

Swiss economy

More jobs – but enough workers?

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- Over the next ten years, the Swiss economy should create around 530,000 new jobs, with employment growth of around 1%. With an expected 200,000 new workers, there is the risk of a shortfall of 330,000 people.
- The demand for labor will not be distributed evenly across the various sectors. Demand is likely to be high in the health and social sectors, but not in industry.
- Options for making up the shortage include greater participation in the labor market, better use of the potential of job seekers, more flexible retirement ages and a moderate increase in immigration. There is no patent prescription; a mixture of all four measures promises success.

Home office, gig economy, workforce

The future of the labor market raises several questions: Where will we work? At the traditional workplace or mainly from home? Will the traditional employer-employee relationship continue to be the rule in the future, or will employees in the gig economy jump from project to project?

However, the most relevant question for companies, employees and policymakers remains: Will there be new jobs – but will there also be enough workers for them?

Nearly 900,000 new jobs since 2004

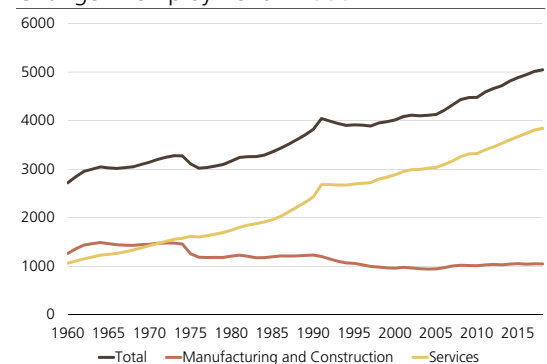
The last 15 years have seen a very dynamic Swiss labor market. Companies in this country created nearly 900,000 jobs, representing an average annual growth rate of 1.3% per year.

On a full-time equivalent (FTE) basis, the increase amounted to 640,000 jobs (1.2%). Looking at growth on an FTE basis takes account of the fact that some of the newly created jobs are part-time.

However, employment growth since 1960 has been less strong, averaging just over 1% per year (Figure 1). Over the past 15 years, the Swiss economy and the labor market have been spared major crises. The oil crisis in the mid-1970s and the housing market crisis in the 1990s, by contrast, led to a stagnation in employment.

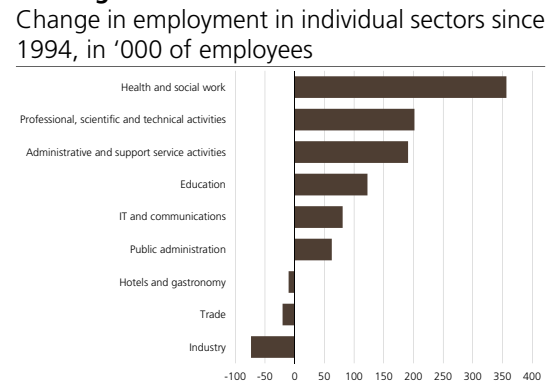
But the robust job market has not touched all sectors evenly (Figure 2). Employment continued to rise in sectors that accounted for as much as 60% of jobs in 1994, while it declined in the others.

Figure 1: Significant increase in employment since 1960 – driven by the services sector
Change in employment in '000



Sources: SFSO, UBS

Figure 2: Change in employment very heterogeneous
Change in employment in individual sectors since 1994, in '000 of employees



Sources: SFSO, UBS

The main sectors that have contributed to this employment growth are health and social services, education and training, and the provision of a wide range of services.

The financial sector, the hotel and restaurant industry, the retail trade and to an extent construction and industry recorded a decline.

Women make themselves felt in the labor market

The labor market of the last 25 years has been characterized by the advance of women. Of the 1.1 million new jobs created, 710,000 are for women and only 410,000 for men. There are three reasons for this unequal growth.

First, greater integration of women into the world of work.

Second, part-time jobs, which are much more common among women. Converted into full-time equivalents, the difference is therefore somewhat less stark: 420,000 new posts for women compared with 290,000 for men.

The third reason is the employment boom in sectors where women predominate. One example of this is health and social services, where the proportion of women has remained constant at three-quarters since 1994. As this sector has grown strongly, there has been an increase of 280,000 female employees.

