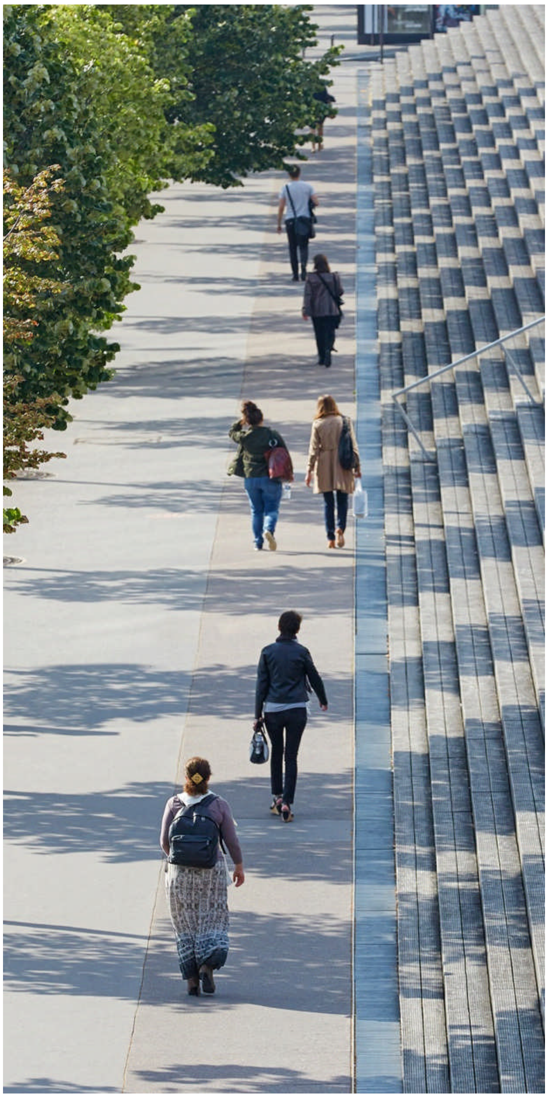
Are global labour markets feeling the effects of the recovery?



Dear readers,

Almost seven years on from the global financial crisis and a broad based global rebound remains elusive.

- US GDP growth in the first quarter of this year is expected to be lower than the strong growth numbers we saw in 2014, but the economy is still expected to post positive growth of over 2.5% this year.
- In the Eurozone, economic growth has been modest and concerns remain about Greece's long-term place in the single-currency area. However the ECB's QE programme, which began last month, and the low oil price should act as a stimulant to growth there.

But one of the most damning, and tangible metrics, of the crisis – the huge upturn in unemployment in the G7 – is moving decisively in the right direction in most economies. Our analysis shows that in net terms there are now around 4.5 million more jobs across the G7 and around 90 million additional jobs in the E7 compared to before the financial crisis.

Many of the jobs in advanced economies have been in part-time employment, even though many workers prefer full-time employment. For example, in the UK the number of part-time workers who would prefer full-time employment has increased by around 80% since before the crisis. That is why we expect that the next phase of the labour market recovery will be to increase the number of full-time workers.

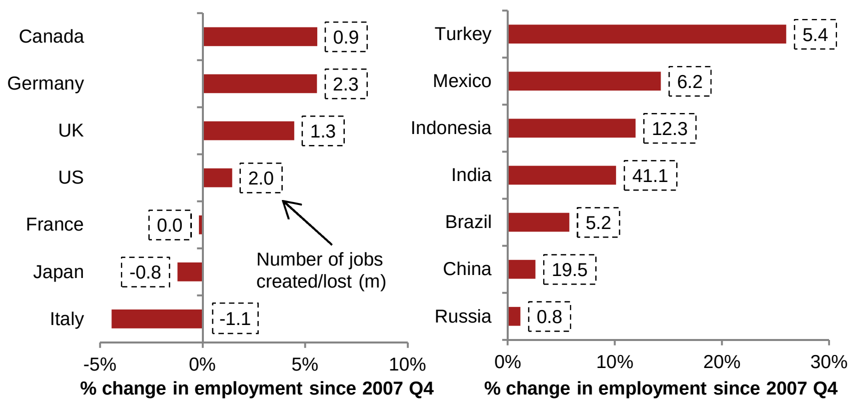
This leaves one important sticking point for many economies: productivity growth. Productivity growth is essential for sustainable improvements to living standards and business conditions. Among the G7 economies, only Canada and Germany have enjoyed both high employment and productivity growth over 2008-2014, while India and Indonesia are the top emerging market performers.

