Allianz Research | 24 October 2024

What to watch: From agreement to action at COP16 in Cali, nuclear energy and the race to net zero and the "Big Stay" in Eurozone labor markets

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In summary

- **COP16 in Cali: from agreement to action.** Top of the agenda at the UN's ongoing biodiversity conference in Cali, Colombia, is implementing the landmark Kunming-Montreal Global Biodiversity Framework, adopted in December 2022 to protect critical global ecosystems. However, 85% of countries have missed the deadline to submit their National Biodiversity Strategies and Action Plans. Our analysis highlights the significant value of ecosystem services to economic sectors. Inland wetlands provide services valued at USD71,275 per hectare annually, while coastal systems generate USD37,170 per hectare each year. In this context, Cali's COP can play a major role in valuing natural capital and creating a market for nature to incorporate ecosystem value into financial decisions. This will be key to align economic growth, the climate transition and environmental sustainability.
- **Power struggles: Nuclear energy and the race to net zero.** Nuclear power has made a comeback in discussions surrounding the green transition this year, yet it remains a divisive topic. While traditional nuclear powerhouses like France and China continue to expand their capacity, newcomers like Kazakhstan and the Philippines are planning to develop nuclear energy for the first time. As a low-carbon energy source, nuclear offers a reliable option for decarbonizing industries that are reliant on continuous power, such as big tech, where companies recently started to explore nuclear energy to power AI. However, there are many challenges: long construction times, costs over 40% higher than wind or solar, supply-chain risks, safety concerns and waste disposal. Nevertheless, nuclear generation will play a role in the net zero transition and is expected to double by 2050.
- **Eurozone labor markets: the "Big Stay" conundrum.** The era of the "Great Resignation" seems to be over. Despite the bloc's underwhelming economic performance since end-2022, labor markets seem to be in great shape – at least at first glance. Unemployment has reached historic lows, stabilizing around 6.4%, while employment continues to grow – 4.5% above pre-Covid levels. But this is also because firms are still hoarding labor after the pandemic, mainly in tech, machinery & equipment, automotive and construction. There are early signs of a trend reversal – vacancy rates have started to decline and lower labor productivity has decreased workers' bargaining power – and we do expect labor retention to soften in the Eurozone as profits normalize and wages increase. Ultimately, increasing labor market churn could improve job matching and reallocation, as well as reduce overqualification. Investing in generative AI systems could also revitalize both workers and labor markets: Proper adoption could bridge gaps between low- and high-skilled workers, lowering re-employment and training costs and streamlining onboarding.

COP16 in Cali: from agreement to action

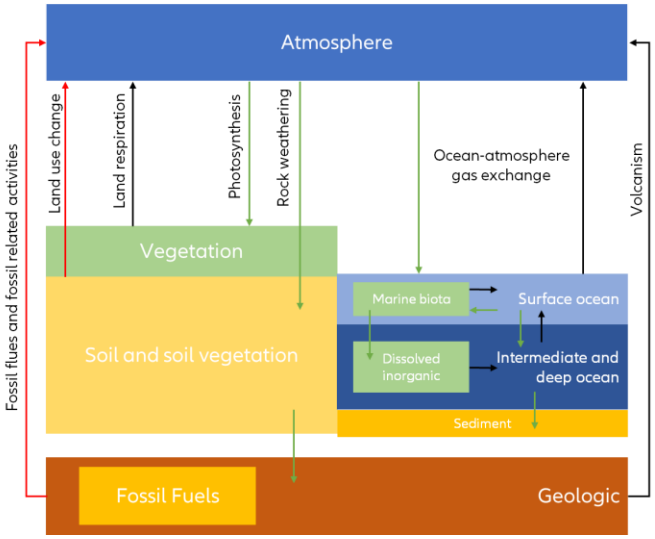
Following the historic adoption of the Kunming-Montreal Global Biodiversity Framework, COP16 in Cali, Colombia, faces the critical task of uniting biodiversity, climate and the economy in a comprehensive dialogue to effectively implement the framework. This summit will address key topics such as the bioeconomy, blue economy and clean energy, among others[1], to achieve the goals set out in the framework to protect global biodiversity. Biodiversity is a powerful lever for both climate mitigation and adaptation, underscoring that biodiversity and climate change are two sides of the same coin. Protecting and restoring ecosystems not only curbs carbon emissions but also strengthens resilience against climate impacts, such as flood protection, extreme heat attenuation etc. Beyond its environmental significance, biodiversity holds immense potential for driving economic and societal value creation. It can foster the development of sustainable economic models, catalyze innovation and enhance human well-being.

So far, only 35 countries have submitted their National Biodiversity Strategies and Action Plans (NBSAPs), falling far short of expectations. Around 85% of countries have missed the deadline to submit these plans, which are crucial for implementing the Framework[2]. Of the 17 megadiverse countries, which harbor 70% of global biodiversity, only five have made new commitments to combat nature loss. Notably, Brazil, Peru and Colombia, which hold the majority of the Amazon rainforest, have yet to submit updated nature plans. Unlike the legally binding Nationally Determined Contributions (NDCs) under the Paris Agreement, NBSAP submissions are voluntary, presenting significant challenges for the Kunming-Montreal Global Biodiversity Framework's progress in Cali.

These action plans are urgent because maintaining and restoring ecosystems is essential for climate regulation. The global carbon cycle (see Figure 1) represents the continuous movement of carbon between various components of the Earth's system, such as the atmosphere, vegetation, soils, oceans and fossil fuel reserves, through both natural and human-driven processes. Key natural processes, such as photosynthesis, rock weathering and ocean-atmosphere gas exchange, help sequester carbon and reduce its concentration in the atmosphere, which is critical for regulating the Earth's climate. Conversely, anthropogenic activities like fossil-fuel combustion and land-use change (red arrows) release significant amounts of carbon into the atmosphere, disrupting this balance and driving climate change. In this context, ecosystems play a pivotal role in the carbon cycle by acting as carbon sinks. Terrestrial ecosystems such as forests, wetlands and grasslands, and marine ecosystems such as oceans[3], sequester carbon through photosynthesis and biological processes. These natural systems store carbon in biomass (vegetation), soils and oceans over extended periods. However, when ecosystems are degraded, such as through deforestation or land conversion, carbon stored in these systems is released back into the atmosphere, exacerbating global warming.

