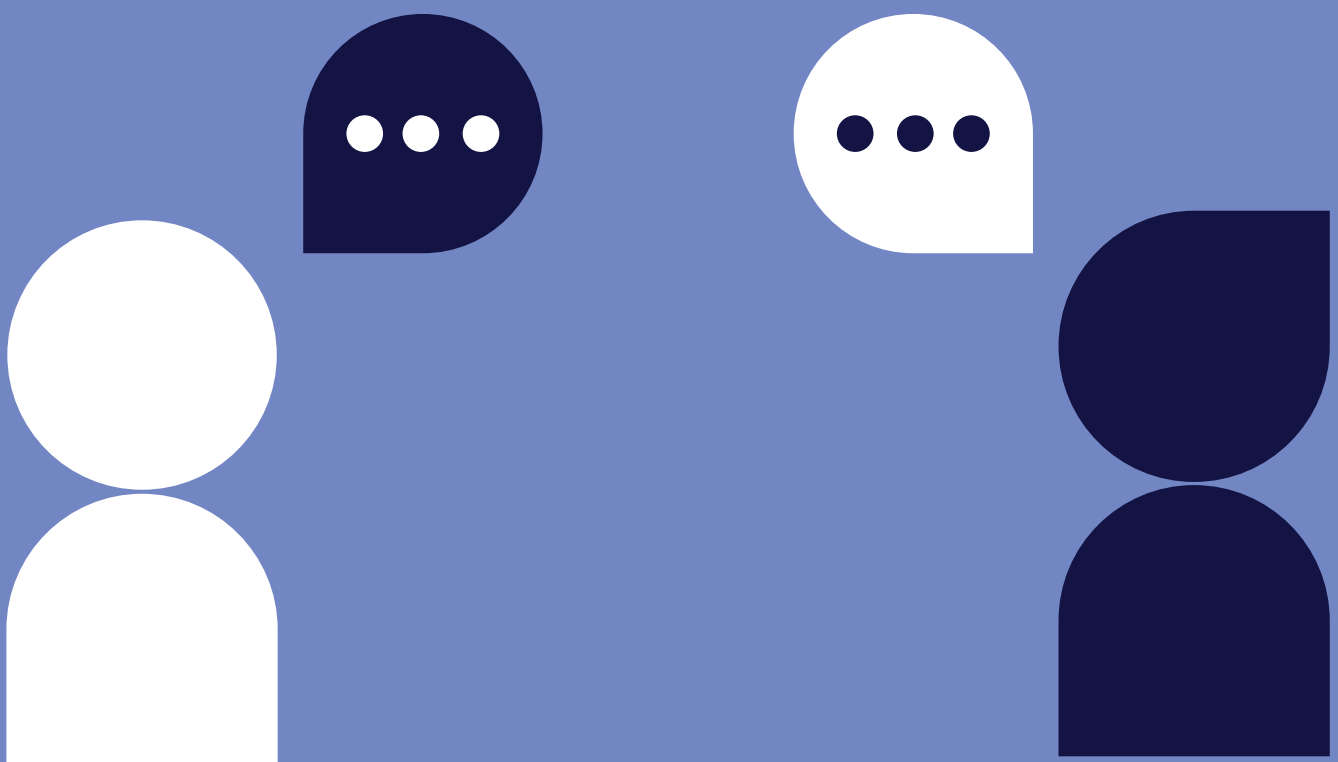


UK recruitment industry status report 2019/20



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1 Foreword

A year like no other. That feels like something of an understatement. But it is how 2020 will be characterised.

Every year, the REC brings you the latest figures on recruitment placements and overall market value. The last REC annual recruitment industry trends survey took us to the end of the financial year in 2019. But when Coronavirus hit and a nationwide lockdown ensued, we knew that we were going to have to do things a little differently this year.

This report provides a comprehensive status update on the health of our industry over the intervening time period. We consider the trends for the year of 2019, up to and including financial years that ended at the beginning of April 2020. We then review and analyse the impact the global pandemic had on the sector from March to September 2020.

What becomes immediately apparent is that this is a vital industry to the UK economy – and a resilient one. We'll be exploring the contribution recruiters make in more depth in a new report in February 2021.

In the absolute worst of conditions, the UK recruitment industry has stepped up – supporting our supermarkets when the strain was at its highest, helping the NHS care for patients and look after the most vulnerable, and keeping the UK open for business wherever we could.

Together, UK recruiters helped just over one million people find a new permanent job in the year before the pandemic hit, and had just under one million staff out on temporary placements every day. That total – along with the total number of agencies – is a little lower than in previous years, and it is easy to forget the headwinds of 2019 for the industry, given the hurricane of 2020. But the picture painted by the data overall is of a sector that was robust, and secure.

Our data on 2020 should surprise no-one, but what is already clear is the potential for recruiters to bounce back, having expertly managed costs and client relationships through the stormiest of seas. Bouncing back from falls in revenue of 20% or more will not be instant, but the trends are good, and a new economy brings new opportunities.


This year's status report demonstrates the cornerstone of REC's work and our *raison d'être*: the UK recruitment industry makes great work happen. Times may continue to be tough for a while longer. But this report aims to give REC members the best and most recent insight to help plan your recovery and growth strategies, inform client pitches and demonstrate to our wider community why recruitment matters.

Here's to a prosperous and successful 2021.

A stylized, handwritten signature in black ink, appearing to read 'Neil Carberry'.

Neil Carberry
Chief Executive, REC

2 Introduction



The recruitment industry has continued to prove its resilience and value

The REC's *UK recruitment industry status report* covers the direct impact of the UK's dynamic staffing industry, which continues to provide a vital service to businesses and jobseekers alike in these difficult times.

