

Why is productivity in Europe still struggling?

Insights from the EU KLEMS 2017 Release

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The issues

1. Labour productivity - the global view
2. How did the post-crisis productivity dynamics play out at the sector level?
3. How does Europe compare to the US?
4. Productivity paradox of the New Digital Economy

Main elements of the EU KLEMS 2017 release

- EU KLEMS Productivity and Growth Accounts on industry level available at: euklems.net
- Growth accounts: decomposition of value added, value added per hour worked, value added per person employed, and gross output (US only)
- Coverage:
 - ✓ 34 industries, 8 aggregates
 - ✓ all EU-28 economies, several EU-aggregates, and the United States
- Switch to new European System of National Accounts (ESA 2010) in accordance with the latest industry classification (ISIC Rev. 4/NACE Rev 2)

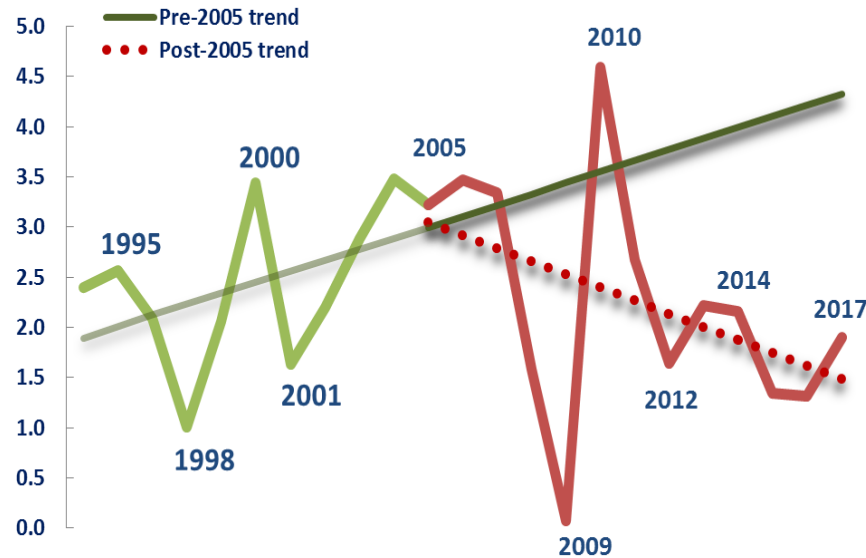
Updated and revised EU KLEMS dataset to be released in summer 2019

The broader picture

The 2017 revival in global productivity growth has not (yet) moved the needle on the slowing trend for more than a decade

Global growth in labor productivity is well below the long-term trend

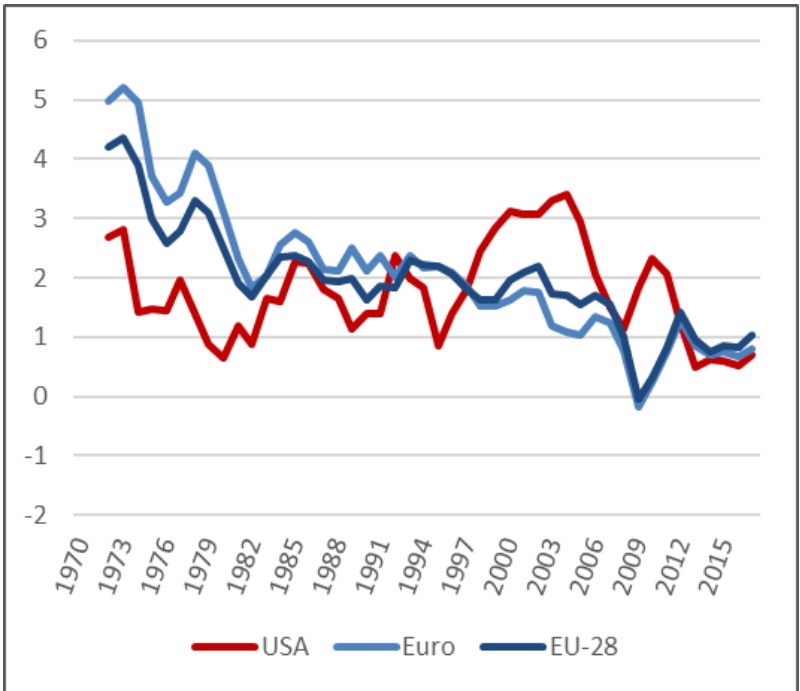
Global GDP per person employed, annual and trend, 1995-2017, %



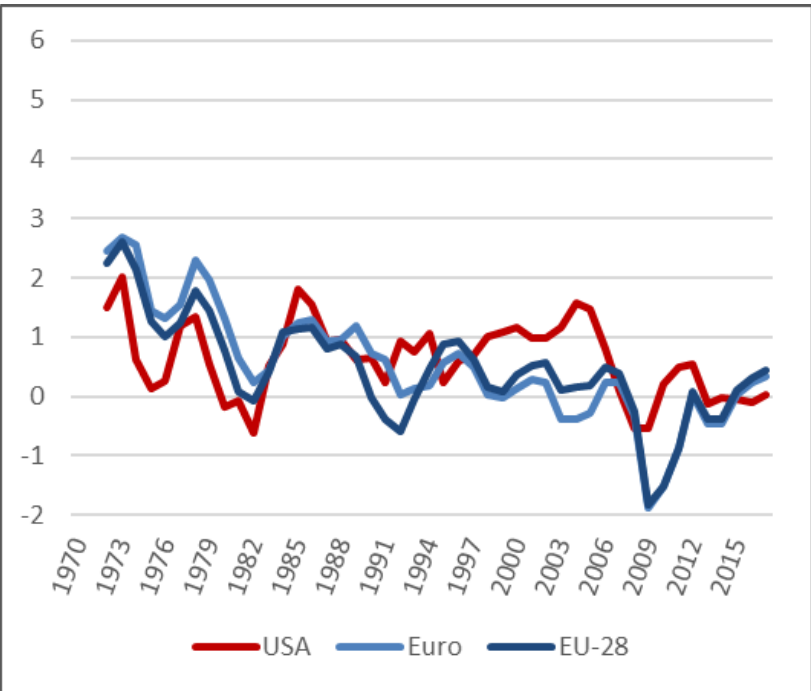
Source: The Conference Board, Total Economy Database