[1] *https://www.worldbiodiversitysummit.org/copy-of-programme*
[2] *COP16: More than 85% of countries miss UN deadline to submit nature pledges - Carbon Brief*
[3] *Allianz | Sustainable ocean*

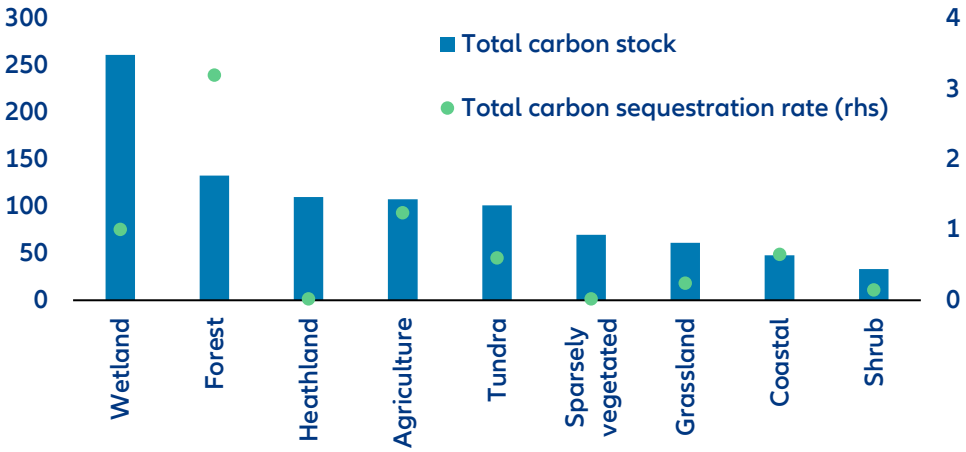
Figure 1: The global carbon cycle



Sources: EEA, Allianz Research. Note: Black and red arrows refer to natural and anthropogenic carbon emissions in the atmosphere. Green arrows refer to carbon sequestration by the different ecosystems.

If deforestation continues at its current rate, the ability of ecosystems such as forests to sequester carbon will be significantly compromised, undermining global climate-mitigation efforts. Figure 2 provides a closer look at carbon storage and sequestration rates in terrestrial ecosystems in Europe. The data show that wetlands have the highest carbon stock (262 tons of carbon per hectare), followed by forests and heathlands. Wetlands in particular are crucial for long-term carbon storage due to their ability to accumulate organic matter in waterlogged soils. However, carbon-sequestration rates – the speed at which these ecosystems can absorb carbon from the atmosphere – vary significantly. Forests, for example, have the highest sequestration rate (over 3 tons of carbon per hectare per year), while ecosystems such as heathlands and sparsely vegetated areas have much lower sequestration rates. However, these carbon sinks are at risk, especially due to deforestation, which not only diminishes the carbon storage capacity of forests but also releases stored carbon back into the atmosphere, further accelerating climate change. The restoration of these ecosystems, especially those with higher sequestration rates such as forests and wetlands, can significantly contribute to climate-change mitigation. Restoring biodiversity through reforestation, wetland rehabilitation and sustainable land management enhances carbon sinks and offsets anthropogenic greenhouse-gas emissions. Moreover, restored ecosystems not only sequester carbon but also improve resilience to climate impacts by regulating water flow, enhancing soil health and supporting biodiversity.

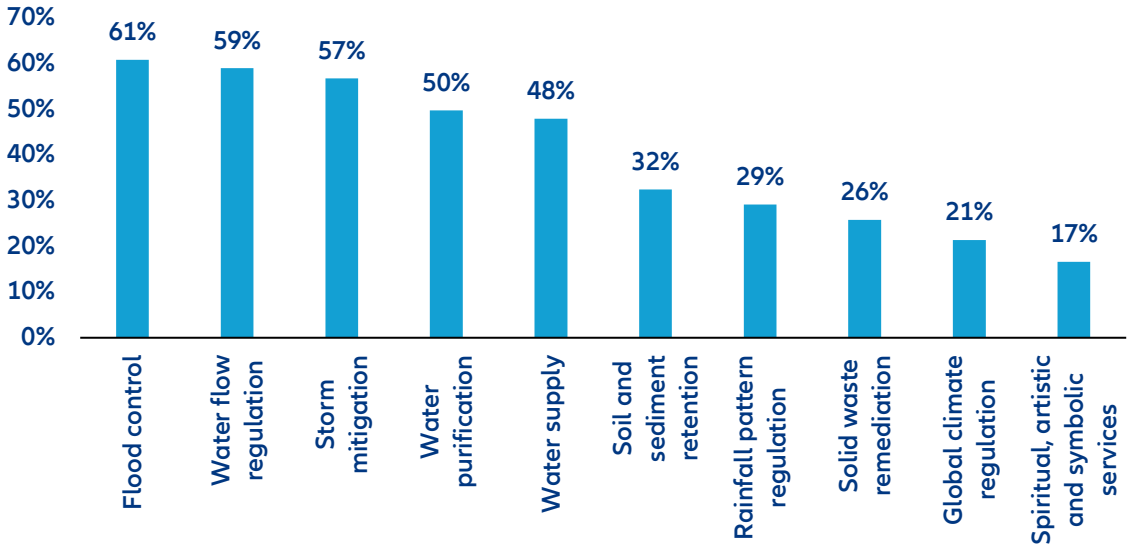
Figure 2: Carbon storage and sequestration by terrestrial ecosystems in Europe



Sources: EEA, Allianz Research

Restoring biodiversity also offers significant economic opportunities: investing in nature-based solutions could generate up to 20mn new jobs globally by 2030. Figure 3 highlights the critical role that ecosystem services play in supporting a wide range of economic sectors. For instance, 61% of economic sectors have at least a medium dependence on flood control provided by ecosystems. This underscores the essential role that ecosystems such as wetlands, forests and mangroves play in protecting infrastructure, agriculture and communities from the damaging impacts of floods. Likewise, water-flow regulation is crucial for 59% of sectors, ensuring the availability and quality of water resources, which is particularly important for industries such as energy and manufacturing. Ecosystem services such as storm mitigation (57%) and water purification (50%) further illustrate how natural systems act as buffers against climate-related risks and pollution, safeguarding both economic activities and public health. Moreover, water supply and soil and sediment retention are indispensable for nearly half of the economic sectors, ensuring sustainable agriculture, forestry and fisheries, which rely on these natural processes for productivity and resilience. Therefore, the loss of biodiversity and ecosystem services poses not only an environmental risk but also a significant economic threat. Many economic sectors rely heavily on natural systems to function efficiently and the degradation of these services can lead to reduced productivity and profitability. This, in turn, can ripple through the financial sector, increasing credit risk or underwriting risk as companies become more vulnerable to environmental disruptions[4]. Last but not least, according to the International Labour Organization (ILO), investing in nature-based solutions could generate up to 20mn new jobs globally by 2030[5]. These jobs would span sectors such as sustainable agriculture, forest management, ecosystem restoration and the blue economy. By restoring wetlands, reforesting degraded lands and rehabilitating coastal ecosystems, countries can create employment opportunities that directly contribute to environmental sustainability.

