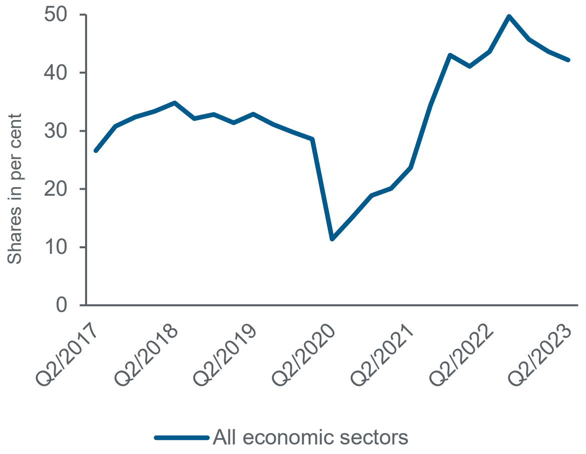
The skilled labour shortage: economic downturn instead of improved supply

26 June 2023

Author: Martin Müller, phone +49 (0)69 7431-3944, martin.mueller@kfw.de
Press contact: Christine Volk, +49 (0)69 7431-3867, christine.volk@kfw.de

- At the start of the second quarter, skilled labour shortages were affecting operations at 42% of businesses. Shortages thus eased significantly in the last half year but remain historically high.
- All sectors are affected by skilled labour shortages, especially the services sector, where 47% of businesses deplore a lack of skilled workers.
- Businesses in Germany’s eastern states are particularly affected (48%).

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. Q2/2022, for example, means 2nd quarter 2022, with the survey conducted in the first month of each quarter, meaning October for the current quarter.

Sources: KfW Research, ifo Institute

Skills shortages have eased since last year as a result of the economic downturn

In April 2023, 42.2% of SMEs surveyed under the KfW-ifo Skilled Labour Barometer reported that their operations were hampered by a shortage of skilled workers. In the services sector it was 47.4%, in manufacturing 35.1%, a much lower rate. Thus, the skills shortage has eased significantly as a result of the economic downturn. In July last year, skilled labour shortages still hampered the operations of 49.7% of enterprises. In a historical comparison, however, the shortage of skilled workers remains very high. Since the year 2021 it has worsened considerably despite the COVID-19 crisis and the severe economic fallout from Russia’s invasion of Ukraine.

Overall, in April large enterprises were affected more often than small and medium-sized businesses (44.0% vs. 41.3%). There are significant regional differences. Enterprises in eastern Germany are by far most severely hampered by skills shortages, at 47.8%, while businesses in the state of Hesse, Rhineland Palatinate and Saarland are much less affected, at 35.4%. This reflects the fact that Germany’s eastern states are particularly impacted by demographic decline and ageing.

A considerable portion of enterprises in most economic sectors continue to report problems resulting from skilled labour shortages. Those hit particularly hard include law firms, tax accountancies and auditing firms, 74.7% of which saw their business impaired by a shortage of skilled labour. Skills shortages continued to worsen substantially here in the past year as well. More than 50% of architecture and engineering firms as well as transport and storage companies, travel agencies and tour operators, providers of movable assets for rent or lease, facility management and gardening providers and manufacturers of data processing devices, electronic and optical equipment were impacted.

Conclusion

The share of businesses whose operations are impaired by skills shortages has decreased as a result of the economic slowdown. Still, the skilled labour shortage continues to hamper a large portion of enterprises, both in absolute terms and in a historical comparison. All major economic sectors are affected, and large enterprises slightly more than SMEs. For demographic reasons, the shortage of skilled workers is particularly pronounced in Germany's eastern states. At this stage, it can be expected that the business cycle will gradually recover from the price shock and the further course of this year. Therefore, the skilled labour shortage will probably increase again as a result of both economic and demographic factors.

KfW-ifo Skilled Labour Barometer in figures

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

		Quater/Year		
		Q2/2022	Q4/2022	Q2/2023
Total		43,6	45,7	42,2
Manufacturing	Total	39,8	42,1	35,1
	Manufacturing vehicles & parts	31,3	35,9	31,9
	Mechanical engineering	38,7	47,4	39,4
	Manufacturing food & animal feed	32,9	47,6	32,6
	Manufacturing chemical products	20,0	19,6	16,5
	Manufacturing metal products	48,3	50,1	44,2
	Metal production & processing	23,4	45,2	36,8
	Manufacturing data processing devices, electr. optical equipment	54,1	55,8	50,9
Construction	Total	36,3	37,0	32,2
Trade	Total	33,5	37,6	35,0
	Wholesale	31,8	35,4	33,6
	Retail	35,8	40,6	36,7
Services	Total	47,7	48,2	47,4
	Transport: overland / pipelines	54,0	54,4	61,8
	Telecommunication	51,6	56,8	21,1
	Provision information services	49,8	53,7	47,2
	Legal & tax consultation	61,4	68,1	74,7
	Business consultation	39,1	32,4	33,3
	Arch./eng. firms, Tech./phy./chem. testing	61,2	58,4	57,9
	Research & development	48,8	50,7	36,4
	Catering	51,6	48,2	41,2
	Accommodation	53,0	54,1	45,8
SME		42,7	44,1	41,3
LSE		45,4	48,9	44,0

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 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 SMEs 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 construction and civil engineering 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.