

Box 9

DEVELOPMENTS IN YOUTH UNEMPLOYMENT IN EURO AREA COUNTRIES SINCE THE ONSET OF THE CRISIS

Since the beginning of the financial crisis, the youth unemployment rate, defined as the number of young unemployed (aged 15-24) relative to the labour force of the same age group, increased significantly in the euro area from around 15% in 2007 to 24% in 2013.¹ Both the level and the increase of the rate are much higher for young people (those aged 15-24) than for other workers (those aged over 24). Against this background, this box presents some stylised facts on youth unemployment developments in euro area countries.

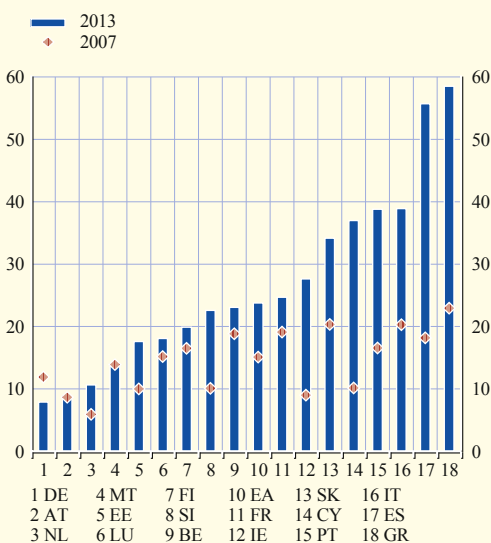
Developments in youth unemployment rates across euro area countries

Developments in youth unemployment rates mask important cross-country disparities (see Chart A). While the youth unemployment rate has seen a limited increase in Austria and Malta and has even declined in Germany, it has increased particularly sharply in countries under market stress, reaching between 50% and 60% in Greece and Spain, close to 40% in Italy, Portugal and Cyprus, and close to 30% in Ireland in 2013. In Ireland and Cyprus, the increase followed relatively low rates of youth unemployment before the crisis. In Spain, Greece, Portugal and Italy, high youth unemployment rates relative to the euro area average are not a new phenomenon, but were recorded already before the crisis. At the same time, relatively high youth unemployment rates prior to the crisis have also been a feature of some non-stressed countries, such as France and Belgium.

Rising youth unemployment has largely affected workers with less than upper secondary education (see Chart B). In most countries, the unemployment rate for these workers increased significantly more than for workers with upper secondary and tertiary education. However, the increase in unemployment for young people with upper secondary or tertiary education was strong in a number of countries. In Spain, for instance, the unemployment rate for young people with tertiary education increased by roughly 30 percentage points between 2007 and 2013. At the country level, the differences across education categories may also reflect adjustments in the structure of the economy. For example, in Spain there may be a link

Chart A Youth unemployment rate in 2007 and 2013

(percentages)



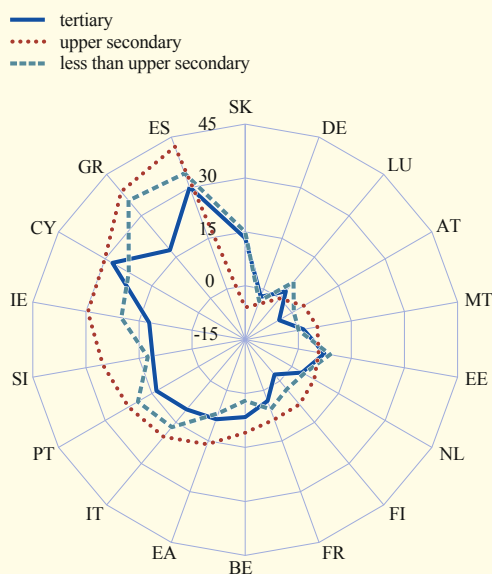
Source: Labour Force Survey.

Note: The order of countries is determined by youth unemployment rates observed in 2013.

¹ For consistency reasons, this box essentially uses data from the Labour Force Survey. These data are available up to and including the third quarter of 2013. Given that Labour Force Survey statistics are not seasonally adjusted, references to 2013 represent a four-quarter average from the fourth quarter of 2012 to the third quarter of 2013.

