

Introduction

Short-term Employment Prospects

Rising oil prices and volatile exchange rate fluctuations have affected growth prospects in the OECD area as a whole, in particular in the euro zone. As a result, the OECD employment picture is expected to improve only slowly in 2005-2006 – with, however, substantial cross-country differences in expected performance. Likewise, wages would continue to grow moderately over the projection period, with real wages growing below labour productivity gains on average in the OECD area.

The following sections present a summary of the assessment of the economic situation and employment performance as given in the May 2005 edition of the *OECD Economic Outlook*.

A. Economic outlook to the year 2006

In 2004, economic growth continued to be led by the United States and by large and rapidly growing emerging non-OECD economies, notably China. In the OECD area as a whole, real GDP growth averaged 3.4% last year, up from 2.1% in 2003, but growth slowed over the course of the year against the backdrop of rising and volatile oil prices, coupled with exchange rate shifts (Table 0.1).

Among the large OECD economies, economic growth was fastest in the United States, albeit somewhat below past projected rates. Economic growth in 2004 in the United States was mainly driven by strong domestic demand led by household consumption and business investment. The strong expansion in the United States and non-OECD Asia was accompanied by faster economic growth in Japan, Canada, Korea, Mexico, New Zealand and the United Kingdom and, albeit at a slower pace, in Australia, as compared to the previous year. The growth performance in 2004 in the euro area was uneven, with Germany, Italy and the Netherlands under performing, while most of the other euro area countries recording moderate or high growth. Growth in the euro area was driven mainly by external demand, but was inadequate to absorb fully existing cyclical slack, due in part to the interplay of a strong euro and soaring oil prices. Turkey recorded exceptionally strong growth. Economic growth was also strong in new members of the European Union – Czech Republic, Hungary, Poland and Slovak Republic.

Short-term projections indicate that economic growth will pick up somewhat in the OECD area from around mid-2005. Some rebalancing of growth is also expected across OECD regions, with a gradual easing of economic expansion in the United States and the United Kingdom during the projection period, accompanied by some acceleration in the EU-19 – up from 1.6% in 2005 to 2.3% in 2006 – and in Japan – up from 1.5% in 2005 to 1.7% in 2006. However, the growth performance will remain uneven among EU-19 countries. While new members of the EU as well as Ireland, Spain and Sweden are expected to record relatively high growth rates in 2005-2006, performance in other EU countries will be weak.

Table 0.1. **Growth of real GDP in OECD countries**^{a, b}
 Percentage change from previous period

	Share in total OECD GDP 2000	Average 1992-2002	2003	2004	Projections	
					2005	2006
North America						
Canada	3.2	3.6	2.0	2.8	2.8	3.1
Mexico	3.3	2.7	1.4	4.4	4.0	4.2
United States	36.2	3.2	3.0	4.4	3.6	3.3
Asia						
Japan	12.2	1.0	1.5	2.6	1.5	1.7
Korea	2.8	5.6	3.1	4.6	4.3	5.0
Europe						
Austria	0.8	2.2	0.8	2.0	1.9	2.3
Belgium	1.0	2.0	1.3	2.7	1.3	2.4
Czech Republic	0.6	2.0	3.7	4.0	4.1	4.3
Denmark	0.6	2.3	0.7	2.4	2.4	2.4
Finland	0.5	3.3	2.5	3.4	2.2	2.9
France	5.7	2.0	0.5	2.3	1.4	2.0
Germany	7.6	1.3	-0.1	1.0	1.2	1.8
Greece	0.7	2.8	4.7	4.2	2.8	3.2
Hungary	0.5	3.1	3.0	4.0	3.6	3.9
Iceland	0.0	3.1	4.2	5.2	6.2	5.3
Ireland	0.4	7.9	3.6	4.9	5.3	5.0
Italy	5.3	1.6	0.4	1.0	-0.6	1.1
Luxembourg	0.1	4.8	2.9	4.5	3.3	3.9
Netherlands	1.6	2.7	-0.9	1.4	0.5	1.7
Norway	0.6	3.4	0.4	2.9	3.1	2.5
Poland	1.5	4.4	3.8	5.3	4.2	4.5
Portugal	0.7	2.4	-1.1	1.0	0.7	2.1
Slovak Republic	0.2	4.6	4.5	5.5	4.8	5.7
Spain	3.0	2.8	2.5	2.7	3.0	3.2
Sweden	0.9	2.6	1.6	3.0	2.8	3.3
Switzerland	0.8	1.3	-0.3	1.7	1.3	2.0
Turkey	1.7	2.9	5.8	8.9	6.3	6.1
United Kingdom	5.5	3.0	2.2	3.1	2.4	2.4
Oceania						
Australia	1.8	3.9	3.6	2.9	2.5	3.4
New Zealand	0.3	3.7	3.3	4.4	2.9	2.4
OECD Europe	40.2	2.3	1.3	2.5	1.8	2.4
EU-15	34.4	2.2	0.9	2.0	1.4	2.1
EU-19	37.1	2.3	1.1	2.2	1.6	2.3
Total OECD	100.0	2.7	2.1	3.4	2.6	2.8

