

NAB BUSINESS INSIGHTS



Labour shortages: how big an issue are they for SMEs, what are their expectations & how does business think they can be solved?

NAB Behavioural & Industry Economics

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Signs of a modest improvement in labour shortages among SMEs, but tight conditions likely to persist in the near term. Big falls in shortages in Tourism & Hospitality as borders re-open. Increased migrant intake increasingly seen as a solution.

COVID-19 continues to be disruptive to the labour markets of many economies. In this NAB SME Insight Report, around 800 SMEs across a broad range of industries again share their views on how prevalent labour shortages are today and their expectations for the next 12 months, and how they believe the issue can best be solved. The survey was taken over the period 17 May to 9 June 2022.

Almost 4 in 10 (35%) SMEs said the impact on their business continued to be “very” significant (i.e. scored 8+ pts) in Q2, down slightly from 37% in Q1. Also encouraging, SMEs who expect the impact to be “very” significant in the next 12 months fell to 34%, from 37% in Q1. This is consistent with high frequency indicators such as SEEK job ads which fell -2.1% m/m in June following five consecutive monthly gains, but remain very elevated (still 71.9% above pre-pandemic levels and 160.3% in the case of ‘hospitality & tourism’).

By state, WA continued to lead the way with an unchanged 43% of indicating a “very” significant impact, followed by VIC (unchanged at 37%), QLD (35% vs. 39% in Q1) and NSW (33% vs. 34% in Q1). It was lowest in TAS at 23% (but up from 20% in Q1), while SA saw a significant fall (26% vs. 35% in Q1). Looking ahead, the number of SMEs expecting labour shortages to be a “very” significant issue in 12 months was again highest in WA at 44% (40% in Q1), and increased sharply in TAS to 25% (10% in Q1). Fewer SMEs in all other states expect it to be a “very” significant issue for their business - ranging from 26% in TAS to 38% in VIC.

By industry around 1 in 2 (49%) SMEs in the Health sector said labour shortages were a “very” significant issue in Q2 (51% in Q1), but only 36% expect this to be the case in 12 months’ time (also down sharply from 63% in Q1). Just under 1 in 2 Construction (46% vs. 52% in Q1) and Transport/Storage (45% vs. 22% in Q1) highlighted labour shortages as a “very” significant issue in the last 3 months. We also noted large rise in Manufacturing (41% vs. 33% in Q1) and Retail (39% up from 29% in Q1) who said it was “very” significant.

Closed state and international borders have been a key factor contributing to labour shortages in certain sectors, and the reopened international border may be starting to see more acute pressures ease in industries including agriculture and hospitality and tourism where a large share of the workforce was drawn from temporary visa holders prior to the pandemic. This is supported by the latest results where there were big falls in labour shortages in Accommodation (28% vs. 60% in Q1).

There were also declines in Business Services (25% vs. 38% in Q1). The lowest number of SMEs who said it was “very” significant were in the Personal Services (19%) and Finance & Insurance (20%) sectors.

The number of SMEs who think labour shortages will be a “very” significant issue in the next 12 months is highest in Construction (49% vs. 54% in Q1) and Transport/Storage (48% vs. 32% in Q1). More SMEs now expect labour shortages to be a “very” significant issue for their business than in the last quarter in the Retail (39% vs. 31% in Q1), Manufacturing (39% vs. 33% in Q1) and Finance & Insurance (24% vs. 18% in Q1) sectors. But the situation is expected to improve noticeably in the Health (36% vs. 63% in Q1), Accommodation, Cafes & Restaurants (23% vs. 46% in Q1) and Business Services (24% vs. 37% in Q1) sectors.