Compared to US, Europe’s productivity performance has even been slightly better recently

Output per hour worked, US, Euro-19, EU-28, 3-year average growth rate



Total Factor Productivity Growth, US, Euro-19, EU-28, 3-year average growth rate



Source: The Conference Board, Total Economy Database

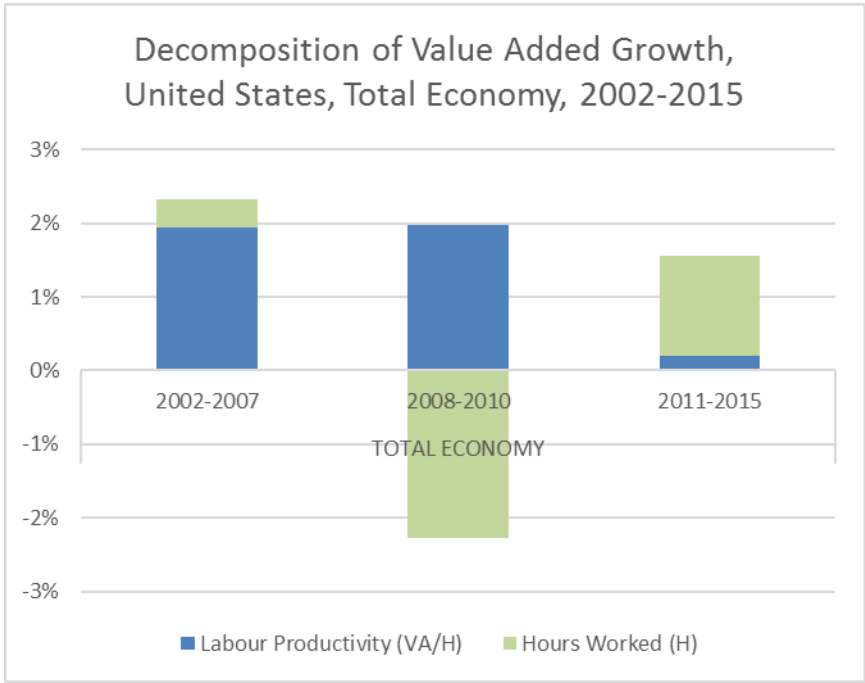
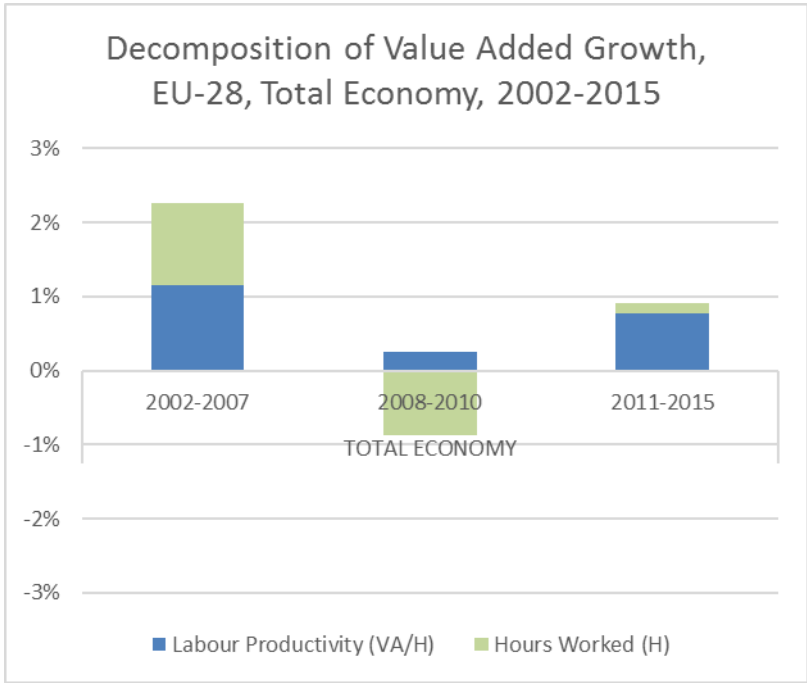
EU productivity growth is barely on the path of recovery

- The declining rate of productivity growth has bottomed out in most European countries in recent years, but growth rates have not recovered to pre-crisis levels
- Most of the recent productivity growth increase was driven by GDP growth while the recovery of working hours has continued to lag
- Productivity recovery is still far from homogenous across Europe
- Technology and innovation have not translated themselves rapidly enough into faster business productivity growth

How did the post-crisis productivity dynamics play out at the sector level?

