

Due to the reorganisation of the executive arm of the Icelandic Government, the Directorate of Labour (DoL) has, as of January 2010, taken over the task formerly carried out by the Ministry of Finance (MoF), of estimating man-years for calculating unemployment as a percentage of the total labour force. According to information from the DoL, it will continue to apply methodology similar to that used by the MoF, although greater consideration will be given to information about labour market developments through the year. Instead of issuing a forecast of man-years for the year as a whole each January, estimates will be adjusted to take into consideration, for example, quarterly results of the labour force survey (LFS) conducted by Statistics Iceland.¹ As a result of this change, it is uncertain how comparable the estimates of man-years will be.

Estimating man-years is of major significance in forecasting labour market developments and productivity, as well as disposable income and private final consumption. As estimates of man-years up until now have not taken into account the major changes in total hours worked through the business cycle, the Central Bank has been examining a possible change in methodology to utilise information on total hours worked from the LFS in forecasting man-years. In view of the recent transfer of responsibility for these estimates, it was decided to make the change as of this forecast.

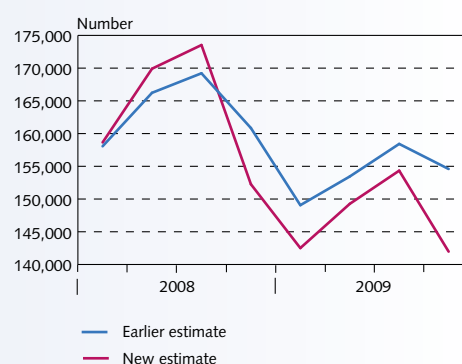
The change has a significant impact on assessments of productivity and labour costs for 2009, since the contraction in man-years is considerably greater using the new method of calculation than in previous estimates, causing an increase in underlying productivity instead of a contraction. In addition to this change, new figures from national accounts indicate that labour costs rose substantially less last year than previously assumed. The impact of these two changes is therefore a slight reduction in unit labour costs instead of the more than 7% increase in the January forecast.

1. In 2006 and 2007, however, previously published forecasts of man-years were adjusted for the latter half of each year in view of major changes in the workforce.

Box VI-1

Changes in measurement of employment

Chart 1
Number of employed
Q1/2008 - Q4/2009



Source: Statistics Iceland.