

## RECENT UNEMPLOYMENT DEVELOPMENTS IN THE EURO AREA

This box discusses unemployment developments in the euro area and in selected euro area countries since 2008, based on information from the European Union Labour Force Survey (LFS). Chart A provides a snapshot of the unemployment rate in the euro area countries in the second quarter of 2010 (the latest quarterly data currently available from the LFS) and immediately before the start of the latest recession. From a level of 7.6% in the final quarter of 2007, the euro area unemployment rate rose to 10.0% in the second quarter of 2010 – the highest level recorded since the third quarter of 1998.

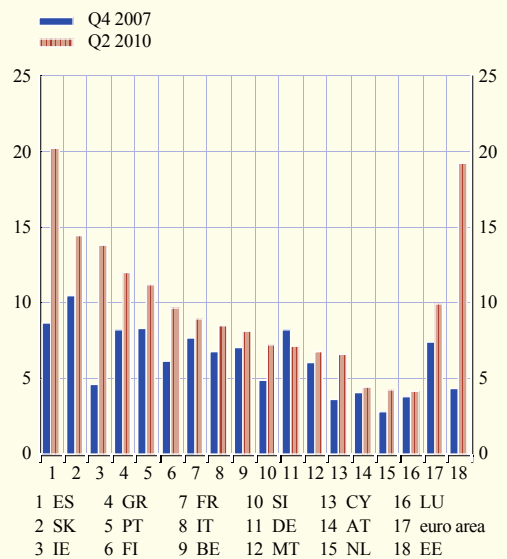
At the country level, Spain and Ireland saw the largest increases in the unemployment rate, mainly driven by the adjustment in the construction sector. These two countries rank among the euro area countries with the highest unemployment rates (20% and 14% respectively in the second quarter of 2010), together with Slovakia (14.4%), Greece (12%) and Portugal (11%). Within this group, a slightly higher labour force participation rate contributed to the increase in unemployment in Spain, Greece and Slovakia, while labour supply sharply decreased in Ireland (reflecting the severity of the decline in output) and, to a lesser extent, in Portugal.

At the same time, the unemployment rate rose only moderately in a large number of euro area countries. In particular, from the final quarter of 2007 to the second quarter of 2010 the unemployment rate increased by 2 percentage points in Italy (reaching 8.5%) and by 1 percentage point in France and Belgium (rising to 8.9% and 8.2% respectively). Several factors may explain the somewhat weaker impact of the crisis on unemployment in these countries, including the reduction in labour supply – partly reflecting an increase in discouraged workers – and a notable increase in part-time employment.

Conversely, Germany appears to be an exceptional case, since its unemployment rate has actually declined over the period under review. The more favourable evolution of unemployment in Germany – not only compared with other euro area countries but also compared with previous recessions – was mainly due to a reduction in the number of hours worked per person employed in response to the sharp fall in activity rather than a decline in employment as in previous downturns. This, in turn, was related to both government-sponsored short-time work measures (“Kurzarbeit”) and a higher degree of flexibility in working arrangements (such as individual

Chart A Unemployment rates in the euro area and euro area countries

(percentages of the labour force)

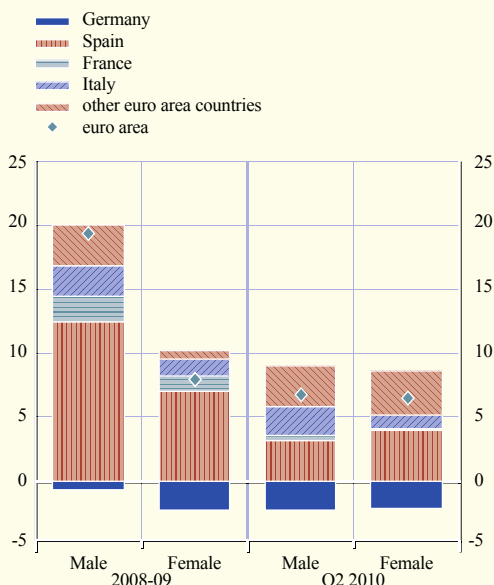


Source: European Union Labour Force Survey.

Note: The countries are ordered by the level of their unemployment rate in the second quarter of 2010 (Estonia is shown separately).

Chart B Euro area unemployment growth by gender

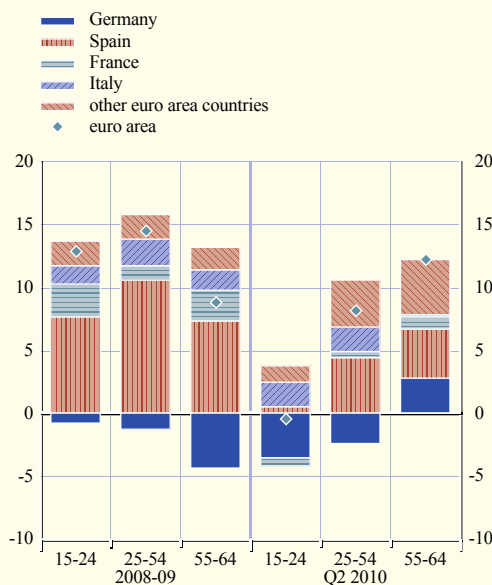
(annual percentage changes; percentage points)



Sources: Eurostat and ECB calculations.  
Notes: The bars refer to the contribution of each country (in percentage points). The data for 2008-09 refer to the average annual percentage change over the two-year period.

