

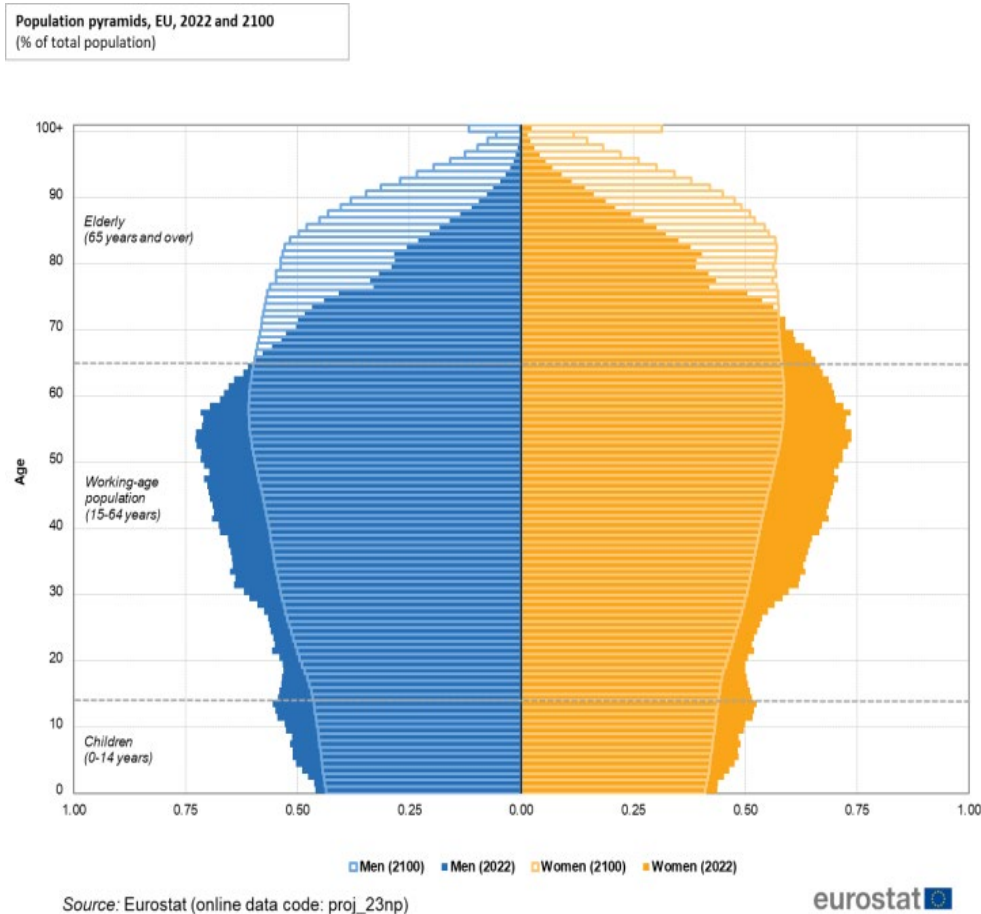


Population ageing in an era of labour shortages

**Session 3: Transforming labour markets for longevity:
Balancing participation, learning and equity**

Navigating the future: Challenges and opportunities of longevity in Europe
Brussels, Renaissance Hotel, 27 June 2024

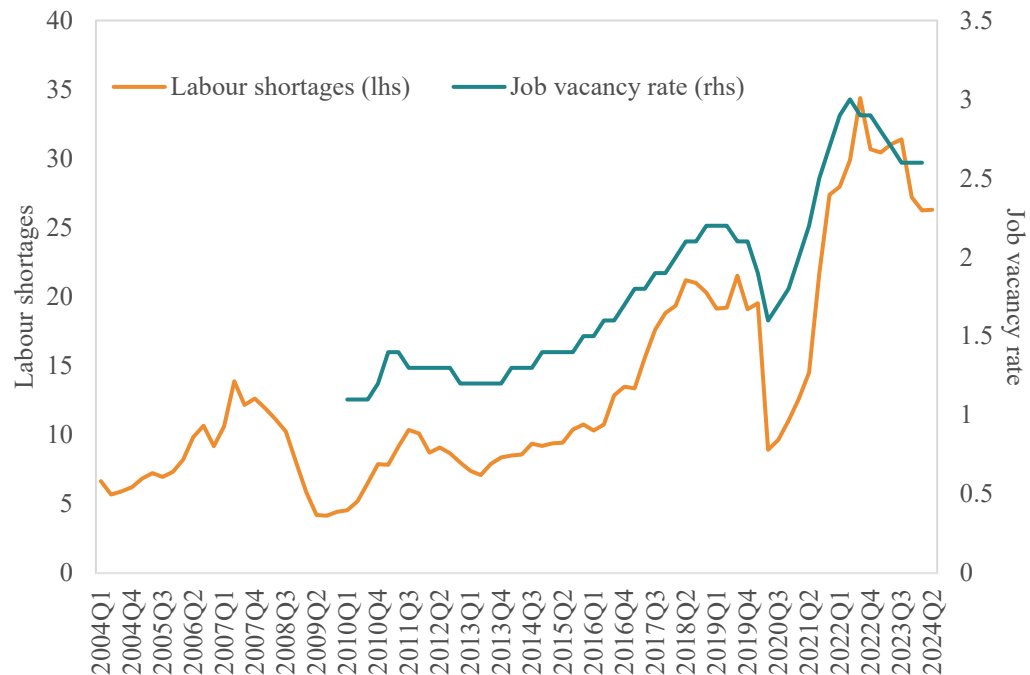
Motivation of the analysis



- Up to now, population ageing has mainly affected the structure of the workforce, but going forward it will also affect the size of the workforce
- This will have important fiscal implications, but also implications for the labour market which is already very tight.
- In this presentation, we look at the drivers of labour shortages so far and how labour shortages will be affected by ageing going forward

