

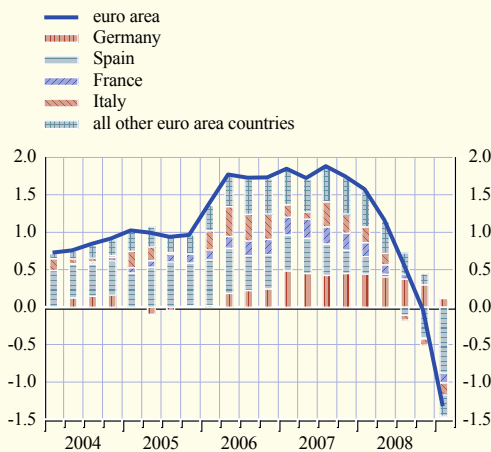
Box 7

THE COMPOSITION OF THE RECENT DECLINE IN EMPLOYMENT IN THE EURO AREA

The current downturn has resulted in a significant deterioration in the euro area labour market. This box looks at the latest developments in euro area employment in more detail, focusing on the country and sectoral dimensions, as well as on different groups of workers. According to national accounts data, the growth of euro area total employment slowed in the course of 2008, falling to 0.9% from 1.8% in 2007, and declined further, to -1.3% year on year, in the first quarter of 2009. Developments in Spain accounted for a major part of this deterioration (see Chart A). So far, the severe economic downturn has mainly hit employment in the construction sector and, to a lesser extent, in the manufacturing sector (which respectively recorded declines in employment of -7.3% and -3% year-on-year in the first quarter of 2009); total employment in market services only began to contract in the first quarter of 2009. In terms of contributions to total employment growth, the construction and manufacturing sectors

Chart A Euro area total employment growth and contributions by country

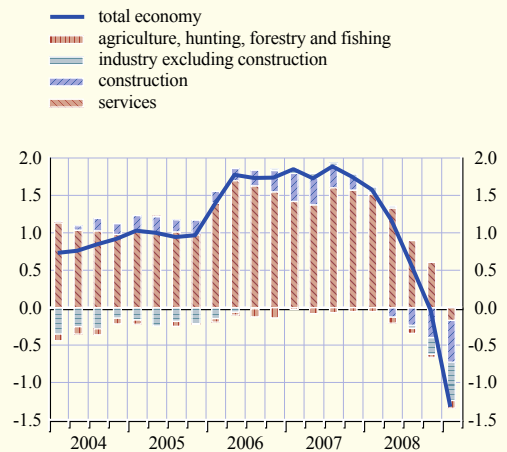
(annual percentage changes; quarterly percentage point contributions)



Sources: Eurostat and ECB calculations.
Note: Bars refer to the contribution of each country or group of countries.

Chart B Euro area total employment growth and contributions by sector

(annual percentage changes; quarterly percentage point contributions)



Sources: Eurostat and ECB calculations.
Note: Bars refer to the contribution of each sector.

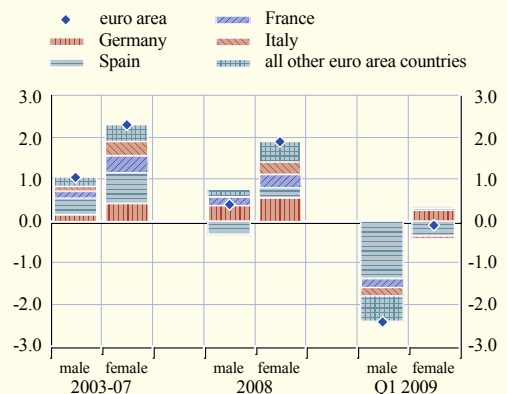
together explained 80% of the overall decline in the euro area employment figures in the first quarter of 2009, while the contribution of the services sector to the total has declined markedly in recent quarters (see Chart B).

The latest adjustment in employment has been unequally distributed across different segments of the workforce. Charts C-F show developments in euro area employment growth according to gender, age band, skill level and contract type, based on information from the European Union Labour Force Survey.¹

According to these data, the groups of workers who appear to have borne the brunt of the deterioration in employment in recent quarters comprise male workers (Chart C), employees aged between 15 and 24 (Chart D), low-skilled workers (Chart E) and those with temporary contracts (Chart F). The decline in temporary employment was particularly sharp (-0.8% in 2008, followed by a year-on-year decline of -8.7% in the first quarter of 2009). The stronger impact on young and male workers is also apparent from recent data on unemployment rates. Between the first quarter of 2008 and the first quarter of 2009 unemployment among male workers increased by 2 percentage points (to 8.5%), compared with an increase of

Chart C Euro area employment growth by gender

(annual percentage changes; quarterly percentage point contributions)



Sources: Eurostat and ECB calculations.
Note: Bars refer to the contribution of each country or group of countries.

¹ Data for Luxembourg in the first quarter of 2009 are currently unavailable.

