European Commission

Annual review

2024

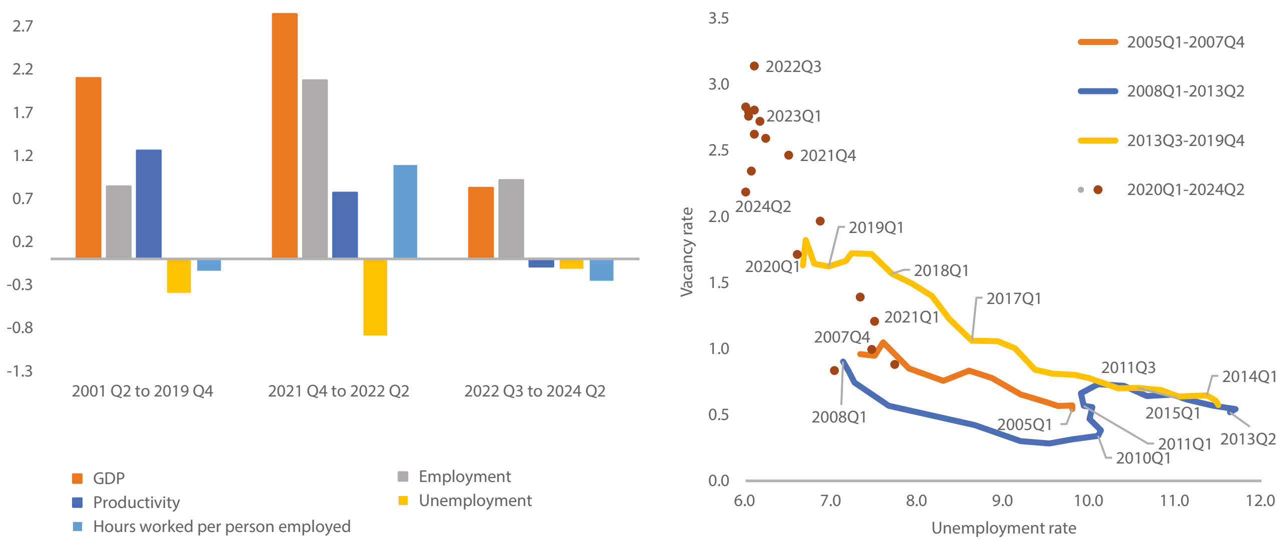
Labour Market and Wage Developments in Europe

Key findings

Over the past few years, the EU labour market has shown remarkable resilience, despite a challenging economic context

From 2019 to 2023, employment among those aged 15 to 64 in the EU expanded by 5.8 million people. This increase was notably boosted by workers coming from non-EU countries. So far, the labour market has coped well with the economic slowdown in early 2024 (Figure 1a), and the unemployment rate has hovered around an all-time low of 6% since early 2022.

Figure 1: **(a) Annual growth rates (%) for gross domestic product, employment and productivity; (b) Beveridge curve: relating vacancy rate to unemployment rate in the EU**



Note: (a) Average annualised growth rates over the period, excluding quarters when gross domestic product was negative quarter on quarter. GDP = gross domestic product; Q2 = second quarter; Q3 = third quarter; Q4 = fourth quarter; (b) Q1 = first quarter; Q2 = second quarter; Q3 = third quarter; Q4 = fourth quarter.

Source: Eurostat.

