

## Candidate shortage remains critical as employers turn to temps

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### REC-IHS Markit Predictive model



Expected unemployment rate for February–April 2017

Our nowcast model forecasts a decline in the Labour Force Survey measure of UK unemployment of 47 thousand in the three months to April. This would leave the unemployment rate unchanged at 4.6%.

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

### Confidence

In the three months to April, one third (34%) of employers felt that UK economic conditions were improving. This is compared to 27% of employers who thought the economy was worsening. However, marginally more large employers (250+ employees) felt the economy was worsening (29%) than improving (28%). Large employers were also the least confident about making hiring and investment decisions as a consequence.

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

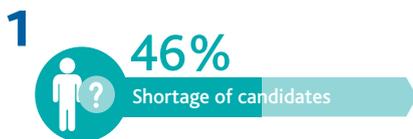


In view of the economic conditions, do you/does your organisation expect confidence in hiring and investment decisions to get...

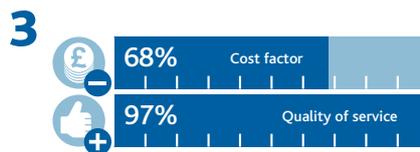


Totals may not sum to 100% due to rounding.

### Key Points from April Survey



Nearly half (46%) of employers expect a shortage of candidates to fill permanent roles.



The number of employers citing cost as a key factor when choosing an agency dropped to 68%, down from 80% last month. Quality of service is most important, cited by 97% of employers.



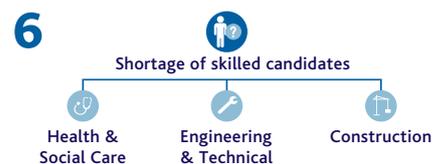
Six in ten (60%) private sector employers increased staffing levels over the last year, compared to less than half (46%) in the public sector.



The proportion of employers planning to increase agency worker headcount in the short term was up 5 points since last month. The proportion of employers planning to increase permanent headcount fell 3 points.



A third of employers (33%) have absolutely no spare capacity within their organisation and would have to take on more staff if demand grew this year.



The key job functions where employers expect a shortage of suitably skilled candidates for permanent roles are Health & Social Care, Engineering & Technical and Construction.

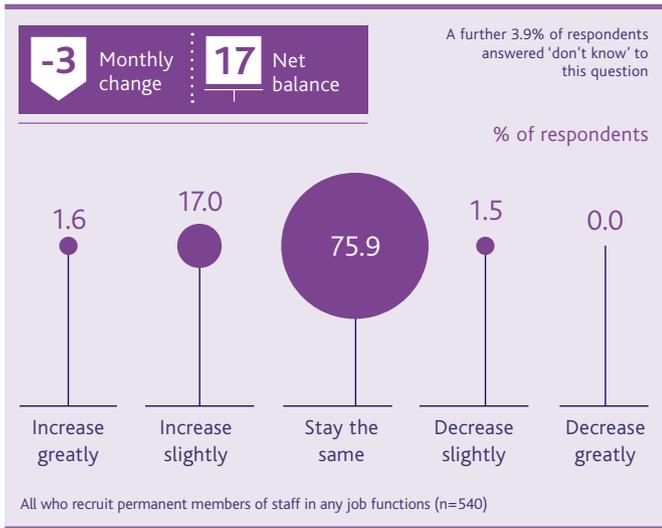
Throughout, figures based on fewer than 50 respondents are marked with an asterisk\* Due to the small base size, these results should be considered indicative, rather than conclusive. Data were weighted to be representative of UK adults in employment by region, broad industry sector and public/private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

# Permanent Recruitment

## SHORT-TERM OUTLOOK

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

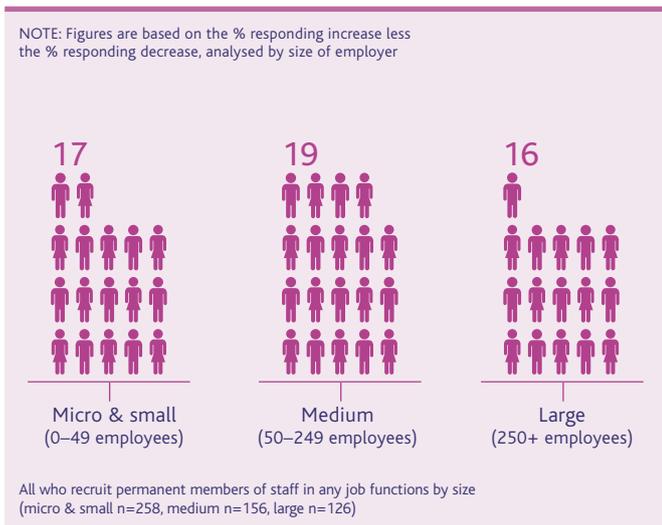
The proportion of UK hirers planning to maintain or increase permanent headcount over the next quarter increased to 95% in the 3 months to April – up 3 percentage points on the previous rolling quarter. This was driven by 97% of employers surveyed in April suggesting that this would be the case. The proportion of employers forecasting that they would be decreasing numbers dropped accordingly in April – to less than 1% – averaging out at less than 2% across the quarter.



