A tight labour market and widening skills shortages are adding to the UK's inflation woes. Are all of the real problems being addressed?

Submitted by: BlueSky Public Relations Ltd
Thursday, 22 June 2023

Responding to the latest reports of stubbornly high inflation and a confirmation from the Bank of England that interest rates will increase, specialist recruitment firm, Robert Half, has warned that a tight labour market plagued by widening skills shortages could fuel a deeper wage/price spiral, further worsening the economic outlook. In addition to focusing on immediate problems such as staff retention, Robert Half is also calling for new approaches to upskilling, reskilling, access to employment, diversifying the talent pool, levelling up the economy and further policy changes required to resolve this.

Matt Weston, Senior Managing Director UK & Ireland, at Robert Half, commented:

"The stubbornly high inflation and interest rates that the UK is experiencing are cause for concern. We've seen a member of Jeremy Hunt's economic advisory council call for the UK to be pushed into a recession in order to rebalance this issue, yet such blunt measures, if implemented, are aiming to tackle a deeply multi-layered and complex problem. While the current economic climate has been influenced by a myriad of unprecedented events over the last few years, the tight UK labour market, squeezed by chronic skills shortages, is substantially adding to inflationary pressures.

"In our own Job Confidence Index (JCI) we found that pay confidence is the only element of employee confidence that has been hit, which is very much in line with the on-going battle we're seeing between inflation and interest rates. However, what's exacerbating this scenario is the high levels of confidence that people are demonstrating as skills shortages remain rife. We found that almost two-thirds of workers (62%) feel confident about their job prospects for the next six months, despite the continued uncertainty surrounding interest rates and inflation.

"The simple fact is, people know their worth and recognise that they can call the shots at the moment. And with the cost of living increasing, they want better pay or they'll happily move on, which puts further pressure on businesses and the economy.

"From a labour market perspective, there are two main issues to be tackled. In the short term, business leaders need to pay attention to holistic, overarching non-financial retention strategies, addressing employees' pain points and preventing flight-risk talent from leaving. On a larger scale such an approach has the potential to considerably slow the inflation-fuelling wage/price spiral.

"In the longer term, labour market tightness needs to be addressed. One way to do so is encouraging a decrease in non-student economic inactivity. Our latest Jobs Confidence Index has seen encouraging results in Q1 2023, as more people re-entered the labour market. The bigger problem, though, is the industries-wide skills gap. We've already seen a brain drain of talent from the country post-Brexit and our recent JCI signals poor figures for labour productivity growth across comparable occupations. There simply isn't enough talent to fill the over 1 million vacancies in the UK. This needs the participation of industry, academia and government to solve."

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