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The labour markets in Finland, Germany, Latvia, Norway, and Sweden 2006-2010

Developments and challenges for the future

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Mit der Publikation von Forschungsberichten will das IAB der Fachöffentlichkeit Einblick in seine laufenden Arbeiten geben. Die Berichte sollen aber auch den Forscherinnen und Forschern einen unkomplizierten und raschen Zugang zum Markt verschaffen. Vor allem längere Zwischen- aber auch Endberichte aus der empirischen Projektarbeit bilden die Basis der Reihe.

By publishing the Forschungsberichte (Research Reports) IAB intends to give professional circles insights into its current work. At the same time the reports are aimed at providing researchers with quick and uncomplicated access to the market.

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Zusammenfassung

Im International Labour Market Forecasting Network tauschen sich Prognostiker der öffentlichen Arbeitsverwaltungen und verwandter Institute aus den nordischen Ländern sowie Deutschland und Österreich regelmäßig über die aktuelle und erwartete Entwicklung der nationalen Volkswirtschaften und Arbeitsmärkte aus. Dieser Bericht dokumentiert in Kürze die Diskussion in den zurückliegenden Jahren. Beispielhaft skizzieren Finnland, Deutschland, Lettland, Norwegen und Schweden den Ausgangspunkt und die Reaktionen ihrer Arbeitsmärkte auf die Große Rezession 2008/09.

Abstract

Via the International Labour Market Forecasting Network, forecasters of the public employment services or comparable institutes from the Nordic countries as well as Germany and Austria exchange their analyses about the current and future development of the national economies and labour markets. This report documents some of the discussions during the past few years. Finland, Germany, Latvia, Norway, and Sweden exemplify their starting conditions and labour market reactions to the Great recession in 2008 and 2009.

1 Introduction

Starting with the collapse of the subprime mortgage market and the bankruptcy of the Lehman Brothers bank in the United States, the deepest recession since the world economic crisis of the 1930s spread out over many economies around the globe. A challenging situation for policy-makers, companies, and workers. The effect of an economic crisis regularly depends on two facts: first, on the starting conditions at the time when the crisis hits the economy. And second, on the nature of the crisis as a pure demand-side problem or as a structural crisis. The latter point addresses the expectations of the private sector about the duration of the crisis and the extensiveness of (structural) adjustment necessary to overcome the crisis.

The following report provides an insight into the economic and labour market developments in 5 European countries, all members of the International Labour Market Forecasting Network: Finland, Germany, Latvia, Norway, and Sweden. The network organizes regular annual meetings. This report may serve as record of the discussions and presentations during the past few years.

None of those countries can be seen as a major activator of the crisis. International financial and trading networks imported the crisis to each of them. However, the countries differ by the sectoral composition of their economies, by the strength of the upswing before the crisis, and by the depth and duration GDP and the labour market were affected.

Special attention is to be drawn to Latvia and Germany. Latvia had developed positively with high growth rates of GDP and wages and a large financial sector due to massive capital import from abroad. However, when the crisis began, foreign investors withdrew their money, and the crisis turned out to be structural for Latvia, as if it enforced another step of transition. Unemployment exploded, and wages had to be adjusted. The economy recovers slowly. By contrast, Germany had gone through a phase of wage moderation and severe labour market reforms prior to the crisis which had raised the trend of labour demand. Furthermore, the crisis appeared mainly as a temporary drop in export demand of relatively short duration and before as well as after the crisis economic upswing was very strong. Therefore, labour was hoarded within the companies, and unemployment hardly rose.

The other countries are in between these extremes of thinkable reactions. Norway was mainly stabilized by its large public sector and the ongoing upswing of petroleum investment. Sweden, closely tied to the situation in Germany, overcame the crisis well and now rather fears labour shortages. Finland experienced how differently a demand crisis affects its economy in contrast to the structural crisis at the beginning of the 1990s.

Reading the country reports one should keep in mind that the numbers on macro-economic indicators are harmonized according to the European System of National Accounts. However, the numbers on (un)employment and the labour force are not

necessarily harmonized. Whereas Norway and Sweden use the Labour Force Survey (LFS) to present major labour market variables including labour supply, Germany follows its own national concepts, for instance when calculating a labour force potential that is largely independent from business cycle fluctuations (tables and figures by country are provided in Appendix 1). Consequently, not all the effects are comparable on a quantitative basis, but the so underpinned arguments are clear to get a picture of how differently the crisis challenged the economies and their policy-makers.

2 The onset, duration, and aftermath of the crisis: a synopsis of the country reports

2.1 A theoretical sketch on the use of extensive margin or intensive margin during a recession

When a recession hits an economy, companies need to adjust labour input. As labour can be decomposed into three main components: the workforce or, macro-economically speaking, employment, hours worked, and – looking from the output perspective – productivity per hour, employers have to decide which single or which combination of the components to adjust. Thereby, a reduction of working hours and/or productivity is an indicator of internal flexibility: companies prevent dismissals but hoard labour instead. Sometimes, this is called the intensive margin (e. g. Merkl/Wesselbaum 2011). By contrast, firms could as well decide to adjust the workforce by firing people. This is called the extensive margin or external flexibility.

The extensive margin is not necessarily a dominant strategy as firms have to consider not only current wages they might save but also firing costs as well as future search and hiring costs as soon as the economy recovers. Moreover, they have to make their decision under uncertainty. Bentolila & Bertola (1990) apply the real options theory of investment under uncertainty and irreversibility to the firing decision of the firms. When firms face a downturn in economic activity but are uncertain about its duration and size, there is a value of waiting before exerting the option and downsizing the workforce. In other words: Firms decide to keep workers as long as the expected present value of the costs of keeping is lower than the sum of lay-off costs and the expected present value of future hiring and training costs. Due to uncertainty, this decision is not trivial, and it pays for the firm to wait and see.

Bentolila & Bertola (1990) primarily focus on lay-off costs in sclerotic labour markets. For instance, employment protection, redundancy payments, or legally obliged redundancy plans make it more difficult and costly to hire and fire according to the varying demand for goods. However, expected costs for future hiring may have gained in importance meanwhile as many developed countries experience demographic change with a shortage in labour supply. They add to opportunity costs in case of lack production because of too few workers, especially with firm- or product-specific human capital that the firm lost when it dismissed people, and training costs (Horning 1994; Seth & Aggarwal 2001). Finally, the extensive margin may also

interfere with the working morale of the workers still in the company as they feel uncomfortable with their employer.

Whether or not firms decide for internal flexibility in an economic crisis regularly depends on two aspects: first, the economic situation at the onset of the crisis, and second, the nature of the crisis. The first argument refers to the financial conditions of the firms: Can they afford to hoard labour? This is much easier if the economy is in an upswing when profits and labour utilization are high and working time buffers as overtime and credit on working time accounts are large. Furthermore, it pays if wage costs are comparably low anyway and if labour market institutions are flexible. Among labour market institutions, we think for example of the spread of working time accounts, opening clauses in bargaining contracts regarding flexible working time and wage arrangements within firms in the case of a crisis.

The second argument refers to the nature or causes of the crisis. On the one hand, a crisis could be imported into an economy by a drop in demand from abroad. Then, the crisis is expected to be temporary and, even if GDP plummets sharply, of short duration. In such a case, internal flexibility will pay because afterwards production can be restored easily and quickly and the firm saves hiring costs. The government may even support the labour hoarding strategy by financial incentives, as was done with short-time working schemes in Germany, for example.

The picture is different if, on the other hand, the crisis has structural causes. That means, the structure of the supply side does not meet any more the structure of the demand side. The capital stock has become obsolete as the goods that could be produced with it sell badly. Structural crises may also be cost-side crises, for instance if an economy loses competitiveness as it uses input factors – labour, commodities, capital – inefficiently and at too high prices. In principle, structural crises have their roots on the supply-side of an economy – and it is there where they have to be overcome. This is a harmful and long-lasting process (Reinhart/Rogoff 2009). As a consequence, labour hoarding becomes a too expensive strategy and dismissals are much more probable (and often necessary).

In the light of economic theory, the next section briefly summarizes the country reports. It will show that all countries under consideration started from similar conditions. However, things changed as the crisis turned out to be structural for some but temporary for others.

2.2 Summary of the country reports: how the crisis affected Finland, Germany, Latvia, Norway, and Sweden

All five countries were in relatively good shape when the crisis hit them. Due to the prospering international trade exports increased in all countries, and a strong economic upswing spread out. In 2006 and 2007, Finland, Germany, Norway, and Sweden experienced economic growth of 3 to 5 percent per year (table 1). In Latvia, economic growth rates even reached up to 10 percent for several years. The labour markets generally profited from the economic development. As many more people

found a job, unemployment in each country was substantially lower than in the years before.

Table 1: Development of main economic and labour market indicators

		2005	2006	2007	2008	2009	2010
real gdp growth (percent)	Finland	2.9	4.4	5.3	1.0	-8.2	3.6
	Germany	0.7	3.7	3.3	1.1	-5.1	3.7
	Latvia	10.1	11.2	9.6	-3.3	-17.7	-0.3
	Norway	4.6	4.9	5.6	1.8	-1.8	2.1
	Sweden	3.1	4.5	3.5	-0.8	-5.2	5.5
employment growth (percent)	Finland	.	1.8	2.0	1.6	-2.9	-0.4
	Germany	.	0.6	1.7	1.2	0.0	0.5
	Latvia (15-64)	.	4.6	2.7	0.1	-11.4	-3.6
	Norway	1.2	3.6	4.1	3.2	-0.5	-0.2
	Sweden	.	2.6	2.0	0.9	-2.3	1.1
unemployment rate (percent)	Finland	8.4	7.7	6.9	6.4	8.2	8.4
	Germany	11.7	10.8	9.0	7.8	8.2	7.7
	Latvia (15-64)	9.1	7.0	6.2	7.8	17.3	19.0
	Norway	4.6	3.4	2.5	2.6	3.2	3.6
	Sweden	7.8	7.1	6.2	6.1	8.4	8.4

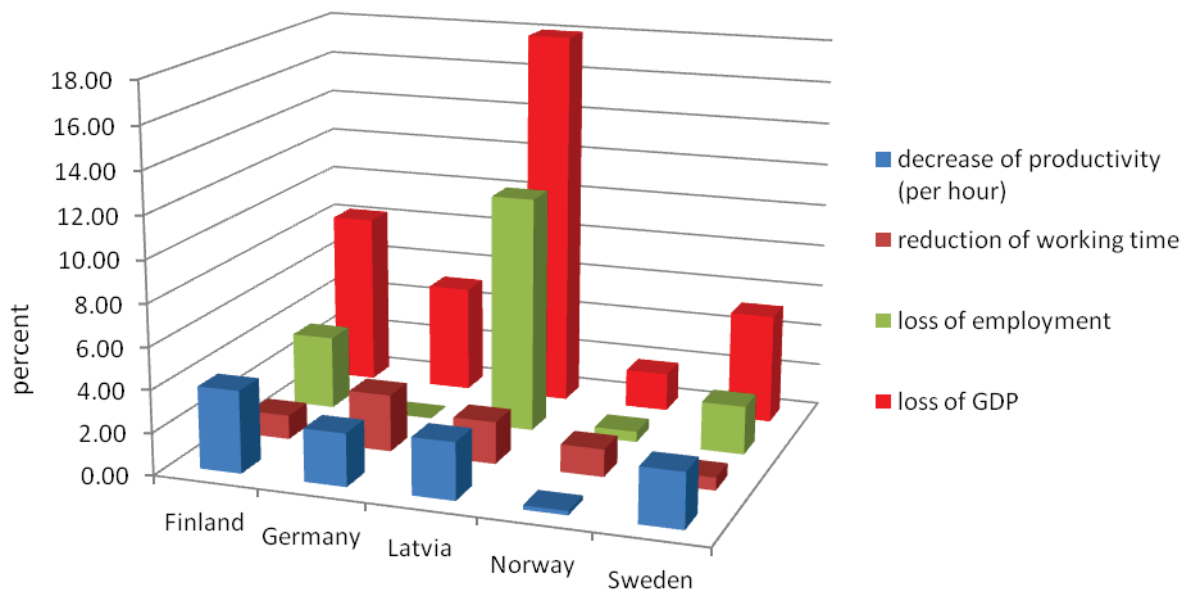
Source: National statistics of the countries, see appendix 1.

