



Quarterly survey report
Summer 2007

A decorative graphic composed of numerous thin, parallel purple lines that curve and fan out from the left side of the page towards the right, creating a sense of movement and depth.

Labour market outlook

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Summary of key findings

Labour Market Outlook is based on a quarterly survey, usually of around 1,000 CIPD members (this quarter 757). When weighted, the survey sample is representative of employers of all sizes, all major employment sectors, and all regions and nations of the UK. The survey is supplemented by observations drawn from two focus groups of CIPD members.

Recruitment and redundancy outlook

- Eighty-six per cent of employers responding to the latest *Labour Market Outlook* survey intend to recruit staff this summer, a similar proportion to that recorded in the spring survey (85%). Eighteen per cent will be recruiting staff to HR roles, compared with 19% in the spring quarter survey.
- Thirty-eight per cent of employers surveyed intend to recruit additional staff this quarter (again, almost identical to the spring survey figure of 39%). Net recruitment intentions are strongest in private sector services (where 52% of employers intend to recruit additional staff) and lowest in public services (18%).
- Forty-nine per cent of employers surveyed anticipate recruitment difficulties this quarter (compared with 48% in the spring quarter).
- The proportion of employers intending to make some staff redundant has fallen from 25% to 20% since the spring survey. In 41% of cases, ten or more employees will be made redundant.

Pay outlook

- Twenty-three per cent of employers surveyed plan to conduct a pay review in the summer quarter. Thirty per cent conducting a review expect the pay of their staff to increase on average by 3–3.5%.
- Pay expectations appear to have moderated slightly since the spring survey, with 20% of employers expecting pay to rise by 4% or more this summer, compared with 23% in the spring. However, the median expected increase of 3% is unchanged from the spring quarter, while 14% of employers, compared with only 1% in the spring quarter, didn't state an expectation in this quarter's survey.

Medium-term employment outlook

- Forty-seven per cent of employers surveyed expect their staff numbers to be about the same by summer 2008. More than a third (36%) expect to be employing more staff, but 17% expect to be employing fewer.
- There is a 19% positive balance of employers expecting to employ more staff over those expecting to employ fewer in a year's time – down from the 22% positive balance recorded in the spring. The positive balance is strongest in private sector services (43%), followed by the voluntary/not-for-profit sector (36%) and manufacturing (24%). The public services again record a significant negative balance, unchanged from the spring survey at –20%.

Environment

- Forty-four per cent of UK organisations have an environment policy.
- Twenty-nine per cent of organisations have changed their emergency planning procedures to take account of the impact of climate change.
- Seventy per cent of organisations say that they could do more to encourage employees to reduce their travel.
- Ninety-one per cent of organisations encourage recycling, while 83% promote the case for reducing energy consumption.
- Employees actively use the recycling facilities while at work at around two-thirds of organisations. This compares to 59% of organisations who say that their employees are energy-conscious.
- Thirty-nine per cent of organisations believe that an environment policy is an important recruitment and retention tool for younger workers.

For details of the research methodology and the profile of employers surveyed, see Sections 6 and 7. All the quarterly reports and other CIPD surveys are available on our website at www.cipd.co.uk

1 Current economic and labour market indicators

Overview

The economy continued to grow at above its sustainable trend rate in the first half of the year. Consumer price inflation has moderated but remains above target. By July, the Monetary Policy Committee (MPC) had raised the Bank of England interest rate to 5.75% – the fifth quarter-point rise since August 2006 – and a further increase remains likely.

The most recent official quarterly labour market data (for March–May) show employment (and the employment rate) rising and unemployment falling. But signs of stronger labour market conditions follow a period of greater slack. The rise in total employment in the year to March–May was slightly lower than the rise in the total supply of labour. As a result, there was a year-on-year fall in the employment rate and a rise in unemployment. The number of economically active people of working age also increased.

A greater degree of labour market slack has helped contain wage pressure. The rate of growth of regular pay (average earnings excluding bonuses) was lower in May 2007 than a year earlier and slower than the rate of growth of cost-of-living inflation as measured by the Retail Prices Index (RPI). Workers on average therefore experienced a real-income squeeze.

The latest CIPD/KPMG *Labour Market Outlook* survey indicates that the overall strength of anticipated demand for labour has remained broadly stable since the spring, despite the tightening of monetary policy and the squeeze on incomes. The proportion

of employers intending to recruit additional staff this summer is virtually unchanged from the spring quarter, though there has been a reduction in the proportion expecting to make at least some workers redundant. However, medium-term employment expectations (i.e. whether employers expect to be employing more or fewer staff in a year's time) have become slightly more pessimistic since the spring. And net recruitment intentions this quarter are the weakest in any summer quarter since 2004, when our survey series began.

Pay expectations remain moderate, with the median expected pay increase for staff unchanged since the spring quarter. But a far higher proportion of employers didn't state their pay expectation this quarter compared with our spring survey, possibly indicating a somewhat greater degree of uncertainty about the outlook for pay.

