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# Labour markets in developed economies – signs of stabilization?

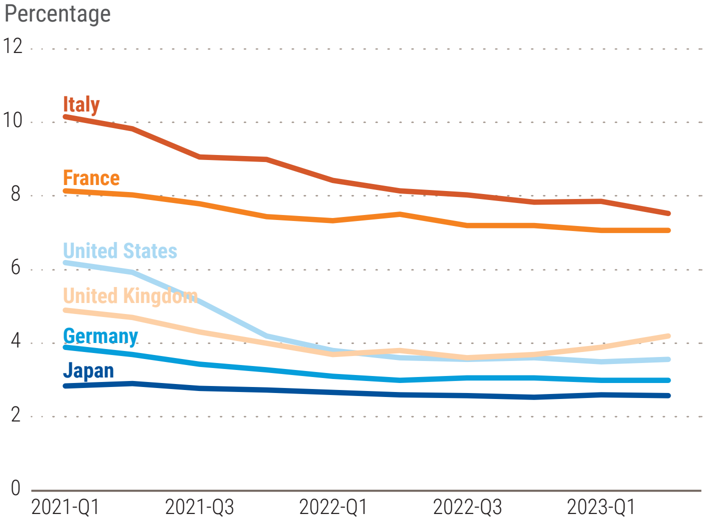
During the first three quarters of 2023, the state of labour markets in the developed economies continued to return to their pre-pandemic conditions, at least in terms of key headline indicators. The post-pandemic rebound in employment in these economies were quite swift, compared with the protracted labour market recovery that followed the global financial crisis of 2008–2009. Since early 2021, many developed economies, with the exception of the United Kingdom, saw a continuing decline in unemployment rates (figure 1), while the employment rates that reflect economic activity of the population reached historically high levels (figure 2). Consequently, for most of the OECD area, with a few exceptions, inactivity rates of population in the second half of 2023 stood below their pre-pandemic levels across different age groups. Only in a few of those countries did average working hour per person still not reach the pre-pandemic level, but the difference in that case was practically negligible, and did not merit grounds for drawing serious inferences about the shifts in workers' preferences.[1] Nevertheless, many developed economies continued to face labour shortages in certain occupations, and both employment and unemployment rates significantly varied across countries, along with noticeably varying gender gaps.

## KEY MESSAGES

- Despite persistent monetary tightening by major central banks, labour market conditions in most developed economies remained robust in 2023.
- Low unemployment and high economic activity are accompanied with continuing, albeit moderating, labour shortages.
- There are indications that labour markets are normalizing after three years of high labour turnover and structural mismatches.

Figure 1

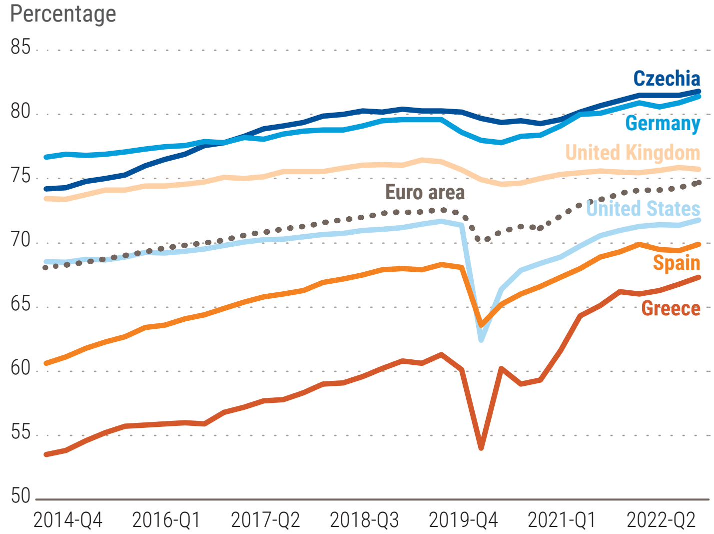
**Unemployment rate dynamics in selected OECD countries**




**Source:** UN DESA, based on data from OECD.

Figure 2

**Employment rates of the United States and selected European economies**




**Source:** UN DESA, based on data from FRED database, and Eurostat.

The state of economic activity itself somewhat diverged among the major economies – in the United States, the economy not only managed to avoid the repeatedly predicted contraction in response to the active tightening of the monetary policy since 2022, but even registered higher-than-projected growth rates in the first two

1 OECD (2023), OECD Employment Outlook 2023: Artificial intelligence and jobs – an urgent need to act, Paris: OECD Publishing.

