Europe Monitor

How low literacy impacts us all

Macroeconomic Update Europe

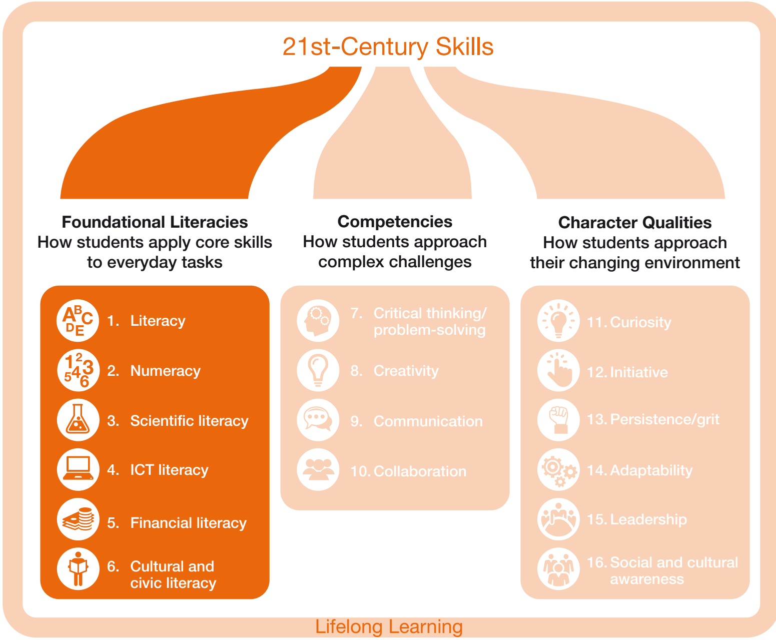
Country update Belgium

Digitalization and emerging technologies are leading to large-scale and sweeping transformations in society and have a huge impact on businesses. At the same time, digitalization also has large implications for employment and the required skillset of the workforce. As an abundance of research shows, literacy and numeracy are the two most important skills people need to succeed on today's labour markets. Accordingly, low-literate people will have more difficulties than ever to participate in society. What is the impact of currently existing low literacy in today's digitalized world? What does low literacy cost society? And how can businesses contribute to take the lowly literate along on the journey into the future?

Literacy and numeracy are the basis of our knowledge economy

Human capital is one of the most important drivers of our knowledge economy. With the rapid spread of new technologies the skills required of the workforce are constantly changing, but start with having basic writing, reading and math skills. In its recent report the World Economic Forum listed literacy and numeracy as the two most important skills people need to succeed on today's labour markets (figure 1).[1] Not having sufficient literacy and numeracy skills means less chances to succeed. This is quite intuitive: not having basic literacy skills means difficulty to communicate with colleagues or customers via e-mail, understand or write incident reports or understand team schedules.

Figure 1 What skills will be needed the most to succeed in the digital economy?



Source: World Economic Forum, New Vision for Education (2015), available at: see note 1 for source link

1 World Economic Forum, New Vision for Education (2015), available at: http://www3.weforum.org/docs/WEFUSA_NewVisionforEducation_Report2015.pdf. As will be further substantiated below, 10 to 30% of the population in Western European countries between 16 and 65 year is considered low literate.

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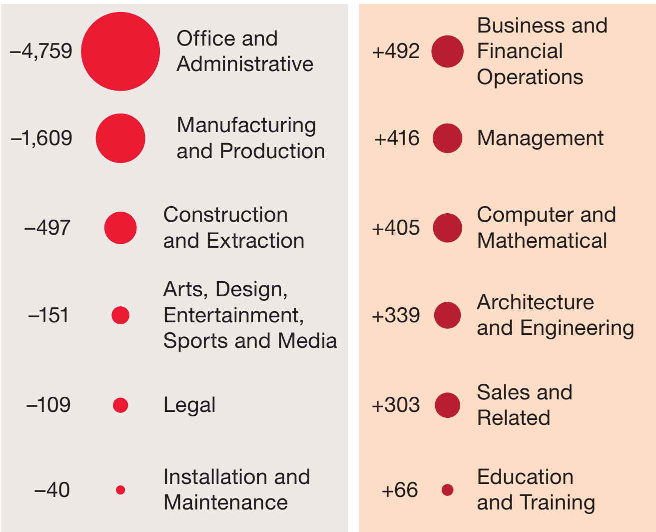
Digitalization particularly impacts low skilled jobs

