Short-term/ cyclical economic developments

Strategic foresight – *driver 3*

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Table of Contents

List of Tables

List of Figures

Definition

A short-term economic crisis, often referred to as a cyclical downturn or recession, is a period of economic decline and contraction that typically lasts for a relatively brief period, i.e. several quarters to a few years. This type of crisis is characterised by a temporary decline in economic activity, including reduced production, employment, and consumer spending, followed by a subsequent recovery and return to growth. Short-term cyclical crises are distinct from long-term structural economic issues and can be caused by different developments, such as financial market disruptions, external shocks (e.g., a global economic downturn or a geopolitical event), or domestic economic imbalances.

As of 2023, the world is faced with a condition known as 'permacrisis' or 'polycrisis,' which signifies the simultaneous presence of multiple global challenges. The present polycrisis encompasses the intricate interplay between the long-standing effects of the COVID-19 pandemic, the Russian aggressions in Ukraine, and crises related to energy, the cost of living, and the climate. These crises are accordingly triggered by various factors, including economic, environmental, geopolitical, societal, and technological issues (World Economic Forum, 2023b).

Developments to date

In recent years, the rapid succession of one crisis after the other has led to the creation of the terms 'permacrisis'[1] and polycrisis (World Economic Forum, 2023a; European Commission, 2023a). The terms are used to describe a state of ongoing or persistent crisis, where various crises, shocks, or challenges continuously interact and compound, making it difficult for a society, economy, or system to fully recover and stabilise. A permacrisis or polycrisis can manifest itself in various forms, but it essentially represents a chronic and interconnected state of crisis management. The key drivers of a permacrisis or polycrisis can be grouped into a few risk categories: economic, environmental, geopolitical, societal, technological. Within these categories, five main crises have been identified as currently ongoing (World Economic Forum, 2023b):

- An energy supply crisis (societal)
- A cost-of-living crisis (societal)
- Rising inflation (economic)
- A food and raw material supply crisis (societal, economic)
- Cyberattacks on critical infrastructure (technological)

Among the most recent external shocks that led to these crises, there is the COVID-19 pandemic, which triggered a global recession (including a crisis of supply of raw materials), and the Russian aggression in Ukraine, resulting in a surge in energy and food prices. have left substantial imprints on the labour market of the European Union (EU).

The COVID-19 pandemic, which emerged in late 2019, had a profound impact on the global economy, leading to commodity price fluctuations, price instability, and debt crises (World Economic Forum, 2022), as well as lower labour mobility and unequal impacts on different workforce groups. The repercussions of the pandemic on the global economy also had ripple effects on the EU labour market, characterised by various labour market mismatches and disparities across sectors and regions. One of the most noticeable effects was the significant disruption in the service industries, including hospitality, tourism, and retail, which were particularly affected due to lockdowns, travel restrictions, and reduced consumer spending. These sectors witnessed substantial job losses, furloughed workers, and reduced working hours. In terms of workforce groups, women and youth were the ones most hit by the pandemic and the restrictions it imposed. This is because both women and youth tend to be overrepresented in hard-hit sectors and low paying jobs (OECD, 2021; ILO, 2021a and 2021b). Occupations that could be performed online from home, on the contrary, were not disrupted to the same extent. Temporary employment, predominant in the hospitality and tourism sectors, among workers aged 15-64 in the EU, dropped during the COVID-19 pandemic and did not recover to pre-pandemic levels in 2021 and 2022, stabilising at 12.1% in 2022, 1.1 percentage points lower than the 2019 rate. In 2022, about 23.9 million people worked on a temporary contract in the EU, which is 1.7 million fewer than in 2019 (25.6 million). The impact of temporary employment on employment growth declined in the second half of 2021 and 2022 because non-permanent jobs lost during the pandemic were not regained in certain sectors, such as manufacturing, construction, accommodation and food services, wholesale, and retail, due to weak job creation. Conversely, some sectors like healthcare, e-commerce, and information technology experienced increased demand, resulting in labour shortages and a need for specific skill sets (European Commission, 2023b). With the onset of COVID-19, in fact,

