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COVER NOTE

From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
No. Cion doc.:	SWD(2019) 294 final PART 2/8
Subject:	COMMISSION STAFF WORKING DOCUMENT Employment and Social Developments in Europe 2019 - Main Employment and Social Developments

Delegations will find attached document SWD(2019) 294 final PART 2/8.

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Brussels, 4.7.2019
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PART 2/8

COMMISSION STAFF WORKING DOCUMENT

Employment and Social Developments in Europe 2019

CHAPTER 1

Main Employment and Social Developments

1. Introduction ([1])

In 2018 economic growth in the EU continued at a slower pace than in 2016 and 2017. Positive labour market conditions persisted and employment rose to 240.7 million in the first quarter of 2019. The employment rate reached 73.5% in the last quarter of 2018, the highest level ever recorded, while the activity rate maintained a steady long-term upward trend. In 2018 the unemployment rate stood at 6.8% of the labour force, its lowest level since records started at EU level in 2000, and it further declined to 6.4% in March 2019.

The recovery has contributed to increasing incomes and a visible reduction in poverty and social exclusion. The at-risk-of-poverty and social exclusion rate (AROPE) decreased in 2017 to below its 2008 level of 23.7%, recording 23.5% in 2016 and 22.4% in 2017 and a reduction by 5 million per year in these two years. While the overall economic and employment outlook remains positive, uncertainties have increased and important challenges remain with regard to productivity growth, labour market segmentation and social and geographical convergence. And increasingly there are questions as to whether the world economy can avoid, and would be resilient in the face of a significant new economic downturn. All of these represent risks to sustainable growth and development in Europe.

The middle class remains the backbone of European societies and welfare states but is more vulnerable. The middle class, defined as the income group between 75% and 200% of national median income, is sizeable in all Member States, constituting from 53% to 77% of the total population. However, its weight is shrinking in some Member States and there are signs of its perceived vulnerability, with potential implications for social sustainability and political stability. In particular, the proportion of individuals in the middle class who report that they have difficulty making ends meet stands at 53% (though similar levels were seen pre-crisis).

Some groups in society have traditionally been vulnerable. People with disabilities, people from migrant backgrounds and ethnic minorities tend to find themselves at a disadvantage in the labour market and with regard to access to public services; they are also at higher risk of poverty and social exclusion.

This chapter reviews the latest socio-economic developments at the EU level and in Member States. The analysis covers overall macro-economic developments and their implications for the labour market, including a focus on regional developments and territorial cohesion within the EU as well as international comparisons. This chapter also assesses recent

([1]) This chapter was written by Petrica Badea, Fabio De Franceschi, Stefano Filauro and Luca Pappalardo.

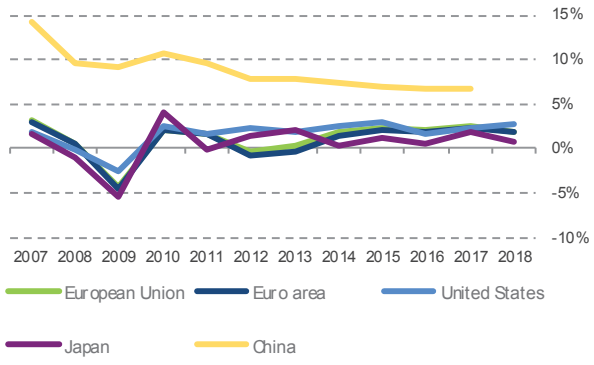
trends regarding the social situation and income developments, with a special focus on the middle class and on the above-mentioned vulnerable groups.

2. MACROECONOMIC ENVIRONMENT

2.1. Shadows over favourable global macroeconomic developments

After a period of sustained economic growth since 2012, the global economy is showing signs of slowing down. Economic activity in some advanced economies, such as the euro area and Japan, as well as in emerging economies, notably China, is weaker than predicted. ([2]) The Chinese economy is cooling down as a consequence of weakening exports (which have been affected by uncertainties with regard to future US-China trade relations) and moderate internal consumption growth. The weakest economic growth rates were recorded in Japan, in line with the sluggish trends of previous years. On the other hand, the US economy grew slightly faster than the EU economy, and is expected to grow faster in 2019, backed by a robust labour market and fiscal expansion - in spite of some institutional and political uncertainties that could hamper consumer sentiment and business investment.

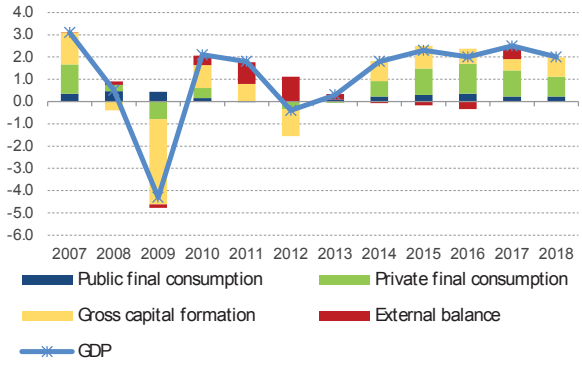
Chart 1.1
Real GDP growth in selected large economies
Percentage change on previous year



Source: AMECO except China; IMF for China
Click here to download chart.

In both the EU and the euro area, economic activity continued to expand in 2018, although more slowly than expected. The economy has been expanding for six consecutive years in the EU, and for five in the euro area, yet at growth rates below those of 2017. These developments, and the leading indicators such as new export orders, indicate that the economic outlook is weakening. Nevertheless, in 2019 domestic consumption and investment should continue to ensure growth in economic activity and employment, in spite of increasing geopolitical and international uncertainties and rising tensions in trade.

Chart 1.2
Contribution to GDP real growth - EU 28
Percentage change on previous year

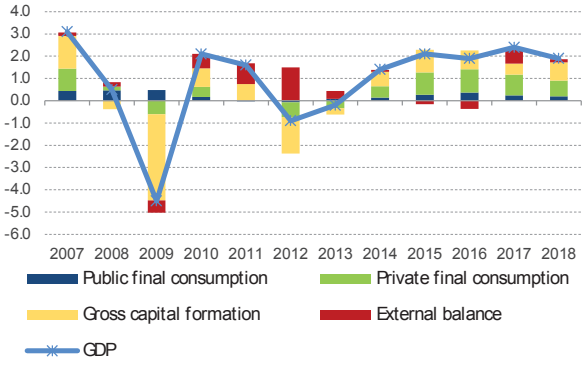


Source: Eurostat, National Accounts [nama_10_gdp]
Click here to download chart.

In 2018 gross domestic product grew by 2.0% in the EU and by 1.8% in the euro area. Uncertainty in respect of structural reforms and of the political situation hampered growth, which was slower than in 2017, when it grew by 2.6% and 2.4% respectively. Nevertheless, the growth rate remains positive and significant. The main contributions came from private consumption and investment, and to a lesser extent from the external sector and government expenditure. Private consumption and investment each accounted for about 40% of growth in both the EU and the euro area,. Public consumption made a less significant contribution of about 10%. The external balance made the smallest contribution, accounting for about 10% of EU growth and about 5% of euro area growth.

([2]) See for instance European Commission (2019a)

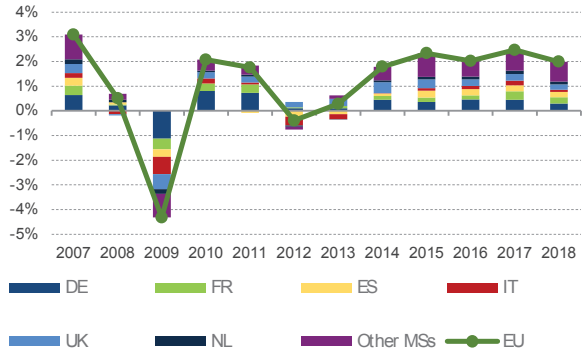
Chart 1.3
Contribution to GDP growth - Euro area
Percentage change on previous year



Source: Eurostat, National Accounts [nama_10_gdp]
Click here to download chart.

The external balance made the smallest contribution to GDP growth. This drop was not offset by the developments in internal demand. External balance accounted for about 10% of EU growth and about 5% of euro area growth, as exports continued to perform below expectations. The weak export performance of the euro area was due mainly to a drop in exports of goods, even though exports of services remained robust. The deceleration of growth in world trade was felt relatively more strongly in the euro area, because of the geographical orientation and product specialisation of exports. However, to the extent that fundamentals continue to support domestic demand, growth is expected to regain momentum once the temporary factors hampering growth fade.

Chart 1.4
Member States' contribution to EU GDP growth
Percentage change on previous year



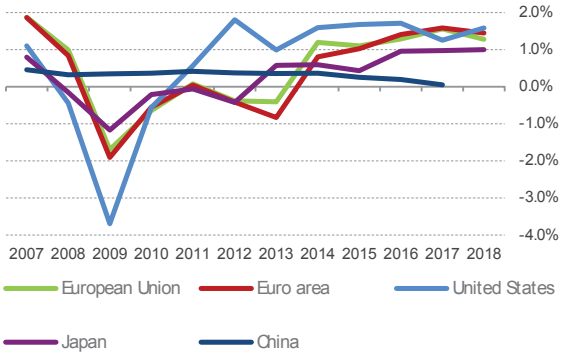
Source: Eurostat, National Accounts [nama_10_gdp]
Click here to download chart.

In 2018 the contribution to EU growth of the four largest economies (Germany, France, the UK and Italy) declined further. Whereas in the previous two years they accounted for about half of total growth, in 2018 this share shrank to 43%. In particular, the contribution of German growth to that of the EU fell to 14.9, from 18.1% in 2017 and 22.9% in 2016: this is the smallest figure recorded since 2012. France's contribution accounted for 13.2%, the UK's for 10.5% and Italy's for 4.9%. Meanwhile the contribution of the smallest economies increased to 40% from 34% in 2017.

In 2018 over a third of Member States recorded growth that was more than twice that of the EU. Growth was particularly notable in Ireland, Malta, where reached 6.7%, and Poland, which recorded a rate of 5.1%. On the other hand, GDP in Belgium, Denmark, Germany, Greece, France, Italy and the UK grew less than in the EU overall. Italy recorded the lowest rate of GDP growth (0.9%).

2.2. Employment rises as the economy expands

Chart 1.5
Employment growth in selected large economies
Percentage change on previous year



Source: AMECO except China; IMF for China.
Click here to download chart.

Employment in the EU continued to expand through 2018 and in the first quarter of 2019, reaching the highest level ever recorded, 240.7 million. This is 13.4 million more than when the Juncker Commission came into office in November 2014. Having been on a downward trend until 2013, employment has been growing robustly since then and in 2016 surpassed its pre-crisis high for the first time. In 2018, it grew by 1.3%. A similar trend was recorded in the euro area, where the total number of people employed in 2018 was 158 million, 1.4% more than in the previous year.

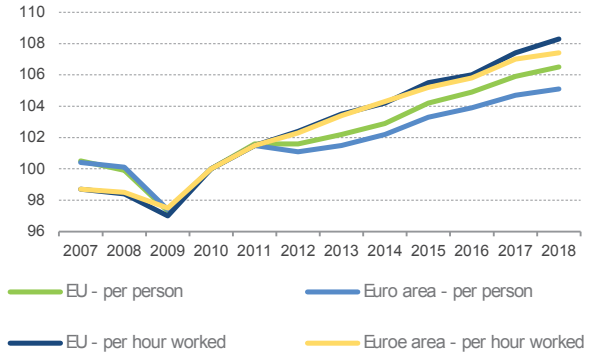
In 2018 the growth of employment in the EU and the euro area was in line with developments was somewhat weaker than in the US. In 2017, however, after several years of recording stronger results than Europe, the US experienced weaker expansion than Europe.

Japanese employment, after some years of weak growth, continued the upward trend started in 2016 and grew in 2018 at a stronger pace than that of the EU and the Euro area.

The number of hours worked per employed person in the EU and euro area continued their slow steady decline in 2018. This number has been declining since 2012, in line with a decade-long steady downward trend. Thus the number of people employed grew faster than the total hours worked.

2.3. Productivity and labour costs

Chart 1.6
Real productivity per person and per hour worked in the EU and in the euro area
Index (2010=100)



Source: Eurostat, National Accounts [nama_10_lp_ulc]
Click here to download chart.

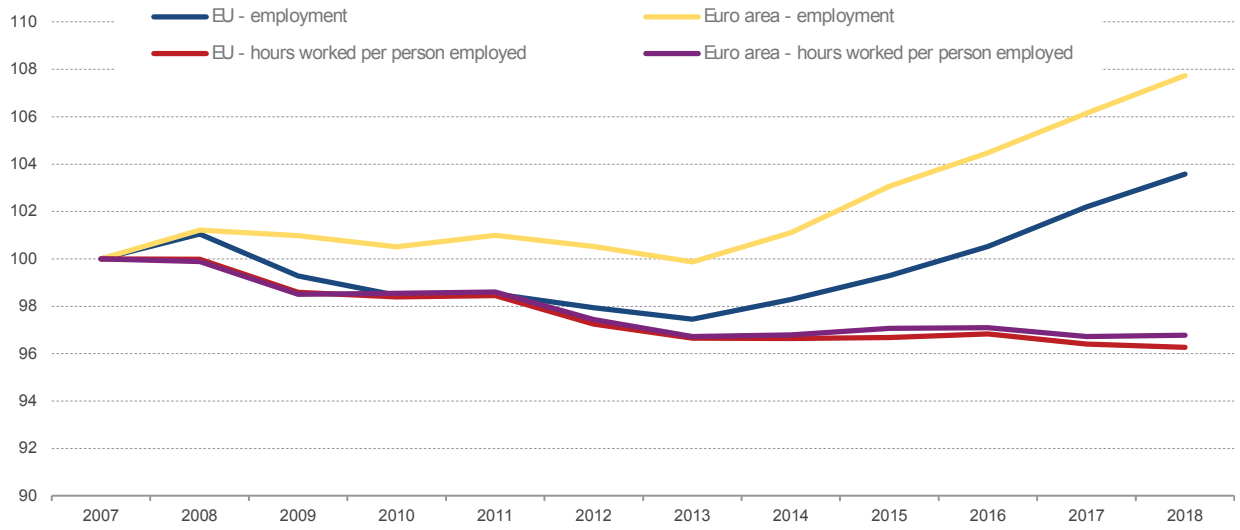
Productivity per hour worked has been increasing steadily in both the EU and the euro area. In 2018 it was 12% (EU) and 10% (euro area) above the record low levels of 2009. However, productivity per person grew more slowly than productivity per hour worked, in line with trends over the last decade.

Chart 1.8
Real labour cost by sector of economic activity in the EU
Index - 2012 = 100

Note: Nominal labour cost index deflated by the harmonised index of consumer prices
Source: DG EMPL calculation on Eurostat data [lc_lci_r2_a, prc_hicp_aind]
Click here to download chart.

The labour cost index, after the fall experienced in the years that followed the great recession, has been growing again since 2013 in all sectors of economic activity. Industry is the sector that has experienced the biggest increase in real terms, and its labour cost is 7.2% higher than it was in 2012. The next biggest increases have been in market services and construction, which have followed similar paths in the past decade, although construction suffered more in the aftermath of the crisis. In non-market services labour cost grew more slowly, and is now about 5% higher than in 2012. It is worth highlighting that between 2012 and 2018 GDP grew more than the real labour cost index in all sectors of economic activity, and in 2018 it exceeded the 2012 level by more than 10%.

Chart 1.7
Employment and total hours worked per person employed - European Union and euro area
Index 2007 = 100



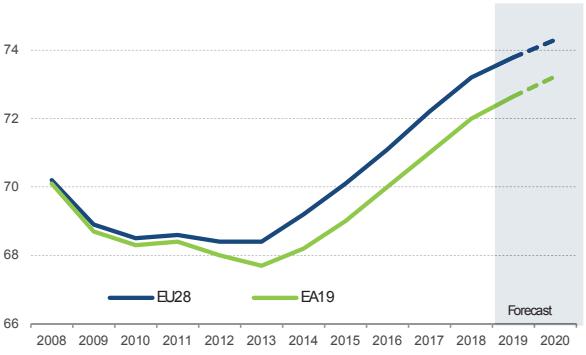
Source: Eurostat, National Accounts [nama_10_pe, nama_10_a10_e]
Click here to download chart.

3. LABOUR MARKET DEVELOPMENTS

3.1. Employment rates/levels

The employment rate in the EU reached 73.2% in 2018 and 73.5% in the last quarter of the same year, the highest rates ever recorded. Furthermore, the employment rate in full-time equivalents (FTE) grew for the fifth consecutive year and stood in 2018 at 67.2%, 2.2pp higher than in 2008.

Chart 1.9
The employment rate is growing but at a slower pace
Employment rate, % of population aged from 20 to 64 years



Note: The forecast is calculated with the estimation of employment growth and assuming a similar size of the workforce
Source: Eurostat, LFS [lfsi_emp_a], Commission Spring 2019 Economic Forecast and EMPL calculations
Click here to download chart.

However, this positive performance masks a slowdown in the pace of growth of the employment rate. The employment rate in 2018 grew by 1.0pp compared with 2017 to reach 73.2%, a yearly difference that is slightly lower than that recorded in 2017 (1.1pp). According to the Spring 2019 Commission forecasts, total employment will grow in 2019 and 2020 at a slower pace than in 2018; the forecasts also point out that "with moderate economic growth lasting longer, the question arises as to how long and to what extent employment growth can continue". ([3]) If these slower growth dynamics continue, then the employment rate would reach 74.3% in 2020 and the 'EU 2020' employment rate target of 75% could therefore be slightly missed.

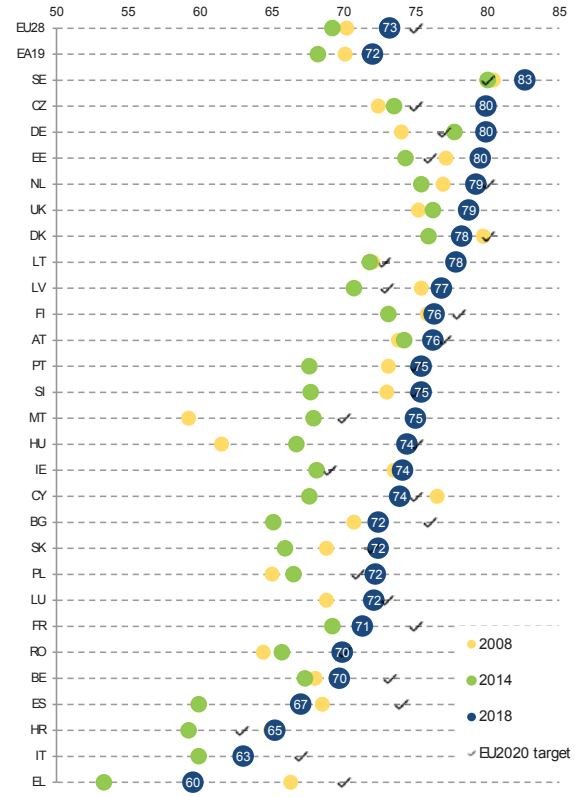
Also, there are strong differences among Member States, regions and population groups. The employment rates of Member States still vary greatly. There is a difference of about 23 pp between the lowest rate (Greece, 59.5%) and the highest (Sweden, 82.6%). Nonetheless, all Member States have seen an improvement in their employment rate in 2018. Also, the difference between the highest and lowest rate has been reduced by almost 1pp, suggesting that the employment rate continues on a path of upward convergence. ([4])

([3]) European Commission (2019a): p 48.
([4]) See European Commission (2018a), chapter 1, for a more detailed analysis of convergence in the EU.