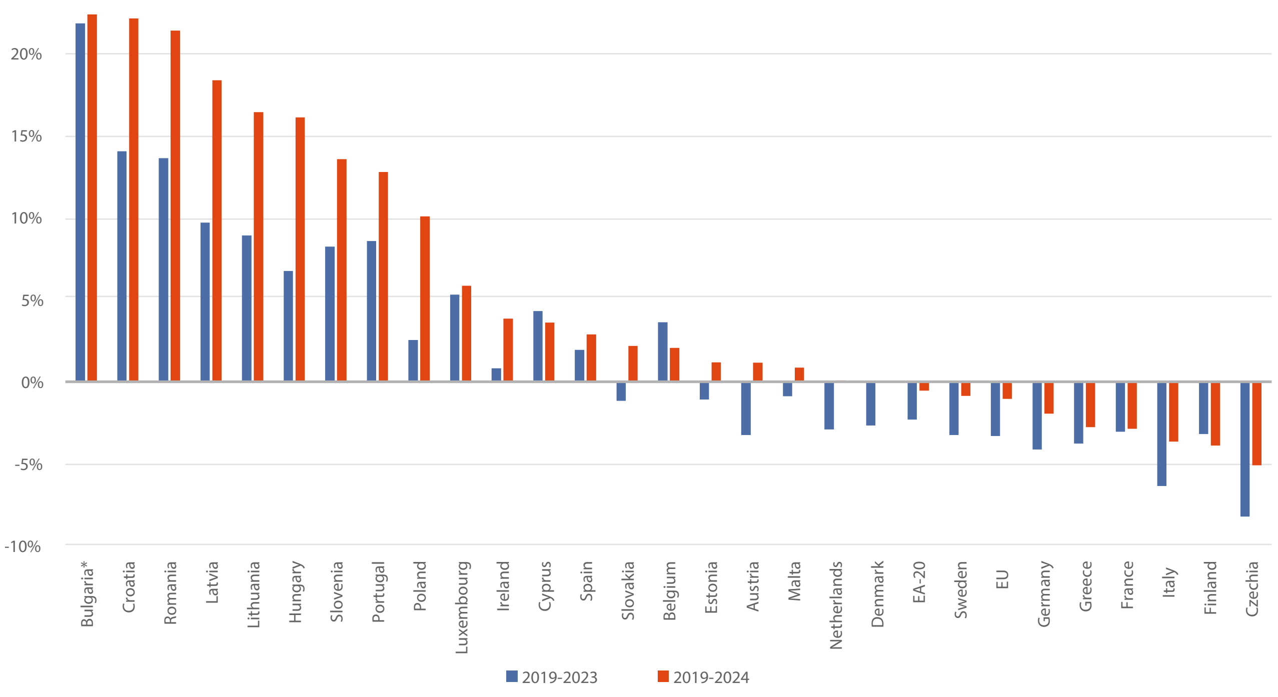
Risks for EU employment and competitiveness may arise if labour and skills shortages, as well as the slowdown in labour productivity, remain insufficiently addressed

The high level of labour shortages, combined with historically low unemployment (Figure 1b), has induced firms to retain their workers despite the economic slowdown. High profit margins have enabled firms to absorb the cost of the retention of surplus employees during the downturn, resulting in a decline in labour productivity growth (Figure 1a). On the positive side, labour and skills shortages, coupled with lower unemployment risks associated with an ageing population and improved matching efficiency, may also explain the strong employment performance. While the unemployment rate is expected to remain at its record-low level in 2025 and 2026, questions may arise about its sustainability in the medium term amid the joint presence of high labour shortages and low productivity growth. These challenges for the EU labour market require policy attention. In the context of the green and digital transitions, ensuring that workers have the right skills, promoting the activation of under-represented groups, guaranteeing good working conditions and fair intra-EU mobility, and attracting talent from outside the EU are key policy priorities to address the drop in the labour supply caused by an ageing population.

Real wages have grown again since the third quarter of 2023, but they are expected to remain below their pre-pandemic levels in 2024

Nominal wage growth in the EU reached record highs of around 6.1 % in 2023 due to the delayed effect of high and persistent inflation, as well as a low unemployment rate and a scarcity of available workers to fill job offers. However, nominal wage growth has started to moderate, reaching 5.0 % in the second quarter of 2024. Meanwhile, real wages declined in 2022 and the first half of 2023, and then edged upwards as inflation abated (2.4 % in the second quarter of 2024). These wage dynamics have helped sustain households' purchasing power, despite the withdrawal of support measures that were put in place during the energy crisis. Looking ahead, real wages should continue to increase mildly, thanks to disinflation, although not enough to fully return to their pre-pandemic levels in 2024 in many EU Member States (Figure 2).

Figure 2: **Real wage changes (%) compared with pre-pandemic levels (2019)**



Note: EA-20 = the 20 countries in the euro area; * in Bulgaria, real wages increased by 33.9 % between 2019 and 2024.
Source: AMECO.