1 The term was declared Collins Dictionary word of the year in 2022.

e-commerce surged as people could almost exclusively shop online. Linked to this, but also to the need to continue conducting work online, a surge in the demand for IT roles was observed. These roles linked to the necessity to manage and further develop the functionality of e-commerce platforms, as well as online meeting and collaboration platforms. As a result, there were clear labour market mismatches, with an excess of workers in hard-hit industries and a shortage of skilled professionals in others. Furthermore, territorial disparities became evident, as regions heavily dependent on tourism and hospitality, such as Southern Europe, experienced more significant labour market disruptions than areas with diverse economies. Regional disparities also emerged in the closing stages of the pandemic, as the varying vaccination rates in different countries impacted workers' availability and productivity, potentially disrupting supply chains and weakening consumption (World Economic Forum, 2022). Finally, as expected, the pandemic also had impacts on the intra-EU the labour mobility, as a consequence of the travel restrictions imposed: compared to 2019, outflows of EU movers decreased by 14% and inflows decreased by 21% (European Commission, [1]2023c). The pandemic emphasised the need for workforce adaptability, upskilling, and regional resilience in the face of unforeseen crises, as labour market dynamics evolved rapidly in response to ongoing challenges.

Towards the end of the COVID-19 pandemic, the outbreak of the Russian aggressions in Ukraine brought about a new series of crises. The conflict resulted in increased energy and food prices, sparking inflationary pressures that led to a global cost-of-living crisis and social unrest (World Economic Forum, 2023c). High and persistent inflation also placed enormous pressure on labour incomes, as workers struggled to maintain their purchasing power, increasing the risk of poverty and inequality (ILO, 2022). The developments disrupted economic relations and trade between the EU and Russia, which may have repercussions on the EU labour market demand. However, these repercussions are expected to be small, as is the share of EU employment directly or indirectly dependent on Russia. First, less than 1% of EU employment is directly sustained by Russian final demand. Yet, in some countries and sectors, the share of employment embedded in Russian final demand is slightly more important, as is the case for manufacturing (1.4%). Economic relations between the EU and Russia do not only impact the EU labour market by means of direct trade channels, but also through indirect ones (i.e.: import/export of intermediate inputs). On one hand, the share of EU employment linked to intermediate inputs from Russia (i.e. Russian exports) affect around 0.6% of total EU employment. (European Commission, 2022a).

On the supply side, the conflict led to an influx of Ukrainians into several EU countries. The ILO estimates that approximately 1.7 million people, predominantly women, were employed in Ukraine before fleeing the country, mainly for Western Europe. These previously employed people accounted for 11% of the country's total workforce before the conflict (ILO, 2023). Employment losses in Ukraine stemming from the outflux are not evenly distributed across occupational groups. Before the war, the main occupations filled by Ukrainians fleeing the country in 2022 included clerical support workers, services and sales workers, professionals, and technicians and associate professionals. In terms of the sector of activity, about 16% worked in education, and another 7% worked in health and social services before leaving (ILO, 2022). These workers may contribute to the labour supply in their host countries if they seek employment opportunities. Three host countries, namely Poland, Germany, and Czechia, account for 61% of the Ukrainians registered for temporary protection or similar national protection schemes in Europe. Among those who were employed in Ukraine before the outbreak of the conflict, the highest numbers of workers relative to the domestic labour force of the host country are found in Czechia and Poland (1.8%). In all other host countries, the population of previously employed Ukrainians is less than 1% of the domestic labour force (ILO, 2022). While the labour supply in host countries may increase, integrating these new workers into their labour markets can be challenging, due to language barriers, differences in skill sets, and other social and economic factors. A survey of Ukrainians by UNHCR and IPSOS conducted between August and September 2022 (UNCHR, 2022) found that 28% of respondents had secured wage employment or were self-employed in their host countries. This is well below the rates of employment among the refugee population before the war, indicating the challenges faced by displaced Ukrainians in securing employment. The oversupply of jobseekers in regions that have received many internally displaced persons (IDPs) exacerbates labour market matching problems (ILO, 2022). The impact of Ukrainians on host labour markets is starting to be reflected in unemployment statistics, although there is no evidence that the large influx has undermined the stability of labour markets. In Germany, for example, a rise in the unemployment rate can be attributed to the inclusion of displaced people in statistics starting from June 2022, with no signs of structural shifts in the underlying parameters of the labour market that negatively affect the national population. On the other hand, in Poland, despite the significant number of displaced Ukrainians in the country, the unemployment rate has recently decreased, potentially indicating that Ukrainians have been well integrated into the Polish labour market.

