Skilled labour shortages differ broadly from sector to sector and regionally

3 July 2024

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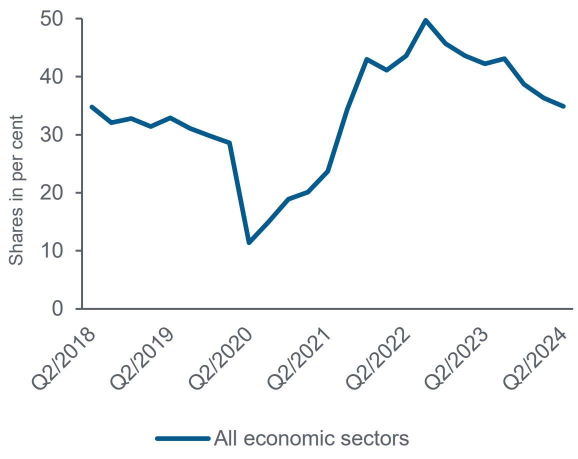
– At the start of the second quarter, skills shortages were hampering operations at 35% of businesses. Skilled labour shortfalls have eased as a result of the weak economy but remain historically high.

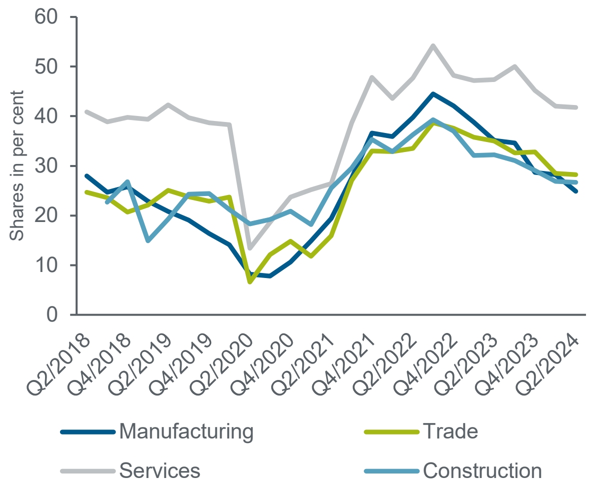
– Skills shortages have become very differentiated: Currently, 42% of services businesses and 25% of manufacturers deplore a shortage of workers

– Businesses in Germany's eastern states are particularly affected (40%).

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. Q4/2023, for example, means 4th quarter of 2023, with the survey conducted in the first month of each quarter, meaning April for the current quarter.

Sources: KfW Research, ifo Institute

Skills shortages have clearly eased as a result of the economic downturn but continue to have a strong impact

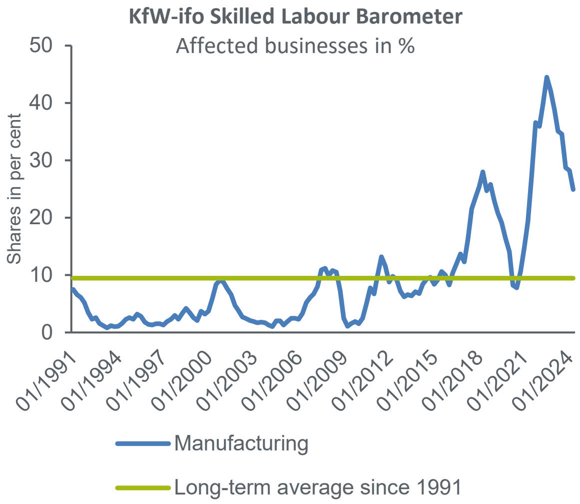
Although demand for skilled workers has decreased as a result of weak economic performance, shortfalls continue to hamper many enterprises. In April 2024, 34.9% of businesses surveyed under the KfW-ifo Skilled Labour Barometer reported that their operations were hampered by a shortage of skilled workers. In the services sector, the rate was a much higher 41.8%. Percentagewise, that was where the decrease from the record high levels of the year 2022 was also the lowest.

