



Why  
unemployment in  
Europe is not falling  
across all countries.

October 2016

**ANALYSES**

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## Overview

- The situation of Europe's labour market has been improving since 2013. Average unemployment has declined from a level of up to 11 per cent to 8 ½ per cent on a seasonally adjusted basis in the middle of 2016.
- The positive labour market trend varies significantly among the EU member states; an improvement is not even discernible in some countries. This irregular pattern is partly explained by the different economic performance of the respective countries, and partly by diverse developments in the labour supply.<sup>1</sup>
- Our breakdown of the change in the unemployment rate since 2013 into a business cycle component and a supply component shows that the labour market of almost all EU member states benefited from the positive impact of the business cycle. This compared with disparate trends in the effect from the labour supply: while supporting the positive business cycle effect in many EU member states in southern and Eastern Europe, the supply of labour (partly) counteracted the largely positive business cycle effect in a number of countries in western and northern Europe.

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<sup>1</sup> This report describes changes in the supply of labour in the EU member states and does not discuss the impact of migration. It does not deal with the positive or negative changes of potential growth through immigration or emigration, nor with crowding-out or easing effects in the labour market of the respective countries.

# Why unemployment in Europe is not falling across all countries

## 1. Labour market eases in Europe, but not in every country

In Europe, the rise in unemployment in the wake of the financial crisis and the sovereign debt crisis peaked in 2013. The unemployment rate rose from an average 7 per cent in 2008 to an average 10.8 in 2013 in the EU-28. The situation in the European labour market started to ease in the second quarter of 2013. By 2015, the unemployment rate in the EU-28 had declined by almost 1 ½ percentage points to an average 9.4 per cent. The downward trend continued in the first half of 2016. In the first six months of 2016, unemployment in the European Union averaged 8.7 per cent.

However, an analysis of the average unemployment trend in the EU shows a disparate development of labour markets in the individual countries since the beginning of the economic recovery process in Europe.<sup>2</sup> In the five countries of Belgium, Finland, France, Luxembourg and Austria, national unemployment rate averages for 2015 even exceeded the comparative figures for 2013. The increase in each case varied considerably, ranging from 0.1 percentage points (Belgium) to as much as 1.2 percentage points in Finland. In Austria, the increase from 5.4 to 5.7 per cent in this period was not excessive.

With Luxembourg and Finland, Austria is one of the three countries whose unemployment rate in the first half of 2016 exceeded that of the first six months of 2013 (see Chart 2).

While unemployment has started to decline in Belgium and France, and the upward trend has slowed slightly in Luxembourg and Finland in the first half of 2016, it has risen noticeably by almost 1 percentage point in the same period in Austria.

This compares with a disproportionately strong improvement in unemployment in a number of EU member states. These were countries which were strongly impacted by the economic crisis before the onset of the recovery process in Europe, such as Spain, Ireland, Portugal and Greece. But they also included many countries in Central and Eastern Europe, such as Bulgaria and Slovakia.

Chart 1: Unemployment rate (in %, seasonally adjusted)

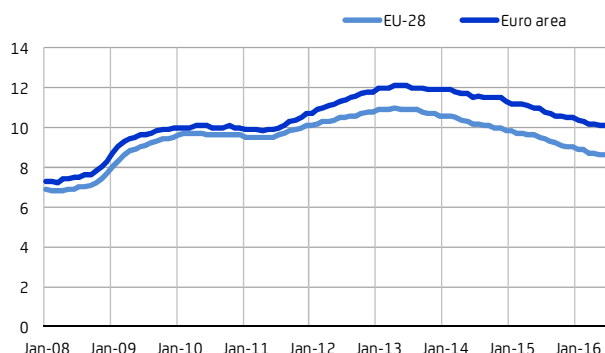
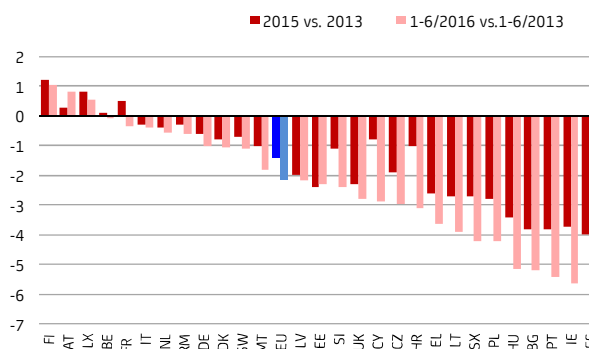


