European Commission

Employment and Social Developments in Europe

Young Europeans: employment and social challenges ahead

2022

Executive Summary

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YOUNG EUROPEANS: EMPLOYMENT AND SOCIAL CHALLENGES AHEAD

In 2021, the EU economy and the labour market recovered from the COVID-19 pandemic. This rebound was slower for some groups such as young people, with the war and rising prices posing additional challenges for economic growth and an inclusive recovery.

In 2021, the European economy rebounded strongly from the severe contraction triggered by the outbreak of the COVID-19 pandemic. The recovery followed an uneven pattern. Some Member States who experienced the biggest drops in 2020 (IT, FR, EL, HR) recorded strong GDP growth, while Member States with robust pre-crisis growth resumed their growth trend (EE, HU). Others showed more moderate growth, such as Germany, whose GDP expanded by 2.9% (after a fall of 4.6% in 2020).

Russia's military invasion of Ukraine in early 2022 has brought war back to the European continent, causing many deaths and precipitating a humanitarian crisis. Around 5 and a half million people, most of them women and children, have fled from Ukraine to the EU, constituting the largest single movement of displaced persons in Europe since the Balkan wars three decades ago.

After the EU economy had barely recovered from the impact of the COVID-19 pandemic, it now faces new disruptions caused by the conflict. These developments are impacting the European economy and citizens through instability of trade flows and export market losses, supply-chain bottlenecks, and increased costs of energy and other commodities. Against this background, the economic outlook has been revised downwards, and real GDP growth in both the EU and the euro area is now expected at 2.7% in 2022 and 2.3% in 2023, with a considerable heterogeneity across the Member States. Sharply rising inflation (the highest levels recorded since the introduction of the euro) risks deteriorating the social situation in the EU. The purchasing power of low-income and middle-income households is expected to be particularly affected.

1.4 p.p. increase in the EU employment rate in 2021, up to 73.1%

The labour market recovered in 2021 with the pick-up in economic activity and the phasing-out of containment measures in the wake of successive COVID-19 waves. Employment increased by 1.2% and returned to pre-crisis levels towards the end of the year. Despite the slowdown in economic activity, the medium and longer-term outlook for the European labour market is expected to further improve with employment expected to increase by 1.2% in 2022 and by 0.7% in 2023.

Labour market outcomes varied by age group, with young Europeans seeing the largest disruptions to their labour market prospects. They experienced a higher increase in unemployment rates in 2021 despite improvements towards the end of the year (the youth unemployment rate in

2021 on average was 1 percentage point (pp) higher than in 2019, compared to 0.2 pp for total unemployment). When in work, they were more often employed on temporary contracts (45.9% of young workers, compared to 10.2% for the general population).

Youth employment has not yet returned to pre-pandemic levels. The employment rate among 15-24-year-olds declined by an average of -2.1 pp in 2020 to 31.4%, compared to 2019, a loss that was only partially compensated by the rise of 1.3 pp in 2021. Young people were more concentrated in non-critical jobs that did not have to be performed during the pandemic, even though the ability to telework and the need for social interaction in the job was similar across age groups.

AROP broadly stable in 2021 at EU level according to initial simulations

Poverty and inequality seem to have remained rather stable despite the shock of the pandemic, an outcome likely linked to exceptional public intervention. Simulations for 2021 indicate that inequality and risk of poverty remained broadly steady, but all of these results should be interpreted with caution due to data limitations. The risk of poverty and social exclusion in 2020 (most recent official information available) rose slightly. At EU level, the number of people in severe social and material deprivation increased to 28.85 million people in 2020 (compared to 28.03 million in 2019), with considerable variation across Member States. Government intervention helped to mitigate these social impacts, especially early in the pandemic.

Social impacts of the crisis also differed depending on age, with young people experiencing a slight deterioration. Minors and the working age population were more affected by severe material and social deprivation (+0.4 pp in 2020, most recent official data available), while this risk fell for people above 65 (-0.7 pp). These groups also faced a higher risk of poverty in most Member States in 2020.

