

Labour market and factor utilisation

IV

Labour market

Total hours worked fell slightly quarter-on-quarter in Q3

According to the Statistics Iceland labour force survey (LFS), total hours worked were up by 3.2% year-on-year in Q3/2022, a marginally smaller increase than was forecast in August. Job growth measured 3.7% but was offset by a 0.4% reduction in average hours worked. Although job numbers are still rising between years, the pace of growth has eased in recent months, and seasonally adjusted job numbers actually declined slightly between quarters.

The average work week has grown shorter since the pandemic reached Iceland, partly because of a contractual provision included in the most recent centralised collective bargaining agreement, and this trend continued in Q3. Total hours worked therefore declined by 1.2% quarter-on-quarter in Q3, although they were still 2.7% above the 2019 average during the quarter (Chart IV-1). The number of wage-earners on the pay-as-you-earn (PAYE) register has also grown more slowly, and remained flat between quarters in Q3.

Unemployment is low, but the labour participation rate is falling

Seasonally adjusted LFS results for Q3 suggest that the labour participation rate has begun to decline again. It measured 79.3% during the quarter, or 0.7 percentage points lower than in Q2. The employment rate fell by a slightly larger margin (Chart IV-2). Unemployment therefore rose by 0.5 percentage points between quarters, to 4% (Chart IV-3), which is similar to the pre-pandemic level and still low in historical terms. The LFS measure of slack in the labour market rose more

Chart IV-1

Employment and hours worked¹
January 2019 - September 2022

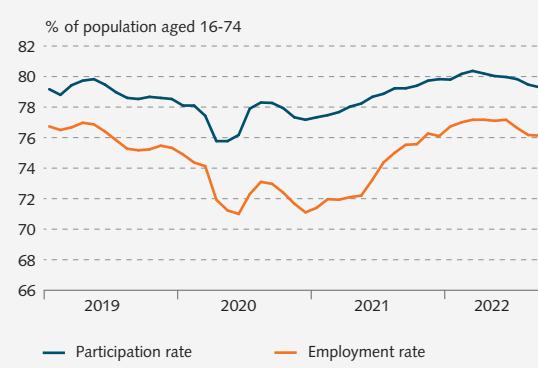


1. Wage-earners according to the Iceland Revenue and Customs pay-as-you-earn (PAYE) register. Other data are from the Statistics Iceland labour force survey (LFS). Persons aged 16-74 years old. Three-month moving average of seasonally adjusted figures.

Sources: Statistics Iceland, Central Bank of Iceland.

Chart IV-2

Labour participation and employment rate¹
January 2019 - September 2022



1. Three-month moving average of seasonally adjusted figures.
Sources: Statistics Iceland, Central Bank of Iceland.

strongly, or 1.4 percentage points between quarters. In addition to capturing unemployment, this measure takes into account the underemployed and those outside the labour market who could join the labour force at short notice. Registered unemployment was unchanged quarter-on-quarter, however, at a seasonally adjusted 3.7% in Q3, which is 0.5 percentage points less than in Q4/2019, before the pandemic struck. In October it declined further to 3.3%.

Long-term unemployment surged in the wake of the pandemic but then began to fall rapidly from mid-2021 onwards, in part because of special hiring subsidies. Since June 2022, 1.2% of the labour force have been on the unemployment register for more than twelve months, roughly the same as before the pandemic.

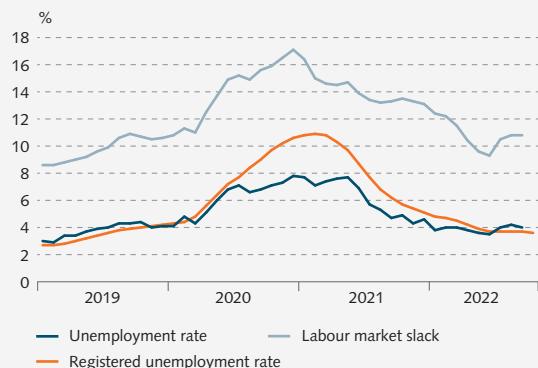
Firms are still planning to add jobs in the near future ...
According to the seasonally adjusted results of Gallup's autumn survey among executives from Iceland's 400 largest firms, one-third of respondents were planning to recruit staff in the next six months, and only 7% were planning to downsize. The balance of opinion is therefore positive by 27 points, after narrowing by 4 percentage points between surveys. Furthermore, there were nearly 8,800 job vacancies in Q3, according to Statistics Iceland's corporate survey. Vacancies therefore declined in number between quarters but were broadly unchanged year-on-year. The ratio of job openings to unemployed persons, a measure of labour market tightness, measured 1.2, after declining marginally between quarters. It is still high, however, and if Q3 is excluded, it is at its highest since the beginning of 2019, when Statistics Iceland started collecting the data (Chart IV-4).

