

more
than
money



NAB Business Insights

Q2 2023

**Labour Shortages – How big is the
issue for SMEs**

Key Findings

Labour shortages were a little more problematic for Australian SMEs in Q2. SMEs are also more worried about the impact labour shortages will have on their business in the next 12 months. Labour shortages were a “very significant” issue for 1 in 3 SMEs overall, but for around 4 in 10 in the Transport & Storage, Construction and Health sectors in the last 3 months.

The Australian labour market remains very tight with only incremental easing in job vacancies over the past year, and wage growth should continue to strengthen as a result before the slowing economy sees unemployment begin to rise. The most recent labour force data showed strong employment growth continued through May and the unemployment rate remained at historic lows at 3.6%.

More recent payroll data showed the number of jobs increased 0.3% to mid-June, suggesting the pace of employment growth may have eased slightly but nonetheless continued through the month. More significantly, the release of job vacancies data for Q2 showed a fall of just 2% to 432k. That leaves the number of vacancies down 10% from their mid-2022 peak, but still almost double their pre-COVID level, with the number of vacancies per unemployed at around 0.8.

Looking ahead, NAB expects the labour market to weaken with the rate of employment growth to slow (and vacancies to fall) over the second half of the year and through 2024 as the economy weakens enough to see the unemployment rate rise to around 5% by end-2024 (from the near 50-year low 3.6%). This would be a considerable rise but, importantly would still leave unemployment around its pre-COVID level.

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.

Labour shortages were a little more problematic for Australian SMEs during Q2. When asked to rate the extent it was an issue for their business, on average they scored 4.9 pts (4.8 pts in Q1 but down from 5.1 pts in Q2'22). SMEs also scored a higher 5.0 pts when asked about the impact labour shortages may have on their business in the next 12 months (4.7 pts in Q1 but down slightly from 5.1 pts in Q2'22). Average scores suggest the impact of labour shortages is still quite “moderate”

That said, many SMEs indicated they struggled much more. In Q2, an unchanged 1 in 3 of all SMEs said labour shortages were a “very significant” issue for their business (scored 8+ pts) in the last 3 months - though this fell from 35% at the same time last year.

By state, labour shortages were a very significant issue for most SMEs in TAS (43%) and QLD (40%) in the past 3 months. By industry, 4 in 10 (42%) in the Transport & Storage sector said they were a significant issue in Q2 (down from 52% in Q1), and still the highest of all industries. Around 4 in 10 in the Construction (40%) and Health (39%) sectors also said labour shortages were a very significant issue, but only half as many in the Wholesale Trade (21%), Accommodation & Hospitality (21%) and Personal Services (22%) sectors.

SMEs are a little more pessimistic about the future, with a slightly higher 31% now expecting labour shortages to have a very significant impact on their business in the next 12 months (30% in Q1).

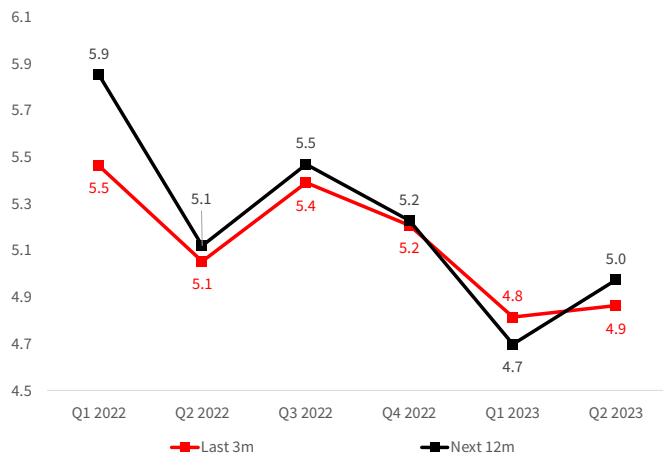
Labour shortages are expected to have a very significant impact in the next 12 months for most SMEs in TAS (46%) and QLD (37%), and the lowest in NSW (29%), VIC and WA (30%).

