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Macroeconomic trends and prospects

With GDP growth stagnating, the unemployment rate continuing its upward trend, and unresolved sovereign debt issues in many Member States, it is not easy to be optimistic about the prospects for EU labour markets. The best news tends to be of the 'it could be worse' variety. The EU has not – as some anticipated – entered a double-dip recession. GDP remained stable, if anaemic, with 0.1% GDP growth in the first quarter of 2012, after a decline of 0.3% in the previous quarter. The euro zone did, however, contract (by 0.1%) in the same period. The declining value of the euro (16% lower against the US dollar compared to a year ago) may assist export growth.

Unemployment has been climbing for a year and reached 10.3% in May (compared with 9.5% in May 2011). This is the highest unemployment rate recorded since the onset of the crisis in 2008. Eurostat estimates that this corresponds to nearly 25 million unemployed men and women in the EU, almost 2 million more than a year ago. However, labour market performance is tending, if anything, to diverge more between Member States, especially between 'core' and 'peripheral' euro zone countries. While unemployment is low in Austria (4.1%), the Netherlands (5.1%), Luxembourg (5.4%) and Germany (5.6%), nearly one in four was unemployed in Spain (24.6%) in May.

The European Council in June adopted a 'Compact for Growth and Jobs' in Europe that includes measures amounting to €120 billion, in an attempt to foster growth and competitiveness in the EU. The EU is facing a period of economic stability or stagnation at best, with the global economy – including China – having entered a phase of weaker growth.

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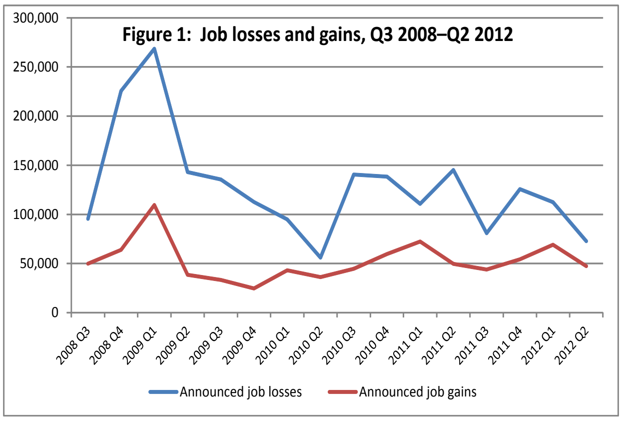
Job creation and job losses at a glance

The ERM recorded a total of 335 cases of restructuring between 1 April and 30 June 2012. Of these, 193 were cases of announced restructuring involving job loss, 137 were cases involving announced job creation, and 5 cases involved both job loss and job gain. These cases involved 72,793 announced job losses and 47,454 announced job gains. Internal restructuring accounted for over 60% of the announced job losses. Compared to the previous quarter, the ERM recorded an increase in the incidence of announced job loss attributable to bankruptcies (17%), closures (11%), and merger and acquisition (7%), while offshoring and delocalisation (3%) decreased somewhat.

In terms of geographic distribution, the country that recorded the greatest number of announced job losses was Germany (14,192 jobs), followed by the UK (9,302 jobs), Italy (8,869 jobs), Finland (6,423 jobs) and Poland (6,215 jobs). The UK recorded the highest number of new jobs (15,031), followed by Poland (6,420 jobs), Romania (5,161 jobs) and France (4,779 jobs).



About the ERM The European Restructuring Monitor (ERM) is a unique EU-wide data set on larger-scale restructuring events. It monitors the announced employment effects of large-scale restructuring events in the EU27 and Norway. The ERM is updated on a daily basis, and data can be used for statistical analysis. The monitor relies on reports in selected media titles (three to five per country). All announcements involving the reduction or creation of at least 100 jobs or affecting 10% of the workforce in sites employing 250 people or more are taken into account. Given that the ERM relies on selected media titles, its coverage of restructuring activity in each Member State is indicative and cannot be considered representative. Nevertheless, ERM data do generate a good picture of labour market restructuring, which is broadly consistent with data coming from more representative sources such as the European Labour Force Survey.

The data for this report were extracted on 5 July 2012. As the ERM continually updates cases in light of new information on recent cases, data reported here may not correspond exactly to later extractions.