## OUTLOOK BY EMPLOYER SIZE

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

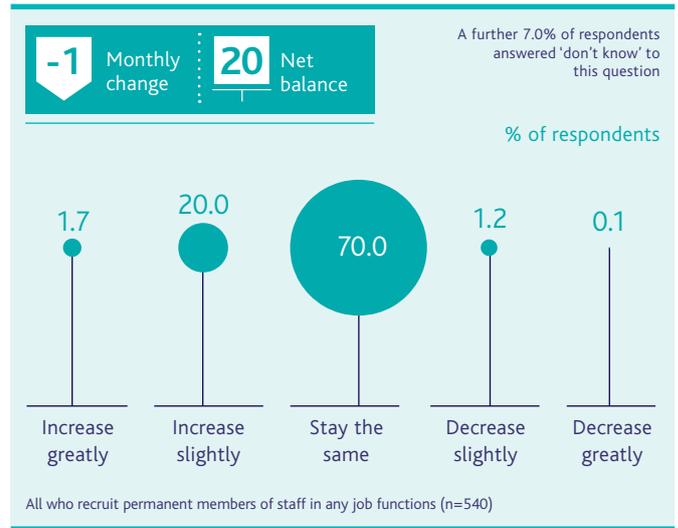
The positive net balance of micro/small (0–49 employees) and medium (50–249 employees) organisations forecasting short-term permanent headcount increases both fell this quarter by 4 percentage points (to +17% and +19% respectively). In contrast, the net balance of large employers increased by one point to +16%. As a result, medium sized employers (50–249 employees) were the most optimistic about their hiring needs this quarter.



## MEDIUM-TERM OUTLOOK

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

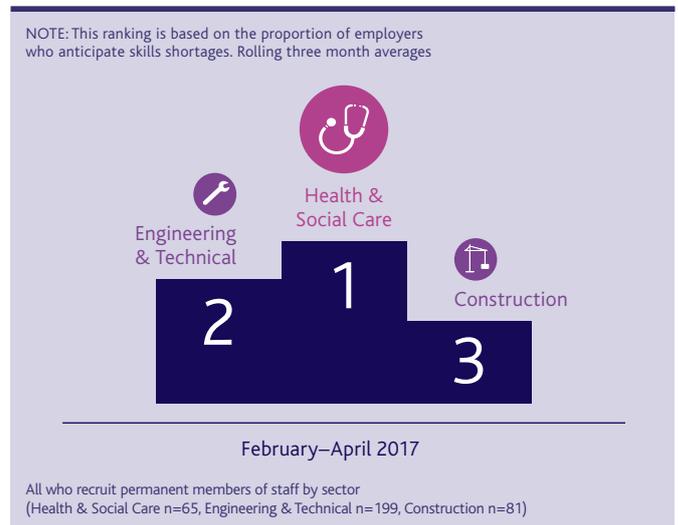
More than nine in ten (92%) UK hirers suggested that they would hold or increase their permanent headcount in the medium term – up 4 percentage points on the previous rolling quarter, driven by a spike to 96% in April. Amongst the 22% planning to increase numbers were 28% of London employers. Large companies (250+) remained the least likely to increase numbers in the medium term, however, with just 18% suggesting that this would be the case.



## 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?

46% of employers highlighted a concern over the sufficient availability of candidates to fill permanent vacancies in at least one job function, when surveyed in February to April. Health & Social Care, Engineering & Technical and Construction were flagged as the areas of concern this quarter, the same three skills areas named last month.

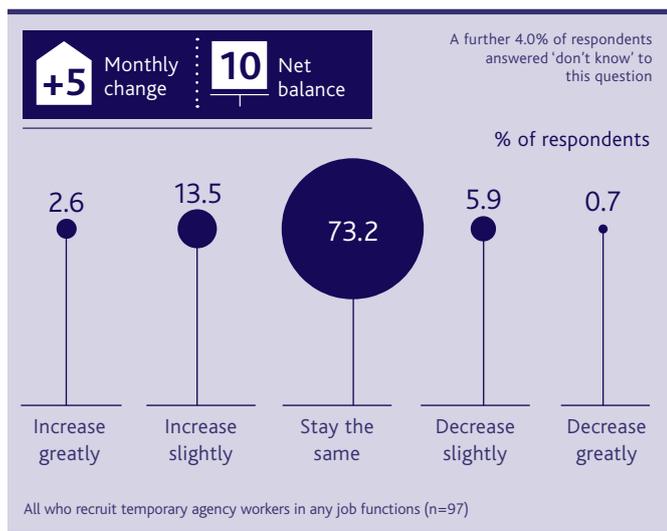


# Temporary Recruitment

## SHORT-TERM OUTLOOK

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

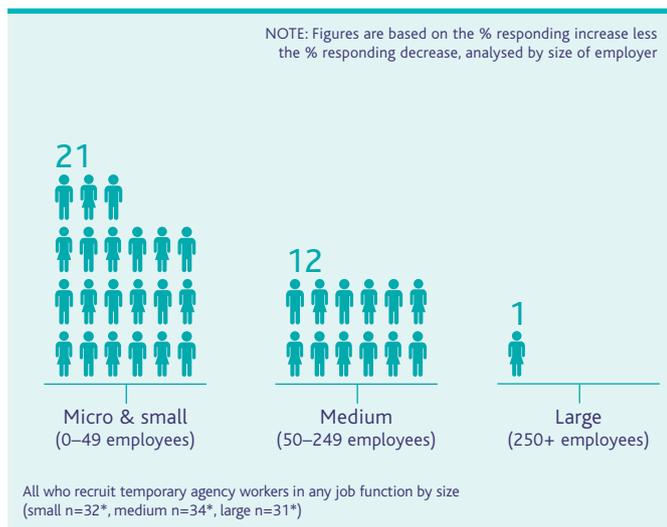
There was a 5 percentage point rise in the proportion of UK hirers (89%) that suggested that they would be holding or increasing agency worker numbers in the short-term when surveyed in February to April. Additionally, the proportion of employers planning decreases fell by 2 points to 7%. A notably higher proportion of London employers planned to shed agency headcount, while the proportion in the Midlands was smaller than the UK average.



