Short-Staffed

How can businesses beat the big, global forces behind labour shortages and climbing costs?

May 2022

Short-Staffed

The ‘wall of cash’ created by the UK Government borrowing from its own bank is causing problems. That’s what happens when you inject capital into companies from the ether.

While the support during the initial waves of the pandemic may have shored up finances in the short term, the knock-on effects of quantitative easing are creating long-lasting problems that businesses must urgently address.

But what can businesses do to maintain productivity and drive growth in an increasingly unstable economy?

To answer that, we must first look at the facts:

“We are short of three million people. There is every chance there will be a wage price spiral as employers compete for scarce labour.”

- Roger Martin-Fagg, economist

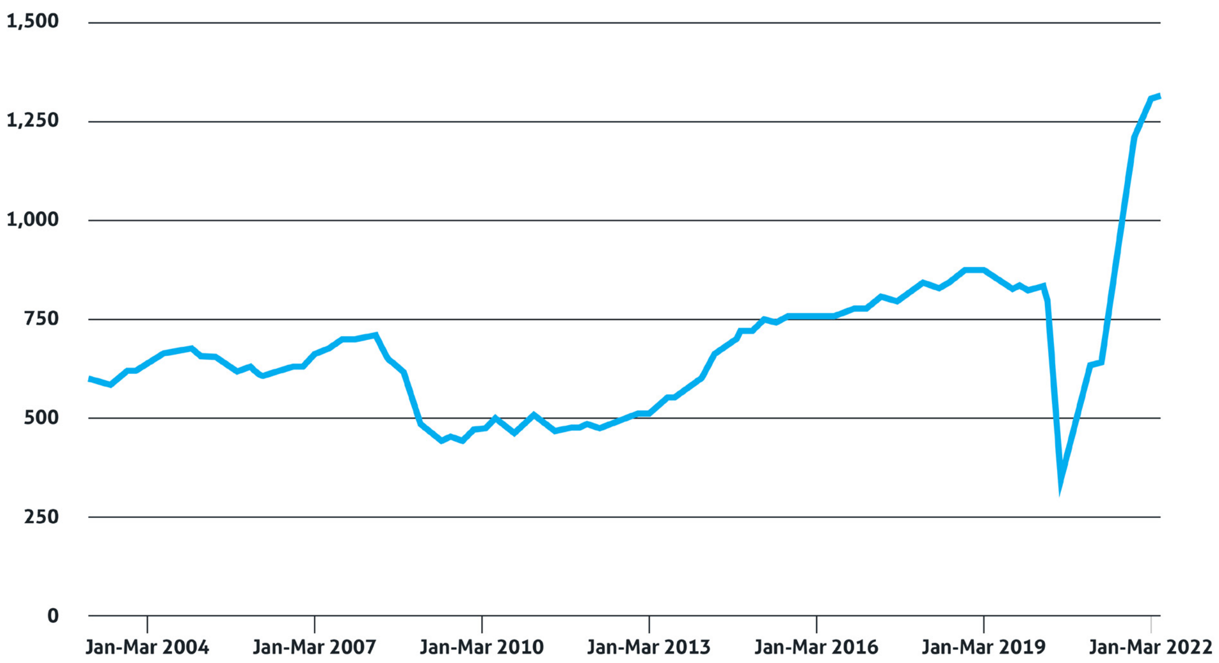
1.295 million the number of job vacancies, up by 33,700 from last quarter	**201,000** fewer young people in the workforce	**96,000** manufacturing vacancies
50%+ of businesses can’t find the labour to meet demand	**8,829** 16-64 year-olds classed as ‘economically inactive’	**11.1%** RPI inflation (40-year high)
9% CPI inflation	**3.7%** UK unemployment rate (May 2022)	**4.2%** rise in wages (excluding bonuses)

The UK’s shrinking labour market is creating big problems for employers. As older workers leave the labour market, you’d be forgiven for thinking this makes room for younger workers and a reinvigorated labour market. Not so.

