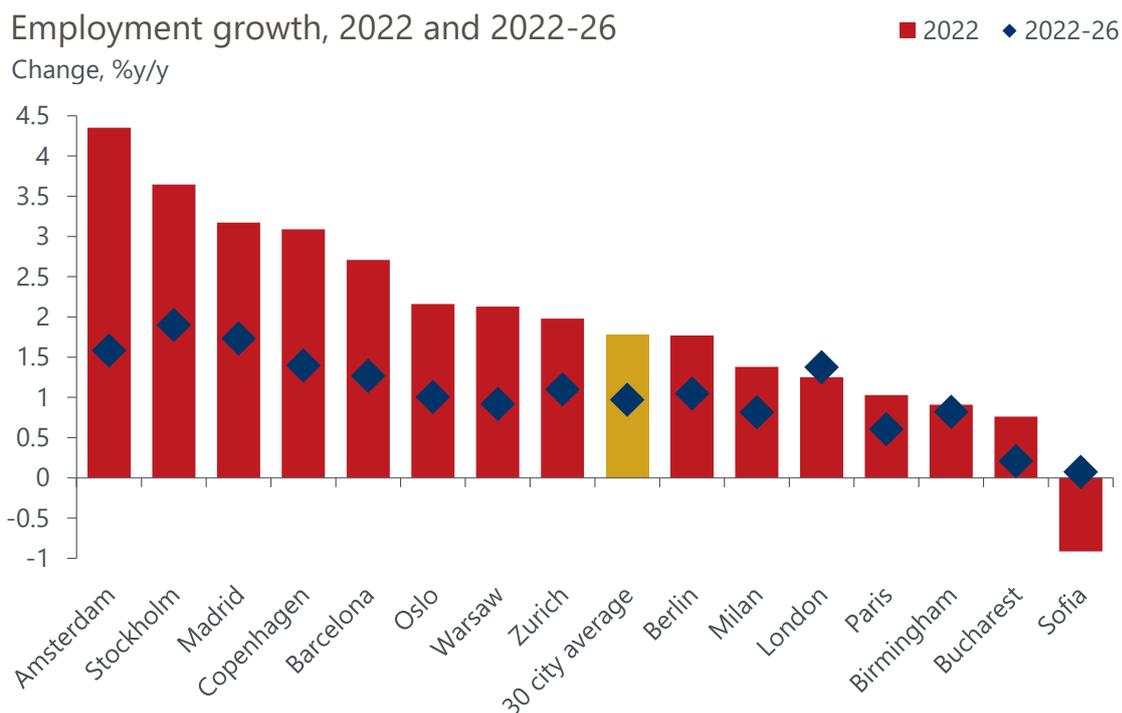


## Regional Outlook | Europe

# City employment growth will revert to pre-crisis norms

- We forecast that as the distortions from the pandemic subside, employment growth across Europe's major cities will generally outperform national economies in the years to 2026. Evidence that city population dynamics are reverting to pre-crisis trends, combined with a favourable sectoral setting, underpins this.
- The beginning of 2022 has seen several downside risks emerge, particularly with respect to labour supply shortages and the Russia-Ukraine war. While this has resulted in a downgrade to our near-term national employment outlook, growth in the major cities should generally be more resilient.
- Our medium-term outlook for the best performing cities has not been dramatically altered either by recent events or by the pandemic. Madrid and London remain near the top of our 2022-26 growth rankings. Employment gains here will be largely driven by office-based sectors such as business services and information & communications, a continuation of a trend seen prior to the crisis.
- Declining populations are set to become an obstacle to employment prospects in many European nations. However, these pressures are less apparent across Europe's major cities. We expect working age populations to continue rising in the years to 2026, particularly in Nordic cities such as Stockholm and Copenhagen. Crucially, the large presence of fast-growing office-based sectors in Europe's cities will help them to absorb additional workers.
- That said, not all of Europe's major cities will see strong increases in employment. Growth rates will generally be much more modest across central and eastern cities such as Sofia. Muted population growth will be a key constraint here. However, cities in this region will still lead our GDP growth rankings, reflecting strong advances in output per worker between 2022-26.

