

## Employer confidence rises but hiring plans remain cautious

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

### Confidence

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

26%

Better

29%

Worse

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

30%

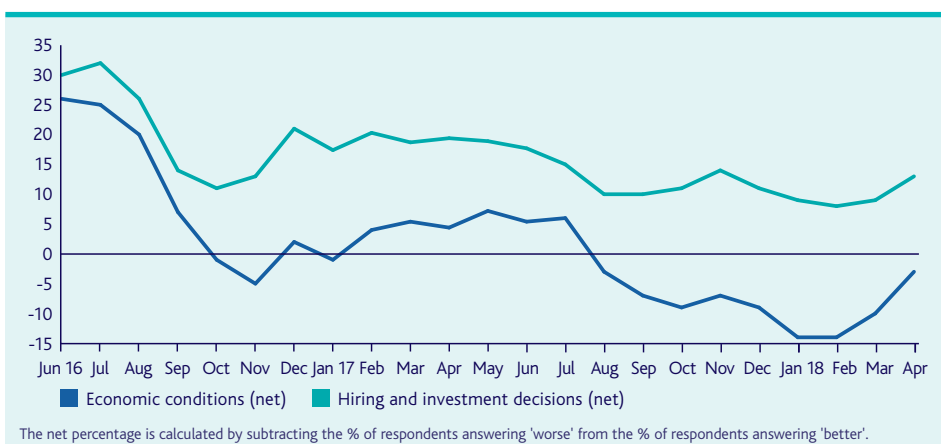
Better

17%

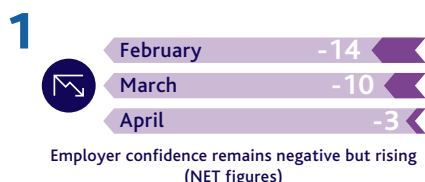
Worse

All involved in hiring (n=600)

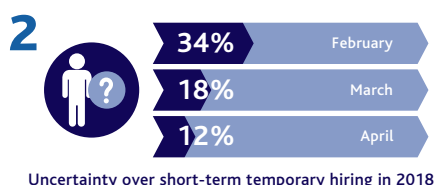
Employers' confidence in the prospects for the UK economy improved significantly in the first quarter of 2018, with a 7 point upward movement in the net balance of sentiment to NET: -3. This brighter outlook translated into greater confidence in making hiring and investment decisions, improving by 4 points to NET: +13.



### Key Points from January–March Survey



Employer confidence in economic conditions is improving, with a NET balance of -3 expecting conditions to worsen. This is the most optimistic employers have been since August 2017.



More employers are expressing certainty around short term temporary hiring: 12% don't know their plans, down from 18% in March and 34% in February. Instead, employers are increasingly planning to hold headcount.



Despite the improvement in employer confidence, permanent hiring plans are on a downwards trajectory. Only 14% of employers are planning increases short term, down from 22% this time last year.



Half (50%) of employers consider membership of a trade organisation important when choosing a recruitment agency to source temporary agency workers, the highest proportion recorded by this survey.



Over the past year, only 44% of employers increased headcount and only 47% increased pay. This has been falling since June 2017, showing the effect of declining employer confidence since the EU referendum.



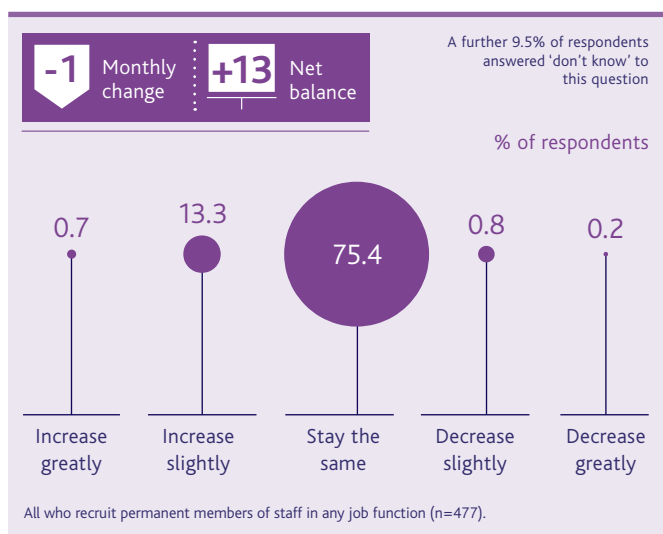
The proportion of employers expressing concern over the sufficient availability of agency workers increased to 47%, up from 35% last month and 31% this time last year.

# 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?

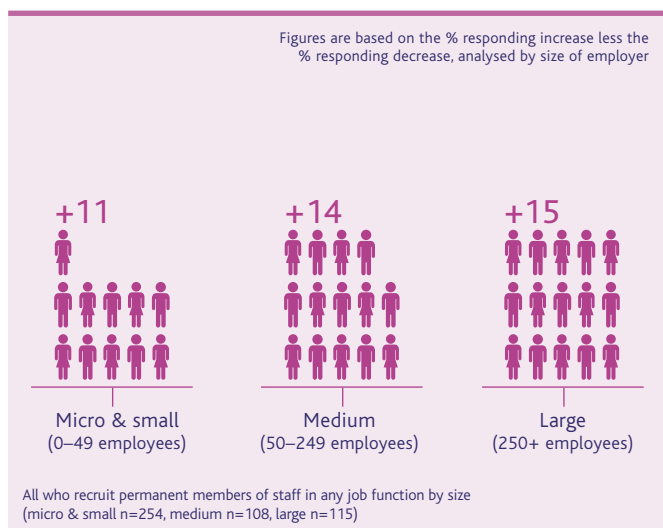
The improved outlook for the UK economy did not translate into any short-term improvement in permanent hiring expectations. Whilst more employers who recruit permanent staff planned increases rather than decreases in permanent headcount when surveyed across January–March 2018 (a NET balance of +13), this was in line with the previous rolling quarter and seven points lower than in Q1 2017.