Output and demand

The preliminary estimate by the Office for National Statistics (ONS) is that the UK economy grew by 0.8% in the second quarter of 2007 (Table 1) following growth of 0.7% in the previous quarter. The year-on-year growth rate of real gross domestic product (GDP) to the second quarter is estimated at 3% (compared to a trend rate generally thought to be in the range of 2.5–2.75% per year).

The quarterly growth rate was boosted by a recovery in the manufacturing sector (the total output of which expanded by 0.6% having contracted by 0.4% in the previous quarter). Total production sector output also increased by 0.6% (higher output

Table 1: UK economic growth to 2nd quarter, 2007

	GDP	Manufacturing	Total services
% change in Q2	0.8	0.6	0.8
% change in year to Q2	3.0	1.0	3.6

Source: ONS (preliminary estimates)

Table 2: UK expenditure, quarterly national accounts, 1st quarter, 2007

	GDP	Households	Investment	Government
% change in Q1	0.7	0.5	1.1	0.5
% change in year to Q1	3.0	2.9	8.9	1.1

Source: ONS

in manufacturing, mining and quarrying offsetting lower output in the energy, gas and water supply industries). Construction output also increased at a faster rate in the second quarter (rising by 1.1% compared to 0.7% in the first quarter).

The improved performance of the production sectors more than offset a slight dip in the rate of growth of total services output, which dropped from 0.9% to 0.8% between the first and second quarters. This was due to weaker growth in the distribution, hotels and restaurants sector (which slowed from 1.0% to 0.4%) and government and other services (down from 0.6% to 0.5%). By contrast, growth in business and financial services accelerated from 1% to 1.3%.

At the time of writing, full national accounts are available only for the period to the first quarter of 2007 (Table 2).

Growth in household (that is, consumer) spending slowed from 1.1% to 0.5% in the first quarter. The reduction would have been sharper if consumers hadn't dipped into their savings to sustain spending at a time when modest pay rises, continued high price inflation and a bigger tax burden were squeezing household incomes. While households' real disposable incomes remained fairly stable in the first quarter, there was a quarterly drop in the household savings ratio from 3.9% to 2.1%. According to the ONS, this is the lowest savings ratio for almost half a century (that is, since the first quarter of 1960).

In the year to the first quarter, consumer spending grew more slowly than the economy as a whole (by only 1.9%). Economic growth was therefore driven by a combination of public sector investment (up by 14.2%) and business investment (up by 9.4%, though this fell by 4.2% in the first quarter despite continued strong corporate profitability, the rate of return on capital

running at 15.1%). Total spending both on exports and imports weakened slightly in the first quarter (by 0.8% and 0.7% respectively), but the UK's current account deficit narrowed from 3.8% to 3.6% of GDP.

The consensus view of economists at present is that the economy will grow at around its trend rate in 2007 as a whole (that is, less rapidly than in the first half of the year) with the impact of recent tighter monetary policy becoming more evident in 2008. Most of the expected slowdown will be the result of a slower rate of consumer spending, which already appears to be evident in recent consumer trend surveys, and somewhat more subdued retail sales and housing market activity. The latest (at the time of writing in July) average of independent economic forecasts published monthly by HM Treasury is for GDP to grow by 2.8% in 2007, slowing to 2.3% in 2008.

Inflation and interest rates

The annual rate of inflation as measured by the Consumer Prices Index (CPI) was running at an above-target 2.4% in June, having gradually fallen from a peak of 3.1% in March. In its May 2007 Inflation Report, the MPC projected that CPI inflation would fall a little below the 2% target rate set by the Government in the course of the following year (to around 1.9%) before subsequently returning to the target rate.

The MPC's projection assumed that the Bank of England interest rate (the central reference interest rate set by the MPC in attempting to meet the inflation target) would rise to 5.75% by the end of 2007 (in fact, this occurred in July, this being the fifth increase in the Bank Rate since August 2006). The question now is whether this will be sufficient to meet the MPC's May projection or whether a higher Bank Rate is required.

The current consensus of opinion among economists – as gauged by the Treasury's published average of

independent economic forecasts – is that output growth is proving somewhat more robust than previously projected and that, given capacity constraints and associated pressure on businesses to raise prices, CPI inflation will remain above target (at 2.1%) in both 2007 and 2008 without at least one further quarter-point rise in the Bank Rate.

However, the average among independent forecasts conceals a significant divergence of opinion on both the balance of demand and supply capacity in the economy and the risk that a higher Bank Rate – especially with regard to how this might add to the recent strength of the pound and/or reduce consumer confidence in a heavily indebted household sector of the economy – might result in a sharper than required slowdown in economic activity. Indeed, this difference of opinion is evident within the MPC itself, where three of its nine members voted against the decision to raise the Bank Rate to 5.75% in July. And judgement on the economic outlook is in turn complicated by uncertainty over the impact of a renewed jump in oil prices in the summer and the effect of the summer floods on the prices of several common foodstuffs, some of which were already on the rise prior to the deluge.

