

## Employer confidence in the economy deteriorates

**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...

28%

Better

31%

Worse

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

29%

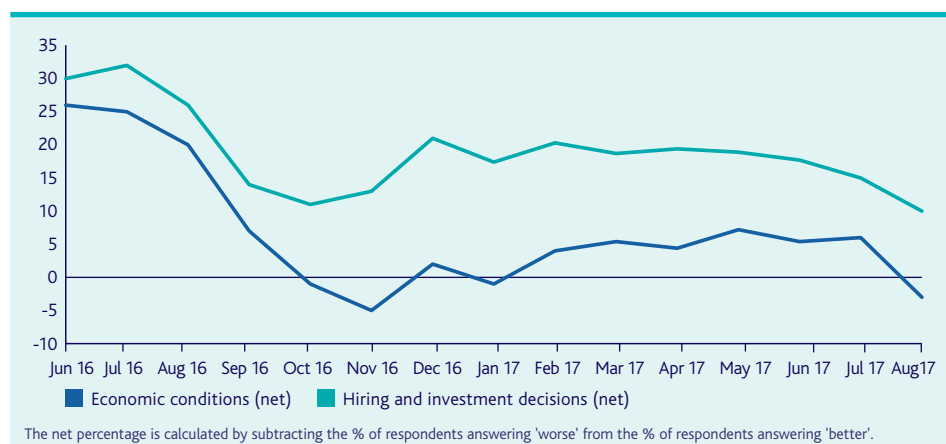
Better

20%

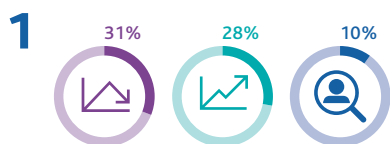
Worse

All involved in hiring (n=607)

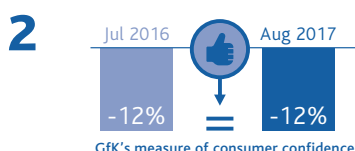
More respondents (3%) thought that economic conditions were worsening than improving in May–July, as sentiment deteriorated across the quarter. Month on month the net balance shifted from +7% in May to -2% in June and -13% in July. Similarly, the net balance for confidence in making hiring and investment decisions fell from +16% in May to just +5% in July.



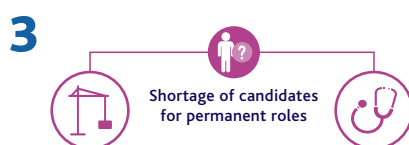
### Key Points from July Survey



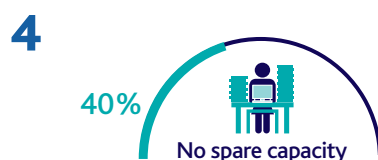
Employer confidence is dropping: more employers think economic conditions are worsening (31%) than improving (28%), while the net balance of confidence in hiring and investment decisions dropped to an all-time low of 10%.



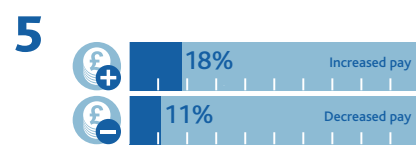
GfK's Index of consumer confidence fell again to -12, equaling last year's post-referendum low of -12 in July 2016.



Construction and Health & Social Care are the top two job functions where employers expect to find a shortage of appropriate candidates for permanent roles.



Four in ten employers (40%) have absolutely no spare capacity within their organisation – up 6 percentage points on the last rolling quarter and 5 points year-on-year.



Almost one in five employers (18%) pay temporary agency workers more than they would if they were permanent, compared to only 11% who pay them less.



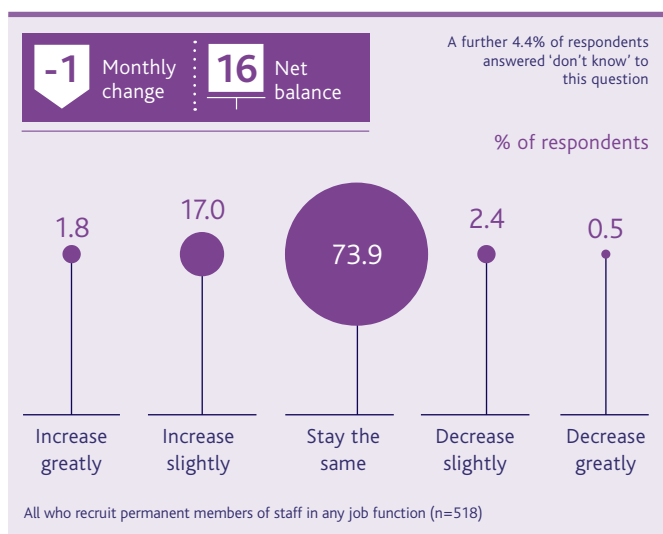
Employer satisfaction with the quality of candidates presented to them by recruitment agencies increased from 67% in May–July 2016 to 73% in May–July 2017.

# 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?**

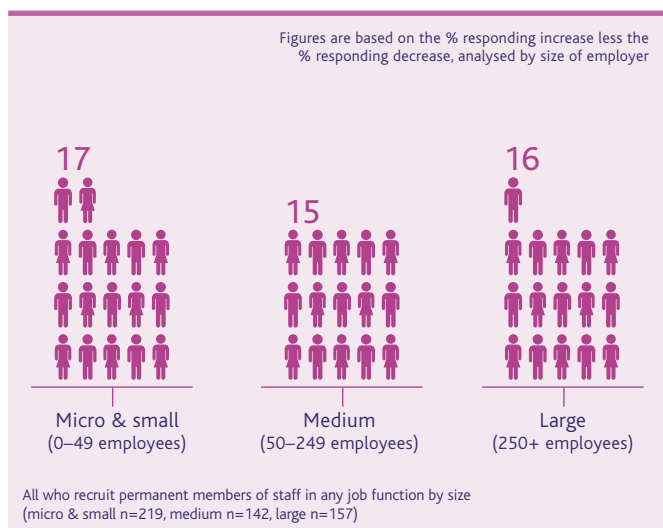
The deterioration in employers' confidence in the economic outlook across the quarter translated into a similar change in sentiment towards short term permanent hiring intentions. In the months of May and June, the proportions planning to add headcount were buoyant (at 20% and 22% respectively). By July, however, the figure dropped to just 14%. Similarly, the proportion intending to cut numbers doubled from 2% to 4% between May and July.



