

COLLECTIVE BARGAINING IN THE EUROPEAN METAL INDUSTRY

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EUCOB@N REPORT 2009

EUCOB@N - The European Collective Bargaining Correspondent
Network of the

European Metalworkers' Federation EMF
Fédération Européenne des Métallurgistes FEM
Europäischen Metallgewerkschaftsbund EMB

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Including the Economic chapter of the EMF's Eucoban
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1 Introduction and Overview

1.1 Preface

Since the start of the EMF EUCOB@N REPORT series in the year 2000, its EUCOB@N EUROPEAN CORRESPONDENT NETWORK has become one of the key elements of the EMF's European co-ordination approach. The concept was adopted by the EMF Collective Bargaining Committee in November 1999 and the first EUCOB@N REPORT was presented in March 2000. A section on the evaluation of the EMF co-ordination rule has been included in every subsequent report.

In a permanent attempt to improve the quality of the EUCOB@N report, several changes have been discussed. One aspect is to provide the reader with selected data on macro-economic developments that are useful for understanding wage developments and that are useful for bargainers from national to company level. Further, methods to harmonise the collected data and thus improve the quality have been discussed. One notable change was made in 2007 and that was to move all of the tables into a separate appendix, making the report less heavy to read. This means that the references to the different tables in this report refer to tables found in the appendix.

Since the 2008 EUCOB@N report, two significant changes have been made. Firstly, the collection of the information is now made via an online survey system called Inquisite, which means that the EUCOB@N coordinators log onto a website and answer the questions online. This has helped to increase the quality of the data and to increase the efficiency of the resources used to produce the report.

Secondly, in cooperation with the ETUI-REHS, a complete macro-economic chapter has been produced and is added to the report as an appendix, thus providing the reader with selected data on and an analysis of macro-economic developments. The information has been selected in an attempt to provide support for bargainers in the EMF member organisations. The format of the macro-economic chapter and its incorporation in the report will be further developed in the future.

The special focus of this year's report is the deep challenges of the crisis facing our industries and their enormous impact on collective bargaining in Europe. This was also one of the subjects of the 6th EMF Collective Bargaining Conference, held in Madrid in November 2009.¹

Bart Samyn

Ralf Götz

¹ Compare also the following documents: *REPORT: TENDENCIES IN COLLECTIVE BARGAINING 2005-2009*; *REPORT: EFFECTS OF THE CRISIS ON COLLECTIVE BARGAINING*; *POSITION PAPER ON THE ECONOMIC CRISIS*; *Economic chapter of the EMF's Eucoban Report 2009*.

1.2 Collective Bargaining in the Crisis

After years of prosperous economic development the world's economy has been on the decline since the third quarter of 2008. Dropping down into crisis happened faster and more dramatically than expected, but it was not totally unexpected. The origin of the crisis was the bursting bubble of the US real estate market in late summer of 2007. By the end of the year, trouble in the real estate market had developed into a strong economic crisis. Finally, with the collapse of Lehmann-Brothers Bank on 15 September 2008, the smouldering financial market crisis produced a worldwide fire. Sub-prime products had been distributed around the world and now lay in the banks' portfolios. The supposed balancing of risk was hence converted into a highly explosive bomb.

The forecasts for the European Union are dismal. In the first half of 2009 the countries in the Eurozone suffered an even worse economic decrease than in the last quarter of 2008. In the last few months the free-fall of the world's economy has apparently been stopped, but at a low level. Most of the economic research institutes consider the bottom was reached in the third quarter of 2009. Monetary and fiscal policy measures slow down the decrease, but some measures like the scrap premium in Germany have come to an end. This creates negative effects on private consumption. There are still risks in the financial markets, which can have negative effects on producer industries once again. During the crisis many EU countries will suffer structural changes, which makes a return to the former economic dynamic more difficult. Current forecasts expect a 4% decrease in economic growth in the European Union (EU). Due to low production activity, both disadvantageous terms of financing and the retained expectations of sales investments will still decline. Empty inventories will be replaced, but at a lower level than before the crisis. A self-supporting recovery is therefore still far away and a double dip could also be possible. A return to the growth level of mid-2008 will not be possible before 2013.

The solidarity in collective bargaining at European level must contain the following elements:

- **An active wage policy with the objective of a strong increase in real wages and income support**

Strong increases in wages and income support for all categories of workers in an economic crisis are absolutely necessary not only for social reasons but also for economic reasons. Only with a secure income can internal demand within the European Union be stabilized and risks of deflation rejected.

- **Secure Employment**

The trade union goals are to avoid plant closures and redundancies. Working time policy is an instrument which can secure employment in the current crisis. The spectrum includes flexible instruments like flextime accounts, short-time work, part-time work, temporary unemployment, training and education provisions, but also the reduction of standard working time, which is arranged via collective agreements. All systems should be backed up by access to unemployment benefit. The budgets for these flexible instruments must be enlarged in order to avoid a dramatic increase in unemployment and a social disaster in the EU.

- **Strengthening the European coordination of collective bargaining**

In the current crisis we can observe tendencies of a relapse to protectionism within the EU. Such a tendency cannot be an example for the EMF and its affiliates. The crisis will prove the worth of the collective bargaining policy coordinated by the EMF. The EMF coordination policy is in fact even more important today than in the past and must be strengthened. The undercutting of wages must be avoided at all costs and the EMF rejects all wage reductions.

- **Strengthening European cooperation at company level**

The effects of the crisis are immediately visible at company level. The EMF provides an excellent framework and tool to coordinate the efforts of metalworkers' unions at European level. All of the EMF coordination methods at European level have to be used in an optimum way.

- **Stabilizing lowest incomes by minimum wages**

The low-cost sector must be reduced in Europe. One means of doing this is to introduce minimum wages where relevant and to raise existing minimum wages.

- **Enlarging and defending the coverage rate of collectively bargained wages**

Collective agreements are the instrument by which employees' working and living conditions are effectively protected and created. The collective bargaining coverage in most Western European countries was stable in the past thanks to the unions' fight against the increasing pressure of employers and governments all over Europe. Collective bargaining coverage has now decreased in many countries and is below 50% in the majority of the EU's New Member States. There is a particular danger of even more pressure on collective bargaining coverage in the crisis. The defence and development of collective bargaining coverage is therefore a sphere of activity with growing importance for the EMF.

A redistribution of income from the top to the bottom is the best programme of economic revival in the current situation.

This describes the economical and political setting for collective bargaining in the current crisis. The view will be deepened in the following chapters,

including the macro-economic chapter. We will see how deeply the crisis has affected collective bargaining systems in Europe and our methods of measuring its results.

1.2 The EUCOB@N Information System

The EUCOB@N Information System is part of the threefold EMF coordination approach to avoid social and wage dumping and to manage the growing competition between locations/countries.

The other two pillars are the co-ordination of national collective bargaining policy by co-ordination rules and minimum standards and the interregional networks. The EUCOB@N Information System is a tool to improve and enhance the EMF co-ordination approach as well as a tool to strengthen national collective bargaining across Europe by a structured and permanent information exchange and consultation process.

The heart of the EUCOB@N Information System is the EUCOB@N Correspondent Network, which is organised within the EMF Secretariat in Brussels, under the section Collective Bargaining. This network consists of correspondents from the EMF affiliates. In order to be representative there has to be at least one correspondent per country. The means of communication is a structured and daily email exchange and the working language is English.

We currently have 48 correspondents in 26 European countries.

The current “products” of the EUCOB@N Information System are the:

- EUCOB@N Correspondent Network: Day-by-day information exchange
- EUCOB@N Day-by-Day Information Archive: The information exchange is stored and available by online access
- Annual EUCOB@N Report
- Periodical EUCOB@N Surveys on special issues
- The EUCOB@N Information Platform that delivers support in cases of industrial action
- Integration of the support for solidarity action.

In addition to this, EUCOB@N also operates in co-operation and coordination with other European industry federations (EIF). Work is currently under way to strengthen the co-operation between ETUF-TCL and EMCEF by designing and running a joint webpage designated solely for EUCOB@N activities. Co-operation and co-ordination also takes place with the ETUC, the ETUI-REHS and the IMF.

The new joint Eucob@n website is a shared effort between the European Industry Federations EFFAT, EMF, EMCEF and ETUF:TCL, aimed at strengthening the visibility and impact of trade union collective bargaining

at European level. Over the summer, the EMF website underwent thorough changes and the content was reorganized and expanded in volume. In the future, there will also be more focus on company agreements.

1.3 Participation in the EUCOB@N Report

Participation dropped compared to the 2008 edition of the EUCOB@N report (see table 1.1). Some major European countries are not covered in this year's report. A total of 31 unions (2008: 44) have answered the questionnaire, covering 17 countries (2008: 25). Altogether only 40% of the affiliated organisations answered this questionnaire.

2. European Collective Bargaining Basics

In this chapter an overview will be given of the developments in collective bargaining in the countries surveyed for the period summer 2008 to late summer 2009.

