Youth & The UK Labour Market

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Labour Market Performance of Young Adults

Young people are typically always at a disadvantage in the labour market.

Historically youth unemployment rates is twice that of the adult rate

Didn't used to worry unduly about youth because while more likely to experience unemployment, typically duration of any jobless spell was much shorter (more likely to be hired than older workers)

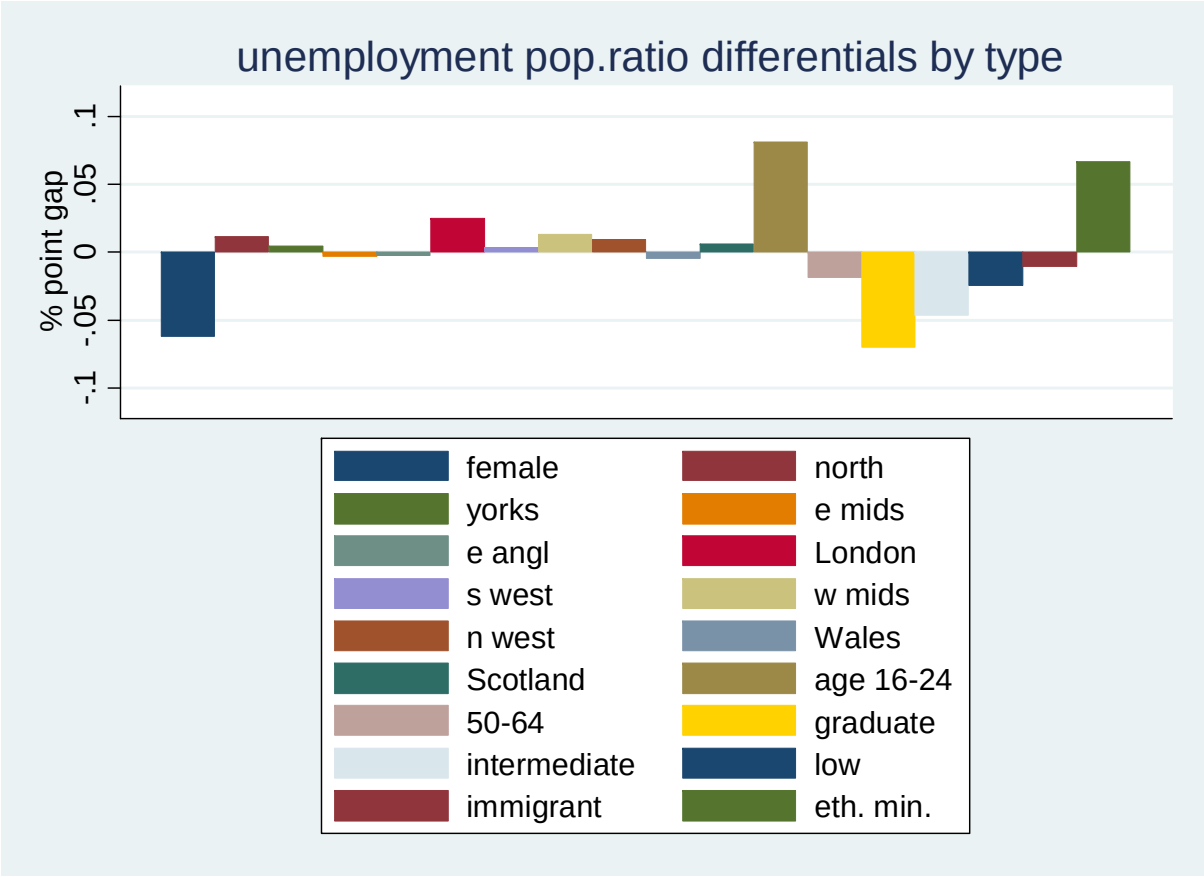
The 2008-2012 slump - which inflicted a larger cumulative loss of output than any other post-war downturn - has led to concerns that youth unemployment has risen to such an extent that there is a risk of a "lost generation"

We are right to worry about scarring effects for young adults,

but is the youth labour market really different (worse) this time round?

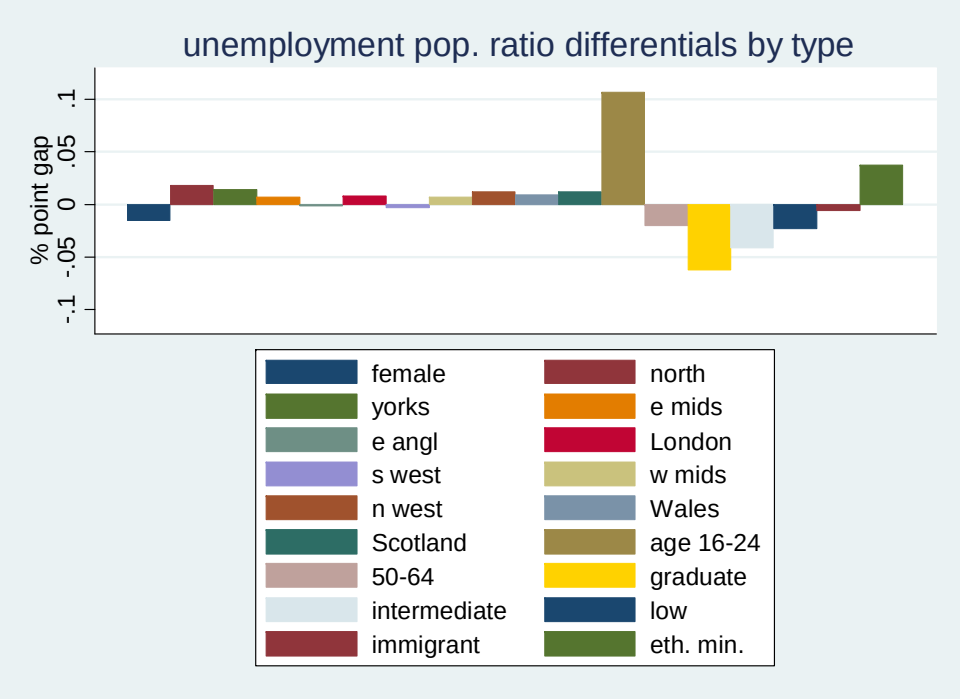
Long known that combination of characteristics matter for chances of being jobless

A graph of the relative chances (% point gap in unemployment-pop ratio) of being unemployed for certain key characteristics shows young adults worse off

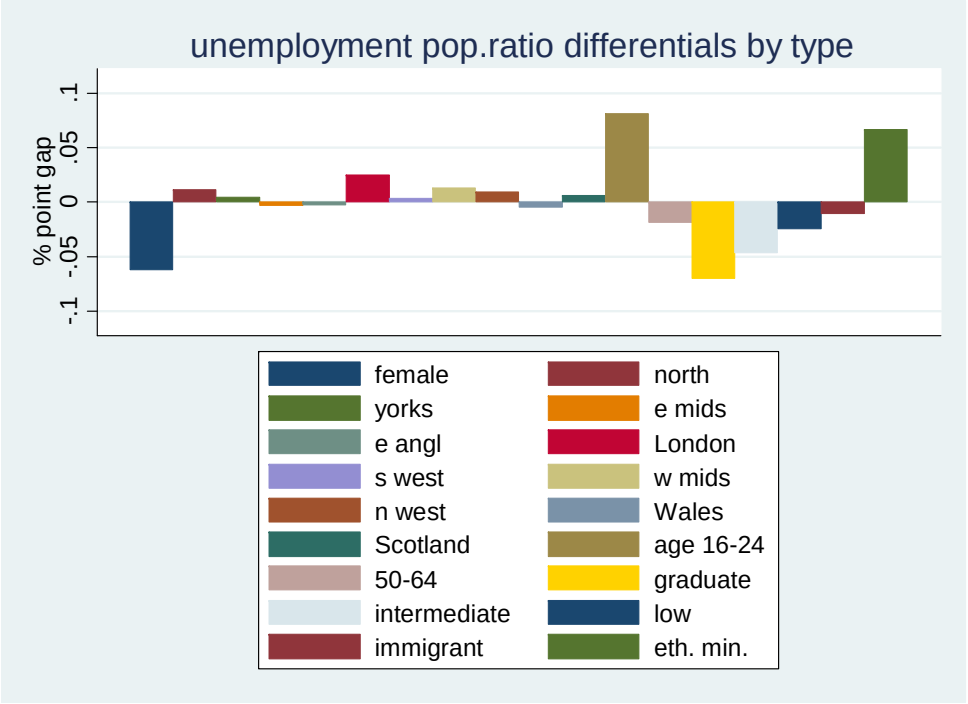


But this is from 1993

From 2012



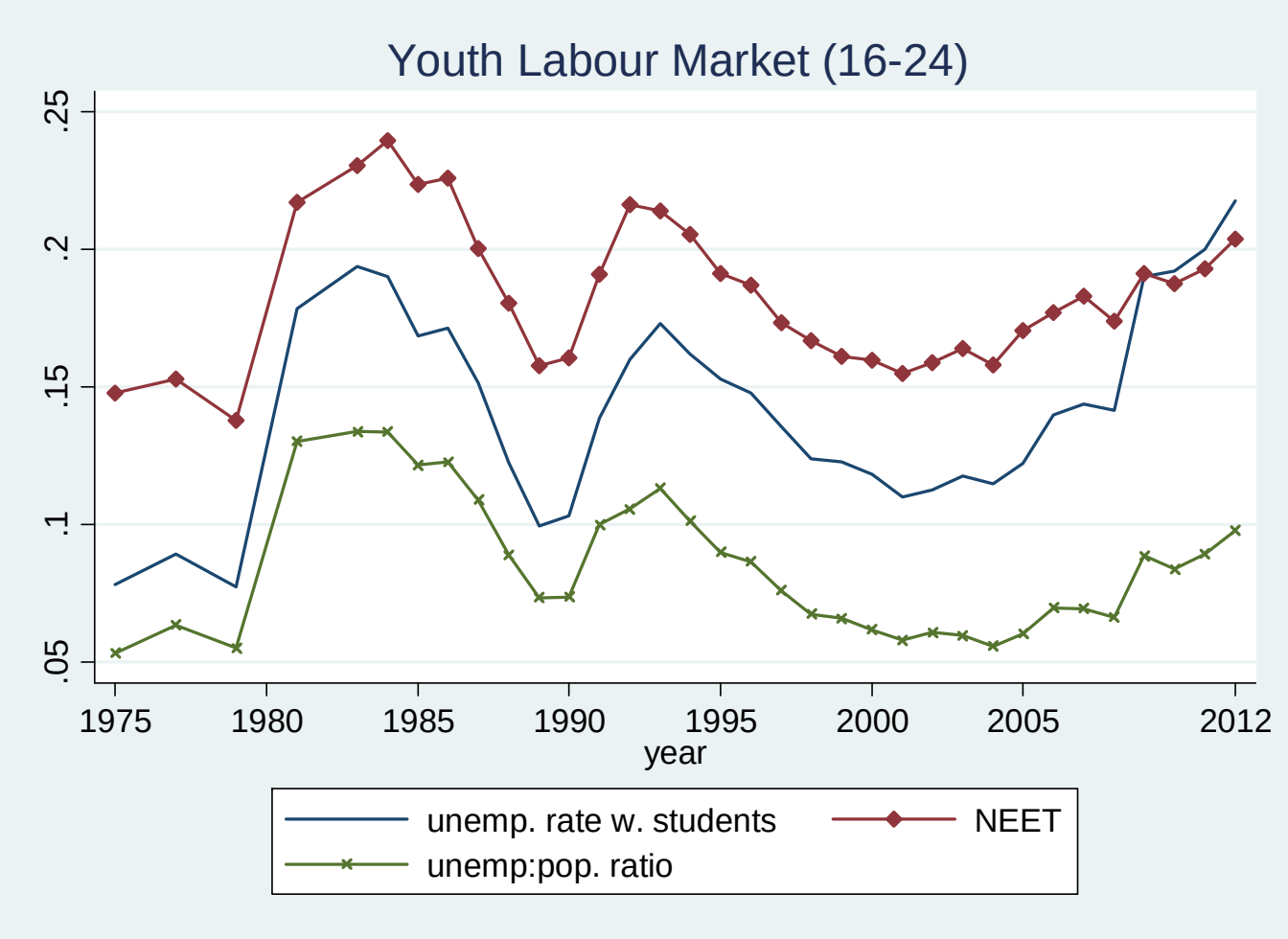
and 1993 again



So many of the same factors that were relevant for labour market performance in the 1990s (and earlier) are still relevant now and the relative importance of age and also other characteristics (education, ethnicity gender) hasn't changed much either.

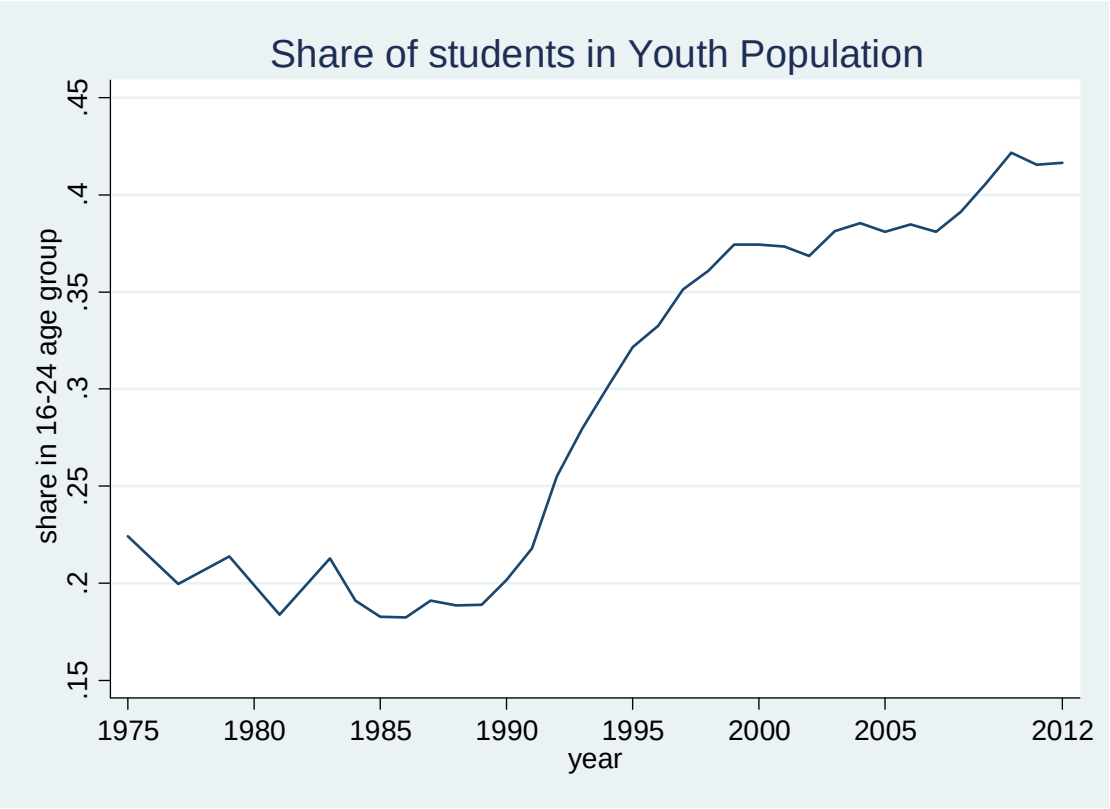
Despite the causes of the downturn being different, the manifestation of its effects is much the same

So is the current concern not justified ?

