

# 19th Annual Meeting of the European Network on Regional Labour Market Monitoring

Lugano, Switzerland 5. – 6. September 2024

## Regional Trends in Labour Market Tightness: Evidence from 30 OECD Countries

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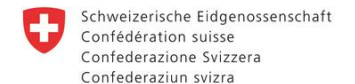
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# Employment at record high across OECD countries and their regions



OECD Regional median of over 70% in 2022:


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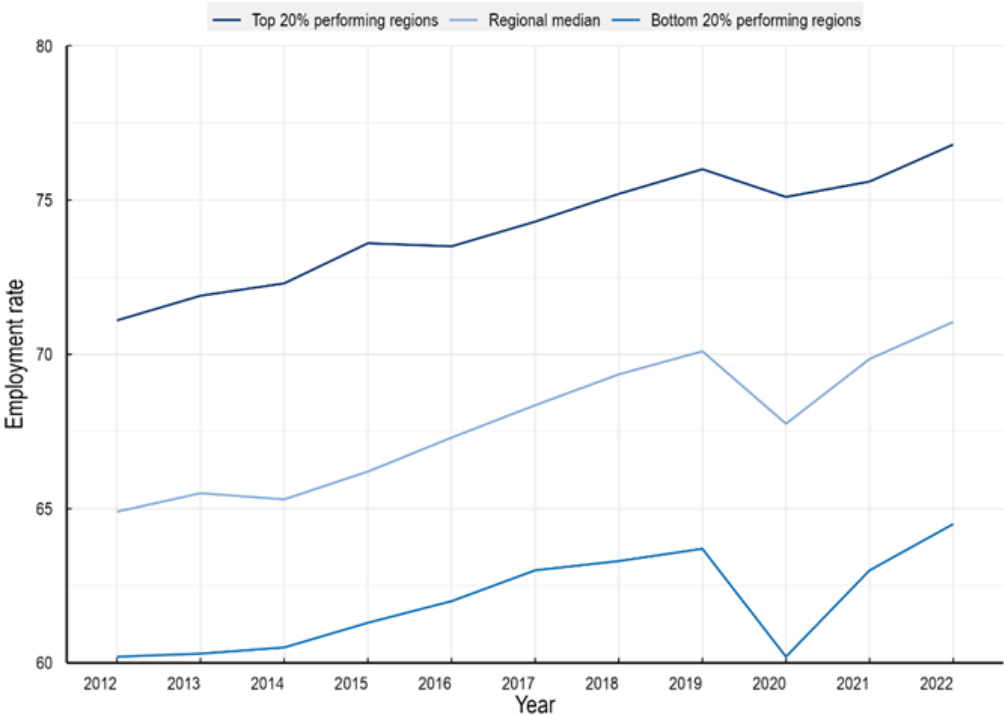
Employment + Add to myFT

Employment soars to record high across advanced economies

Jobs markets remain strong despite high inflation and interest rate rises, OECD data shows



Among reasons given for the persistent strength of jobs markets are ageing populations and changing lifestyles that have led to labour shortages, and a pandemic-fuelled wave of public sector hiring © Christophe Morin/Bloomberg



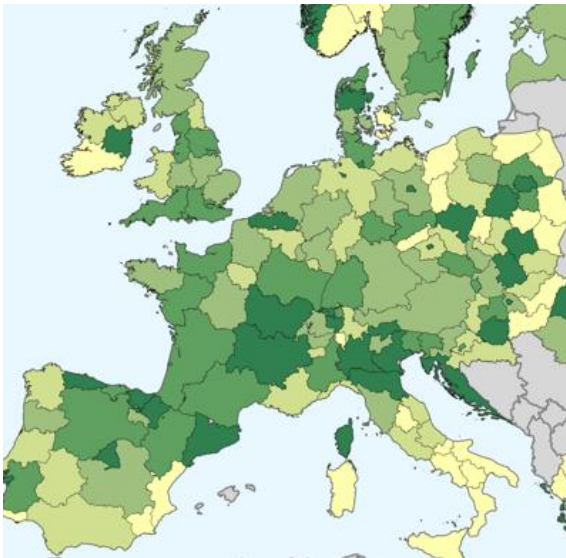
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# What is the geography of labour market tightness?

Aim to fill the knowledge gap on local labour market and industry dynamics

- Many possible reasons driving (regional) labour market shortages:
  - declining or inactive labour force, skills gaps and mismatches, workers' preferences (e.g., regarding working conditions), geographic mismatch, place attractiveness.
- Labour and skills shortages are a potential drag on firms' operations, productivity, and economic growth.



- Country level estimates mask regional-occupational differences.
- Effective policy measures depend on a local labour market perspective, *tailored to address the driver behind specific labour shortages.*



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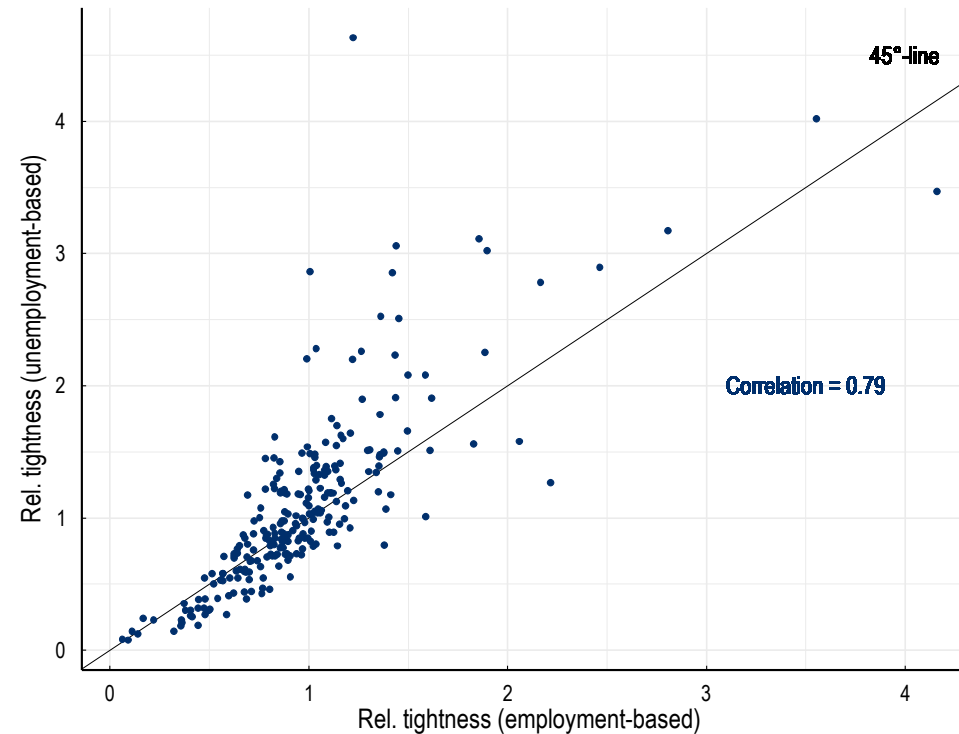
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# Defining labour market tightness

