

## HIGHLIGHTS

	2010 q3	2010 q4	2011 q1	2011q2	2011q3
<b>Real GDP</b>					
(% change on previous quarter)	0.5	0.2	0.7	0.2	0.3
(% change on previous year)	2.2	1.9	2.4	1.7	1.3
<b>Employment growth</b>					
(% change on previous quarter)	0.1	0.0	0.0	0.1	-0.1
(% change on previous year)	-0.1	0.2	0.5	0.4	-0.1
<b>Employment rate</b>					
(% of working age population, non-seasonally adjusted)	64.6	64.2	63.8	64.5	:
<b>Job vacancy rate</b>					
(% of vacant and occupied posts, non-seasonally adjusted)	1.3	1.5	1.6	1.5	1.5
<b>Labour productivity</b>					
(% change on previous year)	2.3	1.7	2.0	1.4	:
<b>Labour cost</b>					
(% change on previous year)	0.6	1.2	1.5	0.7	:
<b>Long-term unemployment rate</b>					
(% labour force, non-seasonally adjusted)	3.8	4.0	4.1	4.0	:

	2010 Nov	2011 Aug	2011 Sep	2011 Oct	2011 Nov
<b>Unemployment rate</b> (seasonally adjusted)					
<b>Total</b> (% of labour force)	9.6	9.7	9.8	9.8	9.8
<b>Men</b>	9.5	9.5	9.6	9.7	9.7
<b>Women</b>	9.7	9.8	9.9	9.9	10.0
<b>Youth</b> (% of labour force aged 15-24)	21.0	21.5	21.8	22.0	22.3

- After a moderate recovery, European employment is down again in 2011 q3. With this negative trend since summer 2011, more Member States are recording an employment growth slowdown or decrease.
- With a new phase of steady increase since spring 2011, European unemployment has reached a historically high level cancelling out the previous moderate recovery.
- Youth unemployment has again rapidly risen and has reached an unprecedented high level.
- Unemployment duration is rising, producing increasingly persistent unemployment.
- Employment inflows are gradually decelerating, while employment outflows are again on the rise.
- Permanent jobs show moderate growth in most Member States, growth in temporary jobs is sustained.

This quarterly monitoring report provides in-depth analysis of recent labour market developments. It is prepared by the Employment Analysis and Social Analysis Units in DG EMPL. A wide combination of information sources have been used to produce this report, including Eurostat statistics, reports and survey data from the Commission's Directorate-General for Economic and Financial Affairs, national and sectoral statistics, restructuring data from the European Restructuring Monitor (collected by the European Monitoring Centre on Change) and articles from respected press sources. The report has also benefited from contributions from public and private employment services. The section on restructuring trends was prepared by the European Foundation for the Improvement of Living and Working Conditions.

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## EXECUTIVE SUMMARY

▪ The **EU economy grew modestly** in the third quarter of 2011, driven by an expansion of private consumption and external demand. The growth rate was 0.3 % quarter-on-quarter, while the annual growth rate declined to 1.4 % from 1.7 % in the previous quarter. Economic growth slowed down in most Member States, with quarter-on-quarter growth ranging from -0.8 % to +1.8 %. Seven countries managed to increase their performance compared with the previous three-month period. The greatest positive year-on-year changes in the third quarter were noted in the Baltic countries (over 5 %), while Greece posted the sharpest decline (-5.2 %). Whereas employment in the European Union moderately recovered during the year to the second quarter of 2011, but by less than a fifth of the jobs lost during the economic downturn, **European employment is again on a downward trend.**

▪ Among the **bigger Member States**, France's GDP rebounded by 0.4 % after slipping by 0.1 % in the previous period, whereas quarter-on-quarter growth in Germany and the UK picked up to 0.5 %, from respectively 0.3 % and 0.1 % in the second quarter. Employment increased in the third quarter compared with the second in Germany, Poland, Italy and France while it fell in the UK and Spain. On the negative side, the drop in the Greek GDP stands out (-5%). It is accompanied by a 7½% fall in employment. There are also declines in both variables in other **programme countries**, with a combination of a large GDP decline (-1¾%) and a small employment drop (-¾%) in Portugal, and the opposite in Ireland (respectively -¼% and -2½%).

▪ Within the overall negative employment trend since the Summer 2011, more Member States are recording an employment slowdown or decrease. **Unemployment**, steadily increasing since the Spring 2011, has now **reached a historically high level** (9.8 % in November 2011) cancelling out all the previous improvements. The moderate labour market recovery between the Spring 2010 and the Spring 2011 was not shared by all countries and, by the end of 2011, few countries are still seeing a downwards trend in unemployment and the recent worsening was particularly harsh in some Member States. **Men and women were equally hit by the recent unemployment rebound.** Unemployment rates for both groups increased by 0.4 pps since the end of 2010 to reach 9.7% for men and 10% for women in November 2011.