In the light of the particular challenges faced by young people due to the COVID-19 pandemic, and in the spirit of the European Year of Youth, this year's Employment and Social Developments in Europe (ESDE) focuses on people under 30 years of age. It reviews the difficulties and opportunities faced by young Europeans from different socioeconomic backgrounds in the aftermath of the COVID-19 crisis and in light of the digital and green transitions. Chapter 1 presents the main economic and social developments in the EU, with a focus on youth outcomes. Chapter 2 asks *who* young people are and what they care about: it looks at key transitions defining the period of youth (e.g., entrance to the labour market) and reports young people's biggest concerns about the future, as well as their priorities. Chapter 3 presents an analysis of young people's labour market outcomes, with a particular focus on how they cope with the challenges associated with transforming labour markets in Europe. Chapter 4 focuses on the living conditions of young people, their income trends, gender pay gap and the volatility of their income. Chapter 5 addresses the role of education in the transition into adulthood.

Today's 61-75 year olds entered the labour market almost 2 years earlier than 31-45 year olds

Key transitions characterising youth, such as exiting education, finding the first job, and moving out of the parental home, are being delayed across generations.

The key transitions defining youth, such as exiting education and finding the first job, are changing and taking longer. The average age at which people obtain their highest level of education has increased across generations: at EU level, the cohort of people now 61-75 years old left education more than one year earlier than their younger counterparts (31-45 age group) and entered the labour market almost two years earlier.

Young people reported facing particularly difficult labour market and financial conditions during the pandemic, and their mental health came under strain. They were disproportionately affected by job loss and reductions in working hours, with some reporting difficulties in meeting their usual expenses, such as bills and rent. This situation created considerable worry among young people about their future prospects, particularly around finding or maintaining adequate housing in the longer term (61% stated this concern in the context of next 10 years), and ensuring their financial security in old age (70%). They also reported worsening mental health, with 17% of respondents in the 18-29 age group self-assessed as being subject to anxiety or depression, compared to 11% in the 30-34 cohort.

Nevertheless, surveys show that younger respondents still show higher levels of optimism and trust in government compared to other age groups. In spring 2021, less than half (40%) of young people reported feeling optimistic about their future, but this share was still far higher than that of people aged 30+. A similar pattern was evident in their relationship with institutions, with young people reporting higher levels of trust in their national governments and especially in the EU.

> Poverty and inequality are top concerns for young people followed by climate change and environment

Their top priorities are the need to address poverty and social inequality, as well as climate change and the environment. More than 40% identify tackling poverty and social inequality as their top political concerns closely followed by combating climate change and protecting the environment. Risks associated with new technologies are not as high on their list of priorities, although they worry about the impact of the digital transition on jobs.

> Employment and unemployment of young people react twice as strongly to GDP fluctuations compared to those of prime-age individuals

Entering and staying in employment is a challenge for young people, and their often precarious labour market position makes them especially vulnerable during recessions. Young people typically bear a disproportionate share of cyclical variations in employment. During economic downturns, they are more likely to be laid off and less likely to be hired. Conversely, when the economy is booming, the demand for young workers generally increases more than that for older generations. Empirical evidence suggests that employment and unemployment among young people both react about twice as strongly (80-140%) to Gross Domestic Product (GDP) fluctuations as the corresponding labour market indicator for prime-age individuals.

Young people are often in a vulnerable labour market position, particularly during recessions which can have long term scarring effects on their prospects. Long and mild recessions are more detrimental than short and deep ones.

Recessions or economic crises have particularly long-lasting adverse impacts on the labour market prospects of young people. During recessions, young people often experience difficulties in finding a job, which disrupts their early careers and can have long-term ('scarring') effects on their longer-term labour market prospects (e.g. employment rate, activity rate, unemployment rate, part-time employment, share of temporary contracts). These adverse effects are clearly visible for a period of at least five years after a recession.

The length and severity of a recession is a crucial determinant of the extent of the scarring effects on young people. Mild and long recessions have a considerably more negative impact on young people compared to deep and short recessions. For example, the unemployment rate of young people relative to the prime-age group peaks at 4.8 pp three years after mild and long recessions, and 3.8 pp the year following the deep and short recessions. To date, the path of economic activity during and after the COVID-19 crisis is closest to the 'deep and short recession' scenario, which suggests that if the EU economy continues to expand in the coming years, the gap between young people and prime-age individuals can be expected to narrow and eventually disappear in the medium term. However, should the EU economy plunge back into recession, labour market conditions for young people may remain subdued for a far longer period.

Even during economic upturns, getting and keeping a job can be challenging for some young people: individuals with educational and socio-economic disadvantages are more at risk of becoming NEETs.

