The 2023 labor market outlook

How employers can attract and retain talent in economic downturn

indeed flex

Tough staffing decisions will define 2023

We heard a lot about the cost of living crisis in 2022, but the coming year will see these problems reach fever pitch. With a recession looming, organizations are stumbling to prepare the perfect response.

Employers face both spiraling staffing costs and budgetary squeezes. A recent Flex survey found that:

> 49% of leaders' labor costs have increased in response to the cost of living crisis

Simultaneously, over half of employers (53.5%) say it will affect their budgets in 2023: 27.3% have reduced recruitment budgets; 23.5% have planned hiring freezes; and 15.7% are making lay-offs.

With staffing costs increasing and budgets decreasing, it will force employers to make big decisions about what to prioritize in the new year - balancing their need to hire with their need to cut costs.

Markets are well-prepared

Labor markets are well-prepared to weather an economic downturn in 2023. **Indeed data shows that UK job postings in December 2022 were 50% higher than the pre-pandemic baseline.** Increased economic pressure could help solve the staffing shortages that have plagued employers since 2021, with indications that many over-50s are leaving retirement.[1]

However, this does not mean leaders can expect smooth sailing. Workers need to earn, but they are likely to retain the balance of power in the labor market. Analysis from Indeed suggests the labor market will remain relatively tight by historical standards, with the ratio of unemployed people per vacancy projected to rise to between 1.7 and 1.5 by the end of 2023.[2]

Instead of simply correcting the labor market, fears of an economic downturn are also fueling workers' demands. Over two-thirds of business decision-makers are seeing their employees voice concerns about the upcoming recession.[3]

At the start of 2023, 47% of employees said they were looking for a new role with a higher salary and better benefits package due to economic necessity.[4]

Part of this is the fault of inflation, as real wages took a massive hit in 2022. Indeed data from August showed that while nominal year-on-year wage growth rose to 5.4%, real wages were actually down 2.9%; employers were paying more, yet workers were receiving less.[5] Worse still, there is no indication that this dynamic will be corrected in 2023 - meaning employers will have to find other ways to hire and retain talent.

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1 & 2 https://www.hiringlab.org/uk/blog/2022/12/22/tough-times-ahead-for-the-uk-economy/ **3** https://www.businessleader.co.uk/how-can-you-support-your-employees-in-a-time-of-crisis/ **4** https://www2.staffingindustry.com/eng/Editorial/Daily-News/UK-Half-of-workers-looking-for-a-new-job-with-better-pay-and-benefits-amid-cost-of-living-crisis-64180 **5** https://www.hiringlab.org/uk/blog/2022/10/28/october-2022-uk-labour-market-update/

Q1. **What are employers doing to navigate the situation?**

Q2. **How can they recruit and retain employees under such intense pressure?**

Q3. **Will the recession affect their overarching workforce strategy?**

Flex undertook an in-depth survey to find out. The results suggest while staffing is still a major challenge for the majority of organizations, the nature of that challenge has grown in the wake of a looming recession. While the overarching picture they paint is far from sunny, the results also suggest a way out for employers through contingent labor.

As supply chains are hit by the economic crisis, employers are noticing an increase in costs:

- **Just 1% of respondents** have seen no impact from the cost of living crisis, demonstrating how widespread the challenges are
- **67.3% of respondents** have found it more difficult to find the right talent and credit the economic crisis for that
- **Over half of respondents (53.5%)** are having their budgets impacted by the cost of living crisis

Employers are prioritizing what workers want in a bid to attract and retain workers:

- → **59.7% of respondents** are reducing company expenses or cutting budgets, while just **15.7% are making lay-offs**
- → **62.6% of those raising wages** are doing so by 5% or more
- → **25.3% of employers** are offering more flexible working hours

Employers are more concerned about funding for recruitment than finding workers:

- → **21.5% of employers** say supporting staff through the cost of living crisis is their biggest staffing challenge in 2023
- → **55% of respondents** use temporary staffing to reduce costs during hiring freezes
- → **58% of respondents** will continue using temporary staffing the same as or more than they have previously

Understanding the problem

How a recession impacts employers and workers

Employees are struggling to cope

The cost of living crisis has put unprecedented strain on household incomes, with everything from food and fuel to rent and mortgage costs skyrocketing. Nearly half of all workers report that they now live "payslip to payslip"[6], while 30% of employees now say their salary doesn't cover their living costs.[7]

