

V Labour market and factor utilisation

The outlook is for job creation to continue, although it has probably peaked. Total hours worked increased more in Q3 than was assumed in the Bank's August forecast. The labour participation rate rose slightly year-on-year, as did the employment rate; therefore, unemployment remained unchanged between years. According to Gallup's survey of Iceland's 400 largest firms, job growth is expected to continue this year, but at a slower pace than in 2017. Immigration of foreign labour is still growing strongly, and the number of firms considering themselves understaffed has fallen concurrently. The number of firms operating above capacity has also declined, although the percentage falling into this category is still historically high. On the whole, the output gap appears to be narrowing; however, with the revision of GDP growth figures for 2017 and H1/2018, it appears to be wider than was assumed in August. The outlook, however, is for the output gap to close faster than was forecast then.

Labour market

Strong increase in total hours worked in Q3 ...

According to the Statistics Iceland labour force survey (LFS), total hours worked increased by 4.3% year-on-year in Q3, well in excess of both the Bank's August forecast and the year-on-year growth rate in the past five quarters (Chart V-1). The number of employed persons rose by 4.1%, and the average work week lengthened slightly. As has previously been discussed in *Monetary Bulletin*, the LFS probably underestimated job creation for a period of time, owing to the large increase in the number of foreign workers not captured by the survey. Now, however, it appears that LFS measurements of the increase in worker numbers align more closely with measurements from the pay-as-you-earn (PAYE) register, with the latter indicating that labour demand growth has peaked (Chart V-2).

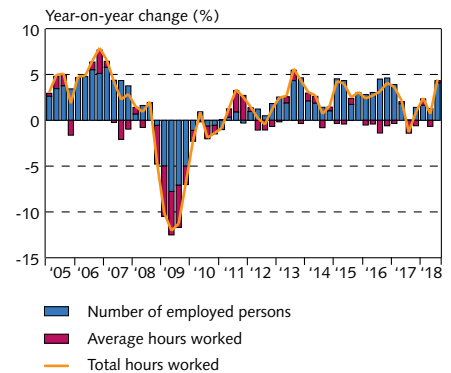
... but unemployment is broadly unchanged year-on-year

According to the LFS, the labour participation rate rose by 0.4 percentage points year-on-year in Q3, to a seasonally adjusted 81.7%. The employment rate rose commensurably, and the unemployment rate was unchanged year-on-year as a result. The seasonally adjusted unemployment rate was 2.6% in Q3, some 0.3 percentage points lower than in the previous quarter. The underemployment rate (i.e., part-time workers who would like to work more) has continued to decline between years, however, to 3.5% in Q3, 0.5 percentage points below its 2003-2007 average. Long-term unemployment is very low and has hovered around 0.2-0.4% since Q4/2015 (Chart V-3).

Job growth projected to continue in the next six months

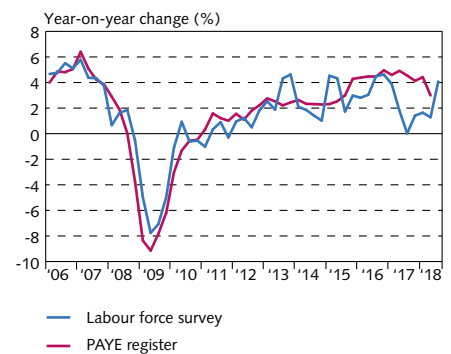
According to Gallup's autumn survey of Iceland's 400 largest companies, the share planning to add on staff exceeded the share planning redundancies by 4 percentage points. This balance of opinion has been broadly unchanged in the past two surveys and slightly below

Chart V-1
Employment and hours worked¹
Q1/2005 - Q3/2018



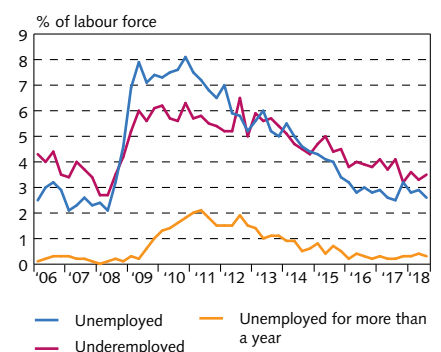
1. Quarterly averages of monthly figures.
Source: Statistics Iceland.

Chart V-2
Number of employed persons¹
Q1/2006 - Q3/2018



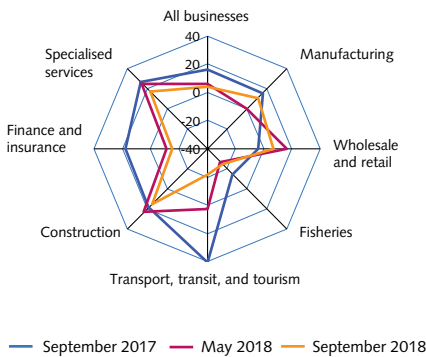
1. Quarterly averages of monthly data for number of employed persons according to labour force survey. The number of employed according to pay-as-you-earn (PAYE) register is based on data on individuals aged 16-74 who received employment income included in the Director of Internal Revenue's PAYE register, including individuals on childbirth leave and self-employed persons.
Source: Statistics Iceland.

