



LABOUR MARKET AND WAGE DEVELOPMENTS IN EUROPE

LABOUR MARKET RESILIENCE WITH UNIQUE CHALLENGES LOOKING FORWARD

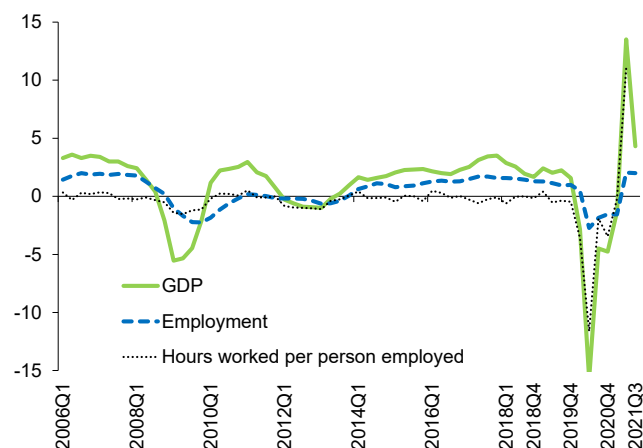


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ECONOMIC DEVELOPMENTS HAVE BEEN DETERMINED BY THE EVOLUTION OF THE PANDEMIC

The massive vaccination rollout in the EU and related relaxation of the social distancing measures resulted in a strong rebound in economic activity. While EU GDP was back to the pre-pandemic level in the second quarter of 2021, the recovery of employment was slower (Graph 1). Employment stood about 1% below the level of the fourth quarter of 2019, with 19 countries having employment levels below the pre-pandemic ones and the largest shortfalls being recorded in Spain (4%), Belgium (3%) and Estonia (3%). The EU economy gained strength in the third quarter allowing employment to return close to its pre-pandemic levels. The surge of Covid-19 cases in the fourth quarter led to the reinstatement of some containment measures and the impact on economic activity is still uncertain.

Graph 1: Employment, GDP and hours worked 2006Q1-2021Q3 (growth rate on the same quarter of the previous years)

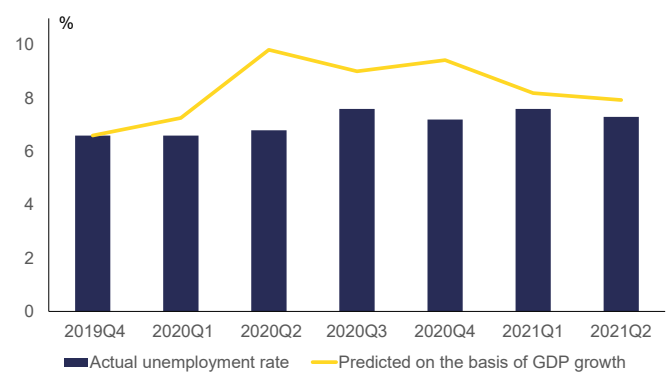


Source: Eurostat, National accounts

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

Short-time working schemes were used extensively during the Covid-19 recession. They contributed to minimising job destruction and the loss of human capital. Based on the fall of GDP, unemployment rate in the second quarter of 2020 could have been expected to reach 10%, but the actual unemployment rate hovered around 6% (Graph 2). The impact of the sharp drop of GDP on unemployment was also mitigated by high inflows into inactivity due to the fear of contagion and lockdown measures that induced people to give up job search. However, by the second quarter of 2021, at 64%, the EU activity rate was almost back to the pre-pandemic level.

Graph 2: Actual unemployment rate and predicted on the basis of GDP growth

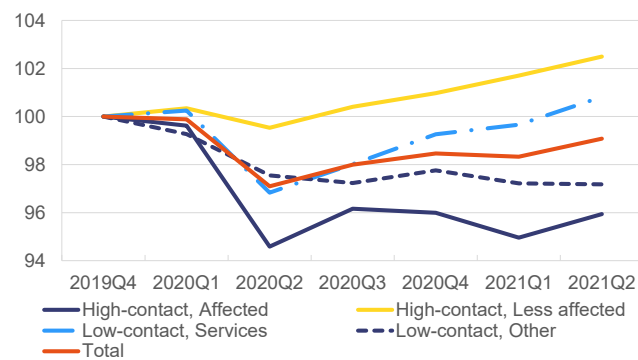


Source: Eurostat, LFS, and estimates based on National accounts and LFS

THE EMPLOYMENT IMPACT HAS BEEN MORE SEVERE AND PERSISTENT FOR SOME SECTORS

The effect of the pandemic affected sectors to various degrees, with a strong negative impact in manufacturing and contact-intensive sectors (Graph 3). In the second quarter of 2021, EU employment in manufacturing was 2.7% lower than the pre-crisis level. By contrast, in the same period, employment in less contact-intensive services returned to its pre-crisis level and was even above that level in construction, health, and public administration.