## OUTLOOK BY EMPLOYER SIZE

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

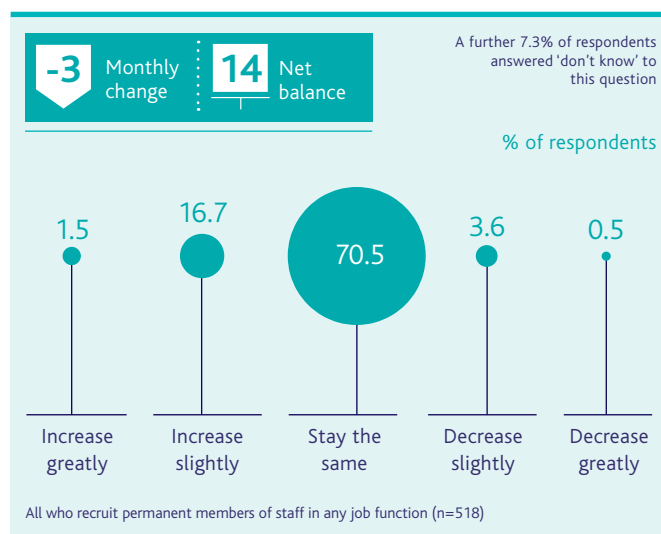
There was minimal variation in sentiment by size of organisation. The suggestion from respondents that micro/small (0–49 employee) organisations remained the most optimistic, with 17% more planning to increase than decrease numbers, is encouraging as the vast majority of UK employers are within this employee size band.



## MEDIUM-TERM OUTLOOK

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

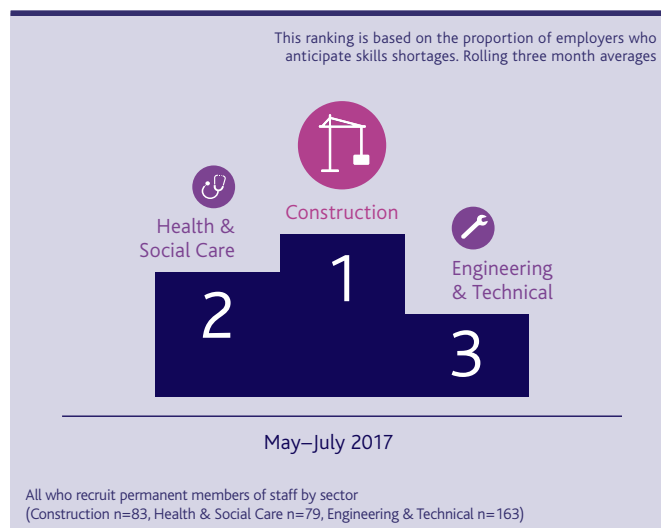
Almost one in five (18%) employers plan to increase the number of permanent workers in their organisation in the medium term. However, the net balance of medium term permanent hiring intent declined by 3 points this quarter, leaving 14% more employers planning to increase rather than decrease headcount.



## 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?**

Concern over the sufficient availability of workers with construction skills was heightened this quarter. With 8.4% of the UK construction workforce (192,400) comprised of EU nationals in 2016 (REC – Building the Post-Brexit Immigration System), including 31.6% of construction workers in London, the sector is extremely vulnerable to the ongoing uncertainty for EU workers.

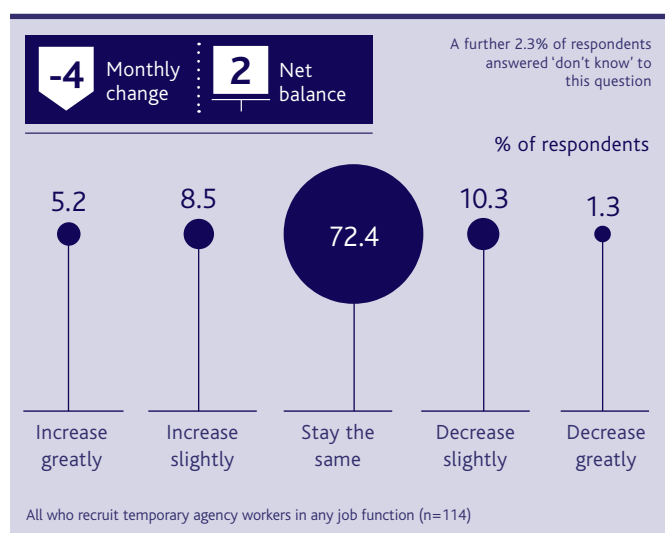


# Temporary Recruitment

## SHORT-TERM OUTLOOK

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

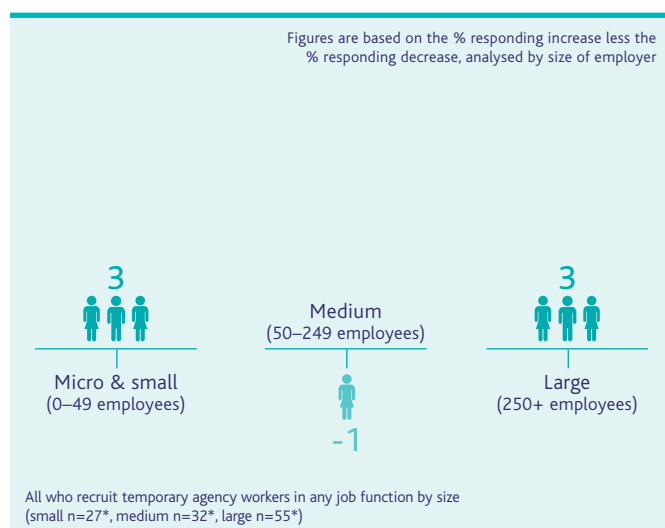
14% of employers plan to increase agency worker headcount in the short term, while 12% plan to decrease headcount. This leaves the net balance at 2%, a 4 percentage point drop from last month. Additionally, 26%\* of public sector respondents suggested increased reliance on agency workers, compared to just 13% of employers in the private sector.