Chart 1: The recovery continues in 2022, with Amsterdam the growth frontrunner



Source: Oxford Economics

## Employment in most cities should rise above pre-crisis levels in 2022

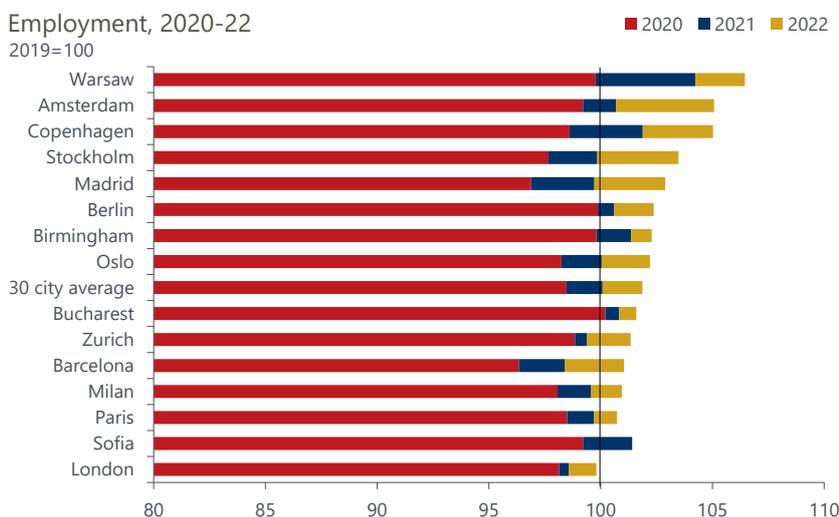
In 2021 an improving demand environment and an easing of Covid-19 restrictions helped to lift employment across Europe's major cities, with growth generally outpacing the national averages. Despite that, in most cities, employment in 2021 was still just below pre-pandemic 2019 levels.

In addition, the closing months of 2021 and early stages of 2022 saw particular problems related to the Omicron variant, labour and component shortages, and now the Ukraine crisis. The first of these has receded, and it is likely that supply constraints will have a less severe impact on Europe's major cities than on the rest of the continent's economies. Labour and component shortages have been most acutely felt in manufacturing and construction—two sectors that generally have a small presence in Europe's cities. And although accommodation & food services and transport & storage have faced staff shortages, these sectors lack scale in the major cities when compared to office-based sectors. Therefore, the pace of city employment growth this year (1.8%) is likely to remain broadly in line with the rises seen in 2021, whereas we forecast that employment growth nationally will tend to moderate.

As a consequence, we anticipate that over the course of 2022 most of Europe's major cities will see employment comfortably exceed pre-pandemic levels (see Chart 2). Stand-out performers by this measure are Warsaw, Amsterdam, and Copenhagen. Building on the resilience of their labour markets at the height of the pandemic, employment in these cities is forecast to be 5-7% higher than 2019 levels by the end of 2022, compared to 1% for the European city average. Expansions in business services will continue to drive much of the growth here, while a gradual return of international visitors will also help to revive the consumer-led sectors.

At the other end of the spectrum is London. The recovery here will be more protracted than the European city average, with employment returning to pre-crisis levels in 2023. After the difficulties of 2020, London's hospitality sector has, thus far, failed to mount a recovery in terms of employment. Job losses in the information & communications sector over the past year also help to explain this muted near-term outlook.

**Chart 2: For most cities, employment should surpass pre-crisis levels in 2022**



Source: Oxford Economics/ National statistics agencies

The Russian invasion of Ukraine adds considerable downside risks to our near-term outlook. It is primarily a major human tragedy which will have significant adverse effects on the Ukrainian and Russian economies. And the global economic impacts are now more uncertain. Largely due to the conflict, we have reduced our baseline world GDP growth forecasts to 3.4% in 2022 and 3.2% in 2023. The forecasts shown in this report

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are consistent with those top line numbers. But the war certainly has the capacity to place a much bigger dent in the global recovery. We continue to monitor this situation, and its regional and city implications, closely.

## Pre-pandemic employment trends should re-emerge across cities

As the impacts from the pandemic dissipate, we expect employment growth across Europe's cities to broadly return to pre-pandemic trends. As was the case historically, cities will continue to outperform nationally. We forecast that Europe's major cities will achieve annual average employment growth of 1% between 2022 and 2026, a stronger pace than the national average of 0.4%.

