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NOTE

From:	The Employment Committee
To:	Permanent Representatives Committee/Council
Subject:	Key messages from the Employment Committee based on the Annual Employment Performance Report and Employment Performance Monitor – Endorsement

Delegations will find attached the Key messages from the Employment Committee (EMCO) based on the Annual Employment Performance Report (AEPR) and Employment Performance Monitor (EPM), as finalised by the Employment Committee on 4 October 2024, with a view to their endorsement by the Council on 21 October 2024.

The full AEPR can be found in doc. 14331/24 ADD 1.

The EPM can be found in doc. 14331/24 ADD 2.

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Key Messages from the Employment Committee (EMCO) based on the 2024 Annual Employment Performance Report and the Employment Performance Monitor

1.   In line with its mandate as per Article 150 TFEU, the Employment Committee has produced an annual review of the employment situation in the EU for the Council. This review builds on the 2024 Employment Performance Monitor (EPM[1]), which monitors progress towards the 2030 targets and identifies at a glance key employment challenges and good labour market outcomes across the EU and in each Member State.

2.   The main findings of this year's EPM, which was agreed in the EMCO Indicators Group in June, are summarised in the 2024 Annual Employment Performance Report (AEPR). These complement the conclusions of the Employment Committee's multilateral surveillance of the implementation of the Council's Country-Specific Recommendations (CSRs) and other Council Recommendations within the framework of the European Semester, as well as, for the first time, the conclusions of the 2024 EMCO Social Convergence Reviews which contributed to the analysis based on the features of the Social Convergence Framework, as described in the related Key Messages and the underlying Report that were presented to the EPSCO Ministers to support the debate, implemented this year on a pilot basis[2].

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[1] The EPM builds on the findings of the Joint Assessment Framework (JAF). The JAF is an indicator-based assessment tool developed jointly by the Employment Committee, the Social Protection Committee (SPC) and the European Commission, covering general and specific policy areas under the Employment Guidelines, and aiming to identify key challenges and good labour market outcomes in these areas and support Member States in establishing their priorities.

[2] See the Key Messages on the introduction of a Social Convergence Framework in the European Semester and the related Report of the EMCO-SPC Working Group. The documents were presented to the Council (EPSCO) on 12 June 2023. The features of the Social Convergence Framework were discussed within the Working Group between October 2022 and May 2023.

3.   Both the EPM and the AEPR incorporate for a third consecutive year the 2030 EU headline targets on employment and adult learning proposed by the European Commission in the European Pillar of Social Rights Action Plan and welcomed by the EU Leaders at the Porto Social Summit in May 2021 and by the June 2021 European Council, as well as the related national targets set by the Member States and presented at the June 2022 EPSCO Council.

4.   Moreover, as last year, the 2024 editions of the EPM and AEPR report on progress towards the 2030 EU headline and national targets on employment. In particular, they include a forward-looking dimension, as the analysis looks at the minimum annual employment growth required both at EU and national levels to reach the respective employment rate targets by 2030. The AEPR also presents the potential for improving the situation of specific population groups in the context of ensuring progress towards the 2030 EU and national employment targets. Furthermore, this year's AEPR reports on progress towards the 2030 EU headline and national targets on adult learning, following the release of 2022 adult learning data[3], based on the methodological approach that was agreed in the EMCO Indicators Group in June 2024.

5.   Despite geopolitical tensions and the fallout from the high energy costs sparked by Russia's war of aggression against Ukraine that led to a marked economic slowdown last year in the EU[4], the labour market continued to demonstrate resilience in 2023, with the employment rate reaching a new record high level.

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[3] 2022 Adult Education Survey (AES).

[4] See Spring 2024 European Economic Forecast

6.	More precisely, according to Eurostat Labour Force Survey (EU-LFS) data, in 2023, 75.3% (195.7 million) of the EU's 20 to 64-year-olds were employed, the highest share recorded since the start of the time series in 2009. This figure marks three consecutive years of growth after a drop (of 1.4% y-o-y, or 1 pp) to 71.7% in 2020 due to the COVID-19 pandemic. In the majority of Member States (21 Member States), the employment rate for people aged 20-64 registered an improvement in 2023 compared to 2022, while in all 27 Member States, the employment rate (20-64) exceeded the pre-pandemic level recorded in 2019. Employment rate increases were registered for all main age groups in 2023 and, furthermore, the EU gender employment gap, defined as the difference between the employment rates of men and women aged 20-64, was 10.2 pp in 2023, 0.5 pp lower than in 2022, though still at a high level. Therefore, further policy action is needed, especially if the EU is set to at least halve the gender employment gap compared to 2019 in order to achieve the 78% employment rate headline target by 2030, as ambitioned in the European Pillar of Social Rights Action Plan, with a view to an upward social convergence.

