EDITORIAL

LABOUR HOARDING: A SOURCE OF RESILIENCE DURING A RECESSION

Companies in the United States and the euro area continue to struggle to fill vacancies. This will probably make them reluctant to lay off staff when economic conditions worsen, fearing that during the next upturn they would rapidly face new hiring difficulties. By limiting the increase in unemployment, such labour hoarding would be a source of resilience. However, this would be reflected in a decline in labour productivity, which would weigh on profits and could push companies to increase selling prices, thereby slowing the pace of disinflation.

The labour market in the US and the Eurozone continues to be tight. Companies still struggle to hire staff and unemployment is, based on historical standards, very low. Both factors could be a source of resilience during the now widely expected recession. Although the latter should cause an increase in the unemployment rate, consensus forecasts only expect a limited rise.[1] Consequently, the impact on household income should be limited as well.

A factor that should limit the increase in the unemployment rate is labour hoarding by companies.[2] *"Firms are said to hoard labour when they choose not to adjust their employment of labour in line with short-run fluctuations in demand for their product and, instead, allow their utilisation of labour to vary over the cycle."*[3]

Such a behaviour may be caused by different factors: the high cost of laying off people -due to employment protection laws-, the costs associated with recruiting staff, the loss of human capital when people have to leave the company, government incentives when employment levels are being maintained.

At the current juncture, the fact that companies have been struggling for so long to fill vacancies will probably play an important role by making them reluctant to lay off staff when economic conditions worsen, fearing that during the next upturn they would rapidly be confronted with new hiring difficulties. This is the message of the latest Beige Book of the Federal Reserve, which reports that *"scattered layoffs were reported in the technology, finance, and real estate sectors. However, some contacts expressed a reluctance to shed workers in light of hiring difficulties, even though their labor needs were diminishing."*[4]

Such behaviour supposes that companies expect the recession to be shallow and short and that their financial situation is sufficiently robust. This last point is important because labour hoarding causes a decline in the productivity of labour during an economic downturn: headcount and/or hours worked decline less than production

Conversely, productivity will improve when economic growth picks up because staffing levels do not need to be increased until the recovery has gathered sufficient strength. This procyclical nature of productivity growth -which is generally used as an indicator of labour hoarding although other factors also may play a role- is illustrated in charts 1-4.

At first glance, it seems that there is a closer relationship between real GDP growth and productivity growth in the euro area than in the US. This impression is confirmed by charts 5 and 6, which show the rolling correlation between the two. On average, the correlation is higher in the euro area than in the US. This means that in the former, fluctuations in productivity growth are more closely associated with slowdowns or accelerations in GDP growth than in the US, which would suggest that labour hoarding plays a bigger role in the euro area.

A number of caveats should be kept in mind however. Firstly, the correlation is lower and fluctuates more when measuring productivity based on output per hour worked. Secondly, other factors than labour hoarding may also play a role in explaining fluctuations in productivity growth. Finally, large shocks, such as the pandemic, can cause a breakdown in the relationship between GDP and productivity.

In conclusion, labour hoarding is expected to be a factor of resilience during the coming economic downturn. However, in the early stage of a recovery, this would reduce the need to hire more people, which could lead to a slower recovery. The decline in labour productivity that is associated with labour hoarding, is expected to put pressure on company profits and this may lead companies to increase their selling prices in order to protect their margins. In such case, labour hoarding would be a source of resilience but it would also slow down the decline in inflation.

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EUROZONE: REAL GDP VS LABOUR PRODUCTIVITY PER HOUR WORKED

CHART 1

SOURCE: EUROSTAT, BNP PARIBAS

1. The November survey of professional forecasters of the Federal Reserve Bank of Philadelphia projects an increase in the unemployment rate to 4.2% in 2023 and a stabilization thereafter for the following two years. In November, the US unemployment rate was 3.7%. The ECB's survey of professional forecasters for the fourth quarter of this year projects an unemployment rate for the euro area of 7.1% in 2023 and 7.0% in 2024. In October, the unemployment rate declined to 6.5%.
2. Labour hoarding is hotly debated today, but it has a long history. In the academic macroeconomic literature, it goes back to 1963 and the work of Arthur Okun but before that it had already been covered for years in analyses of corporate management. For a historical analysis, see Jeff E. Biddle, The Cyclical Behavior of Labor Productivity and the Emergence of the Labor Hoarding Concept, Journal of Economic Perspectives—Volume 28, Number 2—Spring 2014.
3. Assessing the extent of labour hoarding, Bank of England Quarterly Bulletin: Summer 2003.
4. Source : Beige book, Federal Reserve, November 2022.

