Arbetsförmedlingen
SWEDISH PUBLIC EMPLOYMENT SERVICE

Labour market outlook, spring 2016

OUTLOOK FOR THE LABOUR MARKET 2016–2017

SUMMARY

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Introduction

The Swedish economy and labour market were considerably strengthened during last year and this development will continue in the years ahead. This means that job growth will continue to be strong – we count on 144 000 more employed persons in two years but also on a relatively good increase in the supply of labour. Unemployment will fall from 7.5 per cent in 2015 to 6.9 per cent in 2016 and 6.6 per cent in 2017.

It is estimated that the number of persons registered unemployed will decrease slightly during 2016, however the pace will be gradual during the forecast period and in 2017 the number is expected to increase slightly. This is connected with the fact that many newly arrived immigrants will register as job seekers. Hence the number of participants in the job centre establishment assignment will increase. At present over half of those registered as unemployed were born abroad – a proportion that will be closer to 60 per cent towards the end of the forecast period. Participants in the establishment assignment are a very heterogeneous group but a relatively large proportion have only pre-secondary school education. A period of investment in human capital is therefore required to improve their chances of becoming established on the Swedish labour market. This puts demands on several areas of policy rather than just labour market policy.

The strong demand for labour increases opportunities for the unemployed to find a job but at the same time many have difficulty in becoming firmly established on the labour market. Characteristic of many of them is a short educational background. For this group labour market policy needs help from education policy. Approximately every third person registered as unemployed lacks secondary education and that proportion is expected to rise in the near future.

At the same time as many unemployed have difficulty in finding a job, the shortage of labour is estimated to continue to sharply increase during the forecast period. Among public employers there are already activities that find it difficult to expand due to the widespread shortage of labour. This applies both in medical and care services and in all parts of education. In private industry too, recruitment problems will increase in the years ahead. All in all, the shrinking supply of qualified labour means that employment will not rise as strongly in 2017 as in 2016. In the light of the composition of unemployment – with an increasing proportion of those registered as unemployed with an exposed position in the labour market – it will be a major challenge to secure effective labour market matching. A key factor for the supply of labour is to utilise the competence of those who have recently arrived in the country.

Summary

Stimulants will drive global growth

In both 2016 and 2017, the global economy will grow somewhat more than in 2015. For 2016 and 2017 global growth is estimated at 3.1 and 3.3 per cent respectively. Growth is furthered by a continued low oil price but the most important support will still come from the world's central banks which continue to pursue very expansionary monetary policies. As the rate of growth increases, world trade will also gradually rise. This is essential for a country dependent on exports such as Sweden. At the same time, uncertainty at the political level has increased – not least in Europe.

The American economy slowed down in the second half of 2015 and this braking has continued at the start of 2016. The strong dollar has dampened down future optimism in the export industry, however belief in the future continues to be strong in the service sector and among households. We estimate that growth will pick up speed again during the remainder of 2016 and GDP is estimated to increase by just under 2.0 per cent this year and by almost 2.5 per cent in 2017. Private consumption and investments will remain the foremost driving forces in the American economy. In addition, the American labour market continues to show strength and unemployment is now under the equilibrium level calculated by the OECD. However, since participation in the labour force is expected to continue to rise, unemployment will only decrease very slightly. Hence it is judged unemployment will continue to be around 5 per cent this year and next year.

The Chinese economy continues to slow down but the rate of growth is still higher than that of the global economy. The cause of the shift to a lower gear is, amongst other things, the Chinese government's ambition for a broader base for growth. All in all, the chances are the Chinese economy will continue to grow at the level of the goals set by the government. This means growth of around 6.5 per cent this year and slightly lower in 2017.

Activity in the Japanese economy continues to be weak. Growth is hampered by a weak development for export companies and by low domestic demand. At the same time free resources in the Japanese labour market are very limited and unemployment has dropped to 3.2 per cent. More supply-side stimulating policies are decisive for development, otherwise the shortage of labour is in danger of becoming a drag on the economy. GDP is expected to increase weakly, by 0.5 per cent a year in 2016 and 2017.

