Monthly monitor

EU employment situation and social outlook

March 2010

CONTENT

HIGHLIGHTS

- The latest data covering the period up to January/February 2010 indicate that the labour market has begun to show more consistent signs of stabilisation, half a year after the economy started to improve. However, some further deterioration of the labour market may yet occur, as it is still too soon for the fragile pick-up in economic activity to have had much impact on the labour market at this stage.
- The EU has been recovering from recession since mid-2009, as GDP returned to positive growth in the third quarter following five quarters of contraction. However, economic output only expanded by a mere 0.1 % in the fourth quarter, and owing to the severity of the crisis, at the end of 2009 was still down by 2.3 % compared to a year earlier. Nevertheless, recently the recovery has been supported by a marked improvement in industrial production, which rose particularly strongly in January.
- Declines in employment have weakened considerably since the peak fall in the first quarter of last year, and it contracted by only 0.3 % in the fourth quarter of 2009 to 221 million. Nevertheless, employment was down 4.7 million (2.1 %) compared to a year earlier, reflecting strong declines in construction and industry. Employment fell in most Member States, with the deterioration generally easing compared to the beginning of last year, and stabilised or even expanded in some countries. The only particularly steep (seasonally adjusted) falls were in Denmark and Lithuania (although non-seasonally adjusted data also imply significant declines in Bulgaria and Latvia), while employment remained stable in Germany, Portugal and the UK, and increased in Austria and the Czech Republic. At the same time, recent data show a strong improvement in workplace activity through temporary work agencies, a leading indicator of a recovery in the labour market.
- Unemployment in the EU has recently shown signs of stabilising. The rises over the last three months have been the smallest since mid-2008. Unemployment rose by 136 000 (0.6 %) in January to a seasonally adjusted 23 million (24.2 million non-seasonally adjusted), up 3.8 million (or 19.8 %) compared to the level in January 2009, and 7 million (or 44 %) higher than in March 2008, when unemployment was at a low.
- The unemployment rate remained unchanged in January 2010 and, at 9.5 %, was 1.5 pps higher than a year earlier and 2.8 pps more than the low of 6.7 % in spring 2008. Rises in the unemployment rate eased in January in most Member States and only Ireland recorded a steep increase, while the unemployment rate actually declined or stabilised in several countries, including the larger Member States of Germany, Spain and the UK.
- Rises in youth unemployment in the EU also continued to ease in January. Unemployment for this age group expanded by a modest 22 000 (or 0.4 %) to 5.5 million, with the unemployment rate for youth increasing by a mere 0.1 pps to 20.9 %. Nevertheless, even if the rises in the youth unemployment rate have weakened recently, they are still higher than the recent more limited increases in the rate for adults, which stabilised in January.
- Economic sentiment in the EU is approaching its long-term average, although recently the rebound appears to have lost momentum after ten months of uninterrupted improvement. Still, firms are becoming less pessimistic about the outlook for employment, and consumers' unemployment expectations continue to ease, except for recent sharp downturns in Italy and Spain.
- Nevertheless, according to the latest Commission interim economic forecast, the EU economy is still facing headwinds, and the outlook for the labour market remains unfavourable for 2010.
- This month's edition focuses in particular on recent developments in the energy sector.

This monthly monitoring report responds to the need to monitor the impact of the current economic crisis on different sectors, as announced in the Commission Communication 'From financial crisis to recovery' (COM(2008) 706), and to the more general need for timely information on labour market developments. It is not a detailed analytical document; rather, it presents a situation update on recent developments and the outlook for employment, making use of a wide range of sources that provide more timely data. Some of the data may be of lower quality and less harmonised than the statistics usually used in Commission analysis (specifically, not all the data here are fully harmonised across Member States), but it is more up-to-date than the data generally available from most of the standard statistical sources.

A wide combination of information sources have been used to produce this report, including Eurostat statistics, reports and survey data from the Commission's Directorate General for Economics and Finance, national and sectoral statistics, restructuring data from the European Restructuring Monitor (collected by the European Monitoring Centre on Change), and articles from respected press sources. The report has also benefited from preliminary contributions from public and private employment services. The section on restructuring trends has been prepared by the European Foundation for the Improvement of Living and Working Conditions.

I. SITUATION AND OUTLOOK

1. Labour market trends

According to the latest data[1] covering the period up to January/February 2010, the labour market has started to show more consistent signs of stabilisation, half a year after the economy started to improve. However, some further deterioration of the labour market may yet occur, as it is still too early for the fragile pick-up in economic activity to have had much impact on the labour market at this stage.

Although unemployment continues to rise in most Member States, it now does so at a more moderate pace, and while companies still announce more job losses than gains, the losses are substantially fewer than in previous months. Indeed, there are signs of a stabilisation in the EU unemployment rate, with unemployment stabilising or falling in several Member States. Furthermore, economic sentiment is approaching its long-term average, with firms improving their outlook for employment and consumers' unemployment expectations easing.

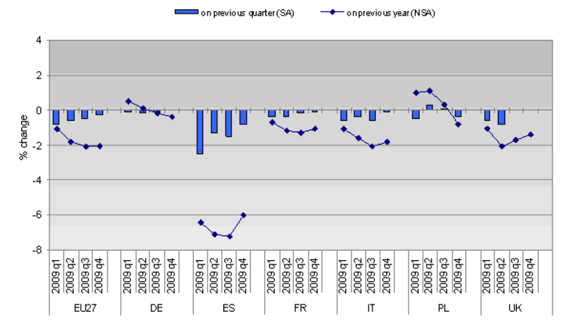
Nevertheless, according to the latest Commission interim economic forecast, although the EU economy is recovering it is still facing headwinds, and the outlook for the labour market generally remains unfavourable for 2010.

Deterioration in the EU labour market continues to moderate, with employment contraction easing in the fourth quarter of last year…

The deterioration in the EU labour market resulting from the recent economic crisis has continued to moderate. Declines in employment have weakened since the peak in the first quarter of 2009, with employment contracting at a decelerating pace of 0.6%, 0.5% and 0.3% respectively in the subsequent quarters. Reflecting the usual lagged response, job losses have continued despite the fact that economic growth picked up again in the second half of last year.

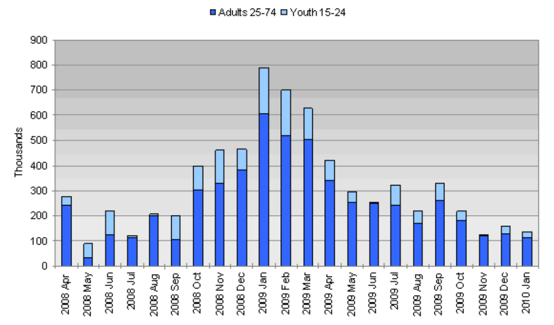
During the fourth quarter of 2009, employment fell in most Member States, but the decline generally eased compared to the beginning of last year and with employment stabilising or resuming in some countries. Among the larger Member States, employment remained unchanged in Germany and the UK compared to the previous quarter, but continued to weaken strongly - albeit at a slower pace than previously - in Spain (by 0.8%), while the decline was less marked in France and Italy (both down 0.1%). The significant reduction in employment in Poland (by 0.4%) brought its previous labour market resilience to an end (Chart 1). Employment fell in most of the other Member States, but the only particularly steep (seasonally adjusted) falls were in Lithuania (down 2.3%) and Denmark (down 1.7%), (although non-seasonally adjusted data also imply significant declines in Bulgaria and Latvia). In contrast, employment remained stable in Portugal and increased in Austria and the Czech Republic.

Chart 1: Employment growth for the EU and larger Member States



Source: Eurostat, National accounts.

Chart 2: Changes in unemployment for the EU



Source: Eurostat, Series on unemployment. Data seasonally adjusted.

… however, employment remains down on a year earlier in most Member States

Employment in the EU had fallen to 221 million by the last quarter of 2009, down 4.7 million (2.1%) compared to a year earlier, and reflecting severe declines in the construction and industry sectors. By the fourth quarter, year-on-year employment growth was negative in all Member States. Among the larger Member States, employment had contracted most noticeably in Spain (by 6%), and to a lesser extent in Italy (1.8%), the UK (1.4%) and France (1.1%), but it was also down in Germany (0.4%) and, for the first time, in Poland (0.8%). Of the remaining Member States, the Baltic States and Ireland recorded the steepest falls in employment over the year (of the order of 8-16%).

There are signs of stabilisation in the EU unemployment rate, although absolute levels of unemployment continue to rise moderately…

Unemployment in the EU has recently started to show signs of stabilising. The rises over the last three months have been the smallest since mid-2008, while the unemployment rate remained unchanged in January after nearly two years of almost continuous increases.

Following two months of similarly modest increases, unemployment in the EU rose by 136 000 (0.6 %) in January (Chart 2), mainly due to a significant increase in Poland and a more moderate rise in France. Unemployment reached a seasonally adjusted 23 million (24.2 million non-seasonally adjusted), up 3.8 million (or 19.8 %) compared to the level in January 2009, and 7 million (or 44 %) higher than in March 2008, when unemployment in the EU was at a low.

Since May of last year the unemployment rate for the EU has broadly been increasing by 0.1 percentage points (pps) per month, a much lower pace than during the period from autumn 2008 to spring 2009, and in January it remained unchanged compared to the previous month (Chart 3). Nevertheless, at 9.5 % the rate was 1.5 pps higher than a year earlier and 2.8 pps above the low of spring 2008 (6.7 %).