Chart C Euro area unemployment growth by age band

(annual percentage changes; percentage points)



Sources: Eurostat and ECB calculations.  
Notes: The bars refer to the contribution of each country (in percentage points). The data for 2008-09 refer to the average annual percentage change over the two-year period.

working time accounts). Moreover, relatively subdued wage growth, in conjunction with improved profitability, supported temporary labour hoarding, particularly in those sectors that had previously faced severe labour shortages. At the same time, participation has increased in Germany, mainly owing to women entering the labour market.

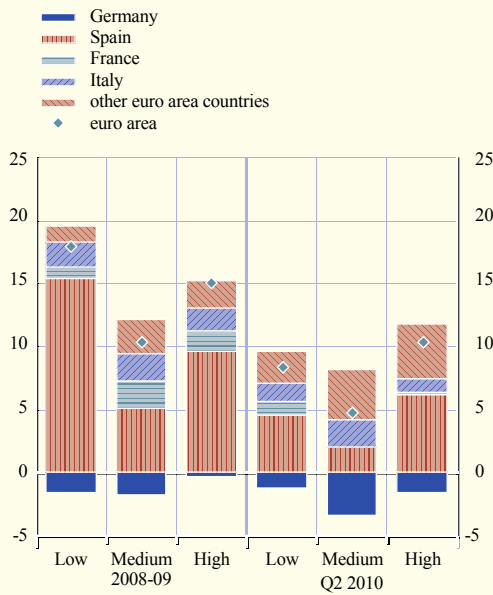
The 2008-09 recession had a relatively larger impact on unemployment in specific socio-economic groups (see Charts B, C and D).<sup>1</sup> The 14% average annual growth of aggregate unemployment masks the fact that male unemployment increased by over 19% in the euro area, compared with a growth rate of 8% recorded for female unemployment. In addition, over the same period the deterioration in the labour market mainly affected young people (youth unemployment rose by 13%) as well as those in the 25-54 age band (15%). Finally, job losses were greatest among the least skilled workers, who saw an 18% increase in unemployment. Within each group, the significant deterioration in the euro area labour market over the period 2008-09 was largely driven by developments in Spain, while other euro area countries (except Germany) also contributed to the increases, albeit to a lesser extent. The latest LFS data suggest that there was some improvement in the year to the second quarter of 2010, with slower growth in unemployment across all the above-mentioned groups.

Chart E shows that the duration of unemployment sharply increased in the euro area: the number of unemployed persons who have been without a job for a year or more increased by 30% in the year to the second quarter of 2010, compared with the 4% average growth recorded over

<sup>1</sup> For a detailed discussion of the main factors explaining these developments, see the box entitled "The composition of the recent decline in employment in the euro area", *Monthly Bulletin*, ECB, September 2009.

**Chart D Euro area unemployment growth by level of educational attainment**

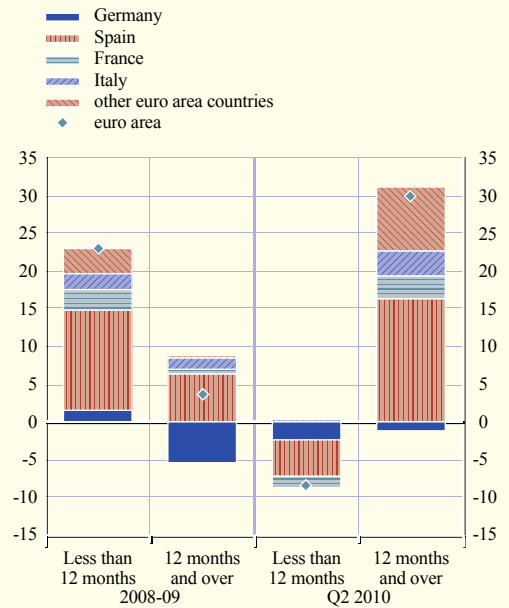
(annual percentage changes; percentage points)



Sources: Eurostat and ECB calculations.  
Notes: The bars refer to the contribution of each country (in percentage points). The data for 2008-09 refer to the average annual percentage change over the two-year period.

**Chart E Euro area unemployment growth by duration**

(annual percentage changes; percentage points)



Sources: Eurostat and ECB calculations.  
Notes: The bars refer to the contribution of each country (in percentage points). The data for 2008-09 refer to the average annual percentage change over the two-year period.

the period 2008-09. The rise in long-term unemployment is a cause of concern and requires an effective policy response in order to avoid a persistent increase in structural unemployment. Policies that promote wage moderation and reduce wage rigidities, together with active labour market policies that facilitate labour market transitions via improved matching efficiency, as well as reforms that strengthen the labour market attachment of the long-term unemployed, will reduce structural unemployment and decrease the risk of the erosion of human capital associated with long spells of unemployment.