Unemployment now sits at just 3.7%, with a record 1,295,000 job vacancies reported at the last count. This is an increase of 33,700 in the last quarter and the first time since records began that the number of vacancies is larger than the number of people unemployed. To put it bluntly, there are now more roles open than workers to fill them. Critically, figures from the autumn highlight 200,000 fewer 16-24-year-olds in the job market and updated stats this week confirm that young workers are in decline, with a further 13,000 fewer in the population from January-March 2022.

The impact of this is real; more than half of businesses now say that vacancies are preventing them from meeting demand.

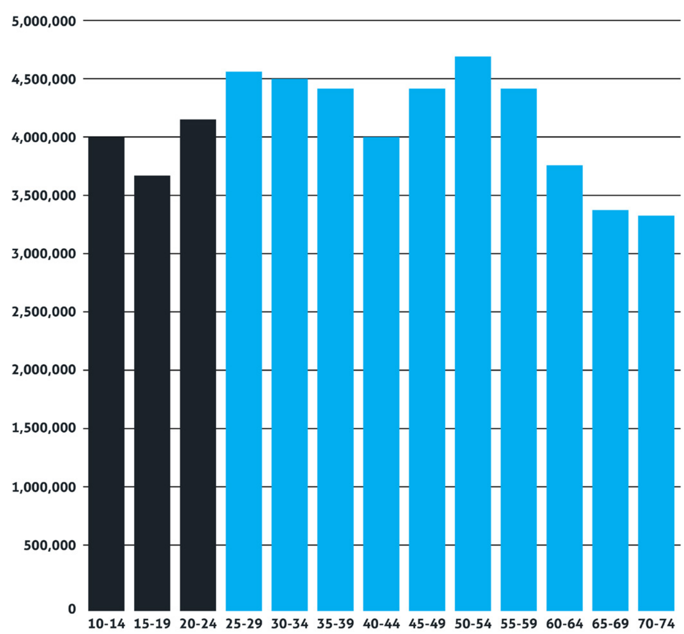
Number of vacancies in the UK, seasonally adjusted, January to March 2003 to January to March 2022:



The impact of falling birth rates over three decades has left a top-heavy workforce that continues to lose more workers than it gains.

As seen below, some of the lowest population figures are among 10-14, 15-19 and 20-24 year olds - a problem which employers will increasingly notice as entry level additions to the workforce continue to dwindle.

If we're going to solve the people problem, we need to understand the big global forces that are driving it.

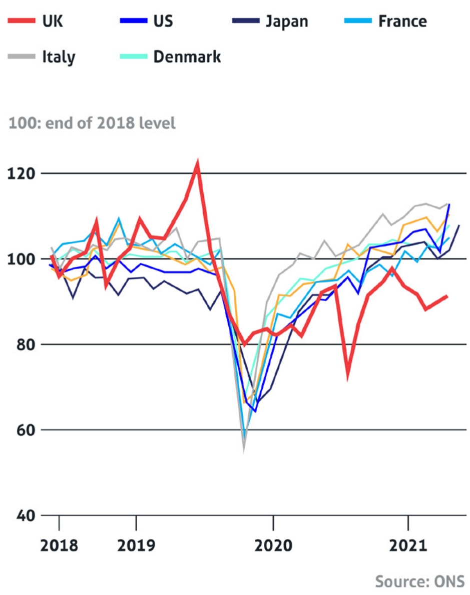


UK Population by age in 2019

Context clues: Framing the big picture

Let's start with exports.

