Labour market and factor utilisation IV

Labour market

Job numbers are up, but average hours have fallen …
According to the Statistics Iceland labour force survey
(LFS), total hours worked rose by 9% year-on-year in
Q1/2022, combining a 10% increase in job numbers
and a 1% decline in average hours worked. Job numbers
were about 6% higher in Q1/2022 than they were on
average in 2019, but average hours worked were still
3% fewer (Chart IV-1). Total hours worked were there-
fore about 3% above the 2019 average. The number
of employed persons according to the pay-as-you-earn
(PAYE) register has also risen, but to a lesser extent:
seasonally adjusted data for January suggest that the
number of employed persons is now about ½% above
the 2019 average. Job numbers are therefore higher
than in 2019, although the composition of the jobs has
changed. For example, the average number of people
working in tourism-related sectors was still around one-
fifth below the 2019 average.

**… and unemployment is now broadly at the pre-
pandemic level**
According to the seasonally adjusted results of the LFS,
the labour participation rate increased by about 1 per-
centage point quarter-on-quarter in Q1/2022, and the
employment rate rose by around 1½ percentage points.
As a result, unemployment fell by nearly 1 percentage
point between quarters, to 4.1%, slightly below its
Q4/2019 level (Chart IV-2). The Bank's February fore-
cast assumed that seasonally adjusted unemployment
would measure 5% in Q1; therefore, the unemployment
rate is falling faster than projected. The same could
be said of the LFS measure of the slack in the labour
market, which includes the underemployed and those

Chart IV-1

Employment and hours worked[1]
January 2019 - March 2022
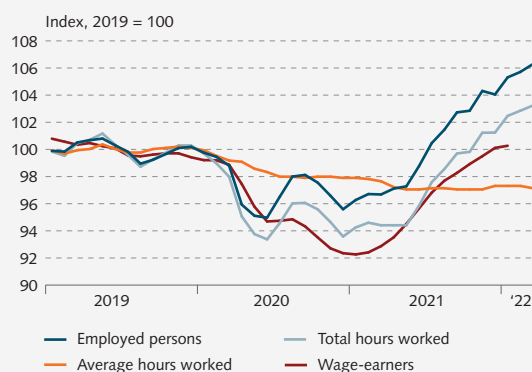
1. Wage-earners according to the Iceland Revenue and Customs' pay-as-you-earn
(PAYE) register. Other figures are from the Statistics Iceland labour force survey (LFS).
Persons aged 16-74 years old. Three-month moving average of seasonally adjusted
figures.
Sources: Statistics Iceland, Central Bank of Iceland.

Chart IV-2

Unemployment and labour market slack[1]
Q1/2006 - Q1/2022
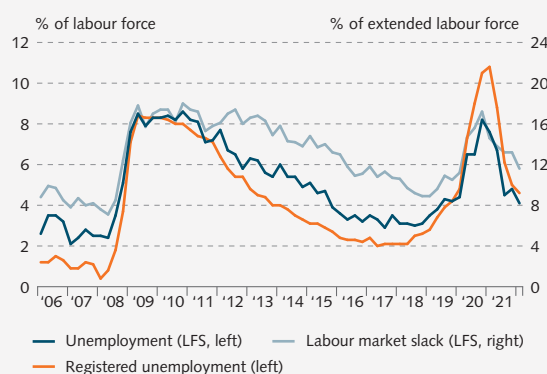
1. The labour market slack is the sum of unemployed persons, underemployed part-time
workers, and the potential addition to the labour market (persons seeking work but not
ready to work within two weeks and persons available but not seeking work), expressed
as a percentage of the extended labour force (labour force plus the potential addition to
the labour market). Registered unemployment excludes persons receiving part-time
unemployment benefits from Q1/2020 onwards. Seasonally adjusted figures.
Sources: Directorate of Labour, Statistics Iceland, Central Bank of Iceland.

outside the labour market who could join the labour force at short notice. It is now broadly at the Q1/2020 level. Registered unemployment was 4.6% in Q1 when adjusted for seasonality. It has fallen by more than 6 percentage points year-on-year, and is now about the same as at the beginning of 2020.