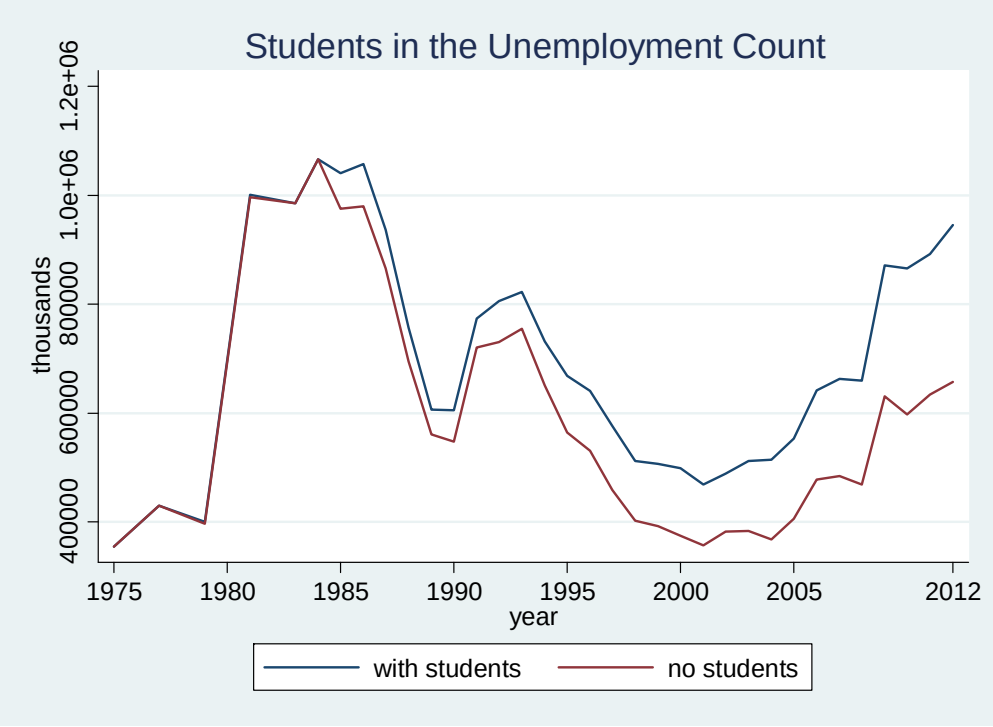


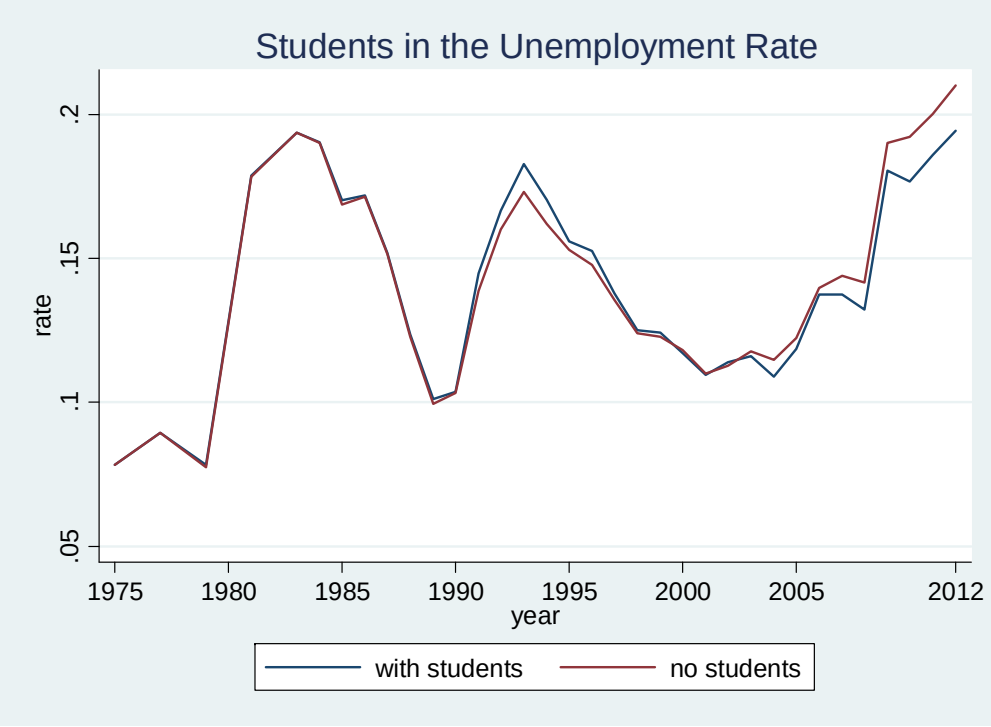
Youth ***unemployment rate*** **is** now higher than in previous 2 recessions **but** both u. pop rate and NEET rate still below 1990s peak
(which in turn lower than 1980s)

Students complicate the youth labour market statistics
7.3 million young adults 16-24 3 million in full-time education



1) Some of them (around 300,000) appear –legitimately - in the unemployment count at the same time as being recorded as in full-time education
2) Large (partly counter cyclical) rise in student numbers also shrinks the youth labour force and exaggerates the youth unemployment rate u =U/(E+U)





Around 300,000 students now in the unemployment count (1/3 of total)

Adds about 2 percentage points to the youth unemployment rate

The Effects of Students & Labour Force Participation on the Unemployment Rate

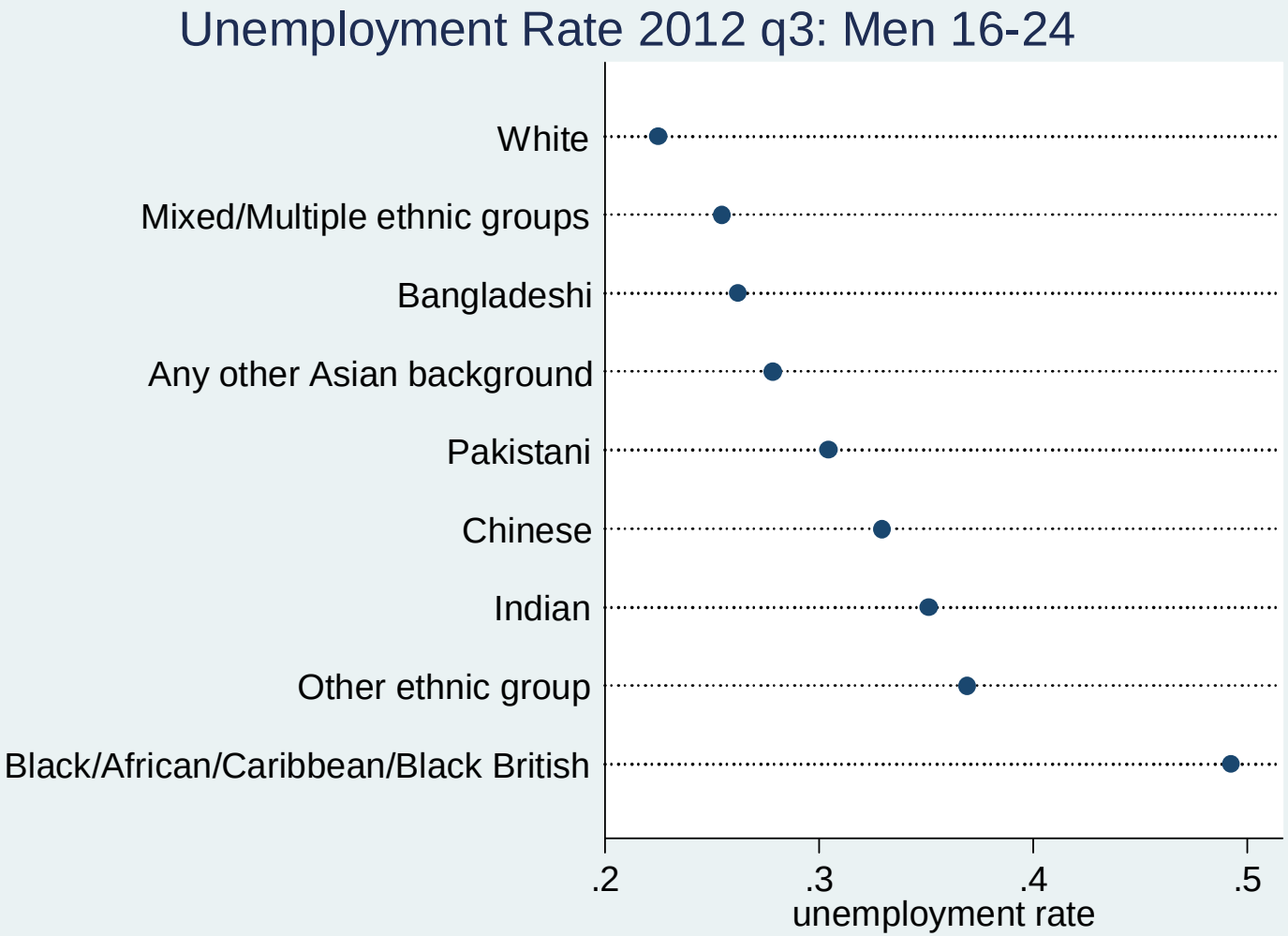
	Unemployment rate, U/(U+E) (1)	Participation rate, (U+E)/(U+E+N) (2)	Unemp. Population ratio U/(U+E+N) (1)*(2)
UK	20.0	62.7	12.5
Spain	46.4	49.7	23.1
France	22.1	38.4	8.5
Italy	29.1	27.4	8.0
Germany	8.5	52.7	4.5
US	17.3	55.0	9.5

Source: OECD for 2011 age 15-24. Author's calculations

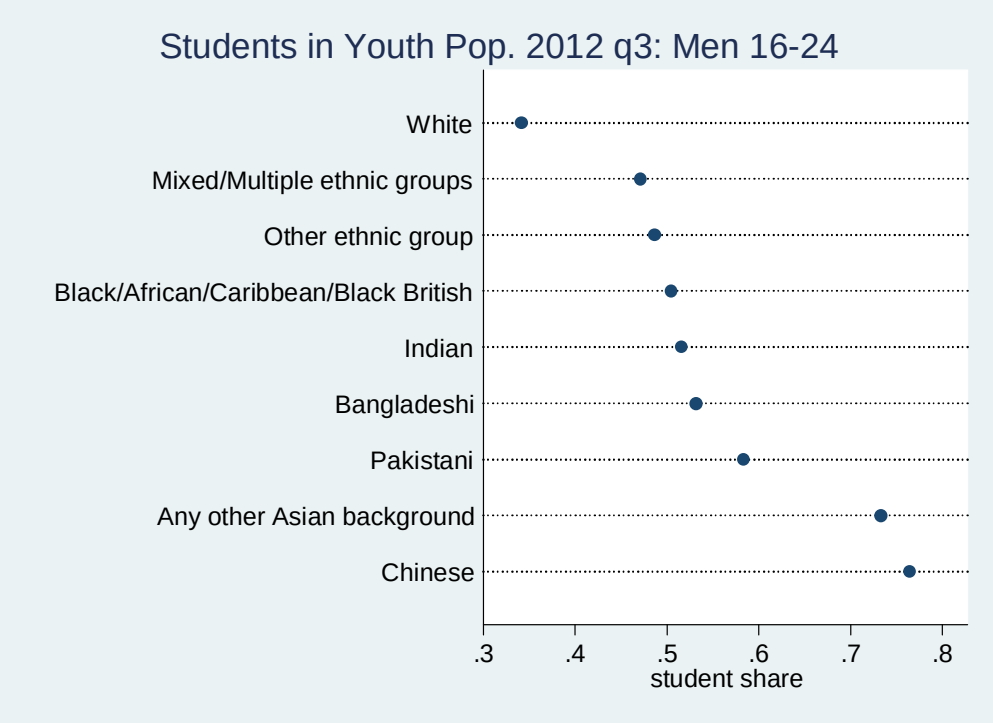
UK has a very high youth labour market participation rate

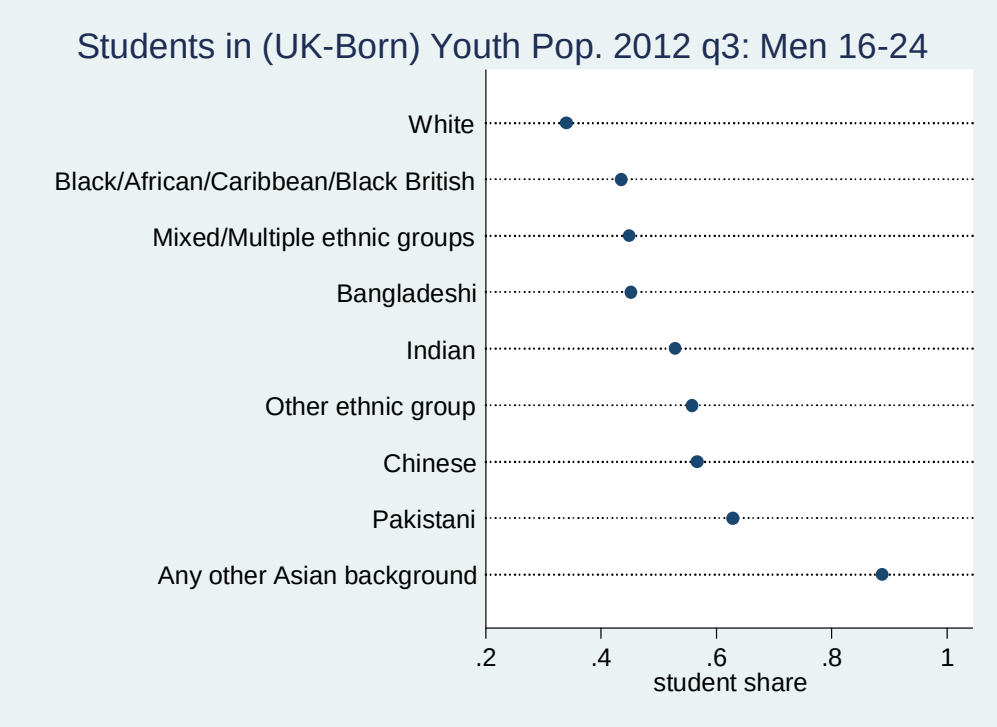
So the poor performance of youth when measured by the unemployment rate in France, Spain (and the UK) is exaggerated by low levels of labour market participation which is in turn – in the main – caused by higher levels of participation in tertiary education