## OUTLOOK BY EMPLOYER SIZE

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

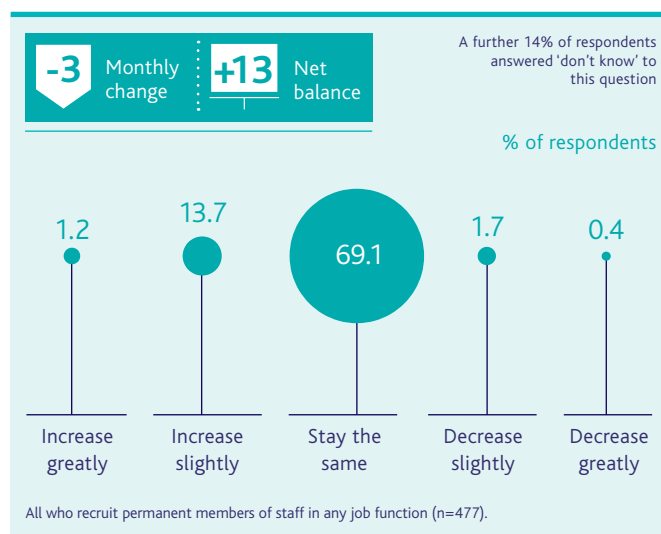
Sentiment around permanent hiring intentions remained relatively steady across all sizes of employers. At NET: +15, sentiment amongst the largest enterprises (250+ employees) was at the same level as in Q1 2017. In contrast, the net balance of +11 amongst micro/small organisations (0–49 employees) is down 10 points year-on-year.



## MEDIUM-TERM OUTLOOK

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

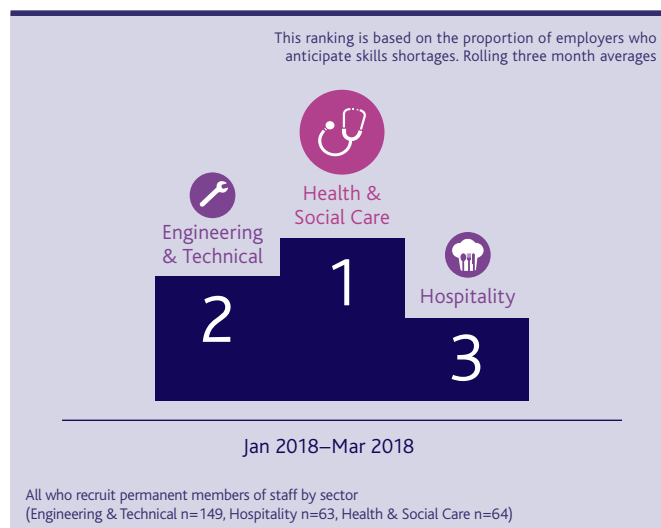
More employers who recruit permanent staff are planning increases, rather than decreases, in permanent headcount in the medium term (NET +13). This is a fall of 3 points since March 2018 and is down from NET: +21 in Q1 2017. The level of uncertainty remained highest amongst the UK's largest organisations (250+ employees), where 26% of respondents do not know their plans.



## 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?

Four in ten employers (41%) anticipated a shortage of appropriate candidates for permanent hire, when surveyed in Q1 2018 – down from 49% in the same period last year. Hirers of health and social care workers expressed the greatest level of concern.

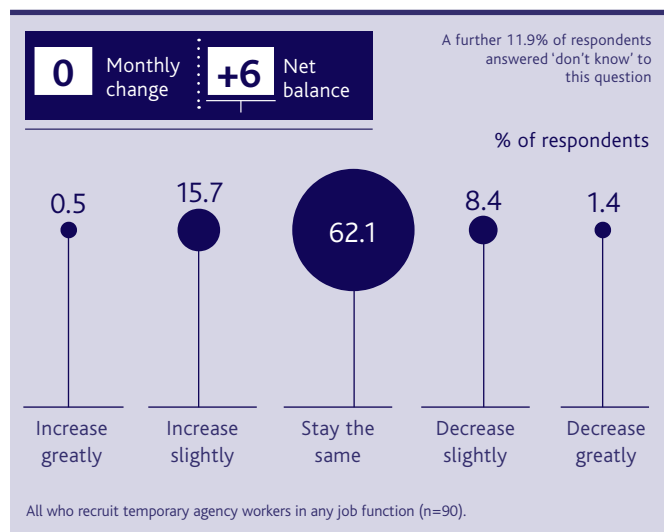


# Temporary Recruitment

## SHORT-TERM OUTLOOK

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

There was no change in the net balance of those planning increases over decreases in agency headcount (NET: +6). However, the combined proportion of respondents who recruit temporary agency workers planning to either hold or increase levels increased by 6 points to 78%. With 12% of all UK employers who recruit temporary agency workers expressing uncertainty, a rate of 20% amongst the UK's largest enterprises (250+ employees) highlights some underlying challenges.



## OUTLOOK BY EMPLOYER SIZE

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

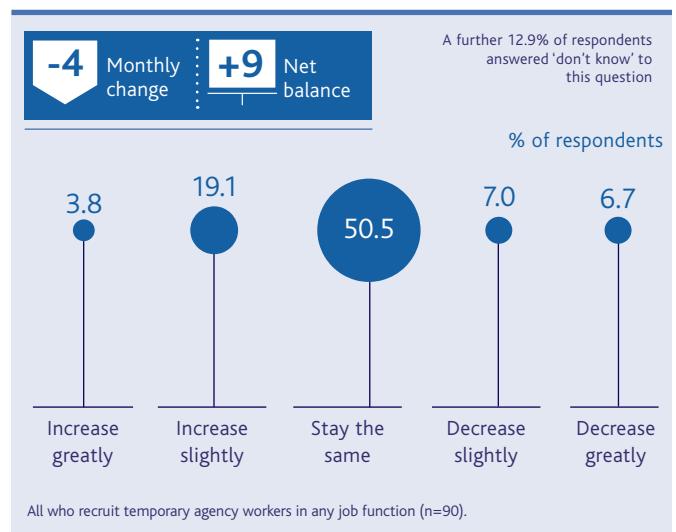
The net balance of sentiment amongst mid-sized enterprises (50–249 employees) is NET: +5, after falling into negative territory (NET: -7) in March. At NET: +14, the balance figure for the UK's smallest employers (0–49 employees) is notably higher than medium and large employers (NET: +5 and +4 respectively). The balance of intent amongst medium (50–249 employees) and large (250+ employees) employers remained relatively unchanged, year-on-year.



