

»» Many job openings, few job seekers: SMEs expect a shortage of skilled workers

No. 232, 4 November 2018

Author: Dr Arne Leifels, phone +49 69 7431-4861, arne.leifels@kfw.de

Small and medium-sized enterprises (SMEs) in Germany are finding it increasingly difficult to recruit skilled workers. The KfW SME Panel 2018 has found that two thirds of SMEs planning to hire skilled workers in the next three years expect to face recruitment difficulties. SMEs have become much more pessimistic than four years ago.

Of concern is the fact that the causes of recruitment problems have shifted, with a shortage of skills posing the main challenge. SMEs are much more worried than four years ago about not finding applicants with the required skills. Other causes, such as lack of additional qualifications or excessively high wage demands, are currently fading into the background.

The skills shortages that are arising in more and more occupations in the short term are the downside of the ongoing labour market boom. Besides a larger, structural skills shortage looms in the medium term when the baby boomers retire from around 2025. Labour market participation rates, skilled migration and investment in continuing education should grow (further) to mitigate the impact.

Germany is experiencing the longest labour market upswing since the 1960s. Within a good decade, 5 million additional jobs were created, mostly in small and medium-sized enterprises (SMEs), which now employ 70 % of the country's workforce. And for the near future there is every sign of employment growth as well. A special analysis conducted by the KfW SME Panel 2018 shows that 66 % of SMEs plan to hire skilled workers in the next three years. That is an even larger share than four years ago (2014: 60 %) when the jobs boom was already in full swing.¹

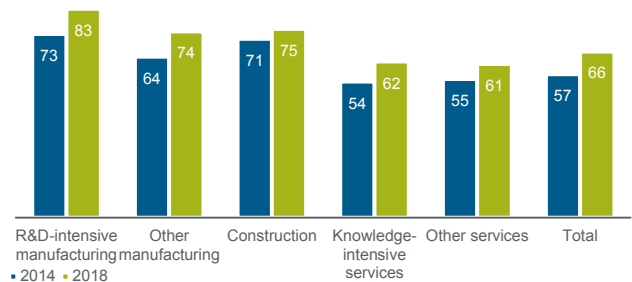
The downside of the boom: filling posts is becoming harder

However, not only employment is rising to new record levels but so is the number of vacant positions, which has now reached 1.21 million.² Employers are correspondingly pessimistic. Just under two thirds (65 %) of SMEs with hiring plans expect problems in the short term, meaning they may have to compromise on suitability, fill posts with a delay or leave them vacant altogether (Figure 1).

That is a significant rise of eight percentage points on the year 2014. Recruitment problems are growing in all economic sectors and the research and development-intensive segment of the manufacturing sector is particularly pessimistic, as it was in 2014.

Figure 1: Recruitment problems in all sectors

Share of hiring SMEs expecting problems recruiting skilled workers (in per cent)



Source: KfW SME Panel 2018

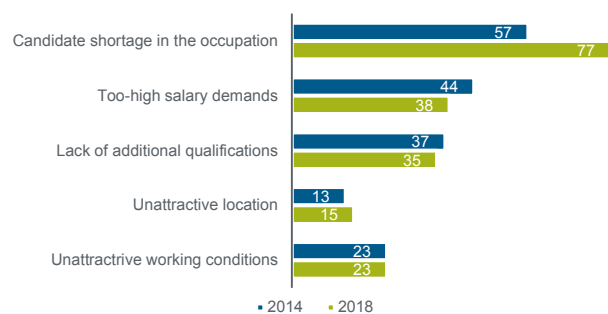
Of the businesses that are hiring, 83 % expect recruitment problems, up from 73 % in 2014. The rates in other manufacturing and construction have climbed to around 75 %. Service providers are generally less concerned about recruitment problems (a good 60 %) but here too the situation is clearly more serious than in 2014.³

Candidate shortage is the main problem

What do SMEs see as a barrier to hiring? The cause mentioned most often by far is 'candidate shortage in the occupation' (Figure 2). That was also the case in the KfW SME Panel 2014. Four years ago, however, 'only' 57 % of the affected SMEs regarded the candidate shortage as an obstacle, whereas today it is 77 %. The increase is not just unequivocal but lopsided. Recruitment actually fails significantly less often because of 'too-high salary demands' than in 2014 (dropping from 44 to 38 %) and slightly less often for 'lack of additional qualifications' (down from 37 to 35 %). The main cause is a shortage of candidates.

Figure 2: Candidate shortage is growing

Frequency of reasons given for recruitment problems (in per cent, multiple responses were possible). Applies to hiring SMEs that expect problems.



