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Economic Forecast 2018–2019

Weakening boom reduces unemployment at an unanticipated rate

Employment growth differentiated by age group

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LABOUR INSTITUTE FOR ECONOMIC RESEARCH

Economic Forecast for 2018–2019

Weakening boom reduces unemployment at an unanticipated rate

Employment growth differentiated by age group

The boom becomes less pronounced but continues. This year, the growth of exports will not reach the peak figures of last year but the growth will to some extent pick up speed again in next year. The quickly decreased unemployment rate will continue to drop. An analysis of long-term employment growth by age group shows that positive employment growth is concentrated on the one hand on younger employees and, on the other hand, older employees, whereas the employment rate of men aged 25–34 is growing smaller. The government budget policy is too expansive, given the economic situation.

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- The boom will continue in Finland despite the reduced growth of the global economy
- Employment growth is differentiated by age group and gender
- The government budget policy is too expansive
- Compensation of cuts in direct taxes by means of Pigouvian taxes is difficult and does not tighten the tax screw on different households equally

The boom, which started in 2016 and accelerated in 2017, continued in the first half of this year. According to the preliminary figures of the quarterly accounts, the GDP grew in the first half of the year by 2.7 per cent compared to the same period in the previous year. However, the trend indicator of output suggests stronger growth of approximately 2.9 per cent.

We estimate the economic growth to gradually slow down during the forecast period, as it was the case according to the economic forecast of the Labour Institute for Economic Research in last spring. The total available household income will increase, among other things, due to an improving employment rate, but the growth of private consumption will probably be limited by an increased tendency to save: the level of saving, which has been negative for a long time, will probably begin to grow (approach zero). The growth of investment will gradually slacken e.g. because the growth rate of construction investments is slowing down. Nevertheless, in our forecast the amount of investment projected for 2019 is still a record amount in the history of Finland.

The greatest changes to our growth projections from last spring are related to foreign trade: both the export growth forecast and the import growth forecast have been reduced since the previous forecast.

Both export and import grew slower than we forecasted in the first half of this year. Nonetheless, export companies' order book information and export expectations hint at faster growth of exports compared to the weak figures from the first half of the year. The growth of exports is threatened by the impending trade war, which might be caused by the import tariffs set by the United States and the resulting counter-tariffs. However, it seems likely that instead of a full-blown trade war, the tariffs will only reduce the trade of individual product categories and will, in fact, only moderately slow down the growth of foreign trade.

According to our estimate, the reduction in foreign trade growth detected early this year will remain temporary and despite the global upward trend becoming weaker, the growth of Finnish exports will pick up speed next year. Our economic growth estimate has been tempered from the spring, primarily because of the changes made to the export and import growth estimates: we now estimate that the growth of the GDP will be 2.7 per cent this year and 2.3 per cent next year.

UNEMPLOYMENT IS REDUCED BUT EMPLOYMENT GROWTH IS DIFFERENTIATED

Last year's accelerated economic growth manifested itself more in the number of employed persons than in the decreasing number of unemployed persons. Also unemployment has dropped sharply this year. We estimate that this year, the unemployment rate will drop by one percentage point to 7.6 per cent.

However, employment growth has been differentiated, both by age group and gender. The long-term study of the employment growth age distribution (see p. 17) shows that the employment rate has risen in the 2010–2018 period mostly within the youngest (15-24) and oldest (55-64) employee groups. For instance, in the 25-34 group, the employment rate has dropped, and in the 45-54 group, it has only improved for men.

The poor development of employment within the prime-age population (25-54) does not fit well in the common perception that finding employment is particularly hard for young people and, on the other hand, for aging employees. Employment policy should be supported by exhaustive research into the causes of this surprising age-polarisation.

PUBLIC ECONOMY SLOW TO BALANCE

Both state and municipal tax income will increase as a result of (among other things) positive employment growth, but the government budget will show a deficit in this forecast period, e.g. because of tax cuts. Municipal economy as a whole will show a surplus, and the EDP debt of the public sector in Finland will be below the 60 per cent reference value.

The EU uses three different evaluation methods to assess the fiscal stance of its member states. Evaluated by two of the three methods, the Finland's fiscal stance was contractive in 2014; it was contractive in 2015-16, judging by all of the methods; and it was expansive in 2017 judging by all of the methods.[1]

The government agreed on the 2019 budget in the government budget negotiations that ended on 29 August, 2018. Next year's budget will continue the pro-cyclical policy of the recent years. The budget policy will remain the same in the proposal in the sense that in the budget no significant decision-based changes will be made to previous government spending or income policies, even though the economic situation is so much better than projected that making previous policies more contractive (including fewer tax cuts or more cost cuts) would be justified.

The current government has sought to keep labour taxation at a reasonable level and shift the focus of taxation from labour taxation to Pigouvian taxes. The dynamic effects of Pigouvian taxes (decrease of the demand for products subject to tax) will reduce their usefulness as replacements for labour taxation. Furthermore, the (as such, justifiable) objective of shifting the focus is problematic for low-income persons, when it shows up as reduced purchasing power. As the calculations concerning our case families show, increases in Pigouvian taxes may in percentage terms lower the purchasing power of low-income persons as much as, or even more than that of high-income persons, but lowering labour taxation does not compensate this effect for people in the lowest income categories or daily allowance income recipients. ■

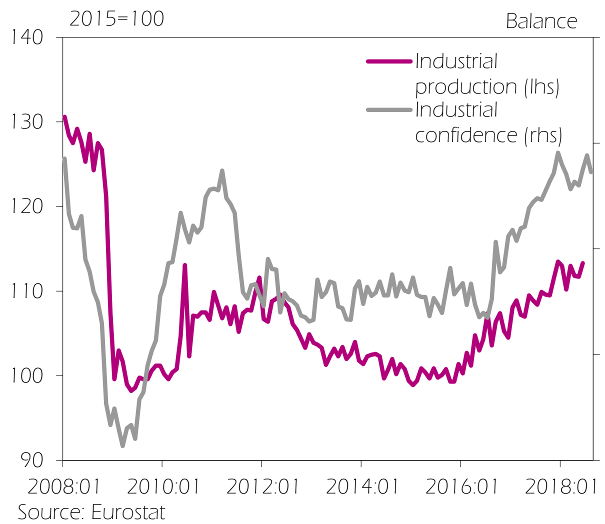
DEMAND AND SUPPLY

	2017	2017	2018f	2019f
	Bill. €	Percentage change in volume (%)		
Gross Domestic Product	223.8	2.8	2.7	2.3
Imports	85.4	3.5	3.1	3.2
Total supply	309.3	3.0	2.8	2.6
Exports	86.3	7.5	3.5	4.8
Consumption	173.1	0.8	1.8	1.6
private	121.9	1.3	2.4	2.1
public	51.2	-0.5	0.5	0.3
Investment	49.6	4.0	3.9	3.0
private	40.4	4.6	4.3	3.4
public	9.1	1.8	2.1	1.0
Total demand	309.3	3.0	2.8	2.6

Source: Statistics Finland, Labour Institute for Economic Research

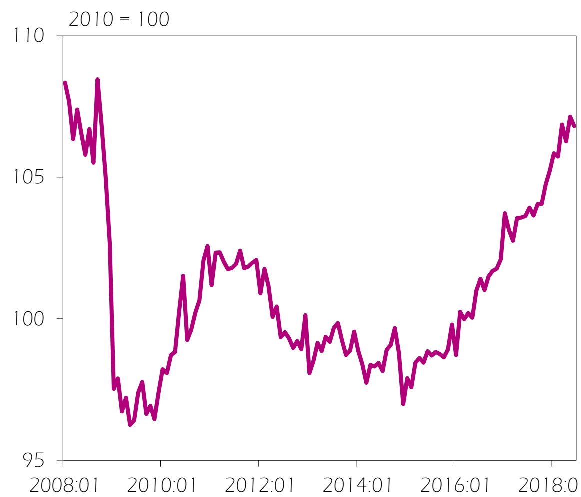
[1] *Ahola, I., etc., 2017, "Finanssipolitiikan päätösperäisyyden arvioiminen – vaihtoehtoisten mittareiden esittely", Ministry of Finance publications, 40/2017, p. 25.*

INDUSTRIAL CONFIDENCE AND INDUSTRIAL PRODUCTION IN FINLAND 2008:01–2018:08



Source: Eurostat

TREND INDICATOR OF OUTPUT 2008:01–2018:06



Lähde: Tilastokeskus

Global Economy

US economic policy rocks entire global economy

- Trade policy related uncertainty continues longer than expected
- The US dollar trails the rising interest rates in the US, bringing about crises in rising economies
- Increasing oil prices accelerate inflation and decelerate economic growth
- Economic growth in the eurozone will remain at a bit over 2 per cent this year and next year
- China will combat the retardation of its economy by the means of expansion

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Last spring, we forecasted that the trade policy shifts of the US would not lead into a trade war. The probability of a trade war has been reduced in Europe by the deal made in July by president Trump and head of the European Commission, Juncker, according to which the imposition of new tariffs was suspended and the current tariffs on steel and aluminium would be reviewed. However, this never fully removed the uncertainty regarding tariffs, which still has a negative effect on economic expectations, export orders and the rest of the economy. November's congressional elections in the United States may mitigate politico-commercial risks.