Demand for labour

According to the Labour Force Survey (LFS) of households conducted by the ONS, there was a (seasonally adjusted) rise in total UK employment of 93,000 (to just over 29 million) in the three months ending in May 2007 (the latest figures available at the time of writing; Table 3). This is part of a net rise in employment of 180,000 in the year to March–May. However, the annual rise in employment was slightly less than the rise in the economically active population (that is, labour supply), with the result that the working-age employment rate (the proportion of the population in paid work) fell. The employment rate has

been broadly flat (remaining in the 74–75% range) throughout this decade.

The quarterly rise in employment mainly comprises a 93,000 rise in the number of people in employment, which is partially offset by lower self-employment (down 6,000). Data based on the alternative ONS measure of employment – the Workforce Jobs series obtained from a survey of employers – is, at the time of writing, available only for the period up to March 2007. This shows a quarterly decrease of 22,000 jobs (0.1%).

The Workforce Jobs series is considered a more accurate barometer of changes in employment by sector. In the quarter to March, manufacturing shed 16,000 jobs (a drop of 0.5%). The sector recording the largest number of net new jobs in the quarter was finance and business services (up 32,000, or 0.5%). The ONS also publishes regular quarterly (seasonally adjusted) data for public sector and private sector employment. These data show that the number of people employed in the public sector fell by 10,000 (–0.2%) in the quarter to March, while private sector employment was static. As for other labour demand indicators, official data show a rise in vacancies and a fall in redundancies (Table 4).

The supply of labour available to employers is measured by the economically active population, with unemployment providing the best indication of the amount of unused labour. Part of the economically inactive population of working age might also be considered a potential, but not immediately available, source of labour (Table 5).

The economically active population increased by 58,000 in the March–May 2007 quarter and by 183,000 (0.6%) in the year to that quarter. Unemployment (seasonally adjusted) as measured by the LFS fell by 35,000 (to 1.66 million, 5.4% of total labour supply),

Table 3: UK employment, LFS February 2007 – May 2007

	Employment ('000)	Employment rate (%)	Hours (million)
	28.98	74.3	928
% change in quarter	–0.2	–0.2	0.3
% change in year	0.5	–0.2	0.3

Source: ONS

Table 4: UK job vacancies and redundancies, March 2007 – May 2007

	Vacancies ('000)	Redundancies ('000)
	642	123
% change in quarter	0.8	-15.7
% change in year	8.9	-15.3

Source: ONS

Table 5: UK economic activity, unemployment and economic inactivity (working age), March 2007 – May 2007

	Economically active (million)	Unemployment (million)	Economically inactive (million)
	30.73	1.66	7.93
% change in quarter	0.2	-2.1	0.0
% change in year	0.6	0.1	1.1

Source: ONS

while the number of people unemployed and claiming Jobseeker's Allowance (the claimant count) fell by 13,800 (to 864,000, a rate of 2.7%) in June. The number of economically inactive people of working age was unchanged (at 7.92 million) in the quarter to March–May. In the year to March–May, the number of economically inactive people of working age who state that they want a job (who number 2.1 million, or a quarter of the total of working-age economically inactive) increased by 44,000 (2.1%).

Explaining recent labour market trends

The rise in employment and fall in unemployment in March–May 2007 indicates a break with the weak net job creation and rising unemployment experienced during 2006, which continued into the start of this year.

As discussed in previous *Labour Market Outlook* reports, the rise in unemployment in 2006 was the result of a period of relatively weak demand for labour coinciding with a period of relatively strong growth in the supply of labour (due primarily to an influx of migrant workers but also to a rise in the number of older people looking for jobs).

Our main explanation for the period of weak demand for labour is that 2006 saw a reversal of the 'labour hoarding' that occurred in 2004/2005 as employers held on to staff during the economic slowdown. Consequently, 2006 was a year of stronger growth in productivity (see below) as many employers responded to the economic recovery by making use of existing staff without the need for net hiring. In addition, employment growth slowed as the public sector jobs boom of the first half of the decade came to a gradual halt.

It has also been suggested (and discussed by the MPC, as minutes of the committee's monthly meetings show) that employment growth might have been stymied by an increase in the direct or indirect cost of employing people. One possibility is that higher energy costs required a corresponding reduction (or at least slower growth) in labour costs. If this was not forthcoming – either because workers resisted it or because employers also had to pay a higher minimum wage or cover higher non-wage employment costs such as National Insurance contributions or pension contributions – organisations may have decided to employ fewer people.