Feeds into longstanding issue regarding ethnicity and youth unemployment



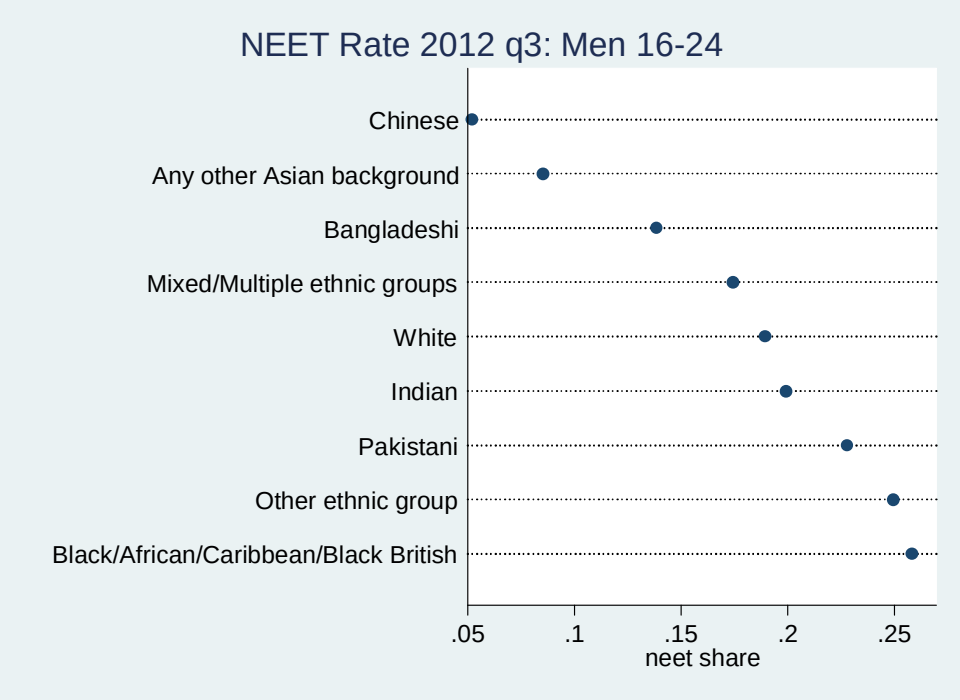
But part of the reason is that labour force participation is lower among many ethnic minorities because participation in education is higher

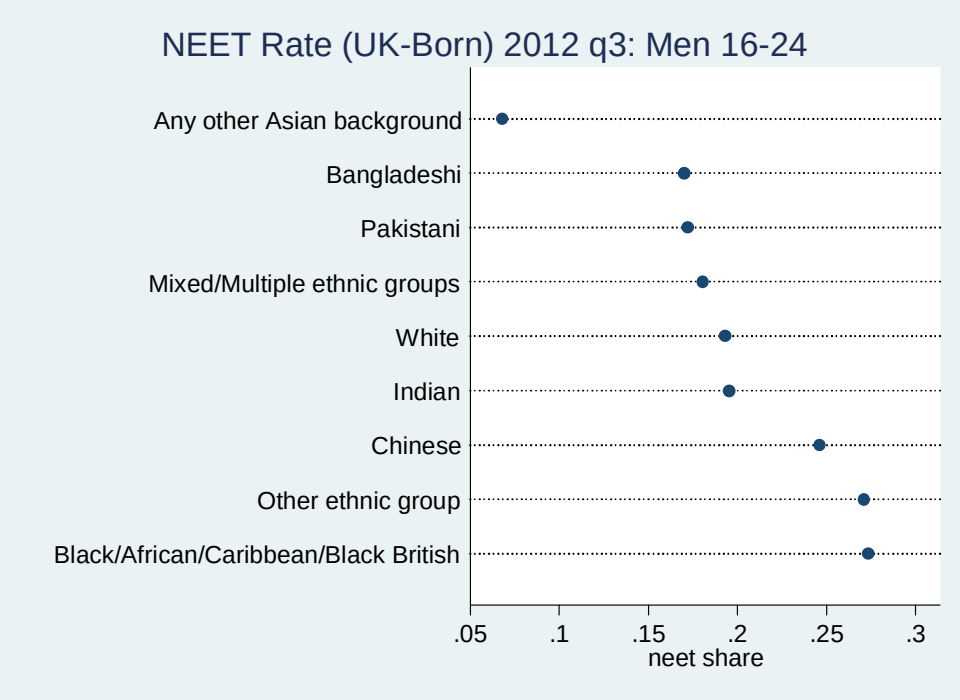




And a smaller labour force exaggerates the unemployment ***rate***

Probably better to look at NEET rate when looking at youth labour market



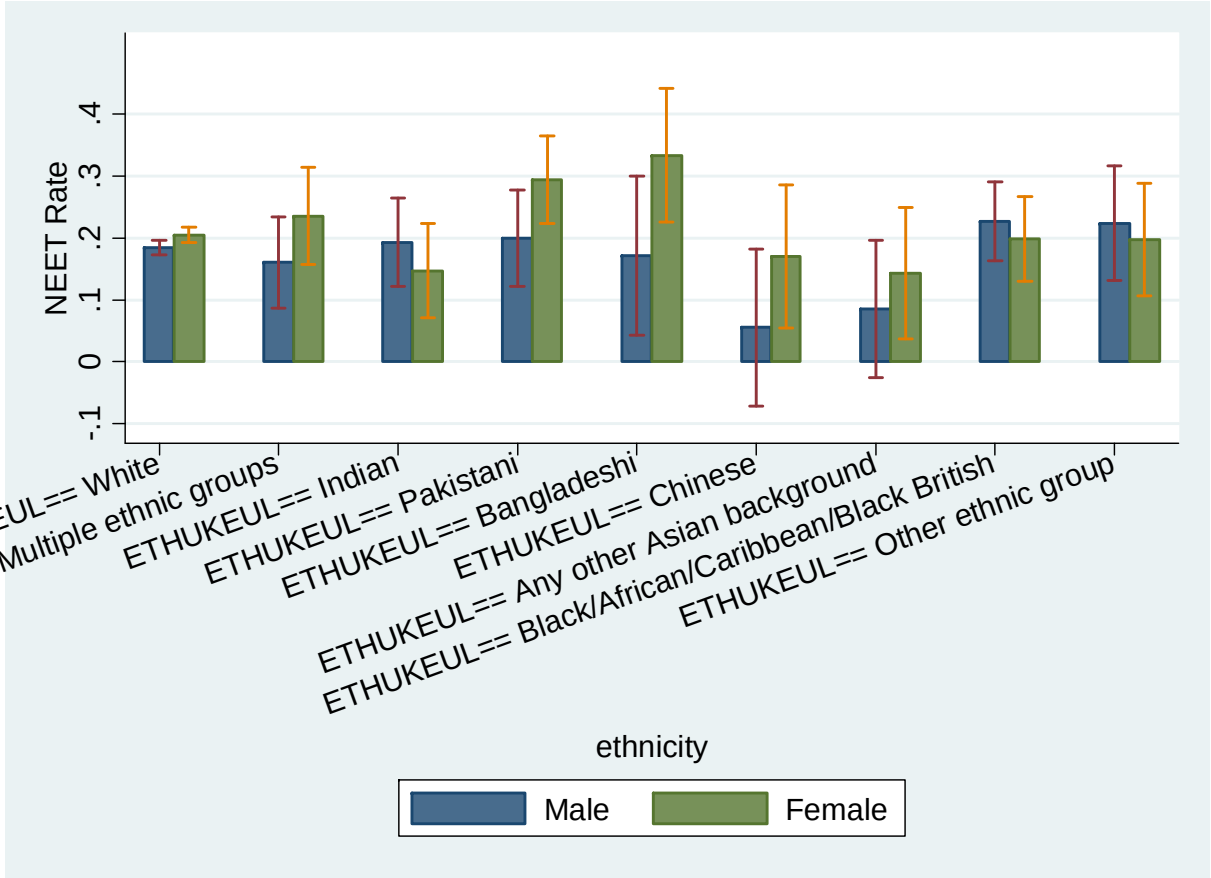


So not nearly as much difference as when look at unemployment rate

And none when account for sampling variation

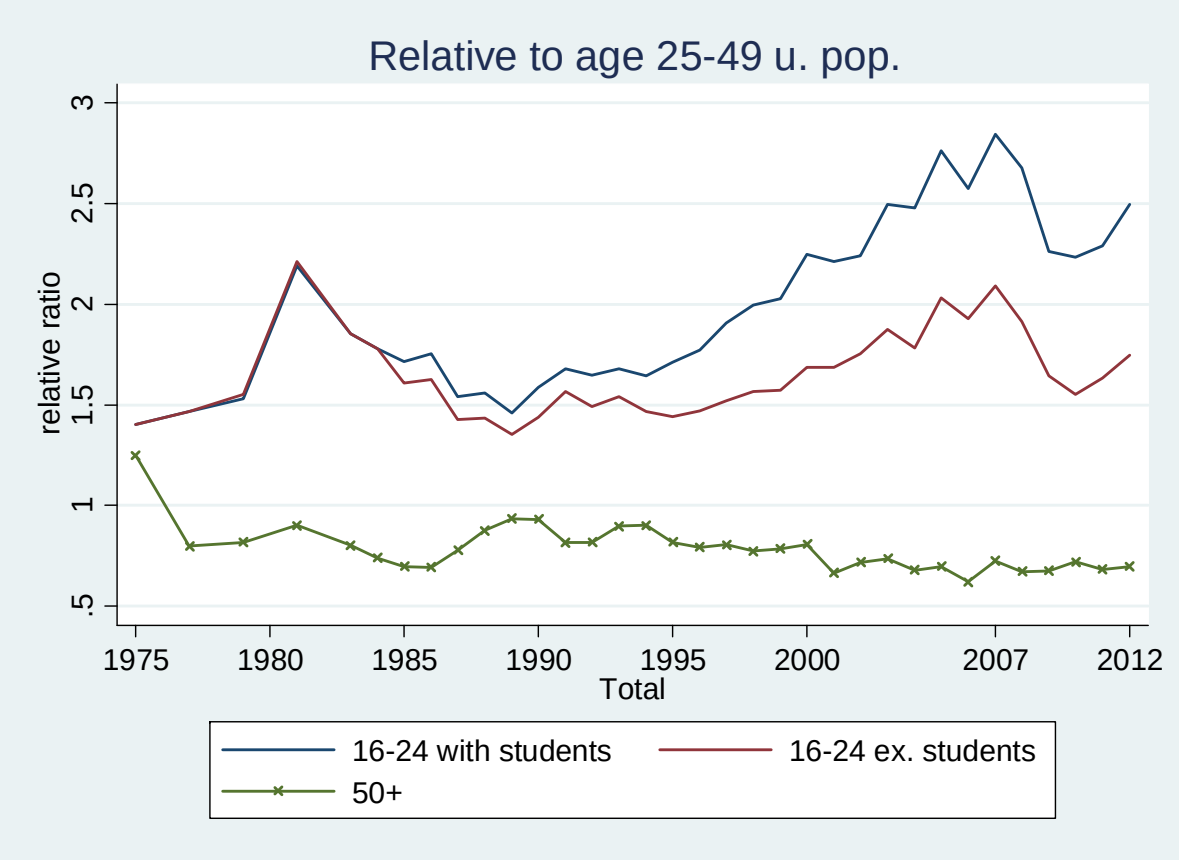
(standard sampling error is around +- 6 percentage points for minority groups)

Sampling errors do include a big range of values so need to be careful making comparisons across small samples



On this basis only young Bangladeshi women statistically significantly different from young white women

Has the performance of youth deteriorated relative to other age groups?



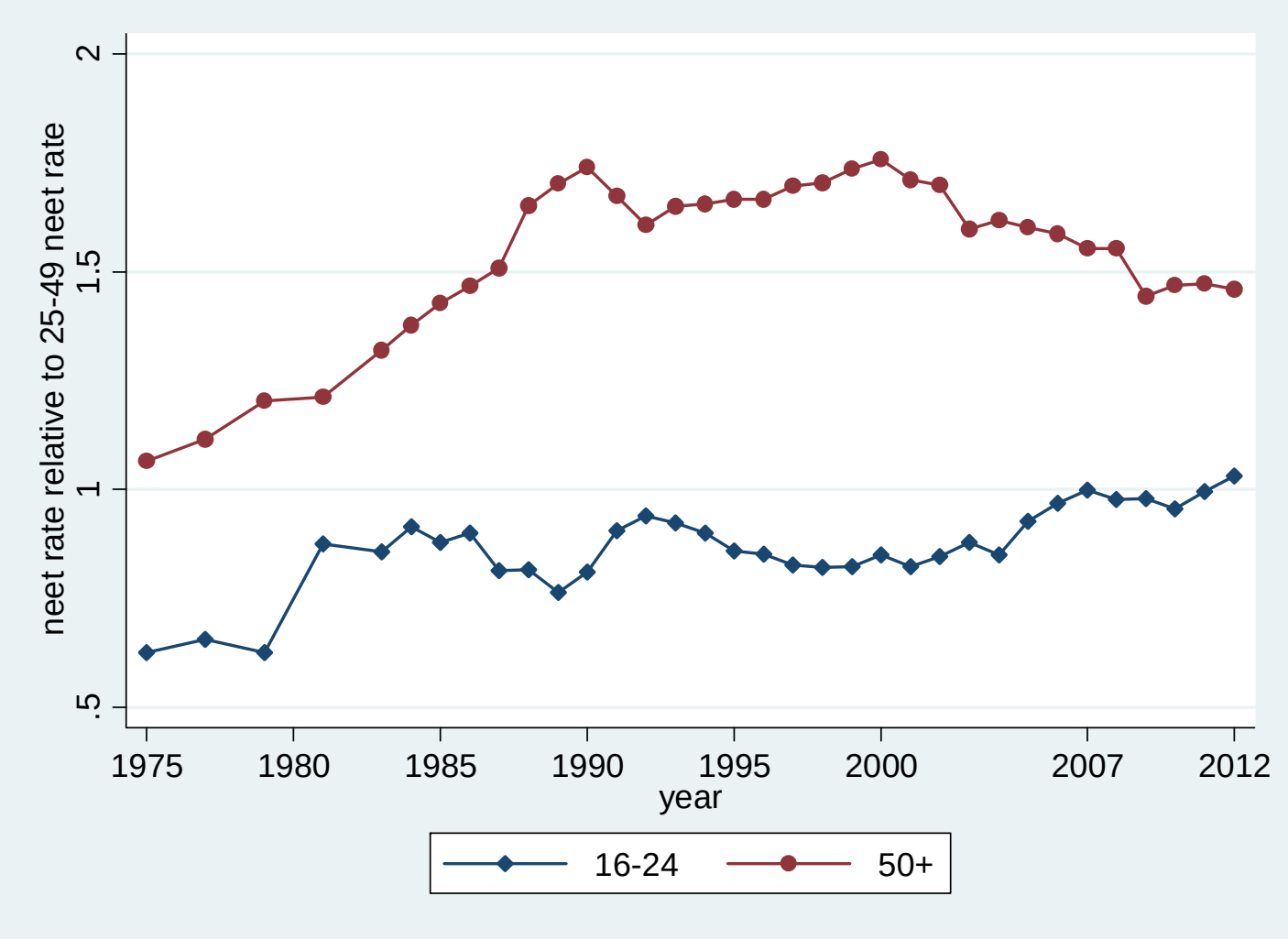
Relative **with** students u:pop ratio is higher (though peaked in 2007)

Relative **without** students u:pop ratio is still not as bad as 1980s (worse than 1990s)
(Over 50s doing better)

So hard to argue recent shift in relative labour market position of youth on this basis

but….

