

# Making the most

There's no shortage of skilled hands at present, but that might last only a year or so, writes **Emma Connors**.

**T**he economy has begun soaking up spare capacity and there is a lot less of it to go round than most - including the Reserve Bank of Australia - expected a year ago.

Alan Green from Sydney office fit-out specialist OMG Projects reckons he has about a year before the resurgence in demand is hampered by difficulties in finding tradesmen.

His business touched bottom about 18 months ago, when there was plenty of spare office space as companies hit by the financial downturn hurriedly downsized.

The speed with which demand returned took Mr Green by surprise. It's been twice as fast as it was after the recession of the early 1990s, he said.

"Mid last year we started quoting and talking," he said. "Business started to take off in October. Now we are working on three times the number of contracts we had a year ago."

"We're not finding it hard to find tradesmen because the construction sector is still slow and hasn't yet soaked up all the gyprockers, electricians and painters and so on. That will happen, but we think we have a very good 12 months ahead," Mr Green said.

The availability of labour is, the RBA observed in its monetary statement on Friday, an important driver of overall trends in capacity



OMG Projects' Alan Green, left, with general manager Joe Nassif, project manager

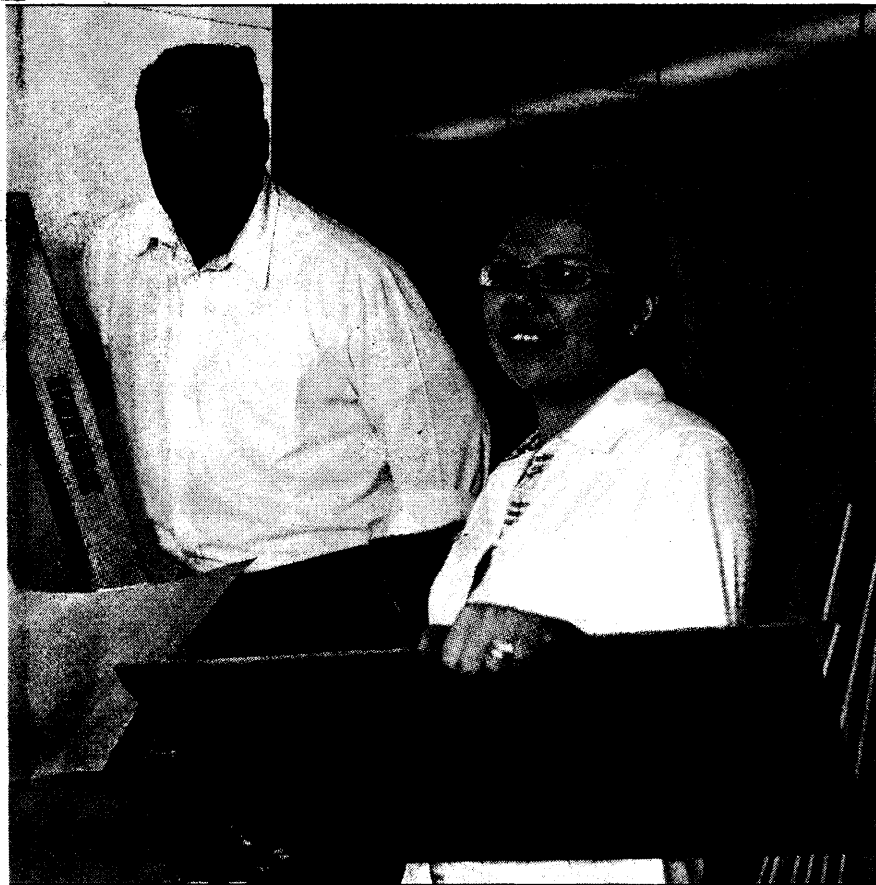
utilisation that, in turn, influences the outlook for inflation.

NAB's monthly outlook survey takes the pulse of 350 businesses to estimate the capacity utilisation rate; that is, the rate at which gross domestic product is growing as a percentage of the potential growth rate. In late 2007, the NAB measure was at its highest in two decades. During 2008, capacity

utilisation declined but only to a level that was, the RBA statement notes, "modestly below" its long-run average to be roughly in line with the levels recorded during the relatively mild 2000-01 downturn.

Since mid last year, around the time OMG Project's customers decided they were interested in office fit-outs again, utilisation rates began to recover. On Friday

# of labour surplus



George Maraccini and design manager Eka Andriani.

Photo Michel O'Sullivan

the RBA concluded "the economy starts the cyclical upswing with considerably less spare capacity than earlier thought likely".

A year ago most expected the economy would follow the example set in the 1980s and 1990s when it took upwards of three years to reach capacity.

"This time around we will feel the pinch faster than we did then,"

Nomura Australia chief economist Stephen Roberts said.

"Our output gap is quite small because we didn't have anything like the dramatic downturn experienced in other countries," Mr Roberts said.

No one is panicking yet, not when unemployment is at 5.6 per cent and there are few signs of wage pressures.

"We won't get close to closing the output gap till the end of this year," Mr Roberts said. He expected it would then take another year before the lack of capacity caused significant pressure and cautioned that much depended on the pace of the global economic recovery.

"However, there is little doubt the breathing space will be a lot shorter than we had after previous recessions," Mr Roberts said.

By mid last year staff numbers at recruitment company Ambition were down 45 per cent. Now they are back up by about 20 per cent and the company, like its clients, can afford to be fussy and wait for a candidate who is an exact fit, group managing director Paul Lyons said.

"We have a long list of criteria we want candidates to meet," Mr Lyons said. "In 18 months' time, we might not have that luxury any more. I don't feel there is a huge supply of labour out there."

Westpac senior economist Anthony Thompson said improved demand for labour would be countered by space capacity in the existing workforce - average hours worked were still down 2 per cent from their peak - and an expected increase in the participation rate.

Westpac forecasts labour force growth will keep pace with the projected increase in jobs.

"The fact that the labour market has turned more rapidly and proved more resilient than forecast is likely to encourage higher participation rates," Mr Thompson said.

"People who were discouraged will come back into the labour markets and that will help temper constraint issues."