1 Persons or groups of persons who have been forced or obliged to flee or to leave their homes or places of habitual residence, in particular as a result of or in order to avoid the effects of armed conflict, situation of generalized violence, violations of human rights or natural or human-made disasters, and who have not crossed an internationally recognised border.

Despite these challenges, such as high inflation, the Russian aggressions in Ukraine, and economic slowdown, the EU achieved record-breaking employment levels in 2022. The employment rate reached 74.6%, marking a 2.0% increase from the previous year. This resulted in the highest number of people employed, totalling 213.7 million, along with the lowest unemployment rates ever recorded at 6.2%. The surge in employment primarily stemmed from the growing number of permanent and full-time workers. However, despite these positive developments, additional challenges must be addressed. In 2022, during the post-COVID-19 recovery phase, labour shortages sharply increased and returned to previous occupational and sectoral patterns. The job vacancy rate reached a historic high at 2.9%, with labour shortage indicators revealing an increasingly tight labour market, where the number of job vacancies exceeds the available workforce. Following disruptions in demand during the COVID-19 crisis (with the exception of healthcare, which experienced surging demand during the pandemic), these shortages surpassed pre-pandemic levels by the end of 2021 (European Commission, 2023b). In 2023, wages showed growth, though real wages were still decreasing, albeit at a slower pace. In the first quarter, nominal compensation per employee in the EU rose by 5.7% from the same period in 2022. The most significant increase in compensation occurred in the industry sector, followed by services and construction. Minimum wages also followed a similar trajectory in Europe from 2022 to 2023. The median nominal increase in minimum wages across Member States was almost 11%, compared with 5% in 2022. However, due to inflationary pressures, these large nominal increases did not translate into consistent real gains in purchasing power for minimum wage earners, with the exception of a few countries (mainly Germany and Belgium) (Eurofound, 2023). The labour market's response to slowing economic growth is expected to be mild due to ongoing tightness and labour hoarding (i.e. when companies retain their employees, rather than laying them off, during an economic downturn or recession). Unemployment is not anticipated to see a significant increase, but employment growth is expected to ease. Nominal wage growth may accelerate, yet it is unlikely to fully offset previous real income losses (European Commission, 2023d).

The EU's weakened economic growth is anticipated to persist into 2024. Despite this, a slight growth rebound is projected in 2024 due to easing inflation, a resilient labour market, and gradual recovery in real incomes. Projected EU growth is 0.8% in 2023 and 1.4% in 2024, with headline inflation expected to decline from 9.2% in 2022 to 6.5% in 2023, further declining to 2.9% and 3.2% in 2024 (European Commission, 2023d).