None of the countries can be seen as a major activator of the crisis but through close trading and financial interrelations it was imported to each of them. In Sweden and Latvia, annual GDP started to decline in 2008 already, whereas in the three other countries effects were either delayed or contrasted by better starting conditions at the beginning of 2008. The major effects of the crisis became visible in the yearly data of 2009. The red columns in figure 1 show how differently the countries were concerned by the crisis, even though for all countries GDP dropped as much as hardly ever during the past decades. However, GDP loss in Latvia by 18 percent was more than twice as sharp as in Finland at -8 percent and 9 times larger than in Norway at almost -2 percent.

Those figures may reveal a major difference in the economic history of the countries: The Nordic countries and Germany were mainly affected as export demand plummeted but the domestic industries were not concerned so dramatically. In Germany, for instance, gross value added in service industries did not decline. In

Norway, the large and important branches of petroleum investment or the public sector were hardly affected. The structural composition of the economies absorbed the shock partially, thus confining uncertainties for economic activities and income. In Latvia, by contrast, the economy shrunk dramatically as foreign investors withdrew their capital. Not only did Latvia face a drop in export demand but also a dramatic loss in competitiveness on the supply side as wages had risen too quickly during the good years. As a result, the crisis turned out to be a structural one for Latvia. This major difference between the Baltic country and the others is reflected in the reactions to the crisis as well as in the speed of recovery.

Figure 1: GDP loss and the adjustment of employment, productivity and working time in 2009



Source: National statistics of the member countries of the International Labour Market Forecasting Network.

Whereas the green columns in figure 1 depict the adjustment of employment (the extensive margin), the blue and brown columns depict the adjustment of productivity per hour and of hours worked. The latter together form the intensive margin. In Latvia, only one quarter of the drop in GDP was absorbed internally whereas dismissing workers was the dominant strategy. It seems plausible, as wages had increased too sharply before and a reduction in unit labour costs was in order. On the contrary, about 60 percent of the economic shock was absorbed by internal flexibility in the Nordic countries. Behind this similar looking number, huge differences arise when considering productivity and working time separately. In Norway, productivity did not decline at all and the intensive margin was exclusively realized through a reduction in working time. Finnish and Swedish companies reduced both, working time and productivity, but productivity was the major factor. In Germany, dismissals in the manufacturing industries were fully compensated by

hires in service branches like health and education. On balance, 100 percent of the adjustment to the crisis can be traced back to internal flexibility. Such an extraordinary response to the crisis clearly has more than one explanation. Severe labour market reforms came into force between 2003 and 2005, raising incentives for companies to create more jobs and for unemployed to search more intensively. Furthermore, wage increases had been very moderate for years. All in all, the business cycle effect on the labour market was accompanied by a structural effect leading to higher labour demand. As a consequence, labour utilization was very high in the upswing before the crisis – and during the crisis itself, labour was hoarded in previously unknown dimensions.

One major advantage of labour hoarding during recessions is the opportunity to respond quickly to the newly arriving economic recovery. As working time and productivity of the hoarded workforce can be easily increased, however, jobless growth is often observed. In 2010, all countries but Latvia experienced rapid growth ranging from 2 percent in Norway to almost 6 percent in Sweden. Maybe, in Norway growth was still lower than on average as the crisis had not hit so hard and catch-up effects were smaller than in Finland, Germany, and Sweden. The labour markets responded with the expected delay such that employment still shrunk in Norway and Finland, characterizing the recovery as jobless. In Sweden and Germany, employment rose – but compared to GDP growth rather slightly. Meanwhile, labour shortage has occurred as a challenge to the Swedish labour market. For structural reasons, labour shortage is not a topic in Latvia. After an increase in unemployment to the highest rate within the EU, the economy and the labour market in Latvia started to recover slowly and lately. However, as structural crises take longer to be overcome, the figures of 2010 hardly indicate this process. GDP stagnated and employment shrunk further. After the government implemented several reasonable strategies to overcome the structural weakness, Latvia is now highly dependent on a stable economic development abroad which again is a challenge for all member countries of the European Monetary Union and their trading partners.

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3 Country reports

3.1 Finland

3.1.1 Macro-economic developments

Exceptionally deep recession in 2009

At the onset of the economic crisis in 2008, the Finnish economy was in a good position relative to many other countries, thanks to general government finances being in surplus. The financial sector has also withstood the upheaval caused by the global financial crisis well. Nonetheless, as an economy dependent on exports, Finland sank into an exceptionally steep recession. In 2009 the GDP plunged by 8.2 percent which is significantly more than the average for EU countries.

Demand was mainly affected by the decrease in exports and investment. The volume of exports fell by 21 percent in 2009 and investment was down by more than 13 percent. However, earnings increased very rapidly keeping up positive expectations of households. Despite the recession the total consumption level remained quite high in 2009. It declined only by 1.9 percent and started already to increase during the last quarter.

Economic recovery driven by exports

The Finnish economy started to recover from the recession in the second quarter of 2010, driven by the acceleration of exports, thanks to the strong growth in Finland's main export countries, such as Sweden, Germany, and Russia. The exports of goods grew by 9 percent in 2010. Improvement in employment and household confidence boosted also the private consumption growth. The output of services started to rise appreciably in the second quarter. The GDP as a whole grew by 3.6 percent in 2010.

In summary, the decline in GDP was of substantially briefer duration compared to the depression of the 1990's, though the negative demand shock in 2009 was considerably stronger. However, the crisis left a long-lasting legacy on the Finnish national economy. Formerly strong public finances deteriorated sharply.

Employment and working hours decreased sharply during the crisis

As a whole 85,000 jobs (-3.3 percent) were lost during 2009–2010. Nonetheless, the labour market did not deteriorate as much as expected because companies retained their skilled staff, offering them temporary layoffs over redundancies. In 2009 the number of employees, classified as temporarily laid off, averaged around 60,000 persons, or just over 2 percent of the workforce. According to the LFS the number of hours worked fell twice as much as the number of employed persons. In 2009, the number of hours worked dropped by 5.8 percent and the number of persons employed by 2.9 percent. None of the indicators but productivity has reached its pre-crisis level again. It is worth noting, however, that productivity reached this peak

again in the second quarter of 2011. Thus, in the early months the recovery has to be characterized as jobless growth.

Economic recovery and the fiscal policy measures taken to support recovery began to affect the labour market in 2010. The bottom of the cycle in employment was met in the last quarter, even though the annual average number of people in employment fell somewhat. In the aftermath of the recession, companies had plenty of underemployed personnel which delayed the increase of employment during the economic upturn. Employment started to increase slowly as the employed labour force and production level were in balance.

In the mid of 2011 the level of employment was still 50,000 persons (-2 percent) lower compared to the peak before the recession. New jobs are being created in the domestic market. In 2010, employment started to increase in building construction and services, whereas the number of employed persons in manufacturing declined until the end of the year 2010. The total number of industrial jobs is still 65,000 lower (-14 percent) than the respective peak level of 2008.

The number of working hours follows fluctuations in output with some little time lag and labour input in hours and in persons would seem to develop more or less in parallel. Labour input in terms of hours worked started to increase slowly in the early part of the year 2010. One reason for the increase in hours worked is the reduction in layoffs, but there are also changes in the number of hours worked by the employed and underemployed. The young as well as the aged widely work part-time. During the recession increasing part-time employment compensated losses of full-time jobs.

Productivity and working time declined in the crisis

In Finland the rise in labour productivity has been almost twice as high as the European average throughout the 2000s, even though restructuring in production has meant that lower-productivity services now account for a larger proportion of total output. Nonetheless, productivity in the whole economy in 2009 was estimated to be over 5 percent lower than the euro area average as a result of the exceptionally big decline of productivity in 2008 and 2009.

After two years on a downward trend labour productivity returned to its growth track in 2010. The secondary production resumed its customary role in driving productivity growth by rationalizing the use of current labour force, after three years of a downward trend. Over the whole year 2010 productivity in secondary production was 5.5 percent higher than in the previous year. Growth was faster than average both in industry and especially in construction. In primary production and services overall, productivity trends are clearly weaker than average and the productivity remained unchanged from the previous year.

The average working time per employed person has declined in the long run about 0.4 percent per year. According to the LFS, in 2008 the average working time of an

employed person was 1,665 hour per year and in 2009 respectively 1,612 hours (-3.2 percent). In 2010, the average working time already increased by 1.4 percent.

3.1.2 Labour force and unemployment

Discouraged workers exit the labour market during the crisis

In recession, the decline of labour supply amounted to a third of the decline in employment. Especially the graduates and students faced difficulties in finding work, which led to young people exiting the labour market. The supply of labour was also affected by the discouraged workers who gave up looking actively for work. On the other hand, the older workers maintained their jobs and stayed in the labour market. Labour force participation rates for those over 50 continued to increase during the recession lengthening the work careers and compensating for the reduction of labour supply.

Demographic change reduces labour supply

Statistics Finland population projections indicate that the changes in the population age structure will reduce the supply of labour somewhat in the coming years. The post-war baby-boomer generation started turning 64 in 2009 with a consequence of labour supply starting to decrease despite continued lengthening of work careers. The number of people aged 15–64 will decrease by almost 20,000 per year throughout the 2010's.

As the number of people in working age falls, those who are - in the statistical sense - outside the labour force will assume a critical role in the labour market because the growth of employment will increasingly depend on the employment of those currently outside the labour force.

