

## Brexit Impact Report - KRL012

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### Overview

Since the EU Referendum vote in June 2016, Kenect Recruitment have closely monitored the impact of Brexit on employment and workforce trends, as well as market perspectives and expectations. The following digest is compiled from our most recent data and analysis to help our clients and employers remain alert to potential changes and sustain their ability to attract and retain people best-suited to their needs.

### Overall employment

Despite early concerns about Brexit's implications on employment as emphasised by a sharp drop in the net employment score immediately after the referendum vote. The proportion of employers looking to increase staff versus those looking to reduce staff has recovered strongly and remains above pre-vote levels. This indicator of continued, robust labour demand is consistent with official employment data evidencing high employment.

### Impact on recruitment

Our transport sector is the most worrying division regarding Brexit and the possible impacts this could have. The immediate outlook is that things are likely to remain pretty much as they are, at least until the UK exits the EU, most likely in the spring/summer of 2019. And thereafter there is likely to be little immediate impact on employment rights, as the government is expected to transpose existing EU law into UK law upon Brexit to prevent legal vacuums being created. Thereafter, much will be dictated by the political landscape at the time. It may be that there will be a gradual reshaping of employment rights.

In the period since June 2016, the combination of strong labour demand, low unemployment and a dramatic 95% fall in EU nationals joining the UK workforce between Q1 2018 and Q1 2016, has put significant pressure on recruitment. Recent data noted that 44% of employers experienced greater difficulty in recruitment during 2018, as another 34% faced a similar challenge in retaining staff.

The prevalence of hard-to-fill vacancies has continued an upward trajectory. As at Autumn 2018, 70% of employers with vacancies said that at least some of those were proving hard-to-fill, compared to 51% in Spring 2017.

On the supply side, the Resourcing and Talent Planning Survey 2017 reported that around one-fifth of organisations saw an increased cautiousness in prospective candidates since the referendum vote. Three-fifths anticipated they would face increased difficulty in recruiting senior and skilled/technical employees in the next few years, while two-fifths expect the same in recruiting operational staff.

These expectations have been met with labour market evidence showing that the median number of applicants per vacancy across all skill levels have in fact, fallen significantly. For each low-skilled role,

the number of applicants fell from 24 in Summer 2017 to 20 a year later, for medium-skilled roles from 19 to just 10, and for high-skilled vacancies from 8 to 6.

Given the shrinking supply of skills and labour, Brexit has not dampened employers' interest in employing EU migrant workers. At the beginning of 2018, some two-thirds of organisations said they would continue to employ EU nationals, whilst in 2017, research found that the proportion of employers who intended to recruit EU migrants was largely the same as the proportion doing so in 2016, across all sectors.

The most common reason given by employers as to why they employ EU workers is that they do not consider nationality when hiring, but simply choose the best person for the job. For semi-skilled or unskilled roles, the main reason given was that employers could not find domestic applicants to fill those vacancies.

### **Transport Sector:**

#### ***FTA - PAC report shows why No Deal is No Option***

No Deal is No Option, according to the business group representing the logistics sector, the Freight Transport Association (FTA), in reaction to the Public Accounts Committee (PAC) report on the Department for Transport's implementation of Brexit released today (28 November 2018). This report states there is a significant and growing risk that the Department for Transport will not be ready if the UK leaves EU without a deal next March. But, according to FTA, appropriate project management would have never been enough to mitigate the impact of a No Deal exit on transport: the only way at this stage to prevent major disruption to the UK's supply chain is for MPs to vote in favour of Theresa May's Withdrawal Agreement proposal.

Pauline Bastidon, FTA's Head of European Policy and Brexit commented: "We share some of the Public Accounts Committee's concerns and have many questions, particularly in relation to traffic management in the event of No Deal and how Operation Brock would work in practice. FTA is concerned many businesses are not aware of the true scope of possible changes, particularly on the Continent, but we are doing everything we can to address these shortcomings and provide answers to our member's questions. However, the Committee has missed the biggest and most fundamental problem in our view in relation to transport and No Deal. Ultimately, the biggest issue for transport is the issue of market access: the ability for operators to transport goods across the borders. This is not an issue the UK can solve unilaterally. With just four months until the UK leaves the EU, the situation is alarming.