Socio-economic disadvantages may prevent young people from entering the job market, ending up neither in employment nor in education and training (NEET). The probability of being NEET is estimated to be about 19 pp lower for those in secondary education, and 28 pp lower for those in tertiary education, compared to less educated people. However, the impact of education is significantly reduced once parental and socioeconomic background is taken into account, with the strongest effect evident in southern Europe, while parental background plays a less important role in Nordic countries.

Young people with highly educated parents are less likely to be NEETs by 10 p.p.

Young people's long-term labour market prospects depend not only on their ability to participate in the current job market but also on whether their skills can meet future market needs. The evolution of the digital skills intensity index (the share of digital skills necessary for an individual to use at work in an occupation) reveals a steady increase in the use of digital skills at work in the EU, with the COVID-19 pandemic forcing businesses to further accelerate their digital transformation efforts. Young people seem relatively well-prepared for the increasing need for digital skills, although there are considerable differences across Member States. In 2019, young workers reached 120% of the EU digital intensity average in Estonia, but less than 90% in Romania, Greece and Cyprus. Young men typically work in more digitally intensive jobs than young women, with digital work intensity increasing considerably with educational achievement. This gender and educational divide is closely linked to the highly skilled nature of work and to male dominance in some particularly digitally intensive science, technology, engineering and mathematics (STEM) occupations. In addition, young people could profit from the job creation due to the green transitions, in particular in sectors such as renewable energy, energy efficiency, sustainable transport water supply, sewerage and waste sectors.

Young people experience higher income volatility notably due to their larger share of precarious contracts. This can lead to episodic or chronic poverty in market income, which is exacerbated by young people's limited savings and lower homeownership rates.

Prior to the COVID-19 pandemic, young people experienced significantly higher labour income volatility than other groups of workers. This likely reflected both growing labour market instability - notably due to the larger share of precarious employment among young workers - and increasing transitions out of employment for training and education. Households headed by young people were subject to higher rates of episodic poverty spells and chronic poverty in market income before tax-benefit intervention, although with marked differences across EU countries. Ensuring smooth transitions and predictable income flows thus becomes particularly relevant in light of the increasing frequency of job-to-job and in/out of employment transitions. When exposed to economic distress, young people tend to rely more on family and friends as their coping strategy, and their options to draw on existing savings are more limited.

Higher income inequality and volatility contributed to a higher decrease in homeownership rates among young people. Housing affordability for young people has been worsened by increasing house prices and the tighter mortgage conditions that were introduced after the 2008-2009 financial crisis. Consequently, young people possess lower levels of accumulated wealth – of which housing is typically the largest asset – compared to older generations. In addition, wealth has become more unequally distributed among the young adults in recent years

While incomes of young people are more volatile, gender inequalities in pay emerge already in the early stages of people's careers. Women face a 7.2% unadjusted gender pay gap at the start of their professional careers in the EU labour market, in spite of higher education levels, setting the stage for larger pay inequalities observed later in life (pay gap for all workers is around twice as high). Differences in worker characteristics, such as educational achievement, job experience or type of contract, explain only a small share of pay differences between young women and men, although the situation varies across countries. The low proportion of explained pay gap hides certain differences that lead to sizeable gender differences in pay: young women's higher educational achievement has a positive impact on wages, but on aggregate young men tend to earn more because they work in higher-paid economic activities.

At the start of their career women face a 7.2% pay gap which grows substantially with age

Other circumstances outside individual control, particularly parental background, lead to unequal outcomes in labour and disposable income. The contribution of parental background amounts to around three-quarters of the overall inequality of opportunity. Between 2005 and 2019, the inequality of opportunities determined by parental background, gender and migration status varied across Member States, especially in the immediate aftermath of the financial crisis, while it remained rather stable afterwards. In general, low inequality of opportunity countries tend to have relatively stable indicators over time, while countries where external factors determine larger income inequalities show a more volatile pattern.

Tax-benefit systems supplement young people's market income to a significant extent. The share of benefits in pre-tax income (plus pensions) was twice as high for the young cohort as for the overall population before the pandemic. The impact of benefits was also relatively stronger for the young people in 2020. On average temporary falls in labour income for young workers during the pandemic were successfully cushioned by interventions such as short-time work schemes or within-household income support.

