



european restructuring monitor *quarterly*

Issue 3 – autumn 2006

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Introduction

While the recent historically high rate of world-wide economic growth continues, growth in the euro area is still significantly lower than in other advanced economies. However, euro area growth in 2006 is expected to be almost double that of 2005. Several other EU countries are also growing very rapidly. Actual GDP growth in the EU25 in the second quarter 2006 was 0.9%, compared to the previous quarter. This was 0.1 percentage points higher than in the previous quarter. Most rapid quarterly growth was measured in Estonia and Slovenia (both 2.8%). With respect to unemployment, the largest increase was recorded in Hungary, which was 0.3 percentage points higher than in the second quarter.

The third quarter 2006 data from the ERM shows that job loss in the public sector, highlighted in the previous quarterly ([PDF](#)), continues with some cases of large-scale public sector job losses in Hungary and France. Indeed, a French public administration case constitutes the largest single case of job loss this quarter. Poland continues to report much job creation spread over many different sectors. The largest job creation case, however, was an announcement by furniture retail giant IKEA to recruit up to 10,000 new staff worldwide.

The two themes of focus in this quarterly are: offshoring from eastern Europe, mainly from Hungary and Slovenia, and the recent significant increase in temporary agency work in Germany. While offshoring is often seen to be to eastern Europe, it is important to realise that jobs are also offshored from eastern Europe. Offshoring from eastern Europe in fact amounts to 9% of all reported offshored jobs in the 28 countries covered by the ERM. Offshoring from eastern Europe is concentrated in the textile and leather sectors, to a greater extent than is the case in western Europe. It is interesting to note that even in eastern Europe, the ERM is picking up cases of low-skilled jobs being offshored while the same company or even same company unit creates higher-skilled jobs.

The use of temporary agency work was previously quite restricted in Germany but has recently undergone far reaching deregulation. The result has been a rapid increase in temporary agency work in the last two years, from 400,000 to 500,000. Evidence from the ERM indicates that this trend is continuing. Both Manpower and Randstad Germany announced significant business expansions in the third quarter, amounting to 9,000 jobs.

Current macroeconomic trends

The recent annual World Economic Outlook, published in September 2006 by the International Monetary Fund (IMF), shows that the current historically high level of world economic growth continues. In most parts of the world, the modest decline in the GDP growth between 2004 and 2005 is expected to pick up again slightly in 2006 only to recede to the level of 2005 by 2007 (see Table 1). However, in spite of these changes, the overall growth rates remain historically high.

Table 1: GDP growth – annual percentage change

	2004	2005	Projections	
			2006	2007
World Output	5.3	4.9	5.1	4.9
Advanced economies	3.2	2.6	3.1	2.7
United States	3.9	3.2	3.4	2.9
Euro area	2.1	1.3	2.4	2.0
Germany	1.2	0.9	2.0	1.3
France	2.0	1.2	2.4	2.3
Italy	1.1	-	1.5	1.3
Spain	3.1	3.4	3.4	3.0
Japan	2.3	2.6	2.7	2.1
United Kingdom	3.3	1.9	2.7	2.7
Canada	3.3	2.9	3.1	3.0
Other advanced economies	4.6	3.7	4.1	3.7
Newly industrialised Asian economies	5.9	4.5	4.9	4.4

Source: *World Economic Outlook 2006*

However, while the current situation is satisfactory and the mid-term prospects are reasonably optimistic, there are some concerns. Previous indications of inflationary tendencies have intensified, especially in the United States, and interest rates are rising. The IMF also expresses concern about housing markets in the US and other countries and some doubts about growth prospects in other developed economies. It notes that global imbalances remain large with the US current account deficit expected to approach seven percent of GDP in 2007. Thus, while the current rates of growth are quite high and the short-term prospects satisfactory, instability in financial and asset markets give rise to some uncertainty as regards the sustainability of the recent good economic performance.

Turning to more specific European developments, the CESifo Economic Survey¹ shows a favourable economic climate in western Europe (with the exception of Portugal and Italy) even if expectations for the next six months have been revised downwards, in particular for Germany and Austria. In eastern Europe, the overall economic climate continues to improve with expectations remaining on the whole optimistic.

