

# the intelligence

## The Skills Gap

Employers lack workforce capacity to respond to growing demand, says **Nina Mguni**

In January, the REC published a report that looked at the UK's post-recession labour market, reviewing how the jobs market has changed in recent years.

The report also drew attention to the long awaited improvements in the labour market data and highlighted some early warning signals that could suppress growth.

The report reviewed data from our monthly JobsOutlook report. First, the good news. Increased demand has led to a growing proportion of businesses that have no more capacity to take on further work without creating new jobs (see below); 31% say they have no spare capacity and would have to hire new staff if work increased.

Employers have started to increase their headcount, with 21% reporting they have increased their headcount within the year (up from only 4% in 2009). The rate at which employers are reducing headcount has slowed, with only 12% record having made redundancies in the past year, down from 22% in 2009.

However, as demand grows, the pertinent question will be whether there are staff of sufficient quantity and quality to meet the demand for more workers. Technical and

engineering, computing and IT, and education and training are the areas in which employers expect to have the most difficulty sourcing appropriately skilled candidates for permanent roles.

Technical and engineering is also the area of greatest concern for employers thinking about temporary roles, followed by driving and distribution, and professional and managerial.

As Kate Shoosmith, the REC head of policy, stated: "Employers' inability to improve their workforce productivity without hiring new staff is likely to suppress pay growth in the foreseeable future, as they invest in increasing headcount rather than pay packets."

"Starting salaries and hourly pay rates will rise in certain areas where skilled candidates are scarce and companies have to compete for talent. The shortage of candidates with the skills required for a growing number of vacancies is a looming problem."

While the economy appears to be picking up, it will be interesting to see how recruiters respond to the heightened demands for a skilled workforce.

*Nina Mguni is senior researcher, REC*

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

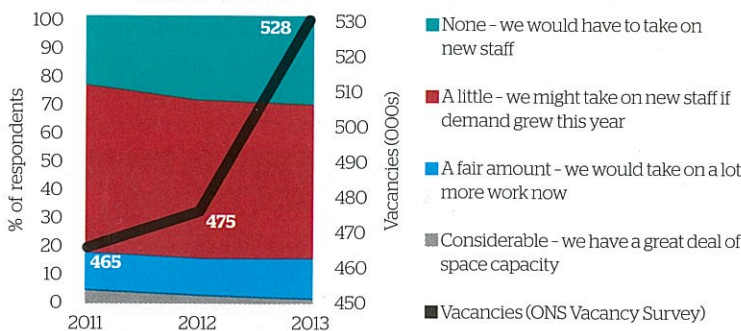


Fig 1: Median recruiter turnover growth

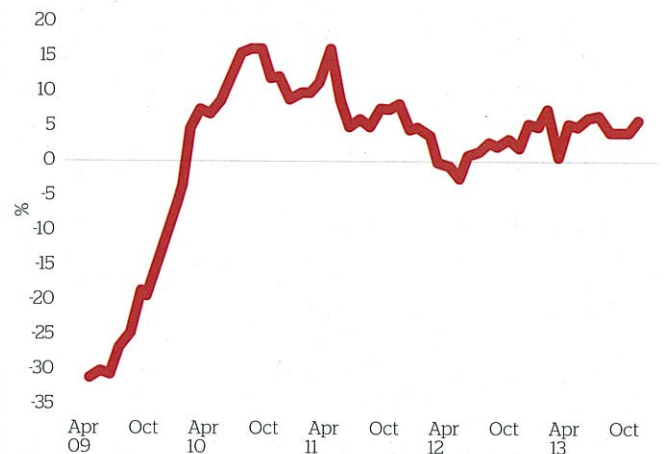
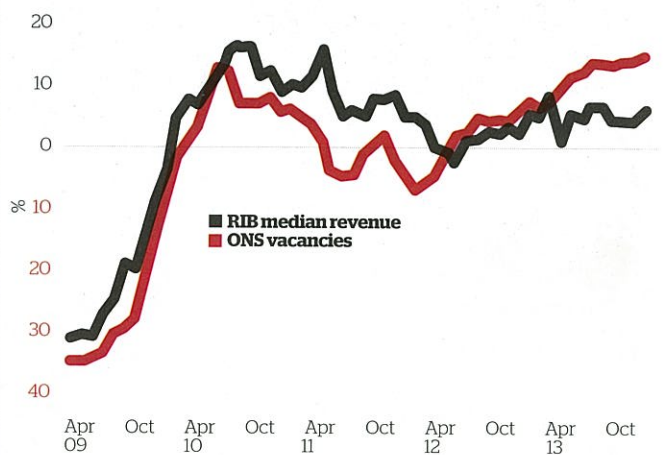


Fig 2: Median revenue growth & UK job vacancy growth



## On the up

As can be seen in Figure 1, median recruiter turnover growth showed a welcome uptick in November to 6%, reversing the worrying slowdown that we saw in September and in October, and approaching the growth levels that we saw in early summer last year.

Encouragingly, growth in the number of job vacancies in the UK reported by the Office for National Statistics has continued to accelerate to just under 15%.

Historically, growth in job vacancies has been a good leading indicator of recruiter revenue growth, although for the last six months or so revenue growth has been relatively flat – over the next few months we will monitor this closely for signs of a structural decoupling or a welcome upward acceleration in revenue growth.

Combined with this pleasing acceleration in revenue, we are seeing a very positive expansion in profit margins. Figure 2 shows that median net profit margin has increased to 4.7% in November, the highest we have seen for over two years.

A combination of accelerating revenues and expanding profit margins makes a wonderful combination for recruiters.

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