Table 6: Growth in UK average earnings, May 2006 and 2007

	Whole economy (%)	Private sector (%)	Public sector (%)
May 2006	3.8	4.0	3.0
May 2007	3.5	3.6	3.1

Source: ONS

Table 7: Annual growth in UK productivity and unit wage costs, 1st quarter, 2004–2007

	Output per worker (%)	Output per hour (%)	Unit wage costs (%)
2004 Q4	2.7	2.8	1.7
2005 Q4	1.2	1.0	2.9
2006 Q4	1.7	2.0	2.4
2007 Q4	2.7	2.8	2.4

Source: ONS

What is evident, however, is that there has been a subsequent recovery in demand for labour in the spring of 2007 which, together with stability in the labour supply, resulted in a fall in unemployment.

Pay, productivity and unit wage costs

Despite signs that the amount of spare capacity (as measured by unemployment) is beginning to diminish, conditions in the labour market remained conducive to moderate pay settlements in the spring. The annual rate of growth in regular pay (that is, excluding bonuses) was lower in May 2007 than a year earlier, especially in the private sector (Table 6). Moreover, although growth in average earnings including bonuses has been stronger, this also fell between May 2006 and May 2007 (down from 4.3% to 3.5%). However, high bonus payments in the first quarter helped to prevent a year-on-year improvement in whole-economy unit wage costs, despite an improvement in labour productivity (Table 7).

2 Recruitment and redundancy outlook

Recruitment activity and net change in staffing levels

Eighty-six per cent of employers responding to the survey intended to recruit staff this spring, up from 85%, 82% and 79% in the spring 2007, winter 2007 and autumn 2006 *Labour Market Outlook* surveys respectively. The proportion is highest in the voluntary/not-for-profit sector (90%), followed by the public services (85%), private sector services (82%) and manufacturing and production (82%) across all major employment sectors. Eighteen per cent of employers will be recruiting staff to HR roles compared with 19% and 15% in the spring and winter quarter surveys respectively.

In analysing the quarterly survey findings, it's important to distinguish between total (or gross) recruitment and net change in staffing levels. Many employers are facing high rates of labour turnover for some or all categories of staff and are therefore having to constantly deal with recruitment and retention pressures, even when their total workforce is not expanding. Similarly, some employers are engaged in workforce restructuring by way of simultaneous recruitment and redundancy, which leaves overall staffing levels unchanged.

Figure 1 therefore registers changes in net recruitment – that is, recruitment that is over and above replacement recruitment and raises an employer's staffing levels. The *Labour Market Outlook* measure of net recruitment is therefore a proxy for quarterly changes in employers' overall demand for labour. This helps explain why, at times, we can see an apparently paradoxical difference between the findings of surveys that monitor employers' recruitment activity and observed trends in the overall level of employment. Comparison with independent recruitment surveys and official ONS employment data indicates that the *Labour Market Outlook* figure for total recruitment intentions generally reflects that of other independent recruitment surveys, while our figure for net recruitment reflects the trend in employment levels as identified by the ONS data.

As Figure 1 shows, 38% of employers surveyed intend to recruit additional staff this quarter, virtually unchanged from the spring quarter (39%). There is therefore no obvious negative impact of the recent tightening of monetary policy on demand for labour.

Figure 1: Net recruitment intentions



NB. The date shown in this and subsequent tables in Sections 2 and 3 of this report refers to the time of the survey, while the figures shown refer to recruitment intentions in the quarter following the survey

It is worth noting, however, that net recruitment intentions this quarter are the weakest in any summer quarter since 2004 when our survey series began. Moreover, while the *Labour Market Outlook* survey measure of net recruitment intentions relates reasonably well to trends in the numbers of people in employment as measured by ONS surveys, the clear springtime 'bounce back' in employee numbers recorded by the ONS is not evident in the *Labour Market Outlook* series.

This suggests that some employers responding to the current survey had underestimated their staffing needs in the spring. The fact that expectations are unchanged

between the spring and summer surveys could therefore mean that employers have either failed to adjust their expectations in line with what actually happened in the spring or, instead, that expected demand for labour in fact weakened relative to actual demand in the spring.

Either way the likelihood is that tighter monetary policy will start to dampen demand for labour in the coming months. However, assuming that only a modest slowdown in economic growth is needed to bring CPI inflation in line with the target rate, the likelihood is that employers will respond as they have in previous slowdowns during the past decade and will cut back on recruitment rather than increase redundancies.

Despite the stability in net recruitment intentions, there has been a reduction (from 25% to 20%) in the proportion of employers expecting to make at least some staff redundant (Table 8). In 41% of these cases, at least ten staff will be made redundant.

The reduction in redundancy intentions is confined to private sector services and the public services. Redundancy intentions nonetheless remain strongest in the public services (where a quarter of employers surveyed expected to make at least some staff redundant this quarter, Table 9). In education and the NHS, this proportion rises to 30% or above. The *Labour Market Outlook* focus groups confirm that current restructuring and efficiency measures in the public services are generally resulting in net employment reductions, while in the private sector at present the net effect of restructuring can sometimes be to increase employment.

Net recruitment intentions are highest among smaller employers (Table 10), though the figure for larger employers is depressed by the presence of large public service organisations in the large employer categories. The three regions with the highest rates of net recruitment intentions this quarter are Northern Ireland (58%), the east of England (49%), London (49%) and the north-east of England (47%) (Table 11).