Increasing digitalization has a significant impact on the required skillset of the workforce. Tasks that exist today may become obsolete in the near future, while at the same time the jobs of the future do not yet exist. The World Economic Forum predicted that digitalization will result in the net loss of over 5 million jobs across 15 economies by 2020.[2] It is highly likely that digitalization will disproportionately impact low skilled jobs, which are more likely to be performed by lowly literate people. The percentage of low skilled jobs is expected to decrease by 30% in 2020 compared to 2010.[3] Figure 2 shows the expected employment outlooks per job family up to 2020. It shows that job opportunities are decreasing in manufacturing & production, construction & extraction and installation & maintenance, while there are increasing opportunities in, amongst others, business and financial operations. "Loss"-sectors are mainly low-skilled, while the "growth-sectors" are high skilled jobs.

Figure 2 Expected net employment outlook in 2015-2020 per job family[4]

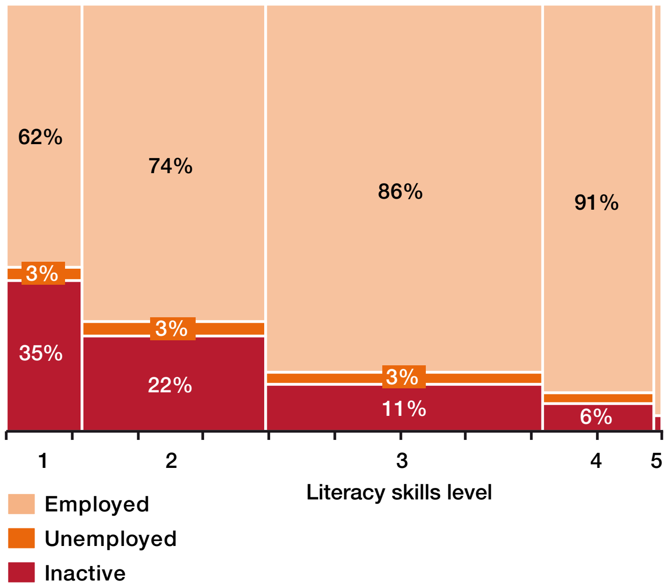


Source: World Economic Forum, The future of jobs (2016), available at: http://www3.weforum.org/docs/WEF_FOJ_Executive_Summary_Jobs.pdf

The social impact of low literacy is high for the individual

In March 2018, PwC conducted a study into the economic impact of low literacy in the Netherlands.[5] The study focuses on low literate adults (as of 16 year) and makes a distinction between adults with low levels of proficiency in literacy (i.e. reading & writing), in numeracy or in both literacy and numeracy. The study showed that all groups of low literate adults have a lower chance of finding a job.[6] Figure 3 shows the results for literacy. The study showed similar results for low numeracy skills and low literacy and numeracy skills. And if low literate people have a job, they will often earn less than literate adults. Accordingly, low literate adults will more often rely on the social security system and will more often live in poverty. Considering that digitalization will particularly impact low skilled jobs, the impact of low literacy on employment and remuneration will further increase in the near future, adding to further disengagement and unhappiness of the group.[7]

Figure 3 Number of people having a job increases when literacy skills increase[8]



Source: PwC, Social cost of low literacy (2018), see note 4 for source link

2 World Economic Forum, The future of jobs (2016), available at: http://www3.weforum.org/docs/WEF_FOJ_Executive_Summary_Jobs.pdf

3 Elinet, Literacy in Europe: Facts and figures (2015), available at: http://www.eli-net.eu/fileadmin/ELINET/Redaktion/Factsheet-Literacy_in_Europe-A4.pdf

4 The study used survey data from 15 major developed and emerging economies and regional economic areas worldwide.

5 PwC (2018), Maatschappelijke kosten van laaggeletterdheid (Social Cost of Low Literacy), available in Dutch at: https://www.lezenenschrijven.nl/uploads/editor/PwC_-_Rapport_maatschappelijke_kosten_laaggeletterdheid_-_April_2018_def.pdf

6 The PwC model corrected for several other factors that may impact employment such as years of education age, gender, health and migration status.

