Analysis

Unemployment rate in Finland close to structural level

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According to the Bank of Finland's structural unemployment indicator based on labour market flows, the unemployment rate in Finland is close to its structural level. The flow out of unemployment has strengthened, while the flow into unemployment has moderated. Both have contributed to a reduction in the actual unemployment rate, but for the time being this would appear to be related to cyclical changes, without actually reducing the structural unemployment rate.

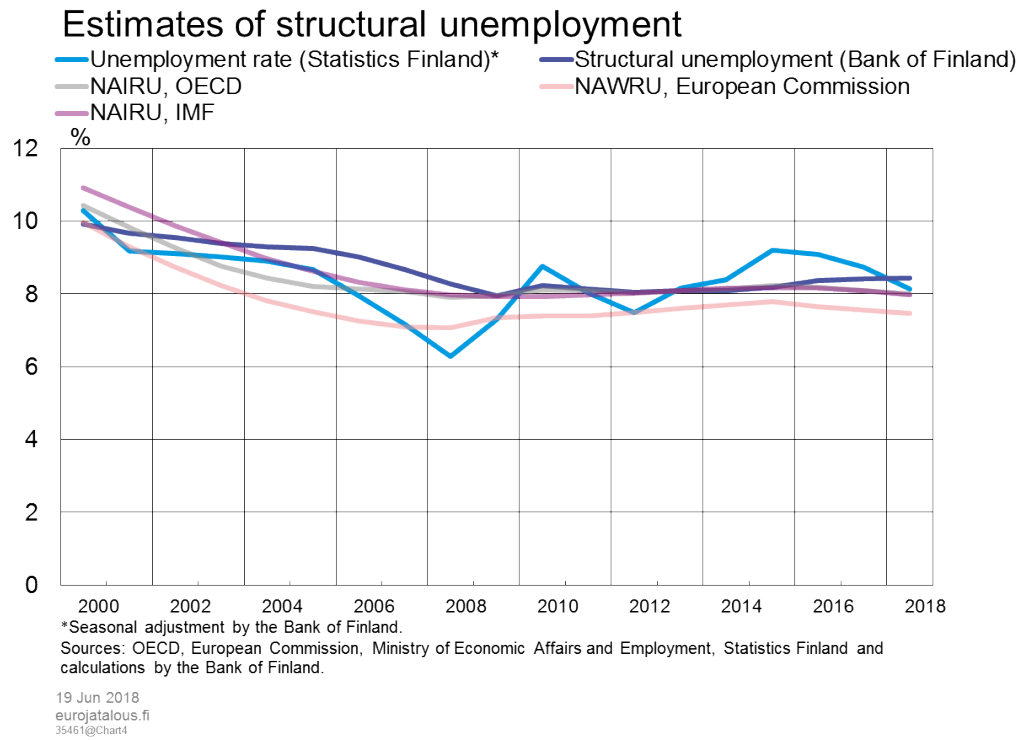


Structural unemployment based on labour market flows is determined on the basis of trends in said flows.[1] Contrary to the NAIRU (non-accelerating inflation rate of unemployment) method, structural unemployment based on labour market flows is not based on wage inflation; it is an estimate of the unemployment rate discounting cyclical conditions.

The unemployment rate based on the employment service statistics of the Ministry of Economic Affairs and Employment has fallen substantially since 2015 (Chart 1). The initial cause for this was that the flow into employment slowed as job destruction ebbed with the end of the prolonged recession. The probability of job destruction is now at its lowest level since the 1990s recession, and also lower than the cyclically adjusted trend.

The flow out of unemployment has strengthened in recent years, which is reflected in a rise in the probability of being employed. After the financial crisis, employment probability fell for a long period, and the rise in recent years has not yet lifted employment probability higher than the estimated trend.

Chart 1.