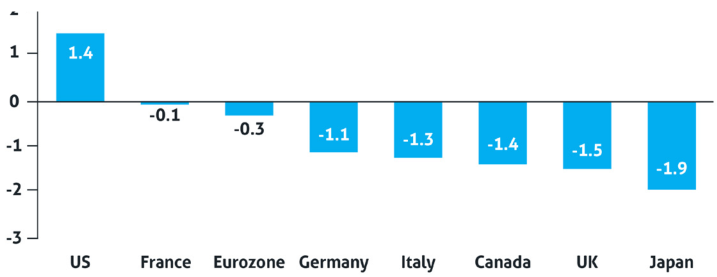
Look at this graph. It shows UK exports from 2018 to 2021 compared to six other major exporting nations - Brexit and the UK's subsequent failure to recover as strongly from the pandemic is clear to see.



Then there's growth.

While the UK Government has been quick to claim the fastest growth of all G7 economies, the International Monetary Fund (IMF) begs to differ. Sorry, Boris - but the numbers tell a different story - and they have the important distinction of actually being true.

According to IMF figures from Q3 of 2021, real GDP % growth was -1.5% for the UK, behind the US, France, Germany, Italy, Canada, as well as the Eurozone as a whole.



G7 real GDP% change compared to pre-pandemic level Q3 2021 compared with Q4 2019

The IMF now predicts GDP growth of just 1.2% in 2023 - adding low growth to the already gloomy picture of high inflation and rising costs.

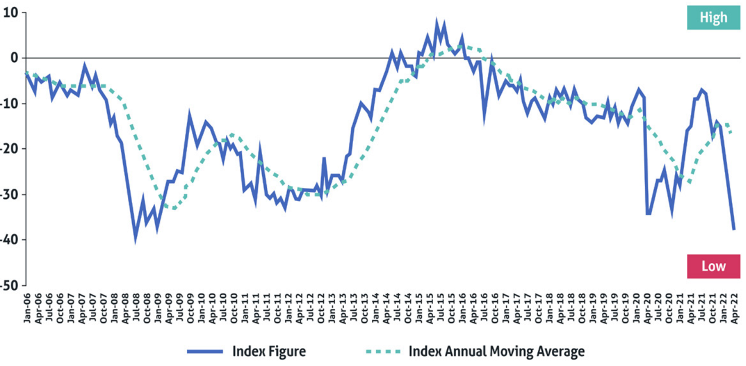
Next, there's energy. In March, almost a third (29%) of businesses reported production or supply issues caused by recent energy price hikes. If you're running a factory, you may be wondering who those lucky two thirds of businesses are.

And then, there's the war in Ukraine, which has, according to the Confederation of British Industry, "materially altered the near-term outlook for the UK and global economies". Plus, let's not forget the ongoing covid lockdowns in China, which continue to have knock-on effects on global supply chains.

Perhaps unsurprisingly amid all the gloom, consumer confidence has taken a knock, falling to -38. That's just one point off the record low hit during the 2008 financial crisis.

As Andy Bruce at Reuters succinctly said (with former business editor of the Times Graham Ruddick [sharing]()):

G7 real GDP% change compared to pre-pandemic level Q3 2021 compared with Q4 2019




Andy Bruce
@BruceReuters

Readings of -30 and below have presaged recession 4 out of 5 times since the @GfK index started in 1974, and we're now at -38.

7:52 AM · Apr 22, 2022 · Twitter Web App

Are we heading towards a recession? I suppose only time will tell - but all signs seem to say 'I'm afraid so'. Alone, that's hardly ideal - but typically, these conditions further drive unemployment figures even higher - which doesn't bode well for UK businesses with the workforce already waning...

Supply and demanding change

While some [experts]() are predicting that Russia's offensive against Ukraine herald's the end of globalisation as we know it, which would further impact Britain's ability to access overseas markets, this seems unlikely. We're already seeing the thirteen-month low Markit/CIPS UK Manufacturing Purchasing Managers' Index rising to 55.8 from 55.2 in March.

It might seem like incremental gains (and it is) but after a five-month low in March, it is at least edging in the right direction. Despite the current economic climate, the UK still has the world's ninth largest manufacturing industry.