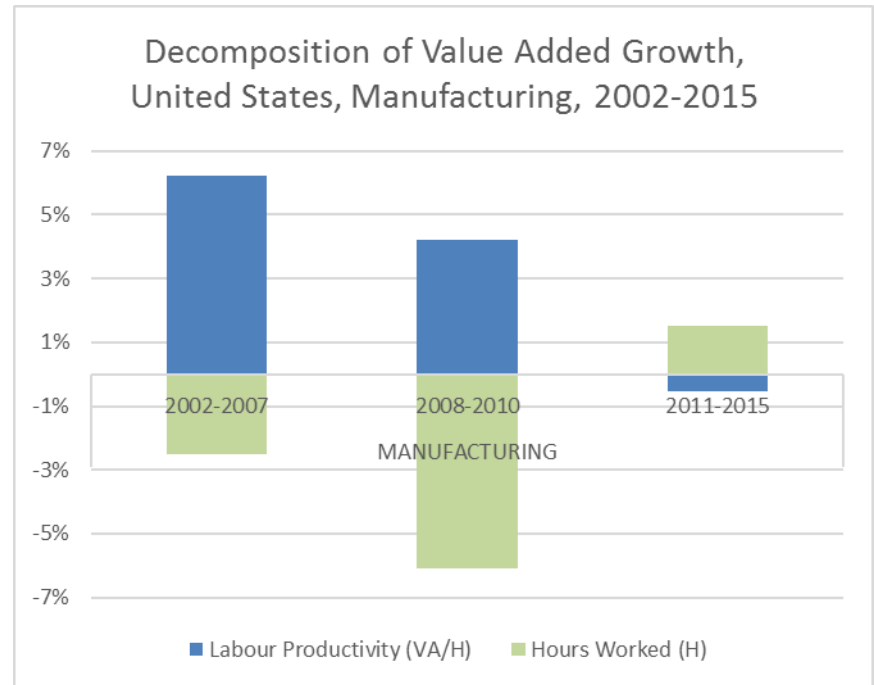
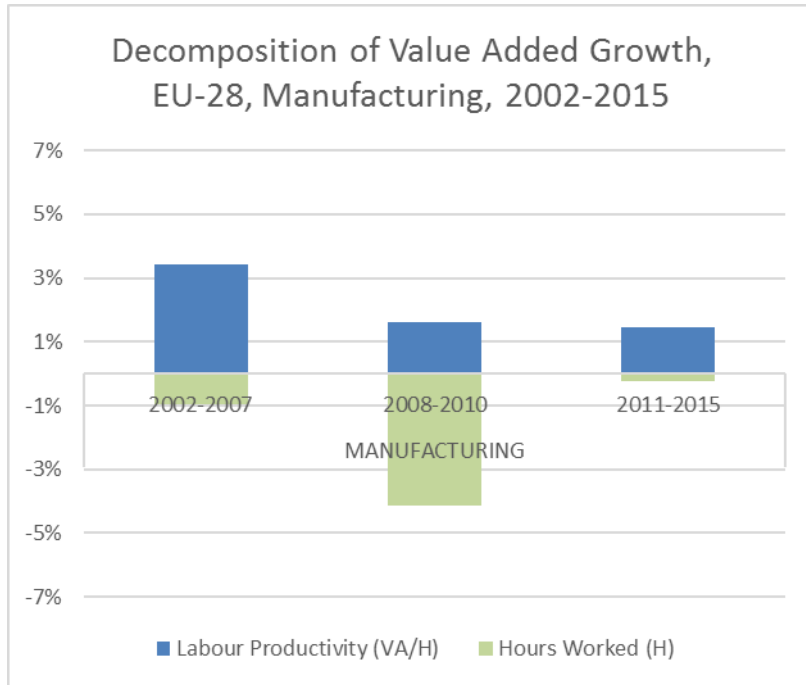
How does Europe compare to the US

Productivity has been a larger driver of US growth until 2011 after which Europe recovered remarkably



