CIPD
Championing better work and working lives

in partnership with
Adecco Group UK & Ireland

LABOUR MARKET OUTLOOK

VIEWS FROM EMPLOYERS

Autumn 2016

The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has more than 140,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

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Acknowledgements

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Any errors that remain are entirely the CIPD's responsibility.

Foreword from the CIPD

The impact of Brexit on migrant workers

28%

The survey suggests Brexit could already be having a negative impact, with almost three in ten (28%) organisations that employ migrant workers reporting evidence that migrant workers are considering leaving the UK.

The quarterly CIPD *Labour Market Outlook* (LMO) provides a set of forward-looking labour market indicators, highlighting employers' recruitment, redundancy and pay intentions. The survey is based on responses from 1,024 employers. This report also considers the potential implications of the UK's decision to leave the European Union on investment and labour supply, particularly EU nationals.

The survey suggests that short-term employment growth will remain strong, despite a modest fall since last quarter's report in August, suggesting the labour market remains resilient following the vote to leave the EU. This quarter's net employment balance – which measures the difference between the proportion of employers who expect to increase staff levels and those who expect to decrease staff levels in the fourth quarter of 2016 – has decreased to +22 from +27 since the summer report (Figure 1). Expectations have fallen in the public sector and private sector services compared with three months ago. However, employment confidence has rebounded sharply in the education sector, as well as the manufacturing and production sector, which may reflect an expected boost to export demand following the recent sharp depreciation in sterling.

While employers seem in the main bullish in their employment intentions, the outlook for pay is less positive. The report finds that expectations of basic pay growth remain very weak. Median basic pay expectations for the 12 months to September 2017 remain unchanged from the previous quarter at 1.1%, below the survey's recent historic average. The forward-looking pay data in the report suggests that there could be downward pressure on wages in the year ahead. At the same time, CPI inflation expectations have risen sharply due to the fall in sterling since the UK's decision to leave the EU; so as inflation moves up, there may be a period of very low or negative real wage growth in the year ahead. This situation again highlights the need for employers to focus on workplace productivity improvements in order to be able to afford sustainable, above inflation, pay increases.

Migrant workers

One driver of productivity growth is employers' ability to access appropriately skilled labour. In this respect, the survey suggests Brexit could already be having a negative impact, with almost three in ten (28%) organisations that employ migrant workers reporting evidence that migrant workers are considering leaving the UK. In addition, more than a third of organisations that employ migrant workers believe it will be harder to recruit EU migrants over the next 12 months as a result of the vote to leave the EU, while 32% think Brexit will also make it harder to recruit non-EU migrants over the same period.

Looking further ahead, 42% of all employers say that if their ability to recruit EU workers were to be reduced as a result of changes to UK immigration policy, it would have a negative impact on their UK operations.

It has been suggested that one positive outcome of restrictions on EU workers would mean greater investment by employers in the recruitment, training and development of UK-born nationals. However, previous CIPD research[1] finds that employers that recruit migrant workers are also more likely to invest in the development of their wider workforce, such as apprenticeships, than employers that don't employ migrant workers. This finding is mirrored in this report, which shows that employers that recruit migrant workers are significantly more likely to provide apprenticeships than employers that don't employ migrant workers.

Post-Brexit planning

Focusing more closely on training and development as well as other ways that employers are preparing to respond if it becomes harder to recruit EU nationals, the report shows just 15% of employers have started to plan for this eventuality. Among the small proportion of organisations that have started to plan for future restrictions on EU migrant workers, the most common response is to undertake strategic workforce planning, followed by resource strategy reviews and plans to build closer links with schools and colleges and to invest in apprenticeships. However, 30% of organisations intend to continue to recruit EU nationals where possible, absorbing any extra cost.

Overall, the data strengthens the argument for the Government to put transitional arrangements in place if controls on EU migration are introduced, especially if the participation rate of UK nationals in the labour market remains as high as it is now. It also points to the need for greater employer investment in skills development and workforce planning. It is in the interests of UK employers to invest today in the development of their future workforce to ensure they can continue to access the skills they need to grow post-Brexit, particularly following the recent cut in interest rates, which should lower already historically low borrowing costs. However, the survey suggests only a minority of organisations are currently planning to boost their investment in skills, with 15% of employers saying they are likely to reduce their investment in skills over the next three months as a result of the Brexit vote and just 9% planning to increase investment in this area.

One reason for this could be the increase in costs reported by many organisations as a result of Brexit and the fall in the value of the pound, with 30% of employers saying this has increased their costs and just 3% saying it has reduced their costs.

Organisations intending to recruit EU nationals

30%

30% of organisations intend to continue to recruit EU nationals where possible, absorbing any extra cost.

[1] CIPD. (2013) *EU migrant labour: assessing the impact on the UK labour market.* London: Chartered Institute of Personnel and Development.

Implications for export competitiveness

The fall in the value of the pound has been cited by many commentators as having a strong positive upside in terms of making exports more competitive. However, the evidence on this in the survey is mixed. The proportion of employers that report that the referendum decision will improve the competitiveness of their products or services is at least offset by the proportion who say that it will make them less competitive.

The expected effects on competitiveness vary across sectors in this report. On the upside, manufacturing and production firms are almost twice as likely to say that the outcome of the referendum decision will make their products or services cheaper as the share of manufacturing and production firms who report that it will make them more expensive. However, this is offset by the services sector where the proportion of firms that say that Brexit will make them more competitive is at least offset by the share of firms in the service sector that report that it will make them less competitive.

The data on export competitiveness is broadly consistent with recent Bank of England analysis, which suggests that *'exports are expected to be broadly unaffected'*.[2] This is partly because, while exports may be more competitive as a result of a weaker pound, the costs of importing the raw materials that go into making many exports will increase.

The UK's future relationship with Europe

Finally, the report explores employers' views towards the type of relationship they would like the UK to maintain with the EU post-Brexit. It is perhaps no surprise that a majority of organisations want a broad continuation of existing arrangements with the EU in terms of access to the single market and flexibility over the recruitment of EU migrant workers rather than a less open arrangement. More than four in ten employers say they would like the Government to either adopt a European Economic Area (EEA) agreement like Norway's, or one that does not see any significant changes to the current trading arrangements. By contrast, a relatively small proportion want to see a World Trade Organization (WTO) type agreement. However, it may be surprising that almost as many employers expect a trading agreement that is similar to the current arrangement. This may be partly explained by the timing of the survey, which took place before the recent political commentary that increased expectations of a harder Brexit outcome, especially the prime minister's speech at the Conservative Party Conference.

[2] Bank of England. (2016) *Inflation Report August 2016*. London: Bank of England.

Foreword from Adecco Group UK & Ireland

A full quarter has now passed since the majority of British people voted in favour of leaving the European Union.

While no one quite knows what it will look like – the negotiations are yet to begin in earnest – Brexit is certain to mean huge changes for British employers. It is against this backdrop that I am pleased to see Adecco Group joining forces with the CIPD in providing this *Labour Market Outlook*.

This report shows a British business community confident in the face of Brexit, but nonetheless unnerved by the uncertainty around the potential outcomes of the British Government's negotiations with EU leaders. Most importantly, many employers are concerned about the possibility of losing access to the single market and its free movement of labour principle.

Indeed, of the 1,024 British employers questioned as part of this survey, only 6% want a 'hard Brexit' that would see the UK defaulting back to World Trade Organization rules. The so-called Norwegian model, or bi-lateral trade arrangements, are far more popular with employers, and nearly two-thirds named access to EU migrant workers as important to the success of their organisation.

This sense of uncertainty is likely to be impacting the hiring and employment decisions of UK employers. In this report, we can see that confidence in short-term employment is being undermined by reports of rising costs, reduced investment in both physical and human capital, weak wage growth and concerns regarding access to EU nationals.

For Adecco Group, the clearest learning of this research is that businesses must plan. While there are many known unknowns, what we do know for certain (despite the recent High Court ruling on triggering Article 50) is that the UK will leave the EU in the next few years. As clarity on access to EU migrant labour is unlikely to be forthcoming during these lengthy 'divorce proceedings', businesses must be proactive and prepared for any outcome.

However, our research shows that only 15% of businesses have started to plan how they would respond should it become harder to recruit EU migrant workers in the future – a worrying statistic given the current importance of the EU workforce to the UK labour market.

To survive and prosper in this protracted period of uncertainty and flux, companies have to start planning – and acting – now. UK employers should analyse what the different Brexit scenarios, from hard Brexit to the Norwegian model, could mean for their organisation. A dedicated scenario planning process will allow businesses to understand their strengths and vulnerabilities and better plan their communications with existing employees.

Workforce audits are another important step, in particular for large organisations reliant on EU nationals. With roughly 2.2 million EU workers in the UK, employers need to understand how lesser access to the European workforce would impact productivity, access to top talent and resource planning. This will allow employers to understand the extent to which EU nationals are relied upon within the business, their productivity value and what it could mean if access to this resource is limited.

Thirdly, and crucially, employers should also look beyond the migrant question. The UK has benefitted from long-term, easy access to a massive talent pool. With the possibility of seriously curtailed access to skilled EU labour, employers, in all industries, should start to invest more in their own staff and engage with educational institutions to shore up the UK's pipeline of home-grown skills. This report shows that efforts to recruit young people have increased in this quarter, but there is a lot more work to be done.

In this case, the fact that the change in the UK status within the EU is not in the immediate term is an advantage: it gives UK employers time to start to upskill workers, engage with the Government over apprenticeships and invest in the next generation.

With significant changes ahead, it's clear that there is a need for a more widespread culture of strategic workforce planning. In this climate of uncertainty, UK employers will only advance their own bottom line – and UK productivity – by being proactive, robust and decisive employers. At Adecco Group, we are ready to help organisations tackle this challenge head on.