Labour shortages are high despite the economic slowdown

Share of companies reporting labour as a factor limiting production (labour shortages) and vacancy rate

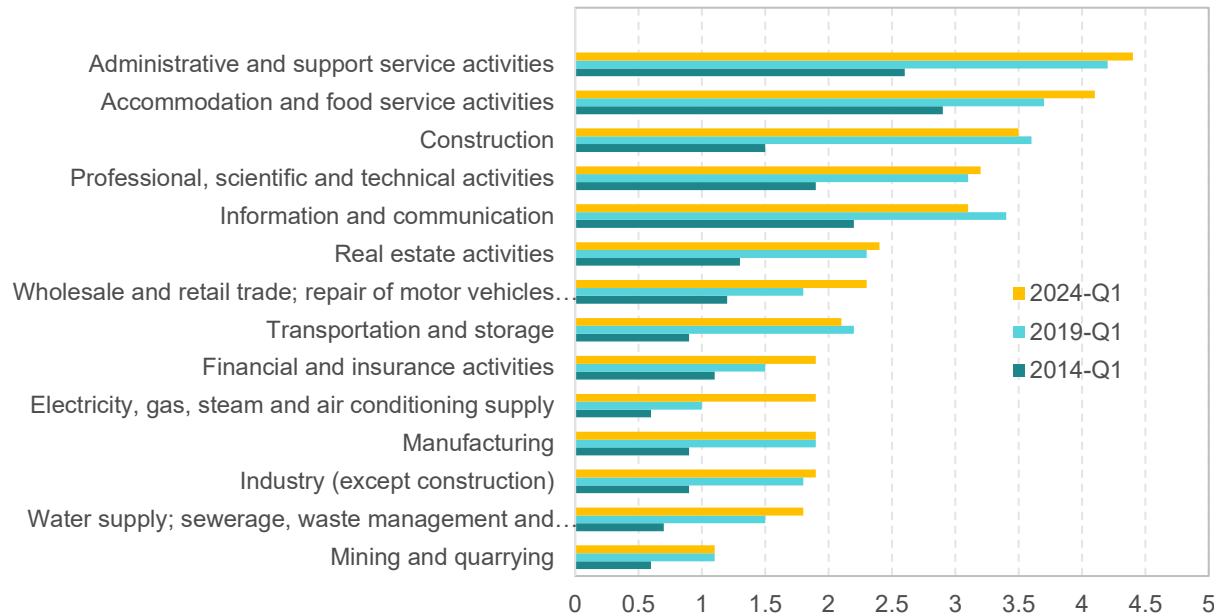


- Labour shortages increased strongly, only temporary interrupted by the COVID-19 crisis.
- Despite a slight decline, shortages remain close to their peak:
 - More than one out of four companies (26%) report labour as a factor limiting production
 - A similar picture is provided by the job vacancy rate, which is with 2.6% close to its record high level of 2.9% one year before

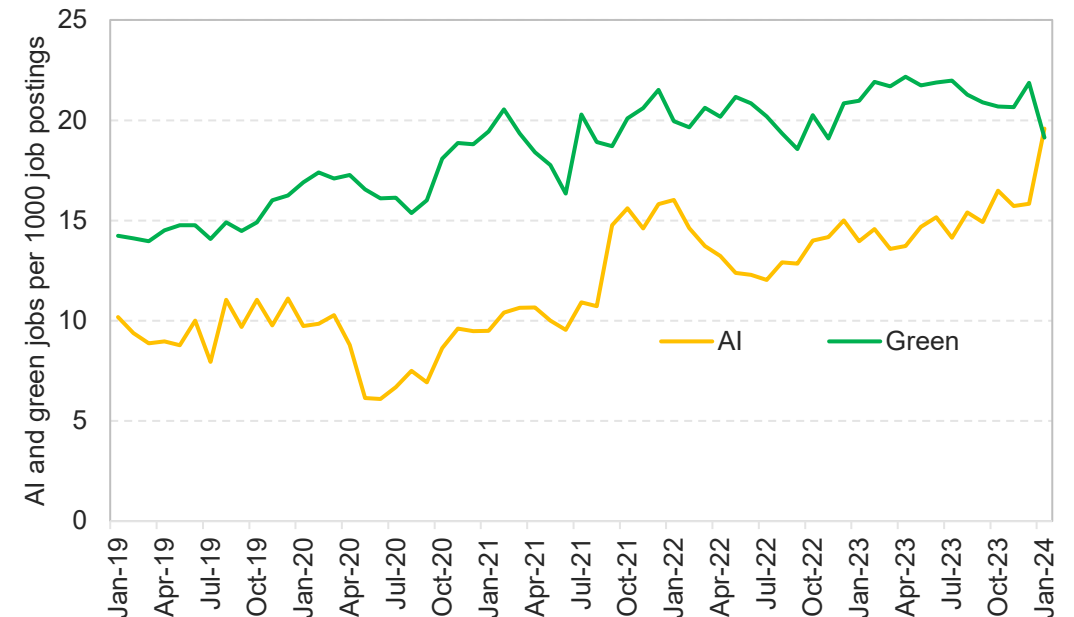
Source. European Business and Consumer Survey and Eurostat (Job Vacancy Survey).