Due to the extraordinary nature of this past year, we have conducted our research slightly differently and separated this year's report into two halves.

The first section of this report covers 2019, along with some data for the first quarter of 2020, and looks at the contribution of the recruitment industry during that time. As this report demonstrates, 2019 was a successful year for recruiters, despite a number of factors that weighed on the sector and the wider business community:

- ▶ Ongoing uncertainty over Brexit and the likelihood of a trade deal between the UK and EU
- ▶ A historically tight labour market, with record high employment levels, decreasing candidate availability and a shortage of skills in many sectors
- ▶ The continuing impact of the IR35 reforms in the public sector, and the future extension of those reforms into the private sector.

Of course, in 2020 these issues were superseded by the COVID-19 pandemic, which hit the UK in earnest in March and caused thousands of tragic deaths, as well as severe disruption to the economy and labour market. In the second half of this report we discuss the impact that the pandemic had on recruiters in the UK, and how they responded to the challenges it presented.

As this second section is based on data collected between March and November 2020 rather than an entire year, it is not directly comparable to the data included in the first half. However, it does give us an idea of what to expect in a full assessment of how the industry performed in 2020.

This report finds that through all of this, the recruitment industry has continued to prove its resilience and value.

3 Executive summary



Industry contribution to UK economy

£42.3 billion

Total industry direct GVA in 2019

↑8% on 2018

£37.8 billion (89%) was achieved through temporary/contract placement activity

£4.5 billion (11%) was achieved through permanent placements activity

Placements

1,008,000

permanent placements were made by the recruitment industry in 2019

On any given day in 2019, there were

985,300

temporary/contract workers on assignment



Enterprises and workforce

30,890

enterprises operating across the UK recruitment industry in the year to March 2020

↓1% on the year to March 2019

A total of 119,000 staff were employed by the broader recruitment industry, similar to the previous year

COVID-19 projected impact on industry in 2020

↓22% in direct GVA from 2019

↓19% in permanent placements year-on-year

↓30% in the number of temporary/contract workers on assignment each day year-on-year



A photograph of two women in a professional setting. The woman on the left is of Asian descent, smiling, and wearing a black and white patterned top. The woman on the right is of African descent, also smiling, and wearing an orange top while holding a light blue mug. They appear to be in a meeting or collaborative work environment.

4 The recruitment industry in 2019

4.1 Economic contribution

The recruitment industry contributed £42.3 billion to the UK economy in 2019, accounting for 2.1% of UK direct Gross Value Added (GVA).¹ This represents an increase of 8% on the previous year.

- ▶ £37.8 billion (89%) was achieved through temporary/contract placement activity
- ▶ £4.5 billion (11%) was achieved through permanent placements activity.

¹ The UK's average GVA at basic prices for 2019 was £1,977.1 billion, according to the Office for National Statistics (ONS). Available at: www.ons.gov.uk/economy/grossvalueaddedgva/timeseries/abml/pn2

In terms of GVA, the staffing industry is worth more to the economy than many other sectors including:

- ▶ the entire arts, entertainment and recreation sector (£30.7 billion)
- ▶ the insurance and pension funding industry (£28.6 billion)
- ▶ the motor vehicle and other transport equipment manufacturing industry (£27.9 billion)
- ▶ the architectural and engineering sector (£26.6 billion).²

This strong performance demonstrates the great value that the recruitment sector brings to the UK economy in uncertain times.



