

THE RISK OF 9 MILLION ZOMBIE JOBS IN EUROPE

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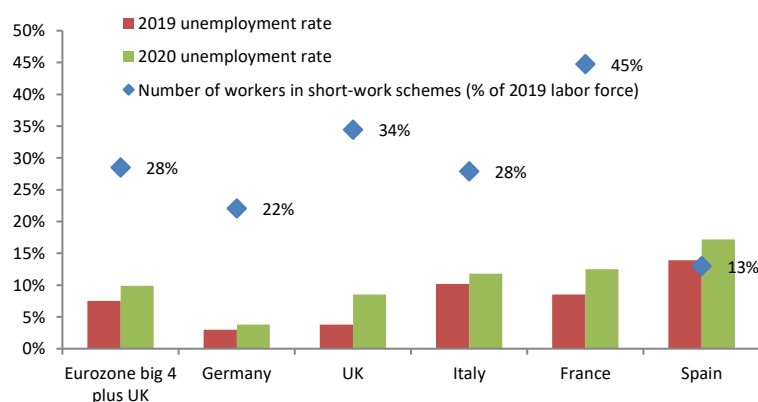
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In Europe, blanket job-retention schemes helped prevent mass unemployment in the short-term, contrary to the U.S. experience: Close to a third of Europe's workforce or 45 million jobs in the five largest economies alone are currently benefiting from national employment support schemes (see Figure 1). The success of *Kurzarbeit* during the Great Financial Crisis certainly pushed many European governments into adopting short-time working arrangements to cushion the Covid-19-related blow to labor markets. Firms could reduce workers' hours, with the government replacing a large part of the lost income (between 60% and 100%, see Annex for details). In 2020, and in spite of emergency support measures, we expect 4.3 million additional unemployed in the big five European countries.

Figure 1: Unemployment rate & number of workers in short-work schemes (% of 2019 labor force)



Sources: Refinitiv, Allianz Research

Today, European policymakers are recalibrating partial unemployment towards longer but less generous schemes. "Late bloomer" sectors will be prioritized. In most countries, the generosity of the program is being reduced, except for the most impacted sectors to avoid pulling the plug too early. Second, many countries announced an extension of the job retention scheme to reduce short-run uncertainty for firms, transforming them into a de facto wage subsidy to support the recovery. In the end, it looks like six "late bloomer" sectors (transportation & storage, accommodation & food service, art, entertainment & recreation, retail & wholesale and industry and construction) will receive the bulk of jobs protection efforts, as pre-crisis activity levels will not be in sight until end 2021 for four reasons:

1. ongoing sanitary restrictions continue to directly affect these sectors' activity - from social distancing rules that limit the number of people in restaurants and shops to outright bans on international travel or events;
2. self-imposed social distancing due to lingering contagion concerns, even as restrictions are lifted, will affect in particular the consumption of goods and services that require direct customer contact / social interaction, including travel, retail and leisure activities;
3. heightened domestic economic uncertainty, driven by widespread job and insolvency fears, will keep a lid on hiring and investment plans; and
4. dependence on recovery of external demand will see some sectors – from industry and transportation to tourism-related activities – trail behind as the uneven economic recovery across countries and regions will keep a lid on global growth dynamics until at least 2022

Figure 2: Recovery headwinds & sector hurdles

	Agriculture, forestry & fishing	Industry (except construction)	Construction	Wholesale & retail trade	Transportation & storage	Accommodation & food service	Information & communication	Financial & insurance activities	Professional scientific & technical activities	Public administration, defence, education, human health & social work	Arts, entertainment & recreation, other services
Ongoing economic restrictions											
Self-imposed social-distancing											
Elevated domestic economic uncertainty											
Reliance on global demand recovery											

■ largely unaffected ■ affected

Source: Allianz Research

In the five largest European countries, we estimate that 9 million workers or 20% of those currently enrolled in short-work schemes, face an elevated risk of becoming unemployed in 2021 because of the muted recovery in late bloomer sectors and the policy cliff effect. We call these **zombie jobs**; they require ad hoc policies to avoid postponed mass unemployment. As a matter of fact, "late bloomer" sectors employ round 115 million workers across the EU27 i.e. 49% of total employment. At the national level, the share of total employment in "late bloomer" sectors ranges from 42% in France to 50% in Italy. By using the employment intensity by sector in relation to value added, coupled with our recovery expectations by sector in 2021, we end up with a proxy of zombified jobs, for which *Kurzarbeit*-type schemes may at best postpone job loss. As per our calculation, zombie employment would equate to 6% of total employment. Zombie jobs are more numerous in the UK as well as Italy and Spain – as these countries boast relatively larger shares of labor-intensive sectors such as construction, retail and accommodation & food service – and fewer in Germany. One of the issues policy makers will have to address is the risk that zombified jobs will see some workers stay in "late-bloomer" sectors for income protection, instead of moving to "fast bloomer" sectors (such as health and IT) with better job opportunities in an asymmetric recovery. In this context, combining active labor market policies (up-skilling, intermediation) with wage subsidies is both urgent and important. Complementary schemes to subsidize new hires