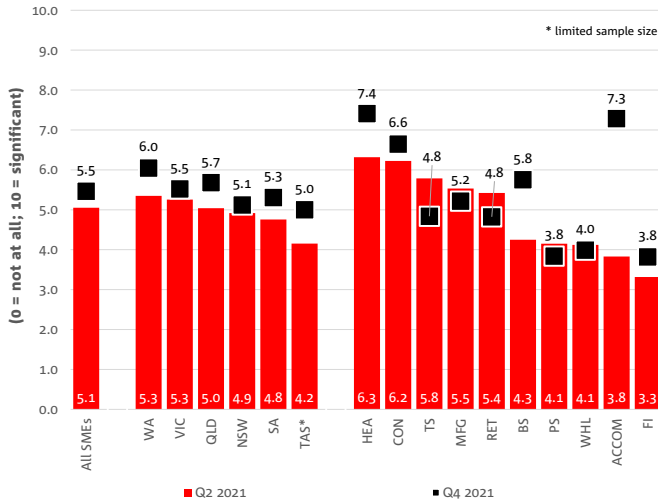
Priorities around how labour shortages can best be solved have shifted a little. In Q2, around 1 in 2 Australian SMEs overall said labour shortages could best be solved by increasing traineeships & apprenticeships (broadly unchanged at 52%) and increasing migrant intake (49% up significantly from 40% in Q1).

A basically unchanged 43% said open international borders was key, and around 1 in 3 increased on the job training (37% down from 41% in Q1), paying staff more (36% up from 32% in Q1) and improving work-life balance (33% down from 37% in Q2). Other areas where priorities had changed significantly included open state borders (28% down sharply from 55% in Q1), and changing quarantine rules for close contacts (28% up steeply from 15% in Q1).

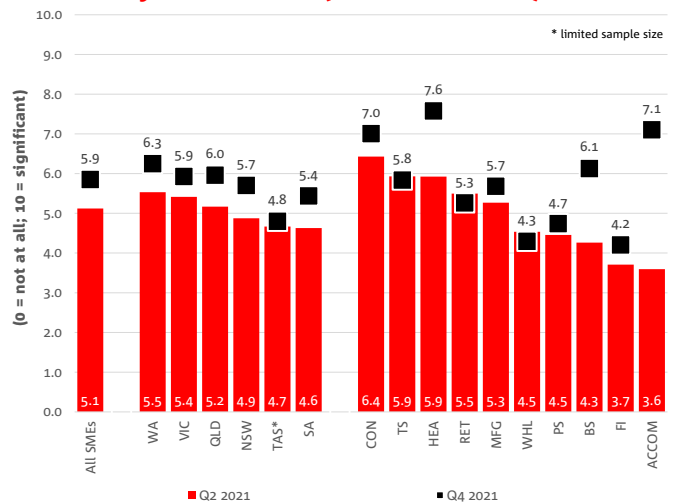
Extent labour shortages are an issue for Australian SMEs.....

Labour shortages in Q2 were assessed as “moderately” problematic for Australian SMEs over the last 3 months. When asked to rate the extent it was an issue for their business, SMEs on average scored 5.1 pts out of 10, down slightly from 5.5 pts in the Q1 survey. SMEs also scored 5.1 pts when thinking about the impact labour shortages may have on their business in the next 12 months, suggesting no material change from the challenges they currently face. That said, expectations were noticeably more positive than in the previous survey when the expected impact on their business was scored higher at 5.9 pts.

Extent labour shortages are an issue for your business (last 3 months)



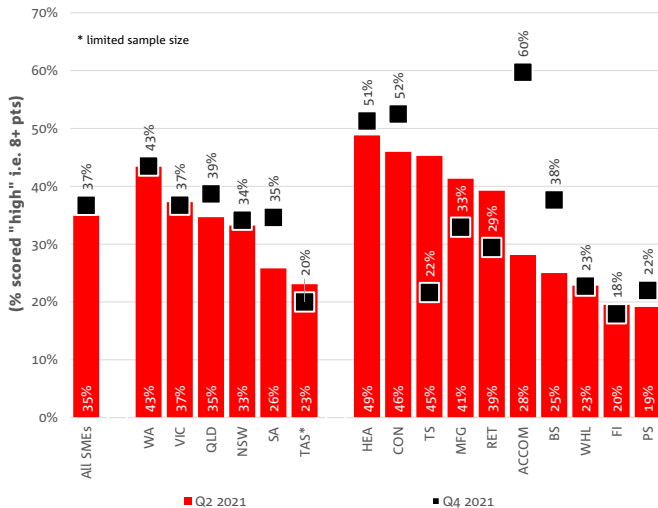
Extent labour shortages are an issue for your business (next 12 months)