£42.3 billion



£30.7 billion



£28.6 billion

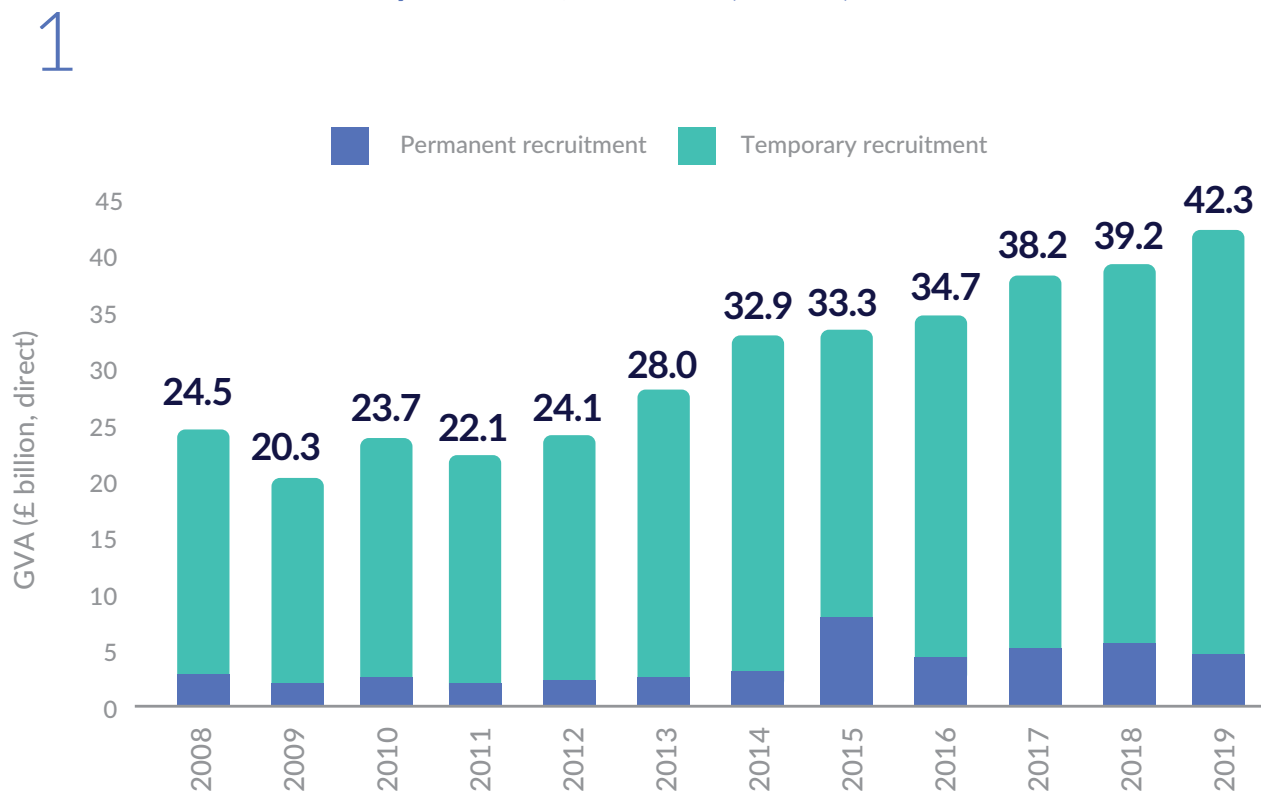


£27.9 billion



£26.6 billion

FIGURE 1 Recruitment industry direct GVA, 2008-2019 (£ billion)



² ONS. Available at: www.ons.gov.uk/economy/grossvalueaddedgva/datasets/nominalandrealregionalgrossvalueaddedbalancedbyindustry

4.2 Recruitment volumes

The primary function and goal of the staffing industry is to place people into jobs, and recruiters will tell you that it is the most important and rewarding thing they do. The value of the jobs, both permanent and temporary, that recruitment professionals secure for people every day cannot be underestimated – both to the employer and the employee, and to the wider economy.

- ▶ The industry made one million (1,008,000) permanent placements in 2019. This is around the same as the figure recorded in the 2018/19 financial year (1,070,000).
- ▶ The average number of temporary and contract workers on assignment on any given day across 2019 was recorded at 985,300.

This contribution to the UK economy stands out further when we consider the state of the labour market in this period.

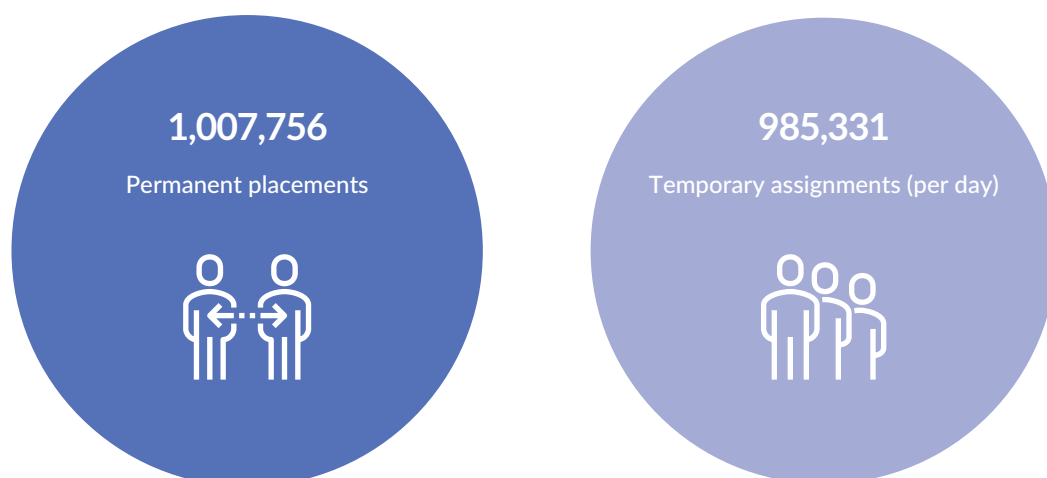
Official employment levels hovered at around 76% throughout 2019, and peaked at 76.6% in the three months to February 2020. Unemployment levels reached 3.8% in January-March 2019, the lowest level since the three months to January 1975, and remained around that level throughout the year.³

With such a tight labour market, the availability of candidates looking to start new jobs continued to fall throughout this period.⁴ Recruiters and employers reported persistent skills shortages, especially in key sectors such as health and social care, engineering, construction and education. Despite these difficulties, the recruitment industry played a key role in finding suitable candidates to meet the needs of their clients.



FIGURE Placements made by the UK recruitment industry, 2019

2



³ ONS. Available at: www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/latest

⁴ *Report on Jobs*. Find out more at www.rec.uk.com/our-view/reports-jobs

4.3 Satisfaction

As well as providing a valuable service to jobseekers and helping them find work, the recruitment industry has been very successful in finding candidates who meet the needs of their clients. This has meant that employer satisfaction with their agency partners has remained high throughout this period.