Recruitment difficulties

Forty-nine per cent of employers surveyed anticipate recruitment difficulties this quarter, similar to the spring quarter (48%, Table 12). The most noticeable sign of

Table 8: Employers expecting to make some employees redundant, spring and summer 2007 surveys

	Spring 2007 (%)	Summer 2007 (%)
Manufacturing and production	20	20
Voluntary sector	21	21
Private sector services	22	14
Public sector	36	25
All	25	20

Table 9: Net recruitment intentions by sector, spring and summer 2007 surveys

	Spring 2007 (%)	Summer 2007 (%)
Manufacturing and production	52	45
Voluntary sector	47	39
Private sector services	52	52
Public sector	16	18
All	39	38

Table 10: Net recruitment intentions by employer size, summer 2007 survey

Number of employees	%
1–9	54
10–49	60
50–99	38
100–499	42
500–999	34
1,000–4,999	28
5,000–9,999	29
10,000–20,000	6
More than 20,000	3

possible change is seen in the public services, where the proportion of employers anticipating recruitment difficulties has increased from 40% to 45%.

Table 11: Net recruitment intentions by region, summer 2007 survey

	%
Scotland	41
Wales	43
Northern Ireland	58
North-west of England	37
North-east of England	47
Yorkshire and Humberside	34
Midlands	39
East of England	49
London	49
South-east of England	42
South-west of England	39

Table 12: Employers expecting recruitment difficulties, spring and summer 2007 surveys

	Spring 2007 (%)	Summer 2007 (%)
Manufacturing and production	48	50
Voluntary sector	42	44
Private sector services	53	52
Public sector	40	45
All	48	49

As in most previous *Labour Market Outlook* surveys, managerial staff, skilled trade staff and sales and customer services staff are cited as those most difficult to recruit. But our recent focus groups indicate that a lack of potential recruits with relevant experience for job vacancies on offer is currently a more significant cause of recruitment difficulties than specific skills shortages. This can sometimes limit the ability of migrant workers to fill vacancies, which is an important consideration, given the extent to which the availability of migrant labour has served as a pressure valve in the labour market in recent years.

3 Pay outlook

Expected scale of pay rises

Just under a quarter (23%) of employers surveyed plan to conduct a pay review in the summer quarter. Thirty per cent of employers conducting a review expect the pay of their staff to increase on average by between 3 and 3.5% (Table 13). One in five (20%) expect increases of 4% or more.

Pay expectations appear to have moderated slightly since the spring survey, with 20% of employers expecting pay to rise by 4% or more this summer, compared with 23% in the spring. However, the median expected increase of 3% is unchanged from the spring quarter, while 14% of employers, compared with only 1% in the spring quarter, didn't state an expectation in this quarter's survey, which might suggest a degree of uncertainty about the immediate pay outlook.

The expected median increase is highest in manufacturing and production (3.2%) and lowest in the public services (2.5%).

Table 13: Expected impact of next pay review (excluding bonuses), spring and summer 2007

Effect	Spring %	Summer %
Increase by less than 1%	2	1
1% to less than 2%	3	2
2% to less than 3%	26	26
3% to less than 3.5%	36	30
3.5% to less than 4%	9	7
4% to less than 4.5%	9	10
4.5% to less than 5%	3	1
5% to less than 6%	8	5
6% or more	3	4
Don't know/unstated	1	14

Factors affecting pay increases

Typically more than eight in ten employers responding to the survey say they take price inflation into account when deciding on increases in basic pay levels (this quarter 82%). In practice, this normally means gauging changes in the cost of living as measured by the RPI.

However, the *Labour Market Outlook* survey also indicates that the cost of living is a less important determinant of likely pay outcomes than labour market factors, that is, recruitment and, in particular, retention pressures (Table 14). The impact of these market pressures on average pay increases ('the going rate' in a particular local labour market or for a particular type of labour) is in turn a more significant reference point than the cost of living.

As discussed in previous reports in this series, this observation in part explains why pay increases didn't keep pace with the sharp rise in price inflation in 2006 and at the start of 2007. Any pressure on pay to match a higher cost of living was diminished by labour supply conditions that were conducive to modest average pay increases.

This observation is significant given that the *Labour Market Outlook* surveys have found that the vast majority of employers in private sector service companies and manufacturing and production

Table 14: Influences on pay increases, summer 2007

	%
To improve retention of skilled staff	50
To keep up with pay inflation	52
To improve recruitment of skilled staff	28
Higher costs of living	24

sector companies (especially smaller employers) don't bargain with trade unions over pay. Trade unions are more likely to try to secure pay increases that match increases in the cost of living and are more likely to seek broadly equivalent percentage pay increases for all grades of staff. As a result, people employed in the private sector – who make up roughly 80% of UK employees – find it more difficult nowadays to obtain inflation-matching pay increases.

