The Federation of International Employers
Your Multinational HR Alliance

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The Federation of International Employers (FedEE) writes

GDP growth in the EU hides falling productivity

Although economic and employment growth in the European Union (EU) remains slightly positive, overall its economy remains in a very fragile condition. Most growth that has recently taken place was due to bounce back by countries that had been long suffering from their own prolonged downturns - such as Spain and Greece. Furthermore, the highest growth rates have been achieved by eastern European countries that were taking advantage of production costs and problems elsewhere in the world.

According to the EU statistical agency Eurostat, GDP growth across the EU between Q4 2018 and Q1 2019 averaged just 0.5% - significantly below the 0.8% growth in the USA. But in Europe all is not what it appears in the aggregate figures. The top 9 growth countries were all in Eastern Europe - Croatia (+1.8), Poland (+1.5%), Hungary (+1.5%), Romania, Bulgaria, Lithuania, Slovakia, Cyprus and Slovenia. Moreover, although EU employment was up 0.3%, much of this growth was also being led by eastern European countries - with Hungary (+1.0%) being well ahead of the rest.

But if we look more closely at the components of growth, we see another factor at work. Outpacing employment growth is "gross fixed capital formation" (+1.3%). Thus, capital growth is leading labour growth (+0.3%) - due largely to automation. Although technological developments are partly driving this, there are two other factors at work. Firstly, labour productivity began to fall last year and is now, on average, at a negative level. The only two occasions this has happened in recent years was in the 2008/9 mega recession and during its aftershock in 2012. Secondly, although eastern European labour remains cheaper than in western Europe, the gap is closing fast - especially at a net level. Therefore, the refuge of low labour costs per unit of output traditionally found in eastern Europe is fast disappearing and will virtually have disappeared by 2022. Automation is the only way forwards, but how far can it go to avert a downturn, and will its labour displacing consequences be equivalent to a downturn for many workers?

"FedEE continues to predict a recession will be in full swing by Q3 2020," declares Robin Chater, Secretary-General of the Federation of International Employers (FedEE), "*however, it is by no means certain that the next recession will be a global phenomenon. It could be that*

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certain (particular smaller) countries escape its effects for special reasons of their own - such as Cyprus, which is fast on its way to becoming the next oil and natural gas economy. Economies too like UAE, Singapore and Hong Kong have, in the past, had a way of avoiding the worst effects of downturns. What is for certain, however, is that the political and economic shambles that is Brexit Britain will be the biggest sufferer of the next global downturn."

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What is FedEE?
The Federation of International Employers (FedEE) is the leading organisation for multinational companies. It was founded in 1988 with financial assistance from the European Commission. Today it is an independent body with corporate members all around the globe.