

A PERFECT STORM

CBI INSIGHTS ON LABOUR MARKET SHORTAGES AND WHAT TO DO ABOUT IT

The pandemic is causing labour shortages in many developed economies, but a perfect storm makes the UK's problems more acute

Labour shortages are biting right across the economy

Labour and skills shortages are being felt right across the economy, in sectors ranging from construction and manufacturing through to retail and hospitality. And the shortages are at multiple skill levels, from entry level front of house workers, through scaffolders and carpenters, through to skilled workers in butchery and electrical engineering. A shortage of drivers in the logistics sector is also disrupting supply chains across the economy in everything from food and health to utilities. A summary of the shortages identified by CBI members is appended to this paper.

The stats bear this out. Vacancies are higher in almost every sector than before the pandemic and unemployment is close to historic lows. A third of the companies that responded to the CBI's July manufacturing survey were concerned that skilled labour would limit output in the quarter ahead – the highest share since the mid-1970s¹. This share was similar among SME manufacturers, with the share of firms citing concerns of skilled labour at a joint-record high (33%)². In the services sector, there is also evidence of labour market tightness. In August, nearly half of consumer services firms were concerned that labour shortages would limit investment in the year ahead – the highest share on record. And a third of consumer services firms felt that skilled labour would constrain their level of business over the year ahead – another survey record³.

The pandemic and Brexit happening at the same time explains why the UK is having a harder time adapting

Many of the shortages that businesses are facing aren't new, but they are becoming much more difficult to manage. The shortage of HGV drivers is estimated to have grown from 60,000 to over 100,000. Digital skills were also already highly prized around the globe before the pandemic and it is not surprising that they're in-demand again now, particularly with so many businesses embracing new hybrid ways of working.

Shortages are also affecting other countries too with the US, Germany and France also hit by a lack of drivers. The UK is among the hardest hit because employers are responding to the impact of the pandemic on the labour market at the same time as the impact of leaving the European Union.

Firms knew Free Movement would end when the UK left the EU. Sectors with a high number of EU workers also knew that they could rely on the EU Settlement Scheme to retain their existing workforce, and that they needed to change to attract more UK workers in the future. Some had started making plans to adjust, but many felt unable to. The necessity of dealing with the pandemic dominated businesses' capacity to react well before detailed immigration rules were published last October. Just two months earlier, only 8% of respondents to the CBI's Employment Trends Survey said that they understood the new immigration system and were prepared for it⁴.

¹ CBI, Industrial Trends Survey, July 2021

² CBI, SME Trends Survey, July 2021

³ CBI, Service Sector Survey, August 2021

⁴ CBI, Employment Trends Survey, 2020

Since then, CBI members have spoken about a perfect storm disrupting their transformation. As well as the pandemic disrupting their ability to prepare for and adapt to the new immigration system, it also led to EU workers leaving the UK to be closer to family. This reduced the time to adapt created by the EU Settlement Scheme.

Firms feel this is more than a short-term issue, and won't solve itself anytime soon

Evidence from CBI members suggests shortages could take more than two years to resolve, not two months. The Coronavirus Job Retention Scheme has been a hugely successful lifeline for employers and employees, supporting 11.6 million jobs and ensuring the economy was better positioned to bounce back quickly. The ONS estimates that in early August, between 1.6 and 2 million workers remained on furlough.

But businesses can't and won't rely on the end of furlough to relieve shortages for three reasons. Firstly, furlough isn't free. Businesses have been sharing the cost of unworked hours with government since August 2020. This meant that companies have only furloughed workers that they have every intention of retaining and trying to bring back to their old jobs. Firms facing shortages already are also conscious that some of the industries continuing to make most use of furlough, like passenger air transport, are geographically concentrated, increasing the risk that new job seekers and shortage vacancies will be in different places. Finally, even where jobseekers and jobs are in the same place it's likely that retraining will be needed to change sectors. This will take time, and some people will prefer trying to get back into their old occupation rather than retraining.

