Labour market and factor utilisation

IV

Labour market

Total hours worked still down year-on-year …

According to the Statistics Iceland labour force survey (LFS), total hours worked were 3.5% fewer in Q1/2021 than in Q1/2020. 2.4% fewer people were employed, and average hours worked were down 1.1% (Chart 3 in Appendix 1). Seasonally adjusted total hours worked rose quarter-on-quarter after having declined somewhat in Q4/2020. According to the survey, the number of working persons also rose between quarters, but this does not accord with the pay-as-you-earn (PAYE) register, which indicates a continued decline in job numbers (Chart IV-1). PAYE data suggest that over 90% of the jobs lost in the past year were in tourism-related sectors.

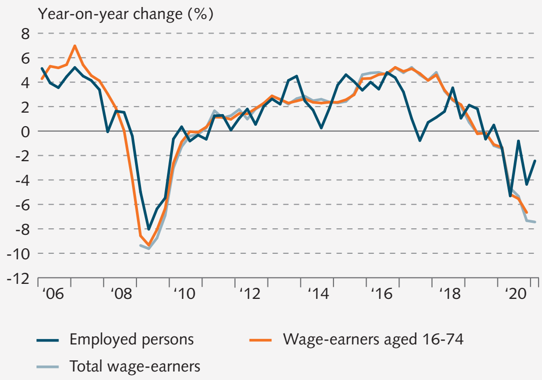
… but unemployment has started to ease …

Seasonally adjusted LFS results indicate that labour participation increased marginally between Q4/2020 and Q1/2021, but that the employment rate rose more strongly over the same period (Chart 3 in Appendix 1). Unemployment therefore fell by almost 1 percentage point between quarters, to 7.6%. Broadly, the same could be said of the LFS measure of the slack in the labour market, which includes the underemployed and those outside the labour market who could join the labour force at short notice. By that measure, the labour market slack measured 14.5% in Q1/2021 and had narrowed by nearly 3 percentage points between quarters (Chart IV-2). Registered unemployment (excluding recipients of part-time benefits) declined as well over the course of Q1 and measured 10.4% in April, although it was higher over the quarter as a whole than in Q4/2020, as it rose to a historical high of 11.6% in

Chart IV-1

Number of employed persons[1]

Q1/2006 - Q1/2021



1. Employed persons according to Statistics Iceland's labour force survey and wage-earners according to the Directorate of Internal Revenue's PAYE register. Wage-earners aged 16-74 includes individuals on childbirth leave and self-employed persons. The category "all wage-earners" excludes these groups but covers all age groups; the Q1/2020 figure is based on average of January and February values.

Sources: Statistics Iceland, Central Bank of Iceland.

January. Declining unemployment in 2021 to date is due in part to the Government's special job creation initiative. The trend appears to be relatively broad-based, with jobless numbers falling in most sectors, albeit most in accommodation and restaurant operations. However, long-term unemployment has risen steeply, reaching a historical peak in April (see also Box 4).

… as labour demand has picked up

According to Statistics Iceland's corporate survey for Q1, there were 700 more job vacancies than in the same quarter of 2020 (Chart IV-3). It was the second quarter in a row to see a year-on-year rise in vacancies, a significant turnaround from the steep decline in Q2/2020. There are no signs that the upsurge in the pandemic in Q4/2020 and the associated tightening of public health measures affected vacancy numbers. In Q1/2021, there were 3,500 jobs available, about the same as in Q1/2019. A similar shift can be seen in firms' staffing plans, according to the Gallup survey of Iceland's 400 largest companies. The balance of opinion between those planning to recruit and those planning to downsize was positive by over 4 percentage points during the quarter, and therefore close to its historical average, whereas it was negative by nearly one-third in Q2/2020.

Although labour demand appears to be recovering, as yet there are no clear signs of an imminent surge in job numbers strong enough to prompt a rapid decline in unemployment. Furthermore, for the tourism industry, the results of the two surveys differ widely. For example, according to the Gallup survey, the balance of opinion on staffing plans was positive by nearly 20 percentage points during the quarter in the transport, transit, and tourism sector, whereas the Statistics Iceland survey suggests that the number of job vacancies in the tourism industry has declined. Both surveys indicate that labour demand has increased in the construction industry and in sectors that include public sector-related services.

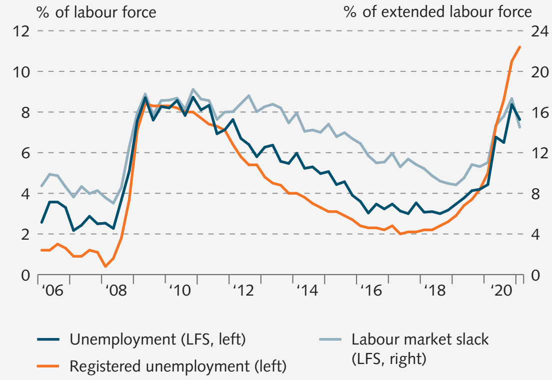
Population growth has slowed during the pandemic

Population growth has slowed markedly since the pandemic struck. The population grew by 1% year-on-year in Q1/2021, which is only 0.4 percentage points more than if no migration had taken place during the quarter (Chart IV-4). This is a major shift from early 2018, when annual population growth exceeded 3%. The change is due mainly to a significant decline in immigration of foreign workers.