## OUTLOOK BY EMPLOYER SIZE

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

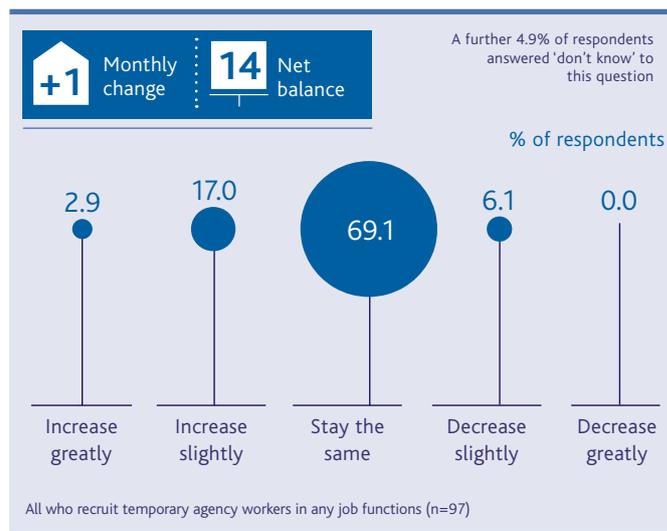
Micro/Small employers (0–49 employees) were most intent on increasing agency headcount numbers in the short term – with the positive net balance increasing by a notable 19 points this quarter. As such, 21% more hirers of this size intended to increase than decrease numbers. The net proportion of mid-sized employers planning increases over decreases also rose markedly this quarter, by 9 points to +12%. In contrast, just 1% more large employers planned to increase rather than decrease agency worker headcount.



## 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 suggesting that they would be holding or increasing their agency headcount in the medium term rose 3 points this quarter to 89%. Just 6% suggested any form of planned decrease. London employers recorded notably different planned behaviour, however, with fewer (77%) planning to hold or increase numbers and significantly more than average (18%) planning to reduce numbers.



## 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?

Three in ten (29%) employers highlighted that they anticipated a shortage of appropriate candidates to fill temporary agency positions in at least one job function when surveyed in February to April. The three areas with most acute skills shortages were Health & Social Care, Engineering & Technical and Construction.

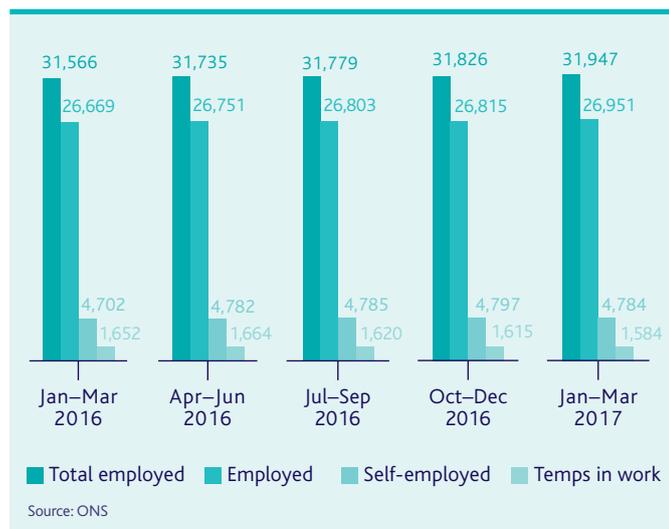


# LabourMarketDashboard

## TOTAL EMPLOYMENT – PERMANENT AND TEMPORARY

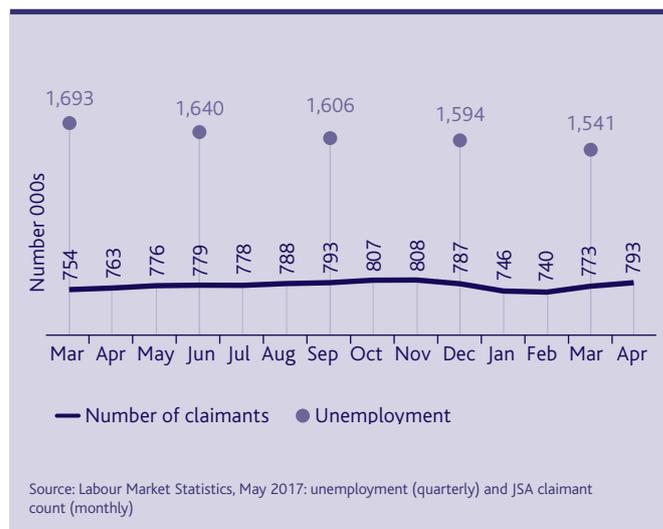
The UK workforce increased by 122,000 in January–March 2017 compared to October–December 2016. Self-employment decreased by 13,000, with a 14,000 decrease in self-employed part-timers and a 1,000 increase in self-employed full time workers. Temporary employment fell by 31,000 whereas permanent employment rose by 167,000. The UK workforce was 381,000 higher than the same period in the previous year. Year-on-year, permanent employment increased by 350,000, self-employment increased by 82,000, and temporary employment fell by 68,000.

### Total employment, employed and self-employed



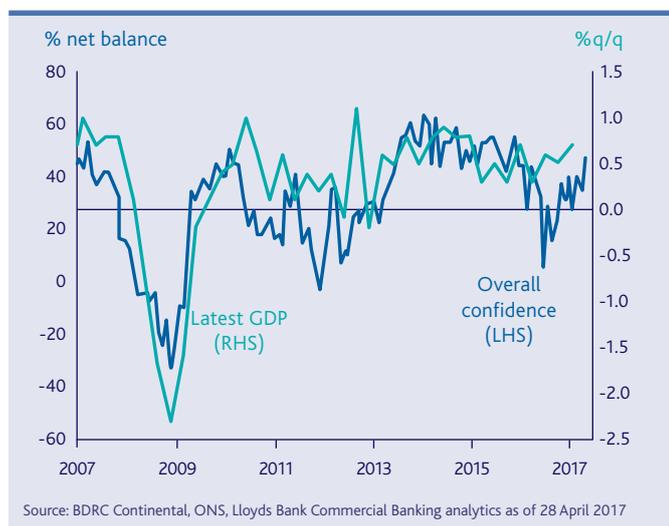
## UNEMPLOYMENT AND CLAIMANT NUMBERS

Unemployment continues to decline in the UK. In January–March 2017, the number of unemployed was 152,000 lower than the prior year. There had also been a 0.5% point drop in the unemployment rate from the previous year to 4.6%. Youth unemployment stood at 12.5%, down from 13.7% a year earlier. The Claimant Count number has risen for the last two consecutive months (March and April).



