ETUI Policy Brief

European Economic, Employment and Social Policy

2021.12

(Post-)pandemic employment dynamics in a comparative perspective

Stefan Jestl and Robert Stehrer

Policy recommendations

- Fiscal and monetary policies should remain expansionary to ensure that the nascent labour market recovery continues, allowing a quick recovery to pre-crisis employment levels. Fiscal policy should focus on pressing short-term needs, but also on supporting the EU's transition to tackle challenges of the future, including the climate crisis and digitalisation.
- Policymakers need to take into account the pandemic's divergent employment effects across industries. Employment-support schemes must be kept in place for those industries that are still suffering, and must be quickly re-activated for other areas of the economy in the case of renewed lockdowns in the autumn. This is crucial in order to minimise as much as possible the permanent labour market scarring that the pandemic will cause.
- Policymakers need to put particular emphasis on younger and low-skilled workers, as well as those in heavily affected industries and regions. If the pandemic has caused a permanent, structural shift in the nature of work and demand for particular skills, active labour market policies must be enacted to support the transition. Workers lacking digital skills or those living in areas with a high reliance on tourism are likely to be particularly exposed. It is of vital importance that the social security system, rather than workers themselves, bears the brunt of this transition.
- Long-term unemployment must be minimised as much as possible. The longer workers spend without a job, the harder it will be to reintegrate them back into the labour market.

Stefan Jestl is an economist and **Robert Stehrer** is the scientific director at the Vienna Institute for International Economic Studies (wiiw) in Vienna, Austria.

etui.

Introduction[1]

The economic shock induced by the pandemic has plunged the global economy into recession. In particular, most EU economies experienced a relatively sharp downturn in economic output in 2020 compared with other major economies, such as the United States. Conversely, China even achieved positive growth in 2020 thanks to a strong economic recovery already in the second half of last year.

Lockdowns and social distancing measures have affected economic life in far-reaching ways. While the whole economy was affected at the onset of the pandemic, different industries have faced varying economic difficulties throughout the crisis. The service sector, most notably contact-intensive services, have been forced temporarily to close their businesses in the wake of recurring virus waves. Tourism, which in some countries makes up an important share of the economy (for example, in Greece, Portugal, Spain, Italy, Croatia and Austria), has been one of the hardest hit industries.

Governments in European economies have rolled out major public support measures to dampen the pandemic's negative economic and social effects. While the United States has relied mainly on supporting incomes (through direct monetary transfers to households), European countries have put more emphasis on job retention (through transfers and support for companies). The centrepiece of the public support measures in Europe has been the launch of short-time working schemes. Throughout the pandemic, many companies have resorted to these schemes, which has helped to save many jobs and to mitigate losses in household income. This is in clear contrast to the effects of public support in the United States, which has not been designed to prevent job losses.

Despite the unprecedented public support measures, the pandemic has also caused unemployment to skyrocket. In 2020, the Covid-19 shock hit some European labour markets even harder than the global financial and economic crisis. The emergence of new virus variants and supply problems and delays at the beginning of the vaccine rollout programmes resulted in a bumpy start for 2021. The strained labour market situation and the sluggish recovery until the second quarter of 2021 have put the jobless at risk of long-lasting scarring effects and being trapped in unemployment for a longer time. Such effects are likely also to have negative repercussions for long-term economic development.

Recently, however, stronger global growth, driven by the economic upswing in the United States and China, and an accelerating vaccination campaign have helped EU countries to turn formerly gloomy expectations into more positive ones (European Commission 2021). Most recent forecasts presume that almost all European economies will reach their pre-crisis economic level by 2022. Nevertheless, this prediction is still fraught with uncertainty. Moreover, the pace of recovery is extremely divergent between industries. Global trade volumes have returned to pre-crisis trends, driving up demand for industrial goods.

1 This policy brief is based on the baseline results from the ETUI-wiiw project on short- and medium-term sectoral employment forecasts taking into account economic, sectoral restructuring during and in the aftermath of the COVID-19 pandemic.

Retail sales have also rebounded, helped by easing lockdowns and ever-greater familiarity with online shopping. By contrast, industries requiring international mobility of people – most obviously, but not limited to, tourism – will take much longer to recover.