"No amount of contingency planning can increase the limited number of international haulage permits available to both UK and EU hauliers. In the event of a No Deal exit, the number of ECMT permits available would likely only cover 5% of the current vehicle journeys made between the UK and EU. And no air cargo can be transported until between the UK and the EU until the UK is added to the EU 'Greenlist' for cargo security. Solving these issues require a negotiated outcome that the UK alone cannot deliver – it needs the full support and active approval of both member states and the European Commission."

Bastidon continues: "The only way to address the issues a No Deal would present for transport, and ultimately for the entire economy, is for MPs to vote in favour of Mrs May's proposals. The Withdrawal Agreement allows the UK to leave the EU in an orderly fashion and avoid the chaotic disruption to the flow of goods between Britain and the rest of the EU that would occur were we to leave without an agreement in place. It provides a Transitional Period until at least the end of 2020,

during which negotiations on a new, permanent free trade agreement can take place, that will hopefully remove frictions to trade and protect transport connectivity. This is the reason why – while it's not perfect from a trade and transport perspective – FTA urges all MPs to vote in favour of ratification of the Withdrawal Agreement.”

### ***RHA - Brexit and the UK haulage industry – no deal, no jobs, no food***

For the 7000+ members of the Road Haulage Association who, between them operate nearly 50% of the UK's 496,000 lorry fleet (and the UK haulage industry as a whole), the prospect of a future without a Brexit deal looks extremely bleak. A no-deal Brexit will create massive problems for international hauliers – whether UK or mainland Europe based. It is time for a reality check.

Since the prospect of leaving the EU became a reality in June 2016, the Road Haulage Association has been campaigning tirelessly to get the best deal for its members. It is essential – for the people and businesses of mainland Europe and Great Britain that the current system of frictionless borders continues.

For supply chains, customs controls and the controlling of lorry movements the key issues. Should there be no deal and customs controls are established for UK hauliers at every European border, the knock-on effect will be crippling. According to RHA chief Executive Richard Burnett, “The Dover Strait handles 10,000 lorries each day and processing them through the port is currently seamless.

“The stark reality is that if customs controls are put in place, it will take an average of about 45 minutes to process one truck on both sides of the channel. If that happens then the queues of HGVs in Kent will make the jams seen in the summer of 2015 appear as little more than waiting for the traffic lights to change.”

In March this year Transport Secretary Chris Grayling MP said: “We will maintain a free-flowing border at Dover, we will not impose checks at the port, it is utterly unrealistic to do so. We don't check lorries now, we're not going to be checking lorries in the future. I'm clear that it cannot happen.”

But what about the French? If they put customs processes in place in March 2019 to check all lorries traveling between the UK and the EU hauliers will be faced with the prospect of coming over to the UK and having to wait for days – even weeks, before they can return home. This will be a huge deterrent to them making the journey at all. 50% of food consumed in the UK's comes from around the world – of which 70% comes from the EU.

It is not just customs, ECMT\* permits for lorries to carry goods internationally will be required. For UK operators these are limited to less than 5% of the number of licences currently issued. If that scenario becomes reality, most UK operators will be unable to go and get the goods themselves. Without special arrangements EU operators will also need to use ECMT permits.

British hauliers that make international journeys will be forced out of business, causing irreparable damage to the supply chain. The foods we take for granted, oranges from Spain for example will become an expensive luxury. Supply and demand for basic foodstuffs could even mean the introduction of food rationing. Is this just scaremongering? No. Could it be the death knell for the thousands of hauliers that deliver 98% of the UK economy? Quite possibly. B

A Brexit without a deal will put thousands of HGV drivers out of a job and millions without the food they have come to expect. With just over 6 months to go until the UK leaves the EU, the time for political grandstanding is over. UK hauliers need practical solutions to resolve practical problems.

### **Effect on job security**

Of the large proportion of employers who employ EU nationals, around half (48%) reported an increase in their EU workforce expressing insecurity (Autumn 2018) about their jobs as a result of Brexit. Interestingly, this insecurity was shared by UK citizens at more than a quarter (26%) of organisations. Publication of the EU Settlement Scheme has gone some way to reassure EU workers, but only 28% of employers said it has helped their confidence in retaining EU nationals over the next two years.

### **Addressing recruitment difficulties**

In response to recruitment challenges, around half of organisations in the Autumn 2018 LMO survey raised starting salaries (48%). Of those who were also experiencing difficulties retaining staff, a similar proportion (51%) had increased salaries in some capacity. Upskilling existing employees to fill hard-to-fill positions was the most popular option to address recruitment difficulties amongst respondents to the 2017 Resource and Talent Planning survey.