EUROZONE: REAL GDP VS LABOUR PRODUCTIVITY PER PERSON

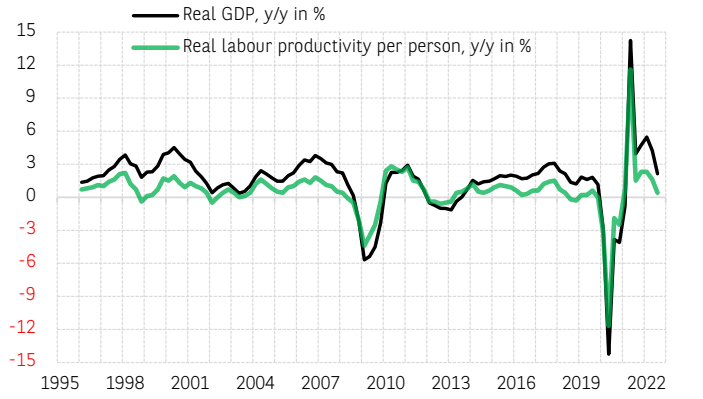

CHART 2

SOURCE: EUROSTAT, BNP PARIBAS

US: REAL GDP VS LABOUR PRODUCTIVITY PER HOUR WORKED

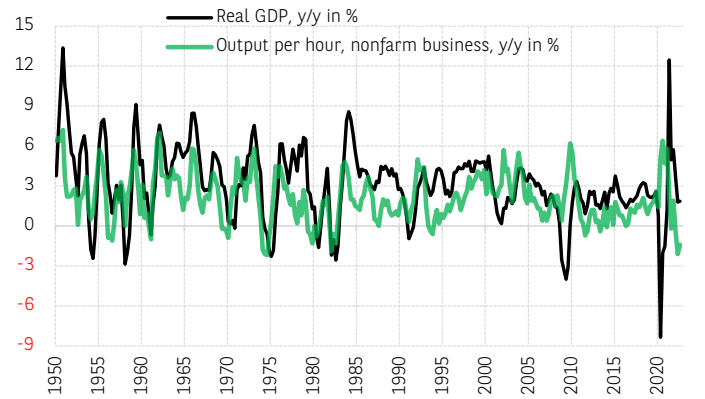

CHART 3

SOURCE: BEA, BLS, BNP PARIBAS

US: REAL GDP VS LABOUR PRODUCTIVITY PER PERSON

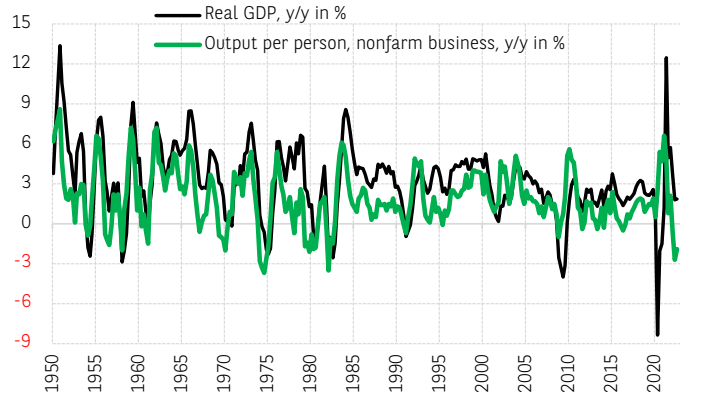

CHART 4

SOURCE: BEA, BLS, BNP PARIBAS

EUROZONE: CORRELATION WITH REAL GDP GROWTH (12-QUARTER MOVING AVERAGE)

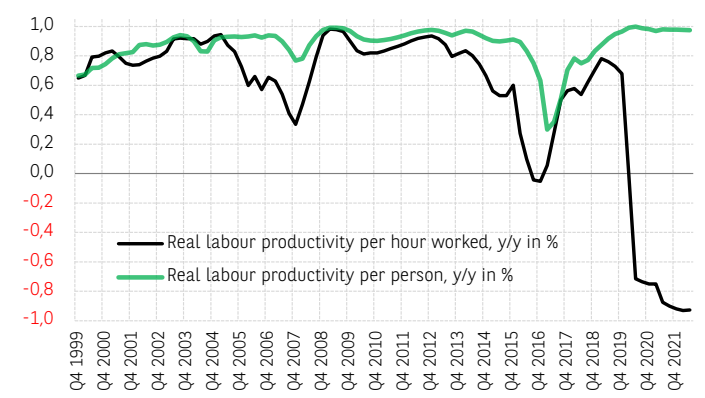

CHART 5

SOURCE: EUROSTAT, BNP PARIBAS CALCULATIONS

US: CORRELATION WITH REAL GDP GROWTH (12-QUARTER MOVING AVERAGE)

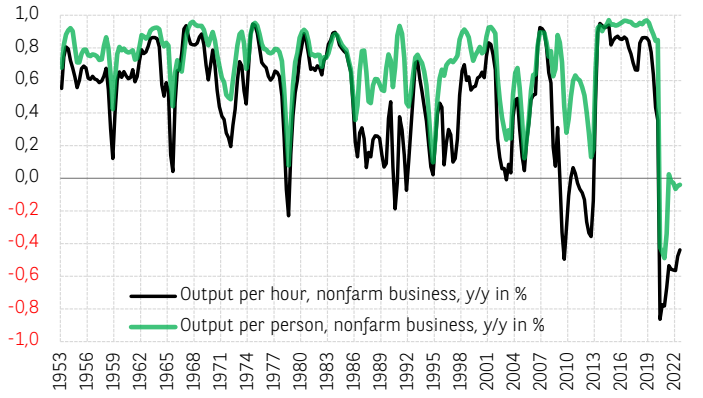

CHART 6

SOURCE: BEA, BLS, BNP PARIBAS