Key points

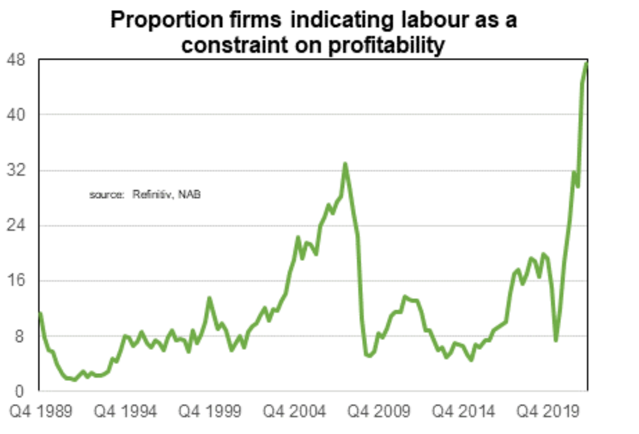
- **Finding workers is currently the number one concern of many firms;**
- **That reflects both demand and supply issues;**
- **It is likely to remain an issue for the next year, although the problem may be diminishing by end 2023;**
- **The longer-term problem is that there appears to be a growing mismatch between jobs available and the workers to fill them;**
- **The good news is that a sizeable proportion of firms are looking to boost the productivity of their existing staff.**

Labour pains

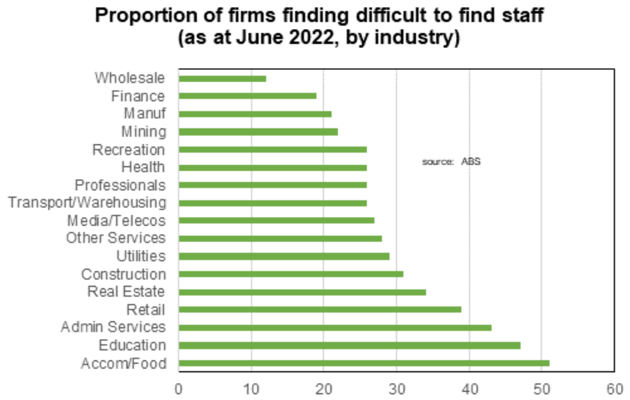
Firms are currently facing a number of challenges, from rising input costs to supply-chain problems. But the biggest issue for many businesses is concerns about getting workers. Firms thought it was tough finding and keeping employees back in the mining boom salad days. But that experience pales in comparison with what is currently happening. Finding workers is an issue for all sectors, although (as always) some sectors are finding it tougher than others.

Interestingly some of the sectors that have the highest ratio of vacancies (mining and finance) are amongst the sectors that report the least difficulty in finding staff. By contrast some of the sectors with the lowest ratio of vacancies (such as education and retail) are amongst the sectors that report the greatest difficulty finding staff.

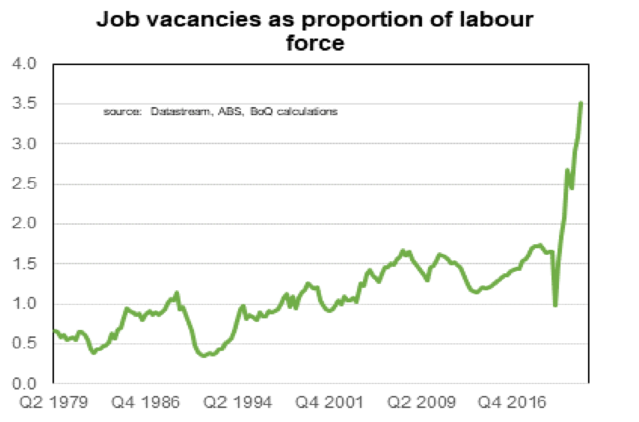
Labour is a critical constraint for business.



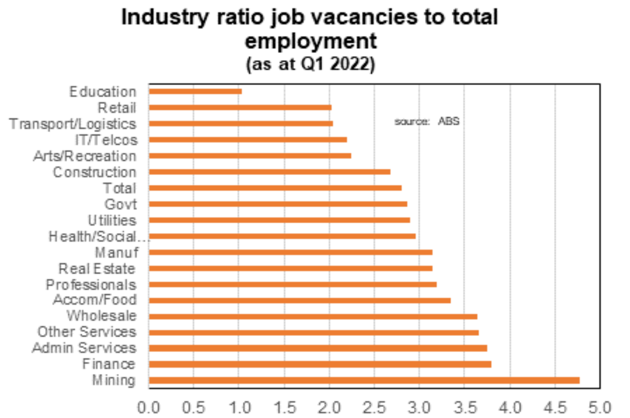
Some sectors are finding it a lot tougher than others to source staff.