a) The OECD Secretariat's projection methods and underlying statistical concepts and sources are described in detail in "Sources and Methods: OECD Economic Outlook" which can be downloaded from the OECD Internet site (www.oecd.org/dataoecd/29/23/25501352.pdf).

b) Aggregates are computed on the basis of 2000 GDP weights expressed in 2000 purchasing power parities.

Source: OECD Economic Outlook, No. 77, May 2005.

In particular, growth rates in 2005 are projected to be 1% or lower in the Netherlands and Portugal and a recession is predicted in Italy. The OECD projections also indicate some slowing of growth in 2005 in Greece, New Zealand and Turkey, albeit from high rates of growth, and a continuation of strong growth in Korea.

B. Employment and unemployment

Employment growth continued to remain sluggish in 2004, even in a number of countries recording strong economic growth (Table 0.2). Indeed, one-half of the countries experienced either negative employment growth (Czech Republic, France, Hungary,

Table 0.2. **Employment and labour force growth in OECD countries^a**

Percentage change from previous period

	Employment					Labour force						
	Level 2003 (000s)	Average 1992-2002	2003	2004	Projections		Level 2003 (000s)	Average 1992-2002	2003	2004	Projections	
					2005	2006					2005	2006
North America												
Canada	15 664	1.9	2.3	1.8	1.2	1.5	16 954	1.5	2.3	1.4	0.9	1.4
Mexico	39 712	2.6	1.1	3.9	2.0	2.6	40 745	2.6	1.3	4.5	2.9	2.5
United States	137 734	1.4	0.9	1.1	1.6	1.7	146 509	1.2	1.1	0.6	1.2	1.4
Asia												
Japan	63 162	-0.2	-0.2	0.2	0.4	0.3	66 664	0.2	-0.3	-0.4	0.1	0.0
Korea	22 139	1.5	-0.1	1.9	1.3	1.4	22 916	1.6	0.2	2.0	1.2	1.3
Europe												
Austria	4 145	0.5	0.1	1.0	0.9	1.1	4 389	0.6	0.3	1.0	0.9	1.0
Belgium	4 189	0.7	0.1	0.7	0.3	1.0	4 550	0.7	0.7	0.5	0.7	0.9
Czech Republic	4 698	-0.3	-0.7	-0.3	0.2	0.3	5 097	0.0	-0.1	0.3	0.1	0.2
Denmark	2 704	0.4	-1.1	0.1	0.3	0.4	2 864	0.0	0.0	0.2	0.0	0.0
Finland	2 356	0.7	-0.3	0.0	0.6	0.5	2 590	0.4	-0.4	-0.2	0.2	0.3
France	24 623	1.0	-0.2	-0.1	0.3	0.7	27 287	0.9	0.6	0.2	0.3	0.2
Germany	38 314	0.2	-1.0	0.3	0.6	0.8	42 152	0.4	0.0	0.5	1.0	0.2
Greece	3 977	0.6	1.3	2.8	1.2	1.4	4 437	0.9	0.7	3.6	0.9	1.0
Hungary	3 878	-0.5	1.3	-0.6	0.5	0.4	4 122	-0.9	1.3	-0.3	0.6	0.1
Iceland	157	1.4	0.1	-0.5	1.6	2.8	162	1.3	0.2	-0.8	1.3	2.3
Ireland	1 811	4.1	1.9	3.0	1.4	1.3	1 899	2.9	2.1	2.8	1.3	1.2
