



Economic Commentary

The labour force, employment and changes in popula- tion composition

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Summary

The Riksbank analyses how the labour force and employment are developing, since these affect the assessment of resource utilisation and thus the design of monetary policy. It is important to analyse how the composition of the population is changing because labour market status varies between groups and this needs to be taken into account in the assessment of potential employment and labour force. This Economic Commentary¹ highlights how the labour force participation rate and employment will be affected by changes in population composition in the coming years.

The labour force participation rate and employment rate in Sweden are high from both international and historical perspectives. The sharp increase in the employment rate of foreign-born people in recent years shows that, over time, the labour market can adapt to changes in the supply of labour and also that the general demand for labour has been high.

In the coming years, changes in the composition of the population are expected to lead to significantly slower growth of the labour force than in the last decade. This is partly due to lower population growth and partly due to changes in the age composition. After 2025, labour force growth is expected mainly to be in the young (aged 15–24) and older (aged 65–74) groups. As young and older people have lower labour force participation rates, this will lead to the total labour force participation rate decreasing slightly in the coming years. Broken down into those born in Sweden and those born abroad, future labour force growth will solely be due to the foreign-born group increasing. It is therefore particularly important to continue to monitor how their labour market situation is changing.

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¹ Economic Commentaries are brief analyses of issues with relevance for the Riksbank. They may be written by individual members of the Executive Board or by employees at the Riksbank. Employees' commentaries are approved by their head of department, while Executive Board members are themselves responsible for the content of the commentaries they write. The opinions expressed in Economic Commentaries are those of the authors and are not to be seen as the Riksbank's view.

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The labour force participation rate ultimately determines the level of employment

An important part of monetary policy analysis involves assessing how much unutilised resources there are in the economy, since resource utilisation affects how prices and wages develop. The level of resource utilisation in the labour market at a certain level of employment or unemployment depends on the potential of the labour market and varies over time. The Riksbank therefore must continuously analyse structural and cyclical developments in the labour market.³ Without neglecting the inflation target, the Riksbank must also contribute to a balanced development of output and employment. This means that the Riksbank shall help minimise cyclical fluctuations so that actual output and employment are stabilised around their potential levels.⁴

Changes in the composition of the population are important drivers of labour market developments and affect the assessment of resource utilisation and the potential levels of the labour force and employment. This Economic Commentary highlights how the labour force participation rate and employment will be affected by changes in population composition in the coming years. However, the projections here should not be interpreted as the Riksbank's forecasts for potential levels. When the Riksbank makes assessments of the potential labour force and potential employment, it also includes factors other than changes in the population composition.

The labour force participation rate has risen sharply

The labour force participation rate in Sweden is high from both international and historical perspectives.⁵ It has had a rising trend since 2009 and did not decrease significantly during the coronavirus pandemic (see Figure 1). Many structural changes in the labour market lie behind this increase. Major fiscal policy reforms in the 2000s, such as the earned income tax credit, introduced in several steps, have entailed greater economic incentives to participate in the labour force. Among older people, for example, the pension reform at the beginning of the 2000s, the raised age limit in the Employment Protection Law, the raised age limits in the social security system and improved health have also helped increase the labour force participation rate.⁶ Among people born abroad, for example, stricter requirements in the benefit systems, together with other supply and demand reforms, have meant that fewer people are out

³ Structural developments are those that affect the way the labour market works, such as changes in the competitiveness of the unemployed, the design and size of unemployment benefits and the functioning of wage formation.

⁴ The potential levels refer to levels that would be achieved in a cyclical balance, not to the highest possible levels of output and employment. These potential levels are not directly observable, but must be estimated using various indicators and models.

