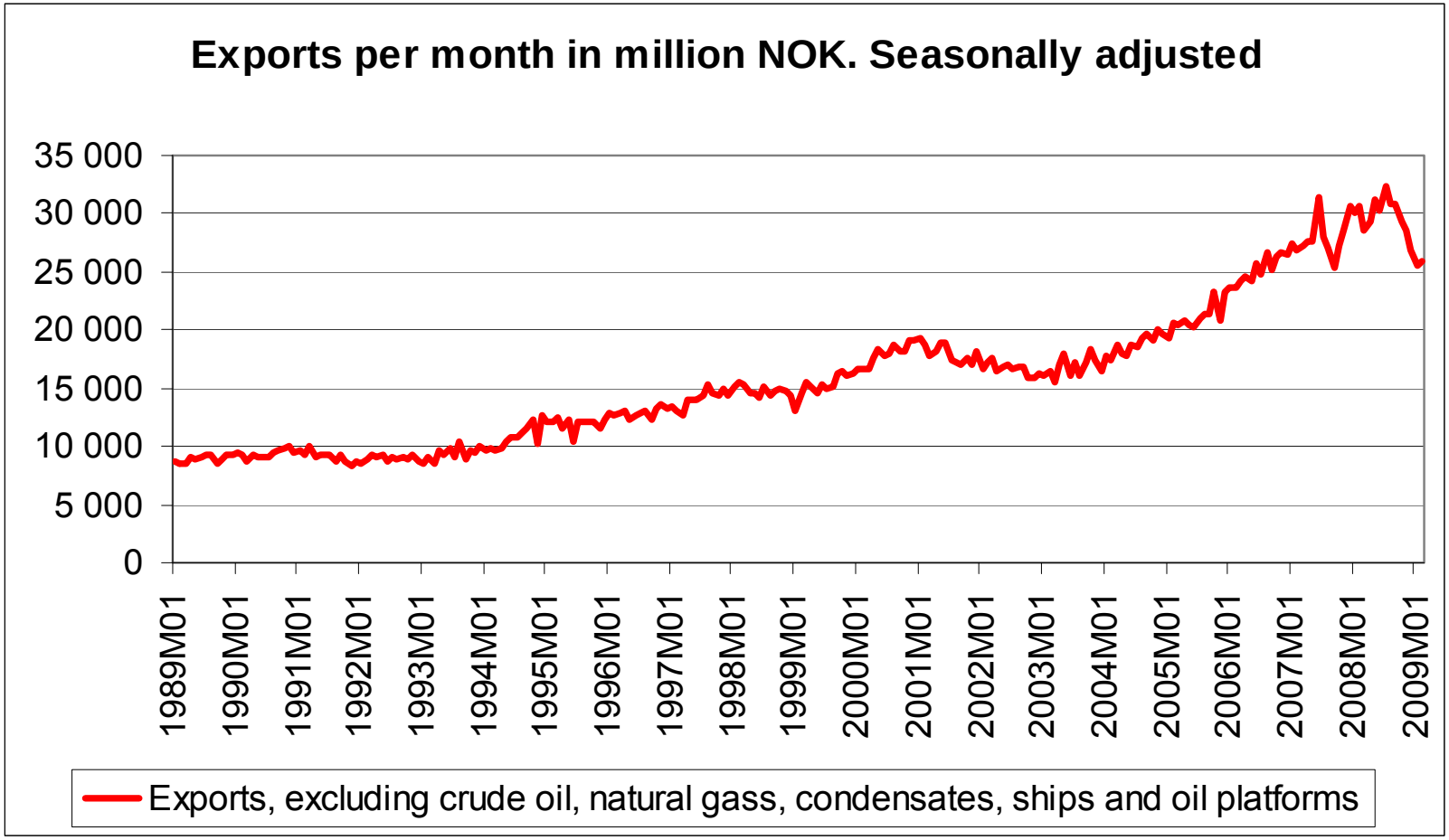
Norwegian Labour market development April 2009