Figure 3: Percentage of economic sectors with at medium, high and very high dependence on various ecosystem services



Sources: ENCORE, Allianz Research

In Europe, inland wetlands stand out as the most valuable, offering ecosystem services worth USD71,275 per hectare per year (2020 USD). This high value is largely attributed to recreation and tourism, which accounts for 42% of the services provided by wetlands, along with food provision (15%) and the moderation of extreme events like floods (10%), as shown in Figure 5. Wetlands play a critical role in regulating water flows, providing habitat for biodiversity and acting as natural barriers against floods, making them essential for both environmental health and human well-being. Next in value are coastal systems, which generate services worth USD37,170 per hectare per year (2020USD). These ecosystems excel in maintaining soil fertility (33%) and regulating water flows (24%), making

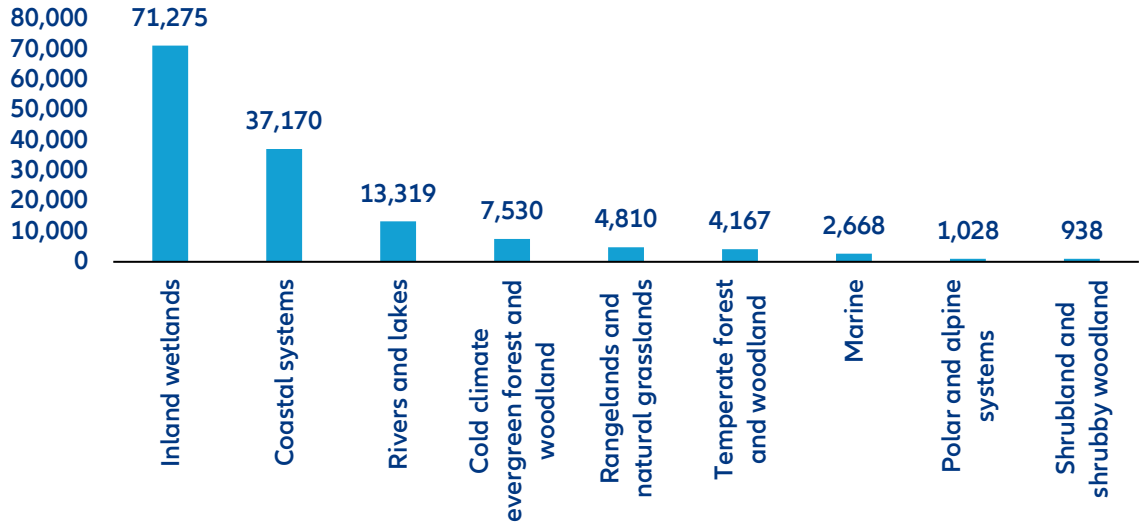
[4] *ngfs_conceptual-framework-on-nature-related-risks.pdf*

[5] *Nature-based Solutions can generate 20 million new jobs, but 'just transition' policies are needed | International Labour Organization*

them vital for agriculture and freshwater availability, as seen in Figure 5. Coastal areas also help mitigate the impact of natural disasters, with 21% of their value derived from moderating extreme events, a crucial service in an era of rising sea levels and intensifying storms. Finally, rivers and lakes, valued at USD13,319 per hectare per year, provide critical services, particularly in food provision (50%) and recreation and tourism (17%) as shown in Figure 5. These freshwater systems are indispensable for supporting local economies through fisheries, water supply and waste treatment.

In this context, the effective implementation of the Kunming-Montreal Global Biodiversity Framework will require active participation from all stakeholders, including investors, companies, financial institutions and governments. Properly accounting for the monetary value of ecosystem services will be essential for reshaping economic decisions. By integrating the value of nature into financial assessments like Net Present Value (NPV) calculations[6], stakeholders can more accurately reflect the long-term benefits of sustainable practices. This approach will help reorient investments toward the green and blue economy, promoting nature-based solutions that benefit both ecosystems and economic growth.

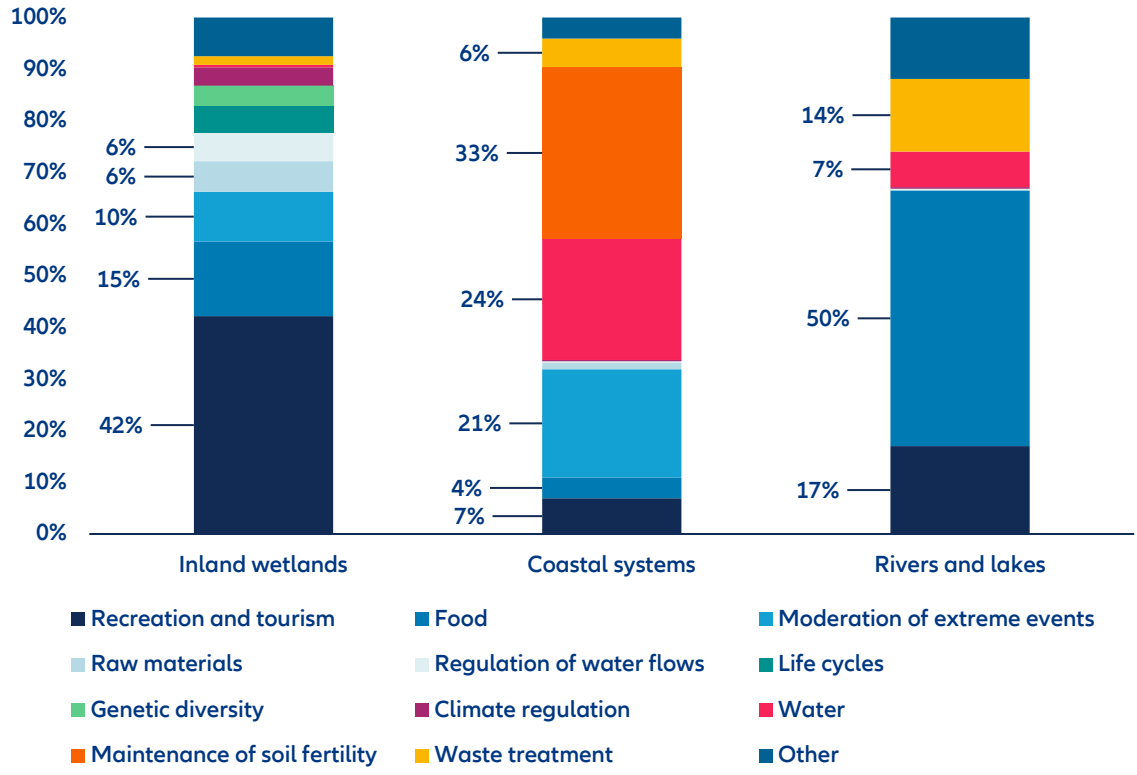
Figure 4: Monetary valuation of natural biomes in Europe (2020 USD)