The most recent hard data on GDP growth for EU25 show a 0.9% increase in the second quarter of 2006 compared to a 0.8% in the first quarter.² This is higher than in the US and appreciably higher than in Japan. Estonia and Slovenia (both 2.8%) exhibited the highest growth rates, followed by Latvia and Malta (2.6%). The only decrease was reported in Greece (-0.4%). Among the EU15 countries, Denmark and Finland had the highest growth rate (1.9%) followed by Sweden (1.3%).

¹ The Ifo World Economic Survey (WES) assesses worldwide economic trends by polling organisations worldwide. The WES is conducted in cooperation with the International Chamber of Commerce and receives financial support from the European Commission

² Euro-indicators news release 135/2006 - 11 October 2006, Eurostat.

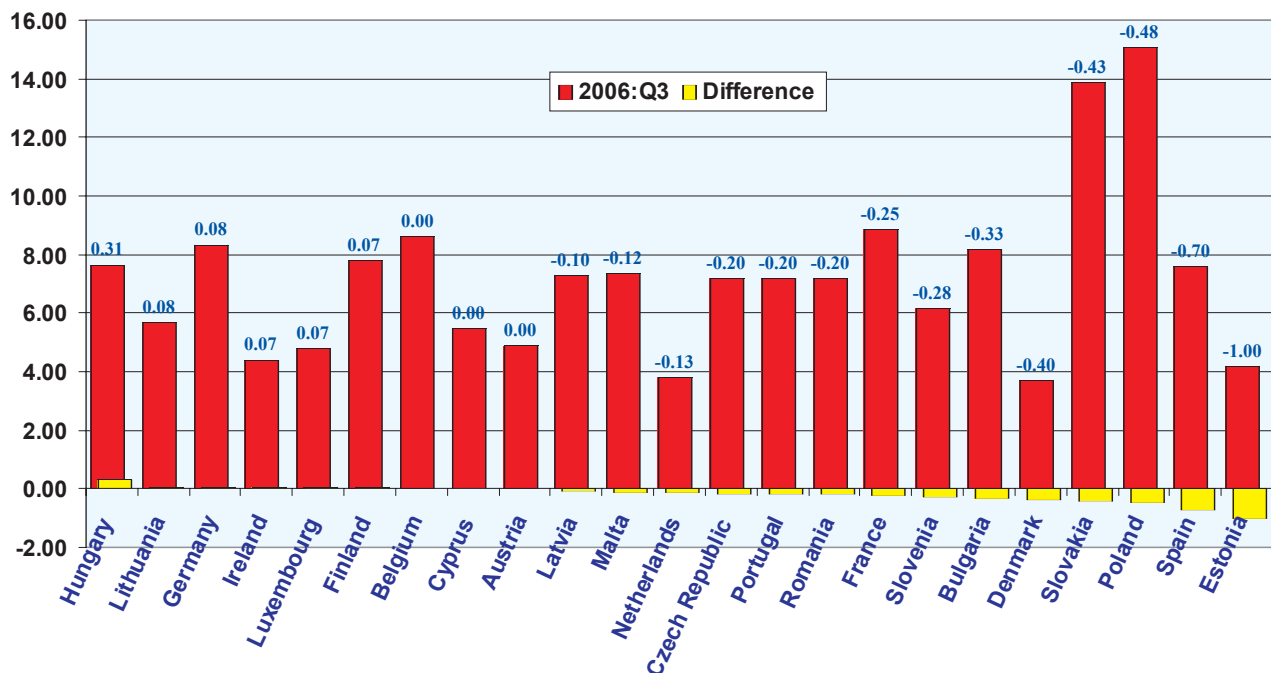
Table 2: GDP growth 2006 – Q2 compared to previous quarter, seasonally adjusted

Belgium	0.8	Ireland	0.9	Netherlands	1.2	United Kingdom	0.7
Czech Republic	1.2	Italy	0.5	Austria	0.9	Iceland	2.0
Denmark	1.9	Cyprus	1.0	Poland	1.1	Norway	0.5
Germany	0.9	Latvia	2.6	Portugal	0.9	Switzerland	0.7
Estonia	2.8	Lithuania	2.5	Slovenia	2.8	United States	0.6
Greece	-0.4	Luxembourg	n.a	Slovakia	1.4	Japan	0.2
Spain	0.9	Hungary	0.9	Finland	1.9	Euro area	0.9
France	1.2	Malta	2.6	Sweden	1.3	EU25	0.9

Source: Eurostat

The EU25 seasonally adjusted unemployment rate was 8% in August 2006, unchanged compared to July, but down 0.7 percentage points compared to August 2005.³ Figure 1 plots the third quarter harmonised unemployment rates and changes from the previous quarter. Denmark retains its lowest unemployment rate ranking and Poland, at 15%, has the highest. The largest absolute increase in unemployment rates was in Hungary, followed by Lithuania, Germany and Ireland.