## OUTLOOK BY EMPLOYER SIZE

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

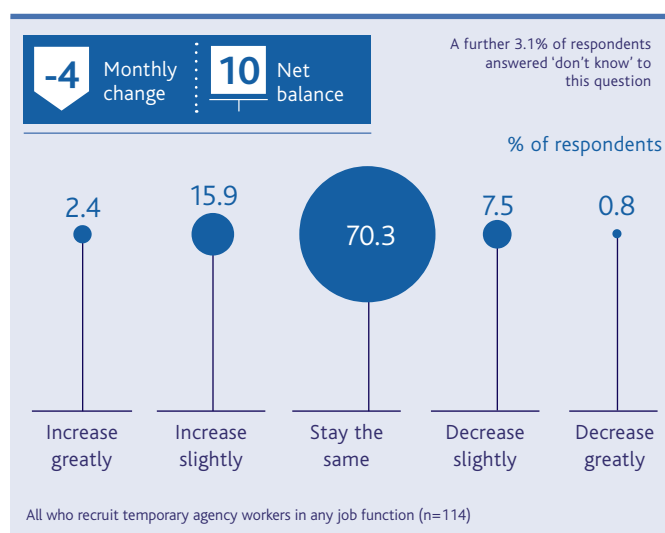
The net balance of short term expectations among micro/small employers (0–49 employees) planning to increase, rather than decrease, agency worker headcount in the short term declined by 7 percentage points this quarter, to 3%. A 4 percentage point fall in the net balance amongst mid-sized employers (50–249 employees) resulted in negative sentiment for this cohort, with 1% more planning decreases than increases.



## 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?

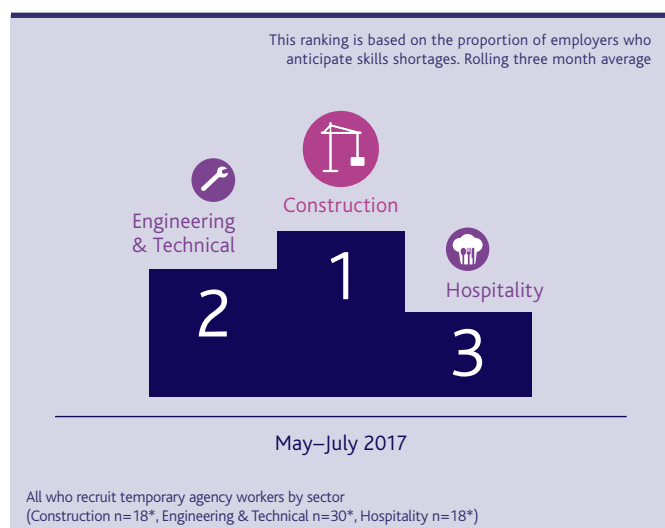
Despite dropping 4 percentage points, the medium term prospects for agency worker usage remained positive in May–July, with a net balance of 10% more employers planning increases over decreases. It should be noted, however, that respondents in the month of July predict less reliance on agency workers in the medium term, with 6% more planning decreases than increases.



## 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?

It is unsurprising that employers anticipate heightened sourcing challenges for construction, hospitality and engineering/technical occupations. These sectors are dependent upon non-UK national labour and, as Brexit negotiations continue to cause uncertainty over EU workers' future rights, employers are clearly concerned.



# LabourMarketDashboard

## TOTAL EMPLOYMENT – PERMANENT AND TEMPORARY

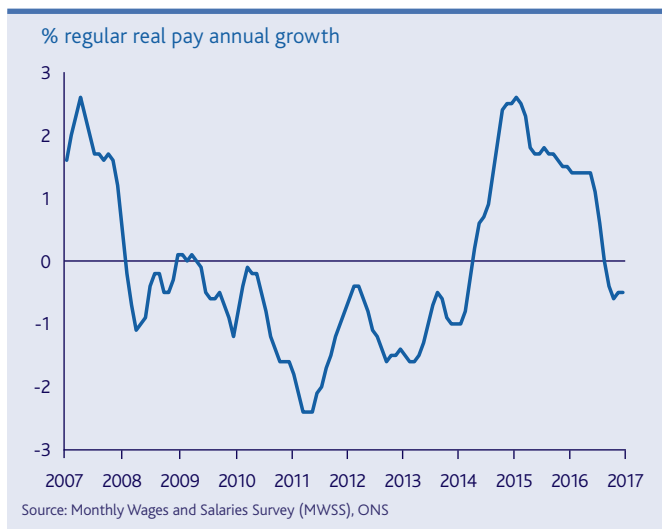
The UK workforce increased to over 32 million in April–June 2017, up 125,000 since Jan–March 2017. Self-employment increased by 21,000 to 4,805,000, despite the new rules governing Off-Payroll working in the public sector taking effect in April. Temporary employment stayed static at 1,584,000. As such, this quarter's increase in the total workforce number was totally driven by permanent employment, up 134,000. Year-on-year, temporary employment was notably 81,000 lower whilst self-employment was 23,000 higher.

Total employment, employed and self-employed



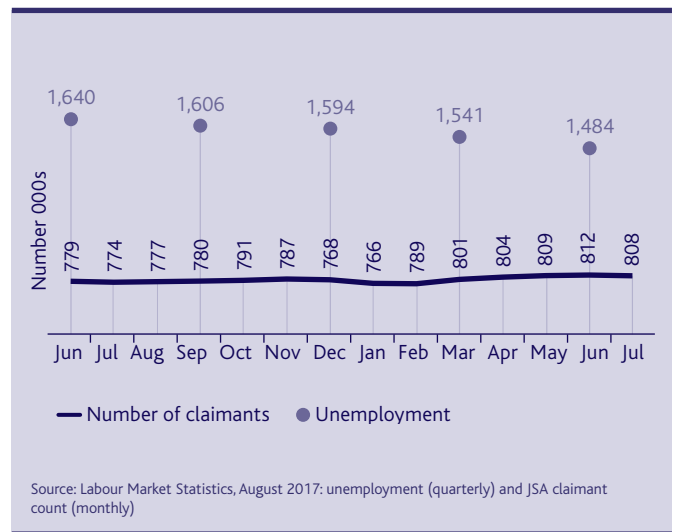
## REAL WAGE GROWTH

The year-on-year increase to April–June 2017 in regular average weekly earnings (ie excluding bonuses) marginally increased, in notional terms, against the previous rolling quarter but declined year-on-year. Regular pay for employees in Great Britain increased by 2.1%. However, when considered in real-terms – ie adjusted for consumer price inflation – regular pay fell by 0.5%.



