

HIGHLIGHTS

Highlight 1. Labour Market Trends in Serbia and EU in 2019 and 2020

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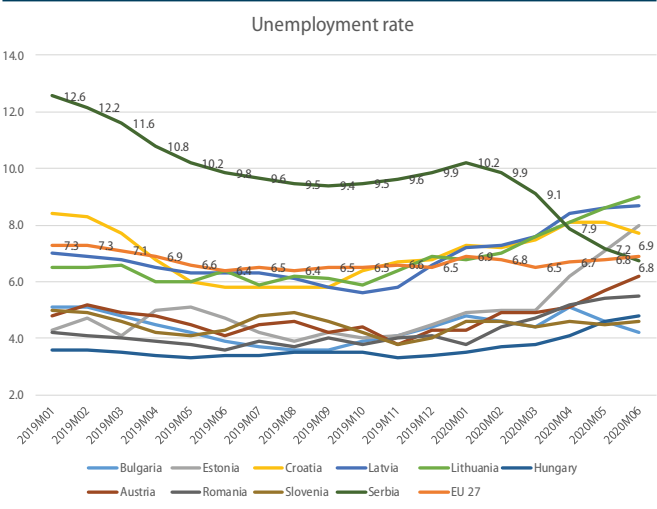
In this Highlight, we will deal with labour market trends in the last year and a half, i.e. during 2019 and the first six months of 2020. We will first show the movement of the unemployment rate in Serbia and EU countries. Then we will analyse labour market indicators that measure labour intensity, which were not often researched before the pandemic, such as absence from work, labour market slack, and average weekly hours worked per employee in the main job. The third part of the Highlight is dedicated to the movement of real wages in the public and private sector in Serbia in year to date.

Unemployment Movements during the COVID-19 Pandemic

Although the COVID-19 pandemic has had major consequences for the economy, the effects on unemployment are still not particularly visible. The reason is the fact that changes in unemployment and employment are lagging behind changes in economic activity. Additional, key reasons for small changes in employment and unemployment, despite the large decline in economic activity, are approval of state aid to the business sector in the form of payment of the minimum wage, deferral of tax and credit obligations, subsidies for new loans, etc. From the labour market point of view, the most important thing is the payment of minimum wages by the state for a large part of employees in the private sector, thanks to which workers who did not work during the second quarter did not lose their jobs. State aid to the private sector and employees and delays in adjusting the labour market to the changes in economic activity are key reasons why the number of employees did not decrease significantly during Q2, so the pandemic effect is still not seen in employment rate data. Graph 1 shows the movement of the unemployment rate in several selected EU countries (Bulgaria, Estonia, Croatia, Latvia, Lithuania, Hungary, Austria, Romania, and Slovenia) and in Serbia during 2019 and 2020. During 2019, the unemployment rate was the highest in Serbia among the mentioned countries.

The unemployment rate in Serbia dropped significantly during 2020, while in most other countries it slightly increased or slightly decreased. According to the latest available data, the unemployment rate in Serbia is at the level of the EU 27 average.

Graph 1. Unemployment Rate Trends in Selected Countries, M01 2019 – M06 2020



Source: For Serbia, author's calculations are based on data from the Labour Force Survey (LFS) and the National Employment Service, while for other countries Eurostat data was used.

State aid to the private sector contributed to a temporary decrease in the unemployment rate in some countries, i.e. its minimal growth in other countries, although economic activity in all countries, during Q2, recorded a deep decline. According to the definition of the International Labour Organisation, unemployed persons are persons who do not have a job, are actively looking for it, and are ready to start working if a job is offered to them. Due to strict epidemiological measures, people who lost their jobs during Q2, as well as some previously unemployed people, could not actively look for work, nor start working if they found a job. Accordingly, persons who lost their jobs during Q2, but also some previously unemployed persons due to inability to look for work, were treated as inactive persons. The transition of people from unemployment to inactivity leads to a decrease in the unemployment rate. The quarterly unemployment rate decreased by 0.3 pp in Ireland, 1.3 pp in France, and 0.7 pp in Portugal, while in Serbia the decrease was as much as 3 pp in Q2 2020 compared to Q2 2019. Based on currently available data for Q2 2020, the reduction in the unemployment rate was the largest in Serbia. Unemployment rates should not be interpreted as meaning that the pandemic and the resulting economic crisis did not have an impact on job losses and rising unemployment. Simply, this indicator will show a much more realistic picture at the end of 2020 and the beginning of 2021. Until then, the

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effects of the pandemic on the labour market should be observed through additional labour market indicators, and the movement of basic labour market indicators should be taken with caution.