Chart B Changes in youth unemployment rates by educational attainment

(percentage point change between 2007 and 2013)

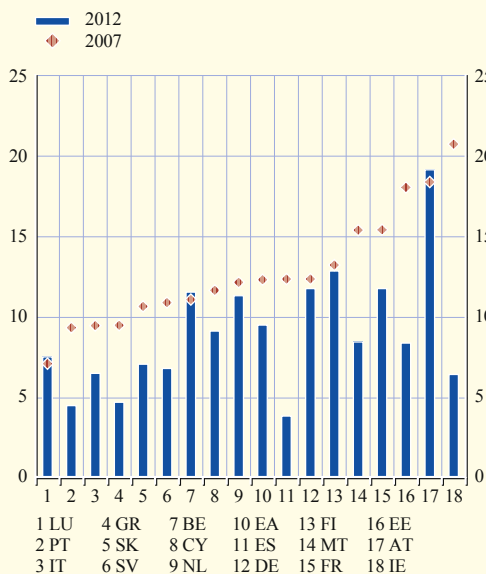


Source: Labour Force Survey.

Note: The order of countries is determined by the changes in the youth unemployment rate for workers with less than upper secondary education. The chart reports changes in youth unemployment rates for the 20-24 age group, as data for the 15-24 age group are not available.

Chart C Share of young workers in total employment in the construction sector

(percentages)



Source: Labour Force Survey.

Note: The order of countries is determined by the shares of young workers in the construction sector in 2007.

between a decline in construction sector activity and higher youth unemployment among workers with lower levels of education (see Chart C), or in Cyprus between a decline in financial and business services activity and higher unemployment among workers with tertiary education.

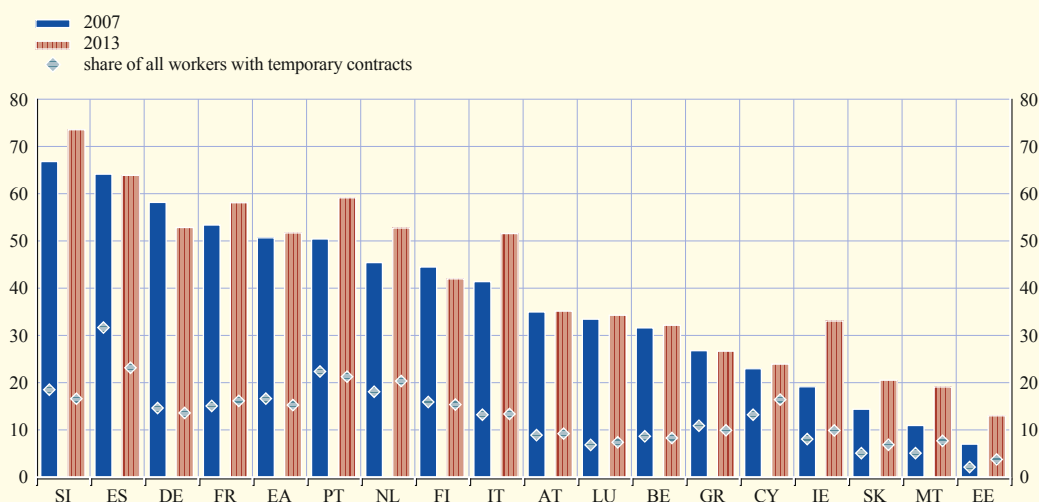
Accounting for the rise in youth unemployment rates across euro area countries

A distinguishing element in the stronger rise in youth unemployment relates to the fact that, among young people, both workers with temporary and permanent contracts have been severely hit by the crisis, whereas, for the workforce as a whole, job losses have generally been higher for workers with temporary contracts. Indeed, for the workforce as a whole in the euro area between 2007 and 2013, the number of workers with temporary contracts declined by almost 10%, while that of workers with permanent contracts remained broadly unchanged. By contrast, in the case of young people, the number of both temporary and permanent contracts declined markedly, falling by 18% and 22% respectively.

Chart D illustrates the prevalence of temporary contracts among the young compared with the workforce as a whole in most euro area countries. In the euro area, 50% of young employees held a temporary contract in 2007, while the corresponding ratio for all workers was 17%. There are various reasons for this, but in some cases it may have been a reflection of stringent employment protection legislation for regular workers, fuelling the emergence of a dual labour market split between workers on permanent contracts and others, especially young workers, on temporary contracts. However, although young people are more exposed to temporary

Chart D Share of young employees with temporary contracts

(percentages)



Source: Labour Force Survey.

Note: The order of countries is determined by the share of young temporary employees in 2007.