Only one-third of the women gained a foothold in sectors dominated by men. The proportion of women in public administration has risen from 33% to 47% over the last 25 years (Figure 3).

Three scenarios going forward

The two main factors in employment over the next 10 years will likely be the same as those in the recent past.

The first factor is the increasing demand for health and care services due to the aging population.

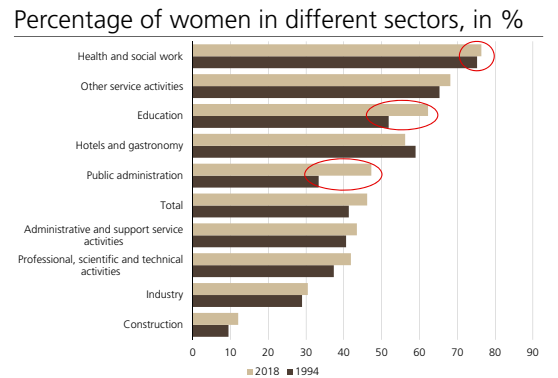
And the second is the ongoing rise in automation and digitalization, which will likely slow the increase in employment.

Since 1960, employment has increased by around 1% per year. If this continues over the next decade, the demand for workers will rise by 530,000 people (Figure 4).

But if the robust employment growth of 1.3% seen over the last 15 years continues, then 700,000 new jobs will be created (Figure 5). In the event that automation and digitalization cause technological disruption, this would slow employment growth.

Some sectors would be more affected by this disruption (industry, retail) than others (healthcare, education). This is shown by McKinsey's study on the effects of digitalization and automation on the labor market entitled "A future that works: automation, employment, and productivity" (2017).

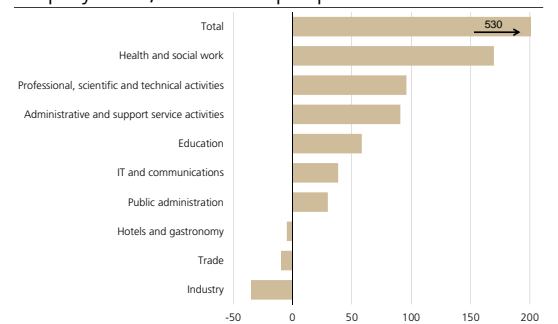
Figure 3: Proportion of women in health and social services constant, strong increase in administration



Sources: SFSO, UBS

Figure 4: With 1% employment growth the Swiss economy could create half a million jobs by 2028

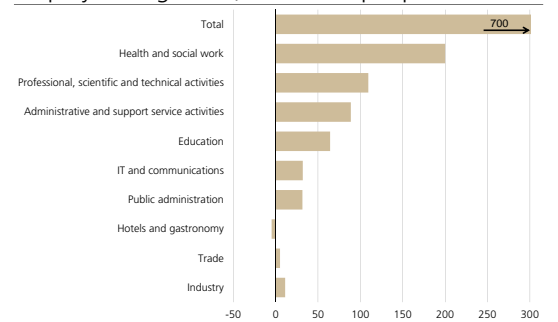
Growth in demand for labor at 1% growth in employment, in '000 of people



Sources: UBS; Note: The distribution of jobs in the different sectors refers to development since 1994, employment growth has also been 1% since 1994

Figure 5: 700,000 new jobs assuming the growth in employment seen over the past 15 years

Growth in demand for labor assuming 1.3% employment growth, in '000 of people



Sources: UBS

Under this scenario, we have made the assumption that in sectors that are already affected by a reduction in employment today, the reduction will be twice as great. And in the sectors that are expanding, job creation will be only half as fast.

These are arbitrary assumptions. However, they imply that employment will increase only modestly over the next ten years. This matches the labor market situation in the 1970s and 1990s (Figure 6).

Promoting men in traditionally women's occupations

What all scenarios have in common is that additional demand is concentrated in a few sectors, while in many other sectors, employment will likely stagnate or even decline. The increased demand for labor is therefore not a macroeconomic challenge, but above all a sector-specific one.

The challenge for industry, finance, retail and gastronomy is not where to recruit workers in the future, but how to train the existing workforce for the technological challenges of the future.

In health and care, education and other service sectors, though, there is a genuine question as to how the need for staff can be met in future.