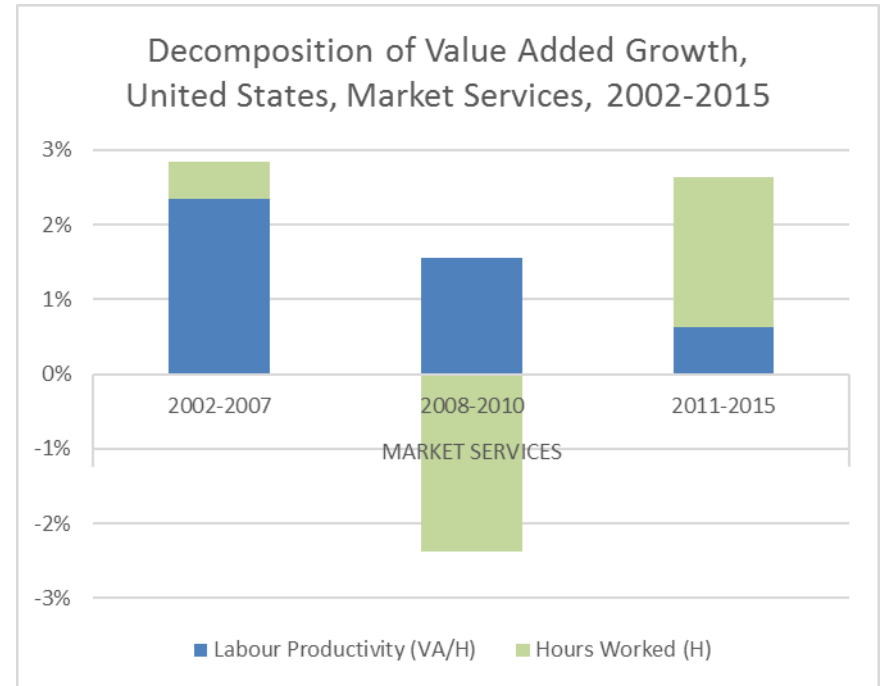
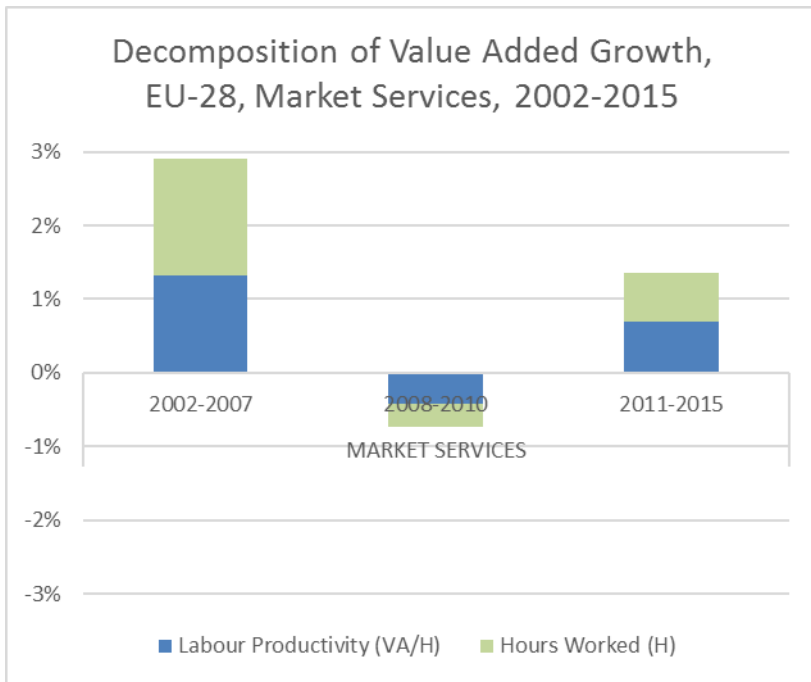
Note: Total Economy indexes excluding sections T (Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use) and U (Activities of extraterritorial organizations and bodies)
 Source: EU KLEMS, The Conference Board, September 2017

The manufacturing productivity decline in the US has been dramatic relative to the EU recently



Source: EU KLEMS, The Conference Board, September 2017

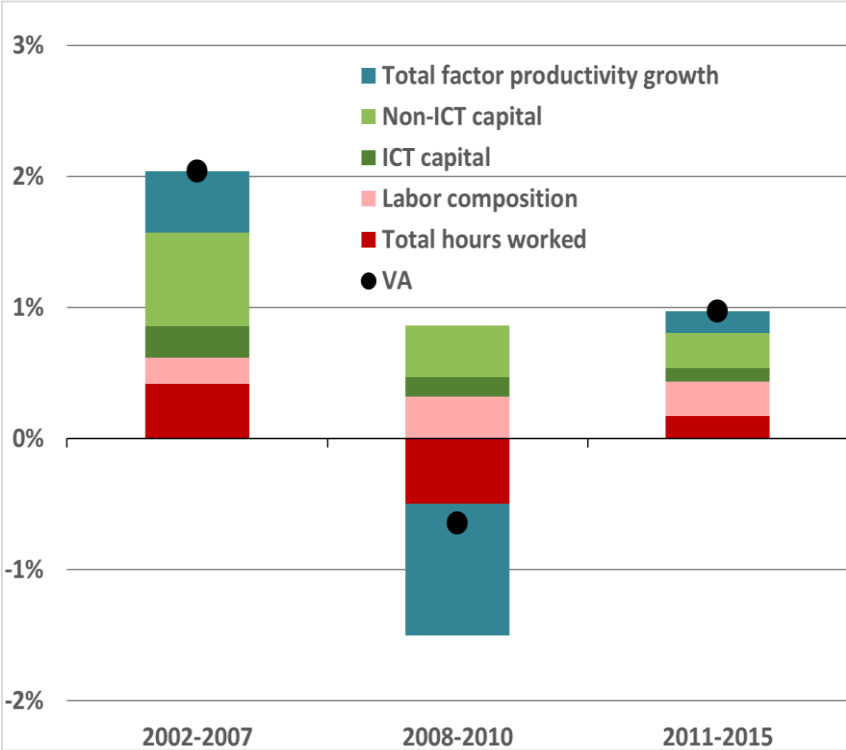
Services sector revival in Europe more balanced in terms of productivity and employment growth