2.1 Collective Bargaining Calendar

Based on the information given in the questionnaires the following can be concluded as regards the collective bargaining calendar (see table 2.1).

- Collective bargaining has taken place in many European countries (Austria, Belgium, Bulgaria, Czech Republic, Croatia, Germany, France, Norway, Slovak Republic, Slovenia, Sweden and Turkey).
- Several countries are in the middle of negotiations or will start before the end of this year (Austria, Bulgaria, Czech Republic, Croatia, Denmark, Finland, Netherlands, Slovak Republic, Sweden and Slovenia).
- In France and the Czech Republic collective bargaining takes place mainly at company level. Therefore there will be an overview of these countries in a subsequent section of this report and in an extra section of the appendix.

2.2 Bargaining Levels

As can be seen from table 2.2, the tendency is still that bargaining takes place at national and/or at company level and almost no bargaining takes place at regional level (Germany and Austria being the exceptions that confirm the rule).

2.3 Coverage of Collective Agreements

The political relevance of the concluded collective agreements also depends on the scope of the labour relations they cover. As the overview in table 2.3 shows, there are at least three important facts that have to be taken into account when comparing the reports. Firstly, the different descriptions of the "branch" where the collective agreement is valid, secondly, the different "group of employees" (white- or blue-collar workers) and, finally, whether it is possible to declare the agreement generally binding by law in a given country.

3. Collective Agreements at Company Level in the Czech Republic and France

In some European countries collective bargaining takes place mainly at company level. In this year's EUCOBAN report this concerns the Czech Republic and France and this section thus contains information at company level from these countries.

3.1. Czech Republic

OS KOVO evaluates concluded company collective agreements (PKS) annually. 554 PKS had been evaluated up to June 30, 2009. The main results of this evaluation are given below, together with a description of the main areas of the PKS.

Wages and incomes

Wage provisions account for 90 % of PKS. A wage increase is stipulated in 62.3% of the PKS. Wage increases are negotiated either as a nominal or real average wage increase (38% of the PKSs) or as a tariff increase (23.7% of the PKSs). Negotiated increases would probably cover the increase in inflation, which is relatively low this year. We note a decrease in the number of PKS in which the wage increase is stipulated. This is a result of the decrease in the number of company orders due to the economic crisis, which has impacted the Czech metalworking industry very hard.

The following table shows that wages are higher in companies with trade unions than average wages in the metalworking industry:

Source	2006	2007	2008	Index 08/07
ČSÚ	19 875	21 541	23 158	107,5
VOM	20 608	22 495	24 080	107,0

*Comment: ČSÚ – data obtained from state statistical survey
VOM (Statement on wages from OS KOVO) – data, gathered
twice a year, obtained from OS KOVO statistics*

PKS usually contain provisions on **bonuses**. These are increases in bonuses whose minimum is guaranteed by the Labour Code (bonuses for overtime, holiday, night work, weekend work and hazardous work environment), as well as other bonuses stipulated at company level over and above the statutory regulations. Due to the fact that bonuses are calculated on the basis of average income, these are also increased step-by-step with the increase in wages. Bonuses stipulated as a fixed amount did not increase in 2009. OS KOVO has a **13th wage** (half-year premium) negotiated in 30.6 % of PKSs and a **14th wage** (annual premium) in 17% of PKSs. Their level differs but it is usually a percentage share of the monthly wage.

Working time (holiday, special leave)

Working time is stipulated in 96.6% of the evaluated PKSs. Average working time is 37.8 hours/week; but it is 37.5 hours in 58% of PKSs. The statutory holiday of up to 4 weeks has been extended by at least one week in 73.8 % of the PKSs.

In 65.2 % of the PKSs statutory time off for special leave has been extended (family funeral, own marriage and family marriage, birth of child, moving house, etc.).

Training

OS KOVO has paid a lot of attention recently to the area of training. The importance of this topic is highlighted in all activities for company representatives. Unfortunately, only 21.2 % of the evaluated PKSs contain provisions dealing with training issues.

Older employees

Only 3.3% of the PKSs contain programmes for older employees. These usually include dismissal protection, priority staff retraining, physiotherapy, transfer to an alternative and less demanding job, and the possibility of working shorter hours. Income compensation is not usual and if it exists then this is only for a limited period.

Equal Treatment

In 25% of PKSs there are more detailed provisions regarding equal treatment and anti-discrimination.

Other

In order to make the OS KOVO company organisation operations in companies easier, OS KOVO recommends that it should be stipulated in the PKS that membership fees be deducted directly from wages by the employer, who then sends the fees to the company trade union's account. 91.5 % of PKS contain this provision.

3.1 France (CFDT-FGMM, CFE-CGC, CFTC, FOM and FTM-CGT)

In France, generally all collective agreements (at national, regional or company level) are concluded for an indefinite period (with rare exceptions). An agreement is valid from the date of signature or from the effective date to the moment when it is terminated or modified. For wages, which are negotiated at company level, there is an obligation to negotiate every year. So when an agreement is signed, it is valid for one year.

The end of 2008 and the first-half year 2009 were marked by a series of inter-trade union initiatives with joint demonstrations, calling for measures by the public authorities and employers to help face the crisis and problems relating to employment and purchasing power.

First results:

- **Creation of a social fund for intervention**
- **Short-time working / temporary lay-off**

Concerning company negotiation on wages, this reflects the level of the increase of the French minimum wage (1.3 % on 1.07.2009). In many companies the increases are lower than 1%, or just at the level of the inflation rate (0.7 %). The lack of wage increase often means that all the unions refused to sign a wage agreement for 2009 in many companies. There are some exceptions, directly linked to the level of activity, i.e. increases are from 2% to 3% within the EADS group.

National branch agreement on 7 May 2009 on "Urgent measures for employment in the metal industry"

Main measures:

- **Compensation for short-time working (temporary lay-off) at the level of 75% of the gross wage** is recognized as a means to maintain employment contracts.
- **The agreement favours vocational training** with the coverage by OPCAİM (branch training fund) of part of the payments assured by a company.
- **The employment of young people is promoted** so as to prepare for recovery and to accompany their insertion in industrial professions by taking into account the less-qualified people or those not having adapted / required qualifications.
- **The lending of staff** is promoted so as to avoid the consequences of a short time working / temporary lay-off measure or dismissal on economic grounds.
- **Regional committees on employment and vocational training will be created.**

National agreement on June 2009 as an amendment to the national branch agreement on equal opportunities (19.06.2007)

One of the major trade union demands concerned discrepancies in respect of wages or careers. Finally, the only concrete result consists in a recommendation to negotiate a specific budget at company level.

4. European Collective Bargaining – Demands and Results

We present the results of the agreements as well as the trade union demands towards the employers' organisations in order to cover the whole process of the collective bargaining rounds in Europe. This leads to a better overview of the situation in each country in order to identify general trends in Europe.

The total number of negotiations in the covered period: 16

The demands and the results reached have been clearly influenced by the crisis. In an economic situation in which industrial production is dropping massively, the need for job security becomes more and more important.

4.1 Overview of Trade Union Demands

4.1.1 Wages

The question of wages was addressed in a total of 16 bargaining rounds. The overwhelming goal in these rounds can be seen as maintaining purchasing power in these times of economic crisis. Goals of wage increases of up to 9% were formulated (see table 4.1)

4.1.2 Demand Working Time

Demands in respect of working time were addressed in 6 bargaining rounds. In all reported cases the demands were about reduction of working time in order to keep the workers in their jobs (see table 4.2).

4.1.3 Demand Training

Demands were addressed in three cases (see table 4.3).

4.1.4 Demand Old Age

This issue was addressed in three rounds, mostly in order to enable early retirement (see table 4.4).

4.1.5 Equal opportunities

This was only addressed in Austria in order to arrive at a solution in respect of parental leave (see table 4.5).

4.1.6 Demand Precarious Work

This issue was addressed in four collective bargaining rounds. There was a demand for equal treatment for all workers in all cases (see table 4.6).

4.1.7 Other Items

Here you can find demands in respect of mitigating the threats of the crisis as well as demands in order to support public transport in Austria (see table 4.7).

As stated above, the demands in the period covered were dominated by the economic crisis.

4.2 Collective Bargaining results in Europe

The current financial and general economic crisis has started to spill over into the negotiation rounds.

4.2.1 Results: Wages

The results achieved by the various member organisations in the different countries can be seen in table 4.8. Wage increases were achieved in all cases.

4.2.2 Results: Working time

Several agreements were reached on this issue (see table 4.9). All of them dealt with the possibility of a temporary decrease in working time.

4.2.3 Results: Training

Three new agreements can be reported in the aftermath of the First Common Demand of the EMF (see table 4.10).

4.2.4 Results: Older Workers

Some results were reached regarding older workers – mostly regarding early retirement (see table 4.11).

4.2.5 Results: Equal Treatment

Not a single agreement was reached in this field.

4.2.6 Results: Precarious Work

There were quite a number of results achieved (see table 4.13). In some cases equal treatment was successfully concluded and in one case special provisions were achieved regarding payments for young workers.

