Labour Market Developments in Europe, 2015

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The labour market recovery has gained strength

Unemployment dropping in spite of

- modest recovery
- subdued capital spending
- Ongoing rebalancing of external positions within the euro-area

Unemployment divergences falling, but still high

Comprehensive reforms implemented, in particular in vulnerable countries
Theme and takeaways

• The labour market recovery has gained strength

• Unemployment dropping amidst modest recovery, subdued capital spending
  • Drop Job destruction rates → improved confidence → dynamic private consumption
  • Job finding rates only modestly improved → LTU
  • Beveridge curve shifted outward but not all LTU reflects persistent matching
  • Supportive wage and real unit labour costs developments

• Ongoing rebalancing of external positions within the euro-area
  • Nominal ULC developments
  • Structural reforms
  • Also relevant for duality

• Comprehensive reforms implemented, in particular in vulnerable countries
  • Important to use the full scope for adjustment introduced with the reform
  • Tackle the social implications of the crisis
Improved expectations at the basis of drop in dismissal rates

In April 2015 unemployment expectations

- back to pre-crisis average in 11 countries
- better than before the crisis in a large number of countries
Less easy to find a job, especially for the long-term unemployed

Job finding rates remain depressed, notably for the long-term unemployed
Movements of Beveridge curve due to

- Major demand shocks
- deterioration of matching efficiency linked to high incidence of long-term unemployment and increased skill mismatch

Job vacancies approximated by a survey based indicator of labour shortages in industry

Source: Labour Market and Wage Developments in Europe 2015 Report (European Commission, DG EMPL)
Unemployment divergences fall but remain high

Unemployment divergences

- high, in correspondence with increases in unemployment in countries where the crisis was coupled with unwinding of internal and external imbalances and fiscal solvency is at stake.

- Decline with recovery gaining momentum, form high levels

- unemployment rates are persistent, and unemployment is becoming increasingly of a structural nature.
Continued wage moderation, “flattening Phillips curve”

Phillips curve of the EA 2000-2012: growth rate of compensation per employee

- Wage dynamics has slowed down substantially after the crisis
- Growth in nominal compensation per employee remain moderate, “Phillips curve flattening”
Unit labour costs falling more where unemployment is high...

Real unit labour cost growth in 2012 and unemployment

Real unit labour cost growth in 2013 and unemployment
...and where current accounts are in deficit (but not in surplus)

REERs based on ULC, y-o-y % change, and current account balance, 2008-2015
Compensation per employee dynamics consistent with rebalancing

Sectoral pattern helps reallocating employment towards the tradable sector in deficit countries
Reforms stance in wage setting, euro area countries

Difference between actual and benchmark wage growth and reform stance in the wage setting domain, euro-area countries

Reforms of wage setting are associated with wage adjustment
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  - Supportive wage and real unit labour costs developments

- **Ongoing rebalancing of external positions within the euro-area**
  - Nominal ULC developments
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- Comprehensive reforms implemented, in particular in vulnerable countries
  - Important to use the full scope for adjustment introduced with the reform
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Since 2011 ULC dynamics support rebalancing in the euro area, notwithstanding sluggish growth of compensation in low unemployment countries.
Theme and takeaways

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- Unemployment dropping amidst modest recovery, subdued capital spending
  - Drop Job destruction rates $\rightarrow$ dynamic private consumption
  - Job finding rates only modestly improved $\rightarrow$ LTU
  - Beveridge curve shifted outward but not all LTU reflects persistent matching
  - Supportive wage and real unit labour costs developments
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- **Major reforms triggered by the crisis, in particular in vulnerable countries**
  - Common reform pattern: 1) cushioning the impact of the crisis, 2) improving adjustment,
    3) tackling the social implications of the crisis
  - To keep reform momentum and use the full scope for adjustment already introduced
Evolving reforms strategies

• **2008-2009: cushion the impact of the crisis**
  - Strengthened short-time working schemes (permanent)
  - Increased coverage and level of benefits
  - Targeted labour costs reductions (temporary)
  - PES more effective for wider number of jobseeker

• **2010-2012: fiscal constraints, macro-imbalances and enhancing adjustment capacity**
  - EPL: tackle duality and enhance reallocation, reducing uncertainty of dismissals procedure for open-ended contracts
  - Wage setting: enhance adjustment of relative wages and promote wage renegotiation
  - Unemployment benefits: stronger focus on activation (job search availability and extended coverage)
Evolving reforms strategies

• From 2013: tackling the social implications of the crisis
  • ALMPs: employment subsidies, training, customized offers and counselling) → LTU, low-skilled, youth
  • PES: improved job-seekers profiling and targeting of job search assistance
  • Vocational training and recognition of on-the-job-training
  • Improved social safety net: streamline and broaden coverage (permanent)
  • Tax wedge cuts (permanent but timid)
  • Wage setting frameworks:
    - New mechanisms to set MW
    - Measures to ensure alignment wages to productivity and encourage more rapid renewal of expired contracts
Reform stance in social assistance 2008-2013

Reforms improving the generosity of social assistance less frequent in countries with a sharper deterioration of social situation

(perhaps owing to tight fiscal constraint)
Thank you for your attention