Flash Economics

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Can we expect a recovery in labour productivity in the euro zone?

Looking at the four largest euro zone countries and the euro zone as a whole, we see:

- In Germany, a decline in productivity since 2018 ;
- In France, a fall in productivity from 2019 to 2021, followed by a slight recovery ;
- In Italy, beyond short-term fluctuations, productivity has stagnated since 2012;
- In Spain, productivity has stagnated since 2016;
- In the euro zone as a whole, productivity is no higher today than it was in 2017.

Can we expect a recovery in labour productivity in these countries and in the euro zone as a whole? We do not think so, due to:

- The decline in the rate of corporate investment, except in France;
- The decline in the rate of investment in new technologies, except in France, although there are doubts about the statistical methodology;
- A low level of corporate R&D spending;
- The decline in scores in the PISA (youth skills) and PIAAC (adult skills) surveys over the recent period in all countries;
- The decline in weight of the manufacturing industry in all countries.

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Labour productivity trends in the euro zone

We compare the four largest countries in the euro zone (Germany, France, Italy and Spain) with the euro zone as a whole.

Since 2010, labour productivity (Charts 1A/B/C):

- **In Germany**, declining since 2018 ;
- **In France**, declines sharply between 2019 and 2021, then recovers slightly from 2023 onwards;
- **In Italy**, stagnation beyond short-term fluctuations since 2012;
- **In Spain**, stagnating since 2016;
- **In the euro zone as a whole**, at the same level at the end of 2024 as in 2021.

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

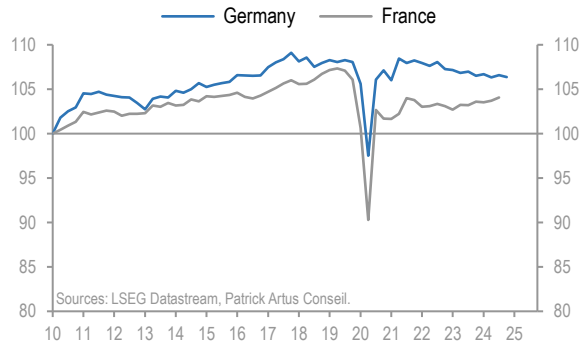


Chart 1B
Productivity per head (2010.Q1 = 100)

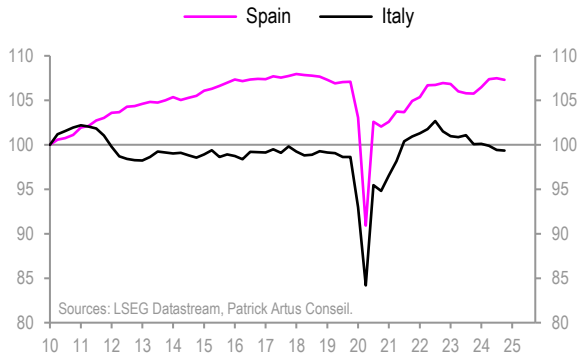
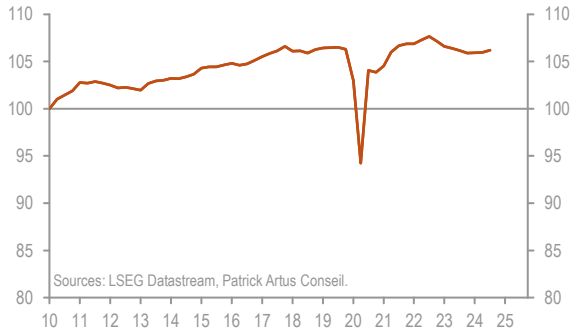


Chart 1C
Euro zone: Productivity per head (2010.Q1 = 100)

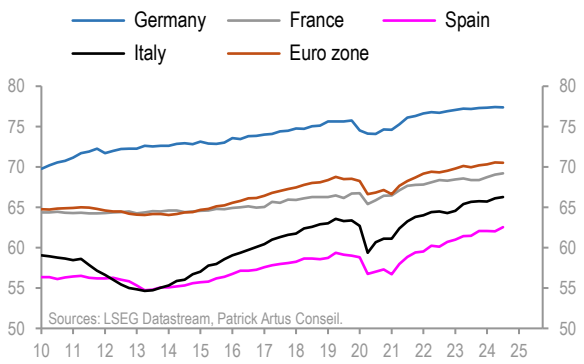


A very important question is: **Can we expect a recovery in labour productivity in these countries in the future?**

If labour productivity continues to stagnate, growth can only come from:

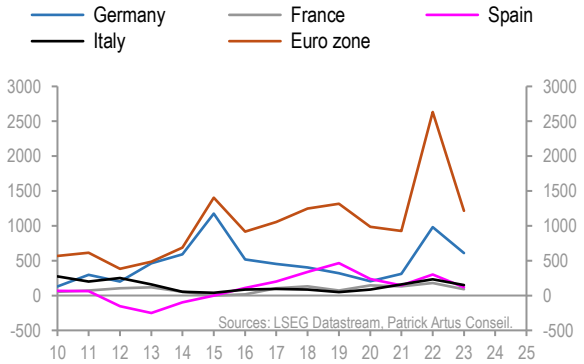
- Further increases in employment rates (Chart 2);

Chart 2
Employment rate of population aged 15 to 64 (as %)



- A large influx of immigrants (Chart 3);

Chart 3
Net migration (thousands of people, annual data)



We can be pessimistic about a recovery in productivity

We are analysing trends in:

- The rate of corporate investment;
- The rate of investment in new technologies
- The skills of young people and adults
- The weight of industry;
- The level of corporate R&D spending;

Since the late 2010s, when labour productivity slowed in the euro zone.

1. Corporate investment rate

Charts 4A/B show that the **corporate investment rate has fallen since 2019 in Germany, Spain, a little in Italy and in the euro zone as a whole.**

Chart 4A
Investment of non-financial corporations in value terms (as % of nominal GDP)

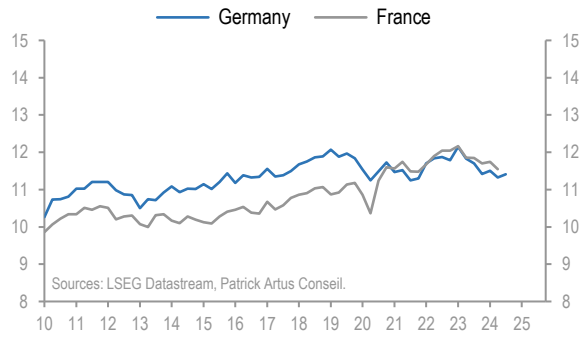
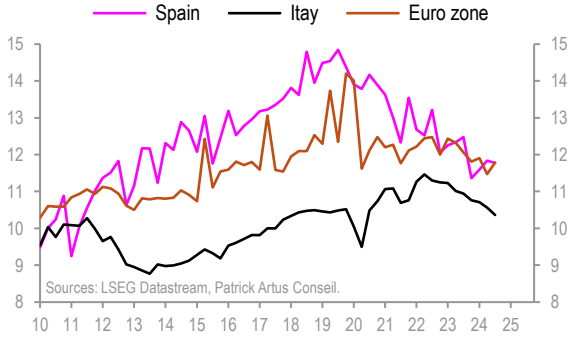


Chart 4B
Investment of non-financial corporations in value terms (as % of nominal GDP)



2. Investment rates in new technologies

Charts 5a/b show the rate of investment in new technologies (including software) in the countries studied.

Chart 5A
ICT investment including software (in value terms, as % of nominal GDP)

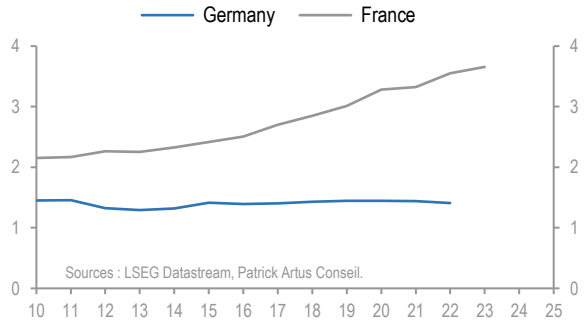
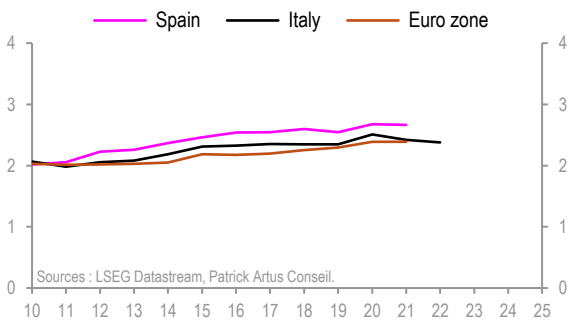


Chart 5B
ICT investment including software (in value terms, as % of nominal GDP)



We can see that, since the end of the 2010s (2017-2018-2019), the rate of investment in new technologies has stagnated in Germany, Italy and Spain, and has only increased in France, but this increase is due to the fact that software manufacturing expenditure in companies is taken into account specifically in France.

3. Corporate R&D expenditure

Charts 6A/B show the size of corporate R&D spending.