- Labour market tightness in region  $r$  and year  $t$  is defined as :

$$\frac{\text{Online job postings}_{r,t}}{\text{Employment}_{r,t}}$$

- Main benefit:** using employment (instead of unemployment) allows for **breakdown by occupation and industry**
- Employment-based and unemployment-based measures align (correlation of 0.79)



Source: Job Creation and Local Economic Development 2024, OECD (forthcoming).



# Caveats on methodology and data

- **Online Vacancy data** (Lightcast) come with **differences in representativeness across countries**. Hence, we present:

- Aggregate regional results  $\longrightarrow$  relative to national average
- Occupational/industry breakdowns  $\longrightarrow$  relative to regional average



- **Caveat: we do not know whether vacancies are filled.**  
High tightness might indicate:
  - labour shortages or
  - a dynamic labour market with many new hires or job-to-job changes
  - But job transitions have not increased much

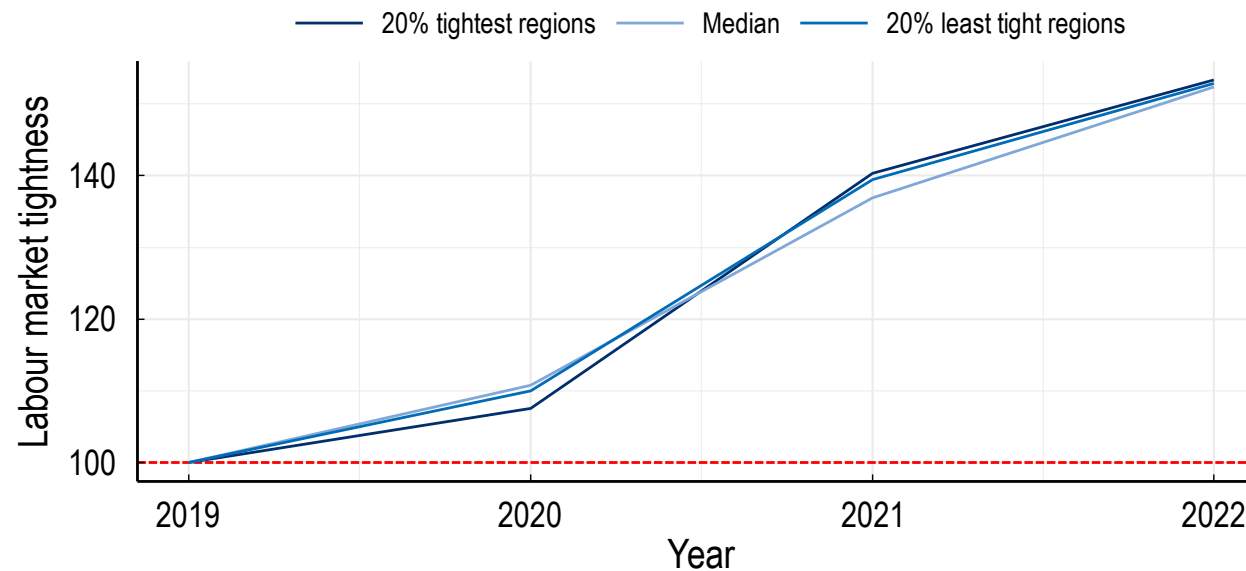


# Labour markets have become tighter



- Low and high shortages regions show similar growth rates in tightness (50% since 2019)
- But, regional disparities between regions in highest (105%) and lowest growth (29%) deciles