This policy brief explores potential employment dynamics across European industries by drawing on past sectoral trends and the latest macroeconomic forecast results up to 2026, taken from the IMF and the European Commission. Using this information, employment forecasts by industry are generated for European countries and the EU27. The preliminary results indicate that in most countries employment is expected to reach its pre-pandemic level already in 2021 or 2022 based on high projected GDP growth rates of up to 4 per cent in 2021 and 2022, while hours worked will lag behind with a full catching-up only in 2022 and 2023. Even though these predictions suggest a near end of the economic disturbance caused by the pandemic, the abovementioned uncertainty must be taken seriously. Moreover, special attention must be paid to the most affected population segments: younger and low-skilled workers should not be left behind in the recovery phase.

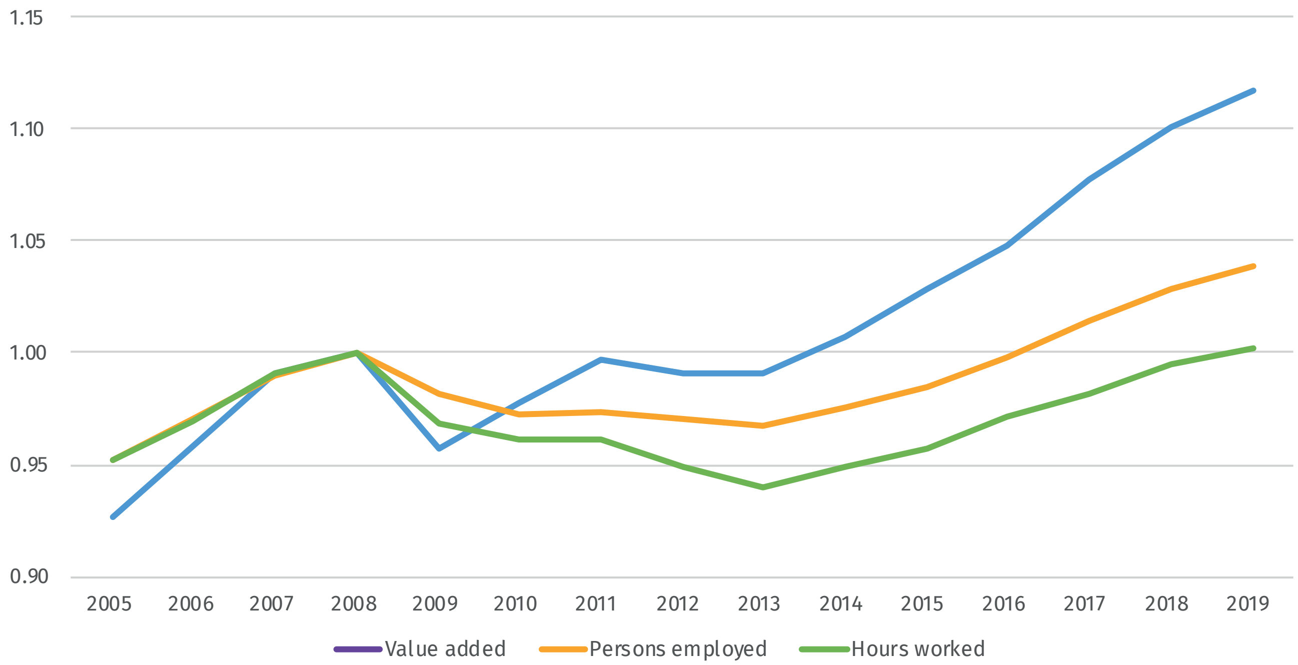
Given this background, this policy brief first summarises the employment effects of the global financial and economic crisis in 2009 and the aftermath. In a next step, the employment effects of the Covid-19 crisis in 2020 are compared with the financial crisis and the recovery period until 2019 by industry and social group. In a final step, preliminary results for the recovery paths after the pandemic are discussed. The last section concludes with policy recommendations.

