

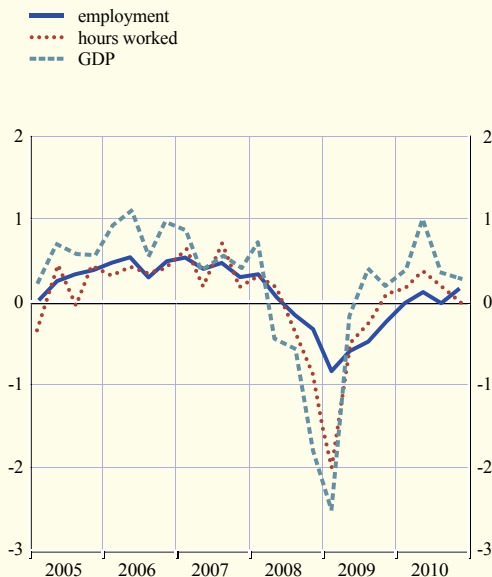
SECTORAL DEVELOPMENTS IN EMPLOYMENT AND HOURS WORKED IN THE EURO AREA

The recent recession had a major negative impact on euro area labour markets. In recent quarters, however, euro area labour markets have shown increasing signs of improvement. Following the release of national accounts data for the final quarter of 2010, this box examines recent developments in employment and hours worked at the sectoral level.

The decline in output which marked the onset of the euro area recession in the second quarter of 2008 was followed one quarter later by the first falls in euro area employment and hours worked (see Chart A). Following six consecutive quarters of contraction, euro area employment stabilised in the first quarter of 2010. Hours worked adjusted more sharply over the recession and subsequently rebounded slightly earlier, registering positive growth in the last quarter of 2009, on the back of a recovery in output one quarter earlier. However, much of the recent (and still modest) employment growth seen in the past few quarters can be attributed to a rebound in the services sector, while employment in industry and construction continued to contract throughout 2010, albeit to markedly differing extents (see Chart B).

Chart A Growth in euro area employment, hours worked and GDP

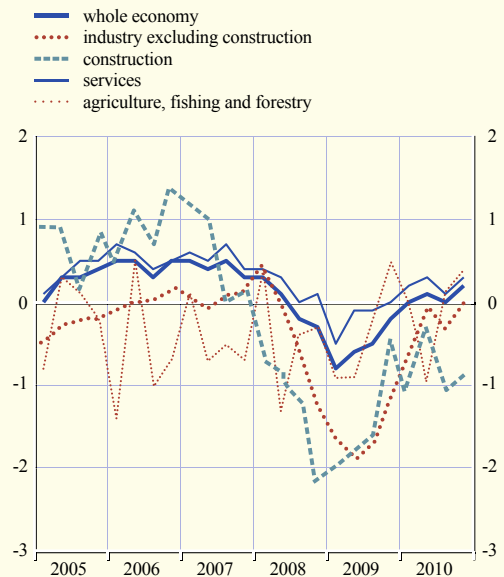
(quarter-on-quarter percentage changes)



Sources: Eurostat and ECB calculations.

Chart B Sectoral employment developments in the euro area

(quarter-on-quarter percentage changes)



Sources: Eurostat and ECB calculations.

Developments in the industrial sectors

The industrial sector (excluding construction) comprises manufacturing, energy and mining activities. Some employment losses over the recent downturn were to be expected as part of the ongoing secular decline in industrial employment, but the crisis considerably speeded up the rate of contraction, with quarter-on-quarter declines of close to 2.0% when the recession was at its worst. Hours worked declined more sharply still, as private sector firms in many countries took advantage of often publicly supported short-time working arrangements introduced as a means of maintaining employment during the depths of the recession.¹ As activity has rebounded, hours worked have progressively increased, registering positive quarter-on-quarter rates of growth, on average, over the course of 2010 (see Chart C). The sharp employment contractions seen in the depths of the recession also slowed considerably over the course of the year, to -0.1% quarter on quarter, in the final quarter of 2010.

