AUSTRALIAN INDUSTRY GROUP AND DELOITTE

national **CEO survey:**

Skills shortages: A high risk business

July 2010

AUSTRALIAN INDUSTRY GROUP

Deloitte.

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preface

It's clear: skills shortages remain a major problem and Australian firms expect these shortages to intensify over the medium term. More than one-third of the companies in our survey rate the risk of skills shortages impacting on the effective operation of their businesses as high or extreme and this number increases to almost half of all companies when they rank the risk for 2015.

The shortages are evident across the economy and occupations with businesses looking for engineers, accountants, metal casting trades workers, welders, machine operators, sales assistants and office, production and business administration managers. When companies can't recruit the skills they need overwhelmingly they work to upskill their existing workers.

Investing in skilling is a shared responsibility and companies are giving high priority to managing the risk of skills shortages and they expect governments to do more to support these efforts. Policy reform in this area remains a priority for industry.

Skills shortages are being experienced against a policy backdrop of multi-pronged efforts to raise education and training quality and the introduction of a new tertiary education system which will combine the vocational education and training and higher education sectors.

This initiative should better serve the needs of industry and individuals by making it easier to move between what have been completely separate systems. Its success will become increasingly important as companies continue to focus on building the skills of their existing workforce as the most significant part of the solution to combating skills shortages.

The education and training system must support people to augment their qualifications and experience in order to increase and broaden their skills base to foster increased productivity. Training providers and universities must be well placed to respond to this challenge – which to date they have only been able to do in only a limited way.

The recent downturn saw a significant drop in apprenticeship commencements which has clear consequences for future skills availability. The Commonwealth Government introduced the Kickstart apprenticeship bonus for a fixed period which resulted in more than 24,000 apprentices being taken on. Ai Group had called for, and was pleased to see, this extra support to underpin apprenticeship extended in the recent Budget announcements.

Nevertheless, all stakeholders – industry, government, individuals, education and training providers – need to put in still greater efforts if we are to overcome our endemic skills shortages.

Heather Ridout
Chief Executive
Australian Industry Group

Standing still is not an option

When the Ai Group/Deloitte CEO survey *Skilling business in tough times* was launched back in October last year the credit crunch meant that redundancies and cost cutting were top of mind for Australian CEOs.

Today, it is the negative impact that skills shortages will have on the growth of their businesses.

Despite the lack of talent - standing still is not an option. The first step is to treat this challenge with the same respect as other business critical issues. Get it wrong and it could put the company's future in jeopardy.

Workforce planning

CEOs and their management team need to undertake a thorough workforce planning exercise and ask some tough questions. For example, as a steel processing factory should we employ back office people or should we be looking to cheaper, more efficient offshore providers for these services? Can those same back office people be retrained to work in the value creation roles identified through the review?

Taking a granular view of the current workforce will identify mis-deployed talent, inefficiencies in working practices and match existing talent to current and future business priorities. These results can help inform education providers and key Government agencies about the gaps and appropriate retraining needs, enabling the institutions and agencies to shape their curriculum to address the future needs of employers.

Fundamental to workforce planning is the retention and development of existing talent. In a tight talent market, companies need to 're-recruit' their existing workforce all the time.

Appealing to the 'digital natives'

The companies who embrace process, system and people innovation are likely to win the race for talent. Competing in today's labour market requires a fresh approach to flexible working arrangements that tap into the changed behaviour of the 'digital natives' in the workforce.

In addition to this, implementing and setting a strategy around gender diversity is crucial. What can your company do to get more than its fair share of female talent?

In terms of training and development of existing and future talent, Australia is blessed with an innovative and vibrant education sector. The increased competition in this market means that TAFEs and other training providers are looking to collaborate and partner with business.

Government's role

Government policy needs to underpin all of this. The introduction of a National Curriculum in schools will ensure pupils arrive at TAFE or university with a similar base on which to build.

At the same time, Australia requires an attractive tax regime that encourages both the return of skilled Australians, attracts foreign talent and encourages a disproportionate investment in R&D. Only then will we be able to provide a working experience in Australia that is world-class, innovative and relevant to all our futures.

Gerhard Vorster
Regional Managing Partner
Deloitte Consulting Asia Pacific

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background

This report presents the results of the Australian Industry Group's survey on skills needs for 2010 and the immediate future and gauges industry's sentiments about how readily these skills vacancies will be filled.

The report has been prepared as part of our national CEO survey series undertaken in conjunction with Deloitte Touche Tohmatsu.

Over 400 companies in the manufacturing, construction and services sectors participated in the survey which was conducted in May 2010. Combined these companies reported sales revenue of around $13.5 billion in 2009-10 and employed around 30,000 people.

The manufacturing sector provided the highest proportion of participants (63.8% of all respondents) followed by services (21.2%) and the construction sector at 11.8%.

Just over 60% of companies in the survey were small companies employing up to 25 people. Medium sized companies employing between 26 and 100 people represented 28.0% of respondents and large companies employing more than 100 people made up 11.7% of the total.

key findings

Skills shortages: Here now and expected to deepen

Skills shortages are an immediate issue of concern to business now and this concern is expected to exacerbate in the medium term.

- More than four in five businesses believe there is a moderate to extreme risk that skills shortages will adversely affect them in 2010.
- Over a third of businesses consider there is a high to extreme risk of skills shortages impacting on the effective operation of their business in 2010.
- Nearly half of all businesses consider there is a high to extreme risk of skills shortages impacting negatively on their operations in five years time.

Businesses are actively working to manage this risk and expect to increase this focus in the coming years.

- Nearly 50% of businesses are giving the management of skills shortages a high priority (38.8%) or top priority (8%) now.
- In five years time the proportion of businesses expecting to be giving skills shortages management a high priority will increase to 43.3% and those assigning top priority will stay steady at 8%.

Businesses are looking for their increased emphasis on managing skills to be complemented by increased government action in this area.

- Almost three quarters of all businesses are of the view that it is extremely or highly important for governments to take more active steps to address skills shortages immediately (72.6%) and into the future (75.2%).
- One element of this is a belief by some businesses that there is an underinvestment in skills linked to the high rate of labour mobility and government should help to address this through targeted skills development initiatives.
- As skills development is a shared Commonwealth and State and Territory Government responsibility this call for more action is directed to all governments.

Recruitment, vacancies and skills shortages: The past six months

Recruitment activity remains strong amongst the survey respondents; three-quarters of companies filled, or tried to fill, positions in the past six months.

Over a quarter (27.4%) of all vacancies over the last six months remained unfilled.

