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Towards a job-rich recovery

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**COMMISSION STAFF WORKING DOCUMENT**

**on labour market trends and challenges**

*Accompanying the document*

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN  
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL  
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

**Towards a job-rich recovery**

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# COMMISSION STAFF WORKING DOCUMENT

## on labour market trends and challenges

### *Accompanying the document*

#### COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

### Towards a job-rich recovery

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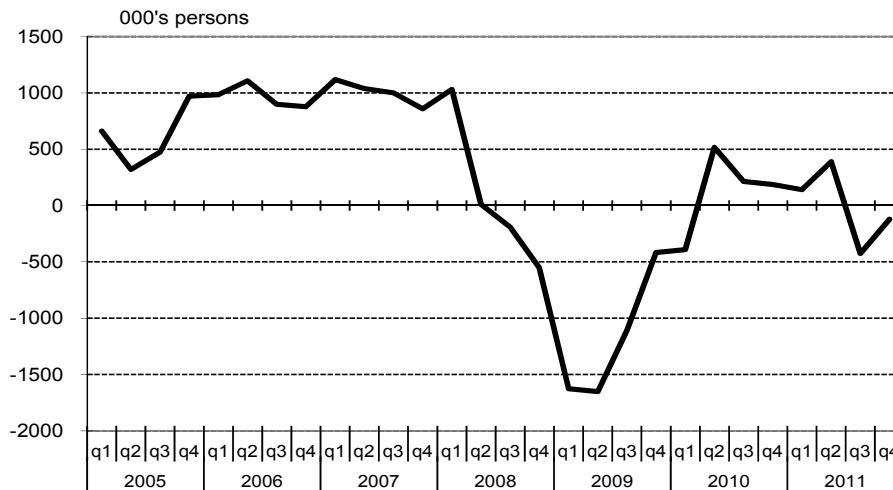
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## 1. EMPLOYMENT TRENDS

### 1.1. Evolution at EU level

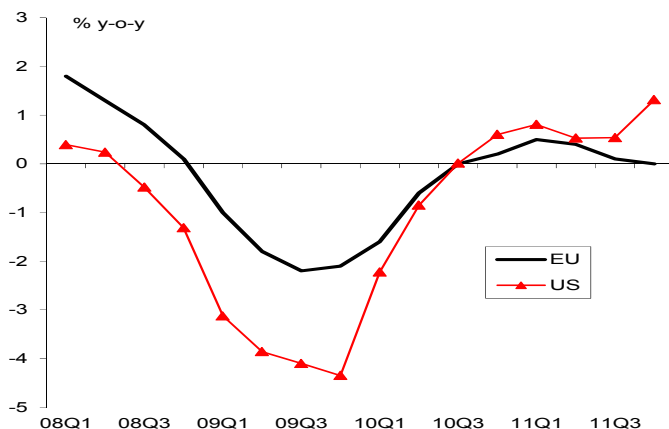
**Chart 1:** Employment in the EU, change on the previous quarter (000 persons)



**Source:** Eurostat, National accounts [namq\_aux\_pem], total employment - domestic concept, data are seasonally adjusted and adjusted data by working days

Starting in the second quarter of 2010, EU employment grew by around 0.9 million jobs until the end of 2011 (see Chart 1). But this recovery amounted to less than a fifth of the jobs lost between mid-2008 and the first quarter of 2010 (down by about 6 million, from 228 to 222 million). The slight recovery was interrupted in the third and fourth quarter of 2011, with drops by, respectively, 430 000 and 120 000 jobs. By contrast, the US labour market cycle had a larger amplitude, losing 7.5 million jobs between early 2008 and end-2009 and recuperating since then 2.5 million jobs, or a third of the previous loss.

**Chart 2:** Employment growth in the EU and US



**Source:** Own calculations based on Eurostat, National accounts [namq\_aux\_pem], total employment - domestic concept, data are seasonally adjusted and adjusted data by working days (EU) and Employment level – non-agriculture, wage and salary workers (LNS12032187), seasonally adjusted (Federal Reserve Economic Data)

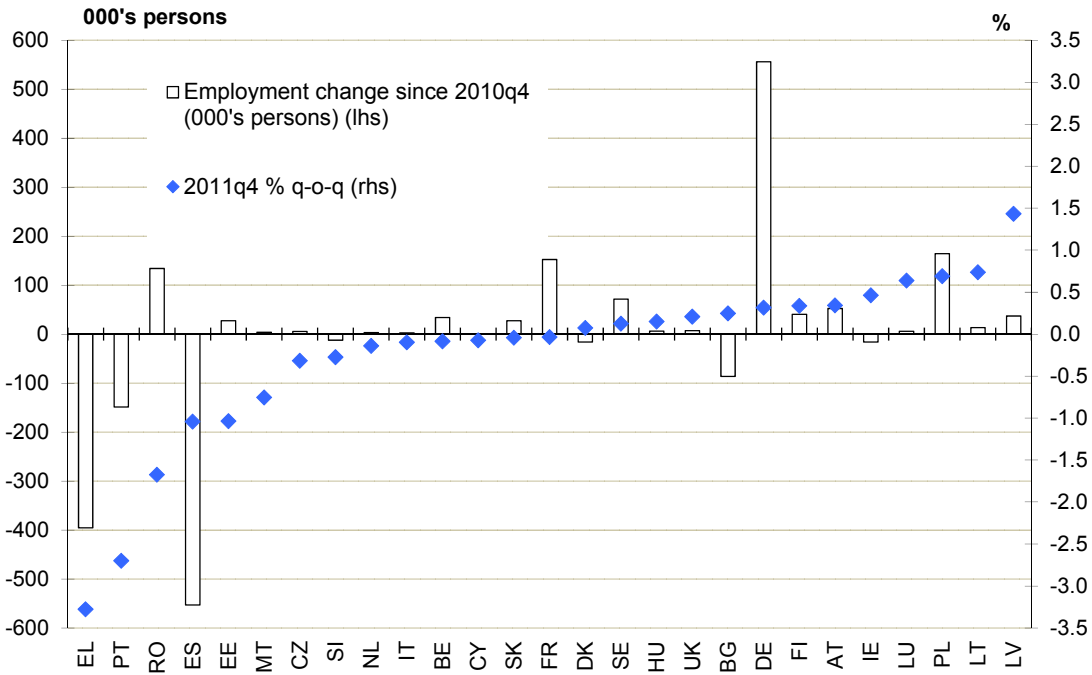
Employment fluctuations in the EU did only partly and with a lag follow the ups and downs of the economy. The drop in employment in 2009 (-1.8%) was moderate compared to the fall in GDP, but continued in 2010 (-0.5%), despite the recovery. This is partly explained by the widespread use of internal flexibility and short-time working arrangements adopted by some Member States – such as Austria, Belgium and Germany – which served to reduce working hours rather than cut jobs, but subsequently tempered the impact of the recovery on employment.

The effects of the crisis were reflected in a drop in the employment rate for the working-age group (15-64 years) in all but four Member States. Taking a longer-term perspective, despite the crisis, substantial progress has been made in EU labour markets since 2000. The number of people aged 15 or over in employment had increased by 19.7 million between 2000 and 2008. Even after the impact of the crisis, the 2010 figure was still 14.4 million higher than in 2000.

The employment rate for the EU working-age population in mid-2011 stood at 64.5% (age group 15-64), resp. 68.9% (20-64), still more than 2 pps higher than in 2000. At EU level, in order to achieve the 75% headline target, 17.6 million jobs will have to be created by 2020 within the 20–64 age group, meaning that employment will have to grow by 0.8% per annum on average between 2010 and 2020.

**1.2. Evolution at Member State level**

**Chart 3: Member States' employment changes in 2011 q4 (yearly change, 000's persons and quarterly change, %, q-o-q)**



**Source:** Own calculations based on Eurostat, National accounts [namq\_aux\_pem], total employment - data are seasonally adjusted and adjusted data by working days (except for RO and EL). 2011q3 for LU.