Economic activity continues to increase in the Euro area. This development is supported by several factors, not least an expansive monetary policy. In addition to this, a more expansive fiscal policy together with the continued low price of oil, provide additional stimulants to development. However, much remains to be done and further structural reforms are needed to step up growth. Our assessment is that GDP will grow by 1.7 per cent in 2016 and by 1.8 per cent in 2017. The most manifest contribution is expected from private consumption, however investments and public consumption are also expected to make positive contributions to growth.

The numbers employed in the Euro area continue to increase at a relatively good pace and the increase that started in the autumn of 2013 is expected to continue in the years ahead. Unemployment has gradually moved in a downward direction since 2013. After having amounted to 10.9 per cent in 2015, it is estimated unemployment will fall to 10.2 per cent this year followed by 9.7 per cent in 2017. Thus, the decrease is slow and the Euro area will continue to wrestle with very high unemployment in the coming years too. However, the differences between countries are still very considerable. Furthermore, the composition of unemployment is highly unfavourable and the proportion of unemployed will continue to remain at a very high level.

The Swedish economy is strong

In the course of last year the basis for growth in the Swedish economy was gradually broadened which resulted in very good growth development. GDP increased strongly by 4.2 per cent – the strongest growth since the backlash in 2010 following the 2008-2009 financial crisis.

A poll carried out by Arbetsförmedlingen (the Public Employment Office) shows continued widespread optimism among private employers. The economic indicator – which reflects employers' expectations for the next six months – is now at a level clearly above the historical average. The current level is the highest since 2010. The indicator signals with this that private employers are expecting continued high demand in the future.

The continued strong mood among companies indicates good growth development in both 2016 and 2017. Although the pace will gear down compared with last year, both employers' answers in Arbetsförmedlingen's poll and households' good finances and continued very high demand in the public sector guarantee positive growth in the next few years also. We estimate that GDP will rise by 3.7 per cent in 2016 and 3.0 per cent in 2017.

Despite high savings, private consumption will continue to be a very important driving force behind GDP growth. This development is largely explained by the positive development of households' incomes. The purchasing power of households has also been strengthened by low interest rates. The strong demand for labour has at the same time meant increased employment and reduced unemployment. Added to this, substantially rising house prices and recent years' stock market rally have meant household wealth has been greatly strengthened. Thus, the potential for increasing private consumption is considerable, however the uncertainty that even so exists suggests households will continue to save. During 2016 private consumption is expected to increase by 3.5 per cent and subsequently rise by a further 2.8 per cent in 2017.

Investments continue to rise. Not least construction has continued to increase at a good pace and the chances are the level of investment will be very strong during both 2016 and 2017. Investment growth is broad and both investment in machinery and investment in other buildings and plants has increased. In the future there are chances of more manifest increases in both industrial investment and public investment at the same time as the already high investments in housing will continue to grow at a good pace. Gross fixed investments are estimated to increase by 7.8 per cent in 2016 followed by 4.8 per cent in 2017.

After having increased by 2.6 per cent in 2015, public consumption is estimated to increase by 2.8 per cent in 2016 and 2.5 per cent in 2017. Developments late last year were markedly affected by the substantially increased number of asylum seekers. The large number of asylum seekers will mean increased public consumption in the years ahead too. The need for public services is furthermore growing as a result of the changed demographics. Furthermore, investments within labour market policy are increasing. This means both state and municipal consumption will increase at a good pace in both 2016 and 2017.

There has been a weak development of exports of Swedish goods for several years. However, there was a clear improvement last year – a development that continued also during the first quarter of this year. There are signs of a somewhat slower development of exports in the next quarter but through gradually higher activity in the global economy we still count on gradually increased exports during both 2016 and 2017. At the same time there are good chances that imports will continue to increase – above all due to the positive development of domestic demand – and in the years ahead imports are expected to increase more rapidly than exports. This means net exports will not make any contribution worth mentioning to GDP growth.