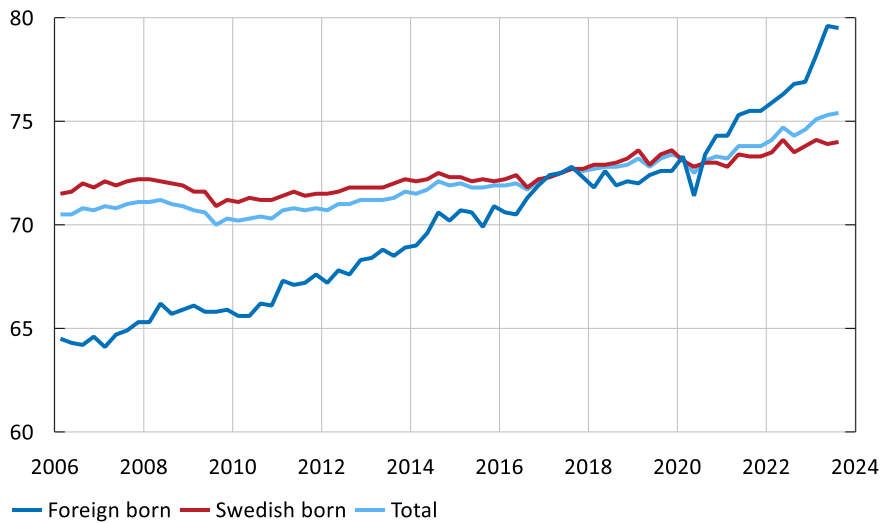
⁵ The labour force consists of employed and unemployed persons. The labour force participation rate is defined as the number of people in the labour force as a percentage of the population.

⁶ See, for example, Häkkinen Skans (2020).

of the labour force now.⁷ In the age group 15–74 years, the labour force participation rate of those born abroad is now considerably higher than that of those born in Sweden. However, this is because foreign-born people have a different age distribution with fewer people over 65 years of age. In the age group 25–54, the labour force participation rate is still nearly 3 percentage points higher among those born in Sweden (see Figure 2).

Figure 1. Labour force participation rate, 15–74 years

Percentage of population, seasonally adjusted data

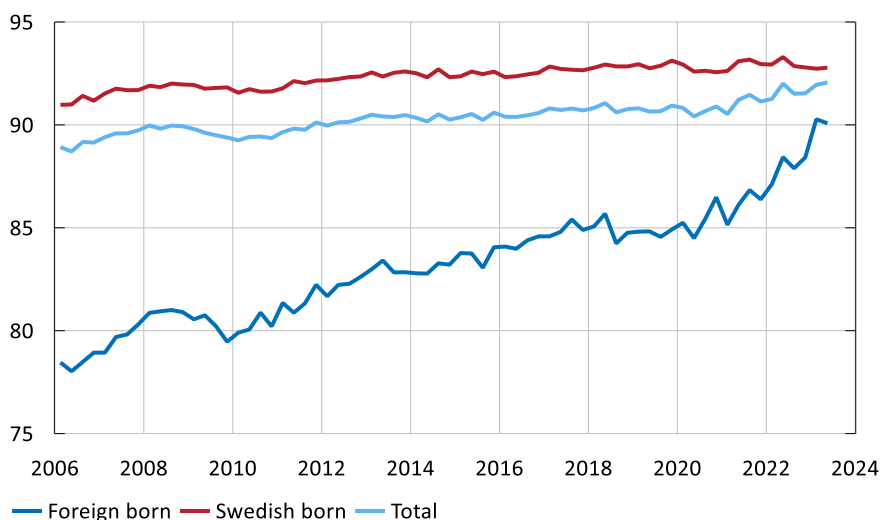


Source: Statistics Sweden.

⁷ People born abroad are affected by the same reforms as people born in Sweden but there are also targeted reforms aimed at increasing the integration of foreign-born persons into the labour market. For example, there was a greater focus on the labour market in the reception of refugees when the main responsibility for the integration of newly arrived refugees was transferred from the municipalities to the Swedish Public Employment Service in 2010. Many municipalities have also begun to require that working-age people receiving financial assistance be registered as job-seekers at the Swedish Public Employment Service. This also affects other groups with a weak position in the labour market, but people born abroad are over-represented in the group receiving financial assistance because they are more often unemployed.

Figure 2. Labour force participation rate, 25–54 years

Percentage of population, seasonally adjusted data



Note. The series have been seasonally adjusted by the Riksbank.

Source: Statistics Sweden and the Riksbank.

Significant increase in the employment rate for foreign-born people

The employment rate also shows the same trend increase over time (see Figure 3).⁸ During the coronavirus pandemic, the employment rate decreased, but it recovered relatively quickly and is now higher than it was before the pandemic. Since the pandemic, the employment rate for foreign-born people has increased sharply. There are several possible explanations for this. After the pandemic, demand for labour rose in certain service sectors that normally employ many foreign-born people, such as hotels and restaurants. Another explanation is that it takes time for many foreign-born persons to establish themselves on the Swedish labour market due to the relatively high demands on education and knowledge of the Swedish language.⁹ In recent years, immigration has been lower than previously and the increased employment rate is partly a result of the average length of stay in Sweden having increased among foreign-born persons (see Figure 4).¹⁰ This is because the employment rate rises clearly in step with the length of stay of people who have immigrated for reasons other than work, such as refugees and their families (see Figure 5). Refugees and their families now seem to be entering the labour market faster than before. This is partly due to the generally high demand for labour.