… and recent changes in the unemployment rate have been similar for men and women

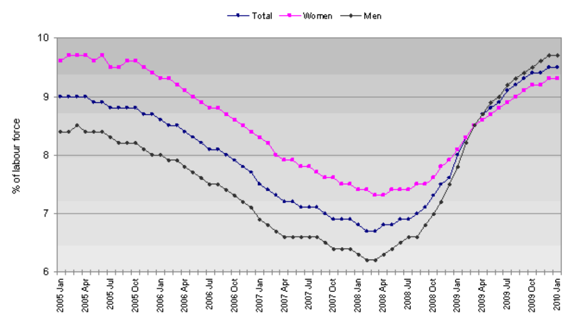
Unemployment rates for both men and women have been increasing at a broadly similar pace for half a year, after the long initial period during which unemployment affected men relatively more than women. In particular, women accounted for as much as 45-50 % of the overall rise in unemployment in August, October and December. Unemployment rates for both women and men remained unchanged In January, at 9.3 % and 9.7 % respectively, and consequently the gender gap has stayed at 0.4 pps in favour of women since November.

Overall, men account for two-thirds of the overall increase in unemployment since spring 2008, reflecting that the crisis initially had a much more pronounced impact on male-oriented sectors, such as construction and industry. Due to this relatively larger initial increase in unemployment, the unemployment rate for men picked up sharply (by 3.5 pps) from 6.2 % in March 2008, while the rate for women rose by a more limited 2 pps from its low of 7.3 %.

Rises in youth unemployment in the EU continued to ease in January…

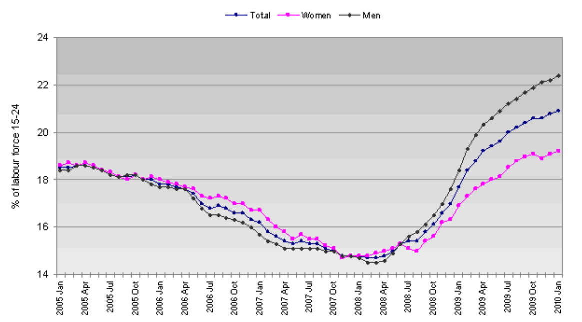
There are also tentative signs that youth unemployment in the EU may be starting to level off. Youth unemployment has been rising more moderately since November, compared to the previous steeper increases observed since mid-2008. It expanded by a modest 22 000 (or 0.4 %) in January to reach 5.5 million, up by 700 000 (15 %) compared to a year earlier, and by 1.5 million (37.7 %) compared to the low in spring 2008 (Chart 2).

Chart 3: Unemployment rates for the EU



Source: Eurostat, Series on unemployment. Data seasonally adjusted.

Chart 4: Youth unemployment rates for the EU



Source: Eurostat, Series on unemployment. Data seasonally adjusted.

Overall, young people account for one-fifth (21.3 %) of the total increase in unemployment since 2008, although youth unemployment as a share of total unemployment decreased slightly from around 25 % in 2008 to just below 24 % in January 2010.

… although the unemployment rate for young people remains historically high

The youth unemployment rate has broadly been edging up by 0.2-0.4 pps per month since March of last year, which is a much slower rate than the steep rises at the beginning of 2009. In January it increased by only 0.1 pps to reach 20.9 %, up 3.2 pps on January 2009 and up 6.2 pps compared to the low of March 2008 (Chart 4).

The marked increase in the youth unemployment rate since spring 2008 has been driven mainly by a very sharp rise in the rate for young men, who account for more than two-thirds of the increase in youth unemployment since then.

Chart 5: Unemployment rate changes January 2009 - January 2010

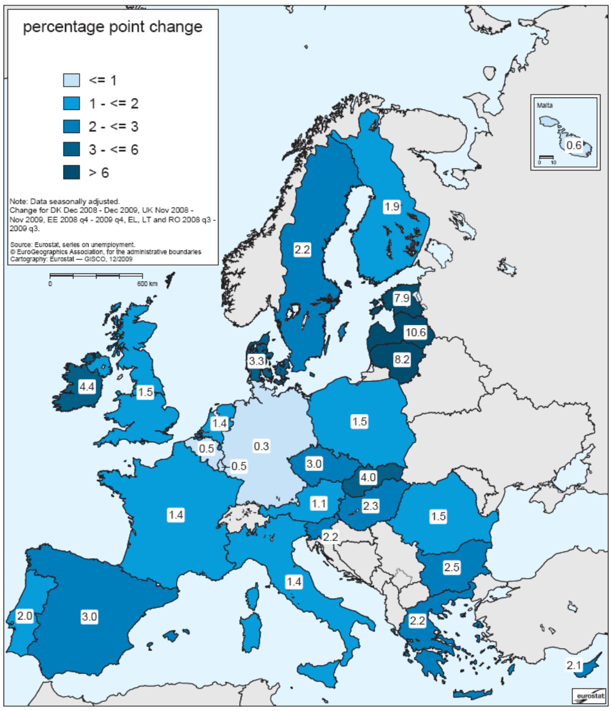
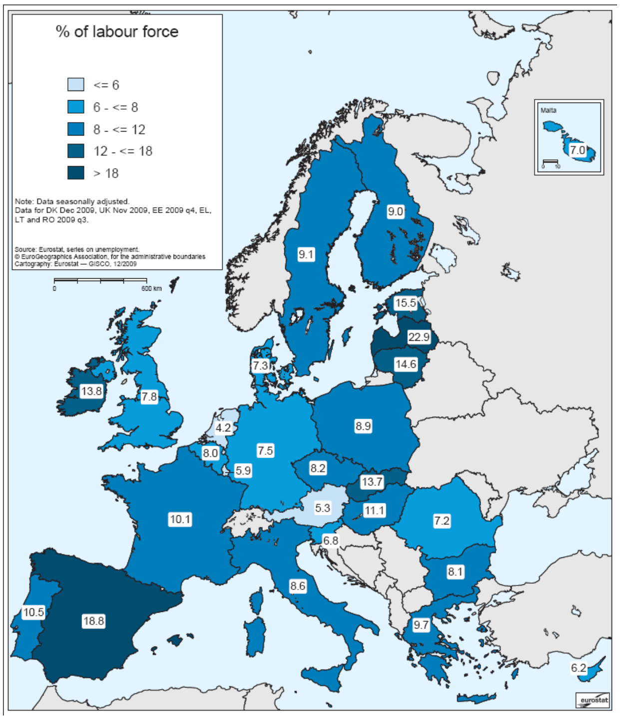


Chart 6: Unemployment rates, January 2010



The youth unemployment rate has always been significantly higher than the rate of adult unemployment, but the relative situation of young people has become even worse during the downturn. Indeed, the increases in the youth unemployment rate have continued to be higher than the increases in the adult rate, which stabilised in January.

The youth unemployment rate is higher than a year ago in all Member States except Luxembourg and Germany. Over the year to December 2009/January 2010, the youth unemployment rate more than doubled in Latvia (up by around 24 pps) and increased significantly in Estonia, Ireland and Slovakia (up by around 12-15 pps), while the previous substantial rises in Spain were no longer in evidence, reflecting that most of the rise in that country occurred prior to the last year. The rate also increased significantly in Lithuania (up around 19 pps) over the year to the third quarter of 2009. As a result, the unemployment rate among young people now exceeds 30 % in Estonia, Hungary, Ireland, Lithuania and Slovakia, and is at or above 40 % in Latvia and Spain.

Unemployment continues to edge up in most Member States, although in some it stabilised or even declined in January…

Rises in the unemployment rate eased in most Member States in January, and only Ireland recorded a steep increase (of 0.5 pps), while the rate actually declined or stabilised in several countries, including the larger Member States of Germany, Spain and the UK.

In January, among the larger Member States the unemployment rate rose most steeply in Poland (by 0.2 pps) and continued to edge up by 0.1 pps in France and Italy, while in Spain it decreased by 0.1 pps. The rate has remained stable in Germany since October and in the UK since June. Among the remaining Member States, the unemployment rate remained flat in January in Slovenia, and declined in Austria, Belgium, Luxembourg and Malta (Chart 7).

… and the unemployment rate remains higher than a year ago in all Member States

Due to the large increases in the first part of last year, the unemployment rate in January was still higher than twelve months previously in all Member States, but the year-on-year differences have been declining.

Of the larger Member States, Spain was the only one to experience a steep year-on-year increase in the unemployment rate (up 3 pps) and, at 18.8 % in January (equivalent to 4.3 million unemployed), it still has the second highest unemployment rate in the EU. Over the year to January there were also noticeable increases in the unemployment rate in Poland (by 1.5 pps) to 8.9 % (1.6 million unemployed), France (by 1.4 pps) to 10.1 % (2.9 million unemployed) and Italy (by 1.4 pps) to 8.6 %

(2.1 million unemployed). In the UK, on the year to November, the unemployment rate was up by 1.5 pps to 7.8% (2.4 million unemployed). The limited increase in the unemployment rate in Germany (up by only 0.3 pps) to 7.5% (3.2 million unemployed) was the lowest in the EU, confirming the continued resilience of the German labour market to the economic crisis.

Among the remaining Member States, the sharpest rise in the unemployment rate over the year was in the Baltic States (by around 8-11 pps), with Latvia now recording the highest level in the EU (22.9%), and Estonia and Lithuania rates of around 15%. While unemployment rates were also high in Ireland and Slovakia (more than 13% in both), they remained low in Luxembourg, Austria and the Netherlands (at 5.9%, 5.3% and 4.2%, respectively) (Charts 5, 6 & 7).

Recent improvements on the US labour market narrowed the unemployment gap with the EU

A faster and stronger economic recovery and a more marked improvement in business confidence (BCI)[2] have positively affected the labour market in the US recently. The unemployment rate in the US broadly stabilised in November and December, and then fell by a marked 0.3 pps in January, narrowing the gap between the US and EU unemployment rates to 0.2 pps (Chart 8).

Nevertheless, the overall impact of the recent crisis on the labour market in the EU has remained more moderate than in the US. Unemployment in the US has more than doubled (in fact it is up by 120%) since the low of spring 2007, compared to an increase of 44% in the EU on the recent trough in spring 2008. By January, the unemployment rate in the EU had risen to 9.5%, up 2.8 pps compared to the low in March 2008, while in the US it had increased by a more substantial 5.5 pps on May 2007 to 10% in November before falling to 9.7% in January. Overall, these rises translate into an average monthly increase of 0.13 pps for the EU, compared with a higher monthly average rise of 0.18 pps in the US.