Chart 1.10

Most Member States have already reached their 'EU2020' target

Employment rate, % of population 20-64



Note: No Europe 2020 target for the UK.
FR 2008 data is missing. The Europe 2020 target for France excludes the overseas departments. The employment rate in 2018 for France without the overseas departments was 71.8%.
The achievement of the national targets by all Member States does not imply the achievement of the EU28 target.

Source: Eurostat, LFS [lfsi_emp_a]

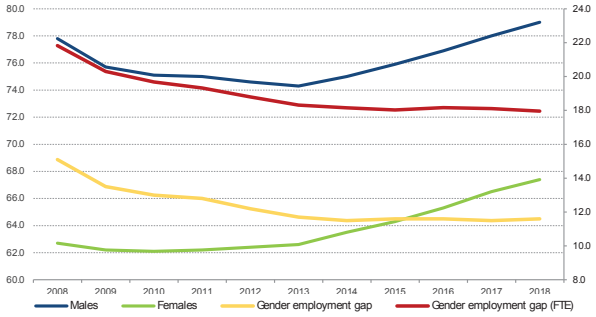
Click here to download chart.

There remain important gender-related difference in employment performances. The gender employment gap is 11.6pp and has barely changed since 2013, although the trend in the last ten years has been towards convergence between male and female employment rates. Between 2008 and 2013, as the overall employment rate fell, these rates fell, too, by 3.5pp for men and 0.1pp for women. During the recovery they have risen equally for both sexes. It is worth noting, however, that the gender employment gap measured in full-time equivalents (FTE) is higher and stood at 18pp in 2018, reflecting the higher incidence of part-time work among women (see below for more details). Recent improvements in the supply of childcare ([5]) may have had a positive effect in reducing the gender gap, but policies to support the participation of women in the labour market should be maintained and where possible reinforced in order to make further progress. ([6])

Chart 1.11

The gender employment gap remains stable

Employment rates by sex (% of population aged 20-64 years, lhs) and gender employment gap (pps, rhs)



Note: The gender employment gap is calculated as the difference in the employment rate of men and women aged 20 to 64

Source: Eurostat, LFS [lfsi_emp_a] and EMPL own calculations

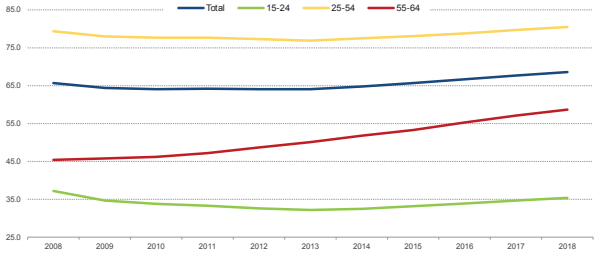
Click here to download chart.

Employment rates have increased in all age groups and most notably among people aged 55-64. The employment rate of older people (55-64) went up from 57.1% in 2017 to 58.7% in 2018. This may be due to the impact of demographic factors (as more active cohorts have replaced previous ones in past years) as well as to the effects of recent pension reforms in several Member States. ([7]) The employment rate in the largest age group (25-54) rose 0.8pp to 80.5%. For young people aged 15 to 24 it increased by 0.6pp to 35.4%, which is still lower than in 2008.

Chart 1.12

Employment rates grow for all age groups but more slowly for young people

Employment rate in the EU by age groups, % of population



Note: "Total" refers to the age group 15-64

Source: Eurostat, LFS [lfsi_emp_a]

Click here to download chart.

([5]) See Chapter 4 for a more in-depth analysis of recent childcare developments in the EU.

([6]) See Eurofound (2016): "these persistent disparities and significant cross-country differences represent an economic and social challenge and explain the emphasis policymakers put on women's integration into the labour market" (p85).

([7]) See European Commission (2018c), pp. 91-95) for a more detailed analysis.

Temporary employment as a proportion of total employment has remained broadly stable in the last two years. However, it is still 0.6pp higher than in 2013. Temporary contracts for people aged 15-64 amounted in 2018 to 12.1% of total employment, just 0.1pp lower than in 2017. For women, the figure was 13.1%, about 2pp higher than that for men (11.2%); both figures were 0.1pp lower than in 2017. However, there are very wide disparities among Member States. Temporary work is at above 20%, and rising, in Spain and slightly below 20% in Poland – on a declining trend – and Portugal. The United Kingdom, Romania, Bulgaria and the Baltic States have rates below 5%.

The majority of temporary employees in the EU continue to be in temporary work involuntarily. They have represented over 50% of the total number of temporary workers for more than ten years. More women than men are involuntarily in temporary work (53.7% versus 51.9% of temporary employees in 2018), while for young employees (aged 15-24) the percentage is lower and stands at 29.9%. In five Member States (Spain, Croatia, Italy, Cyprus and Portugal), at least four out of five temporary employees are working involuntarily on this type of contract.

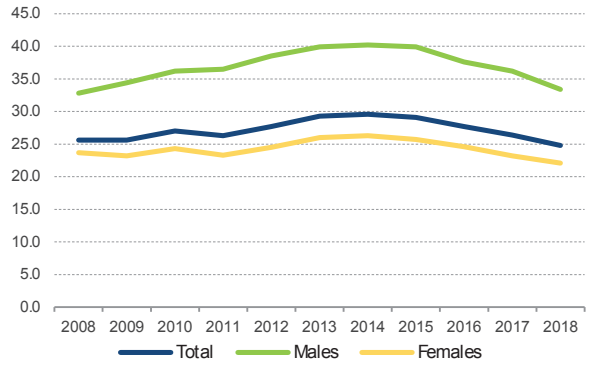
Part-time work as a proportion of total employment decreased slightly, from 19.4% in 2017 to 19.2% in 2018. The reduction has been greater, albeit from much higher levels, for women (down 0.4pp from 31.7% in 2017 to 31.3% in 2018) than for men (down from 8.8% in 2017 to 8.7% in 2018). The incidence of involuntary part-time work remains significant although in decline. In 2018 about a quarter of part-time workers said they would like to work more. ([8]) This percentage is higher among men (33.4%) than women (22.1%), and it is above 50% in several Member States (Bulgaria, Greece, Spain, Italy, Cyprus and Romania). As 75% of part-time workers are then voluntarily on this working pattern, this means that about 5% of all workers are involuntarily in part-time employment.

([8]) Involuntary part-time employment is one of the indicators included under SDG8 (Decent Work and Economic Growth) in the European Commission's Reflection Paper "Towards a Sustainable Europe by 2030" (European Commission, 2019b).

Chart 1.13

Involuntary part-time work remains high especially among men

Involuntary part-time employment, % of total part-time employment (age 15-64)



Source: Eurostat, LFS [lfsa_eppgai]

Click here to download chart.

In 2018, employment grew most in the services sector, in line with post-crisis trends. According to LFS data, the services sector, pushed in particular by the "information and communication" subsector, grew by 1.3%, while industry, pulled by construction, grew by 1.0%. Employment in agriculture, on the other hand, shrank by 3.1% following a long-lasting declining trend.

In 2018 the employment rate of host-country citizens in the EU was 6.9pp higher than that of foreign citizens (73.8% versus 66.9%). ([9]) This difference increased in the years following the financial and economic crisis: it was 4.3pp in 2008. The Member States with the highest differences in favour of host-country citizens are Sweden, Finland, France and the Netherlands. In Luxembourg and Poland, by contrast, foreign citizens have higher employment rates than nationals by more than 5pp.

However, the employment rate of non-EU citizens is much lower than that of EU28 nationals. The average difference between non-EU foreign citizens and host-country citizens in the EU was 14.5pp (73.8% versus 59.3%), with the highest differences in Sweden, Belgium, Finland, Netherlands, and Germany. These countries, in particular Sweden and Germany, experienced a strong inflow of refugees, especially between 2014 and 2016, – although the gap was already large before 2014. The

([9]) Foreign citizens are here considered people of different citizenship, even of another EU Member State, from the country of residence. Section 5 of the Chapter will also present evidence on the employment and social conditions gaps between the non-EU born and the total population.

employment rate is higher for non-EU citizens than for nationals in a few Member States, most notably Romania (8pp) and to a lesser extent in Poland, Malta, Czechia, Slovakia and Italy.

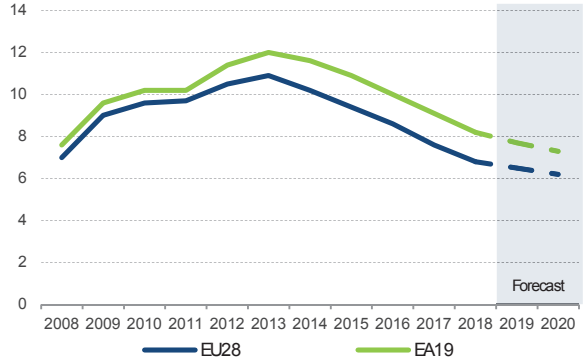
3.2. Unemployment rates

The EU unemployment rate fell 0.6pp from 2017 to 2018, to reach a new historic low of 6.8% of the labour force. It has declined further to 6.4% in April 2019. Unemployment rates have fallen in all Member States, with especially strong declines in Cyprus (2.7pp), Croatia (2.5pp), Greece (2.2pp), Portugal (2.0pp) and Spain (1.9pp). Rates in several Member States have reached, or are very close to, the structural unemployment rate. ([10])

Chart 1.14

Unemployment in the EU reaches a historic low

Unemployment rate, % of labour force from 15 to 74 years



Source: Eurostat, Unemployment series [une_rt_a] and European Commission Spring 2019 Forecast

Click here to download chart.

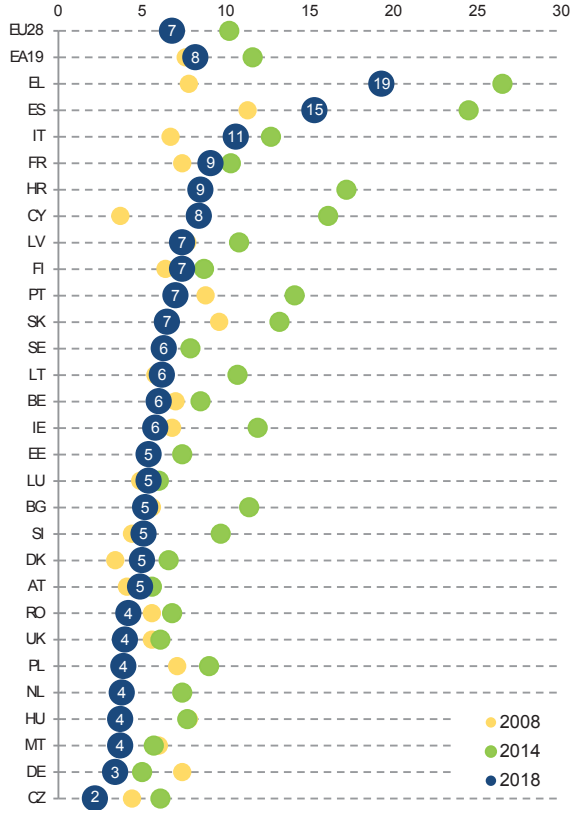
The difference in unemployment rates between men and women is not very large overall. Nonetheless, the female unemployment rate is 0.5pp higher than the male rate (7.1% versus 6.6%). The difference has been stable since 2017 but is still higher than in any of the years between 2009 and 2016. The relatively small difference is in part explained by women's lower activity rates and higher rates of involuntary part-time work.

([10]) The estimated structural unemployment rate is the unemployment rate consistent with long-run price and wage stability. See European Commission (2018b), pp 18-20, for a more detailed analysis.

Chart 1.15

All Member States have lower unemployment rates than in 2014

Unemployment rates by Member States, % of labour force



Source: Eurostat, Unemployment series [une_rt_a]

Click here to download chart.

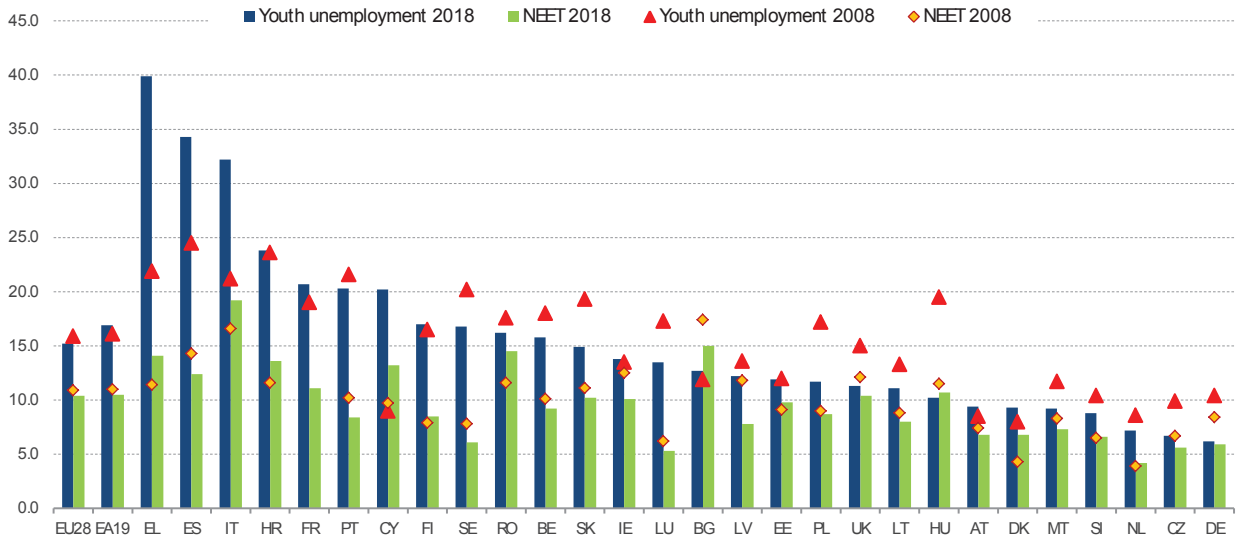
Youth unemployment continued to decline, as in previous years. In 2018, it stood at 15.2%. This is 0.7pp lower than the pre-crisis level of 2008. It further dropped in the first months of 2019 reaching 14.2% in April. The youth unemployment rate decreased in all Member States, but there are still huge differences within the EU. In Greece, the youth unemployment rate is slightly below 40% and more than 24pp above the EU rate. Rates in Spain and Italy are also above 30% (34.3% and 32.2% respectively) and therefore more than 15pp above the EU average. These high levels suggest that there are difficulties in integrating young workers into the economy, and they pose serious problems regarding the sustainability of welfare states in the Member States concerned. The youth unemployment rate is lower for women (14.5%) than for men (15.7%), a difference that has been roughly constant over the last eight years.

The downward trend in the proportion of young people aged 15-24 who are neither in employment nor in education and training (NEET) continued throughout 2018. The annual average was 10.4%, down 0.5pp from 2017. Significant reductions in NEET rates were

Chart 1.16

Youth unemployment and NEET declined in almost all Member States but still with large differences

Unemployment rate (% of labour force, 15-24) and young people aged 15-24 neither in employment nor in education and training (NEET) (% of total population)



Note: No FR data in 2008

Source: Eurostat, LFS [une_rt_a; lfsi_neet_a]

Click here to download chart.

recorded in most Member States and particularly in Cyprus, Latvia and Slovakia. However, rates in some countries are still well above 2008 levels, and most notably in Cyprus (3.5pp), Romania (2.9pp) and Greece (2.7pp). Italy is the country with the highest NEET rate, with almost one young person out of five in this situation (2.6pp more than in 2008).

Long-term unemployment rates

Long-term unemployment decreased in 2018 for the fifth consecutive year, to 2.9% of the active population. Gender differences are very small, with rates for women at 3.0% and for men at 2.8%. Very long-term unemployment ([11]) has also decreased, to 1.8%.

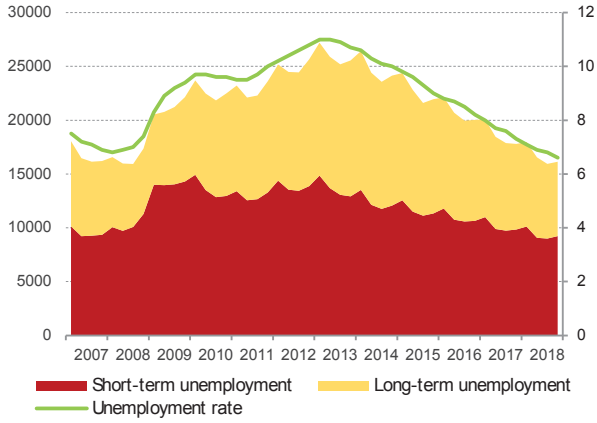
The decrease in long-term unemployment is good news for the integration of unemployed people in the EU labour market. In all Member States this indicator improved or remained stable, with the strongest decreases recorded in Greece, Cyprus and Portugal. Differences among Member States have decreased, although almost 13 percentage points divide the highest rate (Greece, 13.6%) from the lowest (Czechia, 0.7%).

([11]) Very long-term unemployment refers to people who have not had a job for 24 months or more.

Chart 1.17

Many people are still in long-term unemployment despite general labour market improvements

Long-term and short-term unemployment (thousand people, lhs) and unemployment rates (% of population 15-74, rhs)



Note: Long-term and short-term unemployment figures are unadjusted, the unemployment rate is seasonally and calendar adjusted

Source: Eurostat, LFS [lfsq_ugad, une_rt_q]

Click here to download chart.

Long-term unemployment also decreased in 2018, but about 7 million people are still affected by it. It decreased from 44.7% to 43.0% of total unemployment. Very long-term unemployment also decreased in 2018, from 27.9% to 26.7% of total unemployment. The long-term unemployed account for more than two thirds of all unemployed people in Greece, against less than 20% in Sweden. Member States with higher rates of unemployment tend to have a higher proportion of long-term unemployment, although in some countries such as Bulgaria and Slovakia, quite high levels of long-term unemployment co-exist with relatively

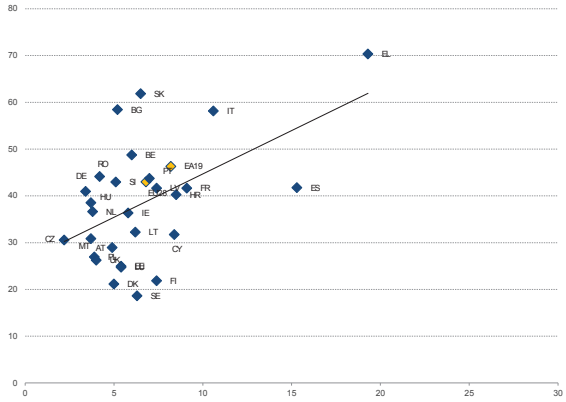
low levels of unemployment, around or below the EU average.

The causes of the persistence of long-term unemployment may vary among Member States. They include lack of economic growth, institutional constraints and, in some cases, ineffective labour market policies for the activation and integration of unemployed people (Bentolila and Jansen, 2016; Council, 2016).

Chart 1.18

Some Member States with high unemployment rates have also a high incidence of long-term unemployment

Long-term unemployment (% of unemployment) and unemployment rate (% of labour force 15-74)



Note: Long-term unemployment on y axis and unemployment rates on x axis. 2018 data

Source: Eurostat, unemployment series [une_ltu_a, une_rt_a]

Click here to download chart.

3.3. Activity rates

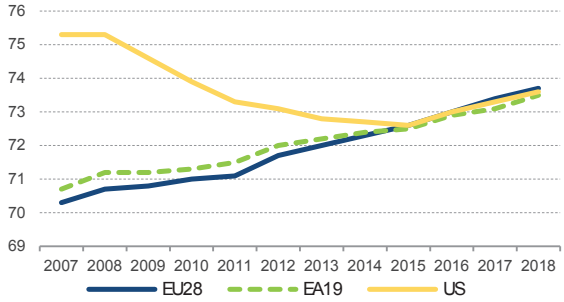
The activity rate ([12]) for people aged 15-64 in the EU rose to a record 73.7% in 2018, 0.3pp more than in 2017. The activity rate of women stood at 68.3% while that of men was significantly higher at 79.2%. The sustained increase of the activity rates in the EU can be explained by several factors, including increases in the retirement age (see European Commission, 2018b, p.14).

