

Rise in part-time work threatens already sluggish productivity growth in Germany

A strong German labour market has helped to avert a more severe economic slump in recent years. Employment levels are at record highs but why is the economy not growing faster? The answer is easy: the sharp rise in part-time jobs. While also a sign of a more flexible job market, part-time employment bears the risk of a further slowdown in productivity growth



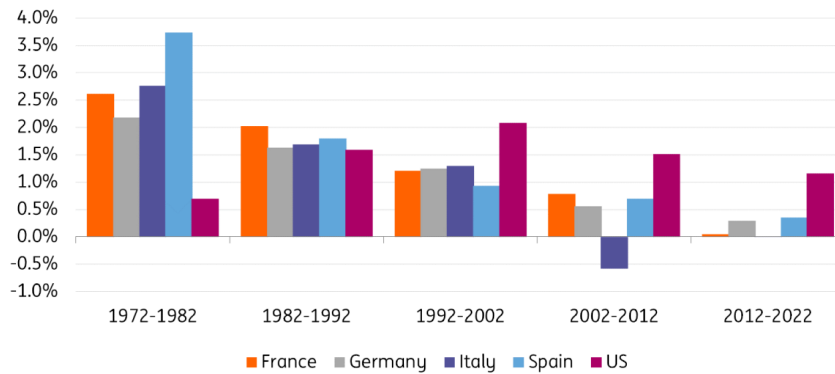
Record high employment does not translate into higher output

German unemployment stood at 5.9% in April, higher than the 5% recorded both before the outbreak of the Covid-19 pandemic and the start of the war in Ukraine, but still low by historical standards. At the same time, employment in the fourth quarter of 2023 was almost back to pre-pandemic levels.

Despite a generally strong labour market, however, there is collective concern about a potential loss of prosperity and declining competitiveness in Germany. Looking at economic output per employee in recent years explains why. Growth in economic output per employee, one of the indicators of productivity within an economy, has slowed steadily over the past 50 years. While

this measure increased by an average of 2% per year between 1972 and 1992, productivity growth has practically stagnated, averaging just 0.3% per year over the past decade.

Average annual growth in real economic output per person employed



Source: OECD, ING Economic & Financial Analysis

This is not just a German problem. In other large eurozone countries, average growth in economic output per person has been well below the average of 50 years ago in recent years. The only exception is the US, which has been the last productivity growth powerhouse over the past three decades.

Demographic change, de-industrialisation and the increasing importance of the service sector are repeatedly cited as reasons for the slowdown in productivity growth in the eurozone and Germany. However, with the US being known as a stronghold of services, the differences in productivity growth can probably be better explained by digitalisation. Or is there more?

Part-time work limits productivity growth

Looking beneath the surface of the German labour market provides a different explanation as to why the significant increase in employment has not led to an equal increase in economic output.

German employment might be at a record high level, but the number of people in part-time employment has also risen to historic highs recently. At the end of 2019, some 45 million Germans had a job, with some 11 million working in part-time jobs. At the end of 2023, total employment stood at 46 million, but the number of people working in part-time jobs had increased to almost 12 million. As a result, the total number of hours worked was down to 61.8 billion in 2023, compared with 62.3 billion in 2019. Meanwhile, labour productivity per person is still slightly below its pre-pandemic level, while labour productivity per hour worked is up by some 2%.

Labour productivity per hour worked & per person employed

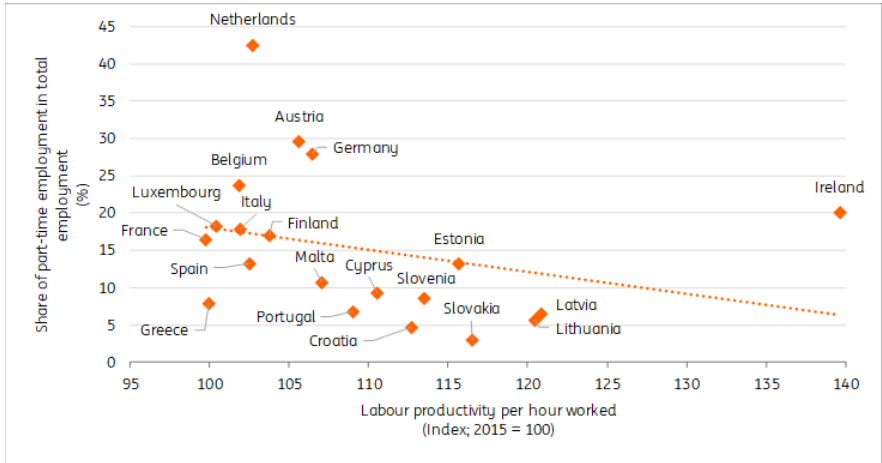
(Index; 4Q 2019 = 100)