▪ These unfavourable labour market trends are likely to aggravate further the **adverse impacts of the crisis** that have led to income losses, rising poverty and financial distress among households. Among the population groups most affected by the crisis are young people, the long term unemployed, the migrants, lone parents and their children. Recent studies estimating the distributional **impact of austerity measures** show that they need to be carefully designed to avoid that the most vulnerable bear the brunt of the social impact of fiscal consolidation. These trends are analysed in several of the special focuses of this report.

▪ The severe rise in unemployment over the period 2008-2009 has continued to influence **long-term unemployment**. After bottoming out at 2.5 % in mid-2008, the long-term unemployment rate in the EU had risen to the high level of 4% by mid-2011, 0.2 percentage points (pps) higher than a year earlier. This means that 43 % of the unemployed persons were without a job for more than one year, compared to 40% a year before and only 33% in the second quarter of 2009. In line with overall unemployment, the increase affected mostly the Baltic States, Ireland and Spain, and now long-term unemployment affects more than 8 % of the labour force in Ireland, Latvia, Slovakia and Spain.

▪ The labour market recovery for youth did not last long and, after a year of stabilisation, unemployment again started to climb in May 2011, at a faster rate than among adults. This has exacerbated the **challenges of the youth labour market**. **Youth unemployment reached 5.6 million** in November, bringing the **rate to a new high of 22.3 %**, which was 1.3 pps more than the rate registered a year before, when unemployment bottomed. Over the course of the entire downturn, the unemployment rate for youth has risen by more than 7 pps from a low of around 15 % in spring 2008, and the share of **young people who are neither in employment, education or training (NEET) grew from less than 11 % to more than 13 %.**

- The **labour market situation of third-country nationals is difficult** in most Member States and the economic downturn has exacerbated the gap with nationals. A special focus section (see p. 38) shows that migrants working in the construction sector have been particularly affected but the main factor behind the fall in employment of migrants is their share in temporary contracts. Almost one (active) migrant out of five is unemployed and the share exceeds 30% among the young migrants. The on-average lower educational attainment of third-country nationals explains only partly their higher unemployment rate.
  
- In the year to the second quarter of 2011, the **unemployment rate for older people edged slightly down** to 6.7%, and it was up by just 1.7 pps on the low three years before. At the same time, their inactivity rate declined, partly due to a significant pick-up in the employment rate for older people by 1.2 pps, which however remains very low at 47.5%. The **labour market for the low-skilled** (aged 25-64) **stabilised** by mid-2011. However, this segment suffered the most pronounced, longest-lasting effects of the crisis. Over the last three years, the unemployment rate for the low-skilled increased from 9% to around 15 % and their employment rate dropped sharply, by 3 pps, to below 55 %. These trends contributed to a 1.6 pps increase of the risk of poverty and social exclusion of the low-skilled between 2009 and 2010 to reach 40%.
  
- Within overall weak employment growth, **job creation again became balanced with both permanent and temporary jobs** in the first two quarters of 2011. The young remain the most disadvantaged, since fewer and fewer young people hold a permanent job or a full-time job. In the same period, mirroring the present decline in employment and surge in unemployment, **employment inflows are gradually decelerating, while outflows are again on the rise**. In most Member States, the share of employed persons with a new job was still increasing in the second quarter of 2011, but at a slower pace, sometimes close to stabilisation. Most new job starters are on temporary contracts, i.e. 56 % on average in the EU. In 2010, about 26 % of those who were jobless in the previous year got a job. However, this is 4.6 pps less than in 2008. Conversely, 4.2 % of workers in 2009 became unemployed in 2010, i.e. 1.4 pps more than in the previous period. Here also, the situation varies greatly between Member States.
  
- In 2010, beside the 23 million unemployed in the EU, accounting for 9.7 % of its labour force, **another 19.2 million** (corresponding to 8 % of the active population) could be added under a broader perspective of unemployment. A special focus section covers those that **were underemployed or qualified as potential additional labour force in the EU**, while being inactive. The groups under consideration are on the one hand underemployed part-time workers and, on the other hand, people classified as inactive although either seeking work but not immediately available, or available for work but not seeking it. Their overall number increased by 1.6 million (+9.2 %) compared to 2008, essentially due to a rise in underemployment and in the number of persons available to work but not seeking it, both categories largely dominated by women. Similar developments have been seen in the USA. See special focus section on p. 34.
  