Chart V-3
Unemployed and underemployed¹
Q1/2006 - Q3/2018



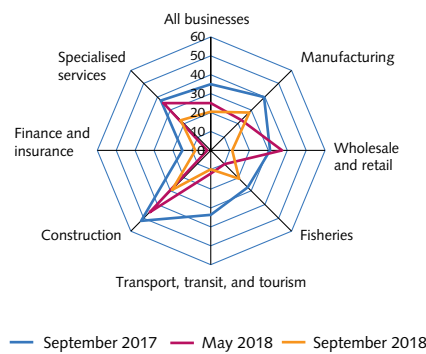
1. Underemployed workers are part-time workers who want to work more. Seasonally adjusted figures.
Sources: Statistics Iceland, Central Bank of Iceland.

Chart V-4
Firms planning recruitment net of firms planning redundancies within 6 months¹
Share of businesses (%)



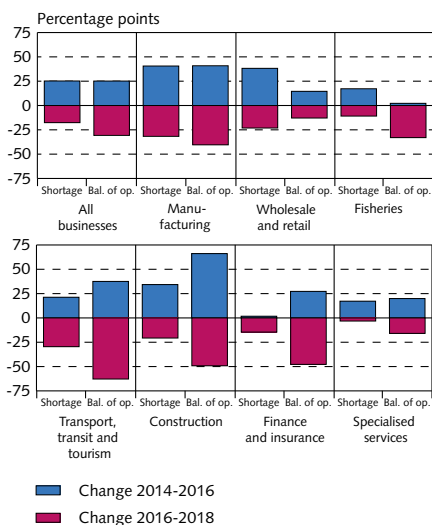
1. Seasonally adjusted figures.
Sources: Gallup, Central Bank of Iceland.

Chart V-5
Firms considering themselves short-staffed¹
Share of businesses (%)



1. Seasonally adjusted figures.
Sources: Gallup, Central Bank of Iceland.

Chart V-6
Fluctuations in labour demand and worker shortages¹



1. The chart shows the change in the balance of opinion (bal. of op.) between firms planning to recruit and those planning redundancies and the share of firms experiencing worker shortages in 2014-2016 and 2016-2018. Average of summer and autumn surveys for the year. Seasonally adjusted figures.
Sources: Gallup, Central Bank of Iceland.

its historical average. The outlook among companies in construction and miscellaneous specialised services is for continued recruitment. In these sectors, the balance of opinion ranged between 15 and 17 percentage points in favour of those planning to take on workers, which is noticeably smaller than in the previous survey. The survey results also indicate plans for continued recruitment among companies in industry and manufacturing, as well as those in wholesale and retail trade. As before, fishing companies planning to downsize outnumbered those planning to recruit. It is also possible that the number of jobs in transport, transit, and tourism will decline, in a significant change from the autumn 2017 survey, which indicated plans for sizeable staffing increases (Chart V-4).

Indicators of factor utilisation

Worker shortages have diminished

About a fifth of firms are having difficulty filling jobs, according to the seasonally adjusted results of Gallup's autumn survey. This share, which is in line with the historical average, has fallen by 5 percentage points since the summer survey and about 15 percentage points in the past year (Chart V-5). The shortage of workers was most pronounced in the construction industry and the industrial and manufacturing sector, where it was nearly 30%, although this is not high in historical terms. There is little shortage, however, of workers in transport, transit, and tourism, or in financial services and retail and wholesale trade. In these sectors, the share of executives reporting difficulties filling available positions was in the 8-11% range, slightly below the historical average. The survey results could indicate a forthcoming reduction in jobs in financial services and in tourism-related sectors in the next six months.

Recruitment plans and understaffing have generally developed in line with the business cycle

According to the Gallup survey, the labour market upswing appears to have peaked in mid-2016, and recruitment plans have slowed accordingly since then. This can be seen clearly in Chart V-6, which shows how a steadily increasing number of firms planned to add on staff beginning in mid-2014, when worker shortages also became more common. This turned around in H2/2016, virtually across all sectors, albeit slightly more in transport, transit, and tourism. The chart also shows how symmetric the turnaround is within sectors; i.e., the number of firms planning to hire and the number considering themselves understaffed have declined at about the same pace as they increased until mid-2016.¹ Recruitment plans and difficulty filling available jobs have therefore broadly developed in line with the business cycle.

