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Adecco Labour Market Outlook

Breaking Through the Clouds: Growth Opportunities for the UK Labour Market

Autumn 2024

Adecco

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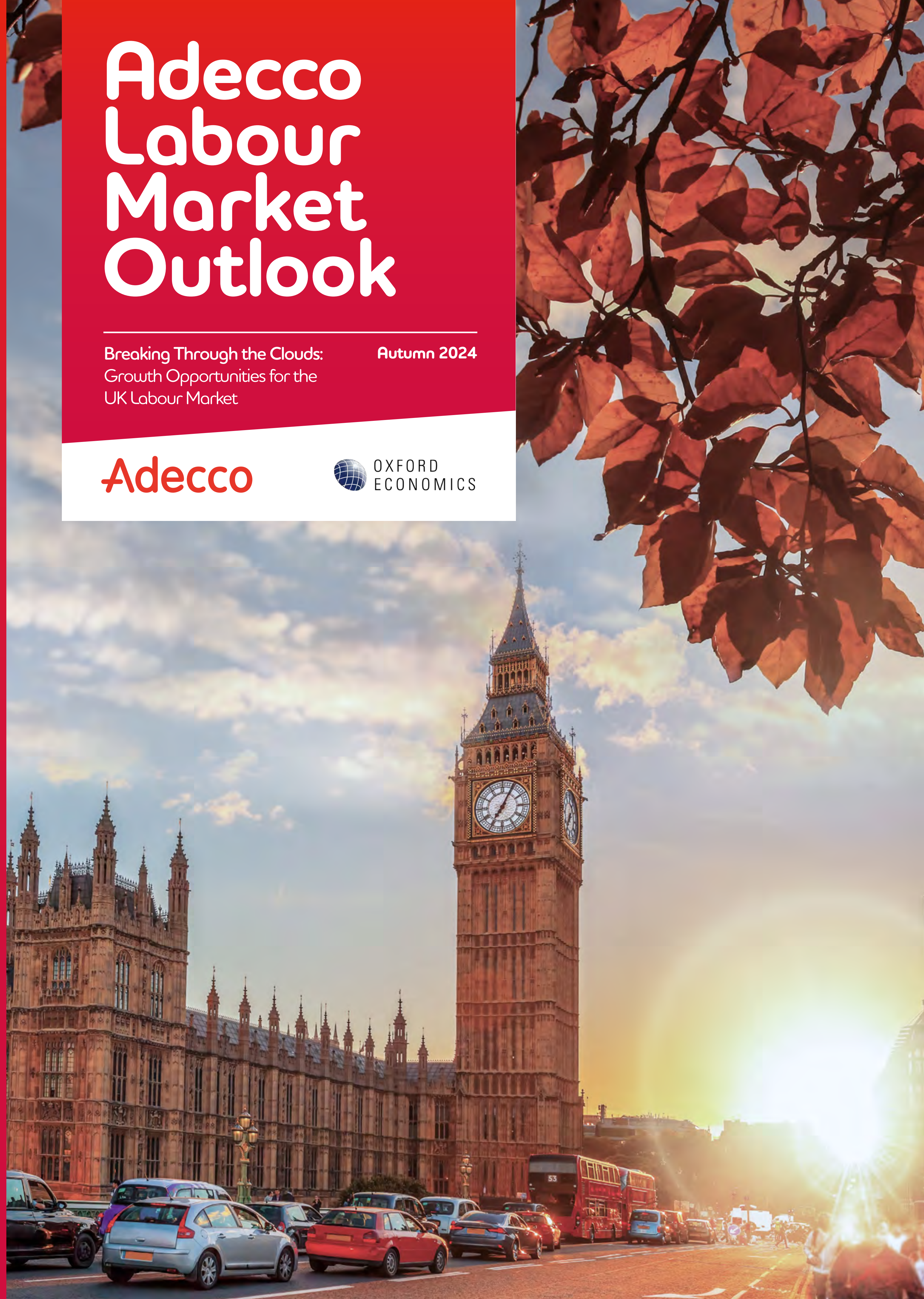

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“

Taken as a whole, the UK’s performance stands out positively against many G7 nations, setting the stage for a gradual yet robust recovery. While there are undoubtedly clouds in the sky, there are also glimmers of light.”

Niki Turner-Harding
Senior Vice President and Country Head, Adecco UK and Ireland

Autumn *Edition*

2024 has been a year of ongoing uncertainty, with its effects evident in fluctuating business confidence impacting the UK labour market. However, signs suggest a brighter outlook for companies as they look ahead to growth opportunities in 2025 and beyond. The first half of the year has shown positive developments across most key economic indicators - decreasing inflation, the first cut to interest rates in four years, and growth surpassing most of the Eurozone. At a time when there is a premium on economic stability in an uncertain world, and against a backdrop of a loosening, yet stable, labour market, the new government is committed to 'powering growth in every part of Britain'. Naturally, employers are keen to know how this will translate into growth for their businesses.

The Autumn Edition of our Labour Market Outlook combines economic and sector analysis from Oxford Economics and labour market insight from Adecco, focusing on the key trends driving the labour market and identifying pockets of opportunity. We hope this will help to inform your talent planning strategy as we wrap up 2024 and look forward to 2025.

Introduction

Adecco

Before we look at where we're going, it's always interesting to look at where we have been – and haven't the last few years been quite the journey?

In recent years we have witnessed a complex landscape for employers, who had to navigate a candidate-driven market characterised by record-high vacancies and fluctuating unemployment rates. Despite ongoing talent shortages, we saw the business world demonstrate remarkable resilience. Securing top talent may have felt like a challenging endeavour, but the overall labour market remained encouragingly robust.

When 2024 started, economists predicted a year of two halves. The slow rebuilding of confidence was set to temper growth initially but, with a little patience, certainty was expected to rebound, unlocking increased investment and paving the way for long-term expansion.

As the year progressed, it looked like we might need to be patient for a little longer. Although in reality GDP grew by an average of 0.6% in H1, the H2 rebound didn't happen with quite the enthusiasm anyone had hoped for, and consumer spending, a cornerstone of our economy, faced some setbacks, particularly in retail and hospitality.

An inflection point

However, despite media reports to the contrary, we shouldn't overlook that there are plenty of reasons to remain optimistic. In fact, I'd argue that the UK is currently at an inflection point for growth.

As evidence, consider that our labour market remains stable, boasting an employment rate of 74.8% and a declining unemployment rate of 4.1%.

Inflation is easing to 2.2% and real wages are on the rise.

Key sectors, including professional services and the construction industry, are poised for strong employment growth.

Regionally, gaps are narrowing, with all regions projected to experience economic growth increases in Gross Value Added (GVA) in 2025.

And on top of this, a new government taking office in July – while being clear that they need to 'fix fiscal foundations' – has set a fresh policy direction and an invigorated outlook on future potential.

In fact, taken as a whole, the UK's performance stands out positively against many G7 nations, setting the stage for a gradual yet robust recovery in the UK. While there are undoubtedly clouds in the sky, there are also glimmers of light.

What comes next

Of course, it would be naïve to suggest that we aren't grappling with issues that could impact our collective growth, such as skills shortages. You'll notice that the government is taking proactive steps to tackle these issues through initiatives like the Employment Rights Bill and the new 'Growth and Skills Levy'. These measures are designed to enhance job quality and boost workforce capabilities – exactly what we need to stay competitive.

To stay on a positive trajectory, now is the perfect time for businesses to reevaluate their approaches to talent planning.

We know there's a strong consensus among policymakers, educators, and businesses that investing in skills is essential for enhancing the UK workforce's productivity and competitiveness.

We know that AI and the transition to net-zero could support growth in traditional sectors and create new roles in the long term.

We also know that it can be difficult to turn today's challenges into tomorrow's opportunities, without an in-depth insight into the factors that impact the current and future economic landscape, the nuances of key sector performances or the predicted regional growth opportunities.

This report is designed to give you all the insight you need and more. I trust it helps you weather any storms and find the brighter spots as you plan your talent strategy for the remainder of 2024 and into 2025.

