2. OUTPUT AND EMPLOYMENT

Annual real GDP growth rose by 7.1% in the third quarter of 2023, following a 5.9% increase in the previous quarter. Growth in the third quarter was driven by net exports, as domestic demand contracted, largely due to lower GFCF. When adjusting for imports, exports remained the main driver, while domestic demand had a marginally positive impact on GDP growth.

Sectoral data show that the expansion in output was primarily driven by the services sector, especially the sector comprising professional, scientific, administrative, and related activities. Gross value added (GVA) also rose slightly in the manufacturing sector. By contrast, it continued to decline in the construction sector.

During the third quarter of 2023, developments in the labour market remained positive, with employment levels and employment rates both rising in annual terms. The unemployment rate remained low from a historical perspective, and stood well below that in the euro area.

The job vacancy rate remained at elevated levels, and increased from the level of the previous year. The labour tightness indicator, which is the ratio of the job vacancy rate to the unemployment rate, reached its highest level in recent years.

Potential output and Business Conditions Index

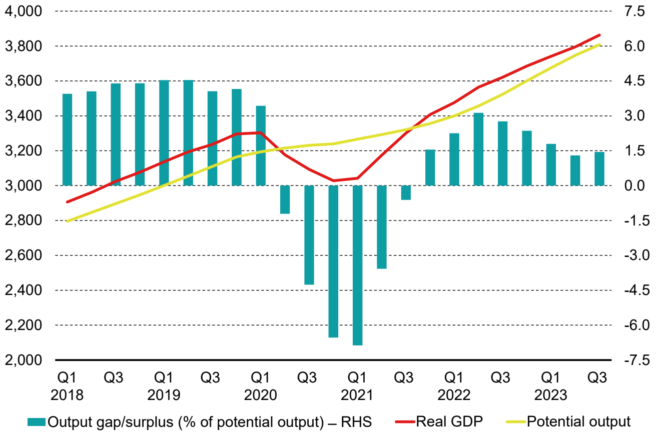
Potential output grows at a slower rate

The Bank estimates that potential output growth stood at 6.7% in the third quarter of 2023, below that of 8.1% estimated for the previous quarter.

On a four-quarter moving average basis, the level increase in GDP relative to the previous quarter was stronger than that in potential output, resulting in a slightly wider output gap. The latter is estimated at 1.4%, slightly up from 1.3% in the second quarter of 2023 (see Chart 2.1).

This implies a marginal increase in the degree of over-utilisation of the economy's productive capacity.

Chart 2.1
CYCLICAL POSITION OF THE MALTESE ECONOMY
(four-quarter moving averages; EUR million; as percentage of potential GDP)



Sources: NSO; Central Bank of Malta estimates.

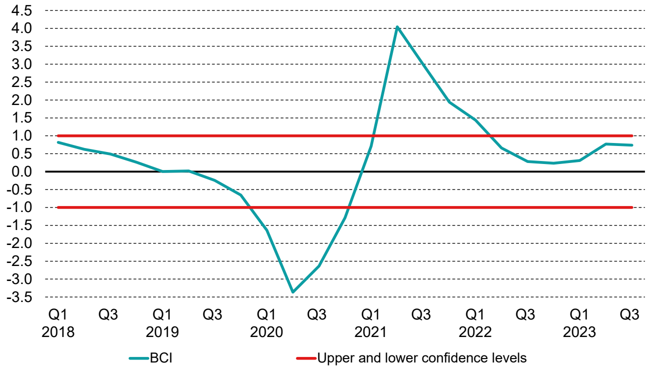
BCI continues to signal above average growth

The Bank's BCI edged down marginally in the third quarter but remained above its historical average (see Chart 2.2).[1]

[1] The BCI is a synthetic indicator, which includes information from a number of economic variables such as the term structure of interest rates, industrial production, an indicator for the services sector, economic sentiment, tax revenues and private sector credit. By construction, it has an average value of zero over the estimation period since 2000. A full time series can be found on the Central Bank of Malta website. For further details on the methodology underlying the BCI, see Ellul, R., (2016), "A real-time measure of business conditions in Malta," *Working Paper* 04/2016, Central Bank of Malta.

During the quarter under review, the BCI was affected by strong annual increases in several sub-components, particularly in tourist arrivals, in ESI, and a moderate expansion in industrial production. The strong rate of annual GDP growth and the historically low unemployment rate also contributed to a positive BCI level. By contrast, issuance of development permits for residential buildings stood below its level in the corresponding quarter of 2022, lowering somewhat the BCI.

Chart 2.2
BCI
(standardised)



Source: Central Bank of Malta.
The red lines in the Chart represent the range enclosing one standard deviation on either side of the BCI's long-run value. Repeated readings below the lower band signal that economic activity is significantly below normal economic activity. Readings above the upper band indicate that activity is signficantly above normal levels.

GDP and industrial production

Real GDP continues to grow at a quick pace

Real GDP rose by 7.1% on an annual basis, following a 5.9% increase in the previous quarter.[2] This reflects a higher positive contribution from net exports, which offset a larger negative contribution from domestic demand (see Table 2.1).

Table 2.1
GDP[(1)]

	2022		2023		
	Q3	Q4	Q1	Q2	Q3
	Annual percentage changes				
Private final consumption expenditure	9.3	6.8	8.9	7.6	7.5
Government final consumption expenditure	2.7	-2.3	1.8	-3.7	0.7
GFCF	35.2	42.7	-14.8	-18.1	-26.8
Domestic demand	**14.1**	**13.3**	**0.8**	**-2.1**	**-3.9**
Exports of goods and services	9.7	2.4	9.7	11.9	5.6
Imports of goods and services	14.4	5.3	7.0	7.8	-0.7
GDP	**6.4**	**7.3**	**6.4**	**5.9**	**7.1**
	Percentage point contributions				
Private final consumption expenditure	3.9	2.9	3.7	3.2	3.3
Government final consumption expenditure	0.5	-0.5	0.3	-0.7	0.1
GFCF	6.8	8.8	-3.4	-4.4	-6.7
Changes in inventories	0.1	0.1	0.1	0.1	-0.1
Domestic demand	**11.3**	**11.2**	**0.7**	**-1.8**	**-3.4**
Exports of goods and services	15.9	3.9	16.4	19.4	9.4
Imports of goods and services	-20.8	-7.8	-10.8	-11.6	1.1
Net exports	**-4.9**	**-3.9**	**5.7**	**7.8**	**10.4**
GDP	**6.4**	**7.3**	**6.4**	**5.9**	**7.1**

Sources: NSO; Central Bank of Malta calculations.
[(1)] Chain-linked volumes, reference year 2015.

[2] The analysis of GDP in this chapter of the *Quarterly Review* is based on data published in NSO *News Release* 214/2023, which was published on 28 November 2023.

The latter contracted by 3.9%, following a 2.1% decrease in the previous quarter, largely driven by a sharper decline in GFCF. This, in turn, mostly reflected a correction in import-intensive investment in the aviation sector from the high level recorded in the corresponding quarter of 2022. Overall, domestic demand shed 3.4 percentage points from GDP growth in the quarter under review.

Private consumption expenditure increased by an annual 7.5% in the third quarter of 2023, following a 7.6% increase in the previous quarter, adding 3.3 percentage points to real GDP growth.

Data on the Classification of Individual Consumption by Purpose (COICOP) show that the strongest increase in absolute terms was recorded in spending on miscellaneous goods and services, which includes expenditure on personal care, insurance and financial services among others. This was followed by higher spending on restaurants and hotels, recreation and culture, and transport. Expenditure on these items benefitted from the continued growth in tourism activity. On the other hand, spending on housing, water, electricity, gas, and other fuels, as well as food and non-alcoholic beverages declined. Smaller declines were also reported for spending on furnishings, household equipment and routine household maintenance, and alcoholic beverages, tobacco and narcotics.