There are plenty of jobs still to fill.



The sectors with the most vacancies are not necessarily the ones finding it hardest to get staff.

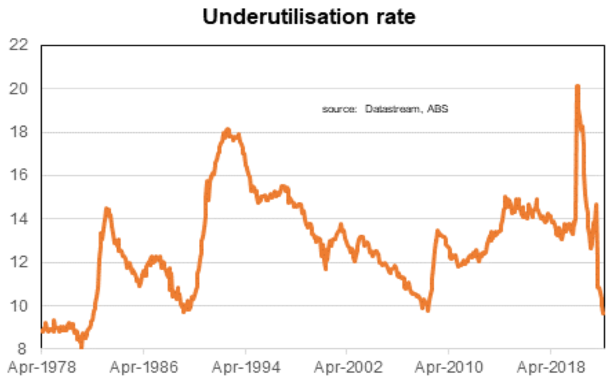


One of the reasons there is such a problem finding workers is that the demand for labour is white hot. Job vacancies as a proportion of the workforce is at its highest level in over thirty years. At the same time there is a constraint on the supply of additional labour. The unemployment rate is at its lowest level in over fifty years. Broader labour market measures (such as the underutilisation rate) are at their lowest level in over thirty years. The participation rate is at a record high. This has enabled the growth in the labour force to return to its pre-pandemic trend despite immigration being well below pre-pandemic levels.

Unsurprisingly, surveys indicate that households are very confident about the current state of the jobs market. The proportion of unemployed people reporting no difficulty in finding a job has risen. The proportion nominating too many applicants, a lack of skills or no vacancies as factors constraining them getting a job has declined. Outside of the current labour force, the number of 'discouraged job seekers (people who want to work but don't think there are any suitable jobs available) will likely decline further while the number of jobs remain plentiful.

The strength of the labour market has seen the unemployment rate drop to its lowest level in around fifty years.

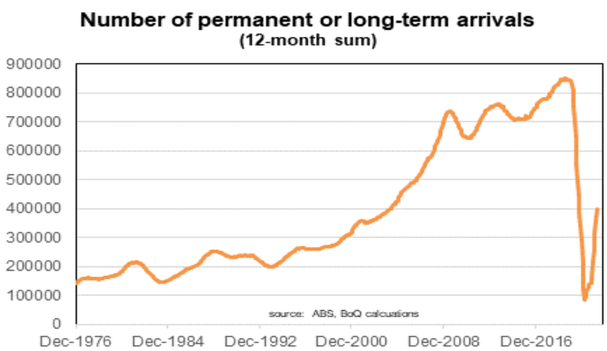
And the underutilisation rate is at its lowest level in around three decades.



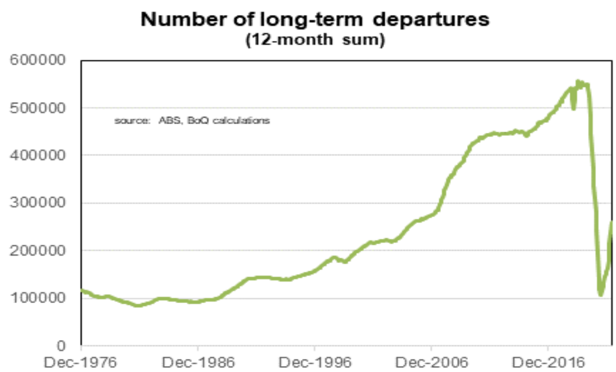
The participation rate is at a record high.

The size of the labour force has returned to its pre-pandemic trend.

Longer-term immigration is picking up strongly but remains well below its pre-pandemic level.



The number of long-term departures has also risen notably.



Some of the problems finding workers will likely be reduced over the next year. The supply of workers is increasing as the number of immigration continues to rise. Demand for labour in goods industries will slow as consumers spend more of their money on services. More generally rising inflation, slowing global economic growth and rising interest rates is likely to lead to softening in economic growth, reducing the demand for workers.