Graph 3: Employment by high/low contact sectors

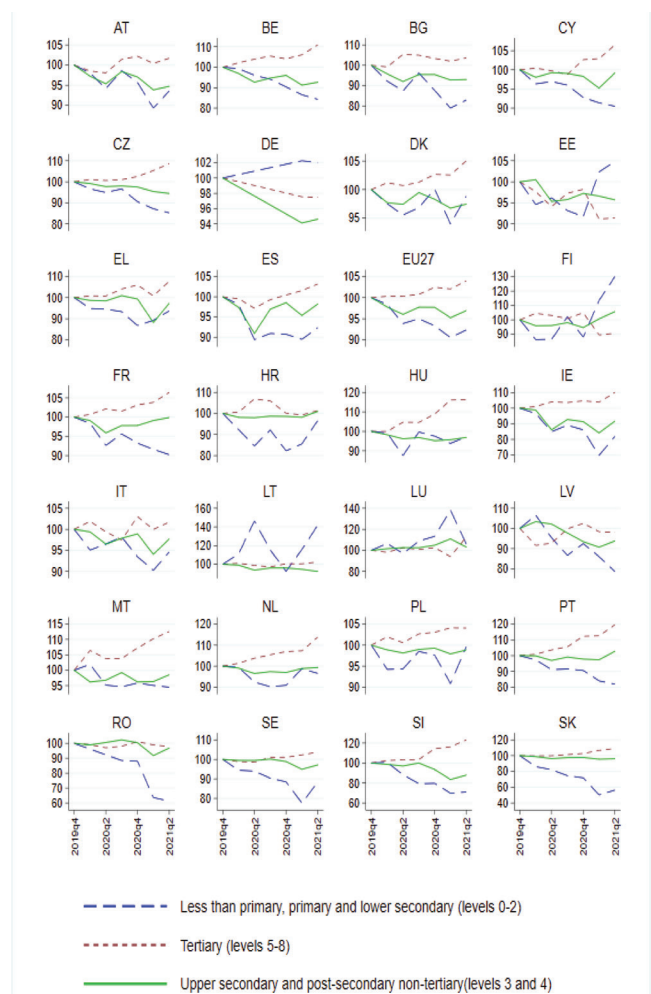


(1) High-contact affected sectors: wholesale, retail trade; transports, accommodation, food services, arts, household activities. High-contact less affected sectors: construction, public administration, health. Low-contact services: ICT, financial, professional activities, real estate. Low-contact other: manufacturing and agriculture
Source: LFS and O*net

AND FOR SOME SOCIO-ECONOMIC GROUPS AND OCCUPATIONS

The youth were particularly affected by the crisis, including because they are over-represented in the most hit sectors and among the employed with fixed-term contracts. However, compared to other age groups youth employment recovered more swiftly. Except for young women, the female employment rate was not more affected than that of men. In the second quarter of 2021, employment of the low-skilled was about 8% below the pre-pandemic level (Graph 4), with major losses recorded in almost all countries, notably in Portugal, Spain, Latvia, Slovenia, and Slovakia. Employment also declined, though to a lesser extent (3.1%), for those with secondary education. In 18 countries, employment gains for the high-skilled offset the losses for the less educated.