Evolution of relative labour market tightness in US regions, 2019 to 2022



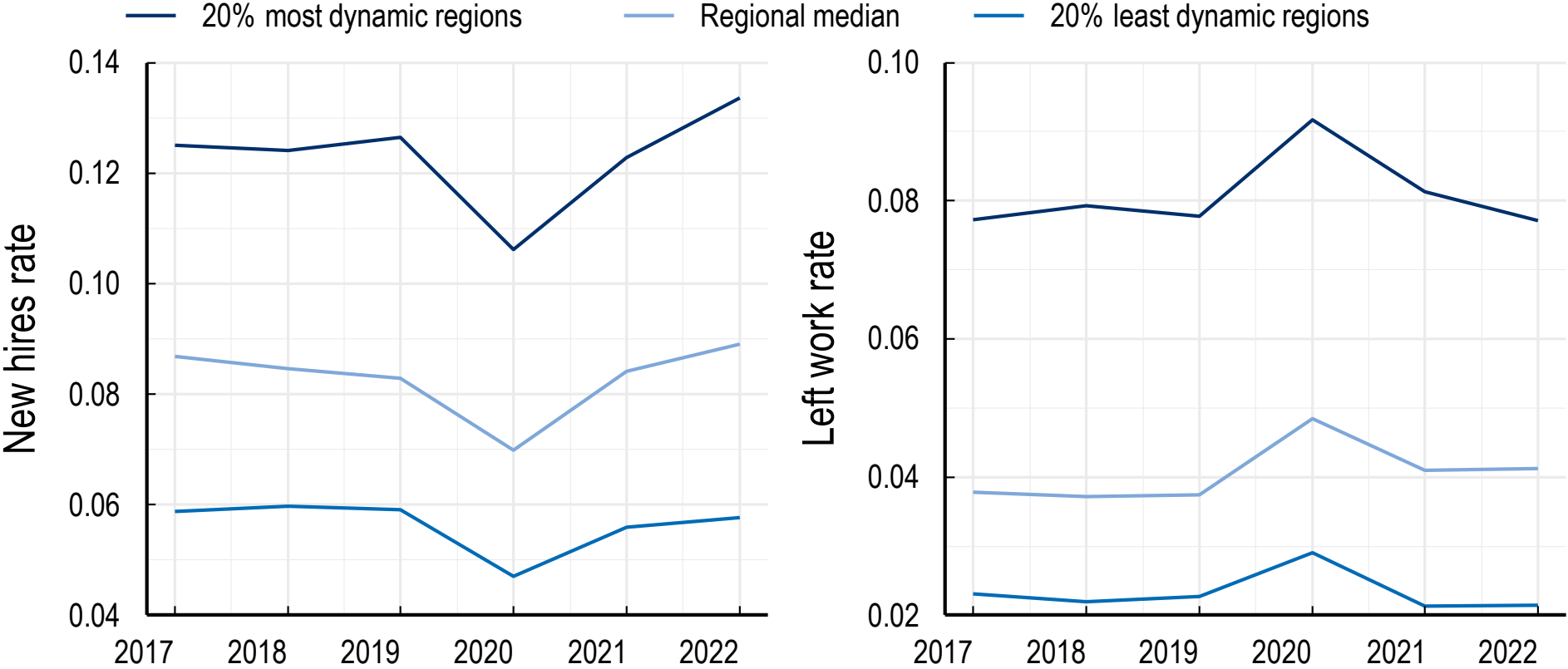
Source: Job Creation and Local Economic Development 2024, OECD (forthcoming).

Note: illustration based on US.

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# Tightness surge goes beyond increase in hiring and quit rates



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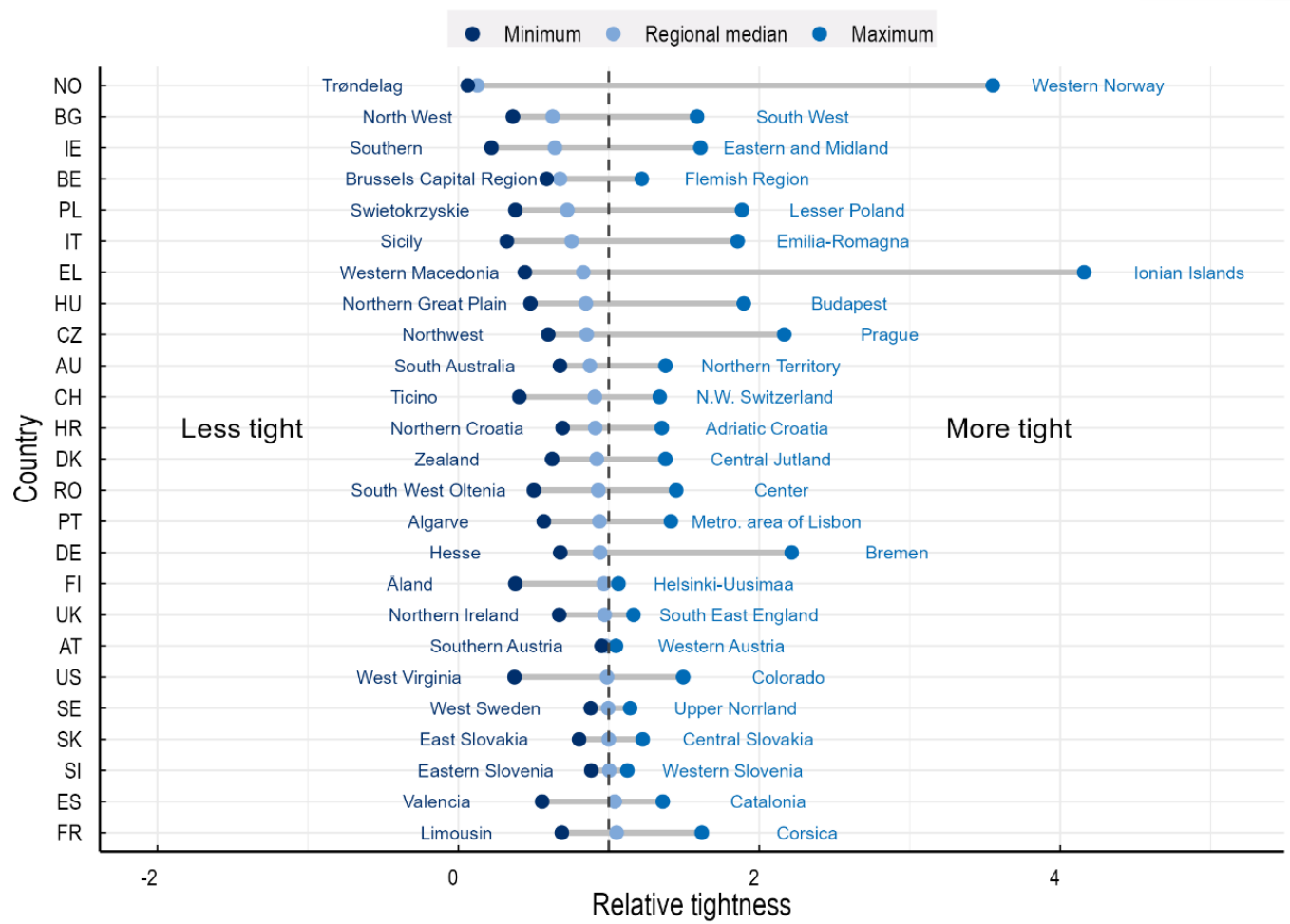
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Source: Job Creation and Local Economic Development 2024, OECD (forthcoming).



# In most OECD countries, labour market shortages vary widely across regions

The average difference between the relatively tightest and least tight region is 1.12 times the national average of vacancies per employed person.



Source: Job Creation and Local Economic Development 2024, OECD (forthcoming).



