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# NAB Business Insights

Q1 2023

Labour Shortages - How big is the  
issue for SMEs

## Key Findings

**Over 1 in 3 SMEs continue to identify labour shortages as a very significant issue for their business. Employers are a little more confident about the next 12 months, but do not expect a material shift in available talent. Transport & Storage & Construction are being most impacted. Accommodation & Hospitality continues to significantly improve.**

Strong employment growth in February and March has left the labour market very tight, with job vacancies easing only slightly from their peak in 2022. The tightness in the labour market comes despite surging population growth on the back of a very strong migration rebound. Treasury figures released in the Budget estimated net overseas migration would total 400,000 in 2022-23 and 315,000 in 2023-24 before normalising at around 235,000 over subsequent years.

Unemployment in Australia remains very low at 3.5%. We continue to expect unemployment to gradually begin to rise this year as the economy slows and labour demand softens enough to be outpaced by population growth, leaving the unemployment rate at 4% by end-2023 and 4.7% by end-2024.

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.

Australia has a high level of skills on average according to international assessments, yet average skills' proficiency mask skills gaps. In particular, there is an ongoing need for VET to be made more appealing and relevant for students, as well as sustaining incentives for participating in tertiary education. Measures announced in the Budget will help but will take time to flow through to industry. Funds have been retained in the Contingency Reserve (estimated at \$3.7 billion) for the 5 year National Skills Agreement (currently being negotiated with state and territory governments) scheduled to commence on 1 January 2024. Under this agreement, an additional 300 000 fee-free TAFE and vocational education training places will be provided.

Overall, labour shortages were a little less problematic for Australian SMEs during the first quarter of 2023. That said, over 1 in 3 (32%) of all SMEs said labour shortages were a 'very significant' issue for their business (i.e. scored 8+ pts out of a possible 10) - though this was down from 36% in in the previous quarter, and the lowest read over the past year. SMEs are also a little more optimistic about the future, with 3 in 10 (30%) now expecting labour shortages to have a very significant impact on their business. This is down from 34% predicted in Q4'22 and 37% at the same time last year.

By state, the number of SMEs that said labour shortages were a very significant issue nearly doubled to 54% in TAS (30% in Q4'22) and was highest overall by some margin (but from a smaller sample size). It was next highest in QLD (39% down from 45%). The number experiencing very significant shortages fell in all other states bar SA (28% from 27%), but was lowest overall with NSW (28%). The number of SMEs who think labour shortages will still be a very significant issue in the next 12 months was highest in TAS (46%) and QLD (34%), and lowest in SA (25%), NSW and WA (27%).

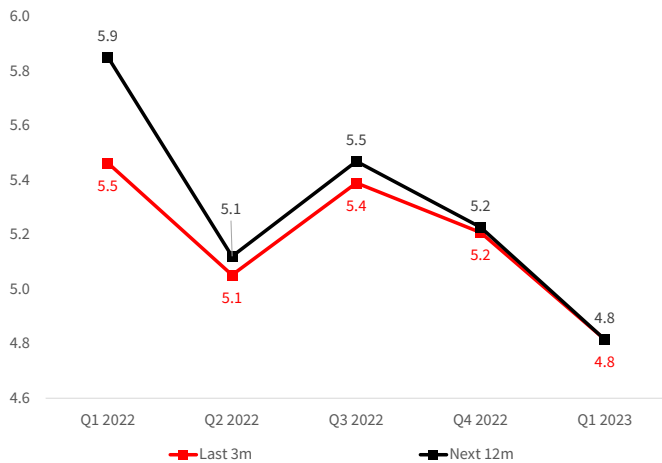
Over 1 in 2 (52%) SMEs in the Transport & Storage sector said labour shortages were a very significant issue for their business in Q1 - by far the highest of all industries and up sharply from 38% in the previous quarter. Fewer SMEs in all other industries identified labour shortages as a very significant issue, except in Retail (unchanged at 36%). Other industries more impacted in Q1 included Construction (44% down from 48%), Manufacturing (39% down from 41%) and Health (36% down from 39%). The lowest number of highly impacted SMEs were in Personal Services (16% down sharply from 33%), and Accommodation & Hospitality (17% also down sharply from 26%).