Unemployment increased moderately

Unemployment grew steeply in early 2009, but the unemployment rate did not rise as much as feared, according to the gloomiest forecasts. In addition to the economic recovery, the contraction in the supply of labour and enterprises' desire to keep their skilled workforce employed over the duration of the recession played an important role in this development. Temporary lay-offs were used extensively instead of redundancies.

Unemployment reached its cycle peak in the end of 2009 (8.9 percent) and has then turned to decline. The increasing demand of labour has first affected those laid off temporarily and then those who have been unemployed for a short period. In contrast, the effects of increasing demand on long-term unemployment are slow and long-term unemployment still grew during in the first half of 2011. The structural share of unemployment is getting increasingly significant, resulting in longer unemployment spells, which will slow down the decrease of unemployment. In 2010, the average duration of unemployment measured from the stock was 38 weeks and the respective duration of ended unemployment spell 14 weeks.

The aggravated structure of unemployment can be clearly seen in a specific indicator, which measures the structural unemployment on the basis of so called “hard to place unemployed”. It consists of four mutually exclusive groups of registered unemployed persons: long term unemployed, recurrently unemployed, unemployed after ALMP-measure and those dependent on measures (long term unemployed recurrently on measure). At the end of 2010, this structural unemployment amounted to 145,000 persons, i.e. 5.4 percent of total labour force (see appendix 1, figure F2).

Structural unemployment, ageing and mismatch constrain the labour market

The increase of the structural part of unemployment has aggravated the problems in labour availability. The decrease of unemployment in the forthcoming years will to a great extent depend on the success in employing the labour force with lower employability. The majority of “the hard to place unemployed” (60 percent) are between 25–54 years old and 40 percent have only passed the basic education. It remains to be seen if the latest shocks on labour market will fade out before the next recession will begin or if persistent high unemployment will lead to an increase in the long-term natural rate of unemployment.

Besides structural unemployment, the population ageing will constrain the labour market during the present decade. Recruitment problems and mismatch between labour supply and labour demand will be more and more commonplace as the post-war baby-boomers retire. Finland is in threat to be facing a situation where there is a shortage of skilled labour whilst unemployment rates still remain high.

According to the interviewed employers, the economic recession did not eliminate the troubles with labour availability but there are still problems in recruiting, especially, nurses, nursery school teachers, medical doctors and elementary level teachers. Ca. 26 percent of establishments that had searched for labour in 2010 had experienced difficulties in filling vacancies. The share of establishments facing recruitment problems increased from the previous year. Ca. 9 percent of establishments that had searched for labour in 2010 had been unable to find at least part of the labour they sought. In longer term, labour scarcity will cause problems especially in the service sector as well as in the welfare and health sector.

The problems of labour market mismatch may be exacerbated by the fact that the jobs that are now being created in place of those that disappeared with the recession will require new sets of skills. The new jobs that are being created after the recession are not located in the same places and in the same branches where jobs were lost during the recession.

3.1.3 Challenges for the future

Modest outlook for growth and employment

With the world economy and global trade showing favourable growth the outlook for employment was quite positive in spring 2011. At that time the predicted growth rate

for the current year was 3.9 percent, and for 2012 around 2½ percent. The number of persons employed was predicted to increase by 1.2 percent in 2011 and the unemployment rate edge down to 7.6 percent.

During summer 2011, uncertainty about the future has increased for many reasons with the consequence that the recent economic forecasts of the day are more pessimistic. The forecast of GDP for 2012 are around 1½ percent, which means that it is probable that the positive trend in employment will break down. Employment is expected to grow slowly only as long as GDP growth remains above 2 percent. The main concerns are the following:

- Continued uncertainties prevail in the international financial market. The crisis in peripheral euro countries may persist longer and have a greater impact on economic activity throughout the euro area than expected in the forecast's background assumptions.
- Finland is a commercially open economy and as such it will continue to remain dependent on the development of the global economy. Global demand shocks are transmitted very quickly and with great intensity and they have a major impact on the economic situation in countries like Finland.
- The consumer and business expectations and confidence indicators have started to point badly towards worsening economic trend. Besides, many technology industry branches are still reporting lower order books than in 2010.
- The development of household purchasing power will be adversely affected by the rapid rise of prices. This trend is being driven not just by rising raw material prices, but also by various domestic factors associated with higher rates of indirect taxation.
- Public debt will continue to rise and will result in increasing financial problems in the public sector thus limiting employment opportunities. The pressure to balance public finance in the forthcoming years could weaken consumption demand and employment.
- Estimates indicate that, without adjustment measures, public finances will slip into an untenable situation and thereby recovery from the next crisis or recession will be much harder when the traditional weapons of macro-economic policy to increase overall demand and to boost employment are too costly.

3.2 Germany

3.2.1 Macro-economic developments

Rapid growth 2006–2008 with high employment gains

In the years 2006–2008 there was rapid economic growth in Germany, compared to previous periods. Real GDP increased by 8 percent over the three years. The upswing was kicked off by exports and investment and spread gradually over all sectors of the economy. Production of goods and services increased substantially in

almost all economic sectors. Productivity per hour grew by 5.5 percent over the three years, above its observed long-term trend. Average working-time decreased slightly due to the expanding share of part-time work in total employment. Total employment increased by 3.5 percent (1.37 million persons) over the years 2006–2008. At the beginning of the period, additional employment was contributed mainly by the sector of private services which includes the temporary work agencies (Zeitarbeit). Gradually, all of the sectors achieved substantial gains of employment, except construction which lost slightly.

Deep recession but stable labour market in 2009

Mid of the year 2008 the economic upswing ended and a sharp downturn started. In the forthcoming recession the loss of GDP was much higher than in foregoing downturns (1966/76, 1974/75, 1993 and 2003). In the year 2009, real GDP decreased by 5.1 percent. The crisis has been passed through from abroad and so the sectors of the economy were not equally affected. Depending strongly on exports, manufacturing industries were hit hard, and also trade/transportation/accommodation were involved, while public and private services in total developed stable and even expanded during the crisis. Consequently, employment, too, developed differently in the economic sectors. While the secondary sector lost the tertiary sector gained employment. In total, employment even increased slightly in the year 2009 (+15,000) which was internationally recognized as the “German job wonder”. It is mainly explained by working-time flexibility and labour hoarding: In 2009, average working-time decreased by 2.7 percent and productivity per hour decreased by 2.5 percent. Institutional change on the labour market (the so called “Hartz reforms”), structural change of the economy and to some extent fiscal and monetary policy played an important role as well.

Strong recovery and increasing employment in 2010

In mid-2009, the economy started to recover. On annual average, real GDP increased by 3.7 percent in 2010. Utilization of employment was substantially higher than in 2009 as average working-time of the employed increased by 1.8 percent and productivity per hour by 1.4 percent. At the same time, employment increased as well and the widely expected jobless growth did not take place. Moreover, labour demand recovered quickly and the strong upward trend of employment which was broken temporarily by the crisis continued: In 2010, total employment increased by 190,000 persons (0.5 percent) to 40.55 million which was the highest figure since German reunification.

3.2.2 Labour force and unemployment

Slightly declining labour force in 2006–2010

The labour force potential and its dynamics are determined by demographic factors, participation in the labour market and by migration.

The German population is declining and ageing. This accounts for a negative demographic effect on labour force potential, which, however, was nearly outweighed by increasing participation rates of women and elder persons during 2006–2010. Migration affected the labour force in the past years only slightly. In the long run the compensation by increasing participation will gradually exhaust and the negative demographic effect will make itself felt strongly.

Total labour force potential decreased from 44.91 million persons in 2006 to 44.81 million in 2010. So, in the past years, declining labour supply took some pressure off the labour market and contributed slightly to the decrease of unemployment which was mainly determined by the increase of employment.

Decrease of unemployment continues after the crisis

In the years 2006–2008, that saw a substantial upswing, unemployment was reduced by one third (-1.60 million persons). The increase of unemployment during the crisis in 2009 by almost 160,000 persons turned into a decrease by 180,000 in the subsequent year. In 2010, on average 3.24 million unemployed were registered at the local employment agencies (2006: 4.49 million). The unemployment rate declined between 2006 and 2010 from 10.8 to 7.7 percent.

In Germany, the unemployed are registered in two systems which are legally based on Social Code III (active employment promotion, unemployment insurance) and Social Code II (basic income support for job seekers). Usually after 12 months, when their insurance claims are exhausted, the unemployed move from the insurance system (Social Code III) to the basic income support system (Social Code II). On yearly average, one third of all unemployed were registered in the insurance system in 2010 (1.08 million); two thirds (2.16 million) in the second system. Usually, the stock of unemployment in the insurance system is tied more closely to the business cycle because these people have better formal qualification, less health restrictions and find a new job more quickly (approx. after 3 to 4 months). This is why the crisis as well as the recovery affected the insurance system more than the basic income support system.

Long-term unemployed persons are to be found in both systems, but mainly in the Social Code II system. In total, this group amounted to 940,000 in 2010 (2006: 1.68 million). Their share in total unemployment fell from 34.6 to 29.0 percent. On the one hand, the long-term unemployed move with a higher probability than others into labour market policy measures or out of the labour force. On the other hand, they seem to find a job more easily after substantial labour market reforms came into force between 2003 and 2005.

Substantial hidden unemployment

In addition to registered unemployment there exists hidden unemployment which is composed of participants in labour market policy measures, such as vocational training and activation, and persons who were discouraged or crowded out. This

kind of “hidden reserve“ decreased between the years 2006–2010 by 240,000 persons and amounted to 1.31 million persons in 2010 which is 2.9 percent of the total labour force potential. Finally, registered and hidden unemployment added up to 4.55 million persons in the average of 2010. Despite the positive labour market development in the past few years this figure reflects a substantial need for further efficient labour market policy efforts or social policy for people with very low job finding probability. This is a challenge for the future, especially in view of the loss in labour force potential.

3.2.3 Challenges for the future

The stability of the labour market in Germany is explained by a set of factors. Many of them could be subordinated to two main aspects which refer, on the one hand, to the strong business cycle fluctuations and, on the other hand, to the rising trend in labour demand.

First, the economic upswings before and after the crisis were very strong und pushed labour demand. In contrast to the new economy upswing around the year 2000, companies demanded a higher volume of work which had become visible in a comparatively strong increase in jobs covered by social security and in full-time jobs. The crisis itself was short in Germany. It hit particularly those sectors that had profited the most from the previous upswing. Therefore, the most concerned branches were in very good financial conditions and labour utilization was very high.

Second, the German labour market was on a rising trend. Mainly, wage moderation over quite some years and the so called “Hartz reforms” contributed to this upward trend. Labour became more profitable, therefore, the German economy became more competitive, and companies started to adjust their capital stock by higher investment. Meanwhile, the “Hartz reforms” were evaluated as having made the labour market more dynamic and flexible and, thus, as having contributed to the rise in the job finding probability of the unemployed.