As a result, workers are doing whatever they can to make ends meet. **19% are already taking on a second job to cope[8],** while Flex recently found that 52% of UK workers either already do or plan to do temporary work as an extra source of income. **Indeed data even shows that an unprecedented number of people in the 50-64 age group are actually rejoining the workforce in a trend dubbed 'the great unretirement'.[9]**

It is not simply that there is more available talent: workers are also hungry for a better deal. The latest data suggests 47% of employees are looking for a new role with a higher salary and better benefits package[10], and 64% of UK business decision-makers are experiencing more employees asking for pay rises more frequently.[11]

52% of UK workers either already do or plan to do temporary work as an extra source of income

6&7 https://www.totaljobs.com/recruiter-advice/wp-content/uploads/Salary-Squeeze-webinar_final.pdf **8** https://www.bloomberg.com/news/articles/2022-07-27/a-third-of-uk-workers-plan-to-take-a-second-job-to-pay-the-bills **9** https://www.hiringlab.org/uk/blog/2022/12/22/tough-times-ahead-for-the-uk-economy/ **10** https://www2.staffingindustry.com/eng/Editorial/Daily-News/UK-Half-of-workers-looking-for-a-new-job-with-better-pay-and-benefits-amid-cost-of-living-crisis-64180 **11** https://www.businessleader.co.uk/how-can-you-support-your-employees-in-a-time-of-crisis/

Workers need more support

Workers' discontent is not just about the demand for higher pay - it is also a question of their workplace experience. Almost two-fifths of workers are reporting "unmanageable" workloads,[12] and 68% of employees say they are actually hiding cost of living-related mental health issues from their employer.[13]

From increased unionization to a lack of appropriate support during the cost of living crisis, 53% of leaders believe that we are entering a new, "more unstable" period of employment relations.[14] While it will be challenging, employers simply cannot survive without hiring and retaining staff.

Staffing shortages are not just a barrier to growth: they have a tendency to spiral. In the care industry, understaffing is cited by 75% of employees as their reason for dissatisfaction in the workplace - a bigger concern even than pay.[15]

This creates a cycle where workers quit because of understaffing, which then exacerbates that very problem. Similar stories can be told of many other industries, especially in relatively low-paid roles where inflation is particularly harmful.

The takeaway message is simple: **budgets may be strained, but organizations cannot afford to pass those costs onto their staff**. Instead, they need to find alternative approaches to tackle the recession.

68% of employees say they are actually hiding cost of living-related mental health issues

12 https://www.businessleader.co.uk/how-can-you-support-your-employees-in-a-time-of-crisis/ 13 https://www.businessleader.co.uk/almost-a-quarter-of-employees-fear-their-organisation-will-not-survive-a-recession-reveals-mhr/ 14 https://www2.staffingindustry.com/eng/Editorial/Daily-News/UK-Tight-labour-market-falling-wages-and-inflation-could-lead-to-further-industrial-action-CIPD-warns-62271 15 https://inews.co.uk/news/politics/care-home-worker-crisis-leave-jobs-low-pay-staffing-1898370

Employers face severe cuts

Few organizations can avoid cuts during a recession. Just 1% of respondents said they were not putting contingencies into place for 2023, and 59.7% said they were reducing company expenses or cutting budgets.

However, when broken down, these findings show certain priorities emerging. The first thing to get cut during an economic crisis appears to be company expenses (32.4%), while just 15.7% of organizations are making lay-offs.

This suggests that most employers know they can't afford to let staffing efforts lag too much. Instead, they are paying closer attention to what workers want - and exploring alternative ways to give it to them.

15.7% of organizations are making lay-offs

Pay pressure may have peaked

Indeed data shows pay pressures may have finally peaked, with advertised pay increasing less in November 2022 than the previous month. Staffing shortages are therefore likely to remain the key challenge for employers, even if we do enter a recession.

This helps explain why our survey found that 67.3% of employers are actually finding it more difficult to find the right talent today – and they credit the economic crisis for their struggles

The problems of the last two years have not completely disappeared, of course. 13.8% of employers say they are struggling to attract good and qualified candidates, while 11.4% complain of talent shortages and 8.1% say they have skill gaps.

However the dynamic has clearly shifted. The two most common challenges cited are supporting staff through the cost of living crisis (21.5%) and needing the same staffing levels at a reduced cost (16.4%). The biggest challenge is not finding the right talent, it's funding recruitment efforts.

