Staffing sector outlook 2023: hiring freezes over recession fears

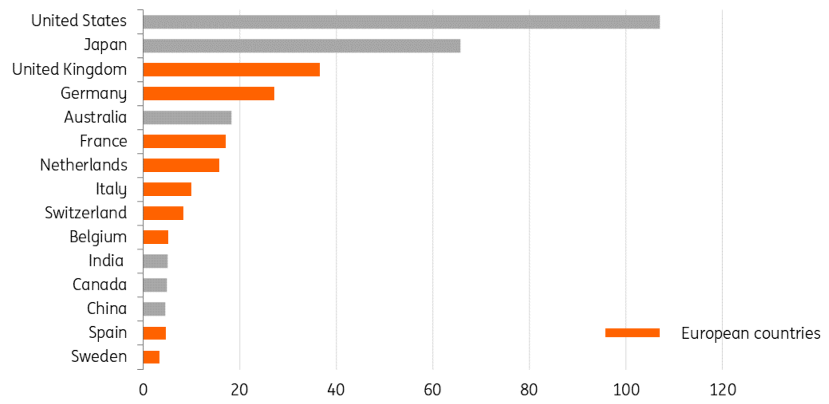
After two years of buoyant market growth, the outlook for the temporary employment sector darkens for 2023. With economic activity in most European economies expected to slow down, market volumes are likely to decline next year

Europe is the largest region for temporary agency work

The United States is by far the largest market, accounting for about 30% of the global turnover for temporary agency work. However, Europe is the largest region with nine of the largest markets (in terms of turnover) in the top 15. At €129bn, the total turnover of the nine European countries is higher than the €107bn in the United States.

Europe is the largest region for agency work

Top 15 agency work markets in sales revenue (billion euro) in 2020

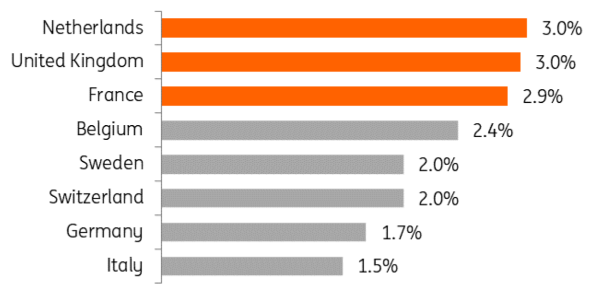


The Netherlands leads the way

The importance of temporary agency work differs considerably within Europe. The Netherlands, the United Kingdom and France have the highest penetration rates of agency work in the European Union. The Netherlands is widely regarded as a frontrunner in the temporary employment sector. Spain, Italy and Germany have the lowest penetration rates for agency work. A higher penetration rate indicates that the temporary employment activities could have reached a certain level of maturity and may even decline due to stricter regulations. A lower penetration rate means there is still ample growth potential.

The Netherlands, UK and France head the list in temporary agency work

Share of agency workers (in FTE) in total workforce in Western European countries, 2021



Source: World Employment Confederation, ING Research

Several factors contribute to the differences in temporary employment shares between European countries:

1. Laws and regulations

2. Economic activity
3. Labour market shortages

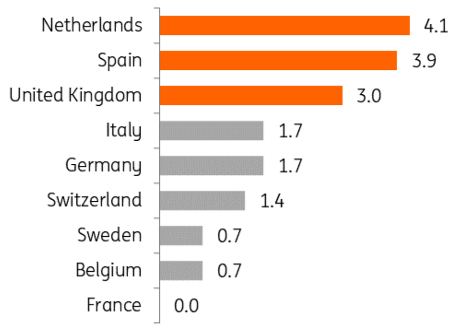
1. Laws and regulations hamper volume growth

The national regulation of the labour market is a determining factor for the development of temporary employment activities. Laws and regulations can hamper volume growth in the sector as there may be restrictions on the use of temporary agency work, such as a maximum duration, a limited number of assignments, only certain types of work etc. This also explains most of the differences in temporary employment shares between countries. According to a survey by the World Employment Confederation (WEC), the Netherlands, Spain and the United Kingdom are most likely to experience regulatory changes in the labour market this year.