Source: KfW SME Panel 2018

Candidate shortage particularly in construction and manufacturing

It is true that it would still be exaggerated to diagnose a broad skills shortage in all of Germany. But the growing skills shortages of the past four years are visible in all economic sectors (Figure 3). As in 2014, the construction sector is most concerned about a shortage of candidates. Now, however, recruitment problems affect 90 % of small and medium-sized construction firms, not 75 % as was the case four years ago.⁴ Other problems, such as the sometimes unattractive working conditions in the construction sector, have faded into the background. This sentiment picture underscores the 'skills shortage analysis' of the Federal Employment Office. Skilled crafts and building trades head the official list of shortage occupations. Skilled workers have been in short supply in sanitary engineering and drywalling for years but various shortage occupations in below-ground construction have joined the list.⁵

The shift of recruitment problems towards occupation-specific skills shortages away from other reasons is particularly pronounced in research and development-intensive manufacturing. Employers in these areas are concerned about a shortage of candidates much more often than four years ago (81 vs. 60%). Too-high wage demands and lack of additional qualifications were nearly on the same level in 2014 but these problems have now fallen far behind candidate shortages (to 40 and 38 %, respectively). Thus, causes of recruitment problems are reaching a similar rate as those in 'other manufacturing', where candidate shortages were by far the most common problem four years ago already.

Shortages in the service sector are spreading

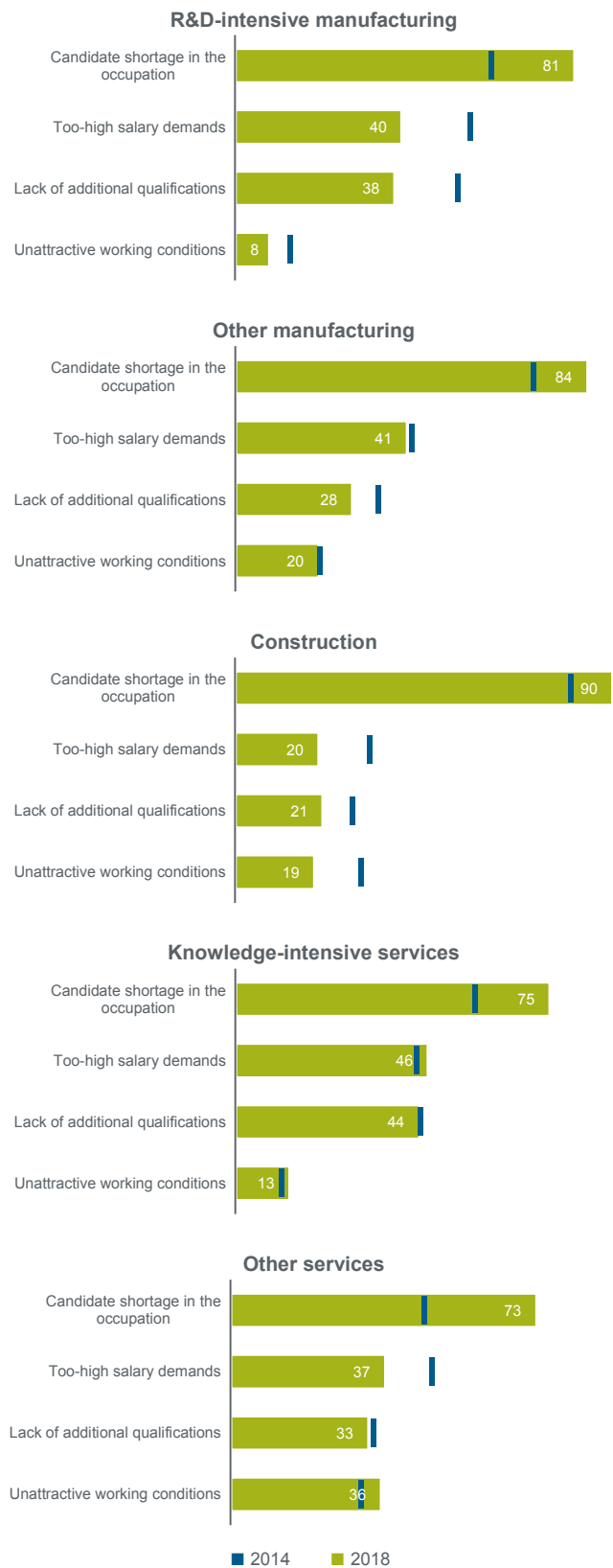
Although the sectors most concerned about a candidate shortage are still construction and manufacturing, since 2014 the situation has worsened most dramatically in the service sector. In the knowledge-intensive half of the sector, which has a high share of graduates, the rate has increased from 55 to 75 %, and in 'other services' it has even soared by 27 percentage points (from 46 to 73 %). Four years ago, high salary demands were still the most common problem here (48 %).

The greatly changed problem awareness in the service sector is consistent with the list of shortage occupations. For years a shortage of nurses and doctors has been known about but recently more and more shortages have emerged in service occupations. In the 'knowledge-intensive' health sector there is now also a shortage of midwives, physiotherapists, speech therapists, pharmacists and podiatrists. Software developers, IT application consultants and tax accountants are also in short supply.

