

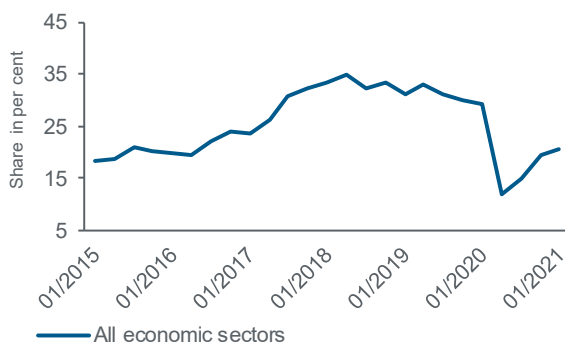
Skills shortages in the coronavirus crisis – The new KfW-ifo Skilled Labour Barometer

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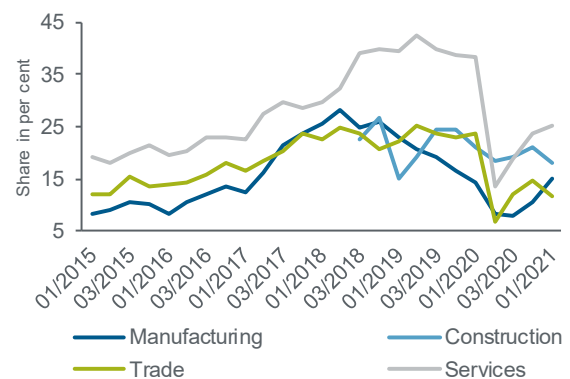
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- The number of businesses reporting skills shortages was up again in the first quarter, despite the lockdown.
- In some services sectors, skills shortages are now creating problems for up to 44% of businesses.
- Skills shortages might affect one third of businesses again at the end of 2021.
- SMEs, especially manufacturing SMEs, are more often affected than large enterprises.

KfW-ifo Skilled Labour Barometer



KfW-ifo Skilled Labour Barometer Economic Sectors



Shares of businesses whose operations are being negatively affected by a shortage of skills.

Sources: KfW Research, ifo Institute

Skills shortages are growing again and may lead to a prolonged phase of weaker growth

In the first quarter of 2021, skills shortages hampered the operations of 20.6% of businesses in Germany – one third more companies than in the third quarter of 2020. This was the finding of a representative business survey conducted in January for the newly designed KfW-ifo Skilled Labour Barometer. Although the renewed lockdown has reduced demand for skilled labour in the directly affected sectors yet again, for the most part employment in the overall economy has proven to be robust thus far.

The skills shortage in Germany has grown considerably since 2009. In the first quarter of 2020, the last quarter before the coronavirus started, a shortage of skills hampered the operations of 29.1% of businesses. It is safe to assume that the proportion of enterprises whose business activity is affected by a shortage of skilled labour will grow rapidly again from spring 2021. At the end of the year, that proportion is likely to return to where it was before the crisis if gross domestic product returns to the pre-crisis level by then.

The shortage of skilled workers is likely to continue growing in the coming years as further cohorts of baby boomers begin

to retire and as a result of weak labour productivity growth. Skills shortages can therefore be expected to increasingly slow down economic growth. For the western German states, the surveys conducted by the ifo Institute in the manufacturing sector go as far back as the early 1960s. Up to the first oil crisis, there were times when more than 60% of industrial firms reported disruptions from skills shortages. Nevertheless, real GDP of those federal states grew by an annual average of 4.4% from 1960 to 1973. This growth rate was made possible, despite the severe skills shortage, by the fact that labour productivity increased by 5.2% per year. In the coming years, however, productivity growth is expected to be nowhere near that level. Increasing skills shortages and weak labour productivity growth could result in an extended period of weak growth that would make it difficult to repair the damage caused by the coronavirus crisis and invest in digitalisation and the transition to a climate-neutral economy. But a systematic response in the form of greater labour market participation, immigration and stronger overall labour productivity growth aided by more innovation, investment and digitalisation can mitigate further shortages, although it will probably not prevent them. This is a trend that poses great challenges not just for Germany but also for other industrialised countries with a comparable population trend.

Note: This paper contains the opinion of the author and does not necessarily represent the position of KfW.

Service providers and construction firms are most often affected by skills shortages

Skills shortages currently affect the services sector more than any other major economic sector. In the present quarter, 25.2% of service businesses reported problems. They were followed by main construction with 18.2%.

In a deeper breakdown of the services sector, however, there are sub-sectors whose operations are even more likely to be affected by a shortage of skilled workers. Apart from the temporary labour industry, land-based transport, architecture and engineering firms, law firms and tax consultancies, as well as information technology services, are the most severely affected sectors, with 30 to 44% of businesses reporting that a lack of skilled workers is hampering their business activity.

Manufacturing, in turn, is currently being affected relatively little by a shortage of skills. Fewer than 12% of enterprises in the chemicals, automotive and mechanical engineering industries reported shortages. Pharmaceutical companies reported feeling virtually no effects at all.

