European Commission

LABOUR MARKET AND WAGE DEVELOPMENTS IN EUROPE

HUGE SHOCK, LIMITED INCREASE IN UNEMPLOYMENT THANKS TO MASSIVE POLICY RESPONSE BUT ALSO DUE TO DROP IN ACTIVE POPULATION

Read the report: https://europa.eu/!Fq64cK

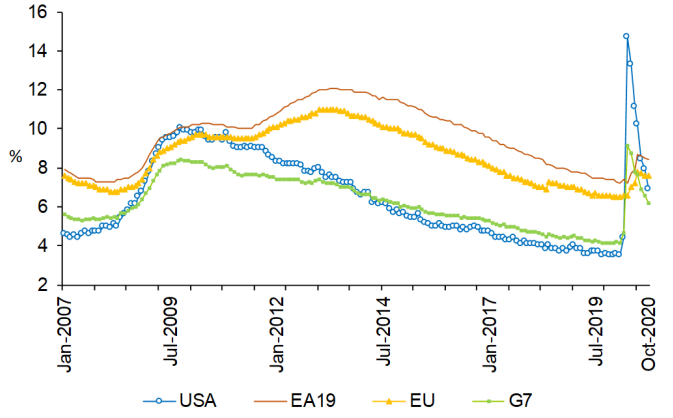
THE HEALTH SHOCK LED TO A RELATIVELY SMALL INCREASE OF UNEMPLOYMENT

In the first half of 2020, the EU economy plunged into an unprecedented recession. Despite the rebound of GDP by almost 12% in the third quarter, the outlook remains uncertain, as suggested by the modest increase in employment in the third quarter compared to the previous quarter - less than 1% on a quarter-over-quarter – and confidence indicators hovering around levels below the pre-pandemic averages. Despite the sheer size of the economic shock, the increase in unemployment was relatively modest; in October 2020, the unemployment rate stood at 7.6% (about 1 percentage point higher than the rate of December 2019).

THE POLICY RESPONSE AND THE RISE IN INACTIVITY EXPLAIN THE RELATIVELY MILD INCREASE OF UNEMPLOYMENT

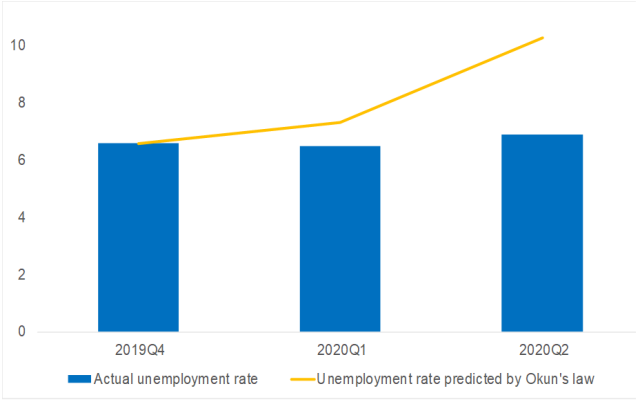
The swift and widespread use of short-time working schemes has contributed to mitigating the job losses implied by the sharp fall of output. The counterpart of this is the largest drop in the hours worked per person employed since 1995; between the last quarter of 2019 and the second quarter of 2020 hours worked per employed fell by slightly more than 11% in the EU. However, the severity of the recession and the limitations to mobility have pushed many unemployed people into inactivity. For the EU as a whole, the number of unemployed increased by a few thousands while the drop of the active population was in the order of almost 6 million people.

Unemployment rates in the EU, the US and the Group of seven advanced economies



Source: Eurostat

Actual unemployment rate and unemployment rate implied by drop of GDP



(1) Weighted average of Okun's law country specific estimates on quarterly data
Source: European Commission

Unemployment rate, activity rate and employment rate: cumulated changes over the period 2019Q4-2020Q2

Source: Eurostat

CONTAINMENT MEASURES HAVE AFFECTED THE DEMAND FOR LABOUR VIA CONFIDENCE EFFECTS

Containment measures concerned the whole range of economic activities through several transmission channels. By closing down production, they dampened consumption and employment directly. By affecting households' expectations, heightened uncertainty led to higher precautionary savings, lower consumption and lower demand for labour. The relevance of consumers' expectations varies across countries. Individual mobility was severely restricted during the lockdown with direct negative impacts on contact-intensive sectors such as hospitality, transport and tourism.

