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European Centre for the Development
of Vocational Training

Alphametrics (AM)



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connecting you to the future

Macroeconomic scenarios for skill demand and supply projections, including dealing with the recession

Paper presented at *Skillsnet* technical workshop on:
Forecasting skill supply and demand in Europe

9-10 June 2009, Thessaloniki, Greece

Hector Pollitt

Cambridge Econometrics



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en Arbeidsmarkt

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and the Labour Market

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EMPLOYMENT RESEARCH



Overview

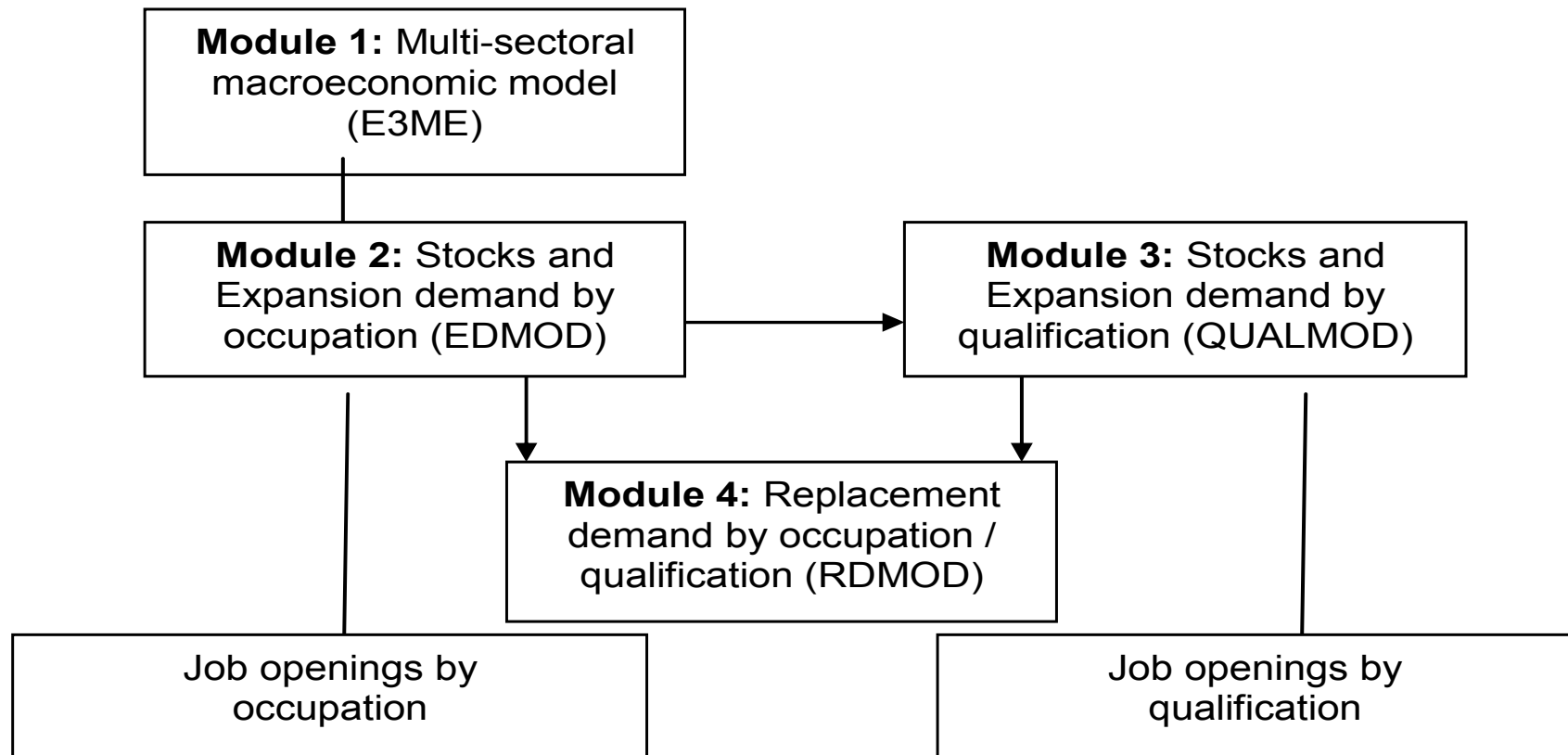
- **The current treatment: Producing forecasts of labour supply and demand**
- **Making these forecasts consistent – assessing imbalances**
- **Impacts of the financial crisis**
- **Key uncertainties**