Figure 1: Standardised unemployment rates 3rd quarter 2006 (average of available months in third quarter) and percentage point increase from 2nd quarter. Bars sorted by increase since previous quarter.



Source: European Labour Force Survey

No data available for Greece, Italy, UK, Norway and Sweden

³ Euro-indicators news release 130/2006 – 3 October 2006, Eurostat.

Overview of the ERM 3rd quarter 2006

During the third quarter 2006, the ERM recorded 400 restructuring cases. These cases announced 91,185 jobs losses and 117,115 job gains.⁴

Top five cases of jobs gained and lost

The five most prominent cases in terms of jobs gained and lost are listed in Table 3. The company name links to further details on these cases on the ERM website.

Table 3a: *Top five cases of job creation*

Company	Jobs	Location	Restructuring type	Sector
Ikea	10,000	World	Business expansion	Commerce
Public administration	6,750	France	Internal restructuring	Public sector
Randstad	6,000	Germany	Business expansion	Consultancy business services
Abertis	5,000	Portugal	Business expansion	Transport and storage
TPV Technology	5,000	Poland	Business expansion	Post and telecom.

Table 3b: *Top five cases of job reduction*

Company	Jobs	Location	Restructuring type	Sector
Public administration	11,250	France	Internal restructuring	Public sector
UniCredit	6,840	EU	Offshoring/Delocalisation	Metal and machinery
DaimlerChrysler	6,000	World	Internal restructuring	Motor
Public administration	5,500	Hungary	Internal restructuring	Public sector
AOL	5,000	World	Internal restructuring	Information technology

Source: ERM, 1 July–30 September 2006.

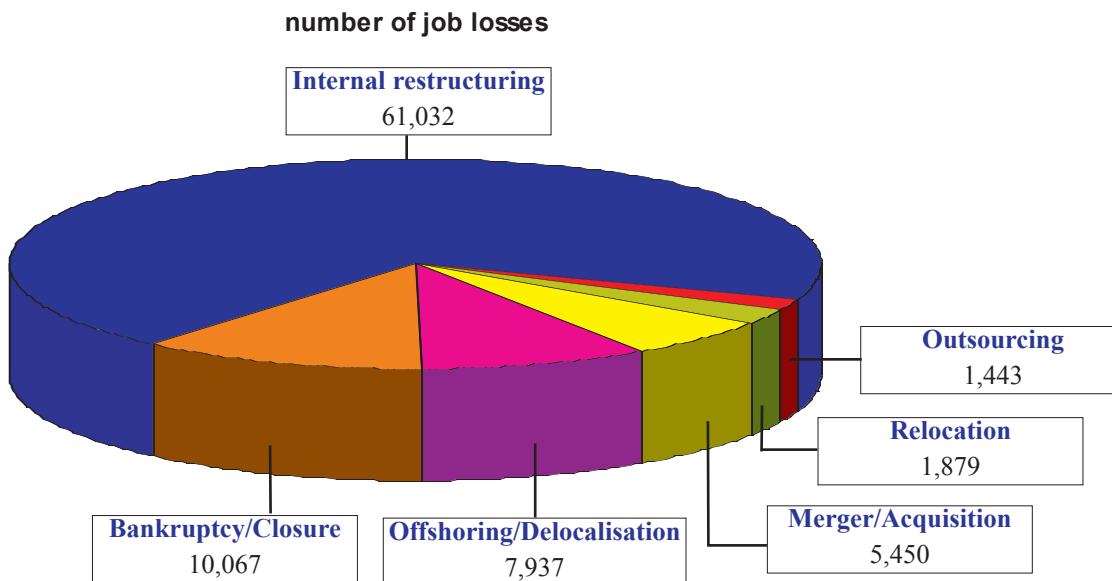
Type of restructuring

Over 90% of jobs created were by means of business expansion (104,135 jobs). However, even the category internal restructuring can lead to job gains, with 8,630 of the new jobs, 7.5% of the total, being created in the third quarter 2006. The largest such cases were Italian [UniCredit](#) and French [public administration](#) (*Caisse nationale d'assurance maladie, CNAM*).