This strong increase in the employment rate among foreign-born people shows that the labour market can, over time, adapt to changes in the supply of labour. However, the gap between those born in Sweden and those born abroad remains large. In the

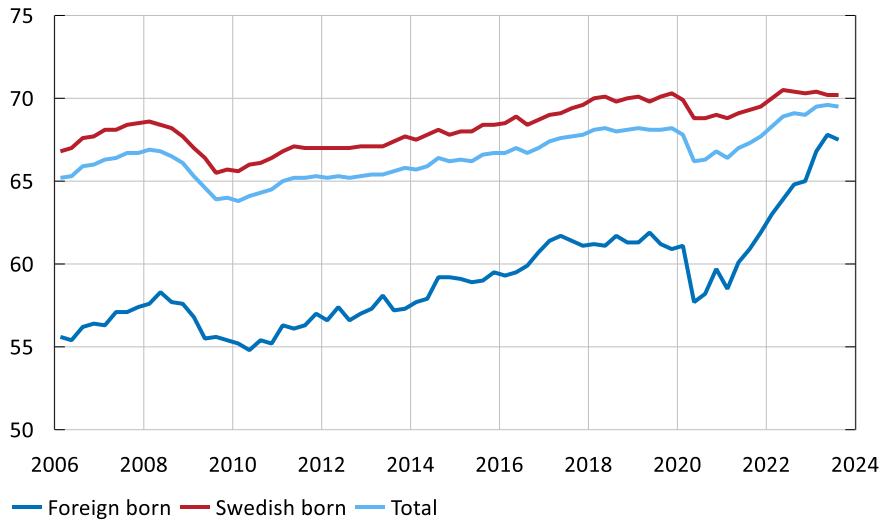
⁸ The employment rate is defined as the number of persons employed as a percentage of the population.

⁹ People born abroad also lack work-related networks that are important for entry into the labour market. See, for instance, Swedish Economic Research Council (2017).

¹⁰ See Statistics Sweden (2022) for a description of immigration in recent years.

age group 25–54, the employment rate of people born in Sweden is still about 12 percentage points higher (see Figure 6). This means there is still potential to raise the employment rate among foreign-born persons, and this is especially true for those with a low educational level.

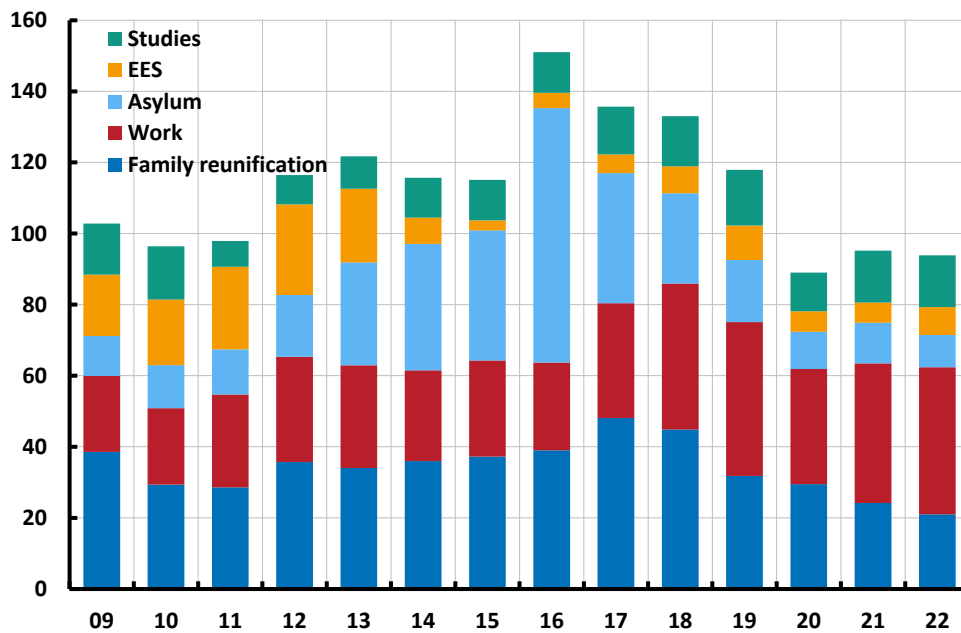
Figure 3. Employment rate, 15–74 years
Percentage of population, seasonally adjusted data



Source: Statistics Sweden.