Companies reported vacancies across a very wide range of occupations with the full range of skill levels from highly skilled to semi-skilled and unskilled workers.

Vacancies were reported for Engineers; Accountants; Metal casting, forging and finishing trades workers; Metal fitters and machinists; Business administration managers; Structural steel and welding trades workers and Machine operators. (The strong representation of the manufacturing sector in the survey respondents explains the frequency of manufacturing-based occupations being listed.) Vacancies were also reported in sales and clerical occupations.

Ongoing vacancies in the skilled occupations are of particular concern to industry given the time needed to develop those skills – in many cases these skills are developed over years – and the centrality of those skills to effective business operations.

The greatest difficulties in filling vacancies were seen in the following occupations: Metal fitters and machinists (59.8% of all vacancies were unfilled vacancies); Engineering professionals (51.7% unfilled vacancies); Metal casting, forging and finishing trades persons (36.7% unfilled vacancies): and Structural steel and welding trades workers (32.9% unfilled vacancies). Companies also reported significant difficulties filling vacancies for Sales assistants and sales persons and Clerical and administration workers.

Skills issues largely responsible for unfilled vacancies

Almost two-thirds of companies had difficulty filling vacancies over the past six months.

The major reasons why vacancies could not be filled related to skills: the lack of specialised skills required for the job (59.3%); the lack of applicant skills and experience (54.1%); and the absence of local training options (32.6%).

A further major difficulty reported was simply a lack of applicants (48.5%).

By far the most popular response where a vacancy cannot be filled is to upskill existing staff, with 37.8% of companies pursuing this course. This finding is consistent with earlier Ai Group research and illustrates the practical responses businesses are investing in to address skills shortages.

The next most frequent response is to outsource or sub-contract the work (31.2%) followed by redesigning jobs around available skills (18.3%). Of particular concern, for 12.6% of companies unfilled vacancies constrain production.

Recruitment, vacancies and skills shortages: The next 12 months

Recruitment activity is expected to continue at high levels.

- Over three-quarters of companies expect to recruit staff in the next 12 months.
- More than half of all businesses plan to increase the size of their workforce: 53.6% of vacancies will be to support the expansion of the business and 46.4% of vacancies will be created by the need to replace staff.

Nearly half of all businesses expect to face difficulties filling their vacancies in the next 12 months.

- Companies continue to expect to face difficulties recruiting in a range of occupations including Metal trades workers, Engineering professionals, Mechanical engineering draftspersons and technicians and Technicians and trades workers more broadly.
- The wide range of skilled occupations expected to be difficult to fill poses real problems for businesses which will be reliant on these skills to support production and service delivery and will be hampered by their unavailability.

The primary reasons companies expect to have difficulties filling positions over the next 12 months continue to relate to skills.

- 39.7% of companies expect not to be able to find people with the specialised skills needed for their workplace.
- For another 36.9% of companies, applicants are expected to lack the broad based skills and experience required.
- Moreover, 19.3% of firms expect the positions will be unfilled because they require skills that cannot be developed locally.
- 32.3% of companies expect that there will not be enough applicants to fill positions.

the economic context

The Australian economy has proved to be resilient in the face of the global financial crisis and, although it is protracted in some sectors, a recovery is underway. This is evidenced by the strong labour market. With the upturn in economic activity expected to pick up during 2010-11, the demand for labour will intensify and the critical issue of skill shortages will again be prominent.

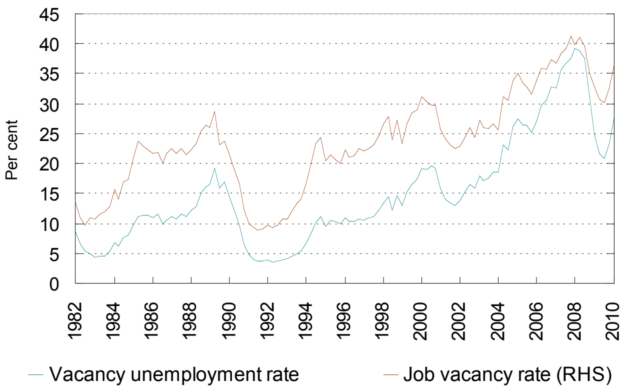
Moreover the pace of economic growth will vary between the States, with the strong pick up in mining expected to attract resources from other parts of the economy. The consequences of the economic upturn for businesses include greater opportunities to expand but there are also challenges associated with attracting and keeping (skilled) labour. This challenge is expected to occur notwithstanding the extent to which employers avoided retrenchments and retained employees by reducing hours worked during the downturn.

The degree of unfilled vacancies or labour market 'tightness', that is, the ease with which businesses can fill vacancies given the number of job seekers, is illustrated by the job vacancy rate and the ratio of job vacancies to unemployed persons (Chart 1).

The job vacancy rate is the number of vacancies as a percentage of the labour force. During the period preceding the global financial crisis, the job vacancy rate peaked, implying that businesses increasingly struggled to find skilled labour and fill vacancies. The economic downturn resulted in the job vacancy rate declining and in recent months there has been an upward movement in the rate, implying that unfilled vacancies are becoming more prevalent.

The vacancy-unemployment ratio measures the degree of labour market tightness or the degree of difficulty with which businesses can fill vacancies. A higher ratio indicates a greater degree of vacancies to job seekers and indicates a tighter labour market. Chart 1 shows that, similar to the job vacancy rate, labour market tightness reached a peak during the period preceding the global financial crisis. During the downturn the ratio declined and in recent months has turned with the vacancy-unemployment ratio rising again.

Chart 1: Job vacancy rate and vacancy-unemployment ratio for Australia



The evidence points to increasing demand pressure for skilled labour with skill shortages again becoming a prominent challenge to many businesses wanting to expand. This will put an emphasis on the need for effective recruiting and retention strategies but also workforce skills development in order for businesses to remain competitive and prosper. Moreover, skills shortages will put a constraint on aggregate economic growth and inhibit the productive capacity of the economy.

background

In October 2009 Australian Industry Group and Deloitte released *Skilling Business in Tough Times*, a report that showed that skills shortages continued to be a major strategic issue for CEOs, despite the economic downturn and the impact it had on employment. The persistence of skills shortages had caused employers to do all they could to hold on to staff, despite the deterioration in conditions, with a view to being well placed to take advantage of growth when it resumes.