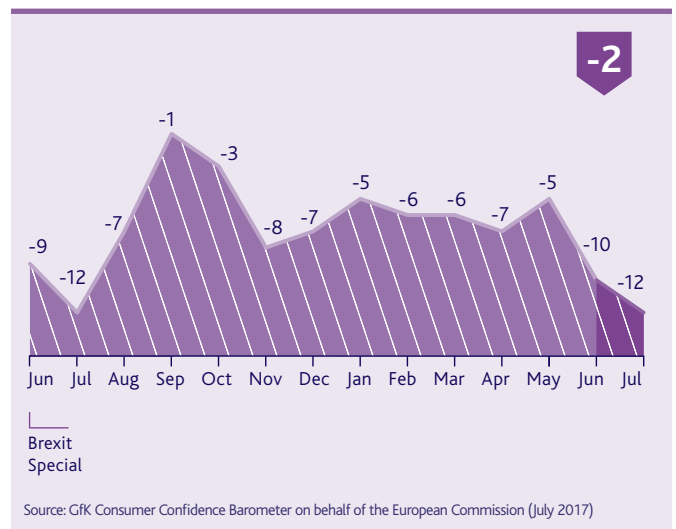
## UNEMPLOYMENT AND CLAIMANT NUMBERS

The unemployment level for April–June 2017 fell to 4.4% – its lowest level since 1975. At 1,484,000, this was 57,000 less than the previous quarter and 157,000 fewer than the same period last year. Youth unemployment levels also reduced further to 12.2%, compared to 13.6% in the same period in 2016. There were 34,000 fewer 16–17 year olds out of work (111,000) than a year earlier and 45,000 fewer unemployed 18–24 year olds (434,000).



## CONSUMER CONFIDENCE INDEX

GfK's Index fell by 2 points in July to -12, equaling last year's post-referendum low of -12 in July 2016. Moreover, it has now been in negative territory for sixteen consecutive months. Four of the five underpinning measures deteriorated this month. Notably, the measure for the UK's general economic situation during the last 12 months fell by 6 points to -31 (July 2016: -25) whilst expectations for the economy over the next year fell by 5 points to -28 (July 2016: -33).

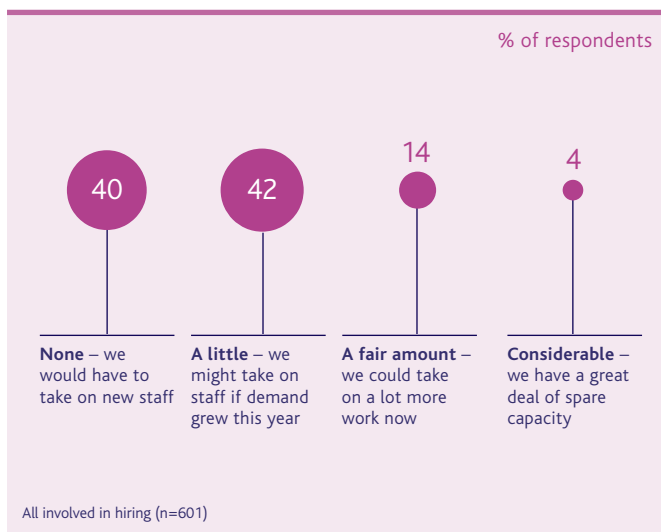


# EmployerDashboard

## WORKFORCE CAPACITY

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

Four in ten UK employers (40%) surveyed in May–July highlighted that they had absolutely no spare capacity within their organisation – up 6 percentage points on the last rolling quarter. This increase was driven by 47% of all employers stating this to be the case in July. Regionally, the South (excluding London) remained the most challenged for resource, with 48% of employers surveyed across the quarter highlighting that they had absolutely no spare capacity.

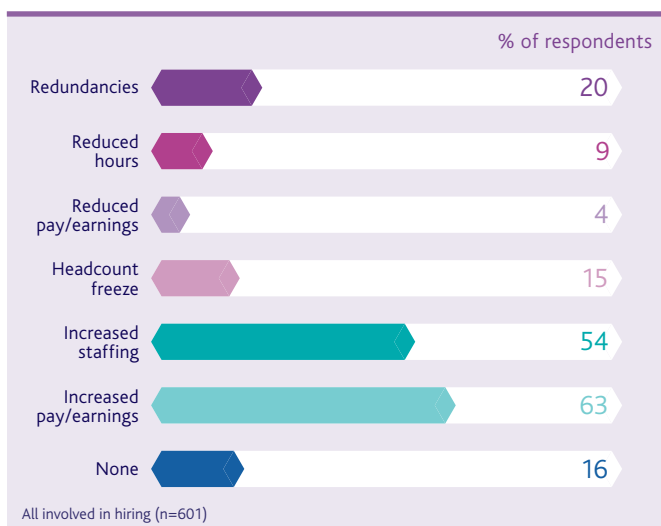


## WORKFORCE PLANNING

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

The proportion of employers increasing pay/earnings and staffing levels in the last year decreased this quarter (down 5 percentage points and 3 percentage points, respectively). 15% of employers indicated that they had actioned a headcount freeze over the last year, including 23% of respondents in London.

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

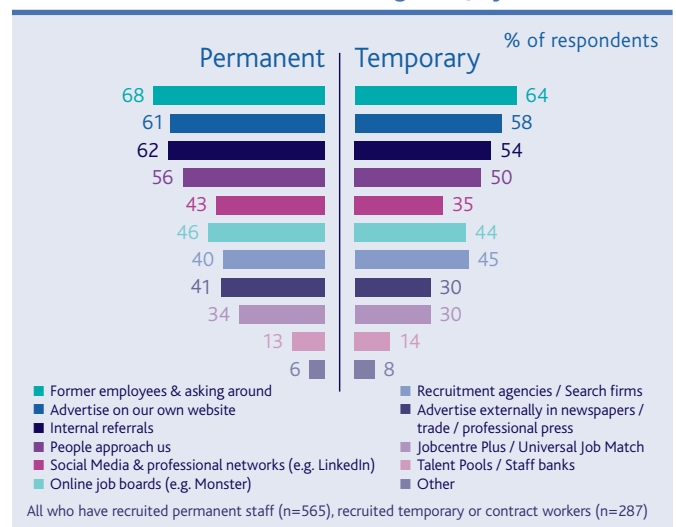


## RECRUITMENT CHANNELS USED

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

The proportion of employers capitalising on internal referrals and direct approaches from candidates declined significantly this quarter for both those recruiting permanent and/or temporary workers. With candidate availability tightening, notably in skills areas where the UK is dependent on non-UK national labour, this decline is unsurprising.