As a consequence of the coincidence of business cycle and structural adjustment, incentives to hoard labour within the companies had risen. Expected labour shortages as result of labour force potential declining and – to a minor extent – fiscal stimuli by the government may have played a role, too. Labour hoarding became visible not only in a previously unknown decrease of productivity per hour but also in a sharp decrease in working time. The flexibility of working-time compensated to a high extent the sharp decline of GDP. Mainly in manufacturing industries many enterprises introduced the short-time scheme which is a policy instrument of Social Code III. It was temporarily made less costly for the firms by the government. In addition, accumulated hours on working-time accounts were reduced. Agreed weekly hours were temporarily reduced. Part-time work increased even during the crisis.

Despite the positive development of the labour market throughout the past few years, new challenges arise. First, the experience of a “job wonder” must not be

misunderstood as immunity against the next recession. The structural adjustment on the labour market seems to fade out. Thus, the positive trend of labour demand will flatten out. Furthermore, the circumstances regarding financial buffers and factor utilization within the companies might be worse. And finally, another crisis might appear as a structural crisis not only arising from a drop in export demand. Such a crisis would harm the German labour market far more. In summary, in the future, stronger political measures might be necessary to alleviate the damage from a recession – and still the labour market might face more trouble.

Second, the German labour market is about to experience a trend reversal regarding labour supply. The sharp decline in the next decades will enforce major adjustments with regard to wage formation, working conditions, participation of female, older, and migrant workers but also with respect to the capital stock. The tasks of policy makers are manifold: Well-educated young people entering the labour market assumes sufficient money and personnel in the education system. The market mechanisms must work well which assumes that effective reform components must not be cut back. The financial basis of the social security system has to be ensured which raises questions as to further disentangle it from labour income and to find another balance between private and social care which is reasonable also to the socially deprived. Last but not least, unemployed people must be supported by effective policy measures such as vocational training or mobility support in order to prevent the economy from a coexistence of labour shortage and long-term unemployment.

3.3 Latvia

3.3.1 Macro-economic developments

After rapid economic growth a sharp recession

After a rapid growth for several years with an average annual increase of the GDP at the rate of 11 percent in 2005-2007, in 2008 recession started in the economy of Latvia as a result of the global financial crisis. In 2008–2009, GDP decreased by 24 percent. The most critical period for the real sector of the economy was the first half of 2009, when economic activities decreased very rapidly and unemployment increased. The economic downturn continued also in the second half of 2009, however, it was considerably slower than in the previous quarters, and a slight increase of exports and in manufacturing output had already been observed. Since the end of 2009, the economic recession in Latvia has stopped and growth has resumed.

During 2010, a gradual increase of GDP was observed. However, as growth took up from a very low point, GDP in total decreased by 0.3 percent in 2010 as compared with the year ago. In the first quarter of 2011, GDP exceeded the level of the first quarter of 2010 by 3.5 percent. The Ministry of Economics forecasts that in 2011 GDP will exceed the annual level of 2010 by 5.5 percent.

The economy of Latvia has gone through important adjustments. The macroeconomic concept, which was based on the inflow of foreign capital and the increase of domestic demand does not work anymore. At the moment, a transition to a sustainable economic development based on exports takes place.

Along with the gradual improvement of the global economic situation and along with the increase of demand in main trade partner countries, export has become the main driving force for the economy. In 2010, export growth was quite considerable and in the third quarter of 2010, export volumes already exceeded the pre-crisis level. Extension of export possibilities is the basis for the growth of tradable sectors, particularly manufacturing, which in 2010 exceeded the level of 2009 by 16.5 percent. In 2010, growth gradually recovered in almost all sectors of commodities and services, just in the sectors of public services and construction a volume decrease was still observed.

In 2010, domestic demand also stabilized. However, public or state administration expenditures decreased due to the realized budget consolidation activities. Also investment activities were on a very low level. At the same time, private consumption started to increase, which is mainly determined by the gradual improvement of the situation on the labour market.

Productivity and labour costs

The real unit labour costs (ULC) still continued to grow in 2008, but not as rapidly as before. The decrease of demand in domestic and foreign markets had a negative influence on the situation in the commodity markets. In 2008, compared to the previous year, GDP decreased by 3.3 percent, but no relevant adjustments in the labour market took place at the same time, and this was the main reason for the growth of the real ULC.

Significant adjustments of the labour market started in 2009, which influenced the dynamics of both productivity and labour costs. Productivity has decreased by 5.5 percent, but the labour costs – by 12.7 percent, both compared to 2008. As a result, the real ULC decreased by 6.2 percent.

Dynamics of the ULC in 2010 was mainly determined by the relative changes in the wages and the number of employed. In 2010, compared to the previous year, the real ULC was by 8.9 percent lower.

The tendencies of 2010 show that adjustment of labour costs caused by the crisis is over and the increase in competitiveness of Latvia no longer can be based on this factor, taking into account that it will not be possible to keep low wages in a situation of free movement of labour.

Total working hours and working time

People in Latvia work longer hours than on average in the EU. A significant proportion of employees work overtime on a regular basis and many people are employed in multiple jobs. Part-time jobs are not popular in Latvia.

During the crisis employers in private sector preferred to reduce the number of employees rather than reduce working time and wages, however, in the public sector, a reduction of both – number of employees and wages – was observed.

Employment

During the period of 2005–2007, the number of employed persons increased annually by 2.9 percent on average.

Along with the economic downturn, the situation in the labour market deteriorated considerably. In 2009, as compared with the 2008, along with the considerable decrease of labour demand, the number of employed aged 15–74 decreased by 12.2 percent.

The lowest point in the labour market was noticed in the first quarter of 2010, when employment was down to 916,000. In the next quarters of 2010, along with the gradual increase of economic activities, the situation in the labour market started to improve gradually. However, on average in 2010, the number of employed persons was still 4.6 percent lower than in 2009 because the increase of employment started from a very low point.

3.3.2 Labour force and unemployment

Activity rate decreased during the crisis

In 2010 the economic activity rate was 73.2 percent (population aged 15-64) and it fell by 0.7 percentage points below the previous year's value and 1.3 percentage points as compared to 2008. In 2010 the number of the economically inactive population increased by 2.8 percent.

In 2010, the decrease of the activity rate was observed in almost all age groups, except in the group of the 25–34 year-old.

The economically active population with higher (tertiary) education is increasing. In 2010, already 27.8 percent of the economically active population had higher education (in comparison – in 2004 – 26.8 percent). In 2010, the number of the economically active population with higher education increased by 1.7 percent, in comparison with 2008. The most considerable supply was in thematic groups of social sciences, commercial sciences and law. A considerable increase of the economically active population was also observed in education, health care and social welfare and services. Labour supply with higher education in the group of engineering, industry and construction, however, was considerably smaller in 2010 than in 2008.

The number of economically active people with secondary education in 2010, as compared to 2008, has decreased by 3.4 percent. Almost half of the people with secondary education have not attained certain specialty in any education institution. The most considerable decrease of economically active people in this period is related to a smaller labour supply of young people (15-24).

One of the highest unemployment rates in the EU

Rapid economic development of Latvia in the period of 2005–2007 positively influenced the situation on the labour market – employment grew, the unemployment rate decreased and the number of economically active persons increased. The unemployment rate decreased from 10.4 percent in 2004 to 6 percent in 2007 (age group 15-74).

The decrease of economic activities, which started at the end of 2007, was still weakly reflected in the employment indicators in the first half of 2008 because changes in the employment rate slightly lag behind the changes in economic activities, by 2–4 months on average.

At the beginning of 2009, the unemployment rate increased considerably. A decrease of job vacancies also illustrated the rapid drop in labour force demand.

According to the Labour Force Survey, the highest unemployment rate (20.5 percent of the economically active population) was registered at the beginning of 2010. Since then the unemployment rate has been decreasing and job vacancies have been increasing.

It is expected that the situation on the labour market will continue improving. However, the increase of employment will be moderate because growth will be based mainly on the increase of productivity.

Labour market shortages not significant

Labour market recession and decrease of employment applied to almost all sectors.

In 2009–2010, labour demand decreased most considerably in the group of medium qualification occupations, which was determined by the decrease of employed persons in construction where employment decreased by almost a half, and in manufacturing where employment decreased by one fourth. Also in the low qualification occupation group, changes were mainly determined by the decrease of employed persons in construction, manufacturing, and transport and communications.

Changes in high qualification occupations were mainly determined by the decrease of employed in trade and in public services. In the group of high qualification occupations the number of employed decreased more in 2010 than in 2009, as it was on average in the labour market. This was mainly determined by the budget consolidation activities which have been carried out in Latvia, implementing cumulative fiscal adjustment from 2008 to 2011 in the amount of 16.6 percent of GDP, including both

cutting down the expenditures and increasing revenues. In the course of consolidation, employment in the public services sector (state administration, education and health care) was reduced.

3.3.3 Challenges for the future

Political measures

In 2008, the Economic Stabilization and Growth Revival Programme of Latvia was adopted. It outlines the following strategic directions of the activities to overcome economic crisis:

- strict and stable monetary policy, which is based on a fixed exchange rate of the national currency against the euro. The government will implement all the necessary steps in order to fulfil the Maastricht convergence criteria, which would ensure introduction of the euro;
- strict fiscal policy;
- decrease the level of wages in the economy of Latvia so that it corresponds to the productivity;
- increase the efficiency of public administration;
- increase labour market flexibility by promoting retraining of unemployed and their returning in the labour market;
- improve competitiveness of the economy by concentrating the financing of the EU Structural Funds in order to increase support for export-capable sectors and infrastructure projects;
- reduce administrative burden on business;
- stabilization of the financial sector;
- maintain social security activities for diminishing of social tension.

The government will continue consistently to implement the programme for economic stabilisation of Latvia, which has helped to prevent insolvency of the country.

The quantitative objective set in the *National reform programme of Latvia for implementation of the “Europe 2020” strategy* is to reach an employment rate of 73 per cent in the age group of 20–64 by 2020. In order to reach the objective, policy directions are planned on both the labour demand side and labour supply side:

- Promotion of economic activities and business activities (policy directions for improving labour force demand):
 - reduction of undeclared employment;
 - direct and indirect support measures for entrepreneurs, int.al. EU funds;
 - activities to reduce administrative burdens;
 - business incubators, etc.

- Active labour market policy (policy directions for improving labour force supply):
 - lifelong learning;
 - wage subsidies (subsidized work places for unemployed, specially for disabled people and for young people);
 - consultations for unemployed in order to start their own business;
 - development of skills, etc.
- Promotion of supply and demand adjustment process:
 - improvement of education system;
 - development of labour market forecasting;
 - increase the motivation of employers in order to improve the education quality (praxis, involvement in development of education programmes, etc.);
 - development of interdisciplinary study programmes with the focus on development of entrepreneurship, etc.

Main future challenges for Latvia

- still relatively high unemployment rate;
- high share of long-term unemployed;
- demography, among other things: emigration.

Recovery will highly depend on developments abroad

The improvement of the economic situation is determined by the increase in export volumes and growth of tradable sectors. The main recovery risk to a great extent depends on global economic development and sufficiently efficient structural policy for improving economic competitiveness, particularly in the main export sector – manufacturing.