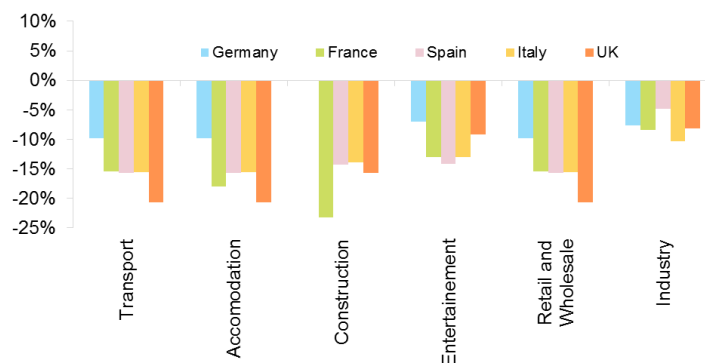
(especially younger job seekers at-risk of a scarring effect in their school-to-job transition), employees choosing mobility and re-skilling and those starting their own business should also be pursued to lessen the risk of postponed unemployment.

Figure 3: Employment (% total employment) in “late-bloomer” sectors

	Transportation & storage	Accommodation & food service	Construction	Arts, entertainment, recreation	Retail & Wholesale	Industry (except construction)	Combined share of employment	Total (Mio)
EU 27	5.1%	4.9%	6.3%	1.6%	14.4%	16.3%	48.6%	115
EZ 19	4.9%	5.4%	6.0%	1.7%	14.5%	14.6%	47.1%	73
Germany	5.2%	4.2%	5.6%	1.5%	13.3%	18.5%	48.3%	22
France	5.0%	4.4%	6.2%	2.2%	13.4%	10.3%	41.5%	12
Italy	4.7%	6.5%	6.0%	1.3%	14.7%	16.9%	50.2%	13
Spain	4.6%	7.9%	6.2%	2.2%	17.2%	11.3%	49.3%	10
UK	4.8%	6.7%	7.2%	2.8%	14.7%	9.0%	45.2%	14

Sources: Eurostat, Allianz Research.

Figure 4: Forecast loss of employment (% of sectoral employment) based on expected output loss by end 2021



Source: Allianz Research

Figure 5: Estimates of zombie employment

	% of total employment	in Mio.
Germany	4.0%	1.8
France	6.3%	1.8
Italy	6.9%	1.7
Spain	6.5%	1.3
UK	7.6%	2.5
Europe Big 5	6.0%	9.1

Sources: Eurostat, Allianz Research

ANNEX: Overview of selected short-work schemes in Europe

Country	Name	Eligibility	Benefits	Salary cap	Duration
Germany	Kurzarbeit	All workers who pay social security contributions are entitled to short-time working allowances, including temporary agency workers and people on a fixed-term contract.	The employer pays for the effective working time and the Federal Employment Agency contributes a short-time working allowance of 60-67% of the pre-lockdown wage and up to 87% in 2020 under special conditions	The monthly income threshold are €6,900 in western Germany and €6,450 in eastern Germany.	Up to 12 months (or 21 months under special conditions) and up to 24 months in cases of exceptional circumstances on the general labor market.
France	Chômage partiel / activité partielle	Partial activity is directed at companies experiencing : either a reduction in their usual working time or a temporary closure of all or a part of the company.	84% of net wage (70% of gross salary), with 100% for those on min. wage, and 71% after June 1 For a company employing fewer than 250 workers, the employer receives €7.74 per hour per	The reduction in work covered by the short-time work scheme is limited to 100% of the legal working-time and 1,607 hours per year	Partial activity is allowed for a maximum period of six months but the government will extend it to 1.2 years. As part of support measures dedicated to the culture,

		It is possible to implement partial activity when the reduction or the temporary suspension in the activity is due to : the economic situation; supply difficulties; a disaster or weather conditions of an exceptional nature; the transformation, restructuring or modernization of the company or any other exceptional circumstance such as the loss of a principal client.	worker. For a company with more than 250 workers, the employer receives €7.23 per hour per worker.	and per employee.	sport and hospitality industries, partial unemployment will still be fully available after 01 June 2020 as it has been since April.
Italy	Cassa Integrazione Guadagni	Firms with more than five employees. All those employed on 23 February 2020.	80% of monthly pre-lockdown wage	From €939 to €1,129 depending on the pre-lockdown salary.	Initially nine weeks, but the scheme has been extended by 5 weeks until August 31. Companies operating in tourism, events, amusement parks and entertainment can use the scheme until end-Oct.
Spain	ERTE	A temporary layoff plan is a special administrative labor procedure which can be executed due to failure of the business activity as a result of economic, technical, organizational or production problems. It can be implemented irrespective of the number of workers affected.	Unemployment benefit up to 70% of original salary for first six months, then 50%.	85% of the previous salary with a minimum of €501.98 and maximum of €1,411.83.	The emergency temporary leave scheme is scheduled to expire at end-June, an extension is expected to be announced soon.
UK	Furlough	Directed to companies whose operations have been affected by Covid-19.	80% of monthly pre-lockdown wage until August, reduced to 60% by October.	Up to £2,500 a month, plus the associated Employer National Insurance contributions and pension contributions on that subsidized furlough pay.	Temporary scheme in place until end-October starting from 1 March 2020

Sources: Eurofound, Allianz Research.

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