ETUC for Growth and Social Progress 2021

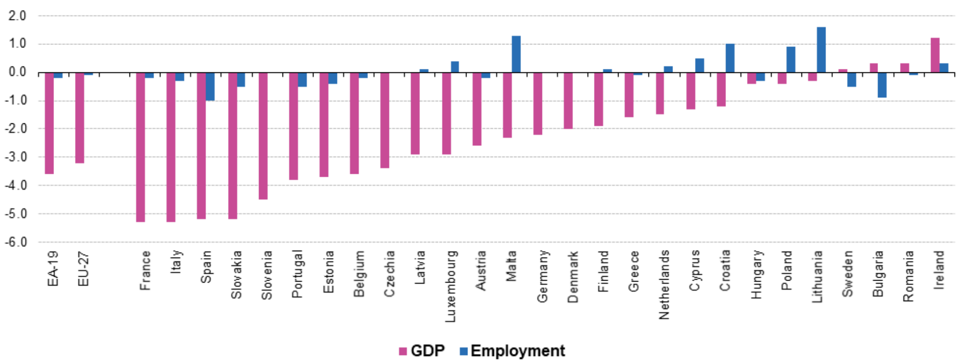
Annex 2: Statistical Annex (work in progress)

THE ECONOMIC OUTLOOK

In the first quarter of 2020, sharp drops of growth rates in many aggregates were due to the COVID-19 impact and the containment measures introduced by Member States in March 2020.

EU gross fixed capital formation has decreased by 16% in the Q2 2020 compared to the previous quarter, while wage share in the EU decreased by 1 percentage point from the last quarter 2019, implying that workers were relatively more impacted by the decrease in GDP than capital owners. Exports of goods and services weighted negatively to GDP development.

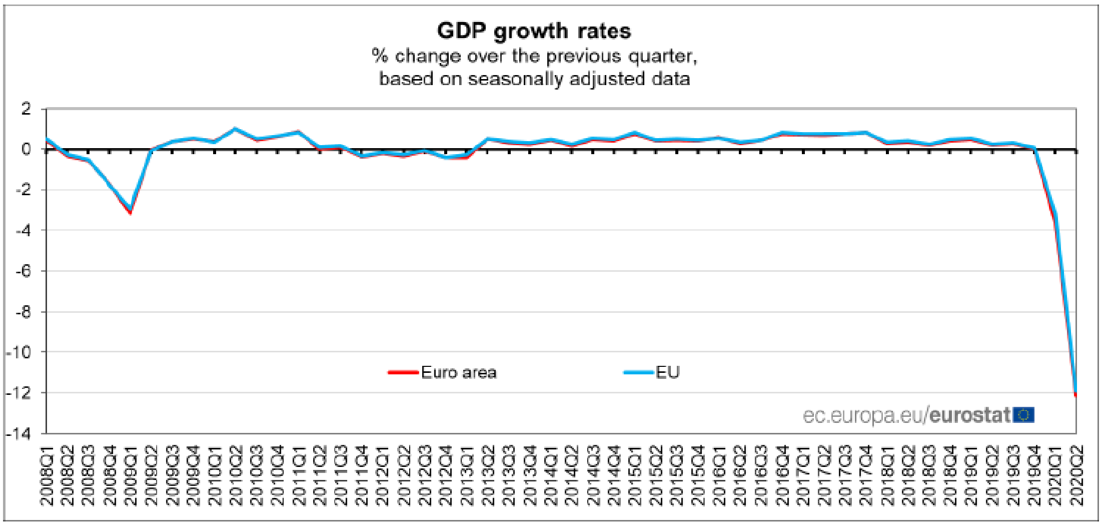
GDP and employment growth rates, % change over the previous quarter, based on seasonally adjusted data, 2020Q1