Employment gains and losses have been uneven. For about half of the Member States employment rose in the year to 2011q4. Germany added more than half a million jobs and

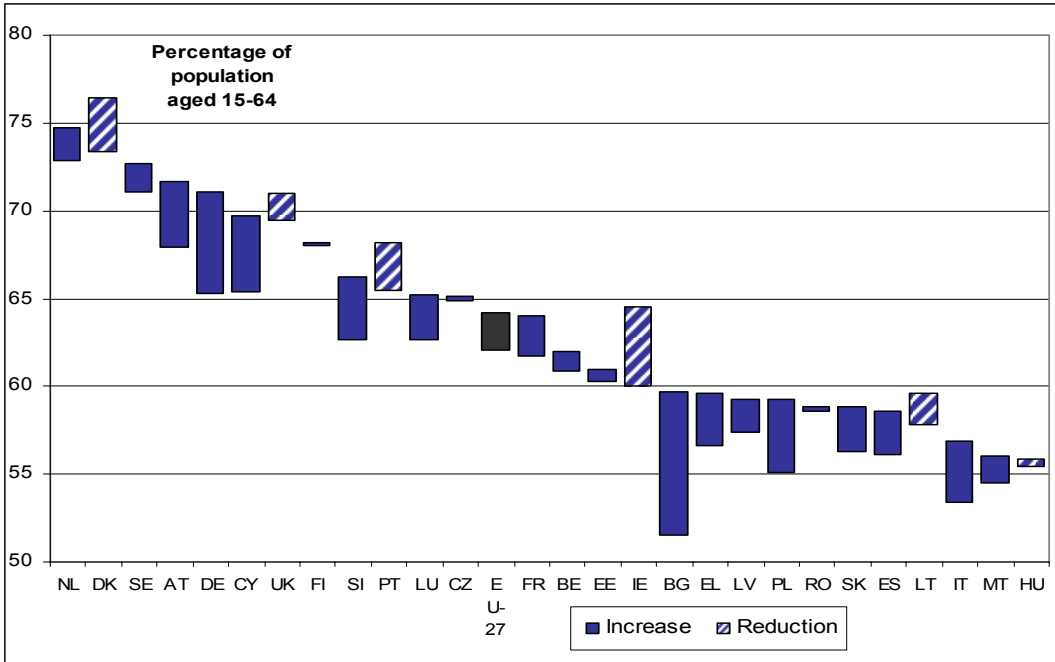
about the same number was lost in Spain (see Chart 3). Poland and France also recorded significant rises in employment (above 150 000) over the last four quarters, while employment was stable in Italy and the United Kingdom. A large number of jobs was added in Romania (130 000), Sweden (70 000) and Austria (50 000).

Besides Spain, some other Member States experienced marked job losses over the same period. Employment dropped sharply in Greece and Portugal (respectively 400 000 and 150 000 jobs lost). Falls were also recorded in Bulgaria, Ireland, Slovenia and Denmark.

Regaining pre-crisis (2008q2) levels of employment appears to be more and more difficult in most Member States. Only eight Member States have more than offset job losses due to the crisis (Luxembourg, Malta, Poland, Belgium, Germany, Austria, Sweden and Cyprus).

The apparent stability in the EU employment rate over the year to the third quarter of 2011 hides again substantial contrasts among Member States. Taking a longer-term perspective on employment rates, Chart 4 shows the progress made by each Member State in the ten years to 2010, with improvements in twenty-one Member States, particularly strong in Bulgaria, Germany, Cyprus and Poland, and relative improvements in most of the others. Conversely, the employment rates in Ireland, Denmark, Portugal, Lithuania, the United Kingdom and Hungary fell<sup>1</sup>.

**Chart 4:** Employment rate developments in Member States between 2000 and 2010 (age group 15-64)



Source: Eurostat LFS, employment rate (15 to 64 years), annual averages [lfsi\_emp\_a]

<sup>1</sup> Please note that the comparison is affected by breaks in the series for Germany, Spain, Italy, The Netherlands, Austria, Romania and Sweden.

### **1.3. Evolution by age, gender and skill level**

The stability in the EU employment rate over the year to the third quarter of 2011 (at 64.6%) masks a decrease for younger workers (down by 0.5 pp), stabilisation for prime age workers and an increase for older workers (up by 1.1 pps). Compared with three years ago, employment for older workers is 1.7 pps higher, while it has fallen for younger and prime age workers (down by 3.9 pps and 1.9 pps respectively).

Over the year to the third quarter of 2011, the employment rate for men fell slightly (by 0.2 pp to 70.5%) and the rate for women went up (by 0.2 pp to 58.7%). Overall, proportionally worse hit by the economic downturn, the employment rate for men lost more ground than the rate for women. The rates are down by 2.8 pps for men and 0.5 pp for women, as compared with three years earlier. This relative stability in the employment rate observed for women resulted from a decrease in inactivity which compensated for an increase in unemployment<sup>2</sup>.

Over the year to the third quarter of 2011, the employment rates for all education levels fell slightly. The economic downturn has hit the lowest skilled (up to lower secondary education) hardest, with a 3.4 pps drop in the employment rate (to 45.4%), compared with three years earlier. The decreases for medium skilled (having upper secondary and post-secondary non-tertiary education) and high skilled (first and second stage of tertiary education) were clearly smaller, at respectively 2.3 pps and 1.7 pps.

### **1.4. Permanent vs. temporary jobs**

The number of permanent jobs was up by 680 000 (+0.4%) to 154 million in the year to the third quarter of 2011. This increase remains subdued compared to pre-crisis years, when average growth for permanent jobs (between 2006 and 2008) was four times higher. At the same time, temporary jobs were up by 220 000 (+0.9%) to 26 million, but self-employment fell by 1.8% (down by 630 000) to 33.8 million. The respective contributions of permanent jobs, temporary jobs and self-employment were +0.3 pp, +0.1 pp and -0.3 pp, yielding an overall change in employment of 0.2% over the previous four quarters.

The number of permanent jobs for older workers grew by 1.2 million (5.8%) over the year to the third quarter of 2011, a trend confirmed in each quarter. In a medium-term perspective, the number of older workers in permanent jobs has considerably increased, with 2.1 million more than three years ago, reaching 21.2 million in the third quarter of 2011.

There was a slight reduction in the number of permanent jobs for prime-age workers, at -0.1%, close to stabilisation. Currently, 122.4 million people of prime age work on a permanent contract in the EU, 3.9 million, or 3% fewer than three years ago. The number of young workers on permanent contracts fell by 0.4 million (-3.7%) to 10.3 million over the year to the third quarter of 2011.

The number of young workers on temporary contracts was still decreasing in the year to the third quarter of 2011, by 80 000 (-1.0%). The net loss (down by 0.8 million or -9%) for this age group is considerable when compared with three years earlier. The present trend remains slightly negative.

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<sup>2</sup> For a detailed analysis of the situation of men and women during the crisis, see also "The impact of the economic crisis on the situation of women and men and on gender equality policies", report from IRS and FGB, commissioned by DG JUST.



First to decline during the 2008 crisis, temporary jobs have reacted sooner and the trend has been upward for the last six quarters. Among temporary workers, young people are over-represented, with 32% of all temporary jobs. In fact, 44% of young workers are on temporary contracts. Young people have not benefited from the recovery in temporary work. For prime-age employees, of whom only 12% are on temporary contracts, temporary jobs still remain the driver of recent employment growth, with an increase of 300 000 (up by 1.8%) over the year.

Both the share of temporary jobs in total employment and their role in the labour market vary significantly across the EU. While in some Member States temporary contracts often serve as a stepping stone to more permanent employment and/or carry a relatively low wage penalty, in others temporary workers find themselves trapped in poor working conditions. Transition rates from temporary to permanent contracts range from less than 30% in FR, NL, PT to more than 50% in AT, BG, EE, HU, SI, SE, SK and UK<sup>3</sup>. A related aspect of temporary jobs is in-work poverty; that is people who despite their jobs live under the at-risk-of poverty threshold. A low labour market attachment in terms of hours worked, or poor contractual conditions can lead to poverty. In-work poverty is much more prevalent among people with temporary contracts.

### **1.5. Wages and labour productivity**

In recent years we have seen business cycle effects in labour productivity due to the lagged response of employment growth to output growth. During the downturn (2008-2009), output decreased faster than employment and productivity fell. During the upturn (2010), output increased faster than employment so that productivity rose. The strong productivity growth in most Member States that joined the EU in 2004 reflects to a large extent catching-up following the ongoing restructuring of the inefficient production structure inherited from the past, fuelled by large FDI which helped to renew outdated capital stock. In the EU as a whole labour productivity growth averaged a modest 1.3% per annum over the 2001-2007 period<sup>4</sup>. For 2008 and 2009 a negative growth of respectively -0.6% and -2.5% is recorded, followed by a positive strong growth of 2.5% in 2010. The available data for the first quarter of 2011 seem to indicate that productivity growth was weakening.

In the EU, the nominal unit labour cost increased over the whole period from 2001 until 2010, indicating that overall nominal compensation per employee increased more than labour productivity. At the level of the Member States there are some remarkable differences. Most new Member States listed strong growth in the unit labour cost on the back of catching up effects. In the euro area, Germany compounded by far the lowest growth in its unit labour cost over the 2001-2010 period, i.e. 4.4%<sup>5</sup>. By contrast, Southern Member States (Italy, Spain, Portugal, Greece) and Ireland, Denmark and the United Kingdom all registered compounded increases of 25% or more<sup>6</sup>. An annual inflation close but below 2% would yield a compounded inflation rate of about 20% over the period 2001-2010. During that period, the euro area as a whole saw a compounded growth in its unit labour cost of 18.7% - mainly due to the modest increase in Germany. The low unit labour cost growth in the euro area as a

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<sup>3</sup> See for instance Employment and Social developments in Europe 2011, chapter 4; pp. 147-148 ( <http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=6176> ).