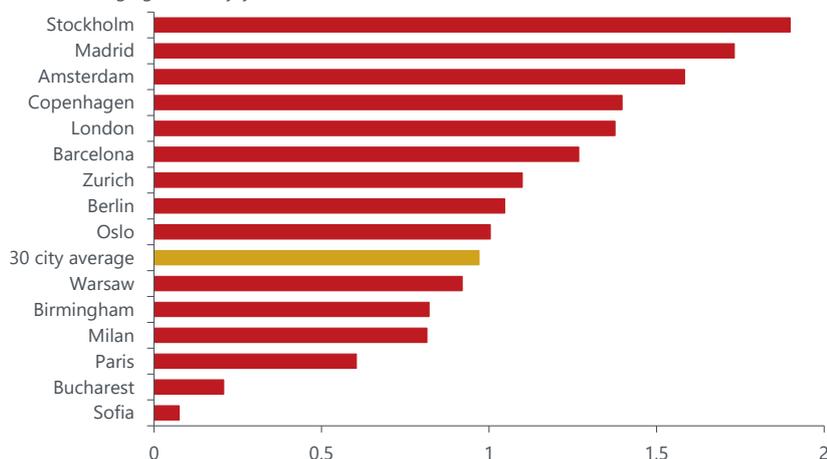
Continuing the trend from before the pandemic, office-based employment will be the key driver of growth for most European cities. Nowhere is this more evident than in Madrid and London, two of Europe's strongest performers over the medium term in terms of total employment. By 2026, we forecast that London will have almost 114,000 more people employed in office-based sectors in comparison to 2022 levels, while the increase for Madrid is forecast to be 83,000. These will be the largest gains across all of Europe. Specifically, business services will be central to growth here. Madrid will also see a sizable contribution from information & communications, as the Spanish capital continues to establish itself as a key IT centre in mainland Europe.

We also expect employment in the Nordic cities of Stockholm and Copenhagen to comfortably outperform the European city average over the next five years, a continuation of trends seen in the years preceding the pandemic. But for these two, reflecting the broad-based structures of both economies, growth will not just be dependent on office-based sectors. Trade, transport & storage will also provide significant impetus to Copenhagen's total employment gains, while information & communications and public services will be important for Stockholm.

### Chart 3: Stockholm and Madrid will be among the star performers over the medium term

Employment, 2022-26

Annual average growth, %/y



Source: Oxford Economics

## Demographic constraints will be less pertinent in the major cities, unlike nationally

The healthy demographic positions of Stockholm and Copenhagen will also be particularly supportive to each city's employment outlook. Populations in both cities are forecast to outpace their respective national rates between 2022 and 2026 and will also increase at a faster pace than in the rest of Europe's major cities.

# City employment growth will revert to pre-crisis norms

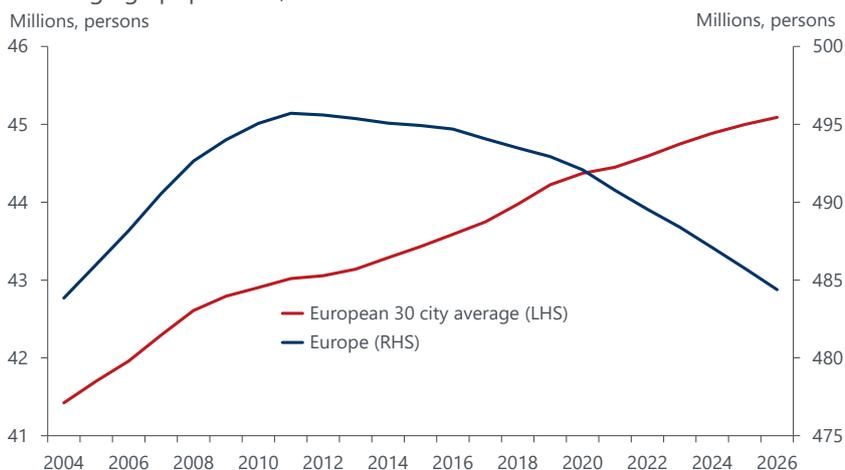
This partly relates to the high ranking of both in our quality-of-life index, an indicator that has historically shown a clear positive relationship with city population growth. Strong population rises will also be crucial in Zurich, London, and Oslo in enabling employment gains to materialise. Each of these cities currently performs well across a range of structural indicators, including social and quality of life measures, meaning that they too are in a favourable position when it comes to luring in and retaining workers.

The importance of population growth to labour market outcomes is, of course, not just confined to these few cities. Our wider view that city employment growth will outperform nationally is closely linked to the stronger demographic positions that most major cities are in, when placed in their national contexts. Across European nations, labour supply problems will become an increasingly larger constraint on output and employment over the medium-term. Working age populations have already started to decline in some countries, with levels expected to fall further over our forecast horizon. The same cannot be said about Europe's major urban centres. Working age populations have continued to increase over the past decade. And we expect growth to continue through the 2020s, albeit at slowing rates.