The Netherlands, Spain and the UK had the highest likelihood of regulatory change of the labour market in the first half of 2022

Likelihood of regulatory change between 4Q21 and 2Q22, index*

*Scale 0 to 5, 3 >= means 'strong likelihood of regulatory change'



Source: World Employment Confederation, ING Research

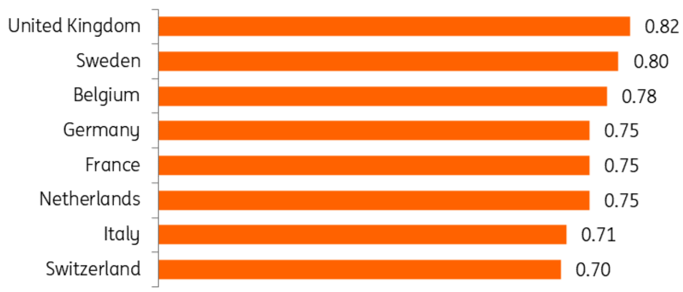
2. Strong correlation with GDP

Another determining factor is the development of the economy. As a cyclical sector, volume growth in the employment services industry is closely related to GDP. In an economic downturn, temporary agency workers are the first to lose their jobs, as we saw at the start of the Covid-19 pandemic in the second quarter of 2020. On the other hand, when the economy picks up, the demand for agency workers is the first to increase. The correlation with GDP is strong in almost all European countries, but strongest in the United Kingdom, Sweden and Belgium.

Volume growth in the temporary employment sector is closely related to GDP

Correlation (R)* of volume growth in the employment services industry to GDP growth, 2000-2021

*R between 0.70 and 1.0 indicates a (very) strong correlation



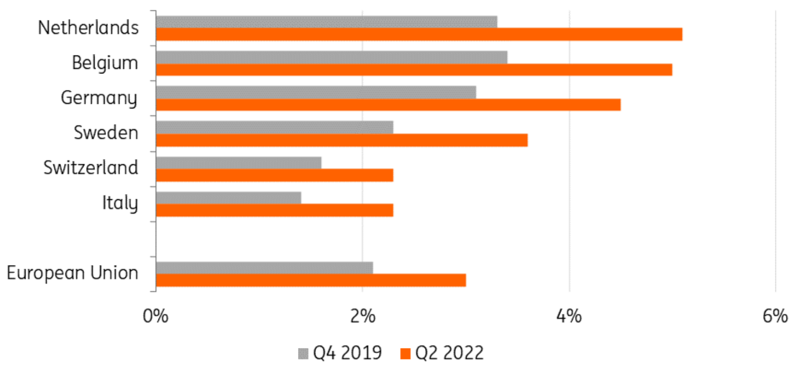
Source: Eurostat, ING Research

3. Tight labour market limits growth

A third determinant is the tight labour market in most European countries. This could slow down market volume growth as it becomes more difficult for temp agencies to recruit new employees. In all countries, labour shortages have increased this year from pre-pandemic levels at the end of 2019. However, the labour market is tightest in the Netherlands and Belgium.

Labour shortages increased in 2022 compared to the end of 2019

Job vacancy rate, seasonally adjusted



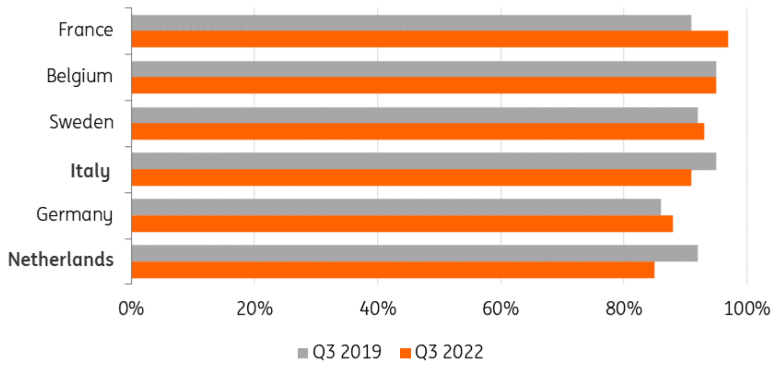
Source: Eurostat, ING Research

Back to pre-pandemic capacity level

Overall, temporary employment activities were severely hit by the Covid-19 pandemic in 2020. Nonetheless, the sector was able to recover quickly from the pandemic in most European economies in 2021. Thanks to the post-Covid-19 catch-up in most European countries, the recovery of the sector will continue in 2022. Temporary employment agencies in France, Belgium, Sweden and Germany were back or above their pre-pandemic capacity levels in the third quarter of 2022. Only in the Netherlands and Italy has the sector not yet returned to its pre-pandemic capacity levels. This is partly because in the Netherlands, labour shortages are slowing down growth in the staffing industry, while in Italy the economy did not fully reopen until the second quarter of 2022.

The employment services sector in Italy and the Netherlands is still not back at the capacity utilisation levels of 2019

Current level of capacity utilisation in employment services industry



Source: European Commission Business Survey, ING Research

Some headwinds expected in 2023

The outlook for the temporary employment sector has darkened somewhat for 2023. Economic growth could be dented by high inflation in Europe towards the end of 2022 and into 2023. Rising energy and food prices lead to lower purchasing power for consumers and an enormous decline in consumer confidence. In addition, companies will be more reluctant to make investments if the market remains highly uncertain and interest rates are on the rise. This will lead to a slowdown in economic growth in 2023 and makes a recession in 2023 almost inevitable for several European economies.