Lessons from the global financial crisis 2009: the long way back

Each crisis is different, but one can learn from previous ones. Figure 1 shows developments in the EU27 for value added, number of persons employed, and hours worked after the global financial crisis hit economies in 2008 and 2009. As can be seen, value added in 2009 dropped by about 4 per cent, recovered to almost pre-crisis level only in 2011, but then remained stagnant at this level until around 2013 due to a sluggish labour market and aggregate demand recovery, too-tight fiscal policy (for example, Heimberger 2017) and ongoing uncertainties in the financial markets and about the stability and durability of the euro area. Only after 2013 did a stronger recovery take hold, which was halted by the economic fallout from the pandemic in early 2020 (which is discussed below). More importantly, the number of persons employed only recovered in 2016 and hours worked only regained its 2008 level in 2018. Thus, it took almost a decade for persons employed and hours worked to fully recover.

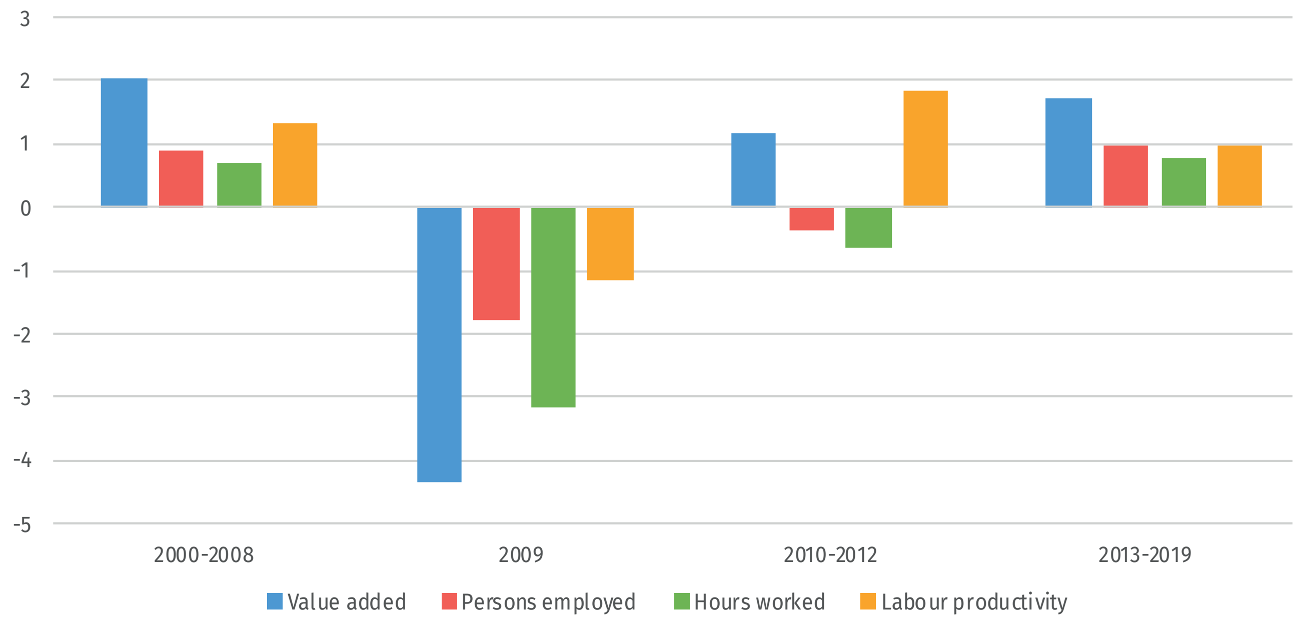
An additional insight is that labour demand responded with a delay to the economic shock. As can be seen from Figure 1, while economic activity declined dramatically in 2009, labour demand (both in terms of number of persons employed and hours worked) declined less because of labour hoarding effects and short-term working arrangements (for example, Müller and Schulten 2020). However, employment levels also responded less quickly in the upturn, particularly from the period 2010 to 2012 due to uncertainty and cautious recruitment.

Figure 1 **Impact of the global financial crisis, EU27, 2005–2019**



Note: 2008=1.
Source: Eurostat National Accounts data, authors' calculations.

Figure 2 **Average growth rates in the EU27 before, during and after the global financial crisis (%)**



Source: Eurostat National Accounts data, authors' calculations.