Italy	21 823	0.3	1.0	1.5	0.0	0.4	23 919	0.3	0.6	0.8	0.3	0.4
Luxembourg	193	1.5	1.0	1.2	1.3	1.5	201	1.7	1.9	1.7	1.5	1.4
Netherlands	8 285	1.9	-0.4	-0.7	-0.6	1.2	8 639	1.6	0.8	0.2	0.7	1.0
Norway	2 269	1.3	-0.8	0.3	0.7	1.2	2 375	1.1	-0.1	0.3	0.4	0.8
Poland	13 617	-0.9	-1.2	1.3	1.5	1.9	16 945	-0.2	-1.6	0.5	0.6	0.7
Portugal	5 084	0.8	-0.5	0.1	0.4	1.1	5 426	0.9	0.9	0.5	0.9	0.7
Slovak Republic	2 165	..	1.8	0.3	0.9	0.9	2 624	..	0.4	1.0	0.7	0.4
Spain	16 695	2.4	2.7	2.5	2.7	2.5	18 822	2.2	2.6	2.0	2.0	2.1
Sweden	4 232	0.1	-0.2	-0.4	0.4	1.0	4 449	-0.1	0.7	0.2	-0.1	0.6
Switzerland	4 175	0.4	-0.1	0.2	0.3	1.1	4 351	0.4	0.9	0.4	0.2	0.5
Turkey	21 647	0.9	-0.9	0.3	1.5	1.7	24 141	1.1	-0.7	0.1	1.8	1.8
United Kingdom	28 178	0.9	0.9	0.9	0.4	0.2	29 664	0.4	0.8	0.6	0.6	0.5
Oceania												
Australia	9 517	1.9	2.3	1.9	2.4	1.8	10 125	1.5	1.8	1.4	2.1	1.8
New Zealand	1 951	2.3	2.3	3.4	2.1	0.5	2 046	1.7	1.7	2.6	2.2	1.0
OECD Europe^b	219 212	0.7	0.1	0.7	0.7	1.0	241 103	0.7	0.4	0.6	0.8	0.7
EU-15	166 607	0.8	0.3	0.8	0.6	0.9	181 286	0.7	0.7	0.7	0.8	0.6
EU-19^b	190 964	0.6	0.2	0.8	0.7	0.9	210 073	0.6	0.5	0.7	0.7	0.6
Total OECD^b	509 091	1.0	0.0	1.1	1.1	1.3	547 062	1.0	0.2	0.9	1.0	1.0

.. Data not available.

a) See note a) to Table 0.1.

b) Averages for 1992-2002 exclude the Slovak Republic.

Source: OECD Economic Outlook, No. 77, May 2005.

Iceland, Netherlands and Sweden) or practically no employment growth (eight countries) in 2004. Employment growth gathered pace in the United States in 2004 and in the first half of 2005, albeit with a significant lag *vis-à-vis* the growth recovery. Moreover, economic expansion translated into marked employment growth in Ireland, Greece, Mexico, New Zealand and Spain. In Germany, economic growth was not strong enough to boost employment prospects in 2004.

In the OECD area, employment growth will be slow to pick up and is expected to stall at 1.1% in 2005, before slightly picking up pace at 1.3% in the following year. Employment growth in the United States will accelerate to attain 1.7% in 2006. Meanwhile, employment growth in Europe is expected to be weaker, which will widen the gap in employment performance with the United States. However, only the Netherlands will continue to record negative employment growth in 2005. Employment growth rates exceeding 2% are expected only in Australia, Mexico, New Zealand and Spain.