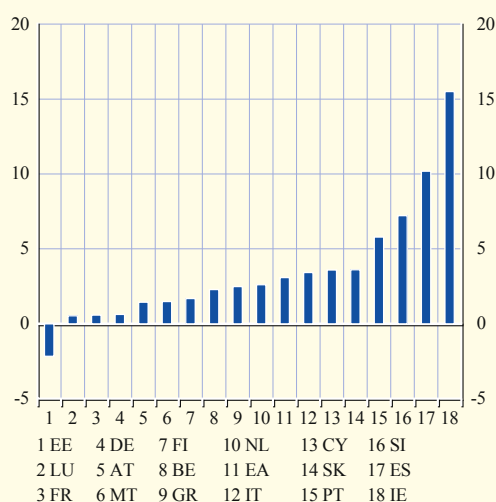
jobs, which are more sensitive to the business cycle, the observation that young people, including those with permanent contracts, have been disproportionately affected by job losses may also reflect a more general operation of “last-in-first-out” strategies by firms in adjusting their workforce.²

Looking at the unemployment rate (defined as the number of unemployed relative to the labour force) provides only a partial picture of how young people have been hit by the crisis. Indeed, the education system may provide for some hidden unemployment if, given bleak labour market prospects, young people stay in, or return to, education.

In this context, the non-participation rate among young people in the euro area increased by 3 percentage points between 2007 and 2013 (see Chart E). In Ireland and Spain, it increased by 16 and 10 percentage points respectively, suggesting that the declining employment opportunities were only partly reflected in rising unemployment rates. Increasing non-participation rates among young people may be less of a concern if they reflect not only

Chart E Change in the non-participation rate for young workers in euro area countries between 2007 and 2013

(percentage points)

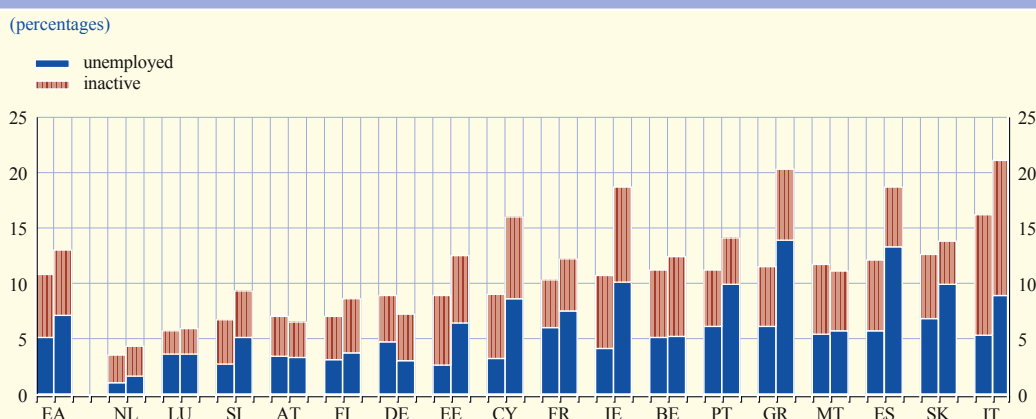


Source: Labour Force Survey.

Note: The non-participation rate for young workers (aged 15-24) is defined as the number who are economically inactive relative to the young population as a whole.

2 See Scarpetta, S. and Sonnet, A., “Challenges Facing European Labour Markets: Is a Skill Upgrade the Appropriate Instrument?”, *Intereconomics*, Vol.47, No 1, OECD, 2012.

Chart F Young people not in employment, education or training in 2007 and 2012



Source: Eurostat.

Notes: Two columns are shown for each country or area; left-hand columns refer to 2007 and right-hand columns to 2012. The order of countries is determined by the share of young people not in employment, education or training in 2007.

discouragement but also prolonged education or training that ultimately leads to higher productivity or better labour market prospects. For the euro area as a whole in 2012 compared with 2007, the share of people aged 15-24 not in employment, education or training who were classed as inactive was relatively stable (see Chart F). In some countries under market stress, such as Spain and Portugal, it even declined, suggesting that, so far, young people have managed to prolong their schooling or to be enrolled on a training programme, thereby avoiding unemployment. Conversely, the share of those deemed to be inactive who are not in education or training increased in other countries under market stress, such as Italy, Ireland, Cyprus and Greece.

Conclusions

To sum up, the deterioration in labour market outcomes for young workers in the euro area since the onset of the crisis has been stronger in countries under market stress, which have experienced dramatic rises in youth unemployment and non-participation. In a number of cases however, the rise in non-participation appears to have been absorbed by a higher share of young people staying in, or returning to, education. For a number of countries, irrespective of whether or not they are under market stress, high youth unemployment and inactivity are not a new phenomenon, even if they have been exacerbated by the crisis. In this context, persistent and high youth unemployment is one of the main challenges faced by European policy-makers today in view of the associated high social and economic costs. Several initiatives at the European level have been undertaken, such as the so-called youth guarantee schemes and youth employment initiatives.³ However, more measures need to be taken by national authorities, in particular by intensifying the implementation of structural reforms.

³ See "EU measures to tackle youth unemployment", available on the European Commission's website at <http://ec.europa.eu>