Graph 1.16:	GDP per person employed, per hours worked, total factor productivity and capital intensity (1995=100)	30
Graph 1.17:	Shift-share analysis for EU labour productivity growth	32
Graph 1.18:	Labour shortages and labour hoarding	33
Graph 1.19:	Change in unemployment rate during different periods (pps relative to the start of each period)	44
Graph 1.20:	Job vacancy rate by country	44
Graph 1.21:	Macroeconomic skill mismatch indicator	45
Graph 1.22:	Contribution to economic growth in 2023 of hourly productivity, average hours worked and employment	45
Graph 2.1:	Nominal compensation per employee, annual percentage change	48
Graph 2.2:	Growth of negotiated wages and of wages in job postings (%), euro area	49
Graph 2.3:	Real wages per employee, annual percentage change	51
Graph 2.4:	Real wage changes (%) compared with pre-pandemic levels (2019)	52
Graph 2.5:	Real GDHI growth and its main components, EU	53
Graph 2.6:	Financial distress of workers	54
Graph 2.7:	In-work at-risk-of-poverty rate for employees	55
Graph 2.8:	Average change in the nationally equivalized income for the lower, middle and upper income deciles for 2021-2023 across Member States	56
Graph 2.9:	Minimum wage developments in Member States with statutory minimum wages	57
Graph 2.10:	Gap in wage growth relative to its benchmark (%)	60
Graph 2.11:	Inflation and ULCs	62
Graph 2.12:	Unit profits, year-on-year growth rate, EU-27	63
Graph 2.13:	ULCs, export market shares and unit profits across countries	64
Graph 2.14:	ULCs, wages and productivity across countries	65
Graph 2.15:	Compensation per employee in purchasing power standards (PPS)a	74
Graph 2.16:	Wage levels (2021) and hourly growth rates (based on labour cost index)	75
Graph 3.1:	Activity rates by age in the EU-27 – percentage of the total population	78
Graph 3.2:	Employment rates of older workers (55-64 years old) across the EU (2023)	79
Graph 3.3:	Change in employment rates of older and prime-age workers (2009 to 2023)	80
Graph 3.4:	Inactivity rates of older people across Member States (2023)	82
Graph 3.5:	Activity rates of individuals aged 55 to 64 with various levels of disability, by Member State (2022)	83
Graph 3.6:	Number of inactive non-retired people in the EU in 2022, by gender, age and reason for inactivity	84
Graph 3.7:	Employment and unemployment rates of native and foreign-born individuals aged 55 to 64 (2023)	84
Graph 3.8:	Amount of education and training completed by working-age and older people in 2007 and 2022	85
Graph 3.9:	Main reasons for not participating in training and education among individuals wanting to participate (2022)	86

1. GENERAL LABOUR MARKET CONDITIONS IN THE EU AND ITS MEMBER STATES

1.1 INTRODUCTION

In 2023, EU economic growth came to a standstill, as a result of tightening financial conditions, the weakening of trade flows and high, albeit declining, inflation rates. Economic activity decelerated sharply in the first half of the year. Gross domestic product (GDP) growth expanded by 0.1 % in the third quarter and stagnated in the fourth quarter, avoiding a technical recession (defined as two consecutive quarters of negative growth) by a narrow margin; growth in the euro area followed a similar pattern. On a yearly basis, growth dropped from 3.4 % in 2022 to 0.4 % in 2023 (from 3.5 % to 0.4 % for the euro area) (Table 1.1).

In 2024, the EU economy is expected to perform better. In the first half of 2024, economic growth gained momentum with GDP expanding by 0.3 % in the EU and the euro area in both the first and second quarters. Annual GDP growth in the EU is projected to reach 0.9 % in 2024 ([1]) and improve to 1.5 % in 2025. Geopolitical tensions and the persistent inflation in the United States are near-term downside risks for inflation and economic growth, while private consumption and external demand are expected to support growth. The labour market is expected to remain strong with unemployment hovering around its historically low rate of 6 % in both years.

Table 1.1: **Unemployment, compensation per employee and GDP growth in the euro area and the EU**