Other employment costs

Aside from pay, employers report that they expect recruitment costs (34%) and pension provision (24%) to have the biggest impact on their total employment costs this summer, in line with the results of previous surveys (Table 15).

Table 15: Biggest impact on employment costs, summer 2007 survey

Factor	% saying biggest impact
Recruitment costs	34
Pensions	24
Sick pay	14
National minimum wage	6
Training costs	5
National Insurance contributions	6
Other staff benefits	5
Flexible working arrangements	5

4 Medium-term employment and pay outlook

The *Labour Market Outlook* surveys ask employers how they expect staffing levels to change in the coming 12 months as well as in the next quarter. While this shouldn't be read as a forecast of what will happen, it nonetheless reflects employers' general mood or sentiment about the economy and the labour market at the time of each survey.

Expectations of changes in employment in the coming year

Forty-seven per cent of employers surveyed expect their staff numbers to be about the same in summer 2008 (Table 16). More than a third (36%) expect to be employing more staff, but 17% expect to be employing fewer.

There is a 19% positive balance of employers expecting to employ more staff over those expecting to employ fewer in a year's time – down from the 22% positive balance recorded in the spring. The positive balance is strongest in private sector services (43%), followed by the voluntary/not-for-profit sector (36%) and manufacturing (24%). The public services again record a significant negative balance, unchanged from the spring survey at -20% (Figure 2).

Figure 2: Balance of medium-term employment expectations, by sector

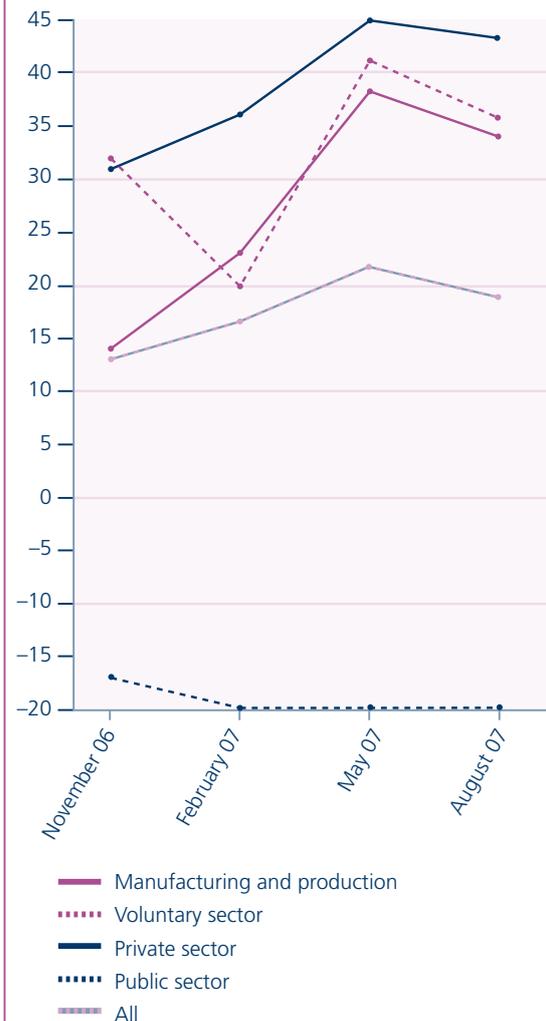


Table 16: Expected total number of employees in 12 months' time, summer 2007 survey

Change	%
About the same	47
Higher	36
Lower	17

As found in previous surveys, medium-term expectations tend to be higher for small employers (though this may to some extent reflect the relatively higher incidence of public sector employers in the larger employer categories (Table 17). By region, employers are most likely to expect to be employing more staff in London (a 37% positive balance) and Scotland (32%; Table 18).

Table 17: Balance of medium-term employment expectations, by employer size, summer 2007

Number of employees	%
1–9	15
10–49	30
50–99	29
100–499	35
500–999	12
1,000–4,999	1
5,000–9,999	–4
10,000–20,000	–30
More than 20,000	–10

Table 18: Balance of medium-term employment expectations, by region, summer 2007

	%
Scotland	32
Wales	8
Northern Ireland	28
North-west of England	11
North-east of England	19
Yorkshire and Humberside	21
Midlands	17
East of England	19
London	37
South-east of England	20
South-west of England	13

5 Focus: Employers' environmental policies

The environment has risen rapidly up the corporate agenda in recent years, with many UK organisations looking to introduce green policies and initiatives. Green transport plans, flexible working arrangements, recycling, energy-efficiency schemes and financial rewards for green behaviour are all areas in which UK organisations and HR professionals can make a difference. With this in mind, this quarter's survey asked HR professionals what action they and their organisations are taking to help tackle climate change.

How many organisations have an environmental policy?

Less than half (44%) of organisations responding to the survey have an environmental policy, this being most evident in manufacturing and production (Table 19). However, a quarter of organisations intend to introduce a policy, which is an indication of how quickly the green issue is currently gripping the imagination of HR professionals and their managerial colleagues. Indeed, all manufacturing and production companies will have an environmental policy within the next 12 months, according to the survey (Table 20).