To truly escape the clutches of the financial crisis, now is the time to put productivity growth at the top of the political and business agenda.

Kind regards,

Richard Boxshall
PwC | Senior Economist

Fig 1: In contrast to the G7, the number of jobs is above its pre-crisis level in every E7 economy



Sources: PwC analysis, National Statistical Agencies, OECD, BRICS Joint Statistical Publication 2014, Datastream

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Economic update: Slowing growth and low inflation but China still has room for manoeuvre

The People's Bank of China (PBoC) cuts rates further

In China, inflation is currently considerably short of the government's new 3% target with the latest data showing an inflation rate of just 1.4%. To combat this, the PBoC has further reduced the one-year benchmark loan interest rate and the deposit interest rate by 0.25 percentage points to 5.35% and 2.5% respectively (see Figure 2). Similar adjustments have also been made to benchmark interest rates on deposits and loans of other maturities.

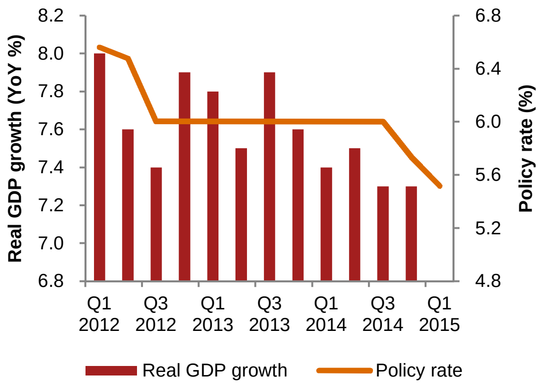
Despite a previous interest rate cut in November, the PBoC still has room for manoeuvre and could continue to ease monetary policy if inflation stays low.

China's 2015 growth target set at "around 7%"

After growing at 7.4% last year, the lowest rate since 1990, the "new normal" of slower economic growth is expected to continue this year as the Chinese government set its growth target at "around 7%".

Monetary easing should help to make this achievable, but fiscal policy is also likely to be used to stimulate growth. The government has said that, despite the high levels of local government debt, the fiscal deficit is expected to be 2.7% this year, representing an increase on last year.

Fig 2: Against a backdrop of slowing growth and falling inflation the PBoC has taken further action



Note: Quarterly policy rate based on average of monthly data
Sources: Datastream, National Bureau of Statistics of China, The People's Bank of China

What types of jobs have been created in advanced economies?

Labour market trends show human cost of the crisis

Globally the labour market was one channel through which the financial crisis had a negative consequence on people's lives with many people losing their jobs and not being able to find full-time work again.

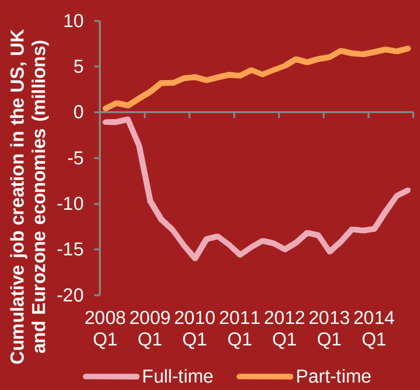
With this in mind, we have looked at how full- and part-time employment has changed since the end of 2007 in the US, UK and Eurozone economies that we monitor.[1]

The number of part-time jobs has grown as full-time work has dried up

Figure 3 shows that in net terms, part-time employment has increased fairly steadily, despite the onset of the financial crisis.

In many countries, this has been driven to a considerable degree by people not being able to find full-time work. In this context, a large amount of part-time employment can mean that hidden spare capacity exists. For example, in the US the number of part-time workers who would prefer full-time employment has increased by 54% since before the crisis. In the UK, the increase is around 80% (though the number is now coming down in both countries). Moving these people on to full-time contracts would erode some of the labour market slack.

Fig 3: Despite the crisis, part-time job creation remained positive in net terms



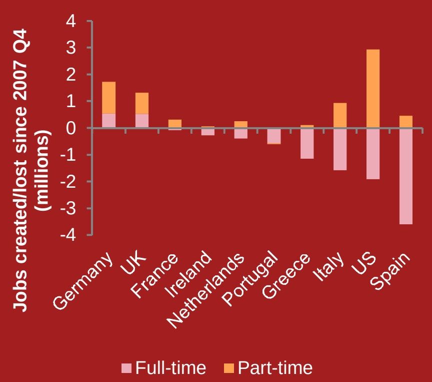
Note: Latest available data for France is 2014 Q3
Source: PwC analysis, BLS, ONS, Eurostat

What trends exist at a country level?