By industry, far fewer firms in the Transport & Storage sector now believe shortages will be a significant issue in the next 12 months (39% vs. 52% in Q1). However, far more firms in the Business Services sector expect labour shortages to have a very significant impact (34% vs. 23%). More firms in the Health sector (41%) expect to be significantly impacted by labour shortages than any other industry in the next 12 months, with the lowest number expecting to be significantly impacted in Accommodation & Hospitality and Wholesale Trade (20%).

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

Labour shortages were a little more problematic for Australian SMEs in Q2. When asked to rate the extent it was an issue for their business, SMEs on average scored 4.9 pts out of 10 (up from 4.8 pts in Q1'22, but down from 5.1 pts reported at the same time last year). SMEs also scored a somewhat higher 5.0 pts when thinking about the impact labour shortages may have on their business in the next 12 months (up from 4.7 pts in Q1'23 but down slightly from 5.1 pts at the same time last year).

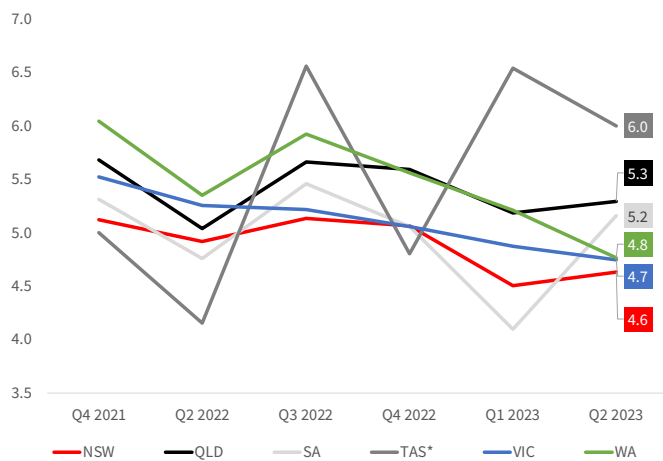
Extent labour shortages are an issue for your business (0-10 pts)



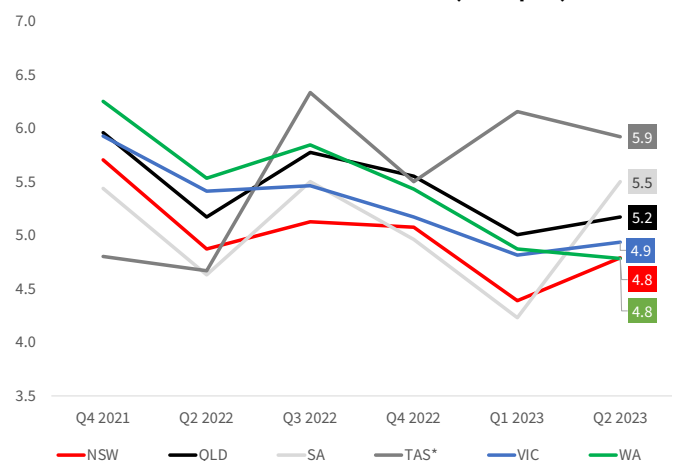
The business impact of labour shortages for SMEs varied across states in Q2. It remains highest in TAS but fell to 6.0 pts (6.5 pts in Q1). It increased sharply in SA to 5.2 pts (4.1 pts in Q1) and was also marginally higher in QLD (5.3 pts vs. 5.2 pts) and NSW (4.6 pts vs. 4.5 pts). Labour shortages were less assessed as less problematic in the past 3 months by SMEs in WA (4.8 pts vs. 5.2 pts) and VIC (4.7 pts vs. 4.9 pts).

Looking forward, SMEs in most states believe labour shortages will have a bigger impact on their business in the next 12 months than previously expected, particularly in SA (5.5 pts vs. 4.2 pts). Labour shortages are however expected to be most problematic according to SMEs in TAS (5.9 pts vs. 6.2 pts) and least so in WA and NSW (4.8 pts) - see charts below.

