

Executive summary

The Key Indicators of the Labour Market programme

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

Defining effective labour market strategies at the country level requires first and foremost the collection, dissemination and assessment of the up-to-date and reliable labour market information.² Once a strategy is decided, continuing information and analysis are essential to monitor progress towards goals and to adjust policies where needed. Labour market information and analysis must be viewed as the cornerstone for developing integrated strategies to promote standards and fundamental principles and rights at work, productive employment, social protection and dialogue, as well as to address the cross-cutting themes of gender and development – this is where the KILM comes in.

In 1999 the ILO launched the KILM programme to improve the dissemination of information and analysis relating to key elements of the world's labour markets. The KILM is designed with two primary objectives in mind: (1) to present a core set of labour market indicators and analysis; and (2) to improve the availability of the indicators to monitor new employment trends. The KILM aims to meet these objectives by disseminating 20 “key” indicators of the labour market associated with the decent work initiative (listed in box 1): employment and variables relating to employment (status, sector, hours, etc.), the lack of work and the characteristics of jobseekers, education, wages and compensation costs, labour productivity and working poor. Taken together, the KILM indicators give a strong foundation from which to begin addressing key questions related to labour underutilization and decent work deficits.

In addition to presenting indicators for assessing labour market conditions, the KILM 5th Edition attempts to expand the knowledge base on the relationships between poverty, decent work deficits and labour underutilization through the use of these indicators.

Labour underutilization may be characterized, among other things, by lack of employment (unemployment or time-related underemployment), underutilization of skill, low income and low productivity. In other words, one way to look at labour underutilization is to consider those that are faced with decent work deficits, which at the very least includes the working poor. Suppose each person working and living on less than US\$2 a day is either underemployed (working less than desired) or has a very low productivity job (working long hours but not efficiently because of lack of education or equipment). These conditions, which are not unlikely, indicate that these workers are underutilized as they are not in full, decent and productive employment. By adding the working poor to the unemployed, 1.5 billion people in the world – or 30 per cent of the world's working-age population – can be identified as labour supply that is potentially underutilized. This is just one way to

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

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

exemplify the use of KILM indicators to assess the pervasiveness of labour underutilization and thus decent work deficits. More examples are provided throughout this edition, particularly in Chapter 1.

Box 1. Key Indicators of the Labour Market (KILM), 5th Edition

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

The KILM 5th Edition

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

The first chapter of the KILM 5th Edition is dedicated to a more in-depth analysis of certain indicators with an emphasis on showing how the indicators can highlight vital issues that are associated with economic outcomes and provide recommendations. The “key issues” chapter of this edition contains three topics that have a recurring theme: the need to assess progress made towards full, decent and productive employment objectives – and thus reductions in labour underutilization – using a comprehensive set of indicators. The topics are: (1) “Decent employment and the Millennium Development Goals: Description and analysis of a new target”; (2) “Assessing vulnerable employment: The role of status and sector indicators”; and, (3) “Beyond the employment/unemployment dichotomy: Measuring the quality of employment in low income countries”.

The first topic on decent employment and the Millennium Development Goals (MDGs) discusses the new target for MDG 1, which emphasizes the importance of full, decent and productive employment as the key element for poverty reduction. A set of four initial indicators was selected to assess progress made towards this target: employment-to-population ratios (KILM 2), vulnerable employment (identified using status in employment in KILM 3), working poverty (KILM 20) and

labour productivity (KILM 18). Regional trends for these four indicators are examined to verify which regions are on track towards achieving decent work objectives in the context of MDG 1. Even though users are discouraged from singling out any one indicator, taken together the four indicators provide an initial starting point for assessing labour underutilization and decent work deficits.

The second topic highlights the possibility of identifying vulnerable groups in the labour market using employment by status (KILM 3) in conjunction with other indicators and, in particular, employment by sector (KILM 4). Employed persons are identified as 'vulnerable' if they risk working under inadequate conditions – that is, if they are more at risk of lacking full, decent and productive employment. Given pervasive labour underutilization in developing countries, large segments of the employed are vulnerable, and the challenge is to identify these segments using standardized statistics that are readily available and can be generated by national statistical agencies. This part of Chapter 1 identifies vulnerable employment using the same indicator used to monitor vulnerable employment for the new target for MDG 1 (employment by status from KILM 3), and subsequently uses breakdowns of vulnerable employment based on employment by sector (KILM 4). The resulting cross tabulations, if used in conjunction with other information, provide a powerful tool to monitor labour markets in developing countries and to assess decent work deficits.