In 2004, unemployment in the OECD area experienced a small decline and attained 6.7% of the labour force, representing over 37 million persons (Table 0.3). Unemployment rates are expected to decline only slowly in 2005 and 2006, by just around one million persons, representing in 2006 6.4% of the labour force. While unemployment has fallen markedly in Australia, Canada, Italy, Japan, New Zealand, Spain, the United Kingdom and the United States, it has risen in 14 other countries, including France and Germany, where current high levels of unemployment rates are projected to slightly recede only in 2006. The unemployment rate in the United States is projected to decline, falling from 5.5% in 2004 to 4.8% in 2006, reflecting faster employment growth during the period. Meanwhile, the unemployment rate in Japan is expected to fall from 4.7% in 2004 to 4.1% in 2006 to attain levels witnessed during the past decade. In Japan, the fall in the unemployment rate is partly due to sluggish labour force growth. By contrast, unemployment in Europe is expected to remain at high levels until 2006, representing nearly 15 million persons in the EU-15 and around 19 million people in the EU-19. Furthermore, unemployment rates in 2004 were stable at their 2003 levels and are expected to fall only mildly to attain 8% in the EU-15 and 8.8% in the EU-19 in 2006. In 2006, unemployment rates are likely to rise in the Netherlands and in the United Kingdom and will remain high in Belgium, Czech Republic, France, Germany, Greece, Italy, Poland, Spain, Slovak Republic and Turkey. Unemployment rates are expected to be unchanged at low levels until 2006 in Australia, Canada and Korea and are projected to rise somewhat in Mexico and New Zealand.

C. Compensation and labour costs

Wages (nominal compensation per employee in the business sector) have continued to grow moderately in the OECD area, rising from 2.9% in 2003 to reach 3.1% in 2004, the growth rate achieved during 1992-2002 (Table 0.4). OECD projections indicate that this moderate pace will continue over 2005-2006. According to the projections, European countries recording high wage growth, in particular Ireland and the United Kingdom will continue to do so during the next two years. In the United States, nominal wage growth, at 4.4% in 2004, has been faster than OECD average and wages are expected to grow at the same pace until 2006. Similar trends in nominal wage growth are also expected to take place in Australia, Canada, Korea and New Zealand. On the other hand, wages continued to fall in absolute terms in Japan in 2004 for the second consecutive year and are expected to record limited gains during the next two years.