This is compounded by developments in the labor supply. In the past, the additional demand in these occupations could be met by increasing the participation rate of women. Going forward, this potential is likely to be significantly lower, as it has already been partially exhausted.

These industries therefore have to become more attractive for men. While the social focus in recent decades has been on increasing the proportion of women in traditional male occupations, the trend in the labor market means a change is necessary: Men must increasingly gain a foothold in traditionally women's occupations.

Labor demand mainly covered by immigration

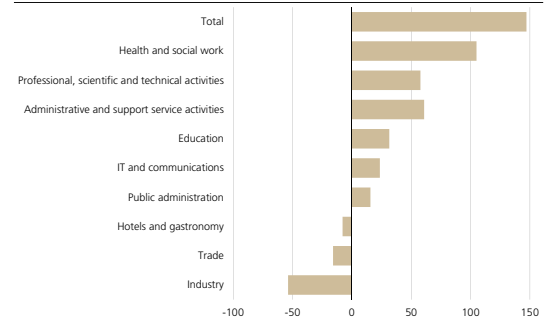
The trend in employment highlights only one side of the labor market – demand. The other side is the change in the labor force – supply. Between 1993 and 2017, the labor force increased from 4.1 million to 5.3 million. This is made up of the working population and the unemployed, i.e. people who are actively seeking work.

During this period, the number of Swiss nationals in the labor force rose from around 3.1 million to 3.6 million. However, a large part of the increase is due to people taking on Swiss citizenship. Without this, the increase would only be 85,000 (Figure 8).

Men and women show different dynamics in labor market participation. Since 1993, 40,000 more Swiss men have left the labor market than entered it, whereas a net 200,000 Swiss women joined the labor market over the same period. The reason lies in the increasing participation rate of women of working age. In 1996, this figure was 49% on an FTE basis, but it has since climbed to 59%.

Figure 6: Technological disruption leads to weak job growth – but not everywhere

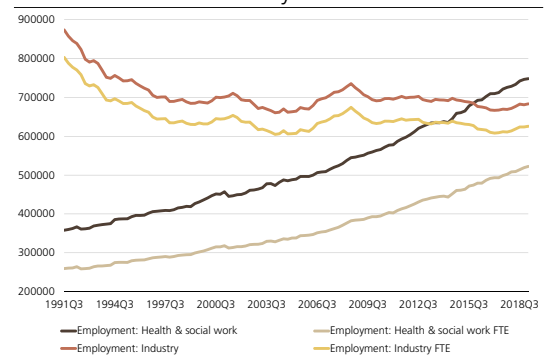
Growth in demand for labor assuming 0.3% growth in employment, in '000 of people



Sources: UBS

Figure 7: Jobs are created in the health sector, but lost in industry

Trend in employment development in health & social care and in industry



Sources: SFSO, UBS

Figure 8: Swiss labor force increases thanks to foreigners taking on Swiss citizenship

Balance of the Swiss labor force 1993 to 2017, including cross-border commuters, in '000 of people

	Total	Men	Women
Net labor market entry	177	-42	220
Net immigration	-92	-48	-44
Total ex naturalization	85	-90	175
Naturalization	471	245	226
Total	557	155	401

Sources: SFSO, UBS

The number of foreign workers increased to 1.7 million between 1993 and 2017, an increase of almost 700,000 people (Figure 9). This figure would be as high as 1.16 million if the people acquiring Swiss citizenship over recent decades were added. Of this increase, 820,000 is due to net immigration, mainly by men.

New entrants to the labor market among the foreign population during this period, however, are mainly women. Here, too, the reason lay in the increasing integration of women into the labor market.

Thus 65% of the increase in the Swiss workforce between 1993 and 2017 was due to net immigration of foreign workers, 35% to greater participation by women in the labor market and 10% to greater participation by foreign men. The decline in participation by Swiss men (and the emigration of Swiss nationals) reduced the working population by 10%.

Labor shortages

In the past, demographic change has been offset by the increasing participation of women in working life and the high level of immigration in recent years.

The future labor supply depends on the aging of society, the participation rate, immigration of foreign workers and the future retirement age.

In estimating these factors, we rely on the baseline scenario developed by the Swiss Federal Statistical Office (SFSO) as part of the publication "Scenarios on population trends in Switzerland 2015-2045" (see Box on page 5).

