

Labor Shortages: The Disconnect and Possible Solutions

By Roy Maurer

August 4, 2021

The problem is clear: Employers are struggling to recruit workers despite high levels of unemployment. But the reasons for the hiring difficulty are harder to pin down.

Nearly 90 percent of 1,200 employers surveyed by the Society for Human Resource Management (https://advocacy.shrm.org/wp-content/uploads/2021/07/SHRM-Research_The_Employment_Picture_Comes_Into_Focus.pdf) (SHRM) said they were struggling to fill open positions this summer, and 73 percent said they're seeing a decrease in applications for those hard-to-fill positions. About half of organizations said they're seeing an increase in the number of applicants failing to reply to a request for an interview. Businesses are having the toughest time filling hourly, entry-level and midlevel nonmanagerial positions, especially in sectors such as manufacturing, hospitality, food service and health care.

Strictly speaking, there isn't actually a labor shortage—defined as not enough available workers to fill open jobs—because there are 9.5 million people classified as unemployed and looking for work, and 9.2 million job openings. The number of people looking for jobs even grew in June, according to the Bureau of Labor Statistics.

Still, employers report difficulty finding workers. The majority (70 percent) believe expanded COVID-19 unemployment benefits have been the primary factor making it difficult to find workers, prompting half the states to reduce or opt out of them.

"Recruiting and retention difficulties are more pronounced in blue-collar and manual services jobs," said Gad Levanon, head of the Labor Market Institute at The Conference Board in New York City. "These workers face high infection risk, [are afraid of contracting the virus] and elevated unemployment benefits are an attractive option for workers with relatively low wages."

Art Bilger, founder and CEO of WorkingNation, a workforce development media nonprofit in Los Angeles, said that economists are split on whether the expanded unemployment benefits are the driving reason businesses can't find enough workers, and other factors must be considered, including continuing health concerns around the COVID-19 virus and the lack of affordable child care.

Notably, employers in the SHRM research were significantly less likely to believe their hiring difficulties are tied to child care or safety concerns.

[Want to hear more about labor market research? Join us at the SHRM Annual Conference & Expo 2021 (<https://annual.shrm.org/>), taking place Sept. 9-12 in Las Vegas and virtually.]

What Workers Say

SHRM also polled 1,000 unemployed Americans who were laid off or left their jobs during the pandemic—the majority of whom worked hourly jobs in industries heavily impacted by the health crisis, such as food service and retail. The top reason for remaining unemployed, cited by 42 percent of respondents, was not having received any responses to jobs for which they've applied.

Additional primary reasons for continued unemployment included fear of being exposed to COVID-19 (32 percent), being offered less pay than their previous job (29 percent) and preparing for a career shift (17 percent). Those who voluntarily left their job during the pandemic are more likely to say they are using this time to prepare for a career shift than those who were laid off from their jobs.

Just 11 percent of respondents said the expanded unemployment benefits made it possible to be more selective about a new job, and 9 percent said they're earning more through unemployment benefits than they would with a job.

It makes sense that that the extra unemployment stipend has had the biggest impact on the lowest-wage workers, with some receiving more unemployment income than what they made on the job, especially in the hardest-hit leisure and hospitality sectors.

But labor market data also show that lower-wage workers are returning to work more than anyone else. Heidi Shierholz, a senior economist at the Economic Policy Institute in Washington, D.C., pointed out that over the last two months, 75 percent of the jobs added nationwide were in leisure and hospitality, by far the lowest-wage sector.

Shierholz clarified that a key indicator of a labor shortage is accelerating wage growth, which in recent months has been seen in the leisure and hospitality sectors. "They have indeed accelerated at a rate that would suggest that there has been some tightening in that sector—not at all suggesting that wages in that sector are too high. Not even close. But we have seen an acceleration in recent months."

She added that while talk of labor shortages is "absolutely everywhere," they are not widespread, but rather contained to isolated sectors like leisure and hospitality. "Leisure and hospitality is the sector that has restaurants in it," she said.

"Many of the reports of labor shortages are coming from food services employers who are especially struggling to hire workers because of the high risk of infection and the relatively low pay, which may make unemployment benefits an attractive option," Levanon said.

[SHRM members-only resource hub page: Turnover and Retention (www.shrm.org/ResourcesAndTools/Pages/turnover-and-retention.aspx)]

The Skills Gap Didn't Go Away

The SHRM research displayed one area of alignment between employers and employees: The vexing skills gap is still an issue. Sixty percent of organizations say they can't find applicants with the right skills, and 30 percent of job seekers say their skills don't match available jobs.

"Even before the pandemic forced businesses and workers to adapt to a partially remote economy, automation and globalization were changing the way we work, and employers were sounding the alarm that job seekers with key skills were in noticeably short supply," Bilger said.

"Those changes sped up over the past year as employers embraced new ways to continue serving their customers with fewer workers, with existing jobs relying even more heavily on workers with strong technical and digital skills. It's clear, in addition to quickening the pace of adaptation, the pandemic created a new urgency around issues such as closing the skills gap, the role of post-secondary education in developing the workforce, and equity and access to opportunities in education and work."

Solutions for Employers

Companies nationwide are deploying incentives rarely seen for low-wage jobs, including higher hourly pay and signing bonuses.

To fill critical openings, 57 percent of employers surveyed by SHRM are offering referral bonuses, 55 percent are hiring external or temporary workers, 44 percent are upskilling and reskilling staff, and 43 percent are boosting pay.

Levanon said that labor shortages can be somewhat alleviated by using a mix of recruitment strategies such as adding or modifying employee referral programs, contracting with staffing firms, using new technologies to streamline recruitment and better target candidates, and shortening the recruitment process with fewer interviews and faster hiring decisions.

Employers can also expand talent pools by lowering qualification and credential requirements and cultivating connections with local high schools, trade schools and universities to develop internships and apprenticeships, he said.

"Remote hiring provides an opportunity to recruit candidates who were previously out of reach," he added. "Inclusion of candidates who can work remotely means employers struggling to recruit for office jobs can cast a wider net."

Future Outlook

A recent survey of business economists conducted by the National Association for Business Economics revealed that labor constraints aren't likely to go away any time soon.

Only 6 percent of respondents expect labor shortages to diminish by the end of 2021.

Levanon, on the other hand, said that if schools reopen in the fall—easing the child care crisis— and federal unemployment benefits expire in September as scheduled, many people will return to the labor force and ease shortages by the end of the year.

"But labor markets could become tight again in 2022 simply because a strong economic recovery and job growth will lower the unemployment rate significantly," he said. "And for the first time in U.S. history, the working-age population is shrinking as many Baby Boomers are retiring."

HR DAILY NEWSLETTER

News, trends and analysis, as well as breaking news alerts, to help HR professionals do their jobs better each business day.

Email Address

CONTACT US (WWW.SHRM.ORG/ABOUT-SHRM/PAGES/CONTACT-US.ASPX) | 800.283.SHRM (7476)

© 2021 SHRM. All Rights Reserved

SHRM provides content as a service to its readers and members. It does not offer legal advice, and cannot guarantee the accuracy or suitability of its content for a particular purpose.

Disclaimer (www.shrm.org/about-shrm/Pages/Terms-of-Use.aspx#Disclaimer)