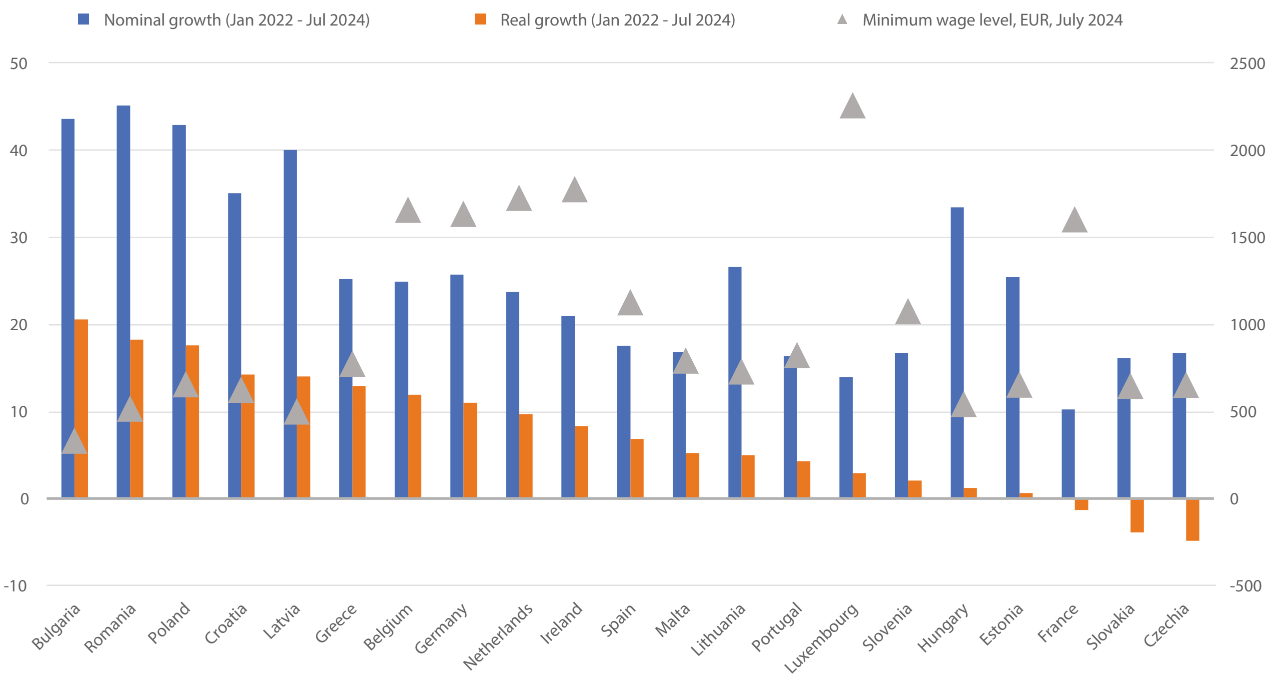
In this context, social effects of the high inflation period persist for low- and middle-income households

The rate of financial distress among workers soared during the high-inflation period and remains elevated, especially for low- and lower middle-income households [1]. Material and social deprivation for workers grew in 2022 and continued increasing slightly in 2023. While income inequality remained broadly stable on average in the EU, in most Member States

[1] Low- and lower middle-income households refer to the first two quartiles of the income distribution.

in 2022, low- and middle-income groups experienced stronger income declines than high-income groups did. By contrast, in 2023 the highest income groups lost relatively more. These developments are partly linked to strong statutory minimum wage increases (Figure 3), which have helped mitigate losses, notably for low-income earners.

Figure 3: **Developments (%) in statutory minimum wages in Member States where they exist**



Note: Nominal and real growth on left-hand axis, minimum wage level on right-hand axis. Cyprus was excluded, as the statutory minimum wage was introduced in 2023
Sources: Eurofound and Eurostat.

Scope for wage increases may exist in some Member States...

There is some remaining room for wage increases in some Member States and sectors in the short term. Inflation expectations stay moderate, mitigating the risks of a wage-price spiral. In addition, corporate profits remain high in some sectors, despite their recent decline. Furthermore, wage moderation in the last decade in many Member States that faced competitiveness gaps resulted in some rebalancing in cost competitiveness, particularly in the euro area.

... but higher productivity growth is needed to sustain stronger wage growth

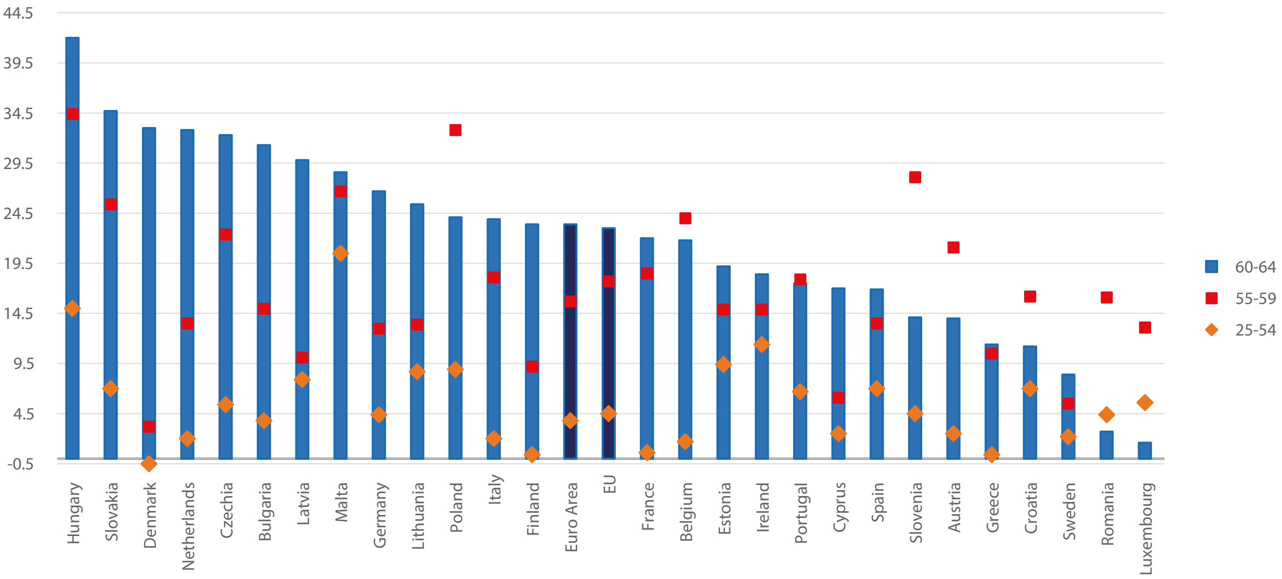
To allow sustainable wage growth over time, policies should focus on boosting productivity and helping workers gain the skills needed to get higher wages, while supporting the most vulnerable. It is also necessary to overcome the gap in high-tech specialisation, innovation and investment, and to reduce administrative burdens as well as barriers to the scaling-up of firms. Moreover, enhancing the bargaining power of workers, including through effective collective bargaining, will help workers reap the benefits of productivity gains. At the same time, promoting adequate minimum wage protection will continue to play a key role in supporting the purchasing power of low-wage earners.