7 For its impact study PwC used data from the Programme for the International Assessment of Adult Competencies (PIAAC) which survey was administered in 2012. Considering the increasing digitalization and the large impact of digitalization on low skilled jobs, the actual impact of low literacy on employment may even be higher.

8 International studies such as those of the OECD often use levels of literacy from 1 – 5. Persons having level 1 literacy skills are considered low literate.

Although, the PwC study focused on the impact of low literacy in the Netherlands, data indicate that it is very likely that low literacy and numeracy skills have similar effects on the lives of low literate adults in other Western European countries, such as Belgium, France and Germany.

A lifelong learning starts with having basic reading and writing skills

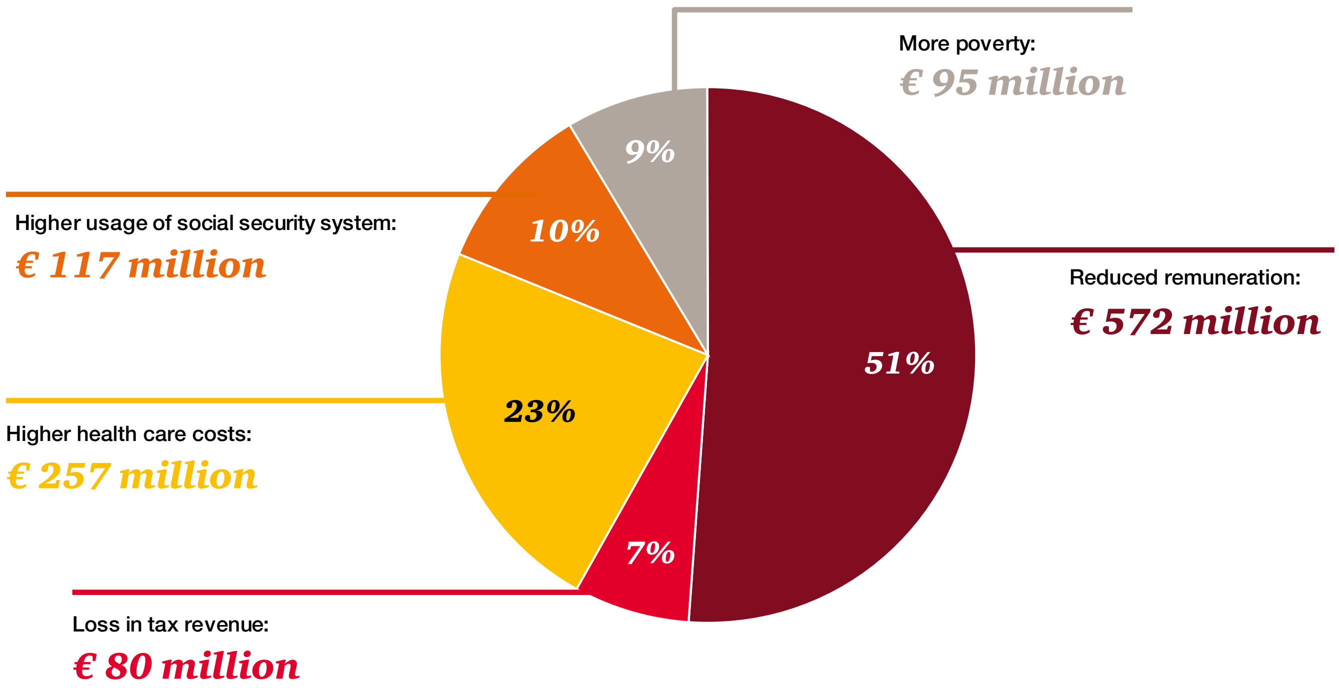
Having basic reading and writing skills is also an essential prerequisite for all kinds of learning. While tasks for humans on the workplace evolve rapidly, education is no longer limited to childhood and adolescence. To be able to meet the ever changing requirements of the digital economy, education today is lifelong and lifewide. Taking into account the declining future population share of today's youth cohort in many ageing economies means that focusing on today's students will not be enough. Older workers will need to learn new skills and work for longer. 'Re-tooling' will become the norm.[9]