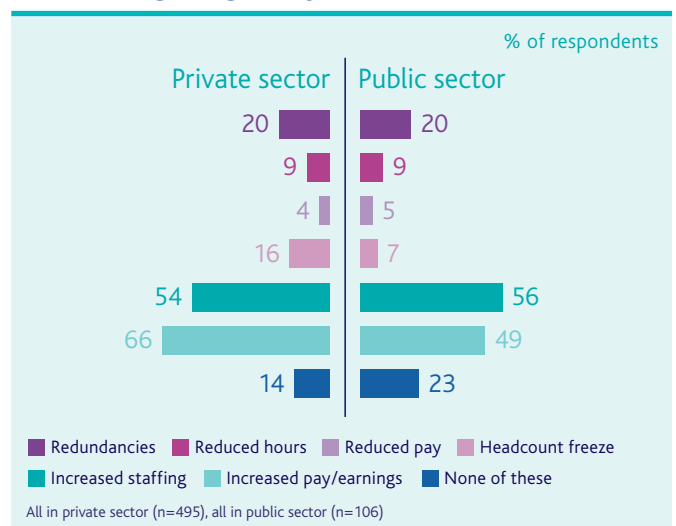
**Recruitment channels used for staffing as of July 2017**



## WORKFORCE PLANNING BY SECTOR

The two key variations in workforce planning behavior between the public and private sectors over the last year were in the proportions actioning a headcount freeze and those who had increased pay/earnings. Whilst two thirds (66%) of private sector organisations had been able to increase pay/earnings, just half (49%) of those in the public sector said the same. Headcount freezes were far more prevalent in the private than public sector (highlighted by 16% and 7% of respondents, respectively).

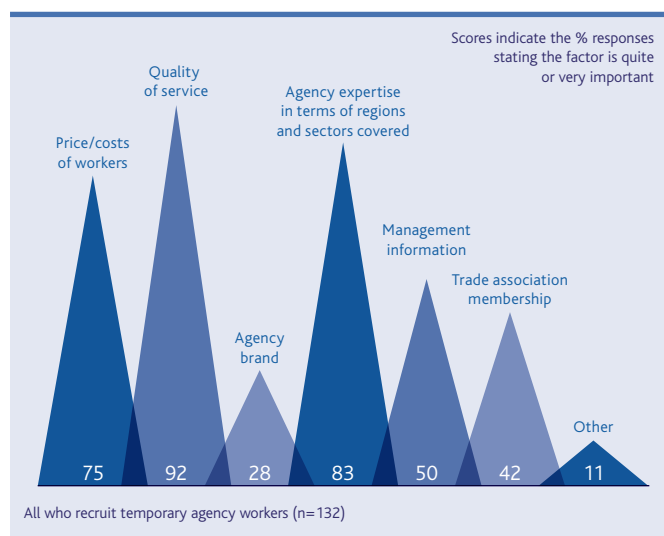
**3 month rolling average to July 2017**



## 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?

Whilst the two key areas of importance to employers when selecting agencies remained the same ('quality of service' and 'agency's regional and sector expertise'), the proportion of respondents citing the price/cost of the workers that they supply has increased by 7 percentage points.

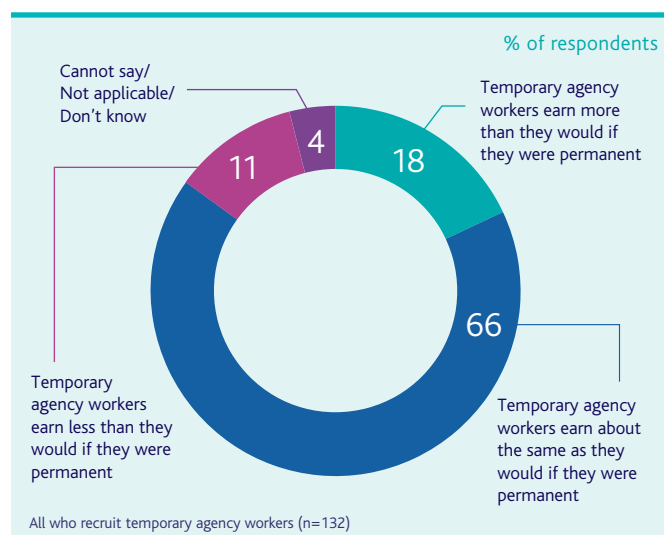


## AGENCY WORKER PAY RATES

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

There was a notable shift across the quarter on whether agency worker pay rates were lower or higher than the permanent counterparts. The percentage who said temporary workers' rates were lower fell from 18% in May to 6% in July, whilst those who said they were higher increased from 11% in May to 27% in July. The new public sector Off-Payroll regulations, introduced in April, will have contributed to this trend.

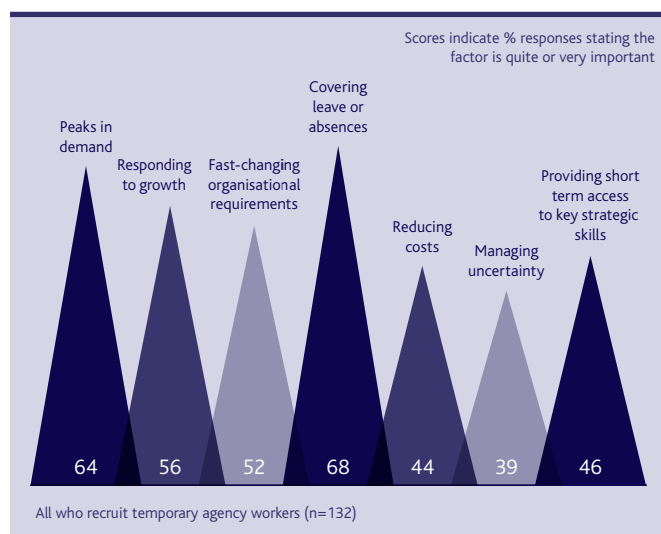
3 month rolling average to July 2017



## IMPORTANCE OF AGENCY WORKERS TO EMPLOYERS

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

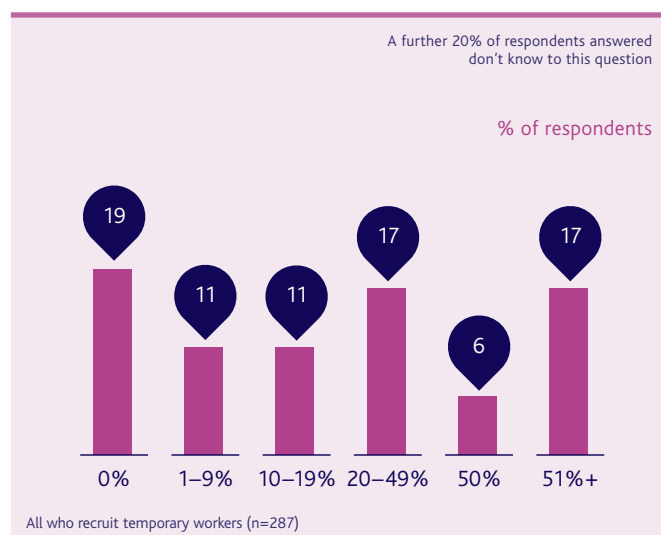
A growing proportion of employers (+2 percentage points to 39%) stated that temporary agency workers help them to manage uncertainty, when surveyed in May–July. Year-on-year, the importance of agency workers in enabling employers to respond to growth increased by 5 percentage points whereas 'helping to keep running costs down' fell by 12 percentage points.



