Europe's productivity growth slowdown signals economic weakness ahead

Europe suffered a slowdown in labour productivity growth last year as the business cycle passed its peak and structural reform remained sluggish.

The latest annual productivity release from The Conference Board, the international business membership and research organisation, shows output per hour worked rose by 1.4 per cent across the 27 European Union states in 2007, down from 1.7 per cent the previous year. It is expected to slow further, to 1.3 per cent, in 2008 in the EU-27, and even to 1 per cent in the “old” 15-member EU. For the second year running, however, Europe performed better than the US, where productivity rose by just 1.1 per cent.

The disappointing European average was the result of weak productivity growth in a number of major economies, including Germany (1 per cent), France (0.6 per cent), Italy (1 per cent) and Spain (0.6 per cent). But it masked some impressive performances, most notably in the UK where productivity rose by 2.9 per cent, making it the top performer among the EU-15. It is also in stark contrast to emerging economies, where productivity continued to accelerate.

One reason for Europe’s productivity growth slowdown is that most advanced countries were at, or already well past, the peak of their business cycles. This means that the employment growth rate accelerated faster than the output growth rate. With growth now slowing, additional jobs may not help boost productivity in the short run. Productivity growth in Europe also stayed well below its long-term average trend as a result of persistent structural inefficiencies.

Bart van Ark, executive director of economic research at The Conference Board, said: “While some progress is being made on structural reforms, particularly in labour markets and services industries, many of these reforms have come late and are often patchy. Furthermore, Europe seems to have greater trouble in having innovation and knowledge creation turn into the creation of more productive jobs, as GDP growth and employment – at least in the short run – often offset each other.”

The report warns that advanced economies will need to raise annual productivity growth to well above 2 per cent over the next two decades to maintain current living standards. Given the limits to labour force growth almost everywhere, the onus will be on technology and innovation to drive the growth process.

In contrast to the advanced economies, productivity growth in major emerging markets continued to accelerate in 2007. For the BRIC economies (Brazil, Russia, India and China), average productivity growth was 8.3 per cent, up from 7.9 per cent the previous year. There were large differences between the individual economies, however, with China notching up 10.6 per cent growth while Brazil managed just 1.9 per cent. Productivity growth in emerging economies is largely driven by a shift of both firms and
workers from low to high productivity activities, although there are growing signs that innovation is also beginning to play a part.

Other highlights in the report include:

- Japan’s productivity growth nudged up to 1.4 per cent in 2007 but remained sluggish, with the large service sector the main culprit for the weakness

- The worst performing countries within the OECD were Iceland (-3.8 per cent) and Denmark (-0.3 per cent)

- Productivity growth in the EU’s new member states (“EU12“) fell to 3.5 per cent from 4.1 per cent the previous year but is expected to accelerate in 2008. Enjoying the fastest rates were Latvia (8.2 per cent), Estonia (6.6 per cent) and Slovakia (6.3 per cent)

- Recession concerns and the credit crunch cloud the outlook for 2008, but the report predicts that US productivity growth will accelerate to 1.7 per cent this year, while Japan’s rate will pick up to 1.9 per cent

The latest productivity figures will be discussed at a major conference on The Creation of Economic and Corporate Wealth in a Dynamic Economy, which is being jointly organised by the European Central Bank, The Conference Board and the Banque de France and will be held in Frankfurt on 16 and 17 January.

ENDS

To receive a PDF of the Productivity Brief or to speak to a spokesperson, please contact:

Jane Padgham or Joanna Kwiatkowska on +44 207 839 4321 or jane.padgham@fishburn-hedges.co.uk or joanna.kwiatkowska@fishburn-hedges.co.uk

Notes to Editors

The Conference Board is one of the world's leading business membership and research organisations. Non-partisan and not-for-profit, it brings together senior executives from 2,000 of the world's largest companies in 60 countries. It publishes widely respected economic indicators and research on a range of business and management issues, including productivity, diversity, corporate governance and Chief Executive opinion.

Founded in 1916, The Conference Board has operated in Europe for over 25 years, supporting the region’s major businesses by identifying key issues of concern to executives.

The Conference Board produces monthly business cycle indicators for nine countries including the UK, France, Germany and Spain. Its European programme provides opportunities for senior managers to share business insights, informed by perspectives from different industries and countries.

For further information visit The Conference Board's website at www.conference-board.org.
The Conference Board is an independent, non-profit global business knowledge network and membership organisation with a non-partisan and non-advocacy approach.

ABOUT THE AUTHOR

Bart van Ark is Executive Director, Economic Research at The Conference Board, and a recognised expert on international comparisons of productivity and living standards. Dr van Ark is also Professor of Economics at the University of Groningen (The Netherlands) and Director of the Groningen Growth and Development Centre. His work focuses on international comparisons of economic performance in Europe, North American and Asia.

ABOUT THE REPORT

The Productivity Brief offers an up-to-date and timely overview of annual data on key productivity, growth, and employment trends through 2007, and projections for 2008, based on The Conference Board and the Groningen Growth and Development Centre’s Total Economy Database. The full report, containing productivity figures for 100 countries, covering 98 per cent of world output will be published at the end of January.

The basic statistical tables provide a comprehensive overview of productivity, GDP, hours worked, and growth rates for 38 advanced economies in the world, most of which are a member of the Organization for Economic Cooperation and Development. In this brief, we also provide estimates for major emerging economies in Central and Eastern Europe, Brazil, Russia, India, China, and Mexico. Underlying the tables is a publicly available database with series on output, population, employment and hours worked. The data and detailed source descriptions are available on an annual as well as country-by-country basis from:

http://www.conference-board.org/economics/database.cfm

The aggregate analysis is supported by The Conference Board analysis of sectoral and industry trends which are published in co-operation with the Groningen Growth and Development Centre http://www.ggdc.net/index-dseries.html