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



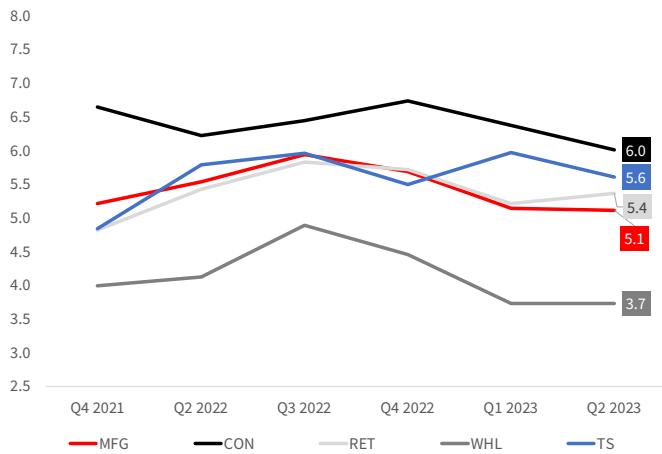
Extent labour shortages an issue for your business next 12m: states (0-10 pts)



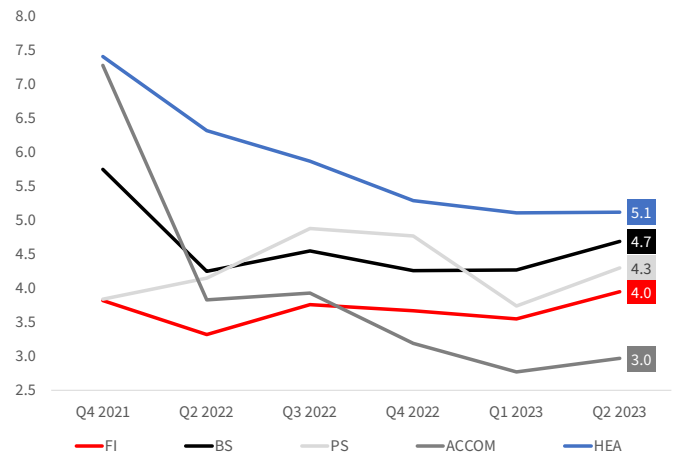
Labour shortages continue to impact SMEs differently according to the industry they operate in. In Q2, labour shortages continued to have the biggest (though somewhat smaller) impact in Construction (6.0 pts down from 6.4 pts in Q1), followed by Transport & Storage (5.6 pts vs. 6.0 pts) and Retail (5.4 pts vs. 5.2 pts in Q1). Despite rising, SMEs in Accommodation & Hospitality (3.0 pts vs. 2.8 pts) were again the least impacted. Other industries that reported a somewhat bigger impact on their business from labour shortages in Q2 included Personal Services (4.3 pts vs. 3.7 pts), Finance & Insurance (4.0 pts vs. 3.6 pts) and Business Services (4.7 pts vs. 4.3 pts).

Looking forward, SMEs in most industries expect labour shortages to have a bigger or unchanged impact on their business in the next 12 months, except in Wholesale Trade where the outlook is slightly better (3.7 pts vs. 3.9 pts). SMEs in Finance & Insurance (4.9 pts vs. 3.7 pts) and Business Services (4.9 pts vs. 3.1 pts) anticipate a noticeably bigger impact on their business in the next 12 months, but it will be most pronounced in Construction (6.1 pts vs. 6.0 pts) and Transport & Storage (unchanged at 5.8 pts).