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quarters of 2023. In contrast, Germany slipped into a mild recession in the first quarter of 2023, and the overall growth performance of the euro area and the United Kingdom was extremely weak.

Owing to the resilient economic activity in the United States, the unemployment rate continued to hover near record lows, although it marginally increased to 3.8 per cent in August from the 3.5 per cent observed in July. However, this number should be treated with caution, as the economy in parallel has added 187,000 jobs, and the increase in the unemployment rate was mostly due to the return of previously inactive workers to the labour force, encouraged by the state of the economy. In addition to that, the total US employment figure surpassed its 2019 level, with the labour force participation rate (LFPR) remaining high – although the latter did not yet fully recover to its pre-pandemic level for the entire working-age population. Civilian LFPR in the United States has been persistently declining from around 67 per cent in 2001 to around 63 per cent in 2019, dropped to around 60 per cent in mid-2020 and recovered to 62.8 per cent in August 2023; for women, LFPR over the same period has experienced a milder decline, from around 59 to around 57 per cent.[2]

Nevertheless, the share of people in the 24–54 age segment in the labour force exceeded 83 per cent in July. The failure of two major banks in the second quarter of 2023 did not cause significant shockwaves throughout the economy, and the strong job market has allowed for a 2.5 per cent increase in personal disposable income in real terms at the aggregate level, mostly owing to some improvement for the low-wage earners.[3] Among the US workers, job satisfaction has also increased to a 35-year record high of 62.3 per cent in 2022[4] (the latest available data), perhaps because many companies that faced labour shortages in 2021–2022 seriously addressed employees concerns about their working conditions. However, one of the workers preferences – the remote work option – became less available since 2023, as a growing number of employers demanded workers to return to the office, at least for some days a week.

Despite those encouraging developments, there are, however, certain caveats concerning the current US labour market situation and risks. There are differences across sectors – for example, with tighter monetary policy, higher mortgage lending rates weighed on consumer demand for new housing, and the construction sector saw a significant decline in employment opportunities and currently has a labour surplus. A number of large companies conducted massive layoffs of workers, although those layoffs were mostly confined to a narrow group of industries, such as the technology sector.

More importantly, across most US industries the scale of job openings, hires and separations have noticeably declined (for example, in June 2023 total job openings were down by 1.4 million, compared with June 2022, at 9.6 million),[5] with the notable exception of job openings in local, state, and federal government. This overall decline, especially the reduction in the number of workers leaving their jobs,[6] may be an important indicator of normalising the high labour turnover process caused by the pandemic and a great moderation of that initial mass departure.

Risk aversion is seemingly on the rise with respect to workers abandoning or changing their current employment. Many workers who switched jobs earlier ended up being dissatisfied with the conditions of their new employment and the spread of such information is contributing to lower labour turnaround. Nevertheless, resignation rates still remain high in a number of sectors, including health care, hospitality and service industries,[7] and the economy continues to face labour shortages in many occupations, in part because of inadequate pay and lack of flexible hours. Among those occupations are non-durable goods manufacturing, education and health services, and wholesale and retail trade.[8] Meanwhile, as customers return to shopping in person at the expense of online purchases, demand for truck drivers has somewhat moderated.

Those shortages, however, are clearly on a declining trend. Despite some swings in the vacancy rates, they remained on a downward trend during the last several quarters, while unemployment rate remained largely unchanged, as can be seen from the Beveridge curve[9] for the United States (figure 3). This sharply contrasts with the period of 2021–2022, when the declining unemployment rate was accompanied by rising unfilled job openings. As the pandemic-related restrictions on immigration have been abandoned, a fraction of those unfilled

2 See FRED economic data on labour force participation rate and labour force participation rate – women, St. Louis Fed.

3 The Economist (2023), "Incomes are rising in America, especially for the poorest", 15 January.

4 The Conference Board (2023), "Job Satisfaction 2023: US Worker Satisfaction Continues to Increase", May 2023. The job satisfaction survey questions are asked annually in November, as part of The Conference Board Consumer Confidence Survey, based on an online sample of over 36 million consumers.