Long-term unemployment began to decline when the authorities introduced targeted hiring subsidies in April 2021. Although a large share of those subsidies expired late in 2021, the decline in unemployment has not slowed to any discernible degree. Long-term unemployment peaked at 3.4% of the labour force in April 2021 but had fallen to 1.7% by March 2022. It averaged 0.7% in 2013-2019, however, so it is still relatively high in historical terms. In comparison, it peaked at 2.8% in the wake of the financial crisis just over a decade ago but was much more persistent then than it is now, as it remained above 2% until mid-2012.

Labour demand still strong …
According to the seasonally adjusted results of Gallup's spring survey among executives from Iceland's 400 largest companies, 39% of firms were planning to recruit staff in the next six months, and only 9% were planning to downsize. The balance of opinion is therefore positive by 30 percentage points and has been broadly at that level in the last four surveys. Furthermore, there were 5,400 job vacancies in Q4/2021, according to Statistics Iceland's corporate survey (Chart IV-3). Job vacancy numbers declined between quarters but remain higher than in Q4/2020. They have also increased markedly relative to the pre-pandemic period.

 … and labour importation is still increasing
Iceland's population grew by about 2% year-on-year in Q1/2022, and population growth has been gaining pace since mid-2021 (Chart IV-4). Just over half of the increase is due to immigration, whereas foreign nationals accounted for a low of only 0.1 percentage point of population growth during the pandemic. The outlook is for immigration to continue in tandem with the recovery of the economy and the growing shortage of labour.

**Unemployment set to continue falling**
Labour demand has been strong in the recent term. Unemployment has continued to fall and is now below its estimated equilibrium level. Total hours worked are projected to increase this year by 5½%, somewhat above the February forecast. Job numbers are also increasing at a faster rate than was forecast in February, and as a result, unemployment will fall faster, although

Chart IV-3

Job vacancies

Q1/2019 - Q4/2021
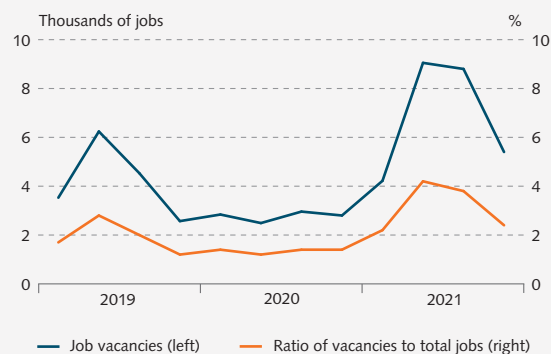
Source: Statistics Iceland.

Chart IV-4

Population

Q1/2011 - Q1/2022
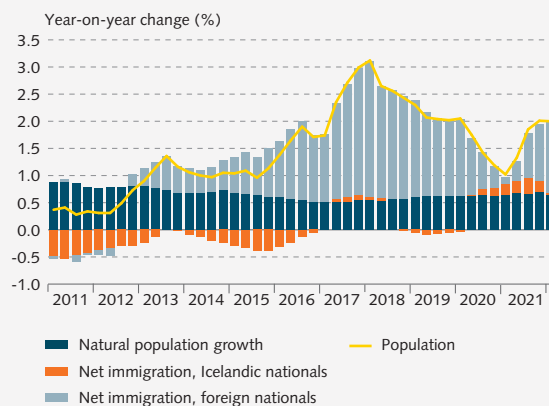
Source: Statistics Iceland.

the long-term outlook is broadly unchanged. According to the LFS, it is estimated to average 4.3% this year and continue to ease slightly in the next two years. Registered unemployment falls more rapidly, however, and is projected to measure 3.6% by the end of the forecast horizon.

Indicators of factor utilisation

**Productivity grew in 2021, after contracting in 2020**
In terms of GDP per hour worked, labour productivity grew by 1.6% year-on-year in 2021, after contracting by 2.3% in 2020. Last year's productivity gain is even larger if measured in terms of gross national income per hour worked according to the national accounts. By this measure, productivity growth measured 3.4% in 2021, after contracting by 0.2% in 2020. The year-on-year turnaround therefore amounts to nearly 4 percentage points by both measures.