Neet rate has worsened relative to other age groups (mainly because of continued rise in participation among women 25+)



So only in relative – but not in absolute terms – could argue that youth labour market is unprecedented

(and now NEET rate is equal to 25-49 and below 50+)

¾ of all NEETS have GCSE or less

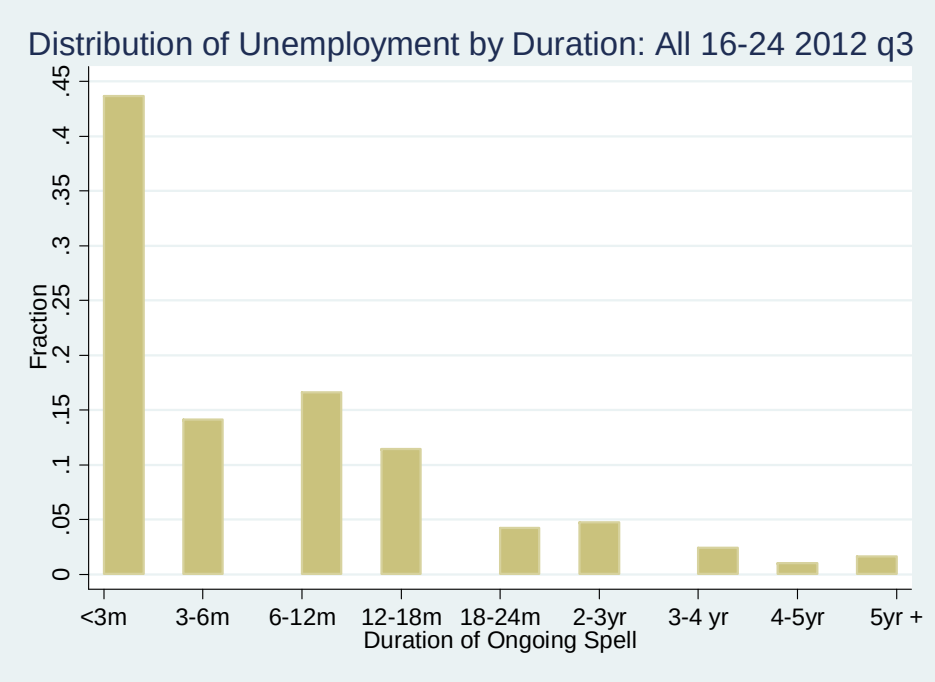
50% of all 16-24 with GCSE or less are NEET (2012)

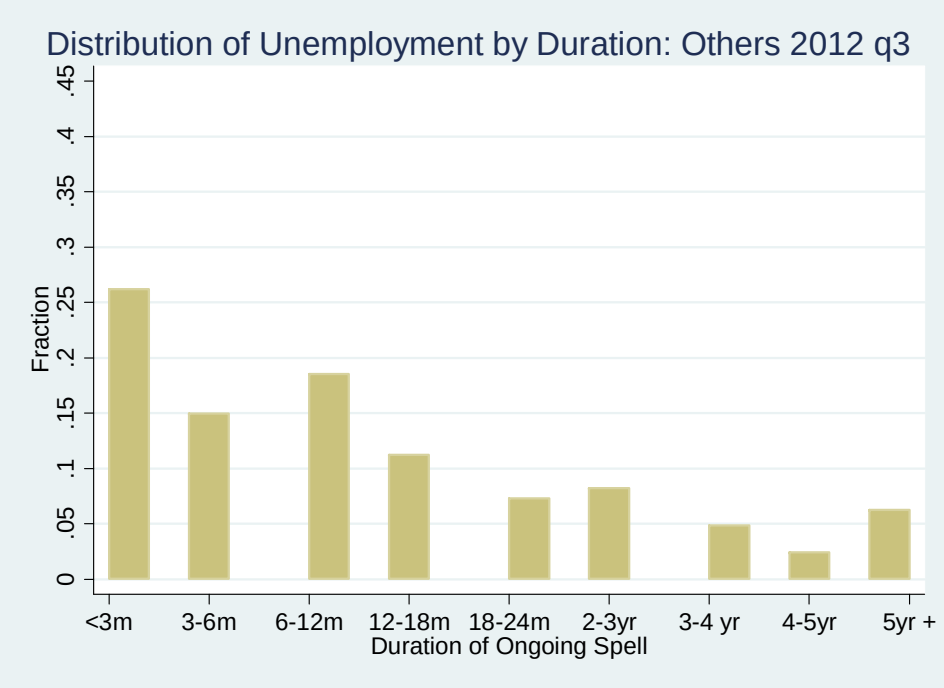
History shows that youth unemployment is dominated by large inflows and large outflows

(so might experience lots unemployment but, typically, don't stay unemployed very long and so, arguably, less of a concern)

Any different this time?

Current spells of youth unemployment dominated by short-term spells, (much more so than for other ages)

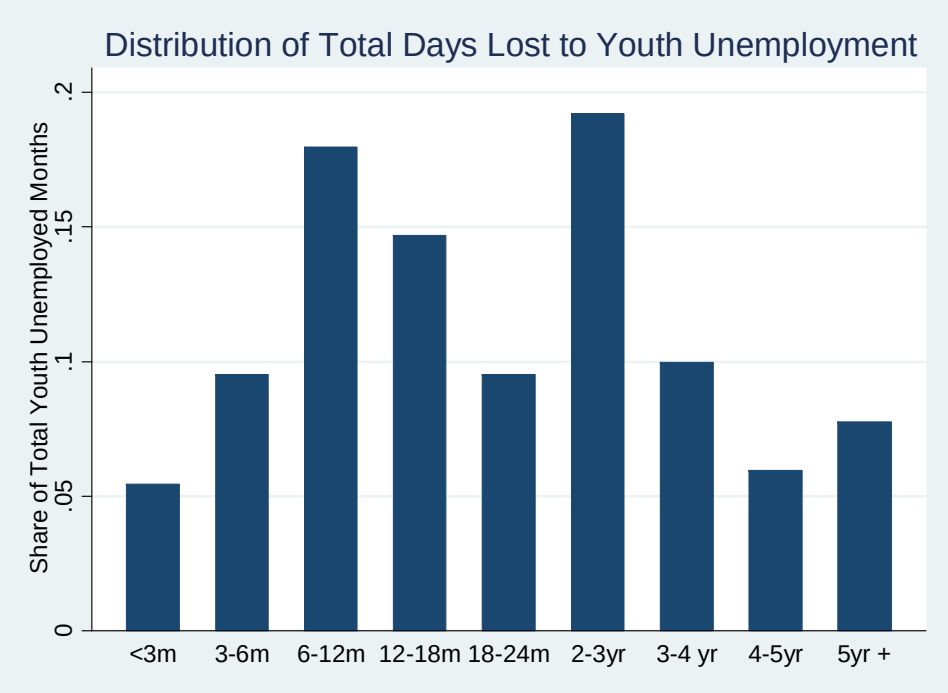


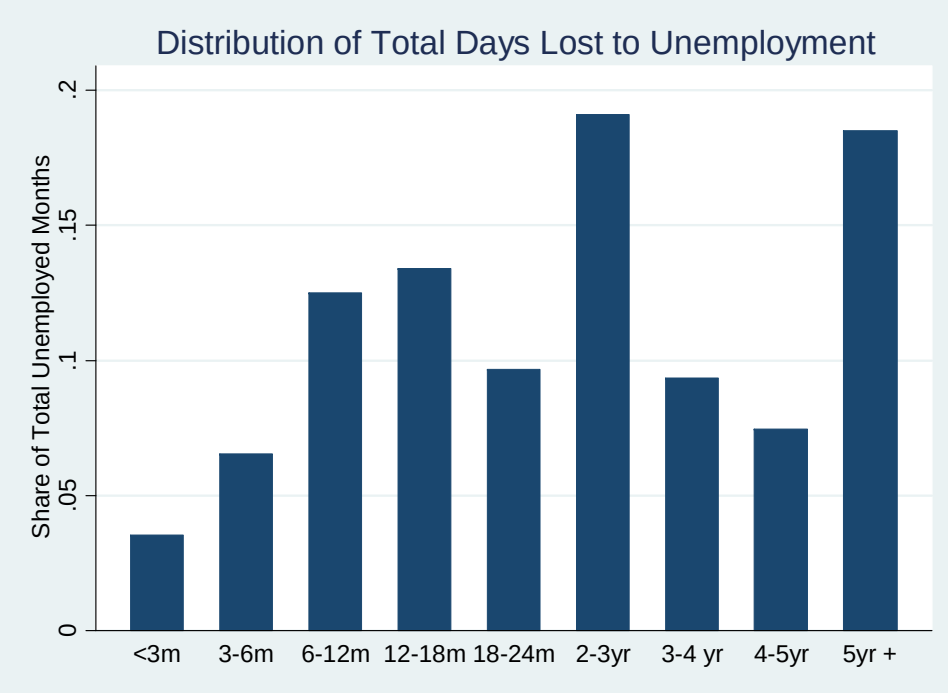


(q3 boosted by school/college leavers)

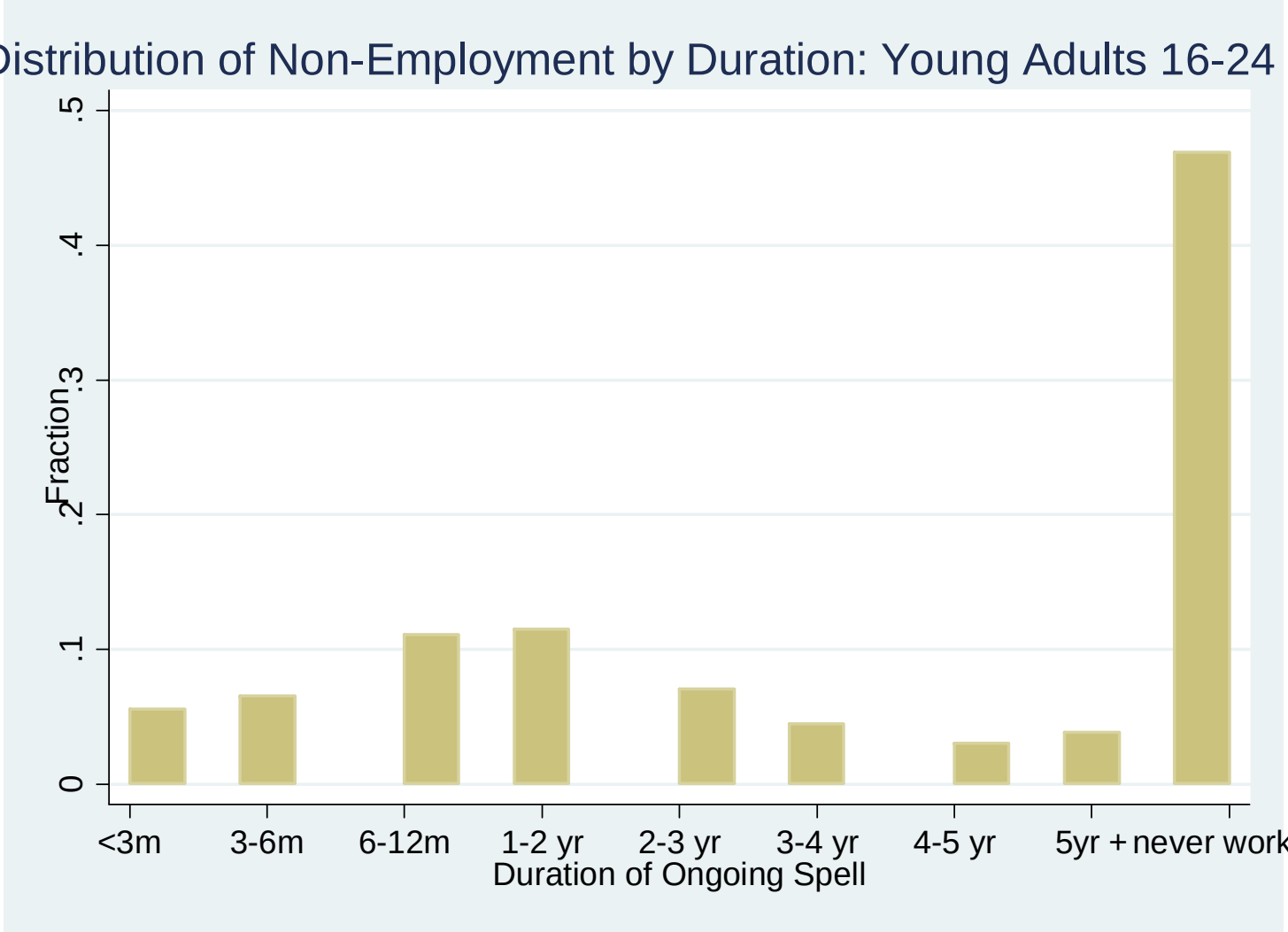
but most of total unemployment days accounted for by the minority who are very long-term unemployed

If add total days lost to youth unemployment then the currently 1 million unemployed have been unemployed for around 9 million months (270 million days) of which <15% is accounted for by the 55% who are short-term unemployed (< 6 months)





and around half of young neets have never worked



So need to worry about

a) **Getting young people work experience and/or jobs**
b) **build-up of long-term unemployment (among youth)**

In and of itself and also because of link with scarring

Effect of youth unemployment on later experience of unemployment (BCS)