5 U.S. Bureau of Labor Statistics (2023), "Job openings, hires and total separations down in most industries over the year ending June 2023", 3 August.

6 During 2021–2022, almost 100 million US workers abandoned their jobs.

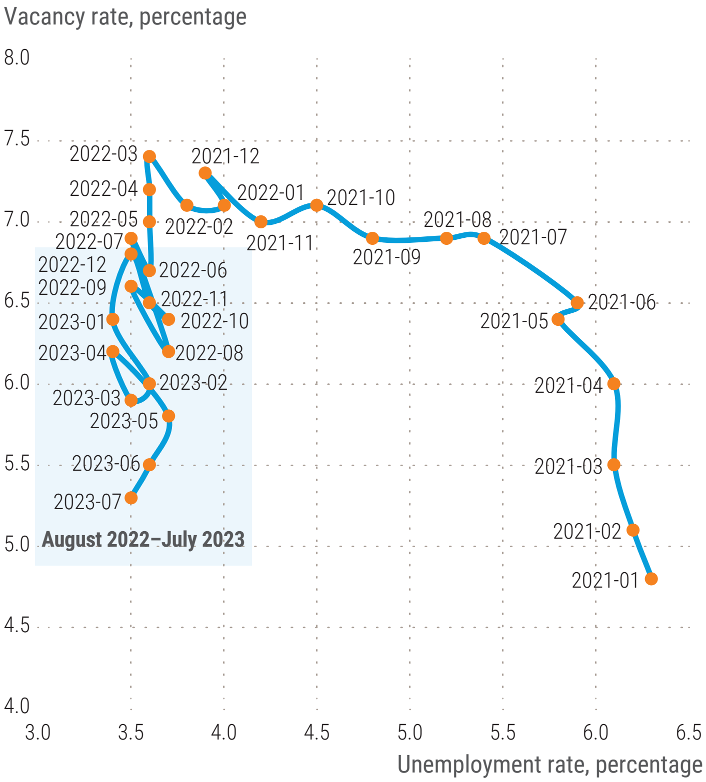
7 U.S. Bureau of Labor Statistics (2023), Economic news release: Quits levels and rates by industry and region, seasonally adjusted, Table 4.

8 U.S. Bureau of Labor Statistics (2023), Economic news release: Job openings levels and rates by industry and region, seasonally adjusted, Table 1.

9 The Beveridge curve helps to analyse the labour market by capturing the inverse relationship between the unemployment rate and the job opening (positions that the businesses are trying to fill) rate.

