Competitiveness

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What role for competitiveness?

• Distinguish:
  – Competition and competitiveness
  – Euro Area Macroeconomics
  – Sectoral and regional dynamics

• Cost competitiveness is the attempt to attract investment to a region at the expense of others

• Other dimensions: market share
  – Specialising on dynamic markets
  – Specialising on attractive products
Cost competitiveness

- ULC dynamics
- CER Competitiveness Index
The CER Competitiveness Index

- What is the equilibrium level of ULC?
- The best overall measure for competitiveness: the return on capital (RoC)
- The CER Competitiveness index measures the level of unit labour costs (ULC) relative to the equilibrium position where a country’s RoC is equal to the Euro Area average
CER Competitiveness Index
France and Germany

France
Germany
The drivers of ULC

Germany:
- Wages < productivity under Schröder, but not since Lehman
- Wedge effect is minor
- Avg hours worked increased more D>F

France
- Nominal wage increases
  Higher before crisis
  Falling since crisis

Potential LP
- Falling in F and D
- Before crisis: D>F
- Since crisis: F>D
Greece:

Before 2008:
CCI improvement due to high ACE
ULC are dominated by wages
- Potential HLP

After 2008:
- Nominal wage drop
- Negative ACE
- Negative cyclical HLP
Southern crisis countries (except Greece) saw ACE fall.

In Germany persistent improvement
What drives sectoral ULC changes?

- **Services** are losing competitiveness everywhere
  - Germany managed to improve productivity

- **Manufacturing** is improving its profitability

- Germany is able to compensate losses in services by gains in manufacturing
  - Germany’s competitiveness gains are due to falling ULC and increasing capital productivity (ACE) in manufacturing
  - Italy and Spain it is the opposite
  - France is in between with more volatile ACE
Market share in intra-EU trade

- Product effect
- Market effect
- Supply side effects
Competitiveness measured by market shares: 1999-2013

Gain/Loss of Market Share in % of MS GDP of 1999

-7%
+1.2%