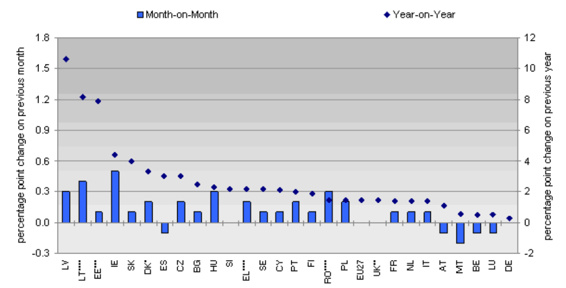
EU consumers' fears of unemployment eased slightly in February…

Consumers' expectations regarding the level of unemployment in the year ahead, which have been broadly on a downward trend since April 2009, eased further in February, even though perceptions of the general economic outlook did not improve. Unemployment expectations eased by 1.1 points in February, and were down some 26 points relative to the peak in March 2009 (Chart 9).

At the EU level, the February unemployment outlook was driven by mixed performances in the larger Member States. Fears over unemployment continued to fade in Poland (down 1.3 points) and particularly strongly in France and the UK (down 5.3 and 6.3 points respectively). After the marked increase observed in January, they also diminished in Germany (down 3.6 points). On the other hand, unemployment concerns in Italy continued to deepen, increasing steeply by 8.2 points, and also rose steeply in Spain (up 8.8 points) after falling significantly during the previous two months.

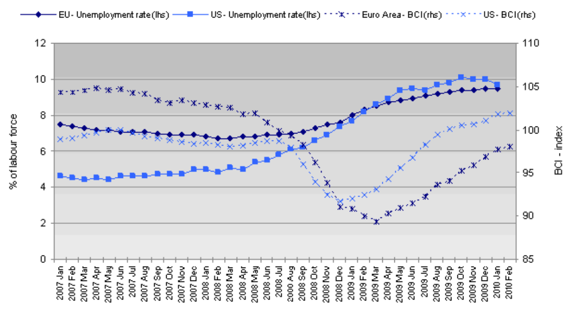
Despite the improvement in expectations at EU level for close to a year now, unemployment has continued to edge up in line with the lagged effect of earlier worsening expectations. Moreover, the recent tentative

Chart 7: Unemployment rate changes to January 2010



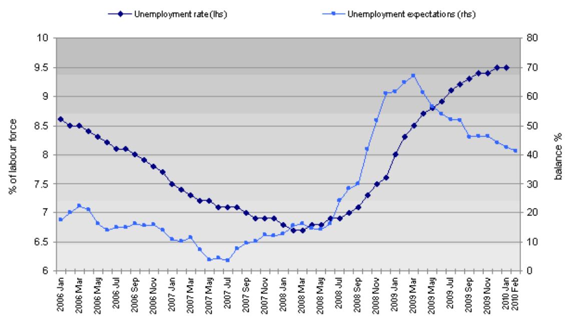
Source: Eurostat, Series on unemployment. Data seasonally adjusted.
Note: *DK: annual change Dec 2008 - Dec 2009, monthly change Nov - Dec 2009. ** UK: annual change Nov 2008 - Nov 2009, monthly change Oct - Nov 2009. *** EE: annual change 2008 q4 - 2009 q4, monthly change estimated from quarterly change 2009 q3 - 2009 q4. **** EL, LT and RO: annual change 2008 q3 - 2009 q3, monthly change estimated from quarterly change 2009 q2 - 2009 q3.

Chart 8: Unemployment rate and BCI for the EU and US



Source: Eurostat, series on unemployment; OECD, Composite leading indicators. Data seasonally adjusted.

Chart 9: Unemployment rates and expectations for the EU



Source: Eurostat, Series on unemployment; Commission services (ECFIN), Business and consumer surveys. Data seasonally adjusted.

signs of stability in the unemployment rate have not yet been clear enough to indicate that the turning point has definitely been reached. Indeed, it remains uncertain how long the deterioration will continue before the effects of the recent improvement in economic activity and sentiment feed through more strongly to the labour market.

... while firms' employment expectations continued to improve across most sectors ...

Similarly, since the spring of 2009, firms' employment expectations for the months ahead have broadly improved across all main sectors, except for falls in construction in December and January and a recent levelling off in services. Nevertheless, expectations remain negative on balance in almost all sectors.

Employment expectations continued to improve in February in industry, although the increase of 1.6 points was one of the smallest since April 2009, while employment prospects in construction rebounded strongly (by 3 points) after having deteriorated during the two previous months. Nevertheless, the employment outlook in these two sectors remains the least optimistic of all main sectors.

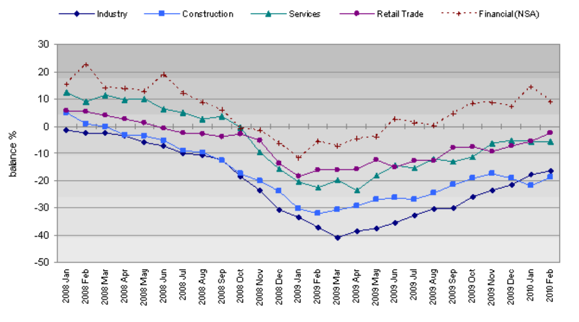
Expectations in the services sector, which improved most between May and November 2009, have remained broadly stable since then, while they continued to improve in the retail trade sector over the last three months (including a solid 3.3 point rise in February). In the financial sector, the positive net employment outlook returned to the levels observed from October to December following a notable fall in February (down 5.3 points) which cancelled out the previous steep rise in January (Chart 10).

... and there are signs of a relative improvement in vacancies in some Member States...

Analysis[3] based on the latest Manpower Employment Outlook Survey[4] for the second quarter of 2010 reports job vacancies are increasing in Germany and the UK, a sign of improving labour markets and growing skill shortages. However, the improvement is not yet strong enough to bring down unemployment rates, and people with low or inappropriate skills will find it hard to get into work. Furthermore, despite higher vacancies, hiring remains relatively flat, indicating that skills mismatch may be an issue.

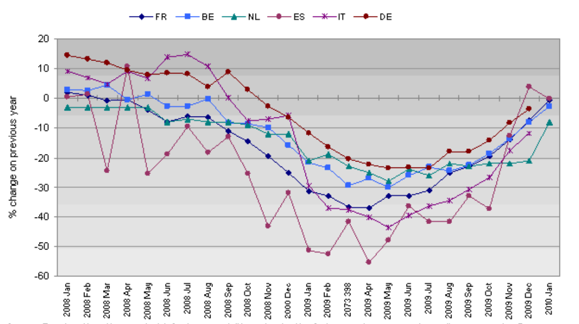
At the same time, in most of the larger Member States apart from Spain and Italy there is a continued downward trend in the share of companies expecting to decrease staffing levels, although the share reporting intentions to raise staff levels remains broadly flat. The latter in part reflects that the use of reduced working hours in Europe has led to widespread underemployment, with the existing workforce likely to absorb increased demand though a rise in working hours before any major increase in staff levels takes place.

Chart 10: Sectoral employment expectations for the EU



Source: Commission services (ECFIN), Business and consumer surveys. Data seasonally adjusted (except for financial sector).

Chart 11: Hours worked invoiced by private employment agencies for selected Member States



Source: Eurociett. Note: Hours worked defined as sum of all hours invoiced by all private employment agencies to all user companies. For IT number of remunerated working days, for DE number of agency workers.

Official sources, for example in Germany and the UK, confirm the stabilisation or relative improvement in labour demand over recent months, albeit with levels that are still on the low side compared to mid-2008. In Germany, the Federal Employment Agency's job index (BA-X)[5] has been moving moderately upwards since last summer, and in February it again rose 1 point to 131 points, narrowing the yearly gap to 8 points, and confirming the continuing recovery in the demand for new workers. Nevertheless, the underlying number of vacancies - at around 480 000 in February – was still down 25 000 (5%) on a year earlier. Furthermore, currently the index remains slightly below the level of 137 points reached in the initial phase of the previous economic upturn in February 2006, and it is not yet clear to what extent labour demand will continue to grow in the coming months.

In the UK, according to the vacancy survey conducted by the Office of National Statistics, there were 479 000 unfilled vacancies on average in the three months to January. The number of vacancies increased by 49 000 on the previous quarter, but were still down by 24 000 (or 4.8%) on the year, affecting most sectors but especially construction, mining and quarrying and arts, entertainment and recreation (down around 45-50% in each). Administrative data on the number of vacancies at Jobcentre Plus show an average of 267 145 vacancies notified for each month between November and January.

… while demand for temporary agency workers continues to improve, and is now only slightly down on a year ago

Recent data from Eurociett[6], generally covering December/January, continues to show an improvement in employment through temporary agencies in recent months. Although the number of hours invoiced by private employment agencies displays a clear upward trend, the totals were nevertheless still slightly down compared to a year earlier in most countries, ranging from falls of 11.8% in Italy and 8% in the Netherlands to 2–4% in Belgium and Germany. Meanwhile in Spain, following sharp improvements in November and December, and in France, invoiced hours in January remained broadly unchanged on a year earlier (Chart 11). In the UK, agencies' billings from short-term staff continued to rise in February. However, the rate of expansion eased to its slowest since last November, as growth was constrained by some clients opting not to renew contracts.

2. Restructuring trends

The situation in EU labour markets in response to the economic downturn has been reflected in the European Restructuring Monitor (ERM) data collected by the European Monitoring Centre on Change[7].

Announced job losses, although sharply down, continue to outnumber announced job gains…

There have been almost three times as many announced job losses as job gains in ERM restructuring cases since September 2008. In February 2010, there were 48 new cases of restructuring-related job loss and 16 new cases of restructuring-related job gains. Announced job losses in February remained sharply down on levels prior to December last year, but there is no sign yet of a significant rise in announced job gains, and the net balance remains negative (Chart 12).