Chart 2: Unemployment rate (difference in PP)



Source: Eurostat, Bank Austria Economics & Market Analysis Austria

<sup>2</sup> See also: "Draft Joint Employment Report", European Commission & Council of the European Union, Brussels 2016.

## 2. Diverse economic growth ...

The improvement of the European labour market reflects sustained economic recovery.<sup>3</sup> The European economy has been experiencing a moderate upward trend since the second quarter of 2013. Expressed as an average of the EU-28, economic output in 2015 was a real 3.3 per cent above the level recorded in 2013. The number of employed persons rose by 2.4 per cent in the same period. While economic output in real terms exceeded the pre-crisis level, employment still fell short of the 2008 figure (see Chart 3).

Chart 3: GDP and employment in EU-28 (2008=100)

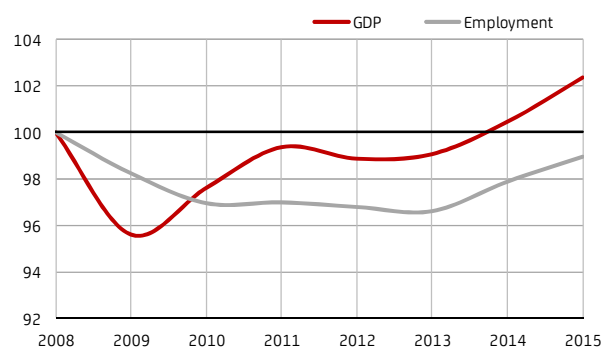
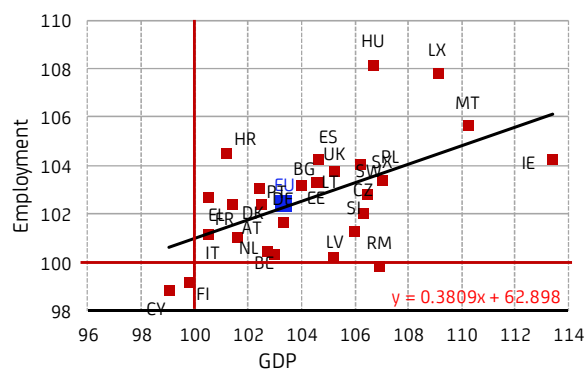


Chart 4: GDP and employment (2013=100)



Source: Eurostat, Bank Austria Economics & Market Analysis Austria

Economic recovery was discernible in almost all EU countries, though its momentum varied from country to country. There is a positive correlation between GDP growth in individual countries and the change in employment (see Chart 4). The stronger the economic growth in the period in question, the stronger the rise in employment normally in the respective countries. The five countries which have not seen a decline in unemployment since 2013 recorded disproportionately weak economic growth with the exception of Luxembourg, and consequently also disproportionately low growth in employment.

The divergent economic developments in EU member states therefore only partly explain the varying trends in national labour markets since 2013. Chart 5 shows that while there is a clear correlation between economic growth and the decline in unemployment, this is less pronounced (as reflected in the rise of the regression line) than the correlation of GDP growth and the change in employment levels. In EU countries with GDP growth, the decline in unemployment was therefore weaker than the increase in employment.

This can be most clearly seen in developments in Luxembourg, which has one of the most favourable growth and employment trends amongst all EU countries but nevertheless records rising unemployment, and in the fact that some countries such as Italy, the Netherlands, Cyprus and Denmark saw unemployment decline despite relatively weak economic growth and not particularly favourable employment figures between 2013 and 2015.