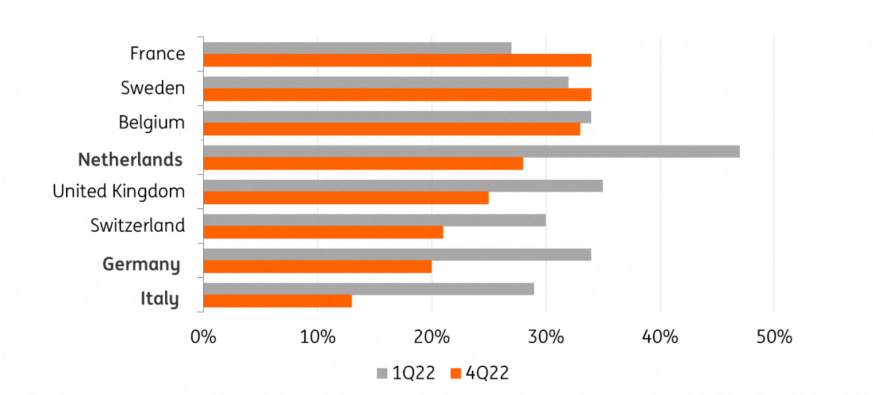
Lower economic growth forecasts combined with rising costs are likely to soften demand for temporary agency workers

This will also affect the employment services industry. Lower economic growth forecasts combined with rising costs are likely to soften demand for temporary agency workers, especially in certain energy-intensive sectors and consumer-driven sectors. This is already visible in the cooling down of hiring plans of employers for the fourth quarter of 2022. Dutch, German and Italian employers are, in particular, much less optimistic about hiring people compared to the beginning of 2022. This is likely to lead to lower demand for temp workers. Market volumes in the temporary employment sector are expected to decline in 2023 in most European countries, ranging from -5% in Germany and the UK to flat growth in the Netherlands.

Employers in the Netherlands, Germany and Italy are much less optimistic at the end of 2022 than they were at the beginning of the year

Net employment outlook*

*Percentage of employers who plan to hire minus the percentage of employers who anticipate reductions in staffing levels



Source: Manpower employment outlook survey Q4 2022, ING Research

Belgium – Elevated labour costs will lead to a contraction of volume growth in 2023

With a volume growth of 12% in 2021, the Belgium temporary employment sector was able to recover quickly from the Covid-19 pandemic. In the third quarter of 2021, the sector was back at the same capacity utilisation level as before the pandemic in 2019. However, the post-pandemic recovery will slow down in 2022, with expected volume growth of around 1% for the temporary employment sector. For 2023, we foresee a contraction of -3% in employment activities. In addition to the contraction of the economy next year (-0,4%), automatic indexation will also hurt labour demand in general. Belgium is one of the few countries with an automatic indexation system for most incomes. This means that incomes increase with inflation. As a result, hourly labour costs are expected to rise sharply in 2022 and probably also in 2023, which will negatively impact the demand for labour, including the demand for temporary agency workers.

France – Slowdown in employment activities in 2023

With a volume growth of 14% in 2021, the temporary employment sector in France was able to recover quickly from the pandemic. The recovery will continue in 2022 with an expected volume growth of approximately 4%, mainly driven by economic growth (+2.5%). For 2023, economic activity is expected to slow down, resulting in negative GDP growth (-0.3%). The outlook for both the French services sector and the manufacturing sector is bleak. Both sectors face high inflation, high uncertainty and lower demand. This is likely to have a negative impact on the demand for temporary agency workers. We therefore estimate a -4% contraction in employment activities in 2023.

Staffing sector forecast: Volume growth will slow down in most European economies in 2023

Volume output (value added) employment services industry, year-on-year

*Estimates since volume data for 2021 is not available, except for the Netherlands.
**Forecasts for 2022 and 2023. Due to the major impact of the Covid-19 pandemic in 2020 and 2021, which hit the sector extremely hard, it is quite difficult to make estimates for 2022 and 2023. In addition, the temporary employment sector is a highly cyclical sector, where volume growth is closely related to GDP growth. However, in these highly uncertain times, GDP forecasts change regularly.