Labour shortages are wide-spread

Vacancy rates are well above their pre-pandemic levels in almost all sectors,...



..., including in occupations important for the green and digital transition, which increased in relative importance.

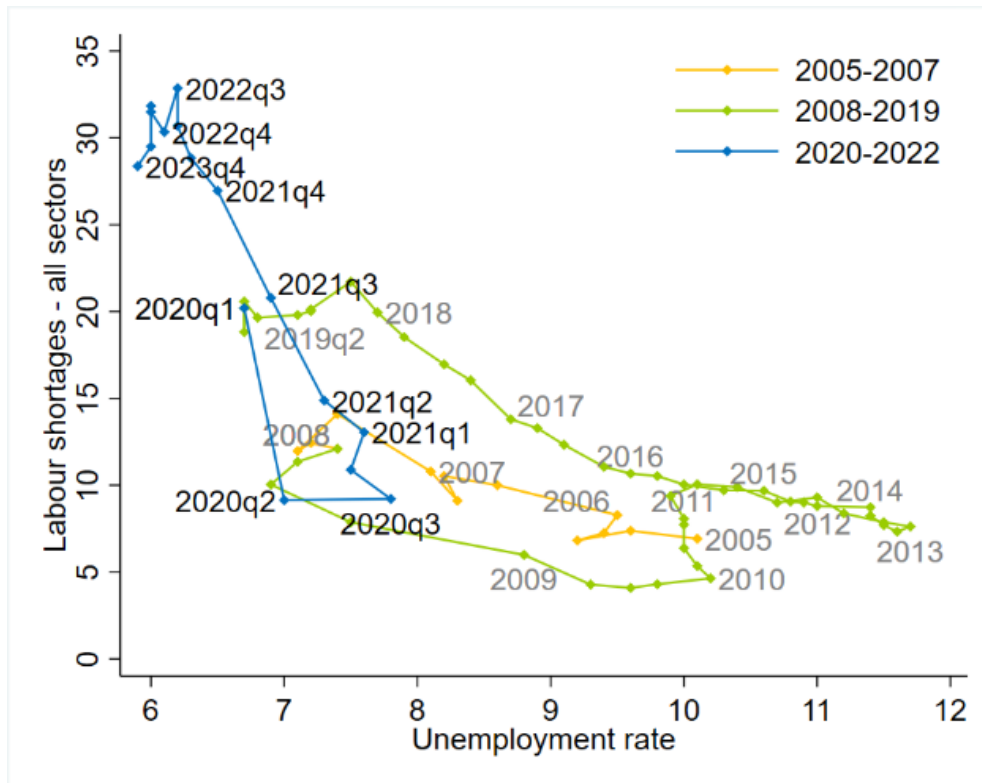


Source. Twin Transition Skills Dashboard (Breughel)

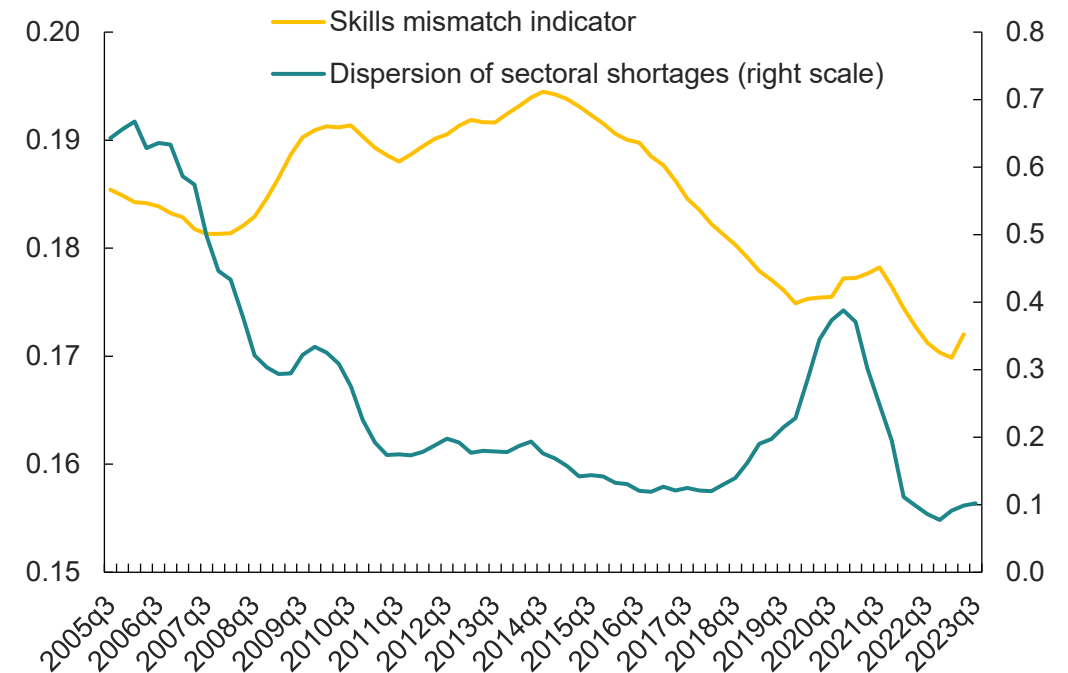
Source. Eurostat (Job Vacancy Survey).