Labour Intensity Indicators during the Pandemic

Given that the basic labour market indicators are not able to objectively show the situation on the labour market during the pandemic, the SORS, in accordance with Eurostat recommendations, calculated additional indicators such as: absence from work, labour market slack, and hours worked. Data for Serbia are for the 15+ age group, while for EU countries they are for the 15-74 age group.³

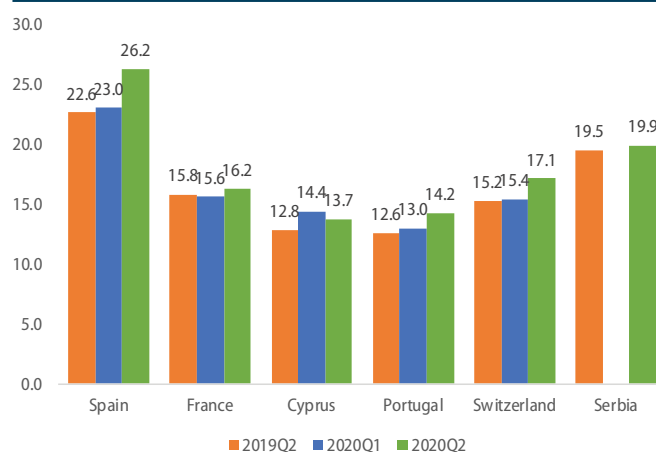
The number of absent employees increased significantly due to a decrease in workload due to epidemiological constraints or economic crisis, while absenteeism decreased due to other reasons (annual leave, public or religious holidays; illness, injury or temporary incapacity; other reasons). While the number of employees absent from work in Serbia due to the reduced volume of work was 5,200 in Q2 2019, in the first quarter of 2020 this number was 68,100, while in Q2 2020 it was 204,200. The number of employees who were absent from work due to reduced workload increased year-on-year by about 200,000, or by about 136,000 compared to Q1 2020. The share of all employees absent from work in the total number of employees was 11.4% and this share is even 6 pp higher compared to the same period last year.

Similar developments were realised in the EU labour market. According to Eurostat data for Q1 2020, compared to Q4 2019, there was a significant increase in the number of absent employees in the EU, primarily as a result of temporary layoffs (seasonally adjusted growth amounted to 2 million).⁴

Another indicator of changes in the labour market is the slack in the labour market, which is the share of the sum of the unemployed; employees who work less than full time and would like to work more; those who are looking for work but cannot work; and those who can work but are not looking for work, in an expanded workforce. Extended labour force means all employed, unemployed, and potential labour force (persons who can work but do not look for work, and persons who cannot immediately start working, but are looking for work), (LFS, Q2 2020).

For most EU countries, data on labour market slack for Q2 2020 are not yet available⁵, therefore, we will base the analysis on a few countries for which data are available. We see that the slack in the labour market increased in Q2 2020 compared to the same quarter of the previous year (Graph 2). This growth is most pronounced in Spain, where it amounted to as much as 3.6 pp, which coincides with the high decline in GDP in this country of as much as 22.1% year-on-year. The slack of the labour market was even higher in Serbia than the EU average even before the outbreak of the epidemic. In the last two years (2018 and 2019), the EU average was around 14%, while in Serbia it was around 20% (15-74 age group). Northern Macedonia and Montenegro, as well as Spain and Greece (24-26%) had higher values than Serbia.

Graph 2. Labour Market Slack, 2019-2020, %



Note: Data for Serbia are for the 15+ age group, while for EU countries it is 15-74.
Source: Eurostat for EU, SORS for Serbia

An important indicator of the actual engagement of employees at work is the number of weekly working hours that the worker spends performing the main job. The average weekly hours worked per employee in the main job decreased compared to the previous quarter and compared to the same quarter last year in almost all countries for which LFS data are available. The exceptions are Cyprus and Ireland, where weekly working hours have even slightly increased. The largest decrease was recorded in Austria, where the decrease was 2.8 hours (-8.1%) compared to the same quarter of the previous year and 3 hours (-8.6%) compared to the previous quarter - Graph 3.