([12]) The activity rate is the measure of the participation of population, whether employed or unemployed, in the labour market.

Chart 1.19

The activity rate follows an increasing trend

Activity rates, % of population 15-64



Source: Eurostat, LFS [lfsi_emp_a] and OECD

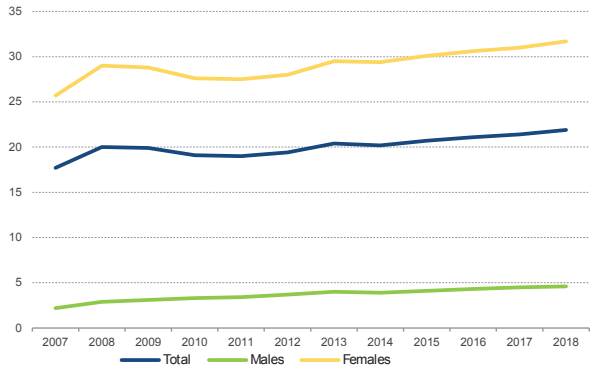
Click here to download chart.

The gender gap in labour force participation amounted to roughly 11pp. One of the causes ([13]) of this gap may be the fact that many more women than men have caring responsibilities ([14]) The proportion of people aged 20-64 who are inactive due to caring responsibilities stood at 21.9% in the EU in 2018: it has risen every year since the start of the current series in 2005, when it amounted to 16.9%, and has increased for both sexes in the last years. The percentage of men who are inactive for this reason has increased in recent years and was 4.6% in 2018. This cause of inactivity affects women disproportionately, representing the reason why 31.7% of them are not participating in the labour market. In 2018, this was the main reason why women in the EU are inactive, ahead of own illness or disability, and retirement.

([13]) See also European Commission (2017a, p.3).

([14]) The indicator measures the reasons why individuals are not actively seeking work, so they are neither employed nor unemployed and considered to be outside the labour force. "Inactivity due to caring responsibilities" refers to 'looking after children or incapacitated adults' and 'other family or personal responsibilities'.

Chart 1.20
Far more women than men are inactive because of their caring responsibilities
Percentage of population (aged 20-64 years) inactive due to caring responsibilities by sex



Note: This indicator shows the share of inactive population whose main reasons for not actively seeking work are caring responsibilities. "Inactivity due to caring responsibilities" refers to looking after children or incapacitated adults and other family or personal responsibilities.

Source: Eurostat, LFS [lfsa_igar; sdg_05_40]

Click here to download chart.

The increase in the activity rate in 2018 was again mainly driven by the rise in participation of people aged 55-64. The activity rate of people in this age group rose by 1.4pp, from 60.6% in 2017 to 62.0% in 2018. The activity rate of the 25-54 age group rose 0.2pp, to reach 85.9%, while that of the 15-24 age group remained stable at 41.7%.

On average, the activity rate for people aged 15-64 in the EU in 2018 was slightly higher for citizens of the reporting country (73.8%) than for foreign citizens (72.4%). ([15]) However, the situation varied between Member States. In half of the Member States, labour force participation was higher among citizens of the reporting country, with the widest participation gaps in the Netherlands (12.3pp) and Germany (10.1pp). In the other half, foreign citizens had a higher activity rate than citizens of that Member State, with the strongest differences in Luxembourg (9.7pp), Malta (9.4pp) and Poland (8.3pp). Furthermore, within the foreign population there is a marked difference in the participation rate. In the EU, the activity rate of those with citizenship from another EU country was 79.8%, 12.9pp higher than for non-EU citizens (66.9%). In almost all Member States for which there are reliable data the activity rate of foreigners with citizenship from another EU country is higher than that of non-EU foreign citizens, with the widest gaps in Finland (19.8pp), Germany (19.4pp) and the Netherlands (18.9pp). The activity rate is higher for citizens from non-EU countries in Slovakia, Greece and Estonia.

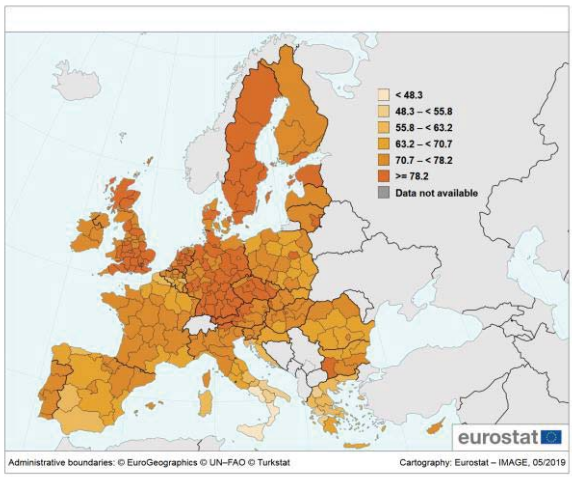
([15]) Foreign citizens are here considered people of different citizenship, even of another EU Member State, from the country of residence. See also footnote in section 3.1. Only Member States for which reliable data are available are taken into account in this analysis.

3.4. Regional dimension

Employment rates

There were important variations in the employment rate across EU regions ([16]) in 2018. The highest rates were recorded in Stockholm, Sweden (85.7%), Åland, Finland (85.1%) and Oberbayern, Germany (84.1%). The lowest rates were found in French overseas departments (Mayotte, La Réunion and Guyane) and southern Italian regions (Sicilia, Campania, Calabria and Puglia), all below or around 50%.

Figure 1.1
The employment rate varies strongly across EU regions
Employment rates by NUTS2, % of population aged 20-64



Note: 2018 data

Source: Eurostat [lfst_r_lfe2emprt]

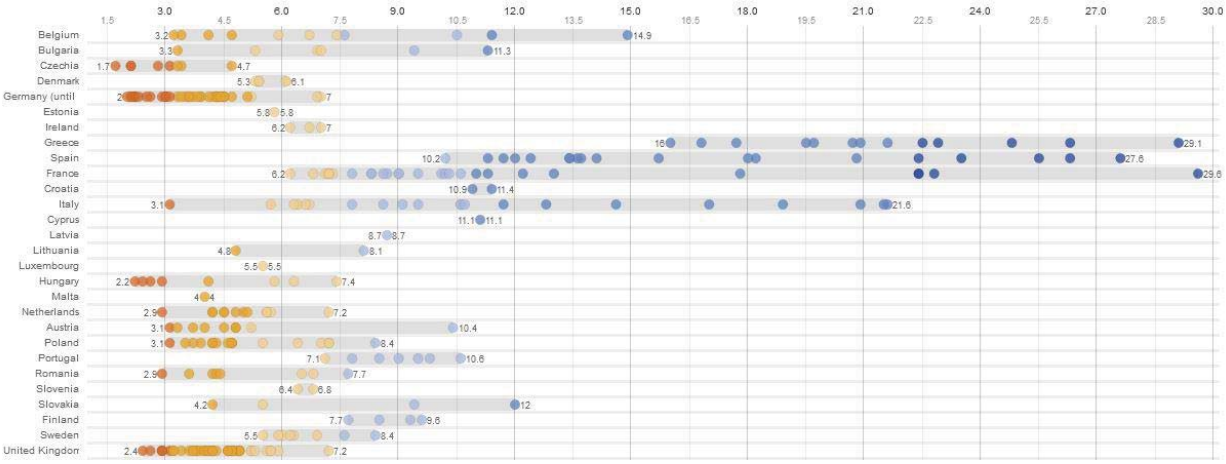
Click here to download figure.

The dispersion of regional employment rates ([17]) across the EU stood at 12.2% in 2017, the lowest level since 2011. However, the spread in regional employment rates

([16]) In this subchapter "regions" are those at NUTS2 level except for the urban/rural dimension where they are those at NUTS3 level.

([17]) The **dispersion of employment (unemployment) rates** is the coefficient of variation of regional employment (unemployment) rates. The **coefficient of variation** is defined as the ratio of the standard deviation to the mean. This coefficient of variation is multiplied by 100 to make a percentage. This indicator measures the spread of regional employment (unemployment) rates as regards the national or EU employment (unemployment) rate. If all the regional employment (unemployment) rates of a country are equal, the dispersion is zero. Significant differences between regional employment (unemployment) rates within a country imply a fairly wide dispersion.

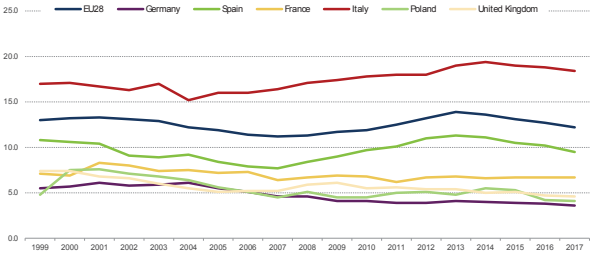
Figure 1.2
Differences in unemployment rates among EU regions are still very wide
Unemployment rates by NUTS2 regions, % of labour force aged 15 to 74



Note: 2017 data
Source: Eurostat, Regions and Cities Illustrated
Click here to download figure.

remains above the lowest level observed since the start of the series in 1999, which was recorded in 2007 (11.2%). The dispersion of employment rates is highest in Italy (18.4%), Spain (9.5%) and Belgium (9.0%). *Figure 1.1* highlights a divide between north-western and south-eastern EU regions. According to the latest Cohesion Report (European Commission, 2017b), north-western regions can benefit from better interconnections and a more innovative environment. The Cohesion Report suggests that stronger investment in innovation and skills is needed to reduce regional differences.

Chart 1.21
Regional dispersion of employment rates increased during the crisis but is now on a descending trend
Dispersion of regional employment rates of age group 15-64 by NUTS 2 regions, %



Source: Eurostat, [lfst_r_lmder]
Click here to download chart.

Unemployment rates

The highest regional unemployment rates in the EU in 2018 were recorded in Mayotte, France (35.1%), Ceuta, Spain (29.0%), and Dytiki Makedonia, Greece (27.0%). The lowest levels were in Praha and Jihozápad, Czechia (1.3% and 1.5% respectively), and Mittelfranken, Germany (1.8%).

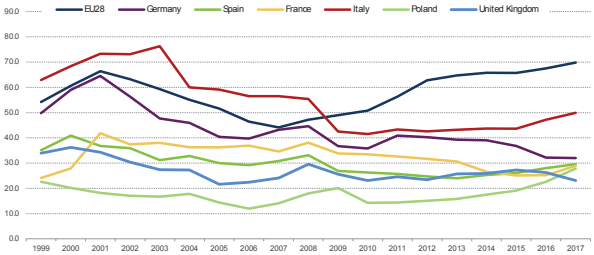
Unlike the equivalent measure for employment rates, the dispersion of regional unemployment rates ([18]) has diminished for several Member States but has increased over recent years for the EU as a whole. It stood at 69.8% in 2017, the tenth consecutive year of increase (except for a small decline in 2015) from the level of 44.1% in 2007. This suggests that while within-countries differences have diminished for large countries like Germany or Italy, often as a consequence of the reduction of unemployment, differences among regions across the EU have increased. The latest Cohesion Report (European Commission, 2017b) already pointed out that the narrowing in regional disparities in terms of GDP growth had not been reflected in a reduction of differences in unemployment. This could be due to a crisis in the competitiveness of middle-income regions ("middle-income trap") and in the reduction of public investment following the economic crisis (see European Commission, 2017b, pp.xii, xvii).

([18]) See previous footnote.

Chart 1.22

The dispersion of unemployment rates among EU regions has been on a growing trend since 2007

Dispersion of regional unemployment rates by NUTS 2 regions, %



Source: Eurostat, [lfst_r_lmdur]

Click here to download chart.

3.5. Urban/rural dimension ([19])

Employment rates

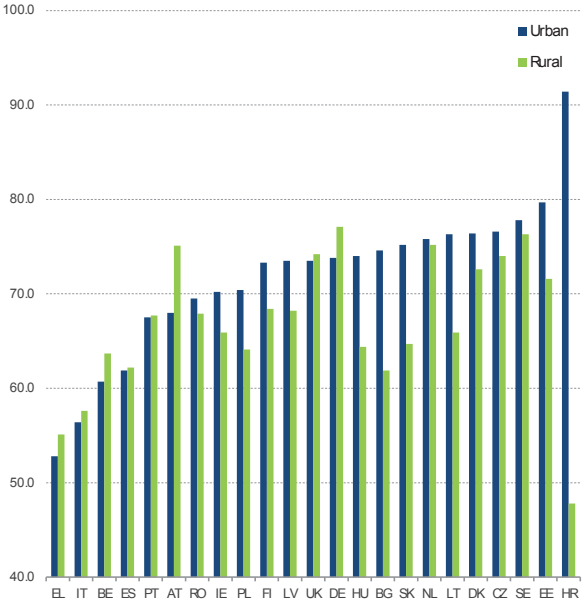
The (15-64) employment rate in 2017 was higher in urban areas than in rural areas for 15 out of 23 Member States with available data. This proportion has remained fairly stable over the last 15 years. The employment rate has increased on average in all urban and rural areas within Member States since 2014, with the highest increases in the urban areas of Hungary (6.5pp) and Lithuania (6.1pp), and the rural areas of Hungary (6.4pp) and Spain (5.8pp). According to the latest Cohesion Report (European Commission, 2017b), p.58, the population in rural areas increased slightly between 2005 and 2015, but only thanks to an increase in net migration, while in urban areas the population has grown because of a positive balance between births and deaths. This could put a strain on the employment rates of rural areas, considering that the integration of people from a different region in the labour market can be more difficult than the integration of local people.

([19]) Eurostat defines areas as "predominantly" urban or "predominantly" rural. For ease of reading, they will be referred to in this section as simply "urban" and "rural" areas, respectively. Intermediate areas have not been included in the analysis of employment and unemployment rates. On the "urban-rural" typology please see: https://ec.europa.eu/eurostat/statistics-explained/index.php/Archive:Urban-rural_typology.

Chart 1.23

Employment rates tend to be higher in urban areas than in rural ones

Employment rates by territorial typology, % of population 15-64 years



Note: Year 2017

Source: Eurostat, [urt_lfe3emprt]

Click here to download chart.

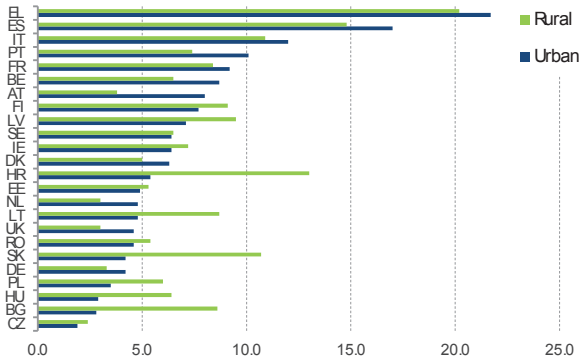
Unemployment rates

In 2017, for the 13 EU Member States out of the 24 for which data is available, the unemployment rate of people aged 15 years or over was higher in rural areas than in urban areas. This disparity has evolved over time. For example, in 2005 the unemployment rate was still higher in urban areas for 15 out of 21 Member States. However, the unemployment rate differences between rural and urban areas have declined in recent years in some Member States. Between 2014 and 2017, the difference has decreased in Bulgaria from 8.6pp to 5.8pp, in Ireland from 2.8pp to 0.8pp, in Croatia from 11.3pp to 7.6pp and in Slovakia from 10.3pp to 6.5pp. Except for the urban areas of Finland and Austria, the tendency since 2014 has been towards a reduction of average unemployment rates in both urban and rural areas in all Member States.

Chart 1.24

Differences in unemployment rates between urban and rural areas can be high, but with variations among MS

Unemployment rates by territorial typology, % of labour force 15 years or over



Note: Year 2017

Source: Eurostat, [urt_lfu3rt]

Click here to download chart.

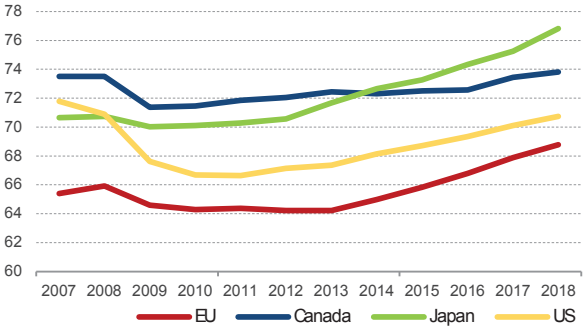
3.6. International dimension

According to OECD data, the employment rate of the EU28 in 2017 was lower than that of other major world economies. However, the EU has been able to reduce this gap in recent years. In 2018 the EU's employment rate "deficit" with respect to the US and Canada was the lowest since 2000. Only in comparison with Japan was the gap lower in the first decade of the century, having remained stable over the last 5 years at about 7.5-8pp.

Chart 1.25

The EU is reducing the employment rate gap with US and Canada

Employment rate, % of population 15-64 years



Source: OECD

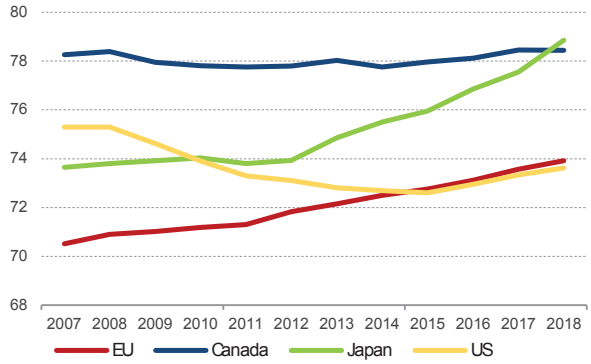
Click here to download chart.

The gap in the rate of labour force participation between the EU and the other major economies has also been reduced. The difference with Canada is below 5pp, down more than 3pp since 2005. The EU participation rate has exceeded that in the US since 2015, partly due to the fact that the US was the only major world economy to experience a prolonged decline (2008-2015) in labour force participation following the financial and economic crisis. The participation rate in Japan exceeded that of the EU by about 5pp. This could be the consequence of a shortage in the Japanese labour supply due to an ageing population combined with an improvement in the integration of women and older workers in the labour market. ([20])

Chart 1.26

The EU's activity rate has caught up with the US's and is getting closer to Canada's

Labour force participation rate (15-64 years)



Source: OECD

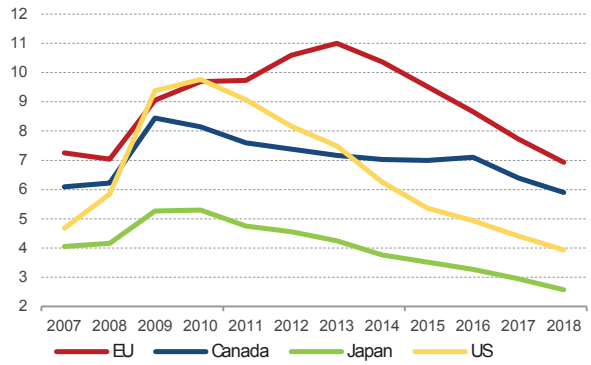
Click here to download chart.

The rate of unemployment in the population aged 15-64 has been systematically higher in the EU than in other major economies. This gap has nevertheless been reduced since 2013, its extent is all the more remarkable considering that, as seen above, the participation rate in the EU has grown faster than in these other economies, with the exception of Japan. ([21])

Chart 1.27

The unemployment rate in the EU is higher than but approaching the rates of other major economies

Unemployment rate (% of labour force, 15-64 years)



Source: OECD

Click here to download chart.

([20]) See European Commission. (2018b) for a more detailed analysis (p.13).