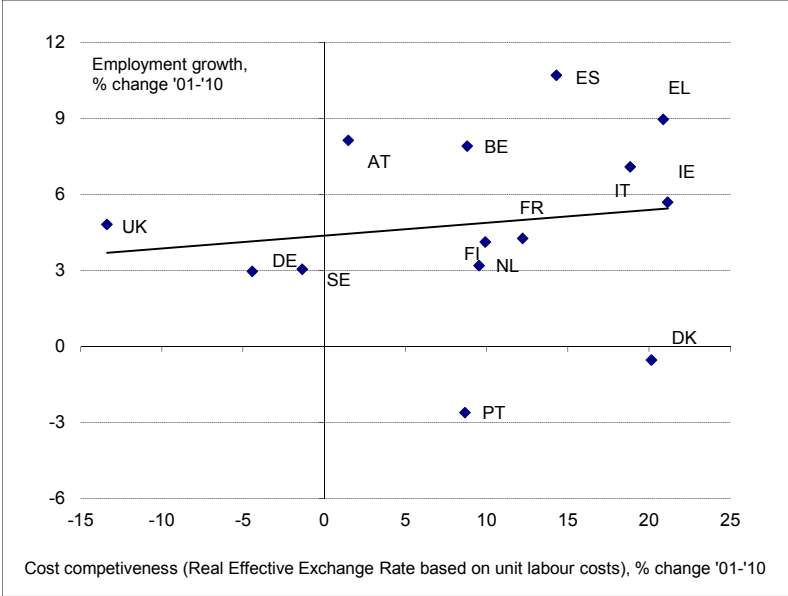
<sup>4</sup> Source: Eurostat variable: Labour productivity - annual data [nama\_aux\_lp]; real labour productivity per person employed; percentage change on previous period; and own calculation.

<sup>5</sup> Source: Eurostat variable: Nominal unit labour cost [nama\_aux\_ulc], percentage change on previous period; and own calculation.

<sup>6</sup> Same variable and same calculation method as in previous footnote.

whole contributed to a monetary policy that kept euro-area nominal interest rates low. This had an indirect impact on employment as it fuelled in some Member States the availability of credit at low real interest rates for consumption (Greece) and construction (Spain, Ireland) which led to overheating and cyclical expansion of employment (as well as other socio-economic imbalances).

**Chart 5:** Changes in cost competitiveness and employment in EU15, 2001-2010



Source: AMECO<sup>7</sup>

International competitiveness is determined by the margins realized by domestic producers relative to foreign producers, which in turn depend on unit production costs of domestically produced goods and services relative to the unit production costs of goods and services produced by trading partners, and on the relative prices for these products derived from quality, innovativeness, reputation, marketing and other factors.<sup>8</sup> The previous section showed that cost push pressures induced by nominal unit labour cost growth were unevenly spread across the Member States from 2001 until 2011 – contributing to notable divergence across the Member States' real effective exchange rate (REER). For the EU as a whole, the real effective exchange rate showed an upward trend over the period from 2001 until 2008, indicating a steady deterioration of external competitiveness. At the onset of the financial and economic crisis the REER reversed path - depreciating by about 10% over the 2008-2010 period<sup>9</sup>. When the REER depreciates (appreciates), international competitiveness will increase (decrease), having the potential to lead to higher (lower) net exports which may have a positive (negative) effect on employment as output will increase (decrease).

<sup>7</sup> Real effective exchange rate (AMECO variable XUNRQ): real effective exchange rates based on unit labour costs (total economy), relative to the rest of 35 industrial countries, double export weights; Employment, persons: total economy (National accounts) (AMECO variable NETN).  
<sup>8</sup> Labour is not the input whose productivity matters in this context – total factor productivity depends also on efficient utilisation of natural resources and fixed and financial capital.  
<sup>9</sup> Rate calculated from AMECO variable XUNRQ: real effective exchange rates based on unit labour costs (total economy), relative to the rest of 35 industrial countries, double export weights.

Chart 5 shows an unexpected apparent positive correlation between the REER and employment growth as exuberant credit growth in most Southern Member States and Ireland led to higher inflation (higher REER) and stronger, but ultimately unsustainable employment growth. Unwinding the imbalances accumulated before the crisis in the least economically and socially damaging way requires a rebalancing between the tradable and non-tradable sectors in the respective countries, facilitated by a combination of wage flexibility especially in the non-tradable sector, measures supporting an expansion of the tradable sector where relevant, and investment in professional and geographic mobility.

**2. UNEMPLOYMENT TRENDS**

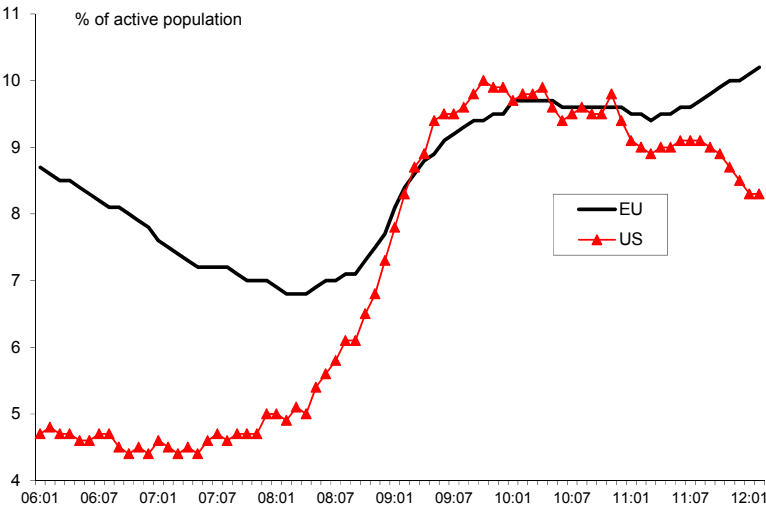
**2.1. Evolution at EU level**

With a new phase of steady increases since spring 2011, European unemployment has reached a historically high level cancelling out the previous moderate recovery.

Between April 2008 and April 2010, the number of unemployed people in the EU surged by around 7 million, reaching 23.3 million, causing the EU unemployment rate to rise by 2.9 pps to 9.7%. A moderate recovery occurred in the subsequent months until March 2011, lowering the number of unemployed by around 640 thousand and the unemployment rate by 0.2 pp (9.5% in March 2011). Since then, the number of jobless has increased again by more than one and a half million until February 2012, outweighing previous improvements.

The EU unemployment rate still stood at its historic high of 10.2% in February 2012, and 10.8% in the euro area. Nearly two thirds of the Member States saw unemployment rising over the last three months, driving up EU unemployment to 24.550 million. A different pattern has been seen in the US, where the unemployment rate has been oriented downward since the end of 2010, down by 0.7 pp over the last twelve months, to 8.3% in February 2012.

**Chart 6:** Unemployment in the EU and US



Source: Eurostat, unemployment rate, seasonally adjusted data (%) [une\_rt\_m]

## 2.2. Evolution at Member State level

Divergences among Member States are persistently high. Since March 2011 there are signs that the downward trend has clearly been reversed in the majority of countries. Only six countries were still benefiting from falling unemployment over the last three months to February 2012: Austria (-0.2 pp to 4.2%), Romania (-0.5 pp to 7.1%), Finland (-0.2 pp to 7.4%), Latvia (-0.2 pp to 14.6% in December), Lithuania (-1.0 pp to 14.3% in December) and Ireland (-0.1 pp to 14.7%).

Over the three months to February 2012, the number of unemployed increased in almost all Member States. The largest increases were seen in Spain (+166 000; unemployment rate: +0.7 pp to 23.6%), Italy (+134 000; +0.5 pp to 9.3%), Greece (+129 000; +2.5 pps to 21.0% in December 2011), France (+66 000; +0.2 pp to 10.0%), Portugal (+49 000; +1.0 pp to 15.0%), as well as in Poland (+41 000; +0.2 pp to 10.2%). The largest decrease in unemployment over the last three months was seen in Romania (-44 000; -0.5 pp to 7.1%).

## 2.3. By duration

The severe rise in unemployment over the period 2008-2009 has continued to feed into long-term unemployment. Whilst there has been relatively little inflow into unemployment since 2010 and demand has not picked up, the share of the unemployed who remained without a job for more than one year started to swell from a third in the third quarter of 2009 to 43% two years later. In the third quarter of 2011, close to 10 million people were unemployed for more than a year. This structural feature of unemployment will make it more and more persistent and difficult to bring down.

After bottoming out in mid-2008 just after unemployment bottomed, the long-term unemployment rate in the EU has risen again. At 4.1% in the third quarter of 2011, the long-term unemployment rate was still up 1.6 pps compared to the 2.5% recorded in the third quarter of 2008. As a result of three years of deterioration, the long-term unemployment rate now varies more markedly across Member States, ranging from around 1% in Austria to more than 8% in Ireland, Lithuania, Greece, Slovakia and Spain. More than half of the unemployed have been without a job for more than a year in these latter countries (except for Spain) but also in Bulgaria, Estonia, Italy, and Latvia, while in Austria, Cyprus, Denmark, Finland and Sweden less than 30% of the unemployed have been without a job for more than one year.

If the recent upturn in the unemployment trend continues, long-term unemployment might intensify. In line with the impact of increased unemployment, the increased risk of long-term unemployment may have more severe effects on many population segments. The negative effects in terms of loss of human capital, including skill depreciation and loss of motivation, and thus of future employability, career prospects and earnings can be significant. Moreover, long-term unemployment may often lead to eventual discouragement and exit from the labour market. Overall, long-term unemployment results in a high risk of poverty and associated social failure. Considering total unemployment, in 2010 just below 65% of the unemployed (aged 18+) in the EU were ranked as living in poverty or social exclusion. Remaining in long-term unemployment for several years may lead to a persistent risk of poverty and social exclusion<sup>10</sup>. Long-term unemployment puts an added burden on the social safety nets of last resort (such as minimum income). As people lose their unemployment benefits they are relying more and more on these benefits of last resort.