Figure 3

### United States Beveridge curve, January 2021–July 2023

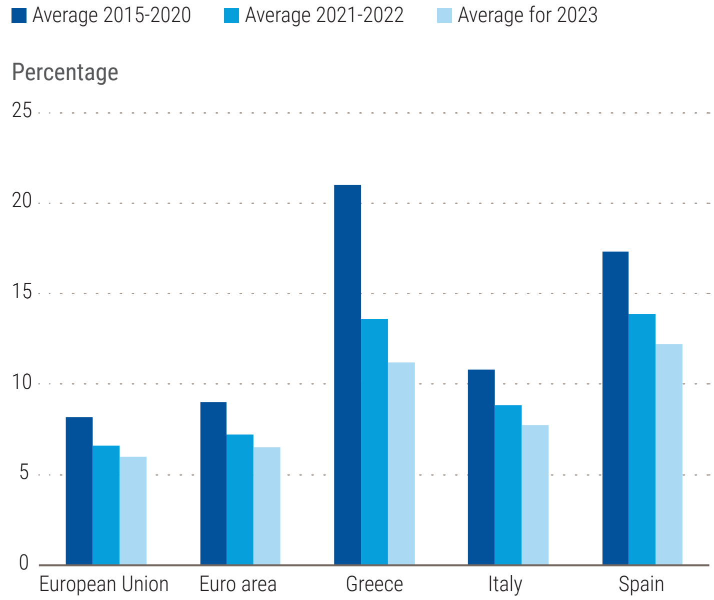



**Source:** UN DESA, based on FRED database.

**Note:** Vacancy rate refers to job opening vacancy rate.

Figure 4

### Monthly unemployment rates of selected countries and regional groupings




**Source:** UN DESA, based on data from the Eurostat.

**Note:** The decline in the unemployment rate in Italy in the second quarter of 2020 reflects mass dropping out of labour force the of services sector employees due to the lockdowns and collapse in demand.

jobs may be taken by the immigrant labour force, including seasonal workers engaged in the agricultural sector.

Despite the perceived resilience of the US labour market, there are possible risks on the horizon – shrinking household savings are accompanied by elevated debt levels, which may eventually weigh on private consumption. In case of a business cycle downturn, its expected duration may affect companies' commitment to retain labour in order to avoid re-hiring challenges.

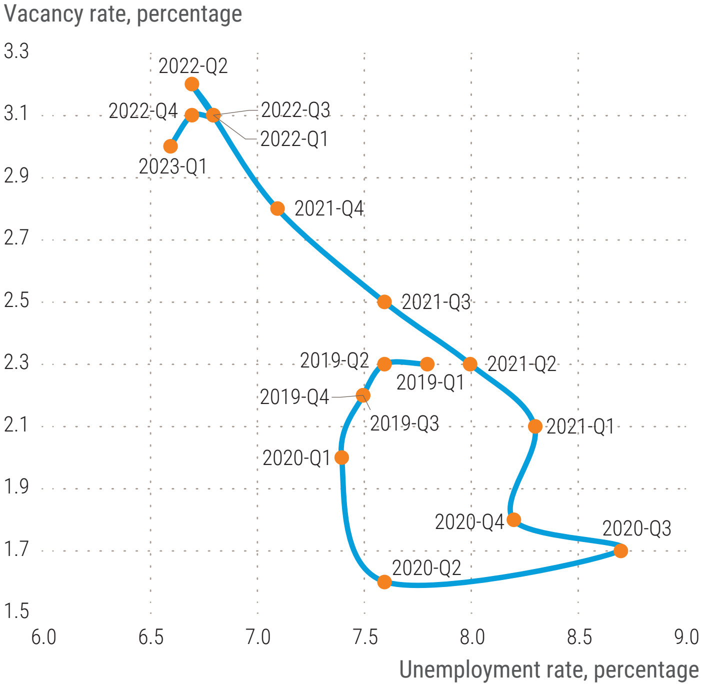
Surprisingly, in the European countries – where in contrast to the US economic activity has largely remained sluggish – employment also remained at a high level (for the EU as a whole, the employment rate of people aged 20 to 64 years stood at 75.3 in the first quarter, exceeding 80 per cent for Germany),[10] and many countries saw record low unemployment rates. In the Czech Republic and Germany, which in the first quarter of 2023 experienced stagnation and a technical recession respectively, the corresponding figures were as low as 3.4 and 3.0 per cent during the summer months. Even Greece, Italy and Spain, where double-digit unemployment has been a persistent feature of the economy and a chronic social problem for decades, saw significant improvements not observed for a long period of time (figure 4). This occurred owing to the recoveries in those economies after the European debt crisis in 2008–2012, relative stabilization of their banking systems, inflows of foreign investment, and most recently, rebound in the tourism sector. In February 2023, Spain introduced labour reform, making it harder for companies to hire temporary workers. Against the background of this broad picture, economic inactivity rates are currently below their pre-pandemic levels in most of the EU.