COICOP data measure domestic consumption and thus, include the expenditure of non-residents in Malta while excluding the expenditure of Maltese residents abroad. Given that tourist arrivals exceeded last year's levels, certain COICOP categories of expenditure were affected by a strong increase in non-residents' expenditure in Malta. Nonetheless, the remaining part of domestic consumption – the expenditure of Maltese residents in Malta – also rose when compared to the same period a year earlier. Meanwhile, the expenditure of Maltese residents abroad increased significantly on its year-ago level, partly reflecting an increase in trips over the same period.

Government consumption expenditure grew by 0.7% in annual terms, following a decline of 3.7% in the second quarter of 2023. This mostly reflects an increase in intermediate consumption within the public administration, human health, and residential care sectors. It also reflects an increase in expenditure on compensation of employees. These additional outlays offset higher revenue from sales, which is netted out of consumption expenditure. Overall, government consumption added 0.1 percentage point to annual GDP growth.

Real GFCF declined by an annual 26.8% in the third quarter of the year, following a contraction of 18.1% in the previous quarter. The most significant decrease was recorded in expenditure on machinery and equipment, reflecting a decrease in registrations of aircraft from the very high level recorded a year earlier. Investment in dwellings and other buildings also declined. On the other hand, investment in intellectual property increased, while investment in cultivated biological resources remained broadly stable. GFCF shed 6.7 percentage points from real GDP growth.

The contribution of changes in inventories was marginally negative in the third quarter of 2023.

Exports increased by 5.6%, while imports decreased by 0.7% on a year earlier. As a result, net exports increased, adding 10.4 percentage points to annual real GDP growth. This reflected a smaller deficit from trade in goods, which in part reflected the aforementioned correction in aircraft imports. By contrast, when measured in volume terms, the services balance registered a smaller surplus compared to a year earlier.

The contributions shown in Table 2.1 are consistent with the approach normally followed in official databases and economic publications. However, they do not account for the variation in import content across different expenditure components and thus, fail to represent the true underlying relative contribution of domestic and external demand to economic growth.

Table 2.2 presents import-adjusted contributions, which address this limitation by apportioning imports to the respective demand components. GFCF was most affected by this adjustment and recorded a much smaller negative contribution to GDP growth compared with the traditional approach. As a result, and in contrast with the traditional approach, domestic demand had a marginally positive contribution to growth in the third quarter of 2023. The main driver behind the growth in domestic demand remains private consumption. Nevertheless, as in the traditional approach, exports remained the main contributor to real GDP growth.

GDP data based on the output approach show that in the third quarter of 2023, real GVA rose by 4.7% in annual terms, following a 7.9% increase in the previous three-month period. It added 4.4 percentage points to GDP growth (see Table 2.3).[3]

Services remained the main driver behind the rise in economic activity, adding 4.8 percentage points to real GDP growth. Most of the increase stemmed from the sector comprising professional, scientific, administrative, and related activities, which contributed 2.1 percentage points to GDP growth. The sector comprising financial and insurance activities added a further 1.1 percentage points to growth, while the remaining services sectors together added another 1.6 percentage points. The manufacturing sector added 0.1 percentage point to growth, while the construction sector lowered it by 0.3 percentage point. The latter has contributed negatively to growth since the first quarter of 2022.

Net taxes on products increased significantly in annual terms, following a contraction in the previous three-month period.

Table 2.2
IMPORT-ADJUSTED CONTRIBUTIONS TO GDP GROWTH[(1)]

	2022		2023		
	Q3	Q4	Q1	Q2	Q3
	Percentage point contributions				
Private final consumption expenditure	1.8	1.9	2.1	1.8	2.4
Government final consumption expenditure	0.3	-0.3	0.3	-0.6	0.2
GFCF	1.9	3.2	-1.1	-1.5	-1.8
Changes in inventories	0.1	-0.1	0.0	0.0	-0.2
Domestic demand	**4.1**	**4.6**	**1.2**	**-0.3**	**0.6**
Exports of goods and services	**2.3**	**2.7**	**5.2**	**6.2**	**6.5**
GDP	**6.4**	**7.3**	**6.4**	**5.9**	**7.1**

Source: Central Bank of Malta estimates.
[(1)] Chain-linked volumes, reference year 2015.

[3] The difference between GDP and GVA is made up of taxes on products, net of subsidies.

Table 2.3
CONTRIBUTION OF SECTORAL GVA TO REAL GDP GROWTH
Percentage points

	2022		2023		
	Q3	Q4	Q1	Q2	Q3
Agriculture, forestry and fishing	-0.5	0.0	0.0	0.0	-0.2
Mining and quarrying; utilities	0.1	0.1	0.4	0.8	0.0
Manufacturing	0.8	1.3	0.5	0.4	0.1
Construction	-0.3	-0.4	-0.7	-0.5	-0.3
Services	8.5	7.5	6.2	6.5	4.8
of which:					
Wholesale and retail trade; repair of motor vehicles; transportation; accommodation and related activities	4.6	3.9	1.4	2.7	0.1
Information and communication	1.0	0.8	0.5	0.1	-0.1
Financial and insurance activities	0.2	0.3	0.8	1.1	1.1
Real estate activities	0.1	0.0	0.2	0.1	0.2
Professional, scientific, administrative and related activities	1.6	1.3	1.8	2.4	2.1
Public administration and defence; education; health and related activities	0.4	0.8	0.7	-0.3	0.6
Arts, entertainment; household repair and related services	0.4	0.4	0.9	0.5	0.8
GVA	**8.7**	**8.6**	**6.4**	**7.2**	**4.4**
Taxes less subsidies on products	**-2.3**	**-1.2**	**-0.1**	**-1.3**	**2.6**
Annual real GDP growth (%)	**6.4**	**7.3**	**6.4**	**5.9**	**7.1**

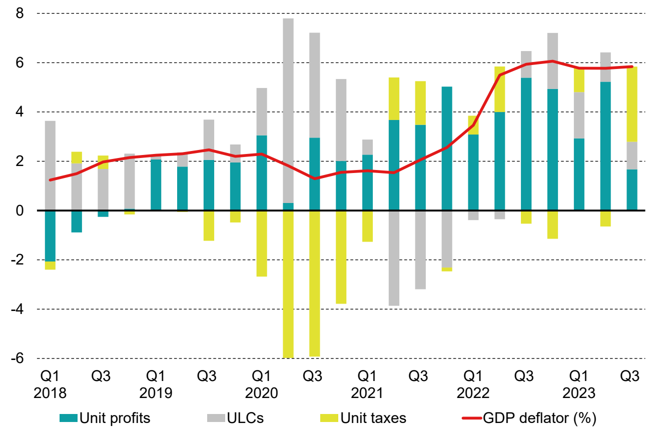
Source: NSO.

Nominal GDP growth remains strong

Nominal GDP rose by 13.3% in annual terms in the third quarter of 2023, after increasing by 12.1% in the previous quarter. Year-on-year growth rates have been at double digits since the second quarter of 2021. All components from the income side – compensation of employees, operating surplus and net taxes – contributed positively to nominal GDP growth. While gross operating surplus continued to contribute most to growth, its contribution moderated compared with the previous quarter.

Chart 2.3 shows the main contributors to growth in the GDP deflator. Annual growth in the latter remained elevated from a historical perspective. It stood at 5.8% in the third quarter of 2023, unchanged for the third consecutive quarter.

Chart 2.3
CONTRIBUTIONS TO GDP DEFLATOR
(annual percentage change; percentage point contribution)



Source: NSO.