However, apart from providing a more attractive salary, employers can consider more inclusive recruitment, building on their employee offer through non-financial benefits and enhancing their brands. These will not only address hiring difficulties in the short term but make their organisations more attractive as an employer in the long run. Likewise, measures such as the provision of flexible working and clear career development will help organisations both recruit and retain the people and skills they need.

### **Workforce planning and development**

The scarcity of available skills and labour, potentially exacerbated by further reductions post-Brexit once free movement comes to an end, means workforce planning and development should become a priority. However, some 52% of private sector and 38% of public sector organisations responding to our Summer 2018 labour market survey said they were only just planning to upskill their existing workforce to address the potential skills shortage. To be able to respond in due time, employers need to assign greater urgency to undertake strategic workforce planning that will help identify the skills and knowledge required now and for the future, which in turn will help to narrow down the focus of the learning and development required.

### **Procurement**

The effect that the EU referendum result will have on procurement professionals is, unsurprisingly, prompting much debate from within the field. Social media polls conducted in the days after the Brexit victory suggest that opinions are divided. Some are taking the optimistic view that the UK's departure from the EU will provide an opportunity for those working in procurement to show how they can genuinely add value to their organisations and offer a chance to take a more cross-functional approach. However, 65% of respondents in a social media poll expressed anxiety about how their work will be affected by the referendum result.

Few commentators across the UK would disagree, having seen the political turmoil and unprecedented series of events that have unfolded before our eyes since the result was announced, with the description that the country is now in a very current crisis. However, the positive spin is that in a crisis, it just calls for a combination of steady stewardship and fresh thinking on the part of procurement teams.

Procurement now needs to be about making the most of the supplier relationships that are already in place and, at the same time, beginning to explore a range of new sourcing choices. In many ways, the current situation should hold no fears for procurement teams and supply chain managers. After all, managing complex situations and uncertainty has always been fundamental to successful teams anyway.

The risk is that procurement teams become over-cautious and focus too much of reducing costs. Of course, the ability to identify where savings can be made is important, but procurement that adds genuine value, rather than just cutting costs, will be procurement that looks for new opportunities to stimulate growth and that identifies rapid routes in new markets.

It's also worth bearing in mind that suppliers need to be able to supply to be successful. Suppliers from the EU are bound to feel the same nervousness and uncertainty about what will happen in the future as the UK businesses they currently supply to.

However, now is the time for procurement teams to review their existing supply chains in Europe. With trade negotiations months away from even beginning, there is no need to change everything, or anything, tomorrow. But, if the UK fails to agree free trade deals with the EU, it is sensible to weigh up which suppliers might be affected.

There are so many variables to consider that it looks like being a busy time in the coming months and years for procurement teams. However, there is at least some safety in the knowledge that nothing must change immediately, and that business can carry on as usual for now.

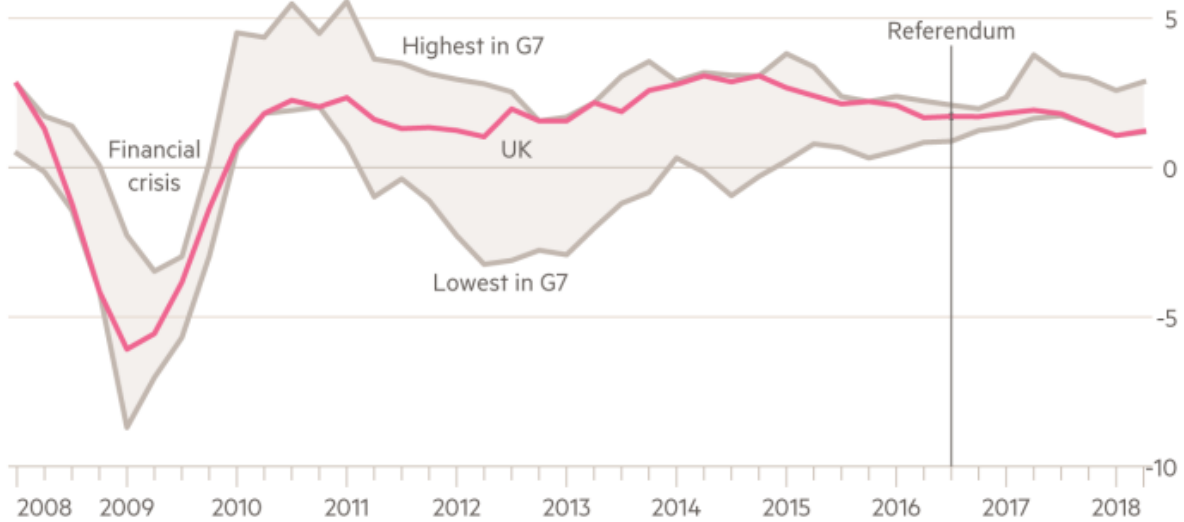
Although it is likely that importing will become more complex, experts suggest that there is little chance that the UK will distance itself from the existing EU international agreements. Furthermore, many of the EU rules that apply to procurement have now become national legislation and regulations that are binding unless parliament decides to revoke them - which is unlikely to be high on the government's agenda.