Niki Turner Harding
Senior Vice President and Country Head, Adecco UK and Ireland

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After prolonged political and economic uncertainty underpinned by economic stagnation, the UK economy sprang back to life in 2024. The July general election ushered in a new government, setting a new direction in policy and a renewed sense of optimism about future growth prospects. Against this backdrop, the Bank of England cut interest rates in August—the first time since 2020—as inflation eased back to the 2% target rate.

However, more recent monthly GDP estimates suggest that growth has stalled, and the government has made some stark warnings about the inherited fiscal position, pointing to difficult decisions ahead. Recent business surveys report that some of the optimism seen earlier in the year may be ebbing away, yet business confidence remains high overall. We maintain our view that the momentum seen in the first half of the year will continue, and the economy will grow in the second half of the year, with prospects for 2025 brighter still.

In this report, we explore these factors and set out what is likely to happen to the UK economy and labour market in the rest of 2024 and into 2025, including the longer-term prospects. We look at the overall picture and the sectoral and regional outlook across the UK, highlighting opportunities and strengths but also potential risks to the forecast.

UK Labour Market *Outlook*

The UK economy got off to a bright start in 2024

The first half of 2024 showed the UK economy gaining momentum after an extended period of stagnation. The latest quarterly GDP data showed a modest but stronger-than-expected expansion, with 0.5% growth in the second quarter, building on a 0.7% rise in the first. While forecasts predict a slowdown in the latter half of the year, with growth expected to drop to 0.3% per quarter, key sectors are set to continue expanding at a healthy rate, suggesting that the UK's economic slowdown will be milder than that of the Eurozone.[1]

This growth was driven by expansion in professional services, transport, and storage during H1 2024. In contrast, weaker consumer and household spending, which make up 60% of the UK economy, led to slower growth in consumer-facing sectors like retail and hospitality. This reflects the UK's position as a services superpower, as the second largest exporter of professional business services in the world – behind only the US – which contributes around 80% of the UK's GDP. Equally, the increasing demand for transport and storage is largely driven by changes in consumer buying habits, with rising demand for e-commerce leading to an increased need for delivery and transportation services.

The UK is outperforming most other major global economies so far in 2024

This strong growth rate meant that the UK outpaced most of the G7 economies over the first six months of 2024, although UK growth rates are somewhat flattering following the mild GDP decline seen at the end of 2023. Still, the UK grew faster than major European nations, including France, Germany, and Italy, while posting similar growth to the United States.

The UK compares less favourably when judging total growth since the period immediately prior to the pandemic, with the UK outperformed by all other G7 nations other than Germany on this measure.[2] With the new government committing to 'fix the foundations for lasting growth', we expect new measures to be introduced during the Autumn Budget to address the challenge of sustained low productivity.

Consumer spending is set to drive UK growth

Following strong performance in the first half of 2024, business confidence is on the rise. Survey data indicates expectations of solid growth in consumer activity as inflation pressures stabilise and real income growth remains steady. We forecast GDP growth of 1.1% this year and 1.7% in 2025.[3]

Inflation has softened over the last few months, currently standing at 2.2%, which is lower than the 25-year average of 2.83% and a significant drop from the peak of 11.1% in October 2022.[4] This stabilisation enhances spending power and, when combined with the potential for consumers to spend more of the excess savings they accrued during the COVID-19 pandemic, it could provide a substantial boost to the growth outlook.

The labour market is in a relatively good overall state

The UK labour market continues to be resilient and has withstood the last two years in remarkably good shape, given the low levels of economic growth during the period. Across the year, the labour market has held steady, with employment rates estimated at 74.8% from May to July 2024 and the unemployment rate decreasing to 4.1%, down 0.2 percentage points (pp) on the previous quarter.[5] Redundancies also remain low, at 2.9 per thousand employees, 0.8 lower than the same time in 2023.[6]

Job vacancies continue to edge down but are now showing more signs of levelling off at around 857,000 unfilled jobs, near pre-pandemic levels and relatively flat over the last year. The labour market also remains tight, despite some signs of loosening over the past two years, with the unemployment to vacancy ratio standing at 1.6 unemployed people per job vacancy.[7] Employers have held on to staff, potentially in response to recruitment challenges and the perceived shortage of suitable labour amid ongoing high rates of economic inactivity. Indeed, despite economic growth of just 0.1% in 2023, total employment increased by over 2%. Sustained growth since 2021 resulted in employment being 1.2 million higher in 2023 than in 2019 (prior to COVID-19).

Wages have grown more slowly, but at a healthy level of 5.1%, outstripping inflation, indicating expected sustained real wage growth in 2025.[8] This increase in real wages should further boost consumer spending, driving economic growth and creating a positive feedback loop of increased demand and production.

Taken collectively, these factors suggest stability – if not buoyancy – in the labour market. When we put this into context against broader economic and political factors, we anticipate a gradual recovery, with steady employment growth in 2025.

The new government has put in motion plans to tackle inactivity and address skills gaps

Skills supply issues have abated since post-COVID-19 highs. In the recent ONS Business Insights and Conditions Survey, 8.4% of businesses said they were suffering from a shortage of workers, down from 10.4% in the same period a year previous.[9] The same survey found that 38% of businesses reported no difficulties in recruiting in August, up from 30% last year. However, conditions are not equal across all sectors, with construction and healthcare among those more likely to report worker shortages, and manufacturing and healthcare reporting recruitment difficulties. And economic inactivity has remained stubbornly high, with an estimated 9.3 million people aged 16-65 inactive in the May through July 2024 period.

The new government has put in motion its plans to tackle both inactivity and skills supply. Skills England is a new body that will bring together key partners to identify skills gaps and shape technical education in response to skills needs. In addition, the new Labour Market Advisory Board has been launched to advise the government on getting inactive people back to work, primarily focused on the near 2.8 million people who are out of work due to long-term sickness.[10]

Changes to the fiscal rule could support public investment

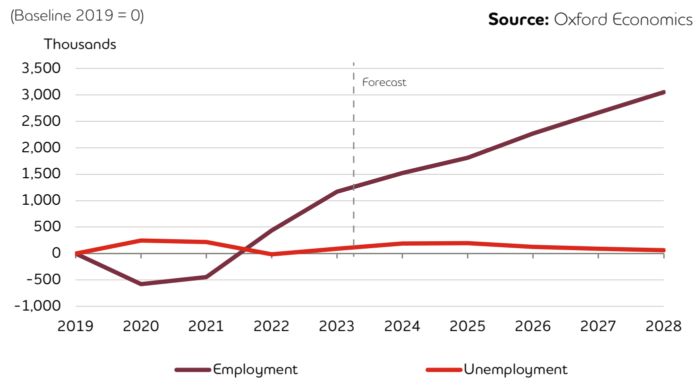
Fiscal rules were introduced in the 1990s to ensure financial sustainability. However, many commentators have criticised the way these are set in the UK, including how they could deter capital investment. The fiscal rule is based on a five-year forecast, whereas full returns from otherwise viable investments often take longer to emerge. The Chancellor's speech at the recent Labour conference alluded to a possible change to the fiscal rule, which, while still unclear, could possibly allow for more public investment spending.

Employers plan to recruit to meet growing demand and employment should continue to grow

With interest rates remaining high, businesses appear to be planning to meet growing demand by expanding their workforces rather than investing in new capital and Research and Development. According to the ICAEW Business Confidence Monitor Q2 2024, businesses do not intend to increase their capital investment growth rate in the coming year, despite strong profit expectations and continued confidence growth.[11] The same report shows that businesses instead intend to grow their workforces by 1.9% over the next 12 months. Whilst the survey does not cover the entire economy, and is a statement of intent, it is indicative of an environment where businesses are wary of increasing investment during a period of high interest rates and uncertain returns.

We expect UK total employment to expand by almost 1% in 2024, equivalent to 350,000 additional jobs, with further growth of 0.8% in 2025.[12] UK population growth should continue to support the labour market and is itself forecast to increase by almost 1.1% over the course of 2024, and 0.8% in 2025. However, total population growth is expected to slow over the longer term and with population ageing, labour supply issues will place greater emphasis on productivity to support economic growth.