Figure 4. Residence permits granted

Thousands

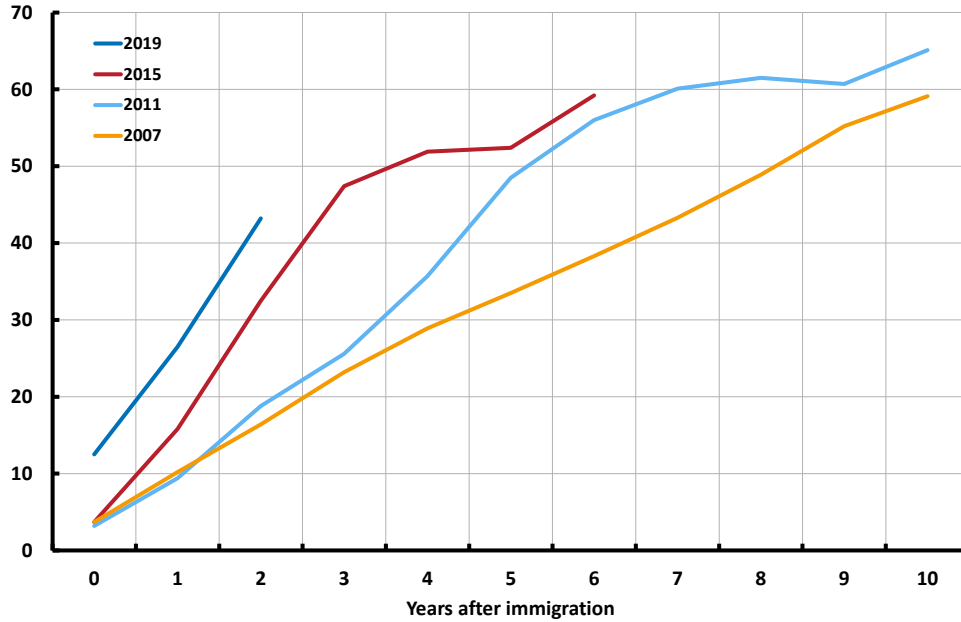


Note. Residence permits under the Temporary Protection Directive for those who have fled Ukraine are excluded because these persons are not registered as residents.

Source: Swedish Migration Agency

Figure 5. Employment rate in the years following immigration for refugees and their families, 20–64 years

Per cent of the population

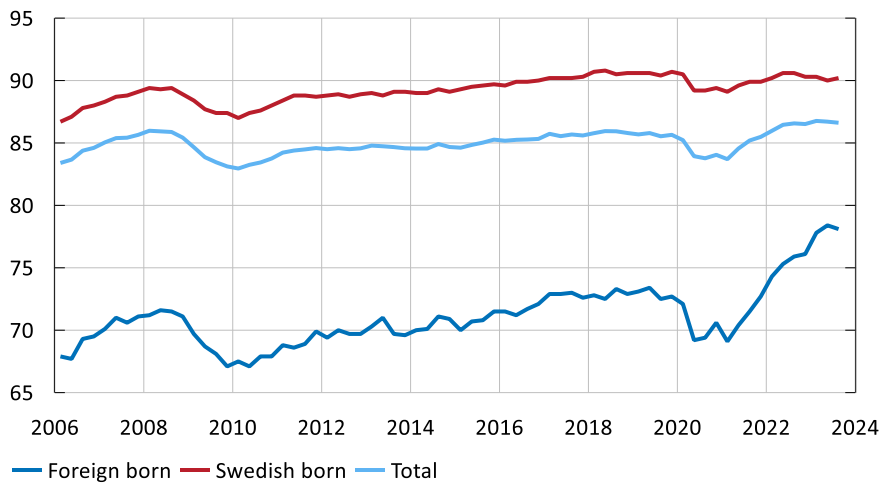


Note. Employment rate for the first 10 years following immigration for people coming to Sweden in 2007, 2011, 2015 or 2019.

Source: Statistics Sweden.

Figure 6. Employment rate, 25–54 years

Percentage of population, seasonally adjusted data



Note. The series have been seasonally adjusted by the Riksbank.