4.2.7 Results: Other Issues

We have not attempted to summarise the results of these issues since the results in this area are very broad and diversified. Please find the results listed in table 4.14.

5 Evaluation of the EMF Co-ordination Rule

The EMF Co-ordination Rule was proposed by the 3rd Collective Bargaining Conference in 1998 and later confirmed by the EMF Executive Committee and the EMF Congress in 1999. It is an important part of the overall EMF policy project: to strengthen the coordination of collective bargaining policies and provide an answer to the possible downward spiral of cost-competitive wage bargaining.

We would just like to recall that the EMF co-ordination rule states "that the main reference point for the EMF affiliates must be to maintain purchasing power and achieve a balanced participation in productivity increases". Its implementation is part of the sovereignty of the individual unions, and among other elements mentions income redistribution, improved wages and salaries, job-creation, including training and reduced working time, new forms of work organisation, fostering equal opportunities and early retirement. The co-ordination rule should be interpreted to include the "whole collective bargaining package" – and not only the wage elements.

We maintain that:

1. The bargaining figure to enter into the comparison is at all times the nationally reported figure for the whole collective bargaining package. In the report we call it "the value of the whole agreement" (VOWA).
2. VOWA is then compared with the inflation and productivity figures.
3. To ensure the European comparability of the figures, the national bargaining results are then compared with the Eurostat / AMECO figures for consumer price inflation for the entire economy and figures for productivity growth. It should be noted that the harmonised statistics used for this report can differ from the data obtained from national statistical sources (i.e. this is the case regarding the inflation figures for some countries).

This EUCOB@N report intends to continue the good tradition of the "economic" evaluation of the national collective agreements in the light of the EMF co-ordination rule. We know that an economic type of evaluation such as this can be only one part of an evaluation of the EMF co-ordination rule because it focuses only on the collective bargaining "result" side and is not able to include the negotiation "processes" and the role of the EMF co-ordination rule in that respect.

But it has always been clear that the EMF co-ordination rule is a "policy rule" and not just a mathematic formula.

5.1 The Value of the Whole Agreement (VOWA)

The VOWA values in tables 5.1 and 5.2 are based entirely on the own reporting from member organisations participating in this year's EUCOB@N report. Not all the reports submitted contain information on the VOWA value and/or the value of its different components. The only exception is the wage component, where many organisations are reporting, but the VOWA is more than just wages.

5.2 The Balance Sheet of VOWA in the light of the Coordination Rule

The next step we have to deal with is the evaluation of the concluded agreements in the light of the EMF co-ordination rule. The EMF coordination rule states that the main reference points should be "maintaining purchasing power" and "achieving a balanced participation in productivity increases".

Thus the first step is to compare the VOWA with the inflation rates. In order to be in line with the EMF co-ordination rule the VOWA has to be at least above the inflation rate.

Secondly, we have to compare the remaining value with labour productivity. The EMF co-ordination rule states that based on the sovereignty of the individual unions it is up to them to decide how the leeway of bargaining is taken up. Different elements are mentioned: income redistribution, improved wages and salaries, job-creation, including training and reduced working time, new forms of work organisation, fostering equal opportunities and early retirement.

We know that the trade unions have different interpretations as to what "balanced participation" means. What we do, however, is to compare the complete value of the productivity development with the VOWA. We leave the interpretation, i.e. as to whether they have reached "balanced" participation or not, to the trade unions, in accordance with their sovereignty.

5.2.1 Balance sheet 2008 and 2009

For 2008, inflation has caused OIR values to be negative in some member organisations, but the majority of the agreements valid in 2008 still managed to give the workers a real wage increase (the OIR values range between -5.29 and +28.06 as can be seen from table 5.3). The BPPG value lies between -6.5 and +25.36.

Price development sunk considerably in 2009 compared to 2008. The development of productivity is also significantly lower than 2008. This development leads to a more unreliable scale for measuring the real development of the wage coordination rule. The wage formula (nominal

wage increase = inflation + productivity) has limited relevance in such extraordinary times as the present crisis.

5.3 Mid-term Evaluation of Collective Agreements

There are many reasons for comparing the trade union collective agreement outcome figures not just on a single year basis but over the long term. Here is just one example: most of the agreements are valid for more than one year, as seen in section 2.1. Traditionally, wage increases are higher at the beginning of the period of validity of the agreement. So, in a 2-year agreement, they could for example lie above the EMF co-ordination rule in the first year and below the sum of inflation and productivity increase in the second year. They could however attain the "goal" of the EMF co-ordination rule on average.

5.3.1 Year-by-Year Analysis 2000-2009

As can be seen from table 5.5 most of the countries are able to provide positive OIR values over time. For the remaining countries the negative OIR value occurs in 2009 only, is still based on expected figures for inflation and is of course affected by the developments in inflation that affect all long-term agreements signed before 2009.

Regarding the BPPG several countries (Belgium, Croatia, Denmark, Germany, Norway and Switzerland) have average BPPG values above zero, while Austria, Cyprus, Czech Republic, Finland, Greece, Hungary, Ireland, Italy, Malta, the Netherlands, Slovak Republic, Slovenia, Sweden, Turkey and the UK have average BPPG values below zero (see table 5.6).

6. Conclusions

The EMF has pointed out on several occasions that it is important not to reduce the co-ordination approach to rules and formulas, and insist instead on a political approach. The wage coordination rule and the ways to measure the achievement of its targets met with only limited success in the past year. This should improve as soon as the development of productivity and the development of inflation shift from the extreme decrease they encountered during the crisis. As a political instrument, being able to compare the fair share of workers' wages and even the possibility to redistribute income is more important than ever.

In the crisis (if an increase of wages is not possible), the main goals have to be to maintain purchasing power and job security. This could lead to contradictory approaches in collective bargaining among our affiliates in the future. So far, no signs of wage dumping have been recorded.

Higher participation from the affiliates is necessary to be able to make this report also in the future - otherwise the results will be very limited.

7. Economic chapter of the EMF's Eucoban Report 2009

By Béla Galgóczi and Vera Glassner

7.1 Introduction

This chapter begins with an overview of recent macroeconomic trends in Europe, before focusing on developments in the broader metal sector in Europe, with regard to output, employment, labour costs and productivity. The aim of the chapter is to describe the economic environment of collective bargaining in the European metal sector. By showing the main macroeconomic trends, followed by developments in the different manufacturing sub-branches subsumed under the broader metal sector (that is, automotive, ICT, machinery, electrical equipment, basic and fabricated metal products), comparing their relative performance to developments at the macroeconomic level, we are able to draw conclusions about the collective bargaining climate in the European metal industry.

The analysis is based on various sources of information, including Eurostat, European Commission publications and databases such as AMECO and Eurostat Short-term Business Statistics. Data generally refer to developments in Europe as a whole (EU-27, EU-16); processes in individual Member States will sometimes be considered, however, when they provide a specific lesson or have consequences for Europe. We focus on the most recent trends (depending on the availability of data and information), although longer time series are occasionally taken into account to underline longer-term (structural) processes or if they provide necessary background for the interpretation of current developments.

Section 1 presents an account of macroeconomic developments in Europe, focusing on trends in manufacturing and its sub-branches.

Section 2 outlines the implications of these economic trends for the collective bargaining climate in the corresponding sectors/sub-sectors.

7.2 Macroeconomic trends and outlook in Europe: the depth of the crisis – has the bottom been reached?

Background of the crisis

The origins of the current world economic crisis lie in the global financial markets.

The basic mechanism enabling the financial and banking crisis to affect the real economy was the failure of the banks – due to their financial losses and the evaporation of trust – to perform their basic function of

financing the economy. Enterprises became unable to finance their daily operations; investments were suddenly blocked; and consumption collapsed, primarily in market segments in which credit financing had played a crucial role (construction in the United States and in a number of European countries, automobiles in the United States and Europe in general). Consumption subsequently became depressed in other market segments, too.

All this led to a sudden demand shock, affecting exports, investment goods and private consumption. The fundamentals underlying the spread of the crisis, however, were chronic imbalances in the world economy, in the Eurozone and in the national economies of many Member States.

The sharp economic downturn that has engulfed European economies with increasing speed since summer 2008 has resulted in severe cuts in production and output, and the jobs of millions of European workers were suddenly at stake.

In the following sections, we provide an overview of macroeconomic developments, based on such indicators as GDP growth in the EU and its Member States (Figures 1 and 2), unemployment (Figure 3) and the development of productivity in the most recent period (Figure 4). We then turn our attention to developments in manufacturing (Figure 5) and its metal-related sub-branches, specifically output, new orders (Figures 6 and 7) and employment (Figure 8).