Current treatment

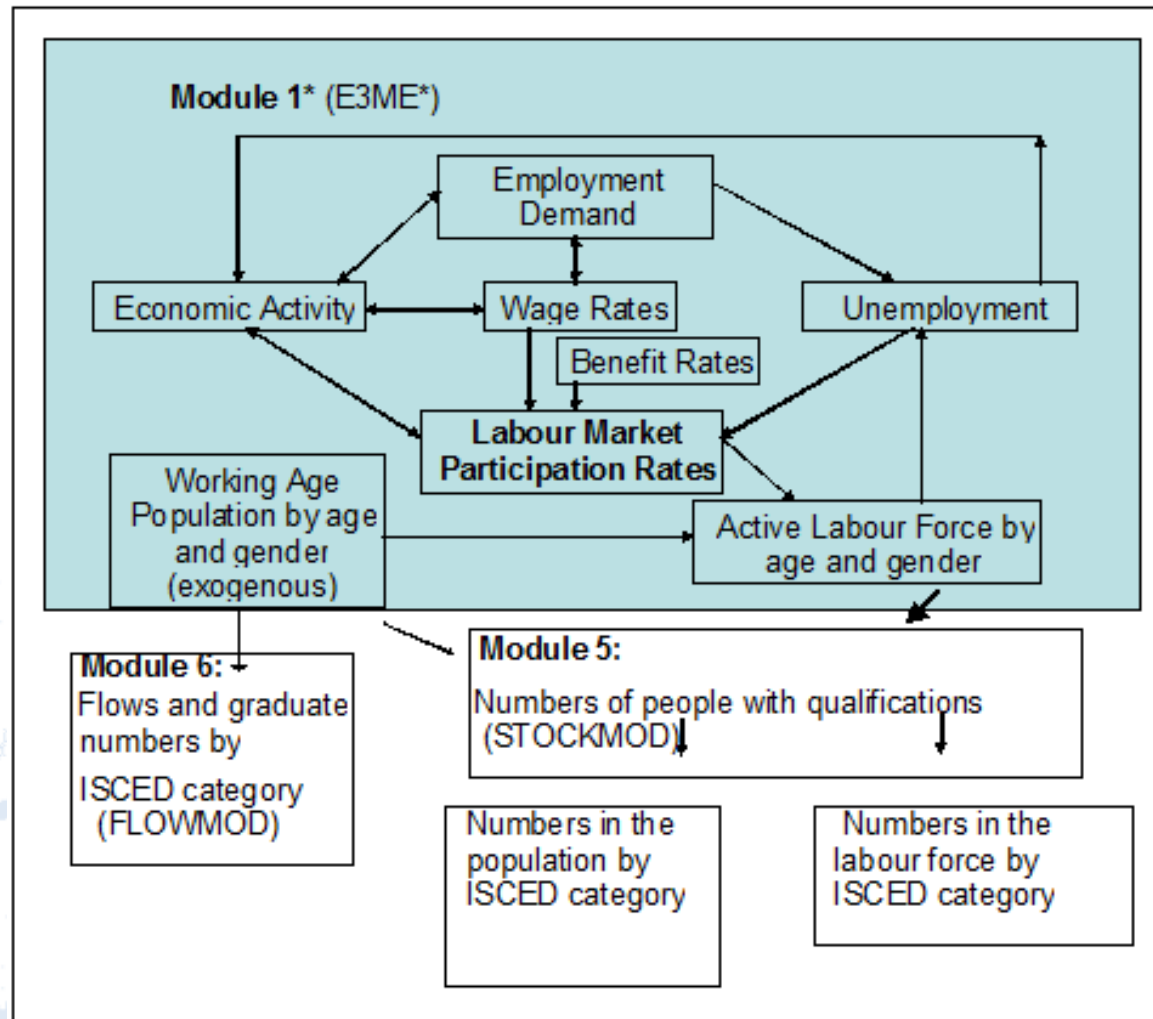
- **Separate forecasts of labour demand and supply were constructed**
- **These are described in the previous project reports:**
 - <http://www.skillsweb.eu/Portals/0/Future%20skills%20needs.pdf>

