MEASURING MAXIMUM EMPLOYMENT

A Labour Market Perspective

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OECD
BETTER POLICIES FOR BETTER LIVES

The objective: "maximum employment"

- *"The maximum level of employment is a **broad-based** and **inclusive** goal that is not directly measurable and changes over time owing largely to nonmonetary factors that affect the structure and dynamics of the labor market"* (FOMC long-run goals of monetary policy strategy, Jan 2022; reaffirmed Jan. 2023).

- *"Although the **unemployment rate** is a very informative aggregate indicator, it provides **only one narrow measure** of where the labor market is relative to max employment*. (Gov. Brainard, *How Should We Think about Full Employment in the Federal Reserve's Dual Mandate?*, Feb. 2021).

- FED said that it would respond to *"**shortfalls of employment from its maximum level**" rather than the "deviations from its maximum level".* This change signals that high E, in the absence of unwanted increases in inflation or the emergence of other risks that could impede the attainment of the Committee's goals, will not by itself be a cause for policy concern. (FED, Statement, Aug. 2020).

- Max E = broad-based and inclusive → "This reflects our appreciation for the **benefits of a strong labor market, particularly for many in low- and moderate-income communities**". (FED Chair Powell, *New Economic Challenges and the Fed's Monetary Policy Review*, Aug. 2020).

A battery of labour market indicators to inform on "maximum employment"

- Complementary labour market information useful both in the **short and longer –term :**

- In the short-term:

  - **Labour shortage** (U/V and by sector)

  - **Hours worked**

  - **Wage dynamics**

  - **Profit dynamics**

- In the longer-term:

  - **Demographic trends**

  - **Labour force participation**
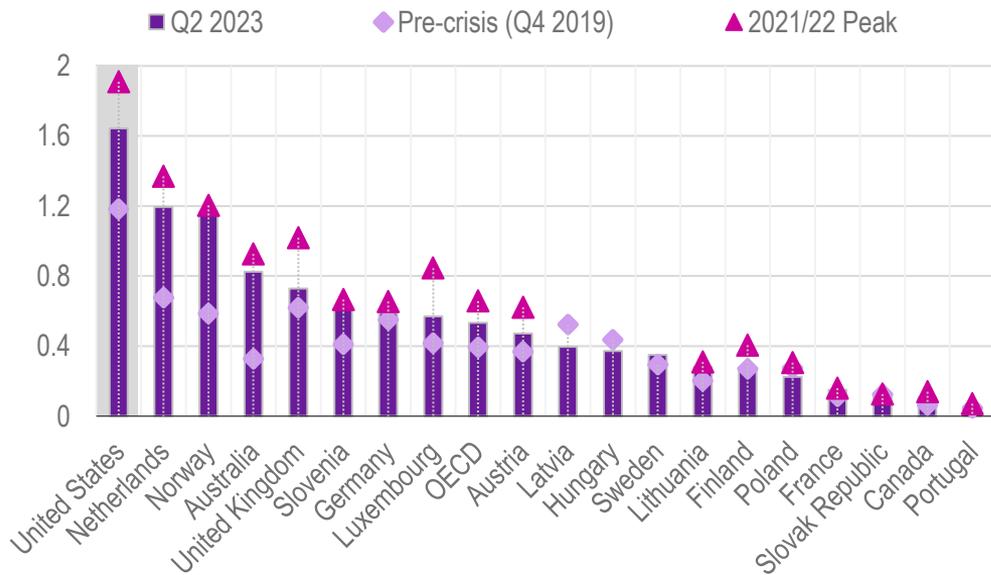
  - **New forms of work**
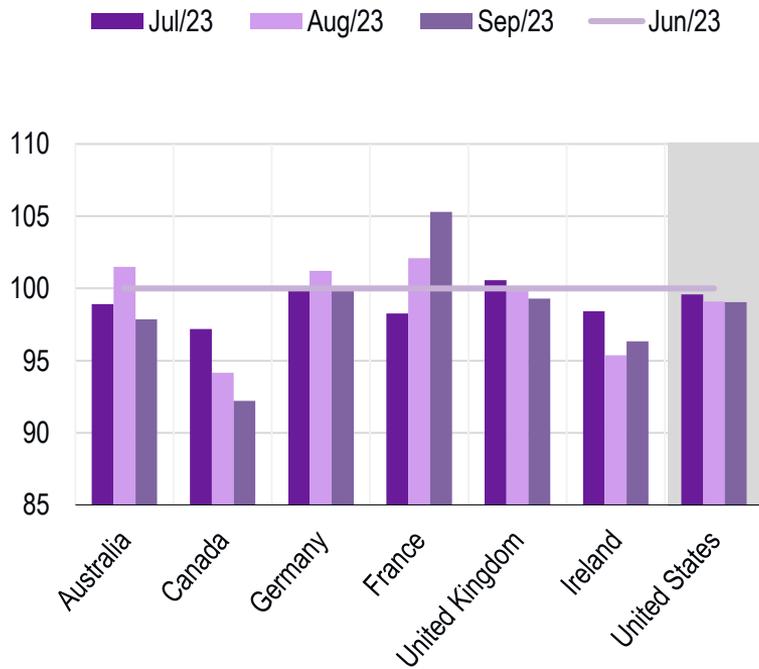
  - **Allocative mismatch**