The reason for the sluggish recovery of hours worked after the hit of the financial crisis in 2009 was low growth rate of economic activity in 2010–2012 of around 1 per cent, accompanied by a high growth rate of labour productivity of around 2 per cent, and a slightly lower average growth rate of economic activity from 2013–2019 compared with the pre-crisis period 2000–2008, with labour productivity growth at around 1 per cent. The growth rates for the different time horizons are presented in Figure 2.

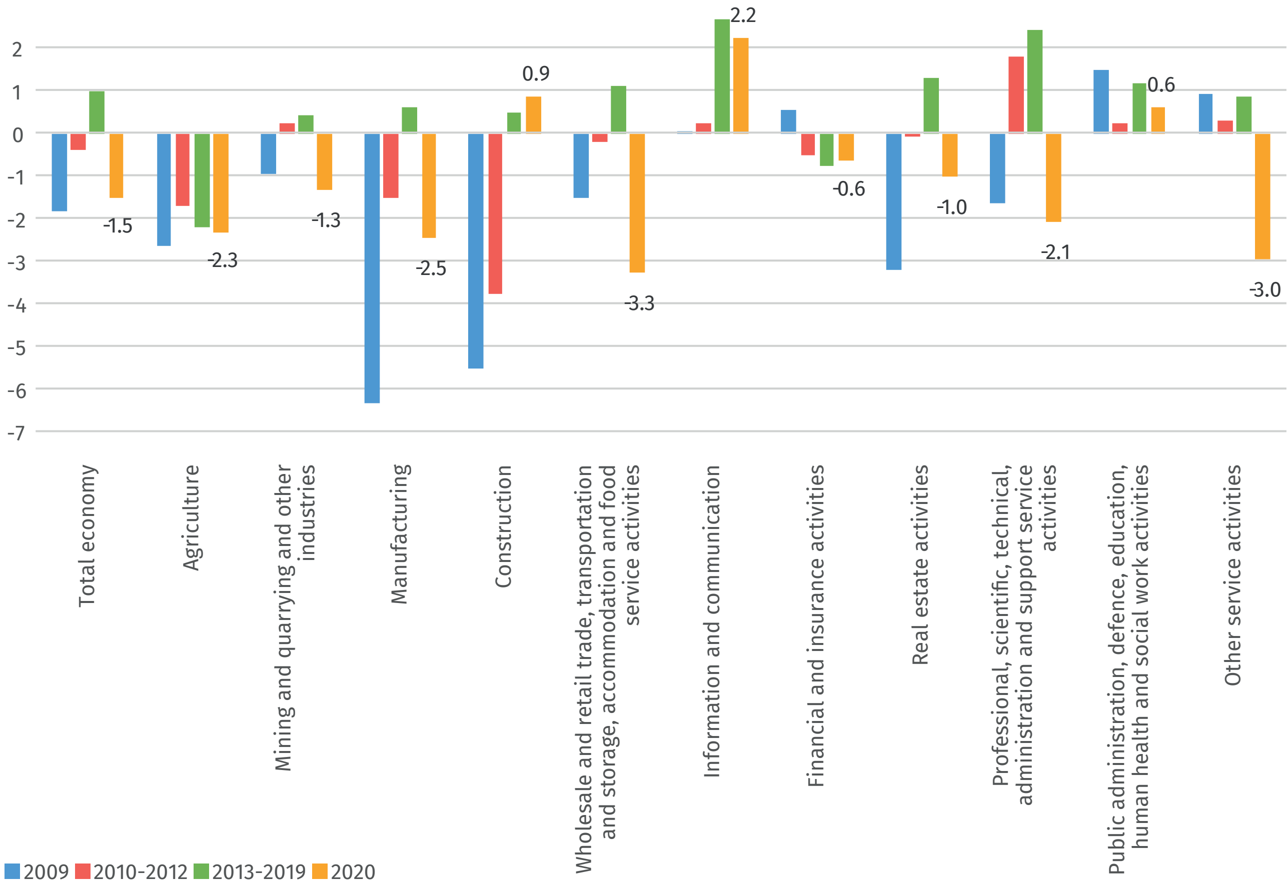
Overall, this points to the fact that the recovery of levels of employment or hours worked – or of the labour market in general – largely depends on macroeconomic conditions and prevailing macroeconomic policy decisions and the development of (labour) productivity growth after an economic shock. Further, even if economic activity is recovering quickly one should not necessarily expect a rapid recovery of employment and hours worked, which also depend on productivity dynamics in conjunction with labour supply dynamics.