Low literacy costs society several billion euro each year

Low literacy is often considered as a sad given, unfortunate for the individual concerned. Clearly, the negative effects of low literacy affect the lives of low literates. Though, they also affect society as a whole. Low literacy results in considerable costs for governments and through the social 'reparation' costs. But it affects businesses as well, as a sizeable chunk of the pool of skilled people is less employable.

In its recent study, PwC translated the social impact of low literacy into an annual cost for Dutch society. It calculated that Dutch society pays at least €1.13 billion every year because of low literacy.[10] Figure 4 shows that the large majority of the annual costs relate to the impact of low literacy on employment and remuneration. But low literacy also has a considerable impact on healthcare cost. Low literate people are significantly more likely to have an unhealthy lifestyle or chronic illness, misuse medication more often and are less self-reliant. As a result low literate people visit the general practitioner and hospitals more often than literate people, all other things being equal.

Figure 4 Overview of the annual social costs of low literacy in the Netherlands

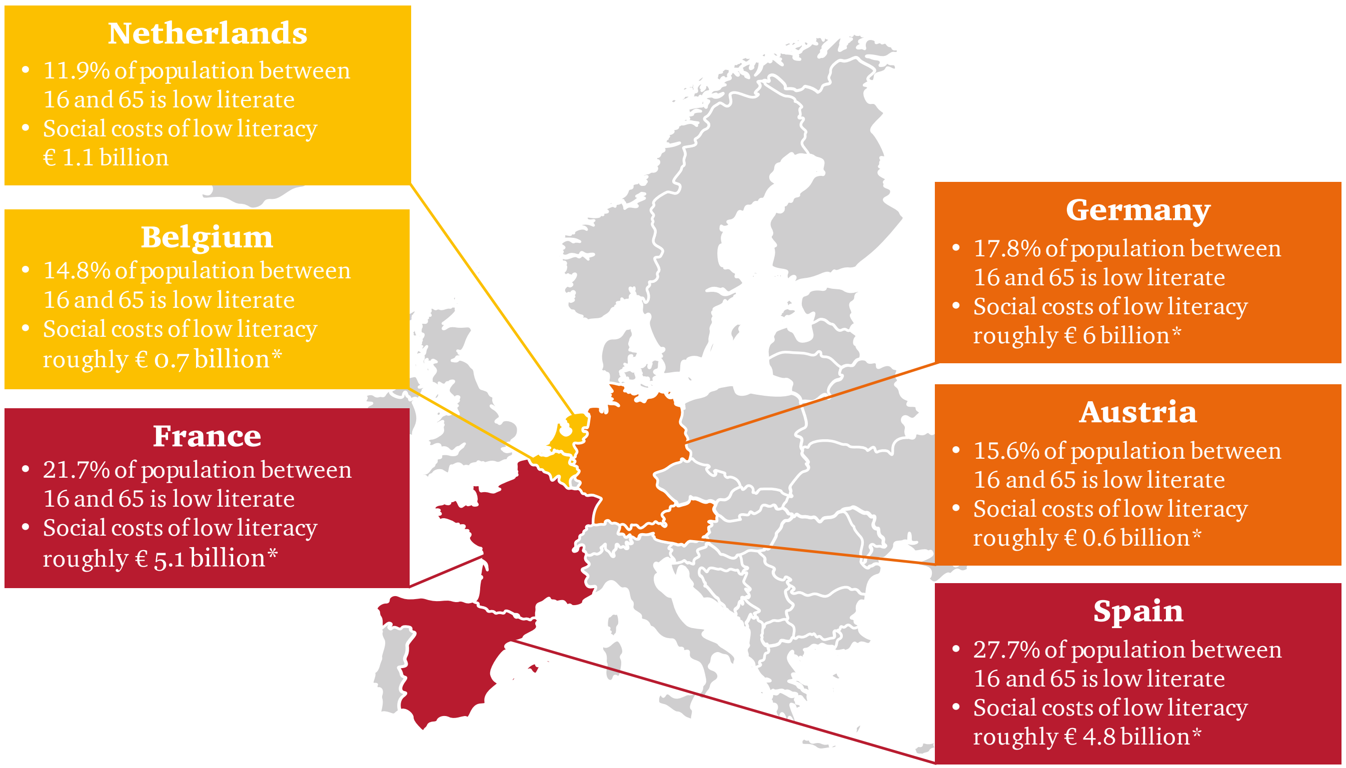


Source: PwC, Maatschappelijke kosten van laaggeletterdheid (2018), see note 4 for source link

9 PwC (2017), Workforce of the future, the competing forces shaping 2030, available at: https://www.pwc.com/gx/en/services/people-organisation/publications/workforce-of-the-future.html

10 This amount excludes immaterial effects and indirect effects of low literacy. Therefore, the actual social costs of low literacy are likely higher.

Figure 5 The annual cost of low literacy in Western Europe is high[12]



Note: Belgium Literacy rate (14.8%) is based on Flanders

Source: PwC analyses, PwC, Social cost of low literacy (2018), OECD data (2012, for Austria, Belgium, France, Germany and Spain).

Data of the OECD suggests that low literacy rates in Austria, Belgium, France, Germany and Spain are higher than those in the Netherlands.[11] Consequently, the social costs of low literacy in these countries are, in relative terms, expected to be even higher than those calculated for the Netherlands. A rough estimate of the annual costs of low literacy for these countries, based on the model for the Netherlands, is shown in figure 5.

What can be done?