Sources: ESVD, Allianz Research

[6] *Projects and partners | Ecosystem Services Valuation Database*

Figure 5: Proportion of ecosystem services monetary values in the top three most valuable natural biomes in Europe: Inland wetlands, coastal systems and rivers and lakes.

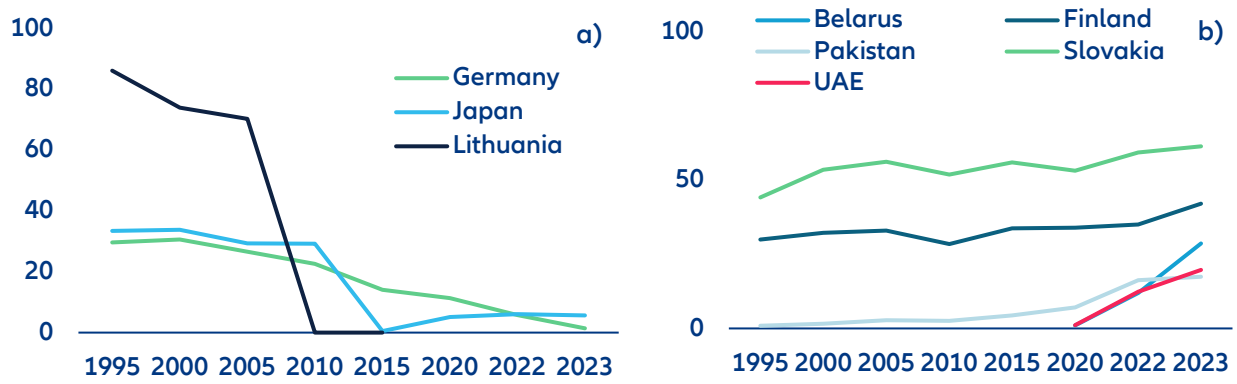


Sources: ESVD, Allianz Research

Power struggles: Nuclear energy and the race to net zero

Nuclear energy is seeing renewed momentum, with several countries committing to building new plants to significantly increase capacity. 32 nations currently use nuclear power but only four – France, Slovakia, Ukraine and Belgium – depend on nuclear as their primary energy source while others like Germany, have actively moved away from it. (Figure 6a). Nevertheless, major nuclear nations such as South Korea, France, China, Japan and Russia are building or planning over 65GW of new capacity, and "newcomer" countries such as Turkey, Egypt and Bangladesh are adding 11GW for the first time (Figure 7). Other countries, such as Belarus, the UAE and Pakistan, have significantly increased the share of nuclear energy in their electricity mix in recent years (Figure 6b), while nations that have historically avoided nuclear power, like Kazakhstan and Italy – which has opposed it in two referendums – are now considering entering the field. This renewed momentum is expected to continue, with estimates suggesting that nuclear power generation will more than double by 2050. However, despite this growth, nuclear's share in global electricity production is unlikely to exceed 10%, as the expansion of renewable energy sources progresses rapidly.

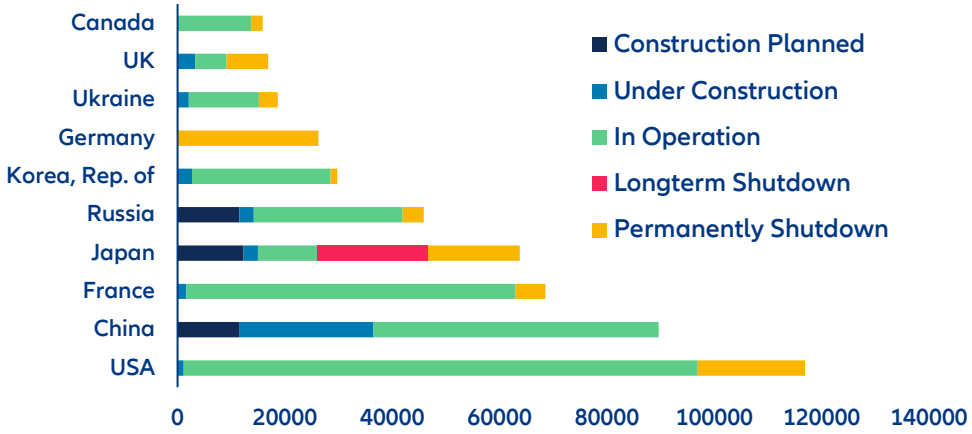
Figure 6: Nuclear share of electricity production (in %)



Sources: IAEA, Allianz Research

For now, the global nuclear energy push is still not fully reflected in project pipelines. Much of the current and planned construction is concentrated in only 3 countries Russia, Japan and China. At the same time, existing nuclear plants, are now averaging 32 years in age and will soon require significant investment in lifetime-extension measures, which could further slow the pace of new construction. According to the IAEA, nuclear capacity could still reach 950GW by mid-century in an ambitious scenario – double current levels – but is expected to fall short of the tripling required to limit global warming to 1.5°C.