The United States and China have not been able to come to a trade policy agreement, and the raising of tariffs continues. The United States has also imposed tariffs on many other countries. The tariffs that have come into force, however, are relatively insignificant. The expectations and insecurity linked to trade policy have more of an impact. This harms also the United States itself.

Economic growth in the US has received a boost from the tax cuts and increased public spending that entered into force at the start of the year. The stimulating effect will soon fade, but as a result, the federal government will incur massive debts. As inflation is simultaneously on the rise and the central bank of the country is expected to keep raising its key interest rates, the interest rates will rise in general. This has a tendency to strengthen the dollar, and the correction of the stock market may well be nigh. There are clear indications of the economic growth of the US slowing down, e.g. in exports, industry, construction as well as the housing and car markets.

The interest rate policy of the US and the strengthened dollar are especially harmful for developing economies with a lot of foreign debt. Because of the increasing lack of trust and the decreased willingness to take risks, investors wish to exit, and as a result of this the interest rates of these countries rise and their currencies get weaker, which makes it even more difficult to pay off debts. Even share prices are taking a nosedive. Similarly with the crises seen in Argentina and Turkey, many other countries have found themselves in trouble, although for the time being, to a lesser degree.

Many countries have also suffered as a result of the unexpected rise in oil prices. Demand has remained strong while especially the US, Saudi Arabia and Russia have been unable to cover for the reduced export of oil by Venezuela, Libya and Iran. The price of oil is expected to rise on average by approximately 35 per cent this year compared to last year, clearly to more than USD70 per barrel.

EUROZONE GROWTH TO SETTLE AT SLIGHTLY OVER TWO PER CENT

Economic growth in the eurozone slowed down to 2.2 per cent in the 2nd quarter of this year and will stay slightly below that figure at the end of the year (chart). Of the major member of the monetary union, Germany has already showed some signs of improvement, but France, Italy and Spain are still heading for the worse. The attempts of Italy's new government to increase the budget deficit, and even to leave the monetary union, which would undermine trust in Italy's already weak economy even further, have become a risk for the eurozone. The infectious effect, especially of the crisis in Turkey, may make the risk pertaining to Italy even worse.

The European Central Bank (ECB) has decided to continue its net asset purchases until October-December at the rate of MEUR 15 per month. Transforming the figure to zero or slightly negative at the turn of the year will bear no large significance. Inflation in the eurozone has already accelerated to 2 per cent, primarily as a result of rising oil prices (chart). The core inflation has remained at approximately 1 per cent. Expecting it to accelerate, ECB is planning to start raising key interest rates late next year, but expectations of this will make market interest rates become higher already before that. However, the economic prospects may already be weakening by then to such a degree that the key interest rate will not be raised at all. Next year, economic growth in the eurozone will still be slightly higher than 2 per cent, assuming that trade policy related and other risks will not be realized.

The agreement on Britain's exit from the EU ("Brexit") should be finalised, at the latest, at EU's summit in December, and Brexit is due to enter into force on 29 March, 2019. It is possible that Brexit will take place without any agreement, or even chaotically. The expectations and uncertainty linked to Brexit are slowing down Britain's economic growth. However, the weakening of the pound supports exports. Nonetheless, our forecast is based on the assumption that the exit process will not result in an uncontrollable crisis.

Sweden's overall production grew surprisingly quickly at the start of the year, at the pace of more than three per cent. Immigration, a low interest rate level and weaker crown form the backdrop of the strong domestic demand. In the future, Sweden's growth will slow down to less than three per cent.

WORLD ECONOMY TO SLIGHTLY SLOW DOWN

In recent times, China's economic policy has been characterized by a shift of growth strategy towards growth based on consumption and by putting breaks on the incurring of debts by restricting credit granting by the so-called shadow bank sector. Early this year economic growth showed clear signs of slowing down and tariffs started to hike up, but China turned the tide in June via financial and fiscal stimulation. At the moment, the results are looking thin, but China has shown before its ability to have a strong finish to a year. The Chinese leadership is unlikely to give up on its 6.5-7 per cent growth target next year, either. This development is also significant for other countries, because the increased credit granting by Chinese banks has carried over to the exports and economic growth of the rest of the world via China's real economy and imports.

Japan suffers from the weakness of private consumption, housing investments and exports. The increase of value-added tax in October next year will also slow down economic growth, which will remain at a little below one per cent.

India reached an incredible growth of 7.8 per cent in the 2nd quarter of this year. However, the growth is retarded by rising import oil prices and the crisis hitting rising economies.

The sharp rise in oil prices has boosted Russia's national economy and reserve funds. However, Russia's economic growth will remain weak. The country is hit hard by sanctions, which have prevented Russia's industrial production from increasing.

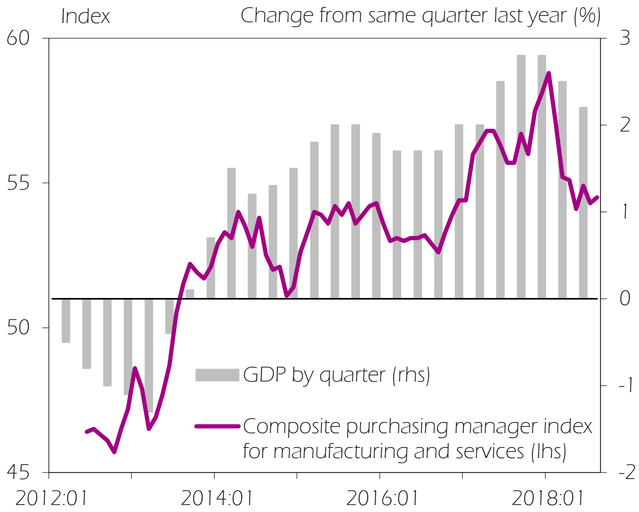
The economic growth of Brazil is below the expected level due to strikes, the uncertainty linked to the upcoming presidential election and the crisis hitting economies on the rise. Also the price of coffee has crashed. Nonetheless, growth will slowly pick up speed because Brazil will rise from a depression deeper than before. ■

GLOBAL ECONOMY

	Share of world GDP (%)	GDP growth (%) 2017	2018f	2019f
United States	15.3	2.2	2.6	2.1
Eur-19	15.8	2.4	2.1	2.1
Germany	3.3	2.2	2.1	2.1
France	2.2	2.2	1.7	1.7
Italy	1.8	1.5	1.1	1.1
EU28	16.5	2.4	2.1	2.1
Sweden	0.4	2.3	3.2	2.7
United Kingdom	2.3	1.7	1.2	1.0
China	18.2	6.9	6.7	6.7
India	7.4	6.5	7.5	7.5
Japan	4.3	1.7	0.9	0.8
Russia	3.2	1.5	1.4	1.3
Brazil	2.6	1.0	1.2	2.3

