POLICY VIEWPOINT

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The European labour market still faces big challenges

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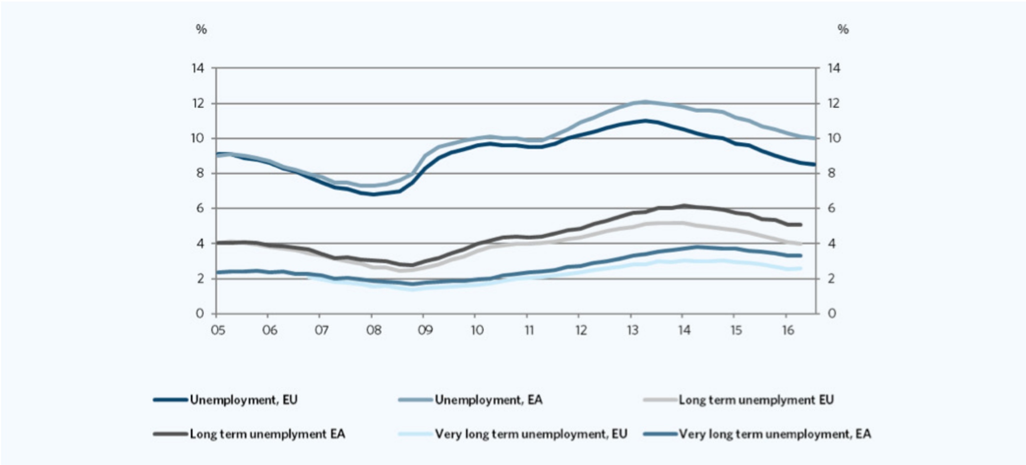
FIGURE 1. UNEMPLOYMENT IN THE EU AND EURO AREA



Note: percentage of active population. Long term unemployment is defined as unemployment of 12 months or longer, while very long term unem-ployment is defined as unemployment of 24 months or longer. The unemployment rates have been seasonally adjusted.
Source: Eurostat.

In the aftermath of the economic crisis, unemployment across European countries soared. Now, 8 years after the crisis kicked in, some improvements have taken place. The unemployment rates have fallen, but especially the levels of longer-term unemployment remain relatively high and further, the speed of reduction of unemployment has decreased. Overall, the European labour market has a long way to go before reaching a level of unemployment close to that prior to the crisis.

After a time with steep increases in unemployment rates in Europe, the good news is that the rates have been decreasing the last couple of years. 22.9 million of the people in the EU were unemployed in 2015. While that is a decrease of more than 3 million compared to the peak in 2013, it is far from the 16.8 million unemployed in 2008. In 2015, 10.9 million people in the EU fell into the category "long-term unemployed" (unemployed for 12 months or longer). This means that almost half of the unemployed in 2015 were long-term unemployed. Finally, in the EU, 6.8 million people were considered to be very long-term unemployed in 2015 (meaning they had been unemployed for 24 months or more).

For both unemployment, long-term unemployment and very long-term unemployment, the Euro area faces a higher rate than the EU, as figure 1 shows. In the 3rd quarter of 2016, the unemployment rate was 8.5 percent in the EU and 10 percent in the Euro area. The good story is that these numbers mean a decrease of 2.5 percentage points for the EU and 2.1 percentage point for the EA compared to the high level reached in the 2nd quarter of 2013. However, as the figure shows, there is still some way back to the pre-crisis level.

While it is expected that the unemployment rate rises during a crisis, it is worrying if that increase turns into a persistent increase in longer-term unemployment. The group of longer-term unemployed typically face larger challenges finding their way back to the labour market. Among other things, this is due to employers perceiving long-term unemployment as a signal for low employability, which starts a vicious circle that can be hard to break. The long-term unemployment rate peaked in the end of 2013 and the beginning of 2014 with rates of 5 percent for the EU and 6.1 percent for the Euro area. Since then there have been slight decreases and in the 2nd quarter of 2016, the long-term unemployment rates were 4 percent and 5.1 for the EU and the Euro area, respectively. The pre-crisis levels were well below 4 per-cent for both, so as was also true for the ordinary unemployment rate, we are not quite back where we would like to be.

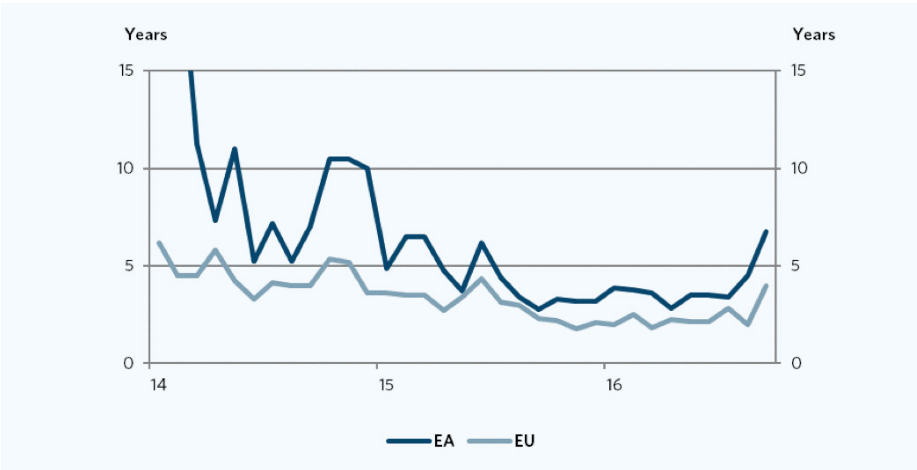
The very long-term unemployment rate has also decreased the last two years. In the 2nd quarter of 2016, the rate was 2.6 percent for the EU and 3.3 percent for the Euro area. With rates below 2 percent for both prior to the crisis, this current level is quite high – especially for the Euro area. Further, the fig-ure shows that for the longer-term unemployment rates, the decrease seems to have turned into a stagnation in 2016.

While all unemployment rates in figure 1 show improvement the last couple of years, they also confirm that these improvements are not enough. Considering the entire period from 2005 to 2016, the current levels are quite high. Also, most of the rates have been quite flat in 2016, indicating that it might take a long time before we are back at the pre-crisis level. This is supported by figure 2, which shows how many years it will take for the unemployment rate to get back to its pre-crisis level based on the current speed of reduction. What was indicated in figure 1 become much clearer here: during the last part of 2015 and the beginning of 2016, the speed of reduction has stagnated.

From the summer of 2016, the number of years it would take for unemployment to get back to its pre-crisis level has increased. This means that if the Euro area continues at the current speed of reduction, it will take almost 7 years from now before unemployment will be back at 2007-level, while it will "only" take the EU 4 years at the current speed. In other words, if things continue the way they are, the EU will face a period of recovery of around 12 years, while the Euro area looks at a period of more than 15 years.

That the European labour market has suffered during the crisis and its aftermath is not a new fact. Of course, the decreasing unemployment rates are very welcome improvements, but it is worrying that so many years after the crisis, unemployment remains so far from its pre-crisis level. On top of this, longer-term unemployment remains high and the decrease in unemployment seems to be turning into a stag-nation. It is not the time to lean back and relax because the European labour markets has plenty of challenges to overcome.

FIGURE 2. NUMBER OF YEARS TO REACH 2007 RATE OF UNEMPLOYMENT AT CURRENT SPEED OF REDUCTION



Note: The speed of reduction is smoothed over 6 months.
Source: Eurostat.