

The mismatch between labour supply and demand

Although all the indicators suggest that economic activity will experience strong growth over the coming quarters, some factors have emerged that could limit the speed of the economy's recovery. These include the disruptions to global supply chains, resulting from bottlenecks in global transportation and shortages of some components, and the sharp rise in energy prices, with the consequent rise in production costs. Another factor, which has received less attention but could also limit the speed at which economic activity will recover, is the mismatch that is beginning to emerge in the labour market. As can be seen from the analysis of vacancies, new unfilled job offers have been growing significantly since late 2020, and in Q2 2021 there were around 120,000, the highest figure in the last decade.

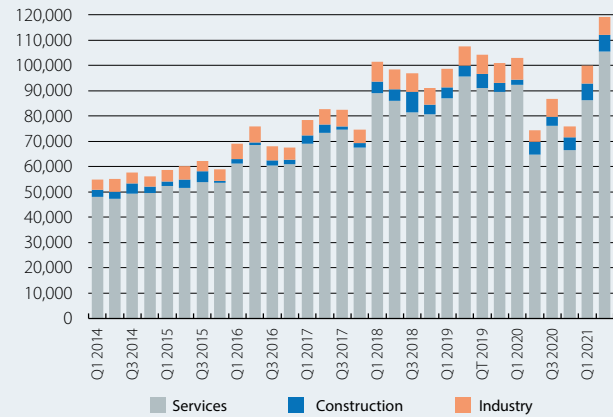
As the second chart shows, this phenomenon is widespread among other nearby countries. Although in relative terms (in proportion to the total number of people in employment) the problem does not seem so serious given that the figures in Spain are much lower than elsewhere, the situation is alarming for several reasons: not only is it occurring at a very early stage in the recovery, when employment has barely recovered pre-crisis levels, but Spain continues to have one of the highest rates of unemployment in the developed world – specifically, 15.3% of the labour force, the second highest rate in the EU behind only Greece. The trend in the labour market also stands in contrast to what happened at the beginning of 2014 as the country emerged from the recession of 2008-2013, when the unemployment rate was 10 points higher and the number of vacancies did not even reach 55,000 (with a vacancy rate close to the all-time low).

As is well known, it is normal for an economy to maintain certain levels of vacancies and unemployment, since a transition period is needed for workers to adapt and seek a new job and for companies to fill a vacancy.¹ In addition, over the course of the business cycle there is usually an inverse relationship between the unemployment rate and the number of vacancies. In other words, when the unemployment rate increases (decreases), the number of vacancies tends to decline (increase).² Intuitively, during

1. Bank of Spain (2001). «Desempleo y vacantes: una aproximación a los desajustes del mercado de trabajo», Economic Bulletin, September (content available in Spanish).

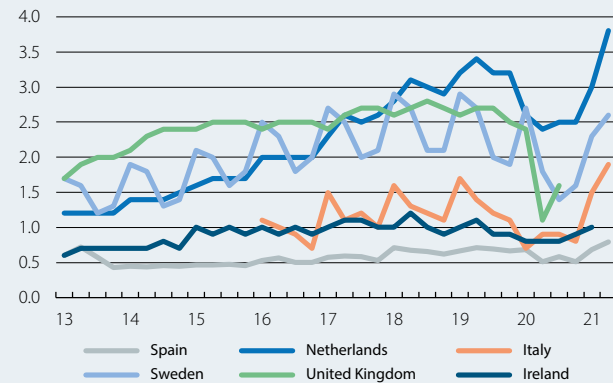
2. This inverse relationship between vacancies and unemployment is reflected in the negative slope of the Beveridge curve, which first appeared in Dow and Dicks-Mireaux (1958). «The excess demand for labour: a study of conditions in Great Britain, 1946-1956», Oxford Economic Papers, volume 10, nº 1. Shifts outside the curve indicate that the labour market has less capacity to adjust (or that it operates less efficiently, which amounts to the same thing), resulting in increases in the number of vacancies for each level of unemployment.