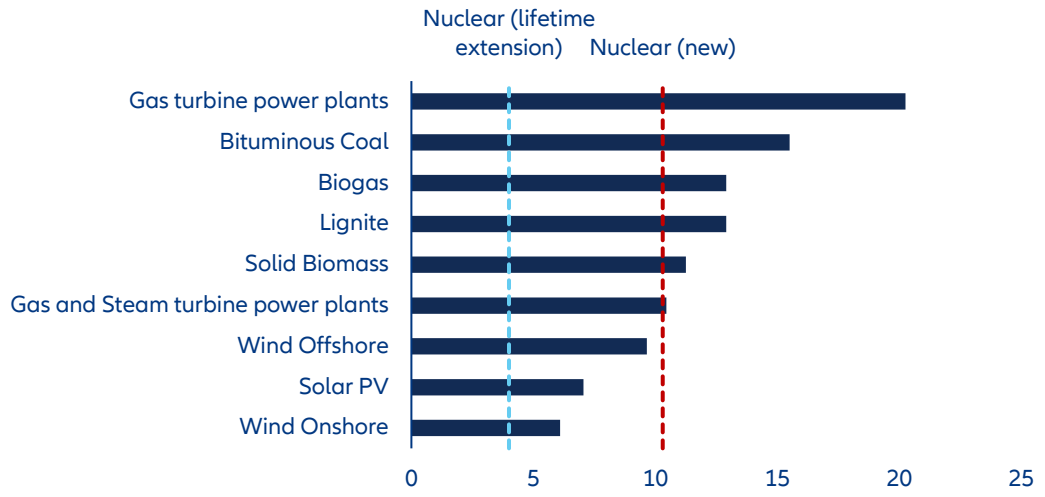
Figure 7: Nuclear Capacity by life cycle stage for 10 historically largest nuclear producers (in MW)



Sources: IAEA, Allianz Research

There are indeed several compelling factors that make nuclear power an attractive investment case. It is a well-established technology that offers reliable, low-carbon energy, providing a consistent baseload alternative to fossil fuels. Additionally, over its lifespan, nuclear power proves to be more cost-efficient than many traditional energy sources, thanks to its lower operating costs (Figure 8). When factoring in the cost-effectiveness of lifetime extensions, nuclear can even compete with solar and wind, achieving a levelized cost as low as 4 cents per kWh.

Figure 8: Levelized Cost of Electricity for different power generation sources (in Cent/kWh)



Sources: Allianz Research, Fraunhofer ISE, IEA

An additional advantage is its ability to provide stable output. Unlike wind or solar power, which depend on variable natural resources, nuclear energy delivers stable, low-carbon electricity – a crucial factor for business continuity. In the absence of advanced grid infrastructure and energy-storage solutions, energy-intensive industries such as cement, steel and AI that cannot easily adapt their consumption patterns to fluctuations in wind and solar availability can rely on nuclear power to meet their decarbonization targets. Indeed, tech companies like Microsoft, Google and Alphabet have started to turn their attention toward nuclear energy to power their data centers. For the stability it provides, these companies are even willing to pay significantly higher prices, with nuclear energy costs exceeding those of wind or solar by more than 60%.

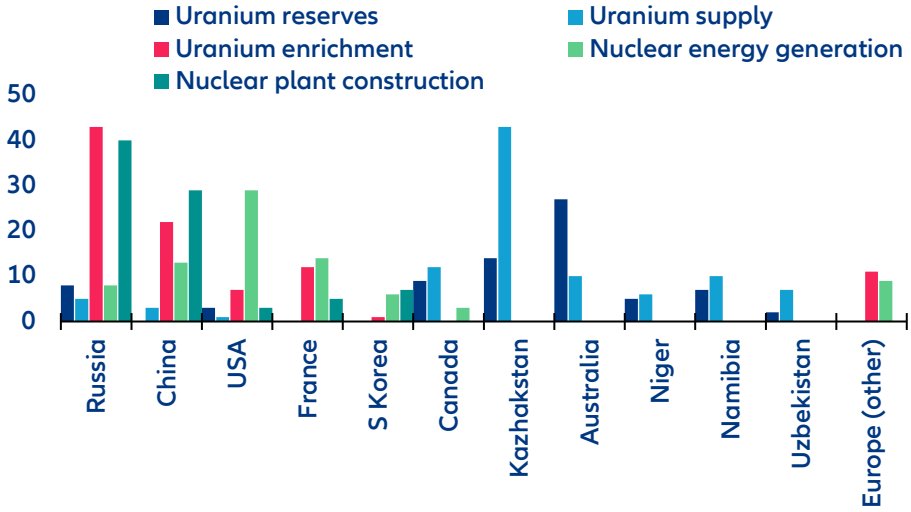
The development of Small Modular Reactors (SMRs) holds an additional potential to boost nuclear power generation in the coming years. These reactors provide greater flexibility and scalability in deployment while also promising lower initial capital requirements. With construction times estimated to be more than 40% shorter than traditional nuclear plants—around 3 years—SMRs are seen as a faster and more adaptable solution. At scale, companies like NuScale project that levelized costs could reach as low as USD 61/MWh, making SMRs competitive with renewable energy, especially when accounting for the additional storage costs required for intermittent renewable sources. However, the commercialization of SMRs faces challenges, as current projects report much higher costs, often exceeding USD 100/MWh. These elevated costs have already hindered some developments, with projects like NuScale's Utah initiative being terminated at the end of last year.

However, there are also significant limitations of nuclear technology. Long construction times, averaging around eight years, often result in nuclear projects taking nearly 15 years from initial proposal to connection to the grid. For the green transition, this means that pursuing nuclear energy now would likely contribute to decarbonization targets only after 2040, which is extremely late to align with the Paris goal of keeping temperature increase below +2°C. By then, the energy landscape will have transformed, with expanded grids, advanced storage solutions, new renewable centered market designs and projected cost reductions for solar and wind. This will likely limit the cases where nuclear power is efficient and cost competitive.

Concentration risk is another drawback of nuclear energy. The nuclear supply chain is highly concentrated among a few state-owned companies, underscoring the significant influence of geopolitics throughout the nuclear lifecycle. Uranium reserves and supply are localized in fewer than ten countries. Kazakhstan, the world's largest uranium producer (see Figure 9), is dominated by the state-owned company Kazatomprom, which controls most mines, though international mining firms operate them. African and Central Asian reserves, along with Australia and Canada, account for 84% of global uranium reserves.

However, uranium enrichment, a critical step in the nuclear supply chain, occurs away from the mining sites and is even more concentrated. Roughly 77% of global enrichment capacity is controlled by three major state-owned companies: Rosatom (Russia), which handles over 40% of total enrichment, Orano (France), and CNNC (China), which together account for over 35%. This concentration has fueled geopolitical tensions in recent years. For example, despite ongoing sanctions against Russia, Rosatom has notably been excluded from Western sanctions lists. Another source of tension is the recent strain between Niger (which supplies around 6% of global uranium) and France, whose state-owned company Orano operates Nigerien mines and enriches uranium in France for nuclear energy production. At the upper end of the supply chain, large state-owned utility firms dominate, with a few exceptions. In the US, Exelon stands out as a private entity, generating approximately 20% of domestic nuclear power. Meanwhile, France's EDF operates the world's largest fleet of reactors, with 58 currently in operation. State-owned giants like Rosatom and CNNC are vertically integrated across the entire nuclear energy cycle, each accounting for about 5-6% of total global nuclear generation. Given the market concentration within the nuclear value chain, countries and industries pursuing nuclear energy must carefully assess the long-term dependencies and geopolitical risks this may entail to prevent critical infrastructure vulnerabilities and avoid scenarios like the 2022 European energy crisis.