However, as in the United States, the speed of job creation has been slowing in the euro area, although acute labour shortages are still observed in many occupations. Despite the ongoing decline in unemployment, the vacancy rate in the euro area has also been somewhat down in the first quarter of 2023 (figure 5). The problem of labour shortages is more pronounced in the countries of Eastern Europe, which experienced a noticeable outflow of working-age populations. This problem was somewhat alleviated by the inflow of refugees from Ukraine since the beginning of the war in early 2022. However, as hundreds of thousands of those refugees moved further to the Western European countries, in particular, Germany,

10 See Eurostat.

Figure 5

**Beveridge curve for the euro area, from first quarter of 2019 to the first quarter of 2023**




**Source:** UN DESA, based on data from Eurostat.

labour shortages in certain occupations became exacerbated again, in particular, in Poland.[11]

Among other major developed economies, in Japan the unemployment rate is less sensitive to fluctuations in economic activity due to the structure of corporate governance; it remained below 3 per cent since mid-2021 and has edged down to 2.5 per cent in July. Meanwhile, the jobs-to-applications ratio[12] in Japan has also been slightly decreasing since January.

Overall, for the entire OECD area, total employment in May 2023 was 3 per cent higher than in December 2019, and inactivity rates among the working age population dropped to below pre-crisis levels in most countries. Apparently, the number of vacancies per unemployed person peaked in the first half of 2022 in most of those countries, and as in the United States and euro area, they are on a steady decline (with the sharpest contraction observed in the United Kingdom). At the sectoral level, accommodation and food services, construction, manufacturing and IT sectors are experiencing serious job opening declines.

The current labour market situation in the developed economies raises a number of important questions about their future trends that may affect the nature of prospective labour market policies. One of them is whether the anticipated scale of inter-industry shifts and prospective mismatches between labour supply and demand (and concordantly, the need for policy actions) at the onset of the pandemic was somewhat exaggerated. In fact, in 2021–2023 labour demand increased across most industries, with very minor shifts in sectoral composition. Some evidence suggests that workers, especially in low-skilled occupations, expanded their job searches to new occupations but remained within the same industry, for example in the United Kingdom.[13]

Another important question is whether the period of the so-called "Great Resignation" in developed economies is more or less over. While labour turnover in the OECD area has visibly decelerated in 2023, a "Global Workforce Hopes and Fears Survey",[14] conducted by PwC in 2023 in 46 countries and territories found that 26 per cent of workers stated their plan to quit their job within 12 months, many of them citing cost-of-living crisis, and for female employees, also the costs of childcare. This compares with only 19 per cent a year earlier.

## INCREASED LIVING COSTS REMAIN A CHALLENGE EVEN IN DEVELOPED COUNTRIES

Although most of the developed economies have been confronted with labour shortages since 2021, which theoretically should put workers in a more favourable bargaining position, growth in nominal wages in 2022 and in the first half of 2023 in most cases was lagging behind the accelerated consumer price inflation. As a result, real wages fell further in the first two quarters of 2023 across the OECD area, despite the fact that corporate profits at the same time expanded by a larger margin than labour costs.[15] Consequently, disposable incomes of households in most OECD countries continued to contract, despite mitigating factors such as fiscal transfers and subsidies. The ongoing labour strike by automobile workers in three US automotive companies, is a notable example of worker dissatisfaction. Only in the second half of 2023 did growth in nominal wages

11 See data from UNHCR Operational Data Portal: Ukraine Refugee Situation; Gera, Vanessa (2023),"In the pursuit of jobs, Ukrainian refugees are choosing Germany over Poland", Associated Press, 12 September.

12 The number of job offers (including those carried forward from the previous month and new offers) to the number of job seekers registered at public employment security offices in the country.