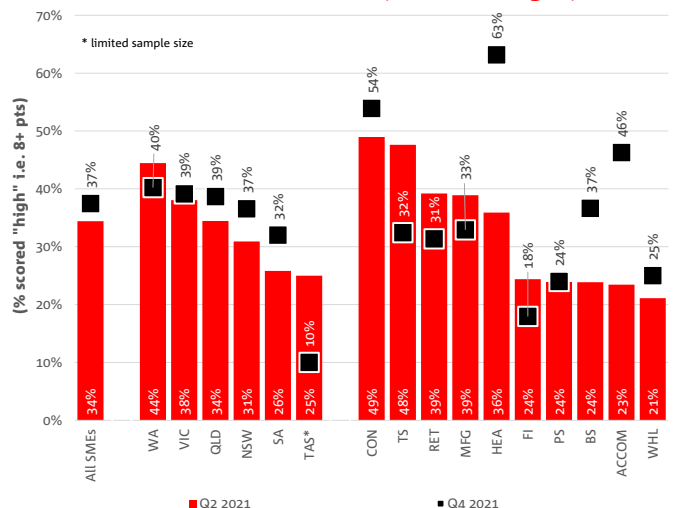
SMEs in all states rated the impact of labour shortages on their business lower in Q2. However, they continued to have the biggest impact in WA (5.3 pts), and was joined by VIC (5.3 pts). The business impact was rated lowest by SMEs in TAS (4.2 pts), followed by SA (4.8 pts) and NSW (4.9 pts). Relative to the previous quarter, the biggest improvements were noted in TAS (down 0.8 pts), WA (down 0.7 pts) and QLD (down 0.7 pts).

By industry, labour shortages had the biggest impact on SMEs operating in the Health (6.3 pts) and Construction (6.6 pts) sectors, though the impact in both sectors was rated lower than in Q1 (7.4 pts and 6.6 pts respectively). Labour shortages were however a bigger issue for SMEs in the Transport/Storage (5.8 pts up from 4.8 pts in Q1), Manufacturing (5.5 pts vs. 5.2 pts in Q1) and Retail (5.4 pts vs. 4.8 pts in Q1) sectors. SMEs in the Accommodation, Cafes & Restaurants (3.8 pts down from 7.3 pts) and Business Services (4.3 pts down 5.8 pts in Q1) however indicated the impact of labour shortages on their business had moderate substantially from the previous quarter.

Extent labour shortages are an issue for your business last 3 months (% scored "high")



Extent labour shortages are an issue for your business next 12 months (% scored "high")



Though SMEs on average rated the extent labour shortages were an issue for their business only “moderately” significant in Q2, almost 4 in 10 (35%) said the impact on their business was “very” significant (i.e. scored 8+ pts), though this fell slightly from 37% in the Q1 survey. Also encouraging, the number of SMEs who expect the impact to be “very” significant in the next 12 months fell to 34%, from 37% in Q1 (but suggesting no material change from the number experiencing “very” significant issues over the last 3 months).

By state, WA continued to lead the way with an unchanged 43% of indicating a “very” significant impact, followed by VIC (unchanged at 37%), QLD (35% vs. 39% in Q1) and NSW (33% vs. 34% in Q1). It was lowest in TAS at 23% (but up from 20% in Q1), while SA saw a significant fall (26% vs. 35% in Q1).

