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## **UK Recruiters See Private Sector Skill Shortage**

LONDON, Jan 22 (MNI) - Immigration is having less of a dampening impact on pay growth in the UK than often assumed, labour market experts tell Market News International.

There is some evidence that wage growth in lower paid jobs, often taken by immigrants, is no longer lagging. The latest data on wage developments show that pay increases for this sector, which had been more subdued than those for higher-paid staff, are catching up.

Some immigrants take up jobs that nationals do not want and are not, therefore, in direct competition with local workers for these jobs.

But in many other sectors where there is a shortage of qualified national candidates, such as in the building trade, immigrants are often well aware of their worth and bargain hard to get paid comparable wages to locals, the experts say.

In addition, in some cases foreign workers have brought their own labour unions with them and will use these to raise their pay levels.

Even if immigration is not dampening pay growth directly, one can argue that it has eased capacity constraints in the economy limiting price pressures in general. But immigration flows may well ease as the inflow from the two latest countries to join the EU is unlikely to match that from the previous ten entrants.

The question of how much immigration is affecting pay levels is a "big one" and one on which we have "little hard data", says Ken Mulkearn, editor of the IDS Pay Report.

The Incomes Data Services or IDS, a leading provider of pay data, recently released some early data on January pay deals showing an acceleration in pay growth from 3% last year to around 4%.

"Part of the answer relies on what we know about the jobs that migrants typically end up in. Much of the work is at the lower-paid end," Mulkearn says.

"But on the other hand, many of them are in service industries like transport, London buses etc. And certain groups, for example Poles, have brought their trade union traditions with them (the TGWU claim to have 10,000 Polish members)," he adds.

Noting that the current wage round on the London buses is very lively with all the usual disputes, Mulkearn says this "certainly doesn't indicate a damping down of wage pressures because of migrant labour."

Mulkearn is also not convinced that the media's archetypal Polish builder is depressing wage growth in construction. Most of the large sites are covered by "collectively-bargained, industry-wide deals", he points out, and so constitute a fertile ground for unions to recruit migrant workers or at least ensure that the negotiated deals apply to them.

"So I'm not too sure at all about the notion that migrants lead to downward pressure on wages," Mulkearn concludes. "I think it depends on what the employers are prepared to pay, and this takes in a range of factors, not just the extent of migrant labour."

Mulkearn's views are echoed by Agnes Wrodarczyk, managing director at Central European Staffing (CES), which places workers from Eastern Europe in jobs across the UK.

Wrodarczyk says wages for immigrant workers placed by CES are rising faster than they were in the autumn, partly because of the increase in the minimum wage but also due to tight availability of workers.

"As there is a shortage of labourers, wage offers have to be competitive. Those who are already in the UK know the market value of their work and it has to be the same as to anybody else," she says.

While she is expecting more qualified candidates from Bulgaria and Romania, the EU's newest members, Wrodarczyk says inflows from other countries are falling.

"The majority of people (especially from Poland) who planned to find employment in the UK already have done so," she says.

"To be able to find candidates for our clients, we also need to recruit people who are already in the UK and work - so we need to tempt them with higher wages," Wrodarczyk adds.

Wrodarczyk expects growing wage pressure to persist in 2007, noting that the market for higher-qualified candidates such as engineers and technical staff will remain particularly tight.

David Kern, chief economic adviser to the British Chamber of Commerce, says that while immigration has helped to relieve capacity constraints the impact on wages is less evident.

"Overall, immigration has been a positive factor for the economy, but the main effect is on skills, not wages," Kern says.

"By making the economy more flexible, by removing a lot of small bottlenecks in various parts of the economy, immigration eases inflationary pressures in general because bottlenecks do add to inflation," Kern said.

However, "it's not as if, as soon as you have a lot of eastern Europeans doing work in plumbing or other things, the wages of plumbers suddenly collapse - it doesn't work like that," Kern said.

"The wage issue is there but not directly, more indirectly by cutting bottlenecks," he concluded.

Susan Anderson, CBI Director of Human Resources Policy, also focuses on this indirect price impact. Many immigrants take up jobs that Britons are "unable or unwilling to do" and bring "valuable skills and ideas" with them, she says, and "their presence ... helps keep inflation low at a time when there are many forces pushing the other way."

Adding to evidence that pay growth is not necessarily dampened by immigration, pay specialists Industrial Relations Services (IRS) said last week that lower paid wages were catching up:

"Lower quartile pay award -- at or below which the bottom 25% of pay deals stand -- has shifted upwards to 2.8% in the three months to 31 December 2006 from 2.5% the previous rolling quarter, the level at which it has stood for every rolling quarter since the three months to January 2006."

Pay growth for the upper quartile had remained unchanged at 3.5%, it added.

Sarah Welfare, editor of this report, says there was little let-up at the start of 2007 as the first January deals are "noticeably higher than the 3% level around which they have held for over 3.5 years."

Pay growth has been a major concern for the Bank of England. BoE Governor Mervyn King has repeatedly voiced concern with the lack of data on immigration and its impact on the economy.

MPC member David Blanchflower, a labour market specialist, notes in a recent study that "The empirical literature from around the world suggests little or no evidence that immigrants have had a major impact on native labour market outcomes such as wages and unemployment." This conclusion was "consistent" with other studies, he adds.

His colleague, Tim Besley, in a recent speech pointed to the risk of skills shortages in services leading to "generalised wage pressure" and noted that this had been an element in the MPC's rate discussions.

And fellow MPC member Andrew Sentance recently referred to concerns over the tightness of the labour market and argued that the recent wave of immigration which had boosted supply and eased tightness would not last forever.

*Editor's Note: Reality Check stories survey sentiment among business people and their trade associations. They are intended to complement and anticipate economic data and to provide a view into specific sectors of the economy.*