As regards education, the widespread closure of early childhood education and care (ECEC) facilities and schools at the outset of the pandemic impacted children and young people and resulted in learning losses in some Member States. In the school year 2019/2020, schools across the EU were fully open for only one-third of their regular instruction periods. School closures subsequently became less frequent but continued to affect large shares of pupils and students. Traditional learning processes were replaced with distance and hybrid learning, which appear less effective than face-to-face teaching. The magnitude and persistence of the learning loss among pupils and students still needs to be assessed, as preliminary results vary considerably by country, subject and student age. This reflects differences in the extent of school closures, alternative forms of distance and hybrid learning adopted, digital readiness to implement online learning, measures to mitigate learning loss, and methodologies applied. Early studies suggest that in some Member States, students lost a substantial part of a year's learning in certain subjects (e.g. Belgium in mathematics and Dutch), while in others this amounted to several weeks of learning loss (e.g. the Netherlands) or almost no loss at all (e.g. Sweden).

School closures during the pandemic caused some learning loss particularly among disadvantaged children. This could possibly exacerbate current inequalities in education, thus negatively affecting future labour market prospects.

Learning loss tends to disproportionately affect children experiencing various socioeconomic disadvantages. Even though the effect of these closures on learning losses is still unclear, empirical research at national level suggests that where losses occurred, these typically exacerbated educational inequalities, as for example students with a good learning environment at home, and parental support were less affected. This means that certain groups of children were particularly impacted, such as, children living at risk of poverty or social exclusion (AROPE), children in single-parent households, those with parents with lower educational attainment, or children with migrant backgrounds or special educational needs. The impacts of the pandemic may thus have exacerbated inequalities in educational outcomes.

The extent of the long-term consequences of learning losses is not yet clear but the empirical literature points to a strong positive impact of education on future employment opportunities, earnings and well-being. Education in childhood and adolescence is a key enabler and is crucial to active participation in society and in the labour market. Educational and labour market prospects – as well as broader interests and aspirations – begin to be shaped from an early age. More broadly, education is a key determinant of economic growth, as it underpins labour productivity and affects the supply of relevant skills for the labour market.

Overall, the positive impact of education on children's future labour market outcomes starts early on, but those who could profit most from it participate the least. Attending early childhood education and care (ECEC) is associated with improved cognitive skills, school-readiness and later academic achievement, and, by extension, future employment prospects. These positive effects are stronger among children from socioeconomically disadvantaged backgrounds, suggesting that ECEC is a key factor in reducing inequality of opportunities. Unfortunately, children from those backgrounds are less likely to participate in ECEC, particularly children below three years of age who are at risk of poverty or social exclusion, whose parents do not hold tertiary qualifications, and who live in large families. Low ECEC participation is often linked to limited availability, affordability and quality of childcare, certain cultural norms and attitudes towards childcare, and lack of work-life support for parents. In this context, the implementation of the Child Guarantee adopted by the Council in June 2021 will play an important role.

Children in AROPE are 6-11% less likely to participate in early childhood education and care

The European Year of Youth is an occasion to raise awareness of the challenges, preoccupations and opportunities for young Europeans, giving them an active role in shaping the post-COVID-19 recovery and the green and digital transitions into a sustainable future for all. In the context of the European Pillar of Social Rights, a number of initiatives have been proposed to support young people to gain work experience and develop the right set of skills for the changing world of work. These include the reinforced Youth Guarantee and the new flagship 'Aim, Master, Learn, Achieve' (ALMA) initiative, which specifically aims to provide first work experiences abroad for disadvantaged young NEETs, as well as the "Youth FIRST" flagship project providing technical support to improve services offered to children and young people. The European Commission also intends to review the Council Recommendation on the Quality Framework for Traineeships to improve their quality and ensure that they provide a successful pathway to the labour market.

Policy intervention can help reduce the influence of factors such as socio-economic background on young people's opportunities

Alongside policy action at government level, social partners play a fundamental role in supporting companies and workers, including young workers in the recovery. At EU and national level, they have developed dedicated campaigns, strategies and tools to support the integration of young people into the workplace. Sectoral social partners' activities aim to promote their sectors and anticipate labour market needs, which is particularly relevant in view of expected labour shortages. By adapting modes of organisation and communication, such as social media, trade unions can increase their outreach to potential members, especially young workers. These activities are crucial to counteract the decreasing trend in collective bargaining.

All of these initiatives contribute to the three headline Porto targets on employment, training and poverty, and are underpinned by significant

funding at EU level. Cohesion Policy funds, such as the European Social Fund (ESF+), and the Recovery and Resilience Facility will support large-scale investments and reforms implemented by Member States in support of COVID-19 recovery and resilience, including enhanced access for young people to education, employment, health, nutrition, jobs and housing.

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