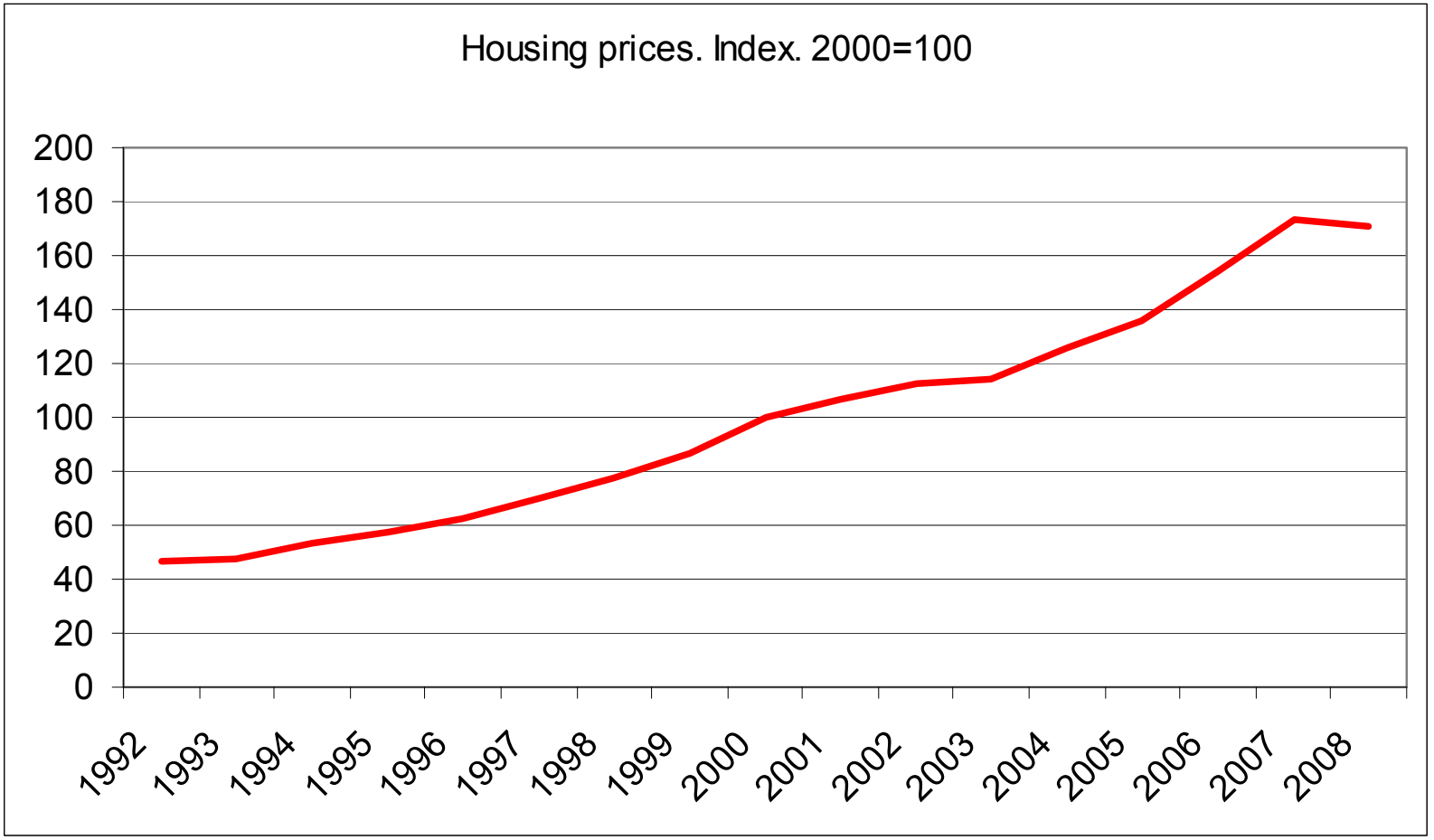
The Norwegian Labour Market

- Low unemployment: 2,8 % in March 2009
- High participation rate: 73,4 % in 4Q.
- Large public sector
- Still: The financial crisis have had a substansiell effect on the norwegian labour market

Declining exports

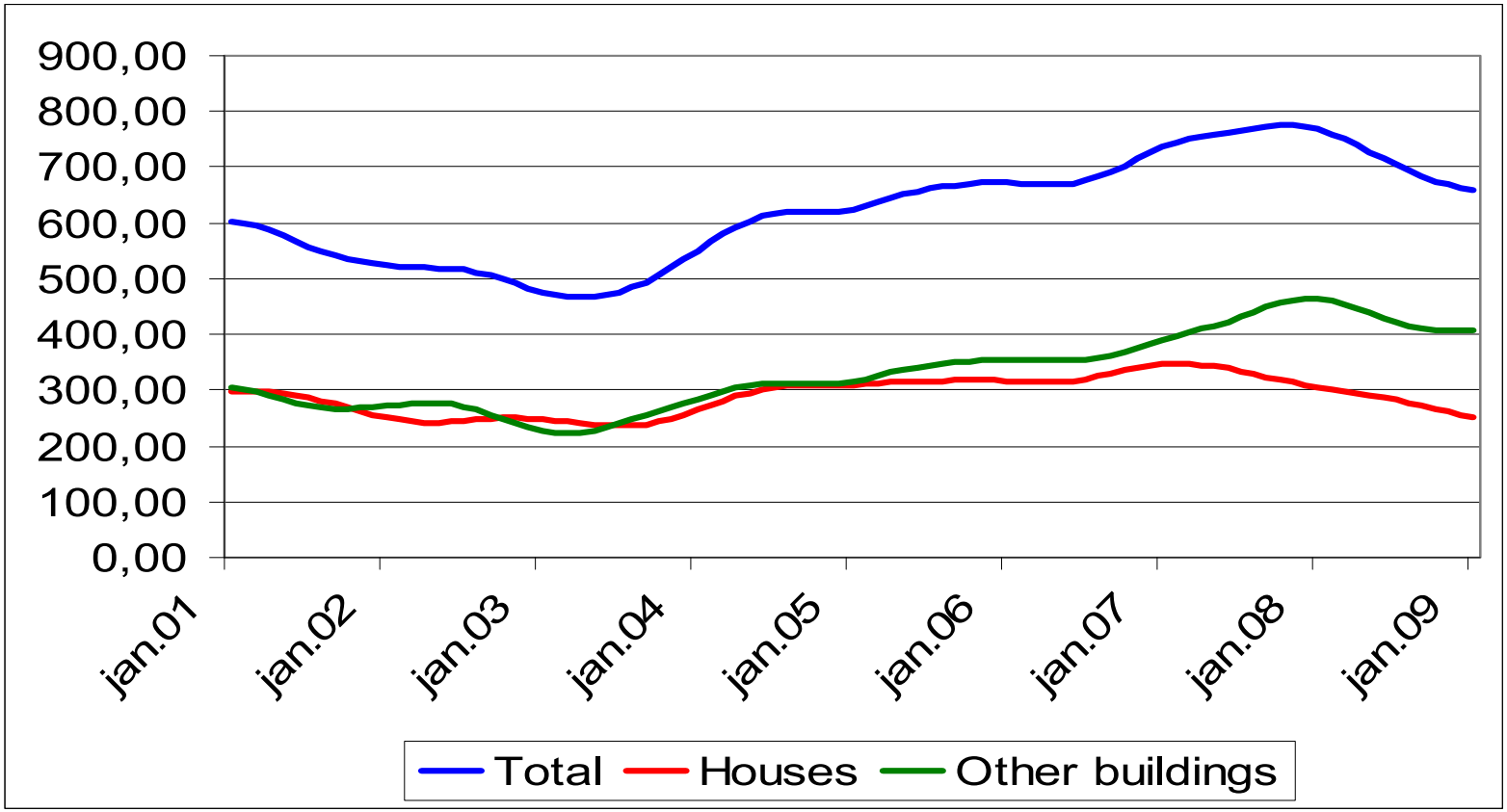


Our own financial bubble?