What types of environmental policy are in place?

The survey results show that, in addition to variation across sectors in the degree of green policy and practice

Table 20: Employers planning to introduce an environmental policy in the next 12 months

	Summer 2007 (%)
Manufacturing and production	32
Voluntary sector	33
Private sector services	29
Public sector	16
All	24

that exists, there is also considerable variation across the different dimensions of environmental policy in place (Table 21). UK workplaces are particularly good at recycling and saving energy. But the record on transport is a much lighter shade of green, a problem seemingly compounded by the failure or inability of organisations to exploit homeworking and technology that could offset the need to travel.

This is perhaps unsurprising in that recycling offers organisations a 'quick win' that can generate a high profile both within and outside the organisation, while energy-saving projects offer immediate cost savings. The financial imperative may explain why manufacturing and production is the most active sector in terms of environmental policy, given its energy-intensive nature.

The business case for environmental policy

The survey explored aspects of the business case for environmental policies. In particular, with research showing a causal link between environmentally friendly organisations and employer brand, we asked employers whether a similar link is found between the green credentials of an organisation and its ability to recruit and retain staff (Table 22).

Table 19: Employers with an environmental policy

	Summer 2007 (%)
Manufacturing and production	67
Voluntary sector	32
Private sector services	40
Public sector	43
All	44

Table 21: Environmental activities undertaken

Activity	Percentage of respondents
Encouraging recycling	91
Encouraging reduction in energy consumption	83
Encouraging the use of recycled products	69
Educating or training employees in environmentally friendly business practices	42
Setting an aim to achieve carbon-neutral status	37
Encouraging volunteering for environmental projects	24
Encouraging donations to organisations/supporting charities working to combat climate change	17
Rewarding green behaviour with financial incentives/awards/recognition	8

Table 22: The environment and competitive advantage

	Agree (%)
Environmental issues have become more important to my organisation's strategy	58
Employees prefer to work for an organisation with a strong environment policy	47
Potential recruits would prefer to join an organisation with a strong environment policy	46
An environment policy is a more important recruitment and retention tool for younger workers	39
We will be reviewing our environment strategies in the next 12 months to ensure we're not overtaken by our competitors	39
We monitor the environment activities of our rival organisations to ensure they don't get a competitive advantage	10

The results suggest that the environment can be used as an important recruitment and retention tool, and therefore underlines the relevance of the environment to good people management. This seems particularly true of younger applicants and employees, with 39% of employers claiming that an environmental policy is an important recruitment and retention tool for this particular cohort of workers.

Getting the green message across

Despite the range of environmentally friendly activities undertaken, the results nonetheless suggest that organisations fare less well in the difficult task of

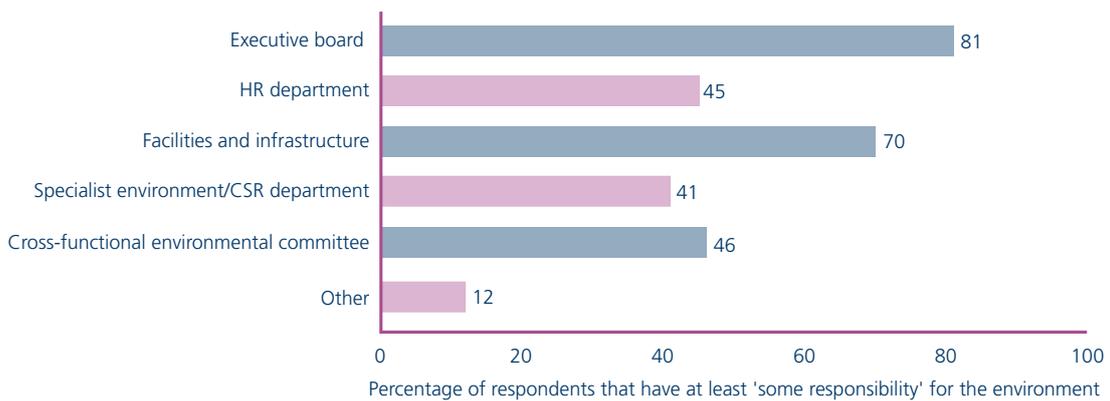
winning the hearts and minds of employees to engage with green issues in the workplace, which is essential if UK organisations want their employees to actively deliver on their environmental policies (Table 23 overleaf).

This apparent failure may be due to the survey finding that HR has a limited role in furthering the green agenda in the workplace. Although HR's expertise in change management and internal communications makes it ideally placed in this respect, only 45% of HR departments have at least 'some responsibility' for the environment (Figure 3 overleaf). The results also indicate that the larger the organisation is, the

Table 23: Engaging your employees

	Proportion of employers who agree that... (%)
Employees actively use the recycling facilities while at work	64
Employees are energy conscious	59
Employees are aware of our organisation's environment policy	39
Employees act on our environment policy	38
Employees are proactive in suggesting ways the organisation can help the environment	38
Our working culture encourages innovation and ideas for reducing energy consumption	34
HR is proactive in facilitating ways Employees can help the environment	29

Figure 3: Departmental responsibility for environmental policy



less HR responsibility has for the environment since large organisations are more likely to have specialist environment or corporate social responsibility (CSR) functions.