In today's digitalized world, low literacy has somehow become a vicious cycle. Low literate people have more difficulty finding a job. If low literate people succeed in finding a job, part of their work may be substituted by automated processes or the jobs may require different skill sets as the ecosystems within which they operate changed. This raises fear and disengagement. In order to be able to navigate successfully through an ever-changing, technology-rich work environment, education today is a lifelong learning process.

11 The actual low literacy figures are presumably higher than the figures currently available via the OECD. Compared to recent data from the Netherlands Court of Audit (Algemene Rekenkamer) the OECD estimate of the low literacy rate for the Netherlands presents a lower bound. The reason is that OECD typically does not include the low numeracy-group and does not include elderly low literate people.

12 The calculations for Austria, Belgium, France, Germany and Spain are based on the model for the Netherlands and thus illustrative. These figures are estimated using PwC's detailed cost model for the Netherlands and the respective country's population and low literacy statistics (based on 2012 OECD data). For Belgium we assumed that the low literacy rate of Flanders is indicative for the low literacy rate of Belgium as a whole (Flanders and Wallonia).

Though, a lifelong learning starts with having basic reading and writing skills. Life-long learning may largely be the new responsibility for the worker. But the lowly literate will need a hand.

For employers:

- Low literate adults often try to hide their problem, or aren't even aware of it. They use a variety of strategies to do this, including avoidance and denial. There are special check lists for companies which help employers to recognize low literacy.
- There are several innovative language programs aimed at low literate adults to help them break the cycle. Though, companies could also invest in improving language skills of all its employees. A Dutch waste company, for example, introduced a language program for all its employees as part of its larger vitality strategy to encourage sustainable productivity of its employees.

For health care professionals:

- There are special check lists for health care professionals to identify low literate patients. Several hospitals organized workshops for their staff to better recognize low literacy and used test panels to improve the accessibility of brochures and websites.