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<sup>10</sup> See also "Special Focus: Social impact of the crisis" in EU Employment and Social Situation Quarterly Review, December 2011.

## 2.4. Evolution by age, gender and skill level

The youth (15-24) unemployment rate jumped rapidly from the beginning of 2008, rising from 15% in February 2008 to more than 21% in the beginning of 2010, before easing moderately and stabilising until spring 2011. Subsequently, the rate went up to an unprecedented high level of 22.4% in February 2012 (see Section 2.5). For adults (25-74), the unemployment rate increase since spring 2011 has similarly cancelled out the previous amelioration, reaching 8.8% in February 2012. This new phase of unemployment increase has again disproportionately hit young people, since three out of ten new unemployed persons are young, at a time when youth is only 10% of the total labour force. Consequently, the gap between young people and adults has widened to 13.6 pps, compared to 9.4 pps in 2007.

At EU aggregate level, men were proportionally worse hit than women by the surge in unemployment between April 2008 and April 2010, representing two thirds of the new jobless. Among the 1.86 million additional unemployed since March 2011, men were predominant (58%) compared to women (42%), mirroring the previous 2009 unemployment rise, which also affected men more, but the gap was even bigger at that time. However, the current measures of fiscal consolidations could have a greater impact on the unemployment rate of women who are more frequently employed in the public sector<sup>11</sup>. In February 2012, the gender gap was almost closed, as men posted a 10.1% unemployment rate (+0.8 pp on March 2011), whereas the increase was 0.6 pp on March 2011 for women (to 10.2%). Overall, in February 2012, there were 5.1 million more unemployed men and 3.3 million more unemployed women than in March 2008.

Standing at around 16% in the third quarter of 2011, the unemployment rate for the low-skilled remained well up on the level of 10½% recorded four years earlier, before the crisis hit the labour market. Moreover, the gap in the unemployment rate between the low-skilled and the high-skilled widened to above 10 pps. The low-skilled have experienced the most severe increase in their unemployment rate since the crisis first hit their labour market, with rates rising by just below 5 pps over the three years to the third quarter of 2011, compared to rises of 2.5 and 1.7 pps for the medium- and high-skilled respectively.

## 2.5. Youth: unemployment and inactivity

The level of youth unemployment remains very worrying, reaching 22.4% in February 2012, 1.4 pps up on February 2011. The unemployment rate for young women stood at 21.5% and for young men at 23.1%. There were 5.5 million young people unemployed in February 2012, an increase by 222 000 compared to the beginning of 2011.

Huge contrasts persist between Member States: the youth unemployment rate is higher than 20% in about two-thirds of countries and exceeds 50% in Spain and Greece. Another six countries posted youth unemployment rates significantly above the EU average (and above the 30% mark), i.e. Portugal, Lithuania, Slovakia, Bulgaria, Italy and Ireland. Conversely, it is less than 10% in only three countries: Germany (8.2%), Austria (8.3%) and the Netherlands (9.4%).

The inactivity of young people in the EU has continued to rise, although recently at a slower pace. In the third quarter of 2011, the inactivity rate for young people, at 56.0%, was up by 0.3 pp compared to a year earlier. The increase in youth inactivity may partly result from

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<sup>11</sup> See also "The impact of the economic crisis on the situation of women and men and on gender equality policies", report from IRS and FGB, commissioned by DG JUST.

discouragement. In the third quarter of 2011, among those who were inactive, around 2% of young people were seeking employment (but were not classified as ILO unemployed), while around 12% wanted to work but were not seeking employment — both shares have not changed much over the 2010. In fact, the share of inactive youth who think that no work is available increased from 1.6% in 2009 to 1.8% in 2010.

At the same time, the share of young persons who are inactive because of being in education and training, which is the main reason for inactivity, has remained broadly stable since 2005, at 87-88%. Given this high share, inactivity as such should not be a consideration, but it is young people who are neither in employment, education or training (NEET), which constitute the most problematic group. In the second quarter of 2011, more than 13% of young people were in this case, slightly up on the second quarter of 2010; this is 2 pps above the 2008 level. In the same period, the share of inactive youth who think that no work is available increased from 1.3% to 1.8%.

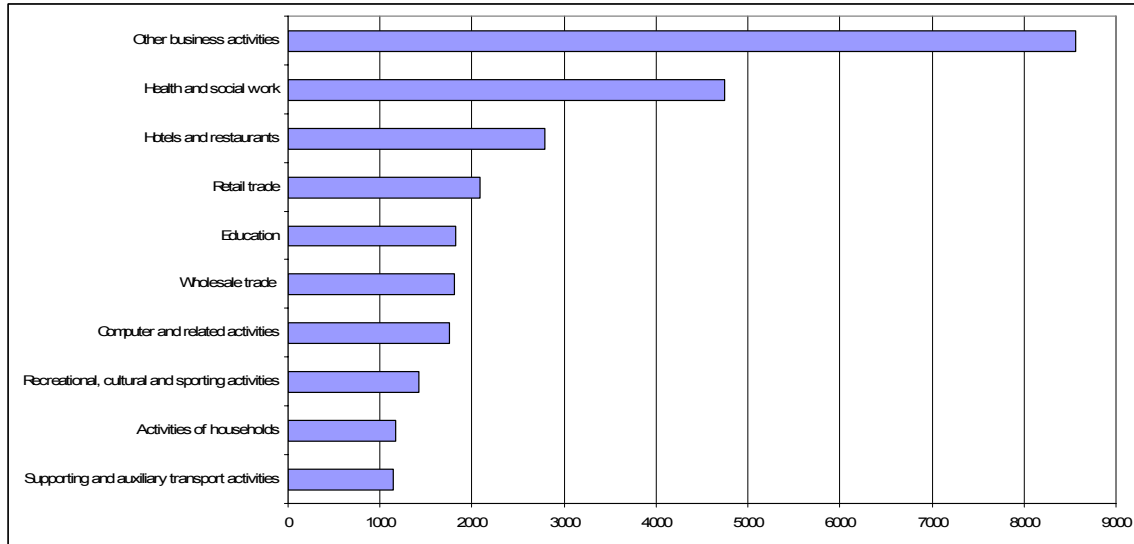
The marked deterioration in the labour market situation for young people during the crisis of 2008-2009 and the current downturn in the labour market, reflecting in part their high exposure to temporary work contracts, has exacerbated the challenges of youth unemployment. At 5.5 million, youth unemployment in the EU is up by nearly 40% (1.4 million) compared to the low of spring 2008. The period since spring 2008 can be divided into three phases: the initial years of 2008-2009 with a marked increase in unemployment among young men, a weak recovery in 2010-2011 when unemployment stabilised and any small unemployment increases were driven by women, and the period since May 2011 where both young women and men contributed to the unemployment rise.

The increase in the long-term unemployment rate for young people during the crisis was more noticeable than for other age groups, though the rise levelled out by mid-2011. In the third quarter of 2011, the long-term unemployment rate for young people was up by 0.5 pp compared to a year earlier, an increase lower than for adults and older people aged 55-64. Overall, the long-term unemployment rate for youth increased by 2.5 pps from its low of 3.4% in the third quarter of 2008 to 6.4% three years later, while the rate for adults rose by 1.7 pps from 2.2% to 3.9% in the same period. The recent unfavourable developments in unemployment for youth may soon intensify the long-term unemployment issue and have serious social consequences.

### 3. JOB CREATION: SECTORAL ASPECTS

#### 3.1. Evolution by sector

Chart 7: Top 10 "job creating" service sectors between 1995 and 2009



Source: Eurostat, National accounts, R1

Service sectors occupy an increasingly large share of the EU economy. They represented about three quarters of the economy in 2010, up from little more than two thirds in 1995. Services are also increasingly offered by the manufacturing sector, of which the share in total value added decreased from 20% to 15% over the same time period<sup>12</sup>. The share of agriculture has diminished from around 3% to 2%, while construction, as well as mining and quarrying, remained roughly stable at 6% and 1% respectively.

Changes in the industrial structure are also reflected in employment. Among other impacts, these sectoral shifts played a role in the ongoing trend of jobs and wage polarisation in the EU, whereby the job creation in the expanding service sector has been concentrated in relatively high and low pay levels, while the shrinkage of manufacturing (accelerated in the crisis and accompanied by deflation of the construction sector bubble) has brought about large destruction of medium-paid jobs<sup>13</sup>. The large majority of the 23 million extra jobs created since 1995 were in services. Except for health and social work and supporting and auxiliary transport activities, these sectors also contributed most to growth in services. Contrary to that, financial intermediation, public administration and post and telecommunications were in top 10 "growing" services in terms of output, however they did not qualify among top 10 "job-creating" service sectors.

<sup>12</sup> High-tech products are often sold in combination with maintenance services. See European Competitiveness Report 2011 for more details about the phenomenon of 'convergence process' between manufacturing and services ([http://ec.europa.eu/enterprise/newsroom/cf/itemdetail.cfm?item\\_id=5702&lang=en](http://ec.europa.eu/enterprise/newsroom/cf/itemdetail.cfm?item_id=5702&lang=en)).

