

Executive summary

The Key Indicators of the Labour Market programme

An important role of the International Labour Organization (ILO) is to identify global employment challenges where economic growth and decent work opportunities are most needed around the world.¹ The *Key Indicators of the Labour Market (KILM)* highlights global trends relating to the world of work using world and regional estimates and country-level data of labour force participation, employment, employment by sector, unemployment, youth unemployment, employment elasticities and working poverty.

Defining effective labour market strategies at the country level requires first and foremost an assessment of the current labour market situation, based on reliable and comparable information.² Once a strategy is decided, continuing information is essential to monitor progress towards goals and to adjust policies where needed. Labour market information is a foundation for developing integrated strategies to promote standards and fundamental principles and rights at work, productive employment, social protection and dialogue, as well as to address the cross-cutting themes of gender and development – this is where the KILM comes in.

In 1999 the ILO launched the KILM programme to improve the dissemination of data on the key elements of the world's labour markets. The KILM is designed with two objectives in mind: (a) to present a core set of labour market indicators; and (b) to improve the availability of the indicators to monitor new employment trends. The KILM aims to meet these objectives by disseminating 20 “key” indicators of the labour market (listed in box 1) relating to participation in the world of work, employment and variables relating to employment (status, sector, hours, etc.), the lack of work and the characteristics of jobseekers, education, wages and labour costs, labour productivity and poverty. Taken together, the KILM indicators give a strong foundation from which to answer questions related to the current situation in the world of work and to identify changing patterns over time.

The KILM 4th Edition

Highlights of current labour market trends

The KILM serves as a research tool for assessing labour market trends. This section provides some excerpts of noteworthy trends (by theme) that were identified in the KILM 4th Edition:³

Labour force participation (KILM 1)

- Labour force participation among women in the prime working age (aged 25-54) increased in many countries over the past 20 years, but was most notable among the middle- and high-income countries. Still, at the overall (aged 15 and over) global level, female labour force participation

1. The *Global Employment Trends (GET)* series and topical GETs (youth and women) are available on website: <http://www.ilo.org/trends>.

2. For more detail on the necessity for labour market information with examples of how it can be used when formulating policies, see the section “Guide to understanding the KILM”.

3. For more information relating to the labour market concepts defined or more detail on the trends identified, see the KILM manuscript identified in parentheses.

rates were lower in 2004 (52.5 per cent) than in 1994 (53.2 per cent), largely due to the decline in the participation of the youth cohort (aged 15-24) as their educational participation increased.

- The highest gap in the female and male labour force participation rate was in the Middle East and North Africa, where the male labour force participation rate exceeded the female rate by around 48 percentage points in 2004, although this represents a slight improvement in the gap from 1994.

Employment and employment characteristics

- There is a stark contrast between the gap in female and male employment-to-population ratios in developed economies (where the gap was 16 percentage points in 2004) and the regions of the Middle East and North Africa and South Asia (where the difference in the employment ratios between the sexes reached 40 percentage points) and Latin America and the Caribbean (where the difference was almost 30 points). Still, while the national results are mixed, thus making it difficult to draw conclusions, the regional aggregates do provide evidence of increasing, albeit slowly, employment activity of women in some regions where their employment ratios are historically low. (KILM 2)
- The majority of workers in most developed economies are engaged in wage and salaried employment. By contrast, the majority in the developing economies of sub-Saharan Africa and Asia continue to work as self-employed workers and contributing family workers. Falling within these two categories is the bulk of workers in the agricultural sector and the informal economy in low-income, developing countries. A country with a sizeable self-employed workforce typically has low growth levels in formal sector employment and widespread poverty. (KILM 3)
- There is little evidence of increased self-employment in the developed economies. All countries examined showed a long-term decline in the share of the self-employed in total employment between 1980 and 2003, with the exception of Italy where the share remained stable. (KILM 3)
- The agricultural sector accounts for 43 per cent of total employment in the world. Given that the regions where agriculture continues to dominate – East Asia, South-East Asia, South Asia and sub-Saharan Africa – contain more than 60 per cent of the world's working-age population, it is not surprising that agriculture continues to show primacy in the world trend. All developed economies with data had the largest share of employment in the services sector, followed by industry, and a small proportion, usually less than 10 per cent, in agriculture. The fastest growing sector over the last ten years has been the services sector. (KILM 4)

Poverty and working poor (KILM 20)

