

NAB BUSINESS INSIGHTS

Labour Shortages: Q4 Update

How big is the issue for SMEs & what are they doing to overcome these challenges?



NAB Behavioural & Industry Economics

January 2023

Over 1 in 3 SMEs continue to identify labour shortages as a very significant issue for their business. Employers do not expect a material shift in available talent in 2023. Construction most impacted with 1 in 2 SMEs still struggling to find labour. Accommodation & Hospitality most improved & now among the least impacted. The bargaining power of workers has increased with 7 in 10 SMEs increasing pay for existing staff and 5 in 10 for new staff.

With international borders now open, increased skilled migrant quotas and improved skilled migration program processes, there has been an easing of shortages in some industries. But for others it will take time before these changes have a material impact, with many firms continuing to experience severe recruitment difficulties.

Overall, labour shortages were a little less problematic for Australian SMEs during the final quarter of 2022. That said, over 1 in 3 (36%) SMEs continue to identify labour shortages as a 'very significant' issue for their business (down slightly from 38% in the previous quarter). Notwithstanding a forecast decline in demand growth in the economy, employers are not expecting a material shift in available talent in 2023, with over 1 in 3 (34%) SMEs still anticipating labour shortages to be having a 'very significant' impact on their business (vs. 38% in Q4) over the next 12 months.

By state, 45% of SMEs in QLD still heavily impacted (42% in Q3) - highest overall by some margin. The number of SMEs experiencing 'very significant' labour shortages fell in all other states, with the biggest falls in TAS (30% from 44%) and WA (37% from 44%) and lowest overall in SA (27%). The number of SMEs who think labour shortages will be a 'very significant' issue in the next 12 months remains highest in QLD and lowest in SA.

While employers expect skills shortages to continue into 2023, they are more prominent in some key sectors of the economy. Almost 1 in 2 (48%) SMEs in Construction said labour shortages were very significant (by far the highest of all industries), followed by Manufacturing (41%), Transport & Storage (38%) and Retail (36%). The lowest number was in Accommodation & Hospitality (26% and down sharply from 37% in the previous quarter). Fewer SMEs in most sectors reported a very significant impact from labour shortages over the past 3 months, except in Personal Services where it jumped sharply to 33% (22% in Q3) and Finance & Insurance (24% from 21%).

Fewer firms in all sectors expect labour shortages will still be a 'very significant' issue for their business in the next 12 months, except Finance & Insurance (31% from 14%) and Personal Services (33% from 21%) where a significantly higher number expect to be heavily impacted.

NAB also asked business the strategies they are implementing to help overcome these challenges. The bargaining power of workers has clearly increased, with around 7 in 10 (69%) SMEs increasing pay for existing staff - the top response. This aligns with the RBA December minutes which noted wages growth was continuing to pick up and that the risk to wages growth was to the upside due to the tight labour market and high inflation. Retainment of employees helps reduce both direct and indirect costs associated with turnover.

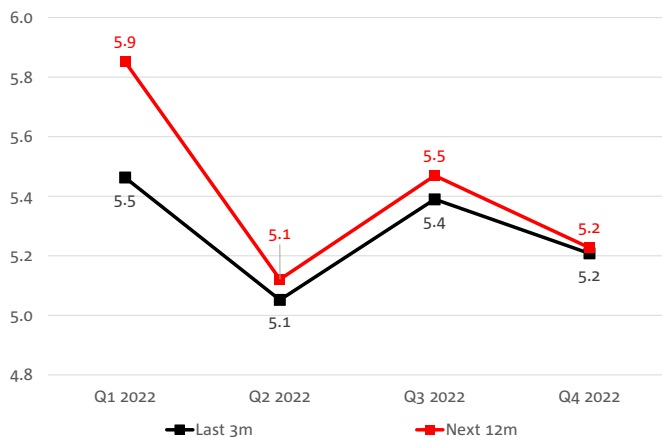
The next most common strategies were: taking better care of existing staff (56%); paying new employees at higher pay rates (50%); increasing flexibility in where and how employees work (46%); and increasing training opportunities (42%). Around 1 in 4 (26%) were also spending more on recruitment, 17% offering internships or graduate programs, 14% using retention bonuses, 13% hiring migrant workers and backpackers and 7% offering sign on bonuses. Around 1 in 10 were not implementing any of these.

