Focus

3 december 2018

"Labour market tightness pushes Belgian growth below Europe"

"We expect real GDP growth in 2019 in Belgium to significantly fall below growth in the euro area, due to a poor match between job openings and jobseekers"

In recent years, the Belgian labour market has outperformed to such an extent that companies are finding it increasingly difficult to fill their vacancies. On the one hand, the large number of job vacancies is an indicator of the favourable economic climate. On the other hand, the situation is also increasingly structural, due to demographic factors and the poor match between job openings and jobseekers. As the labour market tightness becomes more acute and structural, it is limiting opportunities for companies to develop new activities. This reverses the causal relationship between growth and tightness. The problem is more acute in Belgium than elsewhere in the euro area and will likely contribute to keeping Belgian economic growth below that of the euro area in the coming years.

According to Eurostat figures, the Belgian unemployment rate averaged 6.3% in the first nine months of 2018. This is two percentage points lower than the euro area figure. The fall in unemployment was mainly due to the high employment intensity of the ongoing economic recovery. This reflects the extent to which GDP growth is translated into employment growth.

In the 2014-2017 period, each percentage point of real GDP growth generated 0.64 percent growth in employment, which is higher than in previous recovery periods. Some 240 000 net jobs have been created in Belgium since 2013.

The strong performance of the labour market is also reflected in a record number of job vacancies. In the second quarter of 2018, 3.5 out of 100 jobs in Belgium remained unfilled. This vacancy rate (measured as the number of job vacancies relative to the total number of jobs available) is the second highest in the European Union. The fact that vacancies are difficult to fill applies to the manufacturing industry, the construction and service sectors. The increased tightness on the labour market is also apparent from a survey of manufacturing companies conducted by the National Bank of Belgium: at present, almost one in eight companies suffers from a shortage of skilled labour.

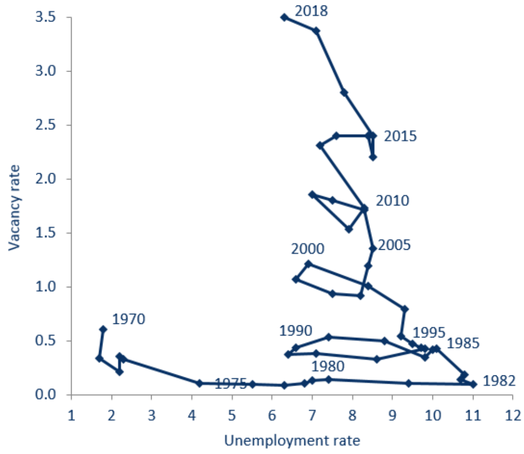
Tightness becoming more and more structural

The labour market tightness is not only a result of the economic recovery. It is also increasingly a structural problem that has been persisting for some time. Consequently, the number of job vacancies remained high throughout the financial crisis of 2008-2012. In several sectors, including health care, the number of vacancies even continued to grow during the crisis. The structural tightness is to a large extent due to the need to replace workers going on retirement.

Flanders, in particular, is confronted with this problem. Since 2010, the natural outflow from the labour market has exceeded the inflow. One cause continues to be the relatively low average age at which workers leave the labour market. Despite efforts to encourage people to work longer, the effective retirement age in Belgium remains well below the European average.

On top of being unable to absorb the outflow sufficiently, the labour market shortage is also a result of the poor matches between job openings and jobseekers. The reasons for this are many and varied, but are largely due to the unsuitable qualifications of the job candidates. The remaining pool of the unemployed is comprised of fewer and fewer people with the skills that companies need. This relates to both 'vertical mismatch', where the candidates' level of training or competence is too low for the positions sought, and 'horizontal mismatch', where the training content does not fit the available position.

Figure 1 – Beveridge-curve in Belgium



Source: KBC Economics based op Eurostat and NBB.Stat

The problem is also evident via the Beveridge Curve, which reflects the inverse relationship that should exist, in principle, between the job vacancy rate and the unemployment rate. In Belgium, the job vacancy rate has risen sharply since 1995, while the unemployment rate has remained rather high, indicating a poor matching process (Figure 1). In several European countries, including Germany, the Netherlands and the Czech Republic, an equally high job vacancy rate has meanwhile been accompanied by a much lower unemployment rate than in Belgium.

Figure 2 – Labour market tightness and GDP growth in Belgium

Structural tightness hampers growth

Traditionally, there is a positive correlation between labour market tightness and the economic cycle. After all, if the number of job vacancies rises, this indicates a positive economic dynamic. But if the level becomes acute and structural, this tightness ultimately hampers the growth potential of the economy, by restricting the capacity of companies to develop additional activities.

The causal relationship between growth and tightness then reverses. One indication that Belgium has reached this turning point is the growing gap between GDP growth and the shortage of skilled labour reported by companies (Figure 2). Apart from the direct impact on potential labour input, the tightness also creates upward pressure on wages, which can jeopardise the competitiveness of companies.

We therefore assume that the labour market tightness will further accentuate the growth slowdown in the Belgian economy, which we expect from a cyclical point of view. This is reflected in Belgian GDP growth, which will continue to be lower than the average growth rate in the euro area. In concrete terms, we expect real GDP growth in Belgium to be respectively 1.5% and 1.4% this year and next, compared with 2.0% and 1.7% in the euro area. But even after that, the Belgian economy is likely to remain relatively underperforming.

What to do about this?

The poor match between job openings and jobseekers is striking, given the efforts made in recent years to stimulate jobseekers and for job mediators to train and guide jobseekers with respect to bottleneck professions.

This is why it is necessary to have a more far-reaching activation policy coupled with other measures (e.g., actively steering young people towards employment-oriented professions, encouraging mobility in the labour market, etc.). In addition, not only the unemployed but also inactive persons must be encouraged to find a job.

At the same time, companies will also have to compromise by lowering the bar on their recruitment demands and subsequently providing new hires with the necessary skills through training and guidance. Finally, a proactive migration policy that attracts people with the necessary skills to Belgium should also have a role to play in helping to solve the quantitative labour shortage.

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