Group Type at Age 23	% of sample	Average percentage time spent unemployed age 28-33 (% of group with any unemployment in this interval)	Average percentage time spent inactive age 28-33 (% of group with any inactivity in this interval)
No spell of unemployment	58.6	1.4 (7.5)	2.3 (9.6)
1-5 months of unemployment	22.5	2.6 (13.8)	3.7 (15.6)
6-12 months of unemployment	10.1	5.3 (21.4)	7.1 (24.6)
13+ months of unemployment	8.7	18.5 (40.0)	22.9 (46.8)

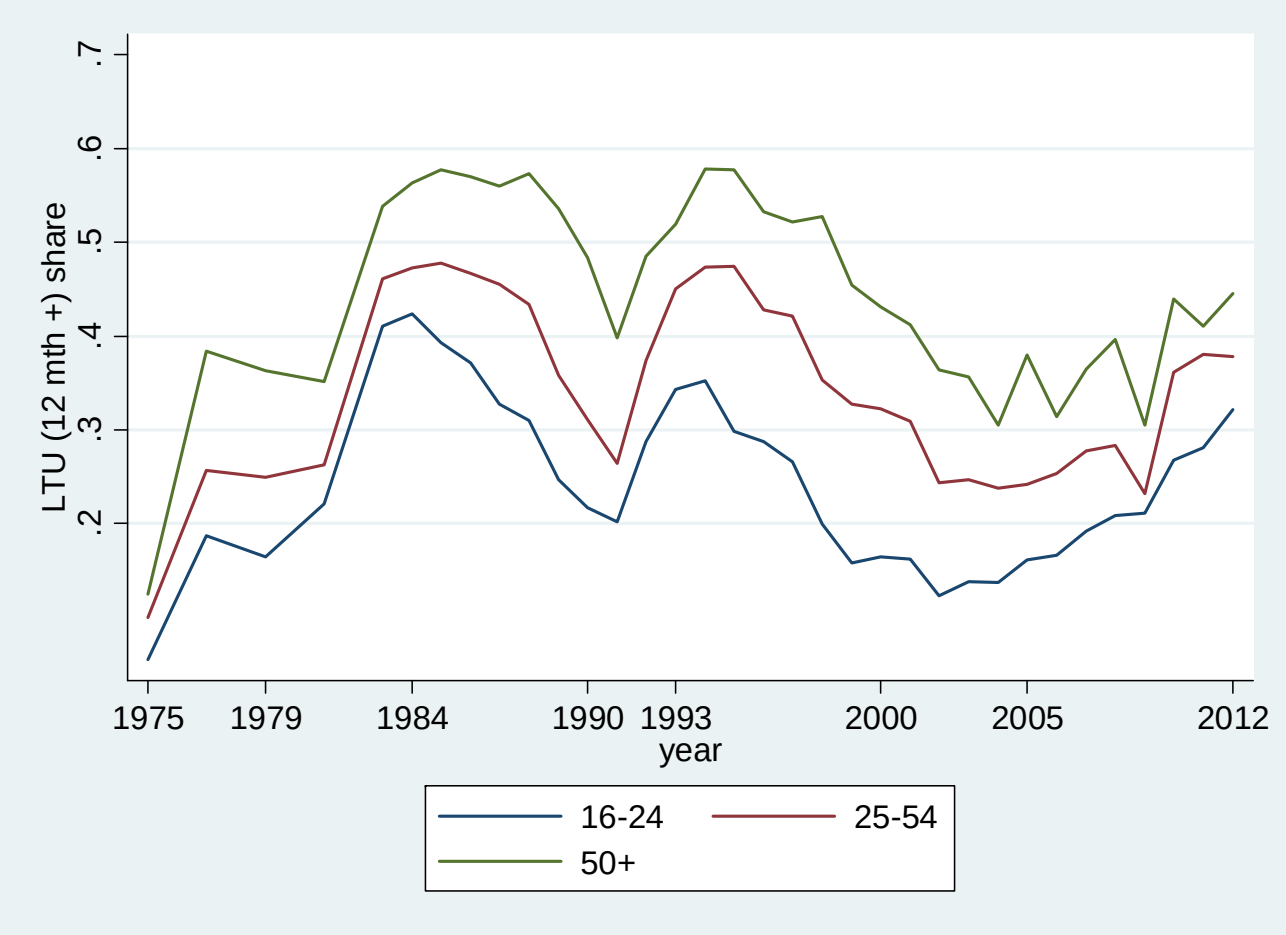
Source: Gregg (2007)

Scarring effects bad but (historically) confined to a minority of youth unemployed - no evidence yet exists for this time round

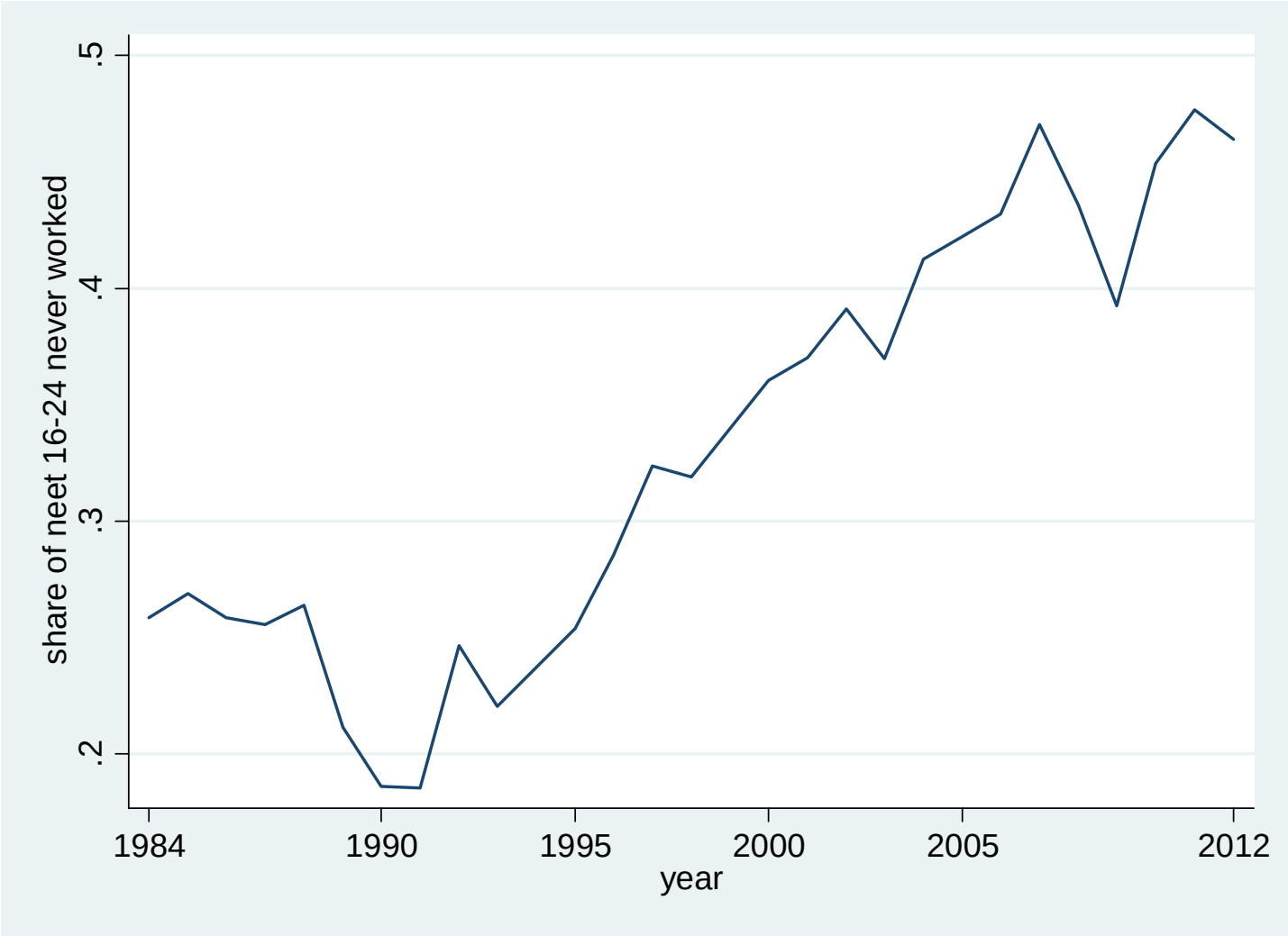
Long-term unemployment rates also narrowing by age groups

Though relative to previous recessions – youth share still not quite as bad

Share of Unemployed Age Group with Spell 12 months +



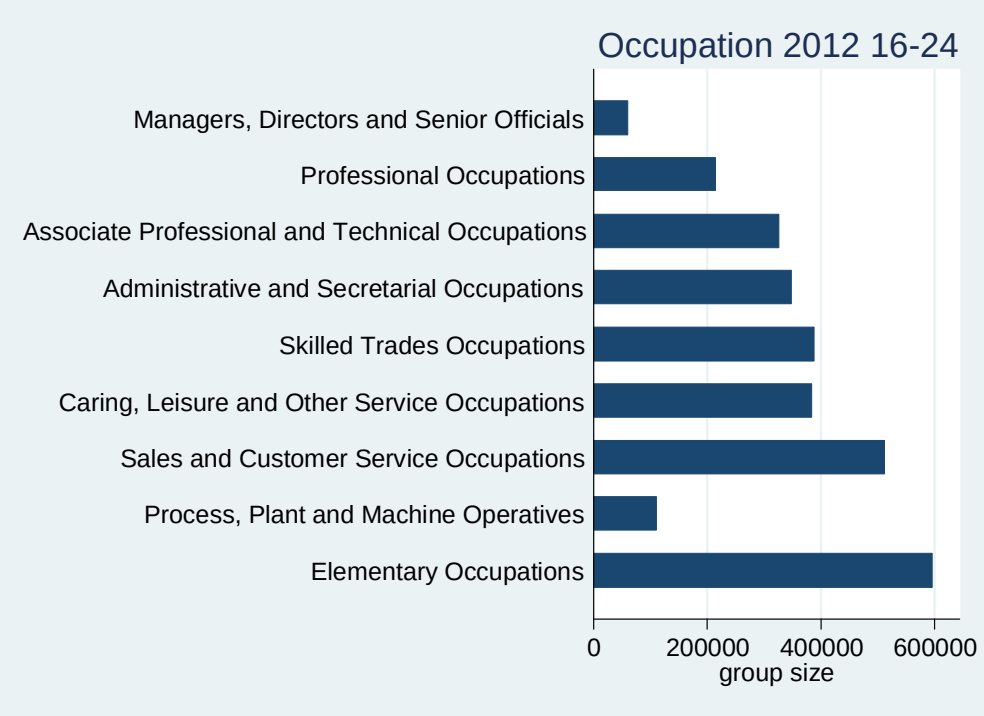
However rising share of young neets have never worked

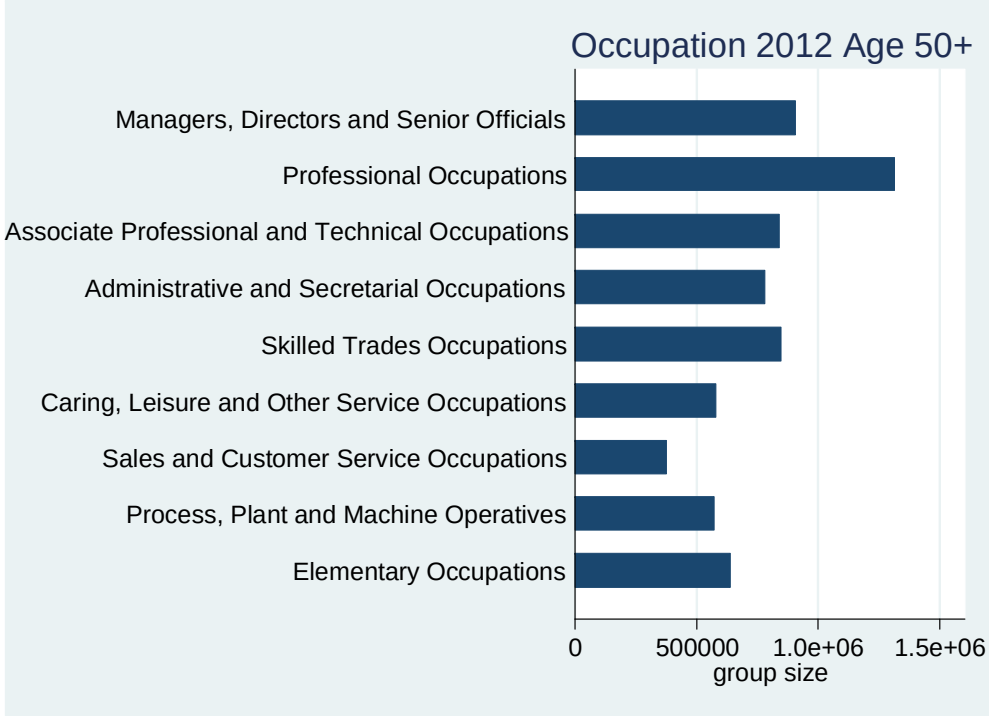


(45% of Neets means around 10% of all 16-24 never worked)

Are Youth being substituted for Older Workers?