UK manufacturing employs 2.7 million people, on an average wage of £32,500, and is responsible for 70% of business R&D and 13% of all [business investment]().

The industry, though, faces two big, competing issues. As traditionally manual jobs become [increasingly obsolete](), there are now almost 100,000 vacancies, creating the most acute labour shortage in 30 years.

> "Temporary blips happen all the time. I think we have to distinguish between short-term disruption and structural changes in the economy."
>
> - Exequiel Hernandez, tenured professor of globalisation and innovation, Wharton School of the University of Pennsylvania

Doing more with less: a cause for optimism?

Labour scarcity looks set to remain, but signs are that business is making up for these shortages in other ways - namely, with greater automation. It makes sense, given that the complex machine that is the UK economy can't function with fewer and fewer cogs being lost month on month.

Regardless of whatever industry you operate in, the facts are that the vast majority are increasingly understaffed. We talk at length about 'green' business practices - but what about the fact that business as we know it is completely unsustainable?

Stats from the last three months of 2021 show that productivity across the UK economy rose by 1.3%, putting it back above pre-pandemic levels for the first time.

Output per hour worked was 2.6% higher than the 2019 average, while output per worker - the real measure of progress on factory automation - was up 1.4%, again, further exceeding 2019 levels.

Let's put that into perspective: productivity is now higher than it was two years ago, despite the fact that there were 600,000 more workers in the labour force.

In any context, in any industry, this reflects a basic tenet of business: supply and demand. Well, workers are in short supply - so it's time to change what we as businesses demand.

The manufacturing sector might be the poster child of automation, but it's just the beginning. There are bigger, better gains to be had across every sector - but first we have to ditch our outdated ideals and make a clear and consistent case for automation.

Don't dwell on displacement; prioritise progress

The media likes to refer to automation as putting workers "in danger of being replaced by computers and robots" - but this isn't an accurate depiction.

Firstly, we need to reaffirm an idea we're all familiar with: concepts change, and organisational structures are inherently fluid. At least, good ones are.

If an idea doesn't work, we famously go 'back to the drawing board'. Well, it's time to crack the pens out. As Forbes said earlier this month, "business leaders must rethink workplace norms to navigate a persistent labour shortage".

Of course, every job is inherently different, but some can be vastly improved through automation. Think of it this way: digital cameras are everywhere, right? I'd wager you have one in your hand right now - in one form or another.

Well, Kodak knew about digital photography as far back as 1975 but failed to see its potential... They didn't capitalise on it because it threatened their existing business model - which eventually led to it filing for bankruptcy in 2012.

Businesses cannot and should not let 2022 be their 1975: the future of industry is indisputably in automation. In fact, three quarters of UK companies now list 'industrial automation' as a priority for their business.

"The UK lags behind most of its competitors in automation and robotics. Is the post-pandemic and post-Brexit environment of rising wages and vacancies the pressure industry needs to invest to catch-up?"

- Dickon Ross, Engineering and Technology magazine

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And we know that process automation specialists, data analysts and scientists and AI and machine learning specialists are all named among the top 10 developing job roles.

1	Data analysts and scientists
2	AI and machine learning specialists
3	Big data specialists
4	Internet of things specialists
5	Digital transformation specialists
6	Process automation specialists
7	Information security analysts
8	FinTech engineers
9	Database and network professionals
10	Business development professionals

The manufacturing industry has talent that is capable of incredible analytical thinking and innovation, complex problem-solving and systems analysis and evaluation - and it is no small coincidence that these very skills are among the top emerging skill sets in industries that are actively embracing automation as the solution to growing labour scarcity.

Other industries have a lot to learn from the manufacturing sector. It shows undeniable proof that tapping into automation's emergent potential can be the solution to the growing labour shortage blighting businesses across the globe. UK companies may be short-staffed...but are they also short-sighted? With so many global factors at work, it's time to radically shift focus and turn our vision of the future into actionable improvements right now.

Martin Hurworth, CEO of Bytronic

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