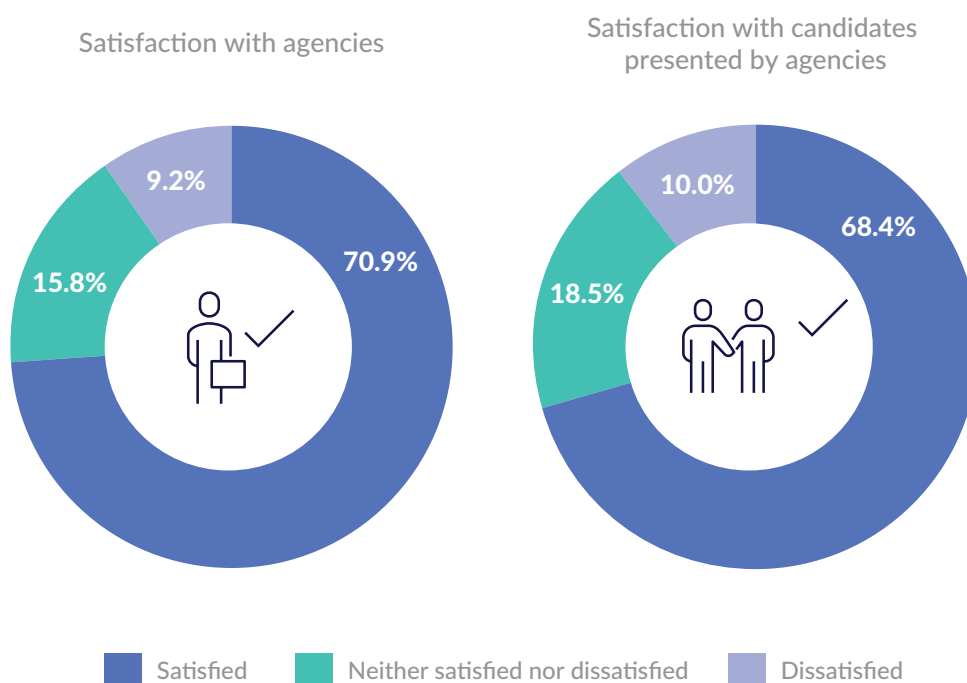
- ▶ An average of 71% of UK hirers who use recruitment agencies expressed satisfaction with the service they received between January-March 2019 and November 2019-January 2020.
- ▶ In spite of declining candidate availability and concerns over skills shortages, an average of 68% of employers were satisfied with the candidates presented by partner agencies.⁵

Matching the right person to a particular role is crucial for a business's output and productivity. As previous REC research has shown, hiring the wrong person can result in tens of thousands of pounds being wasted.⁶ As these satisfaction figures show, recruiters continue to save their clients time and money in measurable terms by providing a good service and recommending candidates who are right for the job.



*Average, January-March 2019
to November 2019-January 2020.

FIGURE 3 Average employer satisfaction levels, January-March 2019 to November 2019-January 2020



⁵ *JobsOutlook*. Available at: www.rec.uk.com/our-view/research/jobs-outlook

⁶ REC (2017). *Perfect Match: Making the right hire and the cost of getting it wrong*.

Available at: www.rec.uk.com/our-view/research/recruitment-insights/perfect-match-making-right-hire-and-cost-getting-it-wrong

4.4 Enterprises and workforce

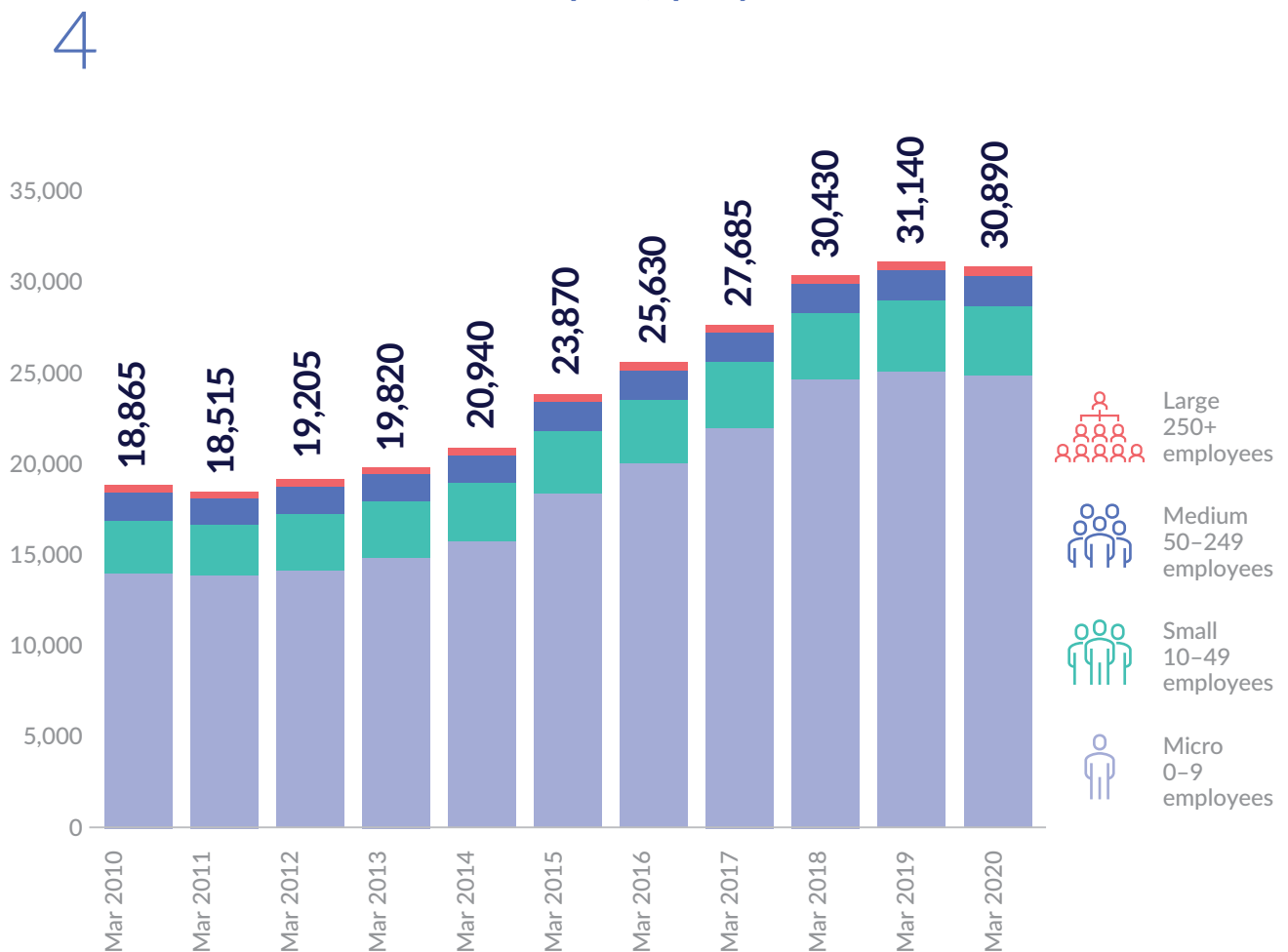
The recruitment industry itself provides stable and fulfilling employment for thousands of people across the UK. It also proves fertile ground for entrepreneurs and business owners, even during uncertain times.