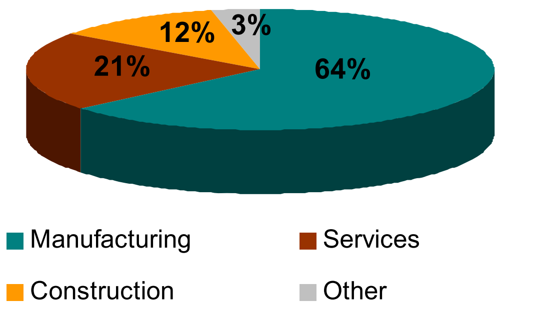
Since the release of that report, the Australian economy has strengthened, leading to a re-emergence of skills shortages in some industry sectors. In order to gain a greater understanding of business skills needs, Australian Industry Group and Deloitte have conducted a further survey of CEOs. In particular, this survey explores: the extent to which skills shortages are a risk to business; the occupations in greatest shortage; and the reasons for these shortages.

Details of companies in the study

The findings of the survey are based on the responses of around 430 company CEOs. The companies represented generated around $13.5 billion in sales revenue in 2009-10 and employed around 30,000 people.

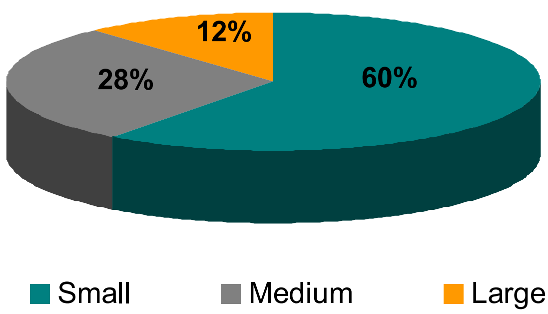
Data was collected across the three key sectors of manufacturing; services; and construction (see Chart 2). The manufacturing sector contributed the greatest proportion of respondents (63.8%). The services sector represented 21.2% of all respondents, while the construction sector provided 11.8% of responses. The high proportion of manufacturing companies included in the final analysis means the overall findings are weighted towards this sector.

Chart 2: Companies by sector participating in the study



The survey was underpinned by a strong contribution from small-sized companies (employers of fewer than 25 employees) constituting 60.3% of all responses (see Chart 3). Medium-sized companies of 25-100 employees accounted for 28.0% of respondents, while large companies of 100 or more employees represented 11.7%.

Chart 3: Companies in the study by size



skills shortages: here now and expected to deepen

key findings

- More than four in five companies (85.4%) believe there is a moderate to extreme risk that skills shortages will affect them in 2010.
- Over a third of companies consider there is a high to extreme risk of skills shortages impacting on the effective operation of their business in 2010 and beyond.
- Nearly half of all companies consider there is a high to extreme risk of skills shortages impacting negatively on their operations in five years time.
- Nearly half of companies are currently giving the management of skills shortages a high priority (38.8%) or top priority (8%). In five years time the proportion of companies expecting to be giving the management of skills shortages a high priority will increase to 43.3% and those assigning top priority will stay steady at 8%.
- Almost three quarters of all companies are of the view that it is extremely or highly important for governments to take more active steps to address skills shortages immediately (72.6%) and into the future (75.2%). (As skills development is a shared Commonwealth and State and Territory Government responsibility this call for more action is directed to all governments.)

Skills shortages risk: The risk is high now and expected to intensify

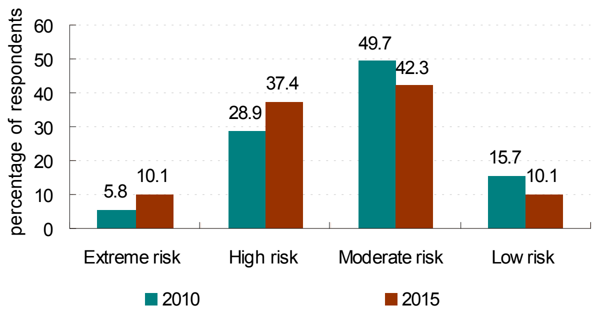
Over a third (34.6%) of companies consider there is a high to extreme risk of skills shortages impacting on the effective operation of their business this year and beyond. This number jumps to almost 85% when we include companies that believe there is a moderate risk that skills shortages will affect them in the immediate future (see Chart 4).

Companies were asked to assign a risk measure to skills shortages impacting on them in five years time; just under half (47.6%) of all companies consider there is a high to extreme risk of skills shortages impacting on the effective operation of their business within five years. This number jumps to 90% when we include companies that believe there is a moderate risk that skills shortages will affect them in 2015.

Clearly companies are currently facing a significant risk of skills shortages negatively impacting on their business and they expect this risk to exacerbate substantially by 2015.

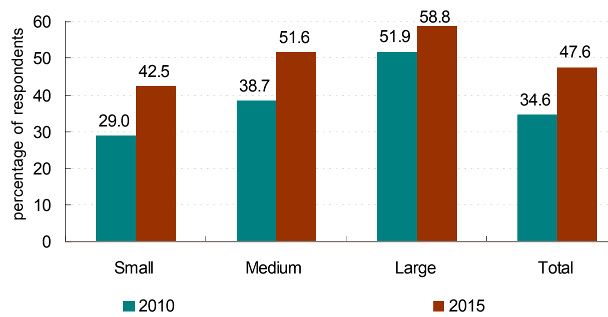
Only 15.7% of companies believe there is a low risk of skills shortages impacting on the effective operation of their companies in 2010. The proportion of companies not concerned about skill shortages for 2015 again illustrates the growing levels of concern; only 10% of companies believe there will be a low risk for 2015.

Chart 4: Risk of skills shortages impacting on effective operation



Looking at the risk of skills shortages across companies of differing size; large companies are currently concerned about skills shortages now than their smaller counterparts: 51.9% of large companies put the current risk at extreme to high (see Chart 5). Large companies are also more concerned about future risk with this group rating the risk for 2015 at 58.8%.

Chart 5: Risk of skills shortage by company size



The high level of concern is consistent across industry sectors; there is little variation in the level of concern for skills shortages now or in the future across the manufacturing, services and construction sectors.

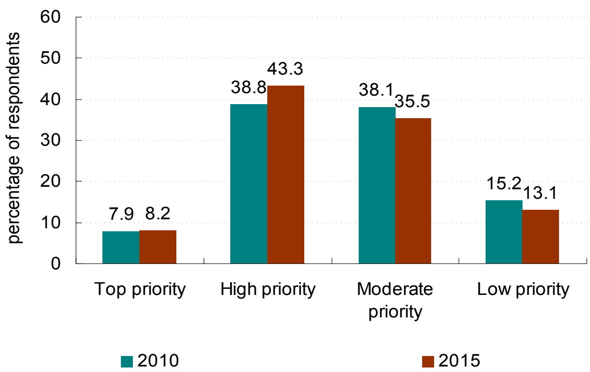
Managing skills shortages risks: A high priority for companies in the short and medium term

Nearly 40% of companies (38.8%) are giving the management of skills shortages high priority now and, for another 8%, managing skills shortages is a top priority (see Chart 6). This shows that even those companies that do not consider the short term risk of skills shortages to be extreme or high are working hard to put in place measures to ensure the supply of the skills they will need.