Figure 2 plots the loss of jobs by type of restructuring. The most frequent category is internal restructuring (69.5%), followed by bankruptcy/closure (11.5%). It is notable that offshoring/delocalisation only amounts to 9 % of all jobs lost. This distribution of job loss by type of restructuring is similar to what was observed in previous quarters.

⁴ Data for this issue were extracted on 4 October 2006.

Figure 2: Job reduction by type of restructuring



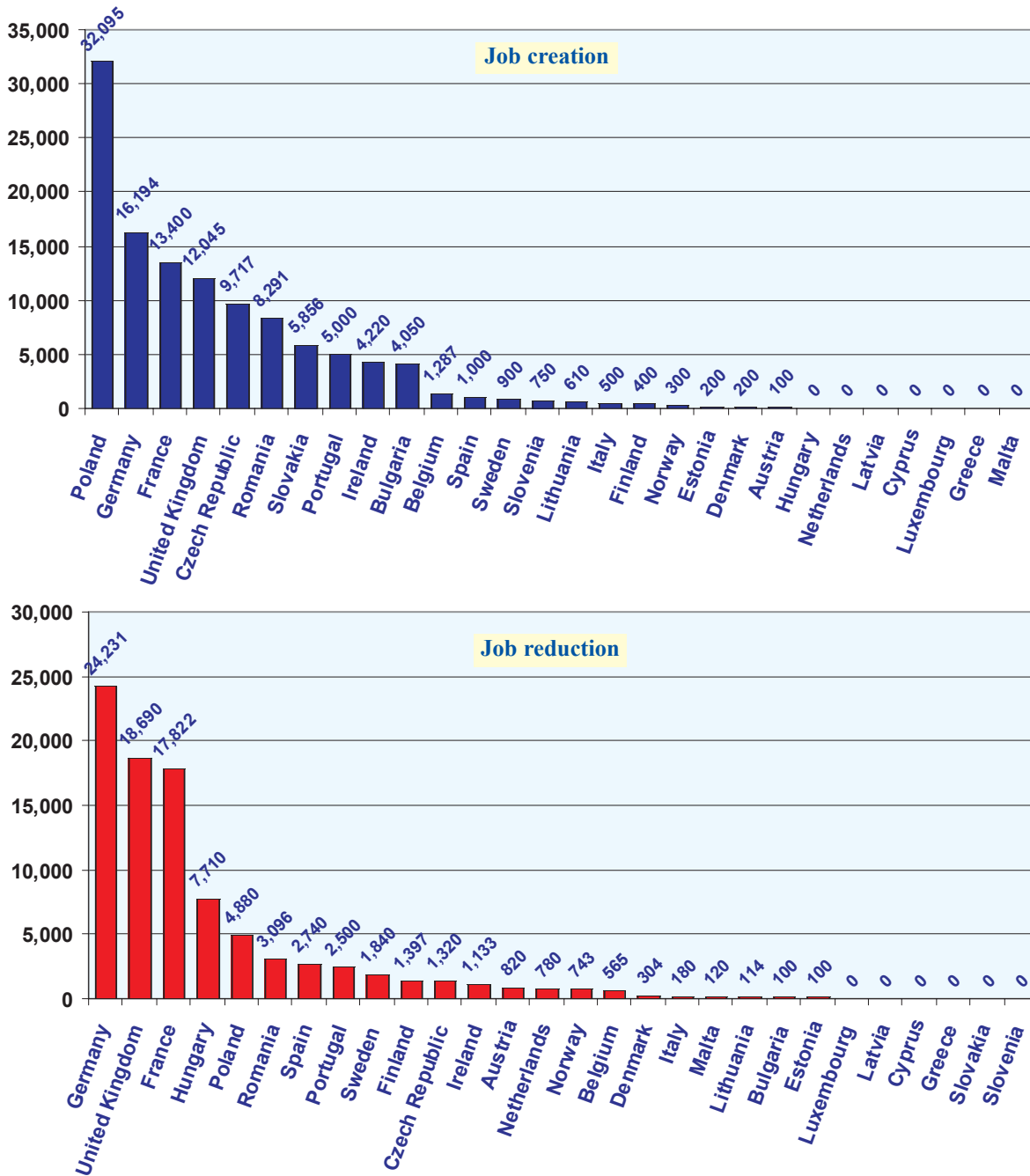
Source: ERM, 1 July – 30 September 2006

Restructuring among countries

Figure 3 shows the distribution of restructuring cases among countries. As in the first two quarters 2006, the largest number of job losses was recorded in Germany, the UK and France. In this quarter they make up 67% of all announced jobs losses. Germany and the UK report a widespread distribution of job losses across many enterprises. In Germany the largest case, **HypoVereinsbank**, amounts to 4,000 job cuts, which is the same figure reported by the biggest case recorded in the UK, **Norwich Union**. In France, one single case, the **public administration** (*Caisse nationale d'assurance maladie, CNAM*), announced the loss of over 11,000 jobs. Hungary's high ranking in Figure 3 is largely attributable to a single large case, **Hungarian state administration** (Magyar Honvédség, Hungarian Army), amounting to the loss of 5,500 jobs.

As in the second quarter 2006, Poland reports the greatest share, over 27%, of planned job creation. But in contrast to the previous quarter, this figure does not stem from a few large business expansion cases but is the result of a rather more even distribution. **TPV