RESEARCH

PROPONOMICS

AUGUST 2018

EMPLOYEES – IN SHORT SUPPLY

More employers are raiding the gig economy workforce to fill vacancies, but staff shortages are here to stay and property is a key tool for staff retention.

Headlines

UK unemployment is down to just 4.0%, well below the 5.0% level where some economists talk about ‘full employment’.

Wage inflation has not taken off yet, which we believe is due to employers raiding the pool of temporary workers.

In the long-run, higher pay inflation is inevitable, which will prompt occupiers to acquire quality offices to support staff retention.

High levels of employment are a good sign for any property market. The more workers that firms have, the more business space they will need, even at lower allocations of space per worker. With UK unemployment continuing to fall, there is good reason for landlords to feel confident. Some economists talk about an unemployment rate of below 5.0% as being ‘full employment’, and the figure for the UK is now down to just 4.0%.

This is reflected in a record high for job vacancies, as employers struggle to fill roles. Interestingly, for the Information & Communication sector the level of job vacancies is markedly higher now than before the referendum of 2016. This is significant, given how important tech has become for driving office demand. In this context, those occupiers who are adding staff need to be mindful of office vacancy rates, which are steadily declining in most major cities.

However, a surprise has been the sluggish pay growth recorded in recent years, despite the tightening jobs market. In the year to June, wages grew by just 2.7%, compared to an inflation figure of 2.4% for the same period, so real terms pay increases have been marginal. Some attribute this to the rise of the ‘gig economy’, where jobs are temporary and flexible. A few years ago, that was true. However, the latest employment figures suggest a movement away from the gig economy, which could have long-term implications for property.

More full timers

According to ONS, the number of workers in temporary jobs peaked in December 2014, and has since dropped by 8.3%. Over the same period, the number of people in work has increased by 4.7%, with growth far stronger for full time jobs (up 5.4%) than part time (up 2.6%). In December 2014, nearly 34.0% of those in temporary jobs told the Labour Force Survey they could not find a permanent job, but this had dropped to 28.3% by June 2018.

JAMES ROBERTS
Chief Economist

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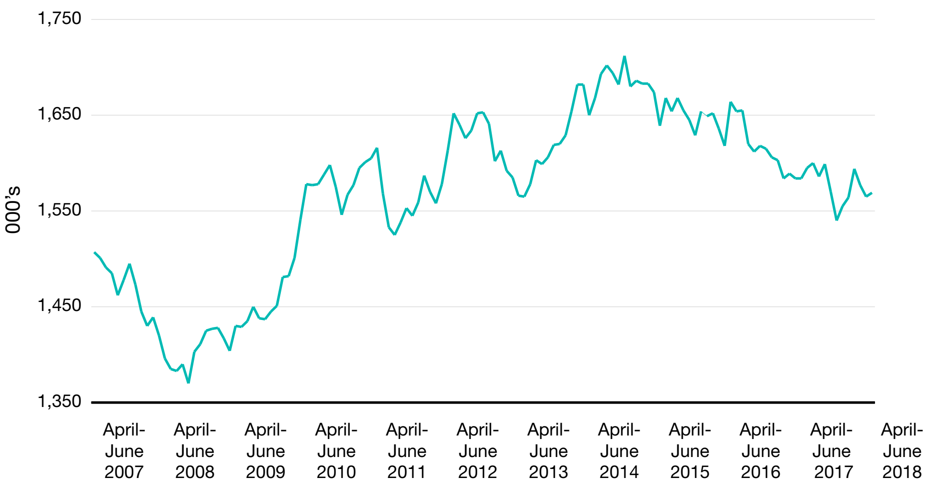
FIGURE 1
Number of UK temporary employees



Source: ONS

Meanwhile, the number of people on zero hours contracts is also showing signs of decline. The figure peaked in December 2016 at 905,000, and has now declined to 780,000, with the steepest fall occurring this year.

We believe employers seeking staff have been able to avoid raising wages by instead offering permanent jobs to persuade those in temporary roles with competitors to jump ship. Effectively, the tightening labour supply is creating opportunities for workers, but rather than higher wages it is improved conditions (particularly guaranteed employment) that form the bait in today's job market.

Some firms that typically employ temporary staff can have both low wages and flexible hours of work built into their business model. This makes it difficult for them to quickly respond by offering higher wages and guaranteed hours to retain staff who have received offers of a permanent job.

Tipping point

However, this can only be a short-term phenomenon. There will be a tipping point where those who hire temporary staff have to respond with higher wages, and then the pay inflation will start reverberating through the market.

Prior to 2007, the share of temporary workers who said they would prefer a permanent job averaged 25.8%, versus 28.3% now. This suggests there is still some room for employers to acquire permanent staff by raiding the temporary workforce, but not much. Consequently, we believe the UK economy will soon – probably next year – see higher wage inflation come through.

As a result, so much of what the property industry has been saying in regard to quality offices and staff retention is about to become truer than ever before. An office move to an off-pitch location to save a few pounds on the rent per square foot can become counter productive if it drives up staff attrition. Similarly, restacking to a level that reduces employee quality of life at work, is unwise for a firm that faces a fluid and expensive jobs market.

Investing in giving employees a place they want to work already sits higher on the corporate agenda than ever before. Trends in the labour market will guarantee this remains the case.

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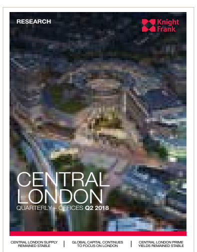

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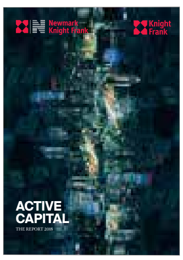

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