organisations and a 1.8% increase for not-for-profit/voluntary sector employees.

Figure 6: Distribution of forward-looking basic pay changes (%)



Base: winter 2020-21, all employers who report an expected increase, decrease or pay freeze in the next 12 months (n=669).

7 Survey method

All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,006 senior HR professionals and decision-makers in the UK. Fieldwork was undertaken between 5 January and 30 January 2021. 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 *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	463
50-99	169
100-249	185
250-499	131
500-999	109
1,000 or more	534
Total	2,006

Table 2: Breakdown of sample, by sector

Sector	Count
Private sector	1,415
Public sector	414
Third/voluntary sector	177
Total	2,006

Table 3: Breakdown of sample, by industry

Industry	Count
Voluntary	177
Manufacturing and production	367
Manufacturing	190
Construction	130
Primary and utilities	47
Education	207
Healthcare	145
Private sector services	933
Wholesale, retail and real estate	177
Transport and storage	57
Information and communication	80
Finance and insurance	127
Business services (for example consultancy, law, PR, marketing, scientific and technical services)	217
Hotels, catering and restaurants/Arts, entertainment and recreation	142
Administrative and support service activities and other service activities	133
Public administration and defence	149
Police and armed forces	28
Total	2,006

Table 4: Breakdown of sample, by region

Region	Count
North-east of England	56
East Midlands	107
West Midlands	108
Scotland	135
London	306
South-west of England	152
East of England	96
Wales	90
South-east of England	254
North-west of England	151
Yorkshire and Humberside	118
Northern Ireland	17



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