				Quarter over same quarter of the previous year									Quarter over previous quarter, % and pps								
		2022	2023	2022Q2	2022Q3	2022Q4	2023Q1	2023Q2	2023Q3	2023Q4	2024Q1	2024Q2	2022Q2	2022Q3	2022Q4	2023Q1	2023Q2	2023Q3	2023Q4	2024Q1	2024Q2
Unemployment rate	EA	6.8	6.6	-1.3	-0.8	-0.5	-0.3	-0.3	-0.2	-0.2	-0.1	0.0	-0.1	0.0	-0.1	-0.1	-0.1	0.1	-0.1	0.0	0.0
	EU	6.2	6.1	-1.1	-0.7	-0.4	-0.2	-0.2	-0.1	0.0	0.0	0.0	-0.1	0.0	-0.1	0.0	-0.1	0.1	0.0	0.0	-0.1
Unemployment growth	EA	-11.1	-2.1	-13.8	-9.1	-5.3	-2.1	-2.9	-1.8	-1.3	-0.1	1.1	-0.2	-0.2	-0.8	-0.8	-1.1	1.0	-0.4	0.4	-0.9
	EU	-11.3	-1.2	-14.1	-9.2	-5.1	-2.0	-1.9	-0.8	0.1	1.1	0.3	-0.7	-0.2	-0.5	-0.6	-0.7	1.0	0.4	0.4	-1.0
Growth of nominal compensation per employee	EA	4.5	5.1	4.6	4.2	5.0	5.4	5.5	5.3	5.0	4.8	4.3	0.8	1.5	1.6	1.4	0.8	1.3	1.3	1.2	0.4
	EU	4.8	5.6	4.6	4.4	4.9	5.6	6.1	5.9	5.9	5.6	5.0	0.8	1.5	1.6	1.7	1.2	1.3	1.6	1.4	0.6
GDP growth	EA	3.5	0.4	4.1	2.8	1.9	1.4	0.5	0.0	0.1	0.5	0.6	0.9	0.6	-0.1	0.0	0.1	0.0	0.1	0.3	0.2
	EU	3.4	0.4	4.1	2.8	1.7	1.2	0.5	0.1	0.4	0.6	0.8	0.8	0.5	-0.2	0.1	0.0	0.2	0.1	0.3	0.3
Employment growth	EA	2.4	1.4	2.8	1.9	1.7	1.7	1.4	1.3	1.3	1.1	0.9	0.5	0.3	0.4	0.4	0.3	0.2	0.3	0.2	0.1
	EU	2.2	1.1	2.6	1.7	1.5	1.4	1.0	1.1	1.0	1.0	0.8	0.5	0.2	0.4	0.3	0.2	0.2	0.3	0.3	0.1
Inflation	EA	8.4	5.4	8.1	9.3	10.0	8.0	6.2	4.9	2.7	2.6	2.5	0.7	0.6	0.3	0.5	0.3	0.2	-0.1	0.3	0.3
	EU	9.2	6.4	8.8	10.3	11.0	9.4	7.2	5.6	3.4	2.8	2.6	0.9	0.7	0.4	0.6	0.3	0.3	-0.1	0.4	0.3
Inflation (Core)	EA	4.0	5.0	3.7	4.4	5.1	5.5	5.5	5.1	3.7	3.1	2.8	0.6	0.4	0.4	0.4	0.5	0.1	0.0	0.3	0.5
	EU	4.7	5.7	4.4	5.3	6.1	6.5	6.3	5.7	4.3	3.5	3.1	0.7	0.5	0.4	0.5	0.6	0.2	0.1	0.3	0.5

(1) For the unemployment rate changes are in percentage points (pps). For GDP, Q2 2024 data refer to Eurostat flash estimate. EA: euro area. Q1: first quarter; Q2: second quarter; Q3: third quarter; Q4: fourth quarter.
Source: Eurostat, National accounts, and Labour Force survey: (une_rt_q; namq_10_gdp) (namq_10_a10_e) (prc_hicp_manr) and (prc_hicp_mmor).

This chapter reviews the recent labour market developments. Section 1.2. covers key labour market developments in the EU and its Member States. Section 1.3. analyses the main drivers, including labour demand, labour supply and the process of matching vacant jobs with job seekers. Section 1.4. puts the current developments into perspective by discussing the sustainability of low unemployment without addressing the major challenges of low productivity growth and labour and skills shortages ([2]). Section 1.5. discusses the implications for policy and Section 1.6. concludes.