By industry, a much higher number of SMEs in Business Services are offering increased work flexibility (70%), in Personal Services more training opportunities (60%) and in Accommodation & Hospitality spending more on recruitment (52%) and hiring more foreign workers and backpackers (32%). We also noted a much lower number in Personal Services sector that increased pay for existing staff (51%) or paid new employees more (38%), in Manufacturing taking better care of employees (45%), in Wholesale offering internships or graduate programs (6%), in Manufacturing (7%) and Wholesaling (8%) retention bonuses, and in Finance & Insurance (3%) and Personal services (2%) hiring migrants and foreign workers.

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

Labour shortages were less problematic for Australian SMEs during the final quarter of 2022. When asked to rate the extent it was an issue for their business, on average SMEs scored 5.2 pts out of 10, down from 5.4 pts in the previous quarter. SMEs also scored a lower 5.2 pts when thinking about the impact labour shortages may have on their business in the next 12 months (5.5 pts in the previous quarter).

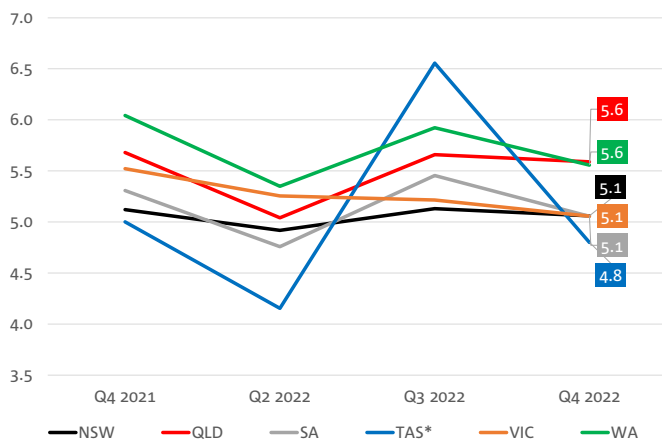
Extent labour shortages are an issue for your business (0-10 pts)



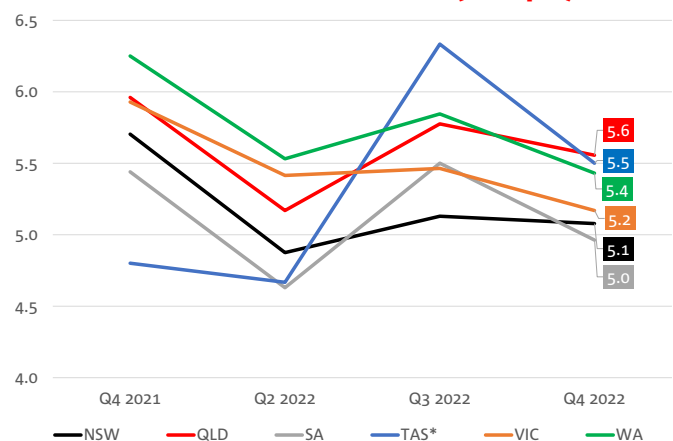
Labour shortages were less of an issue for SMEs in all states in Q4, except NSW (unchanged). Labour shortages had the biggest impact in WA (5.6 pts) and QLD (5.6 pts) in the last 3 months, and were least problematic in TAS where it scored a sharply lower 4.8 pts (6.6 pts in the previous quarter but from a smaller sample size).

Looking forward, SMEs in most states also believe labour shortages will have a smaller impact on their business in the next 12 months than previously expected, except in NSW where the outlook is unchanged. Labour shortages are expected to be most problematic according to SMEs in QLD (5.6 pts) and least so in SA (5.0 pts) - see charts below.