At this stage, it is difficult to predict what the full impact of Brexit will be on procurement and supply chain management. In time, there will inevitably be some knock-on effects to some aspects of legislation and the overall landscape will become clearer in the coming months.

## Impact Charts

### Annual % change in GDP

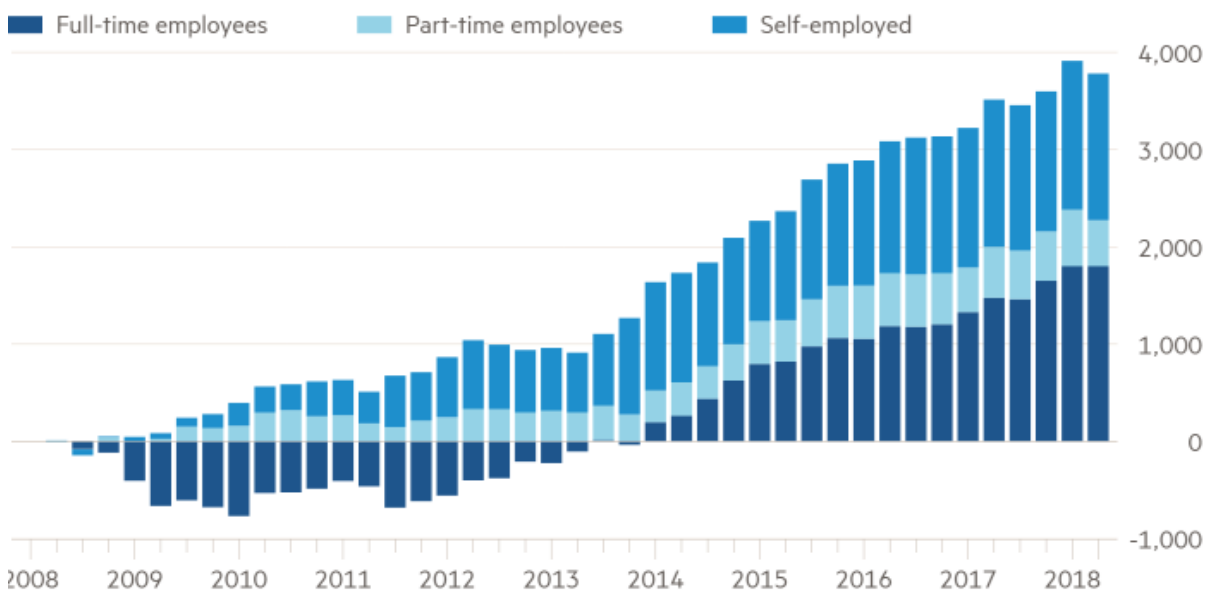
UK growth since the EU referendum compared to other G7 economies



Britain's growth rate bounced back in the second quarter to a 0.4 per cent rate, from 0.1 per cent at the start of the year, when activity across the UK was hit by snowstorms and a prolonged cold snap. With a hot summer encouraging spending, the rolling quarterly rate further increased to 0.7 per cent in the three months to August.

### Cumulative change in employment since 2008

Growth in UK Employment since the EU referendum has rocketed.