Based on the assumptions in the baseline scenario, the potential workforce would only increase by 200,000 people (150,000 on an FTE basis) over the next ten years.

This falls a long way short of covering the demand for workers. The result would be a shortfall of 330,000 people in the next decade if the employment growth rate since 1960 continues and of as much as 500,000 if the stronger pace of growth of the last 15 years persists (Figure 10).

Moderate increase in immigration

The challenge for companies differs greatly from sector to sector. They are relatively small for the industrial sector. First, industry will hardly need any more workers in the future, and second, relatively few women are employed in this sector (28% on an FTE basis).

This development poses an enormous challenge, especially for companies in the service sector, and they must ask themselves how they intend to open up new "employee potential."

There are four alternatives: 1. Greater immigration. 2. An increase in the participation rate of the working-age population in the labor market. 3. Better use of existing labor potential. 4. Increasing the retirement age or making it more flexible.

Figure 9: Foreign labor force driven by immigration

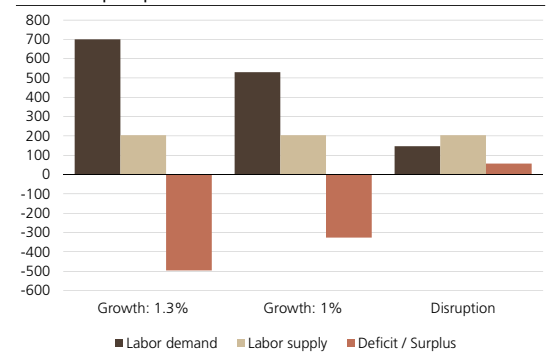
Balance of the foreign labor force 1993 to 2017, including cross-border commuters, in '000 of people

	Total	Men	Women
Net labor market entry	337	138	198
Net immigration	820	479	341
Total ex naturalization	1157	618	539
Naturalization	-472	-247	-225
Total	685	370	315

Sources: SFSO, UBS

Figure 10: In 2 out of 3 scenarios there is the risk of a clear shortage of labor

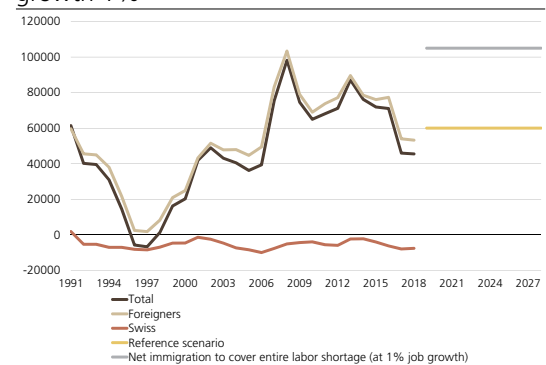
Increase in labor demand and supply to 2028, in '000 of people



Sources: SFSO, UBS

Figure 11: Immigration would have to increase sharply to fill the labor market gap

Net-immigration of Swiss and foreigners and the required workforce to balance the labor market at growth 1%



Sources: SFSO, UBS

In the past, the increased need for workers was mainly met by higher immigration. To achieve a balanced labor market in the scenario with 1% employment growth over the next 10 years, additional immigration of about 30,000 workers per year (higher than the baseline scenario of the SFSO) would be required. Since only about two-third of the immigrants directly take up gainful employment, significantly higher total immigration would be necessary, i.e. about 105,000 persons per year. This corresponds to the 60,000 people in the baseline scenario and the further 45,000 to cover additional needs (Figure 11).

There are two problems associated with this. First, very high immigration encounters considerable political and social resistance, jeopardizing the free movement of persons and access to the European internal market. Immigration must therefore not be the first option for recruiting additional labor.

Second, it is questionable whether Switzerland can attract such a large number of qualified immigrants in the long term. This was not a problem in the past. Working and living conditions in Switzerland are attractive and the last decade has seen high unemployment in the EU. However, most European countries will face the same problem as Switzerland in the future: The aging of society is creating a shortage of labor, particularly in the health and care sectors. It is therefore debatable whether the attractive working and living conditions in Switzerland will still be sufficient to cover the entire demand for labor.