Table 0.3. **Unemployment in OECD countries^a**

	Percentage of labour force					Millions				
	Average 1992-2002	2003	2004	Projections		Average 1992-2002	2003	2004	Projections	
				2005	2006				2005	2006
North America										
Canada	9.0	7.6	7.2	6.9	6.8	1.4	1.3	1.2	1.2	1.2
Mexico	3.2	2.5	3.0	3.9	3.8	1.1	1.0	1.3	1.7	1.7
United States	5.4	6.0	5.5	5.1	4.8	7.4	8.8	8.1	7.7	7.3
Asia										
Japan	3.8	5.3	4.7	4.4	4.1	2.5	3.5	3.1	2.9	2.7
Korea	3.5	3.4	3.5	3.4	3.3	0.8	0.8	0.8	0.8	0.8
Europe										
Austria	5.2	5.5	5.6	5.6	5.5	0.2	0.2	0.2	0.2	0.2
Belgium	8.4	7.9	7.8	8.2	8.0	0.4	0.4	0.4	0.4	0.4
Czech Republic	6.0	7.8	8.3	8.3	8.2	0.3	0.4	0.4	0.4	0.4
Denmark	6.1	5.6	5.7	5.4	5.0	0.2	0.2	0.2	0.2	0.1
Finland	12.5	9.0	8.9	8.5	8.3	0.3	0.2	0.2	0.2	0.2
France	10.8	9.8	10.0	10.0	9.6	2.8	2.7	2.7	2.7	2.6
Germany	7.9	9.1	9.3	9.6	9.1	3.2	3.8	3.9	4.1	3.9
Greece	10.4	10.4	11.0	10.8	10.5	0.4	0.5	0.5	0.5	0.5
Hungary	8.7	5.9	6.2	6.3	6.0	0.4	0.2	0.3	0.3	0.2
Iceland	3.6	3.4	3.1	2.8	2.3	0.0	0.0	0.0	0.0	0.0
Ireland	9.4	4.6	4.4	4.4	4.3	0.1	0.1	0.1	0.1	0.1
Italy	10.8	8.8	8.1	8.4	8.4	2.5	2.1	2.0	2.0	2.0
Luxembourg	2.8	3.8	4.3	4.4	4.3	0.0	0.0	0.0	0.0	0.0
Netherlands	4.9	4.1	5.0	6.3	6.1	0.4	0.4	0.4	0.5	0.5
Norway	4.4	4.5	4.5	4.2	3.8	0.1	0.1	0.1	0.1	0.1
Poland	14.4	19.6	19.0	18.2	17.3	2.5	3.3	3.2	3.1	3.0
Portugal	5.5	6.3	6.7	7.2	6.9	0.3	0.3	0.4	0.4	0.4
Slovak Republic	..	17.5	18.1	17.9	17.5	..	0.5	0.5	0.5	0.5
Spain	14.6	11.3	10.8	10.2	9.8	2.3	2.1	2.1	2.0	2.0
Sweden	6.4	4.9	5.5	5.0	4.7	0.3	0.2	0.2	0.2	0.2
Switzerland	3.3	4.0	4.2	4.0	3.5	0.1	0.2	0.2	0.2	0.2
Turkey	7.7	10.3	10.2	10.4	10.5	1.8	2.5	2.5	2.6	2.6
United Kingdom	7.4	5.0	4.7	4.9	5.2	2.1	1.5	1.4	1.5	1.6
Oceania										
Australia	8.1	6.0	5.6	5.2	5.2	0.7	0.6	0.6	0.5	0.6
New Zealand	7.0	4.6	3.9	4.0	4.5	0.1	0.1	0.1	0.1	0.1
OECD Europe^b	9.1	9.1	9.0	9.1	8.8	20.7	21.9	21.9	22.3	21.8
EU-15	9.1	8.1	8.1	8.2	8.0	15.5	14.7	14.7	15.1	14.8
EU-19^b	9.4	9.1	9.0	9.1	8.8	18.7	19.1	19.1	19.4	18.9
Total OECD^b	6.8	6.9	6.7	6.7	6.4	34.8	38.0	37.2	37.2	36.2

.. Data not available.

a) See note a) to Table 0.1.

b) Averages for 1992-2002 exclude the Slovak Republic.

Source: OECD Economic Outlook, No. 77, May 2005.

In the OECD area, unit labour costs in the business sector grew by 0.5% in 2004, down by 0.4 percentage point compared to 2003. Unit labour costs are expected to rise over the next two years to reach 1.6% in 2006, according to OECD projections. In 2004, OECD European economies recorded a marked decline in the pace of growth of unit labour costs, which are likely to reach the pace observed during 1992-2002, to attain 1.2% in the EU-19 in 2006.