Chart 6A
Corporate R&D spending (as % of nominal GDP)

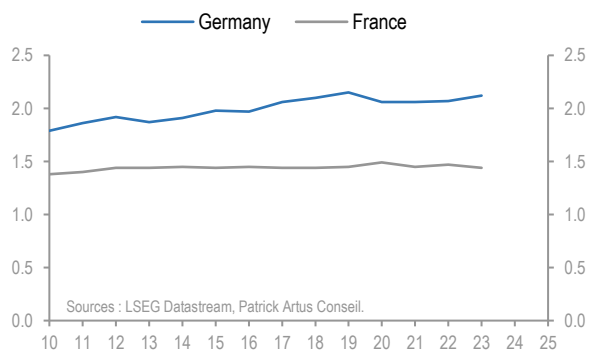
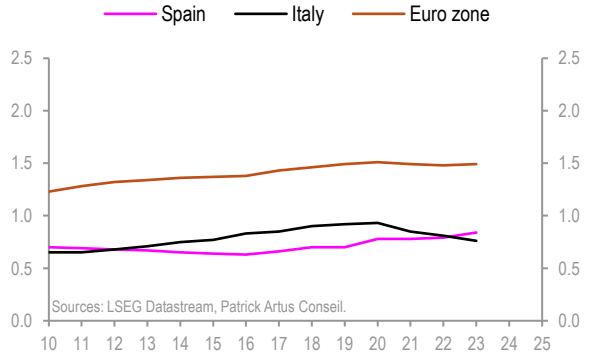


Chart 6B
Corporate R&D spending (as % of nominal GDP)



We can see that, since the end of the 2010s, corporate R&D spending has stopped growing or even fallen in Germany, France, Italy and the euro zone as a whole. It is only increasing in Spain, but it is very low there.

4. Skills of young people and adults

Table 1 shows the PISA survey scores of the four countries studied, which represent the skills of young people.

Table 1: Results of OECD PISA surveys (overall score, by decreasing score in the 2022 survey)

Country	2009	2012	2015	2018	2022
Germany	510	515	508	500	482
France	497	500	496	494	478
Spain	484	490	491	482	477
Italy	486	490	485	477	477

Source: OECD

Table 2 shows the PIAAC survey scores, which represent the skills of adults.

Table 2: Results of the OECD PIAAC survey in numeracy and literacy (by decreasing score from the 2023 survey, overall score*)

Country	2016	2023
Germany	271	267
France	258	253
Spain	249	246
Italy	249	240

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

Since 2016, the skills of young people and adults have declined everywhere.

5. Weight of the manufacturing industry

Charts 7A/B show the weight of manufacturing in GDP.

A decline in the weight of manufacturing industry is normally associated with a decline in productivity gains.

Chart 7A
Real value added in manufacturing
(as % of real GDP)

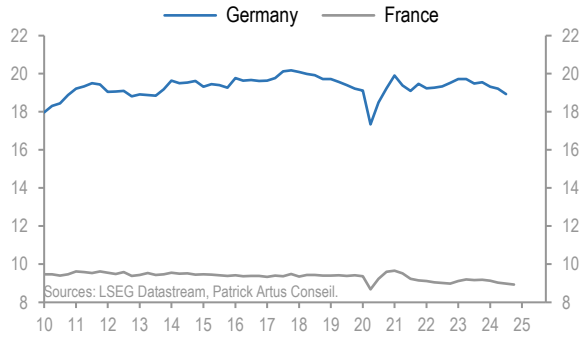
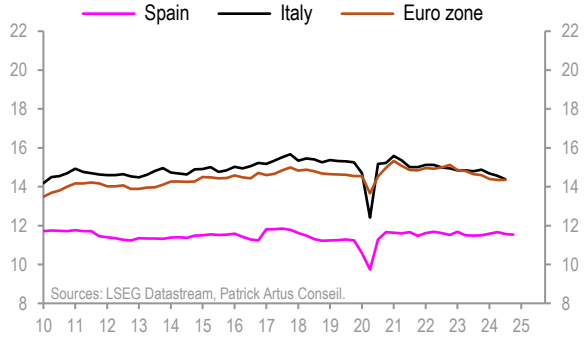


Chart 7B
Real value added in manufacturing
(as % of real GDP)



There has been **a decline in the weight of the manufacturing industry since 2018 in all countries, especially Germany**.

Summary: are there any European countries where there is hope of a recovery in labour productivity?

A recovery in labour productivity, compared with its trend since the end of the 2010s, requires a recovery in the rate of corporate investment, or the rate of corporate investment in new technologies, or corporate R&D spending, or the skills of young people and adults, or the weight of manufacturing industry in GDP.

No such recovery has been observed:

- As regards the rate of corporate investment, only in France;
- With regard to the rate of investment in new technologies, only in France, but there is some doubt about how to account for investment in software;
- In terms of corporate spending on research and development except in Spain;
- Nowhere with regard to the skills of young people and adults;
- Nowhere in terms of the weight of the manufacturing industry.

Out of 20 indicators (four countries for corporate investment, investment in new technologies, corporate R&D expenditure, skills of young people and adults, and the weight of the manufacturing industry), only three are trending in a favourable direction.

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