Impact of Covid-19 pandemic in a comparative perspective

The impact of the Covid-19 crisis of course differs by industry and labour market group. Figure 3 presents the growth rates of employment (based on National Accounts data) in 2009 (financial crisis), 2010–2012 (period of large overall uncertainty and euro crisis), 2013–2019 (recovery phase), and 2020 (Covid-19 crisis), allowing for a comparison across industries and over time. In 2020 employment levels dropped by 1.5 per cent, slightly less than in the wake of the global financial crisis in 2009 (1.8 per cent). This is remarkable given that economic activity in the EU in 2020 declined by about 6 per cent compared with 4.3 per cent in 2009 (European Commission 2021). Strong employment effects have been cushioned by government support schemes, furlough schemes and short-time working arrangements, together with labour hoarding effects. This has been a clear effect of the public support measures directed towards companies in the EU compared with the stronger focus on direct household income support in the United States (the US unemployment rate increased from 3.7 in 2019 to 8.1 in 2020). In addition, economies seemed to recover relatively quickly after the lockdown measures have been relaxed after the first wave of the pandemic in summer 2020 (though they again declined – particularly in some industries – in the course of the second wave in autumn 2020).

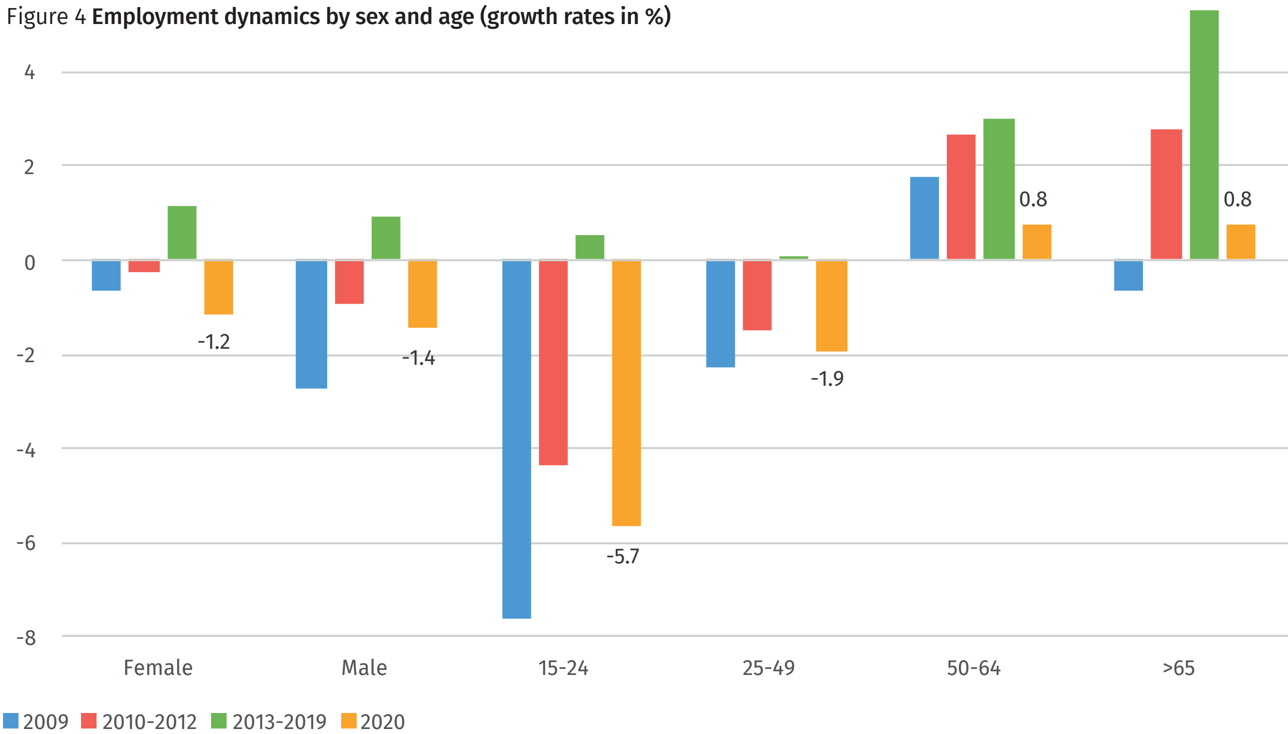
Figure 3 also reveals the varying impact across industries. For 2020 as a whole, wholesale and retail trade, transportation and storage, accommodation and food service activities, and other service activities, were the hardest hit, with employment declining by 3.3 per cent and 3.0 per cent, respectively. Also strongly affected compared with trend growth rates of the pre-pandemic recovery phase (2013–2019) were manufacturing, real estate activities, and professional, scientific, technical, administration and support service activities. The industries with positive growth rates are construction (0.9 per cent) and information and communications (2.2 per cent). There are also remarkable differences compared with 2009, when particularly manufacturing, construction