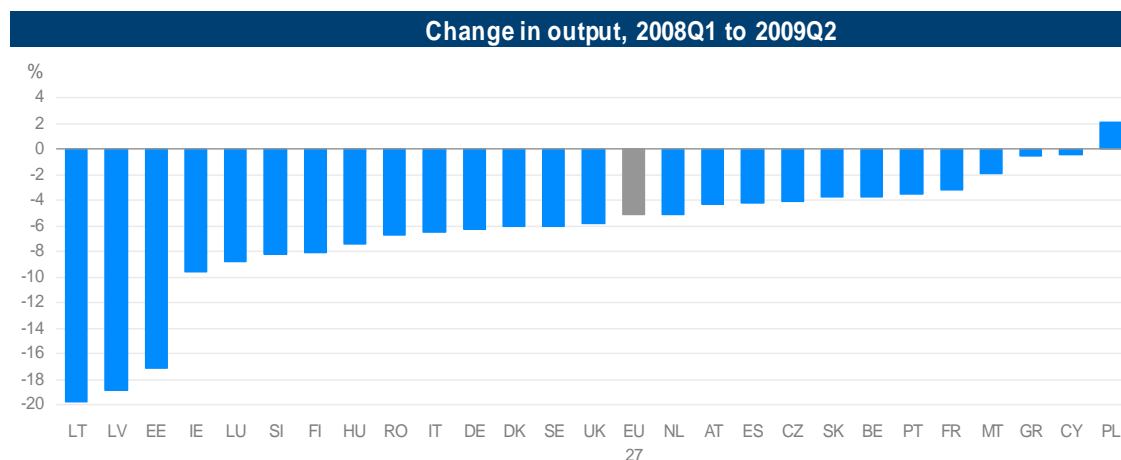
There were some vague signs by mid-2009 that the bottom of the downturn had, perhaps, been reached. We will discuss preliminary developments and weigh other risk factors to see whether the crisis has, indeed, bottomed out.

Macroeconomic processes in Europe

After dynamic growth in 2007 (2.9% for the EU-27), Europe plunged into recession from the first quarter of 2008. The cumulative output loss in the period from the first quarter of 2008 to the second quarter of 2009 is shown in Figure 1 based on Eurostat data (Eurostat 2009). This shows the full dimension of the downturn - with a GDP fall of 5.2% for the EU-27. As from the third quarter of 2009 Europe started to climb out of the recession.

The Baltic countries have experienced the sharpest falls in GDP (Latvia - 18.8%, Lithuania -19.8%) with Ireland (-9.6%) and Germany (-6.3%) also hit hard. Only Poland escaped the recession with a growth rate of above 2% over the period.

Figure 1



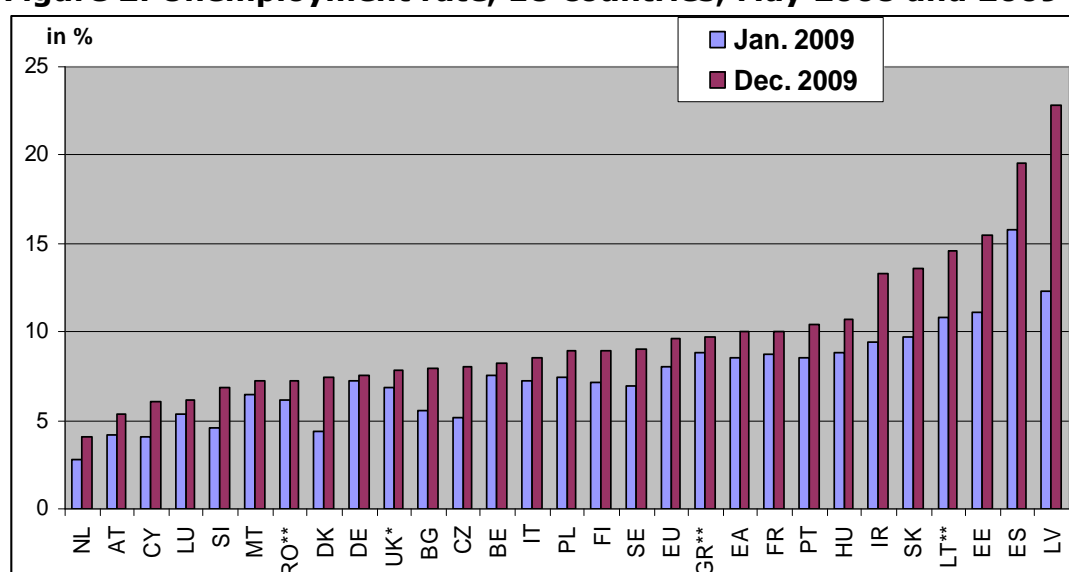
Data source: Eurostat.

No regional pattern in countries that were most affected by the crisis can be identified. A clear risk factor was the incidence of an asset and credit bubble before the crisis, as well as high exposure to exports and external financing. A number of countries such as the Baltic states and Ireland were affected in many ways.

Labour market impacts at the macro level

Unemployment rates for the year 2009 (January and December) underscore the dramatic impact of the output crisis on national labour markets (Figure 2).

Figure 2: Unemployment rate, EU countries, May 2008 and 2009



Source: European Commission (2009).

Massive labour shedding in the Baltic states in particular has resulted in a dramatic surge in unemployment rates in the course of the year 2009, namely from around 12% to 22.8% in Latvia, from around 11% to 15.5% in Estonia and from 10.8% to 14.6% in Lithuania. In these countries, unemployment levels were still below the EU-27 average in 2008. In Latvia, the unemployment rate shot up by above 10 percentage points over the period. The increase in unemployment was also considerable in Estonia, Lithuania, Spain, Slovakia and Ireland (around 4 percentage points). In Hungary, Portugal and France unemployment increased to 10.7%, 10.4% and 10%, respectively, exceeding the EU-27 average (i.e. 10%). In the Czech Republic, Slovenia and Sweden, unemployment rates also increased to a considerable extent in the period under investigation (by 2.8, 2.2 and 2.1 percentage points respectively). In the Netherlands and Austria, unemployment remained at comparably low levels, reaching 4.1% and 5.4%, respectively. In Germany and Belgium the unemployment increase between January and December 2009 was comparably low (i.e. + 0.3, + 0.7 percentage points, respectively), reaching 7.5% and 8.2%, respectively.

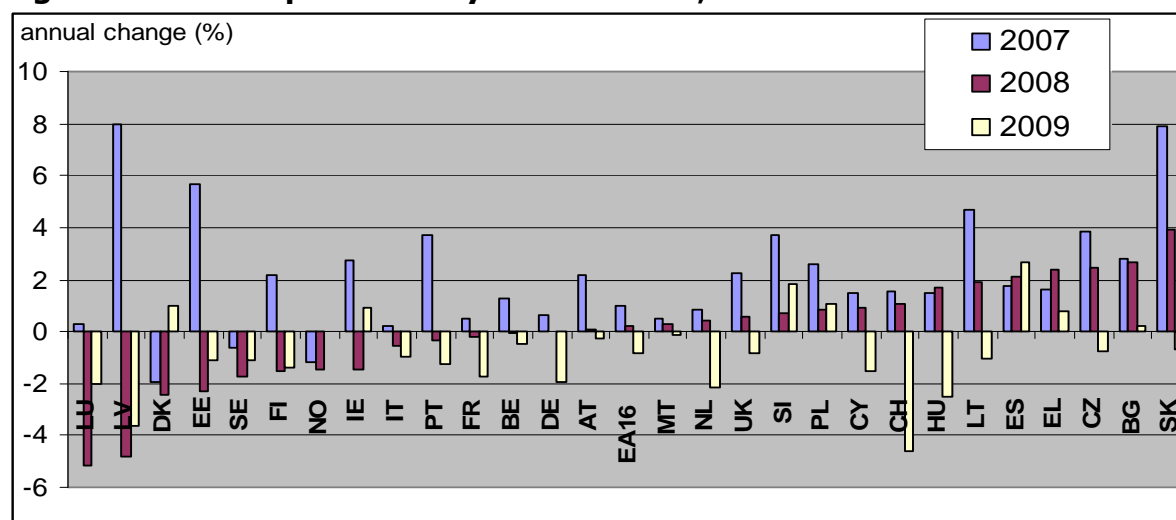
Germany and Spain represent two extreme cases with regard to the impact of the economic downturn on the labour market. While a 3% drop in GDP measured in the first quarter of 2009 resulted in a surge of unemployment in Spain by almost 4 percentage points in the course of the year 2009 (compared with an average increase of 1.5 percentage points in the Euro Area), a substantially deeper recession in Germany, with a 6.9% drop in GDP in the first quarter of 2009, had almost no impact on the unemployment level. It is important to note that declining labour productivity (measured in terms of GDP/worker) in recession means that less labour is being shed than the contraction of the economy might otherwise lead one to expect. In Germany, shortened working time schemes are absorbing much of the economic shockwaves on the labour market.

Labour productivity at the macro level

In line with the steep decline in GDP in the EU-27, labour productivity² in terms of GDP per worked hour decreased in a large number of countries in 2008 and – according to the forecast, increasingly so – in 2009 (see Figure 3).

² Measured as GDP at market prices (2000) per hour worked.

Figure 3: Labour productivity in the EU-27,* 2007–2009**



Notes:

* No information for Romania.

** Estimate.

Source: AMECO, July 2009.