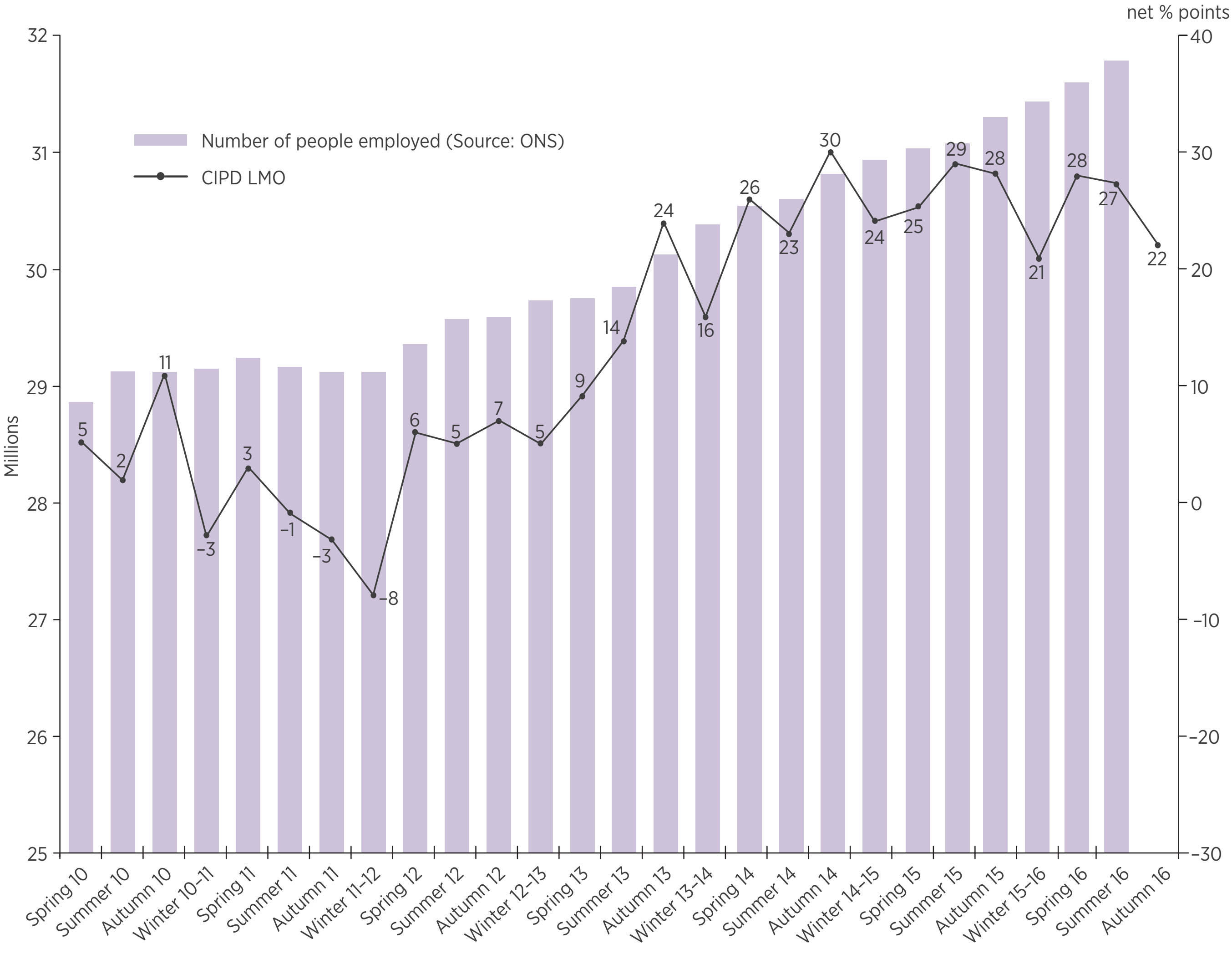
John L Marshall III
CEO, Adecco Group UK & Ireland

1 Recruitment and redundancy outlook

What is the short-term employment outlook?

This section focuses on the recruitment and redundancy intentions of LMO employers in the fourth quarter of 2016. This latest report suggests that employment confidence will remain strong over the next three months, despite a modest fall in expectations since the previous report. This quarter's net employment balance – which measures the difference between the proportion of employers who expect to increase staff levels in the fourth

Figure 1 **Correlation between official ONS figures and LMO projection**



Thinking about the next THREE months – what will be the overall effect of recruiting new staff and/or making redundancies?

Base: autumn 2016, all employers planning to recruit or make redundancies in Q4 2016 (n=732)

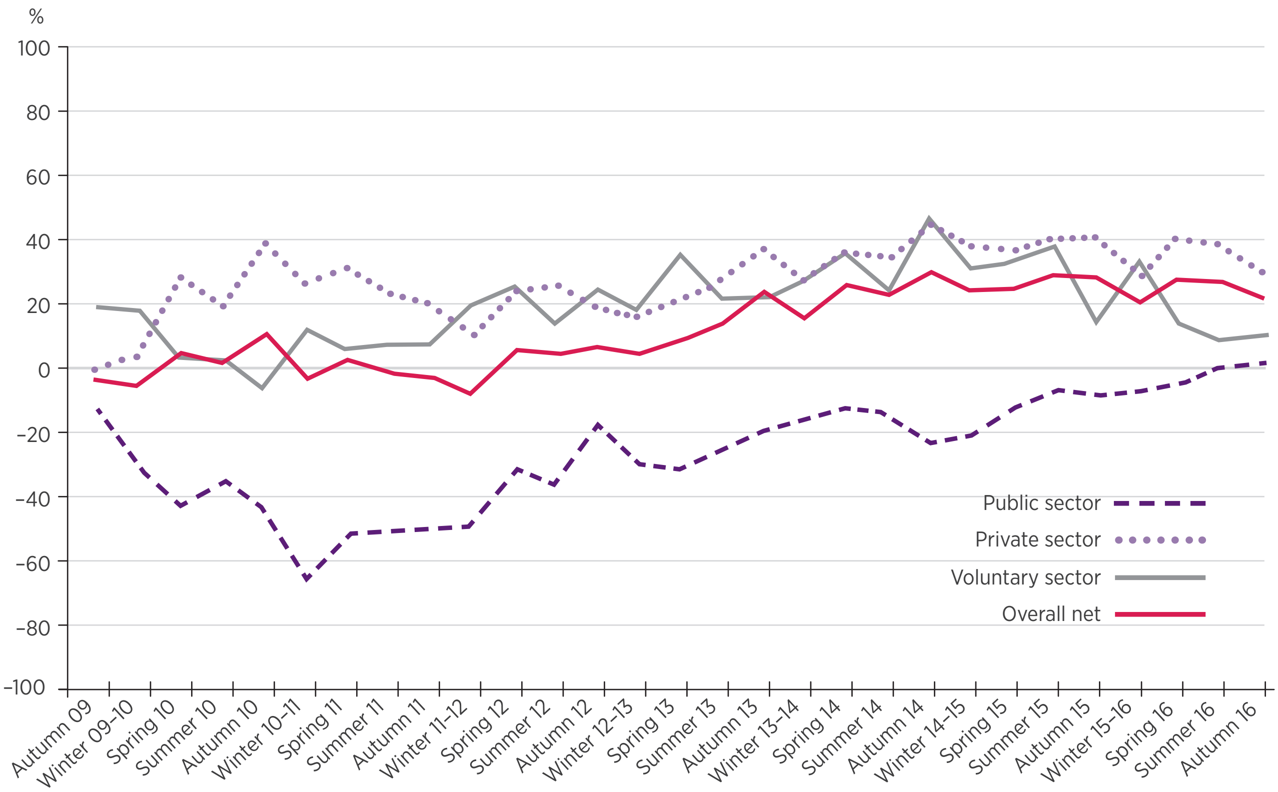
How to interpret Figure 1

Figure 1 displays the LMO's net employment balance (black line). The purple columns display the total number of people in employment according to the monthly ONS Labour Market Statistics time series data. The latest ONS figures cover the three months to August 2016.

quarter of 2016 and those who expect to decrease staff levels – has fallen to +22 from +27 since the LMO summer 2016 report.

Employment growth thus remains robust, although there is some volatility across sectors. Employment confidence has fallen sharply in private sector services and public administration and defence (Table 1) since the summer report. At the same time, it has risen in the manufacturing and production sector, which is perhaps unsurprising given that manufacturing and production firms are twice as likely to report that their exports are more, rather than less competitive, as a result of the UK's decision to leave the EU.

Figure 2 **Overall effect of recruitment and redundancy intentions in the three months to December 2016, by sector (%)**



Base: all employers who are planning to recruit and/or make employees redundant in the next three months (n=684; private: n=476; public: n=105; voluntary: n=103)

Table 1: **Overall effect of recruitment and redundancy intentions in Q4 2016, by sector**