Figure 3 **Sectoral employment dynamics (growth rates in %)**



Source: Eurostat (nama_10_a10_e), authors' calculations.

Figure 4 **Employment dynamics by sex and age (growth rates in %)**



Source: EU LFS, authors' calculations.

and real estate activities were hit much harder, with growth rates in other industries being affected much less.

The differences in sectoral employment growth rates also imply divergent impacts on the various labour market groups. This is presented in Figure 4 for sex and age groups (based on EU LFS data). Concerning sex, employment growth rates of female and male workers declined relatively similarly with 1.2 and 1.4 per cent, respectively. This is different from the crisis in 2009 when the impact has been much stronger for male workers. Similar to the crisis in 2009, labour demand for young workers in the age range 15–24 declined by 5.7 per cent (among other things because of more short-term contracts) and for the age-group 25–49 by 1.9 per cent. Although growth rates of older age groups were also considerably lower than in the past (particularly compared with the trend growth rates 2013–2019), these at least remained positive at almost 1 per cent.

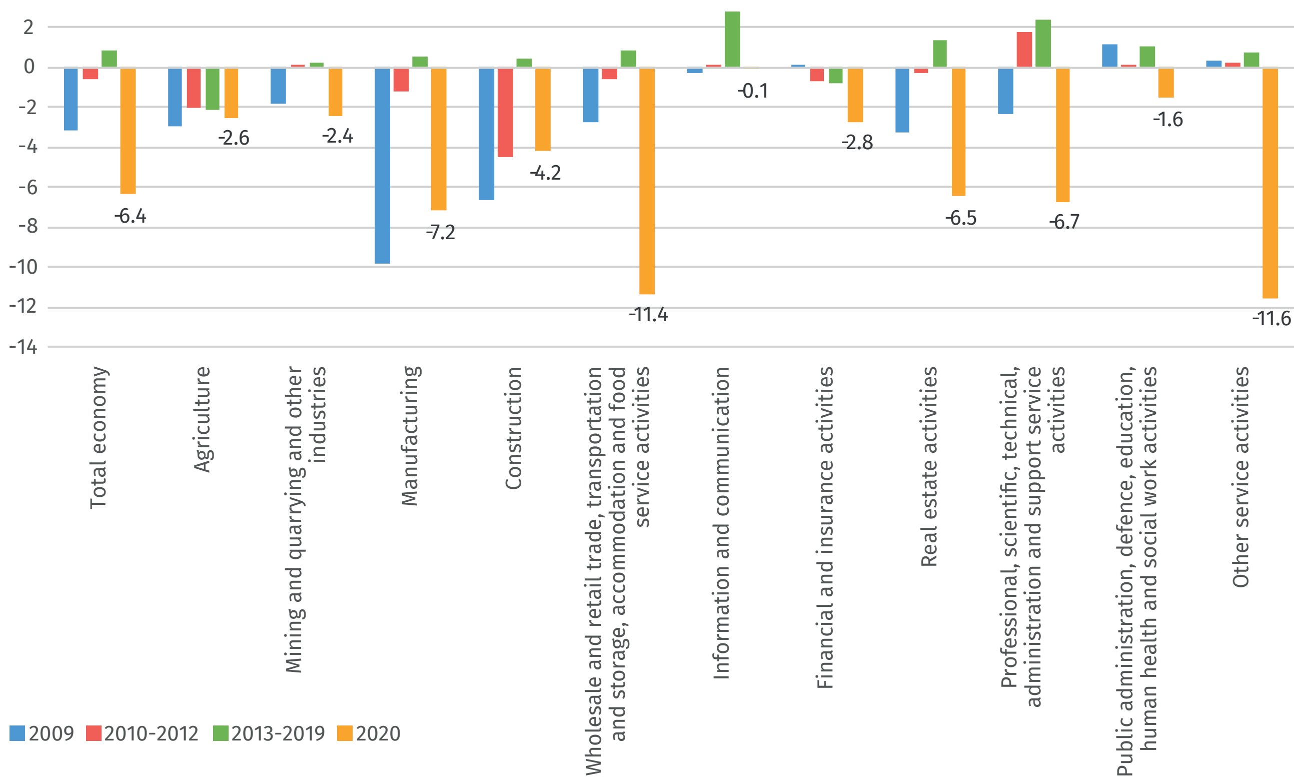
Finally, Figure 5 presents the heterogenous impact of the Covid-19 crisis on various occupational groups (associated with educational attainment levels). The most negatively affected occupational groups are elementary occupations (–6.4 per cent), service workers, shop and market sales workers (–5.8 per cent) with labour demand for other groups also falling strongly by more than 4 per cent (see Figure 5). Interestingly, a strong impact is also recorded for legislators, senior officials and managers (–4 per cent) and technicians and associate professionals (–4.3 per cent), which is a pattern markedly different from the global financial crisis of 2009.

