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From: The Employment Committee
To: Permanent Representatives Committee/Council
Subject: EMCO Annual Employment Performance Report

Delegations will find attached the EMCO Annual Employment Performance Report.

EMCO Annual Employment Performance Report

Executive Summary

In line with the EPSCO Council's commitment to put its expertise on employment and labour market policies at the service of the European Council for a successful implementation of the Europe 2020 Strategy, the Employment Committee was mandated¹ to produce an "Employment Performance Monitor" (EPM), which serves two main objectives:

- Monitoring the progress towards the overall 2020 employment rate target and related national targets²
- Identifying at a glance the key employment challenges (KECs) and good labour market outcomes (GLMOs) across the European Union and for each Member State respectively

This report presents the main findings from a detailed analysis of the 2021 EPM. In particular, the EMCO Indicators Group analysed the EPM results to assess progress towards the EU overall and national employment rate targets, as set in the Europe 2020 Strategy. However, 2020 was marked by the profound and direct impact of the COVID-19 pandemic on the labour market. Hence, progress (or lack thereof) in terms of attaining the EU 2020 targets needs to be understood against the backdrop of a very complicated and in many ways unprecedented economic and employment context. Nonetheless, a number of policy issues remain, which may be exacerbated by the crisis. Consequently, the EMCO Indicators Group provided a thematic analysis of the EPM and a summary of the key employment challenges and good labour market outcomes across the EU in 2020. This contributes to the identification of the main EU priorities that would be important to monitor in the coming years during and after the recovery phase.

¹ See Council Doc. 14478/10

² The Action Plan for the Implementation of the European Pillar of Social Rights includes new EU headline targets for 2030, which were welcomed by EU Leaders at the June European Council in line with the Porto Declaration. Related national targets should be set and would be part of future editions of the EPM.

The COVID-19 crisis had a serious impact on peoples' health, with a significant number of deaths recorded across the Union. It has put Member States' health systems under unprecedented stress while the related confinement measures severely affected production, consumption and investment. For 2020 as a whole, GDP in the EU was down by 6% compared to the previous year. The Summer 2021 interim Economic Forecast projects that the EU economy should expand by 4.8% in 2021 and 4.4% in 2022. After rising from 6.7% in 2019 to 7.1% in 2020, the unemployment rate is projected to further increase to 7.6% in 2021 (before receding to 7% in 2022)³. The labour market outlook will depend not only on the speed of the economic recovery, but also on the timing of policy support withdrawal and the pace at which workers are reallocated across sectors and firms.

In the previous decade, the EU saw robust employment growth. Since the adoption of the EU 2020 strategy in 2010, the EU27 employment rate (20-64) grew by a maximum of 5.3 percentage points (from 67.9% in 2010 to 73.2% in 2019), with the most persistent growth taking place after 2015. In 2019, EU unemployment rates had fallen to their lowest levels in more than a decade while employment had reached new all-time highs. The pandemic brought this improvement to a halt. In 2020, the employment rate stood at 72.5% (78% for men and 66.9% for women), down from 73.2% in 2019 (67.4% for women and 78.9% for men)⁴. A decrease in the employment rate was observed in all but three of the EU Member States.

Policy action in dealing with the fallout of the pandemic was swift with measures, such as short-time work schemes for workers, income subsidies for the self-employed as well as liquidity measures for firms taken to limit employment losses during the confinement periods. As a result, the EU employment rate did not exhibit a dramatic slump, while the unemployment rate equally registered only a modest increase. The impact of the pandemic in 2020 however is reflected in the deterioration (and volatility) of indicators like the labour market slack, absences from work and total hours worked.

The crisis had a particularly negative impact on the young. Youth unemployment (15-24) increased from 15% in 2019 to 16.8 in 2020. Moreover, compared with other age groups, young people aged 15-24 in the EU saw the sharpest drop in employment. Their employment rate decreased from 33.5% in the fourth quarter of 2019 to 31.1% in the fourth quarter of 2020. Additionally, both temporary contracts and part-time employment were negatively affected by the pandemic. In 2020, the share of temporary contracts fell by 1.2 p.p., the largest decrease ever recorded, and went down to 10.7 %. Similarly, the share of part-time employment in the total employment fell from 17.8 % in 2019 to 16.6 % in 2020.

³ According to the Spring 2021 Economic Forecast (note that the Summer interim Economic Forecast does not contain information about unemployment).

⁴ ESTAT database, July 2021. https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=lfsl_emp_a&lang=en

In terms of thematic priorities for Member States, a reading of the EPM's Key Employment Challenges (KECs) and Good Labour Market Outcomes (GLMOs) points to the following:

- 22 Member States have KECs relating to **skills and lifelong learning** (principally related to skills mismatches and low participation in lifelong learning) and 10 achieved GLMOs.
- 21 Member States have KECs in **labour market participation**, and 16 achieved GLMOs. The participation of older workers and those with lower skills, together with youth unemployment and NEETs feature prominently.
- 21 Member States face KECs related to **social security systems** (e.g. unemployment benefits, low wage traps, unemployment traps), whilst 13 achieved GLMOs.
- 19 Member States face KECs related to **education and training systems** (mainly on educational outcomes depending on socio-economic background, low attainment of basic skills and early school leavers), whilst 10 had GLMOs.
- 14 Member States face KECs in the area of **gender equality** (especially regarding gender employment gaps) and 12 achieved GLMOs.
- 12 Member States face KECs in the area of **labour market functioning** (with segmentation still being a concern) and 5 achieved GLMOs
- 11 Member States face KECs in the area of **work-life balance** (as regards provision and uptake of care facilities and the impact of parenthood on labour market participation) and 7 achieved GLMOs.