Companies were asked to nominate the level of priority they anticipated giving to managing these risks in 2015. Those companies for which this will be a high priority increased slightly to 43.3% and those expecting this to be a top priority in 2015 stayed steady at 8%.

Overall companies are indicating that managing skills shortages risks is a significant priority now and will continue to be in 2015.

Chart 6: Priority companies are giving to managing skills shortages risks



What companies are saying about skills shortages:

Some companies perceive a risk of losing staff to more highly paid positions in mining and defence.

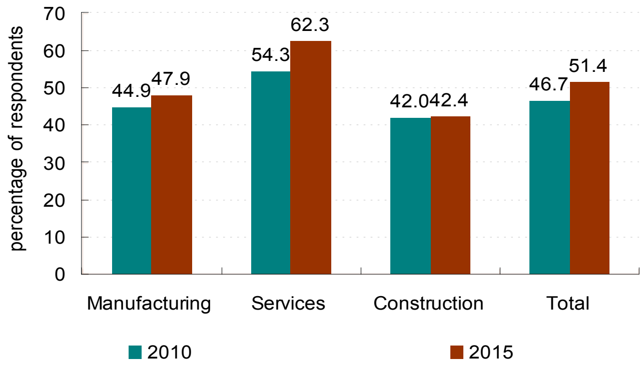
Many have already reduced staff due to the global financial crisis and the implementation of practices such as lean manufacturing. So there is 'no fat' in organisations to cover skill shortages areas.

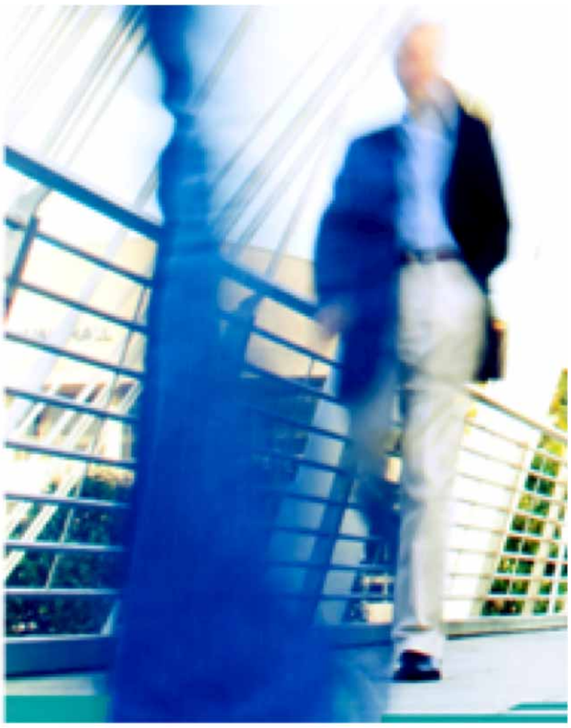
For some companies the risk will increase between 2010 and 2015 due to the impact of the ageing workforce which will see significant numbers of skilled employees retiring in the next 2–3 years.

While companies of all sizes are giving this issue priority, large companies are more likely to be giving skills shortages top or high priority (63.0%) than medium sized companies (52.9%) or small companies (40.2%).

The services sector is currently giving a higher priority (54.3%) to managing these risks than the manufacturing sector (44.9%) and the construction sector (42.0%) and this trend carries through to anticipated levels of risk management for 2015 (see Chart 7).

Chart 7: Priority to managing risks by sector





How companies are managing skills shortages risk:

Companies are adopting a wide range of strategies in response to current and anticipated skills shortages:

- Increasing in-house training to better equip employees. 'It is too difficult to recruit in order to meet company needs. The difficulty is compounded by project based work which fluctuates in intensity.'
- Implementing a longer term strategy to train the next generation and especially putting effort into apprentices.
- Developing a plan to multiskill by training existing workers.
- Consideration of increasing wages and pay for performance to retain skilled workers.
- The increased use of labourers for more unskilled work. In essence, more effectively using those workers with highly sought after skills.
- Documenting standard operating procedures.
- Video recording the performance of certain tasks that are only occasionally undertaken.
- Improving the selection process when taking on casual staff to reduce time and effort to train them for work.

The strategies can vary according to occupations. One company reported that because air-conditioning technicians are difficult to find, greater consideration is given by the company to offering higher wages and conditions such as providing cars and mobile phones and a career structure to attract applicants.

Apprentices are generally offered wages at higher levels than standard first year wages.

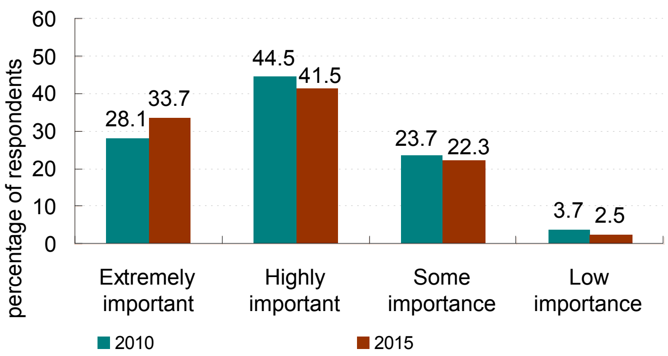
Role for governments in addressing skills shortages: Companies expect government to play a stronger role

Companies were asked to indicate how important it is for governments to take active steps to address skills shortages now and by 2015. There is a clear message for government here: almost three-quarters of all companies are of the view that it is extremely or highly important for governments to take more active steps to address skills shortages now (72.6%) and into the future (75.2%) (see Chart 8). This level of response is consistent across companies of all sizes and across industry sectors.

Overall companies acknowledge the range of government skilling initiatives currently on offer but are of the view that more needs to be done and that it needs to be done immediately.

Only 3.7% of companies thought that government intervention was of low importance currently and 2.5% believe it will be of low importance in five years time.

