

the intelligence

Push versus pull

Nina Mguni, senior researcher at the REC, looks at pay rates for the year ahead

Unemployment is falling, there are more vacancies but what about pay? According to the HM Treasury report, a series of independent forecasts suggest earnings growth could range from 4% to 1.5% for 2014, while the Office for Budget Responsibility (OBR) forecasts wage growth at 2.6% for 2014, and earnings to grow by 3.4% in 2015.

The Office for National Statistics registers muted growth with a 1.1% average weekly earnings in the three months to December 2013. A blog by the Income Data Services (February 2014) suggests that including wage growth for those in discontinuous employment weakens overall earnings growth, suggesting that new starters have accepted lower pay or fewer hours.

The Annual Survey of Hours and Earnings (ASHE) for April 2013 shows that wage growth for those in continuous employment in the private sector grew between 3.5% and 4% during 2010-13, and between 3% and 3.8% for public sector employees. When analysis includes those who have been in discontinuous employment, wage growth falls to 2.3% in 2013 for private sector employees and 1.6% for public sector employees.

So behind the headline figure of muted wage growth there are two trends to watch: pay progression and wage settlements.

In March 2014 the REC/KPMG Report on Jobs indicates that starting salaries and temp hourly pay rates continue to show month on month growth. There was an increase in the proportion of recruiters reporting that perm starting salaries are higher than the previous month.

In August 2013, 16.2% of recruiters reported that perm starting salaries were higher than the previous month. This contrasts with 25.5% in February 2014. This trend is also evident for temp/contract pay rates, but is slightly more muted with 15.4% of respondents stating that they paid higher pay rates in February compared to the previous month, against 12.1% in August 2013.

In REC's recent JobsOutlook (March 2014), four in five employers stated that they planned to increase their perm workforce and just under half (48%) stated that their use of temp agency workers will increase in the medium term. And alongside this, Report on Jobs shows that staff availability for temp and perm staff has sharply declined (see the sharp acceleration of starting salaries in the last two quarters of last year, below). The question is whether this demand for workers will be reflected in higher negotiated pay rates – the pull factor.

Pay pressures (KPMG/REC Report on Jobs)

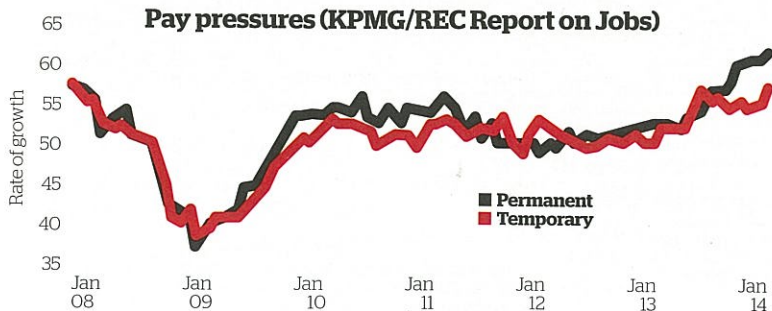


Fig 1: Median recruiter turnover growth

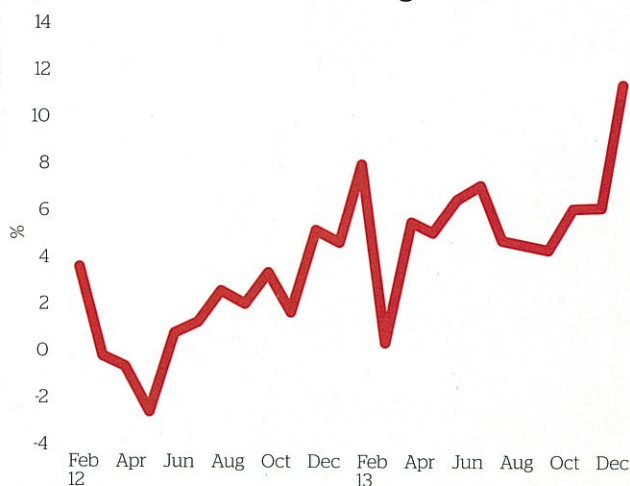
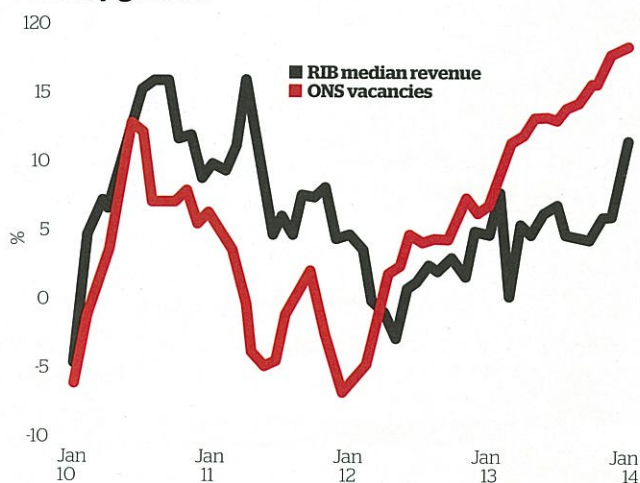


Fig 2: RIB recruiter revenue growth and ONS vacancy growth



Revenues are booming

Recruiters have suffered difficult times during the last few years as the tough economic environment has caused employers to be cautious about taking on new people until their confidence in the recovery was entrenched. But the latest information from Recruitment Industry Benchmarking (RIB) shows that the median recruiter revenue growth in January 2014 was over 11%, the highest seen in nearly three years (Figure 1).

This rebound in recruiter revenues is supported by the strong growth reported by the Office for National Statistics for the number of vacancies in the economy. As can be seen in Figure 2 there has been steady and consistent increase in vacancy growth for two years – a statistic that gives us grounds for confidence that the sharp uptick in recruiter revenue growth in January will continue.

Pleasingly this strong rebound in recruiter turnover growth is to be seen in each of the three areas of recruiters' revenues – permanent, temporary and contract billings – the prospects for UK recruiters look better than they have for some time.

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