Flash Economics

N° 154
December 18th, 2025

Productivity stagnation: favourable to employment in the short term, unfavourable in the medium term

European countries are experiencing stagnation — and in some cases even a decline — in labour productivity. In the short term, this productivity stagnation has been associated with additional job creation, since meeting demand requires the use of more labour.

However, in the medium term, stagnant productivity leads to a loss of competitiveness and weaker profitability, thereby reducing firms' capacity to invest. It also reflects insufficient investment in new technologies, inadequate expenditure on research and development, and weaknesses in the skills of the labour force. As a result, in the medium term, countries where productivity stagnates tend to create few jobs and exhibit low employment rates. The absence of productivity gains therefore ultimately leads to, and is associated with, a weakening of the economy.

Patrick Artus
Senior Economic Advisor
patrick.artus-ext@ossiam.com
@PatrickArtus
Patrick Artus

Isabelle Gravet
Research Assistant
isabelle.gravet-ext@ossiam.com

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Stagnation or even decline in labour productivity

Looking at the Euro area as a whole, **labour productivity per worker has stagnated since 2017** (**Chart 1A**), **while hourly labour productivity has stagnated since 2019** (**Chart 1B**).

Chart 1A
Euro zone: Productivity per head (2010.Q1 = 100)

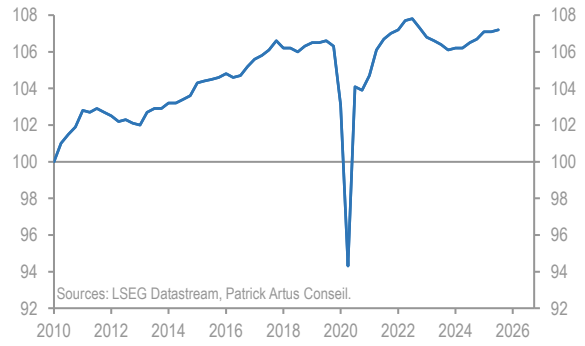
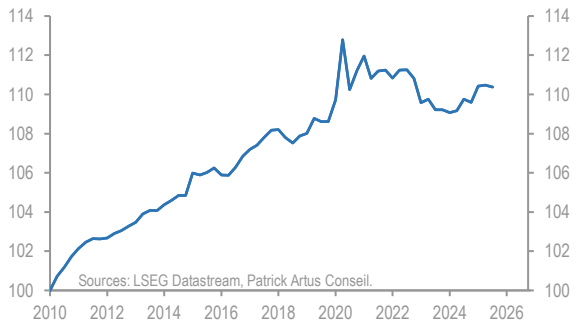


Chart 1B
Euro zone: Real labour productivity per hour worked (2010.Q1 = 100)



Focusing on **the four largest Euro area countries** (**Charts 2A/B**), labour productivity has declined since 2019 in France and Italy, while productivity growth has slowed in Germany and Spain.

Chart 2A
Real labour productivity per hour worked (2010.Q1 = 100)

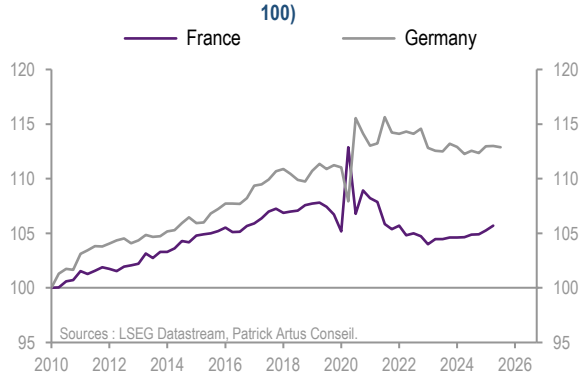
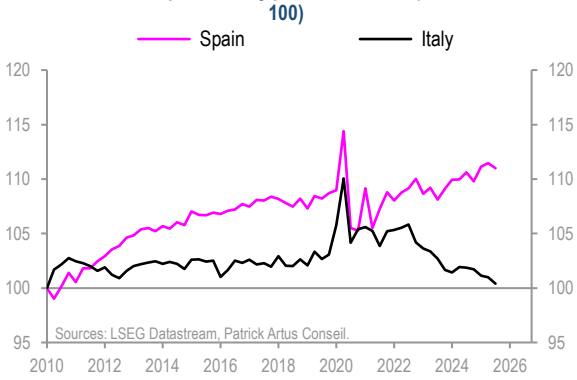


Chart 2B
Real labour productivity per hour worked (2010.Q1 = 100)



In the short term, stagnating or declining productivity is associated with strong employment growth

In the short term, when productivity fails to grow or even declines, **more labour is required to achieve the level of output needed to meet demand**. As a result, productivity stagnation is associated with **strong job creation**. **Chart 3** shows the employment rate for the Euro area as a whole, while **Charts 4A/B** present employment rates in the largest Euro area countries.