Graph 4: Employment by level of education 2019Q4-2021Q2

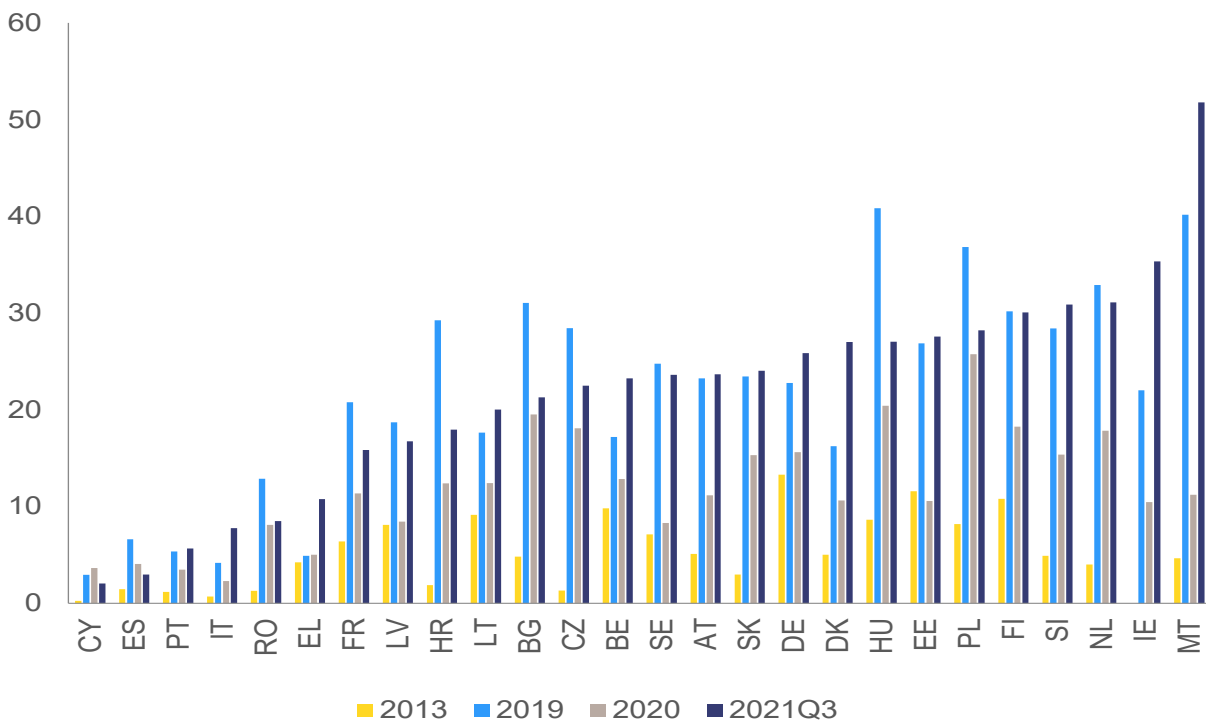


Source: Eurostat, LFS

CHANGES IN THE STRUCTURE OF EMPLOYMENT REFLECT TEMPORARY AND PERMANENT FACTORS

The changes in the sectoral composition of employment can be attributed to transitory and permanent factors. First, economic activity in contact-intensive services has not yet fully recovered, partly due to concerns over health risks and remaining restrictions. Second, weak employment growth in manufacturing may be due to supply chain bottlenecks, linked to divergences on a global scale in the reopening of the economy and overwhelmed transportation networks. Third, shortages of specific inputs (e.g. semiconductors) are dampening the demand of labour in manufacturing. However, the spread of digitalisation during the pandemic may also have had an impact. In the second quarter, employment in occupations at risk of

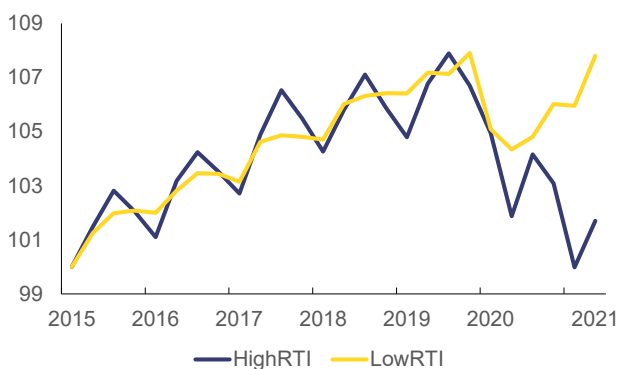
Graph 6: Labour shortages index



Data unavailable for Luxembourg;
 Source: The European Business and Consumer Survey

automation was 5% lower than the level of the last quarter of 2019 (graph 5); the largest declines were observed in Ireland, France, Poland and Slovenia.

Graph 5: Employment in high- and low-routine intensive occupations (2015=100)



(1) Routine tasks intensive occupations are based on an index (RTI) built as in Autor and Dorn, 2013; see Labour Market and Wage Developments in Europe 2019. The chart shows employment for ISCO categories (2-digits) with a value of RTI respectively below and above the median RTI index.
 Source: Google mobility reports. Smoothed data.