The considerable European sovereign debt crisis, the current economic situation in USA and uncertainty about future fiscal consolidation have forced several international institutions to reduce forecasts of the global economic growth for 2012 for many developed countries, including some of the main trading partner countries of Latvia. It means that future perspectives should be evaluated carefully.

3.4 Norway

3.4.1 Macro-economic developments

Strong economic growth 2006–2007

Norway experienced very high economic growth in the years before the financial crisis, with a peak in the GDP (mainland Norway) growth rate of 5.6 percent in 2007. The economic upswing started in 2004 after two years of economic growth just slightly above one percent. The upswing was broadly based but with a marked increase in private consumption and investments as the main driving forces. Petro-

leum investments, which declined following the low oil prices at the end of the 1990's, started to increase in 2003. They contributed significantly to the improvement of the economy. As a consequence, employment increased by 0.5 percent in 2004 after a decline of 1 percent in the previous year.

An important factor behind the high economic growth in the period from 2004 till 2007 was the high growth in private consumption. Increases in real wages, higher employment and the booming housing prices were the main reasons behind the increase. In addition, low interest rates abroad also helped keeping the interest rates in Norway down. This fuelled the economy to a larger extent than what in retrospect probably was optimal. All of these factors contributed to a positive economic development in household consumption.

The improvement of the global economy led to a sharp increase in the exports of traditional goods, especially in 2006 and 2007. Petroleum investments also increased rapidly in the years after 2002, with an annual growth rate as high as 18.8 percent in 2005. This had strong positive effects for other parts of the economy.

Rapid employment increase

Productivity, here defined as GDP (mainland Norway) divided by hours worked, increased markedly in 2003. After a decline in the growth rate in 2004, productivity increased by as much as 3.1 percent in 2005. In 2006 both employment and hours worked showed a marked increase, and although GDP grew by as much as 4.9 percent, this was not enough to prevent a decline in the growth compared to the previous year. In 2007 GDP increased by 5.6 percent, but with an increase in hours worked by 4.4 percent this meant a further decline in the productivity growth.

A moderate slowdown 2008–2010

Some early signals that an economic downturn was coming became evident late 2007 when housing prices started to fall. The deteriorating real estate market made housing investments decrease by 12.1 percent in 2008. The increase in household consumption was merely 1.6 percent compared to the increase of 5.4 percent in the previous year. The economic downturn internationally also weakened the development of the Norwegian economy, with exports of traditional goods increasing by only half as much in 2008 compared to the year before.

The financial crisis also led to large disturbances in the Norwegian credit and financial markets. Access to credit, however, did not become as tight in Norway as in many other countries. The main reasons for this were probably the low exposure of Norwegian banks to the U.S. bond markets and the fact that they had a relatively sound capitalization. Following the global downturn the exports of traditional goods declined by 8.1 percent in 2009. Investments in the mainland economy also had a sharp decline, but with strong fiscal measures and low interest rates the downturn was modest compared to other countries. Public and private consumption increased by 4.7 and 0.2 percent respectively. Growth in the petroleum investments also

helped and prevented economic activity from declining by more than 1.8 percent in 2009.

Hours worked declined more than employment

There was a decrease of 1.8 percent in hours worked and 0.5 percent in employment in 2009. A steeper decline in the number of hours worked in relation to the GDP made productivity grow by 0.2 percent in 2009, after having declined by 1 percent in the previous year. Since the number of employed persons had a smaller decrease than the number of hours worked, this shows that many companies in Norway were able to avoid lay-offs by reducing the number of hours worked. In 2010, productivity increased by 1.5 percent, which is lower than what is usually observed at the beginning of an economic upturn.

An uncertain future

Low growth in import prices relative to export prices has improved Norway's terms of trade since the turn of the century. This is one of the main reasons for the improvement of the Norwegian economy during the last decade. The relatively low decrease in the demand for commodities following the financial crisis is also an important reason for the modest decline in economic activity compared to other industrialized countries. With the exception of investments, all components of GDP increased in 2010. Economic growth accelerated in the second half of 2010 and first half of 2011. However, in mid-2011, unemployment has slowly started to rise again, and the economic situation in USA and Europe brings uncertainty also to the Norwegian economy and labour market.

3.4.2 Labour force and unemployment

Increasing labour market participation

Both the labour force and the population in Norway grew during the 2005–2008 period, but the labour force grew faster than the working age population (15–74 years), and hence the participation rate rose during these years. In 2008, 73.9 percent of the population between 15 and 74 years were in the labour force (LFS), which is the highest participation rate ever observed in Norway.

When the financial crisis started, the labour force stopped growing. From 2008 until 2009 the labour force was stable, while the working age population grew. This led to a fall in the participation rates from 73.9 to 72.8 percent. Young adults (15–24 years) had the largest decline in participation rates.

From 2009 till 2010 there was an increase in the labour force, but at a lower pace than the population growth. While the number of people in the labour force grew by about 10,000 persons, the population between 15 and 74 years grew by 60,000 persons which resulted in a further fall in the participation rates from 72.8 percent to 71.9 percent.

Population grows by net immigration

The main reason why the population growth is high is the net immigration, especially from Poland, the Baltic countries and Sweden. Although the net immigration fell from 2008 to 2009, it remained on a high level. In 2010, the net immigration was at 40,000 persons, which is on the same level as in 2008 when the net immigration was at its highest. In addition to this, the demographic changes in Norway also lead to an increase in the working age population. We expect that the population growth will remain high for the next years.

Net immigration avoids economic overheating

In 2007 unemployment reached its lowest level since 1987, when 2.5 percent of the labour force was unemployed according to the labour force survey. From 2004 till 2008 the unemployment rate fell every year, reaching the lowest level Norway had seen for the last 20 years.

One important reason for this was the high net immigration. Normally a strong economic upturn would lead to a high wage growth and inflation, and this would again lead to a higher interest rate and eventually unemployment would start to rise. This time, however, the high net immigration from Poland kept the wage growth relatively low, and this probably extended the economic upturn and made the unemployment rate lower than it would have been without the high net immigration.

Increasing unemployment

Unemployment was at its lowest in April 2008, and started to rise slowly during the summer. When the international financial crisis arrived in September 2008, the unemployment rate started to grow at a very rapid pace also in Norway. From September 2008 to September 2009 the registered unemployment rose by more than 60 percent, while unemployment according to LFS rose from 2.6 percent in 2008 to 3.6 percent in 2010.

It was especially among construction and manufacturing workers that there was a sharp increase in the unemployment rate. For construction workers in Norway unemployment tripled from 2008 till 2010, while the unemployment more than doubled for manufacturing workers and engineers during the same period. Because of this, men were hit harder by the financial crisis than women, since these occupations are dominated by men. Especially young men experienced a high increase in the unemployment rate. When it comes to regions, the south, southwest and eastern parts of Norway were hit the hardest, while the northern parts of Norway experienced a lower growth in the unemployment. Since the northern parts of Norway had the highest level of unemployment before the financial crisis, this means that the level of unemployment is now more evenly distributed between the regions.

Less labour market shortages

In Norway labour shortage has been a bigger problem than unemployment if we look at the last decade. During the economic upturn the estimated lack of labour in

Norway rose from 35,000 persons in 2005 to 100,000 in 2008. The lack of labour was especially high for skilled workers in the construction sector and manufacturing sector and for engineers and ICT-workers. During the financial crisis the lack of labour was reduced to half of what it was prior to the crisis, and was estimated to almost 45,000 in 2009. The lack of labour is now increasing again, but at a slow pace.

3.4.3 Challenges for the future

Norway overcame the crisis relatively well due to two main reasons. First, policy makers reacted adequately. And second, the structure of the Norwegian economy stabilized the development.

Monetary and fiscal policy responded to the crisis

The financial crisis in 2008 was immediately responded to with political measures in Norway. Firstly, the government introduced several measures to increase the liquidity in the bank sector. The interest rate in Norway was also quite high, but the Norwegian Central Bank quickly reduced the interest rate. In September 2008 the interest rate was at 5.75 percent in Norway, one year later it had fallen to 1.25 percent. The interest rate has a large impact on the Norwegian economy. One reason for this is that many households have debts, and very few of the households have a fixed interest rate. This means that lower interest rates immediately lead to changes in the household economy, which usually lead to higher private consumption. A lower interest rate could also lead to a weaker Norwegian krone (NOK), and this also happened during the financial crisis. It helped the Norwegian exports and manufacturing sector.

When the financial crisis arrived, the housing prices in Norway were already falling, but the situation for the construction sector got much worse during this period. The uncertainty made the households much more careful, resulting in an increase in savings and lower investments in houses and new homes. Although the interest rates fell quickly, the situation was still difficult in the construction sector, with a lot of layoffs. When the government implemented a range of fiscal measures to prevent a deep recession, a lot of the measures were targeted towards the construction sector. In total, the fiscal measures amounted to 20 billion NOK, which was equal to 0.75 percent of the 2008 GDP. Most of the fiscal measures were constituted by increased expenditure towards the construction sector, for example increased investments in infrastructure, and the renovation and building of new schools, etc. Of the 20 billion NOK, 16.75 billion were increased expenditure, while 3.25 were targeted tax relief for trade and industry.

Labour market policy measures expanded

In addition to this, the labour market measures were increased by 6,000 persons, and NAV (the Norwegian Labour and Welfare Organisation) received increased funding to handle the high inflow of jobseekers. There were also changes in the rules for temporary lay-offs, which reduced the firms' wage-costs and thus increased their competitiveness.

All in all, the measures carried out in Norway seem to have had a good effect on the labour market. As mentioned earlier, changes in the interest rates has a quite large and almost instant effect on the Norwegian economy, and the fact that the interest rate was high in the autumn of 2008 gave the Norwegian Central Bank the opportunity to cut the interest rate sharply. The fiscal measures introduced by the government also seem to have had a positive effect, especially for the construction sector.

Oil investments and public sector stabilized the economy

Another reason why the Norwegian economy wasn't hit as hard by the financial crisis as many other countries is the structure of the Norwegian economy. The public sector is large (more than 1/3 of the employed work there) and those employees did not lose their jobs. This was a stabilising factor in the economy. Furthermore, oil investments remained very high in 2008–2009. This also stabilised the economy and especially the manufacturing sector which experienced a smaller fall in production than in other countries.

Besides oil, Norway exports a lot of salmon and metals (aluminium etc). The price on these products increased sharply during 2009/10, and this led to an increase in exports and this benefitted Norwegian firms strongly.

3.5 Sweden

3.5.1 Macro-economic developments

Employment and GDP during the global economic crisis

The Swedish labor market was affected very strongly by the financial crisis of 2008-2009. In 2008, employment rose by 40,000 persons (annual average), but the gradual slowdown over the course of the year was very clear. In 2009, employment fell by 103,000 persons. The trend was therefore very rapid and it referred to all parts of the country aside from Stockholm County (metropolitan area). Industry-wise the hit to the manufacturing sector was the hardest: nearly two-thirds of the decline in employment were related to this industry (LFS (Statistics Sweden)).

