Unadjusted labour market lullaby

Signals indicate that the mainland economy will continue to post zero percent growth q-o-q. In spite of this, it appears that unemployment is not rising any further. However, in this analysis, we show that the latest labour market data may appear promising but for all the wrong reasons; in other words, the uptrend in unemployment may have stalled because people are pulling out of the labour force and not because they are finding jobs. Moreover, the latest spike in vacant positions may be due to seasonality, not fundamental improvements.

For a long time, we have held a view of the Norwegian economy that is below consensus. However, as it turns out, we were not negative enough, as the economic outcome has been even weaker than our gloomy forecast. Mainland GDP growth landed at 1.0 percent in 2015, whereas in our April and October 2015 forecasts, we estimated growth of 1.3 percent and 1.2 percent respectively. By comparison, Norges Bank forecasts 1.5 percent (MPR 1/15) and 1.4 percent (MPR 4/15).

Still subdued GDP growth

Currently, general expectations for 2016 are for mainland GDP growth to drop below 1 percent; Norges Bank expects 0.8 percent, whereas the competing model from researchers Hilde C. Bjørnland and Leif A. Thorsrud (Centre for Applied Macro- and Petroleum Economics at BI) forecasts 0.5 percent. We forecast 0.6 percent.

In this regard, the outlook for the labour market remains dismal. GDP growth is determined by growth in output per employed person and growth in employment, where the former constitutes a simple measure of labour productivity. That said, according to Norges Bank’s full Regional Network survey in February, output growth is expected at around zero percent q-o-q, whereas employment plans are slightly negative. Thus, companies plan to support positive rates for productivity growth at around the same pace as observed over the past year. Simply put, we believe it is too soon to expect any meaningful improvement in the labour market, as there are no definite signals of turnaround with regards to employment. We note that the recent phone update from the Regional Network confirmed the outlook for zero growth in the mainland economy.

Importantly, the claim often made, that the Regional Network understates actual GDP growth, is not correct. For as long as we have data, the Regional Network has indicated about the same average quarterly growth rate as the actual mainland GDP (0.61 percent vs. 0.64 percent). The key difference is that the actual GDP figures are more volatile, as shown in the chart below.

But unemployment has declined?

Not surprisingly, the actual labour market data has recently garnered some attention because – at least on the surface – it appears promising despite the no-growth environment. The latest two observations, survey (LFS) and registered unemployment (NAV), have shown a small decline in the number of people counted as unemployed (in February and April respectively). For registered gross unemployment, the trend has been slightly downward since the January peak, but details reveal that this is probably due to a pullback in the labour supply. According to NAV, the influx of new job seekers has trended slightly lower since the December peak (“Arbeidsmarkedet nå – april 2016”). In principle this may be due to an increase in employment; however, when backing out the data for the labour force, we also notice a slight downward trend.

In the survey data, we can see clearly that employment was unchanged in February, whereas the labour force contracted by 3,000 people, thereby pushing unemployment somewhat lower. Thus, it appears that both survey and registered unemployment dropped slightly but for the wrong reasons; i.e., discouraged workers pulling out of the labour market.
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Unfilled vacancies trending lower
So, what about the seeming rise in the number of job vacancies as reported by NAV? For starters, we need to look at net figures. Monthly job openings are not net figures, as they do not say anything directly about the scope of unfilled positions. However, Statistics Norway provides net figures, namely quarterly figures for unfilled vacancies with data up until Q4 2015. As shown in the chart below, the negative trend during 2015 was just a continuation of a more prolonged slowdown.

Unfilled vacancies, total
Moreover, we should remember the first rule of macroeconomic analysis: always distinguish between seasonally-adjusted and non-adjusted data. And, of course, the second rule of macroeconomic analysis: always distinguish between seasonally-adjusted and non-adjusted data. In doing so, we obtain valuable information about the scope of unfilled vacancies in Q1 2016. More specifically, the monthly figures from NAV, new vacancies and layoffs, provide the key to understanding this phenomenon. We note these are non-adjusted data, and that the difference between new vacancies and layoffs squares well with the unadjusted pattern for actual unfilled vacancies, as reported by Statistics Norway. As such, we can see that the rise in new vacancies relative to layoffs in Q1 this year is just an expression of the normal seasonal pattern. The suggested acceleration in unfilled vacancies in Q1 is just a reflection of the same seasonality.

Testing our hypothesis more formally, we have set up a simple error-correction model. The model explains actual unfilled vacancies as a function of new vacancies and layoffs. The model result is shown in the chart below; note that we have extended the model forecast for Q1. Using a simple X-12 ARIMA procedure for seasonal adjustments shows that the figures are still wobbly, but that the downward trend remains intact. To help see this, we have included a simple trend as calculated by the Hodrick Prescott filter. We find the crucial insight here is that there are no clear signals that unfilled vacancies have started to drift upward. Note that the answer will be given on May 19, when Statistics Norway publishes the Q1 2016 report for unfilled vacancies.
The Easter holiday distorts the data

Finally, what about the sharp rise in new vacancies (NAV) in the single month of April that is also indicated in the chart above ("Vacancies, unadjusted", broken lines)? Does this bode well for Q2? In the figure above, the Q2 observations are shaded in grey. The normal pattern is that new vacancies rise in March before contracting in April, except when the Easter holiday lands in April. Then we typically see the opposite pattern. This is exactly what happened in April this year. Indeed, the rebound in April was solid, but that was also the case in 2013 when Easter landed in the second half of March (like it did this year). Did this cause a spike in the actual scope of unfilled vacancies? No. It got lost in seasonality: there were no changes from Q1 2013 to Q2 2013 in the seasonally-adjusted number of unfilled vacancies.

No recovery at this stage

In sum, we remain sceptical about whether we are actually experiencing any meaningful improvement in the labour market. If unemployment stops rising just because people exit the labour force, the unemployment rate just understates the degree of economic slack. Moreover, if new vacancies have risen only due to seasonality, we do not expect there will be any fundamental changes to job prospects ahead. Time will tell, but at this stage we have no solid information pointing to a recovery in the labour market...unfortunately. For a solid improvement to occur, we need to see a broad-based recovery of activity growth, which in turn could push the general employment level upward.

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