Finally, the analysis identifies some trends to watch (for the period 2019-2020):

Negative trends

- A deterioration in the **nominal unit labour costs** in a majority of Member States (in 24 MS).
- A deterioration in the share of the **newly employed** in 21 MS.
- A decrease in **total employment** in 20 MS.
- A deterioration in the share of the **adult population participating in education and training** in 19 MS.
- A deterioration in the **employment rate** in 11 MS.
- A deterioration in the **youth NEET rate** in 10 MS.
- An increase in the **at-risk-of-poverty rate of the unemployed** (registered in 10 MS), even though a decrease was observed in another 10 MS.

Positive trends

- An increase of the **share of adults with medium or high education** (in 15 MS)
- A decrease in the rate of **involuntary temporary employment** (in 10 MS)
- A decrease in the **gender pay gap** (in 9 MS)

1. Progress towards the EU 2020 employment rate headline target

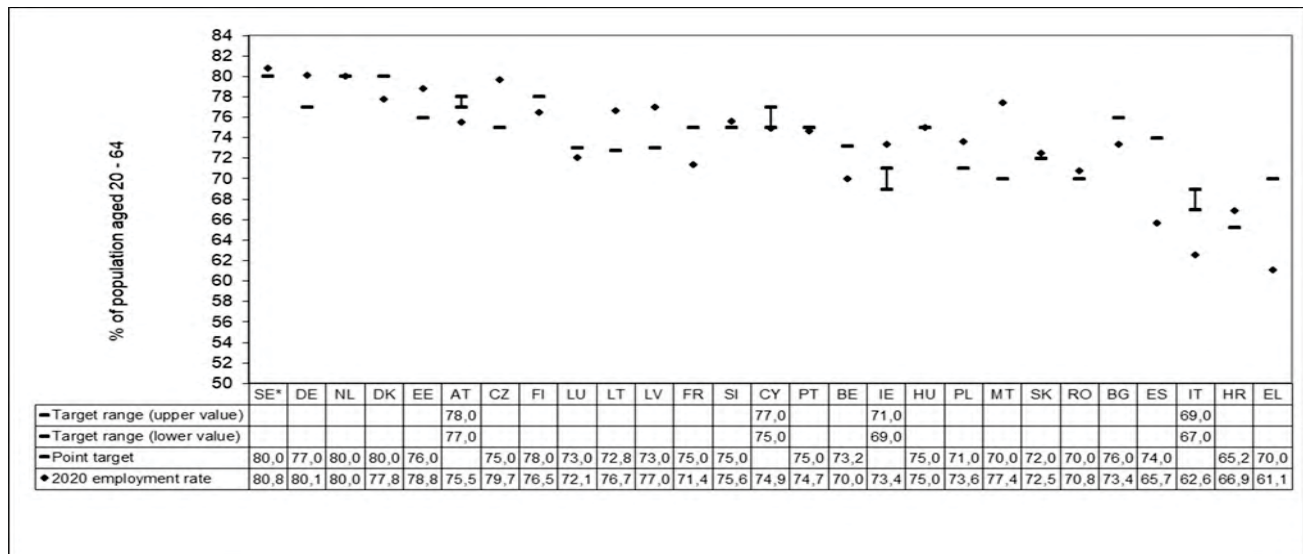
The Europe 2020 Strategy set an EU-wide employment rate target of 75% for women and men aged 20 to 64 by 2020, which was translated into a set of national employment rate targets. The national 2020 employment rate targets (announced by Member States in 2011 through their National Reform Programmes or updated since then) range from 65.2% in Croatia to 80% in Denmark, the Netherlands and Sweden.⁵

In the last decade, the EU saw robust employment growth. Since the adoption of the EU 2020 strategy in 2010, the EU27 employment rate (20-64) grew by a maximum of 5.3 percentage points (from 67.9% in 2010 to 73.2% in 2019), with the most persistent growth taking place after 2015. In 2020, it stood at 72.5% (78% for men and 66.9% for women), down from 73.2% in 2019 (67.4% for women and 78.9% for men)⁶. As regards the future, the European pillar of social rights action plan sets the EU employment rate target for 2030 to at least 78 %. This target was welcomed by the European Council on 25 June 2021, in line with the Porto Declaration.

⁵ In a few countries (Austria, Cyprus, Ireland and Italy), the national target is expressed as a range of values (i.e. with upper and lower values) instead of a point target. In addition to national targets for the overall employment rate, some Member States have also set subsidiary targets for specific labour market groups, such as women, older workers, non-EU citizens, and young people.

⁶ The gender employment gap thus decreased between 2019 and 2020 (from 11.7 p.p. to 11.3 p.p.) but nonetheless remained sizeable. This decrease at EU-level was the result of a lower drop in women's employment rate between 2019 and 2020 in comparison to that of men.

Figure 1. National employment rate targets set by Member States in their National Reform Programmes compared to employment rates in 2019



Sources: National Reform Programmes 2020, EU Labour Force Survey for 2020 employment rate.