Shortage occupations with medium qualification levels in public utilities have joined the list, as have master hairdressers and driving instructors. Supplementing the official shortage analysis, the KfW SME Panel has also identified skills shortages in cleaning services, the transport sector and educational institutions.

Figure 3: Candidate shortages in all sectors

Frequency of reasons given for recruitment problems (in per cent, multiple responses were possible). Applies to hiring SMEs that expect problems.



Source: KfW SME Panel 2018

SMEs in these sectors are more likely than average to expect candidate shortages in the coming three years.

Skills shortages despite increased labour force participation rates

The mood in the SME sector is clear. First, recruitment problems have grown noticeably in the past years and SMEs expect them to continue to grow. Second, the main problem is the shortage of candidates in many skilled occupations. The widening skills shortages in all sectors are driven by the enormous demand for labour. The economy is in good shape in 2018 as well despite global uncertainties and companies' order books are full. And that means a high need for labour.

What is remarkable is that today's record employment levels were achieved even though the working-age population is shrinking – as a result of the strong increase in the labour force participation rate of older workers and women, among other factors.⁶ Internationally, Germany has advanced from an average labour force participation rate to a rate that is close to Europe's peak group (Scandinavia, Switzerland, Netherlands). Nevertheless, much remains to be done. The labour force participation rate of mothers (and fathers) continues to depend on the educational mammoth projects of expanding child daycare and all-day schools. Besides, various tax and social law provisions act as a bonus for a parent to stay at home. The labour force participation of workers over the age of 60 can be improved particularly by further raising the retirement age, for example by linking it to rising life expectancy.

Workforce attrition appears inevitable

But even if Germany should reach the labour force participa-

tion rates of Sweden or Switzerland, it will experience an attrition of its labour force in the next two decades – which means significant skills shortages. The reason is that the post-war cohorts of baby boomers will begin to retire from around 2025 and leave behind a gaping void. Amidst all forecast uncertainty, the dimension can be roughly estimated: The workforce growth of almost 3.5 million people in the past 20 years is likely to reverse again in the course of the next 20 years.

Increasing the labour force participation of the existing working-age population remains key to dampening the impact of baby boomers' retirement. Immigration is another way of cushioning the blow. Germany needs more than just migrants with the highest possible skills. In the coming years it will also need significantly higher numbers than the net influx (immigrants minus emigrants) of 200,000 people who have come to Germany on a long-term average since 1950.

Immigration and continuing education will cushion the blow

Another important field of action is continuing professional education, which can increase both labour force participation and productivity.⁷ It is true that lack of additional qualifications as a cause for SMEs' recruitment problems has shifted slightly into the background because the main problem is the candidate shortage. But this is only a snapshot, as the structural transformation of the economy requires both minor adjustments to workers' qualifications as well as re-skilling and broad up-skilling. A labour market swept clean of skilled workers may provide important incentives to take advantage of the years ahead and take steps to prevent the looming demographic skills shortage. ■

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¹ In 2010, by contrast, only 30% of SMEs had recruitment plans as a result of the economic and financial crisis. See Leifels, A. (2015): **Recruitment of skilled workers in SMEs: Optimism must not distract from qualification problems**, Focus on Economics No. 100, KfW Research.

² See also Bittorf, M. and Rauche, S. (2018), Immer mehr offene Stellen – Chance für benachteiligte Gruppen am Arbeitsmarkt? (*More and more job vacancies – an opportunity for disadvantaged groups in the labour market? – in German only*), Focus on Economics No. 219, KfW Research.

³ Service sectors determine the average rate for SMEs as a whole (66%) because of the high number of service enterprises, with three quarters of the 3.7 million SMEs falling into this sector.

⁴ The skills shortages in the construction sector are one reason residential construction is currently unable to keep up with building approvals; see Müller, M. (2018): *Fachkräftengpässe im Bauhandwerk beeinträchtigen zunehmend den Wohnungsbau (Skills shortages in the construction sector are increasingly hampering residential construction – in German only)*, Focus on Economics No. 221, KfW Research.

⁵ See Federal Employment Agency (2018), reports: *Blickpunkt Arbeitsmarkt – Fachkräftengpassanalyse (Focus on the labour market – skills shortage analysis – our title translation, in German)*, Nuremberg, June 2018.

⁶ Another major factor is that part-time employment rates are rising continuously and per-capita working hours are falling. In other words, the amount of work is spread out across more workers. For an overview of the causes and success factors of the employment boom see Müller, M. (2018), **Is there no end to Germany's jobs boom? What we can do now to meet our skills needs in the future**, Focus on Economics No. 216, KfW Research.

⁷ Continuing professional education and lifting the retirement age are mutually beneficial. First, continuing education can decisively improve the employment opportunities and job satisfaction of older workers. Second, retiring at a higher age prolongs the payback period of continuing education expenditure. This increases the investment incentives for all stakeholders: employees, employers and the state with its support schemes.