In the second half of 2009 the decline in employment slowed down increasingly. From late 2009 to date, employment has risen by 170,000 persons (in a season and trend-adjusted series) compared to an decrease in employment by 130,000 between summer 2008 and late 2009. It should, however, be added that the working age population increased steadily throughout the period, which means that the relative employment rates have not reached the level that prevailed before the financial crisis of 2008-2009 – in spite of the above mentioned strong employment growth.

The gradual cooling of the labor market in 2008 is linked to the financial crisis and the resulting sharp slowdown in the Swedish economy. In 2008, GDP fell by 0.6 percent, followed by a fall of another 5.2 percent in 2009. The fall in seasonally adjusted growth during the last quarter of 2008 was very strong (-4.2 percent compared to the previous quarter) and the trend was clearly negative also during the first

quarter of 2009. Since then, growth has recovered and exhibited positive numbers every quarter since late 2009.

Record increase in employment in 2011

Developments in the labour market have been very strong since the demand for labour took an upward turn in autumn 2009. Employment has increased rapidly and unemployment has shrunk. However this fall in unemployment has been offset by a strong rise in the supply of labour, as more and more people have entered the labour market. The results of the Swedish Public Employment Service's (Arbetsförmedlingen) interviews of more than 10,000 private sector workplaces indicate that labour demand will improve through 2011 and 2012. In addition to this, the need for replacement recruitment is great, as many people will retire during this period. This will lead to increased employment and reduced unemployment in the coming years. Employment is predicted to undergo a record increase during 2011, an estimated rise of 105,000 people. The rate of increase will then drop to 60,000 people in 2012. Unemployment will slide from 8.4 percent in 2010 to 7.5 percent in 2011 and to 6.7 percent in 2012.

The labour market indicators have, however, slackened from a high level, which points towards a gradual deceleration in the rate of increase in employment. There is a slowing trend in the increase in the number of new job vacancies registered with The Swedish Public Employment Service, while the increase in employment also checked somewhat during March and April 2011 compared with the preceding months. However, unemployment continues to fall at a relatively good speed, which has to do with the reduction in the increase of the supply of labour.

Strong but fading growth globally

The positive development in the labour market is partly a consequence of the marked strengthening of the global boom in 2010. Global GDP growth reached a healthy 5.0 percent in 2010, which should be seen against a 0.5 percent weakening in 2009. Some indicators point to a moderate activity in the world economy in 2011 and 2012. Certain elements of uncertainty have now been dispelled. All economists agree that the natural disaster in Japan, followed by the malfunction of several nuclear reactors, will have no more than a limited effect on the world economy. And the uncertainty surrounding events in North Africa has diminished, at least for the time being.

What will hold back growth in the coming years is the imbalance problem in the U.S. economy, which will bring about a more restrictive economic policy. Nonetheless it is anticipated that the adjustment will take place with a relatively healthy economic expansion, driven by good export expansion. The growth nations, with China at the forefront, are facing a battle with inflation which means that the governments will do their best to dampen GDP growth. However, the major uncertainties lie in Europe once more. Growth within the EU continues to be buoyed by strong development in Germany and the Nordic countries. On the other hand, major financial problems

remain in Ireland and most of the Mediterranean countries. There is great uncertainty as to whether the emergency loans to Ireland, Portugal and Greece will be sufficient, the uncertainty being greatest in Greece for the moment. To this we may add the risk that even Spain may need emergency loans. Despite everything the global economy is anticipated to grow by almost 4.5 percent in 2011 and 2012, and as previously the growth nations will fuel this trend.

GDP to increase by 4.8 percent in 2011

The Swedish economy is undergoing a period of strong growth. During the last year GDP grew by as much as 5.7 percent. This means the fall in production from the financial crisis at the end of 2008 had bounced back during the fourth quarter of 2010. However, the rate of increase has weakened during the fourth quarter of 2010 and the first quarter of 2011. Between the fourth quarter of 2010 and the first quarter of 2011 GDP increased by 3.3 percent, calendar adjusted and annualised. The predictive indicators have also weakened although at a very high level, suggesting that GDP growth has entered a slower phase. Hence, in spite of everything, GDP is expected to grow by a healthy 4.8 percent in 2011 and by 2.9 percent in 2012.

There will be a broad overall expansion underlying the strong growth in the country during 2011 and 2012. Private consumption is anticipated to expand strongly in the next few years, despite a weak increase during the first quarter of 2011. This is a consequence of a high increase in household income. In addition, the investment boom will be further reinforced by rising investment within industry and a continued increase in property investment. Exports will fall back slightly while remaining strong, though the contribution of exports to GDP will be offset by high imports. Public consumption is forecast to climb slowly during 2011 and 2012.

Almost 170,000 more people employed in two years

Employment began to climb at the end of 2009 and since then it has risen steadily. Up to April employment rose by almost 150,000 people, which means that the drop in employment which was experienced as a consequence of the financial crisis of autumn 2008 had been redressed by the end of 2010. Relative to the overall population, however, the number of people (aged between 16 and 64) employed continues to be lower than it was before the financial crisis. This stems from a marked increase in the active population. Nevertheless, there are signs that the increase in employment tailed off during March and April 2011, and this development tallies with the development of new job vacancies registered with the Swedish Public Employment Service centres around the country. The labour market indicators predict a somewhat weaker increase in overall employment. In spite of this it is forecast that employment will rise by 105,000 during 2011, which would be the biggest rise in employment the Labour Force Survey had ever recorded. The forecast increase in employment in 2012 is 60,000.

Major differences in employment opportunities for men and women

Viewed across the whole recovery period, men have made up a larger proportion of the increase in employment than women, around 60 percent. When employment began to rise at the end of 2009 it was only men's employment which rose, and during 2010 men's employment continued to increase more rapidly than women's. The development described led to the difference between the employment ratio for men and women in the autumn of 2010 being at its greatest since the mid-eighties. The unemployment gap will probably narrow to some extent but this will depend greatly on the labour market developments regarding women born abroad.

Employment relative to the population aged between 16 and 64 has grown slowly for those born outside Sweden and in particular for those born outside Europe. This is related to a big increase in the number of people in the population born outside Europe and to the fact that employment among women in this group has increased slowly relative to men in that group. The difference in the employment ratio is now very high between women born in Sweden and women born outside Europe. Nevertheless everything points to the positive development in the labour market in the coming years favouring those born abroad. Moreover the labour force shortage will gradually increase, which suggests that the employment gap between those born in Sweden and those born abroad will narrow during 2011 and 2012.

The employment ratio has improved for all ages and this development will continue during 2011 and 2012. One group which always benefits when the demand for labour goes up is young people. Percentage-wise, young people between the ages of 20 and 24 increased their employment ratio most during the first four months in the year, compared with the equivalent period in 2010, but the increase was also significant for the age group 25 to 34. In 2011 and 2012 people in these age groups will also find it relatively easy to find work provided they have an education equivalent to at least upper-secondary school level.

Employment by sector

The demand for services which are provided by the private sector has increased at a good pace, even if the result in the autumn of 2010 was worse than that anticipated by the companies. Optimism for the coming year continues, nonetheless, to be strong. The best results have been for those companies selling services to other companies. I.T. consultants are doing well and anticipate activity to expand even faster. Contract/consultancy work has expanded greatly and is expected to grow even more in the next year. The staffing sector is particularly healthy. Commerce has had a downswing but sales are expected to do well going forward. The hotel and catering industry has prospered and another good year is awaited. The transport industry is benefitting from increased activity in construction, strong private consumption and continued healthy exports. The number of people employed within the private service sector is forecast to increase by 60,000 in 2011 and by 40,000 in 2012.

The manufacturing industry has been in a boom during recent year and businesses are very positive about the near future. Employment is rising and for the first time since 1998 employment in the manufacturing industry is on the rise. Moreover, the figures are below reality, as it has become increasingly common to use staffing companies. Most indications are that the increase in activity will fall back somewhat from a very high level, as a consequence of the slowdown in the growth of global trade. For 2011 and 2012 it is forecast that employment will increase by 10,000 and 5,000 people respectively. We would have to go back to the mid-nineties to find a bigger increase in employment in the industrial sector.

The construction boom has been further strengthened and businesses believe that things will only get better. This is based on increased home construction and a strong expansion in reconstruction/extension work, where ROT tax deductions play a big role. In the coming year housing construction will continue to expand while the "ROT" sector (repairs, reconstruction and extension) will be checked at a high level. Employment has increased and will continue to do so with a combined addition of 10,000 people over the period 2010–2012.

For Sweden's municipalities and counties 2011 looks like being yet another strong year in terms of finances, but 2012 will be tougher as the temporary support for the municipalities is phased out. The municipalities are planning contraction in the schools due to, among other things, significantly reduced student numbers in the upper-secondary schools, while a continued expansion of child care is planned. The principal contraction for the county councils will be within primary health care, as a result of outsourcing to private contractors. The municipalities and the county councils estimate that the number of people they employ will be somewhat smaller in 2012, while the number of people working in the public service sector and employed by a private contractor will continue to increase though 2011 and 2012. Today 20 percent of those working for the municipalities, corresponding to 255,000 people, are employed by private contractors. Employment within the public service sector, including private contractors, is forecast to rise by 30,000 in 2011 and by 10,000 in 2012.

3.5.2 Labour force and unemployment

The rise in the labour force slackens in 2011 and 2012

The supply of labour (unemployed plus employed) has increased much beyond expectation in 2010 and the beginning of 2011. During the months of March and April 2011, however, there have been signs that the rate of increase has begun to decelerate. The growth in the labour force is dependent on two factors, the population effect and the propensity to participate in working life. The population effect on the labour force is becoming increasingly limited and will be dependent in coming years completely on the size of the contribution of those not born in Sweden. The supply of labour is also influenced to an increasing degree by whether more people choose to participate in working life and those choosing to do so will have a significant im-

pact in both 2011 and 2012. There are clear signs that the policy of increasing supply has had the desired effect. There is, for example, a continual transfer from the Swedish Social Insurance Agency (Försäkringskassan) to the Swedish Public Employment Service and the Earned Income Tax Credit system (jobbskatteavdraget) may also have had a stimulating effect on people seeking work. Moreover, a healthy labour market always brings more people into it, as more people choose to work rather than, for example, study. It is forecast that the labour force will increase by 65,000 people in 2011 and by 25,000 in 2012.

Unemployment in the years 2008 to 2012

Viewed as a full-year average, the unemployment rate remained unchanged in 2008. But in spring and during the remainder of the year, unemployment rose gradually (in a season- and trend-adjusted series). In 2009, unemployment increased by 2.2 percentage points to 8.4 percent of the labour force. Since late 2009, unemployment has fallen by almost 1.5 percentage points.

