## ANALYSIS – Ample spare capacity in the labour market

In recent years, employment has shown weak development and unemployment has risen. Unemployment is a result of both structural changes and variations in the business cycle. The high rate of unemployment in Sweden is largely assessed to be structural, but the deterioration on the labour market since 2023 is assessed to be mainly cyclical, that is, driven by the weak demand in the economy. In addition, there are signs that structural unemployment has declined somewhat, which contributes to the assessment that resource utilisation in the labour market is low.

### Most of the unemployment in Sweden is explained by structural factors

Resource utilisation in the economy is important for the shaping of monetary policy, both because it affects wage pressure and inflation, and because the real economy is important in itself.[15] A central part of the analysis of resource utilisation is the assessment of equilibrium unemployment, that is, the part of unemployment that is structural.[16]

The percentage of the population that is either employed or seeking work is high in Sweden. The high level of participation in the workforce also applies to groups where quite a lot of people have difficulty finding jobs regardless of the economic situation. This is reflected in unemployment for certain groups of people, for instance those born abroad and those with a lower level of education being lastingly high (see Figure 18). One reason why unemployment is high for certain groups of people born abroad is that a larger percentage lack upper secondary education and most jobs in Sweden require this as a minimum. Many of those born abroad also lack sufficient knowledge of Swedish and the work-related networks needed to enter the labour market, and they are also discriminated against to a greater degree.[17] This means that there are structural explanations for unemployment in these groups. Most analysts agree that the greater part of unemployment in Sweden is structural, and that it therefore primarily requires other types of measure than monetary policy easing to reduce it.[18]

[15] See the description “Monetary policy in Sweden – the Riksbank’s strategy” on p. 3.

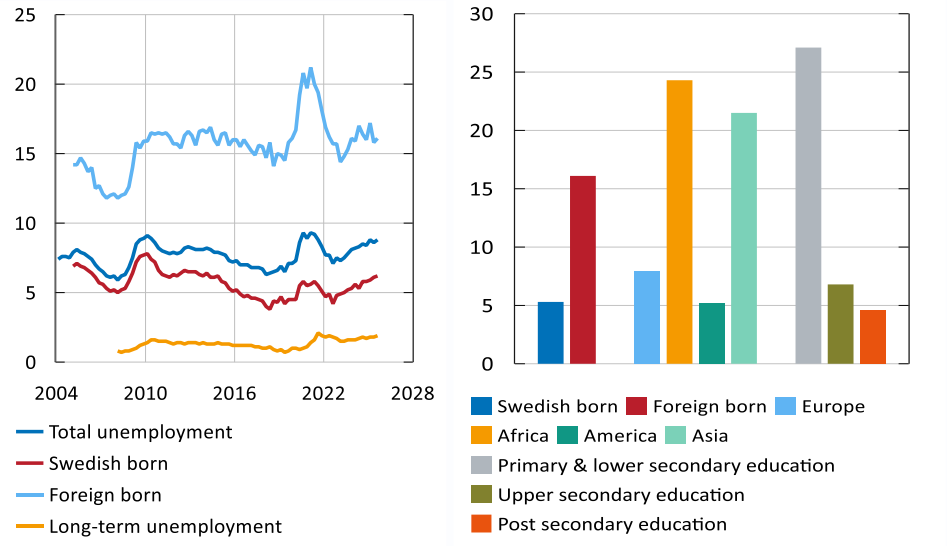
[16] The level of unemployment considered attainable under the prevailing institutional conditions without the rest of the economy becoming unbalanced. The level of structural unemployment is due to several factors, for instance matching efficiency and the pace of the structural transformation. For further factors, see the Wage Formation Report 2021, National Institute of Economic Research.

[17] For further information, see the Institute for Evaluation of Labour Market and Education’s (IFAU) research summary ”Utrikes föddas etablering på arbetsmarknaden”.

[18] Equilibrium unemployment can, however, be affected by economic activity: if the economy suffers deep and long-lasting crises that change the way the labour market functions, unemployment may remain at high levels even when demand recovers, what is known as persistent effects.

**Figure 19. Unemployment according to birth region and education**

Per cent of labour force, 15–74 years




Note. Long-term unemployment refers to unemployment for more than 52 weeks. Seasonally adjusted data (left). Refers to data for 2023 (right).