In the manufacturing sector, on the other hand, considerably fewer businesses were affected, at 24.9%, because the economic downturn has reduced the demand for skilled workers primarily among industrial enterprises since mid-2022. Nevertheless, almost three times more manufacturing enterprises than the long-term average continue to be affected. On average across all quarters since 1991, a mere 9.5% of manufacturing enterprises reported having been impacted by skilled labour shortages. Since the year 2017, the only time the rate fell below this average was at the height of the COVID-19 crisis in the year 2020. In July 2022, skilled labour shortages hampered the operations of 44.5% of industrial enterprises – the highest rate ever recorded.

Skills shortages now cause problems for 28.2% of retailers and wholesalers. In retail the share was 30.3%, in wholesale 26.7%. In the main construction industry, 26.7% of enterprises also saw their business activities disrupted by a shortage of skilled labour.

Overall, in April small and medium-sized enterprises were affected slightly less (34.2%) than large enterprises (36.3%).

Skills shortages in manufacturing historically high despite weak economy



Sources: KfW Research, ifo Institute

Impact on sectors varies widely

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 strongly. Those hit particularly hard are law firms, tax accountancies and auditing firms, 71.2% of which see their operations impaired by a shortage of skilled workers. In facility management and gardening services, land-based transport businesses (roads, railways) architecture and engineering firms and travel agencies, tour operators and other reservation service providers it is more than 50%.

But skills shortages have eased significantly in a range of manufacturing industries. Manufacturers of leather, leather goods and shoes are currently relatively little impacted (11.1% of businesses are affected), as are manufacturers of wood products, wickerwork and basketware (15.1%), electrical equipment (15.4%) and furniture (16.5%), as well as metal production and processing firms (13.6%).

Sharp regional differences – eastern German states particularly affected

In eastern Germany, 39.7% of businesses are hit by skilled labour shortages, whereas a significantly lower 31.8% of enterprises in Hessen und Rhineland-Palatinate are affected. Employers in many regions in eastern Germany face particular challenges in recruiting highly skilled young workers because of the noticeable decline in the employable population and low net migration. Structurally weak rural areas and regions with small towns in particular can fall behind economically as a result.

Conclusion

The share of businesses whose operations are impaired by skills shortages has dropped further below the 40% mark this year. Nonetheless, skilled labour shortages continue to hamper a large portion of enterprises. All major economic sectors are affected, and large enterprises slightly more than SMEs. Shortages have become more differentiated by sector and region. They are particularly pronounced in services industries and in Germany’s eastern states. Skills shortages will intensify again in the coming years if the economic situation improves as predicted. The extent of this will depend on how successful the responses are, which involve incentives for increasing labour market participation, attracting and integrating skilled migrants, demand-oriented upskilling and retraining of workers and measures aimed at raising labour productivity in individual businesses and across the economy.

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	Q4/2023	Q2/2024
Total		45.7	38.7	34.9
Manufacturing	Total	42.1	28.7	24.9
	Manufacturing vehicles and parts	35.9	25.5	29.9
	Mechanical engineering	47.4	32.9	26.0
	Manufacturing food and animal feed	47.6	35.0	27.8
	Manufacturing chemical products	19.6	15.8	18.0
	Manufacturing metal products	50.1	37.3	31.0
	Metal production and processing	45.2	22.6	13.6
	Man. data processing devices, electr. opt. equipment	55.8	33.1	36.4
Construction	Total	37.0	29.1	26.7
Trade	Total	37.6	32.8	28.2
	Wholesale	35.4	28.4	26.7
	Retail	40.6	38.5	30.3
Services	Total	48.2	45.2	41.8
	Transport: overland / pipelines	54.4	63.8	55.5
	Telecommunication	56.8	49.4	26.3
	Provision information services	53.7	44.8	39.8
	Legal and tax consultation	68.1	77.2	71.2
	Business consultation	32.4	30.4	31.8
	Arch. / eng. firms, tech. / phy. / chem. te	58.4	56.2	51.6
	Research and development	50.7	36.4	39.9
	Catering	48.2	52.4	45.8
	Accommodation	54.1	54.5	36.9
SME		44.1	38.7	34.2
LSE		48.9	38.6	36.3

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 indicator for the overall economy changes minimally as a result.