Fewer SMEs in most sectors expect labour shortages to a major issue for their business in the next 12 months, except in Transport & Storage (52% up from 34%), and Retail (36% up from 33%), with expectations unchanged in Health (36%) and Wholesale Trade (22%).

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

Labour shortages have become less problematic for Australian SMEs in recent quarters. When asked to rate the extent it was an issue for their business in Q1'23, SMEs on average scored 4.8 pts out of 10 (down from 5.2 pts in Q4'22 and 5.5 pts at the same time last year). SMEs also scored a lower 4.8 pts when thinking about the impact labour shortages may have on their business in the next 12 months (down from 5.2 pts in Q4'22 and 5.9 pts at the same time last year).

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



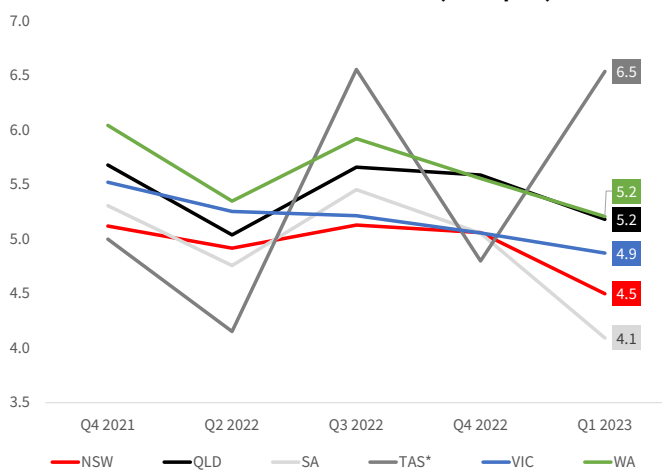
Labour shortages had a smaller business impact for SMEs in all states in Q1, except TAS where it climbed steeply to 6.5 pts (4.8 pts in Q4'22 but from a smaller sample size).

Elsewhere, though falling labour shortages were most pronounced in WA and QLD (5.2 pts), and least problematic in SA where it was also scored a sharply lower 4.1 pts (5.1 pts in the previous quarter).

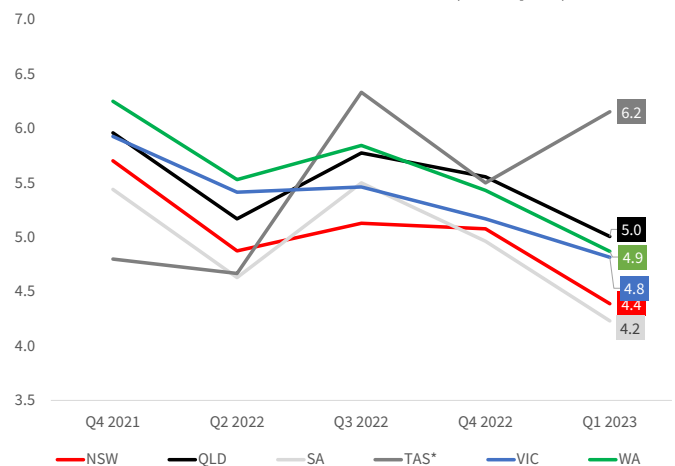
Looking forward, SMEs in all states outside of TAS believe labour shortages will have a smaller impact on their business in the next 12 months than previously expected.

Labour shortages are expected to be most problematic according to SMEs in TAS (6.2 pts) and least so in SA (4.2 pts) - see charts below.

