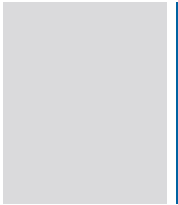


CEDEFOP Experts Meeting

“A short-term sector-based anticipatory system for labour market trends”



Facing upcoming skill shortages in Germany: current topics in labour market forecasting

Thomas Knetsch (Deutsche Bundesbank, Economics Department)

Brussels, 18 April 2013

Overview

1) Characteristics of the German labour market at the current juncture

- High labour demand
- Improved matching processes
- Flat or even shrinking labour supply



“reform dividends”

“demographic burden”

→ Signs of labour shortages emerging in this upswing, albeit not broad-based.

2) Perspectives for the potential labour force in Germany

- Migration
- Labour force participation
- Working time
- Education and skills accumulation

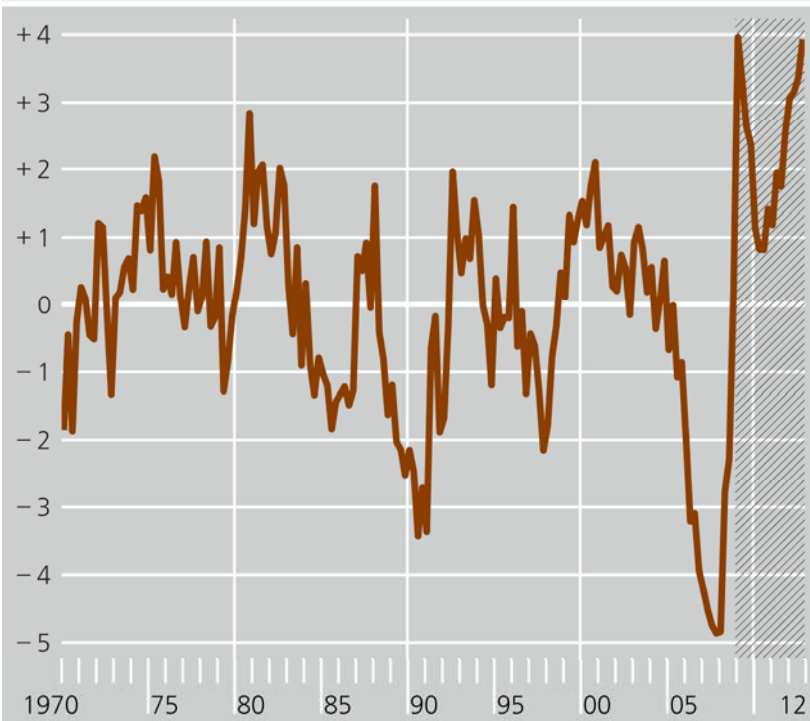
[not addressed in this presentation]

Characteristics of the German labour market at the current juncture

Structural shift in labour demand: Result of previous wage moderation and more input flexibility

Long-run residual of labour demand equation

in per cent, quarterly data



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26 Mrz 2013, 09:53:42, Vo3PR0147.Chart

– Labour demand structurally lifted by ...

- previous period of wage moderation,
- reduced staff planning risks induced by more flexible labour arrangements at the company level and deregulation of fixed-term and temporary employment.

– Empirical labour market model:

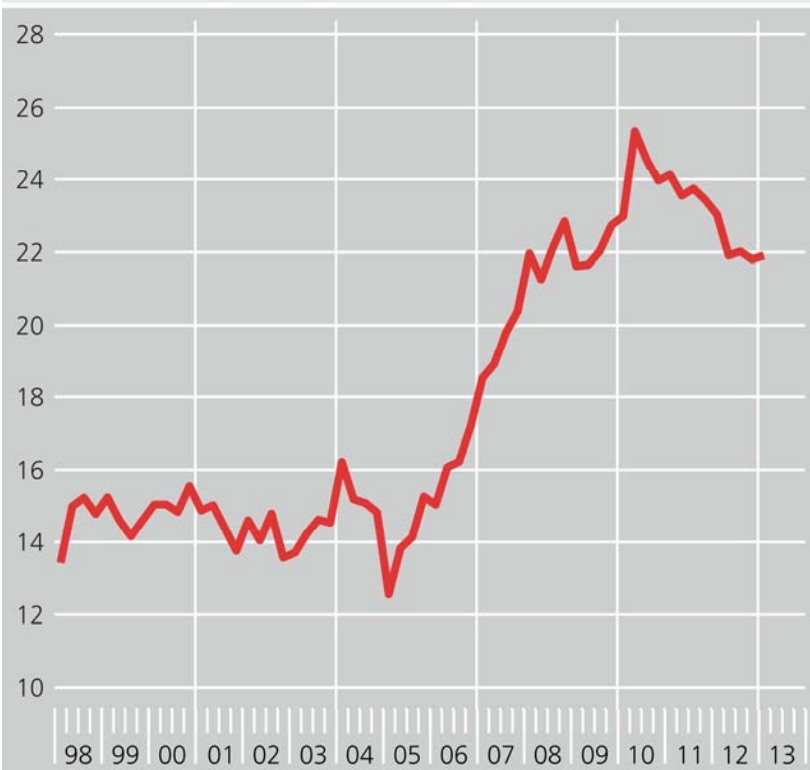
- Vector error correction model for **hours worked, real output and real wage costs**, ...
- ... with long-run equilibrium relationship specified as **labour demand function**.
- Clustering of **large long-run residuals** since 2009, with no regular mean reversion.
- In addition, evidence for **end-of-sample structural break**.
- Simulation conditional on realised GDP path shows actual hours worked significantly higher than simulated series since mid-2009.

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Strengthened activation of unemployment and improved labour market matching

Monthly exit rate from unemployment

in %, seasonally adjusted, quarterly averages

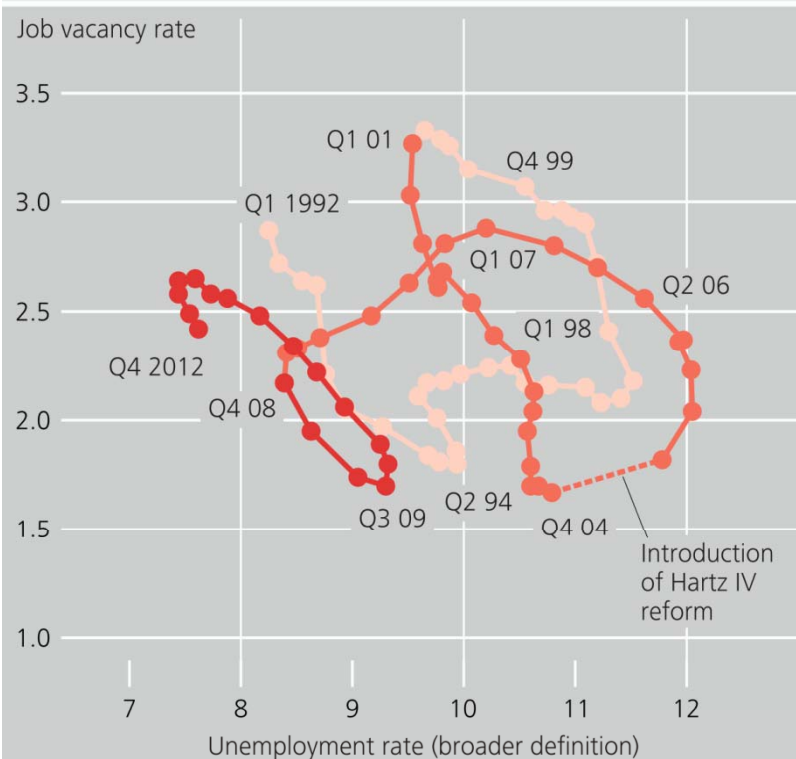


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8 Apr 2013, 16:00:08, Vo3PR0022.Chart

Beveridge curve

as a percentage



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16 Apr 2013, 09:12:02, Vo3PR0046.Chart

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Short-term labour shortages: Evidence from business surveys (Ifo and DIHK)