The sharpest annual decline was estimated to have occurred in Luxembourg in 2008 (above -5%), followed by steep slumps in labour productivity in north-east Europe, namely in Latvia (-4.8%), Denmark (-2.5%), Estonia (-2.3%), Sweden (-1.8%), Finland (-1.5%), Norway (-1.4%) and Ireland (-1.4%). In some of the CEE countries, labour productivity (annual average) developed positively for 2008, that is, in Slovakia, Bulgaria, the Czech Republic and Hungary. Likewise, in some of the southern European countries labour productivity continued to grow in 2008, even by higher levels than in the previous year (above +2% in Greece and Spain).

Estimates for annual growth in labour productivity in 2009 – which should be regarded with caution, due to their preliminary nature – show an even steeper decline in productivity. For the Eurozone, a 0.9% fall in labour productivity is foreseen in 2009, with expected decreases of around 2% in the Netherlands and Germany and of 1.8% in France. The largest slumps in labour productivity are expected in Latvia (-3.6%) and Hungary (-2.5%).

On the other hand, labour productivity is expected to grow further in 2009 in Spain, due to the significant reduction in the active labour force, indicating the absence of labour hoarding by employers under recession.

Interestingly, in the Baltic states, whose economies are near collapse, despite a huge increase in unemployment, productivity was also in steep decline. This indicates that less labour has been shed as economies contract, notwithstanding the existence of fully flexible and unprotected labour markets. Without a specific labour market policy scheme to absorb

the shockwaves of the recession for employment, labour productivity – also in terms of GDP/hour – was shrinking, indicating labour hoarding. These phenomena would need further investigation in light of more reliable and up-to-date data.

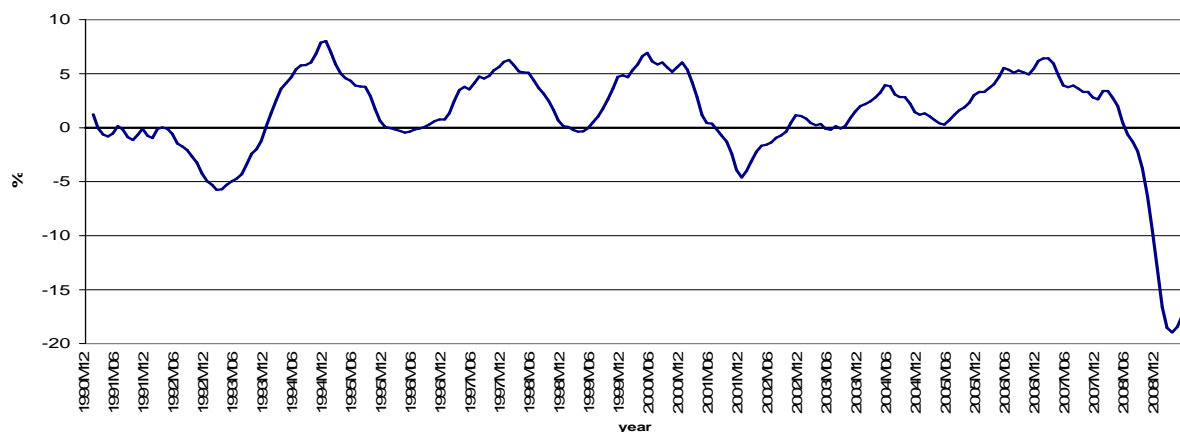
7.3 Main trends in the European metalworking sectors against the background of developments in manufacturing and industry overall

In this section, major trends are considered in the broader metal sector, as distinct from those in total industry and total manufacturing. Important indicators are presented, such as manufacturing output, an index for measuring the trend in new industry orders, unemployment rates, labour costs and labour productivity in order to demonstrate recent developments in the European metal-related manufacturing sectors. Due to the high degree of 'vertical integration' of the metal-related branches of manufacturing within the global value chain, global shockwaves induced by the credit crunch and the subsequent demand shock have been transmitted rapidly along the whole supply chain.

Manufacturing output

Looking at growth rates in manufacturing production, the output crisis is clearly apparent. As depicted in Figure 4, the long-term trend in EU-27 manufacturing output shows a regular cyclical variation throughout the 1990s and between 2000 and 2007. However, from May 2008 onwards, a steep and unprecedented slump can be observed in manufacturing output (by around 18%) in the last quarters of 2008. There were signs of a slight upturn in early 2009, although it would be too early to identify this as the bottom of the downward output trend, with prospects of sustainable growth.

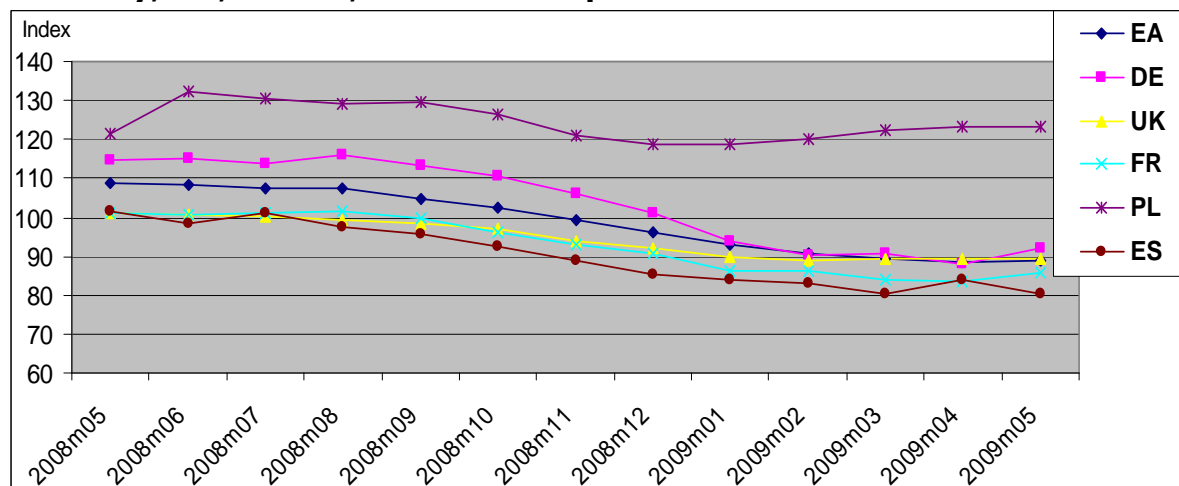
Figure 4: EU-27 manufacturing production growth rate 1990–2008 (% change in comparison to the corresponding period the previous year)



Source: European Commission (2009b).

Figure 5 shows the development of manufacturing output over the past year in the Eurozone and in a number of Member States, taking 2005 as basis year (100%).

Figure 5: The development of manufacturing output in the euro area, Germany, UK, France, Poland and Spain



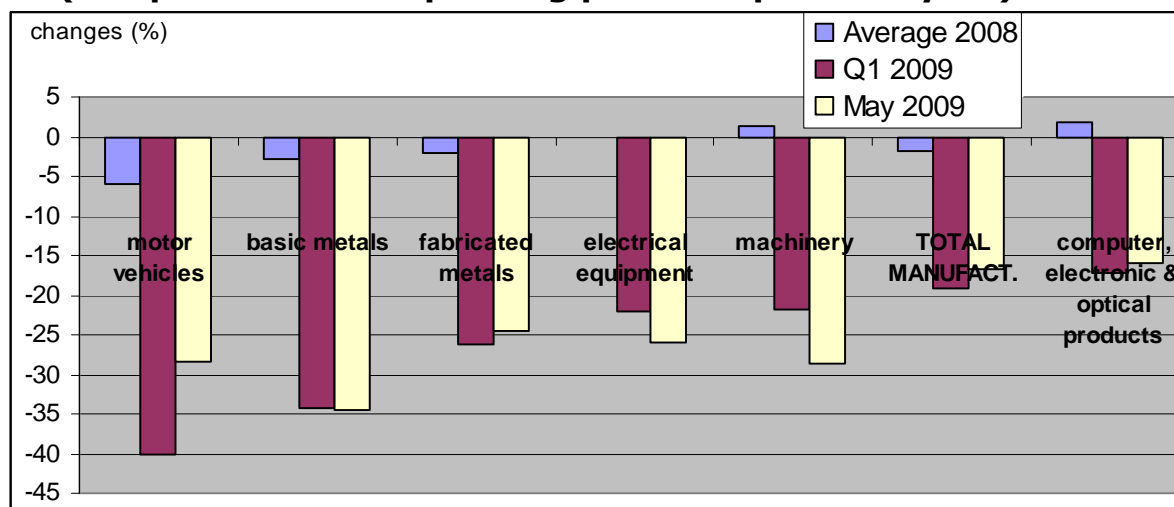
Note: Basis year: manufacturing (NACE Rev. 2) – Index (2005=100) and percentage changes.
Source: Eurostat (2009a).