Chart 8: Importance of governments taking more active steps



What companies said governments should be doing:

- "The government needs to ensure that we do not lose skills overseas: the government needs to maintain the skills base that we have and ensure that there is investment in local industry."
- "The government is moving in the right direction, but they could look at more financial incentives and help for small companies to reduce administrative compliance costs."
- "Tax breaks for training expenditure, especially for small companies, would be welcome."
- "Government has tended to focus too narrowly on specific sectors and doesn't have a solution for all industries."
- "The government should be doing more to attract people into manufacturing - both young people and mature aged people."
- One company found the government's application of incentives to be inconsistent and confusing. There are for example, incentives for employing apprentices 19 years and younger and for those 25 years and older. There seems to be a gap for those aged 20 – 24.
- One company indicated that government could encourage more training in areas of skills shortage rather than more 'trendy' areas. "The government needs to do more to make trade apprentices more attractive for both individuals and companies. Consideration should be given to reviewing apprenticeship wage rates and subsidies."

recruitment, vacancies and skills shortages: the past six months

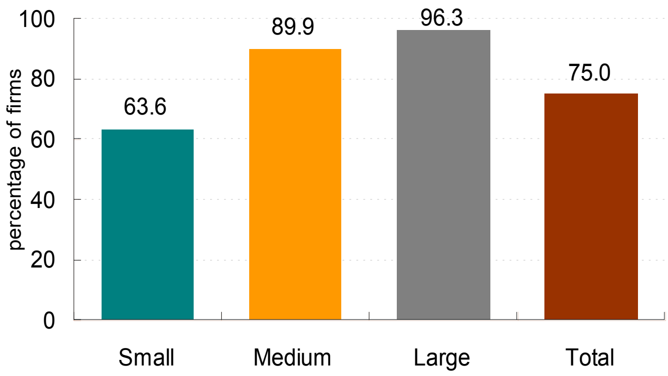
key findings:

- Three-quarters of companies have filled, or tried to fill, positions in the past six months.
- Over a quarter (27.4%) of all vacancies over the past six months were unfilled.
- Companies are most likely to use the following four methods of recruitment; newspaper advertising (40.8%), other media advertising including web-based (38.8%), recruitment agencies (36.9%) and word of mouth (35.3%).
- Companies reported vacancies for Engineers; Metal casting, forging and finishing trades workers; Structural steel and welding trades workers; Metal fitters and machinists; Business administration managers; Accountants and Machine operators. (The strong representation of the manufacturing sector in the survey respondents explains the frequency of manufacturing-based occupations being listed.)
- Survey respondents also nominated vacancies in some semi and unskilled occupations including Clerical and administration workers and Sales assistants and salespersons.
- The greatest difficulties in filling vacancies were seen in the following occupations: Metal fitters and machinists (59.6% of all vacancies were unfilled), Engineering professionals (51.7% unfilled vacancies), Metal casting, forging and finishing trades persons (36.7% unfilled vacancies), Structural steel and welding trades workers (32.9% unfilled vacancies) and Business administration managers (36.7% unfilled vacancies).
- Unfilled vacancy rates for some semi-skilled and unskilled positions were also high including Sales assistants and sales persons (39.8% unfilled vacancies) and Clerical and administration workers (23.5% unfilled vacancies).

Job vacancies: Companies are looking to fill vacancies across the economy

When examining recruitment activity, 75% of companies have filled, or tried to fill, positions in the past six months. Large and medium companies were much more likely to be filling positions than small companies; 96.3% of large companies and 89.9% of medium companies were recruiting compared to 63.6% of small companies (see Chart 9). There was little variation in these rates between industries with construction being only slightly higher than services and manufacturing.

Chart 9: Companies that have filled, or tried to fill, positions in the last six months



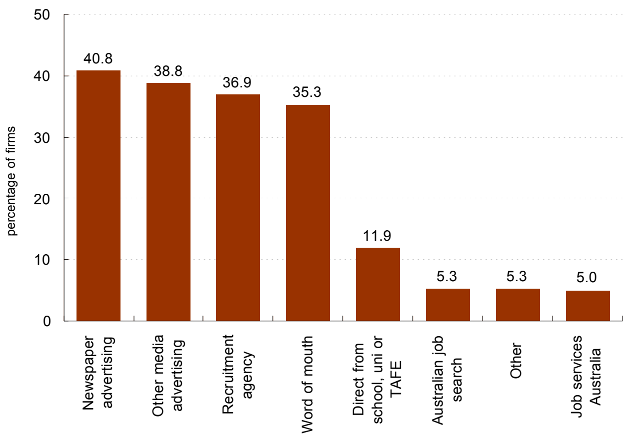
Filling vacancies: How companies are recruiting

Companies are most likely to use the following four methods of recruitment: newspaper advertising remains strong with 40.8% of companies using this method; 38.8% advertise in other media including web-based; 36.9% use recruitment agencies; and 35.3% rely on word of mouth to promote their vacancies (see Chart 10).

Only 11.9% of companies recruit directly from schools, universities and TAFEs and only around 5% access Australian Job Search and Job Services Australia.

(Australian Job Search is an online jobs website funded and operated by the Australian Government as a free service to assist job seekers into employment and connect employers with staff. Job Services Australia is the title of new employment services introduced by the Australian Government on 1 July 2009. Job Services Australia is a national network of organisations dedicated to helping job seekers to find and sustain employment. Assistance provided by Job Services Australia includes gathering vacancies from employers and matching the skills and experience of job seekers to job vacancies.)

Chart 10: Methods of recruitment used



There is some variation between companies of differing size regarding preferred recruitment methods. Overall small companies tend to utilise all recruitment avenues less frequently. In particular they are much less likely to use recruitment agencies (21.4%) than medium sized companies (54.6%) or large companies (74.1%). Large companies are much more likely to recruit using other media including web-based; 79.6% of large companies, compared to 47.1% of medium companies and only 26.7% of small companies access this option.

There is only limited variation on recruitment methods used between the industry sectors. The exception is in the extent of use of other media advertising with the services sector much more likely to utilise this option in its recruitment (58.7%) – and it is their preferred medium – compared to the construction sector (32.0%) or the manufacturing sector (32.5%).

What companies said about recruitment:

For some companies different recruitment methods are used for different occupational groups; labour hire companies are used to source production workers and a mix of recruitment companies and direct advertising are used to find professional staff.

For those companies not yet using the web as part of their recruitment strategy, around half indicate they are thinking about adopting this method. Though not all users are happy with the results, with some complaining that web advertising results in too many applications coming in and that the quality is not high.

Many companies use a staged recruitment process where new starters are offered casual or temporary positions and those who perform well are offered permanent employment.

