European Economy

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Overview

Current state of the European economy

–The view from international economic institutions (OECD,IMF)

Challenges for workers, trade unions and collective bargaining

OECD (December 2024)
Global growth is resilient...

.. and projected to remain stable for next two years

	Average 2013-2019	2023	2024	2025	2026
				Per cent	
Real GDP growth[1]					
World[2]	3.4	3.2	3.2	3.3	3.2
G20[2]	3.5	3.6	3.3	3.2	3.2
OECD[2]	2.3	1.8	1.7	1.9	1.9
United States	2.5	2.9	2.8	2.3	2.0
Euro area	1.9	0.5	0.8	1.3	1.5
Japan	0.8	1.7	-0.1	1.1	0.5
Non-OECD[2]	4.5	4.5	4.5	4.4	4.3

“Turning the corner” (OECD)

Monetary policy: rate cuts should continue but <u>prudently</u>.

Fiscal policy: <u>Decisive</u> actions/ <u>intensified fiscal consolidation</u> to ensure debt sustainability and build buffers for the next crisis.

<u>Ambitious</u> structural reforms: More competition in product markets and reducing labour market rigidity.

Idea: Reforms improve, in the long-term, productivity, income and growth, thus helping to overcome fiscal challenges.

Update of the IMF World economic Outlook (January 2025)

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WORLD ECONOMIC OUTLOOK

Table 1. Overview of the *World Economic Outlook* Projections
(Percent change, unless noted otherwise)

	Year over Year					
		Estimate	Projections		Difference from October 2024 WEO Projections 1/	
	2023	2024	2025	2026	2025	2026
World Output	**3.3**	**3.2**	**3.3**	**3.3**	**0.1**	**0.0**
Advanced Economies	**1.7**	**1.7**	**1.9**	**1.8**	**0.1**	**0.0**
United States	2.9	2.8	2.7	2.1	0.5	0.1
Euro Area	0.4	0.8	1.0	1.4	–0.2	–0.1
Germany	–0.3	–0.2	0.3	1.1	–0.5	–0.3
France	1.1	1.1	0.8	1.1	–0.3	–0.2
Italy	0.7	0.6	0.7	0.9	–0.1	0.2
Spain	2.7	3.1	2.3	1.8	0.2	0.0
Japan	1.5	–0.2	1.1	0.8	0.0	0.0
United Kingdom	0.3	0.9	1.6	1.5	0.1	0.0
Canada	1.5	1.3	2.0	2.0	–0.4	0.0

The IMF explainer

Euro Area: after two years of subdued growth (less than 1%/close to zero), the projected pick up in economic activity is fragile.

Germany: Two years of recession, with no convincing recovery following.

Energy prices transferring income outside Europe,with monetary policy hiking interest rate and squeezing demand

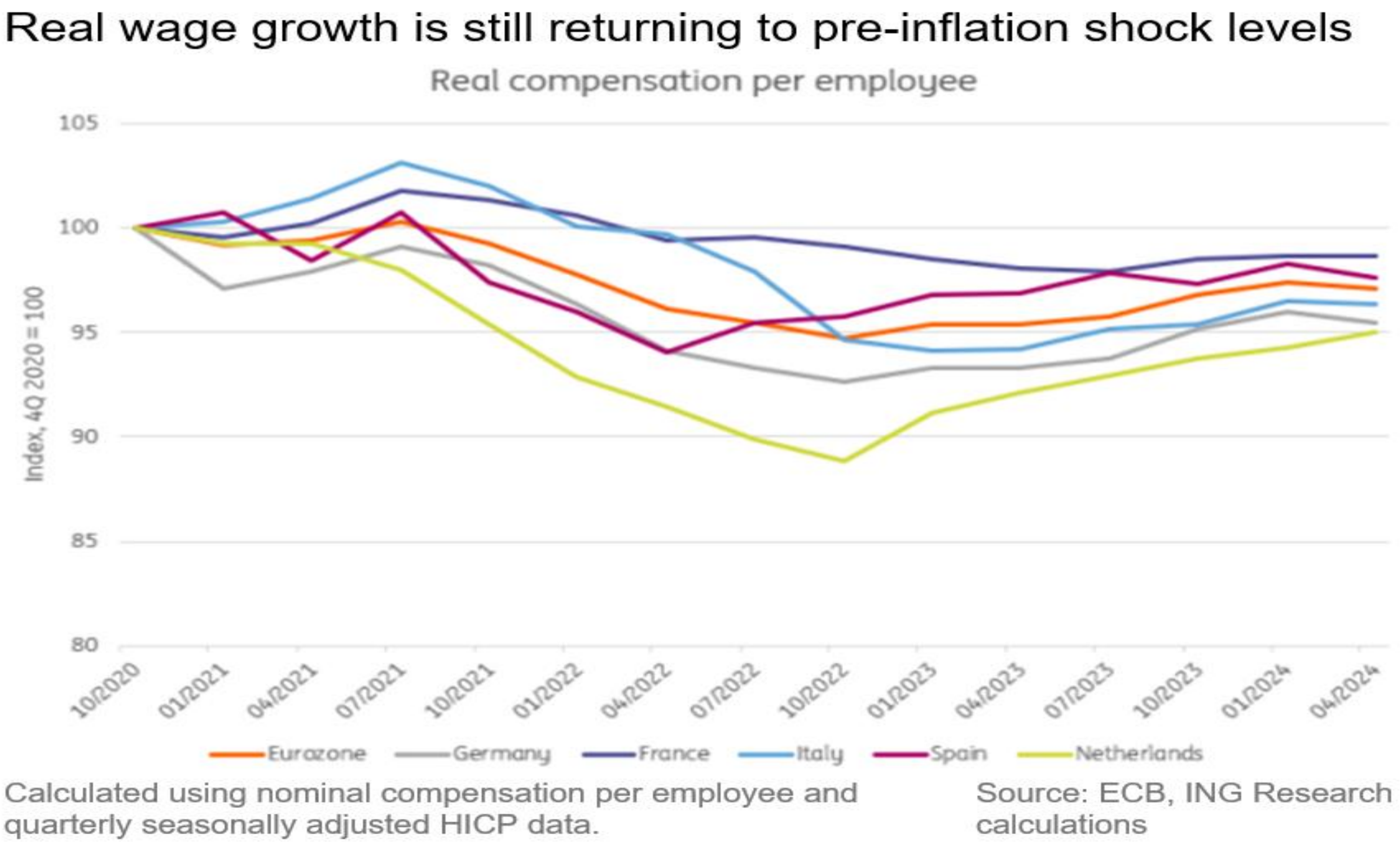
Increased political and policy uncertainty (0.2 downwards revision with downwards risk)? And what about the specter of austerity returning?