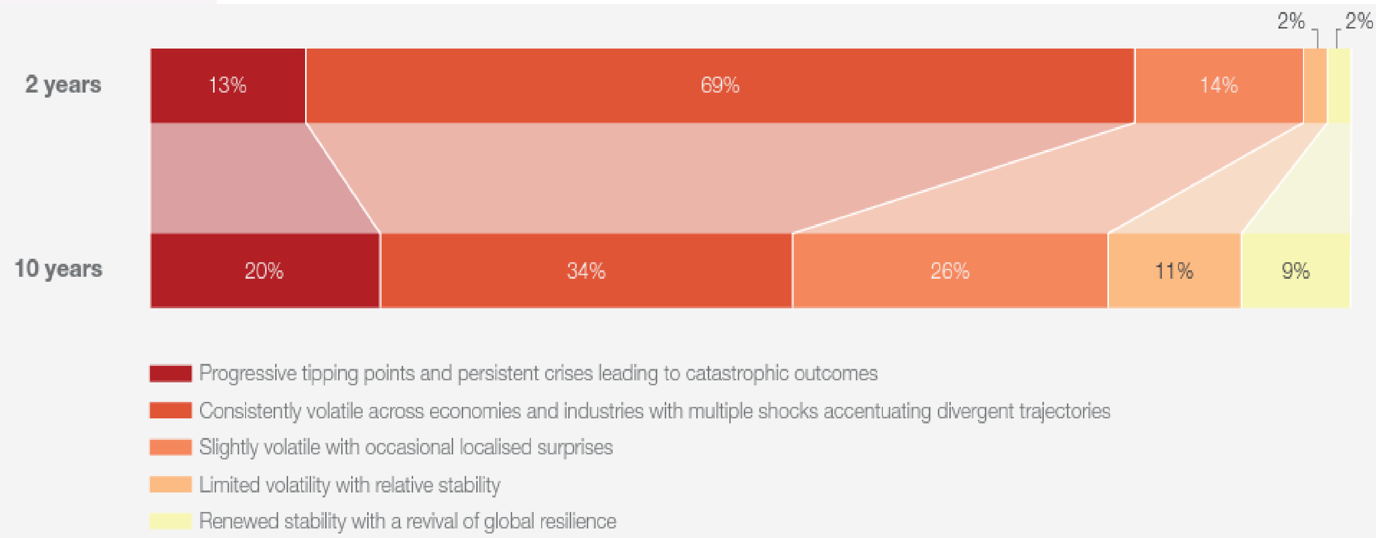
Future perspectives

As emerges from the above discussion, impacts on the labour market can vary significantly depending on the shock that causes them. Furthermore, in a context of permacrisis and polycrisis, the impacts from one shock affect and in turn are affected by those of other shocks. Concurring impacts can either mitigate, compound or neutralise one another. In these circumstances, while it is possible to assess future perspectives based on various forecast and foresight data on different shocks, it is unlikely that the overall future effect of multiple crises can be estimated.

The World Economic Forum (2023b) has identified, by collecting extensive experts' opinions, 10 global risks that are expected to unfold in the short-term (two years) and in the long-term (10 years) (Figure 1). In the short-term, three risks of different nature are identified: societal, environmental, and geopolitical. In the next two years, the cost-of-living crisis is expected to be the most severe risk that will (continue to) unfold globally. This is primarily linked to the ongoing conflict in Ukraine, which sparked inflationary pressures on energy and food prices. The subsequent risks identified – in order of their expected severity – are natural disasters and extreme weather events, followed by geoeconomic confrontations (such as the ongoing conflict in Ukraine). It is worth mentioning that the report was published before the outbreak of the conflict between Israel and Palestine in October 2023. The results for the two-years outlook might have been different, had the investigation been conducted after the start of this new conflict.

The World Economic Forum Global Risks Perception Survey (2023) also asked participants to express their feelings about the future, with a time horizon of 10 years (i.e.: up to 2033). More than half of the respondents (54%) have rather pessimistic views about the future, expecting persistent crises or continued volatility across economies (see Figure 1). Approximately a third of the respondents (37%) is mildly optimistic, expecting only occasional localised shocks and relative stability. Finally, only 9% of respondents is confident that in the next 10 years the world will regain its lost stability, with newly found resilience.