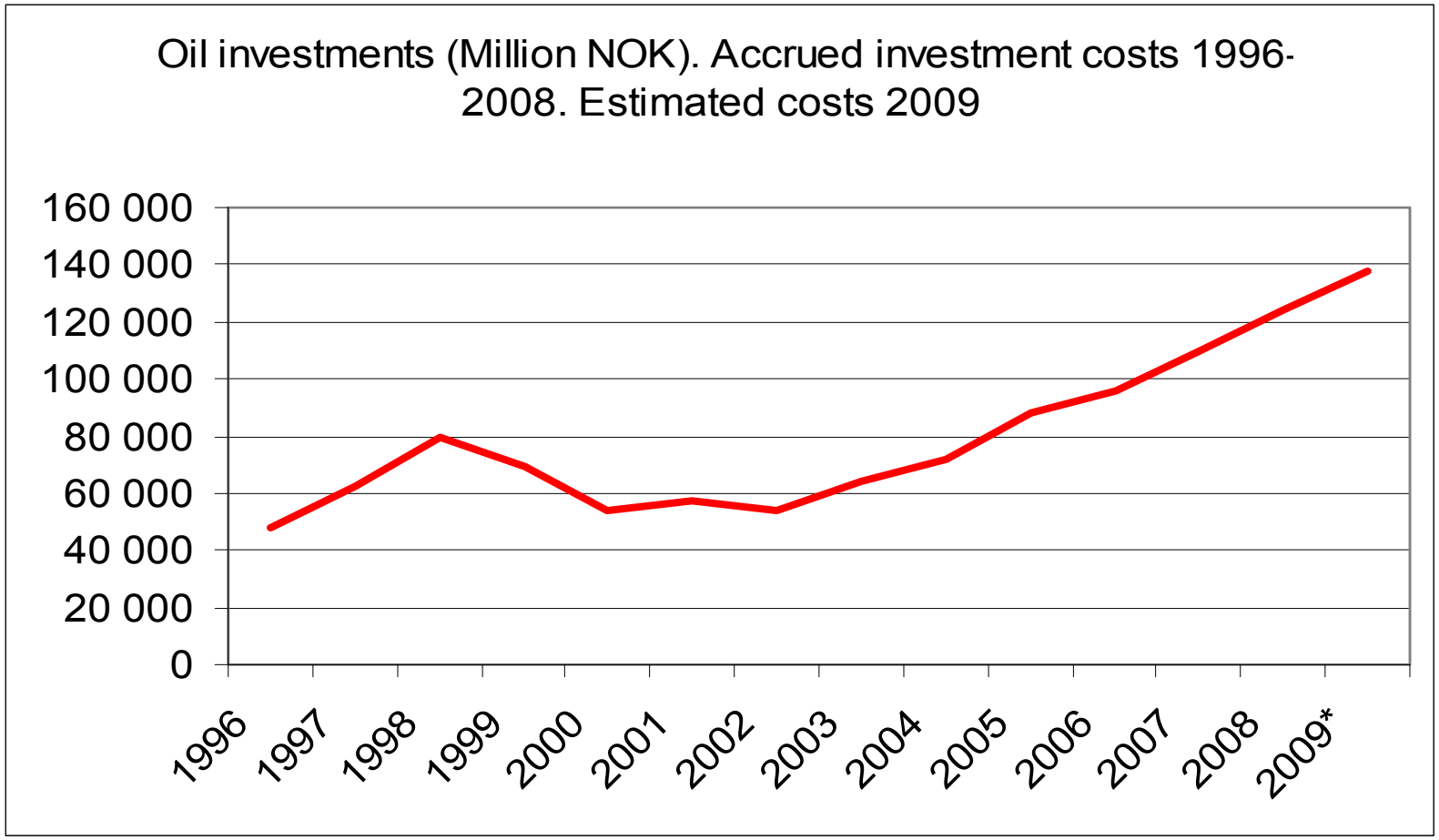


Decreasing activity in the building sector

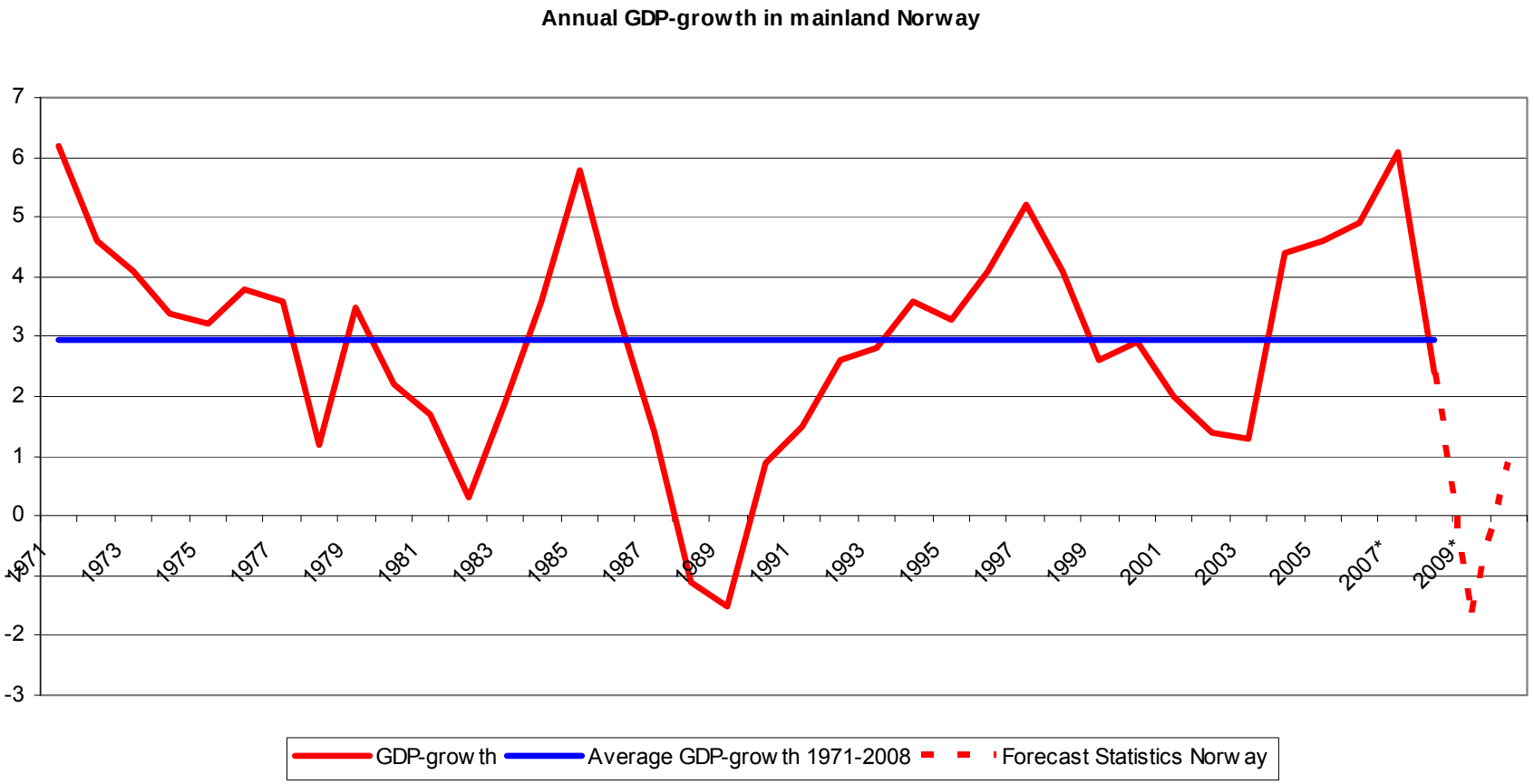
New buildings in progress, Areal (1000m2). Trend Jan 2001 - Jan 2009