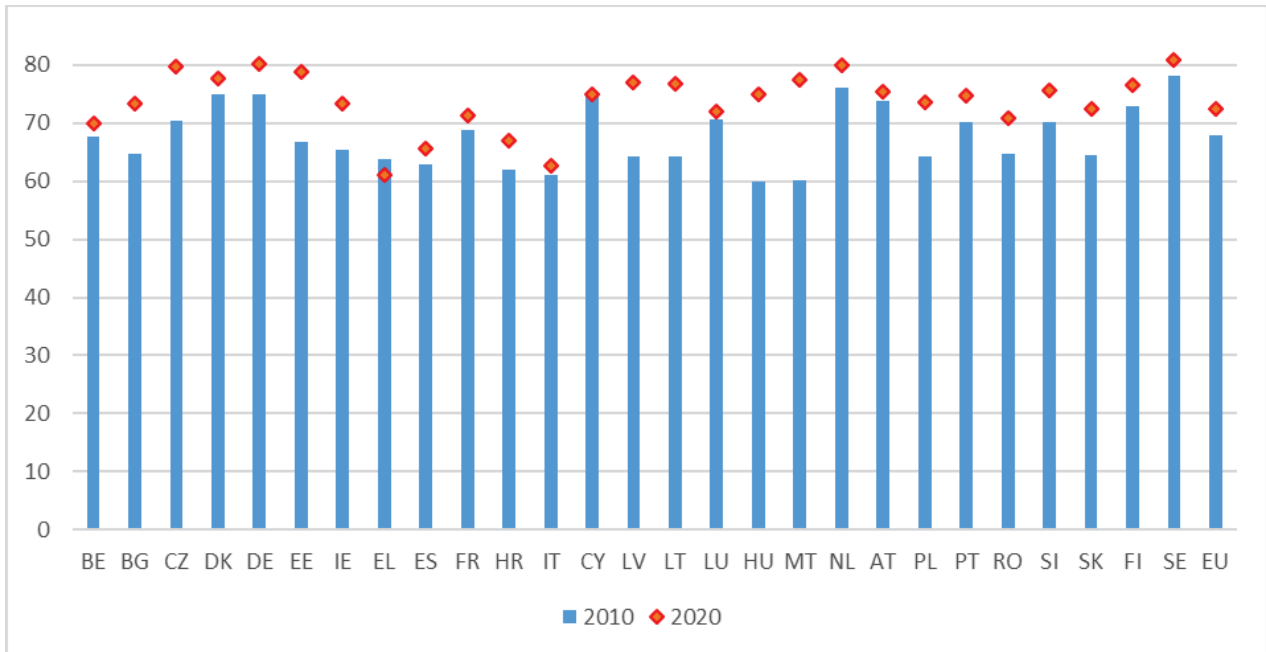
Note: I indicates a range for Member States national targets.

* Sweden has defined a national employment rate target of "well over 80%".

Figure 1 above shows that fifteen EU Member States reached or exceeded their national target in 2020. Malta (+7.4 p.p. above its target), Czechia (+4.7 p.p.), Ireland (+4.4 p.p.), and Latvia (+4.0 p.p.) surpassed their national 2020 targets the most firmly. On the other hand, twelve Member States were below their national target in 2020. Out of them, Italy (-4.4 p.p. below), Spain (-8.3 p.p.) and Greece (-8.9 p.p.) were the furthest away from reaching their 2020 goal.

At the same time, countries experienced very different labour market situations in the 2010-2020 decade. The employment rate increased significantly in Malta (+17.3 p.p.), Hungary (+15.1 pp), Latvia (+12.7 p.p.), Lithuania (+12.4 p.p.), Estonia (+12 p.p.), Czechia (+ 9.3 p.p.), Poland (+9.3 p.p.) and Bulgaria (+ 8.7 p.p.). However, it decreased in Greece (- 2.7 p.p.), remained almost stable in Cyprus (-0.1 p.p.), and grew very modestly in Luxemburg (+1.4 p.p.), Austria (+1.6 p.p.) and Italy (+1.6 p.p.) (although from different levels). (Figure 2)

Figure 2: EU MS employment rates, 2010-2020



Source: EU Labour Force Survey

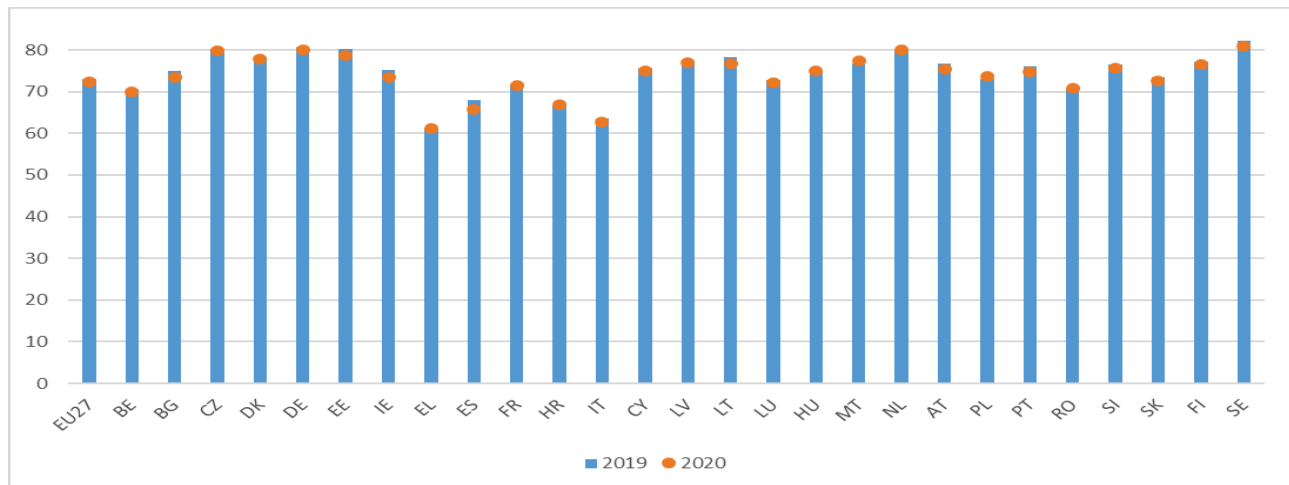
2. Labour market developments in light of the COVID-19 pandemic.