The contribution of unit taxes on production turned strongly positive, following a marginally negative contribution in the second quarter of the year. This mainly reflects a decline in subsidies following the end of the Wage Supplement Scheme in mid-2022. At the same time, the unit profits component exhibited a lower positive contribution, compared with the previous quarter. Meanwhile, the contribution of ULCs remained broadly unchanged from the second quarter.[4]

Industrial production increases at a slower rate

Industrial production increased at an annual rate of 1.6% in the third quarter of 2023, following a rise of 6.6% in the previous quarter.[5]

Production in the manufacturing sector rose at a slower pace of 2.1%, from 5.5% in the second quarter. Production in the mining and quarrying sector contracted at a faster rate on a year-on-year basis, while that in the energy sector rose marginally following strong growth in the second quarter of 2023.[6]

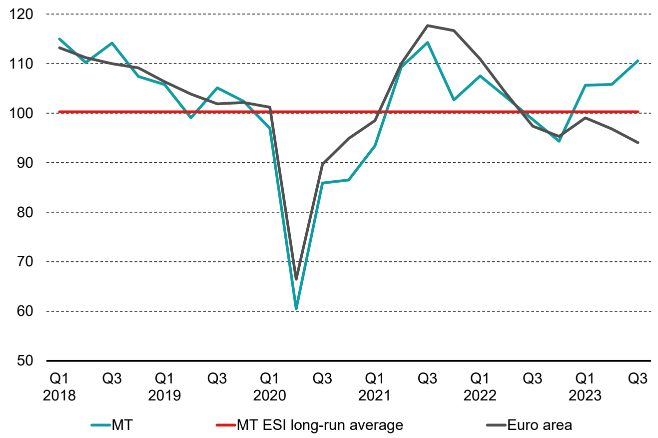
In the manufacturing sector, firms that manufacture basic wood products, furniture and pharmaceutical products, recorded the strongest year-on-year increases. Production also rose strongly among firms involved in the printing and reproduction of recorded media, and those that produce machinery and equipment. In all these sectors, production increased at double-digit rates. Smaller increases were recorded among firms that repair and install machinery and equipment, firms that produce rubber and plastics, and those that manufacture computer, electronic and optical products.

By contrast, output contracted among firms that produce wearing apparel and textiles, motor vehicles, trailers and semi-trailers, and those involved in 'other manufacturing' – which includes medical and dental instruments. Smaller reductions were recorded in the sectors producing paper products, food and electrical equipment.

Business and consumer surveys

During the third quarter of 2023, the European Commission's ESI for Malta remained above its long-term average of around 100.0. It reached 110.6, up from 105.8 in the preceding quarter.

Chart 2.4
ESI
(seasonally adjusted; percentage points)



Source: European Commission.

[4] The analysis of ULCs in this section is not comparable to that in the prices and competitiveness section, as the latter is based on four-quarter moving averages.

[5] Methodological differences may account for divergences between developments in GVA in the manufacturing sector and industrial production. GVA nets input costs from output to arrive at value added and is expressed in nominal terms. Industrial production is a measure of the volume of output and takes no account of input costs. The sectoral coverage between the two measures also differs since industrial production data also include the output of the energy and quarrying sectors.

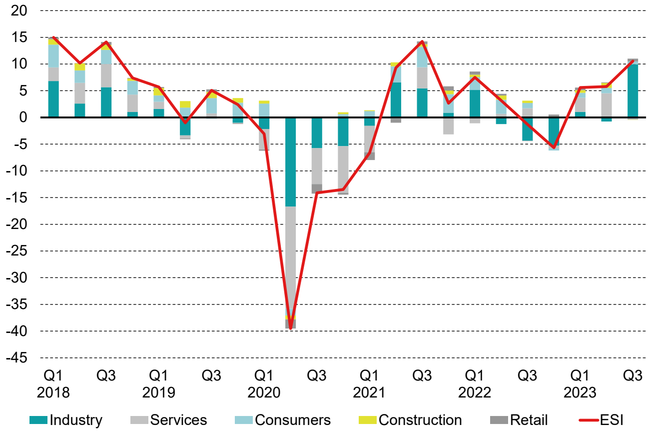
[6] Industrial production in the energy sector excludes energy generated abroad and imported through the interconnector.

The overall indicator also remained above that in the euro area, which averaged 94.0 (see Chart 2.4).[7,8]

When compared with the second quarter of the year, confidence increased strongly in industry and among retailers. By contrast, sentiment in the remaining sectors deteriorated, with the strongest decline recorded in the construction and services sectors. In the quarter under review, sentiment was negative among consumers and the construction sector, while it was positive in the retail, services, and manufacturing sectors.

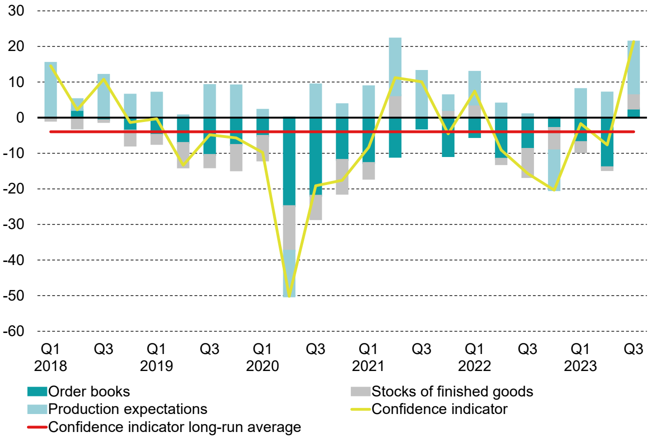
When accounting for the weights assigned to each sector, and the time variation of each sector, the increase in the ESI relative to second quarter of 2023 was almost entirely driven by developments in industry.[9] This sector also largely explains why the overall ESI stood above the long-term average in the quarter under review (see Chart 2.5).

Chart 2.5
ESI
(seasonally adjusted; demeaned)



Sources: European Commission; Central Bank of Malta workings.

Chart 2.6
INDUSTRIAL CONFIDENCE INDICATOR
(seasonally adjusted; percentage points)



Source: European Commission.

Industrial confidence turns positive[10]

The industrial confidence indicator increased to 21.4, up from -7.6 in the previous three-month period and stood well above its long-term average of -4.0 (see Chart 2.6). The recent amelioration for this sector reflected improvements in all its components, notably a strong increase in the share of participants

[7] The ESI summarises developments in confidence in five surveyed sectors: industry; services; construction; retail; and consumers. Quarterly data are three-month averages.

[8] Long-term averages are calculated over the entire period for which data are available. For the consumer and industrial confidence indicators, data for Malta became available in November 2002, while for services and construction data became available in May 2007 and May 2008, respectively. The long-term average of the retail confidence indicator is calculated as from May 2011, when it was first published. The long-term average of the ESI is computed from November 2002.

[9] Weights are assigned as follows: industry 40%; services 30%; consumers 20%; construction 5%; and retail trade 5%.

[10] The industrial confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to a subset of survey questions relating to expectations about production over the subsequent three months, to current levels of order books and to stocks of finished goods.

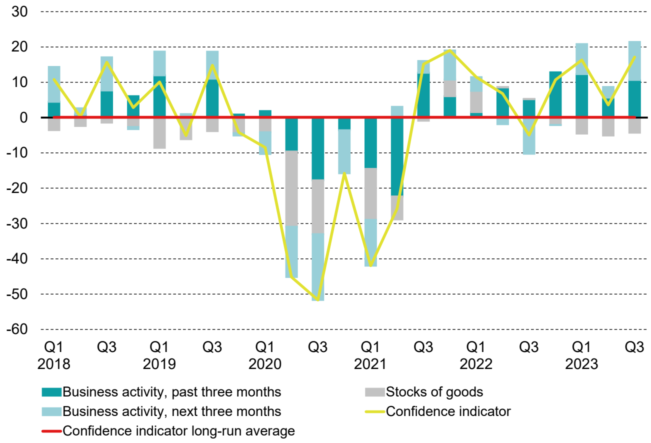
assessing their order book levels to above normal. This contrasts with a negative assessment in the previous quarter.

Additional survey data reveal that the share of respondents in industry anticipating higher selling prices more than doubled.