## 3. ...and sharply divergent labour supply trends

In addition to economic performance, the unemployment rate in the period in question was influenced by changes in the labour supply. In the EU-28, the labour supply (the number of employed persons and people looking for work) increased by 0.8 per cent or almost two million from 2013 to 2015 (see Chart 6). The rise is explained primarily by an increase in the

<sup>3</sup> Alfonso Alpaia et al., "Labour Market and Wage Developments in Europe 2015", European Commission, DG for Employment, Social Affairs and Inclusion, Brussels 2015.

number of gainfully employed persons as a percentage of a country's population; the influx of manpower from outside the EU accounts for only a small percentage of the rise.

Labour supply trends vary considerably among the EU countries. In 12 of the 28 EU member states, the labour supply increased at a disproportionately strong rate between 2013 and 2015. Luxembourg, the country with the strongest rise in unemployment, also saw the highest increase in the labour supply, which was up by almost 9 per cent. France and Austria also recorded disproportionately strong increases in the labour supply, and rises were also seen in Belgium and Finland in the period in question.

Chart 5: GDP and unemployment (2013=100)

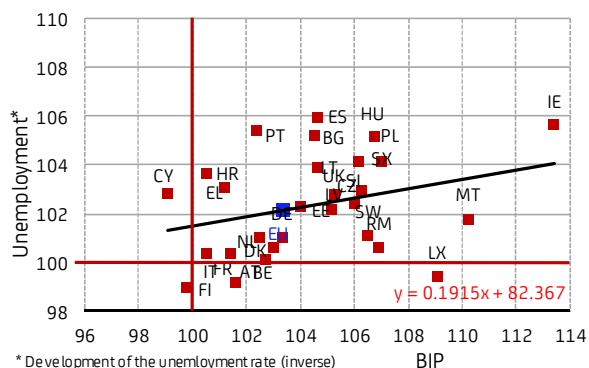
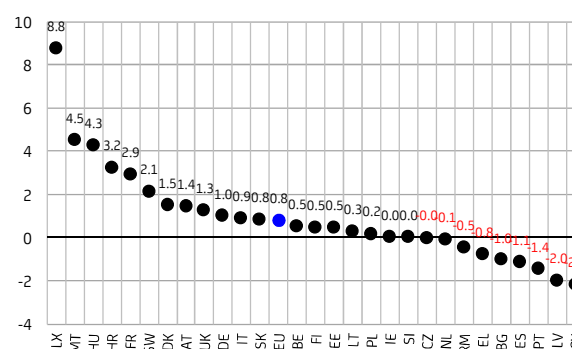


Chart 6: Labour supply (change in % 2015/13)



Source: Eurostat, Bank Austria Economics & Market Analysis Austria

This compares with a decline in the supply of labour in nine countries. These included a number of countries in southern Europe such as Spain, Portugal and Cyprus, where the economic crisis led to an outflow of manpower, and in Central and Eastern Europe, where structural factors such as high wage differentials vis-à-vis other EU countries and limited job opportunities resulted in a decline in the labour supply.

In the EU countries, unemployment trends between 2013 and 2015 were influenced to varying degrees by economic performance and the supply of labour. We broke the change in the unemployment rate down into a business cycle component and a labour supply component by means of a simulation which assumed that a change in employment (induced by a positive business cycle) leads to a 1:1 increase or reduction of job seekers due to a rigid labour supply.<sup>4</sup>

