



The Euro-Atlantic Economy in Recession: What Do Manufacturing Labor Data Tell Us?

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The Year 2008 turned out to be a veritable watershed for the Euro-Atlantic economy. It marked not only a year of the great recession but also of other woes: a housing crisis, financial sector bankruptcies, and dramatic fiscal measures, to name a few. Perhaps nowhere else was the misery felt deeper than in the manufacturing sector. Merchandise output, exports, and income all fell sharply, and without exception, on both sides of the Atlantic during the 12 months for which we now have data (see Figure 1). But with the attention now shifting to the pace of recovery, it is instructive to look closer at some adjustments that accompanied this early phase of the recession. In this report, I look at trends in manufacturing labor headcount, working hours, and wages—all of which could shed light on the flexibility of any one economy to bounce back into life.

First, we check the Euro-Atlantic manufacturing universe as measured by changes in

output (Figure 1). This can be divided roughly into three groups based on the depth of output declines. The best performing countries are those whose output fell “only” in single digits in 2008. This group is anchored by an alpine duo of Austria and Switzerland, and includes a Mediterranean pair of Croatia and Cyprus as well as a Nordic trio of Norway, Lithuania, and Denmark. The middle group is mostly made up of core Eurozone members as well as the United States, Poland, and the United Kingdom. There, production slumped between 10 percent and 15 percent during this period. The worst-performing economies booked output declines of between 15 percent and 25 percent. They include a sundry group of central and southern Europe as well as Spain and some of the Nordics.

The picture changes a bit when employee headcount is added in (Figure 2—note that I could not source the data for all countries from the previous sample).

Here, the United States and some central/south European Countries have done more of the adjusting than the rest of the continent. This is explained partly by the proportionately deeper production cuts in countries such as Romania, the Czech Republic, or Hungary. Still, the United States and the United Kingdom have scaled down employment deeper than their pecking order in the output table would indicate. By contrast, the Eurozone and Poland adjusted payrolls less than proportionately, while Germany actually *increased* its headcount despite a 10 percent drop in production.

Next, we look at working hours (Figure 3). Here, the central/southern European and Swedish manufacturers shortened hours the most. The American and Eurozone producers made far smaller adjustments, while Slovenian workers actually worked longer hours amid a 20 percent slump in output. We should warn about the danger of drawing conclusions that are too far-reaching. Local labor