Chart IV-2

Unemployment and labour market slack[1]

Q1/2006 - Q1/2021



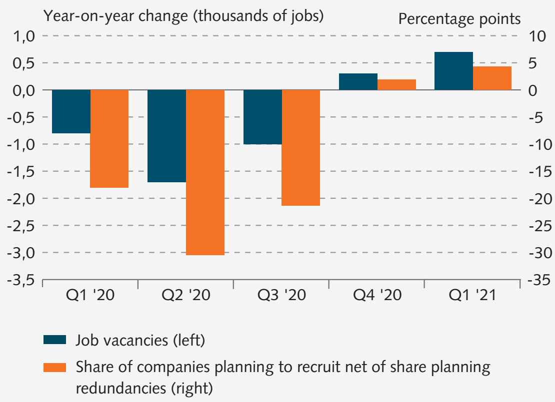
1. The labour market slack is the sum of unemployed persons, underemployed part-time workers, and the potential addition to the labour market (persons seeking work but not immediately available and persons available but not seeking work), expressed as percentage of the extended labour force (labour force plus the potential addition to the labour market). Registered unemployment excludes persons receiving part-time unemployment benefits from Q1/2020 onwards and is seasonally adjusted by the Central Bank. Seasonally adjusted figures.

Sources: Directorate of Labour, Statistics Iceland, Central Bank of Iceland.

Chart IV-3

Firms' staffing plans[1]

Q1/2020 - Q1/2021



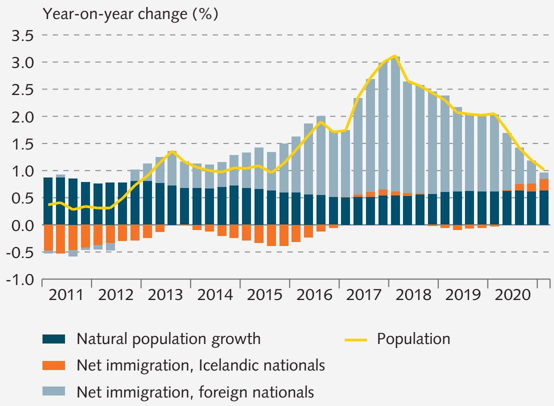
1. Job vacancies according to Statistics Iceland company survey. Firms' recruiting recruiting plans in the coming six months according to Gallup survey of Iceland's 400 largest companies. The data are seasonally adjusted by the Central Bank of Iceland.

Sources: Gallup, Statistics Iceland, Central Bank of Iceland.

Chart IV-4

Population

Q1/2011 - Q1/2021



Source: Statistics Iceland.

Unemployment projected to remain high but the outlook has improved since the last forecast

Labour demand has continued to recover, and the Government has launched a jobs initiative aimed at putting unemployed people back to work. Total hours worked are forecast to increase by 2½%, both this year and, on average, in 2022 and 2023. This is a larger increase than was forecast in February. The unemployment outlook has improved as well, although the jobless rate is still expected to taper off slowly and remain somewhat higher than before the pandemic. The LFS-based unemployment rate is forecast to average just under 7% this year and ease to around 6% towards the end of the forecast horizon. Registered unemployment will be higher this year, or slightly over 9%, but will fall faster during the forecast horizon (Chart IV-5). The outlook is highly uncertain, however. Box 1 presents alternative scenarios based on differing assumptions about developments in the pandemic, and Box 4 focuses in particular on various uncertainties relating to developments in unemployment.

Indicators of factor utilisation

The pandemic has undermined labour productivity

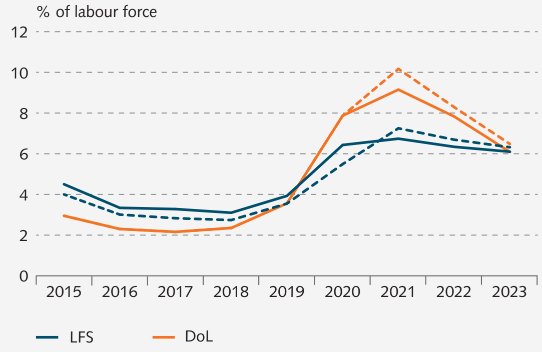
Labour productivity declined by 1.8% year-on-year in 2020 based on hours worked from the LFS (Chart IV-6). This is the largest single-year drop in productivity by this measure since 1999, and it represents an abrupt reversal from 2019, when labour productivity grew by nearly 2%. Another measure of labour productivity, also published by Statistics Iceland and based on total hours worked according to the national accounts, shows a similar reversal. By that measure, labour productivity was virtually flat year-on-year in 2020 but grew nearly 4% in 2019. Therefore, annual growth in labour productivity according to these two measures declined by similar amounts between 2019 and 2020, or around 3½ percentage points. The pandemic has therefore had a major impact on labour productivity, as is discussed in Box 3 – particularly in sectors relating to tourism and personal services (Chart IV-7).