Source: Eurostat, ING Economic & Financial Analysis

At first glance, productivity growth, as measured by the change in economic output per hour worked, suggests there is hope for a revival here and that stronger productivity growth is merely being hidden by the rising share of part-time work. However, if anything, data for various eurozone countries since 2015 suggests a negative correlation between real labour productivity and part-time employment rates. Generally speaking, while most eurozone countries have seen an increase in productivity growth per hour worked since 2015, there are interesting differences; countries with a lower share of part-time work have seen a stronger increase in productivity growth per hour worked than countries with a higher share of part-time work. It's a somewhat counterintuitive observation but suggests that increasing the number of hours worked could be a legitimate way to increase total productivity growth.

Real labour productivity and part-time employment rate in the eurozone in 2022



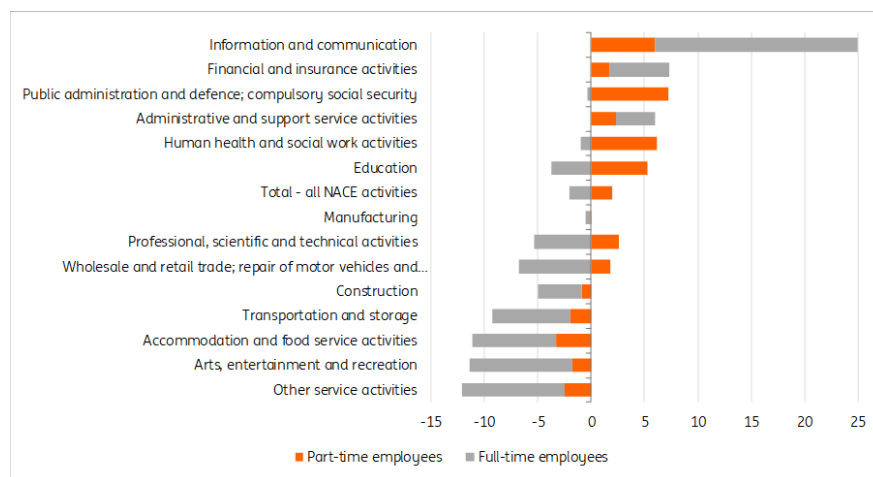
Source: Eurostat, ING Economic & Financial Analysis

German employment miracle is based on the rise of part-time work

If the above relationship between productivity per hour worked and the share of part-time work turns out to be robust, recent developments in the German labour market do not bode well for German productivity. According to Eurostat data, the number of people employed had almost returned to pre-pandemic levels by the end of 2023, but this recovery was driven entirely by an increase in the number of part-time workers. While the number of people working full-time had not yet returned to pre-pandemic levels by the end of 2023, the number of part-time workers was at a record high thanks to the 7.5% increase between the fourth quarter of 2023 and the fourth quarter of 2019.

Contribution to the change in employment in the respective sector by type of employment

(Q3 2023 vs. Q4 2019, in percentage points)



Source: Eurostat, ING Economic & Financial Analysis

An analysis of the contribution to the change in part-time employment according to demographic characteristics shows that it was mainly the 25 49-year-olds contributing to the increase in part-time employment. In terms of the level of education, more employees with a tertiary education were increasingly working in part-time positions while the number of employees with an intermediate level of education working part-time decreased. When looking at how the increase in part-time work is divided between men and women, old patterns emerge. The increase in female part-time employees contributed around 1.5 times more to the 7.5% increase in part-time employment than the increase in male part-time employees.

Not the time for part-time measures

What the pure data won't tell us is whether the rising share in part-time jobs is a deliberate choice of employees, a forced choice due to the lack of appropriate (child and elderly) care facilities or already the result of the gig economy. At least to some extent, the rise in part-time work reflects increased labour market flexibility and the employment situation might be worse without this flexibility. However, in the current debate about how to restore German (and European)

competitiveness, finding ways to improve productivity has gained importance. More people in work is an important first step but not sufficient. In order to reap productivity gains in the future, we need to focus on more than just absolute employment levels.

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