The COVID-19 pandemic had an unprecedented and direct impact on the labour market. The lockdown and other health-related measures implied a slowdown of the business activity, negatively impacting employment but also pushing people out of employment and affecting their availability or their job search. The EU economy contracted by 6% of GDP in 2020 and unemployment stood at 7.1% (from 6.7 in 2019). The Summer 2021 interim Economic Forecast projects that the EU economy should expand by 4.8% in 2021 and 4.4% in 2022. The unemployment rate is projected to further increase to 7.6% in 2021 (before receding to 7% in 2022)⁷. The labour market outlook hinges not only on the speed of the economic recovery, but also on the timing of policy support withdrawal and the pace at which workers move across and into sectors and firms, as employment opportunities arise and are created.

All but three (MT, PL, HR) EU Member States saw a year on year decrease in their employment rates (Figure 3).

⁷ According to the Spring 2021 Economic Forecast (note that the Summer interim Economic Forecast does not contain information about unemployment).

Figure 3: EU MS employment rates, 2019-2020.



Source: EU Labour Force Survey

The widespread use of job retention schemes that kept many employees attached to their jobs helped contain the deterioration of labour markets in 2020 and kept unemployment relatively low⁸. Thus, the impact of the pandemic on the labour market is captured by the deterioration and volatility of indicators like the labour market slack⁹, absences from work, and total hours worked in 2020. As reported in the different editions of the EMCO-SPC “Monitoring Report on the Employment and Social Situation in the EU Following the Outbreak of the COVID-19 Pandemic”¹⁰ there was a dramatic deterioration in these indicators between the first quarter of 2020 and the second. Following the easing of COVID-19 containment measures the situation improved in the third quarter before worsening again in the fourth (in line with the epidemiological condition in the EU). (Table 1)

⁸ Together with the drop in working hours and the decline in the activity rate as people stopped looking for work.

⁹ The sum of unemployed persons, underemployed part-time workers, persons seeking work but not immediately available and persons available to work but not seeking, expressed as percentage of the extended labour force.

¹⁰ <https://ec.europa.eu/social/main.jsp?catId=115>

Table 1: EU employment indicators, Q1 2019-Q4 2020.

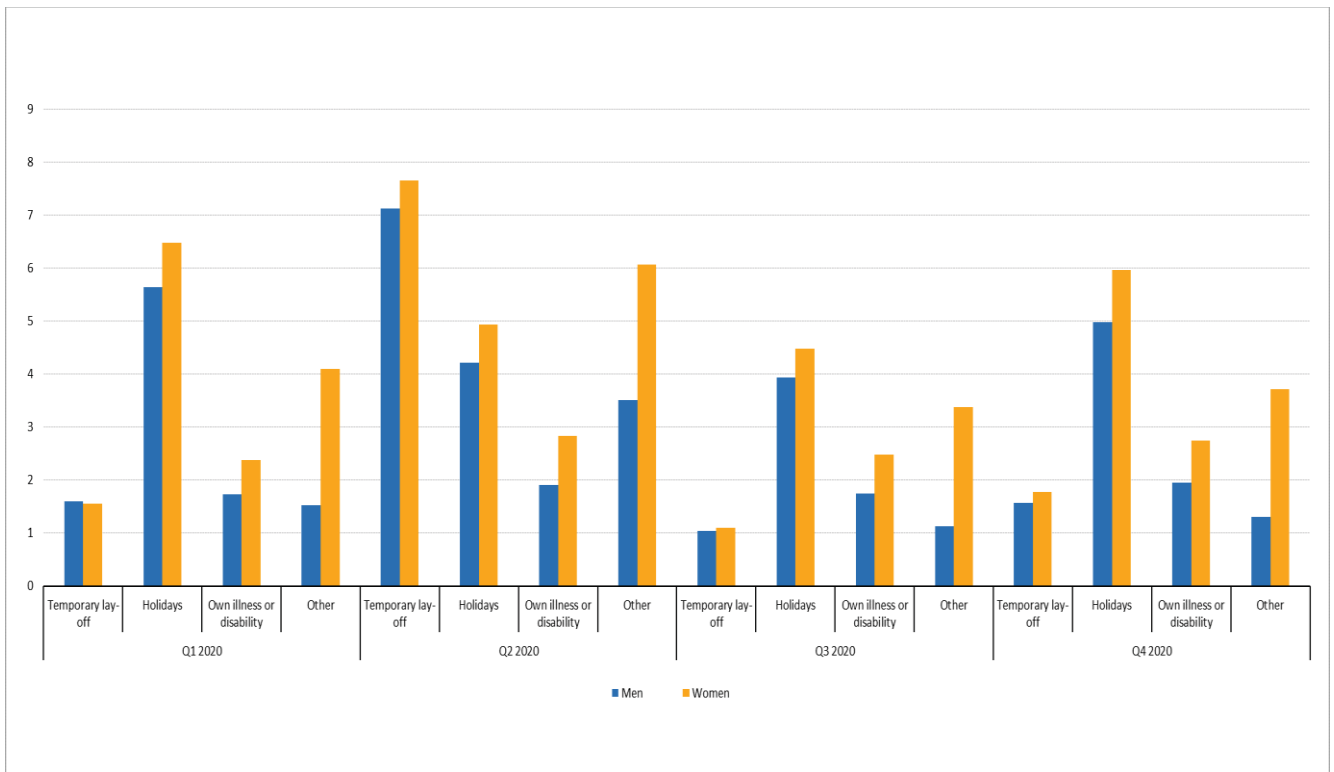
	2019q4	2020q1	2020q2	2020q3	2020q4
Labour market slack (% of extended labour force 20-64, seasonally adjusted)	12,5	12,8	14,3	14,1	13,7
Absence from work (million persons aged 20-64, seasonally adjusted)	18,1	23,5	35,3	17,9	22,3
Index of total actual hours worked in the main job (2006 = 100)	101,8	97,1	85,9	97,6	96,8