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



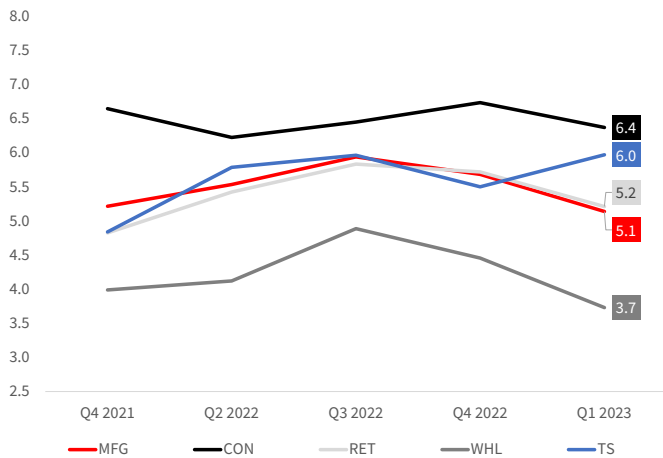
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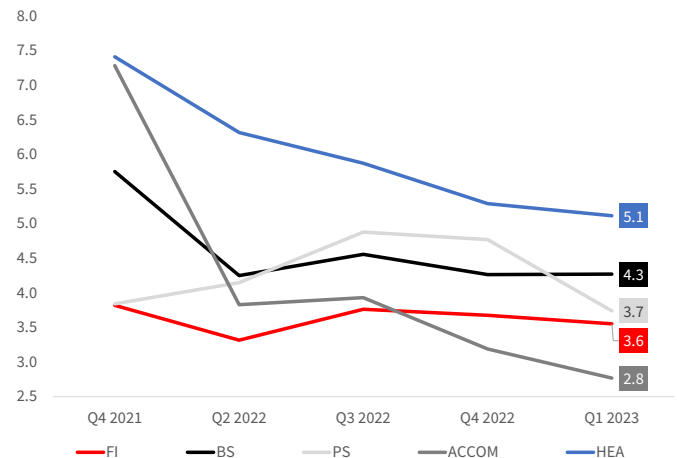
Labour shortages continued to impact SMEs differently according to the industry they operate in. In Q1, SMEs in most industries said they were less problematic for their business, except Transport & Storage (6.0 pts up from 5.5 pts) and Business Services (unchanged at 4.3 pts). Labour shortages continue to have the biggest impact in Construction (6.4 pts), followed by Transport & Storage (6.0 pts). SMEs in Accommodation & Hospitality (2.8 pts) are now being least impacted after having been among the hardest hit at the same time last year.

Looking forward, SMEs in most industries expect labour shortages to have a smaller impact on their business in the next 12 months, except in Transport & Storage where the outlook is slightly worse (5.8 pts). In other industries, labour shortages in the next 12 months are expected to most impact Construction (6.0 pts), Retail (5.2 pts), and Manufacturing (5.9 pts) sectors, though less so than predicted in the last survey.

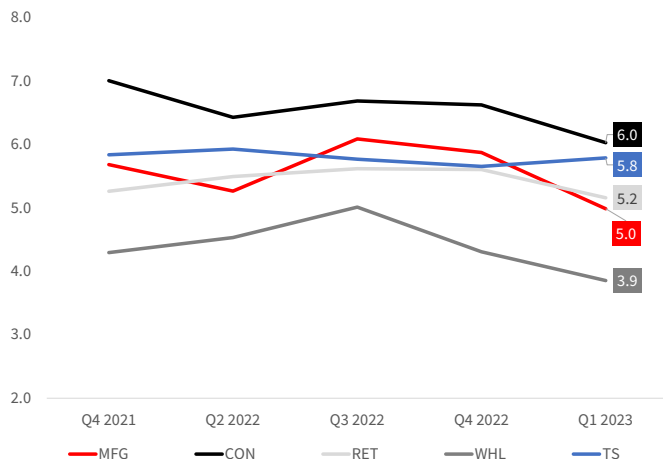
Extent labour shortages an issue for your business last 3m: industry (0-10 pts)