There were suggestions that the emergence of coronavirus would dampen this trend, possibly through a structural change in the dynamics of city migration. However, the evidence available to us means we do not subscribe to this view. For example, monthly demographic data for Amsterdam show that migration patterns, outside of periods of lockdown, generally reverted to pre-crisis trends. Given this, we estimate that population growth in the Dutch capital outperformed nationally last year and that it will retain this premium in the coming years.

## Chart 4: A clear divergence in the population outlook for major cities and countries

Working age population, 2004-26



Source: Oxford Economics / National statistics agencies

## The sectoral composition of cities will ensure that labour demand rises

While rises in population provide an important base, they are not in themselves a sufficient condition for strong employment growth. There must be adequate growth in demand so that cities are able to absorb the higher number of available workers.

The sectoral composition of Europe's cities will continue to be conducive to this. We forecast that in the years to 2026, office-based sectors will be the key engine of growth across Europe. At the country level we expect that information & communications will be 23% larger than its pre-pandemic size, in terms of GVA. Professional, scientific, and technical services is also set to be a stand-out performer. Together these sectors will account for around 15% of GDP growth between 2022 and 2026, and will also see the fastest rates of

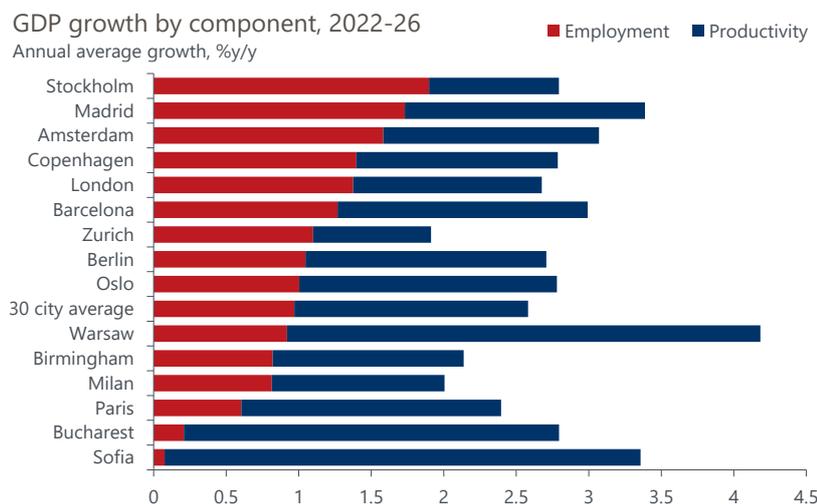
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job growth across all sectors. The crucial point here is that these strong performing sectors are much more highly concentrated in Europe's city economies than nationally, underpinning why cities are expected to outperform. And slower growing sectors such as construction, health, and education services are less prominent in major cities than nationally. Manufacturing and retail & wholesale—two sectors where demand for workers is being impacted by the adoption of labour-saving technologies—also tend to have a smaller presence in Europe's major cities than at the national level.

## In central and eastern cities productivity growth will be key

Although employment prospects are generally healthy for Europe's cities, there are some notable differences. Once pandemic-related distortions ease, we expect the tendency for central and eastern European cities to experience weaker employment growth than western European cities to reassert itself. In the years to 2026, annual average employment growth will be slowest in Moscow, Sofia, and Bucharest. Warsaw and Budapest also sit near the lower end of our medium-term growth rankings. The key constraint facing these cities will be their less favourable demographic positions compared with their western counterparts—due both to ageing, and people emigrating to more developed countries in search of higher incomes and better quality of life. Working-age populations will see little gains over this period, with Bucharest notably set to experience a decline.

**Chart 5: Slow employment growth in central and eastern cities will be offset by rapid productivity gains**



Source: Oxford Economics

Strikingly, these rankings are reversed when it comes to our GDP outlook. Eastern cities are generally forecast to be the growth frontrunners in the years to 2026, with Warsaw leading the pack. As evident in chart 5, these cities will be much less reliant on large-scale job creation and rather more dependent on productivity improvements as they catch-up with their more economically developed peers. We forecast that the five fastest growing major cities for output per worker will all be in central and eastern Europe over the next five years. Therefore, any potential shortages in labour are unlikely to pose much of a problem during this period. In the longer-term, however, improving the ability to attract young and well-educated workers will be key to their success, particularly once the productivity gains from that catch-up are exhausted.