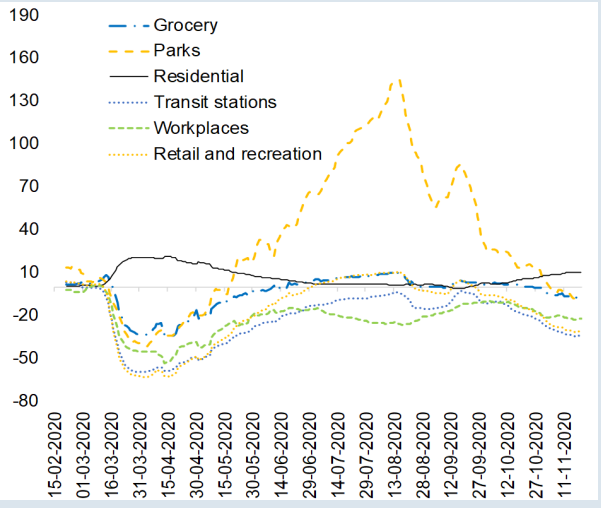
Stringency of containment measures and consumers' unemployment expectations one year ahead: January-November 2020

(1) Stringency index aggregates the score for different containment measures.
Source: DG EMPL computations on European Business and consumers Survey and Oxford Tracker data

THE CONTAINMENT MEASURES LED TO A DRASTIC DROP IN INDIVIDUALS' MOBILITY, WHICH CONTINUED ALSO AFTER THE RESTRICTIONS WERE PARTLY RELAXED IN SPRING.

Since mid-March, there was a decline in the mobility towards non-residential locations and an increase in the presence in residential locations. On average, mobility to non-residential locations fell by about 80%. In May, mobility to various locations - except to workplaces, retail and recreation and transit stations - gradually came back to pre-lockdown levels. As Europe was hit by a second wave of contagion, government have reinstituted localised lockdowns and this led to a further drop in mobility to non-residential locations.

Mobility to different locations

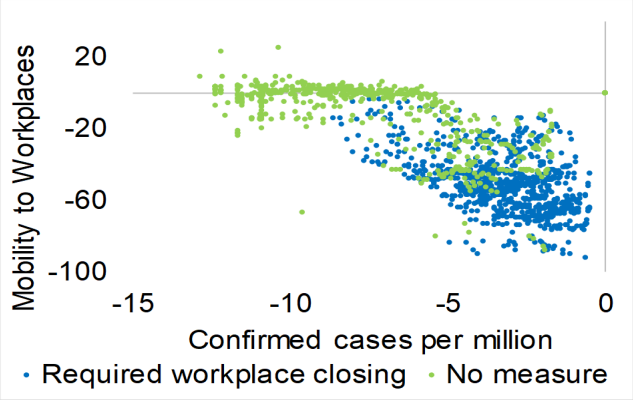


Source: Google mobility reports. Smoothed data.

INDIVIDUALS HAVE ANTICIPATED THE IMPACT OF LOCKDOWN MEASURES ON MOBILITY BY ADOPTING VOLUNTARY SOCIAL DISTANCING

Mobility to workplaces falls when the number of confirmed COVID-19 cases rises, even in the absence of confinement measures. This suggests that individuals have adopted social distancing even before governments had imposed the lockdown. Yet, individual mobility fell more after government measures had been implemented.

Mobility to workplaces and COVID-19 confirmed cases



(1) The Graph shows in the horizontal axis the confirmed cases and on the vertical the mobility to workplaces. Each dot represents a combination of countries and days before and after measures are enacted.
Source: DG EMPL calculations on Google mobility report and Oxford COVID-19 Government Response Tracker;