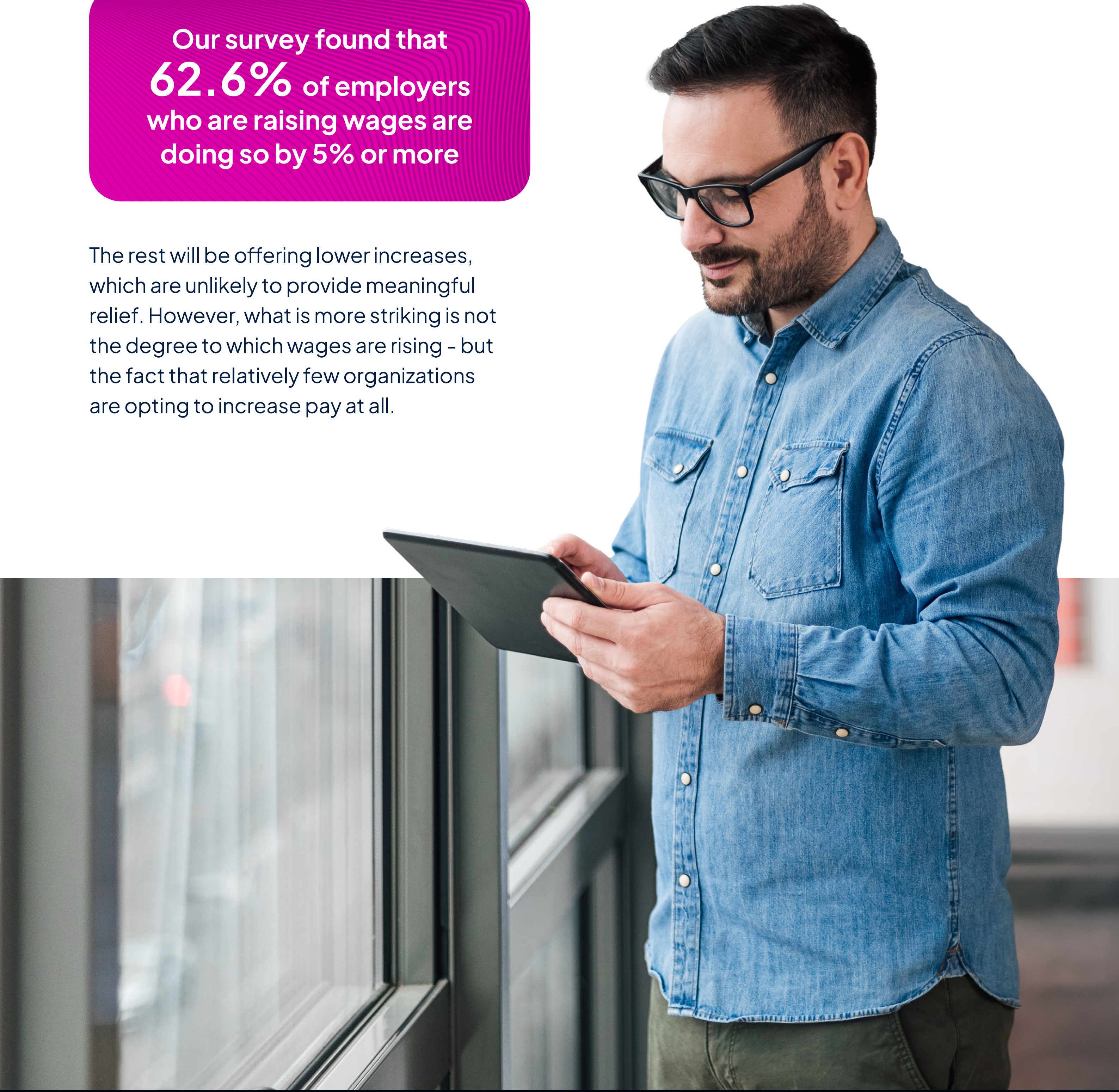
The compensation question

With the cost of living crisis, it is easy to assume pay is the top priority for workers. They need more money to cope with bills, rising food costs and regain stability. Taking into account the budgetary pressure they face, simply offering more money is not an ideal solution for most organizations.

Inflation levels and pay increases will need to be significant in order to make a real difference.

Our survey found that 62.6% of employers who are raising wages are doing so by 5% or more

The rest will be offering lower increases, which are unlikely to provide meaningful relief. However, what is more striking is not the degree to which wages are rising - but the fact that relatively few organizations are opting to increase pay at all.