Basic structure: Demand forecasts

Modular Approach to Skills Forecasting -Overview of the current *Conceptual Framework* (Demand side)



Basic structure: Supply forecasts



* See www.e3me.com

Comparing demand and supply

- **It was difficult to compare the previous demand and supply forecasts, mainly because of differences in the E3ME framework:**
 - the forecasts were carried out a year apart, new data became available
 - discrepancies between LFS and NA data sets
 - a revised EC baseline economic forecast was used
 - a revised Eurostat population forecast became available

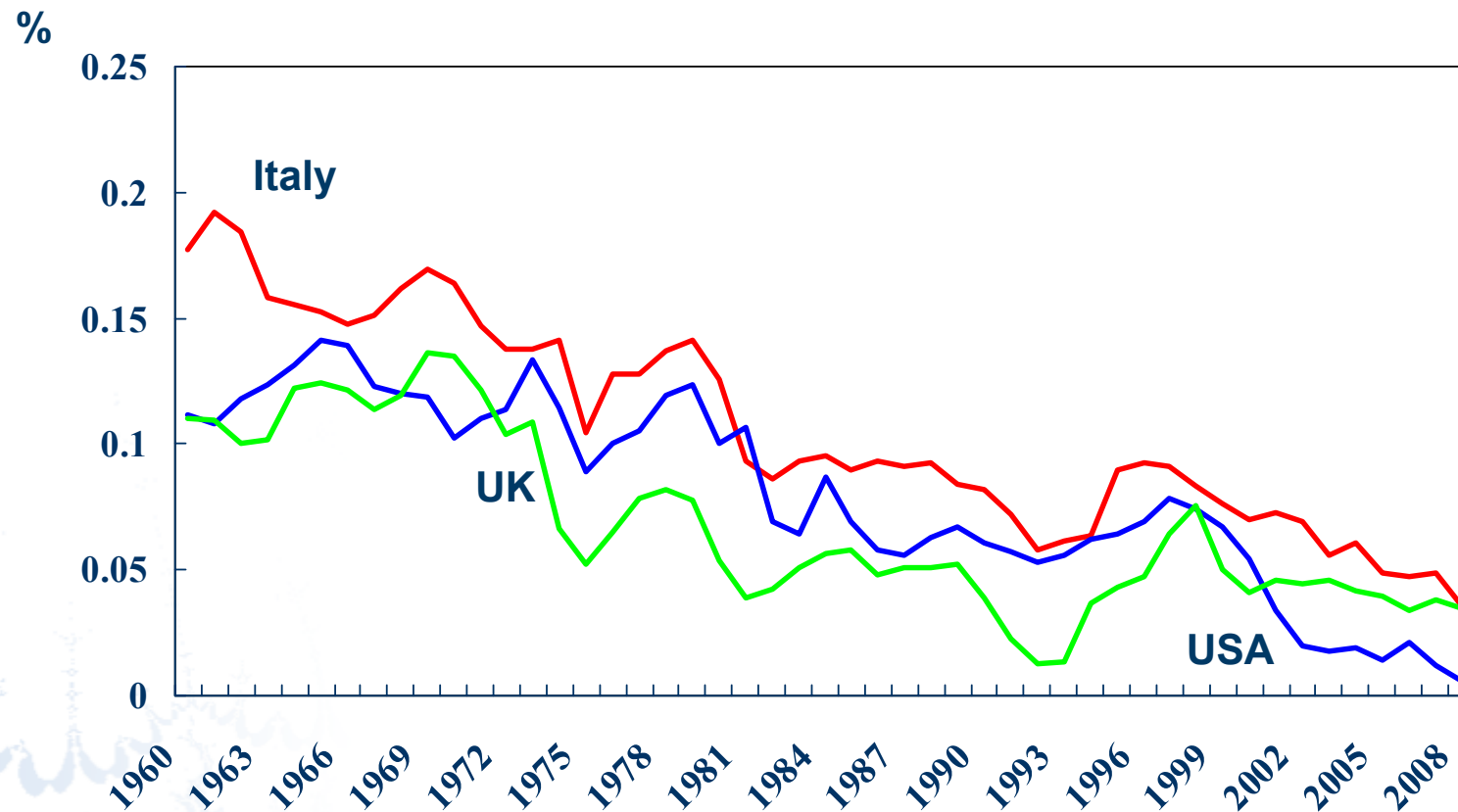
Comparing demand and supply

- **This time the approach will be integrated:**
 - the same model run will be used for demand and supply, based on the same historical data and assumptions
 - wages and unemployment will be allowed to adjust in response to labour supply and demand
 - data discrepancies will be noted explicitly and, where possible, explained

Taking into account the financial crisis

- **How do we interpret the financial crisis in the modelling framework?**
 - an extreme loss of confidence and reduced availability of credit has caused sharp falls in investment
 - activity in other parts of the world (eg US) is falling
 - household savings ratios are returning from unsustainably low levels
 - international commodity prices have fallen (although are now rising again)
 - governments and central banks have taken one-off steps to mitigate the effects

Selected household savings ratios



Source(s) : AMECO database, Cambridge Econometrics.

What does this mean for labour supply and demand?

- **Labour supply falls slightly, in response to higher unemployment**
 - eg wealthy bankers drop out of the labour market rather than claim benefits
- **But labour demand falls by much more, in response to falling output**

Which sectors are most affected?

- **Banking and finance**
- **Sectors that support Banking and finance, eg Business services**
- **Sectors that produce capital goods**
 - eg Motor vehicles, Construction, Engineering

Which sectors are least affected?

- **Government and public sectors**
 - eg Public administration, Education, Health
- **Ones that produce basic requirements**
 - eg agriculture, Food

