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The Biggest Challenge Facing Businesses in 2017

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Trump's policies are unlikely to help.

Businesses' biggest problem in 2017 won't be weak sales, soft pricing, or even too much regulation, all problems that have plagued companies at different times over the past ten years. No, their biggest problem next year—and more often than not for the foreseeable future—will be a lack of qualified labor.

The job market is already very near what economists call full employment. That is, most of the 4.6% of the labor force that are currently unemployed are simply in between jobs. A similar number—approximately 7.5 million—is underemployed, including part-timers who want more hours and those who aren't looking for work and thus are not counted as unemployed. Overall, this number isn't much higher than it was in the best of economic times—a good sign for the economy overall.

If there are any remaining unemployed workers in the job market, they will be quickly absorbed at the current robust pace of job growth. Businesses added a stellar near 2.5 million to their payrolls in 2016, about double the growth in the working age population. This is the sixth year of consecutive positive job growth, among the longest streaks in the nation's economic history. All kinds of jobs are being created. Lots of low-paying jobs in the retail and hospitality industries are appearing, as well as many middle-paying healthcare and construction jobs, and high-paying jobs in professional and financial services.

In this environment, businesses are having an increasingly tough time filling open positions. There have never been so many openings, especially in the construction, financial services, healthcare, and retail industries. Even manufacturers are having a tough go of it.

To be sure, businesses have been slow in increasing wages more quickly to attract more workers. But this is changing fast. Wage growth, which had been stuck at close to 2% per year for much of the recovery, rose to almost 3% this year, and will certainly top that in 2017. Businesses will have little choice but to raise wages more quickly if they want to hold onto their existing workers, let alone expand their payrolls.

Private sector woes in finding workers is set to get even worse, as the large baby boom generation retires and leaves the labor force en masse. Labor force growth will soon come to a virtual standstill. Businesses would get some relief if Congress could agree on reform to our immigration laws, which would allow for more legal immigrant workers to come in to the country. Why not give work visas to foreign students that graduate from our universities and colleges? They are the world's best and brightest, and we want them working here in the U.S.

But that isn't going to happen under President Donald Trump. In fact, if he follows through even partly on his campaign pledge to require undocumented immigrant workers to leave the country, businesses' labor shortage problems will get much worse. And while the president-elect at times expressed support for high-skilled worker immigration, he has generally been critical of the existing H-1B skilled worker visa program.

Incentives will thus be strong for businesses with global operations to expand their hiring overseas, where there are many highly educated and skilled workers. A strong U.S. dollar only makes this strategy more attractive. No amount of browbeating by policymakers will stop this dynamic. Trump may attempt to stop this practice as he has with using public pressure against companies moving jobs out of the country, but it is unlikely to work given businesses' strong economic incentives to hire from overseas.

All of this may sound a bit odd, given what we've heard about coming technologies that seemingly threaten to wipe out jobs and leave many unemployed. There is much Luddite-like talk of driverless cars, artificial intelligence, 3D manufacturing, drones, and robots. These advances appear promising, but history shows that it will take a long time for them to have a broad impact on the economy. For now, businesses shouldn't count on technology solving what for many will soon be their more significant problem: The inability to find qualified workers.

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