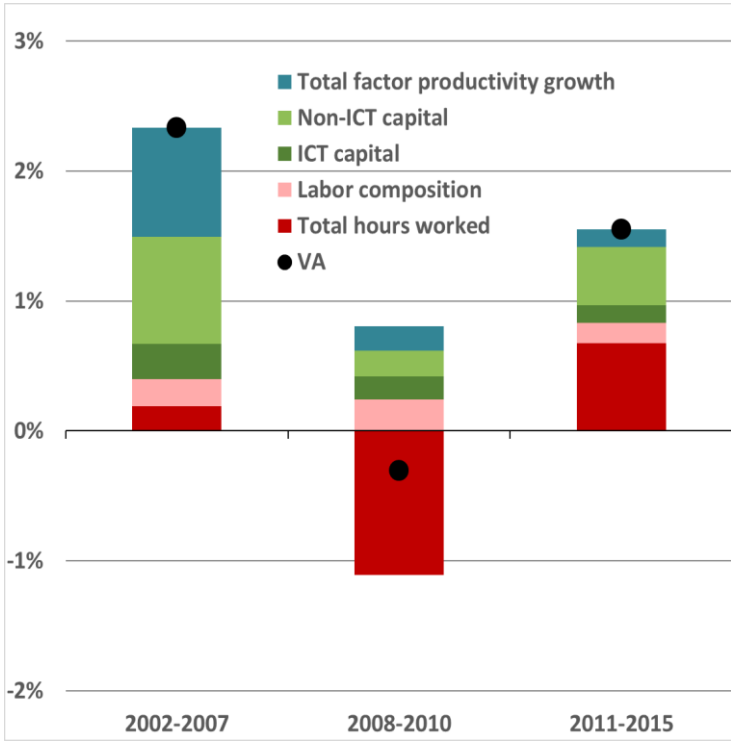
Note: Market services exclude the entire health care, education and government sectors of the economy.
 Source: EU KLEMS, The Conference Board, September 2017

The main difference between EU12 and US recovery is that the latter is more employment driven

Contribution of Labor, Capital, and TFP to Value Added Growth
Total Economy, EU-12, 2002-2015



Contribution of Labor, Capital, and TFP to Value Added Growth
Total Economy, United States, 2002-2015

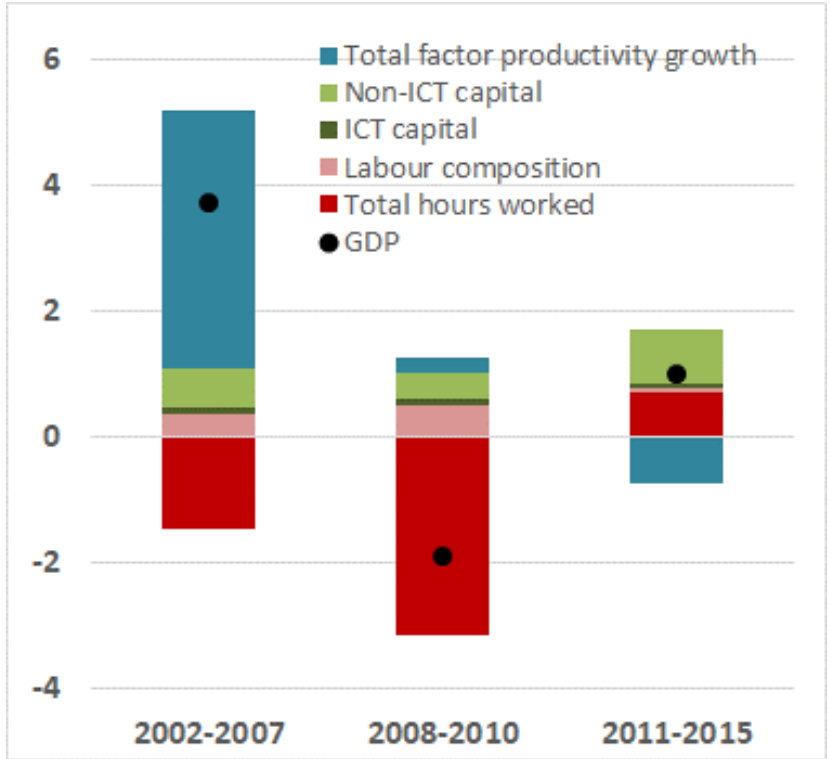
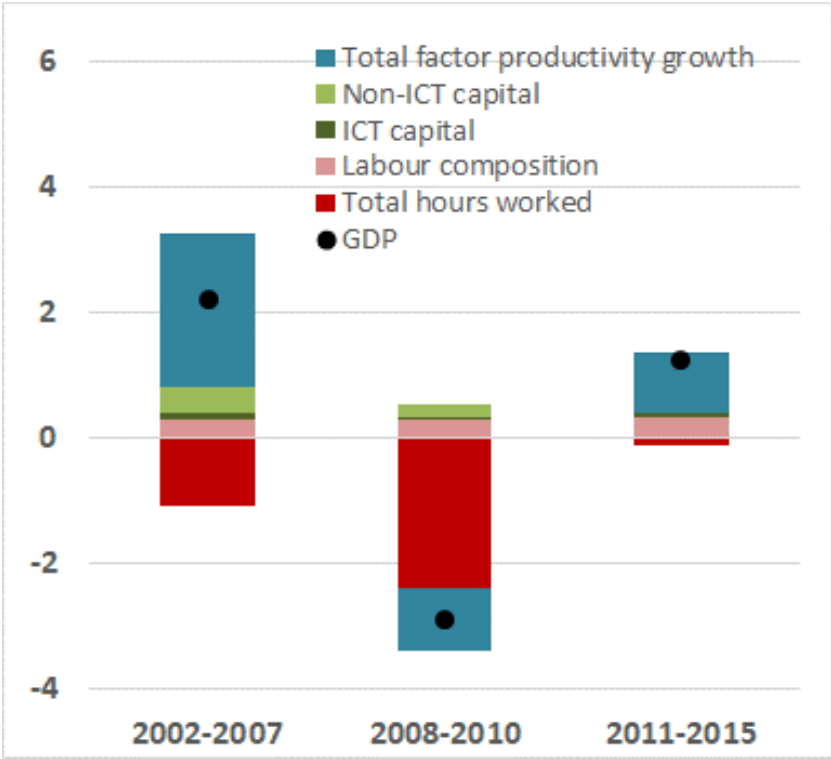