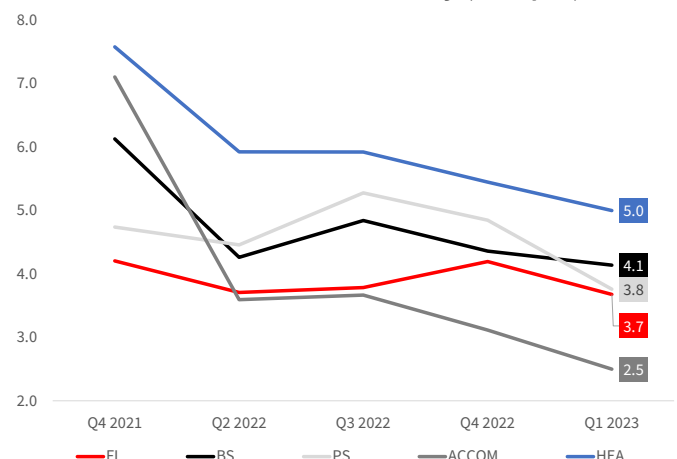
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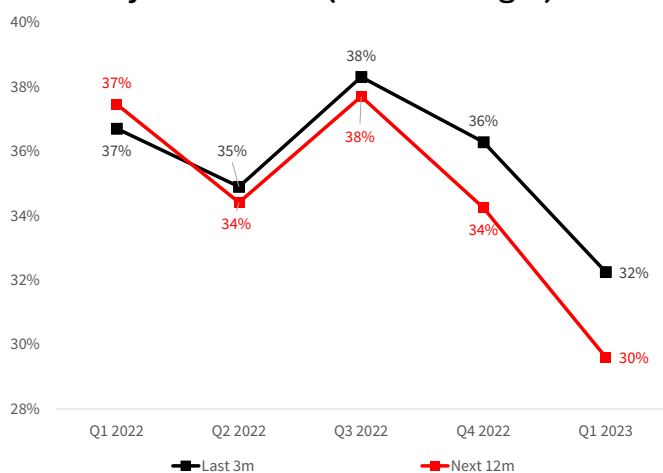
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Extent labour shortages an issue for your business (% scored "high")



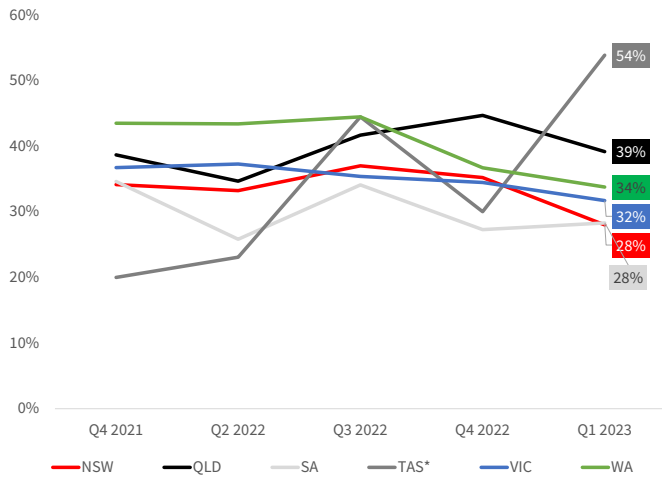
While SMEs overall rated the impact of labour shortages on their business quite 'moderate' and lower in the last 3 months in Q1, a large number continue to struggle much more with than others.

In Q1, around 1 in 3 (32%) of all SMEs said labour shortages were a 'very significant' issue for their business (i.e. scored 8+ pts) - though this was down from 36% in in the previous quarter, and the lowest read over the past year.

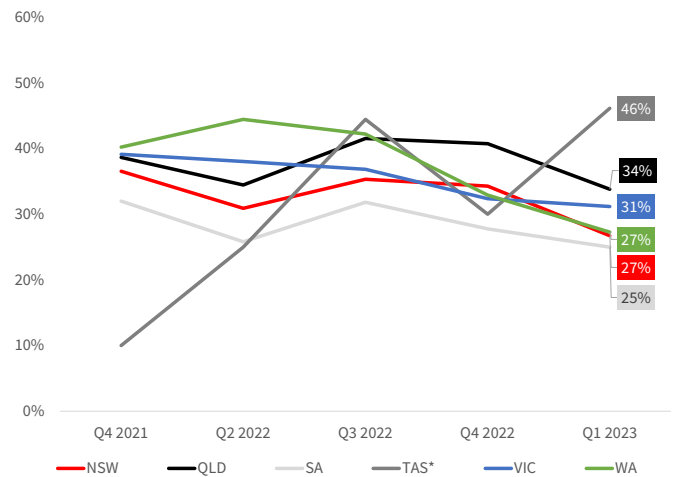
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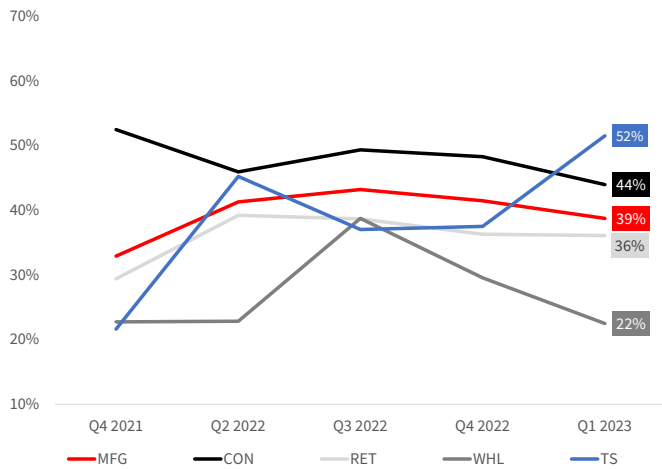