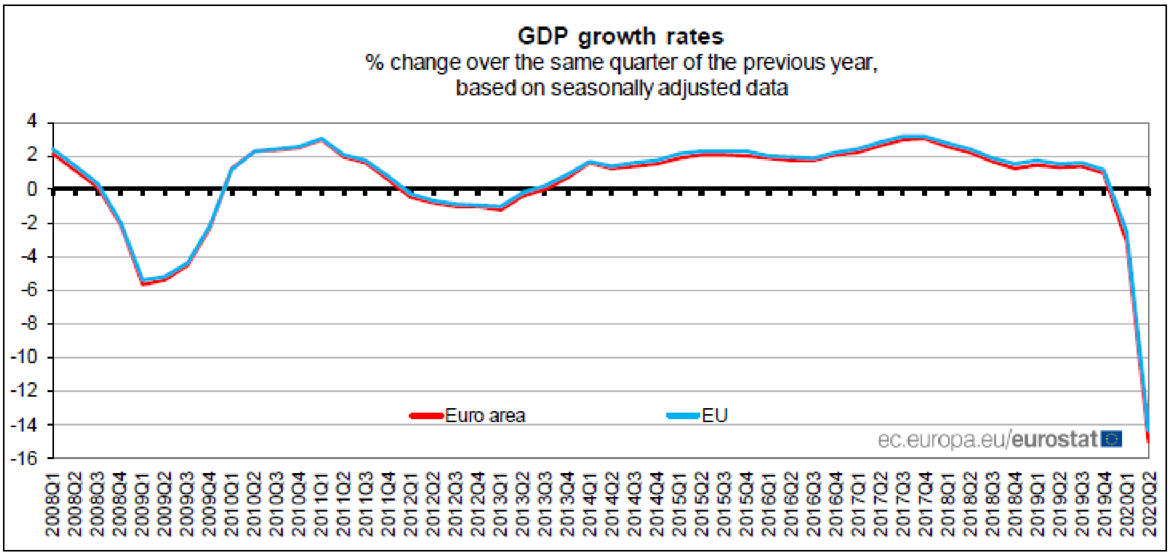
Source: Eurostat (online data code: namq_10_gdp, namq_10_a10_e)

eurostat

In the second quarter 2020, still marked by COVID-19 containment measures in most Member States, the seasonally adjusted GDP decreased by 12.1% in the euro area and by 11.7% in the EU, compared with the previous quarter. These were by far the sharpest declines observed since time series were introduced in 1995. In the first quarter of 2020, GDP had decreased by 3.6% in the euro area and by 3.2% in the EU.



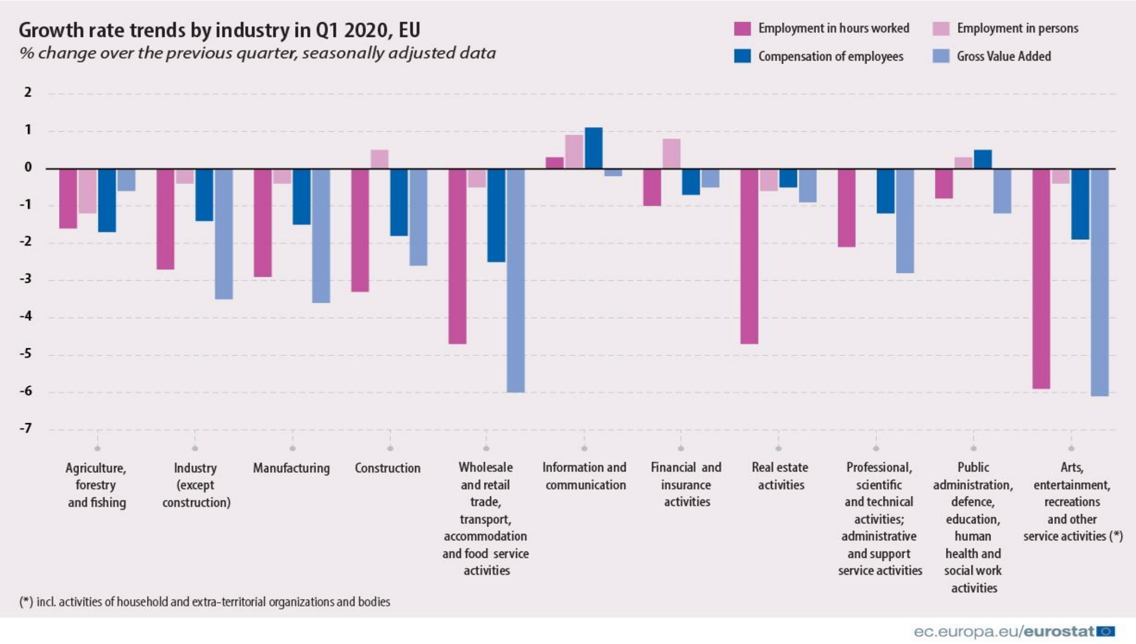
In the second quarter of 2020, the seasonally adjusted GDP decreased by 15.0% in the euro area and by 14.1% in the EU compared to the same quarter of 2019,after -3.1% and -2.5% respectively in the previous quarter. Again, these were also by far the sharpest declines since the introduction of the time series.