CYCLICAL FACTORS

Measures of labour market tightness

Number of vacancies per unemployed person, 2019, COVID Peak and latest
National definitions, seasonally adjusted
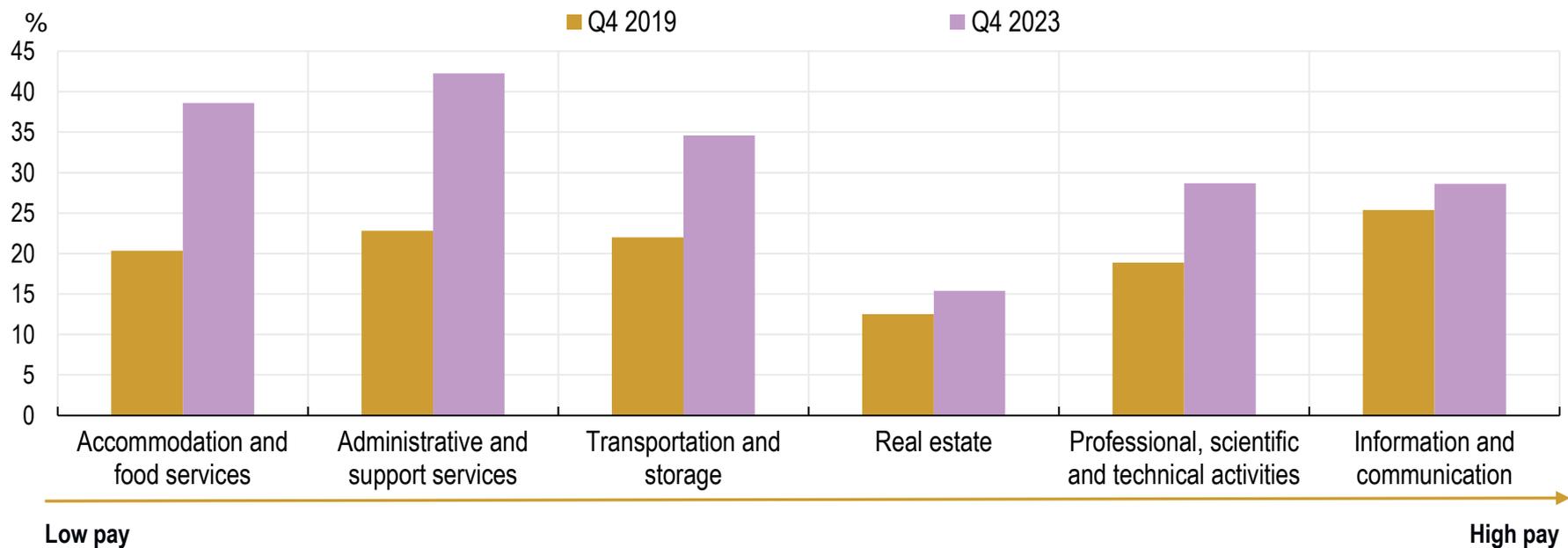
Online job postings in 2023
Indeed online postings, June 2023 = 100, seasonally adjusted National
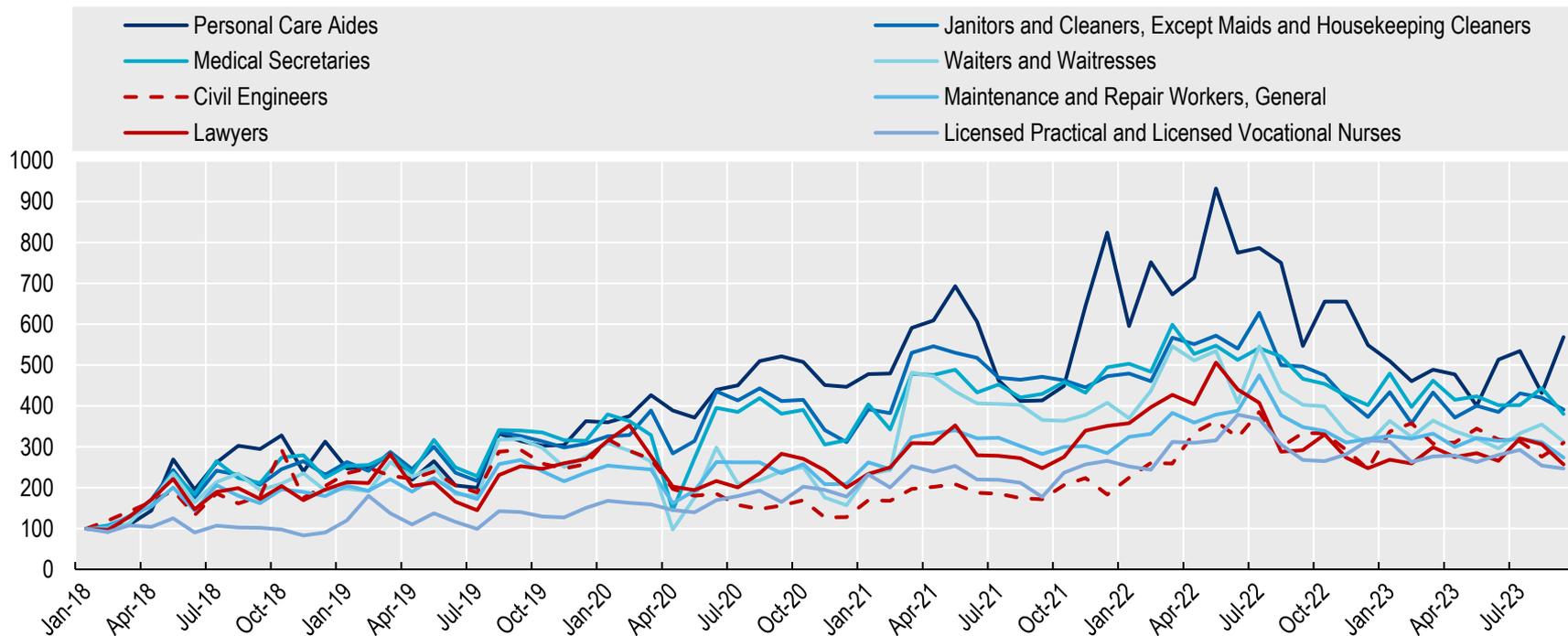

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Sectoral differences in labour shortages

Percentage of firms reporting recruiting challenges by service sector in EU-27 member states in Q4 2019 and Q4 2023, seasonally adjusted

Evolution of online vacancies in the U.S.

