the intelligence

Oddity or opportunity?

Nina Mguni, senior researcher at the REC, looks behind the latest jobs figures

In August of this year, shortly after the labour market statistics for April to June were released, Duncan Weldon, the new economics editor for *Newsnight*, tweeted: 'The UK labour market is really odd right now'. But does this present a problem for the recruitment industry?

The Office for National Statistics announced that unemployment had fallen to 6.4% and the number of people employed had grown by 167,000 to reach 30.60m. The unemployment rate has long breached 7%, the rate at which the Bank of England would consider interest rate rises under forward guidance version one issued in summer of 2013. The view was that this rate of unemployment would not be reached until after 2016.

So why the ambivalent response to the labour market statistics? Forward guidance mark three includes wage growth as an indicator. And as the red line indicates, the rate of wage growth based on average earnings (including bonuses) has fallen for much of this year.

This stands in contrast to data that is captured from the REC/KPMG 'Report on Jobs'. On a monthly basis a panel of recruiters are asked 'Are average salaries awarded to staff placed in permanent positions higher, the same or lower than one month ago'. In contrast to the data included in the average weekly earnings, the 'Report on Jobs' salary index indicates a sharp upturn in salary growth since late 2013.

As the Bank of England reported in their Inflation Report in August 2014, 'the higher pay growth seen by new employees may feed through to other employees' pay as job churn increases towards pre-crisis rates'. 'Report on Jobs' captures starting salaries and the average weekly earnings includes data for existing employees and new starters; the assumption is that pay growth should filter through to the wider workforce in due course. As the Bank of England inflation report notes: "This could be because the pay growth of new employees is more sensitive to changes in labour market slack."

So what does this mean for the recruitment industry? At the beginning of this year, *Fortune* magazine published an article entitled '2014, the year of the "passive" job hunter'. According to the article, talent shortages and higher starting salaries may mean a greater pool of passive candidates who expect recruiters to come to them.

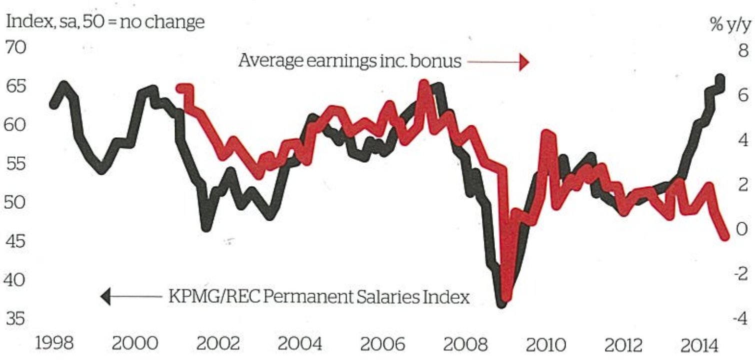


Fig 1: Average permanent invoice value

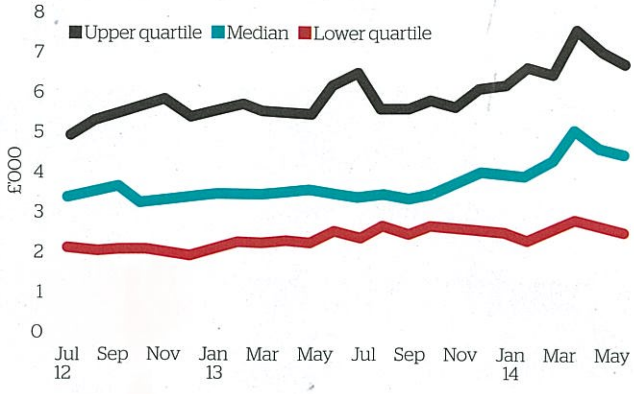
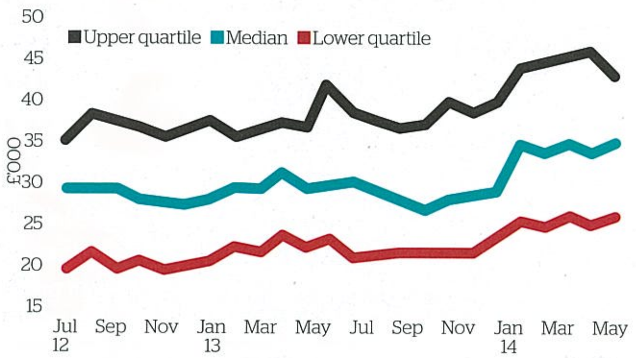


Fig 2: RIB recruiter placement salaries



Improving job market benefits recruiters

The fast recovering economy (in the UK at least), together with falling unemployment, has resulted in a much improved, and very welcome situation for UK recruiters.

Median average permanent invoice value has been steadily increasing over the last two years, with the growth rate accelerating at the turn of the year, so that invoices have increased by more than £1k over the last 12 months, from £3,427 to £ 4,453 (Figure 1), an increase of 30%. Upper quartile permanent invoice value has similarly increased, up over £500 in the last year. The lower quartile has, disappointingly, fallen slightly since June last year demonstrating the importance to recruiters of benchmarking themselves against their peers to ensure that they are leaders in their sector.

What has driven this welcome increase in invoice value?

Figure 2 shows the strong increase in placement salaries, with the median placement salary increasing from around £30k to around £35k in the last 12 months. Both upper and lower quartile placement salaries have increased as well, by 21% and 17% respectively, demonstrating a broad-based recovery in placement salaries.

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