Spain: job vacancies by sector
(Number)



Source: CaixaBank Research, based on data from the National Statistics Institute (Quarterly Labour Cost Survey).

Job vacancy rate by country
(%)



Note: The vacancy rate measures the ratio of vacant job posts to the total number of filled posts, including vacancies.

Source: CaixaBank Research, based on data from Eurostat.

recessions the number of people seeking employment increases and there are fewer jobs available. Under the current circumstances, why is it that the unmet demand for labour is not only not declining, but is actually increasing? There are several factors that can explain this. In part, this may be due to the slowdown in immigration as a result of the limitations on cross-border movements due to the pandemic, and this could be affecting the workforce that is available in some activities such as agriculture, hospitality, leisure, cleaning and personal care. This imbalance ought to be temporary and should be resolved as migratory flows recover.

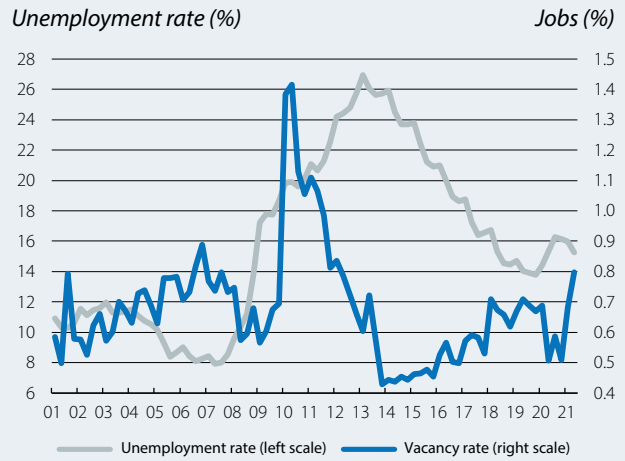
But the mismatch in the labour market is also a result of a growing decoupling between the training and qualifications of job seekers, on the one hand, and the profiles that firms are seeking, on the other. Among the factors that determine the level of business activity,

difficulties associated with the availability of labour are emerging, especially in certain tertiary branches (information and communications, transportation and hospitality), and most notably in construction.³ In addition, in the coming years the process of transformation and modernisation of the economy is expected to increase the demand for workers with technical profiles, such as energy structure specialists, data analysts and logistics specialists, which could exacerbate the mismatch in the labour market.

There are several ways to reduce the intensity and duration of these mismatches and thus achieve a more efficient functioning of the labour market. The employability of workers must be improved by adapting the range of academic training to the needs of the market, bolstering vocational training and reorienting active employment policies. Furthermore, we must ensure that the incentives to seek employment are always appropriate. In a context in which the need to increase investment is becoming apparent in order to ensure that the productive supply can adapt to new growth patterns, investment in human capital will also be critical in order not to generate another bottleneck.

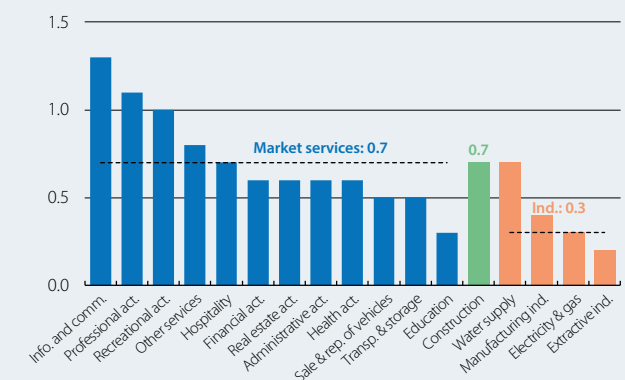
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Spain: vacancy rate versus unemployment rate



Source: CaixaBank Research, based on data from the National Statistics Institute and Eurostat.

Spain: vacancy rate by sector and activity



Note: Data for Q2 2021. Source: CaixaBank Research, based on data from Eurostat.

3. Bank of Spain (2021). «Encuesta a las empresas españolas sobre la evolución de su actividad (EBAE), cuarta oleada», Economic Bulletin, nº 3 (content available in Spanish).