Technology** has announced the creation of 5,000 jobs, while the **Internal Revenue Office** and **Dell** have reported 4,500 and 3,000 jobs to be created, respectively. Germany, France and the UK have also recorded a significant amount of job creation. In Germany, **Randstad** and **Manpower** account for more than half of planned new jobs. In the UK **Marks and Spencer** has announced the creation of 4,000 jobs.

Figure 3: Job reduction and job creation by country



Source: ERM, 1 April–30 June 2006.

Restructuring in sectors

Figure 4 presents the top ten sectors with respect to jobs lost and jobs gained as reported in the ERM. The financial sector recorded the highest number of job cuts, 18,780 (21%) but also accounted for 5,650 jobs created (4.8%). One case contributed greatly to this development, namely the restructuring programme announced by Italian **UniCredit**. It comprises not only cost-cutting measures causing 6,840 job reductions, mainly affecting the accounting and IT departments, but also an expansion plan creating some 5,000 jobs. The programme seeks to strengthen the company’s

market position in Italy, Germany and Austria as well as to increase its penetration in eastern Europe, with a special focus on the Russian market.

The public sector recorded the second highest number of jobs lost (18,273) together with a significant number of jobs gained (11,750). Such a significant increase of both job cuts and job creations was largely due to the rationalisation scheme introduced by the **public administration** (*Caisse nationale d'assurance maladie, CNAM*) in France. It announced that it was retiring some 11,250 employees and hiring up to 6,750 people.