Contrast with US: “robust demand reflecting strong wealth effects” “deregulation possibly driving better sentiment” (0.5 upwards revision). Risks tilted to the upside

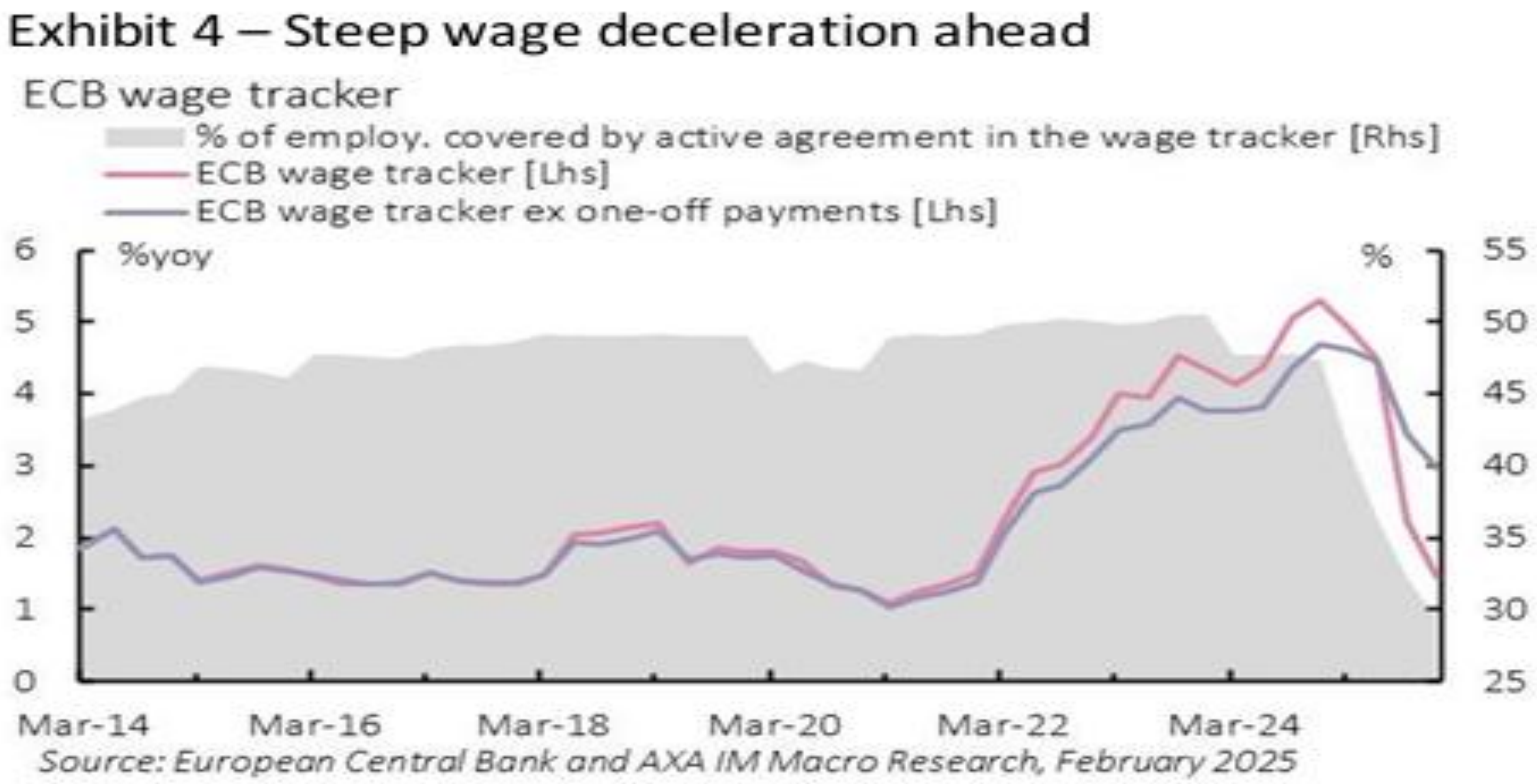
Challenges

- Cost-of-living crisis and wages
- Jobs : Between US – tariffs and the second China shock