… with most of the recent job loss announcements relating to the United Kingdom and Romania

The member states with largest announced job losses in February were the UK (8 633 jobs) and Romania (5 683 jobs), followed by Poland (3 006) and Ireland (1 125 jobs) (Chart 13).

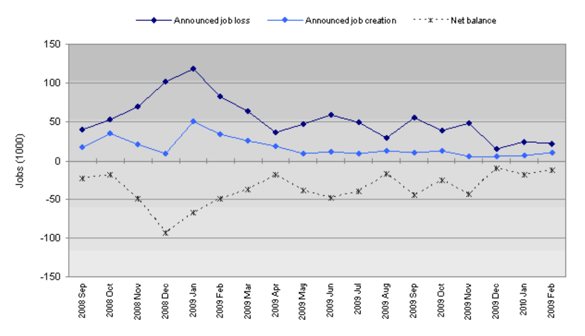
Manufacturing and Public Administration were the sectors most affected by announced restructuring job losses in February…

In February 2010, manufacturing accounted for 8 310 announced job losses in the ERM. Since September 2008, the ERM has recorded 477 616 announced job losses in manufacturing, half of total job losses. Public administration was the other sector most affected in February, with 3 230 announced job losses. Other significantly affected sectors included financial intermediation (3 066 jobs), construction (2 343 jobs) and utilities (2 100 jobs) (Chart 14).

In February, the largest restructuring cases involving job loss were in:

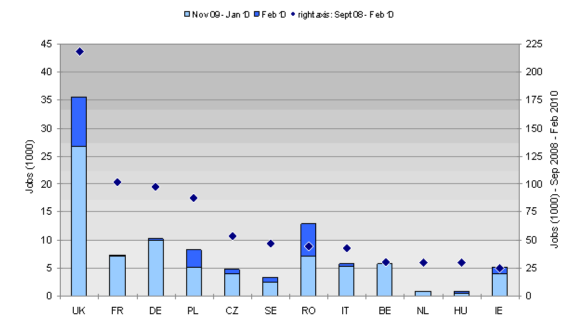
- Manufacturing: TCP (UK, 1 600 jobs), Bosch (UK, 900 jobs), Glaxo SmithKline (Italy, 550 jobs) and Vauxhall (UK, 523 jobs),
- Public Administration: Birmingham City Council (UK, 2 000 jobs), Cornwall Council (UK, 600 jobs),
- Financial intermediation: PZU (Poland, 2 316 jobs), BOS Ireland (Ireland, 750 jobs),
- Construction: Bechtel Romania (Romania, 2 233 jobs),
- Mining and quarrying: Compania Națională a HuileiPetrosani (Romania, 1 600 jobs),
- Utilities: Electrocentrale Bucaresti (Romania, 500 jobs).

Chart 12: Announced job losses and creation for the EU



Source: European Monitoring Centre on Change, European restructuring monitor.

Chart 13: Announced job losses for selected Member States



Source: European Monitoring Centre on Change, European restructuring monitor.

In the manufacturing sector, Teesside Cast Products (TCP) announced the closure of its Corus plant at Redcar, Teesside in the UK, resulting in the loss of 1 600 jobs and ending more than 150 years of iron and steel making in the region. Mothballing of the site had been due to begin at the end of January, but following discussions with unions this was postponed to the end of February. As part of a restructuring plan that will result in the loss of around 4000 jobs worldwide, pharmaceutical company Glaxo SmithKline is to cut 550 jobs at its site in Verona, Italy following the company's decision to close its research unit there. In the UK, 380 jobs will be lost as the Glaxo SmithKline research unit in Harlow, Essex will also be closed. The losses are due to projects for pain relief, anxiety and depression drugs coming to an end, and no further research is planned.

In the auto manufacturing sector, Bosch confirmed the loss of about 900 jobs as a result of the closure of its South Wales plant, due to the transfer of production to Hungary by 2011. Vauxhall announced 523 job losses in Luton, Bedfordshire, where 369 jobs will be lost at the van plant and 154 in administration and retail.

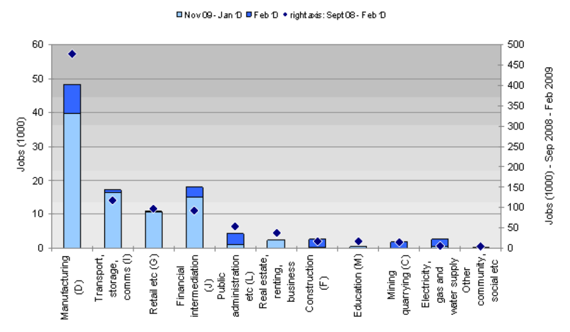
In public administration, announcements of restructuring related job losses continue in UK city and district councils. Birmingham City Council announced a cut of 2 000 jobs, up to 600 jobs are to be lost at Cornwall Council over the next four years, Cardiff Council announced 300 job cuts and Wokingham Borough Council, Berkshire, announced the loss of 150 jobs.

In the financial sector, Polish insurer Powszechny Zakład Ubezpieczeń (PZU) is to cut 2316 jobs, while 2900 employees are to be offered new positions or relocation to other units in the first half of 2010. If those employees decline the offer, they will be laid off. These dismissals are part of a large restructuring programme entitled "Micro2", aiming at centralising administrative activities in ten back-office centres across the country. Bank of Scotland, Ireland announced the closure of its Halifax business and Irish branch network, which will result in 750 redundancies. The bank stated it will close its 44 Halifax branches, between May and July 2010.

In the construction sector, the American builder Bechtel, contractor for Transilvania highway, announced 2233 direct dismissals, affecting respectively 1933 Romanian employees and approximately 300 foreign employees. The redundant employees will receive a compensation payment equivalent to 75%-100% of their basic salary over two months.

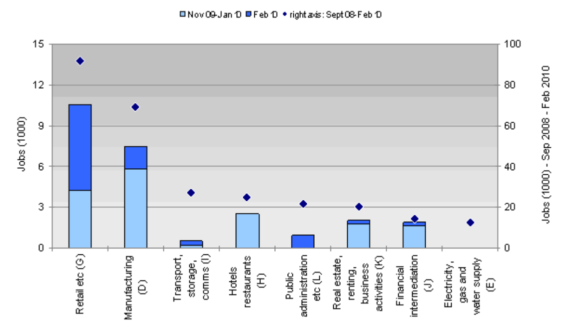
In the utilities sector, following a restructuring programme promoted by the Romanian Ministry of the Economy envisaging collective dismissals for 3545 employees in public companies, five public companies operating in the energy sector announced job losses: Electrocentrale Bucaresti (500 jobs), Termoelectrica Bucaresti (300 jobs), Electrocentrale Deva (300 jobs), Complexul Energetic Turceni (250 jobs) and Complexul Energetic Rovinari (200 jobs). In the UK, there were 2 cases of announced job losses regarding companies involved in water supply: Welsh Water announced a phased reduction of 300 jobs over the next 5 years and Severn Trent Water announced it will be making 250 job cuts from its business service teams such as human resources and finance.

Chart 14: Announced job losses for the EU



Source: European Monitoring Centre on Change, European restructuring monitor.

Chart 15: Announced job creation for the EU



Source: European Monitoring Centre on Change, European restructuring monitor.

... while retail and manufacturing accounted for the majority of business expansion ...

Of the 9958 new jobs announced during February 2010, 6350 were in retail and 1750 in manufacturing (Chart 15).

Since September 2008, retail (91764 jobs) and manufacturing (68899 jobs) have been the sectors to benefit most from announced job creation. Together, they account for over half of all announced new jobs on the ERM over this period.

In February, the biggest cases involving job gains were:

- Retail: Asda (UK, 6 000 jobs), Sainsbury's (UK, 350 jobs),
- Public administration: German Federal Government (Germany, 958 jobs),
- Manufacturing: GM Poland (Poland, 600 jobs), Daikin Industries CZ (Czech Republic, 250 jobs).

3. Economic context and outlook

ECONOMIC SITUATION

Economic growth has resumed in the EU, although the recovery remains fragile…

The EU has been out of recession since mid-2009, with global recovery supporting a rebound in demand for EU goods and services. Economic output picked up by 0.3% in the third quarter, following five consecutive quarters of contraction, but rose by a mere 0.1% in the last quarter of 2009, as the impact of temporary factors started to fade. Owing to the severity of the crisis, economic activity at the end of 2009 was still down by 2.3% compared to a year earlier (Chart 16). In the US, economic output strengthened, picking up by 0.6% during the third quarter and by a solid 1.4% in the fourth quarter. As a result, by the fourth quarter, economic output had recovered to the levels of a year earlier.

… and the economic situation has been improving in most Member States

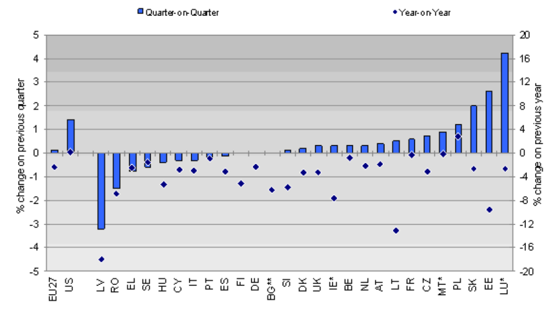
Within the EU, most Member States had entered recession by the first quarter of 2009, but most had returned to positive growth by the end of that year. Among the larger Member States, France and Poland continue to lead the EU recovery, and the UK is now also posting positive growth. However, output in the fourth quarter remained flat in Germany and fell back in Italy, after expanding in the previous quarter, while in Spain the economy has continued to weaken. Among the remaining Member States, economic output still declined significantly in Latvia and Romania but, in contrast, it expanded noticeably in Estonia and Slovakia during the fourth quarter. Nevertheless, economic activity remains down compared to a year earlier in all Member States except Poland, although less so than in previous quarters, and with the steepest declines in the Baltic States and Ireland.

Industrial production in the EU improved significantly in January, and eventually was up on a year earlier…

Recovery in the industry sector has continued since June 2009. After continuous expansion at a slow pace over the second half of last year, but with a healthy increase of 1.2% in November, industrial output rose by a solid 1.8% in January (Chart 17).