1.2 LABOUR MARKET DEVELOPMENTS IN THE EU AND ITS MEMBER STATES

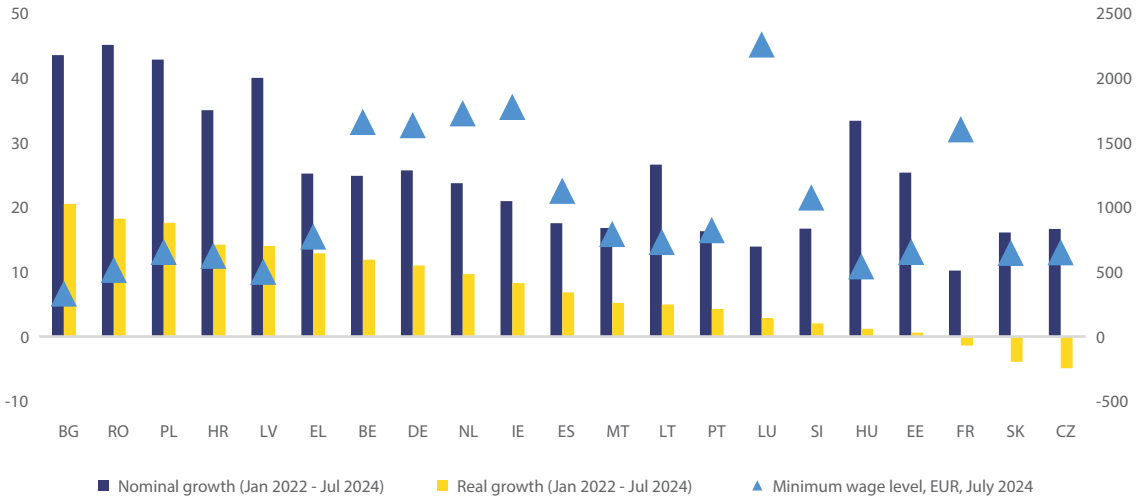
Despite sluggish economic growth in 2023, the labour market remained strong. After a temporary dip in the second quarter of 2023, employment growth rebounded on a quarter-on-quarter basis reaching 0.3 % in the third quarter and 0.2 % in the fourth quarter (0.2 % and 0.3 % for the euro area). Yearly employment

([1]) European Commission: Directorate-General for Economic and Financial Affairs (2024).
([2]) European Commission: Directorate-General for Employment, Social Affairs and Inclusion (2022) and European Commission: Directorate-General for Employment, Social Affairs and Inclusion (2023a) provide a comprehensive analysis of the macro- and micro drivers of labour shortages. European Commission: Directorate-General for Employment, Social Affairs and Inclusion (2023a) identifies the occupations and sectors with persistent labour shortages at the EU level.

Statutory minimum wage increases broadly offset losses in purchasing power for minimum wage earners in most Member States. Between January 2022 and July 2024 statutory minimum wages grew in nominal terms by more than 10 % in all Member States where such wages are in place ([85]). In real terms, they increased by more than 10 % in eight countries, and by 4 to 10 % in another six countries, while they declined in France by 1.3 % and by more than 3 % in Czechia and Slovakia (Graph 2.9). These minimum wage developments, associated with high labour shortages, probably contributed to higher increases in hourly wages in sectors where low-wage earners are more represented. During the high-inflation period in 2022-2023, lower-paying sectors such as wholesale and retail trade, transport, accommodation and food services or construction, have seen higher growth rates than other, on average higher paying sectors ([86]).

Although difficult to assess, non-compliance with minimum wage protection, either statutory or based on collective bargaining, may be a challenge in some Member States (see Box 2.2). It is estimated that countries where minimum wages are closer to the average or median wage tend to have higher non-compliance ([87]). Also, young people, unskilled workers, women, workers in smaller firms, part-time workers, and those working in the services sectors may be particularly affected by non-compliance with existing minimum wage protection rules. Improving compliance would allow more workers to receive a higher remuneration in practice, in line with national minimum wage regulations.

Graph 2.9: **Minimum wage developments in Member States with statutory minimum wages**



Note: Cyprus was excluded as the statutory minimum wage was introduced in 2023.
Sources: Eurofound and Eurostat [earn_mw_cur, prc_hicp_midx].

([85]) All but five Member States (Denmark, Italy, Austria, Finland and Sweden) have statutory minimum wages. They notably increased by more than 40 % in Bulgaria, Latvia, Romania and Poland, all countries with relatively low minimum wage levels. However, growth was also strong, at more than 20 %, in Belgium, Germany, Estonia, Ireland, Croatia, Greece, Lithuania, Hungary and the Netherlands, some of them with already relatively high minimum wage levels.

([86]) Hourly wages are proxied by the labour cost index. The financial sector, information and communication, professional, scientific, and technical activities, the real estate sector and manufacturing continue to pay comparatively high wages. However, hourly wages increased more in the wholesale and retail trade and construction sector (see Graph 2.16 in the annex).

([87]) Calculations are based on EU Statistics on Income and Living Conditions (SILC) data and refer to the so-called Kaitz indexes measured by the ratio of the minimum wage to the average or median wage.

Box 2.2: Estimating non-compliance with minimum wages

Many workers in the EU, who are in theory covered by minimum wage protection, receive lower remuneration in practice (European Commission, 2020). The estimated average rate of non-compliance across the EU based on data from EU-Statistics on Income and Living Conditions (EU-SILC) is 8.1 %, while that calculated on the basis of data from the Structure of Earnings Survey (SES) is 1.43 % (both figures are based on the 2018 waves of surveys). Estimations of non-compliance per Member State also widely differ, with much higher rates obtained when using data from EU-SILC than when using the SES. This divergence could be due to differences in the target groups of the surveys, since the SES only covers larger firms (more than 10 employees) and data is reported by employers (who are less likely to report that they are paying wages below the minimum), while for EU-SILC the respondents are households ([1]).