It is important to note that these data again show the number of persons employed, who have been kept in place by means of short-time working arrangements and furlough schemes, and probably labour hoarding by firms. Figure 6 therefore shows the decline in labour demand in terms of hours worked (comparable with Figure 3 above). Total hours worked dropped by more than 6 per cent for the total economy (more or less corresponding to the decline in overall GDP). Hours worked in the two most affected industries (wholesale and retail trade, and other service activities) declined by more than 11 per cent, followed by the other three (manufacturing, construction and professional service activities) by rates ranging from 6.5 to 7.2 per cent. In terms of hours worked, labour demand even in information and communication services declined slightly.

Figure 5 **Employment dynamics by occupational groups (growth rates in %)**

Source: EU LFS, authors' calculations.

Figure 6 **Hours worked dynamics by industry (growth rates in %)**



Source: Eurostat (nama_10_a10_e), authors' calculations.

Potential recovery paths after the pandemic

Having reported the impact of the Covid-19 crisis on employment compared with the global financial crisis in 2009 and long-term growth rates, the most important question is how labour demand will evolve over the next few years and by what time pre-crisis employment levels will be regained. Recent GDP forecasts by various institutions (for example, IMF 2021; European Commission 2021) are fairly optimistic and predict growth rates for the EU in 2021 and 2022 of more than 4 per cent. According to IMF forecasts, growth rates from 2023 will fluctuate around 2 per cent for the EU. These macroeconomic growth forecasts are combined with industry-level value added growth rates and shares over the period 2013–2019 to calculate industry–level growth rates that are consistent with the macroeconomic scenarios. Furthermore, using long-term growth rates of labour productivity (2013–2019) for labour productivity in terms of persons employed and hours worked allows us to calculate potential employment recovery dynamics, based on the assumptions that (i) the macroeconomic forecasts turn out to be accurate and (ii) the sectoral growth patterns of the period 2013–2019 of value added and labour productivity re-emerge.[2]

The preliminary results suggest that employment levels in terms of persons employed might already be reached again this year or in 2022 in most countries, given the strong macroeconomic growth predicted in GDP forecasts. In terms of hours worked the 2019 level will be reached about one or two years later because of the stronger decline in hours worked in 2020 (see Figure 6) compared with persons employed and larger productivity growth rates in terms of hours worked.

Concerning employment and hours worked at the industry level, the results indicate that most industries will return to their pre-crisis levels already in 2021 or 2022 and between 2022 and 2023 in terms of hours worked. The industries with strong growth rates – specifically information and communication industries and professional, scientific, technical, administration and support service activities – or industries with a limited impact from the crisis (specifically public administration, defence, education, human health and social work activities) will reach pre-crisis levels even earlier. Other industries remain on their downward trend, including agriculture and financial and insurance activities. In contrast, the most affected industries will reach these levels only later due to relatively modest value added combined with relatively high productivity growth rates, as well as the strong decline during the pandemic.