- ▶ The combined number of enterprises operating across the UK recruitment industry was recorded at 30,890 in early 2020, slightly lower than the previous year's figure of 31,140.
- ▶ The vast majority (81%) of these enterprises are micro-businesses, with fewer than 10 employees.
- ▶ The total number of staff employed by the broader recruitment industry held steady at approximately 119,000 in 2019.

In summary, the recruitment industry had a successful 2019, growing its value to the economy while maintaining business and staffing levels. But as we are about to see, the start of 2020 brought significant challenges which the sector would have to battle to overcome.



FIGURE 4 Number of UK recruitment enterprises, split by business size





5 Impact of COVID-19

Having started 2020 in relatively good shape, the coronavirus pandemic has had an unprecedented impact on the UK's economy, labour market and recruitment industry. This section will look at that impact in more detail.

5.1 Business confidence

Employer confidence levels had already fallen significantly following the Brexit referendum and the political upheaval of the following years, as many were unsure how the constantly evolving situation would affect their business. In January-March 2020, following the general election, employers' confidence in the prospects for the UK economy was at net: -14, the highest since the final quarter of 2018. By April-June 2020, this measure had plummeted to net: -57, the lowest level recorded since the *JobsOutlook* survey began in mid-2016.⁷

Similarly, employers' confidence in their ability to hire and invest in their business was at net: +15 in December-February 2020, the highest since autumn 2018. By April-June, this had fallen to net: -13, again the lowest level on record.

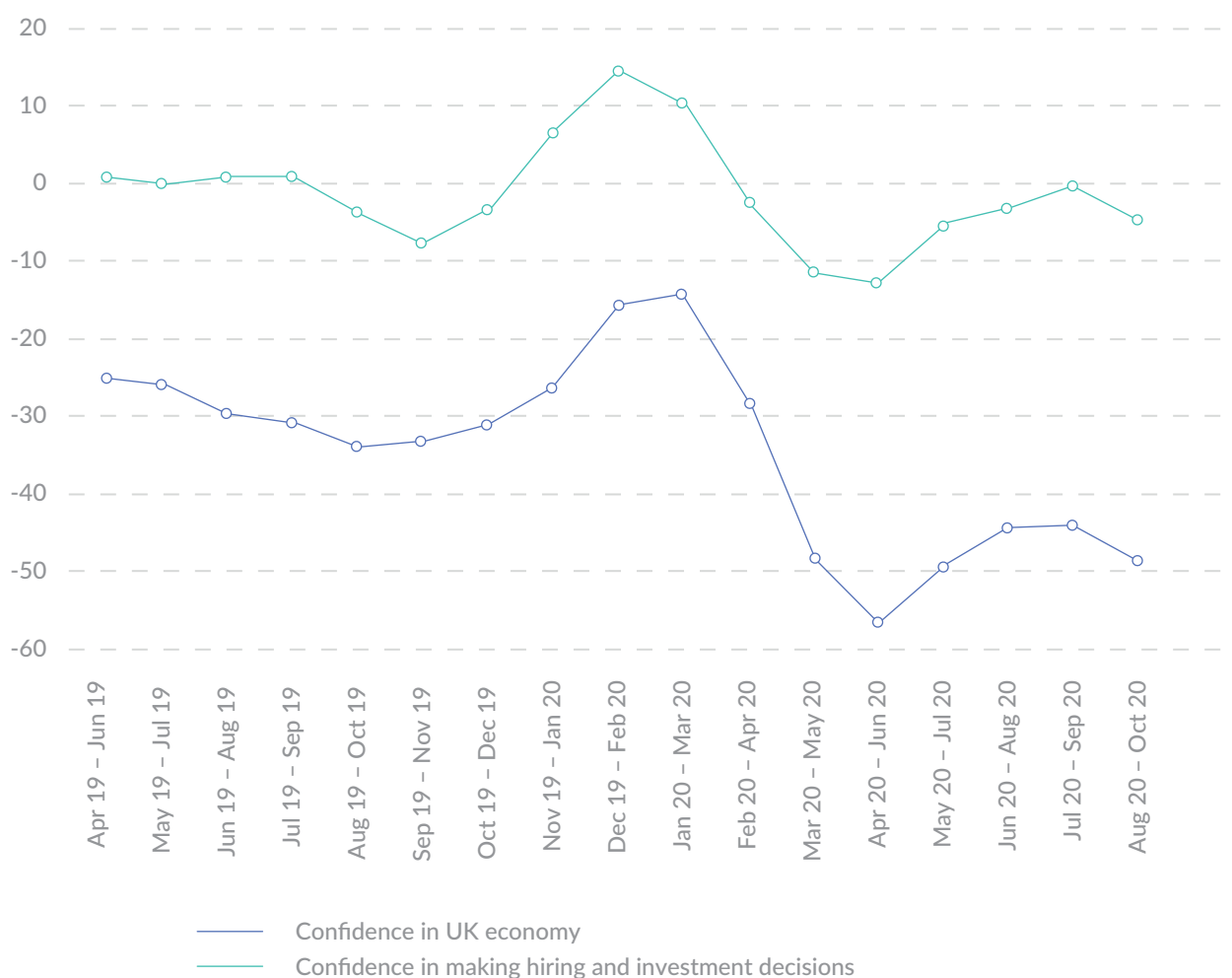
By April-June 2020,
employer confidence
levels had plummeted to

