

Regional analysis Labour market

Is the glass half empty or half full?

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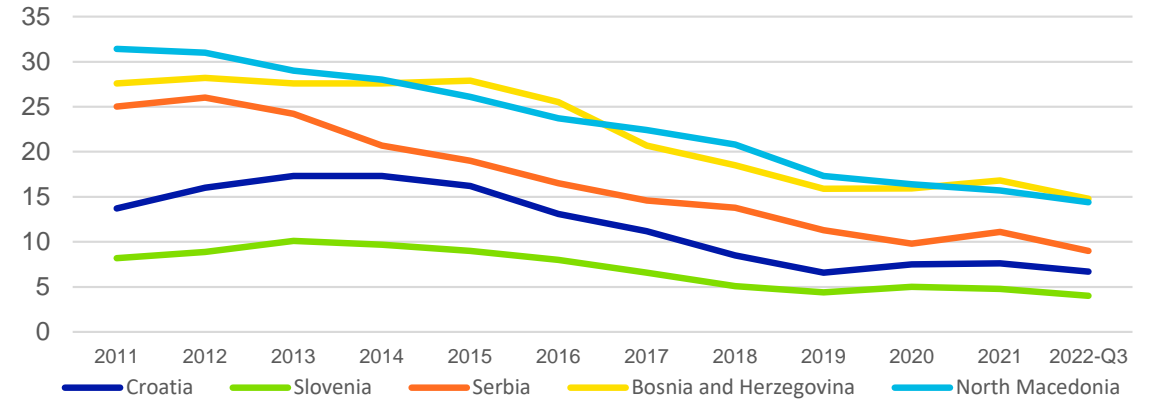
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Labour market is strengthening and being one of the key factors behind the 2022 economic firming as well as acting as a limiting factor against counter-inflationary measures. Indeed, the unemployment rates returned to a multi-year downtrend, with Croatia and Slovenia are at or even below the EU average, while the rest of the region hovered around double-digit levels. Labour demand did gain more footing alongside the strong economic growth, however **unfavourable demographics** i.e. reductions in labour supply in many activities continued to **play an important role** as well. Looking into the details, even though **North Macedonia** showed labour market robustness during the pandemic, the unemployment rate is still elevated at 14.4% in Q3 2022. The labour market in **Bosnia and Herzegovina** recorded two-digit LFS unemployment rate of 14.8% in Q3 2022, noting the highest gap compared with registered unemployment as informal economy still has a significant role. **Serbia** recorded unemployment rate of 9%, floating around its bottom hit in Q2. **Croatia and Slovenia** are at the best performers, with Croatia's rate at 6.7%, while Slovenia hit a record low at 4% in Q3 2022. **On yoy changes, in Q3 2022 unemployment rates fell in all Adria countries except Croatia**, which we rather read as a no-change given that the labour market is quite sticky due to negative demographic trends. The same factor remains a dominant factor elsewhere in the region.

On labour supply, although Bosnia and Herzegovina and Serbia still struggle with high unemployment rates, there is a demand fraction filled with foreign workers (mostly coming from the region and third world countries), dominantly in the blue-collar zone. Scarcity in the labour market has been a pain in the neck for Croatia and Slovenia also, which led them to relax their rules for acquiring working permits. Migrations within the region are biased towards Slovenia and Croatia, as relatively higher wages attract jobseekers.

Sectoral distribution of the employed within the Adria region is similar at first sight, with **Manufacturing at the top** (spanning from 16% in Croatia to 23% in Slovenia, with the rest of the region in the middle), and **Wholesale and retail trade following** (from 13% in Slovenia to 18% in Bosnia and Herzegovina). On the second look, Croatia stands out in the Accommodation and food service activities closely tied to its tourism dynamics, while North Macedonia has the highest share of Agriculture, forestry and fishing employees within the region.