## 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?

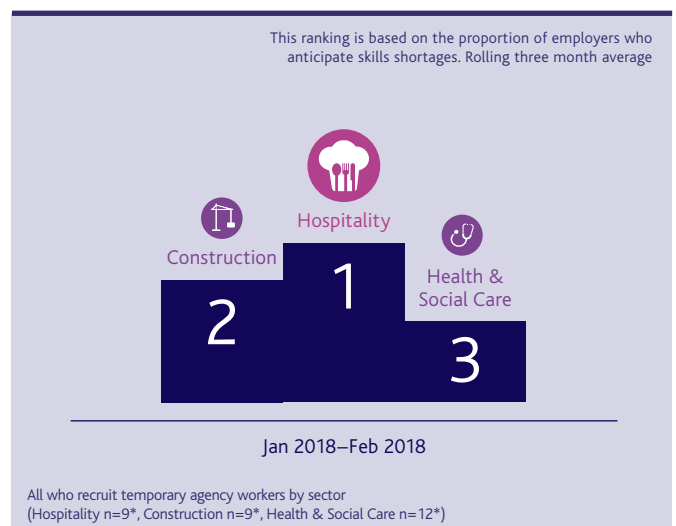
The proportion of employers of temporary agency workers who do not know their medium-term agency hiring plans (13%) is significantly lower than the proportion in January 2018 (25%). However, a rate of 22% amongst large enterprises (250+ employees) highlighted continuing challenges.



## 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?

The proportion of employers expressing concern over the sufficient availability of agency workers increased to 47%, up from 35% last month and 31% this time last year. With the top three skills areas of concern remaining those with a historically high dependency upon non-UK national workers, the declining availability of international talent is likely to be a key contributor to this year-on-year change.



# LabourMarketDashboard

## TOTAL EMPLOYMENT – PERMANENT AND TEMPORARY

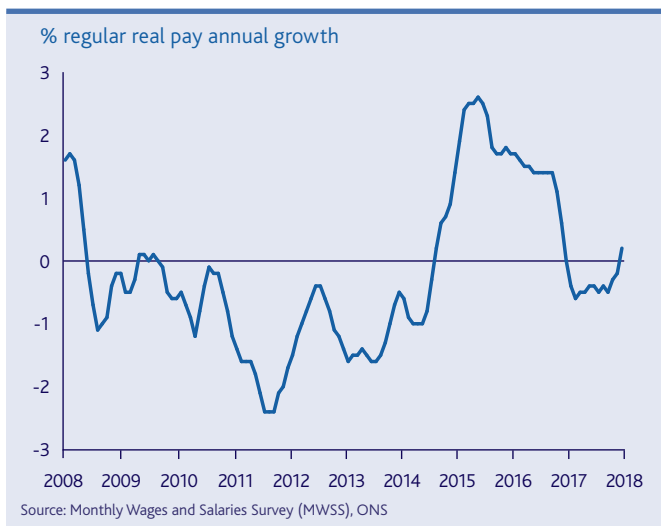
The UK workforce increased by 427,000 (1.3%) year-on-year. A third (34%) of this annual increase came from 146,000 more people working part-time. Amongst the self-employed, there was an 85,000 increase in the number of part-time workers but a 115,000 decrease in the number of full-time workers, leading to an overall year-on-year fall of 30,000 self-employed workers. There was also a 39,000 year-on-year decrease in temporary employment, despite 44,000 more people being classified as in temporary employment due to training (which is likely to be due in part to apprenticeships).

### Total employment, employed and self-employed



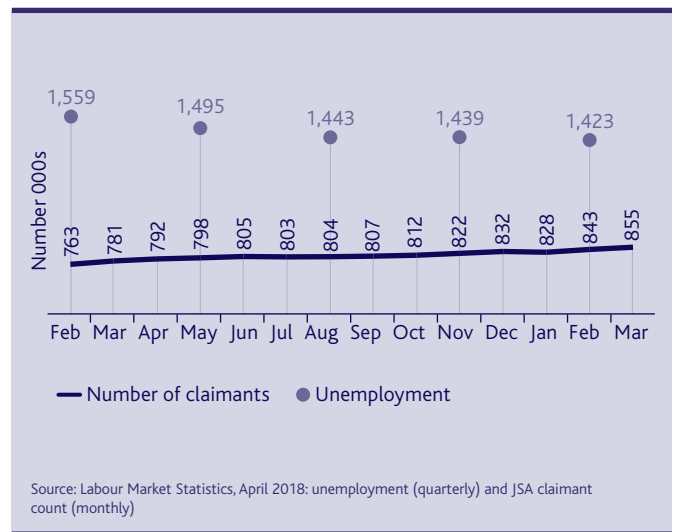
## REAL WAGE GROWTH

Regular employee pay (excluding bonuses), in real terms once adjusted for inflation (CPI), finally returned to positive territory (+0.2%) in the year to December 2017-February 2018. This is the first time real-terms regular pay growth has been positive since March 2017. On a weekly basis, average regular pay (excluding bonuses) for employees in Great Britain was £459 (before tax and deductions from pay) – which is still £14 lower than the pre-downturn peak of £473 recorded for March 2008. However, this calculation excludes the 15% of the workforce that is self-employed where the recent trend has been towards an increase in part-time working.



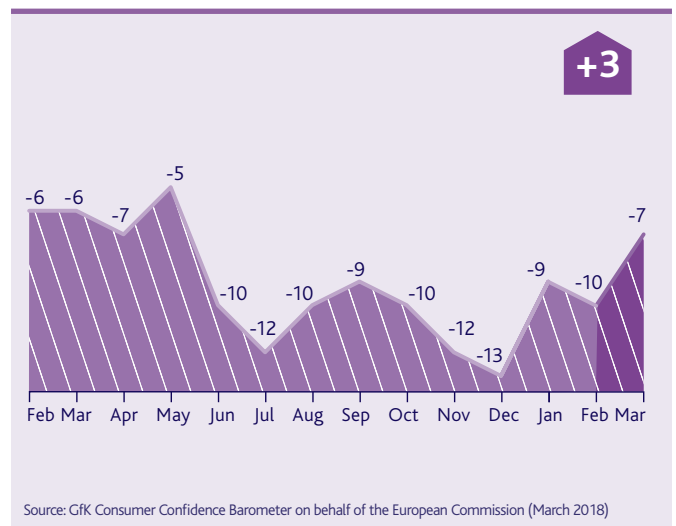
## UNEMPLOYMENT AND CLAIMANT NUMBERS

At 4.2% in December 2017–February 2018, UK unemployment was at its lowest rate since 1975. Despite the number of unemployed being 136,000 lower than last year, there was a year-on-year increase in the number of younger-aged women out of work. 1,000 (+1.5%) more women aged 16–17 and 7,000 (+4.6%) more women aged 18–24 found themselves out of work compared to a year earlier. Despite the fall in the total number of unemployed, the claimant count increased by 80,000 (10.4%) between February 2017 and February 2018. This was underpinned by a 15.4% increase in the female claimant count (44,000) and a 7.4% rise (+36,000) amongst men.