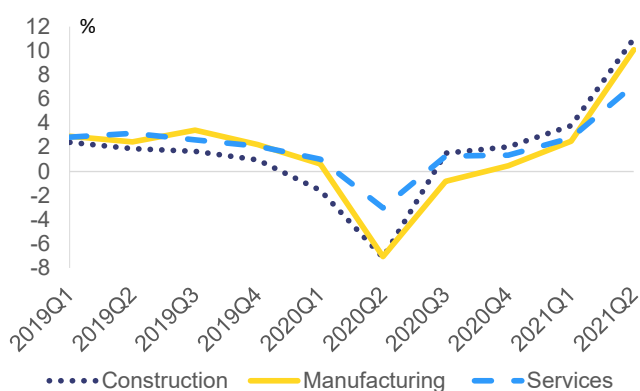
WITH THE REBOUND OF ECONOMIC ACTIVITY LABOUR SHORTAGES HAVE BEEN INCREASING

While in industry, labour shortages were on average above pre-pandemic levels in the third quarter of 2021, in services they remained below. By country, employers report labour shortages in the Malta, Ireland, the Netherlands, Slovenia, Finland and Poland (Graph 6). However, in 2021, labour shortages remain below the level of 2019 in 13 Member States. In Belgium, Denmark and Greece, the gap with the level of labour shortages of 2019 remains particularly large. The rise in labour shortages without a large fall in unemployment does not necessarily imply a worsened matching between vacant posts and unemployed people due to skills or geographical mismatches. However, labour shortages may also reflect structural factors such as ageing, poor working conditions, pre-existent skills mismatches, as well as wage convergence within the EU weakening the incentives to cross-border mobility. As the economic recovery continues, bottlenecks and supply shortages, including of labour, will create challenges for businesses to meet demand for consumption and investment goods. Looking forward, this may be associated with worsening labour market matching.

WAGES ARE RECOVERING FROM THE DEEP LOSSES OF 2020, BUT WAGE PRESSURES REMAIN SUBDUED

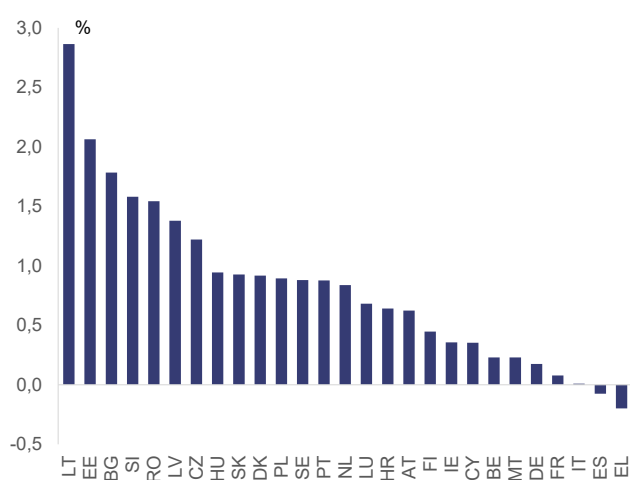
After plunging in the second quarter of 2020, wages expanded at high rates in the subsequent quarters, with some heterogeneity across sectors that reflects the characteristics of the sectoral response to the Covid-19 recession (Graph 7). Wages dropped in services less than in industry and construction where firms and workers were shielded by short-time work schemes. Thus, during the recovery they also increased less than in manufacturing or construction. Negotiated wages, which are not affected by changes in hours worked due to short-time work, provide a more suitable measure of wage developments. As labour demand gained strength in spring 2021, the growth of negotiated wages for the euro area remained moderate, standing at 1.3% in the third quarter of 2021, below the averages of 2019 and 2020 (2.2% and 1.8%, respectively).

Graph 7: Wage growth by sector (year-on-year)



Source: Eurostat

Graph 8: Wage growth in the EU: 2019Q4-2021Q2



Source: Eurostat; quarterly average

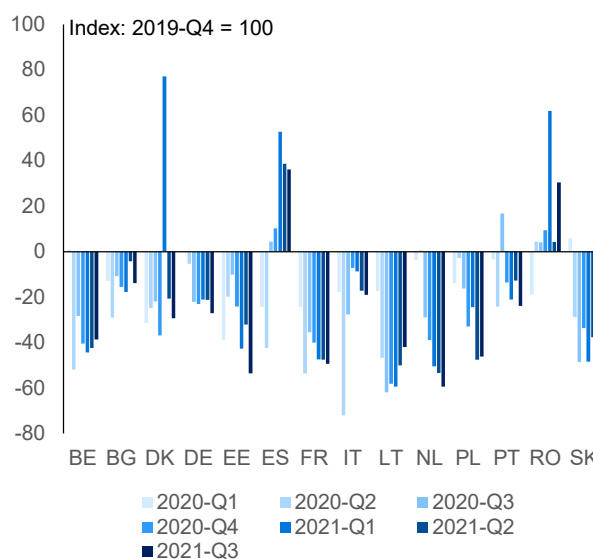
WAGE CONVERGENCE HAS PROGRESSED DURING THE RECOVERY

In the first half of 2021, compensation per employee expanded in all Member States, especially in Central and Eastern European Member States (Graph 8). This reflected the phasing-out of short-time work schemes or wages catching up in Central and Eastern European Member States. Generally, in countries where nominal wages dropped over the period 2019Q4-2020Q2, the wage loss was recuperated during the recovery.