Number of employed persons will increase by 144 000

Arbetsförmedlingen's poll indicates that the high demand for labour will continue during the forecast period and the proportion of employers who say they will increase their workforce next year is at a clearly higher level than the historical average. Arbetsförmedlingen estimates that the strong domestic situation together with a continued international upswing provide the preconditions for good job growth during the forecast period. Job growth is estimated to be particularly strong this current year. Next year the shortage of qualified labour is expected to intensify and become increasingly widespread which will contribute to holding back increases in the employment rate slightly. For 2016 the number of employed persons is estimated to increase by 75 000 in the age group 16-64, which is equivalent to 1.6 per cent. In 2017 the number of employed persons aged 16-64 is estimated to increase by 69 000, equivalent to 1.5 per cent. Since the population will continue to increase rapidly, the employment rate will only change marginally.

Youth employment rate is clearly rising

The employment rate has risen on a wide front this last year. A large proportion of job growth has been in professions with lower demands for experience, for example in commerce and the hotel and restaurant industry, which has been to the particular advantage of young people. During the forecast period growth in the employment rate will broaden and comprise more parts of the labour market, however the greatest increases are expected to continue in the private and public service sectors. The employment rate will increase in all age groups but the most manifest strengthening will still apply to young people.

Higher employment rate among persons born abroad

The strengthened labour market has resulted in more employed persons both among those born in Sweden and those born abroad. But in both percentage and actual figures the increase in employment was stronger last year for those born abroad than for those born in Sweden. Moreover, the employment rate has been strengthened in both groups, by 0.9 per cent among those born in Sweden and by 0.7 per cent among those born abroad. This means that the proportion of Swedish-born employed persons 16-64 amounted to 79.9 per cent in 2015. The corresponding figure for persons born abroad was 64.7 per cent.

Broad job growth but still difficult for persons without upper secondary education

Employers in today's labour market almost always demand secondary education – even in professions where demands for education have traditionally been low. Positive job growth is expected in the years ahead and job opportunities will continue to be good for persons who have a secondary or post-secondary education. This is because job growth is above all in professions that require this type of education. Persons who do not have secondary education will continue to face a difficult labour market. Thus, level of education and employment continue to show a clearly positive connection.

The workforce will increase by 107 000

Since 2008 persons born abroad represent the entire growth in population in the economically active age group 16-64 in Sweden. Consequently persons born abroad account for the entire addition of 250 000 people to the workforce that has taken place during the same period. In the next few years the workforce is estimated to continue to grow and the addition is expected to be entirely made up of persons born abroad. During 2016 and 2017 the workforce is estimated to grow by 107 000 persons but workforce participation will remain unchanged as a result of the rapid increase in population.

The private and public service sectors continue to grow strongly

The strong development of the private service sector will continue. Expectations among companies in the spring of 2016 are at the highest level since the autumn of 2010 according to Arbetsförmedlingen's inquiry. Thus, companies' expectations for the coming year are at a very high level. A continued good increase in households' consumption will have positive effects on the subindustries linked to private consumption. Developments are expected to be good also in industries that primarily focus on other companies. Arbetsförmedlingen estimates that employed persons in the private service sector will increase by 73 000 during 2016 and 2017.

In the public service sector too, the growth of new jobs continues to be strong. Arbetsförmedlingen assesses that employed persons in this area will increase by 62 000 during the forecast period. A contributory factor to the strong development of employment is continued good growth of the tax basis, furthermore the substantial population growth places ever higher demands on employers in the sector. Among public employers today there are already activities that have difficulty in expanding due to a widespread shortage of labour. This applies both to medical and care services and to all parts of education.