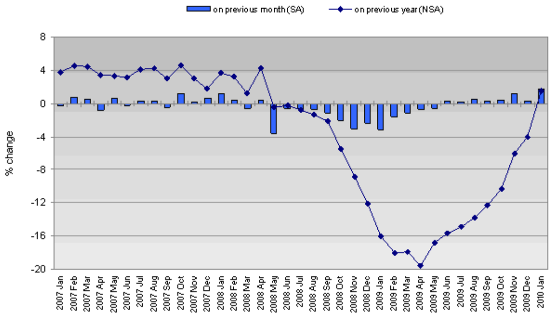
Most of the larger Member States contributed to the January increase in industrial output at EU level. Output rebounded most strongly in Italy and Poland (up around 2.5%) and slightly more moderately in Germany and France (around 1.5%) after the declines observed in December. On the other hand, production fell in Spain (down 1.1%) after three months of moderate increases and slightly in the UK. The increase at EU level reflected improvement in output across all goods, most notably of durable consumer goods and energy.

Chart 16: GDP growth for the EU and Member States



Source: Eurostat, National accounts. Data seasonally adjusted, except for annual change for BG, EE, NL, SK.
Note: *Data for IE and LU 2009 q3. **Quarter-on-quarter change not available for BG.

Chart 17: Industry production for the EU



Source: Eurostat, Short-term business statistics.

Following eight months of improvement, year-on-year growth in industrial production in the EU finally turned positive in January, with output up 1.5% compared to January 2009. This was due to year-on-year growth in France, Germany, Italy and Poland, while production in Spain continued to be lower than a year ago, and remained at a similar level in the UK.

… new orders for industry improved slightly further in December, and year-on-year growth turned positive…

Industrial new orders in the EU have been broadly improving for half a year now (except for a drop in October), and after a firm rebound in the previous month (up 2.4%) they increased again slightly (by 0.6%) in December (Chart 18). A strong rise in new orders for capital goods and durable consumer goods compensated for a significant fall in orders for intermediate goods and a more limited drop in orders for non-durable consumer goods. Underlying the overall slight improvement in new orders in December was a significant upturn in France (17.1%), and more modest rises in Italy and Spain (following three/four months of prior improvements in those Member States), which offset falls in Germany, Poland and the UK.

Since the falls during 2009 were more limited than the steep declines observed at the end of 2008, year-on-year growth in industrial new orders in the EU eventually turned positive in December, posting a sound 6.3%. This was due to growth in France, Germany, Italy and Spain, although there was still a significant decline in orders in Poland and the UK compared to a year earlier.

... and construction output increased slightly in December…

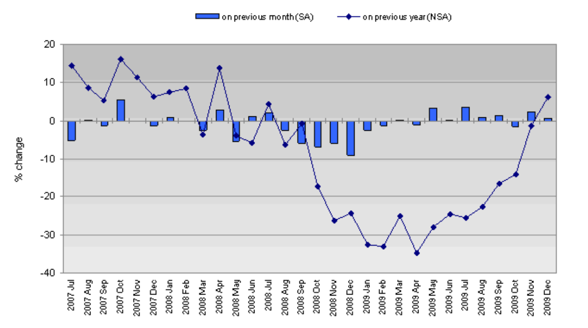
In December, overall output in construction recovered slightly (by 0.3%), following six months of slight falls (Chart 19). Nevertheless, this improvement at EU level in December was the result of a strong rebound in construction activity, mainly building construction, only in Spain (6.2%). Construction declined, however, in all of the other larger Member States, most notably in Germany (down 2.6%).

For the EU as a whole, year-on-year growth in construction output improved significantly in December, although remaining negative at -3.5%. This decrease in output, compared to a year earlier, reflected a strong decline in France and a more limited fall in the UK together with the first fall since March 2009 in Germany, while year-on-year growth eventually turned positive in Spain and continued positive in Poland, despite a significant slowdown.

... while retail trade turnover was broadly stable in January

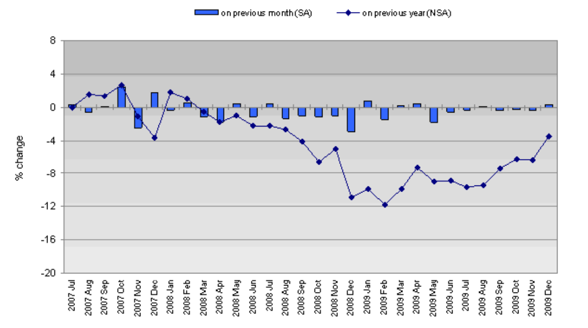
Compared with the sizeable falls in the output of industry and construction, retail trade turnover in the EU held up fairly well between autumn 2008 and spring 2009, and has continued to be at or around similar levels since then. These recent monthly changes in retail trade turnover have been generally volatile; turnover increased in December by 0.2% only to decrease again in January by a similar 0.3%, reflecting drops both in the "Food, drinks and tobacco" and in the non food sectors. Underlying the EU figure, retail trade turnover fell in all the larger Member States after increasing in all countries except the UK in December. Consequently, year-on-year growth in retail turnover edged down to -1.3% in January (Chart 20).

Chart 18: Industrial new orders for the EU



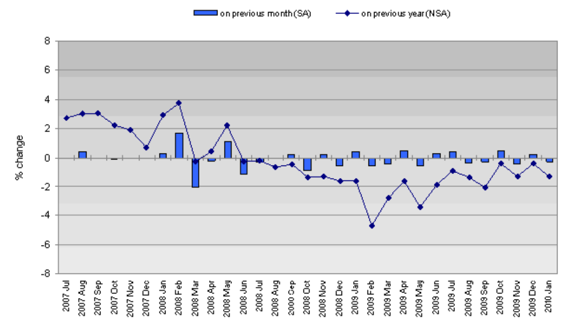
Source: Eurostat, Short-term business statistics.

Chart 19: Construction production for the EU



Source: Eurostat, Short-term business statistics.

Chart 20: Retail trade turnover for the EU



Source: Eurostat, Short-term business statistics.

OUTLOOK

Economic sentiment in the EU is approaching its long-term average, although the rebound may be losing momentum…

Economic sentiment in the EU, which started signalling the bottoming out of the economic downturn and the recent return to positive growth some months ago, is returning to close to its long-term average. However, the rebound appears to have lost momentum after ten months of uninterrupted improvement, as the EU Economic Sentiment Indicator (ESI) remained broadly unchanged (up by only 0.2 points) at 97.4 points in February (Chart 21).

This development at EU level reflected mixed performances among the larger Member States. In February, sentiment picked up strongly only in Poland (4.2 points), while the rises in Germany and Spain were more modest (around 1 point in both) and negligible in the UK (0.1 point). Economic sentiment in France and Italy fell back from the levels above their long-term average that they had reached in January.

The behaviour of the ESI closely reflects sentiment in industry, which increased only negligibly (0.6 points) compared to the rises in previous months. Sentiment in construction rebounded (1.8 points), although due to the relatively slow improvements since bottoming out in spring 2009, it remains the lowest among all sectors. Sentiment improved the most in services (2.1 points) where it reached a zero balance for the first time since mid-2008, while in retail, where sentiment has been the most volatile, it fell back abruptly (down 1.8 points). At the same time, there was a halt to the previous improvement in consumer sentiment, which decreased slightly (by 0.4 points) as perceptions of the general economic outlook deteriorated slightly, and despite a further easing of unemployment fears. Confidence in the financial sector, which is not included in the ESI, has generally been flat since last summer, albeit at the pre-crisis level and remaining highest among all sectors.

… but the OECD's leading indicator for Europe continued to recover above the long-term average…

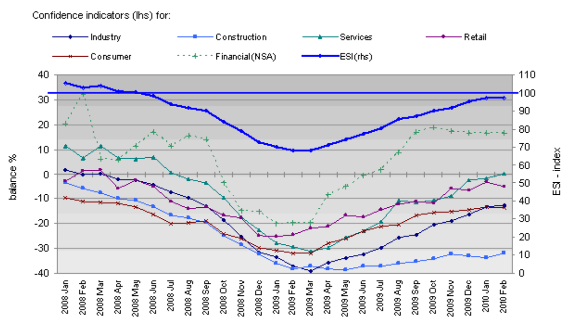
The OECD's Composite Leading Indicators (CLI) for the EU started to pick up strongly around a year ago and are now pointing firmly to economic recovery, far exceeding their long-term average (Chart 22). The CLIs for the euro area and the group of the four largest EU Member States has continued to improve during recent months, although at a slightly slower pace than the marked upturn between spring and autumn last year. In January, the CLI increased by 0.6 of a point both in the euro area and in the group of the four largest EU Member States, reaching 104.8 and 105.8 points respectively; it also rose by a slightly higher 0.9 of a point to reach 102.3 points in the US. While the US has recorded an increase of 11 points over the year to January, the CLIs for the two European groupings have staged a slightly stronger recovery, with increases of 12.5 and 13.6 points, respectively, compared to a year earlier.

Despite drastically improved confidence in the EU, any positive impact on the labour market will still take some time to materialize, given the usual lags before employment reacts to changes in confidence and economic activity. Furthermore, given the widespread resort to reductions in working hours in the EU to cope with reduced demand during the crisis, job creation is likely to be subdued in the initial phase of recovery as the reductions in hours worked are first reversed before employers look to increase staff levels.

The EU economy is recovering, although still facing headwinds, and the labour market situation is expected to level off during 2010

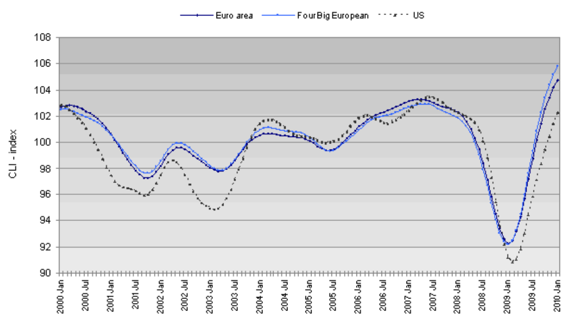
According to the latest Commission interim economic forecast of February 2010[8], the EU economy is

Chart 21: ESI and confidence indicators for the EU



Source: Commission services (ECFIN), Business and consumer surveys. Data seasonally adjusted (except for financial sector).