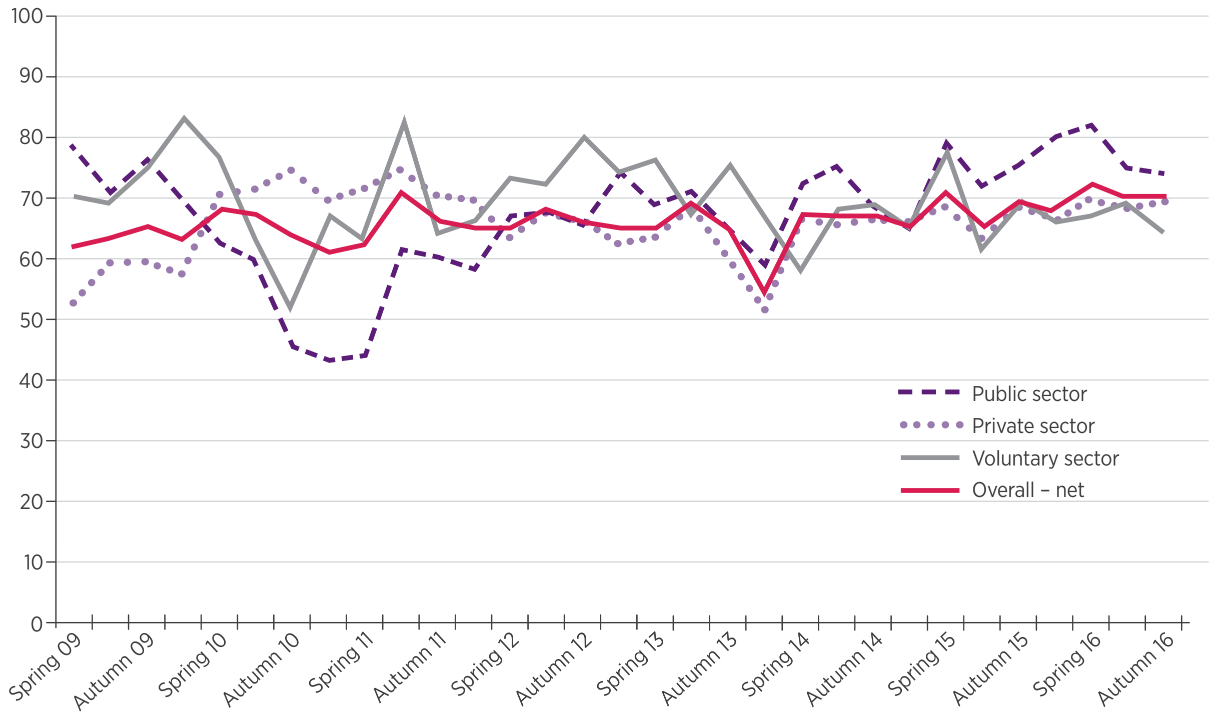
Sector	Summer 2016	Autumn 2016	% point change
Private sector services (n=332)	+40	+27	-13
Manufacturing and production (n=113)	+23	+32	+9
Education (n=36)	+6	+22	+16
Public administration and defence (n=57)	–7	–21	–14
Healthcare (n=43)	+26	+26	0

Base: all employers who are planning to recruit and/or make employees redundant in the next three months (n=684)

Fourth quarter 2016 recruitment intentions

The proportion of employers that plan to hire staff in the fourth quarter of 2016 is broadly consistent with recent LMO reports. Overall, seven in ten (70%) employers plan to hire staff in the fourth quarter of 2016. Almost three-quarters (74%) of public sector employers plan to hire staff during the same period, which compares with more than two-thirds of private sector employers (70%) and voluntary sector employers (64%).

Figure 3 **Q4 2016 recruitment intentions, by sector (%)**



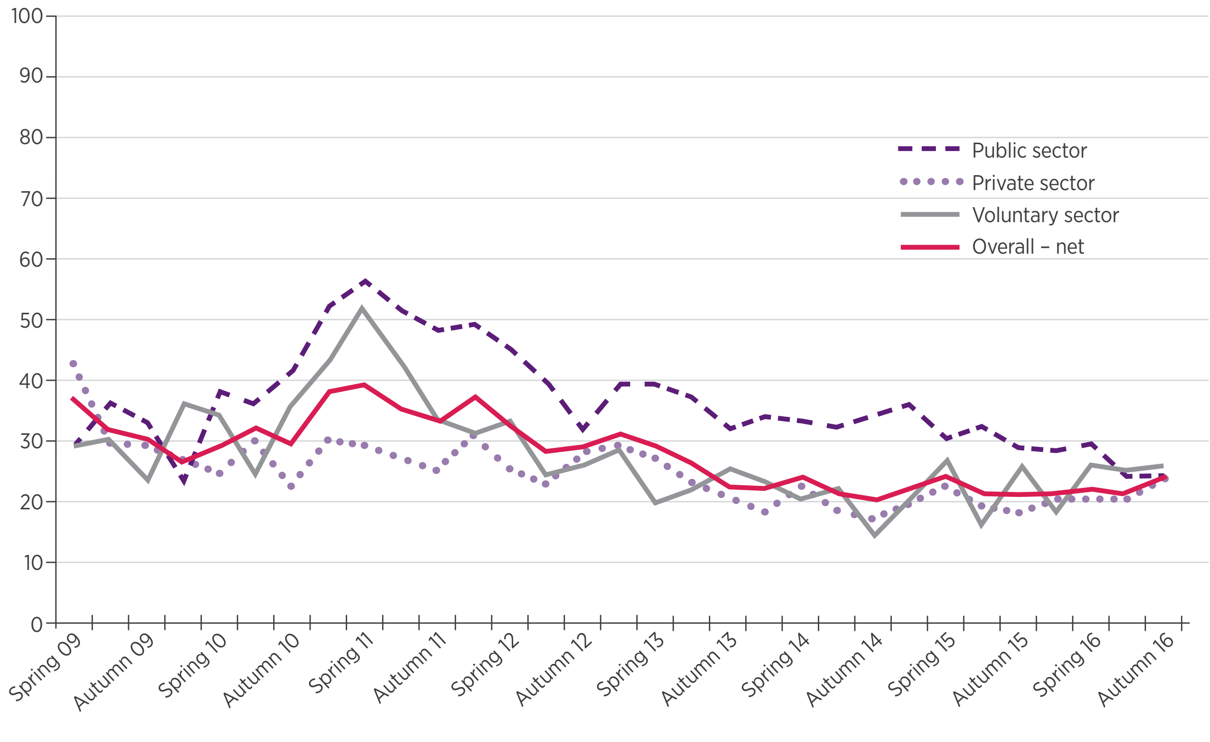
Base: all employers (n=1,024; private: n=748; public: n=214; voluntary: n=61)

The application of weighting explains why the sum of the different sectors does not add up to 1024 throughout the survey.

Fourth quarter 2016 redundancy intentions

At the same time, redundancy intentions have risen to their highest level for 18 months. Almost a quarter of employers (24%) plan to carry out redundancies in the fourth quarter of 2016, up from 21% in the summer report. The prevalence of redundancy intentions is broadly similar across the public sector (24%), voluntary sector (26%) and private sector (24%).

Figure 4 **Q4 2016 redundancy intentions (%)**

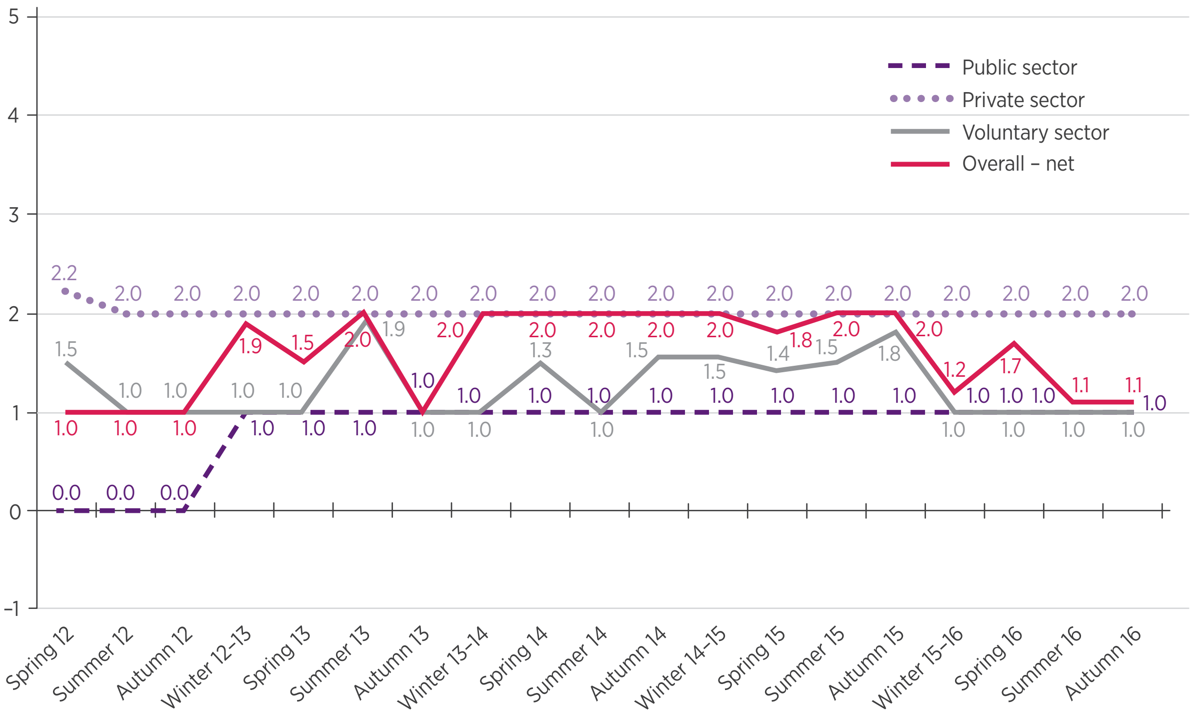


Base: autumn 2016, all employers (n=1,024; private sector: n=748; public sector: n=214; voluntary sector: n=61)

2 Pay outlook

Employers' median[3] basic pay expectations (excluding bonuses) in the 12 months to September 2017 remain unchanged at 1.1% compared with the previous report. There is some variation across sectors. Median basic pay expectations are higher in manufacturing and production (2%) and services (2%) than in the public sector (1%) and voluntary sector (1%). This is reflected in the distribution of pay awards, which shows that more than one in three employers (36%) expect