Figure 1 Short- and long-term global outlook



Source World Economic Forum Global Risks Perception Survey 2022-2023

The three main risks identified in the next 10 years all belong to the environmental category (see Figure 2). In particular, respondents fear that we will collectively fail to both mitigate climate change and adapt to it, whilst it is also expected that natural disasters and extreme weather events will continue unfolding. The current crises and recently concluded ones have significantly diverted resources and efforts from addressing climate change and its impact. This potentially explains why environmental risks are perceived to be the most pressing in the next 10 years. It is worth clarifying that while ongoing climate change and failure to mitigate and adapt to it constitute long-term structural issues, unpredictable natural disasters and extreme weather events will continue playing a role as potential short-term shocks affecting the economy, the labour market and the afflicted groups.

Figure 2 Global risks ranked by severity over the short and long term

	2 years		10 years
1	Cost-of-living crisis	1	Failure to mitigate climate change
2	Natural disasters and extreme weather events	2	Failure of climate-change adaptation
3	Geoeconomic confrontation	3	Natural disasters and extreme weather events
4	Failure to mitigate climate change	4	Biodiversity loss and ecosystem collapse
5	Erosion of social cohesion and societal polarization	5	Large-scale involuntary migration
6	Large-scale environmental damage incidents	6	Natural resource crises
7	Failure of climate change adaptation	7	Erosion of social cohesion and societal polarization
8	Widespread cybercrime and cyber insecurity	8	Widespread cybercrime and cyber insecurity
9	Natural resource crises	9	Geoeconomic confrontation
10	Large-scale involuntary migration	10	Large-scale environmental damage incidents

Risk categories: Economic, Environmental, Geopolitical, Societal, Technological

Source: World Economic Forum Global Risks Perception Survey 2022-2023

Unexpected natural disasters and extreme weather events will have varying impacts on labour markets across European regions, depending both on their frequency, intensity and the damage they may cause. Overall, the economic sectors most susceptible to natural disasters and extreme weather events are those highly dependent on climate-sensitive resources, such as agriculture, and in regions frequently affected by extreme weather events (IPCC, 2014).

Extreme weather events may lead to significant migration flows – and hence mobility – within and across EU Member States, altering the composition of the EU labour market. The costs of climate change are likely to be more pronounced in southern and coastal Member States (European Commission, 2022b). This could lead to mobility from coastal and southern regions to internal northern areas, resulting in labour surpluses in receiving regions and labour shortages in southern coastal areas. These anticipated changes highlight the importance of risk anticipation and ensuring that the most affected regions, sectors, and occupations are equipped to face these challenges. Upskilling and reskilling measures to facilitate the transition of workers from one occupation to another are essential tools to prevent catastrophic consequences for the EU labour market.

Hypotheses about the future

Based on the current trends and future perspectives presented and discussed above, it is possible to suggest hypotheses as to how crises and shocks might develop up to 2030, and how these might impact the EU labour market.

H1: A continuous state of perma- and polycrisis

By 2030, the current crises (COVID-19 pandemic aftermath, regional conflicts, and persistent inflation) will still be ongoing, with new ones (e.g. the new conflict between Israel and Palestine) adding to the mix. While the economy and labour market adapt to the new conditions there is some dampening of demand with implications for investment, competitiveness and employment. Demand for labour weakens – compared with the current situation – but matching in certain areas remains difficult because the uncertainties in the global market reduce the capacity of employers to train people, leading to skill shortage hotspots.

H2: Coping with the aftermath

Current major crises (aftermath of the COVID-pandemic, conflicts in Russia-Ukraine, Israel and Palestine) will have been resolved, but their long-term impacts continue to linger, especially on the most vulnerable segments of society. While the economy, labour market and society are recovering, increasing inequalities are realised.

H3: A revival of global stability and resilience

The ongoing crises, including COVID-19, regional conflicts, and inflation, have been effectively resolved, and global stability and resilience have been achieved. This results in a rapid rebound in the global economy with output increasing at a relatively fast pace. The implications for the labour market are an increased demand for labour.

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