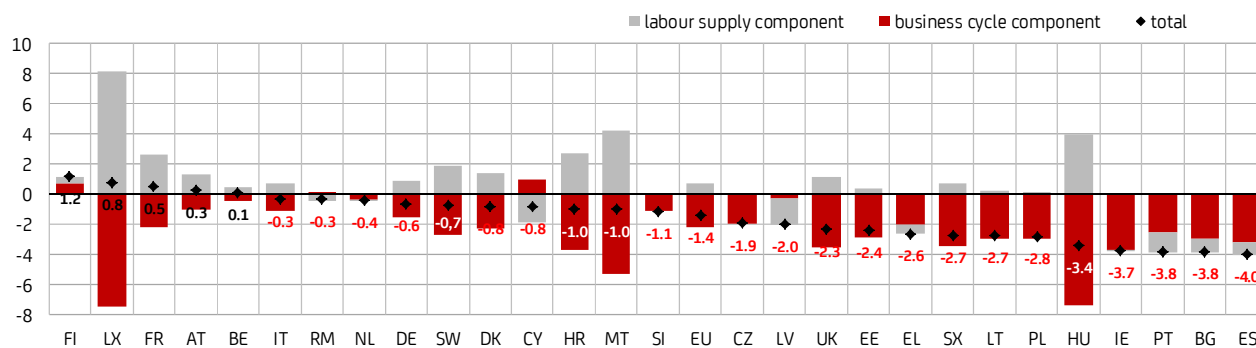
The analysis showed that economic recovery had a positive impact on the labour market in 25 of the 28 EU countries and helped to reduce unemployment. Economic growth was too weak to lower unemployment in only three European countries: Cyprus, Romania and Finland. Nevertheless, unemployment declined in Cyprus and Romania due to a – in some cases sharp – decline in the labour supply. The labour market benefited from labour supply effects in seven other countries.

This compares with an increase in the labour supply in Finland, a development which accounted for about 40 per cent of the rise in unemployment. In the other four EU countries, whose unemployment rate exceeded that of 2013, economic growth dampened the rise in unemployment. However, the positive effect did not suffice to fully offset the burden associated with an increase of the labour supply. Based on the assumption of a rigid labour

<sup>4</sup> Our calculations of the effect of the labour supply assume that the actual measured change in employment between 2013 and 2015 is reflected to exactly the same extent in a change in the opposite direction in the number of job seekers. The effect of the labour supply is obtained by a comparison of the actual unemployment rate for 2015 with the unemployment rate (based on the same number of employees) calculated on the basis of this simulated number of job seekers. The business cycle effect is obtained by deducting the labour supply effect from the actual change in unemployment between 2013 and 2015.

supply, Luxembourg would even have suffered from a lack of manpower as a result of stronger economic growth. Belgium's unemployment rate in 2015 would have been 8 per cent, 0.4 percentage points below the 2013 figure (actual unemployment rate: 8.5 per cent), in France it would have been 7.8 per cent, 2.1 percentage points lower (actual figure: 10.4 per cent), and Austria would have had an unemployment rate of 4.4 per cent, one percentage point below the 2013 figure (actual figure: 5.7 per cent).

**Chart 7: Change in unemployment rate, 2015 compared with 2013, broken down into an business cycle component and a labour supply component (in percentage points)**



Source: Eurostat, Bank Austria Economics & Market Analysis Austria, UniCredit Research

In terms of an EU average, the labour supply has grown by 0.8 per cent or almost 2 million since 2013. The rise is almost entirely a result of an increase in the number of gainfully employed persons in the EU-28 member states, and accounts for about 95 per cent of overall growth in the labour supply. In addition to population growth, this is explained by an increase in the number of employed women and older employees.<sup>5</sup> Growth in non-EU labour migration accounts for only about 100,000 persons or 5 per cent of the increase.