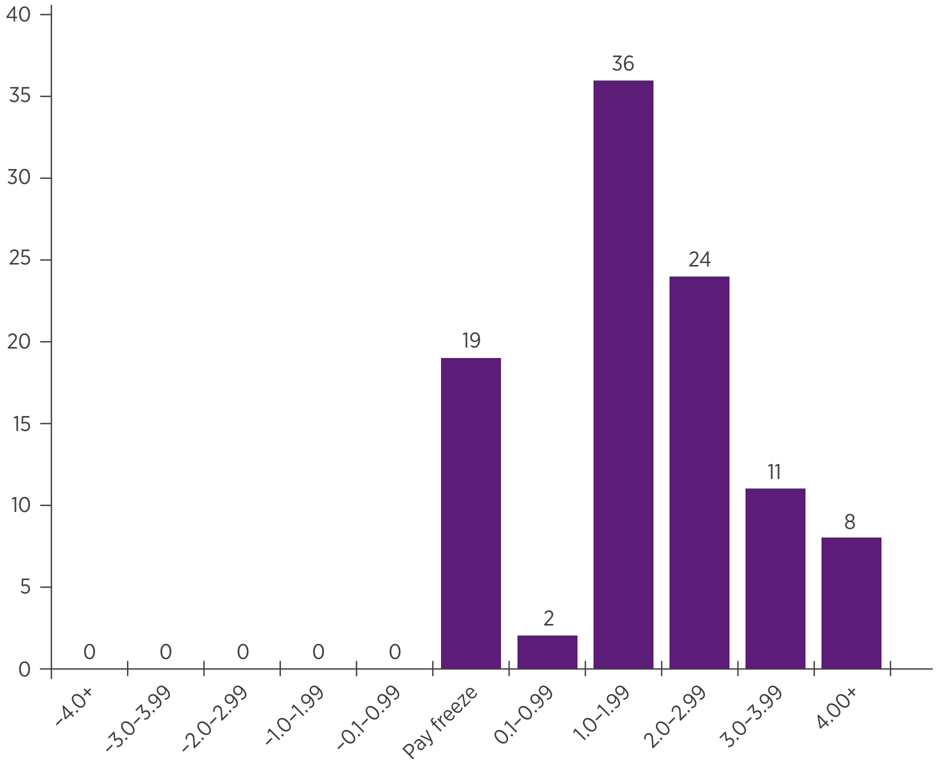
Figure 5 Median basic pay expectations, by sector (%)



Base: autumn 2016, all employers who can predict their next basic pay award (n=440; private sector: n=257; public sector: n=87; voluntary sector: n=80)

[3] This report uses the median because the distribution of pay awards can be influenced by pay awards at the upper end of the distribution that may not be truly representative of the mean or average pay award of a typical employer.

Figure 6 Distribution of median basic pay award expectations (%)

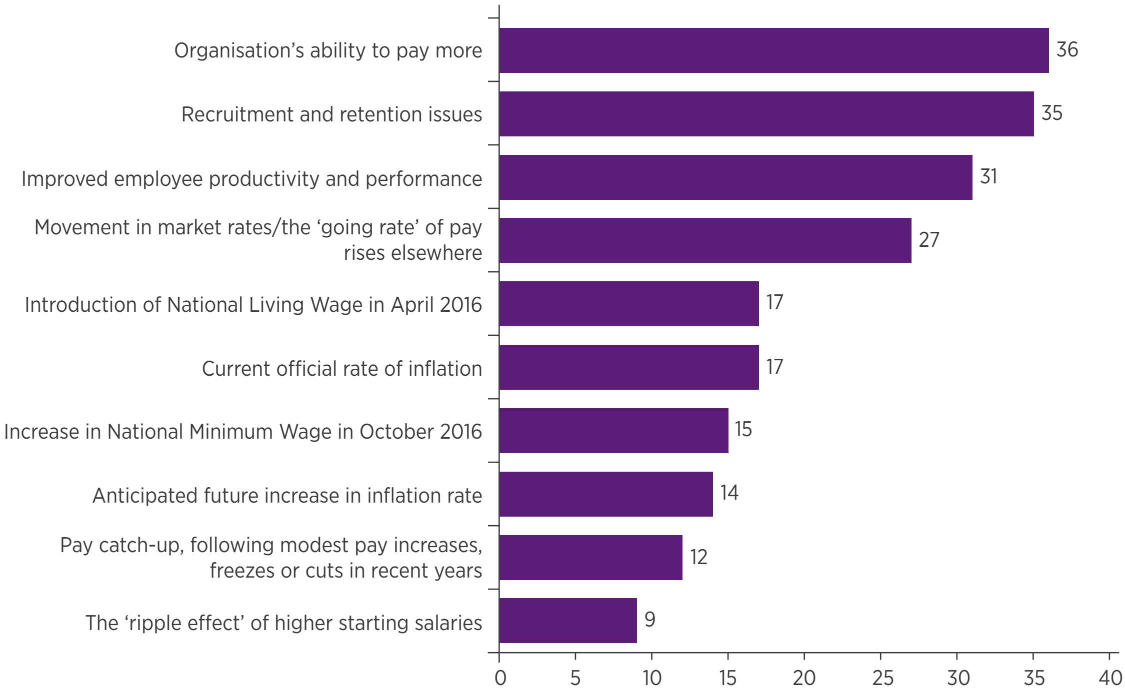


Base: autumn 2016, all employers who can predict their next basic pay award (n=440; private sector: n=257; public sector: n=87; voluntary sector: n=80)

a basic pay award of between 1% and 1.99% (Figure 6). At the same time, almost a quarter expect basic pay to increase between 2% and 2.99% and nearly a fifth (19%) plan to freeze pay.

Meanwhile, the mean basic pay expectations during the same period are 1.5%. This lies below the most recent official statistics, which showed that basic pay growth grew by 2.3% in the 12 months to August 2016.

Figure 7 **Key reasons behind basic pay increase expectations of 2% or more (%)**

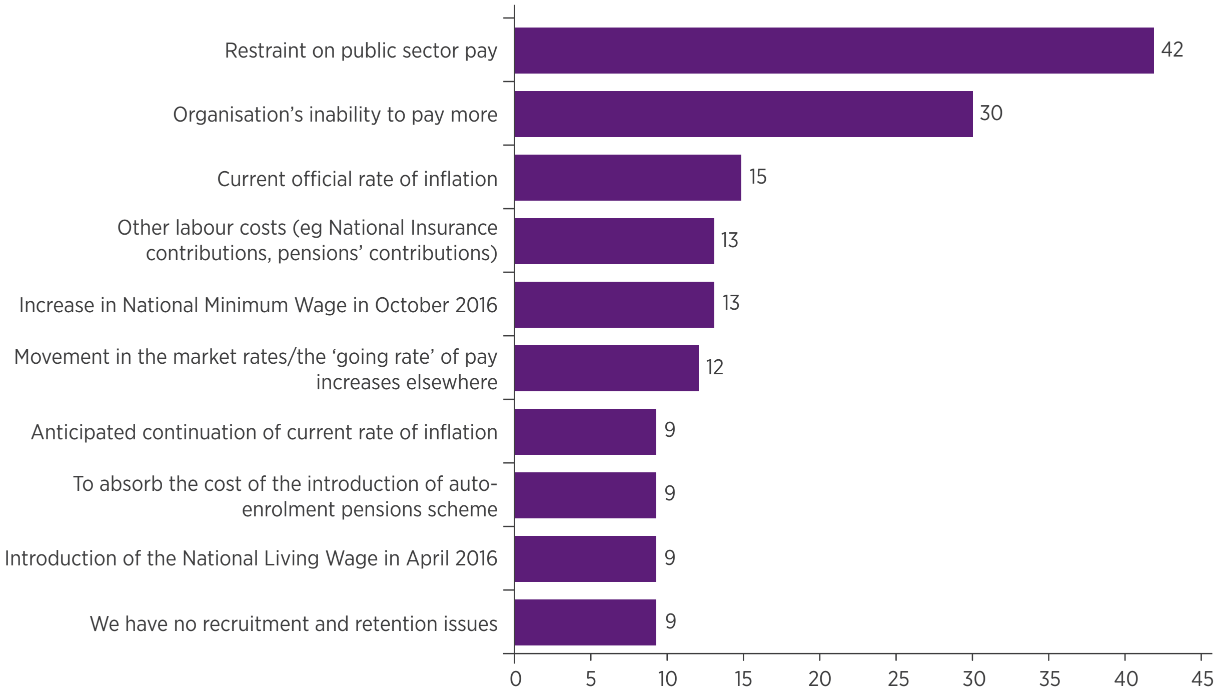


Base: all employers who expect their organisation's basic pay will increase by 2% or more (n=184)

There is a broad range of factors that are underpinning employers' expectations of a basic pay award of 2% or more in the year ahead (see Figure 7). Affordability (36%), recruitment and retention issues (35%) and improved employee productivity and performance (31%) are the most important factors. In addition, almost one in five (17%) employers that forecast basic pay growth of at least 2% cite the introduction of the National Living Wage in April 2016.

At the same time, public sector pay restraint (42%) and affordability (30%) are the two most important factors that are limiting basic pay award increases to less than 2% (see Figure 8).

Figure 8 **Key reasons behind basic pay increase expectations of less than 2% (%)**



Base: all employers who expect their organisation's basic pay will increase by less than 2%, be frozen, or decrease (n=240)

Pay awards over the past year

Looking back, 70% of employers report that they made a pay award in the 12 months to September 2016. The median basic pay growth during this period was 2%, which is broadly consistent with the official labour market data. Consistent with previous reports, the median basic pay award was higher in the private sector (2%) than in the voluntary sector (1.4%) and public sector (1%).