([21]) See European Commission. (2018b) for a more detailed analysis (pp. 10-13).

4. SOCIAL SITUATION, POVERTY AND INCOME DEVELOPMENTS

The social situation in the EU continues to improve. In 2017 ([22]) nearly 113 million people were living at risk of poverty or social exclusion (AROPE), which was 10.8 million fewer than at the peak of 2012. Median income has been increasing in real terms in most Member States (*Chart 1.47*) and the number of people in material deprivation declined. Disposable income inequality was stable in 2014 and 2015 and then decreased slightly in 2016 and 2017.

Flash estimates ([23]) from Eurostat show that in nearly all Member States there were only minor changes in the at-risk-of-poverty rates (AROP) in 2018. The exceptions are Greece, Portugal and Romania with significant decreases and the UK with a very slight increase. However, for EU-28 one could expect the AROP to continue the decrease started in 2017, due to the three mentioned countries and combined with small decreases in other countries. Favourable developments in the economic situation, in the labour market and in household incomes in 2017 are likely to have led to improvements in the social situation.

([22]) Note on the reference year: EU-SILC data, used in poverty and inequality indicators, reflect incomes of the previous year (except for the UK and Ireland where incomes refer to the interview period). However, in this document, the reference year is the survey year and not the income year. This choice is for consistency with indicators commonly used: Eurostat indicators and most of EMPL monitoring tools and reports use the survey year. Moreover AROPE combines AROP, VLWI (previous year) and SMD (survey year). The 2017 reference year is based on EU-SILC 2017, which reflects the 2016 income year and activity status in 2016.

([23]) A flash estimate is an early estimate for an economic variable of interest over the most recent reference period and is normally calculated on the basis of a statistical or econometric model. The flash estimate should have a release date appreciably earlier than the first release date of the actual data for that variable. Although it is likely calculated using a more incomplete set of information than the set used for traditional estimates, it is produced using the same methodology that is employed for the regular estimates. Statistical techniques can help in adjusting the temporary incomplete observations.

4.1. Households' financial situation is improved but not yet back to pre-crisis levels

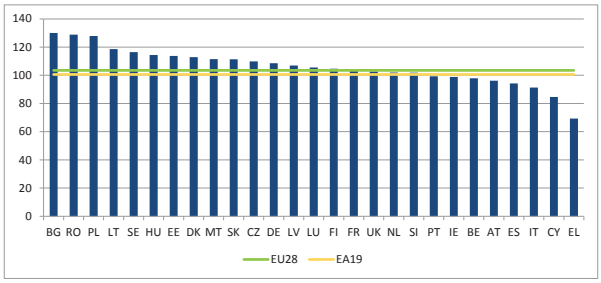
Disposable income per capita still below pre-crisis level in eight Member States

In 2017 the disposable income of households ([24]) (GDHI) per capita exceeded the pre-crisis level of 2008 in the euro area. This target was already achieved in the EU as a whole in 2015. However, there are still eight Member States that are not yet back to the 2008 level (*Chart 1.29*). In particular, GDHI per capita is about 30% less than in 2008 in Greece, 15% less in Cyprus, 9% less in Italy, 6% less in Spain and 4% less in Austria. Belgium, Ireland and Portugal record also levels of GDHI per capita below 2008 by 2% or less.

Chart 1.29

The GDHI per capita in eight Member States is not yet at 2008 levels

Gross disposable income of households in real terms per capita (2008=100)



Note: Year 2017. Data not available for Croatia.

Source: Eurostat, National Accounts [tepsr_wc310]

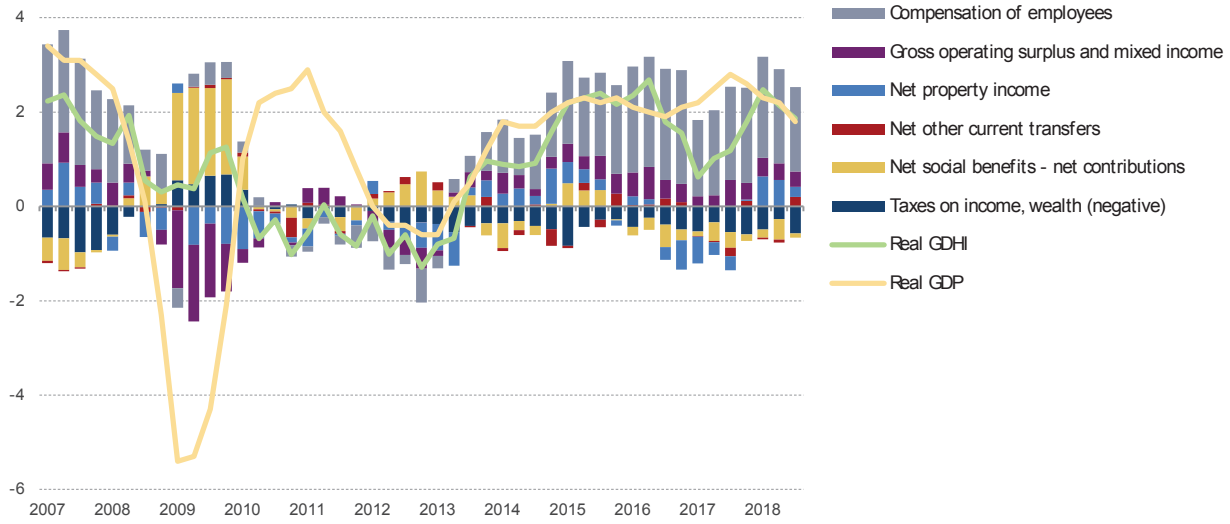
Click here to download chart.

([24]) Gross disposable household income (GDHI) is the amount of money that all of the individuals in the household sector have available for spending or saving after income distribution measures (for example, taxes, social contributions and benefits) have taken effect. The households sector is combined with non-profit institutions serving households (NPISH) under a single heading. The NPISH sector is relatively small. Yearly gross disposable income of households and adjusted gross disposable income of households in real terms per capita can be found on the Eurostat non-financial transactions database: nasa_10_nf_tr. Quarterly unadjusted and seasonally adjusted, gross disposable income of households and adjusted gross disposable income of households in real terms per capita are available on the Eurostat non-financial transactions database: nasq_10_nf_tr. EU and EA19 quarterly seasonally adjusted, adjusted gross disposable income of households in real terms per capita (% change on previous period) are available under nasq_10_ki.

Chart 1.28

Disposable household income supported primarily by higher income from work

GDP and GDHI growth (% change on previous year), and contribution of GDHI components (pps), EU



Note: The nominal GDHI is converted into real GDHI by deflating with the price-index of household final consumption expenditure [prc_hicp_aind].

Source: DG EMPL calculations based on Eurostat data, National Accounts [nasq_10_nf_tr, namq_10_gdp]; Data non-seasonally adjusted

Click here to download chart.

Aggregate disposable household income benefits from higher income from work

Aggregate disposable income of households in the EU increased further in 2018. After dropping to a low point in 2012-2013, gross disposable household income has been increasing in real terms since then. Household income continued to benefit from expansion in economic activity and improved labour market conditions (*Chart 1.28*). ([25]) In the EU, GDHI had returned to its previous peak of 2008-2009 by 2015. In the euro area, where GDHI had dropped much more steeply than in the EU as a whole, it returned to its previous peak in 2016. In 2018, GDHI annual growth in real terms was over 2% in EU and 1.5% in the euro area.

Households have continued to benefit from higher income from work, while social benefits have stabilised over the last years. The labour income of both employees and the self-employed resumed its growth in 2014, mainly due to the recovery in the labour market, and has continued since then. Growth in property income and other transfers has been mixed in recent years. At aggregate level, households began to get less support in social benefits and to make higher contributions as market incomes improved. Increases in social benefits have moderated since the second half of 2016 and virtually stabilised in 2017. This development, combined with increases in social contributions which have been particularly strong since 2016 (*Chart 1.28*) ([26]), resulted in the 'net social benefits-net social contributions' indicator becoming negative in the last few years.

More social protection expenditure went towards old-age pensions and health needs

Social protection played a major role in stabilising incomes between 2007 and 2009, especially for the unemployed. After some reduction of benefits in 2011-2012 for all categories of beneficiaries from social protection, social expenditure started to accelerate again in real terms from 2013 (*Chart 1.30*). ([27]) Growth in expenditure reached 3% in

([25]) See European Commission (2018b).

([26]) For a detailed discussion of disposable household income from work and wealth across different household compositions, based on the Household Finance and Consumption Survey (HFCS), see European Central Bank https://www.ecb.europa.eu/pub/pdf/scpsps/ecbsp18.en.pdf.

([27]) To reflect trends in real social expenditure, the harmonised index of consumer prices (HICP) is used as a deflator. It allows estimation of the trend in the overall real value or purchasing power of social expenditure. Inflation reflects the differential in HICP growth from one year to the other. When inflation is constant it has no impact, when inflation is declining it contributes positively, when inflation increases it contributes negatively. The HICP is a price index that reflects changes in prices of a basket of goods and services, which appears closer to the actual expenditure on consumption of households than the deflator of household consumption from the National Accounts (which also includes imputed rents, for instance).

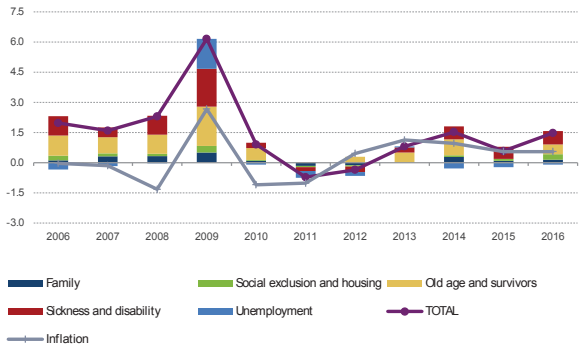
2015, driven in particular by in-kind expenditure. ([28])

By 2016, social protection expenditure shifted to structural expenses (old-age pensions and healthcare). The increases in social expenditure in the years 2013 to 2015 (*Chart 1.31*) were mainly due to further increases in spending on old age (driven partly by demographic factors) and on healthcare. By contrast, expenditure on unemployment stabilised in 2013 and declined in 2014, as the economic environment improved. Expenditure on families, housing and combating social exclusion increased slightly in 2014-2015. ([29])

Chart 1.30

Old-age pensions and health-related expenditure drive up social protection spending

Growth in social protection expenditure (% change on previous year, in real terms) and contribution by functions (pps), EU



Note: The nominal expenditure is converted into real expenditure by deflating with the Harmonised Index of Consumer Prices (HICP). Inflation reflects the differential in HICP growth from one year to the other. When inflation is constant it has no impact, when inflation is declining it contributes positively, when inflation increases it contributes negatively.
PL excluded from growth in 2014.

Source: Eurostat, ESSPROS [spr_exp_sum] and Price Statistics [prc_hicp_aind]; DG EMPL calculations

Click here to download chart.

Social protection expenditure continued to increase in nearly all Member States in 2016. Expenditure on old-age pensions and survivors' pensions increased in most Member States (partly reflecting demographic change) except in Denmark, Lithuania, UK and Greece where expenditure on pensions declined (*Chart 1.31*, right column). Sickness and disability expenses contributed significantly to the overall expenditure growth in most Member States, except in UK and Finland where expenses on sickness and disability declined (*Chart 1.31*, right column).

Between 2012 and 2016, expenditure on pensions in countries with large crisis-related fiscal consolidation needs, such as Greece and Cyprus, decreased. Greece and Croatia spent less on sickness and disability; and Lithuania spent less on social exclusion (*Chart 1.31*, left column). Expenditure on unemployment benefits declined notably in some Member States, including Belgium, Cyprus, Ireland, Portugal and Spain, as labour markets improved (*Chart 1.31*, left column).

4.2. Social transfers mitigate persistent income inequality in the EU

Disposable income inequality in the EU appeared to be slightly lower in 2017 (income year 2016) than in the previous year, but still slightly higher than in 2012. ([30]) Inequality at EU level, as measured by the GINI coefficient, ([31]) increased between 2012 and 2014 and then decreased for three consecutive years (*Chart 1.32*). The quintile share ratio S80/S20 ([32]) indicated that the top quintile had an equivalised disposable income around five times higher than that of the lowest quintile. In Lithuania and Bulgaria the S80/S20 ratio exceeded 7.0 in 2017 while in Romania and Spain it was equal to 6.5 or higher.

([28]) The available National Accounts data disaggregate expenditure by in-cash and in-kind, but do not disaggregate it by function. The National Accounts data on government expenditure are available through 2016, as covered by the ESDE Annual Review.

([29]) This is in line with many country-specific recommendations of the European Commission to shift social spending towards working-age adults (European Commission 2019).

([30]) The reporting year in this chapter refers to the EU-SILC survey year, which measures income of the previous year. The latest survey 2017 data refer to income distribution in 2016.

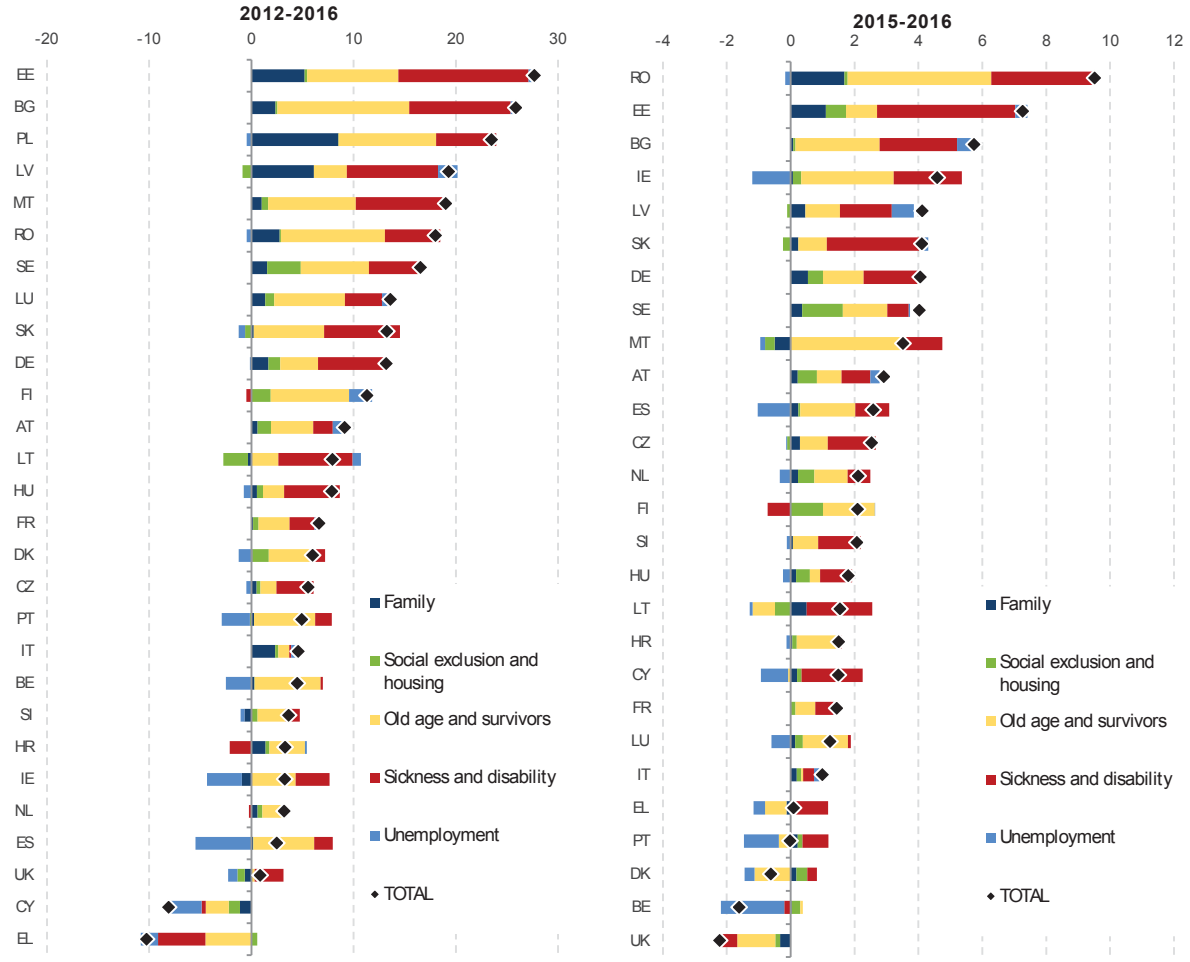
([31]) The Gini coefficient is an indicator with a value between 0 and 1 (between 0 and 100 in this chart). Lower values indicate higher equality. In other words a value equal to 0 indicates everybody has the same income, a value equal to 1 indicates that one person has all the income. Gini is based on total equivalised disposable household income. The year refers to the EU-SILC survey year referring to incomes of the prevoius year except for IE and UK.

([32]) The S80/S20 income quintile share ratio refers to the ratio of total equivalised disposable income received by the 20% of the country's population with the highest equivalised disposable income (top quintile) to that received by the 20% of the country's population with the lowest equivalised disposable income (lowest quintile).

Chart 1.31

Social protection expenditure increases in most Member States

Growth in social protection expenditure in 2012-2016 and in 2015-2016 (% change, in real terms) and contribution (pps) by functions, EU Member States



Note: The nominal expenditure is converted into real expenditure by deflating with the Harmonised Index of Consumer Prices (HICP). Poland data from 2014.

Source: Eurostat, ESSPROS [spr_exp_sum] and Price Statistics [prc_hicp_aind]; DG EMPL calculations

Click here to download chart.

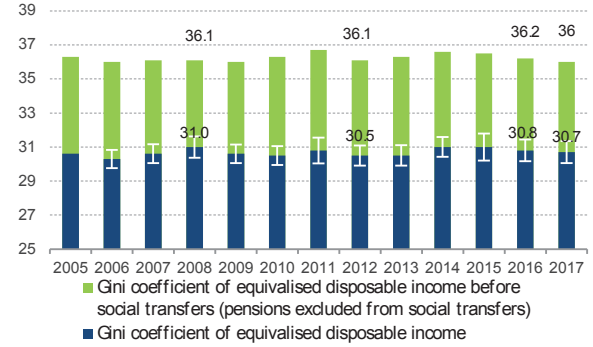
According to Eurostat flash estimates, inequality remained stable in (income year) 2017. Flash estimates for the income year 2017, released as experimental data by Eurostat in Autumn 2018, indicate that no statistically significant change in inequality, as measured by S80/S20, will be observed between (income years) 2016 and 2017 in most Member States. ([33]) Inequality was estimated to have decreased significantly only in Luxembourg and to a lesser extent in Greece and Cyprus. However, overall in EU28 one could expect slight reductions.

([33]) See report on Flash Estimates by Eurostat at http://ec.europa.eu/eurostat/web/experimental-statistics/income-inequality-and-poverty-indicators.

Chart 1.32

Income inequality in the EU before and after social transfers has been fairly stable over the last decade

GINI coefficient before social transfers and GINI coefficient of disposable income, EU



Note: The Gini coefficient is an indicator with a value between 0 and 1 (0 to 100 in this chart). Lower values indicate higher equality. In other words a value of 0 indicates everybody has the same income, a value of 100 indicates that one person has all the income. Gini is based on total equivalised disposable household income.
The year refers to the EU-SILC survey year; income measured is from the previous year. Values refer to EU27 between 2005 and 2007. The confidence intervals may suggest that the yearly changes in the Gini coefficient may not always be statistically significant.

Source: Eurostat, EU-SILC [ilc_di12, ilc_di12c]

Click here to download chart.