Extent labour shortages an issue for your business last 3m: states (0-10 pts)



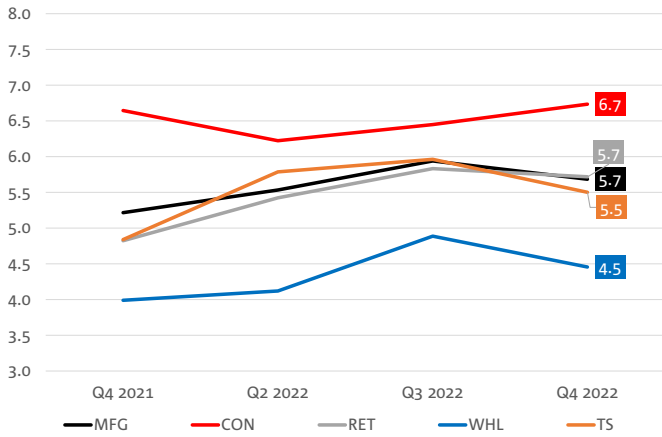
Extent labour shortages an issue for your business next 12m: states (0-10 pts)



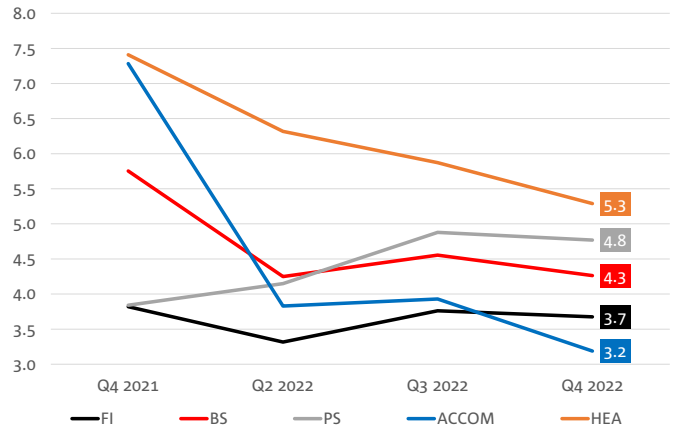
By industry, labour shortages continued to have the biggest impact in Construction (6.7 pts) and more so than in the previous quarter (6.4 pts). It was also the only sector where labour shortages were rated more problematic than in the previous quarter. SMEs in all other sectors said labour shortages were less of an issue for their business compared to the previous 3 months. That said, they were a much bigger issue in Manufacturing (5.7 pts), Retail (5.7 pts), Transport & Storage (5.5 pts) and Health (5.3 pts though down sharply from 5.9 in Q4) than in Accommodation & Hospitality (3.2 pts) and Finance & Insurance (3.7 pts).

Looking forward, SMEs in most industries expect labour shortages will have a smaller impact on their business in the next 12 months than previously expected, except in Finance & Insurance (4.2 pts from 3.8 pts in Q3) and Retail (unchanged at 5.6 pts). Labour shortages in the next 12 months are expected to most impact SMEs operating in the Construction (6.6 pts), Manufacturing (5.9 pts), Transport & Storage (5.7 pts) and Retail (5.6 pts) sectors - see charts on following page.

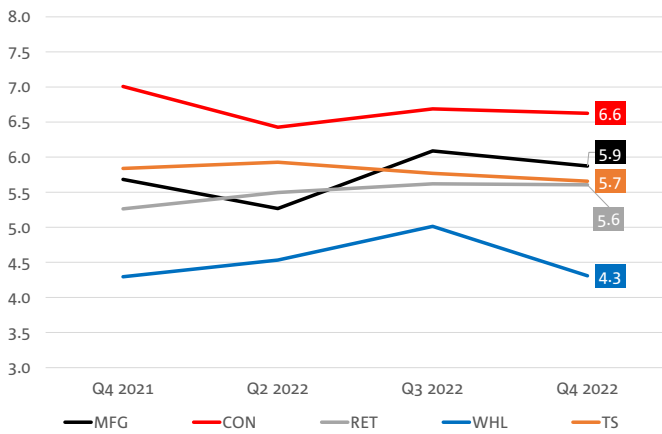
Extent labour shortages an issue for your business last 3m: industry (0-10 pts)