The figure shows again the 18% downturn in output in the Eurozone from May 2008 to May 2009, but puts it into a medium-term perspective (with 2005 as basis year) and indicates national developments in a number of Member States. Spain shows a similar downturn to the Eurozone average, but the fall in manufacturing output was smaller than the Eurozone average in France and the UK and greater in Germany. Poland stands out as having experienced no downturn in the last year. A longer-term perspective also shows that Spain, France and the UK did not show any real growth in manufacturing output in the pre-crisis period (2005–2008 first half), while Germany had a 50% higher increase in manufacturing output than the Eurozone average (10%) in that period, while Poland substantially outperformed the whole group in the pre-crisis period.

Output and new orders in total manufacturing and its sub-sectors

According to the latest Eurostat data, total **industrial production** in the EU shrank by **15.9%** in May 2009, compared to the same month one year previously, with **manufacturing output** decreasing by **16.8%** over the same period. Average growth in manufacturing output in the **first quarter** of 2009 indicates an even deeper slump, at 19.1%, compared to the same period of the previous year (see Figure 6).

Figure 6: Output growth in various industrial branches in the EU-27 (compared to corresponding period of previous year)



Source: European Commission (2009c).

The strong vertical integration of industries, such as the car-component supply sector, basic metals and machinery in sectors which have been most strongly hit by the crisis – namely the automotive and the construction industries – in the global production chain has led to a ‘chain reaction’, in which almost all industrial sectors have experienced a steep and sudden slump in orders.

Output contracted more steeply in basic metals (-34.6%) and in the automotive industry (-28.5%) in May 2009, compared to the same month one year earlier (see Figure 6). In the car industry, the sharpest decline in output was observed in the first quarter of 2009, at 40.1%.

New car sales in Europe fell by 11% in the first half of 2009, according to Bloomberg. The relatively moderate drop in the EU was mostly due to scrappage schemes. This was also the case in China and Brazil, where the number of new cars sold grew by 25% and 3.5%, respectively, in the same period. The United States, on the other hand, suffered a 35% slump in new car sales. European manufacturers – mostly volume producers – profited from the dynamic Chinese and Brazilian car markets (VW booked 20% sales growth in China and Fiat profited mostly from an increase in car sales in Brazil). Revenue from motor vehicle sales fell even more than the number of car sales, but also more than total revenues of car manufacturers (change 1H 2009/ 1H 2008), ranging from a fall of 12% in the case of Volkswagen to a 28% fall at Daimler (Renault and Fiat both experienced falls of 24%, while BMW and PSA experienced 20% falls).

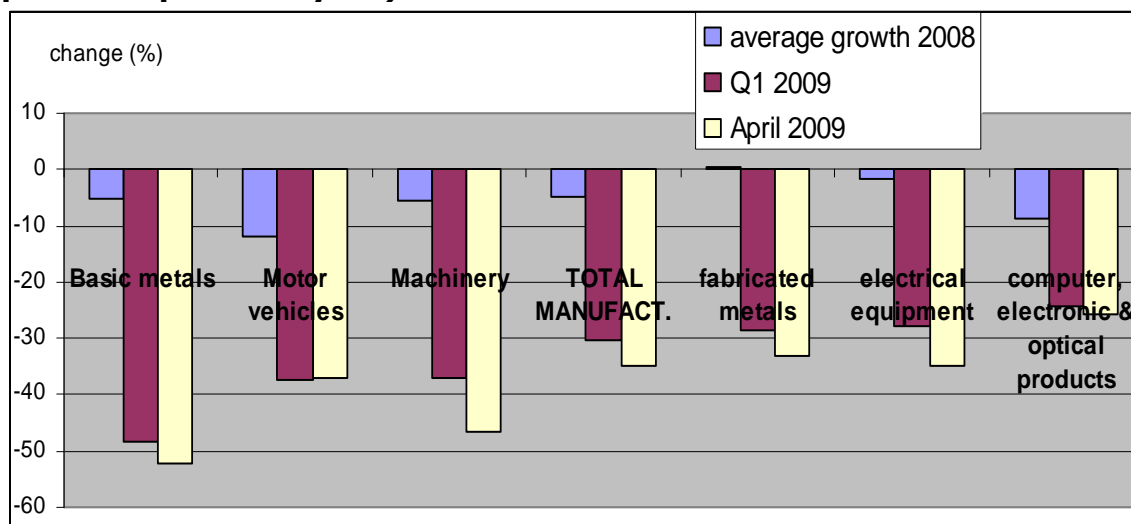
Data for May 2009 provided some relief in the European car industry, however, with a fall in output of 28.5% (see Figure 6). But rather than implying that the worst is already over, it must be assumed that

destocking of inventories or similar one-off effects played a role in the more favourable May figures.

Some of the national data seem to support this assumption. While German industrial output showed a very favourable 4.3% growth in May, compared to the previous month, in June industrial output shrank again, albeit at a more moderate level than previously (0.1%) compared to the previous month (Handelsblatt, 2009)..

Looking at **trends in industrial orders**, a decrease of 12% was observed in the automotive industry and above 5% in the metal industry, compared to a decrease in orders in total manufacturing of 4.8% in 2008 (Figure 7).

Figure 7: Industry new orders, EU-27 (compared to corresponding period of previous year)



Source: European Commission (2009b).

In the first quarter of 2009, a sudden and steep contraction of orders was recorded, especially in the cyclically sensitive and vertically integrated manufacturing sectors. Industrial orders in basic metals plummeted by around 48% compared to the first quarter of 2008, and by 37% in the car industry (compared to a decrease in orders in total manufacturing of around 30%).

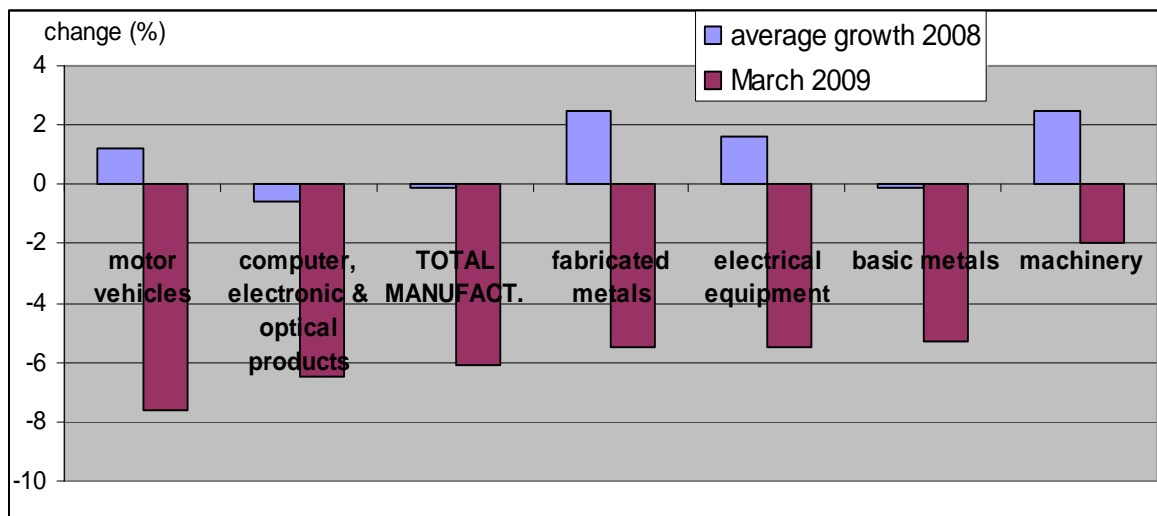
The latest national data from Germany show an increase in new orders in total industry of 4.5% in both May and June compared to the previous month, giving grounds for hope that the deepest point of the recession might have been passed (Handelsblatt, 2009).

Development of employment at branch level

Figure 8 provides an overview of employment growth in total manufacturing and its most important sub-sectors, including motor vehicles and metals.

Looking at average annual employment data for 2008, the economic crisis had not yet hit the car industry full on in the previous year, in which increases in employment of 1.2% had been observed. Considering employment in March 2009 compared to that in the same month one year previously, the steepest decline in employment can be observed in the automotive industry (-7.6%), followed by electronic products, in which employment shrank by -6.5%. Both of these employment reductions exceeded that in the manufacturing sector as a whole (6.1%). Employment shrank somewhat less than the average of total manufacturing in the basic metals sector (by 5.3%) and in machinery (by 2%) between March 2008 and March 2009.

Figure 8: Employment growth in total manufacturing and other relevant sectors (compared to corresponding period of previous year)



Source: European Commission (2009b).

Productivity development in manufacturing industry

Although no explicit data are available yet on productivity development in manufacturing and its sub-branches for the most recent period, it is apparent that productivity in these sectors fell dramatically as a result of the crisis.