GDP components: In the first quarter of 2020, household real consumption per capita decreased by 2.9%, following a decrease of 0.2% in the previous quarter. In the same quarter, household gross disposable income increased by 0.9% in the euro area and by 1.2% in the EU. The reduction in current taxes and net social contributions had a strong positive contribution to gross disposable income, while the contribution of social benefits was higher than usual. The decrease observed in received wages, gross operating surplus and mixed income of households contributed negatively to the growth of gross disposable income in both zones. Finally, in the first quarter of 2020, the saving rate increased in both the euro area and the EU by 4.3 percentage points, compared to the fourth quarter of 2019.

The outlook for the months ahead is subject to high uncertainty. A quick look at some accessible figures gives a sense of the economic crisis we are experiencing.

The negative consequences of the pandemic on sectors like ho.re.ca., tourism, travels, entertainment are huge, as illustrated in the table below:



Source datasets: namq_10_a10 and namq_10_a10_e

For those sectors, gross value added and hours worked decreased, together with the employment rate and compensation for employees. In the EU, gross value added and hours worked decreased in all industries in the first quarter of 2020, as reported in the national accounts. The largest fall was observed for 'wholesale and retail trade, transport, accommodation and food services activities' and 'arts, entertainment, recreations and other service activities*', which were the industries most affected by government shutdowns to contain the spread of the COVID-19.

Worker absenteeism and factory shutdowns have affected supply chains. These have been aggravated by the closure of shops, restaurants and other services as a result of containment measures. At the same time, social distancing and reduced person-to-person contacts have weighed on consumer demand through reduced household spending, while uncertainty and concerns about jobs and incomes have led consumers to delay purchases. The increase of household gross disposable income and the decrease of private consumption expenditure are the main reasons of the increase of household saving rate.

As for household consumption and saving, the household saving rate in the EU recorded its all-time highest year-over-year increase in the first quarter of 2020 (+3.5 percentage points (pp) compared with the first quarter of 2019).

The main reason is the marked year-over-year decrease of household final consumption expenditure (-1.7%), in stark contrast with its recent increases above 2%. Additionally, the increase of household gross disposable income (+2.4%) also contributed to the increase of the saving rate.

Finally, the inflation. In August 2020, a month in which COVID-19 containment measures continued to be lifted, Euro area annual inflation is expected to be -0.2%, down from 0.4% in July. Looking at the main components of euro area inflation, food, alcohol & tobacco is expected to have the highest annual rate in August (1.7%, compared with 2.0% in July), followed by services (0.7%, compared with 0.9% in July), non-energy industrial goods (-0.1%, compared with 1.6% in July) and energy (-7.8%, compared with -8.4% in July).