Employment and Unemployment Growth since 2019

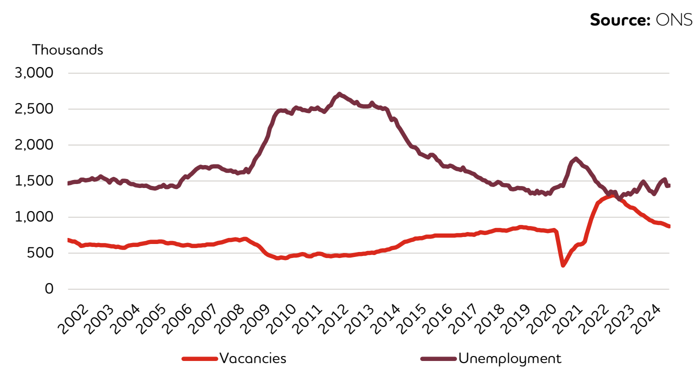


In 2023, the number of jobs was close to 1.2 million above 2019 levels, and we estimate that employment has continued to grow in 2024. Meanwhile, despite slight growth in 2024, unemployment remains low.

Total Economic Inactivity vs Long-Term Sick

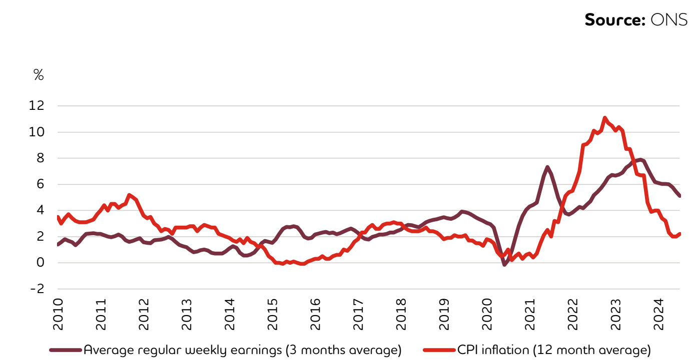
There are currently more than 9.2 million people (21.9% of the working age population) classed as economically inactive in the UK. Nearly 2.8 million people are classed as economically inactive because of long-term sickness, a 31% increase since the last full quarter pre-pandemic.

Vacancies and Unemployment



The number of vacancies has broadly been declining since 2022, but it remains higher than pre-pandemic levels, likely in part due to persistently high levels of inactivity. Meanwhile, unemployment has been on a slight upward trend, although it remains low by historical standards.

Earnings and Inflation, UK



Inflation has slowly eased from late 2022 onwards, and since the middle of 2023 it grew more slowly than earnings, resulting in real terms earnings growth. This trend is forecast to continue, supporting household spending growth in 2025.

Breaking Through the Clouds

Economic growth, the cornerstone of any government, is only achievable through increased productivity and investment, central to which is a robust and thriving labour market. With the new government outlining their industrial strategy and an emphasis on driving long-term opportunity, breaking down regional barriers and setting the foundations for prosperity, the UK is at an inflection point for growth.

To achieve this, there are three core principles that all parties can resolutely agree will positively impact the labour market, as reflected in the government's manifesto: ensuring all work is good work, investing in skills; and increasing labour market participation.

Ensuring all work is good work

Good quality jobs are essential for economic stability and personal well-being. Fair wages, job security, and safe working conditions are vital, ensuring employees feel confident and able to support themselves and their families. Additionally, good quality jobs often provide opportunities for career advancement and professional development, contributing to long-term job satisfaction and productivity. This has been a cross-party objective since the Taylor Review of Modern Working Practices in 2017.[13] Given that low productivity is a pervasive challenge for the UK economy, the new government made this a key priority for their first 100 days in power, kickstarting their strategy to 'Make Work Pay'.[14]

By prioritising policies that support working people, Labour can create a more inclusive and equitable economy. The wheels are already in motion to achieve this, with the Employment Rights Bill – considered the greatest overhaul of worker rights in a generation – introduced to Parliament. Of the initial 60 proposed changes, 28 of these measures, many of which will be subject to extended consultation, have been tabled as part of the bill, while more than 30 other pledges have no clear timetable for delivery and may instead be introduced as codes of practice.

The proposed measures outlined in the new Bill will include a statutory probation period for new employees, allowing for a more streamlined dismissal process during the first nine months of employment. This approach aims to provide greater flexibility for employers during the probationary period. The major package of reforms includes:

- **Day-one rights,** including granting workers protection from unfair dismissal from the first day of their employment, paid and unpaid paternity leave, addressing current eligibility criteria, and introducing statutory bereavement leave.
- **The end of "fire and rehire"**, to ban employers dismissing an employee and then re-engaging on new, usually less favourable terms.
- **A ban on exploitative zero-hours contracts**, with workers on these contracts being entitled to more predictable working arrangements. Employers must offer contracts based on hours worked over a 12-week reference period, provide advance notice of shift patterns, and compensate for last-minute cancellations.
- **The right to statutory sick pay from the first day of illness**, eliminating the current three-day waiting period, and removing the lower earnings threshold.
- **The right to flexible working**, where employers will be required to justify rejections against eight specific criteria to ensure decisions are reasonable.

Due to the mandatory consultation process, officials anticipate that the legislation will not be in effect until autumn 2026 at the earliest.

Among the measures excluded from the Bill are the introduction of a single category of worker, and the right to disconnect, whereby employees would have the legal right not to be contacted or required to work outside their contracted hours.

Employment Rights Minister Justin Madders said:

> **"We know that most employers proudly treat their staff well. However, for decades as the world of work has changed, employment rights have failed to keep pace, with an increase in one-sided flexibility slowing the potential for growth in the economy. The steps we're taking will finally right these wrongs, working in partnership with business and unions to kickstart economic growth that will benefit them, their workers and local communities."**

Large employers will also be expected to develop action plans addressing the gender pay gap and providing support for employees going through menopause. Strengthened protections against dismissal for pregnant women and new mothers will be introduced as part of these measures. These initiatives aim to enhance employee retention, reduce recruitment costs, and support overall economic growth by ensuring that workers remain in employment for longer periods.

These shifts represent a major departure from current employment practices and could positively impact millions of working people, with an estimated 7.2 million expected to benefit from more stability regarding shift patterns, 1.7 million care workers expected to receive better pay and working conditions, and 1.1 million additional workers expected to receive statutory sick pay, according to a recent report by the Resolution Foundation.[15]

This comes at a time when stability is seen as a main priority for policy makers, employers and workers alike. Speaking at the Labour Party Conference in September, Chancellor Rachel Reeves said there is a "Premium on economic stability in an uncertain world". This sentiment was also echoed by workers in Adecco's 2024 Workforce of the Future Survey. We surveyed 2,030 workers across the UK, with 41% of respondents rating longer-term job security as their top concern.

Sources:

1. Gross Domestic Product, Office for National Statistics (Q2 2024)
2. OECD Economic Outlook, Interim Report, OECD (September 2024)
3. Oxford Economics
4. Inflation and Price Indices, Office for National Statistics (August 2024)

UK Worker Concerns

Source: Adecco Group Global Workforce of the Future Survey, 2024

UK Worker Concerns, 2024 (n = 2,030)

There is some concern amongst business leaders and HR professionals regarding the extent of the changes proposed and the new level of uncertainty that these changes present. To ensure these are properly implemented and mitigate any negative impact on employers' intent to recruit, the government must consult with business leaders to determine the pace of change and ensure clarity on the measures proposed.

Speaking at a meeting with Deputy Prime Minister, Angela Rayner, and Business Secretary Jonathan Reynolds in August, Tina McKenzie, Federation of Small Businesses (FSB) Policy Chairwoman stressed it was "crucial" for ministers to "try and reduce harm to employment, small businesses and the economy from any and every negative impact of these proposals". CBI Policy Chief John Foster and Jonathan Geldart, Director General of the Institute of Directors (IoD), said consultation on workers' rights was vital to avoid the risk of "unintended consequences".[16]

The irrefutable need to invest in skills

There is an overwhelming consensus from policy makers, educators and businesses alike that investing in skills is critical for ensuring the workforce is equipped to meet the demands of the modern economy. By investing in education and training, and reforming levies to better serve skills development, the UK can enhance workforce productivity and competitiveness.