Evidence from CBI members that shortages will take years to resolve are also based on the time it takes to train new workers. Investing in more apprentices and improving diversity are essential actions CBI members in sectors from food manufacturing to energy are taking. But will take time to build a qualified and experienced workforce. In other cases, like training HGV drivers, the capacity to train is a limiting factor. The RHA estimates that it will take at least 18 months to train enough HGV drivers.

A new long-term economic model for the UK is right, but inflexibility now just brings economic damage

The UK's economic challenges are well known and sharply felt. Lacklustre productivity growth, stubbornly low levels of investment and a reliance on adding workers to grow is a cycle that business and government share the ambition to break.

Tipping the balance in favour of greater capital intensity to build a more innovative economy can improve business performance, wages and living standards. But transformation on this scale requires a plan and takes time.

Pretending that there is a short cut to the finishing line instead of planning a sustained partnership between business and government to deliver this transformation will be needlessly disruptive and have very visible consequences.

The CBI has heard from companies artificially restricting capacity because they can't meet demand, like the hoteliers limiting the number of bookable rooms because they don't have enough housekeeping staff and can't get linen laundered.

It's also very visible to consumers when lead-in times for purchases grow significantly, like the kitchen manufacturer or the upholsterer taking nearly twice as long to deliver as they would do normally.

We have also heard from manufacturers delaying and cancelling planned expansions because they aren't confident that they could hire the workforce they need. These are future good jobs lost, hindering the government's levelling up agenda where these sites were due to be outside of London and the South-East.

While businesses are doing everything they can to be more efficient and avoid passing on these costs through higher prices, many are warning that it is quickly becoming unsustainable to continue without passing these costs on. This is particularly true in sectors like construction and logistics where many firms have very tight margins to begin with.

The most widely reported impact of shortages has been retailers and restaurants not being able to offer certain products because of shortages in production or distribution. The same issues are risks in critical utilities like the transportation of chemicals needed to treat water, and in health sector supply chains.

Co-ordinated government and business action is required now to make transformation in response to labour shortages as smooth as possible

The government must add urgent agility to the UK's training systems...

- Better target the Lifetime Skills Guarantee and the wider National Skills Fund at shortage occupations to help job seekers retrain for jobs where they are needed most
- Introduce time-limited additional flexibility to the apprenticeship levy, so that firms can divert funds to train more people for shortage roles where the training that is needed doesn't match the apprenticeship model

...and create the time for training to have an impact through limited, temporary access to visas

- Immediately update the Shortage Occupations List by accepting the Migration Advisory Committee's September 2020 recommendations and urgently starting a new, comprehensive review
- Treat shortages in skilled HGV drivers the same as other shortages of skilled workers and make them eligible to be added to the Shortage Occupations List

And business must accelerate its efforts to transition to the UK's new long term economic model:

- Step up investment in training to meet the UK's £13 billion a year reskilling deficit
- Accelerate efforts to draw on talent from across the whole of society through diversity & inclusion strategies to attract, retain and develop all under-represented groups in the labour market
- Double down on investment in capital, digital and automation as soon as Covid-ravaged balance sheets allow
- Be open to redesigning jobs to make them more attractive relative to the other opportunities that jobseekers in the UK have available to them

In summary, the Government's ambition that the UK should become a more highly skilled and productive economy is right. But implying that this can be achieved overnight is simply wrong. And a refusal to deploy temporary and targeted interventions to enable economic recovery is simply self-defeating.

Annex – examples of shortages identified by CBI members

	RQF level 1, or equivalent	RQF level 2	RQF level 3+
Logistics		Forklift drivers LGV drivers HGV driver	
Food & Drink	Food & meat processing operatives Livestock & arable workers Fruit & flower pickers		Butchers
Retail & hospitality	Front of house Retail shop floor Warehouse operatives Laundry operatives Cleaners & housekeeping	Chefs	Administration
Construction		Scaffolders Carpenters	Welders Electrical engineers
Manufacturing	Fabricators Production operatives Factory assembly workers	Machine operatives	Mechanical engineers