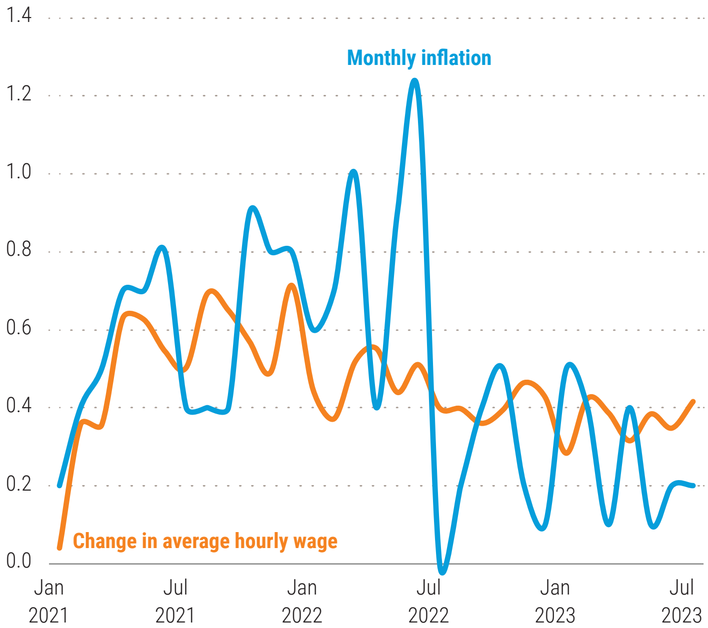
13 See, for example, Carrillo-Tudela et al. (2023), "Search and reallocation in the COVID-19 pandemic: Evidence from the UK", Labour Economics, 81 (2023) 102328.

14 PwC (2023), PwC's Global Workforce Hopes and Fears Survey 2023: Is your workforce reinvention ready? 19 June.

15 OECD (2023), loc. cit.

Figure 6

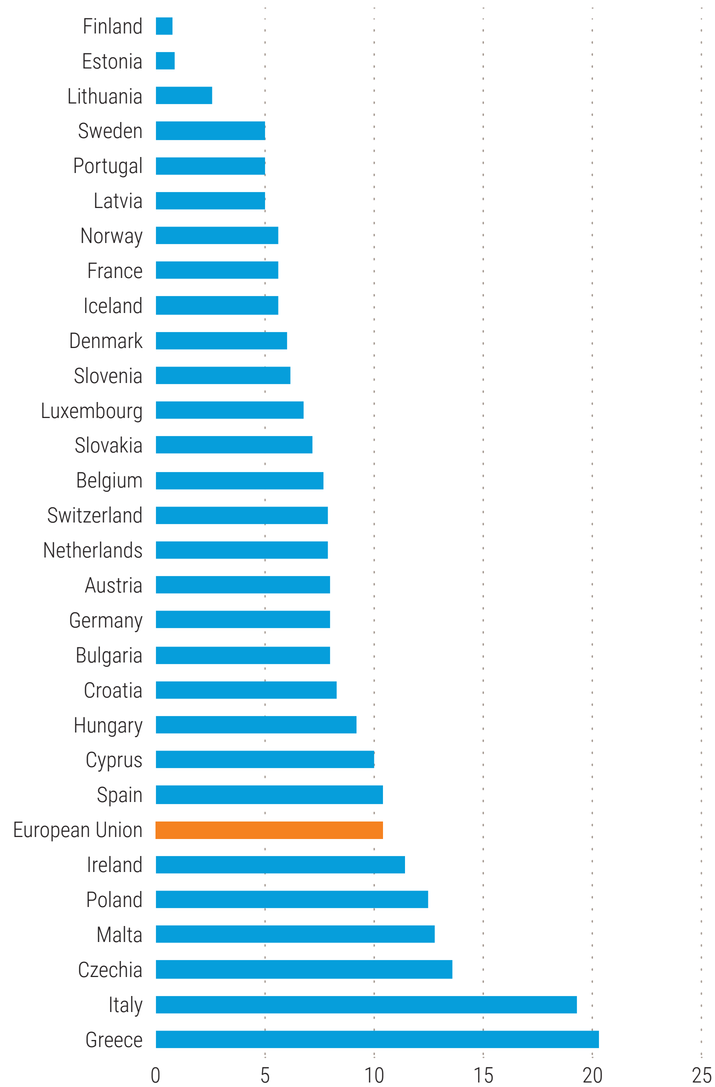
**Change in average hourly wage in the United States and month-on-month inflation**




**Source:** UN DESA, based on FRED database.

Figure 7

**Difference between male and female employment rates in Europe in the first quarter of 2023**




**Source:** UN DESA, based on data from Eurostat.

in some countries, for example, in the US, start to outpace increases in consumer prices (figure 6). It will take at least a year of this positive differential to overcome the cost-of-living crisis caused by the inflation spike since 2022. However, certain factors restrict workers' bargaining power, for example, in the United States, the post-pandemic resumption of immigration is expanding labour supply, while corporate concentration (for many sectors of the US economy, the top one per cent of companies control over 90 per cent of assets) can help keep wages down even with increasing productivity.