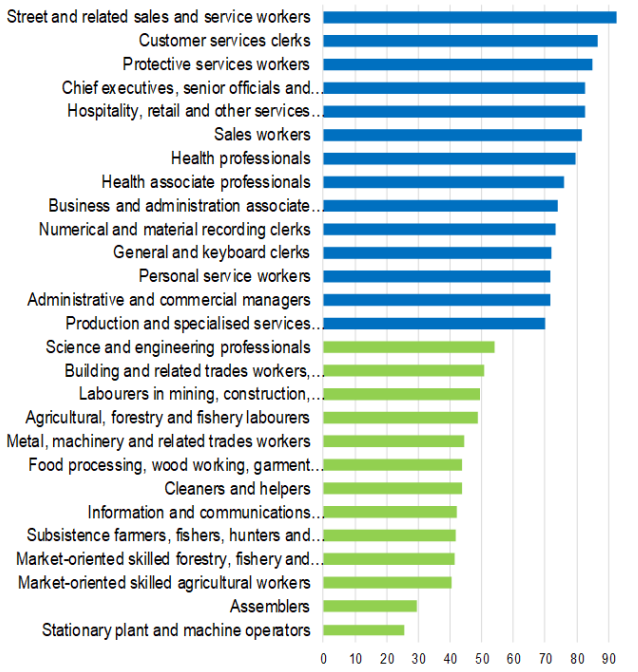
SOCIAL DISTANCING HAS A HETEROGENEOUS IMPACT ACROSS SECTORS AND OCCUPATIONS

Some occupations require a high degree of face-to-face and close physical interactions with clients or other employees. For some occupations, working from home is not feasible and close contacts with other workers or clients may be required. High-contact occupations include domestic cleaners, street vendors, clerks and nurses; low-contact intensive occupations are assemblers, machine operators or farmers. About 38% and 26% of total employment in the EU is in high contact-intensive and low-contact occupations, respectively.

ABOUT 35% OF TOTAL EMPLOYMENT IN THE EU IS IN OCCUPATIONS THAT DO NOT NECESSARILY REQUIRE PRESENCE AT THE WORKPLACE

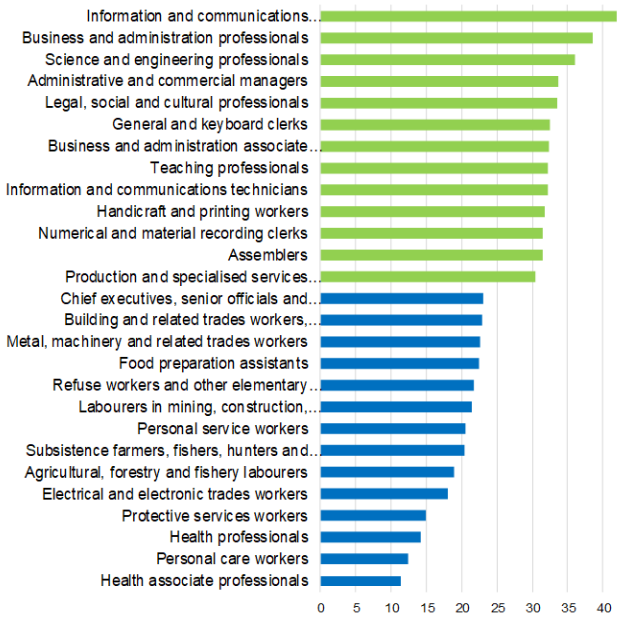
Remote working is an effective buffer against job losses. Occupations with tasks that do not require physical presence in the workplace include ICT, Science and engineering professionals, and Business and administration professionals. Some essential occupations, such as those of the health sector or of the agriculture and food sectors have tasks that cannot be done from home.

High- and low-contact intensive occupations:



Source: O*net and EU-LFS

High and low tele-workable occupations:



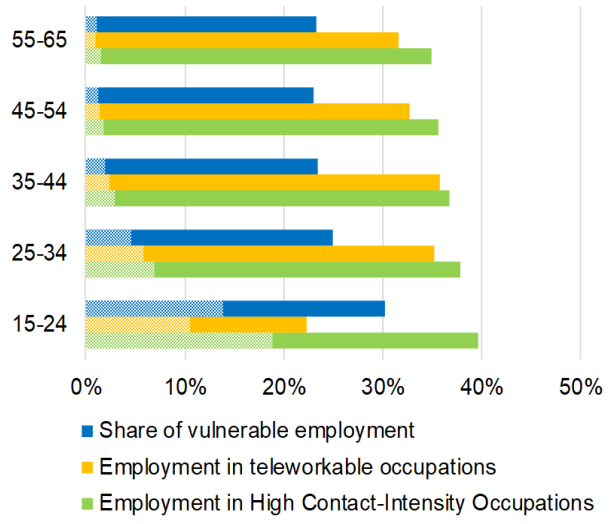
Source: ESSPROSS and National Accounts

PHYSICAL PROXIMITY AND ABILITY TO TELEWORK DETERMINE OCCUPATIONS VULNERABLE TO EARNING LOSSES

Workers in high contact and low tele-workable occupations are more vulnerable to wage losses due to social distancing. These occupations account for 45% of total employment.

The low contact / low tele-workable occupations account for 25% of total employment. These are less at risk of social distancing and less vulnerable to wage losses. Occupations that do not need physical interactions with others and can be done from home will be less affected by social distancing measures. These occupations account for 11% of total employment.