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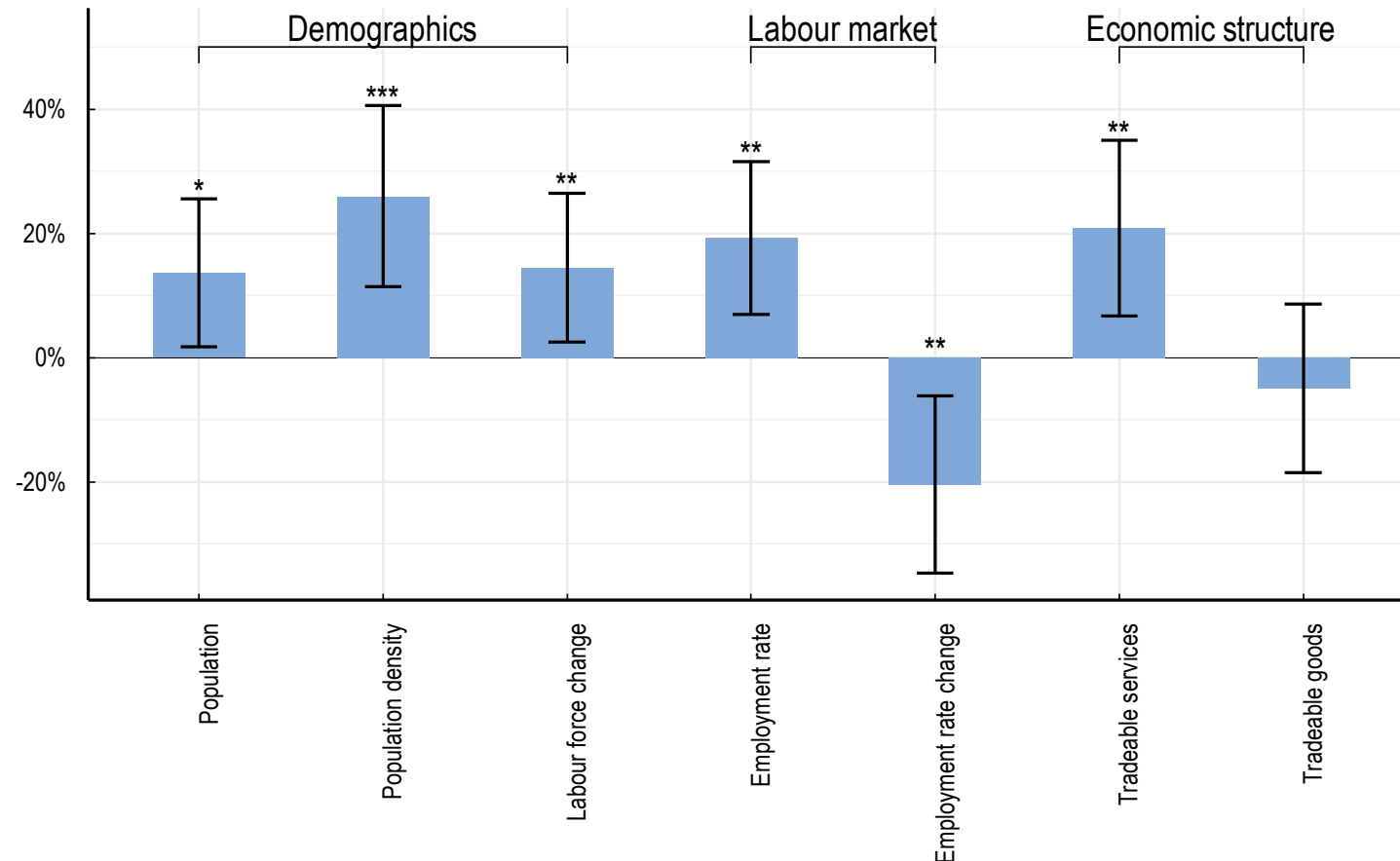
# More urban, high-employment areas show higher tightness levels



**Tightness is higher** in regions with:

- **higher population** (14% rel. to national average)
- **employment rate** (19%)
- **employment in tradable services** (21%).

Average difference in labour market tightness between regions with high levels (i.e. above median) and low levels (i.e. below median)



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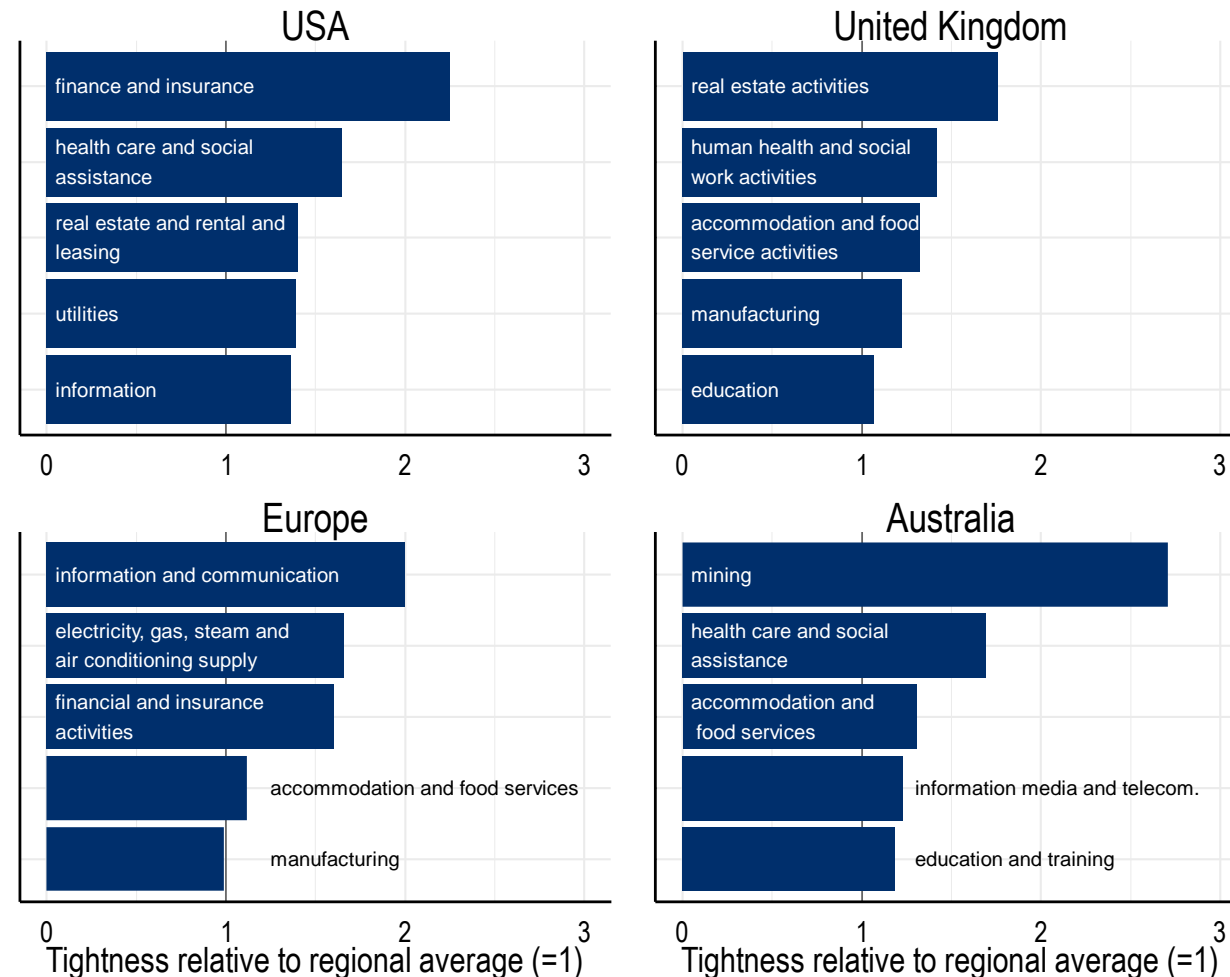
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# Industries differ substantially in terms of labour market tightness



