

ARTICLE – Resource utilisation on the labour market is roughly normal, but the assessment is uncertain

The Swedish economy is growing rapidly and unemployment is falling. Lower unemployment indicates that resource utilisation on the labour market has risen. However, the composition of the labour force changes over time, which may mean that the level of unemployment compatible with normal resource utilisation may also change. Consequently, it is also important to examine other indicators of resource utilisation. The Riksbank's overall assessment is that resource utilisation on the labour market has risen and is presently more or less normal.

The spare capacity in the labour market has decreased

The amount of spare capacity in the economy will affect the assessment of GDP growth in the coming periods as well as the development of wages and prices in the slightly longer term. The assessment of resource utilisation in the economy is therefore important for deciding the monetary policy stance.

Supported by monetary policy, the high growth in the Swedish economy has contributed to unemployment falling since the end of 2014. In February, unemployment was 7.1 per cent (see Figure 3:17). The employment rate has risen continually since 2010 and amounted to 67 per cent in February, which is almost as high as before the financial crisis (see Figure 3:9).²¹ Falling unemployment and a rising employment rate indicate that resource utilisation on the labour market has risen. However, using unemployment as a measure of resource utilisation is complicated by the fact that the composition of the labour force changes over time and that different groups become established on the labour market with varying ease. The unemployment level deemed compatible with normal resource utilisation can thus vary over time.

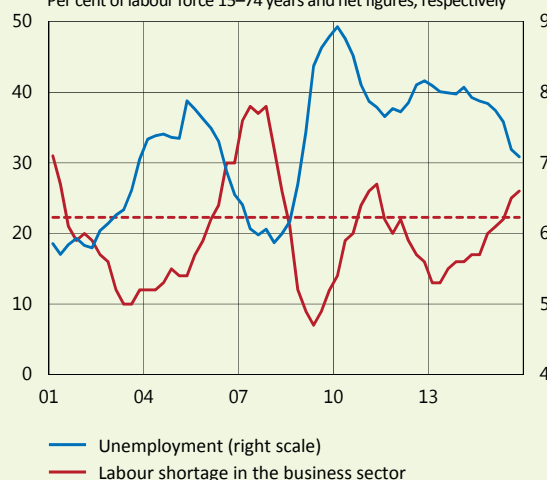
Indicators support this view

Other indicators also suggest rising resource utilisation on the labour market. For instance, the number of companies in the Economic Tendency Survey reporting a labour shortage has risen and was above the historical average at the end of 2015 (see Figure 3:17). The rise is on a broad front, but the proportion is particularly high in the construction industry (see Figure 3:11). According to Arbetsförmedlingen (the Swedish public employment service), there are also significant recruitment problems in

the public sector.²² One further indication that resource utilisation on the labour market has risen is that the number of persons of working age who wish to work in relation to the number of vacant jobs has decreased (see Figure 3:18). However, this development is due both to the number of job-seekers being fewer and to there being more vacant jobs.

Figure 3:17. Unemployment and labour shortage

Per cent of labour force 15–74 years and net figures, respectively



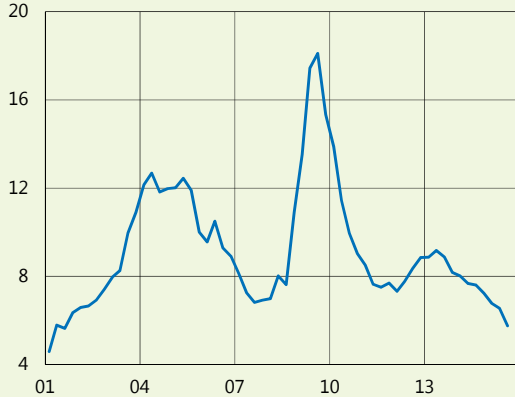
Note. The broken line is the average of labour shortage from 1996 up to and including the latest outcome.

Sources: The National Institute of Economic Research and Statistics Sweden

²¹ Demographic developments over the last 10 years have entailed an increased proportion of older people and immigrants, who have a lower average employment rate, in the Swedish population. The Riksbank deems the simultaneous trend increase in the labour force participation rate and the employment rate to largely be an effect of the reforms made to the labour market.

²² See "Labour market prospects, autumn 2015", Arbetsförmedlingen, 2015.

Figure 3:18. Job-seekers per job vacancy
Number of people, seasonally-adjusted data

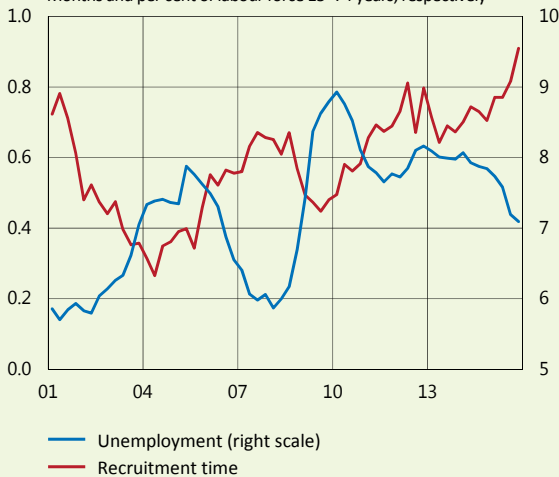


Note. The figure shows the number of job-seekers and the number of latent job-seekers per job vacancy according to Statistics Sweden.