	2019	2020	2021*	2022F**	2023F**
Belgium	-2,2%	-16,0%	12,0%	1,0%	-3,0%
France	0,6%	-16,7%	14,3%	4,0%	-4,0%
Germany	0,9%	-16,4%	12,3%	3,0%	-5,0%
Netherlands	-3,1%	-16,5%	6,9%	5,0%	0,0%
Sweden	-3,9%	-14,4%	20,0%	4,0%	-2,0%
Switzerland	-3,5%	-13,9%	19,6%	3,0%	-2,0%
United Kingdom	3,1%	-16,3%	14,0%	5,0%	-5,0%

Source: Eurostat, ONS, ING Research

Germany – A combination of recession and wage increases will lead to a 5% volume decline in 2023

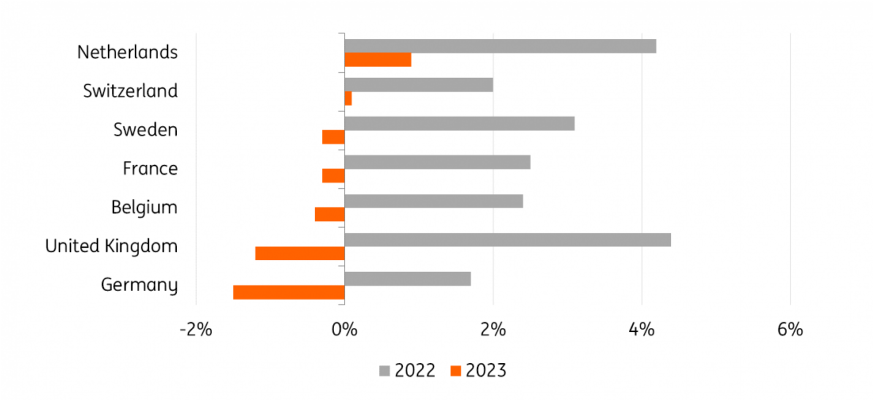
The temporary employment sector in Germany recovered rapidly in 2021 with volume growth of 12%. For this year, we forecast volume growth of +3% for the sector. Weaker global demand, supply chain frictions and high inflation and energy prices are hitting the German economy, both this year and next. Negative macroeconomic developments and ongoing supply chain problems are putting pressure on the German automotive industry, a key industry for employment agencies. This will have a negative effect on the demand for temporary agency workers. We therefore expect a 5% volume decline in employment activities in 2023.

The Netherlands – Stricter regulations make temporary agency work more expensive and less flexible

The temporary employment sector in the Netherlands is still catching up with Covid-19 in 2022. Despite high inflation and very low consumer confidence, the economy is expected to grow by a further 4% this year. As a result, the demand for temporary agency workers will remain strong in 2022 with an expected growth of 5% in market volumes. Due to the increased risk of a recession, we expect the demand for temp workers to weaken in 2023. Hence, volume growth is expected to be flat for the temporary employment sector next year. A major challenge is the impact of stricter regulations on the sector. This will make agency workers more expensive and less flexible in the future. As a result, other forms of employment contracts may be more attractive to hiring companies, such as self-employed professionals.

GDP growth is cooling down in most Western European economies in 2023

GDP growth, year-on-year



Source: Forecasts 2022 and 2023 ING Research (7 November 2022)

Sweden – A highly organislaboured and strictly regulated labor market

The temporary employment sector showed a very strong recovery in 2021 with volume growth of 20%. This was mainly driven by strong economic growth (+5%). In 2022, we expect a further 4% volume growth for the employment activities sector. As the economy is expected to weaken in 2023, we expect volume growth to decline by -2%. In addition, Sweden is one of the countries where the impact of regulatory changes on the staffing industry is expected to be the most negative this year, according to the latest SERO survey. New regulations, introduced on 1 October 2022, aim to better protect temporary agency workers, despite the fact that Sweden already has a highly organised and strictly regulated labour market.

Switzerland – Small decline in market volumes in 2023

As in many other European countries, Switzerland had a good economic year in 2021. The temporary employment sector was booming with volume growth of approximately 20%, thanks in part to manufacturing. The Swiss manufacturing industry, with a relatively high weight in the chemical and pharmaceutical sectors, has suffered much less from shortages in the supply chain than other European countries. For this year we expect volume growth of 3% for the temporary employment sector. Like many other European countries, economic growth will come to an end next year (+0.1%), which will lead to negative volume growth in employment activities (-2%).

The United Kingdom – Fall in the number of job vacancies in 2022

After a massive drop in volume during the Covid-19 pandemic, the temporary employment sector in the United Kingdom recovered strongly in 2021 with volume growth of around 14%. We expect 5% volume growth for the sector in 2022, mainly driven by a strong economic recovery through late 2021/early 2022. Next year the UK, like the eurozone, is likely to head into recession. While this may not result in a sharp rise in unemployment given persistent staff shortages, we have already seen a small decline in the number of vacancies. We expect that due to the recession, the demand for temporary labour will weaken, which is expected to lead to a 5% decrease in market volumes in 2023.

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