Figure 9: Concentration of nuclear energy supply chain (in %)



Source: World Nuclear Association database

Lastly, there is the enduring issue of nuclear waste disposal, which comes with substantial costs and challenges. For reference, despite phasing out nuclear power, Germany will still need to spend more than EUR15bn on managing its existing nuclear waste repositories.

Ultimately, nuclear energy can help to accelerate the shift away from coal and gas, but funding renewables, grid expansion and storage technologies will remain the central pillars of the global energy sector transition. Where nuclear infrastructure is already established, continuing to rely on it can be both economically and environmentally advantageous, helping accelerate the shift away from coal and gas. However, investments in nuclear should not come at the expense of funding renewables, the grid expansion, and storage technologies, which will be key to guarantee a sustainable and cost-effective transition to net zero.

Table 1: SWOT analysis for nuclear energy

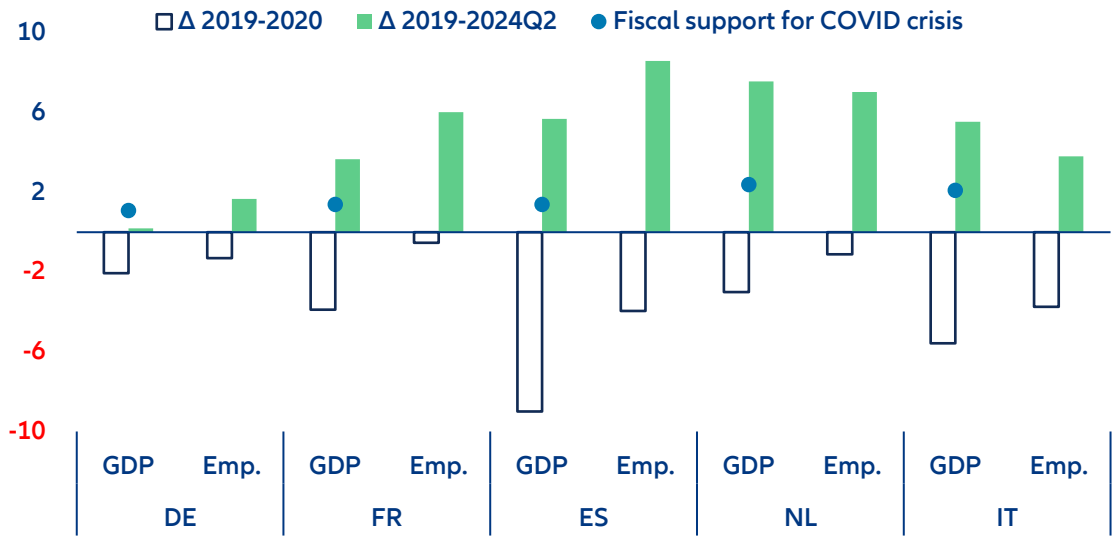
Strengths	Opportunities
• An energy source with an extensive international history as evidenced by the fact that 30 countries currently utilize nuclear power for electricity generation. • The stable and predictable output from nuclear plants enhances grid stability and simplifies grid management and planning. • At around 10 cents/kWh (Figure 8), nuclear-generated electricity can be cost-efficient in the long-run. • From the standpoint of reducing humanity's impact on biodiversity and minimizing land use, expanding the use of nuclear power would greatly enhance global ecosystem health. • A low carbon footprint, making it a green energy source.	• Nuclear energy can facilitate the transition to net zero by providing a reliable, low-carbon power source that can complement renewable energy and reduce dependency on fossil fuels. • Nuclear energy can support high-energy-demand technologies like AI by providing a stable and continuous source of electricity, ensuring the reliable power needed for energy-intensive data centers and computing infrastructure. • Nuclear energy can contribute to economic growth in Europe by providing a stable and low-cost energy supply, which supports industrial productivity, energy security and innovation in high-tech sectors. It also creates jobs through the construction, operation and maintenance of nuclear plants, while fostering advancements in nuclear technology, such as small modular reactors, which can drive export opportunities and economic competitiveness across the region.
Weaknesses	**Threats**
• One of the key challenges with nuclear energy is the long-term management of radioactive waste. Nuclear power plants produce radioactive waste that remains hazardous for thousands of years, necessitating sophisticated containment, transportation and storage solutions. • Nuclear energy requires significant upfront capital investment for the construction of plants, which can be prohibitively expensive compared to other energy sources. Building a nuclear power plant often involves long timelines, frequently extending to 10–15 years, before becoming operational. • The nuclear industry faces a critical shortage of skilled professionals in many countries, which hinders its scalability as a solution for global energy transition. Building and operating nuclear facilities require highly trained engineers, scientists and technical personnel. • The global supply of uranium, the primary fuel for nuclear reactors, is concentrated in a few countries, with Kazakhstan being one of the largest producers. Political instability in such regions can pose risks to the global nuclear fuel supply chain. Disruptions in uranium mining or exports could lead to fuel shortages, price volatility, and supply insecurity, which in turn could jeopardize nuclear energy projects worldwide. • Nuclear power generation is not flexible which makes it a poor complement to renewables. This creates inefficiencies as renewable power sources are switched off to accommodate nuclear energy which leads to higher prices.	• As more countries develop nuclear capabilities for energy production, the risk of nuclear proliferation increases. This is particularly concerning as enriched uranium can also be used to create nuclear weapons. The potential for more nations to acquire enrichment technology raises geopolitical tensions, as countries may view each other's nuclear advancements as threats, leading to arms races and destabilizing regional security. • The potential for environmental disasters associated with nuclear energy remains a significant concern. Accidents, such as those at Chernobyl and Fukushima, highlight the catastrophic consequences that can arise from reactor failures, whether due to operational errors, natural disasters or human actions like warfare or terrorism. Such incidents can lead to widespread contamination, long-term health issues and substantial economic costs for affected regions. • The global nuclear and uranium trade is heavily influenced by non-democratic countries, such as Russia, which control significant portions of the uranium supply chain. This dominance raises concerns about energy security for nations reliant on imports, as geopolitical tensions may lead to leverage and coercion. The reliance on uranium from these countries can complicate international relations and energy policies, creating vulnerabilities for countries seeking to transition to nuclear energy.