Often referred to as the missing piece of the UK's productivity puzzle, recent figures published by the Skills Builder Partnership suggest that low essential skills are costing the UK economy an estimated £22 billion annually, the exact financial deficit recently headlining the message from the government.[17]

According to Adecco's survey of large organisations in 2023, 61% of organisations cited skills shortages as being one of their biggest challenges when hiring new talent.[18] The consequences are even more pronounced for SMEs. The Federation of Small Businesses found 80% of small firms faced difficulties recruiting applicants with suitable skills.[19] Yet, despite this, current government initiatives are widely considered not fit for purpose, with over £4 billion of apprenticeship levy funding being returned to the Treasury.[20]

However, this could all be set to change,with Prime Minister, Sir Kier Starmer's recent announcement to broaden the existing apprenticeship levy into a 'Growth and Skills Levy', which would allow Levy paying firms to use up to 50% of their levy contributions to fund training through routes other than apprenticeships. This would afford much needed flexibility in the provision of training and upskilling initiatives, which could spark greater opportunities for skills development. Speaking at the Labour Party Conference in September, Sir Kier also introduced new foundation apprenticeships, highlighting that apprenticeship starts often went down for entry level roles, whilst visa applications for the same skill areas went up.

In a rapidly evolving employment market, the need for continual upskilling is crucial to driving business growth and overcoming potential bottlenecks in the supply and demand of skilled workers. To address this, the government is launching Skills England to bring together key partners to address the changing skills landscape over the next decade.[21] Setting out their mission, the government's first report by Skills England states they will "bring together the fractured skills landscape and create a shared national ambition to boost the nation's skills."[22]

Richard Pennycook, Interim Chair of Skills England introduces the new report by saying:

"If we are to succeed in the years ahead, we need to transform the skills landscape. Students need to be guided towards what they do best and supported to achieve their potential. Employers need to know that there will be a pool of talent able to deliver the opportunities they create. Providers need to be celebrated and respected as the enablers of our skills-based economy."

Whilst there is certainly more work to be done in this area, the introduction of Skills England and the announced reforms to the Levy are welcome news for many industry and business leaders. In response to the government's announcement on the growth and skills levy, David Hughes, Chief Executive, Association of Colleges, said: "With the establishment of Skills England, I hope to see more interventions like this, using public funds to invest in key priorities, in line with the Labour commitments to economic growth and widening opportunities. We have long called for these key priorities for the levy to be set nationally and regionally. When it was introduced in 2018, one of the drivers for the levy was that employers were investing too little in skills and in their workforces. That is still true, so there is more to do to encourage, support and enable employers to invest more through colleges who stand ready to deliver on this vital drive for sustainable economic growth and breaking down barriers to opportunity".

According to Adecco's survey of large organisations in 2023, 61% of organisations cited skills shortages as being one of their biggest challenges when hiring new talent. The consequences are even more pronounced for SMEs. The Federation of Small Businesses found 80% of small firms faced difficulties recruiting applicants with suitable skills.

Sources:

5. Labour Market Overview, Office for National Statistics (September 2024)
6. Redundancies, Office for National Statistics (May - July 2024)
7. Number of Unemployed People Per Vacancy, Office for National Statistics (September 2024)
8. Average Weekly Earnings, Office for National Statistics (September 2024)
9. Business Insights and Conditions Survey, Office for National Statistics (September 2024)

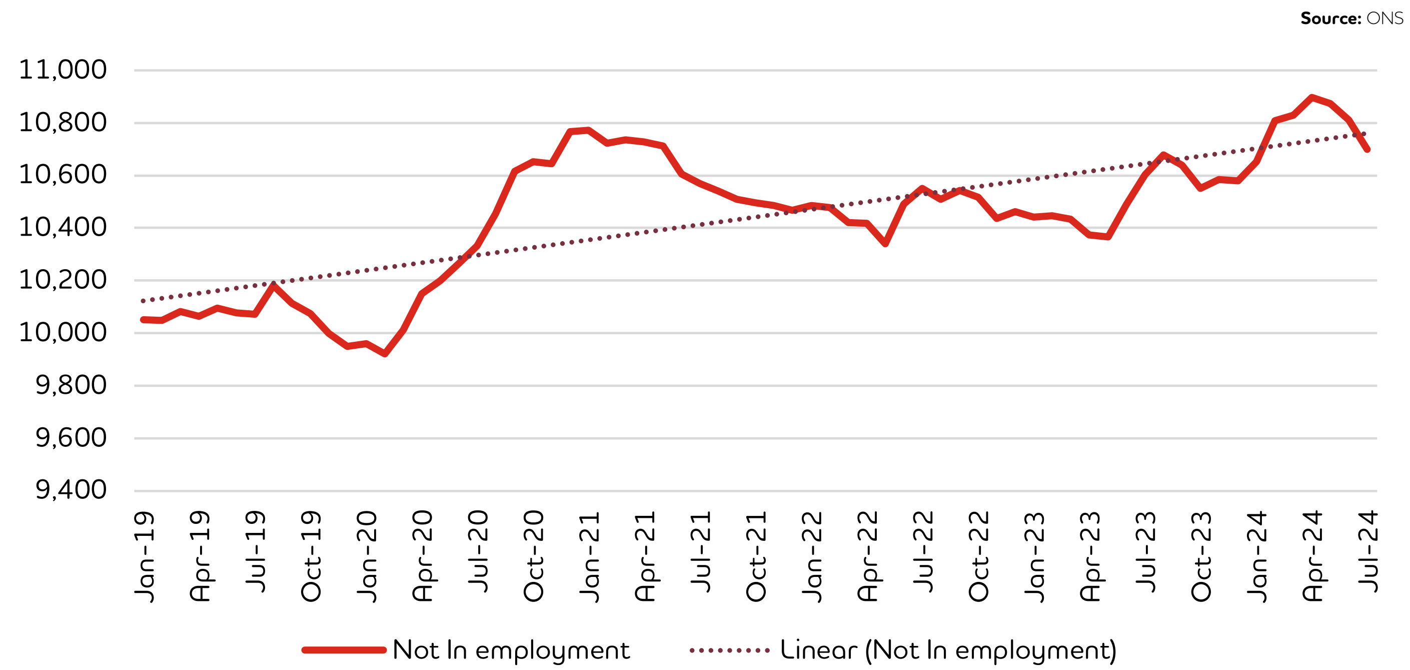
Sources:

10. Economic Inactivity - Long Term Sick, Office for National Statistics (September 2024)
11. UK Business Confidence Monitor, ICAEW (Q2 2024)
12. Oxford Economics
13. The Taylor Review of Modern Working Practices, UK Government (2017)
14. Labour's Plan to Make Work Pay, Labour Government (2024)
15. Job Done? Assessing the Labour Market Since 2010 and the Challenges for the Next Government, Resolution Foundation (June, 2024)

Increasing labour market participation

We need to expand the labour market, turning the tide on the increasing numbers of economically inactive people in the UK. Post-pandemic, we have seen year on year increases in the number of working age people not in employment, which is having a decimating effect on public finances (estimated to cost £16bn per year through lost tax revenue and an inflated benefits bill) and economic growth (according to ONS data, GDP growth slowed from an annual average of 3.0% between 1993 and 2007 to 1.5% between 2009 and 2023).[23][24]

Total Number of Working Age Population Not in Employment Over Time



16-64 year olds not in employment (economically inactive and unemployed), ONS[25]

There are currently more than 9.2 million people between 16-64 years old classed as economically inactive in the UK. Analysis by the Institute for Employment Studies (IES) suggests that higher worklessness is mainly being driven by fewer people entering work from 'economic inactivity', particularly those who have been out of work a long time or have never worked, rather than more people leaving it.

Falling labour force participation is a particular challenge in the UK. This is because chronically weak productivity growth since the financial crisis has meant that economic growth has almost entirely relied on growing the labour force, rather than improving productivity.

To put this into context, the size of the labour force in the UK was growing continuously since the early 1990s, adding around one million people every four years, aided by both higher migration and a rising employment rate. However, since the pandemic in 2020, employment growth has flatlined. In effect there are now more than a million people 'missing' from the labour force compared with pre-pandemic trends. These issues are particularly acute now because it is becoming clear that weaknesses in the labour market are holding back economic growth.