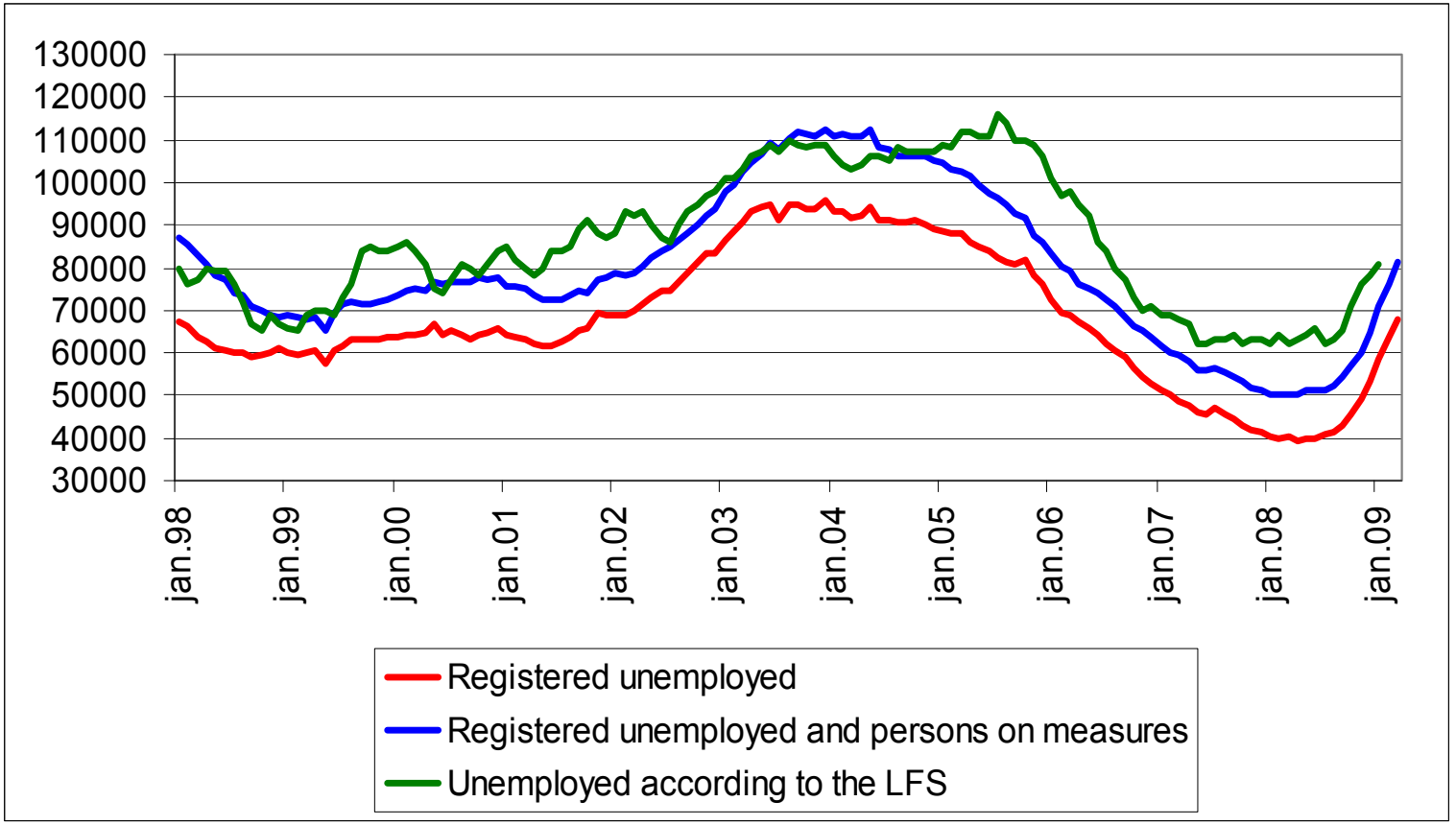
Total oil investment reaches 130 billion NOK in 2009?



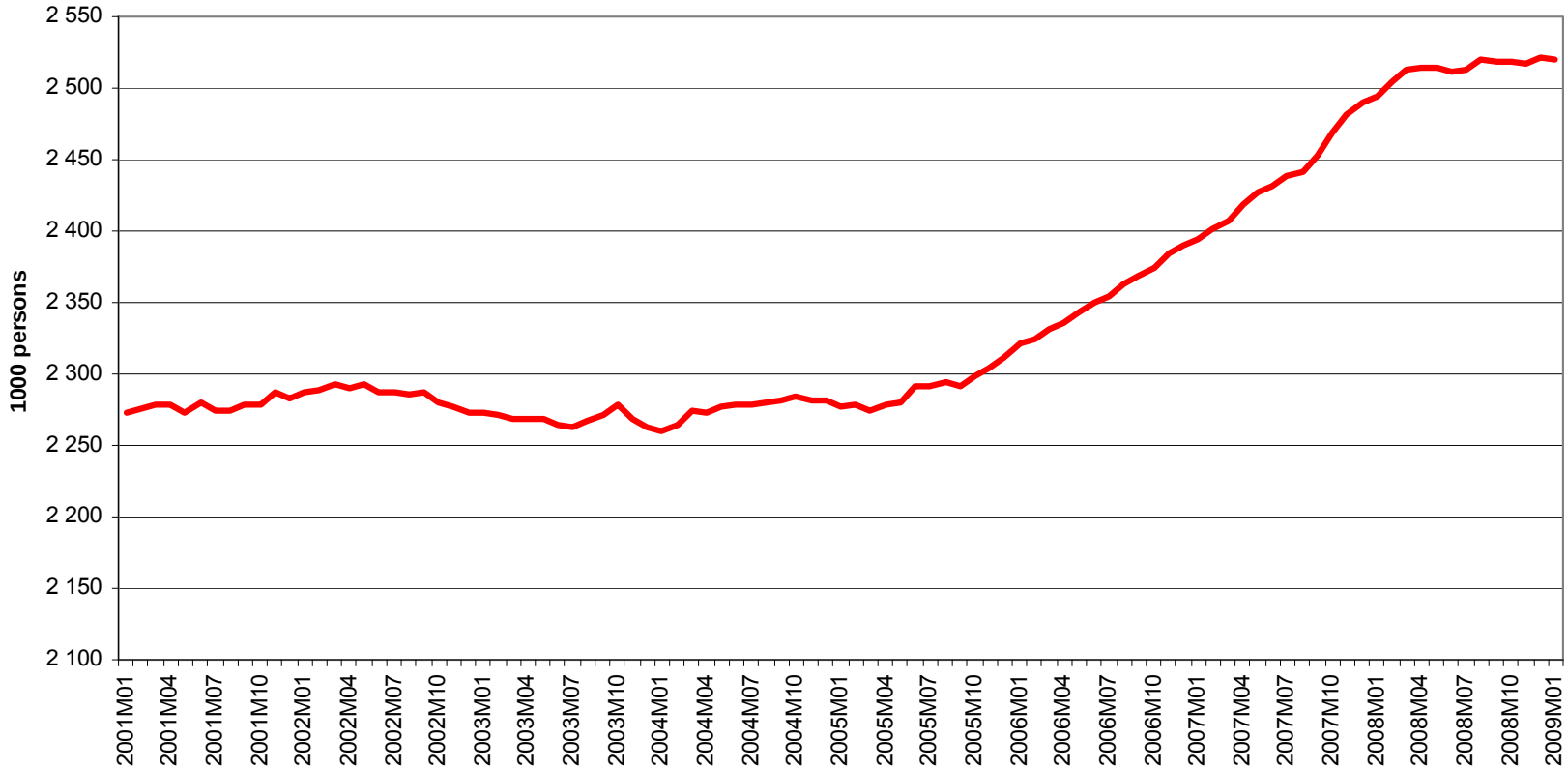
GDP growth: -1,7 % in 2009?