Playing a different game

Offering more pay may be the quickest way to entice talent, but it may not be the most effective use of resources. The challenges of recession are not just about pay; there are also mental and physical health consequences, and many employers are focused on empowering employees through alternative benefits.

More organizations are offering flexible working hours (25.3%) and well-being and mental health benefits (19%) than increasing wages (17.3%)

Equally, nearly as many employers are offering upskilling initiatives (16.7%) and some are looking to reduce staffing costs by optimizing their recruitment processes (10.3%).

Such alternative approaches help bridge the gap between employees' need for greater support and employers' need to reduce their staffing spend. Respondents also cite a number of non-monetary benefits they are offering in 2023, including free meals or meal tokens (23.2%), covering travel costs (19.2%), health insurance (15.2%) and gym memberships (6.1%).

Four staffing market dynamics that will define 2023

1. Additional costs

Indeed data shows unusually tight jobs markets, with two positions open for every US job seeker - and less than one unemployed person per job in the UK. This puts pressure on staffing costs, while supply chain shortages increase other costs - creating serious budgetary issues.

When asked how the economic climate had impacted their business,

51% of leaders cited an increase in material costs

49% claimed their labor costs had shot up

In response, over half of employers (53.5%) say their budgets will be impacted in 2023: 27.3% have reduced recruitment budgets; 23.5% have planned hiring freezes; and 15.7% are making lay-offs.

The takeaway:
Leaders are under more pressure than ever to save money

2. Lower productivity

Productivity measures in the USA plummeted at the sharpest rate since 1947 last year,[16] while UK outputs dropped faster than any point since COVID-19 hit.[17] Staffing shortages were widely accepted as a key cause of both countries' slumps - and this dynamic will continue in 2023.

With staffing and material shortages, it is hard to maintain sufficient output. But this is exacerbated by a lack of employee engagement driven by economic uncertainty. Workers doing two jobs and working overtime are likely to be less productive over time, while a quarter of employees fear their employer wouldn't survive a recession.[18]

The takeaway:
Lower engagement and productivity hits companies' bottom line revenue

3. Higher employee turnover

In the UK, over 6 million people plan to quit their jobs in 2023,[19] while Gartner expects turnover from 2022 to be 20% higher than the year before.[20] As a result, the ability to attract and retain staff was voted the biggest challenge for businesses over the next decade by a large survey of C-Suiters.[21]

During an economic downturn, the risks of high turnover are twofold: employees are more likely to go looking for better pay, and employers are less able to replace them. This one-two punch could make full-time staffing very difficult to navigate in 2023.

The takeaway:
Employers need to find a way to reduce their risk of turnover and become more resilient

12 https://www.washingtonpost.com/business/2022/10/31/productivity-down-employers-worried-recession/ **17** https://www.bloomberg.com/news/articles/2023-01-24/uk-businesses-signal-output-fell-at-sharpest-pace-in-two-years **18** https://www.businessleader.co.uk/how-can-you-support-your-employees-in-a-time-of-crisis/ **19** https://www.hrmagazine.co.uk/content/news/cipd-forecasts-major-job-exodus-into-2023 **20** https://www.gartner.com/en/newsroom/04-28-2022-gartner-says-us-total-annual-employee-turnover-will-likely-jump-by-nearly-twenty-percent-from-the-prepandemic-annual-average **21** https://www.consultancy.uk/news/33065/talent-retention-the-top-worry-for-businesses-over-next-decade

4. Longer time to hire

With extremely tight labor markets in both the UK and US, it is not only harder to find staff - it takes a lot longer. A number of pipeline inefficiencies are also at fault here, including excessive interview and vetting processes, large volumes of manual admin and still-fragmented digital practices.

This is exactly the opposite of what organizations need, as economic uncertainty increases the importance of both flexibility and agility. Instead, they need to access talent quicker, to unlock new efficiency and respond to changes in demand.

The takeaway:
Increased time to hire stifles organizations' capacity to respond to the fast-changing market

Despite these challenges, the outlook is far more positive than it may seem. Employers simply need to change their perspective and approach staffing from a new angle to thrive in 2023

Light at the end of the tunnel

Four strategies to help employers thrive in a recession without increasing their costs

1. Tap into new labor markets

Inclusivity is often presented as a question of ethics, but it's also key to expanding your staffing strategy. Traditionally underutilized groups - such as disabled people, older candidates and students - will greatly widen the talent pools you draw from. In the US alone, there are 61 million people living with a disability.[22] While the majority of employers already have policies in place to prohibit active discrimination, there are further steps that must be taken to help these groups apply.