Source: EU Labour Force Survey

Overall, in 2020 seasonally adjusted total labour market slack in the EU (20-64) amounted to 29 million persons, which represented 13.7% of the extended labour force, up from 26.9 million persons in 2019 (or 12.7% of the extended labour force). Labour market slack for men amounted to 13.1 million in the EU while the figure for women was 15.9 million. Moreover, the EU activity rate for people aged 20-64 declined in 2020 by 0.5 p.p. to 77.8% (83.6% for men and 72% for women), equivalent to 1.7 million people.

As regards absences from work, Figure 4 indicates that at EU level the share of absences in total employment for women was higher than the share for men during all four quarters of 2020, regardless of the reason for absence (the temporary lay-offs, with 1.6 % for both genders in Q1 2020, were an exception). The size of the gap between men and women's shares varied depending on the reason for absence. Indeed, temporary lay-off showed the least different shares between both genders throughout the four quarters of 2020. The proportion of women laid-off was on average 0.2 p.p. higher than the proportion of men. On the other hand, the difference was the most pronounced for absences for “other” reasons, which include, but are not limited to, absences for personal or family responsibilities. On average, for the four consecutive quarters of 2020, the shares of women giving this reason for being absent from work were 2.5 p.p. higher than for men.

Figure 4: Absences from work by reason and sex in the EU, Q1 - Q4 2020 (as % of employment, 20-64 years)



Source: EU Labour Force Survey. Seasonally adjusted data, not calendar adjusted.

The crisis had a particularly negative impact on the young. Youth unemployment (15-24) increased from 15% in 2019 to 16.8 % in 2020. Moreover, compared with other age groups, young people aged 15-24 in the EU saw the sharpest drop in employment. Their employment rate slightly decreased from 33.5% in Q4 2019 to 33.3% in Q1 2020, dropped to 30.5% in Q2 2020, after which it increased and remained stable at 31.1% in Q3 and Q4 2020. In contrast, people aged 55 to 64 were more likely to stay in employment. From Q4 2019 to Q4 2020, the share of employed people aged 55-64 increased by +0.5 p.p., reaching 60.2 % in Q4 2020. As regards the largest group of persons aged between 25 and 54, 80.1 % were employed in the fourth quarter of 2020 against 80.7% in the fourth quarter of 2019.

Additionally, both temporary contracts and part-time employment were negatively affected by the labour market crisis. From 2013 to 2017, the share of temporary contracts in the EU slowly increased (+0.9 p.p. over the period) and reached 12.5 % in 2017. This share then dropped by 0.2 p.p. in 2018 and 0.4 p.p. in 2019. In 2020, the share of temporary contracts fell by 1.2 p.p., the largest decrease ever recorded, and went down to 10.7 %. Part-time employment remained relatively stable from 2013 to 2019, losing 0.4 p.p. over the whole period. Nevertheless, the share of part-time employment in the total employment fell from 17.8 % in 2019 to 16.6 % in 2020. As with temporary contracts, part-time employment recorded its sharpest drop between 2019 and 2020 (-1.2 p.p.).

There was also a significant impact on people with a migrant background. The EU employment rate (20-64) of people born outside the EU saw a year on year decrease of 2.4 p.p., falling to 62% in 2020 (that of natives dropped by 0.9 p.p. to 75.3%).

As noted above, the massive use of governmental measures in support to employment (via short-time work, temporary lay-off schemes or similar), also with support from the temporary Support to mitigate Unemployment Risks in an Emergency (SURE), proved very effective in preventing the increase of unemployment, and keeping human capital within the firms. A relevant data collection was launched in 2020 via EMCO-SPC in order to monitor these support measures implemented by Member States. According to the EMCO-SPC “Monitoring Report on the Employment and Social Situation in the EU Following the Outbreak of the COVID-19 Pandemic” (for those Member States with available figures) there were a total of at least 17.5 million people receiving benefits under such schemes in March 2020, massively up from 0.6 million in February. The number of persons receiving support continued to increase in April, reaching more than 32 million people, before reducing slightly in May. For most Member States the number of recipients seems to have peaked in April or May and then declined to below 12 in the last three months of 2020.

3. Overview of Key Employment Challenges and Employment trends in the EU labour market

One of the main objectives of the Employment Performance Monitor (EPM) is to identify at a glance the key employment challenges (KECs) and good labour market outcomes (GLMOs) across the European Union and for each Member State respectively, which are derived through the assessment produced by the Joint Assessment Framework (JAF). Tables displaying a summary of key employment challenges and good labour market outcomes across the EU can be found in Part I of the EPM¹¹, whereas specific key employment challenges and good labour market outcomes for each Member State are presented in Part II¹². The EPM also includes a dashboard of key employment indicators (EPM dashboard¹³) which can be used to identify "trends to watch" and "positive recent trends" common to a number of Member States in the field of employment.