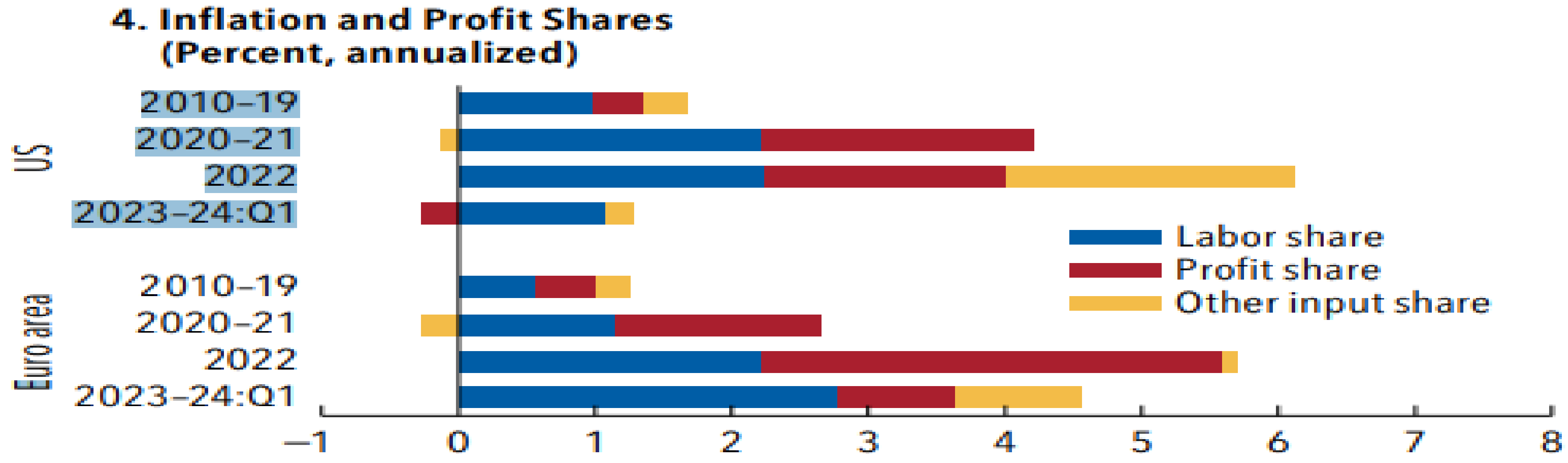
No full catch up of wages to cost of living crisis



Slowdown in wage growth ahead....



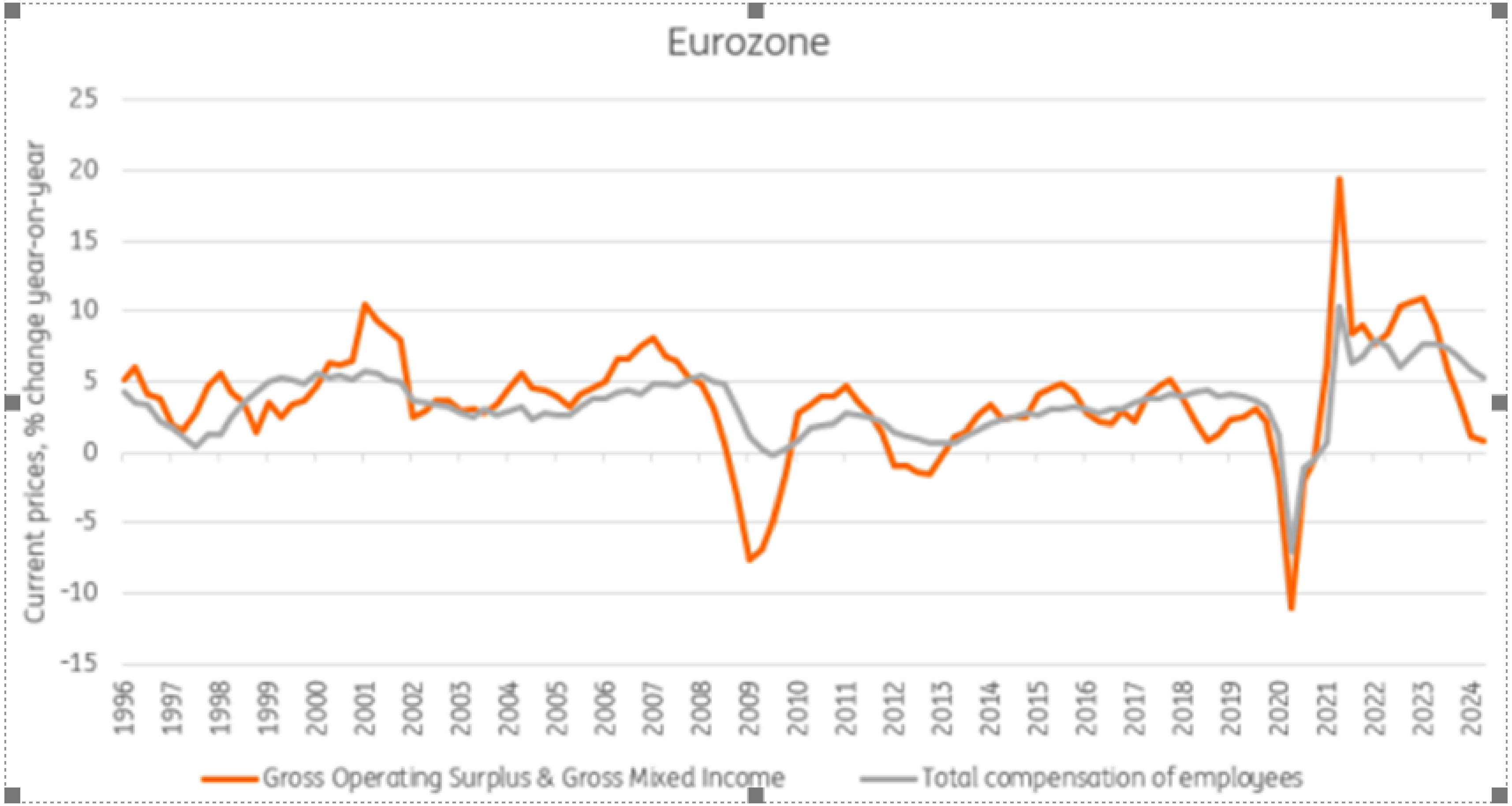
Profit shares still have sizeable buffers



Sources: Eurostat; Haver Analytics; US Bureau of Economic Analysis; and IMF staff calculations.

Note: In panel 4, US decomposition uses data on factor shares from the nonfinancial corporate sector only. Euro area decomposition is based on whole-economy data. Data labels in the figure use International Organization for Standardization (ISO) country codes. AEs = advanced economies; EA = euro area; ECI = Employment Cost Index.