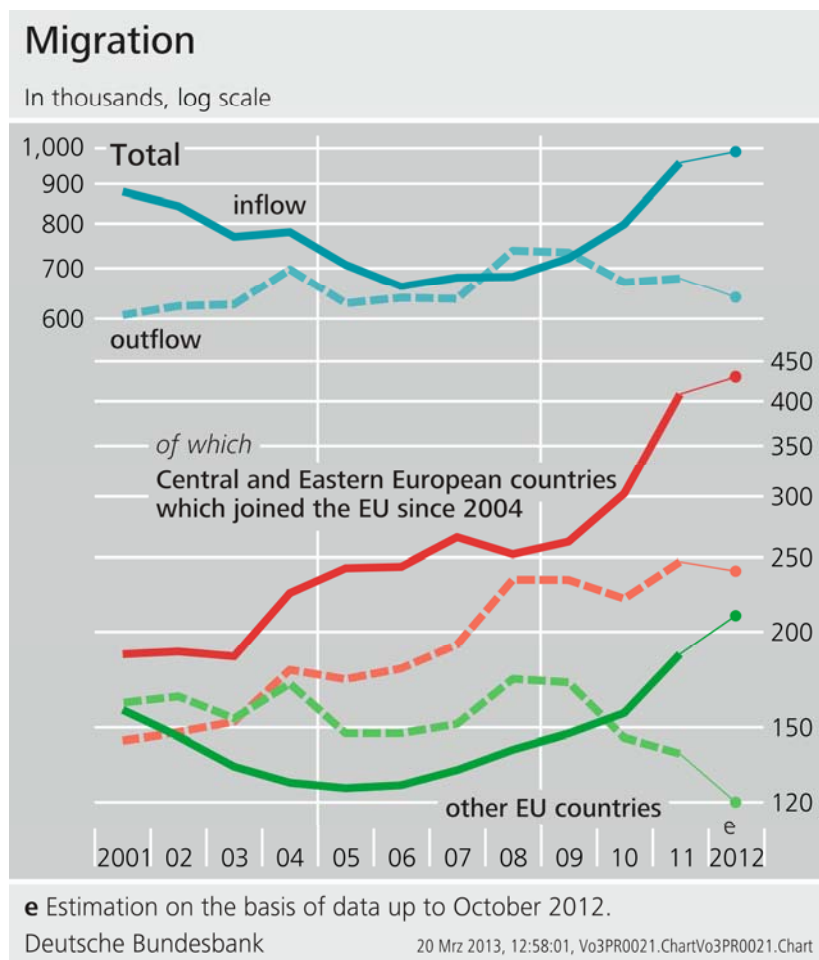


- **Labour supply bottlenecks in this (currently interrupted) upswing more important than in previous cycle.**
 - However, not a broad-based dominant impediment to the output expansion so far.
- **In industry, cyclical relief from partially tensed labour supply conditions less strong compared with significant decline in capacity utilisation.**
 - In early 2013, somewhat relevant in electrical equipment (11%) and metal-working (10%), while relaxed in chemical and car industries.
 - In this upswing, highest proportions have been reported in 2011 for machine-building and metal-working (>20%).
- **According to the German Chamber of Commerce and Industry (DIHK), parts of the services sector even more affected than industry (e.g. IT services, health care).**

Perspectives for the potential labour force in Germany

Migration:

Strongly rising inflows, decreasing outflows to the EMU periphery



– **Inflow of migrants strongly risen in recent years.**

- 990 000 persons in 2012, highest figure since 1996, two-fifths larger than 2006-08 average.

– **Outflows comparatively stable overall.**

- However, outflows to parts of the EMU periphery significantly declining.

– **Migration surplus thus increased substantially in the last three years.**

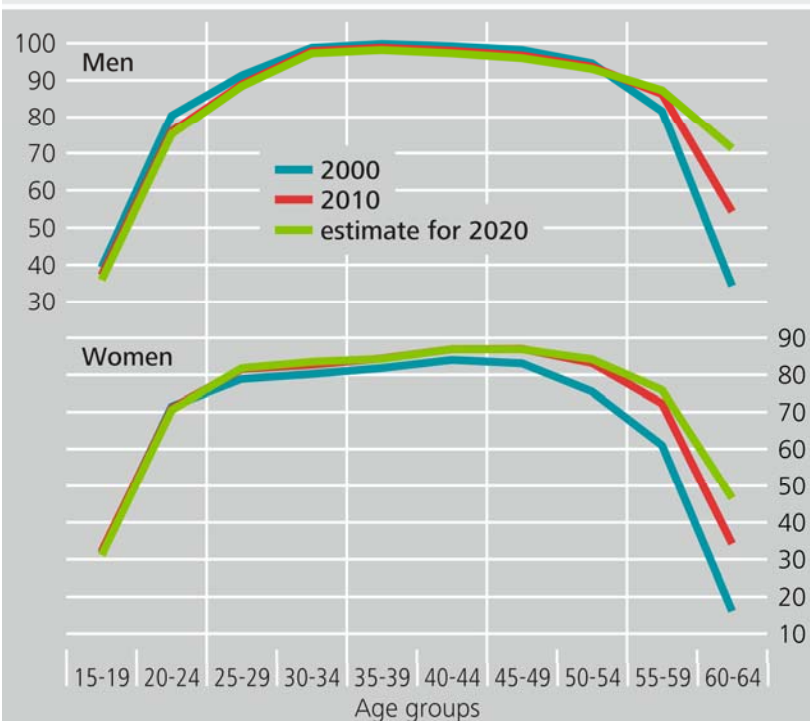
- Net inflows +130 000 in 2010, +280 000 in 2011 and +350 000 in 2012.
- EU 8 (granting free movement of employees in May 2011) contributed one-third.
- One-fifth from Romania/Bulgaria (still restrictions).
- Southern EMU contributed one-fifth in 2012, with net inflows rising from a balanced position three years ago.