And recruitment agencies…

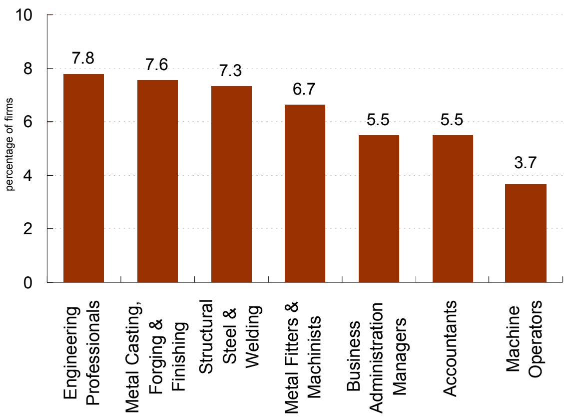
While many companies rely on recruitment agencies to undertake the ‘leg work’ of recruitment others prefer not to have an intermediary. “I like to read all the applications. Recruitment agencies are given a brief and then only focus on identifying key words in the application without looking at the applicant as a whole.”

Job vacancies: Diverse range of occupations in demand over last six months

Companies were asked to nominate the occupations they had vacancies for in the past six months. Chart 11 shows the skilled occupations most frequently nominated by companies. The list includes a wide range of occupations: Engineers; Metal casting, forging and finishing trades workers; Structural steel and welding trades workers; Metal fitters and machinists; Business administration managers; Accountants; and Machine operators. (The strong representation of the manufacturing sector in the survey respondents explains the frequency of manufacturing-based occupations being listed.)

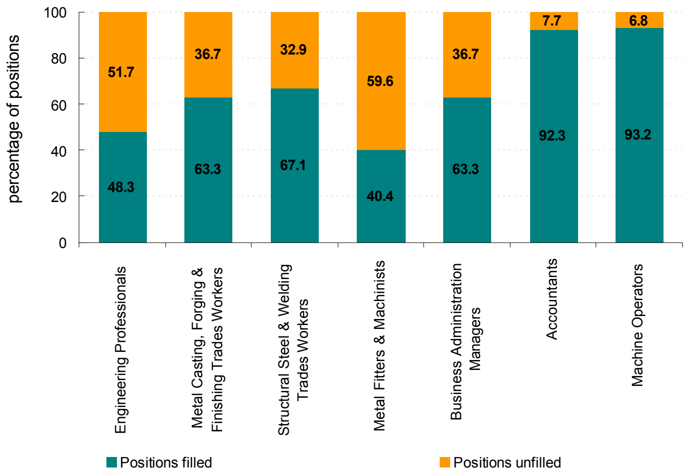
Survey respondents also nominated some semi-skilled and unskilled occupations including Clerical and administration workers and Sales assistants and salespersons.

Chart 11: Skilled occupations vacant by proportion of companies citing vacancy



Companies were then asked to indicate how many of these vacancies they had been able to fill. Over a quarter (27.4%) of all vacancies over the past six months were unfilled. Chart 12 shows the proportions of skilled vacancies companies were able to fill by occupational group.

Chart 12: Percentages of skilled positions filled by occupation



As this chart shows the greatest difficulties in filling vacancies were seen in the following occupations: Metal fitters and machinists (59.6% of all vacancies were unfilled vacancies), Engineering professionals (51.7% unfilled vacancies), Metal casting, forging and finishing trades persons (36.7% unfilled vacancies), Structural steel and welding trades workers (32.9% unfilled vacancies) and Business administration managers (36.7% unfilled vacancies). Unfilled vacancy rates for some semi-skilled and unskilled positions were also high including for Sales assistants and sales persons (39.8% unfilled vacancies) and Clerical and administration workers (23.5% unfilled vacancies).

skills issues largely responsible for unfilled vacancies

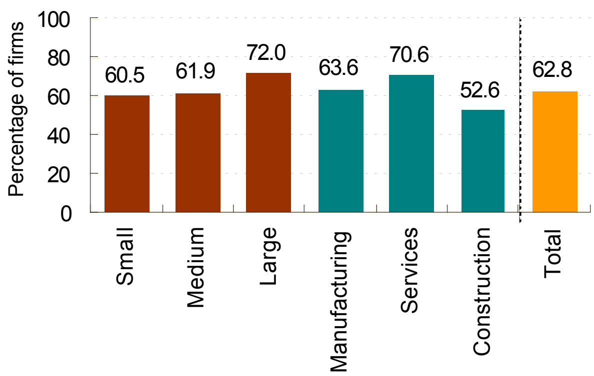
key findings:

- Almost two-thirds of companies had difficulty filling vacancies over the past six months.
- The major reasons why positions could not be filled related to skills: the lack of specialised skills required for the job (59.3%); the lack of applicant skills and experience (54.1%); and the absence of local training options (32.6%).
- A further major difficulty reported was simply a lack of applicants (48.6%).
- By far the most popular response where a vacancy cannot be filled is to upskill existing staff with 37.8% of companies pursuing this course.

Difficult to fill vacancies: Most companies are experiencing difficulties finding skills

Almost two-thirds (62.8%) of companies indicated that they had difficulty filling vacancies over the past six months (see Chart 13).

Chart 13: Difficulty filling positions



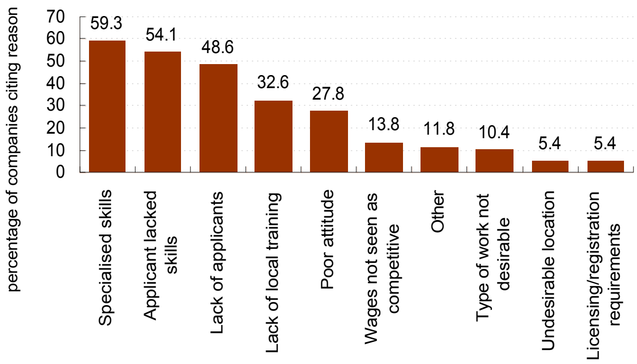
Large companies had more difficulty filling vacancies (72.0%) than medium (61.9%) or small (60.5%) companies. Looking across sectors, the services sector had higher levels of difficulty filling positions (70.6%) than did the manufacturing sector (63.6%) or the construction sector (52.6%).

Reasons for difficulties filling positions: Skills issues predominate as reason for vacancies

Companies were asked to nominate reasons why they had difficulty filling vacancies. The major difficulties reported by companies related directly to skills issues. Major difficulties were related to the specialised skills required for the job (59.3%), the lack of applicant skills and experience (54.1%), the absence of local training options (32.6%) and a poor attitude displayed by applicants (27.8%). A further major difficulty reported was simply a lack of applicants (48.6%) (see Chart 14).

Other possible reasons to explain difficulties in filling positions such as uncompetitive wages, undesirable locations, undesirable types of work and licensing or registration requirements did not emerge as major factors for respondents.