Sources: Statistics Sweden and the Riksbank

At the same time, there are signs that matching between job-seekers and vacant jobs has deteriorated. It normally takes longer for companies to recruit staff when unemployment is low, as they have fewer job-seekers to choose from. At present, however, the average recruitment time in the business sector is much longer than has previously been associated with the current level of unemployment (see Figure 3:19). However, recruitment times are also affected by the type of people currently unemployed and this has changed over the last decade.

Figure 3:19. Average recruitment time in the business sector and unemployment
Months and per cent of labour force 15–74 years, respectively



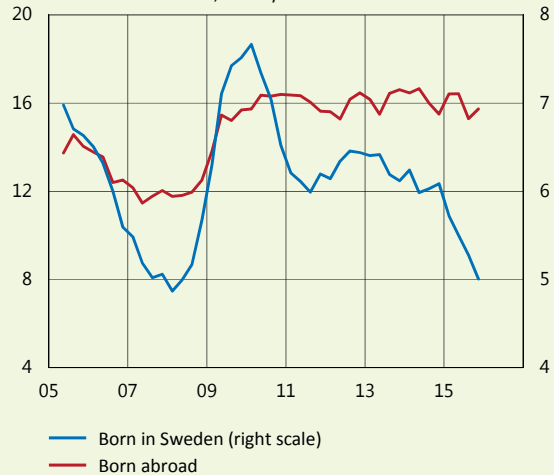
Sources: Statistics Sweden and the Riksbank

Many unemployed people were born abroad or are long-term unemployed

Over the last year, the main decrease in unemployment has been among those born in this country (see Figure 3:20). Among those born abroad, unemployment has been around 16 per cent since 2010. Unemployment is significantly higher in certain groups, in particular among

those born outside Europe and without an upper secondary education. One important explanation for why unemployment among those born abroad has not fallen is that there has been a large inflow of people born abroad into the labour force and, for many such people, it takes time to find work.²³ The labour market for those born abroad is also more sensitive to economic fluctuations.²⁴ The protracted economic downturn has thus probably made their entry onto the labour market more difficult.

Figure 3:20. Unemployment among those born in Sweden and those born abroad
Per cent of labour force, 15–74 years



Source: Statistics Sweden

Chances of moving from unemployment to employment fall as the period of unemployment increases, among other reasons due to the tendency among companies to reject job applicants with long periods of unemployment.²⁵ The proportion of long-term unemployed has recently decreased, but amounted to just over 30 per cent at the start of the year. The average time in unemployment has also risen since the financial crisis to on average around 34 weeks (see Figure 3:21).²⁶

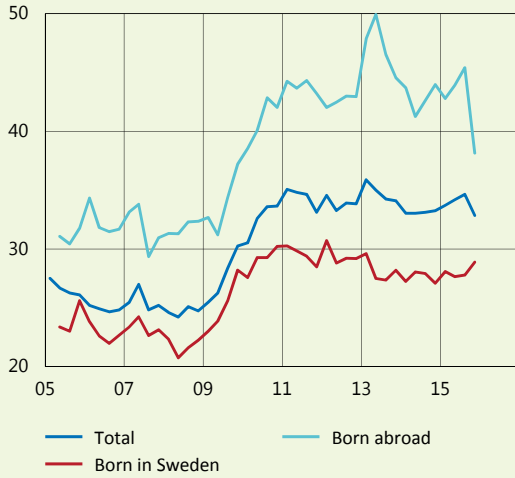
²³ Between 2006 and 2015, the number of people born abroad increased in the labour force by about 350,000 people. According to the labour force surveys (AKU), the average job-finding rate (going from unemployed to employed) was 28 per cent per quarter last year. For those born abroad, it was 18 per cent per quarter. According to Arbetsförmedlingen's statistics, only 2.4 per cent of those born outside Europe go from unemployment to unsubsidised work each month.

²⁴ See D-O Rooth, and O. Åslund, "Spelar när och var någon roll? Arbetsmarknadsläget betydelse för invandrarers inkomster" [Does it matter when and where? The significance of the labour market situation for immigrants' incomes], Report 2003:5, IFAU (Institute for Evaluation of Labour Market and Education Policy).

²⁵ See S Eriksson and D-O Rooth, "Do employers use unemployment as a sorting criterion when hiring? – Evidence from a field experiment", *The American Economic Review*, 104(3), 2014. The time of unemployment can also affect the job-seeker's search intensity, see for instance A Krueger. And A Mueller, "Job Search, Emotional Well-Being and Job Finding in a Period of Mass Unemployment: Evidence from High-Frequency Longitudinal Data", *Brookings Papers on Economic Activity*, 42 (1), 2011.

²⁶ The average period of unemployment in 2015 was around 43 (28) weeks among those born abroad (in Sweden).

Figure 3:21. Average period unemployed
Weeks



Source: Statistics Sweden

Resource utilisation is judged to be roughly normal

After an extended economic downturn, labour market statistics and indicators overall are now indicating that resource utilisation on the labour market is roughly normal. The improved economic situation is also expected to facilitate to some extent establishment on the labour market for those born abroad. However, the assessment of the resource utilisation and especially the labour market situation of those born abroad for the coming period, is uncertain. Rising resource utilisation normally means a higher rate of increase in wages and prices, after a certain delay, which is also in the Riksbank's forecast.