**Evolution of online job postings by occupation** (SOC-6d), USA, selected occupations

Note: the index takes value 100 in Jan-2018. Occupations presented in the chart are selected based on the volume and growth rate within each 2digit SOC category. Monthly data for the United States. Source: Lightcast

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Wage dynamics: real wage trends

Change in nominal and real hourly wages

Year-on-year percentage change, Q2 2023

◆ Nominal hourly wage   ▼ Real hourly wage (↗)
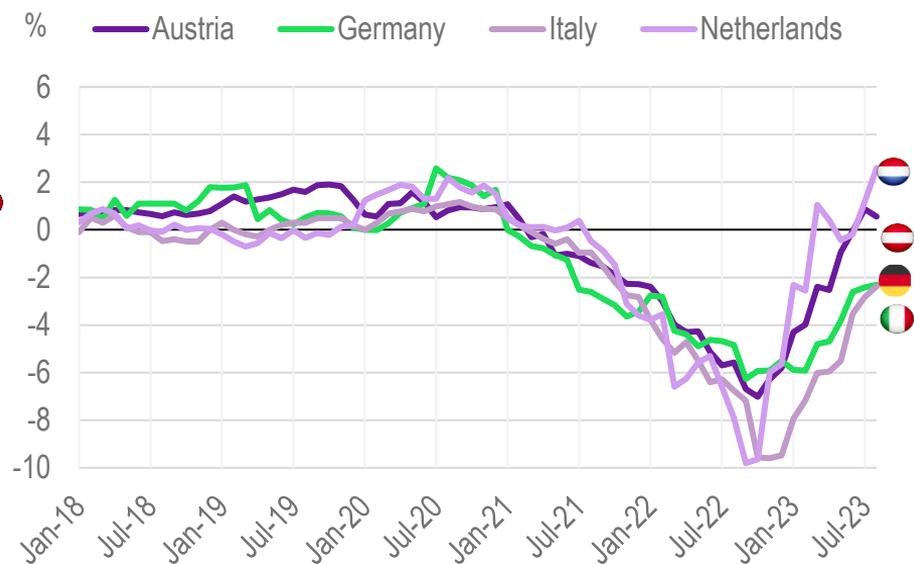
© OECD
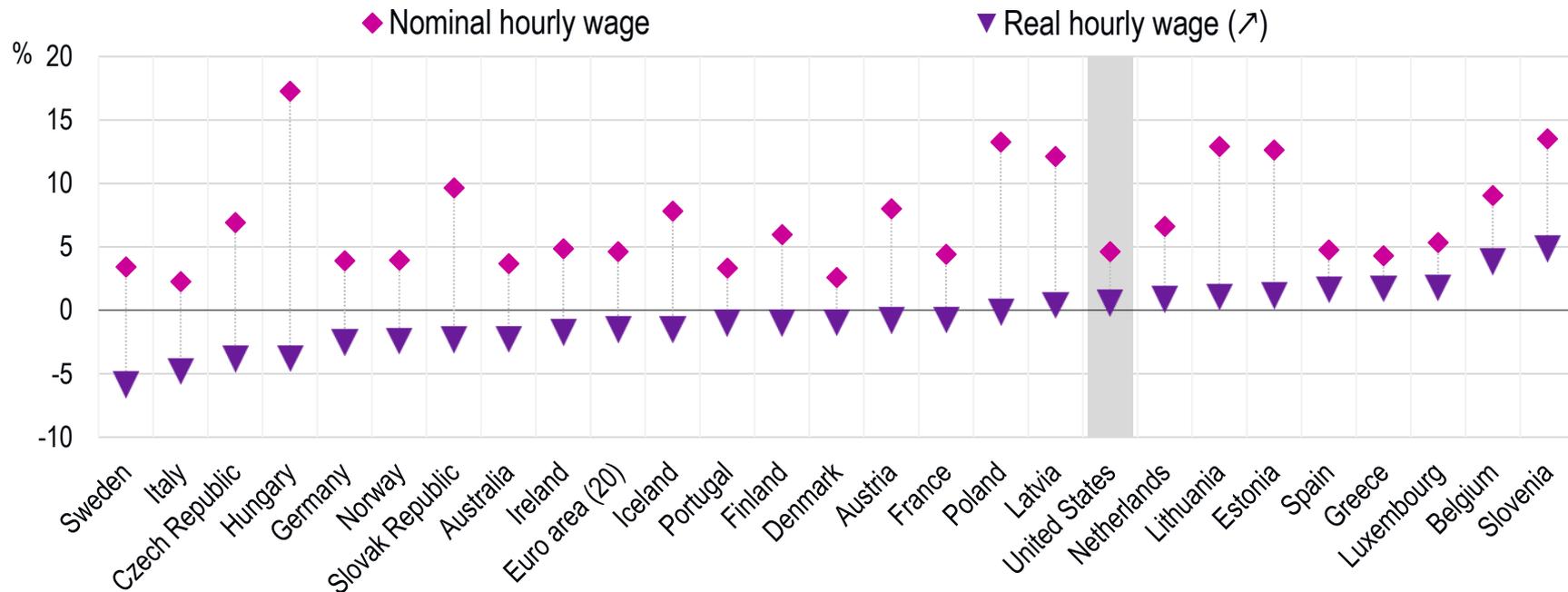
Wage dynamics: negotiated wages

Negotiated wages in real terms

YoY % change in negotiated wages (i.e. resulting from collective agreements)