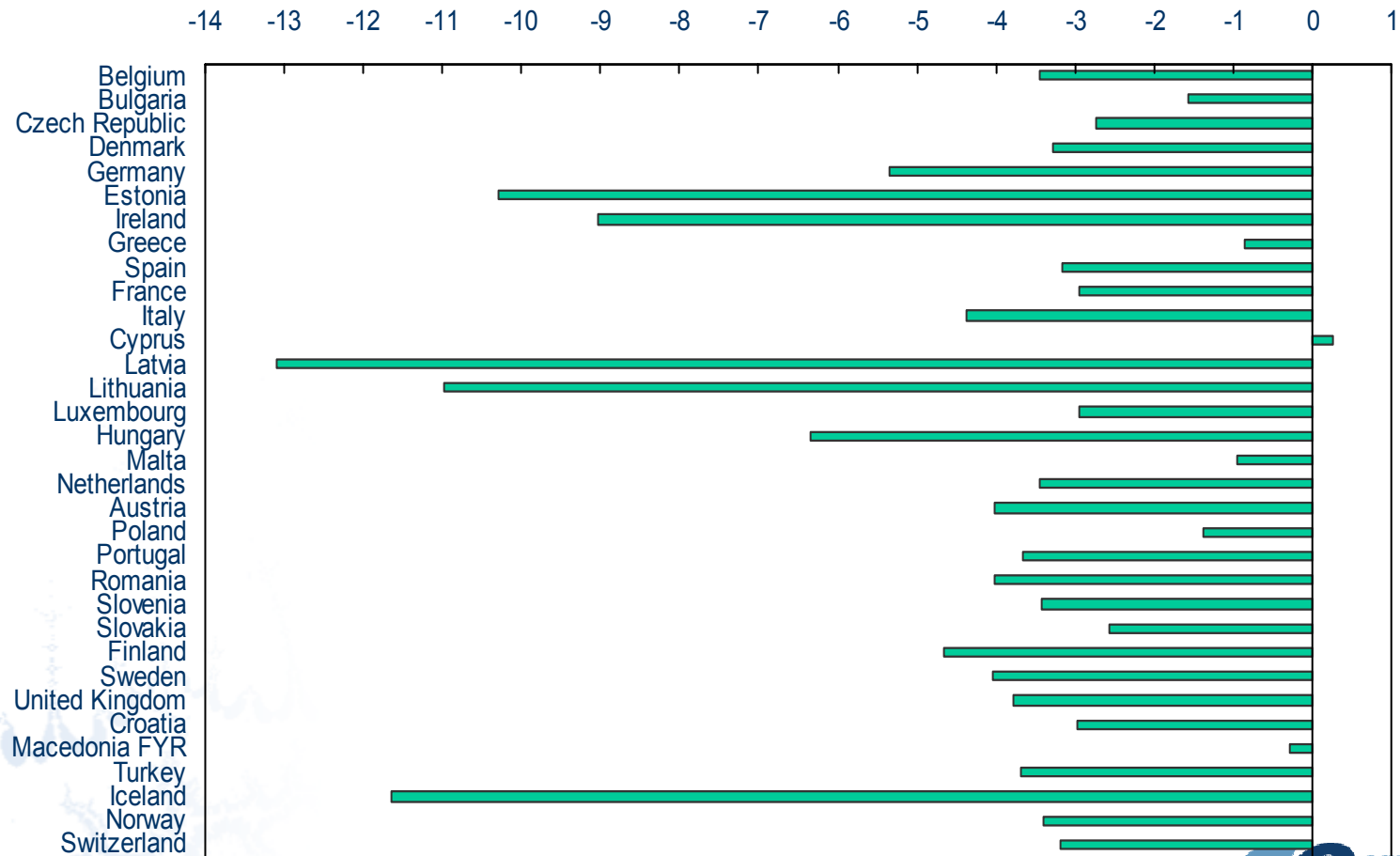
Which countries are most affected?

- **The following factors have contributed to falls in economic output:**
 - previous booms
 - large financial sectors
 - production of investment goods
 - exposure to international trade
 - very low household savings ratios
- **The effect on labour demand is also dependent on local labour markets**

Stimulus packages

- **Interest rates have been reduced in most European countries**
- **National governments (plus limited European coordination) have announced spending plans and tax cuts to support key sectors**