## TEMPORARY TO PERMANENT

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

The proportion of employers stating that they transfer at least one percent of their temporary staff each year to permanent work increased significantly, year-on-year, from 45% in May–July 2016 to 61% in the same quarter in 2017. The practice was most prevalent this quarter in the South (excluding London), where 71% stated that this was the case.



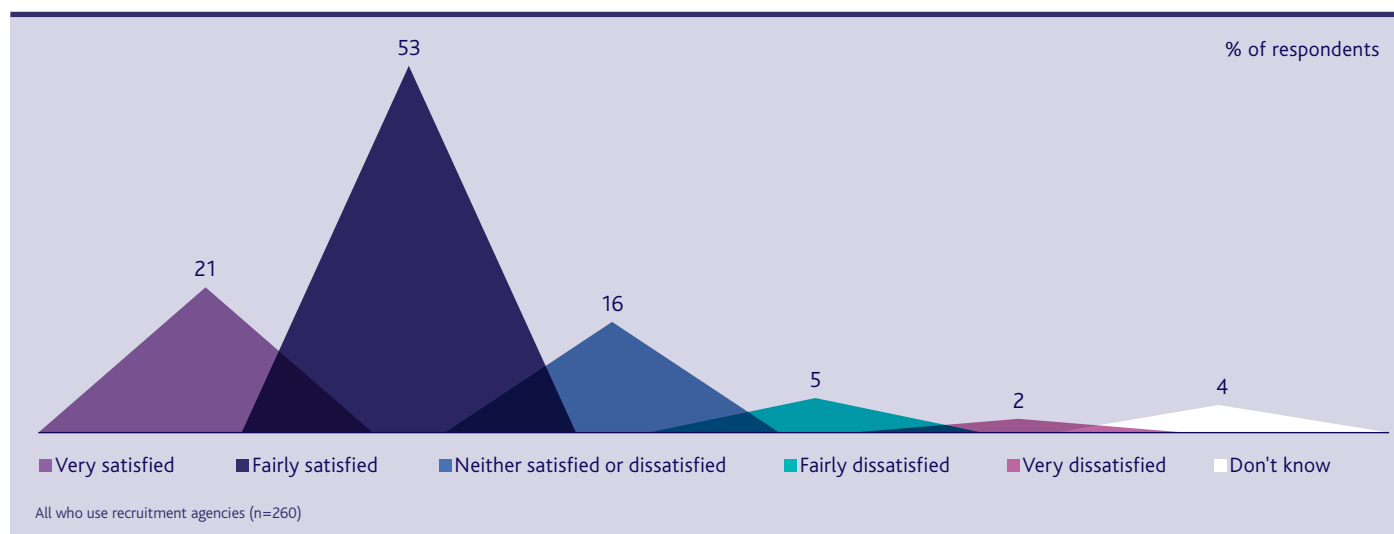
## SATISFACTION WITH CANDIDATES

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

The proportion of employers highlighting satisfaction with the quality of candidates presented by their agencies increased year-on-year, from 67% in May–July 2016 to 73% in the same period in 2017.

When considering the underlying reasons for the shift, the sentiment of the smallest enterprises (0–49 employees) changed significantly, year-on-year. In May–July 2016, just 57% of small/micro

enterprises were satisfied and 20% dissatisfied. A year later, 71% were satisfied and just 11% dissatisfied. There were also some key improvements in satisfaction levels across the regions. Year-on-year, satisfaction levels in the Midlands rose from 63% to 69%, whilst the proportion stating that they were satisfied in London rose from 75%\* to 83%\*.



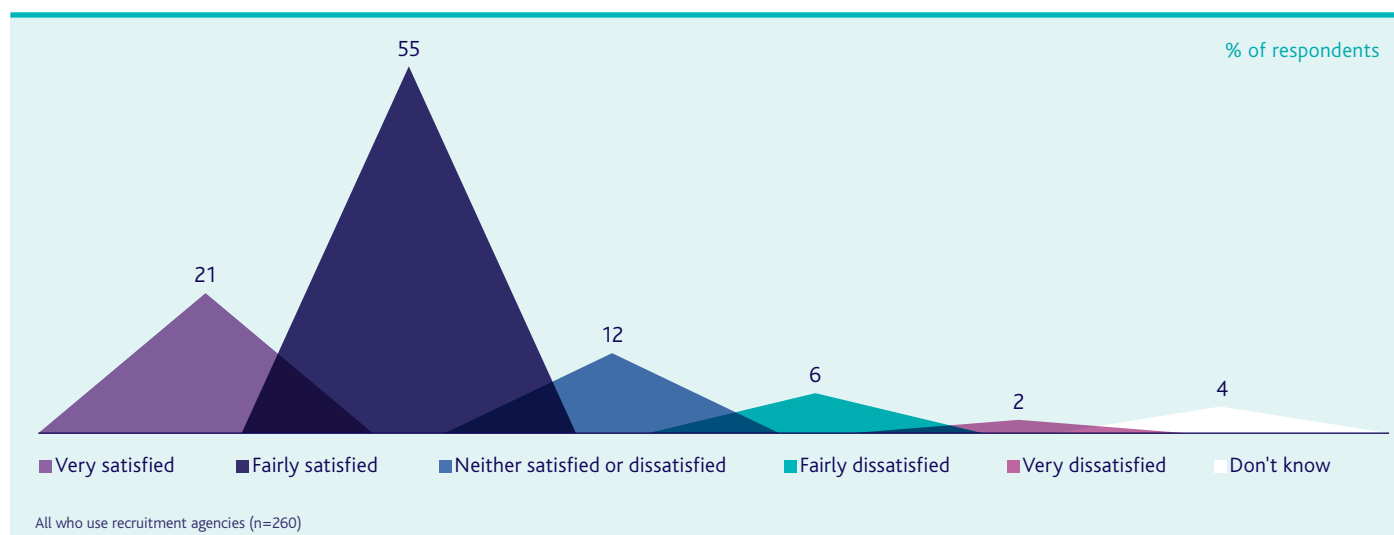
## SATISFACTION WITH AGENCIES

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

Levels of satisfaction with recruitment agencies also increased year-on-year, from 73% in May–June 2016 to 76% in the same quarter this year. A shift in sentiment amongst small/micro enterprises (0–49 employees) drove the improvement. In 2016, just 63% of the smallest organisations were satisfied, with 20% registering dissatisfaction. By May–July 2017,

however, satisfaction levels had improved to 75%, with just 12% registering dissatisfaction.