A. Quarterly data

%

— Canada — Euro area* — France — United States*

B. Monthly data
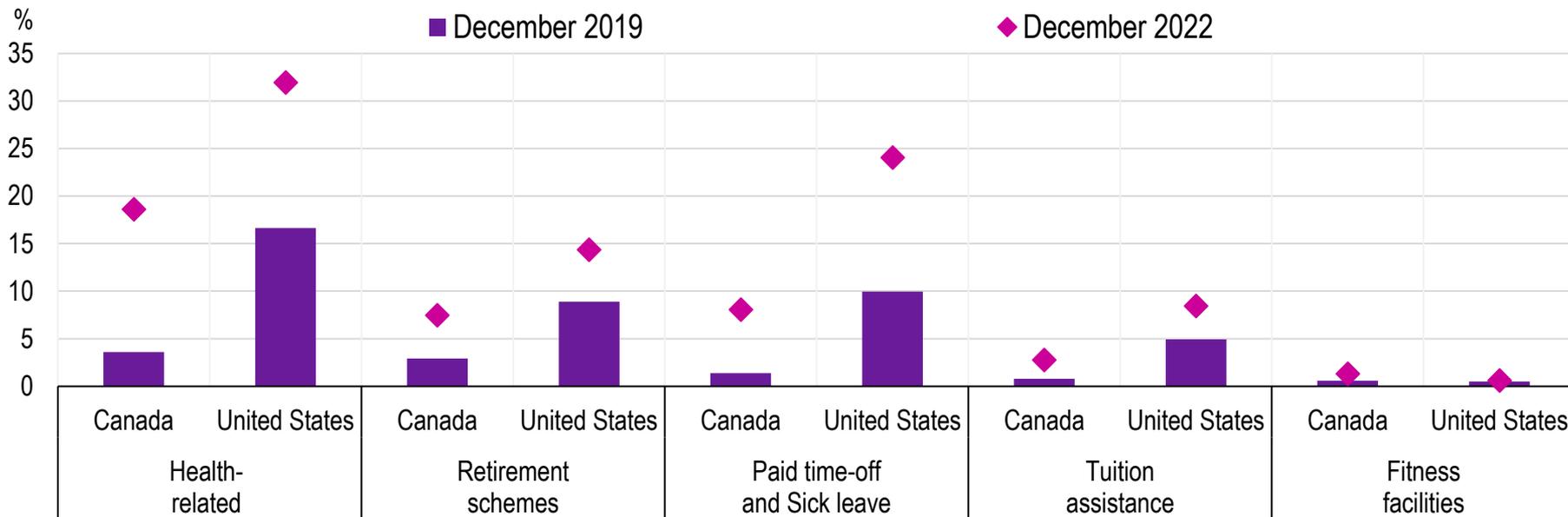
%

— Austria — Germany — Italy — Netherlands

9
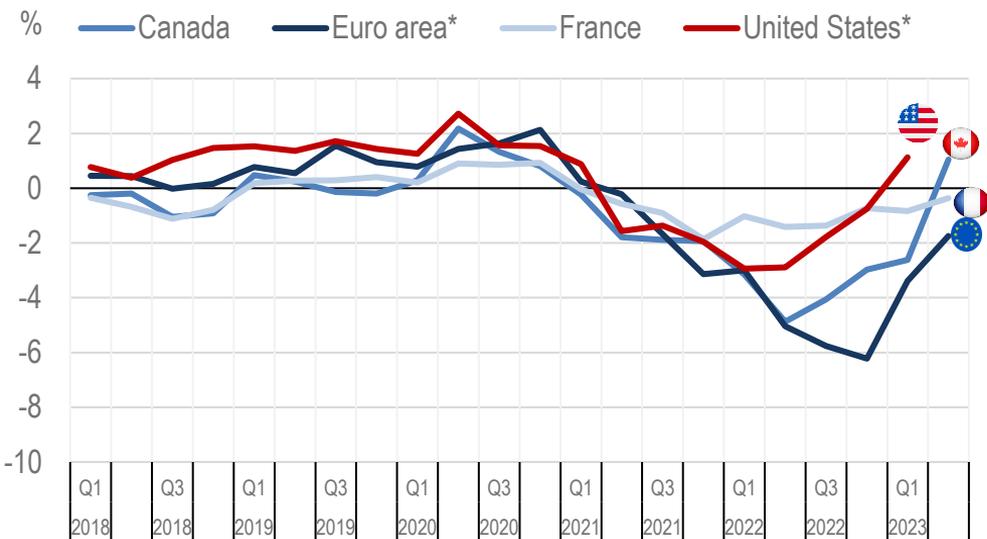
Wage dynamics: benefits

Online job postings offering benefits in Canada and the United States

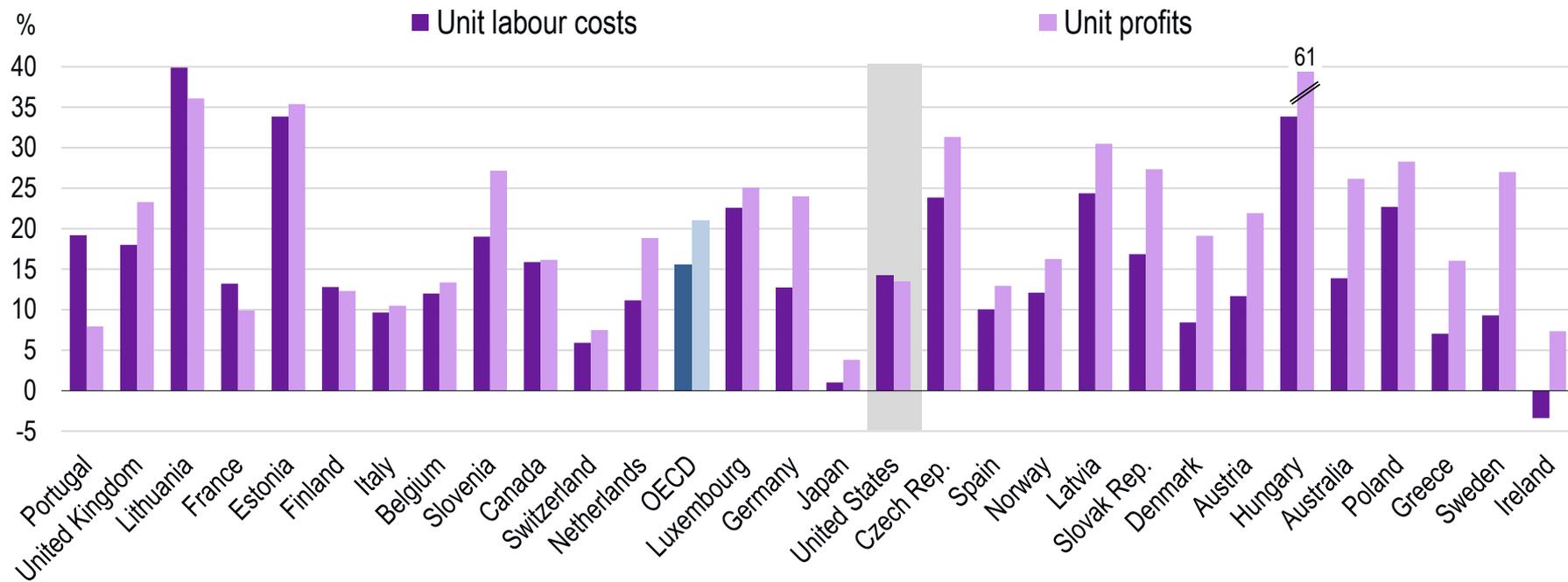Percentage share of job posting offering each benefit by country

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Inflation and profit dynamics

Change in labour costs and profits
Percentage change from Q4 2019 to Q1 2023, seasonally adjusted data

■ Unit labour costs   ■ Unit profits

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Summary of cyclical factors