Sentiment among retailers increases[11]

The indicator of sentiment in the retail sector rose further above its long-term average of 0.1. It stood at 17.1 in the third quarter of 2023, up from 3.6 in the previous quarter. The recent rise in sentiment was largely driven by an increase in the share of respondents with positive expectations about business activity over the next three months, and a positive assessment of sales over the past three months. At the same time, the net share of participants reporting stocks of finished goods to be above normal, edged down compared with the previous three-month period (see Chart 2.7).[12]

Chart 2.7
RETAIL CONFIDENCE INDICATOR
(seasonally adjusted; percentage points)



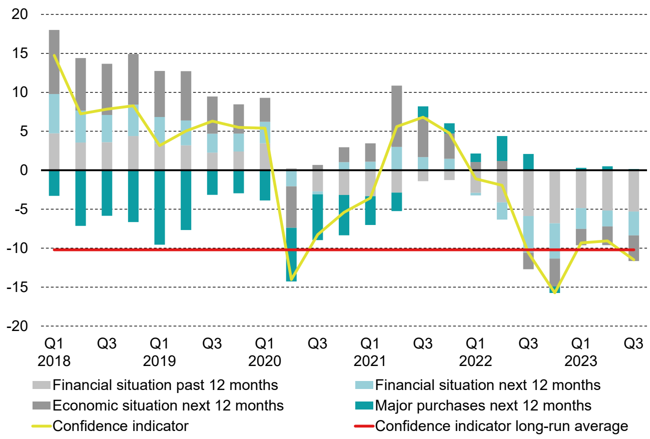
Source: European Commission.

Supplementary survey data indicate that, in contrast to the previous quarter, short-term orders expectations turned positive. Meanwhile, the share of respondents with positive price expectations decreased significantly.

Consumer confidence falls below its long-term average[13]

The consumer confidence indicator averaged -11.5 during the third quarter of 2023, below the -9.1 recorded in the previous quarter and its long-run average of -10.2 (see Chart 2.8).

Chart 2.8
CONSUMER CONFIDENCE INDICATOR
(seasonally adjusted; percentage points)



Source: European Commission.

The recent deterioration in consumer sentiment largely reflected a more negative outlook of household finances in

[11] The retail confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to survey questions relating to the present and future business situation and stock levels.

[12] Above-normal stock levels indicate lower turnover and affect the overall indicator in a negative way.

[13] The consumer confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to a subset of survey questions relating to households' assessment and expectations of their financial situation, their expectations about the general economic situation, and their intention to make major purchases over the subsequent 12 months. The computation of this indicator was changed as reflected in the January 2019 release of the European Commission.

the coming months, and of the general economic situation over the next 12 months. Meanwhile, the share of respondents expecting to make more major purchases over the next 12 months decreased compared to the second quarter of 2023.

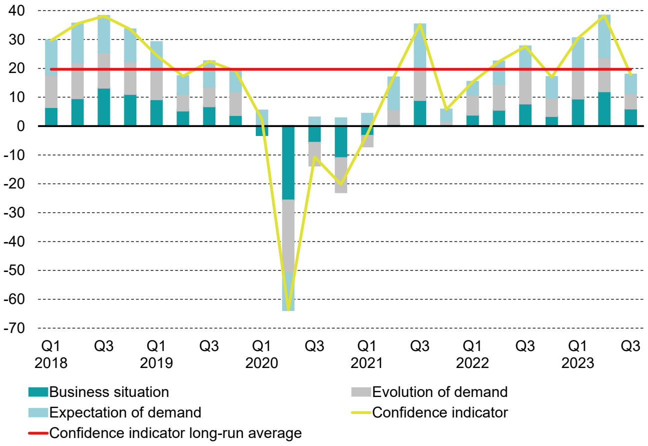
Supplementary survey data show that a slightly smaller share of respondents expected unemployment to increase in the next twelve months, compared with the previous quarter. Meanwhile, the net share of respondents expecting price increases edged up somewhat to around 24%.

Confidence in the services sector weakens[14]

The confidence indicator in the services sector decreased to 17.9, from 38.3 in the previous quarter. Following this decline, sentiment in this sector stood below its long-term average of 19.7 (see Chart 2.9). All components of the indicator decreased significantly compared to the previous three-month period.

Supplementary survey data indicate that the net share of participants with positive price expectations decreased slightly compared to the second quarter of 2023, but remained elevated from a historical perspective, standing at around 38%.

Chart 2.9
SERVICES CONFIDENCE INDICATOR
(seasonally adjusted; percentage points)



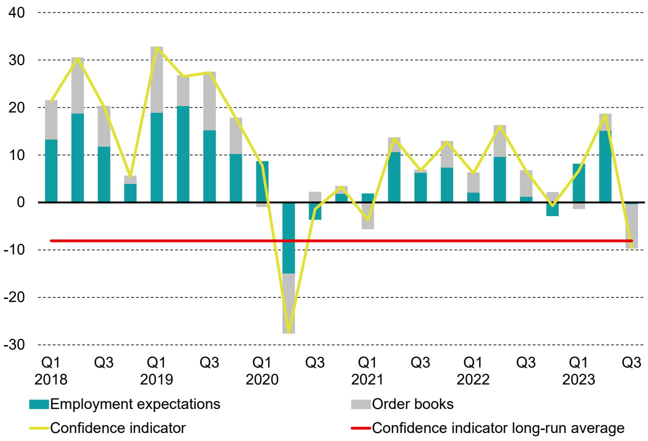
Source: European Commission.

Confidence in construction turns negative[15]

In the third quarter of 2023, the indicator measuring confidence in the construction sector fell below its long-term average of -8.1. It stood at -9.5, down from 18.5 in the previous three-month period (see Chart 2.10).

Contrary to the second quarter of 2023, respondents assessed order book levels to be below normal levels, and on balance, also held slightly negative employment expectations.

Chart 2.10
CONSTRUCTION CONFIDENCE INDICATOR
(seasonally adjusted; percentage points)



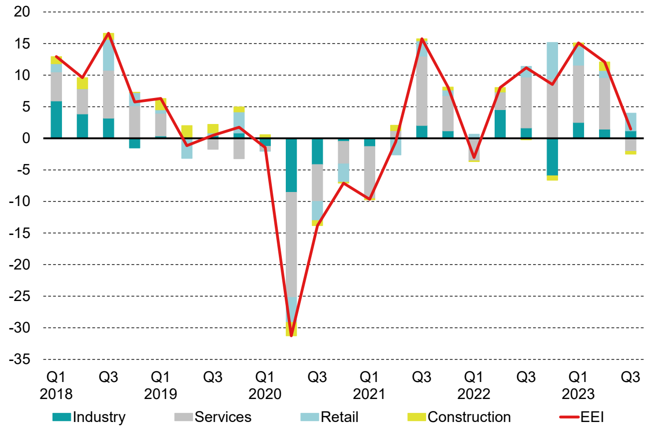
Source: European Commission.

[14] The services confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to survey questions relating to the business climate, the evolution of demand in the previous three months, and demand expectations in the subsequent three months.

[15] The construction confidence indicator is the arithmetic average of the seasonally adjusted balances (in percentage points) of replies to two survey questions, namely those relating to order books and to employment expectations over the subsequent three months.

Meanwhile, the net share of respondents expecting price increases over the next three months eased marginally but remained at elevated levels.

Chart 2.11
EEI
(seasonally adjusted; demeaned)



Sources: European Commission; Central Bank of Malta workings.

Employment Expectations Indicator (EEI) falls broadly in line with its long-run average

The EEI – which is a composite indicator of employment expectations in industry, services, retail trade and construction – edged down in the third quarter of 2023. It averaged 101.2, compared with 112.2 in the preceding quarter, standing broadly in line with its long-term average of around 100.0. The index stood below the euro area average of 102.8.[16]

During the quarter under review, employment expectations were positive across all sectors, bar the construction sector. The most positive readings were recorded in the retail sector and in industry.

Demeaned data suggest that the decrease relative to the preceding quarter was in large part driven by developments in the services sector, followed by weaker expectations in industry and construction (see Chart 2.11). The retail sector largely explains why the overall EEI stood above its long-term average in the quarter under review, offsetting a negative contribution from services.

Economic Uncertainty Indicator (EUI) increases

The European Commission's EUI is a composite indicator which measures how difficult it is for sectors to make predictions about their future financial or business situation. In Malta, this indicator increased to 13.3 in the third quarter of the year, from 9.1 in the preceding quarter (see Chart 2.12). However, the indicator stood well below that in the euro area, which averaged 20.9.[17,18]

[16] The EEI is based on question 7 of the industry survey, question 5 of the services and retail trade surveys and question 4 of the construction survey, which gauge the respondent firms' expectations as regards changes in their total employment over the next three months. Before being summarised in one composite indicator, each balance series is weighted on the basis of the respective sector's importance in overall employment. The weights are applied to the four-balance series expressed in standardised form. Further information on the compilation of the EEI is available in European Commission (2020). *The Joint Harmonised EU Programme of Business and Consumer Surveys User Guide*.