... jobs that are increasingly filled with imported labour

Iceland's population grew by 2.8% year-on-year in Q3 (Chart IV-5), and net migration of foreign nationals was positive by 3,410 during the quarter. This comes on top of just over 3,500 foreign nationals who migrated to Iceland in Q2, in the largest single-quarter influx in the history of Statistics Iceland's quarterly population data. It was marginally offset by net outward migration of Icelandic nationals.

A relatively large share of population growth is due to the influx of refugees in the wake of Russia's invasion of Ukraine. Ukrainian nationals accounted for just over one-fifth of the increase in the foreign population in the first three quarters of 2022, according to monthly data from Registers Iceland. The composition of the immigrant group is different from that in previous waves of

Chart IV-3
Unemployment and labour market slack¹
January 2019 - October 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 March 2020 onwards. Three-month moving average of seasonally adjusted figures.

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

Chart IV-4
Job vacancies¹
Q1/2019 - Q3/2022



1. Job vacancies according to Statistics Iceland's company survey and number of unemployed persons according to the Statistics Iceland labour force survey.
Sources: Statistics Iceland, Central Bank of Iceland.

Chart IV-5
Population
Q1/2011 - Q3/2022



Source: Statistics Iceland.

labour importation, and it is therefore uncertain how the participation rate will be affected. Furthermore, it is highly uncertain how many more people will come to Iceland and how many will return home once the war ends.

Labour market is tight but set to ease over the forecast horizon

The labour market is still quite tight, even though there are signs that it is easing. The baseline forecast assumes that growth in total hours worked will measure just over 5% in 2022 and then lose pace in the next few years. The LFS-based unemployment rate is projected to measure 3.8% in 2022 and then rise gradually to 4.3% at the end of the forecast horizon (Chart IV-6). This only tells part of the story, however, as tension in the labour market will also abate due to a decline in the equilibrium unemployment rate over the period. The outlook for registered unemployment is similar, although the jobless rate is expected to fall marginally in 2023 and be slightly lower, or 3.9%, at the end of the forecast horizon.

Indicators of factor utilisation

Modest productivity growth expected over the forecast horizon

In terms of GDP per hour worked according to the LFS, labour productivity grew by 1.7% year-on-year in 2021, after contracting by 2% in 2020. The outlook is for slower growth this year, as productivity contracted by 2% year-on-year in H1/2022 by this measure. Substituting hours worked with the hourly labour input measure from the national accounts, the contraction was slightly smaller, or 1½%. The Bank's baseline forecast assumes that developments will be more favourable in H2 and that GDP per hour worked according to the LFS will increase in 2022 by ½% between annual averages. It is then expected to grow by an average of 1% per year over the next three years.

Continued strain on production factors

According to the seasonally adjusted results of Gallup's autumn survey, 54% of executives considered themselves understaffed, about the same as in the previous survey. Furthermore, 56% of executives – fewer than in the previous survey – reported that their firm would have difficulty responding to an unexpected increase in demand (Chart IV-7). This is the first quarter-on-quarter decline in this ratio since autumn 2020. The resource utilisation (RU) indicator, which combines various indicators of factor utilisation, suggests that significant strain on resources remains, although it eased marginally in Q3.

Chart IV-6

Unemployment 2015-2025¹



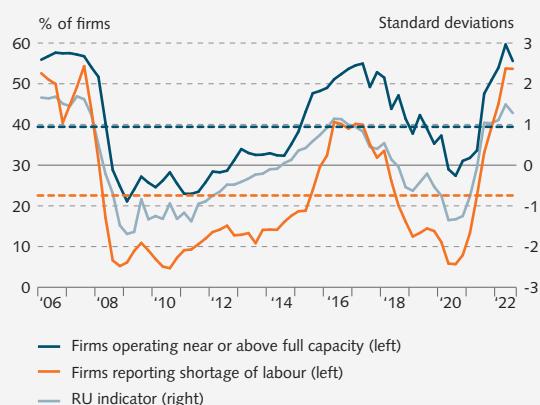
1. Unemployment according to Statistics Iceland labour force survey (LFS); registered unemployment, excluding part-time benefits, according to the Directorate of Labour (DoL). Central Bank baseline forecast 2022-2025. The broken lines show the forecast from MB 2022/3.

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

Chart IV-7

Capacity utilisation¹

Q1/2006 - Q3/2022



1. Indicators of capacity utilisation are based on the Gallup corporate sentiment survey conducted among Iceland's 400 largest firms. 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.

Based on the most recent national accounts figures, the output gap appears to have been slightly narrower in H1 than was previously estimated. The baseline forecast therefore assumes that the output gap will be somewhat smaller in 2022 than was forecast in August, or 1% of potential output instead of 1.5%. It is now expected to peak in 2023 and narrow more slowly than previously assumed. Furthermore, there will still be a small output gap in the last year of the forecast horizon (Chart IV-8). This assessment is highly uncertain, however. Further discussion of the uncertainties in the forecast, together with alternative scenarios, can be found in Box 1.

