How Far from the Mark?
Manufacturing Price and Productivity Levels of Eight European Countries Compared to Germany

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This work occurs some twenty years after the first bilateral comparisons of real production and productivity levels carried out by the CEPII in the framework of the ICOP project of the University of Groningen for the years 1987 and 1997. Since the beginning, CREPII has addressed convergence issues in Europe, either in the scope of a common currency shared by close economies (France and West Germany/ Germany after reunification) or with a regional integration prospect for peripheral emerging countries (Egypt, Spain, Morocco, Portugal and Turkey). The German reunification was also scrutinised in this perspective.

This paper investigates real production and productivity levels in the manufacturing sector, on the basis of a new comparison of output price levels for the year 2007 between several European countries and Germany (Finland, France, Greece, Italy, Poland, Portugal, Spain, and the UK). The assessments of the strengths and weaknesses of the economy in terms of prices are generally speaking carried out with growth rates, as levels are hardly available. This paper offers to fill the gap by computing production price parities, which can be used as deflators. Price, production and productivity levels matter for competitiveness issues and for real convergence within the European Union as well. Differences in the price and unit labour costs levels are key to explaining the present financial and economic crisis in Europe, as for example, a country with higher competitiveness may tend to beggar its neighbours, and may be helped by a less strong currency than could be the case if it didn't pertain to a monetary union.

The paper will primarily focus on the comparison between France and Germany, the two leading and more integrated countries in the euro zone, with a general price level close to one. The case of Greece and Portugal, at one end of the spectrum in terms of specialisation and productivity level gaps vs. Spain, Italy, and Finland, all belonging to the monetary union, will help delineate the analysis. Further, how countries out of the euro zone like UK and Poland perform, given their price level relative to Germany, will complete the picture.