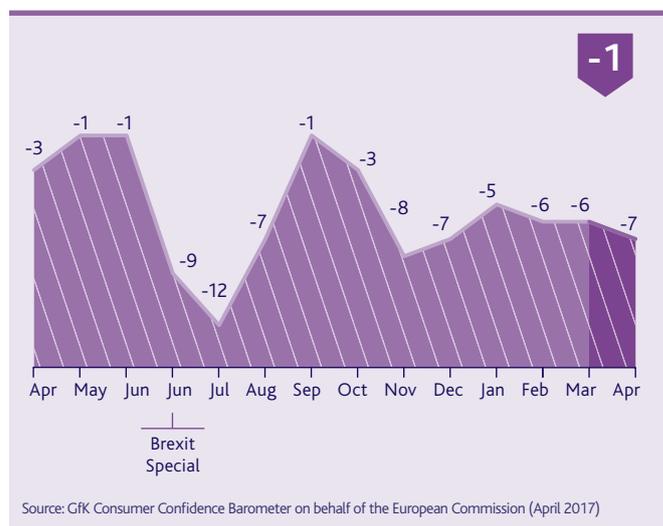
## LLOYDS BUSINESS BAROMETER

The Lloyds' measure of business confidence rebounded by 12 points in April. At 47%, this marked a 17-month high for the Barometer. April's increase was driven by a combination of improved confidence in firms' assessment of their own business prospects (+11 percentage points to a net balance of 60%) coupled with optimism regarding the wider economy (+14 percentage points to 34%). This contrasts slightly with our confidence measure, which specifically interviews hiring managers. Lloyds also emphasises that April's survey was conducted before the announcement of the forthcoming General Election.



## CONSUMER CONFIDENCE INDEX

The GfK Index fell 1 point to -7 in April – the thirteenth consecutive month of the indicator being in negative territory. Four of the five underpinning measures decreased this month, leaving the Major Purchase Index as the only area of increase (+1). In contrast to businesses' positive sentiment towards economic prospects, as measured by Lloyds Business Barometer, consumer sentiment remained far more pessimistic. Notably, expectations for the UK's General Economic Situation over the next year fell 7 points to -21.

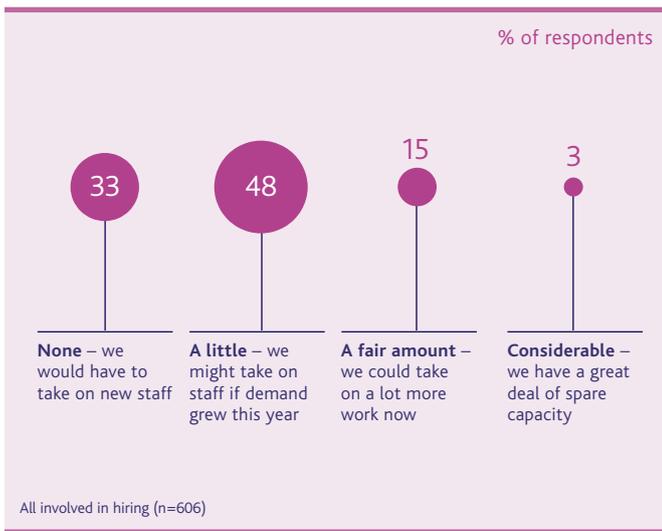


# EmployerDashboard

## WORKFORCE CAPACITY

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

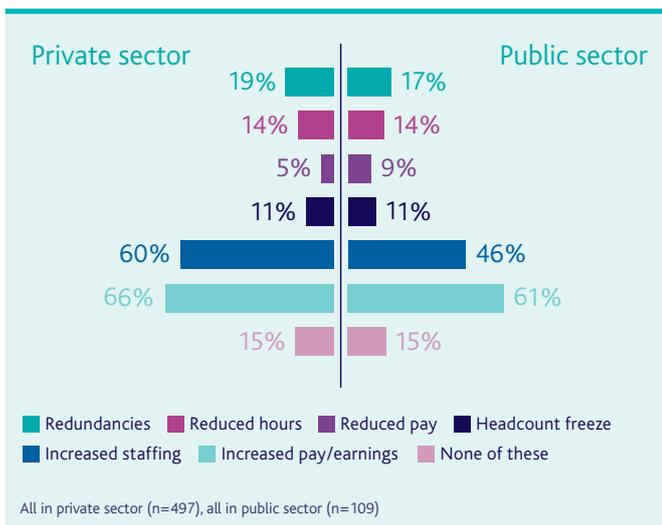
A third (33%) of employers surveyed this quarter highlighted that they had absolutely no spare capacity within their organisation and would have to take on more staff if demand grew this year. In London, this figure rises to 38% and, similarly for large employers (250+), 37% report having no spare capacity.



## WORKFORCE PLANNING BY SECTOR

There is a widening differential in one key workforce action taken by the public and private sectors over the last year, namely in the respective proportions that have increased staffing levels (46% and 60% respectively). Whilst the percentage of private sector enterprises has been growing quarter-on-quarter, the figure for their public sector counterparts has fallen 13 points from its height of 59% amongst those surveyed in December 2016–February 2017.

3 month rolling average to April 2017



## WORKFORCE PLANNING

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

One in five (19%) employers admitted to making redundancies in the last year, when surveyed across February to April. This is despite a sharp decline in April (to 14% from 22% and 21% in February and March). Three in ten (31%) large employers (250+ employees) admitted to making redundancies. However, significantly more large enterprises than the average for all employers (69% and 57% respectively) had increased overall staffing levels.