The drop in unemployment has so far been offset by the rapid increase in the supply of labour, an effect which will, however, dwindle in 2011. Average unemployment is forecast to fall from 8.4 percent in 2010 to 7.5 percent in 2011 and then to 6.7 percent in 2012. This means that the unemployment total will fall from 410,000 in 2010 to 365,000 in 2011 and to 330,000 in 2012.

The number of people in labour market programmes increased sharply between 2009 and 2010, from 125,000 to 185,000. The forecast numbers for 2011 and 2012 are 180,000 and 160,000 respectively. This is equivalent respectively to 3.6 and 3.2 percent of the labour force.

3.5.3 Challenges for the future

The very clear post-crisis recovery in the Swedish labour market and economy was to a large extent due to international causes and to Swedish public finances having been very strong. Furthermore, extensive efforts to mitigate the effects of the crisis both internationally and domestically were launched. The domestic measures include sharp reductions in the Riksbank repo rate and a very powerful aid to local municipalities and counties.

Biggest challenges during a boom

Regardless of the strong development of the labour market in the coming years, the challenges facing the Swedish Public Employment Service will be greater than ever when compared with similar economic situations in the past.

The labour shortage will worsen within more and more sectors and in every region. Hence within certain occupations it will become more and more difficult to find the workers that employers want to take on, especially during 2012. This is when the generation shift will be at its peak. Retirement numbers will be high in many regions at the same time as the new entries onto the labour market are at a low. Within

more and more municipalities, therefore, the supply of labour will fall, making it more difficult to increase the number of people in work.

The most serious recruitment problems are anticipated in the following fields:

- Jobs in IT and technology
- Jobs in building and construction
- Qualified professionals in the manufacturing industry
- Certain jobs in transport, sales and consultancy
- jobs requiring a tertiary degree in the fields of health and medical care
- Certain teaching jobs

The labour shortage in the private sector is forecast to increase within construction, IT and technology and in manufacturing industries requiring highly qualified personnel. In these areas of shortage, recruitment problems are expected to increase during 2011 and cause major disruption within the recruitment during 2012. The number of people entering those professions where the demand is highest is too small for a continued rapid expansion to be possible in 2012. There is no quick fix within the country that would increase the supply of labour in these fields, given the current education and training picture. The one plan of action leading to an increased supply of labour is to bring in labour from other countries. The Swedish Public Employment Service can play an important role here. There is currently a functioning collaboration within Eures¹ but there is also a need to develop collaboration with countries outside the EU. For example, there is an unexploited labour pool in North Africa and parts of Asia.

There is still nothing in our interview survey to suggest that the labour shortage will bring a general upward pressure on wages. The only sector which has signalled an upward pressure on wages due to the shortage of labour is the IT sector.

Difficulties for large groups to find jobs

The supply-based policy aimed at ensuring the long-term supply of labour has brought about a large increase in the available supply of labour but it has also led to an increase in the number of people in groups which find it difficult to find work. The number of people in these groups has increased much more than usually due to, among other things, a major influx of people born abroad and the transfer of people from the social insurance system. The following groups will have continued difficulty in establishing themselves in the labour market:

- Young people with insufficient training/education
- People born outside Sweden, in particular outside Europe (women)
- People with disabilities affecting their ability to work
- Unemployed people between ages 55 - 64
- People whose education ceased before upper-secondary level

There is a large number of unemployed people who, in spite of the better climate, will find it difficult to get work - approximately 225,000 people belong to the groups mentioned above. Thus, the people in these groups make up nearly 60 percent of all those unemployed or taking part in a labour market programme. This ratio is expected to increase over the coming years and possibly to exceed two-thirds in 2012. It will probably be the highest ratio since the 1980's.

One common denominator for members of these groups is that many do not have an education to upper-secondary level. This level of education is commonly a requirement of employment, as it is for various types of further education and training. This lack of education to a sufficient level means that people encounter serious trouble finding a way into further training and education or a way into working life and long-term employment. Over a period of three years the number of people with only basic schooling who were without work has almost doubled reaching a level of close to 110,000 people. Almost half this increase is composed of people born outside Sweden.

Groups of young people find it difficult in working life

Many youngsters encounter problematic factors which have an effect on their chances of finding work. One factor already mentioned is their educational background. A large number of young people leave the upper secondary school each year without successfully completing courses or examinations. In addition to the fact that some young people complete education which does not lead to work this means that many find it difficult to enter working life.

Of those young people who were unemployed or participated in a labour market programme in April 2011 almost 20,000 had no more than a lower-secondary school education. In addition to this 11,000 young people with upper-secondary level education had not been in work for two years since they entered the labour market. These groups of young people must be given extra support. A first step should be to carry out a deeper analysis of their situation and the next step should be to find appropriate individually adapted solutions to their problems in order to enable their entering on the labour market. For example the group made up of young people with dyslexia figures prominently among those who have not successfully completed upper-secondary school education. Otherwise these groups are at risk of facing long-term exclusion.

People born abroad with only basic schooling are hit hard

The large-scale immigration of people born abroad has had a powerful effect, in that there are more unemployed people and people in labour market programmes and about 40 percent of them have a short and incomplete education. The proportion who have the equivalent of at best lower-secondary education more than doubled between spring 2007 and spring 2011 comprising 35 percent of the labour force or nearly 50,000 people. This rise has, in recent years, been significantly stronger for women than for men. Women born abroad with only a very basic education consti-

tute the group which has lost ground the most, compared with other groups on the labour market.

More and more disabled not in work

There has been a major upswing in the number of unemployed people who have disabilities which affect their ability to work and many of these people have subsequently been passed on to programmes with Activity Benefit (aktivitetsstöd), primarily to the job and development guarantee programme. The number of disabled people in subsidised posts has not changed to any great extent in this time. In addition, many disabled people in the job and development guarantee programme may well pass to phase 3 during the coming years.¹

The most of jobs in metropolitan counties

Employment will increase in every county in both 2011 and 2012. The three metropolitan counties - Stockholm, Västra Götaland and Skåne – will provide a large proportion of the increased employment nationwide, over 60 percent in 2011. This is because these counties have a large private service sector combined with a strong expansion of industry in general. This means that the other counties are not keeping up, and indeed are losing ground, relative to the proportion of the population that lives there.

The industrial counties have made a strong recovery over the last year. A clear example is Västra Götaland. But also several other industrial counties in south and central Sweden, for example parts of Småland, jumped on the economic bandwagon. These counties will also see good growth in employment in 2011. In 2012 the acceleration will slacken off, due to weaker demand from abroad, and also because the availability of labour within some key professions may slow the expansion. In the counties of the Norrland region considerably more jobs are arriving on the market and optimism in several areas of this northern region is greater than for many a year. However, this development is forecast to be weaker in the southern counties of the Norrland region, Gävleborg, Västernorrland and Jämtland, than in the most northerly counties, Västerbotten and Norrbotten.

The recruitment situation around Sweden will be more and more influenced by a large proportion of retirements, at the same time as new arrivals on the labour market declined each year going forward. This will bring about a squeeze on recruitment in more and more counties. It will be a major challenge to maintain the level of employment in many municipalities as the supply of labour falls.

¹ The third phase is the final stage in the "job and development guarantee". It aims to support the transition to work as the participant receives training at a workplace that will provide new experiences, qualifications and references.

Appendix 1: National data

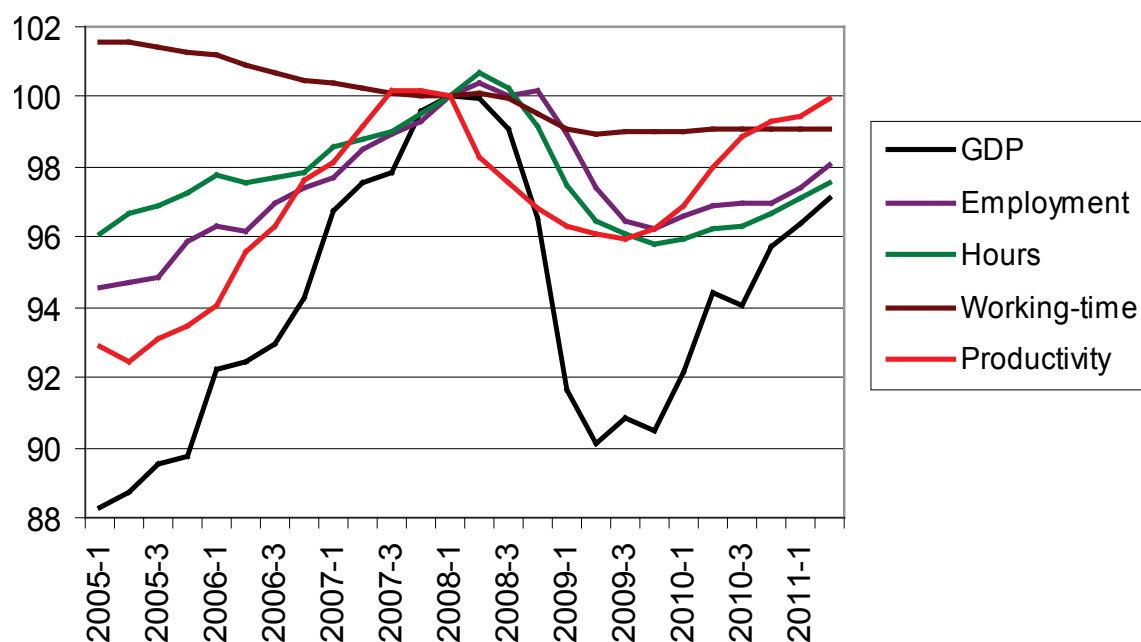
Finland

Table F1: Production and the labour market in Finland, 2005-2010

		2005	2006	2007	2008	2009	2010
yearly rates (percent)	GDP	2.9	4.4	5.3	1.0	-8.2	3.6
	productivity per hour	2.0	2.9	3.2	-0.5	-3.9	.
	total hours	0.9	1.4	2.0	1.5	-4.6	-0.2
	working-time	-0.4	-0.4	-0.1	-1.0	-1.1	1.2
	employment	1.4	1.8	2.2	2.6	-3.5	-1.4
absolute figures	labour force, 1000 p	2620	2648	2675	2703	2678	2672
	employment, 1000 p	2401	2444	2492	2531	2457	2447
	unemployment 1000 p	220	204	183	172	221	224
	unemployment rate,%	8.4	7.7	6.9	6.4	8.2	8.4