7.	The activity rate (i.e. the percentage of active people aged 20-64 in relation to the comparable total population) in the EU kept improving in 2023, hitting a new record high (80%, up 0.7 pp y-o-y). Furthermore, the share of employees (15-64) in temporary employment contracts declined to 13.4% in 2023 in the EU from 14.1% in 2022, contributing to reducing labour market segmentation in the EU, while part-time employment (% of total employment) was overall stable at 17.8% (vs. 17.6% a year ago).

8.	The unemployment rate in the EU for people aged 15-74 years declined marginally in 2023 (by 0.1 pp) to reach 6.1%, marking the lowest rate since 2009. In addition, the EU long-term unemployment rate fell further in 2023, to 2.1% from 2.4% a year ago, and the share of long-term unemployed in total unemployment also declined, to 35% in 2023 from 38.5% in 2022. Despite decreasing, long-term unemployment remains entrenched in some Member States, which exacerbates the risk of skills deterioration, social exclusion and poverty.

9.   The EU unemployment rate of young people aged 15-29 years declined marginally (0.1 pp) in 2023 compared to 2022, to 11.2%, still well above the overall unemployment rate, with youth unemployment therefore remaining a major challenge. The rate of people aged 15-29 who are neither in employment nor in education or training (NEET) continued to decline in 2023 on a year-on-year basis, by 0.5 pp to 11.2%, after a decline of 1.4 pp in 2022 from 2021. According to the European Pillar of Social Rights Action Plan, in order to achieve the 78% employment rate target by 2030, the EU must strive to decrease the rate of NEETs aged 15-29 from 12.6% (2019) to 9%, namely by improving their employment prospects.

10.   Going forward, the latest evidence from the Commission business surveys points to some cooling of the labour market, according to the 2024 European Commission Spring Economic Forecast. Employment growth is forecast at 0.6% in the EU in 2024 (from 1.2% in 2023), before slowing down further to 0.4% in 2025. Moreover, unemployment rates are expected to remain broadly stable over the forecast horizon. For the EU as a whole, despite increased labour market participation, the unemployment rate (Eurostat definition) is projected to remain broadly stable at 6.1% in 2024, before edging slightly down to 6.0% in 2025.

11.   Regarding the EU headline employment rate target, favourable labour market conditions in 2023 contributed to achieving progress towards the 78% target by 2030. Indeed, reaching the target now requires a 2.7 pp increase by 2030 (against 3.4 pp a year ago). However, in 11 Member States, the employment rates should increase by more than this amount (2.7 pp) for them to meet their national targets. Based on Eurostat EU-LFS data for the employment rate (20-64), five Member States overachieved their national 2030 targets in 2023. Moreover, last year the employment rate was already higher than the EU headline target of 78% in 13 Member States (from 11 Members States in 2022 and eight in 2021).

12. Comparing recent (2023) annual employment growth in Member States with average annual employment growth over the 2013-2019 (pre-COVID) period and with the minimum (annual) employment growth required for each Member State to reach the national employment rate target, it can be concluded that in 2023 nine Member States achieved employment growth equal to or higher than the respective pre-COVID average rate (in the 2013-2019 period). However, for 18 Member States recent employment growth still falls behind the corresponding pre-crisis growth. Although, due to population decline, the majority of Member States would need lower minimum annual employment growth than in the pre-crisis period to reach their national targets, this confirms the need for further employment-growth enhancing policies.

13. The AEPR contains an examination of the performance of different population groups, mainly the underrepresented ones, in the framework of the analysis and monitoring of the progress towards the 2030 targets on employment, with the aim to identify those with lower-than-average performance and therefore with a greater scope for improvement. This analysis shows that hypothetical gains could be expected from boosting employment rates of different groups, with particular scope for improvement among the low-skilled (women and men) for a significant number of Member States at the same time as Member States increase skill levels. There is also ample scope for improvement in relation to the employment rate of older workers (55-64) and young people (20-29) in a number of Member States[5]. Fostering the successful labour market integration of currently underrepresented groups could help counterbalance the impact of demographic change on labour supply.

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[5] The potential for each Member State and sub-group is proxied by the difference between the specific employment rate and the respective EU average employment rate (or the average of the three highest employment rates in the EU for that population group).