- The countries with the highest incidences of poverty, i.e. where more than half of the country's population subsists on less than US\$1 a day, are in Eastern and Western Africa, which confirms the fact that a large part of the population on the continent faces extremely poor living conditions. Many people living in severe poverty work, sometimes long and hard, but very unproductively. They have no choice but to find some way to generate an income because they often have no other means of support for themselves or their families.
- The Asian regions saw a substantial reduction in the number of working persons living on less than US\$1 a day; the number of working poor in Asia decreased by as many as 131 million between 1994 and 2004. In contrast, sub-Saharan Africa's weak economic performance resulted in an increase of 28 million in the number of working poor. When looking at the share of working poor (at US\$1 a day) in the working population, however, one finds a slight decline in

sub-Saharan Africa due to the fact that the working population grew slightly faster than did the working poor population.

- The regions that showed the largest reduction in the share of working poor in total employment between 1994 and 2004 were Central and Eastern Europe (non-EU) and CIS (with a decrease of more than half – 54 per cent) and East Asia (with a decrease of nearly half – 47 per cent). In the first two regions, however, it would be difficult to equate the reduction in the working poor rate with a genuine improvement in the well-being of the regions' population; the number of working poor was high at the beginning of the period (1994) due to the initial effects of the dissolution of the planned economy and the collapse of the social safety nets after 1991. Increases in economic growth rates led by productivity growth in the latter half of the decade led to a decrease in the number of working poor, but, at the same time, the number of unemployed increased as did the number of economically inactive. Therefore, a portion of those previously classified as working poor may now be classified as unemployed or inactive, neither of which could be called an improvement in economic status.

Box 1. Key Indicators of the Labour Market (KILM), 4th Edition

1. Labour force participation rate
2. Employment-to-population ratio
3. Status in employment
4. Employment by sector
5. Part-time employment
6. Hours of work
7. Employment in the informal economy
8. Unemployment
9. Youth unemployment
10. Long-term unemployment
11. Unemployment by educational attainment
12. Time-related underemployment
13. Inactivity rate
14. Educational attainment and literacy
15. Manufacturing wage indices
16. Occupational wage and earning indices
17. Hourly compensation costs
18. Labour productivity and unit labour costs
19. Employment elasticities
20. Poverty, working poverty and income distribution

Unemployment

- The international definition of unemployment for the purpose of collecting statistics is without work of at least one hour in the reference week. This means that many workers in the developing world who have no regular work or income, but in the absence of any other means of support must find a way to generate the means to survive, do not fall within the unemployed category. Bearing in mind this proviso, available information shows a wide dispersion of unemployment rates throughout the world. A review of country-level data showed that all regions were represented in the lowest grouping of unemployment rates (less than 5 per cent). The higher unemployment bands, however, were concentrated in countries in the regions of Central and Eastern Europe (non-EU) and CIS as well as Latin America and the Caribbean. (KILM 8)
- Looking at the ILO-comparable unemployment estimates available in KILM table 8c, results showed that the average unemployment rates available for the new Member States of the European Union (Czech Republic, Estonia, Latvia, Lithuania, Poland, Slovakia and Slovenia) – 11.7 per cent for males and 12.5 per cent for females – were higher than the former Member States – 7.0 per cent for males and 7.8 per cent for females – in 2003. (KILM 8)
- Between 2003 and 2004 the unemployment rate decreased for the world as a whole from 6.5 to 6.3 per cent, confirming a downward trend that has been observed over the last three years, during which time the global economy has grown rapidly. (KILM 8)
- One striking characteristic emerging from an examination of country-level information presented is that, invariably, youth unemployment rates are higher than adult unemployment rates. Indeed, youth unemployment rates are typically at least twice as high as adult rates and are sometimes much higher. (KILM 9)
- The distribution of unemployment is more concentrated among the least educated, at least in the developed countries. In 2003, a person in the developed economies (with available data) with only primary education was at least three times as likely to be unemployed as a person with tertiary education. The pattern reflects the increase in demand for more highly educated and skilled workers in developed economies and the declining demand for workers with low education. In seven of the developing economies with available data, it was the labour force with a secondary education that was the most likely to be unemployed, although never to a substantially larger degree than persons with primary education. The demand for workers with higher education was strong in the majority of the countries. (KILM 11)

Wages (Chapter 1, section B and KILM 16)

- Occupations requiring specialized training, high level of skills and education and located primarily in the services sector – such as power distribution and transmission engineer, accountant, computer programmer, first-level education teacher and professional nurse⁴ – showed a considerable wage premium in comparison to lesser skilled occupations (labourer, grocery salesperson, room attendant, for example).
- High-skilled occupations not only have higher wages, but also witnessed stronger wage gains in the decade from 1990 to 2000, than the low-skilled occupations. Part of the reason for this may be due to the surplus of labour in developing economies, whereby the initial impact from globalization (and growth) may be to bring previously underemployed or unemployed people

4. Occupation titles listed here are abbreviations of the full title and industry covered, for example, “professional nurse (general) in medical and dental services”. See box 16a in KILM 16 manuscript for the full description of occupations used.

into the formal labour market, with no direct effect on wages. Another reason could be due to the growth in complementary industries that demand workers with higher and scarce technical skills.