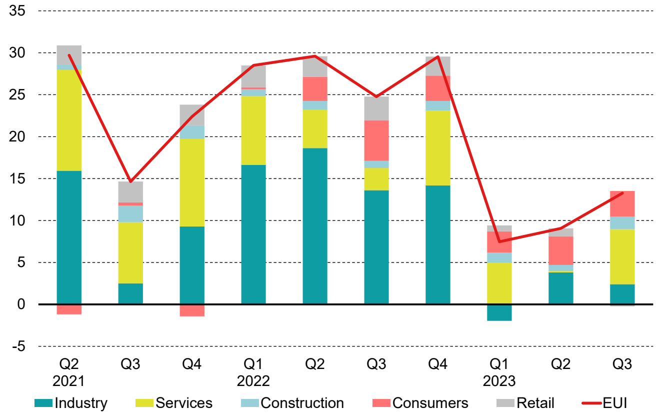
[17] The EUI is made up of five balances (in percentage points) which summarise managers'/consumers' answers to a question asking them to indicate how difficult it is to make predictions about their future business/financial situation. The series are not seasonally adjusted. The five-balance series are summarised in one composite indicator using the same weights used to construct the ESI. The questions asked correspond to Q51 of the industry survey, Q31 of the services survey, Q41 of the retail trade and construction surveys and Q21 of the consumer survey.

[18] Data on consumer uncertainty became available in October 2020, while data for industry, services, retail, and construction became available in May 2021.

The strongest rise in uncertainty in Malta was recorded in the services sector. This was followed by higher uncertainty in the construction sector. By contrast, uncertainty in the remaining sectors decreased when compared with the previous three-month period, with the largest decline recorded in the retail sector.

Developments in the services sector contributed the most to the increase in Malta's EUI, when considering each sector's weight and past volatility.

Chart 2.12
EUI[(1)]
(not seasonally adjusted)



Sources: European Commission; Central Bank of Malta.
[(1)] Data for Malta is available from May 2021.

The labour market[19]

Labour force and activity rate continue to increase

Labour Force Survey (LFS) data show that in the third quarter of 2023, the labour force grew by 16,027 persons, or 5.5% on an annual basis, faster than the 4.5% increase registered in the previous quarter (see Table 2.4).[20]

Table 2.4
LABOUR MARKET INDICATORS BASED ON THE LFS
Persons; annual percentage changes

	2022 Q3	2023 Q3	Annual change %
Labour force	**293,137**	**309,164**	**5.5**
Employed	284,571	301,441	5.9
By type of employment:			
Full-time	250,031	263,584	5.4
Part-time	34,540	37,857	9.6
Unemployed	8,566	7,723	-9.8
Activity rate (%)	**79.9**	**82.7**	
Male	86.1	89.2	
Female	72.7	75.2	
Employment rate (%)	**77.5**	**80.6**	
Male	83.4	87.1	
Female	70.8	73.2	
Unemployment rate (%)	**2.9**	**2.5**	
Actual hours worked (per week)	**32.4**	**31.8**	

Source: NSO.

[19] This section draws mainly on labour market statistics from two sources: the LFS, which is a household survey conducted by the NSO based on definitions set by the International Labour Organization (ILO) and Eurostat; and administrative records compiled by Jobsplus according to definitions established by domestic legislation on employment and social security benefits.

[20] The LFS defines the labour force as all persons aged 15 and over who are active in the labour market. This includes those in employment, whether full-time or part-time, and the unemployed, defined as those persons without work but who were actively seeking a job during the previous four weeks and available for work within two weeks of the reference period.

The activity rate stood at 82.7% in the quarter under review, higher than the 79.9% registered a year earlier.[21] This was mostly due to an increase in the male participation rate, although female activity also rose. The female participation rate reached 75.2%, while that of males increased to 89.2%. Both rates exceeded the corresponding rates for the euro area.

Employment increases further

In the quarter under review, employment rose by 5.9% in annual terms, following a rise of 4.9% in the previous quarter.

Most of the increase in employment in the quarter under review was driven by full-time jobs, as the number of people in part-time employment rose by less, in absolute terms. The number of persons in full-time employment rose by 13,553 persons, or 5.4% on a year earlier. This increase was mainly coming from sector comprising wholesale and retail trade, accommodation and food service activities, as well as the manufacturing and health sectors.

The number of persons in part-time jobs – which also includes those employed full-time on reduced hours – rose by 3,317, or 9.6% in annual terms (see Table 2.4). This increase was mostly driven by the sector comprising wholesale and retail trade, accommodation and food service activities, the education sector, the financial and professional services sectors, and the sector comprising transportation and storage activities.

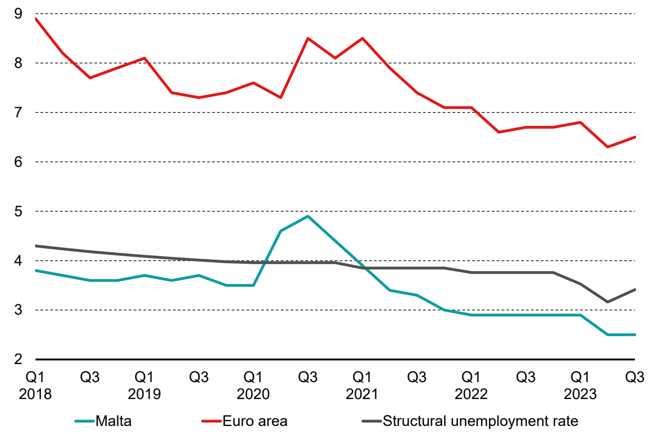
The overall employment rate rose by 3.1 percentage points on the same period of 2022, to reach 80.6%. The increase was broad-based across age brackets.[22] The male employment rate rose by 3.7 percentage points to 87.1%. The female employment rate rose by 2.4 percentage points to 73.2%. In both cases, strongest increase was recorded among persons in the 55 to 64 age bracket.

During the quarter under review, average weekly hours worked derived from the LFS declined to 31.8, from 32.4 a year earlier (see Table 2.4).[23] This reflected a decrease in both average hours worked by full-time and part-time employees.

The unemployment rate remains low

The unemployment rate based on the LFS fell to a historic low of 2.5%, from 2.9% a year earlier, reflecting resilient demand for labour (see Table 2.4).[24]

Chart 2.13
UNEMPLOYMENT RATE
(per cent)



Sources: Eurostat; NSO; Central Bank of Malta.

[21] The activity rate measures the number of persons in the labour force aged between 15 and 64 as a proportion of the working age population, which is defined as all those aged 15 to 64 years.

[22] The employment rate measures the number of persons aged between 15 and 64 employed on a full-time or part-time basis as a proportion of the working-age population.

[23] Actual hours refer to the number of hours actually spent at the place of work during the reference week for LFS. However, owing to increased flexibility at workplaces coupled with technology, the place of work may also include one's home. In this regard, actual hours worked also include the hours of work conducted by persons who telework.

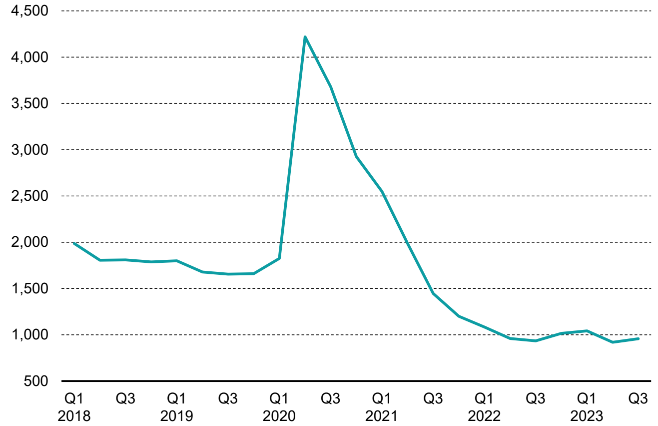
[24] According to the LFS, the unemployed comprise persons aged between 15 and 74 years who are without work, available for work and who have actively sought work during the four weeks preceding the Survey. In contrast, the number of unemployed on the basis of the Jobsplus definition includes only those persons registering for work under Part 1 and Part 2 of the unemployment register.