Productivity and wages trends

Productivity performances in Europe were lagging behind already before the pandemic hit. We expect that the productivity levels may deteriorate in the aftermath of the sanitarian emergency, for the following reasons:

- The prolonged shut down of companies is producing more permanent effects in some sectors, while a faster reactivation of production may happen for others. This will be a reason for overall productivity losses.

- While inventories are piling up, deterioration of productive factors (machines, equipment, stocks, credit losses, client losses, etc.) will also play a role at least in the first period of the economic recovery.

- Finally, many countries will be unable to maintain the workforce in the companies where they were used to be. It will imply an unforeseen - and often undesired - turnover of staff. Effectiveness in hiring new people will depend on the efficiency of the labour market in which the companies operates (skilling, reskilling upskilling, job matching, mobility, filling in vacancies and skill-matching). It implies that labour market institutions, especially public employment services, have full control of their labour market. Which is not the case in many member state.

Hence, ETUC believes that productivity improvement must be massive and at the centre of the recovery strategy and most of all this must happen without further penalising the labour factor but playing on all factor productivity likely using a SDG-matrix to select investments.

Wage trends in the EU are not evolving in line with the golden rule inflation + productivity for more than half of the EU population. In Germany the rule is respected, and the level of compensation is stable, but the indicator becomes negative if we consider the past decade.

Public finances: In the first quarter of 2020, the seasonally adjusted stood at 2.2% in the euro area and 2.3% in the EU. This marked a sharp increase in comparison with the fourth quarter of 2019 and the highest deficit recorded in the euro area since the second quarter of 2015. At the end of the first quarter of 2020, the government debt to GDP ratio in the euro area stood at 86.3%, compared with 84.1% at the end of the fourth quarter of 2019. In the EU, the ratio increased from 77.7% to 79.5%. The impacts of the containment measures as well as policy responses to the containment measures are expected to materialise fully in increased financing needs only in the second quarter of 2020.

The ETUC wage scoreboard can only confirm trends recorded last year, even if statistics do not reflect the effects of the pandemic crisis:

- Poor wage dynamics are a reason for poor productivity gains, because companies find of little convenience to invest in technologies if they can be satisfied with the profits warranted by cheap labour.
- The declining level of investments, compared to higher distributed profits, and throughout raising of inequalities seem to confirm this thesis.

- in the Eastern Europe, differences in nominal compensation of employees remains stable all over Europe and there are no sign of convergence
- More than half of the EU population live in a situation of stagnating wages and increasing divergences of wage levels. Surely the gaps may be less important if we compare wage levels at purchasing power points. But these aspects may be misleading as well.

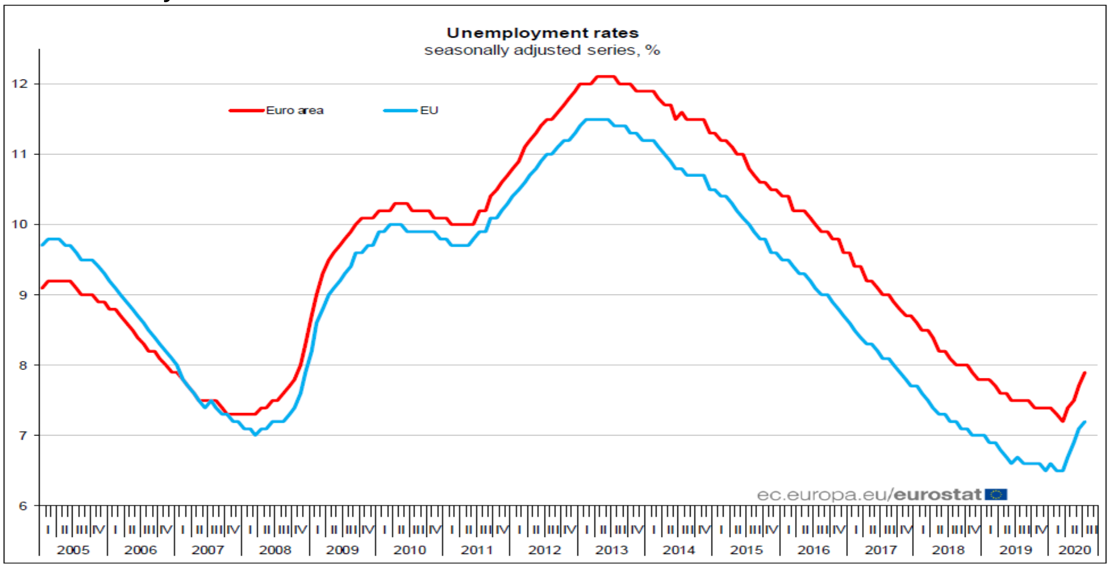
Wage increases have been requested for a very long time, together with active fiscal policies, to complement the various monetary measures implemented by the European Central Bank. An 'upward wage convergence' is urgent also for the economies of Central and Eastern Europe. The East-West wage gap narrowed in the period up to 2008 but the trend has slowed in recent years. To narrow the gap, sectoral collective bargaining must be strengthened and promoted, ensuring a general increase of wages, including minimum wages. Higher wages are also necessary to retain a skilled and educated workforce in Central and Eastern Europe and to stop the "brain drain".