Labour market tightness of the five tightest broad industries (relative to regional average), 2022.

- The **tightest industry** is up to **2.7 times tighter** than the regional labour market
- **ICT, accommodation and food services, and health care** are frequently **among the tightest industries** across geographic areas



Source: Job Creation and Local Economic Development 2024, OECD (forthcoming).

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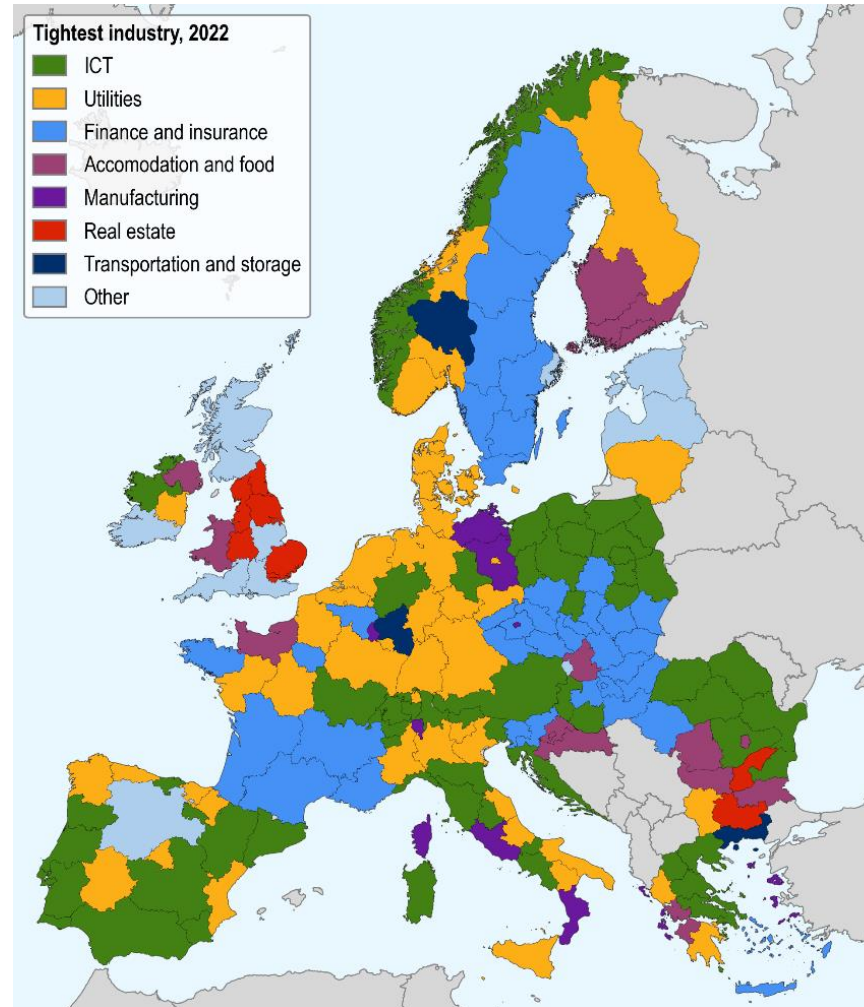
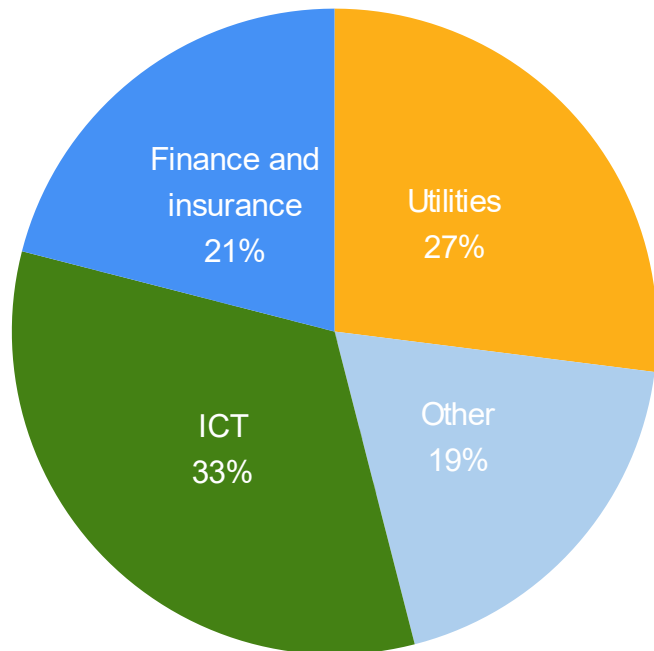
# ICT and utilities are the tightest industries in more than half of all EU regions