With environmental policies reliant on employee buy-in to succeed and with the ethical reputation

becoming an increasingly important component of the 'employer of choice' brand, it's clear that HR has a crucial role to play and will need to become more involved. This is particularly true of the one-third of employers who believe that an ownership vacuum exists over environmental policy within their organisation (Table 24).

Table 24: Responsibility for environmental policy

	Agree (%)
There is disagreement or confusion about who has responsibility for environmental policy in your organisation	32

However, while employee buy-in is important, cultural change can only be achieved if it's led from the front by senior management. Yet as many as a third of employers are failing to communicate environmental issues to their employees, so there is more for HR, in partnership with line managers, to do (Table 25).

Approaches to green travel policy

The biggest area for improvement in organisations' environmental policy arguably lies in transport policy, not least because this is the fastest-growing source of CO₂ emissions. Only a minority of those responding to the survey encourage more environmentally friendly forms of travel, such as using public transport rather than cars.

The environmental cost and the headline costs of business travel are clear and well documented. But the hidden costs of lost productivity through unnecessary travel – and the fact that homeworking and other flexible working options can boost the 'psychological contract' between the employer and the employee – should be carefully considered. However, given the

fragmentary nature of travel decisions, any exhortatory efforts should be directed towards those in senior management, who often provide the lead on what is expected in an organisation. The fact that only 37% of survey respondents think that this lead is present might therefore serve as a rallying call for greater action in boardrooms across the country (Table 26).

Interestingly, homeworking has the lowest rating of all the different initiatives encouraged by employers (30%). This may be due to the fact that homeworking is more suited to some sectors and occupations than others, though the low overall incidence suggests scope for improvement.

Table 25: Communicating environmental issues

	Using this method (%)
Internal communications to employees	66
Customer communications	31
CEO/board member referring to the environment in an external/internal speech	29
Advertising	17

Table 26: Organisations' approaches to green transport policies

	Agree (%)
The organisation could do more to encourage employees to reduce their travel	70
There is potential to reduce business travel	56
The organisation encourages employees to use tele/videoconferencing	49
The organisation encourages car-sharing	45
Senior management in my organisation provides leadership and/or support on green issues	37
The organisation actively seeks out environmentally friendly travel options	36
The organisation invests enough in ICT to reduce the need to travel	35
The organisation encourages homeworking	30

6 Research methodology

In total, 10,000 questionnaires were sent out to a range of CIPD members and 757 usable returns were obtained – a response rate of 7.5%. Respondents answered a series of questions on employment issues relating in the main to the summer of 2007. In particular, the questionnaire was concerned with employers' views on issues related to the environment.

The responses were collated and compiled by Plus Four Market Research Limited. To provide more detail, the results were then re-analysed by size of company, and business sector, region and type.

Plus Four Market Research Limited was also commissioned to undertake a qualitative study among CIPD members. Two focus group meetings were held in Cardiff and London on 19 and 23 July 2007 respectively. Focus group members were HR directors or managers, all being members of the CIPD and working for organisations with at least ten employees (all had many more than this).

The *Labour Market Outlook* survey report is prepared at the CIPD by John Philpott and Gerwyn Davies.

The CIPD would welcome comments on this report and ideas and suggestions for how *Labour Market Outlook* might be developed. These should be sent to j.philpott@cipd.co.uk

7 Respondent profile

Table 27: Respondents by business type

Business type	%
Agriculture and forestry	1
Construction	2
Energy and water	2
Mining and quarrying	1
Manufacturing	14
Finance, insurance, real estate	7
Hotel, catering, leisure	5
IT services	3
Retail, wholesale	5
Communications	2
Consultancy services	6
Other private services	7
Local government	14
Central government	9
Education	8
NHS	10
Other public services	4

Table 28: Sector list

Business type	%
Private sector services	55
Public sector services	35
Voluntary sector	10

In order to make better use of the survey data by business type (Table 27), the data were recoded into sector categories (Table 28) and by employment size (Table 29) and region/nation (Table 30).

Table 29: Respondents, by employee size bands

Number of employees	%
1–9	6
10–49	9
50–99	10
100–499	30
500–999	12
1,000–4,999	16
5,000–9,999	7
10,000–20,000	4
More than 20,000	6

Table 30: Region/nation to which response relates

	%
Scotland	10
Wales	7
Northern Ireland	3
North-west of England	10
North-east of England	6
Yorkshire and Humberside	8
Midlands	12
East of England	6
London	13
South-east of England	15
South-west of England	10
Whole of UK	13

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