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Labour force participation: Significant improvement among women and older persons

Labour market participation by gender and age

As a percentage of resident population



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27 Aug 2012, 12:57:26, Vo3PR0098.Chart

– **Labour force participation increased steadily from 71% in 2000 to 77% in 2011.**

- Participation of people at the age between 60 and 64 rose from 21½% (2000) to 47% (2011), due partly to the suspension of early retirement schemes.
- In addition, female participation has increased, supported by improving the supply of childcare in recent years.

– **Labour market reserves in the domestic working-age population still existing.**

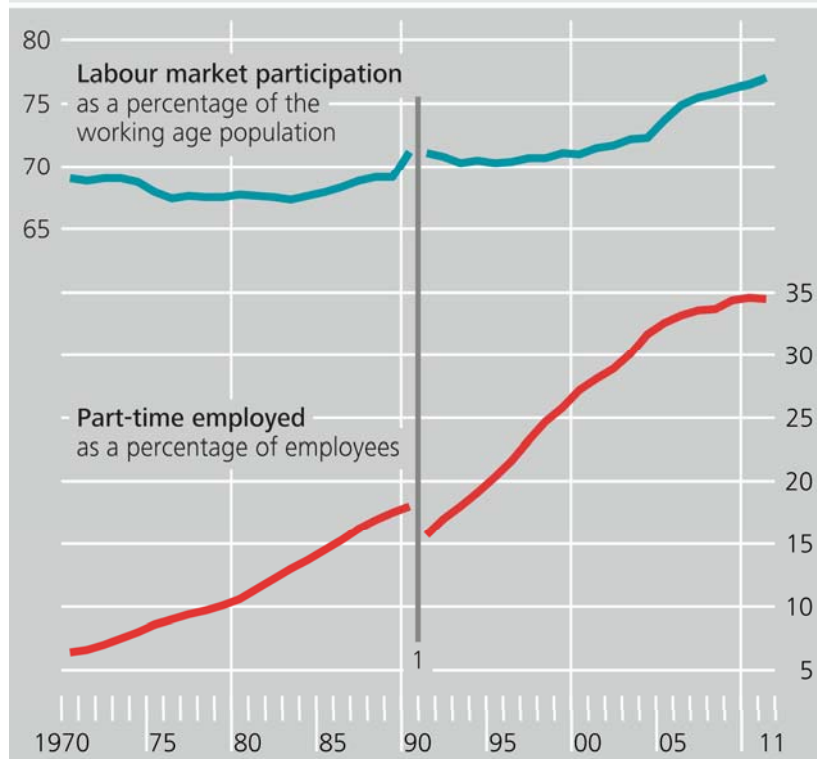
- In particular, among older persons and prime-age women.

– **However, aggregate labour force participation will rise only marginally due to a negative cohort effect.**

- Babyboomer generation advance to age characterised by still relatively low participation.