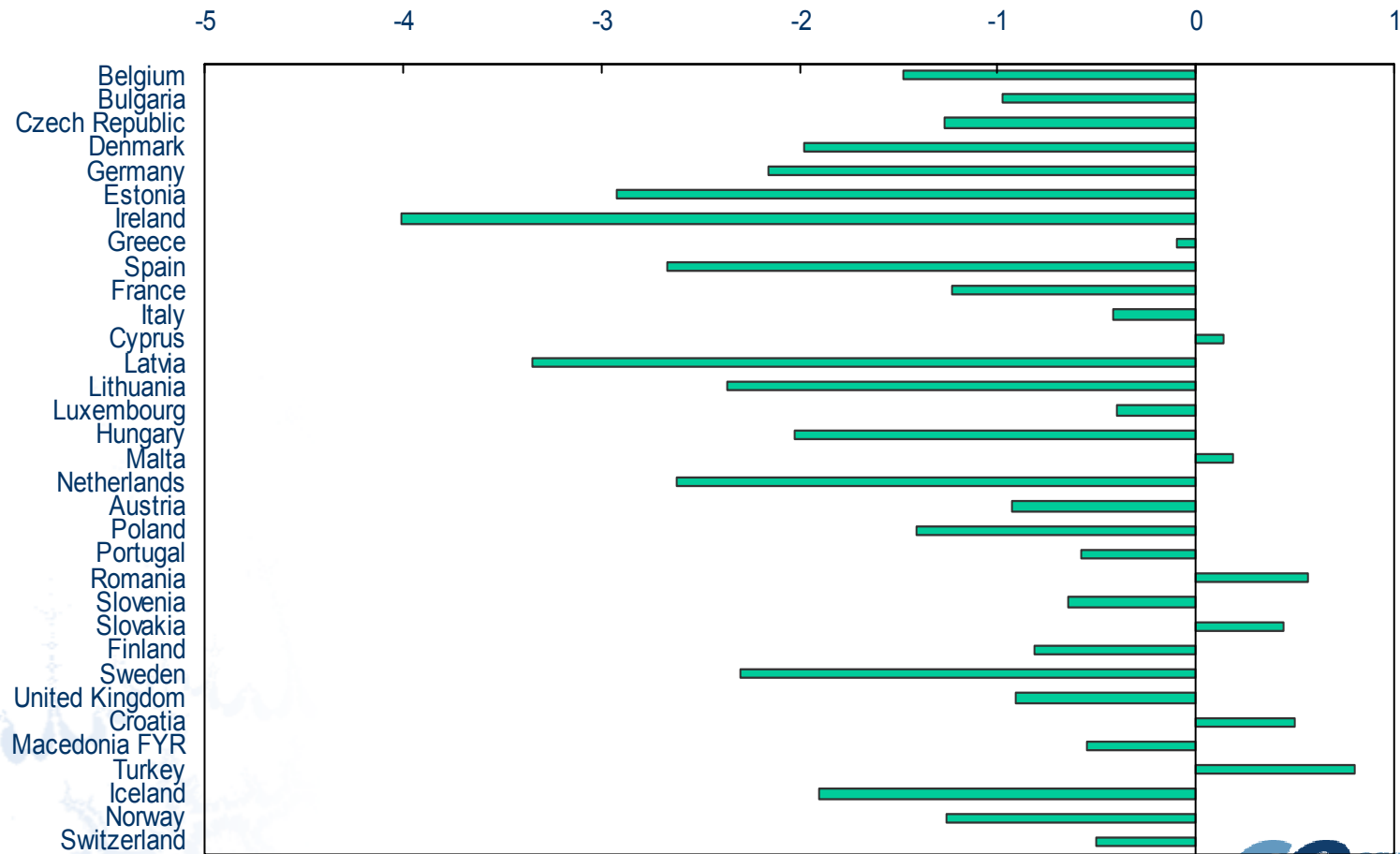
Forecast GDP growth for 2009



Note(s) : Chart shows forecast GDP growth for 2009.

Source(s) : AMECO database (0901), European Commission.

Forecast Employment growth for 2009



Note(s) : Chart shows forecast GDP growth for 2009.

Source(s) : AMECO database (0901), European Commission.

Medium-Term impacts

- **We must answer the following questions:**
 - how long will recession last?
 - has the trend rate of growth been affected?
 - what are the long-term impacts on particular sectors (eg banking)?

Treatment of uncertainty

- **Now more than ever there is a lot of uncertainty surrounding the central forecasts:**
 - how soon will confidence return?
 - where will savings rates end up?
 - will tax rates and long-term interest rates have to go up?
 - what about commodity prices?
 - how does an ageing population fit into this?
 - will the crisis lead to greater protection of jobs or more flexibility?

Treatment of uncertainty (cont)

- **Previously additional scenarios have been set up to set up ranges of possible outcomes**
- **This will need to be expanded upon to address these additional uncertainties**

Summary

- **The new forecasts will:**
 - consider demand and supply together, allowing analysis of imbalances
 - take into account the short-term impacts of the financial crisis and global recession
 - include an analysis of key uncertainties



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