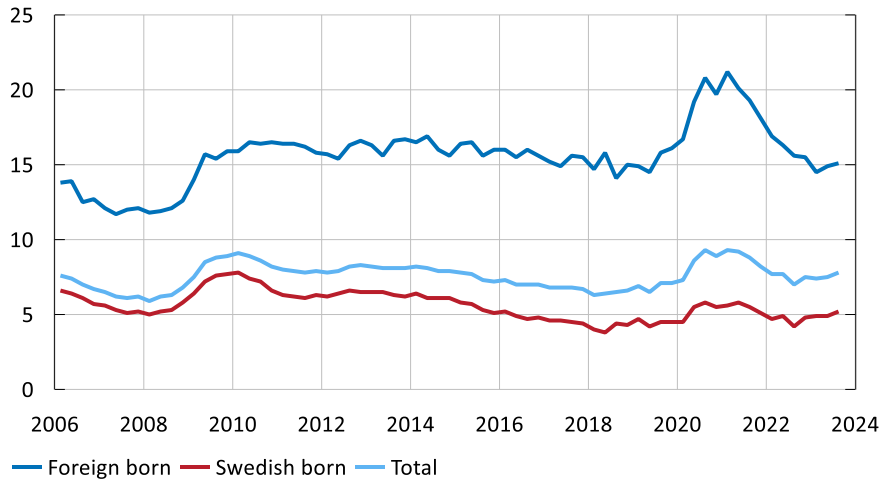
Source: Statistics Sweden and the Riksbank.

Figure 1 and Figure 3 clearly show that, after a certain period of time, the increase in the labour force participation rate has also led to a higher employment rate. There are cyclical variations in the employment rate, but the supply of labour is of great im-

portance for the level of employment in the slightly longer term. The way the employment level adjusts to the labour force participation is also reflected by the fact that the unemployment rate has not shown a rising trend, even though many more people have started participating in the labour force over time (see Figure 7). A greater supply of labour means that more jobs are created.¹¹

Figure 7. Unemployment, 15-74 years

Percentage of the labour force, seasonally-adjusted data



Source: Statistics Sweden.

Unemployment remains much higher among foreign born than among those born in Sweden. Figure 7 also shows that unemployment increased most among foreign-born persons during the pandemic. Even though the employment rate among those born abroad is at a significantly higher level than before the pandemic, unemployment is only slightly lower than at the end of 2019. Continued measures will probably be needed in several areas to achieve sustainably lower unemployment in this group.¹²

Young people (15–24 years) are affected more than other age groups by cyclical variations in the labour market and the employment rate and unemployment rate among young people vary more than in other age groups (see Figure 8). This is because it takes time for young people who are in the process of establishing themselves in the labour market to find more permanent employment. Many in the age group are studying at upper secondary or university level. Since full-time students in Sweden often seek extra and holiday work, they contribute to greater volatility in unemployment and employment. The labour force participation rate among young people is high and

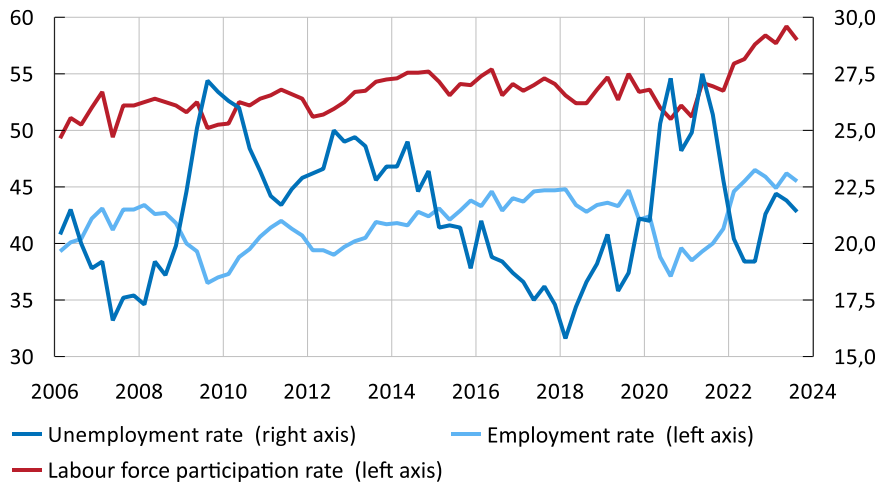
¹¹ See, for instance, the SOU (2011).