Increasing strain on factor utilisation
According to the seasonally adjusted results of Gallup's spring survey, just under half of executives considered themselves short-staffed, and just over half said they would have difficulty meeting an unexpected increase in demand (Chart IV-6). Both ratios increased marginally relative to the winter survey. They have risen steeply in the past year, however, and are now higher than during the strong upswing in 2016-2017. The resource utilisation (RU) indicator, which combines various indicators of factor utilisation, has risen as well, indicating that utilisation of resources is above normal.

The most recent national accounts figures from Statistics Iceland suggest, however, that the slack in the economy in 2020 and 2021 was wider than previously estimated. As a consequence, it will close, and an output gap will open up, slightly later in 2022 than was previously estimated (Chart IV-7). This assessment is unusually uncertain, however, owing to the effects of the pandemic and global supply-chain bottlenecks on potential output. The situation is compounded by wide fluctuations in relative prices, which further complicate the assessment of potential output (see also Box 1).
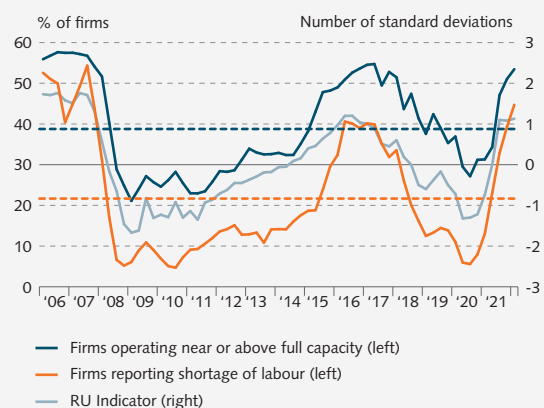
Chart IV-5

Unemployment 2015-2024[1]

% of labour force

— LFS   — DoL
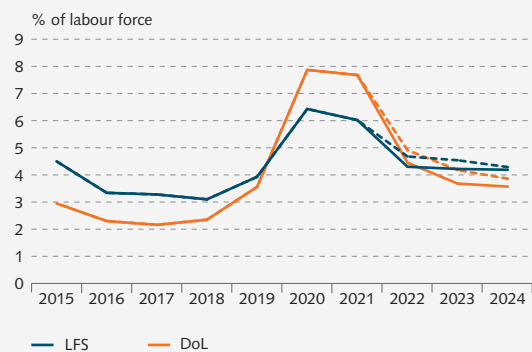
1. Unemployment according to Statistics Iceland labour force survey (LFS) and registered unemployment, excluding part-time benefits, according to the Directorate of Labour (DoL). Central Bank baseline forecast 2022-2024. Broken lines show forecast from MB 2022/1.
Sources: Directorate of Labour, Statistics Iceland, Central Bank of Iceland.

Chart IV-6

Capacity utilisation[1]
Q1/2006 - Q1/2022

% of firms   Number of standard deviations

— Firms operating near or above full capacity (left)
— Firms reporting shortage of labour (left)
— RU Indicator (right)

1. Indicators of capacity utilisation are based on the Gallup Sentiment Survey conducted among Iceland's 400 largest companies. The resource utilisation indicator (RU indicator) is the first principal component of selected indicators of capacity utilisation; it is scaled so that its mean value is 0 and the standard deviation is 1. A more detailed description can be found in Box 3 in MB 2018/2. Seasonally adjusted figures. Broken lines show period averages.
Sources: Gallup, Central Bank of Iceland.

Chart IV-7

Output gap 2015-2024[1]

% of potential output
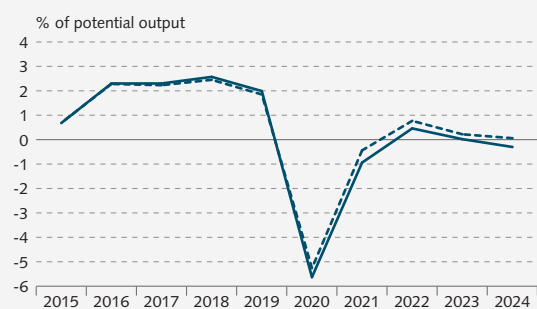
1. Central Bank baseline forecast 2022-2024. Broken line shows forecast from MB 2022/1.
Sources: Statistics Iceland, Central Bank of Iceland.