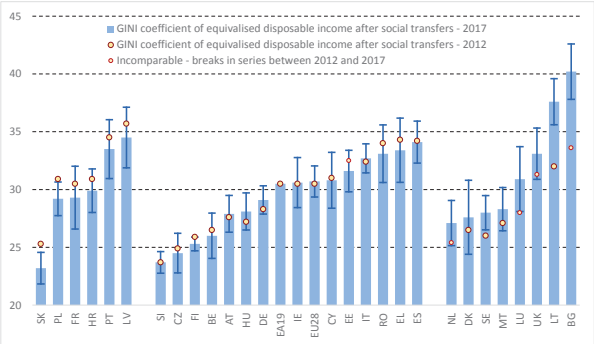
Progress in reducing inequality varies across Member States

Income inequality increased in eight Member States and decreased in six between 2012 and 2017. Several Member States (notably Bulgaria and Lithuania) ([34]) saw increases in disposable income inequality between 2012 and 2017 (*Chart 1.33*) The extent to which the redistribution had an effect on inequality differed. The impact of social transfers other than pensions on income inequality (shown by the green parts of the bars (*Chart 1.34*) differed across Member States. Social transfers reduced income inequality by less than 10% in Bulgaria, Greece, Italy, Latvia, Lithuania, Portugal and Romania but by more than 20% in Belgium, Denmark, Finland, Ireland and Sweden.

Chart 1.33

Income inequality increases in eight Member States, decreases in six and fairly stable for the rest

GINI coefficient of disposable income - 2012/2017, EU Member States



Note: Breaks in series: EE 2014, SE 2015, BG, LU and NL 2016. These Member States are classified based on EMPL estimation. For these Member States GINI 2012 is marked with smaller dots to indicate that comparison of 2012 to 2016 values should be avoided. Confidence intervals for the 2017 Gini coefficients suggest that the changes in the Gini coefficients may not always be statistically significant. The standard errors to compute the confidence intervals have been obtained as in Zardo-Trinidade and Goedemé (2016).

Source: Eurostat, EU-SILC [ilc_di12, ilc_di12bdi12c].

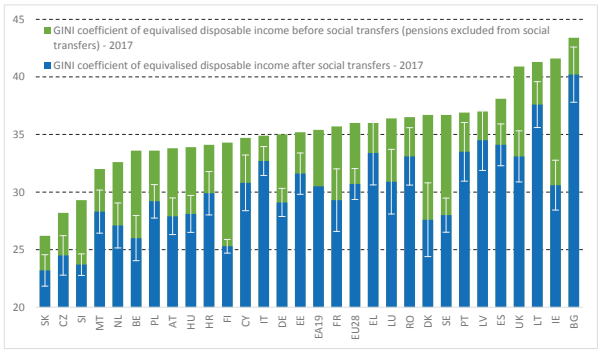
Click here to download chart.

Income inequality would be much higher without the redistributive effects of transfers. These effects are measured by the difference between market income inequality and disposable income inequality. ([35]) Market income inequality (before transfers) has stabilised over recent years (2015 – 2017). The same is largely true for the redistributive effects of transfers, although these were slightly stronger between 2008 and 2011 and weaker between 2013 and 2016 (*Chart 1.32*). ([36])

Chart 1.34

The impact of social transfers on inequality varies across Member States

GINI coefficient before social transfers and GINI coefficient of disposable income - 2017, EU Member States



Note: Green bars reflect redistributive effects of taxes and transfers, measured by differences between market income inequalities (the top of green bars) and disposable income inequalities (the top of blue bars). The white bars represent the confidence interval for the GINI coefficient of disposable income. The standard errors to compute the confidence intervals have been obtained as in Zardo-Trinidade and Goedemé (2016).

Source: Eurostat, EU-SILC [ilc_di12, ilc_di12c]

Click here to download chart.

Income inequality in the EU as a world region is lower than in some other major advanced economies, but it remains a concern. Inequality in the EU is still lower than in Japan, the United States or Australia. ([37]) Moreover, while inequality appears to be rising in the United States, it has remained fairly constant since 2010 in the EU-28. High inequality raises concerns about fairness, as entrenched inequality may result in inequality of opportunity and reduce potential growth. Relatively high inequality may be associated to a higher risk-of-poverty rate and more pronounced social exclusion as well as a higher incidence of financial distress and, as such, it may reduce social cohesion.

Financial distress faced by the poorest households continued to ease in 2017 but it persists at high levels. Measured as the percentage of people who need to draw on savings or to run into debt in order to cover current expenditure, financial distress has eased over recent years, after a steep increase between

([34]) In both Bulgaria and Lithuania the increase in income inequality is due to income growth more pronounced at the top than at the bottom of the income distribution, see the Eurostat figure: ilc_di01.

([35]) Market incomes are the gross incomes earned by individuals or households before any redistribution via taxes and transfers, while disposable incomes are final incomes taking into consideration the effects of redistributive policies (which may involve the provision of in-kind benefits and services).

([36]) See European Commission (2016a).

([37]) For inequality trends among Europeans based on the EU-wide income distribution see Filauro and Parolin (2018) and Brandolini and Rosolia (2019). Both studies document that inequality among EU individuals decreased before the crisis and have remained constant since then.

2011 and 2013 when the gap between income groups widened as financial distress increased most for people in the lowest quartile of household income. In 2017, 9% of adults in low-income households in the EU were in debt and a further 14% drew on savings to cover current expenditure (compared with 4% and 9% respectively for the total population).

4.3. Decline in the risk of poverty or social exclusion is due to lower rates of all three components: AROP, joblessness and material deprivation

The number of people at risk of poverty or social exclusion ([38]) (AROPE) in the EU continued to decrease in 2017. ([39]) In 2017 (referring to income in 2016) 10.8 million fewer people in the EU were at risk of poverty or social exclusion than at the peak in 2012. The AROPE decrease followed strong increases in incomes stemming from the recovery in economic activity and improvements in labour markets, including the reduction in long-term unemployment and in youth exclusion as well as increased participation of older workers and women in the labour market.

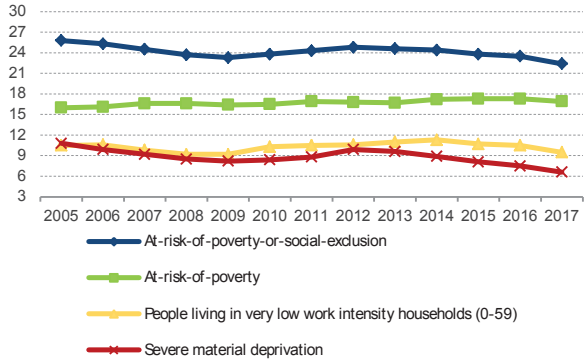
([38]) The at-risk-of-poverty or social exclusion (AROPE) indicator corresponds to the number of people who are in at least one of the following situations: at risk-of-poverty or severely materially deprived or living in households with very low work intensity.

([39]) The year in this chapter refers to the EU-SILC survey year, which measures income in the previous year. The latest survey 2016 data refer to income distribution in 2015.

Chart 1.35

Risk of poverty and social exclusion continues to decline due to decrease in all three components

At risk of poverty or social exclusion rate, at risk of poverty rate, severe material deprivation rate (% of population), very low work intensity households (% of population aged 0-59), EU



Note: The year refers to the EU-SILC survey year; income measured is from the previous year. AROPE, AROP: income from the previous year, SMD: current year, 2017 data estimated. VLWI: status in the past year. EU27 until 2009, EU28 thereafter.

Source: Eurostat, EU SILC [ilc_peps01, ilc_li02, ilc_mddd11 (estimates) and , ilc_lvhl11]

Click here to download chart.

The number of people at risk-of-poverty or social exclusion (AROPE) fell back to the pre-crisis level in 2016. It decreased more strongly in 2017. By 2017 the number of people at risk-of-poverty or social exclusion dropped to a level lower than the 2008 low point by 3.096 million for the EU28. The decline brought the AROPE rate down to 22.4%, below the lowest 2009 value (23.3%) (*Chart 1.35*). Yet, almost 113 million Europeans, including 74 million in the euro area, were still at risk of poverty or social exclusion (AROPE) in 2017. The Europe 2020 target of lifting 20 million people out of poverty by 2020 was set in 2008 before the crisis. The onset of the crisis, which resulted in an increase in the AROPE rate from 23.3% in 2009 to 24.8% in 2012, made this target far more challenging. The reduction in AROPE rate at EU level has been underpinned by the same trend in AROPE's three components: at risk of poverty rate, severe material deprivation rate and very low work intensity rate **(***Chart 1.35***).**

Severe material deprivation ([40]) (SMD) has been declining continuously since 2012, indicating improvements in standards of living. In 2017, ([41]) 4.67 million fewer people

([40]) Severely materially deprived (SMD) people have living conditions severely constrained by a lack of resources, i.e. they experience at least 4 out of the following 9 deprivations: they cannot afford i) to pay rent or utility bills, ii) to keep their home warm enough, iii) to face unexpected expenses, iv) to eat meat, fish or a protein equivalent every second day, v) a week's holiday away from home, vi) a car, vii) a washing machine, viii) a colour TV or ix) a telephone.

([41]) Latest data available, estimated by Eurostat.

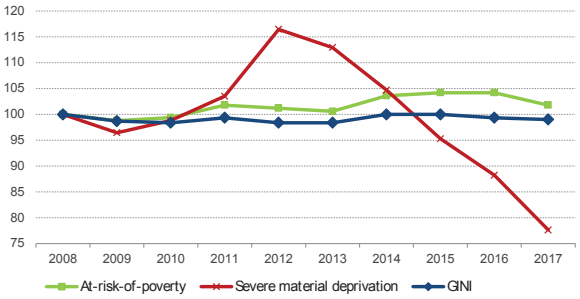
were in SMD than in 2016. This reduction added to a cumulative reduction of 16.37 million over 2012 - 2016. This continuous and significant drop at EU level was mainly driven by strong decreases in a few Member States, i.e. Bulgaria, Germany, Hungary, Italy, Poland, Romania and the UK. However, the incidence of SMD for non-EU born remains significantly higher than that of the EU-born (15.2% against 6.4%, population over 18).

A recovery in the labour market led to a reduction in the number of people living in very low work intensity ([42]) (VLWI) households. The VLWI rate decreased from 10.5% in 2016 to 9.5% in 2017, ([43]) meaning that around 3.8 million fewer people were in jobless households.

Chart 1.36

Living standards have improved since 2012 despite persistent poverty and inequality: median income (and the poverty threshold) have risen and severe material deprivation has fallen

Poverty threshold (in real terms), at-risk-of-poverty rate, Gini coefficient of disposable income, severe material deprivation rate (cumulative change – index 2008=100), EU



Note: The year refers to the EU-SILC survey year; income measured is from the previous year. EU27 until 2009, EU28 thereafter. The nominal income is converted into real income by deflating with the Harmonised Index of Consumer Prices (HICP).

Source: Eurostat, EU SILC [ilc_li02, ilc_mddd11, ilc_di12, ilc_di04]; DG EMPL calculations

Click here to download chart.

The at-risk-of-poverty rate ([44]) (AROP) has started to decrease again after three relatively stable years. This component of AROPE has followed a different pattern, due to its dependency on median income. After its surge in 2014, the share of people at risk of poverty remained broadly unchanged up to 2016 at 17.3% thereafter decreasing to 16.9% in 2017. The number of people at risk of poverty decreased by 1.6 million in 2017 (referring to incomes in 2016), after cumulative increases by 152 000 in 2016 and 783 000 in 2015. The 2017 improvement was driven mainly by the reduction in the number of people in AROP broadly in the same Member States recording fewer people were in severe material deprivation.

The increase in the median income (*Chart 1.47*) reflected an improvement in living standards. However, it contributed to a deceleration in the reduction of the at risk-of-poverty rate. The 2014-2015 surge in the number of people at risk of poverty reflected two different phenomena: first, the weak economic and labour market situation until mid-2013: and secondly, the upward shift in the median income and therefore the poverty threshold ([45]) (set at 60% of national median income) as household incomes started to recover in mid-2013. However, after the surge in 2014, both AROP and inequality in the EU stabilised, whereas median incomes and poverty thresholds increased by a significant 6.4% between 2013 and 2016 (*Chart 1.36*). Eurostat flash estimates indicate that in 2017 there will be a further significant increase in median income in most EU countries, of more than 5% in eleven Member States.

Progress in reducing poverty and social exclusion varies across Member States

The at-risk-of-poverty-or-social-exclusion rate (AROPE) has decreased or stabilised since 2012 in most Member States. Bulgaria, Croatia, Hungary, Ireland, Latvia, Poland and Romania recorded notable declines while fourteen other countries recorded smaller

([42]) People living in households with very low work intensity (VLWI) are those aged 0-59 living in households where the adults (aged 18-59, excluding students aged 18-24) worked not more than 20% of their total work potential during the past year

([43]) According to Eurostat, LFS data [lfsi_jhh_a]..

([44]) People at risk-of-poverty (AROP) have an equivalised disposable income below the risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income (after social transfers).

([45]) The 'at risk-of-poverty' threshold is set at 60% of the national median equivalised disposable income (after tax and other deductions and after social transfers). The total equivalised disposable household income, used in poverty and inequality indicators, takes into account the impact of differences in household size and composition. The equivalised income attributed to each member of the household is calculated by dividing the total disposable income of the household by the equalisation factor. This indicator gives a weight of 1.0 to the first person aged 14 or more, a weight of 0.5 each to other people aged 14 or more and a weight of 0.3 each to people aged 0-13.

Chart 1.37

Risk of poverty or social exclusion declining in half of the Member States

At-risk-of-poverty-or-social-exclusion rate, at-risk-of-poverty rate, severe material deprivation rate (% of population), very low work intensity households (% of population aged 0-59), EU Member States, 2012-2017

Note: Green bars indicate decrease between 2012 (where light green bars end) and 2015 (where dark green bars end). Red bars indicate increase between 2012 (where light red bars end) and 2015 (where dark red bars end), and grey bars indicate little or no change.
AROPE combines AROP, SMD and VLWI. The length of bars of components should not add to the length of AROPE bar, because components overlap in AROPE. The year refers to the EU-SILC survey year, referring to the previous income year. AROPE, AROP: income from the previous year, SMD: current survey year, VLWI: status in the past year.
Breaks in series: AROPE: BG EE 2014, SE 2015, LU NL 2016, AROP BG LU NL 2016, SMD SE 2015, BG LU NL 2016, VLWI EE 2014, SE 2015, BG LU NL 2016. These Member States are classified based on EMPL estimation. For these Member States the values for 2012 should not be compared to values in 2016.

Source: Eurostat, EU SILC [ilc_peps01, ilc_li02, ilc_mddd11, ilc_lvhl11].

Click here to download chart.

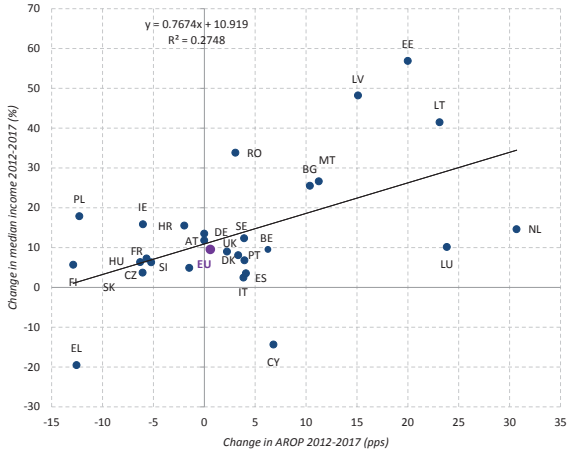
declines. Small increases appear only in Greece, Estonia and the Netherlands (*Chart 1.37*). The 'at risk of poverty rate' (AROP) has either increased or remained stable since 2012 in 20 Member States (*Chart 1.37*, second column). Poverty rates were gradually reduced between 2012 and 2017 in the remaining 8 Member States, namely Romania, Greece, Croatia, Portugal, Poland, France, Slovakia and Finland. In Greece, this reduction must be seen in the context of the 20% reduction in the median income (or poverty threshold).

Median income in the EU increased by 6.4% in real terms between 2013 and 2017. However, different distributional patterns emerge in relation to disposable income in different quintiles of the distribution in different Member States. The AROP rate could go up when the median income increases. ([46]) This is what actually happened with the substantial rise of AROP rates in the Baltic States accompanied by a significant increase in median incomes (*Chart 1.38*). The chart 1.38 shows that for these countries, between 2012 and 2017, the median income raised by more than 40% while the AROP rate raised as well more than 15%. The reduction in the severe material deprivation rate has been the main factor contributing to the reduction in AROPE in the Member States. The incidence of severe material deprivation has declined in most member States since 2012, while remaining stable in Austria, Denmark, Spain, Luxembourg Finland, Sweden and the Netherlands. The only Member State where

([46]) A median income increase raises up the the AROP threshold that is set at 60% of the median income. If the income of the bottom end of the distribution increases at a lower pace, this will result in a higher AROP rate.

severe material deprivation increased in 2017 is Greece.

Chart 1.38
Increase in risk of poverty may be linked with increase of the median income
Poverty threshold (in real terms) and at-risk-of-poverty rate (%), EU Member States



Note: The year refers to the EU-SILC survey year, income measured is from the previous year.
Breaks in series: BG LU NL 2016. Changes in AROP for these Member States are indicative, based on EMPL estimation.

Source: Eurostat, EU SILC [ilc_li02, ilc_di04]; DG EMPL calculations
Click here to download chart.

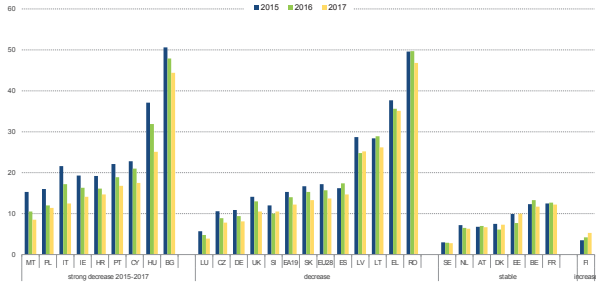
The reduction in the severe material deprivation rate has been the main factor contributing to the reduction in AROPE in the Member States. The incidence of severe material deprivation has declined in most member States since 2012, while remaining stable in Austria, Denmark, Spain, Luxembourg Finland, Sweden and the Netherlands. The only Member State where severe material deprivation increased in 2017 is Greece.

The decrease in low work intensity has also contributed to reducing AROPE in many Member States. This third component of AROPE has declined in 17 Member States, has stayed constant in another 7 and has increased in 4 (*Chart 1.37*, the far right column).

The number of people living in social and material deprivation declined between 2014 and 2017. According to Eurostat's new measure of deprivation, 13.7% of Europeans (70 million) experienced a lack of resources to cover material needs and ensure social participation in 2017, down from 15.7% in 2016. Only Greece registered an increase of 2.2% between 2016 and 2017 while Denmark, Finland, Latvia and Slovenia had small increases (*Chart 1.39*).

Despite positive signs, the risk of poverty or social exclusion remains a challenge, especially in southern ([47]) and Baltic Member States. The risk remains high in Bulgaria and Romania despite recent improvements, as well as in Greece – the only Member State where severe material deprivation has intensified since 2012. Between 2012 and 2017, AROP increased in nine countries (*Chart 1.37*). Together with an increase in inequality in many Member States, the persistence of the risk of poverty or social exclusion ranks at the top of the challenges to social cohesion in the EU.

Chart 1.39
Social and material deprivation declined in most Member States in 2014-2017
Social and material deprivation rate (% of population), EU Member States, 2014-2017



Note: This new indicator of social and material deprivation relates to people who have experienced living conditions constrained by a lack of resources, as explained in the footnotes defined here https://ec.europa.eu/eurostat/web/products-eurostat-news/-/DDN-20171212-1. T.
The year refers to the EU-SILC current survey year.,
Breaks in series: BG 2016, LU 2016, NL 2016, SE 2015. These Member States are classified based on EMPL estimation.