Unemployment development

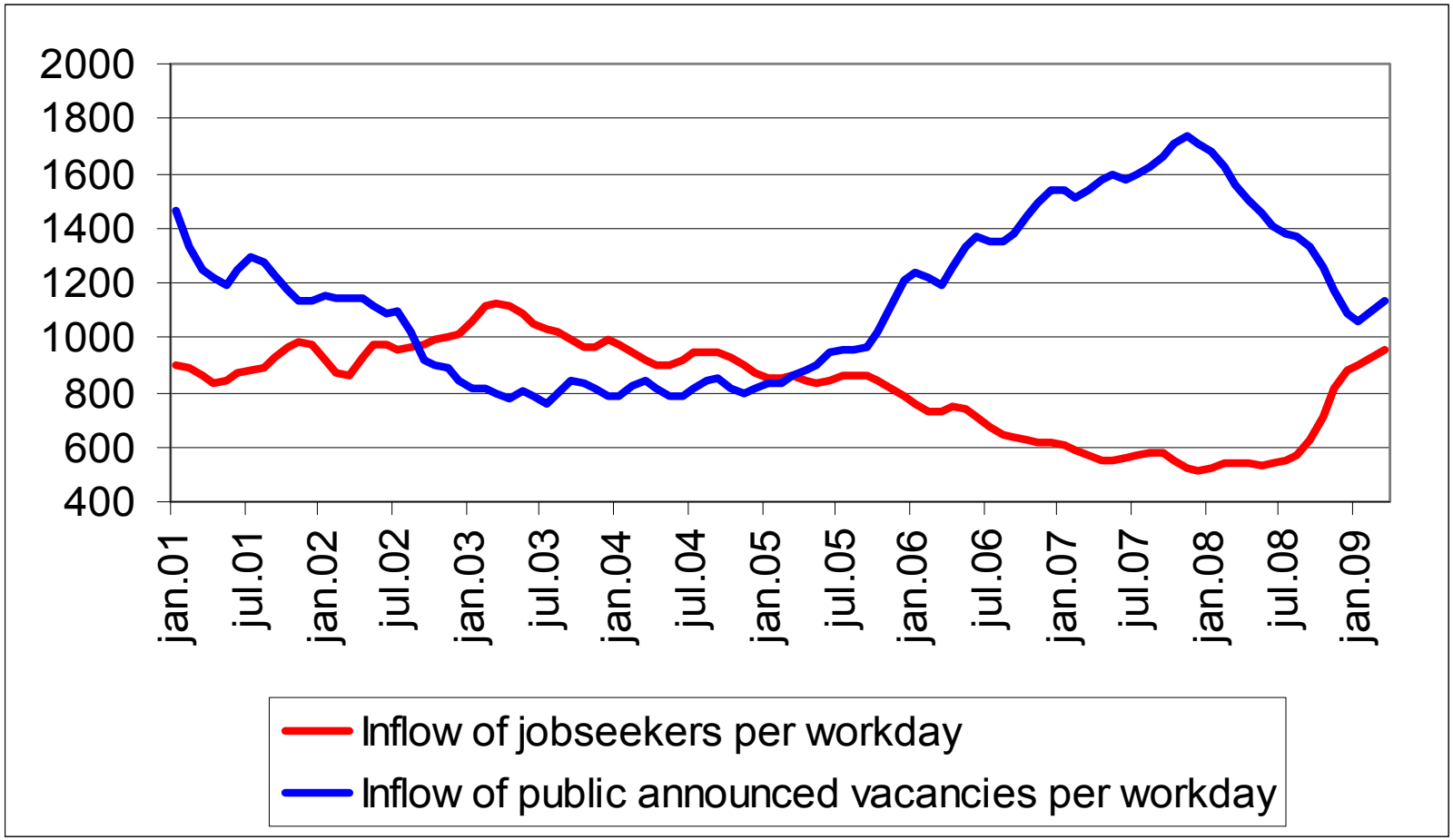


Employment. 2001 –January 2009.
Seasonally adjusted from the Labour Force Survey.