But it appears that there is a growing mismatch developing in the labour market. This mismatch may mean that the unemployment rate may not decline as substantially as suggested by the current extremely high level of vacancies. This mismatch was noted by the then Deputy Governor of the RBA Guy Debelle back in 2018. The same mismatch phenomena has been noted in the US over the past year.

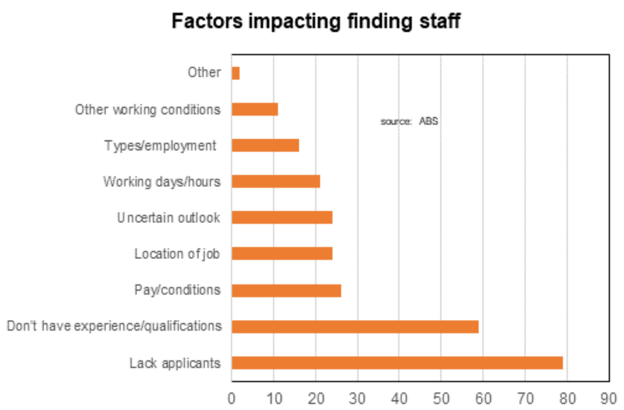
Why might it be happening? One possibility is that the industries that have the jobs, the skills that are required or the location of work might make it more difficult to fill vacancies. For example, a mining engineer in WA may find it difficult to get a job as a teacher in Tasmania. But that explanation is less appealing in the current environment where the unemployment rate is low across all states (it is extremely low in WA) and all sectors of the economy are reporting elevated job vacancies.

The Richmond Federal Reserve suggests that technology might be making the hiring process more difficult for employers by making it a lot easier for more people to apply for a job. The result may be that 'experience' becomes the primary screen used when making employment decisions. This suggestion is consistent with firms nominating applicants lacking relevant experience as the second biggest factor as to why they have trouble filling roles. And why the proportion of people nominating a lack of experience as a key reason why it is hard to get a job has not changed despite the strength of the labour market.

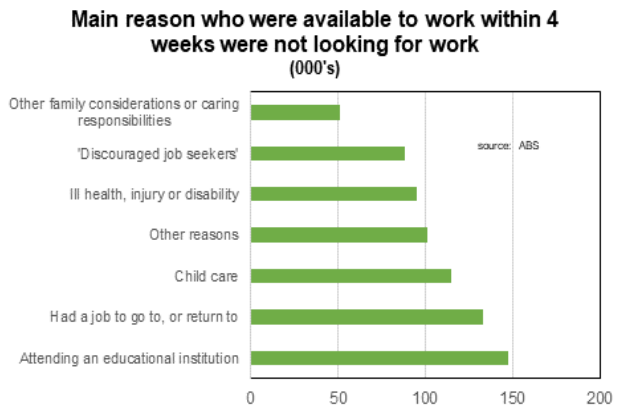
Other factors might also be at play. Many firms have taken the opportunity to increase digitisation investment in recent years, something that may require IT experience that some applicants may not have. The current competitive labour market means salaries for vacant roles may have been marked up. This increases the opportunity cost of making the wrong hire, so employing candidates with past experience is a way of mitigating risk.

Another possibility noted by Guy Debelle is that there has been a lack of on-the-job training over recent years that has reduced the number of workers with requisite skills. Increased training may be a long-term answer. In the short-term a rise in skilled immigration will be necessary to fill the gap. But Guy Debelle's comments were made pre-pandemic when immigration growth was stronger. This suggests that either we could not get enough of the right-type of skilled immigrants or there are other factors at play.

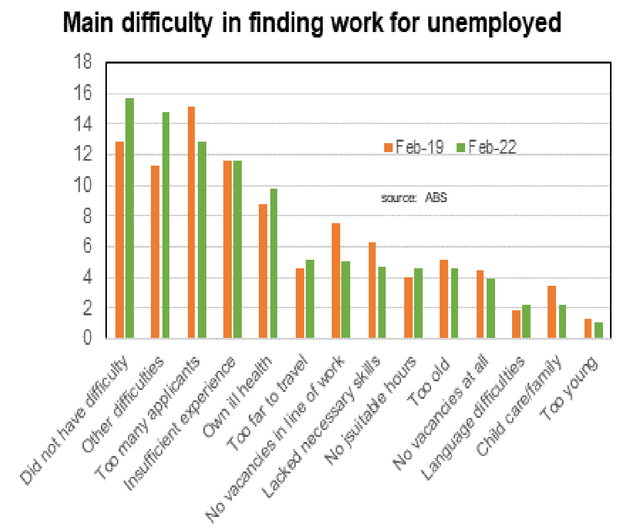
A lack of applicants in the biggest issue impacting recruitment. But a lack of experience is also a concern.