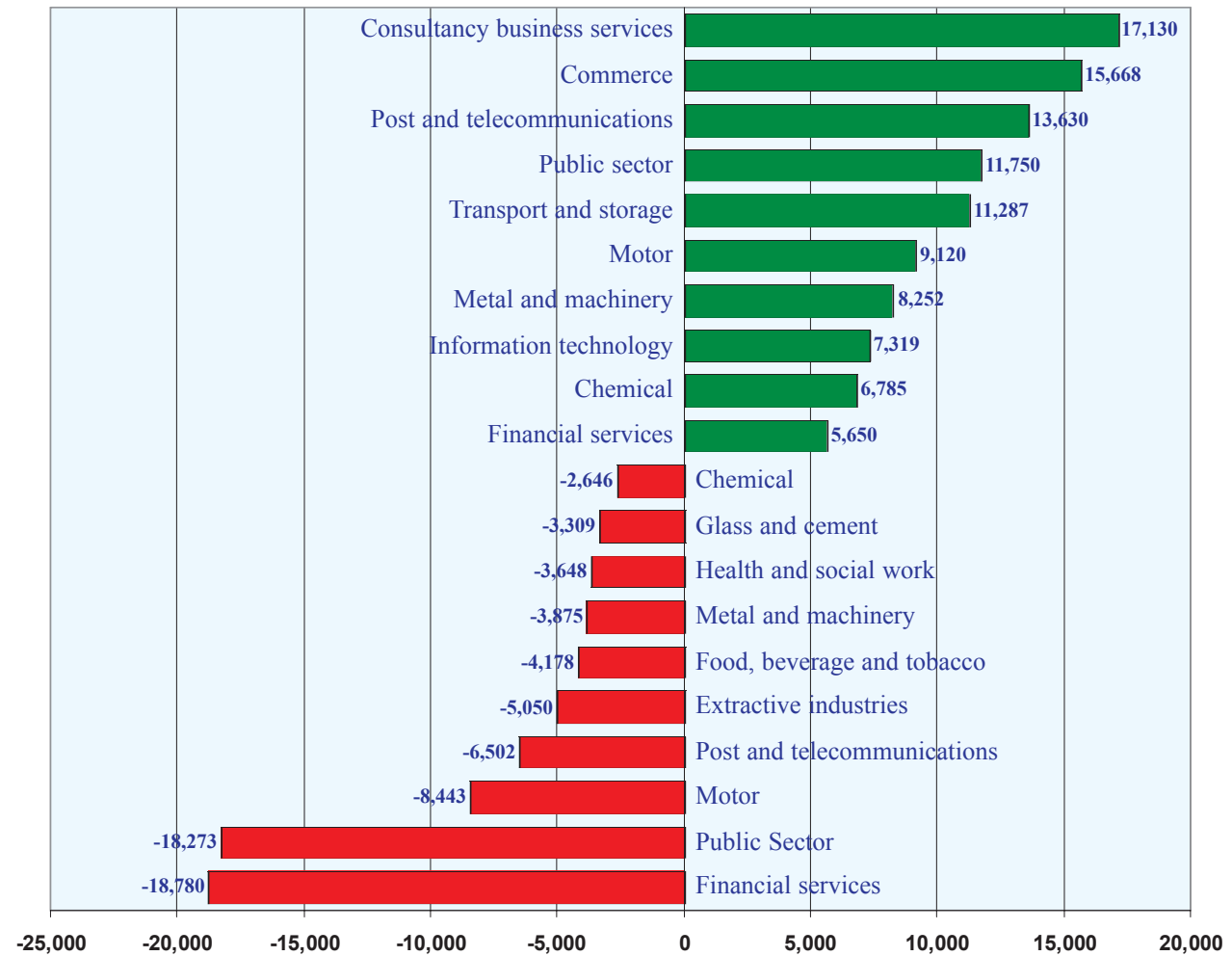
The motor sector recorded some 8,443 job losses (9.3%). This is mainly attributable to the internal restructuring at **DaimlerChrysler**, the German car manufacturer. The company announced a cut of 6,000 administrative positions worldwide, of which 3,200 will be lost in Germany. However, the motor sector also is an important source of job creation. More than 9,000 jobs are to be created as a result of production capacity expansion (e.g. **Autoliv** in Romania, **Honda** in the UK, **Toyota** in Poland) as well as investments in a design and development centre for new car models (**Renault** in Romania).

The most striking feature with respect to job creation is a sharp increase of new jobs expected in consulting business services, with Germany accounting for more than half of the total 17,130 jobs gained. The strongest demand comes from the temporary work agencies **Randstad** and **Manpower** which plan to hire 6,000 and 3,000 employees respectively. This phenomenon is discussed in the next section.

The commerce sector reported 15,668 new jobs, representing a continuous growth mostly driven by the expanding activities of **Ikea**, **Marks and Spencer** and **Carrefour**. The post and telecommunication sector recorded 13,630 new jobs. As this sector in the ERM classification also comprises manufacturing of radio, television and communication equipment, the growing number of job gains reflects the ongoing business expansion led by LCD producers in Poland (**TPV Technology**, **Toshiba**), Slovakia (**Sony**) and the Czech Republic (**BenQ**).

The remaining 14 sectors in the ERM account only for 10,524 jobs created (9% of the recorded job creations) and 16,481 jobs lost (14.8% of the recorded job reductions).