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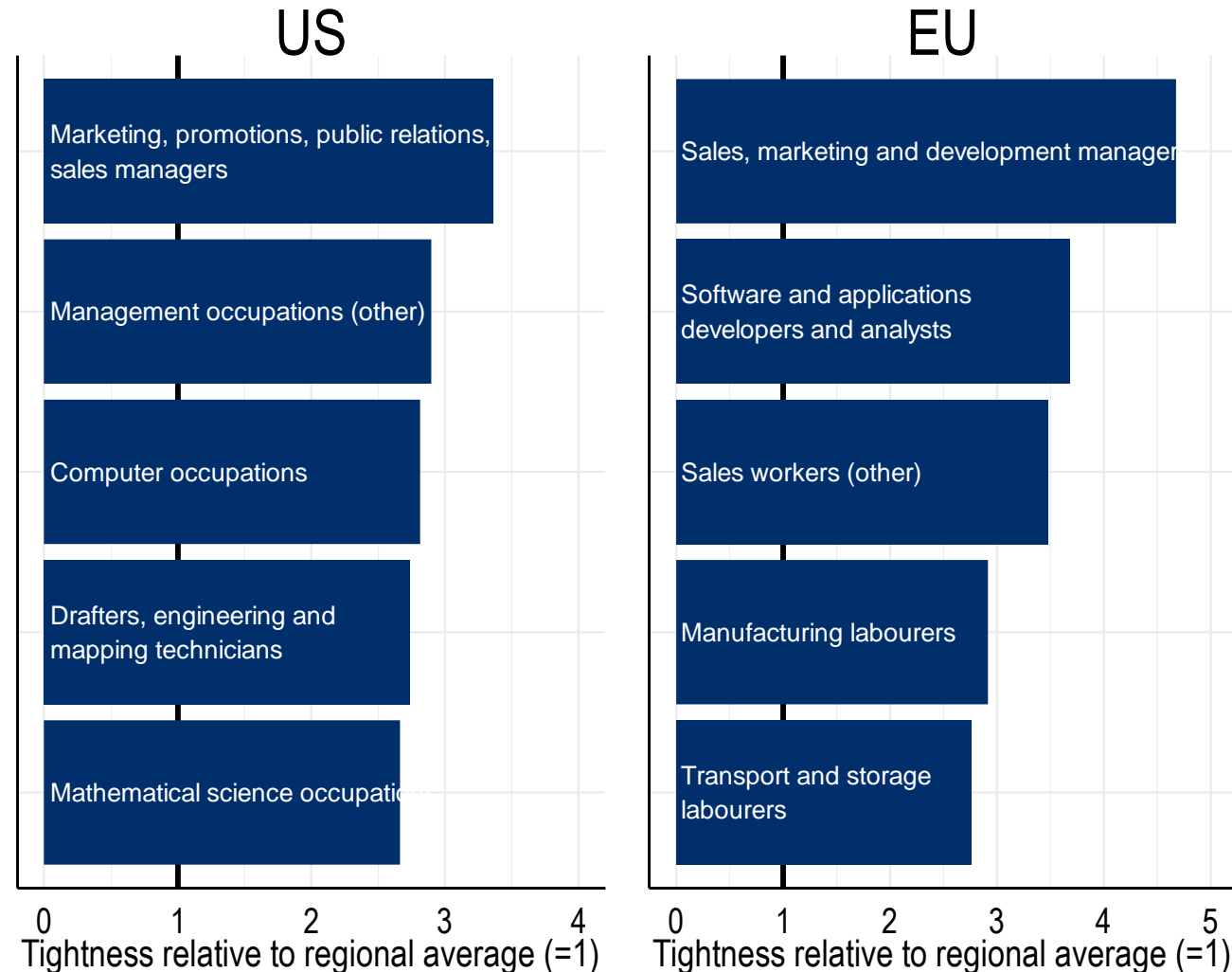
Tightest industry in EU regions



# Labour shortages affect high-skill occupations more than low- and medium-skill occupations.



- **High skill-jobs** are **25%** and **41%** tighter than the average job in the labour market in **Europe** and the **United States**, followed by **low-skill jobs**.
- However, **low-skill jobs** are among the tightest occupations in Europe (e.g. *transport and storage labourers*)
- **Caveat:** bias towards office jobs in online vacancy data.