For financial institutions and insurance companies:

- Studies show that low literate adults are at greater risk to be in debt, as they more often don't open or understand their mail or feel less responsible. A Dutch insurer started an initiative to call insured persons with defaulted payments (instead of writing them) to better understand why payments weren't made and assist them.

Macroeconomic Update Europe

Macroeconomic Update

The expansion in the European economy is set to continue, but at a slower pace than in 2017. Risks are largely balanced, as the strong cyclical momentum could surprise positively, while downside risks mainly depend on external factors, such as trade friction.

GDP growth

After a stellar 2017, growth of economic activity in Europe appears to be slowing down somewhat in 2018, in line with earlier predictions. High consumer and business confidence, improving labour markets, continued loose monetary policy conditions, as well as global growth and trade, all supported the expansion in 2017. Moving into 2018, external demand for European products continues to support growth, while growth dynamics in Europe itself have eased slightly.

Average real GDP growth in 2017 was 2.4% for both the EU and the Eurozone, while countries such as Austria, the Netherlands and Spain all outperformed this number and grew at rates above 3%. GDP levels in these areas are now above the pre-crisis level. For Turkey, GDP growth in 2017 is expected to reach 5.5%.

Private consumption

In line with more subdued internal dynamics, the European Commission's consumer confidence indicator remained unchanged in March 2018, in both the euro area (+0.1) and the EU (-0.3) compared to February. Although consumer confidence is still higher than the previous peak in 2007, the stagnating rise of it suggests that private consumption will be a less strong driver for economic growth in 2018.
In 2017, private consumption had continued to benefit from the improved labour market. Annual figures suggest that private consumption growth was particularly strong in Spain (2.4%), Germany (2.3%) and the Netherlands (2.2%).[13]

Capital investments

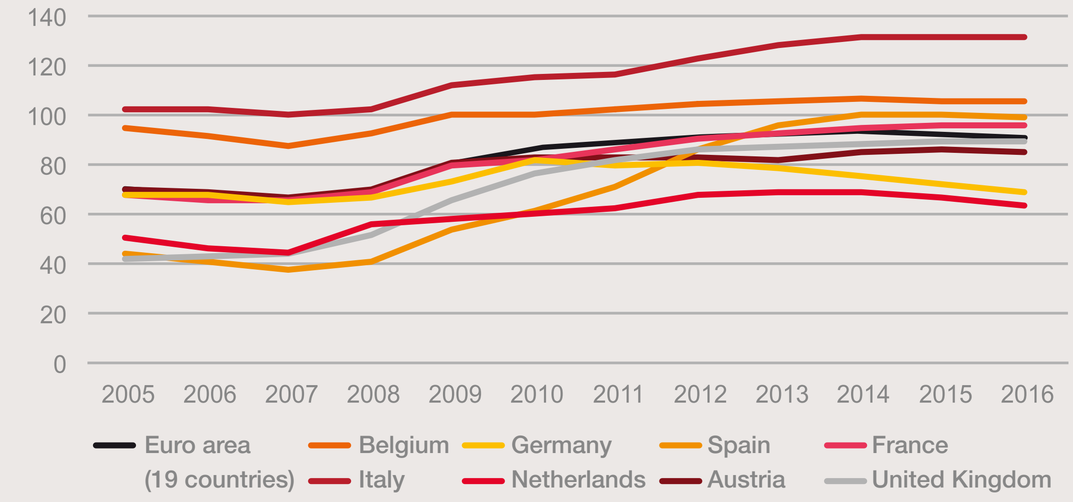
Likewise, the Eurozone Business climate indicator was on an upward trend in 2017, but has subsequently dropped slightly since the beginning of this year (from 1.59 in December 2017 to 1.34 in March), suggesting that investments may moderate in the Eurozone in 2018.