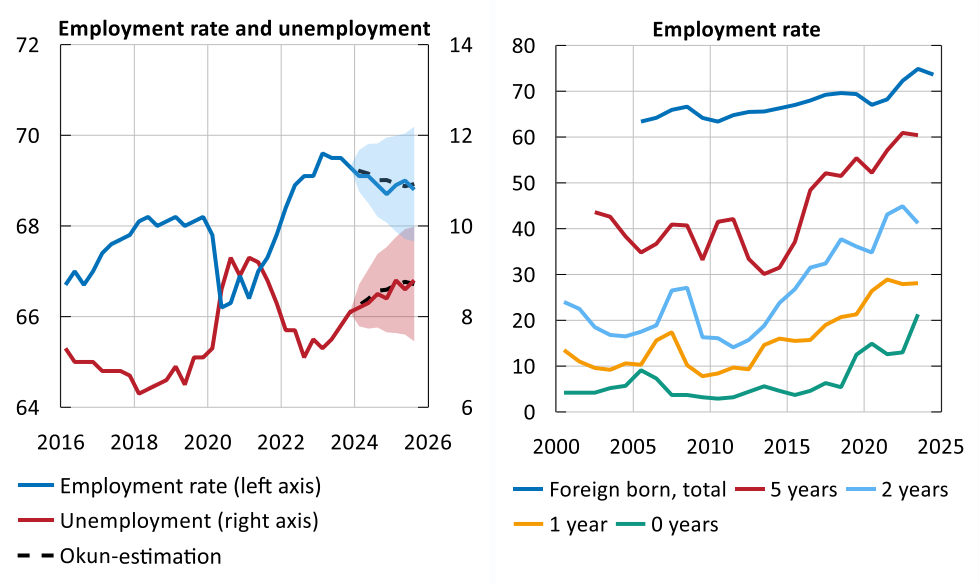
Sources: Statistics Sweden and the Riksbank.

## But the deterioration on the labour market in recent years is cyclical

In recent years, employment has shown weak development and unemployment has increased. One way of illustrating how demand has affected the labour market is to use the so-called Okun's law (see Figure 20).

**Figure 20. Okun's law and employment rate according to years in Sweden**

Per cent of population and labour force respectively




Note. Estimates using simultaneous and lagged quarterly change in GDP growth 2001-2023. Shaded area marks a 95-percent confidence interval. Seasonally adjusted data (left). Employment rate 20-64 years for refugees and family members the year after they were received (right).

Sources: Statistics Sweden and the Riksbank.

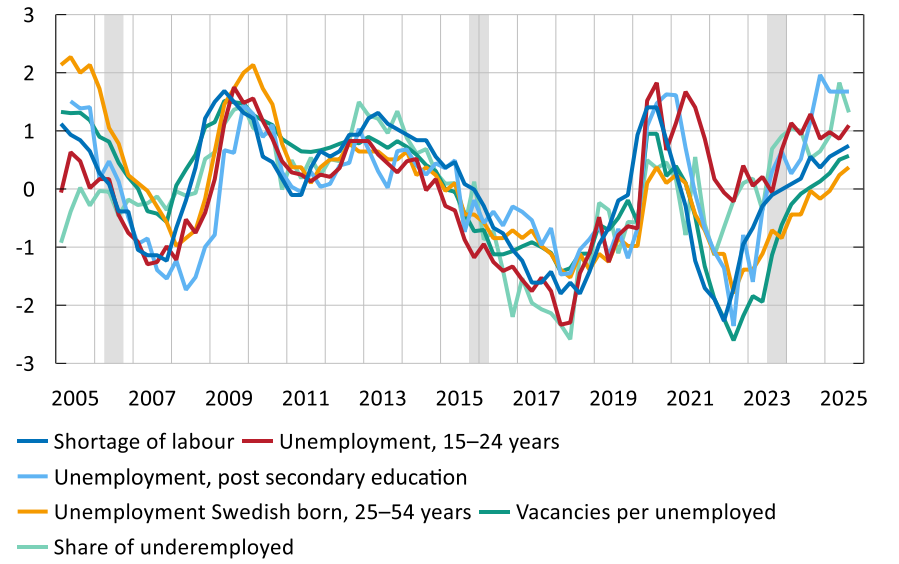
Okun's law shows that the employment rate and unemployment have developed in line with what a projection with GDP gives. It points to it being the weak economic activity that has worsened the situation on the labour market.[19] The recession has affected the labour market on a fairly broad front with regard to different groups, industries and sectors. The construction industry has been hit hardest by the decline in employment, but the services sector and manufacturing industry have also been affected.