Chart 3
Euro zone: Employment rate of population aged 15 to 64 (as %)

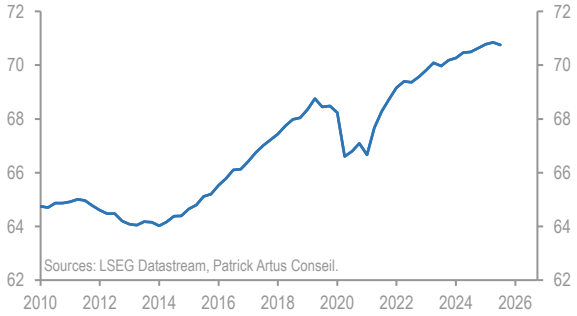


Chart 4A
Employment rate of population aged 15 to 64 (as %)

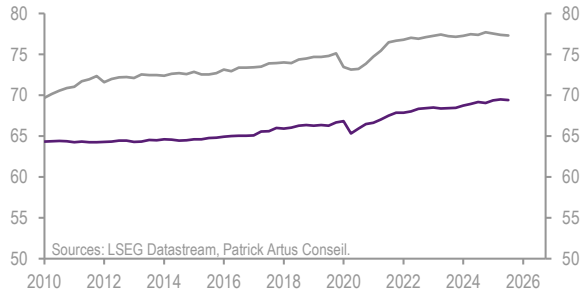
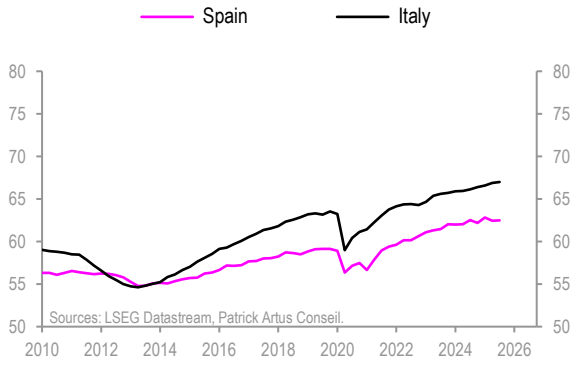


Chart 4B
Employment rate of population aged 15 to 64 (as %)



Employment rates have increased since 2017 in all major Euro area countries.

The situation is very different in the medium term

In the medium term however, productivity stagnation **undermines competitiveness**. It is striking that **manufacturing production has stagnated or even declined** in all major Euro area countries since 2017 (**Chart 5, Charts 6A/B**).

Chart 5
Euro zone : Manufacturing production (2010.M1 = 100)

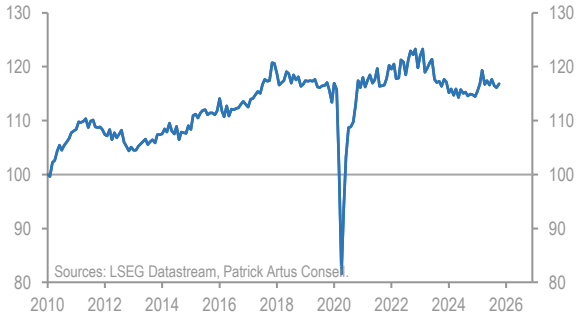


Chart 6A
Manufacturing production (100 : 2010.M1)

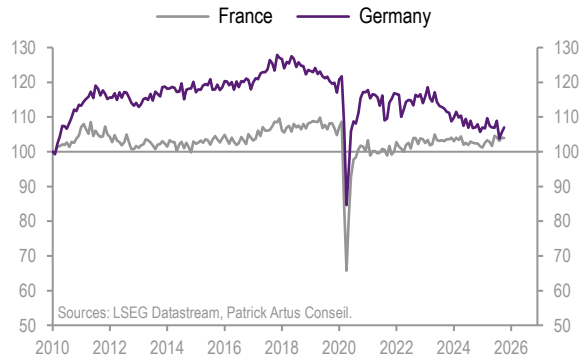
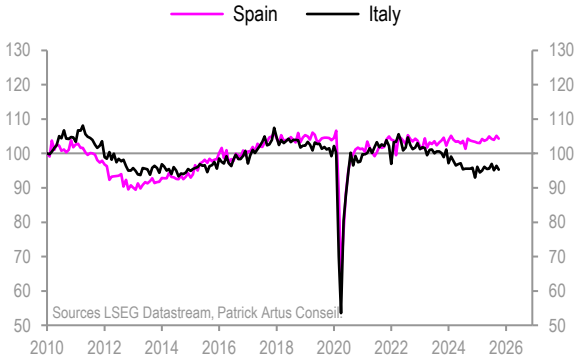


Chart 6B
Manufacturing production (2010.M1 = 100)



Productivity stagnation also leads to **weak profitability and, consequently, weak business investment**, as illustrated by the comparison between the United States and the Euro area (**Charts 7 and 8**).