14. The EMCO Indicators Group discussed in June 2024 the recently published 2022 data on adult participation in education and training (last 12 months) coming from the Adult Education Survey (also excluding "guided-on-the-job training") and the Labour Force Survey[6], including the differences in results between the two surveys and the reasons behind these. The group also discussed a methodological approach to monitor progress towards the EU and national targets on adult learning.

15. Due to the large differences between EU-LFS and AES data for the 12-month indicator, it was agreed to continue monitoring adult participation in education and training in the past 12 months using AES data (excluding guided-on-the-job training). The decision on a possible transition to EU-LFS data is postponed to the next EU-LFS wave (available in April 2025), following changes that some Member States are considering for the next EU-LFS wave, and a further assessment of the differences between the two surveys to be conducted by Eurostat. Therefore, EMCO's reporting tools (EPM, AEPR) reflect on progress on the adult learning target using AES values for the agreed 12-month reference period adult learning participation indicator (excluding guided-on-the-job training). These data show that the EU remains far from reaching the 2030 adult learning target and further significant progress will be needed, in line with the ambition for the EU to remain competitive, innovative and inclusive, thriving in the context of the big transformations ahead. Indeed, reaching the target of 60% requires a 20.5 pp increase by 2030. Substantial efforts are still needed at national level. The rate of adult participation in education and training will need to be increased by more than 20.5 pp in 14 Member States for the national targets of these countries to be met. Based on the AES 2022 data (excluding guided-on-the-job training), three Member States have overachieved their national targets on adult learning.

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[6] The AES takes place only every six years, however, variables were introduced in the EU-LFS to collect biennial data (starting in 2022), with the aim to allow policy analysis and monitoring of initiatives.

16.   In terms of thematic priorities for Member States, the reading of the 2024 EPM points to a number of key employment challenges (KECs). It is important to identify and monitor the main EU priorities in the coming years amid persistent challenges. In the area of skills supply and lifelong learning, these are principally related to skills mismatches, weaknesses with respect to the educational attainment and low participation rates in training of the population. With regard to the education and training systems, main challenges are the dependence of educational outcomes on socio-economic and migrant background, low attractiveness of the teacher profession, low attainment of basic skills and the high incidence of early school leaving.

17.   Challenges are identified also in the area of labour market participation, in particular for specific groups, such as older workers, young people, low-skilled workers and non-EU nationals – confirming the results of the analysis mentioned above. Some countries face challenges related to the functioning of unemployment benefits and/or the impact of tax and benefit systems on labour market participation (e.g. low wage traps, unemployment traps, inactivity traps). Labour market segmentation also remains a concern for some Member States, while further challenges are identified in the area of Active Labour Market Policies (ALMPs) and the functioning of Public Employment Services (PES). Regarding gender equality, a main concern is the persistence of gender employment gaps, as well as gender pay gaps, while in the work-life balance domain the provision and uptake of care and the impact of parenthood on labour market participation are among the key issues.

18.	The analysis also identifies common EU "positive recent trends" and "negative trends to watch", thus placing a stronger focus on the horizontal aspect of changes across Member States. In particular, the EPM highlights a number of positive developments for the 2022-2023 period, such as an increase in total employment in 16 Member States, an increase in the employment rate of people aged 20-64 in nine Member States, an increase in the employment rate of older workers in 14 Member States, an increase in participation in life-long learning (percentage of adult population aged 25-64 participating in education and training over the past 4 weeks) in 16 countries as well as a decline in the at-risk-of-poverty rate of the unemployed in 10 Member States and a decrease in the NEET rate for people aged 15-29 in 11 Member States. It should be noted that looking at the same trends over the whole 2020-2023 period leads to an even more positive image.

19.	The EPM also identifies a number of negative trends for the 2022-2023 period: a deterioration (i.e. an increase) in nominal unit labour costs in 26 Member States as well as a decrease in the number of newly employed persons in 11 Member States and an increase in the gender pay gap in 10 countries.

20.	EMCO's recent multilateral surveillance work indicates that Member States have carried out reforms in the policy fields identified by the EPM as priority areas, but challenges remain, as also underlined by the 2024 Country-Specific Recommendations.

21.	Effective ALMPs remain essential in view of high labour shortages and under-attainment of disadvantaged groups in the labour market as well as in view of addressing long-term unemployment. Member States take action to increase targeting, outreach and coverage of activation measures and to strengthen linkages with social services and income support measures. Efforts are also visible in most Member States to strengthen the effectiveness of the Public Employment Services, which face complex issues such as labour and skills shortages and the need to upskill jobseekers in the context of the green and digital transitions. Positive steps have been taken in several Member States to develop digitalised services and improve skills intelligence tools, including through improved cooperation and partnerships with relevant service providers and actors in the labour market.