Labour mismatches are not deteriorating.

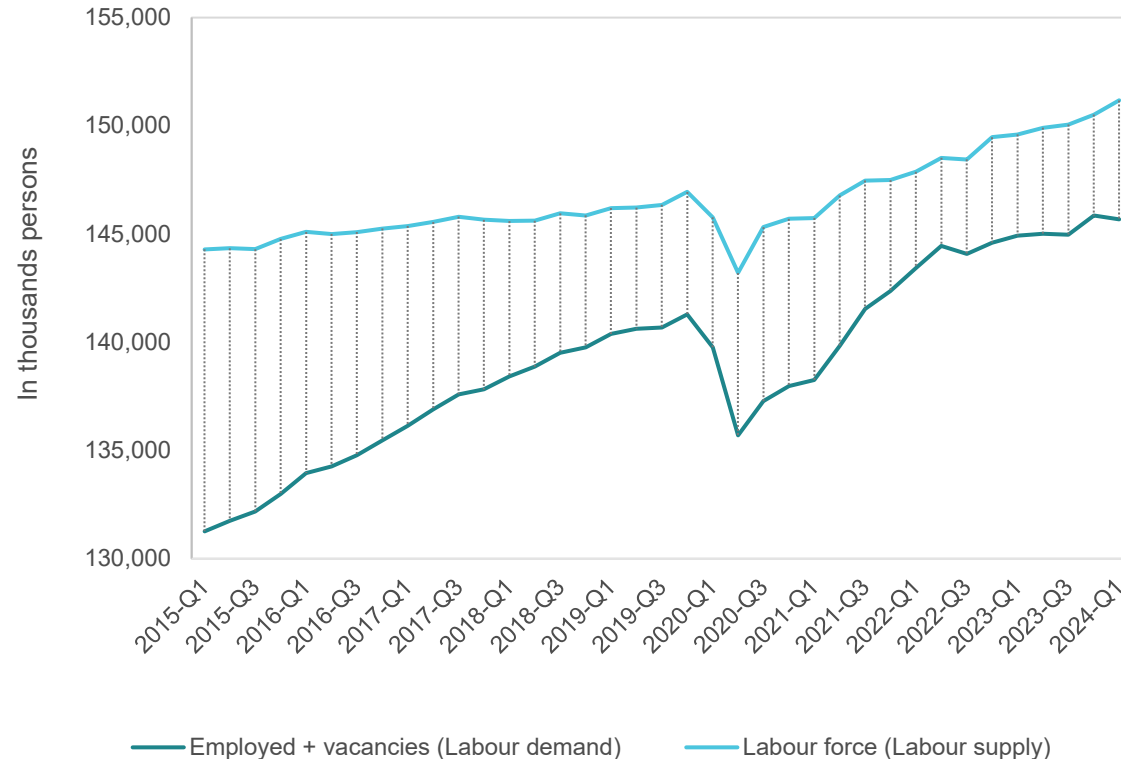
Beveridge curve



Skills and sectoral mismatches



Strong labour demand as a driver of shortages



- No decline in labour supply as observed in the US in the post-pandemic ('great resignation')
 - Number of people in the labour force exceeds the pre-pandemic level by more than 1%
- Strong growth of labour demand which is not matched by an equal growth in labour supply

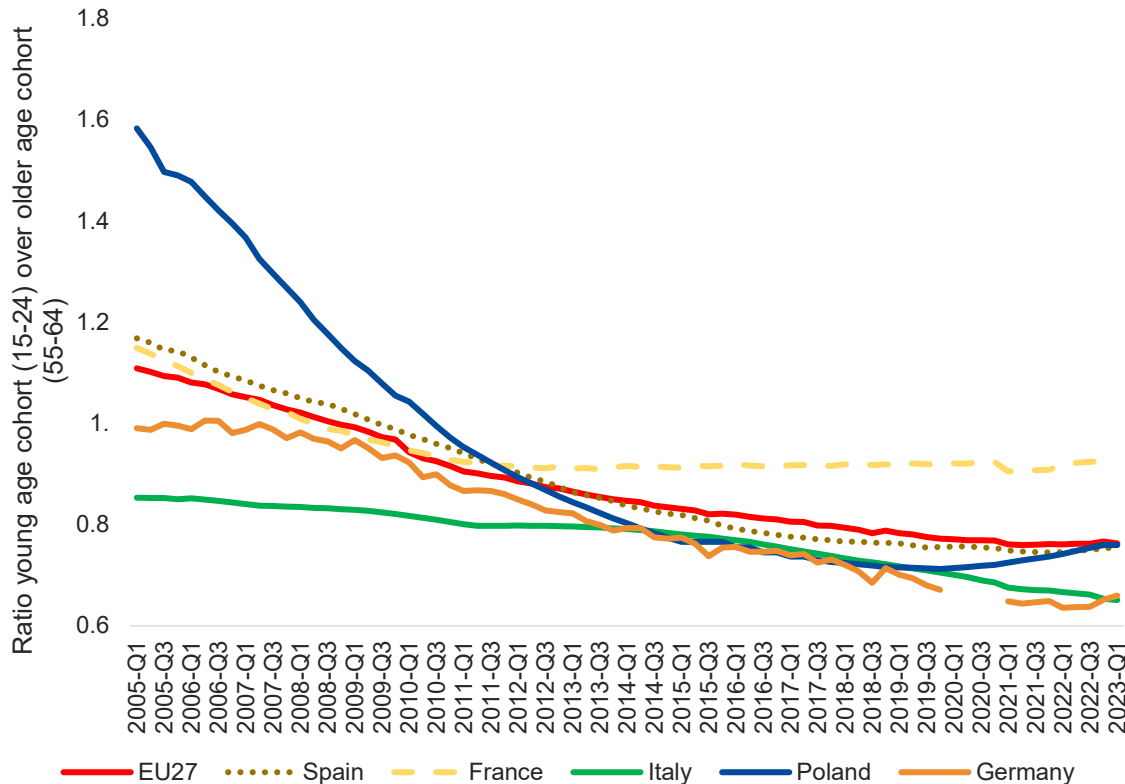
Note. Labour supply is proxied by all those active in the labour force (employed or unemployed). Labour demand is proxied by those in employed and the number of vacancies.