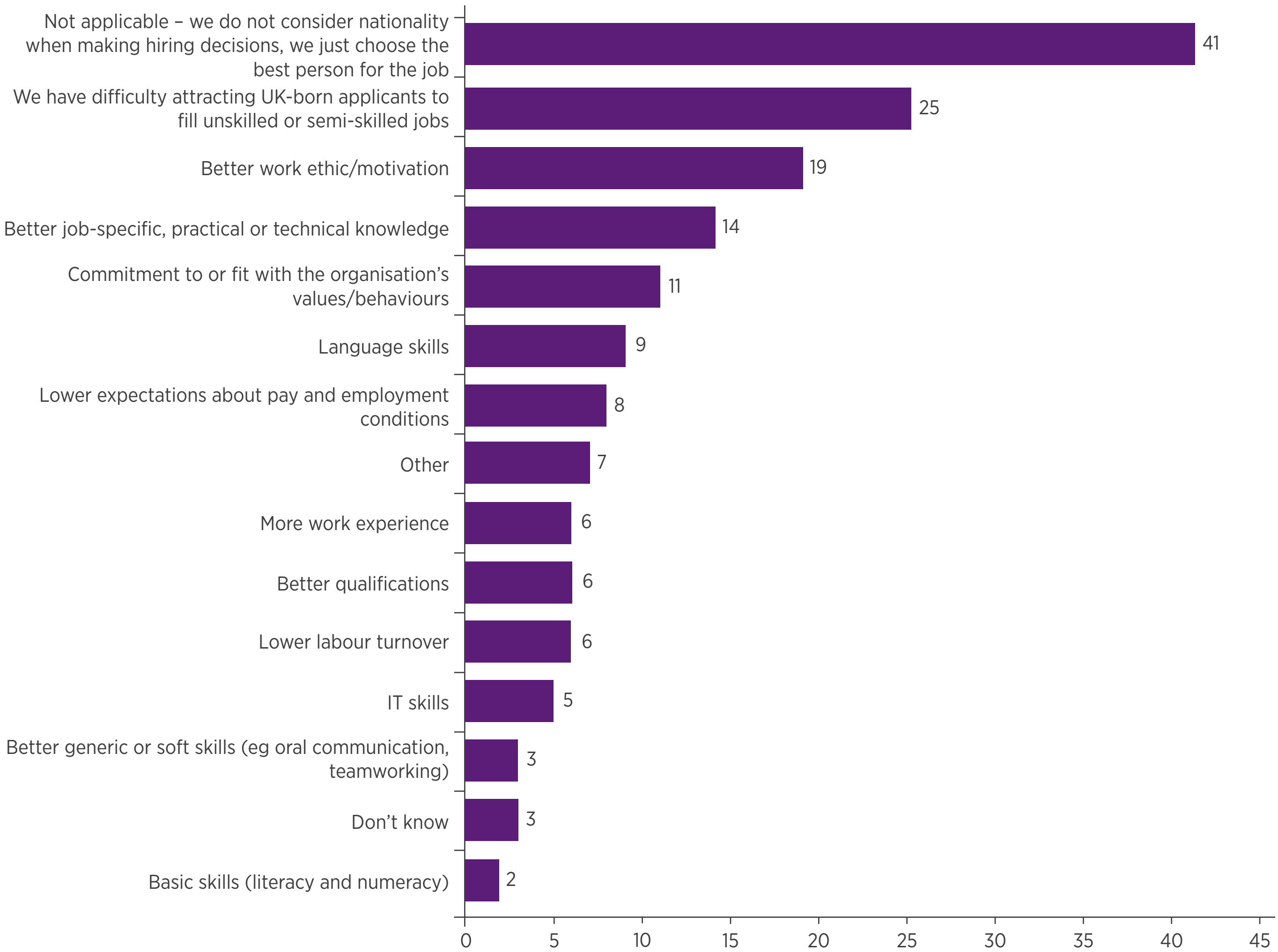
3 Post-Brexit outlook

Labour supply and migrant workers

According to the survey data, about three-fifths (62%) of UK employers currently employ migrant workers. The proportion is highest among public sector organisations (71%), healthcare organisations (72%), and organisations with more than 250 employees (79%). The median proportion of migrant workers in the workforce reported by employers is 10%. However, the median share of migrants in the workforce is slightly higher in the private sector (10%) than in the public sector (8%).

When asked to identify reasons why they employ EU nationals, more than two in five (41%) report that they do not consider nationality when making hiring decisions and simply pick the best applicants for the job (Figure 9). Other popular reasons for hiring EU nationals include difficulties with attracting UK-born applicants to fill unskilled or semi-skilled jobs (25%), better work ethic or motivation (19%) and better job-specific, practical or technical knowledge (14%).

Figure 9 Main reasons why employers employ EU nationals (%)



Base: autumn 2016, all employers that employ EU migrants (n=636; private sector: n=446; public sector: n=153; voluntary sector: n=37)

Contrary to the concerns expressed by some that migrants are employed because they undercut the wages of UK natives, the survey finds further evidence that this does not motivate the vast majority of employers who employ migrants. Only 8% say that they hire EU migrant workers because of lower expectations about pay and employment conditions. In fact, a higher share of employers (9%) cite language skills as a key driver for employing EU migrants. This is consistent with previous CIPD research, which also shows a tentative association between employing EU migrants and modestly higher levels of productivity.[4]

It has been suggested that one positive outcome of restrictions on EU workers would mean greater investment by employers in the recruitment, training and development of UK-born nationals. However, previous CIPD research[5] finds that employers that recruit migrant workers are also more likely to invest in the development of their wider workforce, for example through apprenticeships, than employers that don't employ migrant workers. This is also reflected in the current survey data. More than half (52%) of employers who employ EU migrants currently employ apprentices, compared with 29% of those who do not employ EU migrants.

Recruitment and retention of EU workers

The survey data points to some heightened uncertainty about the future supply of EU migrants. More than a third (38%) of all employers report that the referendum decision will make it harder to recruit EU migrant workers in the year ahead. Almost half (49%) of public sector employers anticipate heightened difficulty with recruiting EU migrants. Just 7% of employers think that it will become easier.

Employers also believe that the decision to leave the EU will affect their ability to recruit non-EU migrant workers. About one-fifth (21%) said it would become harder, including more than a quarter of public sector employers (27%). Meanwhile, just 7% of employers report it will become easier to recruit non-EU workers in the year ahead.

In addition, the survey finds that employers are already facing an increasing challenge in retaining EU nationals. More than a quarter (28%) of employers report evidence that EU workers are considering leaving the UK, while 23% of employers say there is evidence that EU nationals are considering leaving their organisation as a result of the UK's decision to leave the UK.

Overall, it is no surprise therefore that more than one in ten (11%) employers say that they expect the proportion of EU nationals in their workforce to fall compared with just 4% who report that they expect to increase their share of EU nationals. Meanwhile, more than half (54%) of employers expect to maintain current levels alongside almost a third of employers who don't know.

Anticipated increased difficulty recruiting EU migrants among public sector employers

49%

Easier recruiting EU migrants

7%

Almost half (49%) of public sector employers anticipate heightened difficulty with recruiting EU migrants. At the same time, just over one in twenty (7%) think that it will become easier.

[4] CIPD. (2013) *EU migrant labour: assessing the impact on the UK labour market.* London: Chartered Institute of Personnel and Development.

[5] ibid

Employer responses to potential immigration policy changes

On the downside, many employers are pessimistic about the prospect of significant restrictions on EU nationals. More than four in ten (42%) organisations say that this would have a negative impact on their operations compared with just 5% that say it would have a positive impact (Table 2).

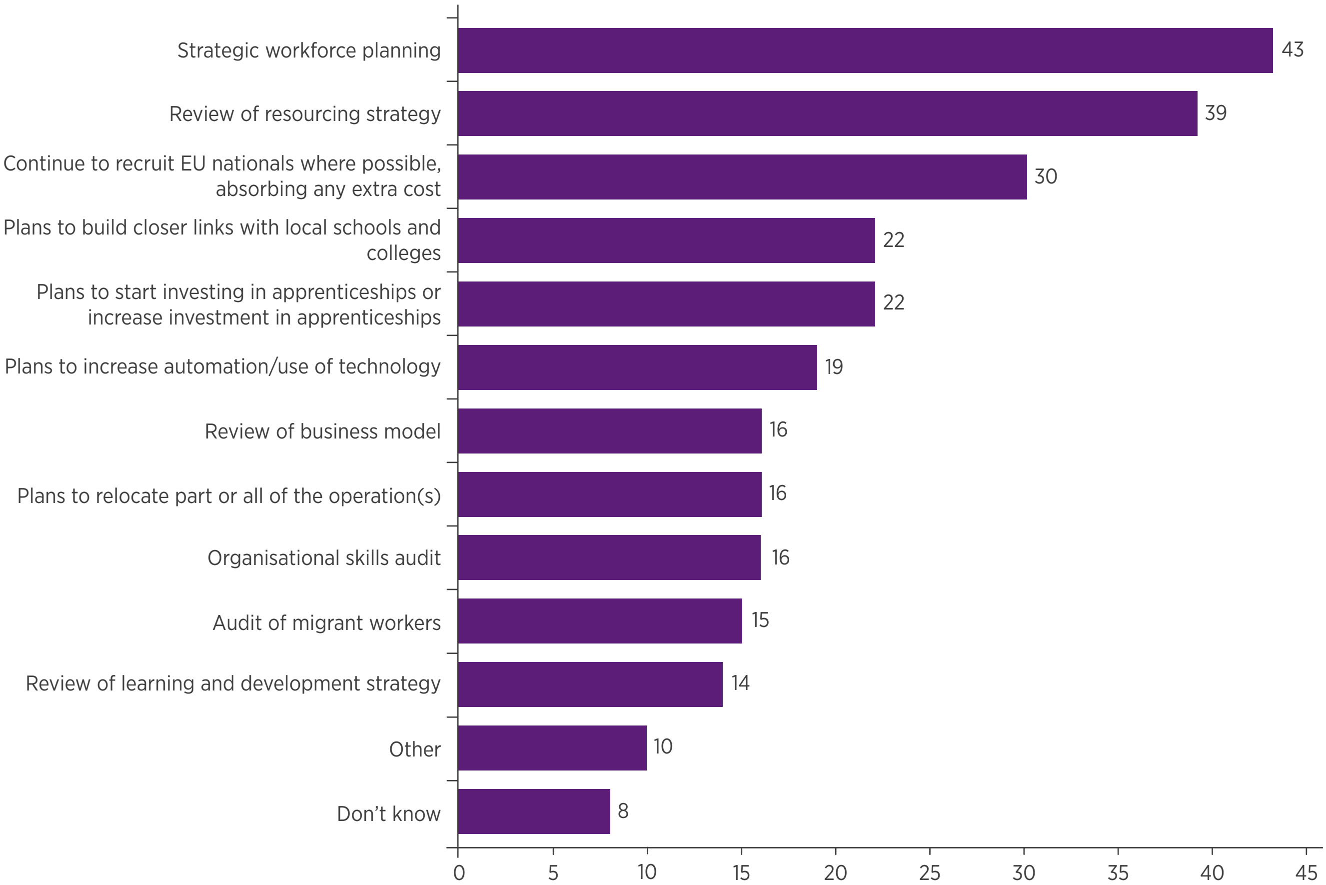
Despite this and increased market expectations of a harder Brexit, around one in six (15%) employers say they are planning any kind of response to the various Brexit scenarios. More than a fifth (21%) of employers that currently employ EU migrants have started planning compared with 7% who do not currently employ EU migrants.