Sector collective bargaining seems to produce higher levels of efficiency because they are more stable, create a level playing field, can detect and provide answers to emerging needs of workers and companies, can exploit scale effects for instance when setting up occupational welfare schemes, and are a framework for company-based solutions that would better adapt the general rules to the specific situation of the workplace

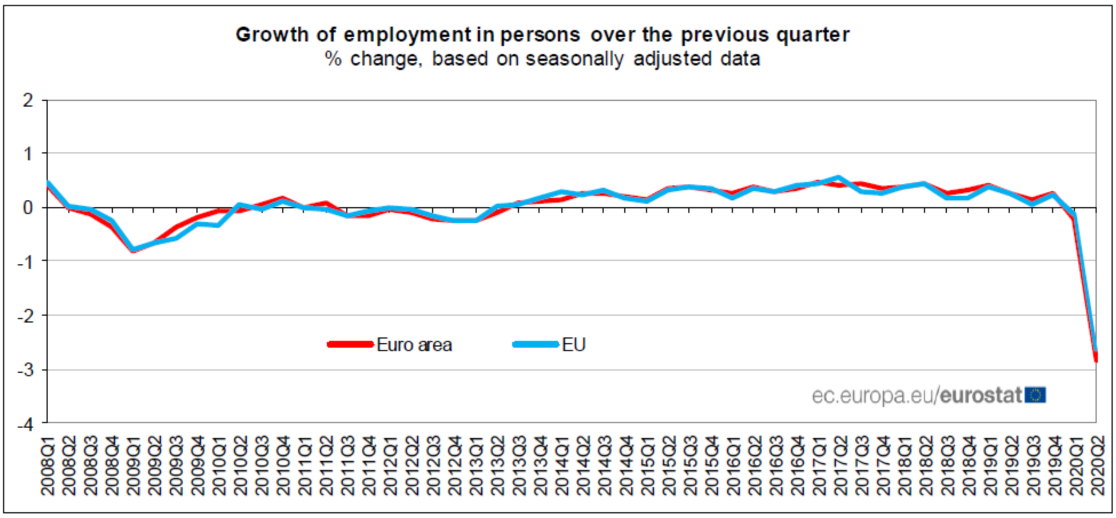
One of the challenges that were not properly addressed in the past year is the wage dynamics of low and mid-level wages. In the ETUC for growth and Social Progress 2019, it was explained that If we leave technology and markets playing their game undisturbed, we will passively witness a deepening divide between low and high remuneration of workers, where the education levels drive the polarisation. We should not forget that income of low and mid-low income in western economies have been penalised in the globalisation era. The financial crisis exacerbated the trends. Low and mid-level incomes in real terms remained flat for decades and surely poor wage performances played a role. The new economic governance cannot accept any longer a stagnating performance of wages. If the top 1% of the population will get the 20% of GDP increase, the 5% of the population getting the 40% of GDP increases; if a handful of super-rich people will hold 50% of the wealth, it produces a backlash that starting from the mid-class will feed the ranks of populistic forces. It is not surprising if trade union members that were traditionally voting for left or progressive forces are today attracted by far right political parties.