| Cyclical factors	Indicator	Availability	Frequency of updating
Labour shortages	Direct measures (business surveys) / Online job vacancies	EU countries / Most OECD countries (incl. **USA**)	Quarterly / Monthly
Wage dynamics	Negotiated wages / Posted benefits and wages	EU countries, CAN / **USA**, CAN	Quarterly or Monthly / Monthly
Profit dynamics	Unit profits vs. unit labour costs	Most OECD countries (incl. **USA**)	Quarterly

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STRUCTURAL FACTORS

Labour force participation is increasing…

Labour force participation rate, 25-64 years olds

% in same age group, 1980 – 2022
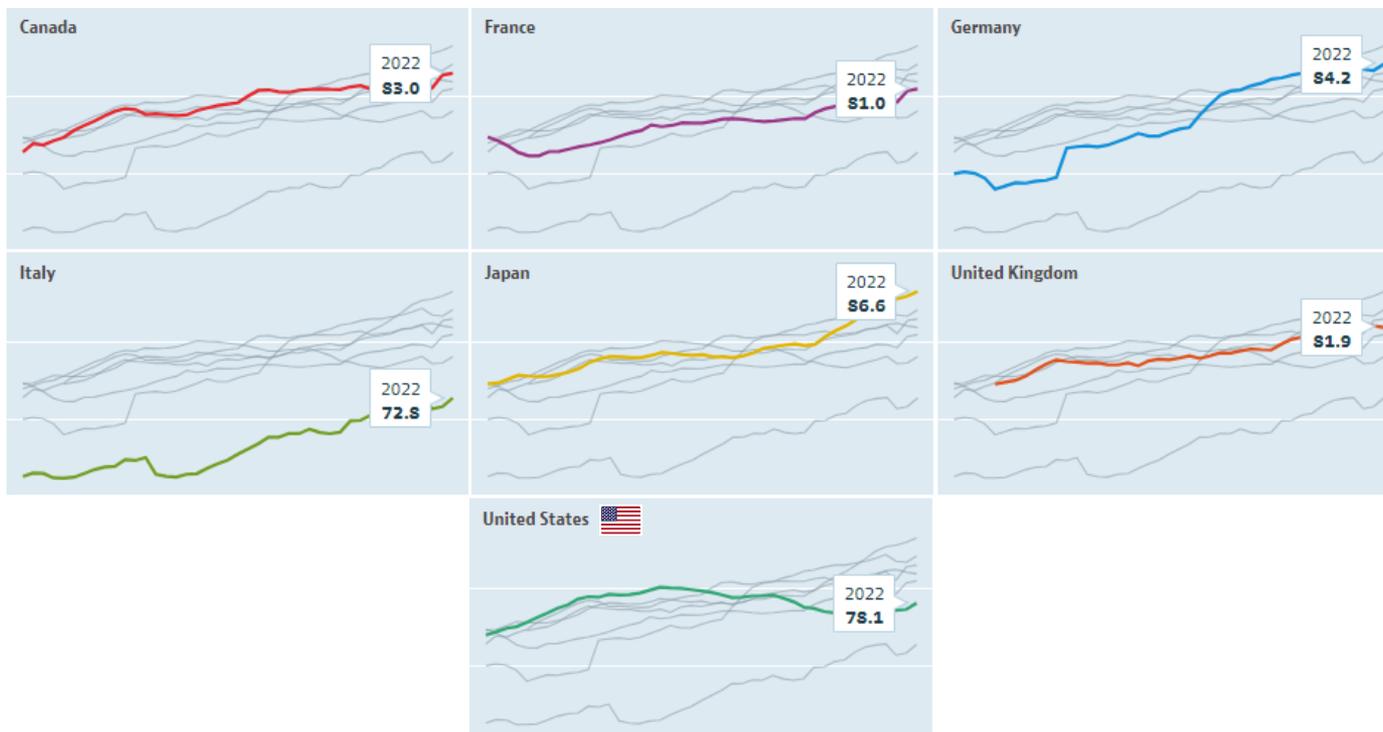
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…thanks in large part to women