To tackle this, the government is committed to providing integrated employment and health support, launching a new Labour Market Advisory Board, comprised of labour market experts from across business, industrial relations and academia. The focus of the Board is to create innovative strategies and proposals, aiming to reduce economic inactivity. This effort is intended to support the government's ambition of reaching an 80% employment rate. If we look at the latest employment data (74.8% in Q2), this would mean increasing the employment rate by 5.2 percentage points from its current position. This effort – though ambitious – is vital, as the UK remains the only G7 nation where employment and inactivity rates have not yet returned to pre-pandemic levels.[26]

According to the Institute for Employment Studies in its latest Working for the Future report, a short-term ambition should be set to elevate the UK employment rate to the top fifth of developed economies.[27] This would require an increase of 2.6 percentage points, which would be the highest employment rate on record.

This target mirrors the scale of changes seen after the three recessions since the early 1980s. Achieving it would mean adding 2.05 million more people to the workforce between 2024 and 2029. Based on plausible assumptions, this could increase GDP by about £25 billion in the final year of this Parliament and enhance public finances by around £16 billion.[28]

Sources:

16. Press Release: Business Leaders and Unions to Work Hand in Hand to Deliver New Plans to Make Work Pay, UK Government (August 2024)
17. Essential Skills Tracker, Skills Builder Partnership (2023)
18. Hiring for Tasks Not Titles, Adecco (August 2024)
19. Skills Shortages in the UK Economy, Edge Foundation (2024)
20. Apprenticeships Are Good, the Apprenticeship Levy Needs to Work Better, CBI (September 2023)
21. Driving Growth and Widening Opportunities, Skills England (September 2024)
22. Driving Growth and Widening Opportunities, Skills England (September 2024)
23. Working for the Future, Institute for Employment Studies (September 2024)
24. Gross Domestic Product - Seasonally Adjusted, Office for National Statistics (August 2024)

In addition to the Employment Rights Bill, initial measures proposed by the government to boost labour market participation include:

- A new combined national jobs and careers service, merging Jobcentre Plus and the careers service, to help more people find employment and support those seeking better-paid opportunities.
- New local plans for work, health, and skills support to increase employment among people with health conditions and disabilities, with devolved funding and leadership from Mayors and local areas.
- A youth guarantee offering training, apprenticeships, or job search assistance for all young people aged 18-21, to prevent early exclusion from the workforce.
- Reforming the benefit system to encourage work, including allowing disabled people to try out jobs without the fear of immediate benefit reassessment if the job doesn't work out.[29]

A step in the right direction: Industrial strategy and planning for the future

Whilst Labour faces a challenging inheritance and concedes that hard choices must be made, there are genuine reasons for optimism and resilience, too. The recovery from the COVID-19 and cost-of-living crises lay a solid groundwork for growth. With the inception of new, sustained policy initiatives, a return to real-wage growth and declining interest rates, there is significant potential for positive change. However, it is important to recognise that meaningful change takes time and demands a clear, consistent strategy. As the renowned Futurist Alvin Toffler put it, "You've got to think about the big things while you're doing the small things so that all the small things go in the right direction."

To expand and expedite growth, businesses need renewed confidence, which hinges on a clear and defined economic strategy. Business confidence rose to +16.7% in Q2 of this year, reflecting the third successive rise and the highest point since Q1 2022.[30] Further data from the ONS Business Insights and Confidence Survey (BICS) to the end of August also showed that 23% of respondents expect their business to grow in the next 12 months, highlighting resilience and increasing confidence in UK industry.[31]

Further clarity on the government's plan for growth is expected as part of the newly announced industrial strategy, expected to be rolled out in October. Speaking at the Labour Party Conference in September, Chancellor Rachel Reeves emphasised the focus on "investment in new industries, new technologies and new infrastructure." These glimmers of business optimism can spark increased opportunities for recovery and should be capitalised on collectively to gain momentum for growth in 2025 and beyond. By removing the sense of chaos, confidence can be restored, leading to increased investment and economic growth.

Jonathan Reynolds, Britain's Business Secretary, has said a core focus for the near-term is to put forward an industrial strategy aimed at attracting investment to key sectors such as advanced manufacturing, professional services and the creative industries. According to Reynolds:

> **"The role of an industrial strategy is to attract a greater share of investment to the UK in key sectors — the big, high productivity, high growth, high export, high investment sectors."**

The Industrial Strategy Council, which will have its role established in law and include business and union representatives, is tasked with developing and overseeing a long-term industrial strategy, offering stability and confidence to investors.

By providing such governance and clarity regarding priorities and encouraging investment opportunities, businesses will have a much-needed sense of direction when it comes to planning for the future and understanding what roles and skills will be needed to achieve business growth.

Sources:

25. Employment, Unemployment and Economic Inactivity by Age Group, Office for National Statistics (September 2024)
26. Press Release: Labour Market Advisory Board, UK Government (September 2024)
27. Working for the Future, Institute for Employment Studies (September 2024)
28. Working for the Future, Institute for Employment Studies (September 2024)
29. Labour's Plan to Get Britain Working, Labour Party (June 2024)
30. UK Business Confidence Monitor, ICAEW (Q2 2024)
31. Business and Consumer Confidence, House of Commons (September 2024)

Sector Performance *and Outlook*

Investing in key sectors and promoting skills development are essential for maintaining a competitive economy. By focusing on high-growth industries and ensuring that the workforce has the necessary skills, the UK can drive innovation, productivity, and economic prosperity. The UK's investment stability, compared to the Eurozone and the US, can attract both domestic and international investors. A stable investment environment fosters economic development by giving businesses the confidence to invest in new projects, technologies, and workforce development.

By the end of 2024, employment is expected to grow by 1%, and growth is expected to continue in 2025. The Bank of England suggests positive employment intentions and an easing of recruitment conditions; however, the picture across sectors is more nuanced.[32]

Some of the highest rates of growth will take place in consumer-facing sectors, which will benefit from a boost in household spending power thanks to growing real wages. Employment in **wholesale and retail trade** was on a positive trajectory during the first half of 2024, and in August, sales volumes were at their highest index levels since July 2022. We estimate close to 32,000 new jobs in the sector by the end of 2024, compared to last year. In 2025, the sector is expected to create the largest number of new roles, with over 64,000 new jobs, maintaining its position as the second-largest industry in employment terms. Along with **accommodation and food services**, which should record close to 40,000 new jobs in 2025, consumer-facing activities are forecast to account for over a third of the new jobs created next year. We expect both sectors to continue to grow at above-average rates in the years to 2028.

Employment in **business services** is also forecast to grow in 2025. Despite a contraction in 2024, **administrative and support services** will be the fastest growing sector in employment terms in 2025 (1.8%), adding 55,800 jobs to the UK labour market. **Professional, scientific and technical activities** will also grow at a faster rate than the average in 2025 (1.1%) and contribute to circa 40,000 new jobs. Growth will be more modest in **financial and insurance** activities and in real estate activities despite particularly strong performances in 2024 (1.7% and 2.6% growth, respectively). However, the financial sector remains a key player in the UK economy, thanks to London's position as a global hub. Occupations within business services sectors are among those that are most likely to benefit from Artificial Intelligence (AI), augmenting current tasks, leaving more time for other activities and boosting productivity. Generative AI could also play a role in creating new jobs in the medium term if it leads to increased innovation.

The continued rise of AI should directly benefit the **information and communication sector**, and employment growth is expected to be strong at 1.5% in 2025, the second-highest growth rate that year. The sector's strategic importance makes it a critical part of the government's economic strategy, focusing on cybersecurity alongside AI. The government recently decided to classify data centres as Critical National Infrastructure – a status shared with electricity, water, and emergency services, which ensures increased support from the government to face critical incidents. The UK has ambitions to be a world leader in cybersecurity, and this new status could attract further investment in a context where the country already hosts the largest number of data centres in Western Europe.