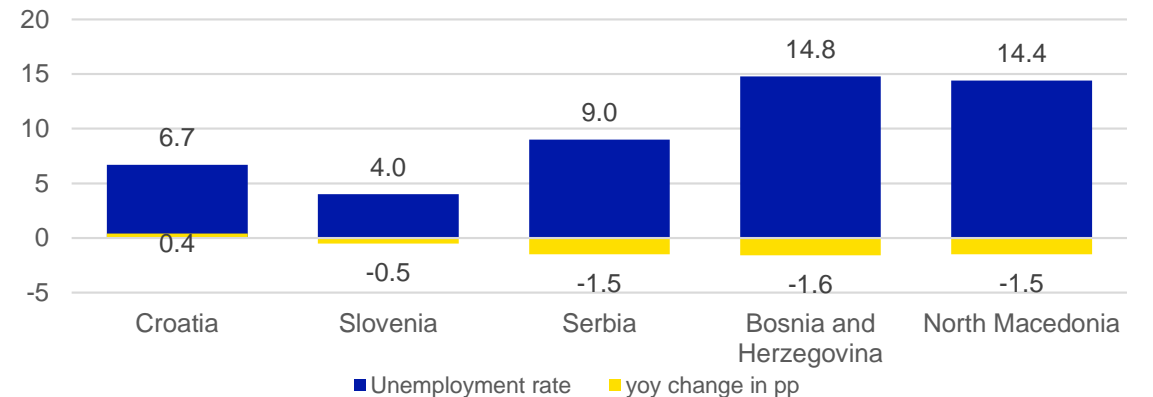
Unemployment rates* sliding down in the recent decade (%)



Source: Eurostat and national statistical offices

Rates according to Labour Force Surveys. The 15-74y age group was used, in case of North Macedonia 15-64y

Unemployment rates* and yoy changes (Q3 2022, %)



Source: Eurostat and national statistical offices

Rates according to Labour Force Surveys. The 15-74y age group was used, in case of North Macedonia 15-64y

Highlights – Labour market

After **Croatian** labour market experienced a sharp decrease in employment during 2020 and Q1 2021, driven mostly by tourism activity drop, the market has bounced back. Croatia recorded 2.4% yoy growth in employees in Q3 2022, or 38.0ths employees more in comparison to a year before. Even though the rise has been recorded in most sectors, Accommodation and food service activities led (+11.8ths, +10.3% yoy), encompassing more than a quarter of newly employed, mirroring the big comeback of the tourist and leisure segment and was complemented by Transportation and storage (+3.7ths, +4.5% yoy). Information and communication sector hired 8.7% more employees in the same period (or +4.5ths), which was not surprising bearing in mind that this sector have had stable upward trend in recent years due to its attractiveness and ease of entrance into the workforce and provides high upside potential as high number of start-ups offer strong scaleup base. Due to the lack of labour force, mostly in the area of seasonal hospitality services, Croatia has relaxed the procedures for foreign workers, welcoming them over. More than 109ths working permits have been issued during 2022, which is equivalent to around 6% of the labour force size. Taking a look at the first ¾ of 2022, the employment has increased 2.5% yoy, with Q4 data showing slower pace (2.2% yoy).

Slovenia has been craving for human capital for years now. In Q3 2022 the number of employed persons added 19.5ths or 2.2%. Half of the increase refers to Construction (5.5ths, +8.0% yoy) and Manufacturing (4.7ths, +2.3%, of which 2.0ths refers to Manufacture of fabricated metal products). As Slovenian population is ageing, there is not enough organic growth potential, but a reliance on foreign workers and labour productivity enhancement. According to the issued working permits in the first eleven months of 2022 (ca 20.3ths), Slovenia has swiped the region attracting 17.5ths employees from B-H, and 2.8ths from Serbia. Fraction of the workforce coming from EU is dominated by Croatia (4.6ths) and Bulgaria (2.2ths). As growth perspectives are challenging, and the economy is expected to dip in 2023, the labour market will follow. Surge in input prices (including labour prices) with decreasing foreign demand in the cyclical sectors may pose „to be or not to be“ question given that some sectors may appear less lucrative and hard to break even conditioned on still high inflation rates. In the first 9 months of 2022, the labour market has increased 2.6% yoy, posting slower 2% yoy rate in Oct '22.