Labour importation still strong despite slowdown

Figures on net migration in Q3 show that importation of foreign workers is still strong, although it has receded from last year's peak level.

1. The most pronounced exceptions are the fishing industry, which has been crowded out by the tourism boom, and financial services, which has downsized in recent years.

Net migration was positive by 1% of the population during the quarter, and the number of foreign nationals living in Iceland has increased by 2.7% of population year-to-date (Chart V-7). The number of workers hired by temporary employment agencies and foreign services firms has held relatively steady in 2018 to date, at about 0.8-0.9% of the labour force, although the number of work permits issued in the first nine months of the year was up 12% from the same period in 2017.

Productivity growth stronger in 2017 but weaker in 2018

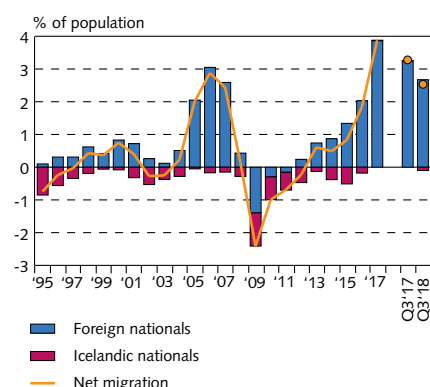
Following Statistics Iceland's upward revision of 2017 GDP growth figures, it appears that labour productivity, measured as GDP per hour worked according to the LFS, increased by 2.8% in 2017, slightly more than was assumed in the Bank's August forecast. On the other hand, the outlook is for weaker productivity growth this year, or 2.1% instead of 2.4%, owing to the prospect of a 1 percentage point larger increase in total hours worked than was projected in August.

Output gap remains but expected to narrow in coming years

Slightly less than half of firms reported difficulty responding to unexpected demand, an increase of 5 percentage points from the summer survey. This percentage therefore remains high, but it has been relatively volatile since it peaked in Q1/2017. Even clearer signs of a turnaround can be seen in the share of firms reporting worker shortages (Chart V-8). In comparison with the previous survey, the number of executives experiencing difficulties responding to unexpected demand increased in the financial services and miscellaneous specialised services sectors but decreased in the construction and fishing industries.

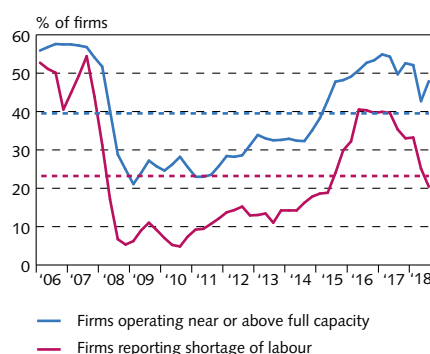
The resource utilisation (RU) indicator, which combines a number of indicators of factor utilisation, has fallen somewhat from its mid-2016 peak and now suggests that resource utilisation is now close to normal (Chart V-9). The RU indicator has fallen relatively quickly since the spring, but strong output growth in 2017 and 2018 suggests that the output gap is still significant. The gap is also somewhat larger than was estimated in August, owing to Statistics Iceland's revision of 2017 GDP growth figures and the prospect of stronger growth this year. It appears to be narrowing faster than was forecast then, however, and is expected to close towards the end of the forecast horizon.

Chart V-7
Net migration 1995-2018¹



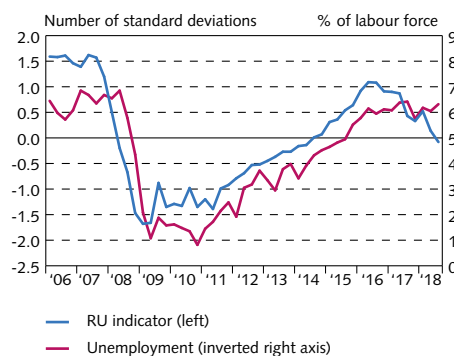
1. Net migration of persons aged 20-59 relative to total population of the same age. Beginning-of-year figures for population. Annual figures for 1995-2017 and cumulative figures for Q3/2017 and Q3/2018. Source: Statistics Iceland.

Chart V-8
Capacity utilisation¹
Q1/2006 - Q3/2018



1. Indicators of factor utilisation are from the Gallup Sentiment Survey conducted among Iceland's 400 largest companies. Seasonally adjusted figures. Broken lines show period averages. Sources: Gallup, Central Bank of Iceland.

Chart V-9
Resource utilisation and unemployment¹
Q1/2006 - Q3/2018



1. The RU index is the first principal component of selected indicators of factor 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. Unemployment is seasonally adjusted. Sources: Statistics Iceland, Central Bank of Iceland.