Source: Eurostat, EU SILC [ilc_mdsd07]
Click here to download chart.

Energy poverty

An important aspect of household poverty is the inability to keep one's home warm because of the expense involved. Latest SILC data show that countries differ in the evolution of indicators of energy poverty between 2008 and 2017 (*Chart 1.40*). The percentage of the population not able to satisfy heating needs has been falling sharply in Bulgaria, Cyprus, Portugal, Romania, Latvia and Poland, but increasing in Estonia, Spain, Greece, Ireland, Italy and Lithuania (*Chart 1.40*, left hand side). Arrears in the payment of utility bills are decreasing in 11 countries, especially in Croatia, Italy and Romania, but increasing in nine, with the

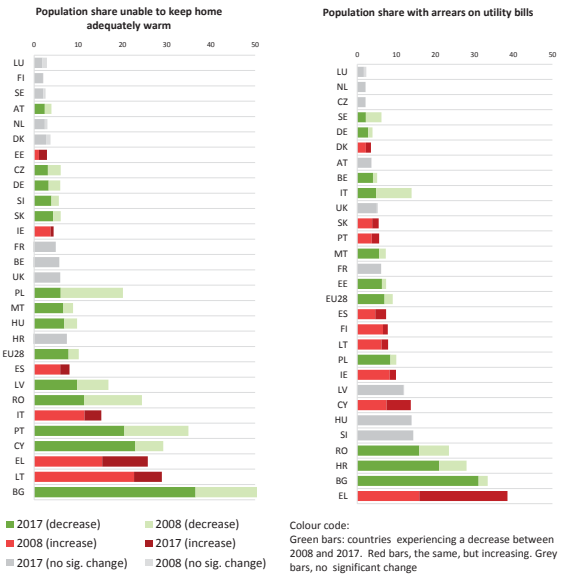
([47]) In the remaining part of the Chapter southern Member States are: Portugal, Spain, Italy, Greece, Malta and Cyprus. Central-eastern Member States are: Estonia, Latvia, Lithuania, Poland, Czechia, Slovak Republic, Hungary, Slovenia, Croatia, Romania, Bulgaria. The remaining Member States are the western ones.

strongest increases in Greece and Cyprus (*Chart 1.40*, right hand side). ([48])

Chart 1.40

Indicators of energy poverty: divergent evolution

Population shares unable to keep home adequately warm and with arrears on utility bills - EU-SILC survey in 2017 as compared to 2008



Note: Colour code:
Green bars: countries experiencing a decrease between 2008 and 2017. Red bars, the same, but increasing. Grey bars, no significant change.

Source: Eurostat, dataset: ilc_mdes07 and table sdg_07_60

Click here to download chart.

4.4. Social convergence in the EU?

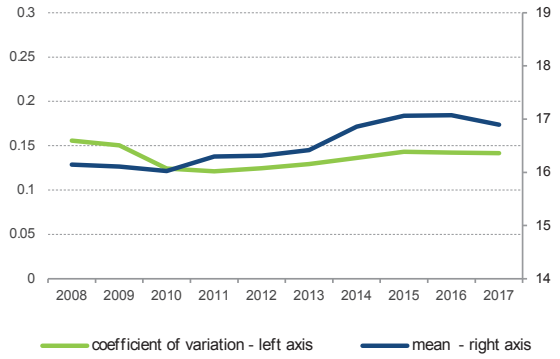
Social convergence can be analysed by reference to poverty - either relative poverty, as measured by the at-risk-of-poverty rate (AROP), or severe material deprivation rate (SMD). Alternatively, it can be analysed by reference to inequality, which remains a challenge, especially in certain Member States.

While the AROP rate in the EU has not tended to converge over the last decade, increases in the AROP rate did not translate into higher divergence. As discussed in section 3 of this chapter, the average AROP rate in the EU slightly increased over the last decade and it only decreased between 2016 and 2017. In terms of convergence as measured by the coefficient of variation of the rates for all Member States, evolution has been stable, except during the early years of the crisis when some downward convergence ([49]) was observed. This can be attributed mainly to exceptionally large reductions in the AROP rate in Latvia and Estonia (-5.5pps and –3.9pps in 2010), but the reductions were linked to sharp declines in median income that were less significant at the bottom of the income distribution.

Chart 1.41

Increases in the AROP rate did not translate into higher divergence across the EU

At-risk-of-poverty rate, % of population, EU



Source: Eurostat, SILC [ilc_li02]

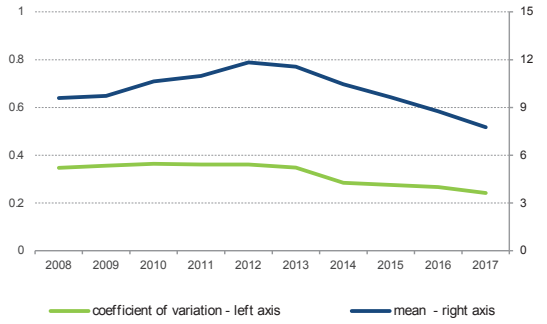
Click here to download chart.

Severe material deprivation has developed along a trend of both convergence and improvement. Over the last decade the SMD rates for the EU Member States showed clear signs of convergence (the rate declined strongly in the EU as a whole). More recently, since 2014, while the average SMD rate has continued to fall in almost all Member States, there has been some convergence as well.

Chart 1.42

Severe material deprivation converged across the EU

Severe material deprivation rate, % of population, EU



Source: Eurostat, SILC [ilc_mddd11]

Click here to download chart.

Inequality levels do not clearly converge. As measured by the GINI coefficient, ([50]) inequality remained stable during the crisis and deteriorated slightly during the recovery. During this time, the indicator showed no clear convergence or divergence pattern.

([48]) For a more in-depth discussion on energy poverty, see chapter 5.

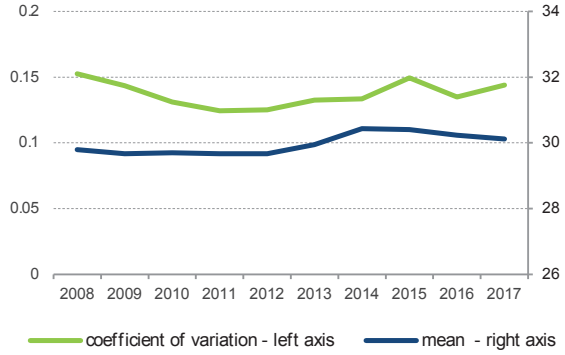
([49]) Here 'downward convergence' means a tendency of the national rates to converge when the average is decreasing. Thus, in the case of AROP or SMD, a downward convergence is interpreted as an improvement.

([50]) For the definition of GINI see footnote in section 4.2.

Chart 1.43

Inequality remained unchanged during the recovery its divergence across the EU has not increased

GINI coefficient, EU



Source: Eurostat, SILC [ilc_di12]

Click here to download chart.

4.5. EU Income trends: middle class, pan-European distribution and territorial dimensions

Different income groups have experienced different developments over the last decade. While income poverty trends are well documented through the at-risk-of-poverty (AROP) rate, this section examines how the income conditions of EU citizens have changed across the whole income distribution in the different Member States and in the EU as a whole.

The middle class is the backbone of EU societies, converging across countries …

The middle class is a key component of economic growth and social cohesion in the EU Member States. A strong middle class is usually an engine for consumption-led growth, as it has a higher propensity to consume than the upper income groups. Moreover, a strong and stable middle class is usually associated with a higher level of social cohesion and trust in the institutions. Countries with a sizeable middle class are also those with better educational and health outcomes, at least in the EU, because an expanding middle class has historically had the leverage to push for higher shares of public expenditure to be spent on health and education. ([51])

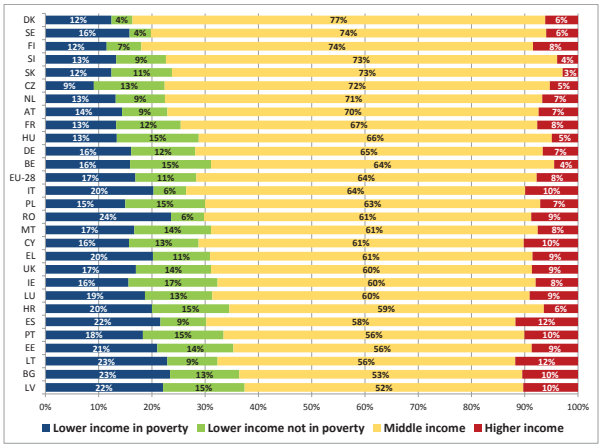
([51]) An EU-financed OECD study (2019) shows that the middle class has changed size in many EU countries over the last decade. See also a forthcoming Eurofound publication.

The size of the middle class in the EU Member States, based on an income definition, varied considerably in 2017 (see *Chart 1.44*). Individuals are considered to be in the middle class if their equivalised income is included in the range from 75% to 200% of the equivalised national median income. At one end of the range, in Denmark, the middle class accounts for 78% of the overall population. At the other end, in Latvia, it accounts for 53% of the population.

Chart 1.44

The middle class makes up over 50% of the population in all EU countries

Distribution of disposable income by lower, middle and higher income groups, 2017



Note: Individuals are in the middle class when they have an equivalised income between 75% and 200% of the national equivalised median income. Individuals are in poverty when they have an equivalised income lower than 60% of the national median income.

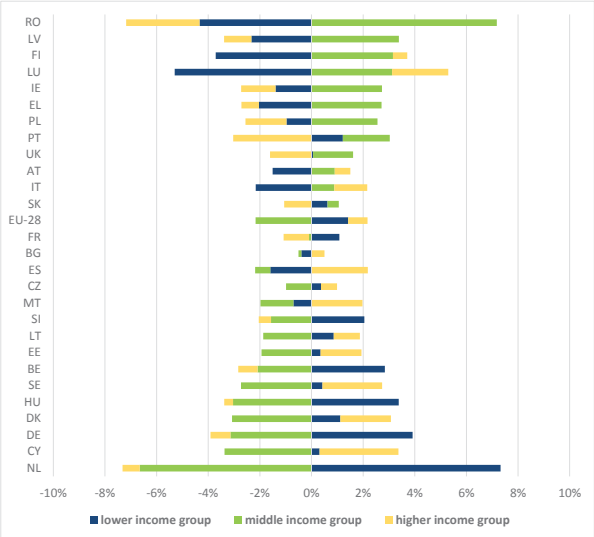
Source: DG-EMPL calculations. EU-SILC UDB 2017.

Click here to download chart.

The composition of the middle class based on an income definition has changed since the crisis. *Chart 1.45* illustrates how the middle classes fared in the aftermath of the crisis and puts the size of the middle class in 2017 in a time perspective. For example, the middle class in Latvia, which appeared relatively small in 2017, has seen a sizeable increase (over 3pps) as a result of both a decline of the higher income group and a reallocation of the lower income group in the middle class. On the other hand, the large middle class in Denmark, very sizeable in 2017, has decreased in size, partly in favour of the upper income group and partly because a proportion slid into the lower income group. All in all, in some central-eastern Member States there seems to be a general trend towards a rising middle class. This is not the case for Slovenia or Hungary, where there has been a reallocation of 3pps of the middle class into the lower income group. In parallel, many richer Member States have shrinking middle classes as a result of transition either to the upper income

group (e.g. in Sweden) or to the lower income group (e.g. in the Netherlands).

Chart 1.45
Middle class trends, very heterogeneous across Member States – up or down?
Middle class change (pps), from 2007-2008 to 2016-2017



Note: Middle class' size has been averaged in 2007-08 and in 2016-17 to reduce potential yearly volatility. Member States with negative green bars and positive yellow and blue bars experienced an income polarisation.

Source: DG-EMPL calculations. EU-SILC UDB.

Click here to download chart.

These income developments indicate a slight convergence in the size of the middle-income group across EU Member States over the last decade. This results from a reduction in the size of middle classes in the richer Member States coupled with a rise in the middle class in some central-eastern Member States. Over a longer time horizon there has been a composition change in the middle class of the relatively richer Member States. As regards the demographic characteristics of the middle class over the last 30 years, the likelihood of people aged 65 or more entering the middle- income group has increased to the detriment of working-age adults. Households with children have seen a reduction in the probability of their being in the middle-income group over this period, especially in the case of single parents who are nowadays most likely to be found in the lower-income group. Finally, workers with middle- and low-skill jobs find it more difficult to gain access to the middle-income class than in the past. These changes in the skills distribution across income groups may generate dissatisfaction: lower-skilled workers may find their relative income conditions deteriorating in comparison with what they would have been in previous generations. ([52])

...but the perception of strain is relatively high

The middle class' perception of financial insecurity has changed over time within Member States but has stayed fairly constant at slightly over 53% in the EU as a whole (see *Chart 1.46*). There is a widespread perception that the middle classes, despite income levels well above the at-risk-of-poverty threshold, are experiencing increasing strains in terms of their financial security and their ability to make ends meet. ([53])

However, the proportion of those in the middle class who report financial strain varies dramatically across Member States. While the Scandinavian and northern middle classes report very low levels of difficulty in making ends meet, some other middle classes, mostly in central-eastern and southern Member States, feel the strain more. In Member States such as Greece, Bulgaria and Croatia the middle class reports severe levels of perceived financial difficulty, while in Member States such as Ireland and Italy, as well as in France, the middle class report increasing difficulties since the crisis, with levels ranging from 53% in France to 70% in Italy in 2017. The strain perceived by middle classes in central-eastern Member States is much higher but the size of the middle class seems to be moderately converging with western Member States. Even if the national middle classes in the most crisis-hit southern Member States and in France have not shrunk in size, they nonetheless report increasing distress in paying their normal day-to-day expenses.

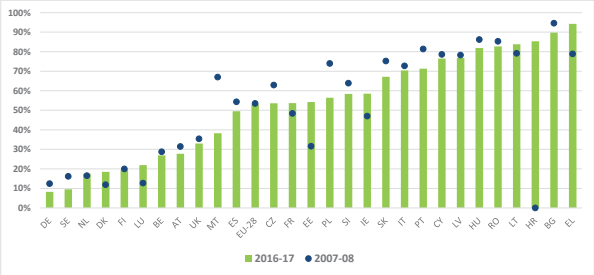
([52]) OECD, ibid.

([53]) OECD, ibid.; Bussolo *et al.* (2018).

Chart 1.46

Over 50% of the middle class report that making ends meet is difficult

Proportion of the middle class reporting that they have difficulty making ends meet (%)



Note: The original question in the EU-SILC defines three categories: great difficulty, difficulty and some difficulty. In this chart the three categories have been aggregated.

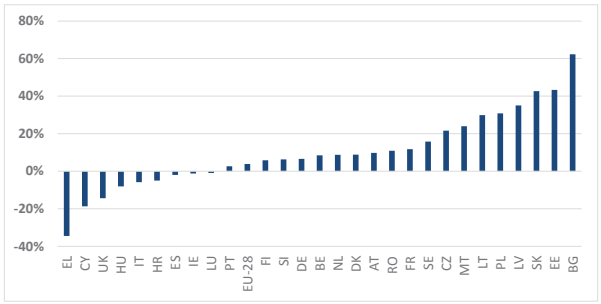
Source: DG-EMPL calculations. EU-SILC UDB.

Click here to download chart.

Chart 1.47

Median incomes improved very unevenly across Member States

Real growth of median income from 2007-2008 to 2016-2017.



Note: Real median incomes in 2007-08 and in 2016-17 have been averaged to reduce yearly volatility.

Source: DG-EMPL calculations. Eurostat data (median income: ilc_di03; harmonised index of consumer prices: prc_hicp_aind).

Click here to download chart.

Median incomes improved very unevenly across Member States compared to pre-crisis levels. While the evolution of size and characteristics of the middle class reveals much about societal changes of this group, the wellbeing of the average citizen is usually approximated by the median income. Moreover, the definition of the middle class is anchored to the national median income (i.e. from 75% to 200% of the national median income). Thus, the evolution of the median income since the crisis may help explain the high financial strain experienced by the middle classes in some Member States despite being larger in size. This is the case of Greece where the middle class has increased in size but mostly because the real median income has worsened over time, lowering the threshold to access the middle-income group. As documented in section 4.1 for gross disposable household income (GDHI), median income has improved compared to pre-crisis levels for a majority of Member States while in some others real median incomes have lost since 2008 (see *Chart 1.47*).

From the national to the pan-European view

In terms of pan-European income developments, the income levels of the European poor have improved over the last decade. ([54]) The changes in the EU-28 income distribution over the last ten years are the result of the different income trends experienced by different Member States. *Chart 1.48* shows an improvement in lower EU incomes, a stagnation around the median and a decline of high-income groups in the EU-28 distribution. ([55]) Overall, the evolution of incomes in the EU-28 has led to more equal outcomes than those of 2007, as the income condition of the poorest people in the EU, mostly located in central-eastern Member States, has improved. Meanwhile, the income of the poorest in the southern Member States deteriorated. ([56])

([54]) In this section, the EU-28 income distribution is considered as a single country. Disposable incomes of individuals from different Member States are corrected for the different purchasing power parities following EUROSTAT procedures and expressed in real terms in 2015 values.

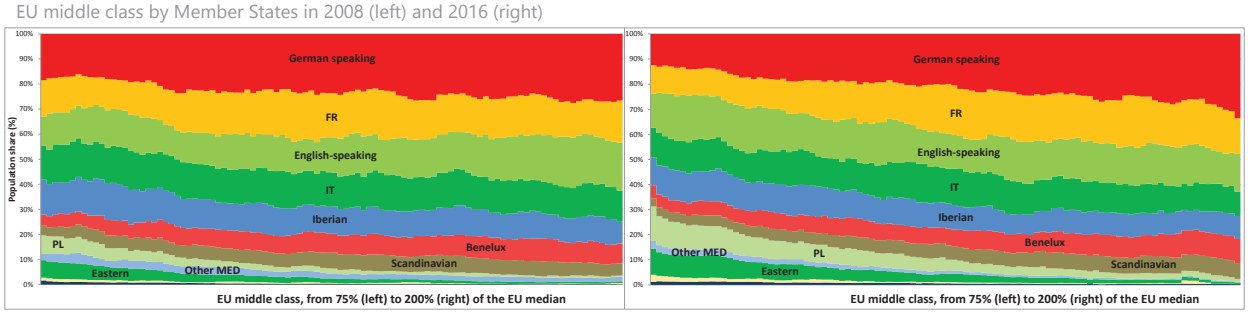
([55]) This is also confirmed by a World Inequality Lab working paper (2019) that examines pre-tax incomes, more accurately captured from fiscal data than surveys, for Europe as a whole (including non-EU countries). However, when they look at the long-run dynamics of the income distribution they state that: "*very rich groups benefited much more from the last decades of the twentieth century than they were hurt by the 2007-2008 financial crisis*" (Blanchet et al., 2019: p. 39).

([56]) Joint Research Center (2019).

Chart 1.49

In 2016 more households from central-eastern Member States make it to the EU middle class compared with 2008

EU middle class by Member States in 2008 (left) and 2016 (right)



Note: Individuals are included in the EU middle class when they have an equivalised income between 75% and 200% of the EU equivalised median income. EU-28 disposable income distribution is obtained after pooling incomes of all EU Member States and applying EUROSTAT purchasing power parities (prc_ppp_ind). German-speaking Member States are Germany and Austria; English-speaking Member States are the United Kingdom and Ireland; Iberian Member States are Spain and Portugal; Benelux is the Netherlands, Belgium and Luxembourg. Scandinavian Member States are Sweden, Denmark and Finland; Other Med are Greece, Malta and Cyprus; Eastern Member States are Czechia, Slovak Republic, Hungary, Croatia and Slovenia. Southern and Baltic Member States are the two residuals areas in the charts.