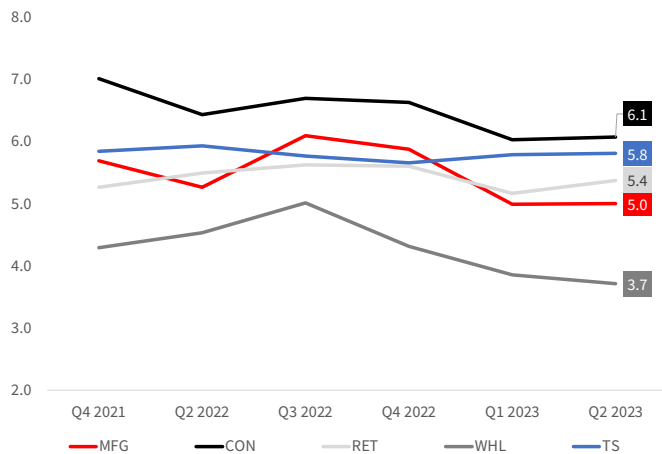
Extent labour shortages an issue for your business last 3m: industry (0-10 pts)



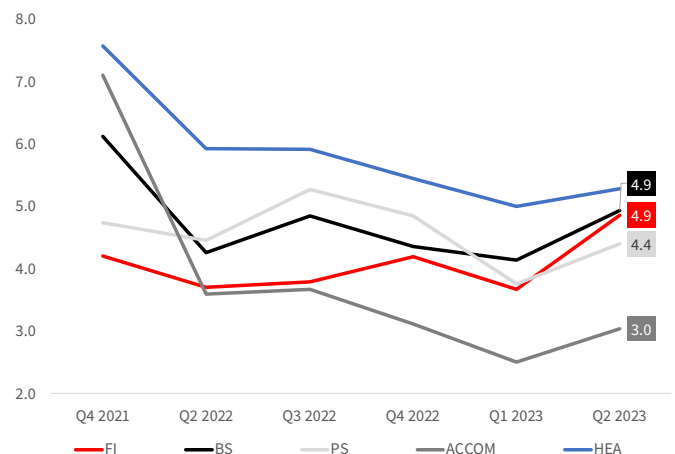
Extent labour shortages an issue for your business last 3m: industry (0-10 pts)



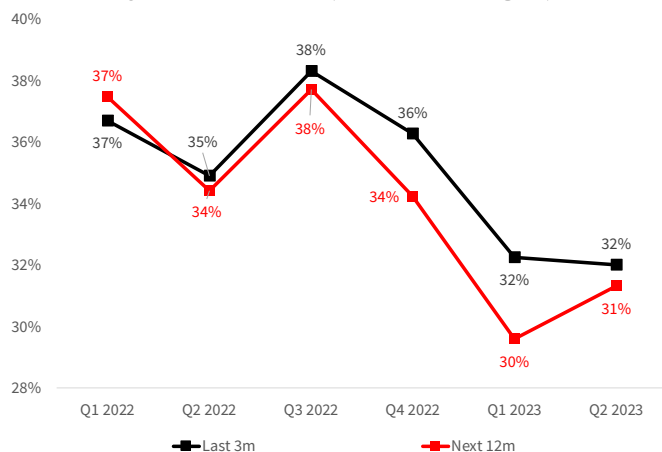
Extent labour shortages an issue for your business next 12m: industry (0-10 pts)



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



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

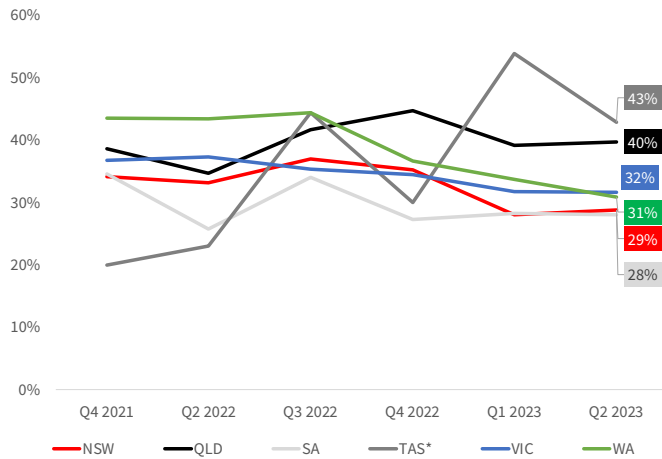


While SMEs on average continue to rate the impact of labour shortages on their business quite “moderate” a large number of businesses continue to struggle much more.