As well as benefitting from lower interest rates, the **construction sector** should get a significant boost from the government's plan to build 1.5 million new houses over the next parliament. The re-introduction of mandatory housing targets in England could put pressure on councils that had been reluctant to new developments in the past, whereas the relaxation of the National Policy Planning Framework should give them the tools to release more land for development. The UK's ageing housing and building stock is also ripe for renovation to help the UK meet net-zero ambitions.

As a result, we expect employment in the construction industry to grow by 1.5% in 2025. Growth should continue in the following years, at an average annual rate of 1.7% in the three years to 2028. However, the construction sector still faces significant challenges, particularly around skills, which causes consistent job shortages. Skills development will be needed, particularly in domains such as green energy and green building, to meet the growing demand and legal requirements for sustainable construction practices. **Art, entertainment and recreation** is estimated to have had another strong year in 2024, with employment growing by 4.5%. The sector has steadily been recovering from the COVID-19 induced collapse, with employment growing by 6.2% in 2021 and 3.2% in 2022. Although the pace of growth is likely to slow in 2025, it should remain above average (1.0%) and continue its strong trajectory in the years ahead. **Transportation and storage** follows a similar trend, with strong growth in 2024 (1.4%) followed by more moderate, yet significant, growth next year and beyond.

Employment growth in the **human health and social care** sector is estimated to have been very strong in 2024 at 4.1%, resulting in the creation of 200,000 new jobs; however, employment expansion is expected to slow in 2025 (0.6%). That said, the newly proposed and partly agreed pay awards for the NHS might help attract more workers in the following years, benefitting a sector that typically records some of the highest levels of vacancies. The ageing population in the UK means that the sector will continue to be in high demand, and we anticipate above-average employment growth in the three years to 2028, with higher demand expected in some parts of the country. Meanwhile, employment in other largely publicly funded sectors will not grow significantly. We anticipate a 0.4% growth in education employment in 2025, and a slight decline in **public administration and defence**.

Contraction, however, is expected in **manufacturing**, along with **mining and utilities**. Looking at manufacturing specifically, we expect 26,000 fewer jobs by 2025, similar to the estimated loss this year. Manufacturing employment has been on a downward trend since 2019 (except for a short-lived post-COVID-19 rebound), largely because of increased automation. However, some sub-sectors are doing particularly well and are expected to continue to grow. This is, for instance, the case with large factories making rechargeable batteries—which are often referred to as gigafactories.

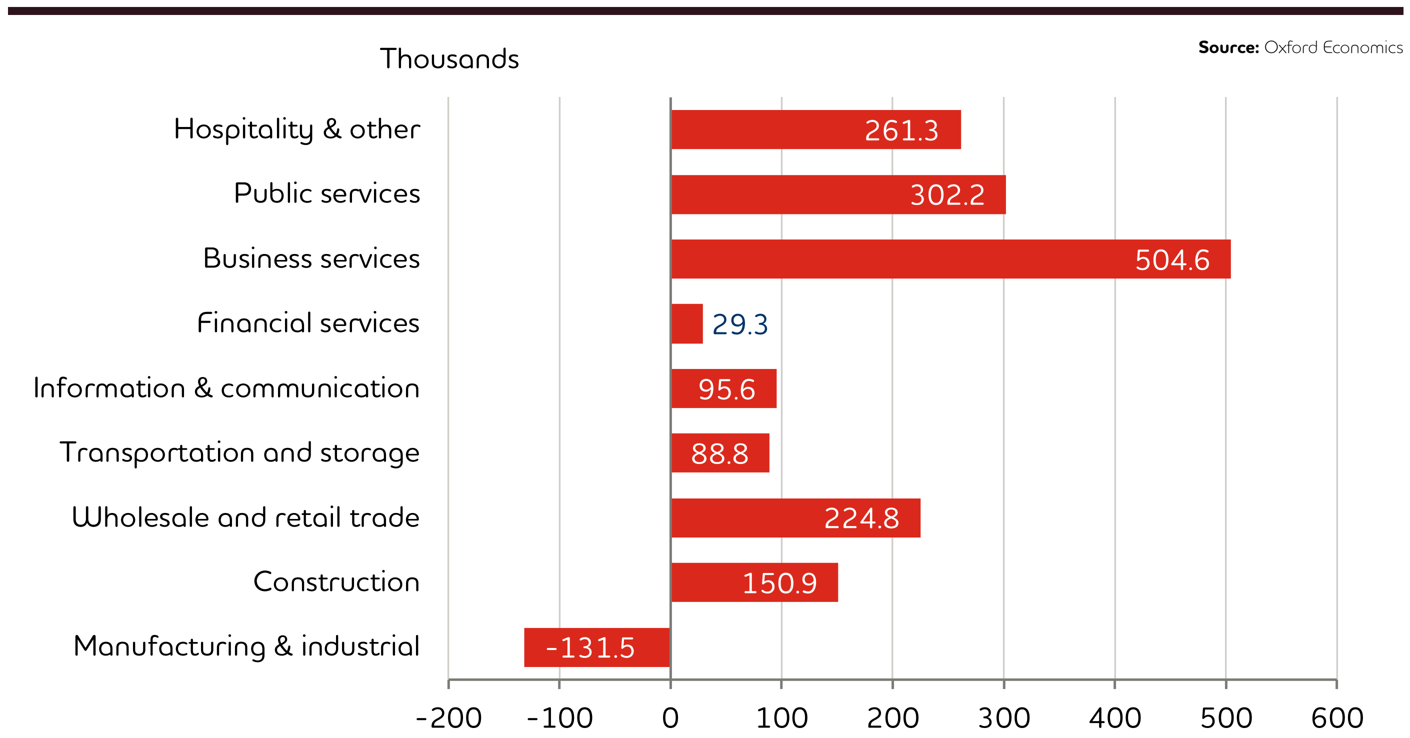
Earlier this year, the automotive company Tata announced it will invest £4 billion in a new gigafactory in Somerset, and the former government's decision to step in with subsidies signalled the critical importance it saw in the sector. We expect the new government to continue to support the development of gigafactories, and we anticipate that employment in the manufacture of electrical equipment (which includes battery manufacturing) will grow by an average 1.6% per year between 2025 and 2028.

Other manufacturing sub-sectors expected to grow include the manufacture of non-metallic products (such as cement and plaster), and basic pharmaceutical products. Indeed, the wider UK life sciences sector, which includes pharmaceutical products but also spans the research, development and manufacture of medical biotechnology and medical equipment, also shows great potential in the UK, backed by strong growth in consumer spending on medical products, government expenditure on health RandD and world-leading university research.

Sources:

32. Agents' Summary of Business Conditions, Bank of England (Q3 2024)

Expected Net Jobs Created by Sector, 2025 - 2028



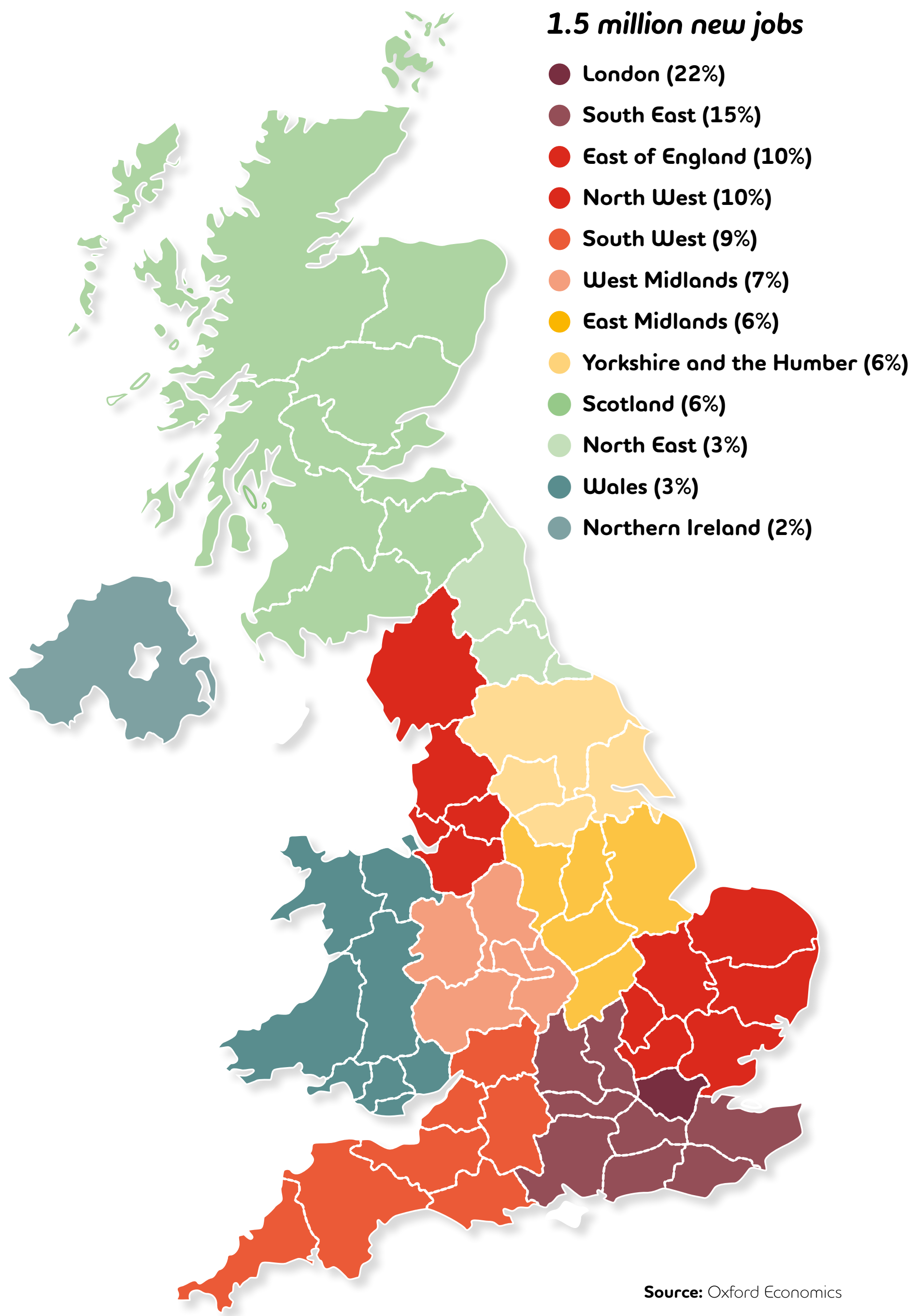
Regional *Outlook*

Growth is expected to be more widespread across the country

As economic conditions are expected to improve in the near future, we anticipate more widespread growth across the UK's regions and nations.

Some of the highest rates of growth will take place in consumer-facing sectors, which will benefit from a boost in household spending power thanks to growing real wages. Employment in wholesale and retail trade was on a positive trajectory during the first half of 2024, and in August, sales volumes were at their highest index levels since July 2022. We estimate close to 32,000 new jobs in the sector by the end of 2024, compared to last year. In 2025, the sector is expected to create the largest number of new roles, with over 64,000 new jobs, maintaining its position as the second-largest industry in employment terms. Along with accommodation and food services, which should record close to 40,000 new jobs in 2025, consumer-facing activities are forecast to account for over a third of the new jobs created next year. We expect both sectors to continue to grow at above-average rates in the years to 2028.

Employment in business services is also forecast to grow in 2025. Despite a contraction in 2024, administrative and support services will be the fastest growing sector in employment terms in 2025 (1.8%), adding 55,800 jobs to the UK labour market. Professional, scientific and technical activities will also grow at a faster rate than the average in 2025 (1.1%) and contribute to circa 40,000 new jobs. Growth will be more modest in financial and insurance activities and in real estate activities despite particularly strong performances in 2024 (1.7% and 2.6% growth, respectively). However, the financial sector remains a key player in the UK economy, thanks to London's position as a global hub. Occupations within business services sectors are among those that are most likely to benefit from Artificial Intelligence (AI), augmenting current tasks, leaving more time for other activities and boosting productivity. Generative AI could also play a role in creating new jobs in the medium term if it leads to increased innovation.



Source: Oxford Economics

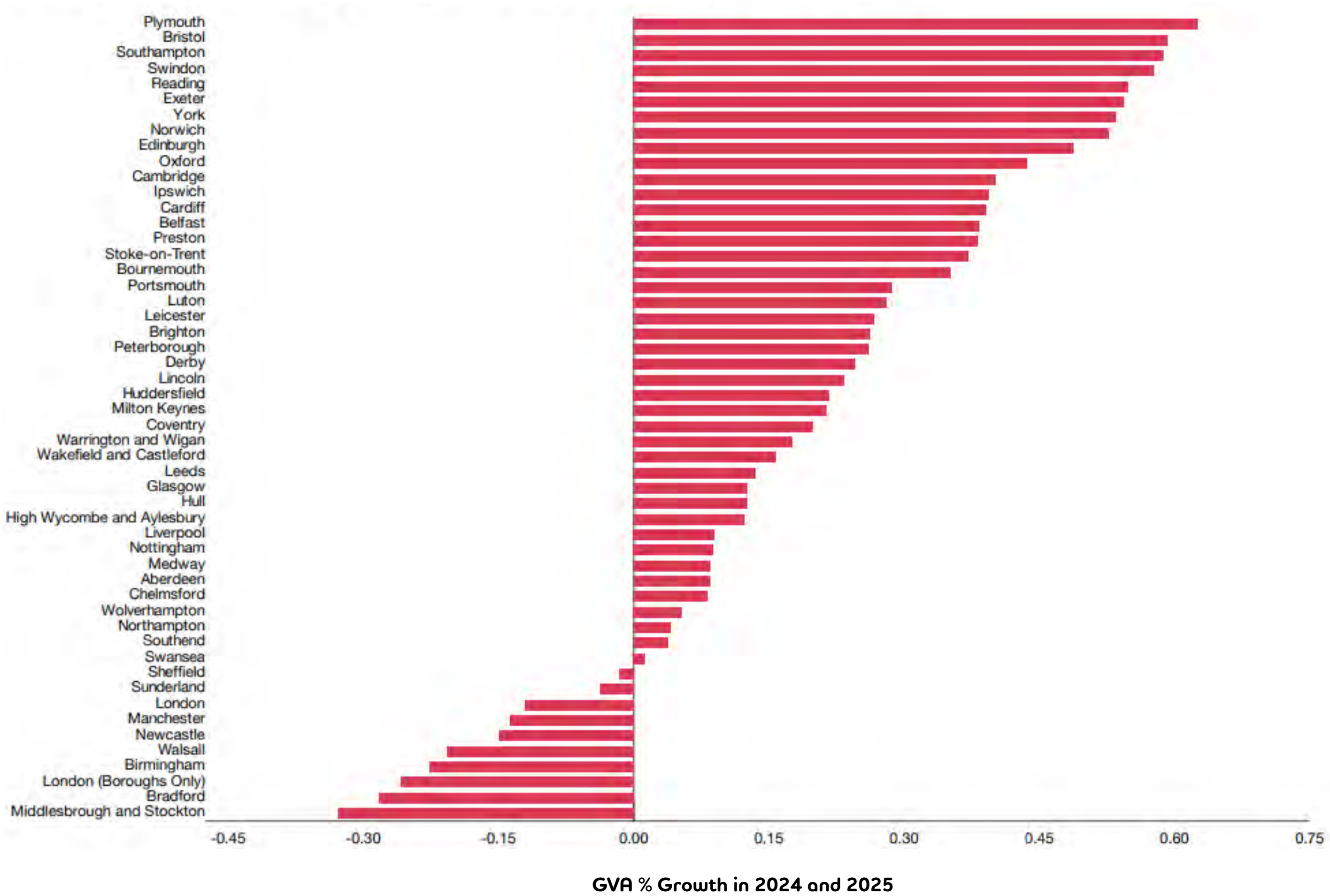
We expect widespread growth in employment in 2025, with new jobs created in every UK nation and region. Throughout the period 2025-2028, we anticipate an additional 1.5 million jobs in the UK economy. London and the South East are expected to account for a large proportion of these new jobs, but other regions such as the East of England and the South West will record high growth rates too.