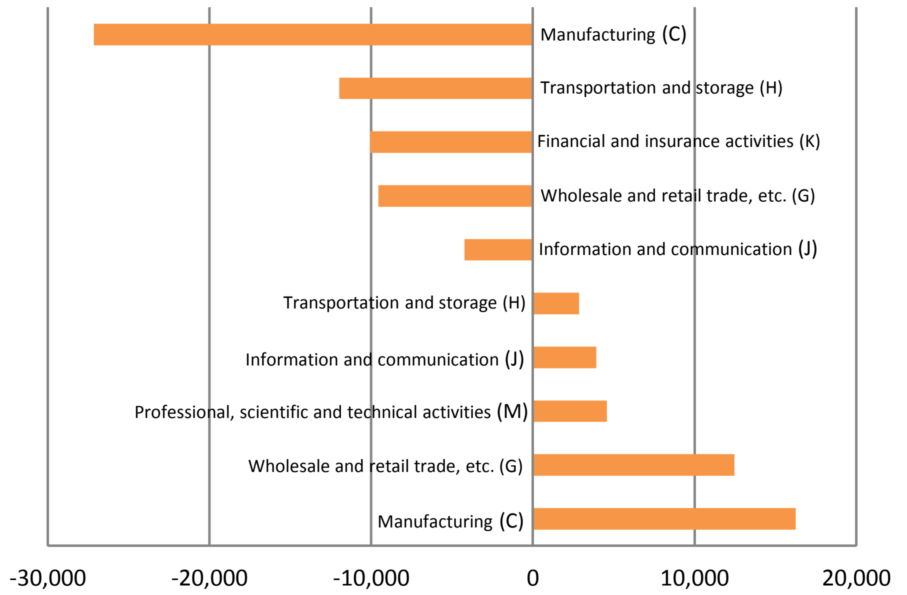
For previous editions of the quarterly, more details of ERM data collection as well as other ERM-related publications, please refer to the website at www.eurofound.europa.eu/emcc/erm/info.htm

Eurofound

Sectoral distribution of job losses and job gains

Figure 2 plots the top NACE Rev. 2 1-digit sectors in terms of announced job loss and job creation, as reported to the ERM in the second quarter of 2012.

Figure 2: ERM announced job losses & gains, 2012 Q2, by sector



Manufacturing accounted for the largest share of both job losses (27,143) and job gains (16,255) during the quarter. Other sectors notably affected were transport and storage (11,973 job losses) and financial and insurance activities (10,063 job losses). Developments were more positive in the retail sector, where announced new jobs outnumbered job losses (12,462 jobs created versus 9,555 lost).

Source: ERM, April–June 2012

Top five cases of job loss and job creation

The five most prominent cases of job reduction and creation are shown in the tables below.

Date	Company	Job losses	Location	Sector	Type of restructuring
27/06/12	Monte dei Paschi	4,600	Italy	Financial and insurance activities	Internal restructuring
14/06/12	Nokia	3,700	Finland	Manufacturing	Internal restructuring
16/05/12	Clinton Cards	2,800	United Kingdom	Wholesale and retail, etc.	Bankruptcy
03/05/12	Lufthansa	2,500	Germany	Transportation and storage	Internal restructuring
30/05/12	Banco Sabadell	2,200	Spain	Financial and insurance activities	Merger/acquisition

The largest case of job losses recorded in the quarter was the announcement of 4,600 job cuts at the Italian bank Monte dei Paschi, which plans to close 400 branches across the country. In Finland, as part of a worldwide restructuring plan envisaging 10,000 job cuts, mobile phone maker Nokia has announced up to 3,700 redundancies. These job losses came on top of those announced earlier in 2012 (involving 1,000 job cuts). Several losses have also been announced as retailer Clinton Cards in the UK has been placed in administration and plans to close 350 stores across the country, resulting in the loss of 2,800 jobs. In the troubled Spanish banking sector, the merger between Banco Sabadell and Banco CAM will see 2,200 employees lose their jobs as 450 offices are closed across Spain.

Date	Company	Job gains	Location	Sector
23/05/12	Sainsbury's	6,000	United Kingdom	Wholesale and retail, etc.
24/05/12	Co-operative Group	3,000	United Kingdom	Professional, scientific & technical
24/04/12	Nokia Siemens Networks	1,500	Portugal	Manufacturing
13/04/12	Offshore Group Newcastle	1,000	United Kingdom	Manufacturing
12/04/12	Continental Automotive	1,000	Romania	Manufacturing

The largest case of job gains in the quarter relates to the UK-based supermarket chain Sainsbury's, which has announced 6,000 new jobs in the next 12 months. Several new jobs have also been announced at the Co-operative Group, a UK consumer cooperative active in diverse business areas, which announced 3,000 new jobs by expanding its legal services portfolio over the next five years. Telecommunication hardware company Nokia Siemens Networks plans to set up a new business unit in Lisbon, which will create 1,500 new jobs, while Offshore Group Newcastle (OGN), a company that builds foundations for wind farms, announced plans to create up to 1,000 new jobs in the UK. German car parts manufacturer Continental Automotive Romania announced a new recruitment drive that will result in the creation of 1,000 jobs in Timișoara by the end of 2012.