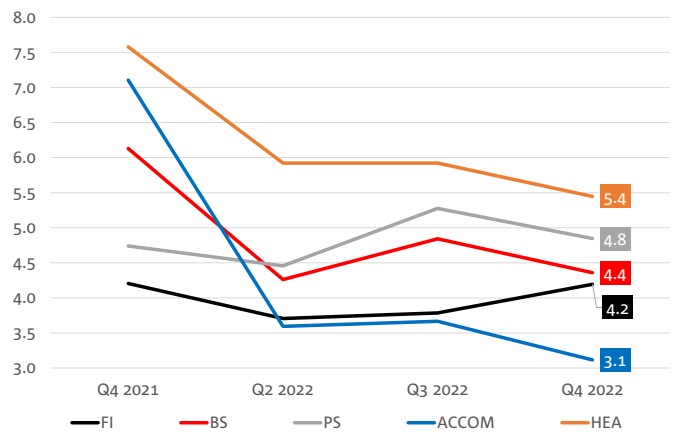
Extent labour shortages an issue for your business last 3m: industry (0-10 pts)



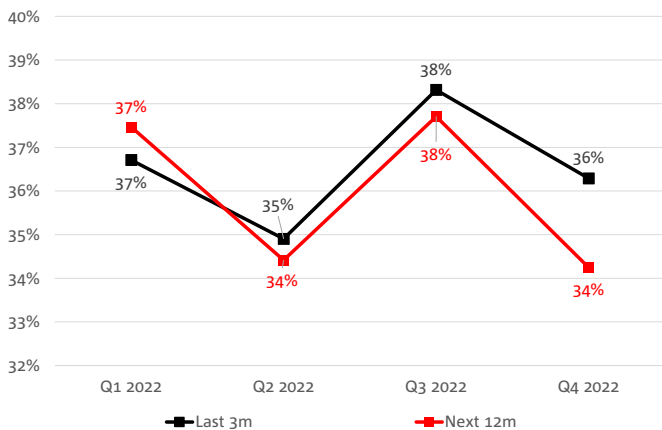
Extent labour shortages an issue for your business next 12m: industry (0-10 pts)



Extent labour shortages an issue for your business next 12m: industry (0-10 pts)



Extent labour shortages an issue for your business (% scored "high")

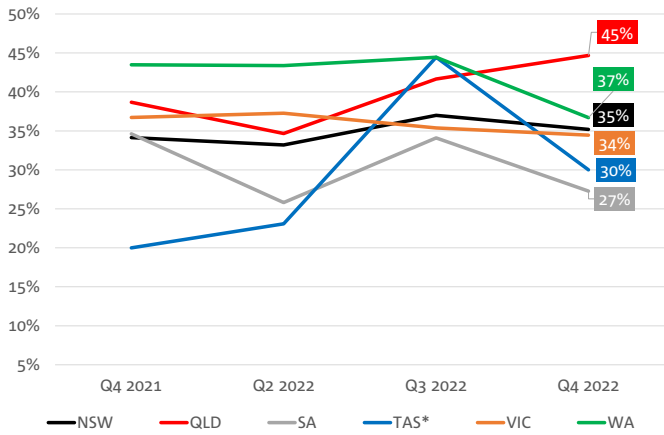


While on average SMEs rated the impact of labour shortages on their business relatively 'moderate' over the last 3 months (i.e. 5.2 pts out of 10), a significant number of SMEs continue to struggle much more with labour shortages than did others.

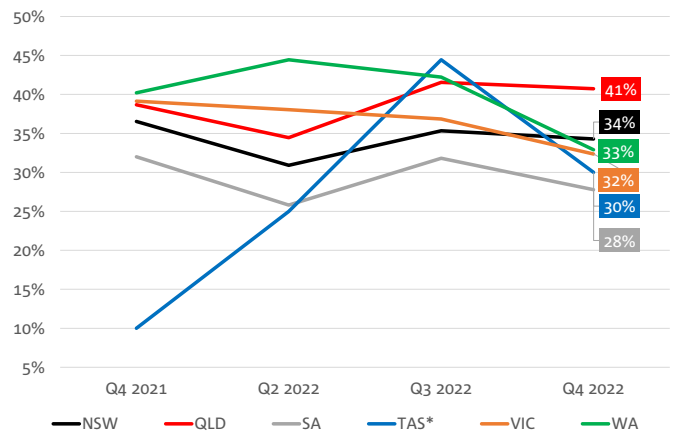
In Q4, over 1 in 3 (36%) SMEs said labour shortages were a 'very significant' issue for their business over the last 3 months (i.e. scored 8+ pts) - though this was down slightly from 38% in the previous quarter.