Wages and collective bargaining



Source: Eurostat, ING Research

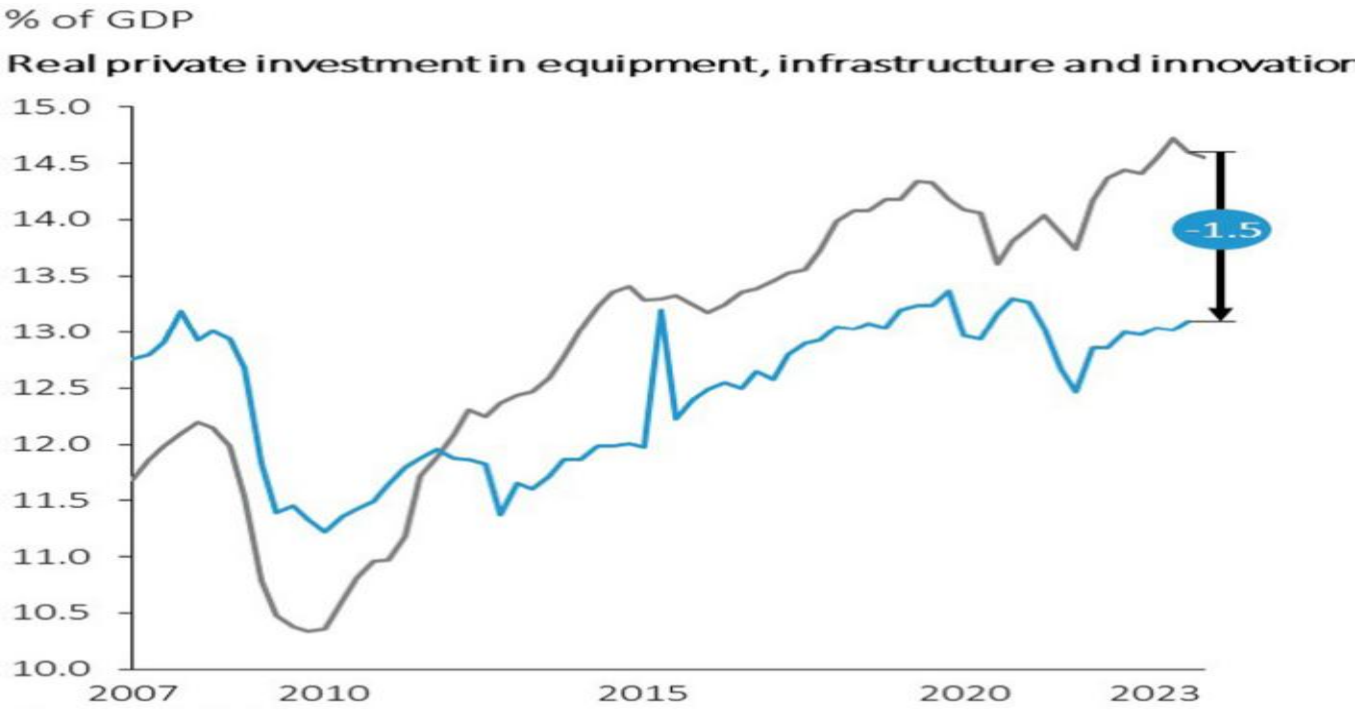
2023 Super Dividends from European (global) firms

ANNUAL DIVIDENDS
BY REGION (US$ BILLIONS)

Region	2020	%*	2021	%*	2022	%*	2023	%*
Emerging Markets	$103.7	-2.7%	$135.2	30.4%	$153.9	13.8%	$168.9	9.7%
Europe ex UK	$168.8	-33.0%	$235.5	39.6%	$259.0	10.0%	$305.8	18.1%
Japan	$80.5	-5.1%	$81.8	1.6%	$73.3	-10.3%	$78.2	6.7%
North America	$551.0	2.8%	$572.7	3.9%	$631.4	10.2%	$664.6	5.3%
Asia Pacific ex Japan	$129.2	-19.1%	$174.4	35.0%	$185.8	6.5%	$170.7	-8.1%
UK	$63.1	-39.3%	$87.5	38.6%	$89.6	2.4%	$86.9	-3.0%
Total	$1,096.2	-11.8%	$1,287.0	17.4%	$1,393.0	8.2%	$1,475.1	5.9%
Divs outside top 1,200	$139.1	-11.8%	$163.3	17.4%	$176.7	8.2%	$187.2	5.9%
Grand total	**$1,235.2**	**-11.8%**	**$1,450.3**	**17.4%**	**$1,569.7**	**8.2%**	**$1,662.3**	**5.9%**