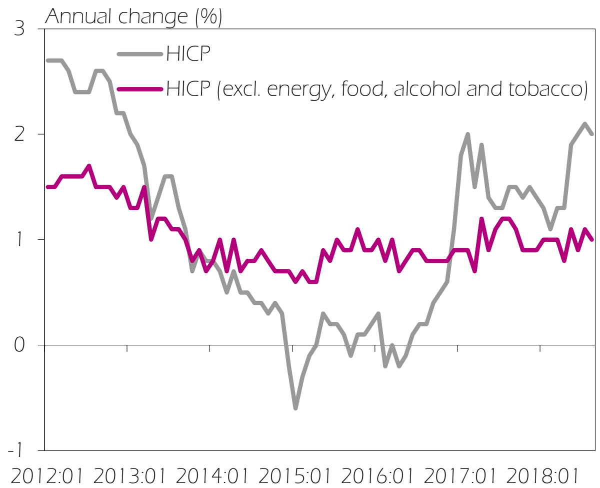
Source: BEA, BOFIT, IMF, Eurostat, Labour Institute for Economic Research

EURO AREA PURCHASING MANAGER INDEX 2012:01–2018:03 AND QUARTERLY CHANGES IN GDP (%) 2012:1–2018:2



Source: Eurostat, Investing.com

INFLATION IN EURO AREA 2012:01–2018:08



Source: Eurostat

Foreign Trade

Exports continue to grow faster than imports

- The quarterly information from the first part of the year indicates that exports are dwindling, but the information received from export companies does not confirm this
- The growth of Finland's exports will increase next year despite the growth of the global economy becoming slower
- Current account surplus grows due to growth of balance of trade surplus

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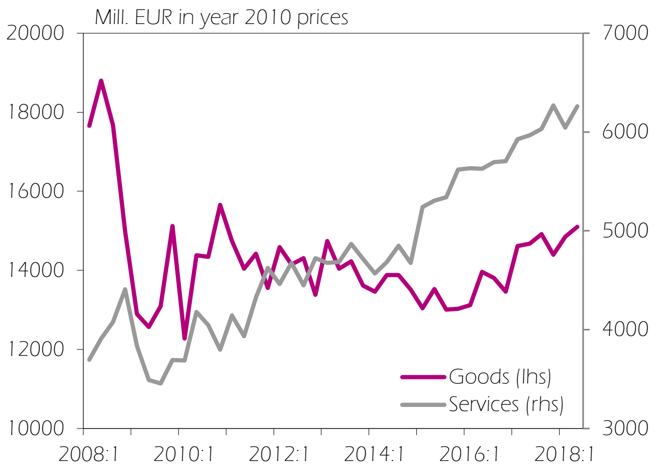
Last year, Finland's exports grew very fast whilst imports only grew at a moderate rate: the export volume growth in 2017 was 7.5 per cent, whilst the import volume growth was only 3.5 per cent. The fast growth of exports was enabled by a change in the global economic trends, the effect of which seems to be balancing out.

Development in the first two quarters of this year would seem to indicate that the export growth will become considerably slower. Import growth also seems to remain relatively slow compared to the total increase of demand. Compared to the same period last year, both export and import growth was as low as 2.4 per cent in the first part of the year according to the quarterly accounts of Statistics Finland. For example, the export projection queries of EK (Confederation of Finnish Industries) as well as the positive financial news pertaining to some export companies indicate a significantly more positive export trend.

The US has imposed tariffs on steel and aluminium imported from most countries as well as tariffs on products imported from China based on claimed violations of industrial rights. Both China and the EU have reacted to the tariffs imposed by the US by imposing counter-tariffs.

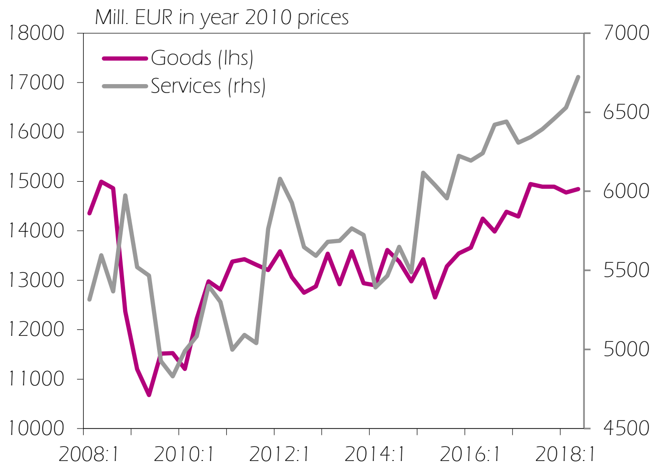
In our forecast scenario, the current raised tariff barriers will not lead to a full-scale trade war, which would freeze global trade. Instead, the effect of the new tariffs on Finland's foreign trade will be limited to the decreased trade of individual commodity groups. According to our estimate, on average, exports will grow more moderately during the forecast period than last year but the growth will considerably faster than the preliminary quarterly information on the first part of this year, published by Statistics Finland, indicates.

EXPORTS OF GOODS AND SERVICES 2008:1–2018:2



Source: Statistics Finland

IMPORTS OF GOODS AND SERVICES 2008:1–2018:2



Source: Statistics Finland

EXPORTS GROWTH TO SLOW DOWN BUT REMAIN STRONG

According to the economic barometer published by the Confederation of Finnish Industries, the balance figures (describing exports in the next three months and the following three-month period) pertaining to the industrial export projections as a whole have remained approximately at last year's exceptionally high level. Furthermore, according to the surveys conducted by Technology Industries of Finland the sector's volume of orders has almost reached the high level prior to the financial crisis of 2008.

Last year, the price competitiveness measured by unit labour costs in manufacturing improved significantly in comparison with several major export countries. The moderate wage solutions carried out by Finland will keep improving our competitiveness this year and next year.

Metsä Group's bioproduct mill in Äänekoski achieved its full production performance in August, with production up to 1.3 million tons per year. Of the plant's production, approximately 70 per cent is exported. Production at Valmet Automotive's car factory in Uusikaupunki is also growing thanks to the production of a new model starting last July.

In 2019, two vessels will be completed in Meyer's shipyard in Turku, a Mein Schiff series vessel, like the one completed in May this year as well as Costa Smeralda, the largest ship produced in the shipyard in a decade. The handover of Costa Smeralda will increase the growth of Finland's exports by approximately one percentage point in 2019.

We estimate that next year, Finland's export of goods will grow faster than this year, even though the growth of the global economy will slow down due to (among other factors) the rising tariff barriers and probably also the stronger dollar.

The export of services has grown strongly in the last three years (14.5, 5.4 and 6.8 per cent in 2015, 2016 and 2017, respectively). However, more than one percentage point of last year's growth was probably due to an individual, one-time transaction belonging to R&D services. In our forecast scenario, the annual growth of service exports during the forecast period follows the trend of the previous two years (approximately 5.5 per cent). We project exports as a whole to grow by 3.5 per cent this year and by 4.8 per cent next year. At the same time, import growth will continue at a moderate rate: 3.1 per cent this year and 3.2 per cent next year.

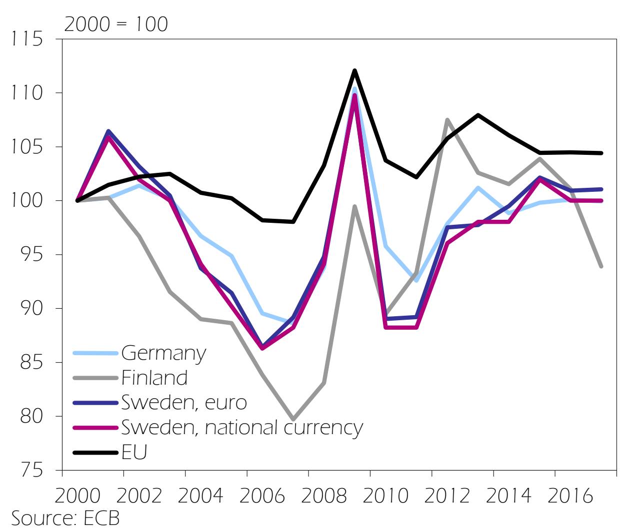
EXPORT AND IMPORT PRICES TO RISE AND CURRENT ACCOUNT SURPLUS TO GROW

There are several factors in play that contribute to the rise of both import and export prices during the forecast period. Rising oil prices raise import prices and, mostly within the chemical industry, also export prices. Finland's conservative wage trend and euro's dollar exchange rate becoming weaker raise the import price index compared to the export price index.