In 2017, investments grew particularly strongly in the Netherlands (6.1%), Austria (5.2%) and Spain (4.7%). In emerging Europe, Turkey witnessed a significant improvement compared to the previous year with investment growth at 8%, compared to 2.4% in 2016.[14]

Net exports

Despite domestic demand being the main growth engine, stronger global GDP and trade growth also supported the European economy in 2017. Increasing emerging market growth and a continued growth momentum in developed markets in 2018, will continue to support export growth in Europe.

Figure 6 Government debt as a percentage of GDP, selected European economies



Source: Eurostat

13 Economist Intelligence Unit.
14 Economist Intelligence Unit.

Macroeconomic Update

In 2017, net exports were up strongly in most markets, with overall trade growth in the Eurozone at 7.1% in 2017.[15] Net trade grew the most in Austria (6.1%), the Netherlands (5.8%), Spain (5.2%) and Italy (5.1%).[16] The strong expansion came despite euro appreciation, but in line with the stronger momentum in world trade.

Government expenditure

Government consumption growth remained largely stable in the euro area, and both the EU and Eurozone government budgets are looking healthier. Budget deficit levels are on a downward trend, although high government debt is still a persistent phenomenon in many countries.

Downside risks exist particularly in Italy, given the inconclusive election result and the lack of economic policy expertise within both the largest party groupings. The political parties that are likely to govern Italy, have little experience in dealing with potential market pressures, leading to a higher possibility of policy errors.

Labour markets

Unemployment in the euro area has improved further on the back of solid economic expansion in all countries. Going forward however, there are growing signs of labour shortages in some markets and sectors, suggesting that employment growth is set to moderate in 2018, and wages may start to rise.

The number of people employed is at the highest level ever recorded and unemployment rates are decreasing to more sustainable levels in a number of countries, although significant differences remain. Yet the number of total hours worked in the economy remains below its pre-crisis level (by 3%).

Inflation

At 1.4% in March 2018, Eurozone annual inflation has declined modestly in the past months (down from 1.5% in November 2017 and from 2% a year ago). Inflation is expected to remain modest until 2019, when labour market shortages will drive up labour costs, as growth remains above trend.

Despite increasing pressure to do so, with key figures regarding sovereign debt, fiscal deficits and inflation well below target, the European Central Bank (ECB) will likely not to change its forward guidance on policy rates any time soon. As a result, there will be further divergence in monetary policies on the two sides of the Atlantic, because the US Federal Reserve has indicated the need for three interest rate hikes in 2018.

For the EU as a whole, annual inflation was 1.3% in February 2018, down from 1.6% in January and from 2.0% a year earlier. The UK continued to see inflation at a rate of 3%, as the weaker pound led to higher prices of imported goods. Persistently high inflation also remains a factor in Turkey.

Figure 7 Key economic indicators, selected European economies – March 2018

	GDP growth (% change)*	Industrial production (% change)	Consumer spending (% change)*	Capital investments (% change)*	Unemployment rate (%)	Consumer prices (% change)	10-year gvt bonds (interest rate %)
Eurozone	2.4	4.3	n/a	n/a	8.3	1.1	n/a
Austria	3.1	5.7	1.5	5.2	5.3	2.4	0.5
Belgium	1.7	1.8	1.2	1.1	6.5	2.0	0.6
France	1.8	3.9	1.3	3.7	8.7	1.5	0.7
Germany	2.2	5.1	2.3	4.2	3.4	1.4	0.6
Italy	1.5	3.9	1.4	3.1	10.8	0.9	1.9
Netherlands	3.1	1.7	2.2	6.1	4.4	1.3	0.7
Spain	3.1	4.6	2.4	4.7	15.6	1.1	1.5
Switzerland	1.0	8.6	1.3	2.0	2.8	0.9	-0.1
Turkey	6.7	11.4	5.5	8.0	10.7	10.3	n/a
United Kingdom	1.8	2.4	-0.3	2.7	4.4	3.0	1.3

NB: Figures are the latest values available, reported quarterly unless otherwise stated, year-on-year change (where applicable). Consumer prices are reported according to the HICP methodology, except in the case of Turkey which uses the CPI index.