Developments in the individual EU countries were not limited to divergent trends among their population of gainfully employed persons and among their respective non-EU labour migration flows. They in large measure also reflected strong workforce migration between EU member states. The unconditional opening of labour markets for new EU member states in Central and Eastern Europe on 1 May 2011 and 1 January 2014 (Bulgaria and Romania) added further momentum to the already strong growth in the mobility of Europe's workforce.<sup>6</sup>

Without non-EU labour migration, the EU's workforce potential has grown by almost 1.9 million persons since 2013. Within this figure, the growth of gainfully employed persons in the respective EU countries accounts for a combined increase of about 0.9 million persons. EU nationals who additionally work outside of their own country explain the somewhat larger increase in the labour supply of about 1 million. About ¼ of these EU nationals come from the old member states, the former EU-15. But most EU nationals, about 75 per cent, are from the new EU member states.<sup>7</sup>

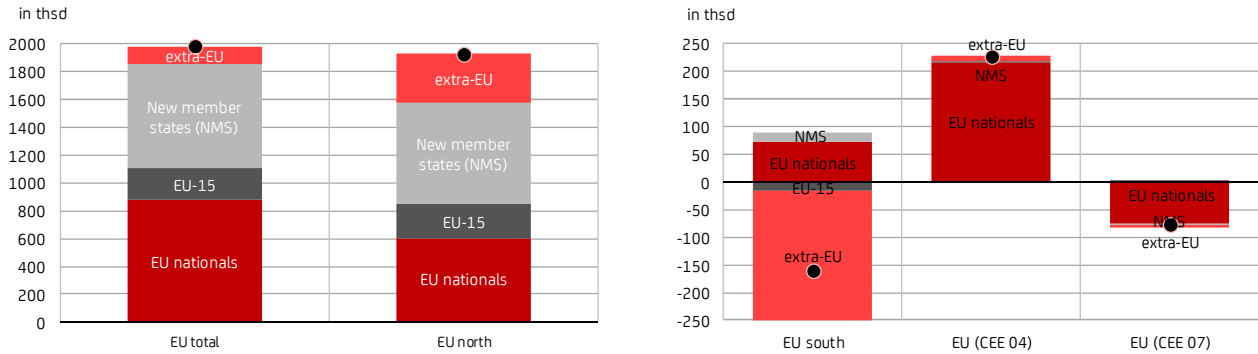
<sup>5</sup> Employment statistics", Eurostat statistics explained, August 2015. [http://ec.europa.eu/eurostat/statistics-explained/index.php/Employment\\_statistics](http://ec.europa.eu/eurostat/statistics-explained/index.php/Employment_statistics)

<sup>6</sup> "Labour mobility and labour market adjustment in the EU", Alfonso Arpaia, et al., Economic Papers 539, European Commission DG for Economic and Financial Affairs, Brussels 2014.

<sup>7</sup> The influx of migrant workers to the EU-15 from the new EU member states is therefore stronger than estimates of studies performed before these countries joined the EU. In addition, transitional arrangements for limiting free access for workers in a number of countries, such as Germany or Austria, redirected mobile migrant workers to target countries such as the United Kingdom, which were initially considered less attractive.

See: Walterskirchen Ewald et al., "Auswirkungen der EU-Osterweiterung auf den österreichischen Arbeitsmarkt, Wirtschaftsforschungsinstitut im Auftrag der Bundesarbeitskammer", Vienna 1998, and Alvarez-Plata Patricia, "Potential Migration from Central and Eastern Europe into the EU-15 – An Update", Report for the European Commission DG Employment and Social Affairs, DIW, Berlin 2003.