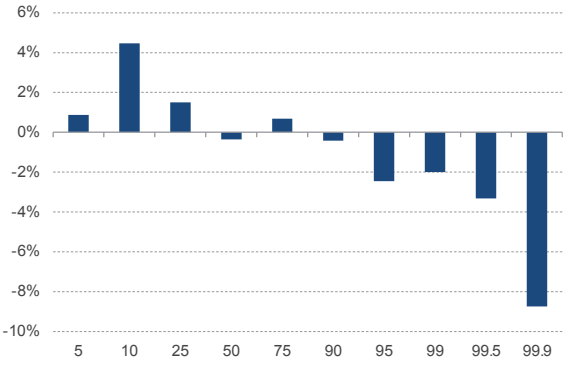
Source: DG-EMPL calculations. EU-SILC UDB.

Click here to download chart.

Chart 1.48

The poorest income groups in the EU-28 have improved their conditions compared with their pre-crisis level

Real change of disposable income (2008-2015) in selected percentiles of the EU-28 income distribution



Note: The EU-28 is treated as a single country. The EU-28 income distribution is obtained after pooling incomes of all EU MS, applying purchasing power parities (prc_ppp_ind) and correcting for the national consumer price index (prc_hicp_aind) to express them in real terms (2015 prices). Growth rates for the 99, 99.5 and 99.9th percentile are based on data series produced by the World Inequality Lab (Blanchet, Chancel & Gethin 2019).

Source: DG-EMPL calculations. EU-SILC UDB and data series produced by the World Inequality Lab, available on https://wid.world/

Click here to download chart.

The catching-up process of the central-eastern Member States determined a real 4% increase of the EU-28 10th percentile. Their income growth was stronger than for all other Member States along the whole income distribution. On the other hand, income levels in southern Member States fell across the income distribution, but fell particularly strongly for low-middle income groups, which therefore diverged from EU-wide income levels. ([57]) These income developments across the EU are reflected in the EU middle class, which is the group of all EU individuals with disposable income between 75% and 200% of the EU median income. Between 2008 and 2016 the proportion of Poles and other citizens from central-eastern Member States in the EU middle class increased, while the proportion of Greeks, Italians and French declined, especially at the lower end of the EU middle class (see *Chart 1.48*).

The territorial dimension of income evolution

Income conditions throughout the European Union have a spatial dimension. While some areas have prospered in the last decade because they were more suited to reaping the benefits of a more knowledge-intensive economy, others have lagged behind, especially former industrial areas. However, the rural-urban territorial divide does not seem to have become larger in the aftermath of the crisis, at least in terms of employment, because the sectors most affected, construction and industry, are less present in rural areas, especially in the EU-15 where employment was more affected in urban and intermediate areas. ([58])

The high concentration of economic activity in urban areas is a reason why median disposable income in cities is usually higher than in rural areas in almost all Member States (see *Chart 1.50*). Especially in the EU-13 Member States, median urban disposable income is at least 20% higher than median income in rural areas. The most extreme cases are Romania and Bulgaria where median incomes in urban areas are respectively over 80% and 60% higher than in rural areas.

([57]) Further empirical evidence can be found in Cseres-Gergely and Kvedaras (2019) and Brandolini and Rosolia (2019).

([58]) European Commission (2017).

Box 1.1: Urban, intermediate and rural areas: classification by degree of urbanisation

In this section rural and urban areas are categorised by degree of urbanisation. ([1]) The degree of urbanisation is a classification of local administrative units (LAUs) that indicates the characteristics of a particular area, based on a population grid composed of 1 km² cells (and clusters thereof), identifying:

- Densely populated areas: contiguous grid cells of 1km2 with a density of at least 1 500 inhabitants per km2 and a minimum population of 50 000
- Intermediate areas: clusters of contiguous grid cells of 1km2 with a density of at least 300 inhabitants per km2 and a minimum population of 5 000
- Thinly populated areas: grid cells outside urban clusters.

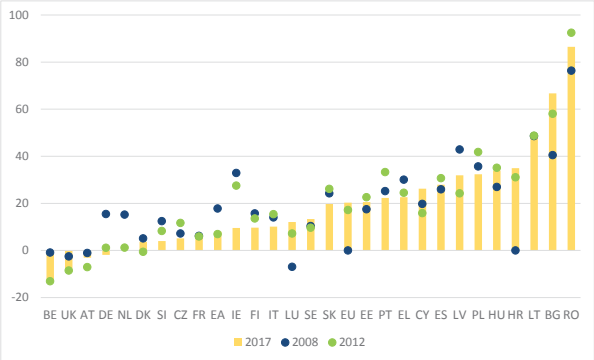
Therefore, an urban centre is defined as contiguous (in other words, neighbouring or adjoining) grid cells of 1 km² with a population density of at least 1 500 inhabitants per km²; these clusters are used to identify all cities with urban centres of at least 50 thousand inhabitants. An urban cluster is defined as contiguous grid cells of 1 km² with a population density of at least 300 inhabitants per km² and a minimum population of 5 thousand inhabitants. Rural grid cells are defined as those grid cells outside of high-density and urban clusters.

([1]) This is the same classification adopted for most of the "Urban Europe" Report (European Commission, 2016)

Chart 1.50

Median income is usually higher in densely populated areas

Urban median income as a proportion of median income in rural areas (%)



Note: The ratio is negative when median income is higher in rural areas.

Source: DG-EMPL calculations. EUROSTAT data (ilc_di17).

Click here to download chart.

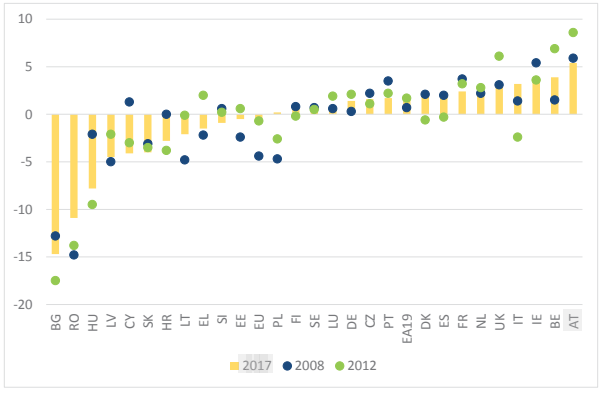
However, the picture is complicated by an 'urban paradox'. Although cities are characterised by greater economic activity, higher employment rates and larger stocks of wealth as well as a higher potential for growth than rural areas, the distribution of economic growth in the cities may be remarkably unequal. This is the 'urban paradox': in cities there are more job opportunities but also higher proportions of people living at the margins of the world of work. In turn, spatial segregation in the cities tends to reproduce and deepen these inequalities across generations. ([59])

As a consequence, the income differences between urban and rural areas translate into gaps in severe material deprivation between areas. Central-eastern Member States where the income gap between cities and rural areas is the highest tend to display higher levels of severe material deprivation in rural areas, with the exception of Czechia. Conversely, in the EU 15 it is usually in the cities, where the 'urban paradox' is present, that people are more at risk of severe material deprivation, as documented for all the Member States whose gap in *Chart 1.51* is positive.

Chart 1.51

Severe material deprivation is relatively higher in urban areas in western Member States, while in the central-eastern Member States it affects the rural areas more.

Severe material deprivation rate in urban areas as a proportion of severe material deprivation rate in rural areas (%)



Note: The ratio is negative when the severe material deprivation rate is higher in rural areas.

Source: DG-EMPL calculations. EU-SILC UDB.

Click here to download chart.

([59]) European Commission (2016b).

5. EMPLOYMENT AND SOCIAL SITUATION OF VULNERABLE GROUPS

This section considers developments for vulnerable groups in EU societies, especially

in terms of employment, income and educational outcomes. Vulnerable groups, by definition, are exposed to greater risks than the majority of the population, and some may end up being excluded from access to housing and struggle to find employment, depriving societies of their full potential. They may also be exposed disproportionately to environmental or health problems, including air pollution. The inclusion in educational systems and in employment of those who are in a condition of disadvantage, as well as their access to public services, is recognised as a key element in the European Pillar of Social Rights.

People with disabilities

People with disabilities make up a large segment of EU societies. In 2016, about 24.1% of over-16s declared an activity limitation (27.1% in 2014 and 25.3% in 2015), with more women than men experiencing this condition (about 26.3% of women compared with 21.8% of men on average in the EU). In the EU-SILC, from which the following figures are derived, disability is self-reported on the basis of a limitation in activities because of health problems for at least the last 6 months. ([60]) In 2016, about 48.1% of people with disabilities in the EU were employed (47.4% in 2015) compared with 73.9% of people without disabilities (73.1% in 2015, see *Table 1.1*)**.** However, the situation across Member States differs significantly and since 2010 there has been a continuous moderate increase in the employment rate of people with disabilities.

The proportion of early school leavers among the young disabled is at 23.6%, much higher than the 12.0% for non-disabled young people. ([61]) Higher levels of early school leaving represent an important barrier to the integration of disabled people in the world of work and are one of the reasons for their lower employment rate. ([62]) Besides current difficulties with finding, early school leaving may also affect the future adaptability of people with disabilities to technological change and the development of their careers when they are in employment. This disadvantage is notably high for young disabled people. In 2016, 30.3% of people with disabilities had completed tertiary or equivalent education, compared with 43.5% of people without disabilities. Women reported higher achievements than men for all groups. Despite a persisting gap vis-à-vis non-disabled people, the proportion of people with disabilities who have a degree has significantly increased over the last decade.

([60]) This definition may not necessarily coincide with the UN Convention on the Rights of Persons with Disabilities (2006), which states: "*Persons with disabilities include those who have long-term physical, mental, intellectual or sensory impairments which in interaction with various barriers may hinder their full and effective participation in society on an equal basis with others*".

([61]) The current 2016 EU figure for early school leaving derived from the EU-LFS stands at 10.7%. However, in *Table 1.1* the figure reported amounts to 12% because it is derived from the EU-SILC for the sake of comparing it with the figures referred to early school leavers with disabilities.

([62]) A lower employment rate may not only be the result of an education or qualifications problem, although these factors might further affect the employment probability of people with disabilities. This raises the question of the nature of the adaptations and assistance required. While mobility problems often lead to a need for technical aids and work place adaptations, depression and health problems require a different kind of assistance – in the form, for example, of reduced working hours, a different kind of work, less stress at work and personal support (Academic Network of European Disability Experts, 2019).

Table 1.1

People with disabilities face challenges and more social risks than the rest of the population

Summary of the main EU indicators regarding people with limitations

	2008	2009	2010	2011	2012	2013	2014	2015 *	2016 *
Persons with limitations 16+ (Disabled)	25.1%	25.7%	25.0%	25.9%	26.1%	26.9%	27.1%	25.3%	24.1%
Europe 2020 objectives, achievements and other indicators									
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Employment	75 % of the population, aged 20-64, should be employed.								
Disabled	46.4%	46.1%	46.0%	46.9%	47.9%	48.5%	48.7%	47.4%	48.1%
Total	68.7%	67.6%	67.3%	67.3%	67.0%	66.9%	67.8%	68.4%	69.3%
Unemployment rate (20-64)									
Disabled	15.9%	17.3%	18.0%	17.4%	18.1%	19.0%	19.6%	20.2%	19.6%
Total	8.4%	10.2%	10.9%	11.2%	12.2%	12.9%	12.6%	12.1%	11.4%
Activity rate (20-64)									
Disabled	55.1%	55.8%	56.1%	56.7%	58.5%	59.8%	60.6%	59.5%	59.7%
Total	75.0%	75.2%	75.5%	75.8%	76.3%	76.8%	77.5%	77.8%	78.2%
Early school leavers	The share of early school leavers should be under 10% (Persons aged 18-24 with at most lower secondary education and not in further education or training). New classification in 2014.								
Disabled	25.1%	23.0%	21.6%	18.9%	21.8%	21.5%	*22.5%*	*22.0%*	*23.6%*
Total	13.2%	13.1%	12.7%	11.6%	11.2%	10.7%	*12.2%*	*12.5%*	*12.0%*
Tertiary education	40% of persons aged 30-34 ought to have completed a tertiary or equivalent education. New								
Disabled	20.4%	21.6%	22.8%	27.1%%	27.8%	28.0%	*29.7%*	*29.4%*	*30.3%*
Total	31.6%	33.9%	35.5%	36.0%	38.1%	39.3%	*41.2%*	*41.6%*	*42.2%*
Very low work intensity	People living in households where the adults work less than 20% of their total work potential during the past year. Age 16-59.								
Disabled	23.2%	22.8%	24.2%	24.5%	23.9%	24.1%	25.1%	25.6%	25.8%
Total	(9.1%)	(9.1%)	10.2%	10.4%	10.8%	11.2%	11.6%	11.1%	11.0%
At risk of poverty	Persons with a household equivalised disposable income less than 60% of the median national household equivalised disposable income (after social transfers). Age 16+								
Disabled	20.1%	19.6%	18.9%	19.3%	19.1%	18.7%	19.7%	20.0%	20.2%
Total (ALL)	15.8%	15.7%	15.6%	16.1%	16.1%	15.9%	16.5%	16.6%	16.7%
Severely deprived	Inability to afford certain goods or services (at least 4 items out of 9). Age 16+								
Disabled	11.2%	10.5%	11.2%	12.1%	12.8%	12.6%	12.1%	11.3%	10.8%
Total	8.6%	7.8%	7.8%	8.5%	9.5%	9.3%	8.6%	7.7%	7.3%
At risk of poverty or social exclusion	Persons at-risk-of-poverty after social transfers, severe material deprivation, or people living in households with very low work intensity. Age 16+.								
Disabled	30.9%	29.7%	29.6%	30.5%	30.3%	30.1%	30.1%	30.2%	30.1%
Total (ALL)	(23.3%)	(22.7%)	22.7%	23.6%	24.1%	23.8%	23.8%	23.2%	23.1%
*	The data are not strictly comparable with those of 2014 due to a change of the definition of 'activity limitations'.								
**	**Total:** It includes only persons for which we do have information on disability status. **ALL**: It includes all persons, including those for which we do not have information on disability status. The difference between the two is marginal.								

Note: Limitation in activities due to health problems is reported by the respondents in EU-SILC to the extent they are limited in activities people usually do, because of health problems, for at least the last 6 months.

Source: Academic Network of European Disability (ANED)) figures (2019) based on EUROSTAT and EU-SILC UDB.

Click here to download table.

People with disabilities are also at higher risk of poverty and social exclusion because they face higher risks under all three dimensions of AROPE: income poverty, severely material deprivation and especially low work intensity. In 2016, at the European level, 30.1% of people with disabilities aged 16 and over lived in households that were at risk of poverty or social exclusion, compared with 20.9% of people without a disability in the same age group. Moreover, as previous studies have documented, when household income is corrected for a factor that takes into account the higher monetary needs of people with disabilities, the income poverty of households with disabled people generally rises. ([63]) The situation of people with disabilities in employment, education and social inclusion has not improved significantly over recent years, suggesting the need for legislative action. With the aim of securing an improvement

([63]) Zaidi, A. and Burchardt, T. (2005).

Box 1.2: Non-EU migrants, country of birth and citizenship

This Section considers integration challenges of non-EU migrants. This group may be referred to as individuals born outside the EU or third country nationals (TCNs) when a non-EU born has acquired citizenship rights. Although for policy purposes a clear-cut legal category such as TCNs is generally preferred, the Section focuses on non-EU born, regardless of citizenship, as the challenges for their integration in the host country societies do not depend only on citizenship access.

The figures presented here are hardly representative of the most recent inflow of refugees, due to their relative size and the difficulty of traditional surveys to monitor these groups. For example, in 2017, there were around 650,000 asylum requests in the EU and asylum was granted in 442,925 cases out of 973,415 decisions – resulting in 46% of the decisions granting refugee status (see migr_asydcfstq on the EUROSTAT database).

Finally, the outcomes of EU-mobile citizens residing in an EU MS different from their own as well as those native-born with a migrant background are not examined here as their socio-economic outcomes are relatively more similar to those of natives as they are generally benefitting from the freedom of movement granted in the EU and have personal characteristics more in line with the average of the destination country. ([1])

([1]) For further analysis of the socio-economic outcomes of EU-mobile citizens, see European Commission (2018d).

in these domains the European Commission proposed a European Accessibility Act in 2015, adopted by the Council and the European Parliament on April 2019, to set common accessibility requirements for certain key products and services that would help people with disabilities in the EU to participate fully in society in line with their capacities. ([64]) This is in line with the European Pillar of Social Rights' emphasis on the inclusion of people with disabilities in society, focusing on social protection and employment. ([65])

People with a migrant background

People born out of the EU accounted for 7.5% of the total population living in EU-28 in 2018. ([66]) Member States differ considerably in both the relative size and the composition of their immigrant groups. A recent joint EU-OECD publication ([67]) classifies host countries as:

- Long-standing destinations

with many recent and highly educated immigrants (LU, UK);

with many settled low-level educated immigrants (BE, FR, NL as well as traditionally AT and DE);

with significant recent and humanitarian migration (DK, FI, SE).

- New destination countries

with many recent, low-level educated immigrants (EL, IT, PT, ES);

with many recent highly-educated immigrants (CY, IE, MT);

where the immigrant population is shaped by border changes and/or by national minorities, usually with small recent non-EU population (HR, CZ, EE, HU, LV, LT, PL, SK, SI, BG, RO).

Disparities in educational and employment outcomes between the EU-born and the non-EU-born tend to be more acute in long-standing destination countries. Member States are clearly more exposed to integration challenges if they have a longer history of receiving immigrants with only low-level education and humanitarian migrants, where the non-EU born are a larger segment of the population (see *Table 1.2*). Although education, both formal and informal, is a crucial driver of integration, non-EU-born children participate at a lower rate in early childhood education and

([64]) The proposed directive aims to improve the functioning of the internal market, making it easier for companies to provide accessible products and services across borders by setting common rules in the EU. The Accessibility Act is to be implemented by 2021.

([65]) "People with disabilities have the right to income support that ensures living in dignity, services that enable them to participate in the labour market and in society, and a work environment adapted to their needs." See: https://ec.europa.eu/commission/priorities/deeper-and-fairer-economic-and-monetary-union/european-pillar-social-rights/european-pillar-social-rights-20-principles_en

([66]) Figure derived from Eurostat (migr_pop3ctb).

([67]) OECD/EU (2018).