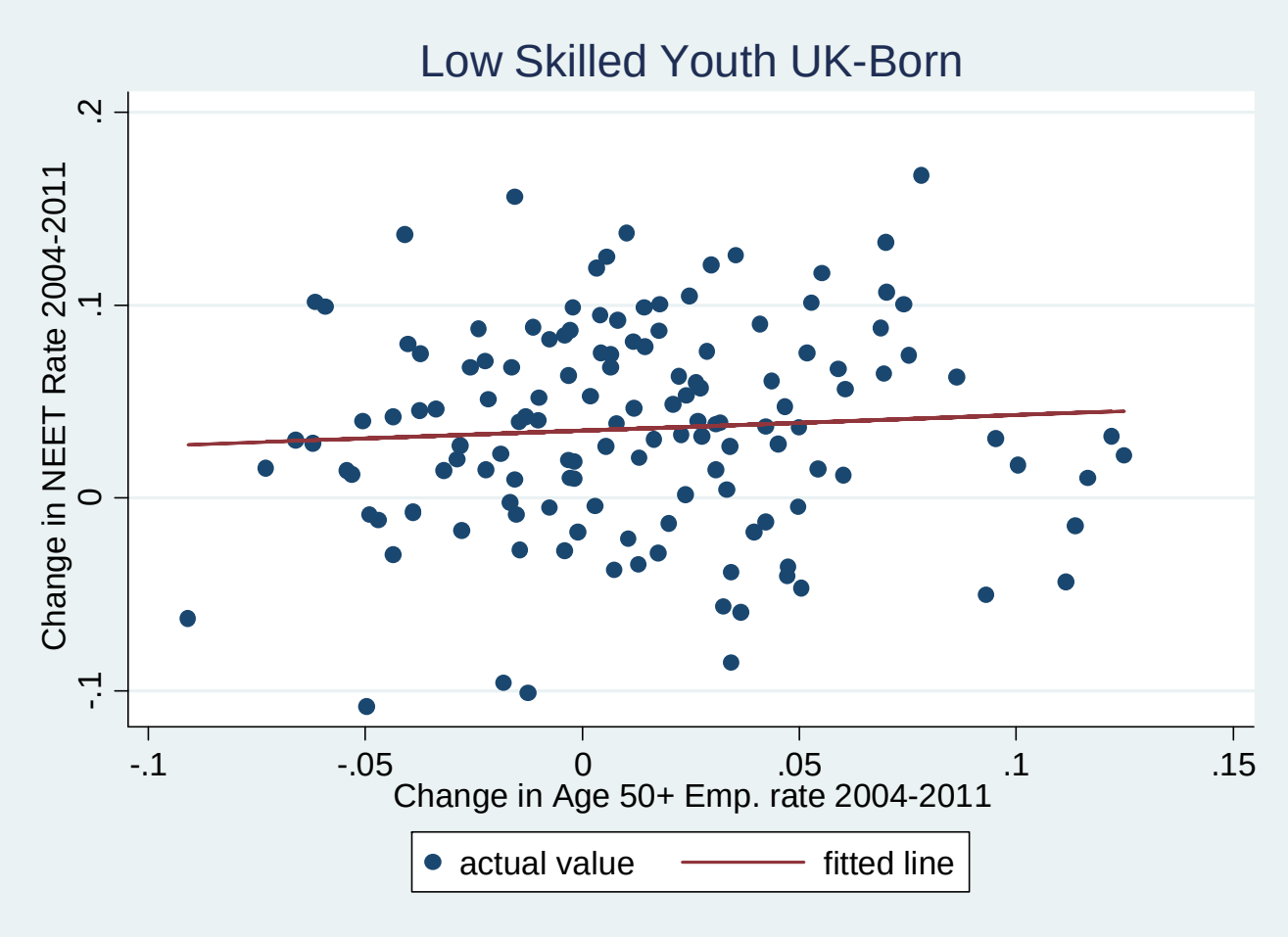
- probably not (since they, largely, do different jobs)





Estimated "elasticity of substitution" between age groups = 7 (age groups **not** perfect substitutes)

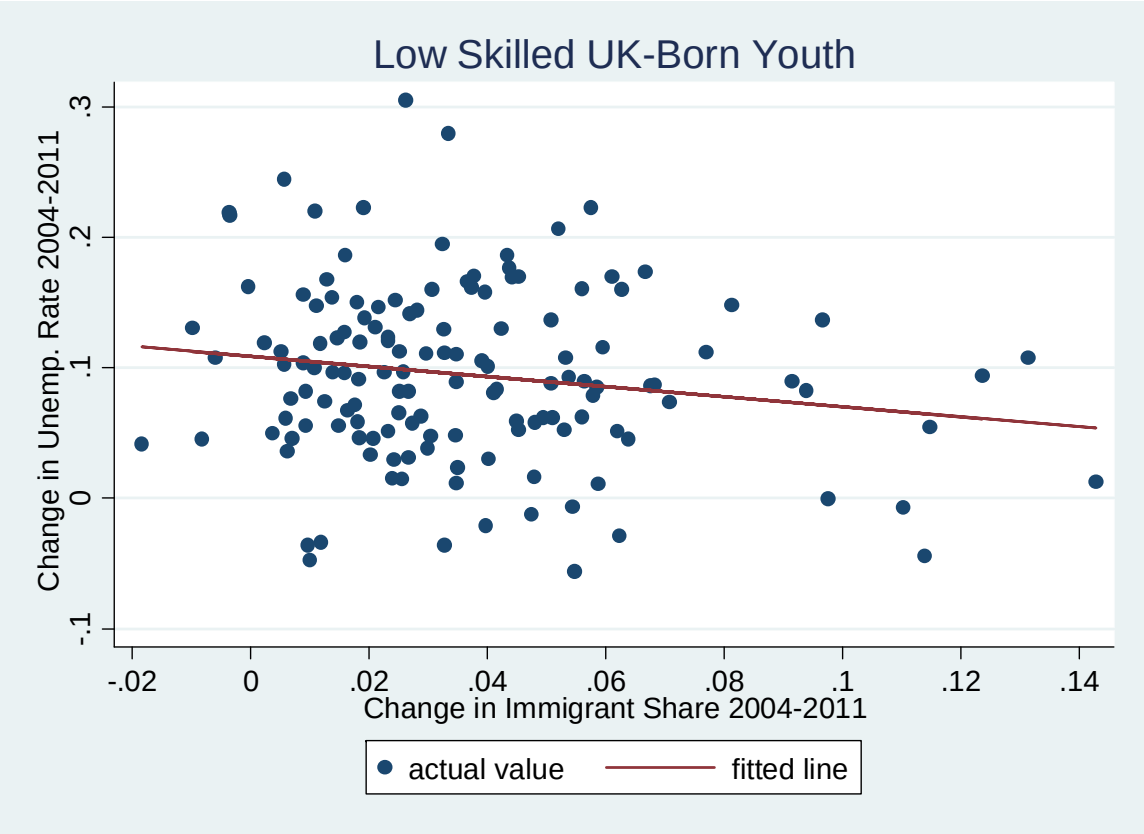
Less skilled neet rate not very well correlated with local area performance of over 50s



By immigrants?

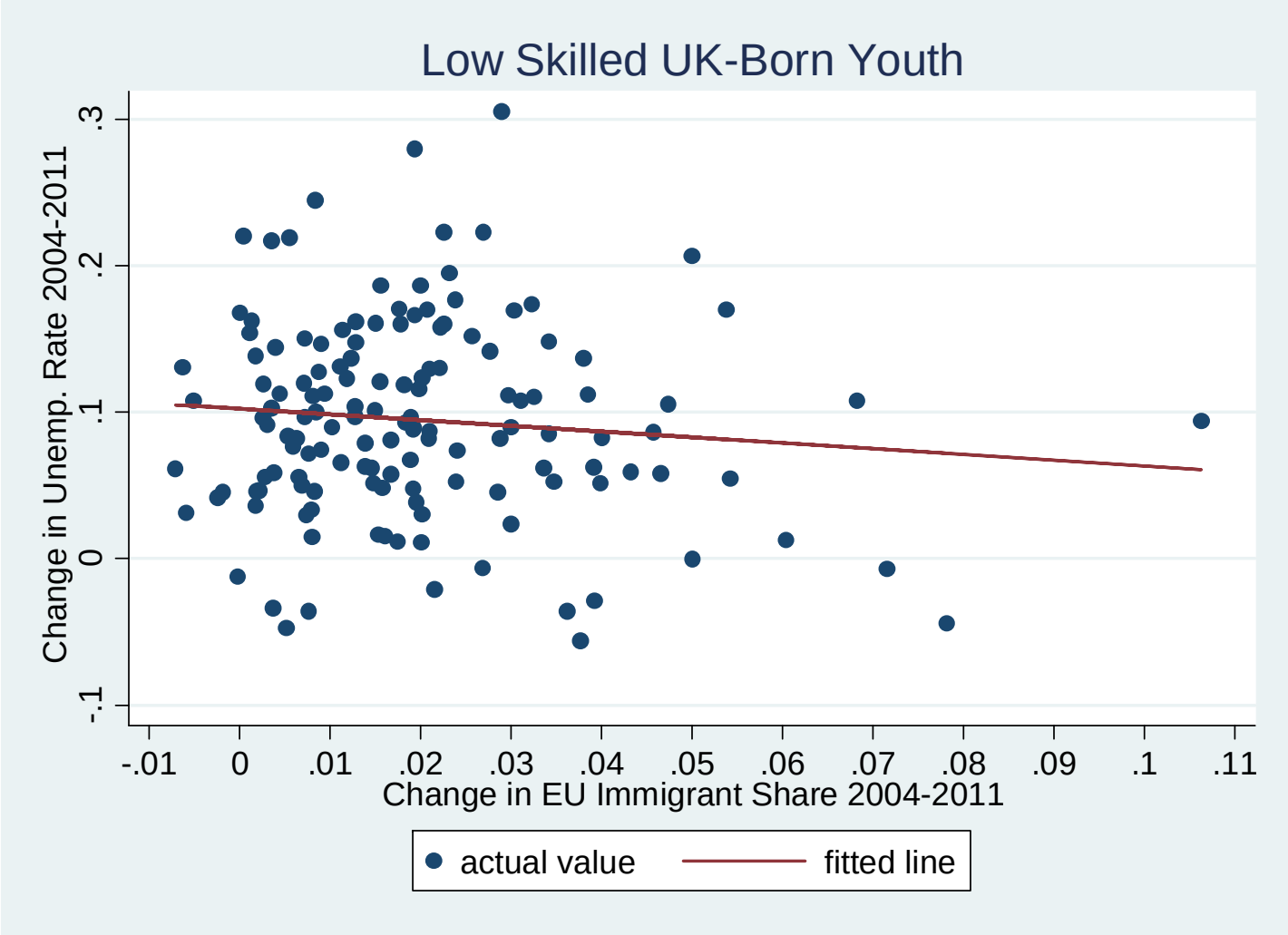
Probably not

Local Area Change in less skilled youth unemployment
v. Change in Immigration Share 2004-2011



ΔUmp. Rate Youth = 0.11 -.38ΔImmig. Share (if anything negative)
(0.01) (0.19)

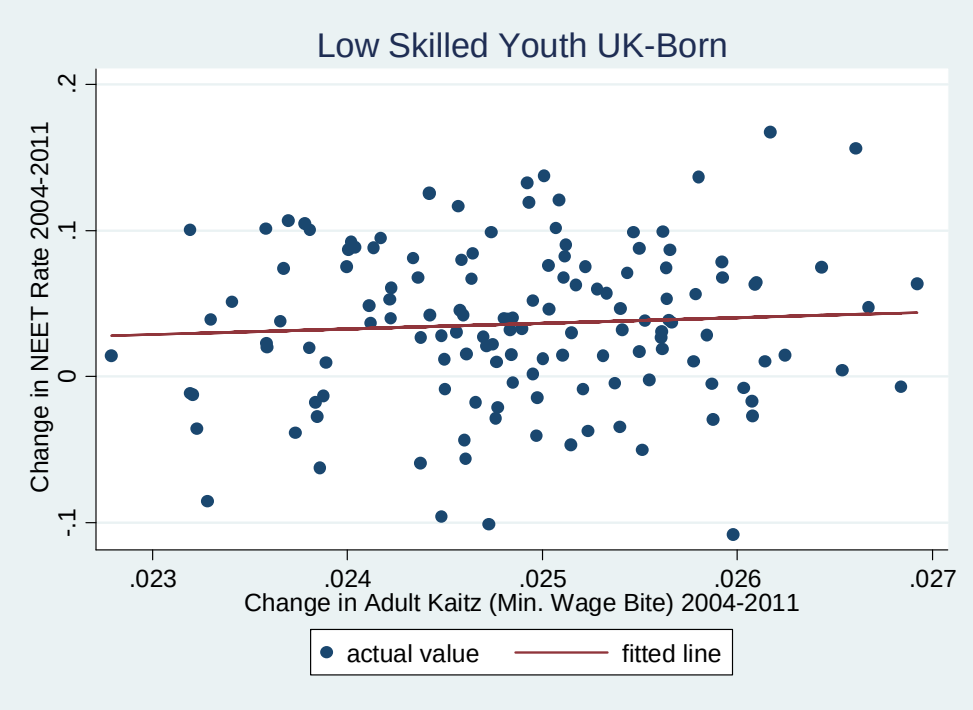
Nor does s it matter if use EU-migrants (pret-effect)

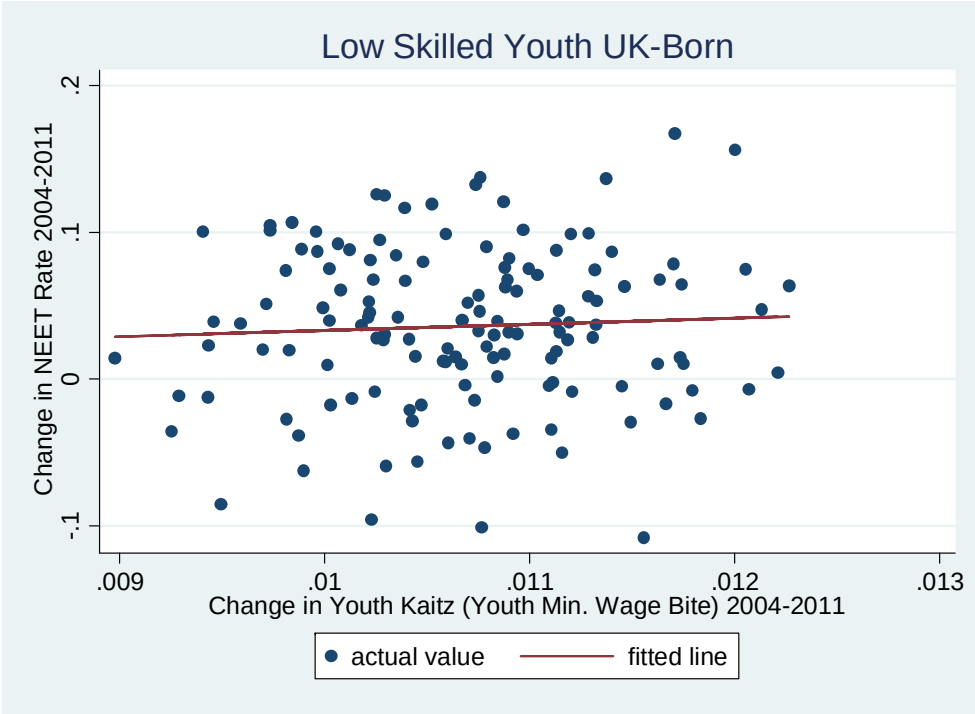


(or use the employment rate)

So is it the minimum wage?