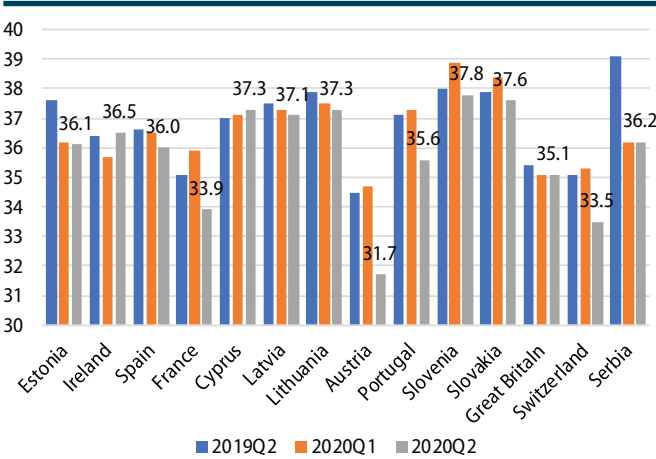
³ SORS calculates these indicators for the Eurostat database for the 15-74 age group but, at the time of writing, the data for Serbia for the 15-74 age group were not yet available, so the data for Serbia are for the 15+ age group, unless otherwise stated.

⁴ <https://ec.europa.eu/eurostat/documents/2995521/11070754/3-08072020-BP-EN.pdf/6797c084-1792-880f-0039-5bbbca736da1>

⁵ For all EU countries, LFS data will be available during October according to the Eurostat results publication calendar.

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Graph 3. Average Weekly Hours Worked Per Employee in the Main Job, 2019-2020



Note: Data for Serbia are for the 15+ age group, while for EU countries it is 15-74.
Source: Eurostat for EU, SORS for Serbia

Table 1 Change in Average Weekly Hours Worked for Total Employment, Q2 2020/Q2 2019

	A	C	G	I	Q	R
Estonia	-1.8	-0.8	-0.8	-3.2	-0.9	-3.8
Ireland	-3.4	-0.9	0.9	-1.3	0.7	0.8
Spain	-0.3	-1.5	-1.2	-3.0	1.1	-1.8
France	-1.1	-1.9	-1.4	-4.9	0.5	-3.6
Cyprus	1.1	0.1	0.6	0.0	2.1	8.1
Latvia	-0.5	-0.4	-0.6	0.0	1.3	1.5
Lithuania	-1.0	-1.1	-1.1	-2.5	0.6	1.0
Austria	1.3	-3.5	-3.2	-8.4	-1.5	-8.5
Portugal	-0.1	-0.4	-1.8	-7.6	-0.5	-1.5
Slovenia	-2.8	-0.3	0.2	-3.1	1.4	-1.1
Slovakia	-0.7	-0.6	-0.2	-3.0	1.8	-1.1
Great Britain	3.2	-0.7	0.4	-0.8	0.7	-0.2
Switzerland	0.1	-2.4	-3.1	-7.0	-1.1	-4.1

Note: A - Agriculture, Forestry and Fishing, C - Manufacturing, G - Wholesale and Retail; Repair of Motor Vehicles and Motorcycles; I - Accommodation and Catering Services; Q - Healthcare and Social Protection; R - Art, Entertainment and Recreation.
Source: Eurostat

We see that the change in average weekly hours worked differs significantly by activity (Table 1), so activities that were more affected by epidemiological measures to prevent the spread of the virus achieved a greater reduction in average weekly hours worked. In the activity of agriculture, in some countries there was even an increase in the average weekly hours worked, in Austria by 1.3 hours, in Great Britain by as much as 3.2 hours. The largest decline in average weekly hours worked in Serbia per employee was recorded in accommodation and food services (26% year-on-year) and in arts, entertainment, and recreation (21.4% year-on-year), (LFS, Q2 2020). A large decrease in working hours was in accommodation and food services, in

Austria as much as 8.4 hours of work, in Portugal 7.6, in Switzerland 7. Most countries have achieved an increase in weekly working hours in healthcare and social protection. In Austria, a significant decrease in hours worked was recorded in arts, entertainment, and recreation.

Wages Trends in Serbia during the Pandemic

During 2019, the growth rate of wages in the private sector was higher than in the public sector until November. At the end of the year, the year-on-year real growth rate in the public sector was significantly higher than in the private sector, which was a consequence of the increase in wages in the public sector from November 1, 2019, by close to 10%.