Output slack to close and output gap to open in 2022

The seasonally adjusted results of Gallup's spring survey among Iceland's 400 largest firms suggest that the share of executives reporting staff shortages has risen slightly between surveys. The share who indicated that their firms would have difficulty responding to an unexpected increase in demand is broadly unchanged, however.

Chart IV-5

Unemployment 2015-2023[1]

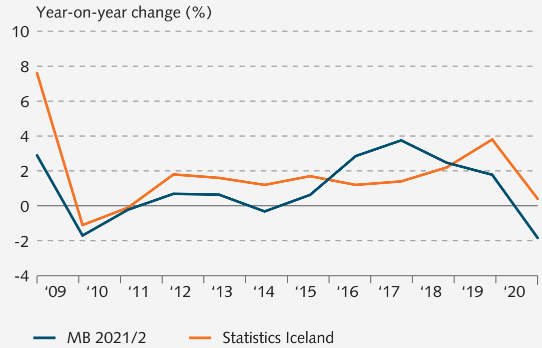


1. Unemployment according to Statistics Iceland labour force survey (LFS) and registered unemployment, excluding part-time benefits, according to the Directorate of Labour (DoL). Central Bank baseline forecast 2021-2023. The broken lines show the forecast from MB 2021/1.

Sources: Directorate of Labour, Statistics Iceland, Central Bank of Iceland.

Chart IV-6

Labour productivity 2009-2020[1]

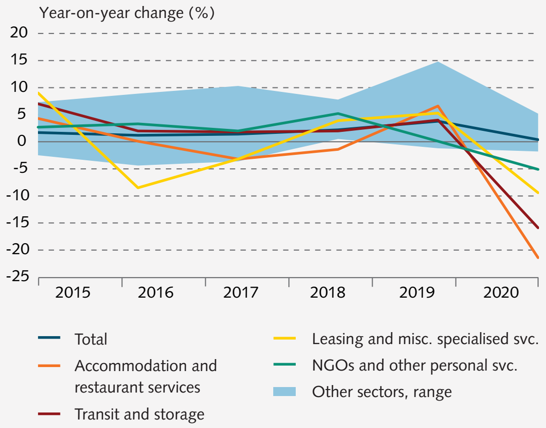


1. Labour productivity, from the Central Bank's macroeconomic model, is measured as GDP per hour worked, based on total hours worked according to Statistics Iceland labour force survey (LFS). However, labour productivity as published by Statistics Iceland is measured as gross factor income per hour worked, based on total hours worked according to national accounts data.

Sources: Statistics Iceland, Central Bank of Iceland.

Chart IV-7

Labour productivity in selected sectors 2015-2020[1]



1. Labour productivity as published by Statistics Iceland is measured as gross factor income per hour worked, based on total hours worked according to national accounts data.

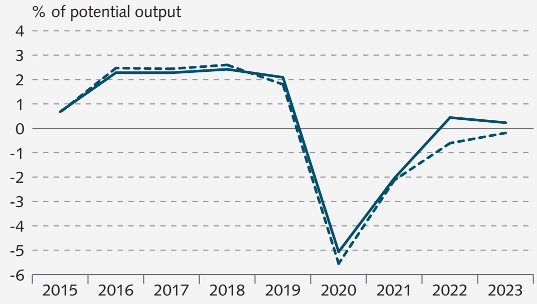
Source: Statistics Iceland.

The resource utilisation (RU) indicator, which combines various indicators of factor utilisation, rose somewhat in Q1, suggesting improved utilisation of resources. The RU indicator has now risen three quarters in a row (Chart 3 in Appendix 1).

The slack that developed in the economy in the wake of the pandemic therefore appears to be narrowing. Furthermore, the pandemic has caused significant disruption on the supply side of the economy, with the result that growth in potential output is estimated to have fallen well below its historical average in 2020 and remain there in 2021 (see also Boxes 3 and 4). As a consequence, spare capacity will be eliminated faster than it would otherwise. The output slack is projected to narrow from 5% of potential in 2020 to 2% this year, and then flip to a small output gap in H2/2022 (Chart IV-8). This is a smaller slack than was forecast in February and will close more quickly than was assumed then, reflecting both revisions of historical data and a more favourable GDP growth outlook. This assessment is highly uncertain, however, as is discussed in Box 1.

Chart IV-8

Output gap 2015-2023[1]



1. Central Bank baseline forecast 2021-2023.
Source: Central Bank of Iceland.