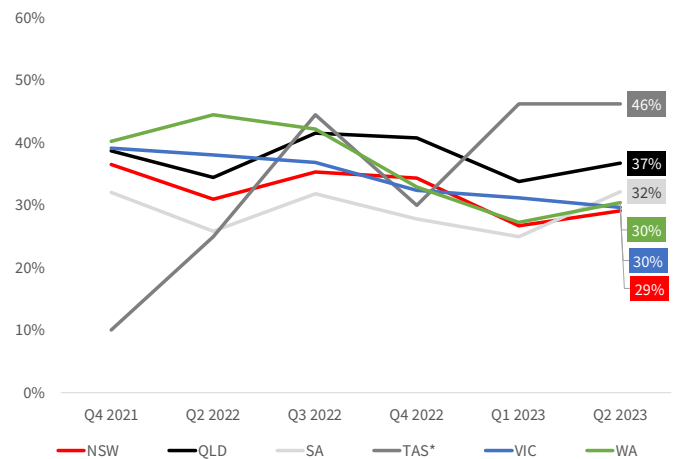
In Q2, an unchanged 1 in 3 (32%) of SMEs said labour shortages were a “very significant” issue for their business over the past 3 months (i.e. they scored the impact 8+ pts) - though this was down from 35% at the same time last year.

SMEs are however a little more pessimistic about the future, with a slightly higher 31% now expecting labour shortages to have a very significant impact on their business in the next 12 months. This is down from 30% predicted in the previous quarter and 34% at the same time last year.

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

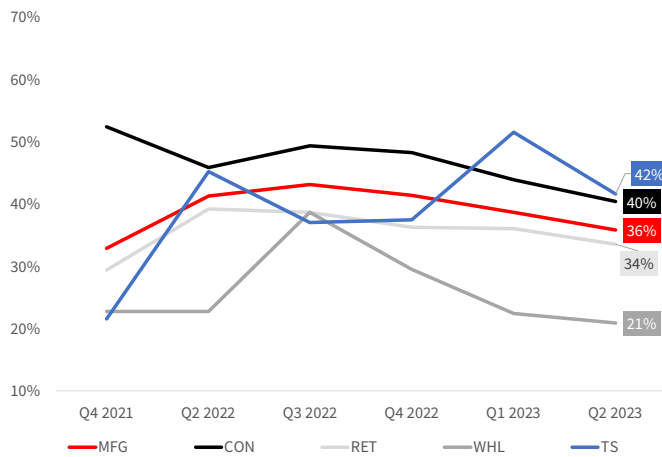


Extent labour shortages an issue for your business next 12m: states (% scored 'high')

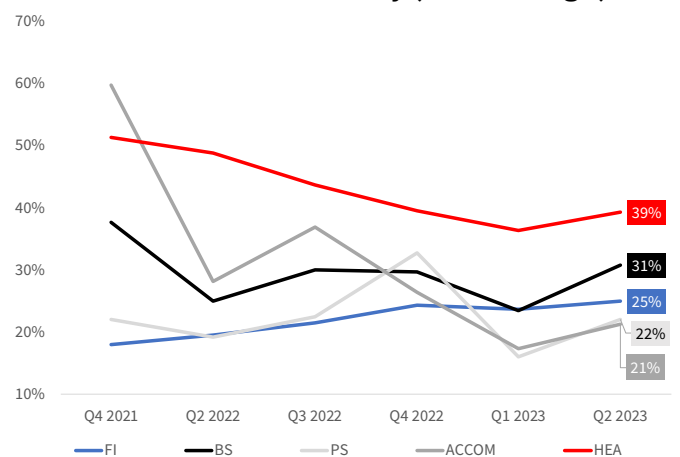


By state, the number of SMEs that said labour shortages were a very significant issue in the last 3 months was highest in TAS (43% but down from 54% in Q1). It was next highest in QLD (40% vs. 39%). The number experiencing very significant impact on their business from shortages was lowest in SA (28%) and NSW (29%). The number of SMEs who think labour shortages will still be a very significant issue for their business in the next 12 months remains highest in TAS (unchanged at 46%) and QLD (37% vs. 34%). It is lowest in NSW (29% vs. 27% in Q1), VIC (30% vs. 31%) and WA (30% vs. 27%) - see charts above.