<sup>13</sup> For a detailed analysis, see Employment and Social developments in Europe 2011, chapter 1 (<http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=6176>).

In contrast to services, primary and secondary sectors have lost about 10 million jobs since the mid-1990s. While average annual employment growth in the EU in 1995-2010 was 0.7%, it was -1.1% in manufacturing industries. The losses of jobs in industry reflect technological progress and greater productivity, outsourcing or relocation strategies, as well as changing consumer demand. In addition to that, the recession and crisis severely impacted industry employment, which decreased by 4.6 million jobs over 2008-2010. In manufacturing, only the car sector contributed both to job creation and to growth in the industrial sector. Besides transport equipment, manufacturing employment grew only in two other sub-sectors, rubber and plastics and other manufacturing.

Human capital is an important growth factor and improves the international competitiveness of companies and sectors. The leading sectors in employing high-skilled people in the EU in 2009 were education, professional, scientific and technical activities; the information and communication sector; the pharmaceutical industry; the financial and insurance activities and human health and social work (more than 40% of employment)<sup>14</sup>. Financial and insurance activities have the lowest proportion of low skilled.

Sectors with a high component of high-education employment are less sensitive to competition from low-wage countries. E.g. the chemical industry, a manufacturing sector with 33% high-skilled employed, ranks highly in revealed comparative advantage<sup>15</sup>. Furthermore, the high-tech sector, i.e. sectors with a large proportion of high-skilled jobs, has grown much more rapidly than the rest of economy (4.1% versus 1.8%) and it has created 1.4 million extra jobs between 1995 and 2009. This is particularly the case for high-tech services such as telecommunications, computer services and research & development<sup>16</sup>.

Developments in 2011 show that the services sector continued to lead the employment recovery, mainly in financial services and in the trade sector. After strong losses, the construction sector is stabilising, but the job destruction in the public sector is expected to intensify. The industrial sector is not yet in growth territory – except for export-led segments as is the case in Germany and Sweden - while the unwinding of labour hoarding should be exhausted by now and business services are strongly positively oriented. This diverse picture is expected to remain broadly the pattern for 2012 although any sustained downturn in growth will clearly have a negative effect. According to the Commission's business surveys, employment expectations in the EU have declined continuously since reaching a peak in March 2011 in industry, services, and retail trade. Employment expectations in construction remain stable at a low level.

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<sup>14</sup> Formal educational attainment according to the International Standard Classification of Education (ISCED97) was used as a proxy for skills. Levels of education were aggregated to three categories: low skilled (0-2), medium skilled (3 and 4) and high-skilled (5 and 6). European Commission, Industrial Structure 2011 - Trends and Performance ([http://ec.europa.eu/enterprise/newsroom/cf/itemdetail.cfm?item\\_id=5635&lang=en](http://ec.europa.eu/enterprise/newsroom/cf/itemdetail.cfm?item_id=5635&lang=en)).

<sup>15</sup> Even though wage differences can show countries dis/advantages, the relevant indicator for assessing cost competitiveness is unit labour costs. Moreover, gains from trade, for both high- and low-wage countries, are determined by comparative, rather than absolute, advantages. (see Industrial Structure 2011 - Trends and Performance ([http://ec.europa.eu/enterprise/newsroom/cf/itemdetail.cfm?item\\_id=5635&lang=en](http://ec.europa.eu/enterprise/newsroom/cf/itemdetail.cfm?item_id=5635&lang=en))).

<sup>16</sup> Background presentation by President Barroso to European Council, 23 October 2011. [http://ec.europa.eu/europe2020/documents/documents-and-reports/subject/europe-2020-presentations/index\\_en.htm](http://ec.europa.eu/europe2020/documents/documents-and-reports/subject/europe-2020-presentations/index_en.htm)



### 3.2. SMEs

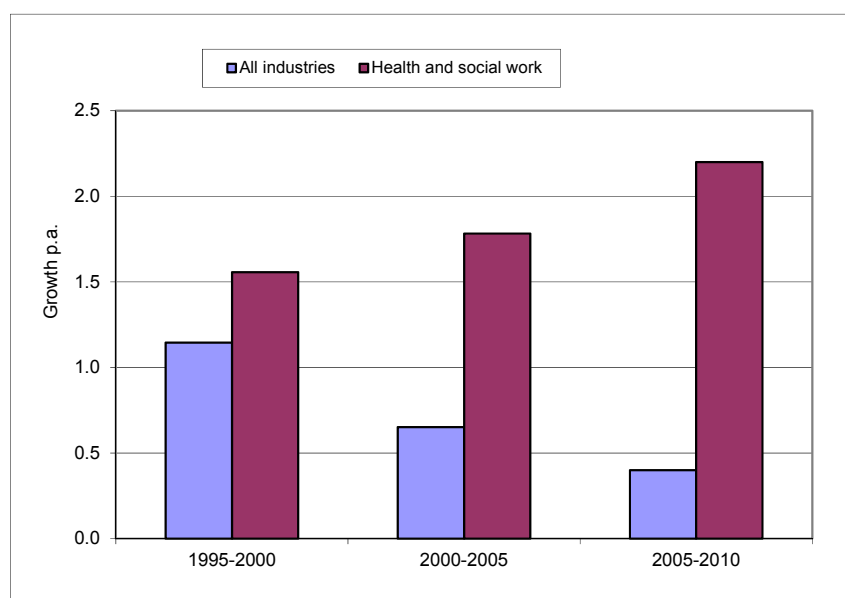
Between 2002 and 2010, net employment in the EU rose substantially, by an average of 1.1 million new jobs per year. 85% of that net employment growth was created by small and medium-sized enterprises (SMEs), according to a study<sup>17</sup> made for DG ENTR. This figure is considerably higher than the 67% share of SMEs in total employment.

With annual average growth at 1%, employment growth for SMEs was higher than for large enterprises (0.5%). A clear exception is the trade sector, in which employment in SMEs increased by 0.7% annually, compared to 2.2% in large enterprises. This is due to the strong increase of large trade enterprises, in particular in sales, maintenance and repair of motor vehicles. 58% of net employment growth in the EU was created by micro firms (less than 10 employees).

The study has also shown that new firms (younger than five years) are responsible for an overwhelming majority of the new jobs. New enterprises operating in business services create more than a quarter (27%) of the new jobs, while the new firms in transport and communication contribute least (6%).

### 3.3. White jobs

**Chart 8:** Employment growth in the health and social work sector, 1995-2010 (average annual growth for each period, in %)



**Source:** Eurostat, National accounts by 60 branches - employment data [nama\_nace60\_e]

Employment in the EU health and social work sector – the so-called "white jobs" - is growing fast (Chart 8), due to population ageing and an expansion of services to better meet quality requirements and rising demand<sup>18</sup>. Its share in total EU employment increased from 8.6% in 2000 to 9.9% in 2010. Over the same period, the total number of workers in the sector increased by 3.9 million, which accounts for more than a quarter of total net employment

<sup>17</sup> See study for DG ENTR, [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/pdf/do-smes-create-more-and-better-jobs\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/pdf/do-smes-create-more-and-better-jobs_en.pdf)

<sup>18</sup> Statistical Classification of Economic Activities (NACE), rev. 1, N Health and social work.

growth in the EU economy. The vast majority of 22 million people employed in the health and social services in 2010 worked in the EU-15 Member States (89% or 19.6 million). The health and social services sector generates around 5% of the total economic output in the EU-27.

The sector has also an important employment potential in the future given the ageing of the population and increased demand for health and social services. In the EU-27, between 2008 and 2060, the population aged 65+ is projected to increase from 84.6 to 151.5 million, while the population aged 80+ is projected to increase from 21.8 to 61.4 million.

Employment growth is forecast to slow, with white jobs increasing on average by 0.5% p.a. between 2010 and 2020 and all sectors seeing only 0.3% p.a. average growth<sup>19</sup>. The size of the sector and its relatively fast growth suggest that it will remain a key actor in providing new jobs in the years to come and of paramount importance if macro conditions produce low growth. In addition to more than 1 million new jobs created in this sector, there will be about 7 million additional job openings due to the replacement needs, i.e. around 8 million of total job openings. Although most jobs will require highly qualified people (more than 5 million) there will be still job opportunities for those with medium and even low qualification<sup>20</sup>.

Yet, in order to exploit this job creation potential, the sector has to overcome several challenges. Its overwhelmingly female workforce is ageing. There are growing imbalances in skill levels and working patterns; whereas recruitment and retention are hampered by demanding working conditions as well as by low and slowly growing wages<sup>21</sup>. Moreover, social protection, including health and social services, is mostly financed from public budgets. Maintaining an adequate supply and quality of health and social services under increasing budget constraints is a key challenge faced by policy makers. The reports from independent experts on social protection policies confirm that social services have already been affected by austerity measures aimed at reducing public expenditure.

For further information on white jobs, please refer to the Commission Staff Working Document on the health workforce and a Commission Staff Working Document on "personal and household services" which addresses social care at home, childcare and the long-term care of the elderly, both informal and formal. Both documents are also accompanying the Communication "Towards a job-rich recovery".