Labour force participation rate, 25-64 year olds, men and women
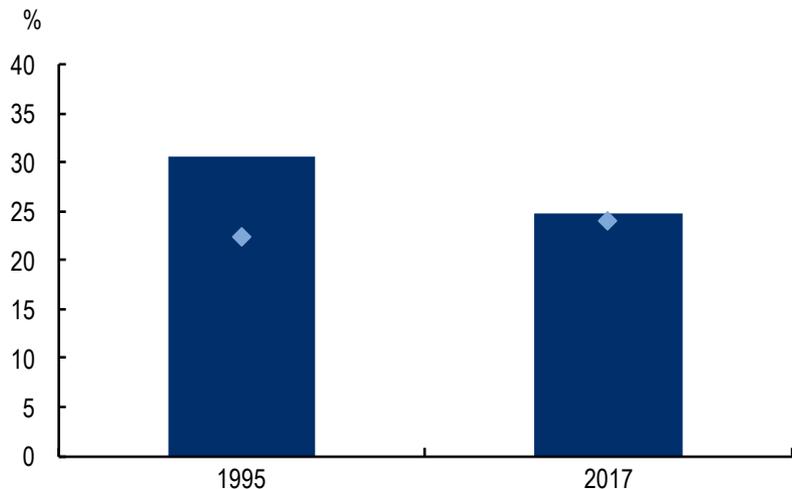
% in same group, 1980 – 2022

Higher employment rates are partly driven by the integration of under-represented groups


OECD   **United States**

A. Overall employment gap
Share of inactive and unemployed as a share of the working-age population(15-64) excluding youth in education or training

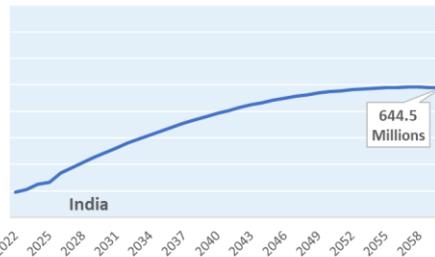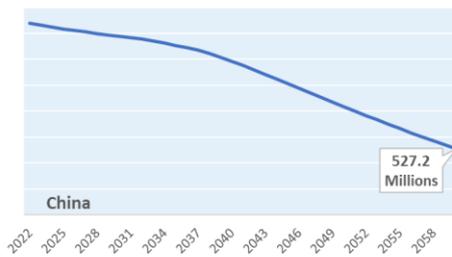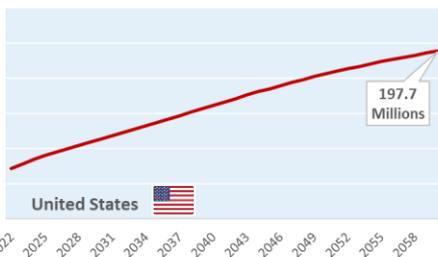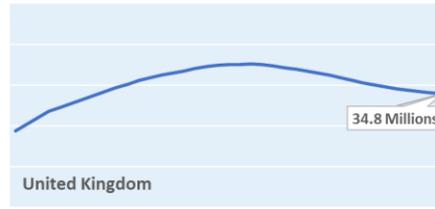**B. Relative employment gap**
Gap in employment rate of underrepresented groups (e.g. youth not in education or training, women and older persons) relative to prime-age men