Note: EU-12 includes AT, BE, CZ, DK, FI, FR, DE, IT, NL, ES, SE, and UK.
Source: EU KLEMS, The Conference Board, September 2017

Manufacturing TFP growth recently in favor of Europe but no job creation

Contribution of Labor, Capital, and TFP to Value Added Growth Manufacturing, EU-12*, 2002-2015

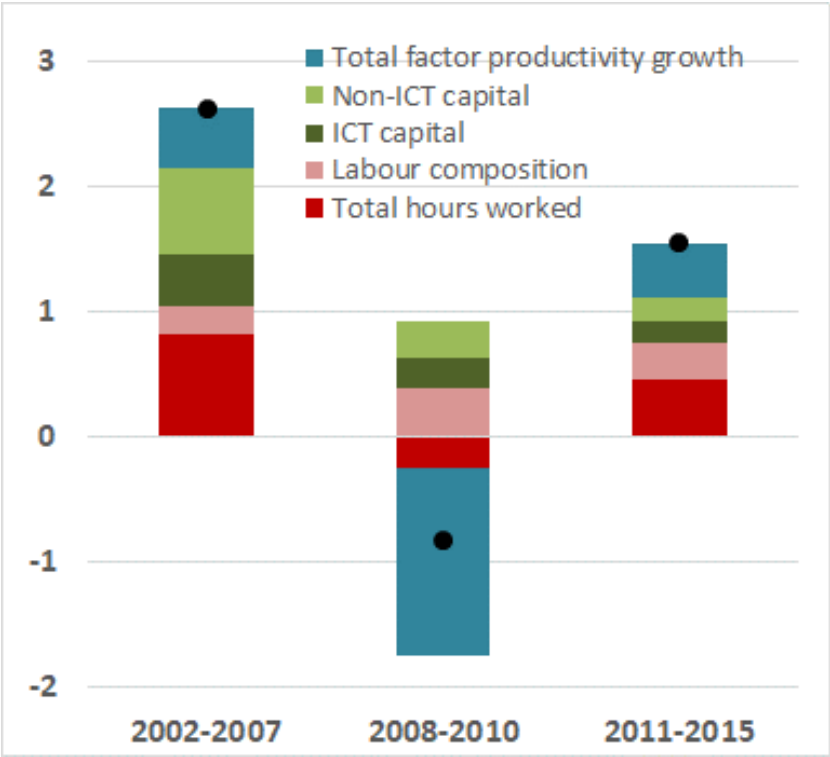
Contribution of Labor, Capital, and TFP to Value Added Growth Manufacturing, United States, 2002-2015



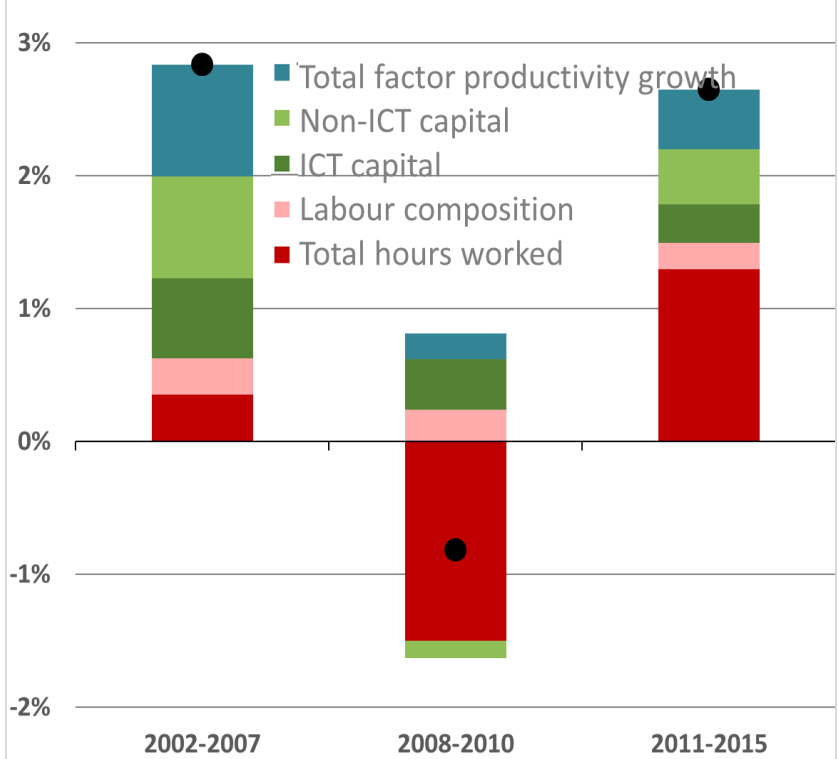
Note: EU-12 includes AT, BE, CZ, DK, FI, FR, DE, IT, NL, ES, SE, and UK.
 Source: EU KLEMS, The Conference Board, September 2017 (www.euklems.net)