net: -57

the lowest level recorded
since the *JobsOutlook* survey
began in mid-2016

FIGURE Employer confidence levels, *JobsOutlook*

5



⁷ *JobsOutlook*.

5.2 Recruitment volumes and economic contribution

As firms shut down operations outside of key sectors, their hiring plans were put on hold. And while the recruitment industry played a crucial role in providing extra support to the logistics and healthcare sectors in the early stages of the lockdown, placement numbers decreased notably compared to 2019.

- ▶ In April 2020, permanent placements and billings from temporary staffing fell at the quickest rates ever seen in the 23-year history of the REC's *Report on Jobs* survey.
- ▶ Both permanent placements and temporary billings continued to fall until August, when they began to rise.
- ▶ While temporary recruitment continued to recover through the rest of 2020, permanent placements fell away in the autumn as COVID-19 case numbers began to rise again and new restrictions were imposed.

This decline in recruitment activity has meant significantly reduced revenues for the staffing industry, and a corresponding decrease in its contribution to the country's finances. As a result, we estimate:

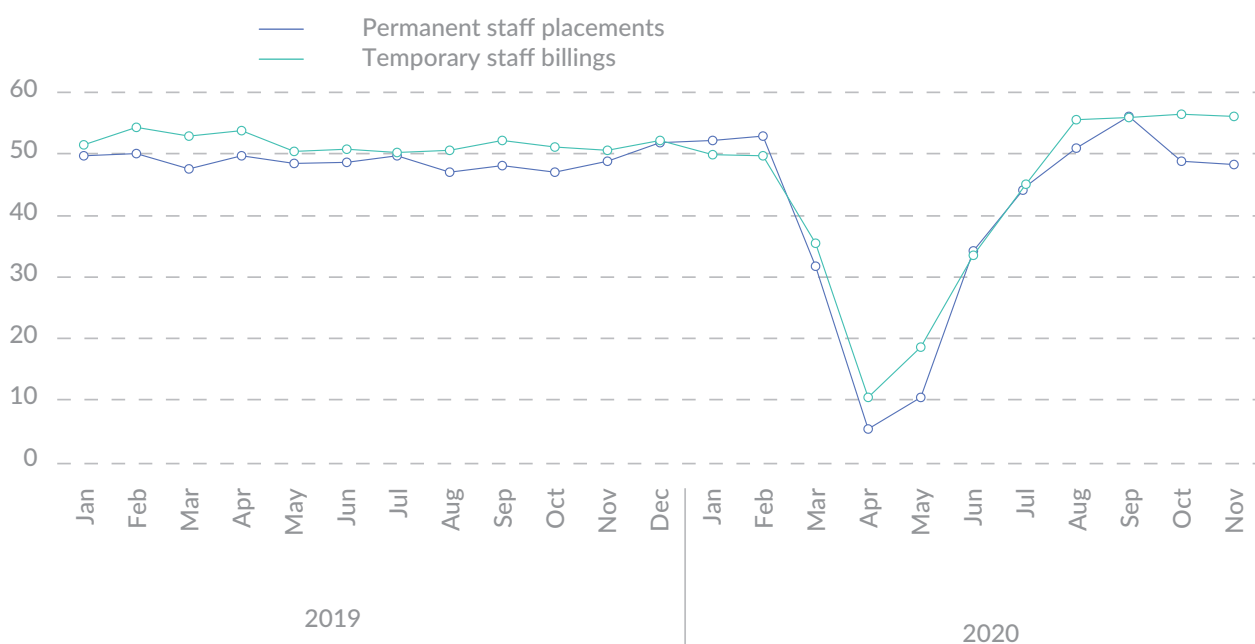
- ▶ the number of permanent placements made by the recruitment industry in 2020 will be around 813,000, a fall of 19.4% from 2019
- ▶ the number of temporary workers on assignment each day will be around 692,000, a year-on-year decline of 29.8%
- ▶ the direct GVA of the recruitment industry decreased by 21.7% between 2019 and 2020, due to the impact of COVID-19.

These estimates have been calculated from data for March-September 2020. As such the full impact of coronavirus on the industry's performance across the whole year, especially in terms of permanent recruitment, may not be reflected yet. We also know that while some sectors like hospitality have been hit hard, others have fared relatively well – like healthcare and executive search. This may explain why the decline in GVA and placements is not as severe as many would have expected. Overall, these figures give us an early indicator of the impact of the pandemic on the recruitment industry, and show its resilience in very difficult circumstances.

FIGURE 6 Permanent placement and temporary billings indices, *Report on Jobs*

6

Seasonally adjusted. Figure above 50 indicates growth from previous month.