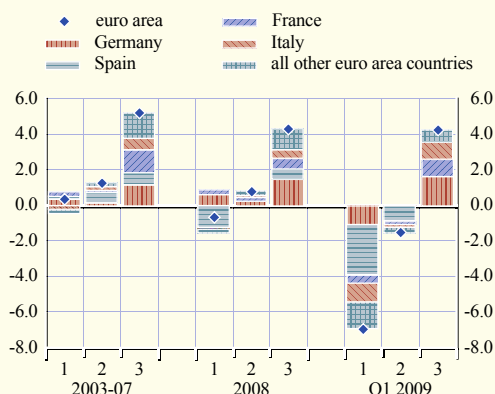
1 percentage point (to 9.2%) for female workers, and by 3.9 percentage points among workers in the youngest age band (reaching 18.5% in the first quarter of 2009), compared with a 1.3 percentage point increase (to 7.7%) for workers aged 25 and above. Within each group, developments in Spain were the main driver of the deterioration in the euro area labour market performance, particularly in the case of male workers and temporary employment, with Spain accounting for 57% and 60% respectively of the decline in euro area employment for these segments.

The different developments for male and female workers may be related to the interaction of two factors. While there is some evidence that within industries the employment of female workers may exhibit greater cyclicality than the employment of male workers,² it appears that this factor may have been outweighed by the fact that a high proportion of men are employed in industries that have been more severely affected by the economic downturn, such as construction and manufacturing. According to the European Union Labour Force Survey, in the euro area over the period 2000-08 on average 71.5% of female workers were employed in services (excluding public administration) and only 12.2% of female workers were employed

2 See, for instance, Shin, D. (2000), "Gender and Industry Differences in Employment Cyclicalities: Evidence over the Postwar Period", *Economic Inquiry*, Vol. 38, No 4, pp. 641-650.

Chart D Euro area employment growth by age band

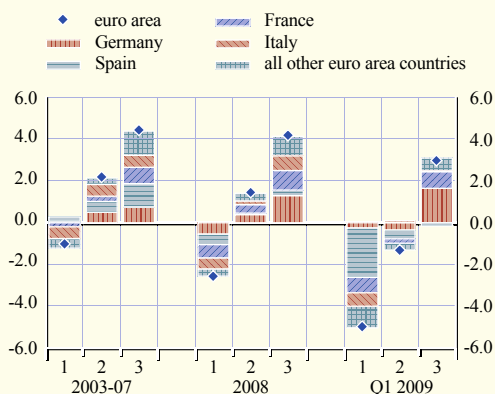
(annual percentage changes; quarterly percentage point contributions)



Sources: Eurostat and ECB calculations.
Notes: Bars refer to the contribution of each country or group of countries. 1 refers to workers aged 15-24, 2 refers to those aged 25-54 and 3 refers to those aged 55-64.

Chart E Euro area employment growth by level of educational attainment

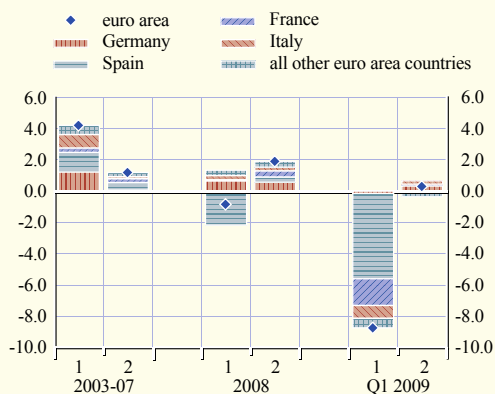
(annual percentage changes; quarterly percentage point contributions)



Sources: Eurostat and ECB calculations.
Notes: Bars refer to the contribution of each country or group of countries. 1, 2 and 3 indicate low, medium and high levels of educational attainment respectively.

Chart F Euro area employment growth by contract type

(annual percentage changes; quarterly percentage point contributions)



Sources: Eurostat and ECB calculations.
Notes: Bars refer to the contribution of each country or group of countries. 1 denotes temporary contracts and 2 permanent contracts.

in industry and construction.³ By comparison, the corresponding figures for male workers were 49.1% and 34.3% respectively.

The other striking feature of these data is the relative deterioration in the employment prospects for younger workers (aged 15-24) compared with older workers (55-64), with the employment of younger workers recording a particularly sharp decline of -6.9% year on year in the first quarter of 2009. The relatively benign developments for older workers (with employment growth of 4.2% being recorded for this group between the first quarter of 2008 and the first quarter of 2009) may be related to labour market reforms in recent years which have tightened early retirement regulations and encouraged labour market attachment among older workers.

The low impact so far of the decline in employment on workers with permanent jobs reflects, to some extent, the high level of employment protection prevailing in some countries, a factor which could also be expected to hinder the growth of permanent jobs in the recovery. An additional factor may also be the measures taken by several euro area governments to subsidise employment through short-time working schemes. As noted in the box entitled “Labour market adjustments during the current contraction of economic activity” in the June 2009 issue of the Monthly Bulletin, such schemes help protect some of the human capital in a company if a downswing is of a short-term nature. However, if applied over longer periods of time, such schemes may hinder the necessary structural adjustment.

At the same time, the very pronounced negative impact of the downturn on certain groups, such as low-skilled workers and those with temporary contracts (often young people), warrants close attention. The longer people in these groups are out of work, the greater the danger that their skills and general employability will deteriorate, making it harder for them to find work in the future. For this reason, reducing the risk of social exclusion and supporting the labour market attachment of those more vulnerable groups is crucial at the current juncture. Such efforts should include effective active labour market policies and measures to foster lifelong learning to facilitate the reintegration of these workers into the labour market.

³ In this period, male workers represented 77.5% and 92.4% of total employment in industry and construction respectively.