Of Finland's exported products, the price of especially wood pulp has risen sharply. During the period extending from the beginning of last year to the start of July this year, the world market price of wood pulp increased by approximately 50 per cent. Calculated on the basis of the customs export statistics, the price per ton of exported soda and sulphate pulp exported from Finland has risen by more than a quarter in the same period. A rough calculation based on the customs figures shows that the rise in pulp prices until now alone has raised export prices by 0.3 percentage points and export goods prices by approximately 0.5 percentage points. In our forecast scenario, the export prices will rise slightly faster than the import prices so that the terms of trade will improve slightly this year.

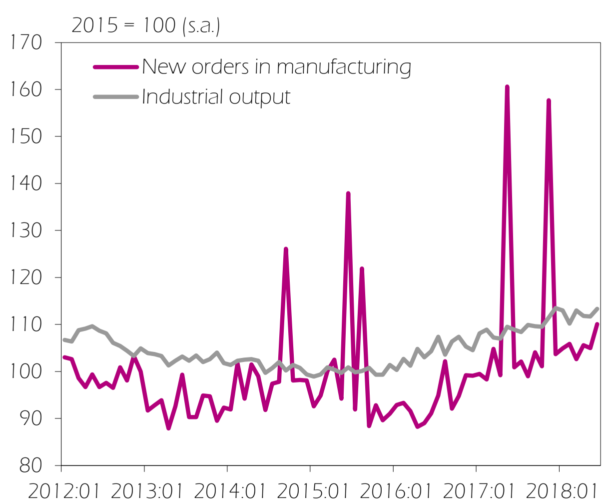
Last year, the balance of trade showed surplus after several years of deficit. We estimate that thanks to exports growing faster than imports, the current accounts surplus will grow by approximately half a billion euros this year and by almost a billion euros next year. ■

NOMINAL UNIT LABOUR COSTS IN MANUFACTURING INDUSTRY 2000–2017



Source: ECB

INDUSTRIAL PRODUCTION IN FINLAND 2012:01–2018:06



Source: Statistics Finland

Investment

Investments to stay at reasonable level also in 2019

- » Investments will grow by 3.9 per cent this year and 3.0 per cent next year
- » The growth of construction will stay strong also this year
- » The amount of investment in 2019 will be greater than ever

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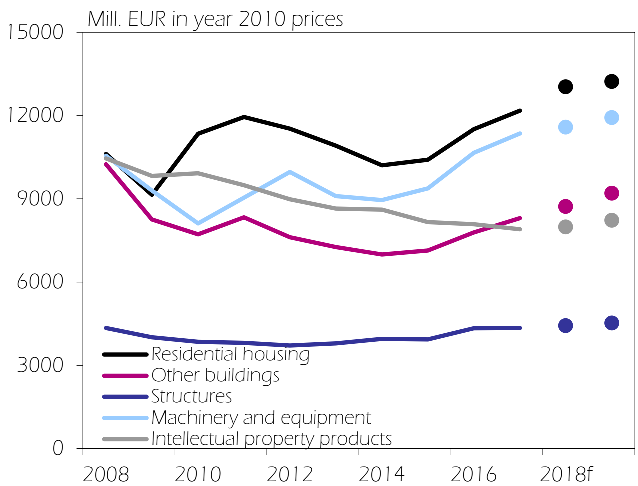
Investments grew by 8.5 per cent in 2016 and by 4.0 per cent last year. We have not modified our investment forecast for this year from last spring. Construction is now projected to grow at a slightly more moderate rate next year, and next year's forecast has been slightly lowered as a result. Characteristically of a boom period, investments have been growing relatively strongly for several consecutive years. According to our forecast, 2018 investments will be a little bit short of the 2008 level, which is the highest measured in history. The amount of investment in 2019 will be greater than ever before in the history of Finland.

Construction investments started to grow in the second half of 2015 and have continued their strong growth since then. The strongest growth spurt took place in 2016, but there was also significant growth taking place last year. With regard to construction investments, we have slightly upped our forecast from the spring as a result of the good figures at the start of the year. The growth of construction investments will keep growing in 2019, but only slowly. The 2019 land improvement outlook is slightly overshadowed by the fact that the approximately MEUR 400 of additional funding, targeted at delayed traffic network repairs, will have run its course.

Investments in machinery and equipment grew strongly in 2016 and 2017. This year, the projected growth is much more moderate. There were several major one-time investments last year, such as the machinery of the pulp factory in Äänikoski and Finnair's A350 aeroplanes. These major investments boosted growth in these years. This year, growth is driven by the general economic situation and the fact that the production capacity use of an increasing number of companies is close to the maximum, which shows up as increased investment. The growth of investments in machinery and equipment will continue moderately in 2019.

According to last spring's information, there has been a clear upturn in R&D investments. According to the latest information, however, R&D investments dropped by 2.3 per cent last year. There was also a slight drop in the first two quarters of 2018. Hence, last spring it still looked like R&D investments would have finally taken an upturn in 2017. However, now it seems that the upturn would take place at the earliest this year, and even then, very moderately. For this reason, the spring forecast has been revised accordingly. ■

INVESTMENTS 2008–2019



Source: Statistics Finland, Labour Institute for Economic Research

Labour Markets

Employment rate to reach 72 per cent landmark

- The employment trend is concentrated on the far ends of the age range
- The population forecast muddles the assessment of the size of the labour force
- Pay rises already evident in public sector income level

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Boosted by economic growth, the employment rate improved significantly already in 2017 and it is expected to keep improving in 2018 and 2019. The employment rate landmark of 72 per cent set by the government should be reached already this year. Next year, the employment rate is forecast to rise to 72.8 per cent. The employment rate has already risen especially among the young and older age groups, which raises concern regarding the employment trend of prime-age population. Many who have been outside the work force have become active job-seekers or moved directly back to working life.

At the same time, unemployment has also dropped at a faster rate than projected last spring. The unemployment rate will be 7.6 per cent this year and 7.4 per cent next year. These forecasts are lower than many estimates on structural unemployment. During the last three years, the unemployment rate has steadily dropped among all age groups, but most among those aged 15-24.

When analysing labour market figures, we should take into consideration the population forecast, as a change in the working age population is directly reflected in the availability of jobs. The population forecast of Statistics Finland was drawn up in 2015 and it has not been updated since. Given the actual population data, the population forecast was too optimistic, which may further muddle up the analysis of the labour force and, furthermore, the number of the employed and unemployed.

The general pay rise policy has been set at 3.2 per cent, which is meant to be implemented in the next two years. Last spring, it was assumed that rises would primarily enter into force in March 2018 in the private sector and in April-May 2018 in the public sector. The general rises in the government and municipal sector are moderate for 2018, but this also includes local agency instalments and the one-time instalment paid in January 2019. Hence, pay rises for the whole public sector are primarily cumulated for next year.

Based on the information from the first and second quarters, the income level trend has been in line with the forecast from last spring. Contractual wages will rise by 1.2 per cent this year and by 2.0 per cent next year. As a result of a potential "wage race", wage drift will raise the income level trend as a whole to 1.9 per cent and 2.5 per cent in 2018 and 2019, respectively. ■

KEY LABOUR MARKET FIGURES

	2016	2017	2018f	2019f
Unemployment rate (%)	8.8	8.6	7.6	7.4
Employment rate (%)	68.7	69.6	72.1	72.8
Labour force (1 000)	2685	2707	2760	2775
Employed (1 000)	2448	2473	2550	2570
Unemployed (1 000)	237	234	210	205
Index of wage and salary earnings (%)	0.9	0.2	1.9	2.5
Average hourly earnings (%)	0.7	0.3	1.7	2.1

Source: Statistics Finland, Labour Institute for Economic Research

Inflation and Households

Prices rise slowly and improved employment supports private consumption

- Consumer prices are rising moderately
- Improved employment rate is shown in the rise of private consumption
- Consumer confidence is high and the savings rate is seeking direction

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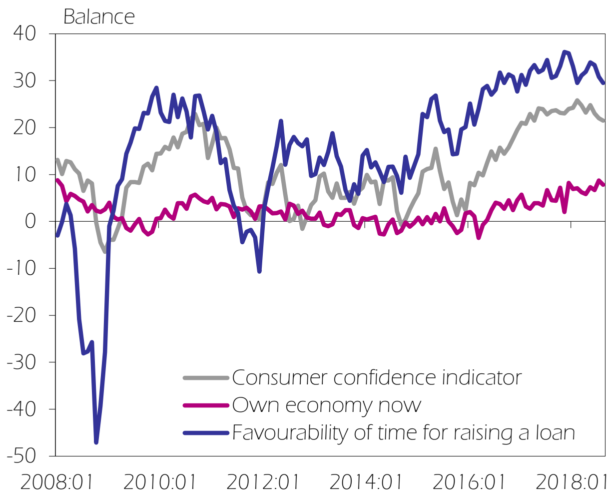
We estimate that the rise of consumer prices in Finland will stay at 1.1 per cent this year and increase to 1.4 per cent in 2019. According to our estimate, private consumption will rise by 2.4 per cent this year and 2.1 per cent next year.