Older people are underrepresented in the EU labour market for a variety of reasons

The labour market participation and employment rate of older people ([2]) have increased considerably between 2009 and 2023 (Figure 4), but this group is still under-represented in the EU labour market. This might be due to illness and disability, care responsibilities as well as persistent employment barriers, which include not only age discrimination but also workplace-related and institutional factors. Among older adults, women, people with lower levels of education, people who were born outside the EU and people with disabilities are more likely to be inactive.

([2]) The terms 'older people', and 'older adults' denote individuals who are at least 55 years old, and most typically refer to the group aged 55 to 64 , unless stated otherwise.

Figure 4: **Change in employment rates (in percentage points) between 2009 and 2023 by age group**

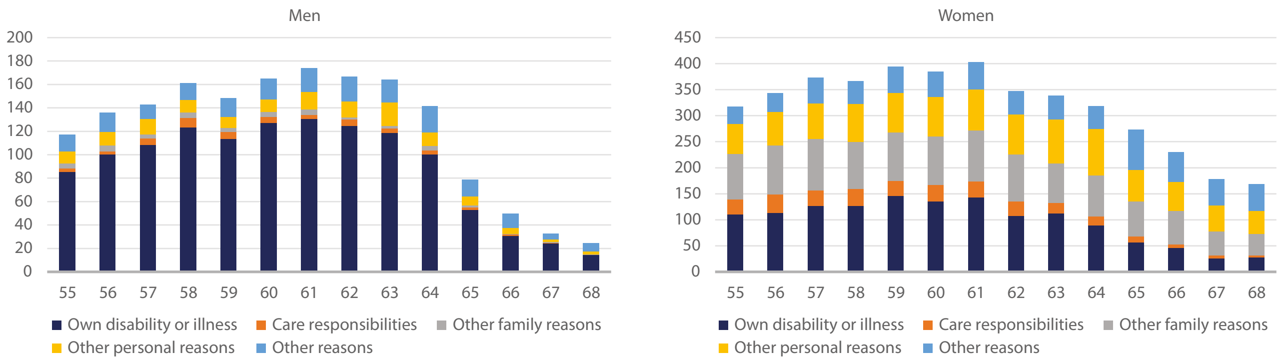


Note: EA-20 = the 20 countries in the euro area.
Source: Eurostat.

Supporting the activation of older people can contribute to mitigating the impact of an ageing workforce

The EU labour supply is expected to decline by 0.3% per year until 2070, as a result of population ageing. If left unaddressed, this trend may put increasing pressure on public budgets and further exacerbate labour shortages, thereby weakening the EU's competitiveness and hampering the twin transition. Activating underrepresented groups in the labour market, including older people, can help to mitigate the adverse impacts of a declining workforce. In particular, there is a large scope for activating older women, given the persistence of gender gaps in labour force participation and employment (Figure 5). Major causes of women's higher rate of inactivity are their care responsibilities and family reasons.

Figure 5: **Number (in thousands) of non-retired people in the EU that were inactive in 2022, by gender, age and reason for inactivity**



Source: Eurostat.

Adequate pension reforms and other tailored policies can support the employment of older workers

In addition to raising the statutory retirement age and restricting the pathways to early retirement, reforms that promote more flexibility to combine work and retirement can contribute to longer working lives. In this regard, projections suggest that, mostly due to the anticipated impact of already adopted pension reforms, there will be an increase of 8.8 million people aged 55 to 68 by 2030. Furthermore, activation policies tailored to individual circumstances are needed, in particular policies that improve women's labour market integration as well as policies targeting older people with disabilities or severe illness. Other policies can empower older generations to remain active for longer by addressing the specific vulnerabilities and barriers they encounter.

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