## Unemployment will remain stubbornly high in a small group of cities

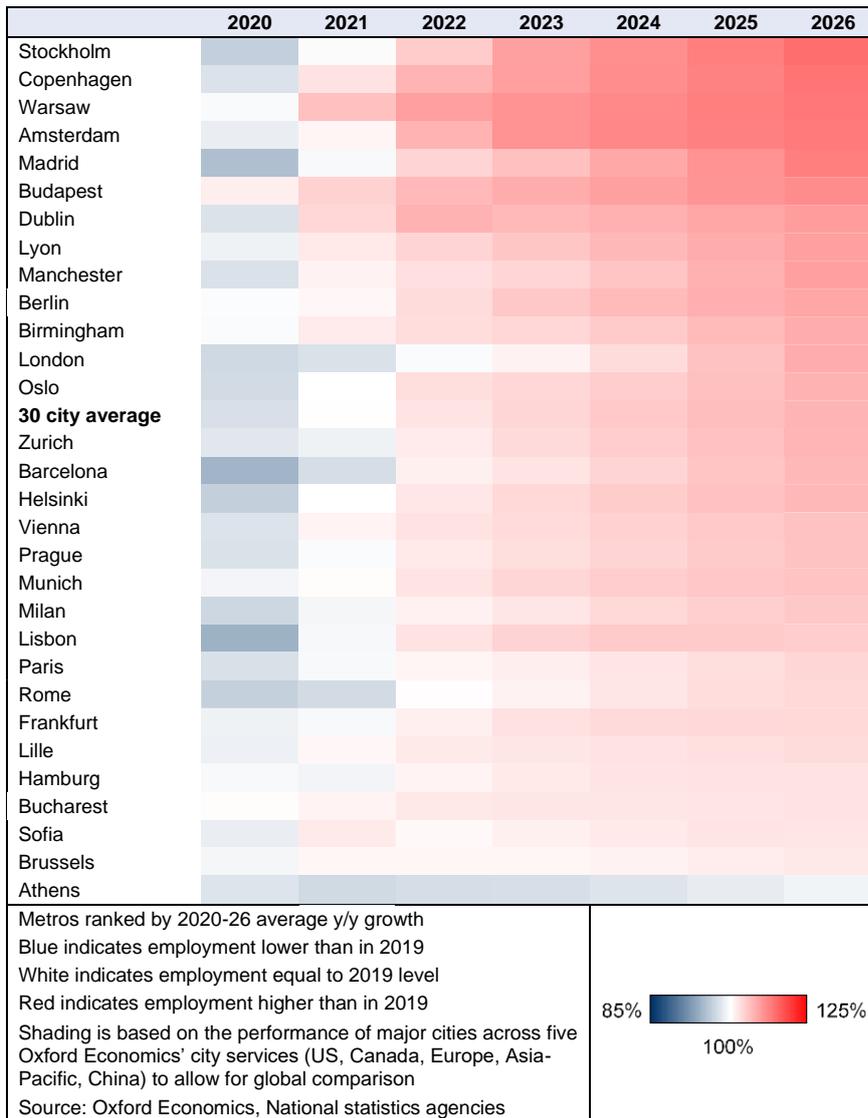
Central and eastern cities are also characterised by their relatively low unemployment rates, with Europe's top five cities by this metric all located in the region. Unemployment rates have been particularly low in

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Warsaw. And by 2026 we forecast that the unemployment rate in the Polish capital will be 1.1%, markedly below the European city average of 6.4%.

The situation will be markedly different for a small group of Europe's major cities. In Istanbul, Vienna, and Brussels, unemployment rates are very high, especially when placed in each of their national contexts. And we expect this trend to persist over our forecast period. Deindustrialisation is a key explanation for Istanbul, with its shifting focus away from manufacturing and towards financial and real estate activities resulting in higher levels of structural unemployment across the city. And much like the past decade, unemployment rates in Vienna and Brussels are forecast to remain around double their respective national rates between 2022 and 2026. A key feature of both cities is that the longer-term unemployed comprise a higher proportion of the labour force when compared with other regions in each country.

**Figure 1: Employment levels, major European cities as % of 2019 level**



Source: Oxford Economics/ National statistics agencies