Whether it's accessibility considerations in your buildings or simply being more understanding of gaps in a candidate's CV, the effort required to open up your hiring efforts to new groups will help you gain an advantage over competitors that rely on traditional talent pools.

2. Increase transparency around pay

Workers prioritize pay, but they also care about the transparency of their pay. Openness about pay will attract more candidates, improve your employer brand and increase retention. It will also improve your workplace culture, as employees trust the leadership more and feel that they are on the same team.

The research bears this out: 43% of employees have more trust in leadership in an open organisation, while 7 in 10 (71%) believe openness about pay is good for employee satisfaction. And more than half (58%) of employees would consider switching jobs for more pay transparency — for Gen-Z, this goes up to 70%.[23]

22 https://www.cdc.gov/ncbddd/disabilityandhealth/disability.html **23** https://www.inc.com/marcel-schwantes/new-report-pay-transparency-may-be-key-to-keeping-your-employees-in-2021.html

3. Targeted recruitment efforts

Organizations waste a lot of money on inefficient job advertisements that don't connect with the right audience - or at least, not exclusively. Finding the right talent during a recession is all about making your spend go further; employers should use market insights to target their efforts at very specific talent pools in order to maximize their ROI.

This targeting can include everything from geographical location to the kind of language particular candidates respond best to. However, realizing this level of granular targeting will require plenty of market data, high-quality analytics - and industry expertise.

4. Leverage temporary workers

In both the UK[24] and US[25], billings for temporary staff have increased over the last few years. This trend will accelerate during the recession; one poll found that 32% of employees are planning to do temporary work on top of their existing job.[26] US companies opened over 3x more contract positions than full-time positions between May and November 2022,[27] while Flex research showed that January 2023 saw a 102% increase in the number of people signing up for temporary work in the UK. [28]

There will be more talent available for temporary work during a recession, thus making it easier for organizations to rely on temporary staffing approaches. And temporary work solves many of the problems employees face too. Employers can afford to pay more when they are not committed to long-term contracts or 40 hours per week; pay for temporary chefs in the UK rose 20% across 2022.[29]

This presents organizations with a major opportunity – one many appear to intuitively understand. Whilst full-time employee needs should never be forgotten, 55% of employers told us they see temporary staffing as a way to reduce costs during hiring freezes. By filling gaps in their rotas with temporary talent, they can avoid the costs of both hiring and paying full-time employees.

This so-called 'hybrid workforce' model also allows leaders to access specific skills and increase their organisation's flexibility - which explains why 58% of employers say they will use the same or more temporary staff in 2023.

However, even more striking than the number of employers who plan to increase their use of temporary staff are the number who appear unclear about the concept.

24 https://www2.staffingindustry.com/eng/Editorial/Daily-News/UK-Economic-uncertainty-dampens-hiring-activity-in-December-64181 **25** https://www2.staffingindustry.com/Editorial/Daily-News/Temp-employment-up-by-1.6-year-over-year-in-Q1-61979 **26** https://www.thehrdirector.com/business-news/financial/half-employees-taking-extra-jobs-recession-bites/ **27** https://www.ft.com/content/53329655-74b3-4820-a5f9-37ae39ad6d7d **28** https://londonlovesbusiness.com/the-start-of-the-new-year-has-seen-the-number-of-people-looking-for-a-new-job-double/ **29** https://www.caterlyst.com/Caterlyst3/Insight/Insight.aspx?s=7780

Future-proofing your workforce

Many studies show that global leaders see the hybrid workforce as the future: it enables them to fill skills gaps, increase agility and save on labor costs. But there are still many who are unconvinced - or uneducated - on the potential of temporary staffing.

32.2% of employers told us they were unsure if they'd use temporary staffing more, which likely correlates with the 26.3% who said they didn't know if temporary staffing would help reduce costs.

This may be due to negative experiences, the historical model of temporary staffing has often been opaque and inefficient, with complex admin and miscommunication issues leading to subpar experience. But today, organizations can access expert partners that make temporary staffing simple, clear and cost-effective.

Exploring these options will not only help employers weather the storm in 2023 - it will help them prepare for the long-term and turn the looming recession into an opportunity to improve their staffing strategy for good.

Interested in learning more ?

Book a meeting with one of our experts to discuss how Indeed Flex can help you with your staffing needs today.

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