FOCUS · The productivity gap between the euro area and the US: a sectoral analysis

Without a doubt, one of the biggest challenges the euro area faces is how to increase its productivity growth. As can be seen in the first chart, it has been relatively weak over the past few years. Between 1995 and 2014, annualised productivity growth in the euro area was 0.7 pp below the rate in the US.

A breakdown of the euro area's trend in productivity between core and periphery countries reveals three patterns. First, the trend differs greatly between core and peripheral countries. Second, and as would be expected, core countries have outperformed the trend for the euro area as a whole, albeit still far from the rate achieved by the US. Third, the trend in countries on the periphery of Europe has been very weak. Annualised productivity growth was just 0.5% for this group.

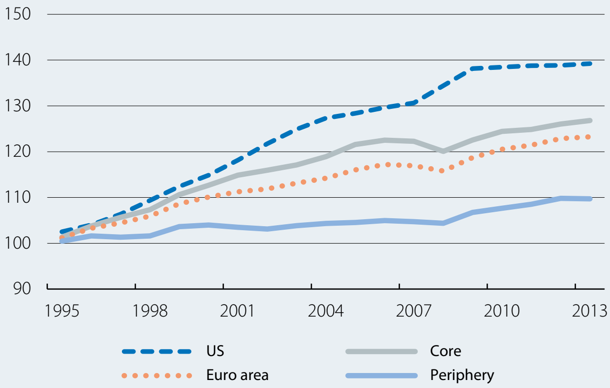
When we take a closer look at the pre-crisis productivity trend in different economies and break it down by sector, our conclusions are not very promising for the core and the euro area. For each sector, even if we choose the most productive country of the different euro area countries, its productivity only equals the trend observed for the US as a whole (see the second chart). In other words, and using the analogy of a school class in which each subject is a sector and the pupils are the different countries, the top European pupil from each subject only manages to come up to the average standard of a US pupil.[1]

Finally, looking at the trend in productivity in the periphery countries, the table enclosed shows that, between 1995 and 2014, productivity grew by 0.6 pp less, in annualised terms, than in the core countries. This gap is particularly large in the sectors of tourism, retail trade and transport, as well as telecommunications. Nevertheless, there has been a remarkable change in trend since the economic crisis. While the pre-crisis gap in productivity growth between the periphery and core countries was –1.2 pp, in the post-crisis period productivity growth was slightly higher in Europe's periphery. But it is still too soon to claim victory since part of this improvement in productivity is due to the considerable job losses suffered in the periphery countries during the crisis. We will therefore have to keep a close eye on this change in trend to see whether it continues during the years of economic recovery. Thanks to the structural reforms carried out by the periphery countries, there are reasons to be relatively optimistic.

1. EU Klems only provides data comparable with the US up to 2007.

*GDP per hour worked by region **

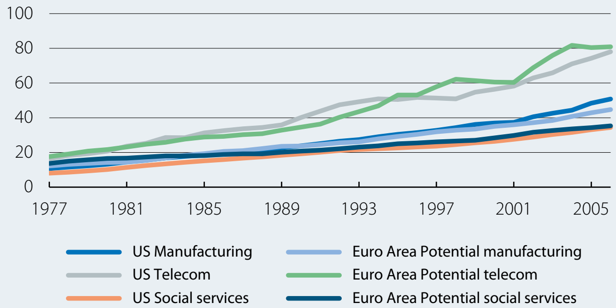
Index (100 = 1995)



Note: ** The core is the weighted average for Germany, France and the Netherlands while the periphery is made up of Spain and Italy. GDP at constant prices.*
Source: *CaixaBank Research, based on OECD data.*

*Gross value added per hour worked by sector **

*(Euros by PPP) ***



Notes: ** The potential from the euro area in each sector corresponds to the maximum productivity for Germany, the Netherlands, France, Italy and Spain in each period.*
*** Gross value added adjusted by purchasing power parity.*
Source: *CaixaBank Research, based on data from EU KLEMS.*

*Gap in annualised productivity growth * of the periphery compared with the core ***

(pp)

	1995-2007	2008-2014	1995-2014
Agriculture, mining and fishing	0.4	1.5	0.7
Manufacturing	–2.1	0.8	–0.7
Construction and supplies	–2.8	2.7	–0.4
Telecommunications	–2.2	0.2	–1.0
Tourism, retail trade and transport	–2.5	0.0	–1.3
Financial services	2.2	–1.4	0.6
Social services	–0.5	–0.3	–0.4
Total	**–1.2**	**0.2**	**–0.6**

Notes: ** Productivity measured as the gross value added per hour worked.*
*** The core is the weighted average for Germany, France and the Netherlands while the periphery is made up of Spain and Italy.*
Source: *CaixaBank Research, based on data from EU KLEMS.*