## CONSUMER CONFIDENCE INDEX

Whilst the GfK Consumer Confidence Index continues to sit firmly in negative territory, it improved by 3 points in March to -7. This was a similar level to that recorded a year earlier (-6) but was a notable improvement on the figure recorded just three months earlier in December 2017 (-13). Whilst the overall index remained in negative territory due to respondents' economic outlook (-26 when considering the last 12 months and -22 when expressing a view on the next 12 months), the outlook for personal finances for the next 12 months improved by 5 points to +10. Similarly, the savings index improved by 1 point to +13, whilst the major purchase index rose by 2 points to +2.

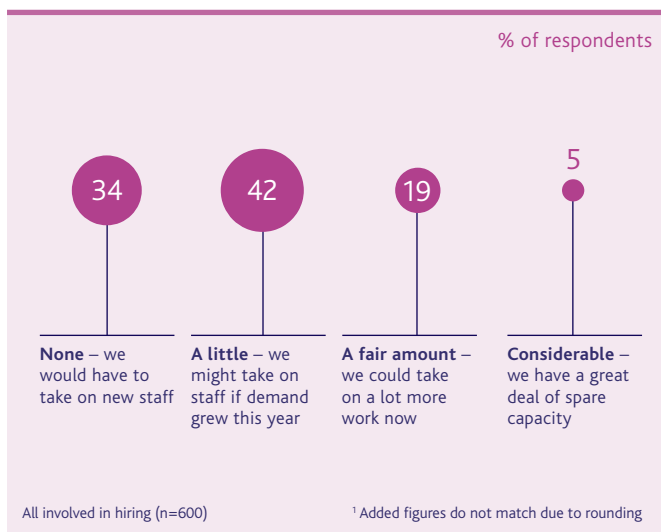


# EmployerDashboard

## WORKFORCE CAPACITY

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

Three-quarters (77%) of employers operated with either no spare capacity (34%) or such a small amount that they might require additional staff to deal with increased demand (42%) in Q1 2018.<sup>1</sup> Amongst the remaining quarter that had fair or considerable spare capacity were 30% of public sector organisations. In contrast, just 18% of London employers and 16% of the UK's largest enterprises (250+ employees) had a surplus.

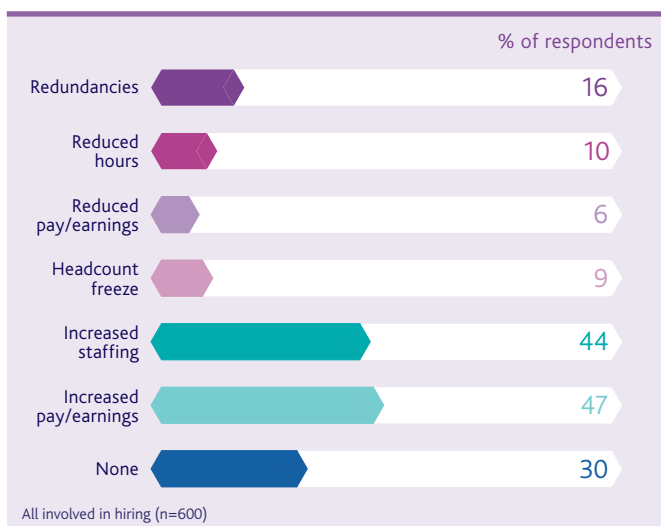


## WORKFORCE PLANNING

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

Over the past year, only 44% of employers increased headcount and only 47% increased pay. This has been falling since June 2017 and is the lowest since this survey began in June 2016, showing the impact of falling employer confidence since the EU referendum. Improving employer confidence could lead to an improvement in the number of employers increasing headcount and pay.

Workforce changes made in the last year  
3 month rolling average to March 2018

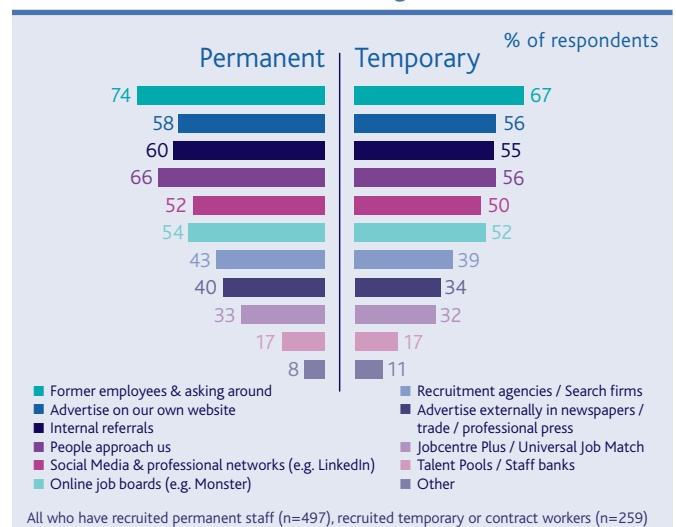


## RECRUITMENT CHANNELS USED

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

The use of internal referrals continues to decline as a means to fill both permanent and temporary vacancies. Whilst six in ten permanent hirers highlighted the use of this channel to fill permanent requirements this quarter (60%), this was down from 74% in Q1 2017. Similarly, their use to fill temporary needs fell from 62% to 55% year-on-year.

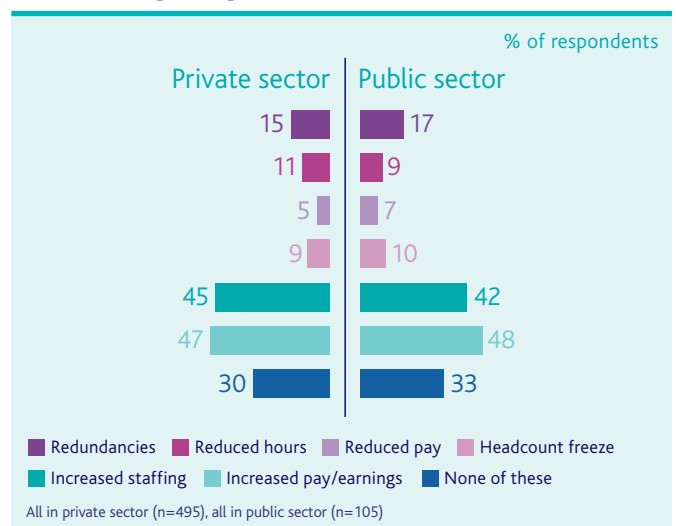
Recruitment channels used for staffing as of March 2018



## WORKFORCE PLANNING BY SECTOR

Only 45% of private sector employers increased staffing levels in the last 12 months, down from 59% in the year to Q1 2017. Similarly, there was a 16 point year-on-year fall in the proportion of private sector enterprises increasing pay/earnings (versus a 13 point fall amongst public sector employers). Additionally, three in ten private sector employers, and one third of public sector organisations, had actioned none of these workforce planning options in the last year – up from 17% of private sector and 19% of public sector enterprises admitting the same in Q1 2017.