In industry the number of employed persons has been decreasing for a long time but during last year the decrease levelled out. In 2016 and 2017 a slight increase is expected by a total of 3 000 persons. Underlying this assessment are continued good prospects for important export countries such as Germany, UK and USA. However, there are still some storm clouds which means that the prospects for industry are still restrained. Arbetsförmedlingen's economic indicator shows a decline since last autumn but companies' expectations for the development of demand continue to be at a level somewhat above normal.

The construction market continues to be strong and construction of housing has increased considerably. However, Arbetsförmedlingen's economic indicator for construction activities is slightly down since last autumn but is still at a high level which points to stronger demand than usual. Furthermore, recruitment plans remain expansive. During the forecast period the number of employed persons is estimated to increase by 13 000. However, shortage of labour is an increasing concern for employers in the industry.

Counties with big cities will grow substantially

During the forecast period, a broad strengthening of the labour market is expected and Arbetsförmedlingen estimates that the number of employed persons will increase in all counties in this period. However, regional differences will continue to be considerable since conurbations – in particular Stockholm county – are expected to see a much stronger development of employment than other counties. This is due to a more advantageous business structure but also to the fact that the economically active population is increasing strongly in total.

Unemployment continues to decline

According to AKU (labour force survey) unemployment has shown a clear decline since last year. Moreover the decline has increased. Underlying this development was strong job growth at the same time as the increase in labour fell short of the increase in employed persons. The chances are the labour force will increase slightly more strongly during 2016 and 2017 than was the case in 2015. However, the employment rate will continue to increase considerably during both years. This means that the unemployment rate will continue to decline. It is estimated that unemployment in the age group 16-64 will amount to 6.9 per cent in 2016 and 6.6 per cent in 2017. This may be compared with 7.5 per cent in 2015.

In order to facilitate an effective and selective labour market policy it is essential to map out the composition of unemployment and reveal the groups that have particular difficulty in obtaining employment. One such group comprises unemployed persons with a short educational background. There is a clear connection between education and level of unemployment. In the first quarter of 2016 unemployment among person with pre-secondary education in the 25-64 age group was 20.6 per cent, which is 0.7 per cent higher than a year earlier. Among those with secondary education, unemployment fell to 7.0 per cent from 7.6 per cent and among persons with post-secondary education, unemployment fell by 0.3 percentage points to 5.1 per cent.

At the same time there are several groups of unemployed persons that do not constitute a challenge to labour market policy. One such group is the large majority of full-time students who actively seek jobs where many regard studies to be their main activity. Unemployed persons studying full time were equivalent to 2.6 of the workforce in the first quarter this year. That means unemployed persons who were not studying amounted to 253 000, equivalent to 5.0 of the workforce.

Since 2011 the average time spent in unemployment has been around 35 weeks. However, there are clear variations between different groups, regarding level but also development. Young people spend on average shorter periods in unemployment than older people and women have shorter spells of unemployment than men. Periods of unemployment among young people further decreased last year. On the other hand, periods spent in unemployment have increased for persons who are in the age group 55-64.

Among persons born in Sweden unemployment has dropped to such a low level that free workforce resources in this group must be regarded as small. In the first quarter of 2016 an unemployment rate of 5.4 per cent was recorded for persons born in Sweden, which is a 0.8 per cent reduction since last year. Among persons born abroad a considerably higher level of unemployment was recorded, 16.9 per cent in the first quarter of 2016. Furthermore, there is a weaker decline in the unemployment rate among persons born abroad than those born in Sweden.

The chances are this scenario will remain during the forecast period. It is connected, among other things, with the fact that the number of persons born abroad in the workforce (16-64) will continue to increase while the number of persons born in Sweden in the workforce will go on declining. Therefore, although the weighted assessment is that the labour market will continue to be strengthened for person born abroad, it is estimated that the unemployment gap between persons born in Sweden and those born abroad will continue to widen.