Employment elasticities⁵ (Chapter 1, section A and KILM 19)

- Between 1991 and 2003, the services sector was both the world's fastest-growing sector in terms of output and the sector with the most job-intensive growth. Indeed, for every 1 percentage point of growth in services sector value added, employment increased by 0.57 percentage points. On the other hand, in the agriculture sector, and especially in the industrial sector, growth of value added was driven more by gains in productivity than by gains in employment.
- From 1999 to 2003 economic growth in North America was less than one-third as employment intensive as during the 1991 to 1995 period, while the rate of economic growth declined sharply. Not surprisingly, unemployment grew by over 3 million between 1999 and 2003. Western Europe, on the other hand, showed a near opposite pattern. Employment intensity in Western Europe in the 1999 to 2003 period was higher than in previous periods and the region's unemployment rate declined by another 1 percentage point. However, the low economic growth rate in the region between 1999 and 2003 began to impact unfavourably both on employment and productivity growth in the latter half of the period; whereas the higher economic and productivity growth in North America imply that the downturn in employment elasticities is likely to be short-lived there.
- In Central and Eastern Europe, the transition to a market economy led to an increase in productivity but a fall in employment.
- The very rapid growth that took place in agriculture, industry and services sectors in East Asia facilitated both robust employment generation as well as rapid productivity gains. This trend has resulted in a "virtuous cycle" of employment growth, productivity growth and poverty reduction in the region.
- Between 1991 and 2003, the most employment-intensive growth was registered in sub-Saharan Africa and the Middle East. However, with relatively low output and productivity growth in many countries in these regions and continued high incidences of poverty, it is likely that most of the new jobs created offer very low returns.

Productivity and unit labour costs (Chapter 1, section C and KILM 18)

- The United States continues to show the highest labour productivity levels measured as value added per person employed; however, four countries – Belgium, France, Luxembourg and Norway – showed levels higher than that of the United States when measured as value added per hour worked.
- On average, total economy labour productivity in the European Union grew slightly faster than that of the United States between 1980 and 2003. The faster growth in the European Union was aided by particularly strong growth in the new EU Member States. The highest productivity growth rates were seen in the Asian and Pacific countries, although levels remained well below those of other developed economies. In other regions of the world, total economy productivity gains since the 1980s have been rather poor.

5. The employment elasticity is measured as the percentage-point change in the number of employed persons in a country or region associated with a 1 percentage point change in economic output, measured by gross domestic product (GDP). Annex 1 in Chapter 1, section B provides the methodology for the calculations of employment elasticities.

- Despite faster productivity growth rates in some European Union countries, the productivity gap (measured as value added per person employed) between the United States and most developed countries continues to widen. The acceleration of productivity growth in the United States since 2001 has outpaced that of many of the developed economies, increasing the level of value added per person in the United States to just over US\$63,000. One exception is Ireland where the productivity gap with the United States has been steadily declining since 1980.
- Levels of productivity and labour compensation of some new EU Member States – the Czech Republic, Hungary and Poland – are much lower than in the United States and the EU-15. Furthermore, as the comparative wage levels are lower than comparative productivity levels, the new Member States show a significant advantage in terms of unit labour cost levels at approximately 70 per cent of the US level. The depreciation of the currencies of these countries relative to the US dollar has further benefited their competitive position, although the latter trend has reversed somewhat since 2000.