CASE STUDY

'Solidarity contract' in Safilo safeguards 1,000 jobs in Italy

In May, Safilo, an Italian producer of eyewear, announced plans to cut 1,000 jobs within its units in Longarone, Santa Maria di Sala and Padua, the site of its headquarters. The reason for the job losses is the non-renewal of the licence to produce Armani glasses, which accounts for around 20% of the group's turnover. The decision led to a sit-in protest in Padua, where Safilo workers came together to protest against the job-cutting proposal.

Subsequent negotiations between company representatives and trade unions, however, ended with an agreement to make use of the Italian social 'shock absorbers' in order to avoid forced redundancies. There were previous successful negotiations to save the company when it struggled with financial problems in 2002–2005 and 2009–2010.

The agreement foresees a scaling back of the estimates of excess workforce to 670, but no permanent employees will lose their jobs in the short term. The company will not renew 114 temporary contacts, and 2,000 staff across the company's plants in Veneto will enter into a 'solidarity contract' (*contratto di solidarieta*) lasting two years. This will remove the threat of forced redundancies for these workers for up to two years and will involve reduced working time and wages; 60% of losses will be compensated by the state-run INPS.

The agreement also foresees retraining and requalification of workers. Some activities previously outsourced to China may now be reshored to the Italian plants. Safilo's CEO, Roberto Vedovetto, said that the plan would involve a 'significant increase in the level of flexibility, together with training programmes designed to improve operational efficiency'.

Reference: Corriere del Veneto, 'Safilo, via al contratto di maxi-solidarietà', 12 June 2012, corrieredelveneto.corriere.it/veneto/notizie/economia/2012/16-giugno-2012/safilo-via-contratto-maxi-solidarieta-201625041196.shtml

This issue is based on contributions from John Hurley, Lidia Salvatore, Anja Meierkord, Funda Celikel-Esser, Ewa Jarosz and Andrea Broughton (ERM EU-level correspondent).

EF/12/55

SUPPORT MEASURES IN FOCUS

Working time flexibility

Measures to support the management of restructuring based on working time flexibility attracted considerable attention from researchers and policymakers following the recent recession. Measures including short-time working, temporary layoffs and working time flexibility, enabled through legal or social partner arrangements (like working time accounts), were extensively used in several EU Member States.[1]

Working time flexibility, however, can also be used as a tool to anticipate restructuring. A typical example is the training schemes to prepare workers and companies for change, which allow the employees to combine their work with general or work-specific training. Such schemes are commonly used throughout the EU. For instance, in Poland, legislation provides for employees to take paid training leave.[2] Employers that send their employees on training courses lasting at least 22 days are entitled to engage unemployed workers selected by the local labour office to temporarily replace them. The employer receives reimbursement for the salaries of these temporary replacement workers and for training costs up to certain percentages of the average salary.

Working time accounts can also be considered as proactive instruments providing workers with the possibility to anticipate and prepare for future changes in their personal lives. In Denmark, for instance, social partners jointly introduced the option of 'free-choice accounts' for employees in several collective agreements.[3] A free-choice account, which is funded by the employer, may be set up for an individual employee so that they can choose to exchange five special days' leave for 2.5% of their salary, which is put into the account. In some cases, employees also have the option to have the deposit paid in connection with leisure time, transferred as an extraordinary pension contribution, or transferred to the subsequent holiday year.

More information on similar and other public instruments to facilitate flexibility supporting restructuring in Europe can be found at the ERM database on restructuring support instruments.

[1] See the ERM Report 2010 for a detailed analysis of such schemes.

[2] For more information or to comment on this specific measure, please visit http://www.eurofound.europa.eu/emcc/erm/supportinstruments/instruments/view/173/poland_paid_training_leave

[3] For more information or to comment on this specific measure, please visit http://www.eurofound.europa.eu/emcc/erm/supportinstruments/instruments/view/262/denmark_free_choice_accounts

Sector in Focus

Airline mergers and retrenchment

The past few months have seen significant restructuring activity among airline companies in the EU, mostly involving job losses due to factors such as increasing competition, a need to cut costs, the rising price of fuel and the continuing effects of the recession on demand for air travel. Malev, the Hungarian national carrier, and Spanair, backed by the Catalonian regional government, have both declared bankruptcy in the last year. The bigger carriers are facing a strong competitive challenge to their lucrative long-distance routes from emerging Gulf-based companies such as Etihad. European airlines are forecast by IATA to lose nearly €1 billion collectively in 2012, as 'traffic growth basically stopped at the end of 2011'. Air France-KLM alone suffered losses of over €600 million in 2011. Airlines in Asia and the Americas are forecast to turn a profit, though thin margins (USD 3 billion profits on revenues of over USD 600 billion, a margin of 0.5%) suggest further bouts of international restructuring ahead. Part of the problem in Europe has been overcapacity after the deregulation and expansion of the past decade. There has been significant recent takeover and merger activity as the sector consolidates.