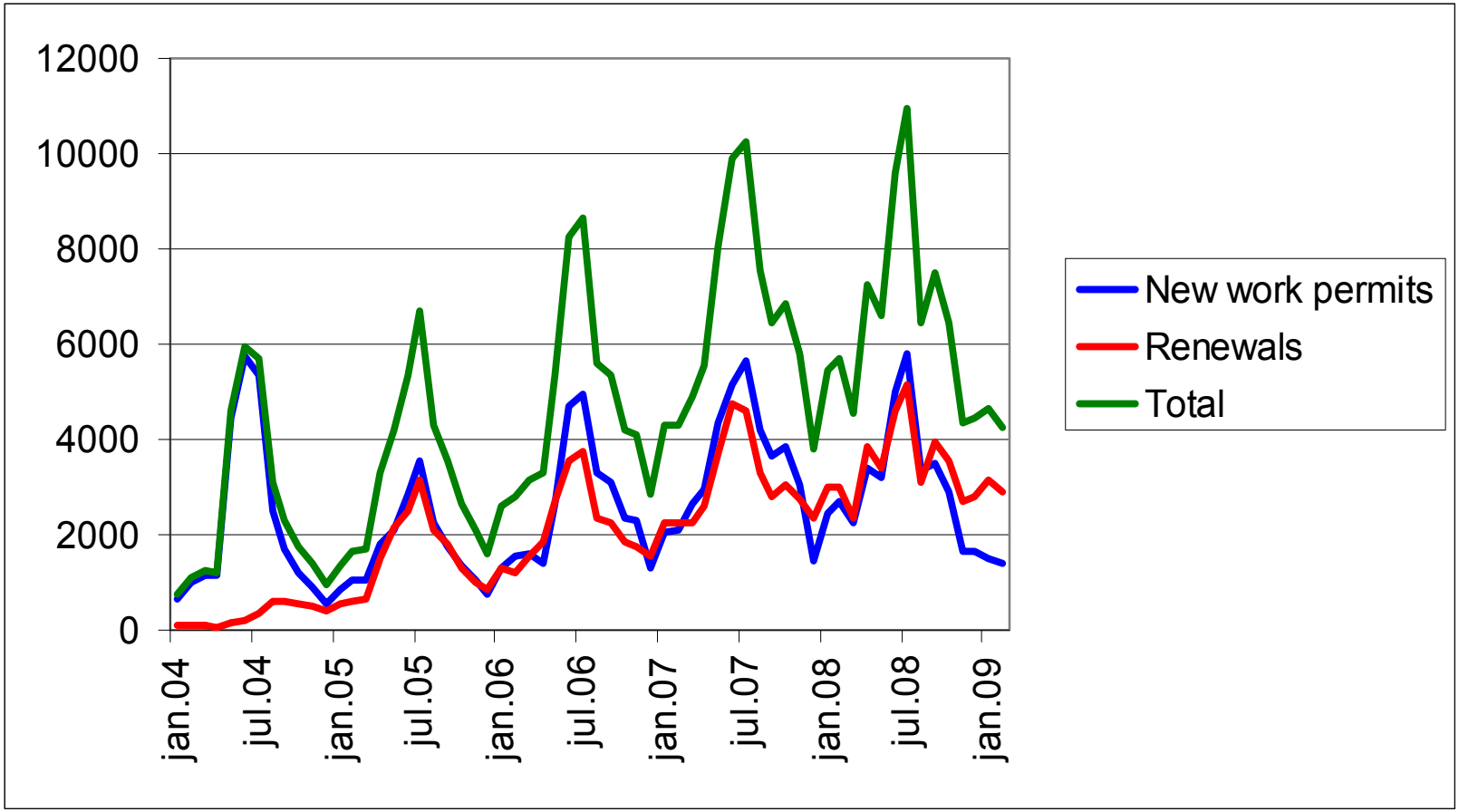


Labour market tightness

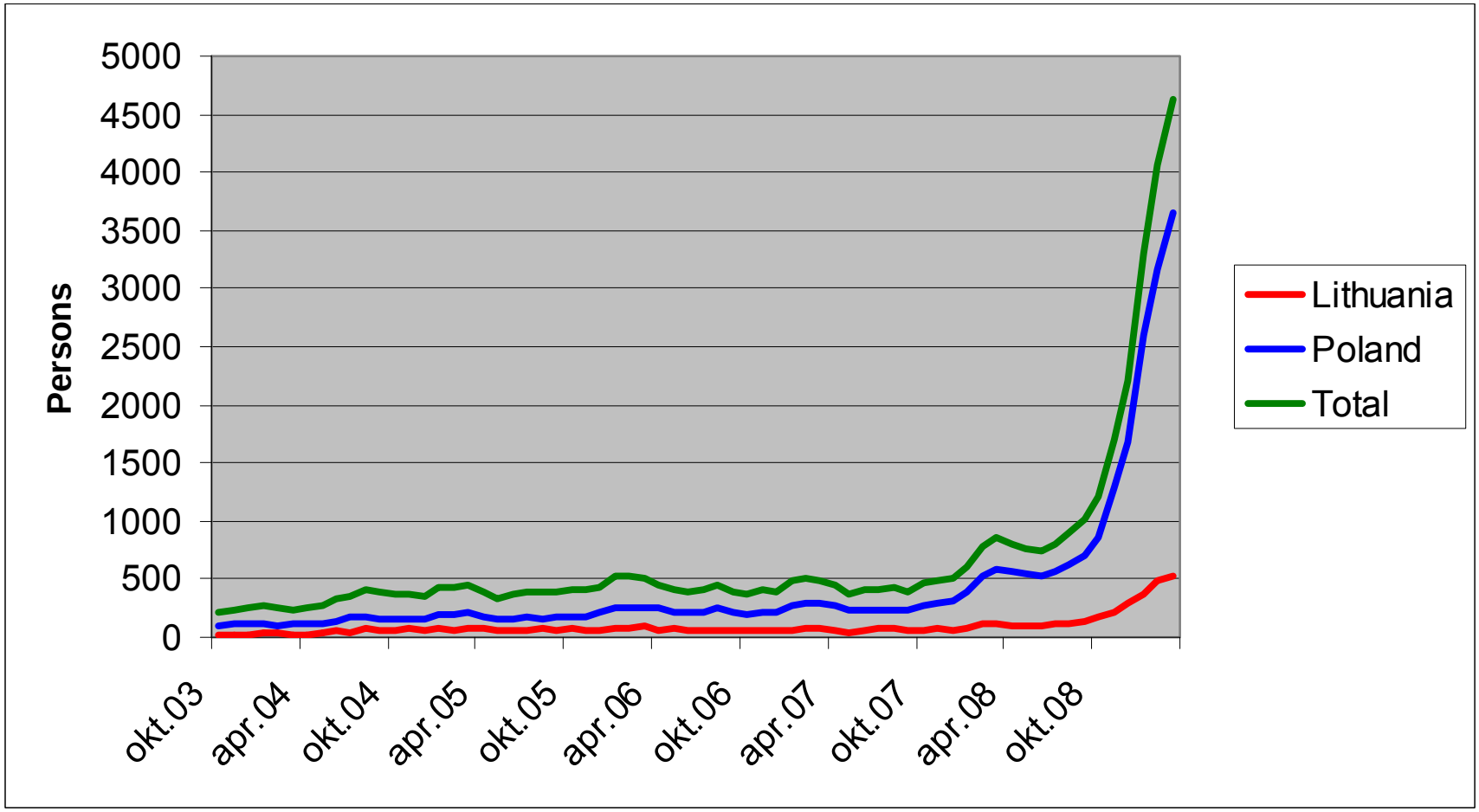
Inflow of public announced vacancies per workday and inflow of jobseekers per workday. Jan 2001 – March 2009. Trend



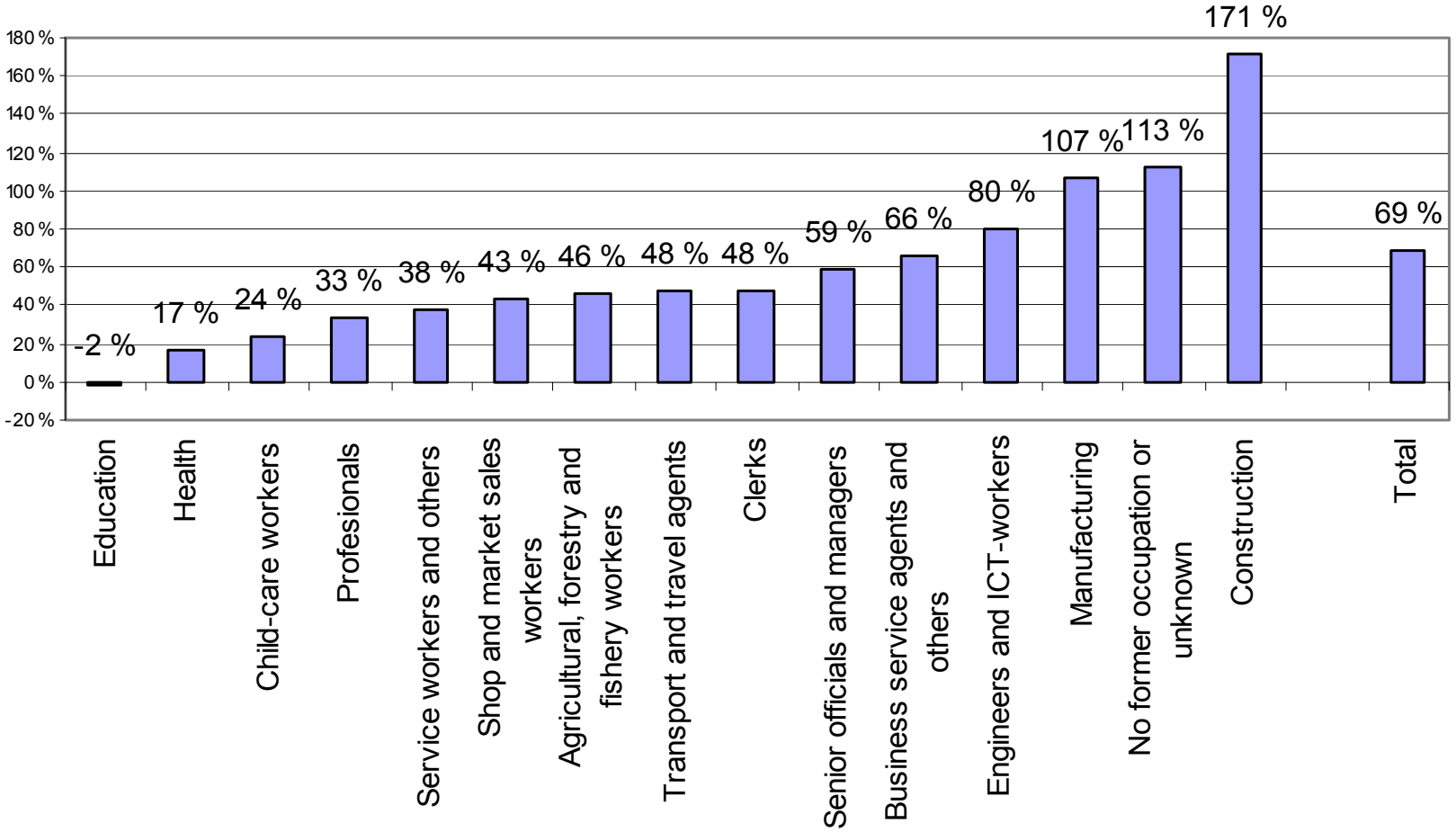
What will happen to the immigrants from the new EU-countries?