Table 2: **Proportion of employers that believe restrictions on their ability to recruit EU nationals as a result of future immigration policy changes would have a positive, negative or no effect on their UK operations (%)**

	All	Private sector	Public sector	Voluntary sector
Positive	5	6	4	0
Negative	42	39	53	34
No impact at all	53	55	43	66

Base: autumn 2016, all employers (n=1,024; private sector: n=748; public sector: n=214; voluntary sector: n=61)

Figure 10 Actions by employers that are already starting to plan how to respond if it becomes harder to recruit EU nationals in the future(%)

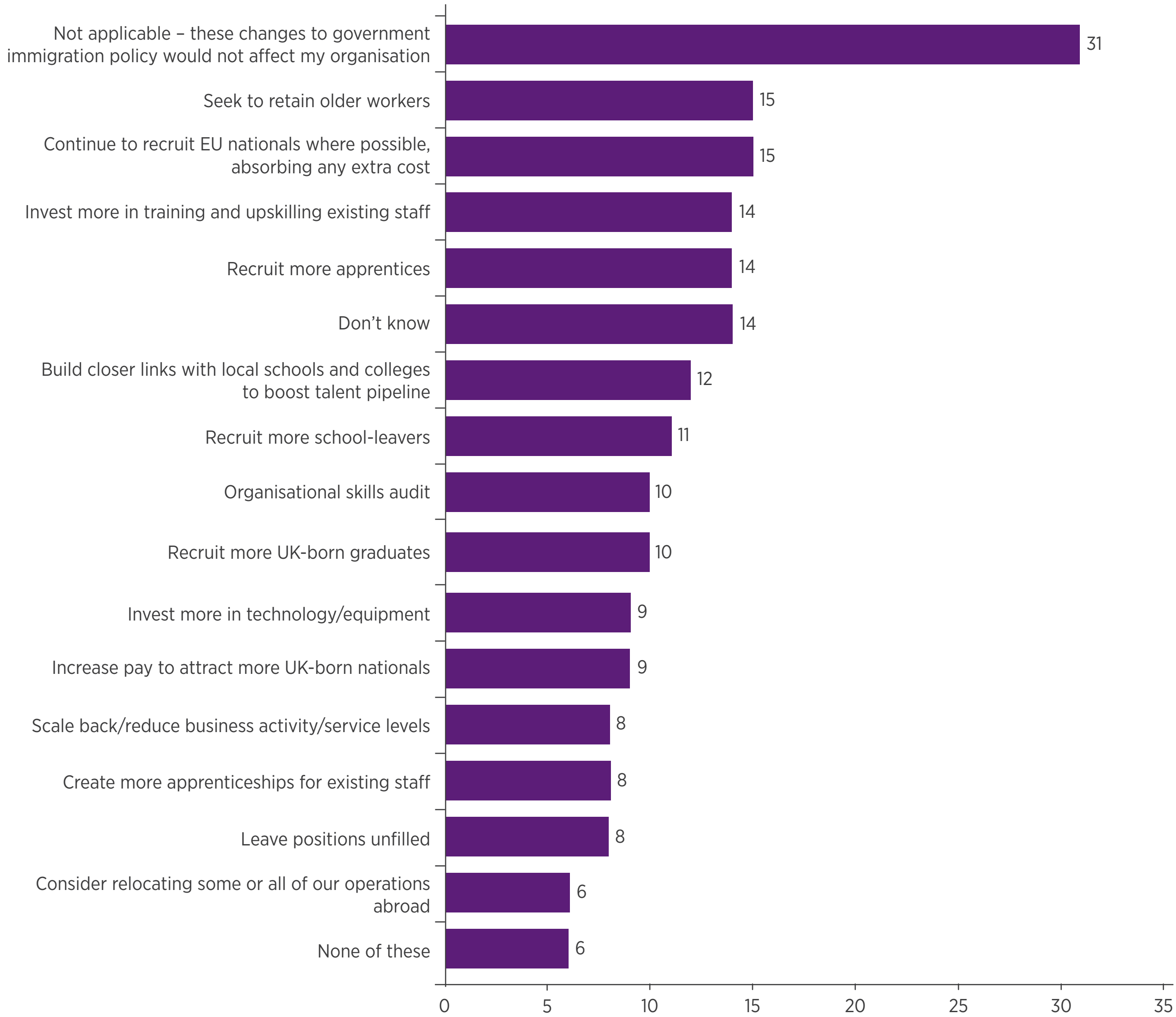


Base: autumn 2016, all employers that have made plans (n=157; private sector: n=108; public sector: n=44; voluntary sector: n=5)

Of those that have started to plan, more than two in five (43%) plan to undertake a strategic workforce planning exercise, while a similar proportion (39%) intend to review their resourcing strategy (Figure 10). Other popular responses include continuing to recruit EU nationals where possible, absorbing any extra cost (30%), making new investment or increasing existing investment in apprenticeships (22%) and developing closer relationships with local schools and colleges (22%).

On the upside, the Government will be pleased that some organisations would focus more on stepping up efforts to recruit young people through better links with colleges and more apprenticeships if government policy made it more difficult to recruit EU migrant workers. Almost a quarter of all employers say that they would either recruit more apprentices (14%) or create more apprenticeships for existing staff (8%). Other popular responses include retaining older workers (15%) and absorbing any extra costs associated with continuing to recruit EU migrants (15%).

Figure 11 How employers say they would respond if changes to immigration policy made it harder to recruit EU nationals in the future (%)



Base: autumn 2016, all employers (n=1,024; private sector: n=748; public sector: n=214; voluntary sector: n=61)

Trading arrangements

As part of the European Union, the UK has been part of a single market in which there is free movement of labour and capital and reduced barriers to services. However, the decision to leave the European Union has opened up a range of options that are now available to the UK Government to explore (see box).

It is perhaps no surprise that more than four in ten organisations (42%) want a broad continuation of the current arrangements with the EU. In contrast, a small proportion (6%) are calling on the Government for a less open arrangement.

More than a quarter (26%) of employers would like the Government to adopt a European Economic Area (EEA) arrangement such as Norway's (see box, point 1), alongside 16% who do not want to see any significant changes to the current trading arrangements. In addition, one in ten (10%) employers say that they would like a bilateral trade agreement (see box, point 2) and fewer still (6%) report they would prefer the least open arrangements, which would see the introduction of World Trade Organization (WTO) rules (see box, point 3).

Alternative trading arrangements

1. Under the EEA arrangement, the UK would continue to be part of the single market in which there is free movement of goods, services and labour and reduced barriers to trade in services. However, it would remain outside the European Union.
2. Under a bilateral free trade agreement, the UK would be able to export goods to the EU without paying tariffs, but the deal would not include services, so does not allow UK industries such as financial services to export freely to the EU. This option may require the freedom of movement of EU workers depending on negotiations.
3. Under a WTO arrangement, the UK would be subject to the EU's common external tariff on imports and would be outside the customs union.

Employers who would like an EEA trading arrangement

26%

More than a quarter (26%) of employers would like the Government to adopt a European Economic Area (EEA) arrangement such as Norway's.

Figure 12 **Preferred post-Brexit trading arrangement (%)**

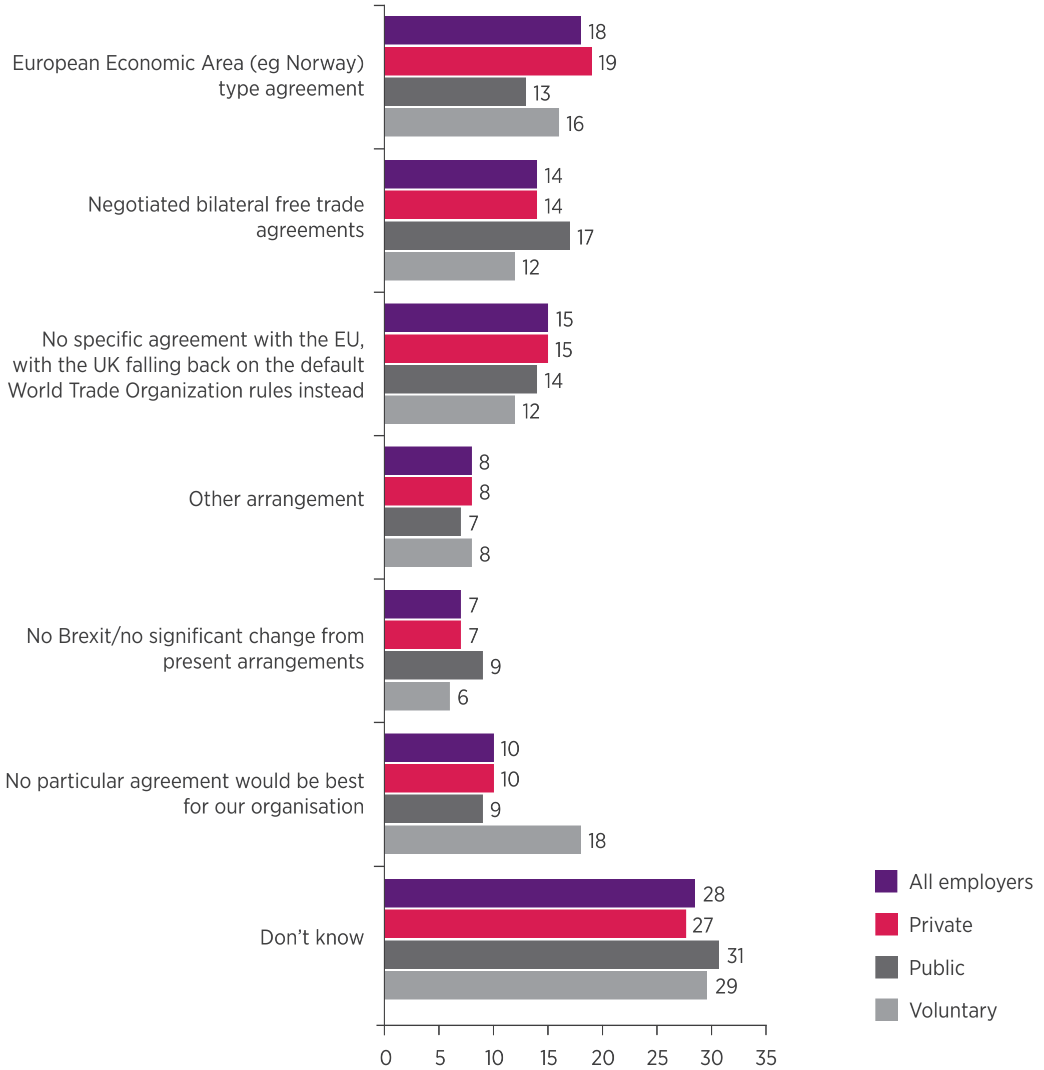
Base: autumn 2016, all employers (n=1,024; private sector: n=748; public sector: n=214; voluntary sector: n=61)

However there is a significant gap between the type of trading relationship with Europe that employers would like and the one they expect.