Within regions, some hotspots continue to grow

Recent analysis published by PwC as part of their annual Good Growth for Cities Index, highlights that Bristol, Swindon and Reading are leading cities according to their growth indicators.[33] The index ranks 51 of the UK's largest cities (generally considered those with populations of at least 350,000 people), plus the London boroughs as a whole, based on the public's assessment of 12 economic measures, including jobs, health, income, safety and skills, as well as work-life balance, housing, travel-to-work times, income equality, high street shops, environment and business startups.

2024 Good Growth for Cities Index Results by City, Ranked Highest to Lowest

Source: PwC Good Growth for Cities Index, 2024



In **South Yorkshire, Sheffield** stands out as a city that is prime for growth and has set out robust plans to be a leading UK economy. This includes a 10-year growth plan underpinned by strategies that focus on skills and employment, culture, transport and housing, collectively driving productivity. The region is now central to shaping the future of the UK's manufacturing, digital and health sectors. For example, the Advanced Manufacturing Innovation District has attracted large manufacturers such as Boeing, McLaren and Rolls-Royce. Equally, as a city dominated by small businesses (81% of organisations employ 10 people or fewer), start-ups can benefit from more affordable office costs, access to fresh talent through the city's universities, and tap into potential to drive significant returns.

In the **West Midlands, Wolverhampton** – recently confirmed as a new investment zone – is set for economic renewal and prosperity, with a new £60 million city learning quarter opening in 2025, providing high-quality learning and skills for people of all ages. The government has also proposed £24 million of funding to develop a new Green Innovation Corridor to stimulate jobs and opportunities in the green economy. Further collaboration on the West Midlands Interchange has the potential to give the city access to 8,500 job opportunities.

In **Scotland, Aberdeen** – considered the powerhouse of the UK's oil and gas industry – has recently been confirmed as the location for GB Energy. Supported by funding from the Scottish and UK Governments, the development of Scotland's Energy Transition Zone (ETZ) aims to deliver a dedicated space for low-carbon businesses, in turn creating 10,000 energy-transition-related jobs across the region by 2030. Funding is being channelled into green energy through the Net Zero Technology Centre (NTZC), a not-for-profit established through the Aberdeen City Region Deal with £180 million investment.

In the **North West, Greater Manchester** is expected to grow employment by 0.9% next year (compared to 0.7% in the region), and an average annual growth of 1.1% in the years to 2028. The Combined Authority will continue to expand its service economy, particularly in administrative and support services and professional, scientific and technical activities.

In **Wales, Cardiff** is expected to achieve gross value added (GVA) growth of 1.3% in 2024 and 2.0% in 2025. The Welsh Government has proposed a £206 million investment in Cardiff airport over the next ten years. The airport is estimated to generate over £200 million in GVA annually and supports thousands of jobs in the South Wales region. According to PwC's Good Cities for Growth Index, the high growth expectations for Cardiff are due to its sectoral make-up with a larger share of economic activity in manufacturing, health and social work, finance and insurance, and public administration and defence, all of which are expected to experience relatively higher growth.

The growth potential of devolution and investment zones

The re-balancing of the economy has been an explicit part of successive governments' objectives for decades now. It has taken the form of progressive devolution of powers to more local levels of governance and more targeted investments under various programmes, including the Northern Powerhouse, Local Industrial Strategies, and Levelling-up policies.

The new government has pledged to deepen devolution settlements in England for existing Combined Authorities and widen devolution to those areas currently without a deal. Devolution – or the decentralisation of governmental power to regions – is viewed by many as the key to unlocking the potential for growth and prosperity in every part of the country, with regional and local leaders being best placed to identify their communities' requirements and harness their potential.

There are currently 12 areas with mayoral devolution in England, with the government committed to delivering full devolution across the North of England. The next wave of devolution deals to progress will be in Hull and East Yorkshire, Greater Lincolnshire, Lancashire, and Devon and Torbay. The devolution agreements announced in September will mean that over 60% of the country will be covered by a devolution deal.[34]

The success of devolution will hinge upon Labour ensuring devolved funding is adequate, that there is equitable infrastructure development, as well as capacity and expertise within local government for them to manage their new responsibilities effectively. As devolution evolves it will become increasingly important for Labour to strike the right balance to ensure that this does not simply become an exercise of offloading responsibility. Speaking at the Labour Party Conference in September, Local Government Minister Jim McMahon said addressing financial issues facing the sector was the first priority because "we can't devolve to a system that is falling over".

To ensure devolution is managed effectively and to address potential concerns, the government is establishing a new English Devolution Bill, creating an "ambitious standardised" framework to speed up the process of transferring powers, as highlighted during the King's Speech in July. Combined Authorities will also be required to develop Local Growth Plans to bring about a growth framework that is more tailored to their specific strengths and challenges, at a geographical level that is often closer to socioeconomic realities than larger administrative regions.

When asked specifically about the impact on work and skills, Councillor Martin Tett, Chair of the Local Government Association's People and Places Board, said:

> **"Supporting more people into work, addressing skills gaps, and boosting inclusive economic growth, delivered through a service that is more efficient and reduced silos will be a key priority for the government. To achieve this, they must commit to a reformed and ambitious employment and skills offer, linked to local services and meeting local needs, which can identify where people need support and tailor that support to them."**

Investment Zones have been established in several Combined Authorities in England, combining tax incentives and flexible funding for research and development, skills, business support, local infrastructure and planning.

The Ministry of Housing, Communities and Local Government has committed to funding for two new Investment Zones, delivering high quality jobs and attracting private sector investment, focusing on Advanced Manufacturing in the West Midlands and Life Sciences in West Yorkshire.

The West Midlands Investment Zone has the potential to create more than 30,000 new jobs and drive £5.5 billion of private sector investment. Concentrated on three key sites in Birmingham, Wolverhampton, and Coventry and Warwick Gigapark, the focus will be to drive growth in the advanced manufacturing sector through a combination of public investment and tax incentives. The focus is broadly defined as encompassing electric vehicle and battery technology, green industries, health-tech and data infrastructure.

In West Yorkshire, an Investment Zone focused on Huddersfield, Bradford and Leeds, largely due to the already thriving Life Science businesses in the area, could create more than 2,500 new jobs over five years across the region and support more than £220 million of investment.

These two new zones join already approved locations across Greater Manchester, Liverpool City, the North East and South Yorkshire, providing regional hubs of investment to drive the economy forward.

Sources:

33. Good Growth for Cities, PwC (2024)
34. News Story: Full Devolution to be Delivered Across the North, UK Government (September 2024)

In Conclusion

The UK economy enjoyed a positive start to 2024, with above-trend GDP growth in the first two quarters of the year—outpacing most of the G7 economies—and a surprisingly resilient labour market, considering the challenges it has faced in the past two years.

There are still some difficulties, including relatively weak levels of consumer spending and concerns about the UK fiscal position, which has somewhat affected business confidence. But the strength of the labour market, coupled with solid growth in real income, bodes well for consumer spending the rest of this year into next, and we expect output and employment to continue to grow in 2025.

Most industries are expected to record growth in employment, including consumer-facing sectors, office employment, and construction. Manufacturing employment will continue to decline, but we see pockets of growth in critical sub-sectors, such as the production of rechargeable batteries. AI and the transition to net-zero could also support growth in traditional sectors and create new opportunities in the long term.

The change of government could bring about changes to the labour market. Sir Kier Starmer's cabinet has so far put forward initiatives to tackle inactivity and address conflicts over public sector pay. The government's flagship policy to build more houses through changes to the planning system could boost construction employment, and potential changes to the fiscal rule could allow for more capital investment. But there is also significant uncertainty as to what the autumn budget will deliver, and it now seems certain that some taxes will rise. While it is too soon to speculate what the full impact could be on the economy, we continue to believe that the favourable economic outlook will help mitigate some of the likely challenges ahead.

Connect with Us

As you plan your workforce strategy for 2025 and beyond, we understand that questions may arise, and strategic support may be needed for your hiring plans. We invite you to reach out; our team is here to provide guidance and support. Whether you seek insights into evolving government policy and priorities or the employment landscape, please don't hesitate to get in touch:

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