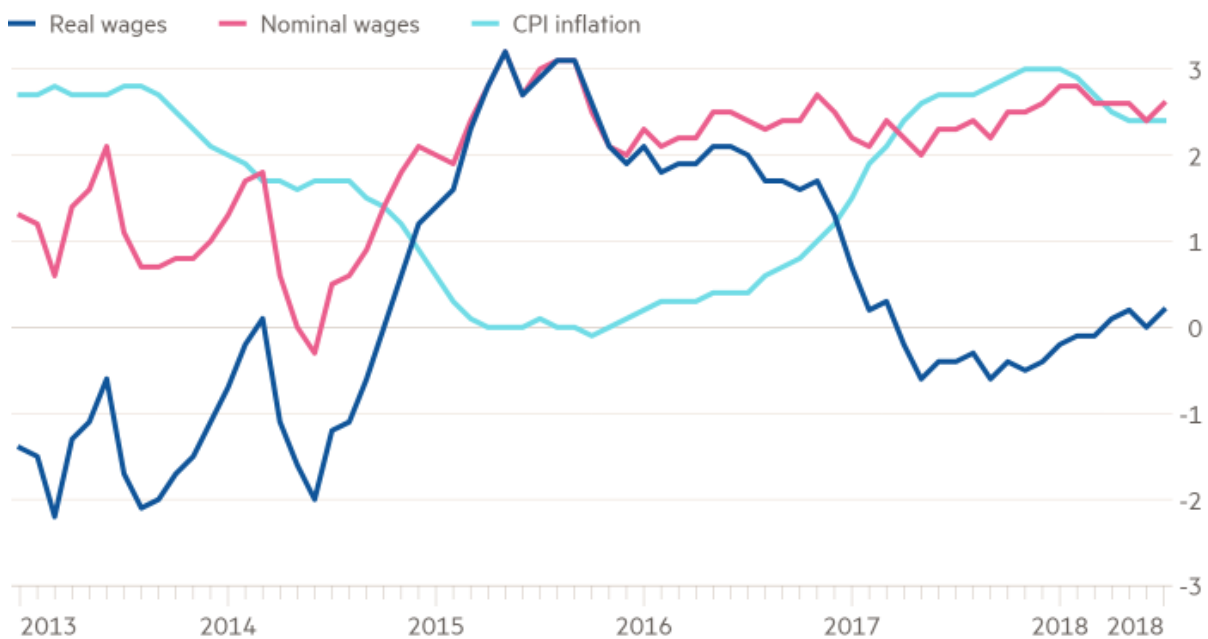
With the unemployment rate down to 4 per cent between March and May, its lowest rate since the mid 1970s, the labour market has strengthened significantly since the EU referendum. This is the glaring exception to otherwise disappointing data.

Not only is employment up, but most of the growth has been in full-time jobs. The number of people in part-time jobs and in self-employment is now falling gently and more than offset by the rise in full-time work, reducing concerns that people are underemployed. The end of the boom in self-employment has also reduced concerns that people were setting up in business because they could not find any other work.

The one fly in the ointment in the jobs numbers is that employment growth rates now appear to be tailing off, with overall employment growing by only 3,000 in the second quarter of 2018 compared with a rise of almost 150,000 from January to March. The shift in employment rates is especially marked for people born in other countries: 5.6m of them were working in the UK in the second quarter of this year, 1 per cent less than in the same period in 2018.

### Real wage growth – Annual % change

Wage growth has been hit by higher inflation.



Not all is rosy in the labour market. Although wage growth has risen a little, real wage increases dropped away after the Brexit vote as inflation climbed well above the Bank of England’s 2 per cent target. Prices rises have recently exceeded expectations and wage increases have been struggling to match them.

Productivity growth has also continued to disappoint. However, this is not a new post-Brexit vote development but extends a trend that has existed since the financial crisis. Occasional false dawns in productivity improvements have not been sustained.

## Conclusion

One of the opportunities that could arise from Brexit could be the introduction of some exemptions in UK legislation in favour of small businesses, in recognition of the heavier burden that employee benefits can place on them. Any such moves are likely to find widespread support among the small business community.

There will be no winner from Brexit and that Europe's local and regional authorities already know it. After the UK, Irish regions will be the most economically and socially impacted by Brexit because of their close relations and direct border with the UK.

However, regions in Germany, the Netherlands, Belgium, France, Italy and Spain also anticipate a severe impact. Whilst still difficult to assess the precise consequences for each European region or city, it is already possible and necessary to take action at European level to counter negative impacts and soften the blow.

In summary, the impact of Brexit is still unknown, however what is clear from this discussion is that the government are keen to seek advice and understand the concerns from industry experts, in order to help soften the impact of Brexit.

Kenect Recruitment remains confident that although the market will suffer initially (especially in a no deal scenario). We believe it would be a stronger market before the year end. Immigration would be stricter but wages because of demand would be higher drawing skilled workers to the UK.