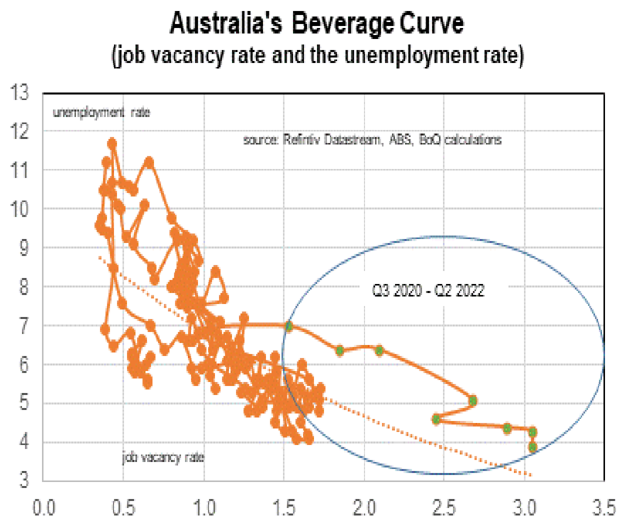
Improved childcare arrangements is probably the most significant policy that could increase labour force participation.



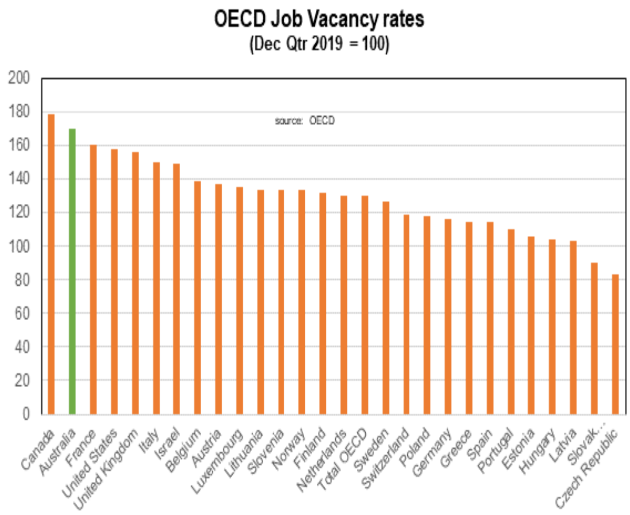
Workers are finding it easier to get work. But they report a lack of experience is an ongoing issue.



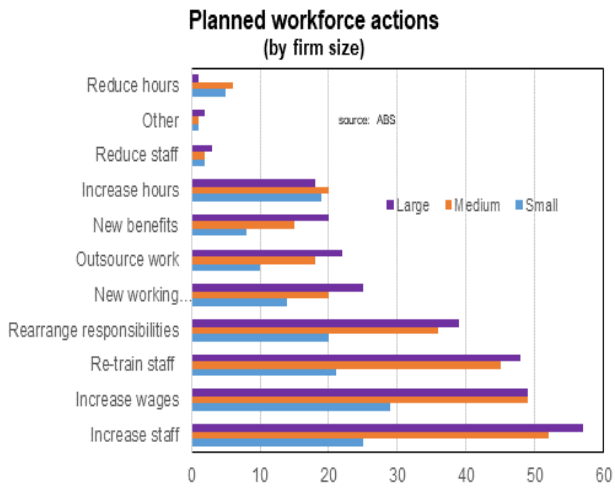
There appears to have been an increase in the level of vacancies relative to the unemployment rate.



Australia's problems in finding workers is near the highest in the OECD.



A sizeable proportion of firms are looking to make changes to boost productivity growth.



Summary

It is likely that worker shortages will remain part of the economic landscape for the next year. In time the problem will ease as there is an increase in the supply of potential workers from increasing immigration and a reduction in the demand for labour (from a slowdown in economic activity in general, and a slowdown in spending on goods). But the possibility of a growing mismatch between jobs and available workers could be an important medium-term economic problem.

Necessity is the mother of invention. The lack of new workers is leading firms to improve the productivity of existing workers. They are doing this by either retraining staff or providing them with new or changed responsibilities. This should allow those firms in time to become more efficient competitors. Undertaking policies such as retraining though is easier for medium and larger-sized firms.