Part-time work, a double-edged sword

If not through immigration, the labor force could be increased by increasing the participation rate. However, the possibilities are limited here. Switzerland already has the second-highest participation rate in the OECD at 84%, just over 88% for men and 79% for women.

Part-time work is widespread among women in Switzerland. In 2017, 45% of women worked part-time; only in the Netherlands was the proportion higher (Figure 13). As a result, Sweden, for example, has a similar participation rate for women as Switzerland, but an employment rate on an FTE basis that is 10 percentage points higher.

With a female working-age population of 2.8 million, each 1 percentage point increase in the employment rate would mean almost 28,000 new female workers. This is all the more important given that the future shortage of personnel will be mainly in sectors with a high proportion of women.

It is true that the possibility of part-time work can encourage women to enter or return to workforce. However, Nordic countries have a participation rate that is just as high as Switzerland if not higher, with a much lower percentage of part-time working. In Nordic countries in particular, a work-life balance is strongly promoted by the state, giving women more opportunities and financial support to have external child care. Switzerland would have to do likewise to keep the female participation rate high while encouraging a higher level of working. But that would run contrary to the principle in Switzerland that childcare is mainly organized and financed privately.

SFSO baseline scenario for the population trend in Switzerland

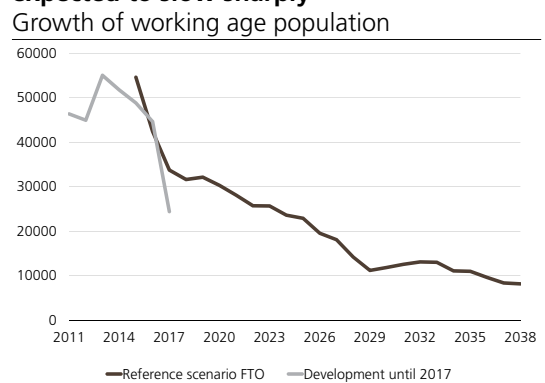
Population scenarios are defined by their assumptions about fertility, life expectancy and immigration. Since our focus is on the population trend among 15- to 70-year-olds over the coming 20 years at most, fertility and life expectancy only affect the scenario marginally.

For immigration, the baseline scenario assumes net immigration of 60,000 people per year over the coming years, gradually decreasing to 30,000 from 2030 onwards. According to data from the State Secretariat for Migration, net immigration has been between 50,000 and 60,000 people since the labor market in the EU normalized, which is within the range in the baseline scenario.

At the beginning of this decade, population growth in the 15-65 age group (age 64 for women) was between 45,000 and 55,000 people per year (Figure 12). As net immigration declined, so did population growth. Under the SFSO baseline scenario, this trend is expected to continue. Over the next ten years, the decline in the population of Swiss citizens of working age is likely to be responsible for this (despite people taking out Swiss citizenship); from 2030 it will be due to a decline in immigration.

The baseline scenario assumes that the participation rate will remain stable within the age groups. For men this now amounts to just over 88% and has hardly any scope to move upwards. The participation rate for women is 79%, and here, too, a higher participation rate is hardly possible. On the other hand, women's participation in the labor market is likely to increase slightly on an FTE basis.

Figure 12: Working-age population growth expected to slow sharply



Sources: SFSO, UBS

The high proportion of part-time work is not just among women with children, however; among women in the 55 to 64 age group, too, labor market participation is relatively low and now less than 50% on an FTE basis. This age cohort is therefore one of the key groups to address for companies looking to recruit.

Switzerland only mid-field in terms of unemployment

A third way to increase the potential workforce is to make better use of the existing supply. Switzerland had full employment well into the 1990s. In the meantime, Germany, the USA, the UK and Japan are now reporting significantly lower unemployment rates (Figure 14).

Cutting unemployment from 5% today to 3% (equal to the level in Germany) would give a one-time boost to the labor supply in Switzerland of 100,000 people.

There is also a large reservoir of part-time workers keen to work more. In 2018, 350,000 workers wanted on average to work one-third more, which would create a potential of another 100,000 workers.

The question must be raised as to whether the qualifications of those who are unemployed and the volume of work they wish to do match the profile of the jobs created. However, more resources for training could help expand the potential labor force.