Figure 4: Top ten job reduction and creation by sector



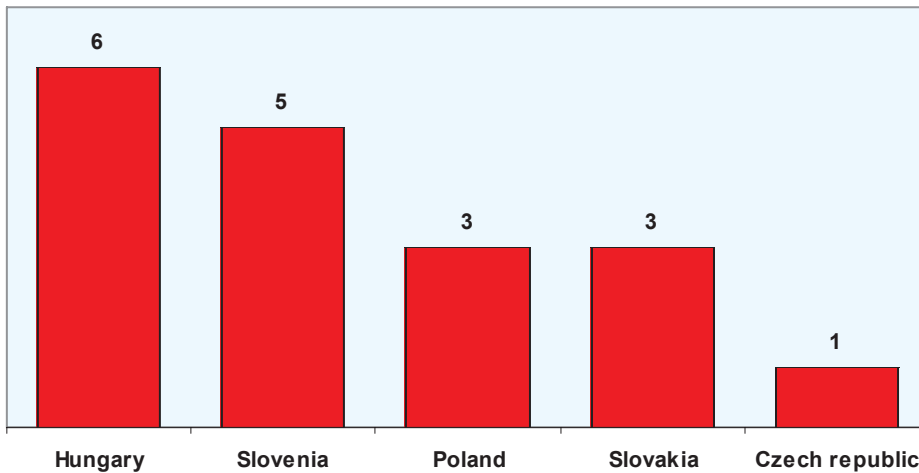
Source: ERM, 1 July – 30 September 2006

Offshoring from eastern Europe

While most cases of offshoring recorded in the ERM are from western European countries, some companies also move their production from eastern Europe to outside the European Union. Figure 5 shows the distribution of the 18 cases reported in the ERM in the last two years (1 October 2004 to 30 September 2006). These cases amounted to 5,754 jobs lost compared to a total of 66,813 offshored jobs in all countries in the ERM. Thus 8.6% of the jobs offshored as reported in the ERM are from eastern Europe.⁵

⁵ In addition to the ERM, the following sources were used for this section:
Expansion, 'Cortefiel ceases production in eastern Europe', 7 June 2006
Knobias, 'Samsonite Corp – SAMC: To Close Manufacturing Plant in Samorin, Slovakia', 25 May 2006

Figure 5: Offshoring from eastern Europe by country



Source: *The European Restructuring Monitor*

The sector breakdown of offshored jobs from eastern Europe is different compared to other countries in the ERM. The labour intensive textiles and leather sector accounts for 33.6% of the jobs offshored from eastern Europe, but only 5.9% of all offshored jobs. In eastern Europe, textiles is followed by the electrical sector which accounts for 30% of offshored eastern European jobs. By contrast, the sector breakdown for all countries in the ERM shows motor and financial services on top (about 15% each), followed by metal and machinery (about 12%), electrical (about 10%) and chemical (about 7%).

A closer look at the cases recorded in the ERM in the last two quarters will exemplify the trends from eastern Europe, in particular the offshoring of textiles and leather manufacture.

Cases in textiles and leather and electronic manufacturing

In May 2006, American **Samsonite** Company announced that it was closing its luggage and handbags production plant in Šamorín in Slovakia and moving the production to China by the end of June. The closure is a result of the company's continuing consolidation of its manufacturing capacities from company-owned and operated facilities to the sourcing of products from third-party manufacturers. According to the local employment authorities, all employees will be dismissed by the end of August 2006. The company expects to spend approximately USD 2.6 million to 3.2 million to cover employee adjustment costs and other costs

Another example is the Székesfehérvár unit of **Tulipán Ruhaiipari Rt.** It is one of the three Hungarian units of the Spanish Cortefiel group which was recently taken over by the private equity firms PAI, CVC and Permira. It manufactures primarily men's jackets for the French, Portuguese and Spanish markets. The closure of the factory and the dismissal of all 250 employees was announced on 27 June 2006. Manufacturing will be moved to North Africa and to China to reduce production costs. It still unclear what will happen to the logistics and administrative centre of Cortefiel which is also located in Székesfehérvár. Moreover, according to the newspaper *Expansion*, Cortefiel has decided, in principle, to subcontract clothing production to countries in the east Asia where labour costs are lower, effectively putting an end to its own production activity and resulting in Cortefiel specialising in clothing retail.

The ERM data showed that electrical manufacturing was also a major sector experiencing offshoring from eastern Europe. An example of this is the closure of the television set factory in Żyrardów (Poland), announced on 11 August

2006, and leading to the loss of 1,000 jobs. The plant was a greenfield investment by Thomson as recently as 1997. As of 1 July 2004, Thomson became a member of the TTE Corporation, which is a joint venture between TCL and Thomson. Since then, its Polish operations have been renamed TTE Polska and became part of the world's largest producer of cutting-edge televisions. In addition to the Żyrardów plant, TTE plans to shut down another factory in France with production to be taken over by a factory in India.

Offshored jobs replaced by higher-skilled jobs?

There is evidence that some of the outsourced jobs in eastern Europe are actually being replaced with higher skilled jobs. For example, **Carl Zeiss Vision**, an innovative technology leader in the fields of optics, precision engineering and electronic visualisation, announced on 18 July 2006 that it would move the manufacture of plastic lenses from its eastern Hungarian site in Mátészalka to Mexico, where costs are lower. This will affect up to 220 jobs at the Mátészalka unit. Negotiations with the works council have been initiated and the dismissal of the employees is expected to take place by May 2007. However, the manufacture of multifocal lenses will remain at the Hungarian site and an investment of EUR 800,000 is planned in order to start the production of progressive lenses, which will ensure employment for 30 employees. Currently, 80% of the Hungarian site's income comes from the manufacturing of spectacle lenses.