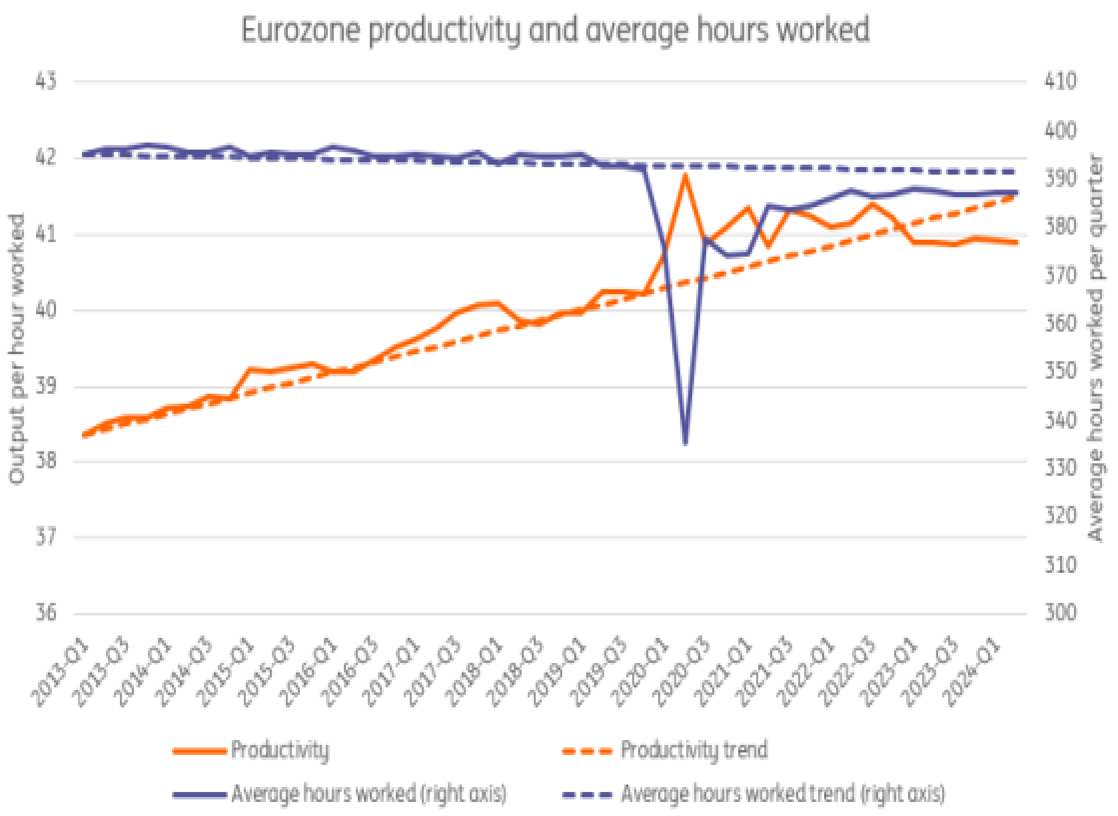
* % change

Euro crisis: Wage devaluation coincided with subdued business investment



Source: Eurostat 2024 and OECD 2024

Jobs: An accident in motion



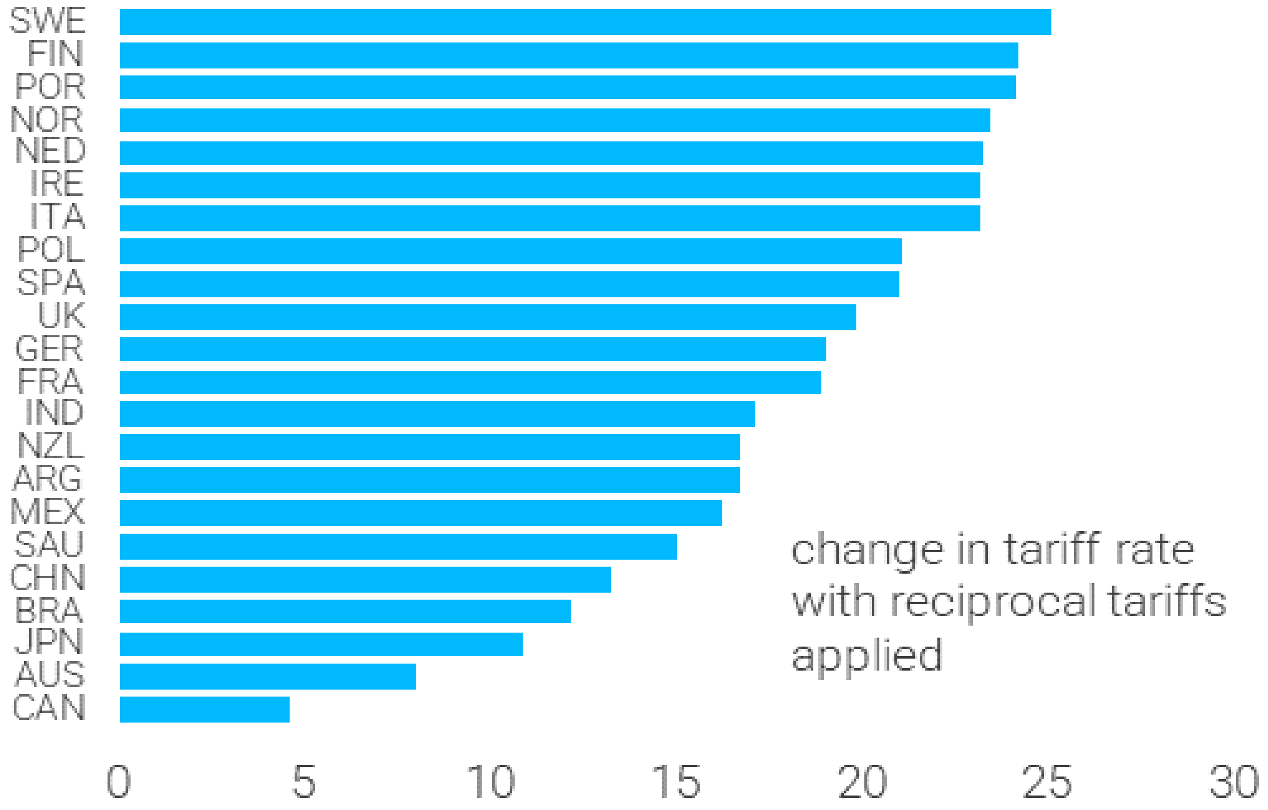
GDP almost stagnating but
unemployment stays down

Reason: Labour hoarding depresses produ

If productivity goes back to pre-pandemic t

Risk of cycle of job restructuring reinforcin

Jobs: US - tariffs are coming....



… and will deliver another shock

European economy: Very open, relying much on exports with an overall external surplus (current account) of 2 to 3% of GDP

Current account surplus with the US: One third

US tariffs on European imports will:

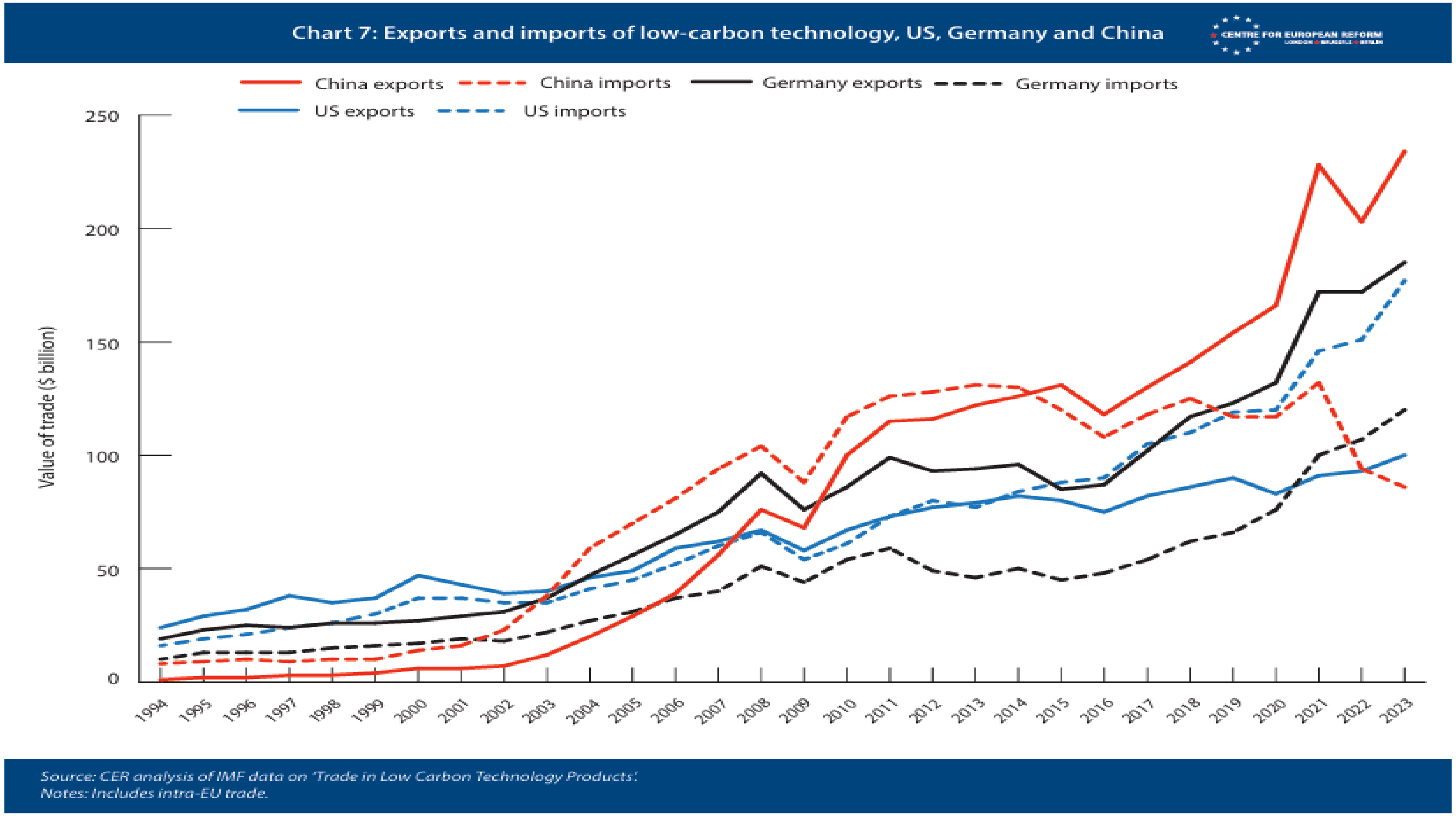
- tip the European economy, already struggling to recover from two years of very low growth from stagnation into recession.

- more structurally, it will add to all of the other factors the US already that incentivise business investment to relocate (cheap energy, dynamic demand management, corporate tax cuts, deregulation and what remains of IRA and CHIPS acts).

A second China shock (1)

- Chinese industry has moved up the value chain, moving into cutting edge sectors (EV's, batteries, solar cells and panels, key components for wind turbines).
- Result of long term planning (identify priority sectors) and of industrial policy using state subsidies, guided credit flows, protective tariffs,system of local buying preferences.
- But also resulting at the same time in majorexcess production capacity, which is then exported (flat domestic demand in China) to the rest of the world.
- China external surplus in manufacturing now 10% of GDP.

The example of low-carbon technology



A second China shock (2)

- WTO entry 2001: MNO's attracted to China exported more basic goods (consumer electronics, apparel,furniture). Europe in turn producing the machinery and equipment (plus luxury goods for the new Chinese rich).
- This time is different: China now also a competitor in more advanced and higher value sectors/products fields including, and this by distorting competition in many ways.

The model of export led growth is not serving Europe well

- It is costly as wages,working conditions and social security are squeezed to conquer global markets.
- It does not deliver the hoped for benefit of a strong recovery: The stimulus from global demand is unable to offset the lack of domestic demand in Europe.
- It makes European jobs rely too much on policy change in far away but major exports markets.
- By fearing to loose access to global export markets, it makes us reluctant to protect high value industrial activity from radical and unbalanced competition.

A heavy duty agenda for collective bargaining

Fairness by restoring wage purchasing power

Manage job restructuring and defend jobs

Ensure a process of (labour market)change that works and is just

Mobilise collective bargaining and social dialogue as a tool to switch from a model of export-led growth back to a model of domestic demand driven growth (Draghi input).

Thank you!

