the intelligence

Heading in the right direction

What will happen to wages, asks **Nina Mguni**, senior researcher at the REC

In the March edition of JobsOutlook we asked employers if they anticipate increasing the wages of their employees this year. Just over a quarter (28%) stated that they intend to increase the wages of at least some of their staff and one in 10 stated that all their employees would benefit from a wage increase. Only 14% stated that they would not raise wages.

In May this year the Monetary Policy Committee were cautiously optimistic about growth in wages noting: "Surveys suggested that earnings growth might continue to rise: the CBI measure of businesses' expected salary cost growth over the next 12 months had remained higher than its 2013 average at 2.1% in Q1; and the REC earnings survey balance, which was indicative of growth in the pay of newly recruited employees, was now some way above its pre-recession average."

The Income Data Services similarly reported that median pay growth in the first quarter of 2014 equalled 2.5%, and that 60% of pay settlements resulted in a pay rise of between 2% and 2.99%. Public sector staff fare less well, with pay settlements growing at 1.1%. In contrast, people in aerospace, chemicals, defence and food processing industries have been able to command above average pay deals. This wage growth is long overdue. Between 1997 and 2007 wages increased by 4% year-on-year. In contrast, prices did not creep up by more than 2% in this period.

Improved employer confidence will contribute to increased pay settlements. In April 2014, JobsOutlook reached a record high in employer confidence. The following month, JobsOutlook reported that four in five employers intended to increase number of permanent hires in the next year. But much will depend on whether staff are available.

As the graph below illustrates the marginal fall in inflation is also contributing to growth real wages. This is all good news. But the focus in the coming months also depends on whether labour productivity mimics improvements in wage growth. In the event that productivity stagnates, improvements in pay settlements will translate into higher costs for business and prices for consumers, leading to possible interest rate rises. But as the graph suggests, productivity is heading in the right direction. Improvements in labour productivity will lessen the threat of interest rate rises and wage growth will come at less of a cost.

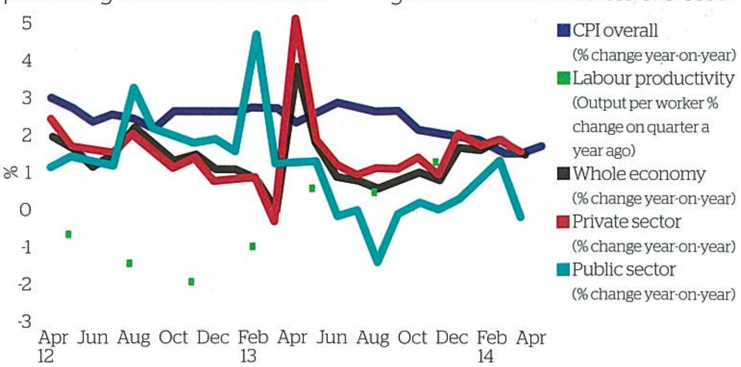
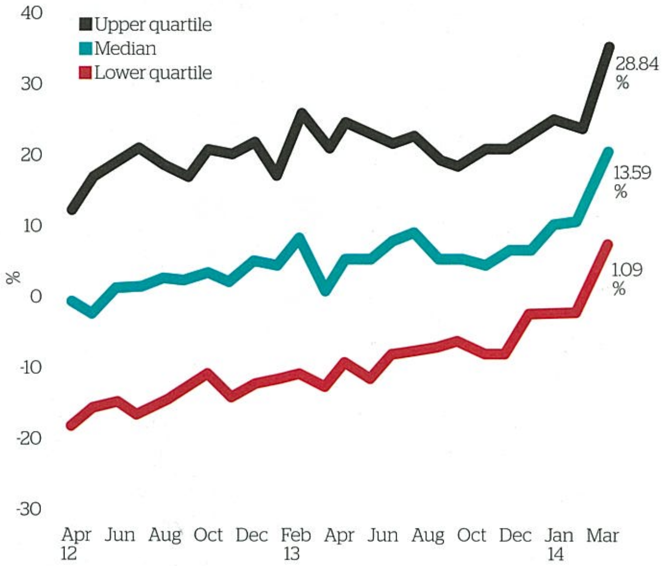


Fig 1: Turnover growth year-on-year



On the up

Throughout the whole of last year, Recruitment Industry Benchmarking (RIB) reported on an improving picture for recruiters.

With the first quarter of 2014 now completed, it's pleasing to see that not only has this improvement continued but shows positive signs of a potential acceleration.

The graph above shows 'turnover growth' compared to the previous year. As can be seen, March figures show a healthy median figure of 13.59% growth, an increase on the 6.32% growth reported in December. Indeed it is good to see that both the January and February figures showed an increase of over 10% on the previous year.

The graph also shows the 'spread' of improvement, with the upper quartile reporting a 28.84% increase in March – 22.49% in December. It is worth noting that 25% of RIB members are therefore reporting an increase above this 28.84%.

It's also pleasing to see that the lower quartile are now also reporting a positive improvement in March of 1.09%, the first time this has been positive in the two years of the graph.

Simple turnover figures do not, of course, show a complete picture but it is a good indication of a generally improving marketplace. It is, however, pleasing to see that net profit margins also continue to improve with a median figure of 4.48% reported in March – an increase on the 2.92% December figure.

Of course different sectors are reporting different pictures, and professional recruiters will want to look at other key measurement such as fee earner productivity etc.

However, this is a positive start to the year and it will be crucial that management make use of all the tools and industry knowledge available to them to ensure they optimise their performance in this dynamic marketplace.

• **Crawfurd Walker** is chief executive officer at Recruitment Industry Benchmarking (RIB) www.ribindex.com