The last topic on the employment/unemployment dichotomy reflects some of the limitations of current indicators on job quality. The purpose is to evoke thought and discourse on how to better empirically capture the concept of job quality so as to inform employment policies, particularly for developing countries. In the meantime, this section supports two conclusions. First, in the absence of an all inclusive indicator, current indicators, despite their limitations, should be used to complement each other in an effort to provide a more detailed picture of job quality in developing countries. The KILM indicators discussed include employment-to-population ratios (KILM 2), status in employment (KILM 3), hours of work (KILM 6), employment in the informal economy (KILM 7), time-related underemployment (KILM 12) and working poverty (KILM 20). Many of these indicators are indeed used to analyse decent work deficits, particularly with the introduction of the new MDG target as discussed above. Second, qualitative indicators, while posing greater difficulty of measurement, serve as the only means by which to approximate the extent of inadequate employment and are, therefore, necessary to complement an analysis of labour markets in developing countries.

Again, the key message in Chapter 1 is that measuring progress towards full, decent and productive employment is a complex task that requires the use of multiple quantitative and qualitative indicators and information.

Highlights of current labour market trends

The KILM serves as a research tool for assessing labour market trends. This section provides some excerpts of noteworthy trends (by theme) that were identified in the KILM 5th Edition:³

Labour force participation (KILM 1)

- The global female labour force participation rate (aged 15 and over) was slightly lower in 2006 (52.5 per cent) than in 1996 (53.0 per cent), largely due to the decline in the participation of the youth cohort (aged 15-24) as their educational participation increased. Compared to the 78.9 per cent of males that are economically active, this indicates that there is still a large untapped and possibly underutilized female labour force supply.

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

- The largest gaps in the female and male labour force participation rates were in the Middle East, North Africa and South Asia. In all three regions the male labour force participation rate exceeded the female rate by more than 45 percentage points in 2006, although this represents some improvements in the gaps from 1996, especially in the case of the Middle East.

Employment and employment characteristics

- There is a stark contrast between the gap in female and male employment-to-population ratios in East Asia and the Developed Economies & European Union (where the gender gaps were 12.9 and 15.3 percentage points respectively in 2006) on the one hand and the Middle East, North Africa and South Asia on the other hand (where the gender gaps exceeded 40 percentage points). Still, while the national results are mixed, thus making it difficult to draw conclusions, the regional aggregates do provide evidence of increasing, albeit slowly, employment activity of women in some regions where their employment ratios are historically low. (KILM 2)
- The majority of workers in most developed economies are engaged in wage and salaried employment. In contrast, the majority in the developing economies of sub-Saharan Africa and South Asia continue to work as own account workers and contributing family workers – statuses that are more likely to be considered vulnerable when it comes to both economic risks and strength of the institutional arrangement that protect against such risks. High shares of the labour force in these categories of employment are thus indicative of the likelihood of decent work deficits. (KILM 3)
- The breakdown of status in employment by sex points to major differences between the labour market position of men and women. Firstly, women are more likely than men to enter wage and salaried work. Secondly, women constitute the bulk of contributing family workers worldwide. Finally, women are less likely to work as employers in virtually all countries. (KILM 3)
- In recent years agriculture has lost its place as the main sector of employment and has been replaced by the service sector, which in 2006 constituted 42.0 per cent of world employment compared to 36.1 per cent for agriculture. As for the industrial sector, it represented 21.9 per cent of total employment, which is almost unchanged from 10 years ago. The services-producing sectors can provide many opportunities for decent and productive employment; however, not all work in these sectors is necessarily decent or productive. Employment in services ranges from well-paid salaried jobs of highly-skilled workers enjoying adequate working conditions to subsistence trade activities that are widespread on the streets in the developing world. Many workers in the latter situation may be underutilized even if they are working excessive hours battling for a meagre income. (KILM 4)
- Agriculture is still the main employer in the poorest regions in the world. In sub-Saharan Africa, almost seven out of 10 employed, work in this sector; in South Asia and South-East Asia & the Pacific it is almost five out of 10. (KILM 4)