Consumer prices have been developing very moderately for several years already. They are now rising slowly but comprehensively. The combined price trend of food, rents as well as alcohol and tobacco products is now faster than the average inflation trend. The rise in oil prices early in the year and the resulting rise in fuel prices also raise expectations regarding faster-than-before rise of prices. It is probable that this will show up also in other items of the consumer price index.

CONSUMER CONFIDENCE 2008:01–2018:08



Source: Statistics Finland

KEY FORECASTS FOR HOUSEHOLDS

	2017	Change (%)		
	Mill. EUR	2017	2018f	2019f
Inflation (CPI)		0.7	1.1	1.4
Wages and salaries	86127	2.2	4.4	4.1
Primary income	130976	1.0	4.3	3.9
Household real disposable income		0.9	2.7	2.5
Volume of private consumption	121874	1.3	2.4	2.1
Savings rate		-1.3	-1.0	-0.6

Source: Statistics Finland, Labour Institute for Economic Research

THE DEVELOPMENT OF CONSUMER PURCHASING POWER DEPENDS ALSO ON CONSUMPTION BASKET STRUCTURE

Based on the 2016 consumer survey carried out by Statistics Finland, food, rent as well as alcohol and tobacco products only constituted approximately 12 per cent of the consumption basket of the high-income childless couple owning their home which was used in our example calculations. The corresponding percentages are 44 per cent of the basket of a worker family with two children and 58 per cent of the basket of a single person who receives labour market subsidy and lives alone, if these persons are living in a rental accommodation.

This suggests that looking at average consumer prices does not provide an adequate picture of the price trends of the consumption baskets of different types of households. The purchasing power of households develops in different ways because low-income households spend a proportionally larger share of their income on, for example, food and living costs. The Pigouvian tax increases that have been implemented or planned to be implemented in recent years may also have a greater impact on the real income trend of low-income households than other households.

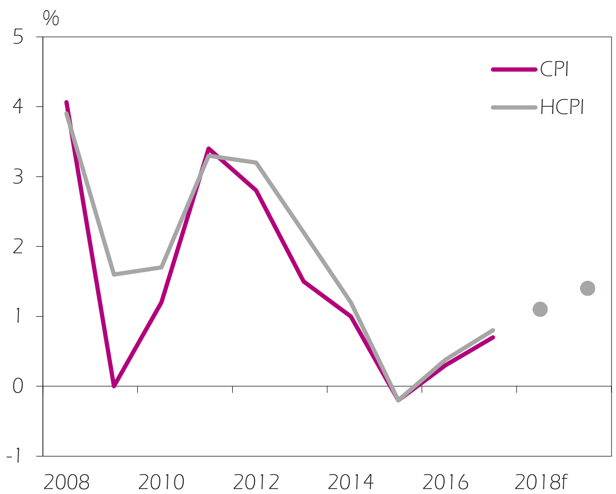
Consumers may react to rising prices by starting to consume less expensive products, which are otherwise almost identical. However, it is unclear to what degree cheaper replacement products are available. Redirecting consumption may be easier when it comes to non-basic goods, which make up a larger portion of the consumption baskets of higher-income households.

SAVINGS RATE SHOWED SIGNS OF TURNING CORNER EARLY THIS YEAR

The household savings rate turned positive in the first quarter of the year following almost two negative years. Nonetheless, it is difficult to estimate on the basis of one quarter's figures whether the level of saving has taken a more permanent turn upwards. According to the consumer survey of Statistics Finland, consumers' confidence in their own economy remains close to the record level, and according to our forecast, private consumption will rise by 2.4 per cent this year and by 2.1 per cent next year. We estimated that the level of saving would remain at -1.0 per cent in 2018.

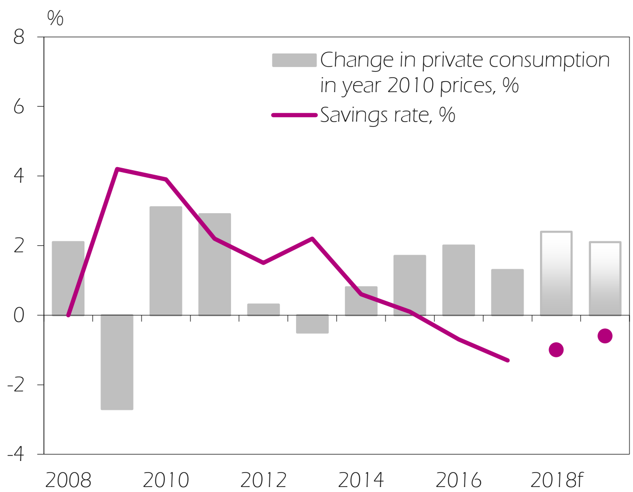
However, the savings rate and thereby the private consumption trend now involve a new element of uncertainty. If consumers start to save more than before, the increased aggregate wages will not necessarily translate to a clear rise in private consumption. From the point of view of consumers, the increased savings rate may be justified because they may in this way prepare themselves for a potential rise of interest rates. ■

CHANGES IN CONSUMER PRICES 2008–2019



Source: Statistics Finland, Labour Institute for Economic Research

PRIVATE CONSUMPTION AND SAVINGS RATE 2008–2019



Source: Statistics Finland, Labour Institute for Economic Research

Public Economy

Will debt growth stop before economic growth stops?

- A higher employment rate increases public sector income at a fast rate
- A lower unemployment rate reduces public spending
- Higher aggregate wages, low interest rates and moderate inflation translate to significantly higher indirect taxes

ADDITIONAL INFORMATION

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CENTRAL GOVERNMENT FINANCES ARE BALANCING

Strong economic growth begins to balance central government finances and the debt ratio (debt/GDP) has also turned corner in central government finances, even though the incurring of debt will still continue next year. The central government expenditure growth is becoming moderate while higher tax income will reduce the deficit that has persisted for more than a decade.

Especially the fast increase in employment from the end of 2017 onward has improved the fiscal position of the central government, regarding both income and expenditure. The employment rate is expected to exceed 72 per cent this year and reach 72.6 per cent next year. Nonetheless, the central government expenditure will still be higher than income this and next year. The deficit is projected to drop to less than two billion euros in 2019.

Tax policy has been framed in terms of the government's objective to lower the overall tax rate. As a result of a higher domestic product and lighter taxation, the overall tax rate (the proportion of taxes and tax-like payments relative to the GDP) will be clearly below 43 per cent at the end of the government's period of office.

Despite the light tax policy, government income has grown as a result of the positive economic trend. Boosted by the trend, corporate tax income has started to grow, and it is forecasted to keep growing, on the average, by more than five per cent per year during the forecast period. Tax income is estimated to be more than 6 billion euros this year and 6.5 billion euros next year.

The growing employment rate and rising level of income increase the total amount of wages by more than three per cent per year. However, according to the forecast, the central government's earned income tax income will grow at a slightly slower rate. Rising employee insurance contributions and compensating for them by lowering taxes slow the growth of earned income tax revenue as do other smaller tax reliefs, primarily increases in income type specific tax cuts.

The income available to households and thereby consumer demand grow as the employment rate and also wages rise and taxation becomes lighter. In this case indirect tax revenue is also projected to grow faster than in the last few years. The biggest item within central government tax revenue is value-added tax, the revenue from which is estimated to grow by more than three per cent per year. Tax revenue is forecasted to be more than 18 billion euros this year. Partly, the growth of other indirect taxes is due to tax raises. Taxes on both tobacco and alcohol will be raised this year and next year. However, raises in excise taxes reduce consumption and thereby also reduce the tax bases for future raises.