A summary overview of the findings from both of these sections of the EPM is presented in the sections below with the aim of providing an overall picture of the labour market situation in the EU, covering both structural challenges as well as overall recent trends. It is important to identify and monitor the main EU priorities in the coming years, especially as some outstanding issues could be exacerbated by the COVID-19 crisis.

¹¹ Tables 1 and 2

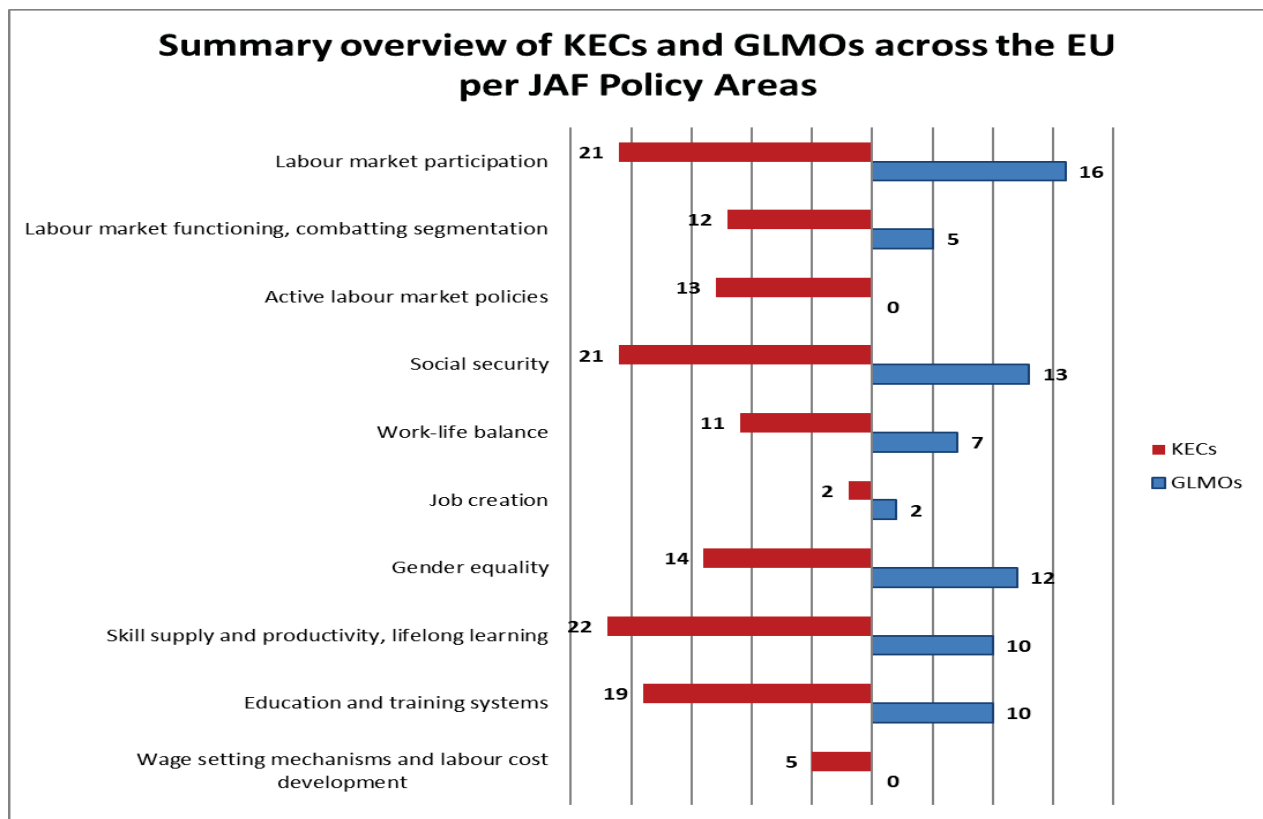
¹² Part II: Country Overviews

¹³ The EPM dashboard can be found in Annex B in the EPM

a. Overview of key employment challenges and good labour market outcomes

This section provides a summary overview of the KECs and GLMOs across the EU, based on a horizontal reading of the information in the EPM. KECs are defined as major areas of underperformance that can signal structural problems, whereas GLMOs are defined as areas of good labour market performance.

Figure 5: Summary overview of KECs and GLMOs across the EU per JAF Policy Area



In the EU as a whole, readings of the EPM show that Member States face the following **key employment challenges** under the 10 JAF policy areas (Figure 5):

- Labour market participation (21 MS), which mainly relate to
 - Low and/or decreasing employment rate: overall (5 MS), women (3 MS), older workers (9 MS), low-skilled (6 MS) and non-EU migrants (8 MS)
 - High and/or increasing incidence of youth unemployment and/ or NEETs (8 MS)
 - Low duration of working life (4 MS)