© OECD   Source: OECD Jobs Strategy (2018)
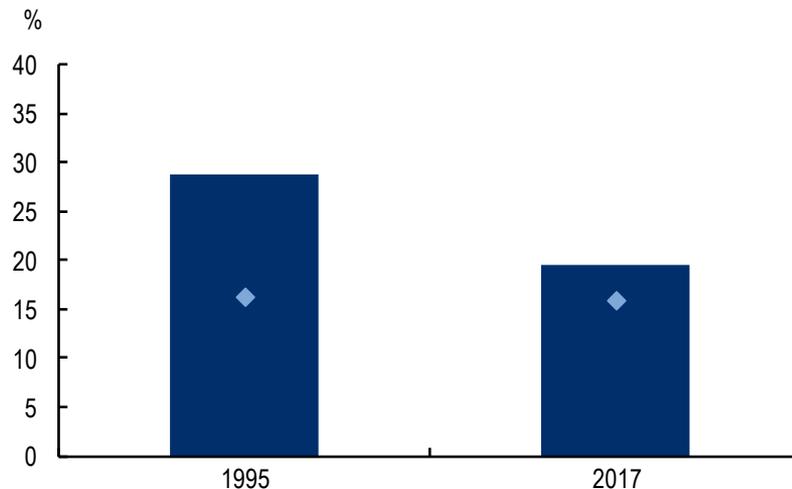
The workforce is expected to shrink in many countries, due to population ageing
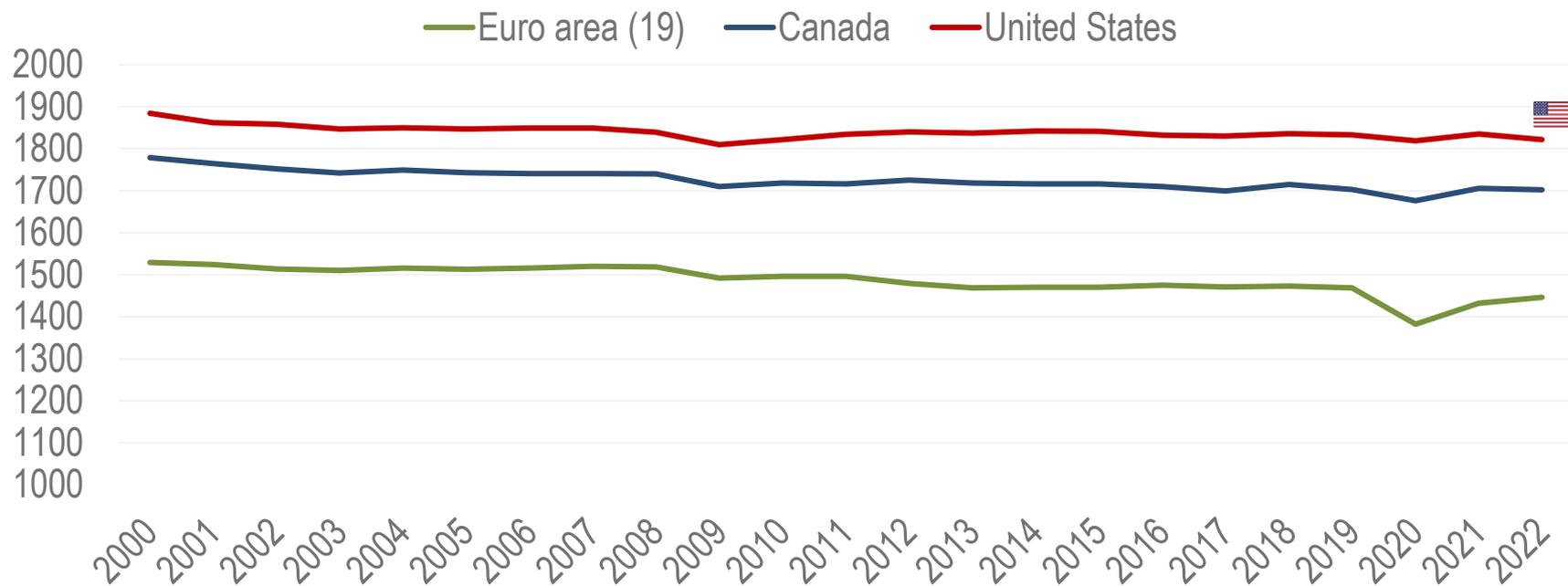
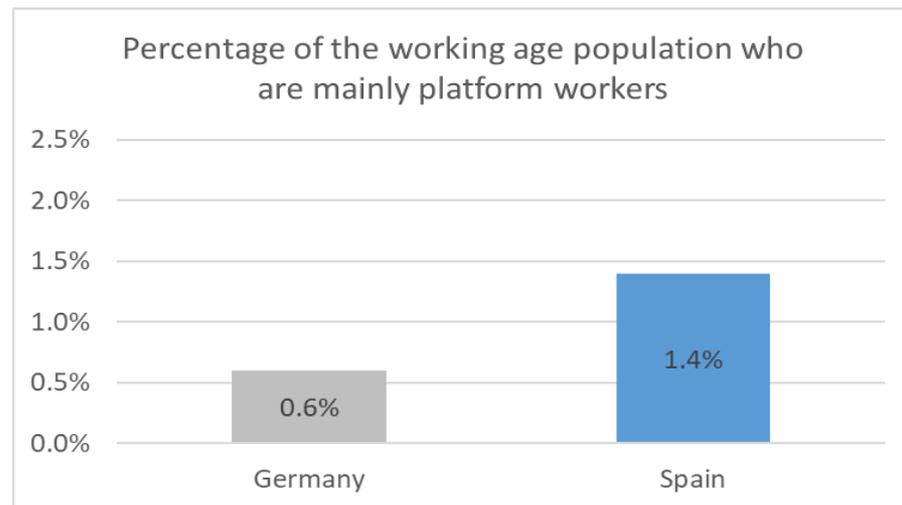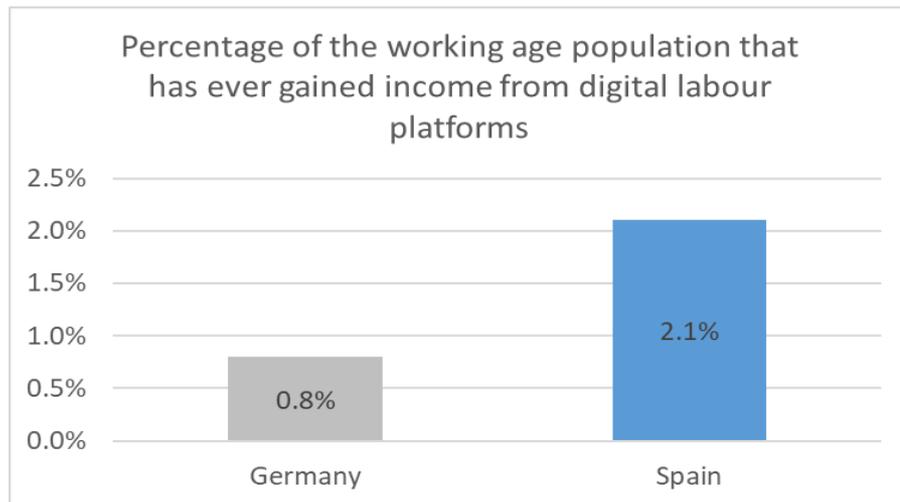**Labour force projections**, aged 15+