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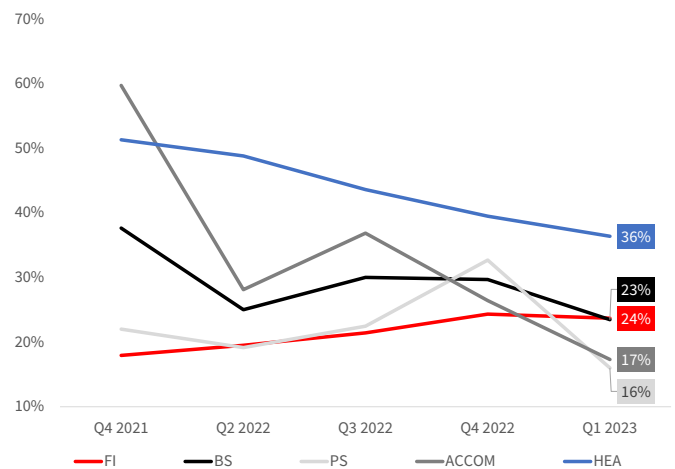


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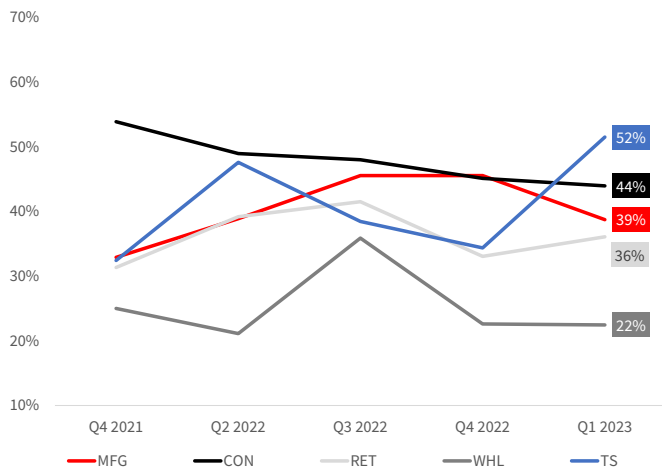
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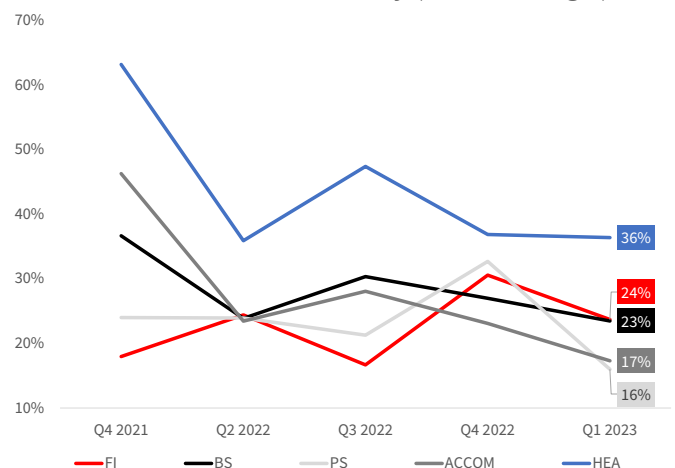
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## Labour Shortages (Q1 2023)

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## Contact the authors

**Dean Pearson**

Head of Behavioural and Industry Economics

[Dean.Pearson@nab.com.au](mailto:Dean.Pearson@nab.com.au)

+61 0 457 517 342

**Robert De lure**

Associate Director Economics

[Robert.De.lure@nab.com.au](mailto:Robert.De.lure@nab.com.au)

+61 0 477 723 769