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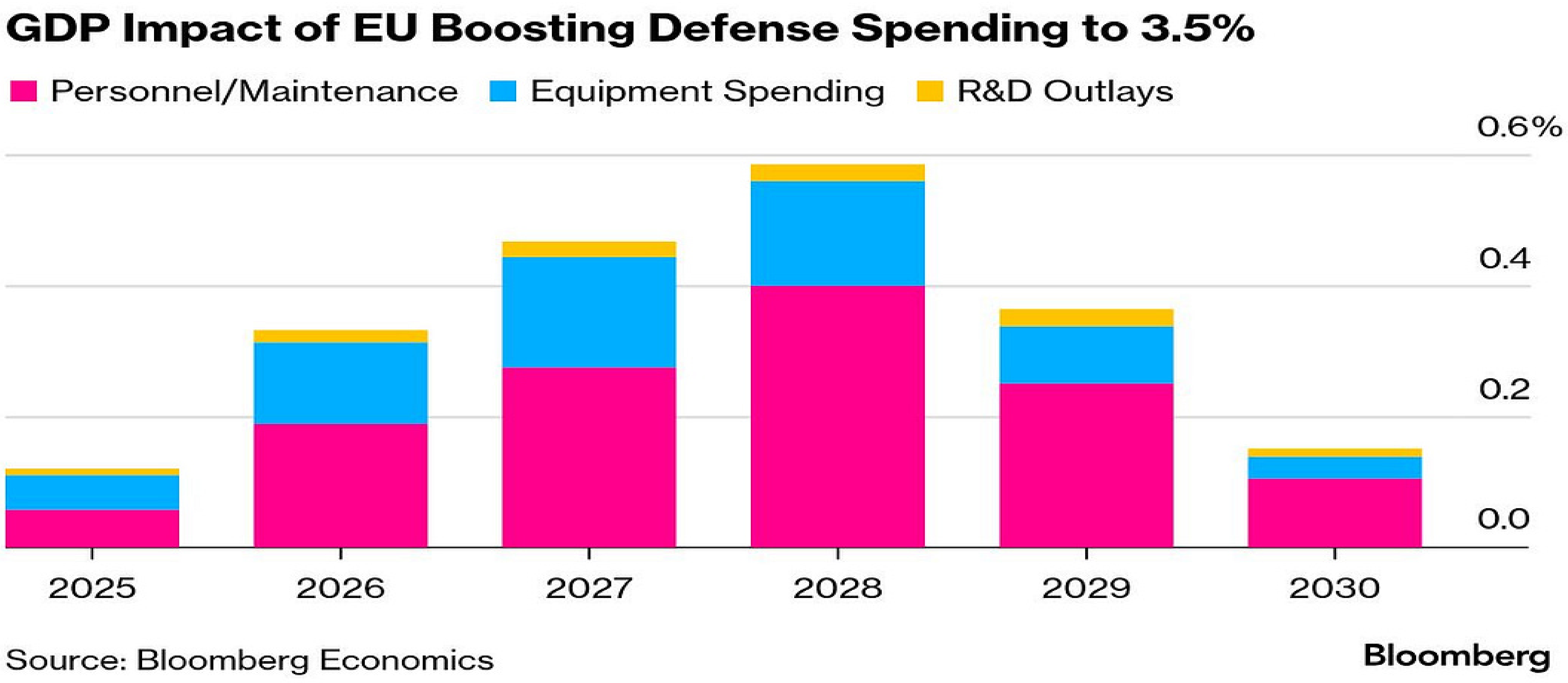
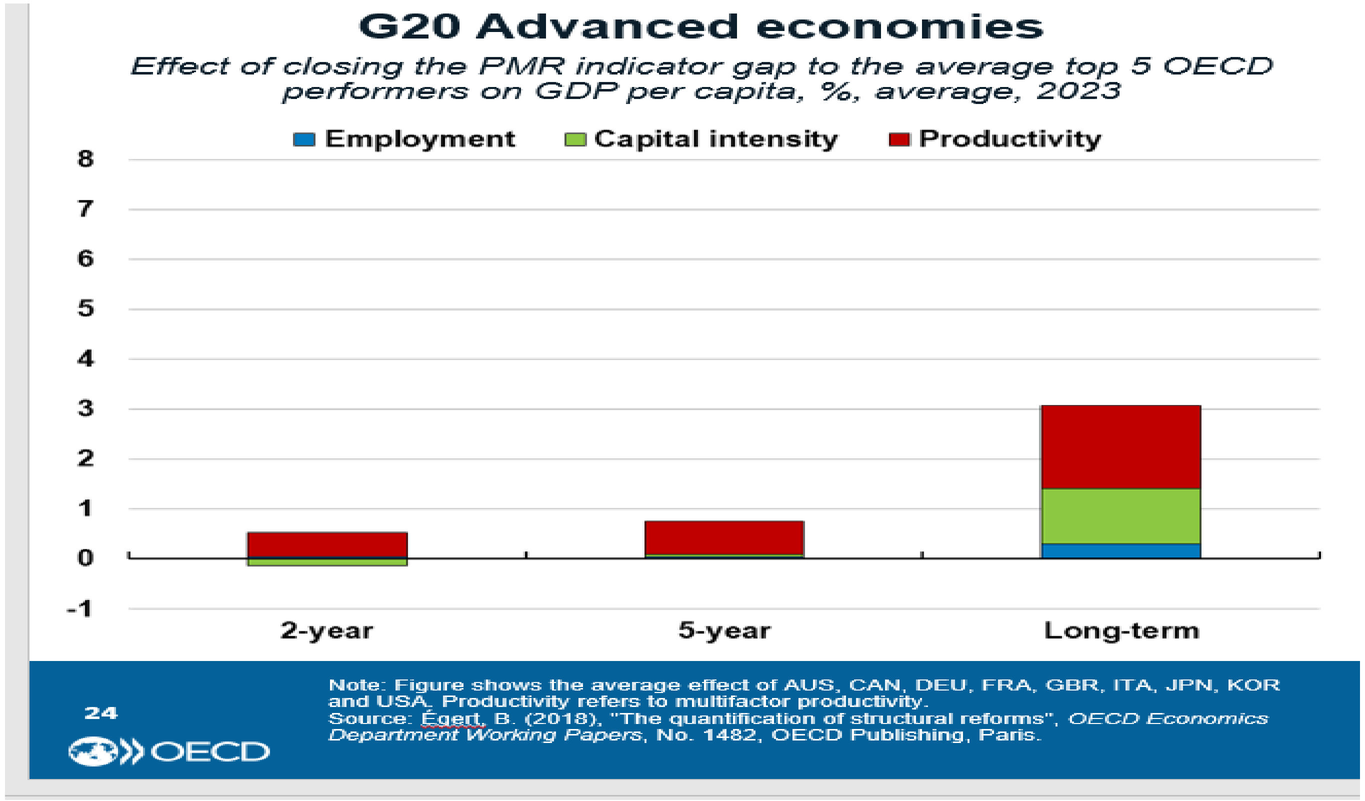
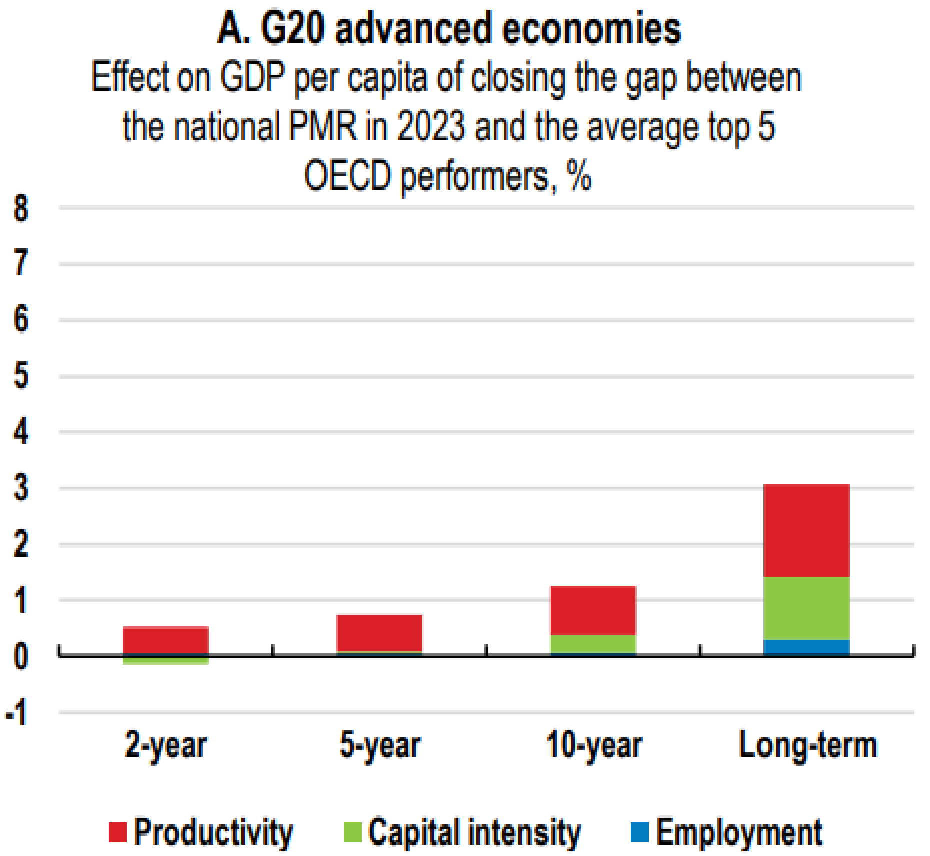
Military and defense spending will not come to the rescue