Labour force participation and part-time work: Long-run comovement

Participation and part-time work



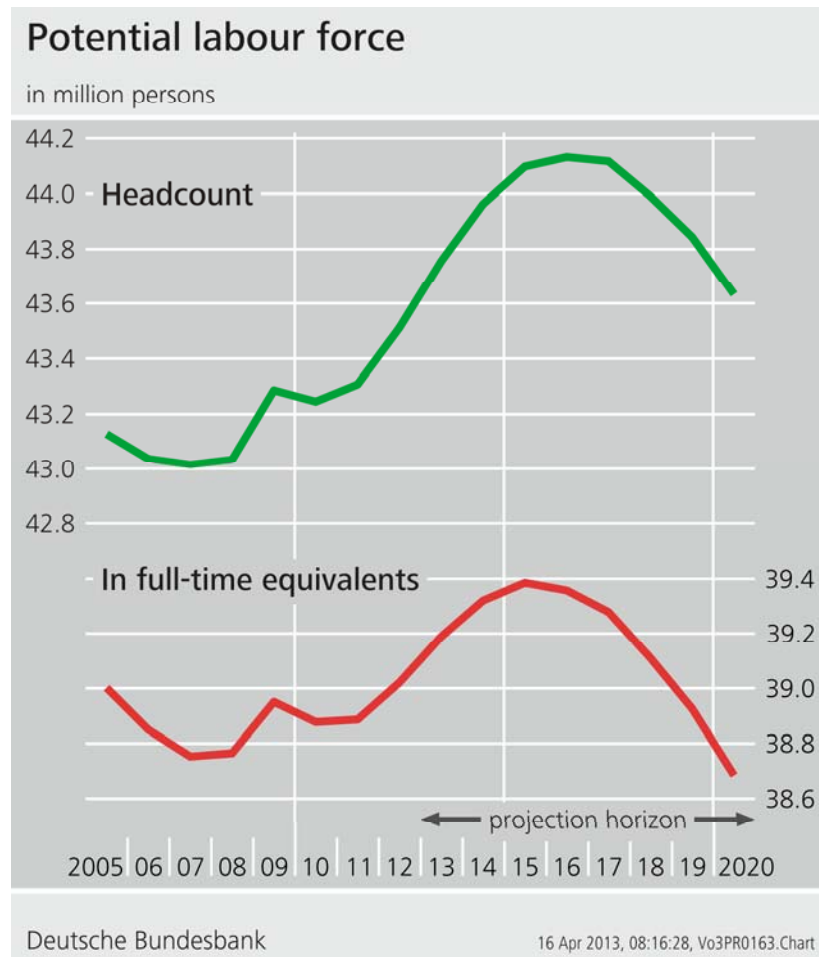
1 Only western Germany until 1990.

Deutsche Bundesbank

27 Mrz 2013, 14:54:29, Vo3PR0100.Chart

- Upward trend in labour force participation coincided with rising share of part-time work.
 - Strong correlation since the 1970s.
 - The pattern will persist, as rising participation of older persons and women likely to be realised only by “accepting” more part-time work and reduced working hours.
- Trend path of hours worked as the relevant measure of labour input in potential output estimates.
 - *Potential labour force in full-time equivalents* as an equivalent concept, ...
 - ... given that standard working hours of full-time workers do not change over time.
 - Taking into account the preferences of employed, unemployed and inactive persons regarding part-time work and working time.

Potential labour force in headcount and full-time equivalents: Projections until 2020



– **Headcount potential labour force is likely to peak in the second half of this decade.**

- Increasing labour force participation and high net migration in the coming years might lead to a rise of about 800 000 persons until 2016.
- Under normalising conditions as regards net migration later on, the strengthening demographic burden cannot be balanced in the medium term.

– **Potential labour force in full-time equivalents will increase only by half of the rise in headcount measure until mid-2010s.**

- Trend volume of hours worked might recognisably fall short of current figure towards the end of this decade, ...
- ... despite quite favourable outlook for labour force participation and migration.