Satisfaction levels amongst employers in London increased notably year-on-year, up 11 percentage points to a significant, above-average, 90%\*. Conversely, satisfaction levels amongst Northern employers fell from 74%\* in May–July 2016 to 65%\* this quarter.





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?

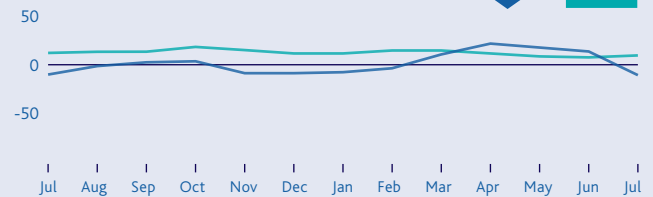
Whilst the net balance of forecast demand for permanent hires remains stronger than the balance of anticipated demand for agency staff (+16% and +2%, respectively), there are some notable exceptions by occupation.

The net balance of demand for temporary agency drivers was much higher than the demand for permanent drivers (+40%\* and +27%\*, respectively). Similarly for industrial staff, the net balance of demand for agency staff (+27%) was level with the net balance for permanent staff (+26%).

Other skills areas where there was a notably above-average positive net balance of anticipated demand for temporary agency workers included construction workers (+16%\*) and health & social care staff (+14%\*).

### ACCOUNTING & FINANCIAL SERVICES

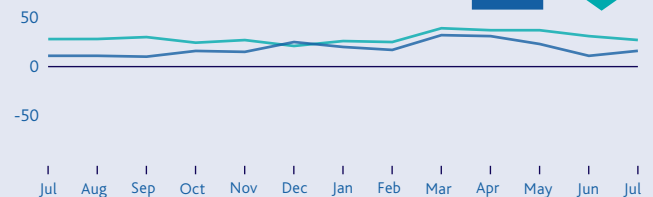
-18 +2



Temporary agency workers (n=41\*) and permanent members of staff (n=243)

### CONSTRUCTION

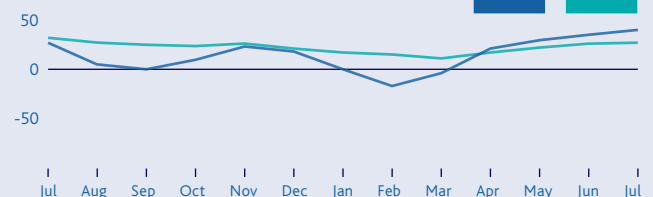
+5 -4



Temporary agency workers (n=18\*) and permanent members of staff (n=83)

### DRIVERS

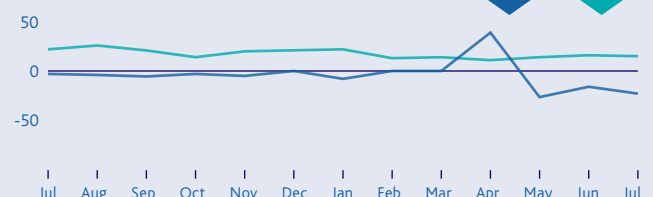
+5 +1



Temporary agency workers (n=18\*) and permanent members of staff (n=95)

### EDUCATION

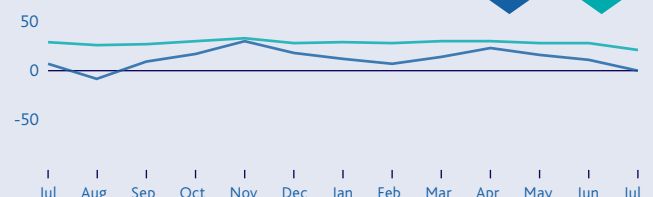
-7 -1



Temporary agency workers (n=21\*) and permanent members of staff (n=86)

### ENGINEERING & TECHNICAL

-10 -7



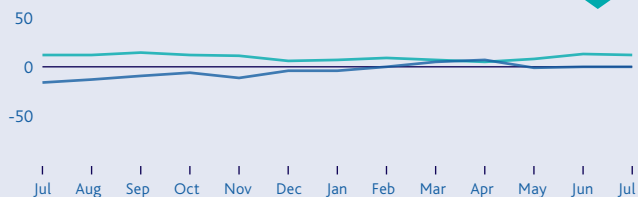
Temporary agency workers (n=30\*) and permanent members of staff (n=163)



# SectorProspects

## EXECUTIVE RECRUITMENT / INTERIM

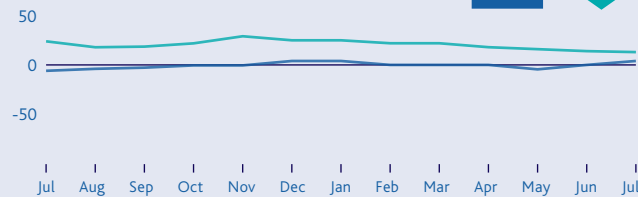
0 -1



Temporary agency workers (n=18\*) and permanent members of staff (n=133)

## MARKETING, MEDIA & CREATIVE

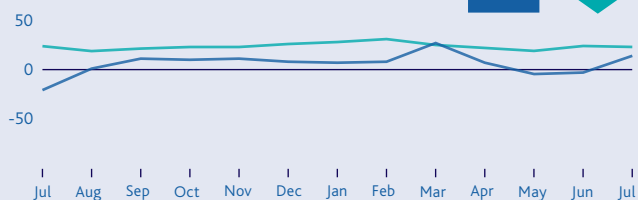
+4 -1



Temporary agency workers (n=28\*) and permanent members of staff (n=143)

## HEALTH & SOCIAL CARE

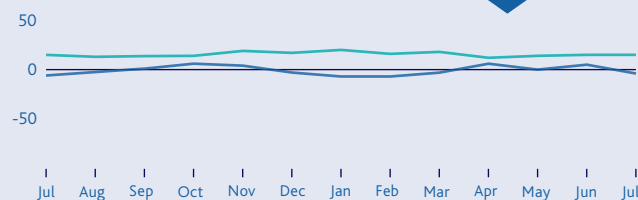
+18 -2



Temporary agency workers (n=15\*) and permanent members of staff (n=79)