High rates of non-compliance with minimum wage protection are reported in eight Member States. Based on EU-SILC data, the countries where non-compliance is estimated to affect more than 8 % of the workforce are Germany, Spain, Italy, Cyprus, Lithuania, Hungary, Portugal and Sweden. This group includes two countries where minimum wage protection is provided only by collective agreements (Italy and Sweden). By contrast, the non-compliance rates estimated for Belgium, Czechia, Malta, Slovakia and Finland are relatively low (less than 2 %). While these estimates should be read with caution, they provide an indication of the relative magnitude of the problem. Estimations for Germany and Italy (Eurofound, 2023), for instance, roughly coincide with those in previous studies (DIW, 2019; Garnero, 2018; and Garnero et al., 2022).

Young people, unskilled workers, women and workers in smaller firms, as well as part-time workers, are more affected. These workers, who are affected by non-compliance, are generally younger, less educated, and more likely to be female, on a fixed-term or part-time contract and employed by smaller firms (Eurofound 2023). This seems logical as they correspond to the groups that are more likely to earn the minimum wage, as highlighted in Recitals 10 and 14 of the directive on adequate minimum wages ([2]). Regarding the sectoral composition, non-compliance is relatively higher in the agriculture, construction, and services sectors than in the manufacturing sector (8-13 % versus 6 %).

For some Member States, estimated non-compliance rates are significantly higher when using hourly wages instead of monthly wages, suggesting the existence of non-declared working hours. Higher rates of non-compliance when using hourly wages are notably observed in Bulgaria, Croatia, Cyprus, Luxembourg and Portugal and, to a lower extent, in Germany and Italy. This suggests that some employers may impose longer hours on workers than stated in their contract, so that they may seem to comply with minimum wages calculated on a monthly basis but do not comply on an hourly basis.

The directive on adequate minimum wages aims at reducing non-compliance. One of its main objectives is to establish a framework for enhancing the effective access of workers to minimum wage protection. It obliges Member States with statutory minimum wages to take measures to strengthen its enforcement, by providing for effective, proportionate and non-discriminatory controls and field inspections, as well as by developing the capability of their enforcement authorities ([3]). In addition, it requires all Member States to reinforce compliance through measures related to public procurement, information, right to redress, protection from adverse treatment and penalties ([4]).

([1]) The measurement error arises because reported working hours are those current at the time the survey was taken, while earnings are those received the year prior to the survey. The advantage of EU-SILC is that it covers the entire working-age population and asks workers to report their own incomes. At the same time, its results should also be interpreted with caution as hourly wages in EU-SILC may contain inaccuracies.
([2]) Directive 2022/2041.
([3]) Article 8 of Directive 2022/2041.
([4]) Articles 9, 11, 12 and 13 of Directive 2022/2041.

Table 2.2: **The income deciles with lowest increase per Member State for 2022 and 2023**

		AT	BE	BG	CY	CZ	DE	DK	EE	EL	ES	FI	FR	HR	HU	IE	IT	LT	LU	LV	MT	NL	PL	PT	RO	SE	SI	SK
2022	D1																											
	D2																											
	D3																											
	D4																											
	D5																											
	D6																											
	D7																											
	D8																											
	D9																											
	D 10																											
2023	D1																											
	D2																											
	D3																											
	D4																											
	D5																											
	D6																											
	D7																											
	D8																											
	D9																											
	D10																											

no data

no data

(1) Growth rates between country specific capping incomes for each decile were calculated for 2021-2022 and 2022-2023. The three deciles with the lowest growth rates were highlighted in red.
Source: EU-SILC and ECHP Survey, Eurostat [ilc_di01]

Graph 2.16: **Wage levels (2021) and hourly growth rates (based on labour cost index)**



(1) 2021 refers to the hourly real wage in EUR (left scale), Average Q1 2022 - Q4 2024 refers to the Labour Cost Index (right scale). Sectors are ranked according to average full-time adjusted salaries per employee in 2019 calculated by multiplying wages per employee with the ratio of average number of usual weekly hours worked full-time versus total employment weighted by employment in sectors to correspond to sector groups of compensation per hour worked. Average full-time adjusted salary per employee was then deflated using the harmonized index of consumer prices (hicp). Hourly growth rates calculated based on increases in labour cost index.
Source: Eurostat [nama_10_a10, nama_10_a10_e, lfsa_ewhun2, prc_hicp_midx].