Breaking this analysis down further shows some interesting findings at an individual country level (see Figure 4):

- **Most of the jobs created have been part-time:** In the US and across Europe the trend has been rising part-time employment, with part-time job creation outperforming full-time employment gains in most of the economies in our sample. If businesses are able to move some of these workers on to full-time contracts as demand increases, it will help to keep down recruitment costs giving businesses an extra boost.
- **UK and Germany have posted growth in full- and part-time employment:** While both types of employment have increased, for every full-time job created across both economies combined, 1.9 part-time jobs were created. This has contributed to the strong employment growth observed in these economies.
- **Full-time employment has fallen in the other Eurozone economies:** The disappointing growth performance in the rest of the Eurozone can also be seen in the labour market. However, Portugal is the only economy where the number of both full-time and part-time jobs is smaller than it was before the crisis.

Fig 4: Full-time employment is only above its pre-crisis level in Germany and the UK



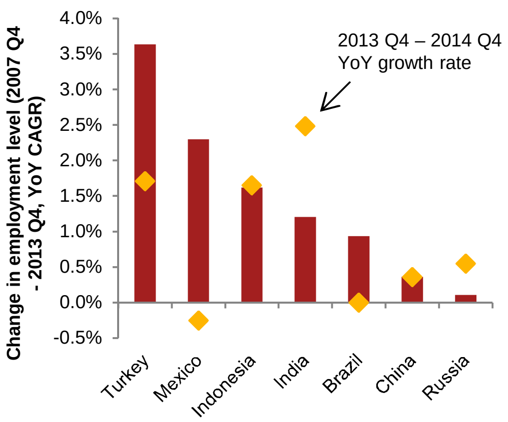
Note: Latest available data for France is 2014 Q3
Sources: PwC analysis, BLS, ONS, Eurostat

These findings suggest that the next phase of the labour market recovery will be to increase the number of full-time workers, which will feed into generating faster economic growth.

[1] Due to different definitions of employment, these numbers may not equate to those discussed on page 3, but the trends are the same.

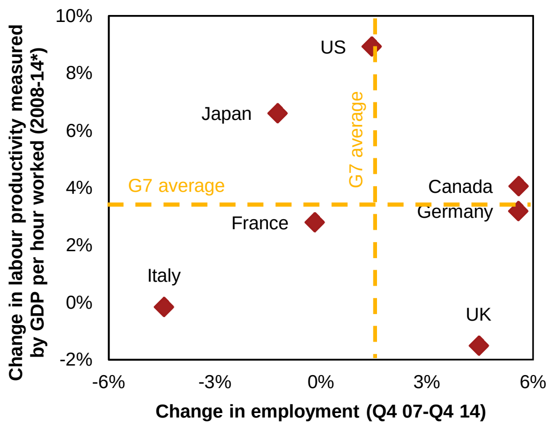
Employment and productivity – GDP growth through a labour market lens

Fig 5: In Mexico, Turkey and Brazil, the pace of job creation has slowed down



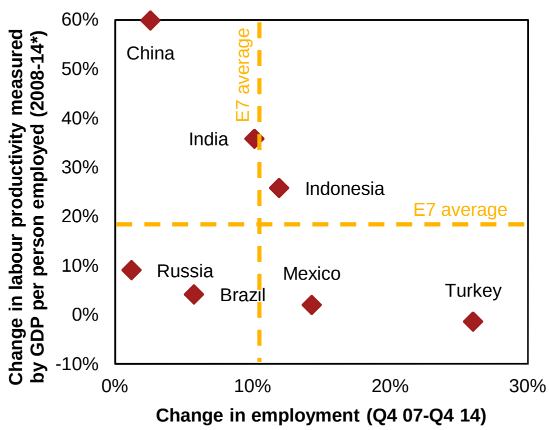
Sources: PwC analysis, National Statistical Agencies, OECD, BRICS Joint Statistical Publication 2014, Datastream

Fig 6: The Canadian and German labour markets have been the stand out performers amongst the G7



Sources: PwC analysis, National Statistical Agencies, OECD, Datastream, The Conference Board TED (Jan 14)

Fig 7: India and Indonesia are benefitting from rising employment and productivity



Sources: PwC analysis, National Statistical Agencies, OECD, BRICS Joint Statistical Publication, Datastream, The Conference Board TED (Jan 14)

*Labour productivity numbers are based on 2013 estimates and 2014 projections from The Conference Board which could be different to actuals

Have employment and labour productivity recovered from the crisis?

