

## Contractor calculator market report - May 2008

### A Stable Market Last Month

- o IT budget growth increasing in Europe by 3.86 %
- o IT contractor demand stable through staff reductions-
- o Engineer demand rising 34% per month
- o Construction is down, but new jobs are up 11%
- o Bank of England says credit crunch is over, sets growth at about 2%

### No Growth, But Steady Contractor Demand

A decline in consumer confidence seems to be slowing the UK economy more than any real change in market conditions. The result however has not hurt the market for contractors as the need for skilled workers seems to predominate all other trends in the UK market. The need for UK companies to remain competitive is keeping contractors in work here and across Europe as IT budgets are actually getting larger, according to the Stamford, Connecticut-based research consultancy [Gartner Group](#).

According to Gartner, IT budgets across Europe are growing essentially because they are managed better than in the past, and so companies can't afford to cut them any more. "CIO's have become better managers," says Mark McDonald, group vice president and head of research for Gartner Executive Programs.

### UK Reducing Staff, So Contractors Required

We write, at great length in this space, about the skills crisis in the UK, but there is a good reason to do so. It is the major driver in the high-technology market.

There are some staff reductions across the UK IT departments, Gartner reports, but this also tends to reinforce demand for contractors who are required to do the work the remaining staff can't. The Manchester-based UK [National Computing Centre](#) reported at the end of April that the IT skills crisis continues to worsen in the UK, with UK CIOs in a perpetual and desperate hunt for the workers they need.

“ CIOs have become better managers, so IT budgets are not being cut ”  
Mark McDonald-Gartner

### Engineers Are Ready To Retire

And we come back to the skills crisis again as we look at the growing market for engineering contractors. "The average age of an engineer in the UK is 58, and so a large percentage of the available workforce will retire in the near- to medium-term," says Colin Brown, director of engineering at the London-based [Institution of Mechanical Engineers](#).

This indicates an even-greater gap in filling engineer positions, both contracting and permanent, than the 34% one that the Institution says now has to be somehow overcome. The Institution sees this as one of the biggest issues confronting the engineering community in the UK, and yet, despite all the discussion, no solution seems in the offing.

Electronics engineers have seen some plant closures last month, notably that of JVC, but there have also been a number of plant openings to compensate. Notably, the euro 3.4 billion Project Galileo has finally started with UK contractors well-placed for a piece of the pie.

### Construction Paradox

Meanwhile the construction industry seems to be in a state of paradox.

The UK's construction industry shrank in April at the fastest pace in almost a decade, according to the London-based [Chartered Institute of Purchasing and Supply](#). The CIPD monthly Index which surveys managers at building companies has fallen to 46.1 from 47.2 in March. Confidence in the industry dropped to its lowest level since October 1998, the report showed.

Now here's the paradox: the construction sector is creating more jobs than any other sector in the economy, both for contractors and for permanent employees. According to the [Adecco/Mandis](#) Job Creation Index, the building and construction sector was by far the best performer last month in terms of the absolute total numbers of new job creation intentions with 18,700, a 429% increase compared to the 3,536 recorded in March 2007.

How is this possible? We think that the enormous demand generated six months ago by the raft of Olympics-related projects caused a skew in the demand curve that is being corrected now. Add to that the bad press about the so-called effects of the credit crunch-- which affects residential construction more than anything else-- and you have a confidence crisis which the next six months should see

turned around.

## BOE Says Credit Crunch Is Over

And speaking of the so-called effects of the credit crunch, the [Bank of England](#) says there won't be anymore. In an announcement made at the end of April, the Bank stated that the worst effects of the credit crunch have indeed been 'crunched' and digested by the UK economy, which is still expected to see close to 2% growth in the coming year.

The Bank thinks that the UK is likely to recover after about six months, and although not all economists agree, the Bank says that "overpessimism about these losses may itself be denting confidence and may be delaying the return of investor risk appetite and the recovery of asset prices."

Even if the Bank is too optimistic, one should appreciate the thoughtful analysis in the statement about the real economy, versus that part of it affected by the credit crunch.

The real danger to the economy in the UK, as in the rest of Europe, is the dramatic rise in commodities prices, fueled by Asian demand, which is causing inflation in a slowing economy, or stagflation. This structural problem, which has nothing at all to do with the credit crunch, poses a serious challenge, although most companies in Europe are already finding ways to resolve this issue.

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“ Overpessimism about these losses may itself be denting confidence and may be delaying the return of investor risk appetite and the recovery of asset prices ”

Bank of England

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