From Figures 6 and 8, it is clear that employment in manufacturing and in its sub-branches fell much less than output, with the difference manifesting itself as a fall in productivity (in terms of output/worker). For

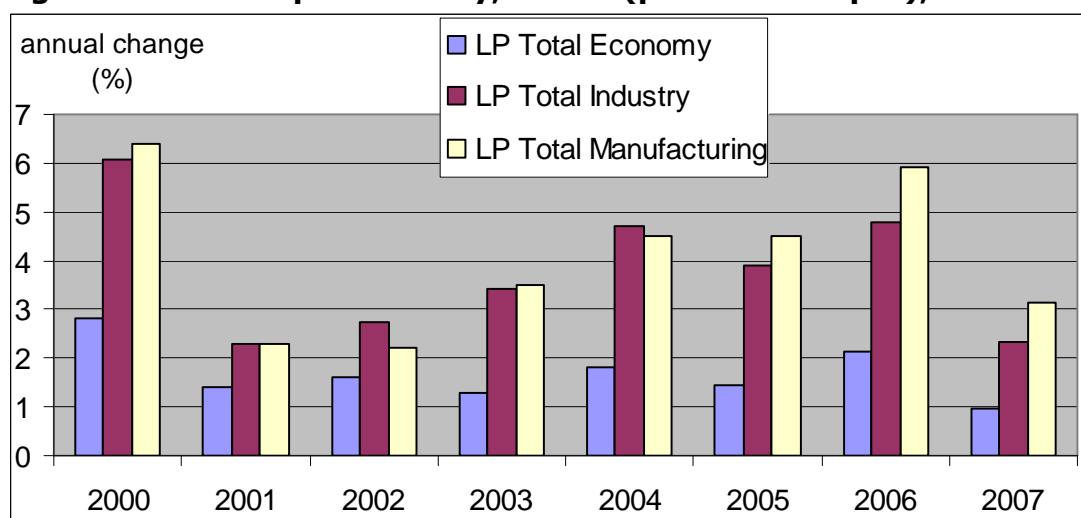
total manufacturing, this works out at around 13% in the year March 2008–March 2009.

These are exceptional and extraordinary times, which do not permit the drawing of clear-cut conclusions. The results can be considered favourable for employment, as they indicate that dismissals did not automatically follow the sudden fall in output. Employment was saved either through short-time working schemes, in which employees are kept on but work fewer hours, or through labour hoarding, in which employees, although in full-time employment, produce less in response to lower demand.

The fall in productivity in these branches appears to be deeper than that in the economy as a whole at the time of the crisis. The metal sector branches are mostly cyclical in nature, as a consequence of which they suffered a more serious downturn than the economy as a whole. Moreover, employees in these industries tend to be more organized and protected, and short-time working schemes are more characteristic here than in other segments of the economy (such as services).

Longer term trends, however, show that manufacturing productivity is outperforming both industrial productivity and productivity of the economy as a whole, as Figure 9 indicates.

Figure 9 : Labour productivity, EU-27 (per labour input), 2000–2007



Source: OECD (2009).

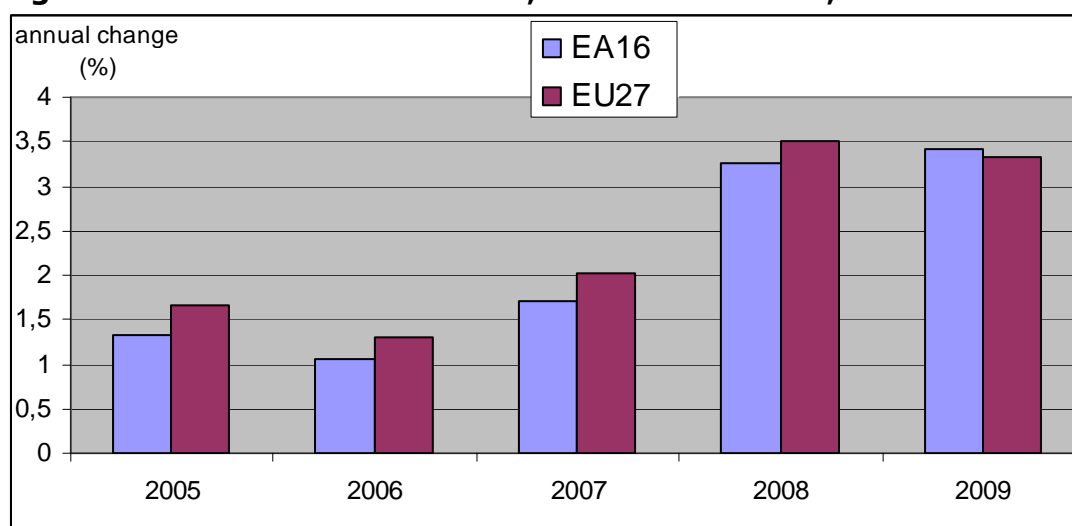
Chain indices for the period 1999–2007 show that, while productivity in the EU-27 grew by 14% (2007 on the basis of 1999), productivity in industry grew by 34% and in manufacturing by 37% in the same period. What we are seeing today is an ‘implosion’ of manufacturing productivity in tandem with the crisis, due to which a substantial part of the accumulated productivity gains of manufacturing compared to the economy as a whole will be taken back, but not eaten up entirely.

7.4 Wage formula and collective bargaining against the background of the economic crisis

The wage formula (nominal wage increase = inflation + productivity) has limited relevance in such extraordinary times as the present crisis. It is, nevertheless, important to assemble the components of the formula and examine current trends.

Annual increases in nominal labour costs (a measure of gross nominal wage increases) showed a slightly upward trend from 2005 to 2008. While in 2005, nominal labour costs grew by 1.33% in the Eurozone (1.66% in the EU-27), according to a recent forecast by the Commission, labour costs in the Eurozone are likely to grow by 3.41% (and by 3.33% in the EU-27) in 2009, as Figure 10 shows.

Figure 10: Nominal labour costs, EU-27 and EA-16, 2005–2009*



Note: * forecast.
Source: AMECO (2009).

After the 2008 peak (3.25% in the Eurozone, 3.7% in the EU-27), inflation fell substantially, bringing the Eurozone near to deflation in 2009 (according to AMECO data, estimated annual inflation growth rates are 0.44% for the Eurozone and 0.88% for the EU-27³). The ECB forecast for inflation in 2010 remained at 1.3%, according to its August monthly report, unchanged compared to the previous forecast. In the period 2005–2007, inflation moved within a narrow range of 2.2% and 2.6% in both the Eurozone and the EU-27, as shown in Figure 12.

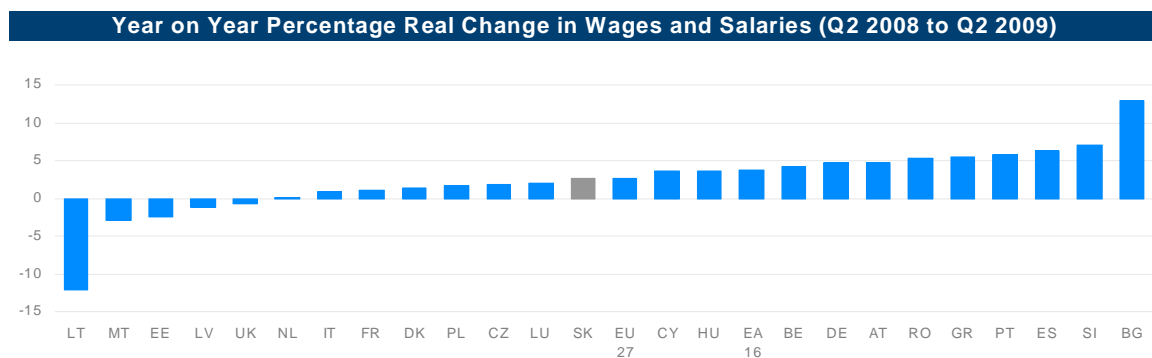
The above figures on changes in nominal labour costs (nominal wages) and inflation reveal that real wages suffered a decrease in 2005–2007 (between 0.5 and 1 per cent) and were close to stagnation in 2008, in

³ Recent data indicate a de facto annual inflation rate of -0.2 % for the Eurozone and 0.6% for the EU in August 2009 (Eurostat 2009c).

both the Eurozone and the EU-27. The year 2009, however, seems to present a totally different picture, with a forecast of real wage gains at around 3%, mostly due to the sudden decrease in inflation, due to the effects of the crisis. We need to bear in mind however that 2009 is a particular year and the spring forecast of the Commission for nominal labour costs would not materialize. Even if wage agreements in effect contain correspondingly high wage increases, the effective pay of employees for the whole year would certainly fall shorter than what had been forecasted earlier for 2009. Factors behind this are the effects of shortened working time schemes, lower overtime work and in a number of cases explicit wage cuts.

Eurostat figures from November 2009 (ETUI, 2010) also support this trend but indicate huge differences by countries as figure 11 shows.