One of the most high-profile restructuring cases in the sector recently has been the decision by the German national carrier Lufthansa in May 2012 to cut 3,500 administrative posts worldwide over the coming three years, 2,500 of these in Germany. The company cited increasing costs and intensified competition as reasons for this decision. It did not rule out compulsory redundancies.

Significant job losses are also expected at the UK-based airline BMI following completion of its takeover in April 2012 by British Airways parent company IAG. IAG announced 1,200 job cuts, which will affect UK regional airports in particular. British Airways itself announced in the same month its plans to cut up to 570 jobs at Gatwick Airport in an attempt to cut costs and enhance competitiveness. The airline is currently negotiating with trade unions. In Austria, 341 pilots and flight attendants of Austrian Airlines are to leave the company under a so-called privileged self-termination scheme, under which workers receive a relatively high severance payment of up to 35 months' pay, up to a ceiling of €550,000. These employees chose this option rather than accepting a programme that would transfer operations to its subsidiary Tyrolean Airways, resulting in substantial wage cuts. This cost-saving programme aims to eliminate expensive collectively agreed terms and conditions for flying personnel.

Low-cost airlines are struggling to maintain market share or simply survive. In April 2012, the Italian budget airline Wind Jet announced its intention to discontinue its business activities due to difficulties created by the economic crisis, with the loss of 504 jobs. It looks likely that the majority of the jobs will be saved, however, as Alitalia took over the company. The acquisition depends on antitrust approval. In May 2012, the Swedish budget airline Skyways Express, with its subsidiary City Airlines, filed for bankruptcy, with the loss of over 300 jobs. The company cites high fuel costs, low ticket prices and increased competition as the main reasons for its decision. In Finland, Air Finland filed for bankruptcy in July 2012, ceasing all operations, with the loss of around 200 jobs. This airline began operating in 2002, servicing holiday destinations. It has cited fuel prices and overcapacity in the sector as the reasons for the bankruptcy. In Spain, around 2,600 jobs will be cut at Spanair, mostly affecting pilots and cabin crew, while Air Europe confirmed in May 2012 that it would cut 129 jobs, despite industrial action by pilots.

There has also been some job creation in the sector: Warsaw Chopin Airport has announced plans to hire 100 women in the airport security guard to carry out security checks on women passengers. And in the UK, the budget carrier Jet2.com plans to double its workforce, creating 100 new jobs, including cabin crew, pilots and ground staff. The carrier will launch eight new routes over the next 12 months.

Research brief

Shifts in employment structure in pre-recession Europe and USA

This recent collection of 10 papers by an international team of researchers was edited by Eurofound staff and published in May 2012. It uses a common, jobs-based approach to describe the changing patterns of employment during the period of robust employment expansion that preceded the Great Recession. It raises many questions about recent changes in the structure of employment and provides evidence-based answers to some. Did Europe create 'more and better jobs' – a target of the EU's Lisbon Agenda – after 1995? Answer: more, yes – more than 20 million new jobs; and better, mainly. Did the growth of low-skill, lower-quality service sector jobs (for example, in hotels and restaurants) outpace that of better-paid, more secure, higher-skilled service jobs (for example, in knowledge-based sectors, IT and professional services)? Answer: no, the aggregate data show more higher-skilled new jobs; however, growth at both ends of the skill/job-quality spectrum has been in contrast to a decline in the middle, based in part on the long-term decline of manufacturing employment. How common have the patterns of employment change been across developed countries? Answer: there is some variety, with the two dominant patterns being upgrading (growth of better quality jobs) and polarisation (job growth at the lower and upper ends of the quality spectrum, but contraction in the middle). Many countries show some hybrid of the two.

The collection also provides analysis of labour market developments in these developed economies in terms of gender, international migration and debates over the quality of work. The team of European and American researchers responsible includes the American sociologists who pioneered the 'jobs-based approach', Erik Olin Wright and Rachel Dwyer. Their chapter includes a comparison of labour market developments in the USA and in some larger Member States.

Reference: Fernándéz-Macias, E., Hurley, J. and Storrie, D. (eds.), *Transformation of the employment structure in the EU and USA, 1995–2007*, Palgrave Macmillan, London.