Chart 22: Composite leading indicators for the EU and US



Source: OECD, Composite leading indicators.

recovering, but still facing headwinds. The growth projections for the first half of 2010 have been revised upwards slightly compared to the autumn forecast, as a result of the stronger than expected global recovery in the second half of 2009. However, the projected GDP growth rate for the EU for 2010 as a whole is unchanged at 0.7%, while it remains to be seen what the impact of the global recovery on EU growth will be.

Recent data are giving mixed signals about the pace of the recovery. The EU is benefitting from improved sentiment indicators, but retail sales figures, amongst others, have been less promising, and investment remains weak. Similarly, although financial markets recovered in 2009, uncertainties remain. Adding a probable weak labour market outlook which will dampen consumer demand, and given the temporary nature of many of the sources of growth which is expected to lead to a soft patch later this year - the robustness of the EU recovery is yet to be tested.

Focusing on the labour market, the forecast expects the deterioration in the labour market situation to level off in the course of 2010. Expectations for employment and unemployment remain in line with the previous autumn forecast, with the unemployment rate expected to be lower by 2011.

The risks to the EU growth outlook for 2010 seem to be broadly balanced. On the downside, the situation of financial markets remains highly uncertain, while - on the upside - the stronger global recovery, and the imminent turning of the inventory cycle in the EU may have a greater impact on domestic demand than is currently anticipated.

In its February Economic Outlook report[9], Business Europe forecasts that EU GDP will grow by 1.2% in 2010, but it warns that the shift from private to public debt is unsustainable and that the weakened banking sector might be unable to expand credit supplies to support new investments. This will quickly constrain the recovery, which is already lagging behind in the global upturn.

Business Europe emphasises that the current recovery momentum is not yet sufficient to support a return to job creation, predicting that employment will contract by a further 1.3% in 2010 and with the unemployment rate set to average 10.2% for the year as a whole. Currently, the business community is forecasting that a total of 6.6 million jobs will be lost in the EU for the years 2009 and 2010. Compared with the previous autumn forecast, this reduces the total number of jobs expected to be lost due to the crisis by 2.8 million, although Business Europe warns that the situation is still very critical in Member States that are undergoing difficult adjustments from past sectoral and macroeconomic imbalances.

II. SPECIAL FOCUS

1. Latest developments and expectations in selected Member States

This section provides an overview of recent developments and forecasts at Member State level. In this issue, the focus is on the labour market situations in Belgium, Hungary and Luxembourg together with the three Baltic States of Estonia, Latvia and Lithuania. Priority has been given to the most recent reports and forecasts (dating from January 2009 to early March 2010) from reliable sources at country level, which is complemented by relevant data from Eurostat.

Belgium

According to the National Bank of Belgium, Belgian GDP contracted by 3% in 2009. However, the decline on the previous year was only 0.8% in the fourth quarter of 2009, i.e. well below the rates of 4.2% and 3.2% recorded in the two previous quarters, which confirms an eventual reversal of the trend (GDP rose again, by +0.7 and +0.3 in the third and fourth quarters of last year). However, between November 2009 and January 2010 inclusive, nearly 2500 Belgian firms filed for bankruptcy, a figure which - according to the Federal Public Service (FPS) for Finance was up 6.2% on the same period a year earlier. Brussels was hardest hit (+27.3%), followed by Flanders (+6%), while Forem (the regional employment service) reports that Wallonia was relatively spared by the phenomenon (-6.4%). As a consequence, and according to a joint international Reuters/Ipsos poll, confidence in the future declined in Belgium between May 2009 and January 2010, by 8 points, to 35.7 points. This contrasts with the ESI (EU's Economic Sentiment Indicator) for Belgium which rose constantly between February 2009 and February 2010, from 72.6 to 98.1 points, i.e. 0.7 points higher than the EU average.

The labour market situation remains difficult, as evidenced by the recent confirmation from General Motors and Carrefour that they would be respectively shutting down the assembly line in Antwerp and selling off or closing major outlets, which might eventually lead to thousands of direct and indirect job losses. In this context, according to Federgon, the number of hours worked by temporary agency workers was still down by 2.7% in Belgium in January 2010 compared to the same month in the previous year. On the positive side, according to the latest Manpower employment outlook survey, the employment indicator for Belgium is turning positive.

Belgium's unemployment has been stable since August 2009. The unemployment rate remained at 8% in January, i.e. 1.5 pps below the EU average and only 0.5 pps higher than in January last year, while the unemployment rate has risen by 1.5 pps on average in the EU. More worrying, however, is the youth unemployment situation. Almost one in four (23.2%) economically active young people under 25 years old is without a job, up 2.7 pps up on the same month a year ago. It is also 2.3 pps above the EU average.

Another effect of the crisis on the labour market has been a narrowing of the gender gap in terms of unemployment, since it affected men first and hardest. Although the female unemployment rate was still 1.2 pps higher than for males in January 2009, a year later both rates were at 8%.

According to ONEM (the National Employment Office), long-term unemployment remains high, as 43.5% of jobless people in January had been on the dole for at least two years. This percentage has fallen slightly since February 2009, when it was at 46%.

Belgium is known for its relatively high salary costs, although these have moderated recently. Over the period from November to January, wages rose by a moderate 0.2 %. However, labour costs in Belgium in comparison to its European neighbours remain high. According to the OECD, between 2005 and the third quarter of 2009 unit costs for the workforce rose by 13.5 % in Belgium. This trend was driven by the construction sector, followed by trade, transport and communication. This is markedly higher than the 4% posted by Germany and the 9.7% in France, which is close to the EU average (+10.7%). However, this trend of stronger unit labour cost rises in Belgium is slowing down; after rising by 1.2% and 0.6% in the first and second quarters of 2009 respectively, it grew by a mere 0.4 % in the third quarter of 2009, which was lower than the rises recorded in the Netherlands (+1.7%), Germany (+0.6%) and France (+0.5 %), but still higher than the average for the euro area (+0.1%). This is probably one of the major challenges facing Belgium's labour market in terms of competitiveness, together with the relatively low employment rate for older workers and the crucial debate on pensions.

Estonia

After seven consecutive quarters of contracting GDP resulting from a fall in both domestic and foreign demand, the Estonian economy eventually expanded (by a solid 2.6%) in the fourth quarter of last year, supported by the recovering global economic situation and several "one-off" factors. The Baltic region has been Europe's worst hit area in the aftermath of the global financial crisis, and economic output in Estonia was down 9.3% in the fourth quarter of 2009 compared to a year earlier, the steepest contraction in the EU after Latvia and Lithuania. However, a full-fledged crisis was avoided due to existing buffers and a determined response by both the public and the private sectors.

The labour market reacted dramatically to the crisis, although this is explained in part by the almost full employment achieved during the boom years. Employment fell by 11.9 % over the year to the fourth quarter of 2009, reflecting in particular the strong adjustments in the construction sector, but also in manufacturing and in trade, transport and communications. As a result, the employment rate - which had been just above the 70% mark in mid-2007 - had dropped below 60% by the end of 2009.

Unemployment stabilised at 106000 in the last quarter of 2009 (ILO definition), but had almost quadrupled compared to the low in the first half of 2008. Nevertheless, the unemployment rate edged up by

0.3 pps, an increase which was significantly less than the more dramatic rises observed in the first half of the year. The rate was up by a steep 7.9 pps on a year earlier, and at 15.5 % it was the third highest in the EU (around 6 pps above the EU average). The crisis has continued to affect men more than women; the unemployment rate for men rose to 19.7 %, while the rate for women actually fell to 11.2 % in the fourth quarter of 2009. The labour market situation for young people has deteriorated dramatically, particularly during the first half of 2009, with their unemployment rate rising to 32.1 % by the end of the year, more than double that of a year earlier.

According to the Estonian Unemployment Insurance Fund, there were 93 802 registered unemployed at the end of February, which was twice as many as in February 2008. However, the inflow of new unemployed (at 9 162, including 5 900 young people) was 12 % lower than the inflow in February 2009. At the end of January, employment offices registered 1 723 vacancies, almost 30 % up on January 2009.

According to the forecast of the Bank of Estonia, economic recovery will continue, but the effects of the crisis have not yet passed. GDP is expected to remain broadly unchanged (down 0.1 %) in 2010 (according to the Ministry of Finance, while the IMF is projecting a much stronger fall of 1.5 %), with negative impacts on growth stemming from weak domestic demand, given the decrease in incomes and the continuing deterioration of the labour market, but balanced by the recovery of export growth in the second half of 2010.

According to the latest economic policy statement by the Bank of Estonia, the labour market situation has not yet started to bounce back. However, the number of job offers intermediated by the Unemployment Insurance Fund and the implementation of active labour market measures increased considerably at the beginning of the year. Looking ahead, circumstances are not expected to improve very quickly, since economic recovery will begin with productivity growth, followed only later by an increase in working hours and in compensation of employees. According to the IMF, the unemployment rate is set to increase to 16.4 % in 2010 (compared to a more optimistic forecast of 15.2 % by the Commission), while wages will continue to fall.

In November, the Baltic Prime Ministers, discussing collaborative actions in response to the economic and financial crisis, agreed to pursue the earliest possible adoption of the Euro and reasserted that further implementation of structural reforms is fundamentally important in reaching this goal. The recovery of economic growth in Estonia will be based on thoroughgoing structural changes; the government considers it necessary to ensure the further development of the business environment and to support structural adjustments of the economy, and it has therefore created national programmes for the support of entrepreneurship and the knowledge-based economy.