Source. Own calculations based LFS and JVS excluding DK, FR, IT and MT (due to data limitations)

Potential drivers of sustained labour demand

1. In real terms, labour became cheaper, while profit margins were high
2. Reluctancy of firms to fire workers as re-hiring is difficult in a context of tight labour markets
3. Impact of ageing of the work force: Medium-term need to restructure the skills portfolio as replacement needs are expected to be high in the coming years « reverse age pyramid in companies »)
4. Cheap posting of vacancies allows to look for the « white raven »

Ageing of the workforce



Source: European Commission based on Eurostat (Labour Force Survey).

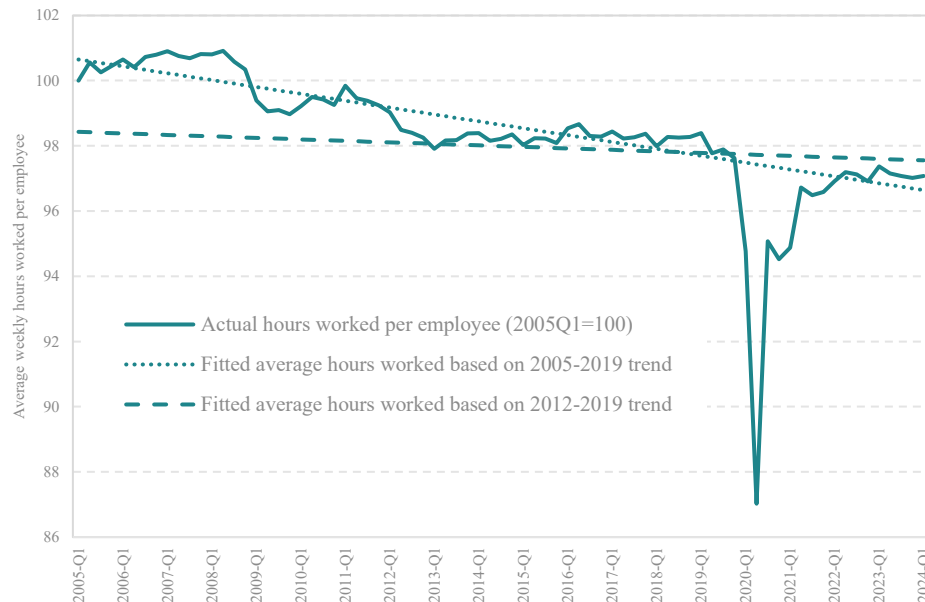
- Strong decline in the ratio of the young to old age cohort in almost all MS
- Companies are increasingly facing a reverse age pyramid in their workforce
- Prospect of high replacement demand in the near future may push up labour demand

Going forward labour supply factors are expected to play a more prominent role

- There is a temporary stagnation (or even decline) in labour shortages as demand drivers weaken, but they are expected to re-emerge quickly when the economic climate improves
- Supply factors are expected to play a more prominent role in shaping labour shortages going forward through various channels:
 - Changes in hours worked by employees
 - Changes in demographics – role of population ageing