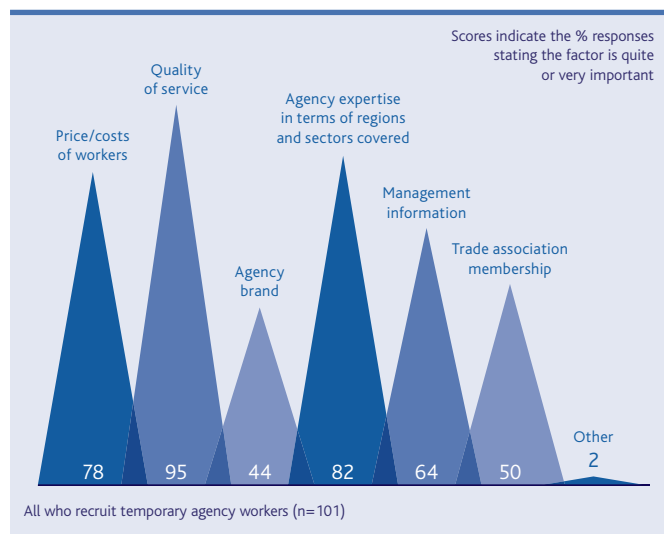
3 month rolling average to March 2018



## 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?

More respondents who recruit temporary agency workers continue to think quality of service (95%) and expertise of an agency (82%) are more important than the cost of workers (78%). Meanwhile, half (50%) consider membership of a trade organisation important, the highest proportion since June 2016.

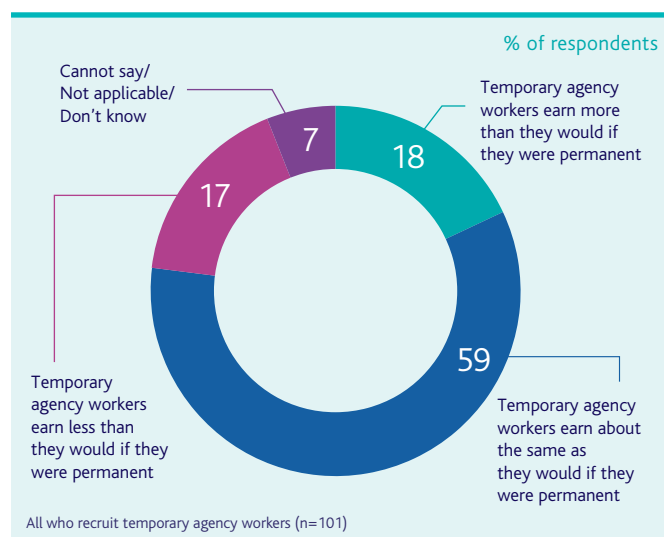


## AGENCY WORKER PAY RATES

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

The proportion of employers who recruit temporary agency workers who feel that agency workers earn more than their permanent counterparts fell by a further 3 points this quarter to 18% (following a 9 point fall in the previous rolling quarter). As with last quarter, the shift is towards more employers – now six in ten (59%) – believing that agency workers are achieving parity of pay with permanent staff performing the same roles.

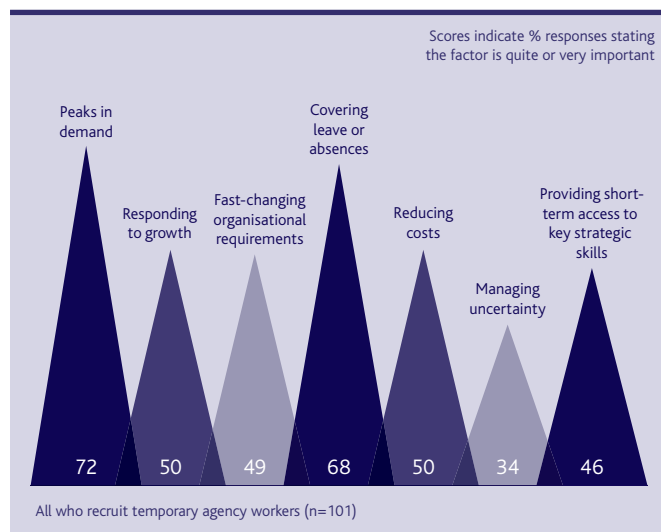
3 month rolling average to March 2018



## IMPORTANCE OF AGENCY WORKERS TO EMPLOYERS

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

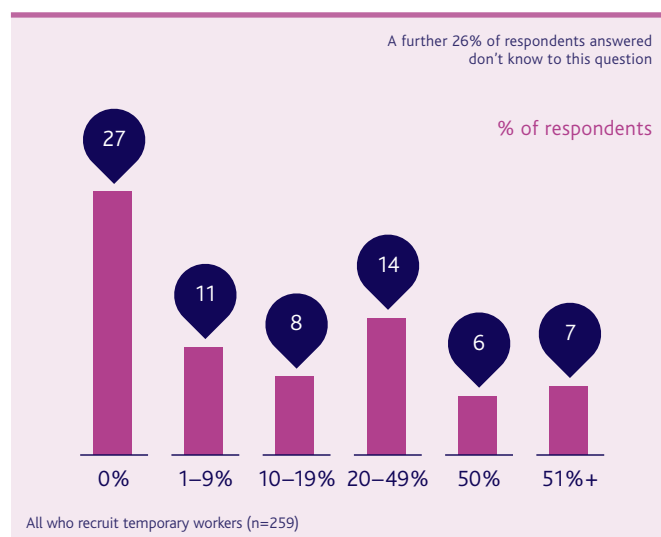
Whilst half (50%) of UK employers who recruit temporary agency workers cited the use of agency workers to respond to growth as important, the level of importance varied by size of employer. 64% of micro/small enterprises (0–49 employees) highlighted access to agency workers as important for this purpose, compared to just 31% of their mid-sized counterparts (50–249 employees).