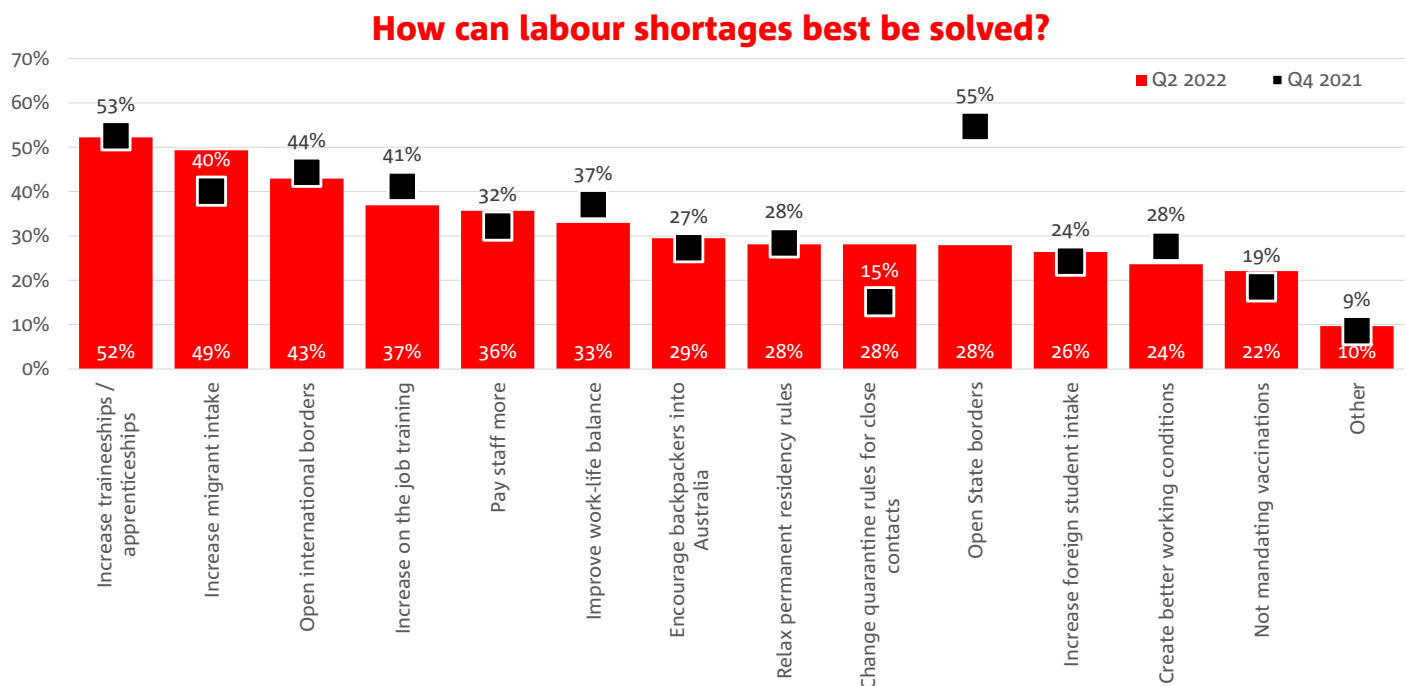
Looking ahead, the number of SMEs expecting labour shortages to be a “very” significant issue in 12 months was again highest in WA at 44% (40% in Q1), and increased sharply in TAS to 25% (10% in Q1). Fewer SMEs in all other states expect it to be a “very” significant issue for their business - ranging from 26% in TAS to 38% in VIC.

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Just under 1 in 2 Construction (46% vs. 52% in Q1) and Transport/Storage (45% vs. 22% in Q1) highlighted labour shortages as a “very” significant issue in the last 3 months. We also noted large rise in Manufacturing (41% vs. 33% in Q1) and Retail (39% up from 29% in Q1) who said it was “very” significant, but big falls in Accommodation (28% vs. 60% in Q1) and Business Services (25% vs. 38% in Q1). The lowest number of SMEs who said it was “very” significant were in the Personal Services (19%) and Finance & Insurance (20%) sectors.

The number of SMEs who think labour shortages will be a “very” significant issue in the next 12 months is highest in Construction (49% vs. 54% in Q1) and Transport/Storage (48% vs. 32% in Q1). More SMEs now expect labour shortages to be a “very” significant issue for their business than in the last quarter in the Retail (39% vs. 31% in Q1), Manufacturing (39% vs. 33% in Q1) and Finance & Insurance (24% vs. 18% in Q1) sectors. But the situation is expected to improve noticeably in the Health (36% vs. 63% in Q1), Accommodation (23% vs. 46% in Q1) and Business Services (24% vs. 37% in Q1) sectors - see charts above.

How labour shortages can best be solved.....