More persons registered as unemployed at Arbetsförmedlingen 2017

The number of persons registered as unemployed at Arbetsförmedlingen decreased slightly last year, by 8 000 persons to 371 000. And during 2016 too it is expected the number will decrease somewhat, by 6 000 persons to a level of 365 000. However, the pace of the decrease will gradually wane in the course of 2016 and, in 2017, developments will shift to an increase so the number will rise to 375 000. Thus, developments for persons registered as unemployed are in sharp contrast to developments according to the official measure of unemployment in AKU (the labour force survey) and are primarily explained by the continued major inflow of newly arrived job seekers to the establishment assignment. The large inflow of newly arrived job seekers means that the proportion of persons born abroad registered as unemployed will increase from 50 per cent to close on 60 per cent towards the end of the forecast period.

On a regional basis continued clear differences are seen in the proportion of persons registered as unemployed. The proportion varies between low 5.6 per cent in Uppsala county and 11.7 per cent in Gävleborg county. In addition to Gävleborg, Blekinge and Södermanland counties show levels of unemployment of 11 per cent or more. What these counties have in common is the fact that they are still in a phase of transformation to a more diversified and service-based labour market. There are considerably lower levels of unemployment in counties that have a more service-based business structure. Here, in addition to Uppsala county, Halland and Stockholm counties distinguish themselves.

Number of persons in a vulnerable position in the labour market registered as unemployed will increase

There are several groups of unemployed persons that on average have more difficulty than others in getting a job. They are defined by Arbetsförmedlingen as groups in a vulnerable position in the labour market. However, all persons in these groups do not have difficulty in finding work – there are considerable individual variations. These groups include persons with only pre-secondary education, persons born outside Europe, persons aged 55-64 and persons with a functional impairment that involves reduced working ability.

Both the number and the proportion of persons belonging to one or more of these groups has increased sharply in recent years and, in April 2016, 71 per cent, equivalent to 257 000 persons, of those registered as unemployed belonged to one or more of the groups that are in a vulnerable position in the labour market.

Unemployed persons in a vulnerable position in the labour market will continue to rise, both in number and as a proportion of persons registered as unemployed during the forecast period. This is primarily due to a continued large inflow to Arbetsförmedlingen of newly arrived persons from countries outside Europe. In 2017 it is expected almost three out of four persons registered as unemployed belong to groups in a vulnerable position in the labour market.

Matching is a growing challenge

The demand for labour will continue to be high and recruitment needs will to an increasing extent exacerbate the matching situation. Matching in the labour market is and will in the future be of even more central importance in order to maintain good growth and rising employment rates. The supply of well trained and sought after labour will diminish as the demand for labour continues to rise. This means at the same time that developments have reached a situation where there is a rising shortage of labour in several industries. In several areas in the labour market the inflow of educated and trained persons from the education system is too small.

Arbetsförmedlingen has no tools of its own to appreciably change the supply of labour within professions that are higher up the education ladder. This means the chances of matching will deteriorate at several levels in the years ahead. There is above all a great, and increased, need for educational efforts in adult education in the form of both basic vocational training and transition training and further education. In parallel with this, educational efforts directed to growing professions in the labour market are also needed.

At the same time the upper secondary school is of ever less importance with regard to supply of vocationally trained labour since fewer pupils choose to study vocational programmes. There were about 20 000 fewer pupils in vocational programmes in 2015 compared with ten years earlier, which is a reduction of about 40 per cent. This change makes matching in the labour market more difficult.

Poorer chances of matching from a job seeker's perspective

Large groups of new unemployed persons have been added through the strong increase in labour in recent years. A considerable proportion of these lack secondary education and they are only to a very small extent matchable. About a third of persons registered as unemployed lack complete secondary education – a proportion that will grow even larger in a few years' time. Due to their vulnerable position in the labour market unemployed persons with only pre-secondary education risk being out of work for a long time.

Arbetsförmedlingen has very small chances of matching unemployed persons who lack secondary education against a labour market in which the majority of jobs require longer education. The increasing structural problems in the labour market mean that matching efficiency will be weakened.