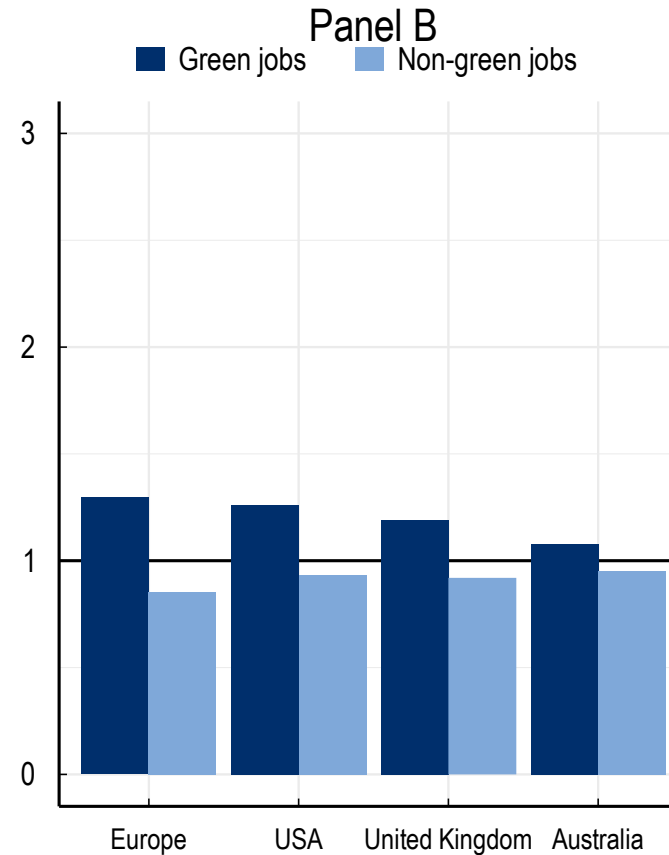
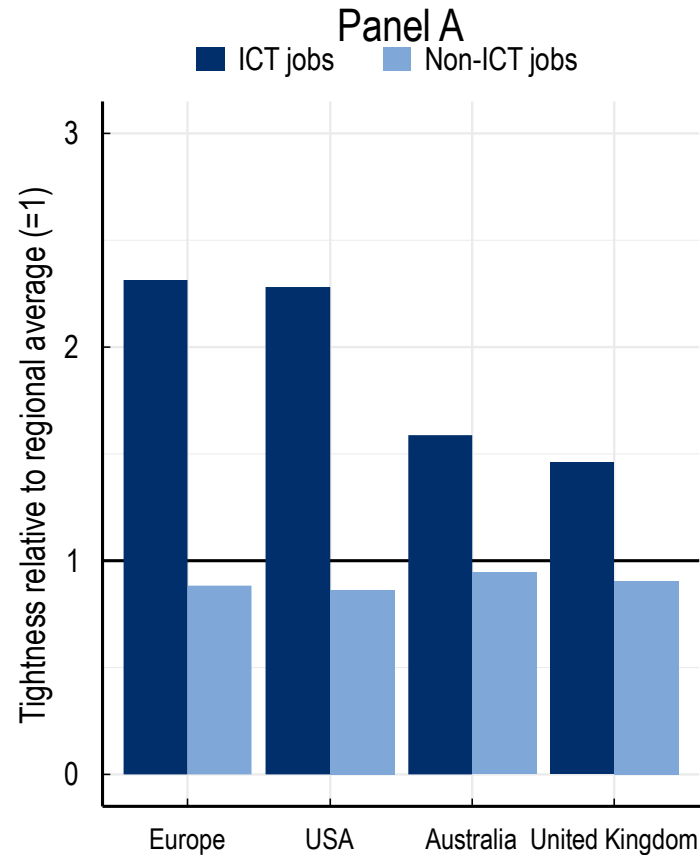
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# Most regions experience shortages of green and ICT talent



- Green-task and ICT jobs are 1.3 and 2.7 times tighter than the labour market on average, partly reflecting higher skills requirements.
- Significant impediment to scaling up green sectors and reaching climate targets



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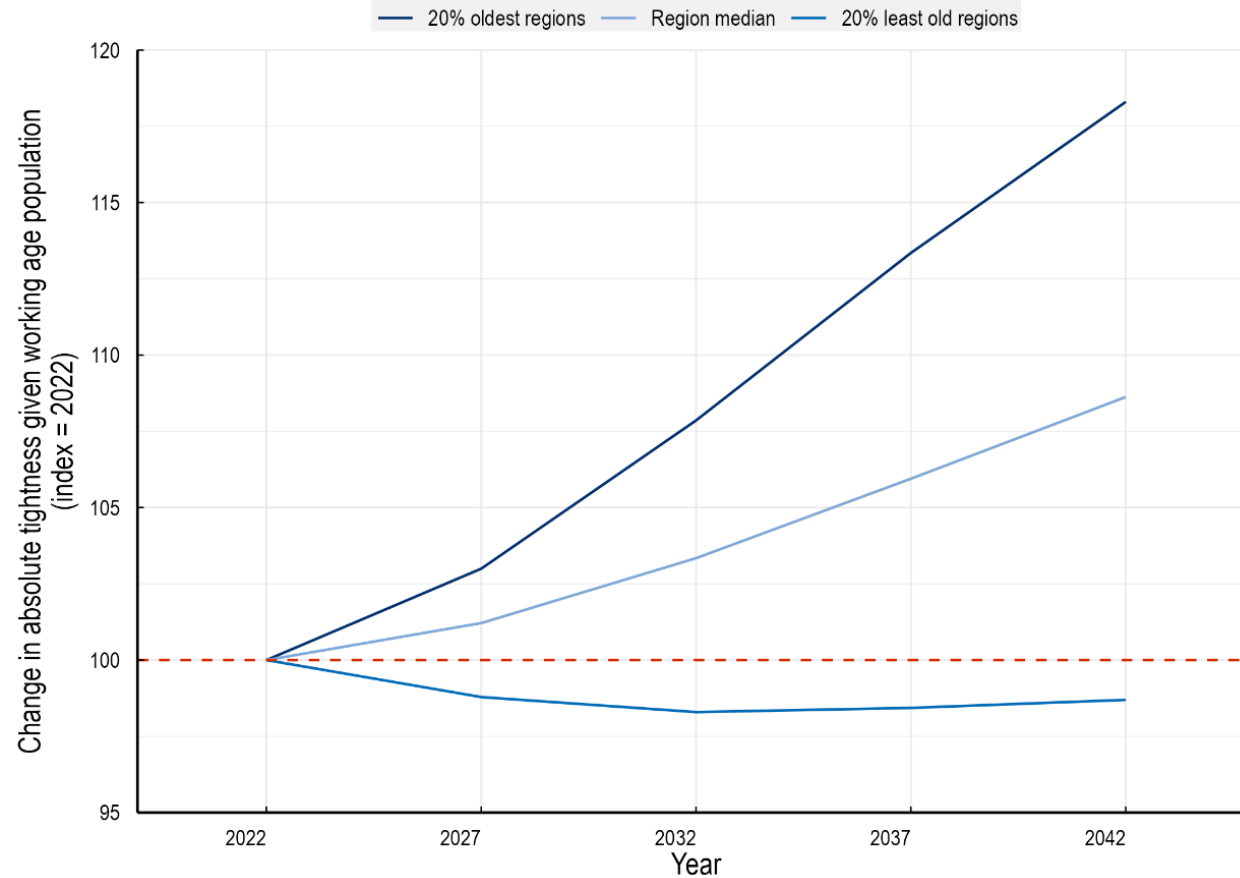
# Demographic pressure will tighten labour markets, especially in older regions



By 2042, the median regional labour market tightness is projected to increase by almost 9%, solely due to the decrease in the working-age population in ageing regions

...and almost 20% in the oldest 20% of regions

“Back of the envelope” calculation:  
How much would absolute tightness increase given the net change in the working age population?