Labour market conditions remained more favourable than those in the euro area, where the unemployment rate, on average stood at 6.5% (see Chart 2.13).

During the quarter under review, the unemployment rate also stood below the Bank's structural measure of 3.4%.[25] This indicates a degree of labour market tightness, which is also confirmed by surveys.

Jobsplus data show that the number of persons on the unemployment register rose slightly both on a quarterly basis, and in annual terms. During the third quarter of 2023, the average number of persons on the unemployment register stood at 957, compared with 934 registered a year earlier (see Chart 2.14).

Chart 2.14
REGISTERED UNEMPLOYED
(number of persons)

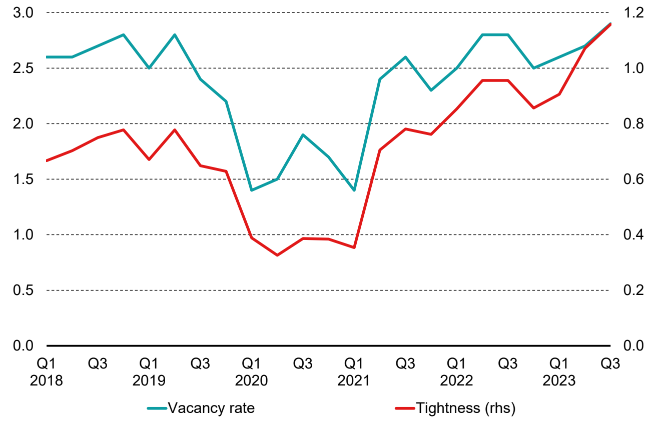


Source: NSO.

The vacancy rate rises

Eurostat's job vacancy rate for industry, construction and services rose compared to the previous quarter, standing at the elevated level of 2.9% (see Chart 2.15). This rate was also slightly above that recorded in the same quarter of 2022.[26] The vacancy rate was high in certain manufacturing and services sectors. The highest rates were recorded in the mining and quarrying sector (8.7%), the information and communication sector (4.8%), and the arts, entertainment, and recreation sector (4.6%).

Chart 2.15
VACANCY RATE AND LABOUR MARKET TIGHTNESS INDICATOR
(per cent)



Sources: Eurostat; NSO; Central Bank of Malta.

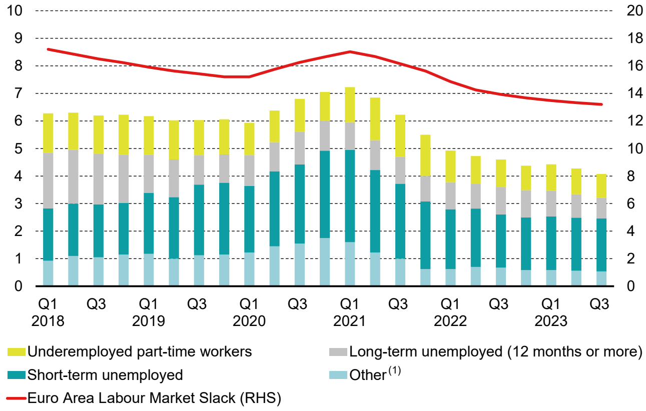
The ratio of the job vacancy rate to the unemployment rate is an indicator of the imbalance between labour demand and supply and, therefore, of labour tightness. During the quarter under review, this ratio stood at

[25] The structural unemployment rate in this chapter refers to the non-accelerating inflation rate of unemployment (NAIRU), that is, the unemployment rate that is consistent with stable inflation. This measure of the unemployment rate is based on an unobserved components model (UCMPF). For further details, see Borg, I. (2023), "Box 1: Latest Estimates of the NAIRU" *Outlook for the Maltese Economy* 2023:1, pp.7-9 and Ellul, R. (2019), "Box 1: An Unobserved Components Model for potential output in Malta" *Quarterly Review* 2019:2, pp. 17-21.

[26] The job vacancy rate measures the number of job vacancies as a percentage of total jobs (occupied and vacant). Data for Malta are available since 2017.

1.2, slightly higher than the ratio of 1.0 registered a year earlier. This indicator has reached its highest level in recent years.

Chart 2.16
LABOUR MARKET SLACK
(percentage of extended labour force; four-quarter moving average)



Sources: ECB-SDW; Eurostat; Central Bank of Malta's estimates.
(1) Persons seeking work, but not immediately available and persons available to take up work but not seeking.

To measure better labour market slack (unemployed and underutilised labour), one can consider an extended labour force definition, which in addition to the unemployed, also includes persons available to take up work but not seeking it, persons seeking work but not immediately available, and underemployed part-time workers. By this measure labour market slack was equivalent to 4.1% of the extended labour force in the third quarter of the year (see Chart 2.16).[27] This is 0.5 percentage point lower than the 4.6% registered a year earlier, and is well below this measure's average of around 8.0% estimated since 2010. It is also significantly lower than the 13.2% recorded for the euro area.

The gap between the broader measure of labour market slack and the unemployment rate has been declining since the second quarter of 2021, indicating a reduction in the share of underutilised labour.

In the third quarter of 2023, around two-thirds of the labour market slack stemmed from unemployment (primarily from short-term unemployment). Underemployed part-time workers, i.e., those working part-time but willing and able to work additional hours, contributed the most to labour underutilisation, and accounted for nearly one fourth of labour market slack.

[27] For further details on the methodology underlying the measure of labour market slack, see Ellul, R. (2019). "Labour Market Slack," *Quarterly Review* 2019:1, pp. 37-41, Central Bank of Malta. Given that this methodology partly relies on internal estimation, the slack indicator reported in this *Review* may differ slightly from that published by Eurostat.

BOX 1: HFCS 2021 – MALTA VS EA RESULTS COMPARISON[1]

This box provides a summary of the comparison of the results of the fourth wave of the Household Finance and Consumption Survey (HFCS) for Malta and the euro area.

The HFCS, henceforth the Survey, is an initiative coordinated by the ECB, in conjunction with the Household Finance and Consumption Network (HFCN), which consists of professionals from euro area national central banks (NCBs) and a number of national statistical institutes.[2]

All participating countries ask a set of core questions, which are based on common definitions and descriptive features, according to an output-oriented approach. The Survey provides detailed information on households' real and financial assets, their liabilities, net wealth, income, consumption, and savings. It is the only harmonised source of information about household wealth and its distribution.[3]

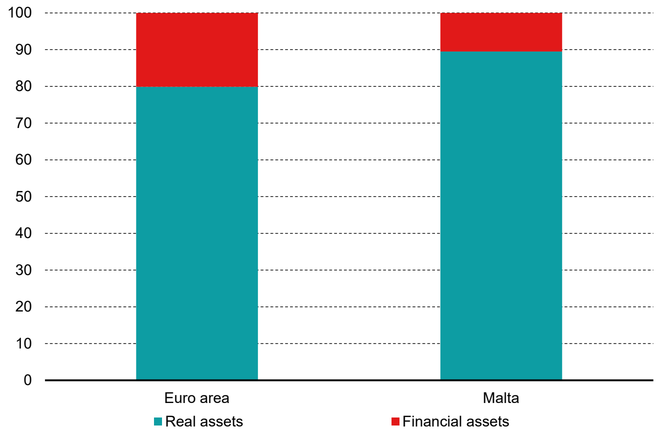
Fieldwork for the fourth wave of the HFCS was conducted in 2020 and 2021. Due to the pandemic, reference periods for this wave vary across countries, although the most common reference period was 2021. In the case of Malta, income is reported for 2020, while assets and liabilities refer to the position on October 2020.

Assets

In the euro area, the conditional median value of households' total assets was estimated to stand at €158,500, around half the self-declared value for Maltese households which stood at €311,900.[4] Dispersion across countries is significant, and mainly reflects differences in the self-reported value of the main residence.