No material change is expected in the next 12 months, with over 1 in 3 (34%) SMEs expecting labour shortages to still be having a 'very significant' impact on their business (though down a little from 38% predicted in Q4).

Extent labour shortages an issue for your business last 3m: states (% scored 'high')

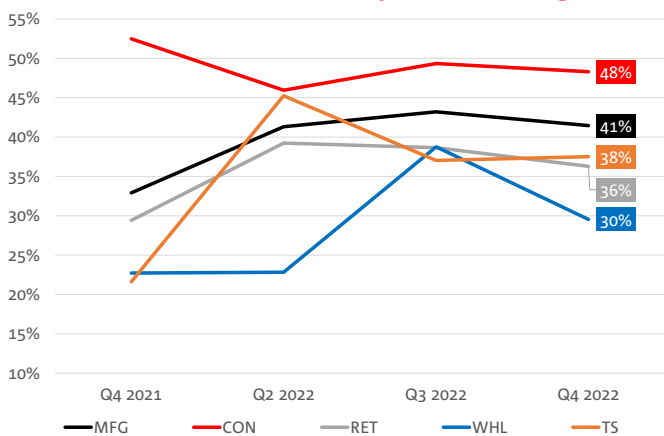


Extent labour shortages an issue for your business next 12m: states (% scored 'high')

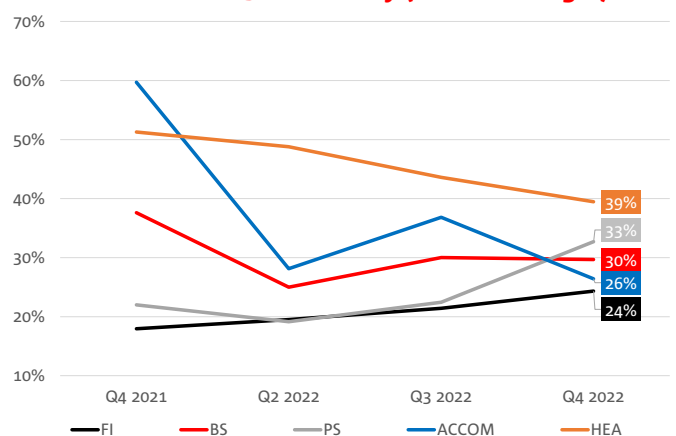


By state, the number of SMEs that said labour shortages were a 'very significant' issue climbed to 45% in QLD (42% in Q3) and was highest overall by some margin. The number of SMEs experiencing 'very significant' labour shortages fell in all other states, with the biggest falls noted in TAS (30% from 44%) and WA (37% from 44%). It was lowest overall in SA (27%). The number of SMEs who think labour shortages will be a 'very significant' issue in the next 12 months remains highest in QLD and lowest in SA (28%) - see charts above.

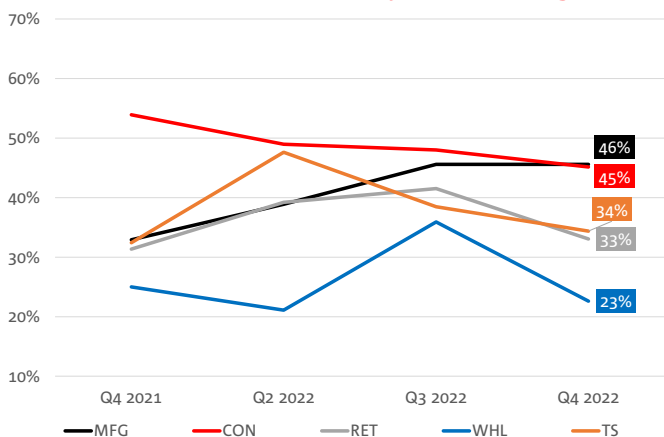
Extent labour shortages an issue for your business last 3m: industry (% scored 'high')