Changing preferences for hours worked

Long-term decline in average hours worked per employee

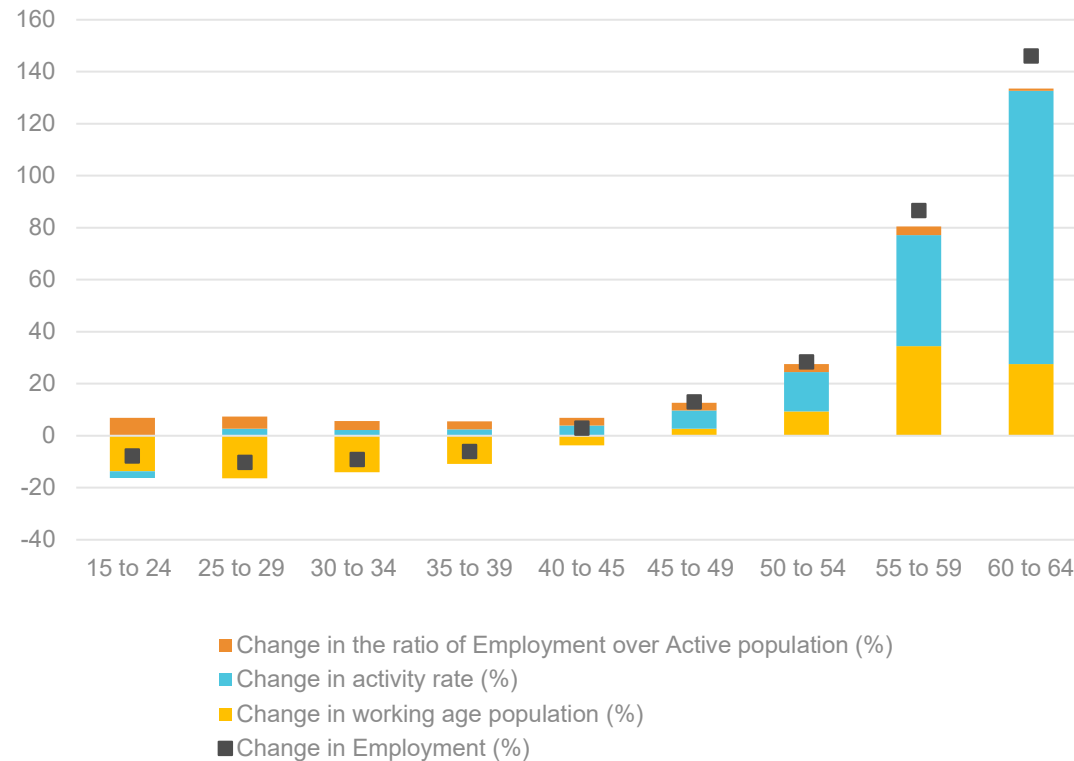


- Average hours worked per employee is on a declining trend
- Mainly driven by a decline in the hours worked by full-time employees
- Part-time workers are on average increasing their average hours worked
- Role of preferences

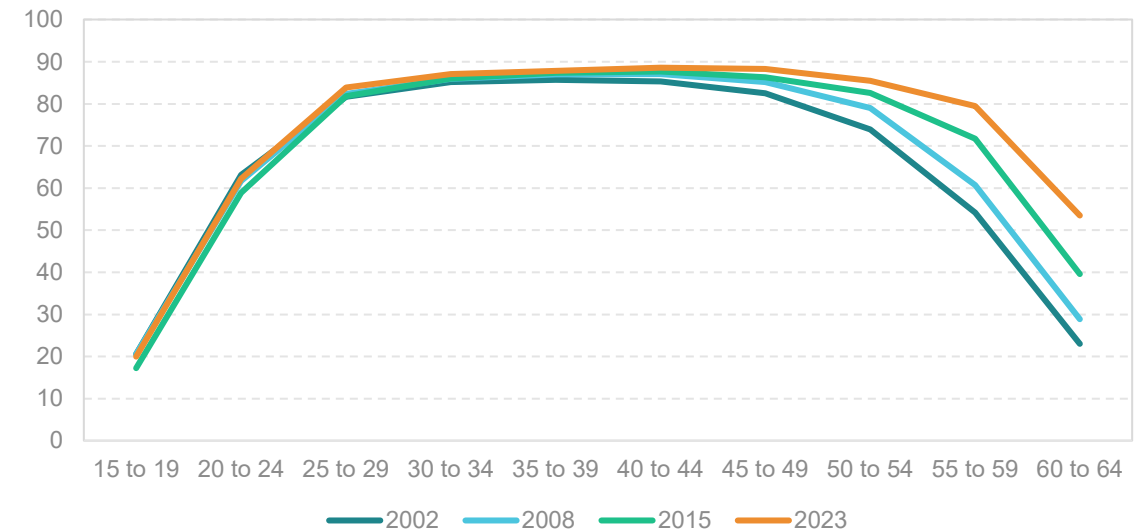
Source: European Commission based on Eurostat (National Accounts).

Employment growth was fuelled by increased participation of older age cohorts

Decomposition of employment growth (2002-2023)



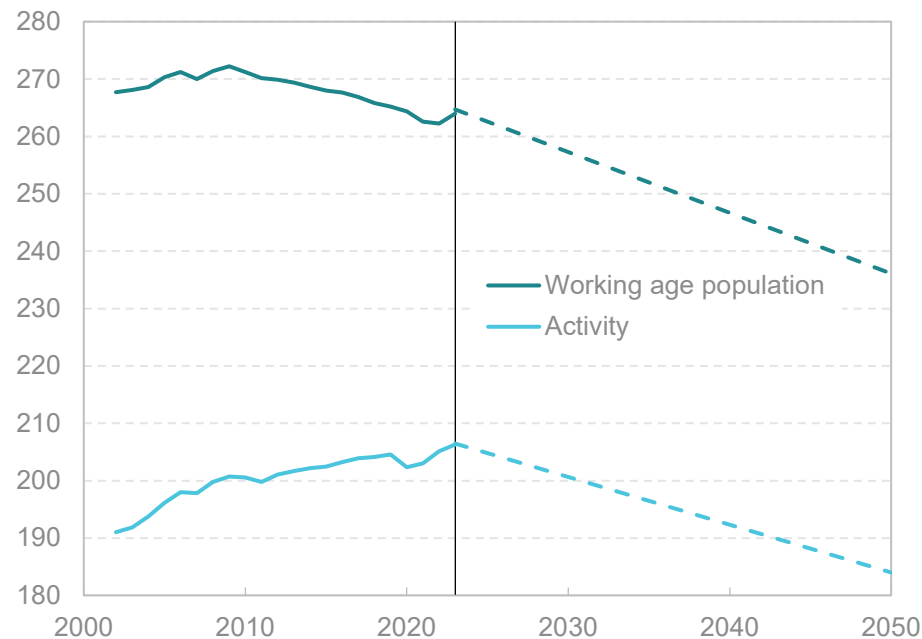
Activity rates by age brackets (2002-2023)



Source: European Commission based on Eurostat (Labour Force Survey).