¹² This may include lower wage costs for certain weak groups, but also educational and labour market policy measures. For example, research shows that job opportunities for low-skilled foreign-born people can be significantly improved with a faster asylum process, intensive language training, work practice and job search and matching assistance. See, for example, Engdahl et al. (2022) and Dahlberg et al. (2020).

has increased further since the changes to the Labour Force Survey (LFS) statistics in 2021.¹³

Figure 8. Employment rate, labour force participation rate and unemployment rate, 15–24 years

Percentage of population and labour force respectively, seasonally adjusted data



Source: Statistics Sweden.

More foreign-born persons in the labour force in the coming years

The Riksbank analyses how the labour force and employment are developing, since these affect the assessment of resource utilisation and thus the design of monetary policy. It is also important to analyse how the composition of the population is changing because labour market participation varies between groups and this needs to be taken into account in the assessment of potential employment and labour force as well as resource utilisation.

How the composition of the population – age structure, proportion of women and men, and shares of the population born in different parts of the world – affects the development of the labour market can be studied using models. The Riksbank uses the National Institute of Economic Research’s demographic model KAMEL. The model shows how changes in population composition will affect aggregate labour force participation and the employment rate in the years to come if the labour market status of different groups in terms of sex (2 groups), age (60 groups) and country of birth (5 groups) is kept unchanged at 2022 levels. The model is based on outcomes in Statistics Sweden’s Labour Force Survey (LFS) and makes projections using Statistics Sweden’s population forecasts.¹⁴ The changes in the labour force and employment in the

¹³ The Riksbank’s assessment is that more young people have been classified as unemployed in the LFS since the changes were made.

¹⁴ Statistics Sweden’s population projections are based on analyses and assumptions about inward and outward migration, fertility and mortality.

model projections are therefore solely due to variations in the composition and size of the population.¹⁵

Figure 9 shows how the labour force has developed according to the LFS and how it will develop in the future if the labour force participation rate of each group remains at the same level as in 2022. The labour force has grown strongly over the past decade, averaging 1.1 per cent per year. In the coming years, demographic changes are expected to lead to significantly slower labour force growth, averaging 0.3 per cent per year (see Figure 9). This is partly due to lower population growth and partly due to changes in the age composition. In 2023–2025, the number of people aged 25–64 years will increase but labour force growth is subsequently expected mainly to be due to larger groups of young people (aged 15–24) and older people (aged 65–74). As young and older people have lower labour force participation rates, this will lead to the total labour force participation rate decreasing slightly in the coming years (see Figure 12).¹⁶ The fact that the proportion of young people will increase in the future may also contribute to more volatile labour market statistics, as the labour market situation of young people varies more than that of other age groups.

Figure 10 shows that growth in the labour force is expected to be made up solely of people born abroad. The number of people born in Sweden in the labour force will decrease slightly in 2023 and 2024. The number of persons employed is also growing solely due to there being more foreign-born people in the years ahead (see Figure 11). This means that the trend increase in the employment rate among foreign-born persons, and especially the strong increase after the pandemic, is very positive for the future development of the Swedish labour market.¹⁷ However, those born abroad still have significantly lower employment rates than those born in Sweden, and this means that, in the projection, the overall employment rate will decrease in the coming years (see Figure 12). However, many factors affecting how things will actually go in the future may change, which the Riksbank takes into account in the labour market forecasts regularly published in the Monetary Policy Report.

In summary, demographic changes in the coming years will mean that both the labour force and employment can be expected to grow more slowly than over the past decade. The labour force will grow in the future solely as a result of an increase in the foreign-born group. It is therefore particularly important to continue to monitor how their labour market situation is changing. A sustainable improvement in the labour market integration of those born abroad would mean lower equilibrium unemployment and higher employment and output.