Unemployed persons from EU-12.

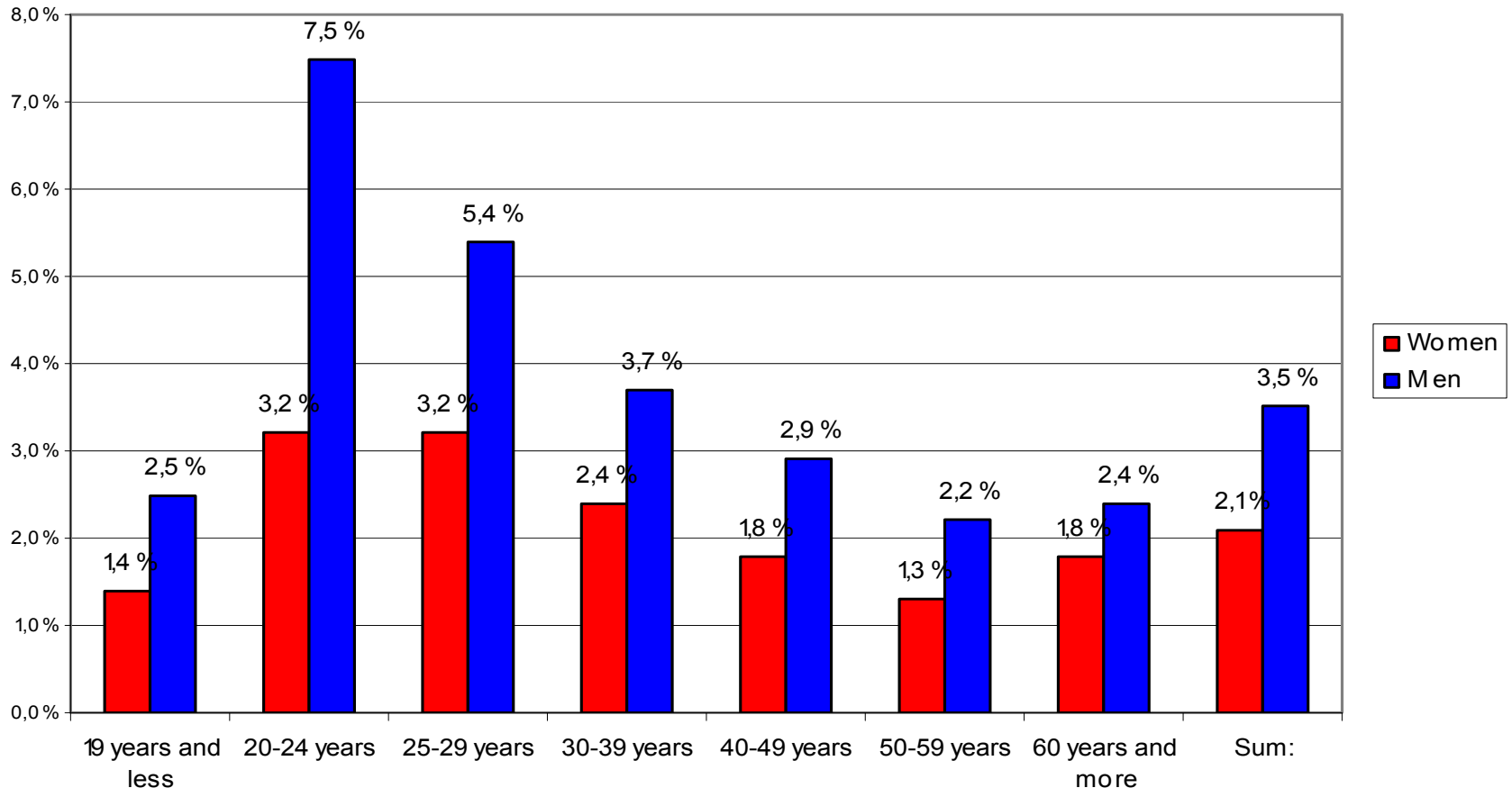


Percentage change in registered unemployed by occupation, March 2008 – March 2009.



Largest unemployment rate for young men

Registered unemployed in percentage of the labour force. Age and sex, April 2008.



Outlook for 2009 and 2010

- Global economic downturn
- Expansionary macroeconomic policies
- High oil prices – high level of investments in the oil sector.
- Further growth in the public sector
- More people withdraws from the labour force?

Our forecast

	2008	2009	2010
Registered unemployed persons	42 570	80 000	110 000
Registered unemployed as a percentage of the labour force	1,7 %	3,1 %	4,2 %
Unemployed, LFS, as a percentage of the labour force	2,6 %	4,0 %	5,2 %
Δ Labour force (LFS)	80 000	12 000	-10 000
Δ Employed (LFS)	76 000	-25 000	-40 000
Δ Unemployed (LFS)	4 000	37 000	30 000
Δ Registered unemployed (NAV)	-3 500	37 400	30 000

Measures to prevent a major setback in the norwegian economy

Expansionary monetary policy

- Norges Bank (Norway's central bank) has repeatedly reduced the interest rate.
- In October 2008 the Government presented a swap facility where banks may receive government debt in exchange for covered bonds.

Norwegian State Finance Fund

- In Feb.2009 the Government established a Norwegian State Finance Fund with a capital equal to 2 pct of the norwegian 2008-GDP.

