

Box 6

SECTORAL EMPLOYMENT DEVELOPMENTS IN THE EURO AREA

Euro area employment has exhibited much greater dynamism since the start of Stage Three of EMU in 1999 than in the period immediately preceding it. The latest estimate for total employment growth since the introduction of the euro indicates a net increase of 12.9 million persons employed until the fourth quarter of 2006, compared with only 2.1 million in the period 1991-98.¹ This box highlights developments in sectoral euro area employment over these two periods and, in particular, accounts for the significant improvement in employment developments by considering more disaggregated annual national accounts information rather than quarterly national accounts data, since the latter have only a limited sectoral breakdown. Currently, detailed annual national accounts data on employment are available up to 2005 for the euro area. Based on these annual data, the total number of persons employed in the euro area rose by 11.2 million in the period 1999-2005, compared with only 1.5 million in the period 1991-98 (see the table).² This amounts to an average annual increase of 1.2% in the period since 1999, well above annual growth of only 0.2% in the earlier period. The faster pace of overall employment growth since the start of Stage Three of EMU can be attributed to both an expansion of hiring in the services and construction sectors and a more muted contraction in hiring in both industry excluding the construction sector and the agriculture, hunting, forestry and fishing sector. It should also be noted that there is no national accounts information on euro area part-time employment, which – according to Labour Force Survey data – has outpaced full-time employment growth since the 1990s.³

The increase in services sector employment of 12.0 million workers in the period 1999-2005 compares with 7.5 million in 1991-98 (see the table).⁴ The rise in employment in services since 1999 has been the result of expanded hiring in all three major services sub-sectors, namely trade and transport, financial and business services, and other services.⁵ Growth in employment has been highest in four subcategories (which correspond to NACE sections): real estate, renting and business activities (4.0 million); health and social work (2.0 million); trade and repair (1.4 million); and hotels and restaurants (1.2 million). The construction sector has also showed larger increases in employment since 1999, with the number of persons employed rising by 1.1 million until 2005, compared with only 26,000 in the period 1991-98.

The other two sectors exhibited declines over both periods. In both cases the decline in net hiring has been smaller in the period since 1999. The number of persons employed in industry excluding construction decreased by 1.2 million in 1999-2005, a much smaller fall than in 1991-98 (4.2 million). These developments have been largely driven by those in the manufacturing sub-sector. The other sector in which employment has been contracting – agriculture, hunting, forestry and fishing – saw a 0.7 million drop in employment in 1999-2005, compared with 1.8 million in 1991-98.

1 The pre-EMU phase refers here to the period between the first quarter of 1991 and the last quarter of 1998, whereas the post-EMU phase is defined as the period between the last quarter of 1998 and that of 2006. The corresponding annual periods are 1991-98 and 1998-2005 respectively.

2 The data for the period 1991-98 exclude Slovenia. Given the relatively small size of the Slovenian economy, its exclusion from the earlier period should not substantially affect the trends discussed here.

3 For further information, see Section 4.2 of the January 2007 issue of the Monthly Bulletin.

4 Using quarterly data, the rise in services sector employment since the start of the third stage of EMU amounts to 13.0 million workers (data are available for the period from the last quarter of 1998 to the third quarter of 2006 only).

5 One possible reason for the slower growth in services sector employment observed in the 1990s is the relatively low degree of labour market flexibility, which limited the sectoral reallocation of employment. See A. D'Agostino, R. Serafini and M. Ward-Warmedinger, "Sectoral explanations of employment in Europe: the role of services", ECB Working Paper No 625, May 2006.

Developments in employment in the euro area by sector, 1991-2005

(average annual percentage growth rates, unless otherwise stated)