5.3 Business and workforce changes

As a result of their reduced workload and cashflow, many recruitment businesses had to make substantial changes in the months since March 2020. According to our survey of REC member businesses from late October and November 2020:

- ▶ the vast majority (83%) of respondents had applied to government schemes including the Job Retention Scheme
- ▶ four in five (82%) had enabled homeworking for the majority of staff
- ▶ half of respondents had reduced working hours (49%) or made redundancies (47%)
- ▶ more than a third (37%) had to shut down some operations for part or all of the duration of lockdown
- ▶ a quarter (26%) had switched operations towards different sectors and types of recruitment
- ▶ one in 14 (7%) ceased trading for part or all of the duration of lockdown.

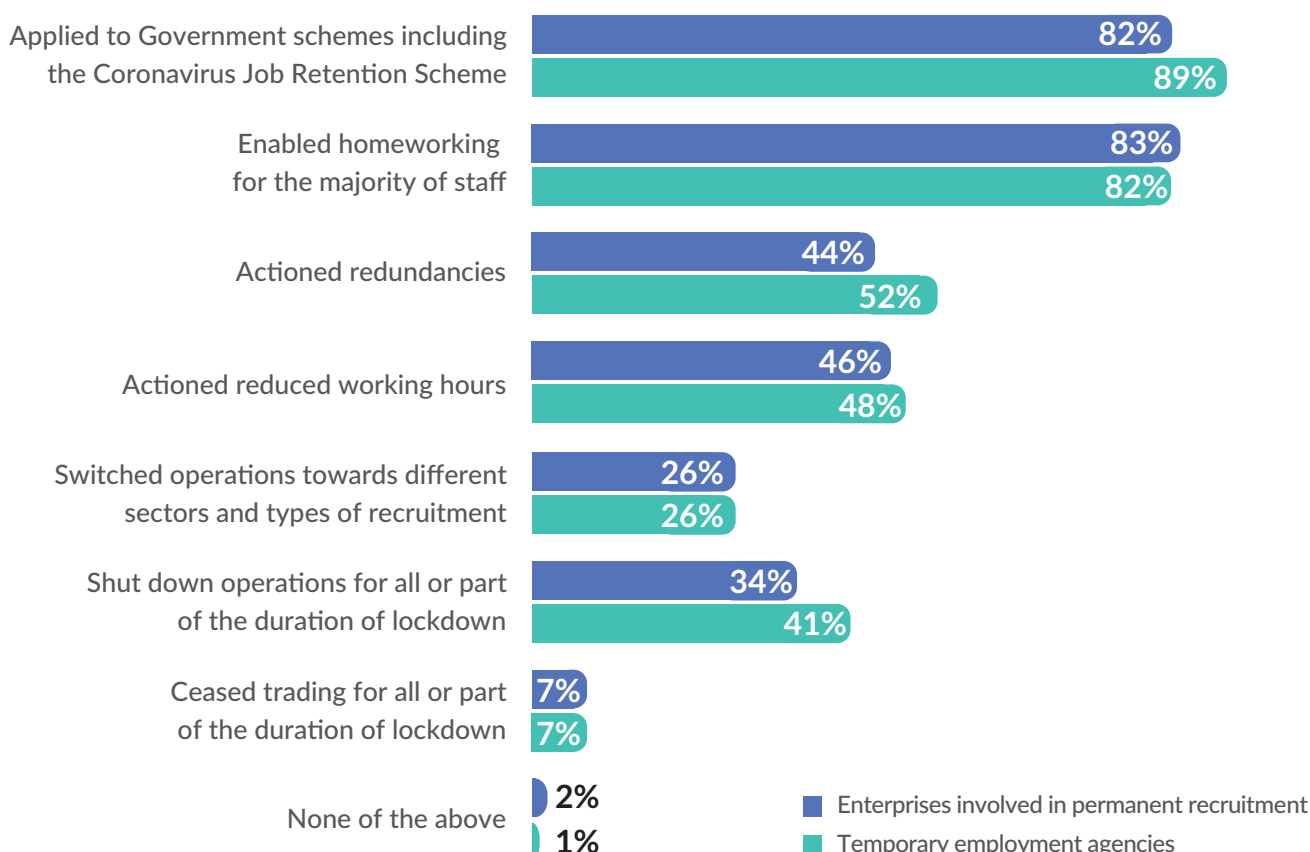
As a result, the total workforce of the UK recruitment industry was around 106,000 in 2020, 11% lower than in 2019.

Total workforce of the UK recruitment industry in 2020:

106,000

↓ 11% than 2019

FIGURE 7 Since lockdown measures were introduced in the UK on 23 March 2020, how have your business activities changed?



5.4 Concerns and lessons learnt

Understandably, in light of the fall in cashflow and business activity, as well as the workforce changes that have been forced on them, many recruitment businesses have significant worries about the future.

However, these challenges have also presented many staffing companies with an opportunity to adapt and learn lessons which they plan to apply to their business straight away.

- ▶ Three in five (59%) respondents have been concerned about cashflow since the pandemic hit the UK. With that in mind, it is not surprising that over half (54%) said that one of the most important lessons they learned during the crisis was to have cash reserves to cover expenses for more than six months.
- ▶ Building close relationships with clients and candidates was highlighted as an important lesson learnt by 60% of respondents; two in five have been mostly concerned about keeping in touch and advising clients.
- ▶ A high proportion of respondents said they have been concerned about keeping staff motivated (58%) and managing a remote workforce (42%). Accordingly, they recognise that embracing new ways of working, such as homeworking, and investing in technology are important lessons learnt (at 56% and 38%, respectively).