- In the third quarter of 2011, **labour productivity growth showed an uneven pattern across Member States**. Most strikingly was the strong rebound in the United Kingdom and the marked decrease in Denmark. In the other Member States productivity growth stagnated, or showed more moderate changes. At the same time, nominal labour cost growth remained moderate so that unit labour cost increases were limited.
  
- The 2010 data recently released reveals **signs of rising poverty in many Member States**, especially in the Baltic States, Spain and Ireland. A special focus section (see p. 55) shows that some population subgroups are severely hit, even in Member States apparently less impacted overall. Those suffering the most obvious effects of the crisis are those which were already at greater risk before the crisis and with weaker links to the labour market, namely young adults, families with children and especially single parents. As a result of the strong rise in unemployment, the share of children and working-age adults living in **jobless households** increased by 1 pps between 2008 and 2010 and by more than 6 pps in Ireland and Latvia. It now exceeds 12% in Latvia, Belgium, the UK and reaches 20% Ireland.
  
- The **effects of fiscal consolidation measures vary greatly across Member States**. A special focus section (see p. 59) features a recent analysis estimating the distributional impacts of the various types of austerity measures taken in six EU countries. It shows that measures affecting the disposable income (e.g. increases in income tax, cuts in benefits or in public sector pay)

have been clearly regressive in Portugal and relatively proportional in Estonia and Spain. They have been mildly progressive in the UK (not yet taking account of more regressive measures to be implemented in the coming years) and strongly progressive in Greece and Ireland. However, once measures to increase VAT are taken into account, the impacts of austerity policies are more regressive. Finally, methods still need to be developed to assess fully the impact of cuts in public services provision, that are likely to affect more strongly the most vulnerable populations.

- For the EU as a whole, a majority of people continue to declare that their **household financial situation** has deteriorated over the year, confirming the **downward trend observed since autumn 2010**. A special focus section (see p. 64) posits that this probably reflects the combined impact of higher inflation, rises in indirect taxes, low or stagnant wage growth and other austerity measures, which may increasingly constrain government room of manoeuvre to ease worsening household and consumer finances. Furthermore, the share of households experiencing financial difficulties across the EU has been steadily increasing since the beginning of 2011, particularly among the lower income quartile groups, while people running into debt are back up to around levels observed in late 2008. There is, nevertheless, quite marked divergence in developments in aggregate household financial situations across countries.

- In the recent period of slow recovery, **three major sectors**, which have all seen their value added rise over recent quarters, have followed **very different trajectories in terms of employment**. In the two years to the third quarter of 2010, while employment in the wholesale and retail trade fell by a limited 1.9 % in the EU, construction and the industrial sector were suffering much more, with both sectors losing roughly 8.5 % of their jobs. Employment in the industry and the trade sector has recovered partly since then, posting rises of respectively 0.5 and 0.4 % between the third quarter of 2010 and the third quarter of 2011. This was not the case in the construction sector, which still saw another decline of 2.4 %. Besides, the energy sector is the subject of a special focus (see p. 51). The crisis has had a **significant downward impact on both value added and employment in the energy sector across the EU**. But, interestingly, the number of jobs did not decline in the same proportions as the entire labour force did in the EU, supported by the **rapid expansion of the renewable energy** sector.

- The European Restructuring Monitor (ERM) recorded a total of 277 cases of restructuring between 1 September 2011 and 30 November 2011. **Announced job losses continued to outnumber announced job gains** with most of the recent job loss announcements relating to Italy and France. Manufacturing was the sector most affected by announced restructuring job losses, but it also accounted for the majority of business expansions and, therefore, job gains.

- European managers expect employment to shrink in the tertiary sector, while EU firms' employment expectations remain broadly optimistic in industry, but stubbornly pessimistic in construction. At the same time, EU consumers' fears of unemployment are still on the rise. While vacancies continue to grow in a context of rising unemployment, **hiring trends in the EU are somewhat mixed across Member States**, and talent shortages remain a real issue. Growth in on-line job demand is stable while growth in temporary agency work is slowing down dramatically.

- The Commission's Autumn European Economic Forecast projected annual average GDP growth in the EU at 0.6% in 2012 and 1.5% in 2013. The projected growth will not be sufficient for labour market improvements. Employment growth is expected to grind to a halt in 2012. As a result, **unemployment will not fall over the forecast horizon**, remaining at around 9.8% in the EU. Cross-country differences remain large.

This edition of the Quarterly Review takes a closer look at the labour markets and social situations in Austria, Cyprus, the Czech Republic, Luxembourg, Malta, the Netherlands, Poland, Slovakia and Spain.