

The paradox of the Portuguese labour market: high long-term unemployment and record job vacancies

The Portuguese labour market appears to have entered a golden age after overcoming the COVID-19 pandemic: the unemployment rate is at rock bottom, while the number of job vacancies is at a peak (standing at around 1.4% of the total number of people in employment), as shown in the first chart.

However, in view of these figures, what is alarming is that Portugal continues to suffer from high rates of long-term unemployment: during the first three quarters of 2022, the long-term unemployed (i.e. those who had been out of work for a year or more) and the very long-term unemployed (more than two years) represented 46.4% and 29.4% of the jobless population. Also, a worker who loses their job in Portugal takes an average of 22 months to find a new one¹ – twice as long as the euro area average according to OECD data.² Although these figures are high, it should be recalled that in 2014 long-term unemployment accounted for around 60% of all unemployment in Portugal.

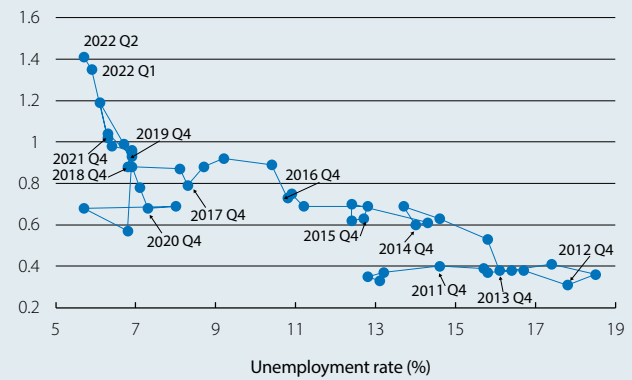
What is the explanation for this apparent paradox between peak percentages of unfilled job vacancies and high long-term unemployment? The Bank of Portugal puts us on the trail of the answer and points out that education level and age could be the key.

The mismatch between the skills which companies seek and those possessed by candidates may explain the coexistence of high long-term unemployment with the high number of vacancies. However, it could also be a consequence, as long-term unemployment leads to an erosion of human capital in the form of a loss of skills among the unemployed. When analysing the education level of the long-term unemployed in Portugal, it is apparent that in 2021 (latest available data) 44.2% had at most a basic level of education, compared with an average of 40.3% in the euro area. However, following the pandemic we see a slight increase in the importance placed on training and education in order to successfully rejoin the labour market, as 17.1% of the long-term unemployed participated in education and training activities that same year, up from 11% in 2019.

This mismatch between the qualifications of job seekers and the profiles sought by companies could explain, for example, why the number of unemployed people and vacancies rose significantly in the trade sector between 2019 and 2022 (see second chart). This trend highlights some of the challenges of digitalisation.

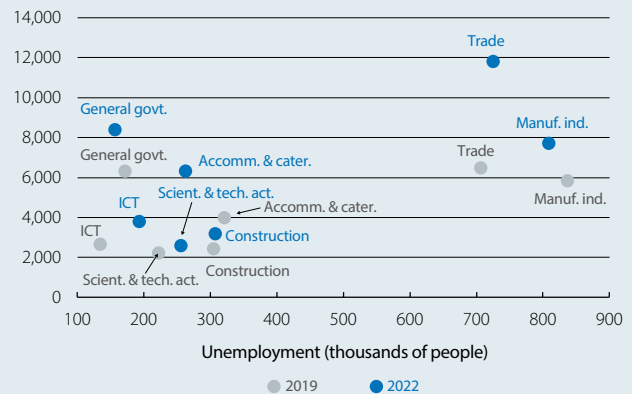
1. Considering the average duration recorded in the first three quarters of 2022; data provided by the National Statistics Institute of Portugal.
 2. OECD, 2021.

Portugal: Beveridge curve
 Job vacancy rate (%) *



Note: * Compares the number of job vacancies with the sum of the number of employees and the number of job vacancies.
Source: CaixaBank Research, based on data from the National Statistics Institute of Portugal and Eurostat.

Portugal: unfilled jobs and unemployment by sector (2019 vs. 2022) *
 Unfilled jobs (number)



Note: * Average recorded in the first half of 2022.
Source: CaixaBank Research, based on data from the National Statistics Institute of Portugal and Eurostat.

The digital transition demands new skills. Besides digital literacy, critical thinking and data literacy are among the top 10 skills that will be in highest demand in the next 10 years. All this is occurring in a context in which 27% of the population has limited or no digital skills (among the unemployed, this percentage exceeds 33%).

On the other hand, the long-term unemployment rate increases with age, the second factor at play: whereas, in 2021, 27% of the unemployed aged 15 to 29 had been out of work for more than 12 months, this proportion rose to 53% among the unemployed aged 45 to 49, and to 59% among those aged 50 and over.

This pattern is largely associated with education levels. If we analyse the labour force as a whole, older

individuals tend to have lower education levels; in fact, 35% of people aged between 55 and 64, and 47% of those aged between 65 and 89, have at most a basic education level, in stark contrast with the age group of 25-34 years (3%). This makes it difficult for them to re-enter the labour market if they become unemployed, which contributes to longer periods of unemployment and ultimately discourages them from seeking new employment.³

Of course, there are other factors behind long-term unemployment, such as the person's original occupation. Nevertheless, what best explains the high number of unfilled job vacancies at present is primarily the mismatch between the skills sought by firms and those offered by candidates. For instance, in the manufacturing industry, of the 43% of companies that acknowledged experiencing obstacles in their operations in October, around 29% mentioned difficulties in hiring qualified personnel (the second biggest obstacle). This percentage rises to around 67% of the companies in the construction and public works sector that acknowledged experiencing difficulties in their operations, and to around 86% in the case of firms in the accommodation and catering sector (in both cases mentioned as the main obstacle). For this reason, it is vitally important to step up efforts to boost workers' qualifications and skills. Indeed, this is one of the objectives of Portugal's Recovery and Resilience Plan, which allocates around 1,370 million euros to this goal.

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3. See Forbes (2022). «The Top 10 Most In-Demand Skills For The Next 10 Years».