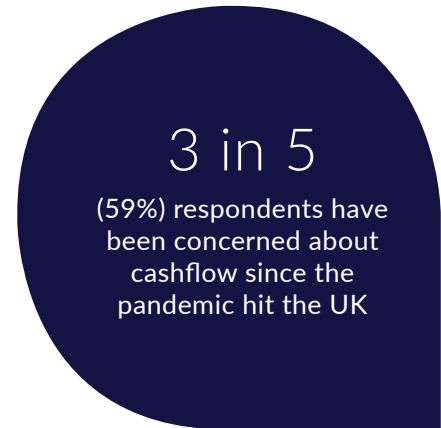


FIGURE 8 What are the most important lessons you learnt during the crisis so far?

8



5.5 Short-term planning

As the saying goes, necessity is the mother of invention. As a result of the severe disruption they have faced this year, many recruitment businesses are having to review their activity and change their short-term priorities in order to maintain a successful company.

That can involve major changes to the sectors and types of workers that the business focuses on recruiting. Ongoing adverse conditions have highlighted the important role of temporary workers in helping to manage uncertainty. While demand for permanent staff continued to fall throughout the year, demand for temporary workers increased strongly in late summer and autumn 2020, even when adjusted for seasonality. Accordingly:

- ▶ three in five (61%) of those currently involved in permanent recruitment and 74% of temporary employment agencies surveyed said they are focusing on temporary recruitment in the short term.
- ▶ half (48%) of respondents are focusing on recruitment in sectors reporting higher demand for staff. As of November 2020, these include blue collar sectors like logistics and manufacturing, as well as construction, engineering, IT and computing, and of course health and social care.⁸

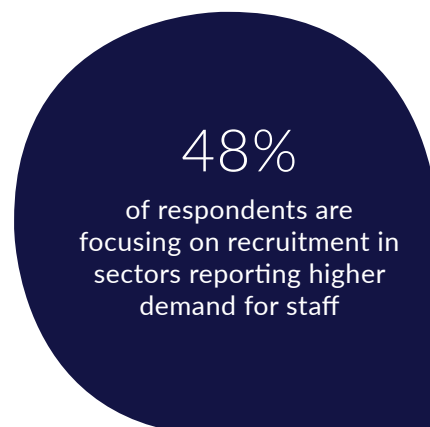


FIGURE 9 Which of the following is your business focusing on in the short term?



⁸ Report on Jobs.

As well as fundamental changes to their business strategy, the pandemic has forced most organisations to embrace new methods of working and engaging with their staff. This has led many recruitment businesses to consider how they continue to utilise these changes going forward.

- ▶ Half (53%) of the businesses surveyed are focusing on allowing staff to continue working from home.
- ▶ Half of the larger recruitment businesses surveyed are focusing on creating a culture of innovation – double the proportion of small enterprises.

By making these changes to their business and adapting to the world around them, recruitment enterprises have put themselves in a strong position to hit the ground running in 2021. This should prove invaluable not only to the sector itself, but to all the people who will rely on recruiters to find work in the difficult months ahead.

53%

of the businesses surveyed
are focusing on allowing
staff to continue working
from home



6 Conclusion

The Brexit process and COVID-19, as well as many other factors, have caused a great deal of disruption during the past two years. The last nine months in particular have been one of the most difficult periods for the British economy and labour market in living memory.

But as we have seen throughout this report, the recruitment industry has risen to the challenge. While it certainly has not been easy, and many businesses and individuals have struggled, the sector as a whole has adapted to unprecedented times with great success. It has continued to provide vital services to firms across the UK, supplying the skilled workers they need to stay afloat. And the sector has placed hundreds of thousands of people into work during this massive labour market crisis.

But these are not the only ways that the staffing sector contributes to the UK economy. The industry encompasses much more than just recruitment now - recruiters provide a huge array of services, from business advice and consultancy to their clients and interview coaching and career advice to candidates. Every day they help to advance the diversity and inclusion agenda, match people to jobs they might previously have never thought about, and increase the earning potential of candidates across the country.

We will continue our analysis in 2021 with a ground-breaking study of the broader social and economic impact of the recruitment industry which will look into all of these vital impacts and more. This will allow the REC to advocate even further for the sector, highlighting its importance to Government, policy-makers, businesses and the general public.

Recruiters are an integral part of the UK's professional services sector. As the voice of the industry, the REC will continue to champion and speak up for great recruiters.





Appendix: Methodology

In this report, as with the *Recruitment industry trends* reports since 2016/17, the REC has sought to reflect the broader range of services being offered by recruitment businesses in the UK. For the purposes of this analysis, the broader recruitment industry includes enterprises in three Standard Industry Classification (SIC) categories:

- ▶ SIC 78109: Employment placement agencies (other than motion picture, television and other theatrical casting agencies)
- ▶ SIC 78200: Temporary employment agencies
- ▶ SIC 78300: Businesses providing other human resources provision.

This includes enterprises placing permanent and temporary staff, as well as encompassing activities including RPOs, MSPs, direct engagement solution providers and umbrella companies. Calculations have taken precautions to avoid any double counting of revenues and placements associated with these services.

This year's industry-wide figures were calculated using:

- ▶ **data drawn from a survey of 120 REC members**, conducted between 26 October and 18 November 2020
- ▶ **ONS data** from:
 - the UK Business Counts register
 - the Annual Business Survey
 - the Index of Services time series
- ▶ **historical data compiled for the REC by IHS Markit and published in *Report on Jobs***, based on a monthly survey of 400 recruitment and employment consultancies
- ▶ **historical data from the REC's *JobsOutlook***, based on a rolling-quarterly survey of 600 employers/HR decision-makers conducted by Savanta ComRes.



Recruitment
& Employment
Confederation

The Recruitment & Employment Confederation is the voice of the recruitment industry, speaking up for great recruiters. We drive standards and empower UK recruitment businesses to build better futures for their candidates and themselves. We are champions of an industry which is fundamental to the strength of the UK economy.

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