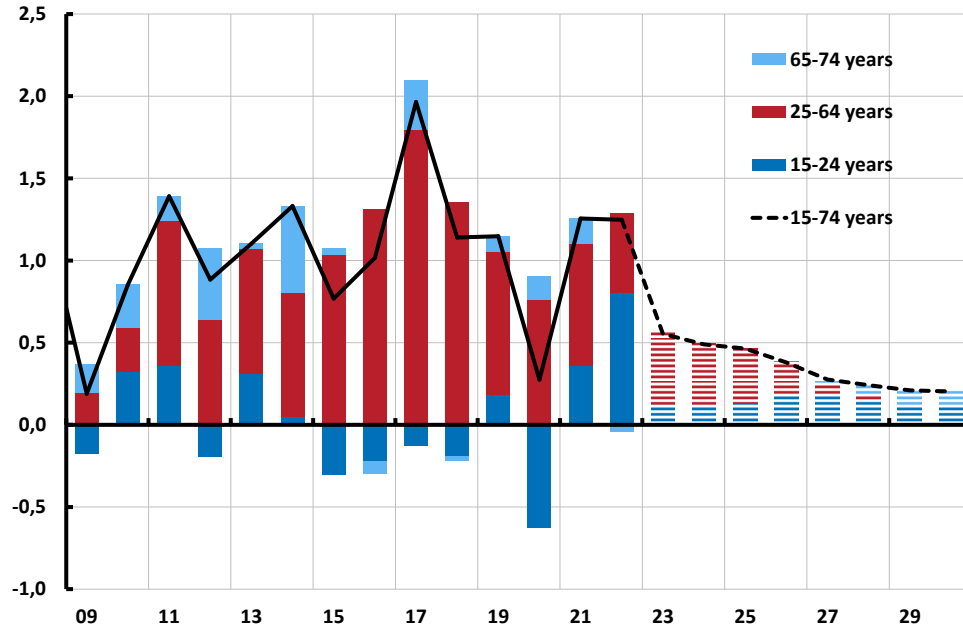
¹⁵ The model can also be used to make projections in which varying assumptions are made about changes in the labour market behaviour of different groups. For example, it can be calculated how the total employment rate would change if older people were to retire later.

¹⁶ When the Riksbank makes assessments of the potential labour force and potential employment, other factors than changes in the population composition are also taken into account. For example, the labour market is judged to be affected by the continued improvement of integration among foreign-born people and by the later retirement of older people.

¹⁷ The projection does not show the increase in employment among foreign born in the past year, as it is based on labour market statuses in 2022.

Figure 9. Development of the labour force (15–74 years) and contributions from different age groups

Annual percentage change and percentage points respectively

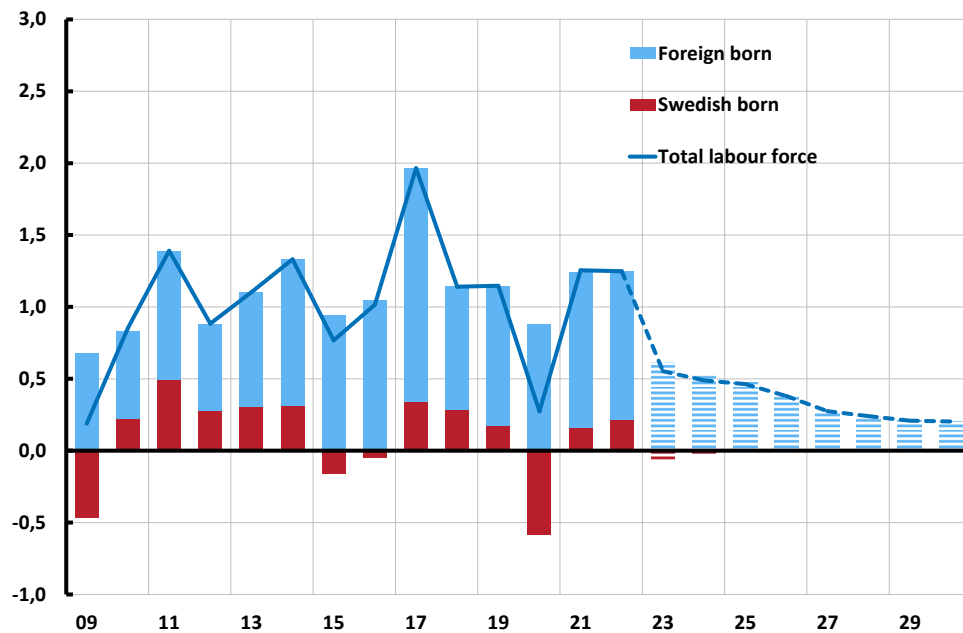


Note. The projection takes account of changes in the composition and size of the population.

Sources: Statistics Sweden and the Riksbank.