The majority of households' assets consisted of real assets, which make

Chart 1
COMPOSITION OF ASSET HOLDINGS
(percentage of total assets)



Sources: ECB-HFCS 2021 Statistical Tables and authors' calculations.

[1] Prepared by Valentina Antonaroli, Warren Deguara and Aleandra Muscat, Principal economists and Economist, respectively within the Economic Projections and Conjunctural Analysis Office. The views expressed are those of the authors and do not necessarily reflect the views of the Central Bank of Malta. Any remaining errors are the sole responsibility of the authors.

[2] More information, data and studies on the HFCS in Malta.

[3] The HFCS questionnaire, list of output variables and paradata used in the fourth wave as well as the Methodological and Results Reports are available on the ECB's website at Household Finance and Consumption Survey (HFCS) (europa.eu).

[4] As outlined earlier, the HFCS collects valuable granular information on both real and financial assets held by households. The former relates to the household's main residence, other real estate properties, vehicles, valuables, and self-employment business. On the other hand, financial assets refer to bank deposits, mutual funds, bonds, shares, money owed to the household, voluntary pension/whole life insurance and any other types of financial assets.

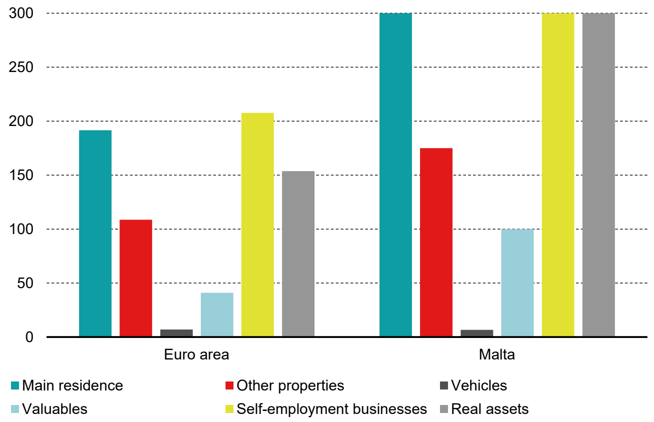
up 79.9% of total assets in the euro area, and 89.5% of all assets in Malta (see Chart 1). In fact, the home ownership rate in Malta stood at 79.0% in 2020, of which 60.4% were outright owners of their homes.[5] This is well above the euro area average of 61.6%, of which 40.8% were outright owners. At 94.3%, the share of households owning real assets is also slightly higher than that of the euro area, which stood at 91.7%.

Even the conditional median value of real assets was much higher for Maltese households. This stood at €300,000, exceeding the €153,700 reported for the euro area (see Chart 2).

The main residence is the household's most valuable real asset, both in the euro area and in Malta. This is followed by other real estate properties. However, in Malta the median value of households' main residence (HMR) (€300,000), is significantly higher than that in the euro area, which stands at €191,600. Additionally, the median value of assets related to self-employment businesses held by Maltese households was more than double that in the euro area.

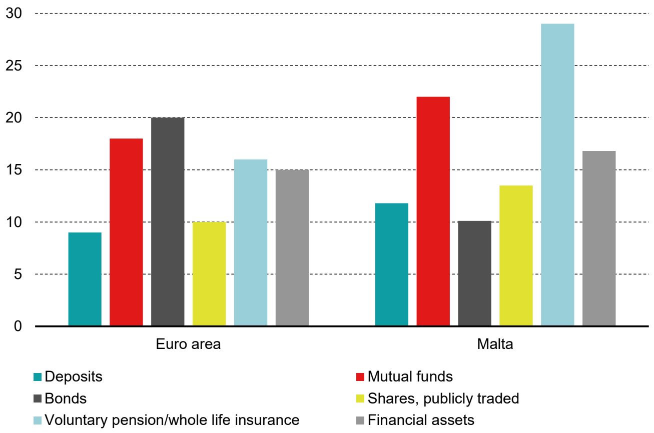
The share of euro area households holding some type of financial assets stood at 98.7%, which is marginally higher than that reported in Malta, which stood at 96.0%. However, the conditional median value of such assets in Malta is the sixth highest in the euro area at €16,800, which is also higher than the euro area average of €15,000 (see Chart 3). In part, this reflects a large divergence in the conditional median value of the most widely held financial

Chart 2
REAL ASSETS – MEDIANS
(EUR thousands)



Sources: ECB-HFCS 2021 Statistical Tables and authors' calculations.

Chart 3
FINANCIAL ASSETS – MEDIANS
(EUR thousands)



Sources: ECB-HFCS 2021 Statistical Tables and authors' calculations.

[5] An outright owner is somebody who has no mortgages on their property.

asset – deposits held by households – which stood at €9,000 in the euro area and €11,800 in Malta. Deposits made up 59.1% of Maltese households' financial assets, compared with 45.2% in the euro area.

The median values of shares, mutual funds and voluntary pension schemes held by Maltese households also exceeded corresponding values in the euro area.

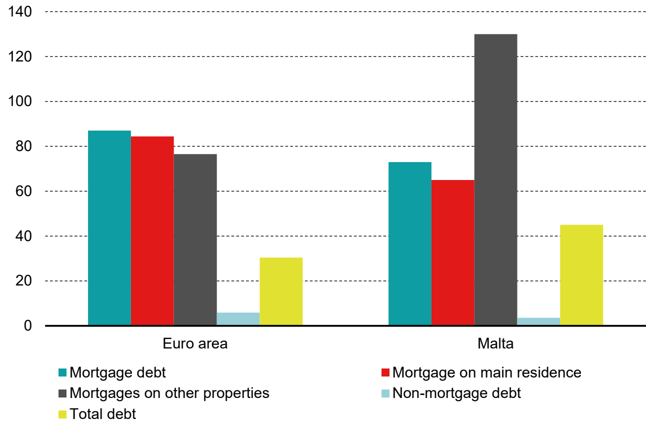
Liabilities

The percentage of indebted households in the euro area was 42.9% in the reference period, with the conditional median level of liabilities of these households standing at €30,400 (see Charts 4a and 4b). By contrast, 33.1% of the surveyed households in Malta were indebted, but the median level of liabilities in Malta stood at €45,000.[6]

The largest component of household debt is mortgage debt, standing at 87.6% of total debt in the euro area, and at 88.1% in Malta. Outstanding balances on the primary residence made up 69.0% and 71.9% of all households' liabilities in the euro area and in Malta, respectively, while 18.6% of related liabilities in the euro area, and 16.2% in Malta, are on other properties. Non-mortgage debt accounted for 12.4% of euro area households' total liabilities, slightly more than Malta's 11.9%.

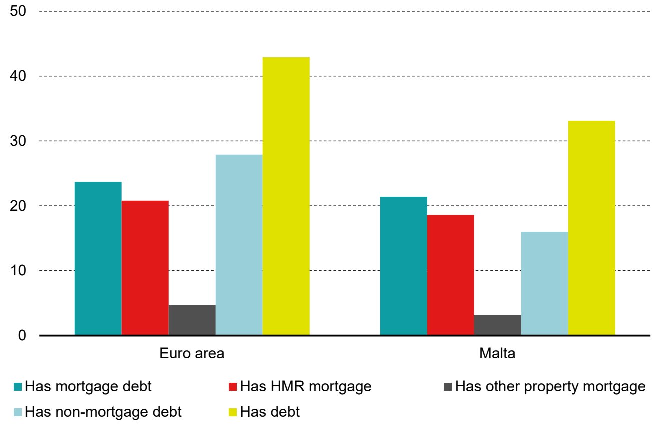
The percentage of households having outstanding debt on their main residences, on other properties and the percentage of those holding non-mortgage debt in Malta was lower than that in the

Chart 4a
LIABILITIES – MEDIANS
(EUR thousands)



Sources: ECB-HFCS 2021 Statistical Tables and authors' calculations.

Chart 4b
LIABILITIES – PARTICIPATION RATES
(percentage)



Sources: ECB-HFCS 2021 Statistical Tables and authors' calculations.

