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KPMG and REC, UK Report on Jobs: London

Staff demand growth softens to 17-month low in August

Key findings

Permanent placements rise at quicker pace, temp billings growth eases

Weakest drop in permanent staff supply for 17 months

Salary pressures soften, but remain steep

Data collected August 12-24

Summary

The latest KPMG and REC, UK Report on Jobs: London survey pointed to a cooling labour market in the capital during August, as demand growth for both permanent and temporary workers slipped to the weakest since March 2021 on the back of concerns about a possible recession, high salary pressures and ongoing labour shortages. Temp billings growth softened to a three-month low, but permanent placements rose at a quicker pace amid some reports of contractors increasingly converting to fixed roles.

At the same time, recruiters signalled that starting salary inflation had begun to wane, with August seeing the least marked rise in permanent salaries since June 2021. The slowdown came amid some reports of redundancies due to recession fears and wage caps imposed by employers to stop labour costs increasing rapidly. With incentives for candidates beginning to weaken, permanent staff availability fell at the softest rate for 16 months, although temp staff supply dropped to the greatest extent since April.

The KPMG and REC, UK Report on Jobs: London is compiled by S&P Global from responses to questionnaires sent to around 100 recruitment and employment consultancies in London.

Sharper rise in permanent placements

The latest survey of London-based recruiters indicated a sharp and faster rise in permanent staff appointments midway through the third quarter of the year. The upturn was the quickest seen since May and above the series trend, albeit slower than those recorded throughout much of 2021. Where placements rose, respondents linked this to higher demand and the conversion of contractors to permanent staff. Notably, the latest uplift in permanent staff appointments was considerably stronger than at the UK level, which was partly offset by a renewed drop in permanent placements in the North of England.

Billings received by recruiters in London for the hiring of temporary staff continued to rise at a marked pace during August. However, the rate of growth slipped to a three-month low that was broadly in line with that recorded for permanent placements. Increased demand was the main driver of short-term hires, according to surveyed recruiters, though this was partly offset by weak candidate supply. For the third successive month, the rise in temp billings was stronger than the nationwide average and the quickest of the four monitored English regions.

Amid signs of softening economic conditions, the rate of demand growth for permanent and temporary workers in London continued to fall from their recent peaks in August. In fact, vacancies in both categories rose to the least extent for 17 months, albeit sharply overall. Upturns were also slower than the averages seen across the UK as a whole.

Permanent staff supply falls at softest rate for 16 months

While the seasonally adjusted Permanent Staff

Availability Index remained below the 50.0 neutral mark in August, signalling a fall in permanent staff supply, the pace of decrease was the softest recorded in the current 16-month contractionary sequence. A lack of candidates in areas such as hospitality and languages were often cited, although some recruiters noted higher staff supply due to an increase in redundancies. London saw the slowest decline in permanent staff supply of the four monitored English areas, whereas the South of England registered the fastest.

In contrast to permanent staff supply, the number of people looking for temporary work in the capital fell at a sharper pace in August, shown by a third successive drop in the respective seasonally adjusted index. Moreover, the fall in short-term staff availability was quicker than the UK-wide trend. While recruiters commonly noted a shortage of candidates, particularly from overseas, others mentioned that many traditional short-term workers had moved to permanent contracts. Notably, the reduction in temporary candidates in the South of England was much slower than in the rest of the country.

Softest increase in permanent starting salaries in over a year

Salaries awarded to new permanent staff in London rose at a considerable pace in August, extending the current run of increase to a year-and-a-half. That said, the rate of inflation slowed notably from the previous month and was the softest recorded since June 2021. While recruiters generally reported upward salary pressures due to the higher cost-of-living, some cited that wages had been capped by employers. The overall rise in permanent starting salaries was broadly in line with the UK trend. Only the Midlands reported stronger salary inflation in August.

Adjusted for seasonality, the Temporary Wages Index ticked higher for the second straight month in August, indicating a slightly faster rise in short-term pay compared to July. Where higher wages were recorded, recruiters mainly attributed this to a shortage of applicants and rising pay demands. However, the rate of increase was still slower than the UK average, as well as the upturns seen

towards the end of 2021. The fastest uptick in pay was seen in the Midlands in the latest survey period.

Comments

Commenting on the latest survey results, Anna Purchas, London Office Senior Partner at KPMG said:

"Cautious London employers are walking a fine line between going for growth whilst recognising significant economic uncertainty; last month we saw demand growth for both permanent and temporary workers absolutely still there, but slipping to its weakest since March 2021. Concerns about a possible recession combined with high salary pressures and ongoing labour shortages has created an increasingly challenging jobs market in the capital. Whilst salaries awarded to new permanent staff in London rose at a considerable pace in August, we are starting to see wages in the capital being capped by employers facing cost pressures on all fronts. Despite all of the challenges, it's vital that investment in people and growth continues. As candidate availability continues to slide, businesses may be better able to weather the economic storm ahead through sustained investment in upskilling the available workforce."

Neil Carberry, Chief Executive of the REC, said:

"August was another month of growing placements across temporary and permanent roles. While the post-pandemic jobs rush is now abating, there were no real signs of a slowdown in employer demand. Indeed, reports from REC members suggest that any lowering of confidence in the market is driven primarily by candidates playing it safe, with the effect of further tightening the market. So it's no surprise that pay rates continue to rise, especially considering increasing inflation. In this market, hiring companies need to think hard about the right approach to getting the skills they need, working with professional recruiters."

"The big question is now about the sustainability of this positive position, as labour shortages damage growth and pay over the long term. Controlling inflation and a clear plan for growth are essential parts of making sure the UK is resilient to economic uncertainty. But both rely on our new Prime Minister and her team working with businesses to address shortages across our labour market. Radical reform of the failed apprenticeship levy, support on small business energy costs, an immigration policy that helps the economy and regulation that supports temporary work rather than penalising it, all have to be on the agenda."

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Methodology

The KPMG and REC, UK Report on Jobs: London is compiled by S&P Global from responses to questionnaires sent to around 100 recruitment and employment consultancies in London.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the survey methodology, please contact economics@ihsmarkit.com.

Full reports and historical data from the KPMG and REC, UK Report on Jobs are available by subscription. Please contact economics@ihsmarkit.com.

About KPMG

KPMG LLP, a UK limited liability partnership, operates from 22 offices across the UK with approximately 15,300 partners and staff. The UK firm recorded a revenue of £2.43 billion in the year ended 30 September 2021.

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