Boxmark Leather, owned by the Austrian company Schmidt, is another example of some tasks being offshored while others are created. The firm produces leather for suppliers in the automobile industry. Schmidt decided in June 2006 to relocate parts of its leather production from Slovenia to Croatia, where it already built new production premises. This will make 184 workers redundant in the existing production programme of Boxmark Leather in Slovenia. However, the company has just launched new production programmes and 150 of these workers will be re-employed. Thus, only 34 employees at the Slovenian plant will actually lose their jobs.

Finally, it must be kept in mind that despite the focus on offshoring from eastern Europe, many of the business expansion cases in eastern Europe are the result of western European (or Asian or American) companies offshoring to eastern Europe.

Recent rapid increase in temporary agency work in Germany

The ERM has recorded two cases on temporary agency work in Germany during the third quarter 2006 that report the creation of 9,000 jobs and reflect the increased use of this type of recruitment in the country.

Both cases were both reported by *Handelsblatt* newspaper⁶. In one of them, **Randstad Germany**, announced its intention to employ 6,000 temporary workers. While most of the job openings are for blue-collar jobs, Randstad is currently also witnessing a strong demand for engineers, bank and insurance experts and clerks. The company states that shortage of staff means that they sometimes must decline orders. Randstad is the market leader among temporary work agencies in Germany. In 2005, it employed about 28,950 temporary employees with an internal staff of 1,400.

The second case, **Manpower Germany**, reports that the company is looking for 3,000 temporary workers and has, in some cases, recruited engineers and qualified specialists from abroad. For instance, in the expanding aircraft construction sector, Manpower recruits mechanics in the UK. Manpower provides training and advanced education for several months

⁶ **Handelsblatt, 1 September 2006**

to car mechanics for them to qualify as aircraft mechanics. The company expects a market growth of 15% within the upcoming years. In 2005, Manpower Germany employed about 16,500 temporary employees and an internal staff of 1,000.

These cases show that the very rapid growth of agency work experienced in Germany up to early 2006 is likely to continue. According to labour placement statistics from the German Employment Agency, there were close to 500,000 workers employed in the sector in January 2006.⁷ In 2004, the corresponding figure was 400,000. While temporary agency work still only constitutes 1.2% of all jobs, it does account for an appreciably larger share of contracts concluded. Employment in the sector continues to be largely for men working in blue-collar positions in manufacturing. However, recent ERM cases show that agency firms also recruit for other categories.

The rapid recent increase in agency work in Germany has coincided with new regulation of the sector. Previously, agency work in Germany was very tightly regulated. For example, it was conducted only on an open-ended contract and assignments at user firms were strictly limited in duration. The bout of reforms following the Hartz Commission, were enacted by 2003. Licensing and monitoring and the ban on agency work in construction remained. However, in other respects the sector has been deregulated significantly. Most importantly the contract can now be of limited duration and there is no stipulation that the contract at the agency should be of the same duration as the assignment at the user firm. The only limits on contract duration and renewal are those that apply to all fixed-term contracts. While the law now also requires equal treatment for agency and in-house workers, this does not apply if the work place is covered by a collective agreement. These agreements are widespread in German companies.

Further details on this topic can be found in the **EIRO thematic feature** on the temporary work agency sector in Germany.

Note on methodology

The European Restructuring Monitor (ERM) is a tool that records industrial restructuring cases as reported in the press. 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. The cases are identified through a review of daily papers and the financial press in the EU25, Bulgaria, Romania and, most recently, Norway.

Only those fact sheets in the ERM database which refer to a specific country are included in the statistical analysis. Fact sheets referring to European or worldwide restructuring activities are not considered in order to avoid double counting.

The data for this report was extracted on 4 October 2006. As the ERM continually updates cases in light of new information, the statistics presented here may not correspond to those extracted at a later date.

For more information on the European Restructuring Monitor, please visit the website at <http://www.emcc.eurofound.europa.eu/erm>. The site allows for the examination of single cases and the compilation of restructuring statistics. For further enquiries contact us at erm@eurofound.europa.eu.

⁷ IAB Discussion Paper No. 18/2006