Figure 10. Development of the labour force (15–74 years) and contributions from Swedish-born and foreign-born persons

Annual percentage change and percentage points respectively

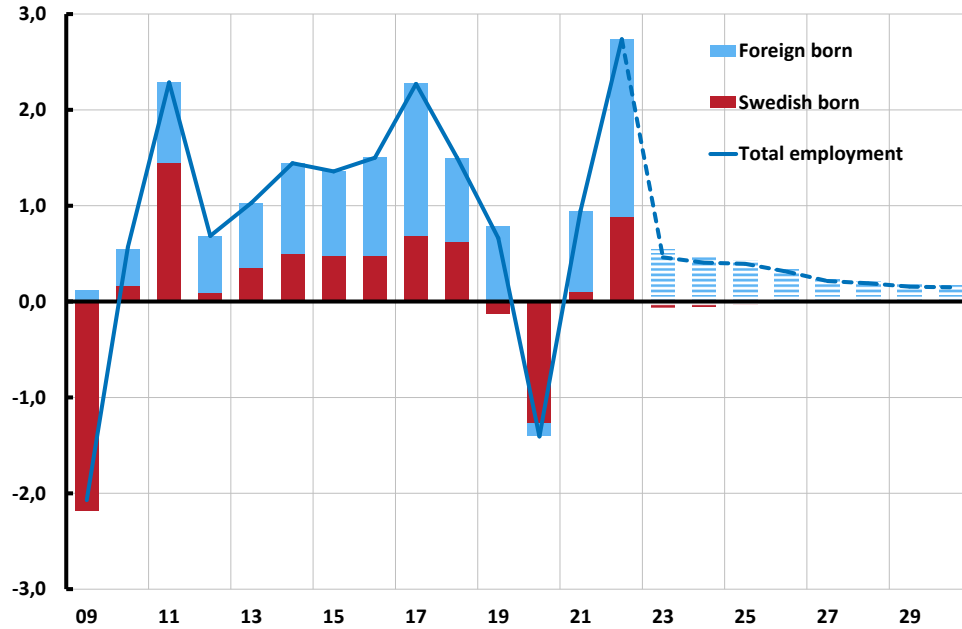


Note. The projection takes account of changes in the composition and size of the population.

Sources: Statistics Sweden and the Riksbank.

Figure 11. Change in the number of persons employed (15–74 years) and contributions from Swedish-born and foreign-born persons

Annual percentage change and percentage points respectively

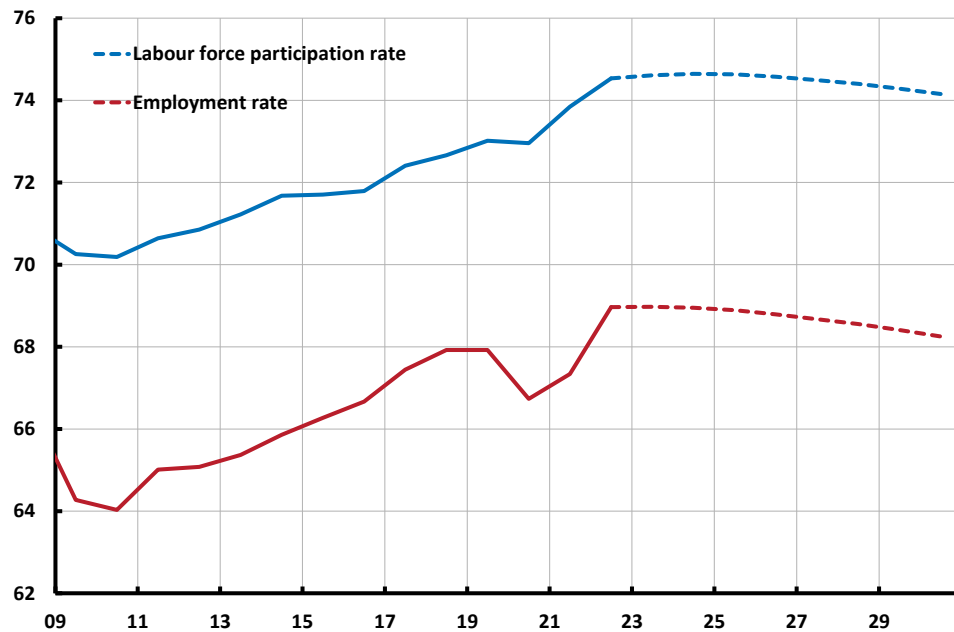


Note. The projection takes account of changes in the composition and size of the population.

Source: Statistics Sweden and the Riksbank.

Figure 12. Labour force participation rate and employment rate, 15–74 age group

Per cent of the population



Note. The projection takes account of changes in the composition and size of the population.

Source: Statistics Sweden and the Riksbank.

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