Poverty and working poor (KILM 20)

- The countries with the highest incidence of poverty, i.e. where more than half of the country's population subsists on less than US\$1 a day, are almost all in Eastern and Western Africa, which confirms the fact that a large part of the population on this continent faces extremely poor living conditions. Many people living in severe poverty work, sometimes long and hard, but very unproductively. They have no choice but to find some way to generate an income because they often have no other means of support for themselves or their families.

- The Asian regions saw a substantial reduction in the number of working women and men living on less than US\$1 a day; the number of working poor in Asia decreased by as many as 148 million between 1996 and 2006, representing a drop of nearly 50 per cent. In contrast, sub-Saharan Africa's weak economic performance resulted in an increase of 24 million in the number of working poor. When looking at the share of working poor (US\$1 a day) in the working population, however, one finds a slight decline in sub-Saharan Africa due to the fact that the working population grew slightly faster than the working poor population.

Unemployment

- The international definition of unemployment, for the purpose of collecting statistics, is being without work of at least one hour in the previous week. This means that many workers in the developing world, who have no regular work or income but, in the absence of any other means of support, must find a way to generate the means to survive, do not fall within the unemployed category. Bearing in mind this proviso, available information shows a wide dispersion of unemployment rates throughout the world. A review of country-level data showed that all regions but one (Central & South-Eastern Europe [non-EU] & CIS) were represented in the lowest grouping of unemployment rates (less than 5 per cent). The higher unemployment bands, however, were concentrated in countries in sub-Saharan Africa as well as Central & South-Eastern Europe (non-EU) & CIS. (KILM 8)
- Between 2005 and 2006 the unemployment rate slightly decreased for the world as a whole from 6.4 to 6.3 per cent, confirming a downward trend that has been observed over the last four years, during which time the global economy has grown rapidly. (KILM 8)
- One striking characteristic emerging from an examination of country-level information presented is that, invariably, youth unemployment rates are higher than adult unemployment rates. Indeed, youth unemployment rates are typically at least twice as high as adult rates and are sometimes much higher. (KILM 9)
- The distribution of unemployment is more concentrated among the least educated, at least in the developed countries. In 2005, a person in the developed economies (with available data) with only primary education was usually at least three times as likely to be unemployed as a person with tertiary education. The pattern reflects the increase in demand for more highly educated and skilled workers in developed economies and the declining demand for workers with low education. In eight of the developing economies with available data, it was the labour force with a secondary education that was the most likely to be unemployed, although never to a substantially larger degree than persons with primary education. The demand for workers with higher education was strong in the majority of the countries. (KILM 11)

Employment elasticities⁴ (KILM 19)

- Between 1993 and 2005, the services sector was both the world's fastest-growing sector in terms of output and the sector with the most job-intensive growth. Indeed, for every 1 percentage point of growth in services sector value added, employment increased by 0.67 percentage points. However, in the industrial sector, and especially in the agriculture sector, growth of value added was driven more by gains in productivity than by gains in employment.

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

- In addition to the Developed Economies & European Union, a couple of developing regions are also experiencing structural transformation away from agriculture and into services (and, to a lesser extent, industry) – Central & South-Eastern Europe (non-EU) & CIS and Latin America & the Caribbean – as each experienced a decline in employment in agriculture despite positive growth in agriculture value added. The agricultural sector, however, continues to be an important source of livelihood, especially in sub-Saharan Africa, South Asia and South-East Asia % the Pacific.
- The very rapid growth that took place in agriculture, industry and services sectors in East Asia facilitated both robust employment generation as well as rapid productivity gains. This trend has resulted in a “virtuous cycle” of employment growth, productivity growth and poverty reduction in the region.

