

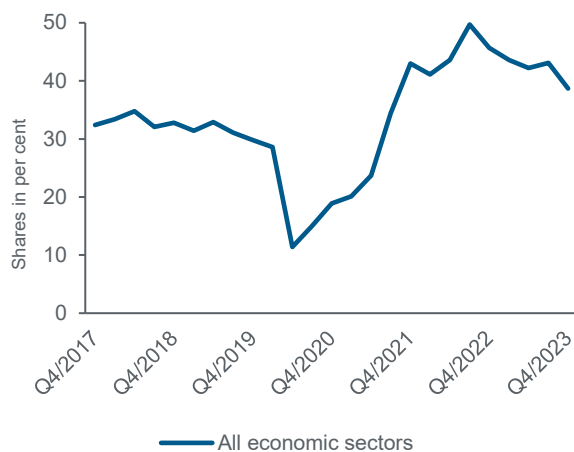
Weak economic development reduces skilled labour shortages – challenge remains

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

- At the beginning of the final quarter, skills shortages were affecting operations at 39% of businesses. Skilled labour shortages eased as a result of the weak economic performance but remain historically high.
- All sectors are affected by skilled labour shortages, most of all the services sector, where 45% of businesses are complaining about a lack of skilled workers.
- Businesses in Germany’s eastern states are particularly affected (44%).

KfW-ifo Skilled Labour Barometer



Shares of businesses whose operations are being negatively affected by a shortage of skills. Q4/2023, for example, means 4th quarter 2023, 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 considerably since last year as a result of the economic downturn

In October 2023, 38.7% 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 45.2%, in manufacturing 28.7%, a much lower rate. Thus, the skills shortage has eased considerably as a result of the economic downturn, particularly in the manufacturing sector. In July 2022, skilled labour shortages still hampered the activities of 44.5% of industrial enterprises. Nonetheless, despite the economic downturn, the shortage of skilled workers remains very high in a historical comparison.

In October it caused problems for 32.8% of retailers and wholesalers. A much larger share of retailers was affected than wholesalers (38.5 vs. 28.2%). In the main construction industry, 29.1% of enterprises saw their operations disrupted by a shortage of skilled labour. In July 2022 it was nearly 40%.

KfW-ifo Skilled Labour Barometer – economic sectors



Overall, small and medium-sized enterprises were affected just as often as large enterprises in October (38.7%). There were significant regional differences. Enterprises in eastern Germany were by far most likely to be affected by skills shortages, at 43.7%, while businesses in northern Germany were less affected, at 33.3%.

A considerable portion of enterprises in most economic sectors continue to be disrupted by skilled labour shortages. However, the extent to which they are affected now varies more strongly. Those hit particularly hard are law firms, tax accountancies and auditing firms, 77.2% of which see their operations impaired by a shortage of skilled workers. That is the highest rate so far recorded in this segment. A particularly high 63.8% of businesses operating in land-based transport (roads, railways) reported having been impacted. More than 50% were affected in catering and hospitality, architecture and

engineering firms as well as facility management and gardening services.

At the same time, skilled labour shortages decreased in the textile industry (with 11.2% of businesses affected), the chemical industry (15.8%), furniture manufacturing (20.3%) and automotive engineering (25.5%). Here, the drop in demand caused by the economic downturn and, in part, sharp cost increases resulting from higher oil and gas prices, inflation and higher collective wage settlements led to a decline in income and output. In the automotive industry, microchip and semiconductor shortages also hampered production.

Conclusion

In the final quarter of 2023, the share of businesses whose operations were impaired by skills shortages fell below the 40% mark again for the first time in two years as a result of the economic downturn. Nonetheless, skilled labour shortages continue to hamper a large portion of enterprises. All major economic sectors are affected, SMEs just as frequently as large enterprises. The shortage of skills is particularly pronounced in Germany's eastern states because of the high rate of emigration of young people in the years after unification.

The skills shortage will intensify again next year if the economic situation improves as predicted. More and more baby boomers will be retiring in the coming years and smaller cohorts of young workers will be entering the labour market. As a result, the skilled labour shortage is expected to enter a new phase in 2025. The number of employable people will begin to shrink. This is expected to limit economic growth to well below 1% in the longer term. However, the private sector, the state and people of working age have it in their hands to take countermeasures.

A decisive and rapid response that pulls all levers will be needed. What is necessary is to step up labour market participation of female and older workers and increase skilled migration from countries outside the EU. In addition, the private sector and administrations must increase labour productivity more strongly in order to substitute missing workers with digitalisation and automation. Setting all of these changes in motion requires stronger incentives in the taxation and transfer system for the labour market participation of women and older workers, improved conditions for innovation and investment, more attractive immigration conditions for skilled workers and stronger efforts to integrate and train workers in line with needs as well as efficiency improvements in enterprises and administrations.

KfW-ifo Skilled Labour Barometer in figures

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

		Quarter/Year		
		Q4/2022	Q2/2023	Q4/2023
Total		45.7	42.2	38.7
Manufacturing	Total	42.1	35.1	28.7
	Manufacturing vehicles and parts	35.9	31.9	25.5
	Mechanical engineering	47.4	39.4	32.9
	Manufacturing food and animal feed	47.6	32.6	35.0
	Manufacturing chemical products	19.6	16.5	15.8
	Manufacturing metal products	50.1	44.2	37.3
	Metal production and processing	45.2	36.8	22.6
	Man. data processing devices, electr. opt. equipment	55.8	50.9	33.1
Construction	Total	37.0	32.2	29.1
Trade	Total	37.6	35.0	32.8
	Wholesale	35.4	33.6	28.4
	Retail	40.6	36.7	38.5
Services	Total	48.2	47.4	45.2
	Transport: overland / pipelines	54.4	61.8	63.8
	Telecommunication	56.8	21.1	49.4
	Provision information services	53.7	47.2	44.8
	Legal and tax consultation	68.1	74.7	77.2
	Business consultation	32.4	33.3	30.4
	Arch. / eng. firms, tech. / phy. / chem. te	58.4	57.9	56.2
	Research and development	50.7	36.4	36.4
	Catering	48.2	41.2	52.4
Accommodation	54.1	45.8	54.5	
SME		44.1	41.3	38.7
LSE		48.9	44.0	38.6

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 main construction industry 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.