Overall, a quarter of employers (25%) expect a trading arrangement that is similar to the current one. Less than a fifth of employers say they expect to see an EEA arrangement (18%) and fewer still expect to see any significant changes (7%) (Figure 13).

Meanwhile, employer expectations of a negotiated bilateral free trade agreement (14%) and a hard Brexit outcome are still less prevalent (15%). This runs counter to some of the recent comments from UK and EU political leaders, especially the speech made by the prime

Figure 13 Expected post-Brexit trading arrangement (%)



Base: autumn 2016, all employers (n=1,024; private sector: n=748; public sector: n=214; voluntary sector: n=61)

minister at the Conservative Party Conference, which point to a harder Brexit outcome. This may be partly explained by the timing of the survey, which took place before the prime minister's speech and increased market expectations of a harder Brexit outcome. However, it also implies that employers are either in the dark or over-optimistic about the potential outcome of the future negotiations with the European Union. Reflecting the uncertainty about our future trading arrangement with the European Union, more than a quarter (28%) of employers report that they don't know what relationship to expect.

Much of the political debate on the negotiations to leave the EU has focused on the potential trade-off between retaining access to the single market and the free movement of labour. Nearly two-thirds (63%) of employers say that access to the single market or to EU migrant workers or both is important to the success of their organisation (Table 3). The proportion rises to around three in four (73%) large organisations and a similar proportion of organisations that currently employ EU migrants (78%).

However, the aggregate data mask significant variation across sectors. Almost one-third (31%) of public sector employers say that access to EU migrant workers is important to their organisation, compared with fewer than one in five private sector (16%) organisations. At the same time, more than a fifth of private sector firms (21%) want access to the single market compared with 14% of public sector employers that would like future access to the single market. In addition, more than a fifth (22%) of public sector organisations and over a quarter (27%) of private sector firms say that access to the single market and EU nationals is equally important to their organisation.

Additionally, less than one-third (31%) of organisations say that neither access to the single market nor to EU migrant workers is important to their organisation. That proportion rises to 45% of

Table 3: **Employer views on which of, access to the single market or easy access to skilled and unskilled EU migrant workers, is more important. (%)**

	All	Private sector	Public sector	Voluntary sector
Free access to the single market is more important	19	21	14	12
Easy access to skilled and unskilled EU migrant workers is more important	19	16	31	22
They are both equally important	25	27	22	18
Neither is that important to the success of my organisation	31	30	30	47
Don't know	5	6	4	1

Base: autumn 2016, all employers (n=1,024; private sector: n=748; public sector: n=214; voluntary sector: n=61)

small businesses and to a majority (56%) of employers that do not employ EU migrants.

Looking ahead, the current uncertainty about the trading arrangements will have a modest negative impact on various business operations. Almost one in ten (8%) private sector companies say that the uncertainty will weigh on investment in research and development, compared with just 3% who report that they will increase it. In addition, effort will be diverted away from producing output towards contingency planning among almost one in ten employers (8%). However, one potential upside is a greater focus on non-EU markets, where 7% of employers report that they will invest more effort, compared with 4% who say that the uncertainty is likely to weigh on export activity to non-EU markets.

Implications for costs

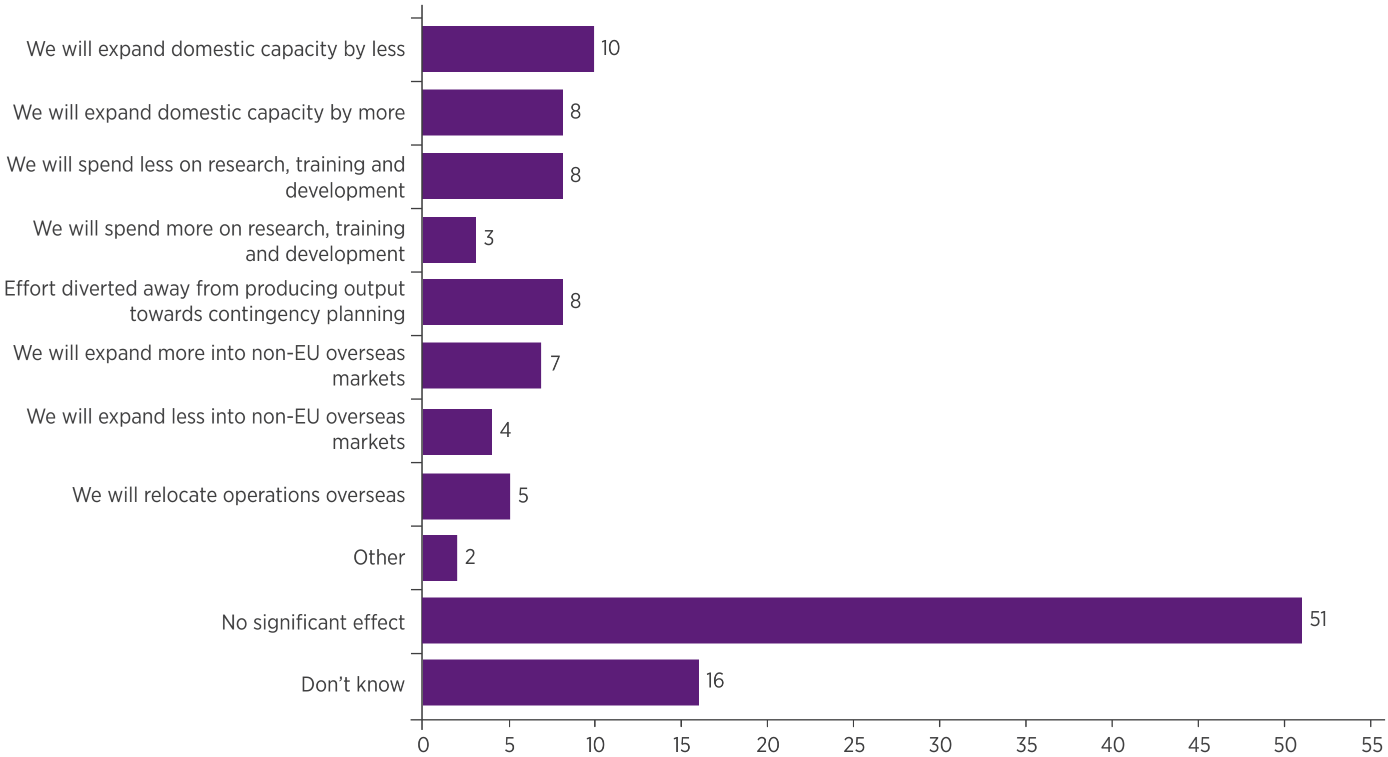
Almost a third (30%) say that their costs will increase, as a result of the decision to leave the EU, compared with just 3% who expect a reduction in their costs. However, just over half (52%) say it won't have much of an impact on their organisation's costs. There is some variation across sectors. Almost a third (32%) of private sector employers anticipate higher costs compared with around a quarter of public sector employers (25%) and around a fifth (19%) of voluntary sector employers.

It is also perhaps no surprise that a larger share of employers that employ EU migrants (34%) expect costs to rise as a result of the vote compared with a quarter of employers that don't employ EU migrants (25%). On the upside, the proportion of employers that anticipate higher costs as a result of the UK's decision to leave the EU has fallen modestly since the previous report, where around a third (33%) of employers anticipated higher costs.

Implications for export demand

Contrary to the expectations of some commentators, the survey data suggest that the UK's decision to leave the European Union will not provide a boost to export demand. The

Figure 14 Impact of the current trading arrangement uncertainty on business operations (%)



Base: autumn 2016, all private sector employers (n=722) proportion of firms that report that the referendum decision will improve the competitiveness of their products or services they export (18%) is offset by the proportion who say that it will make them less competitive (19%).

On the upside, manufacturing and production firms that export are almost twice as likely to say that the outcome of the referendum decision will make their products or services cheaper (29%) as the share of manufacturing firms who report that it will make them more expensive (16%). This may reflect the recent depreciation in sterling. However, this is offset by other sectors, such as services, which contribute almost 80% of the UK's output. One in five (20%) private sector services companies that export say that Brexit will make them less competitive, compared with 14% who report that it will make them more competitive.

Overall, this is broadly consistent with recent Bank of England analysis, which suggests that *'exports are expected to be broadly unaffected'*[6] and other survey indicators which suggest that export demand may actually be slowing (CBI).[7] This is partly because, while exports may be more competitive, the costs of importing the raw materials that go into making many exports will increase.