## TEMPORARY TO PERMANENT

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

A rolling quarter-on-quarter increase in the proportion of employers who transfer at least 1% of staff from temporary to permanent status was driven by significant monthly changes. In January, 36% of respondents transferred at least 1% of staff compared to 60% in March. Only 35% of the smallest organisations (0–49 employees) who hire temporary staff transferred at least 1%, compared to 57% of the UK's largest (250+ employee) enterprises.



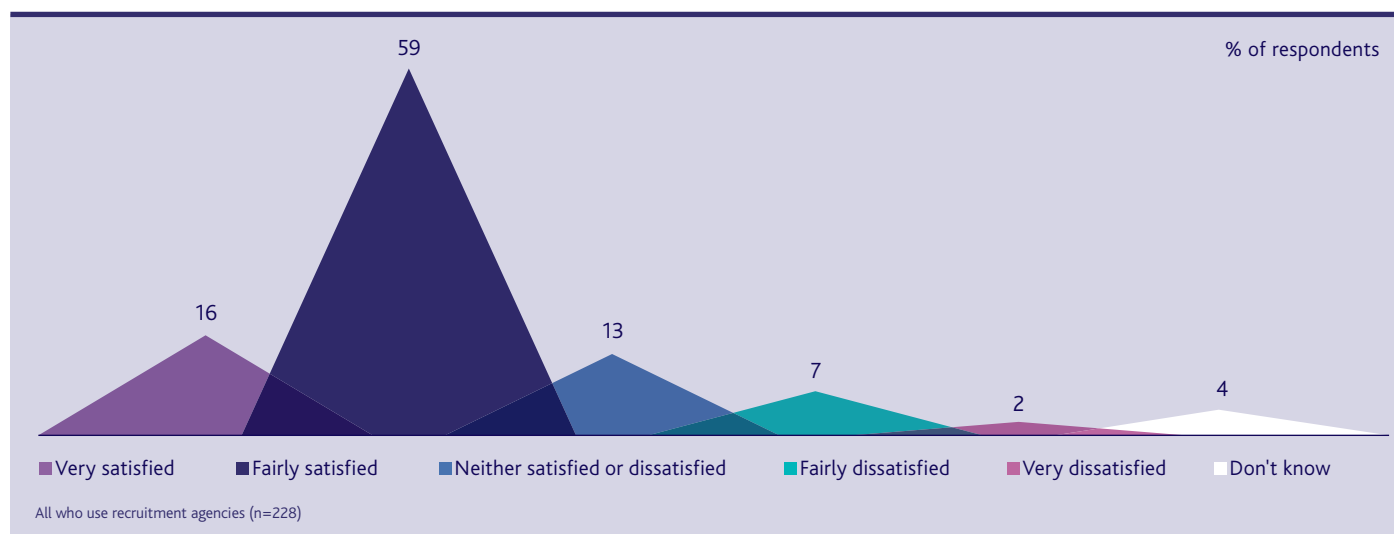


## SATISFACTION WITH CANDIDATES

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

Three quarters of employers who use recruitment agencies (75%) expressed satisfaction with the candidates presented by their agencies this quarter – up 4 points on the last rolling quarter to the same level as recorded in Q1 2017. This is a noteworthy achievement considering the ever-tightening availability of talent being highlighted by respondents.

Behind these figures were some regional variations. 70% of employers in the South (including London) were satisfied by the quality of candidates, compared to 75% satisfied overall.

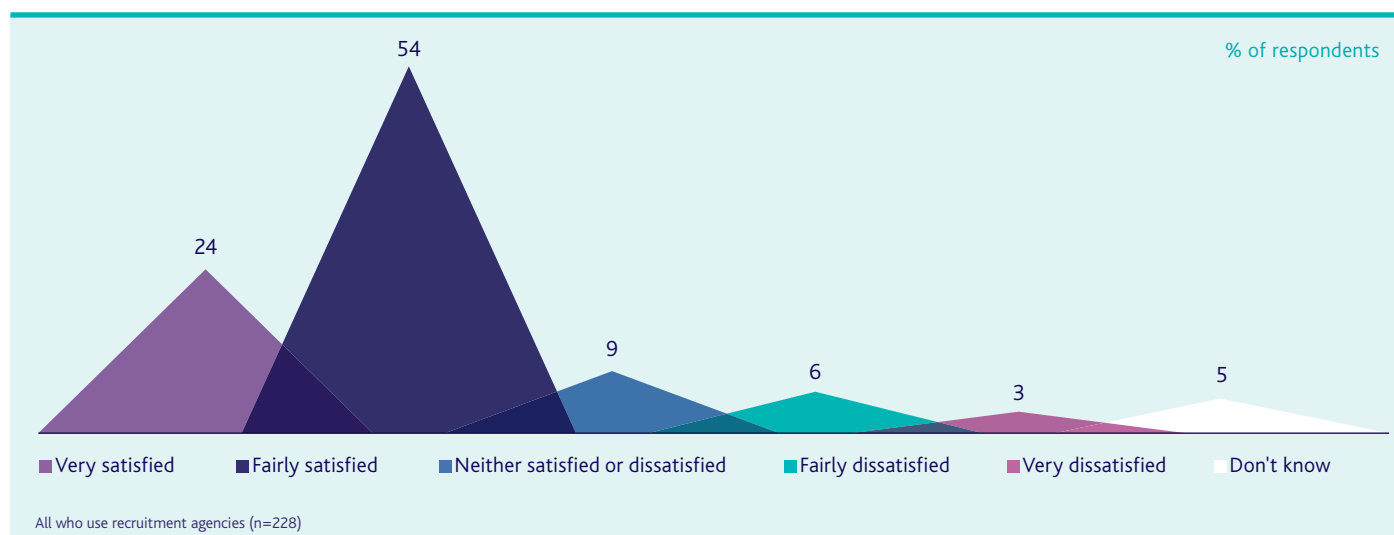


## SATISFACTION WITH AGENCIES

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

Among those who use them, the level of satisfaction with the agencies supporting UK employers was unchanged in Q1 2018 (77%) compared to a year earlier (76%). This suggests that, despite the tightening availability of talent highlighted by respondents, agencies are working hard to meet their increasingly challenging requirements.

Those most satisfied include employers in London (84%) and mid-sized (50–249 employees) enterprises (84% – up from 73% in Q1 2017).