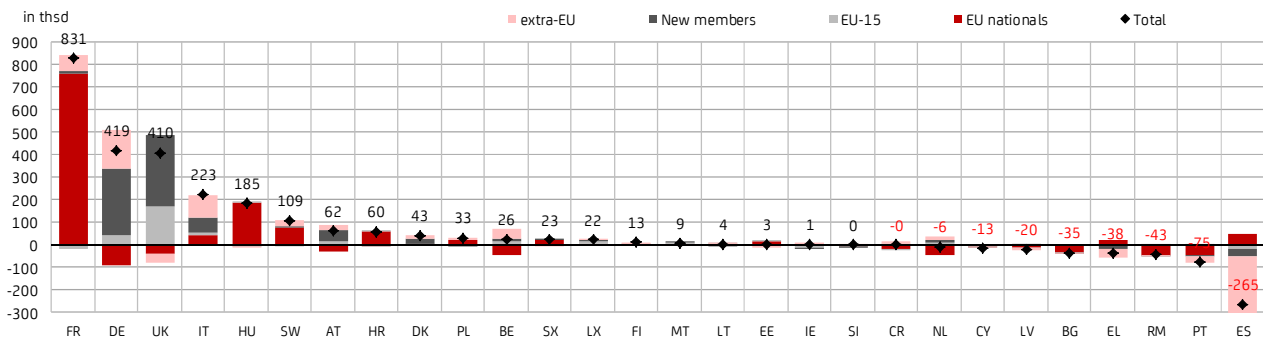
G8a/b: Increase in labour supply between 2013 and 2015 by region of origin



Source: Eurostat, Bank Austria Economics & Market Analysis Austria

The attraction of individual countries for migrants from other EU member states varies greatly from country to country. About one half of EU countries prove to be a popular destination for migrant workers from EU countries. The large member states, i.e. the United Kingdom, Germany and Italy, lead with an influx of about 450,000, 350,000 and 80,000 migrant workers, respectively, from other EU countries. Austria comes in fourth place with growth of 70,000 migrant workers. In terms of relative size, i.e. based on the number of employed persons, Austria has the strongest growth with 1.7 per cent, followed by the UK (1.6 per cent), Germany (0.8 per cent) and Italy (0.3 per cent). Among the EU countries, the figure for Austria is exceeded only by Luxembourg (4.9 per cent). Among the five countries with growing unemployment since 2013, the labour supply in Luxembourg, Austria, Belgium and Finland has increased through migration from other EU countries. Only in France is the increase in the labour supply almost entirely a result of growth in the country's population of gainfully employed persons. Of the approximately 0.9 million increase in the labour supply in the EU through the influx of EU nationals from other countries, workers from the new EU member states account for about ¾ or over 700,000 persons in the period 2013 to 2015. In this context, labour supply growth as a percentage of overall employment was strongest in Luxembourg at 1.6 per cent, followed by Austria with 1.3 per cent and the UK with 1.0 per cent. All five countries with growing unemployment rates in this period also recorded an at least moderate influx of workers from the new EU member states

Chart 9: Change in labour supply between 2013 and 2015 by origin



Source: Eurostat, Economics & Market Analysis Austria, UniCredit Research

#### 4. Résumé

Economic recovery in the EU has had a positive impact on the labour market since 2013. Unemployment has been falling in almost all countries. Only five countries recorded an increase in unemployment in the period 2013 to 2015. These include Luxembourg, Belgium, France, Finland and Austria.

While economic recovery in most of these countries was no more than moderate, this does not sufficiently explain the unfavourable unemployment trend compared with other countries. With the exception of Finland, the rise in unemployment in these countries is primarily explained by the strong growth of the labour supply; the positive effects of economic recovery were insufficient to offset its strong momentum.

This compared with a decline in the labour supply in nine countries of the European Union, a development which helped ease the labour market situation over and beyond the – in most cases – improved economic conditions. The strongest positive effect from a decline in the labour supply was seen in Cyprus and Latvia.

The supply of labour has risen overall, especially in countries in western and northern Europe, a trend which largely reflects the influx of EU nationals from the new EU member states. This compares with a, in some cases significant, decline in the labour supply in most countries in southern and Central and East European<sup>8</sup> countries. In the five countries which had a higher unemployment rate than in 2013, the labour supply – with the exception of France – increased through worker migration from other countries, in most cases other EU countries, and not as a result of an increase in the countries' population of gainfully employed persons. Austria and Luxembourg are the countries which have been particularly affected by these migration flows.

<sup>8</sup> See: Lubomir Mitov et al., "CEE potential growth constrained by human capital", Economics Thinking No. 15, UniCredit Research, 2016.



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