## OFFICE PROFESSIONALS

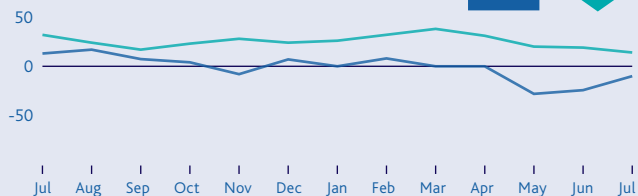
-9 0



Temporary agency workers (n=62) and permanent members of staff (n=309)

## HOSPITALITY

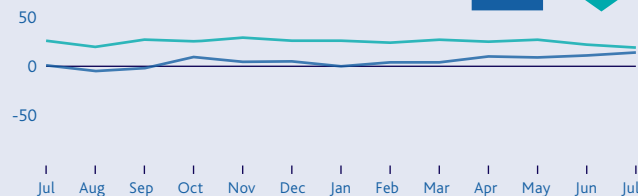
+13 -6



Temporary agency workers (n=18\*) and permanent members of staff (n=78)

## SALES & RETAIL

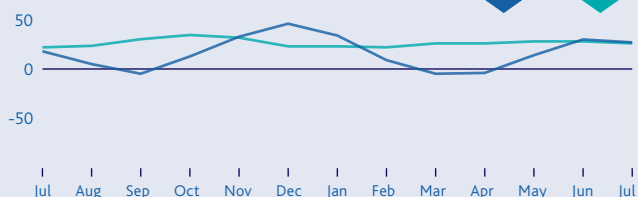
+3 -3



Temporary agency workers (n=22\*) and permanent members of staff (n=171)

## INDUSTRIAL

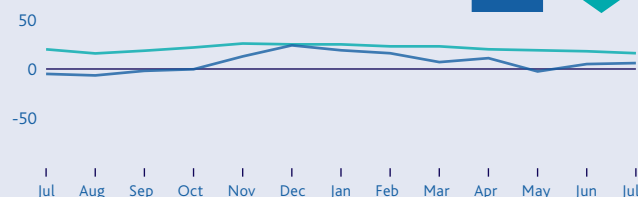
-3 -1



Temporary agency workers (n=22\*) and permanent members of staff (n=60)

## TECHNOLOGY

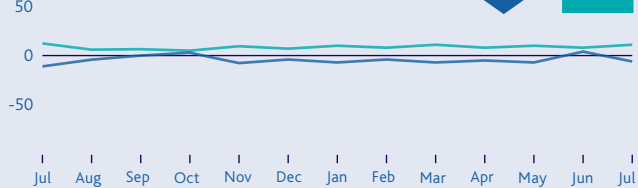
+1 -2



Temporary agency workers (n=20\*) and permanent members of staff (n=121)

## LEGAL & HR

-3 +4



Temporary agency workers (n=33\*) and permanent members of staff (n=181)

■ 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

## UK UNEMPLOYMENT RATE FORECAST TO STAY AT 4.4%

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

The latest nowcast model predicts a reduction of 46,000 in the Labour Force Survey measure of UK unemployment in the three months to July. This would leave the unemployment rate at 4.4%, its lowest since 1975.

The model signals an eleventh successive fall in unemployment, with a decline of 57,000 reported by the ONS in the three months to June. 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
- 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

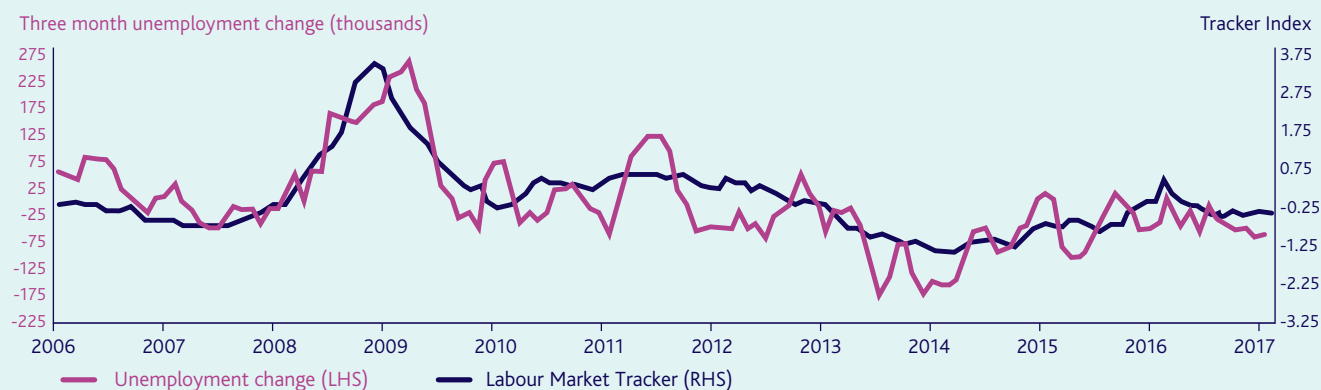
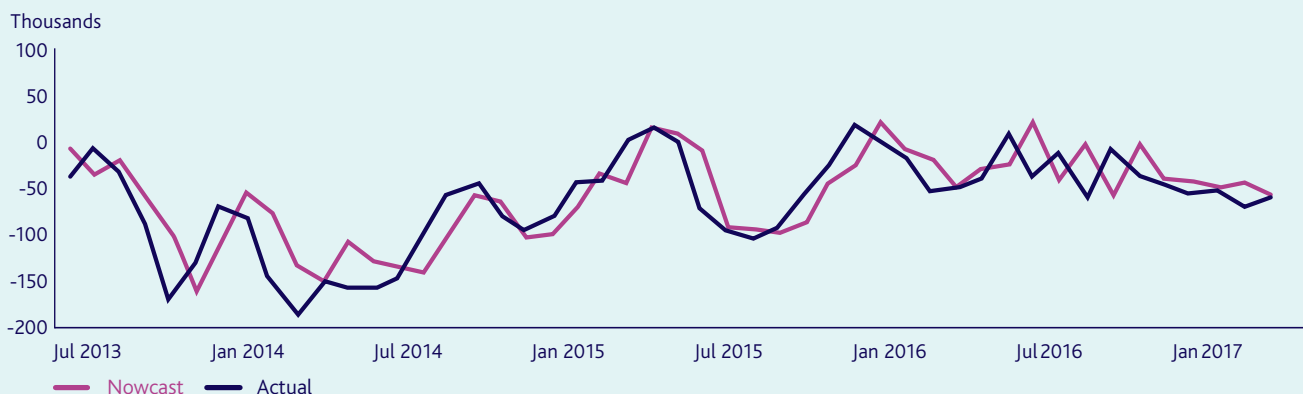


CHART 2: THREE MONTH UNEMPLOYMENT CHANGE



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