The financial crisis had a hard-hitting impact on the labour market so, almost seven years on, we have looked at how the number of jobs has changed in the G7 and in the seven largest emerging markets, the E7, since before the crisis.

Employment and labour productivity combine to give GDP growth. Therefore, we have considered changes in productivity alongside our analysis of job creation to explore what current trends could mean for these same economies.

At an aggregate level, there are more jobs in the G7 and E7 now than there were before the crisis…

In net terms there are now around 4.5 million more jobs across the G7 than there were at the end of 2007. Canada has led the way with the biggest percentage increase in employment as its economy was the first of the G7 to regain its pre-crisis GDP level. However, in absolute terms Germany and the US have created over 4 million jobs between them (see Figure 1). This is all good news for businesses who can benefit from higher revenue as an increase in employment leads to a rise in the aggregate purchasing power of consumers.

The financial crisis didn't have the same impact on the labour market in the E7 as around 90 million jobs[1] have been created over the same period. But, in the last year, the pace of job creation has decelerated in some of these economies. Figure 5 shows that the biggest slowdowns have occurred in Mexico, Turkey and Brazil. Our analysis shows that these three economies combined created around 300,000 jobs in the past year, compared to an average rate of around 2.7 million per year from 2007 Q4 to 2013 Q4.

…but has labour productivity grown too?

The number of jobs created is only one measure of economic performance. Another important measure is labour productivity. High productivity growth is a win-win for businesses and workers as increased output means businesses can sell more, pushing up revenue. A rise in revenue can also lead to businesses paying higher wages to their employees. If sustained, high productivity, revenue and wage growth can have benefits for the wider economy.

We use GDP per hour worked to measure productivity in the G7 but use GDP per person employed in the E7 as hourly employment data is not available for each economy. Our analysis of job creation and productivity shows that:

1. **Canada and Germany in the sweet spot:** Amongst the G7, Canada and Germany have combined high employment growth with a strong increase in labour productivity (see Figure 6). This is in contrast to other high-performing economies like the US, where productivity growth has outperformed employment, or the UK where the reverse is true. For advanced economies, rising labour productivity is one of the determinants of long-term economic growth but as economic conditions normalise, we would expect productivity growth in the UK to move back towards its long-term trend. France and Italy have lagged behind due to the disappointing performance of their economies.
2. **China's labour force goes high-tech:** China's workforce is shrinking but one way to offset this trend is to move workers from low-cost manufacturing into higher-skilled occupations. Our analysis shows that this process is already underway with productivity in China around 60% higher than in 2008 (see Figure 7), which implies it has moved up the value chain. This shift could also help China avoid falling into the "middle-income trap" and put its future economic expansion on a more sustainable path.
3. **Productivity growth is low in some emerging markets too:** Amongst the E7, Mexico and Turkey have witnessed the biggest percentage increase in employment due to increases in the labour force. But in practice, there is a limit on the number of people in an economy that can work. In the long-term, these economies will become more reliant on productivity rises to fuel economic growth. However in the medium-term, the size of the working-age population is expected to rise in both countries, giving policymakers the time to implement structural reforms aimed at delivering high productivity job growth.

[1] It is harder to get reliable and timely employment data for the E7, so these numbers should be treated as broad estimates as opposed to precise values.