Share of vulnerable workers by age group



The shaded part of bars represents the share of temporary employment
Source: O*net and EU-LFS (2018 data)

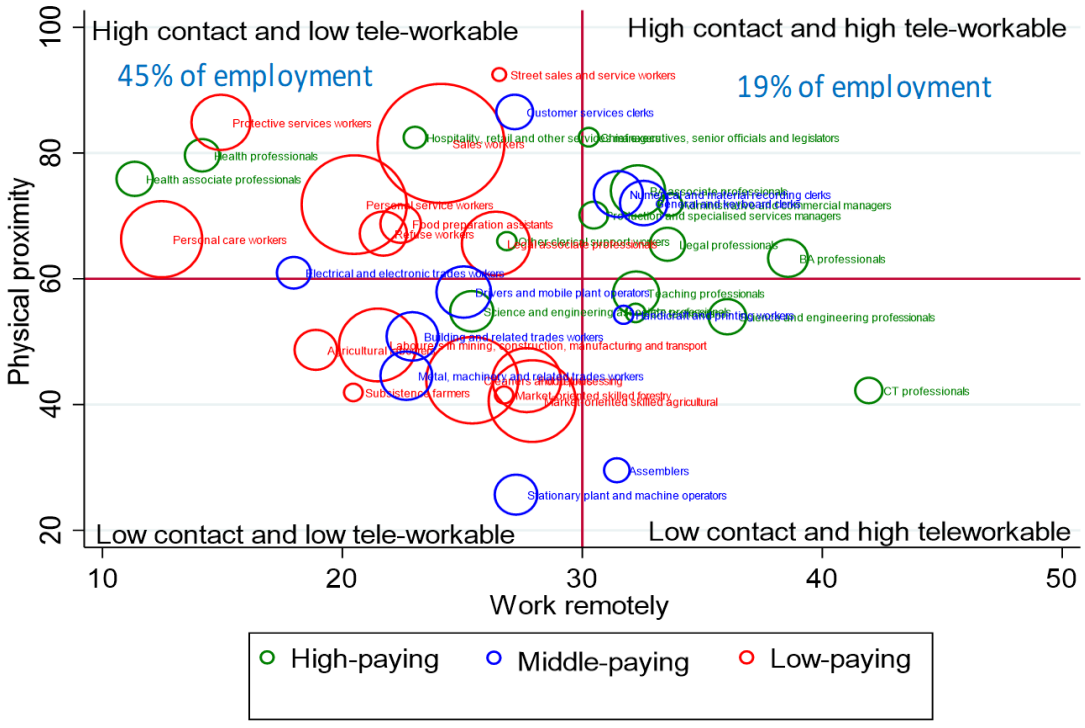
THE RISK IS THAT THE PANDEMIC WILL EXACERBATE EXISTING INCOME INEQUALITIES.

The major burden of social distancing is on those who were already vulnerable before the pandemic. Women are more exposed as they work more in contact-intensive sectors such as accommodation and food services. The low educated are also at risk mainly due to the lack of opportunities to telework. Young workers are overrepresented in sectors that are vulnerable to social distancing (e.g. food services). Moreover, almost half of their jobs are temporary. Workers in small firms are also more likely to be in vulnerable jobs as these firms have fewer possibilities to perform their tasks remotely.

SHORT-TIME WORK SCHEMES HAVE BEEN THE MAIN TOOL TO AVERT EMPLOYMENT LOSSES

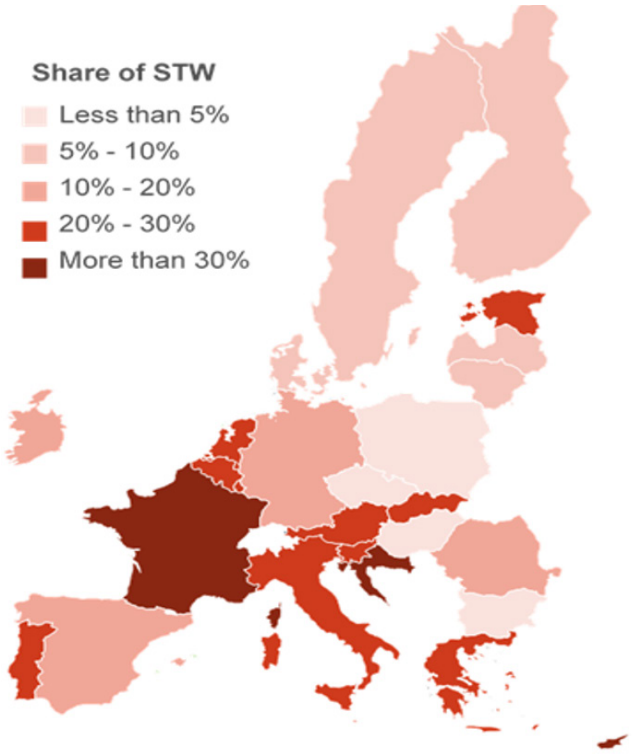
The short-time work schemes have been the most common tool to preserve jobs during the pandemic. Before the pandemic, 18 Member States had job retention schemes. By spring 2020, most countries had schemes to prevent job destruction in the spirit of short-time work schemes. Countries that had these schemes in place before the pandemic have modified their design to maximise their take-up.