Employment in **Bosnia and Herzegovina** grew at a slower pace in Q3 2022, adding 1.5% yoy, or 12.6ths workers. Wholesale and retail trade contributed with 4.7ths more workers (or 3.1% yoy), while Manufacturing added 3.8ths (or 2.3% yoy). Information and communication sector posted the highest growth rate of 10.3% or 2.6ths employees more, remaining one of the most promising sectors in terms of further development. On the other hand, Mining and quarrying and Construction sector reported employment loss (-4.8% or -0.8ths, and -1.5% or -0.6ths). Mining and quarrying is an especially slippery area, given that the demand is rising due to the energy crisis and the fact that transformation to alternative energy sources takes time and money. Employees net flow has been in red for years, as bulk retires (service years for retirement are reduced for miners), while the sector is unattractive for young workforce. If we include the first half of 2022, growth in employment was stronger recording 2.4% yoy growth for Jan-Sept '22, slowing down to 1.8% yoy in Oct.

Serbia posted 21.5ths more workers in Q3 2022 yoy, equivalent to 0.9% yoy growth rate. As more than a half (12.4ths, +14.9% yoy) refer to Information and communication sector, Serbia is hastily becoming ICT hub of qualified workers. The „work from home“ concept developed in recent years enabled foreign markets to easily outsource beyond their borders. Rise in employment is evident in Professional, scientific and technical activities (6.7ths, +5.8% yoy) and Administrative and support service activities (4.7ths and +4.4% yoy). When it comes to the low-paid segment, those spots are partially covered with foreign workers, as Serbia also experiences labour shortage (around 35ths working permits issued in 2022), predominantly in construction. During 1-3Q 2022 employment rose at 1.3% yoy, speeding up to 1.8% yoy in Oct-Nov '22.

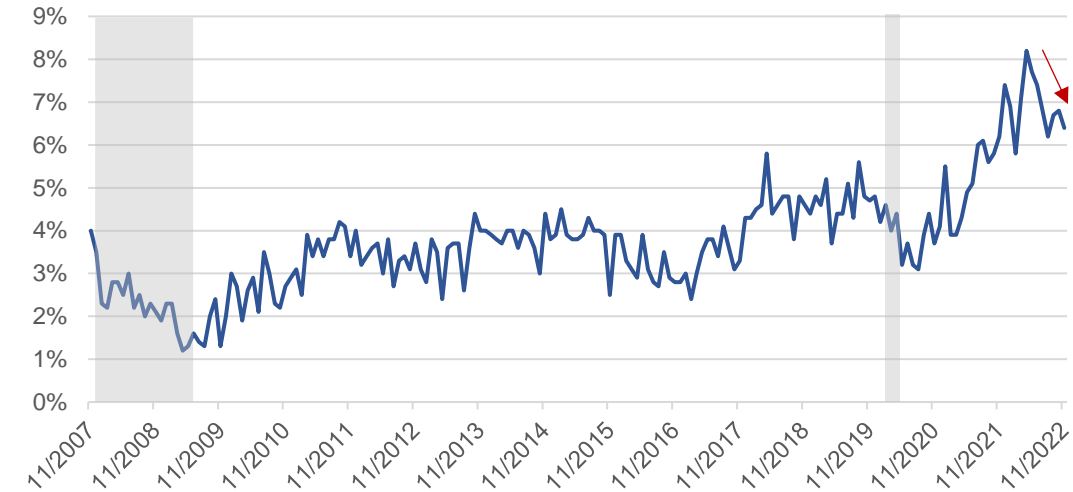
North Macedonia has one of the most challenging labour markets with ageing population and intensive emigration within the region and further. Funds and efforts were invested in various programs aiming to upskill the unemployed and pave the way for fresh educated labour force into the workplace (development of VET and Young Guarantee). Although the progressive income tax rate was on the table, the Govt decided to keep flat 10% rate in order to keep tax burden of labour low. Due to methodology issues, the data are not suitable for yoy rates. In Q3 2022 N. Macedonia recorded 693ths employed or 1.2ths up from in Q1.

ICT sector demand for labour was booming during many past years, not only worldwide but also in Adria region. However, in the most developed economies, there are signs of a trend turnaround, which we see carrying negative effects onto the rest of the World and we are testing how this will then affect Adria region. Prices for the key tech stocks dropped significantly in recent months, reflecting weaker business result prospects. This translates into **reduced demand for ICT staff in the big economies**. As data show, the US job openings in Information sector have slowed down in 2H 2022 from their peak recorded in April 2022. In line with the announced layoffs and general dynamics in Tech industry, this trend is expected to push the employment down.