Source: Allianz Research

Eurozone labor markets: the "Big Stay" conundrum

The Eurozone labor market appears to be in very good shape – at least at first glance. Despite the lack of stellar growth since the end of 2022, the Eurozone's labor market has remained resilient and very tight, helped by the large take-up of job-retention schemes and transitions to inactivity during the pandemic. Unemployment has reached historic lows, stabilizing around 6.4%, while employment continues to grow up to 4.5% above end-2019 levels, and across countries and age groups (Figure 10).

Figure 10: Change in employment and output (%) and pandemic-related fiscal support (% of GDP)



Sources: LSEG Workspace, Allianz Research
Note: Only labor market related fiscal support measures

While the pandemic led to a shift in employees' preferences, the re-opening brought a range of challenges and transformations, prompting companies to hoard labor. Companies mainly implemented employee-retention schemes in anticipation of a favorable economic environment and a subsequent pickup in demand, as well as because they were enjoying higher profits bolstered by inflation. This strategic move only worked because real labor costs have not yet caught up with inflation, allowing businesses to maintain a larger workforce without facing immediate financial strain. By retaining employees, companies would be better positioned to respond swiftly to future demand increases, besides safeguarding their reputation as stable and reliable employers, crucial for attracting and retaining talent in a competitive labor market.

Labor hoarding has had a mixed effect on workers' bargaining power (Table 2, page 12). In Germany, the Netherlands, Spain, France and Italy, vacancy rates have risen without a corresponding increase in labor churn, while the labor share of income has declined. This suggests firms are retaining excess labor, reducing their incentive to raise wages and weakening workers' leverage. Workers tend to gain more bargaining power during expansionary periods with strong economic expectations – not necessarily the current market condition.

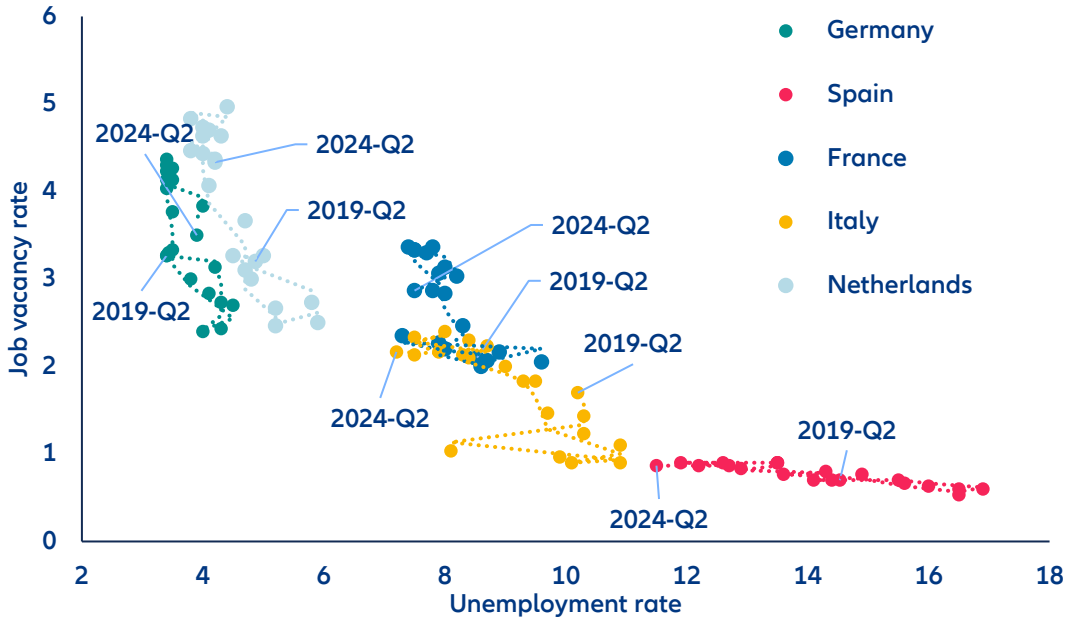
Table 2: Labor market dynamics influencing workers' bargaining power

Labor market dynamics		2019	latest	change
Germany	Unemployment rate	3.0	3.3 ▲	12.3%
	Vacancy rates	3.3	4.2 ▲	26.7%
	Wages and salaries / gva	0.5	0.5 ▼	-3.1%
	Real labor productivity inde›	102.2	100.8 ▼	-1.4%
	Overqualification rates	18.2	19.6 ▲	7.7%
	Labor market churn*	11.9	9.4 ▼	-21.4%
Spain	Unemployment rate	14.1	11.7 ▼	-17.0%
	Vacancy rates	0.7	0.9 ▲	21.4%
	Wages and salaries / gva	0.4	0.4 ▲	1.6%
	Real labor productivity inde›	100.6	100.0 ▼	-0.5%
	Overqualification rates	36.7	35.8 ▼	-2.5%
	Labor market churn*	20.7	17.0 ▼	-17.9%
France	Unemployment rate	8.4	7.5 ▼	-11.5%
	Vacancy rates	2.2	3.3 ▲	53.5%
	Wages and salaries / gva	0.4	0.4 ▼	-0.5%
	Real labor productivity inde›	102.5	99.1 ▼	-3.3%
	Overqualification rates	21.7	21.2 ▼	-2.3%
	Labor market churn*	12.3	11.2 ▼	-9.2%
Italy	Unemployment rate	9.9	7.0 ▼	-29.3%
	Vacancy rates	1.4	2.1 ▲	57.4%
	Wages and salaries / gva	0.3	0.3 ▼	-3.6%
	Real labor productivity inde›	99.9	101.3 ▲	1.5%
	Overqualification rates	20.1	21.9 ▲	9.0%
	Labor market churn*	20.0	13.7 ▼	-31.6%
Netherlands	Unemployment rate	4.4	3.6 ▼	-18.2%
	Vacancy rates	3.3	4.8 ▲	46.9%
	Wages and salaries / gva	0.4	0.4 ▼	-4.7%
	Real labor productivity inde›	101.0	100.9 ▼	-0.1%
	Overqualification rates	16.8	14.6 ▼	-13.1%
	Labor market churn*	9.9	9.0 ▼	-8.9%

*Sources: Eurostat, Allianz Research. * data starting Q2 2021*

But there are early signs of a trend reversal in labor markets. Vacancy rates have started to decline from the record highs reached during the post-pandemic job-rich recovery, although they remain above end-2019 levels. The Beveridge curve has shifted outwards in all the five major Eurozone economies, indicating an abundance of job opportunities for the same or lower level of unemployment (Figure 11, next page). Only Spain has maintained a low and stable vacancy rate, while Germany and the Netherlands have seen a significant number of job opportunities, coupled with a scarcity of workers available and willing to fill those positions. In parallel, labor productivity and average working hours have been declining, exacerbating companies' demand for workers.