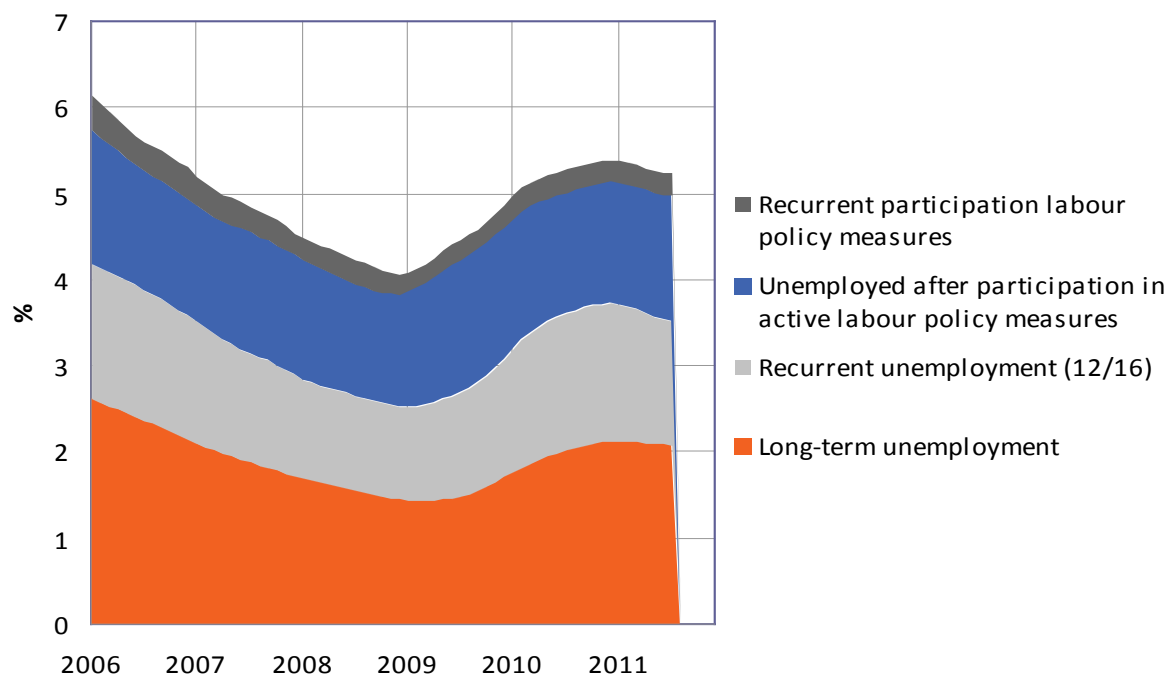
Sources: Yearly rates are based on the national accounting, absolute figures are from LFS

Figure F1: Macro-economic dynamics in Finland, 2005-2011



Notes and Sources: Index 2008/Q1=100; quarterly, seasonally adjusted. The graphs describe the business cycle of some main economic macro-indicators based on quarterly data (2008/I = 100). Employment input data refers on LFS. Productivity is estimated from worked hours according to LFS and respective advance information on GDP. Working-time refers to the total average worked hours of an employed person.

Figure F2: Structural unemployment in Finland, 2006-2011



Source: Finnish LFS.

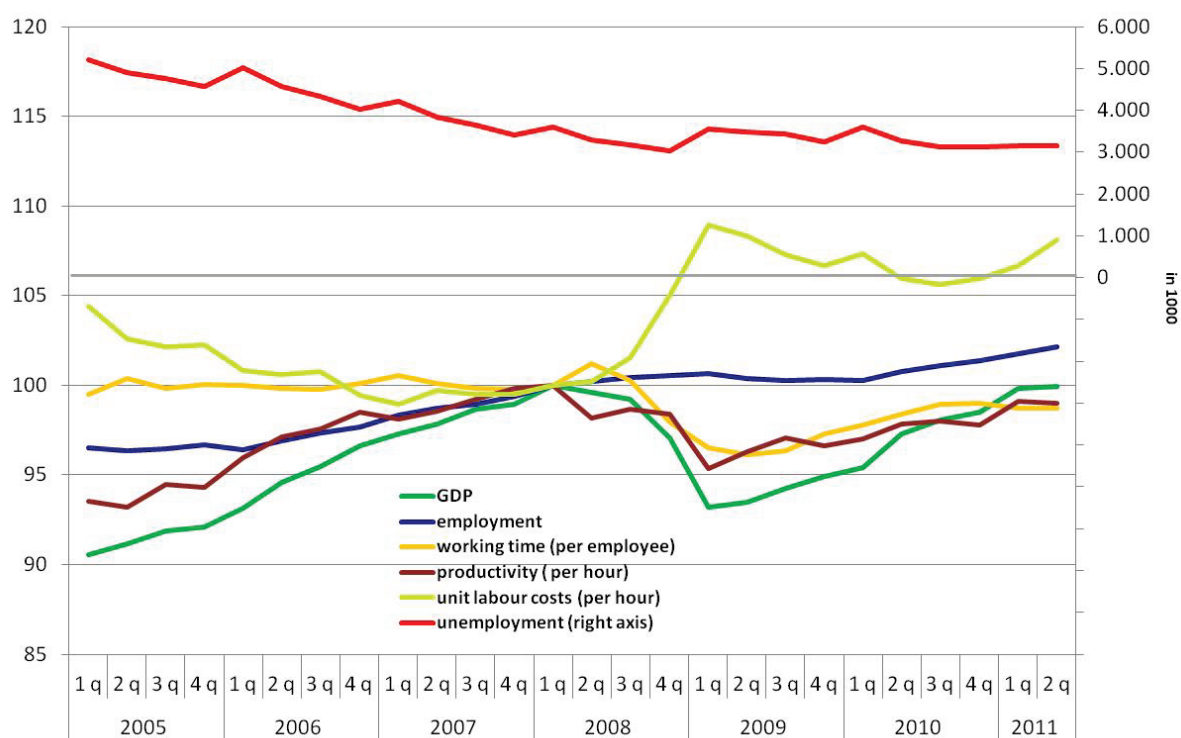
Germany

Table G1: Production and the labour market in Germany, 2005-2010

		2005	2006	2007	2008	2009	2010
yearly rates (percent)	GDP	0.7	3.7	3.3	1.1	-5.1	3.7
	productivity per hour	1.2	3.6	1.7	-0.1	-2.5	1.4
	total hours	-0.5	0.1	1.6	1.2	2.7	2.3
	working time	-0.4	-0.5	-0.1	0.0	-2.7	1.8
	employment	-0.1	0.6	1.7	1.2	0.0	0.5
absolute figures	labour force, 1000 p	44840	44988	44839	44811	44842	44806
	employment, 1000 p	38976	39192	39857	40345	40362	40553
	unemployment 1000 p	4861	4487	3760	3258	3415	3238
	unemployment rate, %	11.7	10.8	9.0	7.8	8.2	7.7

Sources: Federal Statistical Office, Federal Employment Agency, IAB.

Figure G1: Macro-economic dynamics in Germany, 2005-2011



Notes and Sources: Index 2008/Q1=100; quarterly, seasonally adjusted. Federal Statistical Office, Federal Employment Agency, IAB.

Latvia

Table L1: Production and the labour market in Latvia, 2005-2010

		2005	2006	2007	2008	2009	2010
yearly rates (percent)	real GDP growth rate	10.1	11.2	9.6	-3.3	-17.7	-0.3
	productivity per hour	7.1	8.0	7.5	-0.9	-2.7	5.5
	total hours (hours worked during the year)		5.0	6.9	-2.3	-22.4	-8.9
	working-time (average number of usual weekly hours of work in main job)		0.5	-1.7	-1.5	-2.0	-1.3
	employment (15-64)	1.3	4.6	2.7	0.1	-11.4	-3.6
absolute figures	labour force (economically active people 15-74), thsd	1135.6	1167.5	1191.1	1215.8	1187.4	1157.0
	labour force (economically active people 15-64), thsd	1101.3	1126.1	1146.6	1167.5	1152.7	1133.9
	unemployment (15-64), thsd	100.5	78.8	71.1	91.3	199.6	215.1
	working-time (average number of usual weekly hours of work in main job)	41.2	41.4	40.7	40.1	39.3	38.8
	employment rate (15-64), %	63.3	66.3	68.3	68.6	60.9	59.3

Sources: Central Statistical Bureau of Latvia, Eurostat

Norway

Table N1: The macro-economic development in Norway, 2005-2010

		2005	2006	2007	2008	2009	2010
yearly rates (percent)	GDP(mainland Norway)	4.6	4.9	5.6	1.8	-1.8	2.1
	productivity per hour	2.4	2.3	0.9	-1.6	-0.2	0.4
	total hours	1.4	3.2	4.4	3.5	-1.8	0.5
	working-time (total hours/employees)	0.2	-0.4	0.4	0.2	-1.4	0.8
	employment	1.2	3.6	4.1	3.2	-0.5	-0.2
absolute figures	labour force participation rate (%)	72.4	72.0	72.8	73.9	72.8	71.9
	unemployment rate (%)	4.6	3.4	2.5	2.6	3.2	3.6

Source: Statistics Norway.

Sweden

Table S1: Selected indicators on the development of the macro-economy in Sweden, 2005-2012

	Change in %							
	2005	2006	2007	2008	2009	2010	2011	2012
GDP, at market price	3.2	4.3	3.3	-0.6	-5.3	5.7	4.8	2.9
GDP, calendar adjusted	3.1	4.5	3.5	-0.8	-5.2	5.5	4.8	3.2
Hours worked	0.2	1.3	3.1	1.2	-2.9	2.5	2.5	2.1
Hours worked, calendar adjusted	0.2	2.0	3.4	0.6	-2.6	1.9	2.6	1.3
Productivity growth	2.9	2.5	0.1	-1.6	-2.6	3.6	2.2	1.9
Inflation, annual mean	1.1	1.4	1.5	2.7	1.7	2.0	1.7	1.8
Hourly wage	3.1	3.1	3.3	4.3	3.4	2.6	2.8	3.3
Household real disposable income	2.1	3.8	5.4	3.2	1.6	1.4	2.3	3.1
Private consumption	2.8	2.7	3.7	0.0	-0.4	3.4	2.9	3.1
Savings ratio, incl. collectively agreed occupational pensions	5.5	6.6	8.8	11.2	12.9	10.8	10.3	10.3

Source: Statistics Sweden (SCB), Swedish Public Employment Service (Arbetsförmedlingen)

Table S2: Key figures of the Swedish labour market, 2007-2012

	People (1,000's)						Change (1,000's / percent)					
	Actual				Forecast		Actual				Forecast	
	2007	2008	2009	2010	2011	2012	2007	2008	2009	2010	2011	2012
Labour force	4736	4778	4782	4838	4902	4929	65	42	4	56	64	27
In employment	4445	4484	4381	4429	4536	4597	104	40	-103	49	107	61
Unemployed	292	294	401	409	366	332	-39	2	108	8	-43	-34
Percentage of labour force	6.2	6.1	8.4	8.4	7.5	6.7	-0.9	0.0	2.2	0.1	-1.0	-0.7
In labour market programmes	88	87	127	185	178	160	-51	-1	40	58	-7	-18
Percentage of labour force	1.9	1.8	2.7	3.8	3.6	3.2	-1.1	0.0	0.8	1.2	-0.2	-0.4

Source: Statistics Sweden (SCB), Swedish Public Employment Service (Arbetsförmedlingen)

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