Shortage of qualified labour in many areas

The poll carried out by Arbetsförmedlingen shows that the shortage of labour in private industry is gradually rising. The proportion of companies that have experienced a shortage of labour in connection with recruitment increased from 24 to 28 per cent since last year. Thus the level is above the historical average. Strong demand means a rapidly waning supply of qualified labour in more and more professions. This means the shortage figure is estimated to rise above 30 per cent in 2016 and rise still further in 2017. The increased shortage figures are expected in certain sectors to lead to long vacancies and in some cases to recruitment difficulties for employers.

There is a similar development in the public service sector but from a much lower level. The recruitment situation is becoming increasingly strained and it is estimated the shortage of qualified labour will slow down the increase in employment in 2017. The basic problem is that there are too few persons qualified, both at secondary and post-secondary level, which means Arbetsförmedlingen has limited opportunities to influence matching in the area. There are no prospects of improvements in the recruitment situation in the next two years and the situation will be even more strained in the long term. The shortage of labour means employers will have much more difficulty in maintaining service in their activities. Moreover, the deficit in qualified labour will hold back the increase in employment for several years ahead.

Thus the shortage of qualified labour is extremely widespread in several professions and the matching situation will be very difficult in both the short and the long term. The shortage is expected to increase in the following professional fields:

- Professions in the health services
- The teaching profession
- Engineering and IT professions
- Construction and civil engineering professions
- Qualified professions in industry
- Some professions in services

Selected indicators

	Percentage change			Forecast	
	2013	2014	2015	2016	2017
GDP, at market price	1,2	2,3	4,2	3,7	3,0
GDP, calendar adjusted	1,2	2,4	3,9	3,5	3,3
Hours worked, calendar adjusted	0,4	1,8	1,0	2,1	2,0
Productivity growth	0,9	0,6	2,9	1,4	1,3
KPIF, inflation, annual average	0,9	0,5	0,9	1,4	1,9
Households' real disp. incomes[1]	1,7	2,2	3,0	2,6	2,5
Private consumption	1,9	2,2	2,7	3,5	2,8
Saving-income ratio incl. pension[2]	15,1	15,2	16,0	15,5	15,3

Source: Statistics Sweden, Arbetsförmedlingen

Key figures[3]

	Thousands/per cent				Change thousands/percentage points			
	Result		Forecast		Result		Forecast	
	2014	2015	2016	2017	2014	2015	2016	2017
Labour force (16-64 yrs)	4 988	5 028	5 078	5 134	40	39	51	56
Employed (16-64 yrs)	4 588	4 651	4 726	4 795	43	63	75	69
Unemployed (16-64 yrs)	400	377	352	339	-3	-23	-25	-13
Unemployment (16-64 yrs)	8,0	7,5	6,9	6,6	-0,1	-0,6	-0,6	-0,3
Relative labour force rate (16-64 yrs)	82,6	82,9	83,0	82,9	0,4	0,3	0,1	-0,1
Employment rate (16-64 yrs)	76,0	76,7	77,3	77,5	0,5	0,7	0,6	0,2
Registered unemployed (16-64 yrs)[4]	379	371	365	375	-25	-8	-6	10
Labour market policy programmes (16-64 yrs)[5]	191	191	199	208	-10	0	8	9
Employed (15-74 yrs)	4 772	4 837	4 917	4 991	67	65	80	74
Unemployed (15-74 yrs)	411	386	361	348	0	-25	-25	-13
Unemployment (15-74 yrs)	7,9	7,4	6,8	6,5	-0,1	-0,5	-0,6	-0,3

Source: Statistics Sweden, Arbetsförmedlingen

[1] Refers to short-term wage statistics.
[2] Refers to households and their non-profit-making organisations.
[3] Per cent of disposable income
[4] Employment office's operational statistics.
[5] Employment office's operational statistics

Photo: Scandinav, Leif Johansson

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