The downturn in construction began rather earlier than for the economy as a whole, with job losses registered from the first quarter of 2008. Employment continued to contract in 2010, albeit at a slower rate than in 2009, the year of the sharpest decline. After 12 consecutive quarters of contraction, quarter-on-quarter developments in both employment and hours worked remain markedly negative.

Developments in the services sectors

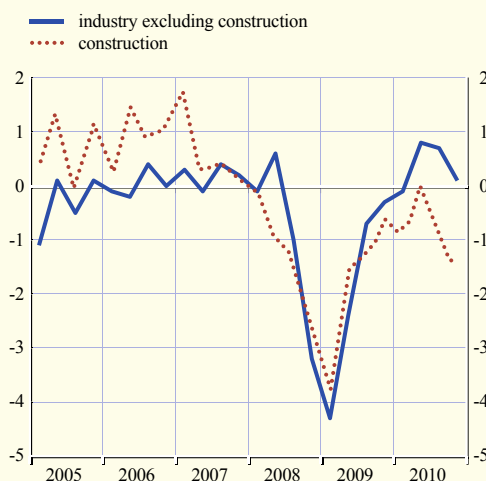
Overall employment in the services sectors did not decline to the same extent as in the industrial sector during the recession, buoyed in large part by continuous growth in non-market services (which includes the public sector; publicly and privately provided education and health services; and individuals employed in private households).

The heavy job losses suffered by the finance, insurance and real estate sector, which began in the final quarter of 2008, proved to be rather short-lived, with employment rebounding to modest positive growth one year later (see Chart D). Employment in the sector grew further throughout 2010, ending the year at levels almost identical to those of the pre-crisis peak.

In trade and transport (which includes the distributive trades of wholesaling and retailing; hotels and catering; and the transportation sub-sectors), the downturn led to rapid and sharp reductions in hours worked and employment, which intensified in the first quarter of 2009. Since then, however, employment prospects have progressively improved, with an expansion

Chart C Growth of hours worked in euro area industry and construction

(quarter-on-quarter percentage changes)

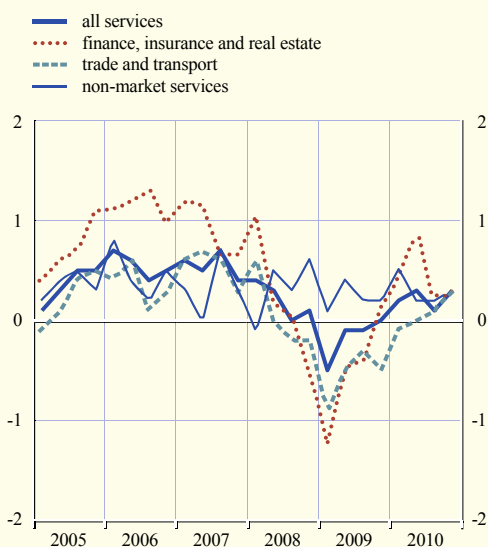


Sources: Eurostat and ECB calculations.

¹ For an overview of crisis measures, see the article entitled "Labour market adjustments to the recession in the euro area", *Monthly Bulletin*, ECB, July 2010.

Chart D Euro area employment growth in services

(quarter-on-quarter percentage changes)



Sources: Eurostat and ECB calculations.

of hours worked beginning in the final quarter of 2009 and a modest employment rebound in the second half of 2010.

Labour market policy priorities in the recovery period

The recent recession has had a heavy impact on euro area labour markets. As employment growth is expected to pick up only gradually, it is likely that it will take some time to absorb the large numbers of workers made redundant over the course of the recession – particularly those laid off from a previously fast-growing construction sector and from some industrial branches, where the recession may have speeded up ongoing relocations of production to countries outside the euro area. Policy reforms which foster employment growth deserve high priority from euro area policy-makers at the current juncture. Among them, it is worth mentioning those reforms that

help facilitate restructuring by extending flexible working contracts, so as to encourage firms to hire; reforms to wage-setting institutions, so as to ensure that local labour market conditions are adequately reflected in wage bargaining; further measures to enhance training options for displaced workers; and a timely dismantling of existing “crisis measures”.