Making the retirement age more flexible instead of rigidly increasing it

A fourth way to raise the number of potential workers is to lengthen the number of years that people work. At first glance there is considerable potential here, as there are between 90,000 and 110,000 people per vintage nearing retirement age (Figure 15).

How large the effect of raising the retirement age would be depends on how the increase actually changes the participation rate. The effect would be major if people retired two or three years later and the percentage of early retirements did not increase.

In a scenario with a weak effect, an increase in the retirement age merely smooths the participation curve around the retirement age. Many employees would not go along with raising the retirement age, either because they have the financial means required or because they are unable to continue working (such as for physical reasons).

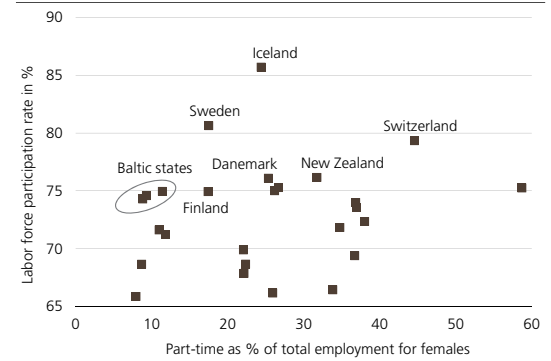
In a scenario with a strong effect, the potential workforce could be increased by up to 150,000; with a less pronounced effect the increase would be only by 60,000.

However, a fixed increase in the retirement age does not take account of the structural change in the economy. Without retraining and reorientation, raising the retirement age will increase the supply of labor by a fixed amount relative to today's labor supply. But in many sectors workers will simply no longer be needed in future.

What is actually required is to have flexible retirement arrangements. Incentives need to be created to ensure that workers in sectors with labor shortages are willing to work beyond the current retirement age or move into such sectors at a late stage in their working life.

Figure 13: High participation, but also a lot of part-time work among Swiss women

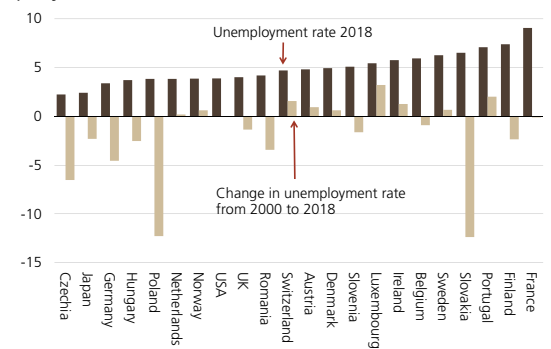
Various OECD countries by female participation rate in the labor market (y axis) and by proportion of female part-time work (x axis), in %



Sources: OECD, UBS

Figure 14: Switzerland slips into the midfield in terms of unemployment

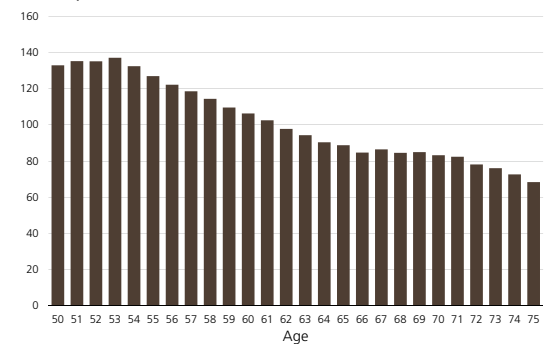
Unemployment rate (ILO) and change in unemployment rate for different countries, in %



Sources: Eurostat, UBS

Figure 15: Up to 110,000 persons per age bracket near retirement age

Swiss permanent residents per age bracket in '000 persons in 2017



Sources: SFSO, UBS

A combination of approaches looks promising

Two features are likely to characterize the labor market in the coming years. First, a shortage of labor (except in the case of strong technological disruption), and second, a major structural change.

In the past, these challenges were met by high immigration and by increasingly integrating women into the labor market. These two measures will continue to play a key role in future. For the reasons outlined above, however, companies and politicians would do well not to rely exclusively on these options. Making the retirement age more flexible and using potential labor better are also potential solutions.

There is no patent prescription, but a strategy that incorporates all these instruments will allow companies to find employees even in an aging society.

Appendix

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