In **Adria region**, although the ICT employment share at around 3.5% of the total employed (ranges from 3.3% in Bosna and Herzegovina to 4.1% in Serbia) may seem relatively small within the overall economy, it must be stated that the pace of employment growth is strong, especially with ICT employment growth outpacing the overall employment growth by 5.5pp during 2018-2021 which means that ICT employment is becoming structurally more important. There is a spillover risk from abroad, however we think it should be significantly mitigated by the nature of ICT jobs in the region (concentrated on computer programming, consultancy and related activities). The local labour market in this segment is still tight, lacking employees, and showing high increase rates. Croatia and Slovenia as EU members have advantage in comparison to the rest of the region in terms of lighter administrative requirements and resolved double taxation issues with US. On the other hand, the rest of the region has been attractive due to lower labour costs. The cost-benefit perspective is even better if we reflect on the tendency of foreign companies to outsource business tasks to one-person companies and exploit lower than the average employment tax burden and additional costs tied to employment (e.g., space and equipment costs, severance packages, etc.).

All in all, **we do not expect a material deterioration in the ICT sector employment** in the region, moreover on a long run we are inclined to conclude that this employment segment will expand further given its size, type and still competitive costs, thereby supporting the overall rise in employment.

Job openings rates by industry - Information sector
(%, seasonally adjusted)



Source: U.S. Bureau of Labor Statistics

Employed in ICT sector
(growth rates and labour market share)

	2022					Labour market share - ICT (2022, latest available Q data)
	Q1, qoq	Q2, qoq	Q3, qoq	Q4, qoq	Q3, yoy	
HR	1.8	2.1	1.8	2.2	8.7	3.6%
BH	2.9	1.5	1.6	n/a	10.3	3.3%
RS	2.8	3.6	4.3	n/a	14.9	4.1%
SI	1.2	1.4	0.5	n/a	4.9	3.4%
MK	n/a*	9.5	n/a	n/a	n/a	3.3%

*data not comparable due to Census 2021 methodology change

In 2023 we expect the employment in the region rising by around 1%, i.e., at a slower pace compared to 2022, given the growth perspectives (Slovenia and Croatia contracting, with the rest of the region recording some growth) and tight labour market. The inflow of foreign workforce is a must, which pops the issue of market attractiveness, especially in case of non-EU part of the region which has a wider space to improve working conditions. Nearshoring orientation of the dominant EU economies (also mirrored in FDIs inflows in the region) breaks the ground for stable and sustainable growth, conditional on the regions strategic preparedness to form (read import) and manage enough human capital.

In general, the labour market in the region has been receiving mixed signals. As employee collectives are gaining advantage, the employers are trying to keep up with increasing overall costs, including labour costs. With FDIs being relatively ample during 2022 it seems that tight labour market is there to stay. The West is craving for workforce luring with high wages, better overall living conditions and widely open doors. In the mid- to long-term the demographics are expected to define the employment image. With the degree of emigration recorded in the region, especially within the young age groups, the workforce is expected to shrink further. In addition, the “upside down triangle” shape of the age pyramid suggests the number of people exiting the activity span is significantly higher in comparison to the volume of fresh labour force.

In the following periods the unemployment rates will for sure tango with the economic dynamic, with demand leading the way. As cyclical sectors play a major role in the region, expected drop in foreign demand will enter some noise into the labour market on the short run. **Considering unemployment rate in 2023, slight increase is expected in Slovenia and Croatia** (mostly amid blooming tourist season in 2022 in part due to inflow of Ukrainians, which most possibly won't replay in such volume). **As Serbia, Bosnia and Herzegovina and North Macedonia have broader subset of unemployed available, there is a gap for improvement and the unemployment rates are expected to decrease mildly in 2023.**

	2023f	
	Employment, yoy % ch.	Unemployment rate, %
Slovenia	1.1	4.4
Bosnia and Herzegovina	1.8	15.2
Croatia	1.2	7.3
North Macedonia	0.2*	15.0
Serbia	1.2	8.9

*data not comparable due to Census 2021 methodology change

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