Skills shortage is affecting significantly more businesses in eastern Germany than in other regions

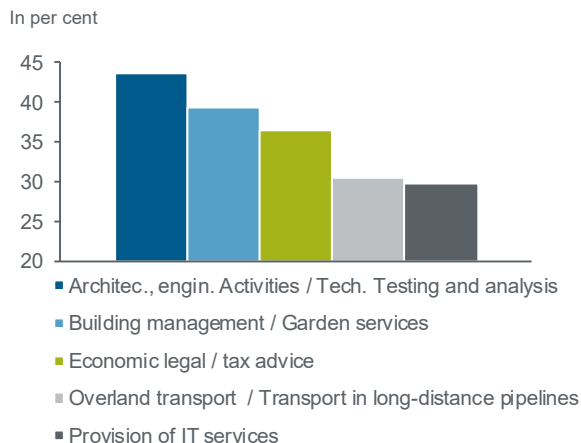
In the present quarter, 27.7% of companies in eastern Germany (including Berlin) have reported suffering from skills shortages. The eastern German states are thus much more affected by skills shortages than the other regions. The state of Hesse followed with 24.2%, while Bavaria was least affected (16.3%). The more pronounced skills shortage in eastern Germany is mainly due to the exodus of workers since 1990, although the migration balance in eastern Germany has turned positive in the past ten years as a result of migration from abroad. Furthermore, it is more difficult to attract skilled workers from other regions of Germany and abroad to settle in structurally weak regions with small towns or rural areas.

SMEs are more likely to be affected than large enterprises, especially in manufacturing

Small and medium-sized enterprises are more heavily affected by skills shortages. In the first quarter of 2021, 20.9% of SMEs reported that their operations were hampered by a shortage of skilled workers, compared with 19.9% of large enterprises. Particularly in the manufacturing sector,

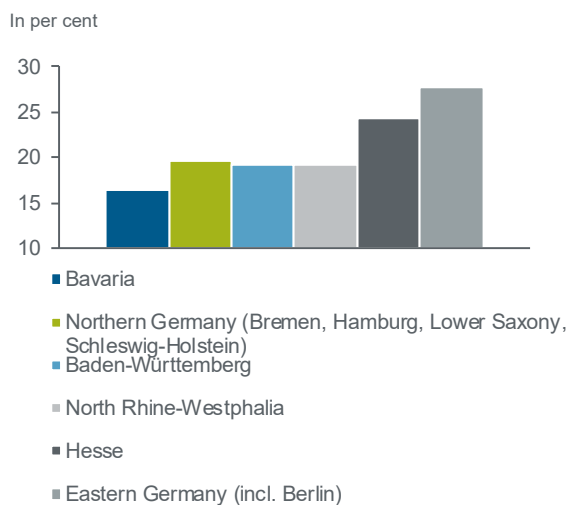
skills shortages affect more SMEs (19.8%) than large enterprises (7.7%). In the services and main construction sectors, by contrast, they affect more large enterprises, with rates of 28.9 and 21.3%, respectively.

Top 5 sectors affected by skills shortages



Source: KfW Research, ifo Institute

KfW-ifo Skilled Labour Barometer – regions



Source: KfW Research, ifo Institute

KfW Research

KfW-ifo Skilled Labour Barometer: January 2021

KfW-ifo Skilled Labour Barometer in figures

Shares of businesses whose operations are being negatively affected by a shortage of skills.

		Quarter/Year		
		01/2020	04/2020	01/2021
Total		29.1	19.3	20.6
Manufacturing	Total	14.1	10.6	14.9
	Manufacturing of vehicles & parts	10.1	3.6	11.6
	Mechanical engineering	11.5	6.8	11.6
	Manufacturing of food & animal feed	20.2	14.5	23.4
	Manufacturing of chemical products	6.3	7.0	6.9
	Manufacturing of metal products	20.7	15.3	21.9
	Metal production & processing	10.6	8.2	12.4
Construction	Total	21.2	20.9	18.2
Trade	Total	23.7	14.8	11.8
	Wholesale	23.6	13.5	11.9
	Retail	23.9	16.5	11.6
Services	Total	38.3	23.7	25.2
	Transport: overland / tunnels	47.4	28.2	30.4
	Telecommunications	46.4	15.2	20.0
	Provision of information services	45.6	29.8	29.9
	Legal and tax advice	49.7	39.9	36.6
	Business consulting	30.9	16.8	18.3
	Architec.+engin. activities / Tech. testing+analysis	51.7	39.4	43.6
	Research & Development	35.1	7.7	12.6
	Catering	31.9	19.7	14.5
	Accommodation	42.9	15.2	8.2
SME		28.3	18.5	20.9
LSE		30.6	20.8	19.9

Source: KfW Research, ifo Institute

Abbreviations:

S(mall and) M(edium-sized) E(nterprises).

L(arge-)Scale E(nterprises).

Construction and interpretation of the KfW-ifo Skilled Labour Barometer

The KfW-ifo Skilled Labour Barometer is based on evaluations of the ifo economic surveys which are used to calculate, among other things, the well-known ifo Business Climate Index. The Skilled Labour Barometer reports on the share of enterprises in Germany that report adverse impacts on business operations from a shortage of skilled workers. Each quarter about 9,000 enterprises from trade and industry, construction, wholesale, retail and services (without the banking and insurance sectors or the state) are polled on their business situation, among them some 7,500 SMEs. In addition to providing an overall indicator for the skills shortage in the German economy and indicators for various sectors and regions, the barometer also enables a company size-specific data evaluation separated into SME and large enterprises. Enterprises are generally classed as small to medium-sized if they employ a workforce of not more than 500 and record an annual turnover not exceeding EUR 50 million. For a more accurate analysis, however, these quantitative distinctions have to be drawn more narrowly for retail trade (maximum annual turnover of EUR 12.5 million), the building and the construction industry (up to 200 employees) and services (maximum annual turnover of EUR 25 million). All enterprises that exceed at least one of these thresholds are classed as large-scale enterprises. The main construction sector was first surveyed on the impacts of skills shortages on business activity in the third quarter of 2018. That was the reason the sector was not integrated into the overall indicator before that quarter. The value of the overall indicator varies only marginally as a result.