Hungary

Latest data for the fourth quarter of 2009 shows that Hungary remains in recession, its economic output having shrunk by more than 5 % compared to the same quarter of the previous year, a much stronger year-on-year decline than that recorded for EU as a whole (2.3 %). In line with this, employment had declined by around 3.5 % (or 143 000) over the year to the fourth quarter of 2009, almost twice the rate of employment contraction for the EU and driven by strong contraction in the manufacturing and trade, transport and communications sectors which was only partly offset by employment expansion in other services (excluding financial and business activities). In addition, the sharp decline in production has induced a pronounced flow from full-time employment to part-time and non-employment and has also capped wage expectations for those who remained active in the labour market.

Since the crisis began, unemployment has risen more sharply in Hungary than in the EU. Looking at recent unemployment figures, compared to the month before unemployment rose by some 12 000 in January to a level of 457 000, up around 86 000 on a year ago. This equates to a rise in the unemployment rate of 0.3 pps in January, after it had remained flat in the previous two months, and 2.3 pps on a year earlier. As a result the unemployment rate now stands at 11.1 %, 1.6 pps above the EU average and the seventh highest rate in the EU. Youth unemployment has increased particularly sharply in Hungary, with the youth unemployment rate rising to 30.4 % in January, among the highest in the EU and almost 10 pps higher than the EU average. Compared to a year earlier, the youth unemployment rate had risen 7.4 pps, more than twice as strong as the average rise in the EU (3.2 pps).

Hungary was in a fragile economic condition when the financial crisis broke out in autumn 2008, and the subsequent shock led to it requiring a credit package of around €20 billion from the IMF, EU and World Bank. In exchange for this injection of international aid, Hungary undertook a series of austerity measures which have helped curb its public deficit. This included tax rises and suppression of the "thirteenth month" salary.

In reaction to the economic crisis the main aim of the Hungarian Government has been to maintain as much as possible those jobs that have an economic potential, while paying special attention to the most vulnerable and the increased risk of social exclusion. The employment and labour market measures implemented have been widespread (i.e. they have been applied to the whole economy) but temporary in duration. One of the main measures has been the job-retention package adopted in January 2009 with the general aim of stabilising enterprises (mainly SMEs) and curbing the fall in employment, in particular by promoting work-organisation measures to retain jobs, improving the labour market situation of workers made redundant, and supporting labour force mobility. The main elements of the package have been wage subsidies for job retention, shorter working hours combined with future-oriented training, a wage subsidy and training subsidy for re-employment, subsidies to provide special services in case of dismissal and a commuting subsidy. In 2009 the Hungarian Government spent about 50 billion HUF financing these programmes, and it estimates that between 140 000 and 160 000 jobs may have been saved.

The economic situation in Hungary remains bleak as economic output continues to contract. According to the European Commission's autumn 2009 forecasts, Hungary's GDP is expected to have decreased by 6.5% in 2009, to fall slightly in 2010 (down by 0.5%) and only return to positive growth in 2011 (up 3.1%). Employment is projected to decline by a further 0.8% in 2010, with the unemployment rate rising to average 11.3% for the year as a whole. The forecast also warns that the structural problems of the Hungarian labour market are likely to deepen during the crisis as high and persistent unemployment depletes acquired skills. This phenomenon, in combination with a permanently lower risk appetite, could set the stage for jobless and credit-less growth in the medium run.

Latvia

Latvia has been hardest hit of all EU Member States by the economic crisis. By the fourth quarter of 2009 its economic output had declined by almost a fifth compared to a year earlier, and, unlike many other Member States, it remained in recession. The contraction in employment has also been dramatic, with employment levels falling by around 16% over the year to the fourth quarter of 2009. This reflects in particular strong adjustments in the construction and manufacturing sectors, while employment has also declined across all main services sectors. As a result, the employment rate, which had been just above the 70% mark at the end of 2007, had fallen to below 60% by the third quarter of 2009. In addition to job losses, the labour market has also adjusted through a fall in hours worked per employee and a reduction of wages.

Unemployment has risen dramatically, having almost quadrupled from the low recorded in spring 2008 (around 6%) and is now more than twice the EU average. As a result, in December 2009 Latvia recorded the highest unemployment rate (22.9%) in the EU, with the rate having increased by 10.6 pps on the level in the same month a year earlier. The rise in youth unemployment has been especially strong. Over the year to the fourth quarter of 2009 the youth unemployment rate rose by 24 pps, to reach a level of 43.6%, again more than twice the EU average and with 1-in-2 young males now unemployed.

For several years before the financial crisis, Latvia registered the highest GDP growth in the EU. Double-digit output growth was driven by a credit-fuelled housing boom, which was based on high expectations about households' future income. However, by the end of 2008 the global crisis had led to Latvia suffering a sharp fall in both external and internal demand.

In December 2008, Latvia received a credit of €7.5 billion from the IMF, the EU and other lenders, under the condition that it undertook austerity measures including a strong reduction in public sector wages. The government initiated a range of painful reforms including wage reductions, a pensions freeze and big public spending cuts as it sought to rebalance the economy. According to the Latvian Statistics Office, wages in Latvia had shrunk by 12% by the fourth quarter of 2009 compared to the same period in 2008. Though both public and private sectors have witnessed wage reductions, the biggest pay cuts have been among government employees, who have seen their wages slashed as part of the government's austerity plan.

According to the Latvian Statistics Office, as a result of wage and salary optimization and abolition of bonuses and holiday allowances in state and local government institutions, monthly average gross wages and salaries in the public sector had diminished by 23.7% compared to a year earlier, which compares with a more limited fall of 5% in the private sector.

Despite the massive correction already experienced in domestic demand, it is expected to contract still further due to the weakness of the labour market, the down-scaling of industries which depended on previously above-potential domestic demand and the ongoing fiscal consolidation process. As a result, the economic and labour market prospects in Latvia remain bleak for 2010, with the economy set to contract by a further 4% over the year. According to the European Commission's autumn 2009 forecasts, the labour market adjustment is projected to continue at its current high pace with unemployment continuing to rise rapidly and further reductions in nominal wages. The strong contraction in employment is set to continue, with overall employment expected to shrink by 5.6% for 2010 as a whole.

Lithuania

Lithuania's economy started to recover from recession in the second half of last year, as GDP expanded by 1% and 0.5% in the third and fourth quarters. Due to exports showing clear and significant signs of picking up, in February the Ministry of Finance revised its forecast for GDP growth from a 4.3% contraction to a 1.6% expansion for 2010 (compared to the 0.5% growth forecast from the Bank of Lithuania), to be followed by a stronger pick-up of 3.2% in 2011. Nevertheless, as the Baltic region was Europe's worst hit area in the aftermath of the global financial crisis, Lithuania is still contending with a historic contraction in its economic output which registered a steep 15% in 2009.

The labour market reacted strongly to the crisis. Employment fell to 1.4 million, down by 8.3% over the year to the fourth quarter of 2009, although this was moderate compared to the contraction in GDP. The fall reflected strong adjustments in the construction sector in particular, but also in manufacturing and the trade, transport and communication sectors. As a result, the employment rate had fallen sharply to 60.4% by the third quarter of 2009, down from 65% a year earlier. Given the strong contraction in employment, there have been several applications to the Commission for assistance under the Globalisation Adjustment Fund to help electrical equipment workers, furniture manufacturing and clothing industries, textile workers and construction workers.

Unemployment continued to expand in the third quarter of 2009, reaching unseen highs of 240 000 (ILO definition). It has more than tripled compared to its low at the end of 2007. The unemployment rate climbed by 1.1 pps in the third quarter (up by 8.2 pps on a year earlier), and remained around 5 pps above the EU average, at 14.6%. The rate for men (18.6% in the third quarter) was almost double that for women (10.6%). The labour market situation for young people, especially young men, has deteriorated dramatically, in particular during the first half of 2009 - their unemployment rate rose to 33.7% in the third quarter of last year, more than double that of a year earlier.

Registered unemployment is even higher. On 1 February, the employment service had 287 500 registered unemployed. However, there were 32 600 new unemployed, including 5 900 young persons, which was almost 20 % fewer than in January 2009. In the same period, it registered 8 300 vacancies, 10 % more than in December 2009, while in January 2010, employment offices received eight notices concerning mass lay-offs, and 189 employees were given warnings of redundancies which were only one eighth of those during the same period a year earlier. Nevertheless, according to projections by the Bank of Lithuania, employment is set to decline strongly again this year (down 4.4%) and the unemployment rate is due to peak at 16.7 % (before falling to 15.5 % in 2011 and 14.7% in 2012), while wages will continue to fall.

In November, the Government reached an agreement with business, labour and social groups on policies and initiatives to tackle the impact of the deep recession and to put the economy back on track for stable growth and adoption of the euro. The National Accord included, among others a reduction in civil servants' wages; a guarantee from business associations to avoid lay offs; the launch of a public-private partnership to build and renovate public buildings and infrastructure throughout Lithuania, involving the creation or maintaining of more than 30 000 jobs; simplification of government and shortening of administrative procedures for companies to obtain EU structural funds and building permits, low-interest loans for start-up companies and public projects to employ workers from distressed companies.

In November, the Baltic Prime Ministers, discussing collaborative actions in response to the economic and financial crisis, agreed to persevere with the adoption of the Euro as soon as possible and reasserted that further implementation of structural reforms is fundamentally important to reaching this goal. While last year maintaining financial stability was a crucial priority for government, this year it is acknowledged that, despite an upturn in economic growth, unemployment will remain high for some time in Lithuania, and therefore job creation, reduction in unemployment levels and economic promotion are seen as key issues in the Government Activity Priorities for 2010.