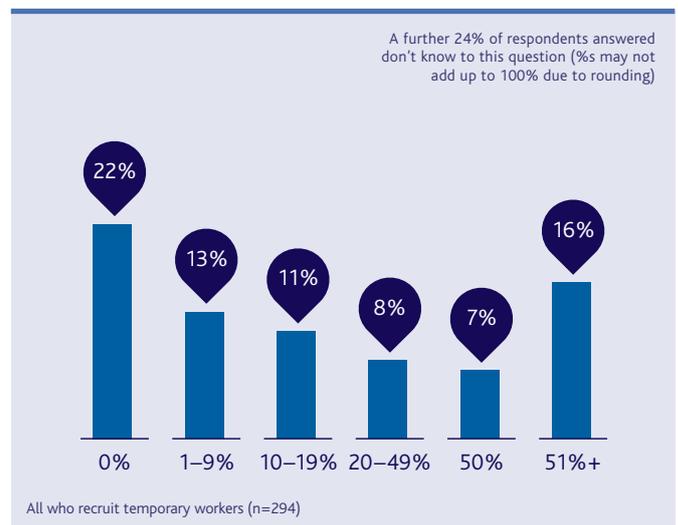
Workforce changes made in the last year  
3 month rolling average to April 2017



## TEMPORARY TO PERMANENT

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

54% of employers surveyed between February and April suggested that they transfer at least 1% of their temporary workers to a permanent post each year. Amongst the 16% of employers who transfer more than half of temporary workers onto the permanent payroll were 27% of employers in the North.

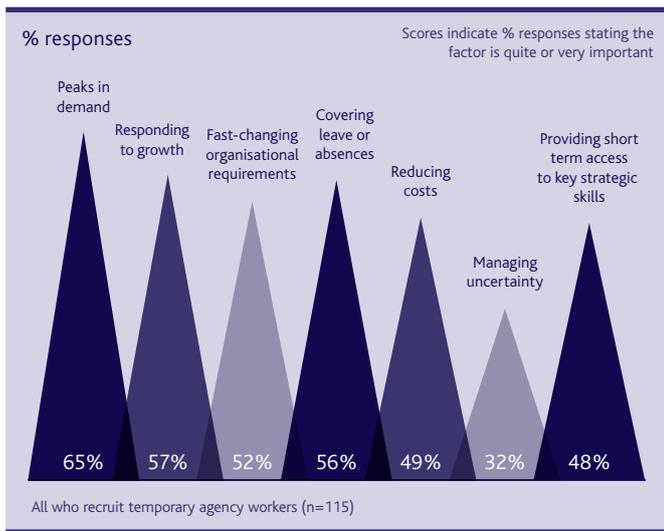


# AgencyDashboard

## IMPORTANCE OF AGENCY WORKERS TO EMPLOYERS

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

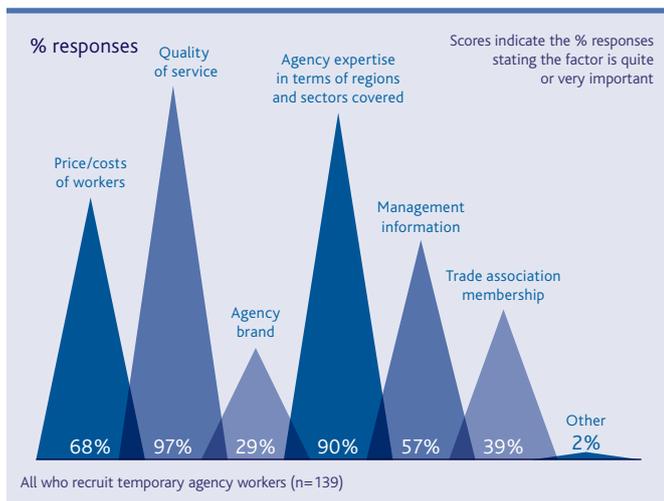
57% of employers cited agency workers as important to 'responding to growth', behind which there were some notable regional variations. These ranged from just 35% of employers in London to twice the proportion of employers in the North (70%). Additionally, 42% of employers in the North (versus a 32% UK average) stressed that agency workers were important in helping them manage uncertainty.



## 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?

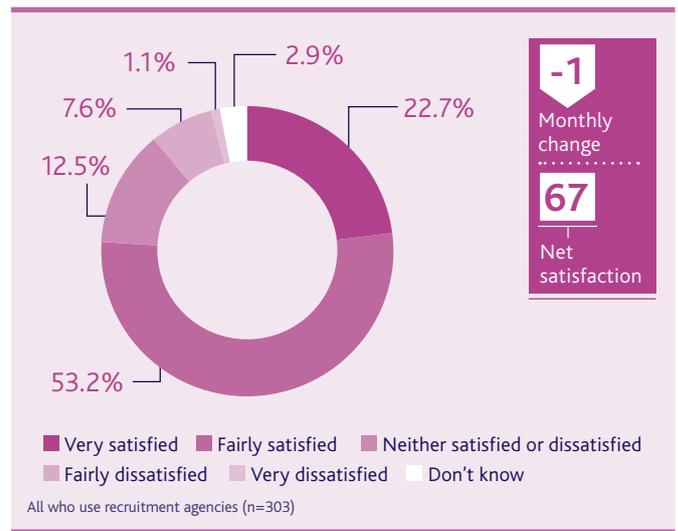
The top two determining criteria for employers when selecting an agency – quality of service and the ability to operate a wide geographic spread/spectrum of skills and expertise – rose in importance this quarter, highlighted by 97% (+3%) and 90% (+2%) of organisations respectively.



## EMPLOYER SATISFACTION WITH AGENCIES USED IN LAST 2 YEARS

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

Three quarters (76%) of UK employers surveyed during February to April noted being fairly or very satisfied with the recruitment agencies that they had used over the last two years. This figure rose to 86% amongst employers in London. Satisfaction levels were also significantly higher in large organisations (250+ employees) than mid-sized (50–249 employee) enterprises (73%).

