

Background of the Working Hour Decline in Europe

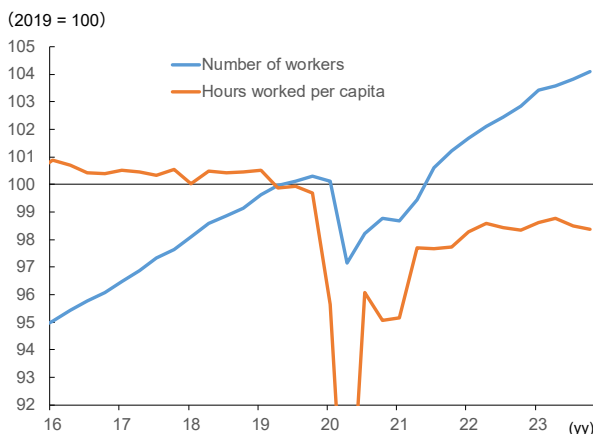
People are increasingly looking for ways to reduce working hours centered on educated groups

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Employment increases while hours worked per capita decrease

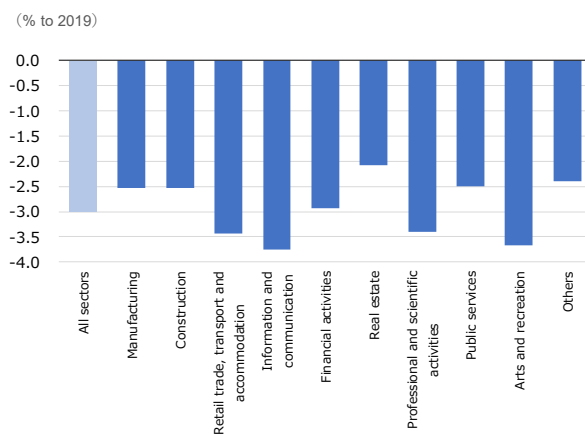
Eurozone employment in the October-December period of 2023 increased for the 11th consecutive quarter, rising +0.3% year-on-year. Even though employment has increased steadily since the end of the COVID-19 crisis, hours worked per capita continue to fall (Chart 1). By type of employment, hours worked by part-time workers increased +0.6% over 2019, while hours worked by full-time workers decreased -3.0% over the same period. Looking further at full-time workers by sector, the rate of working hour decline is pronounced in “Retail trade, transport and accommodation,” “Information and communication,” “Professional and scientific activities,” and “Arts and recreation” (Chart 2).

[Chart 1: Eurozone: number of workers and working hours]



Note: The most recent value for hours worked per capita is July-September 2023.
Source: Made by MHRI based upon Eurostat.

[Chart 2: Eurozone: rate of working hour decline (by sector)]



Note: Labor Force Survey-based hours worked per week; 1-3Q 2023 average compared to same period in 2019. Full-time workers.
Source: Made by MHRI based upon Eurostat.

Regarding the background to the decline in hours worked per capita, the ECB (2023) points to demographic and industrial shifts and changes in worker preferences as longer-term structural factors, in addition to labor hoarding by firms and increased sick leave. In terms of worker preferences, the European Commission (2023)

also noted that since the COVID-19 pandemic, there has been an increasing appetite among workers to reduce their working hours. In Europe, labor unions are demanding a shift to a three-day weekend, and in February of this year, Germany began a six-month pilot program to introduce a three-day weekend at some companies.¹

In this report, we examine such changes in worker preferences about working hours, the background to these changes, and their impact on the European economy.

Preferred working hours are declining especially among young to middle-aged, well-educated people

We look at European working hour preferences based on surveys (“European Working Conditions Survey”) conducted by the EU agency Eurofound in 2015 and 2021. The surveys asked a variety of labor-related questions, including the respondents’ age and educational background, their employment status, and actual and preferred working hours. The individual data of the responses are publicly available, and we compiled these data (the total number of responses was 43,850 for the 2015 survey and 71,758 for the 2021 survey). The European Commission’s (2023) findings mentioned above also relied on the results of the same studies.