Conclusion

The calculations and results highlight a number of policy conclusions. First, in order for the labour market recovery to continue and strengthen, including in the most badly-affected industries, economic growth overall needs to be strong. That means that fiscal and monetary policies need to be expansionary. On the

2 The results presented here are preliminary. For details of this approach, as well as various sensitivity analyses in relation to identified policy measures, see Jestl and Stehrer (2021).

monetary side, this seems fairly likely. The ECB retains a dovish stance and has emphasised repeatedly that the current spike in inflation in some parts of the euro area is ‘transitory’ and will not lead to a tightening of policy. Monetary policy should also remain geared towards limiting excessive volatility and fluctuations in financial markets, which can themselves have negative spillovers for sentiment in the real economy. EU fiscal policy has also been supportive so far in response to the pandemic, albeit much less so than in the United States. It is vital that fiscal support be maintained in order to underpin a rapid recovery to pre-crisis employment levels and sustainable strong growth in conjunction. Fiscal support should not be indiscriminate, but rather targeted at the most pressing short-term needs, plus helping to prepare the EU economies for the most important future challenges such as the climate crisis and digitalisation. A premature return to fiscal consolidation with harsh austerity – as happened after the last crisis – would weaken the economic recovery.

Second, for industries that have suffered most from the pandemic and are still in danger should a fourth wave of the virus arrive, support schemes should remain in place or be quickly re-activated if necessary. This applies in particular to job retention programmes, such as short-time work schemes. Limiting the direct impact of future lockdowns on employment will be crucial to making sure that the labour market recovers quickly and sustainably after the pandemic.

Third, targeted policies are also needed for segments of the labour market that have suffered the most and might also lag behind in the recovery phase. This includes in particular younger workers who have recently entered or are about to enter the labour market, and groups such as low-skilled workers and those who have lost jobs in heavily affected sectors, such as tourism. If the pandemic really has forced a structural change in the nature of employment, with for example a prolonged period of reduced tourism demand, but a permanent increase in remote working and greater demand for ICT skills, policy should be geared towards supporting this transition. This means retraining schemes, special attention to regions that were particularly tourism-dependent in pre-pandemic times, and making sure that the social safety net is up to the challenge. It is vital that the social security system, rather than workers themselves, bears the brunt of this transition.

Finally, even though employment is generally currently recovering in EU countries, it will take a longer time to reach the pre-crisis employment level. Policymakers need to put particular emphasis on the long-term unemployed. Persistent unemployment often results in scarring effects that are harmful for economic development. Again, this will require particular attention to certain age groups (such as older workers), regions (for example, those most reliant on tourism), and workers lacking skills that are likely to be increasingly important in the post-pandemic world (such as digital competence).

References

European Commission (2021) European Economic Forecast, Spring 2021, Institutional Paper 149, Luxembourg, Publications Office of the European Union.

Heimberger P. (2017) Did fiscal consolidation cause the double-dip recession in the euro area?, Review of Keynesian Economics, 5 (3), 439-458.

IMF (2021) World Economic Outlook – Managing divergent recoveries, Washington, DC, International Monetary Fund.

Jestl S. and Stehrer R. (2021) Short-and medium-term sectoral employment forecasts during and in the aftermath of the Covid-19 pandemic, Brussels, ETUI. [Forthcoming]

Müller T. and Schulten T. (2020) Ensuring fair short-time work – a European overview, Policy Brief 7/2020, Brussels, ETUI.

The ETUI Policy Brief series is edited jointly by Nicola Countouris, Jan Drahokoupil, Philippe Pochet, Aída Ponce Del Castillo, Kurt Vandaele and Sigurt Vitols.
The editor responsible for this issue is Kurt Vandaele, kvandaele@etui.org

This electronic publication, as well as previous issues of the *ETUI Policy Briefs*, is available at www.etui.org/publications. You may find further information on the ETUI at www.etui.org.

 ISSN 2031-8782

The ETUI is financially supported by the European Union. The European Union is not responsible for any use made of the information contained in this publication.