<u>Labour Market</u>

In July 2020, a month marked by some relaxation of COVID-19 containment measures in many Member States, the euro area seasonally-adjusted unemployment rate was 7.9%, up from 7.7% in June 2020. The EU unemployment rate was 7.2% in July 2020, up from 7.1% in June 2020. Eurostat estimates that 15.184 million men and women in the EU, of whom 12.793 million in the euro area, were unemployed in July 2020. Compared with June 2020, the number of persons unemployed increased by 336 000 in the EU and by 344 000 in the euro area.



The number of employed persons decreased by 2.8% in the euro area and by 2.6% in the EU in the second quarter of 2020, compared with the previous quarter. These were the sharpest declines observed since time series started in 1995. In the first quarter of 2020, employment had decreased by 0.2% in the euro area and by 0.1% in the EU.



In July 2020, the youth unemployment rate was 17.0% in the EU and 17.3% in the euro area, up from 16.9% and 17.2% respectively in the previous month.

In July 2020, the unemployment rate for women was 7.5% in the EU, up from 7.3% in June 2020. The unemployment rate for men was 7.0% in July 2020, up from 6.8% in June 2020. In the euro area, the unemployment rate for women increased from 8.0% in June 2020 to 8.3% in July 2020 while it increased from 7.5% to 7.6% for men.

However, as previously explained, the statistics are not reflecting the real situation yet. Total labour market slack, which comprises all persons who have an unmet need for employment[1] has increased by 0.3 percentage points in first quarter 2020 compared to

[1] Either because they are unemployed according to the ILO definition, are close to unemployment while not fulfilling all ILO criteria, or are working part-time and would like to work additional hours

fourth quarter 2019. Seasonally adjusted total labour market slack in the EU, consisting in unmet employment needs, amounted to 26.8 million persons, which represented 12.7% of the extended labour force in the first quarter 2020, up from 12.4% in the fourth quarter of 2019. This was the first quarter-on-quarter increase since the peak in the second quarter 2013, when the labour market slack stood at 19.0%.

Finally, we note that total actual hours worked have dropped sharply in the EU between the fourth quarter 2019 and the first quarter 2020, these data are even more considerable with respect to women. In the first quarter 2020, the total actual hours worked dropped below 2008 levels, a level hardly reached in 2019. All Member States for which data are available experienced a drop in the total actual hours worked between the fourth quarter 2019 and the first quarter 2020 except Finland (+0.2%). The highest overall falls were observed in Italy (-9.7%), Slovakia (-8.7%), and Austria (-7.9%).

The hiring rate has declined significantly since the onset of the COVID-19 crisis. The decline in the indicators reveals the severity of the impact of the COVID-19 pandemic on the euro area labour market, notwithstanding the implementation of short-time work schemes. As highlighted by the European Central Bank ("ECB") in its economic bulletin (July 2020), the intensity of the COVID-19 shock is asymmetric across sectors. While the decline in the hiring rate was broad-based across sectors, some sectors are more affected by the COVID-19 shock than others. Two opposite cases of this asymmetry of the shock across sectors are the recreation and travel and the healthcare sectors. On the one hand, the recreation and travel sector has been particularly affected by the crisis and by the lockdowns, with the hiring rate in the sector decreasing year on year in June 2020 by 44.0% in Germany, 28.8% in France, 77.9% in Italy, 50.1% in Spain, and by 28.3% in the Netherlands. On the other hand, the healthcare sector seems to be relatively more insulated from the COVID-19 shock in terms of the yearly increase in the relative number of job changes in the sector, driven partially by the increasing demand for healthcare services to contain the pandemic. The hiring rate in this sector increased year on year in June 2020 by 18.0% in Germany and by 20.7% in France, and decreased year on year in June 2020 by 9.9% in Italy, 22.5% in Spain, and by 3.6% in the Netherlands. In general, the consumer goods, manufacturing, and recreation and travel sectors are more affected by the COVID-19 crisis than the rest of the economy, while other sectors such as healthcare, finance, and software and IT services remain more insulated from the COVID-19 shock.