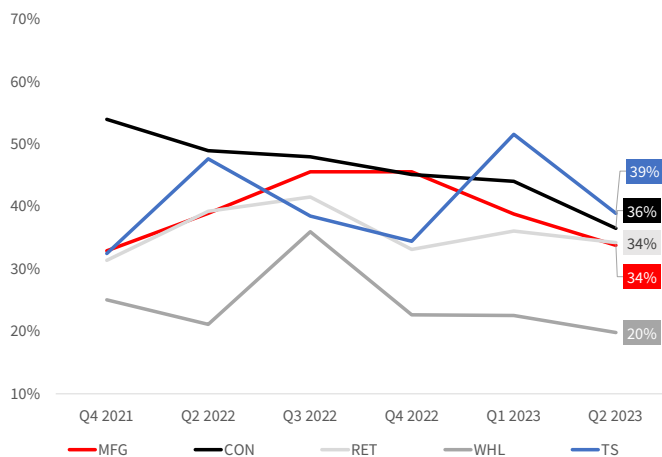
Extent labour shortages an issue for your business last 3m: industry (% scored 'high')



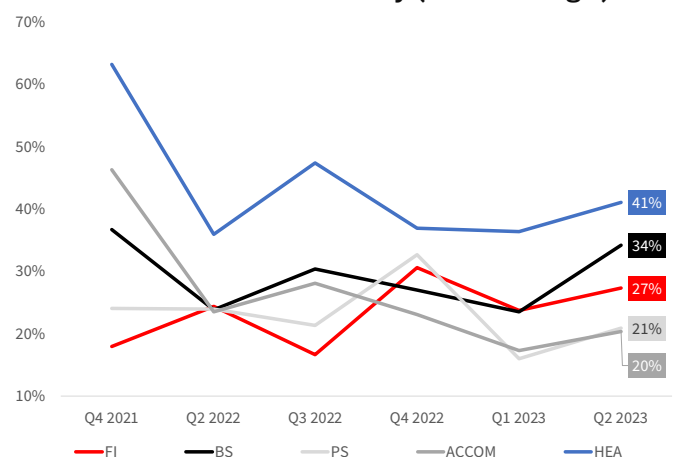
Extent labour shortages an issue for your business last 3m: industry (% scored 'high')



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



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



Labour Shortages (Q2 2023)

Over 4 in 10 (42%) SMEs in the Transport & Storage sector said labour shortages were a very significant issue for their business in Q2, down from 52% in Q1 but still highest of all industries. Around 4 in 10 in the Construction (40%) and Health (39%) industries also identified labour shortages as a very significant issue over the last 3 months. Only half as many SMEs in Wholesale (21%), Accommodation & Hospitality (21%) and Personal Services (22%) however said it was a very significant issue for their business in the past 3 months.

Far fewer SMEs in the Transport & Storage sector believe labour shortages will be a significant issue for their business in the next 12 months than in the previous quarter (39% vs. 52%), but far more in the Business Services sector expect it to be a bigger issue (34% vs. 23%). More firms in the Health sector expect to be highly impacted than any other industry (41%), with the lowest number expecting to be highly impacted in Accommodation & Hospitality and Wholesale Trade (20%).

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances.

NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.



Contact the authors

Dean Pearson

Head of Behavioural and Industry Economics

Dean.Pearson@nab.com.au

+61 0 457 517 342

Robert De lure

Associate Director Economics

Robert.De.lure@nab.com.au

+61 0 477 723 769