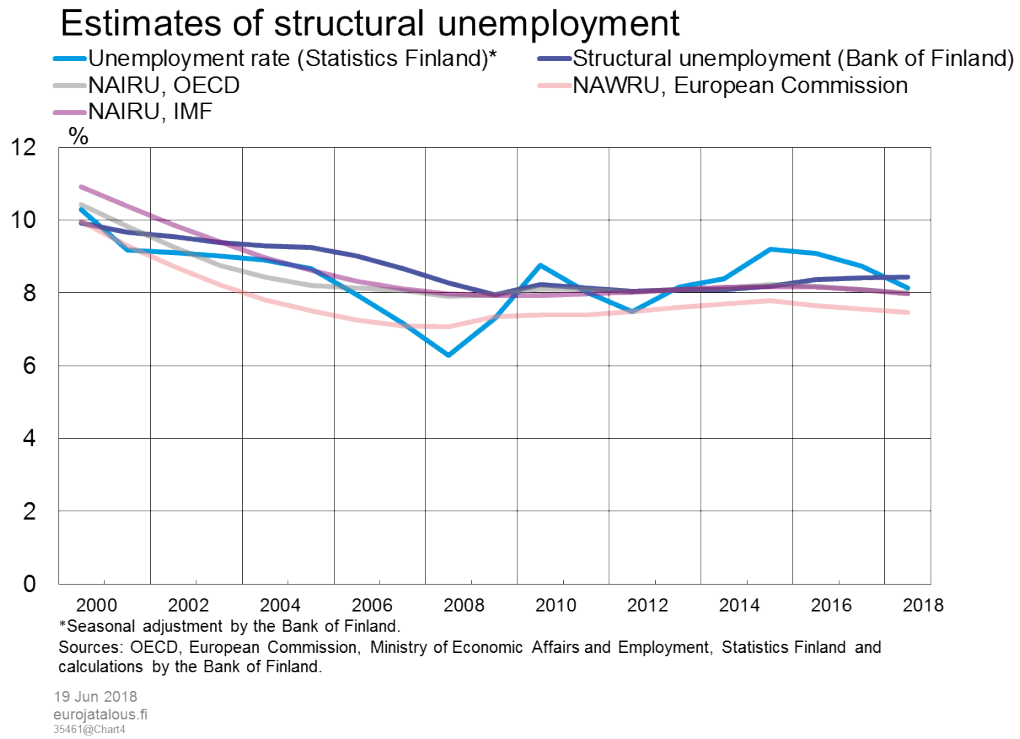
Structural unemployment is high, because the trend for job destruction is high while the employment probability trend is low. Structural unemployment rose in Finland after the 1990s recession to an unprecedented level and has remained almost unchanged ever since. Not even the prolonged period of positive growth before the financial crisis has returned labour market flows to their level prior to the 1990s recession, which would indicate that the structures of the Finnish economy and labour market support a high level of unemployment.

It is, however, likely that, if the current growth continues, structural unemployment may also be reduced as a result of what is known as reverse hysteresis: when growth continues for long

enough, jobseekers with less competence and experience may also find work, improve their competence level and thereby also their employment probability. Structural unemployment may indeed be reduced in the future through better employment probability, because job destruction probability is already at its lowest since the 1990s recession, and there may not be that much room for it to fall any lower.

Compared with the structural unemployment estimates by international organisations, the structural unemployment indicator value of the Bank of Finland is much higher (Chart 2). This difference may be explained by the fact that in estimates by international organisations using the NAIRU method, the level of structural unemployment is affected by the moderate level of realised price and wage increases. In recent years, the slow developments in prices and wages may also have been influenced by factors other than free capacity on the labour market. Structural unemployment is nevertheless high, even according to international organisations, because the difference with the realised unemployment rate is only about one percentage point.

Chart 2.



Breaking down the unemployment rate into cyclical and structural factors is difficult in real time, meaning that estimating the level of structural unemployment rate involves a great deal of uncertainty. However, many other indicators support the view that the measured unemployment rate is very close to the structural level. Companies are reporting increasing recruiting problems, and the average time until vacancies are filled has been getting steadily longer. The percentage of

all unemployed people who are long-term unemployed is still high, although the gap has been narrowing since the beginning of 2017. The Beveridge curve, which represents the relationship between jobseekers and the job vacancy rate, also indicates high structural unemployment. On the other hand, there is very little to show that the unemployment rate is currently notably higher than its structural level. The amount of free capacity on the labour market is therefore probably very low.

Notes

1. The Bank of Finland's structural unemployment indicator was presented in the article “A new method to measure structural unemployment via labour market flows”. ↑

Keywords

labour market flows, structural unemployment, unemployment