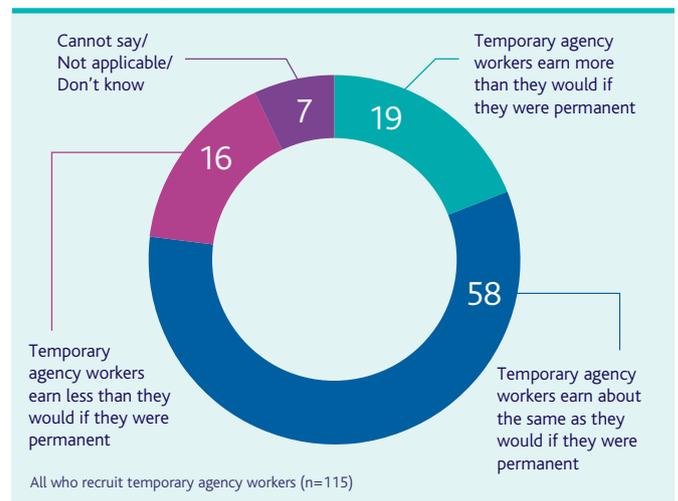


## AGENCY WORKER PAY RATES

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

Over three quarters (77%) of UK employers say that temporary agency workers earn the same or more than their permanent counterparts. Regional differences are stark: more than double the proportion of employers in London (36%) than the North (15%) say that temporary agency workers earn more than they would if they were permanent.

3 month rolling average to April 2017

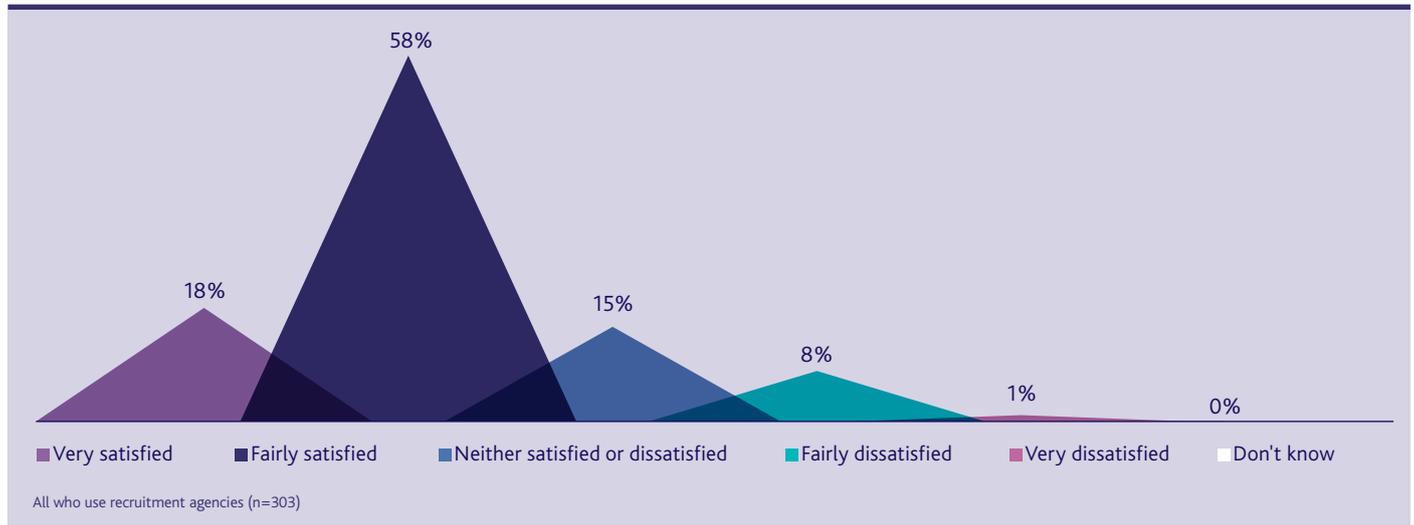


## SATISFACTION WITH CANDIDATES

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

More than three-quarters of UK employers (76%) expressed satisfaction with the quality of candidates being presented to them by agencies this quarter. There was a notable increase in satisfaction amongst London employers, with the proportion stating that they

were very satisfied increasing from 28% to 34% quarter-on-quarter. This compared to a UK average of 18% amongst those surveyed in February to April.

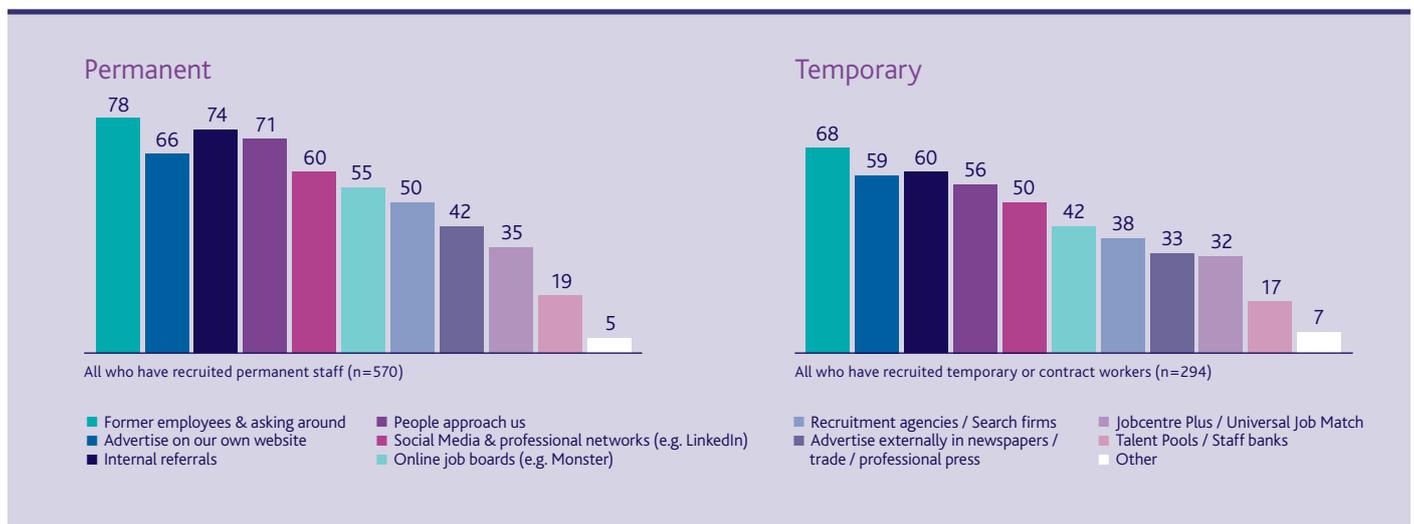


## RECRUITMENT CHANNELS USED

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

It is surprising that less than one in five employers maintain any form of staff bank or talent pool, considering the critical need to secure an ongoing supply of staff during candidate shortages. Staff banks/talent pools are the recruitment channel least used by employers.

