

At present, Statistics Iceland only publishes figures on the status of the working-age population (16-74 years) as defined by the International Labour Organization (ILO); that is, the number of persons employed, unemployed, and outside the labour market.¹ Employed persons have been classified according to whether they are employed full- or part-time, and persons outside the labour market have been classified according to whether they are students, retirees, disability pensioners, or homemakers, or whether they are on sick leave or childbirth leave.

Further classification of working-age persons

Eurostat publishes a more detailed classification of working-age persons. First of all, part-time workers are divided into two groups: those who are satisfied with their working hours and those who work part-time but are willing and able to work more and can be therefore partially unemployed.² People falling into this group are classified as “underemployed.” The second category identified by Eurostat includes those persons outside the labour market who fall into two sub-groups: those who are seeking work but cannot begin working within two weeks, and those who could begin working within two weeks but are not actively seeking a job. The former sub-group includes, for instance, those who cannot work because they cannot find childcare, and the latter includes, among others, people who have given up looking for work. Both sub-groups are classified as being outside the labour market because they do not fulfil the ILO criteria for unemployment. They are considered more attached to the labour market than others classified as being outside the labour market, however, and are in many ways similar to those defined as unemployed by ILO criteria. These two latter groups are often referred to as the potential additional labour force (PAF). Underemployed persons are also considered a potential addition to the labour force even though they are already part of it, as they would like to increase their working hours and can be viewed as part-time unemployed. The classification gives a more complete description of people’s status than the conventional three-group classification and is therefore an important supplement to the criteria that can be used to assess the slack or tension in the labour market.

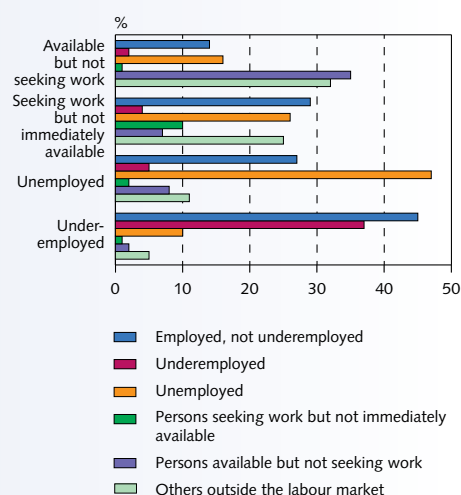
How strong is labour market attachment?

These three groups’ attachment to the labour market varies, however, as can be seen in an examination of the probability of their moving to another category after a given period of time (for instance, a year). Although the likelihood of such a transfer between categories has not yet been estimated for Iceland, Eurostat has published such estimates based on EU labour force surveys (Chart 1).³ As expected,

Box 3

New data to estimate slack or tension in the labour market

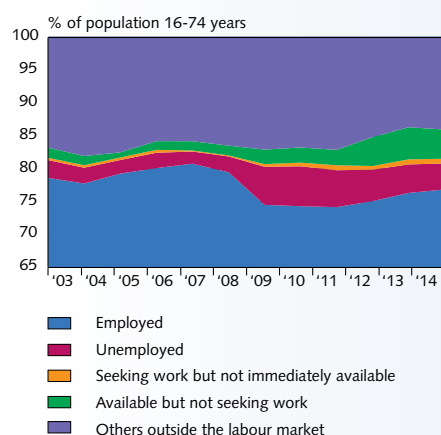
Chart 1
Probability of labour status transition within the EU¹



1. The y-axis shows the initial status, and the columns show the status one year later.
Source: Eurostat.

1. People are considered employed (to have work) according to the ILO definition if they worked one hour or more during the reference week or were absent from work that they usually carry out. Those considered unemployed by ILO criteria are those without jobs who fall into one of the following categories: (1) have actively sought work in the last four weeks and are available to begin work within two weeks; (2) have found a job but have not yet begun work; (3) are waiting to be called to work; and (4) have given up looking for work but would be available to begin working within two weeks if offered a job. People are classified as outside the labour market (economically inactive) according to the ILO definition if they are out of work and do not satisfy the requirements for being considered unemployed.
2. A distinction is made according to whether those wishing to work more hours are employed part-time or full-time. Those who are employed full-time and want to work more want more income, not necessarily longer working hours, whereas those who are employed part-time and want to work more are classified as underutilised labour force.
3. The calculations are based on a comparison of the status of persons in the labour market in each quarter of 2009 and in the same quarter of the following year. Published in “New measures of labour market attachment”. *Statistics in Focus*, Eurostat 57, 2011.

Chart 2
Classification of persons of working age



Source: Eurostat.

labour market attachment is greatest among the underemployed, and much stronger than for the other two groups, as the underemployed are already working. After a year, the underemployed are likeliest to have moved into the category of the employed (and satisfied with their working hours), although they are also highly likely to remain in the same category. Although the probability of their moving to the unemployed category is small, it is greater than for other employed persons. Individuals who are seeking work but cannot begin work immediately are equally likely to have become employed, to be classified as unemployed according to the ILO definition, or to be no longer seeking work (25-29%) in one year's time. It is relatively unlikely that individuals in this group will still be there one year on (10%). On the other hand, those who are not actively seeking work but could begin immediately are very likely to be in the same position a year later and are more or less equally likely to be no longer available for work in one year's time. This group's attachment to the labour market is therefore not very strong, although there is some likelihood that its members will have become more active and received a job or will be classified as unemployed after one year.

Developments in Iceland

As yet, Eurostat only publishes data for Iceland on the groups outside the labour market; it does not publish data on the underemployed. In order to estimate the size of these groups in Iceland, it is interesting to examine two different years: for 2014 and for 2007 when there was significant tension in the labour market and most people who were willing and able to work were probably employed (Chart 2).⁴ To facilitate comparison, both categories are calculated as a percentage of the population aged 16-74. In 2014, 80.8% of persons in the 16-74 age group were in the labour market, as opposed to 82.6% before the crash. By the same token, 76.9% were employed and 3.9% unemployed according to ILO criteria in 2014, as opposed to 80.8% and 1.9%, respectively, in 2007.⁵ The percentage of those classified as a potential addition to the labour force and for whom there are figures for Iceland – that is, those seeking employment but unable to begin working within two weeks and those able to begin work but not seeking employment – was just over 5.2% in 2014, as opposed to 1.6% in 2007. If these groups had been included with those defined as unemployed according to ILO criteria, unemployment would have measured over 9% in 2014 and 3.4% in 2007. If they had been at work, however, the employment rate would have been 82% in 2014, and not just under 77%.

It is surprising how little change there was in these two groups during the period prior to 2008, given the substantial excess demand for labour during the pre-crisis upswing. As expected, the groups grew somewhat during the post-crisis period, peaking in 2013 at 5.7% of the population aged 16-74 and then tapering off somewhat in 2014, almost entirely due to a decline in the number of persons who could work but are not seeking employment. Those who could work but are not actively seeking employment appear to have increased in number since 2011-2013, perhaps indicating that more people have given up on finding a job. In 2014, this measure of the potential addition to the labour market was still well below its historical average, although the group declined in size year-on-year (see Section IV).

4. Figures used here are from the Eurostat labour force survey and may differ from Statistics Iceland figures.

5. It is conventional to measure unemployment as the number of jobless persons as a percentage of the labour force. By this criterion, the unemployment rate was 4.9% in 2014 and 2.2% in 2007.