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<sup>19</sup> Based on new Cedefop Skills demand and supply forecast released in 2012 (<http://www.cedefop.europa.eu/EN/about-cedefop/projects/forecasting-skill-demand-and-supply/skills-forecasts.aspx>).

<sup>20</sup> In the period up to 2020 the forecast indicates around 80 million job opportunities in the EU due to a modest net increase in employment of around 7.5 million new jobs (expansion demand) and around 72.5 million jobs that will need to be filled as people retire or leave the workforce (replacement demand). Cedefop, *ibid*.

<sup>21</sup> More detailed analysis can be found in the Employment in Europe 2009 report and the Second Biennial Report on social services of general interest, 2011 (<http://ec.europa.eu/social/main.jsp?catId=794&langId=en&pubId=5940&type=2&furtherPubs=yes>).

### 3.4. Green jobs

Green jobs<sup>22</sup> cover a wide range of employment opportunities with many environment-improving jobs in non-environmental industries, e.g. eco auditors in steel plants or car workers producing hybrid vehicles. Jobs growth in the eco-industry has been positive throughout the recession and is forecast to continue to be quite strong. Total numbers employed have grown from 2.2 million in 2000 to 2.7 million in 2008, which represented 0.8% of the total workforce. The average annual growth (2000 – 2008) in eco-industries was 2.7%, whereas it was 1% in the total economy. Employment is forecast to reach around 3.4 million in 2012<sup>23</sup>.

The products and services of this sector are enabling productivity gains and innovation in many other sectors and it is these green skills and associated green jobs that can be a major source of demand for new jobs. Nevertheless, expected EU net employment and GDP growth impacts of the move to a greener economy at the aggregate level are modest, reaching around 1-1.5% by 2020<sup>24</sup>. On the other hand, significant impacts are expected at sectoral and local levels. Sectors that produce investment goods are expected to create more jobs, while those that produce consumer goods see a fall in employment reflecting the impact on eroding real disposable income due to increases in prices of energy goods. Employment in energy transformation and supply sectors, such as manufactured fuels and gas distribution, is expected to fall in comparison to baseline, in line with reduced demand for (non-renewable) energy. The results for output and employment in the energy-intensive sectors are unclear: some could lose out due to competitiveness effects, while some feature in the value chains of investment goods so could benefit.

The main driver of the employment effects in the promotion of the renewable energy sector and energy efficiency are the substantial investments required to upgrade the infrastructure — which will create jobs in construction and mechanical engineering — and their supply chains. Analysis undertaken for the Commission suggests that whilst annual capital investment in renewable energy today averages €35bn, this would need to rapidly double to €70bn to ensure we achieve renewable goals. However, according to the International Energy Agency (IEA) investments in renewable energies in Europe decreased by 10% in 2009 while they increased by more than 50% in China. Given public finance constraints, it is important to increase private-sector investment.

The greening of the European economy will lead to a redefinition of many jobs across almost all sectors. In an initial phase, high-skilled workers may benefit more as transitions to new activities call for the implementation of advanced technologies. However, lower-skilled workers should also be able to fill these jobs by receiving adequate training. In any case, the role of employment services at large will be key in accompanying these transitions through a

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<sup>22</sup> A narrow definition for green jobs is those in eco-industries which produce goods and services to measure, prevent, limit, or correct environmental damage to water, air, and soil, as well as problems related to noise, waste, and ecosystems. This includes technologies, products, and services that reduce environmental risk and minimise pollution and resources. For more detailed discussion of green jobs see "Employment in Europe Report" (2009), OECD: "The job potential of a shift towards a low-carbon economy" (forthcoming) and ILO-EC (2011) "Towards a greener economy: the social dimension".

<sup>23</sup> Ecorys, European Commission, forthcoming, "The number of jobs dependent on the Environment and Resource Efficiency Improvements".

<sup>24</sup> A comprehensive literature overview of different studies is provided in Cambridge Econometrics et al, (2011), Studies on sustainability issues – green jobs; trade and labour; study prepared for the European Commission, DG Employment, social affairs and inclusion.

thorough provision of services such as counselling, advice, training and general re-skilling initiatives to ensure participation of the most vulnerable.

New investments and regulation will bring additional demand for skilled workers and the rapid market developments in certain sectors could induce skills shortages especially for rare and specialised skills/occupations or just simply for skills/occupations that will see a steep rise in demand due to expansion of new industries trying to absorb new. At the same time some of the analysis show, that deficits in management skills and technical, job-specific skills, especially related to science, technology, engineering and mathematics (STEM) might matter more for the EU capacity for green growth than shortages in specialist 'green tech' know-how<sup>25</sup>.

For further information on green jobs, please refer to the Staff Working Document on "Exploiting the employment potential of green growth" which is also accompanying the Communication "Towards a job-rich recovery".

### **3.5. Digital jobs**

The demand for ICT professionals continues to grow. Even during the crisis, the number of ICT practitioners grew at around 3% a year. By the end of 2010, 4.1 million Europeans worked as ICT practitioners in the narrowest definition (programmers and computer assistant staff), up from 2.7 million ten years earlier, with another 1.1 million in closely related occupations. Furthermore, labour demand is already outstripping the supply of ICT practitioners, and will continue to do so<sup>26</sup>.

Advanced ICT professions undoubtedly require a graduate degree in a computer-related field. However, for many other ICT occupations, shorter training is sufficient, especially for workers with experience in technical or scientific areas. ICTs can therefore be a promising option even for workers who become unemployed in mid-career.

Moreover, the emergence of new ICT applications creates the potential for talented ICT practitioners to start-up their own company. Since ICT services tend to be easily scalable, ICT start-ups usually have a higher growth potential than other start-ups, and thus a significant employment potential as well. Furthermore, cloud computing services reduce the need for up-front investment in ICT hardware.

Beyond ICT professionals, we have to recognise that most jobs already require some ICT knowledge. In fact, advanced ICT users account for 18.5% of employed persons, ranging from 9% to 31% in different Member States<sup>27</sup>. It has been forecast that by 2015 90% of jobs will need at least basic ICT skills<sup>28</sup>. Acquiring and maintaining ICT skills are vital in becoming and remaining employable.

For further information on digital jobs, please refer to the Commission Staff Working Document on "The role of ICT for employment", also accompanying the Communication "Towards a job-rich recovery".

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<sup>25</sup> Cedefop (2010), Skills for green jobs, European Synthesis Report.

<sup>26</sup> Report for the European Commission "Anticipating the Evolution of the Supply and Demand of e-Skills in Europe (2010-2015)" Empirica and IDC Europe, December 2009. Updated forecast presented at the European e-Skills Conference on 13 December 2011 in Brussels.

<sup>27</sup> [http://ec.europa.eu/information\\_society/digital-agenda/scoreboard/docs/pillar/digitalliteracy.pdf](http://ec.europa.eu/information_society/digital-agenda/scoreboard/docs/pillar/digitalliteracy.pdf)

<sup>28</sup> IDC White Paper "Post Crisis: e-Skills Are Needed to Drive Europe's Innovation Society" (November 2009).



## **4. SKILLS AND MOBILITY**

### **4.1. Skills, mismatches, demography and mobility**

Even though the EU is undergoing a crisis in which jobs are being lost, certain Member States and employment categories continue to experience a shortage of labour. Unemployment from declining sectors co-exists with encouraging signs of economic recovery and new labour demands from high-productivity industries. Vacancies in some economic sectors (such as IT specialists, health care, engineers) are not easy to fill. At the overall EU level this is reflected in a coincident rise in unemployment and vacancy rates. Over the next years, ageing will have serious implications on both the size and age structure of the workforce, making the match between labour supply and labour demand even more difficult. Currently, the EU workforce is still growing at a very slow pace, with half of the Member States already experiencing a declining workforce. By 2014, the overall EU workforce will start declining. In the long run, it is estimated that the working-age population in the EU will shrink by more than 10% between 2010 and 2050<sup>29</sup>. The Europe 2020 Strategy puts particular emphasis on promoting labour mobility, both domestic and migrant, for addressing labour and skill shortages and rendering the EU workforce more adaptable to change.

While fighting against unemployment, Europe should be able in the future to respond quickly to the emerging new demands from the most competitive parts of the economy. Within the very competitive global environment, a slow or inadequate response may imply the loss of a new economic activity and the jobs associated with it. Recent Cedefop studies on Europe's future skill needs indicate that labour market needs in the most dynamic economic sectors may rise significantly between now and 2020, while those in low-productivity sectors may further decline. Deficits in qualified job-specific skills are already observed in areas critical for innovation. Recent Cedefop reports on future labour market needs indicate a rapid shift of labour demand towards higher qualifications. According to Cedefop by 2020, 42% of employment will be in high-skilled non-manual occupations<sup>30</sup>. Migration from outside the EU could play a role in filling these identified labour shortages.

