Development of corporate productivity and profitability in Austria during EU membership

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Vienna, September 21, 2020

Economic Anaysis Division
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Development of productivity since 1995

**Labor productivity / hour worked**

- “Correct” measure for labor productivity
- Labor productivity\(^1\) in Austria 20% above EU-28 levels, but 6% below levels seen in Germany
- Productivity slowdown after the 2008 crisis only visible in Austria

**Labor productivity / employee**

- 12% higher in Austria than in Germany due to the high number of hours worked (2017: AT 1,617 hours; DE 1,360 hours)

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\(^1\) The agriculture, mining, real estate and public sectors distort productivity metrics and have therefore been excluded.
Structural change has dampening effect on productivity growth

Shift-share analysis and sectoral contributions to within-industry productivity growth

Main results of the shift-share analysis

- Shift effect results in negative contribution to productivity growth of total economy
- Sectors with higher productivity levels have lost importance in favor of sectors with lower productivity levels
- The choice of sectors is crucial for the sign of the shift effect

Sectoral contributions

- Manufacturing (C) and company-related services (M–N) account for two-thirds of productivity growth, construction (F) has dampening effect
- C: high productivity growth coupled with decreasing employment share
- M–N: low employment rates coupled with strong increase in employment share

Source: Eurostat, authors’ calculations.

C: manufacturing; D: electricity, gas, steam and air conditioning supply; E: water supply, sewerage, waste management and remediation activities; F: construction; G: wholesale and retail trade; H: transportation and storage; I: accommodation and food service activities; J: information and communication; K: financial and insurance activities; M: professional, scientific and technical activities; N: administrative and support service activities; S: other service activities; T: activities of households as employers; undifferentiated goods- and services-producing activities of households for own use.
Total factor productivity supports productivity growth

EU KLEMS database allows to calculate contributions made by production factors to labor productivity growth.

- Total factor productivity accounts for over 50% of growth in productivity per hour worked.
- Capital deepening contributes around one-third to productivity growth.
- Changes in the composition of labor result in decreasing contributions to productivity growth.

Source: EU KLEMS database.

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Macroeconomic perspective: labor productivity closely correlated with profit share

Comparison of profit shares
- Similar developments in Austria and Germany
- Stable development in the EU prior to the 2008 crisis
- Profit share in Austria 1.9 pp below EU-28 levels in 2017, but 3.8 pp above levels seen in Germany

Profit share – labor productivity
- Similar developments of productivity growth and profit share change
Main takeaways

- Labor productivity per hour worked in Austria is constantly 20% above the EU average, but 6% below levels seen in Germany
- Industry and financial sector post strongest productivity growth
- Structural change has dampening effect on productivity growth
- More than half of productivity growth is attributable to total factor productivity, one-third to capital deepening, and around 15% to labor composition
- From a macroeconomic perspective, growth in labor productivity has been closely correlated with profit share changes
- Sharp increase in the profit share until 2007 was followed by a decrease; overall, the profit share increased by 1.6 percentage points to 31.3% from 1995 to 2018
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