Source: Job Creation and Local Economic Development 2024, OECD (forthcoming).

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# Labour market tightness will increase by more than 5% in over 40% of OECD regions by 2032, and over 70% of OECD regions by 2042



### Top affected regions:

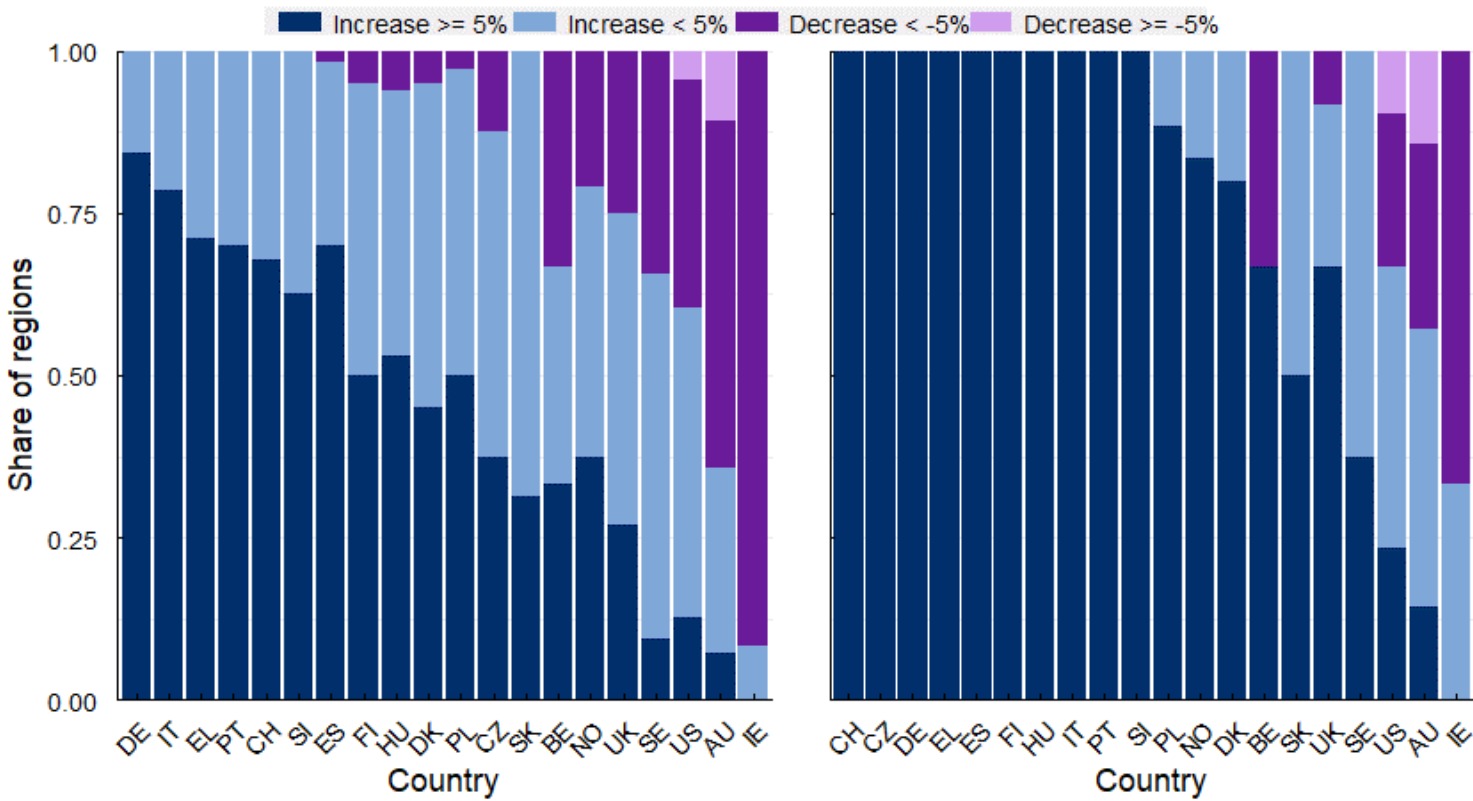
- Asturias (Spain),
- Sardinia (Italy)
- Liguria (Italy)

Increase of over 40% in 2042.

### Least affected regions:

- Utah (US)
- North Dakota (US)
- Northern Territory (Australia)

Decrease of nearly 14% for Utah and 7% for last two by 2042.



Source: Job Creation and Local Economic Development 2024, OECD (forthcoming).

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# Policy levers to alleviate labour shortages



## Increased use of technology and AI in the workplace.

- **Reduction of repetitive tasks** allows workers **more time towards acquiring new skills** and more valued work
- **Productivity increases** through **assistance/automation**, e.g. in manufacturing
- Government can **support technology adoption** among firms by incentivising training provision and by lowering financial barriers (high fixed costs for AI)

## Untapped potential of groups with historically low participation: mothers, youth and the elderly.

- Support programmes such as **accessible early childcare systems, vocational training, reduce discrimination against older workers** through financial incentives and information campaigns.
- Example: 10-CAD-a-day childcare provision in Canada

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# Policy levers to alleviate labour shortages (cont.)



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## Labour market intelligence tools to support job seekers and anticipate shortages

- Recommendation of suitable **job opportunities** (used by 20% of OECD public employment services), **training opportunities** (17%), **vacancy postings for employers** (20%)
- Support workers in **career transitions**, e.g. out of polluting jobs (OECD LEED working paper)
- **Skills demand estimation** at local level (e.g. NESTA)

## Incentivise re-skilling through vocational training and adult education.

- For example, RES-SKILL, a European initiative with local support for coal mining industry workers to transition to renewable energy jobs, such as solar photovoltaic installers or wind turbine technicians.

## Interregional and international migration

- (Financial) incentives to relocate to remote areas, e.g. Japanese Regional Revitalization Policy.
- Recognition of foreign credentials can reduce skills mismatch and improve labour market outcomes