Chart 14: Reasons for major difficulties in filling vacancies



There are some variations across company size for the reasons companies find it difficult to fill positions. Large companies have less difficulty attracting applicants with the right attitude; only 13.8% of large companies cite poor attitude as a major difficulty compared to 30.0% of both small and medium companies. Lack of local training was a significant issue for small companies (40.2%) compared to medium (25.4%) and large 24.1%. The lack of specialised skills was a very significant issue for large companies (73.7%) compared to medium 55.7% and small 56.7%.

The reasons companies had difficulties filling positions varied considerably across industries. Overall construction companies, while still experiencing difficulties, had less difficulty accessing specialised skills (48.0%) than the services sector (64.4%) or the manufacturing sector (59.7%). The construction sector had comparatively less difficulty attracting applicants – 30.8% reported a lack of applicants compared to 52.3% of service sector companies and 51.4% of manufacturing companies. Construction companies were less likely to face applicants with a poor attitude; only 17.4% of construction companies reported the poor attitude of candidates as a reason for recruitment difficulty compared to 26.8% of services companies and 29.1% of manufacturing companies. Finally, none of the construction companies in the survey found uncompetitive wages to be a difficulty, compared to 21.1% of companies in the services sector and 14.7% of manufacturing companies.

Companies in the services sector reported the greatest difficulty finding applicants with the right general skills and experience; this was an issue for 73.9% of services companies compared to 52.8% of manufacturing companies and 32.0% of construction companies.

Responses to unfilled vacancies: Companies upskill existing workers

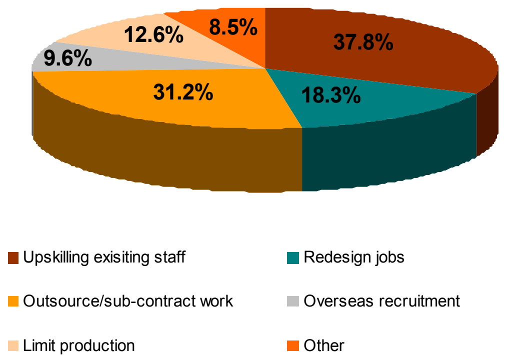
Companies were asked to nominate by priority the solutions they implement when they are unable to fill a vacancy. By far the most popular response where a vacancy cannot be filled is to upskill existing staff with 37.8% of companies pursuing this course. The next most frequent response is to outsource or sub-contract the work (31.2%) followed by redesigning jobs around available skills (18.3%). For 12.6% of companies unfilled vacancies result in limitations being put on production levels.

The strong preference to address unfilled vacancies by upskilling existing workers is seen across companies of all sizes: 55.6% of large companies; 47.1% of medium sized companies; and 30.2% of small companies respond in this way. The extent to which companies adopt the other solutions previously mentioned above to solve their skills shortages issues does not vary greatly with size though small companies are less likely to redesign jobs (14.5%) or outsource (27.1%) relative to larger companies (see Chart 15).

There is some variation in findings across industry sectors although the high priority given to upskilling existing workers is consistent across the industry sectors. Construction companies more frequently engage in outsourcing and sub-contracting in response to skills shortages (38.0%) than manufacturing (33.2%) or service (26.1%) companies.

Overall around one in 10 companies indicated that they would undertake overseas recruitment as a preferred response to dealing with skills shortages. This option is less attractive to the construction sector with only 4.0% of respondents indicating this as the preferred response compared to 10.9% in manufacturing and 9.8% in the services sector.

Chart 15: Solutions pursued when unable to fill a vacancy



What the companies said:

One company identified a "wages war" in the local area as a reason for the difficulty in filling positions.

Another commented that it is "tough to find high quality candidates."

There are some trades where it is particularly difficult to fill vacancies such as armature winders – similar to electrical fitters. In this situation companies poach from each other or look overseas.

Attracting airconditioning technicians is particularly difficult as applicants seldom have the skills or experience that a company needs. There have been some applications from international students but they lack the work experience of apprentices. There is also no mechanism to employ such applicants on a lower wage until they can acquire the necessary skills.

One company reported that there are difficulties employing adult apprentices as TAFE has been unable to enrol them in a manner that was suitable for the company.

recruitment, vacancies and skills shortages: the next 12 months

key findings:

- Over three-quarters of companies expect to recruit staff in the next 12 months.
- More than half of all companies plan to increase the size of their workforce; 53.6% of vacancies will be created to support the expansion of companies and the remaining 46.4% of vacancies will be created by the need to replace staff.
- Nearly half of all companies (44.9%) expect to face difficulties filling vacancies in the next 12 months.

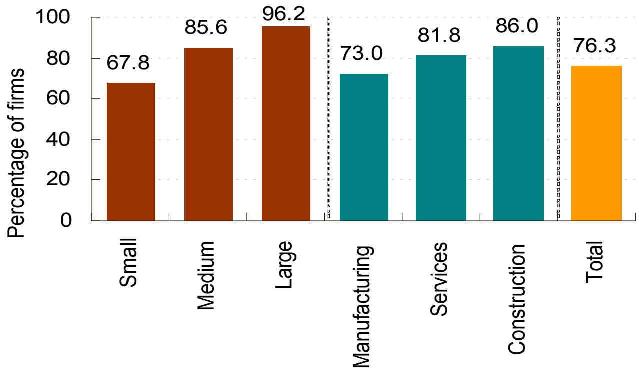
Future vacancies: Recruitment activity expected to remain strong

Over three-quarters of companies (76.3%) expect to recruit staff in the next 12 months. This level of recruitment activity is largely unchanged from that of the previous six months.

Large and medium sized companies continue to be more likely to be hiring than small companies; almost all of the large companies surveyed and over 85% of the medium companies expect to be recruiting compared to 67.8% of small companies which is an increase of just 4 percentage points on the proportion of small companies that recruited over the previous six months (see Chart 16).

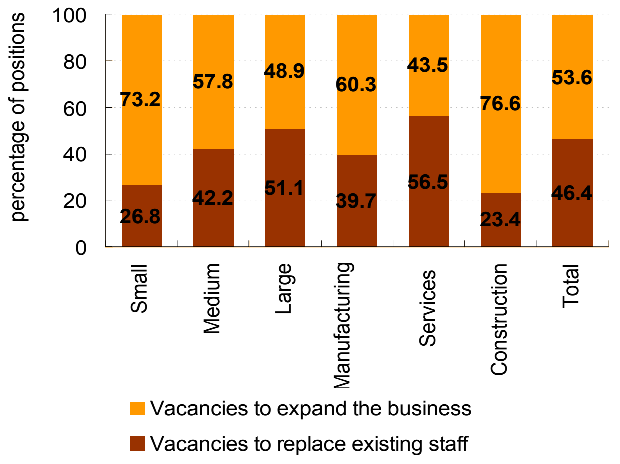
As highlighted previously there is little variation in recruitment rates across industry sectors with the construction industry expecting to recruit at only slightly higher rates than the services and manufacturing sectors.