The Sector Prospects page provides relevant information specific to occupational groups. Follow these graphs each month to 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?

The net balance of forecast short-term demand for permanent hire (+13) continued to be higher than the balance of anticipated demand for agency staff (+6).

Skills areas with notably above-average forecast net demand for permanent workers included Construction (+27) and Health & Social Care (+36). In the case of the latter, anticipated net demand for temporary workers was also significantly above-average (+23).

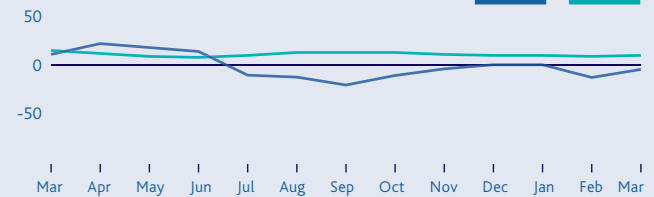
In contrast, notably more employers anticipated diminishing rather than increasing demand for temporary education workers (-38). Other skills areas with negative net forecast temporary worker demand included Accounting/Financial Services (-4) and Interim Executives (-8).

■ 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.

### ACCOUNTING & FINANCIAL SERVICES

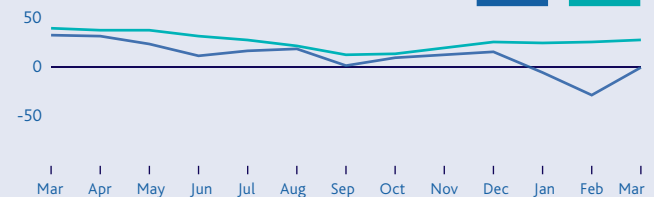
+8 +1



Temporary agency workers (n=23\*) and permanent members of staff (n=229)

### CONSTRUCTION

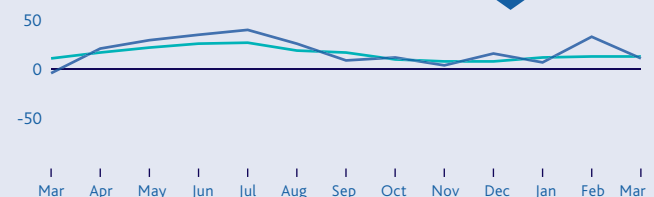
+28 +2



Temporary agency workers (n=9\*) and permanent members of staff (n=67)

### DRIVERS

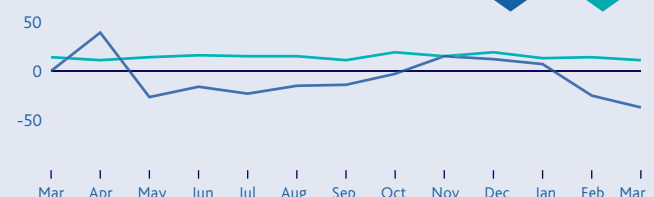
-22 0



Temporary agency workers (n=10\*) and permanent members of staff (n=101)

### EDUCATION

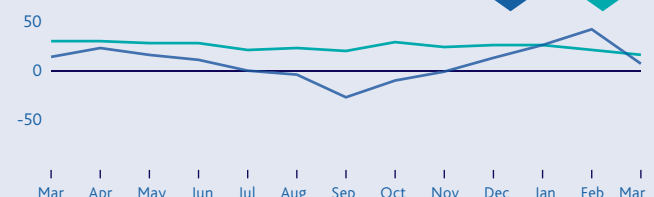
-12 -3



Temporary agency workers (n=8\*) and permanent members of staff (n=52)

### ENGINEERING & TECHNICAL

-35 -5



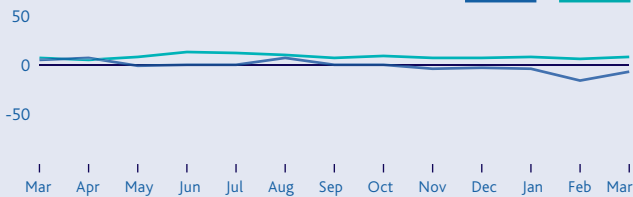
Temporary agency workers (n=14\*) and permanent members of staff (n=149)



# SectorProspects

## EXECUTIVE RECRUITMENT / INTERIM

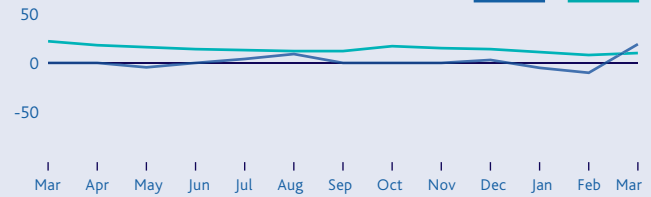
+9 +2



Temporary agency workers (n=13\*) and permanent members of staff (n=143)

## MARKETING, MEDIA & CREATIVE

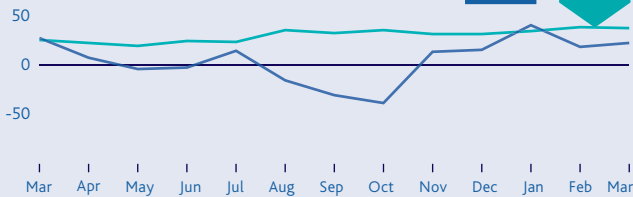
+29 +2



Temporary agency workers (n=17\*) and permanent members of staff (n=164)

## HEALTH & SOCIAL CARE

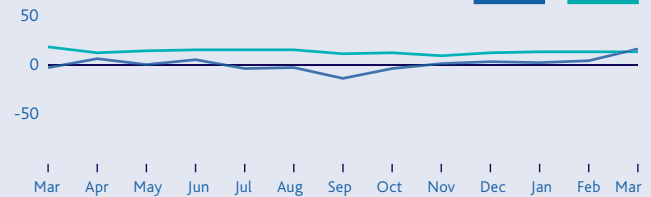
+4 -1



Temporary agency workers (n=12\*) and permanent members of staff (n=64)

## OFFICE PROFESSIONALS

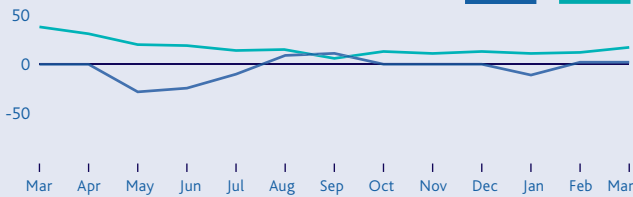
+12 0



Temporary agency workers (n=37\*) and permanent members of staff (n=291)