Active population is expected to start declining

Population ageing



Note. To calculate the active population in 2023-2050, the activity rates of people across education and population groups are assumed to be constant.

Source: European Commission (2023). Employment and Social Developments in Europe. DG EMPL.

- So far, the decline in working-age population has been outbalanced by an increase in the activity rate, ensuring an increase in labour supply
- Turning point is close and the active population will soon decline as large older age cohorts start leaving the labour market

Implications for policies



Key to keep activity rates increasing despite ageing to maintain fiscal sustainability, including by

- Ensuring the adaption of skills supply to changing demand and easing labour reallocation
- Fostering labour supply, including by active inclusion, active ageing strategies and the provision of high-quality inclusive education

Thank you

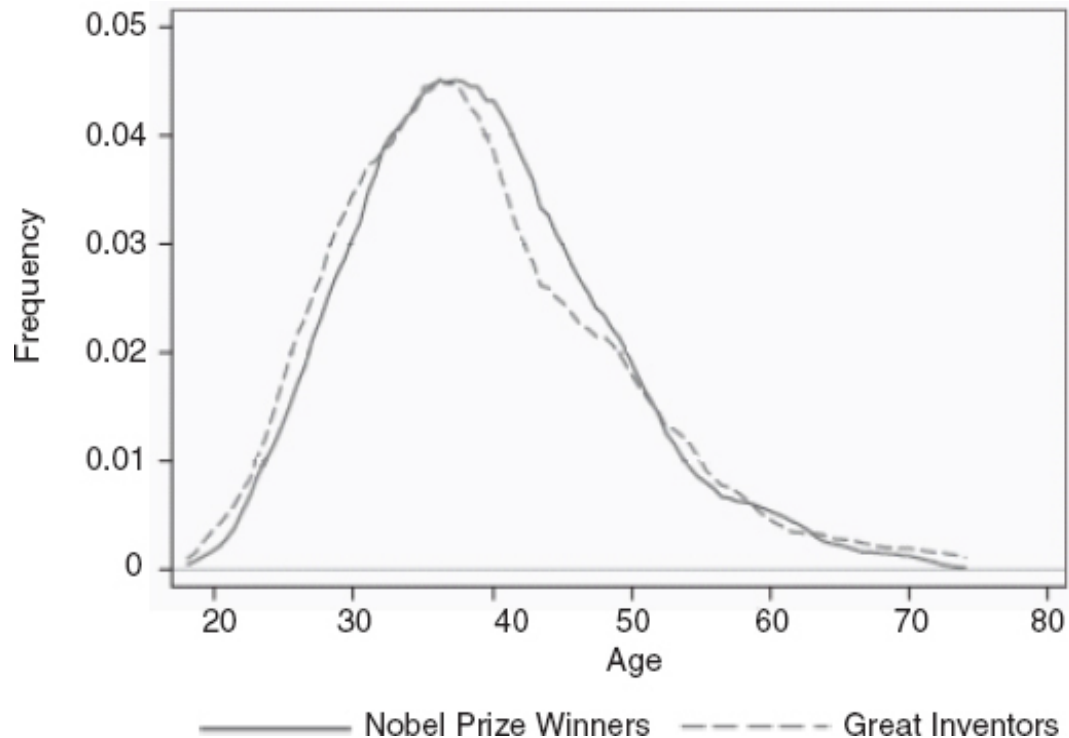


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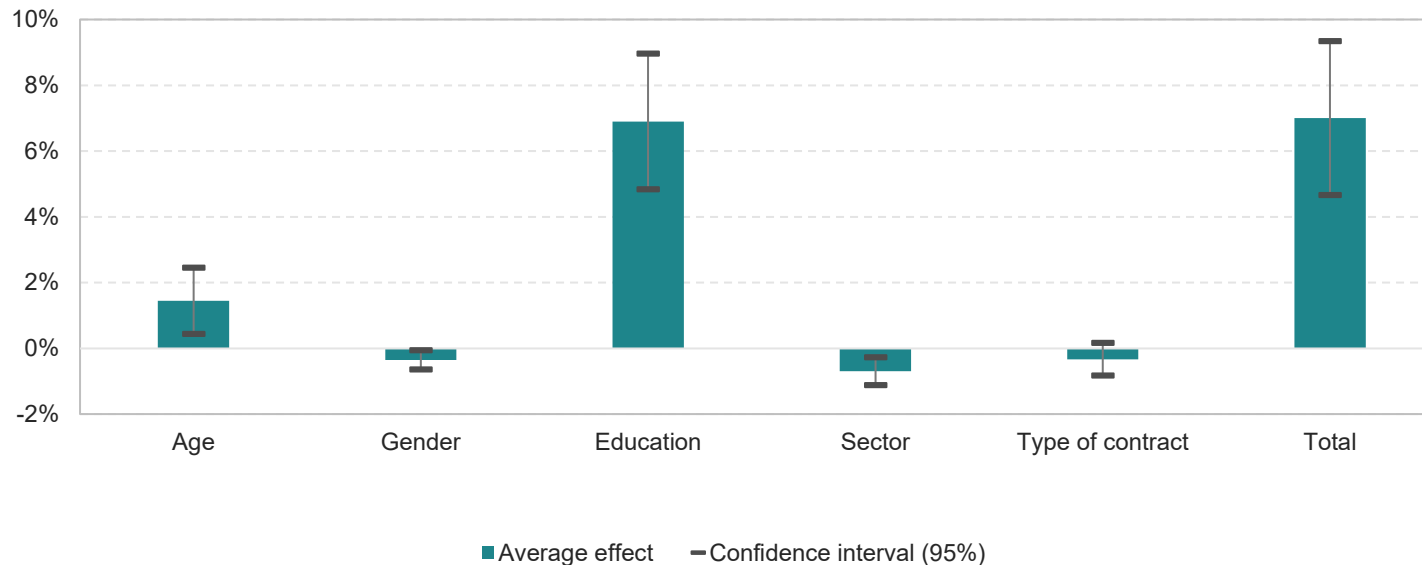
Impact of ageing on productivity