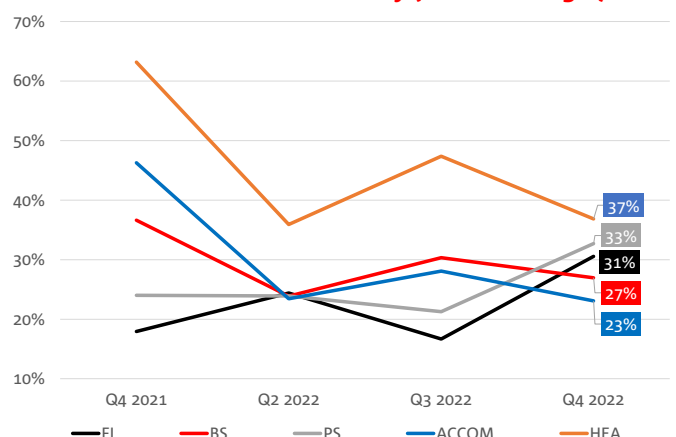
Extent labour shortages an issue for your business next 12m: industry (% scored 'high')



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Extent labour shortages an issue for your business next 12m: industry (% scored 'high')



Almost 1 in 2 (48%) SMEs in the Construction sector said labour shortages were a 'very significant' issue for their business in the last 3 months, by far the highest of all industries, followed by Manufacturing (41%), Transport & Storage (38%) and Retail (36%). The lowest number was in Accommodation & Hospitality (26% and down sharply

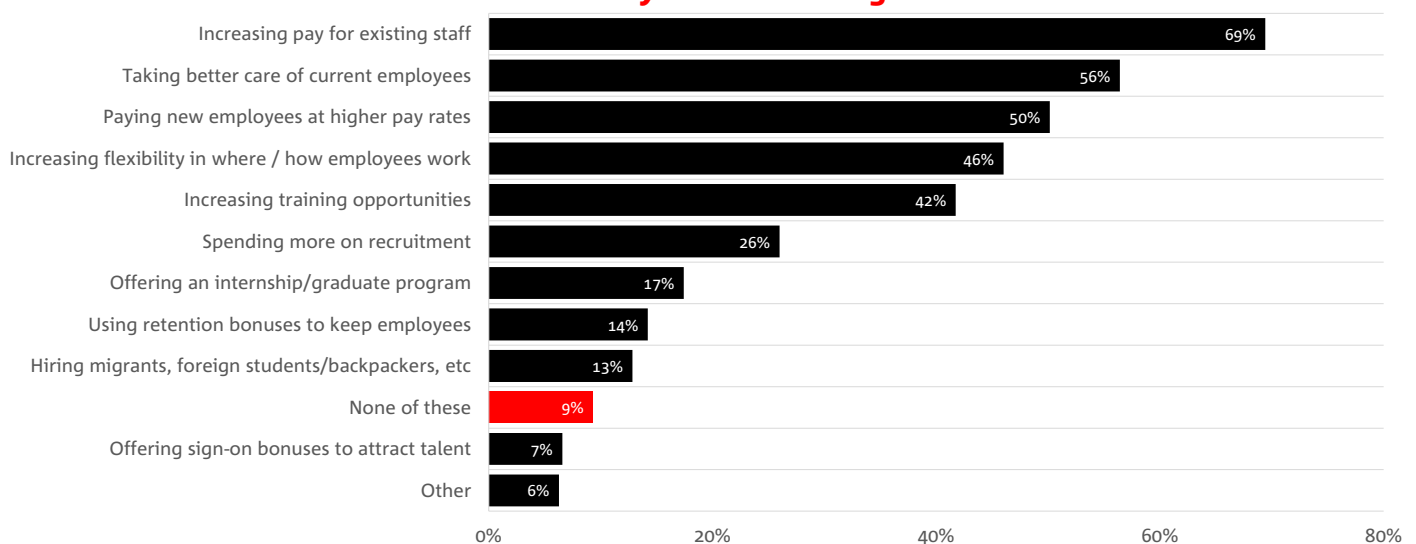
from 37% in the previous quarter). Fewer SMEs in most sectors reported a 'very significant' impact from labour shortages over the past 3 months, except in Personal Services where it jumped sharply to 33% (22% in Q3) and Finance & Insurance (24% from 21%).