- Labour market functioning, combatting segmentation (12 MS)
 - High/increasing labour market segmentation (8 MS), low transitions from temporary to permanent employment (2 MS)
 - High incidence of undeclared work (3 MS)
- Active Labour Market Policies (13 MS), which mainly relate to
 - Low level of ALMP expenditure / Insufficient provision of well targeted tailored measures / Insufficient functioning of public employment services (13 MS)
 - High incidence of long-term unemployment (3 MS)
- Adequate and employment oriented social security systems (21 MS), which mainly relate to
 - Inadequate level and coverage of unemployment benefits / High poverty and/or low wage traps / High levels of at risk-of poverty (13 MS)
 - Disincentives for labour market participation in social security systems / Disability pensions / Unemployment traps (9 MS)
- Work-life balance (11 MS), which mainly relate to
 - Insufficient provision / uptake of high quality, affordable child and/or dependent care facilities (9 MS)
 - High incidence of inactivity and part-time work due to family obligations, high impact of parenthood on employment (10 MS)
- Job creation (2 MS), which mainly relate to
 - Negative employment growth / insufficient job creation (1 MS)
- Gender equality (14 MS), which mainly relate to
 - Gender gaps: employment (8 MS), pay (4 MS)
 - Disincentives for second earners (3 MS)
- Skill supply and productivity, lifelong learning (22 MS), which mainly relate to
 - Weaknesses with respect to educational attainment of the (adult) population (4 MS)
 - Low participation in lifelong learning / lack of an integrated lifelong learning strategy (10 MS)
 - Skills mismatches / Insufficient forecasting skills system (4 MS)
 - Low level of digital skills among adults (6 MS)

- Education and training systems (19 MS), which mainly relate to
 - High incidence of early school leaving (5 MS)
 - Low upper secondary education attainment (5 MS)
 - Low tertiary education attainment rate (7 MS)
 - Low attainment of basic skills (5 MS)
 - Educational outcomes depending on socio-economic and migrant background (7 MS)
 - Low participation in early education and care (1 MS)
 - Low attractiveness of vocational education and training (1 MS)
 - Low attractiveness of the teacher profession (2 MS)
 - Insufficient provision of education and training opportunities to meet labour market needs (4 MS)
- Wage setting mechanisms and labour cost development (5 MS), which relate to
 - Minimum wage setting (3 MS)
 - Collective bargaining (3 MS)

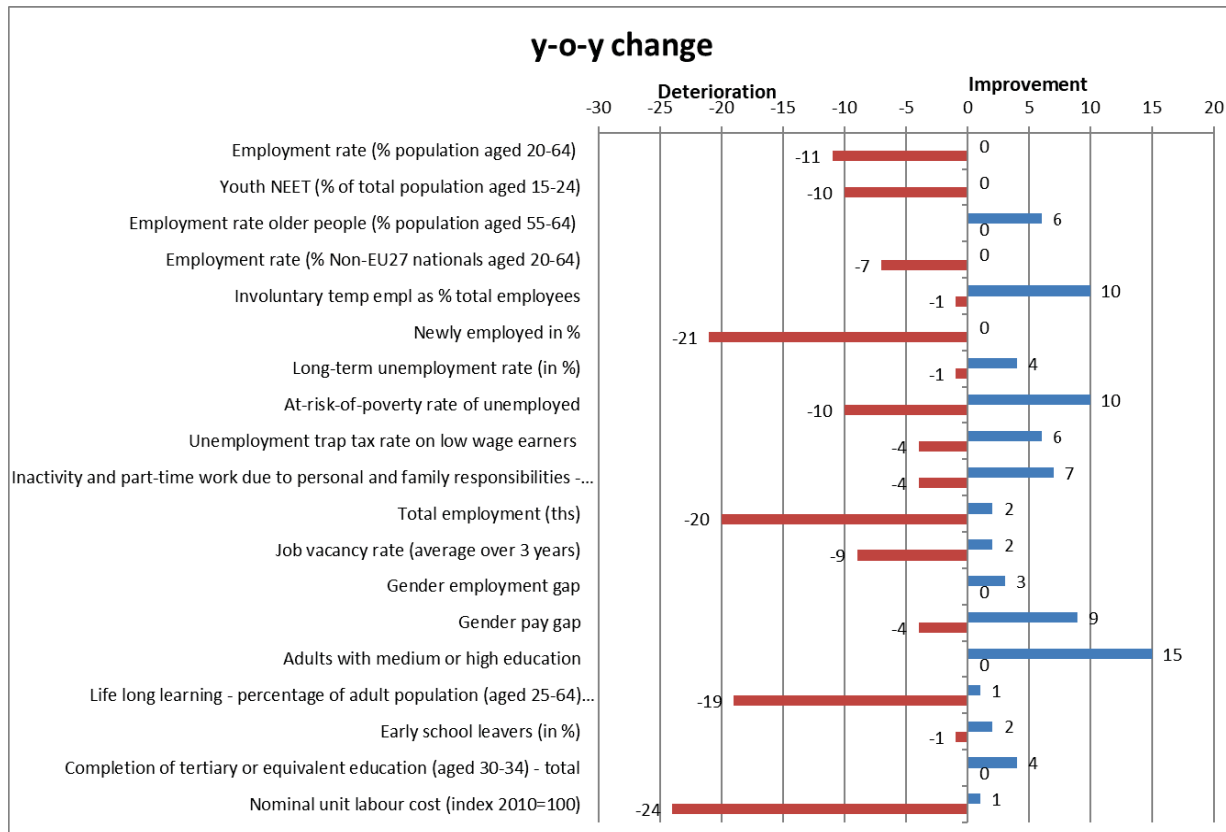
At the same time, Member States demonstrated **good labour market outcomes** in the areas of

- Labour market participation (16 MS)
- Labour market functioning, combatting segmentation (5 MS)
- Social security (13 MS)
- Work-life balance (7 MS)
- Job creation (2 MS)
- Gender Equality (12 MS)
- Skill supply and productivity, lifelong learning (10 MS)
- Education and training systems (10 MS)

b. Review of the employment trends identified in the 2020 EPM dashboard

This section provides an overview of recent developments in the employment situation in the EU, based on the results from the latest edition of the EPM dashboard, a tool which uses the main indicators under the 10 JAF Policy Areas to identify common EU employment "trends to watch" and "positive recent trends"¹⁴ with the aim of identifying common labour market trends in the European Union.