Productivity and unit labour costs (KILM 18)

- Productivity levels increased over the past decade for almost all regions, with the fastest increase observed in East Asia, where output per worker almost doubled. Considerable increases over this period were also seen in Central & South-Eastern Europe (non-EU) & CIS and South Asia, where productivity levels increased by around 50 per cent.
- The United States continued to show the highest labour productivity levels in 2006 measured as value added per person employed per year, at US\$63,885; the United States was followed by Ireland (US\$55,986) and Luxembourg (US\$55,641) at a considerable distance. However, Norway showed the highest labour productivity level measured as value added per hour worked (US\$37.99), followed by the United States (US\$35.63) and France (US\$35.08).
- The productivity gap (measured as value added per person employed) between the United States and most developed economies continued to widen, especially in more recent years. Exceptions were Ireland, which saw its gap decline steadily over time from almost 40 percentage points in 1980 to less than 13 in 2006. Since 2000, Finland, Sweden and the United Kingdom were also able to continue reducing productivity gaps as well as several new members of the European Union – Estonia, Latvia and Lithuania – although productivity gaps in the latter group remain considerable.

Hours of work

- There is a positive relationship between the female employment-to-population ratio and part-time employment, implying that an expansion of part-time work opportunities encourages females to join the workforce. (KILM 5)
- Annual hours worked per person surpassed 2,200 in six Asian economies – the Republic of Korea leads the group, followed by Bangladesh, Sri Lanka, Hong Kong, China, Malaysia, and Thailand. At the other end of the spectrum, most European Union countries had much lower hours, especially in Belgium, Denmark, France, Germany, the Netherlands and Sweden, where workers put in less than 1,600 hours per year. (KILM 6)
- The percentage of men and women working 40 hours or more varies between economies but, in almost all economies covered, men are more likely to work longer hours than women. (KILM 6)
- For half of the countries in Latin America & the Caribbean, at least one out of eight people employed is currently working on a part-time basis, but wanting to work additional hours – they are, therefore, underemployed. In contrast, countries in Central and Eastern Europe, along with a

few recent European Union countries, display the lowest shares of time-related underemployment. In almost all countries women in part-time employment are more likely to be seeking more hours than their male counterparts. This is particularly the case in the developed economies, where many women are at least twice as prone as men to find themselves underemployed. (KILM 12)

Education and illiteracy (KILM 14)

- There is a clear trend towards an increasingly educated labour force.
- For both sexes, the highest share of the labour force by educational attainment was those with either primary or secondary level education, which indicates that in most of the countries the bulk of labour supply is still workers with low- or medium-level skills. The supply element is a likely explanatory variable in the growing wage gap between low- and high-skilled occupations; the demand for workers with tertiary-level education and higher skills, which are in short supply, would push up their wages, and vice versa for workers with lower-level education.
- In the vast majority of countries with data, the illiteracy rate of adults was higher than that of youth, which suggests a positive trend, as young people make advances in literacy and, thus, gain a higher skills base than their parents.
- The adult female illiteracy rate was more than 25 percentage points higher than that of males in 14 countries – Afghanistan, Angola, the Central African Republic, Chad, the Democratic Republic of Congo, Ethiopia, India, Morocco, Mozambique, Nepal, Niger, Pakistan, Togo and Yemen. The trend continues, although to a lesser extent, in the younger generation: five countries had a gap in the female-male youth illiteracy rates in excess of 25 percentage points – Afghanistan, Benin, Chad, Niger and Yemen.

New developments

The KILM 5th Edition introduces several noteworthy developments:

Improved indicators

- A new harmonized series of employment-to-population ratios (table 2) reduces some of the limitations to comparability.
- All indicators have improved in terms of geographic coverage and the timeliness of information available, thanks in part to improvements in the processes of collecting and processing labour market information.

New world and regional estimates

- World and regional estimates are now available for status in employment (KILM 3) and labour productivity and unit labour costs (KILM 18).

Revised regional groupings

- The new regional grouping of Africa is comprised of two subregions – North Africa and sub-Saharan Africa, the latter of which retains its subgroups for Eastern, Middle, Southern and Western Africa. The Middle East is now its own regional grouping and does not consist of any subregions. The inside front cover of the printed KILM gives a graphical representation of the organization of the countries by major groupings.