We will analyse the movement of real wages during the pandemic on the basis of year-on-year changes and on the basis of changes in relation to the previous quarter. During the pandemic, we see that wages in the public sector grew much faster than in the private sector. Real year-on-year growth in private-sector wages in April and May was 5.7% and 4.1%, respectively. That is much less growth than was recorded during 2019. However, real year-on-year wage growth in the public sector was 10.7% and 9.1% in April and May, respectively. This was partly due to an additional 10% increase in health workers' salaries in April 2020, in addition to the previous 10% increase for doctors and 15% for nurses in December 2019, as well as an 8% to 15% increase in salaries at the end of 2019 in other parts of the public sector as well. Although the average wage growth at the level of 2019 was the same for the private and public sector, the average wage growth in the public sector in the first half of 2020 was higher in the public sector than in the private sector, 9.6% and 7.4%, respectively. The year-on-year movement of real wages during Q2 2020, compared to the same period of the previous year, significantly deviates from the movement of real GDP, especially the growth of wages in the public sector. GDP fell by 6.4% in real terms year-on-year in Q2 2020. Year-on-year data on real wage developments contain the effect of transferred growth in the pre-pandemic period, and therefore do not adequately reflect wage dynamics during the pandemic.

A more realistic picture of wage trends during the epidemic can be obtained by comparing data in Q2 2020 with data from the previous quarter. Wages recorded a smaller real decline in Q2 2020 compared to Q1 2020, 0.3%. Observed by the ownership sector, public sector wages grew by 0.9% in real terms, while wages in the private sector fell by 0.8%. The growth of real wages in the public sector was primarily due to the

increase in wages of healthcare workers by 10% since April, while the decline in wages in the private sector was due to lower workload, and thus fewer working hours of employees.

Table 2. Year-on-Year Real Growth Rate of Wages in the Private and Public Sector, in %

	2019		2020	
	Private	Public	Private	Public
January	7.3	6.5	7.9	8.2
February	7.3	7.8	9.3	8.6
March	7.9	6.0	8.5	9.3
April	8.9	7.0	5.7	10.7
May	8.4	6.9	4.1	9.1
June	7.8	7.3	8.9	11.7
July	10.4	10.4		
August	7.9	7.1		
September	12.0	9.6		
October	10.1	8.4		
November	8.4	13.1		
December	10.9	14.8		
Average	8.9	8.7	7.4	9.6

Source: Author's calculations using SORS data.

The movement of average wages in the future is uncertain, due to the uncertain speed of economic recovery. Real wages in the public sector are likely to remain nominally unchanged until the end of the year, but will have a minimal real decline due to inflation. The movement of real wages in the public sector in the next year will depend on the speed of economic recovery, but also on political priorities. On the one hand, the need for a strong reduction in the fiscal deficit in the coming year, with possible risks of a re-emergence of the pandemic, as well as the need to leave room for new incentives, suggests that it is most appropriate to freeze public sector earnings or to increase them for inflation, and to leave a possible increase for later in the year if there are economic and fiscal conditions for it. On the other hand, due to political reasons, it is possible to expect a slightly larger increase in wages in the public sector from the beginning of next year. By the end of this year, a slight decline in real wages in the private sector can be expected. In the coming year, even in the event of a rapid economic recovery, real wage growth in the private sector is likely to be significantly lower than it was during the previous two years. If lower-paid workers lose their jobs more often at the end of this year and the beginning of next year, this will work towards increasing average wages in the private sector.

Conclusion

The decrease in the unemployment rate in Serbia is not a result of the effectively lower number of unemployed who found a job and started working. This is the result of delayed job search due to epidemiological constraints and deteriorating economic conditions. Any emphasis on such a low unemployment rate as a success of economic policy and a better situation on the labour market is unjustified and represents a manipulation of the public by taking a single number out of context. As a reminder, unemployment is a lagging indicator of economic activity, which means that it reacts with a delay to changes in economic activity. After the expiration of state aid, there will be redundancies and an increase in unemployment and/or inactivity, as well as a significant deterioration of the situation in the labour market.

The indicators available from the Labour Force Survey, which have not been analysed so far either in public or in academic research, are very important for the analysis of the impact of the pandemic on the labour market. These are slack in the labour market, absence from work according to the reasons for absence from work, and average weekly actual (realised) hours of work at the main job for total employment. These indicators show that labour market slack has increased, as has the number of absenteeism due to reduced workload out of technical or economic reasons, while actual weekly working hours have decreased. The decrease in actual working hours differs between activities, with a significant decrease observed in Accommodation and Food Services. Survey data are not yet available for most EU countries for Q2 2020, so we are not able to compare all these indicators among countries in more detail.

Despite the strong economic crisis, wages rose in real terms in both the public and private sectors in all months during the first half of 2020. Year-on-year wage growth is pronounced in the public sector, while it is significantly lower in the private sector. On the other hand, wages in Q2 2020 decreased slightly in real terms compared to the previous quarter.

Literature

Eurostat, (2020), EU labour market in first quarter 2020, Newsrelease Euroindicators 110/2020

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