Figure 11: Beveridge curve – the relationship between job vacancies and unemployment (%)

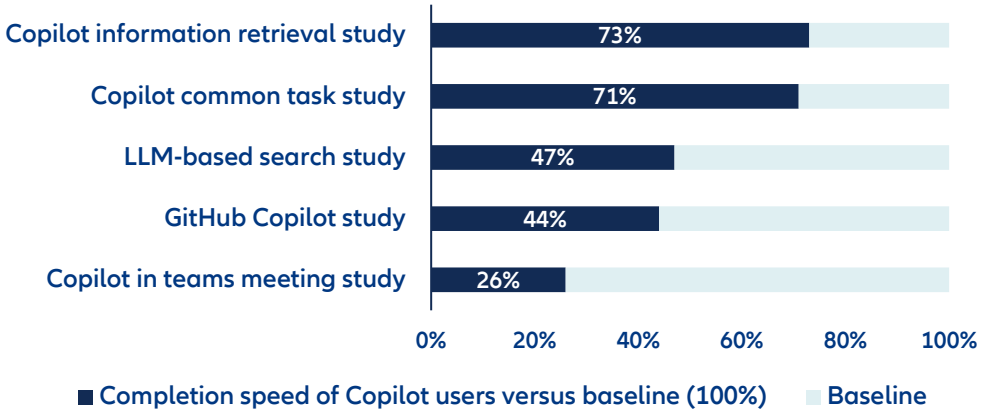


Sources: LSEG Workspace, Allianz Research

What's more, hiring intentions are now softening, particularly in France and Germany where economic prospects appear gloomier than in Southern peers. And labor is now seen less as a limiting factor to production, after being reported as a major constraint (especially in Germany and Netherlands), reflecting limits to production through either the demand or the supply side. Services and construction are holding up but the easing momentum is more evident for the retail and manufacturing sectors. During periods of strong corporate profitability, labor hoarding was a rational strategy for firms, especially when the costs of redundancies, rehiring and training outweighed retaining employees. But this strategy could be less appealing going forward as conditions harden. However, increasing labor market churn could boost productivity by improving job matching, reallocating workers to more efficient sectors and reducing overqualification. Healthy churn will also encourage firms to invest in training and adopt innovative practices by fostering competition for top talent.

Investing in generative AI systems could revitalize labor markets in the Eurozone, boosting productivity. Proper adoption would allow workers to complete tasks faster and improve output quality. Studies also show that AI has the potential to bridge skill gaps between low- and high-skilled workers, lowering re-employment and training costs and streamlining onboarding. Labor hoarding, which reduces hours and productivity, exacerbates cyclical productivity declines but AI may mitigate this impact – especially in service-heavy economies, as shown in Figure 12, which assesses the speed of task completion utilizing generative AI compared to the unassisted baseline.

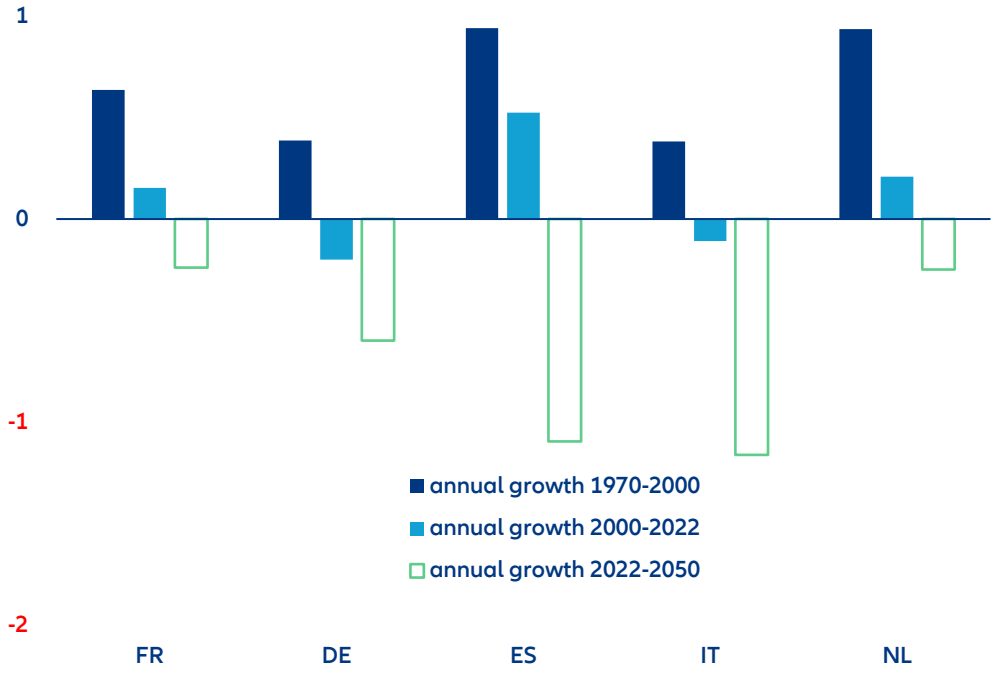
Figure 12: Generative AI cross-study comparison of task completion speed of Copilot users versus the baseline



Sources: Stanford AI Index Report, Allianz Research

All things considered, we expect labor retention to soften in the Eurozone. Long-lasting economic uncertainty and the normalization of corporate profits, coupled with sustained wage growth, mean firms will reconsider their cost efficiency. However, sectors that require high-specialization skills, such as technology, machinery and industrials – where even generative AI cannot narrow the skill gap – will continue to hoard employees. Additionally, demographic challenges will add pressure to labor market trends as a significant share of skilled professionals will soon retire (Figure 13).

Figure 13: Working age population (15-64), average %



Sources: Eurostat, Allianz Research

These assessments are, as always, subject to the disclaimer provided below.

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