*Annual figures 2017

Source: Thomson Reuters and the Economist Intelligence Unit

15 Eurostat, Euro indicators news release, Euro area international trade in goods surplus €25.4 bn, February 2018.
16 Economist Intelligence Unit.

Macroeconomic Update

Country update
Belgium

Current situation and economic outlook

According to the latest estimates of the National Bank of Belgium, **GDP grew by 1.7% in 2017**. This is lower than the growth rate for the whole Eurozone (2.4% for the full year 2017). While in the first half of the year, growth was around 0.6%, the second half of 2017 was more turbulent with GDP growth of 0.2% in the third quarter, and a growth rate of 0.5% in the fourth quarter. However, little by little Belgium seems to start catching up and the negative growth gap with Eurozone average will start to decrease in the coming years.

Due to the growing confidence of entrepreneurs and consumers in the Belgian market, the projection of GDP growth for 2018 is estimated at 1.8%, a slight increase compared to 2017. The projections for GDP growth between 2019 and 2022 are around 1.5% (the Federal Planning Bureau & IMF).

Inflation rose to 2.2% in 2017, up from 1.8% in 2016, mainly driven by high energy prices. Inflation is expected to decline to 1.5% in 2018. This is notably due to the elimination of a tax on electricity consumption in Flanders, and the annulment of a television license fee in Wallonia. Inflation is expected to reach 1.6% by 2019. The inflation gap between Belgium and the euro area narrowed to 0.7 percentage points in 2017 and is expected to close in 2018.

Macroeconomic Update

Characteristics of the Belgian economy

According to the WTO, **Belgium is the 10th largest exporting country in the world**. Export in 2016 amounted to 82.9% of GDP. One important reason behind the overwhelming relative size of export, is the central position Belgium has connecting the world to other European countries. Import, at the same time, will keep on rising heavily due to a boom in consumer demand, which is at an all-time high since 2000. Since exports and imports both increased with practically the same degree, there was no net impact on GDP. In the coming years, a small negative export gap is expected. This would be mainly caused by higher costs and inflation, which will push the value of Belgian exports upwards.

Belgium is one of the countries in the Eurozone with the **lowest historical public investment rate**. According to estimates of the Federal Plan Bureau of January 2017, public investments made in Belgium represented around 2.4% of the GDP, compared to 3.5% in France and the Netherlands. To catch up, a new investment plan was launched in 2016 in light of Horizon 2020, with a specific focus on infrastructure. As many countries make use of Belgian distribution companies and corporate services to transport their goods through Europe, infrastructure is an important factor to boost the Belgian economy.

In comparison to the neighbouring countries, **Belgium seems to lag behind in terms of productivity growth**. The total factor productivity growth in Belgium for 2016 was –0.19 % (compared to 0.24% in the Netherlands and 1.16% in Germany). Although investments in R&D are quite high (2.5% in 2015 compared to a 2.1% average for the Eurozone), these investments do not seem to lead to the creation of new products. Moreover, although Belgium is known for its high quality educational system, it scores very low on permanent education. In 2016 only 7.5% of the work force participated in post-educational trainings, compared to approximately 14% for the Eurozone.

Employment

Over the past two years, growth of the economy resulted in an increase of employment opportunities. Belgium's main strengths are in the areas of job quality and the inclusiveness of its labour market. However, one of the biggest issues are the high labour costs. In 2017, more fiscal reforms were introduced to lessen the burden of these labour costs, such as the tax shift, new wage restraints and an index jump. These reforms stimulated the creation of new jobs in 2017, and will create another 57,000 jobs in 2018. Accordingly, the unemployment rate is slowly but steadily going down, a positive trend that will continue in 2018. A daunting, but real challenge for Belgium will be to deal with the ageing of its population. According to the Federal Plan Bureau, the working population in Belgium (18-64) will start decreasing from 2021 onward. In order to keep the employment level high, Belgium should continue to increase the participation rate and stimulate employment within traditionally low-participating groups such as elderly people, women, low educated workers and non-EU citizens.

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