Norwegian State Bond Fund

- In feb.2009 The Government also established a Norwegian State Bond Fund.

Expansionary fiscal policy

- In january of 2009 the Government implemented a range of fiscal measures in order to prevent a deep recession.

Expenditures

- transferres to local authorities.
- Investments in basic infrastructure
- Renovate and launch new construction projects.

Expenditures

- Transfers to increase the production of renewable energy by NOK 1.2 billion.
- Expenditures on readjustment and innovation in trade and industry.

Tax reductions

- The Government introduced cyclical tax relief for 2008 and 2009 in order to help companies that are profitable in the long run through a deep recession.

Increased transfers to NAV

- **NAV's budget has been increased by NOK 806 million in order to care for people losing their job.**

Increased transfers to NAV – in more details

- Increase the number of participants on labour market measures by 6.000 in 2009. This will probably reduce unemployment by 4.000 on average.
- Increase the number of civil servants at NAV in order to handle the high inflow of jobseekers
- The maximum entitlement period for Laid-off workers has been expanded.
- Increased subsidies to unemployed starting their own business.

Increased transfers to NAV – 2. package of measures

- Extra transfers to NAV due to the rapid increase in the unemployment rate
- Extra transfers to NAV in order to smoothen the readjustment process.

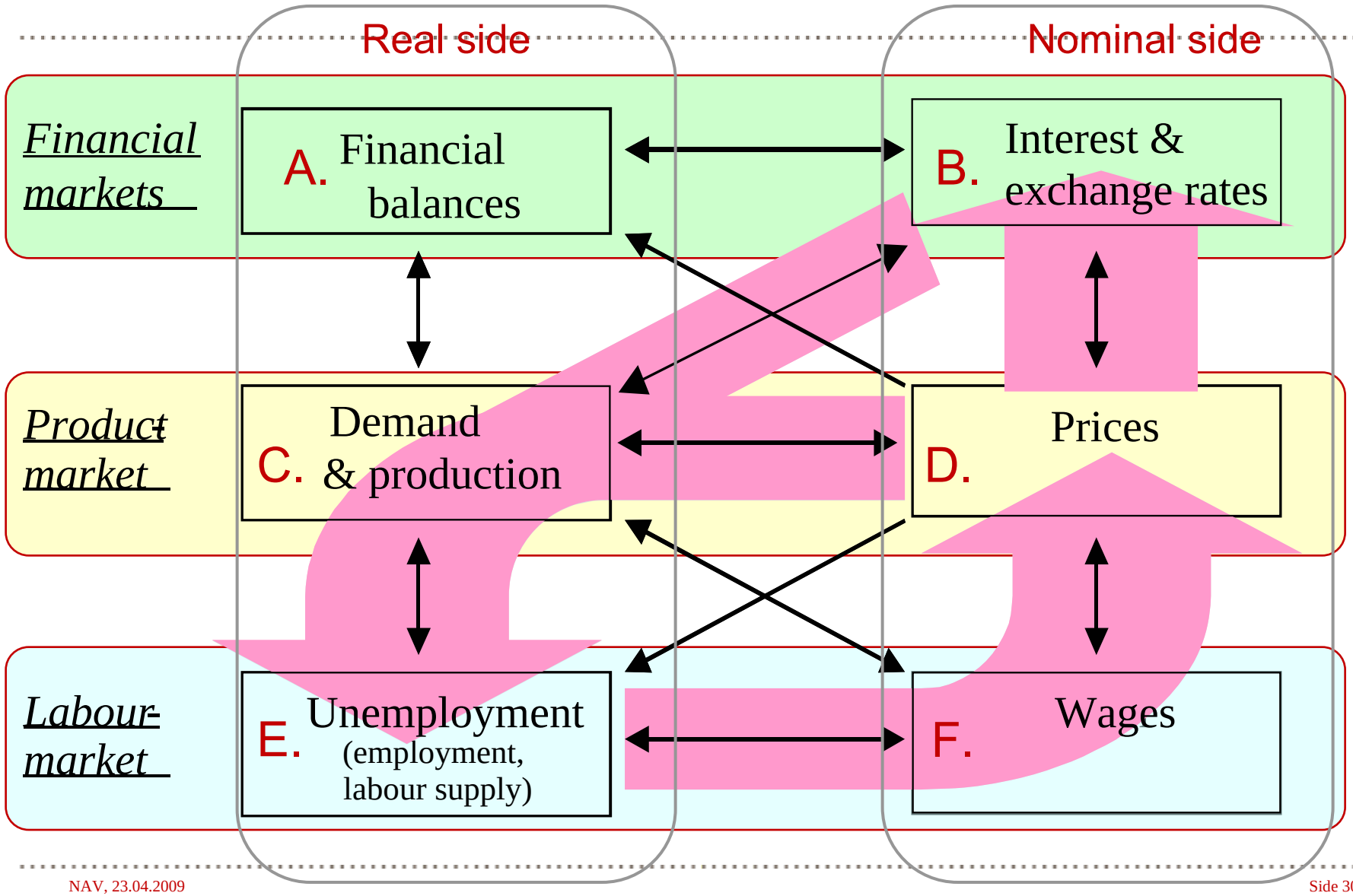
MODAG (MODel of AGgregate type)

- Macroeconomic model for the Norwegian economy
- Developed by Statistics Norway (SSB)
- Utilised mainly by the Ministry of Finance and Statistics Norway for medium term macroeconomic forecasts and policy analysis
- Recently also distributed to other users, among them the Directorate of Labour and Welfare

MODAG

- Includes a detailed input-output matrix with 45 products and 20 sectors
- Error correction specifications of behaviour relations estimated using to a large extent national accounts data and based on long term properties from economic theory
- Includes around 4000 equations
- Includes important multipliers and stabilizers
  - Keynesian (income) mulitiplier
  - Stabilization via labour market (but permanent demand shifts have permanent effects)
  - Exogenous fiscal policy
  - Recently introdused endogenous interest and exchange rate

MODAG – main elements and "channels"



MODAG – a useful tool for NAV

- MODAG is currently being introdused in the Section for Statistics and Research in the Directorate of Labour and Welfare
- Assisted by SSB our staff will learn to use the model, and be able to run simulations based on scenarios we want to explore.
- These includes assessing the effect of various levels of labour immigration, changes in the propensity to work, the effect of introducing a new pension system etc.
- The model will be used both for short and long term forecasts

MODAG – short term forecasting

- Each quarter the Directorate of Labour and Welfare publishes its own forecasts for the number of unemployed and total employment the present year and the year after.
- These forecasts can be made more sophisticated by relating them to the overall macroeconomic picture in a consistent way

MODAG – long term forecasting

- The Section for Statistics and Research is currently working on a model for long term predictions of surplus demand for different educational categories of labour
- Supply side forecasts are based on a static model framework with fixed transition rates. Transition rates are calculated for each gender and each age for a maximum of 74 educational groups
- Demand side forecasts will be supplied by simulations from MODAG consistent with the population projections that follows from the supply side model