Chart 7
Profits after tax and interest of non-financial corporations (as % of nominal GDP)

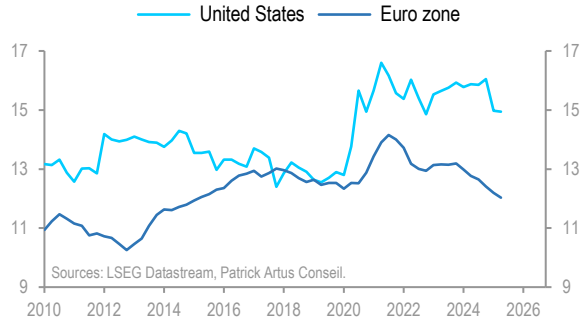
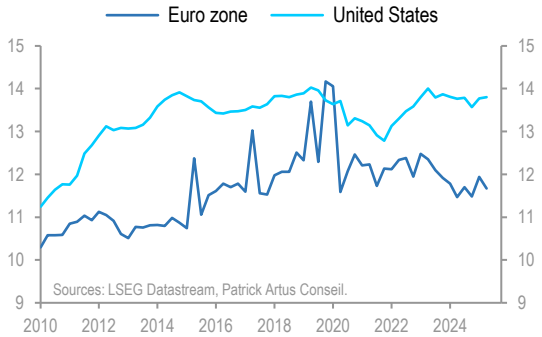


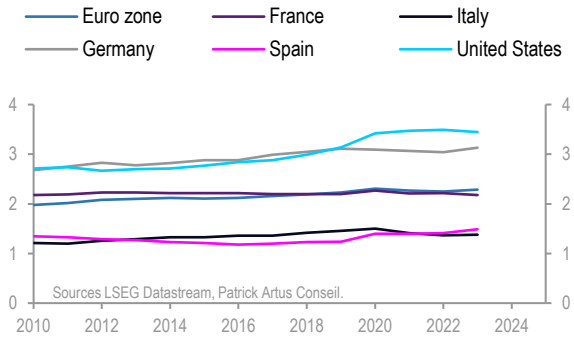
Chart 8
Investment of corporations (in value terms, as % of nominal GDP)



Moreover, productivity stagnation highlights:

- **insufficient spending on research and development** (**Chart 9**);

Chart 9
Total R&D spending (as % of nominal GDP)



- **insufficient investment in new technologies** (**Charts 10 and 11**);

Chart 10
ICT investment including software (in value terms, as % of nominal GDP)

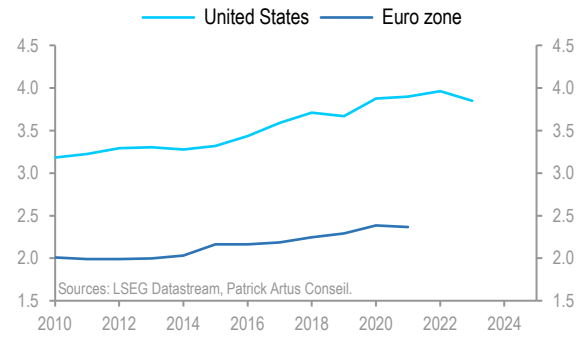
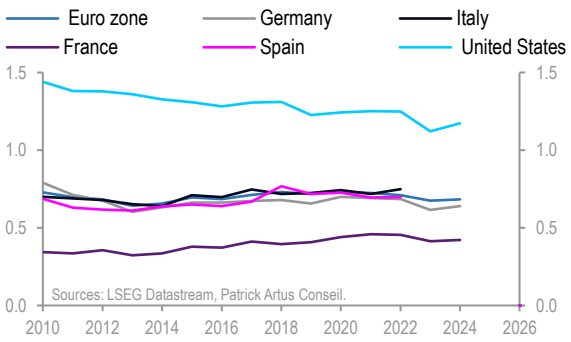


Chart 11
ICT investment excluding software (in value terms, as % of nominal GDP)



- **weak skills among the labour force** (**Table 1**).

Table 1 : Results of the OECD PIAAC survey (by decreasing score from the 2023 survey, overall score*)

Country	2016	2023
Finland	285	289
Japan	292	285
Sweden	279	281
Canada	269	267
Germany	271	267
England (UK)	267	266
France	258	253
United States	261	251
Spain	249	246
Italy	249	240

*In 2016, average score in numeracy and literacy. Source: OECD

Summary: productivity stagnation supports employment in the short term but weakens the economy in the long term

In the short term, when productivity stagnates or declines, the employment rate increases because more workers are needed to meet demand. In the medium to longer term, however, productivity stagnation leads to a loss of competitiveness and weak profitability, resulting in underinvestment and losses in market share. It is also associated with insufficient spending on research and development, inadequate investment in new technologies, and weak labour force skills. Productivity stagnation therefore deteriorates economic performance and reveals several structural weaknesses.

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