Hours of work

- There is a positive relationship between female employment-to-population ratio and part-time employment in the developed economies, implying that an expansion of part-time work opportunities encourages females to join the workforce. In the Latin American and Caribbean countries, on the other hand, the inverse relationship, whereby female part-time employment rates are higher when employment ratios are higher, could indicate that part-time work is not a choice but a sole option in countries with few job opportunities for women. Part-time work in this region, however, is common to both men and women – as demonstrated in the comparatively low female share of part-time employment in Latin American countries. (KILM 5)
- Overall, a quarter of the workforce in Bolivia, El Salvador, Guatemala, Honduras and Nicaragua regularly worked more than 50 hours a week. (KILM 6)
- There was a slight decline in average annual hours worked in European countries with available data, with the exception of Greece where the number of hours worked remained fairly steady over the two decades. The largest decrease in average annual hours between 1994 and 2004 occurred in Ireland with a fall of 10 per cent, followed by Denmark and Portugal where annual hours decreased by 3 per cent. (KILM 6)
- One way of assessing the underutilization of the productive potential of a country's labour force is by adding the number of persons working part-time who would like to work more hours to the number of unemployed and taking these two groups as a share of the overall labour force. In both France and Italy the rate of underutilized labour reached 21 per cent in 2004, up from 17 per cent in 1994 in France and 12 per cent in Italy. The rates would certainly be higher in developing countries where opportunities for full employment are fewer. However, the limited availability of data in these countries makes the exact rate of underutilized labour impossible to quantify. (KILM 12)

Education and illiteracy (KILM 14)

- There is a clear trend towards an increasingly educated labour force.
- For both sexes, the highest shares of the labour force by educational attainment were those with secondary level education, followed by persons with primary level education, which indicates that in most of the countries the bulk of labour supply is still workers with low- or medium-level skills. The supply element is a likely explanatory variable in the growing wage gap between low-skilled and high-skilled occupations identified in Chapter 1, section B; the demand for workers with tertiary-level education and higher skills, which are in short supply, would push up their wages, and vice versa for workers with lower-level education.
- In the vast majority of the countries with data, the illiteracy rates of adults are higher than those of youth, which suggests a positive trend as young people make advances in literacy and thus gain a higher skills base than their parents.
- The adult female illiteracy rate was more than 25 percentage points higher than that of males in nine countries – Angola, Central African Republic, Chad, the Democratic Republic of Congo, Liberia, Morocco, Mozambique, Togo and Yemen. The trend continues, although to a lesser extent in the younger generation; five countries had a gap in the female-male youth illiteracy rates in excess of 25 percentage points – Benin, Chad, Liberia, Mozambique and Yemen.

New developments

The KILM 4th Edition introduces several noteworthy developments:

New or improved indicators

- A new harmonized series of labour force participation (tables 1a and 1b) reduces some of the limitations to comparability.
- A new indicator on employment elasticities (table 19) allows one to look at the relationship between economic growth and employment.
- An estimate of the working poor is now included among the poverty estimates in table 20.
- The inactivity indicator (table 13) now includes all age groups.
- Table 6a, employment by hours worked, now includes all available hour bands (rather than less than 20 and over 40 only).
- The occupational wages indicator (KILM 16) has been expanded from six occupations to a total coverage of 19, thus allowing users to make comparisons of wages in occupations requiring a much broader range of skills. This indicator also has a new series on real wages based on purchasing power parities as a measure of standards of living which serves to make cross-country comparisons easier and more reliable.
- All indicators have improved in terms of geographic coverage and the timeliness of information available, thanks in part to improvements in the processes of collecting and processing labour market information.

Improving the ability to make valid cross-country comparisons

- Unemployment data is now separated by the definition applied for measurement (total unemployment or registered unemployment).
- The software allows users to isolate records that are non-national in coverage, and therefore not strictly comparable to national estimates.
- Parameter fields have been added to the hours of work indicator (tables 6a and 6b) to allow users to select type of hours measured (actual or usual) and jobs covered (all jobs, main job, main and secondary jobs), thus allowing users to select data that match according to definition and measurement applied.
- Many time series have been “cleaned” to eliminate unnecessary breaks in series. This means that, to the greatest extent possible, a time-series for one country, based on one type of source, one methodology, one geographic coverage, etc. will not be interrupted with one year in which the source, methodology, coverage, etc. varies, thus making it incomparable to the rest of the series.

World and regional estimates

- One of the most exciting additions to the KILM 4th Edition is the inclusion of world and regional estimates for the following indicators: labour force participation (KILM 1), employment-to-population ratio (KILM 2), employment by sector (KILM 4), unemployment (KILM 8), youth unemployment (KILM 9), inactivity rate (KILM 13), employment elasticities (KILM 19) and the working poor (KILM 20). The estimates are presented in a box in each manuscript along with an analysis of the global and regional trends.

Improved software capabilities

- In this edition users will be automatically informed of the availability of updates and will see exactly where updates are available (by indicator) before downloading.
- The new software includes a function that allows users to view two indicators together in the same grid.