Luxembourg

Luxembourg posted the EU's third lowest unemployment rate in January 2010, at 5.9 % (up 0.5 % on January 2009). Although quite high compared to the levels recorded in 2001 (less than 2 %), it remains moderate by comparison with the EU average (9.5 %). According to the Ministry of Labour, Employment and Migration, the number of job seekers in January, compared to the same month last year, had increased by 18.3 %, to 15 137 people (up 2 339). On the positive side, economic sentiment as indicated by the ESI is rising again in Luxembourg and a fall in unemployment is expected as from February. Moreover, it is the only country in the EU which posted a significant decline in the rate of youth unemployment over the past year (it was 17.6 % in January, i.e. 0.6 pps less than in December and 1 pps less than in January 2009). Its youth unemployment rate is 3.3 pps lower than the EU average. During the same period, the male unemployment rate rose by 0.7 pps to 5.6 % and the female unemployment rate by 0.3 pps to 6.3 %.

According to Statec, Luxembourg's Statistics Office, in the fourth quarter of 2009 industrial production rose by 2.3 % on the previous quarter. This occurred in the wake of the upturn reflected in GDP (up 4.2 % in the third quarter, on the previous quarter) and the slight recovery for the third consecutive quarter in the manufacturing industry. The construction sector has also benefited from this upswing, with production up 1.7%. However, overall industrial production remains low compared to 2008 (down 16.6 %). As a consequence, the moderation of labour costs (-3.2 %) did not prevent a marked rise in the index of labour costs per unit of production, which was up 16 % in 2009.

On the occasion of International Women's Day (8 March), Statec published some statistics and comments on the situation of women in Luxembourg. According to the institute, the female employment rate still appears to be lower than the male rate, although the gap has been partly bridged in recent years. Moreover, women suffer from structurally higher unemployment, and in 2008 91 % of part-time workers were female, i.e. 13 pps above the EU average. On the positive side, the gender pay gap has fallen since 2002, from 19 to 15 % in 2008, which is 3 pps lower than the EU average.

In its autumn 2009 economic forecast the Commission predicted that Luxembourg's GDP would fall by 3.6 % in 2009, before rising again by 1.1 % this year. After the limited impact on the labour market so far, the effects of the crisis are expected to manifest themselves more strongly in 2010, with employment expected to decline by 1.3 % this year. Unemployment is expected to increase and average 7.3 % for the year as a whole, and continue to rise in 2011 to a level of 7.7 %

2. Selected sectoral trends: the energy sector

This section reports on recent developments in the electricity (generation, transmission and distribution) and gas (production, distribution and trade) sector. It is an update of the contribution presented in the earlier Monthly Monitor of July 2009.

Importance of the sector

The electricity and gas sector accounts for nearly 2 % of EU GDP and 0.8 % of total employment in the EU. The EU is largely dependent on imported hydrocarbons, as more than 60% of EU energy is imported, which exposes the European electricity and oil sector to fluctuating oil prices on the international market. The sector is also marked, both in production and distribution, by a high level of concentration, as pointed out in the Monitor of July 2009, although the number of SMEs has also increased in recent years due to the full liberalisation of the sector in 2007.

Recent developments in employment

Recent developments as recorded in European Restructuring Monitor (ERM) data suggest that the economic downturn is not having a significant impact on the energy sector. From September 2008 to February 2010, twice as many new jobs were announced as job losses. Including transnational EU cases, the ERM registered 5 812 announced job losses against 12 630 announced job gains in a total of 32 cases. This positive evolution is further evidenced by recent statistics from the Labour Force Survey, which indicate that employment in the electricity and gas sector has risen by 5.8 % between the third quarter of 2008 and the same quarter of 2009, to approach the 1.7 million mark.

Several cases of restructuring were recorded among state-owned energy companies in Romania: the Romanian Ministry of the Economy promoted a restructuring programme envisaging collective dismissals for 3 545 employees in public companies, including five operating in the energy sector: Electrocentrale Bucaresti (500 job losses), Termoelectrica Bucaresti (300 job losses), Electrocentrale Deva (300 job losses), Complexul Energetic Turceni (250 job losses) and Complexul Energetic Rovinari (200 job losses).

The only case of off-shoring/relocation reported on in the ERM involved relocation to India: National Grid UK announced it was to close its Newcastle office resulting in the loss of 163 jobs. The jobs lost at Newcastle will be transferred to Tata Consultancy Services, a company based in India. National Grid UK also announced it is to cut 137 jobs at its units in Warwick and Northampton. The majority of these jobs will be transferred to the shared services division, mainly in finance and human resource positions.

Recent cases announced in February 2010 in the production and distribution of electricity include Electrocentrale Bucaresti (Romania, 500 job losses), Termoelectrica Bucaresti, (Romania, 300 job losses), Electrocentrale Deva, (Romania, 300 job losses), in addition to plans announced earlier, such as Dong Energy Power (Denmark, 275 job losses, announced in November 2009), ESB (Ireland, 3 700 job gains, announced in April 2009), REN (Portugal, 2 000 job gains, February 2009) and Enercon (Portugal, 500 job gains, September 2008).

As far as the manufacture and distribution of gaseous fuels is concerned, the following cases are worth mentioning: E.On (Romania, 402 job losses, announced in June 2009), British Gas (UK, 2 600 job gains, announced in July 2009) and Bord Gais (Ireland, 250 job gains, announced in October 2009).

Perspectives

On 4 March 2010, the European Commission selected 43 major energy projects for co-financing. These reflect the energy priorities of the EU and are expected to contribute significantly to the economic recovery in the EU, while increasing the security of energy supply by creating cross-border infrastructure. €2.3 billion will be granted over the next 18 months to these 31 gas pipeline and 12 electricity projects. It is the largest amount the EU has ever spent on energy infrastructure. The projects selected will help to deliver major investment projects which were at risk of serious delay because of the economic slowdown. The projects selected are crucial towards the creation of a more integrated energy network in Europe ensuring flexible energy flows, a better interconnection between Member States and the opening up of remoter parts, such as the three Baltic States, Ireland and Malta. They also confirm the need for greater security of gas supplies by supporting projects for reverse flow in nine Member States and the Nabucco and Galsi projects to diversify gas imports. These investments will help stimulate employment and ensure the survival of many small businesses in the construction and services sectors. They will make energy supplies more reliable for millions of people especially in the event of a supply crisis.

Besides, reflecting the need to achieve the 20-20-20 targets by 2020, the sector is increasingly influenced by the development of renewable energy sources, which should account for 21 % of total electricity consumption this year across the EU, up from 13.8 % in 2000 (Eurostat). These developments are accompanied by recent EU policies that support these new sources of energy, as they are expected to give a significant boost to the economy and employment in the EU (the number of jobs could double in the sector by 2020). The use of renewable energy sources is seen as a key element in energy policy, reducing the dependence on fuel from non member countries, reducing emissions from carbon sources, and decoupling energy costs from oil prices. The second key element is constraining demand, by promoting energy efficiency both within the energy sector itself and at end-use.

Worth mentioning here is the growth in Germany's wind energy sector, which reached 15% in 2009 with the installation of 952 new wind turbines across the country. Germany has 21 164 turbines and remains one of the world's leading producers of wind energy. In France, in February the nuclear giant Areva bought a US solar energy company. Areva wishes to become the world market leader in solar power stations. In Ireland, state-owned Bord Na Mona announced 300 new green jobs across the country as part of a major investment in green energies, while Bord Gais announced the creation of 250 jobs by the end of 2010. Moreover, Airtricity, a renewable energy company, announced 200 new jobs in Ireland. Similarly, Scotland’s biggest power company Scottish and Southern Energy announced plans to create 250 renewable energy jobs in Glasgow. However according to the International Energy Agency (IEA), investments in renewable energies dropped by 14% in Europe during the second semester of 2008 alone, while a significant decrease of around 38% is feared for 2009.

Links to selected Eurostat tables

Employment growth

Unemployment rate by gender - total / Unemployment by gender - total

Youth 15-24 unemployment rate by gender / Youth 15-24 unemployment by gender

Adult 25-74 unemployment rate by gender / Adult 25-74 unemployment by gender

GDP growth

Economic sentiment indicator

Industrial production

Industrial new orders

Construction production

Retail trade deflated turnover

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[1] For more information or data, please visit the websites:

- Eurostat: http://ec.europa.eu/eurostat
- OECD: www.oecd.org http://stats.oecd.org/index.aspx

[2] For more information on interpretation and comparability of OECD Composite Leading Indicators (CLI) , reference series data and standardized business (BCI) and consumer confidence (CCI) indicators please refer to the presentation section of the OECD CLI methodology document http://www.oecd.org/dataoecd/26/39/41629509.pdf

[3] For more information see the Caden Corporation's Employment Outlook Analysis reports on http://ca-corp.com/index.php?id=2

[4] For more information on Manpower, please visit the website: www.manpower.com/press/meos.cfm

[5] The BA-X is the most up-to-date and comprehensive job index in Germany and is based on actual vacancies reported by businesses. It shows the trend for labour demand in Germany, including demand on the primary labour market. The seasonally adjusted index includes unsubsidised vacancies reported to the BA for 'regular' jobs covered by social security, jobs for freelances and self-employed people and vacancies communicated by private placement agencies.

[6] For more information on Eurociett, please visit the website: www.eurociett.eu

[7] European Restructuring Monitor [ERM] data are collected by Eurofound's European Monitoring Centre on Change.

The ERM covers:

- Announcements of redundancies rather than effective redundancies (the announcements can relate to redundancy programmes taking effect over a period of time, sometimes years);
- Announcements reported by the press rather than formal announcements made by companies;
- Only restructuring cases that affect at least one EU country, entail an announced or actual reduction of at least 100 jobs, involve sites employing more than 250 people and affecting at least 10 % of workforce, or create at least 100 jobs.

The data in this report are based on an extraction from the ERM database on 3 March 2010. Totals exclude World/EU cases in order to avoid double counting. As the database is continually updated in the light of new information on recent cases, the data reported here may not correspond exactly to later extractions.

For more information, please visit the website: www.eurofound.europa.eu/emcc/erm/index.htm

[8] For more information on the Commission's interim economic forecast, please visit the website: http://ec.europa.eu/economy_finance/articles/eu_economic_situation/2010-02-25-eu_interim_economic_forecast_en.htm

[9] For more information on Business Europe, please visit the website www.businesseurope.eu