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Synthetic Labor Market Index: construction and application to the Spanish case

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Abstract-

Purpose
Traditional labor market indicators capture specific aspects or realities rather than offering an integrated view of its performance. We propose a comprehensive tool to analyze labor market performance, guide policy decision-making and motivate academic research from a holistic perspective: the Synthetic Labor Market Index (SLMI).

Design/methodology/approach
The SLMI is a composite indicator formed by 30 variables grouped into four categories: Unemployment, Employment, Protection for the Unemployed and Salaries. This paper discusses the SLMI’s construction, the results for the case of Spain (2008–2022), and its relationship with other economic indicators. Specifically, we empirically test the validity of the indicator under Okun’s Law’s theoretical background.

Findings
Our analysis demonstrates the robustness of the SLMI from the methodological and empirical standpoints, which suggests its potential usefulness for academic research and policy formulation.

Originality/value
The SLMI proposed by the paper is unprecedented at depicting the labor market in a holistic way.

Index Terms- Labor market, Composite indicator, Okun's law, Synthetic index

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