Fewer firms in all sectors expect labour shortages will still be a 'very significant' issue for their business in the next 12 months, except Finance & Insurance (31% from 14%) and Personal Services (33% from 21%) where a significantly higher number expect to be heavily impacted - see charts above.

What strategies are SMEs implementing to overcome the challenges created by labour shortages....

What strategies have SMEs been implementing to help overcome the challenges created by labour shortages? NAB's survey found that around 7 in 10 (69%) SMEs are increasing pay for existing staff, with the next most common strategies taking better care of existing staff (56%), paying new employees at higher pay rates (50%), increasing flexibility in where and how employees work (46%) and increasing training opportunities (42%). Around 1 in 4 (26%) were also spending more on recruitment, 17% offering internships or graduate programs, 14% using retention bonuses, 13% hiring migrant workers and backpackers and 7% offering sign on bonuses. Around 1 in 10 were not implementing any of these.

Strategies SMEs are implementing to overcome the challenges created by labour shortages



By state, we noted a much larger number of SMEs in QLD that increased pay for existing staff (77%) and in TAS training opportunities (70%) and offering internships or graduate programs (30%). We also found a much lower number that increased work flexibility in SA (35%), increased training opportunities in VIC (31%), or offered internships or graduate programs in VIC (11%) and SA (12%).

By industry, highlights included a much higher number in the Business Services sector offering increased work flexibility (70%), in Personal Services more training opportunities (60%) and in Accommodation & Hospitality spending more on recruitment (52%) and hiring more foreign workers and backpackers (32%). We also noted a much lower number in Personal Services sector that increased pay for existing staff (51%) or paid new employees more (38%), in Manufacturing taking better care of employees (45%), in Wholesale offering internships or graduate programs (6%), in Manufacturing (7%) and Wholesaling (8%) retention bonuses, and in Finance & Insurance (3%) and Personal services (2%) hiring migrants and foreign workers.

Strategies implemented: state & industry

	Increasing pay for existing staff	Taking better care of current employees	Paying new employees at higher pay rates	Increasing flexibility in where/how employees work	Increasing training opportunities	Spending more on recruitment	Offering an internship/graduate program	Using retention bonuses to keep employees	Hiring migrants, foreign students/backpackers, etc	None of these	Offering sign-on bonuses to attract talent	Other
All SMEs	69%	56%	50%	46%	42%	26%	17%	14%	13%	9%	7%	6%
NSW	65%	56%	46%	48%	46%	26%	21%	14%	12%	13%	6%	6%
QLD	77%	56%	59%	48%	46%	31%	19%	15%	15%	5%	7%	8%
SA	69%	51%	49%	35%	43%	29%	12%	14%	10%	6%	4%	10%
TAS	70%	60%	60%	50%	70%	30%	30%	10%	10%	0%	10%	10%
VIC	68%	56%	49%	47%	31%	23%	11%	12%	13%	9%	6%	5%
WA	75%	61%	51%	42%	46%	25%	23%	18%	13%	11%	8%	4%
MFG	76%	45%	56%	54%	35%	31%	17%	7%	18%	6%	4%	7%
CON	73%	56%	51%	35%	41%	23%	17%	14%	11%	6%	6%	9%
RET	69%	60%	49%	44%	39%	20%	15%	16%	13%	6%	5%	3%
WHL	67%	52%	45%	39%	35%	18%	6%	8%	16%	15%	2%	6%
TS	75%	64%	54%	32%	36%	32%	14%	18%	11%	11%	7%	7%
FI	76%	56%	50%	59%	47%	15%	24%	15%	3%	15%	12%	9%
BS	69%	62%	54%	70%	48%	32%	28%	15%	13%	10%	7%	7%
PS	51%	64%	38%	51%	60%	19%	19%	19%	2%	17%	9%	0%
ACCOM	64%	56%	48%	44%	44%	52%	20%	20%	32%	8%	16%	4%
HEA	69%	53%	59%	47%	47%	56%	28%	22%	13%	9%	16%	13%

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