Improved regional groupings

- The world is not static. As a consequence, regional classifications need to be reviewed and adjusted from time to time to improve validity and comparability with groupings defined by other international organizations.⁶ With the inclusion of ten new Member States to the European Union in 2004, it no longer made sense to include these countries in the former “transition economies” grouping nor did it make sense to include them in the former “developed economies” grouping since the level of economic development in some of the countries differed significantly from developed economies such as, say, the United States. The resulting new grouping “Developed Economies and the European Union” served as a compromise. The remaining former transition economies are now grouped within the “Central and Eastern Europe (non-EU) and CIS” region. Another adjustment was made to the “Asia and the Pacific” region. In previous editions, this region was divided according to six subregions (Eastern Asia, South-central Asia, South-eastern Asia, Melanesia, Micronesia and Polynesia). The subregions have now been streamlined into four: East Asia, Pacific Islands, South Asia and South-East Asia.

6. For example, the groupings defined by the United Nations for the production of indicators relating to the Millennium Development Goals.

The key issues in the labour market chapter (Chapter 1)

Like the previous edition, the first chapter of the KILM 4th Edition is dedicated to a more in-depth analysis of certain indicators with an emphasis on showing how the indicators can highlight vital issues that impact on economic outcomes and point to possible solutions. The “key issues” chapter of this edition contains three topics that are diverse, yet similar in the sense that each has important macroeconomic implications for long-term sustainable growth. The topics are: “trends in the employment intensity of economic growth”, “global trends in wages by sector and occupation” and “unit labour costs, productivity and international competitiveness”. There are commonalities to each of these indicators; for example, wages are a primary input in determining unit labour costs and thus international competitiveness and economic growth; labour productivity (also an input of unit labour costs) and wages are also important variables in determining how economic growth impacts employment (as reflected in the employment elasticity); key determinants of wages include labour productivity and economic growth. It is not possible, therefore, to talk about one indicator in isolation from others, and looking at the three in tandem could serve to help guide policy-makers as to the desired mix of macroeconomic policies.

It is interesting to note that each indicator can be of particular use to a specific audience for policy-making decisions; governments might find employment elasticities useful as an indicator of how growth in economic output and employment evolve together over time. They can also provide insights into how employment generation varies for different population subsets in a country (male/female or specific sector), and assist in detecting and analysing structural economic changes over time as opposed to changes associated with the highs and lows of the business cycle. For example, high employment elasticity (i.e. in the case of positive economic growth accompanied by an elasticity greater than one) is typically indicative of stagnant or falling labour productivity, and an expansion of relatively lower-productivity jobs, as is the case in many developing economies that specialize in less productive, labour-intensive agriculture or services. Governments faced with such conditions might, therefore, focus policy on enhancing workers’ productivity through policies that might include investing in education and training or setting minimum labour standards whereby workers’ health status and well-being can be improved.

Unit labour costs, together with labour productivity, provide an indicator of international competitiveness, although exchange rate fluctuations, investment and innovation need to be taken into consideration as well. Unit labour costs impact the price of the goods and services that firms offer to the global market and, insofar as the price of goods determines import demand, impact global competitiveness. Unit labour costs are a ratio of the compensation of workers to output of workers. Lowering unit labour costs can be achieved in a number of ways. For example, if output is maintained but the wage bill reduced, either by cutting wages or the number of employed, unit labour costs will fall. Alternatively, if the level of compensation is maintained and output increases, unit labour costs will fall. Many other outcomes are possible based on how output and the wage bill are changing.

Policies aimed at increasing competitiveness by lowering unit labour costs should consider the potential consequences on either workers (via wages) or firms and economic growth (via productivity). For example, on the one hand, an excessive and long-run emphasis on wage moderation may threaten a country’s productivity growth rate as it might discourage innovation and investment in human capital. On the other hand, especially in developing economies, a very strong emphasis on efficiency improvements might reduce formal employment opportunities for low-skilled people, thereby increasing the informal sector of the economy, which in turn could threaten the productivity performance of the economy in the long run. A balanced strategy that leads to the creation of more productive and better paid jobs is the vehicle towards improved competitiveness that can also be sustained in the long run.

Wages are an important indicator of employee well-being. They make up a significant portion of income in many countries and determine workers' ability to purchase goods and services, thus impacting economic growth. Stagnant wages within an occupation or inequitable wage growth between occupations will affect health and the general well-being of employees. Wages are also a primary input in the determination of unit labour costs and, as a consequence, competitiveness.