Probably not

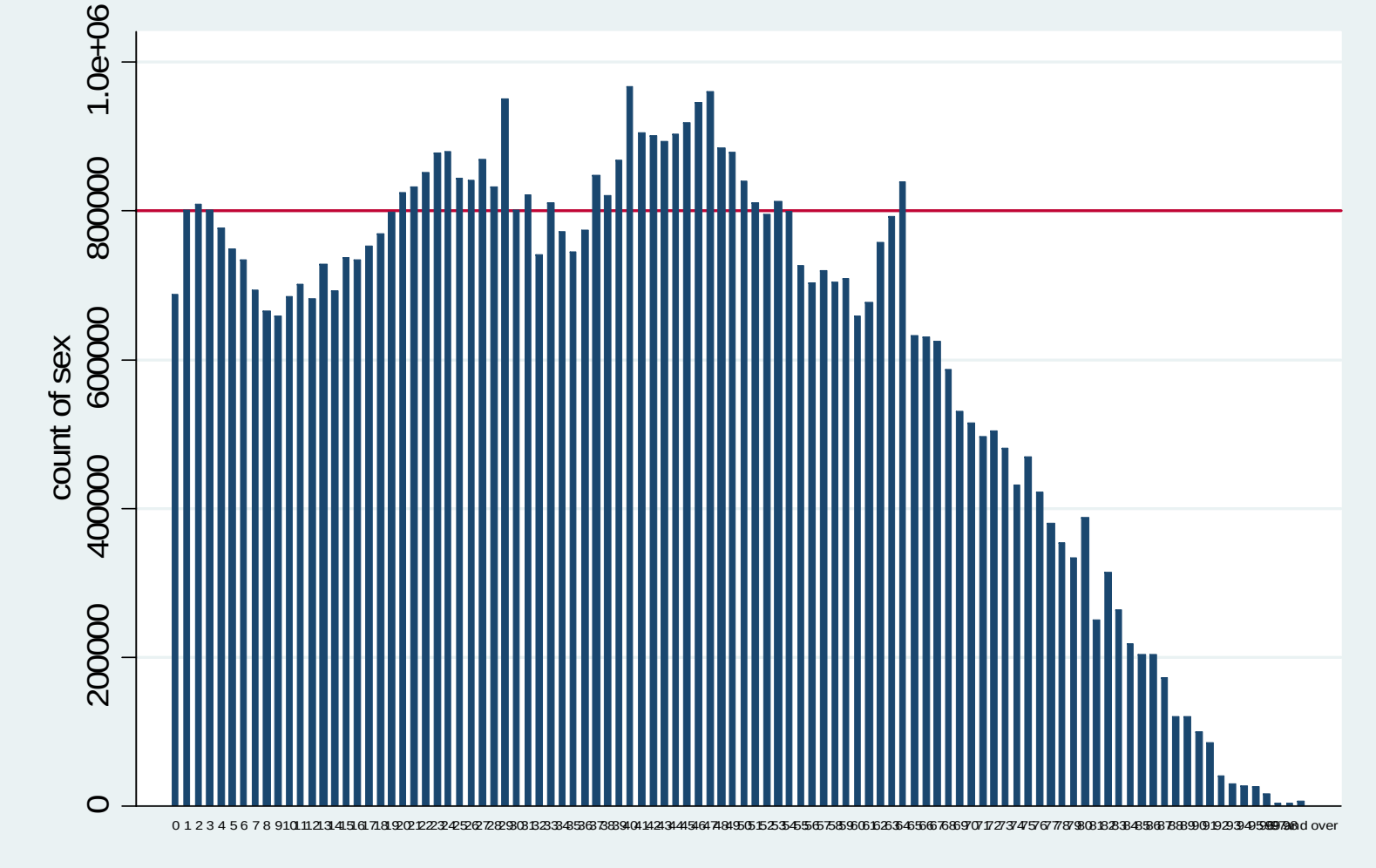




Little correlation between changes in lees skilled youth neet and change in "bite" of either adult or youth minimum

(or over the period 1997-2007 or if use unemp rate)

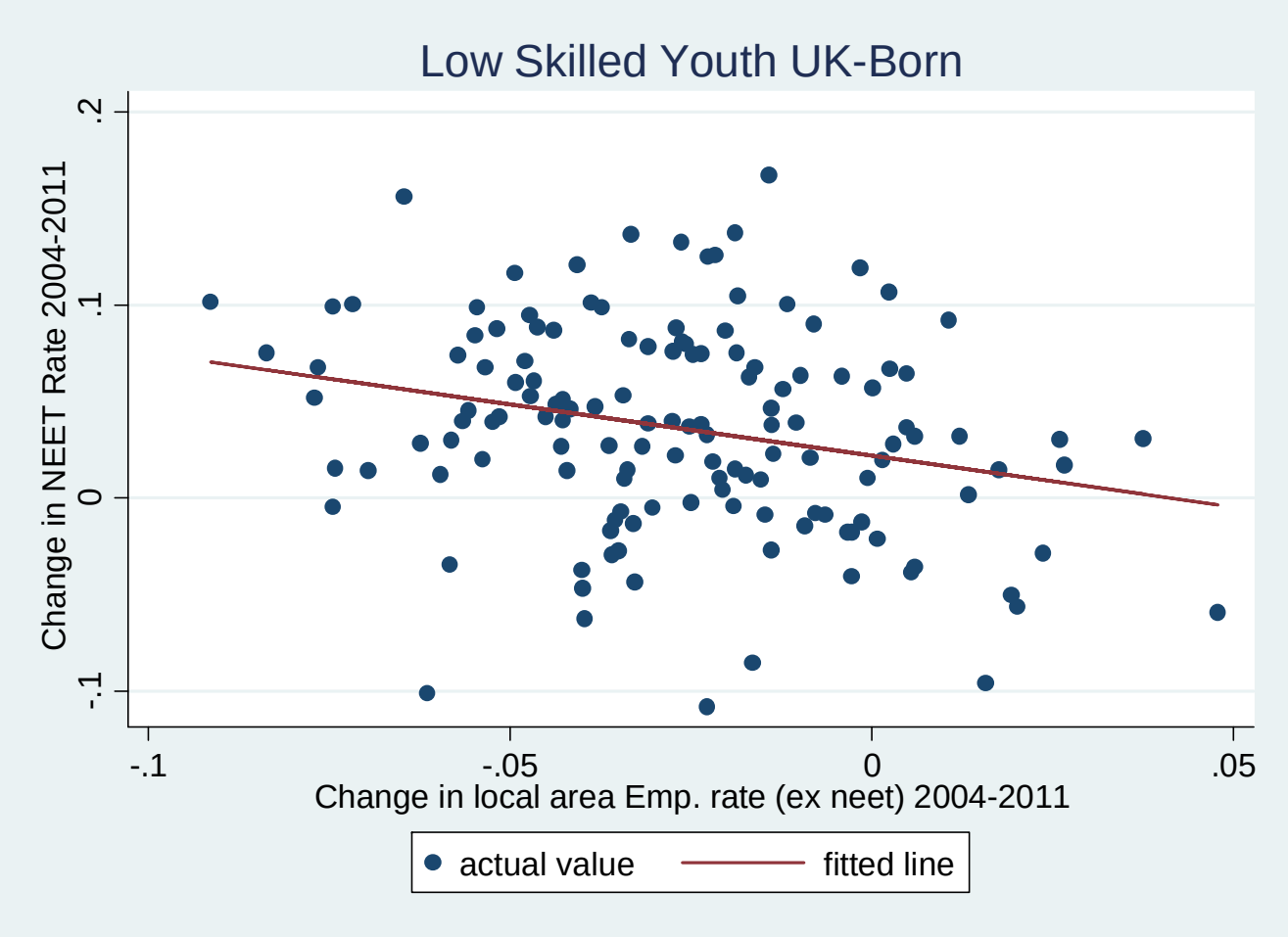
Cohort size?



Probably not (larger youth cohorts in the 1980s)

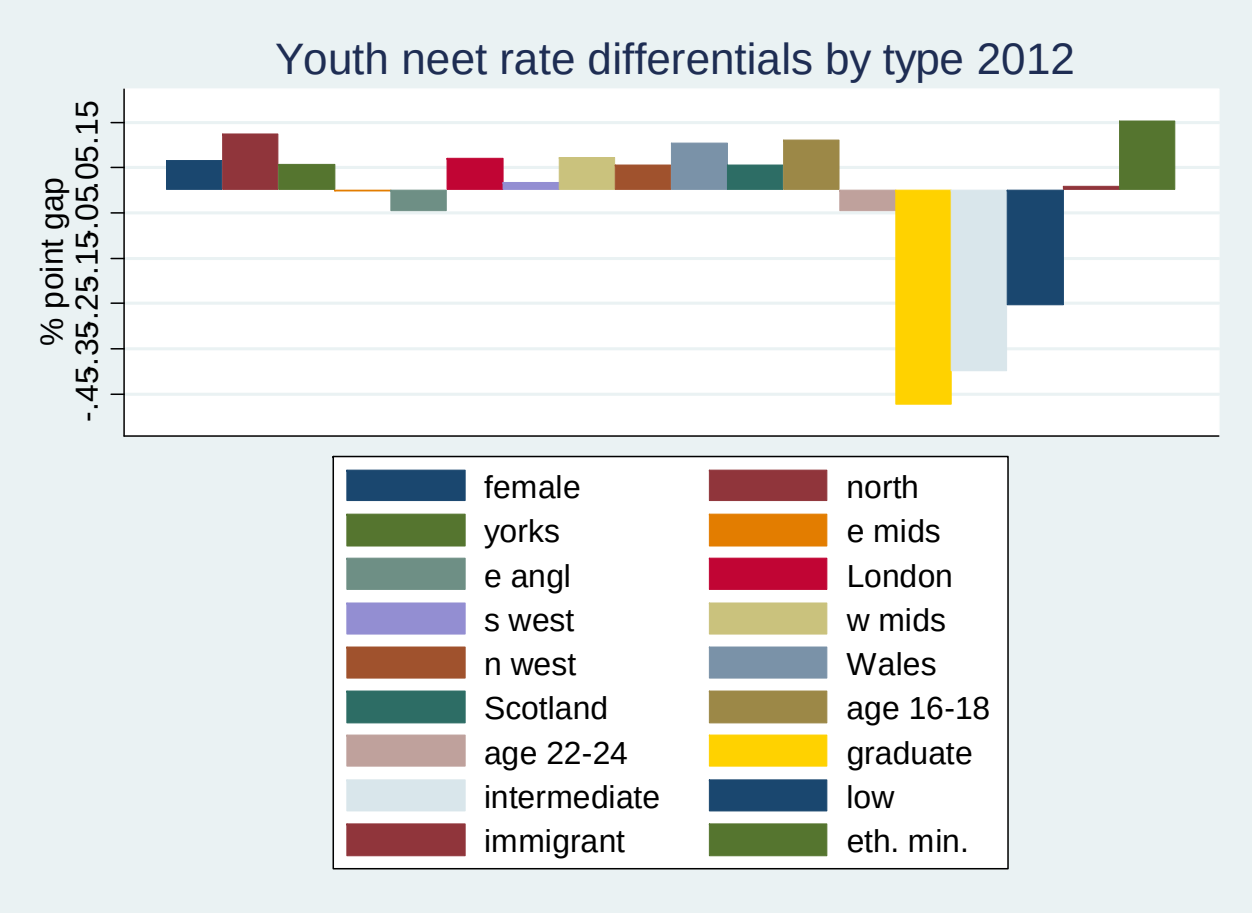
What it **is** correlated with is the overall local area performance

(neet rates are much lower in areas that are doing ok)



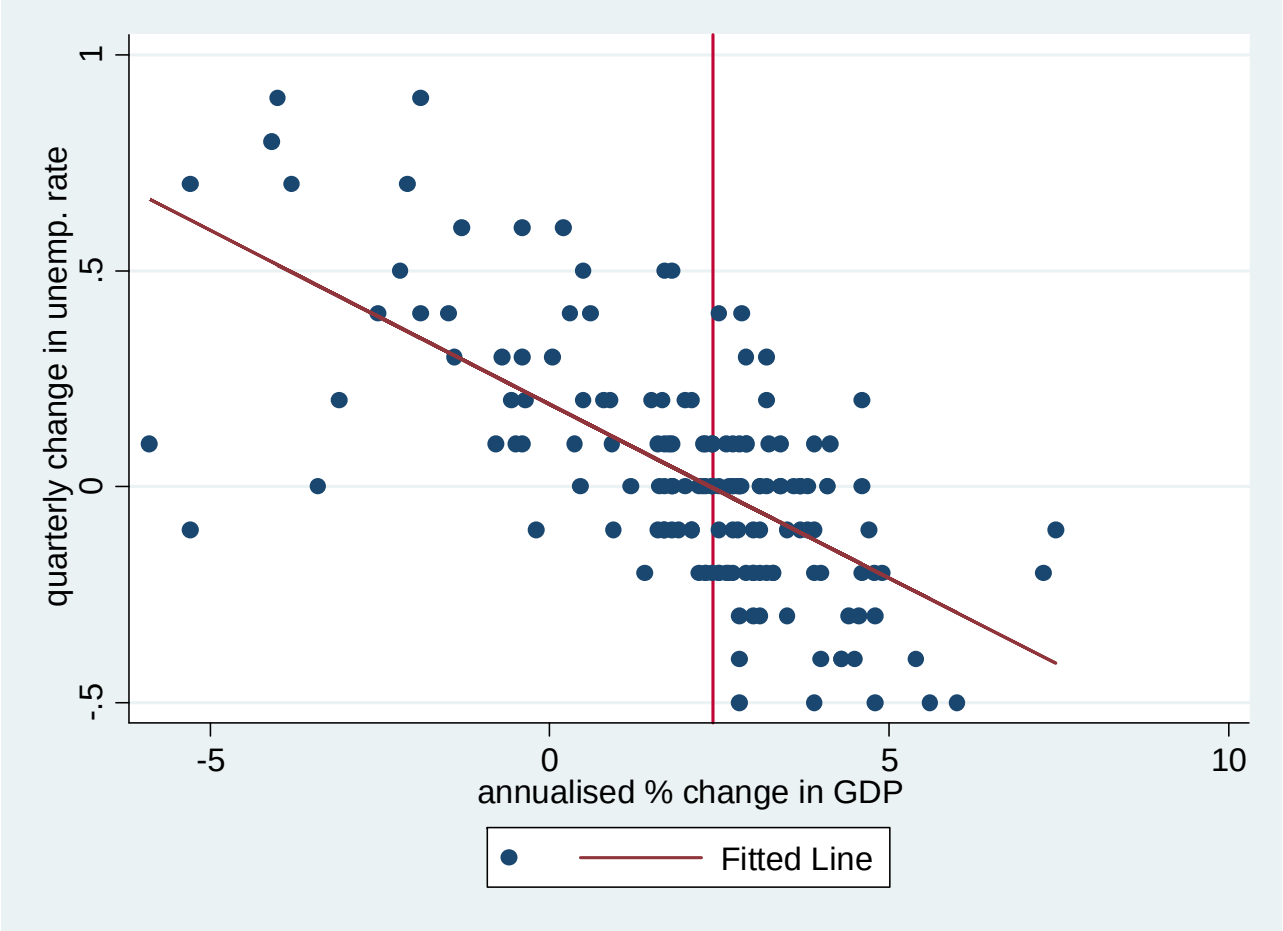
Going forward

Just as with unemployment chances of being neet vary with combinations of region, age, gender and above all education