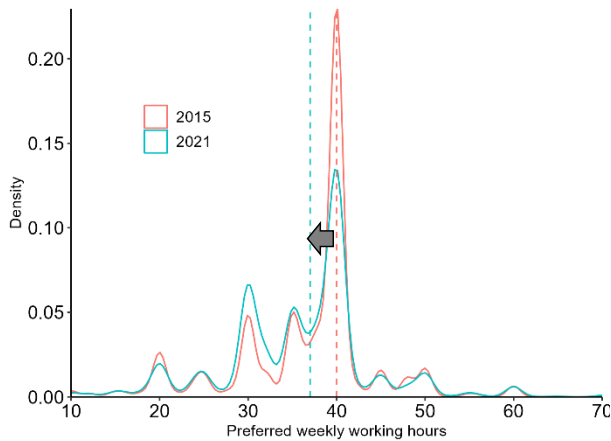
First, looking at the distribution of preferred working hours for all workers (excluding self-employed, same below) from 2015 to 2021, the share of workers who choose 40 hours per week as their preferred working hours decreased, while the share choosing 30 to 35 hours per week increased (Chart 3). Specifically, the percentage of respondents who prefer 40 hours of work fell from 41% in 2015 to 29% in 2021, while the percentage who prefer 35 hours rose from 8% in 2015 to 11% in 2021, and the percentage who prefer 30 hours increased from 9% in 2015 to 15% in 2021. The median preferred working hours dropped by -3 hours from 40 hours in 2015 to 37 hours in 2021. (The average value decreased from 36.1 hours to 35.6 hours. As some of the responses included extreme values, such as 0 hours and over 100 hours, this report looks at the median value, which is less susceptible to such extremes.)

Next, by type of employment, the median preferred working hours for full-time workers decreased from 40 hours in 2015 to 38 hours in 2021. Part-time workers, on the other hand, remained unchanged at 30 hours in both years, and the decline in desired work hours was more conspicuous among full-time workers (Chart 4). A further look at full-time workers by age group shows that the decline in preferred working hours occurred mainly in the young to middle-aged groups, such as the 25-44 and 45-64 age groups (Chart 5). Analyzing these age groups by educational attainment, the decrease in preferred working hours is more pronounced among people with relatively higher education such as bachelor’s, master’s, and doctoral degrees (Chart 6).

If we further narrow down the sample to the age groups of 25-64 and with a bachelor’s degree or higher, the decrease in preferred working hours for women (-5 hours) is larger than for men (-1 hour), and as shown in Chart 7, the decrease by sector is particularly large in “Information and communication” (-4 hours), “Professional and scientific activities” (-3 hours), “Arts and recreation” (-3 hours), and “Others” (-3 hours). Meanwhile, though the charts are omitted, there was no significant difference between the decrease in preferred working hours for one-person households (-3 hours) and households with two or more persons (-2 hours), and similarly no significant difference between households with children under age 15 (-3 hours) and those without children (-2 hours). There was no clear trend in the preferred working hours by household finances either, with a drop in both groups that found it easy or difficult to make ends meet.

¹ Euronews “Germany launches a major 4-day workweek trial amid its labour shortage,” 04 Feb 2024

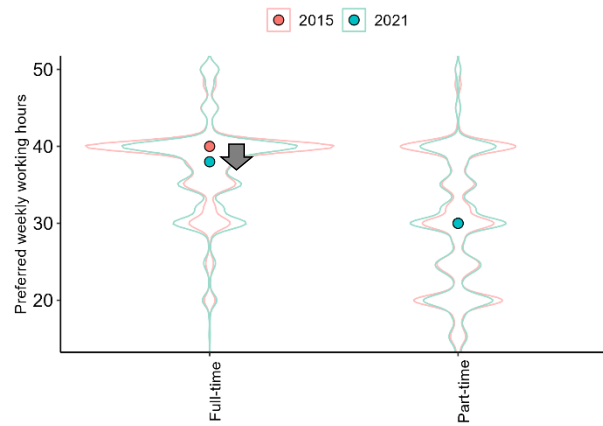
[Chart 3: Distribution of preferred working hours]



Note: The dotted line is the median. Coverage is employed persons (excluding self-employed) in the 27 EU countries.

Source: Made by MHRT based upon Eurofound.

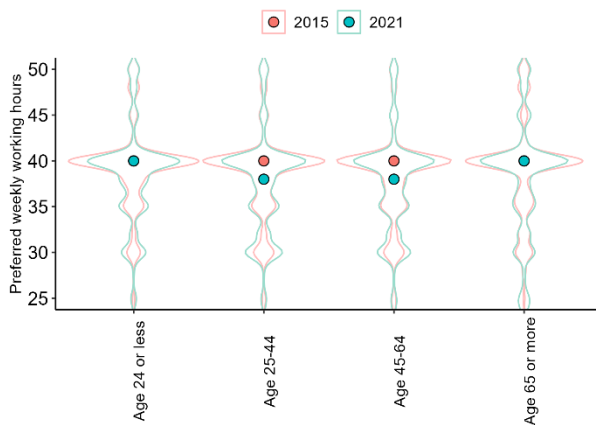
[Chart 4: Distribution of preferred working hours: by type of employment]



Note: The width of the range indicates the frequency of responses to questions.

Source: Made by MHRT based upon Eurofound.