No individual measure provides the complete picture of how much spare capacity there is in the labour market. However, there are various indicators and data that can be used to obtain an idea of this. Typically, aggregate measures are used for unemployment, but data for specific groups and survey-based information are also used. Some groups have a weaker connection to the labour market. Young people, who in Sweden have a high level of labour force participation, and those born abroad, often have temporary jobs and are normally affected early on when demand for labour declines. Those born in Sweden and in more established age groups, who often have permanent employment and have worked longer, are usually affected at a later stage by the lower demand. Other indicators are the percentage of underemployed, the employers' assessment of access to the labour force and the number of job vacancies advertised. Overall, these indicators point to resource utilisation in the labour market being to a large degree close to normal towards the end of 2023, and

[19] Economic activity appears to be the strongest driving force behind the short-term variation in unemployment, even if the effects vary in different regions in Sweden, see S. Laséen and R. Nahum (2025) "The relationship between growth and unemployment at the regional level – what do Swedish data tell us about economic activity and structure?", *Staff memo,* November, Sveriges Riksbank.

that since then there has been a clear cyclical deterioration (see Figure 21). Now that demand in the economy is increasing again, unemployment is expected to fall back.

**Figure 21. Different measures of the spare capacity in the labour market**
Standard deviation (standardised series since 2005)




Note. Seasonally adjusted data. Shortages are the share of companies responding that they have experienced a shortage of labour. Underemployed refers to people in employment who work less than they would like to. Shortages and job vacancies per unemployed person are inverted. Grey fields are periods when the Riksbank assesses resource utilisation on the labour market to be roughly normal.

Sources: National Institute of Economic Research, Statistics Sweden, Swedish Public Employment Service and the Riksbank.

## Signs of lower structural unemployment among those born abroad

The length of time one has been in Sweden plays a major role for establishment on the labour market. Initially, new arrivals have low competitive capacity, but the longer they have been in Sweden the higher their degree of employment is. For those born outside of Europe, who are generally a group with relatively weak competitive capacity, the situation on the labour market has clearly improved in recent years. There has been a trend improvement in how quickly refugees and their family members begin to work after being registered in the Swedish population register (see Figure 20).[20] This effect is reinforced by the average length of time in Sweden having increased among those born abroad, as the percentage who have lived here a short time has declined in recent years, which is due to a low inflow. The Riksbank assesses overall that this has contributed to equilibrium unemployment having declined somewhat. However, long-term unemployment has at the same time risen in recent years (see Figure 19). If the demand for labour does not increase as expected, there is

[20] This is also supported by the number of unemployed who go from unemployment to employment each month having increased for this group, see I. Häkkinen Skans and P. Wasén (2025) "Labour market matching in Sweden", *Economic Commentary* no. 1, Sveriges Riksbank.

a risk that unemployment will ultimately become entrenched at an elevated level (see footnote 18).

### Too early to draw conclusions on the effects of AI on the labour market

The economy is constantly undergoing structural transformation, for example linked to technological advances. If the pace of the structural transformation increases, it can mean that equilibrium unemployment increases. Generative AI will probably lead to productivity increasing faster and can entail some skills no longer being in demand, which can both lead to redundancies and make it more difficult for perhaps primarily some young people who have recently graduated to become established on the labour market.[21] The overall effects on the labour market will depend on the extent to which AI supplements or replaces employees. Use of AI is already relatively widespread in Sweden.[22] But so far there are few empirical studies of its effects on the Swedish labour market. Unemployment among people with post-secondary school education has risen by more than usual during this economic recession (see Figure 21). This could be an effect of AI, but is probably mainly linked to an increase in the educational level of the population over time. Company-based surveys indicate few effects of AI so far in the form of lower employment or clear increases in productivity.[23]

It is important to continue to monitor how AI affects the labour market. It is not likely that the effects would be purely cyclical. But it is not entirely clear how large the structural effects could be, or how they will vary over time. Changes in unemployment are always significant for monetary policy and the Riksbank is continuously following and analysing developments on the labour market.

[21] There are studies on US data that point to lower employment for young people in sectors that are exposed to AI, but also studies that do not show any clear effects on employment but on the other hand effects on wages in industries where productivity has risen faster. See E. Brynjolfsson et al. (2025), "Canaries in the Coal Mine? Six Facts about the Recent Employment Effects of Artificial Intelligence" and J. Hartley et al. (2025), "The Labor Market Effects of Generative Artificial Intelligence".

[22] In international terms, Swedish companies place highly in use of AI, see "EIB Investment Survey 2025 European Union Overview". In 2025, 35 per cent of all companies were using AI, see "Artificial intelligence in Sweden 2025", Statistics Sweden.

[23] The trade union Unionen's industry survey shows, for instance, that despite the implementation of various AI tools having increased substantially over the past two years, and being widespread in the Swedish business sector, the impression is that this has not yet had any negative impact on the size of the workforce. See Unionen (2025) "Sikten klarnar" (a clearer view).