Social Protection, Poverty and Exclusion

Pensions remain inadequate, not indexed, thus improper to face the cost of living, housing, healthcare and long-term care needs. These are the effects of the EEG and the shift towards fully funded pension systems, mostly relying on the contribution history of pensioners, and thus penalised by unemployment, fragmented careers, low remuneration, flexible and non-standard contracts that are often related to contribution-avoidance. The income replacement rate of pensions varies significantly among Member States (from 33% in Ireland to 86% in Luxemburg). The freeze of the public expenditure in pension across the EU, in spite of the ageing of the population, has reduced the capacity of the states to supply minimum adequate pensions.

Poverty and social exclusion hit some groups more than others, such as children aged 0-17 (24.3%), young people aged 18- 24 (28.5%), non-EU born people (37.3% against an EU average of 20.1% for native born people), people with disabilities (in 2018, 29.3% compared to 19.% of people without disabilities), long-term unemployed datum. Women, often trapped in low paid jobs and involuntary part-time, are exposed to higher risk of poverty than men, both in working age (gender pay gap 16% as an average in the EU) and even more after the retirement age (gender pension gap 35.7%).

Income inequality has increased overall and represents a major challenge since it is deep routed in our society, irrespective of gender, age or gainful occupation. **In-work poverty** remains at high levels in many Member States. Before the crisis, 9.6% workers were at risk of poverty in the EU – almost 20 million people. It is significantly higher for households with people working part-time or on temporary contracts. Self-employed and non-standard workers, who suffer from limited access to and ineffective and inadequate social protection, are particularly exposed to poverty.

Many economists associate poverty in developed countries to raising inequalities. Especially in the EU, where income per capita is averagely higher than in the rest of the world, income and wealth distribution are the first suspect alleged to cause poverty. After the crisis, poverty will remain a challenge, more difficult to say if inequalities will remain so challenging as they were in the pre-corona virus crisis. Massive transfers that governments activated to provide relief to people hit by lockdown measures may generate a statistic effect that reduce disparities in society. However, it will be more likely that economic consequences of the pandemic will enlarge poverty areas in our societies despite the inequality trends. It will be caused by a phasing out from emergency and temporary measures that will have the double effects of recording a number of job losses in companies that will not survive the shock and many workers that will leave the labour market and will become inactive. Finally the huge amount of debt will be unevenly distributed and, notwithstanding the efforts of monetary, fiscal and political institutions, to keep easy access to liquidity, it will be unavoidable that some people may remain in situation of social exclusion or material deprivation. Such effects will show up in the mid-term, that is why is absolutely urgent to start, from now, a plan to fight poverty with common objectives and sufficient resources. Safety nets and “shelters” should include massive investment in activation measures on the labour market to prevent a decline in the active population rate. Social dialogue, with all its instruments, should be fostered to help maintaining jobs and workers’ income adapting the workplace and work organisation but keeping dismissals as a solution of last resort. It implies a stronger package of rights for workers and it urges a quick elaboration of an Action Plan to implement the European Pillar of Social Rights. Preventing poverty at EU level means equipping the bloc with minimum standards for minimum income. As we are aware that the COVID-19 crisis adds on the unavoidable green transition and digital transformation will affect tens of millions of workers and that some of them may experience break in their wage-income, being aware that it may increase long-term unemployment as local labour market record very different degree of performance, it is time to introduce minimum standards for minimum income schemes in Europe. We have also witnessed that poverty can be the consequence of social spreads that are evident in education attainment, access to public services, affordability of health and care systems, affordability of public goods such as energy water and immaterial networks such as the internet and e-services, access to financial services, support to households and accessibility of work-life balance measures. The majority of this element are labour related, that is why the ETUC insists on the need to reinforce the package of rights and opportunities offered to workers. In terms of SDGs, this convincement is expressed by the Coal-8 centred approach proposed by the ETUC and the that the European Commission is invited to adopt. A European initiative must include a common legislative framework and well targeted objectives to be achieved through the European Semester.