Classification of occupations by their physical proximity, ability to telework and pay



Source: O*net and EU LFS

Employees on short-time work as a percentage of all employees

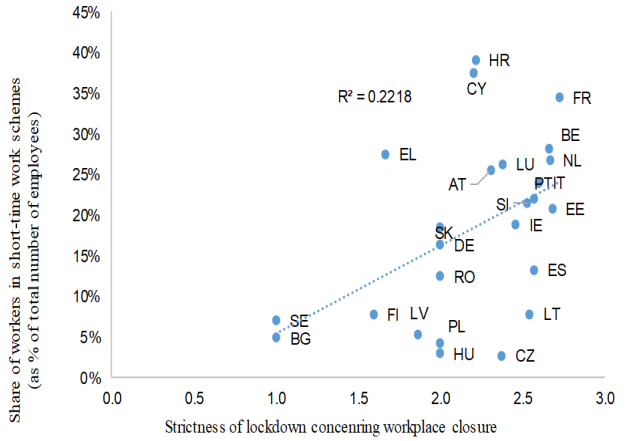


Source: Eurostat, and national sources

THE TAKE-UP OF SHORT-TIME WORK DEPENDS ON INSTITUTIONAL AND STRUCTURAL FACTORS

Factors affecting the take of short-time work schemes include the duration of the lockdown, the prevalence of temporary employment and the number of jobs that can be performed remotely. The use of short-time work has been particularly relevant in services. The lower take-up in Member States with newly established schemes could have been in part due to the design of their schemes or to implementation delays. Public schemes that were in place at the onset of the crisis and that credibly communicated a duration of support at least commensurate with that of the lockdown were better at reducing firms' uncertainty and securing a larger take-up. Furthermore, in some newly established schemes (e.g. Bulgaria, Czechia, Estonia, Croatia and Hungary), the requirement for firms to share part of the costs could have reduced the take-up.

Employees on short-time work as a percentage of all employees

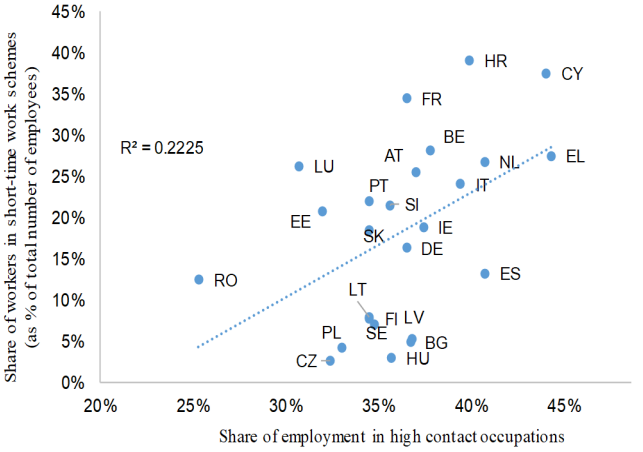


Source: Government Response Tracker, National sources

WORKERS IN SHORT-TIME WORK AND EMPLOYMENT IN HIGH CONTACT-INTENSITY OCCUPATIONS

The preservation of jobs has been the main objective of employment policies at the onset of the COVID-19 crisis. As the economy recovers from the health shock, the phasing-out of the schemes will allow quickly resuming production. However, some firms might become unviable and encouraging workers to engage in job-search activities and training might improve their employability and ease their transitions towards expanding firms, most notably in the green and digital sectors.

Employees on short-time work as a percentage of all employees



Source: O*Net, LFS and national sources.

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