22.	Member States have maintained their political commitment towards the implementation of the Recommendation on the inclusion of long-term unemployed into the labour market. However, while some common developments are visible, the level of implementation continues to vary across Member States and further efforts should be taken. Moreover, there is a need to improve the monitoring and evaluation systems of policies implemented for the integration of the long-term unemployed into the labour market.

23.	Member States are facing persisting challenges to address labour and skills shortages. While measures to tackle early school leaving and activate young NEETs are proving successful, educational outcomes are still affected by significant disparities, including in relation to the socioeconomic background of learners. Policy efforts are therefore needed to enhance the quality and inclusiveness of education. In this context, the commitments taken by the Member States to reform the education and training systems, increase the attractiveness of the teaching profession, adapt training curricula to embed green and digital competences, improve the delivery of effective upskilling and reskilling measures, and address disparities in access to quality education, are visible. Nonetheless, further efforts will be needed considering the magnitude of the challenges ahead.

24. Member States are taking actions to enhance skills and competences supporting the green transition. These include strategies and frameworks on learning for sustainability, curriculum reforms, updating curricula to address climate change, sustainability and the environment, various school-based projects and initiatives, and establishing green school networks. Additionally, there is an emphasis on the inclusion of climate change, sustainability and environmental topics in civic education programmes. Countries are adapting initial teacher training curricula and implementing special programmes for school leaders and teachers to equip them with the skills needed for teaching sustainability. Member States are increasingly integrating green competences in their labour market intelligence tools, such as skills forecasting systems.

25. Substantial differences persist across Member States with regard to temporary and part-time employment. Temporary jobs can become a concern in those countries where a high incidence of fixed-term contracts is associated with lower transition rates to permanent employment. In the same vein, involuntary part-time employment remains an issue in several Member States, limiting the aspirations of workers for longer working hours. Reforms recently adopted by Member States aim at encouraging hiring on a permanent basis as well as to extend employment protection of temporary employees.

26. Reviewing labour taxation to support inclusive and sustainable growth, reduce disincentives to work and be more in line with environmental objectives remains a challenge in a number of Member States. Efforts to reduce the tax wedge on the low-wage earners have been overall successful in recent years, but there is large scope to better design the tax-and-benefits system to incentivise longer working hours and reduce the tax burden on second earners, also with a view to promoting gender equality and close the gender pay gap. Environmental-friendly taxes and incentives should be designed in a way to ensure progressivity.

27. In their horizontal Opinion on the 2024 cycle of the European Semester endorsed by the EPSCO Ministers on 16 July, EMCO and SPC expressed their appreciation for the fact that the 2024 Semester cycle aims to further strengthen the long-term competitiveness and prosperity of the Union, as well as economic and social resilience, by addressing its structural challenges. EMCO and SPC acknowledge the adoption and entry into force of the new EU economic governance framework. It includes the European Semester, which aims at ensuring closer coordination of policies and sustained upward convergence of the economic and social performance of the Member States. This intended outcome is consistent with previous calls for establishing a more integrated approach to economic, fiscal, employment and social policies.

28. For the first time, the 2024 European Semester cycle included a country-specific analysis on upward social convergence based on the features of the Social Convergence Framework, implemented this year on a pilot basis. In terms of overall findings, a number of challenges to upward social convergence have been identified in relation to disparities within labour markets, education and training systems, and in social protection and inclusion. The analysis showed that upward social convergence can be fostered only if Member States effectively address existing employment gaps within the population and raise the labour market participation of underrepresented groups and persons in vulnerable situations. Overall, in terms of skills policies, addressing the impact of socio-economic background on access to quality education and training and related outcomes remains imperative to foster upward social convergence.

29.   The European Semester remains an effective coordination tool for fostering sustainable and inclusive economic growth, competitiveness, employment and adequate social protection and social inclusion. The 2025 European Semester cycle should continue to address current and forthcoming employment and skills challenges amidst an uncertain global geopolitical and economic outlook as well as risks associated to climate change and the degradation of natural capital. The next Semester cycle should also continue to support the green and digital transitions and address the impact of the demographic change on the labour market. Emphasis on improving educational outcomes and skills development is needed, strengthening the EU's productivity and competitiveness.

30.   Finally, as the EPM points out, to achieve the 2030 EU headline and national targets, structural challenges in the areas of labour market participation and ALMPs, education and training, skills and lifelong learning, the functioning of tax/benefit systems, gender equality and work-life balance as well as labour market segmentation need to be tackled.

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