Market services TFP growth more comparable between EU and US 2011-2015

Contribution of Labor, Capital, and TFP to Value Added Growth
Market Services, EU-12*, 2002-2015



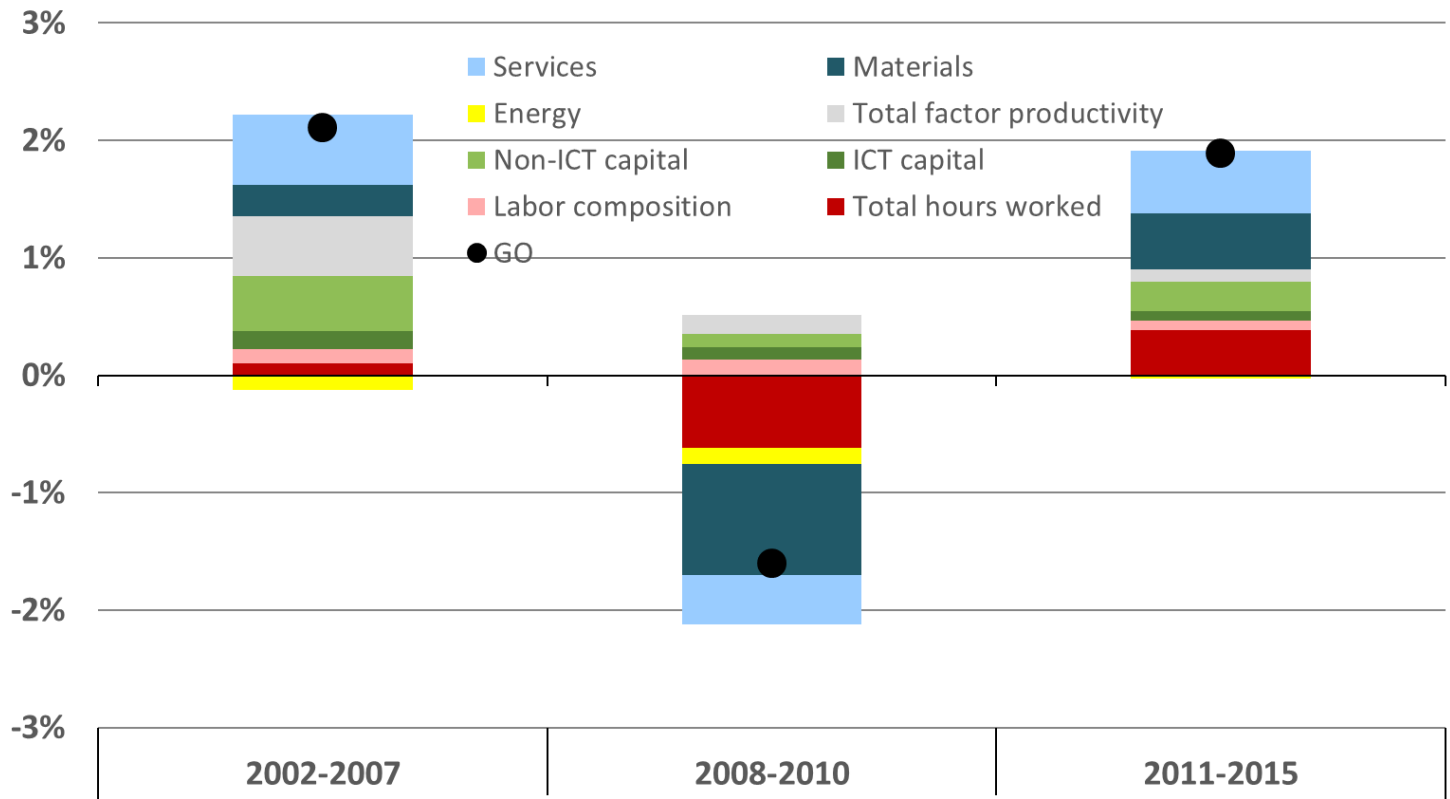
Contribution of Labor, Capital, and TFP to Value Added Growth
Market Services, United States, 2002-2015



Note: EU-12 includes AT, BE, CZ, DK, FI, FR, DE, IT, NL, ES, SE, and UK.
Source: EU KLEMS, The Conference Board, September 2017 (www.euklems.net)

Full growth accounting approach for the United States

Contribution of Labor, Capital, Intermediate Inputs, and TFP to Gross Output Growth, Total Economy, United States, 2002-2015



Source: EU KLEMS, The Conference Board, September 2017 (www.euklems.net)