	1991-1998			1999-2005		
	Weight (%)	Percentage changes	Persons employed (change, in millions)	Weight (%)	Percentage changes	Persons employed (change, in millions)
Total	100.0	0.2	1.5	100.0	1.2	11.2
Agriculture, hunting, forestry and fishing	5.9	-3.4	-1.8	4.7	-1.6	-0.7
Industry	29.0	-1.6	-4.2	26.3	0.0	0.0
Industry (excluding construction)	21.6	-2.2	-4.2	18.9	-0.7	-1.2
Mining and quarrying	0.3	-7.2	-0.2	0.2	-3.5	-0.1
Manufacturing	20.4	-2.1	-3.8	18.1	-0.6	-1.0
Electricity, gas and water supply	0.8	-2.3	-0.2	0.6	-1.6	-0.1
Construction	7.4	0.0	0.0	7.4	1.7	1.1
Services	65.1	1.3	7.5	69.0	1.9	12.0
Trade and transport	24.7	0.3	0.6	24.8	1.4	3.1
Trade and repair	15.0	0.3	0.4	14.9	1.0	1.4
Hotels and restaurants	4.0	1.5	0.5	4.4	2.9	1.2
Transport, storage and communication	5.7	-0.6	-0.3	5.5	1.0	0.5
Financial and business services	11.8	3.3	3.4	14.3	3.2	4.1
Financial services	3.0	0.3	0.1	2.9	0.3	0.1
Real estate, renting and business activities	8.7	4.4	3.3	11.5	4.0	4.0
Other services	28.6	1.4	3.5	29.8	1.7	4.7
Public administration	8.0	0.0	0.0	7.5	0.2	0.1
Education	6.2	1.0	0.5	6.3	1.6	0.9
Health and social work	8.0	2.5	1.7	8.9	2.4	2.0
Other community, social and personal services	3.9	2.2	0.7	4.4	2.4	1.0
Private households with employed persons	2.5	2.5	0.5	2.7	2.8	0.7

Source: Eurostat.

Notes: Weight and percentage change figures are computed as an average of annual figures for each period. The change in persons employed is computed as the change in employment in the periods 1991-98 and 1998-2005 respectively.

As a result of these trends, the shares in total employment have changed somewhat between the two periods (see the table). The share of services sector employment in the total has risen from 65.1% to 69.0% on average, mostly as a result of increases in the shares of financial and business services (from 11.8% to 14.3%) and other services (from 28.6% to 29.8%). The share of trade and transport employment has remained almost unchanged in the two periods, representing about a quarter of the total. The increasing importance of services in total employment stems partly from a combination of forces leading to higher services output (such as a shift in consumer demand away from basic material needs, increases in real per capita income, the liberalisation of the services sector, and a rise in the female participation rate), reinforced by a below-average level of labour productivity.⁶ As far as other sectors are concerned, the average share of construction employment has remained stable at 7.4%, while there have been declines in the average shares of industry excluding construction (from 21.6% to 18.9%) and agriculture, hunting, forestry and fishing (from 5.9% to 4.7%) over the two periods.

A further breakdown of services sector employment (from the EU KLEMS Database) is available up to 2004.⁷ While less up to date, these data allow for a more in-depth examination

6 See the boxes entitled "The sectoral composition of euro area growth" in the ECB's Annual Report 2005 and "Determinants of the services sector employment share in the euro area" in the November 2006 issue of the Monthly Bulletin.

7 The EU KLEMS database is the result of a statistical and analytical research project jointly produced by 16 research institutes in cooperation with national statistical institutes, Eurostat and the European Commission. It includes growth and productivity accounts by industry for all EU Member States. The data used here are based on euro area series excluding Slovenia.

of two important groupings, namely real estate, renting and business activities, and trade and repair. In the case of the latter, more than half of the rise in the number of persons employed in 1998-2004 corresponds to additional employment in retail trade activities, with the remainder being broadly split between wholesale and motor trades. Turning to real estate, renting and business activities, the three subcategories that have contributed the most to employment growth in 1998-2004 belong to the class of business services: other business activities not considered elsewhere (1.7 million); legal, technical and advertising (1.0 million); and computer and related activities (0.6 million). Business services have benefited from the trend of firms to outsource non-core activities, using external providers for a number of professional and operational activities. This trend is responsible for the increasing demand for other services – which are also provided to households – such as real estate and renting activities (also within the real estate, renting and business services sub-sector), and transport, storage and communication (which added 0.5 million persons employed in 1998-2004).⁸

Overall, the increase in euro area employment since EMU has significantly outpaced the expansion observed in the period preceding it. This has resulted from both a stronger increase in employment in sectors where the number of persons employed has been expanding (such as services and construction) and a smaller decline in those where employment has been contracting (such as industry excluding construction, and agriculture, hunting, forestry and fishing). The increase in both aggregate and services sector employment in the euro area over recent years has been supported by education and labour market policies that have made the inter-sectoral reallocation of workers smoother. Looking ahead, continued employment growth necessitates further structural reforms to enhance the capability of euro area labour markets to respond more flexibly to changing business needs, thereby facilitating the ongoing sectoral shift of the workforce to dynamic sectors.

⁸ A recent assessment of the trends in business services in Europe can be found in Eurostat: European Business - Facts and Figures, Luxembourg, 2006; and Eurostat: Key Figures on European Business, Luxembourg, 2006.