Investment in human and physical capital

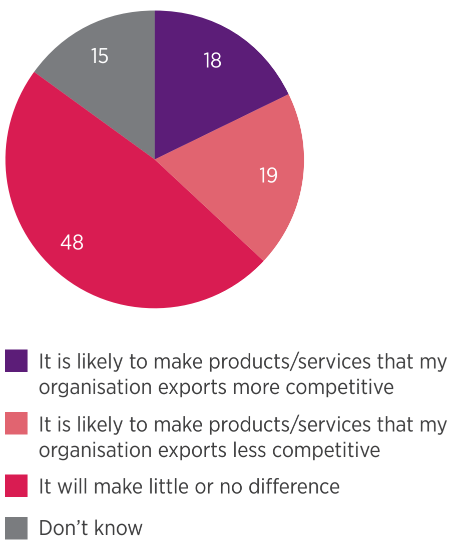
According to the survey data, the referendum decision is also likely to lead to a modest drag on investment in skills in the fourth quarter of 2016. Around one in ten (9%) say they will increase investment in training and skills, compared with 15% who report that they will decrease it. This is slightly better than the projection made three months ago, where more than one in five employers (21%) said they would reduce training spend, compared with 13% who said that Brexit would have a positive impact on their training budget. Looking ahead to the fourth quarter of 2016, almost two-thirds (61%) of employers say that the referendum will have no impact on their training investment decisions.

The effects are particularly noticeable among large firms, where almost one in five (17%) organisations plan to reduce training spend compared with just over one in ten SMEs (12%) that plan to cut it (see Figure 17).

Figure 15 Impact of vote to leave EU on organisations' costs (%)

Base: autumn 2016, all employers (n=1,024; private sector: n=748; public sector: n=214; voluntary sector: n=61)

Figure 16 Potential impact of Brexit on export demand (%)



Base: all private sector employers who export products/services (n=498)

[6] Bank of England. (2016) *Inflation Report August 2016*. London: Bank of England.
[7] CBI. (2016) *Quarterly Industrial Trends Survey*. London: Confederation for British Industry.

Additionally, a slightly higher share of employers (18%) that currently employ EU migrants predict that they will cut their investment in training and skills. This is perhaps no surprise given that employers that recruit migrant workers are also more likely to invest in the development of their wider workforce, such as apprenticeships, than employers that don't employ migrant workers according to the survey data.

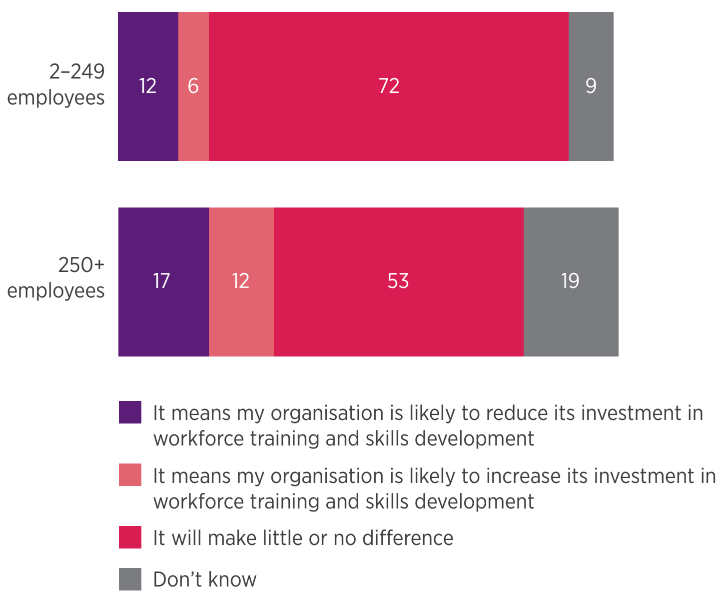
Overall, the decision to leave the European Union is also likely to weigh on investment in physical capital. Almost twice as many employers (15%) say that they are going to cut spend on physical capital, such as capital machinery or technology, as those who say that they will increase it (7%) in the fourth quarter of 2016. Confidence has therefore marginally improved since the summer report, when more than a fifth (21%) of firms reported that they planned to reduce expenditure on physical capital, compared with just 5% who said that they would increase it.

Looking ahead, more than six in ten employers (61%) say that the vote to leave the EU will make little to no difference to their investment in equipment and technology during the fourth quarter of 2016.

Relocation fears

On the upside, very few organisations are planning or likely to relocate their operations as a result of the UK's decision to leave the European Union. Three-quarters (75%) of employers surveyed say they have no plans to relocate any current or future operations to countries outside the UK. However, 3% are considering or have decided to relocate all of their operations outside of the UK, alongside 7% who have similar plans for some of their operations. At the same time, 7% report that they have no plans to relocate any of their current operations outside of the UK, but are likely to concentrate any future expansion of the business outside of the UK. Of the one in ten organisations that are considering a move, the most popular locations are Germany (19%), Poland (17%) and France (15%).

Figure 17 **Projected employer investment in skills (%)**



Base: autumn 2016, all employers (n=1,024; private sector: n=748; public sector: n=214; voluntary sector: n=61)

Sample and method

Table 4: **Breakdown of the sample, by size and sector (%)**

	Autumn 2016	Summer 2016	Spring 2016	Winter 2015–16	Autumn 2015	Summer 2015	Spring 2015	Winter 2014–15	Autumn 2014
2–9	14	14	14	14	14	14	14	14	14
10–49	14	14	14	14	14	14	14	14	14
50–99	6	6	6	6	6	6	6	6	6
100–249	7	7	7	7	7	7	7	7	7
250–499	9	8	8	8	9	9	8	9	10
500–999	7	8	6	8	8	5	6	7	8
1,000–4,999	18	17	16	17	17	16	18	15	18
5,000–9,999	6	6	7	9	7	8	7	8	8
10,000–19,999	4	6	5	5	5	5	5	4	4
20,000 or more	13	14	16	12	14	15	15	15	13
N	**1,024**	**1,050**	**1,014**	**1,007**	**1,037**	**931**	**1,013**	**1,003**	**1,089**

Sector	**Autumn 2016**	Summer 2016	Spring 2016	Winter 2015–16	Autumn 2015	Summer 2015	Spring 2015	Winter 2014–15	Autumn 2014
Private	73	73	73	73	73	73	73	73	73
Public	21	21	21	21	21	21	21	21	21
Voluntary	6	6	6	6	6	6	6	6	6
N	**1,024**	**1,050**	**1,014**	**1,007**	**1,037**	**931**	**1,013**	**1,003**	**1,089**

Survey method

The fieldwork for the LMO survey is managed by YouGov Plc. This survey has been conducted using the bespoke YouGov online system administered to members of the YouGov Plc GB panel who have agreed to take part in surveys and the CIPD membership.

The survey is based on responses from more than 1,024 HR professionals and employers between 7–30 September 2016. All respondents have HR responsibility within their organisation, which may or may not be their sole and primary function within their organisation. The sample is targeted to senior business leaders of senior officer and above.

An email was sent to each respondent from the YouGov sample, who are selected at random from the base sample according to the sample definition, inviting them to take part in the survey and providing a link to the survey. Each member of the CIPD sample is invited to complete the survey. Respondents are given three weeks to reply and reminder emails are sent to boost response rates (subject to the CIPD's re-contact policy).

Table 5: **Breakdown of the sample, by industry (%)**

	Autumn 2016	Summer 2016	Spring 2016	Winter 2015–16	Autumn 2015	Summer 2015	Spring 2015	Winter 2014–15	Autumn 2014
MANUFACTURING AND PRODUCTION	**15**	**15**	**15**	**15**	**15**	**15**	**15**	**15**	**15**
Agriculture, forestry and fishing	1	1	1	1	0	0	0	0	0
Manufacturing	9	9	9	9	9	9	9	9	9
Construction	4	4	4	4	4	4	4	4	4
Mining and extraction	0	0	1	0	0	1	1	1	1
Energy and water supply	1	1	1	1	1	1	1	1	1
EDUCATION	**6**	**6**	**6**	**6**	**6**	**6**	**6**	**6**	**6**
Primary and secondary schools	3	4	4	3	4	3	3	3	3
Further and higher education	4	3	3	3	3	3	3	3	3
HEALTHCARE	**11**	**11**	**11**	**11**	**11**	**11**	**11**	**11**	**11**
NHS	7	7	7	6	7	7	7	7	7
Other private healthcare	5	4	4	5	4	5	5	5	5
PRIVATE SECTOR SERVICES	**52**	**52**	**52**	**52**	**52**	**52**	**52**	**52**	**52**
Hotels, catering and leisure	8	8	8	8	8	8	8	8	8
IT industry	2	2	3	2	3	2	2	2	2
Transport and storage	4	4	4	4	4	4	4	4	4
Consultancy services	2	3	2	2	3	3	3	3	3
Finance, insurance and real estate	5	5	5	5	5	5	5	5	5
Wholesale and retail trade	3	2	2	2	3	4	4	4	4
Information and communication	1	1	1	1	1	1	1	1	1
Retail	14	15	15	14	13	12	12	12	12
Professional, scientific and technical	4	3	4	3	3	3	3	3	3
Admin and support service activities	9	9	9	9	9	9	9	9	9
PUBLIC ADMINISTRATION AND DEFENCE	**9**	**9**	**9**	**9**	**9**	**9**	**9**	**9**	**9**
Public administration – central government	4	4	3	4	3	3	3	3	3
Public administration – local government, including fire services	4	4	5	4	5	5	5	5	5
Armed forces	1	1	1	1	1	1	1	1	1
Quango	0	0	0	0	0	0	0	0	0

Weighting

The quarterly LMO survey is sampled from the CIPD membership and through the YouGov panel of HR professionals. The data is weighted to be representative of the UK public and private sector business population by size of employer and sector. Rim weighting is applied using targets drawn from the *Business Population Estimates for the UK and Regions 2012* (available at: www.gov. uk/government/statistics/businesspopulation-estimates-for-the-uk-andregions-2012). The delivered sample is drawn from across all business sizes and in total 420 unweighted responses were received from small organisations and 604 from HR professionals within large employers (250+ employees).

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