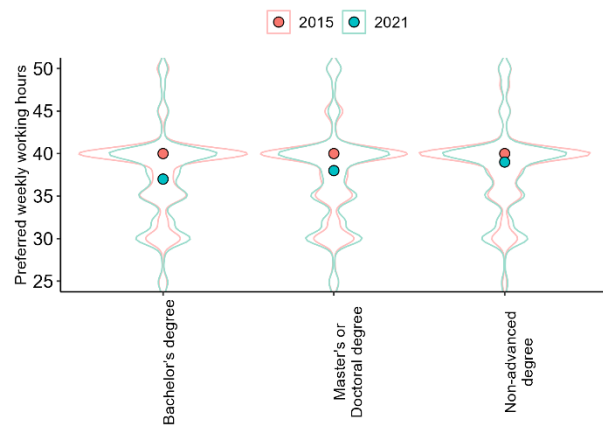
[Chart 5: Distribution of preferred working hours: by age group]



Note: Full-time workers.

Source: Made by MHRT based upon Eurofound.

[Chart 6: Distribution of preferred working hours: by educational attainment]



Note: Full-time workers, 25-64 years old.

Source: Made by MHRT based upon Eurofound.

In sum, while there are differences in degree by gender and sector, the decrease in preferred working hours seems to be occurring widely, mainly among young to middle-aged, well-educated workers, regardless of household composition and financial status.

Decrease in preferred working hours is due partially to a lack of motivation

What is the reason behind this decrease in preferred work hours? In addition to preferred working hours, the survey asked several questions related to work motivation and compensation in the workplace. Chart 8 shows the results of a regression analysis of the impact of these factors on preferred working hours.² The two factors with

² Estimated using a regression equation with desired working hours as the explained variable, and responses to the five questions in the chart and current working hours as the explanatory variables. Responses to the questionnaire items are variables that take integer values ranging from 1 (negative) to 3 (positive). We used data from both 2015 and 2021. Note that we used median regression (50% quartile regression) rather than the usual mean regression to see the effect on the median desired working hours.

a significant impact on preferred working hours are “whether they feel motivated at work” and “whether they feel they are appropriately compensated,” with the former having a particularly strong impact.

[Chart 7: Distribution of preferred working hours: by age group]



Note: Full-time workers, 25-64 years old, with a bachelor's degree at minimum.
Source: Made by MHRT based upon Eurofound.

Based on these results, Chart 9 compares the changes in responses to both questions for the groups aged 25-64 and with a bachelor's degree or higher (which showed the largest decrease in preferred working hours) with the other groups. Regarding “motivation at work,” the decline in positive responses from the 25-64 age groups and with a bachelor's degree or higher was particularly sharp from 2021, suggesting that the decline in motivation at work has led to a decrease in preferred working hours among these groups. On the other hand, interestingly, the number of positive responses regarding “appropriate compensation” increased, including among workers aged 25-64 and with a bachelor's degree or higher. This indicates that while the respondents are satisfied with their remuneration, they are less motivated to work, leading to a decrease in preferred working hours.

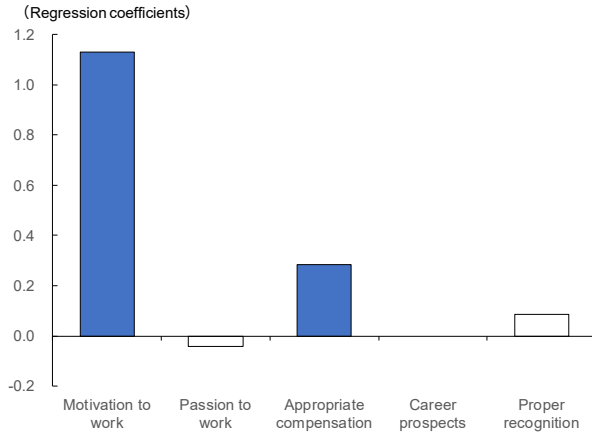
Of course, this decline in motivation may only be one factor affecting the drop in preferred working hours, and the question remains as to why motivation is declining in the first place. The survey is currently in the process of being updated, and further results will be released in the coming months to see if any additional insights can be gleaned regarding worker preferences and motivations.

