Latvian labour market close to its potential, regional labour market discrepancies and skill mismatches need to be reduced

According to the latest Labour Force Survey data from the Central Statistical Bureau, in the first quarter of 2019, in comparison with the corresponding period last year, the number of employed increased by 0.6% or 5.6 thousand. In the first quarter of 2019, the number of employed reached 903.6 thousand or 64.4% of the population aged 15-74. The employment rate increased by 0.9 percentage points annually.

The labour market continues to be influenced by supply-side factors – in the first quarter of the year, in comparison with the first quarter of 2018, the working-age population declined by 10.2 thousand. Overall, the decrease negatively affects the dynamics of labour force supply and the number of economically active population, which during the corresponding period declined by 7.4 thousand or 0.8%.

In comparison with the first quarter of 2018, population participation in the labour market has remained practically unchanged. It is an indication that the labour market approaches its potential and further improvements can mainly be attained by combating regional labour market discrepancies and addressing prevailing skill mismatches. It should be noted that population participation in the labour market and employment rate have reached their all-time highs, exceeding the averages of the Member States of the European Union. In the first quarter of 2019, approximately 69%, or nearly 971 thousand of the population aged 15-74, were employed or actively sought work.

Along with the increase in the number of employed on the one hand and the decline of economically active population on the other, the unemployment rate for the third consecutive quarter has been contained at 6.9%, which is by 1.3 percentage points lower than in the corresponding period last year. At the same time, the number of jobseekers during the year has declined by approximately 13 thousand, amounting to 66.9 thousand in the first quarter of 2019.

The unemployment rate in Latvia remains significantly higher than in other Baltic countries. In the first quarter of 2019, the unemployment rate in Estonia and Lithuania reached 4.7% and 6.5%, respectively. The decline in unemployment is still hampered by the relatively high share of long-term jobseekers (2/5 of the total number of employed) and regional disparities in the labour market. Differences in unemployment rates between Riga and Latgale regions still account for almost ten percentage points, which, combined with the low labour force mobility, pose significant risks of structural unemployment. It should be noted that over the year the share of long-term jobseekers has increased from approximately 39% to nearly 44%. In the first quarter of 2019, approximately 29 thousand people were seeking employment for more than a year.

It is anticipated that economic growth will continue to sustain positive labour market dynamics in the subsequent quarters. Thus, the number of employed in 2019 could increase by approximately 0.9%, and the unemployment rate is expected to fall below 6.8%.