Figure 6: Employment trends to watch and areas of improvement for 2019-2020



In the EU as a whole the following main negative trends, or “trends to watch” are identified for the most recent period 2019-2020 (Figure 6):

- A deterioration in the **nominal unit labour costs** in a majority of Member States (in 24 MS).
- A deterioration in the share of the **newly employed** in 21 MS.
- A decrease in **total employment** in 20 MS.

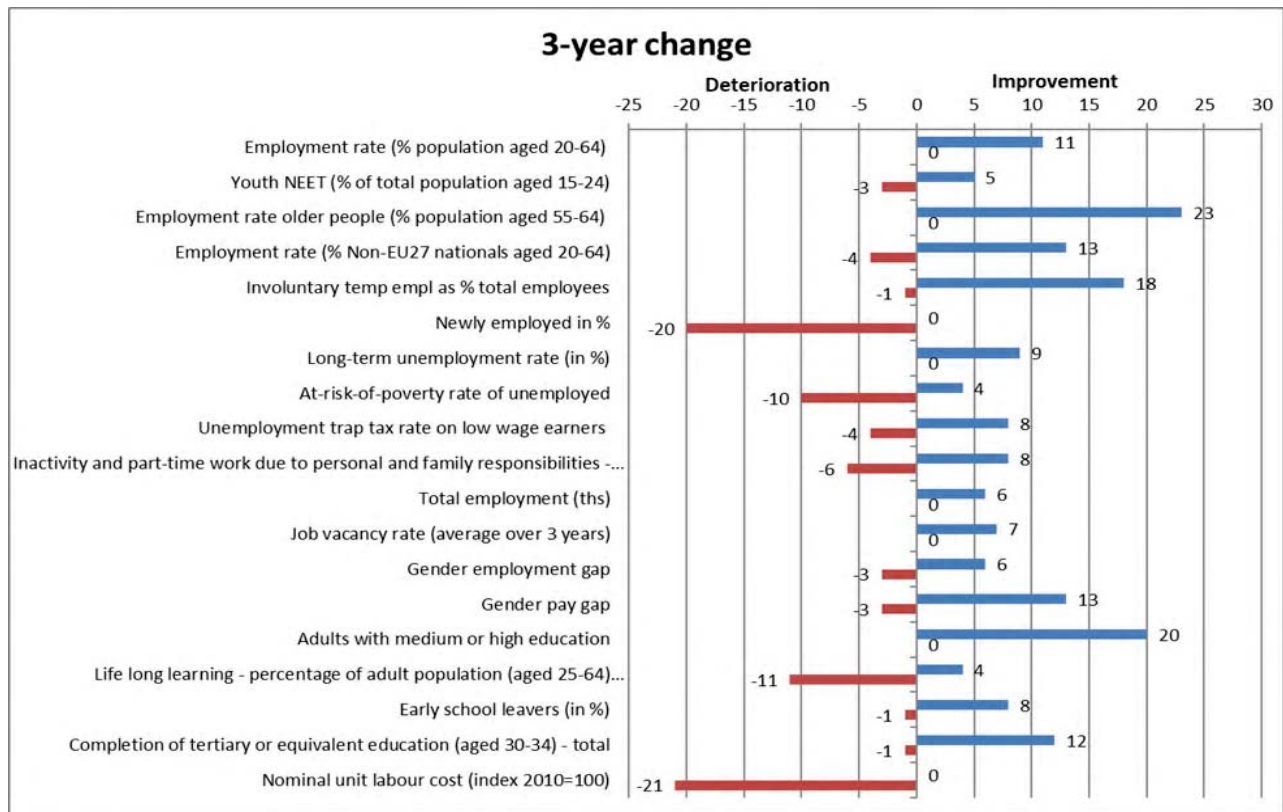
¹⁴ Common trends are identified when around 1/3 of Member States show a notable deterioration/ improvement.

- A deterioration in the share of the **adult population participating in education and training** in 19 MS.
- A deterioration in the **employment rate** in 11 MS.
- A deterioration in the **youth NEET rate** in 10 MS.
- An increase in the **at-risk-of-poverty rate of the unemployed** was registered in 10 MS, even though a decrease was observed in another 10 MS.

In contrast, positive developments in the labour market and social situation can be observed in the following areas:

- An increase of the **share of adults with medium or high education** (in 15 MS)
- A decrease in the rate of **involuntary temporary employment** (in 10 MS)
- A decrease in the **gender pay gap** (in 9 MS)

Figure 7: Employment trends to watch and areas of improvement for the period 2016-2019



Looking at the longer-term developments (over three years), the areas with the most substantial deterioration compared to 2017 are (Figure 7):

- A deterioration in the **nominal unit labour cost** (in 21 MS)
- A deterioration in the share of the **newly employed** (in 20 MS)
- A deterioration in the share of the **adult population participating in education and training** (in 11 MS).
- An increase in the **at-risk-of-poverty rate of the unemployed** (registered in 10 MS)

In contrast, positive developments can be observed in the following areas:

- An increase in the **employment rate of older workers** (in 23 MS)
- An increase of the **share of adults with medium or high education** (in 20 MS)
- A decrease in the rate of **involuntary temporary employment** (in 18 MS)

- An increase in the **employment rate of non-EU nationals** (13 MS)
 - A decrease in the **gender pay gap** (in 13 MS)
 - An increase in the completion of tertiary or equivalent education (in 12 MS)
 - An increase in the **employment rate** (in 11 MS)
-