### **4.2. Vacancies and unemployment**

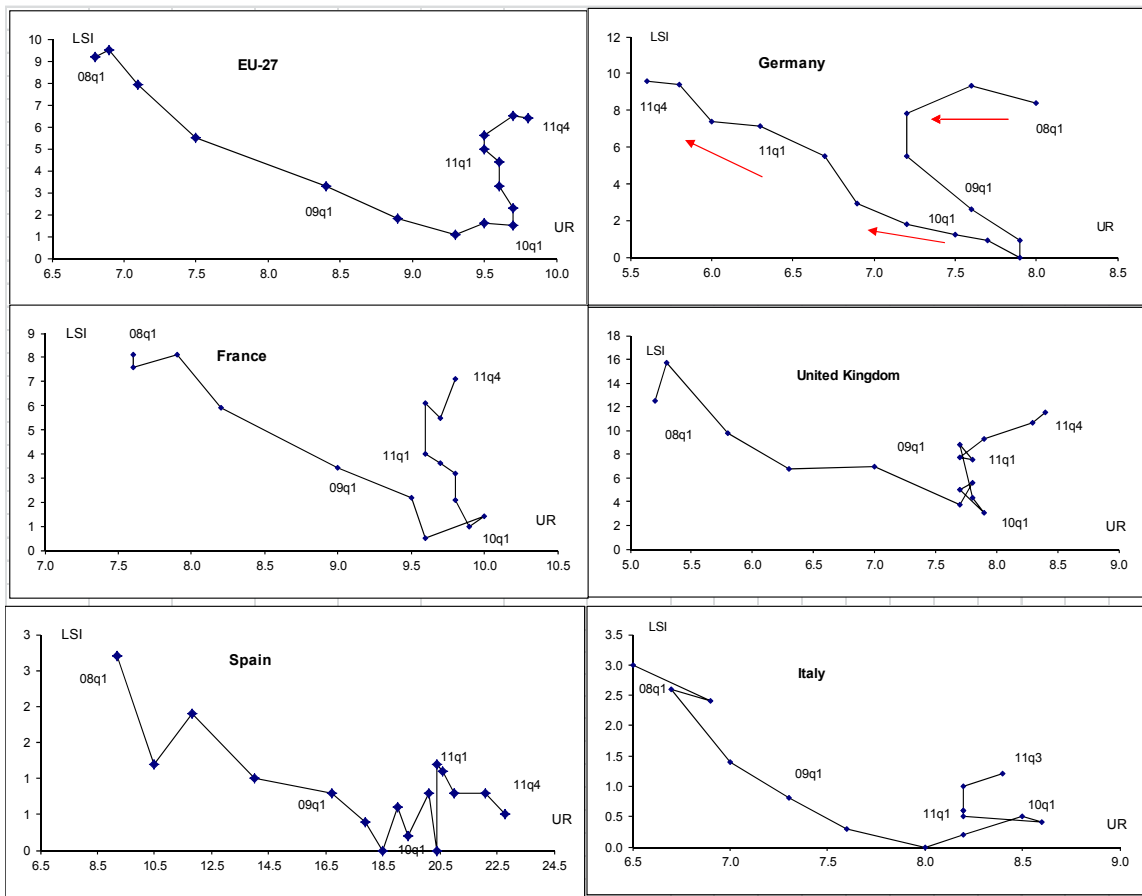
The coincident rise in unemployment and vacancy rates, mentioned above, can be seen at the EU level, where the job vacancy rate has been picking up. At 1.5% in the fourth quarter of 2011, it was unchanged over one year ago. This means more than six unemployed per vacancy. Some Member States – Austria, Germany, Belgium and Finland – see rather higher vacancy rates and, with lower unemployment than the EU average, a much better demand situation of two to four unemployed per vacancy. This latter situation suggests an economy which is much closer to seeing real labour shortages in some sectors. However, Poland, which remained relatively unscathed during the crisis, is seeing little rise in vacancies and Spain has seen a further decline in vacancies to 1.0%, thus giving a rate of about 23 unemployed per vacancy.

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<sup>29</sup> Eurostat, Population statistics, Population projections, Europop 2010. These projections are based on the assumptions of positive net migration to the EU. Without taking migration into account, the decrease of the working-age population in the EU between 2010 and 2050 would be much more pronounced (more than 25%).

<sup>30</sup> Cedefop (2010), Skills supply and demand in Europe – Medium-term forecasts up to 2020.

**Chart 9: Beveridge curves for the EU-27 and the largest Member States**



**Source:** Eurostat. UR = unemployment rate (%), quarterly average [une\_rt\_q]. LSI = labour shortage indicator, derived from EU business survey results (% of manufacturing firms pointing to labour shortage as a factor limiting production) [bsin\_q\_r2].

Plotting the Beveridge curve, which relates job vacancies and unemployment rates, suggests a risk of increased mismatches of skills post-crisis and higher so-called equilibrium unemployment<sup>31</sup>. At the EU level, both unemployment and vacancy rates increased since early 2010, suggesting such a risk. Individual Member States see rather different movements in their Beveridge curve. Germany has seen a leftwards shift indicating lower equilibrium unemployment and less labour demand and supply mismatch. Conversely, the French, Italian and the UK Beveridge curves are more similar to the EU-level curve. Finally, there is no clear movement in the labour shortage indicator in Spain, while unemployment continues to rise. This diversity reflects a polarisation of labour market and macro-economic situations across the EU.

### 4.3. Intra-EU mobility

Cross-border labour mobility in the EU has increased over the last decade thanks to the flows fostered by the 2004 and 2007 enlargements. The number of EU citizens living in another Member State (than their own) has increased by 5 million between the end of 2003 and the

<sup>31</sup> See also Special Focus in the Quarterly Review of the EU Employment and Social Situation, March 2011 and March 2012.

end of 2010 (from 7.7 to 12.7 million)<sup>32</sup>. Nevertheless, only 2.8% of the working age (15-64) European citizens live in another EU Member State than their own.

International comparisons also indicate that cross border mobility between EU Member States is limited compared to other regions (such as the US or Australia), even when taking into account mobility between large regions (NUTS1) inside EU Member States, between which linguistic and administrative differences are quasi inexistent<sup>33</sup>. Although the relatively low level of geographic mobility between EU Member States can be explained by the very large linguistic diversity and various institutional frameworks, these comparisons still suggest that more scope exists for higher geographical mobility in the EU, whether of EU citizens or third-country nationals.

Moreover, the massive gaps currently existing between EU countries and regions (even inside some Member States) in terms of unemployment rates and job vacancy rates are another sign that the potential of geographical labour mobility is insufficiently tapped. Mobility of workers is essential for achieving dynamic labour markets, efficient matching of jobseekers to jobs and of employers to skills.

Finally, geographical labour mobility can have large economic benefits for the economies of both receiving and sending countries<sup>34</sup>. For instance, the GDP of EU-15 countries is estimated to have increased by almost 1% in the long-run due to the post-enlargement mobility and no significant impact was found on the level of unemployment or wages of the domestic workers. Labour mobility flows have helped to fill job vacancies and mobile citizens have higher employment rates than the average working-age population.

Geographical labour mobility within the EU can be a powerful adjustment mechanism to respond to the needs of labour markets by making them more efficient and further adaptable to change in economies. For instance, following the crisis of 2008-09, the flows of mobile workers between EU Member States has been diminishing due to the decline of labour demand. Countries such as Ireland and Spain would have had higher unemployment rates than they currently have, without the adjustment of migration flows due to the recession (i.e.: reduced inflows and increased outflows)<sup>35</sup>.

#### **4.4. Employment of third-country nationals**

Around 20 million third-country nationals live in the EU, thus making up 4.0% of the total population. Since they tend to be of working-age, their share of the labour force is slightly larger, at 4.5%. Roughly a third of the economically active third-country nationals have settled in their present country of residence within the past seven years<sup>36</sup>.

In the early years of this century, large numbers of immigrants arrived in the EU, but with the economic downturn in 2009, these numbers fell. In addition to declining immigration, a rise

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<sup>32</sup> Eurostat migration statistics and EU-Labour force survey, see details in EC, Employment and Social Developments in Europe 2011, chapter 6.

<sup>33</sup> Eurofound, Labour mobility in a transatlantic perspective, 2007 and OECD, 2012 Economic Review of the European Union, 2012.

<sup>34</sup> See Employment and Social Developments in Europe 2011, chapter 6 and NIESR, Labour mobility within the EU – the impact of enlargement and the functioning of the transitional arrangements, 2011.

<sup>35</sup> Deutsche Bank, Working paper, Labour mobility in the Euro area, 2011.

<sup>36</sup> For detailed figures on migration from third-countries, see Eurostat publication 'Migrants in Europe', 2011, [http://epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/3-08122011-AP/EN/3-08122011-AP-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-08122011-AP/EN/3-08122011-AP-EN.PDF).



in the flows of return migration to home countries has also been witnessed for many Member States, due to a particularly adverse labour market situation among third-country nationals<sup>37</sup>. Nevertheless, the overall population of immigrants has continued to grow, though at a slower pace. Statistics on migration flows during 2010 are not yet available but the increase in the number of residence permits granted to third-country nationals in 2010 seems to indicate that migration flows from non-EU countries are picking up again, having fallen in 2009. In 2010, 32.4% (or around 800 000) of all residence permits granted were for remunerated activities.

In the third quarter of 2011, the employment rate of third-country nationals was 55.5%, much below the level recorded for nationals (65.0%) and other EU nationals (68.3%). This was already true before 2008 but the economic downturn made the situation much worse.