In 2017, central government spending was reduced as a result of spending cuts as well as the government personnel holiday pay cuts and employer contribution reductions included in the Competitiveness Pact. Government spending is projected to grow this year and next year. The spending is increased, for instance, because of compensation for the further reductions of employer health insurance contributions, the expenditure linked to the launch of the social services and healthcare reform, and defense expenditure. The compensations of employees paid by the government will also increase in accordance with the agreed pay rises.

TAX INCOME OF MUNICIPALITIES TO GROW

Roughly half of the income of municipalities consist of tax revenue, less than 20 per cent consists of state subsidy and more than 20 per cent consists of operational profits. Of the tax revenue, approximately 84 per cent is from municipal tax, approximately 8 per cent is from corporate tax and approximately 8 per cent is from real estate tax. As a result, the economies of municipalities are vulnerable to economic fluctuations, and changes in tax income are directly reflected on the fiscal positions of municipalities.

Last year, the tax revenue of the municipal sector dropped by approximately 0.7 per cent. The main reason for the lower tax revenue was the increasing employer contributions included in the Competitiveness Pact as well as the earned income tax cuts linked to the scale of the pact. Tax reliefs implemented in earned income taxation, however, are compensated to the municipalities in net via the state subsidy system. However, the effect of this compensation is not visible as tax revenue; it is visible as an increase of state subsidy. Employee contribution increases also reduce taxable income by the same amount, but the government does not compensate municipalities for the resulting loss. However, employer contribution reductions reduce the expenditure of municipalities correspondingly.

Compared to 2017, the tax revenue of municipalities is projected to grow by 3.7 per cent in 2018 and by a further 3.5 per cent in 2019. Municipal tax revenue will grow particularly favorably as the employment rate improves, partly since the newly employed are coming also from outside the work force.

Also an increase in pension income guarantees a stronger growth of the tax revenue for municipalities in the next few years. If the number of the employed does not drop despite the number of retirees increasing, the tax base of municipalities will quickly improve. Average pension income will improve each year because the pensions of the newly retired are higher than pensions on the average. Approximately one fourth of the tax base of municipal tax is pension income and two thirds are wage income. A positive employment growth and an increase in corporate tax revenue support the income trend of municipalities and will bring the municipal economy to balance this year, despite the expenditure growth pressure.

The expenditure of municipalities and municipal consortiums took a slight downward turn last year as wages and other personnel expenses dropped, among other reasons, because of the holiday pay cuts and reduction of employer contributions included in the Competitiveness Pact. However, the agreed pay rises and one-time bonuses will increase spending in the municipal sector this year and next year. Because personnel expenditure forms almost half, approximately 47 per cent, of the expenditure in the municipal sector, pay rises will have a major impact on the fiscal position of municipalities. Increasingly, the municipal economies are burdened by the care and treatment costs resulting from an aging population.

FINANCES OF SOCIAL SECURITY FUNDS IMPROVING

The income of social security funds is entirely dependent on the employment rate and wage trends. The improvement of the employment rate and income level that began late in 2017 has increased the aggregate wages of the economy much more strongly than during the past decade. The growth of insurance contributions income in the forecast period is estimated to be faster than the growth of the pensions and benefit costs paid by social security funds in the same period, even though the unemployment contribution was lowered for this year and even more for the next one.

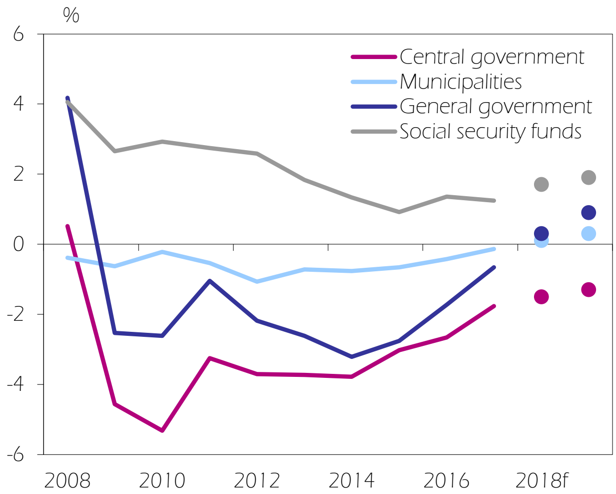
The expenditure of social security funds is also dependent on employment and, furthermore, the demographic trend. The expenditure is increased by the higher number of pensioners, a rising average pension and index-based raises in earnings-related pensions. On the other hand, freezing of index-based increases in basic social security benefits, lower unemployment and the implementation of the activation model for unemployment benefits slow down the increase of the total expenditure of social security funds.

In both forecast years the income of social security funds is projected to grow slightly slower than the expenditure, and the surplus of this sector is estimated to increase to 1.4 per cent relative to the GDP.

GENERAL GOVERNMENT DEBT BELOW 60 PER CENT

The general government deficit was last year 0.6 per cent, clearly lower than the reference value set by the EU's stability and growth pact, 3 per cent relative to the GDP. The fast growth of economic activity and employment has further increased the tax and payment income of the general government while also measures curbing public spending have been implemented. The deficit is projected to be reduced further, and the consolidated debt of the public economy (so-called EDP debt) is finally dropping below the targeted 60 per cent reference limit this year. Last year, the amount of debt was 61.3 per cent relative to the GDP. In 2019, the figure is projected to drop to 57.4 per cent. ■

GENERAL GOVERNMENT NET LENDING AS % of GDP 2008-2019



Source: Statistics Finland, Labour Institute for Economic Research

KEY FORECASTS FOR PUBLIC SECTOR

	2017	2018f	2019f
Tax rate (%)	43.3	43.0	42.6
Expenditures / GDP (%)	54.0	52.4	51.0
General government net lending (Bill. €)	-1.5	0.6	2.2
central government	-4.0	-3.6	-3.1
local government	-0.3	0.1	0.7
social security funds	2.8	4.0	4.5
Gross public debt, EDP-debt (Bill. €)	137.3	137.8	138.5
% of GDP	61.3	59.2	57.4
Central government debt (Bill. €)	105.8	107.6	109.3
% of GDP	47.3	46.3	45.3

Source: Statistics Finland, Labour Institute for Economic Research

TRADE WAR UNLIKELY BUT AGREEING ON RULES OF TRADE MIGHT GET HARDER

The U.S. president, Donald Trump, announced last spring that the United States will impose a 25 per cent import tariff on steel and a 10 per cent import tariff on aluminium. For the EU, the tariffs entered into force at the start of June. Later (22 June) the EU imposed counter-tariffs on a group of US products. The United States has also imposed tariffs on technologically more advanced Chinese products, which, the US claims, violate the industrial rights of American companies. China has imposed counter-tariffs on a group of US products.

President Trump's unbalanced behavior and animosity towards free trade have invoked fears of a global trade war, to which, in the worst-case scenario, the imposition of tariffs and counter-tariffs could lead. Sometimes parallels have been drawn between the developments this year and the events of the Great Depression in the 1930s. In 1930, the United States imposed a new tariff law (the so-called Smoot-Hawley Act), to which other countries responded by imposing counter-tariffs, resulting in a cycle of rising trade barriers. Between 1929 and 1932, world trade was estimated to have sunk – partly because of trade barriers, and partly because of the lesser demand due to depression – by approximately 30 per cent.[1]

THE RISE OF GLOBAL TRADE BARRIERS UNLIKELY

However, it is unlikely that the trade barriers that have now been erected would lead to a similar cycle as the US tariff law from 1930. This can be seen also in the economic forecasts drawn up after the tariffs' entry into force, which are only slightly more pessimistic than earlier forecasts. For example, the European Commission estimated in its July economic forecast that the economic growth of the EU this year would be 0.2 percentage points slower than it did in its economic forecast from two months earlier. Occasionally, this change has been interpreted as reflecting the Commission's view on the impact (both direct and indirect) of the new tariffs on economic growth in Europe.

The effect of the new tariffs on the growth of the global economy, compared to the tariffs set by Smoot-Hawley Act, will remain minor simply because the role of the United States in the global economy has become less central since the 1930s. Unlike in the 1930s, the isolation of US may make free trade more popular elsewhere. For example, China has actively sought to improve its trade relations with the EU since the tariffs entered into force and has, for instance, proposed closer cooperation with the EU to develop the WTO. Although the EU is highly unlikely to ally itself with China against the US, trade between the EU and China may increase as a result of the trade barriers.

