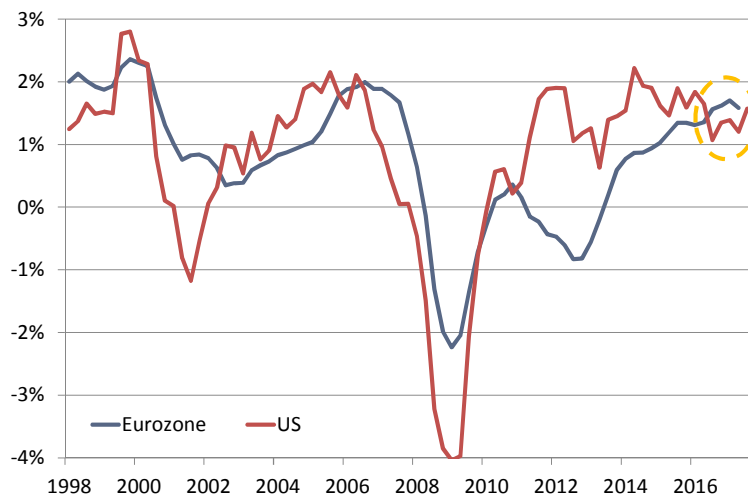


4 May 2018

US versus Eurozone: a tale of two labour markets

Employment growth in %



Year-on-year change in %; US: civilian employment. Source: Eurostat, BLS

- All eyes on the non-farm payrolls:** Today, the monthly US employment report has the potential to move markets. No single data release from any other country gets the same attention. Perhaps the Eurozone should try to publish its own labour market data in a similarly user-friendly and timely way. After all, its labour market is as sizeable as that of the US. Last year, employment growth in the Eurozone even outpaced that in the US (see chart).
- Mind the difference:** In the less flexible Eurozone labour market, employment is more stable than in the US. As the chart shows, companies fired fewer people in the Eurozone in the mega-recession of 2008/2009 than in the US. The bursting of a bubble in labour-intensive housing construction compounded the employment problem much more in the US than in the Eurozone, where only Spain and Ireland suffered similar fates. That the US had more lost ground to make up for contributed to the stronger employment gains in the US in the subsequent recovery.
- Long-run trends:** The short-term differences partly obscure the fact that some trends are similar on both sides of the Atlantic. Over the past 20 years, employment increased at an average annual rate of 0.86% in the US and 0.80% in the Eurozone. The major reason for the modest underperformance of the Eurozone lies in the euro crisis, which interrupted the Eurozone recovery for almost two years until the European Central Bank finally stopped the rot by outing itself as a Fed-style lender of last resort. Since then, Eurozone employment growth has edged up nicely.
- Catch-up potential:** In one key respect, the Eurozone labour market lags well behind that of the US. In 2017, the US civilian employment rate (age group 15 to 64 years) reached 70.1% versus 66.4% for the Eurozone. On both sides of the Atlantic, the rate is now increasing at a similar pace, though. The gap in employment largely reflects the difference in unemployment rates of 9.1% in the Eurozone versus 4.4% in the US for the 2017 average. For the Eurozone, the gap represents a potential: with suitable labour market reforms, the region can over time raise its employment rate close towards the US level. The spectacular surge in the German employment rate from 65.5% in 2005 to 75.3% in 2017 in the wake of Germany's 2004 labour market reforms illustrates the potential.
- Some progress in the Eurozone:** Helped by solid economic growth, unemployment in the Eurozone continues to decline, reaching 8.5% in March 2018, its lowest level since the end of 2008. Due to the labour market reforms in the erstwhile euro crisis countries (2011-2014), Italy (2015) and especially France (ongoing since 2015), we expect Eurozone unemployment to fall well below its 2007 trough of 7.5% in the current upswing.
- Modest wage pressures:** In response to a shortage of skilled labour, wage inflation is edging up gradually towards 3% in the US and Germany. In the Eurozone as a whole (wage inflation of c1.7% now), the process will likely remain gradual as a more flexible labour market enhances labour supply. Good news for the ECB.

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