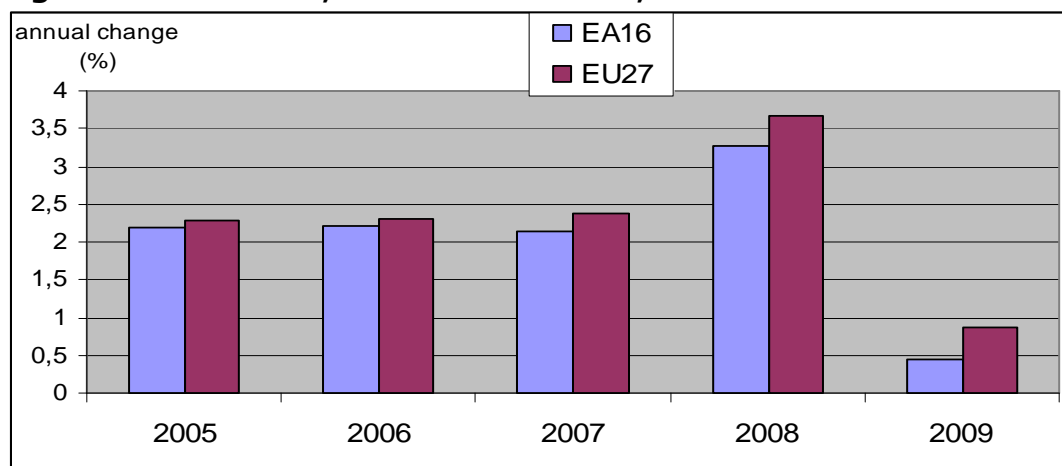
Figure 11:



Source: Eurostat Labour Cost Index and Harmonized Index of Consumer Prices. Note: Seasonally adjusted change in real wages and salaries, 2008Q2 to 2009Q2, except Netherlands, Luxembourg and Italy 2008Q1 to 2009Q1. (NACE rev2 sectors B-N). Data unavailable for IE, SE and FI

While the real wage increase of 3.76% in the Eurozone and 2.66% in the EU27 in the one year period up to the first half of 2009 broadly correspond with the previously mentioned forecast for 2009, individual countries (especially the Baltic states) show dramatic wage decreases. The Autumn Forecast of the leading German research institutes (Handelsblatt, 2009) expects an average decrease of nominal wages for Germany by 0.4% for the year 2009 precisely due to the above mentioned factors. Similar trends can be expected in other member states, as well.

Figure 12: Inflation,^a EU-27 and EA-16, 2005–2009*



Notes:

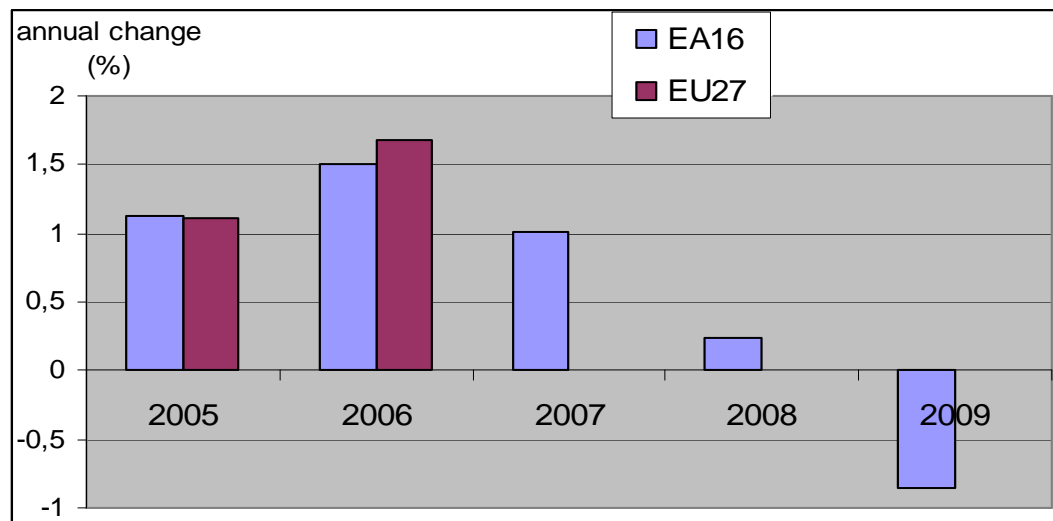
^a Harmonised consumer price index.

* Forecast.

Source: AMECO (2009).

Labour productivity (in terms of GDP/hours worked) grew by between 1% and 1.5% in 2005–2007 and fell to 0.24% in 2008 (Figure 13). The forecast for 2009 reckons on a decrease in productivity of 0.86% in the Eurozone.

Figure 13 Labour productivity,^a EU-27 and EA-16, 2005–2009*



Notes:

^a GDP at market prices (2000), per hour worked.

* Forecast.

Source: AMECO (2009).

Combining the effects of inflation and productivity, the period 2005–2008 shows a clear wage moderation trend, with real wage decreases at times of productivity growth. The year 2009, however, is expected to show a different picture, with most probably stagnating wages and a decrease of productivity.

Although no specific figures are available on manufacturing productivity for 2008 and 2009, it can be assumed that the productivity decrease in manufacturing exceeds that of the overall economy (due to a greater downturn and a lower level of dismissals as a result of short-time working schemes, mostly in industry and only to a lesser extent in other economic sectors). As Figures 6 and 8 show, while manufacturing output in the first quarter of 2009 fell by 19.1%, employment decreased by 6%. This represents a productivity decrease (measured by output per worker) of around 13%. In the automobile sector, the fall in productivity (output/worker) was over 30% in the first quarter of 2009.

7.5 Conclusions

We have presented the main macroeconomic developments in the European economy, together with the major trends in the European metalworking industries for the most recent period for which data was available. The data was rather depressing, with a number of Member States suffering from an unprecedented recession and manufacturing industry in Europe also hit hard. The full effects of this downturn have not yet materialized on the labour market, however, and we can only hope that the upturn has some positive effects before the still functioning buffers (short-time working schemes, labour hoarding) are exhausted or abandoned.

There are several signs that the bottom of the downturn may have been reached. The 0.3% growth in the second quarter of 2009 in Germany and France, compared to the previous quarter, is one indication that these large economies are levelling out. We should be aware, however, that the modest quarterly growth in Germany still represents a 5.9% fall on an annual basis. Caution is needed when evaluating these favourable figures due to a number of uncertainties, such as the 'de-stocking of inventories' and other one-off effects. Industrial output, which started to level up in Germany in May (4.3% growth compared to the previous month), again experienced a slight negative turn in June. New industrial orders in Germany, however, showed a 4.5% increase in both May and June, compared to the previous month.

For the Eurozone, second quarter economic growth was only slightly negative compared to the previous quarter (-0.1%), but year-on-year this still represents a downturn of -4.6%.

The ECB monthly report in August (ECB, 2009) sees this development as a sign of an upward turn, against a background of positive trends in France and Germany. The ECB emphasized that global stimulus packages have boosted demand for European products, and state subsidies and low borrowing costs have helped to stabilize domestic demand. Even so, the expectations of the ECB analysts are of a 4.5% GDP fall in the Eurozone

for 2009. Again, a downward correction from the latest official prognosis – published in May – of a 3.4% decrease.

Apart from the one-off effects and statistical uncertainties, it is thus still an open question whether the fragile upturn we are seeing today will prove durable. Scenarios of a 'V' shaped or 'U' shaped upturn or, in the worst case, a 'W' shaped recovery path, are all still possible. Risk factors in the background include, among other things, the poor condition and undercapitalization of the banking system, the possibility that the effects of stimulus packages will prove short-lived and the possible negative effects of a deteriorating labour market on consumer demand in the coming months. Even in the best case scenario, however, we face a long period of tensions on labour markets and the general macro-economic climate for collective bargaining will remain unfavourable.

With regard to *manufacturing industry* and its metalworking sub-branches, developments – and thus the collective bargaining climate – are even less favourable than in the economy as a whole.

We have identified two important features of manufacturing industry (and most of its sub-branches) in the current crisis. First, the strongly cyclically evolving manufacturing branches are typically more affected by economic downturns than the overall economy. This time, the global financial crisis has even amplified vulnerability. Most manufacturing products – whether consumer or investment goods, from cars through machinery to planes and ships – are usually bought through credit financing in a highly globalised market. With a banking system paralyzed on a global scale, the demand shock affecting manufacturing products has been much greater than for the economy as a whole.

The second specific feature of manufacturing industry is its highly qualified, well organized and comparably well protected labour force. These factors dampened the effects of the output crisis with regard to employment in the sector. At the same time, this led to a huge fall in labour productivity, not only in absolute terms but also compared to other economic branches and the overall economy. Manufacturing has lost its productivity and growth advantage compared to the economy as a whole. This is due to the nature of the crisis and can be regarded as a temporary phenomenon. Previous arguments, based on the comparatively better performance of manufacturing (and some of its branches), in favour of higher wage growth in these sectors compared with the average for the economy as a whole, cannot now be maintained, however. We should also bear in mind that the dramatic decrease in productivity is expressed in terms of output per worker, and its fall in terms of output per hour worked appears less dramatic, although still substantial.

Most importantly, the relative productivity advantage of manufacturing (even if it has suffered a major setback) is still valid for the longer term (as shown by Figure 9).

Under these difficult circumstances, the main priority for collective bargaining should be to defend and maintain workers' purchasing power and to resist attempts by employers to use the crisis as an opportunity to push for a new round of wage moderation. Wage moderation and its resulting negative effects on consumer demand would also threaten the sustainability of the recovery.

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