Decline in working hours also affects the ECB's monetary policy

As mentioned above, the number of preferred working hours has been declining in Europe, and is likely contributing to the decline in macro per capita working hours. The decline in working hours (labor supply) could also affect the ECB's monetary policy as it could push up wages and prices by tightening the labor supply and demand. The market has fully factored in the onset of interest rate cuts through June of this year, but the timing of the rate cuts could be delayed if the labor market remains tight for a protracted period of time and wages are resistant to the decline. Also, in the medium to longer term, the declining labor supply will be a drag on potential growth. Naturally, the story would be different if labor productivity improved enough to offset the impact of the

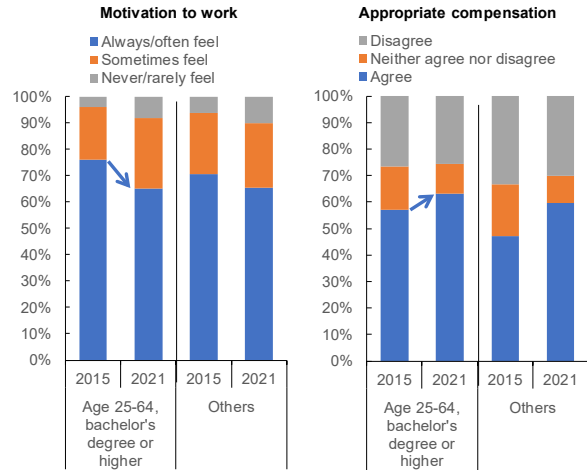
working hour decline, but labor productivity in Europe has been trending downward in the aftermath of the COVID-19 crisis, and this factor combined with rising wages is pushing up unit labor costs (Charts 10 and 11).

[Chart 8: Degree of impact on preferred working hours]



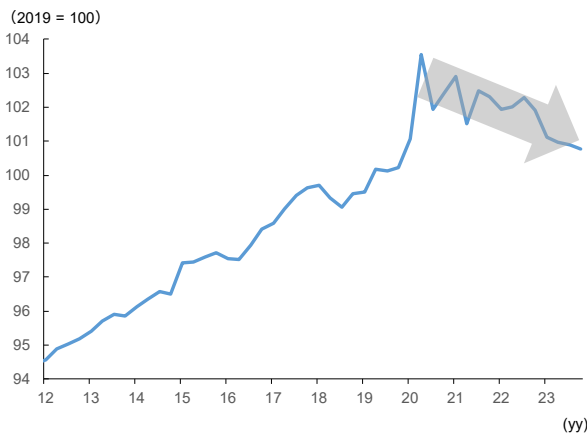
Note 1. Full-time workers.
 2. Impact on median preferred working hours estimated by quantile regression. The white bars are statistically non-significant.
 3. Specific questions included “At my work I feel full of energy,” “I am enthusiastic about my job,” “Considering all my efforts and achievements in my job, I feel I get paid appropriately,” “My job offers good prospects for career advancement,” and “I receive the recognition I deserve for my work.”
 Source: Made by MHRT based upon Eurofound.

[Chart 9: Changes in worker motivation, etc.]



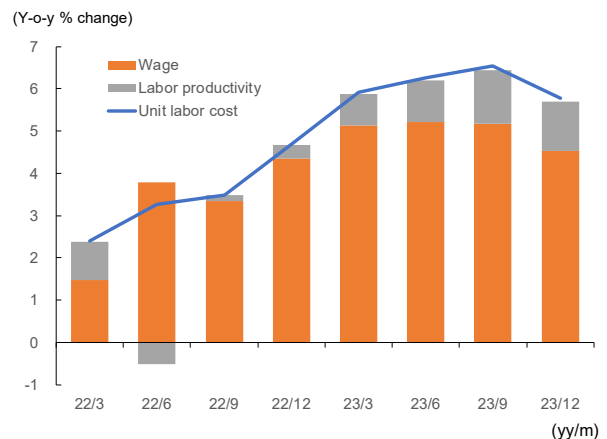
Note: Full-time workers.
 Source: Made by MHRT based upon Eurofound.

[Chart 10: Eurozone: hourly labor productivity]



Source: Made by MHRT based upon Eurostat.

[Chart 11: Eurozone: factor analysis of unit labor costs]



Source: Made by MHRT based upon Eurostat.

The 2021 survey was conducted during the coronavirus pandemic, which may have affected the survey results with a temporary decline in work days and more time spent at home. There are also many open questions, including why the decrease in preferred working hours is larger in predominantly white-collar sectors, such as information and communication, and academic and professional services, and among highly educated workers. And from a macro perspective, it will be important to examine whether the post-pandemic survey will show an increase in preferred working hours or whether the downward trend will continue. An irreversible change in underlying values, such as greater emphasis on work-life balance, could lead to a continued decline in preferred

working hours, which could in turn lower potential growth and reduce inflationary pressures. Going forward, we will need to keep a close eye on the trends in working hours to foresee the ECB's monetary policy and the medium- to long-term growth potential of the European economy.

Reference

Refer to the original Japanese report by clicking the URL below for the reference material.

<https://www.mizuho-rt.co.jp/publication/report/research/express/2024/express-eu240228.html>

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