Table 1.2

Non-EU born migrants face significant disadvantages in many socio-economic domains

Summary of the main EU indicators regarding non-EU-born. 2017 (except for the % of population, 2018)

	% of population	Employment rate (20-64)		Female activity rate (20-64)		Early school leavers (18-24)		At-risk-of-poverty rate		Severe material deprivation	
	Non-EU born	Non-EU born	Native born	Non-EU born	Native born	Non-EU born	Native born	Non-EU born	Native born	Non-EU born	Native born
EU28	7.5	63	73	63	72.8	19.3	9.6	30.8	15.3	12.3	7
BE	9.0	52	71	62.9	79.9	16.7	7.9	46.3	11.4	14.8	3.5
BG	1.4	65.1	71.4	63.3	71.5		12.8	17	22.2	22.8	30.6
CZ	2.6	79.4	78.5	71.8	73.1	11	6.7	12.9	8.5	9.1	3.4
DK	7.8	61	78.9	49.7	71.2	11.8	8.8	30.2	11.8	14.3	2.5
DE	9.4	64.5	81.6	60.8	80.7	21.8	8.1	26.7	16.3	6.4	3.7
EE	13.1	71.3	79.6	69.6	80.5		10.9	31.4	20.6	6.6	3.9
IE	4.2	66.5	73.1	63.1	71.4		5.3	27.8	15.1	11.2	5.1
EL	8.7	54	58.1	65.5	64.7	16	5.4	43.1	17.4	51.8	18.2
ES	9.2	61.6	66	75.3	73	30	15.6	42.9	17.2	14.5	3.8
FR	9.0	55.6	72.6	56.4	75.7	15.2	8.3	26.5	10.7	11	3.5
HR	11.2	57.5	64.1	56.6	66.9		3.1	27.1	18.5	15.5	12.4
IT	7.2	62.1	62.3	58.5	59.5	30.9	12	36.6	17.1	22	8.9
CY	6.9	67.6	71	73.6	74.7	18.5	5.7	30.8	13.7	18.5	11.9
LV	11.3	67.1	75.7	67.2	80.4		8.6	29.5	21.8	12.2	11.5
LT	3.9	70.2	76.2	74	80.5		5.4	22.7	21	19.3	13.7
LU	11.6	62.7	69.3	63.3	68.8		6.8	40.6	8.8	3.8	1.3
HU	2.1	71.7	73.2	70	68.7		12.5		12.8	26.9	13.5
MT	8.7	64.1	72	56	61.1		18.4	26.1	15.4	6.1	2.9
NL	9.3	59.9	80.5	58.3	79	7.1	7.1	27	11.5	9.5	2
AT	10.5	60.9	77.8	60.9	77.3	22	5.3	34.1	9.4	12.9	2
PL	1.2	73	70.9	75.9	66.8		5	18.9	15.4	6.9	6.1
PT	6.2	74.5	73	79.5	76.4	12	12.5	21.3	17.7	9.8	6.7
RO	1.5	76.3	68.8		62.6		18.1		21.5		19.2
SI	8.9	68.7	74.1	70.1	76.1		4.2	23.5	12.3	8.2	4.6
SK	0.6	70.7	71.1	62.9	70.5		9.3	21.4	10.9		7.9
FI	4.3	56.2	75	60.2	79.3		7.9	25.2	11.3	4.2	2.1
SE	13.1	66.2	85.5	73.7	87.2	16.5	6.2	35.6	12	3.5	0.7
UK	8.7	70.6	78.8	64.6	77.3	6.6	10.8	23.1	14.5	5.4	4.7

Note: Non-EU born are all those individuals born outside the EU irrespective of their citizenship, i.e. they may have acquired the citizenship of the host country.

Source: EUROSTAT data: population: migr_pop3ctb; early school leavers: edat_lfse_02; female activity rate: lfsa_argacob; employment rate: lfsa_ergacob; AROP rate: ilc_peps06; severe material deprivation: ilc_mddd16.

Click here to download table.

care. ([68]) They then often face considerable difficulties in schools later on, with an early school-leaving rate markedly higher than that of the native-born. While Member States have made progress in reducing early school leaving among both the native-born and the foreign-born, the gap between them in 2016 still exceeded 10pps in Italy, Spain, Germany, Greece, Austria and Cyprus (see *Table 1.2*).

Challenges to integration into the education and training system include various factors. Among these the most notable are: language learning; lack of adapted teaching resources; training teachers in multicultural teaching; the low level of skills in children and students who have been deprived of education and training during a significant period of their life; geographical and social segregation; and finally civic education. However, the degree of severity of these issues as well as policy responses in these areas varies starkly across Member States.

Due to both lower activity and higher unemployment, employment rates among the non-EU-born are relatively low in most though not all EU Member States. The disparity with the native born was about 20pp in Belgium, Finland, Netherlands and Sweden, and above 15pp in Denmark, Germany, France and Austria in 2017. Between 2008 and 2017, the employment challenge increased as the gap widened by about 5.5pp, with above average increases in Malta, Netherlands, Greece, Hungary, Italy, Spain and Estonia (see *Table 1.2*).

Women also face a problem of activation: the inactivity gap is particularly high when comparing native and non-EU-born women. In Belgium and Netherlands the inactivity gap amounts to more than 20pp and in Germany, France, Finland, Denmark and Austria it stands above 15pp. The reasons why women are less likely to be in work in long-standing destination countries need to be further analysed as the inactivity of women has a detrimental effect on the likelihood of the next generation being actively in work (see *Box 1.3*). Recent studies showed that immigrant women are more prone to involuntary inactivity with *family responsibilities* rather than *discouragement* as main reason to be economically inactive. ([69])

([68]) Across the EU in 2016, 77% of all children aged 2 to 5 in immigrant households attended some type of preschool education and care against 81.2% among children in native households. (UE/OECD 2018).

([69]) OECD/EU, ibid Section 6.5.

Box 1.3: Natives with a migrant background: employment and educational gaps

The EU-funded OECD Report 'Catching-up Intergenerational Mobility and Children of Immigrants' (2017) examines in detail in cross-country comparison the persistent disadvantage that natives with a migrant background face in the education system, the school-to-work transition and employment. ([1])

In 2017, 21% of people aged 15-34 had a migrant background (25.5 million), of whom a little over 4% were the native-born offspring of immigrants, with the same number arriving as children under 15; 5% were natives of mixed parentage and a further 8% of the EU youth population immigrated as adults. ([2])

Natives with non-EU parents have lower educational attainment and weaker learning outcomes than their peers with native-born parents in most EU countries, especially in those countries with large-scale immigration of low-educated immigrants in the past (FR, BE, AT).

This gap may become even more visible as native-born persons with two foreign-born parents are a growing group virtually everywhere. Natives with non-EU parents are 4 pps less likely to choose an academic higher education stream than their peers with native-born parents and similar education levels.

Nevertheless, there is a convergence of educational attainment across generations.

On average across the EU, natives with non-EU parents have on average 1.3 years more schooling than their parents, (while their peers with native-born parents have 0.7 years) but this is the result of generally lower starting points of the immigrant parents. This is particularly visible among the group with a Turkish immigrant background in Germany: almost 50% of migrant women and about 30% of migrant men had no educational degree in 2012. In contrast, less than 10% of their children born in Germany had left school without any diploma.

In the EU, the employment gap between children with non-EU parents and children of native-born decreases for the highly educated - a person's own education is a stronger driver for the employment among children of non-EU immigrants than among children of natives. Low-educated natives with low-educated foreign parents have an employment rate almost 8 pp lower than their peers with native parents, while the gap is only about half that for higher levels of education.

15% of natives with non-EU parents have a mother with no completed formal education at all, which is five times the share for the children of native born. The overrepresentation of mothers with no education among the children with non-EU origin indicates that they have a more challenging "starting point" which could partly explain their weaker employment rate, especially for girls. For example, less than 5% of children with Turkish immigrant parents receive help with homework from their mothers in France compared to over 60% of children with native-born mothers. Or in the Netherlands, 25% of the daughters of Turkish and Moroccan immigrants stop working in a paid job after having their first child, compared with 10% of women with native Dutch parents.

Finally, natives with non-EU parents EU experience less occupational upward mobility than their peers with native-born parents. About a third of natives with native parents manage to move upward on the occupational ladder. For natives with non-EU parents, only 1 in 5 has a job requiring a higher skill level than his/her father needed in his occupation.

([1]) https://www.oecd-ilibrary.org/social-issues-migration-health/catching-up-intergenerational-mobility-and-children-of-immigrants_9789264288041-en

([2]) UE/OECD (2018).

The challenges facing the non-EU-born and the disparities between them and the native-born in education and employment translate into higher social risks. Non-EU born people are more likely to be income poor than the native-born: in 2016 the income disparity in the EU between native and non-EU born people was 15.5pp, and was over 30pp in Belgium and Luxembourg and over 20pp in Sweden and Austria, Greece and Spain. As migrant households tend to be larger than native ones, income also tends to be shared among more members in non-EU-born households, contributing to lower individual income. Severe material deprivation rates are also higher for the migrant population in some Member States. In 2016, 12.3% of the non-EU-born population was severely materially deprived, while the level was 7.0% for the native-born. Other factors specific to the integration of migrants in the labour market and contributing to higher social risks are their lower skill levels and resulting labour income, as well as their lower hourly wages. In 2016 12.3% of the non-EU-born population was severely materially deprived, while the level was 7.0% for the native-born population.

Integration policies aim to reduce disparities between migrants and their receiving communities and to ensure equal rights, obligations and opportunities for all. The Commission Action Plan on the Integration of

Third-Country Nationals ([70]) adopted in 2016 in particular sets out policy priorities and tools at EU level to support migrants' inclusion in education and employment and guarantee their full participation in all aspects of community and social life. Several Member States have included their integration priorities in general policies (public employment services, training and upskilling, youth employment and NEET) but have taken some specific measures (language training, recognition of skills and qualifications and mentoring. ([71]) Continued coverage of this topic within the European Semester will follow as integration of the non-EU-born will remain a key challenge in the years ahead.

Roma

With an estimated population of 6 million, Roma are the largest minority in the European Union. Four EU Member States (Romania, Bulgaria, Slovakia and Hungary) host large Roma populations (estimated to be up to +/- 10% of the total population). Czechia has a smaller Roma population (+/- 2% of the total population), followed by Greece and Spain (around 1.6%). Roma are often the victims of discrimination and social exclusion and are at risk of deep poverty, lacking access to quality education, employment, healthcare and decent housing. Indicators on socio-economic outcomes of the Roma population computed from the Second European Union minorities and discrimination survey (MIDIS II) show remarkable levels of disadvantage compared with the rest of the population (see *Table 1.3*). ([72])

Roma represent a significant and growing proportion of the school-age population and the future workforce in Bulgaria and Romania. The average age of Roma is 25, compared with 40 for the general population. Around 20% of the new potential workforce is Roma, yet their outcomes in terms of the Europe 2020 targets for education and employment are still far below the country averages.

Table 1.3

Access to educational systems and subsequent employability are very low for Roma in the majority of the Member States surveyed

Summary of the main EU indicators regarding Roma in selected EU MS with significant Roma population

	Employment rate (20-64)		Early school leavers (18-24)		NEET 16-24		At-risk-of-poverty rate	
	Roma	Total	Roma	Total	Roma	Total	Roma	Total
BG	49	67.1	67	13.4	65	19.3	86	21.8
CZ	43	74.8	57	6.2	51	7.5	58	9.7
EL	52	54.9	92	7.9	60	17.2	96	22.1
ES	24	62	70	20	77	15.6	98	22.2
HR	21	60.6	68	2.8	77	18.1	93	19.4
HU	49	68.9	68	11.6	51	11.6	75	15
PT	38	69.1	90	13.7	52	11.3		
RO	46	66	77	19.1	64	18.1	70	25.1
SK	43	67.7	58	6.9	65	13.7	87	12.6

Source: EUROSTAT and the Second European Union Minorities and Discrimination Survey (EU-MIDIS II) Roma – Selected findings.

Click here to download table.

Young Roma continue to be over-represented among early school-leavers, with high disparities from the rest of the population. However, the gap in early school leaving varies among the Member States surveyed. When comparing these outcomes with the previous MIDIS I survey, early school-leaving for young Roma seems to be declining, particularly in Bulgaria, Czechia, Romania and Slovakia.

Low inclusion of Roma youth in the education systems and high early school-leaving result in pronounced employment disparities between the Roma workforce and the total population. This gap is fairly high in almost all Member States surveyed except Greece, where the employment rate of the total workforce is significantly below the EU average. There are other reasons for the poor employment situation of Roma, both on the supply and the demand side. On the supply side, they include poor employability due to lack of skills and competences, the limited role of the public employment services in supporting disadvantaged jobseekers and the spatial segregation of the Roma communities. On the demand side, a persistent barrier to their employment is the discrimination by employers. These demand and supply factors probably account for the markedly higher NEET rate among young Roma.

The Roma population is at particular risk of poverty. Income poverty affects over 70% of the Roma population in all the Member States surveyed except Czechia.

The inclusion of Roma in education systems and employment is a relevant challenge for the Member States analysed and is high on the EU agenda. The 2011 EU Framework for

([70]) See: https://ec.europa.eu/home-affairs/what-we-do/policies/legal-migration/integration/action-plan-integration-third-country-nationals_en.

([71]) European Migration Network (2019). See: https://ec.europa.eu/home-affairs/sites/homeaffairs/files/00_eu_labour_market_integration_final_en.pdf.

([72]) Data on socio-economic outcomes of the Roma population Overall, it should be noted that EU-MIDIS II is a comparative survey between countries and sample sizes do not allow disaggregating on a very detailed national level. EU MIDIS II indicators are often similar – but not always identical - to those applied in standard European surveys, such as EU SILC or the EU LFS.

National Roma Integration Strategies up to 2020 is the policy framework on Roma inclusion that calls on Member States to have and implement a National Roma Integration Strategy (NRIS) and to advance Roma inclusion notably in the areas of education, employment, health and housing. These are notably related to principles and rights of the European Pillar of Social Rights that states: "regardless of gender, racial or ethnic origin, religion or belief, disability, age or sexual orientation, everyone has the right to equal treatment and opportunities regarding employment, social protection, education, and access to goods and services available to the public".

Homelessness

Homelessness and housing exclusion are extreme manifestations of poverty and social exclusion. ([73]) Many factors may trigger the incidence of homelessness: among them rising housing costs, intra-EU mobility and migration from third countries. ([74]) Other long-time demographic trends such as ageing or increasing single parenthood may be drivers of homelessness, as may family breakdown and de-institutionalisation without adequate follow-up support.

There is no common indicator at EU level that estimates the number of the homeless, because of the difficulty of monitoring people in such a state of deprivation through traditional surveys. According to estimations by the OECD, all countries with available data reported that homeless people represented less than 1% of the total population in 2015. ([75]) However, recent data compiled by the federation of national civil society organisations working with the homeless in Europe suggest a deterioration of the situation in recent years. ([76]) In 2017, homelessness has increased in all Member States but Finland. ([77]) The population most at risk of homelessness in the EU is largely made up of middle-aged men with long-standing social problems, mental health issues and/or alcohol and drug addiction. ([78]) However, in the aftermath of the crisis, the risk of homelessness has extended to other segments of the population, in particular third country migrants, young people, the newly unemployed and victims of loan sharking. Due to the difficulty of monitoring such an extreme phenomenon of social exclusion, it is difficult to identify the main characteristics of the homeless population. But some publications identify large families with children, Roma communities and other minorities as particularly exposed to homelessness. ([79])

Homelessness remains a predominantly urban phenomenon. In terms of the education profile and the spatial dimension, those with only lower-level education in urban areas seem to be overrepresented. Before the crisis, some 70% of the young homeless had left school with no more than lower secondary education. ([80]) As regards the age profile of the risk of homelessness, young people from a disadvantaged background are more often exposed to mental and physical health problems. This puts them more at risk of forced evictions, even where youth homelessness remains invisible because many manage to stay temporarily with friends or relatives.

At the same time, a considerable and growing number of people over 50 have been homeless or exposed to housing exclusion for at least a year. ([81]) Divorce, death of a spouse and an inadequate pension are the major trigger factors. The growing lack of carers in ageing societies may also increase the vulnerability of older people to housing exclusion. Older people who depend on affordable home care and who are left struggling are also at risk of homelessness.

The risk of homelessness may therefore affect very large segments of the population. As a response, the EU recognises an integrated approach to combat homelessness. In particular,

([73]) See: https://ec.europa.eu/social/main.jsp?catId=1061&langId=en.

([74]) See Chapter 4 as regards the analysis of the evolution of the housing costs.

([75]) OECD Affordable Housing Database.

([76]) Although the figures are not comparable by country, due to different methodologies for monitoring the number of the homeless, it is possible to monitor the evolution of the issue over time within the same Member State.

([77]) The FEANTSA report (2018) states that homelessness in the Finnish case was tackled as a housing problem and a violation of fundamental rights rather than an inevitable social problem resulting from personal issues.

([78]) European Commission (2012).

([79]) FEANTSA (2007).

([80]) CSEYHP (2011). See: https://www.movisie.nl/en/themes/combating-youth-homelessness.

([81]) European Commission (2013).

the European Pillar of Social Rights identifies three clear principles in this policy area:

– - Access to social housing or housing assistance of good quality shall be provided for those in need.

– - Vulnerable people have the right to appropriate assistance and protection against forced eviction.

– - Adequate shelter and services shall be provided to the homeless in order to promote their social inclusion.

To flesh out these principles, the EU has implemented various policy actions, for example in the frame of the Social Investment Package ([82]) and the EU Urban Agenda Housing Partnership. ([83])

6. CONCLUSIONS

A favourable global macroeconomic outlook has started to show signs of a slowdown. In 2018 economic activity in some advanced economies, as well as emerging ones, was weaker than expected, although the US economy continued to show positive results. Gross domestic product grew by 2.0% in the EU and 1.8% in the euro area, marking a deceleration in comparison with 2017. These results were below expectations: they were affected by uncertainty over structural reforms and the institutional environment and by underperforming exports, particularly as far as goods are concerned.

Productivity per hour worked is slowly but steadily increasing in the EU and in 2018 it was 12% higher than the record low of 2009. On the other hand, productivity per person grew at a slower pace. The labour cost index has been growing in real terms in all sectors of economic activity since 2013. Industry is the sector that recorded the strongest growth, and in 2018 it was 7.2% higher there than in 2012.

Employment has reached a new record level, with 240.7 million at work at the beginning of 2019. The employment rate in 2018 reached 73.2%, 1.0pp higher than in 2017. However, the employment rate will need to grow at a faster pace in the next two years for the EU to reach the EU2020 objective of 75%. Furthermore, the gender employment gap has not improved substantially in recent years and remains above 10pp.

At 6.8% of the labour force, the unemployment rate reached a historically low level in 2018. Nonetheless, the incidence of long-term unemployment, albeit in slow decline, is still quite high. While weak economic conditions in some countries can be a cause, an improvement in active labour market policies could help the integration of the long-term unemployed in the labour market.

Differences among Member States and among regions, especially in unemployment rates, remain very high, even where economic conditions have improved. Policies to improve public investment and to push regions out of the middle-income trap can have a positive impact in the reduction of differences in unemployment.

The social situation in the EU has improved, especially with regard to higher standards of living in most Member States. Over the last three years, incomes from work have continued to increase and, together with social transfers, have led to an increase in the disposable incomes of households. The risk of poverty or social exclusion in the EU has steadily declined from its 2012 peak. Severe material deprivation has decreased in all Member States except Greece.

However, progress in reducing inequality and relative poverty (AROP) has been modest. Inequality in the EU has been largely stable since 2014. Without the redistributive effects of tax-benefit systems, inequality and poverty in the EU would have been much higher. Additionally, progress at the EU level conceals significant differences between Member States. The risk of poverty (AROP) has increased or stabilised in most Member States, while inequality has intensified in eight Member States and can therefore be considered one of the main socio-economic challenges in the EU. ([84]) The risks of poverty or social exclusion are more pronounced

([82]) European Commission (2013).

([83]) See: https://ec.europa.eu/futurium/en/housing.

([84]) While this statement is accurate in the EU context, Filauro and Parolin (2018) and Blanchet et al. (2019) show that income inequality in the EU can be considered low by comparison with the USA. Darvas and Wolff (2016, p.2) present similar findings in comparison to the emerging economies of Asia, Africa and Latin America, and contend that poverty defined using very low absolute income is rare in the EU.

for certain types of workers and for vulnerable groups.

The middle class is a key component of all European societies, making up well over half of the EU population. However, in some Member States the middle class feels under strain and reports high levels of financial difficulty. Overall in the EU, there has been an improvement for the lowest income groups, mostly located in central-eastern Member States as a result of their economic catching-up, while the income conditions of the lower income groups in Mediterranean Member States have, if anything, worsened.

Improvements in labour markets should in principle translate into better social situations for more Europeans. Addressing the aforementioned challenges in social situations calls, among other things, for more effective and efficient social protection systems. In this respect, there is scope for more effective policy action by the Member States. Such action could be focused on principles of the Pillar of Social Rights, particularly on: the right to adequate social protection; the right to adequate minimum income; the right to training; and facilitating access to housing and assistance for the homeless and to essential services for all.

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