DURING THE COVID-19 RECESSION, BANKRUPTCY DECLARATIONS DROPPED

The increase in bankruptcies typical of recessions did not materialise during the Covid-19 recession (Graph 9). This reflects mainly the policy interventions taken to soften the impact of the shock, but also firms' stronger financial position at the onset of the crisis than during previous recessions. Yet, many companies – especially those in sectors most affected by the pandemic – will emerge from the crisis in fragile financial conditions. As reported in the Alert Mechanism Report 2022, the phasing-out of repayment moratoria may uncover debt repayment difficulties in parts of the corporate sector, which could lead to an increase in insolvency proceedings going forward. This will add further pressure to the reallocation forces triggered by the twin transition.

Graph 9: Evolution of bankruptcy declarations 2020-2021, index change compared to 2019-Q4



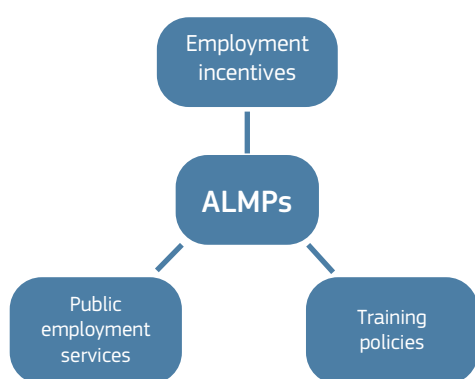
Note: Data not available for Member States not displayed.
Source: Eurostat; quarterly average

WITH THE RECOVERY, MEMBER STATES STARTED SCALING BACK AND REFORMING THEIR JOB RETENTION MEASURES

In April-May 2020, during the first wave of the pandemic, about one fifth of all employees across the EU were covered by short-time work schemes and similar measures, with this share reaching 40% in some Member States. Following the successful rollout of vaccination campaigns and the easing of containment measures allowing the full reopening of the economy, Member States have gradually shifted the focus of labour market policies from job retention to active support to employment. The phasing-out of crisis-related support, however, does not mean that short-time work schemes ceased to operate. Rather, access to job retention schemes is made more selective. Building on the emergency measures adopted during the crisis, a number of Member States have also introduced new short-time work schemes on a permanent basis, or re-designed their existing schemes to improve their effectiveness.

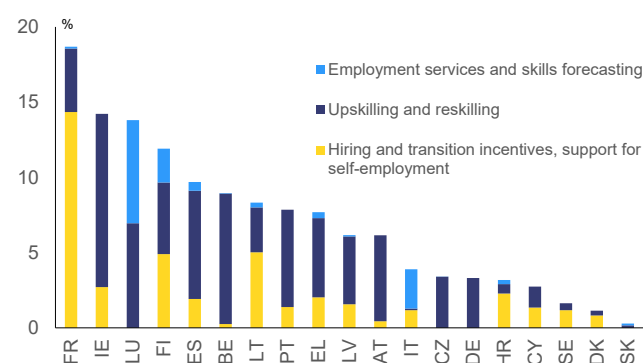
THE KEY OBJECTIVES OF ALMPs PROMOTING REALLOCATION AND EMPLOYABILITY

Active labour market policies (ALMPs) – notably employment incentives subsidising private employment, training programmes and enhanced support by employment services – can promote job creation and facilitate the reallocation of workers between different occupations. Such policies can support the recovery and contribute to a sustainable and inclusive growth. For their financing, Member States can rely on the European Social Fund Plus (ESF+) and the NextGenerationEU programme, notably under the Recovery and Resilience Facility and REACT-EU.



A focus on vulnerable groups in the labour market characterizes employment incentives, skills policies and public employment service measures in Member States. Furthermore, these schemes increasingly contribute to supporting the green and digital transitions. In skills policies, many Member States foresee the introduction or enhancement of adult learning entitlements. In their employment services, Member States pursue the improvement of the capacity and the quality of service provision, which often involves better coordination between the relevant institutions and a digitalisation of administrative processes.

Graph 10: Share of RRF resources allocated to EASE-related measures



Note: EASE-related measures are those falling under the policy areas of employment support and job creation, skills and adult learning, and modernisation of labour market institutions.
Source: European Commission, based on national RRFs.

Read the report



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