The gap between employment rates of nationals and third-country nationals, which was already substantial before the economic downturn, has widened. In 2008q2 it was 6.5 pps: one year later it was around 9 pps, and since then it has fluctuated between 9 and 10 pps. This gap differs widely across education levels. Third-country nationals have higher employment rates than nationals in the low-educated category. In the medium-skilled category, however, third-country nationals tend to have lower rates than nationals, and the gap is even wider in the high-skilled group. This suggests that the skills of migrants residing in the EU are being very much under-used.

Many third-country nationals employed in the EU are over-qualified for the job they have. At aggregate level, this can be measured roughly by comparing the current occupations of migrant workers with their level of education. In 2010, 46% of highly-educated third-country nationals were overqualified for their job, compared to around 20% among nationals. Among third-country nationals, the rate of over-qualification was particularly high for women (49%) compared to men (44%). One of the main factors appeared to be the difficulty in getting recognition for qualifications obtained outside the EU. Cedefop studies also indicate that workers with a migrant background are disproportionately affected by over-qualification when they have acquired their qualifications abroad<sup>38</sup>.

In terms of unemployment, third-country nationals have been one of the groups most affected by the economic downturn. Their unemployment rate, already high in 2008q2 (14.0%), rose very quickly to reach 19.2% one year later, and has remained at high levels (around 19-21%) ever since<sup>39</sup>. The gap between nationals and immigrants from outside the EU increased from 7.6 pps in 2008q2 to 11 pps one year later, and has remained around that level.

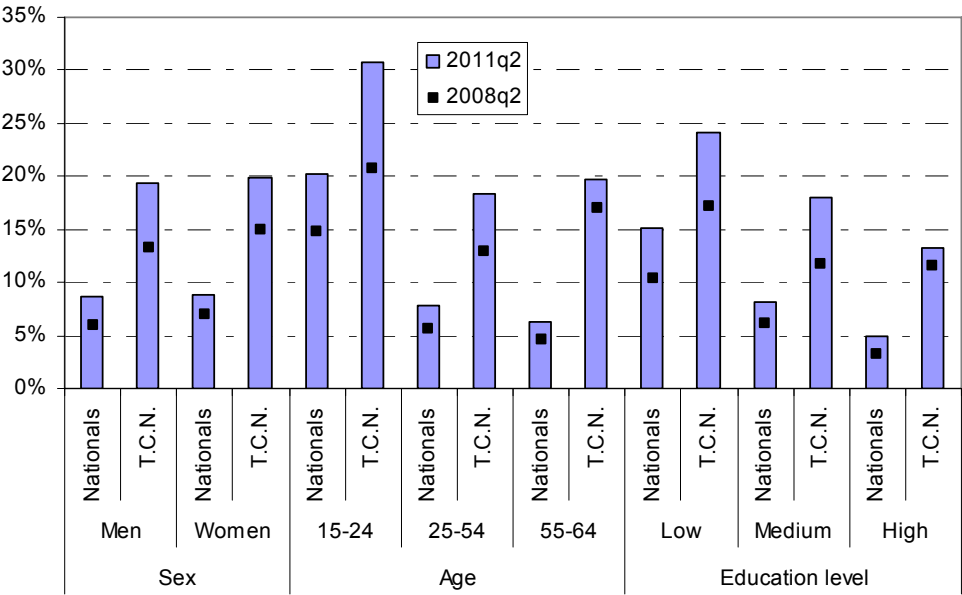
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<sup>37</sup> OECD, Migration Outlook 2011, SOPEMI.

<sup>38</sup> Cedefop (2011), "Migrated and mismatched? An empirical analysis of skill mismatch among migrants and ethnic minorities in Europe", Cedefop research paper.

<sup>39</sup> The EU average hides however great variations between the Member States and more than 60% of the net increase in unemployment among third-country nationals in the period 2008-2011 occurred only in Spain.

**Chart 10:** Unemployment rates by group of citizenship, sex, age and education level, in the EU (in %)



**Source:** Eurostat, EU-LFS, quarterly data

Third-country nationals in the EU have, on average, a lower level of educational attainment than nationals. As many as 43% of economically active third-country nationals have a low level of education, compared to 22% of the nationals. This partly explains their higher unemployment rates, but it is only one factor: third-country nationals have higher unemployment levels than nationals whatever their skill level. Other factors at play here are difficulties in having third-country qualifications or experience recognized in the EU, lack of language proficiency, discrimination and lack of access to information or networks.

Analysis of the reasons for migration of the third-country nationals currently residing in the EU indicate that in many Member States the majority of them arrived for reasons other than employment. Family reunions and asylum seekers represent large groups of lawful non-economic migration inflows. These groups are generally associated with higher levels of unemployment/inactivity, partly for reasons related to the legal access to the labour market.

In conclusion, analysis of the labour market outcomes of migrants from third countries over the past decade indicates that Europe is still far from reaping the full potential of third-country nationals currently residing in the EU. At the same time, the EU is currently not attracting the migrants that it would need to respond to the challenges in terms of demographic ageing and skill shortages. On the basis of the experience gained in other industrialised countries namely in Canada and Australia, it appears that the EU could improve its attractiveness as a destination for qualified migrant workers by promoting permanent and more transparent admission rules for economic immigrants while providing full labour market access for spouses and facilitating free mobility of migrants between EU Member States. Attracting talented international students and researchers represents another promising policy pathway.

## 5. LABOUR MARKET CHALLENGES

Despite the crisis, substantial progress has been made in EU labour markets since 2000. The employment rate for the EU working-age population in 2010 stood at 64.2%, i.e. 0.4 pp below the level recorded in 2009 but still 2.1 pps higher than in 2000.

The severe rise in unemployment over the period 2008-2009 has continued to feed into long-term unemployment. If the recent upturn in the unemployment trend continues, long-term unemployment might intensify. The increased risk of long-term unemployment may have severe effects on many population segments. The negative effects in terms of loss of human capital, including skill depreciation and loss of motivation, and thus of future employability, career prospects and earnings can be significant. Moreover, long-term unemployment may often lead to eventual discouragement and exit from the labour market. Overall, long-term unemployment results in a high risk of poverty and associated social failure.

The youth unemployment rate stood at an unprecedentedly high level of 22.4% in February 2012. Young people who are neither in employment, education or training or employment (NEET), constitute the most problematic group. In the second quarter of 2011, more than 13% of young people were in this case, this is 2 pps above the 2008 level. Youth's high exposure to temporary work contracts has exacerbated the challenges of youth unemployment. At 5.5 million, youth unemployment in the EU is up by nearly 40% compared to the low of spring 2008. The recent unfavourable developments in unemployment for youth may soon intensify the long-term unemployment issue and have serious social consequences.

There is clear scope for positive spillovers to the labour market from other policies, such as policies focusing on SMEs, white, green and ICT jobs. Between 2002 and 2010, 85% of net employment growth was created by small and medium-sized enterprises (SMEs), considerably higher than the 67% share of SMEs in total employment. New firms (younger than five years) are responsible for an overwhelming majority of the new jobs.

Employment in the health and social work sector ("white jobs") is growing fast, due to population ageing and an expansion of services to better meet quality requirements and rising demand. However, maintaining an adequate supply and quality of health and social services under increasing budget constraints is a key challenge faced by policy makers.

Green jobs cover a wide range of employment opportunities with many environment-improving jobs in non-environmental industries, e.g. eco auditors in steel plants or car workers producing hybrid vehicles. The products and services of the eco-industry are enabling productivity gains and innovation in many other sectors and it is these green skills and associated green jobs that can be a major source of demand for new jobs.

The demand for ICT professionals continues to grow. Beyond ICT professionals, we have to recognise that most jobs already require some ICT knowledge. In fact, advanced ICT users account for 18.5% of employed persons, while it has been forecast that by 2015 90% of jobs will need at least basic ICT skills. Acquiring and maintaining ICT skills are vital in becoming and remaining employable.

Vacancies in some economic sectors are not easy to fill. This is reflected in a coincident rise in EU unemployment and vacancy rates. Over the next years, ageing will have serious implications on both the size and age structure of the workforce, making the match between

labour supply and labour demand even more difficult. By 2014, the overall EU workforce will start declining. The Europe 2020 Strategy puts particular emphasis on promoting labour mobility, both domestic and migrant, for addressing labour and skill shortages and rendering the EU workforce more adaptable to change. The EU should be able in the future to quickly respond to the emerging new demands from the most competitive parts of the economy. Recent studies on Europe's future skill needs indicate that labour market needs in the most dynamic economic sectors may rise significantly between now and 2020, while those in low-productivity sectors may further decline. Deficits in qualified job-specific skills are already observed in areas critical for innovation. By 2020, 42% of employment will be in high-skilled non-manual occupations.

Mobility and migration flows should be supportive of labour market smoothing. Nevertheless, international comparisons indicate that cross border mobility between EU Member States is limited compared to other regions. Although this can be partly explained by the very large linguistic diversity and various institutional frameworks, these comparisons still suggest that more scope exists for higher geographical mobility in the EU. Moreover, the massive gaps currently existing between EU countries and regions in terms of unemployment rates and job vacancy rates are another sign that the potential of geographical labour mobility is insufficiently tapped. However, Europe is still far from reaping the full potential of third-country nationals currently residing in the EU. At the same time, the EU is currently not attracting the migrants that it would need to respond to the challenges in terms of demographic ageing and skill shortages.