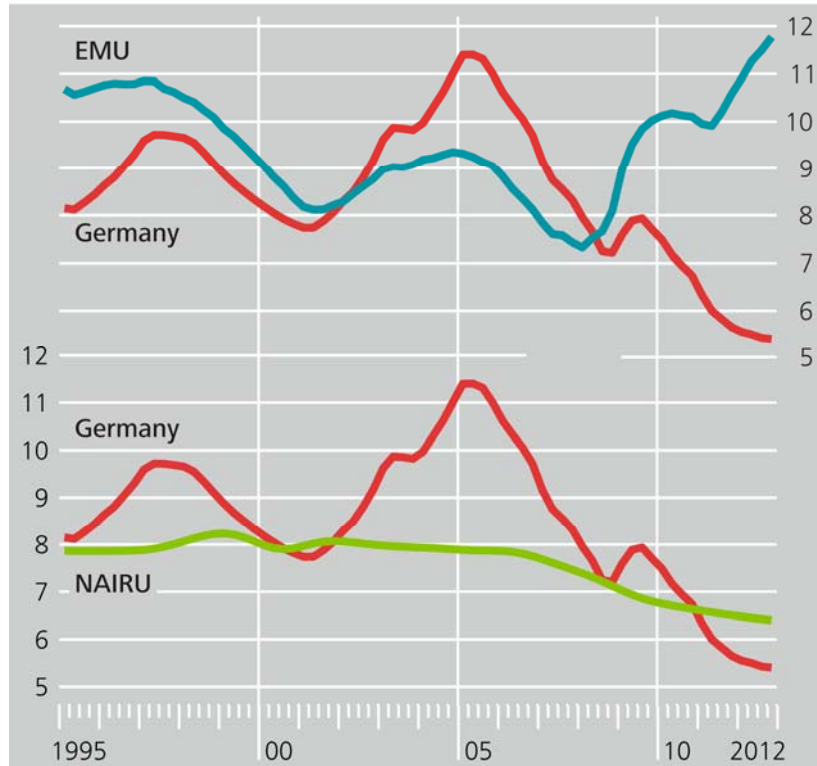
Background material

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Unemployment trends in Germany and the EMU

Unemployment

As a percentage of the labour force



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15 Apr 2013, 10:10:39, Vo3PR0097.Chart

– **German labour market currently in a very favourable shape.**

- Unemployment rate at lowest level since 1991, full employment in some regions.
- Employment (subject to social security contributions) markedly increased since 2006, with only a short and mild interruption during the Great Recession.

– **Mainly result of efforts in the collective bargaining system and bold labour market reforms.**

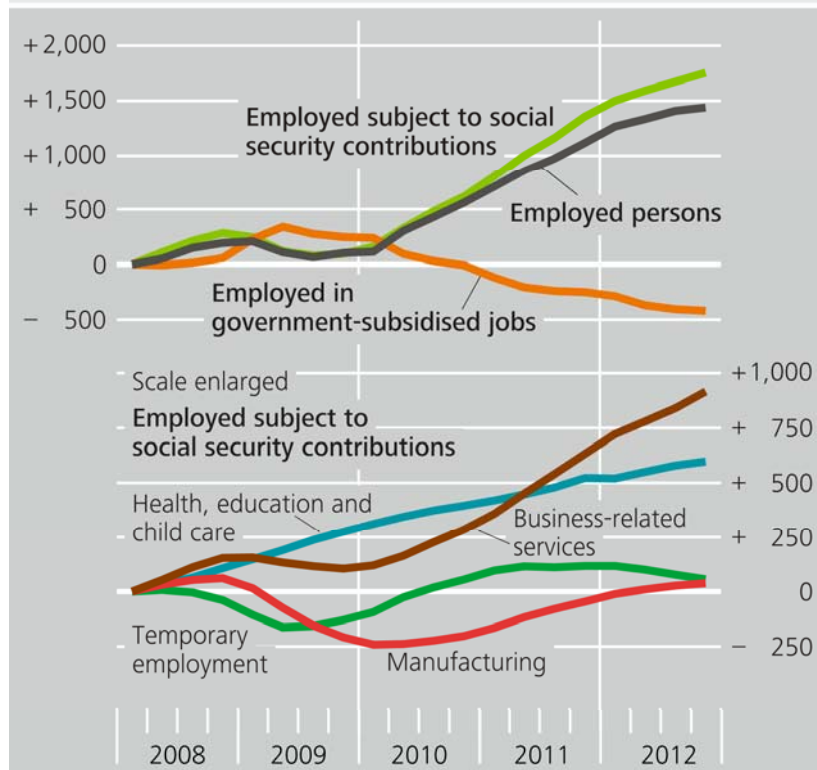
- Activation of unemployed.
- Cutback of work disincentives.
- Enhancing matching processes.
- Reducing costs and risks of labour input.

– **NAIRU moved downward steadily since the mid-2000s.**

Details on employment trends in Germany since the last cyclical peak

Employment trends

Seasonally adjusted, difference from 2008 Q1 in thousands



Deutsche Bundesbank

9 Apr 2013, 07:25:13, Vo3PR0008B.Chart

- **Employment growth concentrated on positions subject to social security contributions.**
 - Favourable labour market conditions used to streamline measures of active labour market policy.
- **Distinct differences in the sector profile of employment.**
 - Temporary employment already beyond its cyclical high.
 - Expansion of industrial employment slowed down; pre-crisis level recently reached.
 - Still positive trend in most services sectors.

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