Productivity paradox of the New Digital Economy

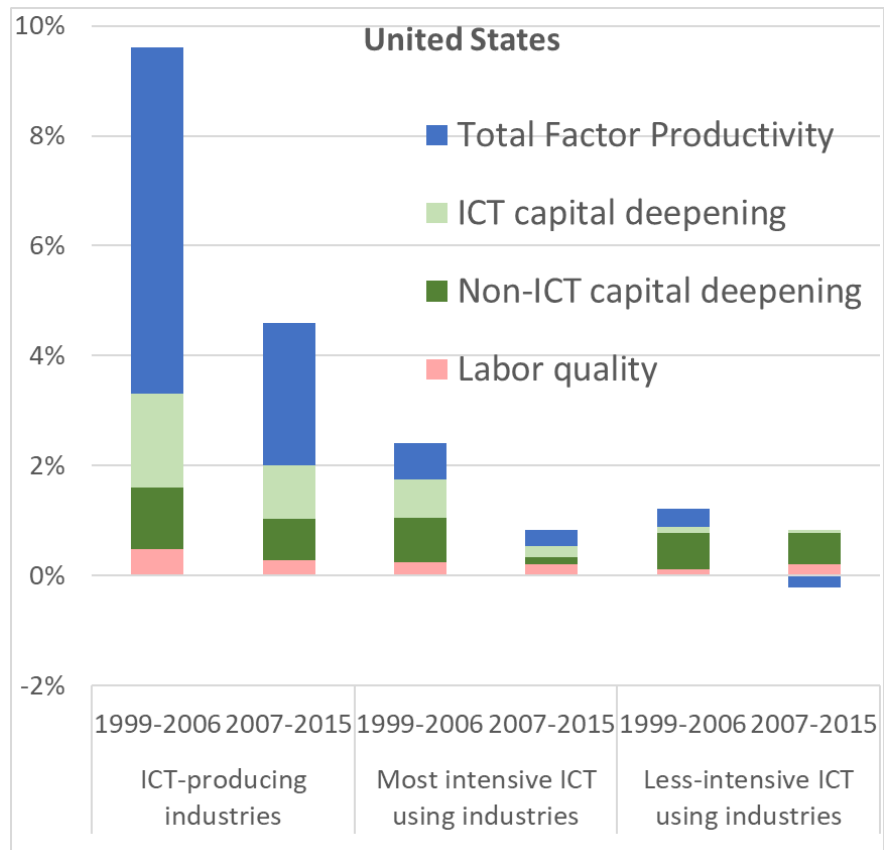
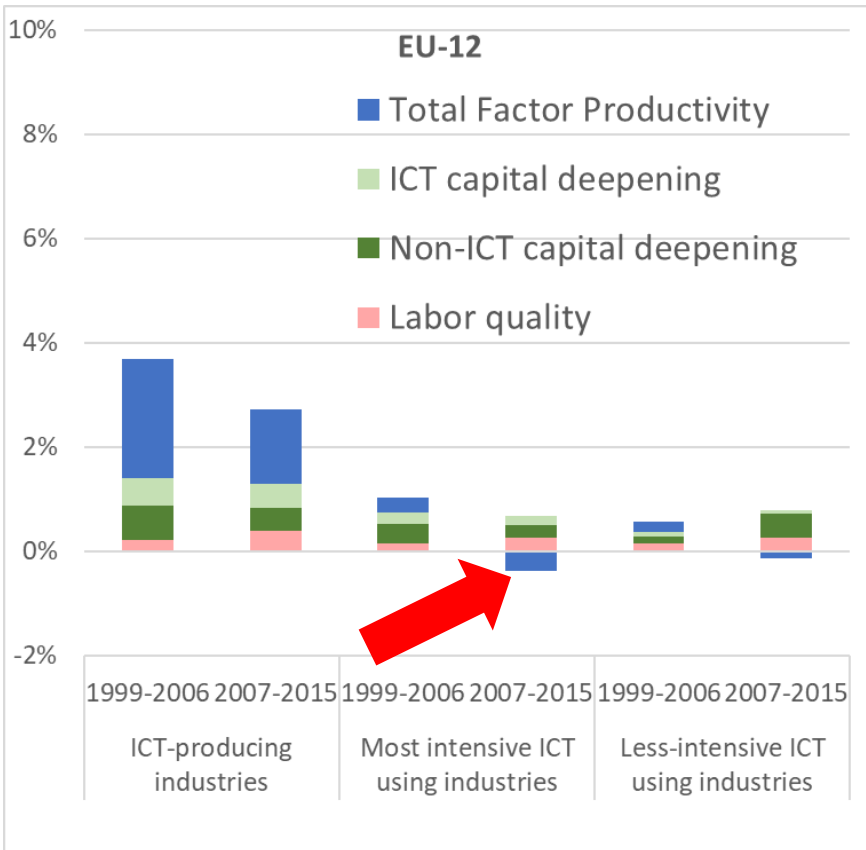
The productivity paradox: intensive digital-using industries are contributing most to productivity slowdown

The productivity paradox of the New Digital Economy

- New digital economy has not yet generated visible improvements in productivity growth despite rapid increase in spending on ICT capital and services
- Slow absorption of digital technology:
 - ✓ The New Digital Economy (NDE) is diffusing rapidly but are not being absorbed that quickly in business models
 - ✓ Slow adaptation of employee skills and management skills to requirements of new technology, innovation and business models
- The measured price declines of ICT goods and services have slowed more than seems reasonable, understating the pace of investment in the New Digital Economy
- Productivity effects likely to occur if the New Digital Economy moves from installation phase to deployment phase

The productivity paradox of the New Digital Economy: great weakness in ICT-intensive using industries

Sources of Labor Productivity Growth in ICT-Producing and More and Less Intensive-Using Industries, EU-12 and US, 1999-2015



Insights from latest EU KLEMS round

- None of the countries in EU-12 group have recovered to growth rates anywhere near to those in the decade before the crisis
- Slowing growth trend is driven by a triple combination of a modest recovery in employment growth, a stalling growth in capital input growth and a weakening in the productivity growth trend
- Slow productivity growth which was already visible in most market services sectors before the crisis has broadened to the goods producing sector for most European economies after the crisis
- Too early to say whether output and productivity growth can recover to pre-crises levels or whether it will be slower trend

Thank you