Chart 16: Companies that expect to recruit in the next 12 months



Companies were asked to distinguish between vacancies which will result from the need to replace existing staff and vacancies to expand the business. As shown in Chart 17, 46.4% of vacancies will be created by the need to replace staff and 53.6% to support the expansion of the business. Small companies were more likely to be anticipating an expansion (73.0%) than medium (58.0%) or large (49.0%) companies. Construction companies were more likely to be anticipating recruitment for expansion (77.0%) compared to manufacturing (60%) and services (43%) companies.

Chart 17: Vacancies to replace existing staff and expand business



The occupations companies expect to be recruiting for in the next 12 months are very similar to those recruited over the last six months (see Chart 18) and include Metal fitters and machinists, Engineering professionals, Structural steel and welding trades workers, Metal casting, forging and finishing trades workers, Business administration managers and Machine operators. Purchasing and supply logistics clerks are reportedly an occupation which will be recruited in higher numbers than previously. Of particular note, a relatively higher proportion of companies identified that they are intending to take on apprentices and trainees in the next 12 months.

Chart 18: Expected skilled vacancies by proportion of companies citing vacancy

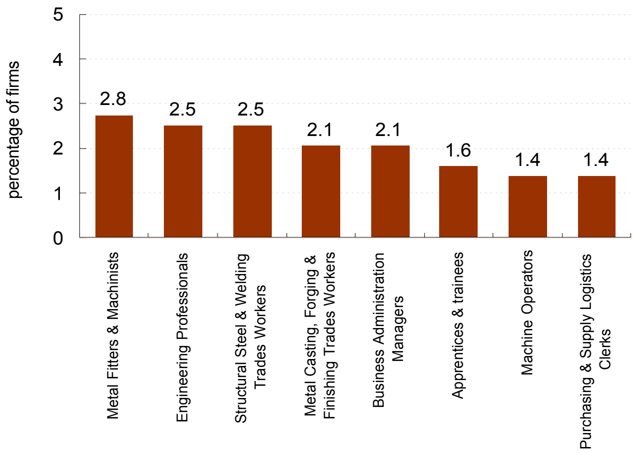
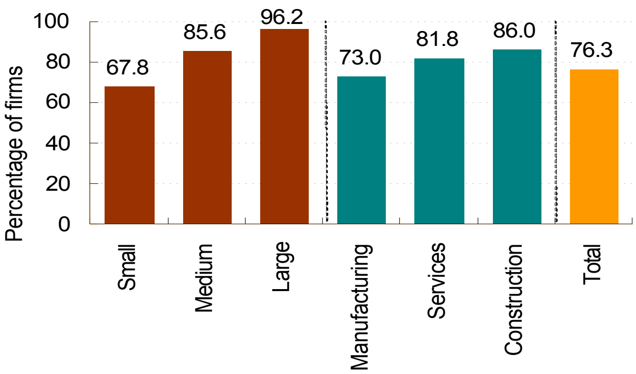


Chart 19 shows nearly half of all companies (44.9%) that expect to be recruiting in the next 12 months anticipate facing difficulties filling positions.

Large companies are anticipating fewer difficulties (32.0%) than medium (40.5%) or small (49.6%) companies. Across industry sectors, the construction sector is anticipating slightly more difficulty filling vacancies (46.9%) than the manufacturing (43.9%) or services (40.5%) sectors.

These findings indicate that a very significant proportion of companies continue to expect to experience difficulties filling vacancies.

Chart 19: Expected difficulty filling positions in the next 12 months



Companies continue to expect to face difficulties recruiting in a range of occupations including occupations in the Metal trades, Engineering professionals, Mechanical engineering draftspersons and technicians and Technicians and trades workers more broadly (see Chart 20).

Chart 20: Skilled occupations expected to be difficult to fill

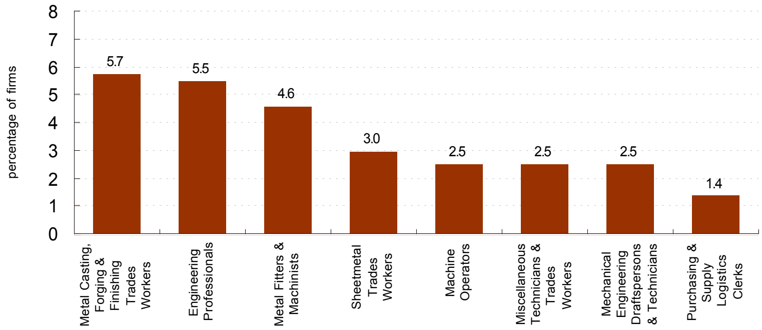
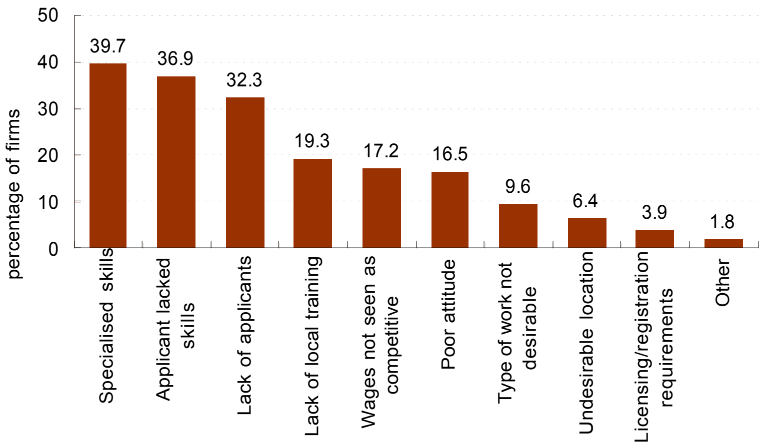


Chart 21 shows the primary reasons companies expect to have difficulties filling positions over the next 12 months continue to relate strongly to skills; 39.7% of companies expect not to be able to find people with the specialised skills needed for their workplace and for another 36.9% of companies, applicants are expected to lack the broad based skills and experience required. Also, 19.3% of companies expect the positions will be unfilled because they require skills, which cannot be developed locally. Moreover, 32.3% of companies expect that there will not be enough applicants to fill positions.

Chart 21: Reasons companies expect to have difficulties filling occupations identified



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