Hours worked have declined over time
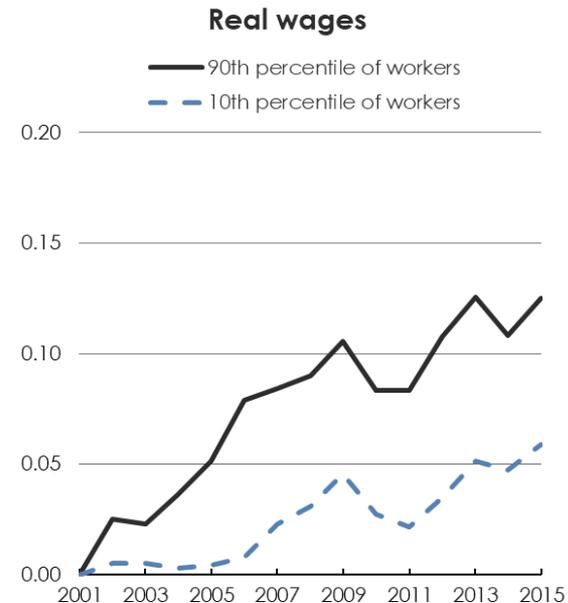
Annual average hours actually worked, per employee
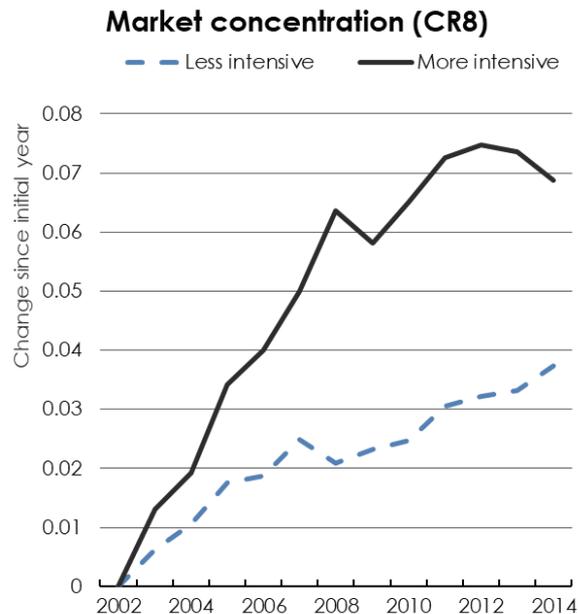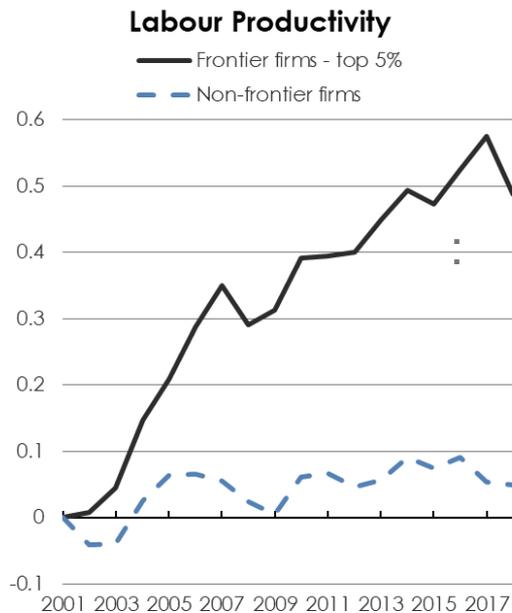
New forms of work might increase labour force participation

Percentage of the working age population that has ever gained income from digital labour platforms

Germany: 0.8%
Spain: 2.1%

Percentage of the working age population who are mainly platform workers

Germany: 0.6%
Spain: 1.4%

Allocative mismatch may have increased

Labour Productivity
— Frontier firms - top 5%
-- Non-frontier firms

Market concentration (CR8)
-- Less intensive — More intensive

Real wages
— 90th percentile of workers
-- 10th percentile of workers

Sources: Andrews, Criscuolo and Gal (2016), Bajgar, Criscuolo and Timmies (2021), Schwellnus, Pak and Pionnier (2018)

Structural change may increase occupational mismatch

Transition probabilities across quantiles of the concentration of occupations across high GHG-intensive industries
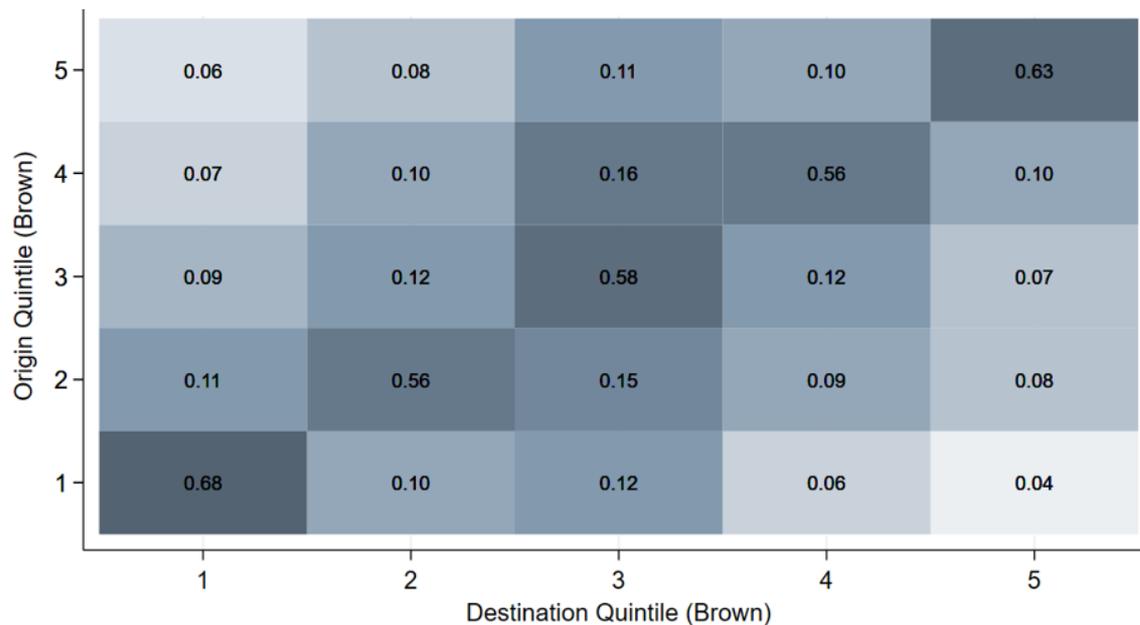
Role of policies

- Employment, skills, family and housing policies influence max employment levels.
  - ALMPs
  - Skills policies
  - Family policies
  - Housing support
  - Fighting against discrimination
  - Wage policies and social dialogue

THANK YOU