Priorities around how labour shortages can best be solved have shifted a little. In Q2, around 1 in 2 Australian SMEs overall said labour shortages could best be solved by increasing traineeships & apprenticeships (broadly unchanged at 52%) and increasing migrant intake (49% up significantly from 40% in Q1). A basically unchanged 43% said open international borders was key, and around 1 in 3 increased on the job training (37% down from 41% in Q1), paying staff more (36% up from 32% in Q1) and improving work-life balance (33% down from 37% in Q2).

Other areas where priorities had changed significantly included open state borders (28% down sharply from 55% in Q1), and changing quarantine rules for close contacts (28% up steeply from 15% in Q1).

How labour shortages can best be solved: state & industry

	Increase traineeships / apprenticeships	Increase migrant intake	Open international borders	Increase on the job training	Pay staff more	Improve work-life balance	Encourage backpackers into Australia	Relax permanent residency rules	Change quarantine rules for close contacts	Open State borders	Increase foreign student intake	Create better working conditions	Not mandating vaccinations	Other
All SMEs	52%	49%	43%	37%	36%	33%	29%	28%	28%	28%	26%	24%	22%	10%
NSW	61%	47%	42%	34%	42%	32%	32%	29%	32%	26%	28%	28%	23%	11%
QLD	50%	44%	38%	43%	28%	34%	19%	21%	19%	22%	17%	23%	15%	11%
SA	70%	41%	43%	39%	30%	30%	26%	26%	30%	37%	24%	13%	28%	9%
TAS	33%	33%	33%	67%	33%	67%	22%	33%	0%	44%	22%	33%	0%	44%
VIC	47%	55%	46%	38%	37%	36%	33%	29%	33%	27%	34%	25%	26%	8%
WA	35%	59%	49%	24%	32%	24%	35%	38%	24%	38%	22%	14%	19%	6%
MFG	61%	48%	41%	36%	26%	30%	29%	29%	29%	22%	19%	19%	16%	9%
CON	66%	52%	41%	38%	30%	30%	24%	29%	34%	28%	16%	22%	30%	5%
RET	52%	43%	52%	32%	31%	25%	35%	27%	34%	33%	36%	19%	25%	14%
WHL	38%	54%	45%	35%	39%	29%	33%	32%	22%	28%	32%	19%	16%	10%
TS	51%	51%	57%	34%	37%	31%	40%	17%	37%	37%	29%	20%	31%	23%
FI	40%	36%	32%	32%	48%	48%	32%	20%	8%	24%	28%	12%	0%	8%
BS	47%	42%	32%	54%	47%	42%	9%	19%	19%	19%	19%	39%	11%	7%
PS	66%	56%	41%	38%	34%	38%	22%	25%	31%	31%	31%	41%	34%	3%
ACCOM	43%	73%	57%	37%	47%	43%	70%	47%	27%	33%	57%	23%	20%	10%
HEA	24%	45%	24%	30%	45%	42%	18%	36%	15%	24%	15%	36%	24%	15%

The table above highlights the top 3 solutions for best solving labour shortages by state and industry. SMEs in VIC, SA and NSW highlighted traineeships & apprenticeships, increased migrant intake and open international borders as their top 3 (with paying staff more also making the top 3 in NSW). In QLD, the top 3 solutions were increased traineeships & apprenticeships, migrant intake and on the job training, while in WA increased migrant intake, open international borders, relaxed permanent residency rules and open state borders were seen as the best solutions. SMEs in TAS however highlighted increased on the job training, improved work-life balance and open state borders and “other” as the best solutions.

By industry, the top 3 solutions in the Manufacturing, Construction, Retail, Transport/Storage and Personal Services sectors were traineeships & apprenticeships, increased migrant intake and open international borders, with creating better working conditions also making the top 3 in the Personal Services sector. In Wholesale, the top 3 were increased migrant intake, open international borders and paying staff more, and in Finance & Insurance increased traineeships & apprenticeships, paying staff more and increased work-life balance. SMEs in the Businesses Services sector highlighted increased traineeships & apprenticeships, on the job training and paying staff more, and in Accommodation increased migrant intake, encouraging backpackers into Australia, open international borders and increasing foreign student intake. In the Health sector, increased migrant intake, paying staff more and better-work life balance were seen as key

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