## HOSPITALITY

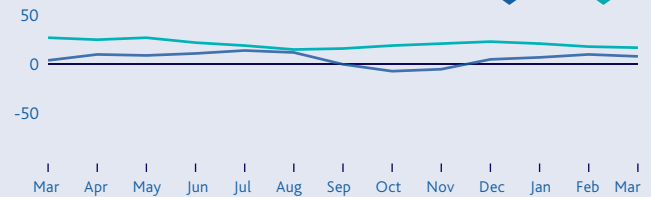
0 +5



Temporary agency workers (n=9\*) and permanent members of staff (n=63)

## SALES & RETAIL

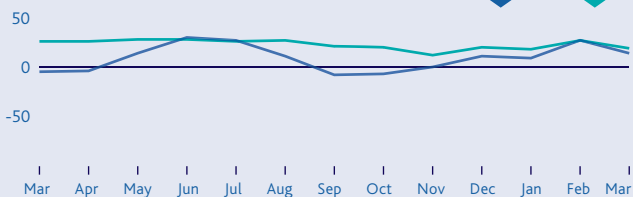
-2 -1



Temporary agency workers (n=13\*) and permanent members of staff (n=193)

## INDUSTRIAL

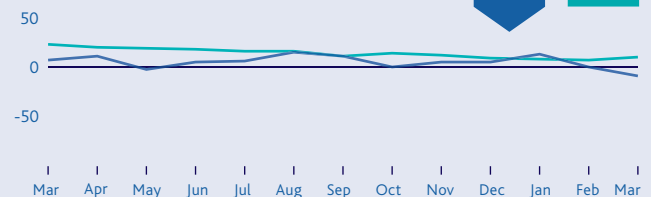
-13 -8



Temporary agency workers (n=18\*) and permanent members of staff (n=81)

## TECHNOLOGY

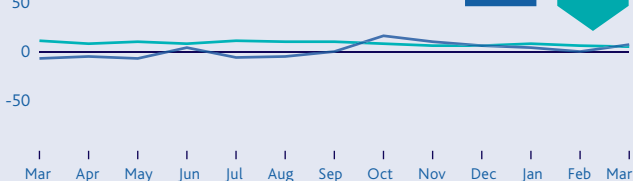
-9 +3



Temporary agency workers (n=12\*) and permanent members of staff (n=124)

## LEGAL & HR

+7 -1



Temporary agency workers (n=16\*) and permanent members of staff (n=156)

# REC-IHS Markit Predictive model

## UNEMPLOYMENT RATE FORECAST TO EDGE UP TO 4.3%

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

The latest nowcast model anticipates a decline of 27,000 in the Labour Force Survey measure of UK unemployment in the three months to March. The unemployment rate, which is based on a three-month-on-three-month comparison, would move from 4.2% to 4.3%, and stay close to a four-decade low.

The model signals a second successive fall in unemployment, with a reduction of 16,000 recorded in the three months to February. As shown in the chart below, 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
- 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

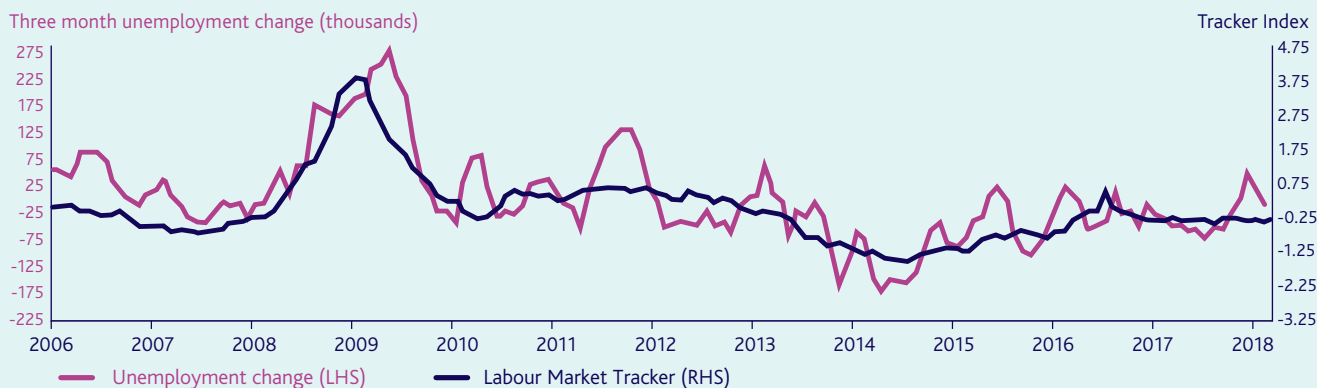
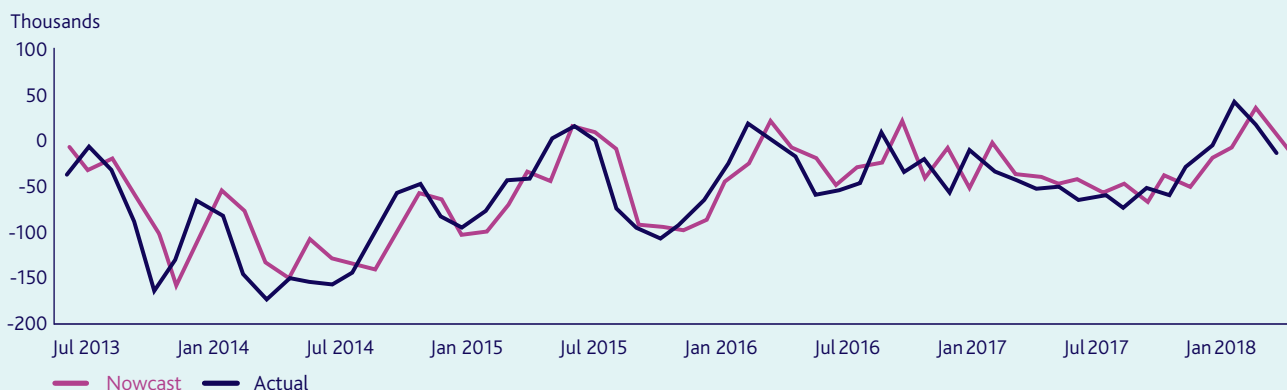


CHART 2: THREE MONTH UNEMPLOYMENT CHANGE



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