Since world trade is more open than before, and since production chains are now longer, the negative effects of the tariffs become evident more quickly to American businesses. For example, in July, Ford and General Motors lowered their profit expectations and justified the change by the rising price of aluminium and steel. China and the EU have targeted their counter-tariffs at counties of the US with higher-than-average support for Trump, which is why the tariffs have hit, for example, the auto industry as well as the production of soy beans (which is not so commonly though of as a product exported by the US) particularly hard.

President Trump's chances of implementing his tariff decisions are also hampered by internal opposition within the Republican Party. So far, the only one of his radical targets that has been implemented is the tax reform approved in December 2017, which was in line with the objectives supported by the Republican Party regardless of Trump. In contrast, the construction of the border wall between Mexico and the US which was a key objective during Trump's election campaign, but which does not belong to the traditional goals of the Republican Party, seems unlikely. A document recently published by the New York Times also indicates that some of the staff appointed by Trump are actively trying to prevent the president from carrying out his impulses deemed most harmful by the staff.

TARIFF DECISIONS UNDERMINE VALUE OF INTERNATIONAL TREATIES

The most damaging effect of President Trump's policies may not be the (direct or indirect) impact of the trade barriers on trade. A greater harm yet may be the incapacitating effect on the activities of international institutions.

The Trump administration justified the tariffs on steel and aluminium on the basis of "national security," grounds mentioned in the free trade agreements between the members of the WTO that allow for the usual free trade rules can be circumvented. After the tariff decision of the US, it has been even claimed that the WTO is dead; after all, if the justification provided by the US for the new tariffs is deemed acceptable, it seems that almost any restrictions on free trade can be deemed justifiable on the grounds of national security in the future.

Of course, it is possible to replace international treaties covering the entire WTO by individual treaties negotiated by individual countries or areas (like the EU). In the best-case scenario, more limited negotiations might result in treaties better suited to the circumstances of different countries and agreed through more democratic methods. However, treaties between two parties may also be problematic when the production chains of companies are long and reach different parts of the world. ■

Ilkka Kiema

[1] *Madsen, J.B. (2001), Trade Barriers and the Collapse of World Trade During the Great Depression, Southern Economic Journal, 67, 848–868.*

R&D IN FINLAND – WILL THE LAMP LIGHT AGAIN?

Last spring's positive outlook on research and development investments has drastically changed as Statistics Finland has received more information. Last spring, Statistics Finland's data still indicated that R&D investments had finally turned a corner after a long downhill slide, with a 4 per cent rise in 2017. However, in July, the annual accounts information told a story of a different kind of trend. Investments in R&D continued to fall by more than 2 per cent.

On closer inspection, R&D investments continued to fall in 2017 because they dropped in electrical equipment manufacturing and the electronics industry. It is also noteworthy that investments in R&D in electrical equipment manufacturing dropped by more than 100 per cent. The additional information requested from Statistics Finland revealed that this sharp drop was caused by a single major R&D investment that was handed over to a foreign company, which made R&D investments in the whole sector negative. Using the average R&D investments from previous years as a reference point, the investment that was handed over was worth approximately 200-300 million euros. With this apparently one-time item added to the R&D investments, the R&D investments in 2017 would have grown moderately, even though investments in the electronics industry kept dropping sharply.

According to the quarterly data, R&D investments kept falling in the first half of this year, albeit only moderately. Sector-specific data from this year are still missing, but it is reasonable to presume that the decrease will still take place primarily in the electronics industry. This view is supported by the fact that redundancies in the electronics industry will still take place this year, although the drop in employment in the sector will presumably not be as drastic as in the previous years.

In many other sectors investing heavily in R&D, the figures have been climbing in recent years. These sectors include the pharmaceutical industry; manufacturing of machinery and equipment; professional, scientific and technical activities; information and communication; as well as education.

In late August, Nokia made an agreement with the European Investment Bank on a 500 million euro loan. The loan is meant for increasing 5G research and product development at least in Poland, France, Germany and Finland. Presumably, the amount allocated to Finland will be significant for the R&D investments in the electronics industry, and this additional investment should be visible in the 2019 figures at the latest.

Taking the above-mentioned factors into account, it would seem that R&D investments in Finland are finally taking an upward swing. According to the Labour Institute's forecast, the change would already take place this year, although only quite moderately. When it comes to the electronics industry, the change should take place in 2019, and as a result of this, the growth of R&D investments in the whole economy should be stronger by then.

R&D INTENSITY IN KEY SECTORS IN FINLAND AND REFERENCE COUNTRIES

R&D intensity (R&D investments relative to added value) indicates the level of investment within the sector on research and product development. Amongst other things, the purpose of R&D activities is to gain better productivity, more competitive products, patent protection, monopoly power or the adoption of new technologies. In contemporary economic growth models, R&D investments determine the technological level and the long-term trend of economic growth. The more advanced the available technology, the more investment in R&D is required. Indeed, one way to look at R&D intensity is to see it as a reflection of how technologically demanding production is in a specific sector. Thereby, differences between different sectors in different countries indicate in which countries the production in a specific sector is technologically more challenging and, on the other hand, how much gets invested in the development of production in that sector.

The next table shows R&D intensities in selected main sectors and industry sub-sectors in the following countries: Finland, the United States, England, Czech Republic, Denmark, Sweden, Norway, Japan, German and the Netherlands. The group of countries includes Finland's competitors and export countries. The selection has been influenced by the availability of information on various countries. The R&D intensity is an average figure for 2013-2015. According to the table, Finland's R&D intensity is the best in the reference group (red) only in education and the food industry. Finland does not have the lowest (blue) rating in any sector presented on the table. Sweden scores highest in the overall R&D intensity of the economy, whereas Finland is slightly higher than average. Perhaps as a slight surprise, the UK has the lowest rating for the overall economy. When looking at the overall economy, Finland is behind Sweden, Denmark, France and Japan.

When it comes to information and communications, Finland's R&D intensity only beats Norway, Japan, Germany and the Netherlands. Sweden and France are clearly ahead of the other countries in R&D intensity in professional, scientific and technological operations. Finland is number one in education, whereas the figures of Sweden, France and the US are significantly lower.

The fact that both Sweden and France score high in R&D intensity in professional, scientific and technical activities but not in education may be the consequence of differences in how statistics are drawn up in different countries, even though, at the offset, OECD data should be comparable. Let it be stated that R&D intensity in the United States is considerably higher than in other countries in the public administration, defence, and mandatory social insurance sectors, which are not presented on the table.

Finland's R&D intensity is the best in the reference group in the food industry. In the paper industry, the United States scores highest in R&D intensity, with Sweden the best of the rest. Finland has the third best intensity, significantly lower, however, than in the two aforementioned countries. Taking into account that the paper industry

[1]*Cf. the spring forecast of Labour Institute for Economic Research and the separate text on R&D published in connection with it.*
[2]*With regard to the sub-sectors of the manufacturing industry, Sweden's figures are from 2013, as the figures for the other years are missing.*

constitutes a significantly larger sector of Finnish industry than in the US or Sweden, Finland's R&D intensity could be considered surprisingly low. The percentage of the paper industry's value added of the value added of industry as a whole during the review period was, on the average, approximately 11 per cent in Finland, slightly below 3 per cent in the US and 6 per cent in Sweden.

The United States scored considerably higher than the other countries in R&D intensity in manufacturing of chemicals and chemical products. Finland's intensity is clearly below Denmark, Sweden, Japan and the Netherlands. In the pharmaceutical industry, Denmark and France are clearly ahead of the other countries. What is peculiar is that this information is not available in the OECD materials for the US, Sweden, Norway and Japan.

Finland's R&D intensity score is higher than average in the rubber and plastic industries as well as the manufacture of other non-metallic mineral products, with only France and Denmark scoring higher. With regard to the manufacture of basic metals and fabricated metal products, Sweden, France and Norway score higher than the other reference countries, whereas Finland's score is slightly below average.

Finland's electronics industry has the second place in R&D intensity, with only France getting a better score. If the average is calculated between 2010 and 2012, Finland has the highest intensity in the electronics industry, even though France has almost the same score in that period. Finland has a better-than-average R&D intensity in the manufacture of electronic equipment, however, clearly below Japan, France and the Netherlands. Finland comes third in the R&D intensity of the manufacture of other machinery and equipment, with only Sweden and Japan gaining a better score.