Table 0.4. **Business sector labour costs in OECD countries**^{a, b}

Percentage change from previous period

	Compensation per employee					Unit labour costs				
	Average 1992-2002	2003	2004	Projections		Average 1992-2002	2003	2004	Projections	
				2005	2006				2005	2006
North America										
Canada	2.9	1.2	2.4	3.6	3.4	1.0	1.5	1.3	1.8	1.4
Mexico	12.4	5.0	4.7	4.8	4.3	12.4	4.8	4.6	2.8	2.7
United States	3.5	3.6	4.4	4.3	4.5	1.6	0.3	0.8	2.3	2.7
Asia										
Japan	0.0	-0.2	-0.4	0.2	0.4	-1.0	-2.2	-3.2	-0.9	-0.9
Korea	7.1	7.3	3.5	5.0	5.8	2.7	3.8	0.5	1.9	2.0
Europe										
Austria	2.1	1.8	2.2	2.3	2.2	0.1	1.1	0.9	1.2	0.9
Belgium	2.8	2.5	2.7	2.3	2.0	1.4	1.1	0.4	1.2	0.6
Czech Republic	..	7.5	5.2	5.9	6.2	..	3.0	0.5	1.9	2.1
Denmark	3.2	3.7	3.8	3.8	3.9	0.7	1.4	1.0	1.1	1.5
Finland	3.2	2.2	3.9	3.8	2.7	0.3	-0.8	0.3	1.2	-0.2
France	1.7	2.5	3.0	2.3	2.9	0.7	1.6	0.2	1.0	1.4
Germany	1.9	1.7	0.1	0.1	0.6	0.8	0.8	-0.6	-0.5	-0.5
Greece	8.4	3.7	3.6	5.6	5.7	5.9	0.1	2.3	3.9	3.7
Hungary	..	5.8	9.4	4.8	7.2	..	4.0	5.2	1.1	3.0
Iceland	6.1	-0.4	6.7	6.5	6.2	4.1	-5.0	0.1	1.3	3.6
Ireland	4.1	2.4	4.0	4.9	4.9	0.1	0.5	2.2	0.8	0.9
Italy	3.1	3.2	3.1	3.2	2.5	1.6	3.4	3.0	3.6	1.5
Luxembourg	3.2	2.3	4.6	3.4	3.5	2.0	0.3	0.3	0.9	1.0
Netherlands	3.0	3.2	1.8	2.0	0.3	2.1	3.8	-1.2	0.2	-0.2
Norway	4.3	4.1	3.4	3.8	3.9	2.0	2.3	-0.9	-0.1	1.6
Poland	..	-1.0	2.6	2.5	2.6	..	-6.3	-1.7	-0.2	0.0
Portugal	5.7	3.5	2.3	2.5	2.7	3.8	4.6	1.3	2.1	1.6
Slovak Republic	..	4.1	9.5	6.9	5.9	..	2.1	3.9	3.7	1.0
Spain	4.2	4.9	4.1	4.4	4.5	3.0	3.9	3.3	3.5	3.5
Sweden	4.8	2.4	2.9	3.0	3.6	1.9	0.1	-1.6	-0.1	1.0
Switzerland	2.1	0.8	1.1	1.3	1.5	1.2	1.0	-0.5	0.3	0.4
Turkey	..	..	..	..	..	..	..	..	..	..
United Kingdom	4.1	4.7	4.4	5.2	4.7	2.0	3.0	1.8	2.8	2.1
Oceania										
Australia	3.4	3.1	5.6	4.8	4.5	1.2	1.9	4.5	5.0	2.9
New Zealand	2.2	2.7	3.3	3.9	4.2	0.9	1.6	1.5	3.1	2.1
OECD Europe^c	2.7	2.8	2.7	2.7	2.7	1.1	1.7	0.9	1.4	1.1
EU-15	3.4	3.5	3.0	3.1	3.1	1.4	2.4	1.1	1.8	1.4
EU-19^c	2.9	3.0	2.9	2.9	2.9	1.2	1.9	1.0	1.6	1.2
Total OECD less high-inflation countries^{c, d}	2.9	2.9	3.1	3.2	3.3	1.1	0.8	0.4	1.6	1.6
Total OECD^c	3.1	2.9	3.1	3.2	3.3	1.5	0.9	0.5	1.6	1.6

.. Data not available.

a) See note a) to Table 0.1.

b) Aggregates are computed on the basis of 2000 GDP weights expressed in 2000 purchasing power parities.

c) Countries shown.

d) High inflation countries are defined as countries which had 10% or more inflation in terms of GDP deflator on average between 1992 and 2002 on the basis of historical data. Consequently, Hungary, Mexico, Poland and Turkey are excluded from the aggregate.

Source: OECD Economic Outlook, No. 77, May 2005.

In 2004, a number of European economies recorded negative growth in unit labour costs, where strong labour productivity gains exceeded low or negative nominal wage growth, but growth in unit labour costs is expected to become positive in 2006 in all European economies, except in Finland, Germany and in the Netherlands. In the United States, the moderate pace of growth of unit labour costs in 2004 is projected to accelerate this year and gain momentum during 2006 to reach 2.7%, reflecting tighter labour markets and labour productivity growth falling back to longer-run averages, as this will also gradually be the case in many other OECD countries during the next two years.