Instead, a significant proportion (78% of hired recruiting for permanent hires and 68% of those who engage temporary/contract workers) prefer to approach former employees and ask around.



Recruitment channels used for staffing as of April 2017

# SectorProspects

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

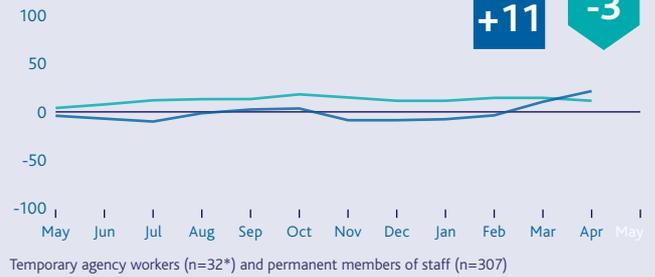
The charts show the net figure for predicted change in numbers over time: the difference between the proportion predicting an increase and the proportion predicting a decrease in numbers in that job function over the next three months. The figures in the arrows show the change in this net figure from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

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

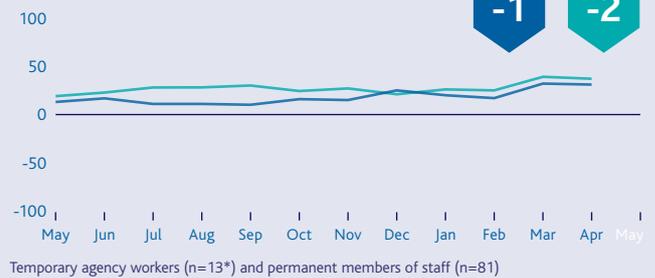
The only skills area in which the net balance of UK employers suggesting the likelihood of a short-term increase in permanent staff numbers (+6 percentage points to +17%), when surveyed between February to April, was drivers. This was also the skills area in which the largest quarter-on-quarter movement was recorded for anticipated demand for agency workers (+25 percentage points to +21%).

Conversely, the forecast net balance of demand for both permanent and agency health & social care workers declined this quarter by 3 points (to +22%) and 20 points (to +7%), respectively.

