

## Box 7

### RECENT TRENDS IN LABOUR PRODUCTIVITY GROWTH IN THE EURO AREA AND THE UNITED STATES

This box summarises recent developments in labour productivity growth in the euro area and compares them with developments in the United States. It shows that the productivity growth gap between the two economies has been very small over the last three years and that differences in real GDP growth mainly reflected demographic trends.

Developments in the euro area in the last few years suggest that the decline in labour productivity growth has come to a halt. A stabilisation in euro area labour productivity growth is observed irrespective of whether labour input is measured per hour worked or per person employed. Average annual hourly labour productivity grew by 1.3% in the period 2005-07 compared with 1.4% in the period 1995-2004. In the United States hourly labour productivity growth declined to 1.2% from 2.1% over the same two periods (see Charts A and B). Measured in terms of persons employed, euro area labour productivity growth remained at around 1.0% per annum in both periods, while the corresponding US indicator declined from 1.8% in the period 1995-2004 to 1.1% in the period 2005-07. The slowdown observed in US labour productivity growth has been mainly driven by a slowdown in real GDP growth. At the same time growth in employment has remained relatively dynamic. In the euro area, the stabilisation in labour productivity growth took place in an environment of strong employment growth.

While labour productivity growth has been broadly similar in the euro area and the United States over the last three years, these recent developments do not necessarily signal the pattern of trend labour productivity growth in the years ahead for two reasons. First, in the euro area there is a broad consensus that the bulk of the recent improvements in labour productivity growth are

Chart A Hourly labour productivity growth

(annual percentage changes)

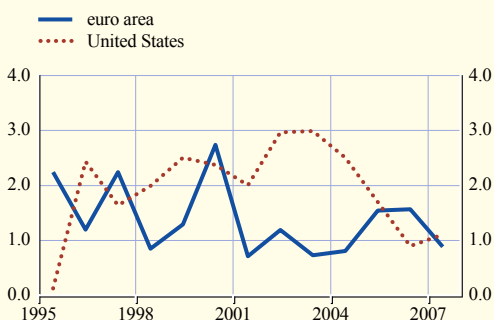
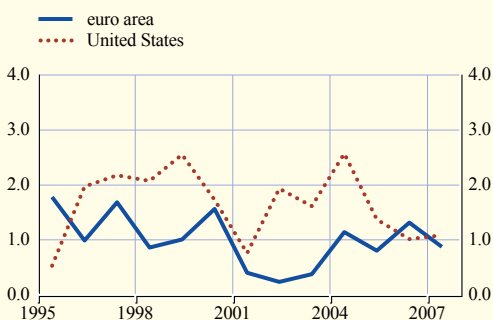


Chart B Labour productivity growth per capita

(annual percentage changes)



Sources: AMECO and OECD databases.  
Note: Data for 2007 are estimates.

mainly attributable to cyclical factors.<sup>1</sup> Second, in the United States, while the strong rates of growth in labour productivity seen since the mid-1990s are generally regarded as exceptional, in the years ahead, once the impact of the business cycle is taken into account, growth rates should nevertheless remain above the disappointing rate of 1.2% per annum recorded on average in the 1980s and early 1990s.<sup>2</sup>

The developments in labour productivity growth over the period 2005-07 contributed to a narrowing of the real GDP growth gap between the euro area and the United States. Over this period real GDP grew at an average pace of 2.4% per year in the euro area, while it averaged 2.7% in the United States. Demographic developments, however, remain more favourable in the United States where the rate of

1 See “The EU economy: 2007 review – Moving Europe’s productivity frontier”, European Commission 2007.

2 Economic growth in the United States prior to 1995 was mainly driven by growth in capital and labour inputs rather than productivity developments. During the IT boom, there were considerable gains in total factor productivity growth but these related mainly to the information and communications technology (ICT) producing sector. It was in the period 2000-05 that strong total factor productivity growth was recorded, notably in the ICT-using sectors. For example, see Jorgenson, D. W, M. S. Ho, J. D. Samuels and K. J. Stiroh (2007), “Industry Origins of the American Productivity Resurgence”, *Economic Systems Research*, Vol. 19, No 3, pp. 229-252.

Chart C Contributions to GDP growth in the euro area

(percentage points; annual percentage changes)

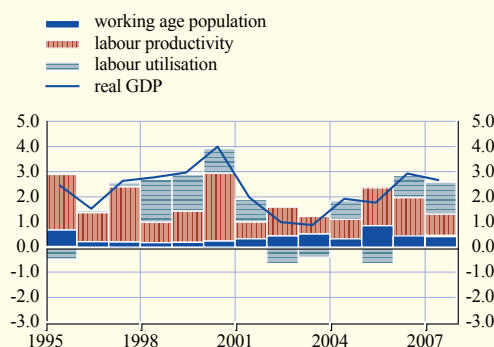
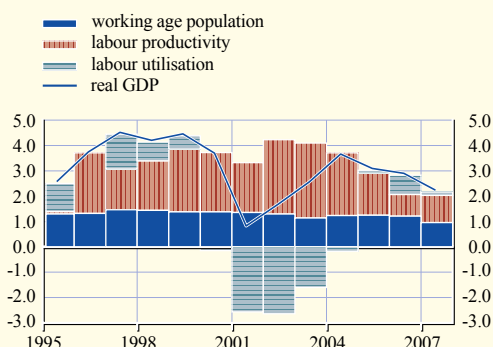


Chart D Contributions to GDP growth in the United States

(percentage points; annual percentage changes)



Sources: AMECO and OECD databases.  
Note: Data for 2007 are estimates.

growth of the working age population has been significantly higher (see Charts C and D).<sup>3</sup> Real GDP per capita therefore grew on average by 1.9% per annum in the euro area and by 1.7% in the United States over the same period.

To sum up, despite the broad stabilisation in labour productivity growth in the euro area over the last three years, there is no room for complacency. Structural reforms in the euro area have so far not been far-reaching enough and their implementation too slow to foster the emergence of a “knowledge-based economy” – the objective of the Lisbon strategy – with the aim of boosting labour productivity growth and enhancing job creation. In the context of the renewed Lisbon strategy, the challenge now is to step up the overall pace of reform.

<sup>3</sup> This analysis relies on the commonly used growth accounting framework that links real GDP (Y) to the product of labour productivity (L), labour utilisation (LU) and working age population (WA), i.e.  $Y = LP \times LU \times WA$ .