Such targets must respond to policy priorities against poverty that should surely include in-work poverty and poverty among elderly people.

Access to healthcare

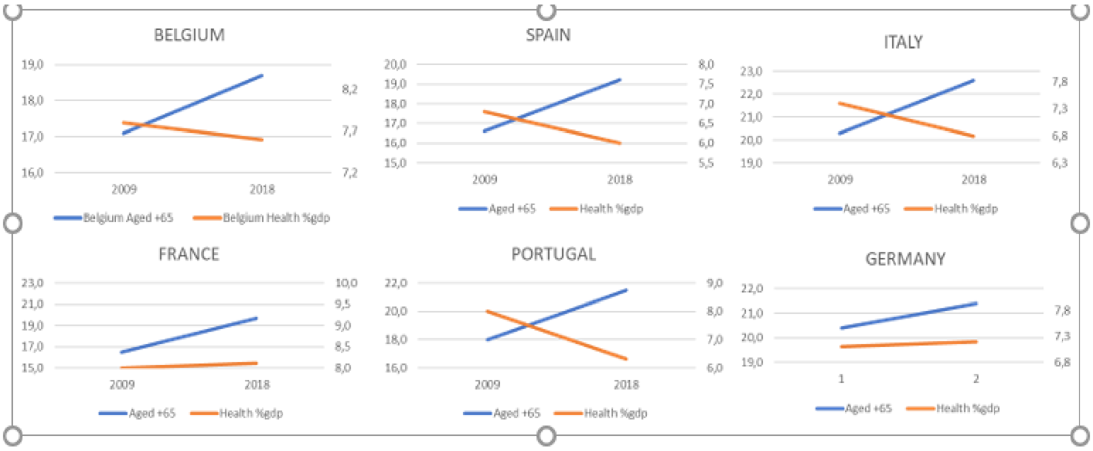


Figure 1 ETUC elaboration from Eurostat. Trends of population 65+ (left axis) and Health expenditure/GDP (right axis). The graph wants to visualise the increasing gaps between needs of population and governments' response in terms of expenditure

The COVID-19 outbreak underlines the need to reinforce universal and solidarity-based public health systems, as part of the EU social model and commitment to quality public services. It is imperative to have effective measures that reinforce health care. The Covid19 emergency clearly demonstrates the need to promote the universal, public provision of social services, e.g., access to and the quality of healthcare is a priority. This can be done by investing in public, non-profit systems, to ensure there is sufficient levels of qualified, well-trained and well-remunerated staff, who are able to cope with the population needs.

The government expenditure for the EU remained stable or declining as -0.1% of GDP since 2015 (Eurostat). Public investments in infrastructures (that may include infrastructures for the health system or long-term care) declinedThe widening gap between needs of the population and response of the state is represented by the share of the population reporting perceived unmet needs for medical care (due to either too high costs, too long waiting times or travelling distance). This hasn't reduced in the past years, while large variations among Member States persist. Out-of-pocket payments for health (including medical goods) not reimbursed by any scheme or paid as cost-sharing with an organised scheme, measured as a share of current health expenditure in the EU is close to 20%, with peaks above 30% in Bulgaria, Greece, Cyprus, Latvia and Lithuania. In 2008, personal money that people needed to cover health expenditure ranged between 12% and 28% of the total expenditure for healthcare goods and services. In 2018, this range varied between 10 and 45%.