Projections: April 2015

	Share of 2013 world GDP		Real GDP growth				Inflation			
	PPP*	MER*	2014p	2015p	2016p	2017-2021p	2014p	2015p	2016p	2017-2021p
Global (Market Exchange Rates)		100%	2.7	2.8	3.2	3.0	2.6	2.3	2.5	2.5
Global (PPP rates)	100%		3.2	3.3	3.8	3.5				
United States	16.4%	22.4%	2.4	2.7	2.9	2.5	1.6	0.3	1.8	1.9
China	15.8%	12.7%	7.4	7.1	7.2	5.7	2.1	3.1	1.8	3.0
Japan	4.6%	6.6%	-0.1	1.4	1.4	1.3	2.7	1.4	2.3	1.9
United Kingdom	2.3%	3.4%	2.6	2.5	2.3	2.3	1.5	0.2	1.7	2.0
Eurozone	12.3%	17.1%	0.9	1.3	1.7	1.8	0.5	0.0	1.4	1.4
France	2.5%	3.8%	0.4	0.9	1.4	1.9	0.6	0.1	1.1	1.2
Germany	3.4%	4.9%	1.6	1.5	1.9	1.6	0.8	0.2	1.8	1.7
Greece	0.3%	0.3%	0.8	0.7	1.5	2.5	-1.4	-1.3	0.3	1.4
Ireland	0.2%	0.3%	4.8	3.4	3.4	2.5	0.3	0.2	1.1	1.5
Italy	2.0%	2.8%	-0.3	0.4	1.1	1.3	0.2	-0.1	1.8	1.4
Netherlands	0.8%	1.1%	0.8	1.4	1.6	1.9	1.0	1.2	1.1	1.3
Portugal	0.3%	0.3%	0.9	1.5	1.7	1.8	-0.2	0.1	0.8	1.5
Spain	1.5%	1.8%	1.4	2.3	2.5	2.2	-0.2	-0.8	1.0	1.2
Poland	0.9%	0.7%	3.3	3.4	3.5	3.2	0.2	-0.1	1.7	2.5
Russia	3.4%	2.8%	0.2	-5.0	-0.5	1.9	7.8	15.0	8.0	4.3
Turkey	1.4%	1.1%	2.8	3.5	3.8	3.7	8.9	6.9	6.5	6.2
Australia	1.0%	2.0%	2.6	2.6	3.1	2.9	2.6	2.5	2.6	2.5
India	6.6%	2.5%	5.3	7.0	6.9	6.1	4.4	4.2	5.2	6.0
Indonesia	2.3%	1.2%	1.3	5.8	5.7	5.4	6.3	6.5	6.7	5.1
South Korea	1.7%	1.7%	3.4	3.5	3.7	3.5	1.3	1.6	2.2	2.9
Argentina	0.9%	0.8%	-0.2	0.3	2.3	2.1	25.0	25.0	-	-
Brazil	3.0%	3.0%	0.3	-0.1	1.6	3.1	6.3	6.8	6.0	4.8
Canada	1.5%	2.4%	2.5	2.2	2.2	2.2	1.9	0.9	1.9	2.1
Mexico	2.0%	1.7%	2.1	3.0	3.5	3.9	4.0	3.2	3.5	3.1
South Africa	0.7%	0.5%	1.5	2.0	2.1	3.2	6.1	4.6	5.6	5.3
Nigeria	1.0%	0.7%	6.0	4.2	4.9	6.0	8.1	11.7	9.9	7.3
Saudi Arabia	1.5%	1.0%	3.6	2.6	3.0	4.4	2.7	2.6	3.0	3.4

Sources: *PwC analysis, National statistical authorities, Datastream and IMF. All inflation indicators relate to the Consumer Price Index (CPI), with the exception of the Indian indicator which refers to the Wholesale Price Index (WPI). Argentina's inflation projections use the IPCNu Index released by INDEC. We will provide a 2016 and 2017-2021 inflation projection once a longer time series of data is available. Also note that the tables above form our main scenario projections and are therefore subject to considerable uncertainties. We recommend that our clients look at a range of alternative scenarios.*

Interest rate outlook of major economies

	Current rate (Last change)	Expectation	Next meeting
Federal Reserve	0-0.25% (December 2008)	Rate to start to rise around the middle of 2015	28-29 April
European Central Bank	0.05% (September 2014)	Rates on hold following decrease in September 2014	15 April
Bank of England	0.5% (March 2009)	Rate to start rising gradually from late 2015 onwards	9 April

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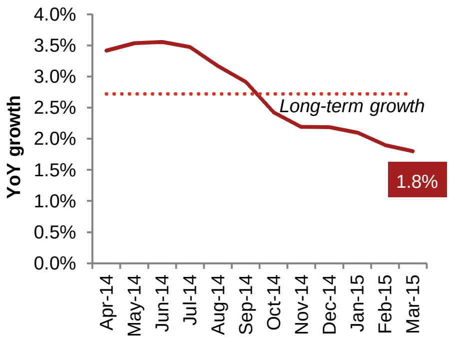
PwC's Global Consumer Index

GCI growth fell to levels last seen in 2013 Q1 when the global economic recovery remained fragile. Although equity markets experienced a marked improvement from last month, growth in industrial production in economic powerhouses such as China and South Korea is at its slowest rate since the trough of the 2009 downturn. However, continued low oil prices may translate into higher real consumer spending later in the year.



The GCI is a monthly updated index providing an early steer on consumer spending and growth prospects in the world's 20 largest economies. For more information, please visit ***www.pwc.co.uk/globalconsumerindex***

We help you understand how big economic, demographic, social, and environmental changes affect your organisation by setting out scenarios that identify growth opportunities and risks on a global, regional, national and local level. We help make strategic and tactical operational, pricing and investment decisions to support business value creation. We work together with you to achieve sustainable growth.