Out of the reviewed sectors, Finland has a globally high R&D intensity in the electronics industry, food industry as well as the manufacture of other machinery and equipment. The intensity is also high in education, although comparisons between main sectors may be obscured by different policies on the compilation of statistics.

It should also be noted that when it comes to the sub-sectors of the manufacturing industry, in some countries, the R&D intensity may paint a misleading picture of technological progress in a sector. For example, it is not clear to which degree R&D conducted in the manufacture of chemicals and chemical products in the United States overlaps with that of the food industry, pharmaceutical industry and paper industry in the US. Regardless, this comparison would seem to indicate that the R&D intensities of Finland's economic sectors (with the exception of two) are not at the top level globally; on the other hand, nor are they often far behind it. Indeed, Finland's R&D intensities are steadily relatively high in all sectors. ■

Sakari Lähdemäki

TABLE. R&D INTENSITY BY COUNTRY IN SELECTED INDUSTRIES

	Finland	USA	United Kingdom	Czech Republic	Denmark	Sweden	France	Norway	Japan	Netherlands	Germany	Average
Total economy	**5.2**	**5.4**	**3.7**	**3.9**	**5.7**	**7.3**	**5.7**	**3.9**	**5.5**	**5.2**	**4.0**	**5.0**
Manufacturing C	12.7	12.5	6.6	4.1	14.2	17.1	16.1	3.8	15.2	8.9	8.8	10.9
Information and communication J	10.5	15.4	11.2	16.8	13.6	17.5	20.1	6.9	8.7	7.0	9.7	12.5
Professional, scientific and technical activities M	10.9	7.2	7.8	9.4	6.6	16.3	17.3	7.8	6.5	8.4	6.5	9.5
Education P	13.7	1.2	8.0	9.3	13.3	3.2	1.1	12.6	9.8	10.3	8.4	8.3
Food industry, etc. 10–12	5.1	3.6	2.2	1.9	4.5	3.0	3.3	2.3	3.2	4.2	-	3.3
Paper industry 17	3.7	6.7	1.8	1.3	3.5	6.0	-	2.7	2.5	-	-	3.5
Manufacture of chemicals and chemical products 20	7.0	41.7	6.9	4.0	19.3	13.7	-	-	25.6	14.1	-	16.6
Pharmaceutical industry 21	16.6	-	12.6	6.1	30.2	-	26.2	-	-	17.4	-	18.2
Rubber and plastic industries, manufacture of other non-metallic mineral products 22–23	5.2	4.7	3.1	3.5	6.6	4.4	8.8	2.0	-	4.9	-	4.8
Manufacture of basic metals and fabricated metal products 24–25	3.6	2.3	2.5	1.4	1.7	8.2	6.6	5.8	4.4	4.1	-	4.0
Electronics industry 26	44.7	25.1	12.3	9.8	22.8	40.3	56.2	11.3	-	13.3	-	26.2
Manufacture of electrical equipment 27	17.5	9.1	3.4	3.8	9.6	13.3	25.6	3.6	22.3	28.0	-	13.6
Manufacture of machinery and equipment n.e.c 28	14.4	9.2	8.8	5.4	12.7	14.5	14.3	3.2	16.5	12.0	-	11.1

Source: OECD, Labour Institute for Economic Research

AGE POLARISATION WITHIN IMPROVED EMPLOYMENT

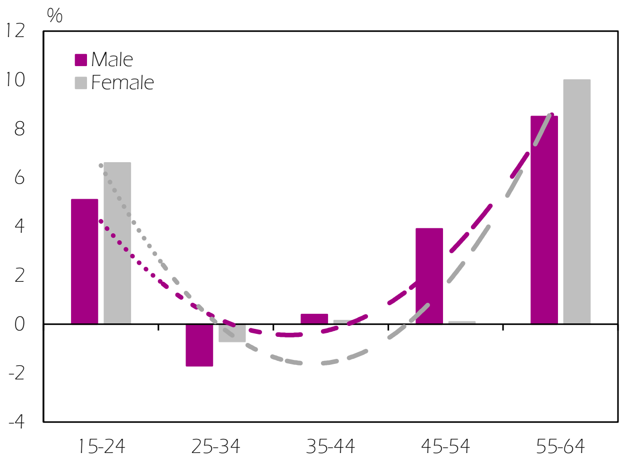
The problem of labor market mismatch is a common phenomenon in many EU countries, including Finland. As the economic situation has improved, also the employment rate has increased, but not in a way which would correspond to the decrease in the employment rate. In part, this is explained by the fact that some of the newly employed have come from outside the work force rather than from the ranks of the unemployed.

We already highlighted in our forecast from last spring the important statistical fact, which has received surprisingly little attention, that Finland's labour market is clearly divided. The 72 per cent employment rate targeted by the government will probably be reached this year, and the unemployment rate has also dropped clearly below the rate expected last spring. However, there is a significant polarisation between different age groups that can be observed in the development of employment. According to the latest OECD statistics, age polarisation is also manifest in Sweden.

The figure below shows the change in the employment rate in percentage points between 2010 and 2018 for different age groups and separately for men and women. The age groups have been divided into young (aged 15-24), prime-age workers (aged 25-54, 35-44 and 45-54) and aged persons (aged 55-64). The figures have been calculated on the basis of the first and second quarter statistics of the labour force survey. The employment rate trend shows a clear U-shaped connection to age. By this we mean that the employment rate has risen both in the 15-24 age group and the 54+ age group. The figure has risen by 5-10 percentage points. At the same time, the change in the employment rate for the 25-54 age group has been more moderate, or even negative. A similar trend is evident in relative changes in the employment rate or if the selected starting point is some other year following the financial crisis.

People have become employed from outside the labour force. This trend has been especially strong among the younger and older age groups. The employment figures of young men especially have been improved by a sharp drop in unemployment. In other age groups and among women, unemployment has dropped more moderately.

THE CHANGE IN THE EMPLOYMENT RATE 2018–2010



Source: Statistics Finland, Labour Institute for Economic Research

One can observe also other gender differences, as women are less likely than men to find full-time employment. According to the latest employment survey statistics, the percentage of the under-employed has risen most sharply among women aged 15-34 or 55-64. The under-employed include, for instance, persons doing part-time work non-voluntarily.

There are not fresh statistics available on youth employment. A possible explanation for this may be the fast employment of young people after graduation. The trend would become worrying, if young people had moved to the labour market without a degree. On the other hand, according to the latest statistics pertaining to the 2015/2016 academic year show that the interruption of studies has become less common in the recent years. Men's employment during studies has become slightly more common, whereas the figure has dropped for women.

The employment rate of the aged population (55-64) is at a record high. In the first half of 2018, it was more than 65 per cent, whilst the corresponding figure before the 1990s depression was a mere 42 per cent. There are many reasons for the employment of the higher age groups. Firstly, the unemployment of many aged persons is currently terminated by self-employment. In addition, the older people often gain short-term or part-time employment. Lower disability pensions and the pension reforms (e.g. raising the retirement age) have also contributed to the older part of the population remaining on the labour market for longer. For instance, the effects of the activation model for unemployment benefits and other political measures cannot be analytically assessed until later.

The 25-54 age group is a source of interest. The peak in the number of the unemployed persons who are difficult to place was reached in late 2016 when 210,000 persons were in Finland reported to be difficult to employ. Out of these, nearly 130,000 were long-term unemployed. Approximately half of the long-term unemployed had been working in the past, so their poor employment situation was at least mainly due to the weak economic situation.

Based on the statistics of the Ministry of Economic Affairs and Employment, the number of the long-term unemployed has been reduced to 80,000, but most probably among those who had strong ties to working life prior to their unemployment. The number of the long-term unemployed has steadily decreased in all age groups, however, marginally less among those aged 35 or over. The total number of the unemployed persons that are difficult to place is still 150,000, and the number has dropped least in the 35-44 age group.

Why is it that structural unemployment is at such a high level among those living through their so-called prime working age? One explanation could be the financial crisis, which hit different age groups in different ways 10 years ago. On the other hand, it could be a case of a change of professional structures or skill requirements, which no longer correspond to the skill sets of the unemployed. In the light of statistics, it is clearly necessary to analyze the reasons behind the polarization within the development of employment more closely. ■

Terhi Maczulskij