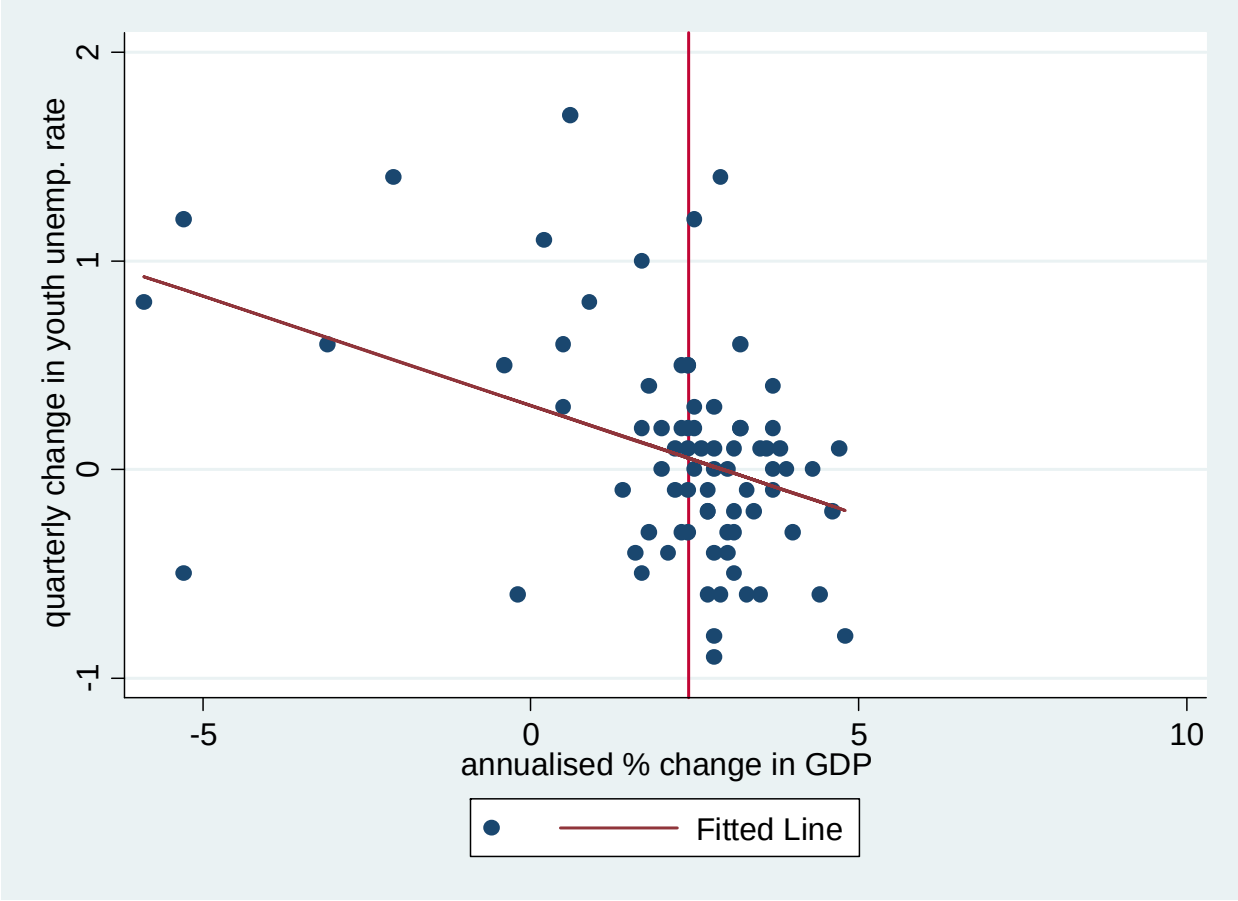
History suggests that won't get anywhere without growth in excess of 2% a year

Okun's Law suggests 2.3% growth needed before aggregate unemployment rate falls



Change in Unemployment Rate = 0.191 -0.081*%Change in Real GDP

but Okun's Law suggests 3% growth may be needed before youth unemployment rate falls



Change in Unemployment Rate = 0.31 -0.10*%Change in Real GDP
(the more balanced the growth the better the likely outcome)

Source: ONS quarterly data, author's calculation

Young adults are more skilled – in absolute terms - than in the past

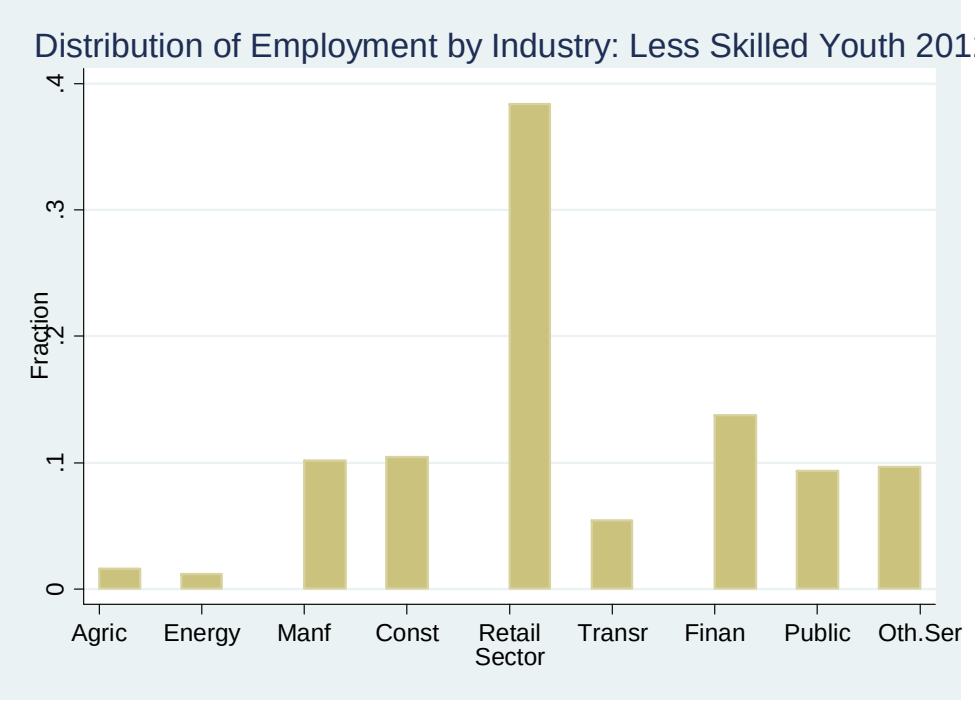
- this should help

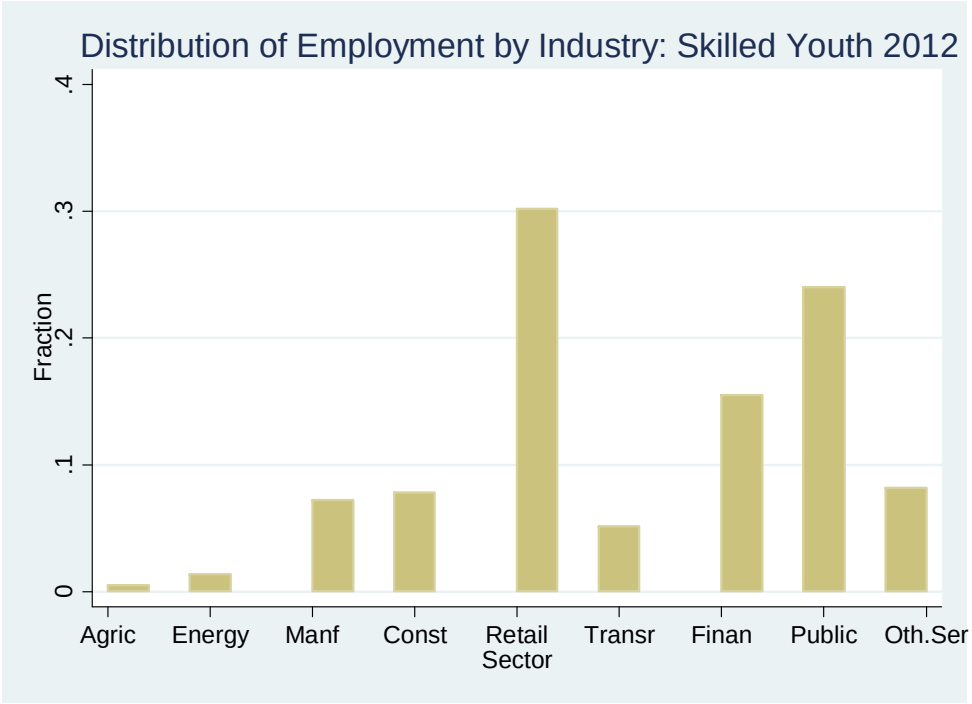
	% in full-time education	% with GCSE or lower
1984	21 (36% 16-19)	75 (66% 20-24)
2012	42 (71% 16-19)	42 (27% 20-24)

But main problems are for those with lower qualifications

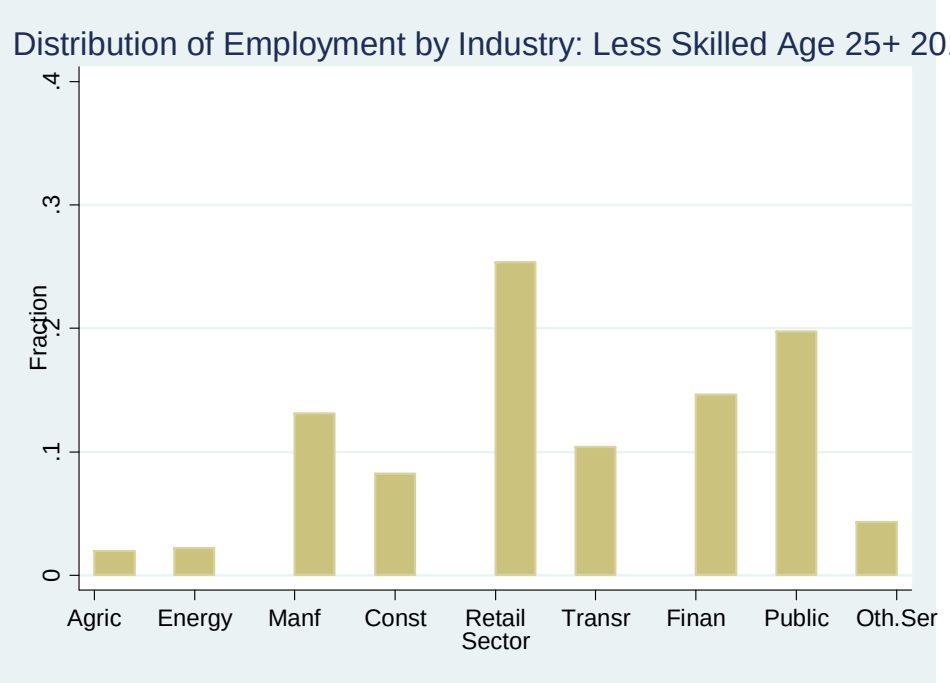
Where will jobs come from ?

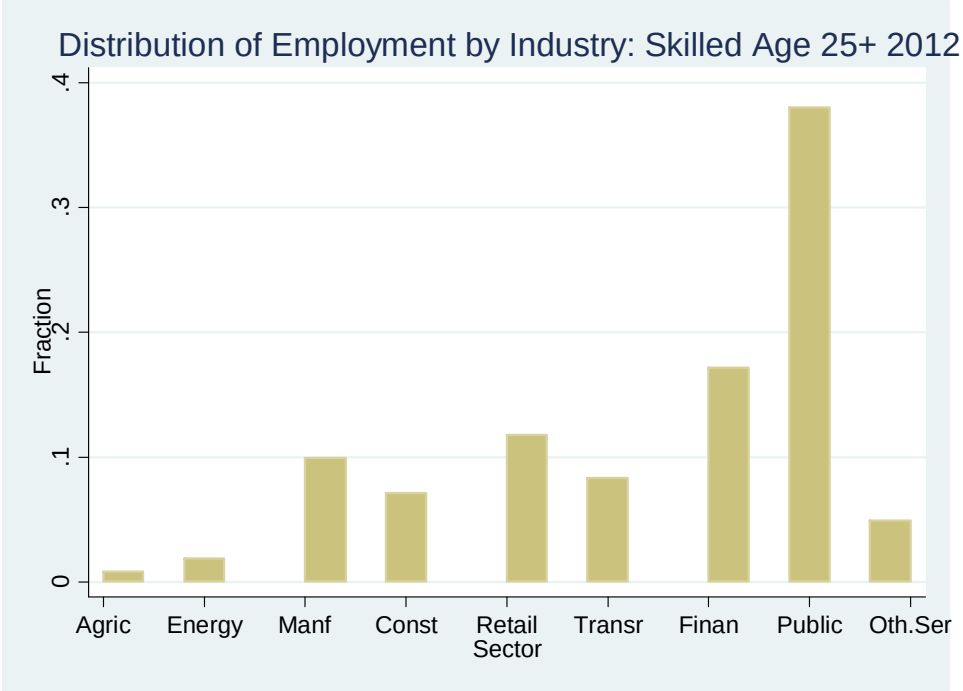
-traditional employers of less skilled youth labour are





And older adults





But recoveries do help

(though probably not enough if not balanced)

Change in relative employment rate performance of marginal groups across area labour markets

	Total Change in area employment		Men 50+ Low Quals.		Female Lone parents low quals.		Male 16-24 low quals.*	
	Best (5 p p+)	Worst (< 0 p p)	Best	Worst	Best	Worst	Best	Worst
1997-2007	+6.1	-0.5	+12.0	+2.2	+5.9	-4.9	-5.0	+4.2

* neet rate

So individuals with similar characteristics get a differential benefit depending on aggregate local area performance

(best = tyne & wear, south yorks, strathclyde)
(worst=west yorks, west mids met., west mids)

Conclusions

Not much evidence to suggest that current problems of youth labour market – bad though they are – are the result of anything other than the severe downturn
(and we have been in similar if not worse position regarding youth in past 2 downturns)

So if things start to get better then prospects for youth labour market should improve (at least for majority) – but probably not until growth in excess of 2%

So may be a case of waiting/inducing demand and in the meantime ensuring schemes keep young people in touch with the labour market
(with particular focus on less skilled since will benefit last from any upturn and here targeted intervention is probably needed)

-so keep the schemes (maintain outflows from U and N) – but don't forget about

Substitution (long-term unemployed just sub. for short-term)
Displacement (of firms not benefitting from scheme)
Deadweight loss (pay for something happened anyway)

(expensive in a downturn – lots of clients)