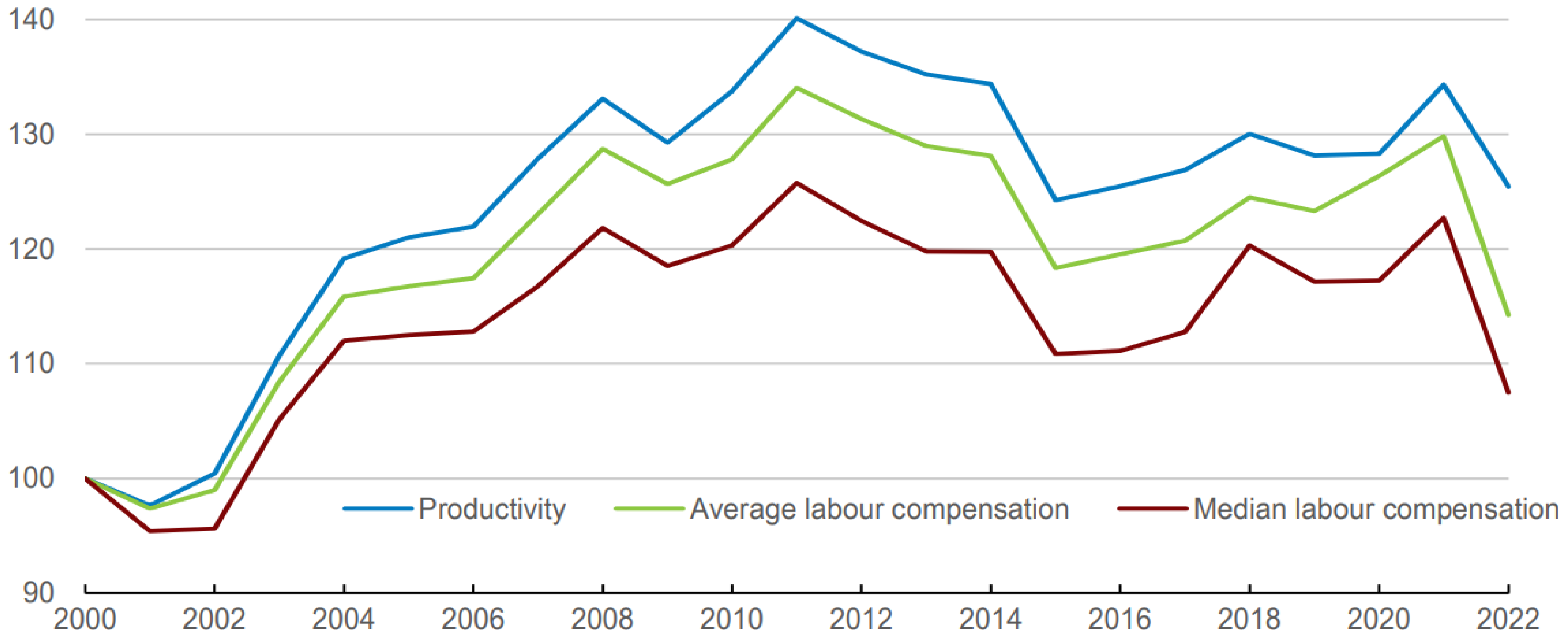


Are structural reforms the way out ?





The other elephant in the room : The disconnect between productivity and worker's pay



A glimpse of an alternative policy strategy : Adding Public Investment in Europe