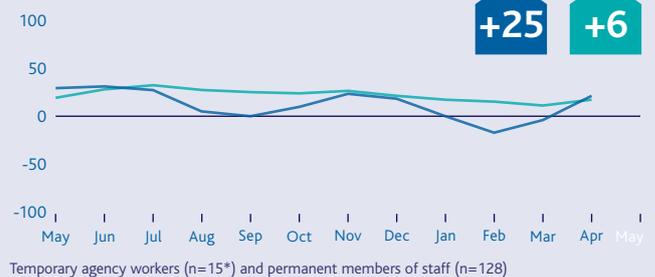
### ACCOUNTING & FINANCIAL SERVICES



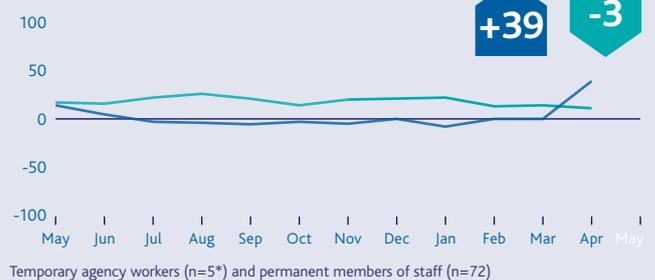
### CONSTRUCTION



### DRIVERS



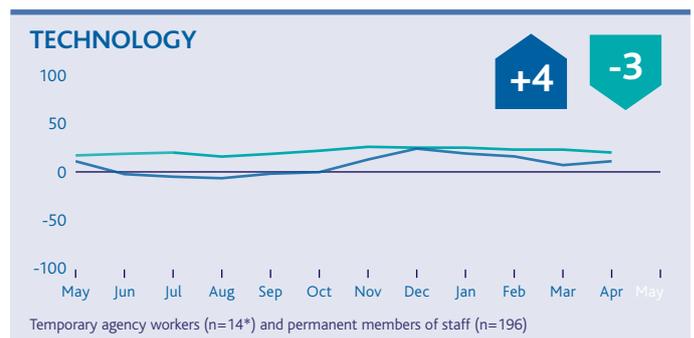
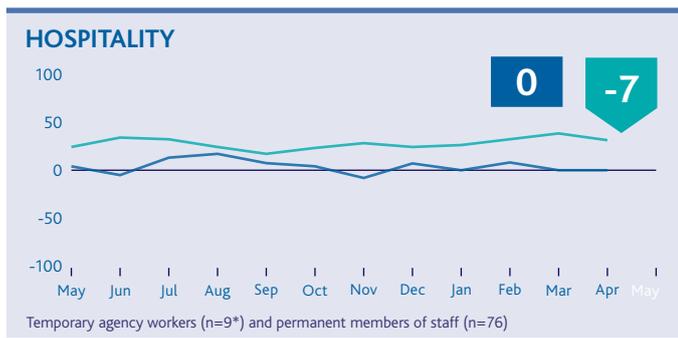
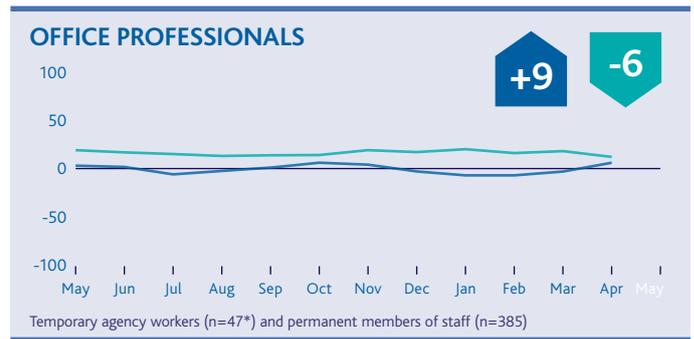
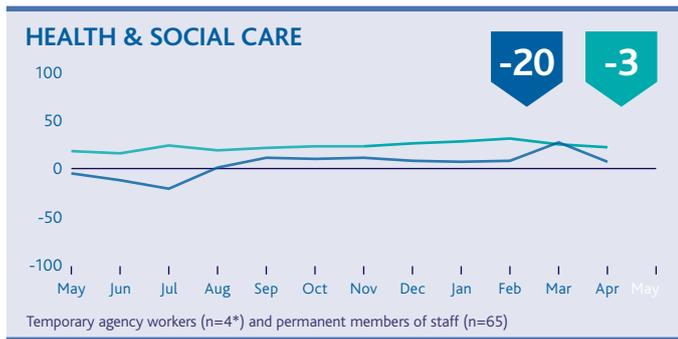
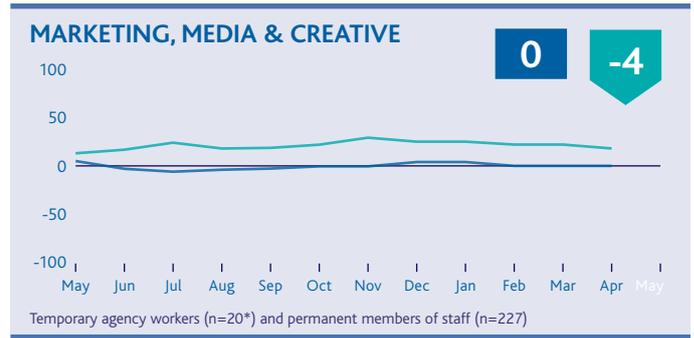
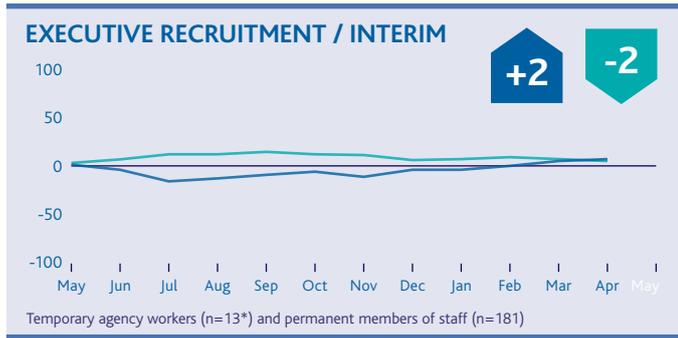
### EDUCATION



### ENGINEERING & TECHNICAL



# SectorProspects



■ Temporary  
■ Permanent

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

# REC-IHS Markit Predictive model

## UNEMPLOYMENT RATE FORECAST TO HOLD AT 4.6%

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

The nowcast model predicts a fall in the Labour Force Survey measure of UK unemployment of 47 thousand in the three months to April. This would leave the UK unemployment rate unchanged at 4.6%. The Office for National Statistics (ONS) are scheduled to publish this data on 14 June 2017.

The model signals an eighth successive fall in unemployment, with a decline of 53 thousand reported by the ONS in the three months to March. As shown in the chart, the model has generally provided reliable signals in official unemployment data.

### Methodology

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

This includes:

- REC's JobsOutlook survey data on employers' expectations for short-term staffing requirements
- KPMG/REC Report on Jobs survey measures of permanent placements and temporary billings

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

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

CHART 1: TRACKER MODEL HISTORY

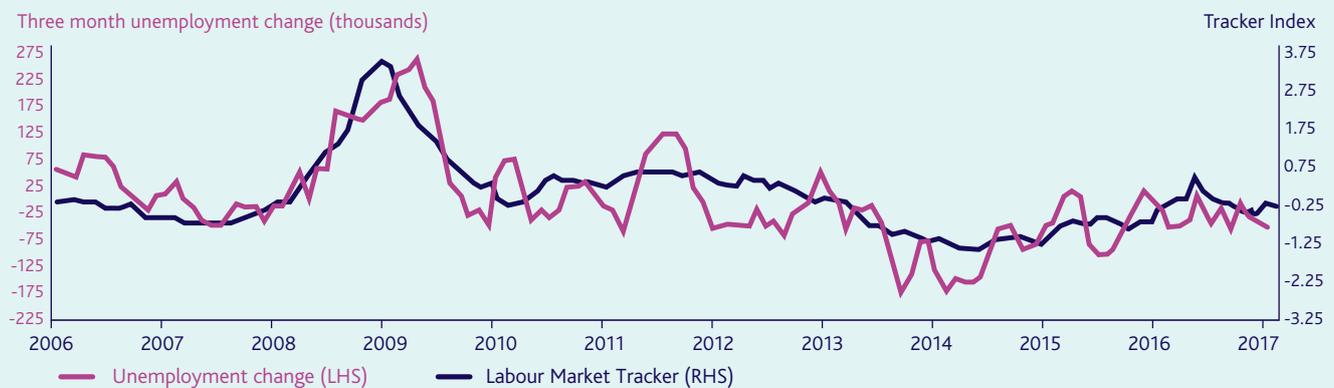


CHART 2: THREE MONTH UNEMPLOYMENT CHANGE



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