Executive summary

Short-term trends

Global economic growth remains solid and broad-based, even though the pace has eased in recent periods. But while the upturn is set to persist into 2018, it has been modest, partly reflecting continued relatively weak labour productivity growth in most countries. Among OECD economies, in the United Kingdom and the United States, and more recently in Mexico, Spain and Italy, the recovery in GDP growth has been largely sustained by increasing employment.

Moreover, in many countries, employment has increased most in recent years in activities with relatively low labour productivity, dragging down overall labour productivity, although this partly reflects a rebound in employment in activities hit hardest by the crisis. In nearly all major OECD economies, the top three sectors generating the largest net employment gains over the period 2010-2016 had below average labour productivity, with restaurants, health and residential care activities featuring highly in most economies.

While the impact of the crisis and the different response mechanisms adopted by countries to mitigate its effects need some care in interpretation, the evidence points to relatively minimal boosts to productivity growth from reallocation effects in most countries, with declining within-sector productivity growth at the origin of declines at the whole economy level.

More jobs in lower labour productivity activities has also meant more jobs with below average wages in most economies, working to weigh down on average salaries in the economy as a whole. Moreover, growth in real wages (compensation per hour worked), adjusted for inflation using the consumer price index (CPI), has also been lagging labour productivity growth in many countries in the post-crisis period. Indeed, real wages, on this basis, declined between 2010 and 2016 in Portugal, Spain and the United Kingdom. However, in some countries, such as Germany and the United States, real wages have begun to rise in line with (albeit slow) labour productivity growth in recent years, helping to reverse pre-crisis decoupling.

But even in countries where decoupling at the whole economy has been less apparent, this is not always true at the sectoral level, which may have implications for inclusive growth. For example most sectors saw lower growth in real wages than labour productivity growth in France, and even in the United States and Germany, about one third of sectors saw real wage growth lag labour productivity growth.

Although investment is beginning to pick up, the recovery remains modest with post-crisis investment rates, in particular in tangible assets, still below pre-crisis levels in many OECD economies. Lower investment rates combined with higher employment resulted in slower capital deepening, compounding the longer term slowdown in labour productivity growth seen before the crisis in many countries.

Long-term trends

Productivity growth in most countries, remains well below historic averages but, notwithstanding care needed in interpreting post-crisis trends, the evidence points to tentative signs of improvement in multifactor productivity growth (from the crisis lows) in Canada, France, Germany and Japan.

The post-crisis period has been characterised by a significant increase in the contribution of labour utilisation to GDP per capita growth, notably in the United Kingdom and the United States. This compares starkly to the pre-crisis period where growth in labour utilisation played only a marginal role in most countries.

The post-crisis slowdown in labour productivity growth in manufacturing has been widespread, spanning nearly all sub-sectors of manufacturing from higher-tech, higher skilled activities such as computers and electronics, to those traditionally viewed as lower-tech and lower-skilled, such as textiles. In the former, labour productivity growth slowed significantly in the Czech Republic, Lithuania, Poland, Sweden and the United States, while in the latter, significant slowdowns were observed in the Czech Republic, the Slovak Republic, Slovenia and the United Kingdom.

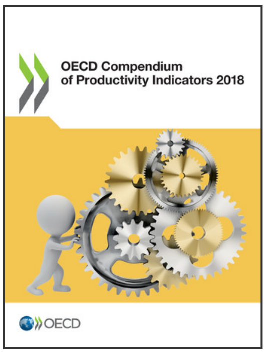
Productivity growth in manufacturing continues however to outpace productivity growth in services. Within the business services sector, for most OECD countries, labour productivity growth over the past fifteen years was mainly driven by retail trade, hotels and transport services, reflecting their much larger share of overall economic activity and employment. In the pre-crisis period strong productivity growth in finance and insurance activities also acted as a significant contributor, but the contribution of these activities has been weaker post-crisis.

In most countries, gaps in labour productivity levels between large firms and small and medium-sized enterprises (SMEs) are relatively high. This is particularly true for micro firms in both manufacturing and business services sectors, even if in some countries and sectors, smaller enterprises do outperform larger firms, particularly in the business services sector.

Investment in intellectual property products has been increasing over the last fifteen years, often at a faster pace than investment in traditional physical capital, with shares of investment in intellectual property products ranging from 1.1% in Colombia to 30% in Switzerland and 56% in Ireland in 2016.

In sectors less exposed to direct international competition, notably the services sector, unit labour costs (ULC) in some countries outpaced manufacturing ULC. This was particularly the case in the post-crisis period in Austria, Germany, Italy and Portugal and the European Union as a whole. As many of these services are used as upstream inputs to manufacturers, overall international competitiveness could in fact be affected.

Labour income shares have declined in most countries over the last fifteen years, particularly in the manufacturing sector, with the largest declines in Poland (from 66% in 2001 to 48% in 2016), the United States (61% in 2001 to 48% in 2015) and Denmark (64% in 2001 to 52% in 2016). In Ireland, labour income shares in manufacturing declined from 29% in 2001 to 14% in 2016, partly reflecting relocations of firms with high knowledge based assets value in 2015. In business services, the largest declines occurred in Greece (63% in 2001 to 35% in 2016), Ireland (56% in 2001 to 42% in 2016) and Israel (77% in 2001 to 66% in 2016).



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