- Impact on individual productivity:
 - Past evidence suggests that there is a non-linear relation with peak-productivity around 40 years of age
 - Many confounding factors (e.g. education, type of employment, role of teams,...)
- Impact on innovation:
 - Past evidence suggests a distinct role of the early years (25-45 years)
 - Probably even more relevant in a rapid changing technological environment

Impact of ageing on wages

Decomposition of wage growth in the business economy, 2002-2018

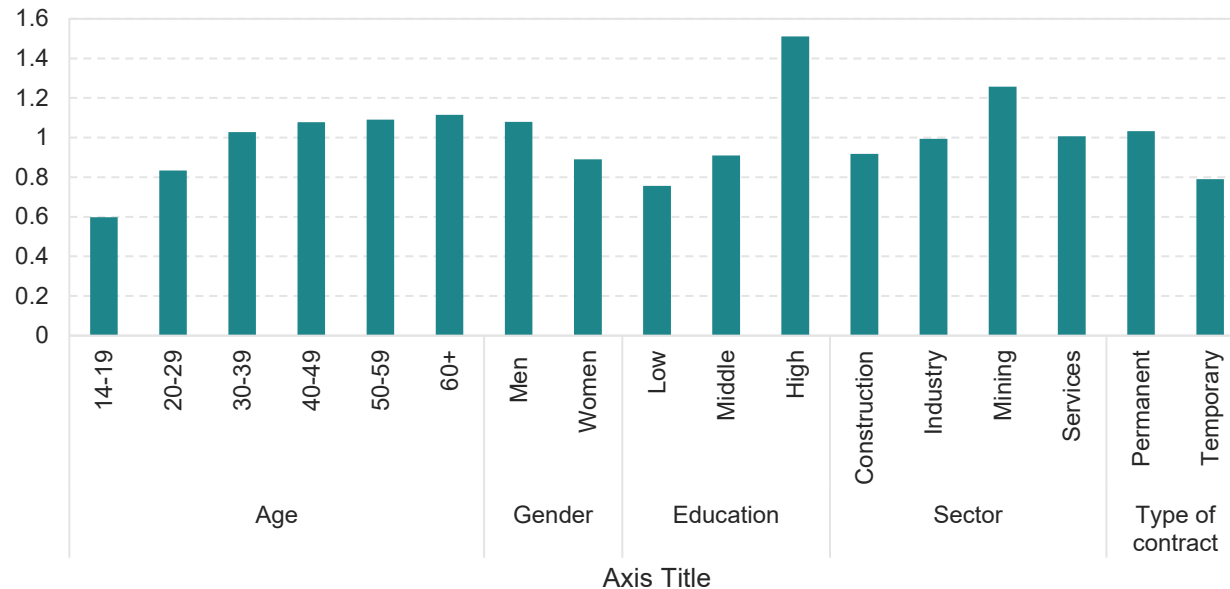


Note. The graph presents the average effects and confidence intervals across 20 EU Member States (Belgium, Bulgaria, Czechia, Estonia, Greece; Spain, France, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Netherlands, Poland, Portugal Romania, Slovakia, Finland and Sweden). The underlying member state specific data are based on a country-by-country pooled Oaxaca-Blinder decomposition, including age, gender, educational attainment, sector of employment and type of contract. The decomposition concerns wage growth in the business economy (nace B-N) and uses the coefficients from a pooled model over both groups as the reference coefficients. No data on the type of contract included for PL and SE. The decomposition includes 6 categories for the variable age (14-19, 20-29, 30-39, 40-49, 50-59, 60+), 2 categories for the variable gender (men and women), 3 categories for the variable educational attainment (ISCED 0-2, ISCED 3-4, ISCED 5+), 4 sectors for the variable sector (mining (B), industry (C-E), construction (F) and services (G-N)) and 2 categories for the variable type of contract (permanent and temporary/apprenticeship).

Source. European Commission calculations based on individual data from the 2002 and 2018 waves of the EU Structure of Earnings Survey (SES).

Impact of ageing on wages

Average wage by group as a ratio of the overall average wage



Note. The results are based on a restricted sample of 20 EU Member States, including Belgium, Bulgaria, Czechia, Estonia, Greece, Spain, France, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Netherlands, Poland, Portugal Romania, Slovakia, Finland and Sweden. It is an average across Member States based on a country-by-country ratio between the wage for a specific group of employees and the average wage, averaged over 2002 and 2018. No data on the type of contract included for PL and SE.

Source. European Commission calculations based on individual data from the 2002 and 2018 waves of the EU Structure of Earnings Survey (SES).