[6] Total liabilities include mortgages collateralised on HMR, mortgages collateralised on other real estate property owned by the household, non-mortgage loans, credit lines/bank overdrafts debt and credit card debt.

euro area. Although the conditional median level of outstanding debt on household main residence in Malta was lower (€65,000) than the euro area average of €84,400, the median level of debt on other properties in Malta was higher, standing at €130,000 compared to the euro area's €76,500.

The share of indebted households in Malta is lower than in the euro area across all age cohorts, but Maltese households in the 16-34, 35-44 and 65-74 age brackets report a higher value of median debt than corresponding households in the euro area.

Household net wealth

The estimated household median net wealth in Malta, which is defined as households' total holdings of real and financial assets net of liabilities, stood at €273,600 as at October 2020, more than double the euro area median value of €123,500 (see Chart 5). Heterogeneity among member states is substantial, with the value ranging from €31,300 in Latvia to €717,700 in Luxembourg.

Survey results clearly show that net wealth is significantly linked to home ownership across the euro area. Households who owned their main residence had a median net wealth value of €239,900 in the euro area, whereas households who did not own their home had a median net wealth value of just €12,000. Similarly, the median net wealth of Maltese households who own their main residence stood at €351,800, as opposed to only €10,000 for other households. Higher net wealth in Malta can be partly explained by a higher share of households who are outright owners of their main residence.

The HFCS-based Gini coefficient suggests that net wealth inequality in the euro area ranged from 0.46 in Slovakia to 0.73 in Germany.[7] Malta's Gini coefficient stood at 0.55 in 2020, notably lower than the euro area average of 0.69.

Chart 5
MEDIAN NET WEALTH, BY HOME OWNERSHIP
(EUR thousands; percentage of households)

Sources: ECB-HFCS 2021 Statistical Tables and authors' calculations.

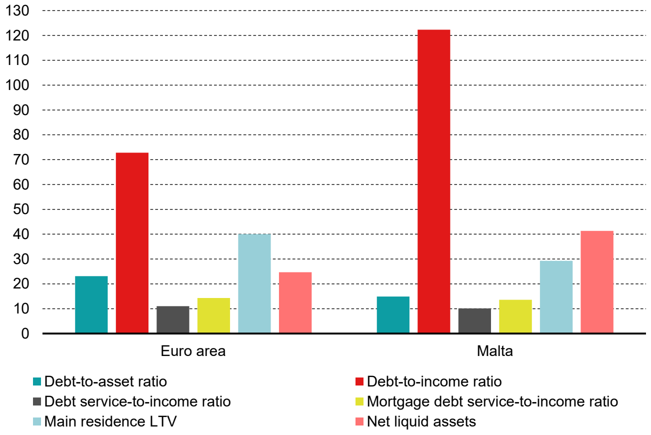
Debt burden

Data from the HFCS allows the computation of measures of debt burden, which are useful to assess the financial vulnerability of households. Households in the euro area

[7] The Gini coefficient corresponds to the normalised area between the Lorenz curve of the distribution and the 45-degree line. This coefficient is bound between 0 and 1, and the higher the value, the more unequal a society is.

had a debt-to-asset ratio of 23.1%, though with large variation across countries.[8] In Malta, this ratio stood at 14.9% (see Chart 6). However, the debt-to-income ratio of indebted households in Malta (122.3%) exceeded that in the euro area (72.8%).[9] The debt service-to-income ratio of all indebted households stood at 11.0% in the euro area and at 10.1% in Malta.[10] The mortgage debt servicing cost as a proportion of the gross household income of indebted households in the euro area was estimated at 14.3%, 0.7 percentage point higher than that estimated in Malta. The loan-to-value (LTV) ratio of HMR in the euro area stood at 40.0%, much higher than the 29.3% observed in Malta.[11] The net liquid asset ratio in Malta was the highest across countries standing at 41.3%, almost double to the euro area's 24.7%.

Chart 6
FINANCIAL BURDEN INDICATORS – MEDIAN RATIOS
(percentage)



Sources: ECB-HFCS 2021 Statistical Tables and authors' calculations.

Almost 7% of euro area households are credit constrained compared to Malta's 4.7%. This was among the lowest shares reported by euro area countries.

Income and consumption

The Survey defines gross household income as the sum of all pre-tax income and social contributions, including labour/pension income, rents from real estate assets, return from financial assets, regular social/private transfers, and any income from other sources of all members within the household.

In Malta, the median gross income stood at €29,700, and thus below the euro area average of €34,000. This pattern holds across all income categories (see Chart 7). Large variations in income are noted between countries.

Income across different age cohorts appears to follow the life-cycle hypothesis theory in the euro area, while in Malta median income declines as the age of the reference person increases. Moreover, when compared to the euro area, a sharper drop in income can be

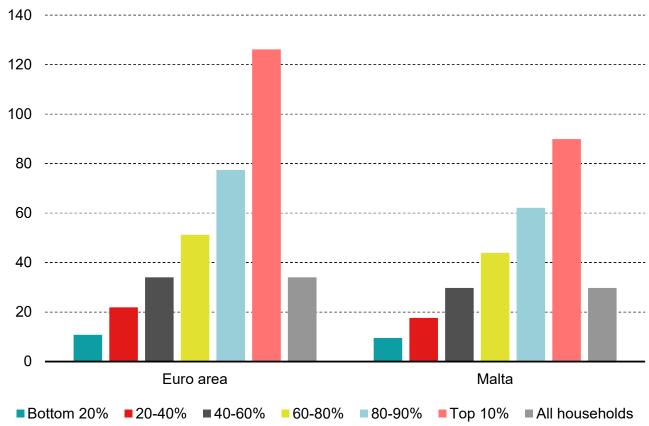
[8] Debt-asset ratio: ratio of total liabilities to total gross assets. Defined for indebted households.
[9] Debt-income ratio: ratio of total liabilities and total gross household income. Defined for indebted households.
[10] Debt service-income ratio: ratio of total monthly debt payments to household gross monthly income.
[11] LTV ratio of HMR: ratio of outstanding amount of HMR mortgage to current value of the HMR. This ratio is calculated for households with HMR mortgage debt only. Mortgage debt service-income ratio: ratio of total monthly mortgage debt payments to household gross monthly income. This ratio is calculated for households with mortgage debt.

noted for Maltese households aged 65 years and over in the latest HFCS wave.

The HFCS also gathers data related to consumption. Median spending on food in Malta was estimated at €7,200 per household, which is relatively higher than €5,400 in the euro area of (see Chart 8). Conversely, at €1,600, annual spending on utilities in Malta stood lower than the euro area spending of €2,600 and in fact was the third lowest in the euro area.

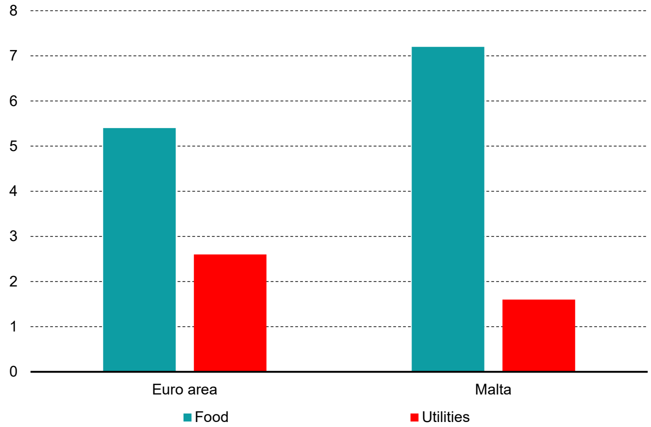
With regards to savings, the share of households stating that their regular expenses were lower than their income was 49.3% in the euro area and 48.3% in Malta. Once again, significant heterogeneity across countries can be noted.

Chart 7
GROSS HOUSEHOLD INCOME – MEDIAN, BY QUINTILE
(EUR thousands)



Sources: ECB-HFCS 2021 Statistical Tables and authors' calculations.

Chart 8
ANNUAL MEDIAN CONSUMPTION ON FOOD AND UTILITIES
(EUR thousands)



Sources: ECB-HFCS 2021 Statistical Tables and authors' calculations.