Figure 1
Industrial Output, 2008

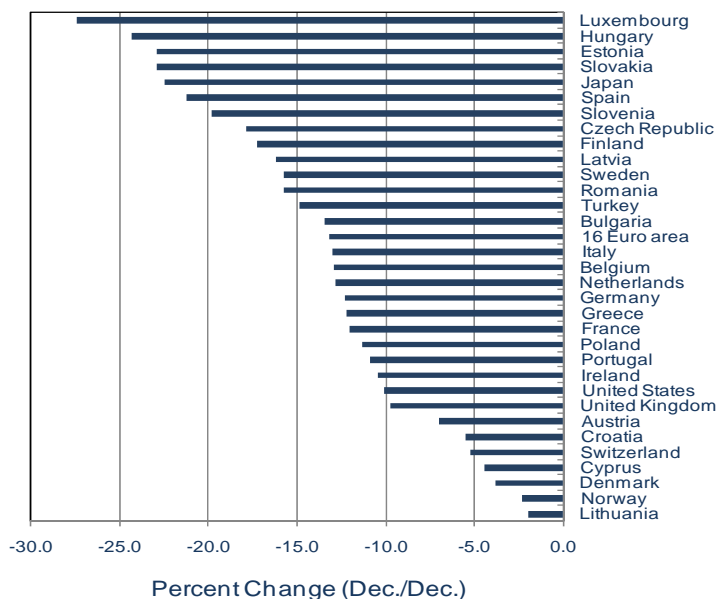


Figure 2
Employment, 2008

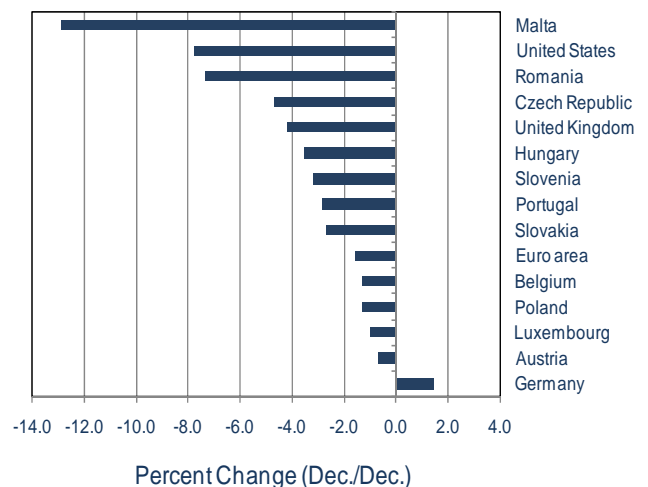


Figure 3
Hours Worked, 2008

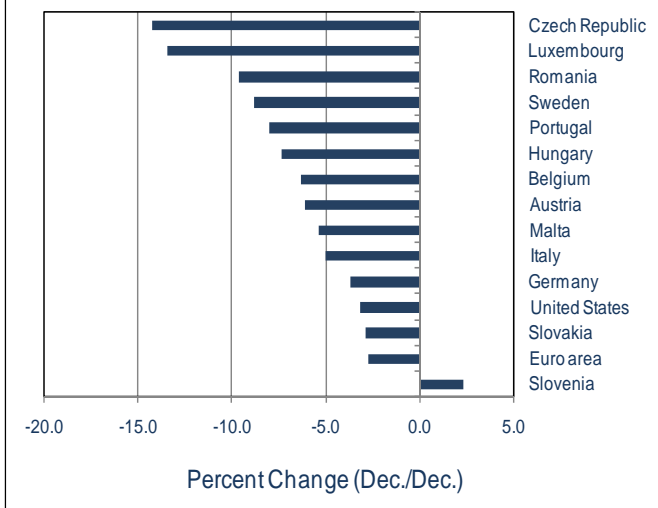
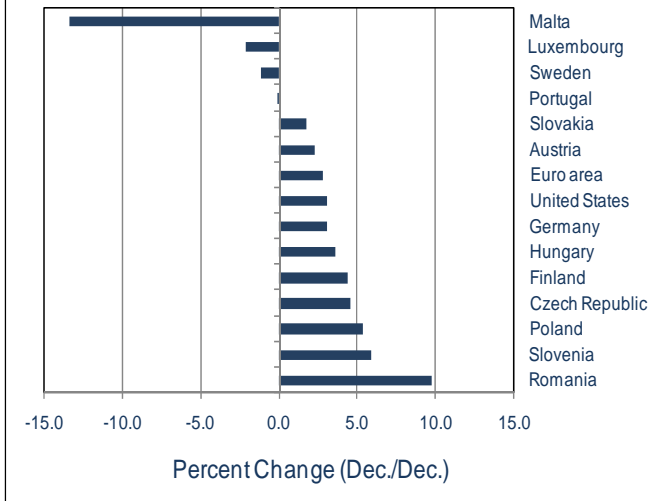


Figure 4
Wages, 2008



regulations still differ across the sample group, with some jurisdictions mandating very narrow bands in which hours can vary. This is, in fact, the case in Slovenia where hours may not fall below 36 or exceed 40 per week by law for full-time employees.¹

¹ Employment Relationship Act of Slovenia, Ur. l. RS, No. 42/2002, Ur. l. RS, No. 103/2007, article 142.

There is yet more disconnect between output and wage changes—as one would expect (Figure 4). Wages and salaries tend to vary in line with productivity and collective bargaining regimes rather than with production. Thus, the central European Countries booked the largest wage awards, while the United States and the Eurozone registered far more modest

increases (on the order of 3 percent over 12 months).

What can we conclude from this data snapshot? First, that American, British, and central European manufacturing workers suffered far more job losses than their western continental European counterparts, output-adjusted. This translates into leaner and potentially more productive sectors in America, Britain, and central Europe than in the Eurozone. It also puts the former economies in a more competitive position from a financing side. Second, the work week was shortened the most in countries with already flexible labor regimes, such as those in central Europe. Shortening the work week preserves employment and also has the advantage of lowering future costs of rehiring. Third, wages proved fairly inflexible everywhere and differences in pay award dynamics between countries turned out to be minimal. This means that changes to unit labor costs will come almost exclusively from the productivity side rather than from the compensation side. The upshot is that the United States and central Europe will have gained upon the Eurozone on the cost side.

Other caveats hold. The labor side is but one of the many factors that affect corporate performance. Access to external capital, domestic regulation, and health of the export versus domestic markets all play essential roles as well. Still, this broad-strokes exercise does paint a consistent picture of manufacturing across the Atlantic during 2008.