## GENDER GAPS IN LABOUR MARKETS PERSIST, WHILE YOUTH UNEMPLOYMENT REMAINS A CRITICAL SOCIAL PROBLEM

In most countries across the world, including developed economies, the initial labour market impact of the pandemic was much more detrimental for women than for men. Due to a number of factors, such as increased childcare responsibilities, impact of lockdowns on those sectors (education, hospitality, travel) that predominantly employed women, millions of women were forced to leave the labour force in 2020. The situation has improved somewhat during the recovery process, in particular in the OECD area, where the gap between employment of men and women has even declined compared to its pre-pandemic level.[16] According to OECD findings, during the post-pandemic recovery, employment growth was stronger for women than men. In May 2023, total employment of women in the OECD area expanded by 1 percentage point more than of men, compared with December 2019, and exceeded the pre-pandemic level by 3.5 per cent.[17] Despite these encouraging trends, signif-

16 Salvatori, A. (2022), "A tale of two crises: Recent labour market developments across the OECD", in OECD Employment Outlook 2022: Building Back More Inclusive Labour Markets, Paris: OECD Publishing.

17 OECD (2023), loc. cit.

icant gender gaps in employment still remain in place, with the difference between male and female employment rates reaching double-digit levels in some European countries (figure 7).

It is important to stress that while both the unemployment rate and employment rate are the most widely used indicators to reflect the situation in a labour market, these indicators do not reflect barriers in accessing jobs, including informal barriers based on the entrenched social norms and practises. According to most national statistical offices, in order to be included in the unemployment statistics, a person is required to actively seek employment and to be able to start working immediately. To address this deficiency, the ILO has developed a new indicator called the jobs gap that removed the restrictions of active job searches and immediate availability. According to that indicator, the global jobs gap rate reached 12.3 per cent in 2022 (for high-income and upper-middle-income countries, though, it was less than 5 per cent), which is twice as high as the global unemployment rate, with even more pronounced gender disparities, not least because of childcare duties and social barriers to employment. Globally, the jobs gap for women is 14.5 per cent, compared to 9.8 per cent for men. Although gender disparities are more pronounced in developing countries, especially in low-income countries, even developed economies are still facing numerous barriers, both formal and informal, to female employment.

Despite the remarkable rebound in global labour markets in the aftermath of the pandemic, recovery in youth employment is still lagging, and this applies to the OECD area as well. Unemployment rates for young people (aged 15–24) exceed the average figures. Moreover, a group of them is in NEET category, meaning not in employment, education, or training, which means they are other unemployed or economically inactive. Such phenomenon is affecting future prospects not only at the individual level, but also at the macroeconomic scale. The gender gaps in youth unemployment are difficult to evaluate as lower female unemployment may be explained by lower participation rate. There has been notable progress in reducing youth unemployment in a few EU countries, including Greece and Spain, where the corresponding figures declined from the alarming 45 and 40 per cent observed in mid-2020 to around 23 and 27 per cent in the summer of 2023.

## POLICY CHALLENGES

While inflation started to decelerate across the OECD area, its impact on households continues to remain tangible, requiring policy actions to alleviate the cost-of-living crisis and supporting real wage growth. Apart from targeting higher real wages, including through higher real minimum wages, and using indexation mechanisms where applicable, the governments need to design policies to prevent disproportionate increases in corporate profits at the expense of labour income. It is also important to aim at achieving a more equitable real wage distribution – for example, in Europe wage inequality is one of the dominant sources of income inequality.

In many developed countries, addressing prevalent youth unemployment and lowering NEET rates remains a critical challenge. Implementation of green economy projects, including expanding production of sustainable energy, digitization of the economy, and investments in the education and health care sectors, can create millions of additional jobs for the younger generation. One important area, where policies can help to reduce youth unemployment is the gradual elimination of mismatches between the skills that are obtained through formal education, and actual requirements of existing jobs.